Polish Market

ECONOMIC MONITOR

May 2009

Main economic trends

• With a GDP growth rate of 0.8% y/y in the first quarter of 2009, Poland was one of three EU countries showing positive growth – in Cyprus GDP increased by 1.6% and in Greece by 0.3%.

• In April 2009 sales in the industrial sector were much lower than in April 2008, retail sales were slightly lower and sales in the construction sector were slightly higher than a year before;

• CPI inflation was slightly higher in April than in March. This was mainly due to a rise in food prices and regulated prices of electricity;

• The year-on-year drop in exports was smaller in March than in February. The decrease in imports was sharper than in exports. As a result, in February and March Poland recorded a surplus on its current account;

• Jobs were on the decrease and unemployment was growing;

• As the economy was slowing, public revenue was down and the general government deficit was on the rise;

• Projection updates suggest that the situation may gradually stabilize and the economy may accelerate;

• Integration with the EU and the absorption of money from the EU's structural funds and cohesion fund are important factors shielding Poland from the effects of the global crisis;

• Anti-crisis programmes carried out by the government are also helping Poland weather the crisis.

Central Statistical Office (GUS): Adverse trends less pronounced in Poland than in most EU countries

In April, as the situation on global markets was deteriorating, adverse trends continued in Poland in the main sectors of the economy but were much less pronounced than in most EU countries. Sales in the industrial and retail sectors were still decreasing year on year. A further weakening of growth in the construction and assembly output was noted. With a considerable acceleration of prices of consumer goods and services and the increase in nominal wages being slower than in previous months, growth in real wages and the purchasing power of old-age and disability pensions was smaller. Average employment in the corporate sector was also on the decrease. The number of registered unemployed dropped for the first time since October 2008 but was higher than a year before. The weaker financial condition of enterprises compared to last year, coupled with negative changes on the labour market, had an adverse impact on the position of the national budget. (GUS release, May 25, p. 3; www.stat.gov.pl)

National Bank of Poland (NBP) and Monetary Policy Council on reasons behind low economic activity

Data obtained since the Council's latest meeting indicate that recession is continuing in the United States and is deepening in the euro zone. However, part of the data concerning the United States may signal a slight increase in activity in this economy in the near future. Meanwhile, despite an improvement in some outlook indicators, growth projections for the euro zone, which is Poland's main trading partner, have been revised downwards again. Economic conditions have also deteriorated in Central and Eastern European countries. The latest data on the situation of the Polish economy confirm that economic activity is low. The drop in demand caused by recession abroad, slower growth in real wages, a deterioration in the financial situation of enterprises and more difficult access to credit will be contributing to an economic slowdown. Despite continued overliquidity in the banking system, borrowing costs remain at a relatively high level because of the high risk premium. Deteriorating business sentiment is a factor which additionally dampens demand. At the same time, data on labour market developments show that jobs are still on the decrease and that wage growth is gradually slowing, which is easing inflationary pressure. (Minutes of the Monetary Policy Council Meeting, May 27, 2009; www.nbp.pl)

Centre for Social and Economic Research (CASE) expects the economic situation to start improving in the third quarter of the year

According to our assessments, in the first quarter of 2009 the economy slid into recession. This is indicated by drops on the supply side on a quarterly and annual basis. Lending for the real economy virtually came to a halt in the first quarter – mainly due to supply-side reasons - and many businesses also gave up taking investment loans. On the demand side, a sharp drop was recorded in fixed asset investment. And businesses were getting rid of excessive inventories at an even faster pace. For the second time, short-term projections worsened considerably compared to CASE's previous projection, although the last round of revisions of global growth forecasts has probably just ended. The deterioration in the outlook for our most important partners in the world raises question marks over the ability of the economy to reach the bottom of the recession in the second quarter of the year. We project that GDP will start growing slowly only in the third quarter. Since the fourth quarter the economic growth rate will be gradually increasing to reach the potential GDP growth rate at the end of 2010. Consumption, despite its weakening, will still be the driving force behind the economy thanks to a PIT reduction and increases in old-age pensions and wages. In 2010 exports and public investment in infrastructure will contribute to a faster rate of growth. We expect that the contribution of net exports will be positive. In the second half of 2010 a revival may begin in private investment. (CASE report, May 27, 2009; www.case.research.eu)

In the first quarter this year Poland's GDP was by 0.8% higher compared to the first quarter of 2008

Central Statistical Office (GUS): According to initial estimates, in the first quarter of 2009 real GDP was by 0.8% higher compared to a year before. Gross value added (GVA) in the national economy was higher by 1.2%. Gross value added was down by 5.9% in the industrial sector and up by 3.4% in the construction sector. In the service sector, gross value added was higher by 3.1% year on year, with an increase of 1.9% in trade and repairs, and an increase of 0.3% in transport, warehousing and communications. Domestic demand was lower by 1.0%, with GDP growth at 0.8%. Total consumption was higher by 3.9%, individual consumption by 3.3% and public consumption by 6.1%. Gross fixed capital formation was higher by 1.2%. The investment rate – the ratio of gross fixed capital formation to GDP in current prices – reached 14.9% against 15.1% a year before. (GUS release, May 29, p. 2 and 3; www.stat.gov.pl)

The drop in GDP growth in the first quarter of 2009 was smaller in Poland than in most other EU-27 countries. According to revised forecasts from the IMF, European Commission and OECD, in 2010 Poland's GDP growth may be positive and higher than in most other EU-27 countries.

Industrial sales dropped again in April 2009 in a downward trend which continued since October 2008. The decrease was much larger than in March. It was coupled with a drop in employment and a slowing growth in wages.

In April 2009 industrial production was down by 12.4% compared to a drop of 2% in March. The drop in the energy sector reached 7.6%; in mining 21.1%. The situation in the manufacturing sector worsened compared to March – in March manufacturing output dropped by 0.6%, in April by 12.6%. In the four months to April 2009 the decrease in output amounted to 10%. Sales of supplies and investment goods were down

GDP growth in 2007-2009, according to GUS data of May 29, 2009

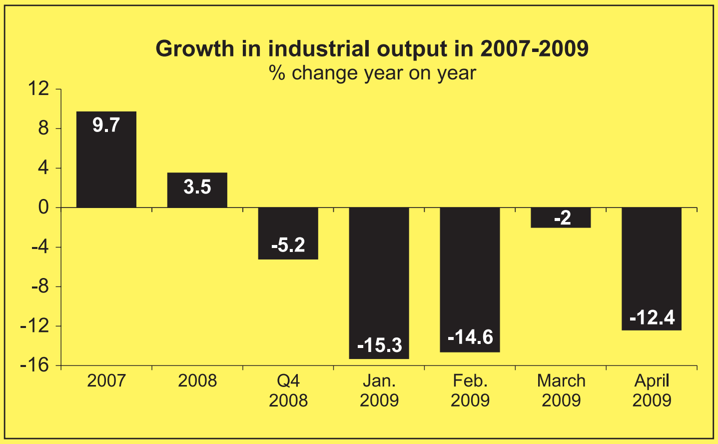
GROWTH IN GDP* AND FOREIGN TRADE, % change year on year

