Poland
2002-2006:
Midyear Summary

Published September 2002
by Polish Market Review
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Polish Market Review methodology

Polish Market Review reports combine desk research, in-house data analysis and original research to get the most up-to-date information available on a given sector of the market. In desk research, sources of information include newspapers, trade magazines and the Internet as well as free and paid research reports prepared by leading market research companies. PMR always verifies the validity of the data published regardless of the source. Only experienced and quality sources of information are quoted. All company information presented is verified through PMR interviews with company spokespersons and management.
Executive summary

Political outlook

- Public opinion polls in July 2002 registered the lowest support for both the government and the Prime Minister since the beginning of the new coalition government. In July 2002 60% of Poles gave low ratings to the Prime Minister’s performance while 70% did the same in relation to the government. As a result of the decline in popularity of the SLD-UP coalition and the severe fragmentation of the right-wing electorate, the radical, populist and anti-EU movement known as Self-Defense has become the third most popular political force in Poland.

- In the first half of 2002 the Prime Minister and other government members blamed the unfavorable economic situation in Poland on the Monetary Policy Council (MPC). A majority of parliamentary deputies approved a motion submitted by the Polish Peasant Party (PSL) to expand the number of members in the MPC from 10 to 16 members. The draft bill was submitted for further parliamentary deliberation. If the bill is accepted it would considerably limit the independence of the Monetary Policy Council. The President declared that he would protect the independence of the MPC and not support the new law unless it complies with the constitution.

- On July 3, 2002 Marek Belka, Deputy Prime Minister and the Minister of Finance in the SLD-UP coalition government officially resigned from his ministerial post. Grzegorz Kołodko was appointed the new Minister of Finance.

EU accession outlook

- During the first seven months of 2002 Poland became one of those countries most advanced in accession negotiations. During the March 2002 round of negotiations Poland closed two chapters: taxation and free movement of capital, bringing the number of chapters closed to 22 out of 30. Having closed another two chapters in June 2002 - fisheries and transport, as well as the justice and domestic affairs chapter in July 2002, Poland made significant progress in its efforts to join the European Union.

- Support for EU enlargement among Poles remains stable with 57% of the population in favor of enlargement and 28% against.
The EU is not yet ready for enlargement, which is planned for 2004, when the European Union will admit 10 new members. Such enlargement cannot take place without institutional reforms within the EU that would enable the EU to function within the new enlarged framework. The most controversial issues to be set aside for later discussion and requiring the EU to adopt a common stance include: agriculture, regional policy and financial and budgetary provisions.

Support for enlargement among EU citizens remains stable, with 50% of EU citizens being in favor of enlargement and 30% against. EU countries where support for enlargement is below the EU average are: Austria, France, Germany and the UK.

Accession to the EU is a long-term process and the moment of accession will not have an immediate impact on the Polish economy. Poland is expected to benefit from EU accession, both during the period prior to accession as well as after it enters the European Union. Various assessments of additional economic growth rates following EU accession range from 1% to 5%-9% per annum.

**Economic outlook**

- Poland’s very low GDP growth rate continued during the first half of 2002. GDP growth in 2002 will be about 1% with consumption increasing by about 2-3% and investments diminishing. GDP increases of 3.7% are forecast for 2003 and 5.2% for 2004.
- The first half of 2002 continued to be successful in terms of limiting inflation. The CPI figure of 1.3% recorded in July 2002 was the lowest ever since the beginning of the transformation process. During the years 2002-2006, the CPI inflation rate will oscillate at around 4%. This will allow for a gradual deviation from the NBP’s policy of extremely high real interest rates.
- In the first half of 2002 the Monetary Policy Council continued to cut interest rates. After the August MPC meeting the intervention rate stood at 8.0% while Lombard and discount rates stand at 10.5% and 9.0% respectively.
- A significant downturn in the optimism of entrepreneurial circles with regard to short-term and medium-term economic growth led to a drop in investments. The quarterly investment growth will start midyear 2002 and grow slowly. In 2002-2006 an average investment growth rate of over 7% is expected.
- Imports and exports will increase only slightly in the year 2002 (1%-3%). This will be the result of both poor foreign and domestic demand.
- Unemployment in Poland which reached 17.4% at the end of July 2002 will remain high, oscillating around 18% in the years 2002-2006.
- Following an increase in the budget deficit to 5% of GDP in 2002, this deficit will be reduced to 3% of GDP in the years 2003-2005.
- Growth in Western Europe, following a brief slowdown or recession, will return to a level of 2%-3% in the years 2003-2004 and a slow improvement will occur in the former Soviet Union countries. The euro will strengthen against the US dollar significantly in the years 2002-2004.
Key sector outlook

- At -1%, year on year industrial output in the first half of 2002 was characterized by an even more negative trend than in 2001, when a growth rate of only 0% had already been noted, thus illustrating the persistent sluggishness affecting the Polish economy. Long awaited improvements in industrial output are predicted in the last quarter of 2002.

