MINISTRY OF ECONOMY

A STUDY OF POLAND'S ECONOMIC PERFORMANCE IN THE PERIOD OF I-IX 2009

ANALYSES
AND FORECASTING
DEPARTMENT

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Contents

Synthesis

- **The year 2008 was a period of gradual economic slowdown in Poland. However there is still relatively high economic growth, and consequences of the world crisis on the financial market had limited scope.** The sources of economic growth (recovery of investment demand, stable and high growth of consumption and fast growing exports) allowed to achieve one of the better result in EU. On the other hand it should be underlined that in the last months of the year tendency debilitated.

- In the period of January-September 2009 GDP growth highly slowed. **According to provisional CSO estimates GDP growth in the 1st quarter of 2009 reached 0.8%, however in the second one increased by 1.1%.** DAF MoE estimates GDP growth by 1.7% in the 3rd quarter. The vital role in the process of GDP creation was played by the external demand, while internal demand lost its positive impact. It should be mentioned, that despite a slowdown, Polish economy indicators achieved the highest values among EU countries.

- In the period of January-September 2009 **sold production of industry** went down by 6.0% in entities with more than 9 employees. Depreciating trend of dynamics, which has started in 4th quarter, was still upward. It resulted from a weaker financing position of Polish enterprises and lower demand.

- In the first three quarters of 2009 **production in construction** increased by 4.7% (in entities with more than 9 employees). Limited increase resulted mainly from a decrease in construction of buildings (particularly when the previous year's results are taken into account). It was caused by a limited availability of credits and a weaker financing position of the economic entities. Nevertheless when infrastructural investments financing by EU funds are considered, dynamics growth in civil engineering was observed.

- In the comparison to the previous year **domestic trade results** deteriorated. However when entities with more than 9 employees are concerned, increase in volume of retail sales by 1.9% was observed. It resulted from internal demand decline which was caused by a slowdown of salaries pace in real terms.

- According to preliminary CSO data in the period of January-September 2009 the volume of the exports – counted in current prices – amounted to EUR 70.0bn and was by 21.6% lower than year ago. The volume of imports stood at EUR 76.4bn and was by 29.5% lower than in the previous year. **The negative balance of foreign trade turnover reached a level of EUR 6.4bn** which was a lower value by EUR 10.7bn than in the same period of 2008. Reduction of foreign trade deficit was a consequence of a relative good position of domestic exporters as a result of Polish currency depreciation.

- According to provisional NBP data, in the period of January-September 2009 **improvement of the current account balance** was observed, comparing to the previous year. The surplus resulted from a lower negative balance on goods. Simultaneously FDI inflow was lower than a year ago.

- In the period of January-June 2009 the annual average **consumer price index (CPI)** stood at lower level than in 2008 and amounted to 3.5%. The producer price index exceeded previous year's level by 3.8%, and construction prices increased by 0.5%.

- The first symptoms of **labour market** prosperity deterioration appeared in the last quarter of previous year. In the period of January-September 2009 the average employment in the enterprise sector was by 0.9% lower than a year before. At the end of September 2009 the number of registered unemployed was higher comparing to September 2008 by 24.6%, and the registered unemployment rate raised to 10.9% (against 9.5% in December 2008).

- In the period of January-September 2009, in real terms salaries in enterprise sector, retirement payments and pensions form non-agriculture security system increased, likewise purchasing power of retirement pays and pensions of individual farmers comparing to corresponding period of 2008.

- In the first nine months of 2009 the nominal budget deficit was definitely higher than in the previous year and amount to PLN 21.5bn. The budget revenues stood at PLN 202.4bn, when expenditures amounted by PLN 223.9bn. Comparing to 2008 incomes decreased by 1.0pp (74.2%) and expenditures execution was higher by 11.0pp (74.6%). Concerning revenues, it was caused by receipts from indirect taxes, however concerning expenditures general subsidies to local self-government entities were crucial factor.

- In the period of January-September 2009, the Monetary Policy Council changed **interest rates** four times. MPC cut rates by 0.75pp in January and in February, March and June by 0.25pp, each time.

- As regards the **foreign exchange market**, in the period of January-September 2009 depreciation of Polish zloty took place. It was caused by a negative influence of volatility in global economy and of foreign investors withdrawal.

Significant slowdown of economic growth…

In accordance to CSO in 2008 the rate of GDP was lower than a year before. A weakening of an economic growth was a result of situation on the global financial market, however strong foundation of Polish economy contributed to the GDP growth by 5.0%. It was one of the highest results in EU.

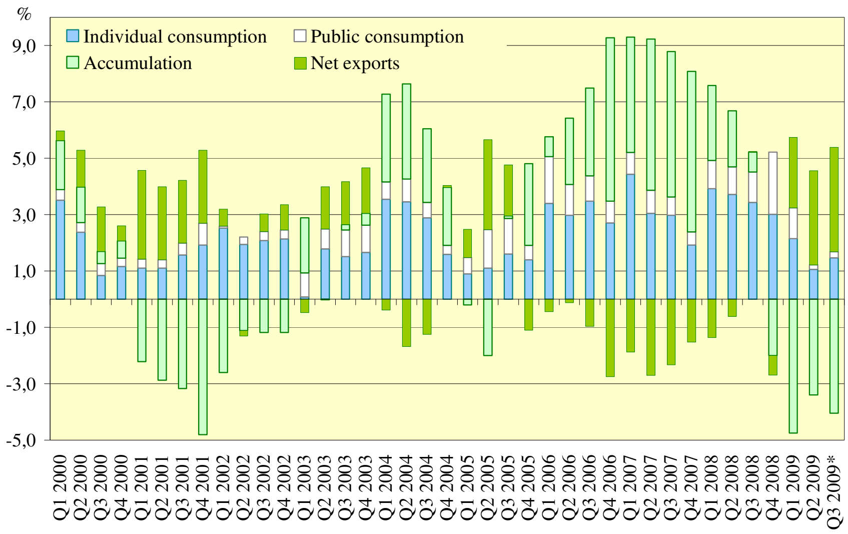
Table 1. GDP growth rate in 2006-2009

	2006				2007				2008				2009		
YoY	6.2				6.8				5.0						
	I-III	IV-VI	VII-IX	X-XII	I-III	IV-VI	VII-IX	X-XII	I-III	IV-VI	VII-IX	X-XII	I-III	IV-IV	VII-IX
YoY	5.4	6.3	6.6	6.6	7.5	6.6	6.6	6.6	6.2	6.0	5.1	3.0	0.8*	1.1*	1.7**

**CSO estimate*
*** DAF MoE estimate*

Source: CSO

Chart 1. Changes in GDP and its major items in the years 2000 – 2009 (corresponding period of the previous year = 100)



** DAF MoE estimate*
Source: DAF MoE calculations based on the CSO data

In the period of three quarters of 2009, according to DAF MoE estimates, GDP increased by 1.2% comparing to the same period of previous year. The performance confirms resistance of Polish economy to the world crisis. Poland's economy is one and only in Europe who recorded positive GDP growth.

