

Economy has lost momentum

General Information



GDP	USD489.8 billion (World ranking 24, World Bank 2012)
Population	38.54 million (World ranking 33, World Bank 2012)
Form of state	Republic
Head of government	Donald TUSK
Next elections	2015, presidential and legislative



Strengths

- Low systemic political risk
- Good regional and international relations; EU membership
- Diversified sectoral external trade structure
- Solid monetary policy
- Resilient banking sector
- Access to the IMF's Flexible Credit Line
- Strong business environment overall

Weaknesses

- Slow structural reform progress
- Public finances
- Non-diversified regional external trade structure
- High external debt burden

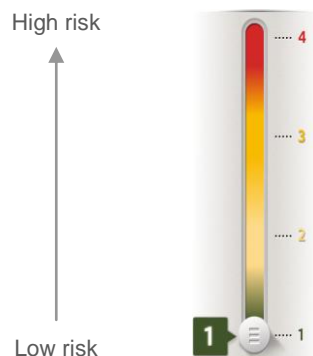
Country Rating

BB1

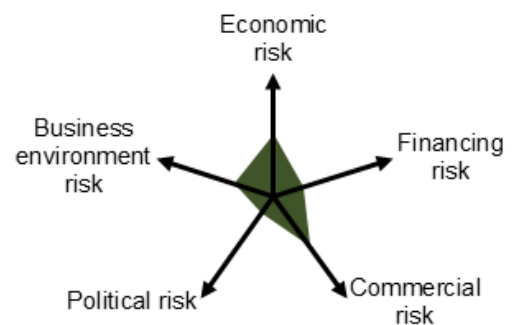
Country Grade



Country Risk Level

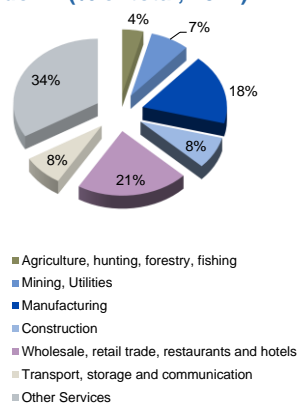


Risk Dimensions



Economic Structure

GDP breakdown (% of total, 2011)



Sources: UnctadStat, Euler Hermes

Trade structure (% of total, 2011)

Exports	Rank	Imports
Germany	26%	27%
United Kingdom	6%	10%
Czech Republic	6%	6%
France	6%	6%
Italy	5%	5%

Exports	Rank	Imports
Road vehicles	13%	11%
Electrical machinery, apparatus and appliances, n.e.s.	7%	8%
Furniture and parts thereof	5%	6%
Telecommunication and sound recording apparatus	5%	5%
Manufactures of metal, n.e.s.	5%	4%

Economic Forecasts

	2009	2010	2011	2012	2013f	2014f
GDP growth (% change)	1.6	3.9	4.5	1.9	1.0	2.2
Inflation (% end-year)	3.5	3.1	4.6	2.4	1.5	2.0
Fiscal balance (% of GDP)	-7.4	-7.9	-5.0	-3.5	-4.3	-4.0
Public debt (% of GDP)	50.9	54.8	56.4	55.2	58.0	59.0
Current account (% of GDP)	-3.9	-5.1	-4.9	-3.5	-1.5	-2.2
External debt (% of GDP)	59.4	66.4	71.7	70.8	70.6	70.0

