

MINISTRY OF ECONOMY

***A STUDY OF POLAND'S
ECONOMIC PERFORMANCE
IN THE 1st QUARTER OF 2010***

**ANALYSES
AND FORECASTING
DEPARTMENT**

Warsaw, May 2010

The mission of the Ministry of Economy

Is to create the best conditions for business activity in Europe

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Synthesis

- Situation of Polish economy is favourable if it is compared to both, euro zone and our region's countries. Poland is sole country in the EU which noted economic growth. Diverse response of Polish economy to crisis, confirms that Poland developing in a sustainable way. A financial crisis emphasised defect in financial control in many countries, simultaneously corroborated soundness of Polish regulations. As a result Poland was the fastest developing country in Europe.
- **The year 2009 was a period of gradual economic slowdown in Poland. In accordance with expectations in 2009 GDP increased by 1.8%.** It was mainly determined by consumption growth by 2%, in which individual consumption increased by 2.3%. A constraint occurred on the investment side, a gross fixed capital formation dropped by 0.3%. The vital role in the process of GDP creation was played by external demand, while internal demand lost its positive influence. **According to AFD MoE estimations GDP in the 1st quarter of 2010 increased by 3.1%.**
- In the period of January-March 2010 **sold production of industry** went up by 9.4% in entities with more than 9 employees. The biggest increase in manufacturing was observed (by 10.7%). On the other hand a decrease in mining amounted to 2.1%. It resulted from a first signs of recovery on the global market and growth of internal demand.
- In the 1st quarter of the year 2010 **production in construction** in entities with more than 9 employees decreased by 15.2% (compared to corresponding period of 2009). This was mainly due to unfavorable weather conditions during the first months of this year. However, it is the tendency to return the sector to the growth path.
- In the comparison with 1st quarter of 2009 **domestic trade results** in 2010 deteriorated. It was caused by limitation in consumption, determined by a slowdown of salaries pace in real terms. Despite this negative tendency, slight increase by 0.3% was observed in volume of retail sales in entities with more than 9 employees.
- According to preliminary CSO data in the first three months of 2010 the volume of the exports – counted in current prices – amounted to EUR 26.2bn and was by 14.0% higher than year ago. The volume of imports stood at EUR 28.4bn and was by 12.2% higher than in the previous year. **The negative balance of foreign trade turnover reached a level of EUR 2.2bn** which was a lower value by EUR 0.1bn than in the year 2009. Reduction of foreign trade deficit was a consequence of relative good position of domestic exporters.
- According to provisional NBP data, in the period I-III 2010 **deterioration of a balance of the current account** was observed, comparing to the previous year. The increase of deficit resulted from a increasing negative income balance. Simultaneously FDI inflow was higher than a year ago.
- In January-March 2010 the annual average **consumer price index (CPI)** stood at higher level than in 2009 and amounted to 3.0%. The producer price index and construction prices remained at a levels close to noted in the previous year.

- The 1st quarter of 2010 was a consecutive period of deterioration on the labour market which for the first time appeared in the last quarter of 2008. In the period I-III 2010 the average employment in the enterprise sector was by 1.3% lower than a year before. **At the end of March 2010 the number of registered unemployed amounted to 2,077 thous. persons** (by 24.8 thous. persons less comparing to February 2010, and by 317.9 thous. persons more than in March 2009). The registered unemployment rate risen to 12.9% (against 11.1% in March 2009).
- In the period of January-March 2010, salaries in enterprise sector slightly decreased in real terms. Retirement payments and pensions from non-agriculture security system increased, likewise purchasing power of retirement payments and pensions of individual farmers comparing to corresponding period of 2009.
- In the period of I-III 2010 the budget revenues stood at PLN 57.0bn, when expenditures amounted to PLN 79.7bn. The nominal **budget deficit** was definitely higher than in the previous year and amounted to PLN 22.7bn.
- In the period of January-March 2010, the Monetary Policy Council did not change **interest rates** keeping them at previous year's level.
- As regards the **foreign exchange market**, in the period of January-March 2010 appreciation of Polish zloty took place. It was caused by positive situation of polish economy and growing interest in polish market from foreign investors.

Economic growth...

In accordance to CSO provisional estimates in 2009 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.

Table 1. GDP growth rate in 2007-2010

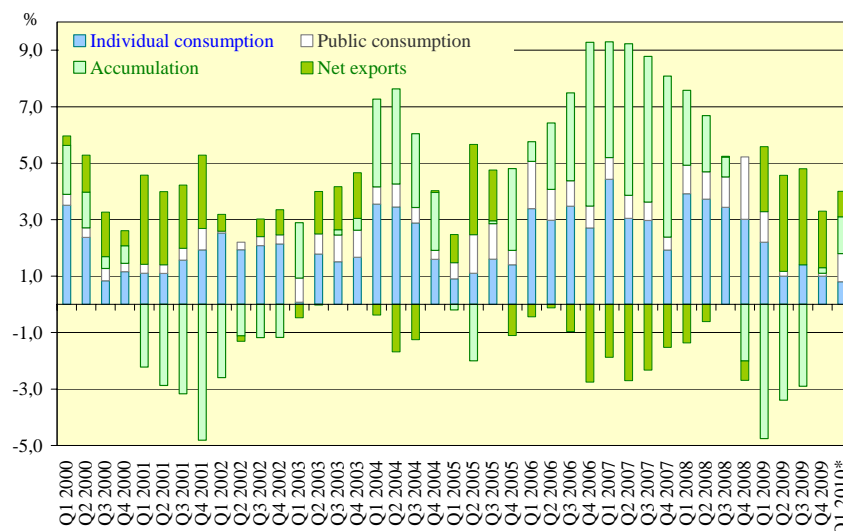
	2007				2008				2009				2010
YoY	6.8				5.1				1.8*				
	I-III	IV-VI	VII-IX	X-XII	I-III	IV-VI	VII-IX	X-XII	I-III	IV-IV	VII-IX	X-XII	I-III
YoY	7.4	6.5	6.5	6.5	6.2	6.0	5.1	3.0	0.8	1.2	1.8	3.3*	3.1**

