

Poland Business Forecast Report Q1 2015

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Abstracts

Core Views

The export-driven recovery we have anticipated in Poland is now in motion, and we are now turning increasingly positive towards the country's domestic demand outlook. We expect a robust recovery in domestic demand in 2014, as low inflation, solid wage growth and an improving labour market bolster household purchasing power. Poland's external position remains relatively strong and we estimate the current account deficit arrived at just 1.6% of GDP in 2014.

However, a large stock of foreign-owned government paper and ongoing private sector deleveraging represent the two major risks to our sanguine outlook.

We continue to expect the Civic Platform (PO)-led government to serve out its term under new Prime Minister Ewa Kopacz. We also believe that the opposition will struggle to broaden its appeal despite rising government unpopularity, limiting its ability to challenge the ruling coalition.

Major Forecast Changes

We have revised our policy rate forecasts for 2014 and 2015, and now expect a further 25bps of cuts in 2014 and 25bps in 2015, taking the policy rate to 1.75% and 1.50% respectively. We expect the current account deficit to arrive at 1.6% of GDP in 2014, from a previous forecast of 1.8%.

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Growing Challenges Ahead For Civic Platform Donald Tusk's resignation has left Civic Platform exposed to challenges both domestically and internationally. While new Prime Minister Ewa Kopacz should ensure broad based policy continuity, her appointment could mark the high water mark of Poland's influence in regional foreign policy.

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Long-Term Political Outlook

A Maturing Regional Power We consider Poland's long-term political risk profile to be on an upward trajectory, reflecting the country's maturing political institutions and greater confidence in the conduct of external affairs. Solid macroeconomic fundamentals underpin our expectation for improvement over the long run. Nevertheless, Poland still faces significant challenges to political stability in its external relations and at home.

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Shine Coming Off Recovery Declining external demand is taking the shine off Poland's recovery, and our real GDP forecast remains below consensus for 2015.

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Entering A New Easing Cycle The decision by the National Bank of Poland to restart cuts to the policy rate confirms that we are moving into uncharted territory in Polish monetary policy. With regional economic activity slowing, and Russia's embargo on EU agricultural goods increasing downside pressure on consumer prices, further cuts now seem the most likely scenario.

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