

# Main Economic & Financial Indicators Poland

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NAOKO ISHIHARA  
ECONOMIST  
ECONOMIC RESEARCH OFFICE (LONDON)  
T +44-(0)20-7577-2179  
E naoko.ishihara@uk.mufg.jp

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## Overview

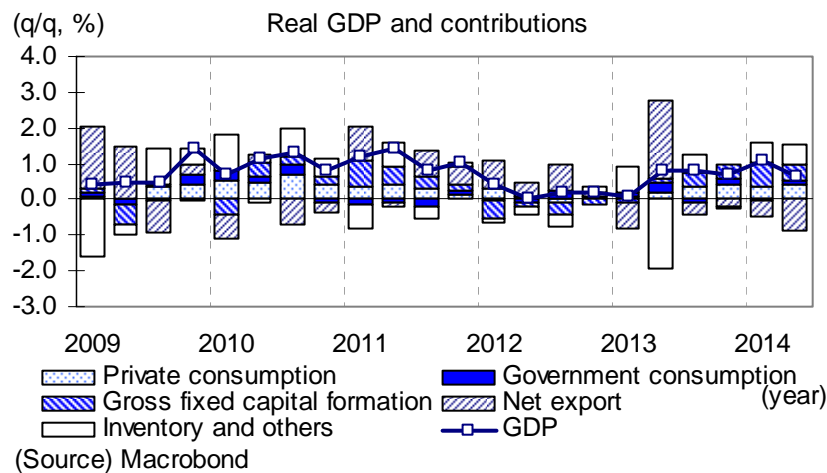
The Polish economy has maintained a modest recovery phase supported by private consumption and fixed capital formation. Real GDP in Q2 grew by 0.6% over the quarter, which was slightly slower than the previous quarter's growth rate of 1.1% q/q, however the growth momentum was sustained somewhat. Improving labour market conditions, such as a falling unemployment rate and rising wages coupled with a more accommodating monetary policy stance by the Polish central bank (NBP), underpinned the steady private consumption. However, more recent economic data suggests that the growth momentum in the Euro area, particularly in Germany, seems to have been weakening with the prolonged geopolitical tensions in Ukraine negatively affecting confidence in the Euro area. Reflecting the weaker demand from its major export destination, industrial production in August has registered its first negative growth since May 2013. Moreover, the manufacturing Purchasing Managers' Index (PMI) fell below the 50 mark in August for the second consecutive month, meaning that economic activities in the manufacturing sector are shrinking. These figures confirm that the impacts of weaker external demand are filtering through the minds of businesses and consumers, thus building up a downward pressure on the overall Polish economy and casting a shadow over its economic outlook in the coming months.

The Russian government's decision to retaliate against the further economic sanctions by the West by banning imports of agricultural products from the US and EU has weighed heavily on Polish farmers. According to the data released by the Russian statistics office, imports from Poland declined substantially in August, falling by 26.3% over the year. Together with the growing concerns of weakening demand from the Euro area, flagging external demand is likely to affect the sentiments of both businesses and consumers, which could reduce investment and consumption in the coming months, subduing domestic demand and hence overall growth.

## GDP

Real GDP in Q2 grew by 0.6% q/q. The components of GDP by expenditure suggest that private consumption and fixed capital formation were the main drivers, rising by 0.7% q/q and 2.3% q/q respectively. Meanwhile, net exports fell by 1.7% over the same period, registering negative growth for the first time since Q3 2010 as demand from the Euro area weakened. While the growth momentum was maintained somewhat, the economic outlook for the second

half of 2014 has become more uncertain as the impacts of the import ban of agricultural products by Russia coupled with the worsening sentiment in the West due to rising geopolitical tensions are likely to weigh on exports growth. It is widely believed that the growth rate had already peaked in the first quarter of 2014.



