

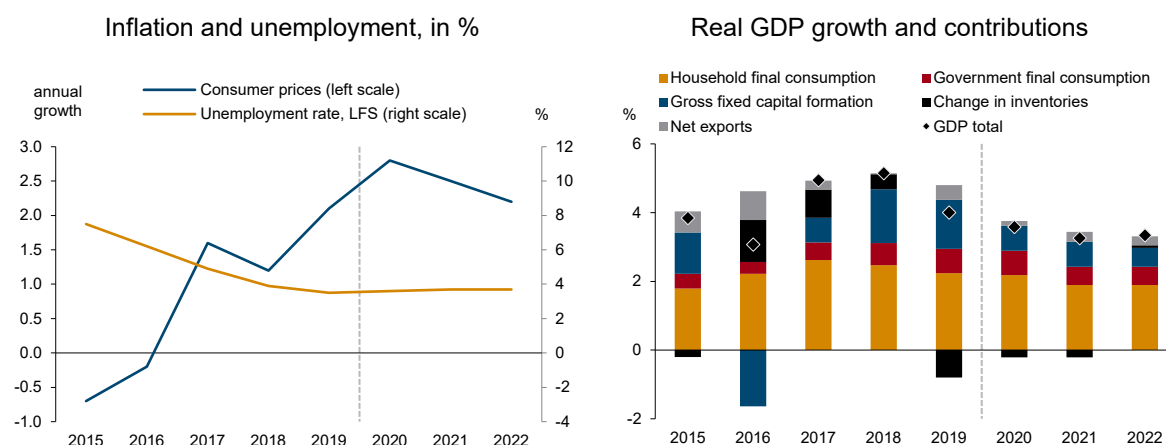


## POLAND: Soft landing

LEON PODKAMINER

Economic growth has been losing momentum as industry starts to underperform. Household consumption is driven by sharply rising wages and social transfers. Labour shortages are becoming less acute, while moderate inflation is back, driven by a supply-side shock to agriculture. The next government may feel obliged to discontinue the country's lavish social policies.

**Figure 6.16 / Poland: Main macroeconomic indicators**



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

**Economic growth slowed** from 4.7% in the first half of 2019 to less than 3.5% in the second. Growth of private consumption was steady across the first three quarters of the year, at about 4%, but slowed down in the fourth. Gross fixed capital formation increased at double-digit rates in the first half of the year, but then its growth sagged to less than 5%. Throughout the year, inventories contracted very rapidly, resulting in additional losses to output growth. With a positive (and rising) balance of trade in goods and non-factor services, foreign trade contributed positively to the overall growth in output throughout the year (provisionally put at 4%).

**German economic stagnation is starting to affect the foreign trade aggregates.** According to provisional customs statistics, exports of goods rose by 5.5% in 2019 (in euro terms), while imports increased by 2.6%. Exports to Germany grew less (3.1%), while imports from there fell by 1.1%: the underperforming exports indicate weak German demand, while the faltering imports may represent a declining supply of intermediate inputs for goods to be finally assembled locally and then re-exported. As such, the falling imports from Germany may augur a decline in the value of (re)exports in 2020. Of course, Germany remains Poland's largest trading partner by far. Even if what happens in Germany is less important to Poland than it is to Slovakia or the Czech Republic, Poland cannot completely avoid the impacts of German stagnation. Trade with the UK brings quite large surpluses. But these may well

diminish (or even vanish) once Brexit 'is done'. All in all, foreign trade currently remains a risky business for Poland, even though for several years it has contributed positively to GDP growth.

**Industrial output growth is losing momentum.** The initially quite strong growth in industrial sales weakened progressively throughout 2019: in the first quarter, industrial sales were up 6.1%, but in the fourth the figure was 3.8%. The slowdown in manufacturing was even more pronounced: from 6.4% to 2.3%. The automotive sector started the year with a 6.3% boost to sales in the first quarter, but ended it with a 1% fall in the fourth quarter. In terms of output, those industries that manufacture capital and intermediate goods performed less dynamically than those supplying consumer goods. In 2018, the overall much faster growth in aggregate industrial output was driven primarily by expanding sales of capital and intermediate goods. Capacity utilisation in the manufacturing sector declined in 2019, while labour shortages seem to have become less of a problem. Overall, the manufacturing sector seems capable of resuming faster growth. That growth is slackening must reflect mounting uncertainty – not only as concerns the prospects for demand, but also surrounding the changing legal and tax regulations.

