INTESA SANPAOLO

International Research

Economy

Poland

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Focus

The contraction in GDP in 2020 (-2.7%), albeit significant, was less severe than the EU average (-6.1%) due to the highly expansive economic policy, which was feasible as the absence of imbalances in public accounts and foreign accounts afforded significant room for manoeuvring. GDP is still negative but recovering in the first quarter.

- In 2020, GDP fell by 2.7%. The impact of the economic shock caused by the COVID-19 pandemic was strong, but less serious than the average drop in the EU (-6.1%) because of the largely expansive **economic policy** implemented by the Polish authorities.
- **GDP** declined by 0.9% yoy in the first quarter. However, on a short-term basis, it rose by 1.1% and the main economic indicators show that the economy has been growing gradually since the beginning of the year. Industrial production, retail sales and exports gradually improved during the first quarter. In April, the Economic Sentiment Indicator rose to its highest level of the last fourteen months, indicating that the cyclical phase continues to be positive. If the vaccination campaign continues as planned, enabling the **containment measures** to ease, GDP is expected to rise in the second quarter, pushing economic growth to 4.4% in 2021 and 4.8% in 2022 (March 2021 forecasts). The recovery will be driven by **domestic demand**, especially private consumption and investments, as well as **foreign** demand, which is expected to strengthen gradually. The **economic policy**, which is expected to continue to be expansive, will boost economic recovery significantly, as will the **European Funds** (the Multiannual Financial Framework and the Next Generation EU recovery fund). The **risks inherent in the outlook** are high but essentially balanced.
- **Inflation** rose to 4.7% in May (4.4% in the previous month); this was the highest spike since September 2020. Prices have accelerated for all types of goods and services in the basket. The sustained inflation trend led to a shift in the Central Bank's mood towards a more restrictive, albeit cautious, monetary policy stance, and the **policy rate** could be increased by the end of the year (to 0.25% according to our forecasts) to maintain inflation expectations within the expected range.
- The absence of public and foreign account imbalances has allowed fiscal policy to be steered to a significant degree. Last year, fiscal and monetary policy had been particularly expansive in order to counter the negative economic effects of the containment measures adopted to combat the pandemic. For 2021, the Government expects a **public deficit** of 3.3% of GDP, while **public debt** is expected to rise to 58.1%, according to IMF forecasts.
- The **current account balance** (3.6% of GDP in 2020) is expected to remain positive this year and the next because of the significant trade surplus. **Foreign debt** is less than 60% of GDP, and the **net international investment position** (NIIP), although negative (equal to 44% of GDP), is relatively low. Foreign debt and NIIP are not elements of financial fragility in foreign accounts in the medium term because, to date, no significant current account deficits are expected over the medium term (the IMF expects -0.1% of GDP in 2025). The **reserve cover ratio** is well above 1 and is therefore far from the critical alert threshold for the availability of liquidity in foreign currency. It is expected to improve to 2 in 2021.

Research Department

International Research Network

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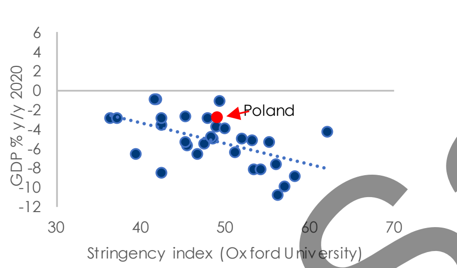
The economy and outlook

Last year, with the first **COVID-19** infections recorded at the beginning of March, Poland introduced containment measures to combat the spread of the pandemic. These included the closure of schools, universities, restaurants and all retail outlets and non-essential services, as well as prohibitions focusing on large gatherings, border controls and travel restrictions. These measures were gradually eased in four steps from the end of April 2020 to May. However, beginning on 27 February 2021, various restrictions, such as the closure of shopping centres and making all school work remote, were reintroduced in regions experiencing increased infections between the end of 2020 and the beginning of this year. After the peak of almost 35,000 new positive COVID-19 cases at the end of March, the country's pandemic curve began to fall and there are currently less than 2,000 new cases per day. Meanwhile, the containment measures to combat the spread of the virus have been further eased and indoor activities have been permitted starting on 28 May, including, for example, gyms and sports facilities, with a limit of 1 person per 15 sq. metres.

