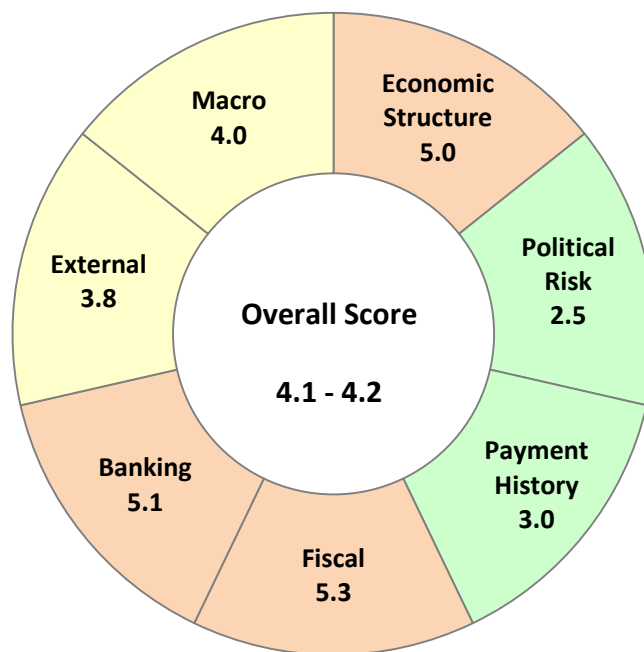


Poland Risk Scores



POLAND TREND RISKS

The Polish economy is showing renewed strength in 2017 with GDP growth forecast at 3.4%, minimal inflation, and unemployment declining to 6%. But regional disparities within the country are fueling political discord. Law and Justice (PiS) - largest party in the Polish legislature - gained wide support in small cities and rural areas for populist social spending measures. Similar PiS actions against the Polish constitutional tribunal prompted the EU to suspend Poland's voting membership in the EU Council of Ministers earlier in 2016.

The fiscal position is stable, for the moment. With a small primary deficit and general deficit below 3% of GDP, Poland comfortably meets EU guidelines. Net public debt is only 18% of GDP. But PiS retirement and social policies open up a large fiscal black hole for the future.

Polish banks are well capitalized, and the NBP has implemented solid macro-prudential policies. The new worry is a PiS plan to convert fx-denominated mortgages into zloty ones, raising hidden fiscal risks. On the external front, Poland will see strong export growth and a small current account deficit in 2017. An IMF backstop loan (FCL) provides an extra layer of support.