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Poland:
Not so soft landing ahead

The Polish economy faces rather tough times in 2013. Growth seems likely to be very weak at first – but with falling inflation giving some limited boost to real disposable incomes and consumption. Public spending is likely to be temporarily increased, even if this would not be compatible with the declared fiscal consolidation strategies. Some acceleration of growth in the second half of the year should follow the improvements in foreign trade (primarily exports, driven by growth speed-up in the euro area and a likely corrective weakening of the Polish zloty).

In the third quarter of 2012 Poland's GDP growth slowed down to a mere 1.4%. Consumption, both private and public, remained essentially flat. Gross fixed capital formation, which still looked strong in the first quarter of the year when it increased by 6.7%, fell 1.5% in the third. Inventories contracted further. All in all, domestic demand, falling slightly in the second quarter of 2012 (for the first time in 13 quarters), fell again in the third quarter – but this time already by 0.7%. External trade in goods and services saved the day, with the volume of imports reduced by 3.7% and the volume of exports rising still, by 0.7%.

Growth in the fourth quarter must have been even more disappointing. The volumes of industrial and construction output (sales) suddenly plummeted in December (by over 10% and 25% year-on-year, respectively). To some extent these developments reflect unfavourable weather conditions (early and harsh winter directly affecting construction and transport activities) as well as the fact that December 2012 had 2 working days less than the previous one.

The slowdown in household consumption growth mirrors the developments in real disposable incomes of the household sector. Stagnant employment and wages (whose real purchasing power has been additionally eroded by hikes in administered prices of energy and communal services) are just one ingredient of the weakening household consumption. Households' rising propensity to save is the second. Within 2012 the stock of household sector credit liabilities rose symbolically, by 0.2% in nominal terms. But simultaneously there was a quite strong (7.7%) increase in households' bank deposits. The reasons behind the households' increased propensity to save are manifold. Rising unemployment and enhanced uncertainties are decisive. Generally, the consumers seem to share the corporate sector's pessimistic short- and medium-term (up to six months) expectations. These expectations, revealed by the recent business climate surveys[1], have been worsening over time (though in some sectors, including construction, the managers suggest they 'see the light at the end of the tunnel'). Also, lending to households has been strongly suppressed by banks' compliance with the safety recommendations imposed by the national Financial Supervision Authority. These recommendations, generally considered to have been excessively restrictive, are being softened. This is unlikely to help much, given the current depressed consumer sentiments. On the other hand, the maintenance of irrationally high policy interest rates seems to be doing real harm to the financial position of the household sector.

The financial situation of the enterprise sector (non-financial firms operating outside agriculture and employing 49 persons or more), which had looked quite well in the first quarter of 2012, has been progressively worsening in the second and third quarters. The entire net (post-tax) profit of the sector earned in the first three quarters of 2012 reached PLN 67.2 billion (approximately EUR 16 billion) – down from PLN 77.4 billion earned during the first half of 2011. While profits of manufacturing increased by 8.7%, profits of other major sectors decreased. Construction, which had made a net profit of PLN 1.7 billion a year earlier, closed the first three quarters of 2012 with a net loss of PLN 0.8 billion. The weakening of profits has much to do with weakening demand and fiercer competition – both showing up in a mild producer price deflation (prevailing throughout much of 2012).

Despite the contraction of profits, the corporate sector still disposes of huge (and rising) own financial resources much of which are resting on the corporate sector's bank deposits.

The big boom in infrastructure investment (financed out of the public purse and supported by EU transfers) is already over, at least for the time being. Given the weakening domestic and external demand, no strong expansion of aggregate business investment is to be expected in the near future either. It must be stressed that the business sector can rely primarily on own means for the financing of expanded investment. Its dependence on bank loans is limited in this respect. Nonetheless, rather high interest rates on loans – a by-product of the National Bank's restrictive policy – surely must have some negative consequences for investment (and current) activities of the business sector.

1 See http://www.nbp.pl/publikacje/koniunktura/raport_1_kw_2013.pdf.

The financial standing of the banking system remains strong. According to the recent (December 2012) Financial Stability Report of the National Bank of Poland, banks' own funds rose 12.4% in 2012 (due primarily to the accumulation of profits in 2011). Consequently, the average capital adequacy ratio has increased to over 14% in the first three quarters of 2012. Strong profits have been accruing to banks in 2012 as well. During the first three quarters of 2012 the net profits of banks rose to over PLN 12 billion (up from 11.8 billion the year previous). Slow GDP growth expected in the fourth quarter of 2012 and in the first half of 2013 will certainly affect the dynamics of banks' incomes and their risk absorption capacities negatively. By the end of September 2012 the shares of 'endangered' credits still did not look bad. (These shares stood at 11.4% for credits to the non-financial corporate sector and at 7.5% for credits to households.) The Financial Stability Report concludes (on conducting extensive analyses and stress tests) that Poland's banking (and broader financial) system continues to be well equipped to cope with the consequences of even unusually severe shocks hitting the economy.

The soundness of Poland's financial sector may have been due not only to the active involvement of the domestic financial supervision authority. Arguably, the restrictive orientation of the national monetary policy – maintained in times good as well as bad – may have played some positive role too. Currently though it is rather difficult to praise that orientation – not only because of the likely effects of monetary restrictiveness (stubbornly high interest rates) on consumption and investment. Worse still, that policy may have accelerated very high inflows of portfolio investment, preventing a depreciation of the domestic currency. But, given the stagnation of domestic demand, a measured depreciation may be of central importance for preserving positive trends in foreign trade (and thus for avoiding outright GDP recession).

