January 2012
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Republic of Poland—Review Under the Flexible Credit Line Arrangement—Staff Report and Statement by the Executive Director.

The following documents have been released and are included in this package.

- The staff report, prepared by a staff team of the IMF, following discussions that ended on December 9, 2011, with the officials of Poland on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on January 5, 2012. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A statement by the Executive Director for Poland.

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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INTERNATIONAL MONETARY FUND

REPUBLIC OF POLAND

Review Under the Flexible Credit Line Arrangement

Prepared by the European Department
(In consultation with other Departments)

Approved by Anne-Marie Gulde and James Roaf

January 5, 2012

Executive Summary

- **Background:** Poland's resilience during the global financial crisis and rapid return to robust growth thereafter attest to its very strong economic fundamentals and policy management. Poland's performance has been buttressed by the insurance provided by the FCL arrangement.

- **Outlook:** Economic growth is expected to slow in 2012, given the deteriorating outlook for the euro area. Risks are on the downside, mainly reflecting the possibility of spillovers from escalating financial and sovereign stress in the rest of Europe.

- **Policies:** The authorities have continued to take steps to mitigate the effects of external shocks. Substantial fiscal consolidation is underway; sound monetary policy is helping inflation decline toward the target; and measures have been taken to safeguard financial stability.

- **FCL:** On January 21, 2011, the Executive Board approved a 24-month arrangement with Poland under the FCL in the amount of SDR 19.166 billion (equivalent to 1,400 percent of quota at the time of approval, now about 1,135 percent of quota). The authorities continue to treat the arrangement as precautionary.

- **Qualification:** Staff assess that Poland continues to meet the qualification criteria for access to FCL resources specified under the Board decision on FCL arrangements (Decision No. 14283-(09/29), adopted on March 24, 2009, as amended) and therefore recommends that the Board completes the review under this FCL arrangement.

- **Team:** This report was prepared by a staff team led by James Morsink and comprising Natan Epstein, Yinqiu Lu, Giang Ho (all EUR), and Phil de Imus (SPR).

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I. Context

1. **Poland's resilience during the global crisis and rapid return to robust growth thereafter attest to its very strong economic fundamentals and institutional policy framework.** The economy was severely affected by the global crisis through both real and financial channels. Nonetheless, countercyclical policies, facilitated by the room for maneuver afforded by limited imbalances prior to the crisis, helped Poland escape a recession in 2009 and aided a strong economic recovery in 2010–11. This enviable performance was buttressed by the insurance provided by the FCL arrangement.

2. **Timely and comprehensive policy responses underpinned the resilience of the Polish economy.** During the global crisis, the authorities balanced short-term cyclical and medium-term fiscal sustainability concerns by allowing automatic stabilizers to work while strengthening the medium-term fiscal framework. In 2011, significant fiscal consolidation helped to reduce the deficit and contain government debt. Similarly, monetary policy was accommodative at first, with aggressive cuts in the policy interest rate, but when financial conditions normalized, exceptional liquidity facilities were withdrawn, and when capacity constraints started to tighten, the central bank hiked the policy rate. The financial supervisory framework continued to enhance the resilience of the banking system, including by fostering strong capitalization and tightening lending standards for households.

3. **Precautionary access to the FCL supported the authorities' macroeconomic policy framework, by providing a buffer against global risks.** The Fund has supported the authorities' policies through three successive FCL arrangements. Poland's initial FCL arrangement, in an amount of SDR 13.690 billion, was approved in May 2009. A successor arrangement in the same amount was approved in July 2010. The current arrangement approved in January 2011 increased access to SDR 19.166 billion on account of heightened external risks. The authorities consider that these FCL arrangements allowed for a more flexible policy response to the global crisis while preserving favorable access to capital markets, even as volatility increased amid the euro area debt crisis.

II. Recent Economic and Policy Developments

4. **Economic growth in 2011 was robust and well balanced** (Figure 1)**.** In the first three quarters of 2011, real GDP expanded by 4¼ percent year-on-year, led by fixed investment and exports, and private sector employment grew by 2¼ percent. Headline CPI inflation was 4¾ percent in November, with core inflation at 3 percent. The current account deficit widened slightly to about 4¾ percent of GDP in the four quarters to 2011Q3 and was mostly financed by capital transfers from the EU (2 percent of GDP) and FDI inflows.

5. **In recent months, amid heightened global investor risk aversion, interest rate spreads have widened and capital inflows have eased, putting downward pressure on the exchange rate** (Figure 2)**.** After strong capital inflows in the first half of 2011, inflows have become more volatile since July. The sovereign CDS spread has widened and equity prices

have fallen. In late September, the exchange rate came under sharp downward pressure, prompting the central bank to intervene. Nonetheless, the government issued a ten-year $2 billion international bond in October at an average yield of 5.2 percent (and with a bid-to-cover ratio of 4).

6. **Substantial fiscal consolidation is under way and the government is committed to its medium term objective (MTO) of a deficit of 1 percent of GDP.** In 2011, a combination of measures (notably a ceiling of CPI+1 on the growth of discretionary expenditure, a VAT hike, and increases in excise taxes) as well as pension contribution changes helped to reduce the fiscal deficit to an estimated 5.5 percent of GDP. For 2012, staff project that, on the baseline outlook, the fiscal measures in the draft budget (including the CPI+1 rule and a rise in the employer disability contribution rate) will lower the deficit to 3.3 percent of GDP (compared to staff's projection of 4.6 percent of GDP a year ago). This constitutes significant progress towards the MTO, which is necessary to put debt firmly on a downward path. In addition, consistent with Fund advice, the government announced its intention to enact legislation in the first half of 2012 that will increase the statutory retirement age and reform the special pension schemes.

7. **Sound monetary policy has anchored inflation expectations and bolstered the inflation targeting framework.** To contain inflationary pressures, the central bank hiked the policy rate by a cumulative 1 percentage point to 4½ percent in the first half of 2011. With core inflation still rising but the economic outlook dimming and inflation expectation contained, the central bank has appropriately kept the policy rate unchanged since midyear. Recent central bank interventions in the foreign exchange market appropriately countered disorderly movements in the exchange rate, with the level of the exchange rate remaining broadly in line with fundamentals. The interventions were small and consistent with the floating exchange rate regime. Moreover, over the past year, the central bank has enhanced its communication, including by providing greater detail in its assessment of risks in the inflation report and post-MPC meeting communiqués.

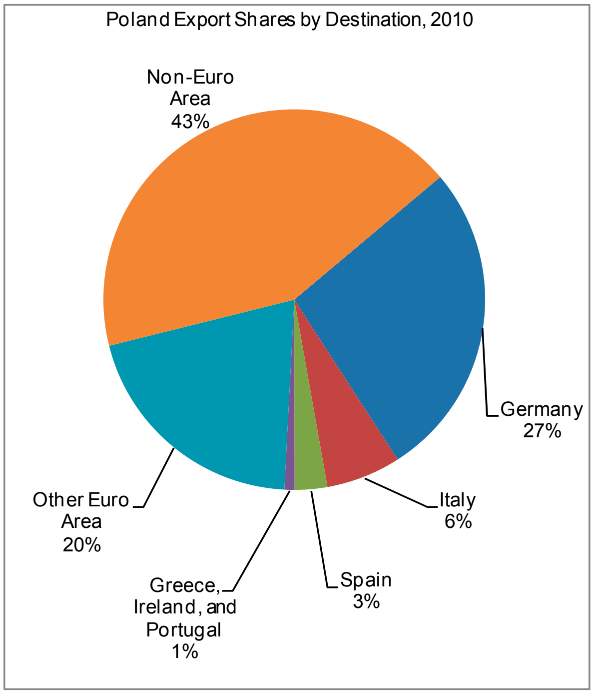
8. **Further policy measures have been taken to safeguard financial stability.** Given the pick-up in private sector credit growth after the global crisis (Figure 3), the financial supervisor (KNF) reinforced the previously issued Recommendation S (on mortgage lending standards) by capping the debt-service-to-income ratio for FX loans. Regarding capital buffers, the average capital adequacy ratio is 13¼ percent, with Tier 1 capital representing 90 percent of total capital. To further build buffers, the KNF is encouraging banks with riskier profiles to retain profits. Given banks' large foreign liabilities and the associated risk of liquidity shortages, the authorities are closely monitoring the liquidity situation. To address potential liquidity strains, the central bank is prepared to provide liquidity support to the banking system, including by offering FX swaps. Existing law provides authority for the government to inject public capital and nationalize problem banks. The authorities are working to broaden the range of resolution instruments and allow for the earlier involvement of the Bank Guarantee Fund.

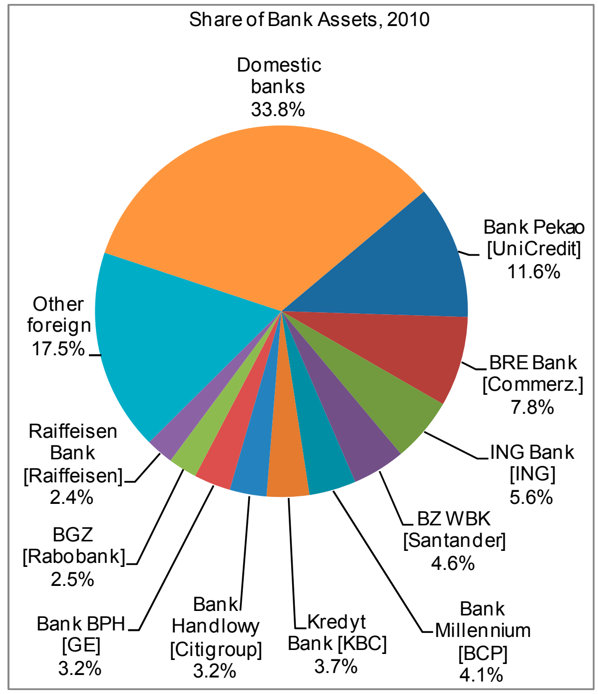
III. Outlook and Risks

9. **The economic expansion is expected to slow in 2012, given the deteriorating outlook for the euro area.** Poland is likely to be less affected by the euro area slowdown than some other emerging economies in Europe, given its lower share of exports in GDP (40 percent versus 65 percent on average for other new EU members) and a well-capitalized and profitable banking system. Nonetheless, weaker external demand, ongoing fiscal consolidation, a slowdown in EU-funded public investment, and diminished appetite for private investment projects are together expected to reduce GDP growth from 4¼ percent in 2011 to 2½ percent in 2012, with large uncertainties around this forecast.

