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Poland:
Solid but moderate growth

The year 2009 was capped with a quite strong performance in the fourth quarter, when GDP grew by more than 3%, and private consumption and gross fixed investment rose by close to 2% and over 1% respectively. Foreign trade remained the strongest positive factor, contributing 2.4 percentage points (p.p.) to overall growth. Inventories declined again in 2009. The first quarter of 2010 saw a further strengthening of private (and also public) consumption, very strong recovery in the value of inventories, and foreign trade continuing to play a positive role. Overall GDP grew by 3% in the first quarter of the year. The contribution of consumption was 2 p.p., of inventories 2.1 p.p., and of foreign trade 0.7 p.p. Gross fixed capital formation fell by over 12% – its contribution to the GDP growth rate was negative (-1.8 p.p.). The fall in gross fixed capital formation is attributed to the particularly harsh weather conditions prevailing during the exceptionally long winter. The strongly increased inventories may represent outlays on fixed investment projects whose completion has been temporarily held back by weather.

Despite some decline in average employment, the total gross wage bill rose by 3.6% nominally in the first quarter of 2010, remaining roughly unchanged in real terms. But households' disposable purchasing power was strongly augmented on account of high increases in pensions, retirement pays and other mandatory social transfers. In total, pensions and other social transfers rose by 2.9% in real terms. Likewise disposable incomes out of firms' rising profits supported private consumption.

Industrial production (sales) rose by more than 10% in real terms in the first quarter of 2010. The recovery of production was particularly turbulent in branches supplying computers, electronics and optical equipment, and electric appliances. Sales of manufacturing branches supplying primarily intermediate goods rose by over 12%, indicating that a further expansion of production is forthcoming. Sales by branches supplying primarily investment goods increased by over 6% while sales of non-durable consumer goods branches rose over 4%. Sales of branches supplying durable consumer goods jumped up by over 30%. Clearly, consumer sentiments are becoming very buoyant. Sales of the construction sector declined very strongly in the first quarter, on account of the particularly harsh and prolonged winter. But construction activities have accelerated spectacularly in more recent months. Average employment in industry fell by about 3% in the first quarter of 2010, while the average nominal industrial wage rose by about 4.5%, leaving the sector with a small unit labour cost gain (coming on top of large gains registered earlier in 2009). That gain could have been larger had (the mild) deflation in producer prices stopped. It may be important to add that the fall in industrial employment (and the overall hired employment both in the corporate sector and in the national economy at large) has already come to a halt. At the end of April employment reached levels not recorded for over a year. But they are still appreciably short of the levels reported in summer 2008.

Net post-tax profits earned by industry (corporate sector) in the first quarter of 2010 rose by 100% over the same period of 2009, reaching PLN 7.4 billion (roughly EUR 1.8 billion). The huge extraordinary losses recorded in the first quarter of 2009 (due mainly to reckless engagement in the purely speculative currency options business in 2008) which had burdened the profits in 2009 has already been written off. Other segments of the non-financial corporate sector performed similarly. The net profit earned by the whole non-financial corporate sector in the first quarter of 2010 was 88% higher than a year earlier. The recovery of profits is further strengthening the liquidity position of non-financial firms and their ability to expand activities without having to rely on outside sources of financing. The strong financial position of the non-financial corporate sector is also shown by the most recent business climate survey of the National Bank of Poland. Close to 71% of firms do not report liquidity problems, and over 89% of firms service their bank liabilities regularly. The latter indicator is still lower than a year ago when it stood at 93% (but far from its lowest value of 76% reported in 2002). Progress has been uneven though, with the liquidity position and the ability to service debts generally continuing to deteriorate in the segment of small firms and also for the producers of capital goods as well as in mining.

The stock of households' liabilities to banks rose minimally, by about 2% nominally, within the first four months of 2010 while the stock of non-financial corporations' bank liabilities fell by 2%. Overall, net domestic assets fell massively, by 4.4% (the stocks of loans to social insurance funds and other general government institutions declined very strongly). The contraction of net domestic assets happened to be associated with a strong rise in net foreign assets of the banking system, leaving the money supply (M3) unchanged during the first four months of 2010. It may be added that, despite the stagnation observed recently, the money stock is now much higher than reported a year ago.

