Quarterly 1/99

POLISH ECONOMIC OUTLOOK
TRENDS • ANALYSES • FORECASTS

Summary

The policy of restricting domestic demand that has been applied since mid-1998 both by the government and the National Bank of Poland, coupled with a substantial decline in official and cross-border exports to CIS countries, were the most important factors behind slower economic growth than previously forecast in the 1998 budget (5.6 percent). We estimate that in 1998 GDP growth dropped to 4.8 percent from 6.8 percent in 1997, while **in 1Q99 it amounted to 1.6 percent. We therefore expect GDP growth of 3.7 percent in 1999 and 5.7 percent in 2000.**

In 1998 domestic demand increased 6.6 percent (as opposed to 9.3 percent in 1997), while individual consumption increased a slower rate (4.9 percent), and investment at a faster (14.5 percent). **In 1999 and 2000 domestic demand will diminish to 3.9 percent and 5.7 percent** respectively. Investment outlays will outpace GDP growth (8 and 12 percent respectively) while individual consumption will lag GDP growth rate (2.8 and 3.9 percent respectively).

Since mid-1998 the CPI inflation rate has been falling rapidly. Good harvests and a decline in food exports to the East has resulted in a surplus of food products as well as relatively low price increases. Moreover, lower commodity prices (in particular low fuel prices in world markets) has resulted in declining PPI. As a result CPI increased 6.2 percent YoY in March 1999. **We forecast that in the years 1999–2000 CPI will increase 6.7 percent YoY (i.e. 1.8 percentage points less than is assumed by the government) and 6.1 percent YoY respectively.**

The less-than-favorable economic conditions in the EU will not allow for a significant rise in Polish exports. However, we also envisage that the drop in domestic demand, together with lower growth in manufacturing output will result in a decrease in the growth of imports. **We therefore believe that the negative current account balance in 1999 will amount to US$ (-7.6) billion (i.e. 4.6 percent of GDP). The expected inflow of foreign investments will more than offset the negative current account balance and increase the official foreign currency reserves from US$27.4 billion at the end of 1998 to nearly US$29 billion at the end of 1999.**

The Center for Social and Economic Research – Foundation presents the first issue of 'Polish Economic Outlook – Trends, Analyses, Forecasts'. This bulletin is prepared by CASE economists. It comprises an appraisal of the current economic situation in Poland, internal and external determinants of Poland's economic development as well as the short- and medium-term outlook concerning basic macroeconomic variables.

The quarterly bulletin is available in a hard copy or in PDF file format. It is published both in Polish and in English.

The purpose of this bulletin is to carve out a niche in economic forecasting. We do hope it will provide a source of reliable economic data and objective recommendations for economic policy as well as warnings of potential threats.

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Quarterly 1/99

POLISH ECONOMIC OUTLOOK
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Assessment of the economic situation in the IQ99

GDP growth was, according to our estimates, lower in 1Q99 than in 4Q98 and, in our opinion, amounted to 1.6 percent. We think the most important reason for such a growth rate was the collapse in both official and informal cross-border exports to the countries of the Commonwealth of Independent States (CIS). This has also indirectly negatively influenced the level of domestic demand.

Trends in some basic macroeconomic variables reflected this decline in economic growth. Unemployment increased, but to a lesser extent than might otherwise be derived from data on registered unemployment. The dynamics of real wages, together with real disposable household income, were lower than in previous quarters. CPI dropped to 6.2 percent YoY in March. One should note, however, the weakening of the zloty, the acceleration in the growth of the money supply and the substantial budget deficit. The latter was associated with the extraordinary financing of social security and health reforms.

Overcoming the external shock

After a substantial decline in exports during the period extending from September to November, exports picked-up again in December 1998. We estimate that merchandise exports amounted to roughly US$7.1 billion in 1Q and were higher than in the previous year by 0.7 percent. For the sake of comparison, we may also state that export revenues in 3Q98 were higher than in 3Q97 by 11.2 percent, and lower in 4Q by 2 percent. In addition, it should be stressed that export growth was extremely strong in 1Q98 – exceeding 22 percent. While official exports were higher than in the previous year, the Russian crisis contributed to a substantial decline in cross-border exports. We estimate that the balance of unclassified current account (a proxy for net cross-border exports) deteriorated by nearly US$300 million in contrast to 1Q98, which was not the best quarter in this respect.

A relatively quick recovery from the external shock may be considered a success for Poland's export sector. It should be stressed that it happened at a time when Poland's most important trading partners were experiencing substantially reduced growth rates (Germany, Italy and the United Kingdom) or else were in a recession (the Czech Republic, Ukraine and Russia).

The manufacturing sectors were the hardest hit by the decline in external demand. After a 0.8 percent reduction YoY in the volume of sales in 4Q98, this level fell 3.1 percent YoY in 1Q99. However in March, after 5 consecutive months of declines in sales, it increased 3.5 percent in the mining, manufacturing, energy and water supply sectors as a whole, and 4.4 percent in the manufacturing sector alone.

Gross Domestic Product

We believe that the Russian crisis and the earlier crises in the countries of South-East Asia resulted in the collapse of commodity and semi-finished product prices in world markets. This, in turn, translated into a reduction in the

rate of growth of value added in manufacturing. In addition, this was followed by a reduction in the rate of growth of value added in other sectors of the economy.

We estimate that the value added in the whole economy increased 1.2 percent in 1Q, while in the industrial sectors it fell 2.7 percent. In the construction sector it grew 2.9 percent while in market and non-market services it rose 3.8 percent and 0.9 percent respectively.

Domestic demand

We estimate that domestic demand (the sum of private and public consumption and investments) increased 2.6 percent in 1Q99 versus 7.3 percent in 1Q98. The difference between the growth rates of domestic demand and GDP fell from 3.9 percentage points in 4Q98 to 1.3 percentage point in 1Q99.

We believe that the Polish economy has quickly adjusted itself to the slower growth resulting from the external shock. All components of domestic demand grew at a much slower rate than in 4Q98. The growth in household real incomes decreased, including wages and salaries as well as incomes of the self-employed (i.e. farmers and small entrepreneurs). Individual consumption increased 2.5 percent (4.6 percent in 4Q98). Public consumption dropped 1.3 percent (0.7 percent) and investment increased 6 percent (13.4 percent).

Foreign trade

A smaller-than-expected increase in domestic demand resulted in smaller-than-expected growth in imports (in comparison with 4Q98), while at the same time the growth in exports started to grow again. Thus, we estimate the balance of merchandise trade at over US$(-2.9) billion in 1Q99. This is roughly US$0.3 billion less than in the preceding year. On the other hand, the negative current account balance, which amounted to US$(-2.4) billion in 4Q98, is estimated at US$(-2.2) billion in 1Q99.

The deterioration in the current account in 4Q98, no major privatisation transactions, and a worse investment climate in emerging markets resulted in an outflow of portfolio investments in 1Q99. At the same time Polish banks and enterprises reduced their demand for foreign loans. FDI increased by over US$100 million in comparison with 1Q99 and amounted to over US$1.1 billion. The Polish Foreign Investment Agency estimates FDI at US$1.5 billion.

Consequently, official foreign currency reserves decreased from US$27.4 billion at end-1998 to US$26.6 billion at end-March 1999, although still sufficient to cover over 6 months of import expenditures.

Weakening of the zloty

A substantial deterioration in the current account balance in 4Q98 as well as a decrease in basic interest rates resulted in a weakening of the zloty. At the beginning of the year, the negative deviations of the average exchange rate of the dollar amounted to nearly 9 percent, whereas the rate of exchange fluctuated around the central parity between the limits of (-1.3) and (+1) percent in March. No further pressure on the exchange rate was observed.

The weakening of the zloty entailed a change in the currency structure of new loans drawn by Polish banks and enterprises. Demand for loans denominated in foreign currency declined while demand for zloty-denominated loans increased. Thus, a weakening of the zloty contributed to an increase in the demand for money, which rose over 27 percent in comparison with 1Q98 (i.e. this rate was about 2 percentage points higher than the average attained throughout the second-half of 1998).

Lower inflation

The different schedule in increases in state-controlled prices, as well as several factors contributing to lower inflation in the second-half of 1998 (the Russian crisis, oversupplied agricultural products, low fuel prices, strong zloty, etc.) led to a further decline in inflation during the first two months of 1999.

In February CPI grew 5.6 percent. This was the lowest increase since the beginning of the economic transformation. At the same time, it was nearly 3 percentage points lower than the annual average increase of 8.5 percent assumed in the government's budget. However, already in March inflation rose 6.2 percent due to increases in electric energy and fuel prices. A similar trend was observed in PPI. It increased 4 percent in 1Q.

Determinants of Poland's economic development

Prior to presenting Poland's economic outlook for 1999–2000, a discussion of Poland's external and internal constraints as well as the basic assumptions in our analysis is provided. We can differentiate between external and internal assumptions. The former include the level of business activity among Poland's key trading partners: the GDP growth rate, the rate of growth of imports in EU countries, LIBOR, etc. The latter concern issues such as changes in the supply of labour, employment in the public sector as well as the level of foreign debt servicing.

World economic outlook for 1999–2000[1)]

Economic growth

According to analysts, the development tendencies in the world economy will be much worse in 1999–2000 than in the

Table 1. GDP in selected countries, 1996–2000 (% change)

	Estimate			*Forecast*	
	1996	1997	1998	*1999*	*2000*
The World	**4.0**	**4.1**	**1.8**	***1.7***	***2.5***
OECD	**2.9**	**2.8**	**2.0**	***1.8***	***2.0***
USA	2.4	3.8	3.9	*3.5*	*2.0*
Canada	1.5	3.8	3.0	*2.8*	*2.2*
Japan	3.5	0.8	-2.9	*-1.5*	*-0.5*
European Union	**1.7**	**2.6**	**2.7**	***1.5***	***2.7***
Germany	1.4	2.3	2.5	*1.5*	*2.8*
France	1.5	2.3	3.2	*2.0*	*2.8*
Italy	0.7	1.5	1.4	*1.5*	*2.5*
United Kingdom	2.3	3.1	2.1	*0.0*	*2.5*
Russia	-5.0	0.9	-6.3	*-1.0*	*1.0*
China	9.6	8.8	7.8	*6.5*	*5.8*

Source: Estimate for the years 1996–98 IMF; simulation forecasts based on the McFair model developed at Yale University.

1) Economic forecasts discussed in this chapter represent the consensus of the most important forecasting centers of the Western world (i.e. the IMF, OECD, DIW, private investment banks, etc.).

preceding four years. In the years 1994–97 the average growth rate of the world's GDP amounted to about 4 percent, while in the OECD countries GDP grew at an average rate of 2.5 percent. Yearly GDP growth rates for the OECD, the EU and several other countries are given in Table 1. It is estimated that in 1998 the world's GDP grew at a lower rate, not exceeding 2 percent *per annum*.

