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Weekly Briefing

Poland Economy briefing:
2017 in Poland Economy

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As general agreement says Polish economic performance is considered as „promising”, however, not without the ongoing shortages. In the third quarter 2017 the Polish economy grew by 4.7%, against the adjusted growth 4% in the second quarter. In fact this was the best result since the fourth quarter of 2011. Discussing the reason behind we need to acknowledge two factors: growing domestic consumption and foreign trade. While discussing the shortages of the future of Polish economic development at least two issue should be discussed: the future of domestic investments by private companies, and second the future Eurozone and further integration by the Eurozone countries.

When it comes to the foreign trade we need to notice that in the first seven months of 2017 Polish exports increased by 8.4%, to EUR 114.6 billion, and the import was 11.1% to EUR 114 billion. Although the numbers look positive the surplus amounted to more than 0.6 billion against EUR 3.1 billion before the year. The reduction in the positive turnover balance was the result of a deepening of the exchange deficit: with less developed markets, outside the West, (the recipient is considered by the geographical structure) and mineral products (in the context of the export commodities).

What should be mentioned exports to the EU increased by 7.5% (app. EUR 91 billion), including to Germany by 8.3%, the UK by 5%, the Czech Republic by 4%, France by 4.7% and Italy by 9.7%. The two-digit export growth was recorded in exports to the Netherlands (11.2%), Slovakia (10.4%) and Austria (14.7%) and Romania (13.7%).

The trend towards a dynamic increase in turnover has been maintained for the non-EU members of developed markets. After first 7 months in 2017, exports to these countries increased by 14.9% (to nearly EUR 8.1 billion), including the United States by 27.1%, Switzerland by 13.3%, Australia by 53% and South Africa by 16.4%. Moreover exports to Norway increased by 1.6%. Discussing the growth of import we need to notice that it grown by 21.9%, up to EUR 8.6 billion.

The negative balance in Poland's economic relations with China is therefore gigantic in size and is the main problem in bilateral trade. In addition, this negative balance grows. If at the beginning of the decade it was-11.4 billion, the year 2015 was reaching-18.7 billion, and last year it increased to-EUR 19.9 billion. It is very likely that in 2017 would exceed the level of 20 billion euros.

The second main driving force behind the growth was the private consumption. Its dynamics amounted to 4.8% year-on-year ratio. This dynamics reflects the good labour market performance. Although very good sentiment continues to encourage consumers to finance their purchases from savings, the positive impact of the 500 plus programme on income dynamics at the disposal of households has begun to diminish in 2017..

Apart from the positive sings in Polish economy the problem of how keep this growth permanent is discussed by economist. In this context the issue of future investment arises. The government is investing public money in general, but for the full economic development Polish economy needs more private investments. As is said, Polish enterprises have very large own funds on bank accounts in the amount of about PLN 262 billion in deposits (app. RMB 410 billion). The problem that is very visible is that the private companies are not eager to invest. Moreover the total amount of loans take out in banks and other agencies for the investment purposes has grown very slow. What is said by the economists the reason for it are twofold: high uncertainty due to the unclear and often amended regulations, and second Polish private companies are less risky taking and afraid of the future income. What is also remarked by the majority of economists is the significant structural changes that take place, such as lowering the retirement age, which puts a strain on the budget and deprives the economy of a certain proportion of employees. This point corresponds with the important issue is the shortage at the labour market. After joining the European Union Poland was affected by a very large emigration to the Western Europe. The second important factor is the reducing of the retirement age, means that 300-400 thousand labour forces will disappear from the market.

From the above mentioned perspective the investment rate, for example the ratio of investment volume to GDP, approached 17% in Poland. It has not been so low since 1996. Two years ago in 2015, it was 20 per cent, and up to a record level of nearly 25 per cent. As pointed by the economist professor S. Gomulka: *The investment rate is one of the lowest in Europe, much lower than in the countries of the region, which grow faster than us*.

