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Poland: a boom, but no jobs

GDP growth accelerated throughout 2003, with the growth rate rising from 2.3% in the first quarter to 4.7% in the fourth. Rapid growth continued in the first quarter of 2004 and beyond – with industrial production recording double-digit growth in April. Although the fundamental factors behind the observed performance have not changed much, it is unlikely that the extreme GDP growth in the first quarter of 2004 can be sustained in the remaining quarters of the year. It transpires that in the first quarter of 2004 inventories experienced a massive hike; this accounted for about 2.5 percentage points out of the overall 6.9% GDP growth rate recorded in that quarter. Without that rise in inventories, growth in the first quarter of 2004 would have been about 4.4%. Growth of the latter magnitude seems more likely in the quarters to come, bringing the annual GDP growth rate down to about 5%.

The exchange rate continues to be relatively stable and rather weak compared to earlier years. Combined with continuing impressive gains in labour productivity and unit labour costs, this has improved export performance. Private consumption has also been on the rise – not only on account of the purchasing power of wages having experienced a mild recovery, but also on account of relatively low interest rates having been conducive to a greater volume of consumer loans. For the first time in several years, gross fixed investment rose by 3.5%. With profits improving markedly, the corporate sector has been gradually reducing its major debts to banks that had accumulated over the period 2000-2002. Although the proportion of 'problem' loans extended to the corporate sector overall is still rather high (about 20%), it is now becoming less of a problem. In due course the accumulation of own funds in the corporate sector, combined with improvements in the sector's credit rating, should permit a more pronounced expansion of fixed investment activities. Rises in levels of capacity utilization (currently about 80% in export-oriented firms and 75% among other firms) should be conducive to investments on a larger scale – all the more so as firms are currently very optimistic in terms of their demand expectations. In the second quarter of 2004 only about 27% of firms polled1 cited insufficient demand and the poor economic situation of their customers (e.g. arrears in payments) as major obstacles to their own expansion. This is a marked improvement over the first quarter of 2004 (33%) and the second quarter of 2003 (55%). Much higher investments are also to be expected in the public sector (particularly at the communal level) since the EU will be providing sizeable co-financing for many projects. Generously supported by the EU (and domestic) subsidies, agricultural investment is expected to expand very strongly.

[1] See the website of the National Bank of Poland (www.nbp.pl/publikacje/koniunktura).

The high growth recorded in industrial production, exports and overall GDP in the first months of 2004 may have been boosted by the realities of formal EU accession as it drew nearer. In the run-up to 1 May, many firms engaged in ‘pre-emptive’ exports – to avoid paying the double VAT that after entry was to be levied on exports to the EU (because of the delay in enacting proper EU regulations). Consumer demand for numerous items was also abnormally strong as rumours spread about post-accession price increases, thus giving rise to an outbreak of extensive buying.

With EU accession behind it, the pace of growth in Poland is likely to slow down somewhat over the current year. Industrial production and exports are likely to grow more moderately – a further factor being the increased likelihood of emerging production bottlenecks. Certainly, in some branches the export boom only began at the time of accession. This applies to many farm products such as poultry, bovine and milk products, the export of which to the EU had been officially restricted prior to 1 May. On the other hand, the ongoing recovery (particularly in terms of investment) will also boost imports.

Overall, though currently beneficial to exporters, EU accession is also nurturing fears among a large number of firms that to all intents and purposes have yet to learn how to function under the new conditions. 31% of the firms polled cited uncertainty about the new terms and conditions, ongoing legal and regulatory changes (and the need to adjust accordingly) as well as increased competition from EU firms, as obstacles to expansion (as against 18% in the first quarter of 2004 and 15% in the fourth quarter of 2003). Clearly, accession has caught many firms literally unprepared. Many of them, particularly small and medium-sized domestic enterprises, may not survive long enough to get accustomed to the new environment.

Despite high growth, the unemployment rate remains stuck at a very high level, with overall employment falling (albeit slowly) and employment in the enterprise sector close to stagnant. A negative employment situation, a public health system in complete disarray and renewed attempts to cut still further social spending and transfers to the most disadvantaged segments of society have induced a political crisis. The party in power (social-democratic by name, but otherwise pretty much liberal in practice) is mired in corruption and scandals; it has disintegrated as a result. The government nominated by the President does not have a secure the solid parliamentary backing. Early elections and prospects of the radicals (whether of the populist or nationalist persuasion) winning loom large. In the event that the radical parties emerge victorious, it is hard to predict the economic policy hoops they will jump through. For all their alarming rhetoric, the overall course of economic policy may not in practice change all that radically.

The present political instability may still have some negative repercussions. Making the best out of accession calls for a vigilant, strong and competent administration that is capable of taking decisive actions at home and adopting a firm stance towards the EU bureaucracy. Apart from that, the domestic economic situation does not seem to be adversely affected by the political confusion. The deficit in public finances is even smaller than projected (partly on account of growth having been stronger than expected). To the extent that it contributes to the weakness of the Polish currency, persistent political instability may be even viewed in a positive light. Of course, this point should not be stretched too far. At its present level, the exchange rate may be just about right for the real economy. However, if it were to drop further in value to any marked degree, that could well be an unwelcome development as it might fuel inflationary pressures that are already building up owing to the higher VAT/excise tax rates now required by the EU, as well as on account of the rising world market prices for many raw materials, including energy.

In any event inflationary pressures are quite likely to evoke a predictable response from the National Bank: higher interest rates. It is debatable whether higher interest rates will prove efficient in curbing current inflation. It does seem quite obvious, however, that much higher interest rates can disrupt overall growth at far too early a stage. A slowdown in growth in 2005 would then probably follow.

