POLAND: Short of energy

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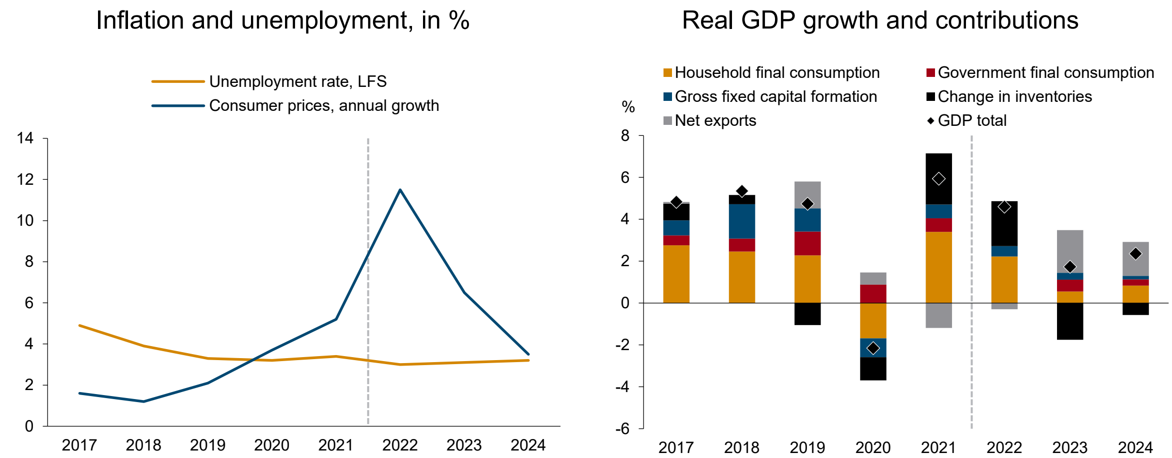
The Polish economy has proved surprisingly resilient so far. But growth will slow in the second half of 2022 and beyond. Rising interest rates are affecting consumption and investment, while inflation is eroding the real value of current wages. If the full disbursement of EU recovery funds continues to be delayed, public spending may become less lavish than before. To cap it all, essential imports such as energy and metals may be in short supply, or else become prohibitively expensive.

Figure 6.16 / Poland: Main macroeconomic indicators



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

GDP grew by 5.5%, year on year, in Q2 2022, down from 8.5% in Q1. The slowdown was due to much weaker growth in inventories, whose contribution to overall growth fell from 7.7 percentage points (pp) to 1.9 pp. Household consumption kept growing at over 6%, while gross fixed capital formation and exports speeded up appreciably. Public consumption hardly expanded. The contribution to growth of foreign trade improved from -3.8 pp in Q1 2022 to -1.2 pp in Q2. Poland's economy would seem to be more resilient than those of its partners – perhaps the Poles are more 'enterprising spirits' than others.

The data available for August 2022 indicate some acceleration of output in the industrial and construction sectors. This belies the recession fears widely suggested by earlier estimates. Apparently, industry (and manufacturing, in particular) no longer suffers from shortages of critical components or labour. On the other hand, producer prices in industry continue to rise at a double-digit rate (primarily on account of the soaring cost of energy). This may constitute a drag on further output growth in those sectors that are heavily reliant on industrial inputs and that lack the scope to pass costs on to final customers.

The labour market is in good shape, unemployment is low and falling, while employment in the corporate sector keeps rising. Close to 400,000 Ukrainians have been registered as employees, while only a tiny number are recorded as unemployed. In fact, the unregistered employment of Ukrainians is likely to be quite high, too. Wages generally trail slightly behind inflation, implying a gentle deterioration in the real incomes of wage-earning households. Unit labour costs have tended to decline somewhat as labour productivity improves. This further benefits the profitability of the corporate sector. Thus, inflation serves the business sector quite well. Firms co-owned by the public authorities (fuel and power companies) are reaping extraordinary profits, which then partly find their way back to the state.

Energy shortages are widely feared. The problems to do with the soaring cost of energy are now overshadowed by concerns about its physical availability. Supplies may well turn out to be inadequate this coming winter, and a number of critical services may be seriously affected. In addition, at present a few million households that rely on anthracite for heating must fear the worst. The coal shortage may be put down to the ban on imports from Russia that was introduced well before it became EU policy. But it is a sign of mismanagement: while boasting that Poland has anthracite deposits sufficient for another 200 years, still the government is unable to guarantee adequate supplies for 200 days. The offer of subsidies to help households (and communal establishments) that consume expensive forms of energy, or a definite cap on the price of such sources would, of course, be welcome – provided the sources of energy are actually physically available.

