INTERNATIONAL MONETARY FUND

IMF Country Report No. 14/8

REPUBLIC OF POLAND

REVIEW UNDER THE FLEXIBLE CREDIT LINE ARRANGEMENT

January 2014

In the context of the arrangement under the Flexible Credit Line, the following documents have been released and are included in this package:

- The **Staff Report** on the review under the Flexible Credit Line Arrangement, prepared by a staff team of the IMF for the Executive Board's consideration on January 8, 2014. Based on information available at the time, the staff report was completed on December 19, 2013.
- A **Press Release** including a statement by the Acting Chair of the Executive Board.
- A **Statement** by the Executive Director for the Republic of Poland.

The publication policy for staff reports and other documents allows for the deletion of market-sensitive information.

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December 19, 2013

KEY ISSUES

- **Background**: After its resilience during the global financial crisis, the Polish economy slowed substantially in 2012–13 as headwinds from the euro area and waning confidence added to the drag from fiscal consolidation. But economic activity is starting to recover, helped by strong fundamentals, able policy management, and the insurance provided by the Flexible Credit Line (FCL) arrangement.
- **Outlook**: Economic growth is expected to recover gradually on the back of improving domestic demand and higher growth in core euro countries. But the economy is still subject to substantial external risks as Poland is highly integrated with Europe through trade and financial channels, as well as with global financial markets.
- **Policies**: In response to the economic downturn, policy interest rates were cut substantially, while automatic fiscal stabilizers were allowed to operate to support the economy. Going forward, the fiscal deficit is expected to decline in 2014 and a new, permanent, fiscal rule should help anchor public finances. The authorities have continued to take steps to strengthen the financial sector, including through work to establish macroprudential and bank resolution frameworks.
- **Flexible Credit Line (FCL)**: On January 18, 2013, the Executive Board approved a 24-month arrangement with Poland under the FCL in the amount of SDR 22 billion (equivalent to 1303 percent of quota). The authorities continue to treat the arrangement as precautionary.
- **Qualification**: In staff's view, Poland continues to meet the qualification criteria for access to FCL resources specified under the Board decision on FCL arrangements (Decision No. 14283-(09/29), adopted on March 24, 2009). Staff therefore recommends completion of the review under this FCL arrangement.

Approved By
Mahmood Pradhan and Vivek Arora

This report was prepared by a staff team led by Julie Kozack and comprising Lone Christiansen, Christian Ebeke, Francisco Vazquez (all EUR), and Annette Kyobe (SPR). Excellent assistance was provided by Gillian Adu and Bartek Augustyniak (both EUR).

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CONTEXT

1. **The Polish economy has been resilient in the face of substantial shocks, helped by very strong fundamentals, a robust policy framework that supported forceful policy responses, and insurance provided by the FCL arrangement**. Poland was the only EU country to avoid recession during the 2008–09 global financial crisis. This resilience was anchored on healthy household and corporate balance sheets, a sound banking sector, and decisive countercyclical fiscal and monetary policy. But, as growth weakened in Poland's main trading partners as a result of the euro area crisis, heightened uncertainty weighed on household consumption and firms' hiring and investment decisions. As a result, growth slowed substantially in 2012 and is expected to be lower in 2013 than in 2009. The authorities took action to ameliorate the effects of adverse external shocks on the economy through flexible macroeconomic management: policy interest rates were cut substantially and automatic fiscal stabilizers were allowed to operate. Meanwhile, effective financial sector policies continued to enhance the resilience of the banking system.

2. **Nevertheless, Poland's substantial linkages with core euro area countries and global financial markets continue to make it susceptible to external shocks**.

- About 70 percent of Poland's domestic value added is exported to, and finally consumed in, Europe. Poland's key role in supply chain linkages with Germany represents one of the main channels of exposure to core euro area countries and the rest of the world. Sizable FDI inflows also originate predominantly from Europe, and European banks' presence in the Polish banking system is significant.

- Poland is highly integrated with international capital markets through relatively large participation of foreign investors in the domestic government bond market (the foreign share is about 34 percent), sizable gross external financing needs (estimated at around 21 percent of GDP in 2014), and Poland's role as proxy for investors seeking exposure to the CEE region. This exposes Poland to more generalized shifts in investor sentiment, including on account of turbulence in global financial markets or shifts in risk appetite for emerging market assets, including those stemming from eventual U.S. monetary policy normalization.

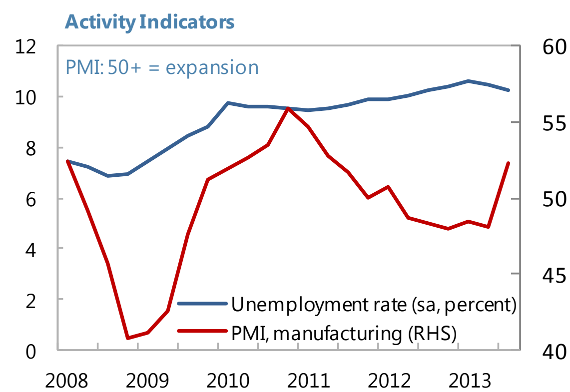
3. **Sustained precautionary access to the FCL has supported the authorities' macroeconomic framework and provided an additional buffer against external risks**. The Fund has supported the authorities' policies with four successive FCL arrangements. The initial FCL arrangement was approved in May 2009 for an amount of SDR 13.7 billion (1000 percent of quota). A successor arrangement of the same amount was approved in July 2010. In January 2011, a new two-year arrangement was approved with access increased to SDR 19.2 billion (1400 percent of quota) on account of heightened external risks. The current two-year arrangement, approved in January 2013, provides access of SDR 22 billion (1303 percent of quota). The authorities stressed that the FCL arrangements have helped preserve favorable access to capital markets, facilitating a more flexible policy response. Staff analysis indicates that the FCL arrangement has helped reduce the volatility of local-currency government bond yields, particularly during periods of high stress in global financial markets.

RECENT ECONOMIC AND POLICY DEVELOPMENTS

A. A Recovery is Underway

4. **The economy is starting to recover after a cyclical slowdown**. Domestic demand was sluggish in the first half of 2013 (reflecting very weak investment and inventory destocking) with net exports driving growth (Figure 1, Table 1). An improvement in economic activity in main trading partners, particularly Germany, provided support for an incipient rebound that started in mid-2013. More recently, household consumption has started to gain traction, underpinned by improving confidence and rising real wages (as nominal wage growth has outpaced inflation). High-frequency data also point to a recovery in retail sales and industrial production, and a moderation of the decline in construction activity.

5. **The labor market has improved somewhat (but is still weak) and inflation remains subdued**. In the third quarter, labor market conditions continued to improve with the (seasonally adjusted) jobless rate dropping to 10.2 percent from a high of 10.6 percent in the first quarter. Real wage growth has accelerated modestly, supported by low inflation. Price pressures and inflation expectations have been muted. While CPI inflation rose from its record low of 0.2 percent (yoy) in June, inflation in October (0.8 percent, yoy) remains well below the 2½ percent target. Core inflation has also remained subdued.



Sources: HSBC/MKT, Eurostat, and IMF staff calculations.

6. **The current account deficit narrowed sharply in the first half of 2013, led by an improvement in the trade balance**. A strong pick-up in export growth was supported by improving activity in main trading partners and gradual but continuous expansion toward Eastern European markets. In contrast, import growth was affected by weak domestic demand, leading to an unprecedented trade surplus. Net external liabilities, which include substantial cross-border intra-company loans, have stabilized at around 68 percent of GDP (Figure 2, Table 2).

7. **The economy continues to face a volatile external environment**. The emerging market sell-off that took place over the summer affected Poland less than many other emerging economies (Table 3). The floating exchange rate regime played a stabilizing role, while broadly adequate international reserves and the precautionary FCL arrangement boosted market confidence. Nonetheless, cumulative capital outflows of about $2.9 billion were registered between June and September. Foreign investors reduced their holdings of local government bonds by about

$2.8 billion (a 1.7 percentage point drop in their holdings to 34 percent). Yields on 10-year local government bonds increased by 100 bps (in line with the increase in long-term US treasury yields) from the very low levels achieved in early May, but they nonetheless remain low by historical standards (Figure 3). More recently, capital outflows continued at a more moderate pace, but the equity market has performed well (surpassing its spring 2011 level).

8. The banking system has remained profitable and well-capitalized (Figure 4, Table 4). Average capital to risk-weighted assets increased further to 15.7 percent in the third quarter (with tier 1 capital at 14.2 percent of risk-weighted assets), helped by retained earnings. Profitability has held up well, despite some compression in net interest margins associated with the drop in policy rates. Overall zloty liquidity in the banking system has remained ample and the gradual withdrawal of foreign funding that started in mid-2011 has stopped. Credit growth has remained weak, particularly with respect to non-financial corporations, but is starting to recover in the household segment (Figure 5). New foreign currency mortgage lending has effectively come to a halt. The impaired loan ratio declined slightly to 8½ percent at end-September from close to 9 percent six months earlier, helped by a drop in impaired consumer loans. But, the stock of impaired consumer and small and medium-sized enterprise loans remains high (at around 15 percent for both).

B. Macroeconomic Management has been Appropriate

9. In the context of a difficult external environment and weak growth, the authorities have carefully managed macroeconomic policies. The policy mix has appropriately combined supportive monetary policy with the use of automatic fiscal stabilizers around a consolidation path. This has helped pave the way for the recovery that is now underway, which is essential for further rebuilding policy buffers and preparing for an exit from the FCL arrangement once external risks recede.

10. Substantial monetary easing since end-2012 has provided support to the economy. The Monetary Policy Council (MPC) completed an easing cycle that delivered 225 bps of rate cuts between November 2012 and July 2013. The MPC has expressed its intention to keep policy rates on hold at the current 2.5 percent until at least mid-2014. Maintaining an accommodative stance should be facilitated by the new Monetary Policy Guidelines, which allow the MPC to accept longer periods of deviation of inflation from the target range of 1½–3½ percent. Work is also underway to strengthen the MPC, including by possibly introducing staggered terms for MPC members.

11. The flexible exchange rate played its stabilizing role, notably during the recent episode of turmoil in emerging markets. Despite significant monetary easing, the zloty remained relatively stable throughout the summer. This likely reflected confidence in Poland's policy framework. International reserves remain broadly adequate based on standard metrics of reserve adequacy (Figure 6). Updated estimates for Poland, using EBA methodologies based on data available as of November 2013, suggest that the exchange rate is broadly consistent with medium-term fundamentals and appropriate policies, with the current account deficit close to its norm and the real effective exchange rate (REER) close to the model estimate. Aside from the insurance provided by the FCL and broadly adequate international reserves, the NBP also has a swap line with the Swiss National Bank to help cover liquidity needs in the event of major Swiss franc funding pressures associated with foreign currency mortgages.

12. Fiscal policy is rightly balancing the need to avoid being a drag on growth with further consolidation (Tables 5 and 6).

- In 2013, automatic stabilizers were appropriately allowed to operate in response to the cyclical slowdown. Preliminary staff estimates suggest that the fiscal deficit would widen by ¾ percent of GDP to about 4.6 percent of GDP in 2013, mainly reflecting the impact of the economic slowdown on tax collections (notably VAT). As a result, the public debt ratio is expected to increase (after declining in 2012). Sound public debt management allowed the government to cover all 2013 financing needs by October, and pre-financing of 2014 needs is underway.

- For 2014, the fiscal deficit is expected to decline to 3.6 percent of GDP, which is appropriate at this stage of the recovery. The fiscal improvement reflects consolidation measures of about ½ percent of GDP, some cyclical recovery in revenue, and changes to the pension system's second pillar (Box 1). The latter are expected to lead to a drop in public debt by about 9 percent of GDP and a decline in the deficit by about ½ percent of GDP in 2014 (the improvement in the deficit will rise to 1 percent of GDP in 2015), with a corresponding increase in future pension liabilities.

- To help entrench fiscal consolidation, the authorities introduced a permanent fiscal rule that constrains the growth of public expenditure, while allowing for countercyclical fiscal policy. In particular, the rule caps the growth of public expenditure at trend GDP growth (or below trend GDP growth under certain conditions, including if public debt surpasses pre-defined thresholds).

13. Additional steps were taken to further strengthen the resilience of the financial sector. Following the incorporation of credit unions into the bank supervisory perimeter, the authorities implemented a series of audits and rehabilitation measures to strengthen this small, but nonetheless important, segment. Banking supervision was further reinforced by increasing the frequency of targeted inspections and enhancing the coordination between onsite and offsite work. In line with FSAP recommendations, the financial supervisory authority (KNF) has also engaged in a thematic review of banks' credit risk policies as part of its efforts to address impaired loans. In parallel, work has continued on the establishment of a systemic risk board (SRB)—essential for establishing a macroprudential framework—and on legislation to overhaul the bank resolution framework.

Box 1. Changes to Poland's Second Pension Pillar

Poland currently has a three pillar pension system: (i) the first pillar is mandatory, pay as you go, notional defined contribution, and public; (ii) the second pillar is mandatory, funded, and privately managed; and (iii) the third pillar is voluntary, funded, and barely used. The second pillar is funded by diverting a portion of social contributions collected by the general government to the privately managed pension funds. Assets in the second pillar currently amount to about 18 percent of GDP—half of which is represented by holdings of government securities and government-guaranteed debt. In September, the Polish authorities announced significant changes to the second pillar. The changes—which will begin to take effect in 2014—are as follows:

- Private pension funds' holdings of Treasury bonds and Treasury-guaranteed bonds will be transferred to the social security administration and cancelled;
- Corresponding pension fund liabilities will be transferred to individual notional accounts in the first pillar and thereafter indexed by the five-year average nominal GDP growth;
- All new pension contributions will be channeled to the social security administration, unless contributors "opt in" to the second pillar;
- Pension funds will be banned from investing in government bonds, and current benchmarking and penalty systems will be removed to encourage more active portfolio management;
- Limits on holdings of foreign securities will be lifted over time, from the current 5 percent of pension funds' portfolios to 30 percent by 2016;[1] and
- Pension payouts will be centralized in the public system, with a gradual transfer of assets to the first pillar starting ten years before retirement.

The proposed changes were passed by parliament in early December. The law is likely to be challenged in Poland's Constitutional Court (but would still be implemented in the meantime).

Notwithstanding these changes to the pension system, additional steps will still be needed to reform the social security system and put the public debt ratio on a downward path.

- Improving the financial strength of the social security system will require further reforms of the special occupational pensions and better alignment of disability and survivor pensions with the core pension system;
- Despite the near-term fiscal gains from the proposed changes to the pension system, it is essential that fiscal policy remains prudent and that public debt is reduced further over time;
- As the planned changes to the pension system are implemented, careful attention will need to be paid to potential implications for the government bond and equity markets; and
- Given the expected decline of replacement rates under the defined-contribution system, additional voluntary pension savings would help reduce the risk of old age poverty.

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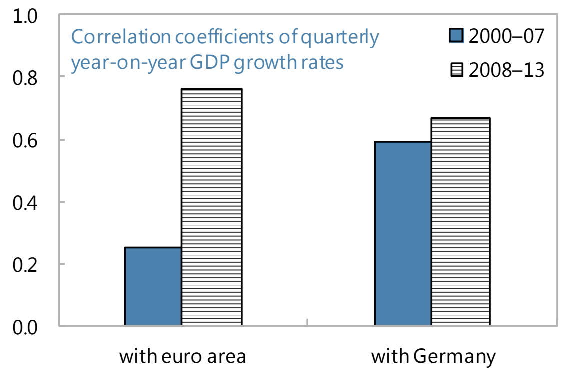
[1] The current 5 percent limit is non-binding, as foreign securities constitute about 1½ percent of pension fund assets. Staff calculations indicate that the lifting of the ceiling on foreign securities' holdings is not likely to have a destabilizing effect on the balance of payments, as portfolio outflows would likely represent less than 1 percent of GDP per year.

