November 2009
IMF Country Report No. 09/314

Republic of Poland--Review Under the Flexible Credit Line Arrangement—Staff Report; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Republic of Poland

In the context of a request for a Flexible Credit Line Arrangement, the following documents have been released and are included in this package:

- The staff report for the Review Under the Flexible Credit Line Arrangement, prepared by a staff team of the IMF, following discussions that ended on October 9, 2009, with the officials of the Republic of Poland on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on October 19, 2009. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- A Press Release summarizing the views of the Executive Board as expressed during its November 2, 2009 discussion of the staff report that completed the review.
- A statement by the Executive Director for Republic of Pland

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

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INTERNATIONAL MONETARY FUND

REPUBLIC OF POLAND

Review Under the Flexible Credit Line Arrangement

Prepared by the European Department
(In consultation with other Departments)

Approved by Ajai Chopra and Aasim Husain

October 16, 2009

Executive Summary

- **Context.** Unlike regional peers, Poland is expected to avoid a recession this year and grow modestly next year. The economy's limited reliance on exports, flexible exchange rate, and contained external and internal imbalances, which provided room for counter-cyclical policies, acted as a shock absorber. In line with regional trends and helped in part by the FCL arrangement, external pressures have abated, asset prices stabilized and the zloty has appreciated steadily. Market access has improved, with recent successful government bond issuances on international markets.

- **Policies.** The authorities have taken measures to mitigate the economic slowdown and maintain macroeconomic stability. With subdued inflation, monetary policy has been accommodative during the first half of the year. Measures have also been taken to safeguard financial stability, including by reversing the fall in capital buffers and meeting liquidity needs. As for fiscal policy, automatic stabilizers and the lagged effect of discretionary measures adopted before the crisis are providing considerable counter-cyclical stimulus. While euro adoption has been delayed, the authorities remain committed to preserve medium-term fiscal sustainability.

- **FCL.** A 12-month arrangement with Poland under the FCL in the amount equivalent to SDR 13.69 billion (1000 percent of quota) was approved on May 6, 2009. The authorities continue to treat the arrangement as precautionary.

- **Qualification.** The staff's assessment is that Poland continues to meet the qualification criteria for access to FCL resources specified under Decision No. 14283-(09/29), adopted March 24, 2009. It recommends that the Board complete the review under the FCL arrangement, which would allow Poland to make purchases until the expiry of the arrangement on May 5, 2010.

- **Team.** This report was prepared by a staff team led by Poul Thomsen and comprising Natan Epstein, Delia Velculescu (all EUR), and Manuela Goretti (SPR).

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I. Recent Economic Developments and Outlook

1. **The economy is expanding, albeit at a slow pace.** Real GDP grew by 1.1 and 2.1 percent (quarter-on-quarter, seasonally adjusted annual rate) in the first two quarters of 2009, reflecting primarily an improving trade balance. For the year as a whole, the central scenario envisages a small output expansion of about 1 percent. Domestic demand is poised to remain relatively weak, as unemployment rises and credit and wage growth decline; however, recent data on retail sales and industrial production, including confidence indicators, suggest that the downturn is reaching the bottom (Figure 2). Modest real GDP growth in 2010 is predicated on improving global and domestic conditions, especially a strengthening of financial markets.

Poland: Real GDP Growth Projections, 2009-10
(Percent)

	2009	2010
GDP	1.1	1.9
Domestic demand	-0.4	2.4
Private consumption	2.5	1.8
Public consumption	1.0	2.0
Domestic fixed investment	-2.0	4.5
Net external demand (contribution to growth)	1.6	-0.5

Sources: IMF staff projections.

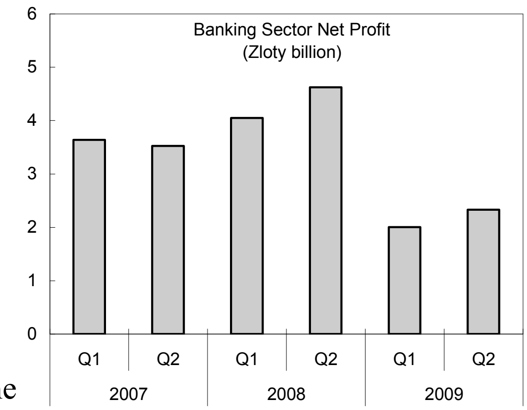
2. **Inflation is expected to return to the tolerance range.** Headline inflation increased to 4 percent (year-on-year) during the second quarter of 2009—above the National Bank of Poland's (NBP) tolerance range of 1½ to 3½—primarily due to higher food and other commodity prices. It has since fallen to 3.4 percent at end-September. With growth below potential, headline inflation is projected to decline to the midpoint of the tolerance range by the second quarter of next year and remain subdued.

3. **The current account deficit has narrowed.** As domestic demand weakened, the compression in imports, partly driven by a sharp drop in investment, more than offset the decline in exports. The current account balance has also benefited from sustained net transfers from the EU. The current account deficit is expected to decline to 1.8 percent of GDP in 2009 from 5.5 percent of GDP in 2008.

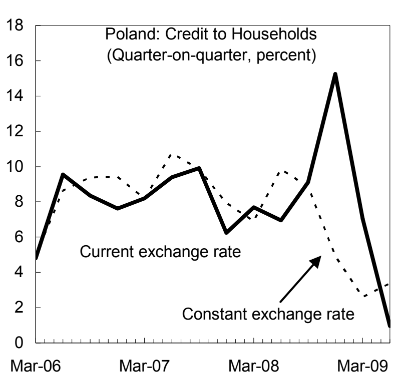
4. **Capital flows are gradually recovering.** Following a 50 percent year-on-year retrenchment in foreign direct investment during the first half of the year, FDI flows have begun to stabilize in recent months. Moreover, after a sharp drop in equity purchases by foreigners and in trade credits during the first quarter of 2009, portfolio and other investments turned positive in the second quarter. In the private sector, short-term debt

rollover rates were close to 100 percent relative to end-2008 levels. Finally, the public sector has already financed all of its external debt rollover needs for 2009.

5. **The banking system remains well buffered.** It is well capitalized, with capital adequacy ratios having increased to pre-crisis levels of about 13 percent at end-August, in large part because banks—encouraged by the supervisory authority KNF—retained 2008 profits. Banking profits in the first half of 2009 have declined to about half of last year's record-high levels, reflecting a fourfold increase in provisioning, but appear to be stabilizing. NBP stress tests as of end-June 2009 show that the banking system is robust to adverse scenarios. Moreover, market indicators of the banking sector have improved in recent months (Figure 4).



6. **But risks related to the quality of the loan portfolio remain, and credit growth has declined sharply.** The slowing economy and FX option losses resulting from the depreciation of the zloty have led to an increase in non-performing loans to an average of 7 percent by end-June. This was mainly driven by an almost doubling of NPLs to 10 percent in the corporate sector; however, with the restructuring of the FX option contracts being completed, risks from this source have significantly diminished. While NPLs for households remain below 5 percent, banks' increased exposure to short-term consumer lending presents some risks, particularly as the unemployment rate is still rising and household-income growth is weak. Private sector credit growth decelerated sharply during the first half of 2009. While it remains positive for households, it has turned negative for corporates (text chart). Part of this was reportedly due to lower demand. However, on the supply side, recent loan-officer surveys suggest that banks have continued to tighten credit criteria. Such changes in lending policies have been influenced by uncertainties related to the economic outlook and limits imposed by parent banks on subsidiaries. Normalization of the interbank market—where transactions are still confined to one-month maturities—continues to hinge on recovery in Western European markets.



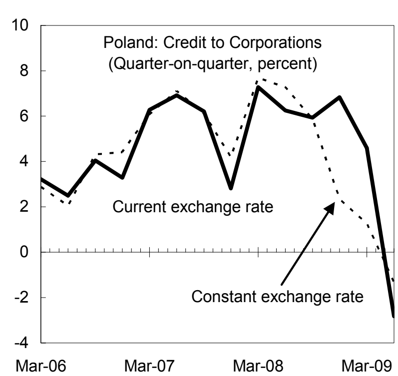
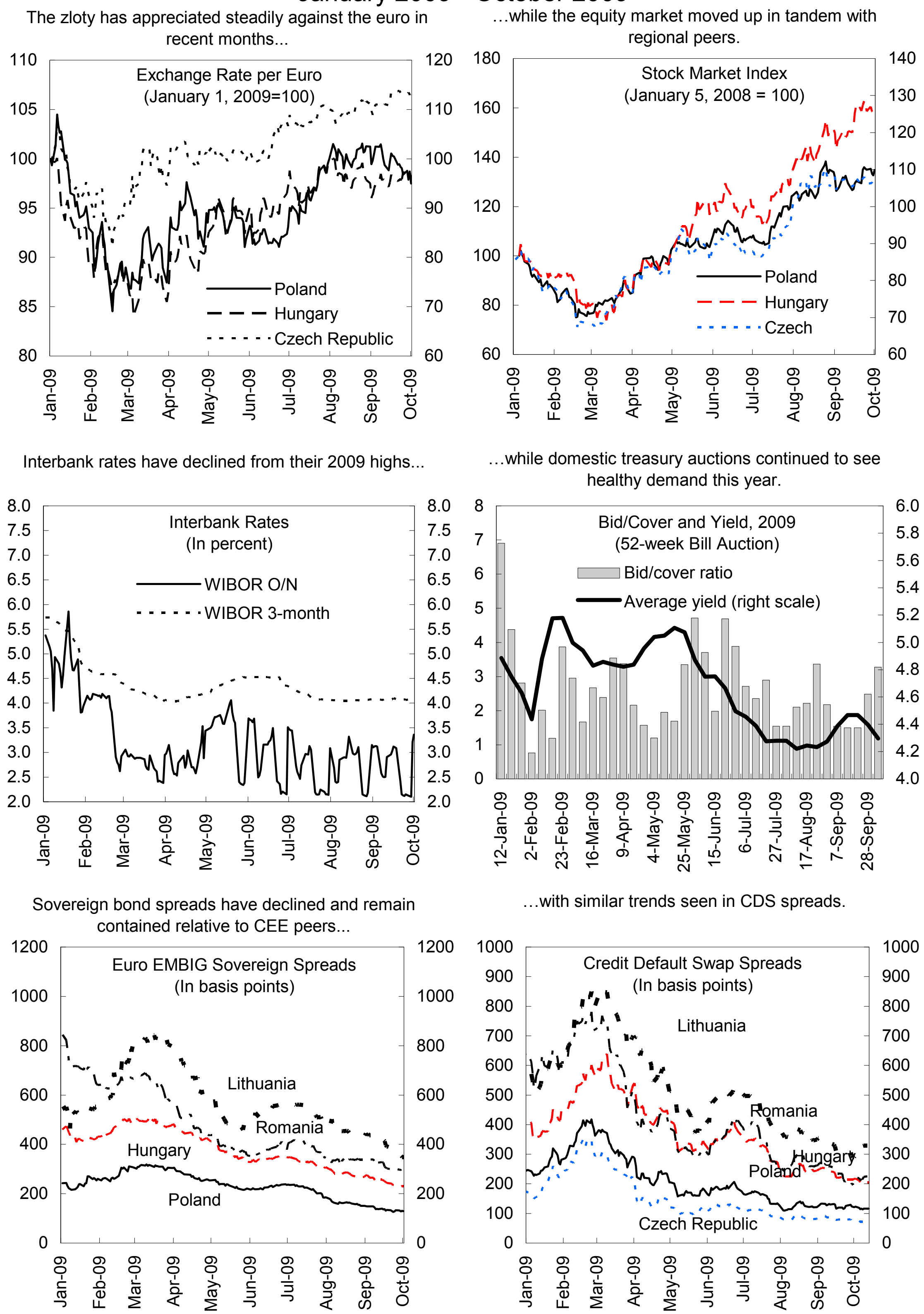


