POLAND: Leaving stagnation (and inflation) behind?

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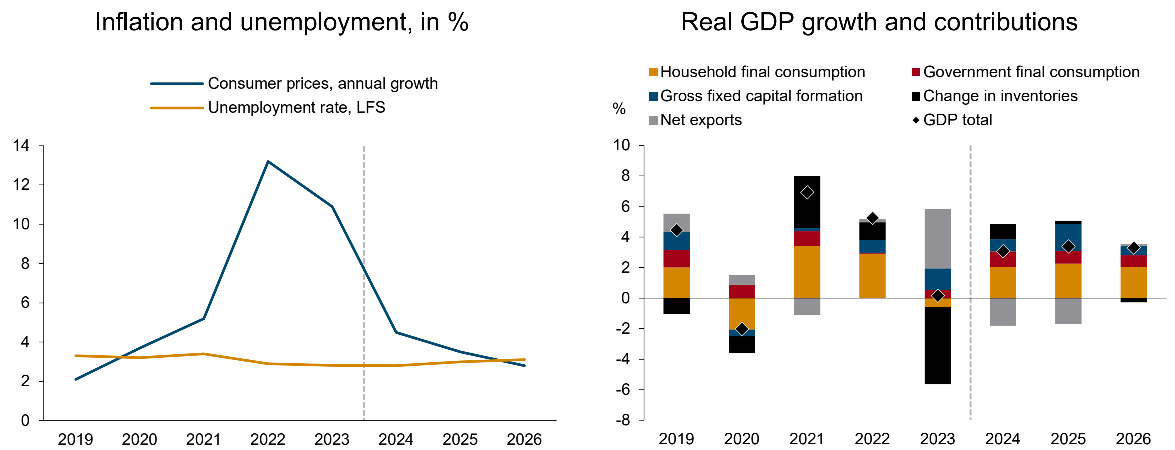
A shallow recession in the first half of 2023 was followed by a moderate recovery in the second, allowing GDP to grow by 0.2% in 2023 as a whole. Inflation and inflationary expectations are falling, while wages are rising apace. If this extra money is saved rather than spent, then the higher household incomes could depress output growth and support disinflation. Though the energy prices are likely to jump by up to 20% in July 2024, this need not provoke a return to high inflation. Nonetheless the move will affect private consumption and limit GDP growth.

Figure 6.16 / Poland: Main macroeconomic indicators



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

Moderate GDP growth in the second half of 2023 helped to make up for the output losses suffered during the recessionary first half of the year. The turnaround – due to quite a strong recovery in public consumption and a continuing expansion of gross fixed investment (mostly by the public sector) – finally allowed GDP to grow by a (symbolic) 0.2% in 2023 as a whole.

Household consumption stagnated throughout 2023, while the trade balance contributed strongly to growth (+3.9 percentage points (pp)). The positive contribution made by the trade balance was, however, overshadowed by the negative contribution of the change in inventories (-5.0 pp).

Growth has accelerated markedly in the first months of 2024. According to our provisional calculations, GDP may have risen by over 2% year on year in the first quarter of 2024, with private consumption up by over 3% and with a much-reduced negative contribution from changing inventories.

Inflation and inflationary expectations have been falling spectacularly. In February 2024 consumer price inflation (CPI) reached 2.8% (year on year), down from the peak of 18.4% recorded a year ago. Provisional estimates (by the Central Statistical Office) suggest that CPI may even have been lower in March (1.9%), less than the inflation target of 2.5%. Core inflation, though still elevated, is witnessing the same declining trend. Clearly, the effects of the earlier supply-side and cost perturbations are fading. At the same time, the falling inflation indicates that excess demand was not the primary source of the inflation. Weak demand and easing cost pressures have manifested themselves in a strong and protracted (since May 2023) fall in producer prices in manufacturing. The fact that CPI is mainly driven by the rising cost of services suggests that the current inflation is a vehicle of structural change in consumer preferences, rather than simply a sign of a general excess demand. Services in Poland – as elsewhere in less affluent countries – are still relatively cheap, and growing affluence should result in inflation for services rising faster than for goods.

Nominal wages have been rising briskly, not least on account of a hike in the statutory minimum wage and a 20% across-the-board rise in public-sector wages (30% for teachers). Both changes came into force on 1 January 2024. In fact, there has been an impressive improvement in real wages also in the private corporate sector. Stable labour market conditions (and fairly low unemployment), combined with continuing disinflation, mean that this translates into growing purchasing power for households' current incomes.