RISKS

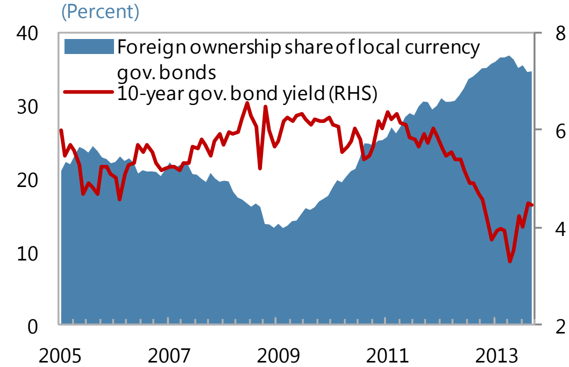
14. Risks to the outlook remain dominated by external factors. The economy has substantial trade and financial linkages with core euro area countries, including through supply chains and foreign bank ownership. This makes Poland susceptible to spillovers stemming from a protracted period of low growth in Western Europe, or a re-emergence of financial stress in the euro area. Unsettled global financial conditions or higher-than-expected increases in long-term rates as advanced countries exit unconventional monetary policy would affect Poland through financial market volatility and capital outflows. The banking system also remains exposed to foreign currency-induced credit and liquidity risks, and to contagion from potential distress in their parents. Conversely, on the upside, domestic demand could recover more quickly than projected as confidence returns, boosting growth by more than currently expected.

Poland's Business Cycle Synchronization
(Correlation coefficient)



Source: IMF staff calculations.

Foreign Ownership of Polish Government Bonds
(Percent)



Sources: Datastream, Haver Analytics, and IMF staff calculations.

15. The authorities continue to view the FCL arrangement as an effective insurance against external downside risks. They underscored the usefulness of the FCL arrangement as a temporary complement to reserves and a signal of Poland's very strong policy frameworks, institutions, and track record of policy implementation. The authorities consider that external risks remain elevated, notably with respect to the possibility of a prolonged period of weak growth in Europe or financial volatility facing emerging markets.

16. The authorities remain committed to exiting from the FCL arrangement when external conditions allow. They reaffirmed their commitment to maintaining very strong policies and underscored their intention to rebuild policy space to counter adverse shocks, notably through ongoing fiscal consolidation at a pace consistent with the economic cycle, an appropriate monetary policy stance, and continued vigilance regarding the state of the banking system. At the same time, given the early phase of the economic recovery and heightened external risks, the authorities believe that the FCL provides important "breathing space" for Poland to continue to rebuild buffers at a pace consistent with economic and financial conditions (Tables 7 and 8). They consider that these steps are sufficient to help prepare for an exit from the FCL arrangement when external conditions allow.

FCL QUALIFICATION CRITERIA

17. In staff's view, Poland continues to fully meet the qualification criteria for an arrangement under the FCL. Very strong policy frameworks have allowed the authorities to effectively adjust policies, as needed, in response to adverse external shocks and economic developments. Monetary policy is conducted within the context of the well-established inflation targeting framework. Fiscal policies remain guided by the medium-term objective of achieving a fiscal deficit of 1 percent of GDP in structural terms, which staff deems appropriate to ensure fiscal sustainability. The financial supervisory framework continues to enhance the resilience of the banking system, including by promoting strong capitalization. The authorities remain committed to maintaining strong policies going forward and taking appropriate actions should downside risks materialize. The Executive Board commended Poland's policy track record at the conclusion of the 2013 Article IV consultation. As to the relevant criteria for the purpose of assessing qualification under the FCL arrangement, identified in ¶2 of the FCL decision, staff's assessment is as follows (Figure 7):

- ***The external position is sustainable***. External debt, though relatively high at 74 percent of GDP at end-2012, is expected to decline. The updated external debt sustainability analysis (Annex I) suggests that external debt ratios will decline over the medium term and remain manageable under adverse shocks. The current account deficit has narrowed to 2.7 percent of GDP and is projected to rise to 3.5 percent of GDP in the medium term.

- ***The capital account is dominated by private flows***. The bulk of capital flows to Poland originates from the private sector, with official creditors accounting for less than 5½ percent of external debt in 2013.

- ***Uninterrupted access to capital markets at favorable terms***. Poland has maintained one of the highest credit ratings among emerging market countries and constant access to international capital markets at favorable terms. In 2013, the government successfully issued about €2 billion of sovereign debt in international capital markets, including a 20-year bond. Spreads vis-à-vis German bonds have remained narrow and stable (reaching a minimum of 176 bps on 10-year bonds in mid-May 2013) and, despite the recent increase, yields on government bonds remain low by historical standards.

- ***Reserves are relatively comfortable***. Gross international reserves stood at $106 billion at end-October and are broadly adequate relative to standard reserve metrics. They have declined slightly since the current FCL arrangement was approved, largely reflecting shifts in government foreign currency deposits.

- ***Sound public finances, including a sustainable public debt position***. Fiscal policy is underpinned by Poland's strong policy framework, which will be reinforced by the implementation of the new fiscal rule. To a large extent, the widening fiscal deficit in 2013 was cyclical in nature: the structural deficit still dropped by about ½ percent of GDP to 3½ percent of GDP and, under current policies, is projected to reach about 2 percent of GDP by 2016. Public debt should drop below 50 percent of GDP in 2014 and further to about 47½ percent of GDP by 2018. Debt sustainability analysis, conducted under the new framework for market-access countries, indicates that the baseline fiscal path is consistent with sustainable debt under a variety of macroeconomic scenarios (Annex II). The analysis also suggests that risks stemming from the currency composition and duration profile of public debt are limited, reflecting the authorities' strong debt management strategy.

- ***Low and stable inflation, in the context of a sound monetary and exchange rate policy framework***. Both headline and core inflation remain low (and the former is below its target), but are expected to rise as the economy recovers. The authorities remain committed to preserving their credible and transparent inflation-targeting framework.

- ***The absence of bank-solvency problems that pose an immediate threat of a systemic banking crisis***. Poland's banking system continues to be liquid, well capitalized, and profitable. The 2013 FSAP Update concluded that the banking system is resilient to a variety of large but plausible adverse shocks without threatening financial stability. However, the large presence of foreign banks headquartered in the EU continues to pose a source of risk and a channel for the transmission of external shocks to domestic credit markets.

- ***Effective financial sector supervision***. The 2013 FSAP Update concluded that Poland's banking system appears to be resilient. It found that Poland is broadly compliant with Basel Core Principles for effective Banking Supervision (BCP), Insurance Core Principles (ICP), and International Association of Deposit Insurers (IADI). The observed resilience of the banking sector is backed by a proactive supervisory approach to limiting risks related to consumer and foreign currency lending, and by a conservative stance on credit risk policies and capital buffers.

- ***Data integrity and transparency***. The overall quality of Poland's macroeconomic data remains good, consistent with the findings of the 2003 data ROSC, and Poland remains in observance of the Special Data Dissemination Standard (SDDS). Concerns about the large errors and omissions in the balance of payment have been addressed with the support of Fund Technical Assistance (TA) and stood at 0.6 percent of GDP in 2012 (down from 4 percent of GDP prior to Fund TA).

SAFEGUARD ASSESSMENT

18. Staff has completed the safeguard procedures for Poland's 2013 FCL arrangement. The authorities provided the necessary authorization for Fund staff to communicate directly with the NBP's external auditor, PricewaterhouseCoopers (PwC) Warsaw. PwC issued an unqualified audit opinion on the NBP's 2012 financial statements on March 28, 2013. Staff reviewed the 2012 audit results and discussed these with PwC. No significant safeguards issues emerged from the conduct of these procedures.

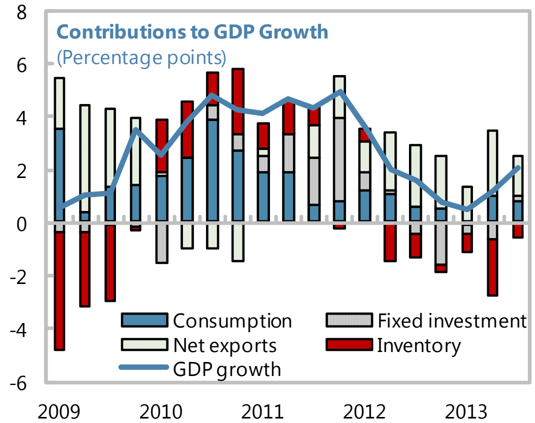
STAFF APPRAISAL

19. Poland continues to benefit from the FCL arrangement. The FCL has helped sustain access to global capital markets and bolster confidence in the country's fundamentals and polices. It has also provided Poland with additional flexibility in the implementation of sound macroeconomic policies, helping to ameliorate the effects of adverse external shocks. Poland's macro-financial stability is likely to bring positive externalities to the CEE region, as validated by its recent inclusion in the Fund's list of countries with systemically important financial sectors.

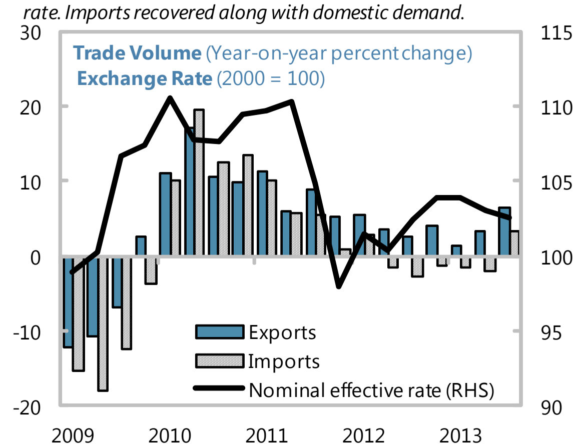
20. Poland continues to meet the qualification criteria for access to FCL resources. The authorities have continued to implement very strong policies and remain committed to respond appropriately to actual or potential balance of payments difficulties. Therefore, staff recommends completion of the review under the FCL arrangement for Poland.

Figure 1. Poland: Recent Economic Developments, 2009–13

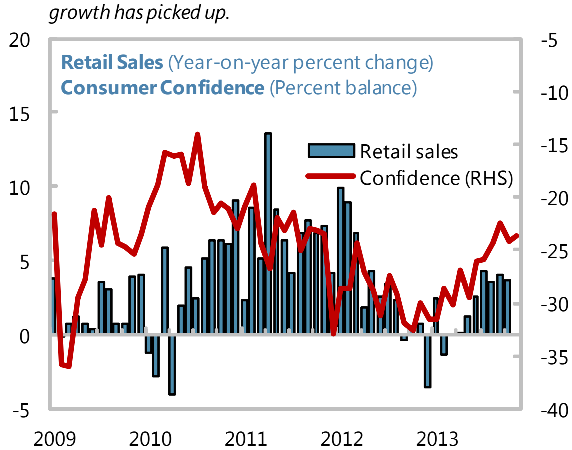
GDP growth accelerated in the third quarter, lifted by net exports and a nascent rebound in domestic demand.



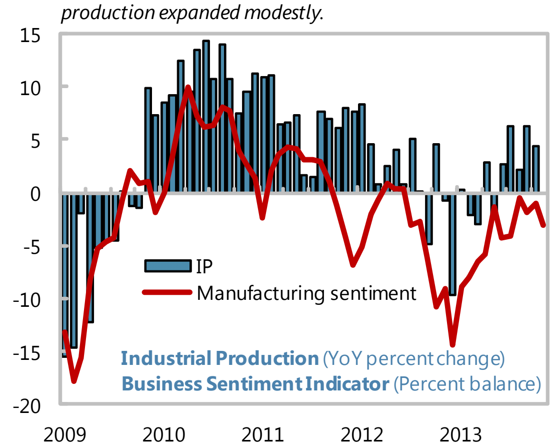
Export growth strengthened, helped by a competitive exchange rate. Imports recovered along with domestic demand.



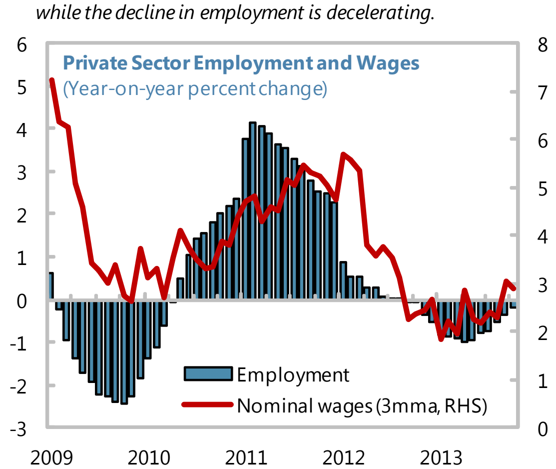
Consumer confidence has recovered and retail sales growth has picked up.



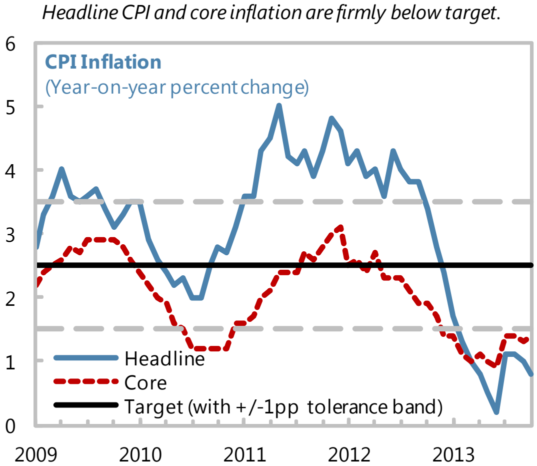
Business sentiment also improved recently and industrial production expanded modestly.



In the enterprise sector, wages have accelerated modestly, while the decline in employment is decelerating.

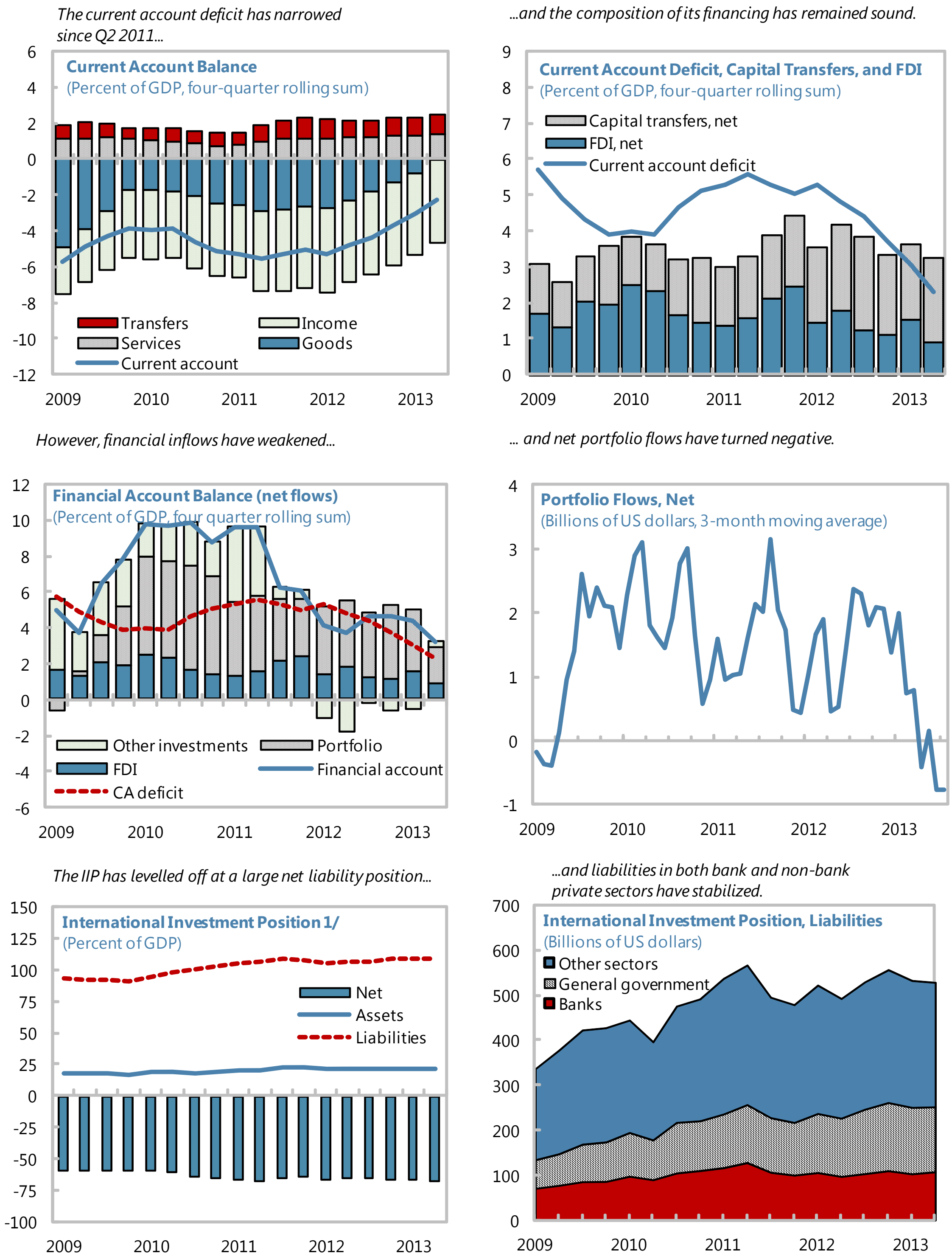


Headline CPI and core inflation are firmly below target.



