

# Main Economic & Financial Indicators Poland

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## Overview

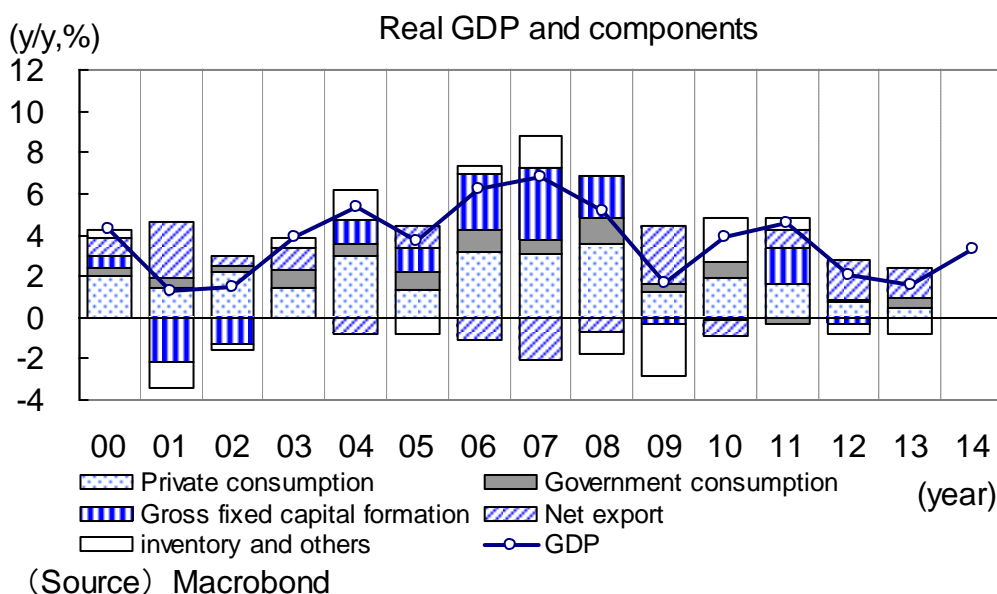
The Polish economy has maintained its moderate recovery. During the latter half of last year, the economy had shown signs of a slowdown on the back of rising geopolitical tensions as well as lower demand from the EU. However, the Polish economy has shown its resilience as domestic demand has held up rather well, supporting both industrial production and retail sales, thus a sharp slowdown in economic activity has been avoided somewhat. The favourable labour market conditions, such as the falling unemployment rate and rising real wages, have underpinned private consumption and the more accommodating monetary policy stance has encouraged investment. Thus, the economy has maintained its expansionary path, albeit modestly, driven by domestic demand. Looking ahead, an expected increase in public investment in the run-up to the presidential and general elections (which will be held this year) would add to domestic demand, thus compensating for some of the loss from external demand.

In the meantime, there are several factors which will increase uncertainties over Poland's relatively favourable economic prospects. On the external front, as there are more signs which suggest slow growth in the euro area (Poland's main trading partner), external demand is likely to remain subdued. In addition, the sharp appreciation of the Swiss franc since mid-January has shed light on a potential vulnerability in the domestic economy as Polish households, the driver of domestic demand, hold PLN131bn worth of Swiss franc mortgages, about 40% of the total mortgage contracts. Should the depreciation of the zloty against the Swiss franc continue further, it could depress household spending by increasing the household debt burden as well as damaging consumer sentiment.

## GDP

The preliminary result of real GDP growth in 2014 was 3.3% over the year, up from the previous year's 1.7%. In 2014, growth outpaced that of the previous year for the first time in three years. The components of GDP by expenditure confirmed that domestic demand was the main driver as private consumption and fixed capital formation accelerated to +3.0% y/y and +9.4% y/y respectively.

While the final quarter's GDP result has not yet been released, it is expected that the pace will have slowed somewhat from the previous quarter's 0.9% q/q.



## Output

Industrial production rose by 8.4% y/y in December, recording the strongest figure in nearly three years and a sharp increase from the previous month's mere 1.0% y/y, supported by robust performance in the manufacturing sector, which grew by 9.1% over the year. Output of computer, electronic and optical products as well as manufacture of machinery and equipment recorded strong results of 30.0% y/y and 27.9% y/y respectively. In January, the manufacturing PMI stood at 55.2. The PMI not only remained above the 50 mark which divides expansion from contraction for the fourth month in a row but also reached the highest level seen since last February. That said, as the prospects for external demand remain uncertain, it is hard to assess the real strength of the production trend; while overall new orders stood at 57.2, 2.9 points up from the previous month, new orders in exports registered at 53.4, up only 1.4 points from the previous month. On the back of a challenging external environment, which includes the rising tensions in the Russia-Ukraine conflict and the sluggish economic activity in the euro area, downward pressure from external demand is likely to stay. Thus, the strong increase in output recorded in December is likely to be a one-off event.