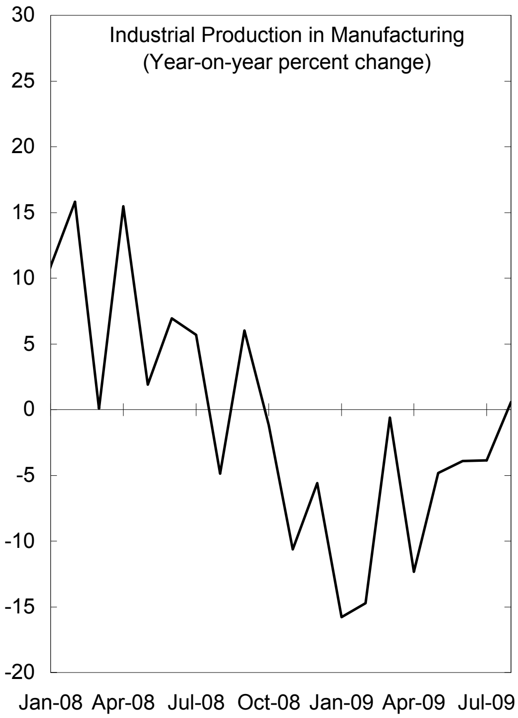
Figure 1. Poland: Recent Financial Markets Developments
January 2009 - October 2009



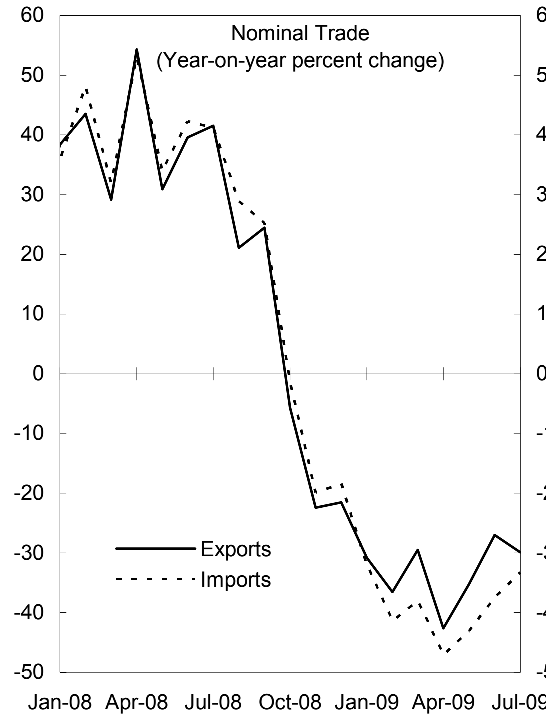
Sources: Bloomberg; and Polish Ministry of Finance.

Figure 2. Poland: Recent Economic Developments, 2008-09

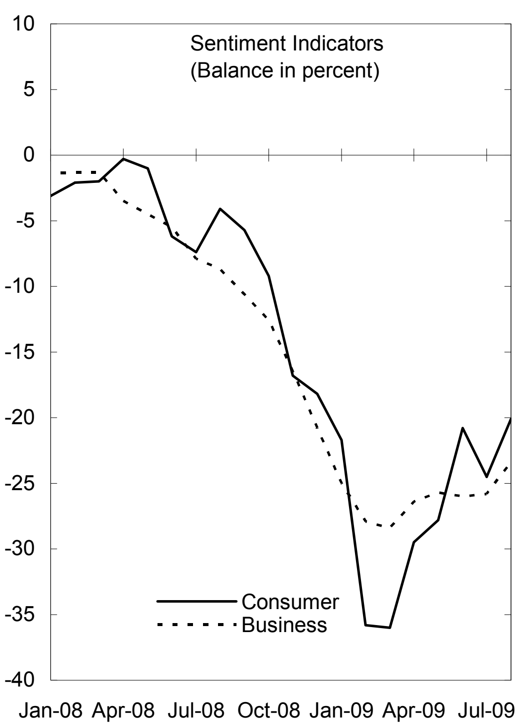
Industrial production has stablized after sharp declines...



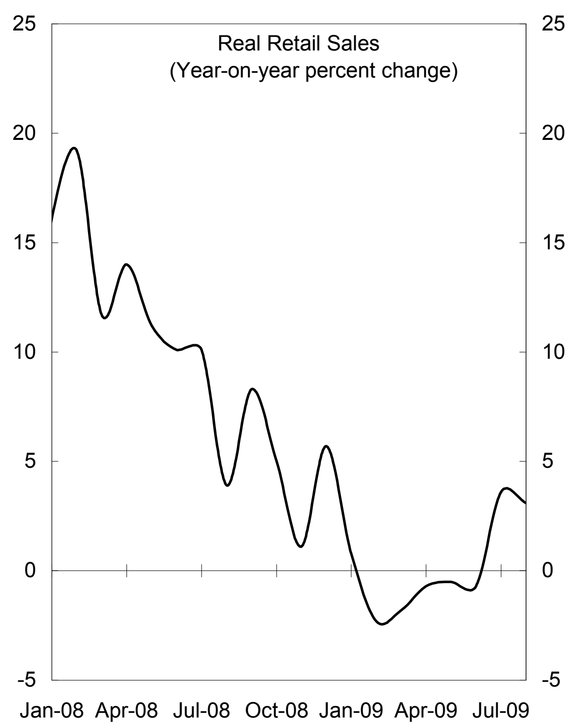
…with some recovery in exports and imports.



Confidence measures have bounced back from their lows...



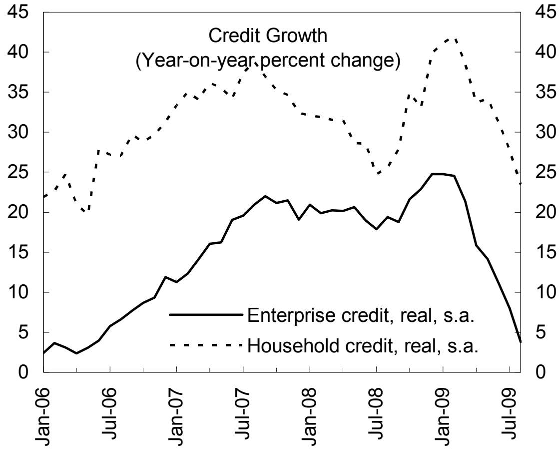
…while retail sales growth is back in positive territory.

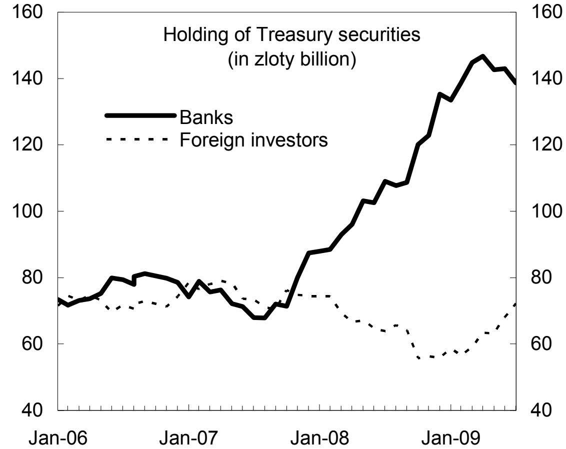


Sources: European Commission; Bloomberg; and Haver.

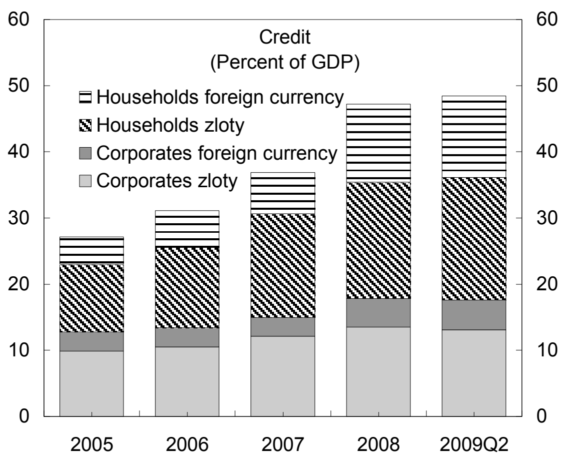
Figure 3. Poland: Recent Credit Developments, 2005-09

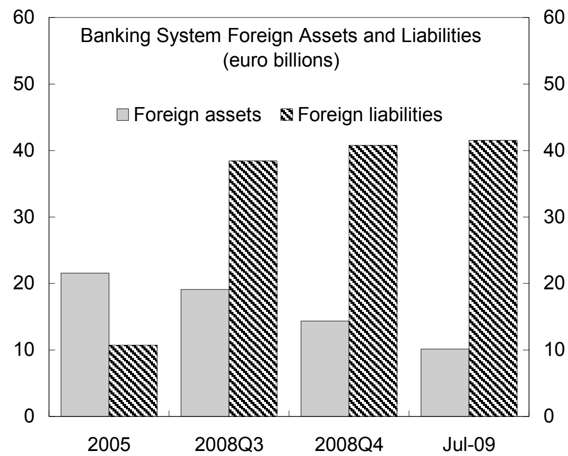
Credit growth has decelerated sharply this year, while banks' reluctance to lend increased their holding of government securities.



