

**MINISTRY OF ECONOMY**

***A STUDY OF POLAND'S  
ECONOMIC PERFORMANCE  
IN 2010***

**ANALYSES  
AND FORECASTING  
DEPARTMENT**

Warsaw, February 2011

*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. Consequences of the crisis, which arrived to Poland with some delay in the initial phase were not accompanied by any abrupt adjustment of market mechanisms in both companies and households.
- **According to CSO preliminary estimates in 2010 GDP growth amounted to 3.8%**, as a result of increase of individual consumption by 3.2% and growth of stocks. At the same time the gross fixed capital formation were lower by 2.0%. The main factor of growth was domestic demand. According to AFD MoE estimates **in the IV quarter of 2010 GDP increased annually by 4.3%**.
- In the period of January-December 2010 **sold production of industry** went up by 9.7% in complete statistical population (by 9.8% in entities with more than 9 employees). The biggest increase was observed in manufacturing (by 11.2%). It resulted from a first signs of recovery on the global market.
- In the period of I-XII 2010 **production in construction** raised by ca. 3% in complete population, and in entities with more than 9 employees increased by 3.5% 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 2010 **domestic trade results** deteriorated in the comparison with a four-quarters period of 2009. It was caused by limitation on the side of internal demand, determined by a slowdown of salaries pace in real terms. Despite this negative tendency, improvement on the labour market allowed to observed increase by 1.5% in volume of retail sales in complete statistical population (3.1% in entities with more than 9 employees).
- According to preliminary CSO data in 2010 the volume of the exports – counted in current prices – amounted to EUR 117.4bn and was by 19.5% higher than year before. The volume of imports stood at EUR 130.9bn and was by 21.7% higher than in the previous year. **The negative balance of foreign trade turnover reached a level of EUR 13.5bn**. Among the main recipients of Polish goods were Germany (26.0% of Polish exports), France (6.8%) and UK (6.2%). The largest share of Polish imports came from Germany (21.7%), Russia (10.5%) and China (9.5%).
- According to provisional NBP data, in the period I-XII 2010 **deterioration of a balance of the current account** was observed, comparing to the previous year. The increase of deficit resulted from an increasing negative goods and income balance. Simultaneously FDI inflow was lower than a year before and amounted to EUR 7.5bn.
- In January-December 2010 the annual average **consumer price index (CPI)** stood at lower level than in 2009 and amounted to 2.6%. Simultaneously producer price index increased by 2.1% and construction prices declined by 0.1% (yoy).

- **There was visible improvement of the economic situation in the labour market.** In the period of I-XII 2010, the average employment in the companies sector increased by 0.8% compared to the previous year. **At the end of December 2010, the number of registered unemployed amounted to 1,955 million persons** (by 95,4 thous. more than in November). The unemployment rate in December 2010, continue to grow in relation to the previous month and shaped at 12.3% (12.1% in December 2009).
- In the period of January-December 2010, **salaries in enterprise sector slightly increased 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-XI 2010 the budget revenues stood at PLN 226.9bn, when expenditures amounted to PLN 269.5bn. The nominal **budget deficit** amounted to PLN 42.6bn.
- In the period of I-XII 2010, the Monetary Policy Council did not change **interest rates** keeping them at the level of 2009.
- As regards the **foreign exchange market**, in the period of January-December 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. The influx of adverse data from the US economy has an impact on momentary degradation of the mood on the international market, while at the same time, weakening the zloty.

## Economic growth...

In 2009, mainly in a result of situation on global financial market, a weakening of an economic growth was observed. In the last quarter of 2009, a recovery of demand was recorded and in consecutive months the trend was continued.

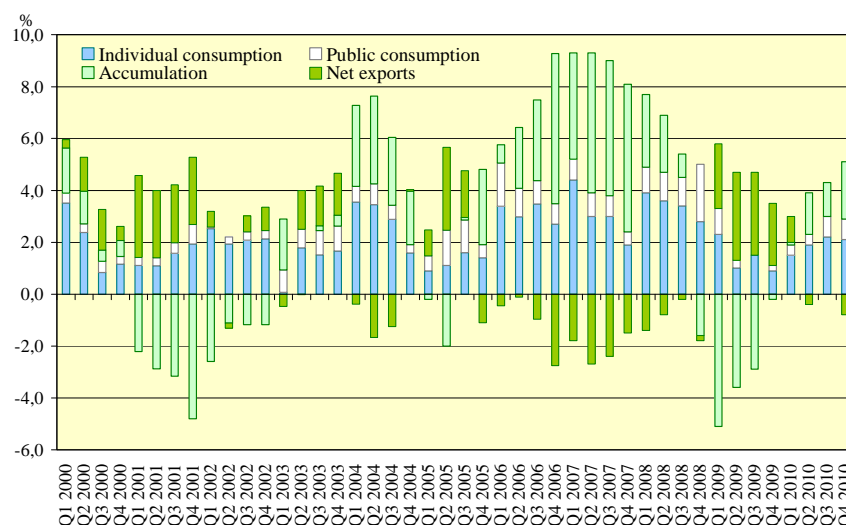
**Table 1. GDP growth rate in 2007-2010**

	2007				2008				2009				2010			
YoY	6.8				5.1				1.7				3.8			
	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-VI	VII-IX	X-XII
YoY	7.5	6.6	6.6	6.6	6.3	6.1	5.2	3.2	0.5	1.0	1.7	3.2	3.0	3.5	4.2	4.3*

\* AFD MoE estimate

Source: CSO

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



\* Data for IV q of 2010 - AFD MoE estimate

Source: AFD MoE calculations based on the CSO data

According to provisional CSO estimates, in 2010 GDP increased by 3.8% comparing to 2009. It was one of the best results in the EU and in this respect, the Poland's economy has given way to Sweden, Slovakia and Germany (according to EC forecasts).

In the period of I-XII of 2010 dynamics of individual consumption increased. A recovery in inventory was continued. As result, domestic demand was a major factor in economic growth. Foreign demand has lost the role of stimulator of the economy, and its contribution was negative. This was due to higher growth in imports than exports.

A recovery of the consumption demand was reflected in increase in retail sales, particularly in the 4<sup>th</sup> quarter. Higher dynamics of individual consumption was a result of increase spending on services and postponed consumption due to bad weather conditions in the first months of 2010. On the other hand, individual consumption was slowed down by a lower rate of wage growth, as well as deterioration of consumer confidence.

