Cup-o-nomics

Business opportunities in Poland and Ukraine

Euro 2012 is not only set to provide many great football moments but also business opportunities. Due in part to Euro 2012 Poland and Ukraine will show greater economic growth in the coming years. Inhabitants of the countries will benefit from this growth, as will foreign companies including Dutch businesses.

Main conclusions

- **Holding Euro in Poland and Ukraine will generate much higher returns than when the tournament was held in Austria and Switzerland**
- **On average the positive effect of hosting Euro 2012 is 0.25 percentage point for the Ukrainian economy and 0.16 percentage point for the Polish economy between 2010 and 2014. During this time the event will also result in an average of 50,000 more jobs in Ukraine and 30,000 in Poland**
- **Only 14% of the positive effect will be the result of extra spending and income directly linked to the tournament**
- **78% of the positive impact will be the result of accelerated investment in roads, railways and airports**
- **In 2012 higher consumption by football supporters during Euro 2012 will boost the economy by EUR 200 million in Poland and EUR 150 million in Ukraine**
- **Supporters spend their money on:**

Shopping for own use	23.7%
Food and drink	17.1%
Hotel or other accommodation	15.7%
Tourist excursions	14.6%
Transportation	14.3%
Shopping for resale	7.4%
Other	7.4%

- **Dutch businesses will earn around EUR 200 mln prior to and during the tournament. Economic activity by Dutch companies particularly in Ukraine may grow sharply after that**

Poland and Ukraine set to benefit greatly from Euro 2012

UEFA's decision to hold Euro 2012 in Poland and Ukraine is contributing to a more rapid economic development of both countries. Extra investment in sports facilities and particularly early investments in the infrastructure contribute to a rapid sustainable increase in production and the productivity in both countries. Ukraine in particular is set to get a huge boost (average GDP growth of 0.25 percentage point per year) while Poland can expect annual growth of 0.16 percentage point between 2010 and 2014. This is six times higher than the growth achieved in Austria and Switzerland during Euro 2008. Employment is also expected to be boosted in both countries. In the period from 2010 to 2014 employment in Poland will be higher on average by 30,000 per year and in Ukraine by 50,000. Euro 2012-related investment is estimated at EUR 10 billion in Poland and EUR 4.4 billion in Ukraine.

- 78% of the positive effect concerns investments in roads, railways and airports, etc.
- 8% relates to foreign interest in investing in these countries
- 6% relates to sports facilities (including stadiums)
- 7% concerns additional income from tourism, and
- 1% relates to expenses incurred by the UEFA organisation

1. Being more familiar with Ukraine and Poland leads to more business dealings and more trade and investment in both countries. For instance intensifying the development of the gigantic agricultural areas in Ukraine using our expertise. Ukraine has very fertile agricultural land. Making better use of this land could help turn the country into Europe's breadbasket.
2. The construction of roads leads to a permanent unlocking of transport routes, meaning that more products will be able to make their way from Poland and Ukraine to the EU at a lower cost.
3. Neighbouring countries will also be able to be served out of Ukraine. These are also often fast-growing economies. Trade relations between Ukraine and Turkey, for example, are becoming more and more important.

