POLAND: A time of generous promises

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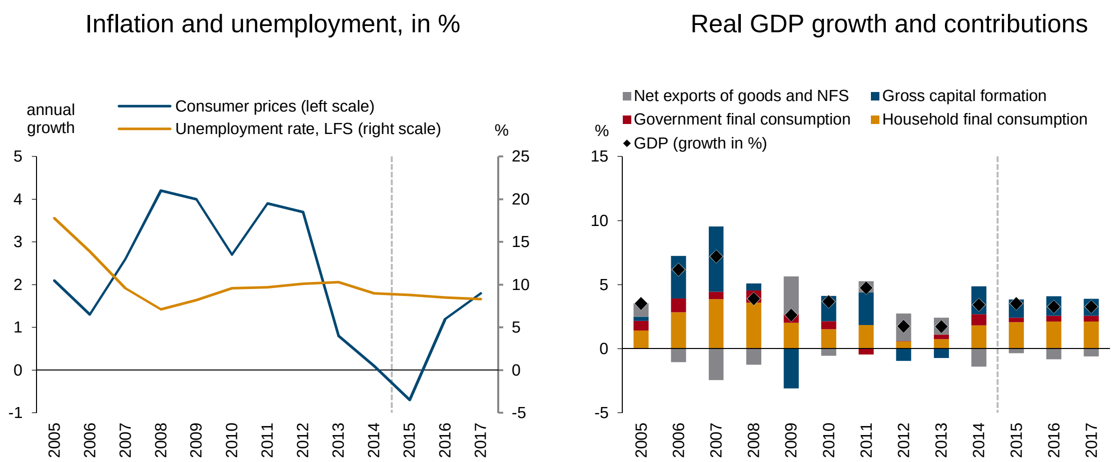
The current moderate and broad-based growth has yet to eliminate the excessive unemployment and put a stop to deflationary tendencies. The recent elections are unlikely to change Poland's economic trajectory over the biennium 2016-2017. Continuing moderate growth (at a rate in excess of 3%) will bring about gradual improvements without giving rise to major internal or external imbalances.

Figure 53 / Poland: Main macroeconomic indicators



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

GDP grew fairly moderately (3.4%, year-on-year) in the first half of 2015 – roughly at the speed recorded since the first quarter of 2014. Household consumption keeps growing steadily at about 3% while growth of public consumption slowed down to 2.4% in the second quarter of 2015 (from 4.7% in 2014). The strong expansion of gross fixed capital formation (GFCF) has been continuing, though it has lost some of its impetus in the second quarter of 2015. All the same GFCF contributed 1.2 percentage points to the overall GDP growth in the first half of the year. A sizeable increase in inventories in 2014 is followed by a corrective destocking now. The change in inventories in the first half of 2015 reduced the GDP growth rate by some 0.8 percentage points. The trade balance has stopped to contribute to GDP growth in the second quarter (after adding 1.1 percentage points to the GDP growth rate in the first quarter). Nonetheless, according to the official (but not yet definitive) estimates the volume of exports (of goods and non-factor services combined) rose by 6.6% in the first half of the year while the volume of imports by 5.7%.

Gross value added has continued to increase rather strongly in industry (by 4.8% in the first half of the year) and construction (by close to 4%). Overall, net profits earned by the non-financial corporate sector rose by 10% in the first half of 2015. Manufacturing corporations' profits have risen by over 13%. The average real wage in the private sector rose by 3.4% and the sector's employment by 1%.

The positive trends observed in the first half of the year have persisted later on. During the first eight months of 2015 the volume of manufacturing sales rose by 4.5% and of sales of output of the construction sector by 3.7%. Sales of manufactured investment goods are rising fast (by close to 10%), followed by sales of consumer durables (6.4%), intermediate inputs (4.2%) and consumer non-durables (3.7%). Interestingly, the number of housing units constructed has been stagnant while the volume of civil engineering and other construction works has been rising very strongly. There is little doubt that this reflects the availability of EU funds earmarked for infrastructural investment programmes. The bulk of investment goes to manufacturing and the sector generating and supplying electricity, steam and gas.

The investment outlays[49] in the latter sector increased especially strongly (by about 40%). Within manufacturing, investment outlays rose very strongly in some technologically more advanced branches (e.g. pharmaceuticals, motor vehicles and electrical equipment). Also investments in the water-supply and construction sectors increased strongly in the first half of 2015 (by over 17% and 24% respectively). By contrast, the volume of investment outlays in the trade sector contracted by 8%.

