JCR

ISSUER REPORT

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12061

Poland

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Long-term Rating	A
Outlook*	Stable
Short-term Rating	-

* Long-term Rating refers to Foreign Currency Long-term Issuer Rating in principle.

1. Overview

Poland is the largest economy in Central and Eastern Europe with a nominal GDP in excess of USD 580 billion and a population of 38 million in 2018. Following the economic transition and subsequent radical economic reforms, the country experienced significant economic deterioration in the early 1990s. Since then, it has transformed its economic structure mainly through economic and fiscal reforms and inflow of foreign direct investments (FDI) as well as utilization of EU funds. It joined NATO in 1999 and acceded to the EU in 2004. Even amid the economic stagnation in the EU countries during the global financial crisis and the European sovereign crisis, the Polish economy continued growing without interruption. The conservative Law and Justice (PiS) took power in the general election in October 2015. Backed by its stable political base, it has been putting priority on promotion of inclusive growth with commitment to keep both the EU and domestic fiscal rules.

2. Sociopolitical Base and Economic Policy

Since the country's first free election held in 1991, the system of parliamentary democracy has been functioning as exemplified by a multi-party system and change of administration. In the process of its EU entry negotiation, Poland had to make a major review of its political, economic and fiscal systems. The systems in conformity with the EU standards have been put in place to ensure political and social stability. The then largest opposition party PiS won both the presidential election in May 2015 and the general election in October 2015. The party took power for the first time in eight years by winning a working majority in the upper and lower houses of parliament. The current prime minister is Mateusz Morawiecki, the former deputy prime minister and finance minister. In the next election in the fall of 2019, PiS is likely to be reelected as it won the local election in October 2018 again and the recent opinion poll suggests that PiS maintains high popularity.

PiS is originated from the anti-communist Solidarity trade union and is a conservative Christian democratic party. The party leader is Jaroslaw Kaczynski, who is the most influential person in politics. The party puts priority on enhancement of social welfare and intervention in national economy. In foreign policy, it looks to strengthen the relationships with the EU and the U.S., but currently takes a cautious stance toward introduction of the euro. Since taking office, the PiS government has pushed ahead with contentious amendments of the laws regarding the constitutional court and public media. The European Commission (EC) found that the revision of the constitutional court law could threaten the rule of law and has been recommending the Polish government to take appropriate measures since July 2016. In December 2017, the EC made a decision to trigger Article 7 of the Lisbon Treaty. The most serious sanction possible under Article 7 would be suspension of Poland's voting rights in EU institutions. However, such sanctions would be hardly practicable because they require a unanimous vote and the Hungarian government has already indicated its opposition. The country had already established high-level political, social and economic systems in its EU accession process. Unless the issue leads up to a substantial reduction of EU funds, its impact is likely to be limited.

Under its economic and fiscal policies, the government puts priority on promotion of inclusive growth with commitment to keep the fiscal deficit below 3% of GDP. The government has implemented various measures to increase social benefits and lower household burdens and has promoted to enhance active labor market. It has managed to contain the fiscal deficit by enhancing tax compliance and adhering to the expenditure rule.

3. Economic Base

Poland is a relatively advanced economy with its per capita GDP (ppp) in 2018 estimated to have reached USD 30,000, which is slightly higher than the average of sovereigns rated in the A range by JCR. Its industrial structure is diversified, encompassing logistics hubs and outsourcing business lately in addition to the traditional manufacturing such as steel, car and electric appliances and wholesale/retail. Since the middle of the 1990s, the country has introduced FDI mainly from other European countries and deepened its economic relationship with those countries through international trade and finance. The outstanding balance of FDI at the end of 2018 was nearly 50% of GDP. Poland is firmly integrated into the EU's supply chain, with 80% of its exports bound for the EU member countries, including close to 30% bound for Germany alone. Since its accession to the EU, the country has been receiving a substantial amount of transfers from the EU funds and the government has been upgrading the social infrastructure by effectively using them. It was entitled to receive EUR65 billion or 21% of GDP (in 2007) between 2007 and 2013 and more than EUR76 billion or 18% of GDP (in 2014) between 2014 and 2020.

Meanwhile, Poland's population began declining in the late 1990s, giving rise to concern over future supply of labor force reflecting the current economic expansion. More than one million (around 6% of total labor force) Ukrainians are estimated to stay in Poland as foreign workers, helping to ease the labor shortage. Electricity consumed in the country is mainly generated with the coal produced at home, but the government plans to diversify the sources to renewables and nuclear power. Other energy resources such as oil and natural gas are mainly imported from Russia.

