

**MINISTRY OF ECONOMY**

***A STUDY OF POLAND'S  
ECONOMIC PERFORMANCE  
IN THE 1<sup>ST</sup> QUARTER OF 2011***

**ANALYSES  
AND FORECASTING  
DEPARTMENT**

Warsaw, May 2011

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

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**Ministry of Economy**  
**ANALYSES AND FORECASTING DEPARTMENT**

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Warsaw, May 31<sup>st</sup>, 2011

**Amendment to the publication “A study of Poland’s economic performance ...” – the CSO estimates of GDP growth in the first quarter of 2011 from May 31<sup>st</sup>, 2011.**

According to provisional CSO data, in the 1<sup>st</sup> quarter of 2011 GDP increased by 4.4% compared to 2010. It was one of the best results in Europe.

In the 1<sup>st</sup> quarter of 2011 the biggest increase was observed in investments expenditures (6.0%), which was the best performance since the beginning of 2009. Resumption of intensive investment process, after a period of 6 quarters of reduction, as well as increase in consumption, helped to keep domestic demand in the position of the main factor of economic growth.

Higher than in the first quarter of 2010, growth in private consumption was only partially due to a slight increase in real wages of households. In the same period the economic situation of enterprises developed less favourably than a year before, which could be associated with a significant increase in prices.

According to provisional CSO data - the third consecutive quarter gross fixed capital formation increased, and the rate of growth is meaningful. On the one hand a high degree of capacity utilization and the realization of deferred investment (because of global crisis), and low base effect, allowed to achieve significant growth in this category. Limit the realization of investment projects affect care in a positive economic assessment in main Polish trade partners.

In the first quarter of 2011, **gross value added** increased by 4.1% due to increase in value added in the construction sector (14.1%), which share in gross value added increased to over 7%. This was a result of increased infrastructure investments connected with EURO 2012, as well as housing. Also, the value added in industry maintained an upward trend and grew by 7.8%. A relatively low growth of value added in market services sector (3.3%), although the gradual improvement was observed. Contributed to this particular sector of real estate and business support.

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

Warsaw, May 2011

**POLAND'S MACROECONOMIC PERFORMANCE IN 2010-2011**

Specification	Unit	2010	III 2010	III 2011	I-III 2011	2011 <sup>4</sup>
<b>GDP</b>	dynamics	103.8 <sup>2</sup>			104.4 <sup>3</sup>	104.2
Consumption	dynamics	103.4 <sup>2</sup>			103.3 <sup>3</sup>	103.8
- individual	dynamics	103.2 <sup>2</sup>			103.9 <sup>3</sup>	103.8
Gross capital formation	dynamics	108.2 <sup>2</sup>			112.9 <sup>3</sup>	105.1
- gross fixed capital formation	dynamics	98.8 <sup>2</sup>			106.0 <sup>3</sup>	106.0
<b>Prices</b>						
Year-on-year price index of consumer goods and services (CPI)	dynamics	102.6	102.6	104.3	103.8	103.7
Year-on-year price index of sold production of industry (PPI)	dynamics	102.1	97.4	109.3	107.7	102.5
<b>Production<sup>1</sup></b>						
Sold production of industry	dynamics	109.7 <sup>2.A</sup>	112.8	107.0	109.2	108.0
Construction and assembly production	dynamics	103.0 <sup>2.A</sup>	89.1	124.2	118.8	112.0
<b>Wages and salaries</b>						
Average wages and salaries in the national economy. of which:	PLN	3,225				
- enterprise sector	PLN	3,435	3,493	3,634	3,479	
Average retirement pay and pension						
- non-agricultural social security system	PLN	1,643	1,649	1,730	1,690	
- individual farmers	PLN	955	971	984	955	
<b>Labour market</b>						
Average employment in enterprise sector	thous.pers.	5,373	5,294	5,509	5,511	
Average number of retirees and pensioners	thous.pers.	9,332	9,280	9,163	9,172	
- non-agricultural social security system	thous.pers.	7,906	7,892	7,824	7,828	
- individual farmers	thous.pers.	1,426	1,389	1,339	1,343	
Unemployment rate (as at the end of a period)	%	12.3	13.0	13.1	13.1	10.5
<b>Foreign trade acc. to CSO</b>						
Trade balance	m EUR	-13,488 <sup>2</sup>			-1,958 <sup>2</sup>	-16,900
- export revenues	m EUR	117,382 <sup>2</sup>			31,016 <sup>2</sup>	129,700
- import expenditure	m EUR	130,870 <sup>2</sup>			32,974 <sup>2</sup>	146,600

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

2- preliminary data

3- provisional CSO data

4- AFD MoE forecast

A - concerns complete statistical population

## *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, and the main risk factor remains currently fiscal imbalances in many countries.
- Nowadays the Polish economy is in an upward phase of next cycle. **According to the CSO data 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 first quarter this year AFD MoE estimates that GDP growth will be ca. 4.5% annually.
- In the period of January-March 2011 **sold production of industry** went up by 9.2% in entities with more than 9 employees. The biggest increase was observed in manufacturing (by 10.3%). Somewhat slower pace of increase in production was mainly due to the increasing prices of raw materials and materials for the production.
- In the period of I-III 2011 **production in construction** rose by 18.8% in entities with more than 9 employees compared to corresponding period of 2010. This was primarily due to a low base (as a result of adverse weather conditions in the first months of 2010) and lasting improvement in economic activity in the construction industry.
- In the 1<sup>st</sup> quarter of 2011 **domestic trade results** deteriorated in the comparison with the same period of 2010. 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, volume of retail sales increased by 6.0% in entities with more than 9 employees.
- According to preliminary CSO data in the period of January-March 2011 the volume of the exports – counted in current prices – amounted to EUR 31.0bn and was by 15.5% higher than year before. The volume of imports stood at EUR 33.0bn and was by 10.9% higher than in the previous year. **The negative balance of foreign trade turnover reached a level of EUR 2.0bn** and was better by EUR 0.9bn. Among the main recipients of Polish goods were Germany (25.9% of Polish exports), France (7%) and UK (6.9%). The largest share of Polish imports came from Germany (21.3%), Russia (10.1%) and China (9.9%).
- According to provisional NBP data, in the period I-III 2011 **deterioration of the balance of the current account** was observed, comparing to the previous year. The increase of deficit resulted from an increasing negative income balance. Simultaneously FDI inflow was higher than a year before.
- In the period of January-March 2011 the annual average **consumer price index (CPI)** amounted to 3.8%. The fastest growth was observed in transport prices (by 7.1%), in which fuels by 13.5%. The costs of the use of housing and energy carriers increased by 5.8%. Simultaneously producer price index increased by 7.7% and construction prices surged by 0.4% (yoy).