The moderate output growth since 2010 has been combined with fast disinflation which at mid-2014 turned into accelerating deflation. Although the inflation forecast suggests stronger deflation than even a couple of months ago[50], the deepening of deflation seems to have stopped now. Positive inflation is unlikely to return before the spring of 2016 though. The declared 2% inflationary goal of monetary policy seems likely to be reached only sometime in the second half of 2017. Price developments – and the still large levels of unemployment – clearly indicate that the economy still suffers from a persistent shortage of aggregate demand. In March 2015 the notoriously hawkish National Bank of Poland reluctantly lowered its policy interest rate to the still rather high level of 1.5%. Currently the bulk of business investment can still be safely financed by means other than the rather expensive (given the deflationary tendencies) bank loans (and by corporations' own means in particular). But the 'dear money' policy may have been unnecessarily limiting the business investment expansion of smaller businesses (as it has been limiting the expansion of households' demand for housing loans). Also, dear money may have been conducive to supporting the strength of the Polish currency vs. the euro.

The parliamentary elections held on 25th October 2015 were a contest between the main opposition party, Law and Justice Party (PiS), led by the former prime minister Jarosław Kaczyński, and the ruling Civic Platform (PO), which is led by Ewa Kopacz, the incumbent prime minister (and heiress to Donald Tusk, present president of the European Council). Earlier this year, Poland's president (associated with

49 Investment outlays assuming the form of buildings and structures rose by 14% in the first half of 2015, outlays in the form of new machinery and equipment by 11% while investment in means of transport remained flat.

50 In its March 2015 Inflation Report, the National Bank's CPI estimate for 2015 was -0.5%. This figure was revised to -0.8% in the July Inflation Report. While the core inflation estimate was unchanged (at -0.4%), the estimates for prices of less predictable items, energy and food, were revised from -3% to -3.2% and from -0.7% to -1.9% respectively.

PO) was voted out of office, having lost the electoral contest to Andrzej Duda, a younger (and little-known) PiS contender. The skilful election campaign with lavishly supplied populist slogans had appealed to the traditionally-minded and to the economically disadvantaged parts of the electorate. The latter group included numerous young and well-educated persons forced into 'irregular' occupations that were legalised – and have been long tolerated – by the PO governments. In its electioneering PiS followed the same tactics. Clearly cornered, PO desperately tried to match the competitors by promising many 'nice' things which its governments had been unable to consider, let alone deliver, during its long eight years in power.

The victory of PiS may still turn out to be Pyrrhic – as PiS may still fail to find partners adventurous enough to join them in forming a government. In that case PO – in coalition with smaller parties – may still remain in power. Whatever the eventual outcome of the post-election manoeuvring, the next government will find it difficult, or even impossible, to keep the most consequential pre-election promises. Of course some changes (such as those concerning the personal income tax as applied to the poorest families, or repel of regulations permitting unbridled exploitation of employees) could – and should – be made. But it is very unlikely that e.g. the retirement age will be pushed back to 65 years for men (or 60 years for women), or that government social spending will suddenly be increased by a factor of two or more.

In effect nothing of substance will change very much as far as the medium-term macroeconomic conditions are concerned. The next government will continue to stick to a rather liberal agenda, even if paying more attention to 'social issues' and the concerns of the economically disadvantaged groups.[51]

Concluding, the political turmoil is unlikely to substantially affect the Polish economy in 2016-2017. The current fiscal policy has been fixing the contours for what could be done in 2016 anyway. Also, the monetary policy cannot be expected to change before mid-2016 (when the present NBP President will leave his office). But, given the generally long lags in the transmission of monetary policy instruments, even then an eventual change in the orientation of that policy would possibly affect the real economy only sometime in 2017. Continuing moderate growth (still running well below the 'potential') is to be expected – also beyond the current forecast horizon. A much stronger growth in domestic demand, and in investment in particular, would be needed if the country's GDP growth were to assume the magnitudes more consistent with its income level, which is still relatively low. But for the growth rates approaching their 'potential' magnitudes a radical change in the economic and social policy orientation would have to happen not only in Poland, but also at the European Union level.

[51] In 2005-2007, while in power (having won the elections promising 'solidarity instead of liberalism') the PiS government conducted exemplarily liberal economic and social policies.

