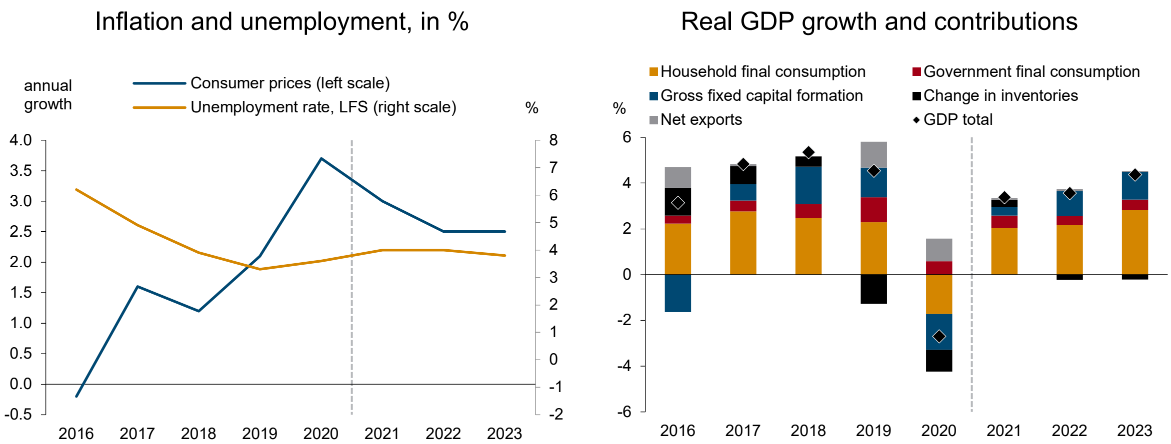
POLAND: Not bad, in these circumstances

LEON PODKAMINER

The decline in GDP in 2020 turned out to be quite shallow. Trade made a positive contribution to growth, and industry is recovering. Inadequate demand remains the chief problem for the corporate sector, while shortages of labour have ceased to be a serious problem. During the forecast period, expansive monetary and fiscal policies are likely to continue, but the recovery in investment will be muted at best. Improvements in 2021 and beyond are possible, but not guaranteed.

Figure 4.16 / Poland: Main macroeconomic indicators



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

The GDP decline in 2020 proved to be unexpectedly shallow (-2.7%). A steep fall (of 8.4%, year on year) in the second quarter was followed by a mild one (of just 1.5%) in the third quarter and by a somewhat stronger one (2.8%) in the fourth. Almost all GDP components – with the notable exception of public consumption – followed a similar pattern. Over the year as a whole, public consumption, supported by extraordinary spending, increased by 3.2%. Despite continuing growth in disposable incomes (wages and social benefits), household consumption fell by 3% in 2020. The decline in gross fixed investment (8.4% during 2020) has accelerated. Inventories were significantly reduced during the second and third quarters, shaving 0.9 percentage points off the overall GDP growth rate in 2020. After initial slumps, imports and exports of goods and non-factor services recovered in the second half of the year, recording remarkably high growth rates in the fourth quarter. Foreign trade contributed positively (by 1 percentage point) to GDP growth in 2020.

Following high growth in the second half of 2020, industry's gross value added (GVA) has already recovered. But most other sectors, with the exceptions of public administration, health services, and information and communications, have yet to recover. Having lost close to 50% of its GVA in 2020, the catering and accommodation sector has fared particularly badly. Industrial sales continue to expand, with those in some branches (such as manufacture of computers and electrical equipment) rising at double-digit rates. However, sales in the economically important motor vehicle manufacturing sector remain strongly depressed. Overall in 2020 sales of capital goods were down by 8% in real terms, while sales of consumer durables rose by 3.5%. Construction has fared much worse than industry. The value of sales is down in all segments of the sector (excluding specialised construction activities co-financed by the EU).