In the 3<sup>rd</sup> and 4<sup>th</sup> quarter, the increase in gross fixed capital formation was recorded (it allowed to reduce a decline observed in the 1<sup>st</sup> half of 2010). An increase in willingness to undertake new investments was noticed, however it remains at a low level. Positively to the implementation of investment projects affect the improvement of the economic situation of

enterprises, as well as mitigate the credit conditions. Increasing the level of capacity utilisation, which forces the implementation of the investment process. On the other hand, significant uncertainty about economic situation in the main Polish partners in trade (despite that prospects in Germany looks good) limits its activity.

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

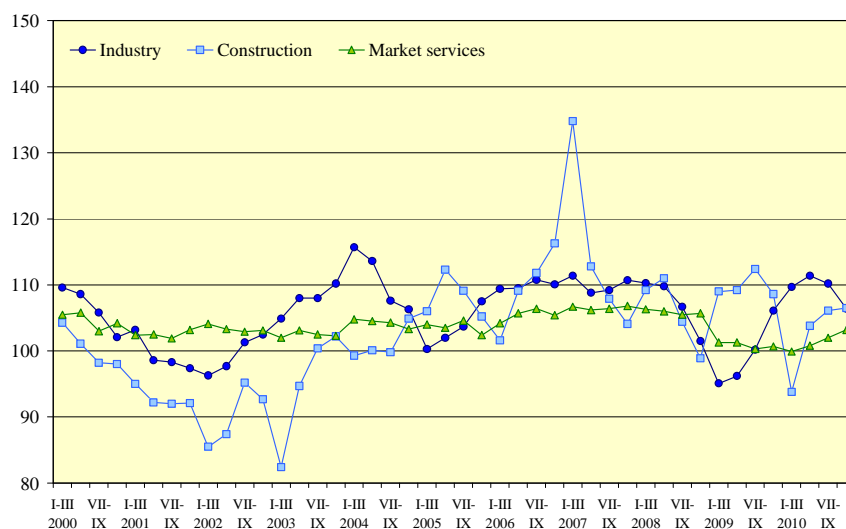
	2002	2003	2004	2005	2006	2007	2008	2009	2010*
<b>Industry</b>	99.5	107.8	110.5	103.5	110.0	110.1	106.8	99.7	109.2
<b>Construction</b>	91.0	97.1	101.8	107.8	111.6	110.8	104.6	109.9	103.8
<b>Market services</b>	103.3	102.5	104.2	103.6	105.5	106.5	105.9	100.9	101.5

\* provisional CSO estimate

Source: CSO

**The increase of gross value added** in 2010 was underpinned mainly by a growth of value added in industry, which contribution to GDP from the beginning of year remains positive. This is indicated by the dynamics increase in sold industrial production, which in January-December 2010 amounted to 9.7% (yoy). Decline in value added in market services sector, which was observed in the first quarter of 2010, was stopped in consecutive quarters. In 2010 value added in construction increased. It was a result of boost in the 3<sup>rd</sup> and 4<sup>th</sup> quarter of 2010. But the fact, that situation in construction was strongly determined by unfavourable weather condition in the 1<sup>st</sup> (extremely low temperatures) and 2<sup>nd</sup> quarter (flood) should not be overlooked.

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



\* Data for IV q. of 2010 - AFD MoE estimate

Source: CSO

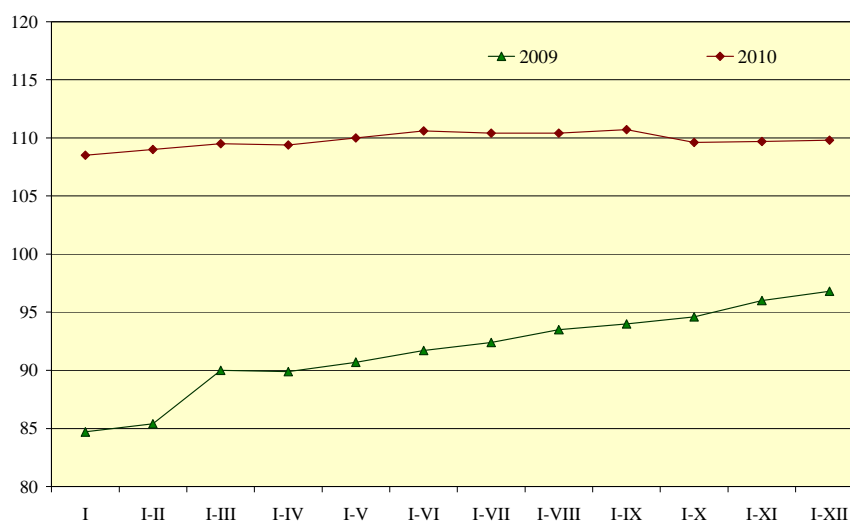
*In 2011 the GDP growth is assumed to ca. 4.2% and will be affected by external situation. The decisive factor will be the fixation of the positive trends and expectations in relation to the world economy situation. As a result of increased investment activity related with shifts of the tasks for the year 2011, the increase in gross fixed capital formation is expected. Individual consumption should be slightly higher than in the last year.*

### ***Industry – positive sentiments maintained...***

**In the year 2010 - under CSO estimation - industrial output for complete statistical population increased by 9.7%**, and in entities employing more than 9 persons, increased by 9.8% comparing to the previous year.

Due to a low previous year's statistical base effect and economic improvement among Poland's main trade partners, sold production of industry over 2010 sustained at a high level. Accrued an annual growth rate was stable, and it's slight weakening in a last quarter was mainly caused by base increase.

**Chart 3. Changes in the sold production of industry in the years 2009-2010 (corresponding period of the previous year=100)**



Source: Statistical Bulletins, CSO, 2009-2010

**Among all main manufacturing groups** growth of sold production of industry was noticed in enterprises producing mainly intermediate goods (by 17.6%), durable consumer goods (by 12.6%), capital goods (by 9.8%) and non-durable consumer goods (by 3.7%). Decrease in production was just recorded in enterprises specialized in manufacturing energy goods (by 1.1% yoy).

**In 2010, 24 from 34 industrial divisions recorded growth in production comparing to the previous year.** The highest growth was observed in a manufacture of computer, electronic and optical products (by 47.2%), manufacture of basic metals (by 21.0%), manufacture of paper and paper products (by 17.3%) and manufacture of other non-metallic mineral products (by 16.9%). Considerable slowdown was noticed in manufacture of other transport equipment (by 11.6%) and manufacture of beverages (by 7.7% yoy).

