



Weekly Briefing

**Poland economy briefing:
The impact of the war in Ukraine on the Polish economy
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The impact of the war in Ukraine on the Polish economy

Summary

The war in Ukraine will affect Polish economic growth, although Poland's trade with Russia and Ukraine is not crucial for the Polish economy. However, the impact will not be very significant, although it will be felt because Poland is a frontline state of the European Union and a neighbor of Ukraine. The conflict increases the level of inflation in Poland, and causes significant increases in food, energy and fuel prices. According to economists, these phenomena will continue. The Polish currency, the Polish zloty, is suffering from the conflict, reaching its lowest level against the dollar and the euro in many years. The situation in Ukraine may also result in a temporary reduction of investment and consumption in Poland. Another big challenge is the influx of over 1.7 million refugees from Ukraine to Poland (data from 14.03.22), which is connected with high costs for the state in the short term, but is also perceived by economists as a great opportunity for the Polish economy and labour market.

Introduction

Russian aggression against Ukraine has forced adjustments to macroeconomic forecasts for the Polish economy. "Our total exports to Russia and Ukraine amount to about 16 billion euros, which is 2.9 percent of GDP and about 5.6 percent of total Polish exports," - emphasizes the Polish development ministry. **Therefore, in its opinion, Poland's GDP dynamics may possibly decrease by about 1 percentage point.**ⁱ Analysts of e.g. Credit Agricole bank at the end of February revised their estimates of GDP growth in 2022 from **4.3% to 3.5%**. Analysts of Bank Pekao S.A. are more pessimistic. Its economists have already revised their forecast downwards from **4 percent to 3.1 percent** of GDP, while analysts from PKO BP bank, in turn, speak of growth at the level of **3.5 - 4 percent, not 5.**ⁱⁱ

Why less GDP growth?

First, because of the collapse of exports to warring countries. In 2021, Russia was the seventh largest recipient of goods exported from Poland. At the same time, it ranked third in terms of the value of goods imported into Poland. The shares of Poland's trade with Russia in total goods exports and imports are 2.8% and 5.8% (EUR 8.0 billion and EUR 16.7 billion,

respectively). The trade ties between Poland and Russia are therefore much greater than in the case of Poland and Ukraine, where the shares were 2.2% and 1.1%, respectively (EUR 5.2 billion and EUR 2.5 billion).ⁱⁱⁱ

Poland's economic growth will remain high, despite the negative impact of heightened uncertainty and higher commodity prices, the National Bank of Poland (NBP) predicts in a statement.^{iv} The Polish Central Bank stresses that the small share of exports to Russia and Ukraine in Polish exports is a factor that "will limit the negative impact of this situation on the Polish economy. On the other hand, Poland will feel an increase in the prices of energy resources

Polish economists do not expect a strong slowdown of the economy, let alone recession. The war broke out just as most of them were preparing to raise their forecasts on the back of excellent data from the labor market, industrial production and Polish consumption. The state budget assumes that GDP will grow by 4.6 per cent this year. - A lot depends on the adaptability of the economy and what the final set of sanctions will be - believes Piotr Arak, head of the Polish Economic Institute.^v

The biggest disruption to the Polish economy would be a stoppage of gas and oil imports from Russia. The problem for the Polish economy may be cutting off part of the raw materials, which are not as widely discussed as oil or gas. Poland imports a lot of steel and metals from Ukraine. A significant effect of sanctions for Poland could be a stoppage in the import of Belarusian timber.

According to the latest data from Business Center Club, about 80 Polish companies experience deterioration of business conditions in Ukraine, Russia and Belarus. Polish exporters have more and more problems not only in places torn by war, but also in places where transit routes passed. The survey also shows that as a result of war in Ukraine, companies operating in Poland are recording an outflow of employees, which is particularly visible in the construction and transport industries (Poland has 25 % share in transport market of European Union).^{vi}

Polish analysts so far have not assumed that oil and gas supplies from Russia will be interrupted. If this happens, forecasts for economic growth will go down even further, and inflation will go up, as prices for these raw materials on world markets will rise. A factor mitigating the scale of price rises in Poland is the extension of the inflation shield introduced by the government (temporary tax and excise cuts on petrol and energy).

The level of Polish economic growth will also depend on the mobilization of funds for Poland by the European Union from the Reconstruction Fund. For now, they are frozen due to a dispute between Polish authorities and Brussels over the rule of law.

