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Country Report: Poland
Christopher Ball – EC 250

Political and Economical Analysis of Poland

Located in Eastern Europe, Poland is a relatively small country with an approximate population of 39 million people. In 1916 Germany and Austria proclaimed Poland as an independent kingdom, but because Germany occupied the territory they still controlled the government giving Poland minimal control. During the years of World War I, Poland supported the Central Powers. As the war was coming to an end, the Allies began to destroy much of the Central Power arsenal. The Allied Powers won the war in 1918, and as the Central Powers' influence was reduced Germany began to lose its power over much of its territory. After WWI, Poland regained its independence.

Decades later, Poland established the constitution of 1997, which replaced temporary amendments to stop the influence of communism. This constitution solidified Poland as a democratic state ruled by law and implemented the principles of social justice. Just like The United States of America, The Republic of Poland is based on the separation of and balance between the legislative, executive and judicial powers. Legislative power is entrusted in the Sejm and the Senate, executive power is assigned in the President, and the Council of Ministers, and judicial power is vested in the courts.

Poland joined NATO in 1999 and the European Union in 2004. Since joining the European Union Poland has done relatively well in comparison to other members of the European Union while also establishing dominance amongst the transition economies.

Poland is also establishing a share of the global tourism market, exhibiting increases in visitors yearly and has become the 14th most visited country for foreigners.

With an average real GDP growth rate of 3.8%, Poland's economy is one of the only economies in the EU to display growth in GDP through the 2008-2009 recessions. When analyzing a countries economy through the European Union, economists may look at the European Committee of Standardization, which promotes development of infrastructure and global trading. This has become the body of the European standards (EN) within the EU.

According to the EN, Poland is a country that has high demand for domestic goods, which keeps the economy stable. Domestic products include main agricultural crops like potatoes, sugar beets, rye, wheat, and dairy products. The main livestock are pigs and sheep. Poland is also relatively rich in natural resources. The primary minerals produced are coal, sulfur, copper, silver, lead, and zinc. While the services they provide are beverage processing, shipbuilding, and the manufacture of machinery. Even when relative demand for domestic goods decreases, Poland increases their exports to the rest of Europe in order to create a balance of payments. The surge of demand for domestic products has strengthened the business cycle in Poland, reducing their exposure to negative fluctuations and economic contractions.

In recent years Poland has been undergoing changes focusing on the movement from small independent organizations to national and international recognized establishments. Many may think this effort may squash the small business owners, however, associations are being created in order to promote and protect the smaller sector of the economy. This balance between large and small retailing is directly correlated to Poland's recent successes.

This economic surge could not have been possible without well monitored banking regulations. The central bank of Poland enforces a law that prevents foreign banks from taking capital from Polish corporations. So while other countries struggle with a lack of credit, Poland still has money to lend to homes and businesses.

The Bank of Poland also does not support the euro; the national currency is the zloty, which is free-floating. Most economists seem to believe this is one of the biggest factors in Poland's success because it is flexible and not confined to other market conditions and currencies. Flexible currencies can enhance a local economy and increase growth because the rate is determined by basic supply and demand. If a country has a weaker currency they will be more competitive in exporting, but if the currency is stronger they will focus on importing. The option between both transactions helps a country maximize their production within the economy. Exports and imports are vital components in showing an increase in growth.

Imports and Exports

Poland is located in a very optimal position in Europe. It has the potential to be a very big player in both imports and exports of Europe and European goods. Unfortunately Poland infrastructure is sub-par compared to contemporary standards. What they gain from geographical position they lose because of their poor roadway infrastructure. But even with the difficulties of transporting goods in and out of their country, exports represented 33% of GDP in 2009 and increased to 34.6% in 2010. Measuring exports in dollars, an increase of 14.3% was seen in 2010 and is expected to surge in 2011 because of their increasing exports to closely located Germany.

Poland's net exports are led by machinery and transport equipment totaling 41.2% of exports and 34.9% of imports. Although machinery and transport equipment are the heaviest of the exports, manufacturing represents 14.5% of exports, and Poland is becoming a leading producer in high-tech electronics. Poland currently is responsible for producing 20% of Europe's flat-screen monitors. Polish spending on high tech equipment is significantly lower than other parts of Europe, but because of their newfound funds from joining the European Union in 2004, the Polish government expects to produce the majority of Europe's television sets. Among machinery and transport equipment, other leading categories are crude materials, food and livestock, and other basic manufactures.

Although Poland maintained a growth of GDP during the global recession, and have had a growth of exports over the past 2 years, they still have some lingering export problems. Poland has an over-reliance on a few trade partners. In 2010 81.2% of all exports went to countries in the European Union, of which more than half was machinery and transport equipment.

The next highest percentage of exports was with Asia-Pacific countries, which totaled 2.6%, and only 1.6% of exports went to North America. Imports from Europe totaled 85.7% of all imports with the next highest import coming from Asia Pacific, which totaled only 8.2%, and only 1.5% going to North America. Of the 81.2% of all exports Germany accounted for 23% and of the 85.7% of imports Germany accounted for 25.1%.

In-Depth Analysis

In modern post-communist times, Poland has been one of the breakthrough stars of the transition economies. In the early 90's, Poland began to take measures to open their economy starting with the devaluation of their currency. The central bank believed the currency was overvalued, and a to improve the currency's convertibility and overall trade aspects, the country chose to devalue the Zloty by more than 30% at a time (NY Times).

In hindsight, the zloty was then undervalued, even clearing the black market rate (Zecchini 483). This over-adjustment, while helping the trade deficit transform into a surplus, contributed to an inflationary shock and a deep recession. However, since this low point, Poland's economy has rebounded to become one of the best performing eastern European nations.

In fact, Poland is one of the few European nations not to feel the full weight of the financial crisis on recent years. In fact, Poland was the only country in the European Union not to experience a contraction in 2009; the country's economy grew by 1.7% (CNN).

There are several reasons that might have attributed to the country's successes: first, there is a very strong domestic demand in Poland, which typically contributes to a large portion of their gross domestic product. Second, there is disciplined fiscal policy in Poland; banks tend to steer clear of foreign denominated loans by predominantly remaining domestically oriented. Lastly, the flexible nature of the Zloty allowed it to rapidly depreciate during the crisis by more than 75%, which allowed Polish net exports to decline less rapidly than as in other countries (NBP).

