

Atradius Country Report

Poland – October 2010



Overview

General information

Capital:	Warsaw
Government type:	Parliamentary republic
Currency:	Zloty (PLN)
Population:	38.2 million
Status:	Upper middle income country (GDP/capita: US\$ 11,803 in 2010)

Most important sectors (% of GDP, 2009)

Services:	66 %
Industry:	23 %
Construction:	7 %
Agriculture:	4 %

Main import sources (2009, % of total)

Germany:	22.4 %
China:	9.3 %
Russia:	8.7 %
Italy:	6.7 %

Main export markets (2009, % of total)

Germany:	26.1 %
Italy:	6.9 %
France:	6.8 %
UK:	6.4 %

Main expenses of foreign exchange

Capital goods (38 %), intermediate products (22 %)

Main sources of foreign exchange

Machinery and transport (43 %), metal products (13 %), chemicals (14 %), agricultural products (8 %), EU subsidies and workers' remittances

Key indicators

	2007	2008	2009	2010*	2011*
GDP (US\$ million)	424,590	525,587	430,311	449,327	467,134
Real GDP growth (%)	6.8	5.0	1.8	3.0	3.4
GDP per capita (US\$)	11,135	13,795	11,303	11,803	12,261
Inflation p.a. (%)	2.4	4.3	4.0	2.7	2.3
Fiscal balance (% of GDP)	-1.9	-3.7	-7.1	-6.7	-5.6
Total foreign debt (US\$ million)	195,374	227,280	239,200	250,800	255,200
Foreign debt/GDP (%)	46	43	56	56	55
Foreign debt/XGS (%)	106	101	135	128	123
Short-term debt/inter. reserves (%)	99	111	n/a	n/a	n/a
Debt service ratio (%)	26	23	30	23	26
Current account balance (US\$ m.)	-19,923	-26,909	-7,317	-13,800	-15,800
Current account/GDP (%)	-4.7	-5.1	-1.7	-3.1	-3.4
Nom. exchange rate to US\$ (average)	2.77	2.41	3.12	3.12	3.14
International reserves (US\$ million)	61,166	61,022	74,858	87,029	90,675
In months of merchandise imports	4.5	3.6	6.2	6.5	6.2

* forecast

Source: Economist Intelligence Unit (EIU), International Monetary Fund (IMF)

Political situation: Stable

Head of state: President Bronislaw Komorowski (Civic Platform), since May 2010

Head of government: Prime Minister Donald Tusk (Civic Platform), since November 2007

Form of government: Coalition of the centre-right Civic Platform and the Polish Peasants' Party (PSL)

Internal situation

The Civic Platform's (PO) decisive victory in the early elections of October 2007 put an end to the unstable and bickering coalition led by the staunchly conservative and euro-sceptic Law and Justice (PiS) party. The PO formed a coalition with the Polish Peasants Party (PSL), with a comfortable majority of 240 out of 460 seats in the Sejm. So far, this coalition has proved much more stable than its squabbling predecessor.

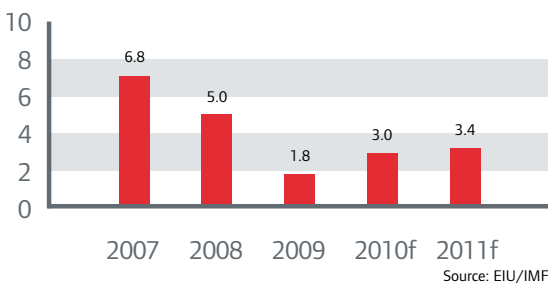
Polish politics was for a long time characterised by a rather fraught relationship between the Tusk government and former president Lech Kaczynski of the PiS. The Polish president has the constitutional power to veto legislation by the parliament, which in turn needs a three-fifths majority to override a presidential veto. In many cases president Kaczynski opposed and vetoed reform bills. But, after he died in a tragic air crash in April 2010, the governing Civic Platform's candidate Bronislaw Komorowski won the consequently required presidential election against the PiS-candidate, Lech Kaczynski's twin brother Jaroslaw.