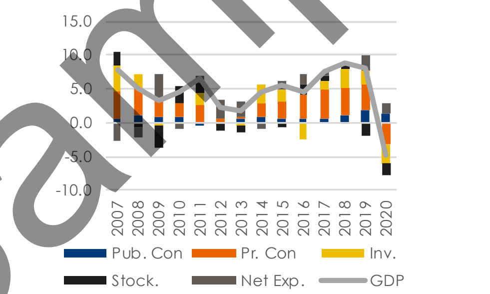
The measures to combat the pandemic introduced in March last year heavily impacted economic performance in the second quarter, when **GDP** fell by 9.0% qoq (after a decline of 0.3% qoq in the first quarter) due to the drop in private consumption and fixed investments. After restrictions were eased, GDP recovered to some extent in the third quarter, growing by 7.9% qoq, however the economy experienced a further decline (-0.7% qoq) in the fourth quarter, as the second wave of the pandemic hit. Overall, GDP fell significantly in 2020 (-2.7%), but to a less severe extent than the EU average (-6.1%). All components of demand, except **public consumption** and **net exports** (with growth of 0.6pp and 1.0pp respectively), diminished GDP. **Private consumption** caused a 1.8pp drop in GDP, while gross **investments** caused a 2.6pp drop.

GDP performance vs the Stringency Index



Source: Oxford University, Intesa Sanpaolo Research Department calculations

GDP and contributions to growth



Source: National Institute of Statistics, Intesa Sanpaolo Research Department calculations

On the supply side, all production sectors were affected by the containment measures. This was especially true in the second quarter, when the restrictions on mobility tightened resulting in a -8.2% drop in the annual trend of the added value of the entire economy. As the COVID-19 measures began to ease in the months that followed, the production activity in some sectors, such as **industry** (excluding construction), returned to a positive ground as early as the third quarter (3.1%). However, added value continued to worsen in other production sectors that were more closely linked to socialisation and mobility. In QIV2020, added value in **the art and entertainment sector** plummeted by 67% yoy. The decline in this sector was 44.9% on a yearly basis. The production sectors that were the hardest hit by the anti-COVID restrictions were entertainment, catering and hotels. These sectors account for less than 5.0% of the total added value. The value added of the **industrial sector** (excluding construction), fell by 0.2% throughout the year, subtracting 0.1pp from the value added of the entire economy, while the **trade and transport** sector (down by 3.7%) subtracted a further 1.5pp. Almost all remaining sectors performed negatively in a range from -0.4pp (in the **finance and insurance** sector) and -0.1pp (**agriculture, forestry, fishing**). **Public administration, health** (0. 4pp), **ICT** (0.1pp) and **real estate** (0.1pp) were the only sectors to add to the aggregate value.

Value added by sector

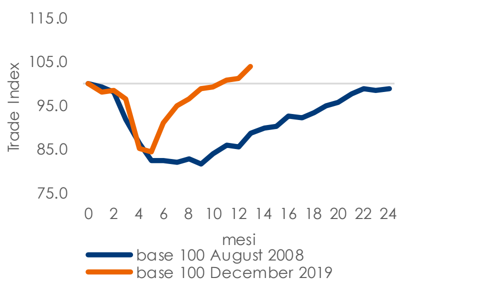
Sectors	Share (%)	Value Added* (% y/y)						Contribution to total Value Added (in pp)					
	2019	1T20	2T20	3T20	4T20	2019	2020	1T20	2T20	3T20	4T20	2019	2020
Agric. and fishing	2.0	-2.6	-4.8	-2.8	-1.7	-0.8	-3.0	-0.1	-0.1	-0.1	0.0	0.0	-0.1
Ind. (ex. constr.)	24.8	0.1	-12.6	3.1	6.1	3.0	-0.2	0.0	-2.8	0.7	1.7	0.7	-0.1
Construction	8.0	4.3	-0.4	-9.5	-5.3	-0.3	-3.7	0.2	0.0	-0.9	-0.5	0.0	-0.3
Com. Trans. Hotel	25.2	1.1	-16.3	-3.8	-7.1	4.3	-6.4	0.3	-4.0	-1.0	-1.7	1.1	-1.6
ICT	5.6	2.5	2.2	4.0	1.7	7.9	2.6	0.1	0.1	0.2	0.1	0.4	0.1
Finan. and Insur.	5.5	6.2	-7.6	-16.4	-12.4	10.1	-7.7	0.3	-0.5	-0.9	-0.6	0.5	-0.4
Real Estate	5.2	3.8	0.2	0.0	1.3	16.4	1.2	0.2	0.0	0.0	0.1	0.8	0.1
Professional activ.	8.5	3.0	-3.4	-1.2	-0.2	6.5	-0.6	0.3	-0.3	-0.1	0.0	0.5	-0.1
Pub. Adm. Health	13.0	4.3	3.0	2.6	2.7	3.9	3.2	0.6	0.4	0.3	0.4	0.5	0.4
Arts and entert.	2.1	-1.8	-45.1	-43.4	-66.6	5.1	-44.9	0.0	-1.0	-0.7	-1.9	0.1	-1.0

