

MINISTRY OF ECONOMY

***A STUDY OF POLAND'S
ECONOMIC PERFORMANCE
IN THE PERIOD OF I-IX 2011***

**ANALYSES
AND FORECASTING
DEPARTMENT**

Warsaw, November 2011

*The mission of the Ministry of Economy
is to create the best conditions for business activity in Europe*

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Synthesis

- The year 2010 was the period of gradual recovery of the potential of the Polish economy, after slowdown observed in 2009. Taking into account other countries of the European Union, the economic performance of Poland looks very well, making Poland one of the European leaders. Incoming data indicate a persistent development in the world economy, thus prospects of development are ambiguous. The main risk factor remains currently fiscal imbalances in many countries.
- Nowadays the Polish economy is in an upward phase of next cycle. **In 2010 GDP growth amounted to 3.8%**, as an effect of the increase in individual consumption of 3.2% and growth of stocks. At the same time the gross fixed capital formation were lower by 1.2%. The main factor of economic growth was the domestic demand. In the three-quarters period AFD MoE estimates that GDP growth will be ca. 4.2% annually.
- In the period of January-September 2011 **sold production of industry** went up by 7.0% in entities with more than 9 employees. The biggest increase was observed in manufacturing (by 7.6%).
- In the period of I-IX 2011 **production in construction** rose by 18.2% in entities with more than 9 employees compared to corresponding period of 2010. This was caused by a low base effect (as a result of adverse weather conditions in the first months of 2010) and permanent improvement in economic activity in the construction industry.
- In the period of January-September 2011 **domestic trade results** improved in the comparison with the same period of 2010. It was caused by limitation on the side of internal demand, determined by a gradual increase in salaries pace in real terms and increase in employment. Volume of retail sales increased by 7.4% in entities with more than 9 employees.
- According to preliminary CSO data in the period of January-August 2011 the volume of the exports – counted in current prices – amounted to EUR 89.3bn and was by 15.3% higher than year before. The volume of imports stood at EUR 98.4bn and was by 15.1% higher than in the previous year. **The negative balance of foreign trade turnover reached a level of EUR 9.1bn** and deteriorated by EUR 1.07bn. Among the main recipients of Polish goods were Germany (26.2% of Polish exports), UK (6.3%) and Czech Republic (6.2%). The largest share of Polish imports came from Germany (22.1%), Russia (11.8%) and China (8.7%).
- According to provisional NBP data, in the period I-VIII 2011 **deterioration of the balance of the current account** was observed, comparing to previous year. The increase of deficit resulted from a significant increase in negative trade balance as well as in income balance. Simultaneously FDI inflow was higher than a year before by over 28%.
- In the period of January-September 2011 the annual average **consumer price index (CPI)** amounted to 4.2%. The fastest growth was observed in transport prices (by 7.1%), in which fuels by 12.6%. The costs of the use of housing and energy carriers increased by 6.1%. Simultaneously producer price index increased by 7.2% and construction prices surged by 0.8% (yoy).

- **In the period of I-IX 2011, the average employment in the companies sector increased by 3.6% compared to the previous year and amounted to 5,531 thous. persons.** At the end of September 2011, the number of registered unemployed amounted to 1,862 thous. persons (by 6.4 thous. more than in August). The unemployment rate maintained in the whole third quarter at the same level and shaped at 11.8%.
- In the period of January-September 2011, **salaries in enterprise sector slightly increased in real terms.** Retirement payments and pensions from non-agriculture security system increased, however purchasing power of retirement payments and pensions of individual farmers slightly decreased comparing to corresponding period of 2010.
- In the period of I-IX 2011 the budget revenues stood at PLN 205.0bn, when expenditures amounted to PLN 226.9bn. The nominal **budget deficit** amounted to PLN 21.9bn.
- In the period of I-IX 2011, the Monetary Policy Council changed **interest rates** four times: in January, April, May and June, by 0.25 percentage point each time.
- As regards the **foreign exchange market**, in the period of January-September 2011 significant appreciation of Polish zloty against dollar took place. It was caused by unstable political situation in South Africa at the beginning of the year as well as increasing fiscal problems in USA. Moreover Polish currency weakened against euro.

Economic recovery...

Demand recovery, observed in the last quarter of 2009, was continued in consecutive quarters of 2010. According to CSO data in 2010 GDP growth was higher than in 2009. Increase in domestic demand amounted to 4.4%. There has been a strong revival of foreign trade turnover. Slightly faster growth in imports than exports, however, translated into a negative contribution of net exports to GDP growth (-0.5 percentage points).

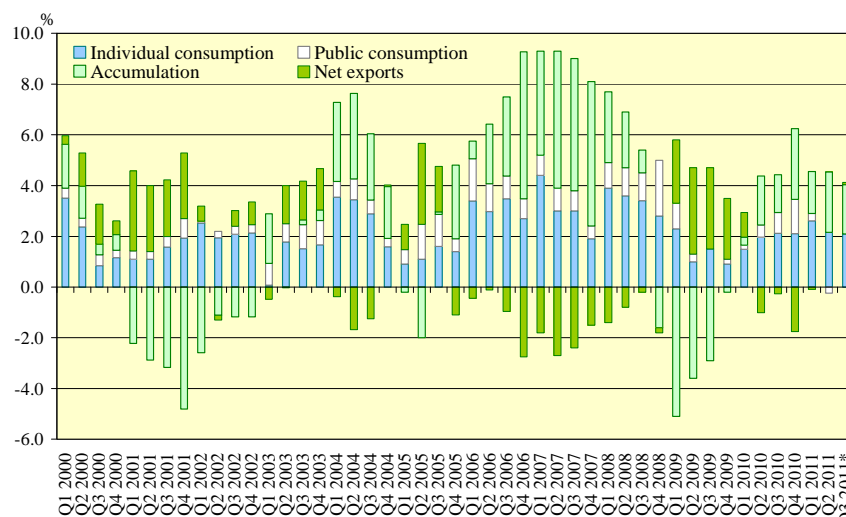
Table 1. GDP growth rate in 2008-2011

	2008				2009				2010				2011		
YoY	5.1				1.6				3.8						
	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	IV-IV	X-XII
YoY	6.3	6.1	5.2	3.2	0.4	1.0	1.6	3.2	3.0	3.4	4.2	4.5	4.4	4.3	4.0*

*AFD MoE estimate

Source: CSO

Chart 1. Decomposition of GDP in the years 2000 – 2011



* AFD MoE estimate

Source: AFD MoE calculations based on the CSO data

Some worrying information, coming from outside the economy, affect more cautious assessment of the prospects of development situation in Poland. The German government expects a slowdown of growth in Germany in 2011, for a next year their forecasts fell, as well. In addition, lack of unequivocal decisions about Greece future tends to caution in formulating positive evaluations.