* CSO provisional data

** AFD MoE estimate

Source: CSO

Chart 1. Decomposition of GDP in the years 2000 – 2010



* AFD MoE estimate

Source: AFD MoE calculations based on the CSO data

According to AFD MoE estimates, in the 1st quarter of 2010 GDP increased by 3.1% comparing to corresponding 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 I-III of 2010 dynamics of individual consumption increased. Furthermore, due to the recovery in inventory, after seven quarters period of their decrease, domestic demand has become once again a major factor in economic growth. Foreign demand has lost the role of stimulator of the economy. Its contribution remained positive, but has declined significantly.

Lower dynamics of individual consumption was a result of decreasing purchasing power of households and worst financial condition of enterprises, as well as impeded access to credits. On the other hand increase in incomes of population impeded downturn. It was mainly caused by indexation of pensions and retirements.

According to estimates – the second consecutive quarter an increase of gross fixed capital formation was recorded (after the downturn in the second and third quarter 2009). 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 in the main Polish partners in trade. On the other hand, favourable outlook for using of EU funds, as well as high level of using of production power, allow to increase in the category.

Table 2. Gross value added growth by sections in the years 2002-2010

	2002	2003	2004	2005	2006	2007	2008	2009*	1 st q. 2010**
Industry	99.5	107.8	110.5	103.5	110.0	110.1	106.8	99.0	111.1
Construction	91.0	97.1	101.8	107.8	111.6	110.8	104.6	104.8	101.5
Market services	103.3	102.5	104.2	103.6	105.5	106.5	105.9	102.5	103.1

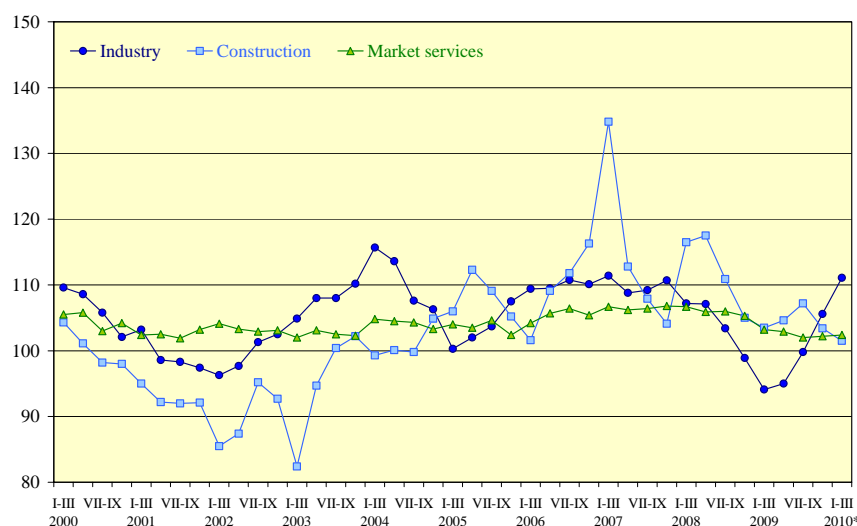
*CSO provisional estimates

** AFD MoE estimate

Source: CSO

The increase of gross value added in first three months of 2010 was underpinned mainly by a stable growth in industry, which accounted for ca. 24% of gross value added in the economy. It was connected with increase in sold industrial production (9.4% yoy). In the second consecutive quarter a relative slight increase of value added in services sector was observed. The main contribution was made by financial sector as well as real estate activities and support service for companies, which noted decrease in value added both, annual and quarterly. In this period value added in construction increased, but in a lower extent. The scale of growth was a result of decrease in housing construction. On the other hand positive impact was made by infrastructural investment.

Chart 2. Gross value added growth by economy sectors in the years 2000 – 2010 (corresponding period of the previous year=100)



** AFD MoE estimate

Source: CSO

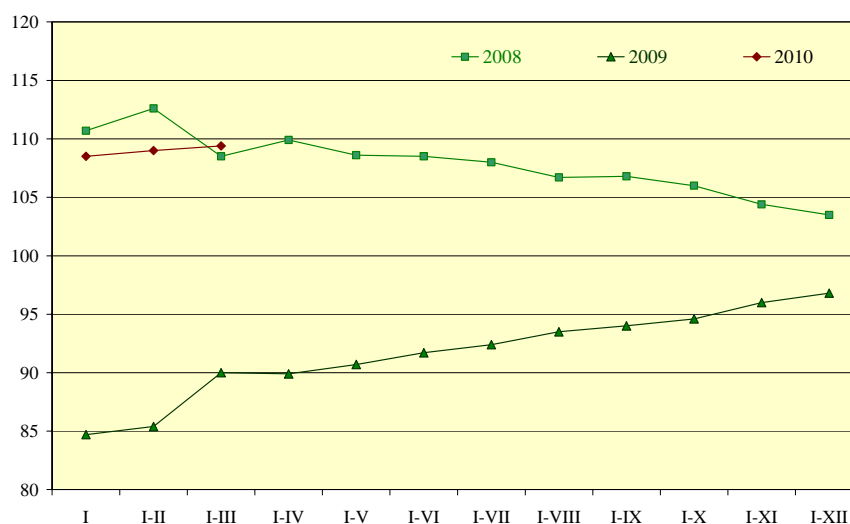
In 2010 the GDP growth is assumed to ca. 3.0% and will be affected by external situation, chiefly situation on the credit market and a success of world anti-crisis measures, as well as the end of support of stimulus packages. The increase in gross fixed capital formation will be slight. Individual consumption should be similar to the last year. A better result is possible if optimistic scenario is accomplished.

