



**NBP**

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Narodowy Bank Polski

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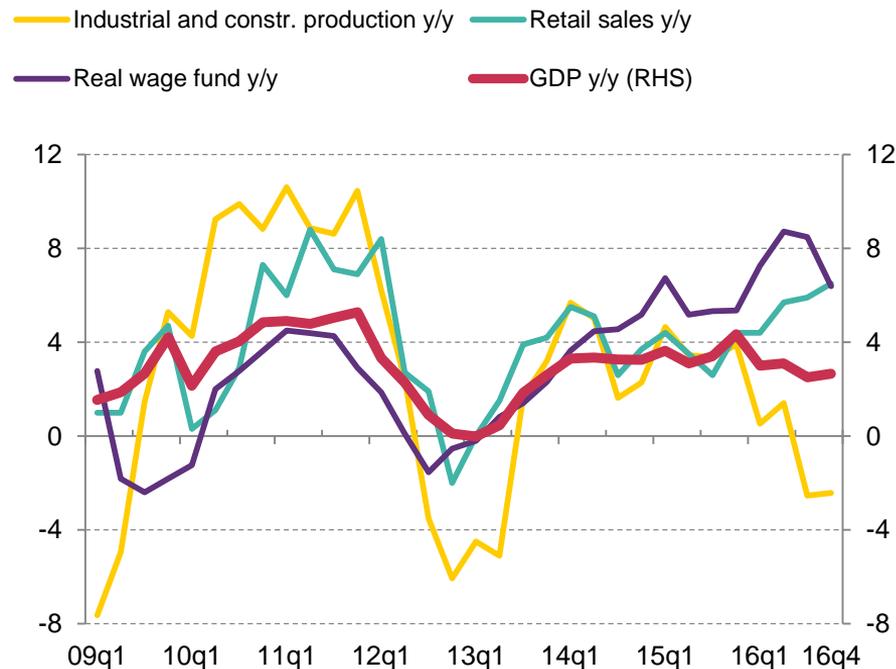
# Current economic and financial situation in Poland

37th Governors' Club meeting, Antalya-Belek, 2-4 April 2017

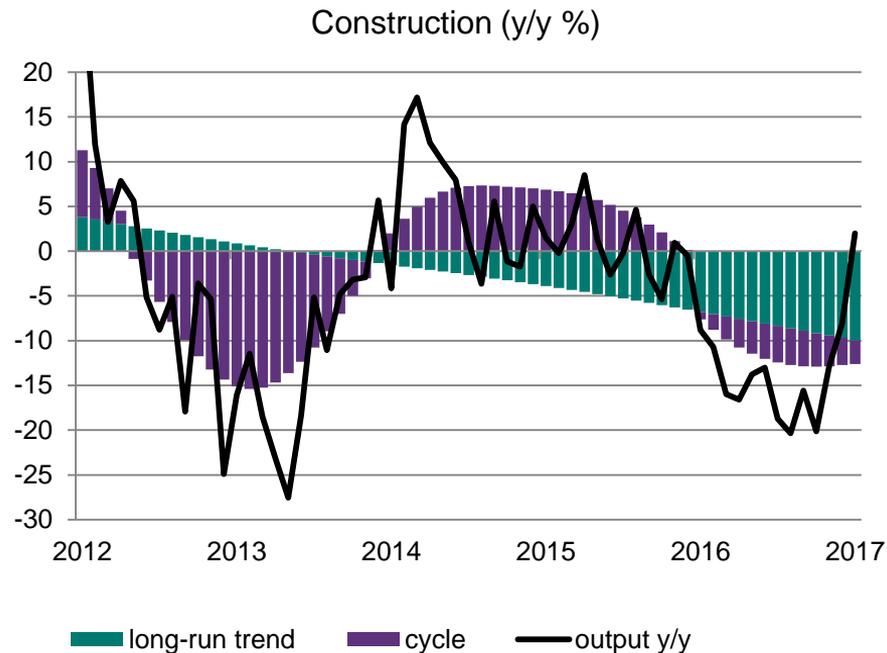
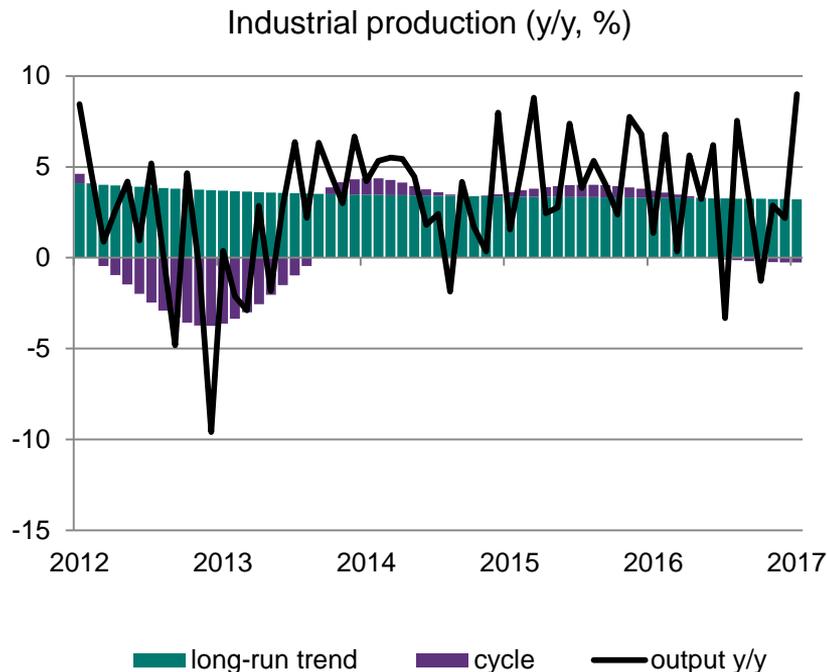