**In the analyzed period labour productivity in industry**, measured by sold production per 1 employee, was by 10.4% higher than a year before, with 0.5% lower average employment and increase in monthly gross wages (5.2%).

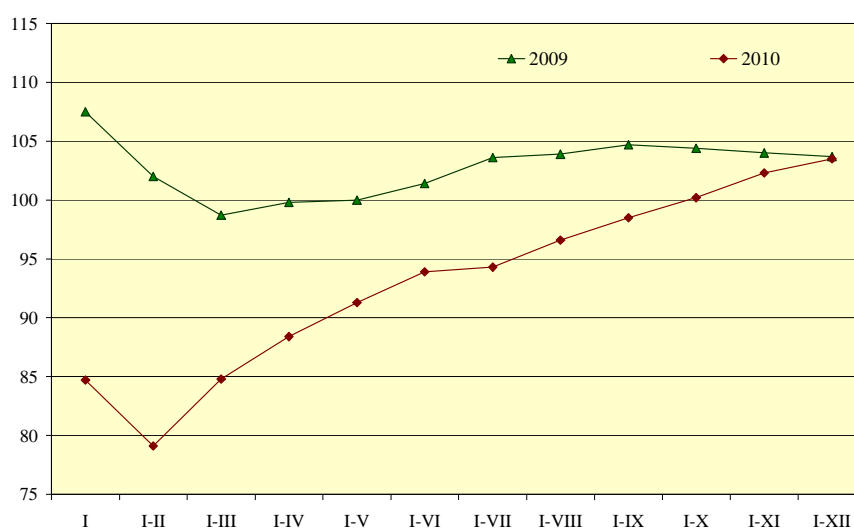
*It is expected that due to improvement of general economy condition at the end of 2011 industry output will achieve a positive growth of ca. 8.1%.*

### *Gradual improvement in construction...*

**In 2010 - according to CSO estimation - a scale of growth in construction and assembly production (for complete statistical population) increased by 3.0%, and in companies with more than 9 employees accounted to 3.5%.**

The 2010 sector's results were mainly driven by a negative influence of non-economic side effects. Unfavourable weather conditions in the first (low temperatures) and the second (flood) quarter of the year has limited activity of construction industry enterprises. Constraints of order-books had a negative impact as well. Resulting in growth of sold production per year higher than last year's level not until the last quarter of 2010.

**Chart 4. Construction and assembly production indices in the years 2009-2010 (corresponding period of the previous year=100)**



*Source: Statistical Bulletins, CSO, 2009-2010*

Increase of construction and assembly production, considering the type of construction works, was recorded in all main groups, so entities dealing with specialised construction activities (by 7.7%), specializing with buildings construction (by 2.8%) and with civil engineering (by 1.8% yoy).

**In the period of January-December 2010, 135.7 thousand dwellings were completed, which was by 15.2% less than in the previous year<sup>1</sup>.** Regarding dwellings for sale or rent as well as in private construction, amount of dwellings completed was lower than a year ago (respectively by 26.4% and 2.1% yoy). Despite the decrease in the number of licenses for the construction of dwellings (up 2.2% yoy), the data on the volume of housing construction started is favourable to assessment of prospects for the building sector (an increase of 10.6% yoy).

*It is expected that due to shifts of construction tasks from 2010, 2011 will become an accrual of it's realization. We expect that, along with a low statistical base effect, construction and assembly sold production will achieve 12.0% growth (yoy) in 2011.*

<sup>1</sup> Provisional CSO data

## *Agriculture...*

**According to provisional data, in 2010 crop output decreased by 7.5% whereas animal output rose by 4.8%. As a consequence, the gross agricultural output reached a slightly drop by 1.8%.**

In the period of July 2010 - December 2010 as a result of increase of wheat purchase by 18.5% (accompanied by drop of rye purchase by 22.4%), the purchase of cereals with corn mixture without sowing grain surged by 9.8% comparing with analogous period of the previous season.

**Table 3. Gross agricultural production in the years 2002-2010 (constant prices)**

	2002	2003	2004	2005	2006	2007	2008	2009	2010*
<b>Gross output</b>	98.1	99.2	107.5	95.7	98.8	105.9	103.2	102.2	98.2
<b>Crop output</b>	93.3	94.3	116.7	88.1	94.8	108.9	108.3	102.6	92.5
<b>Animal output</b>	103.4	104.8	97.3	105.2	102.6	102.9	97.1	101.7	104.8

*\* provisional data*

*Source: CSO*

In December 2010 the grain purchase decreased by 14.8% comparing with December 2009. In the same time the purchase of wheat fell slightly by 0.2%, whereas in the case purchase of rye the drop was significant and reached 56.0% (yoy). In view of the natural disasters, which take place in 2010 in countries that are major producers of cereals, and the lower demand, grain prices in December continue its dynamic growth. Wheat price increased by 65.4% and rye price surged by 105.3%. On the farmers' market prices of both basic cereals was rising as well, but in a lower scope. Prices of wheat increased by 53.7% and rye by 59.9% (yoy). Average potato prices on the farmers' markets increased by 46.9% in December 2010.

In the year 2010 average grain prices rose by approx. 22% (yoy). On the farmers' market the lowest increase concerned oats prices (about 2.0%) and the highest one – wheat prices (over 13.0%).

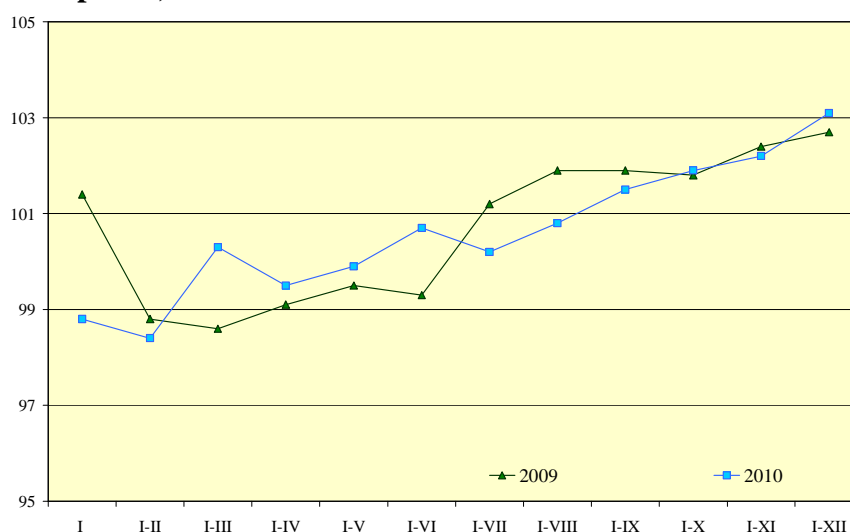
**According to provisional estimates, on the market of animals for slaughter in the period January-December 2010** the purchases increased by 12.0% comparing to the same period in 2009. This situation was caused by rise in purchases of pigs and poultry for slaughter (respectively by 13.9% and 11.9%). Higher animal output caused a slump of price of animals for slaughter. In the year 2010 average hogs for slaughter purchase prices dropped by 15.0%, the prices of cattle for slaughter rose by 1.0% and poultry for slaughter decreased by 5.4%. Milk supply in analyzing period decreased by 1.9% and purchase prices increased by 18.3% (yoy).