The growing prosperity of the household sector need not translate into a corresponding rise in private consumption, however, given the increased propensity to save. Rising household incomes ought – according to a widely held view – to lead to more rapid growth in private consumption. This would seem to justify the expectations of much faster GDP growth in 2024 (and beyond) – but it could also herald higher inflation. Household income is quite likely also to rise on account of additional social benefits and a lower tax burden on the smallest businesses. On the other hand, household deposits (and other financial assets) are continuing to grow quite strongly – and much faster than households' credit liabilities. It may be that the increased household income is being channelled into savings more than might normally be expected (rather than being spent on rising consumption). The high inflation of 2022-2023 eroded the real value of savings and investments of the household sector. It may now be high time to save more, so as to restore the real value of financial assets. In that case, output growth fed by additional income gains may prove less robust than is generally assumed.

As of 1 April, 5% VAT on foodstuffs has been reintroduced. This is unlikely to have any meaningful impact on overall CPI. The fierce price wars currently being waged by the biggest retail organisations will mitigate the scale of any possible food price rises.

Other uncertainties over inflation in 2024 persist. Apart from unpredictable movements in the price of imported raw materials (above all energy carriers), the country is facing a potential shock linked to the possible complete lifting of the temporary controls on internal energy prices. The decision on the scale and scope of the move (from July 2024) has not yet been announced. However, if the government did decide to unfreeze the energy prices completely, energy costs could jump by 20% in the second half of 2024 – and average inflation for the year as a whole would likely leap to nearly 6% (from the 3% expected if the current arrangements were to remain unchanged), eroding household real incomes and private consumption once again (if only temporarily). It is therefore reasonable to assume that the energy price controls will not be completely lifted; in all likelihood, such a scenario would result in inflation close to 4.5% in 2024 (and then falling further in 2025-2026).

Public-sector fiscal deficits will remain high in 2024 and beyond. Fulfilment of some of the electoral promises made last autumn is going to cost the public finances quite dear. In addition, the country is set to maintain high spending on defence (approximately 3.5% of GDP). Disinflation (and fairly weak growth in 2023) is also proving quite costly for the government, on account of lower tax revenue. Hiking the energy prices may be of some use – albeit limited: that would reduce the fiscal deficit by at most about 1% of GDP in 2024 (from about 6% to 5%). The fiscal gains of higher energy prices in 2025-2026 would be even lower.

Public debt is still not a serious problem. At about 49.6% of GDP, public debt was still relatively low in 2023 (the public sector's foreign currency debt is about 12.7% of GDP). Although these indicators are going to rise, even if energy prices are fully deregulated, the 60% limit for the public debt/GDP ratio required under EU regulations will not be exceeded.

Servicing the public debt is fairly costly. In 2022, the interest on public debt was about 1.5% of GDP; in 2023 it was about 2.2%. The high interest rates maintained by the National Bank of Poland (NBP) (the average reference rate in 2023 was 6.44% vs. 5.35% in 2022) are part of the fiscal problem. Also, in the context of the pretty anaemic expansion of credit to the economy, the government would now like to see a much more relaxed monetary policy that would facilitate economic recovery. But the NBP seems determined to keep its rates unchanged (since October 2023, the reference rate has been 5.75%).

The tug of war between the NBP and the new government has not (yet) affected the economy. The outcome of the legal battle over the tenure of the present governor (which will take time) is not easy to predict. In the meantime, the conflict does not seem to have affected the Polish currency (which is very strong), financial markets or capital inflows. The remarkable strength of the PLN is partly due to the high interest rates. Besides, foreign exchange inflows are quite large, also due to current account surpluses.

The new government has taken over the agenda of the old administration, but hopes to unlock the EU funds. Having won the parliamentary elections in October 2023, the broad coalition of centrist parties led by Mr Tusk assumed power in mid-December. Naturally, the new government's current actions have to be consistent with the budget law for 2024 that was drawn up by the previous government controlled by Mr Kaczyński's Law and Justice Party (PiS). As concerns fiscal (and social) policies, no major changes are likely in 2025-2026 either. But the new government has managed to unlock the first (limited) portion of the EU recovery funds, which under the PiS government had been blocked because of rule-of-law disputes with Brussels. Making good use of these funds will help to promote improvements in infrastructure, the healthcare and education systems.

