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Weekly Briefing

Poland Economy briefing:

Poland is “foreign owned country”

Dominik Mierzejewski

China-CEE Institute

Kiadó: Kína-KKE Intézet Nonprofit Kft.

Szerkesztésért felelős személy: Chen Xin

Kiadásért felelős személy: Huang Ping

1052 Budapest Petőfi Sándor utca 11.

+36 1 5858 690

office@china-cee.eu

china-cee.eu

The current national economy plan is mainly driven by the fact that Polish government perceived that Poland is "foreign owned country". As mentioned by Minister Morawiecki (vice prime minister, minister of development and finance): “We challenge the colonization of our country. We want to be an equal partner for foreign entities”.

According to the latest GDP statistics shows that the investment has slowly grew, and this trend will be visible in the coming quarters. As discussed by the analysts the lack of investment is a current problem for further Polish development. As was said by Morawiecki the government is expecting to have 18 percent investment in the relation to GDP. According to presented data in the third quarter has grown by 5 percent, the fourth quarter will end at 7 percent. The central government investments should be recognized as the major future trends in Polish investment policy. This trend is reflected in the ongoing discussions on Central Air Hub between Warsaw and Lodz, or Central Port in Gdansk.

The Polish economy grew 4.7% in the third quarter, the country’s Central Statistical Office (GUS) said in a flash estimate on Tuesday. The reading was better than that expected by analysts, who had predicted third-quarter growth of 4.5% to 4.6%. The Central Statistical Office also revised upwards the GDP growth figure for the second quarter, saying the economy had expanded 4% year on year, rather than the previously estimated 3.9%.

In fact the above mentioned data sounds very positive. The question is whether the economy is good or whether the structure of GDP growth gives the chance for further development, to keep GDP growth at the level of at least 4 percent in the upcoming months. From this perspective the most important is the structure of economic growth. Moreover it is dependent of how in the medium and long term Polish government is planning to invest more to shape the dynamic of economic growth. As in the previous months consumption (individual and public) has built up economic growth. Data on foreign trade show that in the third quarter of this year, net exports also supported GDP growth (after a strong negative impact in the second quarter, when net exports reduced GDP growth by 1.5%). The problem with investments remains unresolved. In the first half of the year, investments increased only by 0.3 percent, after falling by almost 8 percent in 2016. According to GUS50+ companies data we acknowledge that the companies investments are growing more than average in machines, and equipments.

According to Piotr Dmitrowski, an economist from National Development Bank (Bank Gospodarstwa Krajowego) the contribution of net export, was likely to be higher that forecasted, and become the important component of GDP growth. Trade data has recently surged in surplus. In the second quarter, the foreign trade performance was subtracted from the annual growth rate of the economy by 1.5 percentage points. The above discussed situation is due to the recovery of Germany’s economy, the biggest recipient of Polish export. In the third quarter Germany’s economy rose by 0.8 percent. In annual terms, German GDP grew by 2.8%, after 2.3%. in the second quarter of this year. many economists have raised their forecasts for the growth rate in 2017 to 2.5 percent, from around 2.0-2.2 percent. In this particular case we might notice that Poland’s export in dependent on Germany. This economic interdependence has a strong, significant impact on the bilateral relations.

To the certain extant the inflation in October 2017 remains the issue and amounted to 2.1 percent. The problem is food prices. They shot up almost 6% year on year. Although record low interest rates make it possible to earn 1.5-2 percent on deposits, inflation is already higher. "Prices of consumer goods and services in October 2017 increased by 0.5% (including goods - 0.7% vs. 0.1%), compared to the previous month." - GUS reported. "The biggest impact on the consumer price index in the period was higher food prices (by 1.0%), clothing and footwear (by 3.5%) and housing (by 0.4%), They increased by 0.23 percentage points, 0.18 percent and 0.09 percent respectively. Lower prices for recreation and culture (by 0.5 percent) decreased by 0.03 percentage points p.

proc. " - says the report. Problems will begin a year later. Then the inflation rate is expected to be 2.3%. (previously the bank spoke about 2 percent). And it will not be the last word. In 2019 CPI inflation is expected to reach 2.7% (see table no 1).

Table no 1. Predictions for Polish economic growth

	2017	2018	2019
CPI y/y (%)	1,9	2,3	2,7
GDP y/y (%)	4,2	3,6	3,3
WIBOR 3M* (%)	1,73	1,73	1,73

* projection based on fixed interest rates

This was mainly related to the slow start of projects financed by the EU structural funds in the 2014-2020 programming period. Private investment also weakened substantially, especially due to decreased activity by state-owned and state-influenced enterprises. The slowdown of private investment appears to be related to increased uncertainty about the future course of economic policies. As majority of economist admitted Polish further economic growth needs investments. Without investment the Polish economy cannot meet the rising needs for employment and disposable income demands, and what is more important fails to to maintain the export dynamics at the current level.

