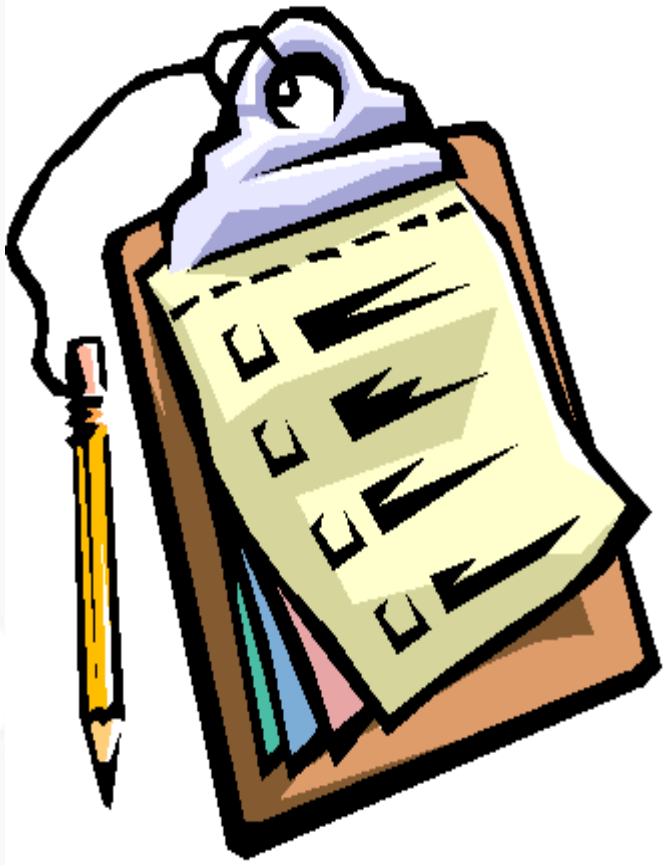




Marta Petka - Zagajewska

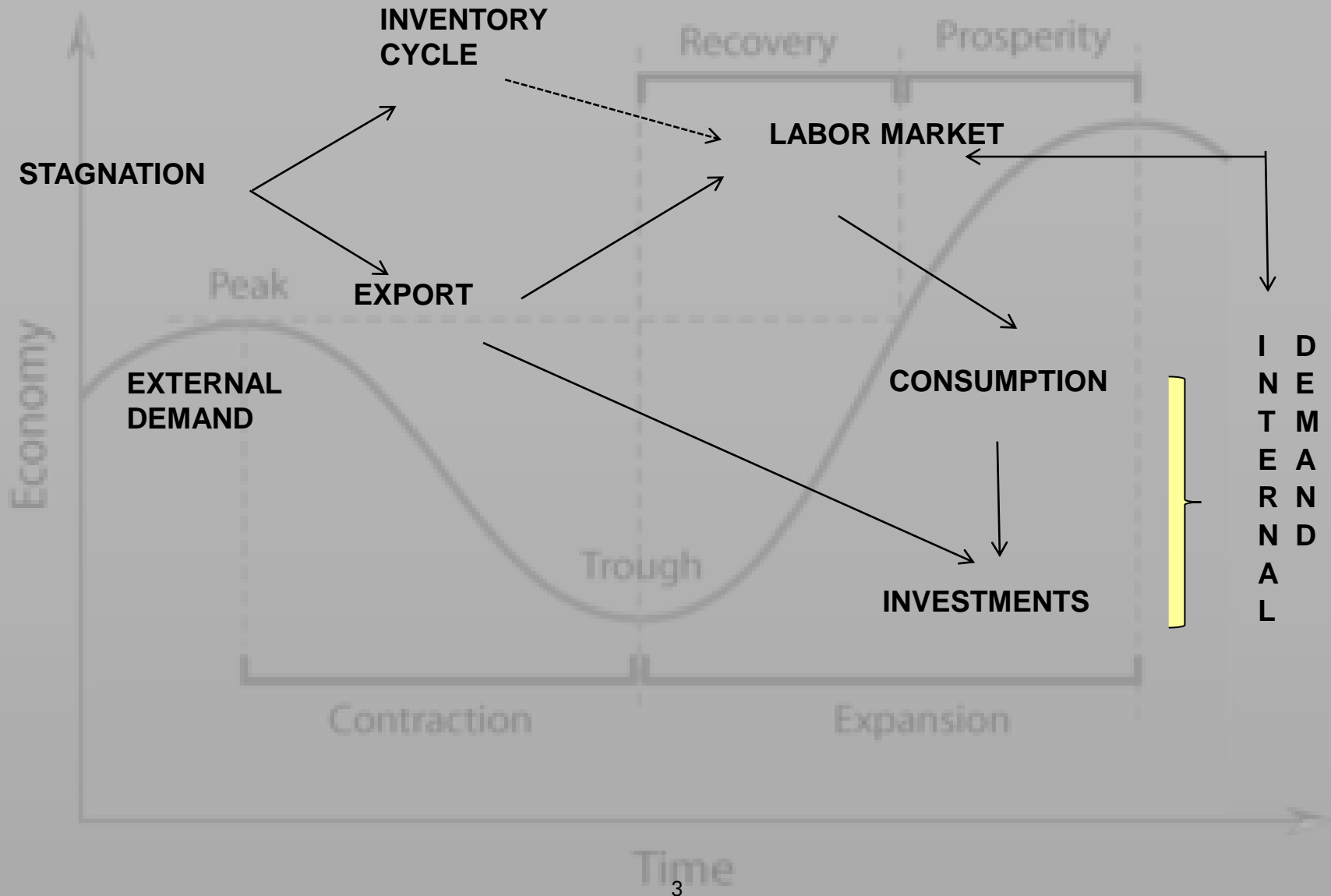
Dorota Strauch

Raiffeisen Bank Polska S.A.