**Poland's GDP growth rate is fluctuating around 3%, exceeding the EU average due to real convergence processes as well as strong growth in domestic consumption.**

	16q3	16q4
<b>GDP (y/y) (%)</b>	<b>2,5</b>	<b>2,7</b>
Domestic demand (y/y) (%)	2,9	2,5
Private consumption (y/y) (%)	3,9	4,2
Public consumption (y/y) (%)	4,9	2,9
Gross fixed capital formation (y/y) (%)	-7,7	-5,7
Exports (y/y) (%)	6,8	6,6
Imports (y/y) (%)	7,8	6,6
Contribution of net exports (pp.)	-0,3	0,2

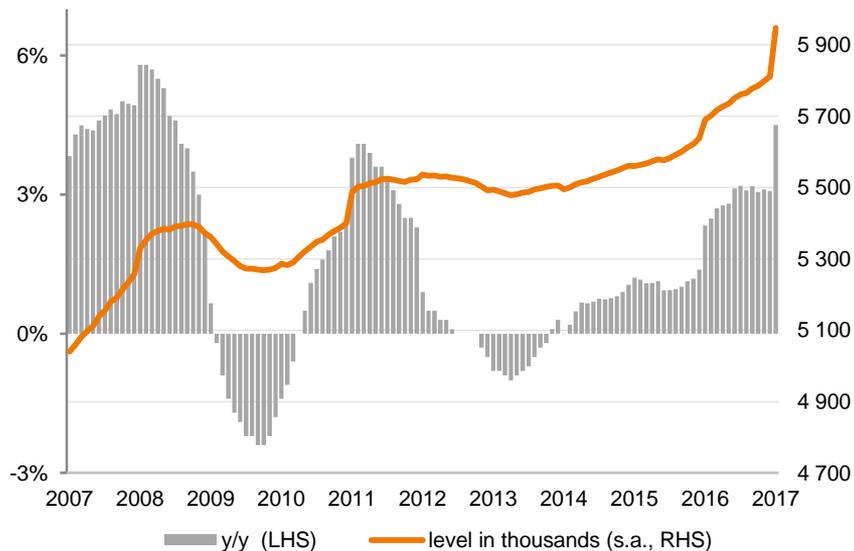


**Growth in industrial production has been quite steady over the last years, steadily exceeding 3% per annum. Construction, in contrast, has witnessed a prolonged downturn since its peak in 2011**

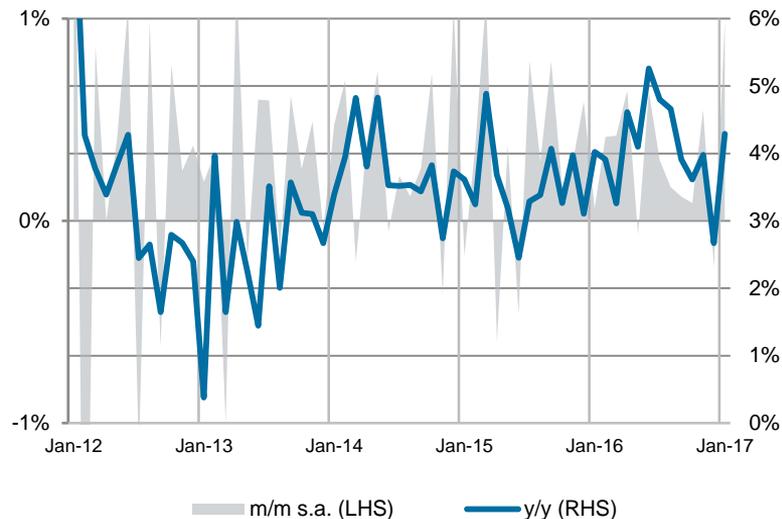


## There is a major upturn in the Polish labor market: employment is on the rise, unemployment is declining, and wages are growing faster than GDP