### *The slight increase of 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 recorded<sup>2</sup>.**

Positive retail trade dynamics, sustaining in 2010, indicates a further consumption demand recovery. While in the first two quarters of 2010 domestic trade growth has a limited scope (0.3% in the I q. and 1.1% in the II q. yoy), in the IV q. it has accelerated (7.3% yoy). It seems that improvement of retail sales, especially in the II half of the year, may be the result of announced changes in VAT (with the beginning of 2011).

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



Source: Statistical Bulletins, CSO, 2009-2010

Lower sales, than a year before, was recorded in a group with the biggest share in total retail sales – ‘sales of food, beverages and tobacco products’ (decrease by 1.9%). Besides that decrease was noticed in two groups ‘others’ (by 5.2%) and ‘newspapers, books, other sale in specialized stores’ (by 17.7%). Among the other groups, the amount of sales rose in the biggest scope in: ‘furniture, radio, TV and household appliances’ (by 23.5%), ‘textiles, clothing and footwear’ (by 17.1%) and ‘pharmaceuticals, cosmetics, orthopaedic equipment’ (by 14.5%). The second group with significant contribution in retail sales in general is ‘solid, liquid and gaseous fuels’, which increased by 5.1% (yoy). Positive prospects resulted from particularly high growth in the first of these groups - increased purchases in the so-called durable goods indicate a reduction in concerns about the future.

**In the period of January-December 2010 wholesale of trade companies** employing more than 9 persons was by 12.2% higher than a year before, in which wholesale sold by wholesale enterprises surged by 8.7%<sup>3</sup>.

<sup>2</sup> constant prices

<sup>3</sup> 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 the budgetary law assumed target of 1.0%. In December 2010 inflation rate was 3.1%.

Prices increase, in the analyzed period, was caused by a higher dynamics of food, beverages and tobacco products prices (by 3.2%). Besides that housing charges rose (by 3.8%), including energy carriers (by 4.1%). Moreover significant prices increase was noticed in transportation (by 6.2%), what was the result of fuels prices growth (by 11.9% yoy).

In 2010 prices increase was mainly affected by relatively wide volatility of food and energy prices on the international market. On the opposite side, conducive to the inflationary pressure weakening, were lower wages requirements, as an effect of high unemployment rate and low dynamics of employment. The biggest contribution to prices increase in the 2010 was made by house charges (+0.76 pp.), prices of food and non-alcoholic beverages (+0.65 pp.) and transportation (+0.57 pp.). In the opposite direction the strongest influence was made by clothing and footwear (-0.19 pp.) and communications prices (-0.06 pp.).

**In 2010 prices of sold production of industry were on average by 2.1% higher** than in 2009. Due to considerable improvement in demand, prices dynamics in analyzed period has accelerated. Even lower unit labour costs, as an effect of higher efficiency noticed with a 5.2% average gross monthly wages, weren't able to limit the pace of prices growth. Increase of prices was recorded in all industry sections. In manufacturing its scope was 0.8% yoy.

**In the analyzed period prices in construction and assembly production dropped by 0.1%** in comparison with the previous year. Negative dynamics of prices in the sector, sustained cumulative since the beginning of the year. It was mainly caused by a limited activity of enterprises of the construction industry due to adverse weather conditions, especially in its 1<sup>st</sup> quarter.

*Observed since September 2010 gradual increase of consumption goods and services prices, along with forecast of over 4.0% GDP growth in 2011, let to expect an upswing of prices levels. Besides that, taking into consideration possible maintaining of pro-inflationary growth of food and energy prices on a global markets, it is expected that in 2011 CPI will rise to about 3.2%.*

## ***Labour market – minor deterioration...***

Third quarter of 2010 was the subsequent, in which an improvement of all main parameters of the labor market was observed. Most of them reach the better values then in the corresponding quarter of the previous year. Their improvement may be indicative of the gradual disappearance of the negative impact of the global economic downturn on the labor market. Recovery in industry will indirectly cause a rise in labour demand.

Growing, since the beginning of 2010, the economic activity rate was mainly due to increase activity among young people (15-24 years), which can be related to the repealing of military conscription. However, a significant increase in activity among older people (45-59/64 years) can be explained by limiting the privilege of early retirement.

**Table 4. Primary LFS' score in 2009-2010**

	3 <sup>rd</sup> q of 2009	4 <sup>th</sup> q of 2009	1 <sup>st</sup> q of 2010	2 <sup>nd</sup> q of 2010	3 <sup>rd</sup> q of 2010
<b>Economic activity rate (%)</b>	55.4	55.1	55.2	55.7	56.2
<b>Employment rate (%)</b>	50.9	50.4	49.4	50.4	51.4
<b>Unemployment rate (%)</b>	8.1	8.5	10.6	9.5	9.1
<b>Employed persons (thousand)</b>	16,026	15,885	15,574	15,994	16,199
<b>Unemployed persons (thousand)</b>	1,404	1,471	1,839	1,682	1,627
<b>Economically inactive persons (thousand)</b>	14,049	14,149	14,108	14,032	13,898

Source: CSO

In 2010 an average employment in enterprises sector was a little bit higher than in the previous year (0.8% yoy). A delayed reaction of labour market on economic phenomenon suggests that in the consecutive months (yoy) employment increases will be more significant. It suggests the observed increases in the number of employees on a month-to-month basis. On the other side in the coming months, the employment will be influenced by reducing the demand for seasonal work.