As a result of crises in Russia and Brazil most forecasting centres lowered their estimates of economic growth, *inter alia* for EU countries. The reason for this was a weakening of world demand. Declining demand may also have a negative influence on the profits of enterprises. This in turn may cause a drop in investments and employment. There is also the danger of a collapse in consumer confidence leading to a reduction in private consumption. This may have a decisive influence on the level of domestic demand in the EU in 1999. It must be stressed, however, that consumer optimism increased in 1998 as well as in the beginning of 1999. Expectations concerning the level of investments are positive, mainly due to relatively low interest rates. In spite of less optimistic economic forecasts for the EU for the whole of 1999, we expect an acceleration of growth in the region in the second-half of this year.

In contrast to the situation prevailing in the EU, **a higher than anticipated rate of economic growth is expected in the USA in 1999**. This is a positive sign, since the thriving American economy will, to a certain extent, offset the slow pace of economic development in other parts of the world. As a consequence, US imports are expected to soar, whereas the potential for US exports are limited. This will provoke a further deterioration in the current account. At the same time, there is an increased probability of a slow-down in the US economy due to a corrective adjustment in stock prices anticipated by some experts.

Japan is expected to still be in recession in 1999. Up until now no effects from the fiscal adjustment package adopted by the Japanese government in April 1998, have been observed. There is, however, a possibility that Japan may start to extricate itself from the crisis by the middle of this year. The improvement in the situation may come about as a result of the adoption of the second adjustment package in November 1998.

Positive signs coming from some emerging markets in Asia suggest the beginnings of a slow recovery in those countries emerging from recession. The World Bank and IMF expect some economic growth in the five Asian economies hardest hit by the crisis. Unfortunately, these favourable forecasts do not apply to Latin American. A further decline in GDP in the region is expected (according to the IMF by 0.8 percent in 1999). It is worth stressing that one of the unfavourable factors influencing the economic situation in emerging markets, in particular Latin America, is the continued trend of low industrial commodity prices (see below).

The Chinese economy will also grow at a lower rate than that achieved in previous years. This is mainly due to the weakening of the economies of South East Asia as well as problems resulting from the slow restructuring of the state sector. However, it is still expected that the annual rate of China's economic growth will exceed 5 percent.

Following the collapse of economic growth in Russia in 1998, it is expected that only after the year 2000 will there be positive GDP growth in the country. The forecasts concerning the CIS countries have been revised downward once again at the beginning of 1999. It is expected that this may have a negative impact on the economies of Central Europe. Polish exports are therefore not expected to reach levels just prior to the Russian crisis earlier than the end of 1999.

Commodity prices

The economic crises in the countries of South East Asia in 1997–98, as well as the crisis in Brazil in 1998–99, led to a substantial decline in the prices of raw materials and semi-finished goods. This resulted from a sizeable decrease of both imports as well as industrial goods produced in those countries and exported to the markets of highly developed countries. In addition, a surplus in the supply of agricultural products boosted by a significant reduction of Russian imports, has contributed to a drop in the price of these products.

Experts from the Economist Intelligence Unit (EIU) expect a continuation of low industrial raw material prices this year. It is expected that these prices will achieve their lowest level in 3Q99. Long term forecasts expect an improvement in 2000 at the earliest. However, an increase in prices may only indicate an attainment of levels previously achieved in 1998. **In 1Q99 industrial raw material prices decreased 15 percent in comparison with the corresponding period of 1998,** while fibre prices decreased 20 percent and the price of non-precious metals 16 percent. In addition, prices of aluminium reached their lowest level in five years and copper prices their lowest in 12 years.

Oil prices are forecasted to rise in 1999. Increased demand and a reduction in output by the leading producers of

2.1 million barrels per day might be the primary reason. The increase in oil prices is also influenced by the prolonged conflict in Yugoslavia as well as sings pointing to dwindling oil reserves in the USA. EIU analysts expect the average annual price of a barrel of Brent oil to reach US$13.88. This is an improvement in comparison with the preceding year, but is still low level when taking into account the price of US$19.12 in 1997.

As a result of excessive sugar production (in particular in Brazil – the leading producer), and weakening demand in Russia, the price of sugar will decrease substantially in the near future. No increase in the price of wool and cotton is expected either, since decreasing demand for such fibres is apparent.

World inflation

Low commodity prices have resulted in substantial reductions in inflationary pressures both in developed and developing countries. We are of the opinion that this trend will continue. In accordance with many forecasters, we do not expect any renewed inflationary pressures in the years 1999–2000. This is reflected in forecasts for GDP deflator and CPI for selected countries given in Tables 2 and 3.

Interest rates

As a result of a weakening of economic growth, it is expected that nominal interest rates in the most industrialised countries will decrease. Some analysts even claim that there

Table 2. Deflator of GDP in selected countries, 1996–2000 (% annual change)

	Estimate			*Forecast*	
	1996	1997	1998	*1999*	*2000*
OECD	**1.5**	**1.4**	**1.0**	***1.1***	***1.2***
USA	2.2	2.0	1.0	*1.3*	*1.4*
Canada	1.3	0.5	-0.4	*0.2*	*0.9*
Japan	-0.1	0.5	0.4	*-0.7*	*-0.5*
European Union	**2.4**	**1.6**	**1.5**	***1.6***	***1.7***
Germany	1.0	0.6	0.9	*1.2*	*1.8*
France	1.6	1.0	0.7	*1.0*	*1.4*
Italy	4.4	2.6	2.6	*2.3*	*1.9*
United Kingdom	3.1	2.2	2.5	*2.0*	*2.0*

Source: Estimate for the years 1996–98– IMF; forecasts: simulation based on the Mc Fair's model developed at Yale University.

Table 3. CPI in selected countries, 1996–2000 (% annual change)

	Estimate			*Forecast*	
	1996	1997	1998	*1999*	*2000*
OECD	**2.0**	**2.0**	**1.2**	***1.1***	***1.2***
USA	2.9	2.3	1.6	*2.1*	*2.2*
Canada	1.6	1.6	1.0	*0.7*	*1.0*
Japan	0.1	1.7	0.6	*-0.6*	*-0.8*
European Union	**2.1**	**1.4**	**1.2**	***0.8***	***1.4***
Germany	1.3	1.7	0.9	*0.7*	*1.4*
France	2.0	1.2	0.7	*0.7*	*1.4*
Italy	3.8	1.8	2.0	*1.3*	*1.4*
United Kingdom	2.4	3.1	2.7	*2.0*	*1.6*
Russia	47.7	14.8	27.7	*102.0*	*28.0*
China	8.3	2.8	-0.8	*-1.0*	*0.5*

Source: Estimate for the years 1996–98– IMF; forecasts: simulation based on the Mc Fair's model developed at Yale University.

will be a much sharper decrease in the price of money. However when considering wage pressures in some countries such a scenario seems unlikely. Our assumptions concerning the level of interest rates are given in Table 4.

Foreign Trade

During the last 3 years the situation in global trade was differentiated. In the1996–1997 period the world economy was stimulated by the growth of domestic demand in the USA, and in 1998 this was accompanied by faster economic growth in the EU, resulting in stronger import growth in those countries (see Table 5).

At the same time imports in the countries of South East Asia decreased in 1997–1998. This resulted in a more than twofold decrease in the growth of world imports in 1998. The anticipated weakening of the world economy in 1999, in particular in OECD countries, will not allow for an acceleration of growth in imports. A recovery in global trade is expected only after the year 2000.

Exchange rates

The Euro weakened against the US dollar in 1Q99. This resulted firstly from a higher-than-expected economic growth

Table 4. Long-term interest rates in selected countries, 1996–2000 (%)

	Estimate			*Forecast*	
	1996	1997	1998	*1999*	*2000*
USA	6.4	6.3	5.3	*5.0*	*4.5*
Canada	7.2	6.1	5.3	*4.9*	*4.8*
Japan	3.0	2.3	1.5	*2.3*	*2.8*
Euro	6.2	5.7	4.7	*3.9*	*3.7*
United Kingdom	7.8	7.0	5.5	*4.6*	*4.0*
LIBOR (USD/year)	5.6	5.9	4.8	*4.6*	*4.2*

Source: Estimate for the years 1996–98– IMF; forecasts: simulation based on the Mc Fair's model developed at Yale University.
Notes: 1. Long-term interest rates concern the 10 years long treasury bills.
2. Euro – 11 countries of the Euroland launched January 1 1999.
3. LIBOR – 6 months rate.

Table 5. The volume of imports of goods and services in selected countries, 1996–2000 (%)

	Estimate			*Forecast*	
	1996	1997	1998	*1999*	*2000*
The World	**6.1**	**9.1**	**3.7**	***3.2***	***4.0***
OECD	**6.2**	**7.8**	**6.8**	***3.0***	***3.0***
USA	6.4	14.3	10.6	*7.0*	*4.0*
Canada	5.1	12.6	6.4	*3.5*	*3.0*
Japan	10.3	2.1	-7.7	*-2.0*	*-1.0*
European Union	**2.6**	**6.0**	**7.7**	***1.5***	***3.5***
Germany	2.8	6.1	6.1	*1.9*	*4.0*
France	2.2	6.2	8.0	*3.0*	*4.5*
Italy	-2.0	3.6	6.1	*-2.5*	*4.0*
United Kingdom	7.8	8.3	8.4	*-0.6*	*0.8*
Russia	10.0	11.0	-16.0	*-23.0*	*4.0*
China	14.0	12.0	-3.8	*2.0*	*6.0*

Source: Estimate for the years 1996–98 – IMF; forecasts: simulation based on the Mc Fair's model developed at Yale University rate in the USA and a lower-than-expected rate in the EU. Aside from this, there were some expectations concerning a tightening of monetary policy in the USA. In the same period there were strong fluctuations in the dollar-yen exchange rate. Presently, it is difficult to predict in which direction changes will unfold. Taking into consideration favourable business activity in the USA and continued recession in Japan, it can be expected that the dollar is likely to get stronger against the yen. We also anticipate that some strengthening of the Euro against the dollar in the second-half of 1999 (see Table 6). This may happen given the anticipated acceleration of economic growth in the EU and corrective adjustments in American stock prices.

substantial increase in the demand for money as well as increased unit costs in the manufacturing sector) may raise concerns for macroeconomic stability.

The forecast period analysed in this report is up to the year 2000. Detailed assumptions are given in Table 7.

In our forecast we assumed a gradual pick-up in Polish exports to Russia and Ukraine. At the same time, the deterioration in economic activity in EU countries forced us to revise our previous assumptions concerning exports to the region. We believe, however, that in the second-half of 1999 demand for Polish goods in EU countries will grow faster than in the first-half. This is likely to happen primarily as a result of the adaptation of Polish enterprises to the new economic condition and as a result of the expected improvement in the economic situation in EU and CIS countries.

