

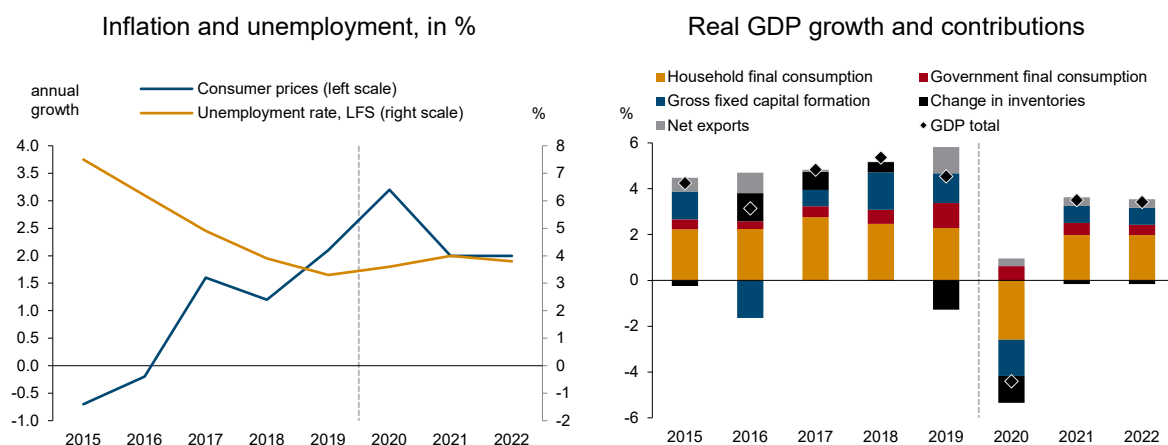


POLAND: This time not quite a success story

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In the second quarter of 2020, GDP fell by 7.9%, but the third quarter has brought some respite to industry. Monetary and fiscal policies have been very expansionary so far, limiting the scale of GDP decline. Inadequate demand remains the chief problem, followed by the falling profitability of firms and continuing uncertainty, also over the pandemic. Consumption may not recover and investment will decline further. Moderate improvements in 2021 and beyond are possible, but not guaranteed.

Figure 4.16 / Poland: Main macroeconomic indicators



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

After a modest 1.7% growth in the first quarter of 2020, GDP fell quite sharply, by 7.9%, in the second quarter (year on year). The GDP decline of 3.2% in the first half of the year still does not look very alarming. Almost all GDP components followed the same pattern: initially modest growth, followed by deep slump. Only public consumption weathered the storm. In the first half of the year as a whole, public consumption, supported by extraordinary spending, rose steadily, by 4.6%. Household consumption fell by 5% in the first six months and gross fixed investment by 6%. Inventories were sharply reduced, shaving 1.7 percentage points off the GDP growth rate in the second quarter. In real terms imports of goods and non-factor services have fallen more than exports (in the first half of the year, the decline was about 8% and 7%, respectively). Foreign trade thus contributed positively to the overall GDP growth. The size of that contribution increased to 0.8% in the second quarter of 2020.

The third quarter of 2020 brought respite to industry, but not to the construction sector. Over the first eight months of 2020, industrial sales were down by 4.5% (year on year). However, the decline had already ceased in June, and in August sales were nearly 2% higher than in the previous year. The sales (and output) losses were largest in the segment supplying capital goods and smallest in the segment supplying durable consumer goods. Moreover, sales have continued to decline in the former segment, while they are growing rapidly in the latter. Overall, the prospects for industry are not very encouraging, as the volume of orders placed is falling (though they remain unchanged so far as export orders are concerned). The construction sector has fared rather worse: after a very strong (9%) growth in sales in the first quarter of the year and just a modest decline (of 2.4%) in the second, output slumped in July and August. The prospects for the sector are rather bleak, as the volume of orders placed is continuing to fall off.

Inadequate demand remains the chief problem facing the economy – on a par with the debilitating uncertainty. Declining profit margins (amid falling sales, rising labour costs and falling producer prices) are also hurting. In the corporate non-financial sector (firms employing over 50 persons), net profits fell by nearly 23% in the first half of the year. In manufacturing corporations the decline was even worse – nearly 40%. The automotive sector fared particularly badly, ending the half year with a net loss (matching the losses made by mining and the accommodation and catering sectors). Despite the fact that many firms (of all sizes) benefited in the second quarter from the various government programmes designed to shield them from the worst effects of the lockdown, about a quarter of those manufacturing firms polled reckon on going out of business within three months if present conditions continue. (In the construction sector, the figure exceeds 40%.) Net profits in the banking sector were nearly halved in the first half of the year; many smaller banks (primarily the cooperative ones) are loss makers and may not survive.