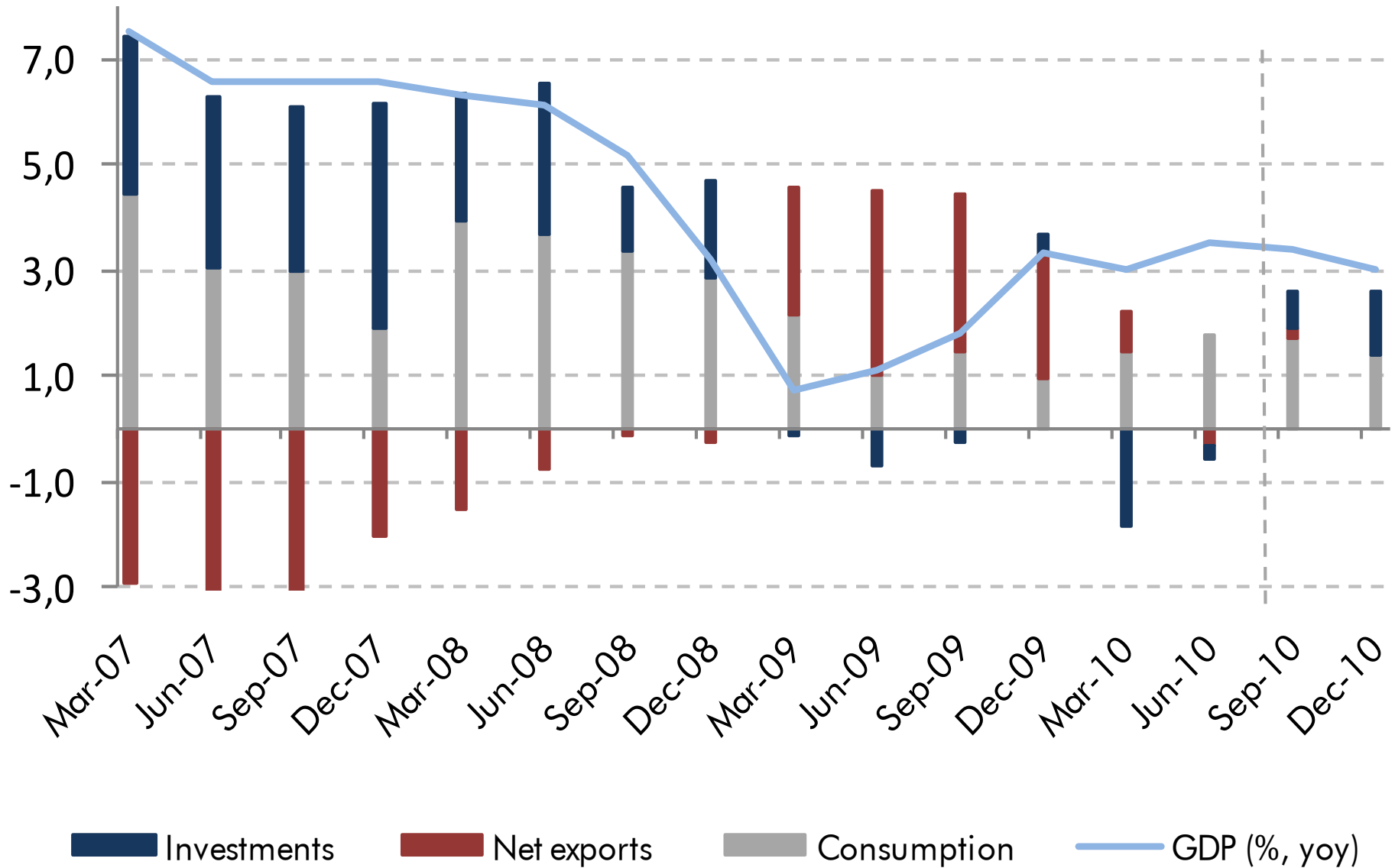


1. Polish economy – current condition and perspectives
2. Euro Area – perspectives of entry, potential gains and threats.
3. FX market (p)review.
4. Discussion

Economic recovery – how it used to be?

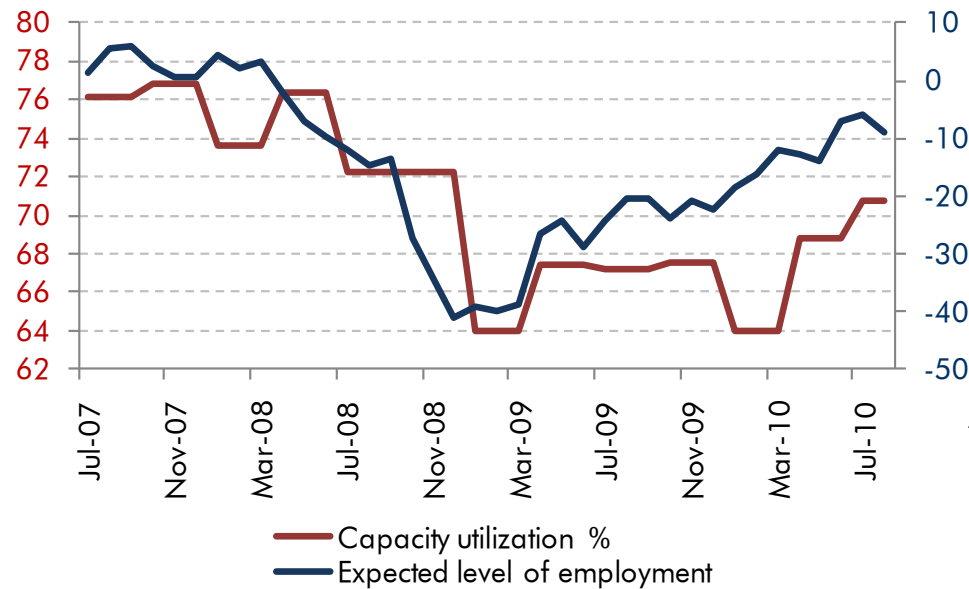


Economic recovery – how it is this time?



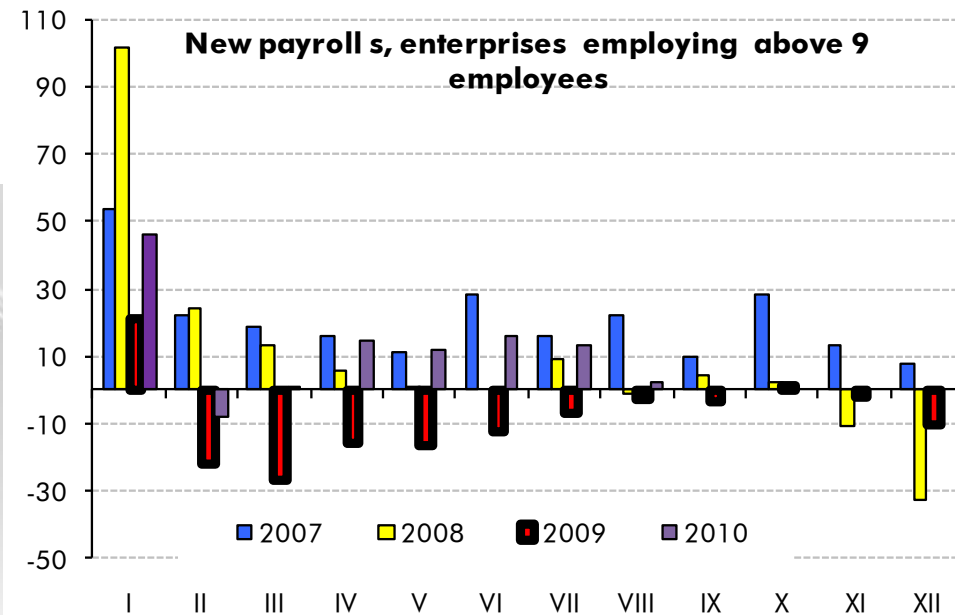
Economic recovery – what is missing (1)?