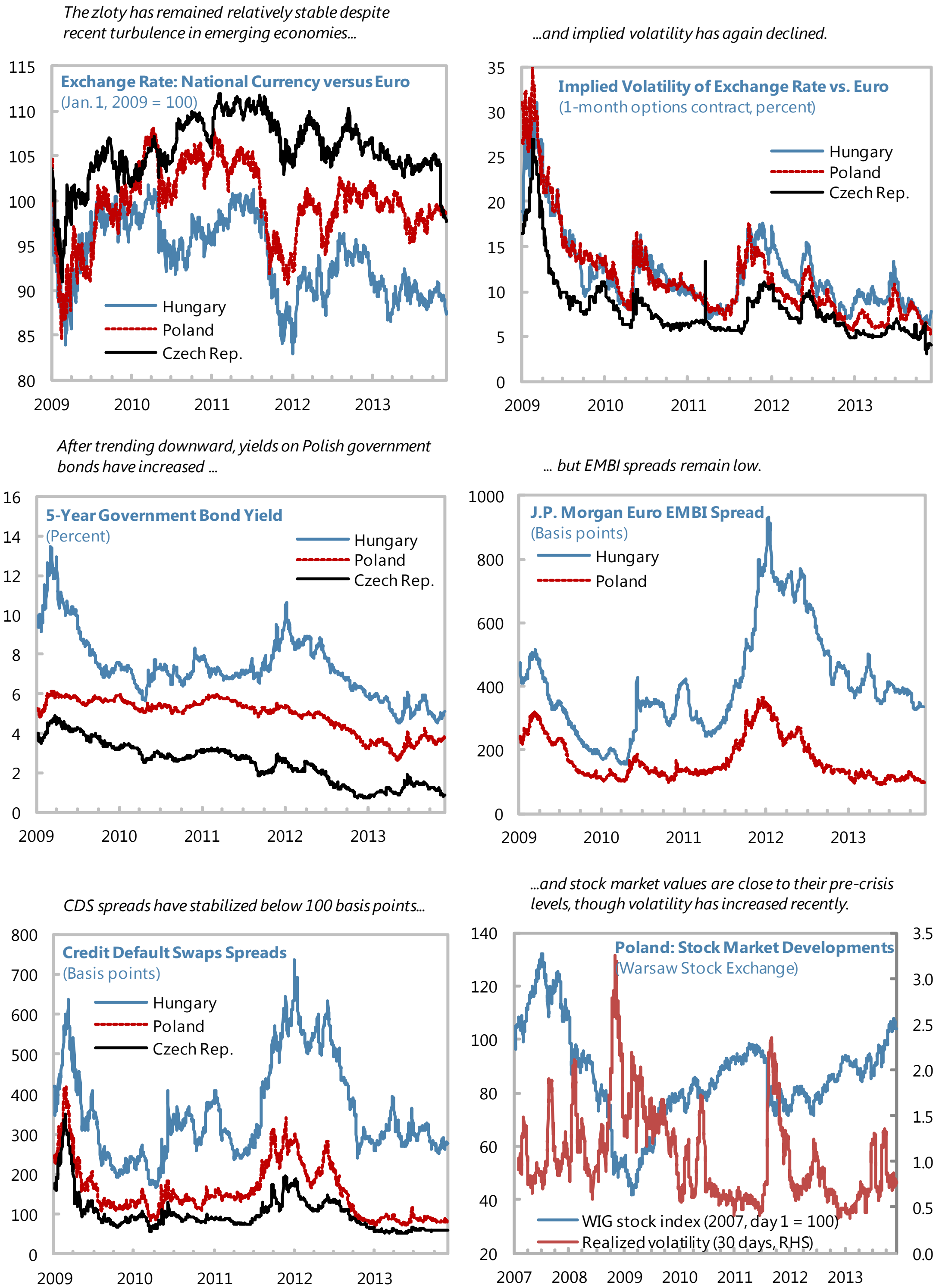
Sources: Haver, Central Statistical Office, and IMF staff calculations.

Figure 2. Poland: Balance of Payments Developments, 2009–13



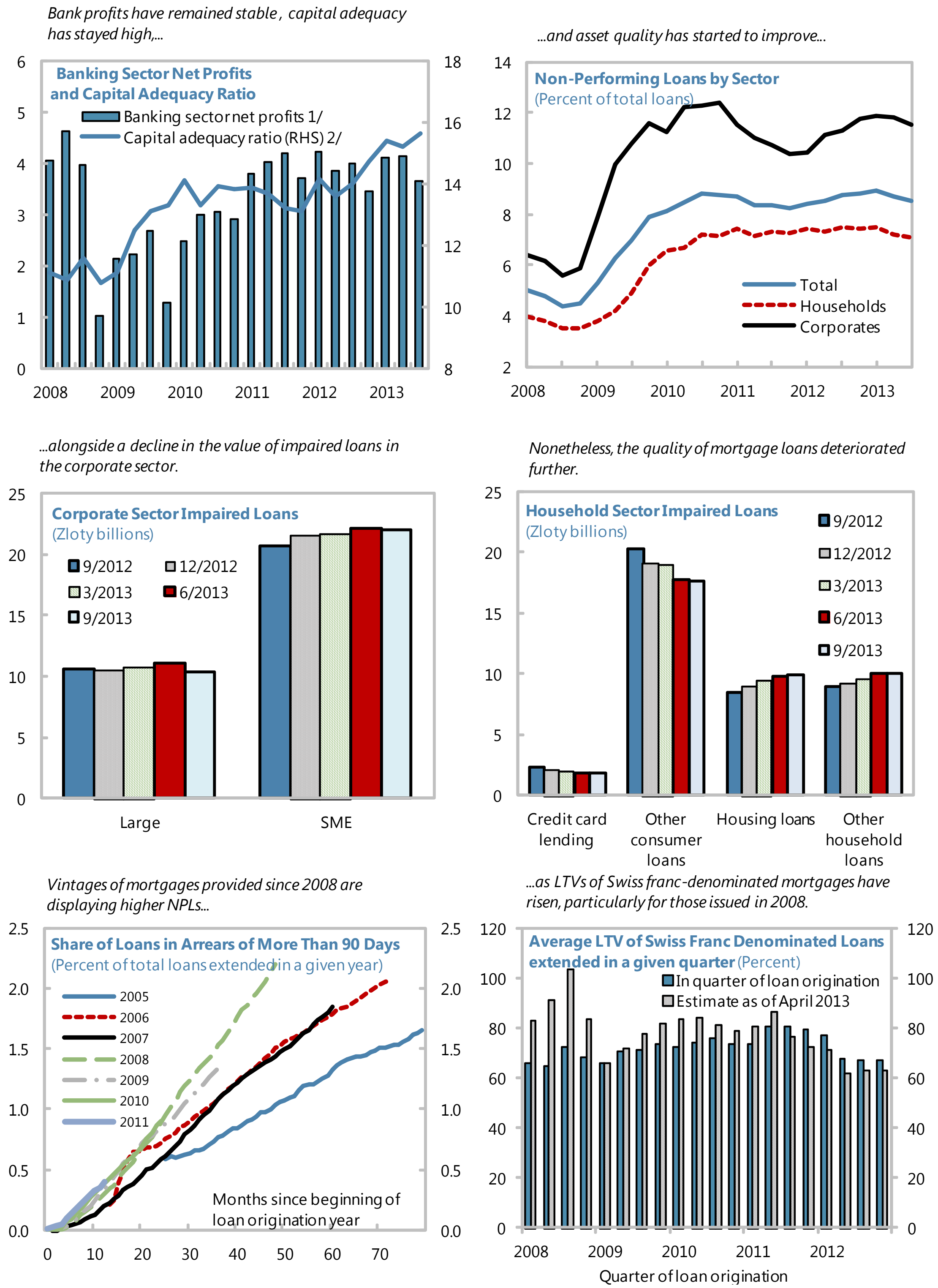
Sources: National Bank of Poland and IMF staff calculations.
1/ Excludes NBP.

Figure 3. Poland: Financial Market Developments, 2007–13



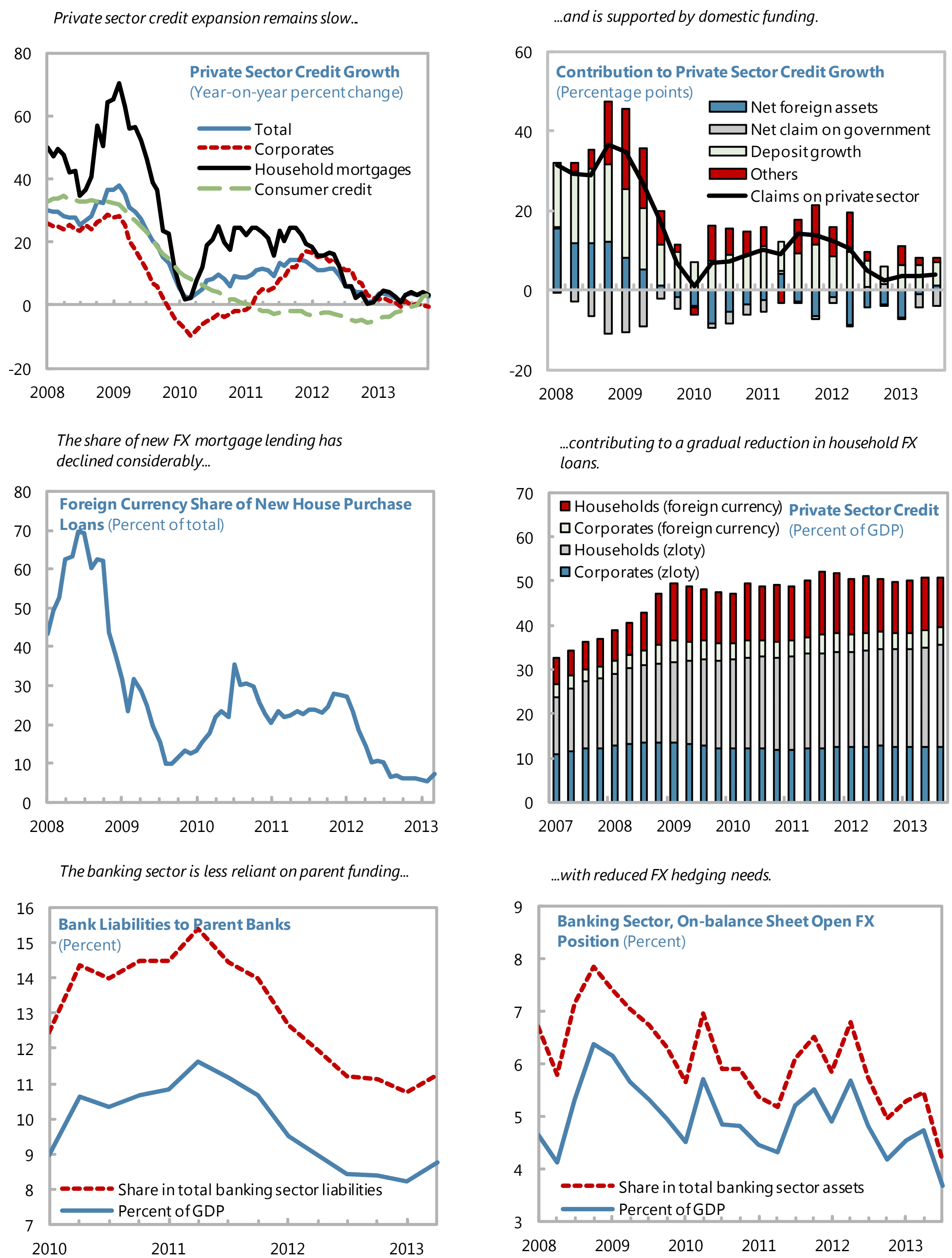
Sources: Bloomberg, Haver Analytics, Polish Ministry of Finance, and IMF staff calculations.

Figure 4. Poland: Banking Sector Developments, 2005–13



Sources: KNF, NBP, and Fund staff calculations.
1/ Billion zloty. 2/ Percent.

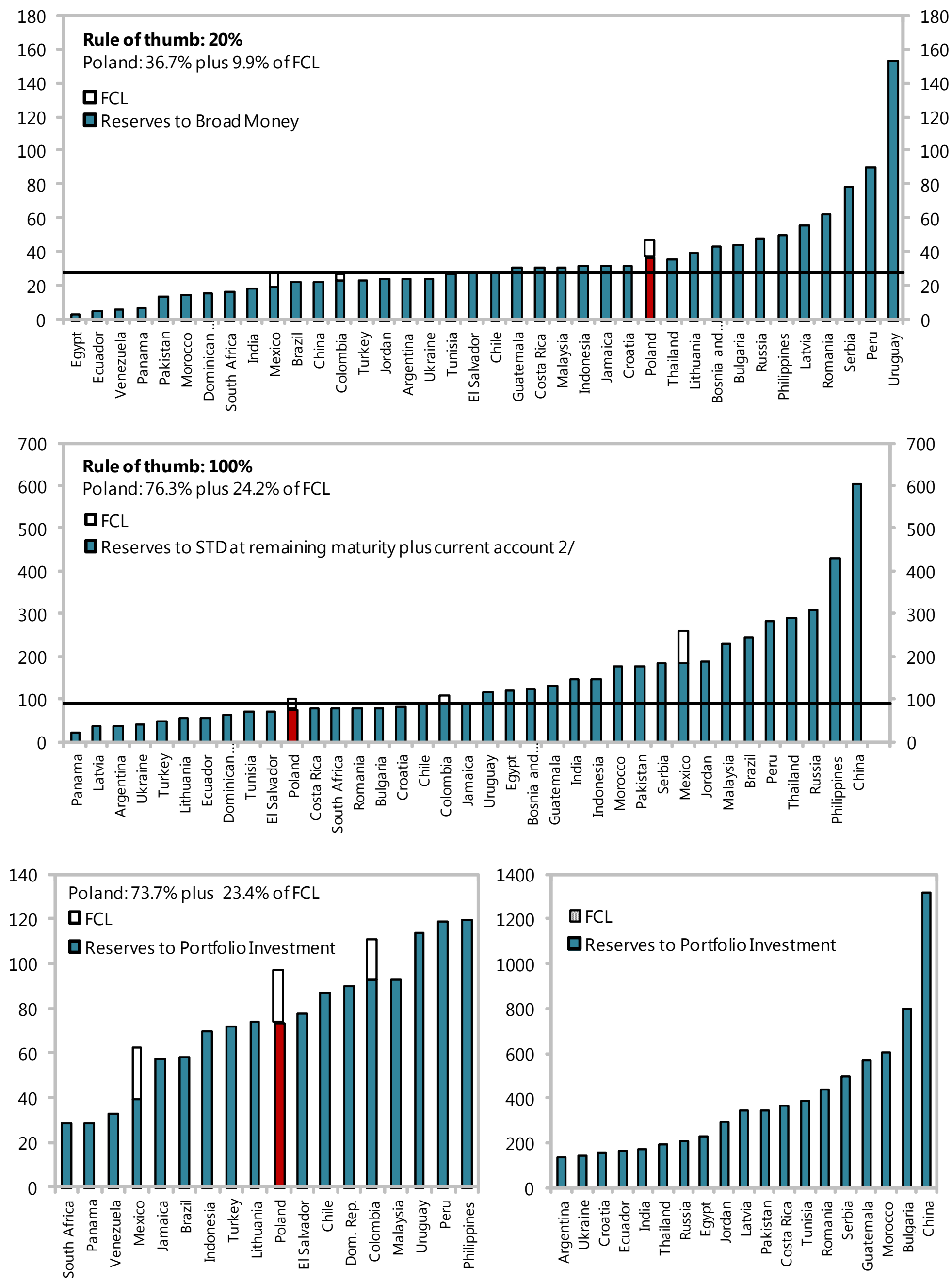
Figure 5. Poland: Banking Credit Growth and Funding, 2007–13



Sources: Haver Analytics, NBP, KNF, and IMF staff calculations.

