Navigator

Now, next and how for business

Poland report

HSBC

Poland

The goldilocks of strong domestic and external demand

Poland is looking at another year of strong growth, supported by healthy demand in Europe and buoyant domestic demand. Its close integration into European supply chains will remain a key driver of trade and GDP growth. Labour shortages could pose a risk to manufacturing growth in the medium-term, but also offer an opportunity for increased implementation of robots and automation.

Short-Term Snapshot

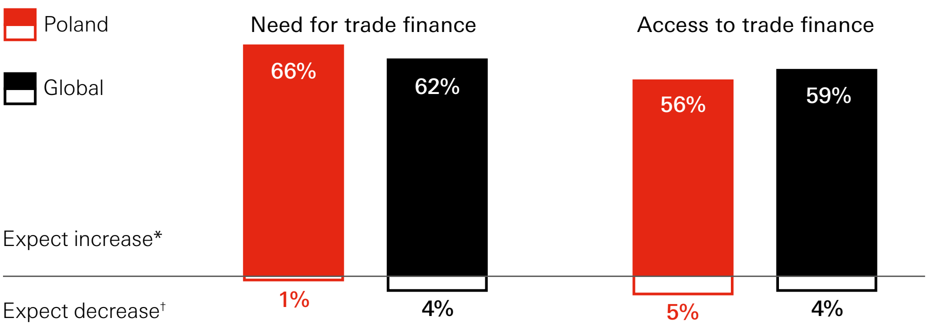
Poland's economy rebounded in 2017 after a temporary slowdown in 2016 driven by a pause in EU-funded investment spending. In 2017 tight labour markets, wage growth and still-low inflation aided household spending, while surging European and global demand boosted exports. Stronger European and German demand, as well as a cheaper dollar, have seen exports (in nominal dollar terms) grow by around 14% y/y in 2017, up from only 3% growth in 2016. Meanwhile businesses appear to have shrugged off political uncertainty.

Our survey suggests that 78% of Polish firms expect an increase in trade volumes in 2018, making Poland one of the top 10 most positive markets surveyed. Respondents were most likely to identify Germany as a target market for export expansion, followed by the US (apparently undeterred by the US administration's protectionist stance). The primary reasons cited for the positive outlook were increased demand and the favourable economic environment, as well as decreasing costs of transportation and logistics.

Action points for business

- With the UK being an important trading partner, Brexit remains the key short- and long-term risk to trade outlook. Firms should make sure they understand well and plan for the implications of a potential disruptive scenario that may unfold in 2019.
- Labour shortages and the ever-deeper supply chain relationship with advanced European economies offer an opportunity for firms to increase automation and thus cost-efficiency of their operations.

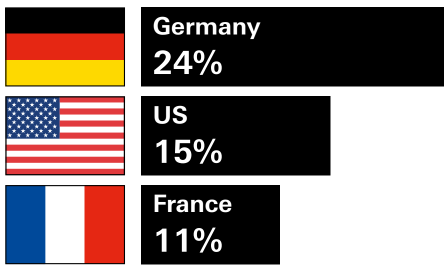
Outlook for trade finance need and access in the next 12 months



*Expect increase = Increase significantly + Increase slightly
†Expect decrease = Decrease significantly + Decrease slightly

Source: TNS Kantar

Which are the top 3 markets where your business will look to expand in the next 3-5 years?



Source: TNS Kantar

> Poland is benefiting from an upswing in both domestic and European demand.

