

Main Economic & Financial Indicators: Poland

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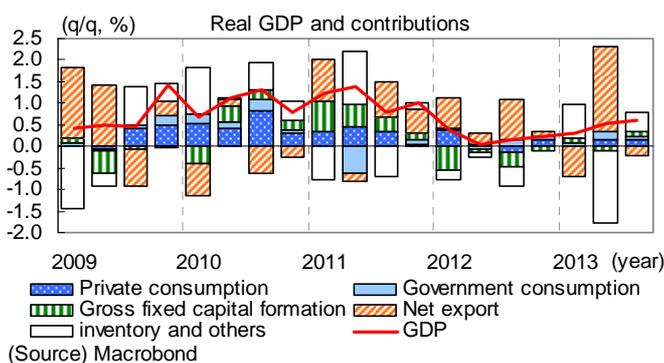
Overview

The Polish economy is on a slow but resilient recovery path on the back of an external demand recovery, from Germany in particular. Private consumption is also showing some signs of growth. Real GDP growth in Q3 accelerated to 0.6% q/q from 0.5% q/q in Q2. Although wage growth remains weak, households' purchasing power were boosted somewhat by cuts in state controlled utility prices and a decrease in petrol prices. Furthermore, household lending has been growing, albeit at a very slow pace, on the back of the central bank's interest rate cuts, providing some support for private consumption. That said, the high unemployment rate has been a drag on consumer confidence, posing a barrier to further recovery in private consumption.

Looking at corporate activities, the Purchasing Managers' Index (PMI) has been above the 50 mark (which means expansion in the sector) for six months in a row supported by recovery in external demand from Germany and the UK in particular. Business confidence in the retail sector is also improving reflecting a recovery in consumer spending. That being said, funding difficulties for the corporate sector remain. The recent bank lending survey indicates that credit condition for non-financial corporations, small to medium sized in particular, will be tightened further in the coming months. Therefore, it is likely to take some time before the recovery in fixed investment in the corporate sector being materialised and the Polish economy sees more broad based recovery.

GDP

In Q3, real GDP grew by 0.6% q/q. Private consumption grew for four quarters in a row albeit at a slower pace, up 0.3% q/q. The contribution of net exports to overall growth turned negative as imports grew by 3.2% q/q on the back of a rebound from the sharp drop in Q2 as well as a recovery in private consumption. Exports grew by 2.5% q/q, picking up a pace from 1.0% q/q growth in Q2. Gross fixed capital formation remains weak, up only by 0.6% q/q after a sharp decline in infrastructure investment after the Euro 2012 football championship.



Output

Growth in industrial production in December accelerated to 6.6% y/y, the highest growth in two years. The manufacturing sector grew by 8.3% y/y compared to the growth of 3.3% in November. Growth in automobiles remained strong, up by 15.9% y/y, while computer, electronics and optical products decreased 3.7% y/y. The PMI for the manufacturing sector in December was at 53.2, down from 54.4 in November, but it still remained above the 50 mark. Looking at the breakdown of this figure suggests that the growth pace in output and new order slowed. That said the underlying conditions for the manufacturing sector remain positive given that the PMI remains expansive with rising employment and volume of inputs ordered by Polish manufacturers. Meanwhile, growth in the construction sector remained depressed, down by 3.2% y/y. The sluggishness in the construction sector is likely to continue given that confidence in the sector remains at a low level albeit with some improvements since May 2013.