According to AFD MoE estimates, in the three-quarters period of 2011 GDP increased by ca. 4.2% comparing to 2010. It was one of the best results in Europe.

In 2011 increase in investments expenditures was faster in consecutive quarters. Resumption of intensive investment process, after a period of 6 quarters of reduction, as well as increase in consumption, indicate that domestic demand remained the major factor of economic growth.

Slightly higher than a year ago, growth in private consumption was due to an increase in real wages of households and increase in employment.

Increase in gross fixed capital formation (according to estimates, the fifth quarter in a row) was caused by a high degree of capacity utilization and the realization of postponed investments, and low base effect. An obstacle for investment projects realization was a caution of positive economic assessment in main Polish trade partners.

Table 2. Gross value added growth by sections in the years 2004-2011

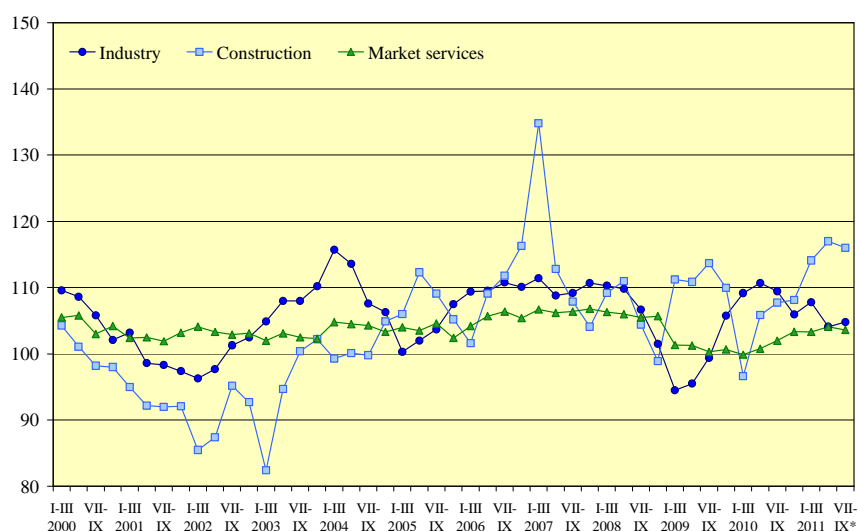
	2004	2005	2006	2007	2008	2009	2010	I-III q. 2011*
Industry	110.5	103.5	110.0	110.1	106.8	99.1	109.3	105.6
Construction	101.8	107.8	111.6	110.8	104.6	111.4	103.9	116.0
Market services	104.2	103.6	105.5	106.5	105.9	100.8	101.4	103.7

* AFD MoE estimate

Source: CSO

In the three-quarters period of 2011, **gross value added** grew by ca. 4% mainly due to increase in value added in the construction sector, which share in gross value added enhanced to over 8% in the last quarter. This was a result of increased infrastructure investments connected with EURO 2012, as well as in housing. Also, the value added in industry maintained an upward trend and grew by about 4.8%. Value added in market services sector, due to performance of a real estate and business support sectors, maintained at the similar level over the three quarters.

Chart 2. Gross value added growth by economy sectors in the years 2000 – 2011 (corresponding period of the previous year=100)



* AFD MoE estimate

Source: CSO

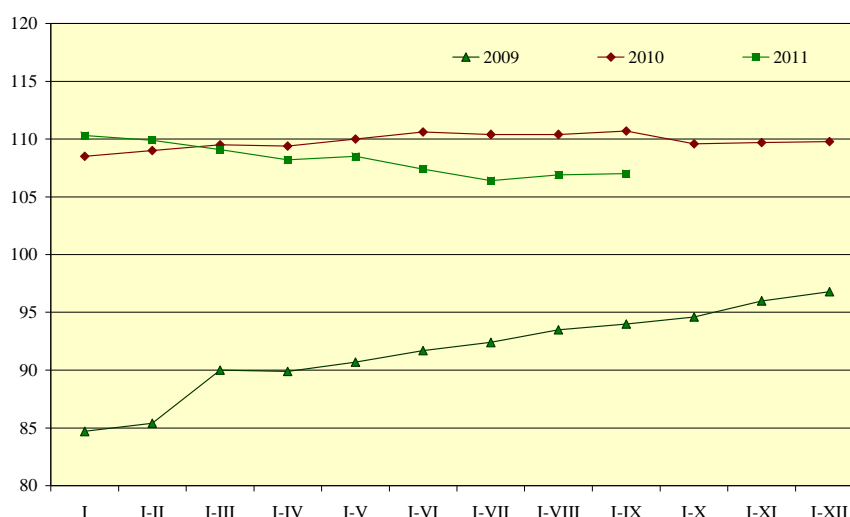
In 2011, we expect GDP growth of around 4%. Change in gross domestic product will remain under pressure of external circumstances. The main factor of growth will be maintaining of neutral expectations in relation to the world economy. As a result of increased investment activity, associated with shifts of the tasks for the year 2011, we expect growth in gross fixed capital formation. Individual consumption growth should be slightly higher than in the last year.

Industry – positive expectations maintained...

According to the CSO estimations, in the year 2010 the industrial output for the complete population of subjects has increased by 9.7%. In the entities employing more than 9 persons, it has increased by 9.8% in comparison to the previous year.

In comparison to the same period of the previous year, in the three-quarters period of 2011 the sold production of industry grew by 7.0%. The growth pace was particularly high in the 1st quarter of the year (9.1%), when in the following its scope was slower (6.0%). Result for the 2nd and 3rd quarter was affected by poor June's and July's outcomes, the lowest in the upward trend recorded since November 2009. Moreover, the result has been achieved with the high statistical basis from the previous year. The highest increase in the sold production has been observed in the manufacturing section (by 7.6%).

