



Weekly Briefing

**Poland Economy briefing:
Poland Economy in 2018
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The Polish economic situation, as discussed in the previous briefing need to be more driven by the private investments. From the perspective of the future development two new dynamics should be elaborated: situation in Polish aviation industry and the macroeconomic perspective on the future Polish international debt.

According to the data published by the Civil Aviation Office 2016 Polish airports served over 40 million passengers and the number grown by 17.7%. In 2014, 27 million people passed through Polish ports, a year earlier 25, and in 2012 24 million. In 2017 The largest port in Poland is Warsaw - Chopin handled 15.75 million people, an increase by 22.7 percent. The second on the list is the airport in Krakow with 5.83 million passengers and increased by 17.2 percent. The third Gdańsk with 4.6 million and increased by 14.7 percent. Moreover the number of passengers in Katowice increased by 21% with total number of 3.89 million passengers. Modlin (cheap fly airport close to Warsaw) grew slightly, by 2.5 percent, but served more passengers than Wrocław (2.93 vs. 2.85 million people). The airport in Wrocław, however, recorded an increase of 18%. The next place on the list is occupied by Poznań with one of the lowest increase of 8.2 percent, that is translated into 1.85 million passengers.

According to the Fly4free.pl LOT Polish national carrier intended to handle 7 million passengers in 2017. In 2018 LOT is expected to open 20 new routes e.g. to Singapore, Dubrovnik and Tel Aviv and the number of passengers is expected to reach 10 million. The number of served passengers is expected to grow between 15 to 20 percent. In the case Warsaw Airport's development sounds promising. In 2016 London Heathrow had 75.7 million people and grew only by 1 percent. A similar situation took place in the case of the Paris Charles de Gaulle airport - 65.9 million passengers (an increase of 0.3 percent),

Frankfurt - 60.7 million people (a 0.4 percent decrease) and Istanbul-Ataturk - 60 million travellers (a decrease of 2.1 percent).

Taking the above mentioned results and plans as the background Polish government decided to establish the new join-stock company Polska Grupa Lotnicza (Polish Aviation Group, further as PAG). In addition the national company PAG will include, among others, LOTAMS and LS Airport Services. The major activities of PAG will concentrate on buying airplanes and lease them to airlines. As was told by Raral Milczarski, head of newly open company: *The establishment of PAG will give the Polish aviation sector a chance to compete more effectively with major players associated with already existing aviation groups, and thus having better initial market position and financial support.*

The share capital of PAG is PLN 1.2 billion and is contributed by the State Treasury. The majority of this amount (PLN 1 billion) will go to the Aviation Leasing Fund - a new company that is to buy and then lease new aircraft, primarily LOT Polish Airlines. As justified by Polish government so far due to the lack of a Polish entity engaged in such activities, these profits were left outside Poland. The creation of a new leasing company within PAG will allow to leave these funds in the bloodstream of the Polish economy.

The next step, as discussed by the chairman Milczarski, PAG should be listed at the stock exchange and sell bond instruments at the international markets. This market oriented move might be understood as the remedy for Polish aviation financial problems. In December 2012, PLL LOT was subsidized with an amount of PLN 527 million. As assessed by the Supreme Audit Office in its 2016 report, it saved the carrier from bankruptcy. However, this means that for 10 years Polish Airlines cannot receive another public aid and the next public subsidy might appear in 2022.

According the preliminary data given by LOT Polish Airlines in 2017 the national carrier generated PLN 283.3 million profit. According to the official estimation LOT took over 6.8 million passengers. In 2016, LOT earned PLN

303 million net profit, while in 2015, the national PLL LOT incurred a net loss of PLN 327.1 million. The situation has been changed due to the newly investment policy. In November 2012, LOT Polish Airlines received the first Boeing 787-8 Dreamliner. The domestic carrier leased 8 such machines that replaced the long-hauled Boeing 767 and gave the opportunity of opening the new connections. Today LOT Polish Airlines regularly fly Dreamliners to New York, Chicago, Los Angeles, Toronto, Tokyo, Beijing, and Seoul. In May 2017, they will open a new connection to Singapore. What should be noted Dreamliners will also serve connections from Budapest to Chicago and New York.

