

Main Economic & Financial Indicators Poland

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Overview

The Polish economy remains in a phase of moderate expansion. Real GDP, driven by domestic demand, was up by 3.5% y/y for the first half of 2015, maintaining last year's momentum of 3.3% y/y. During this period, net exports were a positive contribution to GDP growth. This was due to slower growth in imports, which added an extra growth factor, on top of private consumption and fixed capital formation. Although the latest data indicates that Poland's economic momentum has shown marginal signs of weakening, the underlying trend remains solid.

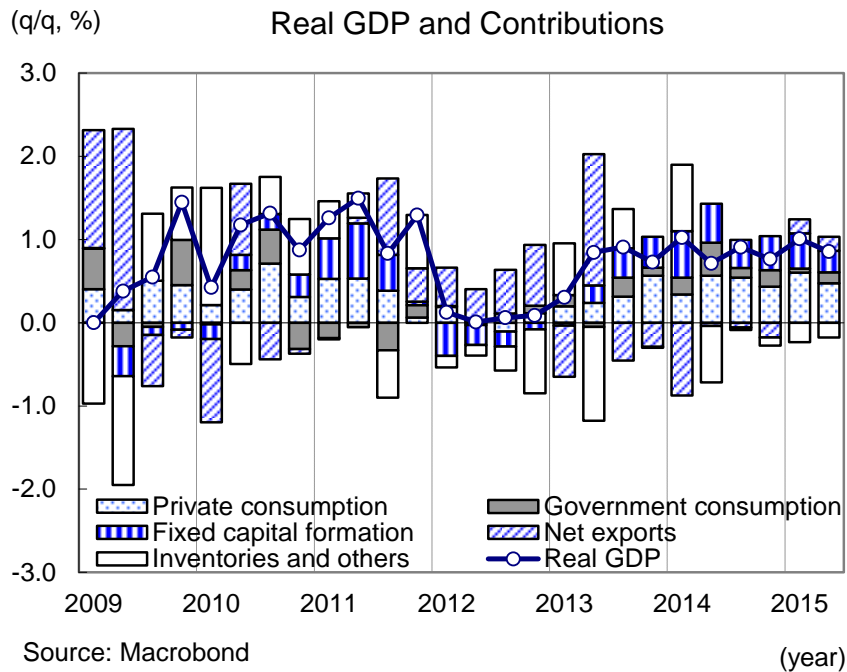
Looking ahead, falling fuel and food prices and an increase in employment, which in turn should lead to an increase in households' real disposable income, will support private consumption. Meanwhile, signs of weaker prospects are appearing in areas of the business sector such as new export orders. While business investment is expected to grow at a steady pace on the back of the low interest rate environment and relatively solid domestic demand, the pace of growth will be somewhat moderate. Increasing external uncertainties – the ongoing Russia-Ukraine conflict, slowdowns in the Chinese economic growth and anaemic recovery in the euro area – have meant that investment is likely to be focused on replacing existing assets, rather than expansion.

In July's inflation report, the National Bank of Poland (NBP) applies the assumed positive impact of March's rate cut on the overall economy and revised their prediction that real GDP would grow by 3.6% y/y in 2015, up from their previous forecast of 3.4% y/y in March. Meanwhile, after persistent falls in oil and other commodity prices, the NBP revised the annual inflation rate further down to -0.8% y/y from -0.5% y/y.

GDP

In Q2 2015, real GDP growth was up by 0.9% q/q. Although the growth rate fell slightly from 1.0% q/q the previous quarter, moderate growth momentum was maintained. While the main contributors were private consumption and fixed capital formation, government spending also made a significant contribution to growth during this period: up 0.7% q/q from 0.3% q/q in Q1.

Net exports' contribution to growth remained at 0.2% points, the same as Q1, as the slowdown in exports almost matched the slowdown of imports. The external situation surrounding the Polish economy remains somewhat fragile, owing to recovery in the euro area failing to gather momentum, global economic prospects weakening due to rising geopolitical risks (such as the deepening conflict between Russian and Ukraine), as well as growing concerns over weaker Chinese economic activities. Therefore, it is highly likely that domestic demand, particularly private consumption, will be the main driver of the Polish economy for the time being.