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

	I-XII 2009	I-XII 2010	2010/2009
<b>Total</b>	5,327	5,373	100.8
<b>Industry</b>	2,455	2,442	99.5
<b>Mining and quarrying</b>	180	176	97.7
<b>Manufacturing</b>	2,027	2,013	99.3
<b>Electricity, gas, steam and air conditioning supply</b>	148	150	100.8
<b>Water supply; sewerage, waste management and remediation activities</b>	100	104	103.7
<b>Construction</b>	436	443	101.6
<b>Trade; repair of motor vehicles</b>	1,093	1,093	100.1
<b>Transportation and storage</b>	463	464	100.2
<b>Accommodation and catering</b>	102	109	106.3
<b>Information and communication</b>	159	159	99.7
<b>Real estate activities</b>	89	92	103.3
<b>Professional, science and technical activities<sup>a</sup></b>	141	146	103.8
<b>Administrative and support service activities</b>	265	300	113.1

<sup>a</sup> Does not include divisions: Scientific Research and Development, Veterinary activities.

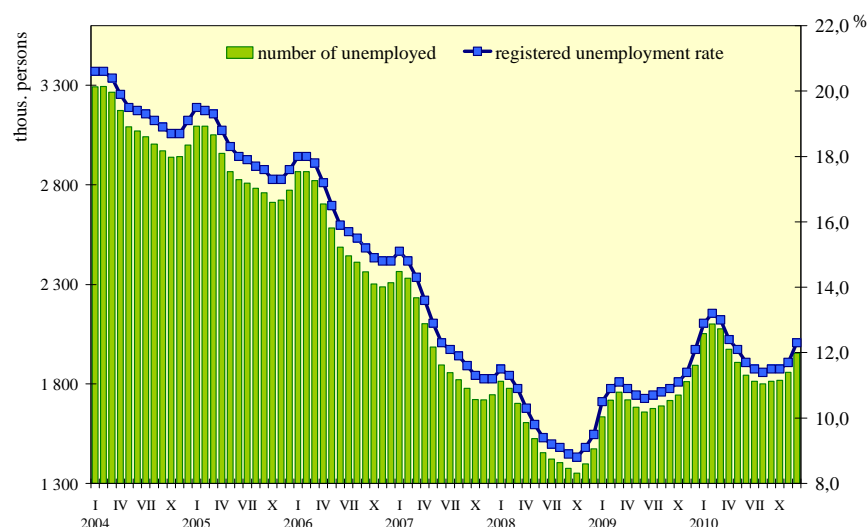
Source: Statistical Bulletin, CSO, 2009-2010

Among divisions of manufacturing the highest changes in dynamics of employment, in the year 2010, were observed in divisions producing:

1. printing and reproduction of recorded media	106.1
2. computer, electronic and optical products	104.9
1. other transport equipment	83.9
2. coke and refined petroleum products	83.6

In the period of I-XII 2010, the number of registered unemployed and unemployment rate were volatile, but the noticeable trend of improvement was observed in case of both indices.

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



Source: CSO

At the end of December 2010 the **number of registered unemployed** shaped at the level of 1,955 persons, i.e. by 3.3% higher than in the same month of the previous year. The unemployment rate amounted to 12.3% and was higher by 0.2 percentage point than in December 2009.

Weaker, than a year before, results of the labour market in 2010, were still caused by reduction in economic activity during the global crisis. However, the signals of improving the economic situation meant that the picture of the labour market is gradually improving. Increase in employment, calculated year on year, is getting higher and it is expected that unemployment rate in the coming months will be decreasing (though seasonal deterioration is possible).

*Despite the economic slowdown, in recent years there has been no significant deterioration of indices. It was the result of enterprises adjustment to lower costs of labour demand through flexible forms of employment. Today is expected to be noteworthy improvement in the labour market, both in terms of employment growth and a significant reduction in the number of people unemployed. Therefore, the unemployment rate at the end of 2011 should shape up at around 10.5%.*

### *Increase in wages, salaries and social benefits...*

**In the period of January-December 2010 the average gross salary in enterprise sector amounted to PLN 3,435 (growth by 3.3% against 2009).**

Among divisions of manufacturing just in one of them a drop 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	113.3
2. motor vehicles, trailers and semi-trailers	107.4
3. electrical equipment	107.4
<hr/>	
1. pharmaceutical product	98.9

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

	I-XII 2009	I-XII 2010	2010/2009
<b>Total</b>	3,325	3,435	103.3
<b>Industry</b>	3,315	3,488	105.2
<b>Mining and quarrying</b>	5,718	5,866	102.6
<b>Manufacturing</b>	2,989	3,147	105.3
<b>Electricity, gas, steam and air conditioning supply</b>	4,897	5,316	108.6
<b>Water supply; sewerage, waste management and remediation activities</b>	3,268	3,430	105.0
<b>Construction</b>	3,463	3,539	102.2
<b>Trade; repair of motor vehicles</b>	3,050	3,112	102.0
<b>Transportation and storage</b>	3,250	3,316	102.0
<b>Accommodation and catering</b>	2,310	2,379	103.0
<b>Information and communication</b>	5,942	6,187	104.1
<b>Real estate activities</b>	3,416	3,559	104.2
<b>Professional, science and technical activities<sup>a</sup></b>	5,421	5,302	97.8
<b>Administrative and support service activities</b>	2,057	2,153	104.7

<sup>a</sup> 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 0.8% in 2010.**

In the four-quarters period of 2010 the social security benefits rose too. The average monthly retirements payments and pensions from non-agricultural social security system amounted to PLN 1,643 which is 6.5% (in nominal terms) and 3.6% (in real terms) higher than a year before. The average retirement payments and pensions of individual farmers increased in analyzed period by 4.8% and reached a level of PLN 955 (growth by 1.9% yoy in real terms).

*It is expected that in 2011, according to improving condition of labour market, the nominal growth of average wages will be a little bit higher than in previous year. 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 still relatively high level of unemployment rate which limits increase in wage pressure.*

## Public finances...

In the period of January-November 2010<sup>4</sup> budget revenues amounted to PLN 226.9bn and represented 91.1% planned in the Budgetary Law. It was by 0.8 pp. lower than in the corresponding period of the previous year. Expenditures shaped at a level of PLN 269.5bn and represented 89.5% planned in the Budgetary Law, which was 2.2 percentage points lower than in corresponding period of 2009. As a consequence budget deficit amounted to PLN 42.5bn (in nominal terms) and was higher comparing to PLN 24.4bn in I-XI 2009.

