

International
Credit Update

Republic of Poland

Ratings

Foreign Currency

Long-Term IDR*	BBB+
Short-Term IDR*	F2
Outlook	Positive

Local Currency

Long-Term IDR*	A
Rating Outlook	Stable

Country CeilingA

* IDR – Issuer Default Rating

Peer Group

A-	Bahrain Israel Latvia Lithuania Malaysia
BBB+	Poland Hungary South Africa Thailand
BBB	Aruba Bulgaria Kazakhstan Mexico Russia Tunisia

Ratings History

Date	LTFC	LTLC
6 May 2004	BBB+	A
19 Nov 1998	BBB+	A+
07 Jun 1996	BBB	A-
26 Oct 1995	BB+	-

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■ Summary

Poland's macroeconomic performance and prospects are relatively strong, providing support to the foreign currency ratings and Positive Outlook. The monetary policy and exchange rate framework are rating strengths. Inflation is subdued and the balance of payments sound. Current account developments and net inflows of non-debt-generating foreign investment ("FDI") have been positive for Poland's external debt ratios. As a share of current external receipts ("CXR"), gross external debt is estimated to have ended 2005 at its lowest level for well over a decade, while indicators of debt-servicing obligations and the share of short-term debt are broadly in line with the 'BBB' group median. Net external debt has also been declining, ending 2005 at an estimated 46% of CXR, compared with almost 60% in 2004.

■ Credit Outlook

The introduction of public finance measures to contain the budget deficit is the key to underpinning Poland's creditworthiness and an upgrade of the foreign currency rating. Although the government deficit came in below forecast last year, it remains high and the outlook is for a deficit in the region of 5% of GDP in the present policy environment, contributing to a continued upward drift in the debt-to-GDP ratio. At an estimated 48%, this already compares poorly with the median for sovereigns rated in the 'BBB' and 'A' range (both at 35% of GDP). In a less benign scenario, the deficit could be larger and debt accumulation more rapid than forecast.

The fiscal outlook is subject to political developments. Whatever the eventual shape of the government, the introduction of credible fiscal reform measures seems unlikely ahead of local elections, which are due in the autumn of 2006. Meanwhile, the longevity of the government and its fiscal policies remain uncertain. Should the government's reliance on smaller, populist parties increase, however, there is a risk that the outlook for public finances could deteriorate over the short term.

■ Strengths

- Diversified and EU-integrated economy
- Good medium-term growth prospects for real EU convergence
- Moderate current account deficits, mainly non-debt financed
- Flexible and transparent monetary and exchange rate policy
- Basically sound, largely foreign-owned banking system

■ Weaknesses

- Large budget deficit and rising public debt-to-GDP ratio
- Political uncertainty poses risk to fiscal consolidation
- High unemployment, large agricultural sector

Key Indicators for Poland

Population (2005): 38.6m

Population Growth Rate (2000-2005): 0.0% p.a.

GDP (2005^e): USD296.3bn

GDP per Head at Market Exchange Rates (2005^e): USD7,683

GNI Per Head at Purchasing Power Parity (2004): USD12,640 (= 32% of USA level)

Modern Sovereign Rescheduling History: Paris Club and London Club agreements in 1991 and 1994; 50% NPV reduction.