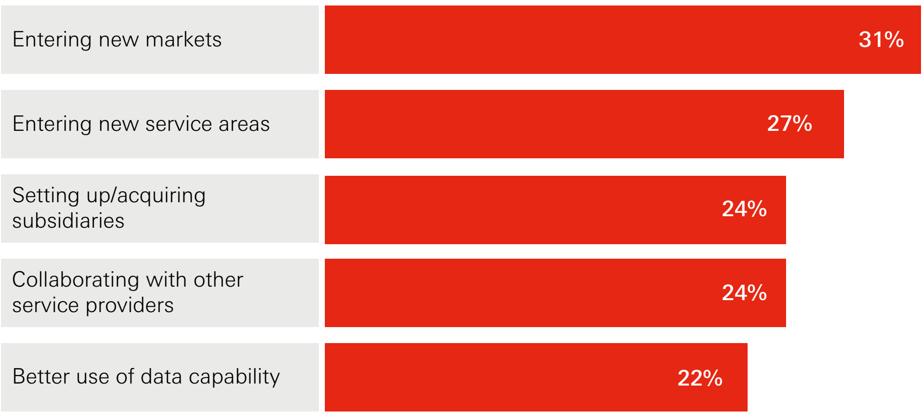
Two thirds of Polish firms expect their trade financing needs to increase in 2018, according to our survey (broadly in line with the global average of 62%), although a slightly lower proportion than the global average feel that their ability to access it (56%) will increase in the next 12 months. About a third of the businesses mention exchange rate volatility (33%), regulatory barriers (32%) & high transaction costs (32%) as the key challenges they face in gaining trade finance.

> 78% of Polish firms expect an increase in trade volumes in 2018. Poland is in the top 10 most positive markets surveyed.

Services account for about 11% of Poland's GDP, a higher reliance than in its Eurozone peers (e.g. 8% in Germany and 6.5% in France). As with merchandise exports, Europe was the main destination for Poland's services exports in 2017 – Germany accounted for about 22%, followed by the United Kingdom (5.6%), United States (5.5%) and France (4%), with B2B and tourism services the leading export categories.

According to our survey the majority of firms (56%) expect their trade volume in services to increase in 2018, with entry into new markets and new service areas the growth strategies most commonly cited by respondents. Most firms agree that easier access to data is creating a more level-playing field in international business, but at the same time are concerned that big data capabilities may create barriers to competition, while extra regulation would not help either.

How do you plan to grow your services business?



Source: TNS Kantar

Trade Policy Developments

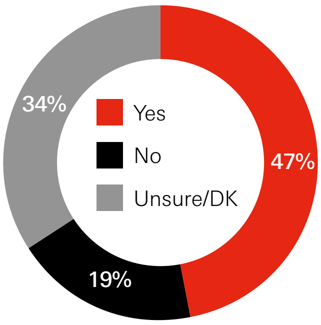
Brexit is one of the key risks to Poland's future trade flows and GDP growth, given that the UK is Poland's second largest export partner for merchandise goods amongst the 24 trading partners considered in the forecast (at 6.5%, a distant second after Germany, which buys 28% of Poland's exports). The effect of the EU referendum is likely already being felt, as Britain's share in Poland's goods exports has declined from 6.9% in 2015 to 6.5% in 2017, and that in services from 7% to 5.6%.

This is echoed in our survey – 47% of exporters agreed that governments are becoming more protective, and 42% saw negative impact from Brexit for their businesses over the next two years. The EU, in contrast, was seen as having the largest positive impact to their business. 61% of businesses saw the EEA as "helpful", and 48% saw the political and regulatory environment in the EU as positive to their business. Such response underlines the importance of maintaining positive relations with the EU and easing the tensions that have led to the triggering of Article 7 against Poland.

Action points for business

- Businesses should thoroughly assess the possible supply chain effects of various Brexit scenarios and prepare respective contingency plans.
- Is there scope to leverage actual or prospective EU trade deals to assist in diversification towards faster-growing markets further afield?

Are governments becoming more protective of their domestic business?



