POLAND: Soft landing ahead is a possibility

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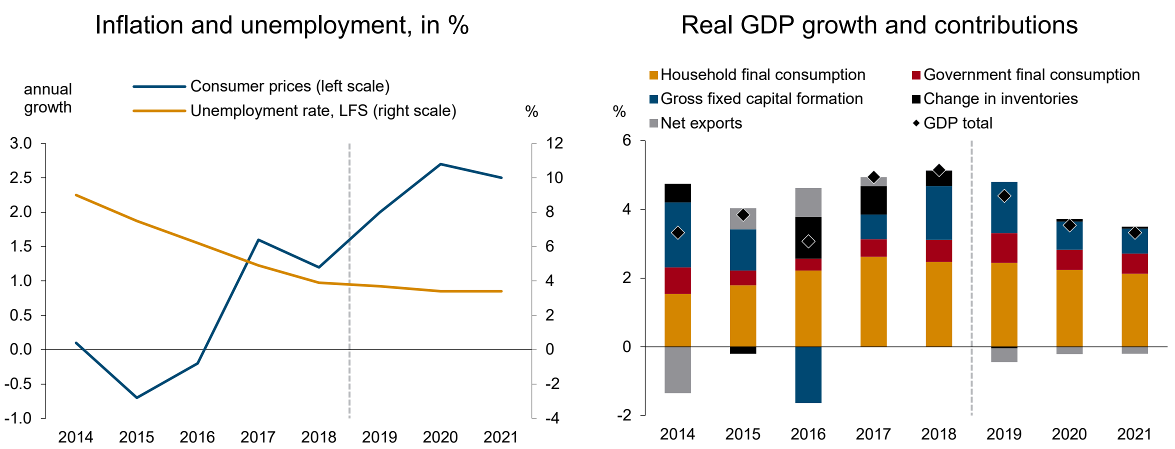
Broad-based economic growth has continued. German economic stagnation is not yet affecting foreign trade, but industrial output has started to underperform. A strong rise in gross fixed capital formation primarily reflects larger infrastructural and public sector investments. Household consumption is driven by strongly rising wages and social transfers. Labour shortages have become less acute while moderate inflation is back. The next government may feel obliged to continue the lavish social policies.

Figure 5.16 / Poland: Main macroeconomic indicators



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

In the first half of 2019 the broadly-based and fairly strong economic growth has continued: GDP increased by 4.6%. All components of the domestic demand have grown respectably while the foreign trade in goods and non-factor services performed unexpectedly well – especially in the first quarter of the year (rising by 5.9% in real terms).

German economic stagnation is not yet affecting the foreign trade aggregates (though the shares of Germany in Poland's exports and imports have gone down - gently so far - primarily on account of contracting trade in vehicles and parts thereof). Trade with the UK brings quite large surpluses. These surpluses may well diminish, or even vanish, after Brexit.

Industrial output has been underperforming recently. Quite strong growth in industrial sales recorded in the first half of the year has performed rather weekly since. In August the industrial output declined. The manufacture of vehicles suffered the most with over 24% decline in sales. Although quite a few manufacturing branches still keep expanding sales (though at the rates lower than earlier this year, and much lower than a year ago) the general business climate in industry and the construction sector has turned rather pessimistic, reflecting weakening foreign and domestic demand.

Statistics suggest a strong rise in Gross Fixed Capital Formation. Investment growth is particularly strong as far as construction of 'buildings and structures' is concerned – with much weaker growth in the volumes of 'machinery' installed. 'Transportation' and 'electricity' sectors record the highest rates of growth in investment outlays (over 30% in nominal terms) while investment outlays in manufacturing have risen by less than 15%. But the sectors receiving high investments are infrastructural in character and are predominantly publicly-owned. In addition, it turns out that very large firms (with 1000 or more employees, quite typical of the public ownership) account for over 50% of the total investment outlays of the whole enterprise sector.

The volume of capital formation by the market-oriented private sector (and of its small and medium sized segments in particular) has been stagnant[22]. This does not bode particularly well for the future productive capacities. Moreover, investment propelled disproportionately by public spending may get restricted by the budgetary considerations. In this case the fixed investment may stop supporting the aggregate demand and the overall GDP growth.