Note: * In volumes (2010), chain-linked values, M in local currency. Source: Intesa Sanpaolo Research Department calculations on Eurostat NACE classification, Rev2 data

Moving on to the current year, **GDP remained on negative ground in** the first quarter **(-0.9%)**. Final consumption increased by 0.6% (of which 0.2% represents consumption by households) and gross fixed investments increased by 1.3%. Changes in inventories were positive (0.3 percentage points), while net exports had a negative impact on economic growth (-1.9 percentage points). On a seasonally adjusted quarterly basis, GDP increased by 1.1% and the main economic indicators show a gradual recovery from the beginning of the year. **Industrial production** increased by 7.9% in the first quarter compared to the same period of 2020. The index was driven by the March figure, i.e., when the growth rate was 18.9% yoy (following rates of 2.7% and 0.9% in February and January), with all the production sectors indicating that the trend was positive and gradually improving. In April, due to the strong base effect, production dropped to 44% yoy, and then to 29.8% in May. **Retail sales**, negative in January (-60%) and February (-5.0%), rose by 15% yoy in March, and continued to rise in April and May (17.1% and 25.7%, respectively). Polish **exports** had returned to pre-COVID-19 levels as early as in July 2020. They then proceeded to grow by more than 10% yoy in February, with a further 27.3% yoy jump in March. Manufacturing **PMI** involved in manufacturing posted an all-time high of 59.4 in June 2021, from 57.2 in the previous month. This result was well above market expectations of 57.0, indicating a strong rebound in manufacturing production. New orders increased for the seventh consecutive month and job creation rate was at its highest level since April 2017. According to the survey, in terms of prices, input and output costs increased at record rates.

The **international economic scenario** is expected to improve in the coming months. In the main world economies, the vaccination campaign has maintained a good pace, and strong **monetary and fiscal stimulus** policies were implemented in the USA with the American Jobs Plan (USD 2.3Trn), the "American Family Plan" (USD 1.8Trn), and also in the EU with the "Next Generation EU" (EUR 750Bn) and the "Multiannual Financial Framework 2021-2027" (EUR 1.8Trn). China's economic resilience, whose GDP grew again in 2020 (2.3%), gave a strong boost to **global trade, as shown by the World Trade Index. Its recovery phase began as early as 4 months after the initial outbreak, with a return to pre-pandemic levels approximately 10 months later.** Based on these elements, and assuming that the vaccination plans will continue as planned and that any new outbreaks will remain limited, the IMF expects a recovery of the global economy in 2021 and a consolidation in 2022 (6.0% and 4.4% respectively). The Washington Institute does not rule out the possibility of a better-than-expected response of the economy to the relaxation of containment measures, though it also mentions the downside risks from the possible spread of new variants of the virus and consequent acceleration in the number of COVID-19 infections.

World trade index



Source: Intesa Sanpaolo Research Department calculations, based on Netherlands Bureau for Economic Policy Analysis data

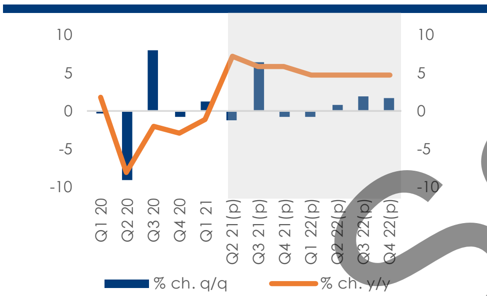
Expected improvement in the international scenario

GDP % y/y	2020	2021	2022
Euro Area	-6.6	4.4	3.8
USA	-3.5	6.4	3.5
UK	-9.9	5.3	5.1
JP	-4.8	3.3	2.5
China	2.3	8.4	5.6
EU	-6.1	4.4	3.9
World	-3.3	6.0	4.4

Source: IMF, April 2021 WEO

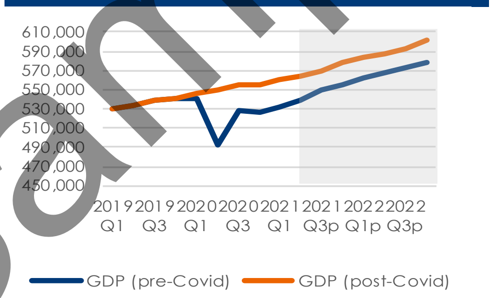
Looking ahead, in Poland, if the vaccination campaign will continue as planned and will allow the containment measures to be eased without compromising the fight against the pandemic, GDP is expected to rise in the second quarter, pushing economic growth to 4.4% in 2021 and 4.8% in 2022 (June 2021 forecasts). These forecasts are based on various factors, some of which are external to the country, but others are internal. With the expected improvement in the international scenario, **foreign demand** may significantly boost the recovery of the Polish economy, although the expected net contribution, due to the recovery in imports, will only be 0.9pp in 2021 and -0.6pp in 2022; however, as the pandemic begins to fade away, the broadly expansive economic policies will create recovery in domestic **final consumption**(GDP contribution of 3.0pp in 2021 and 2022) and **investment** (0.4pp and 2.2pp), both of which will be important drivers for Polish economic growth.

