January 2013
IMF Country Report No. 13/21

Republic of Poland: Arrangement Under the Flexible Credit Line and Cancellation of the Current Arrangement—Staff Report; Staff Supplement; Press Release on the Executive Board Discussion; and Statement by the Executive Director

In the context of the arrangement for the Republic of Poland under the Flexible Credit Line and cancellation of the current arrangement, the following documents have been released and are included in this package:

- The staff report on the arrangement for the Republic of Poland under the Flexible Credit Line and cancellation of the current arrangement, prepared by a staff team of the IMF, based on information available as of January 3, 2012. 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 staff supplement of January 7, 2013 on the assessment of the impact of the proposed Flexible Credit Line arrangement on the Fund's finances and liquidity position.

- A Press Release summarizing the views of the Executive Board as expressed during its January 18, 2013 discussion of the staff report that the request and/or review.

- A statement by the Executive Director for the Republic of Poland.

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

Arrangement Under the Flexible Credit Line and Cancellation of the Current Arrangement

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

Approved by Mahmood Pradhan and Vivek Arora

January 3, 2013

Summary

- ***Background*:** Poland's economy performed well throughout the crisis, due to very strong economic fundamentals and effective counter-cyclical policies. Nevertheless, Poland's strong trade and financial links to Europe continue to make it vulnerable to potential shocks from the region. Its status as a "gate-keeper" economy for Eastern Europe and its relatively deep and liquid financial markets make it susceptible to a retrenchment in global risk appetite.
- ***Outlook:*** The economy is feeling the effects of headwinds from Europe. Growth is moderating rapidly amid weaker export demand, confidence effects on private investment and consumption, and lower public investment. Economic activity is projected to slow further. Risks are on the downside, as a deeper or more protracted slowdown in Europe or a re-intensification of the crisis would affect Poland through substantial trade and financial channels, including through possible disorderly deleveraging by European parent banks.
- ***FCL:*** In this context, the authorities are requesting a new two-year precautionary FCL arrangement in the amount of SDR 22 billion (1303 percent of quota) and cancelation of the current arrangement approved on January 21, 2011. They consider that, in the context of heightened risks to the balance of payments, including renewed banking sector outflows and significant foreign holdings of government securities, an FCL arrangement in the requested amount would continue to play a critical role in preserving investor confidence, supporting macroeconomic policies, and providing significant insurance against external risks. They underscored their intention to continue to rebuild policy space to counter adverse shocks and prepare for a timely exit from the FCL arrangement when external risks recede. In staff's view, Poland continues to meet the qualification criteria for access under the FCL arrangement.
- ***Fund liquidity:*** The impact of the proposed commitment of SDR 22 billion on Fund liquidity would be manageable.
- ***Process:*** An informal meeting to consult with the Executive Board on a possible FCL arrangement for Poland was held on December 19, 2012.
- ***Publication:*** The authorities have consented to publication of the staff report.
- ***Team:*** The report was prepared by a staff team led by Julie Kozack and comprising Giang Ho, Yinqiu Lu, and Francisco Vazquez (all EUR), and Phil de Imus (SPR).

Contents Page

I. CONTEXT

1. **Poland's economy recovered well in 2010–11, reflecting very strong economic fundamentals and decisive counter-cyclical policies.** Limited macroeconomic imbalances prior to the crisis and counter-cyclical policies during the crisis aided the strong recovery. The banking system remained largely resilient to external turmoil despite substantial foreign ownership and a high share of foreign-currency denominated mortgages. The floating exchange rate regime played a stabilizing role, while broadly adequate international reserves and the precautionary FCL arrangement boosted market confidence. At the conclusion of the 2012 Article IV Consultation, Executive Directors commended the authorities for sound macroeconomic management, which has underpinned the good performance of the Polish economy in a challenging environment.

2. **Nevertheless, Poland's strong trade and financial links to Europe (notably the euro area) continue to make it vulnerable to potential shocks from the region** (Figure 1)**.** Bilateral trade with the euro area accounts for more than half of Poland's total trade, and Polish manufacturing firms are heavily integrated into the German supply chain. Around ⅔ of the Polish banking system is foreign-owned, of which 90 percent are subsidiaries of European banks. Although the withdrawal of funding from parent banks—while large—has so far been orderly, Poland (like other CEE countries) remains at risk of disorderly deleveraging. Poland also has large gross external financing needs (expected to be about 22 percent of GDP in 2013, reflecting to a large extent parent funding and intracompany loans), and sizeable portfolio inflows (driven in part by global liquidity conditions) have increased nonresidents' share of government bonds issued in the domestic market to 36 percent, a record high. Poland's status as a "gate-keeper" economy for the region, in which investors take positions to express views not just on Poland but on the region more broadly, and relatively deep and liquid financial markets make it vulnerable to a retrenchment in global risk appetite.

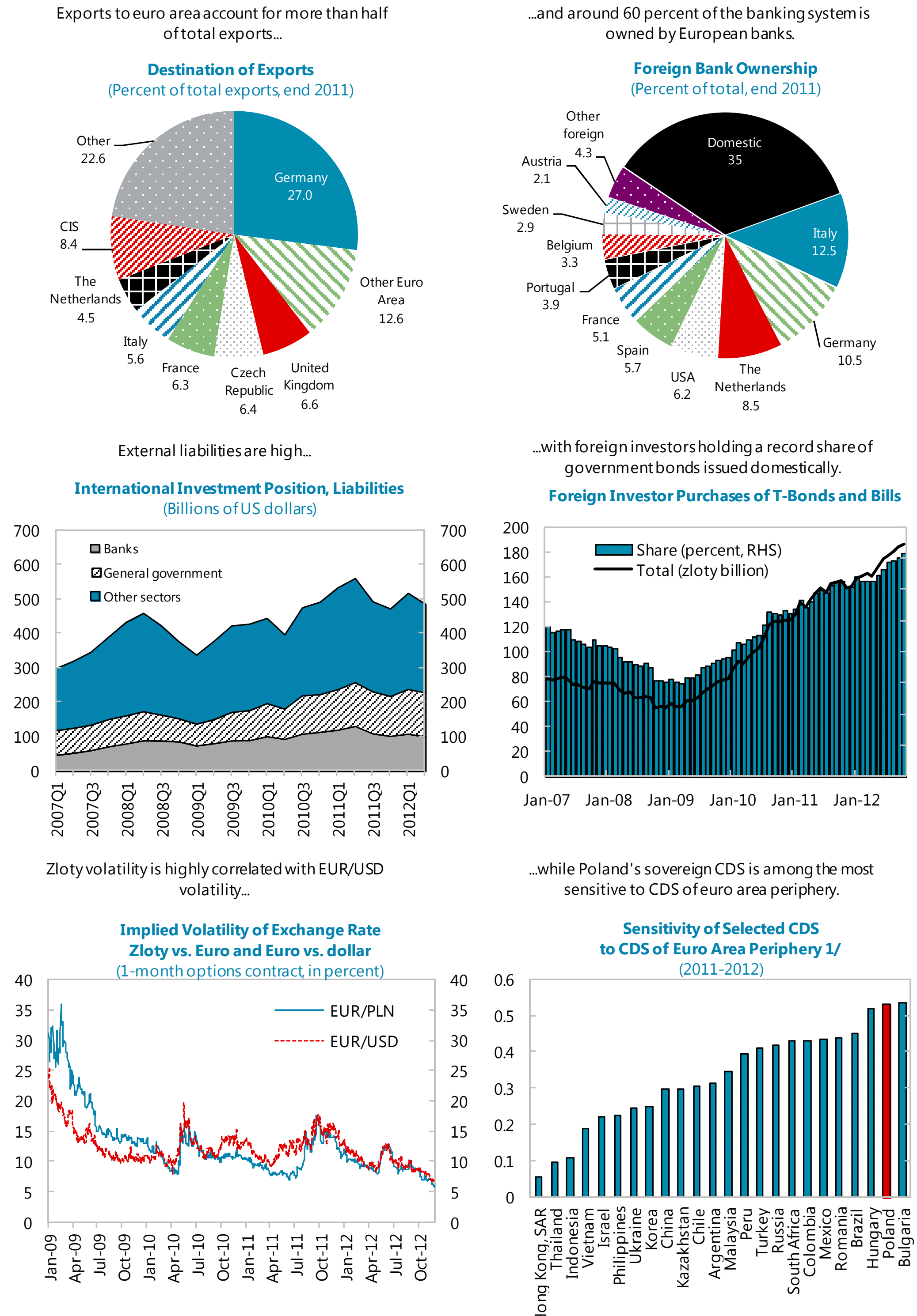
3. **Despite the difficult external environment, the authorities have continued to rebuild policy space to counter adverse shocks and prepare for a timely exit from the FCL arrangement once external risks recede.**

- Substantial fiscal consolidation reduced the deficit from 7.9 percent of GDP in 2010 to 5.0 percent of GDP in 2011. These consolidation efforts have supported market confidence and contributed to favorable financing conditions. They have also complemented Poland's pre-existing fiscal rules, which limit public debt to 60 percent of GDP and require automatic fiscal tightening when public debt exceeds 55 percent of GDP.[1]

- To contain inflationary pressures and anchor inflation expectations, the Monetary Policy Council (MPC) hiked policy rates by a cumulative 1 percentage point in the first half of 2011 and by another ¼ percentage point in May 2012. Reserves have steadily increased (by about $15 billion since end-2010 when the current FCL was approved) to broadly adequate levels. In addition, the NBP agreed a swap line with the Swiss National Bank to help cover liquidity needs in the event of major Swiss franc funding pressures.

[1] Poland's public debt rules are based on a national definition of public debt, which excludes debt of the national road fund and therefore differs from the ESA 95 definition of public debt.

Figure 1. Poland: Linkages and Spillovers



Sources: Polish Ministry of Finance; DOTS; Bloomberg; GFSR; and IMF staff estimates.
1/ Data show the percentage change in the countries' CDS associated with a 1 percent change in average CDS of Ireland, Italy, Portugal, and Spain; computed from weekly observations beginning in Jan 2011.

- The financial regulator (KNF) imposed tighter standards on household mortgage lending and higher risk weights for FX loans to households (100 percent compared to Basel requirement of 35 percent for mortgages and 75 percent for other retail exposures). Moreover, it requested banks to boost their capital and liquidity buffers to help mitigate an economic slowdown and liquidity risks. Work to establish a Systemic Risk Board that will implement a macro-prudential framework and to revamp the bank resolution regime is well underway.

4. **Measures are also being taken to strengthen medium- and long-term fiscal sustainability.** The recent pension reforms that gradually increase the retirement age in the core pension system (to 67 for both men and women, from 65 and 60, respectively) and in the uniformed services should contribute to Poland's long-term fiscal sustainability, improve labor force participation (which in turn should boost potential growth), and help increase replacement rates in the pension system. The authorities have also continued to work on the design of a permanent fiscal expenditure rule with a debt brake, which should provide an anchor for fiscal policy and keep public debt at sustainable levels.

II. Recent Developments

5. **The economy has slowed rapidly since early 2012, reflecting developments in the euro area** (Figure 2)**.** Growth moderated to 1.4 percent yoy in Q3 from 2.3 percent yoy in Q2 on account of weakening private consumption and fixed investment growth. Headwinds from Europe are taking a toll on business and consumer sentiment, and Polish firms have cut back on investment and hiring plans given continued uncertainty in Europe. The slowdown in euro area trading partners has also dampened exports. Recent data on business and consumer confidence, industrial production, and retail sales all point to deteriorating economic conditions. Private sector credit growth slowed to 5½ percent (from about 15 percent one year ago), with consumer lending falling.

6. **The labor market has worsened and inflation has declined.** The fiscal consolidation has led to a reduction in public sector employment while job creation in the private sector has remained anemic, pushing the unemployment rate up to around 10 percent and dampening wage growth. Overall price trends have reflected the weakening economy as well as slower food and energy price increases. Headline inflation eased to 2.8 percent in November 2012—close to the central bank's target of 2.5 percent. Meanwhile, core inflation dropped to 1.7 percent in November from its peak of 3.1 percent in December 2011.

7. **The current account deficit has narrowed slightly.** It was financed almost fully by net foreign direct investment and capital transfers, but portfolio inflows into the public bond market also remained strong. Yields on government bonds have reached post-crisis lows, and CDS spreads are below 100 bps. At the same time, foreign liabilities in the banking system have declined, reflecting orderly funding withdrawal by parent banks.

8. **Fiscal consolidation has continued.** Public expenditures have evolved broadly in line with the consolidation program, but lower than expected VAT revenues led to some fiscal slippage. Nevertheless, recent data suggest that local governments are consolidating, and social security is doing slightly better than envisaged. Therefore, the fiscal deficit is expected to drop from

5.0 percent of GDP in 2011 to about 3½ percent of GDP in 2012. The government is on track to pre-finance 20-25 percent of its 2013 borrowing needs by end-2012.

9. **Despite the recent decline in external funding, the banking system has remained stable** (Figure 3)**.** Capital adequacy ratios are around 14 percent (with Tier 1 capital representing 90 percent of total capital) and overall liquidity is ample, but the NPL ratio rose to 8¾ percent. Profits have remained healthy, despite increased provisioning and a decline in interest margins. At the same time, banks' liabilities to foreign financial institutions have declined by about $17 billion since mid-2011—a pace not seen since 2008-09. An FSAP update is scheduled for early 2013 to assess financial stability issues and financial sector development in Poland.

III. Outlook and Near-Term Policies

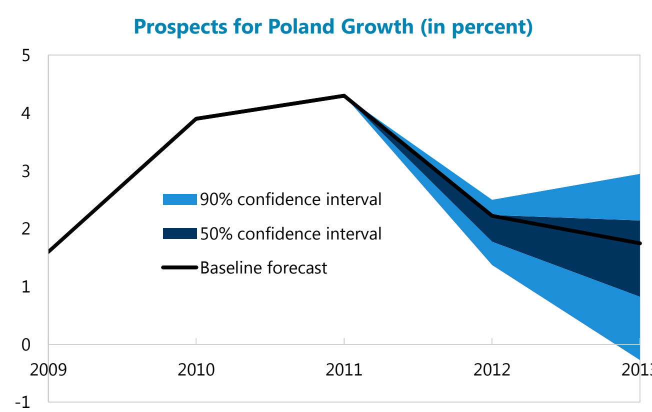
10. **The economy is expected to moderate further in 2013.** With slowing economic activity in key trading partners (e.g. Germany), annual GDP growth is projected to decelerate to 2.2 percent in 2012 and further to 1.7 percent in 2013 (a downgrade from the October 2012 WEO forecast). Firms are expected to continue to postpone investment and hiring decisions, adding to the effects of the decline in public investment. Household consumption should remain tepid, reflecting weak labor market conditions and tighter credit availability. Sluggish domestic demand should reduce import growth, helping to keep the current account deficit below 4 percent of GDP.

Poland: Real GDP Growth Projections, 2012-15
(Percent)

	2012	2013	2014	2015
GDP	2.2	1.7	2.3	3.0
Domestic demand	0.0	1.2	2.1	2.9
Private consumption	0.7	0.6	2.1	2.5
Public consumption	0.0	0.8	0.7	1.8
Domestic fixed investment	0.0	-0.2	3.1	4.7
Net external demand (contribution to growth)	1.9	0.7	0.2	0.2
Output gap	-0.3	-1.0	-0.7	-0.3

Sources: IMF staff estimates.

11. **Risks to the outlook are on the downside.** Poland would be affected by adverse shocks through substantial trade and financial linkages with Europe. The banking system is still exposed to FX-induced credit and liquidity risks and the risk of disorderly deleveraging by parent banks. Continued uncertainty could undermine firms' willingness to invest and hire, which would have knock-on effects on consumption, deepening the growth slowdown, and delaying the recovery.

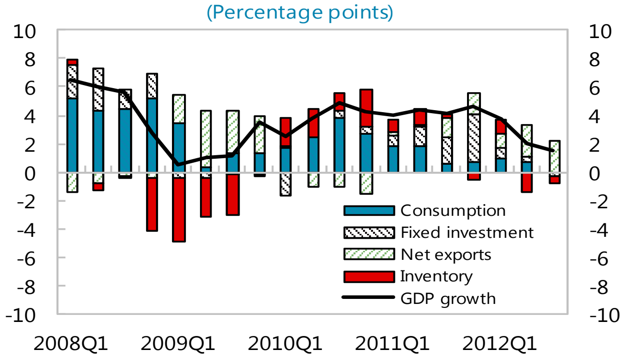


Sources: Oct. 2012 WEO, and IMF staff estimates.
Note: The confidence interval is calculated based on the WEO fan chart on prospects for world GDP growth, and staff estimation, based on historical data, that a one percentage point fall in global growth would lead to a decline in Poland's growth by about 0.7 percentage point.

Figure 2. Poland: Recent Economic Developments, 2008-12

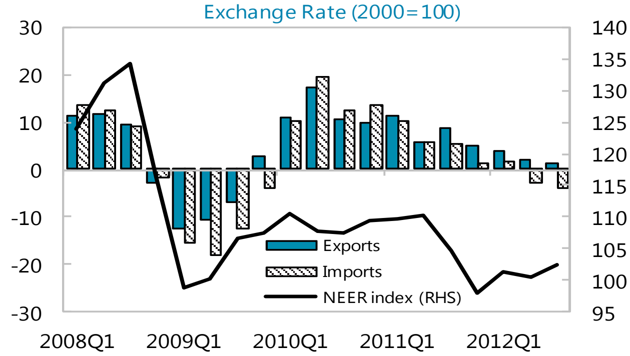
GDP growth continued to slow in Q3, on the back of weak domestic demand, but net external demand remained solid.

Contributions to GDP Growth
(Percentage points)



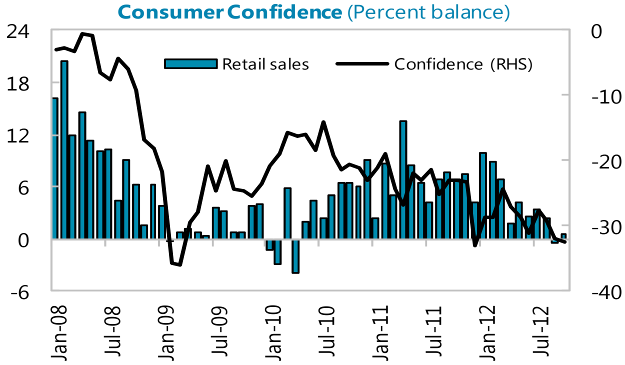
Exports growth has moderated, despite the favorable exchange rate. Imports declined with domestic demand.

