

# Poland

## Key developments and challenges

Poland has been less affected by the global financial crisis than most other countries in the region, reflecting its progress with macroeconomic policy in recent years. However, the fiscal balance and credit quality are deteriorating and unemployment is rising, providing significant challenges to macroeconomic and financial stability in the coming years.

Progress with privatisation, as well as further investment in transport and energy infrastructure, are key structural reform challenges in order to reap the efficiency gains of restructuring and secure higher potential future growth.

Additional efforts are required to provide better work incentives to raise the low rate of labour participation. Similarly, a greater focus is needed on measures to improve innovation and human capital in order to strengthen labour productivity and competitiveness.

### Country data

Population (in millions)	<b>38.1</b>
Area ('000 sq km)	<b>313.9</b>
GDP (in billion US\$, 2008)	<b>527.9</b>
Average transition score (scale: 1 to 4.33)	<b>3.78</b>

## Progress in structural reform

### Liberalisation and privatisation

As market conditions have had an adverse effect on the government's ambitious privatisation plans developed in 2008, the Ministry of Treasury has recently updated these plans. Up to Zł 36.7 billion (€8.7 billion) in privatisation revenues could be raised by the end of 2010, thereby helping to fund the rising budget deficit. The list of key projects focuses on companies in the energy and chemical sectors, including Enea, PGE and ZA Tarnów, the privatisation of the Warsaw Stock Exchange and the sale of minority stakes in several other large companies including KGHM, Europe's biggest copper producer.

Discussions to resolve the long-running dispute between the government and the Dutch insurer, Eureko, over the Polish insurance firm, PZU, have advanced with an agreement to pay Eureko as compensation for dropping Eureko's right to acquire a remaining stake to reach majority in PZU. Two important factors for the agreement relate to the dividend payout from previous years, which will strengthen both Eureko and the Polish government's liquidity; and the introduction of PZU on the stock exchange.

### Infrastructure

Road construction infrastructure in Poland accelerated in 2008, partly because of the need to improve transport links ahead of the 2012 UEFA European football championship. A total of 241 km of motorways, express roads and ring roads was completed and another 475 km is currently under construction. Moreover, in the first half of 2009 contracts for the construction of a further 186 km of motorways were signed. Progress has partly reflected the removal of some legislative hurdles hindering construction as well as steps to bring environmental laws into accord with EU regulations. In addition, the costs of construction material and services have fallen while there has also been a reduction in labour supply constraints. Much of the financing has come from the European Union, but additional revenues have been sought through tolls and there are also plans to raise financing via bond issues at the end of 2009. Only two motorway stretches (the A1 and A2) are being constructed under public-private partnership (PPP) arrangements. Additional challenges remain however, with some 1,600 km of motorways and expressways to be constructed between 2010 and 2013.

### Financial institutions

Poland's financial system is broadly sound and remains relatively unexposed to sophisticated financial instruments and high leverage. The loan-to-deposit ratio in the banking system is around 120 per cent, among the lowest in the central Europe and the Baltic states (CEB) region, and although foreign currency-denominated loans have become increasingly popular among households, their share in relation to GDP remains relatively low at around 16 per cent. However, the financial sector was heavily affected by the global financial crisis from October 2008, with capital outflows, rising interbank interest rates, reduced liquidity and a rapid depreciation of the Polish zloty. Having grown by an annual rate of over 40 per cent until September 2008, credit to the private sector has decelerated rapidly and turned negative by mid-2009. By February 2009 the zloty had depreciated by some 30 per cent against the euro, affecting households and firms with foreign currency loans, but since then it has recovered by some 15 per cent.

In response to the crisis, the government and central bank have taken measures to sustain economic growth during the financial crisis. The Confidence Pact by the central bank, announced in October 2008, aims to provide banks with zloty funds and foreign currencies and it broadened the banks' possibilities to obtain zloty liquidity through, for example, repo transactions. Swap arrangements with other central banks, including the Swiss National Bank and the European Central Bank, helped to calm fears over banks' foreign exchange liquidity, even if the scale of transactions was relatively low. The government focused on measures to strengthen the financial safety net, by improving cooperation between financial authorities, increasing the deposit guarantee to €50,000, and providing temporary support and recapitalisation of financial institutions. The government has also taken steps to stimulate investment and consumer demand by increasing State Treasury and loan guarantees for infrastructural and EU projects. In May 2009 the International Monetary Fund (IMF) approved a flexible credit line of US\$ 20.6 billion for 12 months. This is intended as a precautionary credit line to strengthen investor confidence in Poland's capacity to access foreign funding.

