Economic Alert iQ

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Economic Alert: Poland long and short-term foreign currency sovereign credit ratings affirmed at BBB+/A-2 by S&P with a stable outlook.

- S&P Global Ratings affirmed its 'BBB+/A-2' long- and short-term foreign currency sovereign credit ratings on Poland. The outlook is stable.
- The affirmation reflects S&P view of Poland's economic resilience. Poland has a strong external balance sheet, a nearly balanced current account deficit, and competitive wage levels, as well as high-quality human capital. Until recently, labor productivity growth has been among the highest in the EU.
- According to S&P GDP growth will average 3.6% over the next four years, as structural funds, strong external demand, and fiscal stimulus all hit the economy at the same time. For 2017, S&P forecast that GDP growth will accelerate to over 4%, compared with 2.7% in 2016.
- During the first half of 2017, GDP growth was primarily consumption driven as private investment growth was largely absent. According to Eurostat data, net exports subtracted 1.5 percentage points from second-quarter year-on-year GDP of 4.4%, and S&P expects them to continue to subtract from GDP over the medium term. Over the longer term, as the working age population continues to age and shrink, and EU transfers end, S&P estimate potential GDP growth of about 1.5%-2.0%.
- During 2016, Poland was one of the few European countries to operate both a services and a trade surplus, though S&P expect the trade to shift into deficit this year. The services surplus now measures 3.2% of GDP, having doubled in the past four years. Moreover, while exports of goods and services have increased by $20 billion (4% of GDP) since 2011, income payments have been flat, suggesting that more of the surplus is accruing to domestic residents than in the past.
- Poland's fiscal performance has benefited from strong nominal GDP growth. The deficit in 2016 was smaller than S&P anticipated, at 2.4% of GDP, partly because the EU public investment funding cycle was slow to take off last year. Although headline general government deficits is expected to remain manageable, S&P would still characterize fiscal policy as procyclical, given that the government does not appear to have specific plans to increase public savings over the next three years, even as private savings seem set to gradually decline.

- The stable outlook over a two-year forecast horizon balances the risks arising from an overstimulated economy against Poland's solid fundamentals, which include its extensive monetary flexibility, productive human capital, a large and diversified economy, and, until recently, a strong track record of high labor productivity growth.

Selected Indicators	2013	2014	2015	2016	2017f	2018f	2019f	2020f
Real GDP growth (%)	1.4	3.3	3.8	2.7	4.2	3.8	3.5	3.0
Real Export Growth (%)	6.1	6.7	7.7	9.0	7.5	6.0	6.0	6.0
Unemployment Rate (%)	10.3	9.0	7.5	6.2	4.9	4.3	4.3	4.3
General government balance/GDP (%)	(4.1)	(3.5)	(2.6)	(2.4)	(2.6)	(2.8)	(2.5)	(2.5)
General government debt/GDP (%)	55.7	50.2	51.1	54.4	53.9	53.7	53.2	53.1
Net general government debt/GDP (%)	53.1	46.7	48.6	50.8	50.6	50.5	50.3	50.3
General government interest /revenues (%)	6.5	5.0	4.5	4.4	5.0	5.1	5.2	5.4
CPI growth (%)	0.8	0.1	(0.7)	(0.2)	1.8	2.5	3.5	3.0
Current account balance/GDP (%)	(1.3)	(2.1)	(0.6)	(0.2)	(1.2)	(2.3)	(3.8)	(3.8)
Current account balance/CARs (%)	(2.5)	(4.0)	(1.1)	(0.4)	(2.1)	(3.9)	(6.3)	(6.1)

Source: Standard & Poor's

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