Inadequate demand remains the chief problem for the business sector – second only to the debilitating uncertainties over COVID, and ahead of concerns related to taxation and bureaucratic regulations. In the first half of 2020 the corporate non-financial sector (firms employing over 50 persons) experienced a very strong decline in net profits (of nearly 23%). In manufacturing corporations, the decline was even steeper – almost 40%. Automotive manufacturing performed particularly badly, ending with a net loss (mining companies and those in accommodation and catering also made losses). However, in the second half of the year profitability and liquidity indicators improved quite radically. Firms (of all sizes, in most branches) benefited from government programmes designed to shield them from the worst effects of the earlier lockdowns. Also, firms have learned to take advantage of costs (including labour costs) falling slightly ahead of sales. Low interest rates and a low level of credit liabilities have been helpful as well. Contrary to earlier expectations, supply-chain disruptions do not seem to be widespread. The net profit of the banking sector contracted by nearly half in 2020 compared with 2019. The major factor – but not the only one – behind this development relates to the fact that financial assets owned by the banks lost much of their book value in 2020.

Earlier shortages of labour ceased to be a serious problem, although this was not the case in some sectors, such as health care and delivery services. Foreign workers (primarily from Ukraine, and also Belarus) have not left in huge numbers for Germany, as had been feared at the end of 2019.

Employment declined in 2020, but not very strongly (by 1.1% in the corporate sector and 2% in manufacturing). Nominal average wages in the corporate sector rose by 4.8% in 2020 (a mere 1.4% rise in real terms). Pensions and other social benefits increased quite strongly in 2020, by 7.8% nominally (4.3% in real terms). Under these circumstances, falling household consumption must stem primarily from rising propensities for precautionary saving. The same tendency can be expected in 2021. Household consumption may therefore stay depressed even if employment and wages should improve more significantly (which is not very likely).

Investment recovery will be muted, at best. Gross fixed capital formation, which fell by 8.4% in 2020, does not yet show any sign of recovery. Given low levels of capacity utilisation, prevailing uncertainties, and stagnant or reduced incomes in both household and business sectors, a 'wait and see' approach is the rational one to take towards investment. This approach is reflected not only in the current business climate surveys but also in the statistics on the non-financial sector's bank deposits and loans. During 2020 deposit stocks of households rose by 11% and those of corporates by 19%. The stock of loans to households rose by 3%, but the stock of loans to corporates fell by nearly 4.5%. (Interestingly, the stock of loans to central government institutions increased by almost 33%.) Continuing public-sector investment is unlikely to compensate for the effects of the private sector's restraint in this respect

Expansive monetary and fiscal policy is likely to continue. Since June the policy interest rate has been symbolic (0.10%). Low policy interest rates help to keep the exchange rate relatively depressed. (Until March 2020 the PLN/EUR rate averaged about 4.26, compared with 4.45 afterwards.. A weaker zloty could help to achieve a sizeable trade surplus, although the recent rather sharp weakening may prove temporary; increased inflows of EU 'reconstruction' funds are likely to strengthen the local currency. Extraordinary benefits (partly in the form of subsidies transferred to firms, employees and selected population groups) and foregone taxes on the private sector were very high (loosely assessed as approaching 9% of GDP) in 2020. These policies are heavily criticised by the opposition and by experts who fear the return of high inflation and, eventually, the state's default on its rising public debt. But marketplace inflation is actually quite low, although rather high in cartelised and uncompetitive sectors such as electricity generation and distribution. Meanwhile, public debt is still quite low and, as it is denominated primarily in the domestic currency, cannot really lead to a sovereign default.

Moderate improvements in 2021 and beyond are possible, but are not guaranteed. Although nothing guarantees the recovery of private investment in fixed assets, further cuts in inventories may be less significant. The exceptional factors suppressing household consumption in 2020 may not reappear, but consumption is unlikely to recover very strongly. Foreign trade is likely to continue to make a modest positive contribution to GDP growth. Of course, many negative factors will come to the fore, including the intensity of the extinction of small-scale business in the service sector. Last, but not least, it is unclear whether the government is ready to extend fiscal support measures in 2021. Lavish public deficit spending (reflected in strong growth in public consumption and the resilience of infrastructural investment, which helped to limit the recession in 2020) would have to continue this year.

The pandemic (which intensified strongly in November 2020) has been making a dramatic return in March 2021. After several months of inaction regarding preparations for the second and third waves of the virus, the government seems painfully helpless now. Under such conditions, excessive – but not economically helpful – reactions cannot be ruled out.