In the period of January-September 2009 dynamics of individual consumption increased. However domestic demand has ceased to be the main factor of economic growth, as a consequence of stocks adjustment to limitation of activity level of economy. Similarly to the crisis of the years 2000 and 2001, the contribution of domestic demand was negative. The engine of the Polish economy was external demand, which has positively contributed to GDP.

Lower dynamics of individual consumption was a result of decreasing purchasing power of households and worst financial condition of enterprises, as well as limited access to credits. An additional source domestic demand decline was a weaker optimism in consumer sentiments.

A gross fixed capital formation after an increase in the 1st q., decreased in the next one. In the third quarter the drop was estimated. A waning financial situation of enterprises resulted in a slowdown in investments. Negative impact had tightening of credit policy (however situation seems to stabilize), and deterioration of economic situation of main Polish trade partners. On the other hand, positive prospects for EU funds utilization, as well as high level of production capacity, allow to increase in the category.

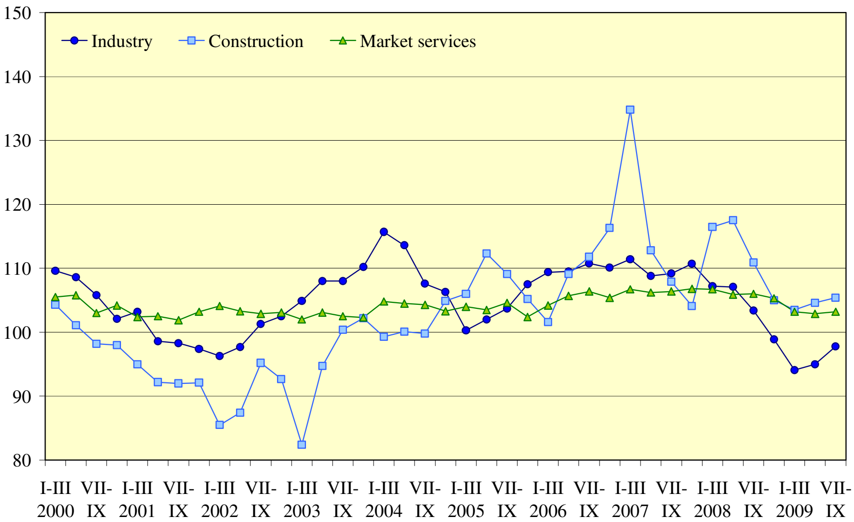
Table 2. Gross value added growth by sections in the years 2001-2009

	2001	2002	2003	2004	2005	2006	2007	2008	I-IX 2009*
Industry	99.2	99.5	107.8	110.5	103.5	110.0	110.1	106.6	97.5
Construction	92.5	91.0	97.1	101.8	107.8	111.6	110.8	109.1	106.5
Market services	102.5	103.3	102.5	104.2	103.6	105.5	106.5	105.3	103.1

**DAF MoE estimates*
Source: CSO

The increase of gross value added was underpinned mainly by a stable growth in market services, which accounted for above 50% of gross value added in the economy. The value added in industry dropped comparing to the previous year, what was connected with decrease in sold industrial production (6.0% yoy). In this period value added in construction increased, but in a lower extent. The scale of growth was a result of minor increase in construction and assembly production (4.7% yoy). Worse indicators in both construction and industry resulted in an outcome of a whole economy.

Chart 2. Gross value added growth by economy sectors in the years 2000 – 2009 (corresponding period of the previous year=100)



Source: CSO

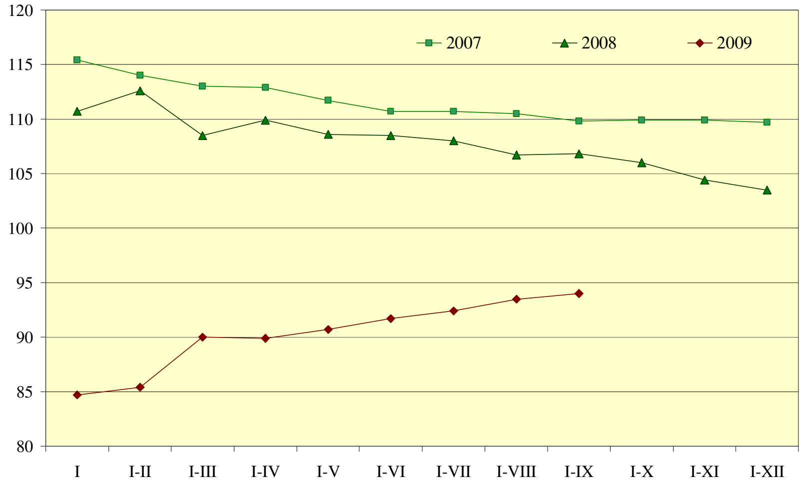
In 2009 the GDP growth is assumed to ca. 1.5% and will be affected by external situation, chiefly situation on the credit market and a success of world anti-crisis measures. The increase in gross fixed capital formation will be similar to the previous year's. Individual consumption should be higher, however its dynamics will be lower than in the previous year.

Industry - Negative trends slowdown…

In the year 2008 industrial output for complete statistical population increased by ca. 3.3%, and in entities employing more than 9 persons, increased by 2.5% compared to 2007. The rate of increase had been the slowest since 2002.

In the period of January-September 2009, comparing to the same period of the previous year, 6.0% drop of sold production of industry was recorded. It is worth underlining that in the third quarter a drop was lower than in the previous one (1.3% against 6.7%). It may indicates a gradual slowdown of a negative trend of industry production dynamics, which has been initiated in fourth quarter of 2008.