4. A successful tournament will have a positive effect on the countries' images, resulting in greater interest from foreign companies (including SMEs) to do business there. Football bridges the gap to doing business. Poland is closer to the Netherlands and is therefore a more accessible destination. Ukraine is much farther away and much less known. An estimated 1.4 million visitors are expected to attend Euro 2012: 800,000 of which in Poland and 600,000 in Ukraine. Net earnings from tourists in Poland are estimated at EUR 200 million and Ukraine is expecting to make EUR 150 million in 2012.
5. If visitors have a pleasant stay in both countries, this will lead to a larger future flow of tourists. The flow of tourist income in Poland after Euro 2012 is expected to be EUR 0.5 billion higher than if the tournament had not been held there. Travel agencies in the Netherlands and other countries will benefit from this.
6. Do other financial obstacles still have to be overcome? As a member of the EU and a future member of the Eurozone, Poland is more robust. Per capita income is over three times as high as Ukraine making it easier to deal with setbacks.
   Furthermore 1/3 of infrastructural projects in the country are financed by the EU. Ukraine, which is not yet a candidate for EU membership, lacks such support. The fact that the Eurozone is in recession affects both Poland and Ukraine. A 1% drop in growth in the EU costs Poland 0.28 percentage point of growth and Ukraine 0.16 percentage point. Assuming a normal EU growth rate of 2% and now a 1% contraction, this means that the slump in the EU is costing Poland 0.8 percentage point of growth and Ukraine 0.5 percentage point. All in all, the boost from Euro 2012 will ease the pain but both countries would benefit most from a return to growth in the EU.
7. More attention from local authorities to tackle the negative aspects of doing business in both countries could give the economy an extra boost.
8. Due in part to Euro 2012 we expect these countries to grow substantially more for the time being (on average 3% in 2012/2013) than the Eurozone countries which includes the Netherlands (on average 0%).
9. How many people live in the Polish and Ukrainian cities that will be hosting the tournament? I.e. how many people will feel the direct effect of football fever? 8.7% of the total population live in the Polish host cities and at 13.6% the percentage in Ukraine is even higher. In short football fever will affect Ukrainians more than Poles.

Which supporters spend the most?

- In general:
  - Officials spend the most per day, followed by
  - Foreign visitors with a ticket
  - Foreign visitors in fan zones
  - Inhabitants of Poland and Ukraine

- The difference between the monthly income of the average Pole, Ukrainian and Dutchman is substantial. On average Poles earn EUR 850 per month and Ukrainians make EUR 215. The average Dutchman earns EUR 3,400. These are big differences but the gap is gradually narrowing thanks to a higher rate of income growth in Poland and Ukraine.

- We believe that per capita income in Poland and Ukraine will be almost 20% higher at the end of 2013 compared to 2011. That means that Poland and Ukraine are poised to weather the recent difficult economic storm reasonably well.

Other countries will not only enjoy the football but also make money from Euro 2012. After Poland and Ukraine the country poised to make the most from the tournament is Germany, the main trading partner of both host countries. But the Netherlands also scores reasonably well. The German success is based on the supply of the necessary high-grade machines, means of transportation, other industrial products and consumer electronics. In addition the country plays an important role in the construction industry and business services. So how about the Netherlands?

The Dutch contribution consists of the supply of light bulbs for the stadiums, grass for the stadium in Warsaw, civil engineering facilities in the stadiums, machines and means of transportation, security gates, advice with respect to security and logistic processes. The travel sector and people organising the 'Orange' campsite will of course also benefit.

Figure 1: Country data on Poland, Ukraine and the Netherlands in 2011

	Poland	Ukraine	The Netherlands
Area (x 1,000 km²)	304.3	579.3	33.9
Nominal GDP (EUR bln)	373	125	602
Population (mln) / growth (%)	38.4 / -0.08	44.8 / -0.63	16.7 / 0.45
GDP per capita (EUR)	10,126	2,624	36,150
CPI (average y-o-y %)	4.3	8.0	2.3
GDP breakdown (%)			
Agriculture	4	10	2
Industry	36	29	23
Services	60	61	75
GDP growth	4.3	5.2	1.2
Growth of private consumption	3.1	15.0	-1.1
Investment growth	8.5	10.1	5.8
Exports (EUR bln)	139.3	49.6	405.1
Imports (EUR bln)	149.4	59.9	364.8
Exchange rate of local currency/EUR	4.12	10.52	
Main products			
Imports	Machines and means of transportation	Mineral fuels	Machines and means of transportation
Exports	Machines and means of transportation	Metals	Machines and means of transportation
Main trading partners			
Imports	Germany	Russia	Germany
Exports	Germany	Russia	Germany

Source: ING, Oxford Economics, Statistics Netherlands

Just what do we know about these countries?

The Netherlands is by far the smallest in size. Ukraine is 17 times larger and Poland nine times. However the Dutch economy is five times as large as the Ukraine economy and 1.5 times bigger than Poland's.