The National Bank of Poland was quick to lower the interest rate more than a full point from 9.4% in January 2009 to 8.3% by April of that same year in order to put pressure on the stagnating economy. This decrease in i led to a devaluation of the Zloty in reference to the Euro and the USD (fig. 3). This in turn made Polish goods more attractive in international markets, leading to a 107.13% spike in the current account between July 2008 and February 2009.

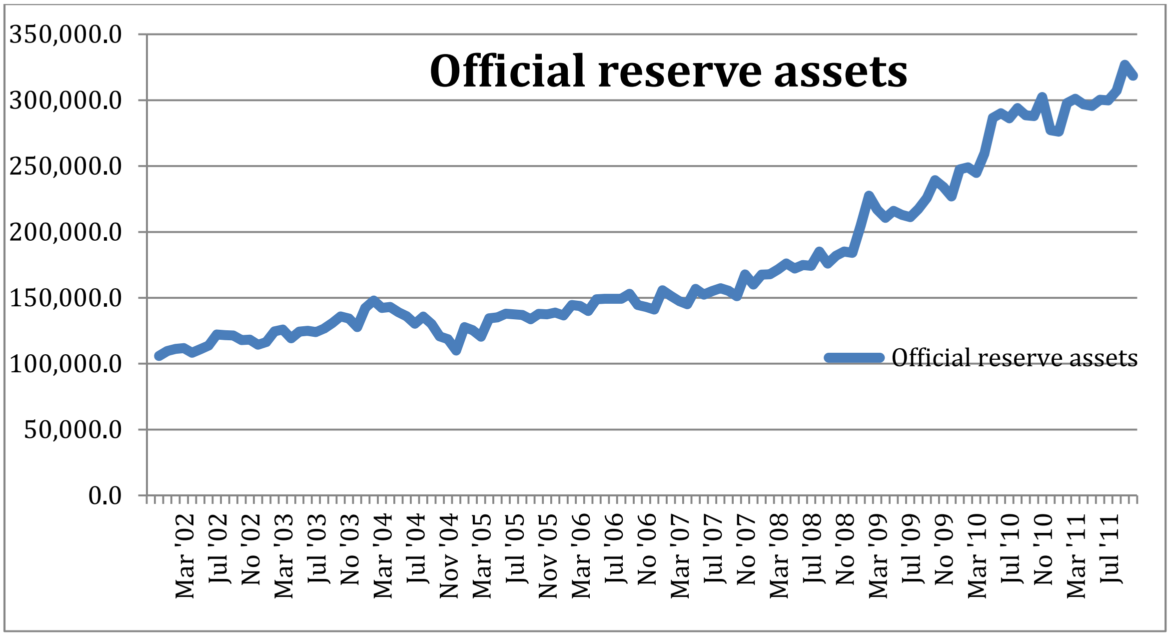
Conversely, the FKA took a steep fall in the wake of the crash, experiencing a -117% drop in the span of four months. This mirrored a drop in the overall balance of payments from $3.7b in July to -$5.1b in October. The central bank responded by increasing the levels of reserves by 25% in January-February of 2009 in an attempt to equalize the balance of payments.

In theory, the balance of payments of a country should total zero, meaning that the current and financial accounts cancel out. However, Poland's FKA has been historically positive, suggesting the country's debts exceed its credits. This is paralleled by a historical deficit in the current account because the return on investment is a debit on the current account. This means that the economy is using world savings to meet its domestic investment and consumption needs, so it is a net debtor to the rest of the world.

Overall, Poland's biggest issue remains in their sustained levels of high unemployment. In the years leading up the global financial crisis in late 2008, Poland was experiencing a steady decline in unemployment from 20.7% percent in early 2003 to 8.8% in October of 2008 (a 57.5% improvement). However, soon after the crisis struck, levels rose back into the low teens, and have been experiencing cyclical growth in the 11%-12%

range (NBP). Polish policy makers are exploring options that would help them raise employment including raising the retirement age.

