Leon Podkaminer

Poland:
Moderate acceleration, not a headlong rush

After a slow start (in the first quarter of 2009 GDP rose by 0.8%), growth has accelerated throughout the year. Eventually, GDP increased by 1.7% in 2009, according to official estimations. Expectations of recession, voiced not quite long ago by most institutions (including the European Commission and OECD), turned out incorrect. Poland is thus one of the few countries in Europe which avoided recession in 2009.

The contracting inventories continue to be the major drag on growth. They contributed minus 2.5 percentage points (pp) to overall GDP growth in 2009. However, the inventory contraction seems to have been slowing down. Gross fixed capital formation, which quite minimally declined in the second and third quarters of the year, rebounded already in the fourth. Its contribution to the yearly GDP growth rate is close to zero. Growth of consumption (both private and public) weakened considerably in the second quarter. But growth of private consumption accelerated anew in the second half of 2009. Overall private consumption rose by 2.3%, contributing 1.4 pp to overall growth. Public consumption rose less vigorously so that total consumption increased by a mere 2%. Despite some decline in employment, the total wage bill (gross) rose by 5.2% nominally in 2009, or by over 1.6% in real terms. Households’ disposable purchasing power was strongly augmented by high increases in pensions, retirement pays and other mandatory social transfers. The average retirement pay and pension rose by 4.3% in real terms. Together with private consumption, foreign trade remains the major force behind the economy’s resilience. In 2009 foreign trade contributed about 2.7 pp to overall GDP growth.

Industrial sales, which had fallen by some 10% in the first quarter of 2009, recovered later on. In the closing months of 2009 industrial production accelerated very strongly. Overall, industrial output fell by just 3.2% in 2009. The sales by industrial branches producing primarily intermediate and investment goods were about 6.3% and 9% lower than a year earlier, respectively. But the same indices for sales of nondurable and durable consumer goods were positive: 5.1% and 13.8% respectively. Clearly, consumer sentiments have been quite buoyant. Importantly, in the fourth quarter of 2009 sales of intermediate goods also accelerated, and quite strongly too, while the decline in sales of investment goods seems to have stopped. This bodes quite well for the recovery in 2010.

Average employment in industry fell by some 5.5% in 2009, while the average nominal wage rose by some estimated 4.9%. The initial losses in terms of labour productivity and unit labour costs suffered in 2008 and the first quarter of 2009 have thus been fully offset.
Net post-tax profits earned in industry in the third quarter of 2009 rose by 30% over the same period of 2008. However, the extraordinary losses recorded in the first quarter (due mainly to earlier reckless engagement in the purely speculative currency options business\(^1\)) were not yet retrieved. Net profit earned in industry in the first three quarters of 2009 was still over 6% lower than in the same period of 2008. Other segments of the non-financial corporate sector performed similarly. The net profit earned by the whole non-financial corporate sector in the first three quarters of 2009 was 5% lower than a year earlier. But the sector's profits are recovering fast: in the third quarter profits were already 18.6% higher than a year before. Importantly, the recovery of profits is strengthening the liquidity position of non-financial firms. According to the January 2010 business climate survey of the National Bank of Poland, close to 72% of firms do not report liquidity problems, and over 89% of firms service their bank debts 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 the debts continuing to deteriorate in the segment of small firms and also for the producers of capital goods.

Banks' profits, strongly depressed in the first quarter of 2009, have continued to recover as well. But they are still lower than in the exceptionally good first three quarters of 2008. Banks' net profits made in the third quarter of 2009 were still some 34% lower than a year before. This is due primarily to large provisions (i.e. reserves mitigating eventual losses) made by the banks. Larger provisions are to counter higher risks following the deterioration of banks' balance sheets. The share of problematic loans has been on the rise. At the end of September 2009 the ratio of such loans in the total stocks of loans stood at 7% (up from 4.4% a year earlier). The ratio for the problematic loans to the corporate sector roughly doubled (to 10.8%), but the ratio for such loans to households continues to be small (1.4%). Interestingly, the irregular loan ratios for loans denominated in foreign currencies are much lower than for loans in domestic currency (in all loan categories). At about 1.07, the banks' loans/deposits ratio has improved – and is very low by international standards. Banks' solvency rate (i.e. the Capital Adequacy Ratio) stands at a level considered quite satisfactory (13% up from 11.6% a year ago). The leverage ratio (assets/own funds) fell to 12.5% (from 15% reported for the first quarter of 2009). These improvements followed the retention of the large profits earned in 2008. Other available indicators suggest that the banking sector is in fairly good shape. In particular its liquidity position remains strong. The risk of larger-scale withdrawals of foreign financing of the banks seems to have diminished further.