10. **Risks to the outlook are firmly on the downside, mainly reflecting the possibility of spillovers from escalating financial and sovereign stress in the rest of Europe.** Poland's gross external financing need in 2012 is projected to be about 30 percent of GDP and the government's gross financing need to be about 11 percent of GDP. With the share of nonresident holdings of domestic government debt at 30 percent, Poland is vulnerable to a turnaround in investors' risk appetite. Banks' net foreign liabilities are around 12 percent of GDP and foreign-owned banks and branches (with parents mostly based in the euro area) account for about 66 percent of Poland's banking system, making Poland vulnerable to parent bank deleveraging (including declining rollover rates) and reducing the likelihood of parent support in a stress scenario. The banking system's FX-denominated lending is largely hedged by off-balance sheet transactions (so the open FX position is just 1¼ percent of regulatory capital), but banks are exposed to credit risk (households' FX-denominated borrowing amounts to 14 percent of GDP).

11. **The authorities view the precautionary access under the FCL arrangement as effective insurance against increased downside risks and heightened external uncertainty.** The economy is exposed to adverse external shocks via trade and financial channels. Uncertainty has intensified and downside risks have increased, especially related to the economic and financial setting in Europe. Moreover, Poland's relatively deep and liquid financial markets give investors the opportunity to express views on the region, which makes Poland vulnerable to global or regional shocks. The authorities reaffirmed the usefulness of the FCL arrangement as insurance against such shocks and as an effective complement to their own reserves. While reserves have increased over the past year, the authorities consider that the external environment has become more fragile, with a higher likelihood of tail events.





Sources: IMF, *International Financial Statistics*; EIU; and IMF staff estimates.

IV. FCL Qualification Criteria

12. **Staff believes that Poland continues to meet the qualification criteria for an FCL arrangement.** Poland's very strong economic fundamentals and institutional policy framework, together with its sustained track record of implementing very strong policies, have allowed the authorities to adjust economic and financial policies in a timely and effective manner during the global financial crisis and more recently during the euro area debt crisis. Regarding the institutional framework, Poland's Public Finance Act establishes a 55 percent of GDP threshold on the national definition of government debt, which if breached requires the implementation of measures to curb the increase in debt. In addition, the Constitution limits debt to 60 percent of GDP. The effective inflation-targeting framework and floating exchange rate regime provide a firm anchor for inflation expectations. The financial supervisory framework is effective, as evidenced by the supervisor's proactive approach to limiting risks related to consumer and FX lending and to building capital buffers. The authorities remain committed to maintaining very strong policies. Poland's achievements and policies have been recognized by the Executive Board, most recently in the 2011 Article IV Consultation concluded on July 1, 2011 (IMF Country Report No. 11/166). As to the relevant criteria for the purpose of assessing qualification under the FCL arrangement, identified in ¶2 of the FCL decision, staff's assessment is as follows (see also Figure 4):

- **A sustainable external position:** The current account deficit is moderate and is projected to remain so over the medium term, while the exchange rate remains broadly in line with fundamentals. External debt increased slightly to an estimated 68 percent of GDP at end-2011 and is expected to remain at about this level over the medium term. The sustainability of the external debt position is generally robust to a range of standard stress scenarios (Figure 6 and Table 5).

- **A capital account position dominated by private flows:** The bulk of capital flows to Poland continues to originate from the private sector, with official creditors accounting for only 9.1 percent of the stock external debt as of 2011Q2.

- **A track record of steady sovereign access to international capital markets at favorable terms:** Poland has continued to enjoy one of the highest credit ratings among emerging markets, which it has maintained despite the prolonged financial uncertainties in the region. In 2011, the government successfully issued about €5 billion sovereign debt in international capital markets, and foreign investor holdings of domestic government securities have increased.

- **Relatively comfortable reserve position:** International reserves remain broadly adequate, though the current elevated external risks imply the need for additional tail risk cover in the form of the FCL. Compared to peers (Figure 5), Poland is line with the median on the IMF's new reserve adequacy metric, above the median on reserves to broad money, but below the median on reserves to short-term external debt at remaining maturity plus the current account deficit (estimated to be about 71 percent as of end-2011).

- **Sound public finances, including a sustainable public debt position:** Fiscal policy provided appropriate counter-cyclical support to the economy during the 2008–09 downturn by using the fiscal space afforded by a track record of sound policies leading up to the global financial crisis. In 2011, substantial fiscal consolidation helped lower the fiscal deficit to an estimated 5.5 percent of GDP. Looking ahead, the authorities are committed to further consolidation in order to achieve their medium-term objective, as demonstrated by the measures included in the 2012 draft budget, and have announced ambitious pension reforms that will further improve long-term sustainability. Based on announced measures, staff project that general government debt (ESA95 basis) will fall gently to about 53 percent of GDP in 2016. (Figure 7 and Table 6). The debt path over the medium term is sensitive to a growth shock.

- **Low and stable inflation, in the context of a sound monetary and exchange rate policy framework:** The authorities responded effectively to rising inflationary pressures in the first half of 2011. Since then, with rising core inflation but a deteriorating economic outlook, the central bank has kept the policy rate unchanged. Inflation is projected to return to target over the next 18–24 months. The authorities remain committed to preserving their credible and transparent inflation-targeting framework, which has successfully anchored low and stable inflation.

- **The absence of bank-solvency problems that pose an immediate threat of a systemic banking crisis:** Poland's banking system continues to be liquid, well capitalized, and profitable. However, Poland is highly exposed to banks in Europe's core, which is an important source of risk.

- **Effective financial sector supervision:** According to the 2011 Basel Core Principles assessment, Poland's supervisory framework is effective, as evidenced by a comprehensive regulatory framework aligned with emerging risks and well-developed supervisory methodologies and processes. During the 2008–09 global crisis, the supervisor took proactive measures to preserve financial stability, including limited risks related to consumer and FX lending and successfully persuading banks to retain profits.

- **Data transparency and integrity:** The overall quality of Poland's macroeconomic data remains good, consistent with the findings of the 2003 data ROSC, and Poland remains in observance of the Special Data Dissemination Standard (SDDS). Reflecting improvements to the balance of payments compilation system, supported by Fund technical assistance, the level of errors and omissions in 2010 declined from 3.7 percent of GDP (pre-revision) to 2.2 percent of GDP (post-revision). In the first three quarters of 2011, errors and omissions amounted to 2.0 percent of GDP. The authorities are continuing their work to improve BOP data.