Most other signs of economic health are strong; if Poland is able to better control its unemployment, it will continue to experience positive economic growth and remain a dominant power in eastern Europe.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300,000.0
250,000.0
200,000.0
150,000.0
100,000.0
50,000.0
0.0
Mar '02
Jul '02
No '02
Mar '03
Jul '03
No '03
Mar '04
Jul '04
Nov '04
Mar '05
Jul '05
Nov '05
Mar '06
Jul '06
No '06
Mar '07
Jul '07
No '07
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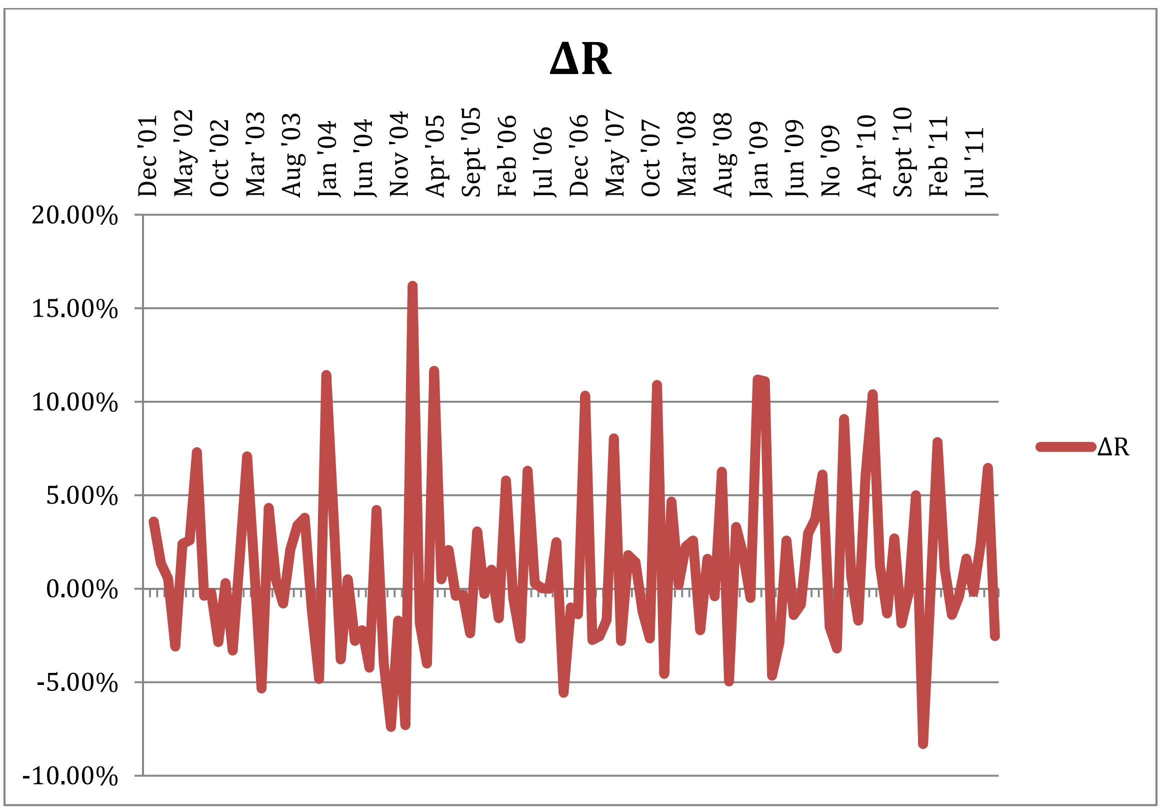
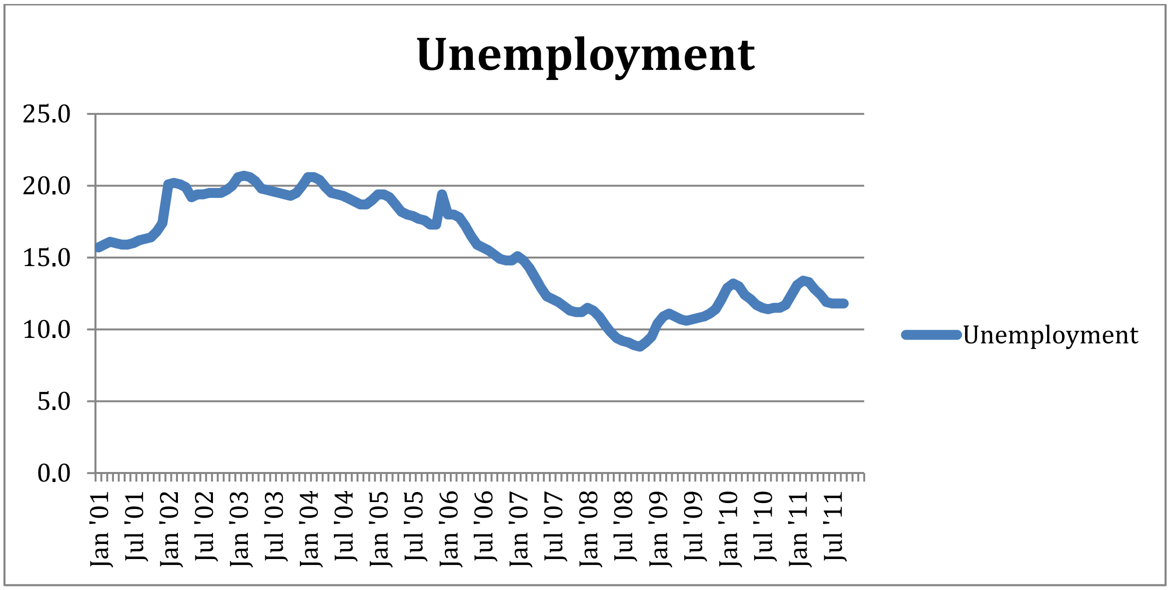
Mar '10
Jul '10
No '10
Mar '11
Jul '11
Official reserve assets


ΔR
Dec '01
May '02
Oct '02
Mar '03
Aug '03
Jan '04
Jun '04
Nov '04
Apr '05
Sept '05
Feb '06
Jul '06
Dec '06
May '07
Oct '07
Mar '08
Aug '08
Jan '09
Jun '09
No '09
Apr '10
Sept '10
Feb '11
Jul '11
20.00%
15.00%
10.00%
5.00%
0.00%
-5.00%
-10.00%
ΔR