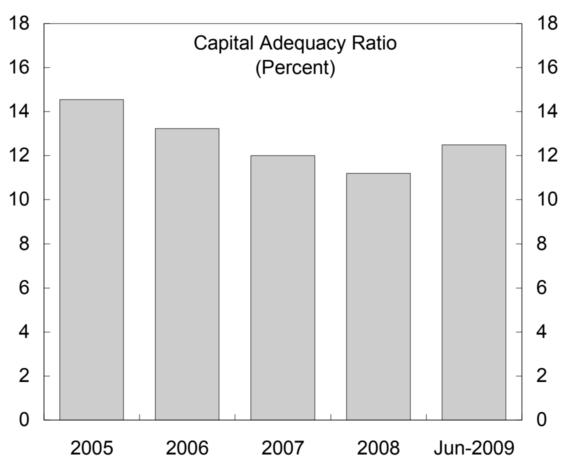


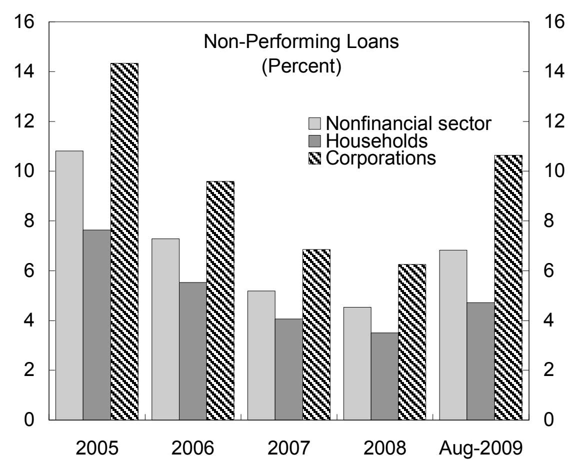
Credit growth has been funded partly by increases in foreign liabilities, which have stabilized since end-2008Q3.





CAR has been boosted by retained earnings, while NPLs have risen.

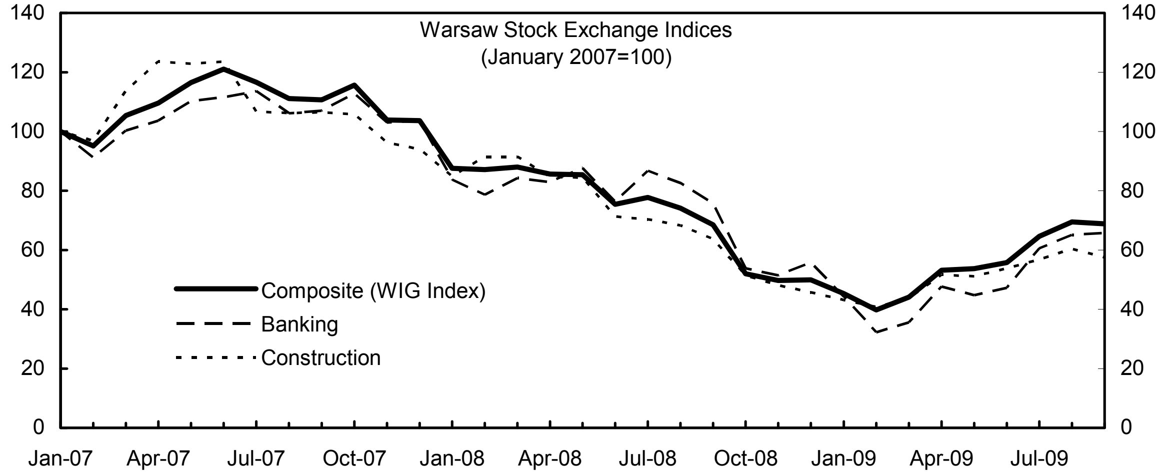




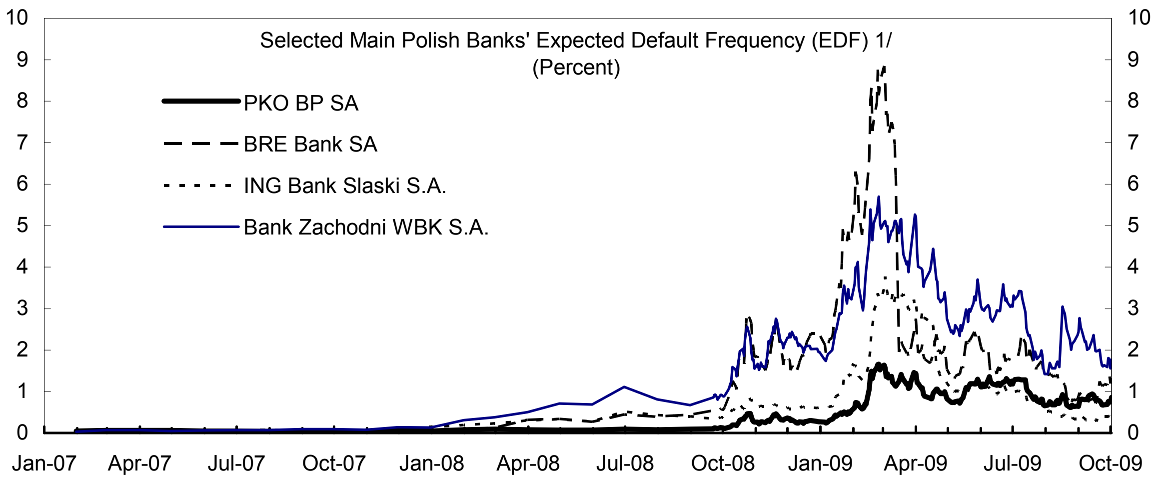
Sources: National Bank of Poland, and IMF staff estimates.

Figure 4. Poland: Banking Sector's Market Indicators, 2007-09

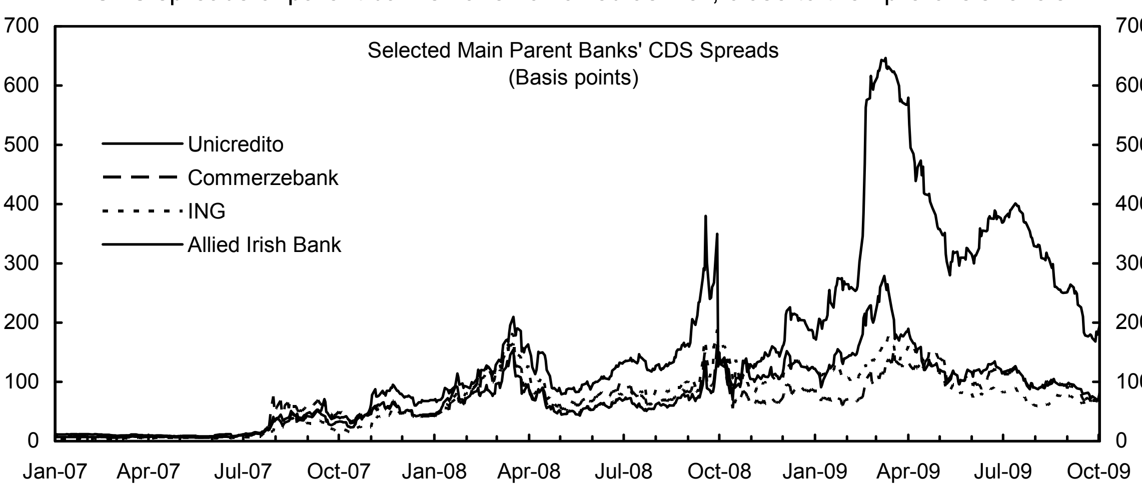
Equity prices for the banking sector have recovered this year in line with the overall market index.



Polish banks' EDFs have declined in recent months close to their pre-crisis levels.



CDS spreads of parent banks have narrowed as well, close to their pre-crisis levels.



Sources: DataStream; Moody's KMV; Bloomberg; and IMF staff calculations.
1/ Estimated EDF by Moody's KMV constructed with market-based data.

II. RECENT POLICY ACTIONS

7. **Fiscal policy is providing considerable counter-cyclical stimulus.** With the recent amendment of the 2009 budget, the government has abandoned earlier plans to contain the deficit to the Maastricht limit in the short-term through what would have been pro-cyclical expenditure cuts. In staff's view, the general government deficit is set to increase from 3.9 percent of GDP in 2008 to 6.1 percent of GDP in 2009, and the 2010 draft budget implies a further rise to 6.9 percent of GDP. In addition to the cyclical weakening of revenues, the higher deficits reflect a discretionary relaxation mainly as a result of cuts in social security contributions and personal income taxes enacted in 2007: staff projects the cyclically-adjusted balance to reach 6.6 percent of GDP in 2010, although these estimates are subject to large uncertainties at this time (text table). The decision to amend the budget in order to accommodate the revenue shortfall came after the government abandoned the 2012 target for euro adoption.

Poland's Structural Balance
(in percent of GDP)

	2007	2008	2009	2010
Public sector fiscal balance (ESA95) (A)	-1.9	-3.9	-6.1	-6.9
Cyclical component (B)	0.6	0.6	-0.3	-0.3
Cyclically adjusted balance (C=A-B)	-2.5	-4.6	-5.8	-6.6
Interest payments (D)	2.3	2.0	2.4	2.6
One-offs (extra dividends) (E)	0.0	0.0	0.3	0.0
Net primary structural balance (F=C+D-E)	-0.2	-2.6	-3.7	-4.0
Change in net primary structural balance ($G=F_t-F_{t-1}$)		-2.4	-1.1	-0.3
o/w Cost of cuts in pension taxes (H)		-1.5		
Cost of PIT reform (I)			-1.1	-0.1
Additional loosening (J=G-H-I)		-0.9	0.0	-0.1
Memo items				
Output gap	1.5	1.6	-0.7	-0.8
Real GDP growth	6.8	4.9	1.1	1.9
Potential GDP growth	5.4	4.8	3.5	2.0

Source: IMF staff preliminary estimates.

8. **Market reaction to the wider deficits for 2009-10 has been muted**. Yields on government bonds have remained stable. Moreover, the authorities have recently tapped the euro (EUR 2.4 billion), swiss franc (CHF 750 million), and U.S. dollar (USD 3.5 billion) bond markets with 5 to 15-year paper that was significantly oversubscribed. Financing needs for 2009 have been fully met, and the authorities have begun to pre-finance the 2010 budget.

9. **The authorities remain committed to maintaining public debt on a sustainable path.** They are currently working on a two-year plan—expected by year-end—that includes fiscal consolidation measures, administrative reforms, and growth-enhancing structural measures. This plan will serve as input for the forthcoming update of the Convergence Program. At the current stage, the government continues to aim to reduce the deficit to the Maastricht target of 3 percent of GDP by 2012. Moreover, independent of the limitations arising from Maastricht ceilings, with public debt approaching the 55 percent of GDP threshold in 2010, corrective actions could be triggered in 2012, in accordance the new Public Finance Act. The Act also requires performance-based budgeting and a four-year rolling budget framework, albeit without binding medium-term deficit ceilings (Box). The authorities have also accelerated the privatization agenda with a view to containing the increase in public debt.