International relations

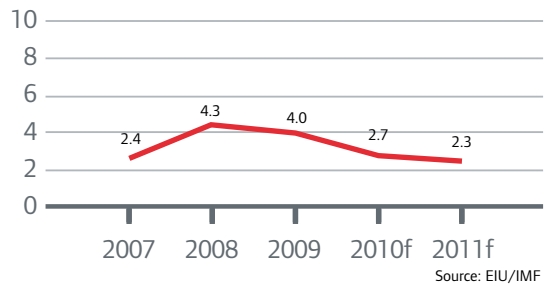
After the relationships with some EU members (notably Germany) and with Russia had turned sour, due in part to the former administration's sometimes tough and even undiplomatic stance on certain international issues, relations have improved markedly since prime minister Tusk took office. Poland has also strengthened its security ties with the US.

Internal economic situation: Recovering

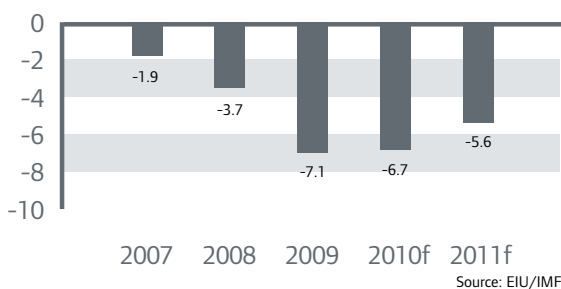
Real GDP growth (%)



Inflation p.a. (%)



Fiscal balance (% of GDP)



General situation

Poland was the only EU country to avoid recession and register economic growth in 2009, at 1.8%. Although exports declined substantially due to the economic slump in the eurozone, domestic consumer demand held up well. This was helped by the fact that the degree of deleveraging has been less drastic than in other Eastern European countries, compared to which Poland's private sector's accumulation of debt denominated in foreign currencies had been much lower at the start of the global credit crisis. At the same time, the government stepped up its spending to counter the crisis, unfolding a counter-cyclical fiscal policy.

Economic growth continued to increase in Q1 and Q2 of 2010, by 3.0% and 3.5% respectively, driven in large part by private consumption and a surge in industrial production, which increased 10% in the first half of the year, with robust growth recorded in the computer, paper, automotive and chemical sectors. Exports have increased again since January, helped by a depreciation of the zloty against the euro. Inflation has gradually decreased since mid-2008, to 2% in July 2010, assisted by the drop in wage pressure following the return of many Polish workers from abroad.

The situation in most industries is now much better than in 2009. Companies that managed to weather the worst of the economic crisis in the second half of 2008 and first half of 2009 now show improvements in their results and payment morale.

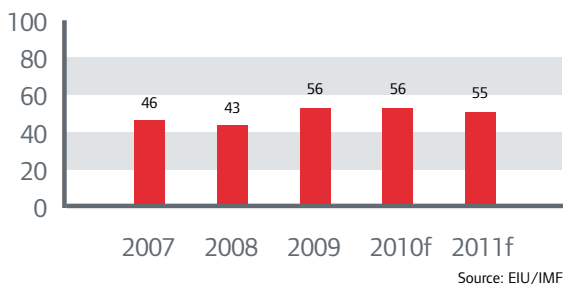
The Polish banking sector is regarded as robust. About 70% of banks are foreign-owned, reliant on their parent companies in Western Europe. As elsewhere, lending to consumers and companies has been restricted, as financial institutions seek to strengthen their balance sheets. Banks will be confronted with rising non-performing loans in 2010, as over 70% of mortgage loans are denominated in Swiss francs. However, non-performing loans are expected to remain at manageable levels.