V. Safeguard Assessment

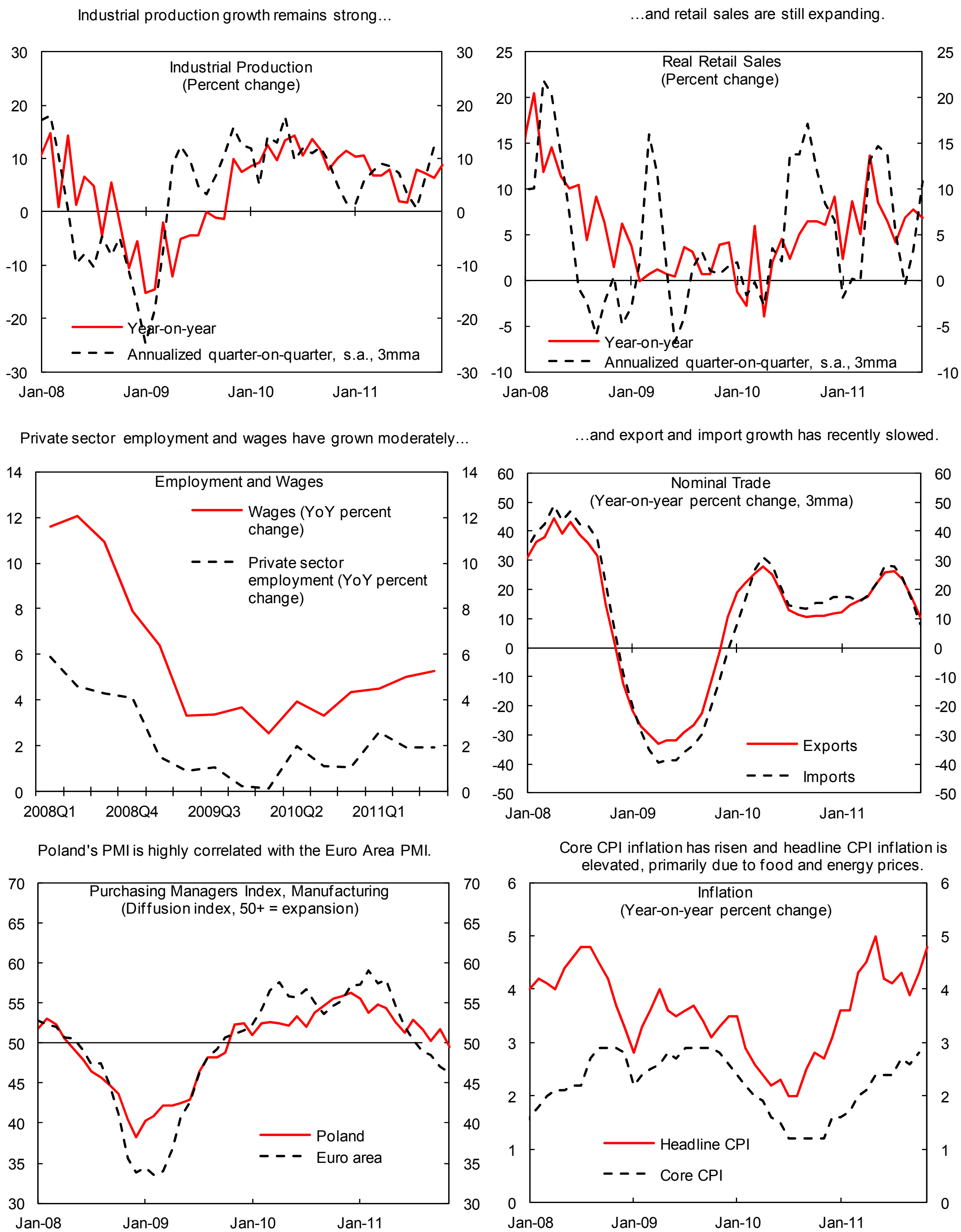
13. **Staff has completed the safeguards procedures applicable to an FCL arrangement.** Specifically, staff has concluded the review of the outcome of the most recent external audit of the National Bank of Poland. The authorities have provided the necessary authorization for Fund staff to communicate directly with the bank's external auditor, PricewaterhouseCoopers (PwC) Warsaw. PwC issued an unqualified audit opinion on the 2010 financial statements on March 24, 2011. Staff has reviewed the results of the related audit and held discussions with the audit partner and manager on July 11, 2011. No significant safeguards issues emerged from the conduct of these procedures. Contact with PwC will be maintained for the duration of the FCL arrangement, and in the event of purchase, for as long as FCL credit remains outstanding.

VI. Staff Appraisal

14. **Poland is benefiting from the FCL arrangement, which has helped sustain access to global capital markets and bolster confidence in the country's fundamentals and polices.** The mild downturn during the global crisis and the rapid recovery thereafter attest to the strength of Poland's fundamentals and policy frameworks.

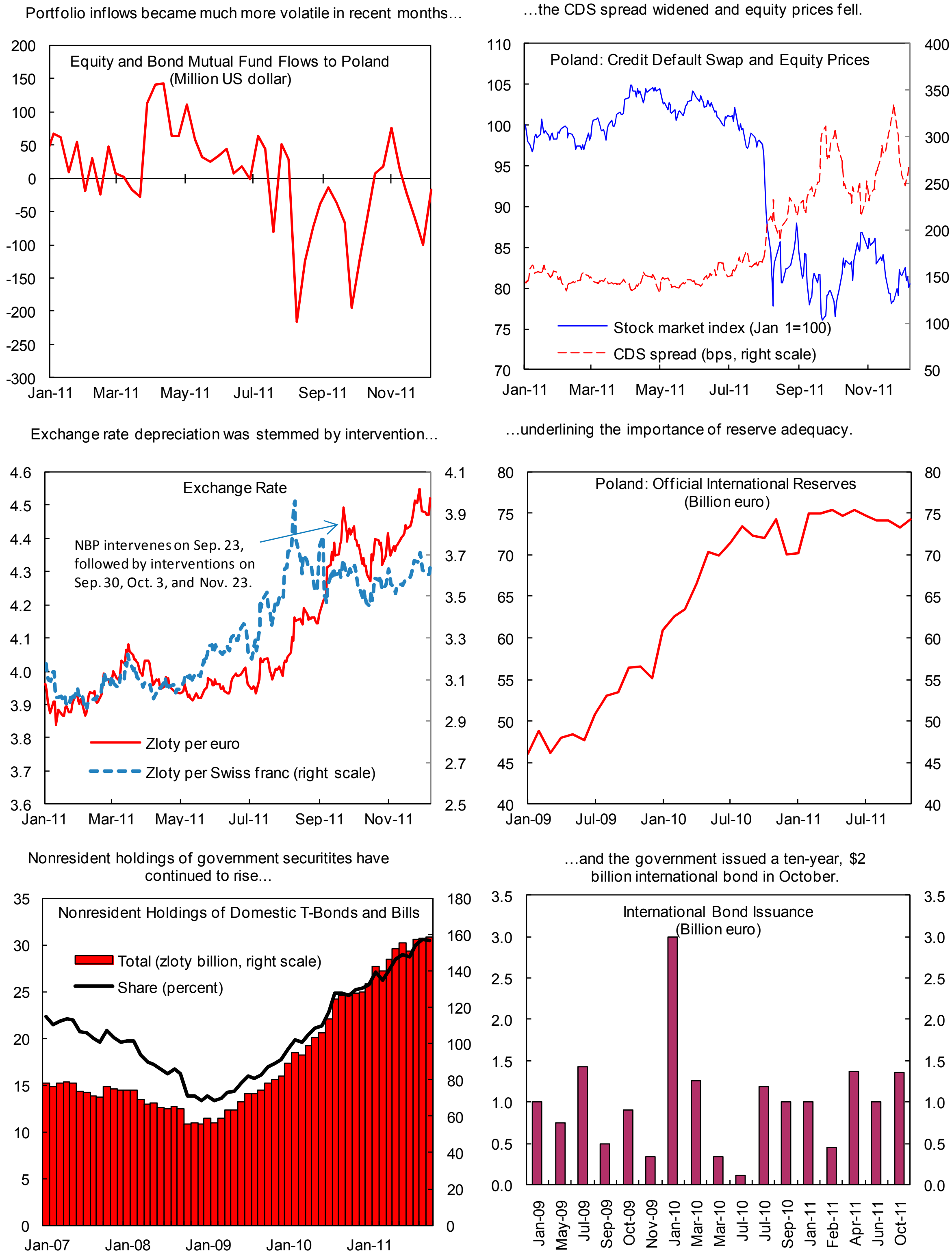
15. **The staff's assessment is that Poland continues to meet the qualification criteria for access to FCL resources and remains committed to responding appropriately to actual or potential balance of payments difficulties.** In view of this, staff recommends completion of the review under the FCL arrangement for Poland.

Figure 1. Poland: Recent Economic Developments, 2008–11



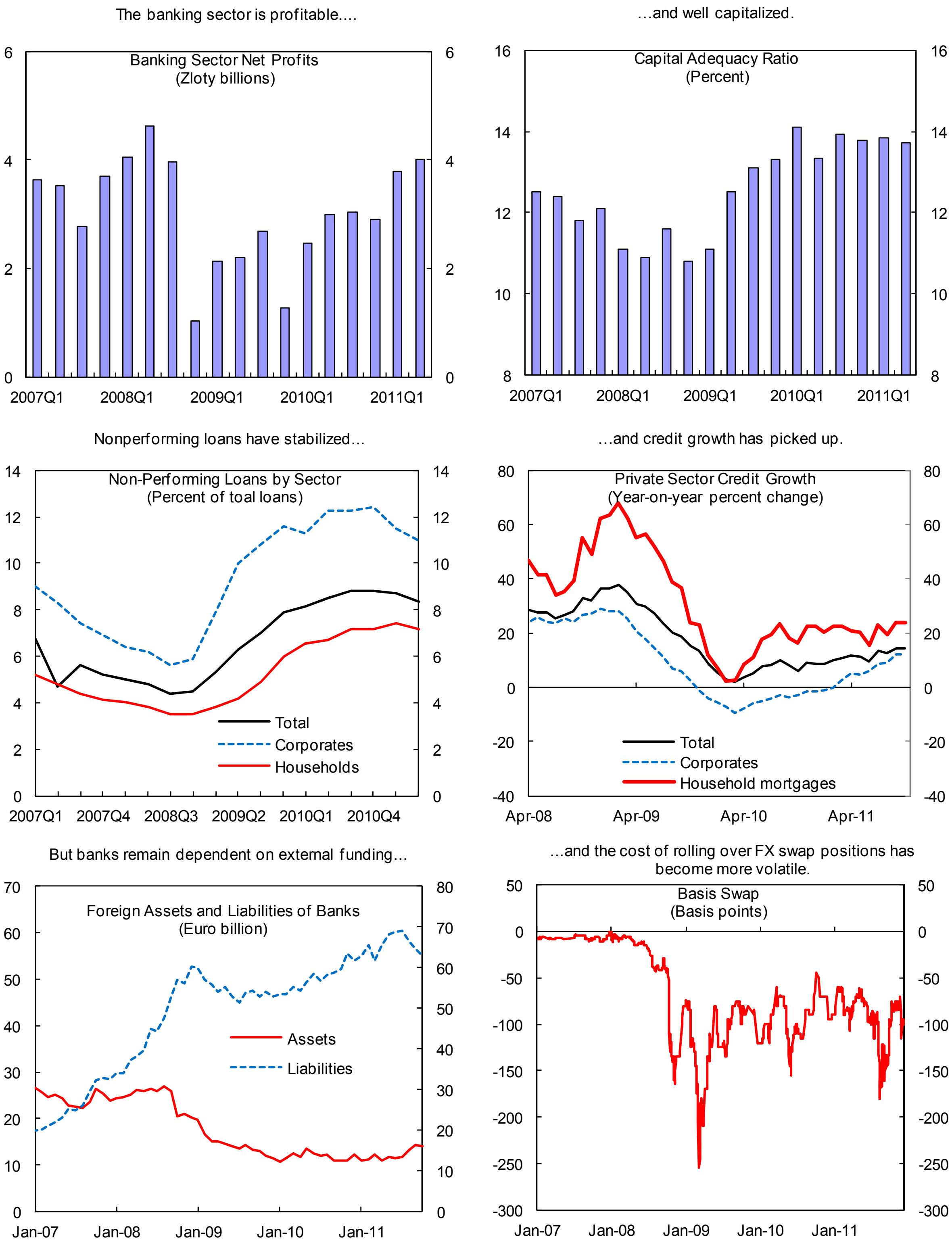
Sources: Haver; and IMF staff estimates.