**Table 7. State budget performance in I-XI 2010 (in bn PLN)**

	Budgetary Law	Performance	%
<b>Revenues</b>	<b>249.0</b>	<b>226.9</b>	<b>91.1</b>
<b>Taxes</b>	223.2	203.4	91.1
<b>Indirect taxes</b>	160.8	153.2	95.2
<b>PIT</b>	36.1	31.7	87.9
<b>CIT</b>	26.3	18.5	70.3
<b>Non-taxes</b>	22.4	22.2	98.9
<b>EU and other funds without repayment</b>	3.4	1.4	40.5
<b>Expenditure</b>	<b>301.2</b>	<b>269.5</b>	<b>89.5</b>
<b>Domestic debt servicing</b>	27.2	26.5	97.1
<b>Foreign debt servicing</b>	7.6	7.1	93.2
<b>Subs. to the Pension Fund</b>	15.3	13.6	88.8
<b>Subs. to Social Insurance Fund</b>	37.9	37.9	100.0
<b>General subs. to local self-government entities</b>	47.2	46.2	97.9
<b>BALANCE</b>	<b>-52.2</b>	<b>-42.5</b>	<b>81.4</b>
<b>Financing of EU budget funds</b>	<b>-14.4</b>	<b>-6.0</b>	<b>41.5</b>
<b>DEFICIT FINANCING SOURCES</b>	<b>66.6</b>	<b>48.5</b>	<b>72.8</b>
<b>DOMESTIC</b>	<b>45.5</b>	<b>29.8</b>	<b>65.5</b>
<b>Treasury bonds</b>	8.3	-11.7	-
<b>Bonds</b>	51.8	53.7	103.8
<b>Proceeds from privatisation</b>	25.0	17.9	71.8
<b>Pre-financing actions with EU resources</b>	-1.3	-0.5	36.1
<b>Foreign</b>	<b>21.2</b>	<b>18.7</b>	<b>88.4</b>

Source: Ministry of Finance

While **incomes** side is taken into account, the revenues from indirect taxes - accounted for 75.3% of the total amount of incomes executed in the period of January-November 2010 - were the main receipts items (in nominal terms increased by 6.7% yoy). VAT revenues stood at a level of PLN 100.8bn.

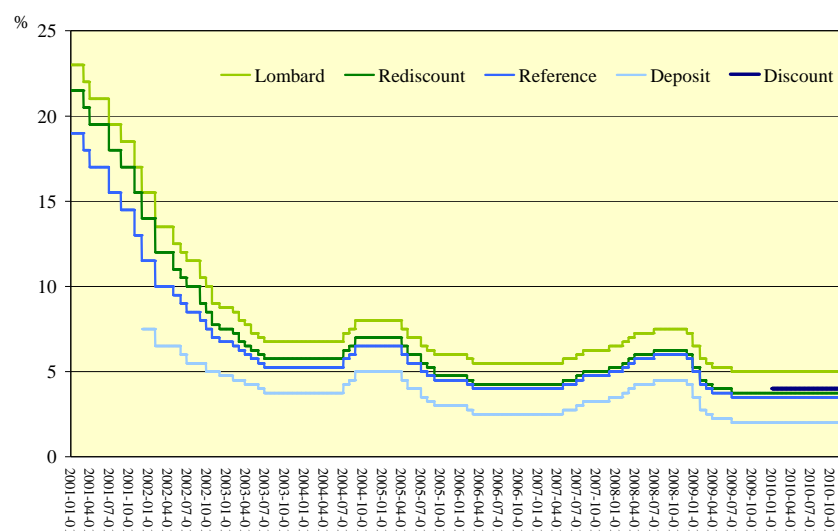
As far as **expenditures** are concerned, the highest burden growth was noticed in subsidies to Social Insurance Fund (by 24.7% yoy). The shares of expenditures of domestic debt servicing and foreign debt servicing amounted to respectively 97.1% and 93.2% planned in the Budgetary Law. Its share in the total expenditures represents 12.5%.

<sup>4</sup> Due to lack of 2010 budget preliminary results served by the Ministry of Finance, presented data covers the period of January-November 2010.

## Monetary policy and exchange rate...

**In 2010 interest rates remain at the levels of 2009. 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 2001-2010**



Source: NBP

Unchanged levels of basic interest rates was MPC justified by inflow of positive macroeconomic data from Poland's economy. Besides that, uncertainty about economic situation among Poland's trade partners and strong volatility on foreign exchange market, were taken into consideration. Decision was also affected by possibility of a wider capital inflow to the emerging economies, including Poland. Monetary Policy Council deemed so far made changes as a sufficient, thus favourable to return for the Polish economy for the potential growth path.

Because of a low interest from financial institutions, MPC decided to withdraw with effect from the 1<sup>st</sup> January of 2011 the discount rate on bills of exchange accepted from commercial banks for discount at the NBP. Moreover the Council had raised required reserves rate from 3.0% to 3.5% since 31 December of 2010.

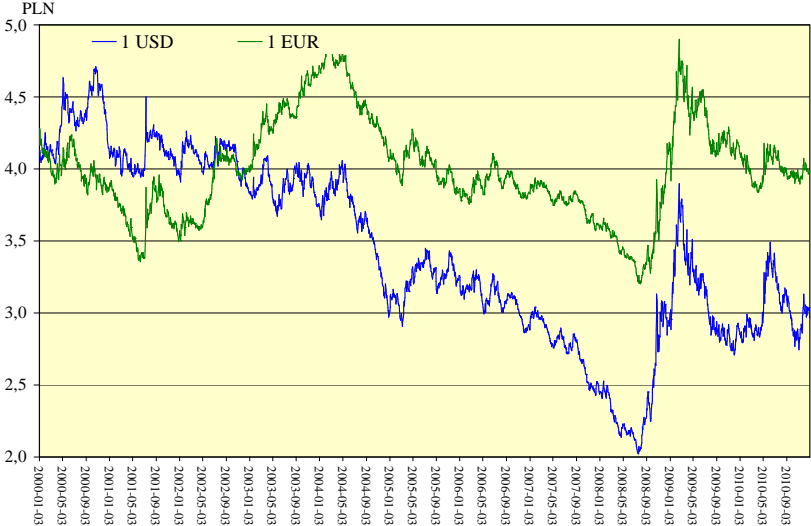
Comparing to the end of the previous year value, liabilities rose in December overall by 9.0%. Debts growth, especially in form of loans, in analyzed period, covered local government institutions (by 38.1%), non-profit institutions serving households (by 25.6%) and households (by 13.9%). Decrease in liabilities was noticed by social insurance funds (by 98.7%), non-monetary financial institutions (by 7.1%) and by enterprises (by 0.3%).

