INTERNATIONAL MONETARY FUND

IMF Country Report No. 16/12

# REPUBLIC OF POLAND

## REVIEW UNDER THE FLEXIBLE CREDIT LINE ARRANGMENT—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE ALTERNATE EXECUTIVE DIRECTOR FOR THE REPUBLIC OF POLAND

January 2016

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

- A **Press Release**
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on January 13, 2016. Based on information available at the time, the staff report was completed on December 28, 2015.
- A **Statement** by the Alternate Executive Director for the Republic of Poland

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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January 13, 2016

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**IMF Executive Board Completes Review of Poland's Performance under the Flexible Credit Line Arrangement**

On January 13, 2016, the Executive Board of the International Monetary Fund (IMF) completed its review of Poland's qualification for the arrangement under the Flexible Credit Line (FCL), and reaffirmed its continued qualification to access FCL resources. At the request of Polish authorities, the Executive Board also lowered the FCL access to SDR 13 billion (about €16.59 billion). The Polish authorities stated their intention to continue treating the arrangement as precautionary.

The current two-year FCL arrangement for Poland in an amount equivalent to SDR 15.5 billion (about €19.78 billion at the time of approval) was approved by the IMF's Executive Board on January 14, 2015 (see Press Release No. 15/05).

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

"Poland continues to benefit from its very strong economic fundamentals and policy frameworks. Economic growth is strong and unemployment is declining. The current account deficit has narrowed, thereby further strengthening economic fundamentals, while international reserves remain adequate. Fiscal consolidation has led to an exit from the Excessive Deficit Procedure, and public debt is sustainable. Poland's credible inflation targeting regime has been effective in managing deflationary pressures, and inflation has started to pick up. The banking system is liquid, profitable and well capitalized, and the financial sector framework has been further strengthened.

"The authorities have stated their commitment to very strong policies and institutional frameworks with a focus on advancing inclusive growth, while maintaining fiscal discipline and financial stability. The outlook is for continued robust growth. Risks have somewhat receded but remain elevated amid continued uncertainty surrounding the effects of U.S. monetary policy tightening and potential adverse developments in key emerging market economies.

"The FCL arrangement reinforces Poland's buffers against external risks. The lower access is appropriate in light of somewhat lower risks and the improvement in Poland's fundamentals. The authorities intend to continue to treat the arrangement as precautionary and to gradually exit from the FCL once external risks recede."

The IMF has established the FCL on March 24, 2009 and further enhanced it 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 can 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'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); January 21, 2011 (see Press Release No. 11/15); and January 18, 2013 (see Press Release No. 13/17).

Poland is a member of the IMF since 1986 and has a quota of SDR 1,688.40 million (about €2,154.2 million).

# REPUBLIC OF POLAND

December 28, 2015

## REVIEW UNDER THE FLEXIBLE CREDIT LINE ARRANGEMENT

## KEY ISSUES

**Context:** Poland's very strong fundamentals and policy frameworks have helped it remain resilient amid increased financial market volatility. Economic growth is strong, unemployment is declining, and inflation has started to pick up. However, while risks have somewhat subsided, they remain elevated amid continued uncertainty surrounding the effects of U.S. monetary policy tightening and potential adverse developments in key emerging market economies.

**Policies:** In recent years, macroeconomic policies have focused on further strengthening fundamentals and institutional frameworks. Fiscal consolidation has led to an exit from the Excessive Deficit Procedure (EDP). Monetary policy has been eased to help lift inflation. Financial sector supervision has been strengthened with a new macroprudential framework. Reserves are broadly adequate against standard metrics. The new government has pledged to maintain prudent policies, including gradual fiscal consolidation over the medium term, and to ensure the continued stability of the banking system. In the period ahead, it will be important to identify specific growth-friendly measures to underpin the fiscal adjustment and reduce implementation risk.

**Qualification and access:** Considering the balance of risks and some improvement in Poland's fundamentals, the authorities believe that reducing access from SDR 15.5 billion (918 percent of quota) to SDR 13 billion (770 percent of quota) would provide adequate insurance against external risks, while also sending a signal of their intention to gradually exit from the FCL as conditions allow. In staff's view, Poland continues to meet the qualification criteria for access to FCL resources specified under the corresponding Executive Board decision. Staff therefore recommends completion of the review under the FCL arrangement.

**Flexible Credit Line (FCL):** On January 14, 2015, the Executive Board approved a 24-month arrangement with Poland under the FCL in the amount of SDR 15.5 billion (918 percent of quota). The authorities continue to treat the arrangement as precautionary.

Approved By
**Thanos Arvanitis and Sanjaya Panth**

This report was prepared by a staff team led by Daria Zakharova and comprising Lone Christiansen, Aaron Thegeya (all EUR), and Yuanyan Zhang (SPR). Excellent assistance was provided by Hannah Jung and Nhu Nguyen (both EUR).

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# CONTEXT

**1. Poland's economy has remained resilient amid increased global financial volatility.** Able macroeconomic management has helped support growth despite weakness in some export markets. While concern about slowing growth in China and other emerging markets (EMs) led to widespread EM sell-off and financial market volatility in late summer of 2015, bond fund outflows from Poland were less severe than in several other countries and government bond yields remained broadly stable (Figure 1). The zloty depreciated against the U.S. dollar alongside other EM currencies, but remained broadly stable vis-à-vis the euro. The Swiss franc appreciation in early 2015 resulted in a more than 10 percent depreciation of the zloty vis-à-vis the Swiss franc, but did not jeopardize financial stability. Steady growth continued, supported by robust domestic demand amid falling unemployment and rising disposable income. At the conclusion of the 2015 Article IV Consultation, Executive Directors welcomed Poland's recovery from the 2012–13 slowdown, supported by its very strong economic fundamentals and policies.

**2. The FCL arrangement continued to provide valuable insurance against external shocks.** Poland's integration with global trade and financial markets facilitated valuable technological transfers and helped bolster productivity, competitiveness, and economic convergence. Nonetheless, the high degree of trade and financial integration also exposes Poland to international spillovers. While reliance on parent bank funding has declined, more than 60 percent of banking sector assets are foreign-owned, about 40 percent of domestic treasury securities are held by foreigners, and about 45 percent of mortgages are denominated in foreign currency—primarily in Swiss franc. Significant gross external liabilities combined with an open capital account, make Poland vulnerable to shifts in investor sentiment. Against this backdrop, Poland's successive FCL arrangements have provided a reassuring signal to markets on the strength of Poland's policies and a welcome buffer against tail risks.

**3. The authorities have built additional policy space and further strengthened policy frameworks.**

- **Gradual deficit reduction continued to strengthen fiscal buffers.** In 2014, the pension-adjusted[1] general government deficit declined to below 3 percent of GDP, allowing Poland to exit the EDP one year early. General government debt declined to about 50 percent of GDP at end-2014.
- **Reserves are broadly adequate.** International reserves have increased from EUR 55 billion (USD 80 billion) at end-2009 to EUR 93 billion (USD 98 billion) at end-November 2015 and are

[1] The pension adjustment of 0.4 percent of GDP accounted for direct net costs of contributions to the second pillar pension system during January–July 2014 and brings the 2014 pension-adjusted deficit down to 2.9 percent from the recorded deficit of 3.3 percent.

broadly adequate against standard metrics. Reserves are relatively comfortable compared to those in the median emerging market (Figure 2). Poland's flexible exchange rate has continued to serve as a cushion against external shocks. The swap line with the Swiss National Bank remains available in case of severe Swiss franc funding pressures.

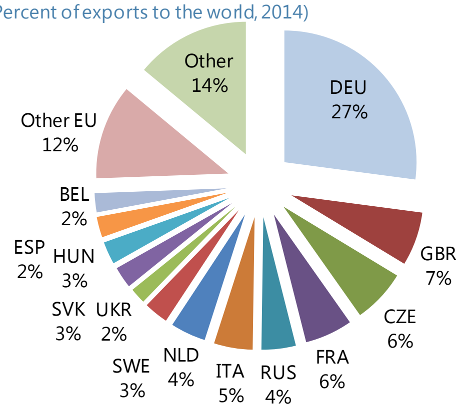
- **The financial sector framework has been strengthened.** A macroprudential framework to allow for early detection and prevention of systemic risk has been finalized, and a law on covered bonds has been approved, helping to support stable funding. A new corporate insolvency law to encourage restructuring (instead of liquidation) of viable firms was also completed. The new bank resolution framework is being finalized.

**4. The new government has stated its commitment to maintaining very strong policies and institutional frameworks.** The Law and Justice (PiS) party won an outright majority in the October 25, 2015 parliamentary election. The new government's priorities are focused on advancing inclusive growth, while maintaining fiscal discipline and financial stability (see authorities' letter in the Appendix).

**Republic of Poland: Trade and Financial Linkages**

*Exports are largely oriented toward Europe…*

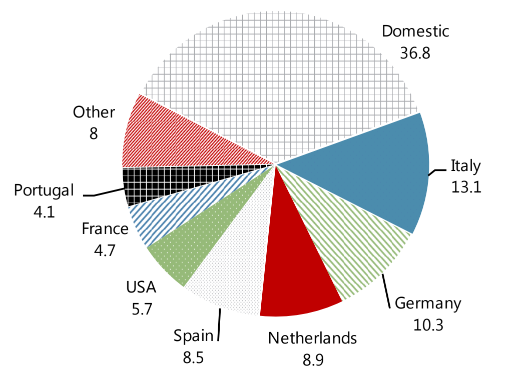
**Export Shares**
(Percent of exports to the world, 2014)




Sources: Direction of Trade Statistics and IMF staff calculations.

*…and the banking system is largely foreign-owned.*

**Bank Ownership Structure**
(Percent of assets, 2013)




Sources: Polish Financial Supervision Authority (KNF) and IMF staff calculations.

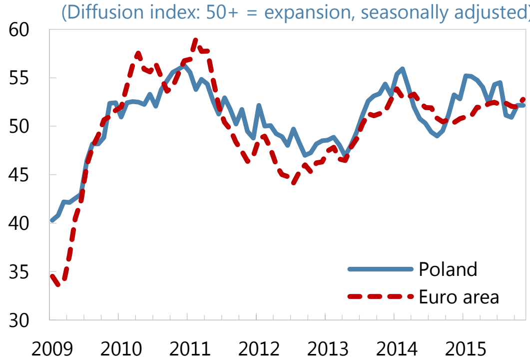
# RECENT DEVELOPMENTS

**5. Growth has held up well, labor market conditions have improved, and deflation appears to have bottomed out.** Robust increases in private consumption, combined with healthy credit expansion, continued to support growth—at a better-than-expected 3.7 percent (2010 prices, yoy, sa) in the third quarter (Figure 3, Table 1). The seasonally-adjusted, harmonized unemployment rate has continued its downward trend, declining to 7.0 percent in October 2015—the lowest since end-2008. Moderate wage growth continued. Deflation moderated during spring and summer, and while it temporarily deepened again in early fall on the back of external factors, inflation picked up to -0.6 percent in November.

**International Growth and Inflation Co-Movement**

*Activity is highly correlated with trading partner activity…*

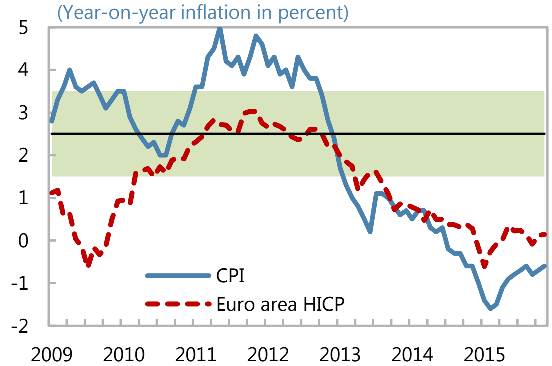
**Purchasing Managers' Index: Manufacturing**
(Diffusion index: 50+ = expansion, seasonally adjusted)




Sources: Haver Analytics, HSBC/Markit, and IMF staff calculations.

*…and low inflation is largely related to external factors.*

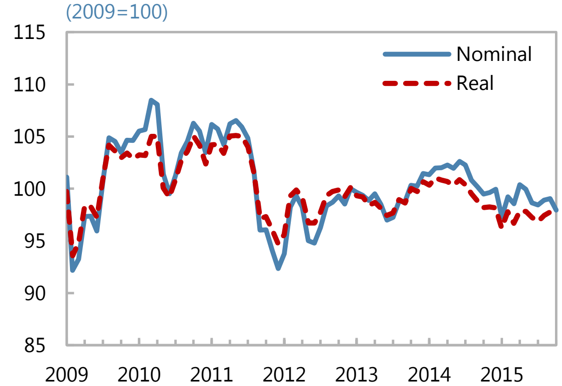
**Inflation**
(Year-on-year inflation in percent)




Sources: Eurostat, Haver Analytics, Statistics Poland, and IMF staff calculations.

**6. The current account deficit has declined.** The deficit is expected to have narrowed to around 0.5 percent of GDP in 2015 from 2 percent of GDP in 2014, owing to lower cost of energy imports (Figure 4, Table 2). Nonetheless, geopolitical tensions have led to lower exports to the Commonwealth of Independent States (CIS), in particular to Belarus, Russia, and Ukraine. The current account continues to be largely financed by EU structural funds. While foreign direct investment (FDI) has traditionally served as a relatively stable source of financing, one-off factors contributed to its decline in the first half of 2015. Net external liabilities, including substantial cross-border intercompany loans, remained stable at around 65 percent of GDP. The real effective exchange rate remains broadly consistent with fundamentals and desired policies.

**Poland: Trade-Weighted Exchange Rate Index**
(2009=100)



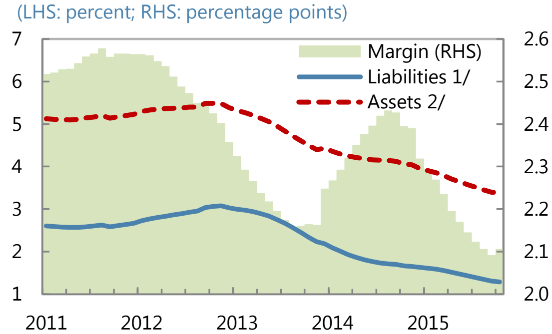

Sources: Haver Analytics, JP Morgan, and IMF staff calculations.

**7. The financial sector remains liquid and well-capitalized.** Banking sector liquidity has remained healthy with a liquid asset ratio above 20 percent in the third quarter of 2015 and the loans-to-deposits ratio steadily declining. The capital adequacy ratio stood at around 15½ percent in the third quarter, and nonperforming loans are gradually declining. While the banking sector continues to be profitable, profitability has declined in the low-interest-rate environment, which has resulted in narrowing interest-rate margins (Figures 5 and 6, Table 3).

**Republic of Poland: Banking Sector Lending Conditions and Liquidity**

*Funding costs and interest income have declined…*

**Banking Sector Effective Interest Rates**
(LHS: percent; RHS: percentage points)




Sources: KNF and IMF staff calculations.
1/ 12-month interest expense in percent of 12-month liabilities.
2/ 12-month interest income in percent of 12-month assets.

*…and so have loans-to-deposits.*

**Nonfinancial Sector Loans to Deposits**
(Percent)


Sources: KNF and IMF staff calculations.

**8. Fiscal policy remained broadly neutral.** The general government deficit is expected at around 3 percent of GDP in 2015 (Tables 4 and 5). While indirect tax revenue collections in 2015 have disappointed, under-spending is expected to have helped contain the negative impact on the deficit. Public debt at 50.4 percent of GDP at end-2014 is assessed as sustainable under a number of shock scenarios (Annex I) and, while yields have picked up moderately recently, financing conditions have remained favorable with 10-year bond yields at around 3 percent at mid-December.

# OUTLOOK, RISKS, AND POLICIES

**9. Under current policies, the outlook is for continued robust growth and a gradual pick-up in inflation.** Growth in 2015 and over the medium term is expected to remain broadly unchanged at 3½ percent, supported by domestic demand. Robust growth will help the output gap to close in 2016. Inflation is projected to enter the target band (1.5–3.5 percent) at end-2016 amid negative external factors. The current account deficit is expected to narrow in 2015, reflecting continued low oil prices, and gradually converge to around -3 percent of GDP over the medium term alongside growing import demand and a gradual recovery of oil prices.

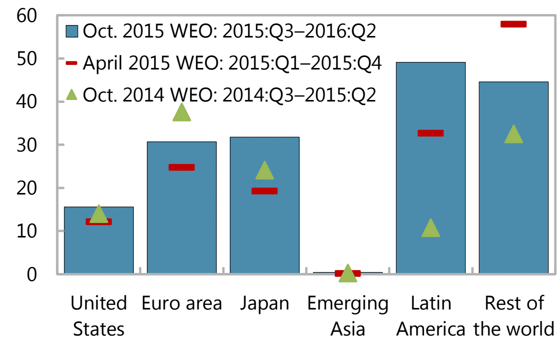
**10. Downside risks have somewhat receded, but remain elevated.** Previously identified risks have somewhat diminished—including those associated with a protracted slowdown in the euro area and the normalization of U.S. monetary policy—while new risks have emerged.

- **External.** External risks have to some extent receded relative to the time of approval of the current FCL arrangement, but remain elevated. Risks related to structurally low growth in the euro area have moderately diminished on the back of ECB QE. At the same time, while volatility in the immediate aftermath of the U.S. Fed's rate hike has been muted, uncertainties remain about the Fed policy path. These uncertainties could still result in increases—albeit of a smaller magnitude than had been envisaged earlier—in Poland's risk premium (October 2015 Global Financial Stability Report). In addition, new downside risks have emerged, including from a potential significant slowdown in China and other large EMs (October 2015 World Economic Outlook). The External Economic Stress Index for Poland indicates that external conditions are broadly unchanged relative to one year ago, while downside risks related to euro area growth and U.S. monetary policy have subsided to some extent (Box 1). Poland's very strong fundamentals, reserve buffers, and a stable and diversified foreign investor base are mitigating factors.

## The Global Outlook

*The likelihood of euro area recession remains substantial…*

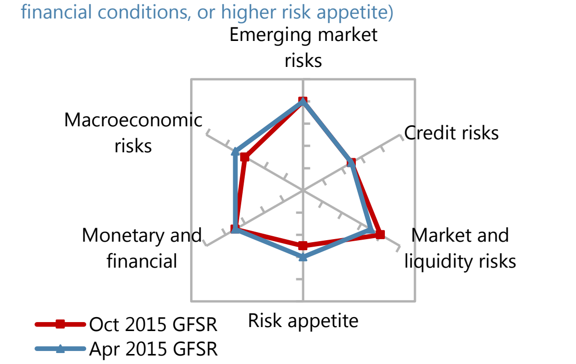
**Probability of Recession**
(Percent)




Sources: IMF World Economic Outlook (WEO), October 2015 and October 2014.

*…and market and liquidity risks have intensified.*

**Global Financial Stability Map**
(Away from center signifies higher risks, easier monetary and financial conditions, or higher risk appetite)

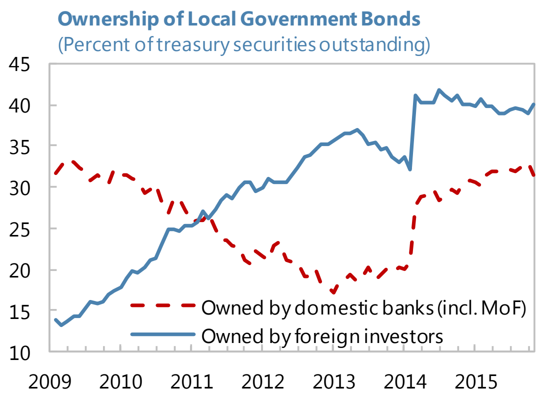



Source: IMF Global Financial Stability Report (GFSR), October 2015.

- **Domestic.** Domestic risks relate to continued low inflation and fiscal slippages. Inflation could fail to pick up, owing to ongoing spillovers from low oil prices and low euro area inflation. Alongside, the fiscal deficit could widen if inflation or growth were to disappoint, or if gains from revenue measures to finance new spending do not materialize as planned. Fiscal slippages or broader weakening of policies could weigh on market sentiment and increase financing costs going forward (see below).

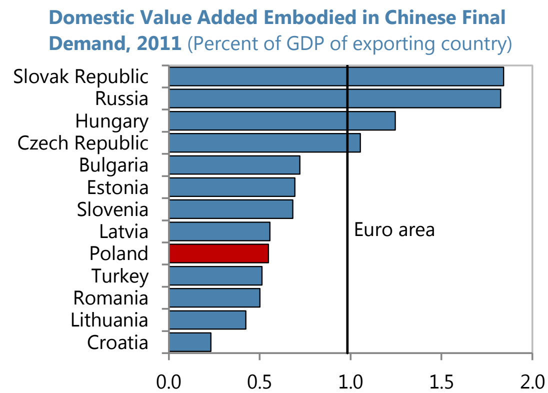
## Republic of Poland: Exposure to Risk

*Foreign bond market participation is significant.*



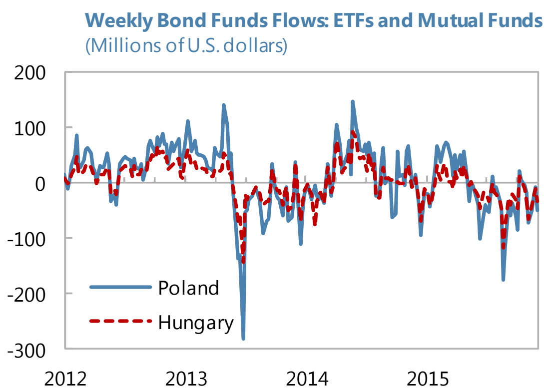

Sources: Haver Analytics, Polish Ministry of Finance, and IMF staff calculations.