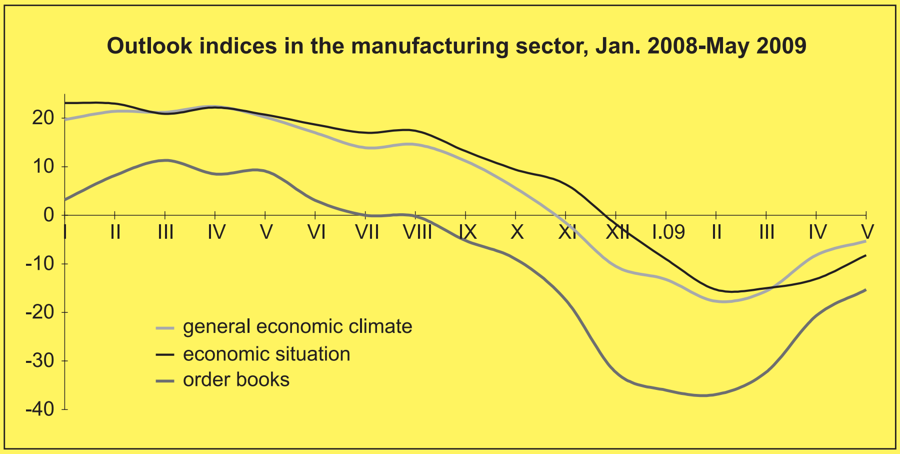
	2007	Q4 2008	2008	Q1 2008
GDP	6.8	2.9	4.9	0.8
Domestic demand	8.7	3.5	5.4	-1.0
Total consumption	4.6	7.3	5.9	3.9
of which:				
Individual consumption	4.9	5.3	5.4	3.3
Public consumption	3.7	14.1	7.6	6.1
Capital formation	24.3	-4.6	3.8	-23.8
of which:				
Gross fixed capital formation	17.6	4.6	6.2	1.2
Exports (acc. to national accounts)	9.1	-0.7	7.2	-14.6
Imports (acc. to national accounts)	13.7	1.0	8.2	-17.6
Gross Value Added	6.7	3.4	4.9	1.2
of which				
Industry	10.1	-1.1	3.9	-5.9
Construction	10.8	5.0	11.0	3.4
Market services	6.5	5.3	5.9	3.1

* GDP non-seasonally adjusted (average annual prices of the year before)
Source: GUS release of May 29, 2009

by respectively 15.5% and 14.1% year on year. The drop in sales of consumer non-durables and durables was slight – respectively 2.6% and 0.3%.

In the four months to April 2009 all major segments of the manufacturing industry saw a decline compared to a year before. However, five segments of the market – producers of food and beverages, electrical equipment, computers and electronics, and transport equipment – recorded a rise or a very slight drop in sales.





Producers of metals, machines, metal products, motor vehicles, clothes and oil products recorded sharp drops in sales.

In January-April 2009 labour productivity in the industrial sector measured by sales per employee was by 6.3% lower year on year, with employment down by 4.1% and the average gross monthly wage up by 5.5%.

In May 2009 the outlook for the manufacturing sector was still negative – it was poorer than in any May in the past six years - but better than in April. Still, the outlook was worse than in any April over the past nine years. 23% of the surveyed businesses signalled a deterioration in business conditions and 18% expected an improvement.

Expectations for books of orders were less pessimistic than in April. Despite the slight increase in production expected in the next three months, businesses did not signal a possible improvement in their financial situation. Production and employment were still pessimistic but much better in April than in previous months. Stocks of finished products were still regarded as too high. Manufacturers planned to reduce employment, though not as much as they had projected in April. They also expected a small decrease in prices.

In May, the outlook was negative across the manufacturing sector but small and medium-sized business were more pessimistic than large ones. Expectations for output volumes over the next three months differed between small businesses, where they were still pessimistic, and large and medium-sized businesses, where they improved and were positive. In consequence, it may be expected that large and medium-sized businesses will be able to repay their debts with shorter delays than small ones.

In May, assessments were more optimistic than in April in most segments of the manufacturing industry, though in many cases the outlook was still negative. Producers of clothes, textiles, metals and metal products, machines and devices, transport equipment, electrical equipment, and businesses operating in the printing industry were the most pessimistic.

Producers of pharmaceuticals, foodstuffs, beverages, tobacco products and chemicals had a positive outlook. Producers of motor vehicles were less pessimistic than in April.

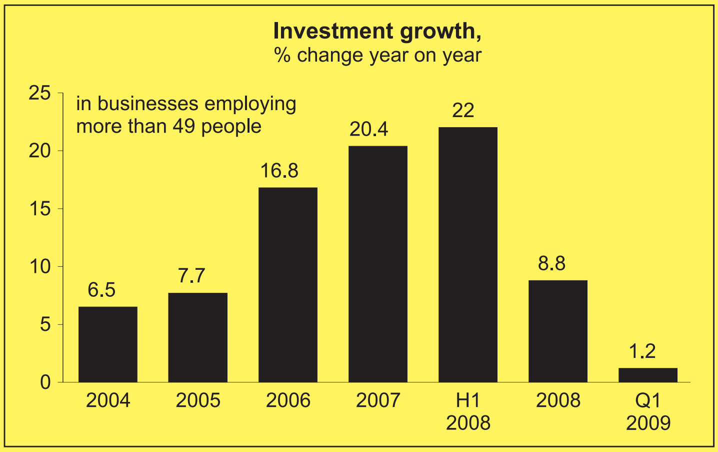
Construction

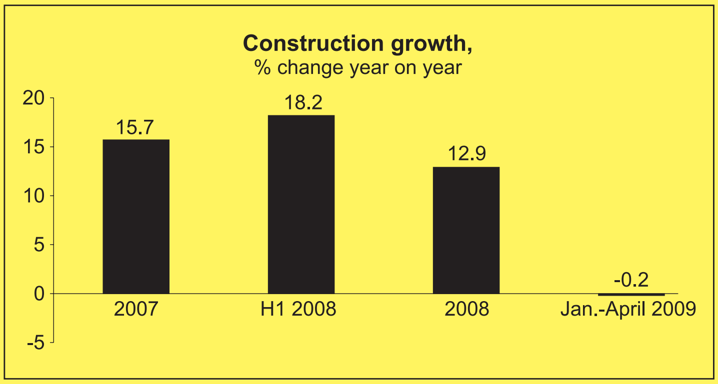
In 2008 growth in investment was slower than in the previous two years when it was in double digit figures. Investment spending in constant prices by companies employing more than 49 people was higher last year by 8.8% compared to 2007. Investment was slowing from quarter to quarter. In the first half of the year it increased by as much as 22%. The slowdown in investment had an unfavourable impact on the construction sector. Investment was at a low level also in the first quarter of 2009. Gross fixed capital formation increased by a mere 1.2%.

