

Atradius Country Report

Poland – January 2014



Poland: Atradius STAR Political Risk Rating*:

3 (Good) – Negative

* The STAR rating runs on a scale from 1 to 10, where 1 represents the lowest risk and 10 the highest risk.

The 10 rating steps are aggregated into five broad categories to facilitate their interpretation in terms of credit quality. Starting from the most benign part of the quality spectrum, these categories range from 'High Quality', 'Good', 'Adequate', 'Impaired' to 'Prohibitive Conditions', with a separate grade reserved for 'Off Cover'.

In addition to the 10-point scale, there are rating modifiers associated with each scale step: 'Positive', 'Stable', and 'Negative'. These rating modifiers allow further granularity and differentiate more finely between countries in terms of risk.

For further information about the Atradius STAR rating, please [click here](#)

Overview

General information

Capital:	Warsaw
Government type:	Parliamentary republic
Currency:	Zloty (PLN)
Population:	38.5 million

Most important sectors (2012, % of GDP)

Services:	63%
Industry:	33%
Agriculture:	4%

Main import sources (2012, % of total)

Germany:	26.2%
Russia:	14.2%
The Netherlands:	5.7%
China:	5.3%
Italy:	5.0%

Main export markets (2012, % of total)

Germany:	25.2%
UK:	6.8%
Czech Rep.:	6.8%
France:	5.8%
Russia:	5.4%

Key indicators

	2010	2011	2012	2013*	2014**
Real GDP growth (y-on-y, % change)	3.9	4.5	1.9	1.3	2.9
Consumer price inflation (y-on-y, % change)	2.7	4.2	3.8	1.0	1.9
Real private consumption (y-on-y, % change)	3.1	2.5	0.8	0.7	2.5
Retail sales (y-on-y, % change)	3.3	6.7	2.2	1.5	1.0
Industrial production (y-on-y, % change)	11.1	6.7	1.2	1.9	3.6
Unemployment rate (%)	9.6	9.6	10.1	10.6	10.4
Real fixed investment (y-on-y, % change)	-0.3	8.5	-0.9	-2.6	2.8
Real net exports (EUR billion)	-4.3	-1.2	6.3	12.8	13.5
Export growth (y-on-y, % change)	12.2	7.6	2.7	4.3	4.5
Fiscal balance (% of GDP)	-7.9	-5.0	-3.9	-4.7	-3.7
Government debt (% of GDP)	52.8	53.4	52.7	54.8	48.2

* estimate **forecast

Source: IHS Global Insight

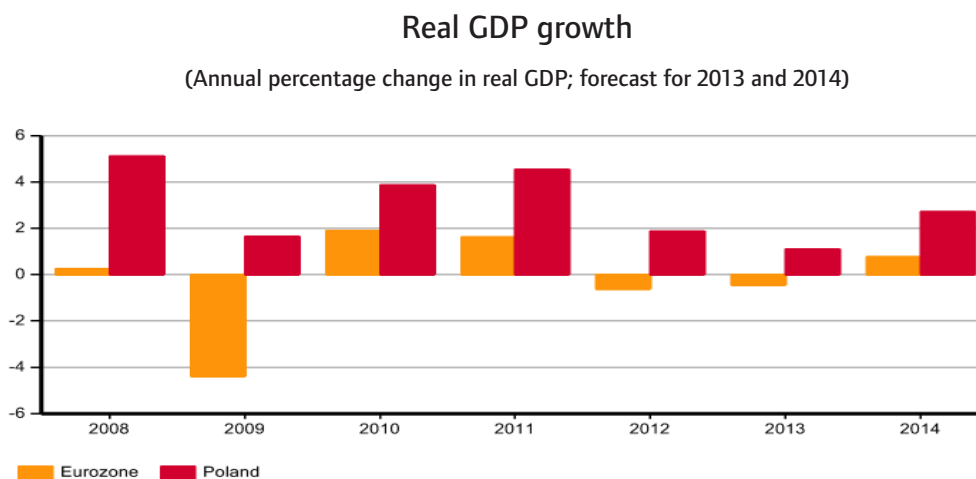
“Despite the expected rebound in the Polish economy, construction/construction materials and related steel and metal sectors will still feel the aftershock of the economic downturn in 2012/13 which has resulted in many payment delays, liquidity problems and more insolvencies in those industries.”

Hanna Kobus
Atradius Risk Services Manager Poland

Economic situation: A rebound is underway

Growth will pick up again in 2014

The Polish economy grew by an average rate of more than 4% a year in the decade before the 2008/2009 credit crisis, and even managed growth of 1.6% in 2009, when most of its European neighbours had fallen into recession. However, after a rebound in 2010 and 2011, its economy slowed to 1.9% in 2012 and to just 1.3% in 2013, due mainly to sluggish domestic demand and low investment.