Table 6. The exchange rate of the Euro and the yen in relation to the dollar, 1996–2000

	Estimate			*Forecast*	
	1996	1997	1998	*1999*	*2000*
Euro	–	–	1.11	*1.11*	*1.16*
Jen	109	121	131	*125*	*132*

Source: Estimate for the years 1996–98 – IMF; forecasts: simulation based on the Mc Fair's model developed at Yale University

Foreign investment

A further development which could impact negatively macroeconomic variables has to do with the turmoil in capital and foreign exchange markets. The collapse of the economies of Asia and Russia resulted, according to the IMF, in a reduced supply of capital to emerging markets. This had particularly acute effects in Asian and CIS countries. To a certain extent, the lower supply of capital may entail reduced interest in investments in Central European countries, including Poland. Its impact, however, may not be as significant here because Poland has so far maintained a stable economic framework and is in a much better situation than other emerging markets.

Assumptions of the forecast – domestic environment

The analysis of basic macroeconomic aggregates indicates that following a suppression of domestic demand in 1Q98, the unfavourable level of world economic activity may lead to a deepening of tensions in Poland's economy. Developments in some basic indicators (rapidly increasing domestic demand and foreign trade deficit, increased credit extension of banks,

Our forecast assumes (optimistically) that the situation in the world financial and capital markets will not be subject to any major disturbances. At the same time, we believe Western investors will differentiate Poland from other transition economies, primarily because of its sound macroeconomic foundations and consistent economic policies.

We would like to point out that the probability of a worldwide recession is, at present, much smaller than a year ago. We are of the opinion, however, that if a recession starts in the USA then according to the world business cycle Europe will feel its impact only after some 9 or 12 months. This means that the impact of a possible world recession on Poland's economy could eventually become visible only after the year 2000.

We assume that the short-term economic policy of the government will be to offset the anticipated drop in exports growth with the maintenance of a relatively high level of domestic demand. Our forecast is based on four assumptions concerning economic policies:

Table 7. Assumptions in the forecast

Specification	Years 1999–2000
Obligatory servicing of indebtedness towards the Paris and London Clubs	Annual interest payments of US$1.4 billion
Increase in the volume of imports by the EU countries	See Table 2
Average LIBOR (US$, year)	See Table 4
Increase in the labour resources in Poland	0.4 do 0.5 percent per year
Increase in the number of people who are either retired or receive disability allowances in Poland	1.5 to 2.3 percent per year
Average customs duty	Gradually decreasing to 0 percent in trade with the EU and with other countries remaining at the level of 1997
Exchange rate policy	Until the end of 1999 crawling-peg and then market exchange rate
Transfers from the EU	USD 0.2–0.5 billion
Inflow of FDI (per year)	USD 4.5–8.0 billion in balance of payments terms
Privatisation	Acceleration of privatisation and its final conclusion in the year 2001
Social security system	Preservation of price indexation
Tax rates	Maintenance of rates applied in the year 1998
Employment in the public sector (financed from the central government budget)	Increase by 0–0.3 percent annually

Source: CASE.

(i) we assume that after the basic interest rate cuts in January 1999, the National Bank of Poland (NBP) will further reduce rates in the second-half of the year,
(ii) for NBP the most important objective will be the inflation rate,
(iii) budgetary policy will try to minimise the financing of the budget deficit by the domestic financial system,
(iv) the present exchange rate regime will be maintained with the possibility of gradual reduction of the monthly crawling-peg to 0.3 percent in the first half of the year and 0 percent at the end of the year.

We optimistically assume that the central government budget will not be revised. We believe that possible financial shortfalls related to an underestimation of the costs of social reform, in particular health may be covered thanks to the revenue acquired as a result of an acceleration of privatisation.

Center for Social
and Economic Research

Analysis of economic situation and outlook for 1999–2000

Domestic demand

The rate of economic growth (measured by GDP) started to decrease in mid-1997. After a record performance in the first-half of 1997, when GDP increased by 7.1 percent in comparison with the corresponding period in 1996, the growth rate has decreased since the second-half of 1997. It fell to 6.5 percent in the second-half of 1997 and to 5.9 percent in the first-half of 1998. It further declined to 3.8 percent in the second-half of 1998. Growth throughout 1998 grew 4.8 percent in contrast to 6.8 percent in the previous year. The rate of GDP growth kept on declining in 1Q99. According to our estimates, it amounted to 1.6 percent. It is important to note that for the fist time the Central Statistical Office (CSO) revised GDP figures so as to take into account the 'shadow economy' in 1998. This increased GDP estimates in current prices by some 7 percent.

Between mid-1995 and 3Q97 the growth of the Polish economy was stimulated by domestic demand. We define this as the sum of private consumption (i.e. the sum of consumption expenditures made by households and non-commercial institutions), public consumption (consumption expenditures made by central and local government institutions), and investments (the investments include both gross outlays for fixed assets and intangible values). The influence of external factors increased between 4Q97 and 1Q98 due to positive developments in the economies of the EU. There proved favourable to the Polish economy. From the end of 3Q98, when Polish exports to Russia suffered a major setback as a result of the Russian crisis, economic growth was stimulated once again by domestic demand.

The decrease in the rate of growth by 2 percentage points in the second half of 1998 was due, on the one hand, to the measures implemented by the NBP and, on the other to the measures applied by the government since 4Q97 to restrict domestic demand. These measures proved to be effective only in 2Q98. Their effect was to a certain extent tempered by a still high investment demand (detailed data concerning the rate of growth of basic elements of aggregate demand are given in Table 8). We estimate that these measures reduced the rate of economic growth by approximately 1 percentage point. Meanwhile, the collapse in exports to Russia and other East European countries resulted in a drop in the total value of exports and a reduction in the rate of growth by a further 1.5 percentage points.

Following a period of rapid growth in domestic demand in 1996–97 (over 9 percent *per annum*) the rate of growth decreased to 7.3 and 6.0 respectively during the first two quarters 1998, and since then increased to 6.2 and 6.8 percent in 3Q and 4Q quarters respectively.

The analysis of trends in the basic macroeconomic aggregates in 1Q99 indicates that the Polish economy has adjusted quickly to the decline in the rate of economic growth brought about by the external shock. We estimate that the rate of growth in domestic demand substantially decreased in 1Q99 – to a level of 2.6 percent.

We believe that the tendency of a much higher rate of growth of domestic demand than that of GDP since the end of 1995 come to the end in the first-half of 1998. **We estimate that in the first two quarters of 1998 the difference between the two rates of growth amounted to 0.9 and 0.7 percentage points respectively. However, the external shock resulting from the Russian crisis led to a further (and more dangerous) widening of the gap between the rate of growth in GDP and that of domestic demand. It started to increase already in 3Q and in the last quarter the gap amounted to 3.9 percentage points. A substantial cooling down of domestic demand in 1Q99 facil-**

Table 8. Components of the aggregate demand, 1996–2000

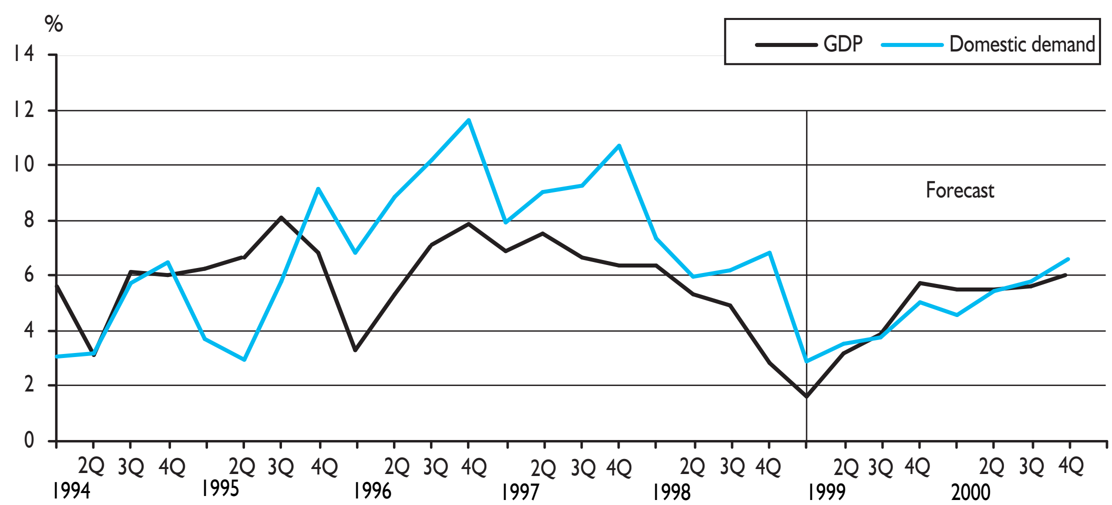
Periods		GDP	Domestic demand	Individual consumption	Public consumption	Investments in fixed assets
Estimate						
1996	1Q–4Q	6.0	9.5	8.2	3.4	19.7
1997	1Q–4Q	6.8	9.3	6.9	3.2	21.7
1998	1Q–4Q	4.8	6.6	4.9	1.6	14.5
Forecast						
1999	*1Q–4Q*	*3.7*	*3.9*	*2.8*	*0.6*	*8.5*
2000	*1Q–4Q*	*5.7*	*5.7*	*3.9*	*1.1*	*12.3*
Estimate						
1996	1Q	3.3	6.9	6.9	2.4	12.9
	2Q	5.3	8.8	7.0	5.4	20.1
	3Q	7.1	10.2	8.1	3.4	25.2
	4Q	7.9	11.6	10.8	2.4	19.1
1997	1Q	6.9	7.9	6.7	3.3	19.6
	2Q	7.5	9.0	7.1	3.9	21.0
	3Q	6.7	9.3	7.0	3.6	21.2
	4Q	6.4	10.7	6.6	2.1	23.2
1998	1Q	6.4	7.3	6.4	2.2	17.3
	2Q	5.3	6.0	4.2	1.9	15.0
	3Q	4.9	6.2	4.5	1.7	14.4
	4Q	2.9	6.8	4.6	0.7	13.4
1999	1Q	1.6	2.9	2.5	1.3	6.0
Forecast						
	2Q	*3.2*	*3.5*	*2.8*	*0.3*	*7.9*
	3Q	*3.9*	*3.8*	*2.9*	*0.1*	*8.4*
	4Q	*5.7*	*5.0*	*3.0*	*0.6*	*10.0*
2000	*1Q*	*5.5*	*4.6*	*3.5*	*0.9*	*11.9*
	2Q	*5.5*	*5.5*	*4.0*	*1.0*	*12.5*
	3Q	*5.6*	*5.8*	*4.2*	*1.2*	*12.3*
	4Q	*6.0*	*6.6*	*4.0*	*1.5*	*12.2*

Source: Data for 1996–97 – "Statistical Yearbook of the Republic of Poland 1998", CSO; data for 1998, quarterly estimates and forecasts-CASE's calculations.
Notes: 1. Data are in 1997 prices.
2. Percent YoY change.
3. Domestic demand is defined as the sum of private consumption (individual consumption and consumption of non-commercial institutions), public consumption and investments. The Table does not show separately the consumption of non-commercial institutions.
4. Data are not seasonally adjusted.

itated a reduction of the gap between the two rates of growth again, to a level comparable to that achieved in the first-half of 1998.