Figure 6. Poland: Reserve Coverage in International Perspective, 2012 1/

(Percent)



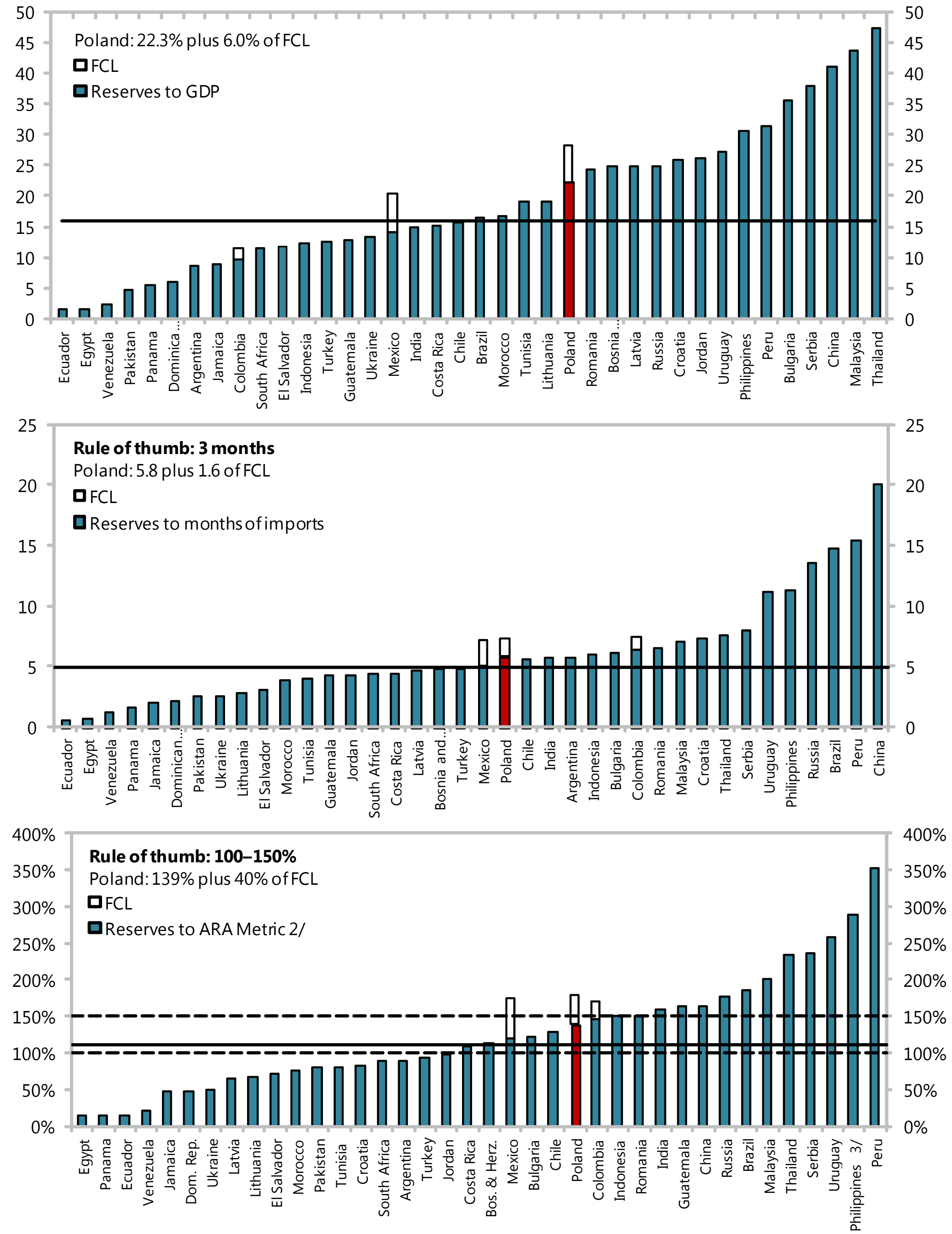
Sources: World Economic Outlook and IMF staff calculations.

1/ Horizontal lines represent median in all the charts.

2/ Reserves at the end in percent of short-term debt at remaining maturity and estimated current account deficit in 2012. The current account is set to zero if it is in surplus.

Figure 6. Poland: Reserve Coverage in International Perspective, 2012 1/ (concluded)

(Percent)

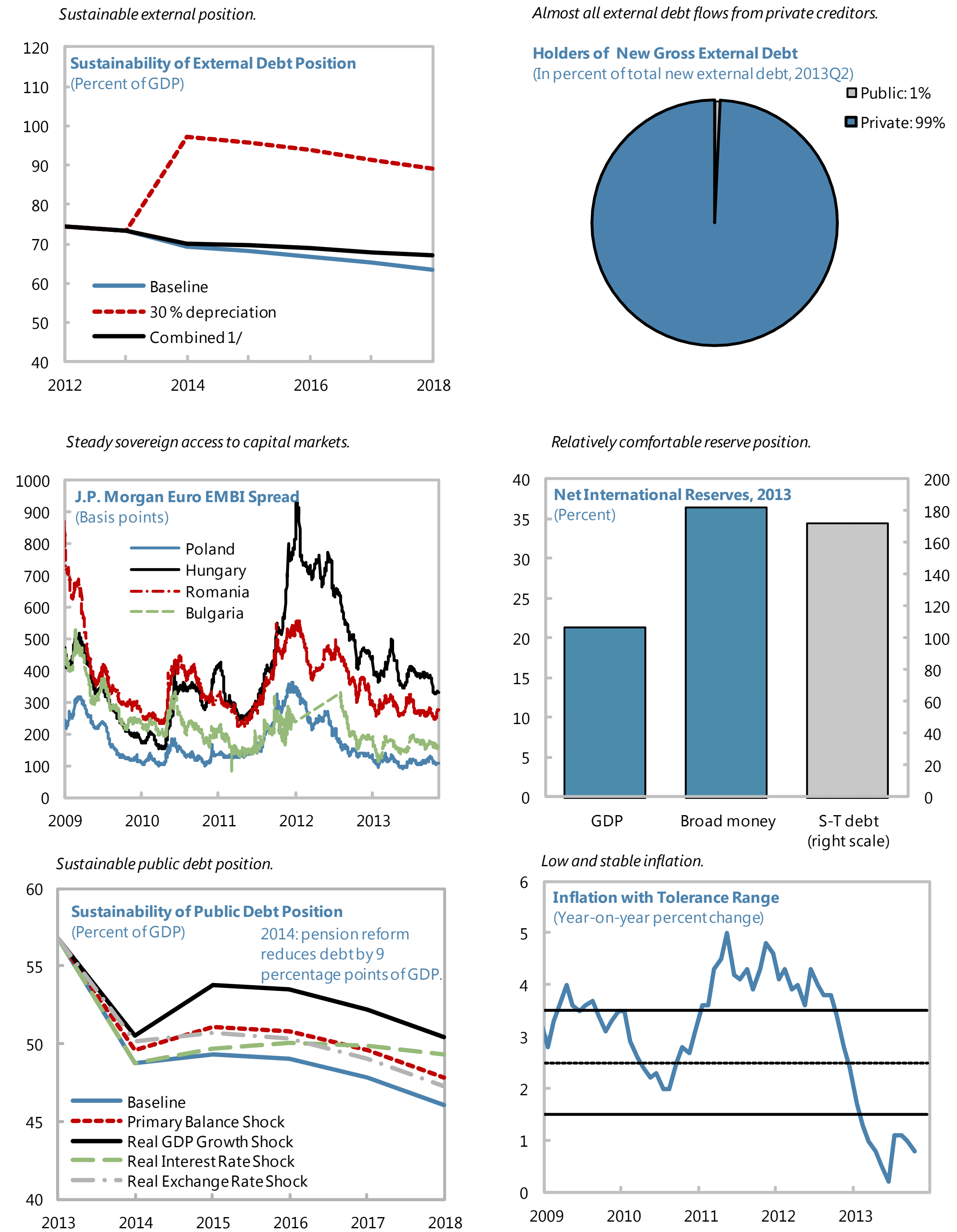


Sources: World Economic Outlook, Balance of Payments Statistics Database, and IMF staff calculations.

1/ Horizontal lines represent median in all the charts.

2/ The ARA metric was developed by SPR to assess reserve adequacy. For the stock of porfolio liabilities, data on 2011 or 2012 is used, depending on data availability.

Figure 7. Poland: Qualification Criteria, 2009–18



Sources: Bloomberg, Poland authorities, and IMF staff calculations.
1/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

Table 1. Poland: Selected Economic Indicators, 2011–18

	2011	2012	2013	2014	2015	2016	2017	2018
					Projections			
Activity and prices								
GDP (change in percent) 1/	4.5	1.9	1.3	2.8	3.0	3.1	3.4	3.5
Domestic demand	3.6	-0.1	-0.3	3.2	3.6	3.4	3.4	3.4
Private consumption growth	2.6	1.2	0.4	2.1	2.9	2.9	2.8	2.9
Public consumption growth	-1.7	0.2	2.0	2.2	2.7	3.0	3.5	3.5
Domestic fixed investment growth	8.5	-1.7	-1.2	3.6	6.6	4.8	4.7	4.7
Inventories (contribution to growth)	0.7	-0.6	-0.7	1.0	0.1	0.1	0.1	0.1
Net external demand (contribution to growth)	0.8	1.9	1.3	0.2	-0.6	-0.2	0.1	0.1
Output gap	0.8	-0.3	-1.5	-1.0	-0.8	-0.5	0.0	0.0
CPI inflation (percent)								
Average	4.2	3.7	1.2	2.0	2.4	2.5	2.5	2.5
End of period	4.6	2.4	1.4	2.1	2.5	2.5	2.5	2.5
Unemployment rate (average, according to LFS)	9.6	10.1	10.6	10.5	10.3	10.1	9.7	9.3
Public finances (percent of GDP) 2/								
General government revenues	38.4	38.4	37.4	37.7	38.0	38.7	38.6	39.0
General government expenditures	43.4	42.3	42.0	41.3	41.0	40.9	41.0	41.1
General government balance	-5.0	-3.9	-4.6	-3.6	-3.0	-2.2	-2.4	-2.2
Public debt	56.2	55.6	57.5	49.4	50.1	50.0	48.9	47.7
National definition 3/	53.4	52.7	52.8	...	...	...	...	...
Money and credit								
Private credit (change in percent)	13.9	2.4	4.2	...	...	...	...	...
Broad money (change in percent)	12.5	4.5	5.7	...	...	...	...	...
Policy Rate (percent) 4/	4.2	4.6	2.5	...	...	...	...	...
Balance of payments								
Current account balance (transactions, billion U.S. dollars)	-25.0	-17.2	-13.8	-16.4	-19.3	-21.5	-22.7	-24.1
Percent of GDP	-4.9	-3.5	-2.7	-3.0	-3.3	-3.5	-3.5	-3.5
Exports of Goods (billion U.S. dollars)	195.2	188.4	196.9	207.5	221.0	237.8	256.0	275.5
Export volume growth	7.7	3.9	5.0	7.1	6.7	6.7	7.2	7.1
Imports of Goods (billion U.S. dollars)	209.2	195.3	199.5	211.1	226.6	242.5	260.5	280.1
Import volume growth	5.5	-0.7	2.1	6.9	8.3	7.3	7.2	7.1
Net oil imports (billion U.S. dollars)	22.8	23.5	23.6	24.2	23.6	23.2	23.2	23.4
Terms of trade (index 1995=100)	96.2	94.7	94.2	93.7	94.4	95.4	95.6	95.6
FDI, net (in percent of GDP)	2.2	0.7	0.7	1.1	1.3	1.5	1.5	1.5
Official reserves (billion U.S. dollars)	97.9	108.9	107.7	111.6	123.9	136.0	144.1	151.3
In percent of short-term debt plus CA deficit	84.9	91.0	98.9	103.1	118.0	122.2	125.8	128.3
Total external debt (billion U.S. dollars)	320.6	364.2	372.6	374.3	387.5	402.1	413.6	425.6
In percent of GDP	62.2	74.4	72.8	68.8	67.0	65.5	63.5	61.6
Exchange rate								
Exchange rate regime					Floating			
Zloty per USD, period average 5/	3.0	3.3	3.1	...	...	...	...	...
Zloty per Euro, period average 5/	4.1	4.2	4.2	...	...	...	...	...
Real effective exchange rate (INS, CPI based) 6/	110.4	107.6	...	...	...	...	...	...
Appreciation (percent change)	-1.5	-2.6	...	...	...	...	...	...
Memorandum item:								
Nominal GDP (billion zloty)	1528.1	1595.2	1629.7	1709.2	1801.8	1902.4	2014.7	2134.6

Sources: Polish authorities and IMF staff calculations.

1/ Real GDP is calculated at constant average prices of previous year.
2/ According to ESA95 (inc. pension reform costs). Including 2011 budget and announced measure as of March 2011.
3/ Excluding debts of the National Road Fund.
4/ NBP Reference Rate (avg). For 2013, as of December 2.
5/ For 2013, exchange rate as of December 2.
6/ Annual average (2000=100).

