

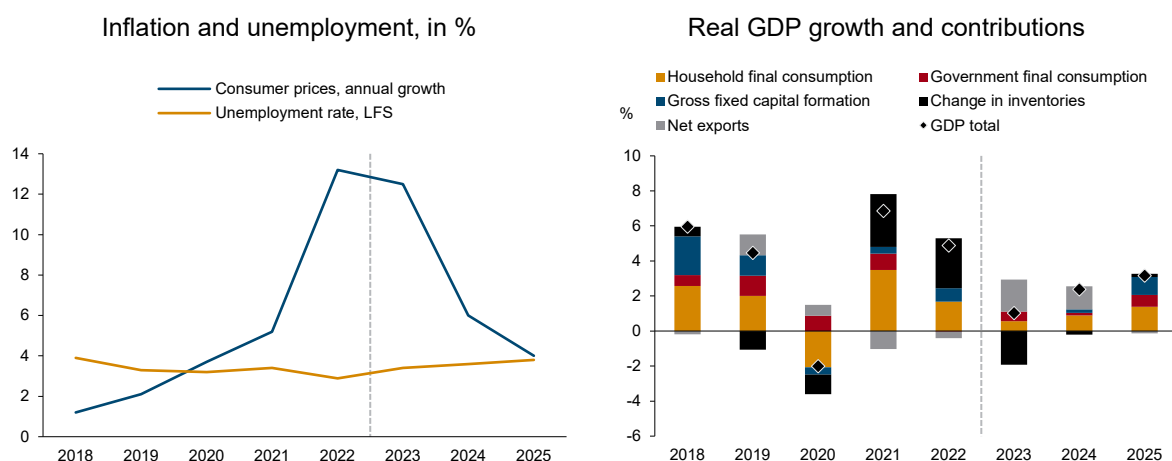


POLAND: A temporary slowdown in growth

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The Polish economy has proved surprisingly resilient so far. But growth is already slowing. High interest rates are having a major effect on private consumption and investment, while inflation is eroding the real value of current wage incomes. Symptoms of excess supply abound. However, falling inflation and a recovery in household incomes will gradually restore demand and sales, thereby paving the way for an acceleration in growth. But these positive developments will set in only towards the end of 2023.

Figure 5.16 / Poland: Main macroeconomic indicators



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

GDP grew by 2% in Q4 2022 (year on year), down from 8.6% in Q1. The slowdown was due to a much weaker growth in inventories, whose contribution to overall growth fell from 6.7 percentage points (pp) to 1.1 pp. Household and public consumption each fell by 1.5%, but gross fixed capital formation rose by 4.9%. The contribution to growth of foreign trade turned positive (0.9 pp), after a figure of -2.7 pp in Q1 2022. Throughout 2022, the growth of gross value added in the major sectors of the economy slowed quite dramatically: in manufacturing from 14% in Q1 to 3.5% in Q4; and in the construction sector from 17% to 0.8%. Gross value added in the domestic trade and real estate sectors declined in the fourth quarter of 2022, indicating a clear weakening of consumer demand.

The data available for the first months of 2023 show a mixed picture (with a fairly powerful contraction in the sale of consumer durables, intermediate goods and energy). However, sales of capital goods rose quite strongly (by over 10% in January-February 2023). Export-oriented branches of industry are performing satisfactorily, while those branches that supply mainly the domestic markets have tended

to stagnate or decline. Construction output, driven by substantial infrastructural (public) investment, rose 6.6% in January-February 2023. Retail sales have performed quite badly (falling by 5% in February).

The labour market is in pretty good shape, though this is unlikely to last. Unemployment is low (2.8% in February according to the Eurostat methodology; 5.5% by registration). However, the demand for labour has stopped rising and business surveys suggest some decline in employment in coming months. This is consistent with signs of weakening demand and sales.

Foreign workers remain important. Over 700,000 Ukrainians (predominantly female) have been registered as regular employees. In total, over 1m working foreigners currently contribute to the social security system. The unregistered employment of Ukrainians (as well as of other foreigners) is bound to be quite high, too. Quite likely their presence will reduce the bargaining power of regular employees and keep a lid on wage hikes.

Wages have generally trailed slightly behind inflation, implying a gentle deterioration in the real incomes of households of wage earners. Unit labour costs have tended to decline somewhat, as labour productivity has improved. Inflation has served the business sector quite well. Firms co-owned by the public authorities (especially the fuel and electricity branches) have reaped extraordinary profits, which are then partly returned to their chief shareholder – the state budget. (The windfall taxation of profits has not yet been introduced.)