Earlier shortages of labour have ceased to be a serious problem – though not in some activities, such as health care and delivery services. Foreign workers (primarily from Ukraine, and also Belarus) have not left in droves for Germany, as was feared at the end of 2019.

Employment has declined, but so far not very strongly. Nominal average wages in the corporate sector rose by 4.3% in the first eight months of 2020. But in real terms, wages are close to stagnant, as are pensions and other social benefits. All that (plus lower employment and an inevitable rise in the propensity to save) explains the rather sharp fall in household consumption. As further cuts in employment seem inevitable, and as many firms have no option other than to restrict wages, the disposable incomes of households are likely to stay depressed. Under these conditions, private consumption may be rather weak in the second half of the year as well.

Investment in fixed assets will decline further. Gross fixed capital formation rose by 0.8% in the first quarter of 2020 – but then plummeted by over 11% in the second. Quite obviously, this is not the end of the story. Given falling levels of capacity utilisation, prevailing uncertainty and reduced incomes in both the household and the business sectors, ‘wait and see’ is the rational approach to investment. This is reflected in the statistics on the non-financial sector’s bank deposits and loans: in the first seven months of 2020, the deposit stocks of households rose by 7% and of corporates by 15%. At the same time, the stock of loans to households rose by 1.6% – though the stock of loans to corporates fell by nearly 3%. (Interestingly, the stock of loans to central government institutions rose by close to 18%.) Continuing public sector investment is unlikely to make up for the effects of the private sector’s restraint in this respect. Already in the second quarter of 2020, the sales of construction and assembly firms fell by 2.4%

in total. Sales related to civil engineering works rose by 6.7%, whereas sales of works related to investment in industry declined by over 17% and sales of works on construction of buildings by 1.5%.

Monetary and fiscal policies have so far been very expansionary. Since June, the policy interest rate has been merely symbolic (0.10%). Low policy interest rates have helped to keep the exchange rate relatively depressed: until March, the PLN/EUR rate averaged about 4.26 (against 4.42 thereafter). A weaker currency may have helped to achieve a sizeable trade surplus. Extraordinary spending – partly in the form of subsidies transferred to firms, employees and selected population groups – has so far been very high (loosely estimated at close to 6% of GDP). These policies have been heavily criticised by the opposition and experts, who fear the return of high inflation and possibly even default by the state on its rising public debt. But inflation is actually receding, while public debt is still quite low (and, being denominated primarily in the domestic currency, cannot really lead to default). Lavish public deficit spending (reflected in the strong growth of public consumption and the resilience of infrastructure investment) has clearly helped to limit the recession.

Moderate improvements in the second half of 2020 and beyond are possible, but far from being guaranteed. While nothing can guarantee the recovery of private investment in fixed assets, further cuts in inventories may be less significant. The exceptional factors suppressing household consumption in the second quarter of 2020 may not reappear; but consumption is unlikely to recover, though it will not decline as strongly as before. Foreign trade is likely to continue to make a modest positive contribution to GDP growth. Of course, many negative factors will come to the fore, including the widespread closure of smaller businesses. Last, but not least, it is unclear whether the government is ready to extend its fiscal support measures in the closing months of the year and beyond. Moreover, since the beginning of October the pandemic situation has deteriorated dramatically. After a few months of complete inaction in terms of preparations for a 'second wave', the government seems close to panic now. Under such conditions, excessive – but not really economically helpful – reactions cannot be ruled out.

