

# Prezentacja prognoz z lutego 2011r. ekspertów makroekonomicznych Polskiego Towarzystwa Ekonomicznego w miesięczniku Polish Market w nr. 3/2011

## With cautious optimism

Experts in their comments to February 2011 forecasts, slightly more optimistically assess the possibility of this year's economic growth than in the prior forecast round, but are still fraught with uncertainty. This is mainly due to external conditions. Expectations vary.

### EXTERNAL CONDITIONS

**Prof. Witold M. Orłowski** (Independent Centre for Economic Studies - NOBE): "A lot indicates that the present crisis not only has not passed yet, but has not even shown its full proportions. We've only seen the initial phases, which can be followed by more. (...) My forecast of GDP growth in this situation of between 4 and 5% can be regarded as optimistic; there is considerable risk that things could get worse."

**Prof. Krystyna Strzała** (University of Gdańsk - UG): "(...) according to international analysts' expectations, in more than 20 countries considered to be part of the so called emerging markets, there is a danger of anti-government protests, and consequently, political destabilisation (...). The political developments in African countries and their consequences for the prices of raw materials, particularly crude oil, are one of the most important sources of uncertainty."

**Tadeusz Chrościcki** (independent expert): "On the basis of the current European Commission's forecasts, GDP is expected to increase in UE-27 member countries by 1.7% in 2011 and 2.0% in 2012, accompanied by a considerable variation in the economic activity of individual countries. The driving force behind EU economies will still be Germany, creating export opportunities for Poland."

**Paweł Durjasz** (Chief Economist at PZU): "The latest information points to an improvement of economic growth perspectives for USA and Germany (including the euro-zone) in 2011."

**Łukasz Tarnawa** and **Aleksandra Świątkowska** (Chief Economist and the Head of the Macroeconomic Analysis Team at PKO Bank Polski): "Summarising the most important present developments in the global situation, one can name: progressing differentiation in the development trends of developed economies and emerging markets, still with cautious growth perspectives (a dominant factor for the Fed's monetary policy), fears of inflation growth are starting to 'be heard' – mainly due to the strong growth of prices of raw materials (which resulted in a firm communiqué from the European Central Bank, following the January meeting), on the currency market - the two dominant factors are: loose monetary policy from the Fed and, on the other side, a constantly growing global fiscal stability problem (no longer just an issue concerning peripheral countries to the euro-zone, but ever stronger stability risks of USA public finances) high variability in the prices of financial assets as a result of a changing

risk premium.”

## **GDP**

This is how experts are describing the causes of corrections in the forecasted growth rate.

Prof. **Władysław Welfe** (University of Łódź -UŁ) is expecting a livening of investment activity from the beginning of 2011 which – as he writes – “may bear fruit in the form of an annual growth rate in asset expenditures of about 9%.” During 2012-2013, he expects “a continued growth in expenditure (of approx. 9.5-10.5%), related to the implementation of infrastructure investment projects and a growth of foreign direct investment.”

Prof. **Andrzej Wernik**: “Good results in the fourth quarter of 2010 justify the acceptance of more optimistic assumptions for this year than in the prior estimate. This mainly concerns GDP as well as its main constituents, in real terms.”

**Bohdan Wyżnikiewicz PhD** (Gdańsk Institute for Market Economics – IBnGR) has revised his expectations in a similar direction. He is currently forecasting a GDP growth of 3.7% for 2011 (previously 3.4%). According to this forecast, GDP growth will be 4.1% in Poland in 2012, which will be possible owing to growing investments and an improvement of the situation in the labour market. The IBnGR forecast was prepared under the assumption that: interest rates in Poland will grow by a combined 100 basis points in 2011; the złoty will appreciate only slightly during 2011–2012; the financial situation in the euro-zone during 2011-2012 will gradually stabilise.

## **EXTERNAL BALANCE, INFLATION, LABOUR MARKET**

If we accept external balance as a criterion then the February 2011 forecasts of Polish Economic Society (PTE) experts are, both in the long and the medium term, somewhat less optimistic than those from November 2010. The deficit in the current account of the balance of payments is growing faster, as is the ratio of import to export. Despite corrections, Poland still stands out positively in the group of new EU members, both in terms of a relatively low ratio of deficit in the current account to GDP, as in relatively high currency reserves.