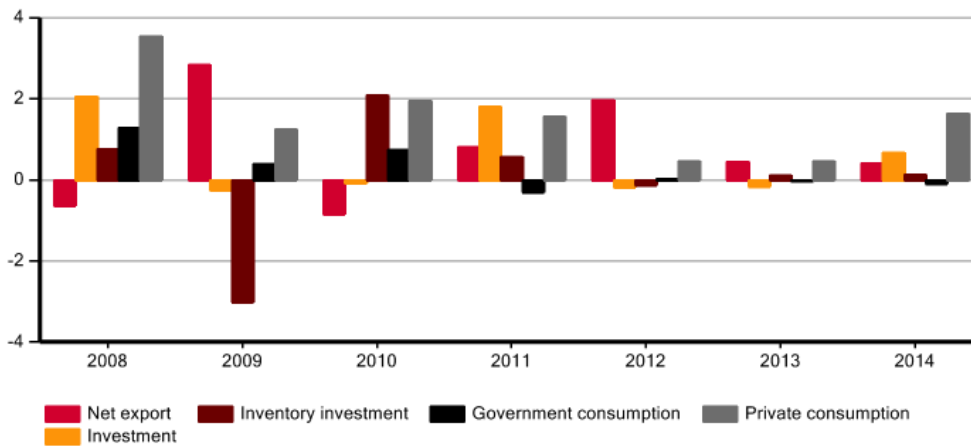


Source: IHS Global Insight

Now there are signs of another recovery. The economy grew 1.9% year-on-year in Q3 of 2013 after just 0.8% in Q2, as net exports rose. In 2014 growth is forecast to accelerate further, by 2.9%, driven by increased domestic demand and investment (see chart next page). These better conditions have led to higher consumer confidence and increased household consumption can be expected in 2014 (up 2.5%). The Polish economy will also continue to benefit from the improving conditions in the Eurozone. Export orders are on the rise, and therefore exports will play an important role in Poland's economic growth in 2014.

Contribution to GDP growth

(Chain-weighted basis; forecast data edge 2012)



Source: IHS Global Insight

Inflation to remain low in 2014

Inflation was above the Eurozone average from the start of the financial crisis in 2008 until the end of 2012, but has been on a downward path since mid-2012. However, after reaching 1.0% in 2013 we expect it to increase again - to 1.9% - in 2014, although this is still lower than in 2008-2012. Consumers can anticipate a rise in real wages as inflation remains low.

Consumer price inflation

(Annual percentage change)



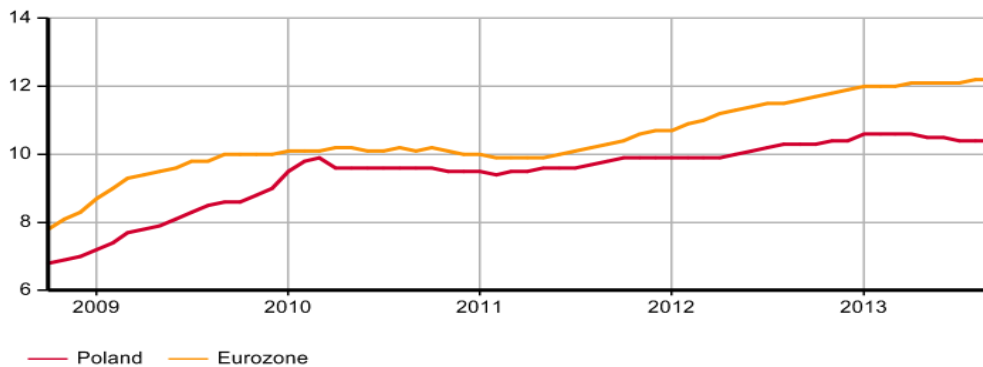
Source: IHS Global Insight

Unemployment falls

Unemployment increased to 10.6% in 2013, as economic growth moderated. The jobless rate is up from its 2008 low of 7.1%, but is still below the Eurozone level (see chart next page). Since mid-2013 the number of unemployed has again fallen, albeit slowly, and this is expected to continue into 2014. Higher wages and lower unemployment should both boost consumers spending.

Unemployment rate

(ILO uniform rate, percent)



Source: IHS Global Insight

Lower interest rate cuts to support growth

Because of the economic slowdown in 2012 and 2013 and lower inflation, the Polish Central Bank has cut its policy interest rate by 2.25 percentage points since November 2012, to its current 2.5%. Since inflation is forecast to remain below the Central Bank's target rate of 2.5%, and to boost consumer confidence and revive private investment with low borrowing costs, it is highly unlikely that interest rates will rise in 2014.