### Employment in the corporate sector

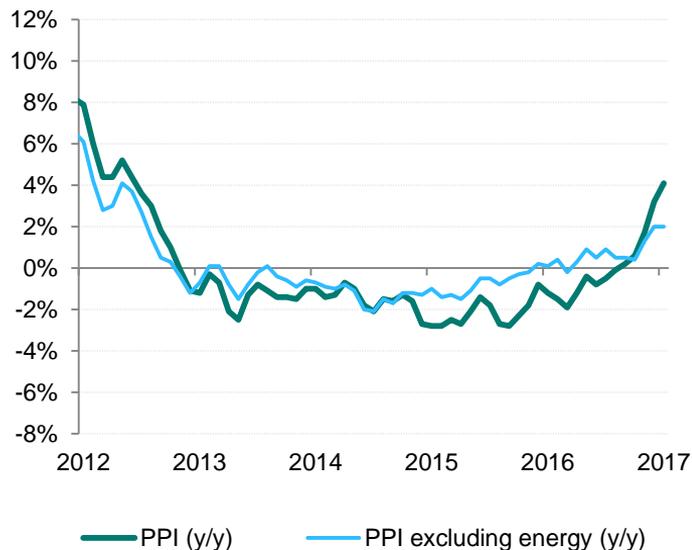
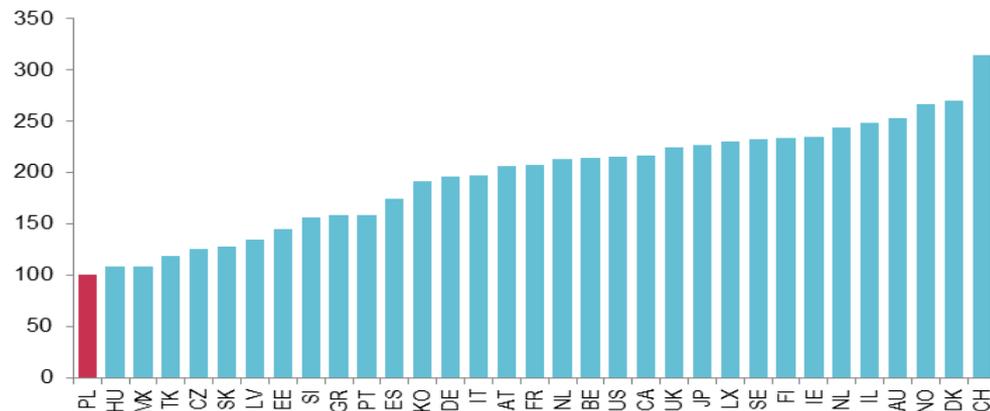


### Nominal wages in the corporate sector



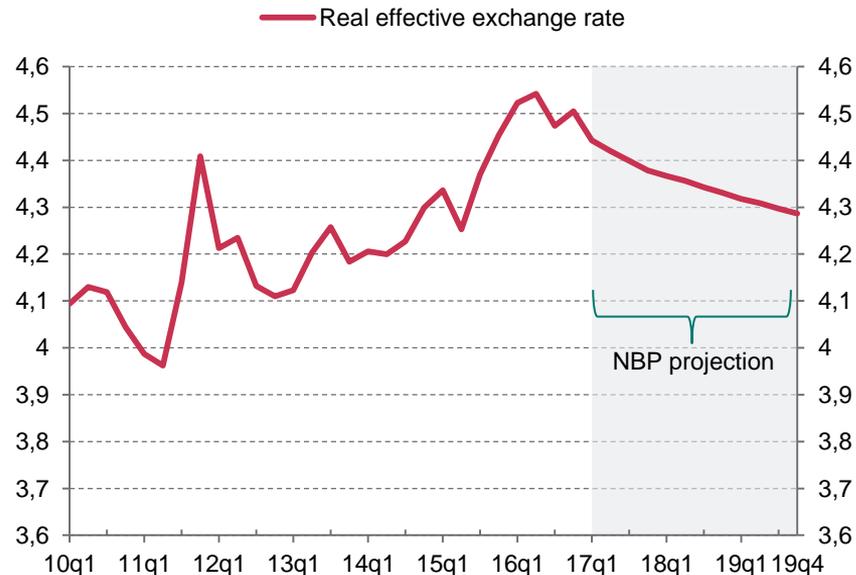
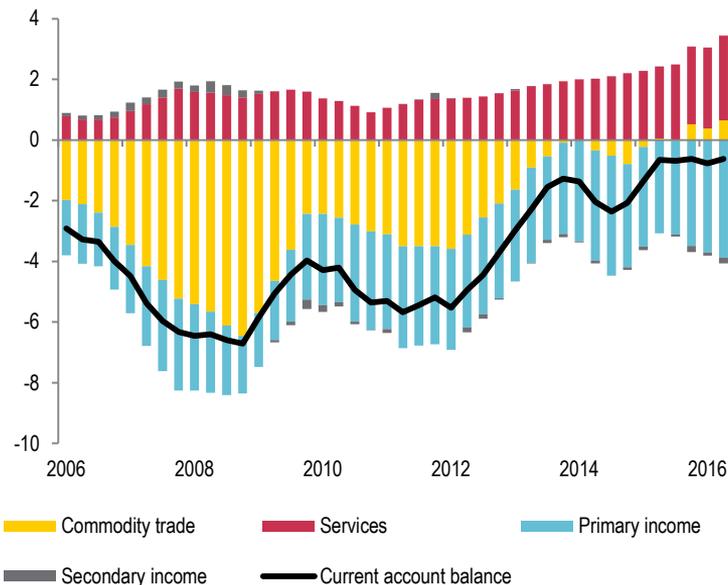
- **Employment** dynamics in the corporate sector: **4,5% y/y** (in January 2017).
- **Nominal wage** dynamics in the corporate sector: **4,3% y/y** (in January 2017).