*While direct links to China are limited…*



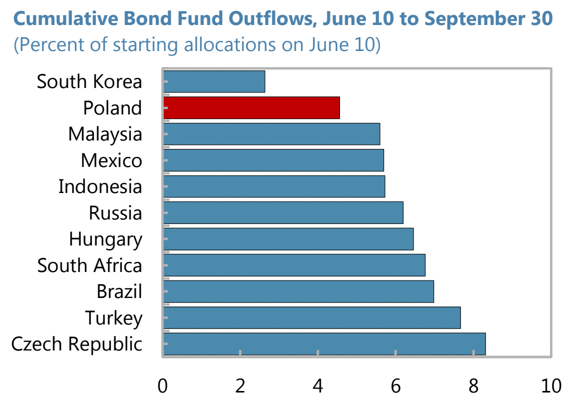

Sources: Regional Economic Issues, Europe (November 2015), OECD-WTO Trade in Value Added (TIVA) dataset, and WEO.

*…significant bond fund outflows have recently occurred…*




Sources: EPFR Global, Haver Analytics, and IMF staff calculations.

*…though strong fundamentals have served Poland well.*




Sources: EPFR Global, Haver Analytics, and IMF staff calculations.

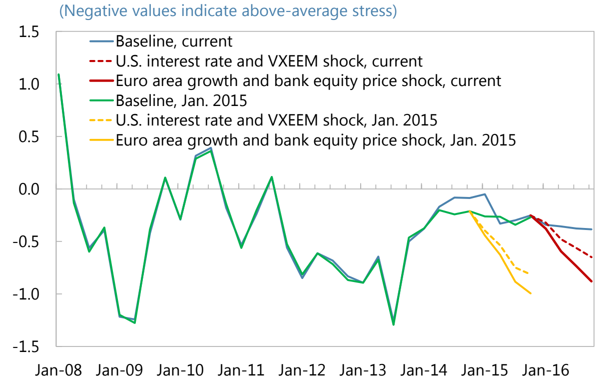
### Box 1. Republic of Poland: External Economic Stress Index

*The external economic stress index was introduced in Poland's staff report on the arrangement under the Flexible Credit Line, January 2015, based on the methodology in "The Review of Flexible Credit Line, the Precautionary and Liquidity Line, and the Rapid Financing Instrument," IMF Policy Paper, May 2014. This box updates the index and compares it to the version published at the time of approval of the FCL arrangement.*

**The external economic stress index shows that external conditions are broadly unchanged, while risks have somewhat receded, but remain elevated.** The baseline index shows the evolution of external conditions as they pertain to Poland. Weights are unchanged relative to the time of approval of the FCL arrangement. Risks capture both real and financial shocks identified at the time of the request: namely, those pertaining to a negative shock to euro area growth and adverse market reaction to the normalization of U.S. monetary policy. These risks have been updated to reflect changes in the external environment.

**External conditions indicate above-average stress.** The baseline reflects WEO projections for euro area growth and the U.S. 10-year bond yield. The euro area bank equity return and VXEEM are assumed to remain unchanged at their end-September 2015 levels. While euro area-related concerns have lessened somewhat as the region's growth and bank profitability are slowly recovering, U.S. long-term bond yields have increased in expectation of continued interest rate hikes and emerging market financial volatility has risen. Going forward, it is assumed that the gradual recovery of euro area growth continues, U.S. interest rates are gradually increased, and emerging market volatility persists. Under these assumptions, external economic conditions are expected to remain broadly unchanged relative to the time of approval of the current FCL arrangement.

**Poland: External Economic Stress Index**
(Negative values indicate above-average stress)



Source: IMF staff calculations.

**The two adverse scenarios point to somewhat lower risks than at the time of the request of the FCL arrangement.** In particular, risks arising from a negative growth shock in the euro area and an unexpected increase in U.S. bond yields have subsided on the back of ECB QE and the recent U.S. Federal Reserve policy interest rate increase.

- The first scenario includes a 75 basis point increase in the 10-year U.S. bond yield above the baseline—compared to a 100 basis point increase in the last FCL report, reflecting that U.S. monetary policy normalization has recently begun. As in the FCL request, this is combined with a 2 standard deviation increase in the VXEEM.
- The second scenario includes a reduction in euro area growth by 0.4 percentage points relative to the 2016 baseline—compared to a 0.5 percentage point shock in the last FCL report to capture a corresponding relative decline in the probability of euro area recession during the past year (based on October 2014 and October 2015 World Economic Outlook assessments)—combined with a 1 standard deviation reduction in euro area bank equity valuation, compared to 2 standard deviations assumed at the time of the FCL request.

**11. The new government aims to promote strong and inclusive growth, while maintaining prudent policies.**

- **The 2016 budget, approved by the government, targets a general government deficit of 2.8 percent of GDP.** The budget is largely based on the draft submitted by the previous government, but was amended to increase social spending on child benefits (around 1 percent of GDP annually), financed by retail and financial sector taxation, and one-off receipts from a mobile frequencies auction. For the coming years, the authorities have stated their commitment to maintain the budget deficit below 3 percent of GDP in 2017 and resume fiscal consolidation in 2018 at a pace of at least ¼ percent of GDP per year. This commitment to fiscal discipline is welcome and the proposed path will reduce the structural fiscal deficit to below 2¼ percent of GDP by 2020, keeping the general government debt firmly on a sustainable path. However, some recent decisions will dent somewhat the currently strong policy framework. The 2016 budget will be met partly with one-off fiscal measures, and the expenditure rule was modified to accommodate this. Also, some of the revenue-raising measures, including the planned sectoral taxes, could ultimately discourage trade and credit expansion, and should be replaced with higher-quality measures. Finally, while the authorities remain committed to a sound pension system, they have announced their intention to reconsider the statutory retirement age and possibly lower it, although the details of the proposal are still being worked out. In staff's view, it is important to maintain fiscal discipline with a robust policy framework, including a financially sustainable pension system. In this context, specific growth-friendly measures should be identified in the context of the Convergence Program update (due in the spring) to underpin the fiscal adjustment path in the coming years and increase resilience to shocks.

- **Accommodative monetary policy has helped lift inflation.** Despite strong domestic demand, external shocks have been a drag on inflation. In response, the Monetary Policy Council (MPC) appropriately lowered the main policy interest rate a cumulative 100 basis points between October 2014 and March 2015 (Table 6). Following the interest rate cuts, monetary policy has appropriately remained on hold with the Narodowy Bank Polski's (NBP's) November projection indicating that NBP inflation expectations for end-2017 are now mildly above those expected prior to the March interest rate cut. Nonetheless, additional interest rate cuts could be needed should inflation expectations become unanchored.

- **Financial sector supervision has focused on mitigating vulnerabilities.** While earlier tightening of prudential regulation has halted new FX lending, the Polish Financial Supervision Authority (KNF) has recently acted to limit risks associated with the still-high outstanding stock of foreign-currency mortgages. Banks with significant foreign-currency exposure have been requested to retain dividends and further boost capital. In staff's view, these measures, along with case-by-case restructuring of distressed FX-denominated mortgages, should be sufficient to address vulnerabilities in this loan segment. Any wholesale measures, such as a system-wide conversion of FX mortgages into zloty, should thus be avoided. Alongside, the authorities have continued to address vulnerabilities in the small, but weak credit union segment.

# THE FLEXIBLE CREDIT LINE

**12. The authorities view the precautionary FCL arrangement as an effective insurance against tail risks.** The FCL has complemented international reserves and Poland's very strong fundamentals and policies. Over the past few years, supported by successive FCL arrangements, Poland has successfully weathered several bouts of severe market turbulence, including the most recent sudden EM sell-off in late summer 2015. The newly elected government has highlighted the FCL's important stabilizing role.

**13. The authorities have requested to reduce access from SDR 15.5 billion to SDR 13 billion (about USD 18.1 billion).** The authorities have continued to build policy buffers, including through broadly adequate reserves, in preparation to exit from the FCL arrangement. In addition, the narrowing current account deficit has further strengthened fundamentals, and together with somewhat diminished risks, lowered external financing needs. In this context, the authorities consider that a moderately reduced access would provide sufficient insurance against external risks.

## A. Access and Exit Considerations

**14. Estimated financing needs in a tail-risk scenario have declined relative to the current level of access.** Relative to the time of request for the FCL arrangement, shocks have been adjusted to reflect that external risks have rotated toward EMs (Box 2, Figure 7, and Table 7). In particular, in light of lower risk of recession in the euro area, the shock on bank flows has been reduced. On the other hand, the increased risk of EM sell-off is captured through larger shocks on portfolio outflows and external public debt financing, which are only partially mitigated by less uncertainty regarding the timing and pace of normalization of the U.S. monetary policy. At the same time, the stronger fundamentals, particularly the narrowing current account deficit, have reduced external financing needs. Consistent with the assumptions underpinning the adverse scenario at the time of the FCL request, adequate reserve buffers allow for a reserve drawdown in a downside scenario. Overall, the external financing gap is estimated at SDR 13.0 billion (about 770 percent of quota), around 16 percent lower than the SDR 15.5 billion (about 918 percent of quota) at the time of the request for the current arrangement.

**15. The requested reduction in access confirms the authorities' intention to treat the FCL as a temporary supplement to reserves.** The reduction in access underscores the authorities' commitment to fully exit from the FCL arrangement when uncertainty related to U.S. monetary policy normalization and potential adverse developments in key emerging economies subsides. As stated in the authorities' letter, they have continued to communicate their intention of a smooth gradual exit from the FCL to market participants and the general public. The authorities' communication strategy should help promote transparency, underpin exit expectations, and reduce the likelihood of market surprises. Accordingly, market reaction has been muted.

## B. FCL Qualification Criteria

**16. In staff's view, Poland continues to meet the qualification criteria identified in paragraph 2 of the FCL decision (Figure 8).**

- **A sustainable external position.** Poland's external position is broadly consistent with medium-term fundamentals and appropriate policies. Model-based estimates suggest that the current account and the real effective exchange rate are broadly aligned with fundamentals. While net IIP liabilities are relatively large, external debt projected at around 75 percent of GDP in 2015 is expected to decline over the medium term (Annex II). Stable and diversified intercompany debt mitigates sustainability concerns.

### Box 2. Republic of Poland: Adverse Scenario

**The adverse scenario takes as a starting point staff's baseline forecast.** In the baseline, the current account deficit has narrowed relative to the time of the FCL request. However, gross external financing needs remain large, with the gap comfortably financed by FDI inflows, substantial external short-term (ST) and medium- and long-term (MLT) private sector financing (of which 60 percent is intercompany debt), EU structural funds, and public sector external financing. Baseline rollover rates are projected at close to 120 percent of the average annual amortization need in 2016 for the public sector and 100 percent for the private sector. In the absence of external shocks, reserve accumulation is projected at around USD 2.6 billion in 2016 to maintain reserves at around 120 percent of the IMF's Assessing Reserves Adequacy (ARA) metric.

**Assumptions underlying the adverse scenario have been adjusted to reflect the changing nature and intensity of risks.** Relative to assumptions at the time of the January 2015 FCL, two changes have been made. First, a smaller shock was applied to bank debt financing (with a rollover rate of 78 percent and 68 percent for MLT and ST debt respectively, compared to 73 percent and 62 percent in the 2015 FCL request) to reflect diminished risks to euro area growth and banking sector stability. Second, although the risk of unexpected U.S. bond yield hike has somewhat receded, it is more than offset by emerging risks associated with China slowdown and EM-wide stress. Hence, the adverse scenario assumes a shock on external public debt financing (with a rollover rate of 92 percent compared to 98 percent in the 2015 FCL request) to account for potentially lower investor appetite to roll over existing holdings of Poland's public debt; in addition, a 95 percent shock is applied to non-resident equity inflows, compared to 90 percent in the 2015 FCL request. As in the FCL request, a moderate reserve drawdown is assumed in the adverse scenario. Nonetheless, reserves would remain adequate under the ARA metric.

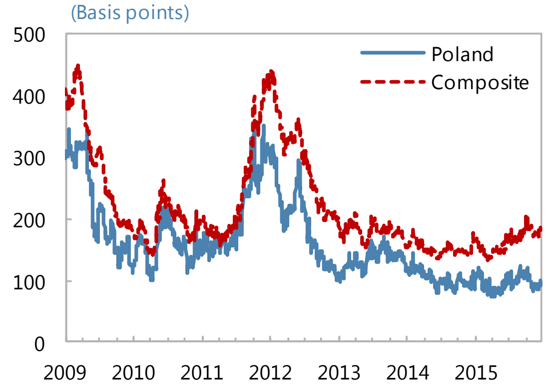
**The shocks underlying the adverse scenario continue to reflect the potential impact on the financial account of a sudden shift in market sentiment.** This could for example arise from a sharper-than-expected economic slowdown in the euro area and other major economies, stronger-than-expected market reaction to the normalization of monetary policy in the U.S., and intensified EM-wide stress.

**Assumptions underlying the adverse scenario are as follows:**

- *FDI flows fall 25 percent*. The reduction remains the same magnitude as the 2015 FCL request and is in line with the decline in FDI in 2009.
- *Equity portfolio outflows of 95 percent of non-resident equity holdings.* This decline is larger than at the time of the 2015 FCL request (90 percent), despite somewhat lower risks related to U.S. monetary policy, to account for higher risk of potential EM sell-off.
- *A decline in MLT private non-financial corporate flows of close to 10 percent and public sector MLT borrowing of close to 20 percent.* ST non-financial corporate flows decline by around 20 percent and ST public sector debt is fully rolled over. Rollover rates on MLT borrowing are in line with mean historical rollover rates for emerging markets.
- *A decline in bank flows of close to 30 percent*. A smaller shock was applied (compared to a 35 percent decline in the 2015 FCL) to reflect diminished risks to euro area growth and banking sector stability.
- *Other investment outflows of USD 3.5 billion from non-resident deposits*. This amount remains the same as the adverse scenario in the 2015 FCL request.
- *A drawdown of reserves of around USD 5 billion in 2016, relative to the 2015 level*. The drawdown represents around 30 percent of total financing needs, but reserves would still allow for a small margin relative to the ARA metric. Under the adverse scenario, reserves would stand at 111 percent of the ARA metric, compared to about 120 percent under the baseline forecast. This assumption remains the same as the 2015 FCL request.

- **A capital account position dominated by private flows.** Capital flows to Poland originate largely from private investors, with official creditors accounting for less than 5 percent of external debt as of end-2014. The bulk of capital flows is generated in the form of government debt securities and intercompany debt.

- **A track record of steady sovereign access to international capital markets at favorable terms.** Poland maintains a high credit rating relative to other emerging economies and continued access to international capital markets at favorable terms. Spreads vis-à-vis German bonds have remained narrow, with the 10-year bond spread at around 240 basis points at mid-December, and government bond yields at low levels by historical standards. EMBI spreads were at around 100 basis points as of mid-December—continuously below the emerging market composite. Yields remained low during the financial market turmoil, related to the growth slowdown in China. Gross borrowing needs for 2015 were covered by October and the authorities have embarked on pre-financing 2016 borrowing needs.



Sources: Bloomberg and IMF staff calculations.

- **A reserve position that remains relatively comfortable.** Gross international reserves are broadly adequate based on standard reserve metrics. Reserves are projected at around 120 percent of the IMF's ARA metric in 2015.

- **Sound public finances, including a sustainable public debt position.** Notwithstanding the recent modification of the expenditure rule, Poland maintains a strong institutional framework, including a constitutional public debt limit with associated fiscal adjustment triggers. The authorities remain committed to keeping the deficit below 3 percent of GDP in 2016 and 2017 and expect to resume gradual fiscal consolidation in 2018. Debt sustainability analysis indicates that the envisaged fiscal path is consistent with sustainable general government debt under a variety of macroeconomic scenarios (Annex I). The prudent debt management strategy has continued to contain potential vulnerabilities related to the currency composition and maturity profile of public debt.

- **Low and stable inflation, in the context of a sound monetary and exchange rate policy framework.** While inflation remains very low, it appears to have bottomed out and inflation expectations at the two-year horizon remain within the tolerance band. According to the most recent NBP Inflation Report, the NBP expects inflation to enter the target band in 2017. The 2016 Monetary Policy Guidelines state that stabilizing inflation at its target over the medium term will remain the primary objective of the NBP's monetary policy.

- **Sound financial system and the absence of solvency problems that may threaten systemic stability.** Poland's well-capitalized, liquid, and profitable banking sector forms the core of

Poland's sound financial system. Though the credit union segment remains vulnerable, its size corresponds to less than 1 percent of banking sector assets. The NBP has assessed that linkages between non-credit financial institutions and banks are limited and that domestic investment funds and traditional insurance activities do not generate risk to financial system stability. As such, there are no solvency problems to threaten systemic stability.

- **Effective financial sector supervision.** Stress tests by the NBP have confirmed the banking sector's high resilience. Recent supervisory measures to mitigate vulnerabilities associated with foreign-currency exposure should help preserve stability. The recently approved macroprudential framework, which entrusts macroprudential supervision to the Financial Stability Committee, should further strengthen the already effective financial sector supervision.

- **Data transparency and integrity.** Poland has subscribed to the Fund's Special Data Dissemination Standard (SDDS) since 1996. Overall data provision is adequate for surveillance.

**17. Poland's institutions and policy frameworks rank highly among peers.** Poland's very strong institutions and policy frameworks are also reflected in Poland's favorable ranking relative to other emerging markets on a number of institutional quality indicators, including on control of corruption and government effectiveness (Figure 9).

**18. The authorities' letter underscores their commitment to maintaining very strong policies and institutional frameworks.** The authorities highlight their policy focus on supporting strong and inclusive growth. They underscore that sound fiscal policy will ensure that general government debt remains on a robust declining path. The authorities reaffirm that monetary policy will continue to be guided by the long-standing inflation targeting framework, underpinned by a flexible exchange rate. They stress that sound fiscal and financial sector policies will ensure the continued stability of the banking system. They note that structural reforms will focus on sustainable productivity enhancement and job creation. The authorities reaffirm their intention to treat the FCL arrangement as precautionary.

# IMPACT ON FUND FINANCES, RISKS, AND SAFEGUARDS

**19. The impact of the proposed reduction in access under the arrangement on Fund liquidity is moderately positive.** With a further reduction in access, the net effect on Fund liquidity compares favorably relative to a scenario of unchanged access. The proposed 16 percent reduction in access would increase the Fund's Forward Commitment Capacity by about SDR 0.6 billion, or by 0.2 percent, compared to a scenario of unchanged access (Table 8).

**20. Poland's capacity to repay the Fund remains strong.** The authorities have confirmed their intention to treat the FCL arrangement as precautionary. Nonetheless, in the event of a shock, which would necessitate drawing of the full amount, Poland should maintain capacity to fulfill its financial obligations to the Fund (Tables 9 and 10). In a scenario of full disbursement in 2016, total external debt would initially climb to 79 percent of GDP, but gradually decline thereafter. Fund credit would initially correspond to around 4 percent of GDP. Projected debt service to the Fund would reach a peak level of about SDR 6.6 billion (about 1½ percent of GDP) in 2020.

**21. Staff has completed the safeguards procedures for Poland's 2015 FCL arrangement.** For 2014, the NBP's external auditor was PricewaterhouseCoopers (PwC) Warsaw. PwC issued an unqualified audit opinion on the 2014 financial statements on March 25, 2015. Staff reviewed the 2014 audit results and no significant safeguards issues were identified.