This has everything to do with the development stage in which these countries find themselves and their fields of specialisation. Ukraine is a strongly divided country, both politically and economically. The eastern part of the country is dominated by heavy industry (steel) and is strongly focused on Russia. The western part of the country is focused on the agricultural sector, light industry and services and is looking to forge ties with the European Union. Poland is also divided, but the difference between the north and the south is less comprehensive. Poland is heavily focused on industry at the expense of agriculture. In the coming years the fastest-growing sectors will be the computer and office machine sector, medical equipment and electronics. Poland has been a member of the EU since 2004 and benefits from substantial subsidies from Brussels.

The crisis in 2008/2009 hit the Ukraine hard and the economy contracted by 15% in 2009. Poland is one of the lucky countries that did not experience economic contraction in that period.

The future looks brighter for both countries whereas the Eurozone countries will, on balance, not experience any economic growth this year or next year. The Polish and Ukrainian economies will grow on average 3% annually in these years.

What makes doing business in Ukraine and Poland attractive?

Poland and Ukraine are fast-growing countries in the Central and Eastern Europe region. In the next decade average economic growth is forecast at 3.5% per year in Poland and at more than 5% per year in Ukraine. These are growth figures that Eurozone countries can only dream about. Strong growth in production usually goes hand in hand with improved income in these countries. And more income in Poland and Ukraine generally means higher expenditure on consumer goods and sometimes also higher savings. The domestic markets in these countries

are quite large. Based on the size of the population (38.4 million in Poland and 45 million in Ukraine) these markets are more than twice and two-and-a-half times as large as the Dutch market.
More production and expenditure on consumer goods potentially means strong growth in sales of Dutch consumer goods, semi-manufactured goods and machines. It also means a further increase in demand for advisory services, brokerage activities and banking services.

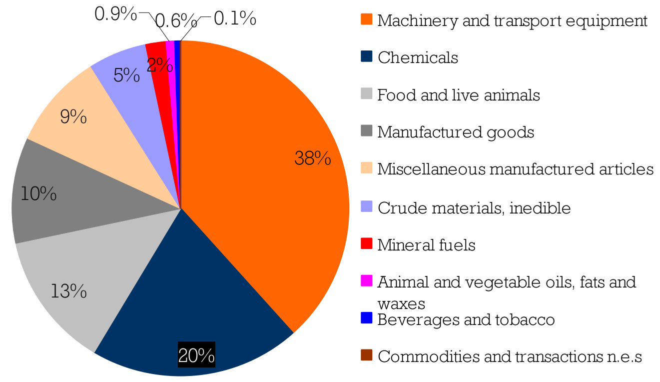
Is it cheap in Ukraine and Poland?
So does this also mean that it is cheaper to be in Ukraine and Poland during Euro 2012? You might be disappointed. The large cities hosting the tournament have a shortage of hotel capacity. Shortages drive up prices. This may also apply to the restaurants so it could be expensive. There are, however, price differences between Warsaw/Kiev and the other cities. A well-filled wallet is recommended. A basket of products valued at EUR 100 in Amsterdam will cost you EUR 80 in Warsaw and EUR 65 in Kiev, according to the UBS publication 'Prices and Earnings update August 2011'.

So what does that mean for companies that want to do business in Ukraine and Poland. The cost of labour differs greatly based on monthly wages. However, productivity must also be taken into account in order to draw a good comparison between wage and production costs. And productivity is generally considerably lower than in the Netherlands. Adjusted for the difference in productivity, the cost gap is considerably less with the difference in wage costs between Poland and Ukraine then dropping from four times as high to twice as high.

Where do the opportunities lie for Dutch companies in Poland and Ukraine?
Sustained high economic growth (compared to flat or receding growth in the Eurozone) means high demand for the import of semi-manufactured goods. The Netherlands and Germany are important suppliers of semi-manufactured products, a good example of which are the chemical products exported by the Netherlands. At the same time there is high demand for good machines. Ukraine has many acres of the best agricultural land but the country's production is disappointing. Ukraine still imports a considerable amount of agricultural products. Much more can be harvested. Agricultural experts have been active in Ukraine for quite some time now. It will pay off to invest more energy into this, not in the least in view of the price development of raw materials and food products. More attention must be paid to clean and energy-efficient production in Ukraine. The Netherlands can help in this area.