In 2008 construction businesses employing more than nine people recorded a rise in output of 12.9%. The increase was high but lower than projected. In April 2009 construction output was higher by 0.5% compared to the very high level recorded in the same month of last year. In the four months to April construction output was at last year's level – the recorded drop of 0.2% is within the statistical error.

The following trends were present in the building industry in the first four months of the year:

– Growth in construction output was slowing but was still higher than in other sectors;





– Housing construction had a positive contribution to construction output because the number of home completions was still on the rise; it had been expected that the industry would be driven by infrastructure construction;

– Wage growth was slowing; in 2008 construction wages increased by 13%, in April this year they increased by 2.5%;

– Construction prices were also slowing; in April 2009 construction prices increased by 0.8%;

– In May capacity utilisation in the construction sector stood at 75%.

It is obvious that the financial crisis has had a negative impact on construction but its individual segments have been affected in different ways. Development companies building homes for sale and rent were the first to be affected. Difficulties with the sale of apartments were the first signal of the approaching crisis. Another phase, with a decrease in home starts, began in the last months of 2008 and has continued until today. In January-April 2009 the number of home starts amounted to 38,800, down by 35% year on year. Developers building homes for sale and rent started 55% less homes than a year before. The number of home building permits was on the decrease in all segments. The decrease in the number of home starts will result in a drop in home completions after a time lag.

The situation is different in the infrastructure sector, where the slowdown – but not contraction – is largely due to organisational reasons and only to a slight extent to factors associated with the crisis on the financial markets. Opinions on the reasons behind the slowdown in the infrastructure sector vary. Construction companies say they have sufficient production capacity, which is not fully utilised now. It is believed that the implementation of infrastructure projects is hindered by problems with their preparation. However, despite these unfavourable factors, prestigious projects are not given up: only their deadlines are extended.

In the current situation, it is very risky to make forecasts for construction, even for a few months ahead. It is quite likely that the slowdown in construction will be milder than in the wider economy. The overall situation in construction in the years 2009-2010 will be determined by the situation in the infrastructure sector. However, it is necessary to continue removing barriers to growth.

Business climate in construction

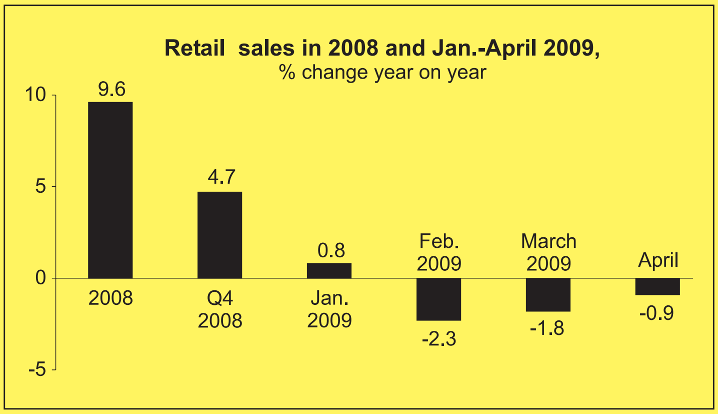
The outlook for the building industry was deteriorating since the third quarter of 2008. From November 2008 to March 2009 there was a sharp drop in indicators describing the general climate, books of orders and output, though a slight improvement was recorded from March to May. The reason was that the outlook for current and future books of orders and construction output improved, although it was still negative. In May 16% of the surveyed businesses reported an improvement in business conditions, against 14% in April, and 27% reported a deterioration compared to 31% in April. Only 4.8% of the surveyed companies said there were no constraints on their activity. Competition from other companies was the most serious barrier – it was indicated by 59% of the surveyed companies. Compared with May last year, the importance of the barrier created by insufficient demand and difficulty getting a loan increased. Construction companies assessed their capacity utilisation at 75%.

Looking at the situation on the Polish construction market, it is worth noting that despite the pessimistic outlook, companies are recording relatively good results. The views voiced by managers of construction companies are influenced by psychological factors and the widespread belief that a crisis in construction is inevitable. Outlook surveys in April and May show that builders are a bit more optimistic now, though outlook indices are still negative.

Retail sales

In April 2009 retail sales were down by 0.7% y/y, compared to a drop by 1.8% in March. The decrease in sales of motor vehicles, fuels, furniture and household appliances was larger than in previous months. Retail sales were slowing for three months but the pace of decrease was increasingly slow.

Growth in retail sales was weakening in 2008 from quarter to quarter. In the first four months of 2009 retail sales recorded by retailers employing more than nine people were below the high level of a year before (down by 0.9%). Sales of motor vehicles, motorcycles and parts were down by 14.2%, sales of solid, liquid and gaseous fuels were down by 9.8% and sales of food, beverages and tobacco products were down by 1.8%. Sales of clothes and footwear were higher by 24.3% y/y, sales of pharmaceuticals, cosmetics and orthopaedic equipment were up by 13.5%, sales of press and books were up by 8.9%, sales of furniture, radio and television equipment and household appliances were up by 1.4%.

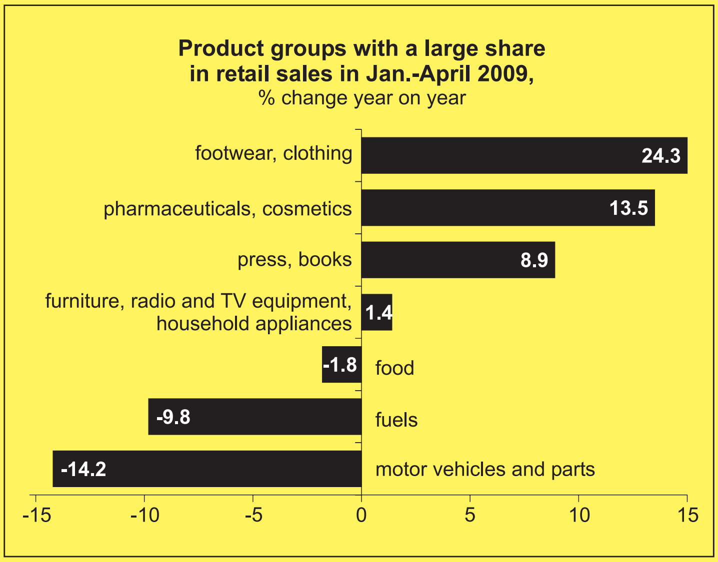


In April wholesale sales (in current prices) by companies employing more than nine people decreased by 11.8% y/y. In March wholesale sales dropped by 3.2% compared to 9.4% in February.