Chart 3. Changes in the sold production of industry in the years 2007-2009 (corresponding period of the previous year=100)



Source: Statistical Bulletins, CSO, 2007-2009

Among main manufacturing groups, growth in enterprises producing mainly consumer durables goods and non-durables goods was recorded (respectively by 6.8% and 3.8% yoy). Decrease in production was recorded in other groups of enterprises, especially these specialized in capital goods manufacturing (by 11.7% yoy).

In the period of January-September 2009, 22 from 34[1] industrial divisions recorded deterioration in the level of production comparing to the similar period of 2008, and stood for 66.6% of a total production. Considerable slowdown was observed in manufacture of metal products (by 31.7% yoy) and mining of coal and lignite (by 19.0%). Increase was recorded in manufacture of computer, electronic and optical products (by 13.8%), manufacture of pharmaceutical products (by 11.0%) and manufacture of beverages (by 8.6%).

In the analyzed period labour productivity in industry, measured by production per 1 employee, was lower (0.8%) than a year before, with 5.2% smaller average employment and increase in monthly gross wages (4.7%).

In 2009 a decrease in sold production of industry is expected by ca. 3.5%.

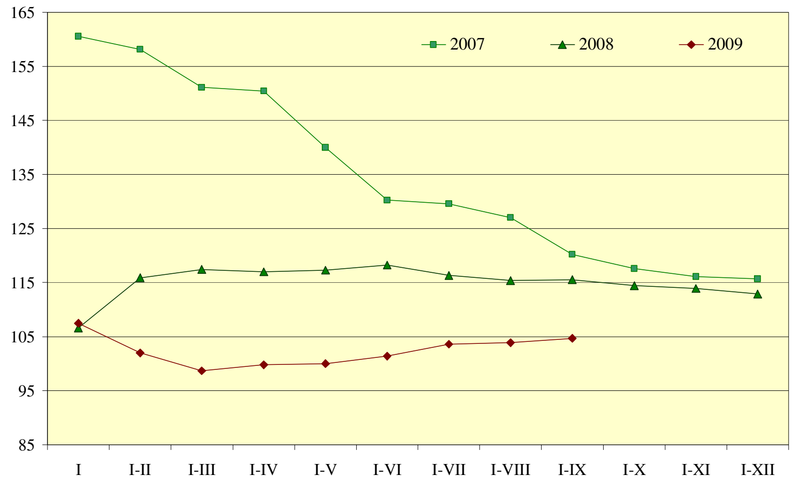
[1] according to a new classification of activities (*PKD 2007*)

Construction…

In 2008 persistent investment recovery was accompanied by high increase in production of construction. **A scale of growth in construction and assembly production in companies with more than 9 employees amounted to 10.9%.**

In the period of January-September current year construction and assembly production in entities with more than 9 employees increased by 4.7% comparing to analogical period of 2008. Taking into consideration high statistical base for analyzed period, as well as current economic conditions with a global financial crisis in the background, that result should be deemed satisfactory.

Chart 4. Construction and assembly production indices in the years 2007-2009 (corresponding period of the previous year=100)



Source: Statistical Bulletins, CSO, 2007-2009

A significant increase of construction and assembly production, considering the type of construction works, was recorded in the entities specialized with civil engineering (by 19.3% yoy). On the other hand entities dealing with specialised construction activities and with building construction decreased production (respectively by 1.9% and 1.3% yoy).

In the period of January-September 2009 114.7 thousand dwellings were completed, which was by 6.7% more than in the previous year[2]. Regards to dwellings for sale or rent amount of dwellings completed was higher than a year ago (by 18.5%), whereas in private construction it was by 1.8% yoy lower.

Negative, for overall condition of construction sector, are data concerning a number of granted permits for dwellings (drop by 23.2% yoy) and dwellings being constructed (drop by 23.8% yoy) in analyzed period. It is estimated that due to - characteristic for a real estate market - producer's delayed reaction to inhibitory demand, these adverse trends will have a negative impact for a real economy in a long term. Along with the expected gradual improvement of sentiments on the market, lower current supply could affect on a real estates prices increase in a future.

[2] Provisional CSO data.

Agriculture…

In 2008 crop output increased by 6.8% on the other hand animal output dropped by 1.5%. As a consequence, the gross agricultural output surged by 3.1%.

In the period from July 2009 to September 2009 as a result of increase of wheat purchase by 6.3% and rye purchase by 3.6%, the purchase of cereals with corn mixture without sowing grain surged by 9.4% comparing with analogous period of the previous season.

Table 3. Gross agricultural production in the years 2000-2008 (constant prices)

	2002	2003	2004	2005	2006	2007	2008
Gross output	98.1	99.2	107.5	95.7	98.8	106.1	103.1
Crop output	93.3	94.3	116.7	88.1	94.8	109.5	106.8
Animal output	103.4	104.8	97.3	105.2	102.6	102.6	98.5

Source: CSO

In September 2009 the grain purchase surged by 21.5% comparing with September 2008. In the same time the purchase of wheat rose by 17.7% and the purchase of rye increased as well, by 20.0% (yoy). High supply level for agricultural products resulted in decrease of their purchase price accordingly by 10.6% and 33.4% also on the markets by 27.3% and 32.9% (yoy). Average potato prices on the markets decreased by 14.3% in September 2009.

