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Poland: Solid growth continues

The robust GDP growth is expected to continue. Growth will be driven primarily by domestic demand – in terms of both consumption and investment. Improvements in industrial labour productivity will help to contain the impact of any eventual currency appreciation. Trade developments will play a secondary – but increasingly negative - role. Whereas fiscal consolidation will proceed at a fairly gradual pace, monetary policy seems determined to combat inflation more vigorously than elsewhere in the EU.

The GDP grew by a solid 4.4% in the first quarter of 2011, roughly as fast as in the second half of 2010 but much faster than a year ago (when it rose 3%). Growth of private consumption remained strong while public consumption grew less dynamically. Inventories continued to increase and contributed 0.9 percentage points (p.p.) to the overall GDP growth rate. However, gross fixed investment seems to have taken off at last as well. The real growth rates of exports and imports of goods and non-factor services differed little: the contribution of foreign trade to the overall GDP growth was small (-0.1 p.p.). Value added rose strongly in construction and industrial activities (14% and 7.8% respectively).

The robust expansion of sales of industry has continued. Over the first four months of 2011 there has been a strong acceleration of sales of capital and intermediate industrial goods (of domestic origin). The construction sector, whose sales grew sluggishly in 2009-2010, recorded a spectacular growth in the first quarter of 2011 (primarily in civil engineering and in specialized construction activities). Employment in industry and construction has risen too, albeit at much lower speeds than output, implying growth in labour productivity. Labour productivity increased also in most service sector branches. Wages, though increasing (also in real terms), have trailed behind productivity, implying further cuts in unit labour costs. Profitability indicators for most branches of the nonfinancial corporate sector have improved. In the first quarter of 2011 the net profits of the whole non-financial corporate sector rose by some 20% over the same period of 2010 (to an equivalent of about EUR 5.5 billion); net profits of manufacturing corporations rose by close to 34%.

Also the financial corporate sector performed generally quite well – and the banking sector even very well. Net profits earned by banks in the first quarter of 2011 approached an equivalent of EUR 950 million and were some 52% higher than a year earlier. The banks' liquidity position remains strong; the capital-adequacy ratio for the banking system is high by international standards (13.75% at the end of March 2011) and the share of 'impaired' credits is stable at less than 9%. The share of credits denominated in foreign currencies is stable at about 33% of the stock of credits outstanding. The share of foreign-exchange credits in credits extended to non-financial firms is also stable at about 25%. But it may be remembered that credit liabilities of both households and the non-financial sector are still fairly low in relation to their disposable incomes. For example, the household sector's bank liabilities are about 30% of its disposable income (in the euro area that ratio approaches 100%).

The deficit of the central government budget was some 20% lower in the first four months of 2011 than in the same period of 2010. Most of the improvement is due to rising revenue from indirect taxation (partly owing to higher VAT rates). But total spending has not been curtailed. The situation of the consolidated public finances will be improving over the course of the current year also on account of the partial re-nationalization of the so-called second pillar of the pension system (in effect since 1 May 2011). Most of the employees' mandatory contributions to the privately-managed pension funds are to end up supporting the public pay-as-you-go system. Improvements on the fiscal front will keep the public debt to GDP ratio safely below the 55%. It may be remembered that the public foreign debt to non-residents currently accounts for less than 24% of the GDP. Reportedly, none of that debt is short-term and the bulk of it is long-term (with maturity of five years or more). Poland's sovereign debt position is fairly good (also because of high foreign reserves held by the National Bank of Poland).

The second half of 2011 should witness a self-supporting, if unspectacular, overall growth. Continuing growth in gross fixed investment by the private sector is expected to play a central role in it. (In the first quarter of 2011 the private sector's investment outlays rose by over 6%, while the public sector's declined – despite the infrastructure investment co-financed by transfers from the EU). The high liquidity reserves of the corporate sector firms (until now idly accumulating on their bank deposits) could then be put into more rewarding applications. In actual fact the most recent business climate poll (conducted by the National Bank¹) indicates that optimistic opinions are becoming quite frequent among the corporate sector's managers (especially of larger firms). The role of most identifiable

¹ http://www.nbp.pl/home.aspx?c=/ascx/koniunktura_prezentacja.ascx.

barriers to growth of larger firms (including the barrier of inadequate demand) is assessed as weakening while the levels of production capacity utilization are assessed as fairly high. But the smaller firms seem to be still following the 'wait-and-see' tactics. The fast – and largely unexpected – rise in prices of raw materials and intermediate inputs may have enhanced the levels of uncertainty among the managers of many smaller businesses, thereby moderating (or postponing) the realization of their investment plans.