When it comes to sectors of the economy, the strong increases in value added were included in construction (+9,8% year-on-year growth) and transport (+9.3%) were noticed. Trade showed a slightly lower dynamics (+3,9%) and the similar situation was with trade (+5,4%). From the perspective of industrial production, however, we need to recognize that in Latvia, Slovakia, Romania and Slovenia, and even in Sweden this sector has been growing faster. The biggest grow was noted in Slovakia where industrial production increased by 9.2% compared to July 2017, and was followed by Latvia increased by 8.9% and Romania (7.6%).

The good shape of Polish economy, however, might be shaped or even challenged by the future of monetary union in Europe. The issue of creating more united Eurozone and shaping Eurobudget might challenge Polish possibility for receiving grants and special loans from the Euoropean Union. Further Eurozone integration without Poland might take more challenges when it comes to the EU funds. The key decisions regarding the European Monetary Fund would be made in June 2018, and specific provisions and regulations adopted - at least in the intention of the head of the EC Jean-Claude Juncker - as early as in 2019. The debate within the European Union, mainly countries with Euro sparks further controversies. The European Monetary Fund (EMF)would have the same task, but - according to the European Commission's project - it would also become an emergency lender for the banking union i.e. in extreme cases, put money to restructure the banking sector. This idea promoted by France and the countries like Spain, Italy or Greece, but accepted sceptically by the Germans. As some media reports say: I*t smells of them increasing financial*

solidarity between the euro countries, that is, reaching into the pocket of a German taxpayer. In the future, the European Monetary Fund would allow the European Union to give up loans from the International Monetary Fund, which has been involved in recovery programs for Greece, Portugal, Ireland and the banking sector in Spain. In fact it will build special tools to control the issuance of aid loans. The intergovernmental "fiscal pact" of 2012 on the discipline of budgetary policy adopted in the crisis should be - as the Commission suggests - translated into EU regulations. Although Poland has signed this pact, it does not have to apply it until the adoption of the euro and under the current government in hardly to see any chance for Poland to join the Eurozone.

The European Commission proposed - as Paris wants - the appointment of the "minister of economy and finance" of the Euro area. The newly administrative body will be combination of the current functions of the head of the Eurogroup (until January Dutchman Jeroen Dijsselbloem) and the deputy head of the European Commission for the euro (now Latvian Valdis Dombrovskis). However, for the time being it is not very clear what he would do in the EU without a large, separate eurobudget, which Germany or Holland do not currently want.

Conclusions

Apart from the problematic issues discussed above Polish economy is still in the very good shape. In 2016, GDP per capita (PPP) of Poland amounted to USD 27.715 and was higher than in eight countries belonging to the G20 group namely India, Indonesia, South Africa, Brazil, China, Mexico, Turkey, Russia. The similar situation will follow and in 2020 Poland's GDP per capita (PPP) is expected to increase to USD 34 342. Moreover Poland was awarded A2 mark by the Moody’s agency. This rating placed Poland together with Slovakia as 19th largest economy in the world.

The biggest problem arises from the low rate of investment. In the European Union, the investment was nearly 3 trillion Euros in 2016 years,

representing 19.7% of GDP across the EU. Almost half of this is construction-related investments. Majority of the amount over 49% concerned construction. Nearly one-third of all EU investments (30%) were earmarked for investments in machinery, equipment and weaponry systems. Intellectual property had a 20% share of the total investment. Among EU countries, in relation to GDP, most are investing Irish. The ratio of investment to GDP on the Green island in 2016 was 29.3% of the following were: Czech Republic (24.6%), Sweden (24.2%), Malta (23.4%), Belgium (23.0%), Austria (22.9%) and Romania. (22.7%).

At the other end of the scale, the lowest investment was Greece (11.4% of GDP), followed by Portugal (14.8%), United Kingdom (16.7%), Italy (17.0%) Cyprus (17.2%), Hungary (17.8%), Luxembourg (17.8%) and Poland (18.1%). In Poland, compared to 2015 investments as% of GDP decreaseded by 2 pp. In 2015 year, this ratio was 20.1%.

The current government of Morawiecki by implementing programme named Programe for Responsible Development tried to stimulate the growing rate of private investment to the level of 25% to GDP. This, as experts say, is perceived as the crucial point for the further development of Polish economy.

Chart no 1. The investment rate to GDP goal in 2020