Figure 2. Poland: Financial Market Developments, 2007–11



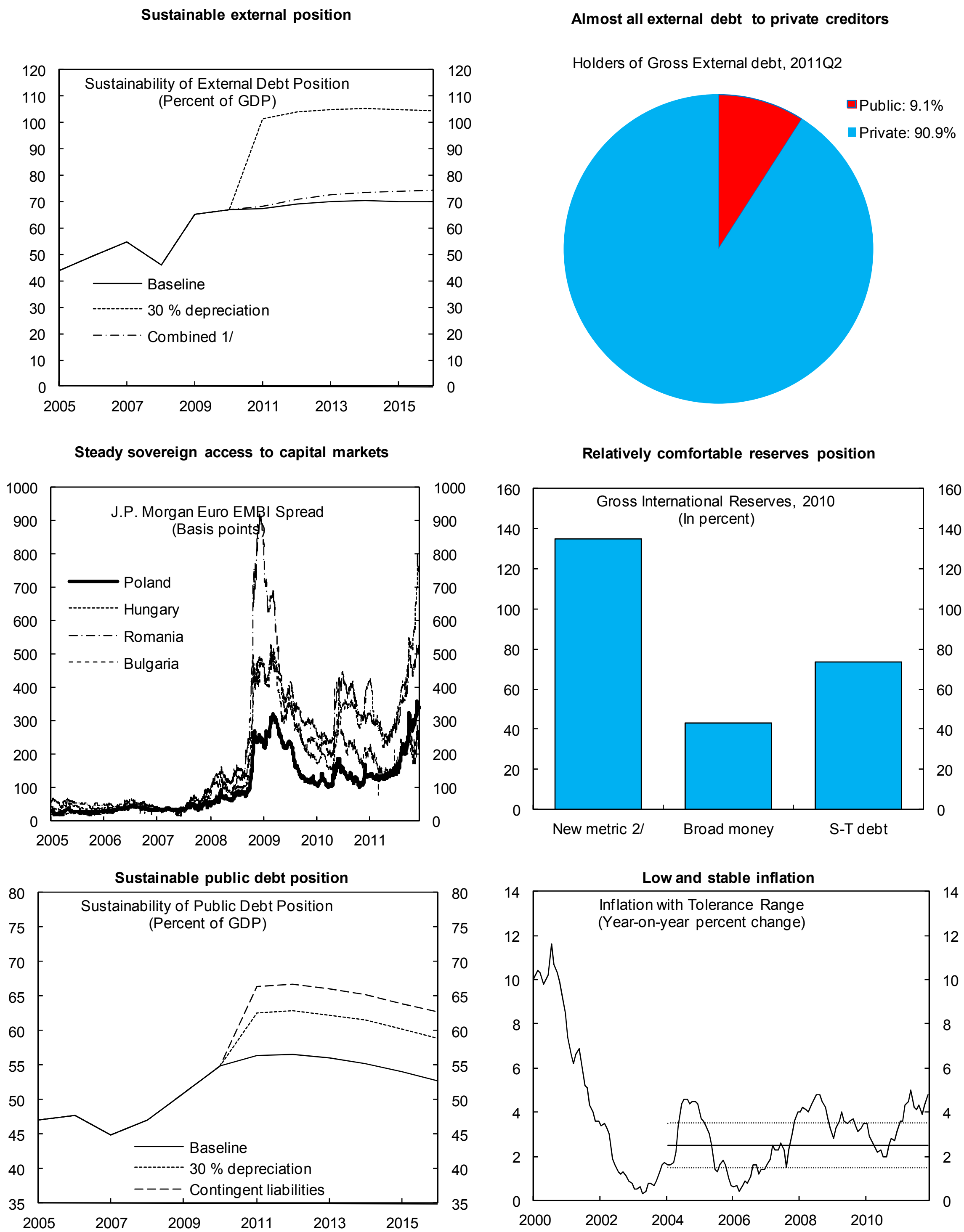
Sources: Poland Minstry of Finance; Bloomberg; EPFR; and CMA.

Figure 3. Poland: Banking Sector Developments, 2007–11



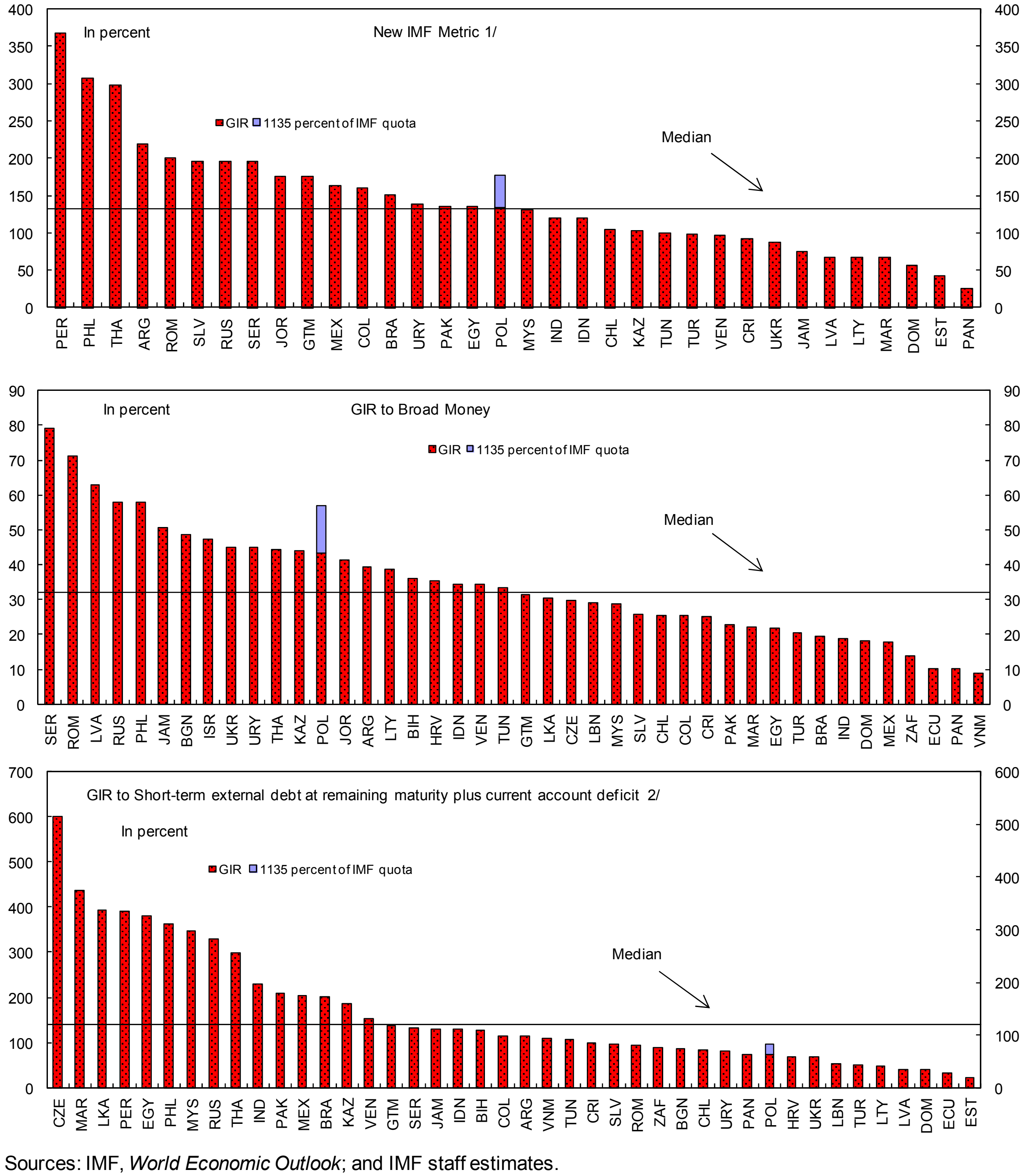
Sources: National Bank of Poland; KNF; Bloomberg; and IMF staff estimates.