Table 2. Poland: Balance of Payments on Transaction Basis, 2011–18
(Millions of US dollars)

	2011	2012	2013	2014	2015	2016	2017	2018
			Projections					
Current account balance	**-25,023**	**-17,169**	**-13,822**	**-16,417**	**-19,269**	**-21,518**	**-22,724**	**-24,065**
percent of GDP	-4.9	-3.5	-2.7	-3.0	-3.3	-3.5	-3.5	-3.5
Trade balance	-14,042	-6,879	-2,644	-3,618	-5,585	-4,730	-4,431	-4,650
percent of GDP	-2.7	-1.4	-0.5	-0.7	-1.0	-0.8	-0.7	-0.7
Exports								
percentage change in unit values	15.7	1.4	4.5	5.4	6.5	7.6	7.7	7.6
percentage volume growth	9.2	3.9	5.0	7.1	6.7	6.7	7.2	7.1
growth in foreign demand	8.0	0.3	1.6	4.8	4.7	5.0	5.6	5.8
Imports								
percentage change in unit values	15.7	-1.6	2.2	5.8	7.3	7.0	7.4	7.5
percentage volume growth	7.5	-0.7	2.1	6.9	8.3	7.3	7.2	7.1
growth in domestic demand	3.6	-0.1	-0.3	3.2	3.6	3.4	3.4	3.4
Terms of trade percentage change	-1.6	-1.5	-0.6	-0.6	0.8	1.1	0.2	0.0
Services balance	5,668	6,191	7,203	6,957	7,130	7,878	8,590	9,261
Credit	37,562	37,726	39,421	41,044	43,719	47,037	50,651	54,495
Debit	31,894	31,535	32,218	34,087	36,589	39,159	42,060	45,234
Net Income	-22,880	-21,742	-23,356	-24,683	-27,286	-29,480	-31,993	-34,395
Net transfers	6,231	5,261	4,976	4,927	6,472	4,814	5,110	5,718
o/w EU receipts	8,397	8,529	9,737	10,080	10,778	6,581	8,158	8,124
o/w payment to EU	-5,004	-4,893	-5,937	-6,139	-6,596	-6,685	-6,754	-6,831
Capital and financial account balance	**40,450**	**31,232**	**17,733**	**25,731**	**37,377**	**39,793**	**37,285**	**38,134**
Capital account balance	10,017	10,953	13,230	15,647	16,823	16,655	16,489	16,324
o/w net EU transfers	8,890	8,808	12,750	15,056	16,183	10,565	15,203	18,039
Financial account balance	30,433	20,279	4,504	10,084	20,554	23,138	20,797	21,810
Foreign direct investment (net)	11,552	3,604	3,474	5,976	7,726	8,926	9,626	10,126
by nonresidents	18,887	3,092	1,507	14,061	16,061	17,261	18,461	19,461
o/w privatization	2,339	2,581	2,581	2,581	2,581	2,581	2,581	2,581
Portfolio investment (net)	16,835	19,750	16,997	7,607	15,327	14,212	11,170	11,184
by non-residents	16,109	20,182	17,551	8,444	16,189	15,056	12,000	12,000
o/w equities	3,052	3,612	1,186	5,182	2,000	2,000	2,000	2,000
Other investment (net)	2,608	-5,929	-15,968	-3,500	-2,500	0	0	500
Assets	-3,457	-2,015	-8,000	-2,000	-1,500	-1,500	-1,500	-1,500
Liabilities	6,065	-3,914	-7,968	-1,500	-1,000	1,500	1,500	2,000
Financial derivatives	-562	2,854	0	0	0	0	0	0
Errors and omissions	-9,144	-2,862	-5,121	-5,437	-5,781	-6,139	-6,516	-6,906
Overall balance	6,283	11,201	-1,209	3,876	12,327	12,136	8,045	7,163
Financing								
Reserve assets	-6,283	-11,201	1,209	-3,876	-12,327	-12,136	-8,045	-7,163
Memorandum items:								
Current plus capital account (percent of GDP)	-2.9	-1.3	-0.1	-0.1	-0.4	-0.8	-1.0	-1.1
Official reserves	97,866	108,914	107,705	111,581	123,908	136,044	144,089	151,252
in months of imports	5.6	6.7	6.5	6.3	6.6	6.7	6.6	6.5
Ratio of reserves to short-term debt 1/	108.4	106.2	113.3	121.5	144.5	151.4	156.9	161.2
Ratio of reserves to ST debt plus CA deficit 1/	84.9	91.0	98.9	103.1	118.0	122.2	125.8	128.3
Total external debt (percent of GDP)	62.2	74.4	72.8	68.8	67.0	65.5	63.5	61.6
Total external debt (percent of exports) 2/	137.8	161.0	157.7	150.6	146.4	141.2	134.9	129.0
External debt service (percent of exports) 2/ 3/	43.2	49.3	45.5	42.3	34.6	34.5	33.9	33.1
Gross FDI inflows (percent of GDP)	3.7	0.6	0.3	2.6	2.8	2.8	2.8	2.8
Net FDI inflows (percent of GDP)	2.2	0.7	0.7	1.1	1.3	1.5	1.5	1.5

Sources: National Bank of Poland and IMF staff calculations.

1/ Projected reserve level for the year over short-term debt by remaining maturity.

2/ Exports of goods and services.

3/ Excluding repurchase of debt and including deposits.

Table 3. Poland: Monetary Accounts (eop), 2007–13

	2007	2008	2009	2010	2011	2012	2013 Proj.
	(Billions of zlotys)						
Central Bank							
Net foreign assets	141	177	212	257	317	321	317
Net domestic assets	-38	-51	-74	-117	-179	-153	-146
Net claims on government	-26	-21	-23	-12	-19	-16	-16
Claims on banks	-4	9	-25	-74	-93	-100	-93
Other items, net	-7	-38	-26	-31	-67	-37	-37
Base money	103	126	138	140	138	167	171
o/w Currency issued	86	102	100	103	112	113	114
o/w Bank reserves	17	25	38	37	26	54	57
Deposit Money Banks							
Net foreign assets	-19	-113	-135	-156	-169	-143	-107
Net domestic assets	496	679	762	842	939	953	970
Net claims on the central bank	39	37	75	121	130	167	163
Net claims on government	107	153	171	177	191	177	178
Claims on private sector	464	633	677	735	838	858	894
Claims on corporates	173	224	217	215	253	257	273
Claims on households	260	376	421	480	537	538	556
Claims on other	31	33	40	41	47	63	65
Other items, net	-114	-143	-161	-191	-219	-248	-265
Deposits	477	566	627	687	771	810	863
Consolidated Banking System							
Net foreign assets	121	64	76	101	149	177	209
Net domestic assets	441	602	644	683	733	744	765
Claims on government	80	131	148	164	172	161	162
Claims on private sector	464	633	677	735	838	858	894
Other items, net	-104	-162	-182	-217	-276	-274	-291
Broad money (M3)	562	666	720	784	882	921	974
Memorandum items:	(Percentage change from end of previous year)						
Base money	18.2	23.1	8.8	1.6	-1.1	21.0	2.2
Broad money (M3)	13.4	18.6	8.1	8.8	12.5	4.5	5.7
Net domestic assets	34.1	36.6	7.0	6.0	7.4	1.5	2.8
Net foreign assets	-27.5	-46.9	18.8	32.6	46.9	19.4	18.1
Net claim on government	-13.4	63.4	12.8	11.0	4.5	-6.6	0.8
Claims on private sector	31.5	36.4	7.0	8.5	13.9	2.4	4.2
Deposit growth	13.1	18.9	10.6	9.6	12.2	5.1	6.5
	(Percent of GDP, unless otherwise noted)						
Broad money (M3)	47.7	52.2	53.6	55.3	57.7	57.8	59.8
Private sector credit	39.4	49.6	50.4	51.9	54.8	53.8	54.8
Broad money Velocity (GDP/M3)	2.1	1.9	1.9	1.8	1.7	1.7	1.7
Money multiplier (M3/base money)	5.5	5.3	5.2	5.6	6.4	5.5	5.7

Sources: Haver, IFS, National Bank of Poland, and IMF staff calculations.

Table 4. Poland: Financial Soundness Indicators, 2007–13

(Percent)

	2007	2008	2009	2010	2011	2012	2013Q3
Capital adequacy 1/							
Regulatory capital to risk-weighted assets	12.0	11.1	13.3	13.9	13.1	14.8	15.7
Regulatory Tier I capital to risk-weighted assets	11.8	10.0	12.0	12.5	11.7	13.1	14.2
NPLs net of provisions to capital	11.4	8.3	13.8	11.5	11.6	12.9	12.6
Bank capital to assets	8.0	7.5	8.1	8.2	7.8	8.7	9.0
Asset composition and quality							
NPLs to gross loans (non-financial sector)	5.2	4.4	7.9	8.8	8.2	8.8	8.5
Sectoral distribution of loans to non-financial setor							
Loans to households	59.3	62.0	65.3	68.0	66.4	65.7	65.9
Loans to non-financial corporations	40.3	37.6	34.3	31.5	33.1	33.7	33.5
Earnings and profitability							
Return on average assets (after tax)	1.7	1.5	0.8	1.0	1.3	1.2	1.1
Return on average equity (after tax) 1/	22.4	20.7	11.2	13.3	16.1	14.0	12.5
Interest margin to gross income	59.4	55.7	51.9	53.0	55.8	55.0	54.0
Noninterest expenses to gross income	68.7	58.4	58.5	56.0	54.5	54.5	56.8
Liquidity							
Liquid assets to total assets (liquid assets ratio)	17.1	17.0	20.3	20.8	19.5	20.9	22.3
Liquid assets to total short-term liabilities	24.2	25.3	29.8	31.2	28.8	31.1	33.5
Loans to deposits	98.0	112.6	109.2	114.5	119.8	117.7	115.1
Sensitivity to market risk							
Net open positions in FX to capital 1/	0.6	0.0	2.7	0.3	-0.3	0.2	-0.1

Sources: National Bank of Poland and KNF.
1/ Data for domestic banking sector.

Table 5. Poland: General Government Statement of Operations, 2011–18

(Percent of GDP)

	2011	2012	2013	2014	2015	2016	2017	2018
					Projections			
Revenue	38.4	38.4	37.4	37.7	38.0	38.7	38.6	39.0
Taxes	20.8	20.1	19.1	19.2	19.5	19.9	19.6	19.6
Personal income tax	4.5	4.6	4.5	4.2	4.3	4.4	4.4	4.4
Corporate income tax	2.1	2.2	1.9	2.0	2.0	2.1	2.1	2.1
VAT	7.9	7.2	6.6	6.8	7.0	7.2	6.9	6.9
Excises	3.9	3.8	3.8	3.9	3.8	3.8	3.8	3.8
Other taxes	2.4	2.4	2.3	2.3	2.4	2.5	2.4	2.4
Social contributions	11.4	12.3	12.4	12.7	12.9	13.0	13.1	13.2
Other revenue 1/	6.2	6.0	6.0	5.8	5.6	5.7	5.9	6.2
Capital revenue	1.8	1.3	1.3	1.3	1.0	1.2	1.4	1.7
Sales of goods and services	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1
Other current revenue	2.4	2.5	2.5	2.4	2.4	2.4	2.4	2.4
Expenditure	43.4	42.3	42.0	41.3	41.0	40.9	41.0	41.1
Expense	37.7	37.7	38.4	37.7	37.5	37.4	37.4	37.2
Compensation of employees	9.7	9.7	9.7	9.6	9.6	9.5	9.5	9.6
Use of goods and services	5.7	5.6	5.6	5.7	5.7	5.7	5.7	5.7
Interest	2.7	2.8	2.7	2.3	2.2	2.3	2.2	2.2
Subsidies	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Social benefits	16.2	16.4	16.8	16.6	16.5	16.5	16.4	16.3
Other expense 1/	2.9	2.9	3.2	3.1	3.1	3.1	3.1	3.1
Other current expenditure	2.4	2.5	2.6	2.4	2.4	2.4	2.4	2.4
Capital transfers	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Net acquisition of nonfinancial assets	5.7	4.6	3.6	3.7	3.5	3.5	3.6	3.9
Gross Operating Balance	0.7	0.7	-1.0	0.1	0.5	1.3	1.2	1.7
Net lending/borrowing (overall balance)	-5.0	-3.9	-4.6	-3.6	-3.0	-2.2	-2.4	-2.2
Net financial transactions	-5.0	-3.6	-4.6	-3.6	-3.0	-2.2	-2.4	-2.2
Net acquisition of financial assets	-1.3	-0.9	-1.6	-0.3	0.4	0.6	-0.4	-0.4
Currency and deposits	-1.3	0.9	-1.7	-0.6	0.1	0.3	-0.7	-0.6
Debt securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	0.1	0.0	0.0	0.0	0.1	0.0	0.0	0.0
Equity and investment fund shares	-1.3	-1.0	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1
Other financial assets	1.2	0.1	0.3	0.3	0.3	0.3	0.3	0.3
Net incurrence of liabilities	3.6	2.5	3.0	3.3	3.4	2.8	2.0	1.8
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt securities	2.1	2.6	1.7	-7.1	2.2	1.5	0.8	0.6
Loans	1.4	0.7	1.1	1.1	1.0	0.9	0.8	0.8
Other liabilities	0.1	0.4	0.2	9.2	0.3	0.4	0.4	0.4
Adjustment and statistical discrepancies	*-0.1*	*-0.2*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Memorandum items:								
Cyclically-adjusted balance	-5.4	-3.8	-3.4	-2.3	-2.3	-2.0	-2.4	-2.2
Primary balance	-2.3	-1.1	-1.9	-1.3	-0.8	0.0	-0.1	0.0
Cyclically-adjusted primary balance	-2.7	-1.0	-0.6	0.0	0.0	0.2	-0.1	0.0
General government debt	56.2	55.6	57.5	49.4	50.1	50.0	48.9	47.6
General government liabilities	63.0	62.6	64.7	56.6	57.4	57.3	56.2	54.8
General government financial assets	-33.0	-34.5	-36.0	-28.9	-30.6	-31.5	-31.4	-31.1
Nominal GDP in billions of Zlotys	1,528	1,595	1,630	1,709	1,802	1,902	2,015	2,135

Sources: Eurostat and IMF staff calculations.

1/ Includes grants.

Table 6. Poland: General Government Financial Balance Sheet, 2011–18

(Millions of Zlotys)

	2011			2012			2013	2014	2015	2016	2017	2018
	Trans-actions	OEF	Closing Opening balance	Trans-actions	OEF	Closing Opening balance	Projections					
Net worth and its changes	....	....	....	....	....	....	....	....	....	....	....	....
Nonfinancial assets	....	....	....	....	....	....	....	....	....	....	....	....
Net Financial Worth	-75,242	-33,092	-503,942	-59,843	12,826	-550,959	-586,358	-493,656	-551,494	-599,075	-632,928	-662,980
Financial Assets	-20,593	-6,774	459,025	-284	-11,543	447,198	468,806	474,579	482,288	490,187	498,979	507,318
Currency and deposits	-19,323	-572	43,166	14,076	-7,743	49,499	50,568	53,035	55,910	59,031	62,516	66,235
Debt securities	-59	-917	5,772	357	-1,032	5,097	5,207	5,461	5,757	6,078	6,437	6,820
Loans	899	2,073	15,882	-429	-2,879	12,574	13,060	13,697	14,440	15,246	16,146	17,107
Equity and inv. fund shares	-19,822	87	287,195	-16,592	0	270,603	298,561	296,031	294,061	291,453	288,512	284,330
Other financial assets	17,712	-7,445	107,010	2,304	111	109,425	101,409	106,354	112,120	118,379	125,368	132,826
Liabilities	54,649	26,318	962,967	59,559	-24,369	998,157	1,055,164	968,235	1,033,782	1,089,262	1,131,907	1,170,298
Currency and deposits	0	0	0	0	0	0	0	0	0	0	0	0
Debt securities	32,315	21,233	719,273	41,865	-18,482	742,656	824,659	726,487	778,929	820,182	846,941	868,379
Loans	21,234	7,850	143,197	11,915	-5,887	149,225	111,989	117,451	123,818	130,730	138,448	146,685
Other liabilities	1,100	-2,765	100,497	5,779	0	106,276	118,516	124,297	131,035	138,350	146,517	155,234
Memorandum items:												
Net financial worth (percent of GDP)			-33.0			-34.5	-36.0	-28.9	-30.6	-31.5	-31.4	-31.1
Financial assets (percent of GDP)			30.0			28.0	28.8	27.8	26.8	25.8	24.8	23.8
Liabilities (percent of GDP)			63.0			62.6	64.7	56.6	57.4	57.3	56.2	54.8
GDP nominal prices (billion PLN)			1528.1			1595.2	1629.7	1709.2	1801.8	1902.4	2014.7	2134.6

Sources: National Authorities and IMF Staff calculations.