- In the period of I-III 2011, the average employment in the companies sector increased by 4.1% compared to the previous year and amounted to 5,511 thous. persons. **At the end of March 2011, the number of registered unemployed amounted to 2,134 thous. persons** (by 16 thous. less than in February). The unemployment rate in March 2011 fell in relation to the previous month and shaped at 13.1% (13.0% in March 2010).
- In the period of January-March 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-III 2011 the budget revenues stood at PLN 62.7bn, when expenditures amounted to PLN 80.0bn. The nominal **budget deficit** amounted to PLN 17.3bn.
- In the period of I-III 2011, the Monetary Policy Council changed **interest rates** in January by 0.25 percentage point.<sup>1</sup>
- As regards the **foreign exchange market**, in the period of January-March 2011 appreciation of Polish zloty against euro took place. It was caused by favourable situation of Polish economy, comparing with other EU countries, and growing interest in Polish market from foreign investors, as well as the overall improvement of the situation of the European economy. The decrease in EUR/USD exchange rate as well as the situation in Libya and Japan has an impact on weakening of the zloty against dollar.

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<sup>1</sup> Next increases took place in April and in May, by 0.25 pp. each of them

## Economic recovery...

In the last quarter of 2009, the demand recovery was observed and the trend was continued in consecutive quarters of 2010. According to CSO data in 2010 GDP growth was higher than in 2009. 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**

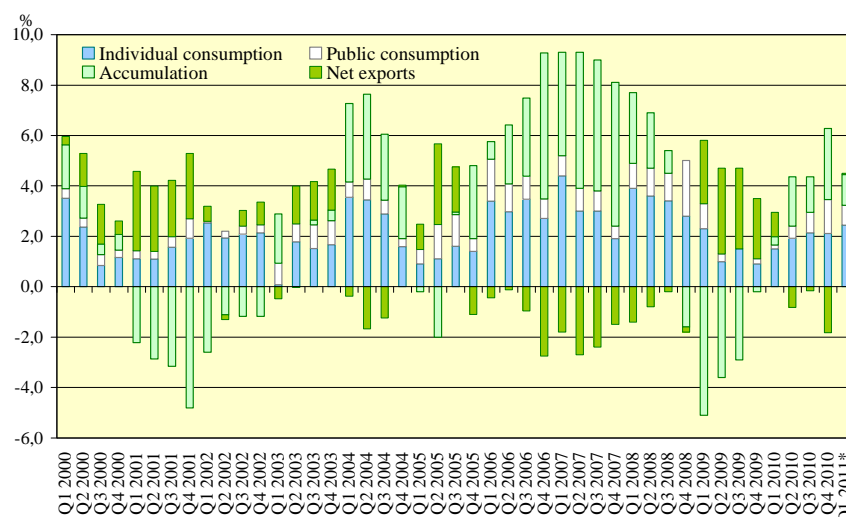
	2008				2009				2010				2011
YoY	5.1				1.6				3.8*				
	I-III	IV-VI	VII-IX	X-XII	I-III	IV-VI	VII-IX	X-XII	I-III	IV-VI	VII-IX	X-XII	I-III
YoY	6.3	6.1	5.2	3.2	0.5	1.0	1.7	3.2	3.0	3.5	4.2	4.5	4.5**

\*CSO estimate

\*\*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

Uncertainty about developments in North Africa, as well as the effects of disasters in Japan tend to be cautious in formulating a positive assessment of the situation in the world. On the other hand, augmented economic activity in the euro area, particularly in our major trading partners, Germany, allows for optimistic assessment of the situation in Poland.

According to provisional CSO estimates, in the 1<sup>st</sup> quarter of 2011 GDP increased by 4.5% comparing to 2010. It was one of the best results in Europe.

In the 1<sup>st</sup> quarter of 2011 the biggest increase was observed in investments expenditures, which was the best performance since the second half of 2008. Resumption of intensive investment process, after a period of 6 quarters of reduction, as well as increase in consumption, suggest that domestic demand remained the major factor of economic growth.

Slightly higher than in the first quarter of 2010, growth in private consumption was due to a slight increase in real wages of households. In the same period the economic situation of

enterprises developed less favourably than a year before, which could be associated with a significant increase in prices.

According to estimates - the third consecutive quarter gross fixed capital formation increased. On the one hand a high degree of capacity utilization and the realization of deferred investment (because of global crisis), and low base effect, allowed to achieve significant growth in this category. Limit the realization of investment projects affect care in a 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*	1 <sup>st</sup> q. 2011**
<b>Industry</b>	110.5	103.5	110.0	110.1	106.8	99.1	109.3	108.0
<b>Construction</b>	101.8	107.8	111.6	110.8	104.6	111.4	103.9	119.0
<b>Market services</b>	104.2	103.6	105.5	106.5	105.9	100.8	101.4	103.3

