POLAND: A sigh of relief

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Improving sentiments support recovery of private sector investment and faster GDP growth in 2014 while political expediency will dictate a measured relaxation of fiscal policy. In 2015-2016 investment and GDP growth will be even higher than in 2014, also on account of the initiation of a public programme supporting a number of larger-scale investment projects.

After a rather feeble performance in the first half of 2013, GDP growth accelerated in the third and fourth quarters of the year (by 1.9%, year-on-year, and an estimated 2.7% respectively). After remaining essentially flat in the first half of the year, private consumption increased by 1% in the third quarter and by 1.9% in the fourth. Also public consumption shows signs of recovery. The decline in gross fixed capital formation seems to have stopped: in the fourth quarter of 2013 it rose by over 1% – still leaving the whole year's GFCF volume about 0.5% lower than the year previous. With domestic demand roughly unchanged, the whole year's GDP growth (provisionally estimated at 1.6%) has been due to external trade in goods and non-factor services. It is estimated that in 2013 the volume of imports increased by about 1% while the volume of exports rose about 4%. However, the positive contribution of external trade to GDP growth has been diminishing throughout 2013.

Fast disinflation continued: consumer prices rose by a mere 0.9% in 2013. The outright deflation in industrial producer prices (a drop by 1.2% in 2013) supports low consumer price inflation. Low inflation has proved helpful in raising the real value of the wage bill. This transitory development helped to ignite growth in household consumption (while, at the same time, possibly suppressing growth of income of the corporate sector). It is quite likely that the revival of growth in domestic demand will release, gradually, some moderate inflation pressures. Given the conservative attitudes prevailing at the National Bank of Poland – and the continuing strength of the Polish currency – inflation will remain quite low yet in 2014.

The financial situation of the non-financial enterprise sector which had been progressively worsening since the second quarter of 2012 markedly improved in the third quarter of 2013. This is primarily due to rising revenue from a higher volume of sales. The entire net (post-tax) profit of the sector earned in the first three quarters of 2013 reached PLN 70.3 billion (approximately EUR 16.7 billion), up from PLN 67.2 billion earned during the first three quarters of 2012. Net profits of the banking sector earned during the first three quarters of 2013 stood at PLN 11.8 billion (approx. EUR 2.8 billion): some 2.5% less than a year earlier. Within the year (ending 30 September 2013) the non-financial sector (firms and households) increased the stock of its bank deposits by 7.2% while the stock of bank loans extended to that sector rose by 3.1%. Clearly, the idle financial resources of firms and commercial banks could support a swift recovery in the private sector's fixed investment. The existing financial potential can be mobilised soon when the prevailing sentiments change – which seems to be the case in early 2014[1].

The popularity of the government of Donald Tusk (and his personnel) has been plummeting while the populist-nationalistic 'Law and Justice' Party of the former Prime Minister Jarosław Kaczynski is re-gaining popular support. After 6.5 years at the helm of government, Mr. Tusk has lost much of his erstwhile charisma, not least on account of increasingly clumsy responses to a number of purely administrative or political challenges. Primarily though, the government pays now a rather high price for the years of attempted fiscal austerity, wrong public spending priorities (e.g. massive investments into infrastructure serving the 2012 European football championship), neglect of vital social issues (lame public health and education services, nonexistent support to public housing), rise in hardly acceptable income disparities, official encouragement of XIXth century-style labour market relations ('flexibilisation'), etc. In such circumstances the defections from the ruling Civic Forum Party further weaken the parliamentary majority behind Mr. Tusk's government. Consequently, early general elections (ahead of the statutory ones which are due in autumn 2015) cannot be ruled out completely. As things stand now, these elections could well be won by Mr. Kaczynski. While the Polish economy need not be negatively affected by Mr. Kaczynski's return to power, Polish internal politics definitely might. The European Union would then have to accommodate another 'strong patriotic leader' à la Hungary's Viktor Orbán.