**In the period of January-December 2010 Polish zloty got stronger both to euro and US dollar.** An average euro exchange rate amounted to PLN 3.9946 and was lower by 7.7% yoy. US dollar exchange rate amounted to PLN 3.0157 and decreased by 3.2% yoy. In December 2010 an average exchange rate of both currency reached levels of respectively 3.9959 EUR/PLN and 3.0197 USD/PLN.

An average results for 2010 do not present an overall relations of main currencies pairs. After a strong appreciation of the Polish currency against US dollar and euro – noticed from the I quarter of 2009 – caused by inflow of relatively good macroeconomic data from Poland’s economy, upward trend (mom) has been stopped. Problems with maintaining the balance of public finances in Greece and uncertainty of fiscal condition of a few other euro zone countries lead, on a turn of the I and II quarter of 2010, to decline in demand on our region’s currencies, thus the zloty depreciation in particular months. During the III quarter of 2010 Polish currency once again got stronger. It was an effect of international currencies market stabilization due to reduction of Greece economy instability risk. The last quarter of 2010 characterized by a slight zloty depreciation against US dollar, while its ratio to euro remained more or less unchanged.

Despite it, in a longer term it is expected that in the prospect of further economic situation improvement investors will be still strongly interested in zloty. Furthermore another short-term depreciation trends of Polish currency are 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-December 2010 the value of exports denominated in EUR (in current prices) was higher by 19.5% compared to the similar period of 2009 and reached a level of EUR 117.4bn. The imports value increased by 21.7% and amounted to EUR 130.9bn. It was an effect of first signs of recovery on global market and growing production of import-intensive industries. The negative balance of foreign trade reached a level of EUR 13.5bn, EUR 4.2bn more than in 2009.

**Table 8. Geographical structure of Polish foreign trade in the period I-XII 2010**

	Exports		Imports	
	Share of total (%)	Change (pp)	Share of total (%)	Change (pp)
<b>Developed countries</b>	84.5	-1.1	66.7	-2.4
<b>European Union</b>	78.6	-1.0	58.8	-3.1
<b>Developing countries</b>	7.3	+0.4	21.2	+0.3
<b>Central and East European countries</b>	8.2	+0.7	12.1	+2.1

Source: CSO

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

#### **Germany:**

Exports (in €) increased by 18.8%, and imports by 18.2%,  
Share of total Poland's exports – 26.0% (-0.2 pp); imports – 21.7% (-0.7 pp).

#### **Russia:**

Exports (in €) increased by 40.1%, and imports by 49.2%,  
Share of total Poland's exports – 4.3% (+0.6 pp); imports – 10.5% (+2.0 pp).

#### **China:**

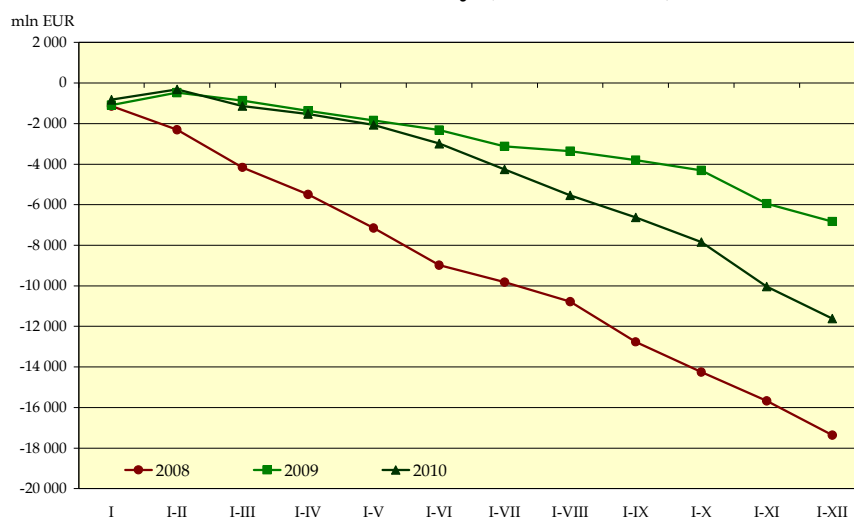
Share of total Poland's imports – 9.5 % (+0.2 pp).

*In 2011 exports is expected to reach a level of EUR 128.6bn, so about 10.5% more than in 2010. Imports estimates to EUR 143.8bn, about 12.0% higher than in previous year. The negative balance of a foreign trade turnover will reach a level of EUR 15.2bn.*

## Deterioration in balance of payments ...

Preliminary data for 2010 indicates deterioration in the balance of payments in comparison to 2009. On the other hand it is worth noting that the scale of this deterioration though significant - 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 11.6bn against EUR -6,8bn in the previous year. This result was an effect of increasing negative trade balance (by EUR 3.2bn).

In the period of January-December 2010 the inflow of foreign direct investments was lower by EUR 2.4bn than in the previous year, and reached a level of EUR 7.5bn.

**Table 9. Balance of payments in the years 2006-2010 (in million EUR)**

	2006	2007	2008*	2009	2010*
<b>Current account</b>	-7,453	-14,721	-17,362	-6,831	-11,614
Trade balance	-5,541	-12,386	-17,723	-3,118	-6,360
Export revenues	93,378	105,856	121,082	101,674	122,134
Import expenditure	98,919	118,242	138,805	104,792	128,494
Services' balance	572	3,432	3,473	3,421	3,075
Income balance	-7,707	-11,969	-8,652	-11,863	-13,006
Current transfers balance	5,223	6,202	5,540	4,729	4,677
<b>Capital account</b>	1,673	3,421	4,072	5,015	6,735
<b>Financial account</b>	9,216	28,214	26,223	25,726	30,012
Direct Polish external investment	-7,096	-4,000	-3,063	-3,715	-3,781
Direct foreign investment in Poland	15,707	17,222	10,118	9,950	7,538
Portfolio investment (assets)	-3,690	-4,625	1,678	-105	-828
Portfolio investment (liabilities)	1,375	554	-3,588	11,262	21,030
Other investment (assets)	-3,129	-1,250	4,119	3,855	-3,242
Other investment (liabilities)	7,944	21,769	17,654	5,793	9,658

