

Main Economic & Financial Indicators Poland

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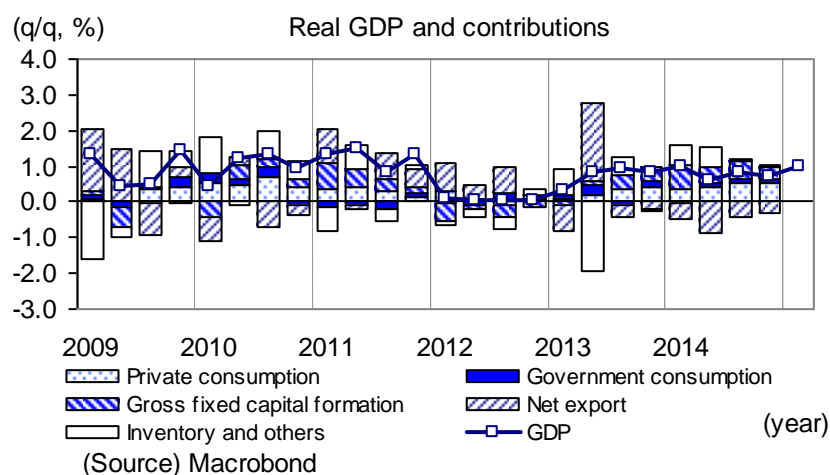
Overview

The Polish economy has maintained its moderate recovery. Real GDP for 2014 grew by 3.3% y/y, accelerating from the previous year's growth pace for the first time in three years. Private consumption and fixed capital formation rose by 3.1% y/y and 9.5% y/y respectively, underpinning overall growth. Meanwhile, net exports' contribution to growth, which had been the main economic driver for the past four years, turned negative as imports grew faster than exports for the first time in four years, reflecting solid domestic demand. The preliminary result for real GDP growth in Q1 has assured that the recovery trend has been maintained, growing by 1.0% over the quarter. The favourable labour market conditions, such as the falling unemployment rate and increases in real wages, have underpinned relatively solid retail sales. Furthermore, strong domestic demand coupled with a gradual recovery in exports has supported an expansionary trend in industrial production. Branches of automobiles and electrical appliances, in particular, have been enjoying robust growth.

Looking ahead, private consumption will continue to be supported by the following factors: namely, the rising real disposable income of households on the back of falling fuel and food prices and the increase in employment. Furthermore, record low interest rates should underpin consumption somewhat. The negative impacts of the sharp appreciation of the Swiss franc against the zloty – which had progressed after mid January – have yet to materialise, partly owing to the fact that the zloty exchange rate against the Swiss franc recovered somewhat in the following months. Business investment is expected to grow steadily on the back of the low interest rate environment and relatively solid domestic demand, although the pace of growth is somewhat moderate due to external uncertainties, namely the ongoing Russia-Ukraine conflict, slowdowns in the US and Chinese economic growth and the anaemic recovery in the euro area. In the latest inflation report, the National Bank of Poland (NBP) predicted that real GDP would grow by 3.4% y/y in 2015, revised up from the previous forecast of +3.0% y/y in November, owing to stronger domestic demand. Meanwhile, the NBP revised down the annual inflation rate to -0.5% from 1.0% y/y, given the falls in oil and other commodity prices.

GDP

The preliminary result for real GDP growth in Q1 2015 was 1.0% over the quarter, up from the previous quarter's 0.8% q/q. While detailed data has not yet been released, it seems that solid consumption growth has supported overall growth. Looking ahead, while the expectations of a moderate recovery in the euro area are on the rise, geopolitical risks continue to cast a shadow over the overall growth prospects. Thus, net exports are unlikely to become the economic driver. Instead, the economy will be driven mainly by domestic demand, private consumption in particular.



