

## Overview

Annualised GDP growth was 3.1% in Q2, marginally stronger than the 3.0% recorded in Q1. Household consumption and export growth remains healthy, but fixed investment has continued to contract sharply, due to the reduction in EU development funds and concerns over Brexit.

## Indicators for consumer spending are positive

The economy is benefitting from robust consumption-led growth, with retail sales rising 5.6% year-on-year in August, the largest rise since April 2014 and well above July's 2.0% increase. Consumers are reaping the benefits of relatively low oil prices, strong credit growth and improving labour market conditions, while fiscal policies are very supportive. The unemployment rate fell to a record low of 9.0% in July, while real earnings growth was almost 6.0% year-on-year. Private consumption growth forecasts have been revised up as a result, with growth of 2.8% expected in 2016, before accelerating to 3.4% in 2017.

## Investment and exports remain under pressure

The investment sector relies heavily on EU funds and with the 2007-2013 funding programme now over, the sector has seen a sharp drop in activity. Business confidence and private investment has been hit by the banking asset tax and the tax on large retailers, while the increased political and regulatory uncertainty and the Brexit vote has prompted some firms to put capital spending plans on hold. Fixed investment is forecast to contract by 2.3% in 2016, before recovering to 2.5% growth in 2017. Net trade is expected to remain a drag on growth for the foreseeable future, as the strength of the consumer sector will ensure that import growth continues to outweigh export growth.

## Outlook

The economy is forecast to slow to 2.8% in 2016, with the robust performance of the consumer sector being offset by weaker fixed investment. Growth is expected to accelerate to 3.3% in 2017, however, maintaining Poland's position as one of the strongest performing economies in the EU. Some downside risks remain, linked mainly to the government's increasingly interventionist agenda, while Brexit-related spillovers on investment and exports also pose downside risks to growth over the medium term.

## MARKET INDICATORS

### Market Outlook

GDP:	Consumer driven growth to continue, with the economy remaining one of the top EU performers.	▼
Inflation:	Inflationary pressures are gradually re-emerging, as oil prices rise, but core inflation is still subdued.	▼
Interest rate:	Interest rates are expected to remain at current levels throughout 2017.	▶
Employment:	Slower jobs growth in 2016 and 2017, with firms wary of greater political and regulatory uncertainty.	▼

### Economic Summary

ECONOMIC INDICATORS	2013	2014	2015	2016 <sup>F</sup>	2017 <sup>F</sup>
GDP Growth	1.2	3.2	3.6	2.8	3.3
Consumer Spending	0.1	2.6	3.1	2.8	3.4
Industrial Production	2.5	3.2	4.4	3.3	3.6
Investment	-1.1	9.9	5.9	-2.3	2.5
Unemployment rate (ILO%)	13.5	12.3	10.5	9.1	8.4
Inflation	1.2	0.2	-0.9	-0.6	1.9
PLN/EUR (average)	4.20	4.18	4.18	4.36	4.31
PLN/USD (average)	3.16	3.15	3.77	3.90	3.95
Interest Rates: 3-month (%)	3.0	2.4	1.6	1.5	1.5
Interest Rates: 10-year (%)	4.0	3.5	2.7	3.0	3.0

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	-0.6% 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