Unemployment
25.0
20.0
15.0
10.0
5.0
0.0
Jan '01
Jul '01
Jan '02
Jul '02
Jan '03
Jul '03
Jan '04
Jul '04
Jan '05
Jul '05
Jan '06
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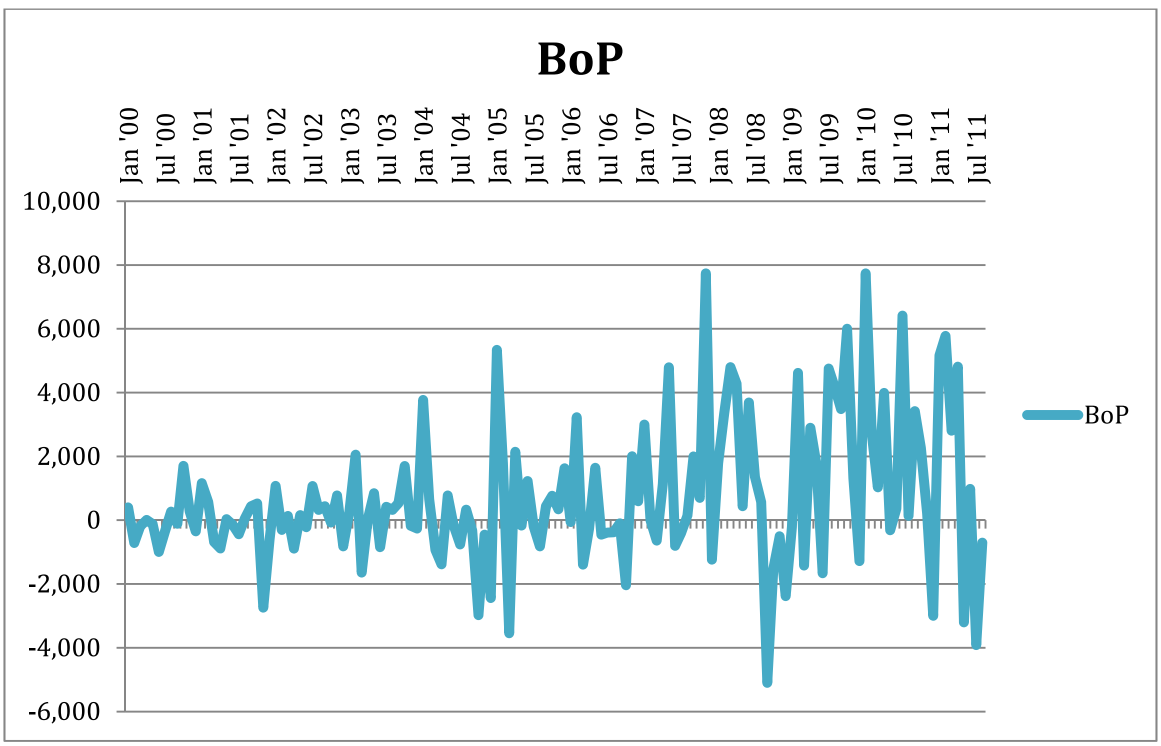
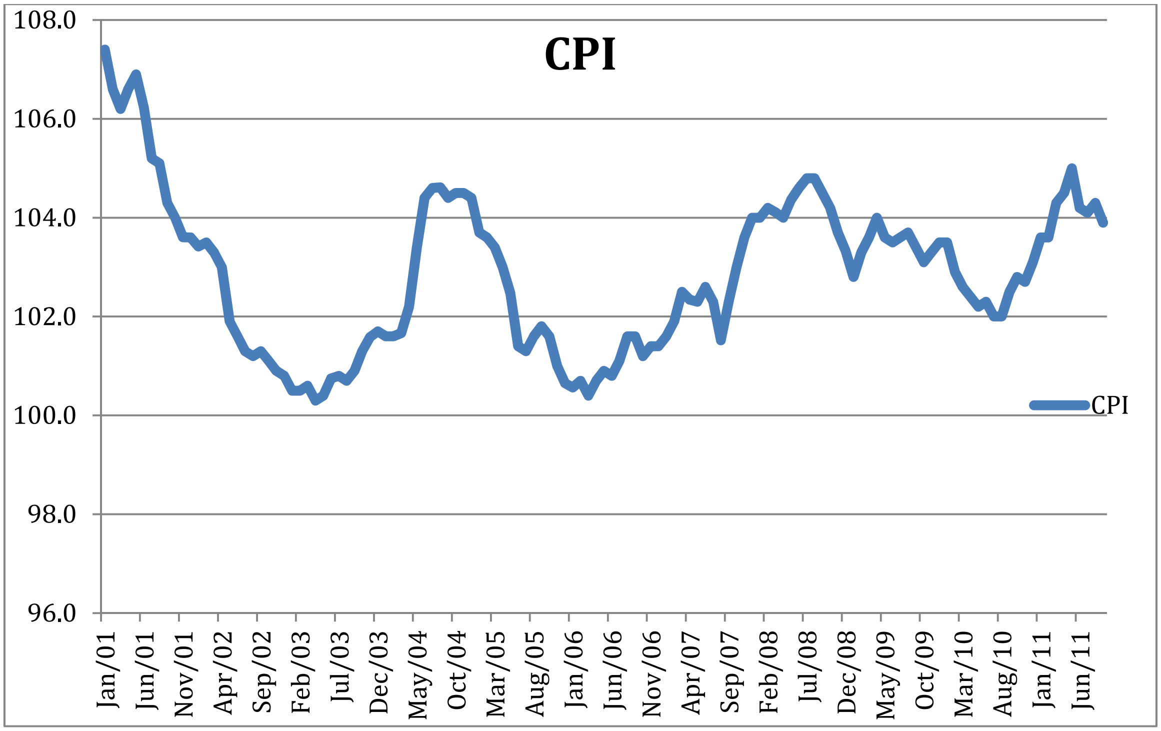
Jan '11
Jul '11
Unemployment


BoP
Jan '00
Jul '00
Jan '01
Jul '01
Jan '02
Jul '02
Jan '03
Jul '03
Jan '04
Jul '04
Jan '05
Jul '05
Jan '06
Jul '06
Jan '07
Jul '07
Jan '08
Jul '08
Jan '09
Jul '09
Jan '10
Jul '10
Jan '11
Jul '11
10,000
8,000
6,000
4,000
2,000
0
-2,000
-4,000
-6,000
BoP