**The PPI has just become positive after four years of declines in producer prices, mirroring the developments in world markets.**

**PPI****Price levels in July 2016, Poland=100**

**Poland's current account deficit has declined below 1% of GDP, fueled by systematic improvements in our commodity trade balance.**

**Current account balance as % of GDP  
from the last 4 quarters**

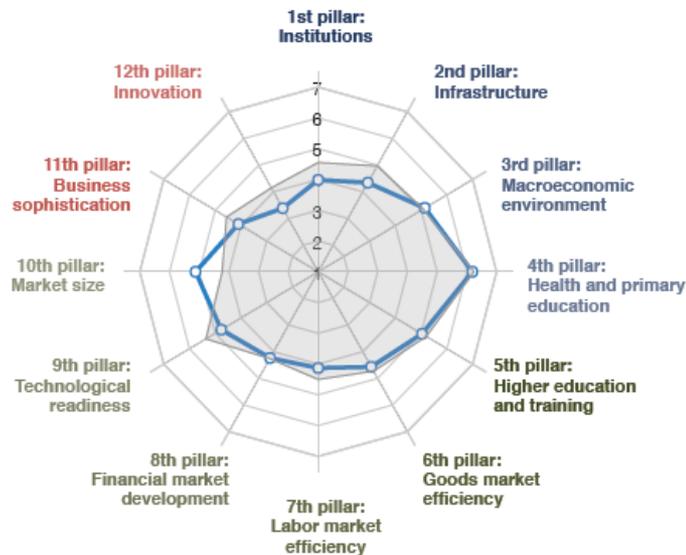


**Poland's position in competitiveness rankings is gradually going up.  
The challenge is now to make a leap from price to quality competitiveness, which necessitates more innovation**

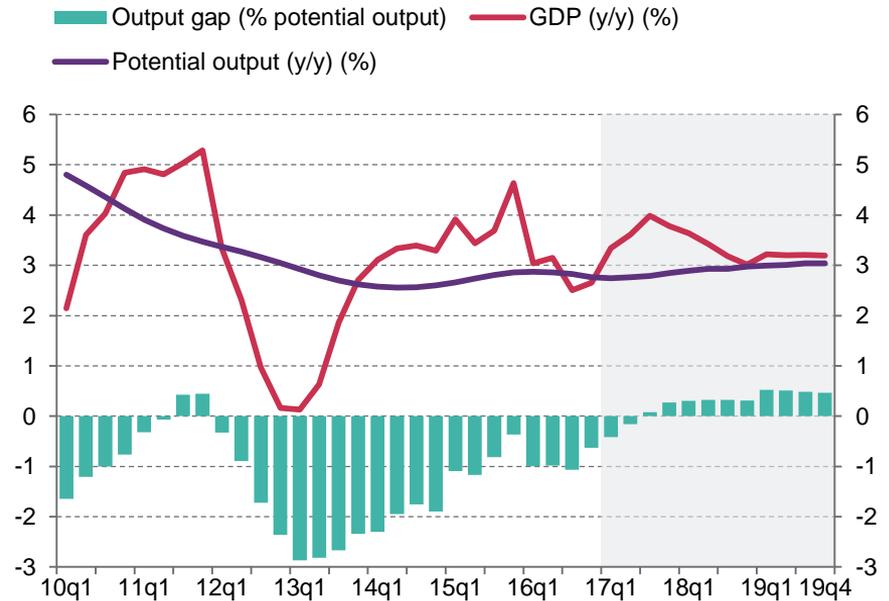
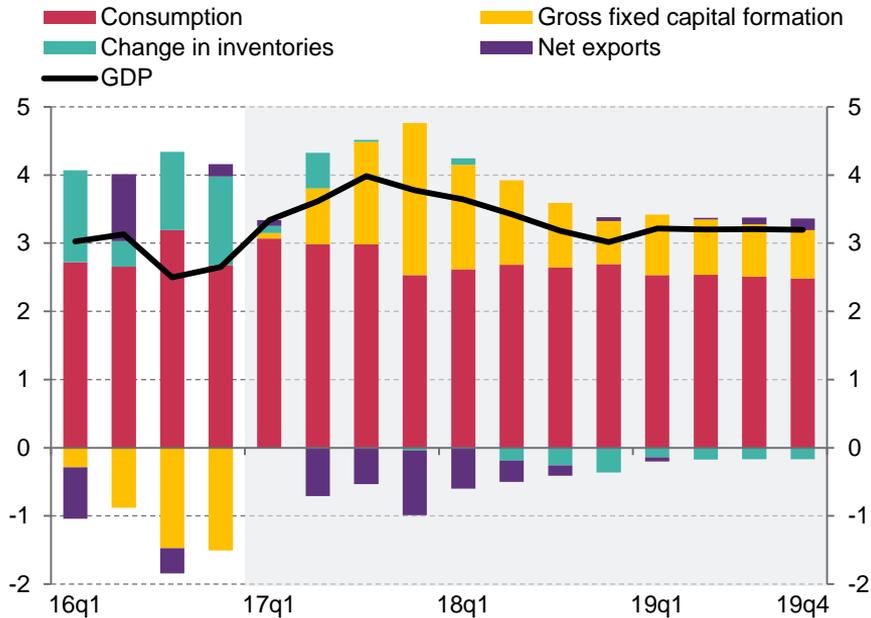
## ■ Poland is ranked 36th in the WEF competitiveness ranking (2016 edition)

- Important strengths: market size (Poland + EU), employees' competences and education
- Weakness: innovation (ranked 60th)
  - Low corporate R&D spending
  - Weak cooperation with universities
  - Complicated and intransparent judicial and tax system, hampering firms' innovative activities
- Other problems: inability to attract and retain talent (*brain drain* phenomenon), inefficiency of some legal regulations, low level of social trust