10. **The monetary policy rate-cut cycle has paused for now**. Since last November, the policy rate has been lowered by 250 basis points to 3.5 percent. With weak output growth and inflation that is set to remain within the tolerance range, the authorities adopted an accommodative stance. More recently, as the growth outlook has improved and inflation has hovered around the upper end of the tolerance range, the MPC has left the policy rate unchanged. In its September statement, the MPC signaled that it might officially move to a neutral policy bias. On current policies, staff projects inflation to be around the midpoint of the tolerance range by the end of the second quarter of next year.

11. **Further measures have been taken to safeguard financial stability**. Since the approval of the FCL arrangement, the NBP has extended the maturity of its repo transactions to 6 months. The authorities have also recently introduced legislation that calls on the KNF to fully supervise Poland's credit unions (SKOKs) beginning in 2010.[1] Moreover, to ease the credit crunch, they have introduced a credit-guarantee program offered by the state-owned bank BGK; however the scheme is only becoming effective now, and may not be extensively used. More recently, the NBP announced its intention to extend its repo transactions to 12 months, purchase banks' bonds directly in the secondary market, and use corporate promissory notes as security for central bank funding. Finally, the KNF is working on systematic bottom-up stress tests, building on the methodology used in the IMF's coordinated regional exercise.

[1] At end-June, SKOKs accounted for 6 percent of household deposits.

Box 1: Poland—New Public Finance Act

Shortly after announcing the new 2010 draft budget, which allows for a significant increase in the state budget deficit, and implicitly in the general government deficit for 2010, the authorities have introduced important changes to their medium-term fiscal framework. The new Public Finance Act, signed by the President on September 18, will become effective as of 2010. The main changes introduced by the new law are:

Medium-term fiscal framework: The framework will consist of a 4-year rolling fiscal plan including policy goals, state budget revenue and expenditure projections, and the projected general government deficit and debt. Local governments, budgetary funds, and agencies are also expected to prepare 4- or 3-year rolling medium-term fiscal plans. Compared to present regulations—requiring only an indicative 3-year projection for the general government—the new law aims to strengthen the medium-term focus of fiscal policy and provide guidance on medium-term policy goals. Still, the medium-term fiscal plan, which does not require approval by parliament, remains non-binding, with only the state budget deficit for the following year constituting a limit for that year's budget. (While the government could change this limit, it would require presenting to parliament a written explanation.)

Enhanced debt safety procedures: The law maintains previous debt safety thresholds (50, 55, and 60 percent of GDP) but requires additional corrective actions if debt exceeds 55 percent of GDP. In that case, the government has to submit a debt reduction plan, together with the annual budget for year t+2, which should include: a nominal freeze in budgetary wages, pension indexation not higher than CPI inflation, and reviews of multi-year investment programs and spending programs financed by foreign credits. Local governments are allowed to have deficits only if related to EU programs or if financed by previous year surpluses. These actions aim to reduce the debt-to-GDP ratio in year t+2 below year t's level, implying either a balanced budget or a surplus that year.

Other changes: These aim to improve transparency and efficiency of public finances.
- Performance-based budgeting (PBB): the government will have to show expenditures on PBB basis in justification to the annual budget and in medium-term plans; PBB presentation is required for medium-term plans prepared at other levels of the government.
- Consolidation of government: certain units will be liquidated (*auxiliary units, own accounts, motivation accounts*) or their activities limited (*budget establishments* serving the core municipal needs).
- Stronger control and internal audit: internal auditors will be directly accountable to the minister, independent audit committees will be established as ministers' advisory bodies to ensure effective control, and large local governments will be required to have external audits of their budgets.
- Treatment of EU funds: the funds will be separated from other items in the state budget, and their deficit/surplus not counted toward the state budget deficit; financing will be a new term in gross borrowing needs.

III. FCL QUALIFICATION CRITERIA

12. **Poland continues to meet the qualification criteria identified in paragraph 2 of the FCL Decision, including the items listed in subsections (i) – (ix)**. As noted by Executive Directors at the time of the 2009 Article IV Consultation, Poland's strong fundamentals and sound policies, reflected in a limited buildup of external and internal imbalances, have played a key role in buffering the economy from the crisis.[2] Furthermore, the authorities remain committed to maintaining very strong and timely policies—in line with the policy intentions and framework described in the letter attached to IMF Country Report 09/138—which suggest that they will respond appropriately to any emerging balance of payments difficulties. As to the relevant criteria for assessing qualification for an FCL arrangement identified in ¶2 of the FCL decision, staff's view is as follows (see also Figure 5):

- **A sustainable external position**: Notwithstanding sharp shocks over the last year, external debt remains at about 60 percent of GDP and is expected to return to around 50 percent of GDP by 2014. The sustainability of the external debt position over the medium term remains robust under alternative stress scenarios. The current account deficit has also adjusted substantially, contributing to a decline in the gross external financing needs. According to the latest CGER estimates, the zloty is broadly in line with fundamentals.

- **A capital account position dominated by private flows**: The bulk of capital flows to Poland continues to originate from the private sector. There has been no major reduction in private sector exposures.

- **A track record of steady sovereign access to international capital markets at favorable terms**: Poland has continued to enjoy high credit ratings, well above minimum investment grade, despite the ongoing crisis. Sovereign spreads on both local and foreign currency debt have recently stabilized in line with global and regional developments. Poland was able to issue sovereign debt in international capital markets with significant over-subscription in the last two quarters.

- **A reserve position that is relatively comfortable when the FCL is requested on a precautionary basis**: Reserves remain at a comfortable level relative to most standard metrics. The reserve coverage of short-term external debt at remaining maturity has improved to 85 percent, from under 70 percent at end-2008.[3]

[2] See IMF Country Report 09/266.

[3] Poland's general SDR allocation contributed to an increase in GIR of about $1.6 billion in August.

- **Sound public finances, including a sustainable public debt position**: The authorities have appropriately accommodated the fall in revenues associated with the current downturn. At the same time, the economy has benefited from a significant stimulus resulting from important reforms undertaken just before the crisis. While the attendant increase in the fiscal deficit in 2009-10 is large, the authorities remain committed to meet the Maastricht target of 3 percent of GDP by 2012. Public debt remains at a sustainable level, in the range of 55-60 percent of GDP under the baseline scenario. Important safeguards in this regard are the 55 percent of GDP threshold under the Public Finance Act and the 60 percent of GDP ceiling in the Constitution, the breaching of which triggers substantial corrective action.

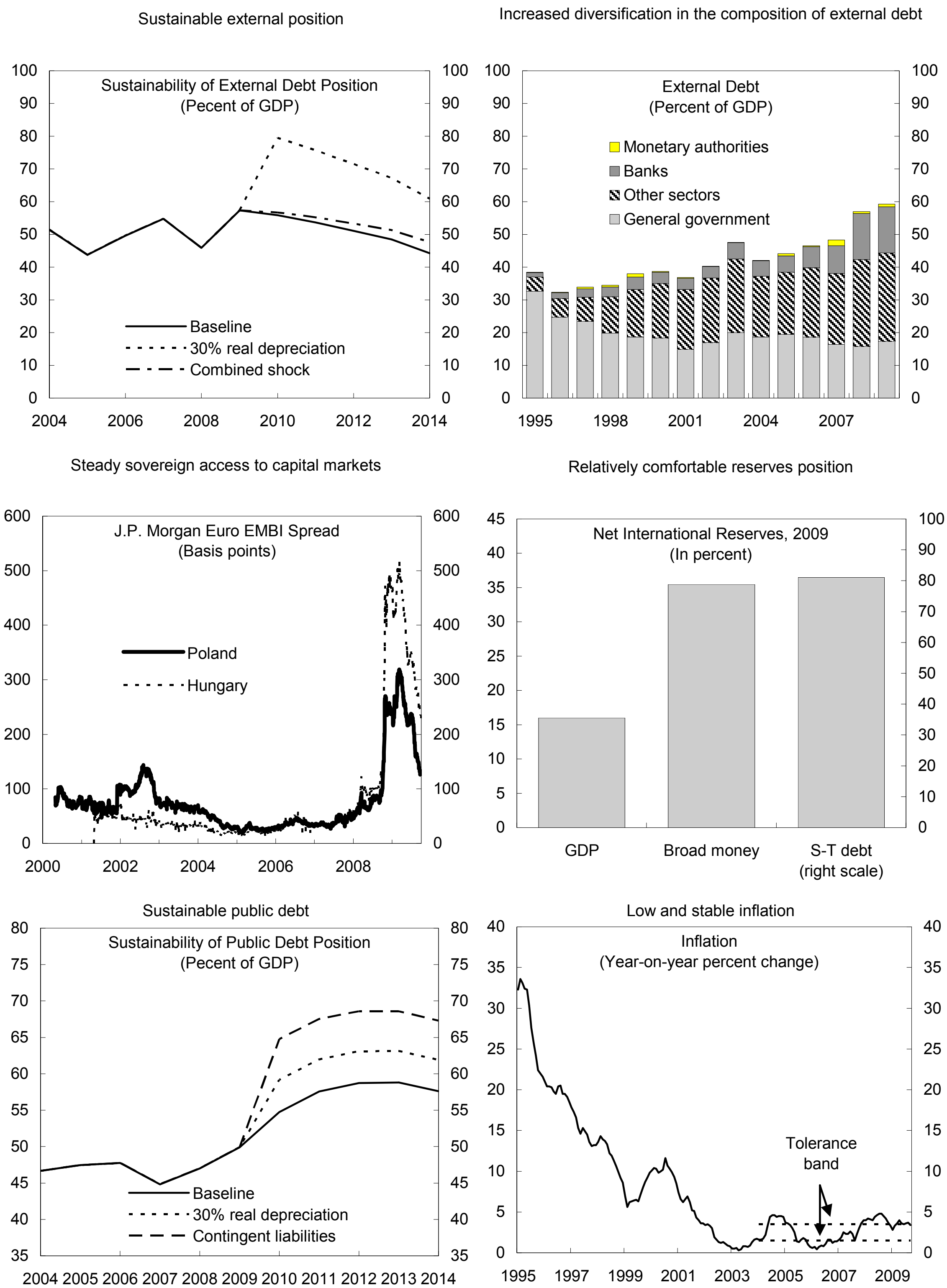
- **Low and stable inflation, in the context of a sound monetary and exchange rate policy framework**: Poland's credible and transparent inflation targeting framework allowed for a loosening bias in the current downturn, while maintaining inflation expectations anchored to the NBP disinflationary path.

- **The absence of bank-solvency problems that pose an immediate threat of a systemic banking crisis**: Despite lingering credit risks, Poland's banking system continues to be relatively well capitalized and non-performing loans are expected to remain at manageable levels.

- **Effective financial sector supervision**: The Polish authorities continue to have an adequate supervisory, legal, and institutional framework to promptly intervene in banks if needed. KNF's initiative to encourage banks to retain the 2008 profits has been instrumental in boosting capital adequacy. The NBP has in place a procedure for emergency liquidity assistance, and the State Treasury can assist financial institutions with guarantees, loans, and sale of securities. A new legislation that subordinates Poland's credit unions (SKOKs) under the supervisory powers of the KNF should reduce the risk that any problems in these institutions spill over to the rest of the financial system.