Figure 4. Poland: Qualification Criteria



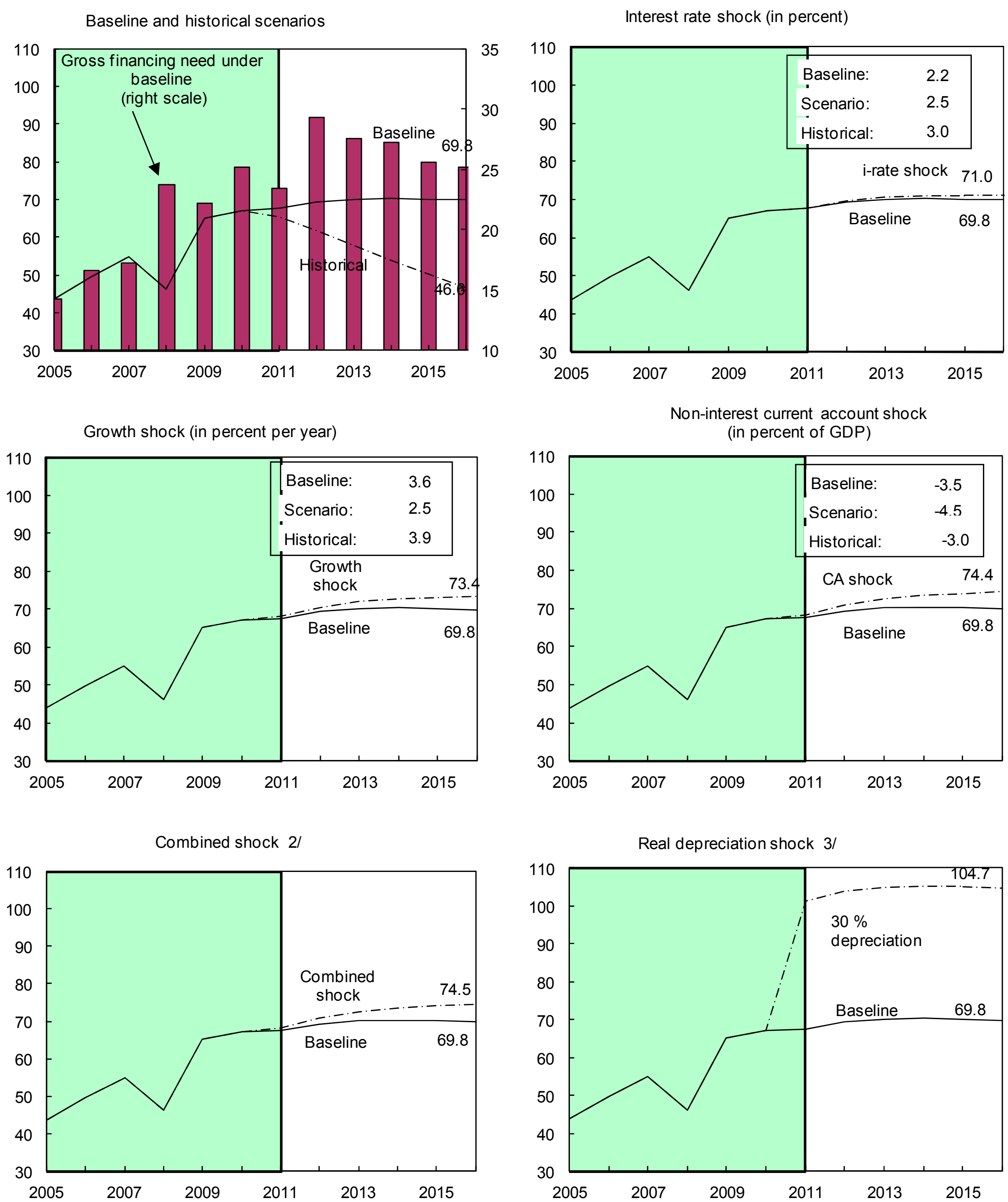
Sources: Bloomberg; Poland authorities; and IMF staff estimates.
1/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
2/ IMF's new reserve adequacy metric as discussed in *Assessing Reserve Adequacy* (IMF Policy Paper, February 2011).

Figure 5. Poland: Reserve Coverage in International Perspective, 2010



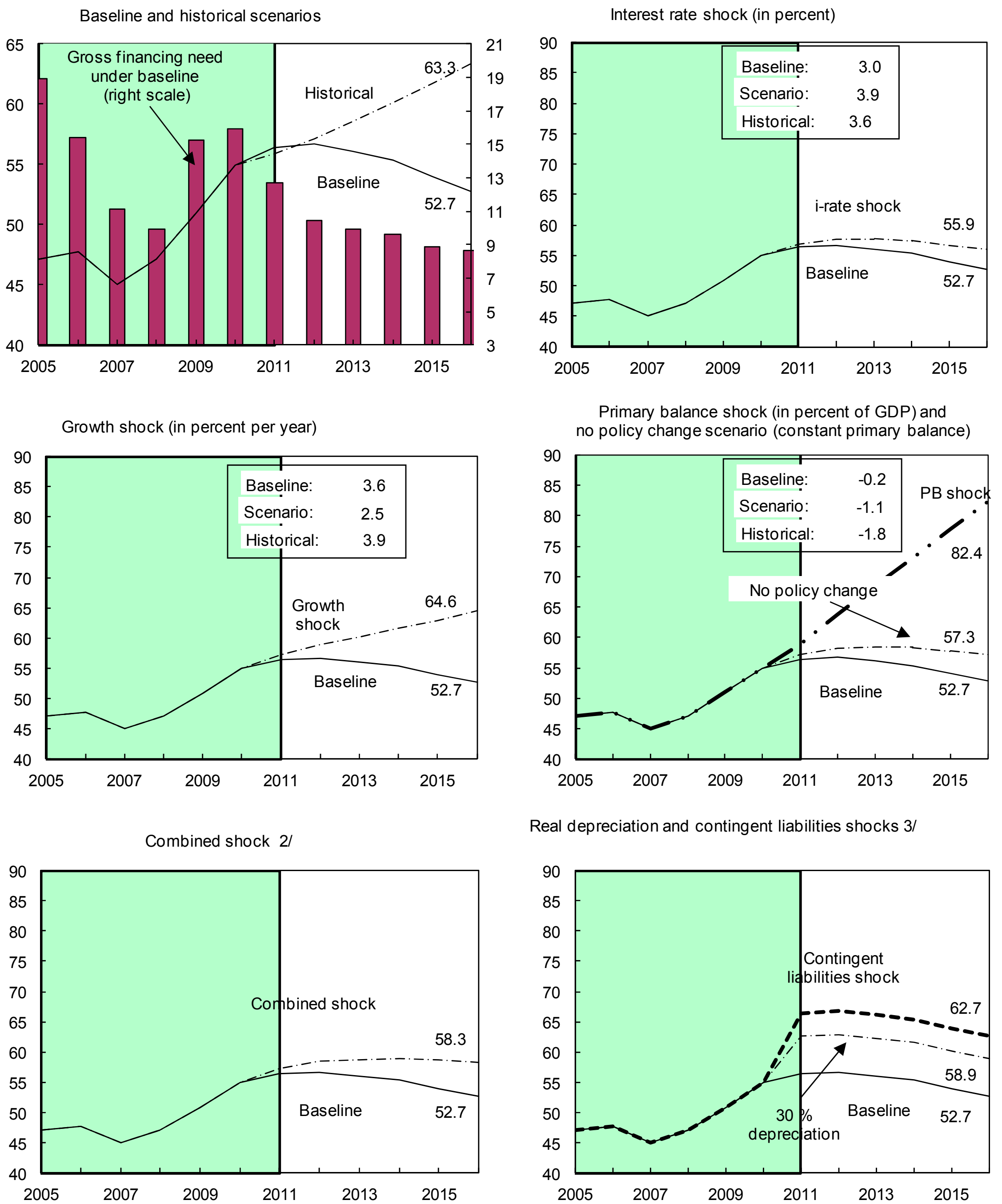
Sources: IMF, *World Economic Outlook*; and IMF staff estimates.
1/ Measured as the ratio of GIR to the sum of 30% of short-term debt at remaining maturities, 10% of long-term debt and equity liabilities, 5% of broad money (M2), and 5% of exports. See *Assessing Reserve Adequacy* (IMF Policy Paper, February 2011).
2/ GIR at the end of 2010 in percent of ST debt at remaining maturity and current account deficit in 2010. The current account is set to zero if it is in surplus.

Figure 6. Poland: External Debt Sustainability: Bound Tests, 2005–16 1/
(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
3/ One-time real depreciation of 30 percent occurs in 2011.

Figure 7. Poland: Public Debt Sustainability: Bound Tests, 2005–16 1/
(Public debt in percent of GDP)



Sources: International Monetary Fund, country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.
3/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2011, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