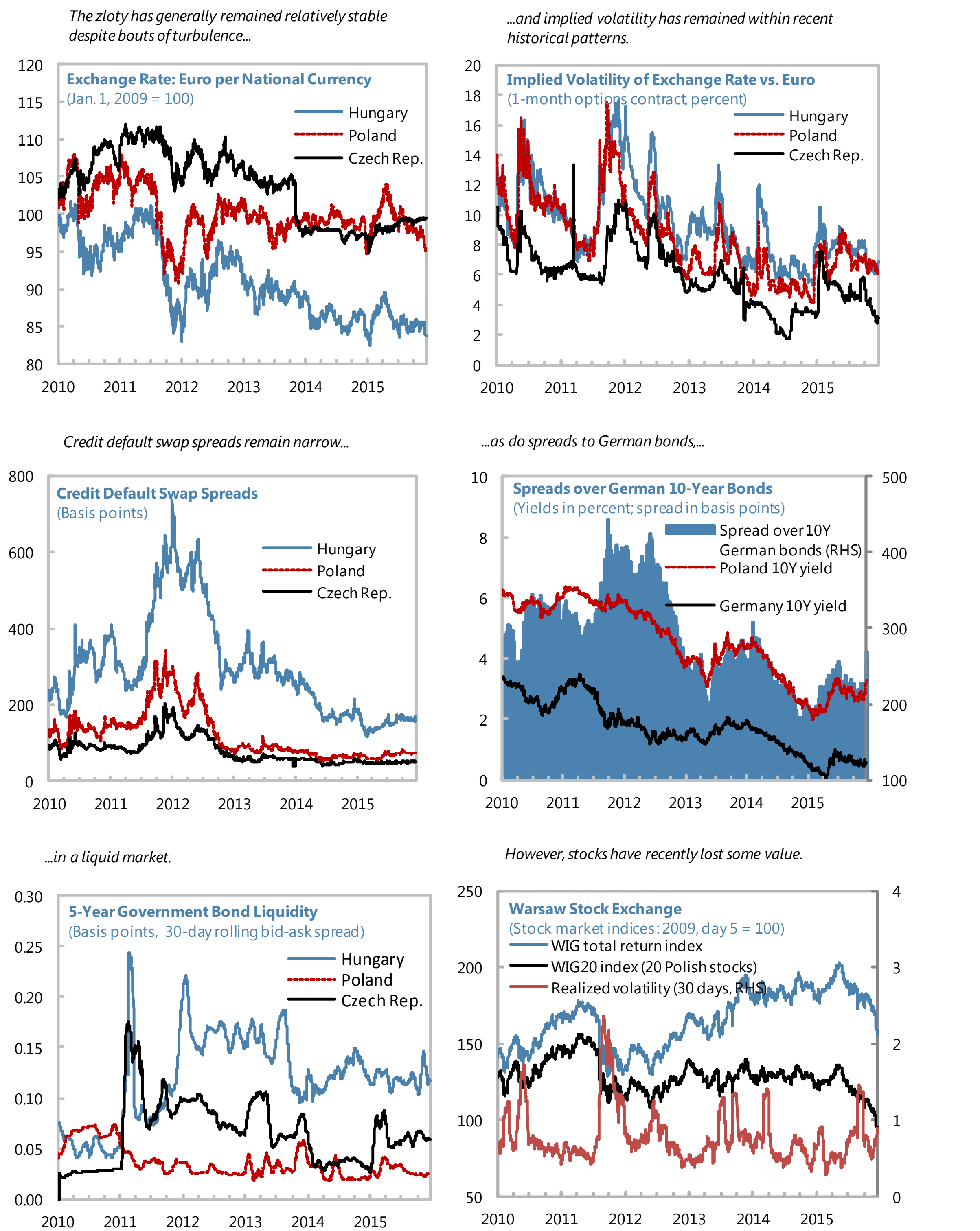
# STAFF APPRAISAL

**22. Poland continues to benefit from the FCL arrangement.** Poland has weathered well bouts of market turmoil. Bond yields and spreads vis-à-vis Germany remain near multi-year lows. The FCL arrangement has supported market confidence by providing a reassuring signal on the strength of Poland's institutions and policies and has served as an added insurance against tail risks. The authorities intend to continue treating the FCL as precautionary and consider it a temporary supplement to reserves. They have underscored their commitment to exit the FCL when uncertainty related to U.S. monetary policy normalization and potential adverse developments in key emerging economies subsides.

**23. The new government's commitment to maintaining very strong policies and institutions is welcome.** It is important that the authorities continue to build on progress achieved in recent years. In this regard, maintaining Poland's very strong fiscal policy framework argues against frequent changes to the expenditure rule, which could undermine its credibility. It would also be important to scale back the reliance on sectoral taxes and replace them with sustainable growth-friendly measures to maintain the strong market sentiment that has benefited Poland in the past. Identifying specific growth-friendly measures to underpin the medium-term fiscal adjustment path would help reduce implementation risks. Finally, the pension system's soundness should continue to be enhanced, and any adjustments should not undermine its financial and social sustainability.

**24. In staff's view, Poland continues to meet the qualification criteria for access to FCL resources.** The IMF Board assessment of the 2015 Article IV consultation notes Poland's very strong economic fundamentals and policies, which paved the way for continued robust growth. Poland has a successful record of sound policy management, and the new government has underscored its commitment to prudent policies going forward. Staff therefore recommends completion of the review under the FCL arrangement for Poland at the requested lower level of access.

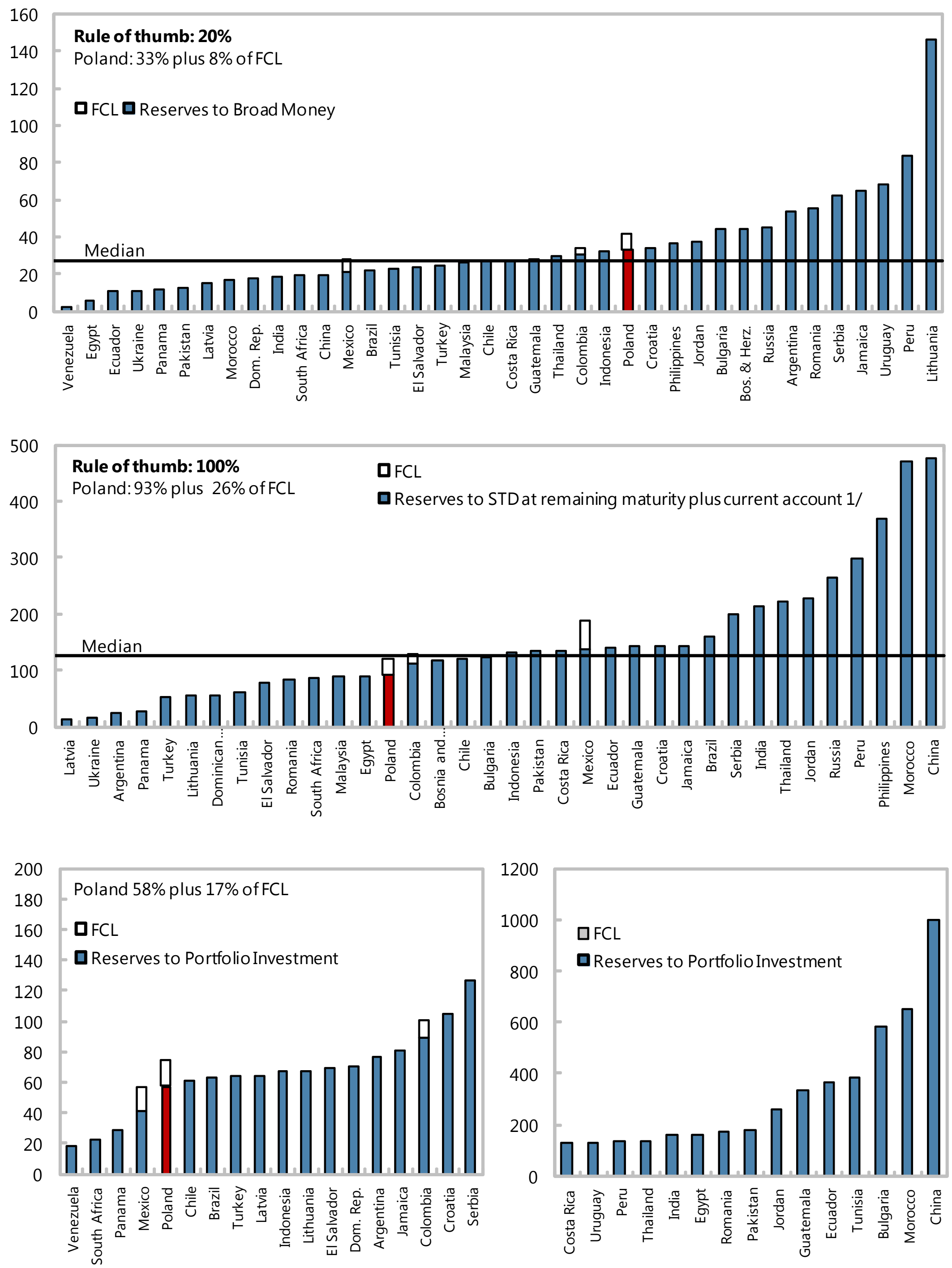
## Figure 1. Republic of Poland: Financial Market Developments, 2010–15




Sources: Bloomberg, Haver Analytics, Polish Ministry of Finance, and IMF staff calculations.

## Figure 2. Republic of Poland: Reserve Coverage in International Perspective, 2014

(Percent)

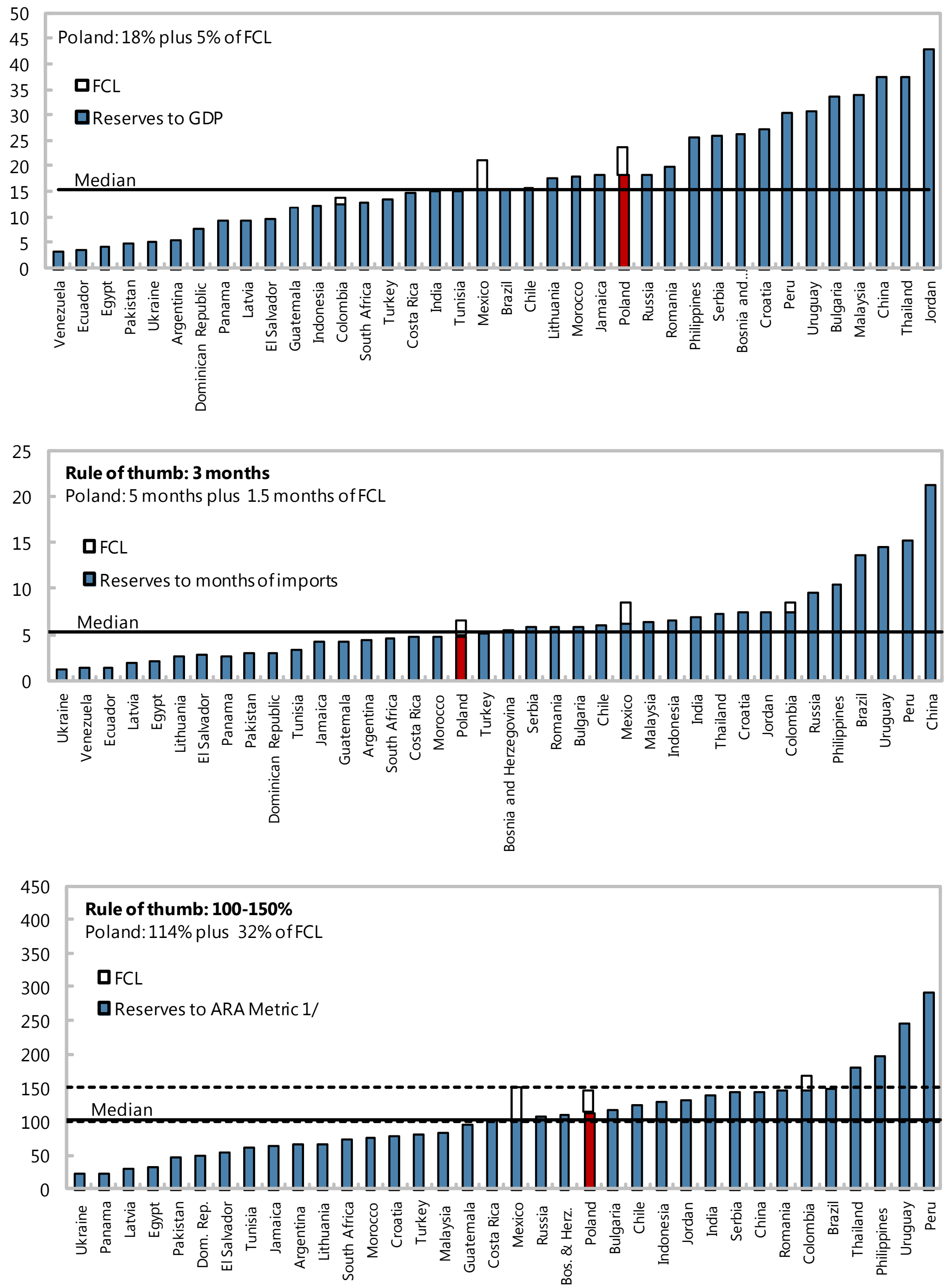



Sources: World Economic Outlook, and IMF staff estimates.

1/ Reserves at the end of 2014 in percent of short-term debt at remaining maturity and estimated current account deficit in 2015. The current account is set to zero if it is in surplus.

**Figure 2. Republic of Poland: Reserve Coverage in International Perspective, 2014 (concl'd)**

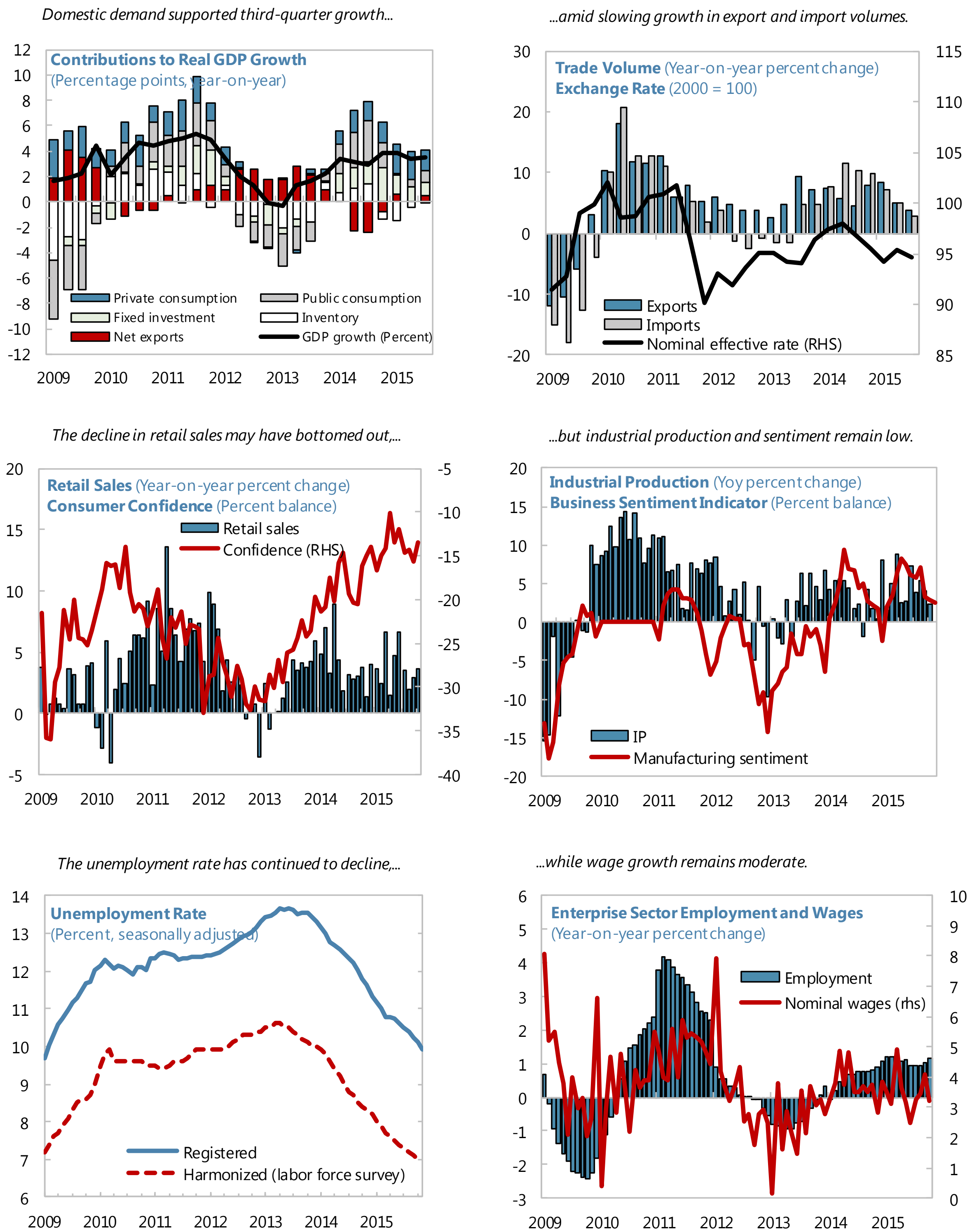
(Percent)




Sources: World Economic Outlook, Balance of Payments Statistics Database, and IMF staff estimates.

1/ The ARA metric was developed by IMF staff to assess reserve adequacy and is the sum of 30 percent short-term debt at remaining maturities, 10 percent of other liabilities, 5 percent of broad money, and 10 percent of exports for countries with floating rate currencies. For the stock of porfolio liabilities, data for 2014, 2013, or 2012 are used depending on data availability.

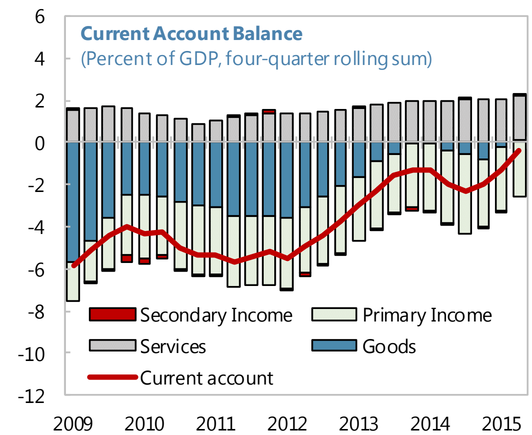
## Figure 3. Republic of Poland: Recent Economic Developments, 2009–15



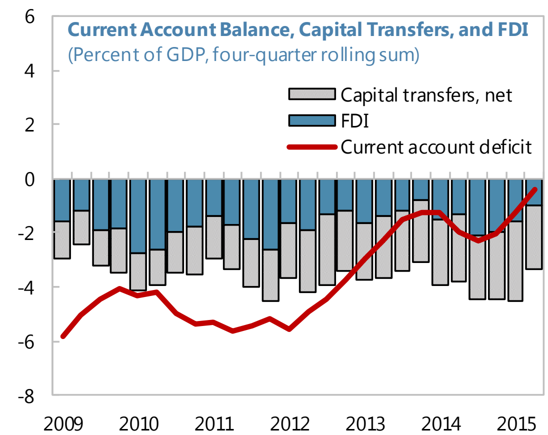

Sources: Haver Analytics, Poland Central Statistical Office, and IMF staff calculations.

## Figure 4. Republic of Poland: Balance of Payments

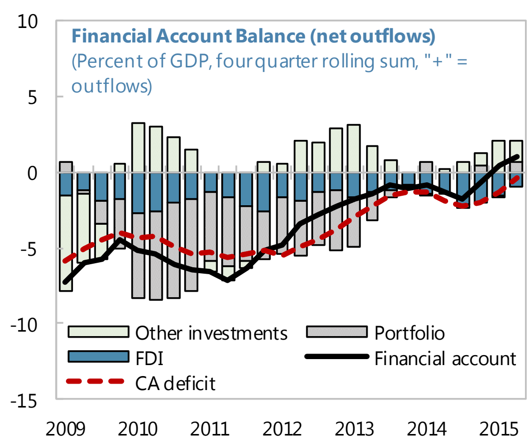
*The current account deficit has improved...*



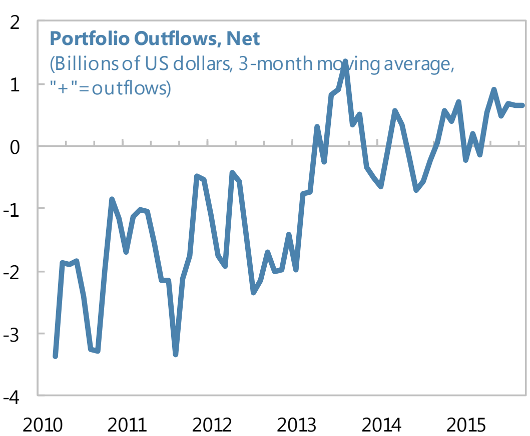

*...and is mostly financed by EU transfers.*



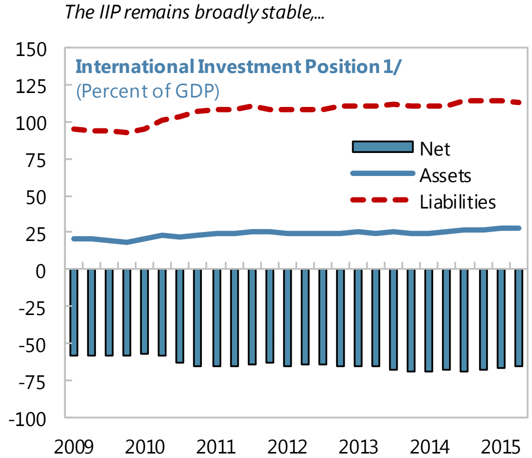

*Financial flows continue to weaken,...*



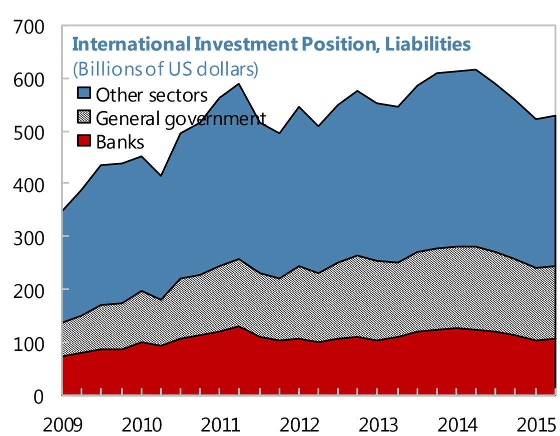

*...as do portfolio flows.*




*The IIP remains broadly stable,...*



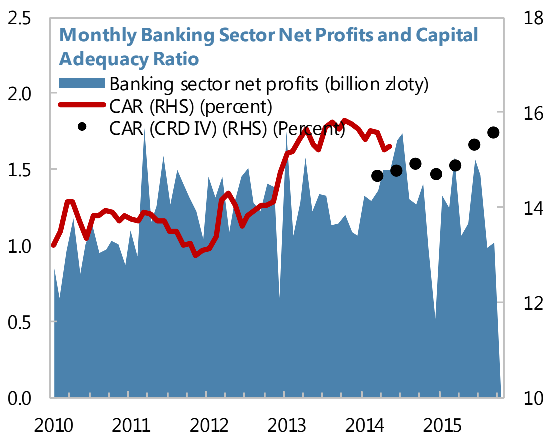

*...as liabilities have leveled off across all sectors.*



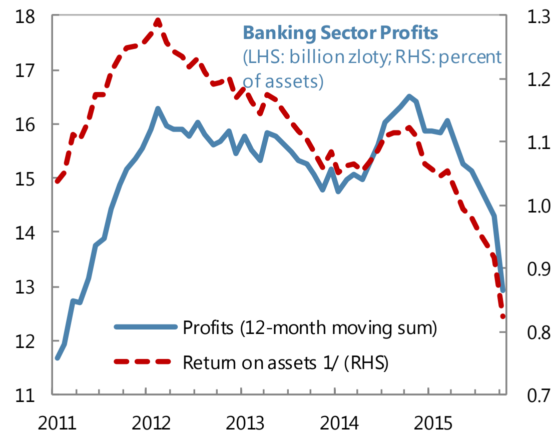

Sources: Narodowy Bank Polski (NBP) and IMF staff calculations.
1/ Excludes NBP.