Industry - good results...

In the year 2009 – in accordance with AFD MoE projection – under CSO estimation industrial output for complete statistical population decreased by ca. 3.5%, and in entities employing more than 9 persons, decreased by 3.2% compared to 2008.

In the 1st quarter of 2010, comparing to the same period of the previous year, 9.4% growth of sold production of industry was recorded. It is worth emphasizing that it was the second quarter in a row when dynamics of analyzed indicator stood positive (yoy) and moreover fluctuated in a much higher scope than a year ago (I q. 2009 drop by 10.0%, IV q. 2009 increase by 5.5% yoy). The highest growth of sold production was observed in manufacturing section (by 10.7%). Lower dynamics was noticed just in one section, mining and quarrying (drop by 2.1% yoy).

**Chart 3. Changes in the sold production of industry in the years 2008-2010
(corresponding period of the previous year=100)**



Source: Statistical Bulletins, CSO, 2008-2010

Growth of sold production of industry was noticed in enterprises representing all main manufacturing groups, so enterprises producing mainly consumer durables goods (by 28.8%), intermediate goods (by 10.0%), capital goods (by 8.2%), energy goods (by 5.4%) and non-durables goods (by 4.6% yoy).

In the period of January-March 2010, 25 from 34 industrial divisions recorded growth in production comparing to the similar period of 2009. The highest growth was observed in manufacture of computer, electronic and optical products (by 52.0%), manufacture of motor vehicles, trailers and semi-trailers (by 24.8%) and manufacture of electrical equipment (by 23.6%). Considerable slowdown was noticed in manufacturing of beverages (by 15.6%) and manufacture of furniture (by 11.3% yoy).

In the analyzed period labour productivity in industry, measured by production per 1 employee, was by 13.1% higher than a year before, with 3.3% smaller average employment and increase in monthly gross wages (4.7%).

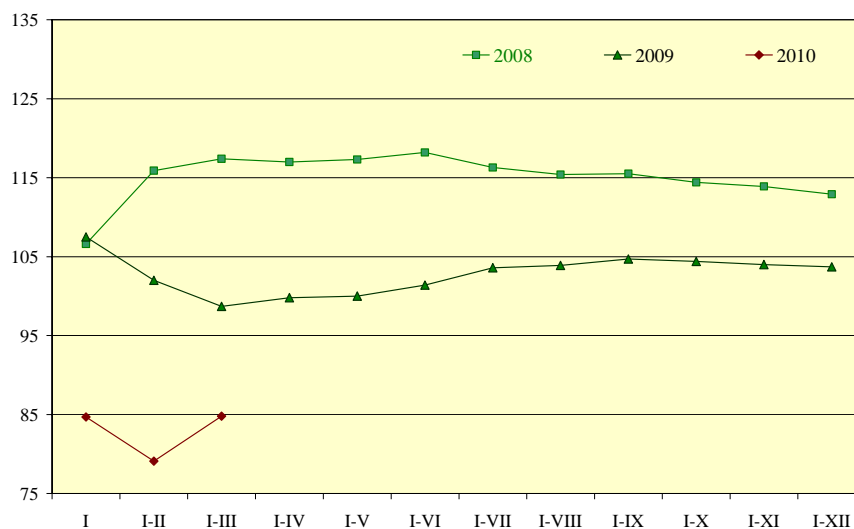
It is expected that due to improvement of general economy condition at the end of 2010 industry output will achieve a positive growth of ca. 6.0%.

Deterioration in construction...

In 2009, despite adverse economic conditions, as a result of global financial crisis, a positive growth of construction and assembly production was recorded. **According to CSO estimation a scale of growth in construction and assembly production (for complete statistical population) increased by ca. 3.0%, and in companies with more than 9 employees accounted to 3.7%.**

In the period of January-March 2010 construction and assembly production in entities with more than 9 employees decreased by 15.2%, comparing to the 1st quarter of 2009. This result was mainly caused by a limited activity of enterprises of the construction industry due to adverse weather conditions.

Chart 4. Construction and assembly production indices in the years 2008-2010 (corresponding period of the previous year=100)



Source: Statistical Bulletins, CSO, 2008-2010

A significant decrease of construction and assembly production, considering the type of construction works, was recorded in entities representing all construction sector sections, so entities specialized with building construction (by 18.5%), entities dealing with specialised construction (by 15.6%) and with civil engineering (by 7.4% yoy).

In the I q. of 2010, 33.9 thousand dwellings were completed, which was by 18.3% less than in the previous year¹. Regarding dwellings for sale or rent as well as in private construction, amount of dwellings completed was lower than a year ago (respectively by 24.0% and 13.9% yoy).

Despite a drop in a number of granted permits for dwellings (by 18.6% yoy) positive for overall condition of construction sector are data concerning amount of dwellings being constructed (growth by 16.1% yoy) in analyzed period.

It is expected that due to economic condition improvement and easier access to credits for both, developers and consumers - with demand for real estates upswing - construction production in 2010 will achieve a level of 5.0% growth yoy.

¹ Provisional CSO data

Agriculture...

According to provisional data, in 2009 crop output increased by 4.7% and animal output slightly rose by 0.2%. As a consequence, the gross agricultural output reached a growth of 2.8%.

In the period of July 2009 - March 2010 as a result of increase of wheat purchase by 27.4% and rye purchase by 23.9%, the purchase of cereals with corn mixture without sowing grain surged by 26.8% comparing with analogous period of the previous season.