Trade Volume (YoY percent changes)
Exchange Rate (2000=100)



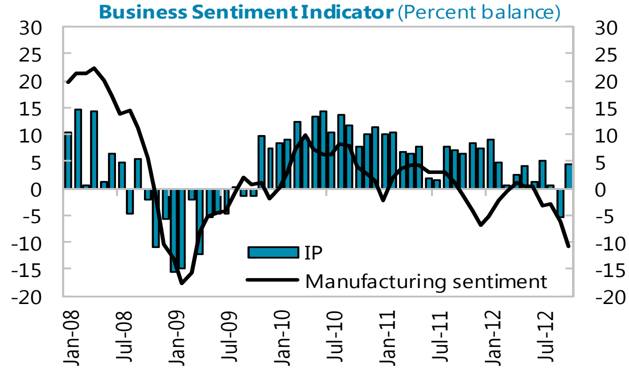
As consumer confidence deteriorates further, retail sales growth has moderated.

Retail Sales (YoY percent changes)
Consumer Confidence (Percent balance)



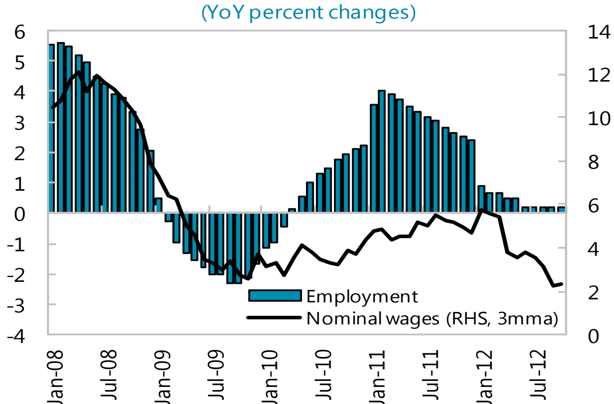
Business sentiment is weak, and recently industrial production contracted.

Industrial Production (YoY percent changes)
Business Sentiment Indicator (Percent balance)



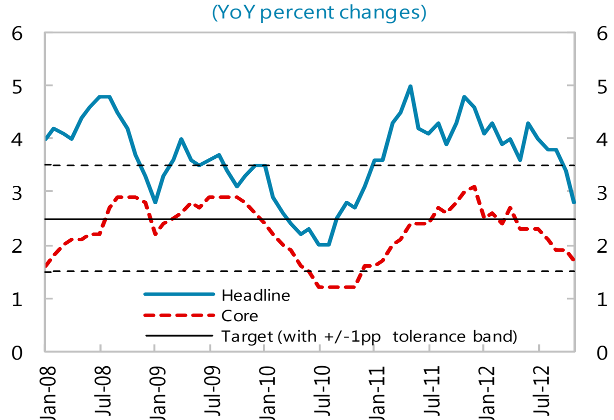
In the enterprise sector, wage pressure is muted, and employment creation is sluggish.

Enterprise Sector Employment and Wages
(YoY percent changes)



Headline CPI inflation moved below the upper bound of the target band. Core inflation has also declined.

CPI Inflation
(YoY percent changes)

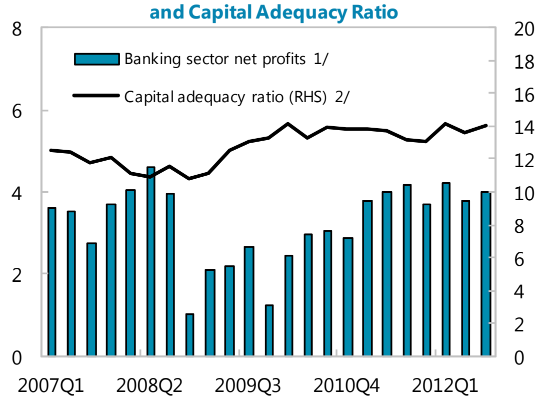


Sources: Haver; Central Statistical Office; and IMF staff estimates.

Figure 3. Poland: Banking Sector Developments, 2007-12

Banks' profit growth has declined and capital adequacy remained high...

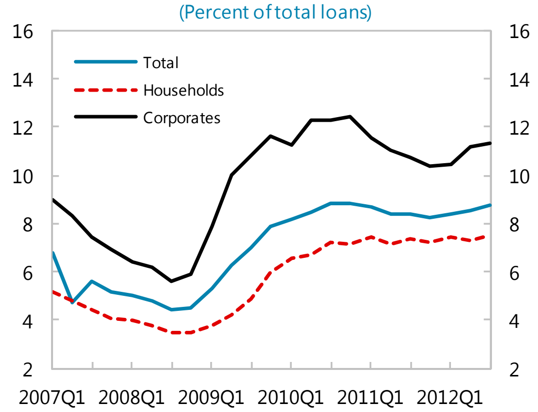
Banking Sector Net Profits and Capital Adequacy Ratio



1/ Zlotys billions.
2/ Percent.

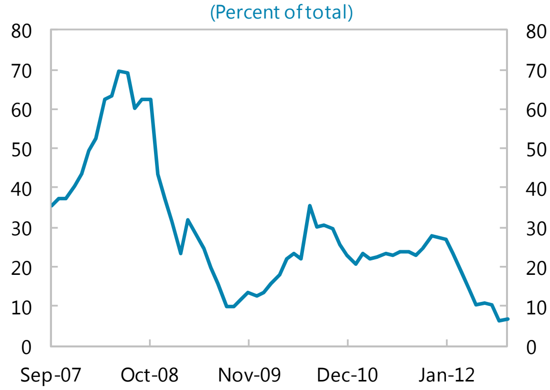
...while asset quality deteriorated slightly.

Non-Performing Loans by Sector
(Percent of total loans)



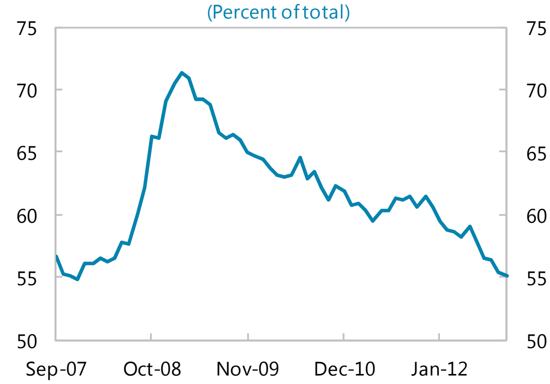
The share of new FX mortgage lending has declined considerably...

Foreign Currency Share of New House Purchase Loans
(Percent of total)



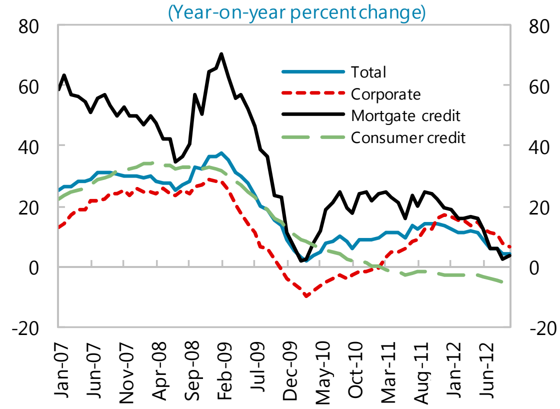
...while the share of FX mortgage loans in total is still high.

Share of Foreign Currency Denominated House Purchase Loans
(Percent of total)



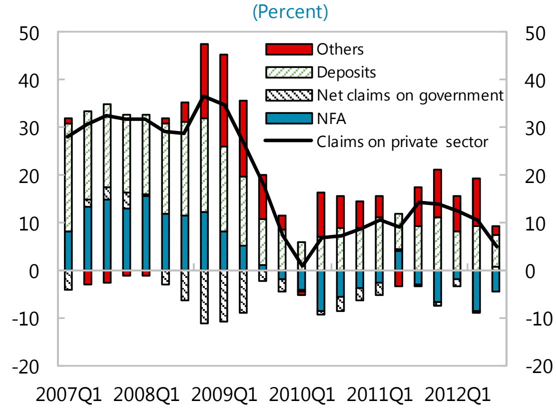
Private sector credit expansion is starting to slow...

Private Sector Credit Growth
(Year-on-year percent change)



...as deleveraging takes place.

Contribution to Credit Growth
(Percent)



Sources: KNF; NBP; and IMF staff estimates.

12. **Against this background, the policy mix appropriately consists of an easing monetary stance while allowing fiscal automatic stabilizers to operate.** In particular:

- The 2013 budget balances further fiscal adjustment and support for the economy. It continues the structural consolidation (with measures of about ½ percent of GDP) while allowing automatic stabilizers to mitigate the slowdown. Staff estimates that the fiscal deficit should edge down to about 3.4 percent of GDP in 2013, while public debt (ESA95 definition) would reach about 56 percent of GDP. In addition, to boost investment, the authorities have announced a new program, consisting of guarantees for SME lending (up to a total of 3½ percent of GDP over 2 years) and a government investment fund (the size of which is still under discussion). Over the medium term, additional fiscal consolidation measures of about 1 percent of GDP would be needed to achieve the authorities' medium-term objective (MTO) of a structural deficit of 1 percent of GDP and put debt firmly on a downward path.

Estimated Yields of Main Fiscal Measures 2013 1/
in percent of GDP

Total Yields	0.4
Expenditures (Drop (+))	0.6
Temporary Expenditure Rule	0.2
Abolition of Early Retirement Scheme	0.3
Revenues	-0.1
Redirection of Pension Contributions	-0.2
Freeze of Thresholds in PIT	0.1
Increase in Disability Contributions	0.1
Revenues from CO2 Emission Rights Auction	0.2
Revenues from New Toll System	0.1
Dividends from State-Owned Firms	-0.4

1/ Yields are computed as incremental from 2012; totals may not add up due to rounding.
Sources: Authorities and IMF staff calculations.

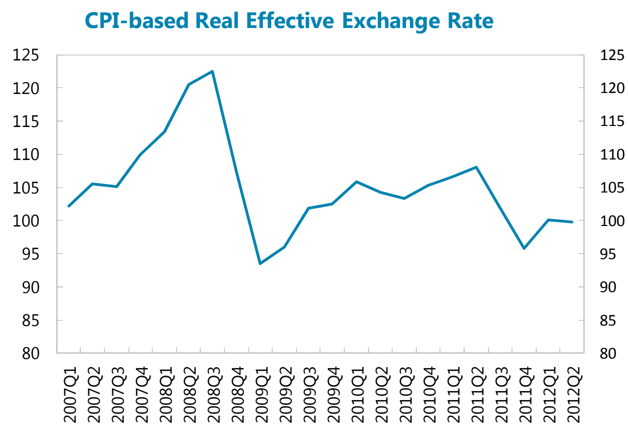
- The MPC has started an easing cycle: policy interest rates were cut by a cumulative ½ percentage point since November 2012. Inflation is expected to fall to the target in early 2013, reflecting the economic slowdown, muted wage pressures, and slowing credit growth. The authorities are mindful of financial market volatility and stand ready to provide liquidity in both zloty and FX if the banking sector experiences acute liquidity shortages.

13. **Financial sector policies have helped improve the resilience of the banking system**. Previous measures are finally bearing fruit: the flow of new FX mortgages has declined considerably and banks are becoming less reliant on external funding (which is necessary over time, but which could become destabilizing if the process becomes disorderly). The authorities continue to closely monitor credit and liquidity risks. They have continued to work on the design of the macroprudential framework and the revamped bank resolution toolkit. The KNF has announced plans to loosen some regulations on household credit, citing the need to help alleviate constraints on credit supply and reduce incentives for households to seek loans from unsupervised institutions. The FSAP update will assess the impact of these measures, including in the context of rising NPLs.

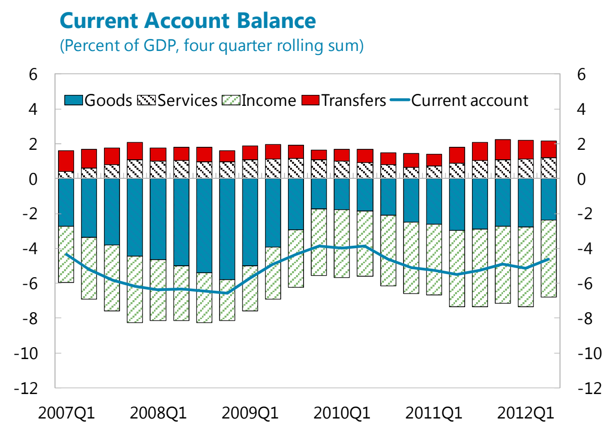
IV. The Role of the Flexible Credit Line

14. **The authorities have underscored that precautionary access to the FCL has served their economy well.** They noted that the FCL arrangements allowed for a more flexible policy response to the global crisis while preserving favorable access to markets, even during periods of elevated uncertainty and volatility (Figure 4). The first FCL arrangement provided useful insurance in the aftermath of the 2008–09 global crisis. Subsequent FCL arrangements supported the continuation of these positive trends by cushioning the impact of the crisis in the euro area. They

also provided time for the authorities to begin to rebuild policy buffers and further strengthen Poland's institutional frameworks. Overall, the authorities believe that the FCL has played a critical stabilizing role for Poland, as evidenced by a real effective exchange rate and current account that have remained broadly consistent with fundamentals (according to the assessment in the Pilot External Sector Report).



Source: IMF, IFS.



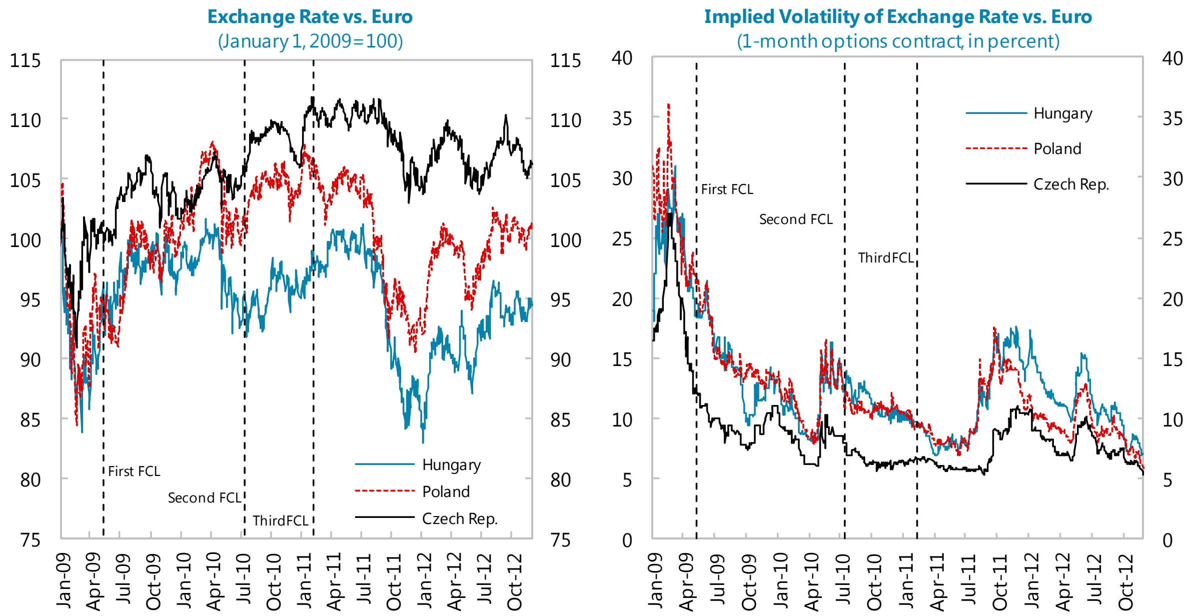
Sources: CEIC; and IMF staff estimates.

15. **The authorities are requesting a new FCL arrangement with proposed access of SDR 22 billion (about $34 billion) and cancellation of the current arrangement.** They consider that it remains too soon for Poland to exit from the FCL arrangement, given the heightened external risks. The requested higher access in nominal terms implies quota access of 1303 percent, compared with quota access of 1135 percent now and 1400 percent at the time of approval of the current FCL (Poland's quota increased during the current arrangement). This level of access would provide adequate insurance against heightened risks to Poland's balance of payments. The authorities are of the view that a larger insurance policy would allow more time for shocks to dissipate and for continued rebuilding of policy buffers, while preserving investor confidence and supporting macroeconomic policies going forward.

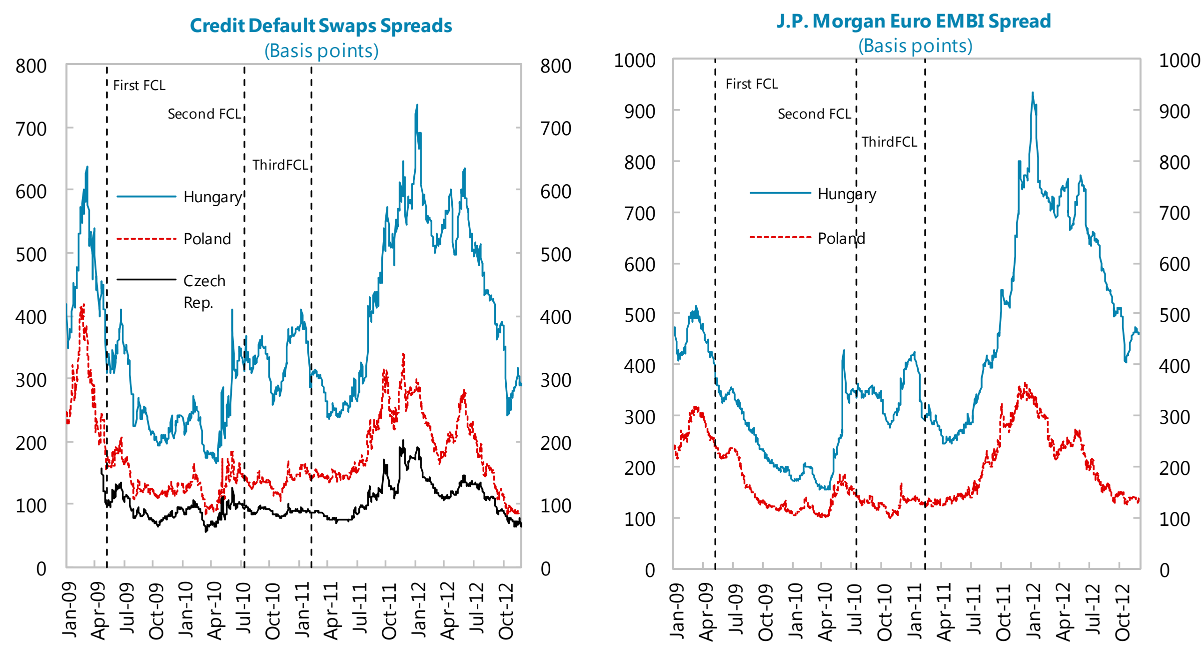
16. **The authorities are committed to exiting from the FCL arrangement as external risks recede.** As noted above (¶3), progress has been made in preparing for exit, and the authorities remain committed to maintaining very strong policies. They underscored their intention to continue to rebuild policy space to counter adverse shocks, notably through ongoing fiscal consolidation at a pace appropriate for the economic cycle, an appropriate monetary policy stance, and continued vigilance regarding the state of the banking system. At the same time, given the slowing economy and heightened external risks, the authorities believe that the FCL will provide important "breathing space" for Poland to continue to build buffers at a pace consistent with economic and financial conditions. In this regard, they emphasized that they have been building reserves under the current FCL arrangement and that they intend to continue to do so to ensure that reserve adequacy is maintained, as they see this as an essential part of their exit strategy. They are of the view that these steps will help prepare for a timely exit from the FCL arrangement when external conditions improve.