Table 4.16 / Poland: Selected economic indicators

	2017	2018	2019	2020 1)	2021	2022 Forecast	2023
Population, th pers., average	38,434	38,423	38,397	38,380	38,370	38,360	38,360
Gross domestic product, PLN bn, nom.	1,990	2,122	2,288	2,317	2,450	2,590	2,770
annual change in % (real)	4.8	5.4	4.5	-2.7	3.4	3.6	4.4
GDP/capita (EUR at PPP)	20,400	21,430	22,690	22,510	.	.	.
Consumption of households, PLN bn, nom.	1,152	1,221	1,297	1,300	.	.	.
annual change in % (real)	4.8	4.3	4.0	-3.0	3.6	3.8	5.0
Gross fixed capital form., PLN bn, nom.	349	386	424	397	.	.	.
annual change in % (real)	4.0	9.4	7.2	-8.4	2.0	6.0	6.5
Gross industrial production (sales) 2)							
annual change in % (real)	6.6	5.9	4.1	-1.2	6.5	5.0	5.0
Gross agricultural production							
annual change in % (real)	2.9	-0.9	-1.1	4.4	.	.	.
Construction industry 2)							
annual change in % (real)	13.7	19.7	3.7	-3.5	.	.	.
Employed persons, LFS, th, average	16,423	16,484	16,461	16,210	16,130	16,210	16,450
annual change in %	1.4	0.4	-0.1	-1.5	-0.5	0.5	1.5
Unemployed persons, LFS, th, average	844	659	558	610	670	680	650
Unemployment rate, LFS, in %, average	4.9	3.9	3.3	3.6	4.0	4.0	3.8
Reg. unemployment rate, in %, eop	6.6	5.8	5.2	6.2	.	.	.
Average monthly gross wages, PLN 3)	4,284	4,590	4,918	5,167	5,480	5,840	6,260
annual change in % (real, gross)	3.7	5.5	5.0	5.6	3.0	4.0	4.5
Consumer prices (HICP), % p.a.	1.6	1.2	2.1	3.7	3.0	2.5	2.5
Producer prices in industry, % p.a.	2.7	2.1	1.3	-0.6	1.0	1.8	1.5
General governm.budget, EU-def., % of GDP							
Revenues	39.8	41.3	41.1	40.6	40.0	40.0	39.0
Expenditures	41.3	41.5	41.8	49.4	45.5	44.5	42.0
Net lending (+) / net borrowing (-)	-1.5	-0.2	-0.7	-8.8	-5.5	-4.5	-3.0
General gov.gross debt, EU def., % of GDP	50.6	48.8	45.7	53.9	56.7	58.3	57.5
Stock of loans of non-fin.private sector, % p.a.	3.1	7.1	4.7	0.4	.	.	.
Non-performing loans (NPL), in %, eop	6.8	6.9	6.7	7.0	.	.	.
Central bank policy rate, % p.a., eop 4)	1.50	1.50	1.50	0.10	0.10	0.10	0.25
Current account, EUR m 5)	-1,544	-6,514	2,604	18,356	13,700	10,300	12,500
Current account, % of GDP 5)	-0.3	-1.3	0.5	3.5	2.5	1.7	2.0
Exports of goods, BOP, EUR m 5)	202,108	217,110	232,971	232,443	246,400	263,600	279,400
annual change in %	13.9	7.4	7.3	-0.2	6.0	7.0	6.0
Imports of goods, BOP, EUR m 5)	202,460	223,330	231,766	220,706	236,300	256,400	276,300
annual change in %	15.4	10.3	3.8	-4.8	7.1	8.5	7.8
Exports of services, BOP, EUR m 5)	50,976	57,672	62,480	57,879	63,700	68,200	72,300
annual change in %	15.8	13.1	8.3	-7.4	10.0	7.0	6.0
Imports of services, BOP, EUR m 5)	33,137	36,403	38,831	33,884	37,100	40,100	42,900
annual change in %	9.5	9.9	6.7	-12.7	9.5	8.0	7.0
FDI liabilities, EUR m 5)	10,182	14,809	12,809	8,653	.	.	.
FDI assets, EUR m 5)	3,430	1,954	4,268	3,536	.	.	.
Gross reserves of CB excl. gold, EUR m	90,967	97,633	104,526	114,299	.	.	.
Gross external debt, EUR m 5)	319,716	316,682	315,659	312,400	326,700	365,000	396,600
Gross external debt, % of GDP 5)	68.4	63.6	59.3	59.9	60.0	62.0	63.0
Average exchange rate PLN/EUR	4.2570	4.2615	4.2976	4.4430	4.50	4.40	4.40

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.