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Poland Economics Flash

What will S&P do this time?

- **The next review of Poland's rating by S&P is scheduled for July 1st.** This time we expect the long term foreign currency rating to be affirmed at BBB+ (with outlook still 'Negative').
- **Looking at details of S&P methodology, there seems to have been very little changes in economic or political factors that are carefully watched by the rating agency.** S&P pays relatively more attention to political factors than other major agencies and indeed the January downgrade of Poland's LTFC rating by one notch was justified by 'erosion of institutional checks and balances' due to changes in Constitutional Tribunal law and media law. Although the government did not back track from those changes, the situation did not worsen either. This means there is little reason to expect any deterioration in the political score beyond what is already reflected in the current rating. If anything, there seems to be one notable improvement in risk factors. In January S&P highlighted risks to central bank's independence but we believe these concerns diminished significantly over recent months as new MPC members presented a cautious approach. Looking at economic, fiscal, monetary or external scores, it seems Poland's positions remains largely unchanged as compared to what S&P knew in January, when it took its previous decision.
- The only major new factor that could be considered by S&P is the UK referendum result and its implications for Poland. However, we doubt this could affect S&P decision already at this stage. That is because the market reaction so far suggests that Polish government's ability to fund borrowing needs should be unaffected, at least in the near term. Furthermore, the direct economic impact of the UK referendum will most likely be moderate and the agency would probably want to wait for more data before taking any actions. **To put it differently, in our view the recent developments are not enough to justify the second downgrade to Poland's rating in six months time.**

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