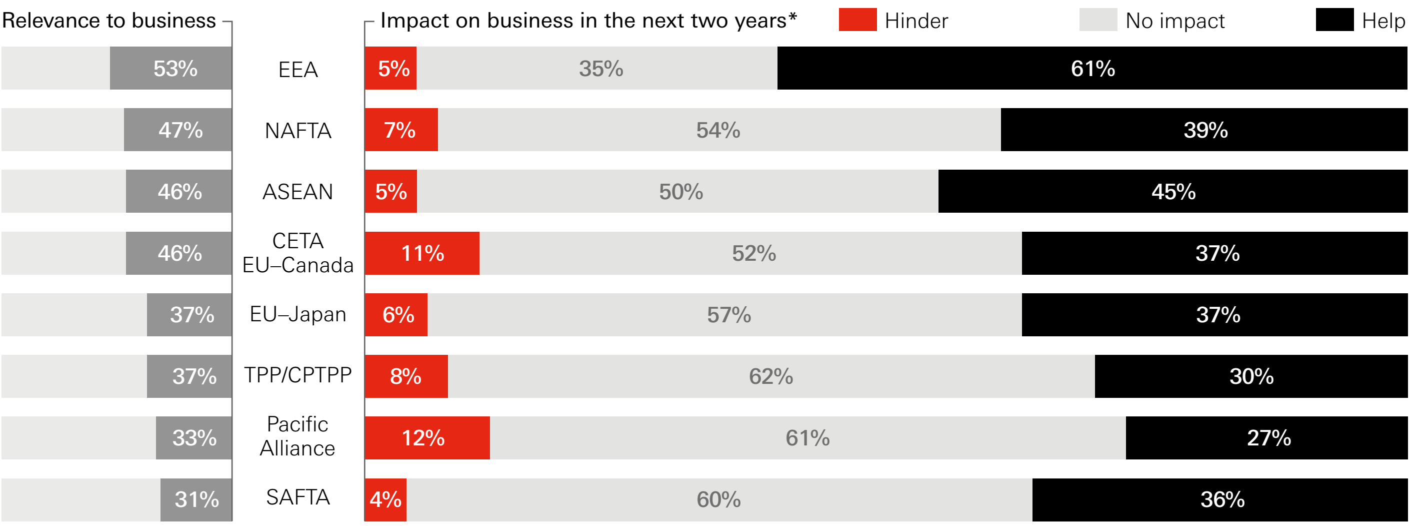
Note: may not total 100% due to rounding

Source: TNS Kantar

Top 3 impacts of protective policies on my business

Source: TNS Kantar

Relevance and impact of trade agreements



Source: TNS Kantar

*May not total 100% due to rounding

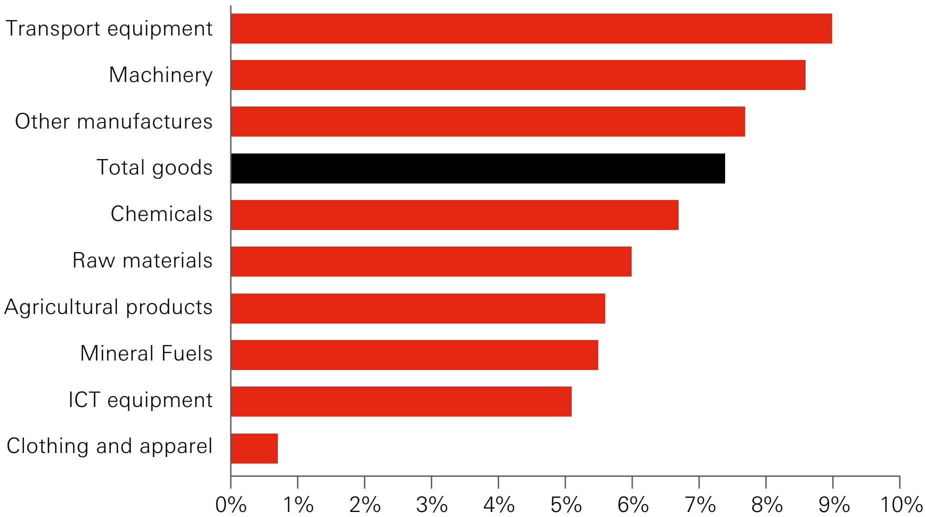
Long-Term Outlook for Trade

Poland will continue to play an important role in European supply chains, building on its advanced cluster of automotive and machinery manufacturing, highly-developed financial system and relatively high-skilled labour force. As in other fast-growing middle-income economies, services will constitute an increasingly important driver of growth, led by tourism and travel, B2B services and transportation. At the same time though a declining working age population will continue to push up labour costs, not helped by the lowering of the retirement age in October 2017. An inflow of about 2m Ukrainian migrants since 2014 will help relieve part of this pressure, but will not offset the gap altogether. In this respect, measures such as upgrading the skill set of the existing labour force, increasing female labour participation as well as increasingly implementing automation and robots will be crucial to limit the risks stemming from shrinking labour force.

