

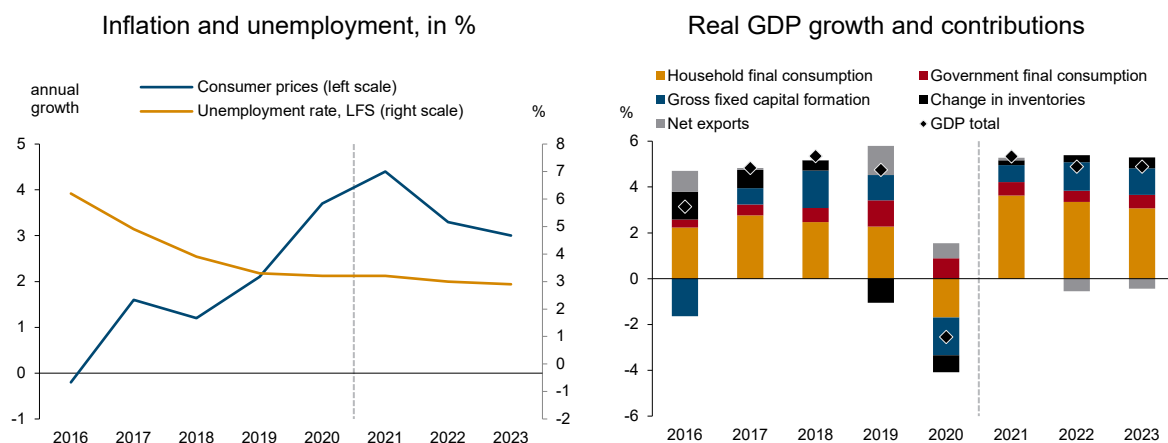


POLAND: Prospects reasonably good, but extraordinarily uncertain

LEON PODKAMINER

The 'fourth wave' of the pandemic currently presents little cause for concern. From a mild decline in GDP, Poland has seen a shift towards recovery. The rising wage bill supports a strong recovery in consumption without jeopardising corporate profitability. Growth in gross fixed capital formation is still inadequate, but industrial production is performing very well. An upturn in inflation has not unduly affected the central bank's monetary policy. However, the course of fiscal policy remains uncertain. Overall, Poland's prospects are good, but conflicts with the European Commission need to be resolved.

Figure 4.16 / Poland: Main macroeconomic indicators



Source: wiiw Annual Database incorporating national and Eurostat statistics, own calculation. Forecasts by wiiw.

The 'fourth wave' of the pandemic is gathering momentum. However, it is affecting primarily the eastern, generally less-developed rural regions that are resisting vaccination. New measures that restrict economic activities nationwide are unlikely to be instituted.

GDP shifted from decline in Q1 2021 (-0.9% year on year) to recovery in Q2 2021 (+11.1%), bringing the GDP growth rate for the first half of the year to 4.6%. This turnaround was due primarily to household consumption, which moved from stagnation in the first quarter to very strong expansion in the second; it has contributed 7.4 percentage points (pp) to the growth in Q2. Gross fixed capital formation has gone from near stagnation to fairly strong recovery; its contribution to growth rose from 0.2 pp in Q1 to 0.8 pp in Q2. This contrasts with the huge contribution of growing inventories (2.9 pp). Growth in both imports and exports accelerated spectacularly in Q2, though the growth of imports

outpaced that of exports. Though still negative, the contribution of trade to overall growth in Q2 (-0.7 pp) was a clear improvement on the previous quarter (-1.9 pp).

GDP is back where it was two years ago. In Q2 2021, GDP surpassed (albeit marginally) the level it had attained in the second quarter of 2019. However, there has been a change in the structure of GDP on both the demand and the supply side. Compared to Q2 2019, private consumption in Q2 2021 was over 1% higher; public consumption was more than 4% up; exports and imports were both over 5% greater – and yet gross fixed capital formation was still some 2% shy of its level two years previously. Gross value added was over 4% greater in industry, but was 3% lower in the construction sector and almost 30% lower in catering and accommodation.

The wage bill in the corporate sector rose over 8% in nominal terms in the first half of 2021 (8.5% in the first eight months of 2021). Average employment in the corporate sector has barely changed, despite the recovery in output. On the other hand, recent statistics suggest a rise in the hours worked per employee (by close to 3% in manufacturing). This may explain the strong rise in average real wages, which increased by 4% in the corporate sector (January-August 2021).

The profitability of firms is high and rising. Despite the wage hikes, rising producer prices mean that the corporate sector has not experienced any erosion of profits. In fact, the net turnover profitability of the whole corporate sector has hit a record level (5.8%). Manufacturing's profitability is also at a record high (6.7%) – though that is not as high as in the power generation and distribution sector (9.5%).