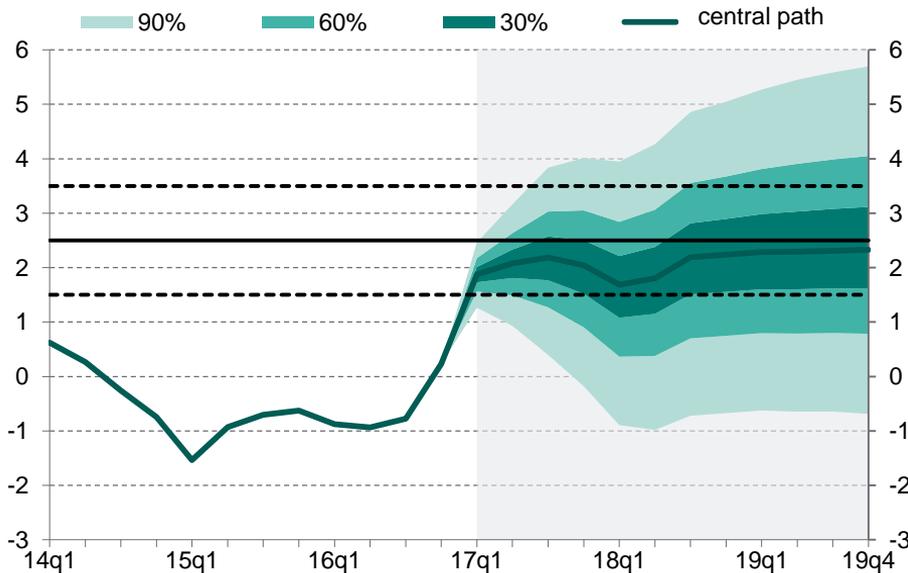
Edition	2012-13	2013-14	2014-15	2016-16	2016-17
Rank	41 / 144	42 / 148	43 / 144	41 / 140	36 / 138
Score	4.5	4.5	4.5	4.5	4.6



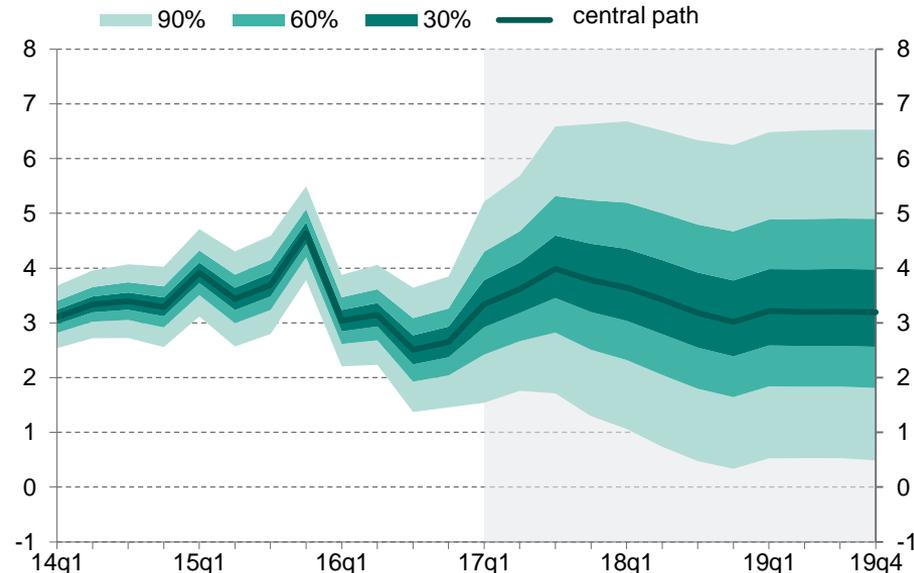
**According to NBP projections, GDP growth will improve in 2017 and then stabilize at a slightly lower level in 2018-2019, with key contributions to growth coming from domestic consumption and investments. Output gap is expected to hover around zero**



### CPI inflation y/y, %, March 2017 projection



### GDP y/y, %, March 2017 projection



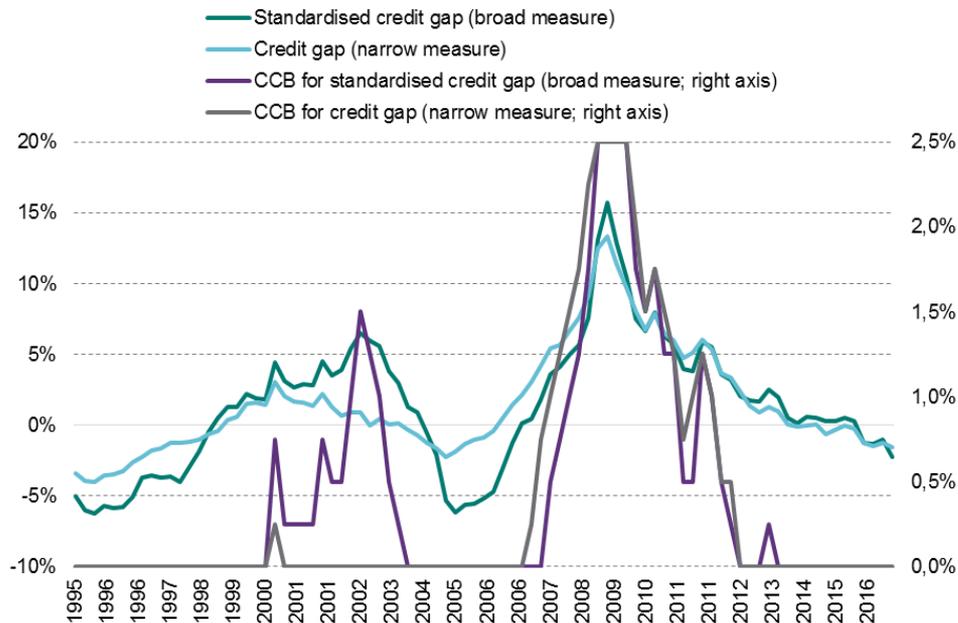
CPI y/y, %	Below 1,5%	Below 2,5%	Below 3,5%	Below centr.	Interval 1,5-3,5%
2017	24%	76%	99%	52%	75%
2018	40%	66%	87%	52%	47%
2019	30%	52%	74%	48%	44%