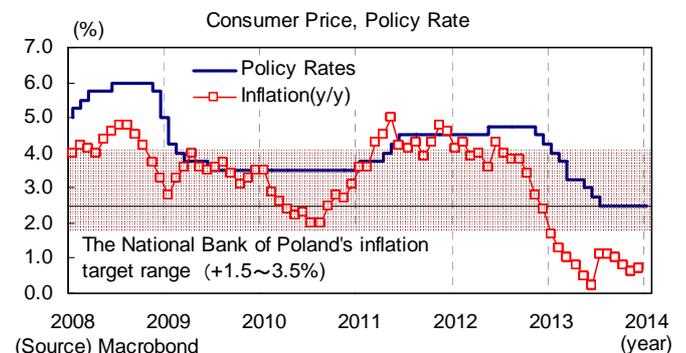
Consumption, Consumer sentiment

Retail sales in November grew by 4.2% accelerating from the 3.7% y/y growth in October. The improvement in consumer confidence seems to have ceased in recent months after a series of improvements since the end of 2012. Bank lending to households which grew by 30-40% y/y before the financial crisis showed sharply after 2009. Growth in household lending has started to pick up a pace since the end of 2012 reflecting the central bank's interest rate cuts, but it remains at a much slower pace, rising 4.3% y/y in November. The unemployment rate (non-seasonally adjusted) remains at high, standing at 13.4%, unchanged from a year ago. Meaningful recovery in labour market is likely to take a while given that the decrease in average hours worked has just started to come to an end.

Prices, Monetary Policy

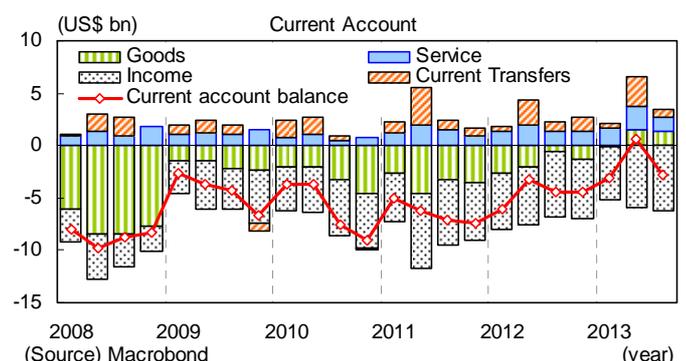
The consumer price index rose by 0.7% y/y in December, slightly up from 0.6% y/y in November, but it remained below the central bank's inflation target range of 1.5~3.5% for eleven months in a row. This is mainly owing to a decrease in energy prices. Core inflation at 1.0% y/y is also at a low level as the balance between demand and supply improved. Adding to this, the zloty has been appreciating since the summer 2013 and reached a two-year high at the end of December, lowering the cost of imports.

The central bank held its policy rate at 2.5% at its monetary policy meeting on January 8. The rate has been unchanged since July. The central bank said in the press release after the meeting that the bank will keep the rate at the current level at least until the end of the first half of 2014 as it expects the economic recovery to be gradual while inflation will remain weak.



Balance of payments

The current account deficit in Q3 decreased to US\$2.8bn from US\$4.5bn a year earlier thanks to an improvement in its goods trade balance to US\$1.4bn from a deficit of US\$520million. Exports jumped by 11.4% y/y while imports grew at more moderate pace of 7.1% y/y. The surplus in the service and the current transfer balance remained almost flat compared to a year earlier at US\$1.4bn and US\$670million respectively. The income deficit was almost unchanged from a year earlier at US\$6.2bn.



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### 1. Annual and quarterly data