**Labour shortages are becoming less acute.** The number of recorded vacancies has dropped off very sharply, reflecting also the weakening growth in output and steadily increasing labour productivity.<sup>37</sup>

**Growth of output in the construction and assembly sector has slowed dramatically,** from close to 20% in 2018 to just 2.6% in 2019. In the first quarter of 2019, it rose by over 9%, but in the last quarter it saw a decline. The ongoing weakening of the sector's activities affects both the construction of buildings (housing and industrial structures alike) and civil engineering works. During the first three quarters of 2019, investment outlays in the form of construction and structures increased by 18% (nominally), while outlays in the shape of machinery and technical equipment rose by 12%. Investment outlays in manufacturing increased by 14%. In real terms, the gross fixed investment in manufacturing must have contracted in 2019. On the other hand, in the first three quarters of 2019 the 'land and pipeline transportation' and 'electricity and water supply' sectors recorded very high rates of growth in total investment outlays – over 40% and 28%, respectively (in nominal terms). But those sectors with particularly high growth in investment outlays are infrastructural in character, and are run predominantly by the public authorities (and co-financed by EU funds).

**The volume of capital formation in the market-oriented private sector (and its small and medium-sized segment, in particular) has stagnated.**<sup>38</sup> This has obvious implications for future productive capacities. Moreover, investment propelled disproportionately by public spending may find itself constrained by budgetary considerations.

**Household consumption is driven by rising wages and social transfers.** Nominally, the average wage in the enterprise sector rose by 6.5% in 2019, and average pension by 4.7% (in real terms, 4.1% and 1.3%, respectively). Growth of the average real wage slowed throughout the year, primarily because of rising living costs.

---

<sup>37</sup> The registered unemployment rates vary considerably across regions. The low level of internal labour mobility exacerbates the labour shortages felt in the fast-growing regions, while leaving low-growth areas stuck with high unemployment. The problem is primarily to do with the poor supply of affordable housing in the fast-growth regions and inadequate public transportation.

<sup>38</sup> 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 2019 (from 44% a year earlier).

**The household sector has been receiving large cash transfers** that target families with children and old-age pensioners. This has supported private consumption and overall growth. Growth in household income and consumption is likely to continue in the near future, though at a more modest rate than before. The 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 may make it harder to continue with the generous social spending.

**Moderate inflation is back.** Consumer price inflation (2.3%) emerged in 2019 because of a substantial growth in retail food prices (4.7%). The higher retail food prices followed a 3.4% decline in (gross) agricultural output, attributed to bad weather conditions (severe droughts) in the first half of the year. Consequently, the price of agricultural products rose by over 15% in 2019. On the other hand, the producer price indexes for manufacturing and most services are low and are even falling. Wages, which are rising faster than labour productivity, have been eroding the profits of the business sector. So far, this has had little effect on the prices charged by producers, but this situation is unlikely to persist. After some delay, suppliers may start demanding higher prices to compensate for higher unit labour costs. In addition, inflation may not slow in 2020 if the government imposes steep hikes in energy prices (as it has already signalled that it will).

**Monetary policy remains dovish:** the National Bank of Poland does not see any point in pre-empting inflation (and thus possibly damaging investment/consumption growth) with more restrictive policy. Quite fortunately, the exchange rate has been remarkably stable recently (possibly because of loose ECB policy). Indebtedness levels remain low and the share of non-performing loans is still small.

**The government has continued to shower the population with cash transfers of various sorts.** These are greatly appreciated, especially by those on lower incomes and with lower skills, including minimum-wage earners. The conservative-liberal opposition is trying to outdo the ruling party, with its own version of populist promises. These tactics may prove rather unsuccessful. However, after the presidential elections (May 2020), the government may feel obliged to rein in its lavish social spending. If the government persists in its controversial 'reform' of the judicial system, the EU funds received by Poland may well be trimmed. However, both the extent and the timing of possible punitive measures remain very uncertain at present.

