



POLAND: Fast recovery of investment

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Driven by a major increase in investment, the Polish economy has entered a phase of moderately faster growth, which is likely to extend into 2016. In the medium term some deterioration of external balances can be expected. The outcome of the elections to be held in 2015 is still uncertain. Should the present liberal-conservative coalition lose to the nationalist-populist opposition, the economic and social policy may take an unpredictable tack.

GDP grew by an estimated 3.3% in 2014. Both household and public consumption increased by about 3%. In contrast, gross fixed capital formation rose by more than 9%. Most probably part of that acceleration was due to the speeding-up of EU co-financed spending. In the first three quarters of 2014 investment outlays taking the form of an increase in the stocks of buildings and structures rose by close to 15% while those into machinery and equipment (other than means of transport) by 13%. Investment in the stock of machinery and equipment accounts for the bulk (over 46%) of total investment outlays. Investment outlays in manufacturing (accounting for a third of the total) rose by about 14%. Outlays in the transportation and storage sector rose by more than 20%. Most likely the increased investment into this sector has only been possible due to the support by transfers from EU funds. The infrastructural sectors (water supply, land transportation, etc.) also feature very prominently in the recent statistics on the estimated value of newly started investment projects.

In real terms growth of exports of goods and non-factor services (estimated at 5.5%) fell short of the growth in imports (estimated at 7%) in 2014. All of a sudden foreign trade became a major drag on overall GDP growth. After 13 consecutive quarters featuring positive (and generally large) contributions of foreign trade to GDP growth, in the second quarter of 2014 that contribution became negative. In 2014 the contribution of trade to GDP growth was about -0.6 percentage points (down from plus 1.4 p.p. in 2013).

A (still mild) deflation in industrial producer prices has been running for over two years now. Its recent acceleration (in the second half of 2014) may have been additionally strengthened by falling prices of energy carriers. Consumer price inflation has also been very close to zero for a long time and is still falling, across a wide spectrum of goods and services. Since mid-year 2014 the CPI has turned negative. This development (long unanticipated and ignored at the central bank) has had some positive aspects. With nominal wage rates following their 'natural' upward trends the unplanned disinflation (turning into mild deflation) has been a source of additional gains in the purchasing power of wage incomes.

The inflation target of the National Bank of Poland (CPI of 2.5% with 1 percentage point tolerance band) has been missed by a wide margin. To some extent this has been the outcome of the monetary policy which continues – for hardly understandable reasons – a fairly restrictive course. The NBP policy interest rate of 2.5% had been maintained, amid deflationary tendencies, for a year and a half before being reduced to 2%.¹ That may have affected the levels of interest rates charged by banks on their loans to the non-financial corporate sector and to households. Nonetheless, in real terms the interest rate on new loans to households is still in excess of 10%, on average, and close to 4% for corporate clients (virtually the same as a year ago). Commercial banks were much quicker in lowering the interest rates on clients' new deposits, though. Not surprisingly, the stocks of loans to both households and the non-financial corporate sector remain essentially flat or falling (and that despite the fact that the weight of the loans denominated in Swiss francs has increased)². But, despite rather unattractive deposit rates, the private non-financial sectors have been increasing their bank deposits (denominated in domestic currency) very strongly.

While the high real interest rates on loans have not precluded the rise in capital formation (still financed primarily out of plentiful own resources, not by loans), high interest rates are unwelcome for another reason. They may have had something to do with the continuing strength of the Polish currency. For a long time this has not been harming the performance of foreign trade. But the recent foreign trade developments seem to indicate that without some currency depreciation it may be hard to square positive trade developments with an acceleration of growth of domestic demand. The risk to foreign trade – and to the economy at large – following too strong a currency may finally induce those in charge of Poland's monetary policy to move the interest rates closer to those prevailing internationally. Before that change materialises, the Polish monetary policy course exposes the economy to serious risks.

The less positive trade performance in 2014 seems to be the first consequence of the impending currency overvaluation (and indirectly probably of too high interest rates). It is unlikely to improve in the coming months especially because of the importance of Russia and Ukraine to Poland's exporters.

The outcomes of the next parliamentary elections (autumn 2015) are also hardly predictable now. If the elections are decisively won by the Law and Justice Party (of former Prime Minister Jaroslaw Kaczynski), the course of policy (including on economic matters) may change radically.³ The direction of that change cannot be predicted with any certainty. Barring extraordinary changes in the external and internal circumstances, Poland's development in 2015-2017 can be expected to be driven, as in 2014, by expanding domestic demand. We still expect an average GDP growth rate of about 3.5%. The investment push which is an essential aspect of this development has been triggered by both external (EU-funds) and internal (largely cyclical) economic impulses. These positive impulses were much weaker during the less dynamic years 2012-2013.

¹ On 9 October 2014.

² Loans denominated in (or indexed to) foreign currencies accounted (at end-2014) for about 27% of the total for the non-financial corporate and household sectors. The shares of such loans in the totals have been quite stable for a couple of years. The recent strengthening of the Swiss currency, though certainly unpleasant to many firms and (primarily well-to-do) households, has not yet perceptibly affected the shares of non-performing loans. At end-2014 the share of such loans stood at 6.5% for households and at 11.2% for the non-financial corporate sector. (These levels are lower than recorded one year earlier.)

³ Prime Minister Ewa Kopacz tries to continue the muddling-through tactics of her predecessor, Donald Tusk. Apparently, she lacks the latter's skills. Her reign so far is hard to consider a success.