Household consumption is driven by strongly rising wages and social transfers. Nominally the average wage in the enterprise sector rose by 6.8% in the first eight months of the year and the average retirement pay by 4.7% (in real terms 4% and 1.8% respectively). With still increasing employment and the ranks of retirees, the total disposable income of the household sector must have increased by at least over 4% in real terms. All in all, this configuration of factors has been conducive to expanding consumption and the overall growth. Growth in the household incomes and consumption is likely to go on in the near future, though not necessarily indefinitely. An unexpected return of higher inflation and/or unemployment could erode the real value of the household sector's disposable income while the re-emerging budgetary bottlenecks might make the continuation of the generous social spending more difficult.

Labour shortages seem less acute. The number of vacancies reported has gone down quite strongly and firms report grossly insufficient employment less often. This may suggest that the natural process of matching individual jobs with individual employees has advanced. At the same time the number of new jobs created is falling while the number of jobs liquidated is rising strongly. This may augur a short-term stabilisation of registered unemployment rate at a level which is not excessively low (over 5%).

Moderate inflation is back. Wages, rising faster than labour productivity, have been eroding the volumes of profits earned by the business sector. So far this has been inconsequential as far the prices charged by producers are concerned. The producer price index for manufacturing is low and falling. But this situation is unlikely to persist. Upon some delay the suppliers may start requesting higher prices compensating for higher unit labour costs. This will feed into higher consumer prices. In addition,

[22] The share of foreign-owned firms in the total investment outlays (of the non-financial business sector) fell to about 40% in the first half of the year (from 44% a year previous).

inflation may accelerate in 2020 if the government administers (as already signalled) steep hikes in the energy tariffs.

Monetary policy remains dovish: the NBP does not see the point in pre-empting inflation (and thus in possibly affecting, negatively, the investment/consumption growth) with more restrictive policy. Quite fortunately, the exchange rate has been remarkably stable recently and the indebtedness levels remain low and so are non-performing loans.

The government has continued to shower the population with monetary transfers of various sorts. These are highly appreciated especially by the lower-income and lower-skill social strata. The parliamentary elections held on 13 Oct. 2019 brought a clear victory to the incumbent government.

The next government may feel obliged to continue the lavish social and economic policies, including e.g. substantial hikes in minimum wages.[23] However, the financing of extraordinary social spending has been quite unproblematic under rather fast growth (since 2017), high EU transfers and much improved collection of indirect taxes. In 2020-21 these factors may be less supportive and the rising public sector deficits could enforce hikes in taxes or/and cuts in spending (e.g. on public investment or for the already underfunded health and education services). Under less expansionary fiscal policy, less pronounced improvements in household disposable incomes and possibly less favourable external conditions (such as the German business climate), Poland's output growth is forecast to slow down. Soft landing is a real possibility in 2020.

[23] See L.Podkaminer, 'Higher minimum wages? Not necessarily the end of the world', wiiw Monthly Report No 10, October 2019.