Chart 3. Changes in the sold production of industry in the years 2009-2011 (corresponding period of the previous year=100)



Source: Statistical Bulletins, CSO, 2009-2011

Growth of the sold production of industry has been recorded in the enterprises producing intermediate goods (by 12.4%), capital goods (by 11.1%) and the enterprises producing non-durable consumer goods (by 0.2% yoy). A decrease in production was recorded in the durable consumer goods (by 2.8%) and related to energy (by 0.2% yoy).

In the period of January-September 2011, 22 out of 34 industrial divisions recorded growth in production, comparing to the similar period of 2010. The highest growth was observed in the manufacture of metals (by 21.9%), furniture (by 20.4%) and metal products (by 19.4% yoy). The most considerable drop was noticed in the manufacture of computers, electronic and optical devices (by 10.2%) and pharmaceuticals (by 10.1%).

Labour productivity in the industry, measured by production per 1 employee, during the period of time from January to September 2011 was by 4.5% higher than in a previous year, with the average employment being higher by 2.4% and an increase in the monthly gross wages by 5.8%.

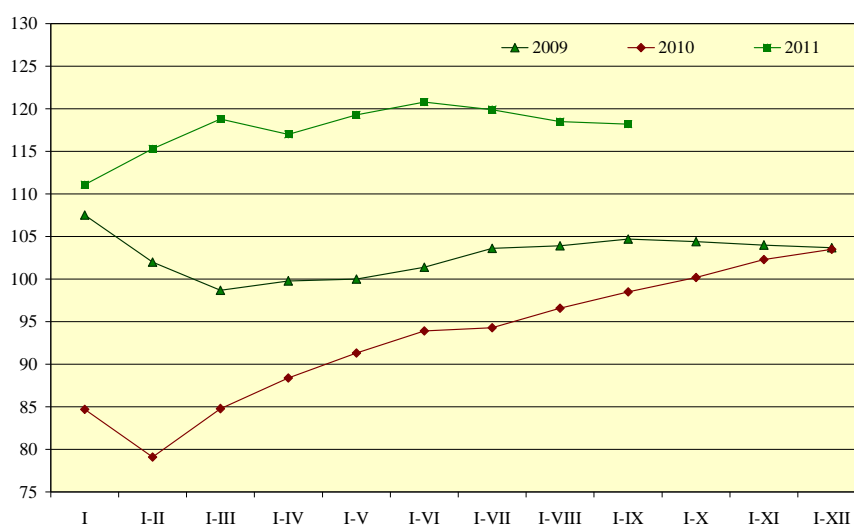
Due to an improvement in the general economic conditions, it is expected that at the end of 2011 the industry output will increase by over 7%.

Significant improvement in construction...

According to the CSO estimations, in 2010 rate of growth in construction and assembly production (for the complete population) has increased by 3.3%. In the companies employing more than 9 employees the growth approached 3.5%.

In the period of January-September 2011 construction and assembly production in the entities with more than 9 employees increased by 18.2%, in comparison to the 1st quarter of 2010. Such a good result was caused primarily by the low statistical base effects (in the period of I-IX 2010 decrease by 1.5% yoy).

Chart 4. Construction and assembly production indices in the years 2009-2011 (corresponding period of the previous year=100)



Source: Statistical Bulletins, CSO, 2009-2011

During the analyzed period, there has been observed **an increase in the construction and assembly** in the enterprises representing all the industry's sections, i.e. specialized in civil engineering (30.1%), specialized construction services (by 28.4%), and buildings construction (by 4.4% yoy).

In the period of I-IX 2011, 87.3 thousand of dwellings has been completed, i.e. 10.6% less than in the previous year¹. While the number of dwellings in private construction has increased (by 1.3%), the number of dwellings for sale or rental decreased (by 19.9%). Data concerning the number of granted permits for dwellings (higher by 6.8%) and amount of dwellings being constructed (growth by 0.5% yoy) in the analyzed period are positive for the overall condition of the construction sector.

It is expected that due to shifts of construction tasks from year 2010, in the 2011 their realization would be accumulated. As a result, bearing in mind the low statistical base effect, we expect the construction and assembly production to increase by almost 16% on yearly basis.

¹ Provisional CSO data

Agriculture...

In 2010 crop output decreased by 7.7% whereas animal output rose by 4.4%. As a consequence, the gross agricultural output reached a slightly drop by 2.1%.

In the period of July 2011 – September 2011 as a result of increase in wheat purchase by 20%, (accompanied by drop in rye purchase by 17.2%) the purchase of cereals with corn mixture without sowing grain increased by 11.8% comparing with analogous period of the previous season.

Table 3. Gross agricultural production in the years 2003-2010 (constant prices)

	2003	2004	2005	2006	2007	2008	2009	2010*
Gross output	99.2	107.5	95.7	98.8	105.9	103.2	102.4	97.9
Crop output	94.3	116.7	88.1	94.8	108.9	108.3	103.0	92.3
Animal output	104.8	97.3	105.2	102.6	102.9	97.1	101.7	104.4

* provisional data

Source: CSO

In September 2011 the grain purchase increased by 12.5% comparing with September 2010. In the same time the purchase of wheat increased significantly by 18.3%, whereas in the case of purchase of rye the minimal growth was observed: it reached 0.1% (yoy). Comparing with September 2010, wheat purchase price increased by 11.5% and rye price surged by 38.8%. On the farmers' market prices of both basic cereals was rising as well. Prices of wheat increased by 18% and of rye by 36.5% (yoy). Average potato prices on the farmers' markets decreased by 40.1% in September 2011.

According to provisional estimates in the first nine months of 2011, on the market of animals for slaughter it was observed an increase in purchase of pigs for slaughter (by 9.2%) and of poultry for slaughter (by 3.4%), comparing with analogous period of the previous season. However, there was observed an upward trend of prices of pigs for slaughter (by the 10.9% in the purchase and the 17.7% on the farmers' markets). In the first nine months of the year 2011 average purchase price of cattle for slaughter surged by 19.6% and by 11.6% on farmers' markets and the prices of poultry for slaughter in purchase rose by 16%. Milk supply in analyzing period was by 2.5% higher and purchase prices increased by 16.1% (yoy).