\*preliminary data

Source: NBP

**MINISTRY OF ECONOMY**  
**Analyses and Forecasting Department**

Warsaw, February 2011

**POLAND'S MACROECONOMIC PERFORMANCE IN 2009-2011**

Specification	Unit	2009	XII 2009	XII 2010	2010	2011 <sup>3</sup>
<b>GDP</b>	dynamics	101.7 <sup>2</sup>			103.8 <sup>2</sup>	104.2
Consumption	dynamics	102.0 <sup>2</sup>			103.2 <sup>2</sup>	103.8
- individual	dynamics	102.1 <sup>2</sup>			103.2 <sup>2</sup>	103.8
Gross capital formation	dynamics	88.6 <sup>2</sup>			106.7 <sup>2</sup>	105.1
- gross fixed capital formation	dynamics	98.9 <sup>2</sup>			98.0 <sup>2</sup>	106.0
<b>Prices</b>						
Year-on-year price index of consumer goods and services (CPI)	dynamics	103.5	103.5	103.1	102.6	103.2
Year-on-year price index of sold production of industry (PPI)	dynamics	103.4	102.1	106.1	102.1	102.5
<b>Production<sup>1</sup></b>						
Sold production of industry	dynamics	95.5 <sup>A</sup>	107.4	111.5	109.7 <sup>2A</sup>	108.1
Construction and assembly production	dynamics	105.1 <sup>A</sup>	103.2	112.3	103.0 <sup>2A</sup>	112.0
<b>Wages and salaries</b>						
Average wages and salaries in the national economy. of which:	PLN	3,102				
- enterprise sector	PLN	3,325	3,652	3,848	3,435	
Average retirement pay and pension						
- non-agricultural social security system	PLN	1,543	1,566	1,668	1,643	
- individual farmers	PLN	911	914	955	955	
<b>Labour market</b>						
Average employment in enterprise sector	thous.pers.	5,327	5,255	5,379	5,373	
Average number of retirees and pensioners	thous.pers.	9,243	9,308	9,189	9,332	
- non-agricultural social security system	thous.pers.	7,869	7,905	7,837	7,906	
- individual farmers	thous.pers.	1,375	1,403	1,352	1,426	
Unemployment rate (as at the end of a period)	%	12.1	12.1	12.3	12.3	10.5
<b>Foreign trade acc. to CSO</b>						
Trade balance	m EUR	-9,311			-13,488 <sup>2</sup>	-15,200
- export revenues	m EUR	98,218			117,382 <sup>2</sup>	128,600
- import expenditure	m EUR	107,529			130,870 <sup>2</sup>	143,800

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

2- preliminary data

3- AFD MoE forecast

A - concerns complete statistical population

	Unit	1995	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>Gross Domestic Product (percentage change)</b>	%	7.0	4.3	1.2	1.4	3.9	5.3	3.6	6.2	6.8	5.1	1.7	3.8**
<b>Individual consumption (percentage change)</b>	%	3.2	3.1	2.3	3.4	2.1	4.7	2.1	5.0	4.9	5.7	2.1	3.2**
<b>Gross fixed capital formation (percentage change)</b>	%	16.5	2.7	-9.7	-6.3	-0.1	6.4	6.5	14.9	17.6	9.6	-1.1	-2.0**
<b>Industry output (percentage change)</b>	%*	9.7	6.7	0.6	1.1	8.3	12.6	3.7	11.2	11.2	4.4		
									11.6	10.7	3.6	-4.5	9.7**
<b>Construction and assembly output (percentage change)</b>	%*	5.6	1.4	-6.4	-0.3	0.9	-7.0	1.5	13.7	17.4	9.6		
									18.1	15.5	12.1	5.1	3.0**
<b>Inflation (annual average)</b>	%	27.8	10.1	5.5	1.9	0.8	3.5	2.1	1.0	2.5	4.2	3.5	2.6
<b>Inflation (XII/XII)</b>	%	21.6	8.5	6.3	0.8	1.7	4.4	0.7	1.4	4.0	3.3	3.5	3.1
<b>Employed persons</b>	m. pers.	15.5	15.5	15.0	12.8	12.6	12.7	12.9	13.2	13.8	14.0	13.8	N/A
<b>Average employment in enterprise sector</b>	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
<b>Registered unemployed persons</b>	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
<b>Unemployment rate</b>	%	14.9	15.1	17.5	18.0	20.0	19.0	17.6	14.8	11.4	9.5	12.1	12.3
<b>Average gross nominal wage</b>	PLN	691	1,894	2,045	2,098	2,185	2,273	2,361	2,476	2,673	2,942	3,102	N/A
<b>Average gross real wage</b>	%	2.8	1.0	2.5	0.7	3.4	0.7	1.8	4.0	5.5	6.0	2.0	N/A
<b>Average gross nominal wage in enterprise sector</b>	PLN	754	2,057	2,203	2,277	2,342	2,439	2,516	2,644	2,889	3,186	3,325	3,435
<b>Average gross real wage in enterprise sector</b>	%	3.2	1.3	1.6	1.5	2.0	0.8	1.2	4.2	6.8	6.1	1.1	0.8
<b>Average real retirement pay and pension from non-agricultural social security system</b>	%	3.2	-2.3	4.7	4.6	4.1	0.6	0.3	6.2	0.0	4.1	4.3	3.6
<b>Balance of external trade turnover (acc. to CSO)</b>	bn EUR	-	-18.7	-15.8	-15.0	-12.8	-11.7	-9.7	-12.9	-18.6	-26.2	-9.3	-13.5**
<b>Exports volume (acc. to CSO)</b>	bn EUR	-	34.4	40.2	43.5	47.5	59.7	71.4	87.9	101.8	116.2	98.2	117.4**
<b>Exports rate (acc. to CSO)</b>	%	-	-	16.9	8.2	9.3	25.6	19.6	23.1	15.8	14.1	-15.5	19.5**
<b>Imports volume (acc. to CSO)</b>	bn EUR	-	53.1	56.0	58.5	60.4	71.4	81.2	100.8	120.4	142.4	107.5	130.9**
<b>Imports rate (acc. to CSO)</b>	%	-	-	5.6	4.4	3.2	18.2	13.8	24.1	19.4	18.3	-24.5	21.7**

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

\*\* provisional data

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