Polish GDP performance



Note: (p) Intesa Sanpaolo – Research Department; Forecasts Source: National Institute of Statistics

Polish GDP profile

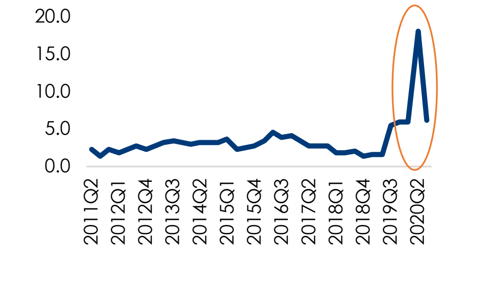


Note: (p) Intesa Sanpaolo Research Department forecasts; real GDP, dest. Source: National Institute of Statistics

The **propensity to save** could normalise as a result of the strong support focused on recovery in household consumption. During the most stringent phase of the lockdown in the second quarter, the rate of household savings jumped to over 18%, backtracking to 6.0% in third quarter but remaining well above the average calculated on the five-year period prior to the pandemic (3.2%). The savings rate is expected to return to the average value, i.e. an increase therein, favouring household consumption spending. A further boost to consumption may come from the use of part of the household savings during the pandemic which would not have occurred in the absence of the restrictive COVID-19 measures. The increase in the **unemployment rate** during the current year (to 4.9% according to IMF forecasts) will have a negative, but transitory, effect on consumption; this is because conditions in the labour market are expected to improve as early as next year, with unemployment falling to 4.5%. The country has implemented major labour market reforms, rendering that market more efficient with improved matching of supply and demand. The Beveridge curve indicates that the ratio of vacant jobs compared to the unemployment rate has improved significantly in recent years.

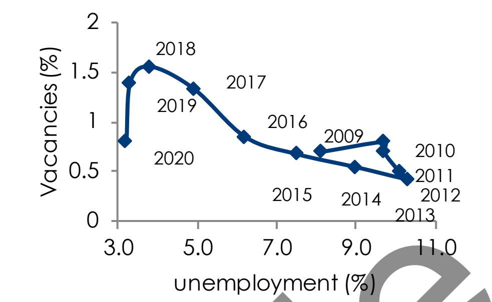
Structural and EU investment funds are expected to continue to provide significant support to investments over the 2021-22 forecast horizon. Under the 2014-20 multi-year budget, Poland obtained ESIF totalling approximately EUR 55Bn (63.3% absorption rate, higher than the EU average of 59%). For the 2021-27 period, around EUR 106 Bn have been allocated under the MFF, in addition to around EUR 30Bn were added this year From the NGEU programme[1] (of which EUR 23.9Bn refer to the Recovery and Resilience Facility that will be assigned on the basis of the National Recovery and Resilience Plan delivered to the European Commission (EC) at the beginning of May (see the paragraph that follows).

Household saving rate



Source: Eurostat

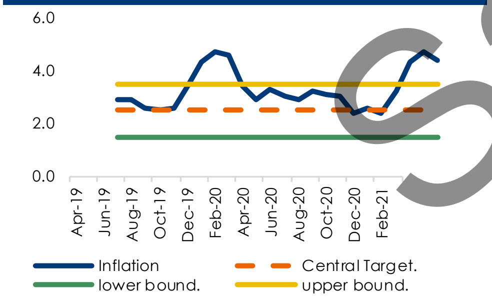
Beveridge curve



Source: Intesa Sanpaolo Research Department calculations, based on Eurostat data

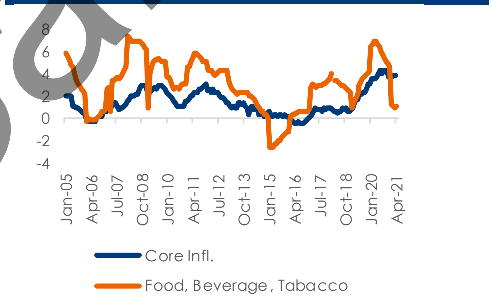
Poland's **consumer prices** rose by 4.7% year-on-year in May, following a 4.4% increase in April. This was the highest spike since September 2020. The prices of all the basket components rebounded strongly, especially transport and energy. The **Central Bank** of Poland expects inflationary pressure to rise further in the coming months as household consumption is expected to increase and energy prices are expected to recover; however, the increase is expected to be temporary and inflation should return to the target range as early as the end of the current year, bringing the average close to 3.5% in 2021 and 3.0% in 2022.