Table 3. Gross agricultural production in the years 2002-2009 (constant prices)

	2002	2003	2004	2005	2006	2007	2008	2009*
Gross output	98.1	99.2	107.5	95.7	98.8	105.9	102.9	102.8
Crop output	93.3	94.3	116.7	88.1	94.8	108.9	107.7	104.7
Animal output	103.4	104.8	97.3	105.2	102.6	102.9	97.1	100.2

** provisional data*

Source: CSO

In March 2010 the grain purchase dropped by 18.6% comparing with March 2009. In the same time the purchase of wheat decreased by 52.6% and the purchase of rye increased by 21.4% (yoy). Limited supply level connected with lower activity in agriculture during winter period, resulted in fall of their purchase price. Wheat price decreased by 12.2% and rye price dropped by 15.5%. On the farmers' market significant slump in prices was reordered, respectively by 10.3% and 20.5% (yoy). Average potato prices on the farmers' markets increased by 10.3% in March 2010.

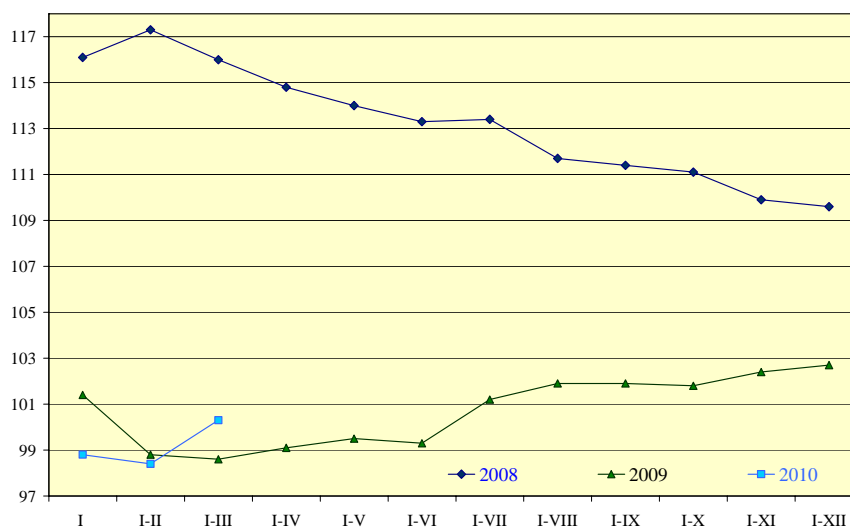
According to provisional estimates, on the market of animals for slaughter in the 1st quarter of 2010 the purchases increased by 14.0% comparing to the same period in 2009. This situation was caused by rose of hog for slaughter purchases (by 27.7%). Despite higher animal output significant price changes of animals for slaughter was recorded. In the period of I-III 2010 average hog for slaughter purchase prices dropped by 19.0% and on farmers' market by 15.7%, the prices of ox for slaughter rose accordingly by 5.0% and 5.6% and the purchase prices of poultry for slaughter decreased by 6.2%. Milk supply in analyzing period fell by 2.6% and purchase prices increased by 17.1% (yoy).

A stable domestic trade turnover...

In 2009 volume of retail sales for complete statistical population exceeded previous year's level by 1.3%. In enterprises with more than 9 employees the rise of 2.7% was recorded².

In the 1st quarter of 2010, comparing to the corresponding period of the previous year, dynamics of domestic trade turnover increased slightly and reached a growth of 0.3% yoy. The growth was lower than in all separate quarters of the year 2009.

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



Source: Statistical Bulletins, CSO, 2008-2010

In the first quarter of 2010 lower sales, than a year before, was recorded in a group with the biggest share in retail sales in general 'sales of food, beverages and tobacco products' (decrease by 4.0%). Sales in the group 'others' also fell (by 5.4%). Two other groups with significant contribution in retail sales in general, so 'liquid and gas oil' and 'motor vehicles, motorcycles, parts' changed in different ways. Recorded respectively increase by 6.3% and drop by 9.3% (yoy). Among the other groups amount of sales rose in the biggest scope in: 'textiles, clothing and footwear' (by 16.8%), 'other retail sale in non-specialized stores' (by 14.4%) and 'pharmaceuticals, cosmetics, orthopaedic equipment' (by 14.0% yoy).

In the period of January-March 2010 wholesale of trade companies employing more than 9 persons was by 4.2% higher than a year before, in which wholesale sold by wholesale enterprises dropped by 3.2%.³

² constant prices

³ current prices

Inflation...

In 2009 the price index of consumer goods and services amounted to 3.5%. The growth was caused mainly by a higher imported goods prices (zloty depreciation), pro-inflationary increase in regulated prices and excise for an alcohol and tobacco products.

In the 1st quarter of 2010 Consumer Price Index still stood above the level of inflation target, and at the same time did not exceed deviation level (**3.0% in comparison with the same period of last year**).

In the analyzed period recorded price increase was caused by a higher dynamics of food, beverages and tobacco products prices (by 3.4% yoy). Besides that house charges rose (by 7.2%), including energy carriers (by 3.5% yoy). Moreover significant prices increase was noticed in transportation (by 9.3%), what was mainly caused by fuels prices growth (by 17.4% yoy).

Despite domestic demand limitation, lower wages pressure as an effect of increasing unemployment rate and drop of construction production, relatively high inflation level was noticed. The cause of this situation was an increase of commodity prices on world markets (60% growth of oil price in I q. of 2010 yoy), which automatically affected transportation prices. It's contribution to the CPI was the highest among all main categories and reached the level of 0.86 pp. (In the I q. of 2009 transportation prices contribution to CPI was -0.64 pp).

In the period of January-March 2010 prices of sold production of industry were on average by 1.5% lower, in comparison with the I q. of 2009. It means that the trend of increase in consecutive quarters (yoy) of sold production of industry prices, lasted from the 1st q. of 2006, was interrupted. The slowdown of prices dynamics was caused mainly by a high statistical base (in the I q. of 2009 prices had increased by 5.0% yoy), limited manufacturing costs as an effect of high productivity in industry measured by production per 1 employee in the sector (by 13.1% yoy) and lower prices of imported raw materials (zloty appreciation). The lowest price dynamics was recorded in the section of manufacturing (drop by 3.2% yoy). In other sections price dynamics stood positive.

