Economic Alert iQ

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Poland
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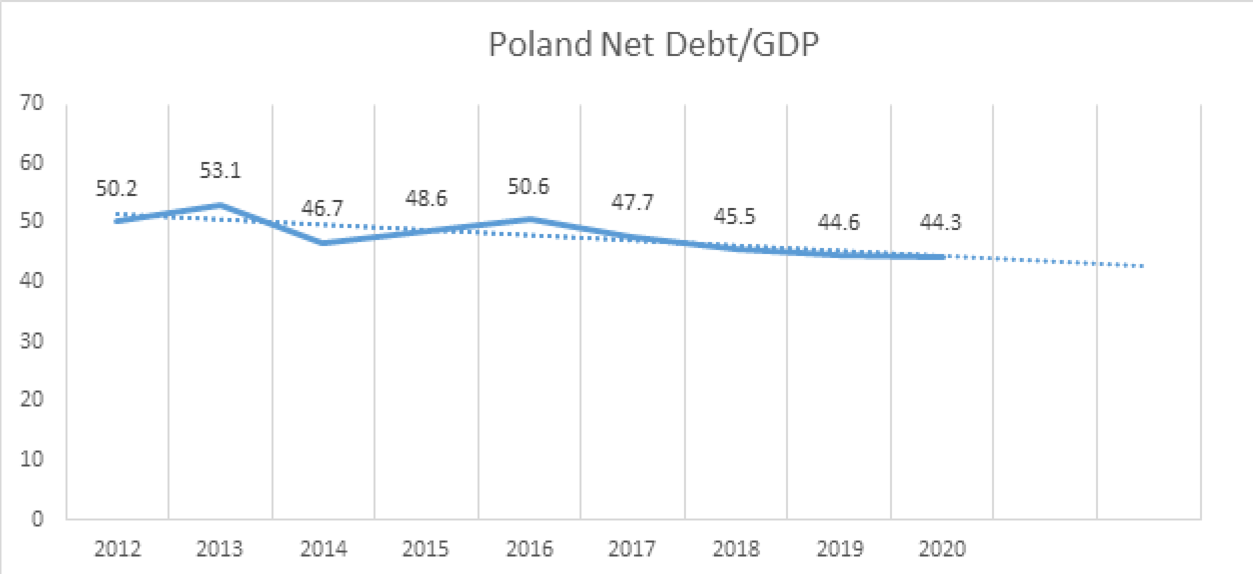
Poland's Sovereign Credit Rating Upgraded to A-

- On October 12th, 2018, S&P Global Ratings raised its long-term foreign currency sovereign credit rating from BBB+ to A-. The long-term local currency sovereign credit rating was also upgraded, from A- to A. the outlook on the ratings is stable.
- In 2018 real GDP was projected at 4.8% owing to Poland's strong export sector which contributed 55% of GDP for the year along with the strength of the services sector.
- Poland's strong economic growth is expected to persist well into 2020 as transfers from the European Union Structural and Cohesion Fund will amount to a capital inflow of 2.1% of GDP annually over the 2018-2020 period. In light of this, real GDP growth is projected to decelerate to 3.4% in 2019 and further to 3.0% in 2020.
- Net debt to GDP has been on a decline throughout the years since 2016 owing to robust economic growth and fiscal prudence. The general government deficit is expected to be less than 1% of GDP in 2018 due to improvements in the value-added tax system and sound management of expenditure growth.

Figure 1.



Source: S&P Global Ratings, FCIS Research & Analytics

- Increases in revenue earned by the government along with the positive impact of fiscal prudence which lowered expenditures moved the primary balance to a surplus in 2018 of 0.9% of GDP from a deficit of 0.1% of GDP in 2017.
- As the unemployment rate declined to 4.3% in 2018 inflationary pressures on wages stepped in boosting average nominal wages by 6.8% for the year. Unemployment is expected to remain low as data suggested companies did not substitute labour with capital in the midst of rising labour wages.

- The projected inflation rate of 2.1% remained low due to weak import prices. Headline inflation is expected to pick up next year owing to higher oil prices and the government’s planned increase of the minimum wage by 7.1%.
- The financial sector is profitable and capitalised with a large deposit funding of 88%, but profits may decline due to the banking sector tax of 0.44% on assets.
- In Q2 2018 fixed investment growth slowed to 4.5% year on year from 8.1% in the first quarter. The slowdown in investment was due to lower capital expenditure by small companies as expenditure by larger companies and the public sector remained high.
- In the coming years Poland’s usable reserves in USD will decline as domestic demand for imports increase as wage levels rise. The country’s floating exchange rate is currently at 3.8 zloty (Poland’s dollar) to 1 USD and is expected to remain stable, depreciating modestly to 4.0 zloty to 1 USD in 2020.

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