

# BEST'S COUNTRY RISK REPORT

## Poland CRT-2

August 22, 2018

Region: Europe

[Country Risk Criteria Procedures](#)

[Guide to Best's Country Risk Tiers](#)

- The Country Risk Tier (CRT) reflects A.M. Best's assessment of three categories of risk: Economic, Political, and Financial System Risk.
- Poland, a CRT-2 country, has low levels of economic and financial system risk and a moderate level of political risk. The economy has performed well over the last few years, aided by increases in both government spending and domestic consumption. However, there are some concerns about declining investor sentiment in the wake of rising levels of government ownership, as well as new business restrictions and taxes for the foreign-dominated economic sector.
- The majority of countries pictured in the map below are categorized as CRT-1 and CRT-2. Notable exceptions are the Eastern European countries of Bosnia and Herzegovina, Belarus, and Ukraine.



Economic Risk



Political Risk



Financial System Risk

- Country Risk Tier 1 (CRT-1) Very Low Level of Country Risk
- Country Risk Tier 2 (CRT-2) Low Level of Country Risk
- Country Risk Tier 3 (CRT-3) Moderate Level of Country Risk
- Country Risk Tier 4 (CRT-4) High Level of Country Risk
- Country Risk Tier 5 (CRT-5) Very High Level of Country Risk

## Regional Summary: Eastern Europe

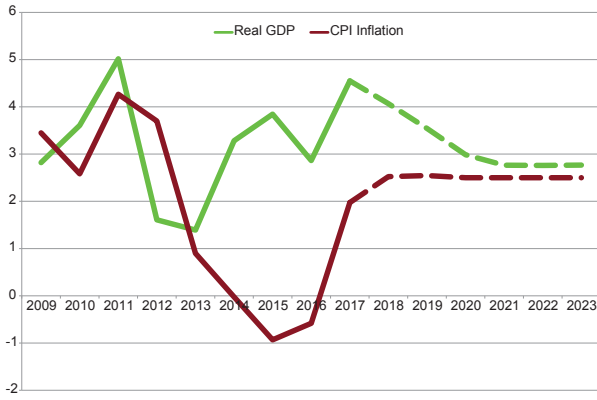
- The Eastern European countries are at various stages of bringing their legal, economic, and political frameworks to be more in line with European Union standards. The region has a great deal of economic potential, as it further integrates with the global markets of the European Union, but all of its countries would ultimately benefit from more transparent and less cumbersome regulatory environments.
- Economic growth in 2017 was robust and is expected to continue in 2018 on growing domestic consumption, fueled by rising wage and falling unemployment rates. Additionally, funds provided by the EU's Structural and Investment Funds will continue to drive public spending.
- Although many Eastern European countries are classified as emerging markets or frontier markets, reforms have enhanced economic stability and regional political power.
- Risks for the region include the potential for tightening global financial conditions, currency volatility, an increase in government influence on state-run institutions potentially undermining independence, and high levels of corruption.

Vital Statistics 2017		
Nominal GDP	USD bn	524.89
Population	mil	38.0
GDP Per Capita	USD	13,823
Real GDP Growth	%	4.6
Inflation Rate	%	2.0
United Nations Estimates		
Literacy Rate	%	99.8
Urbanization	%	60.5
Dependency Ratio	%	43.9
Life Expectancy	Years	77.8
Median Age	Years	40.7
Insurance Statistics		
Insurance Regulator	Polish Financial Supervision Authority	
Premiums Written (Life)	USD mil	5,036
Premiums Written (Non-Life)	USD mil	10,934
Premiums Growth (2016 - 2017)	%	9.4
Regional Comparison		
	Country Risk Tier	
Poland	CRT-2	
Austria	CRT-1	
Czech Republic	CRT-2	
Romania	CRT-3	
Slovenia	CRT-2	
Italy	CRT-2	

Source: IMF, UN, Swiss Re, Axco and A.M. Best



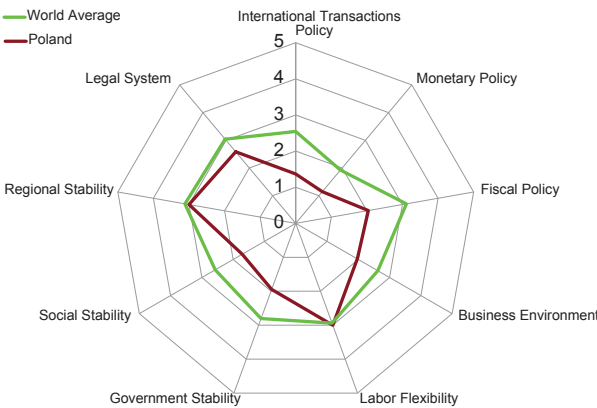
### Economic Growth (%)



Source: IMF World Economic Outlook and A.M. Best

### Political Risk Summary

Score 1 (best) to 5 (worst)



Source: A.M. Best

### GDP Per Capita and Population



Source: IMF and A.M. Best

### Economic Risk: Low

- Poland is the eighth-largest economy in the European Union. Important sectors include banking, food processing, and textiles. The economy is rebalancing to become more services-oriented.
- Despite relatively strong economic growth, Poland still faces structural issues. Challenges include high levels of bureaucracy, insufficient infrastructure, a rigid labor code, a complicated tax system, a tight labor market, an overburdened judicial system, and unfavorable demographics.
- The labor market continues to tighten, with an unemployment rate of 6.1% as of May 2018. The IMF has highlighted that demographic headwinds may weigh on the country's long-term growth prospects. Poland's demographics have changed as a result of longer life expectancies and lower fertility rates.
- The government has favored keeping certain strategic industries under state control. These industries include telecommunications, mining, and energy.

### Political Risk: Moderate

- In 2017, Prime Minister Beata Szydlo resigned from office. President Andrzej Sebastian Duda designated Mateusz Morawiecki as acting prime minister.
- The government is currently led by the PiS-led conservative party, which controls the majority of seats in parliament and continues to enjoy popular support. The next legislative election is scheduled for October 2019 and the next presidential election, May 2020.
- Ongoing disputes with the European Commission about recent judicial reforms are creating political and regulatory uncertainty. The EC invoked Article 7 of the Lisbon treaty against the country in December 2017. If Poland does not reverse recent actions, which have undermined the independence of the judiciary, it could face harsh penalties.

### Financial System Risk: Low

- The insurance industry is regulated by the Ministry of Finance's Polish Financial Supervision Authority. The Financial Stability Committee, under the National Bank of Poland, is responsible for macro prudential supervision of the financial system.
- In 2017, Poland ended its flexible credit line arrangement with the IMF. The arrangement, which was a precautionary measure, was to provide the country with additional buffers against external shocks. The country has strengthened its fiscal position and increased its foreign exchange reserves.
- The banking sector is relatively healthy with sufficient levels of capitalization and liquidity. Deposit growth has also grown considerably. The low interest rate environment, however, has constrained profitability.