## Figure 5. Republic of Poland: Banking Sector Capital and Asset Quality

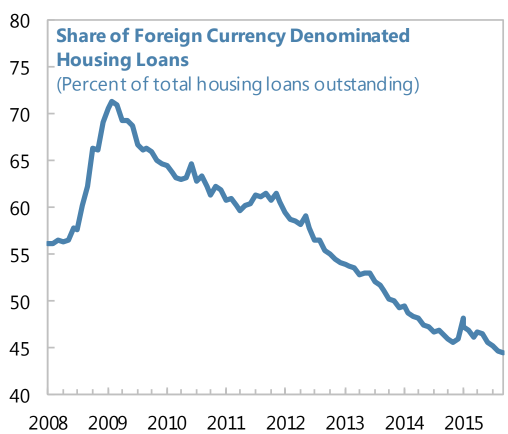
*Capital adequacy remains high...*



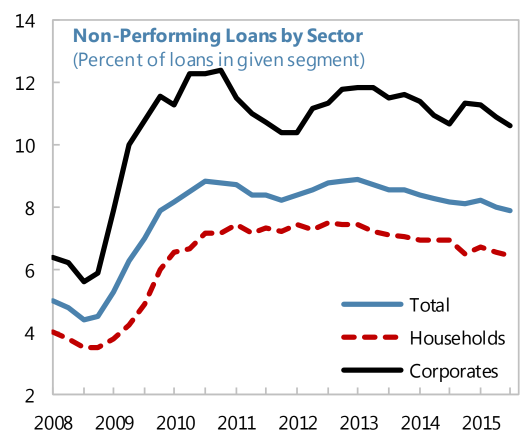

*...but profitability has weakened.*



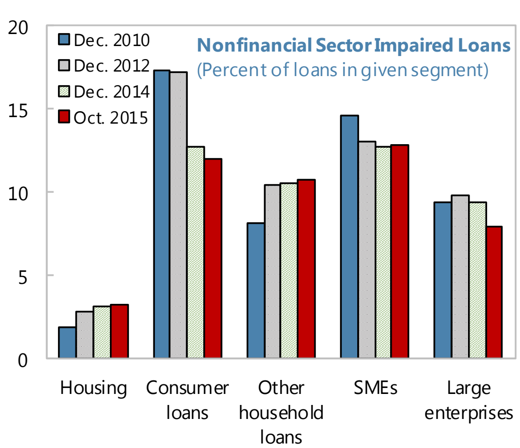

*The share of foreign-currency mortgages has declined.*



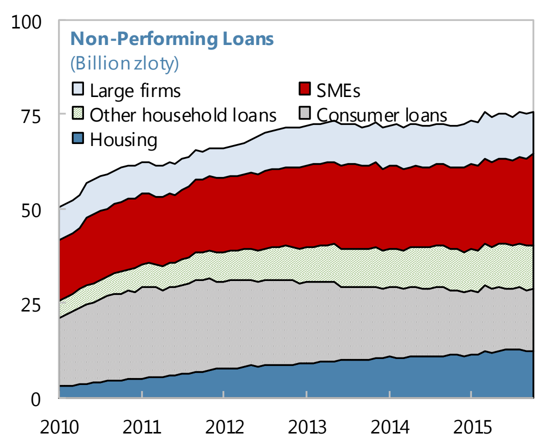

*Non-performing loans (NPLs) are slowly declining...*




*...but remain high for SMEs and consumer loans,...*



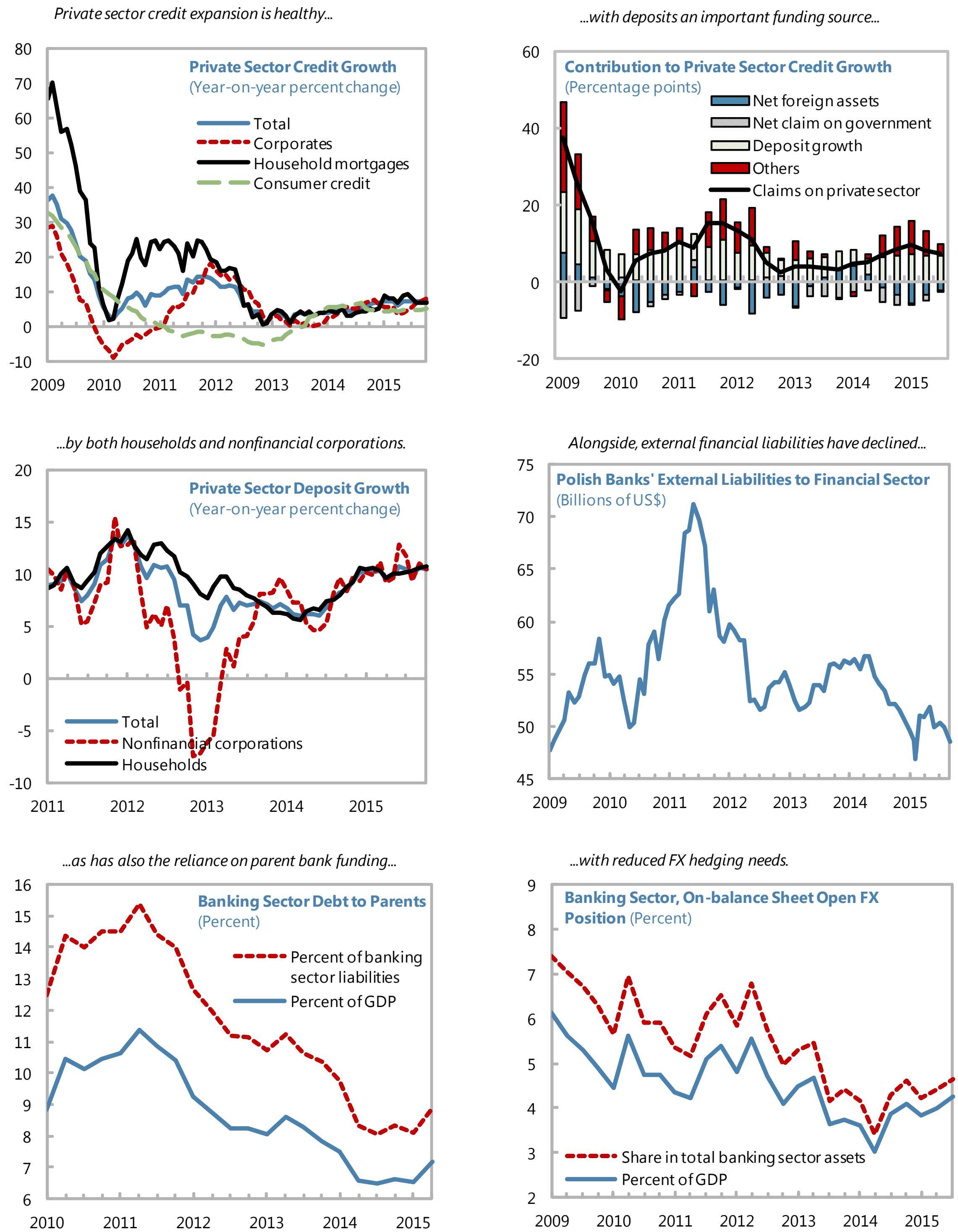

*...accounting for the bulk of impaired loans.*




Sources: KNF, NBP, and IMF staff calculations.

1/ 12-month sum of profits in percent of 12-month average assets.

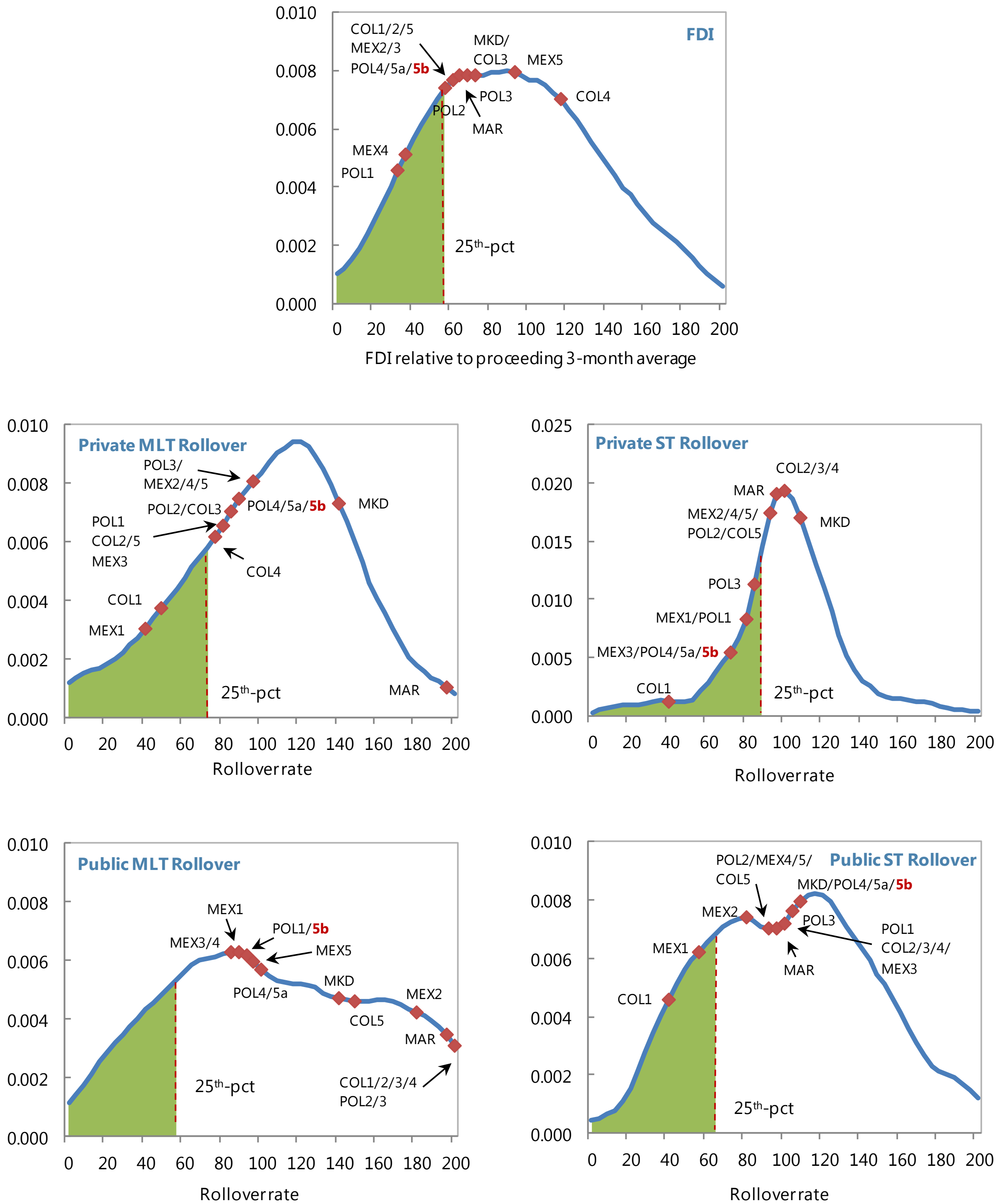
## Figure 6. Republic of Poland: Bank Credit Growth and Funding




Sources: Haver Analytics, International Financial Statistics, NBP, KNF, and IMF staff calculations.

**Figure 7. Republic of Poland and Selected Countries: Comparing Adverse Scenarios 1/**

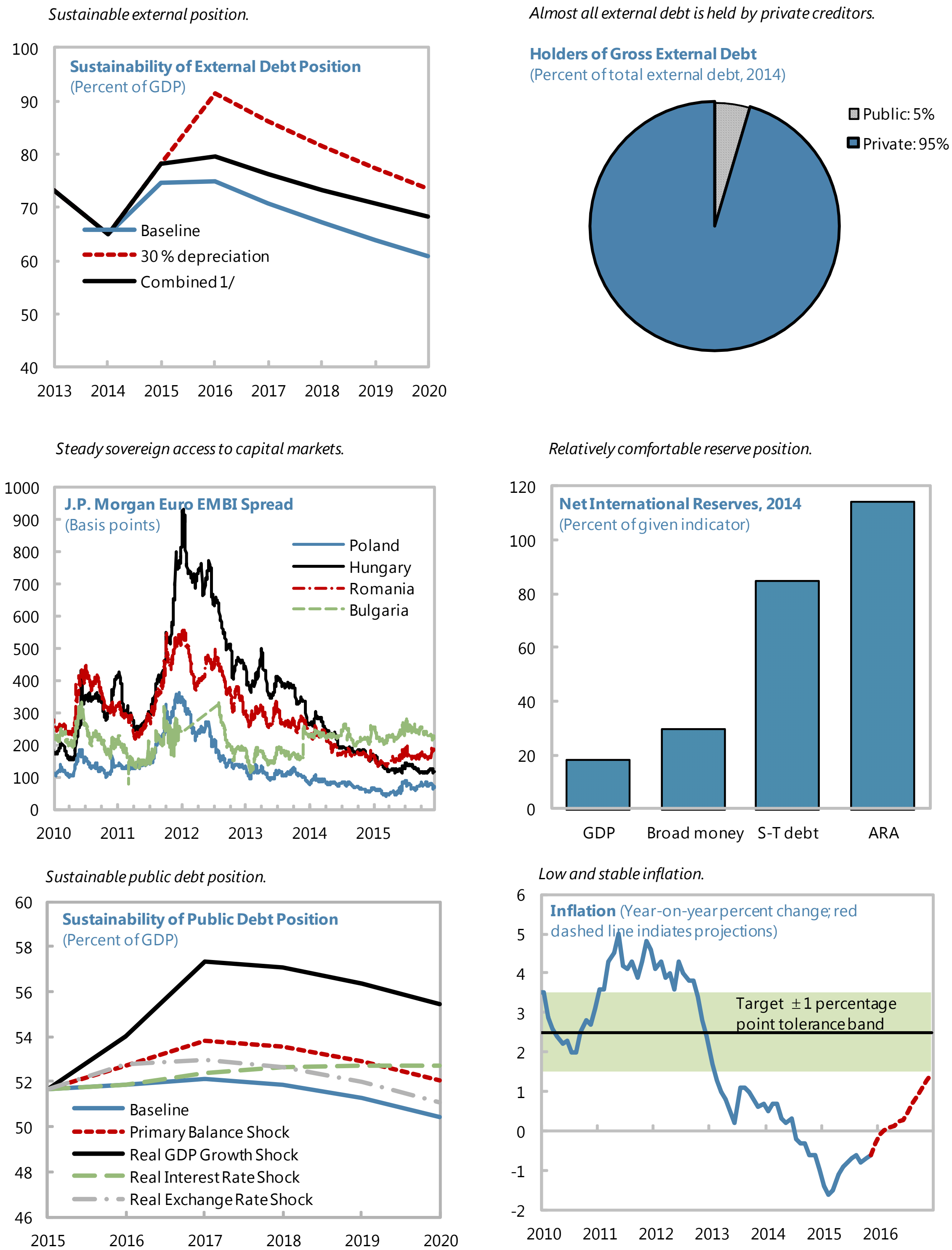
(Probability densities)




Source: IMF staff calculations.

1/ POL5a denotes values for Poland as of the 2015 FCL request. POL5b denotes values consistent with those in the Table on External Financing Requirements and Sources of this report.

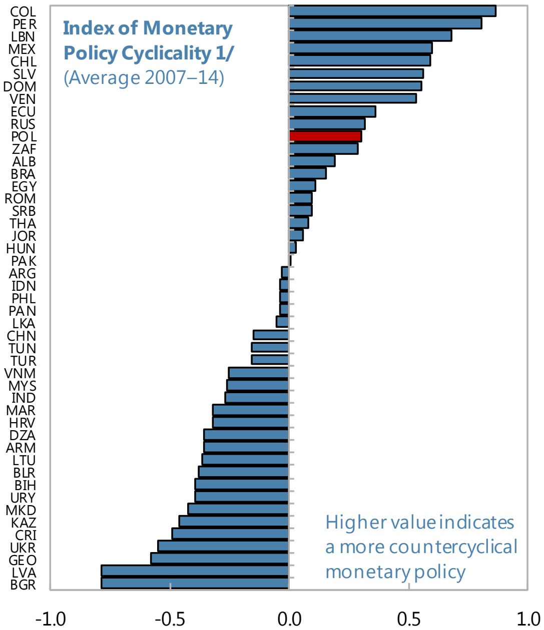
## Figure 8. Republic of Poland: Qualification Criteria



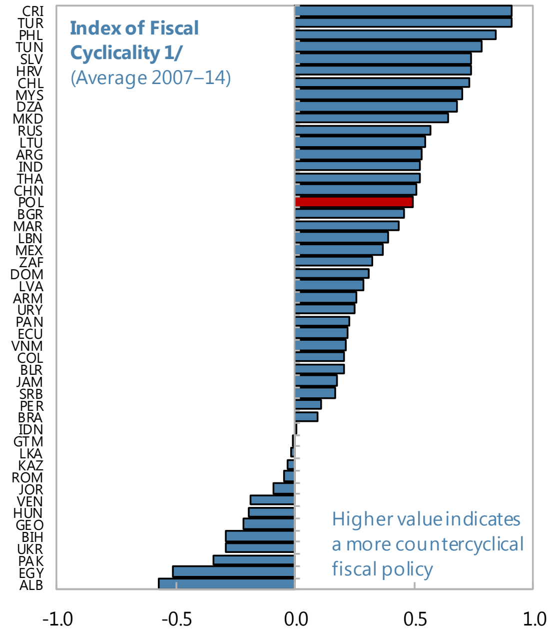

Sources: Bloomberg, Poland authorities, and IMF staff calculations.
1/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

## Figure 9. Republic of Poland: Indicators of Institutional Quality

*Monetary and fiscal policies have been countercyclical.*

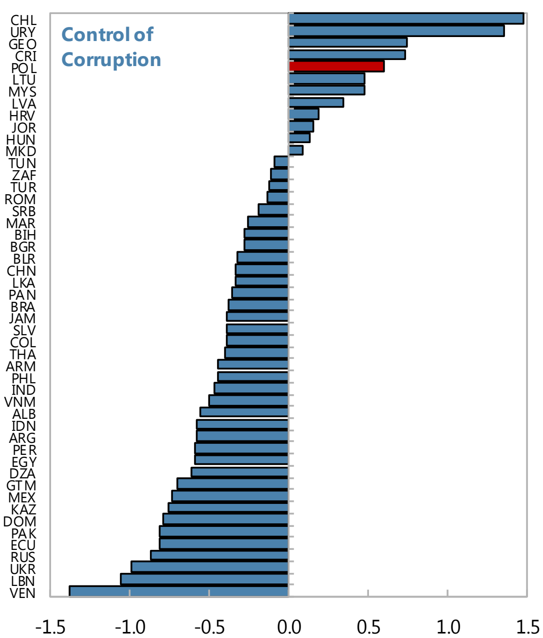



1/ Measured by the 10-year average correlation between the cyclical component of real GDP and the cyclical component of the real short-term interest rate.

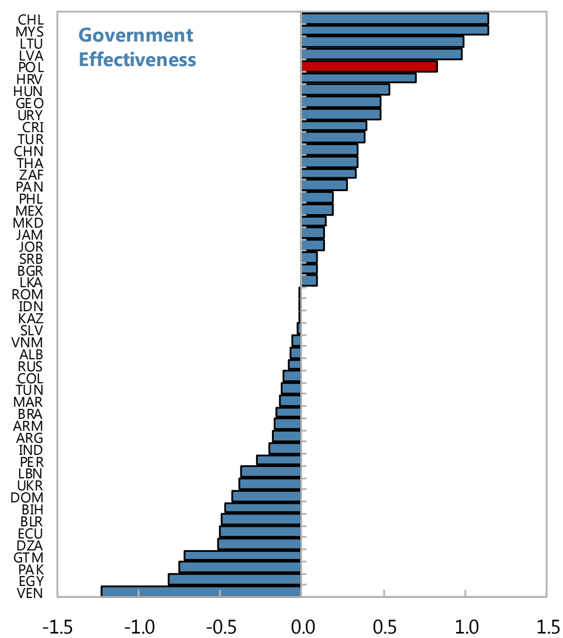



1/ Measured by the 10-year average correlation between the output gap and the cyclical component of government expenditures to GDP.