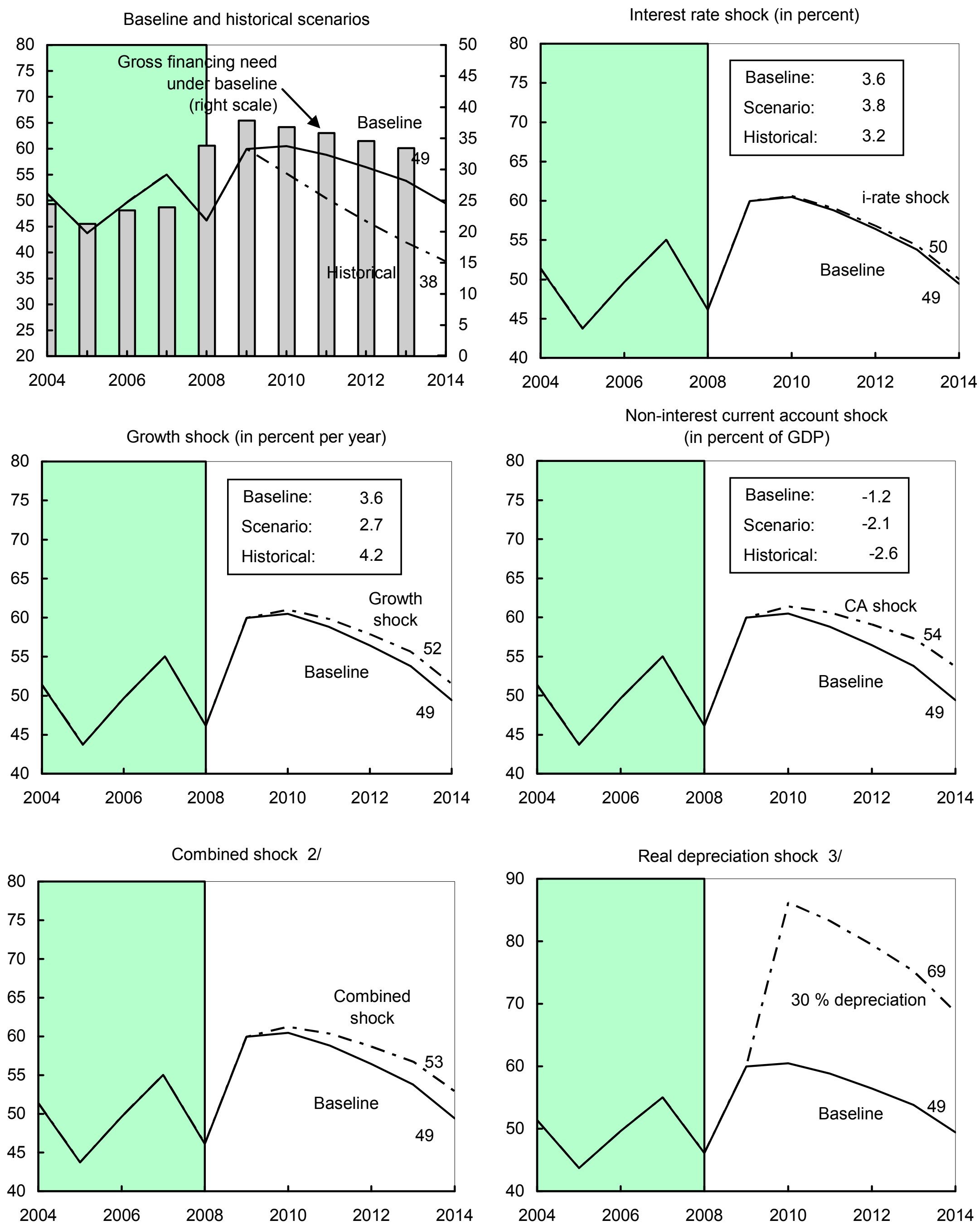
- **Data transparency and integrity:** The overall quality of Poland's macroeconomic data remains good, as described in the 2003 data ROSC. Poland remains in observance of the Special Data Dissemination Standard (SDDS). A recent IMF technical assistance (TA) mission investigating the large statistical discrepancies in Poland's 2007-08 balance of payments accounts concluded that these appear to be primarily concentrated in selected financial accounts. The NBP is following up on several areas identified by the TA mission and is working on adopting a new compilation system, targeted for early 2010, which is expected to resolve many of these discrepancies. Staff did not become aware of any significant safeguards issues during the conduct of FCL safeguards procedures related to the NBP.

Figure 5. Poland: Qualification Criteria



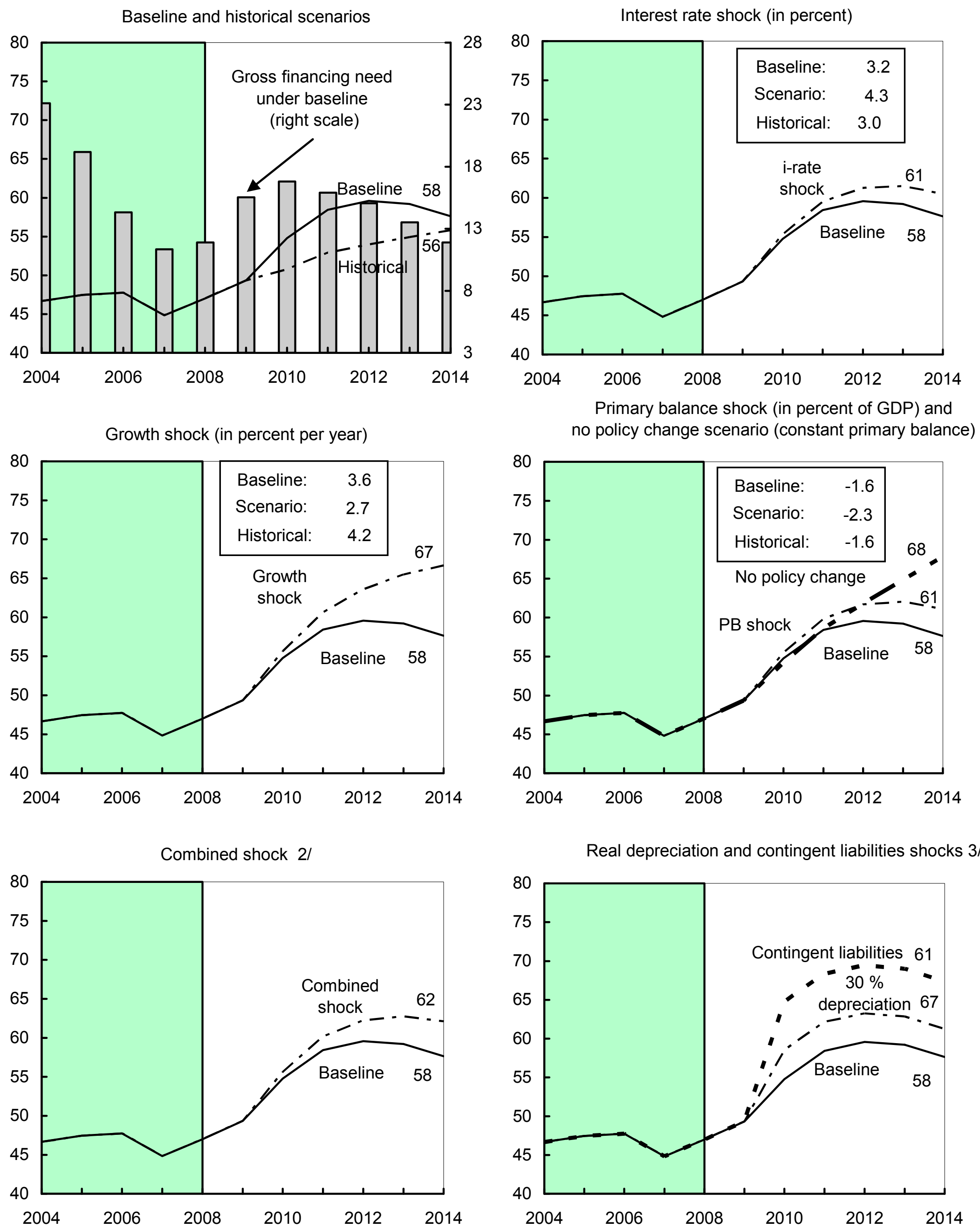
Sources: Bloomberg; Poland authorities; and IMF staff estimates.

Figure 6. Poland: External Debt Sustainability: Bound Tests 1/
(External debt in 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/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
3/ One-time real depreciation of 30 percent occurs in 2009.

Figure 7. Poland: Public Debt Sustainability: Bound Tests, 2004-14 1/
(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/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.

3/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2009, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

IV. Staff Appraisal

13. **Poland is benefiting from the FCL arrangement.** The strengthening of the zloty, reduction in sovereign external spreads, increasing capital inflows, and declining yield on government bonds have in part reflected the stabilizing impact of Poland's FCL agreement. In particular, while the government before the approval of the FCL arrangement had been reluctant to allow automatic stabilizers to work because of concern about adverse market reactions to a higher deficit, it was able to abandon plans to undertake procyclical expenditure cuts without triggering any such adverse impact.