Table 20 / Poland: Selected economic indicators

	2011	2012	2013	2014 1)	2014 January-June	2015 January-June	2015 Forecast	2016 Forecast	2017 Forecast
Population, th pers., average 2)	38,534	38,536	38,514	38,487	.	.	38,525	38,500	38,550
Gross domestic product, PLN bn, nom. 3)	1,554	1,616	1,663	1,729	823.3	851.6	1,780	1,860	1,960
annual change in % (real)	4.8	1.8	1.7	3.4	3.6	3.6	3.5	3.3	3.3
GDP/capita (EUR at exchange rate) 3)	9,800	10,000	10,300	10,700	.	.	11,000	11,600	12,100
GDP/capita (EUR at PPP) 3)	16,600	17,400	17,900	18,600	.	.	.	.	.
Consumption of households, PLN bn, nom. 3)	939.7	979.4	997.8	1,023.8	520.5	527.7	.	.	.
annual change in % (real)	3.0	1.0	1.2	3.0	2.8	3.6	3.5	3.6	3.6
Gross fixed capital form., PLN bn, nom. 3)	315.6	314.0	312.9	337.0	125.4	136.0	.	.	.
annual change in % (real)	9.3	-1.5	1.1	9.2	10.1	8.5	7.0	7.0	6.0
Gross industrial production (sales) 4)									
annual change in % (real)	6.8	1.3	2.3	3.4	4.5	4.7	4.5	5.0	4.5
Gross agricultural production									
annual change in % (real)	0.1	1.2	0.5	6.9	.	.	.	.	.
Construction industry 4)									
annual change in % (real)	15.3	-5.2	-10.3	4.3	9.8	1.7	.	.	.
Employed persons, LFS, th, average 5)	16,131	15,591	15,568	15,862	15,683	15,912	16,000	16,100	16,100
annual change in %	1.1	0.2	-0.1	1.9	1.8	1.5	0.8	0.5	0.3
Unemployed persons, LFS, th, average 5)	1,723	1,749	1,793	1,567	1,716	1,388	1,540	1,490	1,460
Unemployment rate, LFS, in %, average 5)	9.7	10.1	10.3	9.0	9.9	8.0	8.8	8.5	8.3
Reg. unemployment rate, in %, end of period	12.5	13.4	13.4	11.5	12.0	10.3	-	-	-
Average monthly gross wages, PLN	3,404	3,530	3,659	3,783	3,913	4,051	3,890	4,070	4,310
annual change in % (real, gross)	1.4	0.1	2.8	3.4	3.6	4.5	3.5	3.5	4.0
Consumer prices (HICP), % p.a.	3.9	3.7	0.8	0.1	0.5	-0.9	-0.7	1.2	1.8
Producer prices in industry, % p.a.	7.3	3.3	-1.2	-1.3	-1.1	-2.2	-1.5	0.0	1.5
General governm.budget, EU-def., % of GDP									
Revenues	39.0	39.2	38.2	38.6	.	.	38.6	38.3	39.0
Expenditures	43.9	42.9	42.2	41.8	.	.	41.5	41.1	41.5
Net lending (+) / net borrowing (-)	-4.9	-3.7	-4.0	-3.2	.	.	-2.9	-2.8	-2.5
Public debt, EU-def., % of GDP	54.8	54.4	55.7	50.1	.	.	50.2	50.1	50.0
Central bank policy rate, % p.a., end of period 6)	4.5	4.3	2.5	2.0	2.5	1.5	1.5	1.5	2.0
Current account, EUR mn 7)	-19,647	-14,458	-5,028	-8,298	-4,665	2,008	-2,100	-6,700	-9,300
Current account, % of GDP 7)	-5.2	-3.7	-1.3	-2.0	-2.4	1.0	-0.5	-1.5	-2.0
Exports of goods, BOP, EUR mn 7)	132,420	141,026	149,113	158,657	77,890	85,208	172,100	184,100	193,300
annual change in %	12.1	6.5	5.7	6.4	7.6	9.4	8.5	7.0	5.0
Imports of goods, BOP, EUR mn 7)	145,709	149,156	149,448	161,911	79,504	83,206	173,200	185,300	196,400
annual change in %	12.9	2.4	0.2	8.3	9.1	4.7	7.0	7.0	6.0
Exports of services, BOP, EUR mn 7)	29,370	31,949	33,592	36,279	17,196	18,304	37,400	38,500	40,000
annual change in %	9.8	8.8	5.1	8.0	7.2	6.4	3.0	3.0	4.0
Imports of services, BOP, EUR mn 7)	24,206	25,947	25,948	27,705	12,663	13,445	28,800	29,700	30,900
annual change in %	3.2	7.2	0.0	6.8	6.9	6.2	4.0	3.0	4.0
FDI liabilities (inflow), EUR mn 7)	13,274	5,771	658	12,826	7,654	3,061	3300	.	.
FDI assets (outflow), EUR mn 7)	3,415	1,055	-2,524	4,609	3,003	2,425	1800	.	.
Gross reserves of NB excl. gold, EUR mn	71,691	78,403	74,257	79,379	71,484	89,906	.	.	.
Gross external debt, EUR mn 7)	250,947	279,739	278,948	291,878	287,004	306,552	305,100	322,700	340,700
Gross external debt, % of GDP 7)	66.6	72.4	70.4	70.6	69.5	72.3	72.0	72.0	73.0
Average exchange rate PLN/EUR	4.1206	4.1847	4.1975	4.1843	4.1755	4.1397	4.20	4.15	4.20
Purchasing power parity PLN/EUR	2.4221	2.4122	2.4122	2.4209	.	.	.	.	.

1) Preliminary. - 2) According to census March 2011. - 3) According to ESA 2010. - 4) Enterprises with 10 and more employees. -
5) From 2012 according to census March 2011. - 6) Reference rate (7-day open market operation rate). - 7) BOP 6th edition, including SPE.

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