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Poland: muddling through

Despite the continuing strong decline in gross fixed investment, GDP increased by an estimated 1.3% in 2002. Growth was driven by private consumption (3.3% rise) and the falling deficit on foreign trade in goods and services.

Provisional calculations indicate that private consumption contributed 2.1 percentage points to the GDP growth rate, investment –1.5 and foreign trade 0.7 percentage points.

As the entire national wage bill declined by about 2% in real terms (on account of falling employment) the rise in private consumption must be primarily attributed to the falling propensity of households to save, and also to rising non-wage household income (pensions and personal income of the employers and the self-employed). GDP growth accelerated in consecutive quarters, paralleling faster growth of industrial production and improvements in foreign trade.

The good performance of foreign trade cannot be solely attributed to weak domestic demand forcing firms' exports even at loss. The current business climate analysis¹ suggests a clear improvement in profitability of exports and a marked decline in the share of unprofitable exports. Overall, the total net (post-tax) profits of the non-financial corporate sector have been improving as well. The corporate sector closed the year 2001 with a net loss of PLN 2.5 billion. In January-September 2002 the sector recorded a net profit of PLN 3.1 billion. Net profitability (ratio of net profit to all revenue) rose from –0.3% to 0.4%. (By way of comparison, net profitability was higher than 1.5% in the mid-1990s.) The rising profits follow strong gains in labour productivity coupled with declining unit labour costs.

Despite stronger sales, the vast majority of firms continue to perceive weak demand, the bad financial position of customers and arrears in payments for deliveries as the chief obstacles to expansion. Other factors have been declining in importance. Within a few quarters the percentage of firms naming the exchange rates as an obstacle fell from 24% to 13.9% and the percentage of firms naming high interest rates from 18.6 to 7%. Nonetheless, the demand for credit remains weak, with most firms planning to reduce rather than expand their credit exposure. This reflects falling investment, expectations of further declines in interest rates and also a continuing worsening of firms' credit standing. Currently 24% of firms have 'problems' serving their bank debts (compared with about 15%

¹ See the website of the National Bank of Poland, www.nbp.pl/koniunktura.

in 1998-2000). This is of course mirrored by the deterioration of profits recorded by commercial banks which are saddled with non-performing debts whose share is expanding rapidly.

Very low inflation throughout 2002 (and much of 2001), correspondingly anaemic output growth and extremely high unemployment finally induced the National Bank of Poland (NBP) to take positive action. The NBP interest rates were gradually reduced throughout 2002 (e.g. its Lombard rate from 15.5% to 8.75%). In real terms the interest rates have been high anyway and, as such, depressed the money supply. (The M2 aggregate actually fell in 2002, even in nominal terms.) The exchange rates seem to have been discounting the NBP interest rate policy through a series of adjustments in mid-2002 which weakened the zloty, albeit moderately. The further weakening of the zloty which occurred in January 2003, apparently a 'contagion effect' of the turbulence hitting the Hungarian exchange rate market, may in fact represent a further exchange rate adjustment to falling domestic interest rates.

The budget for 2003 assumes 3.5% GDP growth. In all probability growth will be much lower. Although foreign trade is likely to perform well (as there may be further productivity and efficiency gains while a strong nominal appreciation is not expected), it is much less obvious what will happen to private consumption and gross fixed investment. Because employment is likely to fall further and wage incomes are likely to decline, or perhaps at best stagnate, a stabilization of private consumption would not be very surprising. And, given the burden of debts and pervasive uncertainties, the corporate sector need not initiate a strong investment recovery. Under such a pessimistic (but not unrealistic) scenario the GDP growth in 2003 would hinge on improvements in foreign trade – and may be much lower than assumed.

In mid-2002 there was a change at the helm of the finance ministry. However, the hopes (or fears) that this would bring definite changes in the fiscal policy have been largely disappointed. Some of the conceptually sound initiatives of the ministry proved badly prepared and were blocked in the parliament (together with the properly prepared ones). Worse still, the ministry seems to be seriously contemplating cuts in spending and social security transfers which are certain to interfere with the recovery. These cuts seem to have good chances of passing through the parliament uncontested.

The general orientation of the fiscal policy in 2003 and 2004 has much to do with the upcoming EU accession. The government will attempt to 'clean' the public finances. This is considered necessary for the adoption of the euro 'as soon as possible', which is the

officially declared joint intention of the NBP and the government. Of course a lean budget is also considered necessary because of the intention of making maximum use of the EU transfers, which require national co-financing. Whether or not the GDP losses due to the upcoming fiscal changes will be eventually compensated by the effects of the EU transfers is an open question. In the long run they will probably be. But in the short run these changes are quite certain to depress popular moods further. Under such conditions the outcome of the accession referendum (to be held in April) is not yet certain.

