

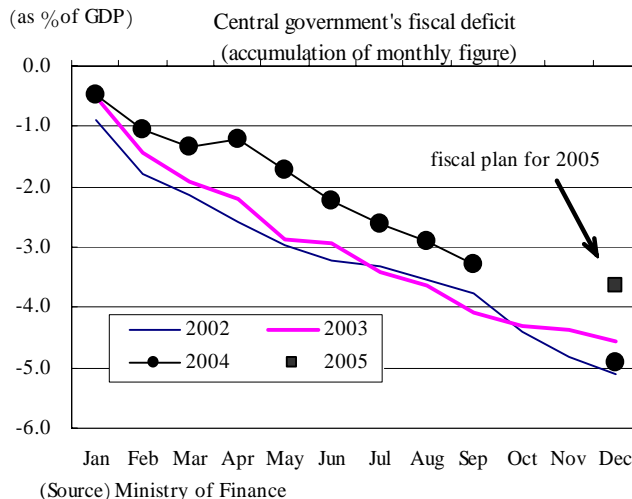
Poland (the Republic of)
Foreign LT: A-/Stable, Local LT: A/Stable (Affirmed on March 30, 2004)

Main Factors for the Ratings
Positive Factors

- A more stable economic structure is likely to be built on progress made on various reforms toward adoption of the euro.
- Increasing exports brought by the expansion of production capacity through inflows of foreign direct investment.

Negative Factors

- Increasing government debt caused primarily by persistent budget deficits.
- Rise in structural unemployment impeding economic flexibility.
- Heavy external debt consisting mainly of private sector debt.


Updated: from September 2004 to November 2004
Positive Factors

- On October 15, the government led by Prime Minister Marek Belka won a second parliamentary vote of confidence following the one in June.
- The central government's budget plan for 2005, aimed at cutting fiscal deficit to 3.7% of GDP, was approved in parliament on November 26.
- On November 10, the state-owned PKO BP Bank, the largest bank in Poland, sold 38.5% of its stakes in initial public offering. The government is expected to receive over 7 billion zloty in this deal.
- The central government's fiscal deficit in the first nine months of 2004 was held at 64% of its target for 2004.

Negative Factors

- Higher energy and food prices continued to push up inflation by 4.5% year-on-year in October.
- The European Central Bank indicated in its Convergence Report on October 20 that progress on fiscal reforms remains generally slow in new EU member countries including Poland.

<Prospects and Noticeable Points>

While further deterioration of fiscal deficit was averted, fiscal policy prior to parliamentary election remains key issue

Vote of confidence assures Belka administration to remain in office until next parliamentary election

On October 15, the government led by Prime Minister Belka won a second parliamentary vote of confidence by a majority of 234 votes in favor versus 215 votes against. As in the previous vote of confidence in June, the Belka administration received the support of MPs from the ruling Democratic Left Alliance, the smaller Union of Labor and the new Polish Social-Democracy Party. As a consequence, a political instability was averted and the administration is set to remain in office until the next parliamentary election expected in May 2005.

The economy starts leveling off after strong expansion in the first half of 2004

Real GDP in the April-June quarter of 2004 grew by 6.1% year-on-year, reflecting increased exports, consumer spending and gross fixed capital formation. But the rate was slightly down from 6.9% in the previous quarter. The economy is starting to level off as exports and industrial production slow down due in part to sluggish EU economy, Poland's major export destination, and due in part to the appreciation of the zloty from early 2004. According to the latest estimate made by Statistical Office, real GDP in the July-September quarter grew by 4.8% year-on-year. The economy is projected to moderately slow down due mainly to declining exports, but continue to grow around 5%, sustained by domestic demand such as consumer spending and gross capital formation. The

rate of inflation in October remained high at 4.5% (core inflation was 2.4%) amid the surging energy and food prices. Inflation continued to accelerate faster than the target set by the central bank, which has raised its key policy rate three times since June by a total 125bp to 6.5%. Meanwhile, the current account deficit in the first nine months of 2004 narrowed nearly 40% from the same period the year before. During the same period, inflows of foreign direct investment covered 87% of the current account deficit. Portfolio investment from abroad also increased rapidly centering on bonds.