Table 7. Poland: External Financing Requirements and Sources, 2009–15

(Millions of US dollars)

	2009	2010	2011	2012	2013	2014	2015
						Projections	
Gross financing requirements	96,516	122,644	112,263	120,461	110,934	118,839	109,639
Current account deficit	17,155	24,030	25,023	17,169	13,822	16,417	19,269
Medium and long-term debt amortization	12,675	26,243	18,484	32,734	31,119	34,086	26,042
Public sector	697	6,821	4,923	13,947	13,456	15,985	13,193
Banks	3,202	6,637	4,447	8,637	3,387	8,463	4,774
Non-bank Corporates	8,776	12,785	9,114	10,150	14,276	9,638	8,075
Short-term debt amortization	66,686	72,371	68,756	70,558	65,993	68,335	64,329
Public sector	1,147	1,169	508	2,482	2,730	4,095	5,119
Banks (inc. s.t. deposits)	29,912	23,495	21,368	19,250	14,438	14,438	15,882
Non-bank Corporates	35,627	47,707	46,880	48,826	48,826	49,802	43,328
o/w trade credit	28,627	31,153	31,457	32,763	32,763	33,418	29,074
Sources of financing	111,258	137,776	118,546	131,662	109,725	122,715	121,967
Foreign direct investment (net)	8,460	6,861	11,552	3,604	3,474	5,976	7,726
o/w inward (net)	13,022	14,345	18,887	3,092	1,507	14,061	16,061
Equities (net)	-283	6,872	3,732	3,046	586	4,299	1,091
by nonresidents	1,579	7,875	3,052	3,612	1,186	5,182	2,000
New borrowing and debt rollover	113,647	153,673	98,551	107,059	114,343	91,249	108,437
Medium and long-term borrowing	41,276	84,917	27,993	41,065	46,008	26,920	42,109
Public sector	19,647	29,536	12,508	19,571	24,062	8,203	15,308
Banks	3,580	49,325	3,617	6,269	3,387	8,886	6,785
Non-bank Corporates	18,049	6,056	11,868	15,225	18,559	9,831	20,016
Short-term borrowing	72,371	68,756	70,558	65,993	68,335	64,329	66,329
Public sector	1,169	508	2,482	2,730	4,095	5,119	5,119
Banks	23,495	21,368	19,250	14,438	14,438	15,882	15,882
Foreign subsidiaries to parent banks	12,675	11,528	10,385	7,789	7,789	8,568	8,568
Other	10,820	9,840	8,865	6,649	6,649	7,314	7,314
Non-bank Corporates	47,707	46,880	48,826	48,826	49,802	43,328	45,328
EU transfers	7,191	6,873	8,890	8,808	12,750	15,056	16,183
Other	-17,757	-36,503	-4,179	9,145	-21,429	6,134	-11,471
of which: Errors and omissions	-10,045	-10,462	-9,144	-2,862	-5,121	-5,437	-5,781
Buffers							
Use of official reserves	-14,742	-15,132	-6,283	-11,201	1,209	-3,876	-12,327
Financing gap	0	0	0	0	0	0	0

Sources: National authorities and IMF staff calculations.

Table 8. Poland: Capacity to Repay the Fund, 2014–19

	2014	2015	2016	2017	2018	2019
	Projections					
Stocks from prospective drawings 1/						
Fund credit (millions SDR)	22,000	22,000	22,000	13,750	2,750	0
in percent of quota	1,303	1,303	1,303	814	163	0
in percent of GDP	6	6	6	3	1	0
in percent of exports of goods and services	14	13	12	7	1	0
in percent of gross reserves 2/	30	27	25	15	3	0
Flows from prospective drawings 3/						
GRA Charges	191	242	242	215	101	6
Level Based Surcharge	267	339	339	400	126	0
Service Charges	110	0	0	0	0	0
Principal	0	0	0	8,250	11,000	2,750
Debt Service due on GRA credit (millions SDR)	568	581	581	8,865	11,227	2,756
in percent of quota	34	34	34	525	665	163
in percent of GDP	0	0	0	2	3	1
in percent of exports of goods and services	0	0	0	4	5	1
in percent of gross reserves 2/	1	1	1	9	11	3
Memorandum item:						
Total external debt, assuming full drawing (percent of GDP)	75	73	71	67	62	60

Sources: IMF Finance Department, Polish authorities, and IMF staff calculations.

1/ End of Period. Assumes full drawing under the FCL at the start of 2014. The Polish authorities have expressed their intention to treat the arrangement as precautionary. At an SDR/USD rate of 0.648041 as of December 12, 2013.

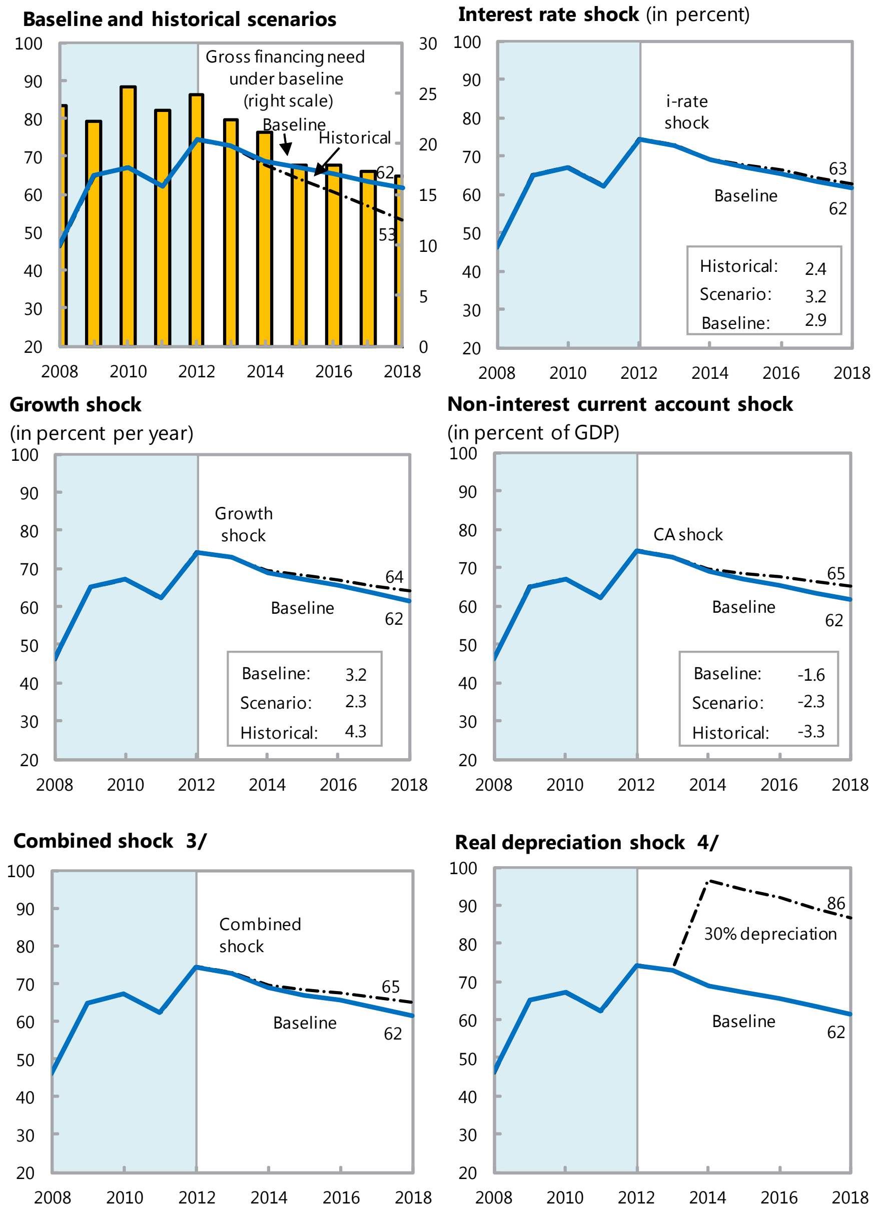
2/ Excludes IMF purchases.

3/ Based on the rate of charge as of December 5th, 2013. Includes surcharges under the system currently in force and service charges.

Annex I. External Debt Sustainability Analysis

Poland: External Debt Sustainability: Bound Tests, 2008–18 1/ 2/

(External debt, percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.

3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

4/ One-time real depreciation of 30 percent occurs in 2014.

Poland: External Debt Sustainability Framework, 2008–18

(Percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2008	2009	2010	2011	2012			2013	2014	2015	2016	2017	2018	Debt-stabilizing non-interest current account 6/
1 **Baseline: External debt**	46.2	64.9	67.1	62.2	74.4			**72.8**	**68.8**	**67.0**	**65.5**	**63.4**	**61.6**	**-2.8**
2 Change in external debt	-8.6	18.7	2.2	-4.9	12.2			-1.6	-3.9	-1.8	-1.5	-2.0	-1.9	
3 Identified external debt-creating flows (4+8+9)	-5.4	11.1	-3.1	-3.8	4.5			0.8	-1.0	-0.3	-0.2	-0.4	-0.4	
4 Current account deficit, excluding interest payments	5.4	3.4	4.0	3.8	2.1			1.4	1.7	2.0	1.8	1.3	1.0	
5 Deficit in balance of goods and services	-85.7	-80.0	-86.3	-91.9	-92.5			-91.4	-90.8	-91.3	-92.3	-93.5	-94.8	
6 Exports	40.4	39.6	42.2	45.1	46.2			46.1	45.7	45.8	46.4	47.0	47.7	
7 Imports	-45.3	-40.3	-44.1	-46.8	-46.3			-45.3	-45.1	-45.5	-45.9	-46.4	-47.1	
8 Net non-debt creating capital inflows (negative)	-2.1	-2.3	-3.1	-2.8	-1.5			-0.9	-2.1	-1.7	-1.8	-1.8	-1.8	
9 Automatic debt dynamics 1/	-8.7	10.1	-4.0	-4.8	3.9			0.3	-0.6	-0.6	-0.3	0.0	0.4	
10 Contribution from nominal interest rate	1.2	0.6	1.1	1.1	1.4			1.3	1.3	1.4	1.7	2.1	2.5	
11 Contribution from real GDP growth	-2.3	-0.9	-2.3	-2.8	-1.3			-1.0	-1.9	-1.9	-2.0	-2.1	-2.1	
12 Contribution from price and exchange rate changes 2/	-7.6	10.4	-2.8	-3.1	3.7			...	...	...	...	...	...	
13 Residual, incl. change in gross foreign assets (2-3) 3/	-3.3	7.6	5.3	-1.1	7.7			-2.4	-3.0	-1.5	-1.3	-1.6	-1.5	
External debt-to-exports ratio (in percent)	114.4	163.8	158.9	137.8	161.0			157.7	150.6	146.4	141.2	134.9	129.0	
Gross external financing need (in billions of US dollars) 4/	125.8	95.7	120.3	120.0	121.7			114.8	114.4	103.0	109.4	112.6	115.9	
in percent of GDP	23.8	22.2	25.6	23.3	24.8	10-Year	10-Year	22.4	21.0	17.8	17.8	17.3	16.8	
Scenario with key variables at their historical averages 5/								**72.8**	**67.5**	**63.9**	**60.5**	**56.8**	**53.3**	**-6.5**
						Historical	Standard							
Key Macroeconomic Assumptions Underlying Baseline						Average	Deviation							
Real GDP growth (in percent)	5.1	1.6	3.9	4.5	1.9	4.3	1.7	1.3	2.8	3.0	3.1	3.4	3.5	
GDP deflator in US dollars (change in percent)	18.4	-19.8	4.8	5.0	-6.8	5.6	11.6	3.2	3.3	3.2	3.0	2.6	2.4	
Nominal external interest rate (in percent)	2.8	1.0	1.9	1.7	2.2	2.4	0.7	1.8	1.9	2.1	2.7	3.5	4.2	
Growth of exports (US dollar terms, in percent)	22.8	-20.1	16.0	17.3	-2.9	15.9	15.8	4.5	5.2	6.5	7.6	7.7	7.6	
Growth of imports (US dollar terms, in percent)	27.1	-27.4	19.1	16.4	-5.9	15.2	18.4	2.2	5.8	7.3	7.0	7.4	7.5	
Current account balance, excluding interest payments	-5.4	-3.4	-4.0	-3.8	-2.1	-3.3	1.4	-1.4	-1.7	-2.0	-1.8	-1.3	-1.0	
Net non-debt creating capital inflows	2.1	2.3	3.1	2.8	1.5	2.8	1.2	0.9	2.1	1.7	1.8	1.8	1.8	

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

3/ For projection, line includes the impact of price and exchange rate changes.

4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Annex II. Public Sector Debt Sustainability Analysis

Public debt is moderately high, at 58 percent of GDP in 2013, but sustainable. Forthcoming modifications to the pension system's second pillar will lead to a sizable one-off drop in the public debt-to-GDP ratio to 49 percent of GDP in 2014. Gross public financing needs are also projected to decline from 9.5 percent of GDP in 2013 to 8 percent of GDP in 2014, helped by the pension system changes. The profile of public debt appears robust to interest, rollover, and foreign currency risks. The main risk to the debt outlook stems from a negative shock to GDP growth. In addition, the relatively large share of foreign investors in the domestic debt market—which is set to increase as a result of the pension changes—entails a channel of transmission from global shocks, albeit the composition of the investor base is a mitigating factor.

A. Baseline and Realism of Projections

- ***Debt levels***. Poland's favorable public debt dynamics are underpinned by a decline in the primary deficit, a favorable differential between projected GDP growth and the real interest rate, and the effects of forthcoming changes to the pension system. Gross financing needs are estimated at 9.5 percent of GDP in 2013 (down from an average of 15.5 percent of GDP in 2000–12), and are projected to drop further to 8 percent of GDP in 2014 and around 6 percent of GDP in 2018.

- ***Changes to the pension system***. Public debt projections under the baseline are strongly influenced by forthcoming changes to the pension system (see Box 1 in the main text). From the fiscal perspective, these changes will generate a one-off drop in (explicit) public debt in 2014 of 9 percent of GDP (with a matching increase in implicit public pension liabilities), plus a reduction in public financing needs over the medium term (rising to about 2¾ percent of GDP by 2018). The latter reflects the combined effect of lower public debt service, a partial redirection of pension contributions from the second pillar to the social security administration, and a gradual transfer of assets to the social security administration ten years before retirement. By contrast, the associated increase in public pension payments will gather pace in the long run, well beyond the projection period (staff is in the process of preparing a comprehensive analysis of the long-run fiscal implications of the changes to the pension system, which will be reported at the time of the 2014 Article IV consultation).

- ***GDP Growth***. The projections assume a gradual acceleration of GDP growth, from 1.3 percent in 2013 to 2.8 percent in 2014 and further to 3.5 percent in 2018. The output gap is expected to close gradually over the medium term. In recent years, staff projections of growth have displayed small forecast errors, with some pessimistic bias relative to other countries.

- ***Fiscal Adjustment***. Under the baseline, the primary deficit is expected to decline from 1.9 percent of GDP in 2013 to about balance in 2015–18, reflecting modest fiscal measures already in the pipeline, the changes to the pension system, and the gradual recovery in tax revenue (to bring it closer to recent historical levels). Pension changes account for the bulk of the improvement in fiscal aggregates and the associated drop in debt under the baseline. In the recent past, staff forecast errors of the primary deficit in Poland have not displayed an apparent bias and have been more conservative than those of other countries. Warning benchmarks highlight the size of the projected three-year improvement in the cyclically adjusted primary balance (4.4 percent), which takes place in 2013 and reflects the impressive fiscal consolidation achieved since 2010.

- ***Sovereign yields***. The effective interest rate on public debt dropped from 6.6 percent in 2005 to 5.9 percent in 2009 and further to about 5 percent in 2013. It is projected to remain stable at around 4.8 percent over the projection period. In recent years, Poland has maintained access to capital markets at favorable terms, even during periods of global financial distress. In 2013, bond yields dropped to historic lows and have remained low—notwithstanding an increase during the recent episode of turmoil in emerging markets. Spreads over 10–year German bonds stand close to their yearly average 236 bps (after reaching a minimum of 176 bps in May and a maximum of 285 bps in September), while EMBI and CDS spreads have remained at around 130 bps and 80 bps, respectively. While there is uncertainty about the impact of eventual Fed tapering on market conditions, pass-through from interest increases to the budget would be very slow, as about 80 percent of debt carries a fixed interest rate and the average duration stands at 3.6 years. A 100 bps parallel shift in the yield curve will lead to an increase in the interest bill of about 0.1 percent of GDP in the first year.

- ***Maturity and rollover risks***. The share of short-term debt in total government debt is negligible (there have been no t-bills outstanding since August 2013) and, after covering the full 2013 financing needs by October, the authorities have started to pre-finance 2014 needs. Going forward, however, rollover risk may increase somewhat as a result of the pension changes: the share of foreign investors in the domestic market is set to increase from about 34 percent in 2013 to 38 percent in 2014 and the overall share of external debt in total public debt will rise from 52 percent in 2013 to almost 60 percent in 2014. In addition, the share of foreign currency debt in total public debt will also increase from 30 percent in 2013 to 35 percent in 2014. The baseline assumes gradual convergence toward the current structure of public debt in terms of the share of foreign currency debt in total public debt (30 percent) and external debt in total public debt (about 50 percent).

- ***DSA risk assessment***. The heat map highlights risks associated with the share of public debt held by non-residents, plus the relatively large external financing requirements (25 percent of GDP in 2012). The latter, however, is heavily influenced by the external gross financing needs of the private sector, which include a substantial share of cross-border, intra-company, financing.