Sources: IHS Global Insight, national sources, Euler Hermes

Economic Growth

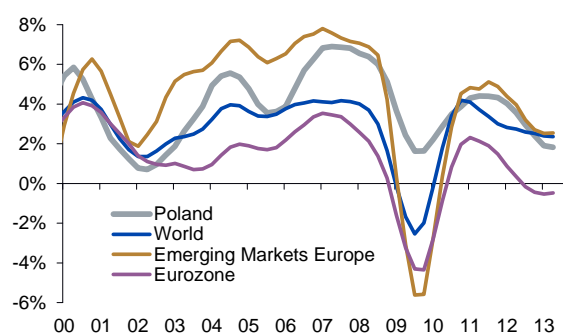
GDP growth has lost steam

After robust growth of +4.5% in 2011, the economy lost momentum, expanding by just +1.9% in 2012 and +0.7% y/y in H1 2013. However, the trough seems to have been reached in Q1 2013 when real GDP grew by +0.5% y/y and +0.2% q/q. In Q2 2013 GDP growth picked up slightly to +0.8% y/y and +0.4% q/q, thanks to fiscal stimulus and strengthening exports. Government consumption increased by +3.9% y/y in Q2 (-0.5% in Q1), private consumption by +0.2% (flat in Q1) while fixed investment contracted by -3.8% (-2% in Q1). Inventories subtracted -1.9pps from Q2 growth (-0.5pps in Q1). Export growth accelerated to +5.1% y/y in Q2 (+1.3% in Q1) while imports continued to decline by -0.6% (-1.7% in Q1), so that net exports contributed +2.5pps to Q2 growth (+1.4pps in Q1). On the back of recent budget revisions with the aim of stimulating the economy, EH expects economic activity to regain further momentum in H2, resulting in full year growth of about +1% in 2013. The forecast for 2014 is +2.2%

Insolvencies will pick up moderately

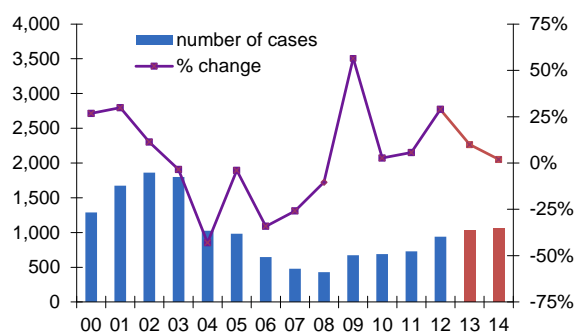
The number of insolvencies rose by +29% to 941 cases in 2012. On the back of relatively weak GDP growth forecasts, we expect further increases of +10% to around 1,035 cases in 2013 and +2% to 1,055 cases in 2014.

GDP growth (% y/y, 4 qtrs cumulated)



Sources: IHS Global Insight, national sources, Euler Hermes

Insolvencies



Sources: MSiG, Central Statistical Office, Euler Hermes

Economic Policies

Monetary policy supports growth amid low inflation

The monetary policy framework is based on inflation targeting. Since the beginning of 2004, the National Bank of Poland (NBP; the central bank) has pursued a continuous inflation target of 2.5%±1pp. After a period of monetary tightening until May 2012 in response to elevated inflation, the key policy interest rate has been successively lowered from 4.75% in November 2012 to 2.5% in July 2013, as inflation moderated.

As domestic demand weakened, consumer price inflation has decelerated from an average 4% in 2011 and H1 2012 to just 0.2% y/y in June 2013, before picking up to 1.1% y/y in July. As domestic demand will recover gradually, inflation is forecast to increase to about 1.5% at end-2013 and 2% at end-2014, subject to upside risks stemming from global food and energy prices.

Banking sector has been resilient but vulnerabilities remain

The banking system has been resilient to the 2008-2009 global financial crisis and has remained liquid, well-capitalised and profitable. However, private sector credit growth decelerated from a healthy pace of 13.9% in 2011 to just 2.4% in 2012, as credit demand weakened and lending conditions tightened, but has picked up slightly to 3.7% y/y in Q1 2013. Non-performing loans as a share of total loans to the non-financial sector inched up from 8.2% at end-2011 to 8.9% of in Q1 2013, owing to a worsening in the corporate loan portfolio, reflecting rising insolvencies, especially in the construction sector. Regulatory and supervisory measures have reduced the share of foreign-exchange (FX) denominated mortgage lending from 65% of all mortgages at end-2011 to 55% at end-2012, but the level is still high and continues to pose vulnerabilities.