Inflation is still regarded as a main concern – particularly as it rather undermines the government's claim of economic competence. In fact, global factors (energy and food prices) are the main culprits, while the state-owned energy and fuel cartels play a secondary role (through exorbitant mark-ups). Nonetheless, the government is trying to shield consumers by means of 'temporary' cuts to VAT and excise tax rates, and through a plethora of measures that include subsidies for households and firms suffering from the exorbitant cost of energy or the higher costs of servicing their bank loans.

The fiscal system is in disarray. The much-trumpeted reform of the personal income tax system, which promised greater tax progressivity and which took effect on 1 January 2022, has proved a complete fiasco. All attempts to patch it up failed, as its internal inconsistencies became all too apparent, so that an entirely new system had to be introduced in the middle of the year. In all likelihood, it will result in a further reduction in total personal income tax revenue, and thus increase the public-sector deficit (estimated at around or even above 4% of GDP in 2022, up from about 1.9% in 2021). In addition, the government is now pondering the idea of levying an extra tax on highly profitable firms. This may apply to all (larger) firms – even those outside the energy sector. Clearly, this could improve the overall fiscal balance of the public sector in the short term. But a burden placed indiscriminately on all firms is likely to cause grave damage to the economy in the longer term.

Monetary policy is being tightened, but this will have little impact on inflation. For most of 2021, the National Bank of Poland (NBP) stoically turned a blind eye to rising inflation. Only in October, as the clamour of concern from the opposition and 'experts' became too hard to ignore, did it raise its main interest rate from 0.1% to 0.5%. Further hikes have followed. Now the rate stands at 6.75%, and it looks as though the rising trend will continue, albeit gradually. Naturally, monetary tightening can do little (if anything) to bring down inflation (which is primarily imported and internally generated by the domestic state-owned oligopolies active in the energy sector), at least over a meaningful time horizon. Quite the contrary, higher interest rates are likely to support cost-push in firms that depend on credit to finance their working capital. Above all, higher interest rates will most probably adversely affect investment and consumer spending. Contrary to expectations, higher rates are unlikely to have much of an impact on the PLN exchange rate, which has been quite ‘weak’ recently (largely for geopolitical reasons).

The government does not conceal its fairly illiberal inclinations in terms of the treatment of the media, the judicial system and sexual minorities, the rights of women, the alleged bugging of the opposition, etc. Though hostile to Russia, the government is friendly towards Mr Orbán’s regime in Hungary, and never tires of castigating ‘Brussels’, Germany, France and the ‘liberal West’ as a whole. Despite the war, its relationship with the European Commission has not improved at all. The national recovery plan has not been approved by Brussels, which is still waiting (probably in vain) for the dissolution of the unconstitutional bodies created to ‘discipline’ Poland’s judiciary. The lower (or absent) transfers of EU money will aggravate public finances (or else reduce the scale of spending).

A slowdown in growth is on the cards. The economy, which has proved surprisingly resilient so far, is now set to slow down in the second half of 2022 and throughout 2023. Apart from the negative impact of rising interest rates on consumption and investment, inflation is actively eroding the purchasing power of current incomes and accumulated household wealth. Public consumption is likely to stagnate, while household consumption will be anaemic. Only in 2024 are the reasons for weak growth likely to be mitigated somewhat.

