28 July 2017

Public Finance

Republic of Poland
Rating Report

A+ STABLE OUTLOOK

Credit strengths

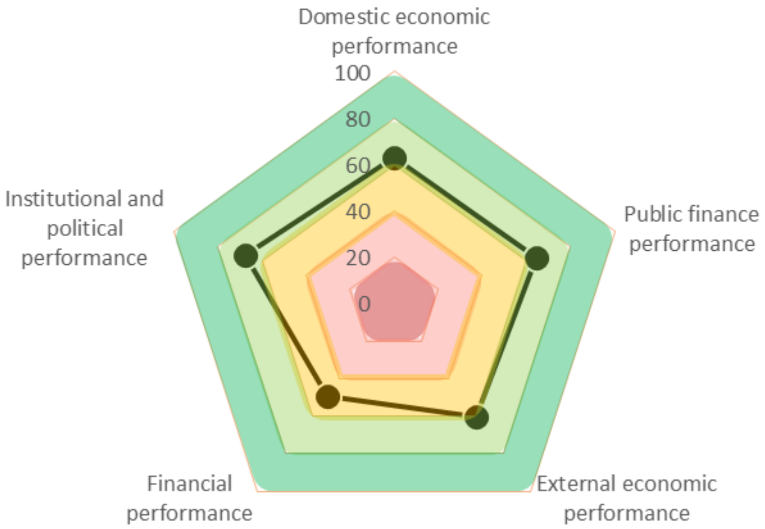
- Strong economic fundamentals
- Favourable financing conditions
- Adequate external buffers
- Credible public finance framework

Credit weaknesses

- High reliance on capital inflows
- Growing budgetary pressures
- Political uncertainties
- Demographic headwinds

Rating rationale and Outlook: Poland’s upgrade to A+ ratings is underpinned by the country’s resilient economy, close integration within the EU, favourable financing conditions and high credibility of its monetary and public finance policy frameworks. The rating upgrade reflects Scope’s assessment of (1) Poland’s improving economic prospects, along with higher absorption of EU structural funds; (2) reduced current account vulnerabilities and increasing external resilience. The Stable Outlook reflects Scope’s view that the risks for the ratings remain broadly balanced.

Figure 1: Summary of sovereign rating categories



Positive rating-change drivers

- Improvement of growth potential
- More efficient absorption of EU funds
- Improving fiscal performance

Negative rating-change drivers

- Protracted period of slow growth
- Worsening investor sentiment
- Fiscal slippages
- Escalating political conflicts with EU

Ratings & Outlook

Foreign currency

Long-term issuer rating	A+/Stable
Senior unsecured debt	A+/Stable
Short-term issuer rating	S-1+/Stable

Local currency

Long-term issuer rating	A+/Stable
Senior unsecured debt	A+/Stable
Short-term issuer rating	S-1+/Stable

Lead Analyst

Jakob Suwalski
+49 69 6677389-45
j.suwalski@scoperatings.com

Team Leader

Dr Giacomo Barisone
+49 69 6677389-22
g.barisone@scoperatings.com

Scope Ratings AG

Neue Mainzer Straße 66-68
60311 Frankfurt am Main

Phone + 49 69 6677389 0

Headquarters

Lennéstraße 5
10785 Berlin

Phone +49 30 27891 0
Fax +49 30 27891 100

info@scoperatings.com
www.scoperatings.com

Bloomberg: SCOP

Domestic economic risk

Robust growth

Poland belongs to the fastest-growing economies in the EU (average annual real GDP growth of 3.8% during 2006-2016) with very low economic and financial volatility. The Polish economy remained on a sustainable growth path in 2016 despite some moderation. Real GDP growth slowed to 2.7% in 2016, down from 3.8% in 2015, mainly because of weak investment.

Investment stalled in 2016

Investment contributed negatively to GDP growth in 2016 due to temporary effects from the lower absorption of EU structural funds during transition to the new 2014-2020 EU financial period (the same pattern can be observed for the whole CEE region). In addition, frequent political initiatives regarding sectoral taxation weighed on profitability and planning reliability in general, exacerbated by additional burdens on the domestic banking sector. This has dampened investment spending. However, some of the controversial policy initiatives in 2016 either were withdrawn or had no material negative impact on economic performance.

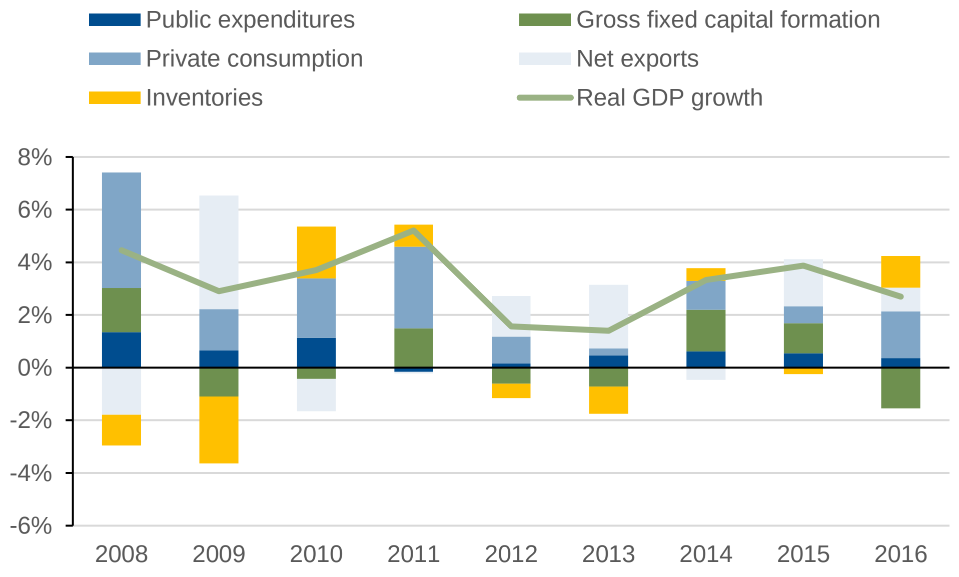
Trend towards higher consumption

During the second half of 2016, private consumption expanded strongly compared to the previous year. The trend towards higher consumption accelerated after the adoption of new social benefits for families (a flagship programme of the new government) in April 2016. The labour market continues to tighten, with the unemployment rate falling to a historical low of 6.1% in 2016, which pressures wages higher.