*In addition, Poland ranks well on corruption control ....*




*...and on government effectiveness.*




Source: IFS, World Bank Governance Indicators, and IMF staff calculations.

Note: For all indicators, a higher value indicates stronger institutional quality.

## Table 1. Republic of Poland: Selected Economic Indicators, 2012–20

| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|---|---|---|---|
| | | | | Projections | | | | | |
| **Activity and prices** | | | | | | | | | |
| GDP (change in percent) 1/ | 1.6 | 1.3 | 3.3 | 3.6 | 3.5 | 3.6 | 3.6 | 3.6 | 3.6 |
| Domestic demand | -0.5 | -0.7 | 5.0 | 3.4 | 4.3 | 4.1 | 3.9 | 3.7 | 3.6 |
| Private consumption growth | 0.7 | 0.2 | 2.5 | 3.1 | 4.2 | 4.3 | 3.9 | 3.9 | 3.9 |
| Public consumption growth | -0.4 | 2.2 | 4.9 | 2.9 | 3.5 | 3.3 | 3.3 | 2.5 | 2.0 |
| Domestic fixed investment growth | -1.8 | -1.1 | 9.8 | 6.1 | 4.3 | 4.3 | 4.3 | 4.3 | 4.3 |
| Inventories (contribution to growth) | -0.5 | -1.0 | 0.6 | -0.3 | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net external demand (contribution to growth) | 2.0 | 2.0 | -1.6 | 0.3 | -0.8 | -0.4 | -0.3 | -0.1 | 0.0 |
| Output gap | 0.3 | -1.1 | -0.7 | -0.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| CPI inflation (percent) | | | | | | | | | |
| Average | 3.7 | 0.9 | 0.0 | -0.9 | 0.5 | 2.0 | 2.4 | 2.5 | 2.5 |
| End of period | 2.4 | 0.7 | -1.0 | -0.3 | 1.5 | 2.2 | 2.5 | 2.5 | 2.5 |
| Unemployment rate (average, according to LFS) | 10.1 | 10.3 | 9.0 | 7.4 | 7.0 | 7.0 | 7.0 | 7.0 | 7.0 |
| **Public finances** (percent of GDP) 2/ | | | | | | | | | |
| General government revenues | 38.9 | 38.4 | 38.8 | 38.7 | 39.2 | 39.3 | 39.3 | 39.2 | 39.1 |
| General government expenditures | 42.6 | 42.4 | 42.1 | 41.9 | 42.1 | 42.3 | 42.0 | 41.7 | 41.3 |
| General government net lending/borrowing | -3.7 | -4.0 | -3.3 | -3.2 | -2.9 | -3.0 | -2.8 | -2.5 | -2.2 |
| General government debt | 54.0 | 55.9 | 50.4 | 51.6 | 51.9 | 52.1 | 51.9 | 51.3 | 50.4 |
| National definition 3/ | 51.6 | 53.3 | 48.1 | … | … | … | … | … | … |
| **Money and credit** | | | | | | | | | |
| Private credit (change in percent, end-period) | 2.7 | 3.5 | 8.6 | 7.3 | 7.4 | 7.6 | 7.8 | 8.1 | 8.2 |
| Deposits (change in percent, end-period) | 5.0 | 5.8 | 7.8 | 8.7 | 8.3 | 8.3 | 8.3 | 8.2 | 8.2 |
| Broad money (change in percent, end-period) | 4.5 | 6.2 | 8.2 | 8.9 | 8.3 | 8.3 | 8.3 | 8.2 | 8.2 |
| Policy Rate (percent) 4/ | 4.6 | 2.9 | 2.4 | 1.5 | … | … | … | … | … |
| **Balance of payments** | | | | | | | | | |
| Current account balance (transactions, billion U.S. dollars) | -18.6 | -6.7 | -11.1 | -2.5 | -7.3 | -10.6 | -14.0 | -16.4 | -18.0 |
| Percent of GDP | -3.7 | -1.3 | -2.0 | -0.5 | -1.5 | -2.1 | -2.6 | -2.9 | -3.0 |
| Exports of Goods (billion U.S. dollars) | 181.3 | 198.1 | 210.6 | 206.0 | 211.1 | 225.9 | 242.4 | 260.3 | 279.1 |
| Export volume growth | 4.3 | 5.0 | 5.7 | 5.2 | 5.5 | 6.2 | 6.5 | 6.6 | 6.6 |
| Imports of Goods (billion U.S. dollars) | 191.8 | 198.6 | 214.9 | 203.1 | 209.5 | 228.0 | 247.5 | 267.7 | 288.5 |
| Import volume growth | -0.3 | 1.7 | 9.1 | 5.4 | 6.9 | 7.2 | 7.2 | 6.9 | 6.7 |
| Terms of trade (index 1995=100) | 98.4 | 100.5 | 102.4 | 106.3 | 106.9 | 106.2 | 105.6 | 105.1 | 104.7 |
| Official reserves (billion U.S. dollars) | 108.9 | 106.2 | 100.4 | 106.3 | 108.9 | 109.6 | 110.3 | 113.3 | 117.5 |
| In percent of short-term debt plus CA deficit | 81.3 | 74.0 | 83.1 | 93.1 | 95.9 | 96.3 | 93.3 | 100.6 | 103.6 |
| Total external debt (billion U.S. dollars) | 369.0 | 384.1 | 354.7 | 354.1 | 354.4 | 355.3 | 357.1 | 363.0 | 370.1 |
| In percent of GDP | 73.7 | 73.3 | 65.1 | 74.7 | 75.0 | 70.9 | 67.1 | 64.0 | 61.0 |
| **Exchange rate** | | | | | | | | | |
| Exchange rate regime | | | | Freely floating | | | | | |
| Zloty per USD, period average 5/ | 3.3 | 3.2 | 3.2 | 4.0 | … | … | … | … | … |
| Zloty per Euro, period average 5/ | 4.2 | 4.2 | 4.2 | 4.4 | … | … | … | … | … |
| Real effective exchange rate (INS, CPI based) 6/ | 107.5 | 108.3 | 109.1 | … | … | … | … | … | … |
| Appreciation (percent change) | -2.6 | 0.7 | 0.7 | … | … | … | … | … | … |
| *Memorandum item:* | | | | | | | | | |
| Nominal GDP (billion zloty) | 1629.0 | 1656.3 | 1719.1 | 1787.7 | 1880.4 | 1986.5 | 2108.3 | 2238.3 | 2376.5 |

Sources: Polish authorities and IMF staff calculations.

1/ Real GDP is calculated at constant 2010 prices.

2/ According to ESA2010.

3/ Excluding debts of the National Road Fund.

4/ NBP Reference Rate (avg). For 2015, as of December 15.

5/ For 2015, exchange rate as of December 15.

6/ Annual average (2000=100).

## Table 2. Republic of Poland: Balance of Payments on Transaction Basis, 2012–20

(Millions of U.S. dollars, unless otherwise indicated)

| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|---|---|---|---|
| | | | | Projections | | | | | |
| Current account balance | -18,605 | -6,744 | -11,125 | -2,470 | -7,300 | -10,571 | -14,022 | -16,376 | -18,010 |
| percent of GDP | -3.7 | -1.3 | -2.0 | -0.5 | -1.5 | -2.1 | -2.6 | -2.9 | -3.0 |
| Trade balance | -2,779 | 9,692 | 7,110 | 15,344 | 14,038 | 10,631 | 8,037 | 6,243 | 5,050 |
| percent of GDP | -0.6 | 1.8 | 1.3 | 3.2 | 3.0 | 2.1 | 1.5 | 1.1 | 0.8 |
| Balance on Goods | -10,495 | -453 | -4,291 | 2,968 | 1,601 | -2,036 | -5,064 | -7,473 | -9,421 |
| Merchandise exports f.o.b. | 181,259 | 198,107 | 210,628 | 206,028 | 211,128 | 225,920 | 242,426 | 260,254 | 279,119 |
| Merchandise imports f.o.b. | 191,754 | 198,560 | 214,919 | 203,060 | 209,527 | 227,956 | 247,490 | 267,727 | 288,539 |
| Balance on Services | 7,716 | 10,145 | 11,401 | 12,376 | 12,436 | 12,667 | 13,101 | 13,716 | 14,470 |
| Merchandise exports f.o.b. | 41,024 | 44,629 | 48,112 | 47,061 | 48,226 | 51,605 | 55,375 | 59,448 | 63,757 |
| Merchandise imports f.o.b. | 33,308 | 34,484 | 36,711 | 34,685 | 35,790 | 38,938 | 42,275 | 45,731 | 49,286 |
| Exports of goods and services | | | | | | | | | |
| percentage change in unit values | -1.4 | 9.2 | 6.6 | -2.2 | 2.5 | 7.0 | 7.3 | 7.4 | 7.2 |
| percentage volume growth | 4.3 | 5.0 | 5.7 | 5.2 | 5.5 | 6.2 | 6.5 | 6.6 | 6.6 |
| Imports of goods and services | | | | | | | | | |
| percentage change in unit values | -4.9 | 3.5 | 8.0 | -5.5 | 3.2 | 8.8 | 8.6 | 8.2 | 7.8 |
| percentage volume growth | -0.3 | 1.7 | 9.1 | 5.4 | 6.9 | 7.2 | 7.2 | 6.9 | 6.7 |
| Terms of trade (percentage change) | -0.8 | 2.2 | 1.9 | 3.7 | 0.6 | -0.7 | -0.5 | -0.5 | -0.4 |
| Primary Income balance | -15,626 | -15,896 | -17,661 | -17,234 | -19,561 | -20,068 | -21,021 | -21,489 | -21,918 |
| Secondary Income balance | -200 | -540 | -574 | -580 | -1,777 | -1,135 | -1,038 | -1,130 | -1,142 |
| Capital and financial account balance | -517 | 5,947 | 8,760 | 15,467 | 9,721 | -292 | -4,380 | -6,433 | -7,837 |
| Capital account balance (net) | 10,958 | 11,964 | 13,305 | 11,574 | 10,873 | 7,645 | 7,215 | 7,524 | 7,514 |
| Financial account balance (net) | -11,475 | -6,017 | -4,545 | 3,893 | -1,152 | -7,937 | -11,595 | -13,958 | -15,351 |
| Foreign direct investment (net)[+ = outflows] | -6,031 | -4,206 | -11,084 | -8,344 | -9,606 | -10,284 | -11,000 | -11,754 | -12,549 |
| Assets [Increase = +] | 1,327 | -3,411 | 6,191 | 2,056 | 5,941 | 6,040 | 6,142 | 6,245 | 6,349 |
| Liabilities [Increase = +] | 7,358 | 795 | 17,275 | 10,400 | 15,548 | 16,325 | 17,141 | 17,998 | 18,898 |
| Portfolio investment (net) | -19,655 | -237 | 1,883 | 285 | 1,688 | -570 | -2,007 | -3,736 | -4,751 |
| Assets | 445 | 2,162 | 5,823 | 4,918 | 5,201 | 3,480 | 2,088 | 1,601 | 1,400 |
| Liabilities | 20,100 | 2,399 | 3,940 | 4,633 | 3,513 | 4,051 | 4,095 | 5,337 | 6,151 |
| Other investment (net) | 5,740 | -1,809 | 4,399 | 6,100 | 4,200 | 2,200 | 700 | -1,500 | -2,200 |
| Assets | 2,125 | 1,559 | 4,478 | 2,800 | 2,700 | 700 | 400 | 1,000 | 800 |
| Liabilities | -3,615 | 3,368 | 79 | -3,300 | -1,500 | -1,500 | -300 | 2,500 | 3,000 |
| Financial derivatives | -2,732 | -710 | -59 | 0 | 0 | 0 | 0 | 0 | 0 |
| Errors and omissions | -3,828 | -11,237 | -6,725 | -5,211 | -4,725 | -5,011 | -4,787 | -5,106 | -4,856 |
| Financing | | | | | | | | | |
| Reserve assets [Increase = +] | 11,203 | 945 | 316 | 5,852 | 2,566 | 718 | 712 | 3,032 | 4,148 |
| *Memorandum items:* | | | | | | | | | |
| Current plus capital account (percent of GDP) | -1.5 | 1.0 | 0.4 | 1.9 | 0.8 | -0.6 | -1.3 | -1.6 | -1.7 |
| Official reserves | 108,914 | 106,220 | 100,438 | 106,290 | 108,856 | 109,573 | 110,285 | 113,317 | 117,466 |
| in months of imports | 6.8 | 6.4 | 5.6 | 6.3 | 6.2 | 5.8 | 5.3 | 5.1 | 4.9 |
| Official reserves (million euros) | 83,020 | 77,509 | 81,452 | 98,935 | … | … | … | … | … |
| Ratio of reserves to short-term debt 1/ | 85.7 | 80.2 | 84.8 | 99.5 | 105.7 | 109.8 | 108.3 | 119.7 | 123.2 |
| Ratio of reserves to ST debt plus CA deficit 1/ | 81.3 | 74.0 | 83.1 | 93.1 | 95.9 | 96.3 | 93.3 | 100.6 | 103.6 |
| Ratio of reserves to IMF ARA metric | 117.9 | 109.5 | 114.0 | 119.7 | 119.6 | … | … | … | … |
| Total external debt (percent of GDP) | 73.7 | 73.3 | 65.1 | 74.7 | 75.0 | 70.9 | 67.1 | 64.0 | 61.0 |
| Total external debt (percent of exports) | 166.0 | 158.2 | 137.1 | 139.9 | 136.7 | 128.0 | 119.9 | 113.5 | 107.9 |
| External debt service (percent of exports) | 60.1 | 55.9 | 54.6 | 49.8 | 44.1 | 40.2 | 36.9 | 35.5 | 31.3 |

1/ Short-term debt is on remaining maturity.

Sources: National Bank of Poland and IMF staff calculations.

## Table 3. Republic of Poland: Financial Soundness Indicators, 2008–15

(Percent)

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015Q3 |
|---|---|---|---|---|---|---|---|---|
| **Capital adequacy 1/** | | | | | | | | |
| Regulatory capital to risk-weighted assets | 11.1 | 13.3 | 13.9 | 13.1 | 14.8 | 15.7 | 14.7 | 15.6 |
| Regulatory Tier I capital to risk-weighted assets | 10.0 | 12.0 | 12.5 | 11.7 | 13.1 | 14.1 | 13.5 | 14.3 |
| NPLs net of provisions to capital | 8.3 | 13.8 | 11.5 | 11.6 | 12.9 | 12.1 | 12.1 | 12.1 |
| Bank capital to assets | 7.5 | 8.1 | 8.2 | 7.8 | 8.7 | 9.1 | 8.9 | 9.4 |
| **Asset composition and quality** | | | | | | | | |
| NPLs to gross loans (nonfinancial sector) | 4.4 | 7.9 | 8.8 | 8.2 | 8.8 | 8.5 | 8.1 | 7.9 |
| Provisioning coverage for nonperforming loans (nonfinancial sector) | 74.3 | 58.9 | 54.6 | 55.0 | 54.3 | 55.0 | 54.8 | 53.1 |
| Sectoral distribution of loans to nonfinancial sector | | | | | | | | |
| Loans to households | 62.0 | 65.3 | 68.0 | 66.4 | 65.7 | 66.1 | 65.7 | 64.9 |
| Loans to non-financial corporations | 37.6 | 34.3 | 31.5 | 33.1 | 33.7 | 33.3 | 33.7 | 34.5 |
| **Earnings and profitability** | | | | | | | | |
| Return on average assets (after tax) | 1.5 | 0.8 | 1.0 | 1.3 | 1.2 | 1.1 | 1.1 | 0.9 |
| Return on average equity (after tax) 1/ | 20.7 | 11.2 | 13.3 | 16.1 | 14.0 | 12.1 | 12.3 | 10.4 |
| Interest margin to gross income | 55.7 | 51.9 | 53.0 | 55.8 | 55.0 | 56.1 | 58.2 | 57.1 |
| Noninterest expenses to gross income | 58.4 | 58.5 | 56.0 | 54.5 | 54.5 | 57.2 | 54.9 | 57.4 |
| **Liquidity** | | | | | | | | |
| Liquid assets to total assets (liquid assets ratio) | 17.0 | 20.3 | 20.8 | 19.5 | 20.9 | 21.4 | 20.6 | 20.7 |
| Liquid assets to total short-term liabilities | 25.3 | 29.8 | 31.2 | 28.8 | 31.1 | 31.7 | 30.6 | 30.6 |
| Loans to deposits | 112.6 | 109.2 | 114.5 | 119.8 | 117.7 | 115.7 | 112.9 | 112.7 |
| **Sensitivity to market risk** | | | | | | | | |
| Net open positions in FX to capital 1/ | 0.0 | 2.7 | 0.3 | -0.3 | 0.2 | -0.1 | 0.1 | -0.1 |

Sources: NBP and KNF.

Note: Data according to Financial Soundness Indicators (FSI), except for asset composition and quality (indicators not part of FSI reporting template). Data for 2015Q3 are preliminary.

1/ Data for domestic banking sector (since 2014: Bank Gospodarstwa Krajowego excluded). Since 2014: data on capital in accordance with CRDIV/CRR (not yet available for 2015Q1 as of May 5, 2015).

## Table 4. Republic of Poland: General Government Statement of Operations, 2012–20

(Percent of GDP, unless otherwise indicated)

| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Projections | | | |
| **Revenue** | 38.9 | 38.4 | 38.8 | 38.7 | 39.2 | 39.3 | 39.3 | 39.2 | 39.1 |
| Taxes | 19.8 | 19.6 | 19.8 | 19.5 | 20.1 | 20.1 | 20.2 | 20.2 | 20.1 |
| Personal income tax | 4.5 | 4.6 | 4.6 | 4.6 | 4.6 | 4.6 | 4.6 | 4.6 | 4.6 |
| Corporate income tax | 2.1 | 1.8 | 1.7 | 1.8 | 1.8 | 1.8 | 1.8 | 1.8 | 1.8 |
| VAT | 7.0 | 7.0 | 7.1 | 6.8 | 7.0 | 7.0 | 7.0 | 7.0 | 7.0 |
| Excises | 3.7 | 3.7 | 3.6 | 3.6 | 3.6 | 3.6 | 3.6 | 3.6 | 3.6 |
| Other taxes | 2.6 | 2.5 | 2.8 | 2.7 | 3.1 | 3.2 | 3.2 | 3.2 | 3.2 |
| Social contributions | 12.9 | 13.3 | 13.2 | 13.5 | 13.5 | 13.4 | 13.4 | 13.3 | 13.2 |
| Other revenue | 6.1 | 5.6 | 5.8 | 5.7 | 5.7 | 5.7 | 5.7 | 5.7 | 5.7 |
| Capital revenue | 1.3 | 1.0 | 1.2 | 1.2 | 1.1 | 1.2 | 1.2 | 1.2 | 1.2 |
| Sales of goods and services | 2.4 | 2.4 | 2.5 | 2.5 | 2.5 | 2.5 | 2.5 | 2.5 | 2.5 |
| Other current revenue | 2.4 | 2.2 | 2.1 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 |
| **Expenditure** | 42.6 | 42.4 | 42.1 | 41.9 | 42.1 | 42.3 | 42.0 | 41.7 | 41.3 |
| Expense | 38.1 | 38.6 | 38.0 | 37.9 | 38.2 | 38.4 | 38.1 | 37.8 | 37.4 |
| Compensation of employees | 10.3 | 10.4 | 10.4 | 10.3 | 10.3 | 10.3 | 10.3 | 10.3 | 10.3 |
| Use of goods and services | 5.8 | 5.9 | 6.1 | 6.1 | 6.1 | 6.1 | 6.1 | 6.1 | 6.1 |
| Interest | 2.7 | 2.5 | 1.9 | 1.7 | 1.7 | 1.6 | 1.6 | 1.6 | 1.6 |
| Subsidies | 0.7 | 0.7 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 |
| Social benefits | 15.8 | 16.3 | 16.2 | 16.2 | 17.0 | 16.9 | 16.8 | 16.5 | 16.4 |
| Other expense 1/ | 2.9 | 2.9 | 2.7 | 2.9 | 2.4 | 2.9 | 2.7 | 2.6 | 2.4 |
| Other current expenditure | 2.3 | 2.3 | 2.1 | 2.4 | 2.0 | 2.4 | 2.3 | 2.2 | 1.9 |
| Capital transfers | 0.6 | 0.5 | 0.6 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 |
| Net acquisition of nonfinancial assets | 4.5 | 3.8 | 4.1 | 4.0 | 3.9 | 3.9 | 3.9 | 3.9 | 3.9 |
| **Gross operating balance** | 0.8 | -0.3 | 0.8 | 0.8 | 1.0 | 0.9 | 1.1 | 1.4 | 1.7 |
| **Net lending/borrowing** | -3.7 | -4.0 | -3.3 | -3.2 | -2.9 | -3.0 | -2.8 | -2.5 | -2.2 |
| **Net financial transactions** | -3.4 | -4.1 | -3.3 | -3.2 | -2.9 | -3.0 | -2.8 | -2.5 | -2.2 |
| Net acquisition of financial assets | -0.9 | -1.0 | 1.0 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Currency and deposits | 0.8 | -1.0 | 0.6 | -0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Debt securities | 0.0 | 0.1 | -0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Loans | 0.0 | 0.0 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Equity and investment fund shares | -1.0 | -0.6 | 0.2 | -0.1 | -0.1 | -0.1 | -0.1 | -0.1 | -0.1 |
| Other financial assets | 0.1 | 0.4 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Net incurrence of liabilities | 2.5 | 3.0 | 4.3 | 3.3 | 2.9 | 3.1 | 2.8 | 2.6 | 2.3 |
| Currency and deposits | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Debt securities | 2.4 | 2.1 | -6.0 | 2.1 | 1.8 | 2.1 | 1.9 | 1.7 | 1.5 |
| Loans | 0.8 | 0.7 | 1.0 | 1.0 | 0.9 | 0.8 | 0.7 | 0.7 | 0.7 |
| Other liabilities | 0.3 | 0.1 | 9.3 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| *Adjustment and statistical discrepancies* | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| *Memorandum items:* | | | | | | | | | |
| Cyclically-adjusted balance | -3.8 | -3.2 | -3.0 | -3.1 | -2.9 | -3.0 | -2.8 | -2.5 | -2.2 |
| Primary balance | -1.1 | -1.5 | -1.3 | -1.5 | -1.2 | -1.4 | -1.2 | -0.9 | -0.7 |
| Cyclically-adjusted primary balance | -1.2 | -0.7 | -1.1 | -1.4 | -1.2 | -1.4 | -1.2 | -0.9 | -0.7 |
| General government debt | 54.0 | 55.9 | 50.4 | 51.6 | 51.9 | 52.1 | 51.9 | 51.3 | 50.4 |
| General government liabilities | 62.3 | 63.2 | 65.4 | 60.0 | 60.2 | 60.4 | 60.2 | 59.6 | 58.7 |
| General government financial assets | 29.8 | 27.6 | 27.5 | 26.5 | 25.5 | 24.5 | 23.5 | 22.5 | 21.5 |
| Nominal GDP in billions of zloty | 1,629 | 1,656 | 1,719 | 1,788 | 1,880 | 1,986 | 2,108 | 2,238 | 2,377 |

Sources: Eurostat and IMF staff calculations.