CPI y/y, %	Central path	50% Interval	
2017	2,0	1,6	2,5
2018	2,0	0,9	2,9
2019	2,3	1,2	3,5

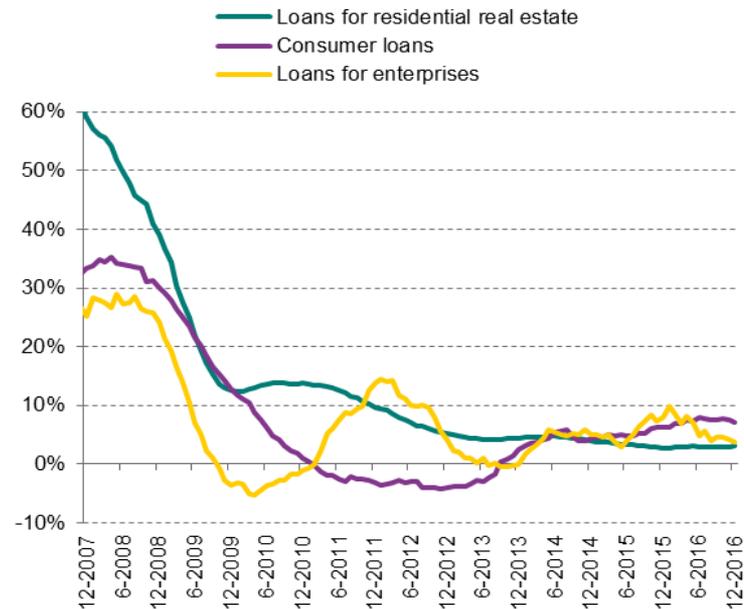
GDP y/y, %	Central path	50% Interval	
2017	3,7	3,4	4,0
2018	3,3	2,4	4,5
2019	3,2	2,3	4,4

## Credit gap in Poland is close to zero. Lending growth remains moderate and in line with economic growth.

Credit gap and CCB reference value in Poland



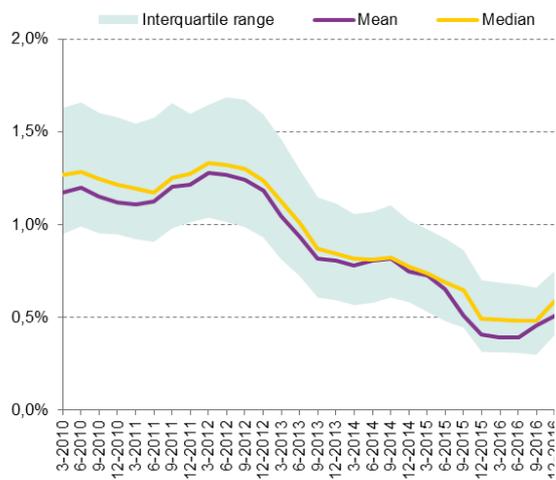
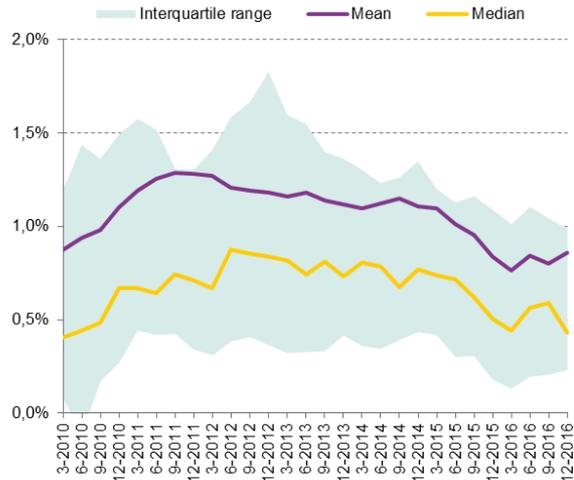
Lending growth (y/y) (ERA)



**Profitability in commercial banking sector is stable and sufficient to support the stability of the system. Some challenges may be observed in cooperative banks. However, this sector plays a minor role in comparison to commercial banks.**

**ROA at domestic commercial banks (left-hand panel) and cooperative banks (right-hand panel)**

Note: commercial banks' [cooperative banks'] assets stand for 93% [7%] of total assets of banking sector



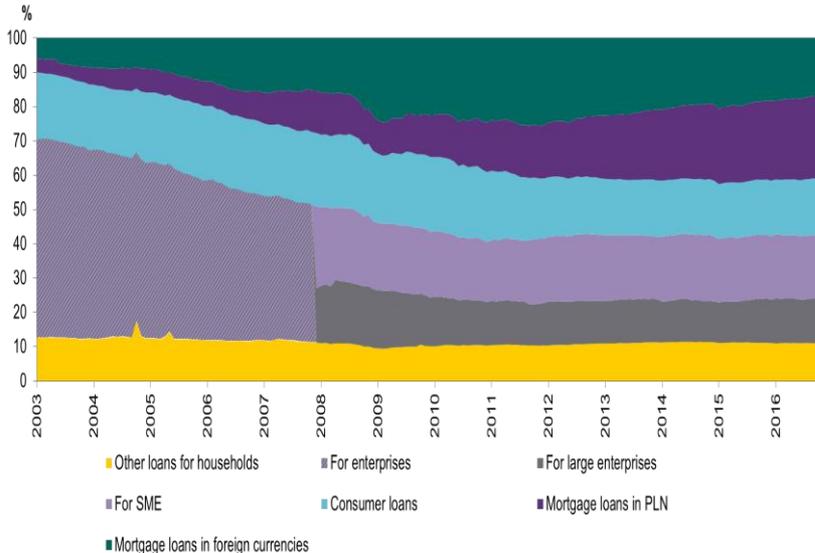
**Sources and allocation of net income from banking activity**