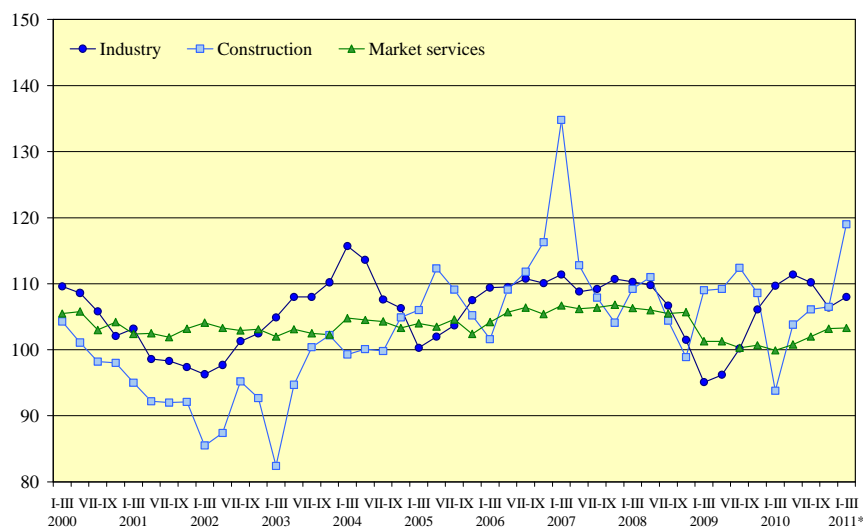
\* provisional CSO estimate

\*\* AFD MoE estimate

Source: CSO

In the first quarter of 2011, **gross value added** increased by 4.5% mainly due to increase in value added in the construction sector, which share in gross value added increased to over 7%. This was a result of increased infrastructure investments connected with EURO 2012, as well as housing. Also, the value added in industry maintained an upward trend and grew by about 8%. A relatively low growth of value added in market services sector, although the gradual improvement was observed. Contributed to this particular sector of real estate and business support.

**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

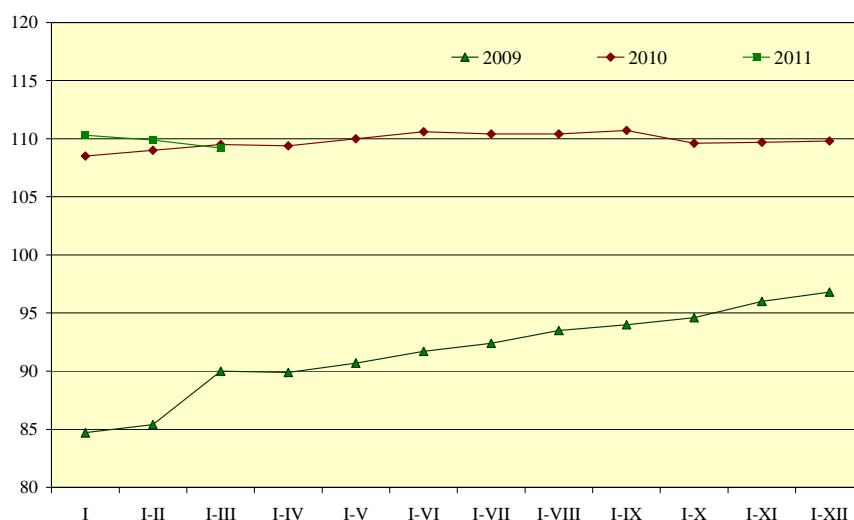
*In 2011, we expect GDP growth of around 4.2%. Change in gross domestic product will remain under the influence of external circumstances. The main factor will be maintaining of positive trends and expectations in relation to the world economy. As a result of increased investment activity associated 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 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.

**In the 1<sup>st</sup> quarter of 2011, comparing to the same period of the previous year, 9.2% growth of sold production of industry was recorded.** It is worth emphasizing that it was the sixth quarter in a row when dynamics of analyzed indicator stood positive (yoy), even with the high statistical base effect (9.5% change in the 1<sup>st</sup> quarter of 2010). The highest growth of sold production was observed in manufacturing section (by 10.3% yoy). The slower growth was due to rising prices of raw materials and materials for production.

**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 sold production of industry** was noticed in enterprises producing intermediate goods (by 18.9%), capital goods (by 12.3%) and enterprises producing mainly durable consumer goods and non-durable consumer goods (both by 1.6%). Decrease in production was recorded in enterprises specialized in energy goods manufacturing (by 1.3% yoy).

**In the period of January-March 2011, 25 from 34 industrial divisions recorded growth in production comparing to the similar period of 2010.** The highest growth was observed in manufacture of basic metals (by 30.8%), manufacture of other non-metallic mineral products (by 29.9%) and manufacture of furniture (by 28.2% yoy). Considerable drop was noticed in manufacture of tobacco products (by 16.1%) and manufacture of machinery and equipment (by 8.6% yoy).

**In the analyzed period labour productivity in industry**, measured by production per 1 employee, was by 6.1% higher than a year before, with 2.9% higher average employment and increase in monthly gross wages (4.1%).

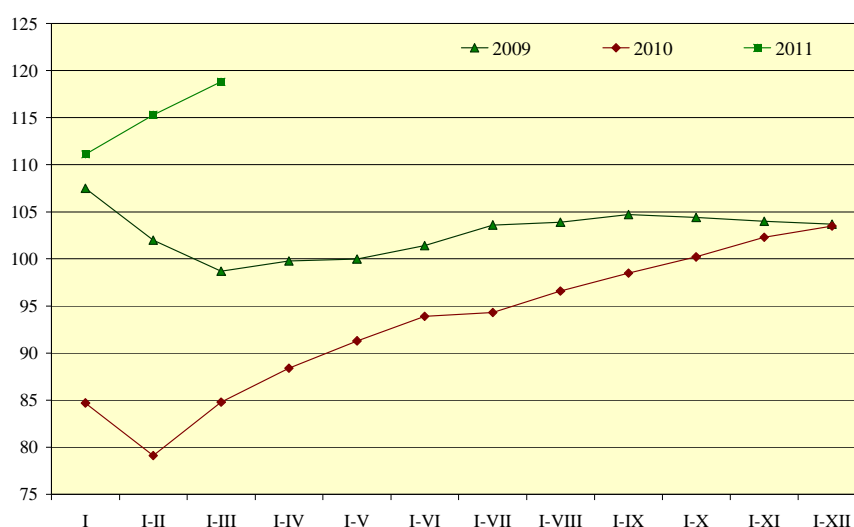
*It is expected that due to improvement of general economy condition at the end of 2011 industry output will achieve a positive growth of ca. 8.0%.*