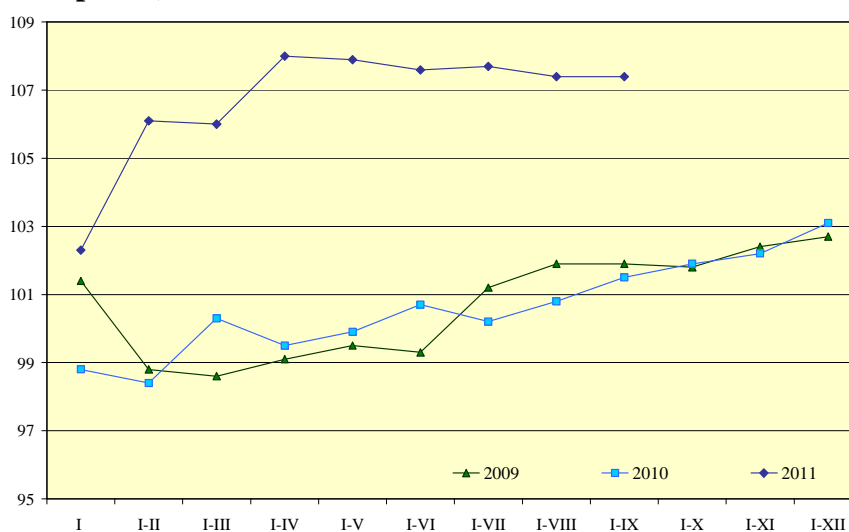
According to the preliminary estimate of production of major agricultural and horticultural crops in 2011, the production of basic cereals and mixed cereal amount to 24.1 million tons, i.e. 5.5% less than in the last year, production of rape and turnip rape is estimated to be approximately 1.9 million tons, i.e. by about 10% less than in the year 2010. The production of vegetables is estimated at 4.4 million tons, i.e. a little bit more than last year's harvest, and production of tree fruit will reach ca. 2.9 million tons, i.e. by almost 32% more, and berry fruit is estimated at more than 0.5 million tons, i.e. 4.5% less than last year's harvest.

Growth in domestic trade turnover...

In 2010 volume of retail sales for complete statistical population exceeded previous year's level by 1.5%. In enterprises with more than 9 employees the rise of 3.1% was recorded².

In the period of January-September 2011, comparing to the corresponding period of the previous year, domestic trade turnover increased by 7.4%. Increases of sales in consecutive months since May 2010 indicate consolidation of consumer demand revival in Polish economy.

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



Source: Statistical Bulletins, CSO, 2009-2011

Lower sales, than a year before, was recorded in a group with the biggest share in retail sales in general, so 'sales of food, beverages and tobacco products' (decrease by 2.0%). All the others has increased its sales on a yearly basis. Two further groups with significant contribution in retail sales in general, so 'liquid and gas' and 'others' changed positive by respectively 7.5% and 13.7% yoy. Among other groups the most significant increase concerns entities representing groups 'other retail sale in non-specialized stores' (by 28.8%), 'textiles, clothing and footwear' (by 14.1%) and 'pharmaceuticals, cosmetics, orthopaedic equipment' (by 13.3%).

After nine months of 2011 wholesale of trade companies employing more than 9 persons was by 13.7% higher than a year before, in which wholesale sold by wholesale enterprises increased by 12.9%.³

² constant prices

³ current prices

Inflation...

In 2010 the price index of consumer goods and services amounted to 2.6%. Thus the pace of prices increase, comparing to the previous year, was lower (by 0.9 pp.), but much higher than assumed in the budgetary law target of 1.0%. In December 2010 inflation rate was 3.1%.

After three quarters of 2011, the CPI reached 4.2% yoy. In each of nine months of this period the price level of goods and services was above the NBP inflation target, thus it has exceeded desirable fluctuation range.

Prices increase, in the analyzed period, was caused by a higher dynamics of food, beverages and tobacco products prices (by 5.8%). Besides that housing charges rose (by 6.1%), including energy carriers (by 7.3%). Moreover significant prices increase was noticed in transportation (by 7.1%), what was the result of fuels prices growth (by 12.6% yoy).

In the period of first nine months of 2011 prices increase was mainly affected by relatively wide volatility of food, energy and raw material prices on the international market. In analysed period, among energy carriers the highest prices growth was observed in crude oil (in September 27.6% higher than 2010 average price level) and natural gas (increase by 35.1%). Food commodities prices rose in September in a similar pace (among them mainly wheat - by 41.2% to the average 2010 prices level). Internal factors, such as rising consumer demand (after first nine months of 2011 retail sales grew by 7.4% yoy) and wage pressure, which was a result of accelerated growth of employment. Additionally, towards higher prices acted increase of value added tax (from 22% to 23% for the majority of products). The biggest contribution to prices increase in the first six months of 2011 was made by prices of food and non-alcoholic beverages (+1.61 pp.), house charges (+1.26 pp.) and transportation (+0.65 pp.). In the opposite direction the strongest impact was made by clothing and footwear (-0.07 pp.) and communications prices (-0.06 pp.).

In the period of January–September 2011 prices of sold production of industry were on average by 7.2% higher than in 2010. Industry prices dynamics acceleration was, among others, the result of two factors. On the one hand it was a low base effect (in the corresponding period of 2010 prices rose just by 1.2% y/y). On the other it was persistence of high demand for industrial production, and increase in prices of raw materials on the global market. Increase of prices was recorded in all industry sections, and the highest was noticed in mining (by 19.7% yoy).

In the analyzed period prices in construction and assembly production rose by 0.8% in comparison with the previous year. However it is estimated that with the gradual improvement in business activity in the construction industry, increasing employment and wages in the sector will translate into an increase in prices of construction output in next quarters.

The 2011 prices increase will be associated mainly with high volatility of food and energy prices on international markets. It is expected that observed in the first and second quarter of 2011 growth of inflationary pressures will continue in subsequent periods, so the average annual CPI will reach a value close to 4%.

Labour market – gradual improvement...

In the second quarter of 2011 all the main indicators of the labour market were better than a year before. That may be related to the recovery in industry, because that can indirectly cause a rise in labour demand. In the 2nd quarter of 2011 despite the number of employed persons increased (rise in the economic activity rate), the number of unemployed persons was higher as well (comparing to the second quarter of 2010).