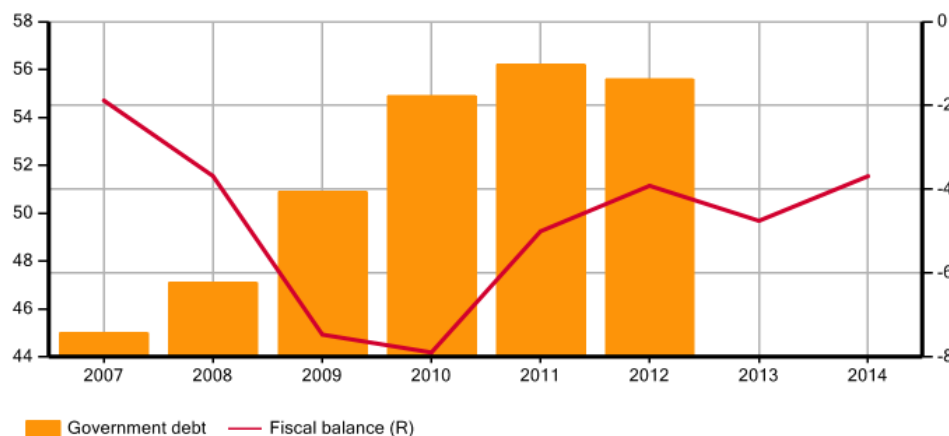
Public debt has increased

The government's fiscal position is under pressure, with the budget deficit expected to have increased to 4.7% of GDP in 2013 as a result of lower revenues. A slight improvement - to 3.7% of GDP - is expected in 2014, as the government ramps up its consolidation efforts. In February 2013 the government extended to 2015 its agreement with the International Monetary Fund (IMF) on a flexible credit line (FCL) worth US\$ 33.8 billion. However, it now aims to finance its operations without having to resort to the FCL.

Public debt was already relatively high in 2007 (44% of GDP) and rose to almost 55% in 2013 (see chart below). After increasing again in 2013 it is likely to stabilise over the coming years as a result of higher economic growth and lower budget deficits.

Public debt and budget balance

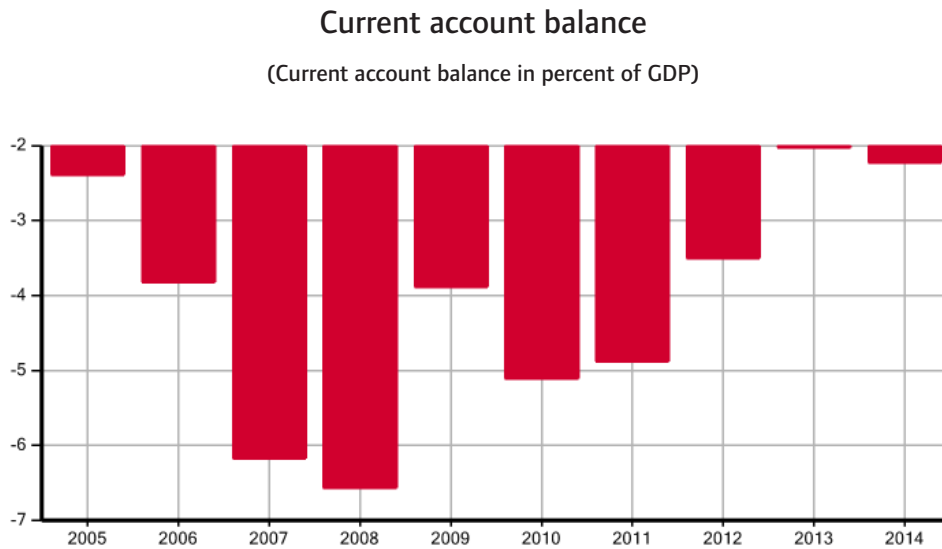
(Government debt and budget balance in percent of GDP)