In the four months to April 2009 transport companies employing more than nine people recorded a decrease in sales in constant prices of 5.1% year on year compared to a rise of 10.8% a year before. The sharpest drops were recorded in rail transport and commercial road transport. The volume of goods transported in April 2009 was down by 17.6% y/y.

In May 2009 the general climate in the retail sector was slightly better than in April but worse than in May 2008. Although the outlook for sales was still negative and expectations for retailers' financial situation were still pessimistic, they were better than in previous months.

In May retailers signalled a smaller drop in sales than in April. As a result, they were able to meet their financial obligations with shorter delays. The excessive stocks of goods stayed at the previous month's level. Sales were expected to drop slightly in the next three months. 19% of the surveyed retailers signalled an improvement in business conditions and 18% signalled a deterioration.



Negative assessments came from small retailers while medium and large retailers assessed their situation optimistically. All these groups recorded an improvement compared to April.

Assessments of business conditions differed depending on the sector. The outlook index was positive in the household appliances, textiles, clothes and footwear sectors. Retailers selling food recorded a slight increase in sales but their inventories were too high so the amount of goods ordered from suppliers may be reduced. No changes were noted to constraints on business activity signalled by retailers. Competition on the market, employment costs and fiscal burdens were still the most important barriers.

Service providers

In May 2009 most of the surveyed groups of service providers assessed business conditions as better than in April. Companies operating in the financial and insurance sector were optimistic, although their assessments were not as good as a year before. The most negative assessments, though not as pessimistic as in April, came from companies operating in the transport and warehousing sector. Most of the surveyed managers complained of high labour costs, competition from Polish companies and insufficient demand. But there were no problems with recruiting well-qualified staff.

In May, around 28% of the transport companies surveyed reported an improvement and 26% a deterioration in their situation. Managers signalled a drop in current demand and sales. As a result, the outlook for the companies' current and future financial situation was pessimistic. Managers also planned to cut jobs and signalled a decrease in prices.

Companies providing financial and insurance services said their situation was slightly better in May than in April: 31% of them reported an improvement and only 8% said their situation deteriorated. Managers signalled a slight increase in demand and sales but assessments of their current financial situation were pessimistic. Prices were expected to rise only slightly and job cuts were expected to be less severe than previously projected.

Businesses offering accommodation and restaurant services assessed their business conditions as slightly better than in April: 24% of them reported an improvement and 18% a deterioration. The outlook for demand, sales and the companies' financial situation was better than in April; assessments of the current situation were less pessimistic. Prices and employment were expected to rise slightly.

The outlook in the information and communications sector did not change from April, with 24% of businesses reporting an improvement and 10% a deterioration in business conditions. Managers reported a slight decrease in current demand and sales. Delays in collecting receivables were increasingly long. Managers signalled a drop in prices and a slight increase in employment.

Trends in individual consumption

In May 2009 consumer confidence slightly improved.

The reading of the current index, which describes current trends in individual consumption, increased slightly in May to -24.3 points, but was lower than at the beginning of the year. The forward-looking index, which describes trends expected in the next months, behaved in a similar way: it rose to -34.8 points and was also lower than at the beginning of the year.

The favourable changes in the consumer confidence indices noted in April and May covered virtually all of the basic factors which have an impact on changes in household consumption: the outlook on the households' financial situation and the country's general economic situation in the past and next 12 months, the households' current potential to buy, the level of unemployment in the next 12 months and the potential to save in the next 12 months.

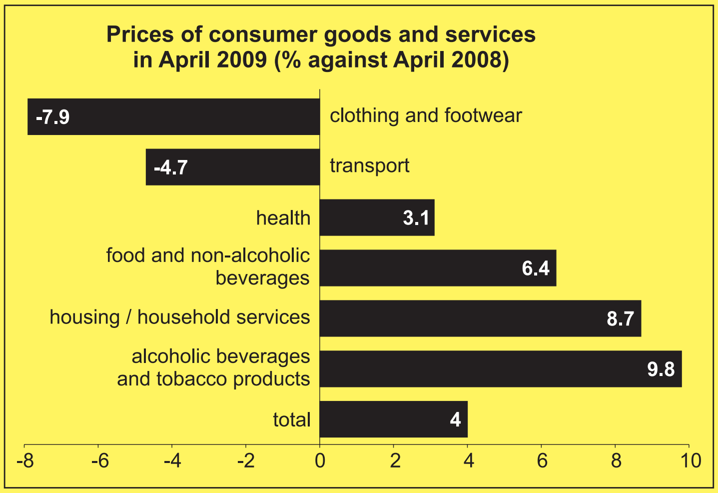
Finance and monetary policy

In April 2009, CPI inflation increased to 4.0% from 3.6% in March and was above the upper end of the inflation target band set by the Monetary Policy Council at 3.5%.

In April 2009 consumer prices accelerated compared to March. The largest upward contribution came from housing and household services and food. Prices of alcoholic beverages, hotels and restaurants, recreation, culture and health services also increased. Prices of communications services remained unchanged and prices of clothes, footwear and transport services were lower than in April 2008.

In April 2009 the producer price index (PPI) was at 5.1%, against 5.5% in March. In construction, the price index dropped to 0.8% from 1.3% in March.

A high increase in prices, like in the previous month, was recorded in the electricity, gas and water sector (20.0%). In mining, prices rose by 11.4%, compared to 10.1% in March and 8.9% in February; in manufacturing prices increased by 2.8%, slightly less than in March (up by 3.2%) and February (up by 3.4%).



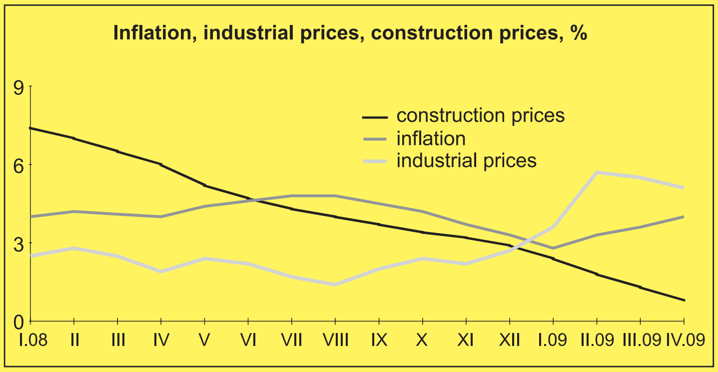
In construction, growth in prices has been gradually slowing, despite the continued increase in wages. The reason is that prices of building materials are on the decrease.