In the same period prices in construction and assembly production dropped by 0.6% in comparison with the I quarter of the previous year. Low price dynamics was mainly caused by limited activity of enterprises of the construction industry due to adverse weather conditions. Besides that it is worth emphasizing the impact of low pace of wages growth in construction sector (1.0% in the I q. of 2010 comparing to 6.9% in the I q. of 2009 yoy), which significantly reduced wage pressure for overall prices in analyzed sector.

Weakening of wage pressure and significant administrative prices rise in the I half of 2009 (high statistical base effect) will be the main determinants of limited prices increase in 2010. Partly this tendency could be limited by improvement of Polish main trade partners economic condition, which may affects on upswing in Polish domestic production demand. Although it seems that the degree of limitation could be insufficient to maintain price increase pace recorded in 2009. It is expected that in respect of all these factors, including Polish currency appreciation, inflation should fall and approach inflation target in the end of 2010.

Labour market – gradual deterioration...

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

Table 4. Primary LFS' score in 2008-2009

	4 th q of 2008	1 st q of 2009	2 nd q of 2009	3 rd q of 2009	4 th q of 2009
Economic activity rate (%)	54.7	54.5	54.7	55.4	55.1
Employment rate (%)	51.0	50.0	50.4	50.9	50.4
Unemployment rate (%)	6.7	8.3	7.9	8.1	8.5
Employed persons (thousand)	16,005	15,714	15,847	16,026	15,885
Unemployed persons (thousand)	1,154	1,414	1,355	1,404	1,471
Economically inactive persons (thousand)	14,224	14,275	14,253	14,049	14,149

Source: CSO

In the 1st quarter of 2010 an average employment in enterprises sector was lower than in the previous (1.3% yoy). A delayed reaction of labour market on economic phenomenon as well as still unstable situation allow to expect, that in the consecutive months the trend continue, but in limited scope. Constraint of hard situation is possibly as an effect of measures taken to mitigate results of crisis at the labour market.

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

	I-III 2009	I-III 2010	2010/2009
Total	5,365	5,295	98.7
Industry	2,502	2,419	96.7
Mining and quarrying	180	181	100.3
Manufacturing	2,073	1,990	96.0
Electricity, gas, steam and air conditioning supply	149	146	97.9
Water supply; sewerage, waste management and remediation activities	99	103	103.7
Construction	426	423	99.3
Trade; repair of motor vehicles	1,093	1,080	98.8
Transportation and storage	469	464	98.7
Accommodation and catering	101	105	103.4
Information and communication	160	160	100.3
Real estate activities	88	90	102.1
Professional, science and technical activities^a	140	147	104.1
Administrative and support service activities	261	284	109.0

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

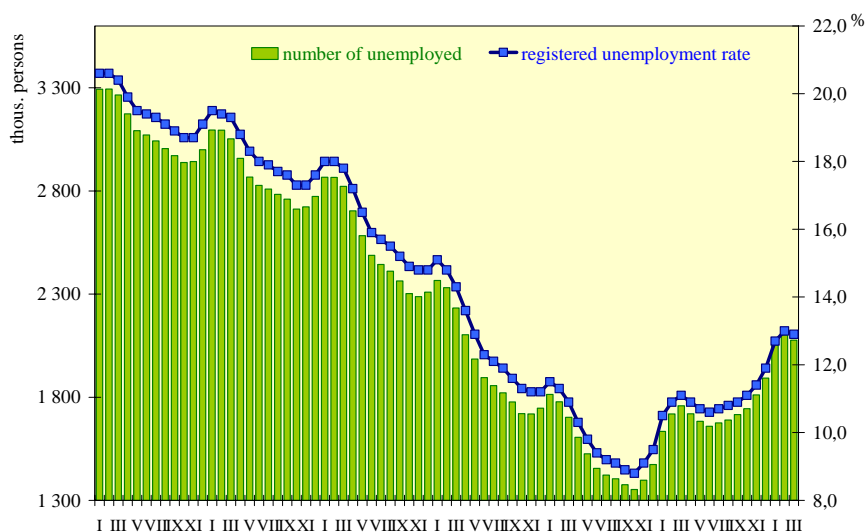
Source: Statistical Bulletin, CSO, 2009-2010

Among divisions of manufacturing the highest changes in dynamics of employment, in the period of January-March 2010, were observed in divisions producing:

1. printing and reproduction of recorded media	104.1
2. computer, electronic and optical products	102.6
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1. other transport equipment	75.7
2. machinery and equipment	85.7

In first three months of the year 2010, 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 March 2010 the **number of registered unemployed** shaped at the level of 2,077 persons, i.e. by 18.1% higher than in the same month of the previous year. The unemployment rate amounted to 12.9% and was higher by 1.8 percentage point then in March 2009.

A decrease of economic activity, due to global crisis, influenced deterioration of situation on labour market in the period of January-March 2010. Moreover it should be noticed that bad weather conditions at the beginning of current year reduced activity in construction that additionally complicated situation.

On account of enterprises adjustment of labour costs to lower demand, by flexibly forms of employment, improvement on labour market is expected. However positive effects will be less visible in employment. That is why, it is expected to increase an unemployment rate up to about 12.5% at the end of year 2010.

Increase in wages, salaries and social benefits...

In the 1st quarter of the year 2010 the average gross salary in enterprise sector amounted to PLN 3,341 (growth by 2.8% towards 2009).

