PRESS RELEASE

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Poland Insolvency Report: Insolvencies fall amid fair economic growth

- **Poland's economy is slowing this year, although the growth rate will remain fair: 3.2% for 2016, following 3.6% in 2015**
- **Business is benefiting from positive macroeconomic conditions**
- **Insolvencies and restructuration proceedings fell by over 14%. Coface forecasts further improvements, with the number of proceedings falling in 2016 and 2017**

Companies in Poland are continuing to benefit from the positive macroeconomic environment, with strong domestic and foreign demand. The slower growth being experienced this year is caused by weaker investments (which fell by 3.6% y/y, in the first half of 2016). This is partially the result of the slow start to EU co-financed investments within the new financial budget. Other factors have been domestic and external risks, including possible amendments of law, fluctuations in exchange rates and the eventual consequences of the Brexit.

Lower bankruptcy figures due to new legislation

The number of bankruptcies has been decreasing since 2014. In the first half of 2016, 328 proceedings were recorded - a fall of 14.1% compared to the year before. New legislation, introduced this year, means that companies now have alternatives to bankruptcy proceedings. The new restructuring procedures are likely to become even more frequently used than has already been seen in the second quarter of this year.

"The decreasing trend of business bankruptcies will continue over the next few quarters. Nevertheless, the framework is changing – there are less insolvencies but more restructuring proceedings, explains Grzegorz Sielewicz, Coface economist for Central & Eastern Europe. "*The new restructuration procedures, implemented this year, have been gradually gaining popularity as a remedy for companies suffering from payment problems. More companies are now likely to return to business operations, instead of failing".*

Although Coface forecasts an 8.9% decline in insolvencies and restructuring, by the end of 2016, this estimate could be affected by stronger-than-anticipated growth in restructuration procedures. Proceedings are expected to decrease by 4.8% in 2017.

Private consumption is Poland's main growth driver

Poland's solid economic growth is mainly driven by household consumption. Although the country is facing a slowdown in EU funds, the input from private consumption will intensify this year - especially with the continued improvements in the labour market. Poland's unemployment rate has dropped to a level which has not been seen for 25 years, wages are continuing to record fair growth and inflation remains low. This environment indicates good prospects for the retail sector.

Data on Poland's economic structure shows that private consumption accounts for a higher share of nominal GDP than exports - with household consumption creating 58% of GDP last year. Analysis of correlations also reveals that domestic consumption has a stronger impact than exports on the level of company insolvencies in Poland. Nevertheless, business profitability is being enhanced by company operations on foreign markets. The perspectives are particularly good for manufacturers of merchandise with high external demand. These sectors include the automotive, furniture, white goods and IT segments. At the same time, gains are being experienced by companies which are directly addressing the rising demand from domestic households. The biggest retailers are now subject to a new fiscal burden, implemented on 1st September 2016. However, this should be somewhat compensated by the increase in consumer spending. Household consumption is expected to be a crucial growth driver for the Polish economy over the next few quarters. The insolvency picture should therefore see further improvements, while the newly introduced restructuring legislation should help companies suffering from liquidity problems to return to effective business operations.

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