

Summary

- Despite several controversial laws, the Polish PiS-led government has strong political support and an early election is currently unlikely
- PiS' parliamentary majority will assure smooth policy implementations, with particular focus on protecting the mining and energy sectors
- Weak opposition unlikely to pose a big threat to government stability

Risk scores



Structure and calculations

Analysts determine scores based on qualitative guidance. Each score represents the average expected level of risk over the coming year, and each outlook represents the projected direction of risk trends after that 12-month period. Overall risk scores are calculated as equally weighted averages of the six aggregate categories – Political, Economic, Legal, Taxation, Operational and Security. Risk is scored on a 0.1-10 scale. The scale is logarithmic, with intervals of 0.1 magnitude. This range is split into seven bands, ranging from Low to Extreme risk.

Business environment - strengths and weaknesses

Strengths	Weaknesses
Poland has a developed, mature, and stable democratic political system, with a smooth transition of power.	The ongoing disputes over the judicial reforms with the European Commission as well as the president carry many uncertainties.
Cheap, educated labour force is attractive for investors. The government also works on reform to open up restricted positions, thereby increasing its overall competitiveness.	The judicial system remains overburdened with a backlog of cases and is in need of an overhaul. The outcome of the ongoing legislative process over judicial reforms is however very uncertain.
Continuing flow of EU funds will lead to better road and rail infrastructure, particularly in the generally less developed eastern and northern parts of the country.	Institutional strength and independence is undermined by the ruling party's profound changes to the laws governing the judiciary as well as media.
There is a restricted intervention of policy-makers in the private sector.	Corruption and bribery remain a problem, particularly in courts, public tenders and contracts.

Country risk - overall statement

The Prawo i Sprawiedliwość (PiS) -led conservative government controls the parliamentary majority and has strong, stable political support. Allegations that its policies have undermined media and judicial freedom and the fact Poland became the first EU country to be probed under the bloc's rule-of-law procedure have only slightly affected its popularity: the PiS leads in opinion polls and an early election is unlikely at present. Policy-wise, banking taxes and more effective tax collection will most probably fill budget gaps, affecting financial services and in the longer term possibly retail trade. The PiS will also advocate a larger role of the state in the economy, particularly in the mining and energy sectors.

Detailed analysis

Despite several controversial laws, the Polish PiS-led government has strong political support and an early election is currently unlikely

The parliamentary majority in Poland is likely to assure government stability in the one-year outlook. Poland held an election on 25 October 2015, resulting in the Conservative Law and Justice Party (Prawo i Sprawiedliwość: PiS) of Jarosław Kaczyński obtaining a plurality of the votes. Accordingly, the PiS is for the first time in Poland's history able to rule alone, although it is in official alliance with nationalist/conservative Solidarity of Poland (Solidarna Polska: SP) and economically liberal Poland Together (Polska Razem: PR), controlling 235 out of 460 Sejm (lower house of parliament) seats. Kaczyński has not assumed the prime ministerial post, which instead went to PiS election leader Beata Szydło. However, Kaczyński remains PiS leader and has been influencing the PiS general policy direction – a trend IHS Markit expects to last throughout the administration's term.

A decision of President Andrzej Duda to veto two out of three judicial reforms as well as his refusal to nominate generals in August 2017 revealed a split in the previously monolithic structure of the coalition government between

the right-wing faction (represented by Kaczyński and the SP leader and Justice Minister Zbigniew Ziobro) and the republican wing including Duda, Finance Minister Mateusz Morawiecki and PR leader and Education Minister Jarosław Gowin).

Nevertheless, serious splits in the PiS-led administration are unlikely. First, the government still enjoys high public support. In addition, the leaders of the SP and the PR are ministers, and they enjoy autonomy in exercising their policies. This includes Ziobro's reforms in the justice system, while Gowin has embarked on a reform of higher education. He closely co-operates with Morawiecki, who is seen as a potential succeeding prime minister. Gowin also supports the PiS welfare programme because the family policy was the main subject of the PR's election campaign in 2015.