		2011	2012	2013	12/Q4	13/Q1	13/Q2	13/Q3	13/Q4
GDP (at current prices)	(US\$ bn)	515.3	489.9	-	139.5	120.1	123.1	126.1	-
Real GDP growth	(%, y/y)	4.9	0.7	-	0.7	0.5	0.8	1.9	-
(Private consumption)	(%, y/y)	1.4	0.3	-	0.3	0.0	0.2	1.0	-
(Gross fixed capital formation)	(%, y/y)	10.0	-4.7	-	-4.7	-2.1	-3.2	0.6	-
Industrial production	(%, y/y)	7.2	1.4	2.3	-2.3	-1.6	1.3	4.9	4.6
Retail sales (real)	(%, y/y)	6.8	3.1	-	-0.8	0.4	1.3	4.0	-
Bank credits to the private sector	(%, y/y)	13.4	1.5	-	1.5	3.5	3.5	4.0	-
Consumer price index	(%, y/y)	4.3	3.7	0.9	2.9	1.3	0.5	1.1	0.7
Wage growth rate	(%, y/y)	4.9	3.5	2.6	2.6	2.0	2.2	3.0	3.0
Unemployment rate	(%)	12.4	12.8	13.5	12.9	14.3	13.6	13.0	13.2
Trade balance*	(US\$ mn)	-21,796	-13,730	-	-3,407	-1,628	356	14	-
Exports*	(US\$ mn)	188,424	185,307	-	48,465	48,497	49,114	50,970	-
Export growth	(%, y/y)	18.2	-1.7	-	5.6	5.1	8.9	11.6	-
Imports*	(US\$ mn)	210,220	199,037	-	51,872	50,125	48,758	50,956	-
Import growth	(%, y/y)	18.3	-5.3	-	1.5	-1.1	-0.6	7.1	-
Current account	(US\$ mn)	-25,822	-18,136	-	-4,378	-3,072	647	-2,752	-
Capital and financial balances	(US\$ mn)	41,763	33,220	-	7,884	7,631	2,598	3,392	-
Foreign direct investment	(US\$ mn)	20,494	5,997	-	3,691	245	-3,874	2,380	-
Foreign reserves	(US\$ mn)	92,647	103,396	-	103,396	103,568	102,922	102,442	-
External debt	(US\$ mn)	323,289	365,745	-	365,745	357,684	357,697	-	-
Stock price index		44,558	41,613	48,323	44,856	46,725	45,626	48,054	52,796
Short-term interest rates (Interbank 3m)		4.543	4.909	3.025	4.574	3.783	2.976	2.697	2.667
Long-term interest rates (Gov.10y bond yields)		5.956	5.000	4.033	4.210	3.943	3.577	4.253	4.360
Zloty/USD		2.965	3.256	3.160	3.169	3.147	3.215	3.207	3.073
Zloty/Euro		4.121	4.184	4.196	4.111	4.155	4.197	4.248	4.184
Zloty/GBP		4.748	5.160	4.943	5.093	4.885	4.936	4.970	4.977

### 2. Monthly data

		13/05	6	7	8	9	10	11	12
Industrial production	(%, y/y)	-1.8	3.0	6.3	2.2	6.2	4.4	2.9	6.6
Retail sales (real)	(%, y/y)	1.2	2.6	4.3	3.5	4.1	3.7	4.2	-
Bank credits to the private sector	(%, y/y)	1.5	3.5	3.9	3.5	4.0	3.1	4.0	-
Consumer price index	(%, y/y)	0.5	0.2	1.1	1.1	1.0	0.8	0.6	0.7
Wage growth rate	(%, y/y)	2.3	1.4	3.5	2.0	3.6	3.1	3.1	2.7
Unemployment rate	(%)	13.6	13.2	13.1	13.0	13.0	13.0	13.2	13.4
Trade balance*	(US\$ mn)	-380	339	-322	-75	421	-266	-641.6	-
Exports*	(US\$ mn)	15,578	16,518	16,760	16,133	18,107	19,181	18242.1	-
Export growth	(%, y/y)	3.0	12.0	13.2	9.2	12.1	4.6	9.2	-
Imports*	(US\$ mn)	15,957	16,179	17,083	16,208	17,686	19,448	18883.7	-
Import growth	(%, y/y)	-5.0	2.6	8.7	6.0	6.4	4.6	6.3	-
Stock price index		45,775	46,886	45,924	49,122	49,268	52,456	54,106	51,901
Short-term interest rates (Interbank 3m)		2.876	2.745	2.697	2.701	2.691	2.671	2.654	2.675
Long-term interest rates (Gov.10y bond yields)		3.280	3.950	3.970	4.300	4.490	4.280	4.380	4.4
Zloty/USD		3.222	3.251	3.266	3.177	3.173	3.068	3.108	3.044
Zloty/Euro		4.179	4.284	4.275	4.230	4.237	4.190	4.189	4.173
Zloty/GBP		4.921	5.025	4.964	4.920	5.030	4.946	4.993	4.994

Note: \*Custom-based trade statistics

Source: National Bank of Poland, Macrobond, Bloomberg etc.

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