Note: According to ESA2010. As of 2016, projections assume implementation of the announced measures of bank asset tax and retail tax (about 0.3 and 0.1 percent of GDP) and child benefit allowances (about 1 percent of GDP). 2016 includes one-off revenue receipts of 0.5 percent of GDP from LTE auction (negative expenditure as per ESA 2010). Assumes no reduction in the VAT rate in 2017 or equivalent permanent revenue measures; does not assume any unfunded new spending measures. Over the medium term, assumes targeted expenditure rationalization of 0.1 to 0.3 percent of GDP per year to achieve 0.25 percent of GDP annual structural deficit reduction envisaged by the authorities.

1/ Includes grants.

## Table 5. Republic of Poland: General Government Financial Balance Sheet, 2013–20

(Millions of zloty, unless otherwise indicated)

| | 2013 | | | 2014 | | | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Trans-actions | OEF | Closing Opening balance | Trans-actions | OEF | Closing Opening balance | Projections | | | | | |
| Net worth and its changes | .... | .... | .... | .... | .... | .... | .... | .... | .... | .... | .... | .... |
| Nonfinancial Assets | .... | .... | .... | .... | .... | .... | .... | .... | .... | .... | .... | .... |
| Net Financial Worth | -65,716 | 5,437 | -589,754 | -56,942 | -3,447 | -650,143 | -597,510 | -651,984 | -712,688 | -772,808 | -828,948 | -884,191 |
| Financial Assets | -16,864 | -12,086 | 456,686 | 17,137 | -409 | 473,414 | 474,441 | 480,230 | 487,449 | 496,264 | 504,491 | 511,868 |
| Currency and deposits | -17,157 | -1,794 | 57,851 | 10,965 | 7,283 | 76,098 | 79,137 | 83,239 | 87,934 | 93,327 | 99,084 | 105,200 |
| Debt securities | 2,412 | -93 | 4,990 | -2,599 | -32 | 2,360 | 2,454 | 2,581 | 2,727 | 2,894 | 3,073 | 3,262 |
| Loans | -36 | 201 | 15,815 | 2,993 | 345 | 19,152 | 19,917 | 20,950 | 22,131 | 23,489 | 24,937 | 26,477 |
| Equity and inv. fund shares | -9,437 | -4,553 | 264,871 | 3,521 | -3,995 | 264,396 | 257,077 | 251,598 | 245,923 | 239,924 | 232,339 | 222,917 |
| Other financial assets | 7,354 | -5,846 | 113,159 | 2,258 | -4,010 | 111,407 | 115,856 | 121,861 | 128,734 | 136,630 | 145,058 | 154,012 |
| Liabilities | 48,852 | -17,523 | 1,046,440 | 74,079 | 3,038 | 1,123,557 | 1,071,951 | 1,132,214 | 1,200,137 | 1,269,073 | 1,333,439 | 1,396,059 |
| Currency and deposits | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Debt securities | 34,544 | -13,683 | 773,815 | -102,642 | 6,034 | 677,206 | 730,473 | 773,036 | 820,702 | 866,365 | 905,891 | 942,119 |
| Loans | 12,333 | -1,607 | 164,712 | 17,051 | 3,693 | 185,456 | 192,861 | 202,858 | 214,299 | 227,443 | 241,472 | 256,379 |
| Other liabilities | 1,975 | -2,234 | 107,913 | 159,670 | -6,689 | 260,895 | 148,616 | 156,320 | 165,136 | 175,265 | 186,075 | 197,562 |
| *Memorandum items:* | | | | | | | | | | | | |
| Net financial worth (percent of GDP) | | | -35.6 | | | -37.8 | -33.4 | -34.7 | -35.9 | -36.7 | -37.0 | -37.2 |
| Financial assets (percent of GDP) | | | 27.6 | | | 27.5 | 26.5 | 25.5 | 24.5 | 23.5 | 22.5 | 21.5 |
| Liabilities (percent of GDP) | | | 63.2 | | | 65.4 | 60.0 | 60.2 | 60.4 | 60.2 | 59.6 | 58.7 |
| GDP nominal prices (billion PLN) | | | 1656.3 | | | 1719.1 | 1787.7 | 1880.4 | 1986.5 | 2108.3 | 2238.3 | 2376.5 |

Sources: National authorities and IMF staff calculations.

**Table 6. Republic of Poland: Monetary Accounts, 2010–15**

(End of period)

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 Proj. |
|---|---|---|---|---|---|---|
| | (Billions of zlotys) | | | | | |
| **Central bank** | | | | | | |
| Net foreign assets | 257 | 317 | 321 | 297 | 332 | 401 |
| Official reserve assets | 277 | 337 | 337 | 321 | 356 | 425 |
| Net domestic assets | -117 | -179 | -153 | -133 | -140 | -191 |
| Net claims on government | -12 | -19 | -16 | -7 | -19 | -19 |
| Claims on banks 1/ | -74 | -93 | -100 | -117 | -85 | -135 |
| Other items, net | -31 | -67 | -37 | -9 | -36 | -36 |
| Base money | 140 | 138 | 167 | 164 | 192 | 210 |
| Currency issued | 103 | 112 | 113 | 126 | 143 | 157 |
| Bank reserves | 37 | 26 | 54 | 38 | 49 | 53 |
| **Deposit money banks** | | | | | | |
| Net foreign assets | -156 | -169 | -143 | -147 | -148 | -124 |
| Net domestic assets | 843 | 940 | 953 | 1,004 | 1,072 | 1,128 |
| Net claims on the central bank 1/ | 121 | 130 | 167 | 168 | 146 | 201 |
| Net claims on government | 137 | 141 | 125 | 152 | 188 | 196 |
| Claims on private sector | 789 | 911 | 936 | 968 | 1,051 | 1,129 |
| Claims on corporates | 215 | 253 | 257 | 259 | 276 | 296 |
| Claims on households | 480 | 537 | 538 | 562 | 593 | 637 |
| Claims on other | 95 | 121 | 141 | 147 | 182 | 196 |
| Other items, net | -204 | -242 | -275 | -285 | -314 | -398 |
| Deposits | 687 | 771 | 810 | 857 | 924 | 1,004 |
| **Consolidated banking system** | | | | | | |
| Net foreign assets | 101 | 149 | 177 | 150 | 184 | 277 |
| Net domestic assets | 683 | 733 | 744 | 829 | 875 | 876 |
| Claims on government | 124 | 122 | 108 | 145 | 169 | 176 |
| Claims on private sector | 789 | 911 | 936 | 968 | 1,051 | 1,129 |
| Other items, net | -231 | -300 | -300 | -285 | -345 | -429 |
| Broad money (M3) | 784 | 882 | 921 | 979 | 1,059 | 1,154 |
| *Memorandum items:* | (Percentage change from end of previous year) | | | | | |
| Base money | 1.6 | -1.1 | 21.0 | -1.9 | 16.8 | 9.7 |
| Broad money (M3) | 8.8 | 12.5 | 4.5 | 6.2 | 8.2 | 8.9 |
| Net domestic assets | 6.0 | 7.4 | 1.5 | 11.4 | 5.6 | 0.1 |
| Net foreign assets | 32.6 | 46.9 | 19.4 | -15.3 | 22.3 | 51.0 |
| Net claim on government | 7.7 | -2.2 | -10.9 | 34.1 | 16.3 | 4.2 |
| Claims on private sector | 8.2 | 15.4 | 2.7 | 3.5 | 8.6 | 7.3 |
| Deposit growth | 9.6 | 12.2 | 5.0 | 5.8 | 7.8 | 8.7 |
| | (Percent of GDP, unless otherwise noted) | | | | | |
| Broad money (M3) | 54.2 | 56.3 | 56.6 | 59.1 | 61.6 | 64.5 |
| Private sector credit | 54.6 | 58.2 | 57.5 | 58.5 | 61.2 | 63.1 |
| Broad money Velocity (GDP/M3) | 1.8 | 1.8 | 1.8 | 1.7 | 1.6 | 1.5 |
| Money multiplier (M3/base money) | 5.6 | 6.4 | 5.5 | 6.0 | 5.5 | 5.5 |

Sources: Haver, IFS, NBP, and IMF staff calculations.

1/ The difference between deposit money bank claims on the central bank and central bank claims on banks relates to banks' reserves and currency in vault.

## Table 7. Republic of Poland: External Financing Requirements and Sources, 2012–16

(Millions of U.S. dollars, unless otherwise indicated)

| | 2012 | 2013 | 2014 | 2015 | 2016 | 2016 | Kernel Rollover | | 2016 vs 2015 |
|---|---|---|---|---|---|---|---|---|---|
| | | | | Proj. | Proj. | Adverse scenario | 2015 | 2016 | shock |
| **GROSS FINANCING REQUIREMENTS (A)** | **138,029** | **133,916** | **130,908** | **112,947** | **114,115** | **114,115** | | | |
| Current account deficit | 18,605 | 6,744 | 11,125 | 2,470 | 7,300 | 7,300 | | | |
| Medium and long-term debt amortization | 53,139 | 57,306 | 56,904 | 57,031 | 56,847 | 56,847 | | | |
| Public sector | 11,318 | 14,201 | 10,465 | 11,857 | 12,552 | 12,552 | | | |
| Banks | 12,396 | 6,027 | 7,433 | 5,823 | 5,964 | 5,964 | | | |
| Non-bank Corporates | 29,425 | 37,078 | 39,006 | 39,351 | 38,331 | 38,331 | | | |
| Short-term debt amortization | 66,285 | 69,866 | 62,880 | 53,447 | 49,967 | 49,967 | | | |
| Public sector | 190 | 2 | 2 | 2 | 3 | 3 | | | |
| Banks (inc. s.t. deposits) | 18,031 | 19,934 | 17,941 | 16,147 | 14,532 | 14,532 | | | |
| Non-bank Corporates | 48,064 | 49,930 | 44,937 | 37,298 | 35,433 | 35,433 | | | |
| o/w trade credit | 30,102 | 31,271 | 28,144 | 23,359 | 22,191 | 22,191 | | | |
| **SOURCES OF FINANCING (B)** | **149,232** | **134,861** | **131,224** | **118,799** | **116,681** | **90,788** | | | |
| Foreign direct investment (net) | 6,031 | 4,206 | 11,084 | 8,344 | 9,606 | 7,205 | 61 | 61 | *same* |
| o/w inward (net) | 7,358 | 795 | 17,275 | 10,400 | 15,548 | 11,816 | | | |
| Equities (net) | 3,046 | 1,463 | 695 | -362 | -424 | -1,060 | | | |
| by nonresidents | 3,613 | 2,648 | 3,290 | 1,974 | 1,678 | 84 | | | |
| New borrowing and debt rollover | 136,721 | 128,932 | 106,765 | 106,395 | 105,121 | 85,766 | | | |
| Medium and long-term borrowing | 69,682 | 66,052 | 53,319 | 56,428 | 57,298 | 49,359 | | | |
| Public sector | 24,629 | 16,799 | 14,705 | 14,516 | 14,387 | 11,544 | 98 | 92 | *lower* |
| Banks | 12,589 | 7,010 | 6,838 | 6,496 | 6,496 | 4,677 | 73 | 78 | *higher* |
| Non-bank Corporates | 32,464 | 42,243 | 30,141 | 35,415 | 36,414 | 33,137 | 86 | 86 | *same* |
| Short-term borrowing | 67,039 | 62,880 | 53,447 | 49,967 | 47,823 | 36,407 | | | |
| Public sector | 2 | 2 | 2 | 3 | 3 | 3 | 110 | 110 | *same* |
| Banks | 19,934 | 17,941 | 16,147 | 14,532 | 13,805 | 9,940 | 62 | 68 | *higher* |
| Non-bank Corporates | 47,103 | 44,937 | 37,298 | 35,433 | 34,016 | 26,464 | 75 | 75 | *same* |
| EU capital transfers | 11,418 | 12,429 | 14,126 | 11,241 | 10,626 | 10,626 | | | |
| Other | -7,984 | -12,169 | -1,445 | -6,820 | -8,248 | -11,748 | *USD 3.5 bln outflow* | *USD 3.5 bln outflow* | |
| **GROSS RESERVES ACCUMULATION (C)** | **11,203** | **945** | **316** | **5,852** | **2,566** | **-5,232** | *reserve drawdown* | *reserve drawdown* | |
| **FINANCING GAP (B - A - C)** | **0** | **0** | **0** | **0** | **0** | **-18,096** | | | |
| **(In billion USD)** | | | | | | **-18.1** | | | |
| **(In billion SDR)** | | | | | | **-13.0** | | | |
| **(In percent of quota)** | | | | | | **770%** | | | |

## Table 8. Republic of Poland: Impact on GRA Finances

(Millions of SDR, unless otherwise indicated)

| | As of December 15, 2015 |
|---|---|
| **Liquidity measures** | |
| Forward Commitment Capacity (FCC) before approval 1/ | 308,347 |
| FCC on approval 2/ | 308,972 |
| Change in percent | 0.2 |
| **Prudential measures** | |
| Fund GRA commitment to Poland including credit outstanding | |
| in percent of current precautionary balances | 91.5 |
| in percent of total GRA credit outstanding 3/ | 25.8 |
| Fund GRA credit outstanding to top five borrowers | |
| in percent of total GRA credit outstanding 3/ | 88.6 |
| in percent of total GRA credit outstanding, including Poland's assumed full drawing | 85.8 |
| Poland's projected annual GRA charges for 2016 in percent of the Fund's residual burden sharing capacity | 103,994 |
| *Memorandum items:* | |
| Fund's precautionary balances (FY15) | 14,200 |
| Fund's Residual Burden Sharing Capacity 4/ | 0.3 |

Sources: Finance Department and IMF staff calculations.

1/ The FCC is defined as the Fund's stock of usable resources less undrawn balances under existing arrangements, plus projected repurchases during the coming 12 months, less repayments of borrowing due one year forward, less a prudential balance. The FCC does not include the 2012 Borrowing Agreements, which will only be counted towards the FCC once: (i) individual bilateral agreements are effective and (ii) the associated resources are available for use by the IMF, in accordance with the borrowing guidelines and the terms of these agreements.

2/ Of the reduction in access of SDR 2.5 billion, quota-financed portion (25 percent under the current quota to NAB fiancing ratio of 1:3) will be added to the FCC. However, NAB-financed portion (75 percent) will not be avaiable to finance new commitments under the current activation period. This amount could be included in possible future NAB activations.

3/ As of December 15, 2015.

4/ Burden-sharing capacity is calculated based on the floor for remuneration at 85 percent of the SDR interest rate. Residual burden-sharing capacity is equal to the total burden-sharing capacity minus the portion being utilized to offset deferred charges and takes into account the loss in capacity due to nonpayment of burden sharing adjustments by members in arrears.

## Table 9. Republic of Poland: Indicators of Fund Credit, 2016–21

| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|
| | Projections | | | | | |
| **Stocks from prospective drawings 1/** | | | | | | |
| Fund credit (millions SDR) | 13,000 | 13,000 | 13,000 | 8,125 | 1,625 | 0 |
| in percent of quota | 770 | 770 | 770 | 481 | 96 | 0 |
| in percent of GDP | 4 | 4 | 3 | 2 | 0 | 0 |
| in percent of exports of goods and services | 7 | 7 | 6 | 4 | 1 | 0 |
| in percent of gross reserves 2/ | 17 | 17 | 16 | 10 | 2 | 0 |
| **Flows from prospective drawings 3/** | | | | | | |
| GRA Charges | 109 | 136 | 137 | 121 | 56 | 3 |
| Level Based Surcharge | 127 | 159 | 159 | 177 | 29 | 0 |
| Service Charges | 65 | 0 | 0 | 0 | 0 | 0 |
| Principal | 0 | 0 | 0 | 4,875 | 6,500 | 1,625 |
| Debt Service due on GRA credit (millions SDR) | 301 | 295 | 295 | 5,173 | 6,585 | 1,628 |
| in percent of quota | 18 | 17 | 17 | 306 | 390 | 96 |
| in percent of GDP | 0 | 0 | 0 | 1 | 2 | 0 |
| in percent of exports of goods and services | 0 | 0 | 0 | 2 | 3 | 1 |
| in percent of gross reserves 2/ | 0 | 0 | 0 | 6 | 8 | 2 |
| *Memorandum item:* | | | | | | |
| Total external debt, assuming full drawing (percent of GDP) | 79 | 75 | 71 | 66 | 61 | 58 |

Sources: IMF Finance Department, Polish authorities, and IMF staff calculations.

1/ End of Period. There has been no withdrawal since approval in January 2015. The Polish authorities have expressed their intention to treat the arrangement as precautionary.

2/ Excludes IMF purchases.

3/ Based on the rate of charge as of December 10, 2015. Includes surcharges under the system currently in force and service charges.

## Table 10. Republic of Poland: Proposed Access Relative to Other High-Access Cases

| | Proposed Arrangement FCL | Proposed Arrangement (Percentile) | High-Access Cases 1/ 20th | 65th | 80th | Median |
|---|---|---|---|---|---|---|
| | | | Percentile (Ratio) | | | |
| Access | | | | | | |
| In millions of SDRs | 13,000 | 72 | 1,473 | 11,199 | 15,500 | 6,782 |
| Total access in percent of: 2/ | | | | | | |
| Actual quota | 770 | 61 | 341 | 801 | 1,053 | 600 |
| Gross domestic product | 3.8 | 22 | 2.9 | 7.3 | 9.6 | 5.9 |
| Gross international reserves | 16.6 | 6 | 25.3 | 54.3 | 85.9 | 46.6 |
| Exports of goods and nonfactor services 3/ | 7.0 | 5 | 10.7 | 26.6 | 37.8 | 19.9 |
| Imports of goods and nonfactor services | 7.3 | 9 | 9.4 | 22.7 | 31.1 | 17.2 |
| Total debt stock 4/ | | | | | | |
| *Of which:* Public | 6 | 14 | 8 | 15 | 27 | 12 |
| External | 5 | 10 | 7 | 15 | 21 | 12 |
| Short-term 5/ | 20 | 16 | 21 | 50 | 105 | 36 |
| M2 | 5 | 11 | 6 | 15 | 24 | 12 |

Source: 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/ 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 2015 were used). In the case of Poland's proposed reduced access, 2016 projections are used.

3/ Includes net private transfers.

4/ Refers to net debt.

5/ Refers to residual maturity.

# Appendix. Letter from the Authorities Outlining Policy Goals and Strategies

Warsaw, December 22, 2015

Ms. Christine Lagarde
Managing Director
International Monetary Fund

Dear Ms. Lagarde,

Poland continues to enjoy strong fundamentals and policy buffers and the economy has been resilient amid heightened global financial market volatility. At 3½ percent, growth is one of the strongest in the region and unemployment is declining steadily. Relative to the time of the request for the current Flexible Credit Line (FCL) arrangement, Poland's current account has improved and international reserve buffers have increased. Public debt has continued to decline on the back of gradual fiscal consolidation. Important financial sector reforms have been completed, helping to strengthen macroprudential supervision. As noted at the conclusion of the last Article IV consultation, Poland's very strong economic policies have paved the way for this robust performance.