INVESTMENTS



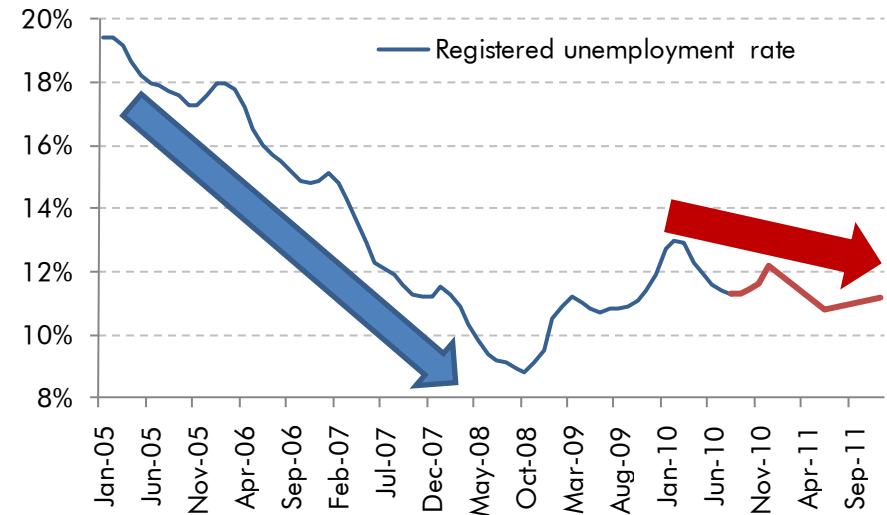
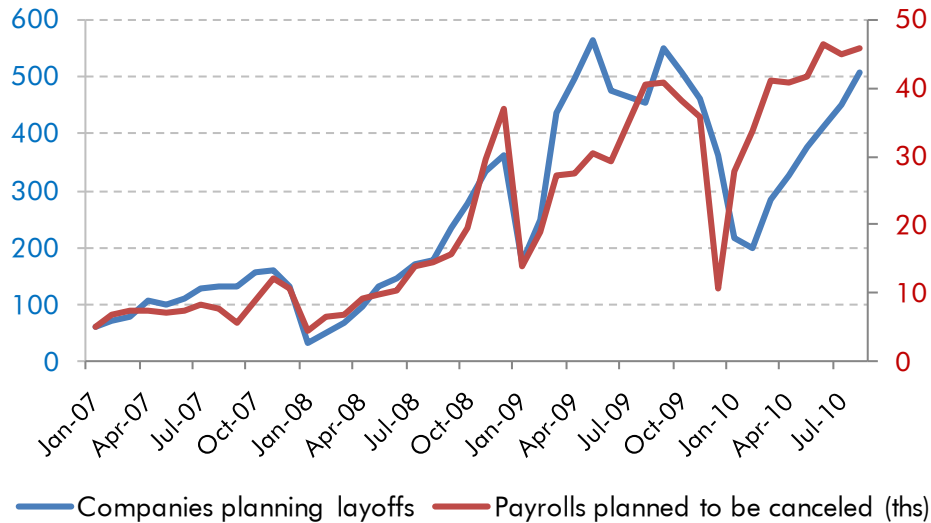
- Still relatively low capacity utilization
- Moderate expectations towards demand in the nearest future
- Low levels of new investment activities and declared investment plans.
- I-VI investment outlays in companies employing more than 50 empl. down by 17,6 YoY.
- in 2010 → all investment activities restrained to infrastructural outlays.

- Relatively low capacity utilization is a pessimistic factor for labor market

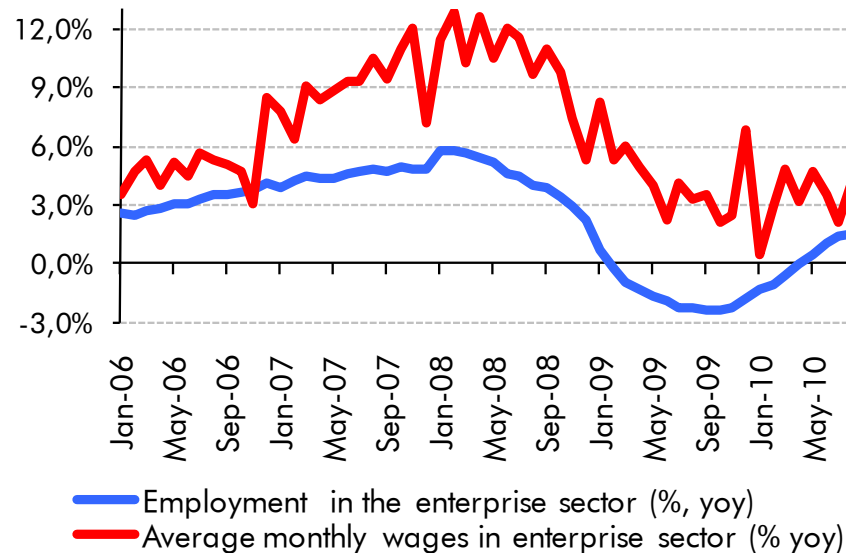


Economic recovery – what is missing (2)?

LABOR MARKET



- only moderate growth of employment
- much slower downward trend of unemployment rate
- unsupportive demographic tendencies (midium term)



- low bargaining power of employees
- only moderate growth of wage bill in the whole economy

Economic recovery – our scenario

	2007	2008	2009	2010e	2011f	2012f
GDP, PLN bn	1176,7	1275,4	1343,7	1409,0	1485,7	1576,3
GDP, USD bn	428,6	533,1	435,5	449,4	469,0	613,0
GDP, EUR bn	311,7	362,9	311,3	350,1	389,9	437,9
GDP, % YoY nominal growth	11,0	8,4	5,3	4,9	5,4	6,1
GDP, % YoY real growth	6,8	5,1	1,7	3,2	3,4	4,1
Private consumption, % YoY real growth	4,9	5,7	2,1	2,8	4,2	4,8
Gross fixed capital formation, % YoY real g	17,6	9,6	-1,1	-1,6	7,3	10,0
Industrial production, % YoY	10,7	3,6	-3,5	11,0	5,7	8,0
Unemployment rate %, EoP	11,4	9,5	11,9	12,1	11,2	10,5
Unemployment rate %, avg	12,7	9,8	11,0	11,9	10,8	10,0
Nominal gross industrial wages, % YoY	9,2	10,1	4,4	3,5	4,5	4,5
CPI Inflation, % YoY avg.	2,5	4,2	3,5	2,6	3,0	2,5