4. Economic Trends

The economy has been growing uninterruptedly led by stable domestic demand with annual growth rates averaging higher than 4% in the past three years. The economic growth accelerated to 5.1% (preliminary) in 2018 from 4.8% in 2017 on robust consumer spending brought by increased wages and employment and solid investment prompted by a massive inflow of EU funds. The country faces a labor shortage as the unemployment rate fell below 4% to a record low in 2018. However, the continued rise in employment rate and inflow of overseas workers may ease the shortage at least in the short term. Inflation remains contained as a rise of wages has been partly offset by improved productivity. Despite the continuation of solid domestic demand, the economy is likely to slow to higher 3% in 2019 and 2020 amid the economic downturn in major European trading partners and supply capacity constraints.

5. Financial System

The country's financial system stays stable. In the process of privatization in the 1990s, many major Polish banks excluding PKO BP, the country's largest bank, became subsidiaries of major European banks. A major change occurred in June 2017 when Bank Pekao, the country's second largest bank and a subsidiary of Italian UniCredit bank, was acquired jointly by PZU, Poland's largest insurance company, and the state-owned Poland Investment Fund. Bank lending to the private sector remained moderate at around 60% of GDP at the end 2018, with lending growth mirroring the nominal GDP growth in recent years. The banks continued to register solid earnings in 2018. They have been building up their capital position amid a falling nonperforming loan ratio. Their capital adequacy ratio rose to more than 19.0% at the end of 2018 while the nonperforming loan ratio dropped to below 7%.

President Andrzej Duda launched a plan to convert CHF mortgage loans to PLN at non-market exchange rates, which had been one of his election promises in 2015. However, the president had to make a major revision of his initial proposal in light of its significant impact on the financial system. The latest proposal is to promote voluntary conversion by establishing special fund which will be funded by annual fees imposed on banks. The bill is expected to be approved in the parliament in coming month, but the banks will sufficiently be able to absorb the cost. The outstanding balance of CHF loans as of end 2018 remained less than 10% of total bank loans. Moreover, the credit quality of those loans stays sound as the financial standing of FX borrowers is on average better than zloty ones. The measure is mainly targeted for the election, and not many borrowers are expected to apply for the conversion even if the the measure were adopted.

6. External Position

The country's external liquidity further improved in 2018 as a modest current account deficit was more than offset by continued inflow of EU funds. The current account balance in 2018 shifted to a moderate deficit to 0.7% of GDP from a surplus of 0.2% in 2017. While the trade balance ended up with a slight deficit on increased goods imports amid strong domestic expansion, a structurally growing service balance surplus almost made up for a chronic primary income balance deficit. The country's transportation and business service exports have been growing markedly in recent years. The primary income balance keeps deficit as the foreign owners of Polish firms receive a large share of the profits. A net capital balance inflow mainly originated from the EU funds recovered to 2.0% of GDP in 2018.

The country's net external liabilities on the IIP basis and external debt shrank to 55% of GDP and 63% of GDP at the end of 2018, which were still relatively high as compared to those of other sovereign governments rated in the A range. The public and private sectors respectively accounted for 40% and 60% of the external debt. As for the debt owed by the private sector, intercompany loans made by more stable financing sources accounted for more than 40% of its total. The country's foreign exchange reserves exceeded EUR 93 billion at the end of 2018, or equivalent to 4.5 times of its monthly goods and services imports and 2.2 times of its short-term external debt (excluding intercompany lending) as of the end of 2018.

7. Fiscal Base

Poland was relieved of the EU's excessive deficit procedure in June 2015 for the first time since 2009. It has since been keeping its fiscal deficit below 3% of GDP. The general government fiscal deficit (ESA 2010) in 2018 fell to around 0.4% of GDP from 1.5% in 2017. Expanded tax revenues resulting from economic expansion and intensified tax compliance more than offset fiscal measures including a lowered retirement age and increased public spending. The general government debt (ESA 2010) at the end of 2018 shrank to 48.9% of GDP from 50.6% a year earlier. The debt structure also improved, with the ratios of foreign currency-denominated debts (owed by the central government) and those held by nonresidents falling to 29% and 47%, respectively, at the end of 2018. Japan, Luxemburg and the U.S. were the major nonresident creditors with a combined share totaling nearly 50%. Other creditors were geographically diversified. Average debt maturity is relatively longer with over five years.

