

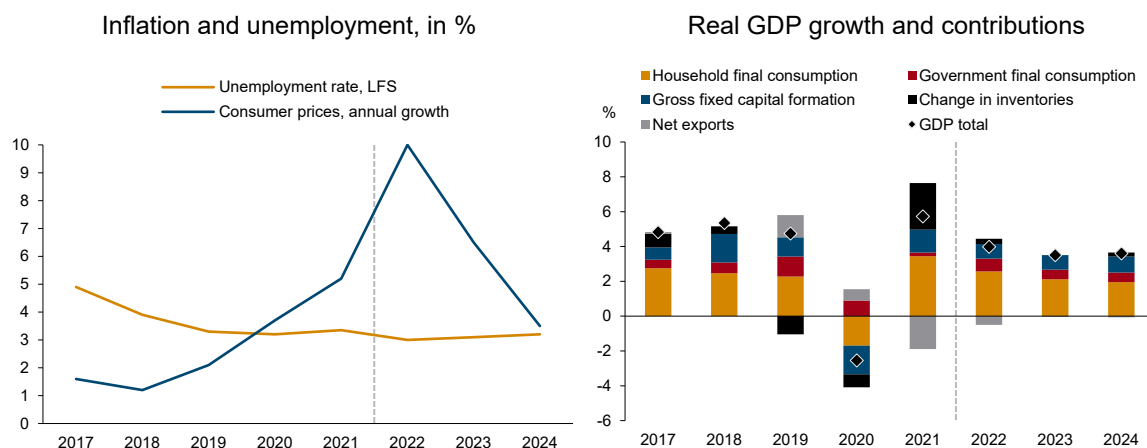


POLAND: The fight against inflation set to cause collateral damage

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The Polish economy has proved surprisingly resilient so far. Industry has performed strongly in the first months of 2022, despite the unfavourable conditions. But growth will slow in 2022 and beyond. Rising interest rates are affecting consumption and investment, and inflation is eroding the real value of current incomes. In addition, the export prospects look less promising than before the war. To cap it all, essential imports (e.g. energy, metals) may be in short supply, or else become prohibitively expensive.

Figure 4.16 / Poland: Main macroeconomic indicators



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

Last year saw a strong recovery that, on most counts, recouped the losses caused by the COVID-19 pandemic in 2020. Growth even accelerated in Q4 2021, when GDP rose by 7.3%, household consumption by 7.9%, gross fixed capital formation by close to 12% and exports by 6% (although imports jumped by over 11%).

The data available for the first two months of 2022 suggested a continuation of those recent trends, both positive and negative. Industry performed very well, with a double-digit increase in sales (in real terms), record levels of profitability and high investment activity. Similarly, the construction sector fared very well and merchandise exports rose strongly (albeit trailing far behind imports). On the clearly negative side, inflation – already unusually high in the final months of 2021 – intensified in the first months of 2022: in March, the consumer price index stood at 10.9%.

In March, the government lifted all COVID restrictions, thereby declaring victory over the pandemic. In fact, this is a rather Pyrrhic victory: since March 2020, the nation has suffered over 115,000 COVID-related deaths (as well as innumerable further fatalities, due to the inability of the overcrowded hospitals to treat cancer, cardiac and other emergency cases). In all probability, it is far too early to celebrate the end of the pandemic: it may yet return and play havoc again. The massive influx of refugees from Ukraine, where the vaccination rates are even lower than in Poland, increases the risk to public health.

Over 2.5m refugees have crossed into Poland from Ukraine since the Russian invasion of that country. It is roughly estimated that about half a million of them have since moved on to other countries (or back to Ukraine). Ordinary Poles – and the local authorities across the country – have been welcoming, and have assisted the refugees in exemplary fashion. The central government has also helped in terms of administrative measures (e.g. by granting them access to the labour market and social services) and financially (e.g. providing certain social security benefits).

The inflow of Ukrainians is unlikely to have much impact on the labour market, since most of the refugees are women with children or the elderly. Moreover, there is some evidence that those Ukrainian males who were working in Poland prior to the war are returning to their own country now. This will affect some male-dominated sectors, such as construction. On balance, the total labour supply may remain much the same, at least in the short-to-medium term.