- During the first six months of 2002 the downward trend in the automotive industry, which began in February 2001, continued. Despite the continuing yearly decline in new passenger car sales, a gradual monthly increase began in March 2002. In July a positive annual growth rate was recorded for the first time in two years. This was a direct consequence of increasing the excise tax rate on used cars imported to Poland and decreasing excise tax rates on new cars. Demand for new cars is expected to increase in the third and fourth quarters of 2002.

- During the first six months of 2002 the chemical sector registered a 4.4% growth. Most of this growth occurred in the second quarter of 2002 and was mainly driven by the growing consumption of chemicals in Poland. The Polish economy’s demand for chemicals is expected to increase in line with any increase in the wealth of society. In the first quarter of 2002, the same as in previous years, the demand for chemicals was, to a large extent, satisfied with imported chemicals as Polish chemical companies are not truly competitive in relation to their foreign counterparts.

- During the first six months of 2002 the construction sector continued to record heavy cutbacks, a trend which began in 2001. The overall financial situation in the construction sector deteriorated further. In July 2002 the sector showed the first signs that it was coming out of what has been a very deep recession. Construction output was still falling, but only at an annual rate of 4%. This fits in well with the fact that cement sales rose by an annual rate of 0.5% in July, thereby probably ending a two-year recession. Construction output recovery should be seen as a sign that investment demand is about to rebound, with this being predicted in the second half of 2002 and in 2003.

- The electrical machinery and equipment sector in Poland recorded a 5% fall in production during the first six months of 2002 mainly due to worldwide falls in production in general. This was the first period of negative growth in the sector since 1992, although growth in 2001 at a level 2.2% was already well below growth rates in previous years. A noticeable increase in internal demand for electrical equipment, mostly from the construction sector, is not expected to take place in 2002. Exports of electrical equipment (and thus production), however, should grow in line with economic improvements in the Euro zone.

- During the first six months of 2002, food and beverage production in Poland rose by 1.8% compared to the same period in the previous year and registered record low price increases compared to the same period in the previous year. Due to an oversupply of food in 2001 and the first half of 2002, together with the state being short of funds to subsidize exports of all food commodities, large quantities of food are being stocked in Poland.

- The recession has not had a severe impact on the IT sector in Poland. The IT market growth rate in 2001 amounted to 5.7% and significantly exceeded GDP growth in 2001. The first half of 2002 brought an increase in revenue for both software
integrators and hardware distributors in comparison with the corresponding period last year. The IT sector, which is one of the leading sectors in Poland, is expected to feel the effects of the improved economic situation by the second half of 2002.

- During the first six months of 2002, clothing industry production decreased 5.3% in real terms. The declining trend in the Polish clothing sector has been a direct consequence of decreasing outward manufacturing trade. The prospects in 2002 for the textiles and clothing sector are not good. The sectors will be challenged by increasing competition from imports, decreasing OPT-related foreign trade and increasing competition from exports.

### The labor market

- Amendments in the labor code will come into effect at the beginning of 2003. The changes that are to be introduced are aimed at increasing the flexibility of the Polish labor market. Burdens on employers are to be decreased, thereby encouraging employers to create new jobs.

- Due to the unfavorable economic situation salaries fell in the first half of 2002. Payroll expenditure cuts mostly occurred in small companies employing up to 50 people, which has resulted in an increased employee turnover rate. In general, larger businesses have not taken the risk of reducing salaries, and instead have cut additional benefits (lowering cell phone or car expenditure limits).

- Regional differences in salaries in Poland have decreased further. The cost of employment is highest in Warsaw and the Mazowieckie region. Top management in the Warsaw region earns on average 30% more than similar personnel in other regions.

- Poland will remain a country where highly skilled labor is relatively cheap. In the case of labor intensive sectors, this advantage will lie with the Asian economies or with those European countries that did not manage to access the EU in the first wave.
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