In Q2 2021, gross value added in manufacturing was over 27% higher than a year previously. Since then, the strong industrial dynamics have been maintained: in the first eight months of the year, sales of manufacturing output rose by close to 17%, year on year, in real terms. Sales of manufactured intermediate goods and of capital goods both rose by about 20%; and sales of consumer durables – by 30%. Meanwhile, sales of non-durables rose by less than 5%. The volume of sales of electrical equipment and of electronics both increased by about 40%, and of motor vehicles and parts by 28%. About a quarter of manufacturing output is exported. Manufacturing is enjoying large (and rising) volumes of new orders, both domestic and external. So far, firms have not complained of shortages of imported production inputs (for example, microchips), but this could change in the fourth quarter of 2021.

The construction sector has been performing weakly. Inadequate demand and rising costs are regarded as the main limiting factors. During the first eight months of 2021, its output rose by a mere 0.2%. Construction of buildings declined by over 5%, and civil engineering works by 1.2%. Only specialised construction work saw a rise in sales – of over 9%. Investment-construction work fell by 4.5% (meanwhile, the volume of renovation work rose by 12%). The sector's capacity utilisation is relatively low (83%). Clearly, the construction sector is waiting for a boost to investment, which could come if the European Commission decides to approve the Polish government's recovery and resilience plan.

A fairly sharp upturn in inflation has finally led to a tightening of monetary policy. For over a year the key National Bank of Poland (NBP) interest rate was maintained at 0.1%. But the mood surrounding the NBP policy is changing: the bank has just moderately tightened its policy – primarily to please its critics. In actual fact, current inflation is being fuelled by the cost of imported energy and by hikes in electricity prices, which are dictated by the state-owned power plants. These hikes cannot be justified by concern about production costs (the profitability of the power generation and distribution sector has always been exceptionally high). Core inflation is not far off 2.5% (the NBP's target). Also, any concerns about an undue expansion of credit are unwarranted at present: the stock of credit extended to the

business sector is actually declining, while the stock of household credit is pretty well stagnant (only the volume of mortgages is increasing relatively rapidly). At the same time, both firms and households are increasing their holdings of bank deposits.

The recent weakness of the exchange rate (PLN/EUR) and its greater volatility could be attributed to enhanced uncertainties over the disbursement to Poland of funds from the EU's Recovery and Resilience Facility. Poland's reconstruction plan has not so far been approved. Apparently, the European Commission is awaiting the repeal of a number of dubious 'reforms' of Poland's judicial system. Should the European Commission and the Polish government manage to resolve their disagreements (which centre on the rule of law in Poland), the Polish currency may regain some of its customary strength, even if domestic interest rates do not rise much. However, it is far from certain whether (or when) the dispute can be settled.

Fiscal policy has adopted an ambiguous stance. Fiscal policy responded vigorously to the pandemic: from January 2020 to the end of June 2021, the public debt rose by the equivalent of about EUR 36bn – far more than in the previous four years combined (EUR 25bn). But apparently, the government is now rather uneasy about the debt dynamics. The 'Polish Deal' – a programme that was cobbled together by the government and that has just squeaked through the Sejm – hints at some reduction in the public sector deficit. At the same time, it promises rather more progressivity in personal income taxation (primarily at the expense of medium, rather than high incomes).

The prospects for the country are quite good, but are rather uncertain. Despite promising indications from manufacturing, the recovery of gross fixed investment is still rather slow. The direction of the fiscal (and monetary) policy is uncertain but greater uncertainty concerns future relations with the EU, which are seriously threatened by the policies pursued by Poland's government.