### *Dynamic recovery 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 for 3.5%.**

**In the period of January-March 2011 construction and assembly production in entities with more than 9 employees increased by 18.8%, comparing to the 1<sup>st</sup> quarter of 2010. Such a good result was mainly caused by a low statistical base effects (in the 1<sup>st</sup> q. of 2010 decrease by 15.2% yoy). In nominal terms this result was a similar to the one achieved in the 1<sup>st</sup> quarter of 2009.**

**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*

**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 30.7%), specializing with civil engineering (by 26.7%) and with buildings construction (by 8.3% yoy).

**In the I q. of 2011, 27.8 thousand dwellings were completed, which was by 18.4% less than in the previous year<sup>2</sup>.** Regarding dwellings in private construction it was by 4.6% higher (yoy), whereas for sale or rent amount of dwellings completed was lower than a year ago (by 38.6%). Positive for overall condition of construction sector are data concerning number of granted permits for dwellings (higher by 5.2%) and amount of dwellings being constructed (growth by 13.6% yoy) in analyzed period.

*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>2</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 – March 2011 as a result of increase in wheat purchase by 18.5% (accompanied by drop in rye purchase by 42.5%), the purchase of cereals with corn mixture without sowing grain surged by 4.1% comparing with analogous period of the previous season.

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

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

*\* provisional data*

*Source: CSO*

**In March 2011 the grain purchase decreased by 5.7% comparing with March 2010.** In the same time the purchase of wheat increased by 6.0%, whereas in the case of purchase of rye the significant drop was observed and it reached 49.0% (yoy). Although reduced, in comparison to the last year, scale of purchase of basic cereals, grain prices in March continue its dynamic growth (though for the first time in over a year declined month-to-month). Comparing with March 2010 wheat price increased more than 2 times (by 101.3%) and rye price surged by almost 2.5 times (141.0%). On the farmers' market prices of both basic cereals was rising as well, but in a lower scope. Prices of wheat increased by 80.7% and rye by 94.1% (yoy). Average potato prices on the farmers' markets increased by 61.5% in March 2011.

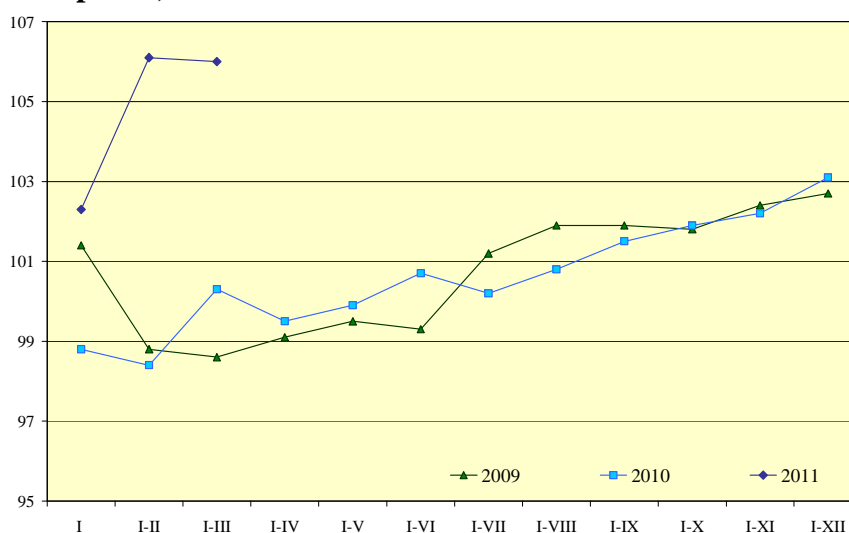
**According to provisional estimates, on the market of animals for slaughter in the period of January-March 2011** the purchases of pigs for slaughter increased by 19.1% and poultry for slaughter by 2.8% comparing to the same period in 2010. Despite higher animal output, prices of animals for slaughter did not decrease. In the 1<sup>st</sup> quarter of the year 2011 average poultry for slaughter purchase prices surged by 14.5%, the prices of cattle for slaughter rose by 14.4% and hogs for slaughter increased by 7.6%. Milk supply in analyzing period was higher by 2.9% and purchase prices increased by 14.5% (yoy).

### *A stable 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>3</sup>.**

**In the 1<sup>st</sup> quarter of 2011, comparing to the corresponding period of the previous year, dynamics of domestic trade turnover increased by 6.0%.** The second quarter in row, when domestic trade dynamics stood highly positive (7.3% growth in the 4<sup>th</sup> q. of 2010), implies a possible gradual consumption demand upswing in the consecutive quarters. A significant slowdown in January (with a low base) was rather an exception and was associated with a shift of some purchases at the end of 2010 (before the introduction of the new rate of VAT).

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



Source: Statistical Bulletins, CSO, 2009-2011

In the first quarter of 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 4.5%). Two further groups with significant contribution in retail sales in general, so 'liquid and gas' and 'others' changed positive by respectively 4.7% and 9.7% yoy. Excluding 'newspapers, books, other sale in specialized stores' (decrease by 0.9%) all the other groups also noticed a growth. The most significant increase concerns entities representing groups 'other retail sale in non-specialized stores' (by 28.9%), 'pharmaceuticals, cosmetics, orthopaedic equipment' (by 17.6%) and 'textiles, clothing and footwear' (by 16.5%). In March, there was a significant slowdown in the very high growth rate in the group of durable goods, which may be associated with the completion of the reconstruction process of households, after last year's floods.