Source: IHS Global Insight

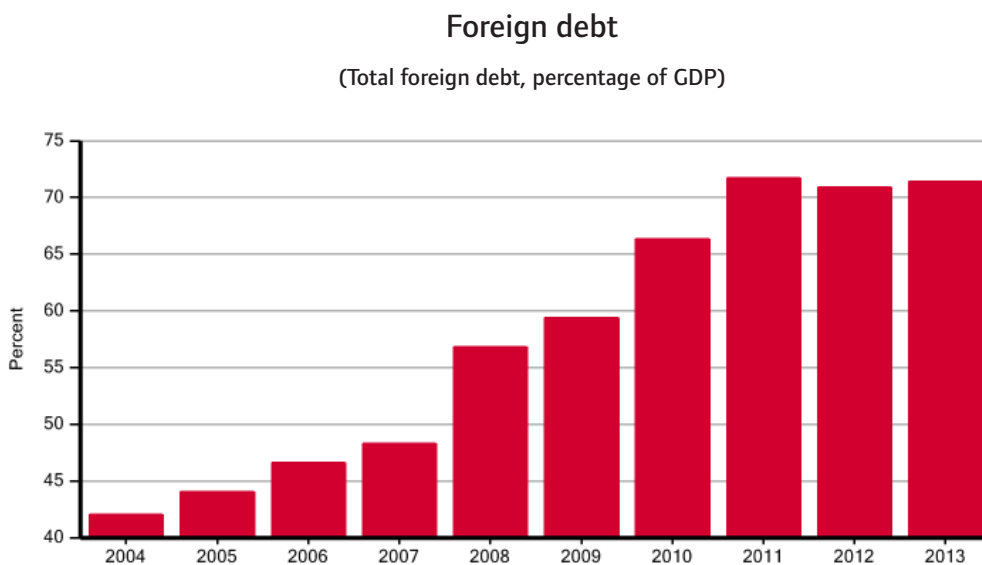
Increasing current account deficit

The current account deficit is expected to be around 2% of GDP in 2013 and to increase slightly in 2014 due to stronger domestic demand, with imports growing faster than exports. The current account balance will probably remain in deficit in the coming years.



Source: IHS Global Insight

The foreign debt level increased from 42% of GDP in 2004 to more than 70% in 2011-2013, and is likely to remain at that high level in 2014. This makes public and private borrowers vulnerable to exchange rate volatility and the sentiment of external investors who have to refinance those loans.



Source: IHS Global Insight

During the 2008/2009 credit crisis, the Polish currency depreciated sharply against the euro. However, since then the exchange rate has been relatively stable (see chart below), with the euro/zloty exchange rate fluctuating between 0.26 and 0.22 (see chart below). There is currently no reason to expect any major currency fluctuation.

Exchange rate

(midpoint spot price, euro per zloty)



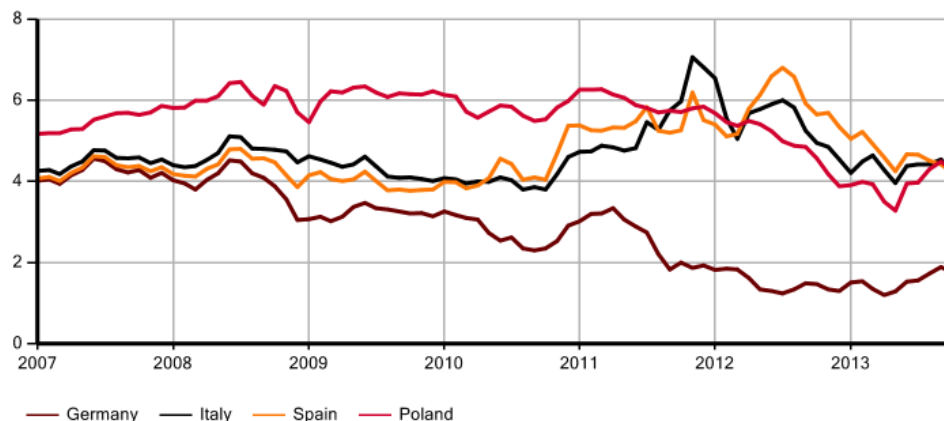
Source: IHS Global Insight

Bond yields are quite stable

Poland's sovereign risk level remains stable, with none of the major external rating agencies changing their rating over the past year. Overall, Poland enjoys solid investment grade ratings and the government can borrow at reasonably good rates on the financial markets. The interest rates on 10-year government bonds have decreased since 2011, following the pattern of 'safe-haven' Germany (see chart below). While there has been an increase in the past six months, the rate still remains well below its pre-crisis level.

Government bond yield





















(10-year government bond yields in percent per annum)



Source: IHS Global Insight

Poland industries performance outlook

January 2014

Agriculture	Automotive/ Transport	Chemicals/ Pharma	Construction	Construction Materials	
					 Excellent
Consumer Durables	Electronics/ICT	Financial Services	Food	Machines/ Engineering	 Good
					 Fair
Metals	Paper	Services	Steel	Textiles	 Poor
					 Bleak

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