From the above-mentioned perspective of the needs for further investments the central government is planning to build a Central Port (PC) between the port channel and Naftoport as part of a public-private partnership. The capital of the region plans to double the transhipment and may become one of the largest ports in the Baltic. The tender for a feasibility study for a PC will be announced in the coming months. The central government predicts that construction could cost several billion EURO. From this perspective the government discussing variety form of financing including the PPP model, the use of European funds or the use of other financial instruments. Port of Gdansk generates 18 billion PLN per year for customs, taxes and excise duties. The goal here is to overtake Germany as the leader in port infrastructure for Central Europe. Any goods that reload in Hamburg and not in Poland means that 25% of the duty is in the German budget.

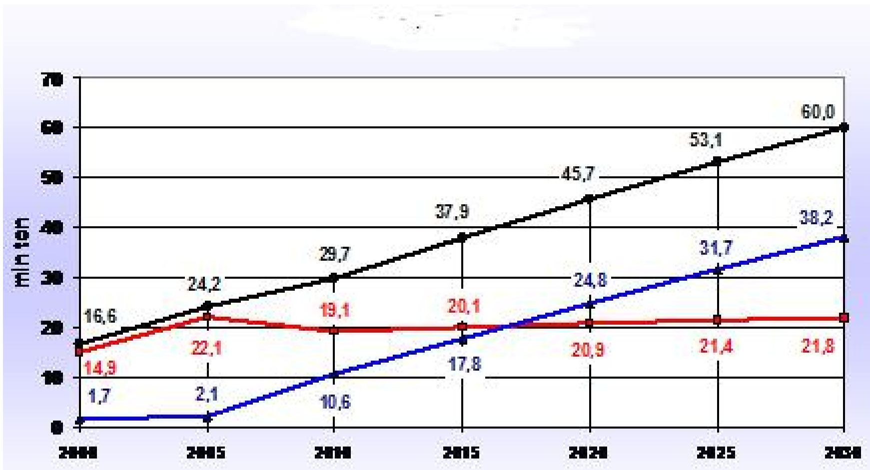
As official sources admit by 2020, nearly 8 billion PLN can be invested in the port of Gdansk and its surroundings. According to the information of the Port of Gdansk Authority: 7 billion zlotys can be invested by the companies operating in the port and the management board - about 1 billion PLN. By 2020 it is planned to spend nearly PLN 842 million for investments, of which PLN 479 million will come from own resources and PLN 363million will be paid by the EU funds. The works are to be conducted on an area of about 70 hectares. It is also planned to carry out similar works worth ca. PLN 178 million on the approx. 29 hectares of the area.

In 2016, about 7.5 million tons of cargo were reloaded, almost one quarter of the total volume serviced in the port. According to World Bank forecasts, in the coming years there will be a rapid increase in maritime trade and the port of Gdansk can expect up to 100 million tons of goods per year.

The project is part of further developing Intermarium project (Adriatic, Baltic and Black Seas cooperation) and Gdansk will serve as a universal intermodal logistics hub for Central and Eastern Europe. Several weeks ago Port of Gdansk authorities signed a four-way cooperation agreement with CFR Marfa, a Romanian state freight carrier, and the Romanian Port of Constanta. In this area one of the obstacle for further cooperation is that Romania is more interested in targeting German market through “Dunabe corridor” than using Via Baltica to reach the north part of Europe and then to Germany. The second issue is whether the ongoing investments will be still subsidies by the European Union. The first project called “Expansion and modernisation of the road and railway network at the Outer Port in Gdansk” is a project estimated at more than EUR 28.7 million (with a subsidy of EUR 24.4 million), which will include a total of 6 km of tracks and 10 km of roads. Moreover, there are plans for the newly built PERN oil terminal, and the LPG Pier. Furthermore, as the approved plans mentioned the new investment will provide traffic to the DCT container terminal, the Pomeranian Logistics Centre, and the planned agricultural type bulk cargo terminal of the OT Logistics company – the biggest operator for inland navigation and port operator in Poland. These projects will also be correlated at the contact points with the project of the railway track administrator, PKP PLK S.A. named as “Improvement of railway access to the Port of Gdansk”.

“Port Development Strategy to 2027” is based on long-term forecasts of development of countries of the Baltic Sea Region and Central and Eastern European countries, which together constitute a market of 180 million potential customers of the Port of Gdansk. According to the estimations in 2030 the whole transshipment in Port of Gdansk will count for 60 million tons per year (see graph no 1).

Graph no 1. Forecasts of transshipment of Port of Gdansk until 2030 (million tons)



Black line: altogether

Red line: general cargo handling

Blue line: handling of bulk goods