The Monetary Policy Council keeps interest rates on hold, reduces the required reserve ratio

At a meeting on April 28 and 29, the Monetary Policy Council kept central bank interest rates on hold. From October 2008 to March 2009 the key rate was reduced by 225 basis points (from 6% to 3.75%). The Council also reduced the required reserve ratio, which should make it easier for banks to carry out lending activity.

Interest rates on April 30, 2009:
– reference rate: 3.75%,
– lombard rate: 5.25%,
– deposit rate: 2.25%,
– rediscount rate: 4.00%.

NBP (Monetary Policy Council): The exchange rates of the currencies of Central and Easter European countries, including the zloty, have



INFLATION, MONEY SUPPLY, EXCHANGE RATES, INTEREST RATES

	Dec. 2008	March 2009	April 2009	May 2009
Consumer Price Index (CPI), % change	3.3	3.6	4.0	3.7**
Producer Price Index (PPI), % change	2.7	5.5	5.1	X
Construction Price Index, % change	2.9	1.3	0.8	X
Total money supply, M3, in PLN billions at end of period	666.3	683.7	679.9	X
Cash money in circulation, in PLN billions at end of period	90.7	91.1	92.4	X
Total deposits, in PLN billions at end of period	569.6	587.8	582.8	X
Domestic receivables, in PLN billions at end of period	649.0	684.8	673.1	X
Average exchange rate PLN/EUR100 at end of period*	417.2	470.0	438.4	445.9
Average exchange rate PLN/USD100 at end of period*	296.2	354.2	328.6	318.1
Interest rate on lombard credit (%) at end of period	6.50	5.25	5.25	5.25
Reference (intervention) rate (%) at end of period	5.00	3.75	3.75	3.75
Yield on two-year bonds (%)	5.10	5.61	5.50	5.03
Yield on five-year bonds (%)	5.30	6.25	5.86	5.71
Yield on ten-year bonds (%)	5.33	6.25	6.21	6.06

*Source: GUS, Statistical Bulletins, NBP estimates, Monthly Macroeconomic Review BRE Bank SA of March 2009; * exchange rate at close on the last day of the period; ** our estimates*

become a bit less volatile recently but in most of the countries currency volatility has remained at a relatively high level. In April CPI inflation increased in Poland to 4.0% and stayed above the inflation target of 2.5% and above the upper end of the inflation target band of 3.5%. The main factor keeping the consumer price index at a heightened level is the high year-on-year growth in regulated prices, including energy prices, and prices of housing and household services. In April the increase in inflation was largely due to a rise in prices of food and prices of transport services, as a result of the previous sharp weakening of the zloty, and a rise in prices of goods subject to excise duty. All core inflation indicators also increased. The Council believes that in coming months inflation will probably go down but will still remain at a heightened level mainly as a result of relatively high year-on-year growth in food prices and regulated prices, especially energy prices. In the medium term, the global economic recession, contributing to an economic slowdown in Poland, will be easing inflationary pressure in Poland. A gradual deterioration of the labour market situation, and consequently slower wage growth and a less favourable financial condition of businesses, will also be pushing demand and inflationary pressure down. Stricter lending criteria imposed by banks will have the same effect. Inflation will be pushed up by the previous sharp weakening of the zloty. The Council assesses that the probability of inflation undershooting the target is higher in the medium terms than the probability of its staying above the target. In its decisions in coming months, the Council will be taking into account new data concerning prospects for economic growth and inflation, the situation on financial markets in Poland and in the world, data on the public finance sector and the exchange rate of the zloty. The Council also recognised that a fuller assessment of inflation prospects would be possible after the release of the June projection. (...) The Council decided to reduce the required reserve ratio by 0.5 pct. points from 3.5% to 3%. The decision applies to the reserves required since June 30, 2009. The Council believes that the reduction in the required reserve ratio should help banks increase their lending activity. The Council will still be analysing the impact of developments on the Polish interbank market on the transmission of monetary policy in Poland. The Council is sticking to its to-date position that Poland should enter ERM II and the euro zone as soon as possible (...). ("Minutes of the Monetary Policy Council Meeting on May 27, 2009"; www.nbp.pl)

On the Warsaw Stock Exchange

On the Warsaw Stock Exchange, stock prices were very volatile in May. At the end of the month, the WIG-20 blue-chip index was higher by 0.79 pct. points than at the end of December 2008 (on April 30 it was higher by 0.49 pct. points). The WIG broad-market index was higher by 7.69 pct. points than at the end of December 2008 (on April 30 it was higher by 6.57 pct. points).

The foreign trade

The share of consumer goods in Polish exports increases

Central Statistical Office (GUS): In the three months to March foreign trade turnover was lower than a year before. Thanks to a smaller drop in exports than in imports, the trade gap narrowed. Trade turnover in zloty terms decreased with all groups of countries, except for developing countries. The share of agri-food products in total trade increased thanks to a faster growth in trade in these goods compared to the first quarter of last year. In imports, the share of investment goods and intermediary goods decreased while the share of consumer goods increased. (...) Trade with Central and Eastern European countries decreased the most. A slight increase in trade in zloty terms was recorded with developing countries. Exports to developed countries, including the EU, were decelerating at a slower pace than imports. As a result, the positive balance of trade with these groups of countries

FOREIGN TRADE IN JANUARY-MARCH 2009

	Jan.-March 2009	Jan.-March 2009 / Jan.-March 2008	% share
Exports, EUR billions	22.7	79.7	100.0
of which			
EU	18.3	80.8	80.3
Central and Eastern Europe	1.6	61.3	6.8
Imports, EUR billions	24.6	73.0	100
of which			
EU	14.7	69.4	59.6
Central and Eastern Europe	2.7	69.0	10.8

Source: GUS, "Report on the Country's Socio-Economic Situation, May 2009."

improved compared to a year before. The balance of trade with the remaining groups of countries was negative. (GUS, "Report on the Country's Socio-Economic Situation, May 2009," p. 4; www.stat.gov.pl)

Trade deficit narrows

Central Statistical Office (GUS): The value of exports in current zlotys was lower by 3.3% than in the first quarter last year and amounted to PLN99.4 billion; imports went down by 11.6% to PLN107.6 billion. The balance of trade was negative at PLN-8.2 billion, compared to PLN-18.9 billion a year before. Trade turnover in euro terms decreased by 20.3% to EUR22.7 billion on the exports side and by 27.0% to EUR24.6 billion on the imports side. The deficit amounted to EUR-1.9 billion versus EUR-5.2 billion a year before. In dollar terms, exports reached USD30.1 billion and were lower by 27.5%; imports were down by 33.5% to USD32.7 billion. The negative balance was at USD-2.6 billion versus USD-7.7 billion a year before. (GUS, "Report on the Country's Socio-Economic Situation, May 2009," p. 37; www.stat.gov.pl).