The profitability of the corporate non-financial sector remains very high, despite having recently experienced some deterioration. After a few quarters of corporate revenues rising much faster than costs, the situation has reversed. Labour's contribution to rising business costs is negligible – unlike the cost of raw materials and energy.

Signs of excess supply are becoming visible, reflecting inadequate demand. Some 29% of corporates surveyed see signs of supply exceeding demand, whereas the opposite is reported by only 7% of firms. Firms supplying consumer durables and intermediate goods report the highest levels of excess supply. The excess supply conditions are reflected in inventories, whose levels are now considered too high by a large proportion of corporations. Excessive inventories of finished goods are adversely affecting further production growth. Also, firms are finding it much more difficult to pass their rising costs on via the prices they charge for their goods or services.

High inflation is still perceived as a serious problem by the population and politicians. However, it may have passed its peak (18.4% year on year) in February. As it is becoming clear that high inflation cannot be blamed on excessive demand or price-wage spirals, there is fairly little that conventional restrictive monetary and fiscal policies can achieve. But further disinflation will undoubtedly follow, as the price and cost effects of the initial negative shocks to the prices of imported energy carriers gradually die out. Of course, disinflation can be temporarily halted (or even reversed) should the cost of imported energy jump again and/or the administered prices be raised radically.

Monetary policy remains unchanged. The key policy interest rate stands at 6.75% (effective since September 2022), and it looks as though it will be kept unchanged at least until this coming autumn. In real terms, the policy interest rate is extremely negative. Clearly, as the central bank regards the current inflation as being driven by factors that are rather insensitive to the traditional tools of monetary policy, it

does not want to provoke a deeper recession that would follow higher policy rates. However, the market rates are already quite high. The prevailing high (nominal) interest rates charged by the commercial banks contribute to weak private demand for consumer and investment credit. The volume of household debt owing to banks is falling (and that owing to non-financial corporations is increasing very slowly), while the volume of household and corporate bank deposits is rising. In all, the monetary aggregate M3 is increasing almost entirely on the back of strongly rising foreign assets.

High inflows of foreign exchange are not affecting the exchange rate, which has held steady recently (and has been relatively 'weak', largely for geopolitical reasons). Against the euro, the złoty has lost some 4% (February 2023 vs. February 2022). The relative weakness of the exchange rate is already contributing to stronger exports (primarily to the EU) and weaker imports (a consequence of the fact that domestic demand is close to stagnant). All in all, this year foreign trade will contribute positively to output growth and the current account.

The disagreements with the European Commission are not yet of vital concern. The conflict over a number of constitutional issues, which is unlikely to be resolved before the parliamentary elections due this autumn, has already cost the country a large amount of money. But given the country's strong forex reserves, the Polish government is not yet ready to follow the 'diktat of Brussels'. Possible delays in the transfer of EU funds to Poland are not a particularly grave problem – at least not in the medium term.

The elections may not affect the economy (at least in the medium term). The opposition parties appear unable to form a 'united front', so the ruling coalition led by Mr Kaczyński's Law and Justice (PiS) party may well win a third term in power. Despite high inflation, PiS enjoys popularity – especially among the less prosperous population strata that still relish the various social security transfers made over the past eight years. The minor last-minute sweeties that the government could (and probably will) distribute won't do it (or indeed the public finances) any harm. It is fairly obvious that a victorious PiS would continue its economic policy pursued so far. A victorious opposition would have to follow this – overall successful – policy as well, at least for a year or two.

There has been a slowdown in growth, and the economy will not start to recover fully before the end of this year. The economy, which has proved surprisingly resilient so far, is now set to slow – even in Q1 2023. Leaving aside the adverse impact of high interest rates on consumption and investment, inflation has severely eroded the purchasing power of current incomes and accumulated household wealth. All this is now resulting in a weakness in consumer demand. Public consumption is also likely to stagnate. Given the weak consumer demand and the indications of generalised excess supply, private investment will also prove anaemic. The liquidation of excess inventories will support the recessionary developments. However, it is expected that falling inflation and the recovery in household incomes will gradually restore demand and sales, thereby paving the way for an acceleration in growth. But these positive developments are likely to set in only towards the end of 2023.