Output

Industrial production rose by 5.3% y/y in August, accelerating slightly from 3.8% y/y the previous month. This reflects a stronger performance in the manufacturing sector which grew by 6.1% y/y, up from 4.6% y/y in July. The manufacture of food and automobile products expanded steadily, whereas production of metal and electrical appliances was disappointing. In September, the PMI reading deteriorated from 51.1 to 50.9, the lowest reading since last September. Although overall new orders improved somewhat, new orders in exports fell to 49.0 for the first time in 11 months, below the 50 mark which separates expansion from contraction, suggesting that the Polish economy is becoming more domestically driven.

Consumption, Labour Market

Retail sales slowed to 2.0% y/y in August, maintaining their downward trend since June when the growth rate hit a peak of 6.6% y/y. Although the recent weak data has caused some confusion over Polish economic activities, the underlying economic trend is said to be stable, given a relatively sanguine labour market and an increasing wage situation. The seasonally unadjusted unemployment rate in August was 10.0%, a marked improvement from 11.7% in August last year. Wages, both in nominal and real terms, have maintained an upward trend. The consumer confidence index is recovering after a marked deterioration. This was due to a

sharp depreciation of the zloty against the Swiss franc, which led to a substantial increase in household debt. The recent recovery in consumer confidence is supported by improving household financing prospects as well as a better economic outlook. That said, a recent rise in unemployment prospects, albeit small, has aroused some concerns. Therefore, further development of the situation should be monitored closely.



Prices, Monetary Policy

In August, consumer price inflation fell by 0.6% y/y. Although it is the fourteenth consecutive contraction since July 2014, the pace of contraction is slowing, reflecting a more moderate pace of fuel and food price declines.

At the monetary policy meeting which took place on October 5th and 6th, the NBP decided to maintain the benchmark policy rate at 1.5%. It stated that inflationary pressure remained very low due to a negative output gap and weak wage growth, despite the moderate economic expansion. The NBP forecasts that prices will slowly return to a positive trend in line with improving economic activities both in domestic and external markets, which will gradually reduce the output gap. At the same time, the bank pointed out that the rising possibility of a slowdown in economic activities, especially in emerging markets, would lead to lower commodity prices, thereby delaying the time at which the inflation rate would return to their target range.

Balance of Payments

The current account balance recorded a surplus of US\$2.2 billion during the first half of 2015, a substantial improvement from the deficit of US\$6.4 billion recorded in the same period the previous year. Due to a sharp fall in oil prices which started last autumn, imports shrank much faster than the pace of contraction in exports, which meant the Polish trade balance shifted to

a surplus in the first half of 2015. However, it returned to a deficit in July for the first time in three months, reflecting a sharp fall in exports, particularly to Russia and Ukraine. Since the Polish economic expansion is likely to be driven mainly by domestic demand, the trade balance deficit is expected to grow, albeit slowly.

Government budget

The Polish government revealed its budget draft for 2016 at the beginning of September. While revenues are expected at approximately PLN296.9 billion, expected expenditures are PLN351.5 billion. On the back of improved budgetary conditions (the European Commission closed the Excessive Deficit Procedure against Poland in June), the government proposed an increase in spending on areas such as defence, social security and public sector wages, which have been frozen since 2010. Overall spending in 2016 is expected to increase by 2.4% from 2015's spending estimate. The government has also committed to maintaining its deficit below 3% of GDP, the threshold set by the EU.

