

# Macro Monitor

## Poland

- The steady but marked decline in the Polish economy throughout 2012 continued in the first quarter of 2013, as growth was a disappointing 0.5% y/y. Domestic demand in particular continues to suffer. Private consumption has stalled at more or less zero growth in real terms since H2 12 and Q1 numbers were not any different. Real investment activity has been contracting since the beginning of 2012, but at least slightly less so in Q1 this year, after contracting almost 5% y/y in Q4 (although part of this can perhaps be attributed to base effects from large investments in 2011). Import growth was negative throughout 2012 as well and so was Q1 13 at -1.0%, but the trend seems to be improving slightly. As weak numbers continue to come out of Poland's neighbours and export partners, it is difficult to see much help from the external environment. A softer stance from the Polish central bank (NBP) should help the recovery but the outlook for 2013 looks bleak nevertheless. We have adjusted our expectations down a bit for this year and now expect meagre 1.1% growth y/y, increasing to 2.1% in 2014, before we finally expect the pace to pick up somewhat in 2015, to 2.9% growth. However, risk unfortunately seems to be to the downside.
- We still expect private consumption and investments to be the main drag on growth this year. Given the expected weakness in private demand, external balances should improve somewhat, especially this year. We expect the current account deficit to narrow to -2.8% of GDP in 2013 before widening slightly to -3.0% in 2014, but still less than in the years before the slowdown.
- Inflation has slowed markedly over the past six months, from slightly elevated to well below the official target of 2.5% +/-1pp (CPI), on the back of a slowdown in growth and a hawkish NBP. Latest numbers show CPI growth of just 0.8% y/y in April and although NBP seems to have softened its stance, we do not expect inflation to become a problem any time soon. Our model suggests that the GDP deflator should grow by 1.7% y/y in 2013 and 2.0% y/y in 2014. Wage growth has slowed as well but as inflation has eased considerably, real wage growth should remain positive. We expect a limited increase of 2.4% in gross wages this year, picking up a bit in 2014.
- Given the sluggish economic activity in Poland, we expect the situation in the labour market to deteriorate going forward. Hence, unemployment is expected to rise in the coming years, as growth is likely to be below trend. Our forecast is for unemployment to be around 14.0% in the end of 2013, rising to 14.5% at the end of 2014.

### Macro forecasts

	2012	2013	2014	2015
GDP (% y/y)	2.0	1.1	2.1	2.9
GDP deflator (% y/y)	2.5	1.7	2.0	2.2
Private consumption (% y/y)	0.8	0.9	1.9	2.7
Fixed investments (% y/y)	-1.0	-2.3	1.7	2.7
Unemployment (%)	13.4	14.0	14.5	14.6
Current account (% of GDP)	-3.5	-2.8	-3.0	-3.4
Gross wages (% y/y)	4.2	2.4	3.3	4.3

Source: Macrobond, Danske Bank Markets

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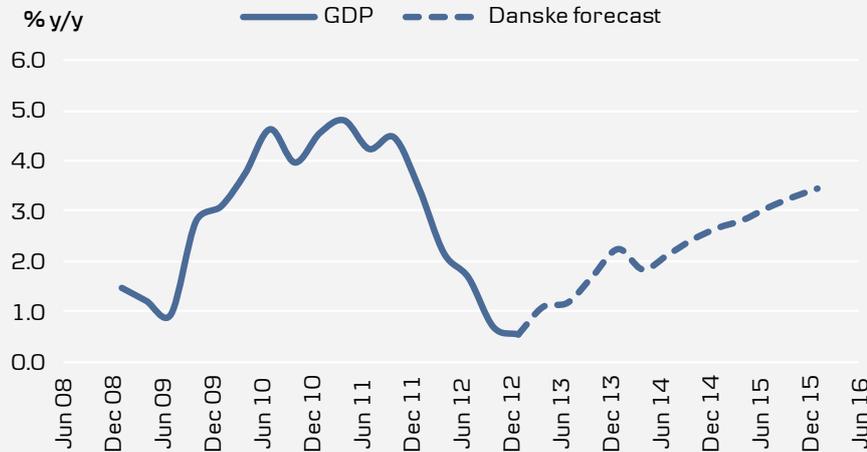
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# Economic growth