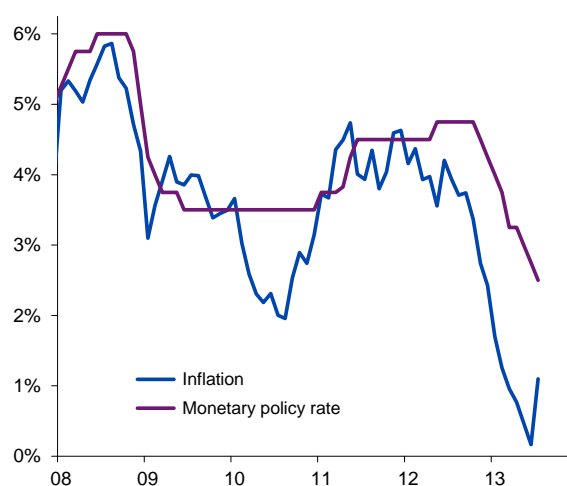
Moderate exchange rate volatility

The exchange rate of the floating PLN has continued to be volatile. After appreciating by 8.6% against the EUR during 2012, the PLN has depreciated by about 4.2% in 2013 to date. However, the decline from end-April 2013 to end-August has been just 2.5%, while other emerging market currencies have fallen substantially during this period owing to concerns about the impact of US quantitative easing tapering. EH does not expect drastic PLN exchange rate movements in 2013-2014.

Fiscal consolidation is off track

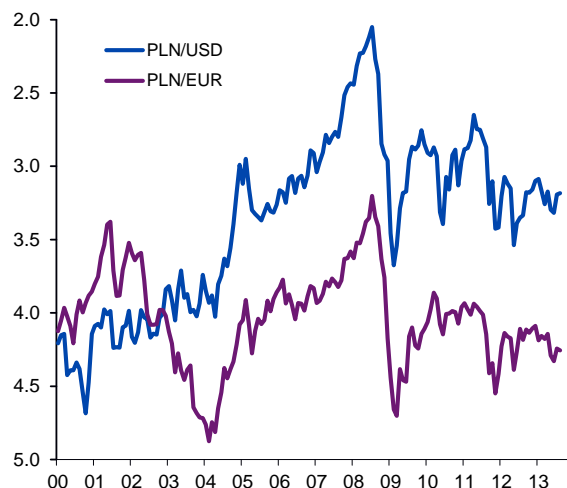
Although public consumption growth was flat in 2012, reflecting moderate fiscal consolidation, the government missed its target of reducing the fiscal deficit to below 3% of GDP, owing to lower-than-expected tax revenues. The target will be missed again in 2013 as growth has slowed further. Indeed, recent budget revisions with the aim of stimulating the economy are likely to result in fiscal deficits of more than 4% of GDP in 2013 and 2014. As a consequence, gross public debt is forecast to rise to about 59% of GDP in 2014 from 55.2% in 2012 (ESA-95 basis). By domestic accounting standards public debt reached 52.7% of GDP in 2012, approaching the constitutional limit of 55%, the breaching of which would force automatic spending cuts. In order to avoid such, the government has proposed plans to downsize the funded private pension pillar. The proposal – which is likely to be highly unpopular – would reduce fiscal pressures in the short term, but would also raise costs in the future (significantly after 2020).