## Consumption, Labour Market

Retail sales in December rose by 4.0% over the year, up from the previous month's 1.4% y/y due to the increased sales of food, automobiles and clothing items. The seasonally unadjusted unemployment rate in December was 11.5%, a substantial improvement from 13.4% in the same month of the previous year, and wages in both nominal and real terms maintained an upward trend. Underpinned by these positive labour market conditions, consumer confidence indicators, which had shown signs of deterioration over the summer in the face of rising geopolitical tensions in Ukraine, have started to show some signs of an improvement. This suggests that the circumstances surrounding Polish consumers have been kept relatively favourable so far. However, recent sharp falls in the zloty against the Swiss franc could cast a shadow over these favourable consumer demand prospects.

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## Prices, Monetary Policy

Consumer price inflation in December fell by 1.0% over the year, recording a negative growth rate for the sixth consecutive month. The core inflation rate, which excludes energy and food items, rose by a mere 0.5% y/y.

Meanwhile, on January 14<sup>th</sup>, the National Bank of Poland (NBP) decided to leave the benchmark policy rate unchanged at 2.0% for the third consecutive month after the 0.5% points cut in October. The NBP acknowledged that inflationary pressure from both the demand and supply sides was barely existent, thus inflationary expectations were very weak. By accepting that the uncertainties over Poland's economic prospects remained very strong, the NBP made it clear that it would take necessary actions (namely, taking a more accommodative policy stance) if the risk of inflation remaining below the target in the medium-term increases and incoming economic data confirms a persistent slowdown in economic activity.

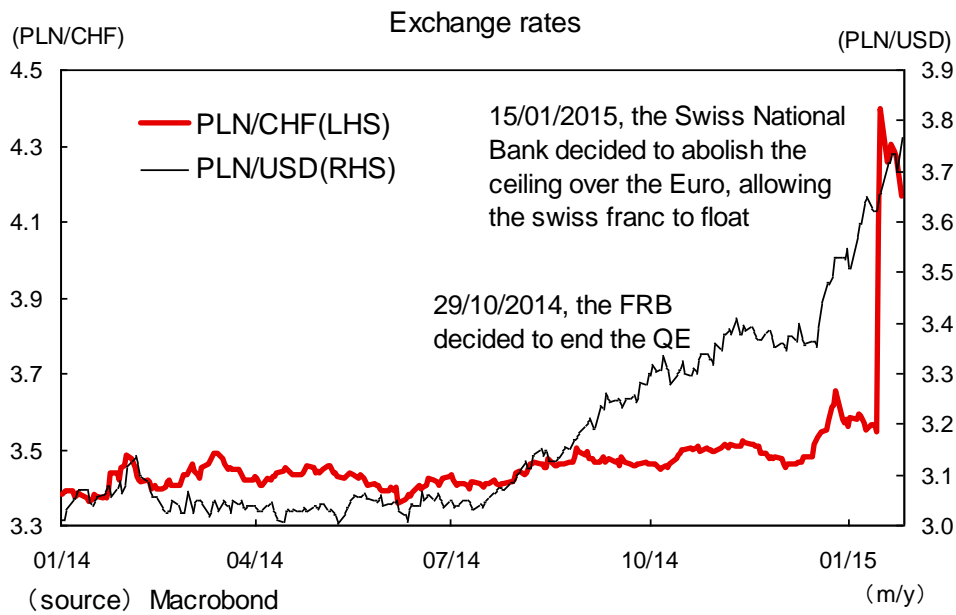
## Balance of Payments

The current account in November recorded a deficit of USD333mn, almost half of the size seen in the same period in the previous year, as the deficit in income transfers shrank and the surplus in current transfers increased. Since the summer, the current account deficit has shown signs of an increase, reflecting the weak exports due to low demand from the euro area as well as sharp declines in exports to Ukraine and Russia. However, the weaker zloty has helped to mitigate the impacts of the low demand and falling oil prices has reduced import bills substantially, which has made the pace of the deficit increase more moderate. The size of the current account deficit is expected to be around 1.3% of GDP, almost the same level as last year.

The IMF approved a new two-year USD23bn flexible credit line (FCL) arrangement for Poland on January 14<sup>th</sup>. The new credit line is two-thirds of the size of the previous arrangement. The Polish authorities regard the arrangement as a precautionary measure to deal with the increasingly uncertain external environment, including protracted economic slowdowns in its major trading partners as well as possible capital outflows from the emerging markets, should the Federal Reserve Board (FRB) decide to start tightening its monetary policy stance.

## Exchange rates

The zloty has been under pressure resulting from changes in other countries' monetary policies. The downward pressure on the zloty against the US dollar has increased substantially since last summer when the end of quantitative easing by the FRB became apparent. In addition, the decision by the Swiss central bank to lift the self-imposed cap on the Swiss franc against the euro ahead of the launch of quantitative easing (QE) by the ECB has caused a sharp appreciation of the Swiss franc. The zloty fell nearly 20% against the Swiss franc and has remained around that level since.