All in all, the Polish economy faces rather tough times in 2013. Growth seems likely to be very weak at first – but with falling inflation giving some limited boost to real disposable incomes and consumption. Public spending is likely to be temporarily increased, even if this would not be compatible with the declared fiscal consolidation strategies. Some acceleration of growth in the second half of the year should follow first the improvements in foreign trade (primarily exports, driven by growth speed-up in the euro area and a likely corrective weakening of the Polish zloty) and then finally by a stronger revival in investment activities.

Table PL

Poland: Selected Economic Indicators

	2008	2009	2010	2011	2012 [1]	2013	2014 Forecast	2015
Population, th pers., average [2]	38126	38152	38184	38534	38560	38540	38530	38525
Gross domestic product, PLN bn, nom.	1275.5	1344.5	1416.6	1523.2	1610.0	1680	1770	1870
annual change in % (real)	5.1	1.6	3.9	4.3	2.0	1.5	2.7	3.5
GDP/capita (EUR at exchange rate)	9500	8100	9200	9600	10000	.	.	.
GDP/capita (EUR at PPP)	14100	14200	15300	16200	16700	.	.	.
Consumption of households, PLN bn, nom.	773.8	809.7	856.2	920.5	960.0	1000	1050	1110
annual change in % (real)	5.7	2.1	3.1	2.6	0.5	1.2	2.0	3.5
Gross fixed capital form., PLN bn, nom.	283.9	284.6	281.3	309.7	320.0	330	350	380
annual change in % (real)	9.7	-1.3	-0.4	9.0	0.6	0.0	4.0	6.0
Gross industrial production (sales) [3]								
annual change in % (real)	2.6	-3.7	11.1	6.9	1.2	1.5	5.0	7.0
Gross agricultural production (EAA)								
annual change in % (real)	0.3	6.1	-3.2	-1.0	3.5	.	.	.
Construction industry [3]								
annual change in % (real)	9.8	4.7	3.9	15.5	-5.2	.	.	.
Employed persons, LFS, th, average [4]	15799.8	15868.0	15960.5	16130.5	15600.0	15600	15630	15710
annual change in % [4]	3.7	0.4	0.6	1.1	0.2	0.0	0.2	0.5
Unemployed persons, LFS, th, average [4]	1210.7	1411.1	1699.3	1722.6	1800.0	1800	1780	1750
Unemployment rate, LFS, in %, average [4]	7.1	8.2	9.6	9.7	10.3	11.0	10.8	10.5
Reg. unemployment rate, in %, end of period	9.5	11.9	12.3	12.5	13.4	13.6	13.3	13.0
Average gross monthly wages, PLN	2942.2	3101.7	3224.1	3403.5	3540.0	3670	3790	3920
annual change in % (real, gross)	5.9	2.0	1.4	1.4	0.0	0.8	0.8	1.5
Consumer prices (HICP), % p.a.	4.2	4.0	2.7	3.9	3.7	2.8	2.5	2.0
Producer prices in industry, % p.a.	2.4	3.9	2.3	7.5	3.3	3.0	2.5	2.0
General governm.budget, EU-def., % of GDP								
Revenues	39.5	37.2	37.6	38.5	39.4	39.1	38.9	.
Expenditures	43.2	44.6	45.4	43.6	42.8	42.2	41.8	.
Net lending (+) / net borrowing (-)	-3.7	-7.4	-7.9	-5.0	-3.4	-3.4	-3.3	-3.0
Public debt, EU-def., % of GDP	47.1	50.9	54.8	56.4	55.5	56.5	56.0	56.0
Central bank policy rate, % p.a., end of period [5]	5.0	3.5	3.5	4.5	4.3	4.00	3.75	3.50
Current account, EUR mn [6]	-23818	-12153	-18121	-17974	-12900	-12000	-14900	-16500
Current account, % of GDP	-6.6	-3.9	-5.1	-4.9	-3.4	-3.0	-3.5	-3.7
Exports of goods, BOP, EUR mn [6]	120953	101715	124998	140137	146200	152200	160300	172300
annual growth rate in %	14.2	-15.9	22.9	12.1	4.3	4.1	5.3	7.5
Imports of goods, BOP, EUR mn [6]	141896	107140	133893	150193	152100	156700	166100	179400
annual growth rate in %	18.5	-24.5	25.0	12.2	1.3	3.0	6.0	8.0
Exports of services, BOP, EUR mn [6]	24207	20717	24718	26950	28800	31100	33600	37000
annual growth rate in %	15.2	-14.4	19.3	9.0	6.9	8.0	8.0	10.0
Imports of services, BOP, EUR mn [6]	20729	17294	22381	22905	24500	26200	28300	31700
annual growth rate in %	17.9	-16.6	29.4	2.3	7.0	7.0	8.0	12.0
FDI inflow, EUR mn [6]	10135	9339	10518	13642	3000	.	.	.
FDI outflow, EUR mn [6]	3071	3331	5489	5280	1000	.	.	.
Gross reserves of NB excl. gold, EUR mn	42299	52734	66253	71028	78403	.	.	.
Gross external debt, EUR mn	173736	194396	237359	248085	272000	280000	290000	310000
Gross external debt, % of GDP	47.8	62.6	66.9	67.1	70.7	.	.	.
Average exchange rate PLN/EUR	3.5121	4.3276	3.9947	4.1206	4.1847	4.20	4.20	4.15
Purchasing power parity PLN/EUR	2.3746	2.4767	2.4040	2.4424	2.4937	.	.	.

Note: Gross industrial production, construction output and producer prices refer to NACE Rev. 2. Gross agricultural production refers to Economic Accounts for Agriculture (EAA).

1) Preliminary and wiiw estimates. - 2) From 2011 according to census March 2011. - 3) Enterprises with 10 and more employees. - 4) From 2012 according to census March 2011. - 5) Reference rate (7-day open market operation rate). - 6) Including Special Purpose Entities (SPEs).

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