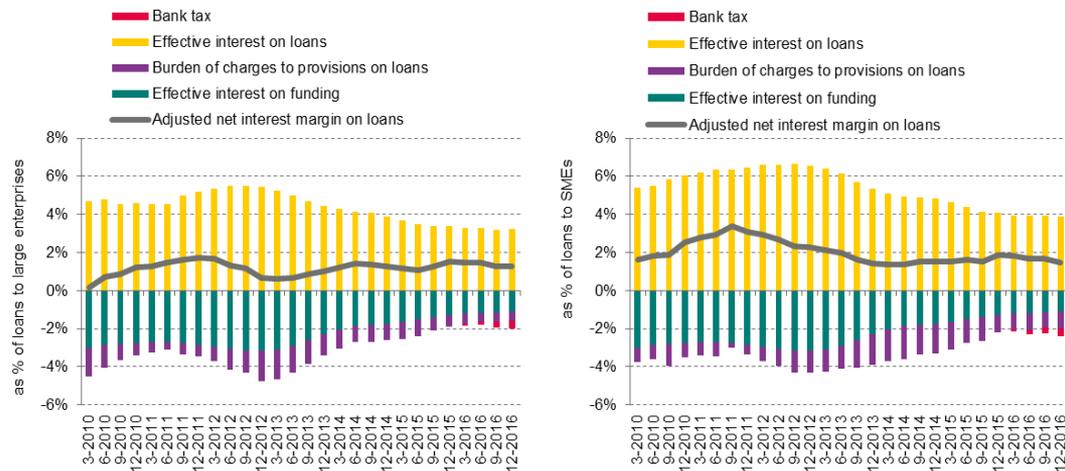
The share of FX mortgage loans in the product structure of lending in Poland, which have created some vulnerabilities, is decreasing steadily.

The profitability of loans to enterprises has decreased slightly due to the introduction of asset tax.

Product structure of lending in Poland



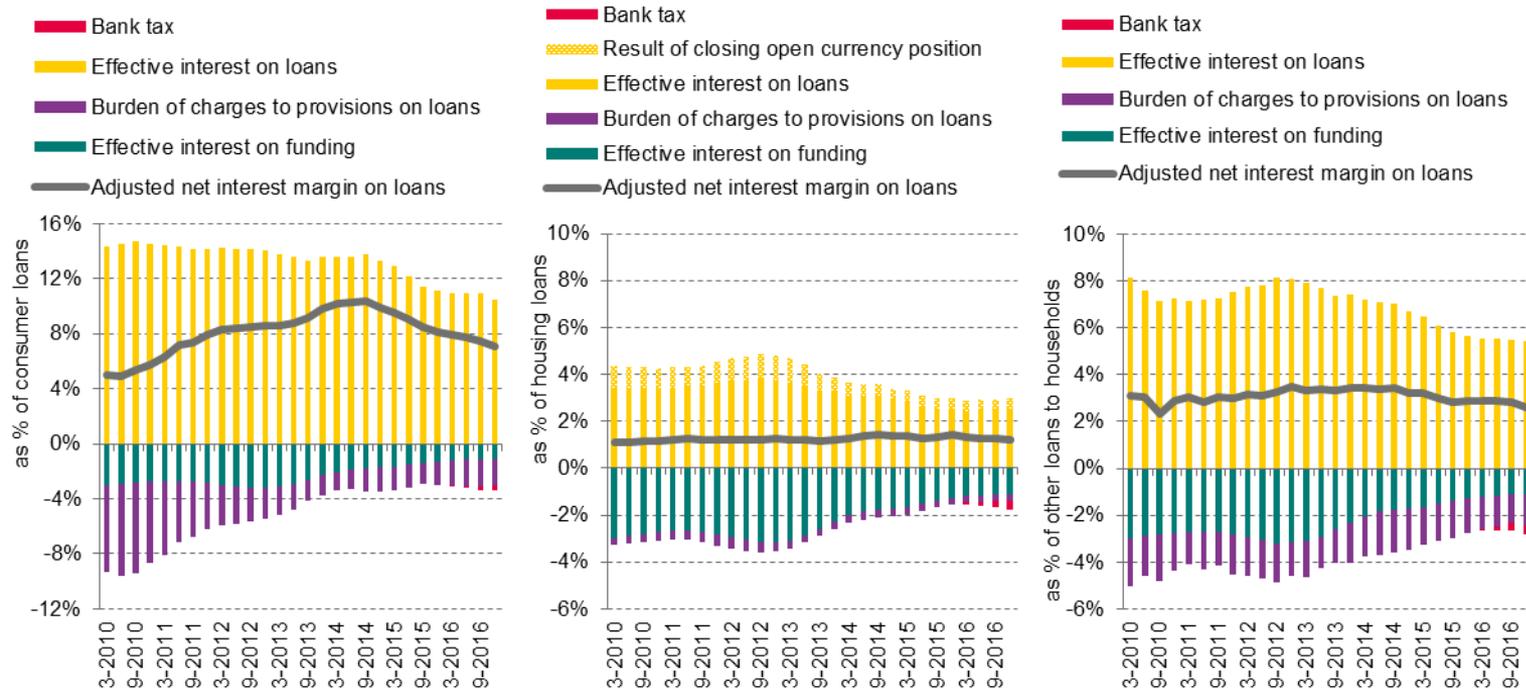
Estimated profitability of loans to large enterprises (left-hand panel) and SMEs (right-hand panel)