Inflation and Central Bank targets



Source: Refinitiv-Datastream and Central Bank of Poland

Core inflation, food, beverages and tobacco



Source: Refinitiv-Datastream

Risks inherent in the outlook are still high but essentially balanced. The evolution of the epidemiological situation and the efficiency and effectiveness of vaccination programmes could fare better or worse than assumed in the baseline scenario of these forecasts. Forecasts could underestimate the propensity of households to spend, or the desire of consumers to maintain high levels of precautionary savings. The repercussions of the difficulties businesses encounter on the labour market and the financial sector could prove worse than expected.

[1] The EC estimates that the NGEU's contribution to GDP growth in the EU will be approximately 1.2pp in the two-year period 2021-22.

Stronger/weaker global growth, particularly in the Euro area, could have a more/less positive effect on the Polish economy than expected.

National accounts, GDP and demand components (% change)

	2018	2019	2020	2021	2022
GDP	5.1	4.1	-2.7	4.4	4.8
Private Consumption	4.3	4.1	-3.1	3.7	4.0
Public Consumption	3.8	5.9	3.4	5.1	4.0
Investments	9.8	7.6	-7.3	2.1	11.6
Stock. and stat. discrep. (p.p. contribution)	0.5	-1.3	-1.2	0.1	0.2
Net Export	-2.3	31.8	22.9	19.6	-14.0

Source: Intesa Sanpaolo calculations using the Oxford Economics model

Contribution of demand components to GDP performance (in percentage points)

	Quote* (% GDP)	2018	2019	2020	2021	2022
GDP		5.1	4.1	-2.7	4.4	4.8
Stock. and stat. discrep. (p.p. contribution)	1.7	0.5	-1.3	-1.2	0.1	0.2
Private Consumption	57.4	2.4	2.1	-1.8	2.1	2.3
Public Consumption	17.4	0.7	0.9	0.6	0.9	0.7
Investments	18.9	1.6	1.3	-1.4	0.4	2.2
Net Export	4.6	-0.1	1.1	1.0	0.9	-0.6

Note: * 2019. Source: Intesa Sanpaolo calculations using the Oxford Economics model

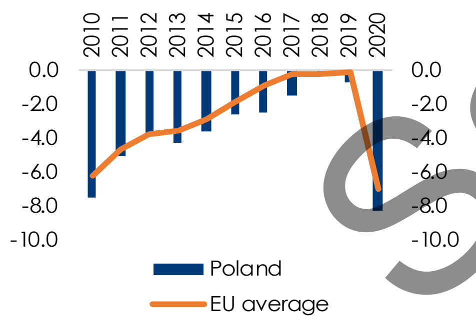
Economic governance

Last year, the tax measures that were taken to specifically counter the financial effects of the pandemic (higher expenditure and sacrificing of tax revenues) were about 7.7% of GDP (according to IMF estimates), one of the highest in the EU, where the average percentage was approximately 6.0%. These measures were supplemented by public guarantees supporting loans to private individuals totalling 5.4% of GDP. The absence of public accounts imbalances enabled the Polish government to implement these changes. The **public deficit** was lower than 3.0% of GDP from 2015 to 2019 and is gradually declining. This brought the **public debt** to GDP ratio to 45.7% in 2019 and kept it below the EU average (63.4%). While there was a rebound in the budget deficit (8.2% of GDP) with an increase in debt to 57.7% last year, debt continued to remain below the EU average (75%).

The **main economic measures** adopted last year to combat the pandemic are still in force. They include subsidies to workers whose working hours and social contributions were partially or totally suspended, increases in unemployment benefits and the Polish Development Fund (PFR) to support business liquidity. The Government expects a public deficit of 3.3% of GDP for this year. According to IMF forecasts, public debt is expected to rise to 58.1%.