Higher inflation and slowing investment

The latest projection of the National Bank of Poland (NBP) assumes that in 2022, the average annual **CPI inflation will be in the range of 9.3-12.2%** with a 50% probability, compared to 5.1-6.5% in the November 2021 projection. ^{vii} In response to inflationary pressures, the National Bank of Poland is raising interest rates and announcing further increases. They are at their highest level since 2013. ^{viii} .

Analysts of Credit Agricole bank expect that uncertainty as to the further course of the war in Ukraine will slow down investment growth in Poland. The same will happen in the case of consumption. The question arises whether the war will not scare off foreign investors in Poland. - Although West Germany was a frontline state of the Cold War, it did not deter capital. If Poland will have strong security guarantees, we may be an even greater beneficiary of the process of shortening supply chains than so far - emphasizes Piotr Bujak, analyst at Bank PKO. ^{ix}

The Russian-Ukrainian war will significantly weaken the interest in Poland as an investment destination. Poland, at least temporarily, will be perceived as a much more risky investment destination - believes Piotr Soroczyński, chief economist at the Polish Chamber of Commerce. In his opinion, the stream of foreign direct investments flowing into Poland may decrease by many billions of euros. ^x

Weakening of the Polish zloty

The first blow of the wartime crisis came to Poland through the currency channel. Poland became a frontline country. In less than two weeks from the beginning of the Russian aggression, the Polish currency lost over 8% against the euro and 11.5% against the US dollar. The dollar costing as much as PLN 4.61 was the most expensive in over 21 years ^{xi}. Experts point out that the Polish currency has not been so weak since 2009, when Poland began to feel the effects of the global economic crisis ^{xii}. The subsequent rebound did not change much: the Polish currency remains almost record weak, reducing the purchasing power of Poles' earnings and savings. The depreciation of the zloty is an important pro-inflationary factor. The other

channel of transmission of the crisis, i.e. commodity prices, will also act towards a significantly higher inflation.

The Polish Central Bank (NBP) also refers to the recent unfavorable quotations of the zloty. Referring to the war in Ukraine, which strongly affects, among others, the exchange rate of the zloty, the President of the NBP Adam Glapiński said that "the foundations of the Polish economy are strong, there are no crisis phenomena. He added that "with time" the zloty's exchange rate will normalize. - We cannot help it that an investor from the other side of the globe will see that Poland is next to Ukraine and Russia. The entire zone is suffering from increased risk aversion," Glapiński explained.

In his opinion, however, investors "rooted" in Poland do not think that Poland is threatened by anything. He stressed that the weakening of the zloty is a "war effect", which also has a pro-inflationary effect, but "there is no question of capital flight". He also added that the zloty is currently undervalued.

The NBP has taken steps to strengthen the Polish currency. The President of the Polish Central Bank also revealed that the NBP is holding talks with the American and European central banks on launching the so-called "swap lines", which enable the central banks to exchange specific amounts of money with due interest in different currencies at a rate close to the market rate.^{xiii}

Rising food prices

According to Polish experts, the effect of the war in Ukraine may be a strong and lasting increase in the prices of cereals and oilseeds, of which both Ukraine and Russia are major exporters. Their higher prices will in turn lead to higher feed prices and consequently to higher prices of animal products such as meat, dairy products, and eggs. The war in Ukraine through increased gas prices may lead to further increases in fertilizer prices. Higher prices of fertilizers will also be conducive to higher prices of cereals and oilseeds. According to Credit Agricole bank analysts, the growth dynamics of food and non-alcoholic beverages prices may reach several percent in 2022.^{xiv}

1.7 million refugees from Ukraine in Poland

A huge challenge for the Polish economy is the influx of refugees from Ukraine. Since the beginning of the war, 1.7 million of them have arrived in Poland (as of 14.03). Most of them are women and children. An influx of another million Ukrainians is expected. So far, at least 1 million Ukrainians have already been gainfully employed in Poland. In turn, as a result of the beginning of the war, about 60 thousand Ukrainians - men who take part in military operations in their country - left Poland, which causes shortages in the Polish labor market.^{xv} - The influx of immigrants is a great challenge for our country, but it is also beneficial for the Polish economy, meaning an acceleration of economic growth and an increase in labor potential, NBP president Adam Glapiński believes.

"The Anti-Putin Shield".