Table 4. Primary LFS' score in 2010-2011

	2 nd q of 2010	3 rd q of 2010	4 th q of 2010	1 st q of 2011	2 nd q of 2011
Economic activity rate (%)	55.7	56.2	55.8	55.6	56.0
Employment rate (%)	50.4	51.4	50.6	50.5	50.7
Unemployment rate (%)	9.5	9.1	9.3	10.0	9.5
Employed persons (thousand)	15,994	16,199	16,075	15,875	16,163
Unemployed persons (thousand)	1,682	1,627	1,649	1,771	1,690
Economically inactive persons (thousand)	14,032	13,898	14,016	14,103	14,000

Source: CSO

In the period of January-September 2011 an average employment in enterprises sector was higher than in the previous year (3.6% yoy) and amounted 5,531 thous. Increasing dynamic of industrial production as well as construction and assembly production suggests that in the consecutive months (yoy) employment will be still growing. It implied the observed changes in the number of employees on a month-to-month basis.

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

	I-IX 2010	I-IX 2011	2011/2010
Total	5,340	5,531	103.6
Industry	2,434	2,493	102.4
Mining and quarrying	179	167	93.7
Manufacturing	2,004	2,064	103.0
Electricity, gas, steam and air conditioning supply	147	153	104.2
Water supply; sewerage, waste management and remediation activities	104	109	104.6
Construction	433	468	108.0
Trade; repair of motor vehicles	1,087	1,115	102.6
Transportation and storage	463	470	101.6
Accommodation and catering	107	116	108.8
Information and communication	161	165	102.7
Real estate activities	91	99	108.8
Professional, science and technical activities^a	145	159	110.0
Administrative and support service activities	294	313	106.2

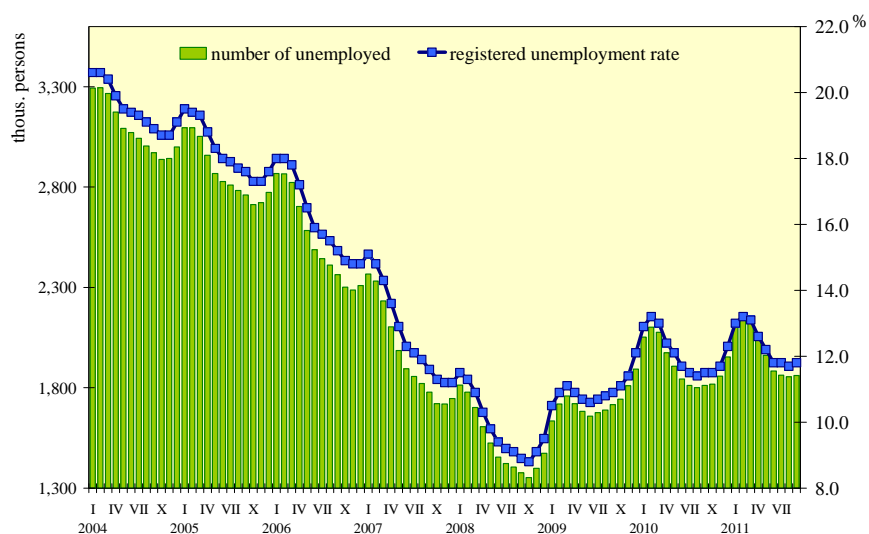
^a Does not include divisions: Scientific Research and Development, Veterinary activities.

Source: Statistical Bulletin, CSO, 2010-2011

Among divisions of manufacturing the highest changes in dynamics of employment, in the first nine months of 2011, were observed in divisions producing:

1. printing and reproduction of recorded media	111.6
2. motor vehicles, trailers and semi-trailers	108.4
3. leather and leather products	107.3
<hr/>	
1. coke and refined petroleum products	87.5
2. tobacco products	91.6
3. machinery and equipment	93.1

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



Source: CSO

At the end of September 2011 the **number of registered unemployed** shaped at the level of 1,862 persons. Comparing to the previous year's level it was lower by 49 thous. pers. (by 2.7%). The unemployment rate amounted to 11.8% and was higher by 0.3 percentage point than in September 2010. The lowest unemployment rate in wielkopolskie voivodship (8.6%), and the highest in warminko-mazurskie (18.7%).

Better, than a year before, the labour market situation in 2011, is an effect of improvement in economic activity observed in last months. The industrial production rose in September 2011 by 7.7% (yoy) and 13% comparing with August. It may have a positive influence on the labour market. Increase in employment, calculated year on year, is remaining at high level, however it is expected that unemployment rate will increase in the coming months, due to seasonal factors.

Despite the economic slowdown, in recent years there has been no significant deterioration of indices. It was the result of enterprises adjustment of labour costs to lower demand through flexible forms of employment. The scale of improvement in the labour market, both in terms of employment growth and a reduction in the number of people unemployed is lower than expected. Taking current circumstance into account, the unemployment rate at the end of 2011 will shape up at around 12%.

Increase in wages, salaries and social benefits...

In the period of January-September 2011 the average gross salary in enterprise sector amounted to PLN 3,549 (growth by 5.1% against 2010).

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

	I-IX 2010	I-IX 2011	2011/2010
Total	3,376	3,549	105.1
Industry	3,415	3,614	105.8
Mining and quarrying	5,349	5,926	110.8
Manufacturing	3,120	3,294	105.6
Electricity, gas, steam and air conditioning supply	5,118	5,470	106.9
Water supply; sewerage, waste management and remediation activities	3,364	3,502	104.1
Construction	3,475	3,647	105.0
Trade; repair of motor vehicles	3,093	3,233	104.5
Transportation and storage	3,218	3,345	103.9
Accommodation and catering	2,369	2,453	103.5
Information and communication	6,157	6,486	105.4
Real estate activities	3,487	3,633	104.2
Professional, science and technical activities^a	5,264	5,281	100.3
Administrative and support service activities	2,135	2,298	107.6

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

Source: Statistical Bulletins, CSO, 2010-2011

The purchasing power of wages in the enterprise sector increased by 2.0 % in the 3rd quarter of 2011, and in the period of January-September was higher by 1.1%.

In all divisions of manufacturing an increase in the average gross salary was recorded. The highest dynamics in wages and salaries took place in manufacture of:

1. coke and refined petroleum products 110.9
2. other transport equipment 110.7
3. printing and reproduction of recorded media 109.5

In the first nine months of 2011 the social security benefits in nominal terms rose too. The average monthly retirements payments and pensions from non-agricultural social security system amounted to PLN 1,721 which is 5.3% (in nominal terms) higher than a year before. The average retirement payments and pensions of individual farmers increased in analyzed period by 3.4% and reached a level of PLN 984 (drop by 1.2% yoy in real terms).