# Profitability of loans to households is positive and stable in case of mortgages and other loans to households.

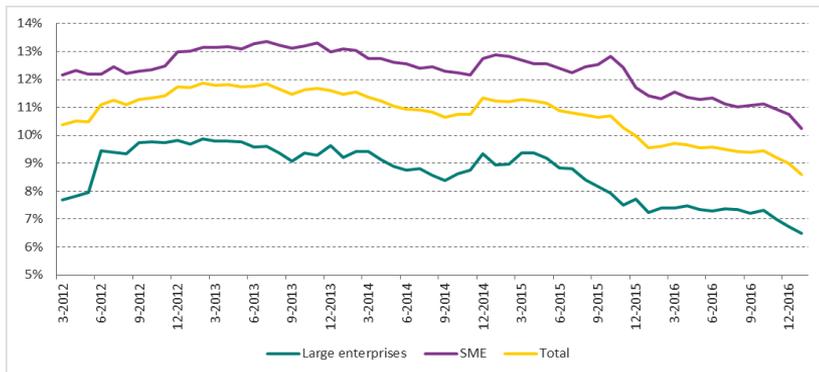
For consumer loans, low interest rates have limited the profitability, which remains high.

Estimated profitability of consumer loans (left-hand panel), housing loans (middle panel) and other loans to households (right-hand panel)

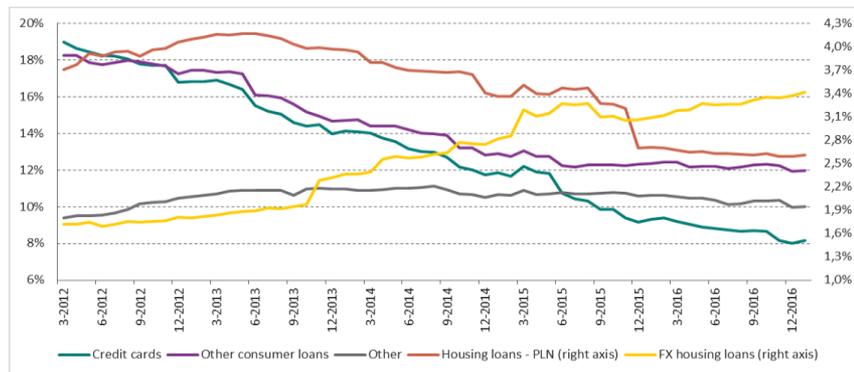


# Impaired loans ratios are decreasing in most categories and capital adequacy remains strong.

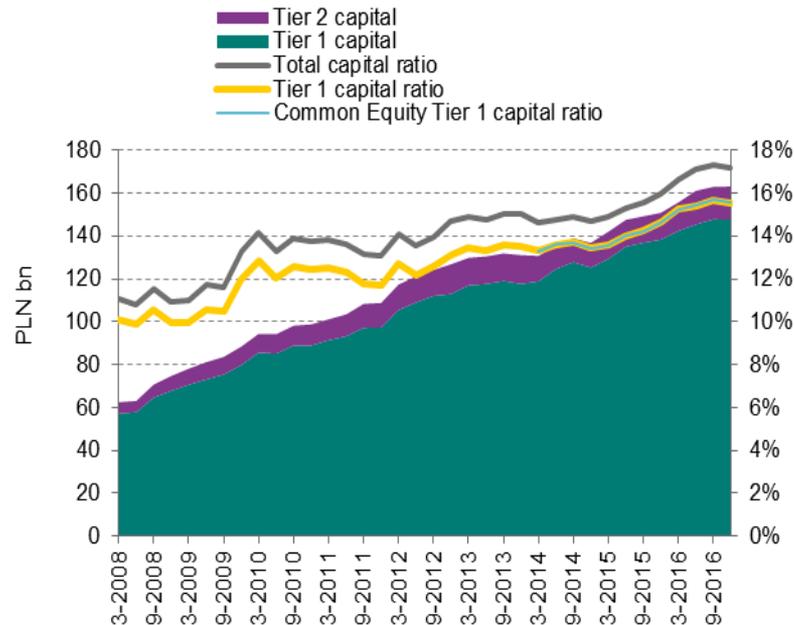
## Impaired loans ratios of loans for enterprises



## Impaired loans ratios of loans for households



## Main components of regulatory capital and capital ratios from pillar 1



## Main challenges for financial system stability in Poland

- FX mortgage portfolio that is concentrated in some commercial banks that are an important part of the whole sector
- Potentially weakening profitability and resilience of banking sector in low interest rate environment
- Further integration and strengthening of the cooperative banking sector
- Restructuring of the (small) credit union sector with aim to minimise public costs
- Maintenance of prudent lending policy: taking into consideration the scenario of rising interest rates and especially conservative in reference to CRE market

*We protect the value of money*