In response to the threats to the Polish related to the war in Ukraine, the Polish government announced the preparation of a package of stimulation of the Polish economy - the "anti-Putin shield". It is to concern all spheres of economic life, which have suffered because of Russia's invasion of Ukraine. According to government spokesman Piotr Müller, it will consist of economic, tax and financial solutions, as well as security solutions. The government spokesman did not rule out that because of the war in Ukraine, the duration of tax cuts and excise duty on fuel and energy will be extended as part of the "anti-inflationary shield".^{xvi}

Poland will benefit from the flight of Western companies from Russia?

In view of the sanctions imposed on Russia, many Western companies are leaving the country. However, these companies are not slowing down and are launching their production elsewhere on an ad hoc basis. And this, according to experts, could be of great benefit to Poland. Since the outbreak of war in Ukraine, only in the automotive industry about 2 thousand additional jobs have appeared in the Vistula, and sectors, which will increase their production capacity in Poland may be more - predicts the Personnel Service company. Its expert Krzysztof Ingłot calculates that on the list of European, American and Asian companies that flee from Russia, there are hundreds of entities. These include companies from the heavy industry or food sector. In his opinion, Poland has a trump card - flexibility and quick adaptation to prevailing conditions, which it proved during the pandemic. Experts have no doubts that sanctions against

Russia may prove to be an impulse for the development of several sectors in the Vistula region, including the heavy industry and metallurgy.^{xvii}

Experts also point to the decline in the prices of CO2 emissions related to the war and European plans to become independent from energy resources from Russia. This may cause the price of coal-generated energy to drop. The raw material diversification plans in the European Union may delay plans related to the energy transformation, which is important for Poland - the largest coal energy producer in EU.

Conclusion

The war in Ukraine has a strong impact on the Polish economy in a number of ways. In the coming months and quarters, Poland will face rising inflation and related interest rate hikes, rising fuel, energy and food prices, a slowdown in high economic growth and a weakening of the Polish currency. A major challenge will also be the enormous pressure on the state apparatus and the national system of education, medical and social services, associated with the influx of refugees from Ukraine. The new geopolitical situation also requires Poland to significantly increase expenditures on armaments and the expansion of its military. The consequence is likely to be an increase in the national debt.

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- ⁱⁱ Business Interia Portal <https://biznes.interia.pl/gospodarka/news-wojna-w-ukrainie-polska-gospodarka-tez-ucierpi,nld,5877038>
- ⁱⁱⁱ AleBank Portal <https://alebank.pl/ekonomisci-credit-agricole-oceniaja-wplyw-wojny-w-ukrainie-na-polska-gospodarke/?id=402762&catid=25926>
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- ^v Business Interia Portal <https://biznes.interia.pl/gospodarka/news-wojna-w-ukrainie-polska-gospodarka-tez-ucierpi,nld,5877038>
- ^{vi} Portal Business Insider <https://businessinsider.com.pl/biznes/wojna-uderza-w-polskie-firmy-dzialajace-na-wschodzie/iy9k2xm>
- ^{vii} Bankier.pl Portal <https://www.bankier.pl/wiadomosc/Konsekwencje-wojny-w-Ukrainie-dla-polskiej-gospodarki-8295182.html>
- ^{viii} Money.pl Portal <https://www.money.pl/gospodarka/prezes-nbp-rpp-jest-zdeterminowana-by-doprowadzic-inflacje-do-normalnego-poziomu-6745436364261952a.html>
- ^{ix} Business Interia Portal <https://biznes.interia.pl/gospodarka/news-wojna-w-ukrainie-polska-gospodarka-tez-ucierpi,nld,5877038>
- ^x Economy WNP Portal <https://www.wnp.pl/finanse/wojna-uderzy-w-inwestycje-polska-jest-krajem-o-podwyzszonym-ryzyku,549657.html>
- ^{xi} Bankier.pl Portal <https://www.bankier.pl/wiadomosc/Konsekwencje-wojny-w-Ukrainie-dla-polskiej-gospodarki-8295182.html>
- ^{xii} Wprost Business Portal <https://biznes.wprost.pl/finanse-i-inwestycje/10641151/polska-gospodarka-w-obliczu-wojny-na-ukrainie-wazny-komunikat-nbp.html>
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- ^{xv} Finance.wp.pl Portal <https://finanse.wp.pl/60-tys-ukraincow-wyjechalo-z-polski-brakuje-rak-do-pracy-6744652425660545v>
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