The Polish currency was quite strong in the first quarter of 2011, at least vs. the euro. The strength of the zloty may have something to do with the rather high interest rates decreed by the National Bank of Poland. High rates may have been conducive to high inflows of capital (primarily in the form of foreign lending to the domestic corporate sector as well as in the form of portfolio investment targeting Polish treasury bonds). In so far as the capital inflows support the strength of the domestic currency they have hardly beneficial effects on the export (and import-competing) segments of the economy. Of course, given high international prices of energy carriers and other raw materials, a strong currency may help restrict the size of 'imported inflation'. This consideration may be important for Poland's Monetary Policy Council which – unlike the governing bodies of other Central Banks in Europe or elsewhere – has been bent on increasing the policy interest rates. The wisdom of this strategy is of course problematic not only because of its likely effects on developments in foreign trade (via currency appreciation). Also the strategy's effects on the expansion of foreign-sourced (as distinct from domestic-sourced) lending to native firms and households are potentially dangerous.

Poland's EU Presidency, starting soon, is the third one falling on a New Member State. The previous ones were not particularly productive. No doubt the Polish authorities will try to make it a success. But a success may be hard to achieve given the turbulences convulsing the euro area and the gathering tensions on the EU outer borders. Meeting these challenges may in fact be beyond the capacity of even the EU heavyweights. The realistically achievable goals of the Polish Presidency (sealing the EU accession of Croatia, making some progress on Ukraine-EU trade agreement) may leave the much greater problems (e.g. an expansion of the next EU budget) to be tackled later – or by someone else in any case. The fact that Poland's parliamentary elections will be held in October – at the Presidency's mid-term – is yet another factor that will quite certainly reduce the authorities' ability to act efficiently. Moreover, should the current coalition led by Donald Tusk be voted out of power (not an utterly impossible outcome), Poland's Presidency might end up in a mess comparable to the one crowning the Czech Presidency.

Poland's economic policy and economic performance during the next year or two may not depend on shorter-term political events, be they domestic or international. However, Poland's (and other NMS) longer-term economic prospects will critically depend on how Europe manages the challenges it now faces. For this reason the approaching Polish Presidency is potentially very important also for other NMS.