Political necessity dictates urgent relaxation of the fiscal policy in 2014. The government will attempt to regain public support by correcting the effects of its own earlier actions (and inactions). Some signs of this show up in the recent national accounts data. After falling (or stagnating) throughout 2011 and 2012, public consumption has at last risen in 2013. (However, at the same time the Finance Ministry intends to keep the VAT rates – 'temporarily increased' in 2010 – at unchanged levels for another two or three years.) The much needed (and long overdue) downscaling of the second pillar of the public pension system which is pursued by the government will lower the burden of public debt and facilitate a relaxation of fiscal policy.[2] Whether or not the government manages to change the course – and retain the public support – remains to be seen. Even if the government fails to achieve its political goals, the changes themselves (definitely higher and more focused social spending, among others) will be supporting growth in 2014-2015 (and possibly also in 2016).

All in all, growth of the Polish economy is posed to accelerate in 2014, not only on account of changes in fiscal policy. Foreign trade developments which have proved instrumental in averting recession in 2013 could still prove helpful in 2014 especially if the national currency does not appreciate (which is rather unlikely anyway, at least as long as the major central banks attempt 'tapering'). Of course, as before, the scale of external trade's positive impulses will depend on what happens to the euro area and beyond.[3]

Firms' investment is likely to increase strongly, primarily on account of improving sentiments, while low inflation can further support growth of real disposable incomes and consumption. In addition, in 2014 the

1 As reported by the National Bank's most recent report on the business climate. See: http://www.nbp.pl/publikacje/koniunktura/raport_1_kw_2014.pdf

2 On 3 February 2014 treasury bonds worth PLN 153 billion were 'returned', by the private firms managing the second (capital-based) pillar of the pension system, to the first (public) pillar. Thereby the 'capital' held by the second pillar was halved – while the public debt was reduced by some 7% of GDP. The law mandating the transfer, passed by the Parliament and signed by the State President, still awaits a seal of the Constitutional Court's approval.

3 The recent acceleration in exports is primarily due to a fast expansion of sales to the developing and emerging economies, with exports to the euro area rising rather sluggishly.

new state agency called Polish Development Investments (PDI, acting in tandem with the state-owned Bank Gospodarstwa Krajowego) will start supporting investment, including the private and communal sector's. The support will consist in the provision of direct cofinancing or guarantees on investment credits extended by the commercial banks. While in 2014 the scale of PDI activities will still be rather modest, it is expected to become significant in 2015-2016.[4] Large investment outlays in the power generation sector (which urgently needs modernisation and further expansion) will be at the centre of PDI activities.

[4] At present PDI has approved (provisionally) 4 large investment projects – 47 are under review.