Under its 2019 budget plan, the government estimates a fiscal deficit at 1.7% of GDP. With the upcoming general elections, the government unveiled in February an economic stimulus package including a one-off bonus for pensioners, enlarged child benefits and reduction of the personal income tax rate equivalent in cost to around 1.0% of GDP for 2019. The party has not yet shown any concreate measures to foot the cost, only saying that it plans to implement additional revenue measures and limit other expenditures. The Government declares to present details in April's Convergence Programme. JCR holds that the government will manage to keep the fiscal deficit below 3% of GDP, but will watch how the government will fund the cost in compliance with its expenditure rule.

8. Outlook and Overall Assessment

The ratings mainly reflect the country's diversified and stable economic base, prudent fiscal management and improving external liquidity. On the other hand, the ratings remain constrained by its still large net external liabilities in terms of GDP. The outlook of the ratings is Stable. The ruling Law and Justice party with its stable political base continues to put priority on promotion of inclusive growth with commitment to keep the fiscal deficit below 3% of GDP. While the government has implemented various measures to increase social benefits and lower household burdens, it has so far succeeded in containing the fiscal deficit thanks to increased tax revenues brought by economic expansion and enhanced tax compliance, as well as in compliance with the expenditure rule. JCR holds that the economy will slow down modestly in the future but return to a more stable growth rate mainly led by domestic demand. If the additional stimulus measures proposed by the government are implemented as planned ahead of general elections in the fall of 2019, the fiscal deficit will inevitably grow but may stay below 3% of GDP.

Further reduction of net external liabilities and external debts in terms of GDP will be positive for the ratings. On the other hand, the ratings will be negatively affected if the following factors have material impacts on economy and pubic finance; deterioration of external environment mainly EU economies: intensification of labor shortage: and substantial reduction of EU fund triggered by EU sanction.

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Selected economic and fiscal indicators

		2014	2015	2016	2017	2018
Nominal GDP	EUR billions	545	478	472	526	586
Population	millions	38	38	38	38	38
Per capita GDP in PPP	USD	25,288	26,320	27,150	28,911	31,070
Real GDP growth rate	%	3.3	3.8	3.1	4.8	5.1
Consumer price inflation	%	0.1	-0.7	-0.2	1.6	1.2
Unemployment rate	%	9.0	7.5	6.2	4.9	3.9
General government revenues/GDP	%	38.7	39.0	38.9	39.7	-
General government expenditures/GDP	%	42.4	41.7	41.1	41.1	-
General government balance/GDP	%	-3.7	-2.7	-2.2	-1.4	-0.4
General government debts/GDP	%	50.4	51.3	54.2	50.6	48.9
Current account balance/GDP	%	-2.1	-0.6	-0.5	0.2	-0.7
External debts/GDP	%	71.4	70.5	75.3	68.3	63.2
External debts/Export G&S	%	150.2	142.5	144.5	125.7	114.4
International reserves/Monthly import G&S	Times	4.9	4.9	6.0	4.6	4.5
International reserves/Short-term external debts	Times	2.5	2.4	2.1	2.1	2.2

* Figures for the most recent period could be indicators based on preliminary figures.

(Notes)
1 Figures for general government balance and debt in 2018 are preliminary estimate made by the government
(Sources)
Statistics Poland, Ministry of Finance, and National Bank of Poland

Ratings

(billions of yen)

	Rating	Outlook*	Amount	Rate (%)	Issue Date	Maturity Date	Release
No. 15 Yen Bonds	A	-	10	0.91	2013.11.15	2020.11.13	2019.04.01
No. 4 Yen Bonds	A	-	50	2.24	2005.11.18	2021.02.18	2019.04.01
No. 6 Yen Bonds	A	-	60	2.62	2006.11.14	2026.11.13	2019.04.01
No. 13 Yen Bonds	A	-	10	2.50	2012.11.08	2027.11.08	2019.04.01
No. 7 Yen Bonds	A	-	50	2.81	2007.11.16	2037.11.16	2019.04.01
Foreign Currency Long-term Issuer Rating	A	Stable	-	-	-	-	2019.04.01
Local Currency Long-term Issuer Rating	A+	Stable	-	-	-	-	2019.04.01

History of Long-term Issuer Rating (Foreign Currency Long-term Issuer Rating or its equivalent)

Date	Rating	Outlook*	Issuer
2002. 05. 31	BBB+	-	Poland
2003. 05. 08	A-	Stable	Poland
2008. 02. 26	A-	Positive	Poland
2008. 12. 16	A-	Stable	Poland
2013. 03. 01	A	Stable	Poland

*Outlook for Foreign Currency long-term issuer rating, or direction in case of Credit Monitor

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