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Poland: expansion to continue

Good times for business

Strong expansion continued in 2007, with private consumption and gross fixed investment contributing most. The GDP growth rate for the whole of 2007 is about 6.5%, the best result since 1997. The fast rise in output of industry (gross value up 7.6% in real terms), and of construction in particular (GVA up 20%) has been continuing. Concurrently, there has been a steady rise in employment accompanied by a strong upward drift in wages. Despite this net profits of the corporate non-financial sector and of commercial banks rose impressively (by over 25% each).

Following a long-term trend, the Warsaw Stock Exchange (WSE) had performed very strongly in terms of new issues, rising turnover and price indices. The latter trend came to an end in mid-2007. Since July the WSE has been suffering as much as other bourses in Europe and elsewhere – and for much the same reasons. There can be little doubt that the enormous losses suffered during the second half of 2007 by WSE investors will have some real consequences. Some segments of the better-off strata which have been gambling on the WSE (either directly on their own or through various investment funds) will have to swallow the losses. This will not necessarily much reduce their current consumption. In the near future these investors are likely to prefer safe treasury debt or longer-term deposits with trusted banks. However, not only the better-off are directly affected by the collapse of the stock exchange indices. Losses have also been suffered by the private pension funds which manage huge portfolios financed by premiums compulsorily extracted from the bulk of the working population ('the second pillar' of the pension system introduced in 1999).

Strong pace of capital formation

All in all, the stock market turmoil will not have any dramatic direct effects on consumption and also on households' housing investment. The stock exchange has played a minor role as a source of investment finance in the corporate sector. Currently, own funds play the major role (for 46% of firms undertaking new fixed asset investments), followed by bank credit (for about 32% of firms). Such a structure of financing of fixed assets is not surprising, given the huge profits earned and the excellent liquidity position of the corporate sector. With abundant own funds, high profitability, high levels of capacity utilization (84% on average), relatively low interest rates and generally strong demand expectations, the corporate sector is currently set on a further expansion of investment in fixed assets. This augurs quite well for the overall volume of gross fixed investment in the whole year of 2008 – and for the production potential in the medium-term perspective.

Employment continues to rise, amid signs of persistent labour shortages (particularly in construction). Two thirds of firms report problems over recruiting personnel, increased labour turnover or permanently unfilled vacancies. However, the intensity of complaints over labour shortages seems to have decreased somewhat. Firms may have learned to function quite well without fully satisfying their demand for labour – e.g. through a more efficient use of available workforce. Labour shortages have increased the frequency and levels of wage hikes offered by employers. But generally wages in the corporate sector still trail behind the rising labour productivity. The advances in labour productivity and in the overall efficiency, however, have reduced incentives for very high price hikes. Inflation, though accelerating recently, is generally expected to calm down in the second half of 2008. The National Bank of Poland is likely to continue raising its interest rates. But this is really unlikely to be very productive, given the distress felt by financial investors and the anyway enhanced alertness of the banking sector. Worse still, higher interest rates are likely to keep the zloty strong, which appears to be a major problem particularly for import-competing and export-oriented firms.

A deceleration on the horizon

Barring some extraordinary events on the global level, Poland's economic prospects are, on the whole, positive at least in the medium-term perspective. But in 2008 GDP growth will be slower than in 2007 on account of (i) less advantageous performance of foreign trade (negative impact of strong currency, possible growth slowdown in major export markets), and (ii) the advance of less optimistic sentiments (affecting consumption and housing investment adversely). In 2009-2010 growth is likely to decelerate further though not really dramatically. Even if lower inflation permits a renewed relaxation of monetary policy and a possible weakening of the exchange rate, and hence somewhat improves the foreign trade performance, the investment boom is likely to come to a natural end.

In the early parliamentary elections held in October, the party of the Kaczynski brothers suffered a decisive defeat. The new coalition government has not only inherited the economy in a very good shape; it also confronts many serious unresolved legal, political and administrative problems – and an uncooperative (if not hostile) President. Moreover, it faces a wave of strikes of the public-sector employees (teachers, doctors, customs officers etc.) demanding higher wages. No doubt the term of the new government began turbulently and this may justify the gaffs and mistakes already made. What is more disquieting is that it does not really seem to know how to address the most urgent problems such as the collapsing public health service system.