Strengthened growth outlook

Polish real GDP growth is closely related to inflows from EU budget funds and the performance of projects financed from EU budget funds. These funds stalled in 2016 but have been recovering since the end of last year. Going forward, the continued solid expansion of private consumption, low real interest rates, growing business confidence, together with a recovery in investment along with higher absorption of EU funds will lead to an acceleration in real GDP growth, likely to exceed 3.5% in 2017, before slowing slightly over the medium term. Exports are projected to rise considerably in 2017 driven by higher external demand, while robust private consumption is set to boost import demand, resulting in a broadly neutral growth contribution from net exports.

Figure 2: Contributions to real GDP growth



G

Source: IMF, OECD, calculations Scope Ratings AG

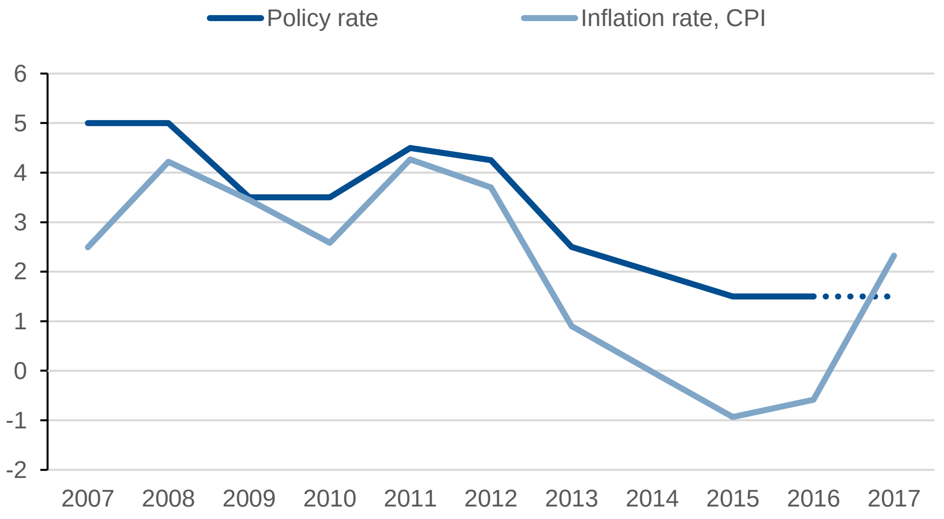
Table of Contents

Domestic economic risk 2
Public finance risk 4
External economic risk 6
Financial stability risk 7
Institutional and political risk 8
I. Appendix: CVS and QS Results 10
II. Appendix: CVS and QS Results 11
III. Appendix: Peer Comparison 12
IV. Appendix: Statistical Tables 13
V. Regulatory disclosures 14

Going forward, investment sentiment will receive a further boost from supportive monetary policy. Twelve-month inflation turned positive at the end of 2016, after more than two years of falling prices. The central bank intends to keep its key policy rate unchanged at 1.5% until at least the end of this year while inflation is set to increase close to the bank's inflation target of 2.5% in the second half of 2017, thus increasing the risk of inflationary pressures, exchange rate volatility, negative real interest rates and resulting potential misallocations of credit and EU funds.

Overall, the credibility of the monetary policy framework in Poland is high. Monetary policy was relatively conservative from 2014 to 2016, when real interest rates were 2-3%. It is Scope's view that the decision to keep rates unchanged is in line with central bank policy, which has often ignored temporary deviations from its inflation target and focused more on financial stability. Scope expects key policy rate increases to be postponed until the country's weak credit demand levels (in particular for corporate loans) revive, buoyed up by the higher absorption of EU funds.

Figure 3: Annual inflation rate vs key policy rate



Source: Poland Ministry of Finance

Subdued long-term prospects

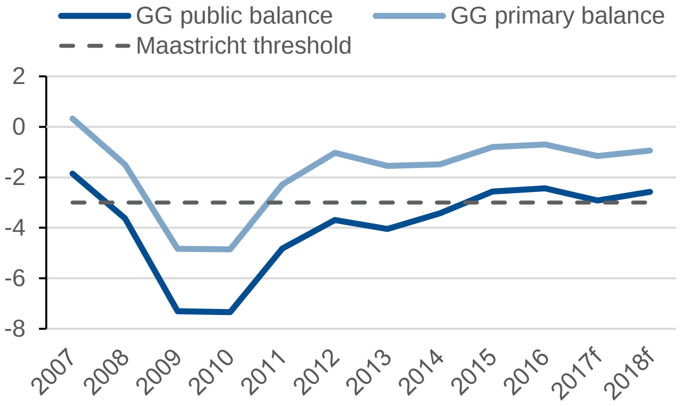
While the short- to medium-term economic growth outlook remains strong, long-term growth prospects are more subdued, given demographic headwinds, low private investment and slow productivity growth. The working-age population has been falling by 1% annually since 2012, with the result steadily rising skilled labour shortages. The labour participation rate has remained at 56% since 2012, which is low, and is likely to decline further in view of the reduction in the retirement age, to gradually take effect from Q4 2017 on (a further flagship programme).

The government is committed to implementing structural reforms to boost productivity, private investment and labour force participation, which would help increase potential GDP growth and continue the process of convergence with EU living standards. Despite the substantial rise in Polish real wages, they still remain considerably lower than those of other EU countries. This price-competitiveness in combination with a large domestic market, strategically situated in the CEE region, strong economic and financial links within the EU, including close integration into the German supply chain, and very high availability of EU structural funds (in particular for infrastructure upgrades) will continue to attract foreign direct investments.

Public finance risk

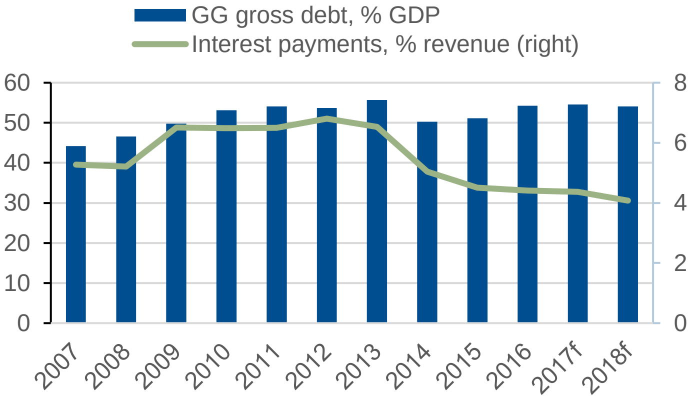
The general government deficit decreased to -2.4% of GDP from -2.6% of GDP in 2015 (the primary deficit decreased from -0.8% of GDP to -0.7%). The reduction in deficits was mainly the result of a substantial drop in public investment and, to a lesser extent, improved tax collection. The largest increase in expenditure was due to higher annual social expenses. Long-term budgetary pressures are increasing as the government has raised spending on higher pensions, child benefits and public sector salaries. Although this year's fiscal stance is roughly neutral, the budget deficit is expected to widen to 2.9% of GDP in 2017 due to rising social benefits. The government is committed to maintaining a deficit below 3% of GDP and starting fiscal consolidation in 2018.