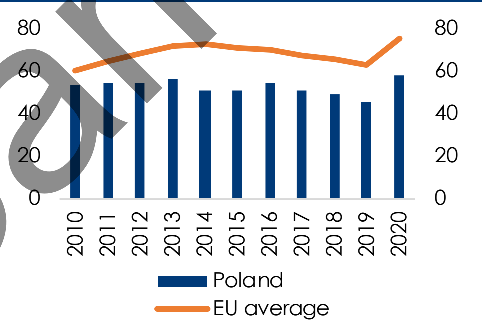
On 3 May, the European Commission received the **Recovery and Resilience Plan** from Poland, applying for a total of EUR 23.9Bn in subsidies and EUR 12.1Bn in loans. The Polish plan is structured around five pillars to boost the resilience of the economy: the business environment, innovation and labour market, green energy, digital transformation and sustainable transport. In particular, the Warsaw investment and reforms programme includes measures to improve the quality of the air, energy efficiency of buildings, develop renewable energy, zero-emission transport and broadband access. If the European Commission accepts Poland's plan, it will disburse the Next Generation EU funds by the summer.

Public deficit (% of GDP)



Source: Eurostat, Ministry of Finance

Public debt (% of GDP)

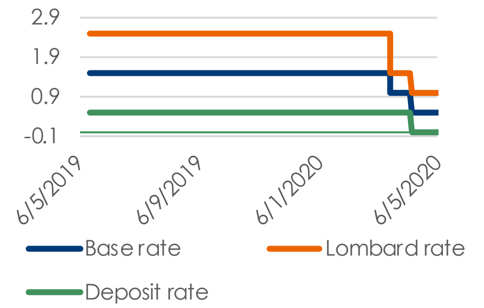


Source: Eurostat, Ministry of Finance

Last year, significant support to the economy was provided not only by tax measures, but also by the expansive **monetary policy** implemented by the Polish Central Bank (NBP) to promote liquidity in the economic system and to keep funding costs low. In 2020, the policy rate was reduced by 140bps from 1.5% to 0.1% with three distinct measures (50bps were cut in March, another 50bps in April and 40bps in May) and the compulsory reserve requirement for commercial banks was reduced to 0.5% from 3.5%. At the last Board meeting the policy rate was left at 0.1%, however the sustained inflation trend led to a shift in the Central Bank's mood towards a more restrictive, albeit cautious, monetary policy stance, and the policy rate could be increased by the end of the year (to 0.25% according to our forecasts) to maintain inflation expectations within the expected range. At its last meeting, the Monetary Authority also reiterated the importance of the "quantitative easing" policy instrument. The NBP will continue to purchase government bonds on the secondary market to strengthen the monetary policy transmission mechanism, contain medium and long-term yields and guarantee liquidity on secondary markets.

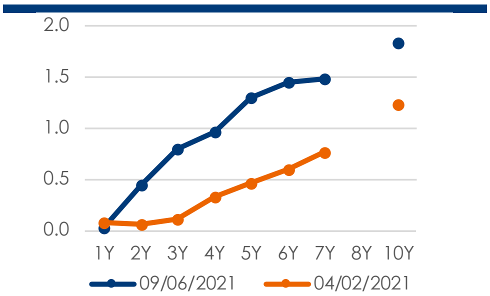
Short-term interest rates are still at an all-time low (0.2%) due to the continuing expansive monetary conditions. Regarding longer term maturities, following the increase in the Bund yield, and with an increase in the spread of approximately 30 bps, the ten-year yield rose to 1.8% from 1.2% since the beginning of this year.

Policy rates



Source: Central Bank of Poland

Yield curve



Source: Intesa Sanpaolo calculations based on Refinitiv-Datastream figures

Foreign accounts

In 2019, the **current account balance** moved into positive territory to 0.5% of GDP, compared to an average of -0.8% in the previous two years. This was due to the improved **balance of trade** (to 4.7% of GDP from 3.4%) and the lower **income account** deficit as a percentage of GDP (-3.8% from -4.1%).

The improvement in current accounts continued last year as well. In 2020, exports plunged (1.3% yoy, from 8.4% yoy in the previous year), however net nominal exports rose to 6.8% of GDP because of the decline in imports (-2.8% yoy). The improvement in the trade balance and the approximately 22% reduction in the income account deficit, reflecting the lower profits of foreign companies in Poland, strengthened the current account surplus which rose to 3.6% of GDP.

For the current year, the current account balance is expected to remain positive, albeit at the lower level of 1.7% of GDP, according to IMF forecasts. A 14% rebound in exports is expected because of a favourable base effect and due to the expected increase in foreign demand, which will be fuelled by the expected economic recovery of Poland's main trading partners, such as Germany. Germany imports more than 25% of Polish exports, and the EC forecasts growth of 3.4% for Germany this year. Imports are also expected to grow strongly in 2021 (around 15%) due to strengthening consumption and investments expected in Poland.

