

Surprise contraction in growth in Q1 2016

The economy contracted by 0.1% quarter-on-quarter in Q1, which was the first quarterly decline since Q4 2012. Weak external demand and subdued public spending have dampened economic output, while fixed investment has deteriorated, mainly as a result of reduced EU structural and cohesion funds, but also due to a decline in foreign direct investment. Investors have shied away from Poland, amid concerns that the PiS government is becoming increasingly nationalist and interventionist in its policy making. Despite the political uncertainty, leading economic indicators suggest the economy bounced back in Q2, due to better than expected industrial production and construction output.

Consumer spending remains robust

Private consumption remains the strongest performing part of the economy and retail sales rose 2.2% year-on-year in May. Consumers are benefitting from several favourable tailwinds including a tightening labour market, limited inflationary pressures and strong credit growth. Furthermore, policymakers are pursuing accommodative and populist fiscal initiatives, which include money for families with more than one child, raising the tax-free allowance for income tax and lowering the retirement age. These measures are expected to boost real disposable incomes going forward, with private consumption growth forecast to accelerate to 3.4% in 2016, up from 3.1% in 2015.

Uncertain times for investment and exports

Fixed investment is forecast to contract by 0.4% in 2016, as the increased political and regulatory uncertainty, along with the recent introduction of the banking asset tax and tax on large retailers, weigh on business confidence and investment in the short term. The UK vote to leave the EU and the associated uncertainty will also erode confidence, especially if it leads to slower growth in Germany (which is Poland's primary trading partner) and the wider EU region.

Outlook

Despite the domestic and external political uncertainty and short term economic challenges, Poland is forecast to remain one of the strongest performing economies in the EU. GDP growth is expected to average 3.0% over the medium term, helped by lower taxes and looser fiscal policy.

MARKET INDICATORS

Market Outlook

GDP:	GDP growth is forecast to remain at current levels, despite some domestic and external challenges.	▼
Inflation:	Inflation is expected to remain negative in 2016, but prices should start to gradually rise in 2017.	▼
Interest rate:	No change likely in the short term, with the majority of MPC members adopting a wait and see stance.	▶
Employment:	Modestly slower job creation in 2016; accelerating in 2017 as business sentiment improves.	▼

Economic Summary

ECONOMIC INDICATORS	2013	2014	2015 ^E	2016 ^F	2017 ^F
GDP Growth	1.2	3.2	3.5	2.9	3.2
Consumer Spending	0.1	2.6	3.1	3.4	3.6
Industrial Production	2.5	3.2	4.4	2.9	3.1
Investment	-1.1	9.9	6.0	-0.4	2.8
Unemployment rate (ILO%)	10.3	9.0	7.5	6.2	5.4
Inflation	1.2	0.2	-0.9	-0.5	1.3
PLN/EUR (average)	4.20	4.18	4.18	4.37	4.30
PLN/USD (average)	1.18	3.15	3.77	3.96	4.07
Interest Rates: 3-month (%)	2.5	1.9	1.5	1.5	1.5
Interest Rates: 10-year (%)	4.3	2.5	3.0	3.2	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 million (2015)
GDP	US\$ 473.9 billion (2015)
Public Sector Balance	-2.6% of GDP (2015)
Public Sector Debt	53.6% of GDP (2015)
Current Account Balance	-0.2% of GDP (2015)
Parliament	Law and Justice (majority government)
President	Andrzej Duda
Prime Minister	Beata Szydlo (expected)
Election Dates	2019 (Parliamentary); Mid-2020 (Presidential)

Economic Activity