The weakness of the expansion of loans to the non-financial corporate sector is fairly understandable: parts of that sector wallow in money and have no reason to seek extra credit. Some other parts of the non-financial corporate sector may still face difficulties rendering them high lending risks. Relatively low interest rates on new loans to the corporate sector and the banks' somewhat less restrictive lending standards appear unable to induce higher effective demand for corporate loans. Things will change to the better when a full-scale investment rush sets in. The situation with respect to loans to households (and small businesses) is slightly different. Here the demand for loans is reported as continuing to be relatively strong. However, banks have been restricting lending to households (for current consumption and mortgages) through higher interest rates and tighter standards. This may prevent, or moderate, the build-up of a bubble on the housing market.

The acceleration of overall growth (and in particular the unexpectedly strong growth of exports of goods) resulted in a fast acceleration of imports. Both exports and imports rose at the same speed in the first quarter of 2010. The resultant foreign trade deficit is still fairly small. But further acceleration of growth will bring a steady rise in the trade deficit, especially if the zloty strengthens unduly (as was the case in the first quarter of 2010). In any case the current account deficit (over EUR 1 billion in the first quarter of 2010) is likely to increase in the course of the year. Its size will be moderate yet, both in relation to GDP and net FDI and other capital likely to continue flowing in. The excess of capital inflows over current account deficits (which has had something to do with the strengthening of the domestic currency) is reflected in the snowballing size of official gross reserves of the National Bank of Poland. By mid-May these reserves stood at EUR 66.5 billion, up from 52.7 billion at end-December 2009.

The general government deficit in 2009 is estimated at over 7% of the GDP. But that figure is likely to be corrected downwards. The deficit/GDP ratios projected for 2010 and 2011 also seem to contain 'buffers'. In any case, the government plans to reduce the ratio to less than 3% in 2012. According to the recent (February 2010) update of the Convergence Programme, the consolidation of public finances will involve higher revenues (primarily by effectively higher indirect taxation), with total expenditures to be suppressed only in 2012 (i.e. after the parliamentary elections). Currently, the relatively high government budget deficits seem to be easy to finance. Foreign and domestic demand for debt issued by the government remains very high and yields are fairly moderate. The crisis over the large fiscal deficits in southern member countries of the eurozone has not, so far at least, generated 'contagion' effects. The nomination of Marek Belka (former prime minister and twice Poland's finance minister, most recently a top executive with the IMF) to the position of President of the National Bank of Poland is likely to contribute positively to the quality of monetary policy and the country's overall financial stability.

In May parts of Poland (primarily along the Vistula, its main river) suffered severe floods caused by protracted torrential rains in the Carpathian Mountains. Losses in terms of human suffering and destroyed or damaged infrastructure, homes, livestock and agricultural production potential are enormous. The floods' macroeconomic impacts will, however, be rather negligible. Floods that hit the country back in summer 1997 were much more severe – and they affected much more developed, urbanized areas along the Odra, Poland's second largest river. Those floods notwithstanding, Poland's GDP grew by over 7% in 1997, industrial production rose close to 12%, exports by 24% (in current euro terms). The fall in gross agricultural production (by 0.2%) appears to be the only tangible trace of the deluge of 1997.

The tendencies prevailing so far with respect to exchange rates, foreign trade, consumption and gross capital formation are likely to continue. Growth in 2010 could accelerate further if external demand strengthens – as generally expected. There are, however, some unknowns as concerns the performance in 2011 and beyond. First of all, the course of the future exchange rate is hard to predict. Should the zloty strengthen radically, the trade engine generating much of Poland's recent growth may slow down. But the other important reason for Poland's extraordinary growth performance in 2009 (healthy financial positions of households, firms and banks) would anyway help to sustain recovery, especially if recession in Poland's major trading partners comes to an end.