Figure 4: Fiscal developments, as % of GDP



Source: IMF

Figure 5: Development of debt burden



Source: IMF

Increasing budgetary pressures

It is Scope's view that budgetary planning has become more challenging since the end of 2015. In order to meet the widened budget deficit target of -2.9% of GDP in 2017, the government decided to postpone the reduction in the VAT rate (scheduled for 2017) until at least 2019. Nevertheless, this budgetary target may be difficult to achieve. Scope anticipates a surge in capital expenditure, in particular at the sub-sovereign level, in order to make efficient use of EU structural funds. Increasing social expenditures will no longer be mitigated by a (one-off) transfer of central bank profits of 0.5% of GDP in 2016. In addition, the reversal of the 2013 retirement age increases will come into effect in Q4 2017, equivalent to an annual fiscal cost of 0.5% of GDP from 2018 onwards.

Moderate debt level

Poland's general government debt increased to PLN 1tn in 2016, equivalent to 54.4% of GDP (up from 51.1% of GDP in 2015). According to the domestic definition, public debt rose by 3.3 percentage points to 52.1% of GDP in 2016. The main differences between the domestic and EU definition of government debt are related to the scope of the public sector (mainly the inclusion in the general government debt of the National Road Fund – the vehicle to finance infrastructure).

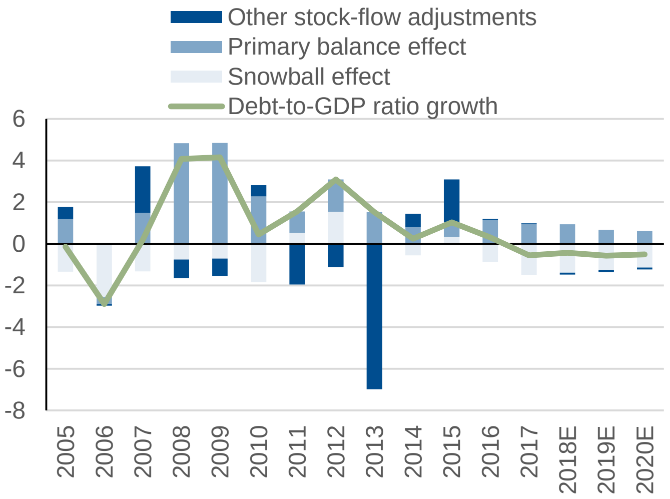
Constitutional debt brake in place

Scope has a positive view on Poland's constitutional ban on incurring loans and granting guarantees that could cause public debt to exceed 60% of GDP. Poland's Public Finance Act includes a stabilising expenditure rule that incorporates a correction mechanism for adjusting the growth of expenditures should the public-debt-to-GDP ratio exceed 43% and 48% thresholds and additional prudential procedures in case public debt-to-GDP breaches a 55% limit. The Minister of Finance is obliged to present a four-year debt management strategy for the public finance sector. The strategy must be approved annually by parliament.

Poland's public debt strategy includes forecasts of macroeconomic indicators. Scope has compared the general government debt-to-GDP projections from the IMF (WEO April

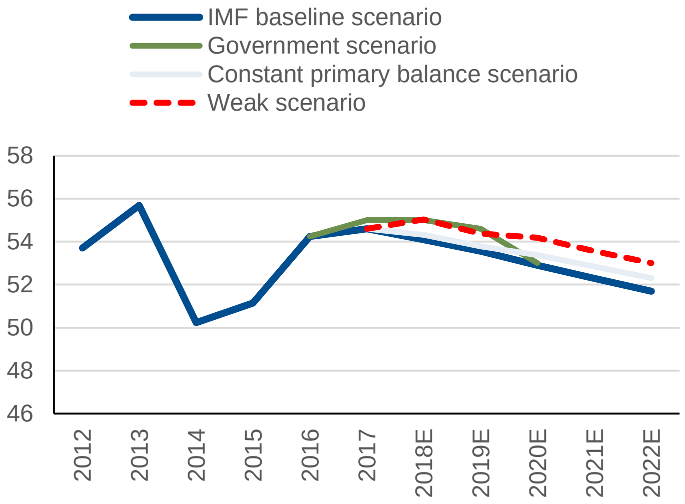
2017, projection period until 2022) with the projections according to the debt management strategy (projection period until 2020). Scope also implemented a 'weak performance scenario' in which the underlying IMF assumptions were stressed.

Figure 6: Contribution to gov't debt changes, % of GDP



Source: Calculations Scope Ratings AG

Figure 7: Government debt, as % of GDP



Source: Calculations Scope Ratings AG

	Real GDP growth (% change)	Primary balance (% of GDP)	Real implicit interest rate (%)
IMF baseline (WEO Apr. '17) 2017 - 2022	3.0	-0.8	0.7
Ministry of Finance projections 2017 - 2020	3.8	n.d.	n.d.
Weak performance scenario 2017 - 2022	2.4	-1.4	0.7

Source: IMF, Ministry of Finance, Calculations Scope Ratings AG

Adequate public debt dynamics

Scope assesses Poland's public debt dynamics as adequate because of their relative robustness across a number of plausible scenarios over the projection period to 2022 (Figure 7) and in view of the constitutional public debt brake mechanism. Poland benefits from robust economic growth and low financing costs, which more than offset the relatively small but sustained debt-increasing effect of negative primary fiscal results (Figure 6). External risks could threaten Poland's public debt dynamics, given its sizeable external financing needs, without placing public debt dynamics on an unsustainable trajectory. A protracted growth slowdown or banking sector stress in the euro area, Brexit-related risks and increased volatility in international financial markets could have negative spillovers via trade, financial and confidence channels.