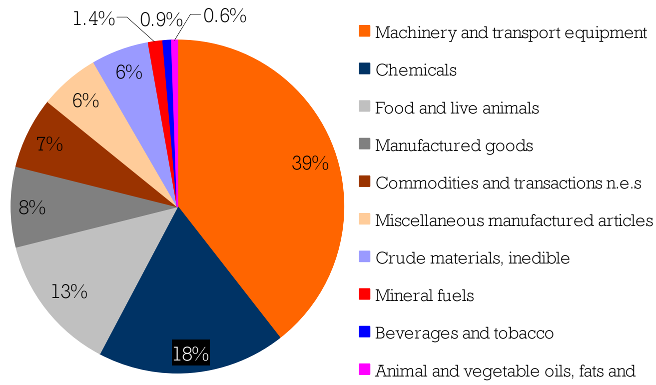
Dutch exports to Poland and Ukraine totalled EUR 5.5 billion (90% to Poland) in 2011. These exports consist of the following products (see figures 2 and 3).

Figure 2: In 2011 Dutch exports to Poland mainly consisted of:



Source: Statistics Netherlands, ING calculation

Figure 3: In 2010 Dutch exports to Ukraine mainly consisted of:



Source: UNCTAD, ING calculation

In the coming years we expect strong growth in the Dutch export of machines and means of transportation, chemical products and food products. There are also plenty of opportunities in the services sector, including business, logistic and banking services. Part of the Dutch exports to Poland and Ukraine is related to Euro 2012. Exact figures on the Dutch contribution have yet to be published. Germany appears to be benefitting most.

How the Netherlands is doing compared to a number of other countries participating in Euro 2012 in Poland and Ukraine can be seen in figures 4 and 5. The Netherlands is an important player in Poland, ranking third in the list of its main trading partners. The Dutch role in Ukraine is still quite modest. This has everything to do with the fact that

Poland has been a member of the EU since 2004, while Ukraine is still in talks with the EU on an association agreement that would simplify trade between both sides and result in fewer formalities and more favourable import tariffs. It must be noted that the percentage of exports to Poland and Ukraine account for only 2% and 0.3% of all Dutch exports. The importance of imports from these countries is also still tiny, with Poland accounting for 1.4% and Ukraine for 0.2% of all Dutch imports.
The Dutch influence on the Polish economy and to a lesser extent the Ukrainian economy is larger than the other way around.

Figure 4: Dutch stake in Polish and Ukraine imports

Poland		Ukraine	
Countries	Share %	Countries	Share %
Germany	29.2	Russia	36.5
Russia	8.8	China	7.7
Netherlands	6.0	Germany	7.6
Italy	5.8	Poland	4.6
China	5.6	Belarus	4.2
France	4.5	United States	2.9
Czech Republic	4.2	Italy	2.3
Belgium	3.5	Turkey	2.1
United Kingdom	3.1	Hungary	2.0
Slovakia	2.6	France	1.8
Sweden	2.3	Azerbaijan	1.6
Austria	2.2	Netherlands	1.4

Source: Statistics Netherlands, UNCTAD, ING calculations

Based on our model calculations there are still plenty of trade opportunities for the Netherlands in Poland and Ukraine, see the tables below.

Figure 5: Growth of Dutch exports to Poland and Ukraine

	Poland	CAGR	Ukraine	CAGR
(mln €) / %	2011	2012-'16	2010	2012-'16
Total products	8494	7.6	947	5.9
Food and live animals	1109	7.2	128	6.2
Alcoholic beverages and tobacco	48	7.3	9	6.5
Raw materials, non-edible	466	7.7	52	5.8
Mineral fuels	163	6.2	13	4.8
Animal and vegetable oils	74	8.2	5	7.2
Chemical products	1716	5.3	173	3.8
Manufactured products	888	7.7	72	5.5
Machines and transport equipment	3251	8.9	374	6.4
Miscellaneous manufactured products	775	7.3	55	5.6
Unspecified goods	5	8.9	66	6.6

Source: Statistics Netherlands UNCTAD, Oxford Economics, ING

Besides trading with Poland and Ukraine it is also possible to produce in the countries through a takeover or by locating there. Many large Dutch companies, but also SMEs, set up business particularly in Poland after the turnaround, initially through a representative office and later often in a joint venture with a local party. Furthermore a number of takeovers took place. In the coming years economic growth in Poland and Ukraine will be driven by certain sectors. The growth opportunities in each sector depend on, for example, the strong growth of consumption or investments. The government has in many cases also prioritised certain sectors. This results in the following overview of the future sector development in Poland and Ukraine.