Table PL

Poland: Selected economic indicators

	1996	1997	1998	1999	2000	2001	2002 ¹⁾	2003	2004
									forecast
Population, th pers., end of period	38639	38660	38667	38654	38644	38632	38618 ^{Nov}	.	.
Gross domestic product, PLN mn, nom.	387827	472350	553560	615115	684982	749311	769400	800500	849200
annual change in % (real)	6.0	6.8	4.8	4.1	4.0	1.0	1.3	2	3
GDP/capita (USD at exchange rate)	3724	3725	4098	4011	4078	4737	4880	.	.
GDP/capita (USD at PPP - wiiw)	7360	8040	8490	9010	9550	10320	10510	.	.
Gross industrial production (sales)									
annual change in % (real)	8.3	11.5	3.5	3.6	6.7	0.3	1.5 ²⁾	2	2
Gross agricultural production									
annual change in % (real)	0.7	-0.2	5.9	-5.2	-5.6	5.8	.	.	.
Goods transport, mn t-kms	309272	329737	317052	310698	282559	253269	.	.	.
annual change in %	2.8	6.6	-3.8	-2.0	-9.1	-10.4	.	.	.
Gross fixed capital form., PLN mn, nom.	80390	110853	139205	156690	170430	157209	.	.	.
annual change in % (real)	19.7	21.7	14.2	6.8	2.7	-8.8	-7.2	.	.
Construction output total									
annual change in % (real)	3.0	16.5	12.4	6.2	1.0	-6.4	-10.5 ²⁾	.	.
Dwellings completed, units	62130	73706	80594	81979	87789	105967	99089	.	.
annual change in %	-7.4	18.6	9.3	1.7	7.1	20.7	-6.5	.	.
Employment total, th pers., average	15020.6	15438.7	15800.4	15373.5	15017.5	14923.6	14900	.	.
annual change in %	1.9	2.8	2.3	-2.7	-2.3	-0.6	-0.2	.	.
Employees in industry, th pers., average	3436.0	3433.4	3378.7	3138.4	2955.0	2820.6	2469.0 ²⁾	.	.
annual change in %	-0.7	-0.1	-1.6	-7.1	-5.8	-4.5	-5.6 ²⁾	.	.
Reg. unemployed, th pers., end of period	2359.5	1826.4	1831.4	2349.8	2702.6	3115.1	3217.0	.	.
Reg. unemployment rate in %, end of period	13.2	10.3	10.4	13.1	15.1	17.5	18.1	18	18
LFS - unemployment rate in %, average	12.3	11.2	10.6	13.9	16.1	18.2	20.0 ^{HX}	20	20
Average gross monthly wages, PLN ³⁾	874.3	1065.8	1232.7	1697.1	1893.7	2045.1	2277 ²⁾	.	.
annual change in % (real, net) ⁴⁾	5.7	7.3	4.5	4.7	1.0	2.5	0.5 ²⁾	.	.
Retail trade turnover, PLN mn	213241	258166	291197	323687	360318	375438	.	.	.
annual change in % (real)	4.5	6.8	2.6	4.0	1.0	0.2	1.7 ²⁾	.	.
Consumer prices, % p.a.	19.9	14.9	11.8	7.3	10.1	5.5	1.9	2	3
Producer prices in industry, % p.a.	12.4	12.2	7.3	5.7	7.8	1.6	1.0	.	.
Central government budget, PLN mn									
Revenues	99675	119772	126560	125922	135664	140527	143538	.	.
Expenditures	108842	125675	139752	138401	151055	172885	182950	.	.
Deficit (-) / surplus (+)	-9167	-5903	-13192	-12479	-15391	-32358	-39412	.	.
Deficit (-) / surplus (+), % GDP	-2.4	-1.2	-2.4	-2.0	-2.2	-4.3	-5.1	.	.
Money supply, PLN mn, end of period									
M1, Money	67866	79240	89920	111384	106456	118297	136267	.	.
M2, Money + quasi money	140039	179378	223678	268701	300424	328198	319777	.	.
Discount rate of NB % p.a., end of period	22.0	24.5	18.2	19.0	21.5	14.0	7.5	8	.
Current account, USD mn	-1371	-4309	-6841	-11553	-9952	-7166	-6734	-7600	-8500
Current account in % of GDP	-1.0	-3.0	-4.3	-7.5	-6.3	-3.9	-3.6	-3.7	-4.3
Gross reserves of NB incl. gold, USD mn	18220	21403	28275	27314	27466	26564	29794	.	.
Gross external debt, USD mn	47541	49647	59135	65365	69465	71754	78735 ^{Sep}	.	.
Exports total, fob, EUR mn ⁵⁾	19488.2	22798.4	25145.4	25729.3	34382.6	40374.7	43200	45800	49000
annual growth rate in %	10.0	17.0	10.3	2.3	33.6	17.4	7	6	7
Imports total, cif, EUR mn ⁵⁾	29677.1	37484.2	41539.3	43151.2	53121.9	56222.7	58300	60600	64900
annual growth rate in %	32.0	26.3	10.8	3.9	23.1	5.8	4	4	7
Average exchange rate PLN/USD	2.70	3.28	3.49	3.97	4.35	4.09	4.08	.	.
Average exchange rate PLN/EUR (ECU)	3.38	3.71	3.92	4.23	4.01	3.67	3.86	4.15	4.25
Purchasing power parity PLN/USD, wiiw	1.36	1.52	1.69	1.77	1.86	1.88	1.90	.	.
Purchasing power parity PLN/EUR, wiiw	1.48	1.67	1.84	1.92	2.01	2.05	2.03	.	.

Notes: 1) Preliminary. - 2) Enterprises sector with more than 9 employees. - 3) From 1999 including mandatory premium for social security. - 4) From 1999 real gross wages. - 5) Converted from the national currency to EUR at the official exchange rate.

Source: wiiw Database incorporating national statistics; wiiw forecasts.