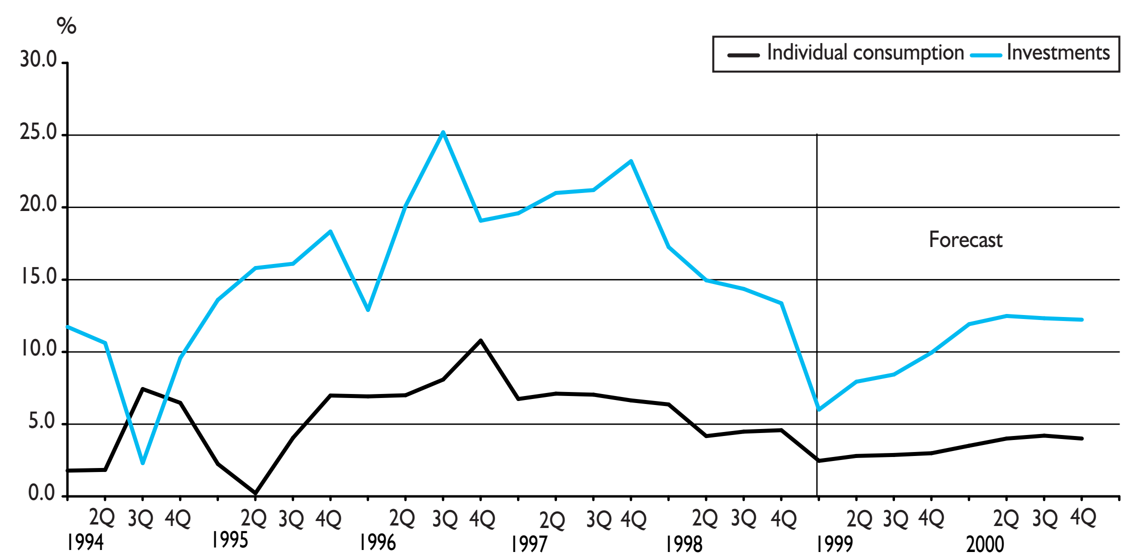
The increase in domestic demand in 1998, and in 1Q99, was, primarily, a result of the increase in investment and consumption. The level of investment outlays remains at a high level, even though their rate of growth has slowed down. Like in 1997, the rate of growth of investment outlays for buildings and construction remained at a high level. This was particularly true in relation to the projects realised by large companies. The rate of growth of purchases of machinery and transport equipment was also high, even if somewhat lower than in 1995–96. High rates of growth of investments were possible mainly due to the favourable financial results of enterprises, relative decline in prices of investment purchases (mainly as a result of the appreciation of the zloty and thus lower import costs), foreign investments and increased credit financing.

Figure 1. GDP and domestic demand, 1994–2000 (% change)



Source: CSO and CASE.
Note: Starting from 1Q99 – forecast.

Figure 2. Individual consumption and investments, 1994–2000 (% change)



Source: CSO and CASE.
Note: Starting from 1Q99 – forecast.

We estimate that household consumption (individual consumption) increased 4.9 percent in 1998 in comparison with the previous year and grew at a somewhat higher rate than GDP. This lower growth was due to two factors: a higher propensity to save and a slower growth in household real incomes. Consumption in 2Q98 grew at its slowest rate – it amounted to 4.2 percent (in 1Q it grew at a rate of 6.4 percent). In 2Q one could note an increase in the rate of growth of individual consumption, mainly due to the higher than expected growth of real incomes of households as a result of the decline in the inflation rate.

We estimate that in 1Q99 the growth of individual consumption decreased. This was the result of a decline in the growth of real incomes (stemming from a lower rate of economic growth) and an increase in the propensity to save (from 11.6 percent in the first quarter 1998 to 13.2 percent). We think that it is unlikely that such a favourable trend of increasing propensity to save can be sustained in the following years.

Public consumption grew at a decidedly lower rate than other elements of domestic demand in 1998. Its rate was also substantially lower than in 1997. The rate of public consumption was particularly low in the second-half of the year. It amounted to some 1.2 percent. We believe that in 4Q it grew 0.7 percent in comparison with the corresponding period of the previous year, to reach 1.3 percent in 1Q99. Detailed data are given in Table 8.

We expect the rate of GDP growth to slow to 3.7 percent in 1999. Our forecast is thus more pessimistic than the one of 5.1 percent assumed in the budget. The first half of the year will be much worse, when the rate of economic growth may decrease to 2.4 percent. The increase in the rate of growth in the second half of the year, when no major development-enhancing impulses are expected, will be mainly due to the maintenance of growth tendencies similar to those prevailing in 1Q. Starting from the second-half we expect export-enhancing developments and a revival of domestic demand. This will contribute to a renewed acceleration of economic growth. We expect GDP to grow 5.7 percent in 2000.

The growth of domestic demand will decrease to 3.9 percent in 1999 and to 5.7 percent in 2000, from 6.6 percent in 1998. The investment outlays will grow at the highest rate – amounting to more than 8 and 12 percent respectively. Individual consumption will grow at a lower rate than in 1998 (amounting to 2.8 percent in 1999 and 3.9 percent in 2000 respectively). This means that the gap between the rates of growth of domestic demand and of GDP will narrow in 1999 (as in 1998).

The influence of particular components of aggregate demand on GDP is shown in Table 9. The contribution of consumption to GDP growth had been gradually diminishing in 1996–98. We expect further decrease to 1.7 percent in 1999 and an increase of 2.4 percent in 2000. GDP grew by 3.4 percent in 1998 thanks to investments, thus it grew faster than individual consumption and we expect that in 1999 their impact will decrease to 2.2 percent and in the year 2000 grow again to 3.3 percent. A substantial decline in export growth in

Table 9. Composition of GDP growth, 1996–2000 (%)

Periods	Individual consumption	Public consumption	Investments in fixed assets	Investment in inventories	Foreign trade balance	Exports	Imports
Estimate							
1996 1Q–4Q	5.0	0.6	3.6	0.1	–3.4	2.8	–6.1
1997 1Q–4Q	4.3	0.5	4.5	0.1	–2.6	3.0	–5.6
1998 1Q–4Q	3.1	0.3	3.4	0.1	–2.1	1.2	–3.3
Forecast							
1999 1Q–4Q	*1.7*	*0.1*	*2.2*	*–0.1*	*–0.3*	*1.3*	*–1.6*
2000 1Q–4Q	*2.4*	*0.2*	*3.3*	*–0.1*	*–0.2*	*3.1*	*–3.3*

Source: CASE.
Note: Composition of GDP growth was calculated according to the following formula:
*(annual increase of X / annual increase in GDP) * rate of growth of X.*

the last 4 months of 1998 resulted in the lowest contribution of exports to GDP since 1991. The negative impact of imports has also decreased. Overall, the effect of foreign demand was negative and amounted to (-2.1) percent. We expect that in the following two years the negative effect of foreign demand will lower to some 0.2 percent in 2000 because of a relatively slower import growth.

The policy of restricting demand caused a decrease in the growth of household real incomes (see Table 10). We estimate real incomes grew by nearly 6 percent in 4Q98, i.e. at a rate more than 2 percentage points lower than the one attained on average in 1997. Real wages and salaries increased at a somewhat slower rate than real incomes We estimate they grew 5.3 percent YoY. Moreover, we estimate average gross real wages and salaries (for the total labour force) were 4 percent higher (YoY). Their growth rate was smaller than in 1997 by about

Table 10. Household disposable income, 1996–2000

Periods		Disposable income	Wages and salaries	Social security benefits	Savings rates	Real disposable income
		% change	% change	% change	%	% change
Estimate						
1996	1Q–4Q	24.9	30.7	23.2	12.8	4.2
1997	1Q–4Q	23.4	23.8	19.7	13.4	7.4
1998	1Q–4Q	16.8	17.3	15.3	13.2	4.5
Forecast						
1999	*1Q–4Q*	*8.8*	*10.7*	*9.9*	*12.3*	*2.0*
2000	*1Q–4Q*	*11.8*	*10.1*	*8.6*	*12.9*	*5.3*
Estimate						
1996	1Q	24.7	34.8	25.6	14.2	3.4
	2Q	26.3	38.8	20.1	11.8	5.3
	3Q	23.5	31.7	22.7	10.5	2.9
	4Q	25.0	24.3	25.2	14.4	5.0
1997	1Q	22.0	23.0	19.0	12.4	4.1
	2Q	24.6	19.8	22.4	13.0	8.2
	3Q	24.2	25.5	22.3	12.3	8.7
	4Q	23.0	22.7	16.6	15.7	8.6
1998	1Q	20.2	20.9	17.0	11.6	5.5
	2Q	16.3	17.9	15.4	12.5	2.9
	3Q	15.6	15.5	14.1	11.8	3.9
	4Q	15.6	15.0	14.9	16.8	5.9
1999	1Q	10.9	13.0	12.7	13.2	4.4
Forecast						
1999	*2Q*	*7.5*	*11.9*	*9.0*	*10.7*	*0.9*
	3Q	*8.6*	*10.7*	*9.5*	*10.4*	*1.3*
	4Q	*8.9*	*7.4*	*8.7*	*15.7*	*1.8*
2000	*1Q*	*9.9*	*9.6*	*8.2*	*12.9*	*3.1*
	2Q	*11.2*	*10.0*	*9.4*	*11.4*	*4.8*
	3Q	*11.9*	*10.4*	*8.0*	*11.5*	*5.5*
	4Q	*10.6*	*10.6*	*8.5*	*16.1*	*4.5*

Source: CSO and CASE.
Notes: 1. Percent YoY increase.
2. Savings rate expressed as a percent of nominal disposable income.