It is expected that in 2011, as a result of improving condition of labour market, the nominal growth of average wages will be a little bit higher than in previous year. Increase in wages in enterprise sector shall amounted to ca. 2% in real terms.

Public finances...

2010 budget revenues amounted to PLN 250.3bn and expenditures shaped at a level of PLN 294.9bn. As a consequence budget deficit amounted to PLN 44.6bn (in nominal terms) and was higher comparing to PLN 23.8bn in 2009.

In the period of January-September 2011 budget revenues shaped at level of PLN 205.0bn (surge by 13.0% yoy), and expenditures amounted to PLN 226.9bn (growth by 2.7% yoy). Budget balance stood at PLN -21.9bn.

Table 7. State budget performance in I-IX 2011 (in bn PLN)

	Budgetary Law	Performance	%
Revenues	273.1	205.0	75.0
Taxes and non-taxes	270.7	204.3	75.5
Indirect taxes	179.7	135.0	75.1
PIT	38.2	17.1	68.8
CIT	24.8	26.7	69.9
EU and other funds without repayment	2.4	0.7	28.4
Expenditure	313.3	226.9	72.4
Domestic debt servicing	29.6	16.2	54.7
Foreign debt servicing	8.8	7.7	86.9
Subs. to the Pension Fund	15.1	11.3	74.9
Subs. to Social Insurance Fund	37.1	37.0	99.7
General subs. to local self-government entities	48.4	39.7	82.0
BALANCE	-40.2	-21.9	54.5
Financing of EU budget funds	-15.4	-4.3	27.8
DEFICIT FINANCING SOURCES	55.6	26.2	47.1
DOMESTIC	31.1	18.7	60.0
Treasury bonds	-2.9	-10.1	0.3
Bonds	33.9	18.0	53.0
Proceeds from privatisation	15.0	11.7	78.3
Pre-financing actions with EU resources	-0.4	0.03	-
Foreign	24.5	7.5	30.8

Source: Ministry of Finance

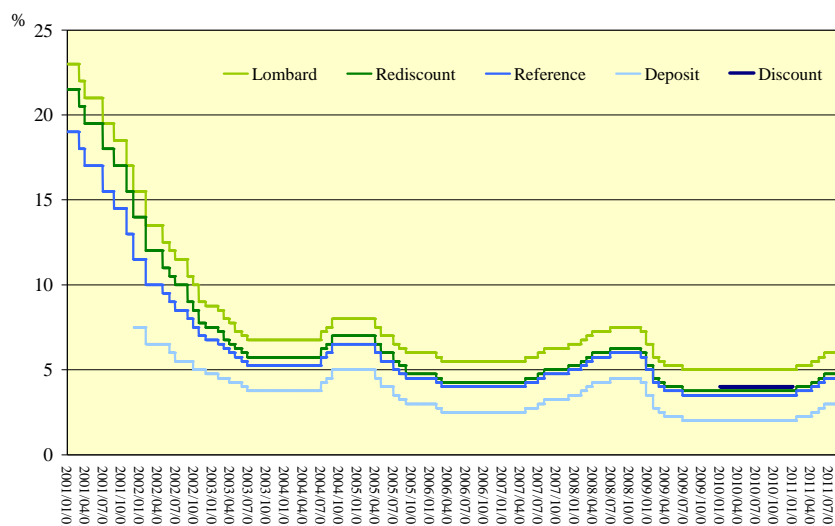
While income side is taken into account, the revenues from indirect taxes (including VAT – PLN 91.1bn) - accounted for 65.9% of the total amount of incomes executed in the period of January-September 2011.

As far as expenditures are concerned, the most significant increase was made by foreign debt servicing, which grew by 17.7% comparing to the first nine months of 2010. The shares of expenditures of domestic debt servicing and foreign debt servicing amounted to respectively 54.7% and 86.9% planned in the Budgetary Law. It's share in the total expenditures represented 10.5%.

Monetary policy and exchange rate...

In 2010 interest rates remained at the levels of 2009, when there were four cuts observed. In the end of December 2010 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 2001-2011



Source: NBP

In the period of January-September 2011 the Monetary Policy Council decided to increase basic interest rates four times in January, April, May and June, each by 0.25 pp. MPC restrictive attitude, presented during the 1st and more clearly during the 2nd quarter of 2011, resulted from concerns about macroeconomic effects of inflationary pressure, which could affect on problems with keeping CPI at NBP inflation target. In the 3rd quarter monetary policy became neutral. It was an effect of vividly drawing perspective of global economic slowdown, resulted from euro area fiscal tensions. This factor, in the monetary policy horizon, has shrunk the risk of prices growth in Polish economy, so at the end of September interest rates shaped at a level of: **Reference – 4.50%, Lombard – 6.00%, Deposit – 3.00%, and Rediscount 4.75%.**

In the period of January-September 2011 Polish zloty got stronger to US dollar and weakened against euro. An average euro exchange rate amounted to PLN 4.0190 and was higher by 0.4% yoy. US dollar exchange rate amounted to PLN 2.8573 and decreased by 6.3% yoy. In September 2011 an average exchange rate reached levels of respectively 4.3332 EUR/PLN and 3.1429 USD/PLN.