CPI
108.0
106.0
104.0
102.0
100.0
98.0
96.0
Jan/01
Jun/01
Nov/01
Apr/02
Sep/02
Feb/03
Jul/03
Dec/03
May/04
Oct/04
Mar/05
Aug/05
Jan/06
Jun/06
Nov/06
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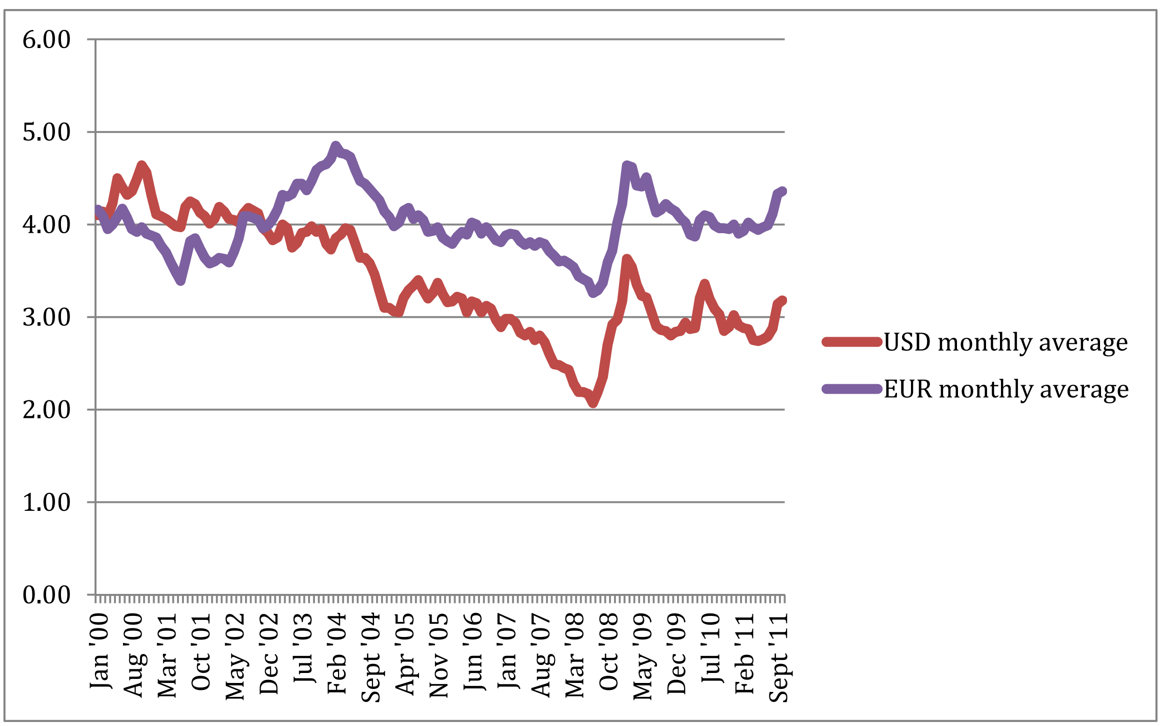
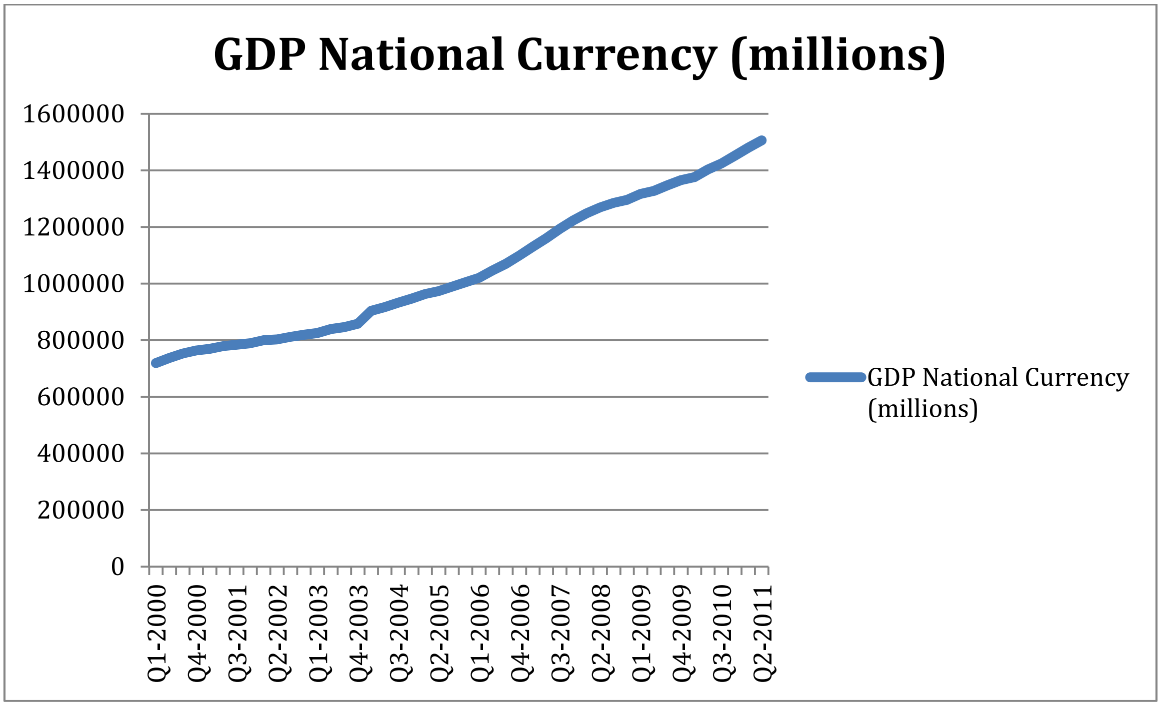
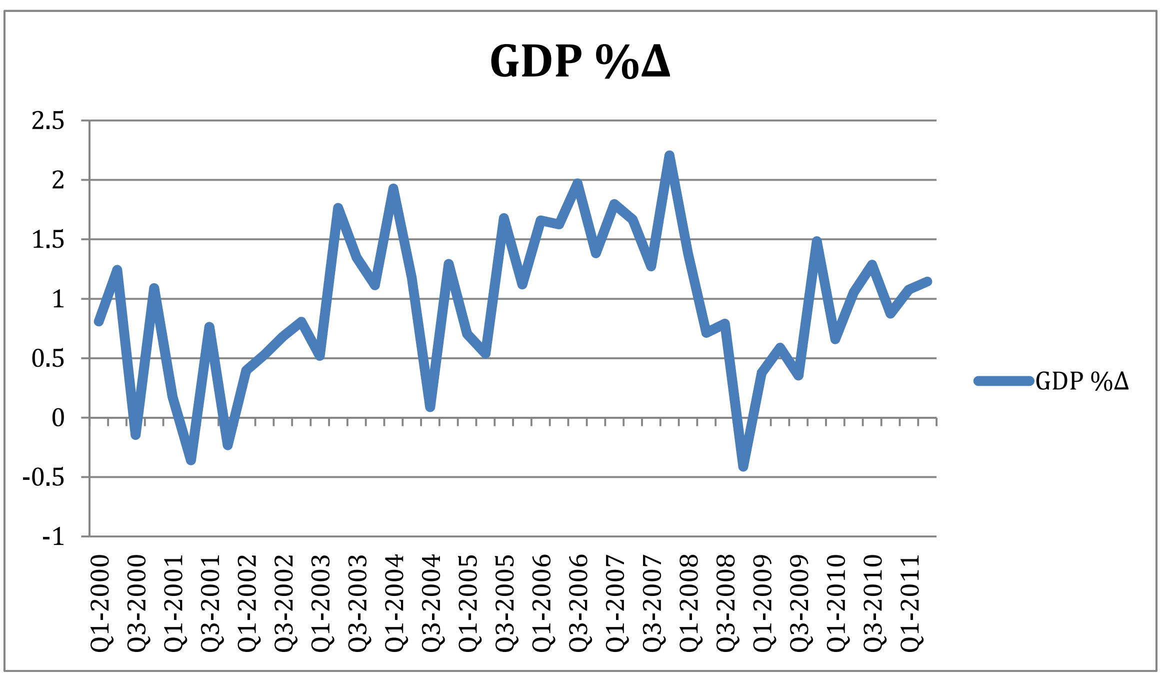
Mar/10
Aug/10
Jan/11
Jun/11
CPI