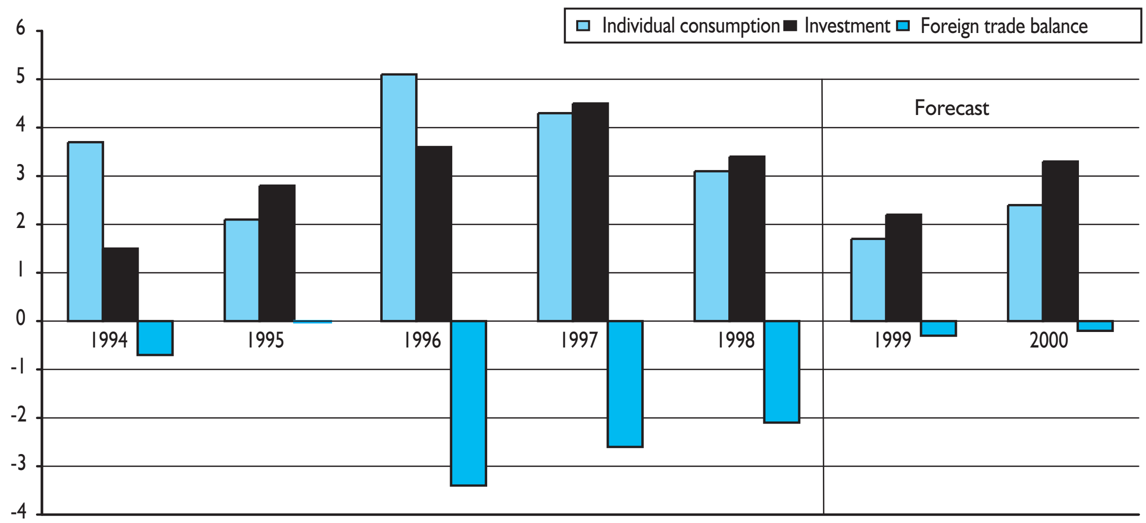
1 percentage point. Real income from social security benefits increased over 2 percent YoY.

Real household incomes of increased 4.4 percent in 1Q99, mainly due to the increase in real wages and salaries by 6.4 percent and real social security benefits by 6.1 percent.

We expect a lower rate of growth of real incomes in 1999, mainly as a result of a faster decline in nominal incomes than in inflation (see below for more comments). Lower real incomes will stem from the slowdown of economic growth. A further increase in real incomes is expected at the beginning of the year 2000.

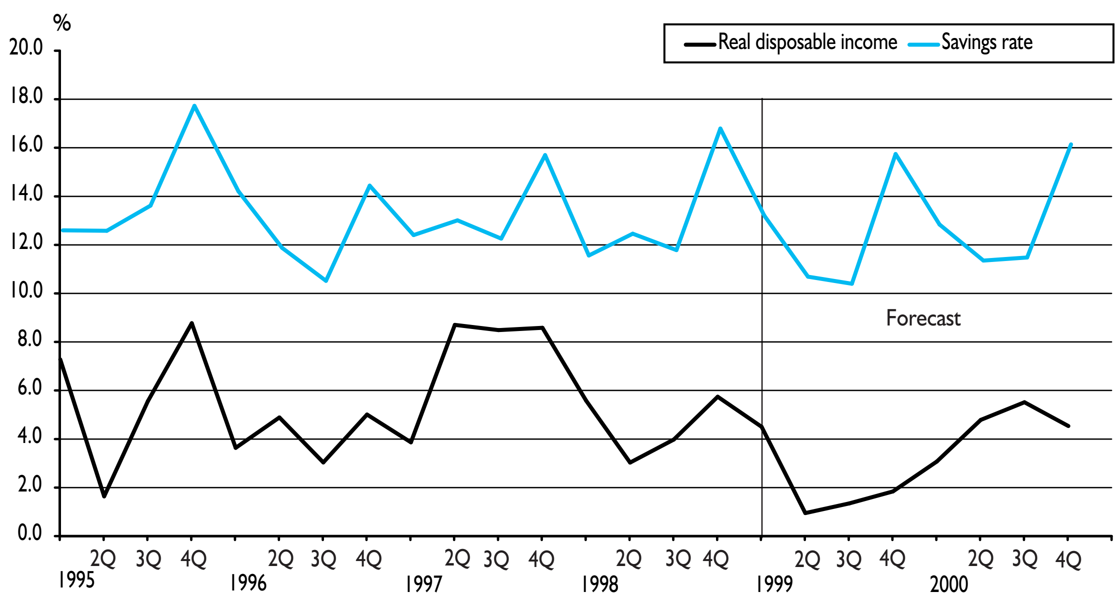
During the period under consideration the propensity of households to save will be reduced, mainly as a result of lower nominal and real interest rates.

Figure 3. Composition of GDP growth, 1994–2000 (%)



Source: CASE.
Note: Starting from 1Q99 – forecast.

Figure 4. Increase in household real disposable income and savings rate, 1995–2000 (%)



Source: CSO and CASE.
Note: Starting from 1Q99 – forecast.

Value added

In 1Q99 the rate of GDP growth was the lowest since 3Q93 and, if we disregard the effects from the introduction of the VAT, the lowest since 3Q92. Total value added increased by 1.2 percent.

The value added in non-agricultural sectors (i.e. excluding agriculture, forestry, hunting, offshore and inland fishing) was 1.1 percent higher than in 1Q98. Market services, covering areas such as trade, telecommunications (3.8 percent increase), and construction (2.9 percent increase) rose at a higher rate than average. Value added in non-market services grew at a lower rate than average (see Table 11).

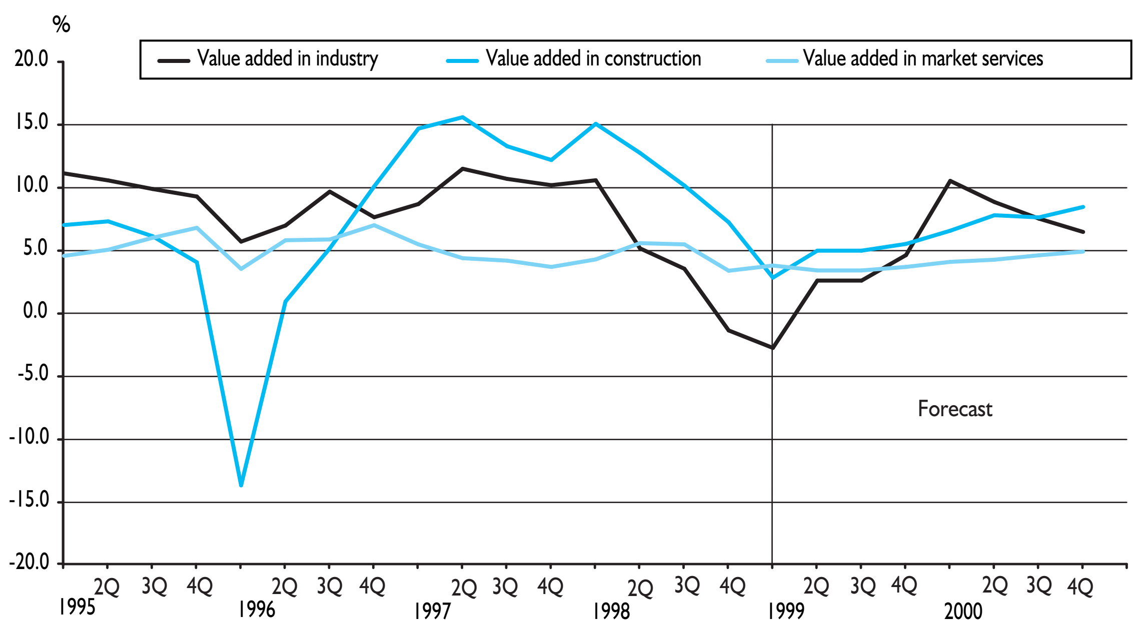
In 4Q98 the volume of sales by companies with more than 5 employees decreased by 0.8 percent in comparison with the corresponding period of the previous year. The growth of sales throughout the year amounted to 4.8 percent (see Table 12). During the first three quarters the decrease in output was due to developments in the mining industry (sales decreased by 20, 16 and 10 percent respectively). In the last quarter it was the manufacturing industry which was most affected by the collapse in exports to the East.

They decreased 0.8 percent in contrast to the corresponding quarter of 1997. Furthermore, we estimate that in 1998 the value added for the mining, manufacturing and energy sectors was 4.2 percent higher than in 1997.

In 1Q99 the sales decreased again by 3.1 percent. In March, however, for the first time in 5 months, an increase by 3.5 percent was registered, while the manufacturing industry as a whole increased sales 4.4 percent. Like in 4Q98 the value added in industry decreased (2.8 percent). This was particularly visible in the manufacturing sector.

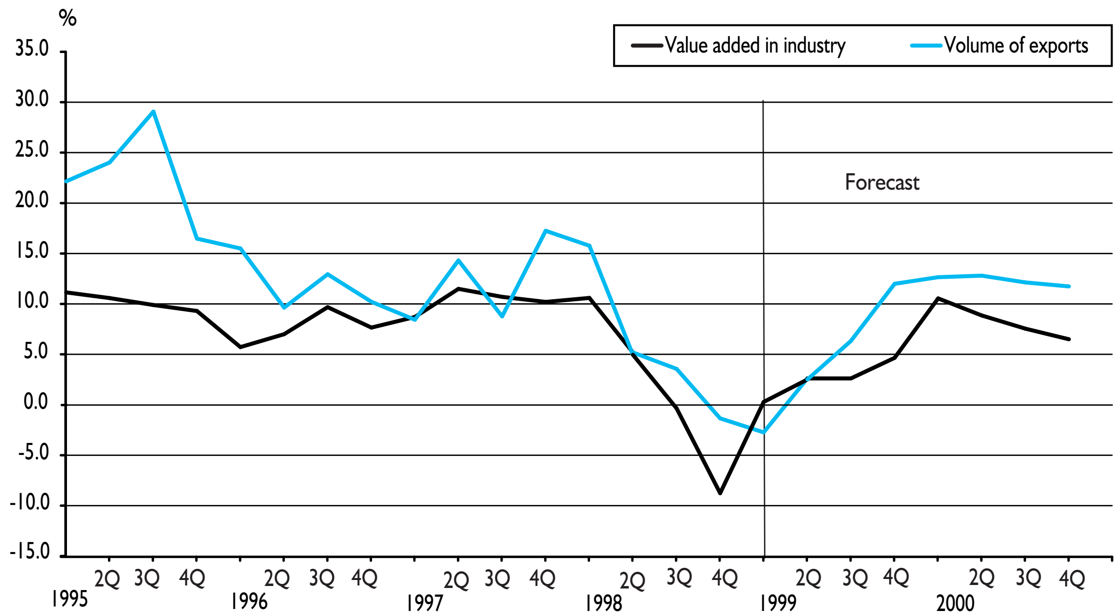
The level of construction and assembly activities carried out by large companies (i.e. those with more than 20 employees) was still quite high. In 4Q98 it was, according to CSO, 4.4 percent higher than in the preceding year and grew 11.6 percent in the year as a whole (see Table 12). We estimate that the value added of all building enterprises (including informal construction undertaken by households and smaller companies) increased in the same period by 10.3 percent. In 1Q99 the value added grew 2.9 percent.

Figure 5. Value added in major sectors of the national economy, 1995–2000 (% change)



Source: CSO and CASE.
Note: Starting from 1Q99 – forecast.

Figure 6. Value added in industry and volume of exports, 1995–2000 (% change)



Source: CSO and CASE.
Note: Starting from 1Q99 – forecast.