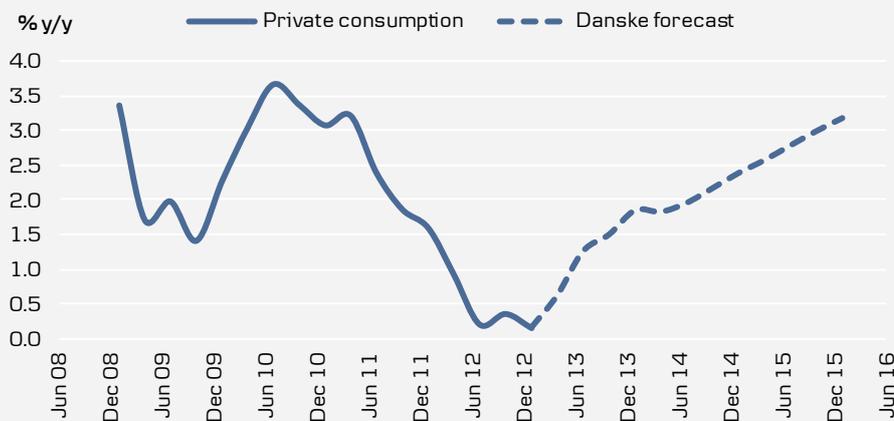
## Gross domestic product



Source: Macrobond, Danske Bank Markets

- Polish GDP growth slowed to 0.5% in Q1 13 and although it looks like it may have bottomed out, there are not major signs of a significant recovery and we expect weak numbers to continue in the near future.
- Thus, our forecast for 2013 for the Polish economy is for a bleak GDP growth of 1.1% y/y, rising moderately to 2.1% in 2014 as the effects of monetary easing start to kick in, picking up to 2.9% in 2015.

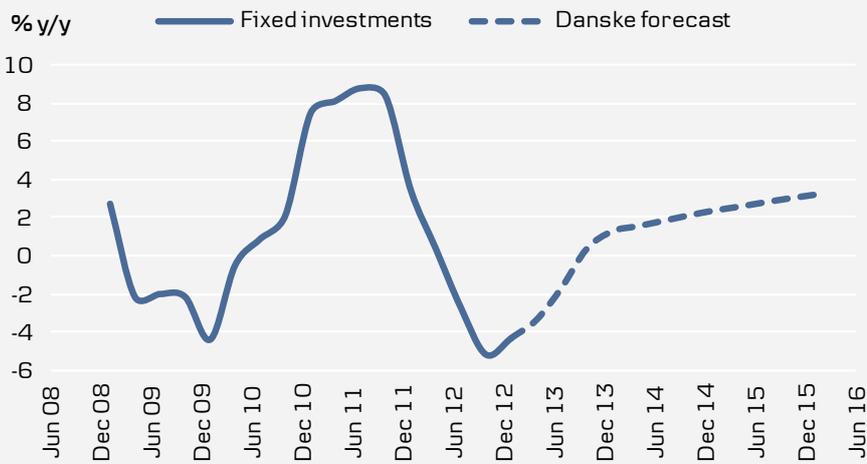
## Private consumption



Source: Macrobond, Danske Bank Markets

- Private consumption has stalled at close to zero growth in recent quarters. We expect it to have bottomed but numbers are likely to be weak over coming quarters.
- We expect private consumption to grow by 0.9% in 2013, only marginally better than in 2012, inching up to 1.9% y/y in 2014.