Table 1. Poland: Selected Economic Indicators, 2009–13

	2009	2010	2011 Proj.	2012 Proj.	2013 Proj.
Activity and prices					
GDP (change in percent) 1/	1.6	3.9	4.2	2.5	3.4
Domestic demand	-1.1	4.6	3.6	2.5	3.7
Private consumption growth	2.0	3.2	3.1	2.4	3.2
Public consumption growth	2.0	4.4	1.4	1.6	2.0
Domestic fixed investment growth	-1.2	-0.2	7.1	3.8	6.6
Inventories (contribution to growth)	-2.5	1.9	0.1	0.0	0.1
Net external demand (contribution to growth)	2.7	-0.7	0.5	0.0	-0.4
Output gap	-1.2	-0.2	0.2	-0.5	-0.4
CPI inflation (change in percent)					
Average	3.5	2.5	4.3	3.7	2.7
End of period	3.5	3.1	4.5	3.1	2.5
Unemployment rate (average, according to LFS)	8.2	9.6	9.4	9.3	9.0
Public finances (percent of GDP) 2/					
General government revenues	37.2	37.5	39.4	40.9	41.1
General government expenditures	44.5	45.4	44.9	44.2	44.0
General government balance	-7.3	-7.8	-5.5	-3.3	-2.8
Structural primary balance adjusted for pension changes	-4.2	-5.2	-3.6	-2.1	-0.9
Public debt	50.9	54.9	56.4	56.7	56.0
national definition 3/	49.9	52.8	…	…	…
Money and credit					
Private credit (12-month change) 4/	8.0	9.2	14.7	. . .	. . .
Broad money (12-month change) 4/	8.1	8.6	11.6	. . .	. . .
Policy Rate 5/	3.8	3.5	4.3	4.5	. . .
Balance of payments					
Current account balance (transactions, millions U.S. dollars)	-17,155	-21,873	-24,514	-26,015	-27,889
Percent of GDP	-4.0	-4.7	-4.8	-4.9	-5.1
Exports of Goods (millions U.S. dollars)	142,085	165,709	189,221	196,801	207,992
Export volume growth	-6.8	12.1	7.3	3.5	5.7
Imports of Goods (millions U.S. dollars)	149,702	177,519	202,398	209,867	222,493
Import volume growth	-12.4	13.9	6.0	3.4	6.4
Net oil imports (millions U.S. dollars)	12,468	16,579	22,776	22,194	22,124
Terms of trade (index 1995=100)	98.7	97.7	96.7	96.9	97.2
FDI, net (in percent of GDP)	2.0	0.8	0.9	1.0	1.1
Official reserves (millions U.S. dollars)	79,591	93,514	98,665	99,848	100,852
In percent of short-term debt plus CA deficit	79.7	75.3	71.4	62.9	64.8
Total external debt (millions U.S. dollars)	280,187	315,341	343,805	365,537	384,780
Percent of GDP	65.1	67.2	67.6	69.4	70.1
Exchange rate					
Exchange rate regime	Floating				
Zloty per US$, period average 6/	3.12	3.02	2.96	3.45	. . .
Zloty per Euro, period average 6/	4.33	3.99	4.12	4.46	. . .
Real effective exchange rate (INS, CPI based) 7/	105.5	112.1	112.1	. . .	. . .
percent change	-15.1	6.3	0.0	. . .	. . .

Sources: Polish authorities; and IMF staff estimates.

1/ Real GDP is calculated at constant average prices of previous year.
2/ According to ESA95 (inc. pension reform costs). Including the 2011 budget and all announced measure as of March 2011.
3/ Excluding debts of the National Road Fund.
4/ For 2011, 12-month change at end-November 2011.
5/ NBP Reference Rate (avg). For 2012, as of January 3.
6/ For 2012, exchange rate as of January 3.
7/ Annual average (2000=100); for 2011, January-October average.

Table 2. Poland: Balance of Payments on Transaction Basis, 2009–16
(Millions of US dollars)

	2009	2010	2011 Proj.	2012 Proj.	2013 Proj.	2014 Proj.	2015 Proj.	2016 Proj.
Current account balance	**-17,155**	**-21,873**	**-24,514**	**-26,024**	**-27,906**	**-29,675**	**-30,203**	**-30,856**
percent of GDP	-4.0	-4.7	-4.8	-4.9	-5.1	-5.2	-5.0	-4.9
Trade balance	-7,617	-11,810	-13,177	-13,066	-14,502	-14,710	-14,837	-15,744
percent of GDP	-1.8	-2.5	-2.6	-2.5	-2.6	-2.6	-2.5	-2.5
Exports								
percentage change in unit values	-20.1	16.0	14.2	4.0	5.7	5.9	6.3	6.0
percentage volume growth	-6.8	12.1	7.3	3.5	5.7	6.0	6.6	6.0
growth in foreign demand	-15.9	14.5	9.2	3.7	4.5	4.7	5.1	5.1
Imports								
percentage change in unit values	-27.4	19.1	14.0	3.7	6.0	5.6	6.0	6.1
percentage volume growth	-12.4	13.9	6.0	3.4	6.4	6.2	6.1	6.0
growth in domestic demand	-1.1	4.6	3.6	2.5	3.7	3.7	3.8	3.8
Terms of trade percentage change	3.5	-1.1	-1.1	0.2	0.4	0.5	-0.1	0.1
Services balance	4,795	3,098	3,589	3,839	3,942	4,281	4,685	4,967
Credit	28,986	32,718	37,360	38,857	41,066	43,480	46,226	49,021
Debit	24,191	29,620	33,771	35,017	37,124	39,199	41,540	44,054
Net Income	-16,551	-16,923	-17,683	-19,960	-21,252	-22,826	-24,230	-24,300
Net transfers	2,218	3,762	2,757	3,162	3,905	3,580	4,178	4,220
o/w EU receipts	4,610	5,150	5,192	5,822	6,560	6,245	6,667	6,733
o/w payment to EU	-5,194	-4,637	-5,122	-4,919	-4,884	-4,847	-4,813	-4,781
Capital and financial account balance	**41,942**	**46,433**	**38,514**	**35,851**	**37,660**	**39,866**	**40,972**	**42,992**
Capital account balance	7,040	8,620	8,908	9,997	11,275	10,716	9,781	9,683
o/w net EU transfers	6,911	7,688	8,617	9,663	10,887	10,365	9,484	9,389
Financial account balance	34,902	37,813	29,606	25,854	26,385	29,149	31,192	33,310
Foreign direct investment (net)	8,460	3,574	5,913	6,346	7,237	8,233	9,345	10,833
by nonresidents	13,022	9,104	11,628	12,311	13,452	14,698	16,060	17,548
o/w privatization	1,263	2,699	351	132	131	128	126	124
Portfolio investment (net)	14,754	25,555	18,793	15,010	13,073	13,542	12,572	12,614
by non-residents	16,202	26,649	19,932	16,178	14,281	14,793	13,872	13,895
o/w equities	1,579	7,875	3,281	3,027	3,129	3,242	3,369	3,496
Other investment (net)	13,380	9,132	4,901	4,498	6,076	7,374	9,275	9,863
Assets	5,275	-4,114	-6,785	-3,955	-1,889	43	2,045	2,722
Liabilities	8,105	13,246	11,686	8,453	7,965	7,331	7,230	7,141
Financial derivatives	-1,692	-448	0	0	0	0	0	0
Errors and omissions	**-10,045**	**-9,426**	**-7,551**	**-7,551**	**-7,551**	**-7,551**	**-7,551**	**-7,551**
Overall balance	**14,742**	**15,134**	**6,449**	**2,276**	**2,203**	**2,640**	**3,218**	**4,585**
Financing								
Reserve assets	-14,742	-15,134	-6,449	-2,276	-2,203	-2,640	-3,218	-4,585
Memorandum items:								
Current plus capital account (percent of GDP)	-2.3	-2.8	-3.1	-3.0	-3.0	-3.3	-3.4	-3.4
Official reserves	79,591	93,514	98,665	100,941	103,143	105,784	109,002	113,587
in months of imports	6.4	6.3	5.8	5.8	5.6	5.4	5.3	5.2
Ratio of reserves to short-term debt 1/	96.3	91.3	86.7	76.0	80.7	81.2	87.4	88.5
Ratio of reserves to ST debt plus CA deficit 1/	79.7	75.3	71.4	63.6	66.3	66.2	70.3	71.4
Total external debt (percent of GDP)	65.1	67.2	67.5	69.3	70.0	70.2	70.0	69.7
Total external debt (percent of exports) 2/	163.8	158.9	151.7	155.0	154.3	152.9	150.2	147.5
External debt service (percent of exports) 2/ 3/	48.5	50.4	44.2	56.9	51.9	51.3	48.0	47.5
Gross FDI inflows (percent of GDP)	3.0	1.9	2.3	2.3	2.5	2.6	2.7	2.8
Net FDI inflows (percent of GDP)	2.0	0.8	1.2	1.2	1.3	1.4	1.6	1.7

Sources: National Bank of Poland; and IMF staff estimates.
1/ Projected reserve level for the year over short-term debt by remaining maturity.
2/ Exports of goods and services.
3/ Excluding repurchase of debt and including deposits.

Table 3. Poland: General Government Revenues and Expenditures, 2009–16
(In percent of GDP, ESA95 basis)

	2009	2010	2011 Proj.	2012 Proj.	2013 Proj.	2014 Proj.	2015 Proj.	2016 Proj.
General government revenue	37.2	37.5	39.4	40.9	41.1	41.0	41.1	41.2
Taxes	20.3	20.6	21.4	21.8	21.9	21.7	21.9	21.9
Indirect taxes	12.9	13.6	14.2	14.4	14.3	14.0	14.0	14.0
Direct taxes	7.4	6.9	7.3	7.4	7.6	7.7	7.9	7.9
Capital taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Social contributions	11.3	11.1	11.8	12.7	12.7	12.7	12.8	12.8
Other current revenue	4.9	4.6	4.3	4.3	4.3	4.3	4.3	4.3
Capital revenue	0.6	1.3	1.8	2.0	2.2	2.2	2.1	2.1
General government expenditure	44.5	45.4	44.9	44.2	44.0	43.6	43.2	43.2
Goods and services	5.6	6.2	5.9	5.9	5.9	5.8	5.8	5.8
Compensation of employees	10.2	10.1	10.1	10.0	9.8	9.5	9.2	9.2
Interest payments	2.6	2.7	2.7	2.9	2.9	2.9	2.9	2.9
Subsidies	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Social benefits	16.9	17.0	16.7	16.3	16.1	16.2	16.2	16.3
Other current expenditure	2.4	2.5	2.3	2.3	2.2	2.1	2.1	2.1
Capital transfers and investment	6.2	6.4	6.6	6.3	6.5	6.4	6.4	6.4
General government balance	-7.3	-7.8	-5.5	-3.3	-2.8	-2.6	-2.1	-2.0
Memorandum items:								
Cyclically-adjusted balance	-6.9	-7.8	-5.5	-3.1	-2.7	-2.5	-2.1	-2.0
Primary balance	-4.7	-5.2	-2.7	-0.4	0.1	0.3	0.8	0.9
Structural primary balance adjusted for pension changes	-4.2	-5.2	-3.6	-2.1	-0.9	-0.7	-0.2	-0.1
Public debt	50.9	54.9	56.4	56.7	56.0	55.3	54.0	52.7

Sources: Eurostat; and IMF staff estimates.