- ***Fan charts***. Symmetric fan charts, which treat upside and downside risks equally likely, show that public debt is more likely to enter a downward trajectory during the projection period. The lower bands indicate that the debt-to-GDP ratio could drop to around 40 percent by 2018 with a 25 percent probability. On the other hand, the upper bands indicate that debt-to-GDP ratios could surpass 60 percent by 2018 with a 5 percent probability. A more stringent exercise, however, combining restrictions to the upside shocks to interest rates and GDP growth (200 bps and 1 percent, respectively), increases the probability of debt-to-GDP surpassing 60 percent in 2018 to 25 percent. This result is still commensurate with a sustainable debt path, but it illustrates the degree of uncertainty around the baseline.

B. Shocks and Stress Tests

- ***Growth Shock***. The stress scenario assumes a drop in GDP growth by 1.7 percentage points in two consecutive years (2014–15) relative to the baseline, combined with a 0.4 percent drop in inflation and deterioration in the primary balance by 0.8 percent in 2014 and further by 1.6 percent in 2015. Under these assumptions, public debt increases to about 54 percent of GDP in 2015 before trending downward slightly to 52 percent of GDP by 2018. Gross financing needs increase to about 11 percent of GDP in 2015, but then converge quickly toward the baseline in the outer years.

- ***Primary balance shock***. An assumed deterioration in the primary balance by 0.9 percentage points in 2014–15 delays by two years the downward trend of the debt-to-GDP ratio and pushes up public debt to revenues to about 136 percent in 2015 (from 133 in 2014) but still well below current levels. Similarly, gross financing needs peak to about 10 percent of GDP in 2015 but converge to the baseline by 2018.

- ***Interest rate shock***. A permanent 438 bps increase in the nominal interest rate starting in 2014 (equivalent to the difference between the maximum real interest rate during 2002–12 and the average real interest rate over the projection), would lead to an increase in the effective interest rate on debt by 71 bps in 2015 and further gradual increases to 252 bps by 2018. Under this scenario, public debt dynamics deteriorate gradually relative to the baseline. Public debt increases to about 52 percent of GDP by 2018, while gross financing needs reach about 8 percent of GDP at the end of the projection period.

- ***Combined shock***. Under the combined shock, the public-debt-to-GDP ratio jumps sharply to about 60 percent in 2016 and remains broadly stable afterward. In turn, gross financing needs increase to about 12 percent of GDP in 2015, before trending downward to about 8.5 percent in 2018.

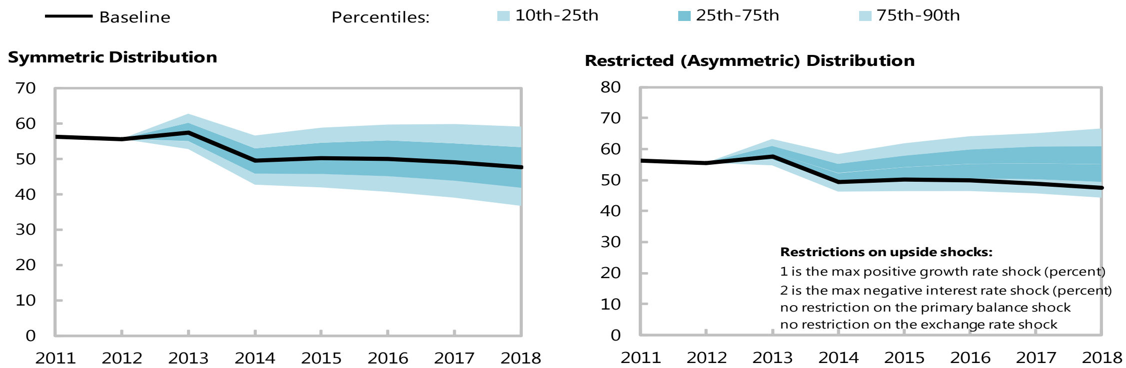
Poland: Public Sector Debt Sustainability Analysis (DSA)—Risk Assessment

Heat Map

Debt level 1/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs 2/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile 3/	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

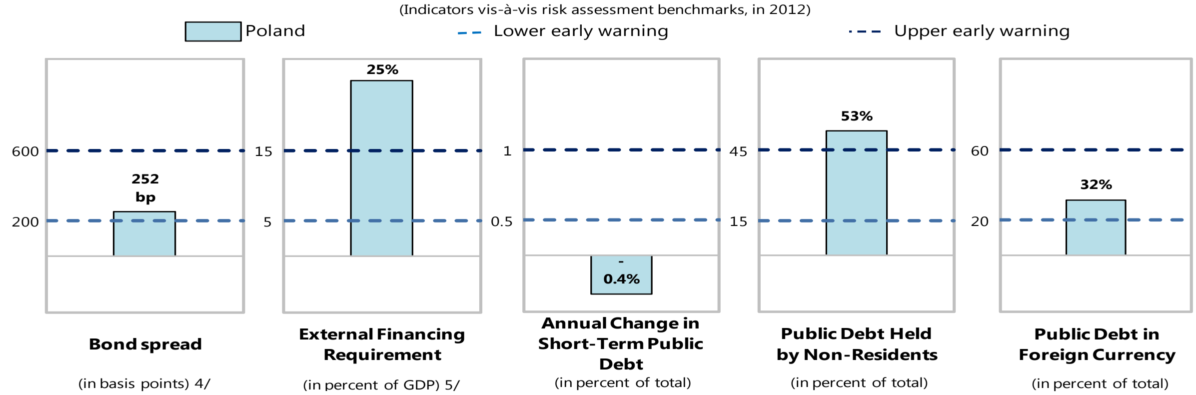
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2012)



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

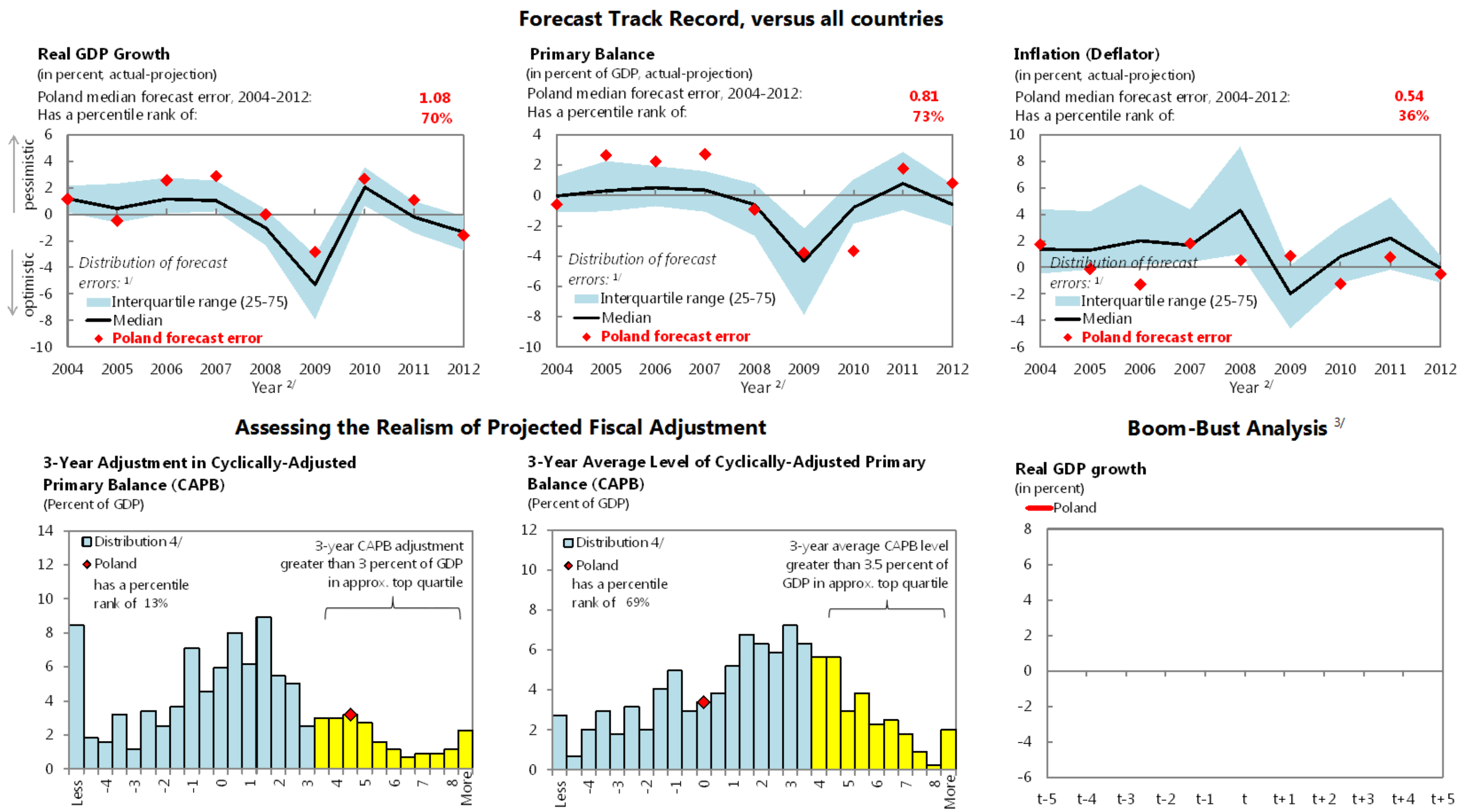
3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.
Lower and upper risk-assessment benchmarks are:

200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ Long-term bond spread over German bonds, an average over the last 3 months, 30-Jul-13 through 28-Oct-13.

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

Poland: Public DSA—Realism of Baseline Assumptions



Source : IMF Staff.
1/ Plotted distribution includes all countries, percentile rank refers to all countries.
2/ Projections made in the spring WEO vintage of the preceding year.
3/ Not applicable for Poland.
4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

REPUBLIC OF POLAND

Poland: Public DSA—Baseline Scenario

(Percent of GDP, unless otherwise indicated)

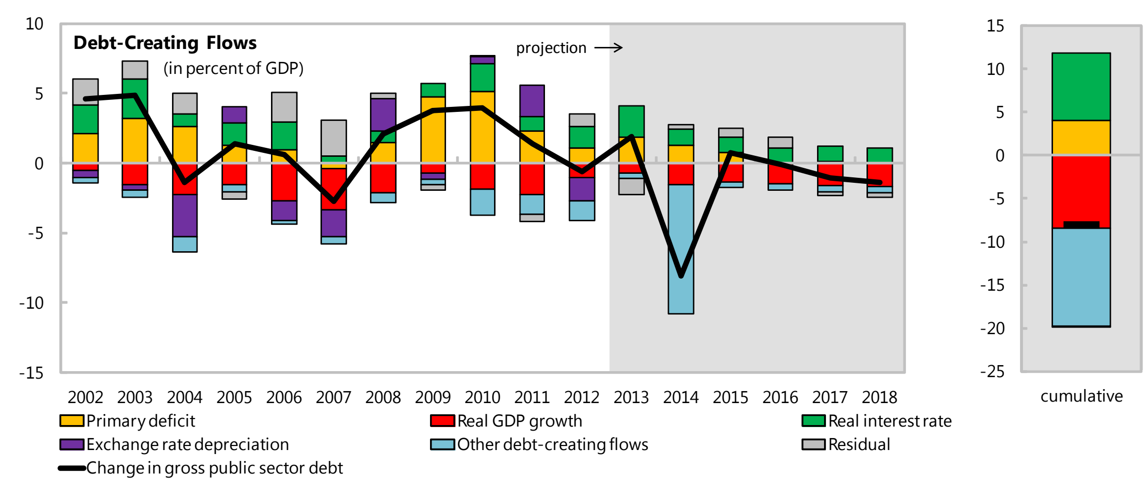
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2002-2010 [2/]	2011	2012	2013	2014	2015	2016	2017	2018
Nominal gross public debt	47.5	56.2	55.6	57.5	49.4	50.1	50.0	48.9	47.6
Public gross financing needs	16.7	11.8	12.1	9.8	8.4	9.2	7.7	7.0	6.8
Real GDP growth (in percent)	4.2	4.5	1.9	1.3	2.8	3.0	3.1	3.4	3.5
Inflation (GDP deflator, in percent)	2.6	3.2	2.4	0.8	2.0	2.4	2.4	2.4	2.3
Nominal GDP growth (in percent)	6.9	7.9	4.4	2.2	4.9	5.4	5.6	5.9	5.9
Effective interest rate (in percent) [4/]	6.3	5.3	5.3	5.0	4.2	4.8	4.8	4.8	4.8

As of October 28, 2013		
Sovereign Spreads		
EMBIG (bp) 3/		235
5Y CDS (bp)		85
Ratings	Foreign	Local
Moody's	A2	A2
S&Ps	A-	A-
Fitch	A-	A-

Contribution to Changes in Public Debt

	Actual			Projections							
	2002-2010	2011	2012	2013	2014	2015	2016	2017	2018	cumulative	debt-stabilizing primary balance [10/]
Change in gross public sector debt	1.9	1.4	-0.6	1.9	-8.1	0.7	-0.1	-1.1	-1.4	-8.0	
Identified debt-creating flows	0.9	1.9	-1.5	3.1	-8.4	0.1	-0.9	-0.9	-1.0	-8.0	
Primary deficit	2.4	2.3	1.1	1.9	1.3	0.8	0.0	0.1	0.0	4.0	-1.0
Primary (noninterest) revenue and grants	38.8	38.4	38.4	37.4	37.7	38.0	38.7	38.6	39.0	229.4	
Primary (noninterest) expenditure	41.2	40.8	39.5	39.3	39.0	38.8	38.7	38.7	38.9	233.4	
Automatic debt dynamics [5/]	-0.7	1.0	-1.2	1.5	-0.4	-0.3	-0.4	-0.5	-0.5	-0.6	
Interest rate/growth differential [6/]	-0.3	-1.3	0.5	1.5	-0.4	-0.3	-0.4	-0.5	-0.5	-0.6	
Of which: real interest rate	1.5	1.0	1.5	2.3	1.2	1.1	1.1	1.1	1.1	7.8	
Of which: real GDP growth	-1.8	-2.3	-1.0	-0.7	-1.5	-1.4	-1.5	-1.6	-1.6	-8.4	
Exchange rate depreciation [7/]	-0.4	2.3	-1.7	...	...	...	...	...	...	...	
Other identified debt-creating flows	-0.7	-1.4	-1.4	-0.4	-9.3	-0.4	-0.5	-0.5	-0.4	-11.4	
Privatization (+ reduces financing needs)	-0.5	-1.3	-1.0	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.7	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Liabilities not included in debt [8/]	-0.2	-0.1	-0.4	-0.2	-9.2	-0.3	-0.4	-0.4	-0.4	-10.7	
Residual, including asset changes [9/]	1.0	-0.5	0.9	-1.2	0.3	0.6	0.7	-0.2	-0.3	-0.1	



Source: IMF staff.

1/ Public sector is defined as general government.

2/ Based on available data.

3/ Long-term bond spread over German bonds.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as [(r - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as r - π (1+g) and the real growth contribution as -g.

7/ The exchange rate contribution is derived from the numerator in footnote 5 as ae(1+r).

8/ From 2014 onwards, reflects the transfer of pension fund assets and liabilities to the social security administration.