Large commercial companies with more than 20 employees were developing their activities in similar manner to 1997. CSO estimates that in 4Q98 retail sales in these companies grew some 9 percent. The sales turnover in 1Q99 grew at a similar rate. This is, however, a lower growth rate than the one achieved in the preceding quarters (the sales volume grew 15.0 percent in 1Q98,13.8 percent in 2Q and17.5 percent in 3Q). The decrease in the growth of retail sales in 4Q98 may be partly explained by the extremely high rate of growth in retail sales in 4Q97, when they rose 32.0 percent. According to our estimates, the value added in trade grew over 5 percent in 1998 and over 4 percent in 1Q99.

The demand for transport services was lower, mainly due to the drastic drop in coal transports and lower exports (and thus lower transport turnover) to the East (see Table 12). Communications (mainly telecommunication services) continued to grow at a fast pace. We estimate that the value added in the transport and communications sectors grew nearly 7 percent in 1998, whereas in the transport sector alone less than 2 percent. In 1Q99 the value added in transport diminished over 3 percent, and in the communications sector 9 percent.

The value added in non-market services (defined as the sum of value added in services provided by the administration, education and health services) increased 0.1 percent in 1998, while in the last two quarters it went down 1.1 and 0.9 percent respectively.

We expect the growth rate of total value added to drop from 4.4 percent in 1998 to 3.3 percent in 1999, while in the non-agricultural sectors from 4.3 to 3.6 percent respectively. In 2Q and 3Q one can expect a low rate of growth (2.8 and 3.4 percent respectively). This will only start to increase again in 4Q. It will reach 5.4 percent in 1999, but in the second-half of the year the growth rate will be higher than in the first one. An improvement will be possible thanks to the expected higher growth rate in the value added in industry (in 1999–2000 it will grow 3.9 and 7.5 percent respectively) and in the building sector (where it will grow 5.4 and 8.4 percent respectively).

It should be stressed that in the first-half of 1999 growth in value added in industry and in the building sector will be extremely low and may decisively influence the level of activity in other sectors of the Polish economy.

The expected growth rate in value added in market services will be more stable than in the other sectors of the economy. It will amount to 3.8 percent in 1999 and 4.9 percent in 2000. It will not differ much from the trends observed in 1996–98, when value added in market services increased 4.4 and 5.6 percent YoY. We expect that communications,

Table 11. GDP and value added in major sectors of the economy, 1996–2000 (% change)

Periods		GDP		Value added				
				Total	Industry	Construction	Market services	Non-market services
		billion zloty	%	%	%	%	%	%
Estimate								
1996	1Q–4Q	385	6.0	5.3	7.5	2.8	5.6	2.6
1997	1Q–4Q	469	6.8	6.4	10.3	13.6	4.4	2.8
1998	1Q–4Q	550	4.8	4.4	4.2	10.3	4.6	0.1
Forecast								
1999	*1Q–4Q*	*611*	*3.7*	*3.3*	*3.9*	*5.4*	*3.8*	*1.0*
2000	*1Q–4Q*	*685*	*5.7*	*5.4*	*7.5*	*8.4*	*4.9*	*1.5*
Estimate								
1996	1Q	83	3.3	3.0	5.7	–13.6	3.8	2.8
	2Q	91	5.3	5.2	7.0	1.0	5.1	2.6
	3Q	98	7.1	6.3	9.7	5.2	5.3	2.6
	4Q	113	7.9	6.5	7.7	10.1	8.4	2.3
1997	1Q	103	6.9	6.4	8.7	14.7	5.5	1.7
	2Q	112	7.5	6.7	11.5	15.6	4.4	3.2
	3Q	118	6.7	6.4	10.7	13.3	4.2	3.8
	4Q	136	6.4	6.3	10.2	12.2	3.7	2.7
1998	1Q	123	6.4	6.1	10.6	15.1	4.3	2.2
	2Q	133	5.3	5.0	5.2	12.8	5.6	0.0
	3Q	139	4.9	4.5	3.6	10.2	5.5	–1.1
	4Q	156	2.9	2.3	–1.3	7.3	3.4	–0.9
1999	1Q	133	1.6	1.2	–2.7	2.9	3.8	0.9
Forecast								
1999	*2Q*	*147*	*3.2*	*2.8*	*2.6*	*5.0*	*3.4*	*1.3*
	3Q	*154*	*3.9*	*3.4*	*4.6*	*5.5*	*3.7*	*1.3*
	4Q	*177*	*5.7*	*5.4*	*10.5*	*6.6*	*4.1*	*0.8*
2000	*1Q*	*149*	*5.5*	*5.1*	*8.9*	*7.8*	*4.3*	*1.4*
	2Q	*164*	*5.5*	*5.1*	*7.5*	*7.6*	*4.6*	*1.5*
	3Q	*173*	*5.6*	*5.3*	*6.5*	*8.5*	*4.9*	*1.6*
	4Q	*198*	*6.0*	*5.8*	*7.4*	*9.0*	*5.5*	*1.6*

Source: GDP and value added for1996–97 – "Statistical Yearbook of the Republic of Poland 1998", CSO; for 1998, quarterly data and forecasts – CASE's calculations.
Notes: 1. Data are in 1997 prices.
2. Percent YoY increase.
3. Data are not seasonally adjusted.

trade, and hotel services will continue to develop at a rapid pace while transport and services related to real estate and business activities will grow at a somewhat lower rate.

The growth rate of non-market services may be lower than in the preceding years. We expect that a rationalisation of employment resulting from education and health care reforms will lower the growth rate in value added to little over 1 percent per year in the period under consideration.

Table 12. Selected short term indicators of the Polish economy, 1996–2000

Periods		Output		Transport of		Corporate sector	
		industry	construction	goods	passengers	average employment	real gross wages and salaries
		% change	% change	% change	% change	% change	% change
Estimate							
1996	1Q–4Q	8.3	4.6	4.8	–4.9	0.4	5.8
1997	1Q–4Q	11.5	17.1	4.5	–2.4	3.6	5.5
1998	1Q–4Q	4.8	11.6	–4.0	–2.9	2.2	3.7
Forecast							
1999	*1Q–4Q*	*4.1*	*3.9*	*1.0*	*0.5*	*–0.5*	*5.6*
2000	*1Q–4Q*	*8.2*	*6.7*	*2.8*	*0.7*	*–0.3*	*4.1*
Estimate							
1996	1Q	8.9	–17.7	–5.2	–3.3	–0.6	6.6
	2Q	7.4	6.5	0.3	0.3	–1.3	5.6
	3Q	10.3	15.8	–1.2	–6.3	–0.9	6.0
	4Q	8.9	18.4	3.3	–2.3	–0.6	5.2
1997	1Q	7.9	19.6	3.8	–5.4	1.0	5.6
	2Q	13.9	24.9	3.9	–4.1	1.4	7.1
	3Q	11.8	13.3	–1.8	–4.6	1.7	8.2
	4Q	11.2	13.9	0.5	–4.7	0.6	6.7
1998	1Q	10.9	24.0	–6.0	–2.0	1.9	5.9
	2Q	6.0	10.2	–5.6	–2.5	1.7	4.5
	3Q	3.9	13.2	1.6	–2.6	1.0	5.2
	4Q	–0.8	4.4	–4.4	–4.4	1.6	5.6
1999	1Q	–3.1	0.6	–3.0	–1.1	0.0	6.9
Forecast							
1999	*2Q*	*2.8*	*2.4*	*–2.0*	*–0.8*	*–0.4*	*6.1*
	3Q	*5.0*	*3.1*	*–2.9*	*–0.7*	*–0.3*	*5.0*
	4Q	*11.1*	*3.5*	*1.8*	*0.2*	*–0.2*	*4.7*
2000	*1Q*	*9.3*	*4.5*	*5.6*	*0.5*	*–0.2*	*4.1*
	2Q	*8.5*	*5.4*	*3.5*	*0.5*	*–0.1*	*4.1*
	3Q	*7.2*	*5.8*	*3.0*	*0.6*	*0.1*	*3.9*
	4Q	*8.0*	*6.4*	*2.8*	*0.8*	*0.2*	*4.3*

Source: "Statistical Bulletin", CSO; forecasts – CASE.

Notes: 1. Percent YoY increase.

2. Output data of construction and transport sectors calculated on the monthly data basis.

3. Annual data concerning average employment concern only "large companies", (i.e., for instance, in industrial companies with more than 5 employees).

The labour market

The situation in the labour market deteriorated in 1Q98. Average paid employment declined YoY by 0.3 percent (see Appendix 4). It should be stressed that we define the paid employment category in the same way as CSO does. It comprises employment in large enterprises and budget sectors.

We estimate that the average number of employed people in non-agricultural sectors increased by some 40 thousand (by 0.3 percent) in comparison with 1Q98. At the same time, the average number of employees dropped by some 490 thousand in comparison with 4Q98, while in the preceding year an analogous decrease amounted to some 320 thousand people. A smaller increase in employment was due to the slowdown of the economy.

Weak demand for labour is also reflected in an increase in the number of people out of work. According to the labour force survey (LFS), the unemployment rate increased from 10.3 percent in August and 10.6 percent in November 1998 to 12.5 percent in February 1999.

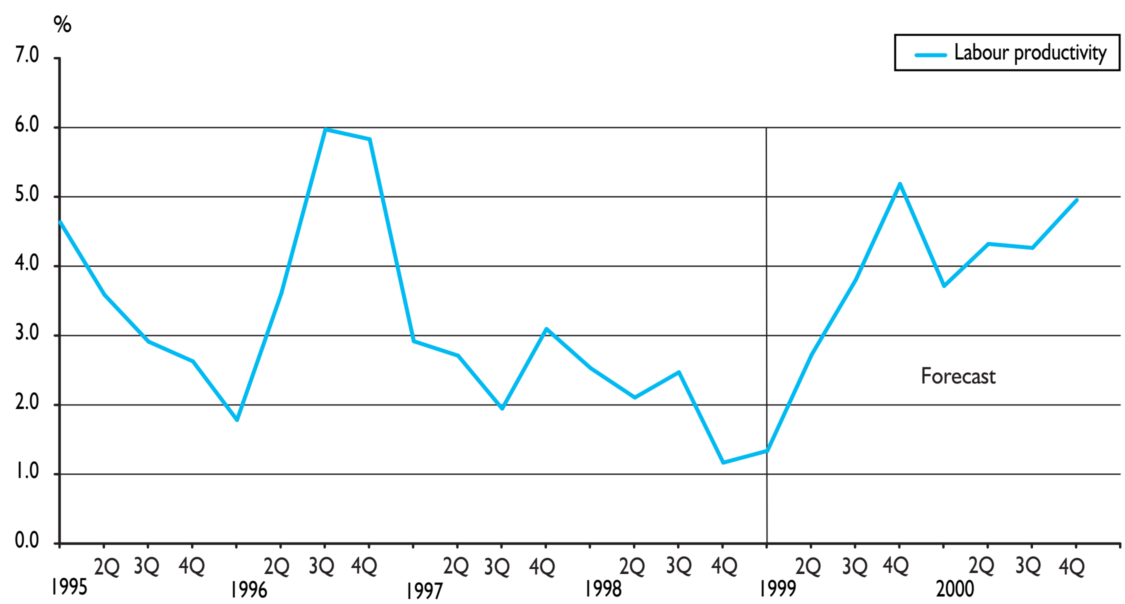
The official rate of registered unemployment increased from 9.6 percent at the end of September and 10.4 percent at the end of December 1998 to 12.1 percent at the end of March 1999. This contrasted with an unemployment rate of 10.4 percent at the end of March 1998.