The biggest task for the nearest future

PUBLIC
DEBT



BUDGET
DEFICIT



Public debt – polish internal regulations

50%

**Budget deficit to budget revenues ratio in $t \leq$
Budget deficit to budget revenues ratio in $t+1$**

55%

- **Balanced budget or budget surplus in $t+1$**
- **freeze on wages growth in public sector**
- **valorization of pensions restricted to inflation rate**

60%

- **As in case of hitting 55%-level**
- **additional: at least balanced budgets on local level**

Government forecasts and sources of debt

		2009	2010 *	2011	2012	2013
Public debt	PLN bn	669,9	739,1	814,5	878,7	921,5
	% of GDP	49,8	54,7	54,4	54,6	53,7

	2009	2010	2011	2012	2013
1% of GDP (PLN) bn according to MF forecasts	13,4	13,5	15,0	16,1	17,2
Safety limit (PLN bn)	69,9	4,1	9,0	6,4	22,3

BUDGET DEFICIT

- automatic stabilizers
- fiscal stimulus
- former government reforms

LOCAL GOVERNMENTS DEFICITS

- limited control of MoF
- EU-funds co-financing

PENSION SYSTEM REFORM

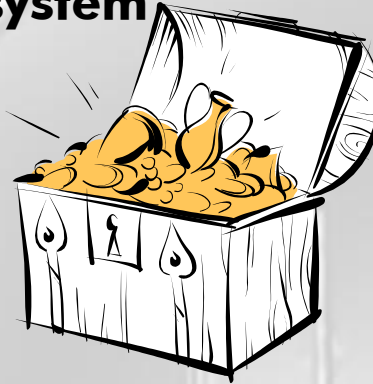
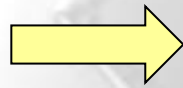