Main partners

Central Statistical Office (GUS): Poland's trade with Germany, its main trade partner, rose slightly by 0.9% to PLN26.4 billion (EUR6.1 billion) in exports and decreased by 18.9% to PLN23.2 billion (EUR5.3 billion) in imports. Poland recorded a surplus of PLN3.2 billion (EUR0.7 billion) compared to a deficit of PLN-2.4 billion (EUR-0.7 billion). The share of Germany rose in total exports from 25.5% to 26.6% and declined in total imports from 23.5% to 21.6%. (...) After Germany, Poland's main export partners were France (7.2%), Italy (7.0%), Britain (6.1%), Czech Republic (5.6%), Netherlands (4.4%), Russia (3.8%), Sweden (2.9%), Belgium (2.7%) and Spain (2.6%). The main import partners were China (10.2%), Russia (9.6%), Italy (6.6%), France (4.5%), the Czech Republic (3.5%), Netherlands (3.3%), South Korea (3.1%), Britain (2.9%) and the United States (2.7%). (GUS, "Report on the Country's Socio-Economic Situation, May 2009," p. 40; www.stat.gov.pl).

Agri-food exports grow

Central Statistical Office (GUS): Agri-food exports were higher by 22.1% compared to the first quarter of last year and amounted to PLN11,694.7 million (EUR2,669.0 milion). Imports increased by 15.9% and reached PLN9,507.5 million (EUR2,175.6 million). There was a trade surplus of PLN2,187.2 million (EUR493.4 million) compared to a positive balance of PLN1,369.6 million (EUR379.4 million) last year. The share of agri-food products in total trade increased from 9.3% to 11.6% in exports and from 6.7% to 8.8% in imports compared to the first quarter of last year. The increase in trade in agri-food products was recorded with all groups of countries. Exports to Central and Eastern European countries (for example fresh fruit to Russia and pork to Ukraine) rose by 50.3%, to developing countries (for example wheat to Egypt) rose by 46.0%, and to developed countries and the EU (for example tobacco products to France and beef to Italy) rose by 17.7% and 17.6%, respectively. Imports from Central and Eastern European countries (for example oilseed and turnip rapes and oilseed cake from Ukraine) rose by 24.6%, from developed countries and the EU (for example pork from Germany and Denmark) rose respectively by 18.4% and 19.9%, and from developing countries (for example fillets and other fresh, cooled and frozen fish meat from China) rose by 6.9%. In the geographic structure of agri-food exports, the share of Central and Eastern European countries increased from 8.8% in the first quarter of last year

SELECTED BALANCE OF PAYMENTS ITEMS, transaction-based

	March 2008	Feb. 2009	March 2009	cumulative data: March 2007-Feb. 2008	cumulative data: March 2008-Feb. 2009
Current account balance, EUR millions	-1,960	-915	75	-16,427	-15,079
Exports, EUR millions	10,113	7,569	8,467	111,138	113,389
Imports, EUR millions	11,583	7,540	8,544	124,382	127,286
Foreign direct investment in Poland, EUR millions	926	117	407	15,879	9,570

Source: National Bank of Poland (NBP), Department of Statistics, revised data for February 2009, preliminary data for March 2009 to 10.8%, the share of developing countries increased from 5.6% to 6.7%, the share of developed countries dropped from 85.6% to 82.5%, and the share of EU countries dropped from 81.7% to 78.6%. 93.3% of Polish agri-food exports was sold on the markets of developed countries and Central and Eastern European countries compared to 94.4% in the first quarter of last year. In imports, the share of developing countries dropped from 22.8% to 21.0% and the share of developed countries rose from 75.3% to 76.9%, with the share of EU countries going up from 68.3% to 70.7%. The share of Central and Eastern European countries rose from 1.9% to 2.1%. (GUS, "Report on the Country's Socio-Economic Situation, May 2009," p. 43 and 44; www.stat.gov.pl).

Current account surplus

GUS, NBP: In March the balance on the current account was positive at EUR75 million against EUR-1,960 million in the same month of last year. The current account balance improved mainly due to an improvement of the merchandise trade balance and a high inflow of transfers from the European Union, registered as current transfers. In March the balance of merchandise trade amounted to EUR-77 million, against EUR-1,470 million a year before. Receipts for merchandise exports amounted to EUR8,467 million, down by 16.3% year on year, and payments for imports decreased by 26.2% year on year to EUR8,544 million. The balance of services was positive in March at EUR125 million, against EUR167 million a year before. Receipts from service exports decreased year on year by 15.4% to EUR1,454 million. Payments for service imports decreased by 14.4% to EUR1,329 million. The balance on transport services was positive at EUR182 million, the balance on foreign travel was positive at EUR121 million while the balance on other services was negative at EUR-178 million. In March the income balance was at EUR-431 million, against EUR-1,051 million a year before, with receipts at EUR432 million (down by 20.7% year on year) and expenditure at EUR863 million (down by 45.9%). The balance of current transfers was positive in March at EUR458 million against EUR394 million a year before. Incomes decreased by 1.7% year on year to EUR879 million while expenditures by 15.8% to EUR421 million. (GUS, "Report on the Country's Socio-Economic Situation, May 2009," p. 52 and 53; www.stat.gov.pl).

Centre for Social and Economic Research CASE: The situation will be gradually improving

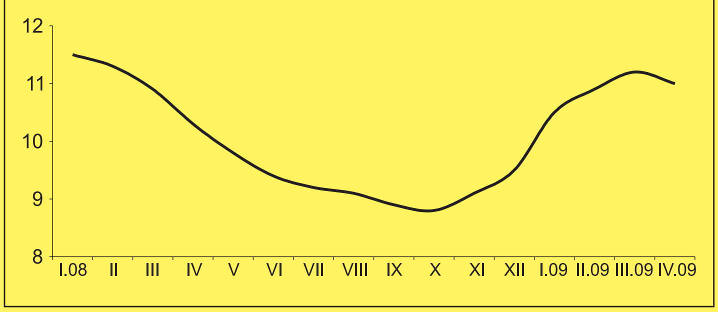
The exceptionally sharp drop in exports and imports noted in the first quarter of the year should not repeat itself because Poland's external environment will be slowly improving. Thanks to the sharp weakening of the zloty in real terms, drops in exports will be increasing small. This factor was the main reason why exports slowed less than imports while the fact that recession is much milder in Poland than in countries which are its main trade partners would suggest the opposite trend. The current account was almost balanced in the first quarter, something which indicates that the current account deficit will narrow in 2009 to 2-3% of GDP from 5.5% in 2008. Despite the large decrease in net direct investment, the projection for the demand and supply of foreign currencies, i.e. balance of payments, suggests that supply will be higher than demand in 2009. As a result, the zloty should tend to be strengthening. The gradual reduction in the risk premium for investing in financial assets in our country will be supporting this trend. (CASE report, May 27, 2009; www.case.research.eu)

Changes on the labour market
– jobs on the decrease, wage growth slows.