At the end of March 1999 there were 2170.4 thousand registered unemployed. This figure was 339 thousand (18.5 percent) higher than in December 1998, and 324.7 thousand (17.6 percent) higher than in March 1998.

Such a substantial increase in the number of unemployed at the beginning of the year was due, firstly, to a considerable increase in the number of newly registered unemployed. This was accompanied by a decline (in comparison with the same period in the previous year) in the number of de-registered unemployed. In January 1999 as many as 321.3 thousand new people were registered as unemployed, i.e. more than 54.8 percent in the same period in the preceding year. A similar situation developed in February (an increase by 54.8 percent), while in March the number of newly registered unemployed was smaller and amounted to only 33.2 percent.

At this point, it is worth drawing attention to the fact that since December 1998 those who registered themselves as unemployed in order to obtain health insurance benefits and to receive the rights to social security benefits had a considerable share in the number of newly registered unemployed. The National Labour Office estimates the number of those people

Figure 7. Increase in labour productivity in non-agricultural sectors of the national economy, 1995–2000 (%)



Source: CSO and CASE.
Note: Starting from 1Q99 – forecast.

to be 184 thousand in January (i.e. 57.3 percent of the total number of the newly registered) and 107.5 thousand in February (i.e. 44.9 percent). If these people were excluded from the calculations, it would occur that, ceteris paribus, unemployment at the end of December and January would have amounted to 10.2 percent and in February to 10.1 percent. This suggests that apart from unfavourable tendencies in the economy, formal changes in the legislation were also responsible for the increase in unemployment. In addition, our basic calculations show that unemployment would have increased in any event, but that the increase would not be higher than the one observed in the winter months in preceding years.

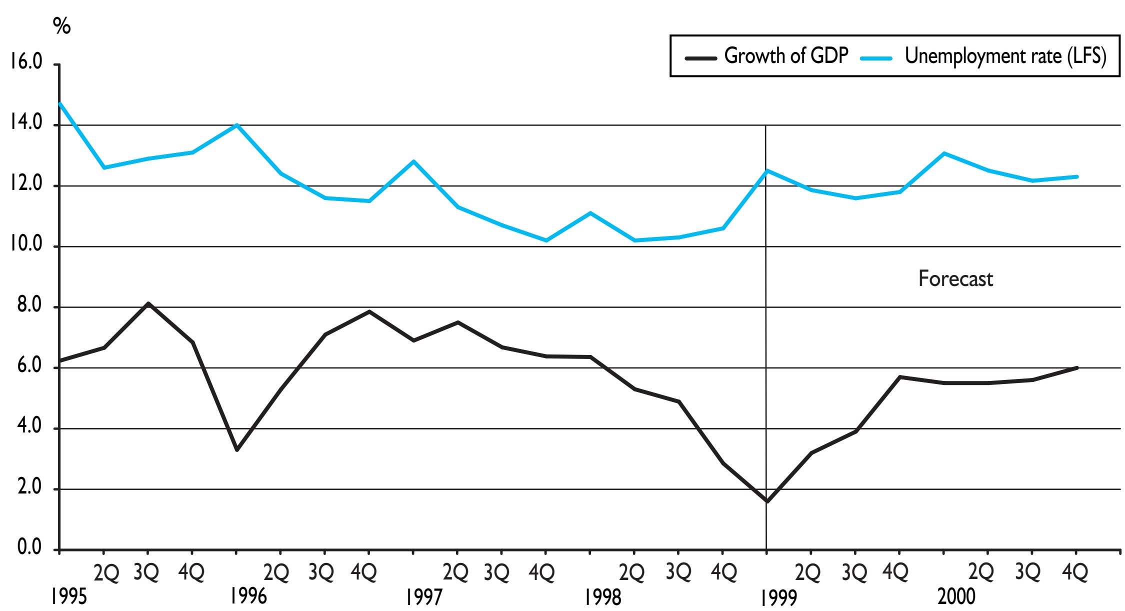
The number of people who delete themselves from the list of registered unemployed has been decreasing rapidly and systematically since November last year. It reached its lowest level of 111.6 thousand people since March 1993. 48.8 thousand of those found new jobs. February, however, was the first month when this unfavourable trend seemed to reverse itself. During that month 139.9 thousand deleted themselves, while 61.6 thousand of them found new jobs. A similar situation occurred in March, when 169.8 thousand people deleted themselves and 83 thousand started to work. The number of the unemployed who deleted themselves was much smaller in 1Q than in the preceding year (by 13.8 percent). The increase in the number of people deleting themselves in February and March could be a classic symptom of spring revival which may contribute to a slowing down of the rate of growth in unemployment in the following months.

Another positive phenomenon is a rise in the number of job offers (57.4 thousand in March), especially after a severe slump at the end of last year (in December the number declined to 32.9 thousand). However, this was not as low as the level reached the previous year.

Up until now, the increase in unemployment in recent months has not posed much of an extra burden on budgetary expenditures on unemployment benefits. There were 499 thousand eligible for unemployment benefits at the end of March, while a year earlier this was 455 thousand. These proportions may, however, be subject to some changes in the coming months if the declining trend in employment in enterprise and budgetary sectors is maintained.

The anticipated slowdown in economic growth in 1999 will entail a weaker demand for labour. We forecast that the average number of employed will decrease 0.1 percent, while the average number of the employed in agricultural sectors will increase 0.2 percent (in the preceding two years it grew by 4 and 2.5 percent respectively). The economic revival forecasted for 2000 will increase the demand for labour again. Average employment in non-agricultural sectors will rise 0.1 and paid employment 0.5 percent.

Figure 8. Rate of growth of GDP and the unemployment rate (LFS), 1999–2000 (%)



Source: CSO and CASE.
Note: Starting from 1Q99 – forecast.

The weaker demand for labour will entail a rise in unemployment. At the end of 1999 the rate of unemployment measured on the basis of the number of registered unemployment will reach 11.6 percent, increasing during this year 1.2 percentage point. The unemployment rate according to LFS will increase from 10.6 to 11.8 percent. In the year 2000 we expect a further rise in the rate of the registered unemployment to 12.1, and one of 12.3 percent calculated on the basis of LFS.

A possible acceleration of the restructuring of the state and the private industry may lower demand for labour and increase unemployment. In spite of this, the situation in the labour market may be considered stable. The only source of concern is the reduction in the pace of growth of productivity in non-agricultural sectors. Any further reduction in this area would indicate serious doubts over productivity gains.

Table 13. Components of the labour market, 1996–2000

Periods		Employment		Registred unemployment	Unemployment rate	
					Registred unemployment	LFS estimates
		thousand	% change	thousand	% change	% change
Estimate						
1996	1Q–4Q	15021	1.9	2360	13.2	11.5
1997	1Q–4Q	15439	2.8	1826	10.3	10.2
1998	1Q–4Q	15699	1.7	1831	10.4	10.6
Forecast						
1999	*1Q–4Q*	*15683*	*–0.1*	*2060*	*11.6*	*11.8*
2000	*1Q–4Q*	*15702*	*0.1*	*2167*	*12.1*	*12.3*
Estimate						
1996	1Q	14682	1.3	2726	15.4	14.0
	2Q	14932	1.5	2508	14.3	12.4
	3Q	15083	2.2	2341	13.5	11.6
	4Q	15386	2.7	2360	13.2	11.5
1997	1Q	15048	2.5	2236	12.6	12.8
	2Q	15374	3.0	2040	11.6	11.3
	3Q	15594	3.4	1854	10.7	10.7
	4Q	15739	2.3	1826	10.3	10.2
1998	1Q	15436	2.6	1846	10.4	11.1
	2Q	15669	1.9	1688	9.6	10.2
	3Q	15771	1.1	1677	9.6	10.3
	4Q	15917	1.1	1831	10.4	10.6
1999	1Q	15443	0.0	2170	12.1	12.5
Forecast						
1999	*2Q*	*15630*	*–0.2*	*2050*	*11.6*	*11.9*
	3Q	*15748*	*–0.1*	*1990*	*11.3*	*11.6*
	4Q	*15872*	*–0.3*	*2060*	*11.6*	*11.8*
2000	*1Q*	*15445*	*0.0*	*2309*	*12.8*	*13.1*
	2Q	*15638*	*0.0*	*2183*	*12.2*	*12.5*
	3Q	*15768*	*0.1*	*2110*	*11.9*	*12.2*
	4Q	*15905*	*0.2*	*2167*	*12.1*	*12.3*

Source: Annual data: for 1996–97 "Statistical Yearbook of the Republic of Poland 1998", CSO; for 1998 "Statistical Bulletin", CSO; quarterly data: average employment and forecasts – CASE's calculations, other data "Statistical Bulletin", CSO.
Note: LFS – labour force survey.

Prices

The disinflationary trends in the second-half of 1998 were maintained in1Q99. After the reduction in the inflation rate (measured by YoY CPI) to 8.6 percent in December 1998, it decreased to 5.6 percent in February. This is the lowest level recorded since the beginning of the economic transformation. Similar trends were observed in relation to the other basic price indicators (data for 1996–1998 is given in Table 14). CPI increased on average 6.2 percent YoY in 1Q99 and 2.6 percent QoQ.