Pension system reform

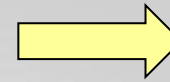
Before 1999 → Pay-as-you-go system



Pension contributions

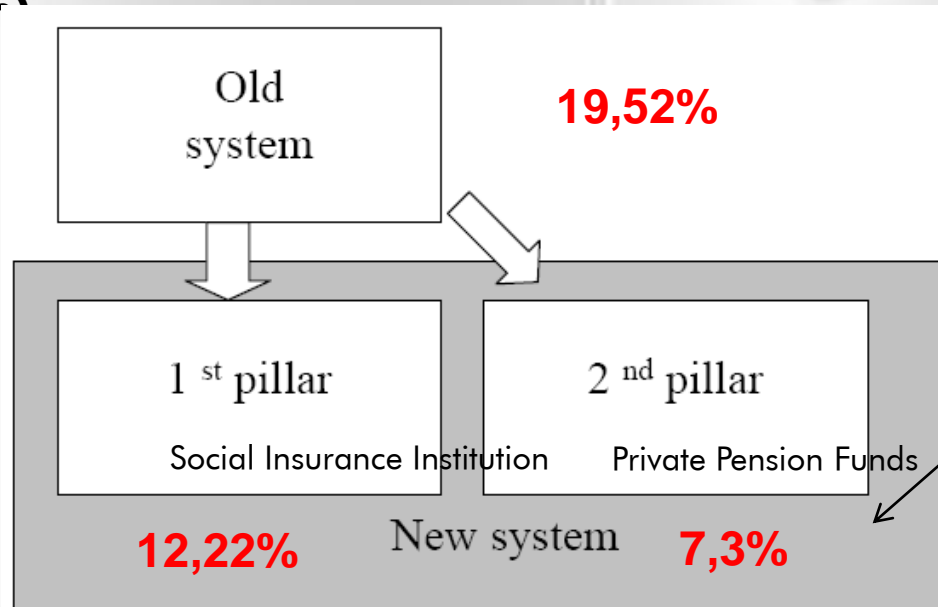


Social Insurance Institution



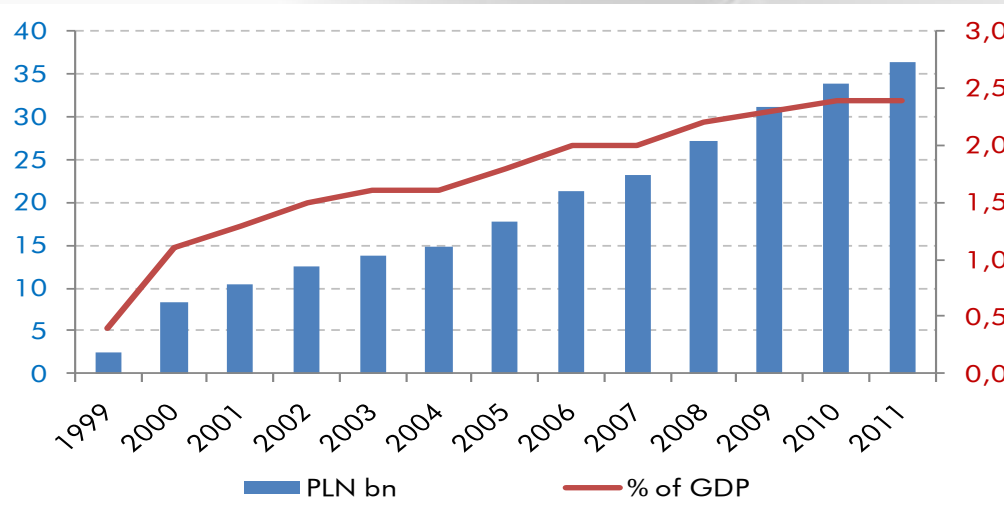
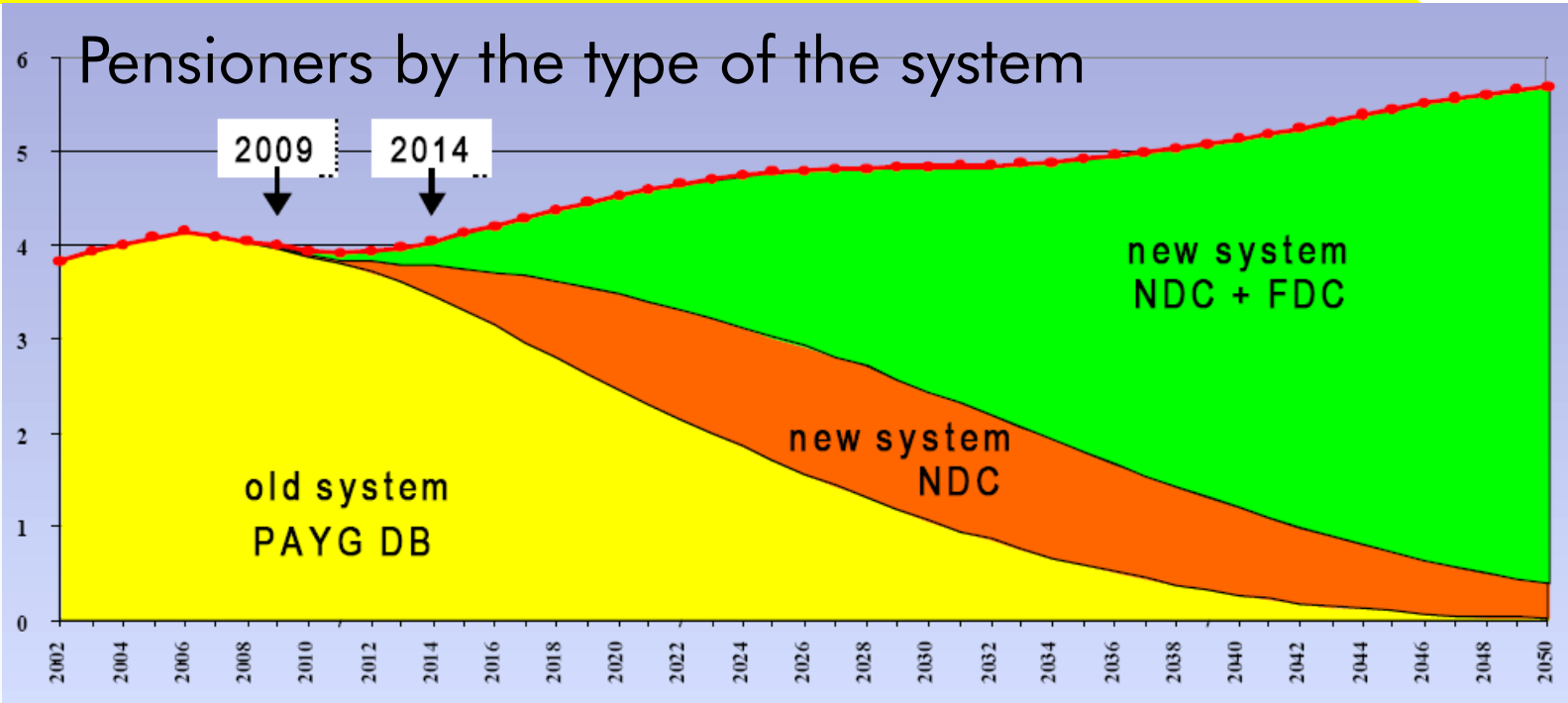
Pension

After 1999 → Pay-as-you-go system + mandatory private pension funds (funded system)



Additional government contribution needed

Consequences for public finances



Cumulated contribution to Social Insurance Institution resulting from pension reform for 2008= 2011:

PLN 259,6 bn

PLN 17,3% of GDP

What is the government doing?

Budget draft for 2011:

- VAT increase (1pp → + PLN5 bn revenues)
- Elimination of excise tax relieves (+ PLN 1,5 bn)
- Cuts in death benefit (+ PLN 0,85 bn)
- Freeze on wage growth in public administration (+ PLN 2,4 bn)
- Improved cash management

What is missing?:

- Reform on Agricultural Social Insurance Fund
- Reform on disability pensions and survivors' pensions
- Cut of retirement preferences
- Changes in safety levels / definition of public debt?

Other short-term moves:

- further VAT hikes (potential two moves by 1pp each)
- Excise tax hikes
- Return to higher disability contribution (6% → 13%, ca. PLN 20-25 bn)
- Freeze on wage growth in public administration (+ PLN 2,4 bn)
- Improved cash management

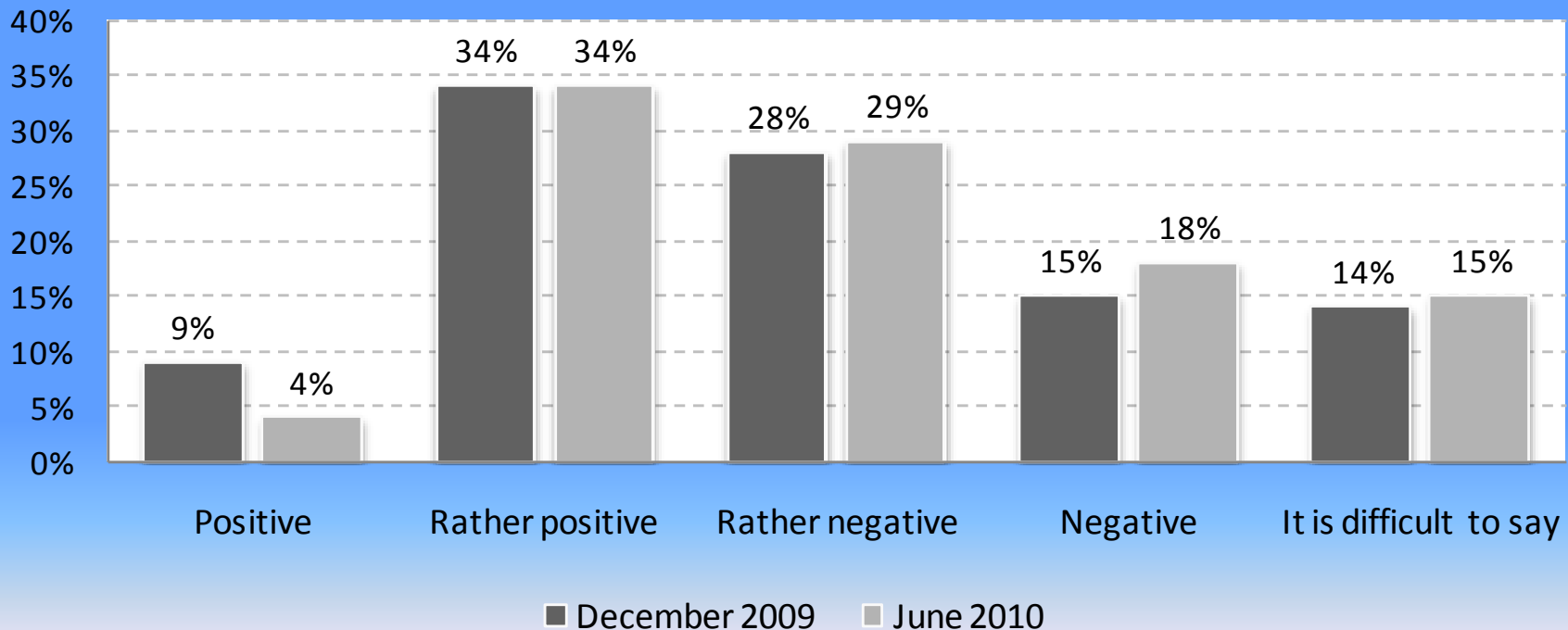




Poland
=
Euro Zone?