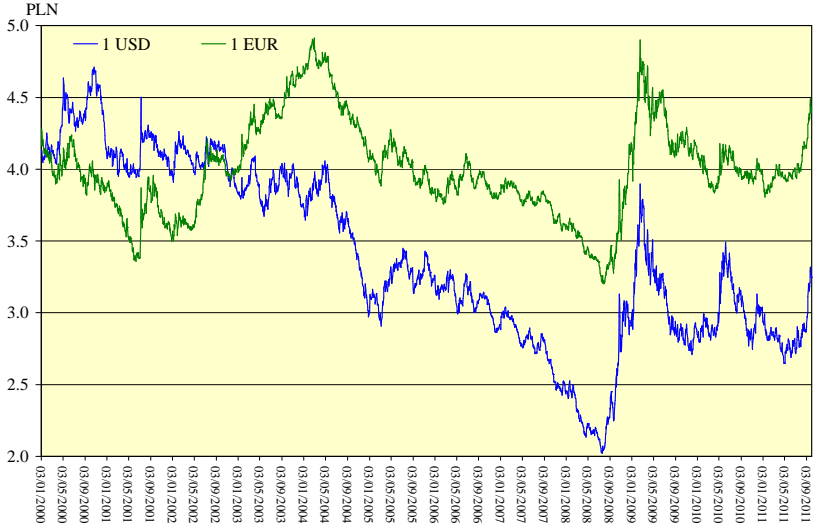
After a period of strong appreciation of the zloty against the dollar and the euro, extending from the first quarter of 2009, which was the result of the influx of relatively good macroeconomic data from Polish economy, the appreciation trend per month was stopped at the turn of 1st and 2nd quarter of 2010. Problems with balance of public finances in Greece and the uncertainty about the fiscal condition of some other eurozone countries led on the turn of the second quarter of 2010 to discourage the demand for the currency of our region, and thus decrease the value of gold in each month. Third quarter of 2010 was again marked by an appreciation of the Polish currency. This was the effect of stabilizing the situation on the

international currency market due to a reduction of uncertainty associated with the granting of financial assistance to the Greek economy. The last quarter of 2010 was marked by a slight weakening of the zloty against the dollar. At the same time the ratio of the zloty to the euro over the same period remained almost unchanged.

Relatively tight range of zloty fluctuations was observed also in the first two quarters of 2011. While – in consecutive months – zloty soundly got stronger against US dollar, its value remained more or less unchanged against euro. Due to withdrawal portfolio investments from emerging markets as a reaction for euro zone fiscal problems, in the 3rd quarter of 2011 sharp depreciation of zloty was noticed both, against euro and US dollar. This situation affected on systematic decline of zloty, to the lowest levels since the beginning of the year.

In the longer run it is expected that along with euro zone fiscal stabilization interest in the Polish currency will continue to grow. Nevertheless the possibility of further - determined mainly by external factors - short-term deviations from appreciation trend of zloty is not excluded.

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



Source: NBP

Recovery of exports...

According to the preliminary CSO data, in the period of January-August 2011 the value of exports denominated in EUR (in current prices) was higher by 15.3% compared to the similar period of 2010 and reached a level of EUR 89.3bn. The imports value increased by 15.1% and amounted to EUR 98.4bn. It was an effect of recovery on global market and growing turnovers with countries of Central and Eastern Europe (increase in the share of exports by 0.6% and imports by 2.3%). The negative balance of foreign trade reached a level of EUR 9.1bn, EUR 1.1bn more than in 2010.

Table 8. Geographical structure of Polish foreign trade in the period I-VIII 2011

	Exports		Imports	
	Share of total (%)	Change (pp)	Share of total (%)	Change (pp)
Developed countries	84.6	-0.7	66.7	-0.7
European Union	78.0	-1.3	59.3	-0.3
Developing countries	7.2	+0.1	19.3	-1.6
Central and East European countries	8.2	+0.6	14.0	+2.3

Source: CSO

Poland's main trading partners in the period January-August 2011 (comparing to the corresponding period of the year 2010):

Germany:

Exports (in €) increased by 16.2%, and imports by 15.7%,
Share of total Poland's exports – 26.2% (+0.3 pp); imports – 22.1% (+0.2 pp).

Russia:

Exports (in €) increased by 31.3%, and imports by 33.4%,
Share of total Poland's exports – 4.5% (+0.6 pp); imports – 11.8% (+1.6 pp).

China:

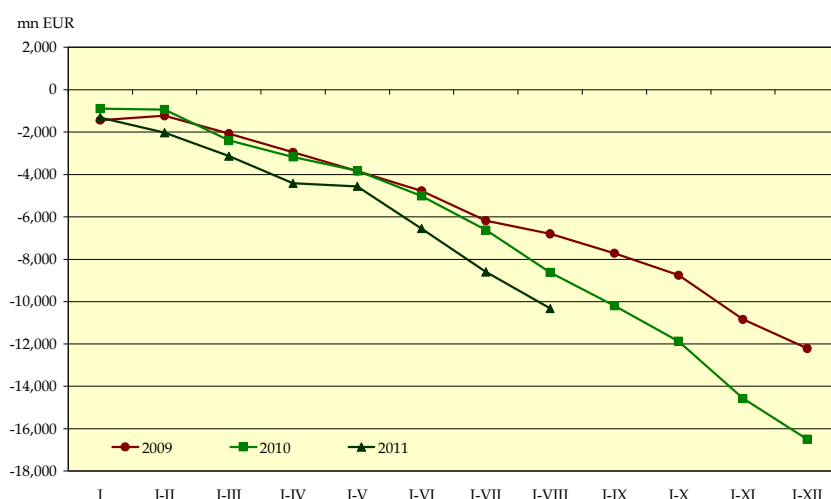
Share of total Poland's imports – 8.7 % (-0.7 pp).

In 2011 exports is expected to reach a level of EUR 133.0bn, so about 10.0% more than in 2010. Imports estimates to EUR 150.3bn, about 12.0% higher than in previous year. The negative balance of a foreign trade turnover will reach a level of EUR 17.3bn.

Deterioration in balance of payments ...

Preliminary data for the period January-August of 2011 indicates deterioration in the balance of payments in comparison to 2010. On the other hand it is worth noting that the scale of this deterioration – though significant – still has not led to return to pre-crisis level of imbalance.

Chart 9. Current account balance cumulatively (million EUR)



Source: NBP

In the analyzed period cumulative current account balance deficit amounted to EUR 10.3bn against EUR -8.63bn in the previous year. This result was an effect of increasing deficit on trade balance and deficit in incomes (increased by 2.07 bln).

In the period of January-August 2011 the inflow of foreign direct investments was higher by EUR 1.2bn than in the previous year, and reached a level of EUR 5.3bn.