Table 4.16 / Poland: Selected economic indicators

	2017	2018	2019 ¹⁾	2020 1Q	2020 2Q	2020 1-2Q	2020 Forecast	2021 Forecast	2022
Population, th pers., average	38,434	38,423	38,397	38,382	38,368	38,354	38,380	38,380	38,380
Gross domestic product, PLN bn, nom.	1,990	2,122	2,288	552	525	1,077	2,250	2,380	2,510
annual change in % (real)	4.8	5.4	4.5	1.7	-7.9	-3.2	-4.4	3.5	3.4
GDP/capita (EUR at PPP)	20,370	21,420	22,810	.	.	.	.	.	.
Consumption of households, PLN bn, nom.	1,152	1,221	1,297	339	290	628	.	.	.
annual change in % (real)	4.8	4.3	4.0	0.8	-11.1	-5.0	-4.6	3.5	3.5
Gross fixed capital form., PLN bn, nom.	349	386	424	72	84	156	.	.	.
annual change in % (real)	4.0	9.4	7.2	0.8	-11.1	-6.0	-8.5	4.0	4.0
Gross industrial production (sales) ²⁾									
annual change in % (real)	6.6	5.9	4.1	-2.6	0.3	-6.7	-5.5	4.0	3.8
Gross agricultural production									
annual change in % (real)	2.9	-0.7	-2.3	.	.	.	.	.	.
Construction industry ²⁾									
annual change in % (real)	13.7	19.7	3.7	3.7	-2.3	0.5	.	.	.
Employed persons, LFS, th, average	16,423	16,484	16,461	16,425	16,274	16,274	16,210	16,130	16,100
annual change in %	1.4	0.4	-0.1	0.9	-1.3	-1.3	-1.5	-0.5	-0.2
Unemployed persons, LFS, th, average	844	659	558	529	527	527	610	670	640
Unemployment rate, LFS, in %, average	4.9	3.9	3.3	3.1	3.1	3.1	3.6	4.0	3.8
Reg. unemployment rate, in %, eop	6.6	5.8	5.2	5.4	6.1	6.1	.	.	.
Average monthly gross wages, PLN ³⁾	4,284	4,590	4,918	5,489	5,286	5,299	5,130	5,340	5,610
annual change in % (real, gross) ³⁾	3.7	5.5	5.0	.	.	.	1.0	2.0	3.0
Consumer prices (HICP), % p.a.	1.6	1.2	2.1	3.9	3.8	3.6	3.2	2.0	2.0
Producer prices in industry, % p.a.	2.7	2.1	1.3	-0.3	-0.8	-0.4	0.0	1.0	1.8
General governm.budget, EU-def., % of GDP									
Revenues	39.8	41.3	41.0	.	.	.	38.5	39.0	40.0
Expenditures	41.2	41.5	41.8	.	.	.	45.0	43.5	43.0
Net lending (+) / net borrowing (-)	-1.5	-0.2	-0.7	.	.	.	-6.5	-4.5	-3.0
General gov.gross debt, EU def., % of GDP	50.6	48.8	45.7	.	.	.	56.0	57.5	57.0
Stock of loans of non-fin.private sector, % p.a.	3.1	7.1	4.7	6.0	2.9	2.9	.	.	.
Non-performing loans (NPL), in %, eop	6.8	6.8	6.6	6.6	6.9	6.9	.	.	.
Central bank policy rate, % p.a., eop ⁴⁾	1.50	1.50	1.50	1.00	0.10	0.10	0.10	0.25	0.50
Current account, EUR mn ⁵⁾	-1,544	-6,514	2,604	4,624	6,582	11,205	3,300	1,900	1,100
Current account, % of GDP ⁵⁾	-0.3	-1.3	0.5	3.6	5.6	4.6	0.7	0.4	0.2
Exports of goods, BOP, EUR mn ⁵⁾	202,108	217,110	232,971	58,807	48,552	107,359	216,700	229,500	243,700
annual change in %	13.9	7.4	7.3	1.7	-15.9	-7.1	-7.0	5.9	6.2
Imports of goods, BOP, EUR mn ⁵⁾	202,460	223,330	231,766	57,726	44,645	102,371	210,200	224,900	240,600
annual change in %	15.4	10.3	3.8	0.1	-22.6	-11.3	-9.3	7.0	7.0
Exports of services, BOP, EUR mn ⁵⁾	50,976	57,672	62,480	14,930	12,351	27,282	51,500	58,600	65,600
annual change in %	15.8	13.1	8.3	5.6	-20.2	-7.9	-17.5	13.7	12.0
Imports of services, BOP, EUR mn ⁵⁾	33,137	36,403	38,831	8,665	7,245	15,910	30,700	33,300	36,600
annual change in %	9.5	9.9	6.7	2.7	-23.9	-11.4	-21.0	8.5	10.0
FDI liabilities, EUR mn ⁵⁾	10,182	14,809	12,809	4,845	-1,167	3,678	3,500	.	.
FDI assets, EUR mn ⁵⁾	3,430	1,954	4,268	205	-1,763	-1,557	4,000	.	.
Gross reserves of NB excl. gold, EUR mn	90,967	97,633	104,526	99,375	103,455	103,455	.	.	.
Gross external debt, EUR mn ⁵⁾	319,716	314,642	314,120	299,341	299,022	299,022	303,400	302,900	311,600
Gross external debt, % of GDP ⁵⁾	68.4	63.2	59.0	59.2	59.1	59.1	60.0	56.0	54.0
Average exchange rate PLN/EUR	4.2570	4.2615	4.2976	4.4406	4.4450	4.4136	4.45	4.40	4.35

1) Preliminary. - 2) Enterprises with 10 and more employees. - 3) Half-year data refer to enterprises with 10 and more employees. - 4) Reference rate (7-day open market operation rate). - 5) Including SPE.

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