Notes: The projections include measures announced to date.

Table 4. Poland: External Financing Requirements and Sources, 2008–13
(In million of U.S. dollars)

	2008	2009	2010	2011 Proj.	2012 Proj.	2013 Proj.
GROSS FINANCING REQUIREMENTS	**117,529**	**97,101**	**119,335**	**132,272**	**154,483**	**151,010**
Current account deficit	34,957	17,155	21,873	24,514	26,024	27,906
Medium and long-term debt amortization	29,982	12,675	26,243	18,484	33,177	23,515
Public sector	2,660	697	6,821	4,923	15,912	9,736
Banks	4,453	3,202	6,637	4,447	9,247	7,982
Non-bank Corporates	22,869	8,776	12,785	9,114	8,018	5,797
Short-term debt amortization	52,590	67,271	71,219	89,274	95,282	99,589
Public sector	6	1,147	1,169	1,434	1,893	2,082
Banks (inc. s.t. deposits)	17,482	29,912	23,495	32,138	34,401	36,702
Non-bank Corporates	35,102	36,212	46,555	55,702	58,988	60,805
o/w trade credit	29,234	29,212	29,212	34,849	36,905	38,041
SOURCES OF FINANCING	**115,565**	**111,843**	**134,469**	**138,721**	**156,759**	**153,213**
Foreign direct investment (net)	10,365	8,460	3,574	5,913	6,346	7,237
o/w inward (net)	14,978	13,022	9,104	11,628	12,311	13,452
Equities (net)	2,021	-283	6,862	2,226	1,945	2,011
by nonresidents	564	1,579	7,875	3,281	3,027	3,129
New borrowing and debt rollover	103,611	113,188	144,178	133,830	147,129	140,454
Medium and long-term borrowing	36,340	41,969	54,904	38,548	47,540	36,225
Public sector	-9,055	19,647	29,593	22,690	27,846	19,472
Banks	12,628	4,273	20,297	5,682	10,634	10,377
Non-bank Corporates	32,767	18,049	5,014	10,176	9,060	6,377
Short-term borrowing	67,271	71,219	89,274	95,282	99,589	104,229
Public sector	1,147	1,169	1,434	1,893	2,082	2,228
Banks	29,912	23,495	32,138	34,401	36,702	38,517
Non-bank Corporates	36,212	46,555	55,702	58,988	60,805	63,484
EU transfers	5,828	6,911	7,688	8,617	9,663	10,887
Other	-6,260	-16,433	-27,833	-11,865	-8,325	-7,376
of which: Errors and omissions	-12,161	-10,045	-9,426	-7,551	-7,551	-7,551
BUFFERS						
Use of official reserves	**1,964**	**-14,742**	**-15,134**	**-6,449**	**-2,276**	**-2,203**
FINANCING GAP	**0**	**0**	**0**	**0**	**0**	**0**

Sources: National authorities and staff estimates and projections.

Table 5. Poland: External Debt Sustainability Framework, 2005–16
(In percent of GDP, unless otherwise indicated)

	Actual						Projections						
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	**Debt-stabilizing non-interest current account 6/**
Baseline: External debt	43.7	49.7	54.9	46.2	65.1	**67.2**	**67.6**	**69.4**	**70.1**	**70.3**	**70.1**	**69.8**	**-3.9**
Change in external debt	-7.6	6.0	5.2	-8.6	18.8	2.1	0.4	1.8	0.7	0.2	-0.2	-0.3	
Identified external debt-creating flows (4+8+9)	-10.1	-6.2	-9.0	-7.1	11.2	-1.3	-0.5	0.6	0.1	-0.1	-0.6	-0.7	
Current account deficit, excluding interest payments	1.3	2.7	5.0	5.4	3.0	3.9	3.7	3.9	4.0	3.8	3.2	2.7	
Deficit in balance of goods and services	0.8	1.9	3.4	4.8	0.7	1.9	1.9	1.8	1.9	1.8	1.7	1.7	
Exports	37.1	40.4	41.0	40.4	39.7	42.3	44.5	44.7	45.4	45.9	46.6	47.3	
Imports	37.8	42.3	44.3	45.3	40.4	44.1	46.4	46.5	47.3	47.7	48.3	49.0	
Net non-debt creating capital inflows (negative)	-3.8	-5.2	-5.5	-2.9	-3.4	-3.6	-2.7	-2.7	-2.8	-2.9	-3.0	-3.1	
Automatic debt dynamics 1/	-7.5	-3.6	-8.6	-9.5	11.6	-1.6	-1.5	-0.6	-1.1	-1.0	-0.8	-0.3	
Contribution from nominal interest rate	1.1	1.2	1.2	1.2	1.0	0.8	1.1	1.0	1.1	1.4	1.8	2.2	
Contribution from real GDP growth	-1.5	-2.4	-2.7	-2.3	-0.9	-2.4	-2.6	-1.6	-2.3	-2.4	-2.6	-2.5	
Contribution from price and exchange rate changes 2/	-7.1	-2.4	-7.1	-8.5	11.5	...	...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	2.4	12.1	14.2	-1.5	7.7	3.4	0.9	1.2	0.7	0.3	0.4	0.4	
External debt-to-exports ratio (in percent)	117.9	123.0	133.9	114.4	163.8	158.9	151.7	155.1	154.5	153.1	150.4	147.8	
Gross external financing need (in billions of US dollars) 4/	43.4	56.9	73.5	125.8	95.7	118.1	119.1	154.5	151.0	156.7	153.9	158.1	
in percent of GDP	14.3	16.6	17.3	23.8	22.2	25.2	23.4	29.3	27.5	27.3	25.6	25.1	
Scenario with key variables at their historical averages 5/							**65.2**	**61.7**	**57.8**	**53.9**	**50.1**	**46.6**	**-7.3**
Key Macroeconomic Assumptions Underlying Baseline													
Real GDP growth (in percent)	3.6	6.2	6.8	5.1	1.6	3.9	4.2	2.5	3.4	3.6	3.9	3.8	
GDP deflator in US dollars (change in percent)	15.9	5.8	16.6	18.4	-20.0	4.9	4.1	1.1	0.8	1.0	0.7	0.8	
Nominal external interest rate (in percent)	2.5	3.0	3.0	2.8	1.8	1.3	1.8	1.6	1.7	2.1	2.7	3.3	
Growth of exports (US dollar terms, in percent)	18.2	22.6	26.2	22.8	-20.1	16.0	14.2	4.0	5.7	5.9	6.3	6.0	
Growth of imports (US dollar terms, in percent)	13.6	25.8	30.3	27.1	-27.4	19.1	14.0	3.7	6.0	5.6	6.0	6.1	
Current account balance, excluding interest payments	-1.3	-2.7	-5.0	-5.4	-3.0	-3.9	-3.7	-3.9	-4.0	-3.8	-3.2	-2.7	
Net non-debt creating capital inflows	3.8	5.2	5.5	2.9	3.4	3.6	2.7	2.7	2.8	2.9	3.0	3.1	

1/ Derived as $[r - g - \rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ times previous period debt stock, with r = nominal effective interest rate on external debt; ρ = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, ε = nominal appreciation (increase in dollar value of domestic currency), and α = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as $[-\rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ times previous period debt stock. ρ increases with an appreciating domestic currency ($\varepsilon > 0$) and rising inflation (based on GDP deflator).

3/ For projection, line includes the impact of price and exchange rate changes.

4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Table 6. Poland: Public Sector Debt Sustainability Framework, 2005–16
(In percent of GDP, unless otherwise indicated)

