



Weekly Briefing

**Poland economy briefing:
Economic development in Poland
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Economic development in Poland

Last 12 months in Polish economy were regarded as a great success as well as a surprise, since the predictions of economists about lowering the pace of growth did not realize. 2018 was stabile when it comes to the economic development, it brought a record increase in Polish exports and was characterized by very low unemployment. The government continued implementing the "Strategy for Responsible Development" plan.

General Indicators in 2018

Poland has 26 years of continuous economic growth behind, however we can assume, that current pace will slow down next year - the Polish economy will continue to grow, but at a lower tempo than in the current year. Still, the economical situation in Poland is better than expected. An indicator, that in the most synthetic way shows the economic situation in the economy, is the increase in gross domestic product (GDP). In this respect, Poland was one of the regional leaders in 2018. According to Eurostat data, GDP growth reached 5.7% on a yearly basis. Only Hungary and Slovenia could reach a higher development in recent year.

Data published by Polish government show that the average wage growth in the enterprise sector grew in 2018 by 7.2%. This year an increase in employment by 3.4% was also realized. Taking into consideration the current data, we can assume that private consumption will remain on the level of 3.8% in 2019.

INDICATORS	JANUARY - OCTOBER 2018	2018 (forecast for all 12 months of 2018, based on the project of the Budgetary Year 2019)
NATIONAL ACCOUNTS		
GDP	105.2	103.8
Consumption	104.3	103.6
Individual consumption	104.6	103.8
Gross capital formation	112.4	107.9
Gross fixed capital formation	107.6	109.1
PRICES		
Price index of consumer goods and services (CPI)	101.7	102.3
Price index of sold production of industry (PPI)	102.1	---
PRODUCTION		
Sold production of industry	106.1	106.0
Construction and assembly production	117.9	118.0
WAGES AND SALARIES		
Average wages and salaries in the national economy (enterprise sector)	4,799 PLN	---

LABOUR MARKET		
Average employment in enterprise sector (thous. pers.)	6,217	---
Unemployment rate (as of the end of the period, in %)	5.7	6.2

Source: Polish Ministry of Entrepreneurship and Technology.

Speaking of the expected investments, we can assess that Poland is dealing with a whole range of arguments, according to which investments should be stronger. Indicated can be very high capacity utilization (above historical maxima); limited labor resources (which should lead companies to replace work with capital, machines and robots); as well as rising labor costs. On the other hand, companies point to the lack of availability of employees and regulatory uncertainty which discourage investment. In addition, the top of the business cycle occurs and entrepreneurs feel that the slowdown in demand in the West is already taking place. In that situation private investments can bring some positive surprise.

INDICATOR	JANUARY - OCTOBER 2018	2018 (EAD MoET forecast for all 12 months of 2018)
Foreign trade acc. to CSO		
Trade balance	-2,543	-4,500
o exports of goods	162,026	219,500
o import of goods	164,569	224,000

Source: Polish Ministry of Entrepreneurship and Technology.

The actual trade and industry expansion is owed to high economic growth and good industry results. The data also indicate that Polish companies have proved more resistant to the slowdown signals in Western Europe than the factories in other countries of the region. Through the whole 2018 in favor of Polish economy spoke - in comparison with other CEE countries - lower inflation and relatively high interest rates. The first was a sign of economic sustainability, the second served to create and sustain this balance.

The main drivers of growth are seen in domestic consumption and investments, supported by rapid wage growth, strong consumer confidence and structural funds flowing from the European Union. In 2018 the inflation index not only remained below the 2.0% annual level, but it declined more than expected to 1.5%. Public investment grew rapidly this year due to the inflow of EU funds - a slight increase in public investment is also predicted in 2019.

Private investments, the size of which in 2017 left much to be desired, gradually recovered in 2018 due to the use of production capacities, sustainable prospects of demand and low interest rates. However, investment growth hampered due to the growing lack of qualified employees, which might had discouraged entrepreneurs from starting larger enterprises.

The main factor behind inflation growth, especially in the services sector, was the expectation of becoming higher wages. Unemployment decreased in 2018 to a historically low level of 5.7% (January-October 2018) and now is one of the lowest unemployment rates in Europe. In some places, a skills shortage has already spread and real wages are rising sharply in response to the shortage of labor forces.

Data indicate, that exports is growing (7.3%) and will continue to grow in 2019. On the other hand import is also growing (to 8.4%) due to high domestic demand.

The deficit of the public finance sector in Poland reached the level of 1.4% GDP in 2018, which was a result of faster growing budget revenues than expenses. The increase in budget revenues was firstly the result of a very good situation on the labor market, and secondly was a consequence of a growing economy and the tools introduced by the government for better tax collection. Indeed, the Polish deficit is in the frame, what is possible also due to a surprisingly successful fight against the VAT fraud. Economists expect further improvement in VAT collection, which should ensure in the next years that high tax revenues will be maintained.