## Main Economic & Financial Indicators: Poland

### 1. Annual and quarterly data

	2012	2013	2014	13/Q4	14/Q1	14/Q2	14/Q3	14/Q4
GDP (at current prices) (US\$ bn)	496.2	525.9	-	151.0	132.0	137.7	135.5	-
Real GDP growth (q/q, %)	1.8	1.7	3.3	0.6	1.1	0.7	0.9	-
(y/y, %)	1.0	1.1	3.0	3.0	3.4	3.5	3.3	-
(Private consumption) (q/q, %)	1.0	1.1	3.0	0.7	0.8	0.9	1.0	-
(y/y, %)	1.0	1.1	3.0	2.4	2.9	3.0	3.2	-
(Gross fixed capital formation) (q/q, %)	-1.5	0.9	9.4	1.8	4.2	1.3	2.3	-
(y/y, %)	-1.5	0.9	9.4	2.7	11.2	8.7	9.9	-
Industrial production (y/y, %)	1.4	2.3	3.4	4.6	4.9	3.8	1.5	3.4
Retail sales (real) (y/y, %)	3.1	2.6	4.0	4.6	5.0	5.0	3.0	3.0
Bank credits to the private sector (y/y, %)	1.5	4.2	7.0	4.2	5.2	4.8	5.5	7.0
Consumer price index (y/y, %)	3.7	0.9	0.0	0.7	0.6	0.3	-0.3	-0.7
Wage growth rate (y/y, %)	3.5	2.6	3.8	3.0	4.1	4.0	3.5	3.4
Unemployment rate (%)	12.8	13.5	12.3	13.2	13.8	12.5	11.7	11.4
Trade balance* (US\$ mn)	-13,730	-2,601	-	-1,664	-577	-501	-749	-
Exports* (US\$ mn)	185,307	205,005	-	54,280	55,033	56,223	53,356	-
Export growth (y/y, %)	-1.7	10.6	-	12.0	12.2	12.9	2.6	-
Imports* (US\$ mn)	199,037	207,606	-	55,944	55,610	56,724	54,106	-
Import growth (y/y, %)	-5.3	4.3	-	7.9	10.2	14.8	4.2	-
Current account (US\$ mn)	-17,631	-6,988	-	-1,805	-1,911	-1,106	-2,391	-
Capital and financial balances (US\$ mn)	-1,106	4,818	-	4,030	-2,989	5,811	23	-
Foreign direct investment (US\$ mn)	6,068	-6,144	-	-3,978	3,799	1,466	-	-
Foreign reserves (US\$ mn)	103,396	102,236	-	102,236	98,560	97,592	97,708	96,462
External debt (US\$ mn)	366,717	382,087	-	382,087	381,957	390,685	370,387	-
Stock price index	41,613	48,323	52,209	52,796	51,557	52,042	52,336	52,878
Short-term interest rates (Interbank 3m)	4.91	3.02	2.51	2.67	2.71	2.71	2.59	2.06
Long-term interest rates (Gov.10y bond yields)	5.00	4.03	3.52	4.36	4.38	3.81	3.27	2.60
Zloty/USD	3.26	3.16	3.16	3.07	3.05	3.04	3.15	3.38
Zloty/Euro	4.18	4.20	4.19	4.18	4.18	4.17	4.17	4.21
Zloty/GBP	5.16	4.94	5.19	4.98	5.05	5.11	5.26	5.34

### 2. Monthly data

	14/06	7	8	9	10	11	12	15/01
Industrial production (y/y, %)	1.7	2.3	-1.9	4.2	1.6	0.3	8.4	-
Retail sales (real) (y/y, %)	1.8	3.1	2.8	3.0	3.7	1.4	4.0	-
Bank credits to the private sector (y/y, %)	4.8	5.2	5.8	5.5	6.7	6.9	7.0	-
Consumer price index (y/y, %)	0.3	-0.2	-0.3	-0.3	-0.6	-0.6	-1.0	-
Wage growth rate (y/y, %)	3.5	3.5	3.5	3.4	3.8	2.7	3.7	-
Unemployment rate (%)	12.0	11.8	11.7	11.5	11.3	11.4	11.5	-
Trade balance* (US\$ mn)	-131	-592	-517	332	-72	-382	-	-
Exports* (US\$ mn)	18,366	18,539	15,851	18,929	19,331	17,150	-	-
Export growth (y/y, %)	9.6	9.0	-3.3	1.6	-4.2	-6.3	-	-
Imports* (US\$ mn)	18,496	19,132	16,368	18,596	19,403	17,532	-	-
Import growth (y/y, %)	12.5	10.5	-1.0	2.8	-5.3	-6.8	-	-
Stock price index	52,682	51,190	51,425	54,405	53,277	53,265	52,142	51,370
Short-term interest rates (Interbank 3m)	2.69	2.68	2.65	2.45	2.07	2.03	2.06	2.03
Long-term interest rates (Gov.10y bond yields)	3.54	3.34	3.36	3.10	2.72	2.54	2.55	-
Zloty/USD	3.04	3.06	3.15	3.25	3.32	3.37	3.44	3.67
Zloty/Euro	4.14	4.14	4.19	4.19	4.21	4.21	4.22	4.28
Zloty/GBP	5.14	5.22	5.26	5.29	5.33	5.33	5.36	5.57

Note: \*Custom-based trade statistics

Source: National Bank of Poland, Macrobond etc.

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