Strategic debt management targets are met

The Polish public debt strategy framework for 2017 to 2020 also includes targets for public debt management, which were met in 2016. According to the strategy: (1) the domestic market must remain the main source of finance for state budget borrowing requirements; (2) the average maturity of domestic debt must be maintained at a level of no less than four years, with the aim of achieving an ultimate level of 4.5 years; (3) the overall average time to maturity should be approximately five years, and; (4) the state debt share of foreign-currency-denominated debt should be reduced to below 30%, with the pace depending on market and budgetary conditions.

In fact: the (1) financing of borrowing requirements was predominantly realised on the domestic market (80.5%) in 2016; (2) average time to maturity of domestic state debt increased from 4.27 years at the end of 2015 to 4.48 years by end-May 2017; (3) overall average time to maturity amounted to 5.27 years in May 2017, and; (4) the foreign-currency-denominated debt share of state debt decreased from 34.9% in 2015 to 34.4% in 2016 (and reached 31.2% in May 2017). Poland anticipates that it will meet its target (of <30%) by the end of 2019. In addition, Poland intends to maintain a strategic share of euro-denominated debt in its foreign-currency debt basket of at least 70%, with possible temporary deviations in the event of unfavourable market conditions.

Significant international investor demand

Poland benefits from significant international investor interest, in particular for long-term maturities. The average time to maturity of foreign debt increased from 6.88 years in 2015 to 6.92 years in 2016. In April 2016, the Ministry of Finance reopened 20-year bond issuances. EUR 750m was issued and priced at a level of 100bp over the mid-swap rate. In October 2016, another two tranches of euro-denominated bonds maturing in 2028 (EUR 750m) and 2046 (EUR 500m) were issued at low rates. In December 2016, Poland was the first sovereign issuer to sell green bonds, from which the proceeds are to be spent on environmental projects.

Moderate borrowing requirements thanks to centralised liquidity mechanism

The net borrowing requirements of the state budget in 2016 amounted to PLN 57.1bn, which was PLN 26.5bn lower than projected mainly due to a lower state budget deficit and a consolidation of deposits from public-sector entities as part of liquidity management. The obligation to place court deposits and liquid funds from certain public sector entities within the Ministry of Finance was implemented in May 2011 and broadened in January 2015. Between 2011 and 2016, this mechanism reduced borrowing requirements by about PLN 40bn and public debt by PLN 33bn while the amount of deposited funds stood at ca. PLN 40bn at the end of 2016.

External economic risk

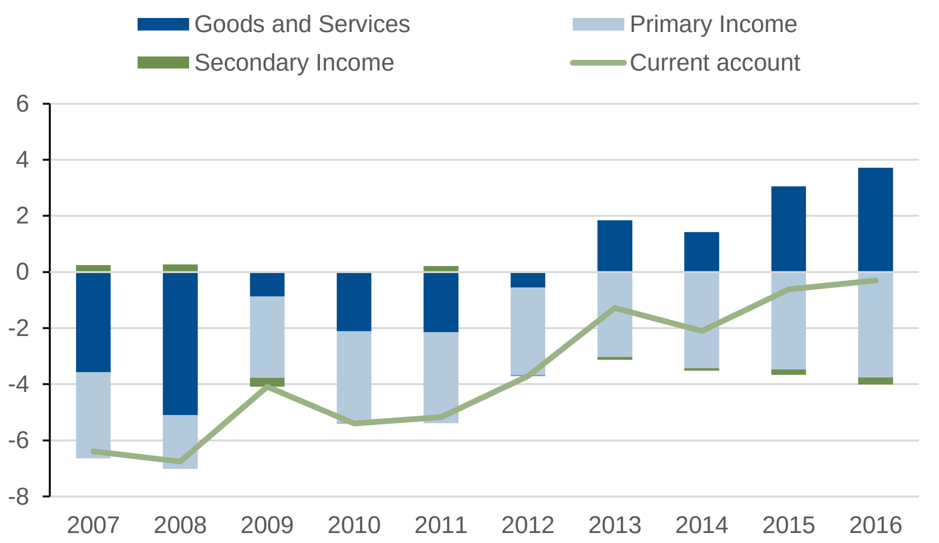
Stable capital inflows

External economic risks are currently at a low level in historic terms. In 2016, the current account deficit narrowed slightly to -0.3% of GDP, down from -0.6% of GDP in 2015. Poland’s regular current account deficits are due to the negative primary income component, mainly reflecting foreign direct investors’ income outflows.

It is Scope’s view that Poland’s current account vulnerabilities are moderate because of the high quality of funding sources for external debt. Sizeable portions of Poland’s persistent current account deficits are covered by long-term capital inflows in the form of foreign direct investments, intra-company loans and EU structural funds, thus exposing the country less to capital flight during periods of financial market turbulence.

Scope forecasts that the current account deficit will remain at present levels. Exports are expected to grow, given improvement in global economic conditions and stability in Poland’s main trading partners (80% of Polish trade is conducted with other EU countries, with Germany being the biggest trading partner by far). However, this positive development may be offset by increasing private consumption and thus, imports.