The refugee influx is creating some longer-term problems. The provision of additional adequate housing cannot be achieved fast enough. Nor will the integration of refugee children into the local education system be without its difficulties. Also, there must be a question mark over the public health system, which was creaking even before the war. Moderating the strain caused by the influx will require rather a lot of extra money. And that will further expand the fiscal deficit – even if the EU and the US assist with donations.

The government does not conceal its fairly illiberal inclinations in terms of the treatment of the media, the judicial system, sexual minorities, the rights of women, the alleged bugging of the opposition, etc. The government, though hostile to Russia, is friendly towards Mr Orbán's regime in Hungary, and never tires of castigating 'Brussels', Germany, France and the 'liberal West' as a whole. Despite the war, its relationship with the European Commission has not improved much. The national recovery plan has not yet been approved by Brussels, which is still waiting for Poland to disband the institution created to 'discipline' Poland's judges.

The fiscal system is in disarray. The trumpeted reform of the personal tax system, which has been in place since 1 January 2022, has proved a complete fiasco. Attempts to patch it up have failed, as its internal inconsistencies have become all too obvious. An entirely new system is to be introduced by the middle of the year. In all probability, it will result in a further reduction in total personal tax revenues, thus increasing the public sector deficit. As a consequence, social spending and public investment may have to be reined in – particularly if the awaited EU transfers are withheld.

Inflation is felt to be the major problem, as it apparently undermines the government's claim to be competent at running the economy. In fact, global factors (energy and food prices) are the main culprits, with the state-owned energy and fuels cartels playing second fiddle (through exorbitant markups).

Nonetheless, the government is trying to shield consumers by means of 'temporary' cuts to VAT and excise tax rates. Clearly, this will do nothing to improve the overall fiscal balance of the public sector.

Monetary policy is being tightened, but this will have little impact on inflation. For most of 2021, the National Bank of Poland (NBP) stoically turned a blind eye to the rising inflation. Only in October, as the vocal expressions of concern by the opposition and 'experts' became too hard to ignore, did it raise its main interest rate from 0.1% to 0.5%. Further hikes have followed. Now, in April, the rate stands at 4.5%, and it looks as though the trend will continue. Naturally, it will not do much (if anything) to help with inflation (which is primarily imported), at least over a meaningful time horizon. Higher interest rates are likely to support cost-push in firms that depend on credit to finance their working capital. Above all, higher interest rates will most probably negatively affect investment and consumer spending, but will not necessarily have much impact on the PLN exchange rate. (The invasion of Ukraine led to panic, which resulted in a very strong depreciation of the PLN; the NBP responded with a small-scale forex intervention that proved sufficient to prevent the slide. Currently the PLN trades at rates not much different from the pre-war levels.)

The economy has proved surprisingly resilient so far. As evidenced by the performance of industry and construction in the first months of the year, it has withstood fairly well the failed experiments with the tax system, the rising cost of energy, the shortages of certain critical imported production inputs, and even the first steps of a more hawkish monetary policy.

Growth is expected to slow in 2022 and beyond. Apart from the negative impact of rising interest rates on consumption and investment, inflation is eroding the purchasing power of current incomes. This will restrict domestic aggregate demand. In addition, the prospects for exports now look less rosy than before the war. Certainly, exports to Russia and Belarus will be dramatically reduced. In addition, essential imported raw materials (whether energy carriers or some metals) may be in short supply, or could become prohibitively expensive. All these factors suggest that growth in 2022 and 2023 will be less impressive than in 2021.