**In the period of January-March 2011 wholesale of trade companies** employing more than 9 persons was by 20.1% higher than a year before, in which wholesale sold by wholesale enterprises increased by 17.7%.<sup>4</sup>

<sup>3</sup> constant prices

<sup>4</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%.

**In the first quarter of 2011, the CPI reached 3.8% yoy.** In each of the three months of this period the price level of goods and services was above the NBP's inflation target range.

Prices increase, in the analyzed period, was caused by a higher dynamics of food, beverages and tobacco products prices (by 5.2%). Besides that housing charges rose (by 5.8%), including energy carriers (by 7.2%). Moreover significant prices increase was noticed in transportation (by 7.1%), what was the result of fuels prices growth (by 13.5% yoy).

In the 1<sup>st</sup> quarter of 2011 prices increase was mainly affected by relatively wide volatility of food, energy and raw material prices on the international market. Increasing world's production of biofuels does not remain neutral to price increases. Internal factors, such as rising consumer demand (in the first quarter of 2011, growth in retail sales by 6.0% yoy) and wage pressure, which is a result of accelerated growth of employment, also did not have an impact on weakening of inflationary pressure. 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 three months of 2011 was made by prices of food and non-alcoholic beverages (+1.33 pp.), house charges (+1.2 pp.) and transportation (+0.65 pp.). In the opposite direction the strongest influence was made by clothing and footwear (-0.17 pp.) and communications prices (-0.05 pp.).

**In the period of January–March 2011 prices of sold production of industry were on average by 7.7% higher** than in 2010. Acceleration of dynamics of prices in the industry was, among others the result of two factors. On the one hand it was a low base effect (in the first quarter of 2010 prices fell by 1.6% y/y). On the other hand the continued high demand for industrial production, which was a source of both employment and wages growth in the sector. Increase of prices was recorded in all industry sections. In manufacturing its scope was 7.2% yoy.

**In the analyzed period prices in construction and assembly production rose by 0.4%** in comparison with the previous year. It was the third consecutive quarter, when annual prices remained slightly above last year's levels. 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 increase in prices in 2011 will be associated mainly with high volatility of food and energy prices on international markets. In addition, it is possible instance of wage pressure, as a result of improved labour market situation. It is expected that observed in the first quarter of 2011 the increase in inflationary pressures will continue in subsequent periods, which results in 2011, average annual CPI will reach a value close to 3.7%.*

## ***Labour market – gradual improvement...***

In the fourth quarter of 2010 improved the main parameters of the labour market. Most of them reached a better value than the same quarter of the previous year. However statistics related to unemployment was worse. This was mainly due to seasonal factors. Improvement of other statistics may be indicative of the gradual disappearance of the negative impact of the global economic downturn on the labour market. Recovery in industry will indirectly cause a rise in labour demand.

Despite the fall of economic activity rate in the 4<sup>th</sup> quarter of 2010, it is worth noting its increase in the group of older people (45-59/64 years).

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

	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	4 <sup>th</sup> q of 2010
<b>Economic activity rate (%)</b>	55.1	55.2	55.7	56.2	55.8
<b>Employment rate (%)</b>	50.4	49.4	50.4	51.4	50.6
<b>Unemployment rate (%)</b>	8.5	10.6	9.5	9.1	9.3
<b>Employed persons (thousand)</b>	15,885	15,574	15,994	16,199	16,075
<b>Unemployed persons (thousand)</b>	1,471	1,839	1,682	1,627	1,649
<b>Economically inactive persons (thousand)</b>	14,149	14,108	14,032	13,898	14,016

Source: CSO

**In the period of January-March 2011** an average employment in enterprises sector was higher than in the previous year (4.1% yoy). Increasing dynamic of industrial production as well as construction and assembly production suggests that in the consecutive months (yoy) employment increases 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-III 2010	I-III 2011	2011/2010
<b>Total</b>	5,295	5,511	104.1
<b>Industry</b>	2,419	2,490	102.9
<b>Mining and quarrying</b>	181	168	92.9
<b>Manufacturing</b>	1,990	2,061	103.6
<b>Electricity, gas, steam and air conditioning supply</b>	146	154	105.6
<b>Water supply; sewerage, waste management and remediation activities</b>	103	107	104.3
<b>Construction</b>	423	458	108.4
<b>Trade; repair of motor vehicles</b>	1,080	1,110	102.8
<b>Transportation and storage</b>	464	472	101.7
<b>Accommodation and catering</b>	105	115	109.5
<b>Information and communication</b>	160	164	102.2
<b>Real estate activities</b>	90	98	109.1
<b>Professional, science and technical activities<sup>a</sup></b>	147	158	108.0
<b>Administrative and support service activities</b>	284	315	110.7

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

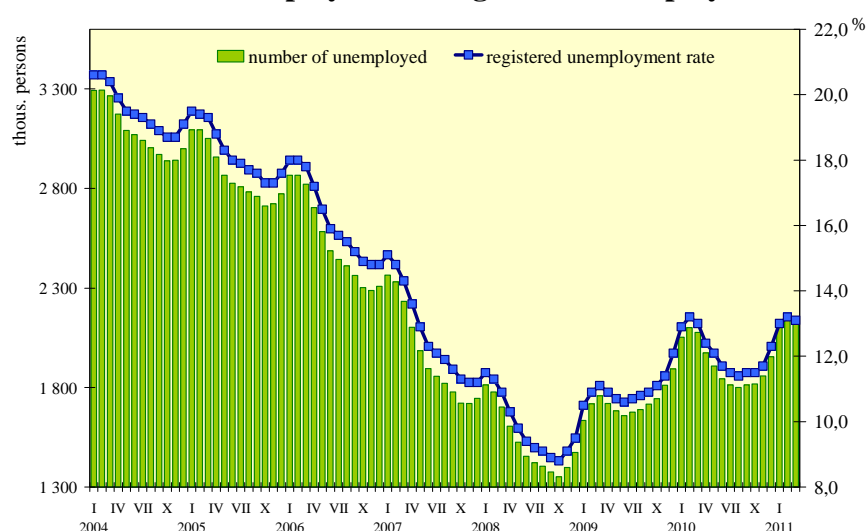
Source: Statistical Bulletin, CSO, 2010-2011

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

1. printing and reproduction of recorded media	109.7
2. motor vehicles, trailers and semi-trailers	109.1
3. rubber and plastic products	109.0
<hr/>	
1. coke and refined petroleum products	87.3
2. machinery and equipment	92.3
3. pharmaceutical products	95.6

In the period of I-III 2011, the number of registered unemployed and unemployment rate were volatile, but an improvement of both indices was observed in March.