Do Poles want to enter EuroZone?

The polish attitude towards the euro currency adoption



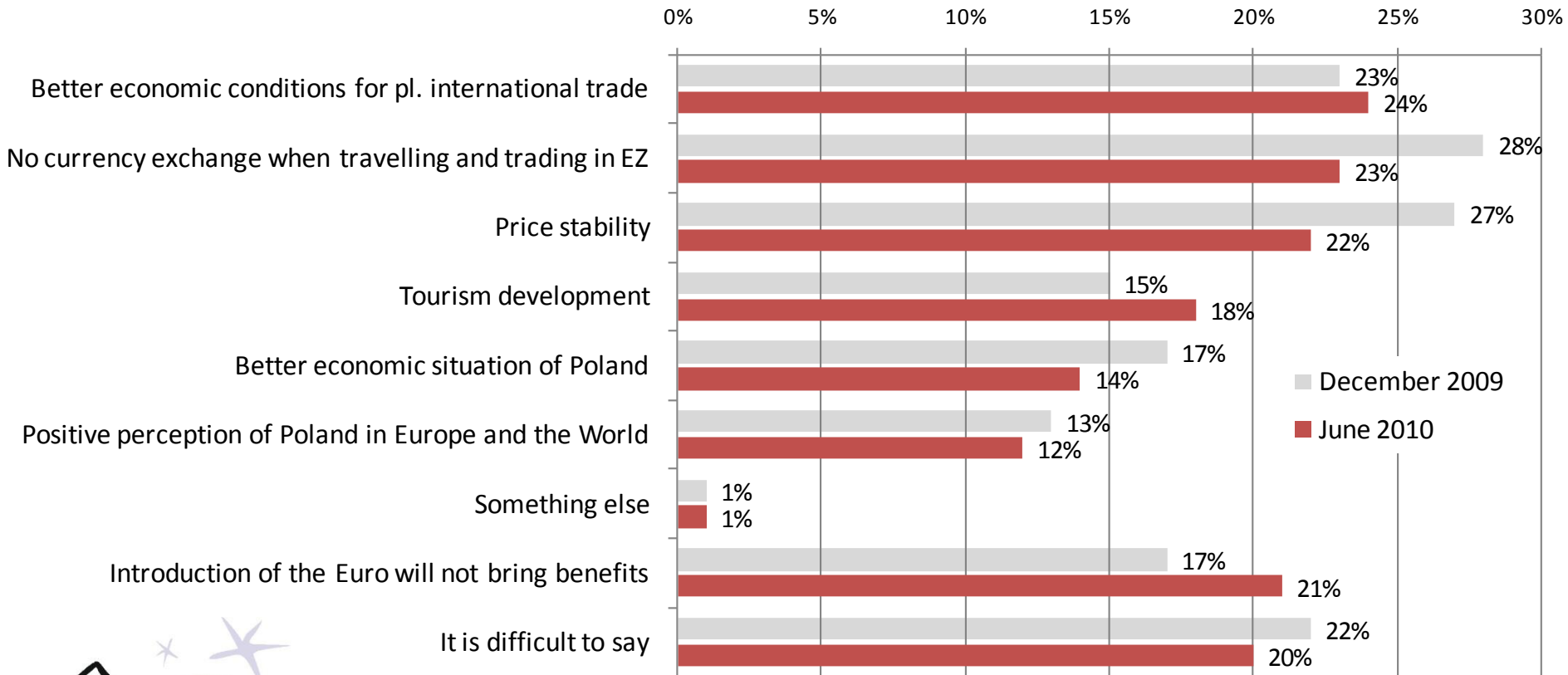
Source: Ministry of Finance

The problems of EuroZone countries (fiscal crisis) are one of the main factors of falling support for euro-entry.

The sum of positive attitude accounts for 38% against 47% as a sum of the negative attitude.

The highest support ever was in mid 2009 at 52%.

Gains of EZ-entry

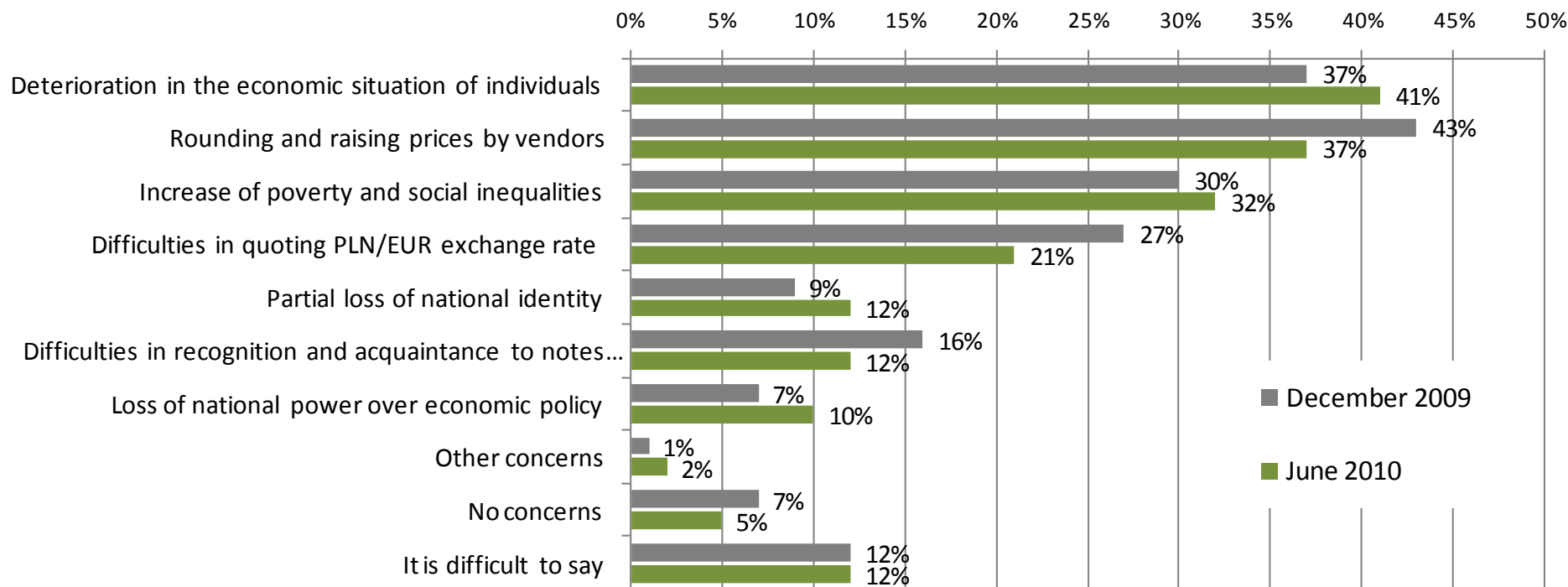


Source: Ministry of Finance

- reduction of currency risk and transaction costs (0,3-0,4% GDP)
 - higher inflow of investments
 - lower financing costs (both interest rates and risk premium)
- FASTER ECONOMIC GROWTH (additional 2,0-7,5% of GDP)