Going forward, we are committed to maintaining very strong policies and institutional frameworks to support strong and inclusive growth. Sound fiscal policy is a key pillar of our program. In this context, we are committed to conduct fiscal policy in accordance with domestic and European rules, in particular to keep the general government deficit below 3 percent of GDP and to increase spending only in case of additional revenues. The pace of consolidation will be determined by the automatic correction mechanism of the stabilizing expenditure rule that requires a lower dynamic of expenditure by 1.5-2 percentage points than average GDP growth until achieving the MTO and reducing public debt below 43 percent of GDP. Fiscal consolidation will be supported by growth-friendly measures: improvements in revenue collection (focused on better tax compliance and limitation of tax evasion), greater progressivity of the tax system, and targeted expenditure rationalization. The increased tax revenue will match new family support under the 500+ child benefit program. In line with the above described approach the general government deficit for 2016 in the budget project is assumed at 2.8 percent of GDP. A detailed medium-term fiscal plan, including the more significant tightening after 2017 of at least ¼ percent of GDP per year in structural terms, will be formulated as part of our convergence program update in the spring of 2016. Monetary policy will continue to be guided by the long-standing inflation targeting framework, underpinned by a flexible exchange rate. Sound fiscal and financial sector policies would ensure the continued stability of the banking system. Structural reforms will focus sustainable productivity enhancement and job creation by increasing access to vocational training, investing in infrastructure, and supporting innovation.

On the external front, some risks have receded whereas new concerns have emerged. The euro area ceased to be the weakest spot on the map of global growth. Furthermore, the quantitative easing by the European Central Bank would strengthen the recovery in the euro area and help lift growth in Poland, due to high synchronization of business cycles. At the same time, new downside risks have emerged, including from a potential marked slowdown in China and other emerging markets. On balance, external risks have somewhat receded but remain elevated.

Against this backdrop, the IMF's FCL arrangement continues to be instrumental in providing a reassuring signal to markets on the strength of Poland's institutions and policies, and an important insurance against external shocks. However, as Poland's economic fundamentals and policy buffers continue to improve, we consider that a somewhat lower access would provide sufficient insurance against external risks. A reduction in access would constitute the next step of a continued gradual exit from the FCL arrangement as external conditions allow. In this context, we have continued to communicate our intention of a smooth gradual exit from the FCL to market participants and the general public, and market reaction has been muted.

In sum, considering the balance of risks and some improvement in Poland's fundamentals, we request a reduction in access within the current 24-month FCL arrangement for Poland to an amount equivalent to SDR 13 billion (about 770 percent of quota). We reaffirm our intention to continue to treat the instrument as precautionary.

Sincerely Yours,

| | |
|---|---|
| /s/ | /s/ |
| Minister of Finance<br>PAWEL SZALAMACHA | President of Narodowy Bank Polski<br>MAREK BELKA |

# Annex I. Public Sector Debt Sustainability Analysis

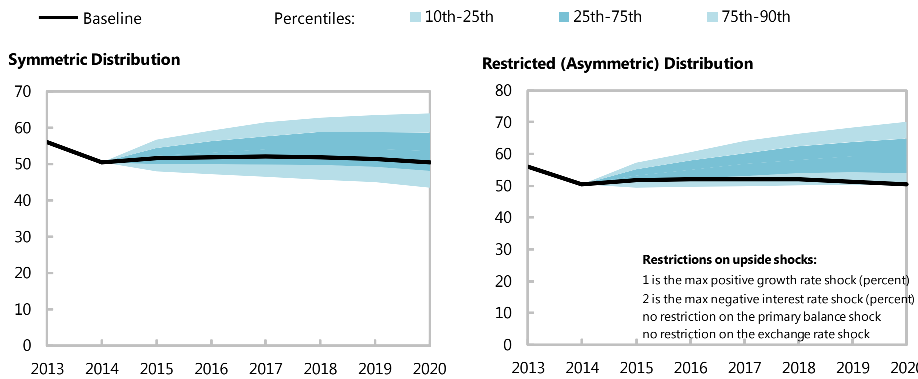
## Republic of Poland: Public Sector DSA—Risk Assessment

### Heat Map

| | | | | | |
|---|---|---|---|---|---|
| Debt level [1/] | Real GDP Growth Shock | Primary Balance Shock | Real Interest Rate Shock | Exchange Rate Shock | Contingent Liability shock |
| Gross financing needs [2/] | Real GDP Growth Shock | Primary Balance Shock | Real Interest Rate Shock | Exchange Rate Shock | Contingent Liability Shock |
| Debt profile [3/] | Market Perception | External Financing Requirements | Change in the Share of Short-Term Debt | Public Debt Held by Non-Residents | Foreign Currency Debt |

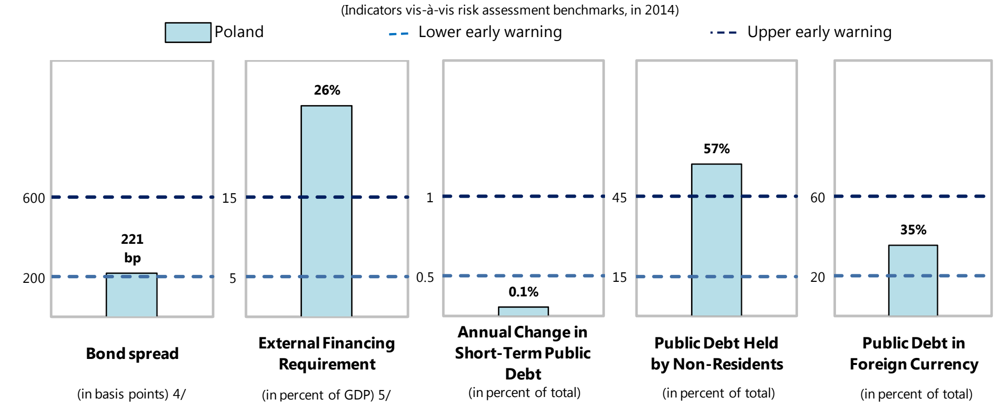
### Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)




### Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2014)




Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

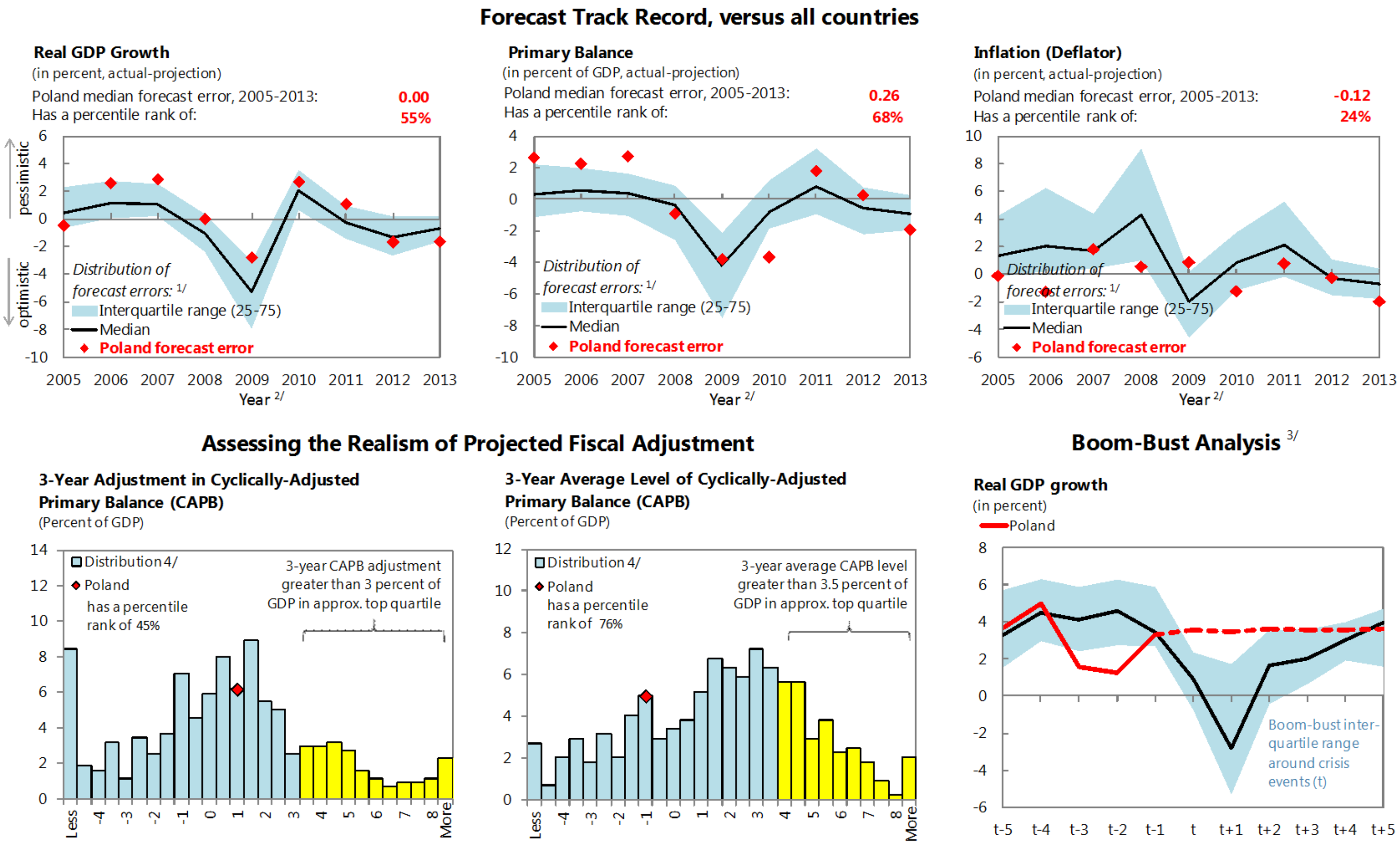
3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.
Lower and upper risk-assessment benchmarks are:

200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ Long-term bond spread over German bonds, an average over the last 3 months, up to 18-Dec-15.

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

## Republic of Poland: Public DSA—Realism of Baseline Assumptions




Source : IMF Staff.

1/ Plotted distribution includes all countries, percentile rank refers to all countries.

2/ Projections made in the spring WEO vintage of the preceding year.

3/ Poland has had a negative output gap for 3 consecutive years, 2012-2014. For Poland, t corresponds to 2015; for the distribution, t corresponds to the first year of the crisis..

4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

## Republic of Poland: Public DSA—Baseline Scenario

(Percent of GDP, unless otherwise indicated)

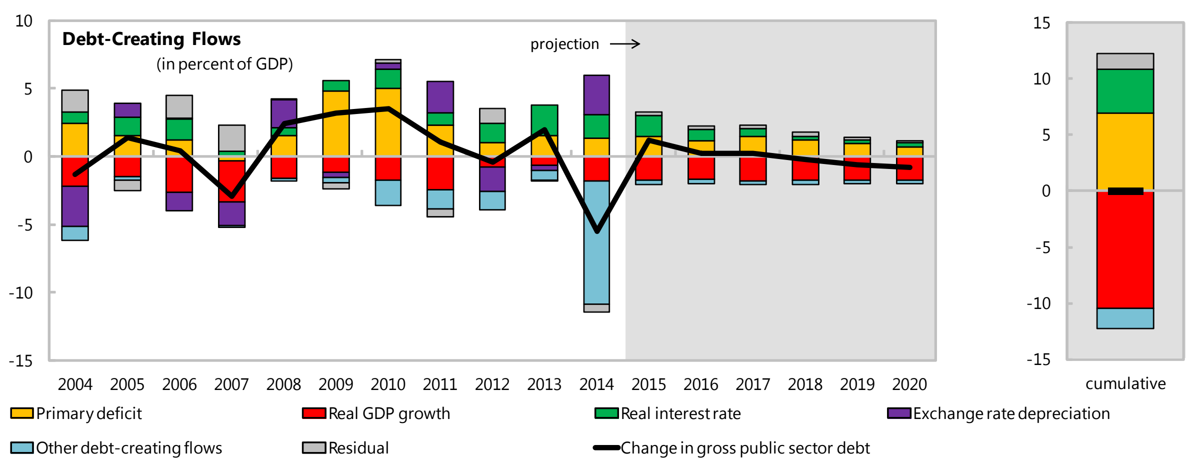
### Debt, Economic and Market Indicators [1/]

| | Actual | | | Projections | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2004-2012 [2/] | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
| Nominal gross public debt | 49.0 | 55.9 | 50.4 | 51.6 | 51.9 | 52.1 | 51.9 | 51.3 | 50.4 |
| Public gross financing needs | 14.9 | 10.9 | 8.2 | 9.1 | 9.9 | 8.2 | 8.6 | 8.6 | 6.1 |
| Real GDP growth (in percent) | 4.3 | 1.3 | 3.3 | 3.6 | 3.5 | 3.6 | 3.6 | 3.6 | 3.6 |
| Inflation (GDP deflator, in percent) | 3.1 | 0.4 | 0.4 | 0.4 | 1.7 | 1.9 | 2.5 | 2.5 | 2.5 |
| Nominal GDP growth (in percent) | 7.6 | 1.7 | 3.8 | 4.0 | 5.2 | 5.6 | 6.1 | 6.2 | 6.2 |
| Effective interest rate (in percent) [4/] | 5.5 | 4.7 | 3.6 | 3.6 | 3.5 | 3.2 | 3.2 | 3.2 | 3.2 |

| As of December 18, 2015 | | |
|---|---|---|
| Sovereign Spreads | | |
| EMBIG (bp) 3/ | | 236 |
| 5Y CDS (bp) | | 72 |
| Ratings | Foreign | Local |
| Moody's | A2 | A2 |
| S&Ps | A- | A |
| Fitch | A- | A |

### Contribution to Changes in Public Debt

| | Actual | | | Projections | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2004-2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | cumulative | debt-stabilizing primary balance [10/] |
| Change in gross public sector debt | 0.8 | 2.0 | -5.5 | 1.2 | 0.2 | 0.2 | -0.2 | -0.6 | -0.8 | 0.0 | |
| Identified debt-creating flows | 0.3 | 2.0 | -4.9 | 1.0 | 0.0 | -0.1 | -0.6 | -0.8 | -1.0 | -1.5 | |
| Primary deficit | 2.2 | 1.5 | 1.4 | 1.5 | 1.2 | 1.4 | 1.2 | 0.9 | 0.7 | 6.9 | -1.7 |
| Primary (noninterest) revenue and grants | 39.5 | 38.4 | 38.8 | 38.7 | 39.2 | 39.3 | 39.3 | 39.2 | 39.1 | 234.7 | |
| Primary (noninterest) expenditure | 41.7 | 39.9 | 40.2 | 40.1 | 40.4 | 40.7 | 40.5 | 40.1 | 39.8 | 241.6 | |
| Automatic debt dynamics [5/] | -1.2 | 1.2 | 2.8 | -0.2 | -0.8 | -1.2 | -1.4 | -1.5 | -1.4 | -6.6 | |
| Interest rate/growth differential [6/] | -0.9 | 1.6 | -0.1 | -0.2 | -0.8 | -1.2 | -1.4 | -1.5 | -1.4 | -6.6 | |
| Of which: real interest rate | 1.0 | 2.3 | 1.7 | 1.5 | 0.9 | 0.6 | 0.3 | 0.3 | 0.3 | 3.9 | |
| Of which: real GDP growth | -1.9 | -0.7 | -1.8 | -1.7 | -1.7 | -1.8 | -1.7 | -1.8 | -1.7 | -10.5 | |
| Exchange rate depreciation [7/] | -0.3 | -0.4 | 2.9 | … | … | … | … | … | … | … | |
| Other identified debt-creating flows | -0.7 | -0.7 | -9.1 | -0.3 | -0.3 | -0.3 | -0.3 | -0.3 | -0.3 | -1.8 | |
| Privatization (+ reduces financing needs) (negative) | -0.7 | -0.6 | 0.2 | -0.1 | -0.1 | -0.1 | -0.1 | -0.1 | -0.1 | -0.5 | |
| Contingent liabilities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Liabilities not included in debt [8/] | -0.1 | -0.1 | -9.3 | -0.2 | -0.2 | -0.2 | -0.2 | -0.2 | -0.2 | -1.2 | |
| Residual, including asset changes [9/] | 0.5 | -0.1 | -0.6 | 0.3 | 0.3 | 0.3 | 0.3 | 0.2 | 0.2 | 1.4 | |




Source: IMF staff.

1/ Public sector is defined as general government.

2/ Based on available data.

3/ Long-term bond spread over German bonds.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as $[(r - \pi(1+g) - g + ae(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate;
a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as $r - \pi(1+g)$ and the real growth contribution as $-g$.

7/ The exchange rate contribution is derived from the numerator in footnote 5 as $ae(1+r)$.

8/ From 2014 onwards, reflects the transfer of pension fund assets and liabilities to the social security administration.

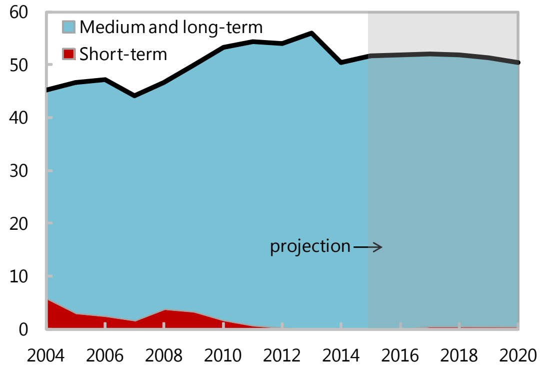
9/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

10/ 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.

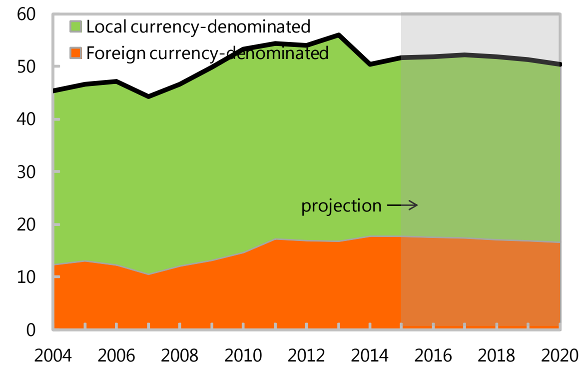
## Republic of Poland: Public DSA—Composition of Public Debt and Alternative Scenarios

### Composition of Public Debt

**By Maturity**
(in percent of GDP)



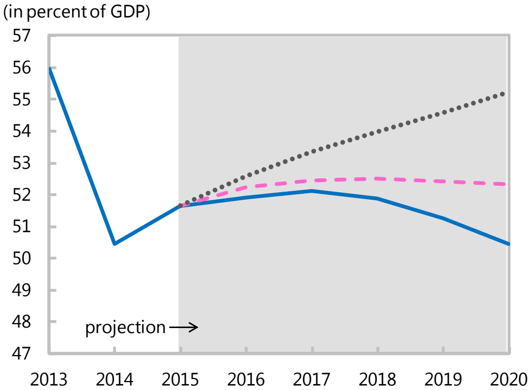

**By Currency**
(in percent of GDP)



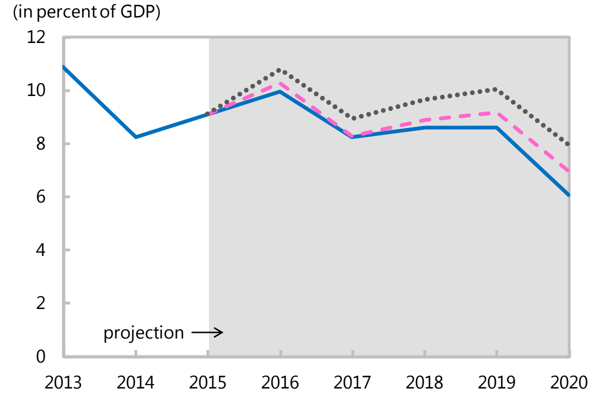

### Alternative Scenarios

Baseline    Historical    Constant Primary Balance

**Gross Nominal Public Debt**
(in percent of GDP)




**Public Gross Financing Needs**
(in percent of GDP)




### Underlying Assumptions
(in percent)

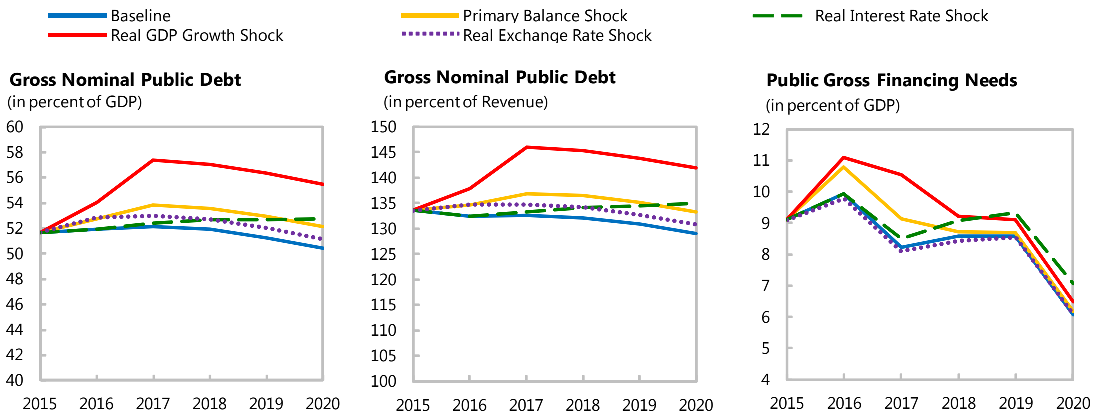
| Baseline Scenario | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|---|
| Real GDP growth | 3.6 | 3.5 | 3.6 | 3.6 | 3.6 | 3.6 |
| Inflation | 0.4 | 1.7 | 1.9 | 2.5 | 2.5 | 2.5 |
| Primary Balance | -1.5 | -1.2 | -1.4 | -1.2 | -0.9 | -0.7 |
| Effective interest rate | 3.6 | 3.5 | 3.2 | 3.2 | 3.2 | 3.2 |
| **Constant Primary Balance Scenario** | | | | | | |
| Real GDP growth | 3.6 | 3.5 | 3.6 | 3.6 | 3.6 | 3.6 |
| Inflation | 0.4 | 1.7 | 1.9 | 2.5 | 2.5 | 2.5 |
| Primary Balance | -1.5 | -1.5 | -1.5 | -1.5 | -1.5 | -1.5 |
| Effective interest rate | 3.6 | 3.5 | 3.2 | 3.2 | 3.2 | 3.2 |

| Historical Scenario | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|---|
| Real GDP growth | 3.6 | 3.8 | 3.8 | 3.8 | 3.8 | 3.8 |
| Inflation | 0.4 | 1.7 | 1.9 | 2.5 | 2.5 | 2.5 |
| Primary Balance | -1.5 | -2.0 | -2.0 | -2.0 | -2.0 | -2.0 |
| Effective interest rate | 3.6 | 3.5 | 3.4 | 3.6 | 3.8 | 4.0 |

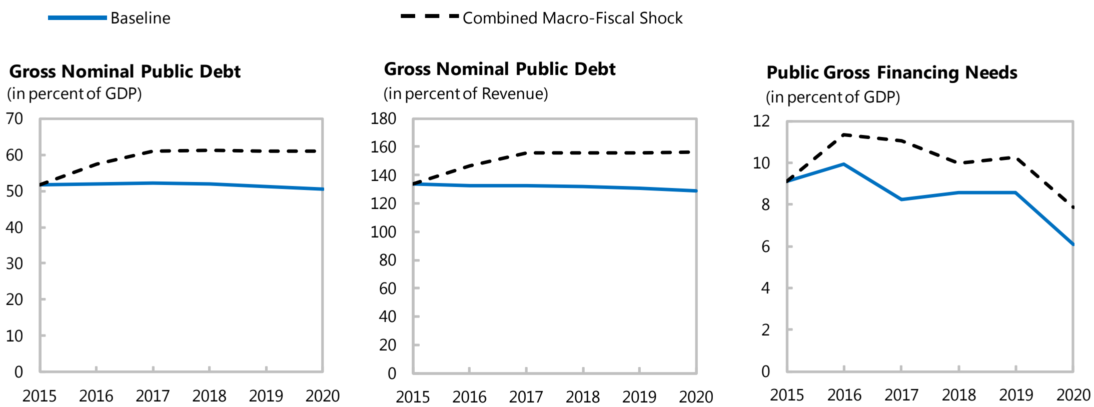
Source: IMF staff.