Figure 6: Future sector development in Poland

Poland	2010	2011-2015
	Share in GDP	% growth (volume)
Agriculture, fisheries	4.7%	2.0
Mining	2.6%	-2.2
Manufacturing	19.3%	4.5
Food, alcoholic beverages and tobacco	2.6%	5.0
Printing	0.9%	7.0
Household appliances	0.5%	7.1
Furniture	0.6%	8.0
Other industrial products	1.1%	10.4
Rubber and plastic	1.2%	6.9
Minerals, metalloids	1.2%	8.6
Electrical equipment	0.7%	6.5
Metal products	1.8%	8.6
Machines incl. specialist machines	1.0%	7.3
Optical equipment	0.7%	5.2
Cars, parts and other transport equipment	1.6%	5.3
Utilities	3.8%	-1.3
Construction	6.6%	6.7
Services	62.9%	3.3
	100%	

Source: Oxford Economics, ING calculations

In the coming years there will growth opportunities in machine manufacturing, specialist machines and means of transportation in addition to opportunities in the more traditional sectors of food products, alcoholic beverages and tobacco. Opportunities exist in both Poland and Ukraine, also for Dutch businesses (see figures 6 and 7).

Figure 7: Future sector development in Ukraine

Ukraine	2010	2011-2015
	Share in GDP	% growth (volume)
Agriculture, fisheries	10.2%	2.9
Mining	4.5%	4.9
Manufacturing	21.9%	5.6
Food, alcoholic beverages and tobacco	4.9%	5.5
Household appliances	0.1%	10.5
Coal and refined oil products	1.2%	9.7
Base chemicals and chemical fertiliser	1.0%	10.1
Agricultural chemicals	2.0%	10.2
Minerals, metalloids	2.8%	7.5
Basic metals	3.3%	8.2
Machines incl. specialist machines	1.0%	10.8
Cars, parts and other transport equipment	0.6%	13.5
Utilities	3.8%	5.6
Construction	4.1%	5.6
Services	55.3%	5.6
	100.0%	

Source: Oxford Economics, ING calculations

Doing business in Ukraine and Poland is not always easy

Every year the World Bank in Washington publishes an index showing how easy or difficult it is to do business in a country. The list compares 183 countries using 10 indicators, for example how difficult is it to start up a business in a country, or how time-consuming is it to get a building permit.

The index shows that Ukraine scores the worst of all the countries participating in Euro 2012, ranking a disappointing 152nd out of all 183 countries surveyed. Poland fares much better, ranking 62nd. The Netherlands (31st) should be able to do better.

The World Bank index shows that doing business in the Netherlands is not that easy. At 31st the Netherlands is quite average. Poland scores the best of both organising countries and at 62nd, the country ranks much higher than Italy and Greece. Ukraine's 152nd ranking is disappointing. The country only scores favourably in getting credit and in enforcing rights in the event of a conflict.

The list of published scores provides a rough indication of the further development opportunities in a country. Ukraine, Russia, Greece, Italy, the Czech Republic and Poland still have plenty of work to do.

Box 1: And the European business champion is...

If we judge all 16 countries participating in Euro 2012 on how easy it is to do business in the country, Denmark ranks the highest while Ukraine gets the wooden spoon.

	Countries	Ease of doing business in score
1	Denmark	5
2	United Kingdom	7
3	Ireland	10
4	Sweden	14
5	Germany	19
6	France	29
7	Portugal	30
8	Netherlands	31
9	Spain	44
10	Poland	62
11	Czech Republic	64
12	Croatia	80
13	Italy	87
14	Greece	100
15	Russia	120
16	Ukraine	152
	Totaal number	183

Based on the schedule of games and the scores in the World Bank index, Denmark would win Euro 2012 followed by Ireland.

Sources consulted

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