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

1. motor vehicles, trailers and semi-trailers	112.6
2. coke and refined petroleum products	110.0
3. rubber and plastic products	107.6
<hr/>	
1. other transport equipment	95.2

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

	I-III 2009	I-III 2010	2010/2009
Total	3,249	3,341	102.8
Industry	3,220	3,371	104.7
Mining and quarrying	5,413	5,338	98.6
Manufacturing	2,921	3,060	104.8
Electricity, gas, steam and air conditioning supply	4,805	5,236	109.0
Water supply; sewerage, waste management and remediation activities	3,095	3,287	106.2
Construction	3,302	3,334	101.0
Trade; repair of motor vehicles	3,035	3,079	101.4
Transportation and storage	3,076	3,142	102.2
Accommodation and catering	2,299	2,375	103.3
Information and communication	6,161	6,359	103.2
Real estate activities	3,292	3,426	104.1
Professional, science and technical activities^a	5,437	5,290	97.3
Administrative and support service activities	2,041	2,120	103.9

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

Source: Statistical Bulletins, CSO, 2009-2010

The purchasing power of wages in the enterprise sector increased by 0.2% in the period January-March 2010.

In the 1st quarter of 2010 the social security benefits rose too. The average monthly retirements payments and pensions from non-agricultural social security system amounted to PLN 1,595 which is 7.3% (in nominal terms) and 4.2% (in real terms) higher than a year before. The average retirement payments and pensions of individual farmers increased in analyzed period by 5.5% and reached a level of PLN 934 (growth by 2.4% yoy in real terms).

It is expected that in 2010, according to hard condition of labour market, 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 2009 budget revenues amounted to PLN 274.4bn and represents 100.5% planned in the Budgetary Law. It was higher than the previous year's level by 10.4pp. Expenditures shaped at a level of PLN 298.2bn and represents 99.4% planned in the Budgetary Law, which was 9.2 percentage points higher than in 2008. As a consequence a deficit amounted to PLN 23.8bn (in nominal terms) and was higher comparing to PLN 24.6bn in 2008.

In the period of January-March 2010 budget revenues shaped at level of PLN 57.0bn (drop by 13.2% yoy in nominal terms), and expenditures amounted to PLN 79.7bn (growth by 3.6% yoy in nominal terms). Budget balance stood at PLN -22.7bn.

Table 4. State budget performance in I-III 2010 (in bn PLN)

	Budgetary Law	Performance	%
Revenues	249.0	57.0	21.9
Taxes and non-taxes	223.2	52.3	23.4
Indirect taxes	160.8	39.1	24.3
PIT	36.1	7.2	20.1
CIT	26.3	6.0	22.7
EU and Rother funds without repayment	3.4	0.2	6.8
Expenditure	301.2	79.7	26.5
Domestic debt servicing	26.6	4.0	15.0
Foreign debt servicing	8.3	3.2	37.7
Subs. to the Pension Fund	15.4	3.1	24.0
Subs. to Social Insurance Fund	37.9	14.2	37.5
General subs. to local self-government entities	47.2	16.3	34.5
BALANCE	-52.2	-22.7	43.5
Financing of EU budget funds	-14.4	0.0	0.0
DEFICIT FINANCING SOURCES	66.6	22.7	34.1
DOMESTIC	45.5	13.9	30.6
Treasury bonds	8.3	0.7	8.4
Bonds	51.8	13.3	25.6
Proceeds from privatisation	25.0	4.9	19.7
Pre-financing actions with EU resources	-1.3	0.0*	0.1
Foreign	21.2	8.8	41.5

* PLN 1.2m

Source: Ministry of Finance

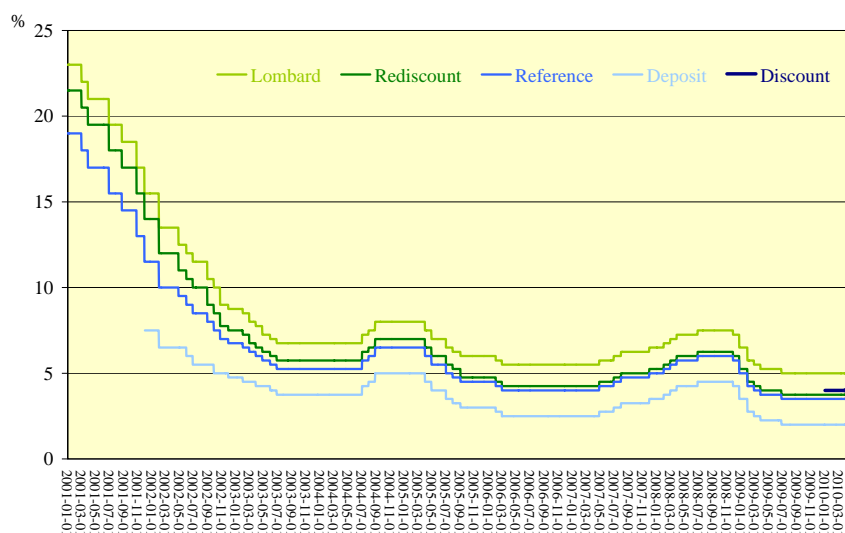
While income side is taken into account, the revenues from indirect taxes - accounted for 68.6% of the total amount of incomes executed in the I q. of 2010 - were the main receipts items (in nominal terms drop by 3.2% yoy). Excise revenues stood at level of PLN 12.9bn.

As far as expenditures are concerned, an important role was played by general subsidies to the local self-government entities, which increased by 4.5% comparing to the I q. of 2009. The shares of expenditures of domestic debt servicing and foreign debt servicing amounted to respectively 15.0% and 37.7% planned in the Budgetary Law. Their share in the total expenditures represents 9.0%.

Monetary policy and exchange rate...

In 2009 interest rates were changed 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. In the end of December the interest rates shaped at a level of: Reference – 3.5%, Lombard – 5.0%, Deposit – 2.0%, and Rediscount 3.75%.