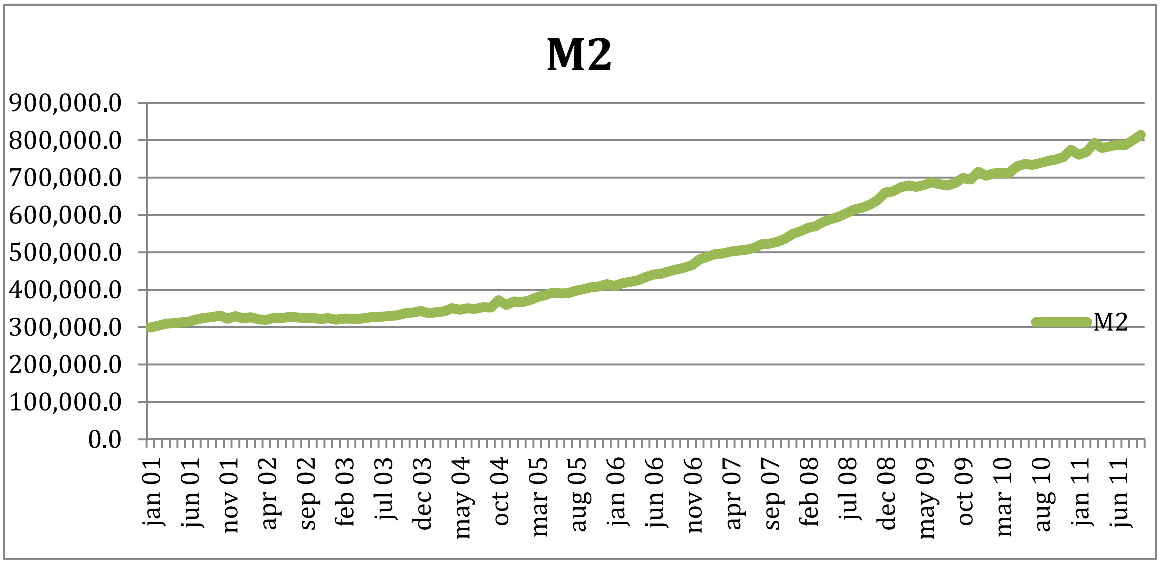
6.00
5.00
4.00
3.00
2.00
1.00
0.00
Jan '00
Aug '00
Mar '01
Oct '01
May '02
Dec '02
Jul '03
Feb '04
Sept '04
Apr '05
Nov '05
Jun '06
Jan '07
Aug '07
Mar '08
Oct '08
May '09
Dec '09
Jul '10
Feb '11
Sept '11
USD monthly average
EUR monthly average



GDP National Currency (millions)
1600000
1400000
1200000
1000000
800000
600000
400000
200000
0
Q1-2000
Q4-2000
Q3-2001
Q2-2002
Q1-2003
Q4-2003
Q3-2004
Q2-2005
Q1-2006
Q4-2006
Q3-2007
Q2-2008
Q1-2009
Q4-2009
Q3-2010
Q2-2011
GDP National Currency (millions)



GDP %Δ
2.5
2
1.5
1
0.5
0
-0.5
-1
Q1-2000
Q3-2000
Q1-2001
Q3-2001
Q1-2002
Q3-2002
Q1-2003
Q3-2003
Q1-2004
Q3-2004
Q1-2005
Q3-2005
Q1-2006
Q3-2006
Q1-2007
Q3-2007
Q1-2008
Q3-2008
Q1-2009
Q3-2009
Q1-2010
Q3-2010
Q1-2011
GDP %Δ


M2
900,000.0
800,000.0
700,000.0
600,000.0
500,000.0
400,000.0
300,000.0
200,000.0
100,000.0
0.0
jan 01
jun 01
nov 01
apr 02
sep 02
feb 03
jul 03
dec 03
may 04
oct 04
mar 05
aug 05
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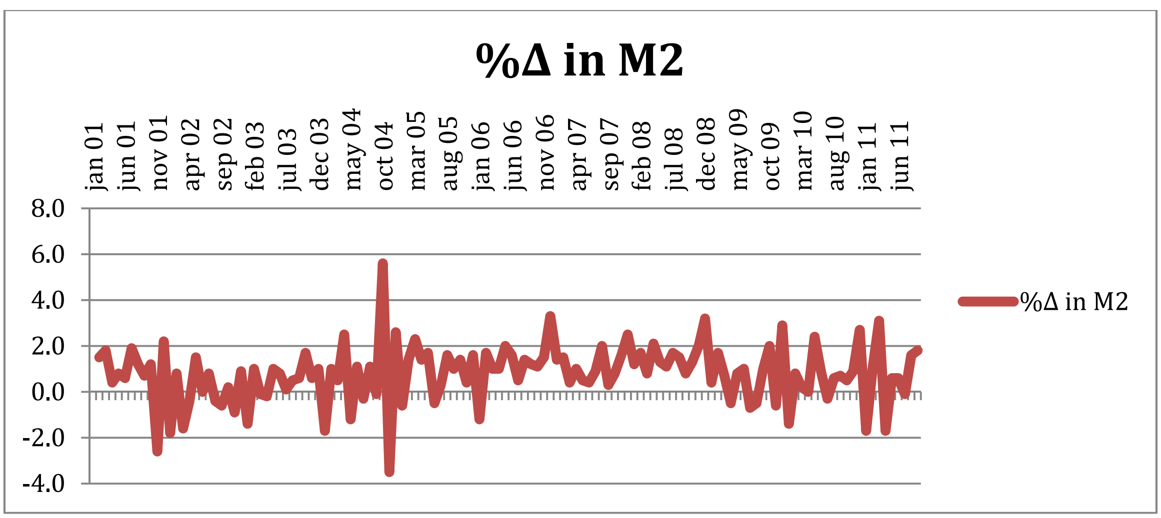
mar 10
aug 10
jan 11
jun 11
M2