Figure 8: Current account balance, as % of GDP

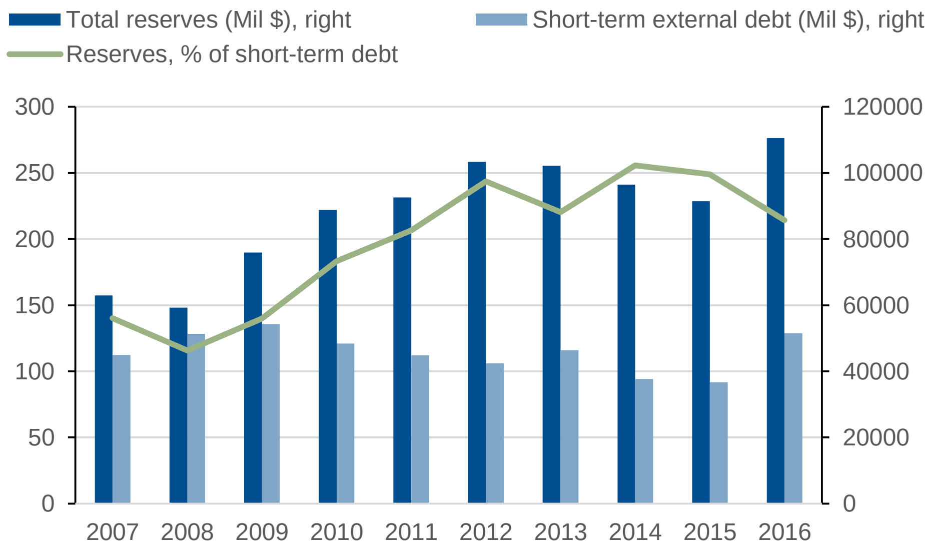


Source: IMF, calculations Scope Ratings AG

Improved external robustness

Official foreign exchange reserves increased by EUR 21bn to EUR 108bn in 2016 and remain adequate, covering around 6 months of imports of goods and services or 214% of short-term external debt. Another precautionary buffer against potential external shocks is the prolonged Flexible Credit Line (FCL) arrangement with the IMF. In January 2017, a new two-year EUR 8.2bn FCL was approved, a reduced programme compared with Poland's first FCL arrangement of EUR 20.6bn in 2009 when reserve adequacy was critical. This reflects an improved external robustness of the Polish economy. It is Scope's view that the FCL provides valuable insurance against external shocks, supplementing Poland's flexible exchange rate and high reserves. In addition, Poland also benefits from a swap line with the Swiss National Bank.

Figure 9: Official reserves vs short-term debt (USD m)



Source: IMF, World Bank

Financial stability risk

Healthy banking sector

Overall, Poland's banking sector remains well capitalised and liquid (with a Tier 1 capital ratio of 15.4% in 2016), with strong deposit growth. The non-performing-loan ratio decreased to 4% at the end of 2016. The bank resolution framework, in accordance with the European Bank Recovery and Resolution Directive (BRRD), was finalised and took effect in early October 2016, which supports the mitigation of systemic risks. The profitability of the banking sector remains a challenge and has led to further consolidation, with the state-controlled dominant insurer PZU acquiring UniCredit's stake in the second-largest bank, Pekao. This has increased domestic ownership of the banking sector by 10 percentage points to 50.1%.

New bank asset tax

Banks have successfully absorbed the new bank asset tax (effective since February 2016), which collected PLN 3.5bn in 2016. This was less than the PLN 5.5bn budgeted, and, at 0.2% of GDP, less stringent than the bank tax in Hungary that raised 0.7% of GDP in 2011. The asset tax has induced banks to significantly increase holdings of government bonds, which are excluded from the tax base. Minor modifications are under consideration. However, the central bank believes that there has only been a limited effect on banking sector soundness or credit supply so far.

Weak demand for credit

Demand for credit weakened in 2016, particularly in the corporate sector, as firms withdrew major investment programmes amid political uncertainty and a lack of co-financing from EU funds. Household borrowing in domestic currency remains robust, increasing by 10% in 2016, while loans denominated in foreign currencies continued to shrink at a rate of -5% at the end of 2016. Scope expects credit demand to rise sharply, in particular in the corporate sector, related to the increasing absorption of EU funds.

New approach for Forex mortgages

Before the 2015 elections, politicians in the ruling Law and Justice party (PiS) had called for a conversion of Forex mortgages to zloty at the exchange rates they were taken out at and with banks bearing the cost. PiS backed down after estimates from the financial regulator and central bank demonstrated that such a transaction would destabilise the financial system. The original proposal for a mandatory conversion of Forex mortgages has been replaced with a scheme requiring banks to repay ‘excessive’ spreads unfairly charged to mortgage borrowers. The potential cost of this is estimated at PLN 4-9bn, much lower than the PLN 67bn cost of mandatory conversion (which would have been equivalent to 3.7% of GDP in 2015 or six times the annual banking sector profits).

The Financial Stability Committee has recently recommended a new rule that raises the risk weight of Polish banks' exposure to Forex mortgages used for calculating their capital adequacy to 150% from 100%, thus incentivising banks to convert Forex mortgages into PLN voluntarily and over time. Overall, recent proposals point to a final solution that will ease financial stability risks and facilitate the required credit supply through enabling domestic banks to offer beneficial terms for the obligatory co-financing of highly available EU funds.

Institutional and political risk

The centre-right single-party majority government (PiS, Law and Justice Party) has been in office since November 2015 and has implemented several election promises, including a new child benefit and a reduction in the retirement age to 60 years for women and 65 for men, to be gradually rolled in starting the end of 2017.

Policy uncertainties

Ongoing political and policy uncertainty is set to continue. The government has controversially placed government-loyal judges on Poland's constitutional court and is planning to do so with other courts. Tensions with the EU over the “Rule of Law” procedure issued by the European Commission are ongoing, and the risk of sanctioning mechanisms (which would result in a reduction in EU voting rights and/or sanctions) has not dissipated. Scope does not expect tensions with the EU and recent policy initiatives to have a material negative effect on economic conditions.

Methodology

The methodology applicable for this rating and/or rating outlook “Public Finance Sovereign Ratings” is available on www.scoperatings.com.

Historical default rates of Scope Ratings can be viewed in the rating performance report on https://www.scoperatings.com/governance-and-policies/regulatory/esma-registration. Please also refer to the central platform (CEREP) of the European Securities and Markets Authority (ESMA): http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml. A comprehensive clarification of Scope’s definition of default, definitions of rating notations can be found in Scope’s public Credit Rating methodologies on www.scoperatings.com.

The rating outlook indicates the most likely direction of the rating if the rating were to change within the next 12 to 18 months. A rating change is, however, not automatically ensured.

I. Appendix: CVS and QS Results

Sovereign rating scorecards

Scope's Core Variable Scorecard (CVS), which is based on relative rankings of key sovereign credit fundamentals, signals an indicative "A" (a) rating range for the Republic of Poland. This indicative rating range can be adjusted by the Qualitative Scorecard (QS) by up to three notches depending on the size of relative credit strengths or weaknesses versus peers based on analysts' qualitative analysis.

For Republic of Poland the following relative credit strengths are identified: 1) growth potential of the economy, 2) economic policy framework, 3) market access and funding sources. Relative credit weaknesses are signaled for: 1) vulnerability to short-term shocks and 2) recent events and policy decisions. Combined relative credit strengths and weaknesses generate no adjustment and signal a sovereign rating at "A+" for Poland. A rating committee discussed and confirmed these results.