## Output

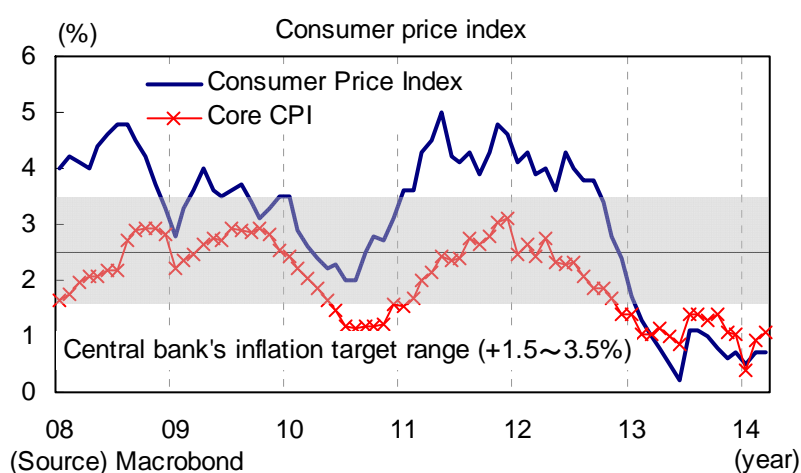
Industrial production (calendar adjusted) fell by 1.9% y/y in August, recording a negative growth rate for the first time since May 2013. A breakdown by sub-sector reveals a more detailed picture of falling production of major export items; production of motor vehicles and other transport equipment saw significant declines of 18.6% y/y and 10.7% y/y respectively. Beverages also experienced a double-digit fall of 11.6% y/y, pulling down the overall growth rate. The manufacturing PMI stood at 49.0 in August, falling below the 50 mark which divides expansion from contraction for the second month in a row. While the Polish economy has been driven mainly by domestic demand, thus not being as dependent on external demand as its neighboring countries, such as Czech Republic and Hungary, the fact that Polish exports have shown signs of a slowdown will have negative impacts on sentiments. The latest business confidence index has shown some signs of a deterioration, which implies that the downward pressure on industrial production is on the rise.

## Consumption, Labour Market

Retail sales in August rose by 2.8% over the year, decelerating slightly from the previous month's 3.1% y/y. The seasonally unadjusted unemployment rate in August was 11.7%, improving from 13% in the same month of the previous year. Employment in the private sector maintained an upward trend, albeit at a slower pace, and wage growth in both nominal and real terms continued to increase, all of which has underpinned consumer confidence thus far. While the latest consumer confidence indicators have maintained a somewhat upward trend, consumer confidence in the economic outlook has already shown signs of weakness as the impacts of the prolonged conflict in Ukraine and the import ban of agricultural products by Russia have started to cast a shadow over confidence, which implies that consumer spending might become weaker in the coming months.

## Prices, Monetary Policy

Consumer price inflation in August fell by 0.3% over the year, recording a negative growth rate for the second consecutive month. Meanwhile, the National Bank of Poland (NBP) decided to leave the benchmark policy rate unchanged at 2.5% on the 3<sup>rd</sup> of September. The NBP had previously held the view that the inflation rate would go up gradually on the back of the improving labour markets coupled with the domestic demand-driven economic recovery, which would create inflationary pressure from both the demand and supply sides. However, in the latest policy meeting, the NBP admitted that the growing uncertainties over economic prospects could raise the risk of the inflation rate undershooting its target in the medium-term. The bank expressed its readiness to act immediately if such a risk becomes more visible. Thus, expectations of a rate cut in the next month have risen significantly, creating further downward pressure on the zloty which has already been under pressure on the back of Poland's weaker economic prospects coupled with the unwinding of the US's accommodative monetary stance.



## Balance of Payments

The current account in Q2 registered a surplus of USD 940mn, as trade in goods and services maintained a surplus on top of an increase in the surplus of current transfers. Looking at the trend of the current account over the year, the deficit has shrunk substantially as goods trade started to record a surplus, reflecting a stronger exports performance than that of imports on the back of a recovery in German demand. However, with growing geopolitical tensions in Ukraine together with the imports ban of agricultural products by Russia, circumstances surrounding Polish exports are becoming more challenging. While agricultural exports to Russia account for just under 0.5%, which is said to be marginal, exports to Russia had already been on a downward trend as its economy weakened. Moreover, given the prolonged conflict in Ukraine, exports to the country, which used to account for 2.8% of total exports, have declined by 20.3% y/y during the first 7 months of this year. Exports to Russia, which accounted for 5.3% of total exports, have fallen by 6.6% during the same period. Given the likelihood of further falls in exports destined for these countries together with a slower outlook for export growth towards the Euro area, it may become more difficult to maintain a current account surplus from now on. In fact, the current account balance has already turned to a deficit in June and July.