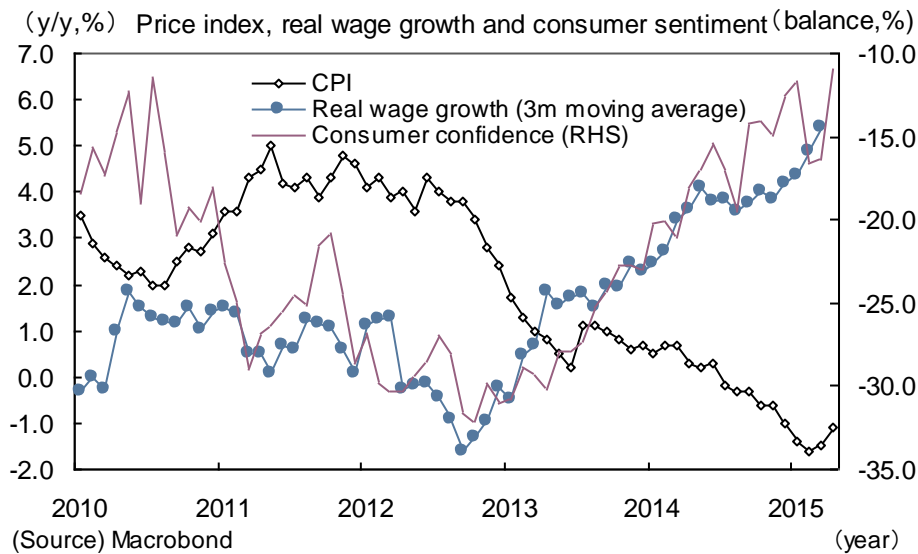
Output

Industrial production rose by 2.3% y/y in April, decelerating from the previous month's +8.8% y/y. The manufacturing sector grew by only 2.5% y/y, recording a substantial fall from the previous month's 9.5% y/y, pushing down the overall growth rate. However, the recent data indicates that industrial production remains on a modest upward trend. In particular, a recent moderate recovery in export volumes to the EU suggests that the underlining trend in output remains upwards. In April, the manufacturing PMI stood at 54.0. While the PMI reading had peaked in January at 55.2, the current level is still high by historical standards and remains well above the 50 mark which divides expansion from contraction. The reading for new export orders has risen to 54.4, exceeding the previous month for the second consecutive month.

Consumption, Labour Market

Retail sales in March were up by 6.6% over the year, accelerating from the previous month's 2.4% y/y due to the increased sales of food, electrical appliances and clothing items. The seasonally unadjusted unemployment rate in April was 11.3%, a substantial improvement from 13.0% in the same month of the previous year, and wages in both nominal and real terms maintained an upward trend. The consumer confidence indicator, which had deteriorated in January in the face of the sharp depreciation of the zloty against the Swiss franc, has reversed its deterioration trend somewhat as the zloty exchange rate regained some of its losses in the following months. In addition, given the relatively solid domestic demand coupled with the

improving growth prospects, the latest consumer sentiment survey in April improved to a level last seen in the autumn of 2008.



Prices, Monetary Policy

Consumer price inflation in April fell by 1.1% over the year as fuel and food prices dropped substantially, pulling down the overall price level.

Meanwhile, at the monetary policy meeting which took place on March 3rd and 4th, the NBP decided to cut the benchmark policy rate by 0.5% points to 1.5%. The NBP acknowledged that “during the last Q4, economic growth in Poland slowed slightly”. It also pointed out that “despite the improving labour market, wage growth remained moderate and weak global demand had created a degree of deflationary pressure”. “The uncertainty over the demand outlook continues to restrain economic activity in Poland, thus, inflation expectations of enterprises and households remain very low”. In the latest policy meeting in May, the NBP shared the view that “the inflation rate would remain negative for some time to come”. However, it stated that “the risks of missing the inflation target in the medium term had receded due to the moderate recovery in the euro area and the favourable labour market conditions in the domestic markets”.

Balance of Payments

The overall current account deficit in 2014 reached US\$7.6bn (about 1.4% of GDP), exceeding the previous year’s level for the first time in three years. Sluggish demand from the euro area coupled with the prolonged conflict in Ukraine has slowed export growth somewhat. Meanwhile, domestic-driven economic growth has pushed up the import bills. As a result, the current account deficit has started to show an increasing trend since Q2. However, falling oil prices, which accelerated in the latter part of 2014, have lowered import bills substantially, reducing the pace of deficit expansion. Looking ahead, as the Polish economy is likely to be driven by solid domestic demand, the current account deficit is expected to expand somewhat modestly.

Government budget

According to the Polish Finance Ministry, the budget deficit for 2014 was 3.2% of GDP, improving from the previous year's 4.0% of GDP. While the improved economic situation has increased tax revenues, the changes to the pension system – in particular, transferring the assets from private pension funds to the Social Security Fund – have reduced the interest payments, thus reducing expenditures. The Polish government has been exceeding the budget deficit threshold of 3% set by the EU since 2008, thus it has been placed under the excessive deficit procedures (EDP). The Polish government has shown its commitment to improve the public finance situation, aiming to leave the EDP by the end of 2015.