Rating overview

CVS category rating range	a
QS adjustment	A+
Final rating	A+

To calculate the rating score within the CVS, Scope uses a minimum-maximum algorithm to determine a rating score for each of the 22 indicators. Scope calculates the minimum and maximum of each rating indicator and places each sovereign within this range. Sovereigns with the strongest results for each rating indicator receive the highest rating score; sovereigns with the weakest results receive the lowest rating score. The score result translates to an indicative rating range that is always presented in lower case rating notes.

Within the QS assessment the analyst conducts a comprehensive review of the qualitative factors. This includes but is not limited to economic scenario analysis, review of debt sustainability, fiscal and financial performance and policy implementation assessments.

There are three assessments per category for a total of fifteen. For each assessment, the analyst examines the relative position of a given sovereign within its peer group. For this purpose, additional comparative analysis beyond the variables included in the CVS is conducted. These assessments are then aggregated using the same weighting system as in the CVS.

The result is the implied QS notch adjustment which is the basis for the analyst recommendation to the rating committee.

II. Appendix: CVS and QS Results

CVS		QS					
		Maximum adjustment = 3 notches					
Rating indicator	Category weight		+2 notch	+1 notch	0 notch	-1 notch	-2 notch
Domestic economic risk	35%	Growth potential of the economy	○ Excellent outlook, strong growth potential	● Strong outlook, good growth potential	○ Neutral	○ Weak outlook, growth potential under trend	○ Very weak outlook, growth potential wel under trend or negative
Economic growth Real GDP growth Real GDP volatility GDP per capita Inflation rate		Economic policy framework	○ Excellent	● Good	○ Neutral	○ Poor	○ Inadequate
Labour & population Unemployment rate Population growth		Macroeconomic stability and imbalances	○ Excellent	○ Good	● Neutral	○ Poor	○ Inadequate
Public finance risk Fiscal balance	30%	Fiscal performance	○ Exceptionally strong performance	○ Strong performance	● Neutral	○ Weak performance	○ Problematic performance
GG public balance GG primary balance GG gross financing needs		Debt sustainability	○ Exceptionally strong sustainability	○ Strong sustainability	● Neutral	○ Weak sustainability	○ Not sustainable
Public debt GG net debt Interest payments		Market access and funding sources	○ Excellent access	● Very good access	○ Neutral	○ Poor access	○ Very weak access
External economic risk International position International investment position	15%	Current account vulnerabilities	○ Excellent	○ Good	● Neutral	○ Poor	○ Inadequate
Importance of currency Current-account financing Current-account balance		External debt sustainability	○ Excellent	○ Good	● Neutral	○ Poor	○ Inadequate
T-W effective exch. rate Total external debt		Vulnerability to short-term shocks	○ Excellent resilience	○ Good resilience	○ Neutral	● Vulnerable to shock	○ Strongly vulnerable to shocks
Institutional and political risk Control of corruption	10%	Perceived willingness to pay	○ Excellent	○ Good	● Neutral	○ Poor	○ Inadequate
Voice & accountability		Recent events and policy decisions	○ Excellent	○ Good	○ Neutral	● Poor	○ Inadequate
Rule of law		Geo-political risk	○ Excellent	○ Good	● Neutral	○ Poor	○ Inadequate
Financial risk Non-performing loans	10%	Financial sector performance	○ Excellent	○ Good	● Neutral	○ Poor	○ Inadequate
Liquid assets		Financial sector oversight and governance	○ Excellent	○ Good	● Neutral	○ Poor	○ Inadequate
Credit-to-GDP gap		Macro-financial vulnerabilities and fragility	○ Excellent	○ Good	● Neutral	○ Poor	○ Inadequate
Indicative rating range	**a**						
QS adjustment	**A+**						
Final rating	**A+**						

*** Implied QS notch adjustment = (QS notch adjustment for Domestic Economic Risk)*0.35 + (QS notch adjustment for Public Finance Risk)*0.30 + (QS notch adjustment for External Economic Risk)*0.15 + (QS notch adjustment for Institutional and Political Risk)*0.10 + (QS notch adjustment for Financial Stability Risk)*0.10**

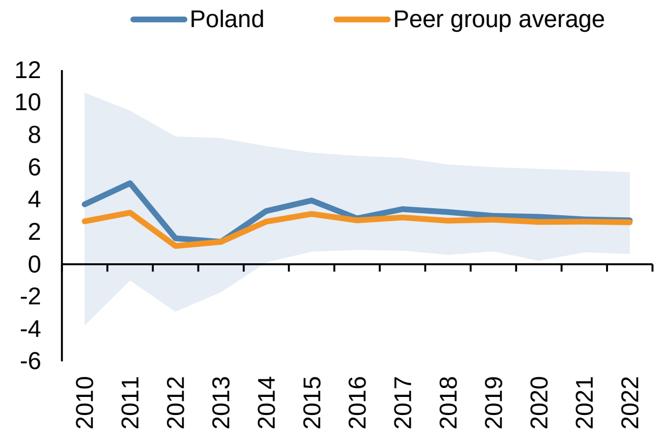
Source: Scope Ratings AG

Foreign- versus local-currency ratings

Scope sees no evidence that Poland would differentiate among any of its contractual debt obligations based on currency denomination. Poland's public debt is predominantly issued in domestic currency while a third of public debt is in foreign currency, mainly in euros. Poland has an established history of open capital accounts and local-currency debt issuance, which does not provide for a rating bias in favour of either local-currency or foreign-currency debt.