At the end of April 2009 the registered unemployment rate (claimant count rate) was 11% versus 11.2% at the end of March. Employment in the corporate sector was by 1.4% lower than in April 2008. Wages were higher by 4.8% year on year; in the four months to April they were higher by 5.9%. Growth in average wages has been slowing for several months now.

Central Statistical Office (GUS): In April average employment in the corporate sector was by 1.4% lower than a year before, with the largest decrease noted in manufacturing. The registered unemployment rate dropped by 0.2 pct. pints to 11.0% but was higher than a year before (10.3%). The preliminary findings of the labour force survey confirm unfavourable trends on the labour market in the first quarter of the year. Compared to the fourth quarter of last year, the number of working people decreased, the employment and the economic activity rates dropped, which was coupled with a rise in the unemployment rate to 8.3%. The year-on-year increase in average gross wages in the corporate sector was lower in April than in previous months – 4.8% in nominal terms and 1.1% in real terms. Growth in the purchasing power

Unemployment rate, %



EMPLOYMENT, WAGES AND UNEMPLOYMENT

	Dec. 2008	Jan. 2009	Feb. 2009	March 2009	
Average employment in the corporate sector in thous.	5,364	5,374	5,352	5,325	5,309
Change in employment, % against previous year	2.2	0.7	-0.2	-0.9	-1.4
Average gross monthly wage in the corporate sector in PLN	3,428	3,216	3,196	3,333	3,295
Nominal wage change, % against previous year	5.6	8.1	5.1	5.7	4.8
Real wage change, % against previous year	2.4	5.4	1.9	2.2	1.1
Average gross monthly old-age pension in PLN	1,449	1,454	1,457	1,548	1,556
Registered unemployed, in thous.	1,474	1,634	1,719	1,759	1,720
Unemployment rate (in %)	9.5	10.5	10.9	11.2	11.0

Source: GUS, "Report on the Country's Socio-Economic Situation, April 2009."

FINANCIAL RESULTS IN THE CORPORATE SECTOR

	2007	2008	Q1 2008	Q1. 2009
Gross return on sales (in %)	6.1	4.2	5.9	3.0
Net return on sales (in %)	5.0	3.3	4.6	2.2
Financial liquidity index	33.8	33.3	33.0	31.9
Gross profit/loss in PLN billions	104.9	79.9	25.7	13.4
Net profit/loss in PLN billions	86.2	63.0	20.4	9.8

Source: GUS, Statistical Bulletins

of old-age and disability pensions slowed (...). Of the sectors which have a significant share in total employment, the sharpest year-on-year decrease in average employment was recorded by businesses producing clothes (down by 16.4%), motor vehicles, trailers and semi-trailers (down by 13.1%), products made of other non-metallic mineral raw materials (down by 9.7%) and furniture (down by 8.9%). Employment also dropped in businesses manufacturing rubber and plastic products (down by 6.3%) and machines and equipment (down by 5.4%). The highest year-on-year increase in average employment was recorded in specialist construction services (up by 7.1%), retail trade (up by 4.7%) and civil engineering (up by 4.5%). (GUS, "Report on the Country's Socio-Economic Situation, April 2009," p. 3-4 and 6; www.stat.gov.pl)

Financial results

In the first quarter of 2009 financial results in all sectors of the economy worsened and were much poorer compared to a year before. They were better however than those recorded in the fourth quarter of 2008.

In the first quarter of 2009 financial results recorded by the surveyed companies (17,440 companies employing 50 or more people) were poorer than a year before. Net profit was lower, the number of loss-making companies was up, and net loss was almost three times higher than a year before. All of the basic performance indicators deteriorated: the cost index worsened, the share of gross wages, external services and energy increased in total expenditure, while the share of materials decreased. It should be noted that the first-quarter results, with net profitability at 2.2%, were better than the results for the fourth quarter of 2008, when profitability was at -0.1%.

In the first quarter of 2009 the financial condition of enterprises was characterised by the following trends:

– Growth in revenues was slower than in business expenditures. Revenues from overall business operations were by 3.4% higher than a year before; business expenditures were higher by 6.6%. As a result the cost index worsened from 94.1% a year before to 97.1% in the first quarter of 2009;

– The companies generated a gross profit of PLN13.4 billion, compared to PLN25.7 billion in the previous year (down by almost 50%). The net profit reached PLN9.8 billion. Compared to the first quarter of 2008, the net profit was lower by almost 40%.

– A total of 62.3% of enterprises showed a net profit; their share in total revenue decreased from 80.7% to 69.5%. This means that the share of loss-making businesses stood at 38% in the first quarter;

– Net return on sales amounted to 2.2% in the first quarter of 2009 versus 4.8% a year before; in the fourth quarter the rate was negative;

– Of the surveyed companies, 45.2% reported exporting activity in the first quarter. Receipts

SELECTED ITEMS OF THE NATIONAL BUDGET (in PLN billions)

	2008 budget law	Jan.-Dec. 2008	2009 budget law	Jan. 2009	Jan.-Feb. 2009	Jan.-March 2009	Jan.-April 2009
Revenue (indirect taxes, income tax, receipts from customs) in PLN billions	281.8	254.1	303.0	27.7	46.7	65.7	89.3
Expenditure	308.9	278.7	321.2	24.8	52.0	76.9	104.6
Balance	-27.1	-24.6	-18.2	2.9	-5.3	-11.2	-15.3

Source: GUS, "Report on the Country's Socio-Economic Situation, April 2009."

from exports were lower by 4.4% year on year and the share of exports in total revenues dropped to 19.4% from 20.7%;

– Not all of the major sectors of the economy were profitable in the first quarter. Construction, hotels and restaurants showed a loss. In the manufacturing sector, losses were reported by oil processing companies and producers of wood products.