Inflation rate (12-month moving average, %) and policy interest rate (%)



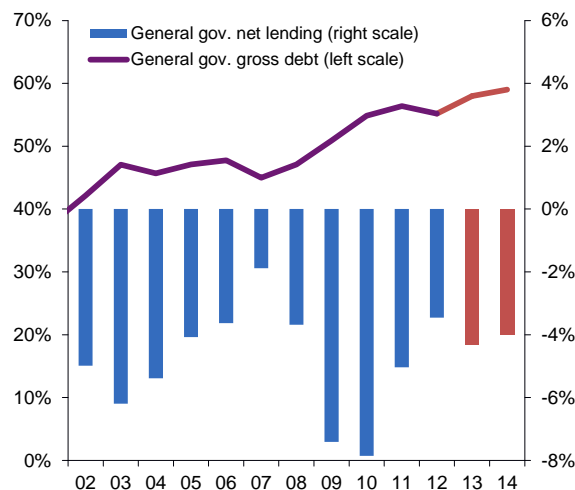
Sources: IHS Global Insight, national sources, Euler Hermes

Exchange rate



Sources: IHS Global Insight, national sources, Euler Hermes

Fiscal balance and public debt (% of GDP)



Sources: IHS Global Insight, national sources, Euler Hermes

External Sector

Current account deficit has narrowed

The current account deficit declined from 4.9% of GDP in 2011 to 3.5% in 2012 and was close to balance in H1 2013. However, the 2012 gap was only covered by 21% through net foreign direct investment (FDI) inflows. In H1 2013 a net outflow of FDI was registered.

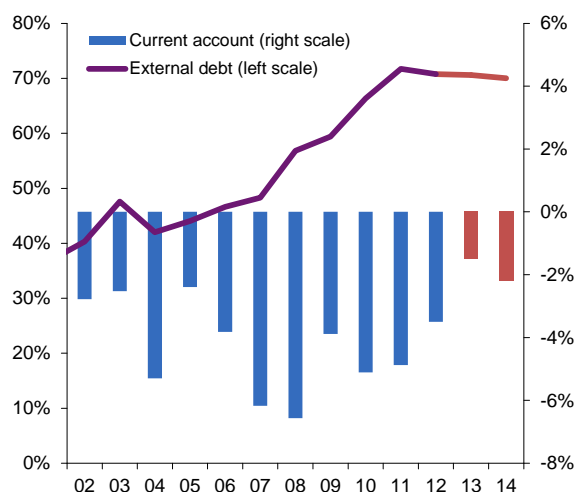
External debt burden is high

Total external debt has gradually increased to EUR 278bn in Q1 2013 but has remained broadly stable in relation to GDP since 2011, at a relatively high level of just over 70% of GDP (up from 59% in 2009). Short-term external debt accounts for about 20% of the total. The estimated annual external debt-service in 2013 and 2014 will amount to a heavy 33% of export earnings.

Foreign exchange reserves do not cover all short-term debt (on a remaining maturity basis)

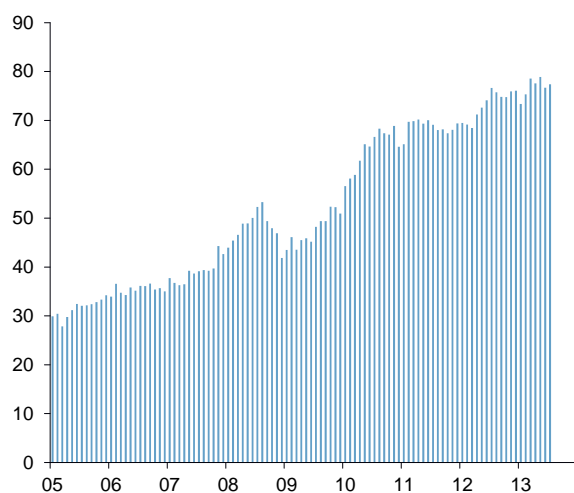
Foreign exchange reserves have increased gradually over the past two years and stood at EUR77.4bn in July 2013. The current level of reserves is comfortable with regard to import cover (more than five months). In other terms, however, reserves cover just about 75% of the estimated external debt payments falling due in 2014, which is well below an adequate level of at least 100%.

Current account and external debt (% of GDP)



Sources: IHS Global Insight, national sources, Euler Hermes

Foreign exchange reserves (EUR billion)



Sources: National Bank of Poland, Euler Hermes

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