## Main Economic & Financial Indicators: Poland

### 1. Annual and quarterly data

		2011	2012	2013	13/Q2	13/Q3	13/Q4	14/Q1	14/Q2
GDP (at current prices)	(US\$ bn)	515.3	490.2	517.6	123.3	126.5	148.2	130.2	136.1
Real GDP growth	(q/q, %)				0.8	0.8	0.7	1.1	0.6
	(y/y, %)	4.5	2.0	1.6	0.8	2.0	2.7	3.4	3.3
(Private consumption)	(q/q, %)				0.2	0.6	0.7	0.6	0.7
	(y/y, %)	2.6	1.3	0.8	0.1	1.0	2.1	2.6	2.8
(Gross fixed capital formation)	(q/q, %)				0.7	1.8	1.8	3.3	2.3
	(y/y, %)	8.5	-1.6	-0.2	-3.3	0.5	2.0	10.7	8.4
Industrial production	(y/y, %)	7.2	1.4	2.3	1.3	4.9	4.6	4.9	3.8
Retail sales (real)	(y/y, %)	6.8	3.1	2.6	1.3	4.0	4.6	5.0	5.0
Bank credits to the private sector	(y/y, %)	13.4	1.5	4.2	3.5	4.0	4.2	5.2	4.8
Consumer price index	(y/y, %)	4.3	3.7	0.9	0.5	1.1	0.7	0.6	0.3
Wage growth rate	(y/y, %)	4.9	3.5	2.6	2.2	3.0	3.0	4.1	4.0
Unemployment rate	(%)	12.4	12.8	13.5	13.6	13.0	13.2	13.8	12.5
Trade balance*	(US\$ mn)	-21,796	-13,730	-3,093	384	74	-1,664	-288	602
Exports*	(US\$ mn)	188,424	185,307	202,131	49,794	51,982	54,280	54,664	55,832
Export growth	(y/y, %)	18.2	-1.7	10.6	10.4	13.9	12.0	11.5	12.1
Imports*	(US\$ mn)	210,220	199,037	205,225	49,410	51,909	55,944	54,952	55,231
Import growth	(y/y, %)	18.3	-5.3	3.1	0.8	9.1	7.9	8.8	11.8
Current account	(US\$ mn)	-25,770	-18,263	-7,105	647	-2,768	-1,924	-1,031	940
Capital and financial balances	(US\$ mn)	41,971	33,531	16,234	2,549	3,693	2,367	-945	-163
Foreign direct investment	(US\$ mn)	20,653	6,068	-6,144	-3,874	2,502	-3,978	3,799	1,466
Foreign reserves	(US\$ mn)	92,647	103,396	102,236	102,922	102,442	102,236	98,560	97,592
External debt	(US\$ mn)	323,289	365,745	381,067	357,697	377,972	381,067	378,733	-
Stock price index		44,558	41,613	48,323	45,626	48,054	52,796	51,557	52,042
Short-term interest rates (Interbank 3m)		4.54	4.91	3.02	2.98	2.70	2.67	2.71	2.71
Long-term interest rates (Gov.10y bond yields)		5.96	5.00	4.03	3.58	4.25	4.36	4.38	3.81
Zloty/USD		2.97	3.26	3.16	3.22	3.21	3.07	3.05	3.04
Zloty/Euro		4.12	4.18	4.20	4.20	4.25	4.18	4.18	4.17
Zloty/GBP		4.75	5.16	4.94	4.94	4.97	4.98	5.05	5.11

### 2. Monthly data

		14/01	2	3	4	5	6	7	8
Industrial production	(y/y, %)	4.1	5.3	5.4	5.4	4.4	1.7	2.3	-1.9
Retail sales (real)	(y/y, %)	4.8	7.0	3.3	8.9	4.3	1.8	3.1	2.8
Bank credits to the private sector	(y/y, %)	4.3	4.7	5.2	6.0	5.3	4.8	5.2	5.8
Consumer price index	(y/y, %)	0.5	0.7	0.7	0.3	0.2	0.3	-0.2	-0.3
Wage growth rate	(y/y, %)	3.4	4.0	4.8	3.8	4.8	3.5	3.5	3.5
Unemployment rate	(%)	13.9	13.9	13.5	13.0	12.5	12.0	11.8	11.7
Trade balance*	(US\$ mn)	-52	-125	-111	390	-453	665	210	-
Exports*	(US\$ mn)	18,021	17,556	19,101	19,185	18,351	18,297	18,151	-
Export growth	(y/y, %)	11.8	6.9	15.9	11.6	15.9	9.2	6.7	-
Imports*	(US\$ mn)	18,073	17,682	19,212	18,795	18,804	17,632	17,941	-
Import growth	(y/y, %)	8.7	8.7	9.4	12.0	16.3	7.2	3.6	-
Stock price index		50,841	52,792	51,165	51,977	51,496	52,682	51,190	51,425
Short-term interest rates (Interbank 3m)		2.70	2.71	2.71	2.72	2.72	2.69	2.68	2.65
Long-term interest rates (Gov.10y bond yields)		4.42	4.47	4.25	4.10	3.80	3.54	3.34	3.36
Zloty/USD		3.07	3.05	3.04	3.03	3.04	3.04	3.06	3.15
Zloty/Euro		4.18	4.17	4.20	4.19	4.18	4.14	4.14	4.19
Zloty/GBP		5.05	5.06	5.05	5.07	5.13	5.14	5.22	5.26

Note: \*Custom-based trade statistics

Source: National Bank of Poland, Macrobond etc.

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