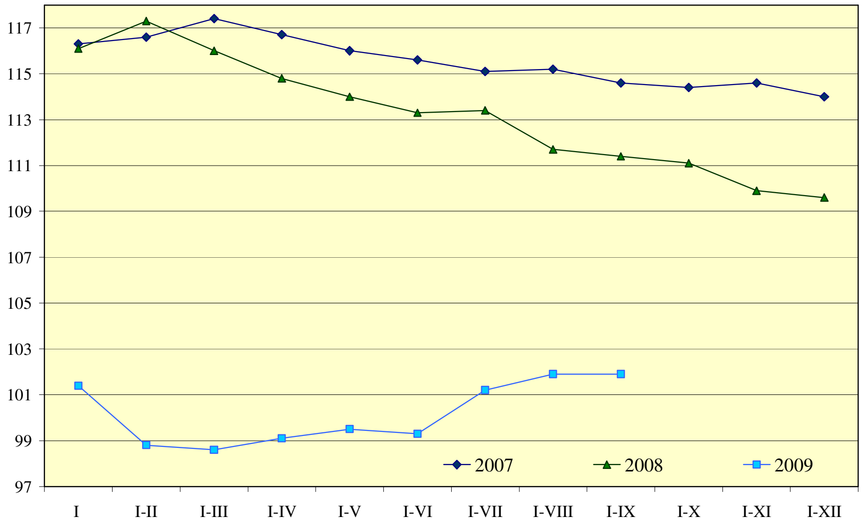
On the market of slaughter animals from January to September 2009 the purchases dropped by 6.3% comparing to the same period of 2008. This situation was caused by decrease of hog animals purchases (drop by 15.1%). Referring to lower animal output and coming holiday season significant price increase of slaughter animal was recorded. In the first three quarters of this year average hog animals purchase prices surged by 22.4% and on the markets by 16.1%, the prices of ox animals raised accordingly by 12.7% and 8.2% and the purchase prices of poultry animals by 6.4%. Milk supply in analyzing period surged by 4.1% and purchase prices diminished by 18.3% (yoy).

Decrease in dynamics of domestic trade turnover…

In 2008 volume of retail sales for complete statistical population exceeded previous year's level by 5.3%. In enterprises with more than 9 employees the rise of 9.6% was recorded[3].

In the period of January-September 2009 retail sales in constant prices increased by 1.9%, though scale of the growth was significantly lower than a very high dynamics recorded in the same time of previous year (period I-IX of 2008 – 111.4).

Chart 5. Retail sales indices (corresponding period of the previous year = 100, constant prices)



Source: Statistical Bulletins, CSO, 2007-2009

Lower than a year before sales in the first three quarters of 2009 was recorder in the two groups with the biggest share in retail sales in general. Sale dynamics in the following groups: liquid and gas oil and motor vehicles, spare parts dropped significantly respectively by 8.8% and 7.9% (yoy). In other groups amount of sales rose and the biggest growths was recorded in: textiles, clothing and footwear (by 22.0%) and other retail sale in non-specialized stores (21.2%). Sales of food, beverages and tobacco products icreased by 2.5%.

In the period January-September of 2009 wholesale trading companies employing more than 9 persons was by 8.6% lower than a year before.[4] Very low level of alcoholic and non-alcoholic beverages wholesale was recorded in this period (drop by 29.5%).

[3] constant prices
[4] current prices

Inflation…

In 2008 the price index of consumer goods and services amounted to 4.2%. Higher prices of energy resources and food on the global market, as well as enlargement of domestic demand and wages pressure, resulted in prices growth.

In the period of January-September 2009 CPI index was still above the level of inflation target, at the same time did not exceed deviation level (**3.5% in comparison with the same period last year**).

In the analyzed period recorded price increase was caused by higher dynamics of food and beverages prices (by 4.3% yoy). Besides that house charges rose (by 7.8% yoy), including energy carriers (by 11.9% yoy) - among them the highest increase was recorded in liquid and solid fuels (by 18.6% yoy).

Despite domestic demand decline, lower wages pressure as an effect of increasing unemployment rate and weaken output dynamics, relatively high inflation level was noticed. It was especially caused by growth of administrative prices, prices of imported goods (zloty depreciation) – food including, and still pro inflationary affecting rise of alcoholic beverages and tobacco excise.

In the period of January-September 2009, the prices of sold production of industry were on average by 3.8% higher, in comparison with the same time in 2008. The acceleration of the dynamics was caused mainly by raw materials price increase. Growth of average wage prices has got a real impact too. The highest price growth was recorded in the section of manufacture of pharmaceutical products (by 11.8%) and water supply; sewerage, waste management and remediation activities section (by 8.0% yoy).

In the same period, prices in construction and assembly production rose by 0.5% in comparison with the previous year. Low price dynamics was caused by the drop of interest in the real estate market among individual client resulting in decreasing the level of construction production. This situation was also a result of financial crisis that limited access to mortgage credits in the country. It also has negative influence on shaping relation between demand and supply in this sector.

In 2009 inflation rate is shaped by global economic slowdown and relating deteriorations of labour market situation that influences on limiting the inflation pressure. On the other hand high CPI index resulted from depreciation of zloty and increase in food and service prices. In respect of all factors it is expected that price growth of goods and services in the end of the year will be close to a level of 3%.

Labour market – gradual deterioration…

Since fourth quarter of 2008 the situation on labour market has gradually deteriorated. It was caused by global economic slowdown and its negative influence on production dynamics, which in some way limits the demand for labour. Since 2003 we have observed improvement in labour index, current situation stopped this tendency.

Table 4. Primary LFS' score in 2008-2009

	2nd q of 2008	3rd q of 2008	4th q of 2008	1st q of 2009	2nd q of 2009
Economic activity rate (%)	53.9	54.6	54.7	54.5	54.7
Employment rate (%)	50.1	51.0	51.0	50.0	50.4
Unemployment rate (%)	7.1	6.6	6.7	8.3	7.9
Employed persons (thousand)	15,689	15,990	16,005	15,714	15,847
Unemployed persons (thousand)	1,196	1,132	1,154	1,414	1,355
Economically inactive persons (thousand)	14,445	14,231	14,224	14,275	14,253

Source: CSO

In the period January-September of 2009 an average employment in enterprises sector was lower than in the previous (0.9% yoy). This element along with worst macro data allows to expect, that in the consecutive months the trend will continue. Limitation of hard situation is possibly an effect of measures taken to mitigate results of crisis at the labour market.

Table 5. The average employment in enterprise sector (thous.)

	I-IX 2008	I-IX 2009	2009/2008
Total	5,379	5,330	99.1
Industry	2,598	2,463	94.8
Mining and quarrying	178	180	100.9
Manufacturing	2,174	2,034	93.6
Electricity, gas, steam and air conditioning supply	149	149	99.6
Water supply; sewerage, waste management and remediation activities	96	100	103.5
Construction	409	432	105.7
Trade; repair of motor vehicles	1,057	1,093	103.4
Transportation and storage	459	465	101.1
Accommodation and catering	97	103	106.4
Information and communication	157	159	101.7
Real estate activities	90	88	98.2
Professional, science and technical activities[a]	127	140	110.5
Administrative and support service activities	262	262	99.9

[a] Does not include divisions: Scientific Research and Development, Veterinary activities.