Table 1 / Poland: Selected Economic Indicators

	2010	2011	2012	2013	2014 ¹⁾	2015 Forecast	2016 Forecast	2017 Forecast
Population, th pers., average ²⁾	38,184	38,534	38,536	38,514	38,530	38,525	38,500	38,550
Gross domestic product, PLN bn, nom. ³⁾	1,437	1,554	1,616	1,662	1,720	1,790	1,870	1,970
annual change in % (real) ³⁾	3.7	4.8	1.8	1.7	3.3	3.5	3.2	3.2
GDP/capita (EUR at exchange rate)	9,400	9,800	10,000	10,300	10,700	.	.	.
GDP/capita (EUR at PPP)	15,800	16,600	17,300	17,800	18,500	.	.	.
Consumption of households, PLN bn, nom. ³⁾	870.4	939.7	979.4	997.7	1,030.0	1070.0	1120.0	1180.0
annual change in % (real) ³⁾	2.5	3.0	1.0	1.1	3.0	3.5	3.5	3.5
Gross fixed capital form., PLN bn, nom. ³⁾	284.8	315.6	314.0	312.8	340.0	360	390	420
annual change in % (real) ³⁾	-0.4	9.3	-1.5	0.9	9.4	8.0	7.0	6.0
Gross industrial production (sales) ⁴⁾								
annual change in % (real)	11.1	6.7	1.2	2.3	3.4	4.5	5.0	4.0
Gross agricultural production								
annual change in % (real)	-3.2	0.1	1.2	0.5	5.2	.	.	.
Construction industry ⁴⁾								
annual change in % (real)	3.9	15.3	-5.3	-10.2	4.3	.	.	.
Employed persons, LFS, th, average ⁵⁾	15,961	16,131	15,591	15,568	15,724	15,800	15,880	15,930
annual change in % ⁵⁾	0.6	1.1	0.2	-0.1	1.0	0.5	0.5	0.3
Unemployed persons, LFS, th, average ⁵⁾	1,699	1,723	1,749	1,793	1,747	1,760	1,670	1,580
Unemployment rate, LFS, in %, average ⁵⁾	9.6	9.7	10.1	10.3	10.0	10.0	9.5	9.0
Reg. unemployment rate, in %, end of period	12.4	12.5	13.4	13.4	11.5	10.5	10.0	10.0
Average monthly gross wages, PLN	3,224	3,404	3,530	3,659	3,790	3,930	4,130	4,380
annual change in % (real, gross)	1.4	1.4	0.1	2.8	3.7	3.5	3.5	4.0
Consumer prices (HICP), % p.a.	2.7	3.9	3.7	0.8	0.1	0.3	1.5	2.0
Producer prices in industry, % p.a.	1.8	7.3	3.3	-1.2	-1.3	-1.5	0.0	1.5
General governm.budget, EU-def., % of GDP								
Revenues	38.2	39.0	39.1	38.2	38.2	38.6	38.3	39.0
Expenditures	45.9	43.9	42.9	42.2	41.6	41.5	41.1	41.5
Net lending (+) / net borrowing (-)	-7.6	-4.9	-3.7	-4.0	-3.4	-2.9	-2.8	-2.5
Public debt, EU-def., % of GDP	53.6	54.8	54.4	55.7	49.1	50.2	50.1	50.0
Central bank policy rate, % p.a., end of period ⁶⁾	3.5	4.5	4.3	2.5	2.0	1.8	2.0	2.0
Current account, EUR mn ⁷⁾⁸⁾	-19,587	-19,390	-13,699	-5,251	-5,337	-8,600	-11,300	-14,100
Current account, % of GDP	-5.4	-5.1	-3.5	-1.3	-1.3	-2.0	-2.5	-3.0
Exports of goods, BOP, EUR mn ⁷⁾	117,931	132,237	140,813	148,872	157,698	168,700	178,800	187,700
annual change in %	23.8	12.1	6.5	5.7	5.9	7.0	6.0	5.0
Imports of goods, BOP, EUR mn ⁷⁾	128,325	144,683	147,959	148,237	157,734	169,600	181,500	192,400
annual change in %	25.1	12.7	2.3	0.2	6.4	7.5	7.0	6.0
Exports of services, BOP, EUR mn ⁷⁾	26,688	29,330	32,020	33,794	34,359	35,000	36,100	38,400
annual change in %	18.9	9.9	9.2	5.5	1.7	2.0	3.0	6.5
Imports of services, BOP, EUR mn ⁷⁾	23,247	24,146	25,812	25,775	27,212	27,800	28,600	30,500
annual change in %	33.6	3.9	6.9	-0.1	5.6	2.0	3.0	6.5
FDI inflow (liabilities), EUR mn ⁷⁾⁸⁾	12,769	13,274	5,636	71	10,379	.	.	.
FDI outflow (assets), EUR mn ⁷⁾⁸⁾	7,254	3,173	446	-2,772	4,461	.	.	.
Gross reserves of NB excl. gold, EUR mn	66,253	71,028	78,403	74,257	79,379	.	.	.
Gross external debt, EUR mn ⁷⁾	238,421	250,248	278,037	277,495	300,000	.	.	.
Gross external debt, % of GDP	66.3	66.4	72.0	70.1	73.0	.	.	.
Average exchange rate PLN/EUR	3.9947	4.1206	4.1847	4.1975	4.1843	4.15	4.12	4.20
Purchasing power parity PLN/EUR	2.3872	2.4242	2.4199	2.4288	2.4187	.	.	.

1) Preliminary and wiiw estimates. - 2) From 2011 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. - 8) Including Special Purpose Entities (SPEs).

Source: wiiw Databases incorporating Eurostat and national statistics.