Table PL

Poland: Selected Economic Indicators

	1999	2000	2001	2002	2003 [1]	2003	2004	2004	2005
						1st quarter		forecast	
Population, th pers., end of period [2]	38654	38644	38633	38219	38191	38237	38181	.	.
Gross domestic product, PLN mn, nom. [3]	615115	684982	750786	771113	814698	187098	203723	881100	948400
annual change in % (real)	4.1	4.0	1.0	1.4	3.8	2.3	6.9	5	4.5
GDP/capita (EUR at exchange rate)	3765	4419	5296	5231	4849	.	.	.	.
GDP/capita (EUR at PPP - WIIW)	8410	8960	9550	9900	10370	.	.	.	.
Gross industrial production (sales)									
annual change in % (real)	3.6	6.7	0.6	1.1	6 [4]	4.4 [5]	19.0 [5]	10	7
Construction output total									
annual change in % (real)	6.2	1.0	-6.4	-0.3	.	-20.9 [5]	-5.0 [5]	.	.
Consumption of households, PLN mn, nom.	390474	440520	479154	503960	529872	132169	139474	.	.
annual change in % (real)	5.2	2.7	2.0	3.3	3.1	1.3	4.0	3.5	3.5
Gross fixed capital form., PLN mn, nom.	156690	170430	157209	147338	148962	24621	25583	.	.
annual change in % (real)	6.8	2.7	-8.8	-5.8	-0.9	-3.8	3.5	5	6
LFS - employed persons, th, avg.	14757.0	14526.0	14207.0	13782.0	13616.8	13589.0	13465.0	.	.
annual change in %	-3.9	-1.6	-2.2	-3.0	-1.2	-0.8	-0.9	.	.
Reg. employees in industry, th pers., avg.	3138.4	2955.0	2820.6	2670.5	.	2413.0 [5]	2397.0 [5]	.	.
annual change in %	-7.1	-5.8	-4.5	-5.3	.	-3.2 [5]	-0.7 [5]	.	.
LFS - unemployed persons, average [2]	2391.0	2785.0	3170.0	3431.0	3328.5	3513	3509		
LFS - unemployment rate in %, average [2]	13.9	16.1	18.2	19.9	19.6	20.5	20.7	20	19
Reg. unemployment rate in %, end of period [2]	13.1	15.1	17.5	20.0	20.0	20.6	20.5	19	18
Average gross monthly wages, PLN [6]	1697.1	1893.7	2045.1	2097.8	2201.5	2228.7 [5]	2332.2 [5]	.	.
annual change in % (real, gross)	4.7	1.0	2.5	0.7	4.1	2.9 [5]	4.6 [5]	.	.
Consumer prices, % p.a.	7.3	10.1	5.5	1.9	0.8	0.5	1.6	3	3
Producer prices in industry, % p.a.	5.7	7.8	1.6	1.0	2.6	3.0	4.3	4.5	4
General governm.budget, EU-def., % GDP [7]									
Revenues	40.8	40.2	41.3	41.3	41.0	.	.	.	.
Expenditures	42.6	42.03	44.8	44.9	45.1	.	.	.	.
Deficit (-) / surplus (+)	-1.9	-1.8	-3.5	-3.6	-4.1		.	-6	-4.5
Public debt, EU-def., % of GDP [7]	40.3	36.6	36.7	41.2	45.4	.	.	49.1	50.3
Discount rate of NB % p.a., end of period	19.0	21.5	14.0	7.5	5.8	6.5	5.8	.	.
Current account, EUR mn	-11719	-10796	-5994	-5404	-3660	-1647	-348	-3000	-4000
Current account in % of GDP	-8.1	-6.3	-2.9	-2.7	-2.0	-3.7	-0.8	-1.6	-2.1
Gross reserves of NB excl. gold, EUR mn	26224	28555	29031	27367	25847	27579	28856	.	.
Gross external debt, EUR mn	65043	74672	81380	80920	82317	82416	.	.	.
FDI inflow, EUR mn	6824	10334	6372	4371	3756	1328	860	.	.
FDI outflow, EUR mn	29	18	-97	228	343	128	21	.	.
Exports of goods, BOP, EUR mn	28215	39022	46537	49338	53836	12097	13642	58700	62800
annual growth rate in %	-2.5	38.3	19.3	6.0	9.1	8.3	12.8	9	7
Imports of goods, BOP, EUR mn	42361	52349	55094	57039	58913	13624	14777	63000	68700
annual growth rate in %	4.9	23.6	5.2	3.5	3.3	3	8.5	7	9
Exports of services, BOP, EUR mn	7850	11311	10913	10543	9844	1962	2323	10700	11100
annual growth rate in %	-18.8	44.1	-3.5	-3.4	-6.6	-6.8	18.4	9	3
Imports of services, BOP, EUR mn	6553	9771	10007	9690	9408	2214	1866	9400	9500
annual growth rate in %	10.9	49.1	2.4	-3.2	-2.9	2.4	-15.7	0	1
Average exchange rate PLN/USD	3.97	4.35	4.09	4.08	3.89	3.90	3.82	.	.
Average exchange rate PLN/EUR (ECU)	4.23	4.01	3.67	3.86	4.40	4.18	4.78	4.8	5
Purchasing power parity PLN/USD, WIIW	1.73	1.84	1.88	1.88	1.86	.	.	.	.
Purchasing power parity PLN/EUR, WIIW	1.89	1.98	2.04	2.04	2.06	.	.	.	.

Notes: 1) Preliminary. - 2) 2002 according to census May 2002. - 3) From 2001 new methodology. Revised data in 2003, not comparable to previous years. - 4) wiiw estimate. - 5) Enterprises with more than 9 employees. - 6) Including mandatory premium for social security. - 7) According to ESA 95, excessive deficit procedure.

Source: wiiw Database incorporating national statistics; AMECO; wiiw forecasts.