Fast increase in budget deficit

In the four months to April 2009 budget revenue amounted to PLN89.3 billion, or 29.5% of the whole amount planned under the 2009 budget law. Indirect taxes accounted for 58.4% of the revenue, corporate income tax (CIT) accounted for 11.9%, personal income tax (PIT) accounted for 13.8% and receipts for the national budget from EU funds and other non-refundable sources accounted for 9%. Receipts from indirect taxes were by 2.3% lower than a year before. Receipts from CIT were lower by 9% and receipts from PIT were lower by 2.2%.

In the four months to April budget expenditure amounted to PLN104.6 billion, or 32.6% of the whole amount planned. The share of general subventions for local government units accounted for 18.3% of the total expenditure. After the four months the budget deficit reached PLN15.3 billion, or 84.3% of the total deficit planned for 2009.

Summary

Revised projections indicate that the situation of the Polish economy may be gradually stabilising and improving but much depends on external conditions. Will anti-crisis programmes help the United States and the euro zone overcome recession and enter a growth path? When will the economies start recovering? The Polish economy has so far been relatively immune to the crisis and we hope this situation will continue in the future.

The Polish government, central bank and other institutions responsible for Poland's economic policy have taken measures to help the country weather the crisis. Among these measures are credit guarantees for businesses financed from the national budget. Steps are also being taken to make Polish law more friendly to business. The government, employers and trade unions are discussing changes to labour law in order to improve the business environment. An important factor easing the negative impact of the global crisis on the Polish economy is the absorption of EU money from structural funds and the cohesion fund. A prospect for Poland's early entry to the euro zone should reduce foreign investment risk in the country. An amendment to the 2009 budget law, planned after the first half of the year, and work on the 2010 budget law will play an important role in shaping Poland's anti-crisis policy.

ZOFIA BOLKOWSKA, MAREK MISIAK

Promoting Public-Private Partnership

For three years since the adoption of the Public-Private Partnership Act in 2005, no meaningful initiative has been taken towards its implementation. It has therefore become necessary to adopt a new law, writes independent economic expert Jerzy Bolkowski in a commentary for Polish Market.

The PPP Act adopted on 19 December 2008 defines cooperation between public entities and private partners as "joint execution of projects with both sides sharing the tasks and risks".

Concluding a PPP contract, the private partner undertakes to carry out a definite task for pay and to bear the whole or partial cost of its execution. When the contract is completed, the private partner (company) turns the assets used to execute the respective project over to the public entity. That means that the private partner commits own financial and material resources toward the execution of the task and at the same time takes the risk of its economic task upon itself.

This PPP formula is very tempting for public law entities because the central government and local authorities have been short of budgetary means for investments. The formula has become especially appealing during the present credit market crisis for entities operating on the investment market and negatively affected by tight credit restrictions applied by banks. It should be noted that in order to employ the vast EU assistance funds (EUR 67 billion in the years 2007 – 2013), projects to be carried out need to be co-financed by the beneficiary country. In this context, private capital in PPP schemes may play a crucial role in absorbing EU funding.

It would seem that under the 2005 Public-Private-Partnership Act (Journal of Laws- No 169 item 1420), public law entities and private partners would undertake joint projects enthusiastically on a big scale. Regretfully, for three years after the Act was adopted no major initiative was taken under the PPP scheme, except perhaps the controversial

BOT (Build – Operate – Transfer) motorway construction project.

At least two reasons for that were given by experts. One was the complex and time-consuming procedures laid down by the PPP Act, notably the obligation to carry out elaborate economic, financial and risk assessment analyses. Another was the atmosphere of suspicion on the part of authorities and officials regarding the nature of projects undertaken, and especially of the benefits expected by partners. Joint undertakings were therefore avoided for fear of possible accusations of corruption in public entity and private business contacts.

As a result, most of the 2005 Act provisions remained on paper. It became clear that the Act had to be amended. The new PPP Act came into force on 26 February 2009 and eliminated superfluous administrative procedures and restrictions. The new Act offers PPP parties freedom of selecting the forms of collaboration and the projects to be carried out.

The philosophy of the amended PPP Act is based on two premises.

Whenever possible, no new regulations shall be created unless required. Parties shall apply proven legal solutions provided under commercial, civil and public procurement law regulations. The terms of the new PPP Act refer to the general system of law binding in Poland. .

Partners shall be given plenty of leeway, particularly in contracting agreements favourable for both PPP parties. They shall be bound only by general legal frameworks rather than stiff and rigorous terms.

The present Act does not require complex analyses to be drawn up. Feasibility assessment of projects is left to the discretion of the partners concerned.

Most significantly, the new regulations no longer specify projects allowed under the PPP scheme. Partnership is allowed if just the legal requirements governing the remuneration of the private partner and risk sharing are adhered to. If the private partner is to be compensated for solely by a public entity, he shall be selected under the terms of the public procurement law. The most recommended mode of selecting a private partner is through a "competition dialogue". This means that after public announcement of offers, the commissioning party enters into negotiations with its provisionally selected bidders, invites them to submit offers and ultimately selects the best (the criteria of assessing offers are defined in Art. 6, chapter 2 of the PPP Act of 19 December 2008).

If, however, the private partner is to be recompensed by the public entity alone, and if it is at least in part to be rewarded by proceeds generated from the use of an object built under the PPP scheme (e.g. from collecting motorway toll fees), he shall be selected under the terms of the License Act of 9 January 2009 on licenses for construction works and services. The terms of the License Act shall be applied directly as the Act is adjusted to PPP undertakings.

The License Act specifies the parties of a licence agreement, defines the mode of concluding contracts, sets out in general way the object of the contract and its acceptable duration.

The PPT Act has a very wide application. It covers big infrastructure investments (roads, motorways, railways, power lines, environment protection projects, water supply, sewage systems and waste treatment systems) as well as local government projects in education, health care, culture etc.

The new PPP Law has also settled the issue of the transfer of property components involved in the PPP project after the contract is completed. The basic solution envisages transfer to the public entity involved in the partnership. However, it can also be passed over to a different public entity, other than the one involved in the undertaking if a reservation to that effect had been made in the PPP contract. In that case, however, the private partner has the pre-emptive right to purchase the respective property components if put up for sale.

Public Private Partnership is a proven business formula which has been widely applied for years in other countries. In Poland partnership with foreign companies developed in the form of joint ventures. That was long before Poland joined the EU. Capital did not flow freely between countries yet and joint ventures were the only way to use foreign capital and just as importantly – to access modern technologies. Poland's EU accession rendered regulations on joint ventures irrelevant at the same time opening up opportunities to apply the PPP formula on an international scale.

The liberal PPP regulations now in force endorse this business formula. One may expect that it will be widely applied and developed. The more so that big capital-intensive and long-term investments co-financed by EU assistance funds particularly suitable for PPP projects are in the offing.