Table 6.16 / Poland: Selected economic indicators

	2019	2020	2021 1)	2021 January-June	2022 January-June	2022 Forecast	2023 Forecast	2024 Forecast
Population, th pers., average	37,965	37,899	37,747	38,162	38,000	38,360	38,360	38,370
Gross domestic product, PLN bn, nom.	2,293	2,339	2,622	1,212	1,407	2,990	3,220	3,410
annual change in % (real)	4.7	-2.2	5.9	4.7	6.9	4.6	1.7	2.4
GDP/capita (EUR at PPP)	22,740	22,760	24,960	.	.	.	.	.
Consumption of households, PLN bn, nom.	1,299	1,303	1,458	704	838	.	.	.
annual change in % (real)	4.0	-3.0	6.1	6.0	6.6	4.0	1.0	1.5
Gross fixed capital form., PLN bn, nom.	420	403	434	169	194	.	.	.
annual change in % (real)	6.1	-4.9	3.8	1.0	6.3	3.0	2.0	1.0
Gross industrial production (sales) 2)								
annual change in % (real)	4.1	-1.2	14.5	17.8	14.7	10.0	3.0	5.0
Gross agricultural production								
annual change in % (real)	-0.9	8.0	-0.7	.	.	.	.	.
Construction industry 2)								
annual change in % (real)	3.7	-3.5	1.5	-4.4	15.0	.	.	.
Employed persons, LFS, th, average 3)	16,461	16,441	16,656	16,515	16,742	16,810	16,840	16,890
annual change in %	-0.1	-0.1	2.6	2.3	1.4	0.9	0.2	0.3
Unemployed persons, LFS, th, average 3)	558	537	580	647	495	520	540	560
Unemployment rate, LFS, in %, average 3)	3.3	3.2	3.4	3.8	2.9	3.0	3.1	3.2
Reg. unemployment rate, in %, eop	5.2	6.3	5.4	6.0	4.9	.	.	.
Average monthly gross wages, PLN 4)	4,920	5,226	5,663	5,713	6,422	6,500	7,160	7,670
annual change in % (real, gross)	4.8	2.9	3.0	3.4	1.3	3.0	3.5	3.5
Consumer prices (HICP), % p.a.	2.1	3.7	5.2	4.2	10.9	11.5	6.5	3.5
Producer prices in industry, % p.a.	1.3	-0.5	8.1	4.6	22.0	1.0	8.5	5.5
General governm. budget, EU def., % of GDP								
Revenues	41.0	41.3	42.3	.	.	41.0	40.6	40.5
Expenditures	41.8	48.2	44.2	.	.	45.0	44.0	43.5
Net lending (+) / net borrowing (-)	-0.7	-6.9	-1.9	.	.	-4.0	-3.4	-3.0
General gov. gross debt, EU def., % of GDP	45.6	57.1	53.8	.	.	51.5	49.0	48.0
Stock of loans of non-fin. private sector, % p.a.	4.7	0.4	4.6	0.5	5.7	.	.	.
Non-performing loans (NPL), in %, eop	6.7	7.0	5.8	6.5	5.6	.	.	.
Central bank policy rate, % p.a., eop 5)	1.50	0.10	1.75	0.10	6.00	7.00	6.25	5.00
Current account, EUR m 6)	2,520	15,293	-4,129	4,556	-15,315	-10,300	-1,400	9,200
Current account, % of GDP 6)	0.5	2.9	-0.7	1.7	-5.0	-1.6	-0.2	1.2
Exports of goods, BOP, EUR m 6)	232,930	236,002	280,330	135,639	160,240	317,300	346,500	372,800
annual change in %	7.3	1.3	18.8	24.7	18.1	13.2	9.2	7.6
Imports of goods, BOP, EUR m 6)	231,403	223,523	280,798	130,742	171,331	324,900	343,100	360,300
annual change in %	3.6	-3.4	25.6	25.5	31.0	15.7	5.6	5.0
Exports of services, BOP, EUR m 6)	62,749	58,056	68,160	31,319	37,087	76,300	81,600	86,100
annual change in %	8.6	-7.5	17.4	12.6	18.4	12.0	7.0	5.5
Imports of services, BOP, EUR m 6)	38,883	35,220	41,742	18,149	22,111	48,000	50,400	53,400
annual change in %	6.5	-9.4	18.5	10.9	21.8	15.0	5.0	6.0
FDI liabilities, EUR m 6)	14,976	15,192	28,420	13,810	21,234	24,000	.	.
FDI assets, EUR m 6)	4,593	4,055	7,090	3,594	1,766	6,000	.	.
Gross reserves of CB excl. gold, EUR m	104,526	114,299	134,654	123,090	134,943	.	.	.
Gross external debt, EUR m 6)	316,730	307,412	322,710	311,567	334,636	321,500	322,000	326,200
Gross external debt, % of GDP 6)	59.4	58.4	56.2	54.2	52.0	50.0	46.0	44.0
Average exchange rate PLN/EUR	4.2976	4.4430	4.5652	4.5366	4.6329	4.65	4.60	4.60

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. - 5) Reference rate (7-day open market operation rate). - 6) Including SPE.

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