"Strategy for Responsible Development" Insight

This positive economical development has been acknowledged by S&P rating agency with the upgrade from the previous "BBB" grade (granted in 2016), into "A-", which is a step higher. But the biggest success and indicator for the economical boom in latest months in Poland is reflected in the state budget and comes from strategic plan of economical development, implemented by the previous Minister of Development and Finance and today's Prime Minister, Mateusz Morawiecki. The so called "Strategy for Responsible Development" (Strategia Odpowiedzialnego Rozwoju), usually named as Morawiecki Plan, was prepared in 2016. The assumptions of the plan were adopted by the Council of Ministers in February 2016, and a year later, the "Strategy for Responsible Development until 2020" (with a view to 2030) was adopted. Its core presumption is that Polish economy has fallen into five development traps (medium income trap; trap of imbalance; trap of the average product; demographic trap; trap of institutional weakness), which can be repaired by creating five pillars: reindustrialization; development of innovative enterprises; gaining development capital; foreign expansion as well as social and economic development.

Therefore, the government's actions throughout the period of 2018 have been subordinated to the requirements of fulfilling the Strategy's assumptions - during recent 12 months the Parliament adopted 6 (out of totally 9 adopted) laws regarding the implementation of the Strategy:

- Act of 6 March 2018 - Entrepreneurs' Law (Journal of Laws of 2018, item 646);
- Act of 6 March 2018 on the Ombudsman for Small and Medium-sized Enterprises (Journal of Laws of 2018, item 648);
- Act of 6 March 2018 on the Central Register and Information on Economic Activity and Entrepreneur's Information Point (Journal of Laws of 2018, item 647);
- Act of 6 March 2018 on the rules for the participation of foreign entrepreneurs and other foreign entities in the course of trade on the territory of the Republic of Poland (Journal of Laws of 2018, item 649);
- Act of 6 March 2018 - Provisions introducing the Act. Entrepreneurs' Rights and Other Acts on Business Activity (Journal of Laws of 2018, item 650);
- Act of 4 October 2018 on employee capital plans (Journal of Laws of 2018, item 2215).

In the Strategy, the government attaches great importance to the growth of Poland's innovativeness, reindustrialisation as well as sustainable development of the country, implemented with cooperation with smaller cities and villages, what corresponds with the words of the Prime Minister Morawiecki "We strive to promote smaller centers, that is, moving away from this economic model of polarization and diffusion towards more sustainable development". In four years time the cabinet plans the commitment of approximately PLN 1,5 trillion on the public (domestic and foreign) side and over PLN 0.6 trillion as part of private investment (EUR 350 billion and EUR 150 billion respectively).

Throughout the year 2018 the government was hence pushing to ensure a high and sustained growth rate by the implementation of such indicators as, i.e.: investment growth to the level of 25% GDP; increase in the share of expenditures on Research and Development to the level of 1.7% GDP; average annual growth rate of the value of export of goods - 7.2%; share of exports of high technology products in total export of 10%. The mission cannot be regarded as completed, but the Strategy is adopted also for the upcoming years.

Conclusion

Taking into account all the macroeconomic factors and the shape of Polish economy in 2018 we can be sure, that the overall economic situation in Poland is good, what gives first-rate prospects for the future. However, in this barrel of honey there is also a spoon of tar. With the downturn in the global economy and the progressive aging of the Polish society, the rate of growth of the Polish economy is likely to slow down in the coming years. Unfortunately, the

current policy of the Law and Justice (Prawo i Sprawiedliwość, PiS) government, instead of mitigating, may deepen the negative tendencies in the Polish economy:

- lowering the retirement age, which reduced the number of employees, may influence negatively the labor market;
- growing politicization of the banking sector may increase the risk of a banking crisis, but also may reduce the efficiency of loan allocation;
- difficulties in finding new people for work may result in demands for pay rises and, subsequently, higher price dynamics, which will harmfully influence the development as well as will have a negative impact on the stand of Polish economy.

To sum up it has to be underlined, that the years 2015-2017 were generally time of a very fast growth of the whole EU economy which, however, has now started to weaken. Uncertainty factors remain today i.e. the development of migration policy in Europe, Ukraine crisis and energy prices.

Referring to the outlook for the stock market, it is worth noting that the Polish WIG index (Warsaw Stock Exchange Index) has already lost 12% since January this year. It can be assumed, that these drops may be continued in 2019 due to increased uncertainty about the outlook for the global economy.