14. **The staff's assessment is that Poland continues to meet the qualification criteria for access to FCL resources and remains committed to responding appropriately to actual or potential balance of payments pressures. Thus, staff recommends completion of the review under the FCL arrangement for Poland.**

Table 1. Poland: Selected Economic Indicators, 2006-10

	2006	2007	2008	2009 Proj.	2010 Proj.
Activity and prices					
GDP (change in percent)	6.2	6.8	4.9	1.1	1.9
Domestic demand	7.3	8.7	5.4	-0.4	2.4
Private consumption growth	5.0	4.9	5.4	2.5	1.8
Public consumption growth	6.1	3.7	7.6	1.0	2.0
Domestic fixed investment growth	14.9	17.6	8.2	-2.0	4.5
Net external demand (contribution to growth)	-1.1	-2.1	-0.7	1.6	-0.5
CPI inflation (change in percent)					
Average	1.0	2.5	4.2	3.5	2.9
End of period	1.4	4.0	3.3	3.5	2.6
Unemployment rate (average, according to Labor Force Survey)	13.8	9.6	7.1	8.9	10.3
Gross domestic saving (ratio to GDP) 1/	18.4	19.7	18.8	19.4	18.8
Gross domestic investment (ratio to GDP)	21.1	24.4	23.9	21.2	21.9
Public finances (percent of GDP)					
General government revenues	39.7	41.2	40.4	40.7	41.4
General government expenditures 2/	43.2	42.5	43.5	46.8	48.2
General government balance 2/	-3.5	-1.3	-3.1	-6.1	-6.9
according to ESA95	-3.9	-1.9	-3.9	-6.1	-6.9
General government structural balance, ESA95	-4.0	-2.5	-4.6	-5.8	-6.6
Public debt	47.8	44.8	47.0	49.3	54.8
according to ESA95	47.7	44.8	47.0	…	…
Money and credit					
Private credit (12-month change)	22.9	29.5	33.9	. . .	. . .
Broad money (12-month change)	16.0	13.4	17.5	. . .	. . .
Money market rate (eop)	4.2	5.7	5.3	. . .	. . .
Policy Rate 3/	4.0	5.0	5.0	3.50	. . .
Corporate lending rate (1 year) 4/	5.9	6.1	7.5	. . .	. . .
Balance of payments					
Current account balance (transactions, millions U.S. dollars)	-9,200	-20,253	-26,909	-7,716	-13,246
Percent of GDP	-2.7	-4.8	-5.1	-1.8	-3.0
C/A balance plus net FDI, percent of GDP	0.2	-0.5	-2.9	-0.3	-0.5
Exports of Goods (millions U.S. dollars)	117,468	145,337	178,427	140,018	149,308
Export volume growth	14.6	9.1	7.2	-12.1	3.3
Imports of Goods (millions U.S. dollars)	124,474	162,394	204,399	148,896	163,146
Import volume growth	17.3	13.7	8.2	-14.7	4.5
Net oil imports (millions U.S. dollars)	11,372	13,438	19,230	12,332	15,625
Terms of trade (index 1995=100)	97.2	98.9	97.4	101.8	100.2
FDI, net (in percent of GDP)	2.9	4.2	2.2	1.5	2.5
Official reserves (millions U.S. dollars)	48,484	65,746	62,180	72,955	75,192
months of imports (goods)	4.7	4.9	3.7	5.9	5.5
Total external debt (millions U.S. dollars)	169,636	234,052	243,477	258,210	265,437
Percent of GDP	49.6	55.0	46.1	60.0	60.5
Ratio of reserves to short-term debt	97.3	103.3	72.4	68.9	85.8
Exchange rate					
Exchange rate regime			Floating		
Zloty per US$, period average 5/	3.10	2.77	2.41	2.85	. . .
Zloty per Euro, period average 5/	3.90	3.79	3.52	4.22	. . .
Real effective exchange rate (INS, CPI based) 6/	139.4	144.8	159.1	. . .	. . .
percent change	2.2	3.9	9.9	. . .	. . .

Sources: Polish authorities; and IMF staff estimates.
1/ Derived as total savings minus the current account minus capital transfers.
2/ IMF definition (including pension reform costs).
3/ NBP Reference Rate. For 2009, latest.
4/ Annual average.
5/ For 2009, exchange rate as of October 13.
6/ Annual average (1995=100).

Table 2. Poland: Balance of Payments on Transaction Basis, 2005-10
(In millions of US$)

	2005	2006	2007	2008	2009 Proj.	2010 Proj.
Current account balance	**-3,705**	**-9,200**	**-20,253**	**-26,909**	**-7,716**	**-13,246**
percent of GDP	-1.2	-2.7	-4.8	-5.1	-1.8	-3.0
Trade balance	-2,766	-7,006	-17,057	-25,972	-8,878	-13,837
percent of GDP	-0.9	-2.1	-4.0	-4.9	-2.1	-3.2
Exports						
percentage change in unit values	18.2	22.5	26.2	22.8	-21.5	6.6
percentage volume growth	8.0	14.6	9.1	7.2	-12.1	3.3
growth in foreign demand	8.6	12.6	8.7	3.5	-17.6	0.3
Imports						
percentage change in unit values	13.7	25.8	29.3	26.0	-27.2	9.6
percentage volume growth	4.7	17.3	13.7	8.2	-14.7	4.5
growth in domestic demand	2.5	7.3	8.7	5.4	-0.4	2.4
Terms of trade percentage change	0.8	-0.3	1.7	-1.5	4.6	-1.5
Services balance	738	753	4,758	5,016	5,656	5,378
Credit	16,258	20,584	28,914	35,577	27,919	29,771
Debit	15,520	19,831	24,156	30,561	22,262	24,393
Net Income	-6,686	-9,543	-16,448	-14,210	-13,061	-14,652
Net transfers	5,009	6,596	8,494	8,257	8,567	9,865
o/w EU receipts	3,902	4,239	4,523	3,885	4,546	4,345
o/w payment to EU	-3,031	-3,178	-3,630	-3,923	-5,121	-4,931
Capital and financial account balance	**16,290**	**14,216**	**43,650**	**46,501**	**40,047**	**37,039**
Capital account balance	995	2,105	4,771	6,118	7,364	8,730
o/w net EU transfers	1,012	2,290	4,660	5,828	6,815	7,717
Financial account balance	15,295	12,111	38,879	40,383	32,683	28,309
Foreign direct investment (net)	7,013	10,037	17,987	11,747	6,549	10,983
by nonresidents	10,363	19,198	23,651	14,849	8,949	11,983
o/w privatization	31	8	95	100	857	2,195
Portfolio investment (net)	12,600	-3,007	-5,415	-2,082	11,096	2,598
by non-residents	15,109	1,543	925	-4,439	11,228	3,298
o/w equities	1,333	-2,134	-470	564	700	870
Other investment (net)	-4,511	5,838	28,353	31,512	16,480	14,729
Assets	-2,782	-3,734	-1,771	5,426	12,275	9,929
Liabilities	-1,729	9,572	30,124	26,086	4,205	4,799
Financial derivatives	193	-757	-2,046	-794	-1,443	0
Errors and omissions	**-4,450**	**-2,536**	**-10,360**	**-21,556**	**-21,556**	**-21,556**
Overall balance	**8,135**	**2,480**	**13,037**	**-1,964**	**10,775**	**2,237**
Financing						
Reserve assets	-8,135	-2,480	-13,037	1,964	-10,775	-2,237
Memorandum items:						
Current plus capital account (percent of GDP)	-0.9	-2.1	-3.6	-3.9	-0.1	-1.0
Official reserves	42,571	48,484	65,746	62,180	72,955	75,192
in months of imports	4.1	3.6	3.9	5.0	5.4	5.1
Ratio of reserves to short-term debt 1/	101.8	97.3	103.3	72.4	68.9	85.8
Ratio of reserves to ST debt plus CA deficit 1/	92.3	80.4	72.2	55.8	63.5	74.2
Total external debt (percent of GDP)	43.7	49.6	55.0	46.1	60.0	60.5
Total external debt (percent of exports) 2/	118.0	122.9	134.3	113.8	153.8	148.2
External debt service (percent of exports) 2/ 3/	35.0	34.6	29.8	45.5	56.4	50.6
Gross FDI inflows (percent of GDP)	3.4	5.6	5.6	2.8	2.1	2.7
Net FDI inflows (percent of GDP)	2.3	2.9	4.2	2.2	1.5	2.5

Sources: National Bank of Poland; and IMF staff estimates.
1/ Reserve level at end of previous 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: General Government Revenues and Expenditures, 2005-10
(In percent of GDP)

	2005	2006	2007	2008 Prelim.	2009 Proj.	2010 Proj.
General government revenue	38.9	39.7	41.2	40.4	40.7	41.4
Taxes	19.8	20.6	22.0	21.6	19.6	20.1
Direct taxes	5.1	7.1	7.9	7.9	6.8	7.0
Indirect taxes	14.6	12.0	12.5	12.1	11.4	11.6
Other taxes	0.1	1.5	1.7	1.6	1.5	1.5
Social security contributions	12.0	11.9	12.2	11.3	11.3	11.3
Other taxes and nontax	7.1	7.1	7.1	7.5	9.8	10.0
General government expenditure 2/	43.2	43.2	42.5	43.5	46.8	48.2
Goods and services	17.9	17.4	17.7	18.1	18.4	18.5
Transfers and subsidies	19.8	20.1	18.5	18.6	19.2	19.4
Interest payments	2.5	2.6	2.3	2.0	2.4	2.6
Capital and net lending	3.0	3.0	3.9	4.9	6.8	7.7
Cash-accrual correction	0.0	-0.4	-0.6	-0.8	…	…
General government balance 1/ 2/	-4.3	-3.9	-1.9	-3.9	-6.1	-6.9
Financing	4.3	3.9	1.9	3.9	6.1	6.9
Domestic	2.8	3.2	1.2	3.4	4.3	4.5
External	1.2	0.7	0.6	0.4	1.3	1.6
Privatization	0.3	0.0	0.1	0.1	0.4	0.7
Memorandum items:						
Structural balance 1/ 2/	-4.0	-4.0	-2.5	-4.6	-5.8	-6.6
Primary balance	-1.7	-1.3	0.4	-1.9	-3.6	-4.3
State balance	-4.2	-3.8	-2.8	-3.5	-4.7	-5.5
Rest of government balance	-0.1	-0.1	0.9	-0.4	-1.4	-1.3
Public debt 3/	47.5	47.8	44.8	47.0	49.3	54.8

Sources: Polish authorities; and IMF staff estimates and projections.
1/ ESA 95 definition
2/ Second-pillar pension funds (OFEs) classified outside government.
3/ National definition

Table 4. Poland: Financial Soundness Indicators, 2005-09

(In percent)

	2005	2006	2007	2008	Jun-2009
Capital adequacy					
Regulatory capital to risk-weighted assets	14.5	13.2	12.0	11.2	12.5
Regulatory Tier I capital to risk-weighted assets	14.4	12.9	11.8	10.1	11.9
NPLs net of provisions to capital 1/	11.9	11.6	11.4	12.8	19.8
Asset composition and quality					
NPLs to gross loans	11.0	7.4	5.2	4.4	6.3
Sectoral distribution of loans to total loans					
Loans to households	52.6	56.7	59.3	61.4	63.7
Loans to non-financial corporations	47.1	43.0	40.4	38.2	36.3
Earnings and profitability					
Return on average assets (after-tax)	1.6	1.7	1.7	1.5	0.8
Return on average equity (after-tax) 2/	20.6	22.5	22.4	20.7	11.3
Interest margin to gross income 1/	57.7	58.9	59.4	61.8	54.8
Noninterest expenses to gross income 1/	72.3	69.6	68.7	60.6	73.5
Liquidity					
Liquid assets to total assets (liquid assets ratio)	21.2	20.1	17.1	17.0	18.8%
Liquid assets to total short-term liabilities	29.6	28.1	24.2	24.7	27.4%
Sensitivity to market risk					
Net open positions in FX to capital 2/	2.0	-0.1	0.6	0.0	0.52%

Source: National Bank of Poland.

1/ Data for 2009 are Q1.

2/ Data for domestic banking sector.