European supply chains to continue driving exports

Given Poland's major role in European and German supply chains, transport equipment and industrial machinery will continue to be a primary source of export revenues and growth. These industries will grow by about 9% y/y and contribute over 40% to expected total export growth in 2018-2030. Mineral manufacturers, furniture and wood manufacturers will also be important drivers of growth in exports. Poland's key competitive advantages – geographic proximity to and lack of borders within the EU, a highly qualified and competitive labour force and favourable business environment (ranked 27th in World Bank's Doing Business 2018) will underpin this strong performance. Meanwhile, as the economy is diversifying away from lower value-added industries, exports of animals and animal products will become less important. Poland also has the potential to increase exports of ICT equipment, which is an important export category, but is growing at a below-average pace.

Exports of goods by sector, 2017-30 (average annual growth)



Source: Oxford Economics

Action points for business

- Firms should press the government to enable migrants to access jobs more easily, to help tackle skills shortages and avoid lost opportunities for trade and investment.
- Firms should engage with trade partners in high-income economies to exploit opportunities from robotics and automation - partly as a solution to labour shortages, but also to keep ahead of regional manufacturing rivals.
- Businesses should gauge the opportunities arising from increasing reorientation of business and ICT services outsourcing from Asia towards the CEE.

Top 5 Hotlist destinations of goods exports

Rank	2016	2030
1	Germany	Germany
2	UK	UK
3	France	France
4	USA	USA
5	Turkey	Turkey

Note: Ranking among the 24 trade partners covered in the forecast

Source: Oxford Economics

Increased implementation of automation and robots in manufacturing will be crucial to limit the risks stemming from shrinking labour force.

Echoing the results of the survey, our forecasts suggest that Germany remain the most important trade partner, accounting for nearly 30% of exports and about a quarter of growth between 2017 and 2030, followed by France, UK, the United States and Turkey. At the same time, as emerging markets continue to outgrow advanced economies, Poland's trade structure will gradually pivot towards emergers. The share of these top five destinations is expected to fall from 44% in 2017 to 41% by 2030, while the share of markets such as China, India, Saudi Arabia and the UAE will increase (albeit remaining relatively low at around 4% in total). Our baseline assumes a relatively benign Brexit outcome, with the UK eventually transitioning to an FTA deal with the EU - therefore this forecast is subject to downside risks in the event of a more adverse, 'hard' Brexit.

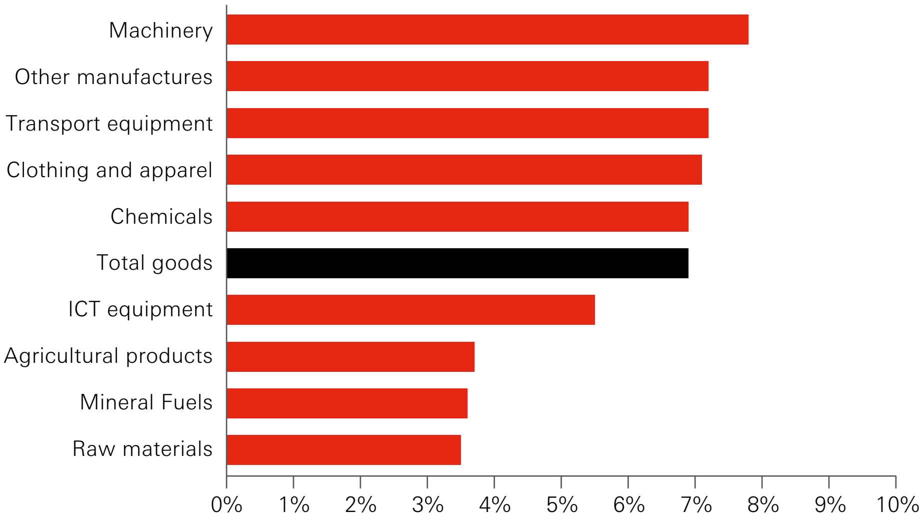
Given the heavy reliance on intra-industry trade, the bulk of growth in imports will come from Europe, and from industrial machinery and transport equipment.