Table PL

Poland: Selected Economic Indicators

	2006	2007	2008	2009 1)	2009	2010	2010	2011	2012
					1st quarter			Forecast	
Population, th pers., average	38141.3	38120.6	38125.8	38149.9	38139	38172	38175	38150	38150
Gross domestic product, PLN bn, nom.	1060.0	1176.7	1272.8	1341.9	313.7	327.4	1410	1500	1590
annual change in % (real)	6.2	6.8	5.0	1.7	0.8	2.9	2.7	3.5	3.5
GDP/capita (EUR at exchange rate)	7100	8200	9500	8100	.	.	.	.	.
GDP/capita (EUR at PPP)	12300	13600	14100	14200	.	.	.	.	.
Consumption of households, PLN bn, nom.	652.8	701.6	773.9	813.2	207.8	218.8	.	.	.
annual change in % (real)	5.0	4.9	5.9	2.3	4.1	2.3	3	4.5	5
Gross fixed capital form., PLN bn, nom.	208.3	253.7	280.9	282.2	46.5	39.4	.	.	.
annual change in % (real)	14.9	17.5	8.2	-0.3	-1.9	-12.4	4	6	10
Gross industrial production (sales) 2)									
annual change in % (real)	12.1	9.3	2.6	-3.7	-10.6	10.1	5	6	7
Gross agricultural production									
annual change in % (real)	-1.1	5.2	0.9	-3.3	.	.	.	.	.
Construction industry 2)									
annual change in % (real)	15.9	16.4	9.8	4.7	3.1	-16.7	.	.	.
Employed persons - LFS, th, average	14593.6	15240.5	15799.8	15868.0	15714.3	15574.0	15720	15800	16120
annual change in %	3.4	4.4	3.7	0.4	1.3	-0.9	-0.5	0.5	2
Unemployed persons - LFS, th, average	2344.3	1618.8	1210.7	1411.1	1413.8	1839.0	.	.	.
Unemployment rate - LFS, in %, average	13.8	9.6	7.1	8.2	8.3	10.6	11	10	8.5
Reg. unemployment rate, in %, end of period	14.8	11.4	9.5	11.9	11.1	12.9	12.5	10.5	9.5
Average gross monthly wages, PLN	2475.9	2672.6	2942.2	3103.0	3248.0	3337.6	3250	3460	3710
annual change in % (real, gross)	4.0	5.5	5.9	2.1	3.2	-0.2	1.5	4	4.5
Consumer prices (HICP), % p.a.	1.3	2.6	4.2	4.0	3.6	3.4	2.5	2.5	2.5
Producer prices in industry, % p.a.	1.8	2.0	2.4	3.9	5.8	-1.4	1	2	2
General governm.budget, EU-def., % GDP									
Revenues	40.2	40.3	39.6	37.4	.	.	.	.	.
Expenditures	43.9	42.2	43.3	44.5	.	.	.	.	.
Net lending (+) / net borrowing (-)	-3.6	-1.9	-3.7	-7.1	.	.	-6.9	-5.9	-4
Public debt, EU-def., in % of GDP	47.7	45.0	47.2	51.0	.	.	53	57	56
Discount rate of NB % p.a., end of period	4.3	5.3	5.3	3.8	4.0	3.8	3.8	3.8	3.8
Current account, EUR mn 3)	-7443	-14701	-18320	-5006	-95	-1158	-7000	-10000	-15000
Current account in % of GDP 3)	-2.7	-4.7	-5.1	-1.6	-0.1	-1.4	-2.0	-2.7	-3.9
Exports of goods, BOP, EUR mn 3)	93382	105883	120953	100172	23479	27932	108200	119000	130900
annual growth rate in %	20.4	13.4	14.2	-17.2	-22.4	19.0	8	10	10
Imports of goods, BOP, EUR mn 3)	98918	118249	138691	103354	24243	28884	111600	122800	137500
annual growth rate in %	24.0	19.5	17.3	-25.5	-28.3	19.1	8	10	12
Exports of services, BOP, EUR mn 3)	16349	21018	24228	20687	4551	5004	22250	24500	27400
annual growth rate in %	24.8	28.6	15.3	-14.6	-11.4	10.0	8	10	12
Imports of services, BOP, EUR mn 3)	15768	17583	20745	17231	3732	4282	17800	20100	22700
annual growth rate in %	25.9	11.5	18.0	-16.9	-18.3	14.7	7	13	13
FDI inflow, EUR mn 3)	15737	17241	10036	8251	1536	3527	11000	.	.
FDI outflow, EUR mn 3)	7122	4018	2047	2069	157	361	2000	.	.
Gross reserves of NB excl. gold, EUR mn	35237	42675	42299	52687	43972	60650	.	.	.
Gross external debt, EUR mn	128870	159106	172832	193938	169801	205473	.	.	.
Gross external debt in % of GDP	46.6	48.6	56.4	59.3	51.9	59.7	.	.	.
Average exchange rate PLN/EUR	3.90	3.78	3.51	4.33	4.50	3.99	4.1	4.1	4.1
Purchasing power parity PLN/EUR	2.26	2.28	2.36	2.48	.	.	.	.	.

Note: Gross industrial production, construction output and producer price index refer to NACE Rev. 2.

1) Preliminary. - 2) Enterprises with 10 and more employees. - 3) From 2006 including Special Purpose Entities (SPEs).

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