Balance of payments

Euro mln	2018	2019	2020	Jan-Feb. 2021
Current Account	**-6,518**	**2,611**	**18,538**	**4,960**
goods	-6,219	1,204	12,392	1,862
services	21,259	23,647	23,518	4,808
income	-21,558	-22,240	-17,372	-1,710
Capital Acc.	**10,423**	**10,544**	**12,619**	**1,801**
Financial Acc.	**1,173**	**7,852**	**22,416**	**5,279**
IDE	-12,854	-8,538	-7,387	-3,038
Portfolio net	3,731	10,964	7,128	2,486
Other Inv.	5,142	-2,820	7,713	-3,243
Derivatives	-1,074	-964	-953	-231
Reserves	6,228	9,210	15,915	9,305
stat. Discr.	-2,732	-5,303	-8,741	-1,482

Source: Central Bank; BPM6 accounting system

Foreign financial position December 2020

Euro mln	Assets	Liabilities
Reserve	125,622	
FDI	62,662	243,568
Portfolio	29,620	121,173
Derivatives	6,447	5,920
Other Investments	55,011	131,363
Total	279,362	502,024
Net Financial Position	-222,662	
Gross Debt	302,987	
Reserve cover ratio	1.9	

Source: Central Bank

Last year, financial resources flowed from abroad through the **capital account**, whose net balance remained positive. Conversely, the **financial account**, moved into negative territory as the account deficit for portfolio investments and other investments exceeded the net inflow of foreign direct investments. Overall, the balance of payments had a surplus of almost EUR 16Bn.

Foreign debt, which was down to 59.4% of GDP in 2019 from 61.7% in 2018, fell further in 2020 to 57.9% of GDP (approximately EUR 303Bn). Last year, public foreign debt, equal to 35.9% of the total, fell by 5.6%, as private debt fell by 3.1%. The drop in private sector debt, which contributes 2.6pp, reflects private sector debt minus monetary/financial institutions, while the latter contributed 0.3pp, the remainder (0.2pp) being attributable to the drop in intercompany loans. For the current year, the IMF expects the foreign debt to fall only slightly in terms of GDP, to about 57.5%.

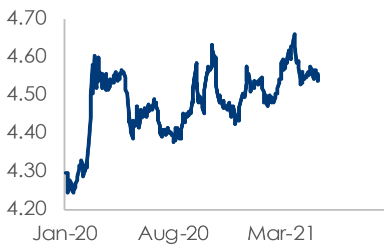
Though negative, the **net international investment position** (NIIP) improved last year to almost EUR 223Bn (from 266Bn in December 2019), i.e. 44% of GDP. The NIIP is expected to improve slightly for the current year (to approximately 40% of GDP according to IMF forecasts). Although the NIIP is expected to remain negative, improvements are foreseen in the coming years because of the Polish economy's good growth prospects. The IMF expects the current account balance to be negative at only 0.1% of GDP in 2025; in any case, although we prudentially assume that the current account deficit in the medium/long term will exceed the IMF forecast, (along the lines of 1.5% of GDP), the net international investment position, though still negative, would in any case improve significantly and stabilise below 25% of GDP[2]. Therefore, no critical issues have been identified in terms of the sustainability of foreign accounts.

In the short term, the **reserve cover ratio**, i.e. the ratio between currency reserves and the aggregate, equal to the sum of maturing debt and the current account deficit (which provides the country's short-term foreign funding requirements) is estimated to be higher than 1, which represents the alert threshold for the country's foreign liquidity (estimated at 1.8 in 2020 based on IMF data), while a move to 2 is expected in 2021 (forecast according to IMF data).

Since the beginning of the pandemic, the Polish **Zloty** has depreciated, from 4.34 Zloty against the Euro in February 2020 to the 4.52 currently, from last April's 4.67 peak. Despite the positive current account balance, uncertainty on the evolution of the pandemic and its economic implications affected the Polish exchange rate.

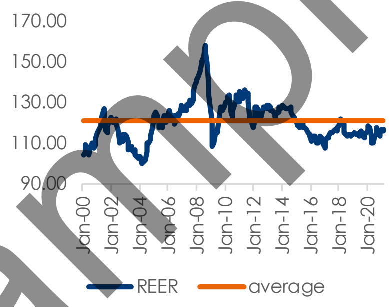
The **real effective exchange** rate (117.4) is currently below the long-term average[3] (121.1) and, regardless of the physiological volatility that may characterise the exchange rate profile, the nominal exchange rate is expected to appreciate in the medium term (to about 4.48 at the end of the period in 2022), thus helping the real exchange rate to move towards the average value.

Nominal exchange rate



Source: Refinitiv-Datastream

Real effective exchange rate (REER)



Source: Intesa Sanpaolo Research Department calculations, based on Refinitiv-Datastream figures

[2] This estimate is based on potential nominal GDP growth of 5.1%, calculated on the basis of potential real GDP growth estimated at 2.6% with inflation at 2.5% (central value of the target range of the Polish Central Bank).