Table 6.16 / Poland: Selected economic indicators

	2015	2016	2017	2018	2019 <sup>1)</sup>	2020	2021	2022
						Forecast		
Population, th pers., average	38,458	38,435	38,434	38,423	38,400	383,385	38,380	38,380
Gross domestic product, PLN bn, nom.	1,800	1,861	1,989	2,115	2,240	2,390	2,520	2,660
annual change in % (real)	3.8	3.1	4.9	5.1	4.0	3.6	3.3	3.3
GDP/capita (EUR at PPP)	19,900	20,000	20,800	21,800	22,900	.	.	.
Consumption of households, PLN bn, nom.	1,038	1,074	1,145	1,213	1,280	.	.	.
annual change in % (real)	3.0	3.9	4.5	4.3	3.9	3.8	3.3	3.3
Gross fixed capital form., PLN bn, nom.	361	335	349	386	420	.	.	.
annual change in % (real)	6.1	-8.2	4.0	8.9	7.8	4.0	4.0	3.0
Gross industrial production (sales) <sup>2)</sup>								
annual change in % (real)	4.8	2.8	6.6	5.9	4.1	3.5	3.9	3.8
Gross agricultural production								
annual change in % (real)	-2.9	8.4	2.9	-0.7	-0.3	.	.	.
Construction industry <sup>3)</sup>								
annual change in % (real)	0.3	-14.5	13.7	19.7	3.6	.	.	.
Employed persons, LFS, th, average	16,084	16,197	16,423	16,484	16,480	16,460	16,430	16,400
annual change in %	1.4	0.7	1.4	0.4	0.0	-0.1	-0.2	-0.2
Unemployed persons, LFS, th, average	1,304	1,063	844	659	600	610	630	630
Unemployment rate, LFS, in %, average	7.5	6.2	4.9	3.9	3.5	3.6	3.7	3.7
Reg. unemployment rate, in %, eop	9.7	8.3	6.6	5.8	5.2	.	.	.
Average monthly gross wages, PLN <sup>3)</sup>	3,908	4,052	4,284	4,590	4,930	5,250	5,570	5,860
annual change in % (real, gross) <sup>3)</sup>	4.5	4.2	3.5	5.5	5.0	3.5	3.5	3.0
Consumer prices (HICP), % p.a.	-0.7	-0.2	1.6	1.2	2.1	2.8	2.5	2.2
Producer prices in industry, % p.a.	-2.2	-0.3	2.7	2.1	1.3	2.0	1.8	1.8
General governm. budget, EU-def., % of GDP								
Revenues	39.1	38.7	39.8	41.4	41.0	40.5	40.5	40.5
Expenditures	41.7	41.1	41.2	41.6	42.2	43.0	43.0	43.0
Net lending (+) / net borrowing (-)	-2.6	-2.4	-1.5	-0.2	-1.2	-2.5	-2.5	-2.5
General gov. gross debt, EU def., % of GDP	51.3	54.2	50.6	48.9	47.0	47.1	47.2	47.4
Stock of loans of non-fin. private sector, % p.a.	7.1	5.3	3.1	7.1	4.7	.	.	.
Non-performing loans (NPL), in %, eop	7.5	7.1	6.8	6.8	6.4	.	.	.
Central bank policy rate, % p.a., eop <sup>4)</sup>	1.5	1.5	1.5	1.5	1.5	1.75	1.50	1.50
Current account, EUR mn <sup>5)</sup>	-2,379	-2,234	285	-5,048	5,902	1,000	2,500	3,800
Current account, % of GDP <sup>5)</sup>	-0.6	-0.5	0.1	-1.0	1.1	0.2	0.4	0.6
Exports of goods, BOP, EUR mn <sup>5)</sup>	172,150	177,412	201,963	216,924	229,854	243,100	257,100	271,900
annual change in %	8.5	3.1	13.8	7.4	6.0	5.8	5.8	5.8
Imports of goods, BOP, EUR mn <sup>5)</sup>	169,937	174,479	200,536	221,707	227,399	241,000	255,500	271,300
annual change in %	5.0	2.7	14.9	10.6	2.6	6.0	6.0	6.2
Exports of services, BOP, EUR mn <sup>5)</sup>	40,663	44,929	51,884	58,772	64,419	69,400	75,000	81,000
annual change in %	10.7	10.5	15.5	13.3	9.6	7.8	8.0	8.0
Imports of services, BOP, EUR mn <sup>5)</sup>	29,749	30,963	33,927	37,116	40,078	42,500	45,100	47,800
annual change in %	7.5	4.1	9.6	9.4	8.0	6.0	6.0	6.0
FDI liabilities, EUR mn <sup>5)</sup>	13,534	16,628	10,182	14,022	8,967	13,600	.	.
FDI assets, EUR mn <sup>5)</sup>	4,385	12,807	3,430	1,593	3,405	3,000	.	.
Gross reserves of NB excl. gold, EUR mn	83,676	104,440	90,967	97,633	104,526	.	.	.
Gross external debt, EUR mn <sup>5)</sup>	303,120	321,304	319,716	314,642	314,100	316,800	322,300	327,900
Gross external debt, % of GDP <sup>5)</sup>	70.5	75.3	68.4	63.4	60.3	57.0	55.0	53.0
Average exchange rate PLN/EUR	4.1841	4.3632	4.2570	4.2615	4.2976	4.30	4.30	4.30

1) Preliminary and wiiw estimates. - 2) Enterprises with 10 and more employees. - 3) Excluding employees in national defence and public safety. - 4) Reference rate (7-day open market operation rate). - 5) Including SPE.

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