	Actual						Projections						
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	**Debt-stabilizing primary balance 9/**
Baseline: Public sector debt 1/	47.1	47.7	45.0	47.1	50.9	**54.9**	**56.4**	**56.7**	**56.0**	**55.3**	**54.0**	**52.7**	**-0.2**
o/w foreign-currency denominated	10.6	10.1	10.3	11.2	12.4	12.8	14.6	12.7	12.4	12.2	11.9	11.6	
Change in public sector debt	1.4	0.6	-2.8	2.1	3.8	4.0	1.5	0.3	-0.6	-0.8	-1.3	-1.3	
Identified debt-creating flows (4+7+12)	2.2	-0.9	-4.4	2.3	4.1	3.6	1.5	0.3	-0.6	-0.8	-1.3	-1.3	
Primary deficit	1.3	1.0	-0.4	1.5	4.7	5.2	2.7	0.4	-0.1	-0.3	-0.8	-0.9	
Revenue and grants	39.4	40.2	40.3	39.5	37.2	37.5	39.4	40.9	41.1	41.0	41.1	41.2	
Primary (noninterest) expenditure	40.6	41.2	39.9	41.0	41.9	42.7	42.1	41.3	41.0	40.7	40.3	40.3	
Automatic debt dynamics 2/	1.0	-1.9	-4.0	0.9	-0.2	0.1	-0.6	0.2	-0.4	-0.5	-0.5	-0.4	
Contribution from interest rate/growth differential 3/	0.1	-0.8	-2.4	-1.3	0.3	0.1	-0.6	0.2	-0.4	-0.5	-0.5	-0.4	
Of which contribution from real interest rate	1.6	2.0	0.5	0.9	1.0	2.0	1.5	1.5	1.4	1.4	1.6	1.5	
Of which contribution from real GDP growth	-1.6	-2.7	-2.9	-2.1	-0.7	-1.9	-2.1	-1.3	-1.8	-1.9	-2.0	-1.9	
Contribution from exchange rate depreciation 4/	0.9	-1.1	-1.5	2.1	-0.4	...	...	...	...	...	...	...	
Other identified debt-creating flows	0.0	0.0	0.0	0.0	-0.4	-1.7	-0.6	-0.3	-0.2	0.0	0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0	0.0	-0.4	-1.7	-0.6	-0.3	-0.2	0.0	0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes (2-3) 5/	-0.8	1.5	1.6	-0.2	-0.3	0.4	0.0	0.0	0.0	0.0	0.0	0.0	
Public sector debt-to-revenue ratio 1/	119.6	118.6	111.6	119.2	137.0	146.3	143.1	138.6	136.3	134.9	131.4	128.0	
Gross financing need 6/	18.9	15.4	11.1	9.9	15.3	15.9	12.7	10.5	9.9	9.6	8.9	8.6	
in billions of U.S. dollars	57.5	52.6	47.3	52.6	65.8	74.8	64.6	55.1	54.3	55.2	53.5	54.4	
Scenario with key variables at their historical averages 7/							**55.9**	**57.1**	**58.6**	**60.1**	**61.7**	**63.3**	**0.0**
Scenario with no policy change (constant primary balance) in 2011-2016							**58.8**	**63.8**	**68.4**	**73.1**	**77.7**	**82.4**	**-0.3**
Key Macroeconomic and Fiscal Assumptions Underlying Baseline													
Real GDP growth (in percent)	3.6	6.2	6.8	5.1	1.6	3.9	4.2	2.5	3.4	3.6	3.9	3.8	
Average nominal interest rate on public debt (in percent) 8/	6.5	6.1	5.4	5.4	5.9	5.6	5.3	5.4	5.5	5.6	5.6	5.7	
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	3.9	4.6	1.4	2.3	2.2	4.2	3.0	2.9	2.8	2.8	3.1	3.1	
Nominal appreciation (increase in US dollar value of local currency, in percent)	-8.3	12.1	19.5	-17.8	3.9	...	...	...	...	...	...	...	
Inflation rate (GDP deflator, in percent)	2.6	1.5	4.0	3.1	3.7	1.4	2.3	2.5	2.7	2.7	2.5	2.5	
Growth of real primary spending (deflated by GDP deflator, in percent)	5.6	7.7	3.3	8.0	3.8	6.0	2.8	0.5	2.7	2.7	2.9	3.9	
Primary deficit	1.3	1.0	-0.4	1.5	4.7	5.2	2.7	0.4	-0.1	-0.3	-0.8	-0.9	

1/ General government gross debt, ESA95 definition.
2/ Derived as $[(r - \pi(1+g) - g + \alpha\varepsilon(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; α = share of foreign-currency denominated debt; and ε = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).
3/ The real interest rate contribution is derived from the denominator in footnote 2/ as $r - \pi(1+g)$ and the real growth contribution as -g.
4/ The exchange rate contribution is derived from the numerator in footnote 2/ as $\alpha\varepsilon(1+r)$.
5/ For projections, this line includes exchange rate changes.
6/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.
7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.
8/ Derived as nominal interest expenditure divided by previous period debt stock.
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Table 7. Poland: Indicators of Fund Credit, 2012–17

	Projections					
	2012	2013	2014	2015	2016	2017
Stocks from prospective drawings 1/						
Fund credit in millions SDR	19,166	19,166	19,166	11,979	2,396	0
in percent of quota	1,135	1,135	1,135	709	142	0
in percent of GDP	6	5	5	3	1	0
in percent of exports of goods and services	13	12	11	7	1	0
in percent of gross reserves 2/	29	29	28	17	3	0
Flows from prospective drawings 3/						
GRA Charges	188	226	226	198	89	5
Level Based Surcharge	235	282	282	327	84	0
Service Charges	96	0	0	0	0	0
Principal	0	0	0	7,187	9,583	2,396
Debt Service due on GRA credit (millions SDR)	519	508	508	7,712	9,757	2,400
in percent of quota	31	30	30	457	578	142
in percent of GDP	0	0	0	2	2	1
in percent of exports of goods and services	0	0	0	4	5	1
in percent of gross reserves 2/	1	1	1	11	14	3
Memo Item:						
Total external debt, assuming full drawing (in percent of GDP)	75	75	75	73	70	69

Sources: IMF Finance Department; Polish authorities; and IMF staff estimates.

1/ End of Period. Assumes full drawing under the FCL at the start of 2012. The Polish authorities have expressed their intention to treat the arrangement as precautionary. At an SDR/USD rate of 0.648633 as of December 20,

2/ Excludes IMF purchases.

3/ Based on the rate of charge as of end-November 2011. Includes surcharges under the system currently in force and service charges.

Statement by Katarzyna Zajdel-Kurowska for Poland and
Beata Jajko, Advisor Executive Director on Republic of Poland
January 20, 2012

On behalf of the Polish authorities, we would like to thank staff for the constructive discussions held in Warsaw and for the report recommending completion of the review under the Flexible Credit Line Arrangement. The FCL arrangement has served the Polish economy well by providing insurance against adverse external spillovers. Developments over recent months confirmed that Poland's fundamentals and policy frameworks are strong amidst an uncertain external environment. Given the global risks, particularly negative spillovers from the euro-area sovereign debt crisis, our authorities continue to regard the arrangement as an important buffer supporting their macroeconomic policy framework. As in the past, the authorities intend to treat the arrangement as precautionary.

Economic outlook

Economic growth in 2011 remained strong but given the deteriorating outlook for the euro area, it is expected to slow down to 2.5 percent in 2012. Private consumption supported by net exports is expected to be a major driver of growth while the ambitious fiscal consolidation is ongoing. The sound financial sector continues to support credit growth. The balance of risks for growth is, however, on the downside, given developments in Poland's key trading partners and bank deleveraging across Europe.

Fiscal Policy

Reducing fiscal imbalance and ensuring long-term fiscal sustainability continue to be the priorities for the Polish authorities. The smooth implementation of the consolidation measures envisaged by the authorities for 2011 resulted in a sharp—over 2 percentage points—reduction in the general government deficit. The authorities remain determined to eliminate the excessive deficit in 2012 and to its further reduction to the level of the medium term objective (MTO), i.e., -1 percent of GDP. Fiscal policy measures will thus ensure that the general government debt is put on a declining path and remain sustainable below the threshold of 60 percent of GDP.

To this aim, the draft 2012 budget, which was submitted to Parliament at end-2011, extends the already introduced consolidation measures. Particularly, the 2011-enacted expenditure regime will be maintained and all discretionary and new legally mandated spending will remain subject to a temporary expenditure rule (CPI plus 1 percent). This fiscal constraint, together with the abolition of the early retirement scheme, will continue to translate into a significant decline in the general government expenditure-to-GDP ratio. On the revenue side, additional sources of revenues will contribute to the reduction of the general government deficit, including an increase by 2 percentage points in the disability insurance contribution paid by employers and an introduction of a royalty levy on minerals. Moreover, measures have been taken to broaden the tax base by phasing out some tax expenditure and improving the quality and transparency of the entire tax system.

Reinforcing long-term fiscal sustainability will be enhanced by the introduction of a permanent fiscal rule (expected by 2013). The rule, which limits the growth of expenditure, will seek to stabilize the general government balance over the medium-term, consistent with the MTO level. Fiscal sustainability will further be supported by structural reforms, including a gradual increase and equalization of the retirement age to 67 years for men and women (from current levels of 65 and 60 respectively), charges in the pension scheme for uniformed services, and a reform of the health care insurance system for farmers.

Monetary Policy

In 2011 CPI inflation averaged above the upper bound of the central bank inflation target (2.5 percent) and was mainly driven by external factors, i.e., developments of prices of energy and agriculture products in the global market, and by a noticeable depreciation of the Polish zloty in the second half of the year. Given deteriorating global demand, the continued fiscal consolidation and the monetary tightening in the first half of 2011, inflation is expected to return to the target over the next 18–24 months. Should the inflation outlook deteriorate, further monetary policy adjustments cannot be ruled out.

The Polish central bank has recently sold some of its foreign currencies in exchange for the Polish zloty. These occasional interventions did not have a significant impact on the level of foreign exchange reserves.

Financial Market

Polish banks remain liquid and profitable, and the level of capital remains broadly adequate to absorb potential losses. Despite robust capital adequacy and high quality of capital, the Polish supervisory authorities recommended banks to retain profits, which are expected to have reached a historically record-high level in 2011.

Given the relatively large foreign liabilities of some banks, banks' liquidity is closely monitored and the authorities stand ready to provide liquidity support, should a need arise. The existing law provides protection against the heightened risks of foreign shareholders' withdrawal, which could be triggered by an escalation of difficulties in parent euro-area banks.

The quality of assets remains the key concern of the supervisory authorities. Although the upward trend of the non-performing loans has recently stabilized, the economic slowdown and depreciation of the zloty pose some risks to banks' balance sheets. It should be stressed, however, that the tightening of Recommendation S on the standards of mortgage lending has effectively contained the growth of the FX-denominated loans, which currently comprise less than 30 percent of new mortgage loans.

Lastly, upon the request of the Polish authorities in November 2011 for an update of the assessment of Poland's financial system under the Financial Sector Assessment Program (FSAP), the assessment is scheduled to take place in early 2013