	2001	2002	2003	2004	2005 ^e	2006 ^f	2007 ^f
Domestic Economy and Finance							
Real GDP Growth (%)	1.1	1.4	3.8	5.3	3.2	4.5	4.6
Unemployment (% of Labour Force)	18.2	19.9	19.6	19.0	17.7	17.3	16.5
Consumer Prices (Annual Average % Change)	5.5	1.9	0.8	3.6	2.1	1.5	1.8
Gross Domestic Savings (% of GDP)	17.2	15.4	16.3	18.1	18.7	18.7	18.6
Gross Domestic Investment (% of GDP)	20.9	18.9	18.9	20.2	20.6	21.3	22.4
Short-Term Interest Rate (%) ⁽¹⁾	15.4	8.5	5.6	5.8	5.2	4.1	4.3
Broad Money (% Change Dec to Dec)	9.2	-2.0	5.6	8.7	11.5	7.7	6.7
PLN per USD (Annual Average)	4.1	4.1	3.9	3.7	3.2	3.2	3.2
REER (CPI, 2000=100)	111.9	108.3	99.0	99.8	102.4	103.9	105.7
REER: % Change (+ = Appreciation)	11.9	-3.2	-8.6	0.8	2.6	1.5	1.7
Public Finances							
General Government Balance (% of GDP) ⁽²⁾	-5.2	-5.2	-6.3	-5.6	-4.7	-5.1	-4.9
General Government Debt (% of GDP) ⁽²⁾	37.8	42.2	47.1	45.9	47.9	49.3	50.7
General Government Debt Maturities (% of GDP) ⁽³⁾	7.7	6.9	11.4	11.5	9.9	7.6	10.3
General Government Debt/Revenue (%)	94.1	101.7	118.0	117.1	114.0	117.1	122.1
Interest Payments/Revenue (%)	7.4	6.7	7.5	6.6	6.2	5.7	6.0
Balance of Payments							
Current Account Balance (USDbn)	-5.4	-5.0	-4.6	-10.4	-4.8	-6.4	-8.0
Current Account Balance (% of GDP)	-2.8	-2.6	-2.1	-4.1	-1.6	-2.0	-2.3
Current Account Balance plus Net FDI (USDbn)	0.4	-1.1	-0.3	1.5	2.7	-1.4	-3.0
Current Account Balance plus Net FDI (% of GDP)	0.2	-0.6	-0.1	0.6	0.9	-0.4	-0.9
Gross Financing Requirement (% Official Reserves) ⁽⁴⁾	65.5	60.2	38.3	50.5	42.4	46.5	31.4
Current External Receipts CXR (USDbn)	57.8	62.9	79.6	105.7	125.2	137.5	150.0
Current External Receipts CXR (Annual % Change)	12.1	8.9	26.5	32.8	18.4	9.9	9.0
Current External Payments CXP (USDbn)	63.2	67.9	84.2	116.1	130.0	144.0	158.0
Current External Payments CXP (Annual % Change)	2.6	7.5	24.0	37.9	12.0	10.7	9.7
External Assets and Liabilities							
Gross External Debt (USDbn)	72.0	84.9	107.0	128.7	129.5	128.0	139.4
Gross External Debt (% of GDP)	38.0	43.5	49.7	51.5	43.7	40.5	41.0
Gross External Debt (% of CXR)	124.6	134.9	134.4	121.7	103.4	93.0	92.9
Net External Debt (USDbn)	29.6	40.9	57.6	63.2	58.1	51.6	62.6
Net External Debt (% of GDP)	15.6	21.0	26.8	25.3	19.6	16.3	18.4
Net External Debt (% of CXR)	51.2	65.0	72.3	59.8	46.4	37.5	41.8
Public External Debt (USDbn)	29.7	35.8	45.2	57.9	60.8	58.8	63.3
Public External Debt (% of GDP)	15.7	18.4	21.0	23.2	20.5	18.6	18.6
Net Public External Debt (% of CXR)	5.4	9.6	14.1	20.0	14.7	8.2	10.2
Public FC Denominated & FC Indexed Debt (USDbn)	25.6	28.6	35.2	37.5	40.2	35.8	37.5
Short-Term External Debt (% of Gross External Debt)	15.5	16.3	18.4	18.9	19.7	19.0	19.0
External Debt Service (% of CXR)	28.0	22.6	13.1	10.1	12.3	12.8	7.4
External Interest Service (% of CXR)	6.2	5.2	4.5	3.7	3.7	3.1	2.8
Liquidity Ratio (%) ⁽⁵⁾	133.5	142.6	142.1	125.4	115.2	118.7	140.1
Official International Reserves Including Gold (USDbn)	26.6	29.8	34.0	36.8	42.5	47.6	48.0
Official International Reserves in Months of CXP Cover	5.0	5.3	4.8	3.8	3.9	4.0	3.6
Official International Reserves (% of Broad Money)	32.2	35.5	37.4	29.8	33.6	34.2	31.8

(1) Money market 14 day REPO (annual average).