Table 4.16 / Poland: Selected economic indicators

	2018	2019	2020 ¹⁾	2020	2021	2021	2022	2023
				January-June		Forecast		
Population, th pers., average	38,423	38,397	38,324	38,354	38,162	38,370	38,360	38,360
Gross domestic product, PLN bn, nom.	2,122	2,293	2,327	1,089	1,204	2,550	2,750	2,960
annual change in % (real)	5.4	4.7	-2.5	-2.9	4.6	5.3	4.9	4.9
GDP/capita (EUR at PPP)	21,430	22,740	22,740	.	.	.	.	.
Consumption of households, PLN bn, nom.	1,221	1,299	1,301	638	702	.	.	.
annual change in % (real)	4.3	4.0	-3.0	-4.7	6.1	6.5	6.0	5.5
Gross fixed capital form., PLN bn, nom.	386	420	386	155	166	.	.	.
annual change in % (real)	9.4	6.1	-9.0	-4.1	3.4	4.5	7.5	7.0
Gross industrial production (sales) ²⁾								
annual change in % (real)	5.9	4.1	-1.2	-6.7	17.8	13.0	6.0	5.0
Gross agricultural production								
annual change in % (real)	-0.9	-1.1	7.2	.	.	.	.	.
Construction industry ²⁾								
annual change in % (real)	19.7	3.7	-3.5	0.5	-4.4	.	.	.
Employed persons, LFS, th, average ³⁾	16,484	16,461	16,442	16,350	16,515	16,360	16,440	16,600
annual change in %	0.4	-0.1	-0.1	-0.2	.	-0.5	0.5	1.0
Unemployed persons, LFS, th, average ³⁾	659	558	537	528	647	540	510	500
Unemployment rate, LFS, in %, average ³⁾	3.9	3.3	3.2	3.1	3.8	3.2	3.0	2.9
Reg. unemployment rate, in %, eop	5.8	5.2	6.2	6.1	5.9	.	.	.
Average monthly gross wages, PLN ⁴⁾	4,590	4,920	5,167	5,299	5,713	5,640	6,060	6,520
annual change in % (real, gross)	5.4	4.8	1.7	2.0	4.3	4.5	4.0	4.5
Consumer prices (HICP), % p.a.	1.2	2.1	3.7	3.6	4.2	4.4	3.3	3.0
Producer prices in industry, % p.a.	2.1	1.3	-0.6	-0.4	4.5	5.0	3.0	2.0
General governm.budget, EU-def., % of GDP								
Revenues	41.3	41.1	41.7	.	.	40.0	40.0	39.0
Expenditures	41.5	41.8	48.6	.	.	45.5	44.5	42.0
Net lending (+) / net borrowing (-)	-0.2	-0.7	-6.9	.	.	-5.5	-4.5	-3.0
General gov.gross debt, EU def., % of GDP	48.8	45.6	57.4	.	.	59.8	61.1	60.1
Stock of loans of non-fin.private sector, % p.a.	7.1	4.7	0.4	2.9	0.5	.	.	.
Non-performing loans (NPL), in %, eop	6.9	6.7	7.0	7.0	6.5	.	.	.
Central bank policy rate, % p.a., eop ⁵⁾	1.50	1.50	0.10	0.10	0.10	0.50	1.00	1.50
Current account, EUR m ⁶⁾	-6,514	2,604	18,110	10,539	3123	10,400	17,000	16,800
Current account, % of GDP ⁶⁾	-1.3	0.5	3.5	4.3	1.2	1.9	2.8	2.6
Exports of goods, BOP, EUR m ⁶⁾	217,110	232,971	232,852	107,761	136038	270,100	307,900	332,500
annual change in %	7.4	7.3	-0.1	-6.8	26.2	16.0	14.0	8.0
Imports of goods, BOP, EUR m ⁶⁾	223,330	231,766	220,454	102,973	131119	257,900	292,700	321,100
annual change in %	10.3	3.8	-4.9	-10.8	27.3	17.0	13.5	9.7
Exports of services, BOP, EUR m ⁶⁾	57,672	62,480	58,815	28,111	29498	62,000	68,800	74,400
annual change in %	13.1	8.3	-5.9	-5.1	4.9	5.5	11.0	8.2
Imports of services, BOP, EUR m ⁶⁾	36,403	38,831	35,289	16,336	17398	37,800	42,000	47,000
annual change in %	9.9	6.7	-9.1	-9.0	6.5	7.0	11.0	12.0
FDI liabilities, EUR m ⁶⁾	14,809	12,809	12,454	5,285	12088	12,000	.	.
FDI assets, EUR m ⁶⁾	1,954	4,268	3,843	-1,612	3490	5,400	.	.
Gross reserves of CB excl. gold, EUR m	97,633	104,526	114,299	103,455	123,090	.	.	.
Gross external debt, EUR m ⁶⁾	316,683	316,569	305,694	300,108	308,360	313,200	326,400	338,300
Gross external debt, % of GDP ⁶⁾	63.6	59.3	58.4	57.3	54.9	56.5	54.0	52.0
Average exchange rate PLN/EUR	4.2615	4.2976	4.4430	4.4136	4.5366	4.60	4.55	4.55

1) Preliminary. - 2) Enterprises with 10 and more employees. - 3) From 2021 the new LFS methodology is applied in line with the Integrated European Social Statistics Regulation (IESS). - 4) Excluding employees in national defence and public safety. Half-year data refer to enterprises with 10 and more employees. - 5) Reference rate (7-day open market operation rate). - 6) Including SPE.

Source: wiiw Databases incorporating Eurostat and national statistics. Forecasts by wiiw.