Table 5. Poland: External Financing Requirements and Sources, 2008-11
(In million of U.S. dollars)

	2008	2009 Proj.	2010 Proj.	2011 Proj.
GROSS FINANCING REQUIREMENTS	109,481	95,534	98,310	99,011
Current account deficit	26,909	7,716	13,246	15,124
Medium and long-term debt amortization	29,982	25,150	21,819	18,725
Public sector	2,660	6,397	5,996	3,820
Banks	4,453	4,366	6,579	7,175
Non-bank Corporates	22,869	14,387	9,244	7,730
Short-term debt amortization	52,590	62,668	63,245	65,161
Public sector	6	213	1,917	767
Banks (inc. s.t. deposits)	17,482	29,189	27,730	29,116
Non-bank Corporates	35,102	33,266	33,599	35,279
o/w trade credit	29,234	27,296	27,569	28,947
SOURCES OF FINANCING	107,517	106,309	100,547	99,923
Foreign direct investment (net)	11,747	6,549	10,983	14,075
o/w inward (net)	14,849	8,949	11,983	15,325
Equities (net)	2,021	468	638	917
by nonresidents	564	700	870	1,086
New borrowing and debt rollover	97,867	101,001	91,712	87,315
Medium and long-term borrowing	35,199	37,756	26,551	19,470
Public sector	-9,019	19,003	10,728	3,820
Banks	12,628	4,366	6,579	7,534
Non-bank Corporates	31,590	14,387	9,244	8,117
Short-term borrowing	62,668	63,245	65,161	67,844
Public sector	213	1,917	767	230
Banks	29,189	27,730	29,116	30,572
Foreign subsidiaries to parent banks	20,753	20,945	21,992	23,091
Other	6,723	6,785	7,124	7,480
Non-bank Corporates	33,266	33,599	35,279	37,043
EU transfers	5,828	6,815	7,717	7,612
Other	-9,946	-8,524	-10,503	-9,996
of which: Errors and omissions	-21,556	-21,556	-21,556	-21,556
BUFFERS				
Use of official reserves	1,964	-10,775	-2,237	-913
FINANCING GAP	0	0	0	0

Sources: National authorities and staff estimates and projections.

Table 6. Poland: Medium-Term Scenario, 2008-14

	2008	2009 Proj.	2010 Proj.	2011 Proj.	2012 Proj.	2013 Proj.	2014 Proj.
Activity and prices							
GDP (change in percent)	4.9	1.1	1.9	4.1	4.2	4.0	4.0
Domestic demand growth	5.4	-0.4	2.4	4.3	4.2	4.1	4.1
Private consumption growth	5.4	2.5	1.8	3.5	3.5	3.4	3.3
Public consumption growth	7.6	1.0	2.0	2.0	2.0	2.0	2.0
Domestic fixed investment growth	8.2	-2.0	4.5	8.5	8.0	7.5	7.5
Nominal GDP (zloty millions)	1,272	1,335	1,387	1,475	1,572	1,676	1,788
CPI inflation (average change in percent)	4.2	3.5	2.9	2.6	2.5	2.5	2.5
CPI inflation (end of period change in percent)	3.3	3.5	2.6	2.5	2.5	2.5	2.5
Unemployment rate	7.1	8.9	10.3	11.2	11.6	11.2	10.7
Gross domestic saving (ratio to GDP) 1/	18.8	19.4	18.8	19.5	20.5	21.3	22.2
Private savings	17.0	18.6	18.0	15.7	14.1	12.4	10.8
Public savings	1.7	0.8	0.8	3.9	6.4	9.0	11.5
Gross domestic investment (ratio to GDP)	23.9	21.2	21.9	22.8	23.7	24.5	25.3
Public finances (percent of GDP)							
General government revenues	40.4	40.7	41.4	44.2	46.5	48.8	51.0
General government expenditures 2/	43.5	46.8	48.2	50.0	51.2	52.4	53.6
General government primary balance	-1.2	-3.6	-4.3	-2.9	-1.7	-0.5	0.4
General government balance, ESA95 2/	-3.9	-6.1	-6.9	-5.7	-4.7	-3.6	-2.7
Public debt	47.0	49.3	54.8	58.5	59.7	59.7	58.6
Balance of payments (percent of GDP)							
Current account balance	-5.1	-1.8	-3.0	-3.3	-3.2	-3.1	-3.0
Capital account, net	1.2	1.7	2.0	2.0	2.0	1.9	1.6
Financial account, net	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total external debt	46.1	60.0	60.5	58.8	56.4	53.8	51.3

Sources: Polish authorities; and IMF staff estimates.

1/ Derived as total savings minus the current account minus capital transfers.

2/ Assuming measures are taken to keep public debt below the 60-percent-of-GDP threshold.

Table 7. Poland: External Debt Sustainability Framework, 2004-14
(In percent of GDP, unless otherwise indicated)

	Actual					Projections						
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	**Debt-stabilizing non-interest current account 6/**
Baseline: External debt	51.4	43.7	49.6	55.0	46.1	**60.0**	**60.5**	**58.8**	**56.4**	**53.8**	**49.4**	**-6.4**
Change in external debt	1.9	-7.6	5.9	5.4	-8.9	13.8	0.5	-1.7	-2.4	-2.6	-4.4	
Identified external debt-creating flows (4+8+9)	-8.9	-11.2	-7.1	-10.5	-8.5	-1.1	-1.0	-2.6	-2.9	-2.8	-2.8	
Current account deficit, excluding interest payments	2.7	0.1	1.5	3.6	3.9	0.8	1.8	1.3	0.9	1.0	0.9	
Deficit in balance of goods and services	2.2	0.7	1.8	2.9	4.0	0.7	1.9	2.5	2.7	2.8	2.7	
Exports	37.7	37.1	40.4	41.0	40.5	39.0	40.8	42.0	42.4	42.6	41.1	
Imports	39.9	37.7	42.2	43.9	44.5	39.7	42.7	44.5	45.1	45.4	43.8	
Net non-debt creating capital inflows (negative)	-5.8	-3.8	-5.0	-5.5	-2.9	-2.2	-2.9	-3.6	-3.7	-3.9	-3.7	
Automatic debt dynamics 1/	-5.8	-7.5	-3.6	-8.6	-9.4	0.4	0.1	-0.3	-0.1	0.1	0.0	
Contribution from nominal interest rate	1.3	1.1	1.2	1.2	1.2	1.0	1.3	2.0	2.3	2.2	2.0	
Contribution from real GDP growth	-2.3	-1.5	-2.4	-2.7	-2.2	-0.6	-1.1	-2.3	-2.3	-2.1	-2.0	
Contribution from price and exchange rate changes 2/	-4.8	-7.1	-2.4	-7.1	-8.5	...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	10.8	3.6	13.0	15.8	-0.4	14.9	1.5	1.0	0.5	0.2	-1.6	
External debt-to-exports ratio (in percent)	136.4	118.0	122.9	134.3	113.8	153.8	148.2	140.2	133.1	126.4	120.3	
Gross external financing need (in billions of US dollars) 4/	61.9	64.7	80.0	101.7	178.6	163.0	161.6	164.2	167.1	171.3	0.6	
in percent of GDP	24.5	21.3	23.4	23.9	33.8	37.9	36.8	35.8	34.5	33.4	0.1	
Scenario with key variables at their historical averages 5/						**60.0**	**55.2**	**50.4**	**46.0**	**41.9**	**38.2**	**-7.0**
Key Macroeconomic Assumptions Underlying Baseline												
Real GDP growth (in percent)	5.3	3.6	6.2	6.8	4.9	1.1	1.9	4.1	4.2	4.0	4.0	
GDP deflator in US dollars (change in percent)	10.8	15.9	5.8	16.6	18.3	-19.3	0.0	0.3	1.3	2.0	5.9	
Nominal external interest rate (in percent)	3.0	2.5	3.0	3.0	2.8	1.8	2.2	3.5	4.1	4.1	4.1	
Growth of exports (US dollar terms, in percent)	32.1	18.2	22.5	26.2	22.8	-21.5	6.6	7.3	6.7	6.5	6.3	
Growth of imports (US dollar terms, in percent)	30.4	13.7	25.8	29.3	26.0	-27.2	9.6	8.6	7.1	6.6	6.3	
Current account balance, excluding interest payments	-2.7	-0.1	-1.5	-3.6	-3.9	-0.8	-1.8	-1.3	-0.9	-1.0	-0.9	
Net non-debt creating capital inflows	5.8	3.8	5.0	5.5	2.9	2.2	2.9	3.6	3.7	3.9	3.7	

1/ Derived as $[r - g - \rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ times previous period debt stock, with r = nominal effective interest rate on external debt; ρ = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, ε = nominal appreciation (increase in dollar value of domestic currency), and α = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as $[-\rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ times previous period debt stock. ρ increases with an appreciating domestic currency ($\varepsilon > 0$) 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.

Table 8. Poland: Public Sector Debt Sustainability Framework, 2004-14
(In percent of GDP, unless otherwise indicated)

