

POLAND

Economic Snapshot

First Quarter | 2016



Overview

The economy posted a strong finish to 2015, with the latest estimates putting Q4 GDP growth at 1.1% quarter-on-quarter. This took total growth for 2015 to 3.6%, maintaining Poland's position as one of the strongest performing economies in the EU. The momentum in the economy is expected to have continued in Q1 2016, with leading indicators such as retail sales and PMI surveys showing healthy gains.

Household consumption rising steadily

Rising incomes, low oil prices, favourable credit conditions and limited inflationary pressures are underpinning steady growth in household consumption, which increased by 3.1% in 2015, up from 2.6% in 2014. Consumption growth is expected to be even higher in 2016-17 as households benefit from government initiatives, such as the monthly child allowance, and as labour market conditions improve further.

Weaker investment in the short term

EU structural and cohesion funds remain a substantial contributor to investment growth, which increased by 6.2% in 2015. The current EU funding programme has now ended and, consequently, investment growth is expected to slow to 3.4% in 2016 before picking up again from 2017 as the next funding programme gathers pace. Increased government policy and regulatory uncertainty, along with the recent introduction of the banking asset tax, is expected to weigh on business confidence and investment in the short term.

Heightened investor concerns

Investors remain concerned by the interventionist policies being pursued by the PiS government since being elected in October 2015. S&P unexpectedly downgraded Poland's credit rating to BBB+ in January 2016 and confirmed that it will cut its rating further if the credibility of Poland's monetary policy and institutional framework is undermined further by the government. This has the potential to erode confidence and growth in the economy over the longer term.

Outlook

Despite the political uncertainty, GDP growth is still expected to remain strong over the medium term as the drag from lower EU funded investment is more than compensated by robust private consumption. Inflation is not expected to turn positive until 2017 at the earliest.

MARKET INDICATORS

Market Outlook

GDP:	Current levels of GDP growth are expected to be maintained, driven primarily by domestic demand.	▼
Inflation:	Deflationary pressures to continue in 2016, before prices start to gradually rise in 2017.	▼
Interest rate:	On hold for the foreseeable future, with the majority of MPC members adopting a wait and see stance.	▶
Employment:	Further improvements expected in the labour market in 2016, albeit at a slower pace than 2015.	▼

Economic Summary

ECONOMIC INDICATORS	2013	2014	2015 ^E	2016 ^F	2017 ^F
GDP Growth	1.2	3.4	3.6	3.7	3.5
Consumer Spending	0.3	2.6	3.1	3.6	3.9
Industrial Production	2.5	3.2	4.4	5.2	4.7
Investment	-1.1	9.9	6.2	3.4	3.7
Unemployment rate (ILO%)	10.3	9.0	7.5	6.4	4.9
Inflation	1.2	0.2	-0.9	-0.4	1.1
PLN/EUR (average)	4.20	4.18	4.18	4.30	4.26
PLN/USD (average)	3.16	3.15	3.77	3.97	4.01
Interest Rates: 3-month (%)	2.5	1.9	1.5	1.3	1.5
Interest Rates: 10-year (%)	4.3	2.5	3.0	3.0	3.9

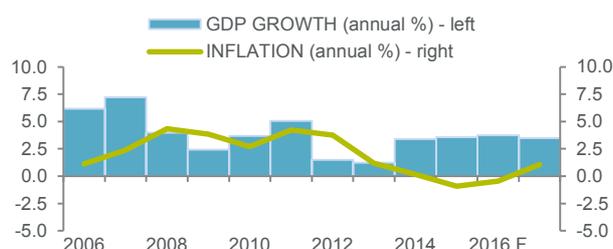
NOTE: *annual % growth rate unless otherwise indicated. E estimate F forecast

Source: Oxford Economics Ltd. and Consensus Economics Inc

Economic & Political Breakdown

Population	38.0 million (2015)
GDP	US\$ 474.1 billion (2015)
Public Sector Balance	-2.6% of GDP (2015)
Public Sector Debt	51.3% of GDP (2015)
Current Account Balance	-0.2% of GDP (2015)
Parliament	Law and Justice expected to form a government after gaining a parliamentary majority in the October election
President	Andrzej Duda
Prime Minister	Beata Szydlo (expected)
Election Dates	2019 (Parliamentary); Mid-2020 (Presidential)

Economic Activity



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