Chart 7. NBP interest rates in the years 2001-2010



Source: NBP

Due to positive macroeconomic data, and taking into account uncertainty about economic situation among Poland's trade partners and strong zloty appreciation, **in the period of January-March 2010 the Monetary Policy Council didn't change basic interest rates and left them at the December 2009 level.** MPC deemed so far made changes as a sufficient, thus favorable to return for the Polish economy for the potential growth pace path. On the 1st quarter of 2010 the discount rate on bills of exchange accepted from commercial banks for discount at the NBP was introduced.

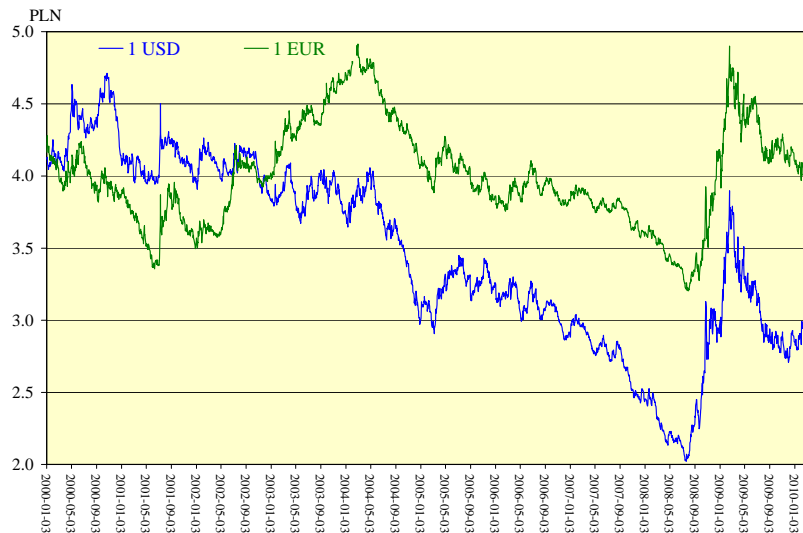
Comparing to the end of the previous year value, liabilities drop in March overall by 0.6%. Debts reduction, in analyzed period, covered social security funds (by 57.2%), non-monetary financial institutions (by 10.0%), local government (by 2.4%) and enterprises (by 1.5%). Regarding non-profit institutions serving households and households demand for credits rose by respectively 0.6% and 1.1%.

In the period of January-March 2010 Polish zloty got stronger both to euro and US dollar. An average euro exchange rate amounted to PLN 3.9924 and was lower by 11.1% annually. US dollar exchange rate amounted to PLN 2.8841 and decreased by 16.2% annually. In March 2010 an average exchange rate of both currency reached a level of respectively 3.8919 EUR/PLN and 2.8672 USD/PLN.

After strong depreciation of the Polish currency against US dollar and euro – noticed from the 2nd quarter of 2008 up to the 1st quarter of 2009 – caused by withdrawal of foreign investors from domestic market and global downturn forecasts, the downward trend has reversed. 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. In

the 1st quarter of 2010 upward trend was continued. Interest rates disparity and increase in demand for Polish currency came from portfolio investors, along with wide central budget borrowing needs, were the main determinants of Polish currency limited supply. In the prospect of further economic situation improvement it is expected that foreign investors, through discount of the future pace of economy growth, will still be strongly interested in Polish zloty. Besides that it is possible that a large public issues, planned for this year by the government, could be in a short term additional factor of zloty appreciation.

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



Source: NBP

Higher growth in exports than in imports...

According to the preliminary CSO data, in the period of January-March 2010 the value of exports denominated in EUR (in current prices) was higher by 14.0% compared to the similar period of 2009 and reached a level of EUR 26.2bn. It was the first so significant increase has been observed since the beginning of global financial crisis. The imports value increased by 12.2% and amounted to EUR 28.4bn. It was an effect of first signs of recovery on global market and a cyclic factor in energy resources supplies. The negative balance of foreign trade reached a level of EUR 2.2bn, EUR 0.1bn less than in 2009. 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-III 2010

	Exports		Imports	
	Share of total (%)	Change (pp)	Share of total (%)	Change (pp)
Developed countries	85.3	-1.0	66.7	-1.6
European Union	79.2	-1.8	58.4	-2.2
Developing countries	7.4	+0.9	21.2	-0.2
Central and East European countries	7.3	+0.1	12.1	+1.8

Source: CSO

Poland's main trading partners in the period I-III 2010 (comparing to the corresponding period of the year 2009):

Germany:

Exports (in €) increased by 7.7%, and imports by 9.6%,
Share of total Poland's exports – 25.8% (-1.5 pp); imports – 21.3% (-0.5 pp).

Russia:

Exports (in €) increased by 18.8%, and imports by 26.3%,
Share of total Poland's exports – 3.8% (+0.1 pp); imports – 10.6% (+1.4 pp).

China:

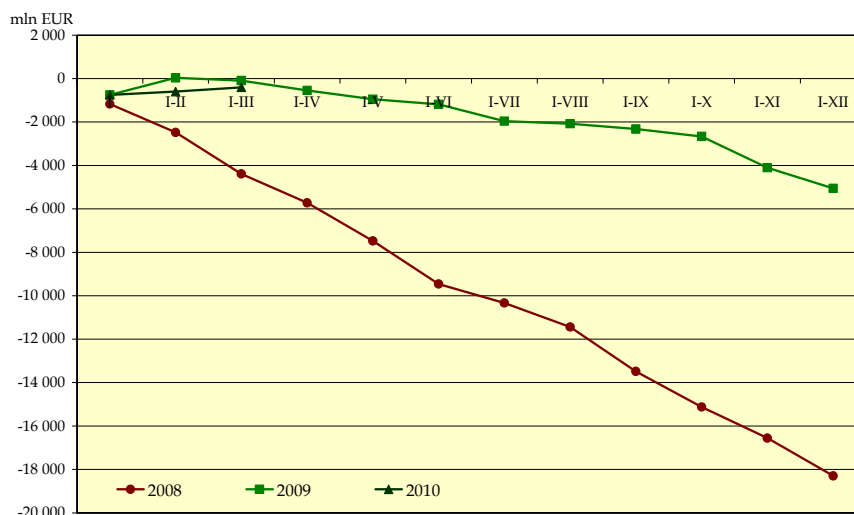
Share of total Poland's imports – 9.6 % (-0.3 pp).