## Republic of Poland: Public DSA—Stress Tests

### Macro-Fiscal Stress Tests




### Additional Stress Tests




### Underlying Assumptions

(in percent)

| **Primary Balance Shock** | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|---|
| Real GDP growth | 3.6 | 3.5 | 3.6 | 3.6 | 3.6 | 3.6 |
| Inflation | 0.4 | 1.7 | 1.9 | 2.5 | 2.5 | 2.5 |
| Primary balance | -1.5 | -2.0 | -2.3 | -1.2 | -0.9 | -0.7 |
| Effective interest rate | 3.6 | 3.5 | 3.2 | 3.3 | 3.3 | 3.3 |
| **Real Interest Rate Shock** | | | | | | |
| Real GDP growth | 3.6 | 3.5 | 3.6 | 3.6 | 3.6 | 3.6 |
| Inflation | 0.4 | 1.7 | 1.9 | 2.5 | 2.5 | 2.5 |
| Primary balance | -1.5 | -1.2 | -1.4 | -1.2 | -0.9 | -0.7 |
| Effective interest rate | 3.6 | 3.5 | 3.7 | 4.2 | 4.6 | 5.0 |
| **Combined Shock** | | | | | | |
| Real GDP growth | 3.6 | 1.6 | 1.8 | 3.6 | 3.6 | 3.6 |
| Inflation | 0.4 | 1.2 | 1.5 | 2.5 | 2.5 | 2.5 |
| Primary balance | -1.5 | -2.1 | -3.4 | -1.2 | -0.9 | -0.7 |
| Effective interest rate | 3.6 | 3.7 | 3.7 | 4.2 | 4.6 | 5.0 |

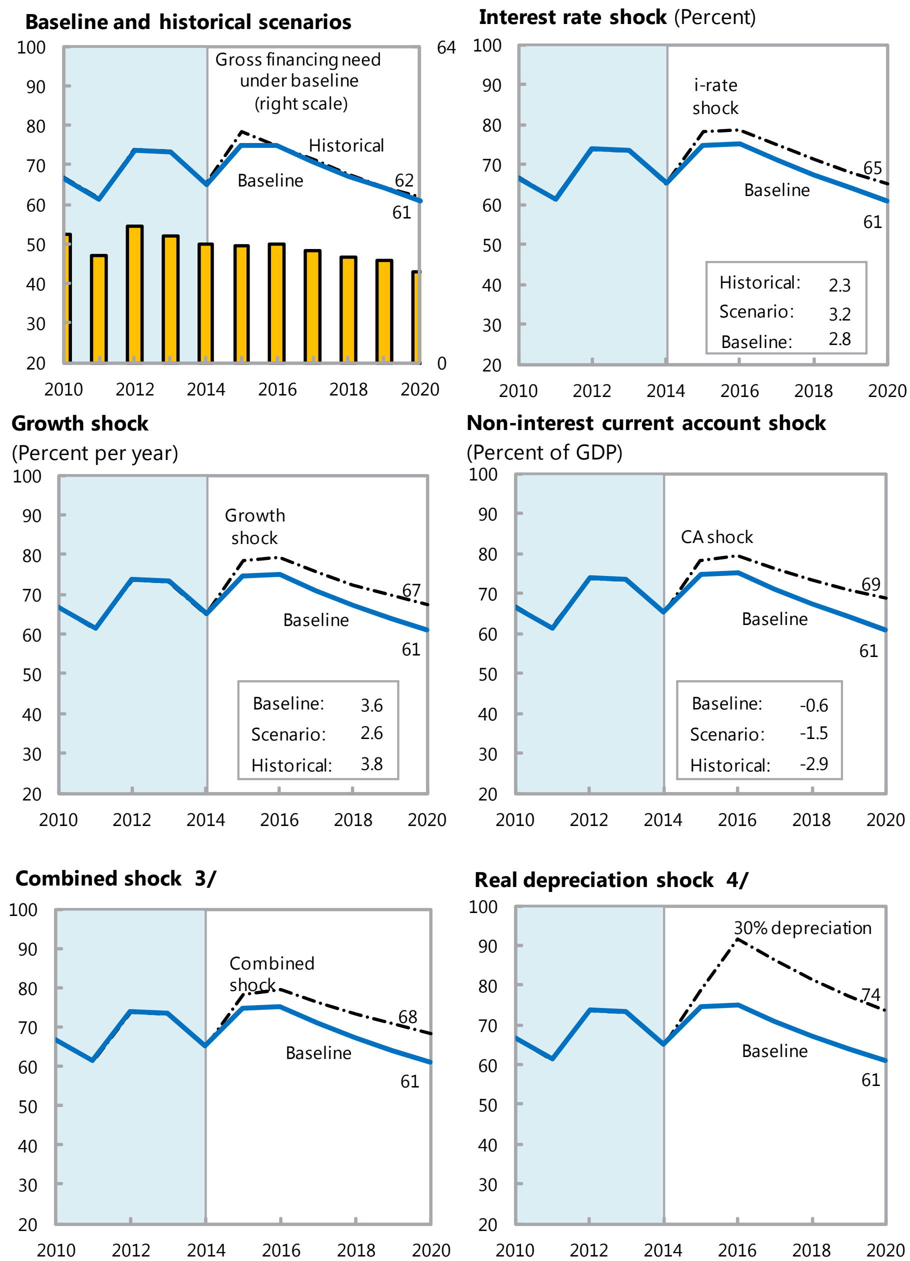
| **Real GDP Growth Shock** | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|---|
| Real GDP growth | 3.6 | 1.6 | 1.8 | 3.6 | 3.6 | 3.6 |
| Inflation | 0.4 | 1.2 | 1.5 | 2.5 | 2.5 | 2.5 |
| Primary balance | -1.5 | -2.1 | -3.4 | -1.2 | -0.9 | -0.7 |
| Effective interest rate | 3.6 | 3.5 | 3.2 | 3.3 | 3.3 | 3.3 |
| **Real Exchange Rate Shock** | | | | | | |
| Real GDP growth | 3.6 | 3.5 | 3.6 | 3.6 | 3.6 | 3.6 |
| Inflation | 0.4 | 6.6 | 1.9 | 2.5 | 2.5 | 2.5 |
| Primary balance | -1.5 | -1.2 | -1.4 | -1.2 | -0.9 | -0.7 |
| Effective interest rate | 3.6 | 3.7 | 3.1 | 3.1 | 3.1 | 3.2 |

Source: IMF staff.

# Annex II. External Debt Sustainability Analysis

## Republic of Poland: External Debt Sustainability: Bound Tests, 2010–20 1/ 2/

(External debt, 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 2015.

## Republic of Poland: External Debt Sustainability Framework, 2012–20

(Percent of GDP, unless otherwise indicated)

| | Actual | | | | | Projections | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2012 | 2013 | 2014 | | | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | |
| | | | | | | **I. Baseline Projections** | | | | | | **Debt-stabilizing non-interest current account 5/** |
| 1 **External debt** | 73.7 | 73.3 | 65.1 | | | **74.7** | **75.0** | **70.9** | **67.1** | **64.0** | **61.0** | **-4.1** |
| 2 Change in external debt | 12.3 | -0.4 | -8.2 | | | 9.6 | 0.3 | -4.1 | -3.8 | -3.2 | -3.0 | |
| 3 Identified external debt-creating flows (4+8+9) | 2.4 | -2.2 | -3.3 | | | 1.1 | -3.0 | -4.4 | -3.9 | -3.5 | -3.3 | |
| 4 Current account deficit, excluding interest payments | 2.0 | -0.3 | 0.4 | | | -1.1 | -0.1 | 0.4 | 0.7 | 0.8 | 0.9 | |
| 5 Deficit in balance of goods and services | -89.3 | -90.8 | -93.7 | | | -103.6 | -106.8 | -108.6 | -110.5 | -111.6 | -112.1 | |
| 6 Exports | 44.4 | 46.3 | 47.5 | | | 53.4 | 54.9 | 55.4 | 56.0 | 56.3 | 56.5 | |
| 7 Imports | -44.9 | -44.5 | -46.2 | | | -50.2 | -51.9 | -53.3 | -54.5 | -55.2 | -55.7 | |
| 8 Net non-debt creating capital inflows (negative) | -1.9 | -1.3 | -2.6 | | | -2.2 | -2.4 | -2.4 | -2.4 | -2.4 | -2.4 | |
| 9 Automatic debt dynamics 1/ | 2.3 | -0.6 | -1.1 | | | 4.4 | -0.5 | -2.4 | -2.2 | -2.0 | -1.8 | |
| 10 Contribution from nominal interest rate | 1.7 | 1.6 | 1.6 | | | 1.6 | 1.6 | 1.7 | 1.9 | 2.1 | 2.1 | |
| 11 Contribution from real GDP growth | -1.0 | -0.9 | -2.4 | | | -2.7 | -2.6 | -2.6 | -2.4 | -2.3 | -2.2 | |
| 12 Contribution from price and exchange rate changes 2/ | 1.6 | -1.3 | -0.4 | | | 5.4 | 0.4 | -1.5 | -1.7 | -1.7 | -1.7 | |
| 13 Residual, incl. change in gross foreign assets (2-3) | 9.9 | 1.8 | -4.8 | | | 8.5 | 3.3 | 0.3 | 0.1 | 0.4 | 0.3 | |
| External debt-to-exports ratio (in percent) | 166.0 | 158.2 | 137.1 | | | 139.9 | 136.7 | 128.0 | 119.9 | 113.5 | 107.9 | |
| **Gross external financing need (in billions of US dollars) 3/** | 138.0 | 133.9 | 130.9 | | | 112.9 | 114.1 | 113.5 | 113.8 | 118.2 | 112.7 | |
| in percent of GDP | 27.6 | 25.5 | 24.0 | 10-Year Historical Average | 10-Year Standard Deviation | 23.8 | 24.2 | 22.7 | 21.4 | 20.8 | 18.6 | |
| **Key Macroeconomic Assumptions** | | | | | | | | | | | | |
| Real GDP growth (in percent) | 1.6 | 1.3 | 3.3 | 3.8 | 1.9 | 3.6 | 3.5 | 3.6 | 3.6 | 3.6 | 3.6 | |
| Exchange rate appreciation (US dollar value of local currency, percent) | -8.9 | 3.0 | 0.1 | 2.1 | 11.2 | -16.4 | -5.2 | 0.4 | 0.0 | 0.5 | 0.8 | |
| GDP deflator in US dollars (change in percent) | -6.7 | 3.4 | 0.6 | 4.6 | 11.6 | -16.1 | -3.6 | 2.3 | 2.5 | 3.0 | 3.3 | |
| Nominal external interest rate (in percent) | 2.6 | 2.3 | 2.3 | 2.3 | 0.6 | 2.1 | 2.1 | 2.4 | 2.9 | 3.3 | 3.5 | |
| Growth of exports (US dollar terms, in percent) | -1.4 | 9.2 | 6.6 | 11.4 | 14.8 | -2.2 | 2.5 | 7.0 | 7.3 | 7.4 | 7.2 | |
| Growth of imports (US dollar terms, in percent) | -4.9 | 3.5 | 8.0 | 11.4 | 18.9 | -5.5 | 3.2 | 8.8 | 8.6 | 8.2 | 7.8 | |
| Current account balance, excluding interest payments | -2.0 | 0.3 | -0.4 | -2.9 | 2.0 | 1.1 | 0.1 | -0.4 | -0.7 | -0.8 | -0.9 | |
| Net non-debt creating capital inflows | 1.9 | 1.3 | 2.6 | 2.6 | 0.8 | 2.2 | 2.4 | 2.4 | 2.4 | 2.4 | 2.4 | |
| | | | | | | **II. Stress Tests for External Debt Ratio** | | | | | | **Debt-stabilizing non-interest current account 5/** |
| **A. Alternative Scenarios** | | | | | | | | | | | | |
| A1. Key variables are at their historical averages in 2015-2020 4/ | | | | | | **78.3** | **74.8** | **71.2** | **67.6** | **64.5** | **61.7** | **-5.9** |
| **B. Bound Tests** | | | | | | | | | | | | |
| B1. Nominal interest rate is at baseline plus one-half standard deviation | | | | | | 78.3 | 78.7 | 74.8 | 71.1 | 68.0 | 65.1 | -4.0 |
| B2. Real GDP growth is at baseline minus one-half standard deviations | | | | | | 78.3 | 79.2 | 75.7 | 72.5 | 69.8 | 67.2 | -3.7 |
| B3. Non-interest current account at baseline minus one-half standard deviations | | | | | | 78.3 | 79.5 | 76.2 | 73.3 | 71.0 | 68.7 | -4.3 |
| B4. Combination of B1-B3 using 1/4 standard deviation shocks | | | | | | 78.3 | 79.5 | 76.2 | 73.2 | 70.7 | 68.4 | -4.0 |
| B5. One time 30 percent real depreciation in 2016 | | | | | | 78.3 | 91.6 | 86.3 | 81.4 | 77.4 | 73.5 | -5.4 |

Source: IMF staff calculations.

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

3/ Defined as current account deficit, plus amortization on short-term and medium- and long-term debt.

4/ 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.

5/ 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.

**Statement by Ludwik Kotecki, Alternate Executive Director for Republic of Poland and Joanna Osinska, Advisor to the Executive Director**
**January 13, 2016**

The Polish economy has remained resilient amid increased global financial volatility, supported by very strong fundamentals and prudent macroeconomic management. The Flexible Credit Line (FCL) arrangement with the Fund has been instrumental in sending a reassuring signal to markets on the strength of Poland's institutions and policies and has provided additional insurance against external shocks. The economy has returned to strong and robust growth rates while macroeconomic imbalances have narrowed further.

The external risks to the Polish economy have somewhat receded, but remain elevated. While some of the previously identified risks have diminished, new concerns have emerged. Considering the current balance of risks and further gradual improvement in fundamentals, the Polish authorities continue to see the need to maintain the access to the FCL under the current arrangement, but they are of the view that a moderately reduced level of access would provide sufficient insurance against tail risks. The authorities remain committed to their exit strategy and perceive the current midterm review as an opportunity for taking the next step to that effect. This reflects their state–contingent approach for assessing exit strategy considerations. The authorities are requesting the completion of the review of the current FCL along with a reduction in the level of access for the second year of the arrangement.

**Buffers**

Poland has continued to strengthen its policy buffers. Access to the FCL has helped support the policy adjustment.

- **The economy has returned to solid growth rates while the labor market has strengthened.** Following the 2012–13 slowdown, the real GDP growth rebounded to 3.3 percent in 2014 and is expected to reach 3.6 percent in 2015 and 3.8 in 2016. Growth is driven mainly by domestic demand with strong private consumption. Simultaneously, the unemployment rate has continued its downward trend, reaching 7.2 percent in November 2015 — the lowest level since late–2008/early–2009.
- **The current account (CA) balance has further improved**. In 2015, the CA deficit is projected to narrow to 0.6 percent from 2 percent of GDP in 2014, on the back of lower cost of energy imports and a rebound of demand from the euro area. The moderate negative impact on Polish exports from geopolitical tensions surrounding Russia and Ukraine has been largely counterbalanced by a redirection towards more dynamic markets and gains in price competitiveness. The capital account continues to register a surplus, primarily due to the strong inflow of EU funds. The zloty exchange rate remains relatively stable and broadly consistent with fundamentals.

- **International reserves remain broadly adequate against standard metrics.** They increased from around EUR 83 billion (USD 100 billion) at end-2014 to around EUR 87 billion (USD 95 billion) at end–2015.
- **Fiscal consolidation allowed for an early exit from the EU EDP procedure and is set to continue.** In June 2015, the EU Council closed the excessive deficit procedure (EDP) for Poland, one year ahead of schedule. Looking forward, the new government committed itself to conduct the fiscal policy in accordance with domestic and European rules, in particular to keep the general government deficit below 3 percent of GDP (2.8 percent of GDP is planned for 2016) and to increase spending only in case of additional revenues. Fiscal consolidation will be supported by growth–friendly revenue and expenditure measures. A detailed medium–term fiscal plan, including a more significant tightening after 2017, will be formulated as a part of the convergence program update due in April 2016.
- **Accommodative monetary policy has helped lift inflation.** Negative price growth – which has persisted since mid–2014 and is mainly due to the sharp fall of energy prices in the global markets – has bottomed out after reaching its peak of 1.5 percent in the first quarter of 2015. In December 2015, the Monetary Policy Council (MPC) kept the policy rate unchanged at the all–time low of 1.5 percent. The MPC expects the price growth to slowly increase in the coming quarters, supported by the gradual closing of the output gap and good labor market situation.
- **The financial sector framework has been strengthened.** In particular, a macroprudential framework to allow for early detection and prevention of systemic risk has been finalized. The financial sector remains liquid and well–capitalized, however, profitability somewhat weakened mainly due to the low interest rate environment.
- **Progress on the structural front has continued.** This was evidenced in international rankings, with a historical jump to the 25th position in the latest World Bank's Doing Business 2016 report.

Looking forward, the Polish authorities are determined to maintain very strong institutional policy frameworks and prudent policies. The new government's priorities are focused on advancing inclusive growth while maintaining fiscal discipline and financial stability.

**Risks**

As an open economy, Poland has benefited from integration with global markets, but at the same time this has created exposure to potential external shocks. In the authorities' view, while some of the external risks have receded since the last FCL request, new concerns have emerged. The European Central Bank's quantitative easing somewhat helped diminish risks related to structurally low growth in the euro area. At the same time, new downside risks have emerged, including from a potential significant slowdown in China and other large emerging market economies. In addition, further uncertainties remain about the US Federal

Reserve's future policy path, following the recent hike, as well as those related to the Russia/Ukraine geopolitical tensions. On balance, although somewhat lower, risks continue to remain elevated.

Against this backdrop, the authorities believe that access to the FCL is warranted, as it continues to provide valuable additional insurance against potential adverse external shocks. Nonetheless, in light of the further improvement in Poland's economic fundamentals and policy buffers, the authorities consider that a moderately reduced level of access would provide a sufficient protection against tail–risks for the second year of the current arrangement.

**Exit strategy**

Poland reiterates the commitment to gradually reduce its reliance on the FCL as external conditions allow. The authorities have continued to communicate their intention to market participants and the general public. Accordingly, market reaction has been muted, reinforcing the trust that Poland is well prepared to continue its gradual exit from the arrangement.

**Conclusion**

Considering the current balance of risks and continued improvement in economic fundamentals, the Polish authorities are requesting the completion of the review of the current FCL along with a reduction in its level of access to SDR 13 billion (770 percent of quota). This constitutes a decrease of around 16 percent.

The authorities are committed to continue strengthening policy buffers and make further progress towards an exit from the facility, taking into account the evolution of the external conditions. They reaffirm the intention to treat the arrangement as precautionary.