Table 6.16 / Poland: Selected economic indicators

	2020	2021	2022	2023 1)	2024	2025 Forecast	2026
Population, th pers., average 2)	37,899	37,747	37,204	36,700	36,700	36,700	36,700
Gross domestic product, PLN bn, nom.	2,338	2,631	3,067	3,396	3,680	3,940	4,190
annual change in % (real)	-2.0	6.9	5.3	0.2	3.1	3.4	3.3
GDP/capita (EUR at PPP)	22,930	25,240	28,160	29,980	.	.	.
Consumption of households, PLN bn, nom.	1,300	1,455	1,745	1,915	.	.	.
annual change in % (real)	-3.6	6.2	5.2	-1.0	3.6	4.0	3.6
Gross fixed capital form., PLN bn, nom.	428	442	516	593	.	.	.
annual change in % (real)	-2.3	1.2	4.9	8.4	4.5	10.0	3.6
Gross industrial production (sales) 3)							
annual change in % (real)	-1.2	14.5	10.3	-1.2	2.0	4.6	4.6
Gross agricultural production							
annual change in % (real)	7.8	-1.7	-0.6	0.5	.	.	.
Construction industry 3)							
annual change in % (real)	-3.5	1.5	7.6	4.9	.	.	.
Employed persons, LFS, th, average 2)4)	16,441	16,656	17,251	17,307	17,360	17,360	17,360
annual change in %	-0.1	2.6	0.5	0.3	0.3	0.0	0.0
Unemployed persons, LFS, th, average 2)4)	537	580	511	502	500	540	560
Unemployment rate, LFS, in %, average 2)4)	3.2	3.4	2.9	2.8	2.8	3.0	3.1
Reg. unemployment rate, in %, eop	6.8	5.8	5.2	5.1	.	.	.
Average monthly gross wages, PLN 5)	5,226	5,683	6,363	7,155	8,000	8,610	9,160
annual change in % (real, gross)	2.9	3.3	-1.8	1.1	7.0	4.0	3.5
Consumer prices (HICP), % p.a.	3.7	5.2	13.2	10.9	4.5	3.5	2.8
Producer prices in industry, % p.a.	-0.5	7.9	23.7	3.9	3.0	4.0	2.5
General governm. budget, EU def., % of GDP							
Revenues	41.3	42.3	40.2	40.3	41.3	41.6	41.7
Expenditures	48.2	44.1	43.9	45.9	45.5	46.9	47.0
Net lending (+) / net borrowing (-)	-6.9	-1.8	-3.7	-5.6	-5.4	-5.3	-5.3
General gov. gross debt, EU def., % of GDP	57.2	53.6	49.3	49.3	51.0	53.0	55.0
Stock of loans of non-fin. private sector, % p.a.	0.4	4.6	0.2	-2.5	.	.	.
Non-performing loans (NPL), in %, eop	7.0	5.8	5.6	5.4	.	.	.
Central bank policy rate, % p.a., eop 6)	0.10	1.75	6.75	5.75	5.25	4.50	4.00
Current account, EUR m 7)	12,820	-7,404	-15,722	11,775	4,400	-10,500	-9,600
Current account, % of GDP 7)	2.4	-1.3	-2.4	1.6	0.5	-1.2	-1.0
Exports of goods, BOP, EUR m 7)	220,604	263,723	322,119	334,387	374,500	408,200	428,600
annual change in %	0.1	19.5	22.1	3.8	12.0	9.0	5.0
Imports of goods, BOP, EUR m 7)	213,625	271,406	346,398	328,180	372,500	424,700	450,200
annual change in %	-4.9	27.0	27.6	-5.3	13.5	14.0	6.0
Exports of services, BOP, EUR m 7)	58,308	68,731	90,884	99,959	105,500	115,000	121,900
annual change in %	-7.4	17.9	32.2	10.0	5.5	9.0	6.0
Imports of services, BOP, EUR m 7)	35,329	41,939	54,385	60,303	63,300	72,200	75,100
annual change in %	-9.1	18.7	29.7	10.9	5.0	14.0	4.0
FDI liabilities, EUR m 7)	16,646	30,568	34,608	27,880	.	.	.
FDI assets, EUR m 7)	4,132	8,583	10,685	11,227	.	.	.
Gross reserves of CB excl. gold, EUR m	114,299	134,652	143,949	153,878	.	.	.
Gross external debt, EUR m 7)	307,412	323,335	347,584	386,353	397,600	411,900	423,700
Gross external debt, % of GDP 7)	58.4	56.1	53.1	51.7	47.0	46.0	45.0
Average exchange rate PLN/EUR	4.4430	4.5652	4.6861	4.5420	4.35	4.40	4.45

Note: Introduction of new index 2021=100 (new weights) for gross industrial production and producer prices in industry.

1) Preliminary and wiiw estimates. - 2) From 2022 according to census 2021. - 3) Enterprises with 10 and more employees. - 4) From 2021 new LFS methodology in line with the Integrated European Social Statistics Regulation (IESS). - 5) Excluding employees in national defence and public safety. - 6) Reference rate (7-day open market operation rate). - 7) Including SPE.

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