Table 4.16 / Poland: Selected economic indicators

	2018	2019	2020	2021 ¹⁾	2022	2023	2024
					Forecast		
Population, th pers., average	38,423	38,397	38,324	38,370	38,360	38,360	38,370
Gross domestic product, PLN bn, nom.	2,122	2,293	2,327	2,603	2,950	3,240	3,470
annual change in % (real)	5.4	4.7	-2.5	5.7	4.0	3.5	3.6
GDP/capita (EUR at PPP)	21,420	22,740	22,640	24,810	.	.	.
Consumption of households, PLN bn, nom.	1,221	1,299	1,301	1,454	.	.	.
annual change in % (real)	4.3	4.0	-3.0	6.2	4.6	3.8	3.5
Gross fixed capital form., PLN bn, nom.	386	420	386	433	.	.	.
annual change in % (real)	9.4	6.1	-9.0	7.9	5.0	5.0	5.5
Gross industrial production (sales) ²⁾							
annual change in % (real)	5.9	4.1	-1.2	14.5	6.5	5.0	5.0
Gross agricultural production							
annual change in % (real)	-0.4	-0.9	8.0	-0.7	.	.	.
Construction industry ²⁾							
annual change in % (real)	19.7	3.7	-3.5	1.5	.	.	.
Employed persons, LFS, th, average ³⁾	16,484	16,461	16,442	16,656	16,740	16,870	17,000
annual change in %	0.4	-0.1	-0.1	2.6	0.5	0.8	0.8
Unemployed persons, LFS, th, average ³⁾	659	558	537	580	520	540	560
Unemployment rate, LFS, in %, average ³⁾	3.9	3.3	3.2	3.4	3.0	3.1	3.2
Reg. unemployment rate, in %, eop	5.8	5.2	6.3	5.4	.	.	.
Average monthly gross wages, PLN ⁴⁾	4,590	4,920	5,226	5,663	6,420	7,080	7,580
annual change in % (real, gross)	5.4	4.8	2.9	3.0	3.0	3.5	3.5
Consumer prices (HICP), % p.a.	1.2	2.1	3.7	5.2	10.0	6.5	3.5
Producer prices in industry, % p.a.	2.1	1.3	-0.5	8.1	9.0	6.0	3.0
General governm. budget, EU def., % of GDP							
Revenues	41.3	41.0	41.5	40.0	41.0	39.0	41.5
Expenditures	41.5	41.8	48.7	45.5	46.0	43.0	44.5
Net lending (+) / net borrowing (-)	-0.2	-0.7	-7.1	-5.5	-5.0	-4.0	-3.0
General gov. gross debt, EU def., % of GDP	48.8	45.6	57.4	59.8	59.6	59.3	59.0
Stock of loans of non-fin. private sector, % p.a.	7.1	4.7	0.4	4.6	.	.	.
Non-performing loans (NPL), in %, eop	6.9	6.7	7.0	5.8	.	.	.
Central bank policy rate, % p.a., eop ⁵⁾	1.50	1.50	0.10	1.75	5.25	4.50	3.25
Current account, EUR m ⁶⁾	-6,513	2,520	15,293	-3,540	-4,900	-3,500	-2,900
Current account, % of GDP ⁶⁾	-1.3	0.5	2.9	-0.6	-0.8	-0.5	-0.4
Exports of goods, BOP, EUR m ⁶⁾	217,110	232,930	236,002	280,337	308,400	351,600	383,200
annual change in %	7.4	7.3	1.3	18.8	10.0	14.0	9.0
Imports of goods, BOP, EUR m ⁶⁾	223,330	231,403	223,523	280,936	314,600	362,100	394,700
annual change in %	10.3	3.6	-3.4	25.7	12.0	15.1	9.0
Exports of services, BOP, EUR m ⁶⁾	57,780	62,749	58,056	68,160	72,900	81,300	87,800
annual change in %	13.0	8.6	-7.5	17.4	7.0	11.5	8.0
Imports of services, BOP, EUR m ⁶⁾	36,508	38,883	35,220	41,738	44,200	49,300	55,200
annual change in %	9.8	6.5	-9.4	18.5	6.0	11.5	12.0
FDI liabilities, EUR m ⁶⁾	14,809	14,976	15,192	27,925	24,000	22,000	26,000
FDI assets, EUR m ⁶⁾	1,954	4,593	4,055	7,066	6,000	4,000	8,000
Gross reserves of CB excl. gold, EUR m	97,633	104,526	114,299	134,654	.	.	.
Gross external debt, EUR m ⁶⁾	316,683	316,569	305,694	320,374	336,200	359,200	362,100
Gross external debt, % of GDP ⁶⁾	63.6	59.3	58.4	56.2	53.0	51.0	48.0
Average exchange rate PLN/EUR	4.2615	4.2976	4.4430	4.5652	4.65	4.60	4.60

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

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