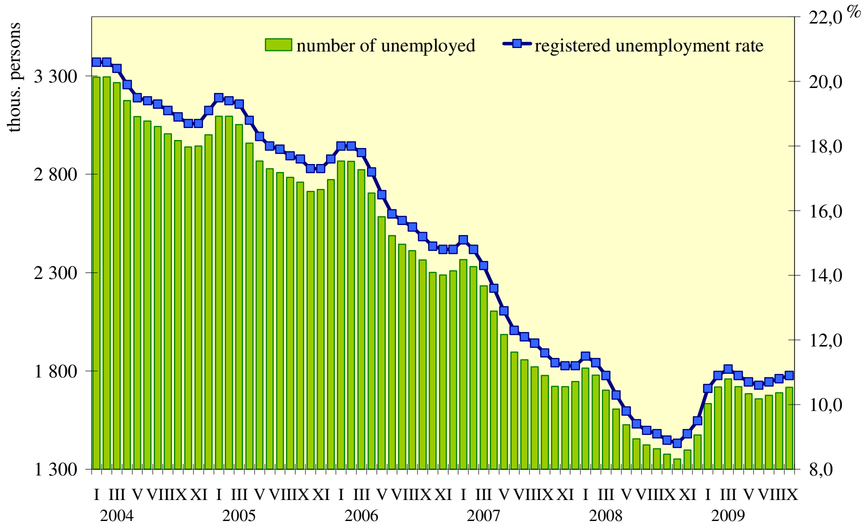
Source: Statistical Bulletin, CSO, 2008-2009

Among divisions of manufacturing the highest changes in dynamics of employment, in the first three quarters of 2009, were observed in divisions producing:

1.	pharmaceutical products	102.0
1.	textiles	83.8
2.	wearing apperal	85.2

In the period of January-September 2009, the number of registered unemployed and unemployment rate were volatile.

Chart 6. The number of the unemployed and registered unemployment rate



Source: CSO

At the end of September 2009 the **number of registered unemployed** shaped at the level of 1,715.9 persons, i.e. by 24.6% higher than in the same month of the previous year. The unemployment rate amounted to 10.9% and was higher by 2.0 percentage point then in September 2008.

Started in the last quarter of 2008 decline of labour demand and lack of significant change of this tendency in the summer (seasonal works) let us to assume that this trend has consolidated and could intensify. That is why, it is expected to increase an unemployment rate up to above 11% at the end of year.

Increase in wages, salaries and social benefits…

In the period of January-September 2009 the average gross salary in enterprise sector amounted to PLN 3,281 (growth by 4.6% towards corresponding period of the previous year).

Among divisions of manufacturing a drop in the average gross salary was recorded just in two of them. The highest changes in wages and salaries took place in manufacture of:

1.	pharmaceutical products	111,8
2.	tobacco products	108,0
3.	leather and related products	108,0
4.	printing and reproduction of recorded media	107,4
1.	coke and refined petroleum products	95,9

Table 6. Average gross wages and salaries in the enterprise sector

	I-IX 2008	I-IX 2009	2009/2008
Total	3,137	3,281	104.6
Industry	3,113	3,258	104.7
Mining and quarrying	5,038	5,301	105.2
Manufacturing	2,868	2,968	103.5
Electricity, gas, steam and air conditioning supply	4,447	4,802	108.0
Water supply; sewerage, waste management and remediation activities	3,008	3,189	106.0
Construction	3,305	3,418	103.4
Trade; repair of motor vehicles	2,924	3,038	103.9
Transportation and storage	3,058	3,187	104.2
Accommodation and catering	2,240	2,302	102.8
Information and communication	5,733	5,960	104.0
Real estate activities	3,229	3,366	104.2
Professional, science and technical activities[a]	5,056	5,425	107.3
Administrative and support service activities	1,889	2,035	107.7

[a] Does not include divisions: Scientific Research and Development, Veterinary activities.
Source: Statistical Bulletins, CSO, 2008-2009

The purchasing power of wages in the enterprise sector increased by 1.3% in the period January-September of 2009.

In the three first quarters of 2009 the social security benefits rose, too. The average monthly retirements payments and pensions from non-agricultural social security system amounted to PLN 1,534 which is 9.0% (in nominal terms) and 4.4% (in real terms) higher than a year before. The average retirement payments and pensions of individual farmers increased in analyzed period by 6.3% and reached a level of PLN 908 (growth by 1.8% yoy in real terms).

It is expected that in 2009, according to deterioration of labour market condition, the nominal growth of average wages will be slower. In a real terms, in the enterprise sector, among single divisions, it is also possible to appear a negative dynamics of salaries, which could be caused by a significant decline in demand on exports goods and raising unemployment rate which limits increase in wage pressure.

Public finances...

In the year 2008 budget revenues amounted to PLN 254.1bn and represents 90.1% planned in the Budgetary Law. It was lower than the previous year's level by 13.0pp. Expenditures shaped at a level of PLN 278.7bn and represents 90.2% planned in the Budgetary Law, which was 7.5 percentage points lower than in 2007. As a consequence a deficit amounted to PLN 24.6bn (in nominal terms) and was higher (comparing to PLN 16.9bn in 2007).

In the period of January-September 2009 budget revenues shaped at a level of PLN 202.4bn and exceeded the previous year's level by 5.2%. An expenditures amounted to PLN 223.9bn. Expenditures increase was significantly higher than revenues, and its growth amounted to 13.8% (yoy).