## Macroeconomic performance

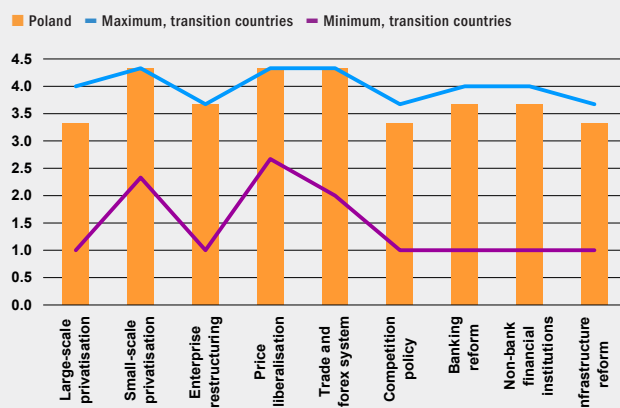
Real GDP growth slowed to 4.9 per cent in 2008 and further to 1.1 per cent (year on year) in the first half of 2009 as the financial turmoil started to affect Poland in late 2008. With the slow-down in economic activity, the unemployment rate rose to 8.2 per cent in July 2009. The reasons for Poland's relatively good performance reflect its comparatively small domestic and external imbalances before the crisis, the large domestic economy, a relatively un-leveraged banking system and less buoyant credit and housing markets in recent years. Moreover, with the rapid slow-down in import growth, partly reflecting the weakening currency, the contribution from net exports turned positive in early 2009. The annual rate of inflation slowed to 2.8 per cent in January 2009, but has since increased somewhat to 3.7 per cent in August in response to higher food and administered prices. The annual rate of wage increases slowed to 3.3 per cent in July 2009, compared with over 12 per cent a year ago, as labour market conditions weakened. In response, the Monetary Policy Council has decreased the policy interest rate six times since mid-2008, to 3.5 per cent by August 2009.

The improvements in the general government deficit in recent years have largely reflected cyclical rather than structural factors. Thus weaker economic growth has had a substantial impact on the public finances, with the fiscal deficit increasing to 3.9 per cent of GDP in 2008 (from 1.9 per cent in 2007) and widening further in the first half of 2009. Public debt increased to just over 47 per cent of GDP in 2008, among the highest in the CEB region. The current account deficit narrowed slightly to 4.4 per cent of GDP in 2008, and is expected to fall further in 2009 as the contraction in imports leads to a lower trade deficit. Inflows of foreign direct investment (FDI) moderated to US\$ 11.7 billion in 2008, compared with a record of US\$ 18 billion in 2007.

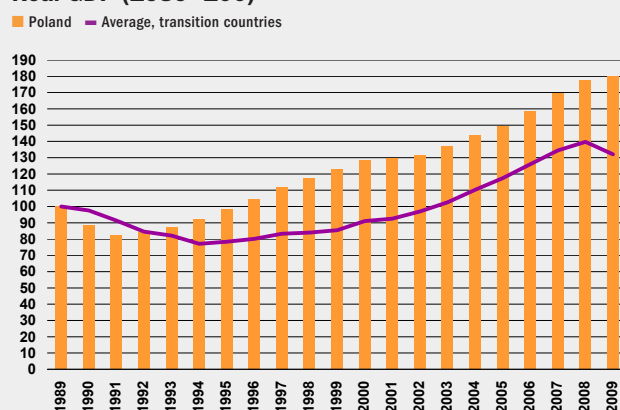
## Outlook and risks

Although less vulnerable to the financial turmoil than many other countries, Poland is not immune to the global slow-down. GDP is projected to grow below potential in the coming years, while unemployment and credit quality are likely to continue to deteriorate. Growth is expected to be affected by reduced disposable income and frail financing conditions, with recovery dependent on a return of external demand and confidence in financial markets. The key challenges will be to ensure fiscal and financial stability. In addition, Poland has important investment needs in the coming years. The long-term outlook is largely dependent on progress in implementing important structural reforms including fiscal expenditure reform, privatisation, measures to improve the business environment and raise the exceptionally low labour participation rate (including the need to reform the farmers' social security system), as well as efforts to raise labour productivity, innovation and human capital. A credible plan for the adoption of the euro could help to anchor expectations and provide a medium-term goal for fiscal consolidation.

