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Poland's construction sector - are turbulent times over?

Insolvency statistics for the Polish construction sector show that a milestone has been reached. It has transformed from a negative performer, feeding bankruptcy levels in 2010-2012, to the sector with one of the highest improvements in terms of insolvencies. Do these statistics indicate a long-term improvement for the entire sector? So far the housing industry, which is a small part of the construction sector, shows signs of improvement and new EU funds are helping to mitigate risks.

Experience of significant deterioration

The Polish construction sector began its boom period 10 years ago, with increased demand for new housing supported by attractive mortgage loans. The sector then gained another boost when Poland was selected to host the Euro 2012 football championships, together with Ukraine. This led to new construction works being scheduled, for both stadiums and Polish infrastructure. With the high number of new contracts, significant price fluctuations for construction materials occurred, leading to the collapse of many construction companies. Additionally a slump in demand on the housing market (resulting from a significant increase in dwelling prices, combined with more restrictive rules in obtaining financing and the challenging situation on the labor market) contributed to worsening perspectives for companies focused on this segment of the construction market. From 2010, insolvencies of construction companies began to rise at dramatic rates – first by 20% and then by 46% in 2011 and 52% in 2012.

Signs of improvement and huge opportunities as from 2016

Recent insolvency statistics show a completely different picture. After years of deterioration, construction companies are not only showing a fall in bankruptcies, but they are generating significant improvements and even outperforming most other sectors. The first three quarters of 2014 showed a 26% decrease in insolvencies. This positive development can be traced back to the relatively warm winter of 2013/2014, which meant that no significant delays in construction works were necessary. Moreover, thanks to interest rates at historically low levels, expanding demand and a relative stabilization in prices, the housing market is benefiting the construction sector and its companies. Positive stimulus is also coming from governmental support dedicated to young adults buying housing through mortgage loans. As the program only concerns the primary housing market, it is supporting companies constructing dwellings, as well as smaller companies who provide services for completing and decorating housing. Nevertheless, the program is relatively restrictive and the housing market only represents a minor part of the construction sector.

Over the longer term, construction companies will benefit from an inflow of EU funds from the new EU budget for 2014-2020. These EU funds (for which Poland is the biggest beneficiary),



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combined with internal funds, will be used for further improvements to the country's infrastructure. It brings huge opportunities for companies specializing in infrastructure construction works. However, due to procedural issues, the effects of these increased investments will only be experienced by construction companies as from 2016.

The assessment of the construction sector has been revised by Coface from very high risk to high risk, thanks to its improving perspectives. More visible improvement, mitigating the risk further, will be experienced by construction companies during the course of 2015.

"The construction sector is finally generating better perspectives. The higher construction sales and output correspond with a decreasing number of company insolvencies. Whereas the outlook for the construction sector is relatively positive, it should be noted that many entities are still suffering from a long period of deterioration and liquidity problems. They welcome the signs of recovery as a relief, but long-term improvement is necessary to be referred in their financial situation", concludes Grzegorz Siewiczyk, Coface Economist Central Europe Region.

Better outlook for most of sectors, although negative external impacts are reported

The assessments of several other sectors have also been revised.

Whereas improved demand (both domestic and coming from foreign markets) contributed to the upgrades of the metals and automotive sectors to medium risk, two other sectors stay relatively sensitive to current external negative impacts. Downgrades have been made in the case of the transport and chemicals sectors. Polish transport companies are widely exposed to international services, including freight, to the deteriorated markets of Russia and Ukraine, and the questionable recovery of the Eurozone is not generating sufficient momentum for the economy of Poland's main trading partners. On the other hand, the sector is benefiting from decreasing oil prices, which are contributing to reduced operational costs for transport companies.



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