Table 4. State budget performance in I-IX 2009 (in bn PLN)

	Budgetary Law*	Performance	%
REVENUES	**272.9**	**202.4**	**74.2**
Taxes and non-taxes	231.1	175.3	75.9
Indirect	147.5	115.0	78.0
PIT	24.0	17.2	71.8
CIT	34.4	25.5	74.3
Incomes of state budget entities	21.6	14.3	66.2
UE and other funds without repayment	41.8	26.9	64.4
EXPENDITURE	**300.1**	**223.9**	**74.6**
Domestic debt servicing	24.5	16.4	67.2
Foreign debt servicing	6.2	6.0	97.2
Subs. to the Pension Fund	15.8	11.7	74.1
Subs. to Social Insurance Fund	30.4	28.0	92.1
General subs. to local self-government entities	45.3	37.0	81.7
BALANCE	**-27.2**	**-21.5**	**79.0**
DEFICIT FINANCING SOURCES	**27.2**	**21.5**	**79.0**
Domestic	**18.6**	**17.5**	**94.2**
Treasury bonds	6.2	10.0	162.0
Bonds	34.0	29.7	87.5
Proceeds from privatisation	12.0	3.8	31.3
Pre-financing actions with EU resources	-1.8	-1.7	202.3
Foreign	**8.6**	**4.0**	**46.1**

*According to amendment of Budgetary Law adopted by the Sejm on 17 July 2009

Source: Ministry of Finance

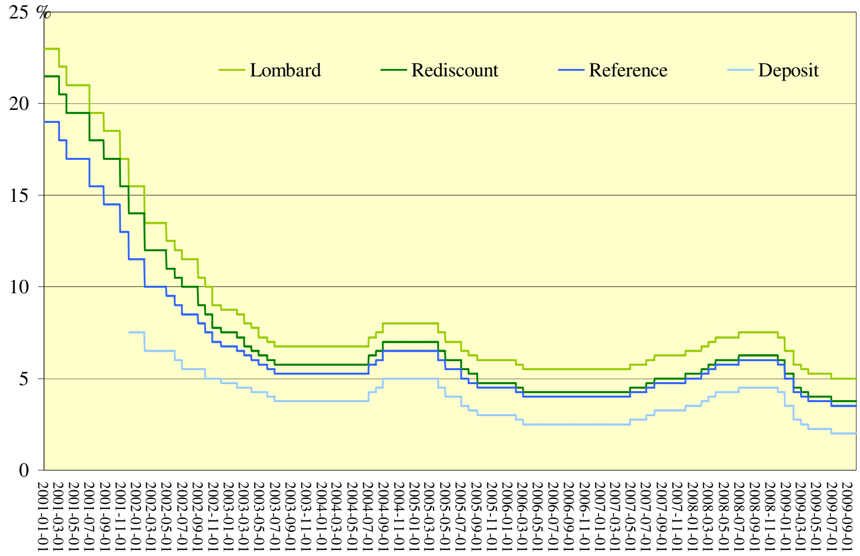
While income side is taken into account, the revenues from indirect taxes - accounted for 56.8% of the total amount of incomes executed in the period of January-September 2009 - were the main receipts items (in nominal terms drop by 1.4% yoy). Significant share in total amount of incomes has the inflow of UE and other sources non-refundable which amounted to PLN 26.9bn and was higher by 104% comparing to corresponding period of 2008.

As far as expenditures are concerned, an important role was played by general subsidies to local self-government entities, which increased by 10.4% comparing to corresponding period of 2008. The shares of expenditures of domestic debt servicing as well as foreign debt servicing amounted to 67.2% and 97.2% planned in the Budgetary Law respectively. Their share in the total expenditures represents 10.0%.

Monetary policy and exchange rate…

In 2008 interest rates were changed six times. They were raised fourth times by 0.25 percentage point each time. However at the end of the year they were cut by 1 pp in total. Thereby at the end of the year interest rates shaped at a level of: Reference – 5.00%, Lombard – 6.50%, Deposit – 3.50%, and Rediscount 5.25%. **In 2008 our currency strengthened against euro as well as against US dollar. An average annual exchange rate of euro** amounted to PLN 3.5166 and was lower by 7.0% comparing to 2007. **An average annual exchange rate of US dollar** amounted to PLN 2.4092 and was lower by 12.9% comparing to 2007.

Chart 7. NBP interest rates in the years 2001-2009



Source: NBP

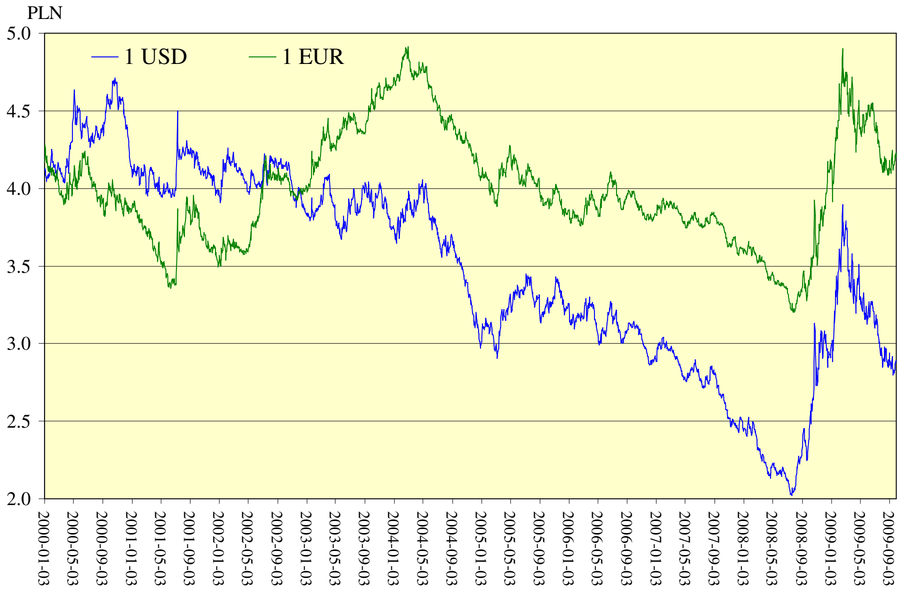
In the period of January-September 2009, the Monetary Policy Council continued alleviate monetary policy. The Monetary Policy Council lowered interest rates four times. In January, interest rates dropped by 0.75 percentage point and in February, March and June by 0.25 percentage point each time. **At the end of the 3rd quarter of 2009 the interest rates shaped at a level of: Reference – 3.5%, Lombard – 5.0%, Deposit – 2.0%, and Rediscount 3.75%.** However, it is crucial to note that instruments, characteristic for monetary expansion, were used mainly in the 1st and 2nd quarter of current year, so the climax period of a global economic crisis. In the 3rd quarter, along with emergence a positive symptoms in a real economy, MPC did not change the basic interest rates, deemed so far made changes as a sufficient, thus favorable to return for the Polish economy for the potential growth pace path.