Figure 4. Poland: The FCL's Impact on Financial Markets, 2009-12

Zloty exchange rate and its volatility were supported by the FCL and regional trends....



...and the same with the sovereign CDS and bond spreads.

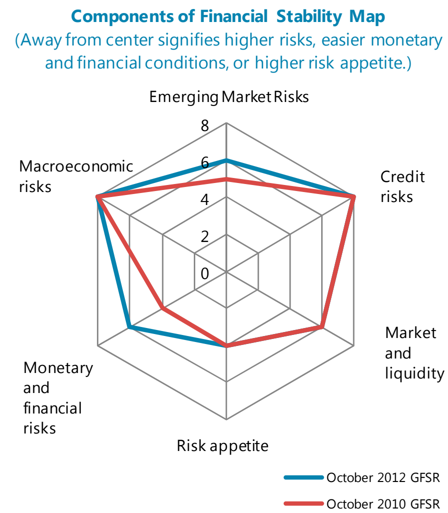


Sources: Bloomberg; Polish Ministry of Finance; Dealogic; and IMF staff estimates.

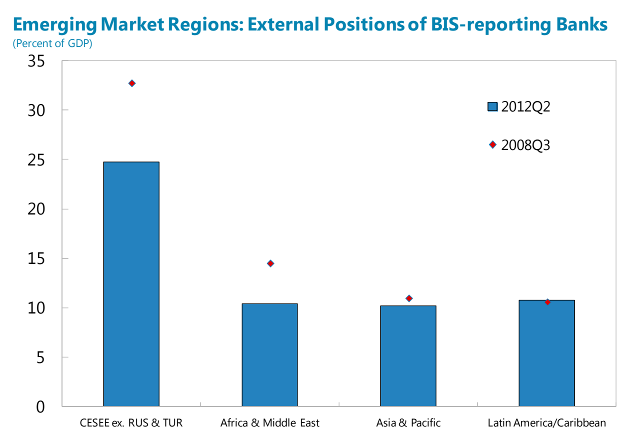
A. Access Considerations

17. **Heightened risks to the balance of payments remain a key concern for Poland and justify the need for a higher buffer.** Notably, the risk of further outflows from the banking system (parent banks are withdrawing funding at a significant pace after a resumption of inflows in 2010 and the first half of 2011) and the possibility of reduced portfolio inflows into the government bond market (growing foreign participation in the government bond market makes Poland increasingly vulnerable to global shocks).

- Despite the recent respite in financial market stress, the external environment has remained unsettled since the current FCL arrangement was approved in January 2011. This view is consistent with recent GFSR and WEO analysis. The October 2012 GFSR finds increased risks to the global financial system, with the euro area crisis the principal source of concern. Similarly, the October 2012 WEO sees downside risks as more elevated than in the April 2012 and September 2011 reports, citing escalation of the euro area crisis as one of the most pertinent risks.

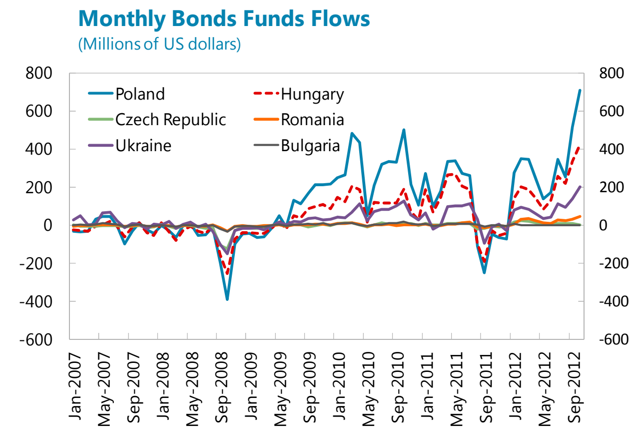


- Poland's financial links to Europe make it vulnerable to disorderly deleveraging (Figure 5). In particular, foreign bank claims on Poland amounted to 59 percent of GDP at the end of 2011 according to BIS consolidated data, and over 90 percent of Polish banks' external liabilities to foreign financial institutions are to parent banks. The overall situation of the parents of the main banks operating in Poland has become more uncertain since the current FCL arrangement was approved: home countries' sovereign bond spreads and realized volatility of parent bank equity prices have increased. Partly reflecting this, parent banks have withdrawn funding from their Polish subsidiaries over the past year. This is consistent with broad regional trends, which suggest that funding withdrawal is affecting a number of countries in Central and Eastern Europe. More generally, funding from Western Banks to the CEE region is significantly greater—relative to GDP—than that of other regions (based on BIS data), suggesting that the impact of funding withdrawal could be more severe.



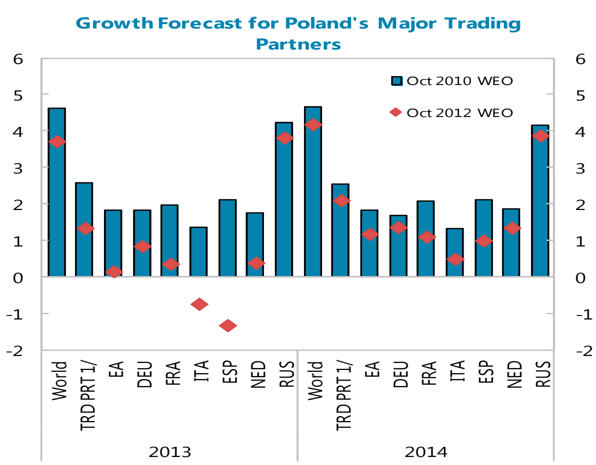
Sources: BIS, Locational Banking Statistics; IMF, WEO; and IMF staff estimates.

- Poland's gross external financing needs (projected at 22 percent of GDP per year in both 2013 and 2014) remain very large. Despite the significant fiscal consolidation, the public sector's reliance on external financing has increased steadily as Poland has experienced significant portfolio inflows into the zloty government bond market (foreign holdings of domestic government bonds have increased by $20 billion since end-2010). Private short-term debt amortization needs also remain high in both the non-financial private sector and the banking sector. The sizeable portfolio inflows, combined with Poland's status as a "gatekeeper" for the region and its relatively deep and liquid financial markets, make it increasingly vulnerable to a retrenchment in global risk appetite. Data on inflows into bond funds suggest that Poland has experienced more volatility in these flows than most other countries in the region, including neighboring Hungary, particularly in the post-2008 period. This relatively high volatility is, in staff's view, related to the depth and liquidity of its financial markets and investors' willingness to take positions in Polish assets as a way to express views on the region.



Source: EPFR Bonds Funds Country Flows.

- Poland's significant trade links to Europe make it susceptible to a protracted slowdown in Europe. Growth forecasts for Poland, all of its major trading partners, and the Central and Eastern European region more broadly are lower than when the current FCL arrangement was approved, with considerable downside risks. Indeed, in 2013, Poland is expected to experience its worst growth performance since 2009.



1/ Trading partners' growth weighted by exports share.

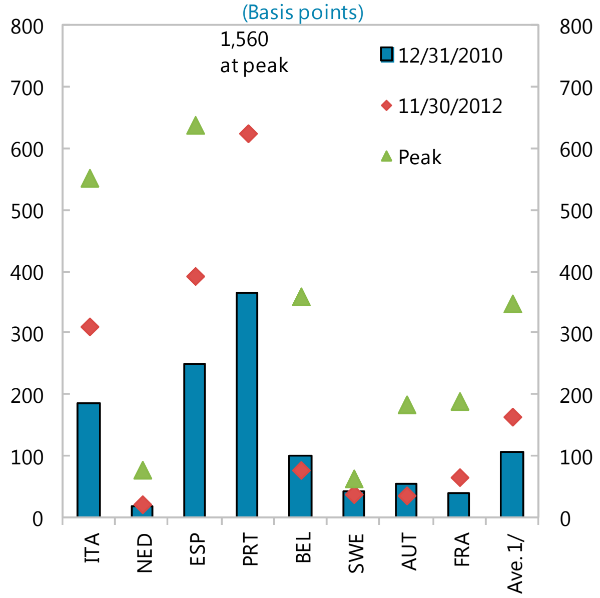
Real GDP Growth Projections for Poland and Region, 2013-2014
(In percent)

	2013		2014	
	Oct 2010 WEO 1/	Oct 2012 WEO 2/	Oct 2010 WEO 1/	Oct 2012 WEO 2/
Poland	3.9	1.7	4.0	2.3
New EU Member States 3/	3.9	1.8	4.0	2.7

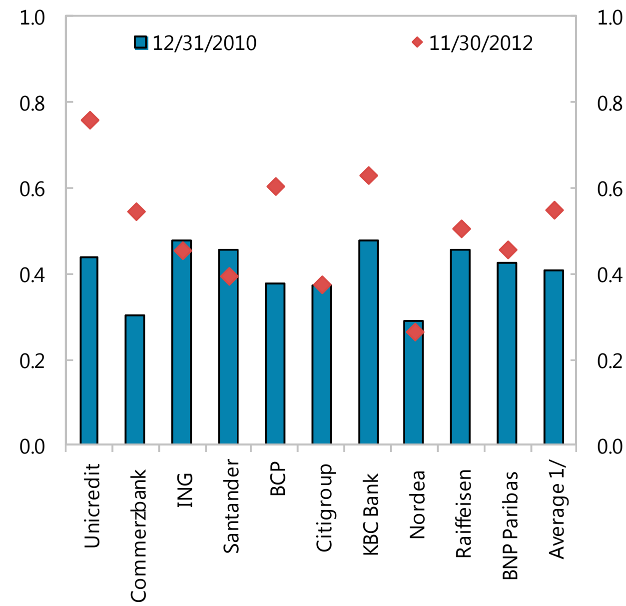
Sources: IMF, WEO; and IMF staff estimates.
Note: All aggregates are weighted by GDP valued at purchasing-power-parity (PPP).
1/ Projection for Poland at the time that the current FCL arrangement was approved.
2/ Projection for Poland is current staff projection.
3/ Includes Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic, and Slovenia.

Figure 5. Poland: Exposure to Banks' Funding Withdrawal

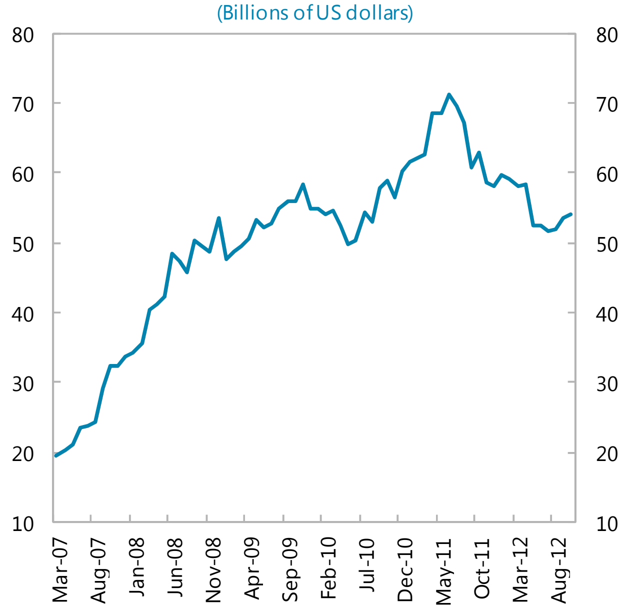
Home countries' overall sovereign bond spreads have increased...



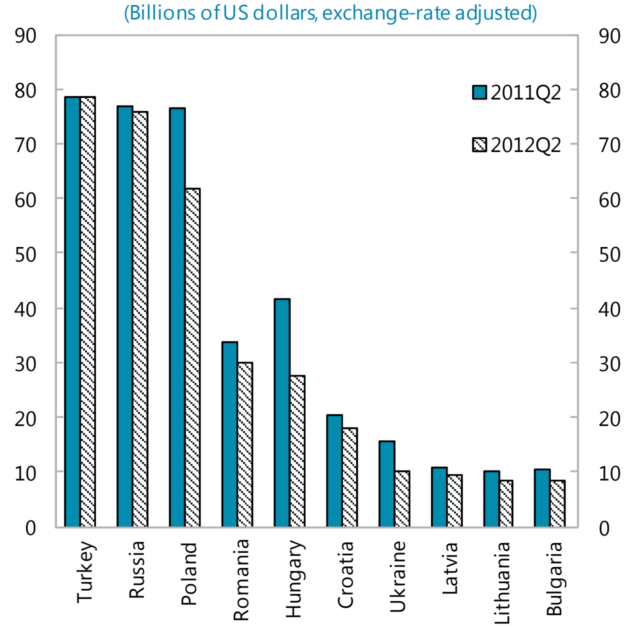
...as well as the volatility of parent banks' equity returns.



Deleveraging is taking place in Poland...



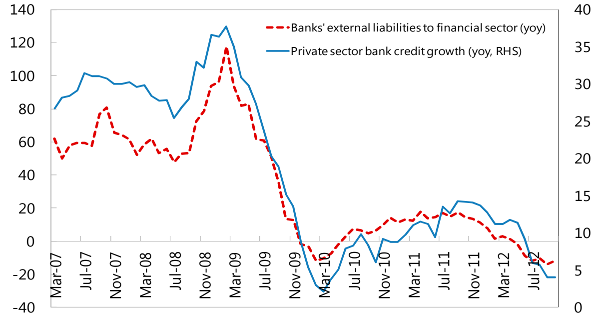
...as well as in a number of countries in the region.



Sources: Haver; BIS, Locational Banking Statistics; and IMF staff estimates.
1/ Weighted by 2011 share of bank assets.

- With weakening growth, Poland may be more vulnerable to shocks, particularly with respect to bank deleveraging. While it is difficult to establish causality, and despite Polish banks' relative success in increasing reliance on domestic sources of funding (notably deposits), there remains a very strong association between credit growth and parent funding to banks, suggesting that deleveraging can still have far-reaching effects on economic performance. Indeed, the current growth slowdown is characterized by a weaker credit growth. While the deleveraging process has so far been orderly, Poland—like other countries in Central and Eastern Europe—remains at risk of disorderly deleveraging, which would further exacerbate these effects.

Comovement of Banks' External Liabilities to Financial Sector to Bank Credit Growth (Percent)



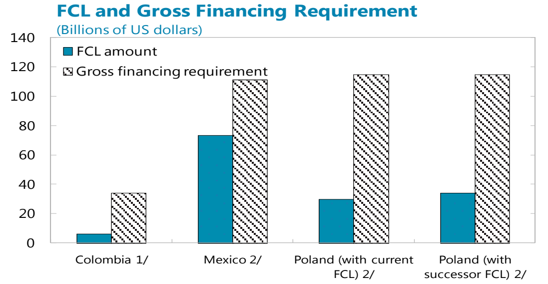
Sources: Haver; and IMF staff estimates.

- In this context, even though the authorities have continued to strengthen macroeconomic buffers for a timely exit from the FCL arrangement, continued access to the FCL on an augmented (though still precautionary) basis would help strengthen Poland's resilience to external shocks.

18. **Access under the successor arrangement is predicated on potential drains under a plausible adverse scenario.** With heightened risks to Poland's balance of payments (particularly with respect to banking sector funding and portfolio capital flows), and notwithstanding a broadly adequate level of international reserves relative to standard metrics and peers (although Poland is below median on coverage of short-term debt plus current account deficit), access of about 1303 percent of quota would be needed to provide credible assurance of sufficient liquidity under an adverse scenario. The assumptions underpinning this adverse scenario are broadly in line with those under the request for the 2011 FCL arrangement, with one exception. Notably, this adverse scenario assumes somewhat larger banking sector outflows, reflecting the observed data in the banking sector over the past year (Box 1). The adverse scenario encompasses plausible shocks that are comparable to other FCL cases (Figure 6). They imply potential financing gaps of $33.7 billion and $34.8 billion in 2013 and 2014, respectively.

19. **Staff believes that heightened risks to the balance of payments justify access in the requested amount.** Continued global uncertainties, heightened external risks, and risks of banking sector outflows and lower portfolio inflows justify the need for a higher buffer against risks, notwithstanding Poland's very strong fundamentals and sustained track record of implementing very strong policies. Even with higher access, the successor FCL arrangement would still provide coverage of gross external financing needs that is well within the range of other FCL arrangements. The proposed access of SDR 22 billion (equivalent to $33.9 billion) for a period of two years would cover potential drains under an adverse scenario, while continuing to signal policy credibility and helping to maintain investor confidence.

FCL and Gross Financing Requirement
(Billions of US dollars)



Sources: WEO; and IMF staff estimates.
1/ 2013 for Colombia assuming the current FCL arrangement.
2/ Average of 2013 and 2014.

Box 1. Adverse Scenario

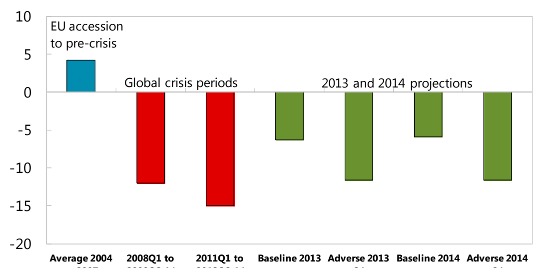
The starting point of designing the adverse scenario is staff's latest baseline forecast, in which Poland's gross external financing needs continue to be very large. The baseline forecast incorporates significant FDI inflows (consistent with recent experience), ample short-term (ST) and medium and long-term (MLT) external financing for both government and private sector (also consistent with recent experience), and a moderation in the pace of funding withdrawal by parent banks. Baseline rollover rates are projected at about 160 percent for the public sector and around 105 percent for the private sector. As a result, reserve accumulation is projected to be around $10 billion per year over 2013–14.

The adverse scenario assumes concurrent shocks to various components of Poland's balance of payments. These assumptions are broadly in line with those under the 2011 FCL request, with the exception that this scenario includes more severe shocks to banking flows, reflecting recently observed outflows from Polish banks. The adverse scenario encompasses plausible shocks that are comparable to other FCL cases and historical data on shocks to emerging market economies.