Table 1 / Poland: Selected Economic Indicators

	2009	2010	2011	2012	2013 1)	2014	2015	2016
							Forecast	
Population, th pers., average 2)	38152	38184	38534	38536	38507	38530	38525	38500
Gross domestic product, PLN bn, nom.	1344.5	1416.6	1528.1	1595.2	1630.0	1700	1790	1880
annual change in % (real)	1.6	3.9	4.5	1.9	1.6	2.4	3.2	3.1
GDP/capita (EUR at exchange rate)	8100	9200	9600	9900	10100	.	.	.
GDP/capita (EUR at PPP)	14200	15400	16400	17100	17700	.	.	.
Consumption of households, PLN bn, nom.	809.7	856.2	921.6	967.4	980.0	1020	1070	1120
annual change in % (real)	2.1	3.1	2.7	1.2	0.8	1.9	3.0	3.0
Gross fixed capital form., PLN bn, nom.	284.6	281.3	308.7	305.4	300.0	310	330	350
annual change in % (real)	-1.3	-0.4	8.5	-1.7	-0.4	2.0	5.0	5.0
Gross industrial production (sales) 3)								
annual change in % (real)	-3.8	11.1	6.7	1.2	2.4	3.5	4.5	5.0
Gross agricultural production								
annual change in % (real)	6.0	-3.2	0.1	1.2	-0.5	.	.	.
Construction industry 3)								
annual change in % (real)	4.7	3.9	15.3	-5.3	-10.2	.	.	.
Employed persons, LFS, th, average 4)	15868.0	15960.5	16130.5	15590.7	15530.0	15560	15640	15720
annual change in % 4)	0.4	0.6	1.1	0.2	-0.4	0.2	0.5	0.5
Unemployed persons, LFS, th, average 4)	1411.1	1699.3	1722.6	1749.2	1840.0	1780	1750	1700
Unemployment rate, LFS, in %, average 4)	8.2	9.6	9.7	10.1	10.6	10.8	10.5	10.0
Reg. unemployment rate, in %, end of period	11.9	12.3	12.5	13.4	13.4	13.3	13.0	12.5
Average monthly gross wages, PLN	3101.7	3224.1	3403.5	3530.5	3650.1	3790	3940	4100
annual change in % (real, gross)	2.0	1.4	1.4	0.1	2.5	2.0	2.0	2.0
Consumer prices (HICP), % p.a.	4.0	2.7	3.9	3.7	0.9	1.8	2.0	2.0
Producer prices in industry, % p.a.	3.1	1.8	7.3	3.3	-1.2	1.0	1.5	2.0
General governm.budget, EU-def., % of GDP								
Revenues	37.2	37.5	38.4	38.3	36.7	38.0	36.9	37.0
Expenditures	44.6	45.4	43.4	42.2	41.5	41.5	40.3	40.0
Net lending (+) / net borrowing (-)	-7.5	-7.9	-5.0	-3.9	-4.8	-3.5	-3.3	-3.0
Public debt, EU-def., % of GDP	50.9	54.9	56.2	55.6	58.2	52.0	52.5	52.0
Central bank policy rate, % p.a., end of period 5)	3.5	3.5	4.5	4.3	2.5	2.5	2.5	2.5
Current account, EUR mn 6)	-12153	-18121	-18516	-14190	-5906	-10300	-13000	-14000
Current account, % of GDP 6)	-3.9	-5.1	-5.0	-3.7	-1.5	-2.5	-3.0	-3.1
Exports of goods, BOP, EUR mn 6)	101715	124998	140137	148482	155145	163400	175700	188000
annual change in %	-15.9	22.9	12.1	6.0	4.5	5.3	7.5	7.0
Imports of goods, BOP, EUR mn 6)	107140	133893	150193	153656	153165	162400	174600	186800
annual change in %	-24.5	25.0	12.2	2.3	-0.3	6.0	7.5	7.0
Exports of services, BOP, EUR mn 6)	20717	24718	26950	29517	30366	32200	34100	36100
annual change in %	-14.4	19.3	9.0	9.5	2.9	6.0	6.0	6.0
Imports of services, BOP, EUR mn 6)	17294	22381	22905	24873	25363	26900	28500	30200
annual change in %	-16.6	29.4	2.3	8.6	2.0	6.0	6.0	6.0
FDI inflow, EUR mn 6)	9339	10518	14896	4763	-2991	.	.	.
FDI outflow, EUR mn 6)	3331	5489	5936	607	-3308	.	.	.
Gross reserves of NB excl. gold, EUR mn	52734	66253	71028	78403	74257	.	.	.
Gross external debt, EUR mn	194396	237359	250138	277300	280000	288000	305000	.
Gross external debt, % of GDP	62.6	66.9	67.4	72.7	72.1	.	.	.
Average exchange rate PLN/EUR	4.3276	3.9947	4.1206	4.1847	4.1975	4.20	4.15	4.15
Purchasing power parity PLN/EUR	2.4809	2.3872	2.4241	2.4197	2.3944	.	.	.

1) Preliminary and wiiw estimates. - 2) From 2011 according to census March 2011. - 3) Enterprises with 10 and more employees. - 4) From 2012 according to census March 2011. - 5) Reference rate (7-day open market operation rate). - 6) Including Special Purpose Entities (SPEs).

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