Risk aversion, which characterised financial institutions in that time, was a main cause of limited credits activity of Polish banks. Comparing to the end of previous year value of credits rose in September overall by 6.0%. Debts growth of households in analyzed period amounted to 9.7%, non-monetary financial institutions to 1.0%, non-commercial institutions to 8.3% and local governments institutions to 12.3%. Regards to enterprises demand for credits decreased by 0.3%.

In the period of January-September 2009 an average quarterly euro exchange rate amounted to PLN 4.3777 and was higher by 27.6% annually. US dollar exchange rate amounted to PLN 3.2136 and increased by 42.6% annually. In September 2009 an average exchange rate of both currency reached a level of respectively 4.1635 EUR/PLN and 2.8595 USD/PLN.

Depreciation of the Polish currency - noticed in analyzed period twice, since the beginning of the year up to February and temporarily at the turn of May and June - against US dollar and euro was caused by withdrawal of foreign investors from domestic market and global downturn forecasts. In the 2nd and 3rd quarter of 2009 the situation has changed. Relatively good macroeconomic data, comparing to the rest of EU members, has affected on consolidation of Polish currency on the market and appreciation against euro and dollar. Moreover a limited risk aversion on a global financial market and positive growth forecasts caused increase of demand on Polish zloty, especially by foreign portfolio investors.

Chart 8. Zloty against the EUR and the US dollar (nominal exchange rates)



Source: NBP

Higher drop in exports than in imports...

According to the preliminary CSO data, in the period of January-September 2009 the value of exports denominated in EUR (in current prices) was lower by 21.6% compared to the similar period of 2008 and reached a level of EUR 70.0bn. It was caused by deepening recession in a euro zone countries which represents more than 50% of Polish exports recipients. The imports value decreased by 29.5% and amounted to EUR 76.4bn. It was an effect of low imports of indirect goods and previously noticed materials price fall. The negative balance of foreign trade reached a level of EUR 6.4bn, EUR 10.7bn less than in the same period of 2008. Reduction of foreign trade deficit was a consequence of relative good position of domestic exporters as a result of polish currency depreciation.

Table 8. Geographical structure of Polish foreign trade in the period I-IX 2009

	Exports		Imports	
	Share of total (%)	Change (pp)	Share of total (%)	Change (pp)
Developed countries	85.2	+2.3	68.8	-1.0
European Union	79.2	+1.4	61.4	-1.1
Developing countries	7.2	+0.5	21.1	+2.7
Central and East European countries	7.6	-2.8	10.1	-1.7

Source: CSO

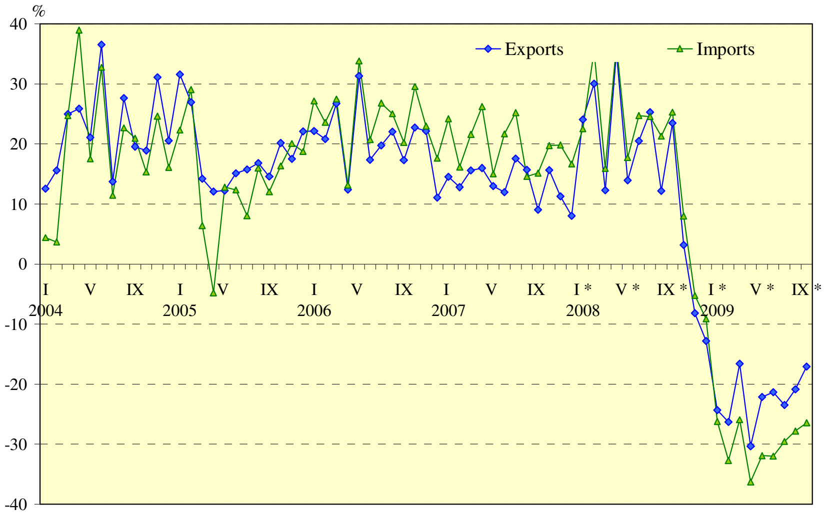
Poland's main trading partners in the period I-IX 2009 (comparing to the corresponding period of the year 2008):

Germany:
Exports (in €) decreased by 17.7%, and imports by 32.3%,
Share of total Poland's exports – 26,3% (+1.2 pp); imports – 22,5% (-1.0 pp).

Russia:
Exports (in €) decreased by 44.8%, and imports by 37.9%,
Share of total Poland's exports – 3.7% (-1.5 pp); imports – 8.6% (-1.2 pp).

China:
Share of total Poland's imports – 9.2 % (+1.6 pp).

Chart 9. Export revenues and import expenditure in EUR (rates of change, transaction approach)



** preliminary data*
Source: NBP

According to initial data from the National Bank of Poland, in the period of January-September 2009, the value of exports amounted to EUR 72.8bn and was by 22.5% lower comparing to the same period of the previous year. Imports expenditures reached a level of EUR 74.8bn and was by 30.0% lower than in the 2008. As a result, trade balance was negative at a level of EUR 2.0bn comparing to EUR 13.5bn deficit in the corresponding period of previous year.

In 2009 exports is expected to reach a level of EUR 98.6bn, so about 15.2% less than in 2008. Value of imports estimates to EUR 110.5bn, about 22.4% less than in previous year. The negative balance of a foreign trade turnover will reach a level of EUR 11.9bn, so about EUR 14bn less than in 2008.

Improvement in balance of payments …

Preliminary data for the first nine months of 2009 indicates improvement in the balance of payments in comparison to 2008.

In the analyzed period cumulative current account balance deficit amounted to level of EUR 1,5mln towards EUR -13.5bn in analogical period of the previous year. This result was an effect of lowering negative trade balance in goods (by above EUR 10.8bn).

In the period of January-September 2009 the inflow of foreign direct investments was lower by over 40% than in the previous year, and reached a level of EUR 4.8bn.