%Δ in M2
jan 01
jun 01
nov 01
apr 02
sep 02
feb 03
jul 03
dec 03
may 04
oct 04
mar 05
aug 05
jan 06
jun 06
nov 06
apr 07
sep 07
feb 08
jul 08
dec 08
may 09
oct 09
mar 10
aug 10
jan 11
jun 11
8.0
6.0
4.0
2.0
0.0
-2.0
-4.0
%Δ in M2

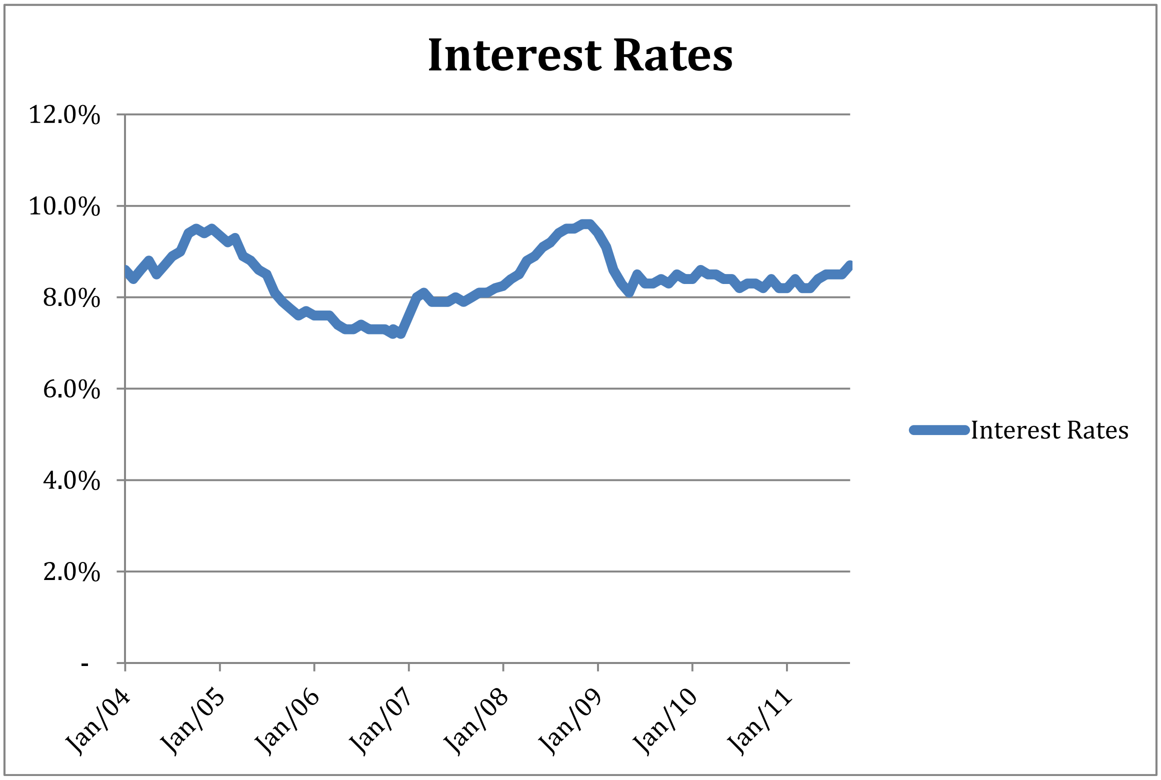
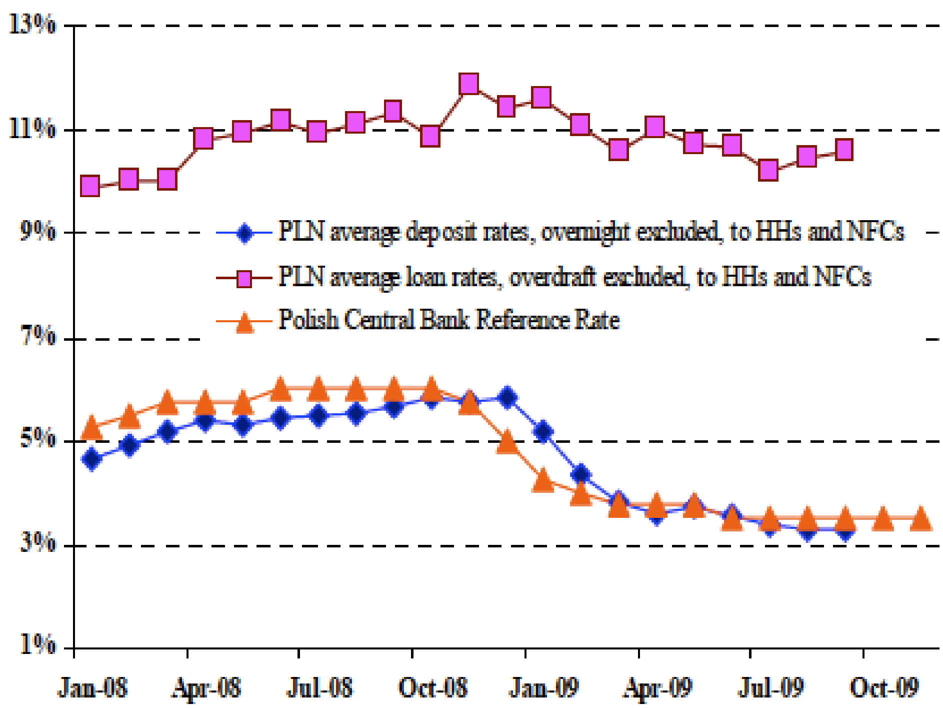
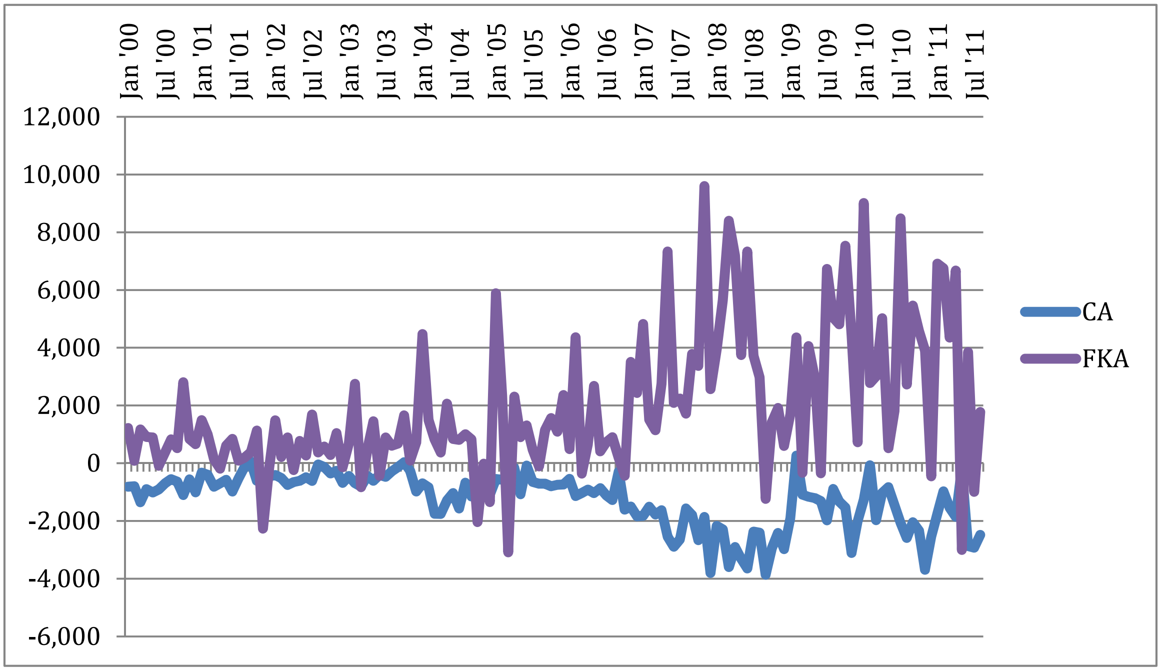