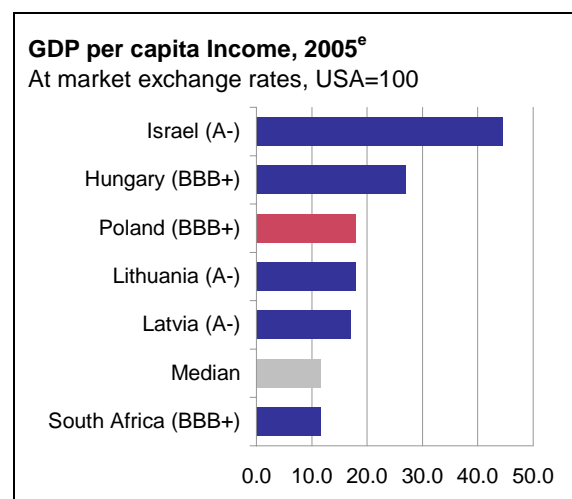
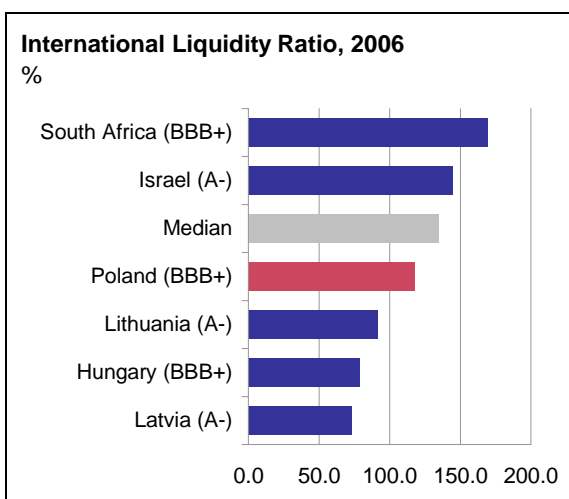
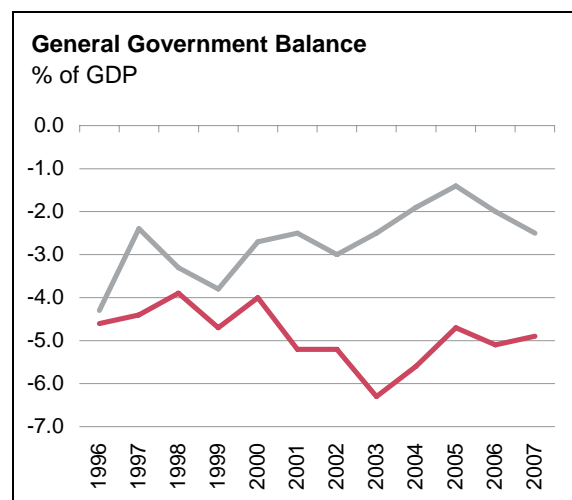
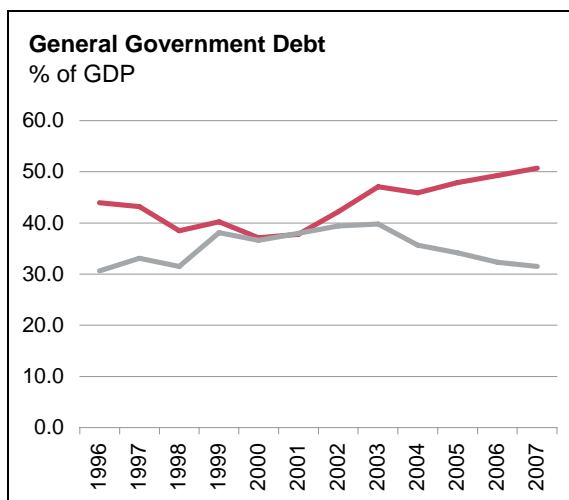
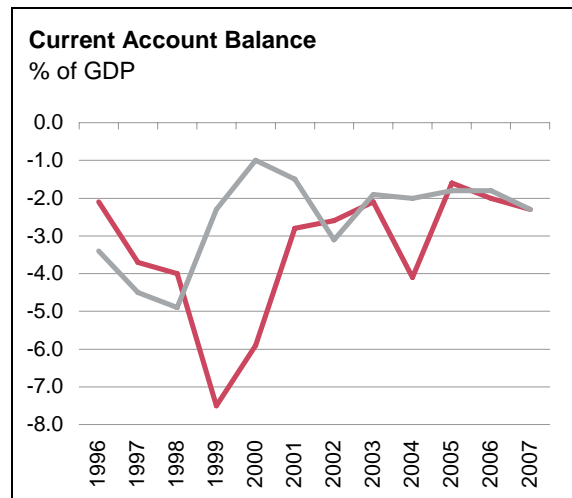
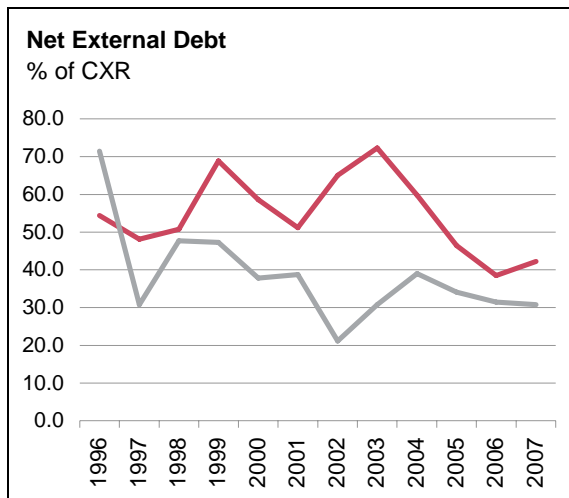
(2) Excludes revenues accruing to open pension funds. Debt does not net off pension fund holdings of government debt.

(3) Maturities of medium and long-term debt during year plus short-term debt outstanding at the beginning of the year.

(4) Current account balance plus amortization of medium and long-term debt, over official international reserves.

(5) Official reserves incl. gold plus banks' foreign assets/ Debt service plus liquid external liabilities.

Peer Comparison



— Poland

— BBB Median

Source: Fitch Sovereign Comparator

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