	Actual					Projections						
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Debt-stabilizing primary balance 9/
Baseline: Public sector debt 1/	46.7	47.5	47.8	44.8	47.0	**49.3**	**54.8**	**58.4**	**59.6**	**59.2**	**57.6**	**-0.7**
o/w foreign-currency denominated	10.0	10.6	10.1	10.3	11.3	11.2	13.1	13.7	13.4	13.1	12.7	
Change in public sector debt	-1.8	0.8	0.3	-2.9	2.2	2.3	5.4	3.7	1.1	-0.4	-1.6	
Identified debt-creating flows (4+7+12)	-2.3	2.0	-1.1	-5.1	2.1	3.2	4.3	2.1	0.9	-0.5	-1.7	
Primary deficit	3.5	1.7	0.9	-1.0	1.2	3.6	4.2	2.9	1.6	0.2	-0.9	
Revenue and grants	37.7	38.9	39.7	41.2	40.4	40.7	41.4	44.2	46.5	48.8	51.0	
Primary (noninterest) expenditure	41.2	40.7	40.6	40.2	41.6	44.4	45.6	47.1	48.1	49.0	50.0	
Automatic debt dynamics 2/	-4.7	0.6	-1.9	-3.9	0.8	0.2	0.7	-0.4	-0.6	-0.6	-0.7	
Contribution from interest rate/growth differential 3/	-1.8	-0.2	-0.8	-2.4	-1.4	0.2	0.7	-0.4	-0.6	-0.6	-0.7	
Of which contribution from real interest rate	0.5	1.3	1.9	0.5	0.7	0.7	1.6	1.7	1.7	1.6	1.6	
Of which contribution from real GDP growth	-2.4	-1.6	-2.7	-2.9	-2.0	-0.5	-0.9	-2.1	-2.3	-2.2	-2.2	
Contribution from exchange rate depreciation 4/	-2.9	0.9	-1.1	-1.5	2.1	...	...	...	...	...	...	
Other identified debt-creating flows	-1.1	-0.4	0.0	-0.1	0.2	-0.6	-0.6	-0.3	-0.1	-0.1	-0.1	
Privatization receipts (negative)	-1.1	-0.4	0.0	-0.1	0.2	-0.6	-0.6	-0.3	-0.1	-0.1	-0.1	
Residual, including asset changes (2-3) 5/	0.6	-1.2	1.4	2.2	0.1	-0.9	1.1	1.6	0.3	0.2	0.1	
Public sector debt-to-revenue ratio 1/	123.7	122.0	120.4	108.8	116.3	121.1	132.5	132.1	128.1	121.4	113.1	
Gross financing need 6/	23.1	19.2	14.3	11.3	11.9	15.5	16.8	15.9	15.1	13.5	11.9	
in billions of U.S. dollars	71.4	57.8	52.1	54.8	51.1	74.0	73.1	72.5	72.7	69.3	64.7	
Scenario with key variables at their historical averages 7/						**49.3**	**50.8**	**52.9**	**54.0**	**54.9**	**55.8**	**-0.7**
Scenario with no policy change (constant primary balance) in 2009-2014						**49.3**	**54.2**	**58.6**	**61.8**	**64.9**	**67.8**	**-0.8**
Key Macroeconomic and Fiscal Assumptions Underlying Baseline												
Real GDP growth (in percent)	5.3	3.6	6.2	6.8	4.9	1.1	1.9	4.1	4.2	4.0	4.0	
Average nominal interest rate on public debt (in percent) 8/	5.5	5.8	6.0	5.4	4.8	5.4	5.4	5.5	5.5	5.5	5.5	
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	1.4	3.1	4.5	1.5	1.7	1.6	3.5	3.3	3.2	3.0	3.0	
Nominal appreciation (increase in US dollar value of local currency, in percent)	25.1	-8.3	12.1	19.5	-17.8	...	...	...	...	...	...	
Inflation rate (GDP deflator, in percent)	4.1	2.6	1.5	4.0	3.0	3.8	2.0	2.1	2.3	2.5	2.5	
Growth of real primary spending (deflated by GDP deflator, in percent)	6.0	2.2	6.0	5.8	8.6	8.0	4.7	7.5	6.5	5.8	6.2	
Primary deficit	3.5	1.7	0.9	-1.0	1.2	3.6	4.2	2.9	1.6	0.2	-0.9	

1/ General government.
2/ Derived as $[(r - \pi(1+g) - g + \alpha\varepsilon(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; α = share of foreign-currency denominated debt; and ε = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).
3/ The real interest rate contribution is derived from the denominator in footnote 2/ as $r - \pi (1+g)$ and the real growth contribution as -g.
4/ The exchange rate contribution is derived from the numerator in footnote 2/ as $\alpha\varepsilon(1+r)$.
5/ For projections, this line includes exchange rate changes.
6/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.
7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.
8/ Derived as nominal interest expenditure divided by previous period debt stock.
9/ 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.

Table 9. Poland: Indicators of Fund Credit, 2009-14

			Projections			
	2009	2010	2011	2012	2013	2014
Stocks from prospective drawings 1/						
Fund credit in millions SDR	13,690	13,690	13,690	13,690	6,845	0
in percent of quota	1,000	1,000	1,000	1,000	500	0
in percent of GDP	5	5	5	5	2	0
in percent of exports of goods and services	13	12	11	11	5	0
in percent of gross reserves 2/	30	29	29	28	14	0
Flows from prospective drawings 3/						
GRA Charges	0	179	181	181	147	57
Level Based Surcharge	0	190	192	192	211	29
Service Charges	68	0	0	0	0	0
Principal	0	0	0	0	6,845	6,845
Debt Service due on GRA credit (millions SDR)	68	369	372	373	7,203	6,931
in percent of quota	5	27	27	27	526	506
in percent of GDP	0	0	0	0	2	2
in percent of exports of goods and services	0	0	0	0	5	5
in percent of gross reserves 2/	0	1	1	1	14	14
Memo Item:						
Total external debt, assuming full drawing (in percent of GDP)	65	65	64	61	56	51

Sources: IMF Finance Department; Polish authorities; and IMF staff estimates.

1/ End of Period. Assumes full drawing under the FCL upon approval. The Polish authorities have expressed their intention to treat the arrangement as precautionary. At an SDR/USD rate of 0.627355 as of October 14, 2009.
2/ Excludes IMF purchases.
3/ Based on the rate of charge as of mid-October 2009. Includes surcharges under the system currently in force and service charges.

INTERNATIONAL MONETARY FUND

EXTERNAL RELATIONS DEPARTMENT

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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 six-month review of Poland's qualification for the arrangement under the Flexible Credit Line (FCL) and reaffirmed the country's continued qualification to access FCL resources. The Polish authorities have indicated that they intend to continue treating the arrangement as precautionary.

The one-year arrangement with Poland for SDR 13.69 billion (about US$21.76 billion) was approved on May 6, 2009 (see Press Release No. 09/153) and it was the second commitment approved under the IMF's recently created FCL.

Following the Executive Board discussion of Poland, Mr. John Lipsky, First Deputy Managing Director and Acting Chair, made the following statement:

"Poland is expected to avoid a recession this year and grow modestly next year. The economy's limited reliance on exports, flexible exchange rate, and contained external and internal imbalances, which provided room for counter-cyclical policies, acted as a shock absorber. In line with regional trends and helped in part by the FCL arrangement, external pressures have abated, asset prices stabilized and the zloty has appreciated. Market access has improved, with recent successful government bond issuances on international markets. Private capital flows are also gradually recovering. The banking system remains well buffered, but risks related to the quality of the loan portfolio remain, and credit growth has declined sharply.

"Poland's very strong policy framework, which underpins its qualification for the FCL, has allowed the authorities to take measures to mitigate the economic slowdown and maintain macroeconomic stability. With subdued inflation, monetary policy has been accommodative during the first half of the year. Measures have also been taken to safeguard financial stability, including by reversing the fall in capital buffers and meeting liquidity needs. As for fiscal policy, automatic stabilizers and discretionary measures adopted before the crisis are providing considerable counter-cyclical stimulus. While euro adoption has been delayed, the authorities remain committed to preserve medium-term fiscal sustainability and a credible monetary policy framework underpinned by inflation targeting and a flexible exchange rate.

"Against this backdrop, the Executive Board today reaffirmed that Poland continues to meet the qualification criteria for the FCL. Accordingly, resources under the FCL—which the authorities have indicated that they intend to continue to treat as precautionary—will remain available as envisaged through May 5, 2010," Mr. Lipsky stated.

Statement by Katarzyna Zajdel-Kurowska, Alternate Executive Director for Republic of Poland and Pawel Gasiorowski, Advisor Executive Director
November 2, 2009

Our authorities broadly agree with the assessment and policy recommendations presented in the staff's paper evaluating Poland's qualification for the Flexible Credit Line (FCL). The authorities reinstate their intent to continue to treat the FCL as precautionary.

Macroeconomic outlook
Moderate growth of private consumption stimulated by fiscal and monetary relaxation, together with positive net exports have contributed to GDP growth so far this year. Unlike other EU economies, Poland managed to avoid recession and is seen to expand further in 2010. In the first half of the year, real GDP has grown by 1.0 percent y/y. Also, recent data for 3Q09, show that economic sentiment indicators have further improved.

Fiscal policy
The economic slowdown and a fiscal stimulus enacted before the crisis (mainly lowering of the PIT tax rates) have had a strong impact on the fiscal position. In July, the supplementary budget with higher budget deficit was accepted by the Parliament. This implies a widening of the general government deficit to around 6.3 percent of GDP, from 3.6 percent in 2008, well above the Maastricht criteria. However, the government remains committed to the medium-term consolidation path, including the spending review and the widening of the tax base, accompanied by the introduction of performance-based budgeting. As mentioned in the staff report, Poland's fiscal position is also safeguarded by the Constitutional maximum level of the public debt at 60 percent of GDP. Currently, the public debt-to-GDP ratio is ca. 50 percent.

The fiscal stimulus could not have been possible without access to international capital markets. Definitely, the positive market sentiment was reinforced by the introduction of the newly-established FCL. Since May, when Poland's FCL arrangement was approved, the government has issued both on local and sovereign debt markets securities for PLN 93 bn (capital raised from foreign issuance 19.9 bn and from domestic 73.1 bn), fully satisfying the higher borrowing needs. The FCL arrangement not only narrowed the CDS spreads for Poland, but also reduced the risk perception, thus encouraging both long-term and portfolio inflows.

Monetary policy
Monetary policy has been accommodative so far. Since November 2008, the policy rates have been cut by 250 bps to 3.5%. Inflationary expectations are very well anchored. The headline inflation amounted to 3.4 percent in September and remained within the tolerance range of 1.5

and 3.5 percent. Looking forward, with commodity prices in check and wage developments following slower economic activity, price pressure should remain subdued and the CPI should stay within the tolerance range.

Financial sector

Setting a broader support framework for the financial sector, the National Bank of Poland (NBP) announced in September a plan to introduce a new set of instruments for the support of liquidity management and bank lending. The announcement came as a result of the work conducted under the aegis of *the Pact for the Growth of Lending in Poland* which was initiated by the NBP in spring 2009. The aim of this initiative is to solve the problem of declining lending growth. According to the plan, the new instruments include: a) the extension of the repo operations maturity from 6 to 12 months, b) the purchase (as the element of the repo operations) by the NBP on the secondary market of selected bonds issued by banks, and c) an introduction of a new instrument – a discount credit. The discount credit is designed to support new lending to corporates, as under this instrument the NBP would accept for discount promissory notes issued by companies to banks in connection with the granted loan. The introduction of this instrument will require the Monetary Policy Council (MPC) to set a new interest rate of the central bank – the discount rate.

The Polish Financial Supervision Authority (KNF) assesses that banks are well capitalized. Nevertheless, taking into account the circumstances of the global financial crisis, the KNF approved a new capital adequacy regulation. The regulation would allow the banks to strengthen their capital base without the need to issue new stocks or dilute the shareholding structure. The banks would be entitled, subject to the approval of the KNF, to include in their regulatory Tier 1 capital certain long term bonds issued by the bank either in zloty, euro, US dollar or Swiss frank. The change of the capital adequacy regulation is designed as a temporary backstop solution in case a need for a capital increase occurs, and it includes a gradual phasing-out mechanism.

Moreover, the authorities, in cooperation with financial institutions, continue to work on the improvement of credit risk management practices.

The law that brings the credit unions (SKOKs) under the supervision of the KNF has been accepted by the Lower Chamber of the Parliament. Our authorities expect that the FSAP update planned for 2010 would also cover the issues related to the supervision of SKOKs.