Intra-industry trade leaves Europe the key source of imports

Given Poland's close integration into European supply chains, the bulk of growth in imports (35% in 2017-30) will come from industrial machinery and transport equipment, as exports of these categories rely heavily on imports of related intermediate components from Europe (the so-called intra-industry trade). Given an outlook for strong consumer-driven growth, clothing and apparel and chemicals (which go into manufacturing of a lot of consumer goods, as well as into agriculture) will be the next important drivers of growth.

Most of the supply-chain related trade relies heavily on FDI, which, in turn, necessitates a stable and predictable regulatory requirement. Poland's FDI stock, at 40% of GDP, is below the EU average of 47%, and has potential for further catch up. In this respect, foreign investors have so far shrugged off the tensions with the EU, but nevertheless underpinning confidence in Poland's relationship with the EU will be important going forward.

Imports of goods by sector, 2017-30 (average annual growth)



Source: Oxford Economics

Top 5 Hotlist origins of goods imports

Rank	2016	2030
1	Germany	Germany
2	China	China
3	France	France
4	UK	UK
5	USA	USA

Note: Ranking among the 24 trade partners covered in the forecast

Source: Oxford Economics

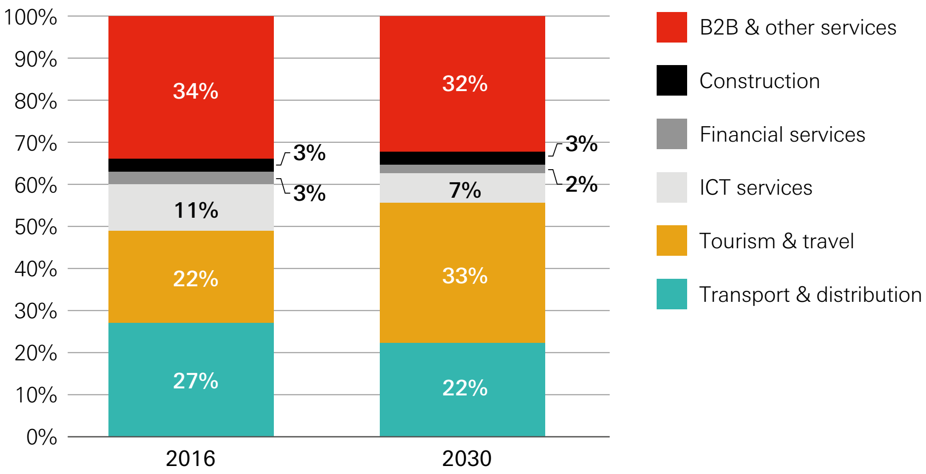
As with exports, Germany will remain the key origin of merchandise imports for most import categories, with machinery and transport equipment by far the most dominant. France and the UK will also remain the key trading partners, being second and third most important origins of imports for most major import categories. China, meanwhile, while playing a limited role in Poland's exports, is an important source for imports, and will become increasingly so in the long-term, growing by about 9% per year between 2018 and 2030. Hong Kong and South Korea are other important sources of ICT equipment. Given the importance of the ties with the UK for Poland's economy, businesses should carefully assess the implications of various possible Brexit scenarios, and make contingent plans for the eventuality of no deal or a deal with additional trade barriers (even non-tariff barriers).