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



Source: CSO

At the end of March 2011 the **number of registered unemployed** shaped at the level of 2,134 persons, i.e. by 2.8% higher than in the same month of the previous year. The unemployment rate amounted to 13.1% and was higher by 0.1 percentage point then in March 2010.

Weaker, than a year before, results of the labour market in 2011, 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-March 2011 the average gross salary in enterprise sector amounted to PLN 3,479 (growth by 4.1% against 2010).**

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. other transport equipment	111.6
2. basic metals	109.1
3. metal products	107.8
<hr/>	
1. pharmaceutical product	97.8

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

	<b>I-III 2010</b>	<b>I-III 2011</b>	<b>2011/2010</b>
<b>Total</b>	3,341	3,479	104.1
<b>Industry</b>	3,371	3,514	104.2
<b>Mining and quarrying</b>	5,338	5,543	103.8
<b>Manufacturing</b>	3,060	3,207	104.8
<b>Electricity, gas, steam and air conditioning supply</b>	5,236	5,496	105.0
<b>Water supply; sewerage, waste management and remediation activities</b>	3,287	3,390	103.1
<b>Construction</b>	3,334	3,477	104.3
<b>Trade; repair of motor vehicles</b>	3,079	3,212	104.3
<b>Transportation and storage</b>	3,142	3,331	106.0
<b>Accommodation and catering</b>	2,375	2,437	102.6
<b>Information and communication</b>	6,359	6,653	104.6
<b>Real estate activities</b>	3,426	3,544	103.4
<b>Professional, science and technical activities<sup>a</sup></b>	5,289	5,300	100.2
<b>Administrative and support service activities</b>	2,120	2,244	105.8

<sup>a</sup> 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 0.4% in the 1<sup>st</sup> quarter of 2011.

In the first three 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 1,690 which is 6.0% (in nominal terms) and 1.5% (in real terms) higher than a year before. The average retirement payments and pensions of individual farmers increased in analyzed period by 4.0% and reached a level of PLN 971 (drop by 0.4% 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.*

## Public finances...

**2010 budget revenues** amounted to PLN 250.3bn and represented 100.5% planned in the Budgetary Law. Comparing to the previous year revenues execution was identical. Expenditures shaped at a level of PLN 294.9bn and represented 97.9% planned in the Budgetary Law, which was 1.4 percentage points lower than in 2009. 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-March 2011** budget revenues shaped at level of PLN 62.7bn (surge by 10.0% yoy in nominal terms), and expenditures amounted to PLN 80.0bn (growth by 0.4% yoy in nominal terms). Budget balance stood at PLN -17.3bn.

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

	Budgetary Law	Performance	%
<b>Revenues</b>	<b>273.1</b>	<b>62.7</b>	<b>23.0</b>
<b>Taxes and non-taxes</b>	270.7	62.6	23.1
<b>Indirect taxes</b>	179.7	43.3	24.1
<b>PIT</b>	38.2	7.6	19.9
<b>CIT</b>	24.8	7.3	29.3
<b>EU and other funds without repayment</b>	2.4	0.2	6.5
<b>Expenditure</b>	<b>313.3</b>	<b>80.0</b>	<b>25.5</b>
<b>Domestic debt servicing</b>	29.6	1.7	5.7
<b>Foreign debt servicing</b>	8.8	4.3	48.9
<b>Subs. to the Pension Fund</b>	15.1	3.8	25.0
<b>Subs. to Social Insurance Fund</b>	37.1	13.1	35.2
<b>General subs. to local self-government entities</b>	48.4	16.8	34.8
<b>BALANCE</b>	<b>-40.2</b>	<b>-17.3</b>	<b>43.1</b>
<b>Financing of EU budget funds</b>	<b>-15.4</b>	<b>-2.2</b>	<b>14.1</b>
<b>DEFICIT FINANCING SOURCES</b>	<b>55.6</b>	<b>19.5</b>	<b>35.1</b>
<b>DOMESTIC</b>	<b>31.1</b>	<b>18.6</b>	<b>59.7</b>
<b>Treasury bonds</b>	-2.9	3.6	-
<b>Bonds</b>	33.9	20.2	59.7
<b>Proceeds from privatisation</b>	15.0	1.6	10.6
<b>Pre-financing actions with EU resources</b>	-0.4	0.0*	-
<b>Foreign</b>	<b>24.5</b>	<b>0.9</b>	<b>3.7</b>

\* PLN 8.5 bn

Source: Ministry of Finance

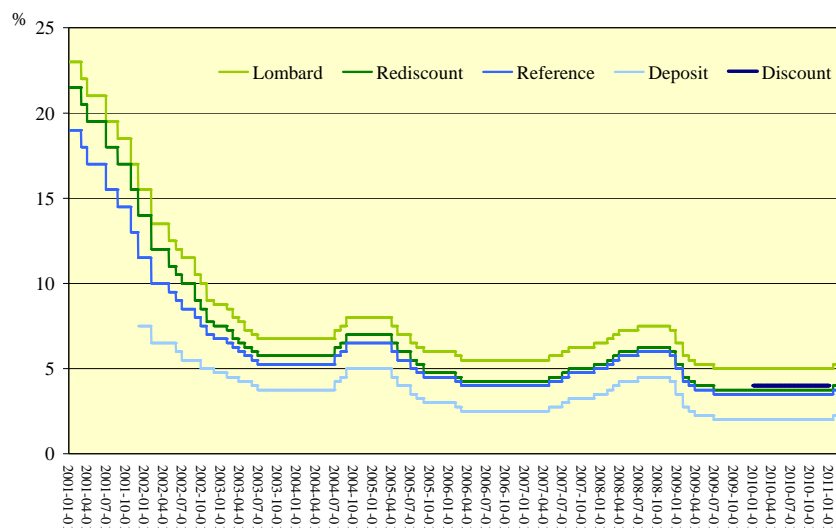
**While income side is taken into account**, the revenues from indirect taxes (including VAT – PLN 30.4 bn) - accounted for 69.3% of the total amount of incomes executed in the I q. of 2011 - were the main receipts items (in nominal terms drop by 10.5% yoy).