In 2010 exports is expected to reach a level of EUR 107.7bn, so about 11.8% more than in 2009. Value of imports estimates to EUR 118.9bn, about 13.2% higher than in previous year. The negative balance of a foreign trade turnover will reach a level of EUR 11.2bn.

Deterioration in balance of payments ...

Preliminary data for the first three months of the year 2010 indicates deterioration in the balance of payments in comparison to 2009.

Chart 9. Current account balance cumulatively (million EUR)



Source: NBP

In the analyzed period cumulative current account balance deficit amounted to level of EUR 1,158mn towards EUR -95mn in the previous year. This result was an effect of increasing negative income balance (by EUR 1,139mn).

In the period of January-March 2010 the inflow of foreign direct investments was higher by EUR 2.0 bn than in the previous year, and reached a level of EUR 3.5bn.

Table 5. Balance of payments in the years 2006-2010 (in million EUR)

	2006	2007	2008*	2009*	I-III 2010*
Current account	-7,453	-14,721	-18,293	-5,059	-1,158
Trade balance	-5,541	-12,386	-17,726	-3,198	-952
Export revenues	93,378	105,856	121,082	100,130	27,932
Import expenditure	98,919	118,242	138,808	103,328	28,884
Services' balance	572	3,432	3,465	3,457	722
Income balance	-7,707	-11,969	-9,576	-10,073	-2,746
Current transfers balance	5,223	6,202	5,544	4,755	1,818
Capital account	1,673	3,421	4,073	5,004	1,308
Financial account	9,216	28,214	26,915	25,533	9,880
Direct Polish external investment	-7,096	-4,000	-2,039	-2,074	-361
Direct foreign investment in Poland	15,707	17,222	10,025	8,303	3,527
Portfolio investment (assets)	-3,690	-4,625	1,681	-165	-529
Portfolio investment (liabilities)	1,375	554	-3,585	11,201	7,032
Other investment (assets)	-3,129	-1,250	4,232	3,909	-1,734
Other investment (liabilities)	7,944	21,769	17,158	5,452	2,185

*preliminary data

Source: NBP

MINISTRY OF ECONOMY
Analyses and Forecasting Department

Warsaw, May 2010

POLAND'S MACROECONOMIC PERFORMANCE IN 2009-2010

Specification	Unit	2009	III 2009	III 2010	I-III 2010	2010 ⁴
GDP	dynamics	101.8 ¹				103,0
Consumption	dynamics	102.1 ¹				102,1
- individual	dynamics	102.3 ¹				102,6
Gross capital formation	dynamics	89.0 ¹				106,0
- gross fixed capital formation	dynamics	99.6 ¹				103,7
Prices						
Year-on-year price index of consumer goods and services (CPI)	dynamics	103.5	103.6	102.6	103.1	102,5
Year-on-year price index of sold production of industry (PPI)	dynamics	103.4	105.5	97.6	98.5	102,5
Production²						
Sold production of industry	dynamics	96.8	98.1	112.3	109.4	106,0
Construction and assembly production	dynamics	103.7	101.1	89.2	84.8	105,0
Wages and salaries						
Average wages and salaries in the national economy. of which:	PLN	3,103				
- enterprise sector	PLN	3,325	3,333	3,652	3,325	
Average retirement pay and pension						
- non-agricultural social security system	PLN	1,543	1,548	1,649	1,595	
- individual farmers	PLN	911	914	956	934	
Labour market						
Average employment in enterprise sector	thous.pers.	5,327	5,325	5,294	5,295	
Average number of retirees and pensioners	thous.pers.	9,332	9,341	9,280	9,286	
- non-agricultural social security system	thous.pers.	7,906	7,900	7,892	7,893	
- individual farmers	thous.pers.	1,426	1,441	1,389	1,393	
Unemployment rate (as at the end of a period)	%	11.9	11.1	12.9	18.9	12,5
Foreign trade acc. to CSO						
Trade balance	m EUR	-8,719 ³			-2,181 ³	-11,200
- export revenues	m EUR	96,326 ³			26,236 ³	107,700
- import expenditure	m EUR	105,045 ³			28,417 ³	118,900

1- Preliminary CSO data

2- Data concerns entities employing more than 9 persons

3- Preliminary data

4- AFD MoE forecasts

	Unit	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
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	5.1	1.8 ²
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	2.3 ²
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	-0.4 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	11.2	4.4 ¹	-3.2 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	12.1	3.7 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	3.5
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	3.5
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	13.8	14.0	na
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	4,915	5,146	5,392	5,327
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	1,893
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	11.9
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	2,476	2,673	2,942	3103
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	5.5	6.0	2.0
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	2,889	3,186	3,325
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	6.8	6.1	1.1 ²
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	4.3
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	-8.7
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	96.3
Exports rate (acc. to CSO)	%	-	-	-	-	-	-	16.9	8.2	9.3	25.6	19.6	23.1	15.8	14.1	-17.1
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	105.0
Imports rate (acc. to CSO)	%	-	-	-	-	-	-	5.6	4.4	3.2	18.2	13.8	24.1	19.4	18.3	-26.3

¹ data concerns entities employing more than 9 persons

² provisional data

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