Chart 4: Average interest rates in the Polish economy



Source: Polish Central Bank (NBP)


Jan '00
Jul '00
Jan '01
Jul '01
Jan '02
Jul '02
Jan '03
Jul '03
Jan '04
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Jul '06
Jan '07
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Jan '09
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Jan '10
Jul '10
Jan '11
Jul '11
12,000
10,000
8,000
6,000
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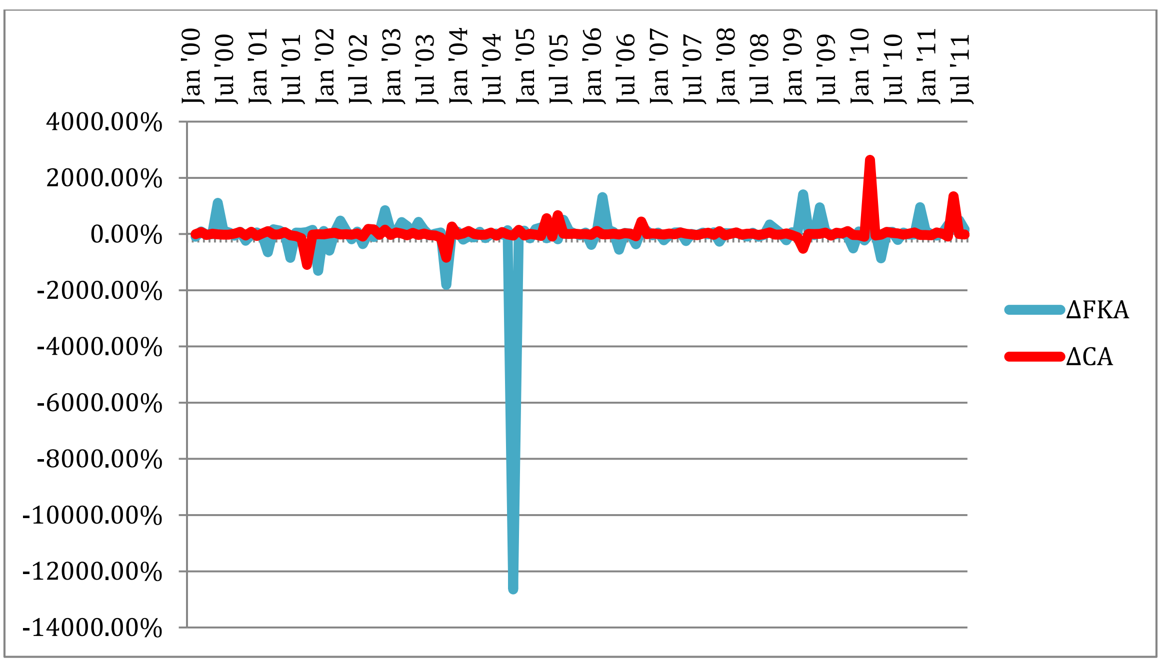
2,000
0
-2,000
-4,000
-6,000
CA
FKA


Jan '00
Jul '00
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Jan '04
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Jan '05
Jul '05
Jan '06
Jul '06
Jan '07
Jul '07
Jan '08
Jul '08
Jan '09
Jul '09
Jan '10
Jul '10
Jan '11
Jul '11
4000.00%
2000.00%
0.00%
-2000.00%
-4000.00%
-6000.00%
-8000.00%
-10000.00%
-12000.00%
-14000.00%
ΔFKA
ΔCA

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