Main Economic & Financial Indicators: Poland

1. Annual and quarterly data

		2012	2013	2014	14/Q1	14/Q2	14/Q3	14/Q4	15/Q1
GDP (at current prices)	(US\$ bn)	496.2	525.9	546.5	132.0	137.7	135.5	141.1	-
Real GDP growth	(q/q, %)	1.8	1.7	3.3	1.1	0.7	0.9	0.8	1.0
	(y/y, %)				3.5	3.6	3.3	3.3	3.5
(Private consumption)	(q/q, %)	1.0	1.1	3.1	0.8	0.9	0.9	0.9	-
	(y/y, %)				2.9	3.0	3.2	3.1	-
(Gross fixed capital formation)	(q/q, %)	-1.5	0.9	9.5	4.2	1.2	2.3	1.4	-
	(y/y, %)				11.2	8.7	9.9	9.0	-
Industrial production	(y/y, %)	1.4	2.3	3.4	4.9	3.8	1.5	3.3	5.1
Retail sales (real)	(y/y, %)	3.1	2.6	4.0	5.0	5.0	3.0	3.0	4.2
Bank credits to the private sector	(y/y, %)	1.5	4.2	7.0	5.2	4.8	5.5	7.0	7.2
Consumer price index	(y/y, %)	3.7	0.9	0.0	0.6	0.3	-0.3	-0.7	-1.5
Wage growth rate	(y/y, %)	3.5	2.6	3.8	4.1	4.0	3.5	3.4	3.9
Unemployment rate	(%)	12.8	13.5	12.3	13.8	12.5	11.7	11.4	11.9
Trade balance*	(US\$ mn)	-13,730	-2,601	-3,236	-599	-588	-901	-1,113	2,352
Exports*	(US\$ mn)	185,307	205,005	216,210	55,131	56,326	53,485	51,640	48,690
Export growth	(y/y, %)	-1.7	10.6	5.5	12.4	13.1	2.9	-4.9	-11.7
Imports*	(US\$ mn)	199,037	207,606	219,446	55,730	56,914	54,386	52,753	46,338
Import growth	(y/y, %)	-5.3	4.3	5.7	10.4	15.2	4.8	-5.7	-16.9
Current account	(US\$ mn)	-17,631	-6,856	-7,578	-1,669	-1,091	-2,358	-2,460	-
Capital and financial balances	(US\$ mn)	-322	4,933	9,485	-3,164	5,816	38	6,795	-
Foreign direct investment	(US\$ mn)	7,189	12	14,160	5,567	3,235	4,995	363	-
Foreign reserves	(US\$ mn)	103,396	102,236	96,462	98,560	97,592	97,708	96,462	93,231
External debt	(US\$ mn)	366,717	382,818	352,024	381,833	390,685	371,844	352,024	-
Stock price index		41,613	48,323	52,209	51,557	52,042	52,336	52,878	52,458
Short-term interest rates (Interbank 3m)		4.91	3.02	2.51	2.71	2.71	2.59	2.06	1.87
Long-term interest rates (Gov.10y bond yields)		5.00	4.03	3.52	4.38	3.81	3.27	2.60	2.25
Zloty/USD		3.26	3.16	3.16	3.05	3.04	3.15	3.38	3.72
Zloty/Euro		4.18	4.20	4.19	4.18	4.17	4.17	4.21	4.19
Zloty/GBP		5.16	4.94	5.19	5.05	5.11	5.26	5.34	5.64

2. Monthly data

		14/09	10	11	12	15/01	2	3	4
Industrial production	(y/y, %)	4.2	1.6	0.3	7.9	1.7	4.9	8.8	2.3
Retail sales (real)	(y/y, %)	3.0	3.7	1.4	4.0	3.6	2.4	6.6	-
Bank credits to the private sector	(y/y, %)	5.5	6.7	6.9	7.0	7.5	7.1	7.2	-
Consumer price index	(y/y, %)	-0.3	-0.6	-0.6	-1.0	-1.4	-1.6	-1.5	-1.1
Wage growth rate	(y/y, %)	3.4	3.8	2.7	3.7	3.6	3.2	4.9	-
Unemployment rate	(%)	11.5	11.3	11.4	11.5	12.0	12.0	11.7	11.3
Trade balance*	(US\$ mn)	266	15	-95	-1,015	750	1,029	582	-
Exports*	(US\$ mn)	18,974	19,377	17,694	14,655	15,775	15,783	17,117	-
Export growth	(y/y, %)	1.9	-4.0	-3.3	-7.1	-13.1	-10.9	-11.2	-
Imports*	(US\$ mn)	18,708	19,362	17,788	15,670	15,025	14,755	16,535	-
Import growth	(y/y, %)	3.4	-5.5	-5.4	-5.6	-17.8	-17.6	-15.5	-
Stock price index		54,405	53,277	53,265	52,142	51,370	52,459	53,546	55,547
Short-term interest rates (Interbank 3m)		2.45	2.07	2.03	2.06	2.03	1.92	1.67	1.65
Long-term interest rates (Gov.10y bond yields)		3.10	2.72	2.54	2.55	2.21	2.20	2.33	2.37
Zloty/USD		3.25	3.32	3.37	3.44	3.67	3.68	3.81	3.72
Zloty/Euro		4.19	4.21	4.21	4.22	4.28	4.18	4.13	4.02
Zloty/GBP		5.29	5.33	5.33	5.36	5.57	5.63	5.71	5.57

Note: *Custom-based trade statistics

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