The main assumptions underlying the adverse scenario are as follows:

- A fall in FDI inflows of 25 percent and equity portfolio outflows of around 90 percent relative to baseline assumptions. These are the same shock assumptions as under the 2011 FCL request. They are in line with the decline in FDI observed in 2009 and the large equity outflows observed after Lehman Brothers' bankruptcy.
- A decline in rollover rates of around 25 percentage points for non-financial private sector ST and MLT debt and public sector MLT debt relative to the baseline assumptions. ST public debt is assumed to be more than fully rolled over. Rollover rates applied to MLT private and public debt are close to the mean of historical rollover rates for emerging market countries.
- A somewhat larger shock was applied to banking flows, reflecting deleveraging which has taken place over 2011Q2-2012Q2. The scenario assumes a 40 percentage point decline in rollover rates (versus a decline of about 25 percentage points under the 2011 FCL request), and a reduction in other investment flows, mostly from non-resident deposits, of $5 billion. The nominal sum of the reduced ST bank rollovers and other investment flows amount to about $11.6 billion. This is similar to the $12 billion sum of outflows assumed under the adverse scenario underpinning the 2011 FCL request, and is somewhat lower than the observed reduction in other ST investment flows over both 2008Q1-2009Q2 and 2011Q3-2012Q2.

Net Other Investment Flows: Actual and Projections
(Billions of US dollars)



Sources: NBP; and IMF staff estimates.
1/ Primarily driven by reduction in bank-related flows such as external deposits.
2/ Nominal sum of the reduced short-term bank rollovers and other investment flows (see Box 1 for adverse scenario).

- In order to maintain adequate reserves, the scenario also maintains the same assumption as in the 2011 FCL request of half of the expected reserves build up under the baseline.

Poland - External Financing Requirements and Sources, 2010-14

(In million of U.S. dollars)

	2010	2011	2012 Proj.	2013 Proj.	2013 Adverse scenario	Contribution to Gap	2014 Proj.	2014 Adverse scenario	Contribution to Gap
GROSS FINANCING REQUIREMENTS (A)	**121,933**	**112,263**	**121,069**	**112,687**	**112,687**		**117,120**	**117,120**	
Current account deficit	24,030	25,023	17,777	18,816	18,816		18,904	18,904	
Medium and long-term debt amortization	26,243	18,484	32,734	26,896	26,896		30,010	30,010	
Public sector	6,821	4,923	13,947	14,822	14,822		8,424	8,424	
Banks	6,637	4,447	8,637	3,194	3,194		4,489	4,489	
Non-bank Corporates	12,785	9,114	10,150	8,880	8,880		17,097	17,097	
Short-term debt amortization	71,660	68,756	70,558	66,975	66,975		68,205	68,205	
Public sector	1,169	508	2,482	2,730	2,730		3,003	3,003	
Banks (inc. s.t. deposits)	23,495	21,368	19,250	16,396	16,396		16,396	16,396	
Non-bank Corporates	46,996	46,880	48,826	47,849	47,849		48,806	48,806	
o/w trade credit	30,571	31,457	32,763	32,107	32,107		32,750	32,750	
SOURCES OF FINANCING (B)	**137,065**	**118,546**	**131,178**	**122,914**	**84,117**		**126,474**	**86,978**	
Foreign direct investment (net)	6,861	11,552	9,593	9,474	7,105	**2,368**	10,207	7,656	**2,552**
o/w inward (net)	14,345	18,887	17,178	17,309	12,981		18,292	13,719	
Equities (net)	6,872	3,732	3,596	3,586	359	**3,227**	4,299	430	**3,869**
by nonresidents	7,875	3,052	4,118	4,186	209		5,182	259	
New borrowing and debt rollover	124,740	98,530	106,789	102,452	74,251		101,315	73,241	
Medium and long-term borrowing	55,984	27,972	39,813	34,246	25,132		39,154	28,548	
Public sector	29,536	12,508	18,805	19,508	14,631	**4,877**	17,002	12,751	**4,250**
Banks	20,392	3,596	5,783	3,194	1,900	**1,294**	4,713	2,805	**1,909**
Non-bank Corporates	6,056	11,868	15,225	11,544	8,600	**2,944**	17,439	12,992	**4,447**
Short-term borrowing	68,756	70,558	66,975	68,205	49,119		62,161	44,693	
Public sector	508	2,482	2,730	3,003	3,003		3,303	3,303	
Banks	21,368	19,250	16,396	16,396	9,756	**6,641**	16,396	9,756	**6,641**
Non-bank Corporates	46,880	48,826	47,849	48,806	36,361	**12,446**	42,462	31,634	**10,828**
EU transfers	6,873	8,890	12,297	11,933	11,933		11,836	11,836	
Other	-8,281	-4,158	-1,097	-4,530	-9,530	**5,000**	-1,184	-6,184	**5,000**
GROSS RESERVES ACCUMULATION (C)	**15,132**	**6,283**	**10,109**	**10,227**	**5,113**	**-5,113**	**9,354**	**4,677**	**-4,677**
FINANCING GAP (B - A - C)	**0**	**0**	**0**	**0**	**-33,683**	**33,683**	**0**	**-34,819**	**34,819**
In millions of SDR						21,825			22,561
In percent of quota						**1293%**			**1336%**

Sources: National authorities and staff estimates and projections.

Poland: Proposed Access Relative to Other High-Access Cases

	Proposed Arrangement FCL	High-Access Cases 1/ Proposed Arrangement (Percentile)	20th	65th Percentile (Ratio)	80th	Median
Access						
In millions of SDRs	22,000	88	1,400	11,000	15,363	6,901
Average annual access (percent of quota)	652	78	171	457	703	300
Access during the first year (percent of quota)	1,303					
Average annual access (percent of total) 2/	652	78	300	754	1,009	560
Total access in percent of: 3/						
Actual quota	1,303	86	307	801	1,053	587
Gross domestic product	7.0	60	4.0	7.3	9.6	6.3
Gross international reserves	31.4	25	27.2	61.0	90.0	48.9
Exports of goods and nonfactor services 4/	14.2	31	11.3	31.5	39.3	21.1
Imports of goods and nonfactor services	14.2	33	10.0	25.6	37.5	19.8
Total debt stock 5/						
Of which: Public	14	54	9	16	31	12
External	10	41	7	15	22	12
Short-term 6/	32	45	21	49	103	33
M2	13	51	6	16	26	12

Sources: Executive Board documents, MONA database, and Fund staff estimates.

1/ High access cases include available data at approval and on augmentation for all the requests to the Board since 1997 which involved the use of the exceptional circumstances clause or SRF resources. Exceptional access augmentations are counted as separate observations. For the purpose of measuring access as a ratio of different metrics, access includes augmentations and previously approved and drawn amounts.

2/ Correspond to quotas prior to 2008 Reform.

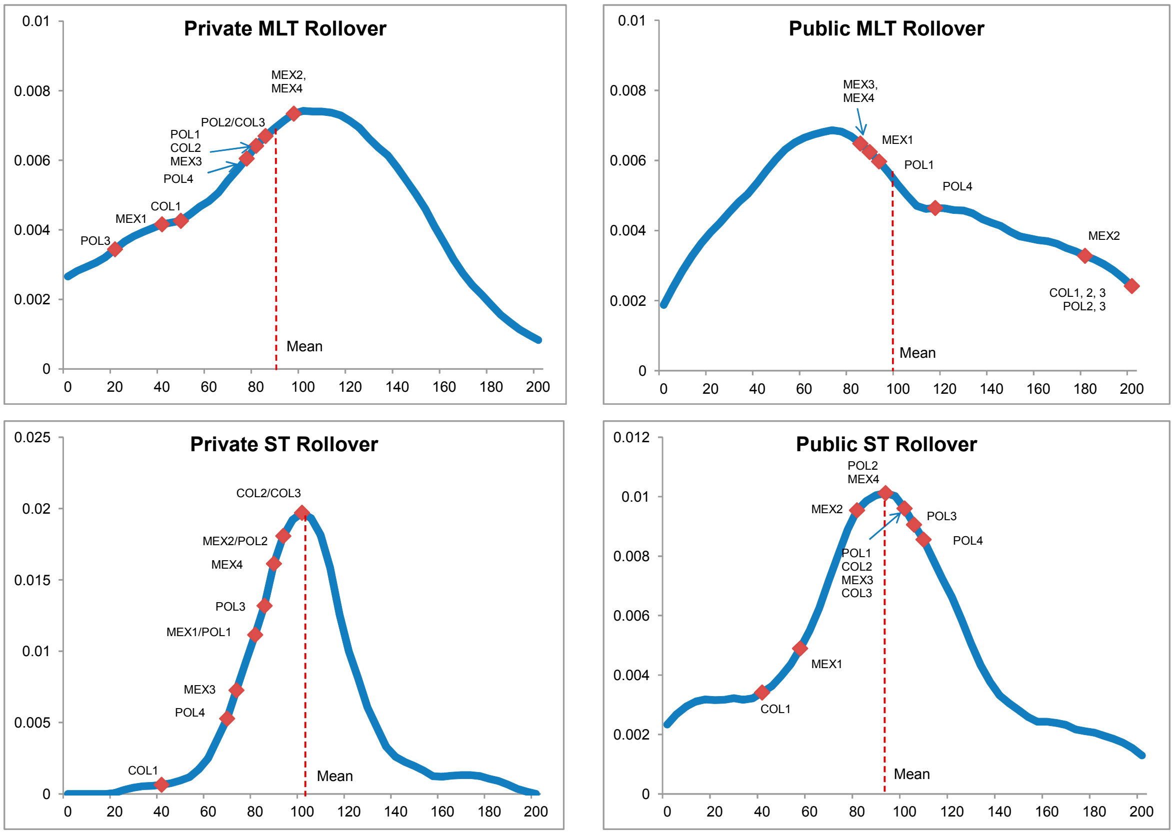
3/ The data used to calculate ratios is the actual value for the year prior to approval for public, external, and short-term debt, and the projection at the time of program approval for the year in which the program was approved for all other variables (projections for 2012 were used).

4/ Includes net private transfers.

5/ Refers to net debt.

6/ Refers to residual maturity.

Figure 6. FCL Cases Compared with Distribution of Historical Shocks to Emerging Market Economies



Source: IMF staff estimates.

B. Review of Qualification

20. **Staff believes that Poland fully meets the qualification criteria identified in ¶2 of the FCL decision** (Figure 7)**.** Poland's very strong economic fundamentals and institutional policy framework, together with its sustained track record of implementing very strong policies, have allowed the authorities to retain market credibility while adjusting economic policies in a timely and effective manner during the global crisis. Furthermore, the authorities remain committed to maintaining very strong policies. Indeed, Poland's achievements and policies have been recognized by the Executive Board, most recently in the 2012 Article IV Consultation concluded on July 2, 2012. As to the relevant criteria for the purpose of assessing qualification for a successor FCL arrangement identified in ¶2 of the FCL decision, staff's assessment is as follows:

- A sustainable external position: Poland's external position is broadly consistent with medium-term fundamentals and appropriate policies (as highlighted in the Pilot External Sector Report). Model-based estimates support the assessment that the current account and the REER are broadly aligned with fundamentals. Net IIP liabilities are large, but are mostly comprised of diversified FDI liabilities and intra-company lending. External debt is projected to peak at around 69 percent of GDP in 2012 and to gradually decline thereafter (Figure 8). Moreover, the sustainability of the external debt position is generally robust to a range of standard stress scenarios.

- A capital account position dominated by private flows: The bulk of capital flows to Poland continue to originate from the private sector, with official creditors accounting for only 6 percent of the external debt as of 2012Q2.
- A track record of steady sovereign access to international capital markets at favorable terms: Poland has continued to enjoy one of the highest credit ratings among emerging markets, which it has maintained despite the prolonged financial uncertainties in the region. The government bond market has been resilient, receiving inflows even in the turbulent second half of 2011, and sovereign CDS and bond spreads have declined to below 100 bps and 150 bps, respectively (the former at similar levels to the Czech Republic). On October 3, the government issued a EUR1.75 billion 12-year benchmark bond, with a yield of 3.39 percent, 143 bps above the mid-swap rate.
- Relatively comfortable reserve position: International reserves remain broadly adequate, exceeding most indicators of reserve adequacy, including the IMF reserve adequacy metric, but are short of 100 percent of short-term debt at remaining maturities plus current account deficit (Figure 9). The current elevated external risks imply the need for additional insurance in the form of the FCL.
- Sound public finances, including a sustainable public debt position: In 2011, substantial fiscal consolidation helped to reduce the fiscal deficit from 7.9 percent of GDP in 2010 to 5.0 percent in 2011. Additional consolidation is expected to reduce the deficit further to 3½ percent of GDP in 2012. Public debt (ESA95 definition) is expected to increase to around 56 percent of GDP in 2013. Based on announced measures, staff projects that public debt will fall to about 54 percent of GDP in 2017 (Figure 10). The reform to increase the retirement age to 67 would improve Poland’s long-term fiscal sustainability.
- Low and stable inflation, in the context of a sound monetary and exchange rate policy framework: After peaking in late 2011, headline inflation has been falling towards the NBP’s target (2½ percent). The authorities remain committed to preserving their credible and transparent inflation-targeting framework.
- The absence of bank-solvency problems that pose an immediate threat of a systemic banking crisis: Poland’s banking system remains well capitalized (capital adequacy ratio of 14 percent), liquid (liquid assets/total assets of 20 percent), and profitable (return on assets of 1.2 percent) (Table 6). However, Poland is highly exposed to banks in euro area, which is an important source of risk.
- Effective financial sector supervision: According to the 2011 Basel Core Principles (BCP) assessment, Poland’s supervisory framework is effective. This is also evidenced by the KNF’s effective response during and since the crisis, including the increased intensity of supervisory processes in line with the recommendations of the 2011 BCP assessment.
- Data transparency and integrity: The overall quality of Poland’s macroeconomic data remains good, consistent with the findings of the 2003 data ROSC, and Poland remains in observance of the Special Data Dissemination Standards. Over 2011Q3-2012Q2,

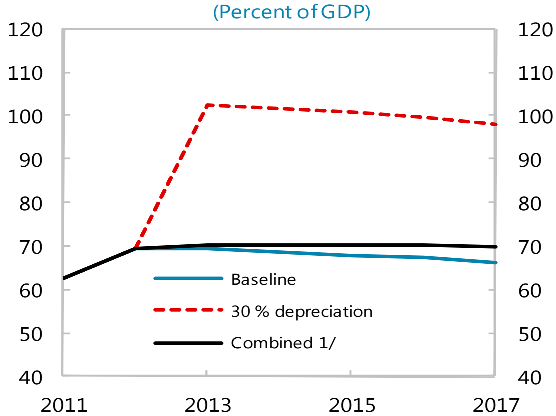
errors and omissions amounted to one percent of GDP—a large improvement compared to the level of 3.7 percent of GDP (pre-revision) in 2010. The authorities continue to work to improve their methodology in an effort to further reduce errors and omissions.

21. **The authorities' letter (Attachment) highlights their continued commitment to implementing very strong macroeconomic policies.** The government is committed to continuing a balanced approach—implementing conservative fiscal policy in the years to come but at the same time actively supporting economic growth in the private sector. The authorities will continue to closely monitor the financial system, and are in the process of establishing a Systemic Risk Board to implement macroprudential policies. They intend to treat the new FCL as precautionary and to take steps to further rebuild macroeconomic buffers and international reserves to facilitate an exit from the FCL when external conditions improve.

Figure 7. Poland: Qualification Criteria

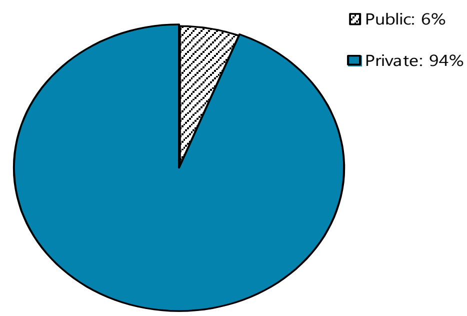
Sustainable external position

Sustainability of External Debt Position
(Percent of GDP)



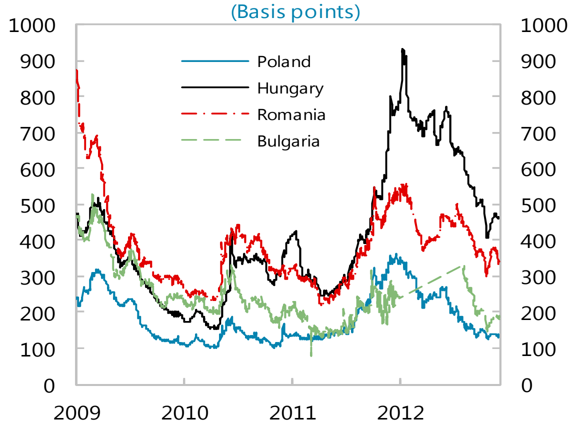
Almost all external debt flows from private creditors

Holders of new gross external debt
(In percent of total new external debt, 2012Q2)



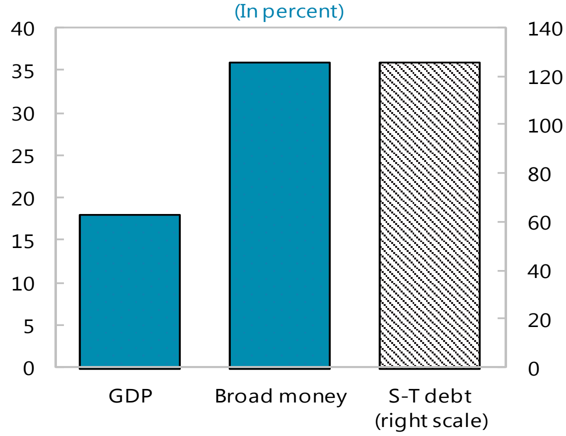
Steady sovereign access to capital markets

J.P. Morgan Euro EMBI Spread
(Basis points)



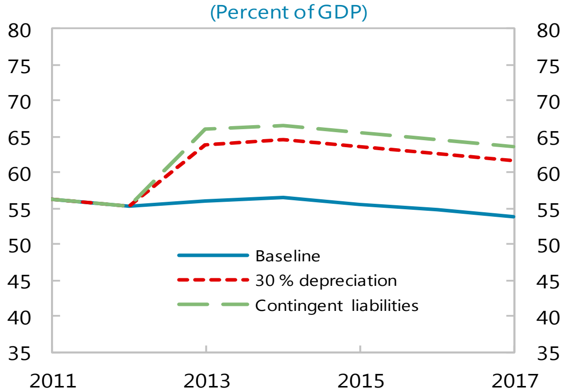
Relatively comfortable reserves position

Net International Reserves, 2011
(In percent)