Threats and costs of EZ-entry

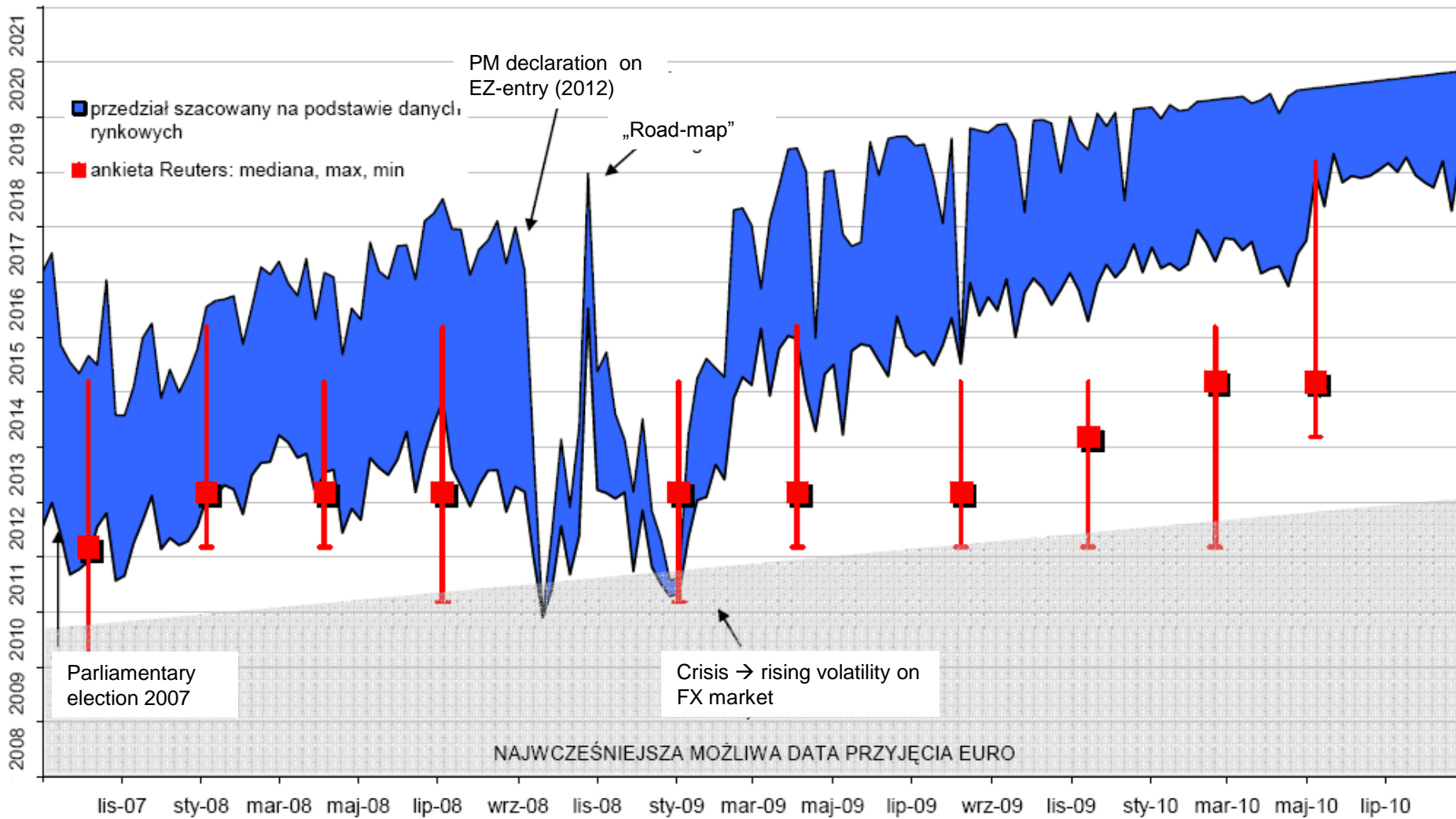


Source: Ministry of Finance

- High costs of introducing the new currency
- Elimination of FX-weakening channel as a support for international competitiveness
- Rounding effects and raising prices by vendors
- Elimination of an important source of income for financial institutions (FX market)
- Resignation of independent monetary policy
- Risk of an inappropriate FX parity.