Apart from the optimistic view on the further national carrier's development Poland will face the issue of unpaid debts. The amount of PLN 87 billion (RMB 44 billion) consists of: wholesale bonds for PLN 61.7 billion, bonds and loans in foreign currency for PLN 20.1 billion retail bonds for PLN 5.4 billion. As was said by media this month (January 25th) ten-year bonds worth PLN 8.6 billion will be repaid, which was still sold by Jarosław Kaczyński's government in 2007, and then by Donald Tusk's government until 2010. Then in April Poland have a buyout of five-year bonds from 2013 for PLN 14.6 billion. In May, more than 1 billion Swiss francs have to be repaid (debt bearing a negative interest). In June, Polish government will donate EUR 2 million. In July, again, Polish five-year bonds for PLN 18.7 billion, and in October two-year bonds from 2016 for PLN 19.7 billion. In November, Poland have bonds in Euros and in Japanese yen to repay. Retail bonds will be repaid by little amount each month.

The core issue appears: where to get money for it? As explained by fiscal authorities there is nothing to worry about because this year state dept will not be paid by taxpayers' money and money needed by the government will be borrowed from some companies and banks. Getting the money is needed from the market to repay your debt should not be a problem. Only in the first quarter

the finance ministry plans to borrow from investors, which are mainly banks, insurance companies and investment funds up to 35 billion zlotys.

This year's budget states that total borrowing needs of Poland for this year are as much as PLN 181.7 billion. This is the money needed to pay off all debts during the whole year 2018, interest and cover this year's public finance deficit. The amount sounds impressive, but it is not special. Poland in 2016 borrowed nearly PLN 150 billion from investors, and in 2017 over PLN 120 billion.

The first bond sale auction planned for this year was quite a success. The government borrowed over PLN 6 billion, but those willing wanted to buy our debt for PLN 13.7 billion. Therefore, there is no problem with the demand for Polish bonds. After this auction Poland has already satisfied one-third of all this year's borrowing needs (because the government started to deal with them already at the end of 2017). It is also important that Poland incur new debt at a lower interest rate than the old one. Bonds that need to be bought this year had an annual interest rate of 2.5 percent and 3.75 percent (depending on the series). The paper sold at the last auction will have to pay 2.5 percent annually (for five years) and 2.75 percent (ten years).

Conclusions

The further development of Polish aviation in terms of logistic has given the opportunity for further cooperation between Poland and China. First, Chinese financial institutions can take the opportunity and invest in the Polish Aviation Group bonds and shares, second the cooperation in further logistic and infrastructure investments. The illustrative example might be given by the plan for building Central Airport between Warsaw and Lodz. For the next two years the government will prepare the feasibility studies and the final investment should be accomplished by 2027. The decision was taken by the Polish government was taken and together with the new structure of the Polish Aviation Group can serve as the good approach that will serve Polish interests.

The problem of Polish international debt is still an important issue that might have an impact on Polish economy. In October 2012 the Ministry of Finance send the last tranche to the London Club, which amounted for USD 297 million. The debts taken in 1970s. by Edward Gierek's governments was repaid. On the other hand, as noticed by finacial authorities, the foreign debt fell significantly. At the end of June 2017, the share of this debt reached 31.8 percent, which meant a decrease by 2.9 percentage points. The more important issue that will be discussed in the next briefing is the public debt. Although Poland public debt exceeded the psychological barrier of one trillion zlotys, and currently its relation to GDP is over 54 percent is not as heavy as in Croatia (84% of GDP), Slovenia (80% of GDP) and Hungary (73% of GDP). In terms of the level of indebtedness in Europe, we are doing quite well, but our debt is the second fastest growing in the EU in annual terms. Only Latvia is getting faster than us.