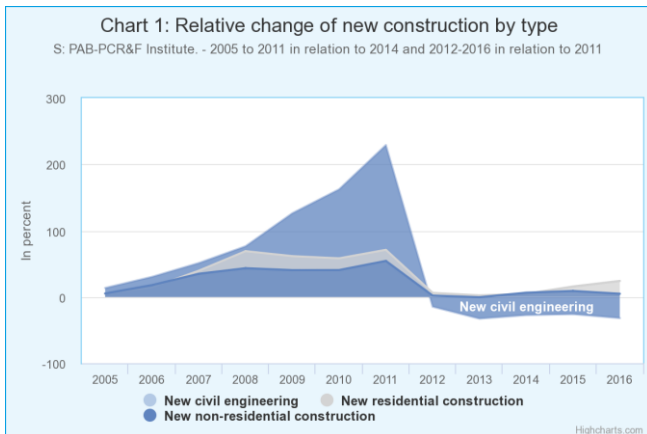


Not only EU funds drive construction in Poland – Structural changes in Polish construction

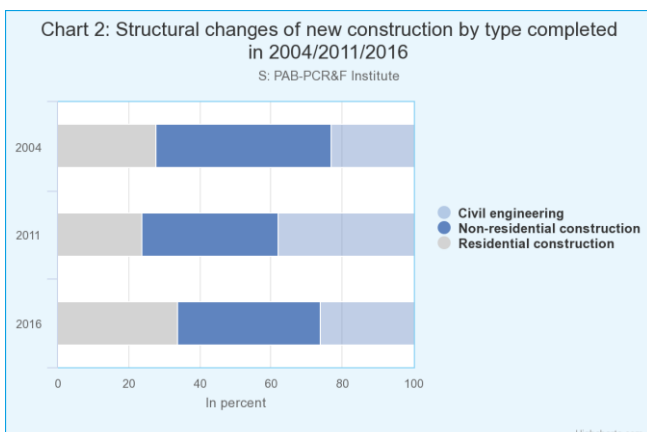
The strong development of construction in Poland, observed since Poland's accession to the EU in 2004, was mainly attributed to the implementation of big infrastructure projects in civil engineering, which development was stimulated and financed to a large extent from EU cohesion funds.

In the years 2005-2011 the value of new civil engineering construction tripled, while new residential construction increased by only 70% (3 times less compared to civil engineering), and new non-residential construction increased by only 55% (4 times less compared to civil engineering).



The support from EU public investment funds was decisive for the development of new construction in Poland, which increased by cumulated 83% within these years.

As a result, the share of civil engineering on the total construction production increased by 15 percentage points from 23% to 38% from 2004 to 2011 in Poland, while the share of non-residential and residential construction decreased by 11 percentage points and 4 percentage points, respectively.



The main beneficiaries of EU funds in the construction sector were medium and large civil engineering construction companies, which had in 2011 a market share of 60% on all completed construction works done by construction enterprises with more than 9 employees.

After 2011, public investment was hampered, especially infrastructure investment, largely financed by the EU Cohesion Funds, as the implementation of EU-funded projects decreased towards the end of the EU's budgetary perspective from 2007 to 2013, and the use of funds of the next period 2014-2020 is significantly weaker than expected.

The slowdown in financing public domestic investments was accompanied by a regression in local construction, because many of the already developed projects had to be changed and adapted to the new regulations. These include also new environmental impact assessments which were responsible for delays in their implementation.

The delay of contracting construction projects was also caused by the changes in the public procurement law.

The regression and often long delays in financing civil engineering projects occurred not only in Poland, but in all post-communist EU countries in 2016. This decline in public investment was accompanied by a weakening growth in non-residential construction due a mix of lower public and private investments.

As a result, the value of new civil engineering decreased by one third in the years 2012-2016 and its share on total new construction output decreased by 14 percentage points from 38% to 24% in Poland. On the other side, this led to an uptake in the share of new residential construction by 15 percentage points (while the share of new non-residential construction decreased by 1 percentage point).

By contrast, the share of civil engineering on total construction output of companies with at least 9 employees decreased by 9.3 percentage points to 50.8% in 2016. Against the background of the double-digit decline in new civil engineering and the stagnation in new non-residential construction – new housing construction was intensified, where production increased by 25% in 2016 compared to 2011.

The double-digit growth in housing construction, which does not directly benefit from EU funds, curbed the strong

downward trend in Polish construction in the years 2012-2016. In this period the cumulative increase amounted to 1%.

The main factors for the strong development of housing construction in Poland were favorable internal financial conditions (very low mortgage rates, increase in household income) and housing purchases supported by governmental programs which depended only to a small extent on EU funding. In the subsequent years, along with the increase in absorption of EU funds from the new funding period 2014-2020, a corresponding increase in public investments, mainly in infrastructure is expected. This will again become the main driving engine for construction in Poland (from 2018 onwards).

However, the strong upward trends in the number of issued building permits and housing starts in several previous years have created strong foundations for maintaining a high level of housing construction towards 2020 and its share on total construction output in Poland.

This is supported by intense governmental actions aimed at accelerating the socially important "Flat Plus" program, which will be not only a program for providing housing for the needy, but it will also drive the Polish economy. Ultimately, it will be a large investment program that can mobilize a volume up to PLN 200 billion (appr. 47 billion Euro) by 2030.

As a part of these activities, a so-called "housing special act" is now developed. This will definitely accelerate the construction of housing in Poland and remove bureaucratic barriers, but also those barriers that are associated with the preparatory process for construction.

According to the governmental assumptions, the act will be approved in the first half of 2018 in order to allow the planned construction of 100,000 new flats by next year.

NOTE

The estimations from PAB-PCR&F Institute – which are based on the experience of many years in research – show that the actual value of the Polish construction output in single-family housing is several times underestimated by CSO.

We assessed that the value of construction works in the housing sector is more than two times higher, when taking the individual completed construction works into consideration which are not registered by CSO.

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