Main Economic & Financial Indicators: Poland

1. Annual and quarterly data

		2012	2013	2014	14/Q3	14/Q4	15/Q1	15/Q2	15/Q3
GDP (at current prices)	(US\$ bn)	496.2	526.1	547.7	135.5	141.7	112.2	117.4	-
Real GDP growth	(q/q, %)	1.8	1.7	3.3	0.9	0.8	1.0	0.9	-
	(y/y, %)				3.3	3.3	3.6	3.3	-
(Private consumption)	(q/q, %)	1.0	1.2	3.1	1.0	0.8	1.1	0.8	-
	(y/y, %)				3.2	3.0	3.1	3.0	-
(Gross fixed capital formation)	(q/q, %)	-1.5	1.1	9.5	2.0	2.4	2.9	1.3	-
	(y/y, %)				9.2	8.6	11.4	6.4	-
Industrial production	(y/y, %)	1.4	2.3	3.4	1.5	3.3	5.1	4.2	-
Retail sales (real)	(y/y, %)	3.1	2.6	4.0	3.0	3.0	4.2	4.3	-
Bank credits to the private sector	(y/y, %)	1.5	4.2	6.7	5.5	6.7	7.2	7.4	-
Consumer price index	(y/y, %)	3.7	0.9	0.0	-0.3	-0.7	-1.5	-0.9	-
Wage growth rate	(y/y, %)	3.5	2.6	3.8	3.5	3.4	3.9	3.1	-
Unemployment rate	(%)	12.8	13.5	12.3	11.7	11.4	11.9	10.8	-
Trade balance*	(US\$ mn)	-13,730	-2,601	-3,516	-975	-1,176	1,860	1,147	-
Exports*	(US\$ mn)	185,307	205,005	219,731	54,107	53,641	49,344	49,252	-
Export growth	(y/y, %)	-1.7	10.6	7.2	4.1	-1.2	-11.1	-13.2	-
Imports*	(US\$ mn)	199,037	207,606	223,247	55,082	54,817	47,484	48,104	-
Import growth	(y/y, %)	-5.3	4.3	7.5	6.1	-2.0	-15.4	-16.2	-
Current account	(US\$ mn)	-18,605	-6,744	-11,125	-3,207	-1,520	1,010	1,227	-
Capital and financial balances	(US\$ mn)	-517	5,947	8,760	-878	6,100	7,406	3,489	-
Foreign direct investment	(US\$ mn)	7,358	795	17,275	5,688	1,096	4,885	-1,411	-
Foreign reserves	(US\$ mn)	103,396	102,236	96,462	97,708	96,462	93,231	100,166	-
External debt	(US\$ mn)	368,961	384,083	354,720	372,064	354,720	330,195	341,560	-
Stock price index		41,613	48,323	52,209	52,336	52,878	52,458	55,390	51,669
Short-term interest rates (Interbank 3m)		4.91	3.02	2.51	2.59	2.06	1.87	1.67	1.72
Long-term interest rates (Gov.10y bond yields)		5.00	4.03	3.52	3.27	2.60	2.25	2.79	-
Zloty/USD		3.26	3.16	3.16	3.15	3.38	3.72	3.70	3.77
Zloty/Euro		4.18	4.20	4.19	4.17	4.21	4.19	4.09	4.19
Zloty/GBP		5.16	4.94	5.19	5.26	5.34	5.64	5.67	5.84

2. Monthly data

		15/02	3	4	5	6	7	8	9
Industrial production	(y/y, %)	4.9	8.8	2.3	2.8	7.6	3.8	5.3	-
Retail sales (real)	(y/y, %)	2.4	6.6	1.5	4.7	6.6	3.5	2.0	-
Bank credits to the private sector	(y/y, %)	7.1	7.2	5.9	7.2	7.4	7.5	7.2	-
Consumer price index	(y/y, %)	-1.6	-1.5	-1.1	-0.9	-0.8	-0.7	-0.6	-
Wage growth rate	(y/y, %)	3.2	4.9	3.7	3.2	2.5	3.3	3.4	-
Unemployment rate	(%)	12.0	11.7	11.2	10.8	10.3	10.1	10.0	-
Trade balance*	(US\$ mn)	785	510	-42	853	345	-818	-	-
Exports*	(US\$ mn)	16,216	17,158	16,170	16,262	16,826	15,118	-	-
Export growth	(y/y, %)	-9.1	-11.5	-17.0	-13.1	-9.4	-19.3	-	-
Imports*	(US\$ mn)	15,431	16,648	16,212	15,410	16,481	15,936	-	-
Import growth	(y/y, %)	-14.4	-15.6	-15.8	-20.6	-12.2	-18.0	-	-
Stock price index		52,459	53,546	55,547	56,649	54,031	52,422	51,872	50,688
Short-term interest rates (Interbank 3m)		1.92	1.67	1.65	1.67	1.70	1.72	1.72	1.72
Long-term interest rates (Gov.10y bond yields)		2.20	2.33	2.37	2.82	3.19	3.16	2.88	-
Zloty/USD		3.68	3.81	3.72	3.66	3.71	3.78	3.77	3.76
Zloty/Euro		4.18	4.13	4.02	4.08	4.16	4.15	4.20	4.22
Zloty/GBP		5.63	5.71	5.57	5.65	5.77	5.87	5.88	5.76

Note: *Custom-based trade statistics

Source: National Bank of Poland, Macrobond etc.

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