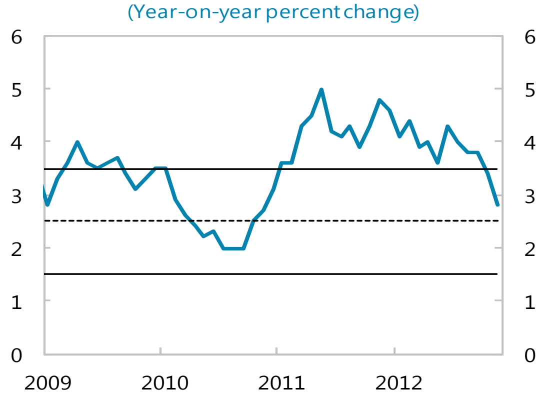
Sustainable public debt position

Sustainability of Public Debt Position
(Percent of GDP)



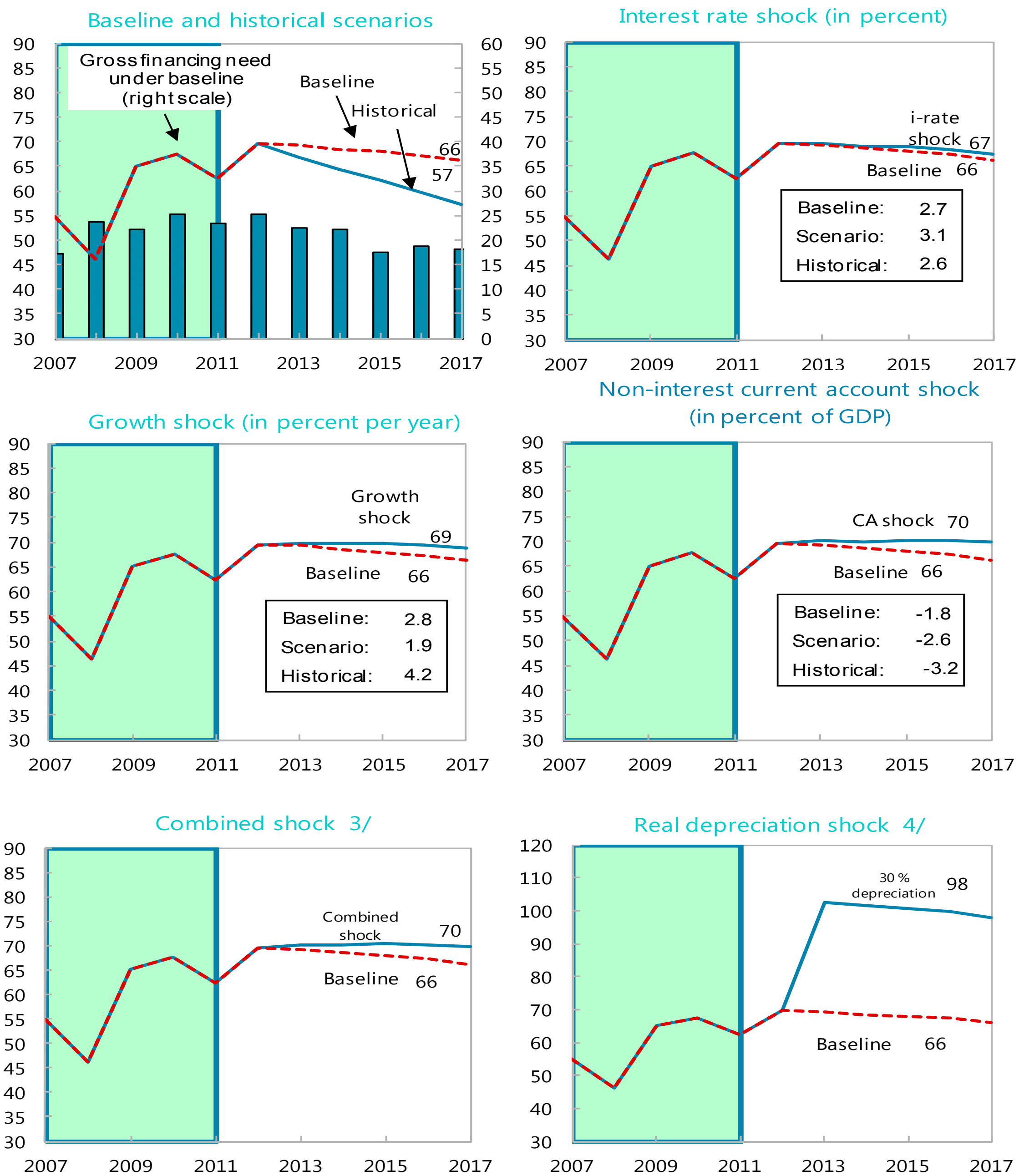
Low and stable inflation

Inflation with Tolerance Range
(Year-on-year percent change)



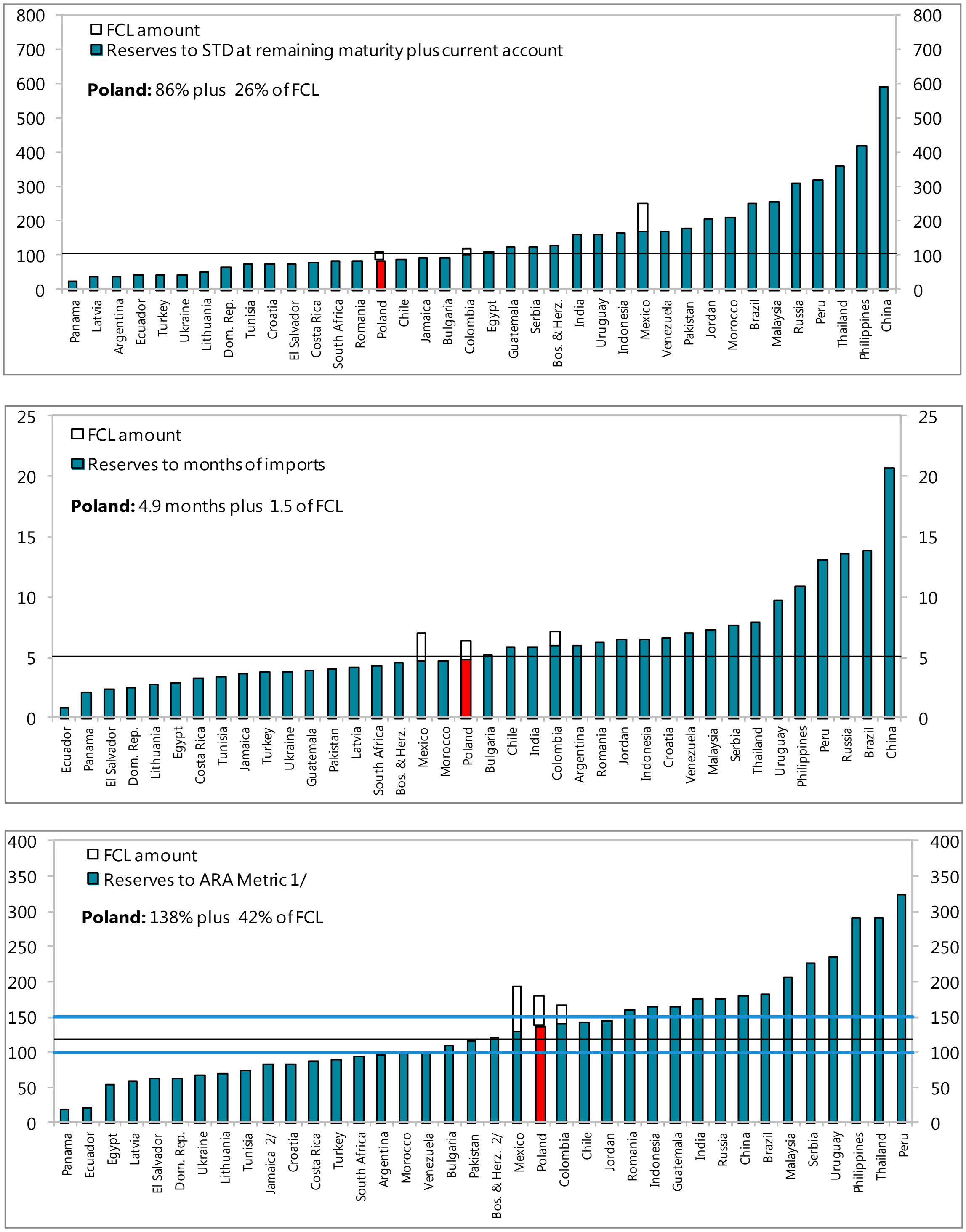
Sources: Bloomberg; Poland authorities; and IMF staff estimates.
1/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

Figure 8. Poland: External Debt Sustainability: Bound Tests 1/ 2/
(External debt in percent of GDP)



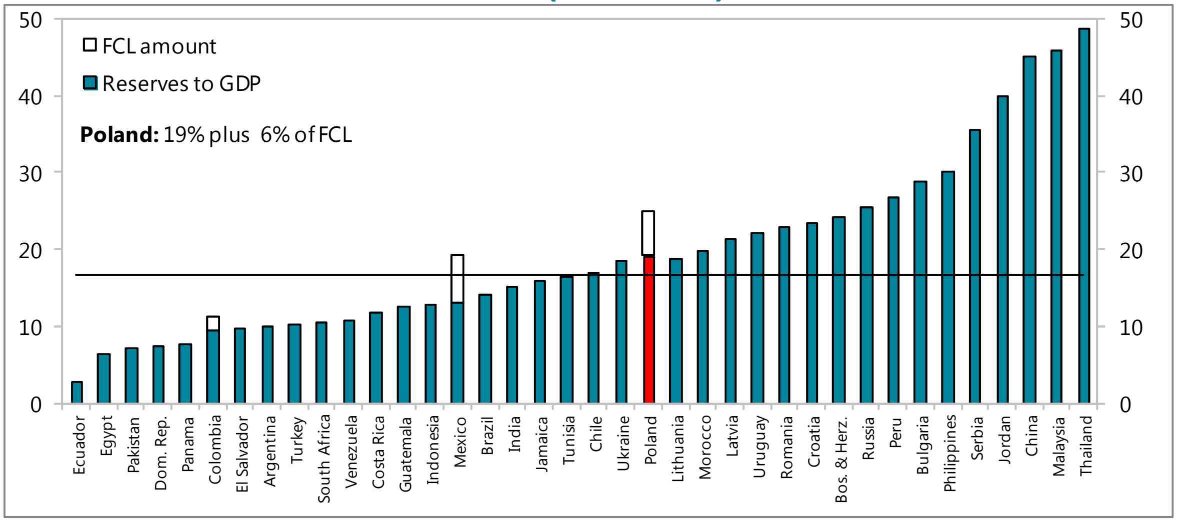
Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2012.

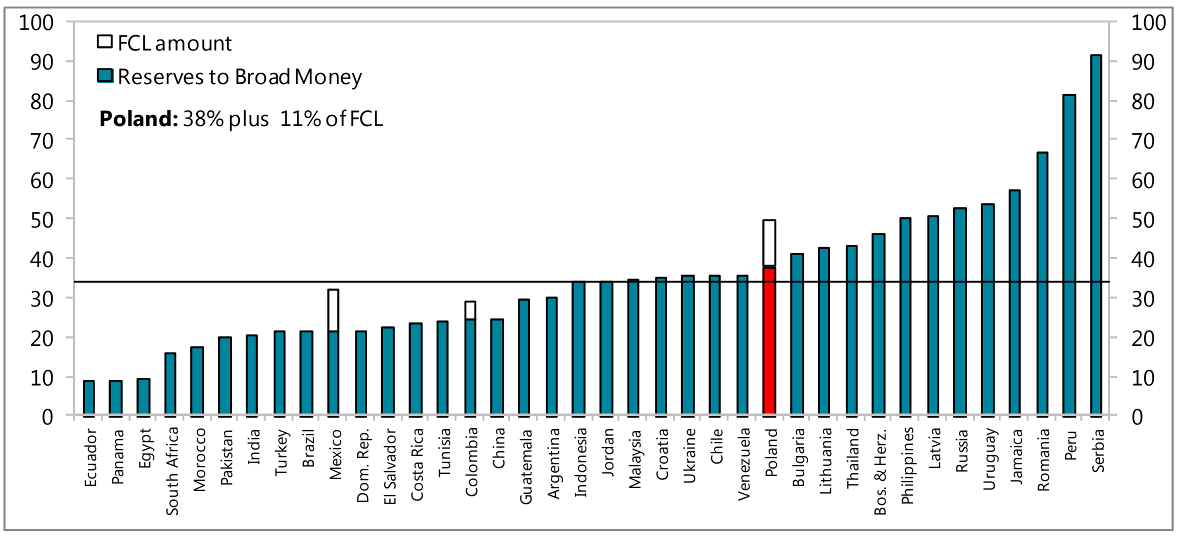
Figure 9. Poland: Metrics of Reserve Coverage in a Cross-Country Perspective, 2011



Sources: World Economic Outlook, Balance of Payments Statistics Database, and IMF staff estimates.
1/ The ARA metric was developed by the Strategy, Policy, and Review Department to assess reserve adequacy. The blue lines denote the 100-150 percent range of reserve coverage regarded as adequate for a typical country under this metric.
2/ Portfolio liabilities only available until 2010.
Note: Black line represents the cross-country median.

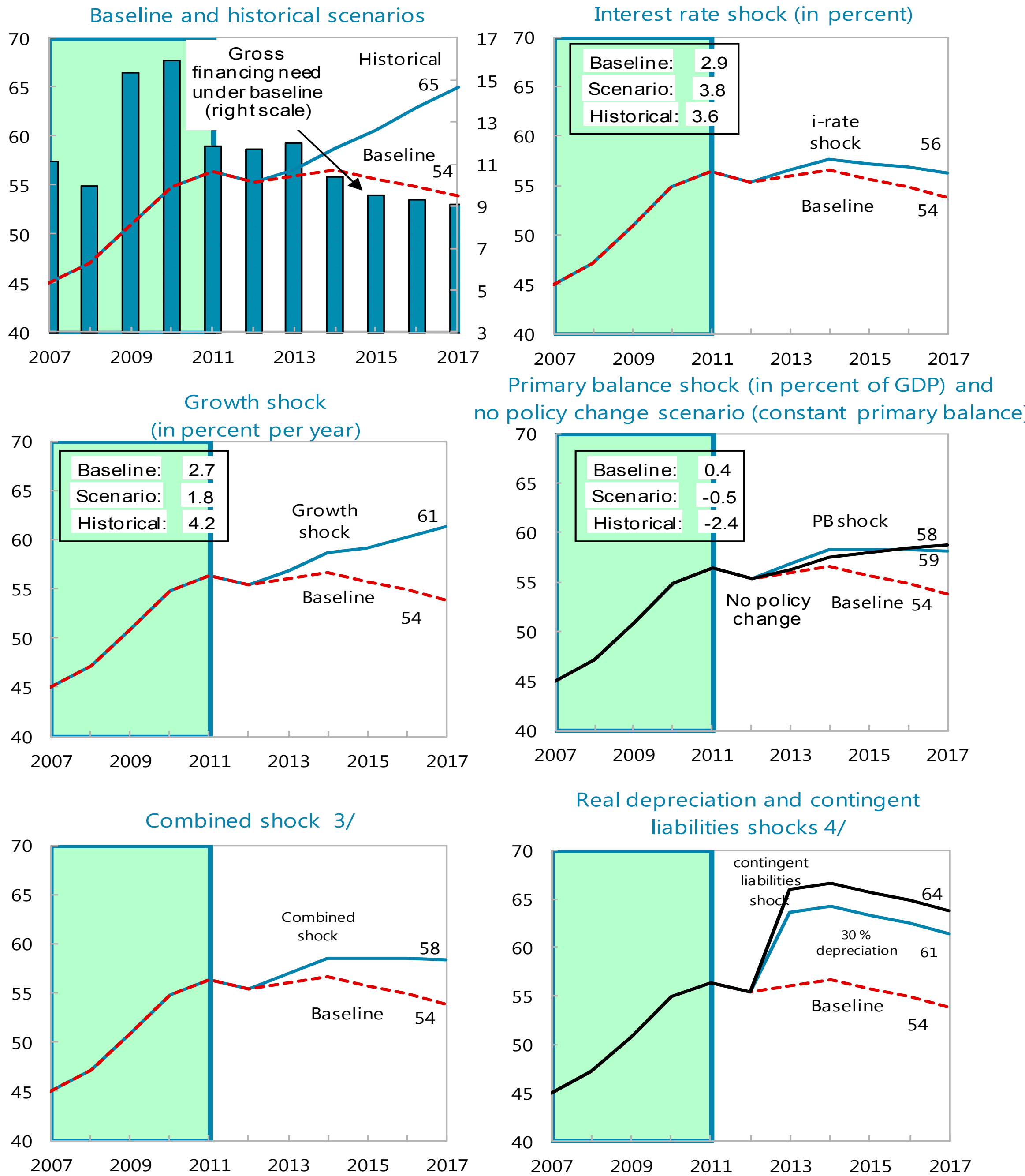
Figure 9. Poland: Metrics of Reserve Coverage in a Cross-Country Perspective, 2011 (concluded)





Sources: World Economic Outlook, Balance of Payments Statistics Database, and IMF staff estimates.
1/ The ARA metric was developed by the Strategy, Policy, and Review Department to assess reserve adequacy. The blue lines denote the 100-150 percent range of reserve coverage regarded as adequate for a typical country under this metric.
2/ Portfolio liabilities only available until 2010.
Note: Black line represents the cross-country median.

Figure 10. Poland: Public Debt Sustainability: Bound Tests 1/ 2/
(Public 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/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.
4/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2010, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

V. Impact on Fund Finances, Risks, and Safeguards

22. **The impact of the proposed arrangement on Fund liquidity is assessed to be manageable.** The proposed FCL arrangement in the amount of 1303 percent of quota (SDR 22 billion) would constitute a large individual commitment of Fund resources. However, the level of the Fund's liquidity is expected to remain relatively comfortable by historical standards after the approval of the proposed FCL arrangement for Poland—see supplement assessing the impact on the Fund's finances and liquidity position.

Poland: Indicators of Fund Credit, 2013–18

			Projections			
	2013	2014	2015	2016	2017	2018
Stocks from prospective drawings 1/						
Fund credit in millions SDR	22,000	22,000	22,000	13,750	2,750	0
in percent of quota	1,303	1,303	1,303	814	163	0
in percent of GDP	7	6	6	4	1	0
in percent of exports of goods and services	14	13	12	7	1	0
in percent of gross reserves 2/	29	27	24	14	3	0
Flows from prospective drawings 3/						
GRA Charges	182	231	231	206	97	6
Level Based Surcharge	266	339	339	401	127	0
Service Charges	110	0	0	0	0	0
Principal	0	0	0	8,250	11,000	2,750
Debt Service due on GRA credit (millions SDR)	558	570	570	8,857	11,223	2,756
in percent of quota	33	34	34	525	665	163
in percent of GDP	0	0	0	2	3	1
in percent of exports of goods and services	0	0	0	5	5	1
in percent of gross reserves 2/	1	1	1	9	11	3
Memo Item:						
Total external debt, assuming full drawing (in percent of GDP)	76	75	74	71	67	66

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

1/ End of Period. Assumes full drawing upon FCL approval in early 2013, which implies that repayment starts in 2016. The Polish authorities have expressed their intention to treat the arrangement as precautionary. At an SDR/USD rate of 0.650095 as of October 30, 2012.