Prof. **Jan Przystupa**: “The decline in export growth to 10.6% in 2011 will likely not be accompanied by a proportionate reduction in import growth. The negative impact of exports in GDP growth will amount to 0.5 percentage point. Despite this, GDP may grow to as high as 4.1% in 2011. However, exports (particularly services) will likely grow by more than 12% in 2012, and imports by around 13% (net exports will amount to -0.6 percentage point). With a 5.6% growth in domestic demand, the rate of GDP growth may exceed 5%.”

**Paweł Durjasz**: “The signs of pressure on prices due to demand are still not visible yet. In the coming months, inflation will grow to the upper limit of fluctuations allowed around the Monetary Policy Council (RPP) inflation target, since fuel prices are strongly appreciating. A considerable growth of food prices is still possible, as is seen in other countries. The VAT rate has been raised at the beginning of this year. This will have to indirectly lead to the growth of core inflation from the presently low level. This will all contribute to pressure towards the

growth in wages. Reasons to worry that the 'effect of the second round' will be substantial are not visible yet."

The current forecasts on the labour markets are less pessimistic (compared to the prior ones). Employment and wages are slowly on the rise. Experts expect a gradual decline of the unemployment rate following first quarter of 2011.

## **PUBLIC FINANCES**

**Tadeusz Chrościcki:** "A high structural deficit of federal and regional government institutions, as well as the risk of crossing the second warning level, require fast and decisive consolidation actions."

**Prof. Krystyna Strzała:** "I believe that during 2011-2012, government actions, some of which have been discussed for a long time, should include a decisive reduction of the public sector deficit, improving the budget structure by reducing the share of fixed expenses." Prof. K. Strzała recommends an urgent improvement of the procedures for the implementation of projects co-financed from EU funds. According to her, a lot depends on the better functioning of the administration and an improvement in business conditions, including small and medium enterprises.

**Łukasz Tarnawa and Aleksandra Świątkowska:** "From the country's internal factors that could limit the appreciation potential of the złoty, the main risk factor is the fiscal situation." Analysts at PKO BP have made the following assumptions: an average real GDP growth for the nearest three years of 4.1% and nominal growth of 6.9%; maintenance of higher VAT rates following the changes in January 2011, reduction in the cyclical deficit of regional governments and social insurance, periodic growth of the deficit in the road infrastructure fund during 2011-2012, reduction in the deficit of the EU funding budget during 2012-2013, realising revenue from privatisation at a level close to PLN30 billion in the course of the next three years. With these assumptions, it is believed to be possible to "limit the deficit of the public finances sector by around 3% GDP from around 8% GDP in 2010. The limitation of borrowing requirements due to changes in Open Retirement Funds (OFE) has translated into a deficit decline by another 1% of GDP, hence in order to reduce the deficit below 3% of GDP by 2013, further savings are needed in the order of 1% GDP, hence PLN15-20 billion."

Prof. **Władysław Welfe** expects a budget deficit at a level from -3% to -4% after 2011 and recommends that actions consolidating public finances should take the need for spending on future development into account.

Prof. **Andrzej Wernik:** "In terms of budget, it can be expected that execution will turn out to be more favourable than the wording of the budget legislation itself. In terms of the general situation in the public finances sector, there will be an improvement compared to the assumptions. The combined deficit will be reduced by at least one percentage point of GDP, but the decisive role will be played by decision factors. Correct decisions, including the reduction of

the fraction of retirement contributions going to open retirement funds, may cause a deficit reduction of as much as over three percentage points of GDP.”

\*\*\*

Although, as already stated at the beginning, the assessment of the current economic trends in Poland by PTE experts is presently somewhat more favourable than during the prior round of forecasts, much will depend on difficult to foresee changes in external conditions and on the implementation of recommended actions in the Polish economic policy.

Marek Misiak

**The full commentary of PTE experts is available online at [www.pte.pl](http://www.pte.pl)**