**As far as expenditures are concerned**, the most significant nominal increase was made by foreign debt servicing, which grew by 38.7% comparing to the I q. of 2010. The shares of expenditures of domestic debt servicing and foreign debt servicing amounted to respectively 5.7% and 48.9% planned in the Budgetary Law. It's share in the total expenditures represented 7.5%.

## 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-March 2011 the Monetary Policy Council decided to increase basic interest rates by 0.25 pp. Thus, the cycle of monetary policy alleviation, started from the 3<sup>rd</sup> quarter of 2008, was stopped. MPC restrictive attitude, presented during the 1<sup>st</sup> quarter of 2011, resulted from concerns of inflationary pressure macroeconomic effects, which could affect on problems with keeping CPI at NBP inflation target. As a result, at the end of the 1<sup>st</sup> quarter of 2011 interest rates shaped at a level of: Reference – 3.75%, Lombard – 5.25%, Deposit – 2.25%, and Rediscount 4.00%.

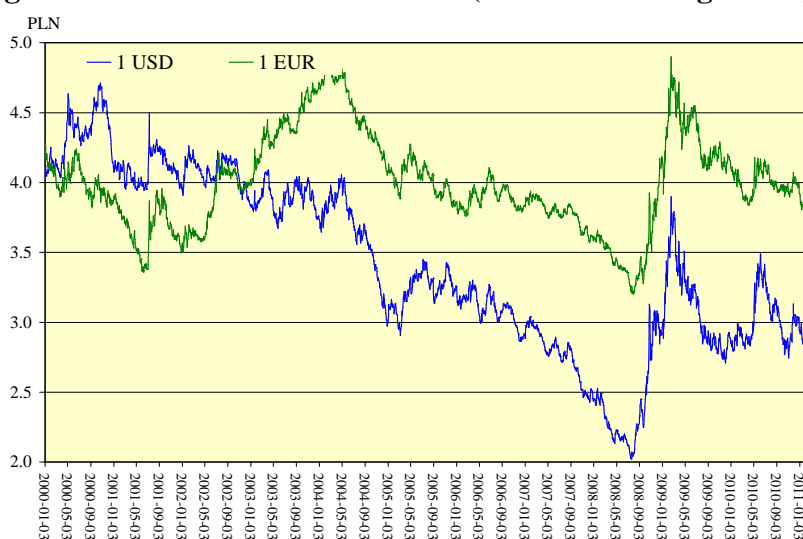
Comparing to the end of the previous year, liabilities value increase in the end of the 1<sup>st</sup> quarter of 2011 overall by 1.3%. Debts growth, especially in form of loans, in analyzed period, covered non-monetary financial institutions (by 7.9%), enterprises (by 2.5%), local government institutions (by 1.3%), households (by 0.5%) and non-profit institutions servicing households (by 0.2%). The level of social insurance funds liabilities didn't change.

In the period of January-March 2011 Polish zloty got stronger to euro and weakened against US dollar. An average euro exchange rate amounted to PLN 3.9483 and was lower by 1.1% yoy. US dollar exchange rate amounted to PLN 2.8877 and increased by 0.1% yoy. In March 2011 an average exchange rate reached levels of respectively 4.0174 EUR/PLN and 2.8688 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 is the result of the influx of relatively good macroeconomic data from the Polish economy, the appreciation trend per month was stopped. 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 characteristic also in a 1<sup>st</sup> quarter of 2011. As a result in analyzed period Polish currency remained more or less unchanged on a yearly basis, against both euro and US dollar. In the long term it is expected that with further improvement of domestic as well as foreign economic conditions, interest in the Polish currency will continue to grow. The possibility of further - determined mainly by external factors - short-term deviations on 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-March 2011 the value of exports denominated in EUR (in current prices) was higher by 15.5% compared to the similar period of 2010 and reached a level of EUR 31.0bn. The imports value increased by 10.9% and amounted to EUR 33.0bn. It was an effect of recovery on global market and growing turnovers with countries of Central and Eastern Europe. The negative balance of foreign trade reached a level of EUR 2.0bn, EUR 0.9bn less than in 2010.

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

	Exports		Imports	
	Share of total (%)	Change (pp)	Share of total (%)	Change (pp)
<b>Developed countries</b>	85.0	-0.7	65.7	-1.5
<b>European Union</b>	78.1	-1.7	58.2	-0.9
<b>Developing countries</b>	7.1	-0.1	20.4	-0.9
<b>Central and East European countries</b>	7.9	+0.8	13.9	+2.4

Source: CSO

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

#### **Germany:**

Exports (in €) increased by 16.2%, and imports by 10.7%,  
Share of total Poland's exports – 26.0% (-0.1 pp); imports – 21.2% (-0.1 pp).

#### **Russia:**

Exports (in €) increased by 32.8%, and imports by 31.1%,  
Share of total Poland's exports – 4.2% (+0.5 pp); imports – 11.9% (+1.8 pp).