Table PL

Poland: Selected Economic Indicators

	2007	2008	2009	2010 ¹⁾	2010 1st quarter	2011	2011 Forecast	2012 Forecast	2013
Population, th pers., average	38121	38126	38152	38190	38175	38204	38180	38170	38150
Gross domestic product, PLN bn, nom.	1176.7	1275.4	1343.7	1412.8	324.1	349.0	1520	1620	1730
annual change in % (real)	6.8	5.1	1.7	3.8	3.0	4.4	3.8	4.2	4.3
GDP/capita (EUR at exchange rate)	8200	9500	8100	9300	.	.	.	.	.
GDP/capita (EUR at PPP)	13600	14100	14300	15200	.	.	.	.	.
Consumption of households, PLN bn, nom.	701.6	773.8	809.4	857.8	217.0	234.3	.	.	.
annual change in % (real)	4.9	5.7	2.1	3.3	2.2	3.9	3.8	4.5	4.5
Gross fixed capital form., PLN bn, nom.	253.7	283.9	285.2	276.1	39.9	42.4	.	.	.
annual change in % (real)	17.5	9.6	-1.1	-1.9	-11.4	6.0	4	6	7
Gross industrial production (sales) ²⁾
annual change in % (real)	9.3	2.6	-3.7	11.1	10.1	9.1	8	7	6
Gross agricultural production	.	.	.	.	.	.	.	.	.
annual change in % (real)	5.2	1.3	4.7	-11.4	.	.	.	.	.
Construction industry ²⁾
annual change in % (real)	16.4	9.8	4.7	3.9	-16.7	18.7	.	.	.
Employed persons - LFS, th, average	15240.5	15799.8	15868.0	15960.5	15574.0	15875.0	15950	16270	16680
annual change in %	4.4	3.7	0.4	0.6	-0.9	1.9	-0.1	2.0	2.5
Unemployed persons - LFS, th, average	1618.8	1210.7	1411.1	1699.3	1839.0	1771.0	.	.	.
Unemployment rate - LFS, in %, average	9.6	7.1	8.2	9.6	10.6	10.0	10	8.5	7.5
Reg. unemployment rate, in %, end of period	11.4	9.5	11.9	12.3	13	13.1	10.5	9.5	9.0
Average gross monthly wages, PLN	2672.6	2942.2	3101.7	3225.0	3340.9	3478.9 ²⁾	3460	3710	3960
annual change in % (real, gross)	5.5	5.9	2.0	1.5	-0.2	0.4 ²⁾	2	3	4
Consumer prices (HICP), % p.a.	2.6	4.2	4.0	2.7	3.4	3.6	3.5	2.5	2.5
Producer prices in industry, % p.a.	2.0	2.4	3.9	2.3	-1.4	7.7	2.5	2.5	2.0
General governm.budget, EU-def. % GDP	.	.	.	.	.	.	.	.	.
Revenues	40.3	39.5	37.2	37.8	.	.	40.0	40.1	.
Expenditures	42.2	43.2	44.5	45.7	.	.	45.8	43.7	.
Net lending (+) / net borrowing (-)	-1.9	-3.7	-7.3	-7.9	.	.	-5.8	-3.6	-3
Public debt, EU-def., in % of GDP	45.0	47.1	50.9	55.0	.	.	55.4	55.1	52
Central bank policy rate, % p.a., end of period ³⁾	5.0	5.0	3.5	3.5	3.5	3.8	4.3	4.5	4.0
Current account, EUR mn ⁴⁾	-14701	-17399	-6752	-11989	-1130	-3516	-14000	-16000	-18000
Current account in % of GDP ⁴⁾	-4.7	-4.8	-2.2	-3.4	-1.4	-4.0	-3.6	-3.9	-4.2
Exports of goods, BOP, EUR mn ⁴⁾	105883	120953	101715	122402	28441	32010	134600	148100	157000
annual growth rate in %	13.4	14.2	-15.9	20.3	18.5	12.5	10	10	6
Imports of goods, BOP, EUR mn ⁴⁾	118249	138691	104817	128404	29123	33123	143800	163900	177000
annual growth rate in %	19.5	17.3	-24.4	22.5	17.6	13.7	12	14	8
Exports of services, BOP, EUR mn ⁴⁾	21018	24207	20717	24528	4897	5978	27000	29700	32100
annual growth rate in %	28.6	15.2	-14.4	18.4	7.7	22.1	10	10	8
Imports of services, BOP, EUR mn ⁴⁾	17583	20729	17294	21899	4308	5115	24700	27900	30700
annual growth rate in %	11.5	17.9	-16.6	26.6	14.1	18.7	13	13	10
FDI inflow, EUR mn ⁴⁾	17241	10135	9893	7325	3527	4457	9000	.	.
FDI outflow, EUR mn ⁴⁾	4018	3071	3711	3554	361	2489	.	.	.
Gross reserves of NB excl. gold, EUR mn	42675	42299	52734	66253	60570	71720	.	.	.
Gross external debt, EUR mn	159106	174265	195025	233677	202797	.	.	.	.
Gross external debt in % of GDP	51.2	48.0	62.8	66.1	57.3	.	.	.	.
Average exchange rate PLN/EUR	3.7837	3.5121	4.3276	3.9947	3.99	3.94	3.9	3.9	4.0
Purchasing power parity PLN/EUR	2.2697	2.3745	2.4700	2.4290	.	.	.	.	.

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

1) Preliminary. - 2) Enterprises with 10 and more employees. - 3) Reference rate (7-day open market operation rate) - 4) Including Special Purpose Entities (SPEs).

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