Table 5.16 / Poland: Selected economic indicators

	2015	2016	2017	2018 1)	2018	2019	2019	2020	2021
					January-June			Forecast	
Population, th pers., average	38,458	38,435	38,434	38,423	38,434	38,411	38,400	38,410	38,420
Gross domestic product, PLN bn, nom. 2)	1,800	1,861	1,989	2,115	995	1,066	2,250	2,380	2,510
annual change in % (real)	3.8	3.1	4.9	5.1	5.3	4.4	4.4	3.5	3.3
GDP/capita (EUR at PPP)	19,900	19,900	20,900	21,900	.	.	.	.	.
Consumption of households, PLN bn, nom. 2)	1,038	1,074	1,145	1,213	607	641	.	.	.
annual change in % (real)	3.0	3.9	4.5	4.3	4.2	3.9	4.3	3.9	3.7
Gross fixed capital form., PLN bn, nom. 2)	361	335	349	386	142	161	.	.	.
annual change in % (real)	6.1	-8.2	4.0	8.9	7.9	10.6	8.2	4.5	4.0
Gross industrial production (sales) 3)									
annual change in % (real)	4.8	2.8	6.6	5.9	6.4	5.3	5.3	4.2	4.0
Gross agricultural production									
annual change in % (real)	-2.7	8.5	2.9	-0.6	.	.	.	.	.
Construction industry 3)									
annual change in % (real)	0.3	-14.5	13.7	19.7	23.4	8.7	.	.	.
Employed persons, LFS, th, average	16,084	16,197	16,423	16,484	16,455	16,379	16,580	16,630	16,660
annual change in %	1.4	0.7	1.4	0.4	0.4	-0.5	0.6	0.3	0.2
Unemployed persons, LFS, th, average	1,304	1,063	844	659	663	607	640	590	590
Unemployment rate, LFS, in %, average	7.5	6.2	4.9	3.9	3.9	3.6	3.7	3.4	3.4
Reg. unemployment rate, in %, eop	9.7	8.3	6.6	5.8	5.8	5.3	.	.	.
Average monthly gross wages, PLN 4)	3,908	4,052	4,272	4,560	4,434	4,572	4,880	5,210	5,530
annual change in % (real, gross) 4)	4.5	4.2	3.5	5.5	3.0	5.7	5.0	4.0	3.5
Consumer prices (HICP), % p.a.	-0.7	-0.2	1.6	1.2	1.1	1.7	2.0	2.7	2.5
Producer prices in industry, % p.a.	-2.2	-0.3	2.7	2.1	1.2	2.1	1.8	2.0	1.8
General governm.budget, EU-def., % of GDP									
Revenues	39.0	38.9	39.7	41.2	.	.	41.0	40.5	40.5
Expenditures	41.7	41.1	41.2	41.6	.	.	42.2	42.5	42.5
Net lending (+) / net borrowing (-)	-2.7	-2.2	-1.5	-0.4	.	.	-1.2	-2.0	-2.0
General gov.gross debt, EU def., % of GDP	51.3	54.2	50.6	48.9	.	.	50.0	50.5	51.0
Stock of loans of non-fin.private sector, % p.a.	7.1	5.3	3.1	7.1	5.5	5.3	.	.	.
Non-performing loans (NPL), in %, eop	7.5	7.1	6.8	6.8	.	.	.	.	.
Central bank policy rate, % p.a., eop 5)	1.5	1.5	1.5	1.5	1.50	1.50	1.50	1.75	1.75
Current account, EUR mn 6)	-2,379	-2,234	285	-5,048	-288	2,538	-5,400	-6,400	-5,000
Current account, % of GDP 6)	-0.6	-0.5	0.1	-1.0	-0.1	1.0	-1.0	-1.2	-0.9
Exports of goods, BOP, EUR mn 6)	172,150	177,412	201,963	216,924	106,742	114,156	229,900	243,100	257,100
annual change in %	8.5	3.1	13.8	7.4	6.9	6.9	6.0	5.8	5.8
Imports of goods, BOP, EUR mn 6)	169,937	174,479	200,536	221,707	108,768	113,403	232,800	247,700	262,600
annual change in %	5.0	2.7	14.9	10.6	10.5	4.3	5.0	6.4	6.0
Exports of services, BOP, EUR mn 6)	40,663	44,929	51,884	58,772	27,886	29,997	62,900	67,900	73,300
annual change in %	10.7	10.5	15.5	13.3	15.0	7.6	7.0	8.0	8.0
Imports of services, BOP, EUR mn 6)	29,749	30,963	33,927	37,116	16,827	18,247	39,700	41,700	43,800
annual change in %	7.5	4.1	9.6	9.4	8.1	8.4	7.0	5.0	5.0
FDI liabilities, EUR mn 6)	13,534	16,628	10,182	14,022	7,276	5,019	12,000	.	.
FDI assets, EUR mn 6)	4,385	12,807	3,430	1,593	648	186	3,000	.	.
Gross reserves of NB excl. gold, EUR mn	83,676	104,440	90,967	97,633	89,986	94,335	.	.	.
Gross external debt, EUR mn 6)	303,120	321,305	318,850	314,538	312,614	309,379	314,000	332,100	346,200
Gross external debt, % of GDP 6)	70.5	75.3	68.2	63.4	63.0	59.1	60.0	60.0	60.0
Average exchange rate PLN/EUR	4.1841	4.3632	4.2570	4.2615	4.2200	4.2920	4.30	4.30	4.35

1) Preliminary. - 2) Half-year data unrevised. - 3) Enterprises with 10 and more employees. - 4) Half-year data refer to enterprises with 10 and more employees. - 5) Reference rate (7-day open market operation rate). - 6) Including SPE.

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