Table PL

Poland: Selected economic indicators

	2002	2003	2004	2005	2006	2007 ¹⁾	2008	2009	2010
	Forecast								
Population, th pers., end of period	38,219	38,191	38,174	38,157	38,125	38,120	.	.	.
Gross domestic product, PLN bn, nom. ²⁾	808.6	843.2	924.5	983.3	1,060.2	1,157	1,252	1,364	1,469
annual change in % (real) ²⁾	1.4	3.9	5.3	3.6	6.2	6.5	5.5	5.3	5
GDP/capita (EUR at exchange rate)	5,485	5,020	5,341	6,401	7,138	8,026	.	.	.
GDP/capita (EUR at PPP - wiiw)	9,880	10,140	10,960	11,480	12,340	13,470	.	.	.
Gross industrial production (sales)									
annual change in % (real)	1.1	8.3	12.6	3.7	11.2	10	10	8	8
Gross agricultural production									
annual change in % (real)	-1.9	-0.8	7.5	-4.3	-1.4
Construction output total									
annual change in % (real)	-0.3	0.9	-7.0	1.5	13.7	16.7 ^{I-XI}	.	.	.
Consumption of households, PLN bn, nom. ²⁾	532.6	545.1	586.0	610.4	647.9	699	.	.	.
annual change in % (real) ²⁾	3.4	2.0	4.4	2.0	4.9	5.2	5	5	4
Gross fixed capital form., PLN bn, nom. ²⁾	151.5	153.8	167.2	179.2	208.9	257	.	.	.
annual change in % (real) ²⁾	-6.3	-0.1	6.4	6.5	15.6	20.4	18	14	6
LFS - employed persons, th, avg. ³⁾	13,782	13,617	13,795	14,116	14,594	15,250	.	.	.
annual change in %	-3.0	0.6	1.3	2.3	3.4	4.5	3	2	1
Reg. employees in industry, th pers., avg.	2,671	2,639	2,663	2,665	2,709	2,804	.	.	.
annual change in %	-5.3	-1.2	0.9	0.1	1.6	3.5	2	2	1
LFS - unemployed, th pers., average ³⁾	3,431	3,329	3,230	3,045	2,344	1,880	.	.	.
LFS - unemployment rate in %, average ³⁾	19.9	19.6	19.0	17.8	13.9	11.0	9	8	7
Reg. unemployment rate in %, end of period ³⁾	18.0	20.0	19.1	17.6	14.8	11.4	10	.	.
Average gross monthly wages, PLN	2,098	2,185	2,273	2,361	2,476	2,691	.	.	.
annual change in % (real, gross)	0.7	3.4	0.7	1.8	4.0	6.3	6	5	4
Consumer prices, % p.a.	1.9	0.8	3.5	2.1	1.0	2.5	2.5	3.5	2.6
Producer prices in industry, % p.a.	1.0	2.6	7.0	0.7	2.3	2.3	3.3	.	.
General governm.budget, EU-def., % GDP ⁴⁾									
Revenues	39.2	38.4	36.9	39.0	40.1	40.2	.	.	.
Expenditures	44.2	44.6	42.6	43.3	43.9	43.5	.	.	.
Net lending (+) / net borrowing (-)	-5.0	-6.3	-5.7	-4.3	-3.8	-3	-3.1	-3.0	-2.9
Public debt, EU-def., % of GDP ⁴⁾	42.2	47.1	45.7	47.1	47.6	42.1	.	.	.
Discount rate of NB % p.a., end of period	7.5	5.8	7.0	4.8	4.3	5.3	6	5.5	5
Current account, EUR mn	-5,399	-4,108	-8,682	-3,866	-8,787	-12,300	-16,800	-21,000	-23,500
Current account in % of GDP	-2.6	-2.1	-4.3	-1.6	-3.2	-4.0	-4.8	-5.5	-6.0
Gross reserves of NB excl. gold, EUR mn	27,367	26,000	25,904	34,536	35,235	42,812	.	.	.
Gross external debt, EUR mn	81,045	85,067	95,163	112,234	128,606	144,586 ^{IX}	.	.	.
Gross external debt in % of GDP	40.3	47.6	42.0	44.1	46.5
FDI inflow, EUR mn	4,371	4,067	10,453	8,317	15,198	15,400	16,900	.	.
FDI outflow, EUR mn	228	269	668	2,756	7,134	2,000	2,200	.	.
Exports of goods, BOP, EUR mn	49,338	53,836	65,847	77,562	93,406	108,350	124,600	140,800	157,700
annual growth rate in %	6.0	9.1	22.3	17.8	20.4	16	15	13	12
Imports of goods, BOP, EUR mn	57,039	58,913	70,399	79,804	98,942	115,780	136,600	157,100	179,100
annual growth rate in %	3.5	3.3	19.5	13.4	24.0	17	18	15	14
Exports of services, BOP, EUR mn	10,545	9,850	10,815	13,105	16,354	19,600	22,500	25,900	29,800
annual growth rate in %	-3.4	-6.6	9.8	21.2	24.8	20	15	15	15
Imports of services, BOP, EUR mn	9,690	9,408	10,033	11,543	14,595	17,500	20,100	23,100	26,600
annual growth rate in %	-3.3	-2.9	6.6	15.1	26.4	20	15	15	15
Average exchange rate PLN/USD	4.08	3.89	3.65	3.23	3.10	2.77	.	.	.
Average exchange rate PLN/EUR (ECU)	3.86	4.40	4.53	4.03	3.90	3.78	3.6	3.6	3.75
Purchasing power parity PLN/USD	1.83	1.84	1.86	1.90	1.87	1.87	.	.	.
Purchasing power parity PLN/EUR	2.14	2.18	2.21	2.24	2.25	2.25	.	.	.

Note: The term "industry" refers to NACE classification C+D+E.

1) Preliminary and wiiw estimates. - 2) According to ESA'95 (FISIM adjusted and real change based on previous year prices; revision in government sector, shadow economy, etc.). - 3) From 2003 according to census May 2002. - 4) According to ESA'95 excessive deficit procedure; forecast wiiw estimate.

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