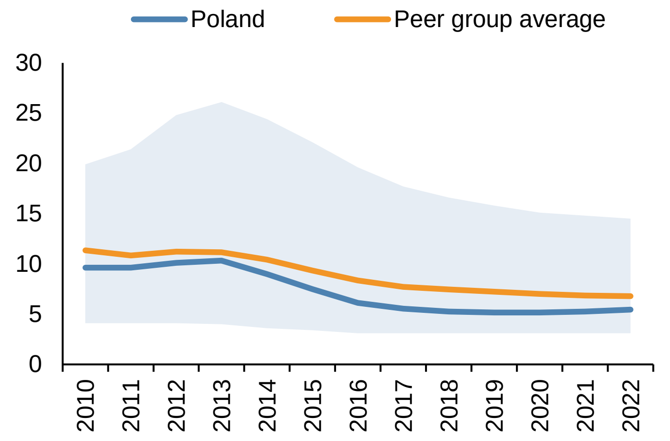
III. Appendix: Peer Comparison

Figure 10: Real GDP growth



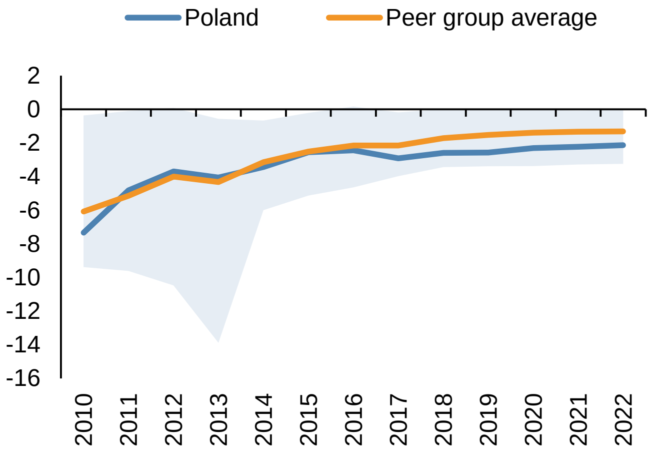
Source: IMF, Calculations Scope Ratings AG

Figure 11: Unemployment rate, % total labour force



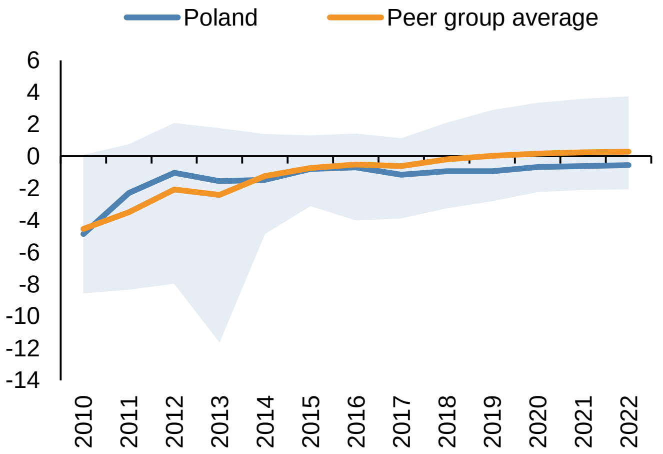
Source: IMF, Calculations Scope Ratings AG

Figure 12: General government balance, % of GDP



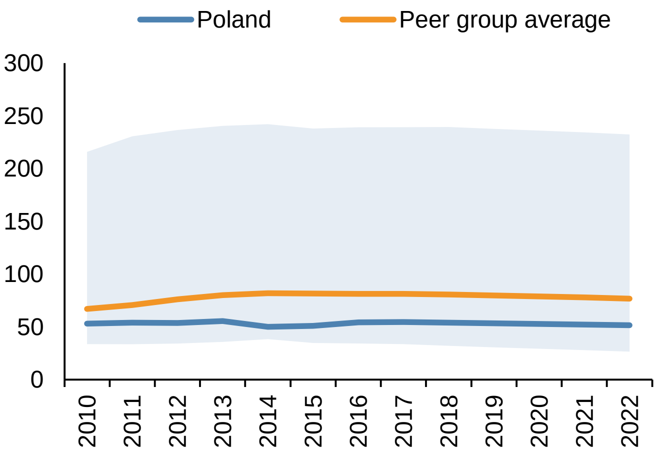
Source: IMF, Calculations Scope Ratings AG

Figure 13: General government primary balance, % of GDP



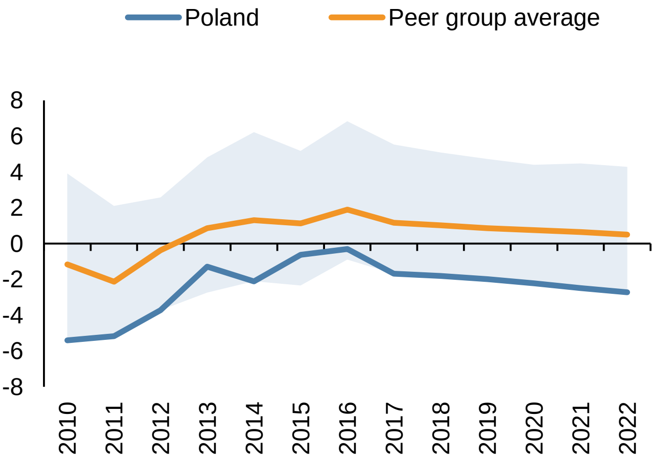
Source: IMF, Calculations Scope Ratings AG