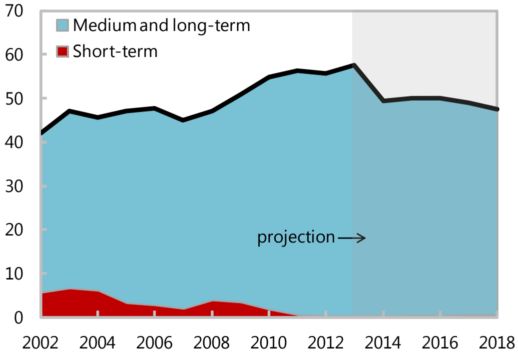
9/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

10/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

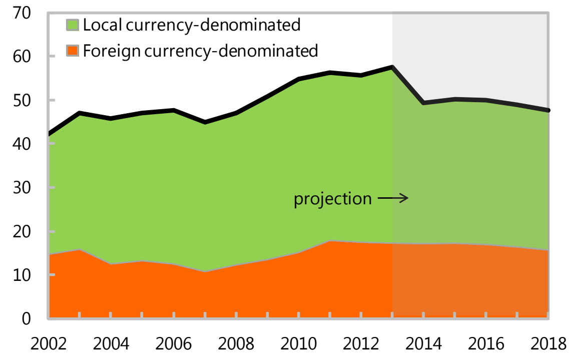
Poland: Public DSA—Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



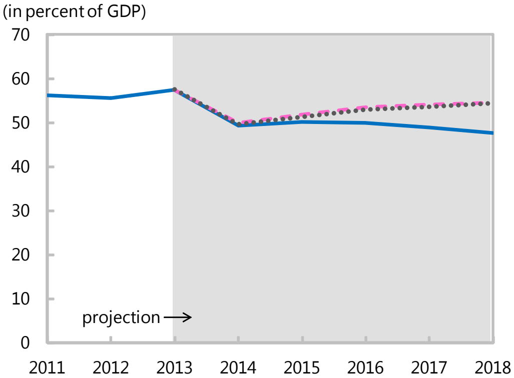
By Currency
(in percent of GDP)



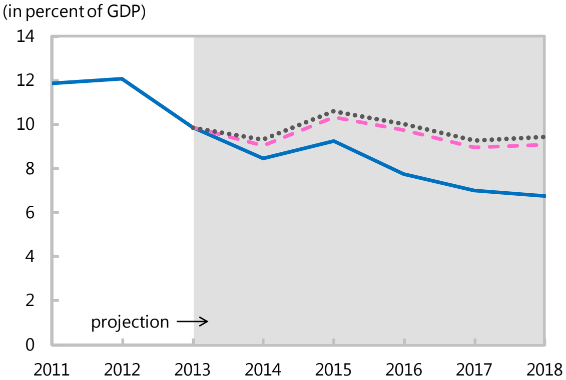
Alternative Scenarios

Baseline   Historical   Constant Primary Balance

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

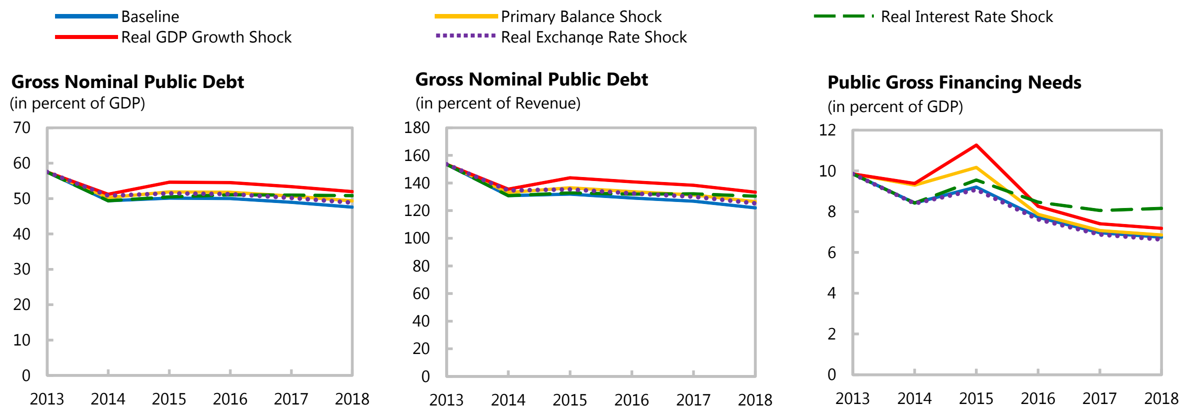
Baseline Scenario	2013	2014	2015	2016	2017	2018
Real GDP growth	1.3	2.8	3.0	3.1	3.4	3.5
Inflation	0.8	2.0	2.4	2.4	2.4	2.3
Primary Balance	-1.9	-1.3	-0.8	0.0	-0.1	0.0
Effective interest rate	5.0	4.2	4.8	4.8	4.8	4.8
Constant Primary Balance Scenario						
Real GDP growth	1.3	2.8	3.0	3.1	3.4	3.5
Inflation	0.8	2.0	2.4	2.4	2.4	2.3
Primary Balance	-1.9	-1.9	-1.9	-1.9	-1.9	-1.9
Effective interest rate	5.0	4.2	4.8	4.8	4.7	4.7

Historical Scenario	2013	2014	2015	2016	2017	2018
Real GDP growth	1.3	4.3	4.3	4.3	4.3	4.3
Inflation	0.8	2.0	2.4	2.4	2.4	2.3
Primary Balance	-1.9	-2.2	-2.2	-2.2	-2.2	-2.2
Effective interest rate	5.0	4.2	4.9	5.0	5.0	5.1

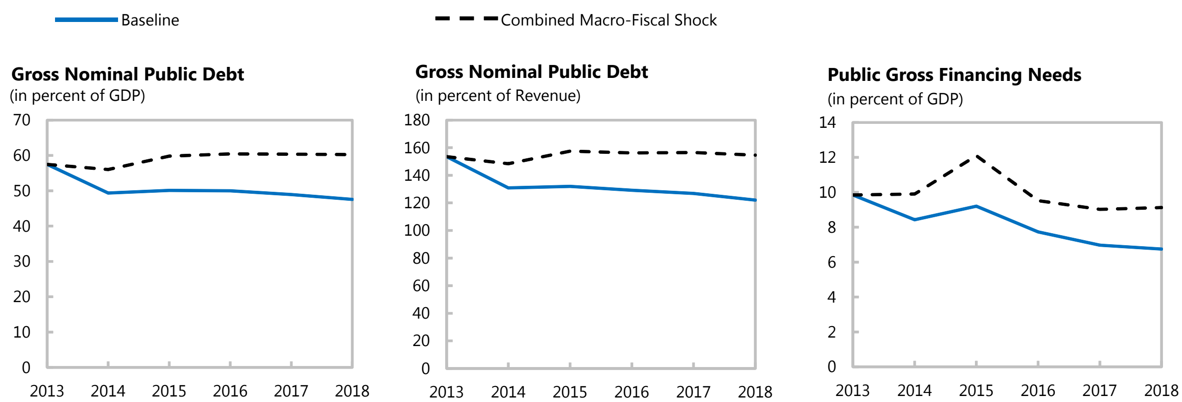
Source: IMF staff.

Poland: Public DSA—Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

	2013	2014	2015	2016	2017	2018
Primary Balance Shock						
Real GDP growth	1.3	2.8	3.0	3.1	3.4	3.5
Inflation	0.8	2.0	2.4	2.4	2.4	2.3
Primary balance	-1.9	-2.1	-1.7	0.0	-0.1	0.0
Effective interest rate	5.0	4.2	4.8	4.8	4.8	4.8
Real Interest Rate Shock						
Real GDP growth	1.3	2.8	3.0	3.1	3.4	3.5
Inflation	0.8	2.0	2.4	2.4	2.4	2.3
Primary balance	-1.9	-1.3	-0.8	0.0	-0.1	0.0
Effective interest rate	5.0	4.2	5.5	6.3	6.9	7.3
Combined Shock						
Real GDP growth	1.3	1.1	1.3	3.1	3.4	3.5
Inflation	0.8	1.6	2.0	2.4	2.4	2.3
Primary balance	-1.9	-2.1	-2.4	0.0	-0.1	0.0
Effective interest rate	5.0	4.6	5.4	6.2	6.8	7.2

	2013	2014	2015	2016	2017	2018
Real GDP Growth Shock						
Real GDP growth	1.3	1.1	1.3	3.1	3.4	3.5
Inflation	0.8	1.6	2.0	2.4	2.4	2.3
Primary balance	-1.9	-2.1	-2.4	0.0	-0.1	0.0
Effective interest rate	5.0	4.2	4.8	4.8	4.8	4.8
Real Exchange Rate Shock						
Real GDP growth	1.3	2.8	3.0	3.1	3.4	3.5
Inflation	0.8	8.7	2.4	2.4	2.4	2.3
Primary balance	-1.9	-1.3	-0.8	0.0	-0.1	0.0
Effective interest rate	5.0	4.6	4.7	4.7	4.7	4.7

Source: IMF staff.

Press Release No. 14/05
FOR IMMEDIATE RELEASE
January 8, 2014

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Review of Poland's Performance under the Flexible Credit Line

The Executive Board of the International Monetary Fund (IMF) today completed its review of Poland's qualification for the arrangement under the Flexible Credit Line (FCL) and reaffirmed Poland's continued qualification to access FCL resources. The Polish authorities have indicated that they intend to continue treating the arrangement as precautionary.

The IMF has supported the authorities' policies with four successive FCL arrangements. The current two-year FCL arrangement for Poland was approved by the IMF's Executive Board on January 18, 2013 (see Press Release No. 13/17) in an amount equivalent to SDR 22 billion (about US$ 33.7 billion). Poland's first FCL arrangement was approved on May 6, 2009 for an amount of SDR 13.69 billion (about US$ 21 billion) (see Press Release No. 09/153). Successor arrangements were approved in July 2010 (see Press Release No. 10/276) and in January 2011 (see Press Release No. 11/15).

Following the Executive Board discussion on Poland, Mr. David Lipton, First Deputy Managing Director and Acting Chair, made the following statement:

"Poland continues to have in place sound macroeconomic management and strong fundamentals, including a well-established inflation targeting regime, a robust fiscal framework that balances short-term economic considerations with the need to preserve long-term fiscal sustainability, and an effective financial supervisory framework that has safeguarded financial stability.

"The FCL arrangement with the IMF has reinforced Poland's capacity to deal with adverse external shocks, providing the authorities with needed flexibility to implement their macroeconomic framework, while rebuilding policy buffers and continuing structural reforms. Today, the Executive Board reaffirmed that Poland continues to meet the qualification criteria for access to FCL resources.

"The Polish economy is beginning to recover from a sharp slowdown. However, external risks remain elevated, including the possibility of increased financial stress in the euro area, a protracted period of low growth in broader Europe, and a sudden reversal of capital flows as advanced countries exit from unconventional monetary policies.

"Poland's FCL arrangement, which the authorities continue to treat as precautionary, provides added insurance against these risks. The authorities intend to exit from the FCL arrangement as soon as external conditions allow."

Statement by Mr. Dominik Radziwill, Alternate Executive Director for the Republic of Poland, and Ms. Osinska, Advisor to the Executive Director
January 8, 2014

On behalf of our Polish authorities, we thank staff for fruitful discussions held in Warsaw and for a candid report recommending the completion of the review under the Flexible Credit Line (FCL) Arrangement. The current FCL and its predecessors have served the Polish economy very well, effectively complementing the country's strong macroeconomic fundamentals and sound policies. During the last few years of heightened risks in Poland's external environment, the FCL has provided continued insurance against adverse exogenous shocks and helped support investors' confidence. Our authorities reaffirm their intention to treat the instrument as precautionary. Furthermore, the ongoing accumulation of policy buffers supported by the FCL will help taking steps towards an exit from the arrangement as soon as external conditions allow.

Economic Outlook

Recent economic data surprised on the upside. Following four consecutive quarters of subdued growth, real GDP growth rebounded to 0.5 and 0.6 percent quarter-on-quarter (seasonally adjusted; q-o-q, sa) in the second and third quarter of 2013, respectively. In the second half of the year, private consumption and fixed investment turned out to be higher than expected. Real year-on-year (y-o-y) GDP growth reached 1.9 percent in Q3 2013. For 2013 as a whole, real GDP growth should be close to 1.5 percent—as officially forecast by the Ministry of Finance—primarily driven by net exports. Looking ahead, growth is expected to accelerate further this year, to close to 3 percent, on the back of the expected improvement in external demand as well as more optimistic business and consumer sentiment. Given strong trade, financial and confidence linkages with Europe and global financial markets, we see risks to the outlook dominated by external factors.

While the Polish labor market remains relatively weak, a small but noticeable improvement has also been recorded in the second half of 2013. The seasonally adjusted jobless rate decreased to 10.2 percent and recent high-frequency data point to a stabilization of labor demand.

Monetary Policy

Despite the recent increase in the CPI (from the record low of 0.2 percent in June to 0.8 and 0.6 percent y-o-y in October and November respectively), inflation remains much below the official target. The negative output gap and continued lack of wage pressure have translated into overall low inflation pressure. Inflation expectations are also very subdued. The PPI has remained in negative territory since end-2012.

After completion of the monetary easing cycle in July 2013, which resulted in cuts in policy rates of 225 basis points, the Monetary Policy Council (MPC) has kept the reference rate at an all-time low of 2.5 percent. Furthermore, in November the MPC provided forward guidance about its intention to keep policy rates on hold until at least mid-2014.

External Sector
The current account (CA) deficit remains sustainable, and stabilized at 2 percent of 12-month GDP in September. The capital account surplus (mainly due to EU structural funds inflows) and net FDI inflows covered almost 150 percent of the CA deficit. September also brought an end to the three-month period of moderate outflow of portfolio investments from the sovereign debt market. Notably, this emerging market sell-off affected Poland less than many other peer economies. The level of official reserves remains broadly adequate, more than covering short-term external debt.

Fiscal Policy
The authorities aimed at striking a balance between necessary consolidation measures and avoiding fiscal policy to become a drag on economic growth. In response to the cyclical slowdown in 2013, automatic stabilizers were thus allowed to operate. However, lower economic growth resulting in a decline in government revenues hindered the realization of the fiscal adjustment path foreseen in the Convergence Programme update 2013. While Poland presented a set of measures aimed at deficit reduction, the actions taken were assessed as insufficient and, in response, the Ecofin Council issued a new recommendation, extending the deadline for correction of Poland's deficit by one year, to 2015. To this end, Poland should reach a headline deficit target of 3.9 percent of GDP in 2014 and 2.8 percent of GDP in 2015 (excluding the impact of the changes in the pension system).

Last year, the authorities concluded a comprehensive review of the pension system and decided to introduce changes to its second pillar in order to eliminate existing inefficiencies. In result, part of the pension fund assets (sovereign treasuries) will be transferred from the second (privately managed) to the first (public) pillar. This one-off operation will lead to a significant reduction of the public debt. Changes to the pension system were subject to extensive discussions with all stakeholders. The authorities also placed high importance on ensuring that they clearly communicate the changes to the markets. Reactions of the markets have been positive.

Simultaneously, the Polish authorities continued efforts to strengthen the fiscal framework. A new stabilizing permanent fiscal rule has been adopted. It covers about 90 percent of the general government sector and sets a limit on the growth of expenditures in order to reduce and stabilize the deficit and consequently the public debt. Importantly, by taking into account business cycle developments, it will help avoid the risk of fiscal procyclicality. In addition, taking into account the 7 percentage point reduction of the debt-to-GDP ratio resulting from the changes in the pension system, two new lower public debt thresholds are to be introduced, replacing the previous one of 50 percent.

Financial Sector

The Polish financial sector remains stable and resilient. Banks are well capitalized, liquid and profitable. The capital adequacy ratio in the banking sector reached 15.6 percent at the end of Q3 2013. Nevertheless, given the high share of foreign ownership and the level of parent funding, any structural changes to funding models of euro area banks might have negative implications for credit supply in Poland and, consequently, economic growth.

The Polish financial sector plays an important role in the CEE region. Given Poland's relatively deep and liquid financial markets, investors often use the zloty as a proxy for exposure to, or hedge against, risks in the region. Its significance has been recently confirmed by the inclusion in the Fund's list of systemically important financial centers.

Meanwhile, the government-sponsored "De Minimis" initiative launched in March 2013 and aimed at mitigating credit constraints for SMEs proved to be a success. So far, 31,000 SMEs have benefitted from the program, and they were altogether granted with credit of more than PLN 10 billion (around USD 3.3 billion). This was supported by almost PLN 6 billion (around USD 2 billion) of government guarantees. The scope of the guarantees has recently been widened to cover also long-term credits.

Structural Reforms

The authorities continue with the implementation of the structural reform agenda. In particular, their focus on further improving the business environment and limiting red tape has borne fruits, which is reflected in the World Bank's Doing Business reports. Poland has achieved a remarkable improvement of 29 places over the last two years