

COUNTRY PROFILE: REPUBLIC OF POLAND**DATED: MAY 2008****CREDIT GUARANTEE:**

IES/02: ATTACHMENT A

	<i>Country Rating</i>	<i>U/W Method</i>
<i>Short-term</i>	2B	No restrictions

Recent Political Highlights

- ❑ The September 2005 parliamentary election was won by the right-wing Law and Justice Party (PiS) but the PiS was unable to form a stable administration and an early election was held in October 2007. This was won by the liberal-conservative Civil Platform (PO) and it has since governed in coalition with the small agrarian Polish Peasants' Party (PSL). The PO-PSL coalition government plans to reduce the budget deficit with the aim of eventually adopting the euro. The new government also announced its intention to enact business-friendly reforms, reduce public sector spending growth, lower taxes and accelerate privatisation. The PO-PSL government will also try to rebuild relations with Germany, which deteriorated sharply with the previous administration.
- ❑ Checkpoints at Poland's borders with four of its seven neighbours were abolished in December last year when the country joined the European Union's Schengen frontier-free zone, a move Polish leaders hailed as a historic step that marked the full integration of their country with the EU. Every Pole will be free to travel across 23 countries but will need to carry a passport or identity card for random document checks. Officers will continue to clampdown on cigarette and alcohol smuggling, since the enlargement of the Schengen zone does not allow free movement of goods subject to excise tax. Border crossing points will be reinstated in emergencies, when there is a risk of terrorist attack and also during the UEFA 2012 soccer championships.
- ❑ Having secured backing from the lower house of parliament, the Senate approved the European Union's Reform Treaty on April 2, passing a bill authorising the ratification of the treaty. Despite previous threats from President Lech Kaczynski to block the treaty in parliament, it was passed with 384 votes in favour and 56 against. The ratification of the Lisbon Treaty will prove a positive signal of Poland's ongoing commitment to EU integration and convergence.

Recent Economic Highlights

- ❑ Poland's population is estimated 38.5 million with an annual growth rate of -0.05%.
- ❑ GDP grew by 6.5% in 2007, supported by rising private consumption, an increase in corporate investment and EU funds inflows. Economic growth is expected to slow to 5.1% in 2008 and 4.3% in 2009 as external demand weakens and tighter monetary policy weighs on domestic demand. The IMF projects Poland's economy to expand by 4.9% in 2008 and by 4.5% in 2009.
- ❑ Rapid wage growth and higher food prices will push up consumer price inflation from 2.5% in 2007 to 4% in 2008. Weaker demand pressures should allow inflation to drop to 3.4% in 2009. The Ministry of Finance forecasts inflation at 2.9% in 2009.
- ❑ The government's updated EU convergence programme projects that the budget deficit will fall from 2.5% of GDP in 2008 to 1.5% of GDP in 2010. Reform of public finance is the main economic policy issue. However reducing the budget deficit will be politically difficult.
- ❑ Poland is the biggest beneficiary of EU investment in the 2007-13 programming period, with €67.3bn or 19.4 percent of the €347.4bn budget for regional policy. According to a statement made by the EU Regional Aid Commission, Poland risks losing a substantial proportion of the €67bn from the EU, should environmental protection laws not be reformed in line with EU standards. With Poland wanting to embark on a substantial road expansion plan ahead of the 2012 UEFA games which it is co-hosting with Ukraine, EU funds will prove vitally important.
- ❑ Prime Minister Donald Tusk has indicated his plans to eradicate the capital gains tax, a key component of the Polish government's policy platform. The proposed tax reform is in line with the government's pro business agenda and its commitment to reform. In addition, Tusk intends to push forward a plan to remove dual taxation for Polish workers abroad.
- ❑ Poland's Agriculture Ministry has banned fishermen from catching cod in the Baltic Sea from May 22 to Sept. 30 to stem overfishing. The ministry says Polish boats have already fished around 70 percent of the country's 2008 cod fishing quota of 11,700 tons. The European fishing industry has been faced with declining fish stocks for several decades. Introducing catch quotas and more sustainable fishing methods has failed to halt the decline in Baltic cod numbers. The ministry said that the ban does not affect boats up to 12 meters (39 feet) long.

Latest Trade Developments

- ❑ Main exports: machinery and transport equipment, intermediate manufactured goods, miscellaneous manufactured goods, food and live animals.
- ❑ Main imports: machinery and transport equipment, intermediate manufactured goods, chemicals, minerals, fuels, lubricants, and related materials.
- ❑ Major trading partners: Germany, France, Italy, UK, Czech Republic, Russia and The Netherlands.
- ❑ South African exports to Poland totalled R1.3bn in 2006 and R1.9bn in 2007.

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