Economic expansion and revenues from the sale of stakes in PKO BP Bank putting brake on further deterioration of both fiscal deficit and debt

The central government's fiscal deficit in the first nine months of 2004 was held at 64% of its target for 2004. While the growth of expenditures was reduced by 0.3% in the same period, revenues grew by 3.4% due to increased tax revenues amid solid economic expansion and a rise in the VAT rate. It is highly likely that fiscal deficit for 2004 will be smaller than the government-set target of 4.53 billion zloty or 5.3% of GDP. Furthermore, privatization revenues for 2004 have already exceeded the government's estimate of 8.8 billion zloty, following the sale of stakes in PKO BP Bank. Since a part of privatization revenues will be utilized to finance fiscal deficit, a further rise in fiscal debt will be contained at least for the time being (the government estimates the ratio of fiscal debt to GDP at the end of 2004 at 45.9%, slightly lower than its earlier estimate of 46.6%). According to the 2005 budget plan, the central government's fiscal deficit will further narrow to 3.7% of GDP. However, a 13% year-on-year revenue growth estimate is rather too optimistic and a further reduction of expenditures is hard to expect in the parliamentary election year. JCR expects that fiscal deficit for 2005 may narrow but will be slightly wider than the government estimate.

Ratings and outlooks retained

JCR believes that a full implementation of the deputy prime minister's spending cut plan (the Hausner plan) is extremely important in order for Poland to adopt the euro in 2009 as planned by the government. According to Mr. Hausner, the parliament has already passed as much as 50% of his 54 billion zloty (6% of GDP) spending cut plan. Though Prime Minister Belka supports the Hausner plan, its full implementation remains difficult due to the government's weak political base. Judging from the latest opinion poll, it is highly likely that the right-wing Civic Platform (PO), which has been maintaining a popularity rating of around 25%, is expected to win in the next parliamentary election scheduled next May, though PO will have to form a coalition with other parties. Should this happen, the government would be able to push ahead with more proactive fiscal reforms. JCR has retained its ratings and outlooks because the fiscal deficit is being kept from deteriorating at least for the present.

Main Economic Indicators: The Republic of Poland

		1999	2000	2001	2002	2003	2004(f)	2005(f)
(Convergence criteria)								
1.CPI (annual average)	(%)	7.3	10.1	5.5	1.9	0.7	3.5	3.2
2.10 year government bond yield	(%)	n.a.	11.8	9.0	5.6	6.6	8.0	7.5
3.General gov't budget deficit/GDP(ESA95)	(%)	-3.9	-2.8	-3.5	-3.6	-4.1	-4.8	-4.3
4.General gov't debt/GDP(ESA95)	(%)	51.4	51.3	36.7	41.2	45.4	46.0	48.5
Real GDP growth rate	(%)	4.1	4.0	1.0	1.4	3.8	5.5	5.0
Unemployment rate (year-end)	(%)	12.0	14.0	18.0	19.7	20.0	19.6	18.8
Current account balance/GDP	(%)	-8.1	-6.1	-2.9	-2.7	-2.2	-1.6	-2.1
Trade balance/GDP	(%)	-9.7	-7.5	-4.2	-3.9	-2.8	-2.2	-2.7
Net Foreign Direct Investment/GDP	(%)	4.7	5.8	3.2	2.1	1.9	2.4	2.7
Forex reserves (excl. gold)	(EURmn)	24,167	27,215	26,747	25,504	25,310	25,500	27,000
Imports (G&S) coverage	(months)	5.9	5.3	4.9	4.6	4.4	3.8	3.5
Forex reserves/short-tem external debt	(times)	2.2	2.7	2.1	1.9	1.6	1.5	1.7
External debt/ exports (G&S)	(%)	180.6	148.3	141.8	135.3	131.8	123.8	122.2
External debt/ GDP	(%)	44.8	42.0	39.8	40.5	45.6	49.1	50.3
Public external debt/exports (G&S)	(%)	93.7	71.3	58.5	57.1	55.0	55.3	57.4
Debt service ratio	(%)	20.4	20.7	27.9	22.4	18.5	15.2	15.3

(Note 1) The Convergence criteria are inflation rate: inflation rate does not exceed 1.5 % of the average of three best performing Member States, long-term interest rate: long-term interest rate does not exceed 2 % of the average of three best performing Member State, government budgetary position: the ratio of planned or actual general government deficit to GDP does not exceed 3%, government debt: the ratio of general government debt to GDP does not exceed 60%, unless the ratio is sufficiently diminishing, and exchange rate: currency has been within the normal fluctuation margins stipulated by the Exchange Rate Mechanism II for at least two years.

(Note 2) Figures for 2004 and 2005 are based on JCR forecast.

(Sources) The European Commission, Central Bank, and Ministry of Finance.

(Toshihiko Naito, Senior Analyst)