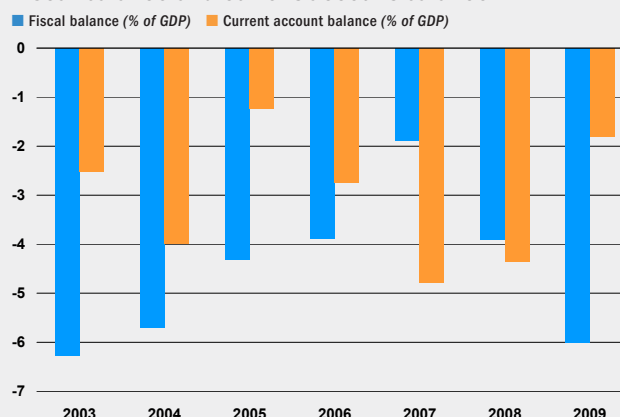
## Transition indicators 2009



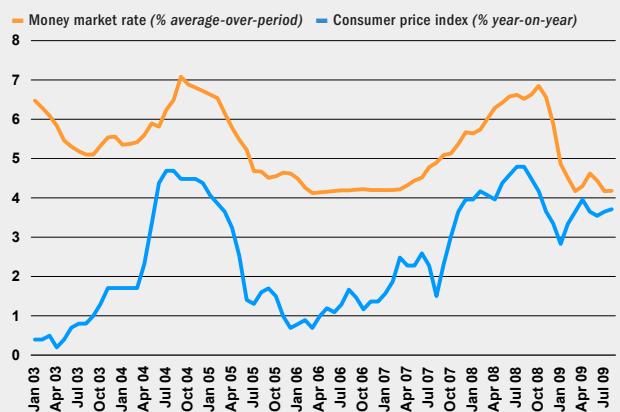
## Real GDP (1989=100)



## Fiscal balance and current account balance



## Interest rates and inflation



Liberalisation and privatisation	Business environment and competition	Infrastructure	Financial sector	Social reform
Current account convertibility - full	Competition office - yes	Telecoms regulatory assessment compliance - full	Capital adequacy ratio - 8 per cent	Share of population living in poverty - <2.0 per cent (2002)
Controls on inward direct investment - no	Quality of insolvency law - medium	Independence of the electricity regulator - full	Deposit insurance system - yes	Government expenditure on health - 4.2 per cent of GDP (2004)
Interest rate liberalisation - full	Secured transactions law - modern/some defects	Separation of railway infrastructure from operations - full	Private pension funds - yes	Government expenditure on education - 6.0 per cent of GDP (2004)
Exchange rate regime - floating		Independence of the road directorate - partial		Household expenditure on power and water - 6.8 per cent
Wage regulation - no				
Tradeability of land - full except foreigners				