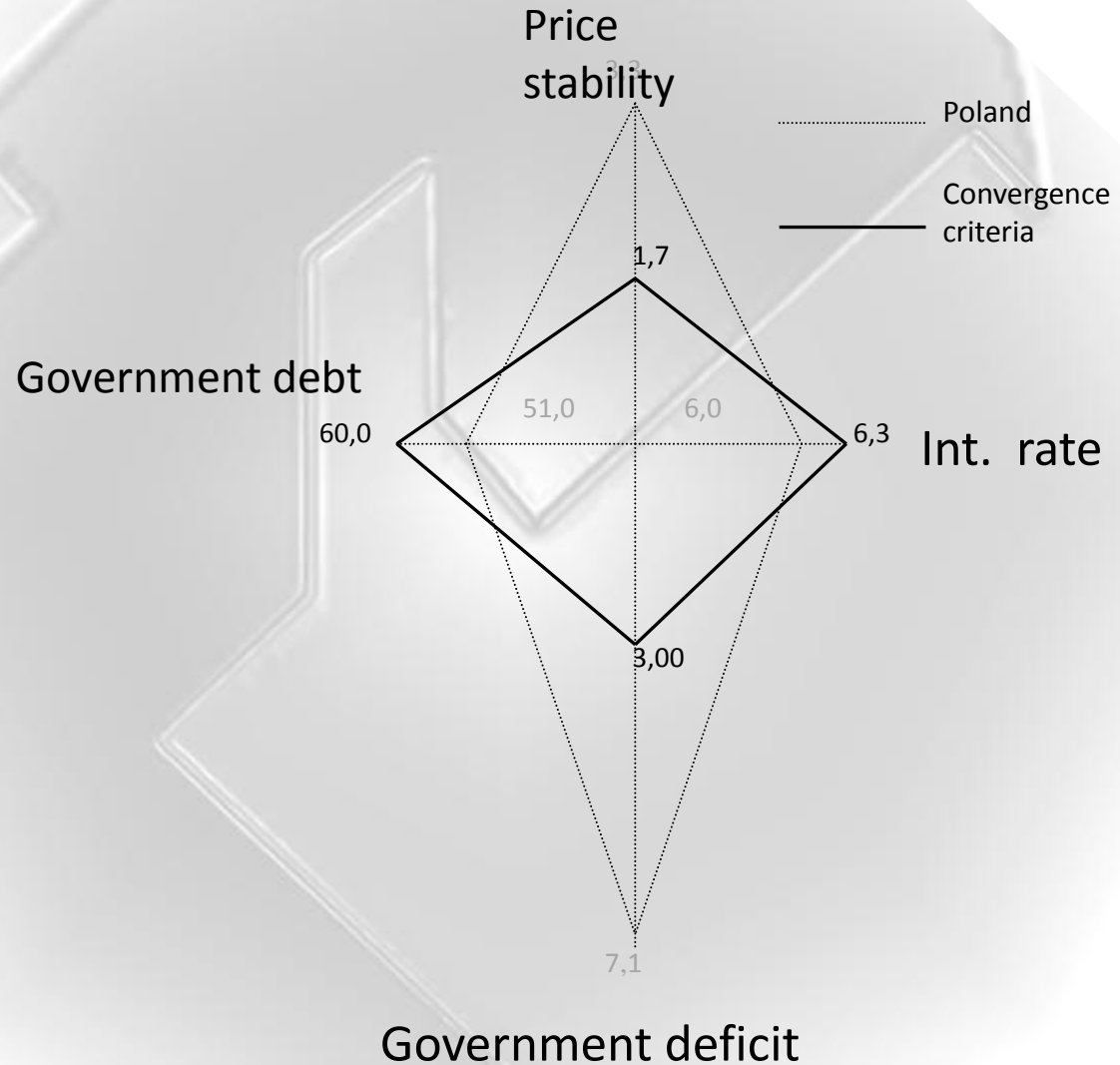
Probable entry date



Source: Ministry of Finance

Maastrich criteria

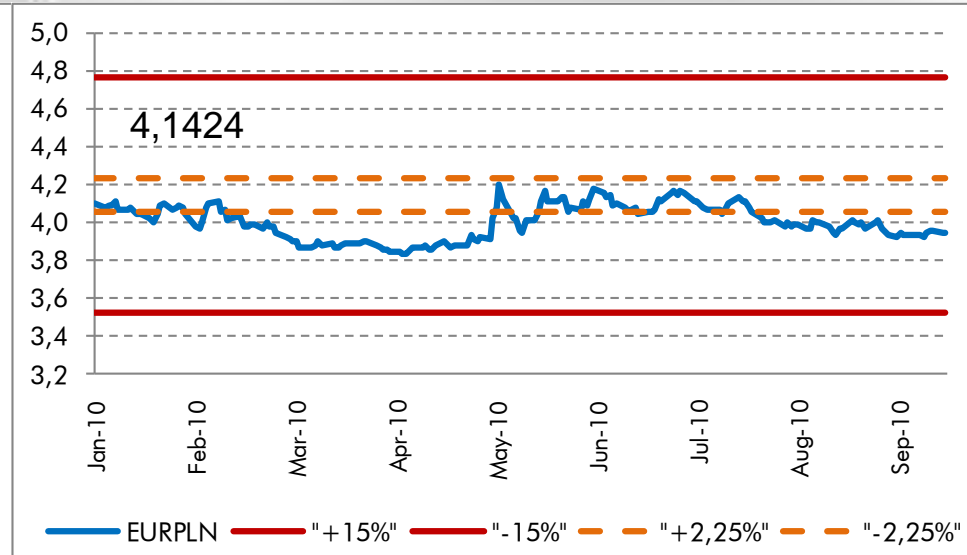
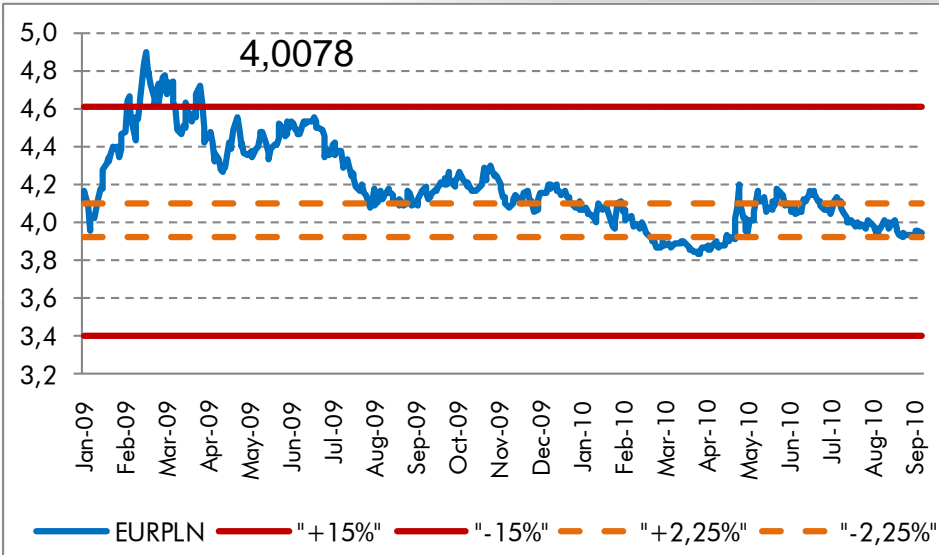
1. Inflation → no more than 1.5 pp higher than the average of the three best performing (lowest inflation) member states of EU.
2. Government deficit → the ratio of the annual government deficit to GDP must not exceed 3%.
3. Government debt → the ratio of gross government debt to GDP must not exceed 60%.
4. Long term interest rates → the nominal long-term interest rate must not be more than 2pp higher than in the three lowest inflation member states.



Maastrich criteria – Exchange rate

Applicant countries should have joined the exchange-rate mechanism (ERM II) for two consecutive years and should not have devalued its currency during the period.

A currency in ERM II is allowed to float within a range of +/- 15% with respect to a central rate against the euro



Key factors

1. POLITICS:

- Parliament (???)
- President
- Central Bank

2. FISCAL POLICY:

- Deficit 3% of GDP (2013)
- Debt 60% of GDP

3. FUTURE OF EUROZONE



FIRST PROBABLE DATE → 2015