[3] According to the unit root test, the time series of the real effective exchange rate is stationary at a significance level of 5.0% around the average.

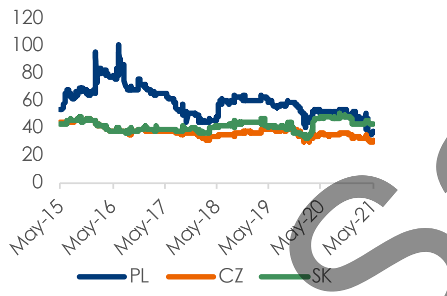
Outlook and risks

According to the World Bank's "**Doing Business"** index, which measures the degree to which the social and institutional economic context of a country promotes business, Poland holds the 40th position, in a ranking of 190 countries, and has a score of 76.4 on a scale of 0 (least business friendly) to 100 (most business friendly). Among the components of the general index, the efficiency of **foreign trade** stands out. Logistics with low management costs and quick times are particularly helpful to foreign trade, as is the streamlined bureaucracy. The score given to this sub-index is 100 and Poland enjoys the top position. On the contrary, the country has receded to the 128th position, the lowest score, on the **launch of a new business** category due to the bureaucratic requirements involved.

With regard to **foreign accounts, foreign** debt, which is lower than 60% of GDP, and the declining net international financial position, though negative (equal to 44% of GDP), do not weaken the foreign accounts because Poland's current account balance is expected to remain positive in the coming years and only moderately negative in the medium/long term. At well above one, the reserve cover ratio is far from the critical alert threshold for the availability of liquidity in foreign currency.

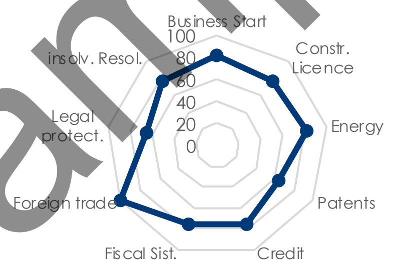
The public deficit was down in the years prior to the pandemic, allowing for a consolidation of **public finances** and public debt compared to GDP, although it rose last year due to the exceptional budget deficit, which nevertheless remained below the EU average. At 42bps**CDS** are currently at the lowest levels in recent years and only slightly higher than those of the Czech Republic (31bps), which Moody's rates higher than Poland (Aa3 against A2), but fare slightly better than Slovakia (43bps) although these two countries have the same ratings.

CDS 5Y Poland vs. other CEE countries



Source: Refinitiv-Datastream

Doing Business Index



Note: score between 0 (least business friendly) and 100 (most business friendly). Source: World Bank

Table of macroeconomic data

Economy	2015-16	2017	2018	2019	2020	2021	2022
Population (mln)	38.49	38.49	38.49	38.5	38.51	38.57	38.64
GDP per head (Euro)	11092	12130	12950	13832	13547	14262	15496
Real GDP (% ch.)^	3.4	4.8	5.1	4.1	-2.7	4.4	4.8
Inflation (average %)^	-0.7	2	1.7	3.4	3.4	3.5	3
Nominal wage (% ch.)	3.5	5.6	7.1	6.6	4.8	3.9	2.8
Public Balance/GDP (%)	-2.5	-1.5	-0.2	-0.7	-8.2	-3.3	-2.1
Public debt/GDP (%)	52.8	50.6	48.8	45.7	57.7	58.1	56.3
Money Market rate (average %)^	1.7	1.5	1.7	1.7	0.6	0.1	0.3
Local Currency/Euro (eop) ^	4.36	4.20	4.29	4.27	4.48	4.55	4.48
External Vulnerability	**2015-16**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**
CC Balance/GDP (%)	-0.9	-0.3	-1.3	0.5	3.6	1.7	0.6
External Debt/GDP (%)	71.1	67.7	61.7	59.4	57.9	57.5	56.0
Debt Service/Export (%)	31.7	25.9	25.6	25.3	24.6	22.5	21.2
Short Term external Debt/Total External Debt (%)	14.0	14.0	14.1	15.9	13.9	15.1	16.1
Short Term External Debt/Reserves	43.7	47.0	45.4	48.0	35.6	39.4	39.6
Reserves (import months)	5.6	5.1	4.6	5.1	6.4	5.4	5.4

Source: Oxford Economics database, IMF, EC, IIF, EIU, Intesa Sanpaolo Research Department calculations with Oxford Economics model; ^ Intesa Sanpaolo Research Department forecasts

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