Business services emerging as a key competitive advantage

Poland has seen one of the fastest rates of growth in services exports among the OECD economies in the past decade (on average by 9.3% y/y between 2007 and 2016, only outperformed by India, with 9.5% average annual growth). While transportation and tourism have been and will remain the key drivers of growth, other business services (such as IT and supply-chain management) are increasingly emerging as Poland's competitive advantage. This is happening as part of a broader shift towards a so-called "near-shoring", whereby European investors prefer to outsource services to the CEE economies, due to their geographic and time zone proximity, harmonised regulatory frameworks and highly skilled labour force with good standards of English.

Business services (such as IT and supply chain management) are emerging as Poland's key competitive advantage, as part of so-called "near-shoring".

Sectoral shares in total services exports



Source: Oxford Economics

Top 5 Hotlist destinations of services exports

Rank	2016	2030
1	Germany	Germany
2	UK	UK
3	USA	USA
4	France	France
5	Ireland	Ireland

Note: Ranking among the 23 trade partners covered in the forecast

Source: Oxford Economics

Despite services' greater mobility, Europe will remain the dominant destination for Poland's exports, with Germany by far the leading partner, with about 19% of total services exports, followed by the United Kingdom with about 5% between 2017 and 2030. Unlike goods exports, where transportation costs reduce the trade flow, United States is the third most important destination for Poland's services exports and an important source of services-oriented FDI. In trade with Europe, tourism and transportation services will continue to dominate, followed by other business services. In trade with the US, however, other business and ICT services are as important as tourism. Going forward, the structure of services exports will become less concentrated, with Germany and Europe gradually becoming less of a dominant destination, and rest of the world gaining a higher weight (65% of total services exports by 2030, versus 58% in 2017).

About the HSBC Navigator

The HSBC Navigator presents a blend of survey evidence, policy analysis, and economic modelling to generate unique and timely insights into the changing landscape for global trade.

The business survey is a quantitative indicator of the short-term outlook for global trade. The survey, which is the largest of its kind, is conducted on behalf of HSBC by Kantar TNS. It is compiled from responses by decision-makers at over 6,000 businesses – from small and mid-market to large corporations – across a broad range of industry sectors in 26 markets. Interviewees were polled on a range of questions including expectations around future growth in trade, trade finance needs, attitudes toward trade policy developments and strategic business plans.

The survey represents a timely source of information on the fast-evolving trade environment. And it can provide a useful contextual setting for interpreting developments in official data. In this way, economists at Oxford Economics are able to blend insights from the survey with their own analysis and modelling of developments in trade.

Oxford Economics has tailored a unique service for HSBC which forecasts bilateral trade in goods and services, in part based on HSBC's own analysis and forecasts of the world economy. A top-down approach is employed, with Oxford Economics' suite of models used to ensure consistency between HSBC's forecasts for economic growth and exchange rates in key countries and the more granular projections for bilateral trade flows presented here.

Oxford Economics employs a global modelling framework, with headline bilateral trade forecasts constructed as a function of demand in the destination market and the exporter's competitiveness (as measured by unit labour costs in nominal USD terms). Exports, imports and trade balances are identified, with both historical estimates and forecasts for the periods 2017-20 and 2021-30.

These headline bilateral trade forecasts for goods and services are also disaggregated by sector, using Oxford Economics' Industry forecasts to inform future production trends and taking into account the historic relationship between output and exports in each sector, by market:

- For trade in goods, sectors are classified according to the UN's Standard International Trade Classifications (SITC) system at the two-digit level and grouped into 30 sector headings.
- For trade in services, we identify five broad sectors: B2B and other services, tourism & travel, transport & distribution, financial services, ICT services and construction.

Drawing on the Kantar TNS survey results and Oxford Economics' long-term forecasts, Oxford Economics produces in consultation with HSBC a global report and specific reports on the following 23 markets: Argentina, Australia, Bangladesh, Canada, China, Egypt, France, Germany, Hong Kong, India, Indonesia, Ireland, Japan, Malaysia, Mexico, Poland, Saudi Arabia, Singapore, Turkey, UAE, UK, USA and Vietnam. The analysis of trade in goods also includes trade with Brazil and Korea for a total sample of 25 key trading markets; for trade in services the analysis also includes Korea for a total sample of 24 key trading markets.

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