### Structural and institutional change indicators

	2003	2004	2005	2006	2007	2008	2009
<b>Enterprises</b>							
Privatisation revenues (cumulative, in per cent of GDP)	12.4	13.5	13.9	14.0	14.2	na	na
Private sector share in GDP (in per cent)	75.0	75.0	75.0	75.0	75.0	75.0	75.0
Private sector share in employment (in per cent)	68.5	70.3	70.5	71.0	73.3	74.4	na
Budgetary subsidies and current transfers (in per cent of GDP)	1.5	1.9	2.7	3.1	3.1	3.0	na
Share of industry in total employment (in per cent)	28.4	28.3	28.7	29.3	30.1	31.5	na
Change in labour productivity in industry (in per cent)	7.1	7.0	0.6	5.3	4.0	na	na
Investment/GDP (in per cent)	18.7	20.1	19.3	21.1	24.3	23.9	na
<i>EBRD index of small-scale privatisation</i>	4.3	4.3	4.3	4.3	4.3	4.3	4.3
<i>EBRD index of large-scale privatisation</i>	3.3	3.3	3.3	3.3	3.3	3.3	3.3
<i>EBRD index of enterprise reform</i>	3.3	3.3	3.7	3.7	3.7	3.7	3.7
<b>Markets and trade</b>							
Share of administered prices in CPI (in per cent)	1.0	1.0	1.2	1.0	1.0	1.0	na
Number of goods with administered prices in EBRD-15 basket	2.0	2.0	2.0	2.0	2.0	2.0	na
Share of trade with non-transition countries (in per cent)	79.7	78.5	76.8	75.3	75.3	74.3	na
Share of trade in GDP (in per cent)	58.9	66.9	64.3	70.8	72.4	72.0	na
Tariff revenues (in per cent of imports)	1.7	0.9	0.4	0.4	0.4	0.4	na
<i>EBRD index of price liberalisation</i>	4.3	4.3	4.3	4.3	4.3	4.3	4.3
<i>EBRD index of forex and trade liberalisation</i>	4.3	4.3	4.3	4.3	4.3	4.3	4.3
<i>EBRD index of competition policy</i>	3.0	3.0	3.3	3.3	3.3	3.3	3.3
<b>Financial sector</b>							
Number of banks (foreign-owned)	58 (46)	57 (44)	61 (50)	63 (52)	64 (54)	70 (60)	na
Asset share of state-owned banks (in per cent)	25.8	21.7	21.5	21.1	19.5	18.3	na
Asset share of foreign-owned banks (in per cent)	71.5	71.3	74.3	74.2	75.5	76.5	na
Non-performing loans (in per cent of total loans)	25.1	17.4	11.6	7.7	5.4	4.7	na
Domestic credit to private sector (in per cent of GDP)	32.7	31.0	33.4	38.5	44.6	55.0	na
Domestic credit to households (in per cent of GDP)	10.3	10.6	12.4	15.6	20.0	27.0	na
- Of which mortgage lending (in per cent of GDP)	3.4	3.8	5.0	7.2	9.9	15.0	na
Stock market capitalisation (in per cent of GDP)	16.5	23.0	31.1	40.9	43.6	21.0	na
Stock trading volume (in per cent of market capitalisation)	26.6	33.1	36.3	45.3	47.5	45.7	na
Eurobond issuance (in per cent of GDP)	0.7	1.7	4.0	1.4	1.0	0.4	na
<i>EBRD index of banking sector reform</i>	3.3	3.3	3.7	3.7	3.7	3.7	3.7
<i>EBRD index of reform of non-bank financial institutions</i>	3.7	3.7	3.7	3.7	3.7	3.7	3.7
<b>Infrastructure</b>							
Fixed-line (mobile) penetration rate (per 100 inhabitants)	32.1 (45.5)	32.8 (60.4)	31.0 (76.4)	30.1 (96.3)	27.1 (108.5)	27.1 (108.5)	na
Internet users (per 100 inhabitants)	24.9	29.2	35.3	40.4	43.9	43.9	na
Railway labour productivity (1989=100)	101.3	103.3	98.8	102.4	102.6	97.9	na
Residential electricity tariffs (USc kWh)	7.7	8.5	9.9	10.8	12.3	20.0	na
Average collection rate, electricity (in per cent)	na	na	na	na	na	na	na
GDP per unit of energy use (PPP in US dollars per kgoe)	4.9	5.3	5.6	na	na	na	na
<i>EBRD index of infrastructure reform</i>	3.3	3.3	3.3	3.3	3.3	3.3	3.3
- Electric power	3.3	3.3	3.3	3.3	3.3	3.3	3.3
- Railways	4.0	4.0	4.0	4.0	4.0	4.0	4.0
- Roads	3.0	3.0	3.0	3.0	3.0	3.0	3.0
- Telecommunications	4.0	4.0	4.0	4.0	4.0	4.0	4.0
- Water and wastewater	3.3	3.3	3.3	3.3	3.3	3.3	3.3