Investments

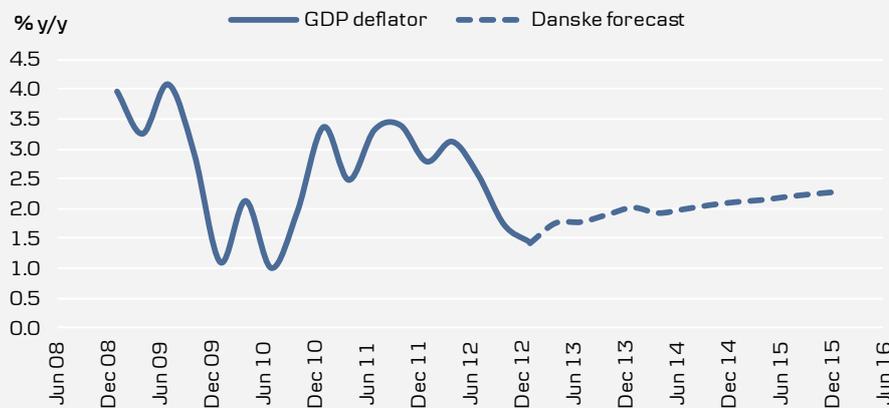


Source: Macrobond, Danske Bank Markets

- Investment growth plummeted in 2012, bottoming at almost -5% y/y in Q4, although part of this can perhaps be attributed to effects from large investments in late 2011 due to UEFA Euro 2012. Q1 13 was marginally better, but not by much.
- As there is not a significant recovery on the horizon, we expect it will take some time before we see solid investment growth. Hence, our forecast for 2013 is for negative growth of 2.3% y/y in 2013, and positive but weak growth of 1.7% in 2014.

# Prices

## GDP deflator

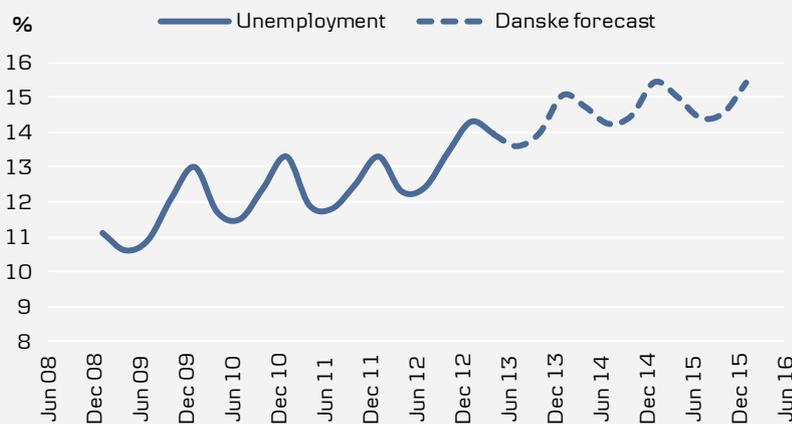


Source: Macrobond, Danske Bank Markets

- Inflation has slowed to well below the official target of 2.5% +/-1pp (CPI) on the back of a slowdown in growth and a hawkish Polish central bank. Latest numbers show CPI growth of less than 1% y/y and although the NBP seems to have softened its stance, we do not expect inflation to become a problem any time soon.
- We expect the GDP deflator to be 1.7% y/y in 2013 and 2.0% y/y in 2014.

# Labour market

## Unemployment (not seasonally adjusted)



Source: Macrobond, Danske Bank Markets

- The slowing economy means the situation in the labour market is set to weaken somewhat going forward.
- We expect unemployment to rise in 2013 and 2014, as growth is likely to be below trend. Our forecast is for unemployment to be around 14.0% end-2013, rising to 14.5% end-2014.

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All EM research is available on Bloomberg DMEM

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This research report has been prepared by Danske Bank Markets, a division of Danske Bank A/S ('Danske Bank'). The authors of the research report are Christensen, Chief Analyst and Alexander Reventlow, Assistant Analyst.

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