The PiS advocates a nationalist policy stance – a larger role of the state in the market economy. In practice, this means an increase in public spending and more nationalistic economic policy, especially in such areas as the mining and energy sectors, banking, and retail trade. Although Poland is bound by the EU's competition laws, the government will probably explore loopholes in the legislation, which in turn threatens to result in erratic policy-making. For instance, the government was forced to suspend the 2016 Act on Retail Tax, as the European Commission saw its progressive rate as discriminatory towards large retailers that are mainly foreign-dominated. As a consequence, the government has suspended the bill and it now looks increasingly unlikely that the law would come into force in 2018. Overall, the PiS favours small and medium-sized enterprises (SMEs), while increasing the regulatory and/or tax burden on banks and multinational retailers. The PiS government will also seek to strengthen the position of trade unions, which had been substantially weakened under the previous Civic Platform (Platforma Obywatelska: PO) government, potentially leading to changes in the collective bargaining rules.

PiS' parliamentary majority will assure smooth policy implementations, with particular focus on protecting the mining and energy sectors

Poland has developed a democratic policy-making system that is largely transparent and predictable. In the past, the ruling parties relied on smaller factions for a parliamentary majority, resulting in a greater need for political compromise. The current PiS-led government, however, rules in the majority formation, which will make the policy formulation predictable as the government does not have to rely on opposition – apart from enacting potential constitutional changes and overruling the president's veto – when implementing its agenda. This is further strengthened by the fact that the PiS now also controls the Senate (upper house of parliament) and the presidential palace, with President Andrzej Duda being a PiS candidate. As such, PiS core proposals, such as maintaining a hard-line approach towards Russia (particularly in terms of maintaining the economic sanctions), are likely to be largely unchallenged.

The ongoing uncertainty related to the controversial judicial reform aiming to expand the role of Justice Minister in selection of judges is being revised by the president, whose cabinet is working on the new draft proposals. It seems that the government will not give up on the judicial reform in general, as it is desired by its electorate. Up to now, one out of three bills has been signed by the president, amid the objections of the European Commission, which just opened a legal procedure against Poland.

Implementing constitutional changes will be harder, however, as the PiS will require support of the PO members: the right-wing parties are collectively short of the constitutional majority. Developing agreement between PiS and the opposition parties and securing 307 parliamentary votes (two-thirds parliamentary majority plus one vote) on all these issues is likely to be very difficult.

The PiS government also remains adamant about protecting what it deems strategically important industries for Poland's economy, particularly the mining sector. Most coal mines have suffered financial pressures due to the global drop in coal prices and rising operational costs. The PiS has, on many occasions, said that it would protect the sector/mines from closures, while it is more likely to oblige miners' trade unions than the PO when it comes to

preserving social privileges and relatively high wages for miners, which do not reflect productivity. Concerning its long-term strategy, Poland will continue to seek energy independence. The unprofitable and obsolete national mining industry will pose a challenge, as will the replacement of old power blocks of which almost 40% are more than 40 years old and 15% more than 50 years old. Other concerns are environmental risks associated with shale-gas exploration and challenges related to the probable introduction of nuclear energy in Poland.

Weak opposition unlikely to pose a big threat to government stability

The opposition parties include the centrist/liberal PO and Nowoczesna, agrarian Polish People's Party (Polskie Stronnictwo Ludowe: PSL), and the right-wing/nationalist Kukiz'15. The centre-left represented by the Democratic Left Alliance (Sojusz Lewicy Demokratycznej: SLD) is, for the first time, not represented in the Sejm. Apart from the Kukiz'15, which is ideologically close to the PiS and was until the election perceived as the PiS's natural coalition partner, the other parties lean towards the PO in terms of their policies. Similar to the PiS, Kukiz'15 advocates revision of the climate and energy package and a more efficient tax system, including higher taxation on large companies; however, unlike the PiS it favours changing the electoral system to single constituency.

The Nowoczesna was founded by the chairman of the non-profit organisation Association of Polish Economists, Ryszard Petru. Nowoczesna advocates a single tax rate of 16% for value-added tax (VAT) and corporate and personal income tax and abolishing tax exemptions and pension and trade union privileges. Amid internal splits within PO, Nowoczesna had the potential to take over the votes of liberal electorate of the PO and even substitute the PO on the Poland's political scene in the next election. Nonetheless, Nowoczesna's popularity has been dwindling lately; in April 2017 four Nowoczesna MPs left the party to join the PO. Both parties support the Committee of the Defence of Democracy (KOD), a movement behind recent anti-government protests.