2/ Excludes IMF purchases.

3/ Based on the rate of charge as of September 14, 2012. Includes surcharges under the system currently in force and service charges.

23. **Poland's capacity to repay the Fund is strong.** The authorities have indicated that they intend to continue to treat the arrangement as precautionary. Nevertheless, even if a full drawing under the FCL arrangement were made, Poland's capacity to fulfill its financial obligations to the Fund should be manageable. Poland has an excellent track record of meeting its obligations to the Fund, the government has a deep commitment to macroeconomic stability and prudent fiscal policies, and the economy's medium-term growth prospects remain strong. Moreover, even if the adverse scenario were to materialize, Poland's external debt would stay on a sustainable medium-term path, with debt service remaining manageable.

24. **Staff concluded the safeguard procedures applicable to FCL arrangements for the current FCL arrangement approved in January 2011 and found no significant safeguards issues.** Under these procedures, staff reviews the outcome of the most recent external audit of the NBP. In light of Poland's request for a successor FCL, the NBP provided the updated authorization needed for safeguards procedures to be conducted by Fund staff in line with the specific safeguards requirements for FCL arrangements.

VI. Staff Appraisal

25. **The FCL arrangement for Poland has provided significant insurance against external risks.** It allowed for a more flexible policy response to the global crisis while preserving favorable access to markets, even during the time of elevated uncertainty and volatility. It also provided time for the authorities to begin to rebuild policy buffers and further strengthen Poland's institutional frameworks.

26. **Staff assesses that Poland continues to meet the qualification criteria for access to FCL resources.** Poland's economy performed well in the face of a challenging external environment, attesting to its very strong economic fundamentals and its sustained track record of implementing very strong policies. Furthermore, the authorities remain committed to maintaining very strong policies that preserve macroeconomic stability—exemplified by the policy plans detailed in their letter. This provides strong reassurance that economic policies will remain sound.

27. **In light of heightened risks to Poland's balance of payments, staff recommends approval of a two-year FCL arrangement for SDR 22 billion (1303 percent of quota).** Staff believes that the proposed higher access in nominal terms is justified by heightened external risks, the risk of further outflows from the banking system, and the possibility of reduced portfolio inflows into the government bond market in the event of an adverse shock. The current challenging growth environment may also make Poland more vulnerable to shocks. Even with higher access, the FCL arrangement would still provide coverage of Poland's gross financing needs that is well within the range of other FCL arrangements. The successor FCL arrangement would continue to support the authorities' overall macroeconomic strategy and bolster Poland's external buffers. The authorities' intention to continue to rebuild policy space to counter adverse shocks provides comfort that they will be prepared for a timely exit from the FCL arrangement when external conditions improve.

28. **Staff judges the risks to the Fund arising from a successor FCL arrangement for Poland to be manageable.** Risks to the Fund are contained by the strong policy setting, the authorities' intent to treat the arrangement as precautionary, and their very strong debt-servicing record and sustainable external debt path.

Table 1. Poland: Selected Economic Indicators, 2010-17

	2010	2011	2012 Proj.	2013 Proj.	2014 Proj.	2015 Proj.	2016 Proj.	2017 Proj.
Activity and prices								
GDP (change in percent) 1/	3.9	4.3	2.2	1.7	2.3	3.0	3.4	3.5
Domestic demand	4.6	3.4	0.0	1.2	2.1	2.9	3.3	3.4
Private consumption growth	3.1	2.5	0.7	0.6	2.1	2.5	2.7	2.8
Public consumption growth	4.1	-1.7	0.0	0.8	0.7	1.8	1.9	1.9
Domestic fixed investment growth	-0.4	9.0	0.0	-0.2	3.1	4.7	6.0	6.0
Inventories (contribution to growth)	2.0	0.4	-0.5	0.8	0.1	0.1	0.1	0.1
Net external demand (contribution to growth)	-0.8	0.8	1.9	0.7	0.2	0.2	0.2	0.2
Output gap	-0.1	0.5	-0.3	-1.0	-0.7	-0.3	0.0	0.0
CPI inflation (change in percent)								
Average	2.6	4.3	3.8	2.5	2.2	2.3	2.5	2.5
End of period	3.1	4.6	2.8	2.3	2.0	2.5	2.5	2.5
Unemployment rate (average, according to LFS)	9.6	9.6	10.2	10.7	10.9	10.5	10.0	9.4
Public finances (percent of GDP) 2/								
General government revenues	37.6	38.5	39.9	39.0	38.5	38.4	38.2	38.1
General government expenditures	45.4	43.6	43.4	42.4	41.4	40.5	40.3	40.0
General government balance	-7.9	-5.0	-3.5	-3.4	-2.9	-2.1	-2.0	-2.0
Structural primary balance adjusted for pension changes	-5.1	-3.2	-1.6	-1.1	-0.7	0.0	0.0	0.1
Public debt	54.8	56.4	55.3	56.0	56.5	55.6	54.8	53.8
national definition 3/	52.8	53.5	...	...	...	...	...	...
Money and credit								
Private credit (change in percent)	8.5	13.9	4.7	...	...	...	...	...
Broad money (change in percent)	8.8	12.5	5.9	...	...	...	...	...
Policy Rate 4/	3.5	4.3	4.25	...	...	...	...	...
Balance of payments								
Current account balance (transactions, billion U.S. dollars)	-24.0	-25.0	-17.8	-18.8	-18.9	-19.8	-20.9	-22.2
Percent of GDP	-5.1	-4.9	-3.7	-3.7	-3.6	-3.5	-3.5	-3.5
Exports of Goods (billion U.S. dollars)	165.7	195.2	196.2	201.0	212.7	226.9	243.9	263.3
Export volume growth	12.1	9.0	2.1	3.4	6.7	6.7	7.3	7.2
Imports of Goods (billion U.S. dollars)	177.5	209.2	204.4	207.8	218.2	231.7	248.1	266.2
Import volume growth	13.9	7.2	-2.4	1.7	6.3	6.6	7.2	7.1
Net oil imports (billion U.S. dollars)	16.6	22.8	23.7	23.9	23.4	23.1	22.9	22.8
Terms of trade (index 1995=100)	97.7	96.6	95.1	94.2	94.6	95.0	95.3	95.7
FDI, net (in percent of GDP)	1.5	2.2	2.0	1.9	1.9	2.0	2.2	2.4
Official reserves (billion U.S. dollars)	93.5	97.9	108.0	118.2	127.6	140.4	153.6	165.6
In percent of short-term debt plus CA deficit	73.3	85.8	91.9	103.8	114.8	140.1	137.0	143.3
Total external debt (billion U.S. dollars)	317.1	320.6	334.9	349.1	362.7	380.8	398.5	414.5
Percent of GDP	67.5	62.4	69.5	69.3	68.5	68.0	67.2	66.2
Exchange rate								
Exchange rate regime				Floating				
Zloty per US$, period average 5/	3.02	2.96	3.13	...	...	...	...	...
Zloty per Euro, period average 5/	4.00	4.12	4.09	...	...	...	...	...
Real effective exchange rate (INS, CPI based) 6/	112.1	110.4	107.2	...	...	...	...	...
percent change	6.3	-1.5	-3.0	...	...	...	...	...
Memorandum items								
Nominal GDP (billion zloty)	1,416.6	1,523.2	1,582.4	1,640.8	1,719.7	1,816.9	1,927.1	2,044.8

Sources: Polish authorities; and IMF staff estimates.

1/ Real GDP is calculated at constant average prices of previous year.
2/ According to ESA95 (inc. pension reform costs). Including 2013 budget.
3/ Excluding debts of the National Road Fund.
4/ NBP Reference Rate (avg). For 2012, as of Dec 5.
5/ For 2012, exchange rate as of Dec 14.
6/ Annual average (2000=100). For 2012, Jan-Aug average.

Table 2. Poland: Balance of Payments on Transaction Basis, 2009–17
(Millions of US dollars)

	2009	2010	2011	2012 Proj.	2013 Proj.	2014 Proj.	2015 Proj.	2016 Proj.	2017 Proj.
Current account balance	**-17,155**	**-24,030**	**-25,023**	**-17,777**	**-18,816**	**-18,904**	**-19,781**	**-20,880**	**-22,230**
percent of GDP	-4.0	-5.1	-4.9	-3.7	-3.7	-3.6	-3.5	-3.5	-3.5
Trade balance	-7,617	-11,810	-14,042	-8,116	-6,880	-5,527	-4,861	-4,122	-2,954
percent of GDP	-1.8	-2.5	-2.7	-1.7	-1.4	-1.0	-0.9	-0.7	-0.5
Exports									
percentage change in unit values	-20.1	16.0	15.2	0.5	2.4	5.9	6.7	7.5	7.9
percentage volume growth	-6.8	12.1	9.0	2.1	3.4	6.7	6.7	7.3	7.2
growth in foreign demand	-15.6	15.9	7.8	1.8	3.8	4.7	5.0	4.9	5.0
Imports									
percentage change in unit values	-27.4	19.1	14.6	-2.3	1.7	5.0	6.2	7.0	7.3
percentage volume growth	-12.4	13.9	7.2	-2.4	1.7	6.3	6.6	7.2	7.1
growth in domestic demand	-1.1	4.6	3.4	0.0	1.2	2.2	2.9	3.3	3.4
Terms of trade percentage change	3.5	-1.1	-1.1	-1.6	-1.0	0.5	0.4	0.4	0.4
Services balance	4,795	3,098	5,668	5,413	4,969	5,545	6,082	6,718	6,792
Credit	28,986	32,718	37,562	37,762	38,668	40,933	43,657	46,938	50,657
Debit	24,191	29,620	31,894	32,349	33,699	35,388	37,575	40,220	43,864
Net Income	-16,551	-19,080	-22,880	-21,176	-21,979	-23,129	-23,828	-25,769	-27,729
Net transfers	2,218	3,762	6,231	6,101	5,074	4,206	2,826	2,293	1,661
o/w EU receipts	5,603	5,918	8,397	8,829	8,224	7,798	6,760	6,119	4,875
o/w payment to EU	-4,265	-4,761	-5,004	-5,265	-5,254	-5,356	-5,332	-5,309	-5,288
Capital and financial account balance	**41,942**	**49,624**	**40,450**	**37,517**	**38,674**	**37,890**	**42,295**	**43,719**	**43,766**
Capital account balance	7,040	8,620	10,017	12,761	12,373	12,266	11,583	11,468	11,353
o/w net EU transfers	7,191	6,873	8,890	12,297	11,933	11,836	11,194	11,146	11,101
Financial account balance	34,902	41,004	30,433	24,756	26,301	25,624	30,712	32,252	32,413
Foreign direct investment (net)	8,460	6,861	11,552	9,593	9,474	10,207	11,299	12,993	14,840
by nonresidents	13,022	14,345	18,887	17,178	17,309	18,292	19,634	21,328	23,175
o/w privatization	1,263	2,699	2,339	841	841	841	841	841	841
Portfolio investment (net)	14,754	25,538	16,835	22,447	23,140	21,347	15,612	15,258	15,073
by non-residents	16,202	26,649	16,109	22,923	23,694	22,184	16,474	16,105	15,905
o/w equities	1,579	7,875	3,052	4,118	4,186	5,182	4,391	3,391	3,391
Other investment (net)	13,380	9,392	2,608	-7,284	-6,313	-5,930	3,800	4,000	2,500
Assets	5,275	-3,901	-3,457	-2,747	-1,000	-2,500	-2,200	-1,000	-1,000
Liabilities	8,105	13,293	6,065	-4,537	-5,313	-3,430	6,000	5,000	3,500
Financial derivatives	-1,692	-787	-562	0	0	0	0	0	0
Errors and omissions	**-10,045**	**-10,462**	**-9,144**	**-9,632**	**-9,632**	**-9,632**	**-9,632**	**-9,632**	**-9,632**
Overall balance	**14,742**	**15,132**	**6,283**	**10,109**	**10,227**	**9,354**	**12,882**	**13,207**	**11,905**
Financing									
Reserve assets	-14,742	-15,132	-6,283	-10,109	-10,227	-9,354	-12,882	-13,207	-11,905
Memorandum items:									
Current plus capital account (percent of GDP)	-2.3	-3.3	-2.9	-1.0	-1.3	-1.3	-1.5	-1.6	-1.7
Official reserves	79,591	93,514	97,866	107,975	118,201	127,555	140,438	153,645	165,550
in months of imports	6.4	6.3	5.6	6.3	6.8	7.0	7.3	7.4	7.5
Ratio of reserves to short-term debt 1/	96.3	90.4	109.9	108.3	124.3	138.4	174.5	168.3	177.5
Ratio of reserves to ST debt plus CA deficit 1/	79.7	73.3	85.8	91.9	103.8	114.8	140.1	137.0	143.3
Total external debt (percent of GDP)	65.0	67.5	62.4	69.5	69.3	68.5	68.0	67.2	66.2
Total external debt (percent of exports) 2/	163.8	159.8	137.8	143.1	145.7	143.0	140.7	137.0	132.0
External debt service (percent of exports) 2/ 3/	47.4	51.2	43.5	47.1	41.8	41.6	32.4	34.9	34.0
Gross FDI inflows (percent of GDP)	3.0	3.1	3.7	3.6	3.4	3.5	3.5	3.6	3.7
Net FDI inflows (percent of GDP)	2.0	1.5	2.2	2.0	1.9	1.9	2.0	2.2	2.4

Sources: National Bank of Poland; and IMF staff estimates.
1/ Projected reserve level for the 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: Statement of Operations of General Government, 2009-17

(In percent of GDP)

	2009	2010	2011	2012	2013	2014	2015	2016	2017
				Projections					
Revenue	37.2	37.6	38.5	39.9	39.0	38.5	38.4	38.2	38.1
Taxes	20.3	20.5	20.9	20.7	20.8	20.8	21.1	21.2	21.3
Personal income tax	4.6	4.5	4.5	4.6	4.6	4.8	4.9	4.9	5.0
Corporate income tax	2.3	2.0	2.0	2.0	2.1	2.1	2.2	2.2	2.2
VAT	7.3	7.6	7.7	7.7	7.7	7.2	7.2	7.3	7.4
Excises	3.6	4.0	4.1	4.0	4.0	3.9	3.9	4.0	4.0
Other taxes	2.5	2.5	2.5	2.5	2.5	2.8	2.8	2.8	2.8
Social contributions	11.3	11.1	11.5	12.4	12.3	12.3	12.3	12.4	12.4
Other revenue 1/	5.6	5.9	6.2	6.8	5.9	5.4	5.0	4.6	4.3
Capital revenue	0.6	1.3	1.8	2.1	1.8	1.5	1.2	1.1	0.9
Sales of goods and services	2.4	2.3	2.1	2.0	2.0	2.0	2.0	2.0	2.0
Other current revenue	2.6	2.4	2.4	2.7	2.1	1.9	1.7	1.5	1.4
Expenditure	44.6	45.4	43.6	43.4	42.4	41.4	40.5	40.3	40.0
Expense	39.4	39.8	37.8	37.9	37.7	37.4	37.0	36.8	36.5
Compensation of employees	10.3	10.2	9.8	9.8	9.7	9.5	9.3	9.1	8.9
Use of goods and services	5.7	6.2	5.7	5.7	5.7	5.6	5.6	5.6	5.7
Interest	2.6	2.7	2.7	2.9	2.9	2.9	2.9	2.8	2.8
Subsidies	0.5	0.5	0.5	0.5	0.5	0.5	0.4	0.4	0.4
Social benefits	16.9	17.0	16.3	16.0	16.0	16.0	15.9	15.9	15.9
Other expense 1/	3.3	3.2	2.9	3.0	3.0	2.9	2.9	2.9	2.9
Other current expenditure	2.3	2.4	2.4	2.3	2.3	2.2	2.2	2.2	2.2
Capital transfers	0.9	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Net acquisition of nonfinancial assets	5.2	5.6	5.7	5.5	4.7	4.0	3.5	3.5	3.5
Gross Operating Balance	-2.2	-2.2	0.7	2.0	1.3	1.1	1.4	1.5	1.5
Net lending/borrowing (overall balance)	-7.4	-7.9	-5.0	-3.5	-3.4	-2.9	-2.1	-2.0	-2.0
Net financial transactions	-7.4	-7.9	-5.0	-3.5	-3.4	-2.9	-2.1	-2.0	-2.0
Net acquisition of financial assets	-1.1	-1.1	-1.4	-0.9	-0.5	0.2	0.2	0.2	0.2
Currency and deposits	0.1	-0.6	-1.3	-0.8	-0.5	0.2	0.2	0.2	0.3
Debt securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	0.0	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Equity and investment fund shares	-0.4	-1.7	-1.3	-0.5	-0.4	-0.5	-0.4	-0.4	-0.4
Other financial assets	-0.7	1.0	1.0	0.3	0.3	0.3	0.3	0.3	0.3
Net incurrence of liabilities	6.2	6.7	3.7	2.6	2.8	3.1	2.3	2.2	2.1
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt securities	4.5	5.0	2.2	1.6	1.6	1.9	1.2	1.2	1.2
Loans	1.8	1.5	1.5	0.8	1.1	1.2	1.0	1.0	0.9
Other liabilities	-0.1	0.2	0.0	0.2	0.1	0.1	0.1	0.1	0.1
Adjustment and statistical discrepancies	*-0.1*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Memorandum item:									
Cyclically-adjusted balance	-7.3	-7.8	-5.2	-3.4	-3.0	-2.6	-2.0	-2.0	-2.0
Primary balance	-4.8	-5.2	-2.3	-0.6	-0.5	0.0	0.8	0.8	0.8
Cyclically-adjusted balance adjusted for pension changes	-4.6	-5.1	-3.2	-1.6	-1.1	-0.7	0.0	0.0	0.1
General government debt	50.9	54.8	56.4	55.3	56.0	56.5	55.6	54.8	53.8
General government liabilities	58.2	62.2	63.4	62.5	63.3	63.8	62.9	62.0	61.0
General government financial assets	-22.3	-28.0	-32.7	-33.7	-30.4	-32.0	-32.1	-32.2	-31.2
Nominal GDP in billions of Zlotys	1,345	1,417	1,523	1,582	1,641	1,720	1,817	1,927	2,045

Sources: Eurostat and IMF staff projections.

