

The Republic of Poland

Rating on Foreign Currency Long-term Senior Debts: A-/Stable

Rating on Local Currency Long-term Senior Debts: A/Stable

(Latest rating review released on May 8, 2003)

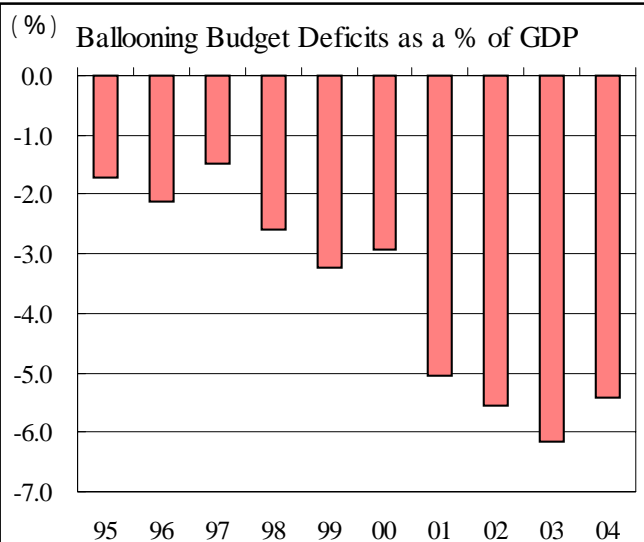
Main Factors for the Ratings

Positive Factors

- Prospective progress in structural reforms prior to the EU accession and possible improvement in Poland's economic performance in preparation for joining the Economic and Monetary Union (EMU) .
- Increased exports to the EU countries resulting from the expansion of production capacity through inflows of foreign direct investment

Negative Factors

- Increasing government debt due to persistent budget deficits.
- The rise in structural unemployment hampering economic flexibility.
- Heavy external debt consisting mainly of private sector debt



(Note) figures for 2003 and 2004 are JCR projections
 (Source) Ministry of Finance

Updated: from June 2003 to August 2003

Positive Factors

- An overwhelming 77.5% of the voters backed Poland's entry into the EU in the referendum held on June 8 and 9 this year.
- Prime Minister Leszek Miller won a vote of confidence in parliament on June 13.

Negative Factors

- Finance Minister Grzegorz Kolodko resigned on June 11 amid the dispute over public finance reforms.
- Economic and Labor Minister Hausner, who puts more emphasis on economic growth than on budgetary discipline, became deputy prime minister and assumed full responsibility for economic and budgetary policies.
- Opinion poll showed that support for the current government has dropped to a record low of 14%.

<Prospects and Noticeable Points>

Majority supported EU accession in June 8-9 referendum

The referendum held on June 8 and 9 proved that 77.5% of the voters backed Poland's entry into the EU. While the Accession Treaty needs to be ratified by parliament to finalize the entry, Poland will most probably join the EU on May 2004 as the country's major political parties are in favor of the accession.

Political instability averted for the time being

Finance Minister Kolodko resigned on June 11 amid the dispute over public finance reforms. Appointed as his successor was Mr. Andrzej Raczko, an economist who served as deputy finance

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minister from 2001 to 2002 in the Miller administration. There had been a sharp confrontation between Mr. Kolodko and Economic and Labor Minister Hausner over the future course of public finance reforms. Prime Minister Miller entrusted Mr. Hausner with the management of economic and budget policies and appointed him deputy prime minister. Mr. Kolodko resigned later in protest. On June 13, Mr. Miller called for a vote of confidence in parliament, which he won by 236 votes in favor to 213 votes against. Although political instability has been averted for the time being, Mr. Miller has spoken in favor of moving up the date of general elections to be held in June 2004.

Shift in government fiscal policy to economic growth from constraining deficits

In June, the government initially endorsed Mr. Kolodko's budget plan to slash the 2004 budget deficits to 33 billion zloty, assuming 9 billion zloty in disbursement from central bank reserves and 12 billion zloty in revenue from the sale of state assets. On the other hand, Mr. Hausner projected budgetary deficits for the year at 45.5 billion zloty, based on 7 billion zloty in revenue from state asset sales and 9 billion zloty in liquidation of central bank reserves. Mr. Hausner is a strong advocate of boosting growth through increased budget spending rather than constraining fiscal deficits. He has projected that the budget deficit would increase temporarily in the next two years to pay for EU entry costs but would fall toward the 3% Maastricht criteria as economic growth gathers momentum. As for Poland's joining the Euro, Mr. Hausner has expressed an intention to postpone the entry date from 2007 to 2009.

Revision of rating outlook possible depending on future policies

It is crucial for Poland to continue carrying out economic reforms in preparation for an early introduction of the Euro, given the strong probability of its EU entry in May 2004. In particular, it needs to push ahead with public finance reforms and accelerate privatization of state enterprises such as Poland Telecom and PKO bank.

JCR retains its current credit ratings because Poland remains committed to the policy to join the Euro despite the possibility of a few years of postponement. However, JCR would revise its local currency rating outlook should there be further deterioration of budget deficits without fiscal reforms.

Main Economic Indicators: The Republic of Poland

		2000	2001	2002	2003(f)	2004(f)
Real GDP growth rate	(%)	4.0	1.0	1.3	2.9	3.5
CPI (annual average)	(%)	10.1	5.5	1.9	0.8	1.5
Unemployment rate (year-end)	(%)	15.1	17.5	18.1	18.1	17.5
General gov't budget deficit/GDP	(%)	-2.9	-5.1	-5.6	-6.1	-5.4
General gov't debt/GDP	(%)	38.0	38.9	43.2	50.6	54.5
Current account balance	(US\$m)	-9,946	-7,166	-6,734	-8,358	-9,568
Current account balance/GDP	(%)	-6.1	-3.9	-3.5	-3.9	-4.2
Trade balance/GDP	(%)	-9.0	-6.9	-6.0	-5.7	-6.1
Foreign Direct Investment	(US\$m)	9,324	5,802	4,825	5,525	6,420
Foreign Direct Investment/GDP	(%)	5.7	3.2	2.5	2.6	2.8
Forex reserves (excl. gold)	(US\$m)	26,562	25,648	29,794	31,000	32,000
Imports (G&S) coverage	(months)	6.8	6.6	7.4	6.6	6.3
Forex reserves/short-term external debt	(times)	2.8	2.3	2.2	2.1	2.0
External debt/ GDP	(%)	42.3	39.2	44.0	42.4	41.7
Public external debt/exports (G&S)	(%)	105.2	86.9	97.0	80.9	80.6
External debt/ exports (G&S)	(%)	218.7	209.4	225.3	202.2	199.3
Debt service ratio	(%)	29.4	40.4	31.1	25.2	24.1

Note: figures for 2003 and 2004 are JCR forecast.

Sources: Central bank, Ministry of Finance, IMF and EIU

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