Table 5. Balance of payments in the years 2005-2009 (in million EUR)

	2005	2006	2007	2008*	I-IX 2009*
Current account	-3,005	-7,453	-14,721	-18,293	-1,457
Trade balance	-2,241	-5,541	-12,386	-17,726	-1,964
Export revenues	77,603	93,378	105,856	121,082	72,807
Import expenditure	79,844	98,919	118,242	138,808	74,771
Services' balance	592	572	3,432	3,465	2,817
Income balance	-5,383	-7,707	-11,969	-9,576	-6,801
Current transfers balance	4,027	5,223	6,202	5,544	4,491
Capital account	789	1,673	3,421	4,073	2,945
Financial account	12,192	9,216	28,214	26,915	17,817
Direct Polish external investment	-2,741	-7,096	-4,000	-2,039	-1,220
Direct foreign investment in Poland	8,329	15,707	17,222	10,025	4,832
Portfolio investment (assets)	-2,015	-3,690	-4,625	1,681	171
Portfolio investment (liabilities)	11,747	1,375	554	-3,585	7,950
Other investment (assets)	-2,172	-3,129	-1,250	4,232	2,333
Other investment (liabilities)	-1,101	7,944	21,769	17,158	4,714

**preliminary data*
Source: NBP

MINISTRY OF ECONOMY
Analyses and Forecasting Department

Warsaw, November 2009

POLAND'S MACROECONOMIC PERFORMANCE IN 2008-2009

Specification	Unit	2008	VI 2008	VI 2009	I-IX 2009
GDP	%	105.0			101.2[1]
Consumption	%	106.3			102.4[1]
- individual	%	105.9			102.3[1]
Gross capital formation	%	102.9			84.0[1]
- gross fixed capital formation	%	108.2			99.0[1]
Prices					
Year-on-year price index of consumer goods and services (CPI)	%	104.2	104.5	103.4	103.5
Year-on-year price index of sold production of industry (PPI)	%	102.2	102.0	101.6	103.8
Production[2]	%				
Sold production of industry	%	102.5	105.5	98.7	94.0
Construction and assembly production	%	110.9	109.6	105.7	104.7
Wages and salaries					
Average wages and salaries in the national economy. of which:	PLN	2,944			
- enterprise sector	PLN	3,186	3,177	3,283	3,281
Average retirement pay and pension					
- non-agricultural social security system	PLN	1,419	1,449	1,563	1,534
- individual farmers	PLN	858	862	915	908
Labour market					
Average employment in enterprise sector	thous.pers.	5,392	5,395	5,267	5,330
Average number of retirees and pensioners	thous.pers.	9,257	9,277	9,308	9,339
- non-agricultural social security system	thous.pers.	7,779	7,812	7,895	7,907
- individual farmers	thous.pers.	1,478	1,465	1,413	1,432
Unemployment rate (as at the end of a period)	%	9.5	8.9	10.9	10.9
Foreign trade acc. to CSO					
Trade balance	m EUR	-26,204			-6,382
- export revenues	m EUR	116,244			69,998
- import expenditure	m EUR	142,448			76,380

1- DAF MoE estimates
2- The year 2008 concerns complete statistical population, other data concerns entities employing more than 9 persons

	Unit	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Gross Domestic Product (percentage change)	%	7	6.2	7.1	5	4.5	4.3	1.2	1.4	3.9	5.3	3.6	6.2	6.8	5.0
Individual consumption (percentage change)	%	3.2	8.8	7.1	5	5.4	3.1	2.3	3.4	2.1	4.7	2.1	5.0	4,9	5.9
Gross fixed capital formation (percentage change)	%	16.5	19.7	21.8	14	6.6	2.7	-9.7	-6.3	-0.1	6.4	6.5	14.9	17.6	8.2
Industry output (percentage change)	%	9.7	8.3	11.5	3.5	3.6	6.7	0.6	1.1	8.3	12.6	3.7	11.2	9.5	2.5[1]
Construction and assembly output (percentage change)	%	8.1	4.6	17.1	11	9.4	1.4	-11.7	-4.1	1.6	1.8	8.0	15.9	12.2	10.9[1]
Inflation (annual average)	%	27.8	19.9	14.9	11.8	7.3	10.1	5.5	1.9	0.8	3.5	2.1	1.0	2.5	4.2
Inflation (XII/XII)	%	21.6	18.5	13.2	8.6	9.8	8.5	6.3	0.8	1.7	4.4	0.7	1.4	4.0	3.3
Employed persons	m. pers.	15.5	15.8	16.2	16.2	15.9	15.5	15.0	12.8	12.6	12.7	12.9	13.2	11.2	n.a.
Average employment in enterprise sector	thous. pers.	5,738	5,664	5,745	5,856	5,795	5,312	5,138	4,912	4,724	4,684	4,773	4,918	5,150	5,392
Registered unemployed persons	thous. pers.	2,629	2,360	1,826	1,831	2,350	2,703	3,115	3,217	3,176	3,000	2,773	2,309	1,747	1,474
Unemployment rate	%	14.9	13.2	10.3	10.4	13.1	15.1	17.5	18.0	20.0	19.0	17.6	14.8	11.4	9.5
Average gross nominal wage	PLN	691	874	1,066	1,233	1,697	1,894	2,045	2,098	2,185	2,273	2,361	2,477	2,691	2,944
Average gross real wage	%	2.8	5.5	5.9	3.3	4.7	1.0	2.5	0.7	3.4	0.7	1.8	4.0	6.3	6.0
Average gross nominal wage in enterprise sector	PLN	754	957	1,162	1,349	1,835	2,057	2,203	2,277	2,342	2,439	2,516	2,644	2,888	3,186
Average gross real wage in enterprise sector	%	3.2	5.8	5.5	3.7	3	1.3	1.6	1.5	2.0	0.8	1.2	4.2	6.7	6.0
Average real retirement pay and pension from non-agricultural social security system	%	3.2	2.1	4.6	2.2	3.9	-2.3	4.7	4.6	4.1	0.6	0.3	6.2	0.0	4.1
Balance of external trade turnover (acc. to CSO)	bn EUR	-	-	-	-	-	-18.7	-15.8	-15.0	-12.8	-11.7	-9.7	-12.9	-18.6	-26.2
Exports volume (acc. to CSO)	bn EUR	-	-	-	-	-	34.4	40.2	43.5	47.5	59.7	71.4	87.9	101.8	116.2
Exports rate (acc. to CSO)	%	-	-	-	-	-	-	16.9	8.2	9.3	25.6	19.6	23.1	15.8	14.1
Imports volume (acc. to CSO)	bn EUR	-	-	-	-	-	53.1	56.0	58.5	60.4	71.4	81.2	100.8	120.4	142.4
Imports rate (acc. to CSO)	%	-	-	-	-	-	-	5.6	4.4	3.2	18.2	13.8	24.1	19.4	18.3

[1] *data concerns entities employing more than 9 persons*

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