1/ Includes grants.

Table 4. Poland: External Financing Requirements and Sources, 2008–14

	2008	2009	2010	2011	2012 Proj.	2013 Proj.	2014 Proj.
GROSS FINANCING REQUIREMENTS	**117,529**	**96,516**	**121,933**	**112,263**	**121,069**	**112,687**	**117,120**
Current account deficit	34,957	17,155	24,030	25,023	17,777	18,816	18,904
Medium and long-term debt amortization	29,982	12,675	26,243	18,484	32,734	26,896	30,010
Public sector	2,660	697	6,821	4,923	13,947	14,822	8,424
Banks	4,453	3,202	6,637	4,447	8,637	3,194	4,489
Non-bank Corporates	22,869	8,776	12,785	9,114	10,150	8,880	17,097
Short-term debt amortization	52,590	66,686	71,660	68,756	70,558	66,975	68,205
Public sector	6	1,147	1,169	508	2,482	2,730	3,003
Banks (inc. s.t. deposits)	17,482	29,912	23,495	21,368	19,250	16,396	16,396
Non-bank Corporates	35,102	35,627	46,996	46,880	48,826	47,849	48,806
o/w trade credit	29,234	28,627	30,571	31,457	32,763	32,107	32,750
SOURCES OF FINANCING	**115,565**	**111,258**	**137,065**	**118,546**	**131,178**	**122,914**	**126,474**
Foreign direct investment (net)	10,365	8,460	6,861	11,552	9,593	9,474	10,207
o/w inward (net)	14,978	13,022	14,345	18,887	17,178	17,309	18,292
Equities (net)	2,021	-283	6,872	3,732	3,596	3,586	4,299
by nonresidents	564	1,579	7,875	3,052	4,118	4,186	5,182
New borrowing and debt rollover	104,306	113,193	124,740	98,530	106,789	102,452	101,315
Medium and long-term borrowing	37,620	41,533	55,984	27,972	39,813	34,246	39,154
Public sector	-9,055	19,647	29,536	12,508	18,805	19,508	17,002
Banks	13,908	3,837	20,392	3,596	5,783	3,194	4,713
Non-bank Corporates	32,767	18,049	6,056	11,868	15,225	11,544	17,439
Short-term borrowing	66,686	71,660	68,756	70,558	66,975	68,205	62,161
Public sector	1,147	1,169	508	2,482	2,730	3,003	3,303
Banks	29,912	23,495	21,368	19,250	16,396	16,396	16,396
Non-bank Corporates	35,627	46,996	46,880	48,826	47,849	48,806	42,462
EU transfers	5,828	7,191	6,873	8,890	12,297	11,933	11,836
Other	-6,955	-17,303	-8,281	-4,158	-1,097	-4,530	-1,184
of which: Errors and omissions	-12,161	-10,045	-10,462	-9,144	-9,632	-9,632	-9,632
BUFFERS							
Use of official reserves	**1,964**	**-14,742**	**-15,132**	**-6,283**	**-10,109**	**-10,227**	**-9,354**
FINANCING GAP	**0**	**0**	**0**	**0**	**0**	**0**	**0**

Sources: National authorities and staff estimates and projections.

Table 5. Poland: Monetary Accounts, 2006-12 (eop)

	2006	2007	2008	2009	2010	2011	2012 Proj.
				(In billions of zloty)			
Central Bank							
Net foreign assets	138	141	177	212	257	317	346
Net domestic assets	-51	-38	-51	-74	-117	-179	-202
Net claims on government	-17	-26	-21	-23	-12	-19	-19
Claims on banks	-13	-4	9	-25	-74	-93	-116
Other items, net	-22	-7	-38	-26	-31	-67	-67
Base money	87	103	126	138	140	138	143
o/w Currency issued	75	86	102	100	103	112	116
o/w Banks' reserves	12	17	25	38	37	26	28
Deposit Money Banks							
Net foreign assets	29	-19	-113	-135	-156	-169	-153
Net domestic assets	392	496	679	762	842	939	972
Net claims on the central bank	42	39	37	75	121	130	154
Net claims on government	109	107	153	171	177	191	181
Claims on private sector	353	464	633	677	735	838	877
Other items, net	-112	-114	-143	-161	-191	-219	-231
Deposits	421	477	566	627	687	771	819
Demand deposits	205	254	253	297	355	365	388
Other deposits	216	222	314	330	332	405	431
Consolidated Banking System							
Net foreign assets	167	121	64	76	101	149	193
Net domestic assets	328	441	602	644	683	733	741
Claims on government (Net)	93	80	131	148	164	172	161
Claims on private sector	353	464	633	677	735	838	877
Other items, net	-117	-104	-162	-182	-217	-277	-298
Broad money (M3)	495	562	666	720	784	882	934
Memorandum items:							
				(Percentage change from end of previous year)			
Base money	23.1	18.2	23.1	8.8	1.6	-1.1	3.9
Broad money	16.0	13.4	18.6	8.1	8.8	12.5	5.9
Net domestic assets	30.2	34.1	36.6	7.0	6.0	7.3	1.1
Net foreign assets	-4.6	-27.5	-46.9	18.8	32.6	47.2	29.7
Net claim on government	11.4	-13.4	63.4	12.8	11.0	4.5	-6.1
Claims on private sector	24.0	31.5	36.4	7.0	8.5	13.9	4.7
Deposit growth	14.9	13.1	18.9	10.6	9.6	12.2	6.3
				(In percent of GDP)			
Broad money	46.7	47.7	52.2	53.6	55.3	57.9	59.0
Private sector credit	33.3	39.4	49.6	50.4	51.9	55.0	55.4
Broad money Velocity (GDP/M3)	2.1	2.1	1.9	1.9	1.8	1.7	1.7
Money multiplier (M3/base money)	5.7	5.5	5.3	5.2	5.6	6.4	6.5

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

Table 6. Poland: Financial Soundness Indicators, 2007-12
(In percent)

	2007	2008	2009	2010	2011	2012Q3
Capital adequacy						
Regulatory capital to risk-weighted assets	12.0	11.2	13.3	13.9	13.1	14.1
Regulatory Tier I capital to risk-weighted assets	11.8	10.1	12.0	12.5	11.8	12.8
NPLs net of provisions to capital	11.4	8.3	13.8	11.5	11.6	13.0
Bank capital to Assets	8.0	7.5	8.1	8.2	7.8	8.7
Asset composition and quality						
NPLs to gross loans (non-financial sector)	5.2	4.4	7.9	8.8	8.2	8.8
Sectoral distribution of loans to non-financial setor						
Loans to households	59.3	62.0	65.3	68.3	67.1	66.5
Loans to non-financial corporations	40.3	37.6	34.3	31.2	32.3	33.0
Earnings and profitability						
Return on average assets (after-tax)	1.7	1.5	0.8	1.0	1.3	1.2
Return on average equity (after-tax) 1/	22.4	20.7	11.2	13.3	16.3	14.4
Interest margin to gross income	59.4	55.7	51.9	53.0	55.7	55.7
Noninterest expenses to gross income	68.7	58.4	58.5	56.0	54.7	54.5
Liquidity						
Liquid assets to total assets (liquid assets ratio)	17.1	17.0	20.3	20.8	19.5	19.8
Liquid assets to total short-term liabilities	24.2	25.3	29.8	31.2	28.8	29.3
Sensitivity to market risk						
Net open positions in FX to capital 1/	0.6	0.0	2.7	0.3	-0.3	0.1

Sources: National Bank of Poland; and KNF.
1/ Data for domestic banking sector.

Table 7. Poland: Public Sector Debt Sustainability Framework, 2007-2017
(In percent of GDP, unless otherwise indicated)

	Actual					Projections						
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	**Debt-stabilizing primary balance 9/**
Baseline: Public sector debt 1/	45.0	47.1	50.9	54.8	56.4	**55.3**	**56.0**	**56.5**	**55.6**	**54.8**	**53.8**	**-0.7**
o/w foreign-currency denominated	10.9	12.4	13.6	15.2	18.0	16.7	16.3	16.3	16.2	16.2	15.9	
Change in public sector debt	-2.8	2.1	3.8	4.0	1.6	-1.1	0.7	0.5	-0.9	-0.9	-1.0	
Identified debt-creating flows (4+7+12)	-3.9	2.0	4.3	3.7	2.2	0.8	1.0	-0.1	-1.3	-1.6	-1.6	
Primary deficit	-0.4	1.5	4.8	5.2	2.3	0.6	0.5	0.0	-0.8	-0.8	-0.8	
Revenue and grants	40.3	39.5	37.2	37.6	38.5	39.9	39.0	38.5	38.4	38.2	38.1	
Primary (noninterest) expenditure	39.9	41.0	42.0	42.7	40.9	40.5	39.5	38.5	37.7	37.5	37.3	
Automatic debt dynamics 2/	-3.3	0.7	-0.1	0.1	0.8	0.8	0.9	0.3	-0.2	-0.4	-0.4	
Contribution from interest rate/growth differential 3/	-2.4	-1.3	0.2	0.1	-1.1	0.8	0.9	0.3	-0.2	-0.4	-0.4	
Of which contribution from real interest rate	0.5	0.9	1.0	2.0	1.1	2.0	1.8	1.5	1.4	1.4	1.4	
Of which contribution from real GDP growth	-2.9	-2.1	-0.7	-1.9	-2.2	-1.2	-0.9	-1.2	-1.6	-1.8	-1.8	
Contribution from exchange rate depreciation 4/	-0.9	2.0	-0.3	0.0	1.9	...	...	...	...	...	...	
Other identified debt-creating flows	-0.2	-0.2	-0.4	-1.6	-0.9	-0.5	-0.4	-0.5	-0.4	-0.4	-0.4	
Privatization receipts (negative)	-0.2	-0.2	-0.4	-1.6	-0.9	-0.5	-0.4	-0.5	-0.4	-0.4	-0.4	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes (2-3) 5/	1.2	0.1	-0.6	0.2	-0.7	-2.0	-0.3	0.7	0.4	0.7	0.6	
Public sector debt-to-revenue ratio 1/	111.6	119.1	136.7	146.0	146.3	138.4	143.5	146.8	144.7	143.2	141.2	
Gross financing need 6/	11.1	9.9	15.3	15.9	11.9	11.7	12.0	10.4	9.5	9.3	9.1	
in billions of U.S. dollars	47.3	52.6	66.0	74.9	61.0	56.3	60.3	55.1	53.2	55.3	57.2	
Scenario with key variables at their historical averages 7/						**55.3**	**56.6**	**58.7**	**60.7**	**62.9**	**64.9**	**-0.8**
Scenario with no policy change (constant primary balance) in 2012-2017						**55.3**	**56.2**	**57.4**	**57.8**	**58.3**	**58.6**	**-0.8**
Key Macroeconomic and Fiscal Assumptions Underlying Baseline												
Real GDP growth (in percent)	6.8	5.1	1.6	3.9	4.3	2.2	1.7	2.3	3.0	3.4	3.5	
Average nominal interest rate on public debt (in percent) 8/	5.4	5.4	5.9	5.6	5.3	5.4	5.4	5.4	5.4	5.4	5.4	
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	1.4	2.3	2.2	4.1	2.2	3.7	3.4	2.9	2.7	2.8	2.9	
Nominal appreciation (increase in US dollar value of local currency, in percent)	19.5	-17.8	3.9	-3.8	-13.3	...	...	...	...	...	...	
Inflation rate (GDP deflator, in percent)	4.0	3.1	3.7	1.4	3.1	1.7	2.0	2.5	2.6	2.6	2.5	
Growth of real primary spending (deflated by GDP deflator, in percent)	3.3	8.1	4.0	5.8	-0.2	1.2	-0.8	-0.3	0.7	2.7	3.0	
Primary deficit	-0.4	1.5	4.8	5.2	2.3	0.6	0.5	0.0	-0.8	-0.8	-0.8	

1/ General governement gross debt, ESA95 definition.

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 between 2007-11 is according to official estimates; afterward 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 8. Poland: External Debt Sustainability Framework, 2007-2017

(In percent of GDP, unless otherwise indicated)

	Actual					Projections						
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	**Debt-stabilizing non-interest current account 6**
Baseline: External debt	54.9	46.2	65.0	67.5	62.4	**69.5**	**69.3**	**68.5**	**68.0**	**67.2**	**66.2**	**-5.3**
Change in external debt	5.2	-8.6	18.8	2.5	-5.1	7.1	-0.2	-0.8	-0.5	-0.8	-1.0	
Identified external debt-creating flows (4+8+9)	-9.0	-7.1	11.2	-5.0	-5.2	-2.2	-1.6	-2.4	-2.7	-2.8	-2.9	
Current account deficit, excluding interest payments	5.0	5.4	3.4	4.0	3.8	2.3	2.5	2.2	1.9	1.5	1.1	
Deficit in balance of goods and services	3.4	4.8	0.7	1.9	1.6	0.6	0.4	0.0	-0.2	-0.4	-0.6	
Exports	41.0	40.4	39.7	42.2	45.3	48.6	47.5	47.9	48.3	49.1	50.2	
Imports	44.3	45.3	40.4	44.1	46.9	49.1	47.9	47.9	48.1	48.6	49.5	
Net non-debt creating capital inflows (negative)	-5.5	-2.9	-3.4	-4.7	-4.3	-4.4	-4.3	-4.4	-4.3	-4.2	-4.2	
Automatic debt dynamics 1/	-8.6	-9.5	11.2	-4.3	-4.7	0.0	0.1	-0.1	-0.3	-0.1	0.2	
Contribution from nominal interest rate	1.2	1.2	0.6	1.1	1.1	1.4	1.2	1.4	1.6	2.0	2.5	
Contribution from real GDP growth	-2.7	-2.3	-0.9	-2.3	-2.7	-1.4	-1.1	-1.5	-1.9	-2.2	-2.2	
Contribution from price and exchange rate changes 2/	-7.1	-8.5	11.5	-3.1	-3.1	...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	14.2	-1.5	7.6	7.5	0.1	9.3	1.4	1.6	2.2	2.1	1.9	
External debt-to-exports ratio (in percent)	133.9	114.4	163.8	159.8	137.8	143.1	145.7	143.0	140.7	137.0	132.0	
Gross external financing need (in billions of US dollars) 4/	73.5	125.8	95.7	120.3	120.8	121.1	112.7	117.1	98.3	110.2	113.5	
in percent of GDP	17.3	23.8	22.2	25.6	23.5	25.1	22.4	22.1	17.5	18.6	18.1	
Scenario with key variables at their historical averages 5/						**69.5**	**66.7**	**64.0**	**61.9**	**59.4**	**56.7**	**-8.2**
Key Macroeconomic Assumptions Underlying Baseline												
Real GDP growth (in percent)	6.8	5.1	1.6	3.9	4.3	2.2	1.7	2.3	3.0	3.4	3.5	
GDP deflator in US dollars (change in percent)	16.6	18.4	-19.9	5.0	4.9	-8.3	2.9	2.7	2.7	2.4	2.0	
Nominal external interest rate (in percent)	3.0	2.8	1.0	1.9	1.7	2.2	1.9	2.1	2.5	3.2	3.9	
Growth of exports (US dollar terms, in percent)	26.2	22.8	-20.1	16.0	15.2	0.5	2.4	5.9	6.7	7.5	7.9	
Growth of imports (US dollar terms, in percent)	30.3	27.1	-27.4	19.1	14.6	-2.3	1.7	5.0	6.2	7.0	7.3	
Current account balance, excluding interest payments	-5.0	-5.4	-3.4	-4.0	-3.8	-2.3	-2.5	-2.2	-1.9	-1.5	-1.1	
Net non-debt creating capital inflows	5.5	2.9	3.4	4.7	4.3	4.4	4.3	4.4	4.3	4.2	4.2	

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.

ATTACHMENT 1

Warsaw, January 3, 2013

Ms. Christine Lagarde
Managing Director
International Monetary Fund
Washington, DC 20431

Dear Ms. Lagarde,

The Polish authorities believe that despite the strong fundamentals of the Polish economy, external risks remain high, and the IMF's Flexible Credit Line (FCL) will continue to be instrumental in reducing those risks in case of a tail event. The previous FCL arrangements have proven to serve Poland's economy well. Amid negative spillovers from financial and economic turbulence in the external environment, the FCL has provided Poland with valuable insurance.

As noted in the last Article IV consultation, in spite of the uncertain external environment, Poland's macroeconomic fundamentals have remained strong, underpinned by sound and prudent macroeconomic policies and policy frameworks, supported by the FCL arrangements. Over the past four years, Poland has enjoyed the highest economic growth among OECD countries, despite global economic slowdown. Inflation has been kept in check. From 2011 the authorities have undertaken strong fiscal consolidation efforts and reduced the general government deficit from 7.9 percent of GDP in 2010 to approximately 3.5 percent of GDP this year. In addition to enhancing the financial buffers, the authorities' policies have supported an increase in the country's foreign exchange reserves to above USD 100 billion.

As a result the country has enjoyed access to international markets. Within the last three years Poland has experienced very strong foreign portfolio inflows, driving up the share of non-resident investors in Treasury securities issued on the domestic market. A flexible exchange rate regime has served the economy well, providing a necessary cushion against external shocks.

Supported by a strong regulatory and supervisory framework, the banking sector has remained robust, very well capitalized and conservative with a Tier 1 capital ratio above 12.5 percent and a leverage ratio above 8 percent. The liquidity position of the banks is strong, and their reliance on foreign funding is moderate and gradually diminishing. Financial institutions continue to be closely monitored by the supervisory authorities and the macro-prudential framework has been enhanced. In line with the ESRB recommendations, a Systemic Risk Board will be established soon.

The government is committed to continuing a balanced approach – implementing conservative fiscal policy in the years to come but at the same time actively supporting economic growth in the private sector. These efforts are aimed at putting public debt on a downward path. Monetary policy will continue to be guided by the inflation targeting framework in the context of a floating exchange rate regime. Financial sector oversight will continue to be based on Poland's sound regulatory and supervisory framework, whose anti-cyclical features will be strengthened. We will continue to respond as needed to any future shocks that may arise.

As a fully open economy strongly integrated with global markets, Poland is exposed to potential external shocks. Although macroeconomic policy in a number of countries has been strengthened, international conditions remain volatile and a sustainable path to recovery in those countries has yet to be established. The ongoing sovereign-debt crisis in the eurozone remains a particular source of risk for Poland. Despite present sound domestic policies and our commitment to maintaining very strong economic policies, if the external risks — underlined in the Fund's flagship reports — materialize, Poland could suffer from a destabilizing outflow of foreign capital.

The authorities strongly believe that the renewed FCL for Poland would further play a stabilizing role not only for the country, but also for the Central and East European region as a whole, thus complementing the policy response which has been developed in the Euro Area.