Table 5.16 / Poland: Selected economic indicators

	2019	2020	2021	2022 ¹⁾	2023	2024	2025
					Forecast		
Population, th pers., average	37,965	37,899	37,747	37,711	38,360	38,370	38,380
Gross domestic product, PLN bn, nom.	2,288	2,338	2,624	3,068	3,440	3,730	4,000
annual change in % (real)	4.5	-2.0	6.8	4.9	1.0	2.4	3.2
GDP/capita (EUR at PPP)	22,820	22,860	25,010	27,890	.	.	.
Consumption of households, PLN bn, nom.	1,303	1,300	1,454	1,710	.	.	.
annual change in % (real)	3.5	-3.6	6.3	3.0	1.0	1.6	2.5
Gross fixed capital form., PLN bn, nom.	433	428	447	515	.	.	.
annual change in % (real)	6.2	-2.3	2.1	4.5	0.0	1.2	6.0
Gross industrial production (sales) ²⁾							
annual change in % (real)	4.1	-1.2	14.5	10.6	2.0	4.0	5.0
Gross agricultural production							
annual change in % (real)	-0.9	8.0	-1.7	-1.0	.	.	.
Construction industry ²⁾							
annual change in % (real)	3.7	-3.5	1.5	7.6	.	.	.
Employed persons, LFS, th, average ³⁾	16,461	16,441	16,656	16,742	16,710	16,660	16,660
annual change in %	-0.1	-0.1	2.6	0.5	-0.2	-0.3	0.0
Unemployed persons, LFS, th, average ³⁾	558	537	580	498	590	620	660
Unemployment rate, LFS, in %, average ³⁾	3.3	3.2	3.4	2.9	3.4	3.6	3.8
Reg. unemployment rate, in %, eop	5.2	6.8	5.8	5.2	.	.	.
Average monthly gross wages, PLN ⁴⁾	4,920	5,226	5,683	6,346	7,250	7,920	8,480
annual change in % (real, gross)	4.8	2.9	3.3	-2.1	1.5	3.0	3.0
Consumer prices (HICP), % p.a.	2.1	3.7	5.2	13.2	12.5	6.0	4.0
Producer prices in industry, % p.a.	1.3	-0.5	8.1	23.8	12.0	8.0	4.0
General governm. budget, EU def., % of GDP							
Revenues	41.1	41.3	42.4	42.0	40.8	40.1	40.5
Expenditures	41.9	48.2	44.2	45.5	45.6	44.1	44.0
Net lending (+) / net borrowing (-)	-0.7	-6.9	-1.8	-3.5	-4.8	-4.0	-3.5
General gov. gross debt, EU def., % of GDP	45.7	57.2	53.8	50.0	47.9	48.1	48.2
Stock of loans of non-fin. private sector, % p.a.	4.7	0.4	4.6	0.2	.	.	.
Non-performing loans (NPL), in %, eop	6.7	6.9	5.8	5.7	.	.	.
Central bank policy rate, % p.a., eop ⁵⁾	1.50	0.10	1.75	6.75	6.25	5.00	4.00
Current account, EUR m ⁶⁾	-1,254	12,820	-8,268	-19,511	-2,100	2,800	8,600
Current account, % of GDP ⁶⁾	-0.2	2.4	-1.4	-3.0	-0.3	0.4	1.0
Exports of goods, BOP, EUR m ⁶⁾	220,336	220,604	263,740	320,361	358,800	394,700	430,200
annual change in %	7.4	0.1	19.6	21.5	12.0	10.0	9.0
Imports of goods, BOP, EUR m ⁶⁾	224,693	213,625	271,363	344,614	379,100	398,100	437,900
annual change in %	3.8	-4.9	27.0	27.0	10.0	5.0	10.0
Exports of services, BOP, EUR m ⁶⁾	62,956	58,308	68,731	91,118	97,500	102,900	112,200
annual change in %	8.6	-7.4	17.9	32.6	7.0	5.5	9.0
Imports of services, BOP, EUR m ⁶⁾	38,883	35,329	41,934	54,617	57,300	60,700	64,900
annual change in %	6.5	-9.1	18.7	30.2	5.0	6.0	7.0
FDI liabilities, EUR m ⁶⁾	15,669	16,646	31,371	32,779	.	.	.
FDI assets, EUR m ⁶⁾	4,804	4,132	7,964	6,806	.	.	.
Gross reserves of CB excl. gold, EUR m	104,526	114,299	134,654	143,949	.	.	.
Gross external debt, EUR m ⁶⁾	316,730	307,412	322,710	346,596	366,200	381,000	400,900
Gross external debt, % of GDP ⁶⁾	59.5	58.4	56.1	52.9	49.4	47.7	47.1
Average exchange rate PLN/EUR	4.2976	4.4430	4.5652	4.6861	4.64	4.67	4.70

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.