## Macroeconomic indicators

	2003	2004	2005	2006	2007	2008 Estimate	2009 Projection
<b>Output and expenditure</b>	<i>(Percentage change in real terms)</i>						
GDP	3.9	5.3	3.6	6.2	6.8	4.9	1.4
– Private consumption	2.1	4.7	2.1	5.0	5.0	5.4	na
– Public consumption	4.9	3.1	5.2	6.1	3.7	7.6	na
– Gross fixed capital formation	-0.1	6.4	6.5	14.9	17.6	8.1	na
– Exports of goods and services	14.2	14.0	8.0	14.6	9.1	7.2	na
– Imports of goods and services	9.6	15.8	4.7	17.3	13.6	8.3	na
Industrial gross output	5.9	9.1	4.4	11.6	11.3	na	na
Agricultural gross output	2.7	6.9	-1.0	-2.2	-3.4	na	na
<b>Employment</b>	<i>(Percentage change)</i>						
Labour force (end-year)	-0.6	0.9	0.8	-1.7	0.0	1.0	na
Employment (end-year)	0.0	2.5	2.4	3.6	4.2	3.0	na
	<i>(In per cent of labour force)</i>						
Unemployment (end-year) <sup>1</sup>	19.3	18.0	16.7	12.2	8.5	6.7	na
<b>Prices and wages</b>	<i>(Percentage change)</i>						
Consumer prices (annual average)	0.8	3.5	2.2	1.2	2.5	4.2	3.4
Consumer prices (end-year)	1.7	4.4	0.7	1.4	4.0	3.3	3.1
Producer prices (annual average)	2.7	7.1	0.7	2.2	2.2	2.6	na
Producer prices (end-year)	3.7	5.4	0.2	2.4	2.3	2.7	na
Gross average monthly earnings in economy (annual average)	3.2	4.0	9.8	5.0	9.4	10.0	na
<b>Government sector</b>	<i>(In per cent of GDP)</i>						
General government balance	-6.3	-5.7	-4.3	-3.9	-1.9	-3.9	-6.0
General government expenditure	44.6	42.6	43.4	43.8	42.1	43.1	na
General government debt	47.1	45.7	47.1	47.7	44.8	47.1	na
<b>Monetary sector</b>	<i>(Percentage change)</i>						
Broad money (M2, end-year)	5.7	7.5	12.6	15.9	14.2	16.5	na
Domestic credit (end-year) <sup>2</sup>	5.2	4.2	13.8	23.0	27.0	32.5	na
	<i>(In per cent of GDP)</i>						
Broad money (M2, end-year)	40.7	39.9	42.2	45.4	46.7	50.3	na
<b>Interest and exchange rates</b>	<i>(In per cent per annum, end-year)</i>						
Rate on 7-day open market operations <sup>3</sup>	5.3	6.5	4.5	4.0	5.0	5.0	na
3-months WIBOR	5.6	6.7	4.6	4.2	5.7	5.9	na
Deposit rate <sup>4</sup>	2.9	2.9	3.4	3.1	3.8	6.0	na
Lending rate <sup>4</sup>	9.6	10.3	7.6	7.2	8.3	9.6	na
	<i>(Zlotys per US dollar)</i>						
Exchange rate (end-year)	3.8	3.0	3.3	2.9	2.4	3.0	na
Exchange rate (annual average)	3.9	3.7	3.2	3.1	2.8	2.4	na
<b>External sector</b>	<i>(In millions of US dollars)</i>						
Current account	-5,473.0	-10,067.0	-3,716.0	-9,394.0	na	na	na
Trade balance	-5,725.0	-5,622.0	-2,766.0	-7,006.0	-17,057.0	-23,228.0	-9,444.0
– Merchandise exports	61,007.0	81,862.0	96,395.0	117,468.0	145,337.0	178,427.0	127,031.0
– Merchandise imports	66,732.0	87,484.0	99,161.0	124,474.0	162,394.0	201,655.0	136,475.0
Foreign direct investment, net	4,284.0	11,761.0	6,951.0	10,727.0	17,987.0	11,747.0	4,134.0
Gross reserves, excluding gold (end-year)	32,594.0	35,335.0	40,875.0	46,381.0	62,978.0	59,318.0	na
External debt stock	107,274.0	129,990.0	132,927.0	169,636.0	233,074.0	243,636.0	na
	<i>(In months of imports of goods and services)</i>						
Gross reserves, excluding gold (end-year)	5.0	4.2	4.3	3.9	4.1	3.1	na
	<i>(In per cent of exports of goods and services)</i>						
Debt service	na	na	13.0	15.0	10.0	10.4	na
<b>Memorandum items</b>	<i>(Denominations as indicated)</i>						
Population (end-year, million)	38.2	38.2	38.2	38.1	38.1	38.1	na
GDP (in billions of zlotys)	843.2	924.5	983.3	1,060.0	1,176.7	1,271.7	1,332.1
GDP per capita (in US dollars)	5,674.7	6,624.9	7,967.1	8,956.1	11,152.2	13,854.6	na
Share of industry in GDP (in per cent)	29.2	30.8	30.7	31.3	26.3	25.4	na
Share of agriculture in GDP (in per cent)	4.4	5.1	4.5	4.3	4.3	4.5	na
Current account/GDP (in per cent)	-2.5	-4.0	-1.2	-2.8	na	na	na
External debt – reserves (in US\$ million)	74,680.0	94,655.0	92,052.0	123,255.0	170,096.0	0.0	na
External debt/GDP (in per cent)	49.5	51.4	43.7	49.7	54.8	46.2	na
External debt/exports of goods and services (in per cent)	148.6	136.4	118.0	122.9	133.8	113.8	na

<sup>1</sup> According to Eurostat (ESA95).

<sup>2</sup> Includes domestic credit to non-financial sector and general government.

<sup>3</sup> In 2003 and 2004 the rate refers to 14-day open market operations.

<sup>4</sup> Weighted average, as reported by the National Bank of Poland. Calculation of the new rates has been conceptually adjusted to harmonised ECB requirements. The data since 2004 are adjusted to the new methodology.