Should external conditions improve significantly Poland will consider taking steps towards exiting from the FCL. We have made progress in preparing for an eventual exit from the FCL — notably by rebuilding policy space to counter adverse shocks, including through fiscal consolidation and reserve accumulation — and will continue to do so going forward. These efforts will help ensure that Poland will be in a position to exit from the FCL when external conditions allow.

In light of the above, we request the approval of a successor 24-month FCL arrangement for Poland in an amount equivalent to SDR 22 billion (1303 percent of quota) and wish to cancel the current arrangement approved on January 21, 2011 effective upon approval of the new FCL arrangement. We reaffirm our intention to treat this instrument as precautionary.

Sincerely Yours,

/s/	/s/
Minister of Finance	President of the National Bank of Poland
JAN VINCENT-ROSTOWSKI	MAREK BELKA

INTERNATIONAL MONETARY FUND

Republic of Poland—Assessment of the Impact of the Proposed Flexible Credit Line Arrangement on the Fund's Finances and Liquidity Position

Prepared by the Finance and Strategy, Policy and Review Departments
(In consultation with other Departments)

Approved by Andrew Tweedie and Vivek Arora

January 7, 2013

1. **This note assesses the impact of the proposed Flexible Credit Line (FCL) arrangement for Poland on the Fund's finances and liquidity position, in accordance with the policy on FCL arrangements.**[2] The proposed arrangement would cover a 24-month period and access would be in an amount of SDR 22.0 billion (1,303 percent of quota). It would succeed the existing FCL arrangement, which would be cancelled prior to approval of the proposed arrangement. The full amount of access proposed would be available throughout the arrangement period, in one or multiple purchases.[3] The authorities intend to treat the arrangement as precautionary.

I. Background

2. **Against the backdrop of the global economic and financial crisis, a one-year FCL arrangement equivalent to SDR 13.69 billion (1,000 percent of quota) was approved on May 6, 2009 which the authorities treated as precautionary.** This arrangement was succeeded by another FCL arrangement on identical terms which was approved on July 2, 2010 and a two-year FCL arrangement in the amount of SDR 19.166 billion (1,400 percent of quota) approved on January 21, 2011.[4] Poland's economy recovered well in 2010–11, reflecting very strong economic fundamentals and decisive counter-cyclical policies. Limited macroeconomic imbalances prior to the crisis and counter-cyclical policies during the crisis aided the strong recovery. As a consequence, no drawings were made under

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[2] See *Flexible Credit Line (FCL) Arrangements,* Decision No.14283-(09/29), adopted March 24, 2009, as amended. Also see *GRA Lending Toolkit and Conditionality—Reform Proposals* (3/13/09), the *Fund's Mandate – the Future Financing Role: Reform Proposals* (6/29/2010), and *the IMF's Mandate – the Future Financing Role: Revised Reform Proposals and Revised Proposed Decisions* (Supp. 2, 8/25/2010).

[3] If the full amount is not drawn in the first year of the arrangement, a review of Poland's continued qualification under the FCL arrangement must be completed before purchases can be made after the first year.

[4] Soon after the approval of the FCL arrangement, the 2008 Quota and Voice Reform became effective and increased Poland's quota from SDR 1,369.0 million to SDR 1,688.4 million. This implied that the access under the FCL was reduced to 1,135 percent of quota.

any of the previous or the existing FCL arrangement. Poland has a history of strong performance under Fund arrangements and exemplary record of meeting its obligations to the Fund.

3. **Total external and public debt levels are projected to decline broadly and remain sustainable.**[5] External debt, which was in the 44-55 percent of GDP range in the years preceding the recent crisis, is projected to peak at almost 70 percent of GDP in 2012-13, and gradually decline over the medium term. Short term debt on a residual maturity basis is estimated at about 30 percent of total external debt in 2012, and this share is projected to decline to below one-quarter over the medium term. Public external debt, in turn, is estimated at 28 percent of GDP in 2012, and is projected to rise to almost 33 percent by 2014 and decline thereafter. Gross public debt (ESA95 definition), which stayed below 50 percent of GDP in 2005-2008, is estimated at around 55 percent of GDP in 2012, still as a result of the countercyclical fiscal policy followed by authorities in response to the global crisis. Net external debt is projected to stabilize at around 50 percent of GDP in the coming years. Sustainability analyses suggest that both external and public debt are generally robust to, and remain manageable under, a range of scenarios.[6]

4. **If the full amount available under the proposed FCL arrangement were disbursed in 2013:**

- Fund credit would represent a modest part of Poland's external debt (Table 1). Total external debt would rise to 76 percent of GDP initially, and public external debt to about 38 percent of GDP, with Fund credit representing about 7 percent of GDP. At its peak, Poland's outstanding use of GRA resources would account for about 9 percent of total external debt, almost 18 percent of public external debt, and about 22 percent and gross international reserves.

- External debt service would increase in the medium-term, but remain manageable under staff's medium-term macro projections. Poland's projected debt service to the Fund would peak in 2017 at about SDR 11.2 billion, or about 3 percent of GDP. In terms of exports of goods and services, debt service to the Fund would peak at 5½ percent in 2017. This would account for 47 percent of total public external debt service, which would increase to almost 12 percent of exports of goods and services.

[5] A more detailed description of external and public debt is provided in the staff report.

[6] Note that the debt sustainability analysis does not assume drawings under the FCL arrangement.

Table 1. Poland—Capacity to Repay Indicators 1/

	2011	2012	2013	2014	2015	2016	2017
Exposure and Repayments (In SDR millions)							
GRA credit to Poland	--	--	22,000.0	22,000.0	22,000.0	13,750.0	2,750.0
(In percent of quota)	--	--	(1,303.0)	(1,303.0)	(1,303.0)	(814.4)	(162.9)
Charges due on GRA credit 2/	--	--	558.1	569.8	569.8	606.9	223.2
Debt service due on GRA credit 2/	--	--	558.1	569.8	569.8	8,856.9	11,223.2
Debt and Debt Service Ratios 3/							
In percent of GDP							
Total external debt	62.4	69.5	76.0	74.9	74.1	70.8	66.9
Public external debt	23.5	28.2	38.4	39.1	38.6	35.8	32.6
GRA credit to Poland	--	--	6.7	6.4	6.1	3.6	0.7
Total external debt service	19.7	22.9	20.0	20.1	15.8	19.4	19.8
Public external debt service	2.7	4.2	4.3	3.1	3.7	5.5	5.9
Debt service due on GRA credit	--	--	0.2	0.2	0.2	2.3	2.8
In percent of Gross International Reserves							
Total external debt	327.6	310.2	251.8	245.6	237.8	240.0	246.6
Public external debt	123.7	125.9	127.1	128.3	123.9	121.5	120.2
GRA credit to Poland	--	--	22.3	21.0	19.5	12.1	2.5
In percent of Exports of Goods and Services							
Total external debt service	43.5	47.1	42.2	41.9	32.7	39.6	39.6
Public external debt service	5.9	8.7	9.0	6.4	7.7	11.2	11.7
Debt service due on GRA credit	--	--	0.4	0.3	0.3	4.7	5.5
In percent of Total External Debt							
GRA credit to Poland	--	--	8.9	8.6	8.2	5.1	1.0
In percent of Public External Debt							
GRA credit to Poland	--	--	17.6	16.4	15.7	10.0	2.1

Sources: Polish authorities, Finance Department, World Economic Outlook, and IMF staff estimates.

1/ Assumes full drawings under the FCL upon approval. The Polish authorities have expressed their intention to treat the arrangement as precautionary, as balance of payments pressures have not materialized.
2/ Based on the rate of charge as of December 21, 2012. Includes surcharges and service charges.
3/ Staff projections for external debt, GDP, gross international reserves, and exports of goods and services, as used in the staff report that requests the proposed FCL, adjusted for the impact of the assumed FCL drawing.

5. **The immediate net impact of the proposed arrangement would be to lower the Fund's forward commitment capacity (FCC) by SDR 12.417 billion (5 percent).** This is because:

- The current arrangement was approved before the first activation of the NAB and, under existing policies, any drawings would be financed equally by quota and bilateral resources. In the absence of a new arrangement, the cancellation of the existing arrangement would free up the quota resources (and thereby raise the FCC by SDR 9.583 billion).

- However, the freed up bilateral resources cannot be used to finance new commitments, and therefore do not lead to a corresponding increase in the FCC. While this will reduce the need to set aside NAB resources to allow for the folding in of bilateral claims, these resources cannot be used to finance new commitments unless NAB participants and the Executive Board were to approve an increase in the maximum resources available during the current activation period. Such an increase is not being proposed at this time.

- Approval of the proposed new FCL arrangement will reduce the FCC by the full amount of the arrangement. Thus, the net liquidity impact would be to reduce the FCC by SDR 12.417 billion to about SDR 219.2 billion (Table 2).

Table 2. FCL for Poland—Impact on GRA Finances
(In SDR millions, unless otherwise indicated)

	As of 12/23/2012
Liquidity measures	
Current one-year Forward Commitment Capacity (FCC) 1/	231,625
Net impact on FCC on approval of FCL	-12,417
Prudential measures, assuming full FCL drawing	
Fund credit to Poland	
In percent of total GRA credit outstanding 2/	19.4
In percent of current precautionary balances	231.6
Fund credit outstanding to five largest debtors	
In percent of total GRA credit outstanding, before approval	77.2
In percent of total GRA credit outstanding, upon approval of the FCL 2/	75.4
Memorandum items	
Current precautionary balances (FY2012)	9,500
Total FCL commitments, including proposed FCL 3/	73,162
Total other precautionary commitments 4/	8,782
Quota of FTP members with actual and proposed FCLs, in percent of total quota of FTP members	3.1

Sources: Finance Department.

1/ The FCC measures the Fund's capacity to make new credit commitments over the next 12 months. It includes the liquidity effects of resources made available under borrowing and note purchase agreements.
2/ Based on current Fund credit outstanding plus full drawings under the proposed FCL.
3/ Excluding Poland's existing FCL.
4/ Includes the PLL for Morocco and the SBAs for El Salvador, Georgia, Romania, and Serbia.

6. **If the resources available under the proposed FCL arrangement were fully drawn, the Fund's exposure to Poland would represent almost one fifth of total GRA credit outstanding.**

- Poland's outstanding use of GRA resources, at SDR 22.0 billion, would be one of the highest of individual country exposures to date.

- The concentration of Fund credit among the top five users of Fund resources would decrease slightly to 75 percent from 77 percent currently.

- Potential credit exposure to Poland would be about 2.3 times the Fund's current precautionary balances.

II. Assessment

7. **The proposed FCL arrangement would have a significant but manageable impact on the Fund's liquidity position.** The Fund's liquidity position is measured by the Forward Commitment Capacity (FCC) which comprises all the resources available for new financial commitments and reflects the full amount of all commitments under existing IMF arrangements, including precautionary arrangements. At close to SDR 232 billion, the FCC appears sufficiently strong to accommodate the proposed arrangement, especially since the cancellation of Poland' existing FCL arrangement would partially offset the liquidity effect from the proposed new FCL arrangement. In addition, the need to set aside NAB resources to allow for the folding in of bilateral claims would be reduced, though, as noted above, these would not be available to finance new commitments without an increase in the maximum resources that can be drawn under the NAB. In addition, the 2012 bilateral borrowing and note purchase agreements (which are not included in the FCC) will provide a second line of defense to the Fund's lending capacity as they become effective.[7]

8. **Poland intends to treat the FCL arrangement as precautionary, but if drawn, this would feature prominently among the Fund's largest single credit exposures**. Poland's overall external debt and debt service ratios are expected to remain manageable even with a drawing under the arrangement. In addition, Poland's capacity to repay is expected to remain strong given its sustained track record of implementing strong policies, including during the global financial crisis, and sound institutional policy framework, which provide assurances about the future course of policies. Nonetheless, the scale of the Fund's potential exposure to Poland—in conjunction with the recent increase in lending to other members and the prospects for further credit expansion under already existing or possible new Fund arrangements—underscores the need to strengthen the Fund's precautionary balances.

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[7] If the activation threshold for triggering access to bilateral borrowing were reached (modified FCC of SDR 100 billion), these resources could be drawn in accordance with the borrowing modalities approved by the Board on June 15, 2012.

INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

Press Release No. 13/17
FOR IMMEDIATE RELEASE
January 18, 2013

International Monetary Fund
Washington, D. C. 20431 USA

IMF Executive Board Approves New Two-Year US$33.8 Billion Flexible Credit Line Arrangement for Poland

The Executive Board of the International Monetary Fund (IMF) today approved a successor two-year arrangement for Poland under the Flexible Credit Line (FCL) in an amount equivalent to SDR 22 billion (about US$33.8 billion, or 1,303 percent of quota).

Poland's first FCL arrangement was approved on May 6, 2009 (see Press Release No. 09/153). Successor arrangements were approved on July 2, 2010 (see Press Release No. 10/276), and January 21, 2011 (see Press Release No. 11/15). The Polish authorities have stated that they intend to treat the arrangement as precautionary and do not intend to draw on the FCL.

Following the Executive Board discussion of Poland, Mr. David Lipton, First Deputy Managing Director and Acting Chairman of the Board, made the following statement:

"Poland has very strong economic fundamentals and policy frameworks. A credible inflation targeting regime has helped contain inflation, while the flexible exchange rate has played a key stabilizing role, and the sound financial supervisory framework has contributed to a well-capitalized, liquid, and profitable banking system. Broadly adequate international reserves and the precautionary FCL arrangement have helped maintain market confidence.

"The authorities' skillful macroeconomic management underpinned Poland's solid recovery in 2010-11, allowing a gradual restoration of policy buffers despite the challenging external environment. These efforts included substantial fiscal consolidation, steady reserve accumulation, measures to mitigate risks related to foreign currency lending, and reforms to boost long-term growth potential.

“However, the economy is feeling the effects of headwinds from the rest of Europe, and growth has slowed since early 2012. Economic activity is projected to moderate further in 2013, with risks stemming from Poland’s substantial trade and financial linkages in the region. The authorities are committed to continue to implement sound economic and financial policies that support economic growth and improve the resilience of the banking system.

“Nevertheless, heightened risks to the balance of payments remain a key concern for Poland, and the challenging growth environment may also make the country more vulnerable to external shocks. Against this background, a successor two-year FCL arrangement, which the authorities intend to continue to treat as precautionary, will bolster Poland’s buffers against heightened external risks, help sustain market confidence, and continue to support the authorities’ overall macroeconomic strategy,” Mr. Lipton said.

The FCL was established on March 24, 2009 and further enhanced on August 30, 2010 (see Press Release No. 10/321). The FCL is available to countries with very strong fundamentals, policies, and track records of policy implementation and is particularly useful for crisis prevention purposes. FCL arrangements are approved for countries meeting pre-set qualification criteria (see Press Release No. 09/85). The FCL is a renewable credit line, which could be approved for either one or two years. Two-year arrangements involve a review of eligibility after the first year. If the country draws on the credit line, the repayment period is between three and five years. There is no cap on access to Fund resources under the FCL, and access is determined on a case-by-case basis. Qualified countries have the full amount available up-front, with no ongoing conditions. There is flexibility to either draw on the credit line at the time it is approved, or treat it as precautionary.

Poland is a member of the IMF since 1986 and has a quota of SDR 1,688.40 million (about US$2,594.28 million).

Statement by Dominik Radziwill, Alternate Executive Director for the Republic of Poland, and Beata Jajko, Advisor to the Executive Director
January 18, 2013

Our Polish authorities believe that despite the strong fundamentals of the Polish economy, external risks remain high, and the Flexible Credit Line will continue to be instrumental in reducing the effects of those risks in case of a tail event. The previous FCL arrangements have proven to serve Poland's economy very well.

Amid negative spillovers from financial and economic turbulence in the external environment, Poland's macroeconomic fundamentals have remained strong, underpinned by sound and prudent macroeconomic policies. Over the past four years Poland has enjoyed the highest economic growth among OECD countries. We note that (i) job creation has been positive; (ii) the fiscal deficit has been reduced from 7.9 percent of GDP in 2010 to 5.0 percent in 2011 as a result of our authorities' sound policy mix aimed at striking the right balance between the needed fiscal consolidation and support for the economic growth. Moreover, in 2012 the fiscal tightening, while allowing the automatic stabilizers to operate, brought the deficit down by an additional 1.5 percentage points. The authorities will continue, in line with the 2013 budget, to implement measures to further reduce the fiscal imbalance and put public debt firmly on a downward path; (iii) the international reserve buffer has gradually been rebuilt to a broadly adequate level of over USD 100 billion (iv) inflation has been kept in check; (v) a flexible exchange rate regime has served the economy well, providing the necessary cushion against external shocks; and (vi) the authorities continue to implement structural reforms to further strengthen macroeconomic fundamentals and enhance potential growth. As a result of our authorities' active implementation of these policies and the resulting creation of needed buffers, our authorities will be enabled to take considerable steps towards exiting the FCL, when external conditions allow.

Additionally, financial institutions have continued to be closely monitored by the supervisory authorities and the macro-prudential framework has been further enhanced. The banking sector has remained robust, highly capitalized and very conservative. But given the high share of foreign ownership in the Polish banking sector and the level of parent funding and intercompany loans, the risks of capital outflows are heightened.

Poland has enjoyed access to international markets at very attractive rates. Foreign portfolio inflows have been very strong, specifically resulting in an increase in the share of non-residents in domestic treasury securities, from 14 percent at the beginning of 2009 to above 36 percent, which is roughly equal to USD 60 billion. The high inflow of foreign capital, on the one hand, is a sign of the strength of the Polish economy; on the other hand, it increases vulnerability of the Polish economy to rapid changes in investors' behavior.

As a fully open economy that is strongly integrated in the global markets, Poland is highly exposed to potential external shocks. International conditions remain volatile and a sustainable path to global recovery has yet to be established. Despite sound domestic policies, if the external risks—underlined in the Fund's flagship reports—materialize, Poland could be adversely affected by a significant slowdown and suffer from a substantial and destabilizing outflow of foreign capital.

Furthermore, our authorities strongly believe that the renewed FCL for Poland would play a stabilizing role not only for the country, but also for the Central and East European region as a whole, thus complementing the policy response developed in the euro area. We lastly note that Poland is not only a beneficiary of the Fund's arrangement but also a contributor— strengthening the firepower of the Fund by participating in the New Arrangements to Borrow and by providing a bilateral loan to the Fund.

In light of the above, the authorities request the approval of a successor 24-month FCL arrangement in the amount of SDR 22 billion, equal to 1303 percent of quota. The requested amount represents a reduction of an access in terms of quota and constitutes a clear signal from the authorities to exit from the FCL when the external conditions allow. The authorities are committed to further strengthening macroeconomic buffers, specifically by fiscal consolidation and accumulation of reserves. They reaffirm their intention to treat this instrument as precautionary.