Economic policy

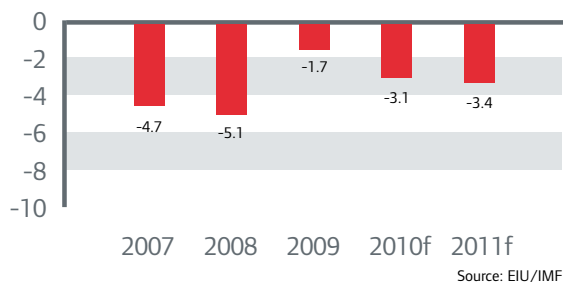
In November 2008, Poland adopted a stimulus package valued at 24 billion euros, including the increase of bank guarantees, loans to small and medium-sized enterprises and investment in renewable energy sources. Lower revenues and extra spending aimed at bolstering the economy have widened the public sector deficit to 7.1% of GDP in 2009 and 6.7% of GDP in 2010. With weaker growth than in the pre-crisis years and subdued inflation, the Monetary Policy Council has, since November 2008, lowered the key interest rate by 250 basis points: to an all-time low of 3.5%.

External economic situation: Reasonable

Foreign debt/GDP (%)



Current account/GDP (%)



Foreign debt

- Level:** After a rapid increase until 2008, a more moderate rise to US\$ 250 billion is forecast by the end of 2010, i.e. 56% of GDP and 128% of exports of goods and services
- Structure:** Quite high share of short-term-debt (30%)
- Debt service ratio:** Moderate (23%) in 2010, but, when short-term debt is included, this rises to more than 60% in 2010

Remarks:

International liquidity is guaranteed by a high level of reserves and an extra US\$ 20.5 billion Flexible Credit Line from the IMF. Solvency is moderate considering the ratio of foreign debt to GDP (56%) and exports (128%). Including its short-term element, Poland's annual debt service is relatively high, but the country will be able to tap the international capital markets quite easily.

Balance of payments

- Trade balance:** Negative
- Current account:** Lower since 2008 (3.1% of GDP in 2010)
- Capital account:** Positive
- Total Account:** Positive in 2009

Remarks:

In 2009 imports contracted much faster than exports, contributing to a strongly improved trade position and much lower current account deficit. The current account deficit will rise again to more than 3% of GDP in 2010/11: still an acceptable ratio in relation to the ongoing inflows of investor and portfolio capital. After periods of weakness in 2009 and early 2010, the zloty has appreciated again since Q2.

International reserves

- In months of imports (cif):** After a steep decline in the second half of 2008, as access to private external funds became temporarily difficult, international reserves stabilised again in 2009 with an increase to 6.3 months.

Prospects: Relatively good

Political situation

The coalition looks stable enough to complete its term in 2011. After the uneasy “cohabitation” with the former head of state, the new president is supportive of the Tusk administration.

Internal economic situation

After a 3.0% GDP growth this year, we expect an increase to 3.4% in 2011, based on flourishing export markets (mainly Germany), ongoing consumer demand and recovering business sector investments. Inflation will decrease further to below 3% p.a. in 2010/11, providing the monetary authority with the opportunity to lower the official interest rate if necessary.

Public debt will reach 55% of GDP in 2011. In order to improve public finances, the government plans to increase VAT at the beginning of next year and to step up its privatisation process. Nevertheless, the fiscal deficit will be reduced only slowly in the coming years, leading to continuing high budget deficits of 6.7% of GDP this year and 5.6% of GDP in 2011. The government has postponed plans to enter the eurozone in 2012 and shelved earlier plans to contain the fiscal deficit below the Maastricht criteria of 3% of GDP in the short-term. At the same time, the still high volatility of the exchange rate is another stumbling block for EMU-entry in the near future. Eurozone entry is not expected until 2015 at the earliest.

Overall, we expect corporate insolvencies to rise further this year in the wake of acute downturns in many sectors. However, the increase will slow down in the coming months, thanks to demand, investment and improved business performance. Business opportunities do exist in areas related to infrastructural projects supported by large EU funds, as well as in construction projects for the Euro 2012 European Football Championships.

External economic situation

Poland's external economic situation will remain quite robust, with no liquidity and solvency problems likely. Liquidity is adequate, with more than 6 months of import cover and the support of a US\$ 20.5 billion flexible credit line from the IMF. External funding of private (esp. banking) sector debt service obligations will remain an issue until global credit conditions return to normal.