#### **China:**

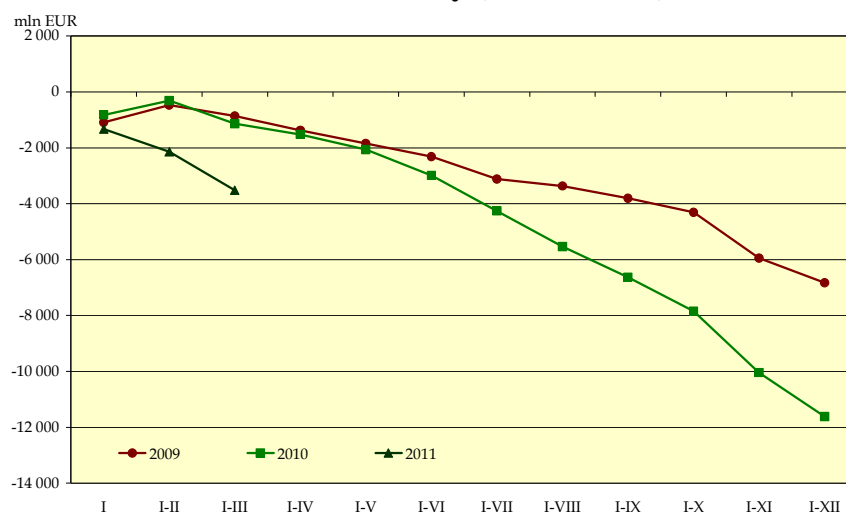
Share of total Poland's imports – 9.2 % (-0.7 pp).

*In 2011 exports is expected to reach a level of EUR 129.7bn, so about 10.5% more than in 2010. Imports estimates to EUR 146.6bn, about 12.0% higher than in previous year. The negative balance of a foreign trade turnover will reach a level of EUR 16.9bn.*

## Deterioration in balance of payments ...

Preliminary data for the 1<sup>st</sup> quarter 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 3.5bn against EUR -1,1bn in the previous year. This result was an effect of increasing negative income balance (by EUR 1.2bn).

In the period of January-March 2011 the inflow of foreign direct investments was higher by EUR 0.6bn than in the previous year, and reached a level of EUR 4.5bn.

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

	2007	2008	2009	2010*	I-III 2011*
<b>Current account</b>	-14,721	-17,362	-6,831	-11,614	-3,516
Trade balance	-12,386	-17,723	-3,118	-6,360	-1,113
Export revenues	105,856	121,082	101,674	122,134	32,010
Import expenditure	118,242	138,805	104,792	128,494	33,123
Services' balance	3,432	3,473	3,421	3,075	863
Income balance	-11,969	-8,652	-11,863	-13,006	-3,939
Current transfers balance	6,202	5,540	4,729	4,677	673
<b>Capital account</b>	3,421	4,072	5,015	6,735	1,769
<b>Financial account</b>	28,214	26,223	25,726	30,012	11,806
Direct Polish external investment	-4,000	-3,063	-3,715	-3,781	-2,489
Direct foreign investment in Poland	17,222	10,118	9,950	7,538	4,457
Portfolio investment (assets)	-4,625	1,678	-105	-828	-380
Portfolio investment (liabilities)	554	-3,588	11,262	21,030	2,634
Other investment (assets)	-1,250	4,119	3,855	-3,242	-1,165
Other investment (liabilities)	21,769	17,654	5,793	9,658	8,881

\*preliminary data

Source: NBP

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

Warsaw, May 2011

**POLAND'S MACROECONOMIC PERFORMANCE IN 2010-2011**

Specification	Unit	2010	III 2010	III 2011	I-III 2011	2011 <sup>4</sup>
<b>GDP</b>	dynamics	103.8 <sup>2</sup>			104.5 <sup>3</sup>	104.2
Consumption	dynamics	103.4 <sup>2</sup>			103.8 <sup>3</sup>	103.8
- individual	dynamics	103.2 <sup>2</sup>			103.6 <sup>3</sup>	103.8
Gross capital formation	dynamics	108.2 <sup>2</sup>			109.7 <sup>3</sup>	105.1
- gross fixed capital formation	dynamics	98.8 <sup>2</sup>			107.8 <sup>3</sup>	106.0
<b>Prices</b>						
Year-on-year price index of consumer goods and services (CPI)	dynamics	102.6	102.6	104.3	103.8	103.7
Year-on-year price index of sold production of industry (PPI)	dynamics	102.1	97.4	109.3	107.7	102.5
<b>Production<sup>1</sup></b>						
Sold production of industry	dynamics	109.7 <sup>2A</sup>	112.8	107.0	109.2	108.0
Construction and assembly production	dynamics	103.0 <sup>2A</sup>	89.1	124.2	118.8	112.0
<b>Wages and salaries</b>						
Average wages and salaries in the national economy. of which:	PLN	3,225				
- enterprise sector	PLN	3,435	3,493	3,634	3,479	
Average retirement pay and pension						
- non-agricultural social security system	PLN	1,643	1,649	1,730	1,690	
- individual farmers	PLN	955	971	984	955	
<b>Labour market</b>						
Average employment in enterprise sector	thous.pers.	5,373	5,294	5,509	5,511	
Average number of retirees and pensioners	thous.pers.	9,332	9,280	9,163	9,172	
- non-agricultural social security system	thous.pers.	7,906	7,892	7,824	7,828	
- individual farmers	thous.pers.	1,426	1,389	1,339	1,343	
Unemployment rate (as at the end of a period)	%	12.3	13.0	13.1	13.1	10.5
<b>Foreign trade acc. to CSO</b>						
Trade balance	m EUR	-13,488 <sup>2</sup>			-1,958 <sup>2</sup>	-16,900
- export revenues	m EUR	117,382 <sup>2</sup>			31,016 <sup>2</sup>	129,700
- import expenditure	m EUR	130,870 <sup>2</sup>			32,974 <sup>2</sup>	146,600

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

2- preliminary data

3- AFD MoE estimate

4- 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	1.6	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	-1.2**
<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	3,225
<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	1.5
<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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