Figure 14: General government gross debt, % of GDP



Source: IMF, Calculations Scope Ratings AG

Figure 15: Current-account balance, % of GDP



Source: IMF, Calculations Scope Ratings AG

IV. Appendix: Statistical tables

	2012	2013	2014	2015	2016	2017E	2018F
Economic performance							
Nominal GDP (PLZ bn)	1,629.4	1,656.8	1,719.7	1,798.3	1,844.3	1,934.2	2,049.6
Population ('000s)	38,317.4	38,309.5	38,293.1	38,265.2	38,224.4	38,170.7	38,104.8
GDP-per-capita PPP (USD)	23,832.7	24,718.5	25,707.5	26,855.8	27,810.5	-	-
GDP per capita (PLZ)	42,806.9	43,529.5	45,234.1	47,316.7	48,577.2	50,953.9	54,011.1
Real GDP growth, % change	1.6	1.4	3.3	3.9	2.8	3.5	3.2
GDP growth volatility (10-year rolling SD)	1.7	1.9	1.9	1.9	1.7	1.1	1.1
CPI, % change	3.70	0.90	-0.03	-0.93	-0.58	2.32	2.35
Unemployment rate (%)	10.1	10.3	9.0	7.5	6.1	5.5	5.3
Investment (% of GDP)	21.0	19.0	20.4	20.4	19.6	20.0	20.3
Gross national savings (% of GDP)	17.3	17.7	18.3	19.8	19.3	18.3	18.5
Public finances							
Net lending/borrowing (% of GDP)	-3.7	-4.1	-3.4	-2.6	-2.4	-2.9	-2.6
Primary net lending/borrowing (% of GDP)	-1.0	-1.5	-1.5	-0.8	-0.7	-1.2	-0.9
Revenue (% of GDP)	39.0	38.4	38.7	38.9	39.3	40.1	40.3
Expenditure (% of GDP)	42.7	42.4	42.1	41.5	41.8	43.0	42.8
Net interest payments (% of GDP)	2.7	2.5	1.9	1.8	1.7	1.8	1.6
Net interest payments (% of revenue)	6.8	6.5	5.0	4.5	4.4	4.4	4.1
Gross debt (% of GDP)	53.7	55.7	50.2	51.1	54.2	54.6	54.1
Net debt (% of GDP)	18.6	21.8	14.7	15.9	20.0	21.4	21.9
Gross debt (% of revenue)	137.5	145.1	129.9	131.3	137.9	136.2	134.3
External vulnerability							
Gross external debt (% of GDP)	72.1	70.5	71.2	70.2	75.2	-	-
Net external debt (% of GDP)	35.6	37.1	37.5	35.5	32.3	-	-
Current-account balance (% of GDP)	-3.7	-1.3	-2.1	-0.6	-0.3	-1.7	-1.8
Trade balance [FOB] (% of GDP)	-	-0.1	-0.8	0.5	0.5	-0.5	-1.0
Net direct investment (% of GDP)	-1.2	-0.8	-2.4	-2.1	-0.9	-	-
Official forex reserves (EOP, USD m)	96,112.5	93,973.4	94,074.4	89,431.0	109,513.1	-	-
REER, % change	-2.5%	0.2%	0.9%	-2.1%	-3.5%	-	-
Nominal exchange rate (EOP, USD/PLZ)	0.3	0.3	0.3	0.3	0.2	-	-
Financial stability							
Non-performing loans (% of total loans)	5.2	5.0	4.8	4.3	4.0	-	-
Tier 1 ratio (%)	13.1	14.0	13.7	14.5	15.4	-	-
Consolidated private debt (% of GDP)	73.4	75.4	78.1	78.7	81.8	-	-
Domestic credit-to-GDP gap (%)	-4.9	-5.3	-5.0	-6.2	-3.5	-	-

Sources: IMF, European Commission, European Central Bank, World Bank, United Nations, Scope Ratings AG

V. Regulatory disclosures

This credit rating and/or rating outlook is issued by Scope Ratings AG.

Rating prepared by Jakob Suwalski, Lead Analyst

Person responsible for approval of the rating: Karlo Stefan Fuchs, Executive Director

The ratings/outlook were first assigned by Scope as subscription rating in January 2003. The subscription ratings/outlooks were last updated on 05.05.2017.

The senior unsecured debt ratings as well as the short term issuer ratings were assigned by Scope for the first time.

As a "sovereign rating" (as defined in EU CRA Regulation 1060/2009 "EU CRA Regulation"), the ratings on Republic of Poland are subject to certain publication restrictions set out in Art 8a of the EU CRA Regulation, including publication in accordance with a pre-established calendar (see "Sovereign Ratings Calendar of 2017" published on 21.07.2017 on www.scoperatings.com). Under the EU CRA Regulation, deviations from the announced calendar are allowed only in limited circumstances and must be accompanied by a detailed explanation of the reasons for the deviation. In this case, the deviation was due to the recent revision of Scope's Sovereign Rating Methodology and the subsequent placement of ratings under review, in order to conclude the review and disclose ratings in a timely manner, as required by Article 10(1) of the CRA Regulation.

Rating Committee: the main points discussed were (1) Poland's economic outlook, (2) the fiscal performance and debt sustainability, based on a strong and conservative policy framework, (3) external position and vulnerability to short-term shocks, (4) the reliance on foreign direct investment, (5) Recent political developments, (6) peers consideration.

Solicitation, key sources and quality of information

The rating was initiated by Scope and was not requested by the rated entity or its agents. The rated entity and/or its agents did not participate in the ratings process. Scope had no access to accounts, management and/or other relevant internal documents for the rated entity or related third party.

The following material sources of information were used to prepare the credit rating: public domain and third parties. Key sources of information for the rating include: the Ministry of Finance of the Republic of Poland, Central Bank of Poland, European Commission, European Central Bank, Statistical Office of the European Communities, IMF, OECD, and Haver Analytics

Scope considers the quality of information available to Scope on the rated entity or instrument to be satisfactory. The information and data supporting Scope's ratings originate from sources Scope considers to be reliable and accurate. Scope does not, however, independently verify the reliability and accuracy of the information and data.

Prior to publication, the rated entity was given the opportunity to review the rating and/or outlook and the principal grounds upon which the credit rating and/or outlook is based. Following that review, the rating was not amended before being issued.

Conditions of use / exclusion of liability

© 2017 Scope SE & Co. KGaA and all its subsidiaries including Scope Ratings AG, Scope Analysis, Scope Investor Services GmbH (collectively, Scope). All rights reserved. The information and data supporting Scope's ratings, rating reports, rating opinions and related research and credit opinions originate from sources Scope considers to be reliable and accurate. Scope cannot, however, independently verify the reliability and accuracy of the information and data. Scope's ratings, rating reports, rating opinions, or related research and credit opinions are provided "as is" without any representation or warranty of any kind. In no circumstance shall Scope or its directors, officers, employees and other representatives be liable to any party for any direct, indirect, incidental or otherwise damages, expenses of any kind, or losses arising from any use of Scope's ratings, rating reports, rating opinions, related research or credit opinions. Ratings and other related credit opinions issued by Scope are, and have to be viewed by any party, as opinions on relative credit risk and not as a statement of fact or recommendation to purchase, hold or sell securities. Past performance does not necessarily predict future results. Any report issued by Scope is not a prospectus or similar document related to a debt security or issuing entity. Scope issues credit ratings and related research and opinions with the understanding and expectation that parties using them will assess independently the suitability of each security for investment or transaction purposes. Scope's credit ratings address relative credit risk, they do not address other risks such as market, liquidity, legal, or volatility. The information and data included herein is protected by copyright and other laws. To reproduce, transmit, transfer, disseminate, translate, resell, or store for subsequent use for any such purpose the information and data contained herein, contact Scope Ratings AG at Lennéstraße 5, D-10785 Berlin.

Scope Ratings AG, Lennéstrasse 5, 10785 Berlin, District Court for Berlin (Charlottenburg) HRB 161306, Executive Board: Torsten Hinrichs (CEO), Dr. Stefan Bund; Chair of the supervisory board: Dr. Martha Boeckenfeld.