Table 9. Balance of payments in the years 2007-2011 (in million EUR)

	2007	2008	2009	2010*	I-VIII 2011*
Current account	-19,245	-23,799	-12,152	-16,493	-10,328
Trade balance	-13,827	-20,928	-5,427	-8,893	-6,968
Export revenues	105,893	120,890	101,760	125,007	91,529
Import expenditure	119,720	141,818	107,187	133,900	98,497
Services' balance	3,441	3,475	3,427	2,334	3,065
Income balance	-11,928	-8,685	-11,828	-12,779	-10,292
Current transfers balance	3,069	2,339	1,676	2,845	3,867
Capital account	3,418	4,068	5,080	6,453	4,268
Financial account	27,621	25,924	24,597	28,529	14,714
Direct Polish external investment	-4,020	-3,072	-3,335	-4,149	-3,347
Direct foreign investment in Poland	17,242	10,128	9,343	6,696	5,229
Portfolio investment (assets)	-4,606	1,701	-1,009	-786	-62
Portfolio investment (liabilities)	-20	-3,655	11,303	20,041	9,682
Other investment (assets)	-1,321	4,039	3,911	-2,994	-1,327
Other investment (liabilities)	21,804	17,527	5,681	10,048	4,882

*preliminary data

Source: NBP

MINISTRY OF ECONOMY
Analyses and Forecasting Department

Warsaw, November 2011

POLAND'S MACROECONOMIC PERFORMANCE IN 2010-2011

Specification	Unit	2010	IX 2010	IX 2011	I-IX 2011	2011 ⁵
GDP	dynamics	103.8			104.2 ⁴	104.0
Consumption	dynamics	103.3			102.5 ⁴	103.1
- individual	dynamics	103.2			103.6 ⁴	103.3
Gross capital formation	dynamics	108.5			110.8 ⁴	111.0
- gross fixed capital formation	dynamics	99.0			108.2 ⁴	108.0
Prices						
Year-on-year price index of consumer goods and services (CPI)	dynamics	102.6	102.5	103.9	104.2	104.0
Year-on-year price index of sold production of industry (PPI)	dynamics	102.1	104.3	108.1	107.2	107.6
Production¹						
Sold production of industry	dynamics	109.7 ^A	111.8	107.7	107.0	107.1
Construction and assembly production	dynamics	103.3 ^A	113.4	118.1	118.2	115.9
Wages and salaries						
Average wages and salaries in the national economy. of which:	PLN	3,225				
- enterprise sector	PLN	3,435	3,404	3,582	3,547	
Average retirement pay and pension						
- non-agricultural social security system	PLN	1,643	1,663	1,743	1,721	
- individual farmers	PLN	955	956	985	984	
Labour market						
Average employment in enterprise sector	thous.pers.	5,373	5,364	5,515	5,531	
Average number of retirees and pensioners	thous.pers.	9,243	9,206	9,095	9,145	
- non-agricultural social security system	thous.pers.	7,869	7,843	7,779	7,813	
- individual farmers	thous.pers.	1,375	1,363	1,316	1,332	
Unemployment rate (as at the end of a period)	%	12.3	11.5	11.8	11.8	12.0
Foreign trade acc. to CSO						
Trade balance	m EUR	-13,815			-9,103 ^{2,3}	-17,300
- export revenues	m EUR	120,373			89,317 ^{2,3}	133,000
- import expenditure	m EUR	134,188			98,420 ^{2,3}	150,300

1- unless otherwise indicated data concerns entities employing more than 9 persons

2- preliminary data

3- data for period of January-August

4- AFD MoE estimate

5- AFD MoE forecast

A - concerns complete statistical population

	Unit	1995	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Gross Domestic Product (percentage change)	%	7.0	4.3	1.2	1.4	3.9	5.3	3.6	6.2	6.8	5.1	1.6	3.8
Individual consumption (percentage change)	%	3.2	3.1	2.3	3.4	2.1	4.7	2.1	5.0	4.9	5.7	2.1	3.2
Gross fixed capital formation (percentage change)	%	16.5	2.7	-9.7	-6.3	-0.1	6.4	6.5	14.9	17.6	9.6	-1.2	-1.0
Industry output (percentage change)	%*	9.7	6.7	0.6	1.1	8.3	12.6	3.7	11.2 11.6	11.2 10.7	4.4 3.6	-4.5	9.7
Construction and assembly output (percentage change)	%*	5.6	1.4	-6.4	-0.3	0.9	-7.0	1.5	13.7 18.1	17.4 15.5	9.6 12.1	5.1	3.3
Inflation (annual average)	%	27.8	10.1	5.5	1.9	0.8	3.5	2.1	1.0	2.5	4.2	3.5	2.6
Inflation (XII/XII)	%	21.6	8.5	6.3	0.8	1.7	4.4	0.7	1.4	4.0	3.3	3.5	3.1
Employed persons	m. pers.	14.7	15.0	14.9	12.7	12.7	12.6	12.7	12.9	13.3	13.9	13.8	13.8
Average employment in enterprise sector	thous. pers.	5,738	5,312	5,138	4,912	4,724	4,684	4,773	4,915	5,146	5,392	5,327	5,373
Registered unemployed persons	thous. pers.	2,629	2,703	3,115	3,217	3,176	3,000	2,773	2,309	1,747	1,474	1,893	1,955
Unemployment rate	%	14.9	15.1	17.5	18.0	20.0	19.0	17.6	14.8	11.4	9.5	12.1	12.4
Average gross nominal wage	PLN	691	1,894	2,045	2,098	2,185	2,273	2,361	2,476	2,673	2,942	3,102	3,225
Average gross real wage	%	2.8	1.0	2.5	0.7	3.4	0.7	1.8	4.0	5.5	6.0	2.0	1.5
Average gross nominal wage in enterprise sector	PLN	754	2,057	2,203	2,277	2,342	2,439	2,516	2,644	2,889	3,186	3,325	3,435
Average gross real wage in enterprise sector	%	3.2	1.3	1.6	1.5	2.0	0.8	1.2	4.2	6.8	6.1	1.1	0.8
Average real retirement pay and pension from non-agricultural social security system	%	3.2	-2.3	4.7	4.6	4.1	0.6	0.3	6.2	0.0	4.1	4.3	3.6
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	-9.3	-13.8
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	98.2	120.4
Exports rate (acc. to CSO)	%	-	-	16.9	8.2	9.3	25.6	19.6	23.1	15.8	14.1	-15.5	22.6
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	107.5	134.2
Imports rate (acc. to CSO)	%	-	-	5.6	4.4	3.2	18.2	13.8	24.1	19.4	18.3	-24.5	24.8

* change of statistical classification of economic activities (upper row according to PKD 2007, lower row according to PKD 2004)

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