In 2009, the stock of bank loans to households and non-financial corporations rose by about 6% nominally. Credit expansion is still clearly subdued, especially as far as the non-financial corporate sector is concerned. The stock of loans to that sector fell nominally by close to 1.5%. This development is quite understandable given the corporate sector’s generally good financial standing coupled with its currently low propensity to invest in new production capacities. Relatively low interest rates on new loans to the corporate sector and the banks’ somewhat less restrictive lending standards (as compared to early 2009) appear unable to induce higher demand for corporate loans.\(^1\) Throughout the first half of 2008 the continuing steep appreciation of the zloty attracted very many managers and entrepreneurs to the currency (call) option business. As the zloty depreciated steeply in the closing months of 2008 and in January/February 2009, the option business left them with huge losses.
It may be added that the nominal stock of loans to households has been rising more meaningfully, by 11% (since the year’s beginning). The bulk of new credit (currently denominated predominantly in domestic currency) to households serves the satisfaction of their housing needs.

The dramatic changes in the foreign trade balances reported in 2009 have helped to radically reduce the current account deficits. This was supportive in restoring the confidence of foreign investors. The massive capital outflows observed in the closing months of 2008 have been replaced with fairly high inflows, including FDI. Consequently, the official reserves of the National Bank have risen sharply and the zloty/euro exchange rate has strengthened again. So far that strengthening has not been excessive.

A general government deficit of up to 6% of GDP is likely in 2010. The deficit expands primarily due to the operation of ‘automatic stabilizers’, and not because of any deliberate actions aimed at demand stimulation. Infrastructure investment, co-financed out of EU transfers, remains strong. Politics (with the upcoming presidential elections later this year, and general elections due in 2011) make truly dramatic changes in the public financial system rather unlikely anytime soon. But some potential for cutting the public sector deficits certainly exist – and seems to be seriously considered by the government. Specifically, it has been proposed that the so-called second pillar of the pension system (part and parcel of the radical reform introduced ten years ago) be now radically downsized. By reducing the contributions currently amassed by the private pension societies, the public sector deficits could be lowered by up to 1.5% of GDP per year. It goes without saying that the proposal is vehemently protested by the pension societies and their experts.

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 2010 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 position of households, firms and banks) would anyway help to sustain recovery, especially if recession in Poland’s major trading partners comes to an end.
## Poland: Selected Economic Indicators

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<tr>
<td>Population (th pers., average)</td>
<td>38182.2</td>
<td>38165.4</td>
<td>38141.3</td>
<td>38120.6</td>
<td>38125.8</td>
<td>38149.9</td>
<td>38175</td>
<td>38150</td>
<td>38150</td>
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<td>Gross domestic product, PLN bn, nom.</td>
<td>924.5</td>
<td>983.3</td>
<td>1060.0</td>
<td>1176.7</td>
<td>1272.8</td>
<td>1340</td>
<td>1410</td>
<td>1490</td>
<td>1580</td>
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<tr>
<td>GDP/capita (EUR at exchange rate)</td>
<td>5300</td>
<td>6400</td>
<td>7100</td>
<td>8200</td>
<td>9500</td>
<td>8100</td>
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<tr>
<td>GDP/capita (EUR at PPP)</td>
<td>11000</td>
<td>11500</td>
<td>12300</td>
<td>13600</td>
<td>14100</td>
<td>14600</td>
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<td>Consumption of households, PLN bn, nom.</td>
<td>589.4</td>
<td>614.3</td>
<td>652.8</td>
<td>701.6</td>
<td>773.9</td>
<td>820</td>
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<td>Gross fixed capital form., PLN bn, nom.</td>
<td>6.4</td>
<td>6.5</td>
<td>14.9</td>
<td>17.5</td>
<td>8.1</td>
<td>-0.3</td>
<td>4</td>
<td>8</td>
<td>12</td>
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<td>Employed persons - LFS, th, average</td>
<td>13794.8</td>
<td>14115.6</td>
<td>14593.6</td>
<td>15240.5</td>
<td>15799.6</td>
<td>15800</td>
<td>15720</td>
<td>15800</td>
<td>16120</td>
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<tr>
<td>Unemployed persons - LFS, th, average</td>
<td>13.9</td>
<td>8.7</td>
<td>7.1</td>
<td>8.4</td>
<td>9.2</td>
<td>10.8</td>
<td>12.5</td>
<td>13.0</td>
<td>13.5</td>
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<tr>
<td>Unemployment rate - LFS, in %, average</td>
<td>19.0</td>
<td>17.7</td>
<td>13.8</td>
<td>9.6</td>
<td>7.1</td>
<td>8.4</td>
<td>9.9</td>
<td>10.5</td>
<td>11.0</td>
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<tr>
<td>Average gross monthly wages, PLN</td>
<td>2273.4</td>
<td>2360.6</td>
<td>2475.9</td>
<td>2672.6</td>
<td>2942.2</td>
<td>3103</td>
<td>3250</td>
<td>3460</td>
<td>3710</td>
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<tr>
<td>Current account, EUR mn</td>
<td>25870</td>
<td>34535</td>
<td>35237</td>
<td>42675</td>
<td>42299</td>
<td>42867</td>
<td>42299</td>
<td>52687</td>
<td>.</td>
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### Notes:
- Preliminary and wiiw estimates. - Enterprises with 10 and more employees. - From 2006 including Special Purpose Entities (SPEs).

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