Table 14. Basic price indicators, 1996–2000

Periods		Price indices				Currency basket	GDP deflator
		CPI	PPI	of exports	of imports		
Estimate							
1996	1Q–4Q	19.9	12.4	8.1	11.1	9.3	18.7
1997	1Q–4Q	14.9	12.2	12.9	13.6	16.0	14.0
1998	1Q–4Q	11.8	7.3	6.8	2.4	6.1	11.9
Forecast							
1999	*1Q–4Q*	*6.7*	*4.9*	*9.7*	*11.9*	*10.4*	*7.1*
2000	*1Q–4Q*	*6.1*	*5.6*	*6.4*	*5.8*	*5.2*	*6.0*
Estimate							
1996	1Q	20.6	13.9	6.1	7.3	5.3	18.9
	2Q	19.9	13.8	8.3	7.7	8.9	20.8
	3Q	20.1	10.9	12.4	10.4	11.3	21.3
	4Q	19.1	10.5	5.3	17.4	11.5	14.6
1997	1Q	17.2	12.2	11.7	13.0	13.6	16.0
	2Q	15.1	12.2	11.9	12.2	14.3	14.8
	3Q	14.3	12.5	13.6	15.0	18.1	13.3
	4Q	13.2	11.9	14.3	14.2	17.6	12.4
1998	1Q	13.9	9.2	10.4	9.9	13.1	11.8
	2Q	13.1	8.1	8.1	3.2	6.7	12.3
	3Q	11.2	6.7	6.0	–0.1	3.9	11.6
	4Q	9.2	5.2	3.9	–1.4	1.6	12.0
1999	1Q	6.2	4.0	6.2	7.8	10.6	6.8
Forecast							
1999	*2Q*	*6.5*	*4.7*	*10.3*	*14.7*	*14.0*	*7.1*
	3Q	*7.1*	*5.2*	*11.0*	*14.5*	*8.8*	*7.2*
	4Q	*7.0*	*5.8*	*11.4*	*10.4*	*8.3*	*7.1*
2000	*1Q*	*6.6*	*6.0*	*9.3*	*7.7*	*6.2*	*6.4*
	2Q	*6.1*	*5.9*	*6.4*	*5.6*	*4.8*	*6.2*
	3Q	*6.1*	*5.5*	*5.1*	*5.4*	*5.3*	*5.8*
	4Q	*5.8*	*5.0*	*4.9*	*4.5*	*4.3*	*5.8*

Source: Annual data: for 1996–97 – "Statistical Yearbook of the Republic of Poland 1998", CSO; for 1998 (excluding transaction prices in exports and imports and the deflator of GDP) and "Statistical Bulletin", CSO; quarterly data: for 4Q98 transaction prices in exports and imports and for all the quarters the deflator of GDP – CASE' calculations, others "Statistical Bulletin", CSO; forecasts – CASE's calculations.

Note: Change in the nominal value of the currency basket was calculated for 1996–98 using the currency basket adopted for that period. For the period of forecast the currency basket introduced on first January 1999 was applied.

The principal factors that contributed to the lower inflation rate are as follows:

(i) better harvests than in the preceding years, which, together with the Russian crisis and the ensuing decrease in food exports resulting from it brought about a substantial rise in the supply of agricultural products in the domestic market, in particular meat;

(ii) low transaction prices in imports, resulting, on the one hand, from a strengthening of the zloty and, on the other, from deflation in the world commodity markets;

(iii) low increase in PPI, principally in the manufacturing sector;

(iv) the policy of restricting domestic demand.

In 1Q99 the prices of foodstuffs were 0.2 percent higher then in the corresponding period of 1998, and in March 0.1 percent lower than in the corresponding period of the preceding year. The prices of fish and fish products rose faster than average prices of foodstuffs. They increased 8.1 percent in comparison with 1Q98, and in March were 6.5 percent higher than in March 1998. The prices of consumarables increased 9.0 and 7.8 percent respectively, and prices of sugar and candy products – by 5.8 and 4.6 percent respectively. The prices of fruit have also grown at a faster rate (by 6.3 and 10.2 percent respectively) and the prices of corn products and baker's increased 4.2 and 3.2 percent respectively. Meat prices decreased (4.5 and 4.5 percent respectively) as was the case with the prices of vegetables (in quarterly terms they decreased 8.2 percent, while decreasing 9.3 percent YoY).

The prices of services have traditionally increased at a faster rate than CPI (by 10.6 percent YoY). This is mainly due to the fast growth in apartment rents (18.6 percent), prices of health care services (16.2 percent), transport services (15.1 percent) and postal services (13.9 percent).

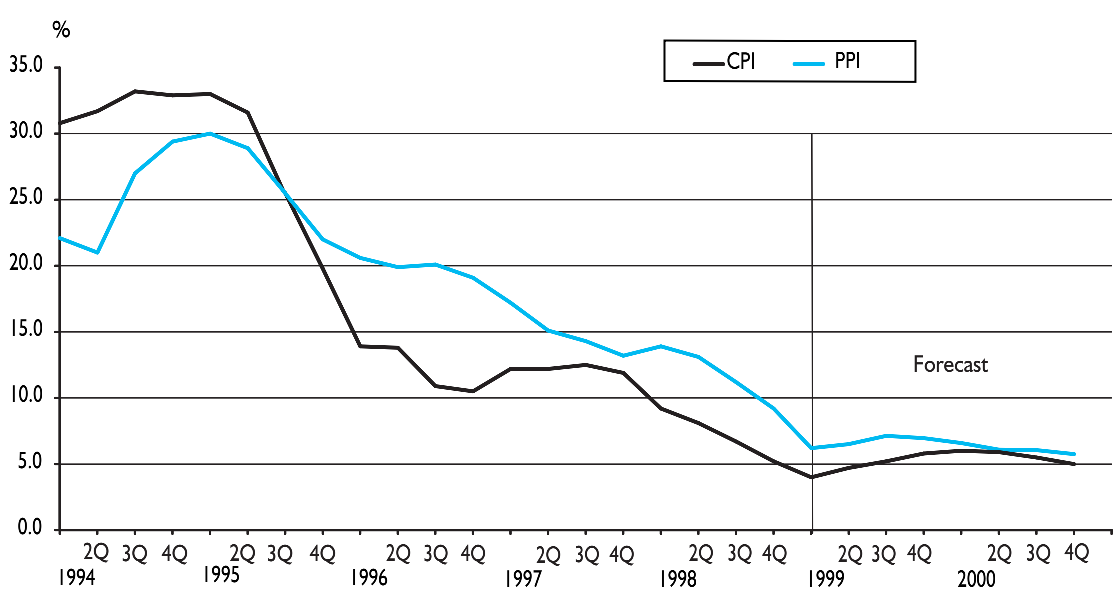
The prices of alcoholic beverages rose at a lower rate than CPI did in 1Q98. They increased 13.5 percent, as oppose to YoY CPI 13.9 percent. Thus prices were going up at a faster rate in the following quarters, so that by 4Q they increased 11.8 percent (i.e. 2.6 percentage points more than CPI). This relationship changed for the worse in 1Q99 since in March prices of alcoholic beverages were growing at a lower rate than CPI.

The prices of non-food products increased at a faster pace than CPI (in 1Q they were 7.1 percent higher than in the preceding year). A similar trend was observed in the prices of publishing (13.2 percent) and medicines (10.7 percent).

Since 4Q97 we have been observing a substantial decrease in the dynamics of YoY PPI, mainly as a result of smaller increases in mining and manufacturing sector prices.

The strengthening of the zloty exerted an influence on the dynamics of transaction prices in exports and imports. Since the beginning of 1998 they were increasing at a steadily slower rate, although in the case of exports the transaction prices grew faster than PPI. The lower growth rate in import prices was also a

Figure 9. CPI and PPI, 1994–2000 (% change)



Source: CSO and CASE.
Note: Starting from 1Q99 – forecast.

result of the apparent reduction in import prices of basic raw materials, primarily of petroleum.

We believe that in 1Q99 inflationary pressures clearly became weaker. The growth rate of the GDP deflator, which measures the general level of prices, amounted to 6.8 percent (compared to 12.0 percent in the preceding quarter).

We forecast the maintenance of inflationary trends in 1Q99 similar to these that prevailed in the second-half of 1998. CPI will increase in the first two quarters by 6.2 and 6.5 percent respectively, mainly due to the stabilisation in the price of foodstuffs and a lower rise in the price of services and non-food products. The rate of inflation will increase to 7.1 percent in 4Q and to 7.2 percent in December. We expect a renewed increase in the price of foodstuffs. This will contribute to a rise in the inflation rate to a greater extent than the smaller increase in the price of services and non-food products.

Another factor that may result in an increase in inflation is the expected weakening of the zloty. This would entail a faster growth than in 1998 in import transaction prices – these will grow 9.7 percent.

In 2000 we expect a further decrease in the rate of inflation and a lower rate of growth in all principal price indicators. This will be possible as a result of a further drop in the growth rate of transaction prices in imports and the maintenance of a declining trend in PPI growth.

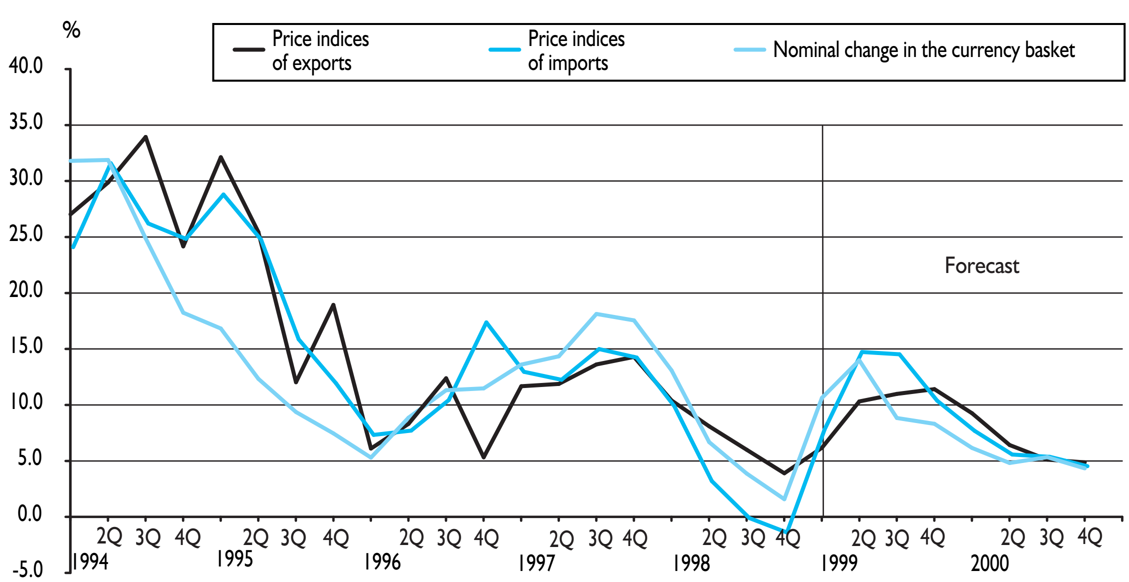
We forecast the GDP deflator to increase 7.1 in 1999 and 6.0 percent in 2000. We expect the stabilisation of the deflator's rate of growth at a level of some 7 percent in 1999. Inflationary pressures may again start to decline in 1Q2000 (to 5.8 percent in the last quarter of the year).

The exchange rate

In 1998 the currency market in Poland operated under the influence of two opposing factors. On the one hand, the surplus in the balance of payments (see further below) acted in favour of an appreciation of the zloty and, on the other, financial crises in a number of developing countries resulted in a temporary weakening of the zloty

The exchange rate of the zloty against the US dollar reached its peak on 5th May (the exchange rate amounted to 3,364 PLN/US$), and a maximum upward deviation from the central rate was reached on 6th August 1998 (+9.14 percent). The zloty bottomed out on 28th August (3,815 PLN/US$); it was the highest downward deviation from the NBP central rate (-0.45 percent). The apparent factor behind strong fluctuations in the

Figure 10. Export and import price indices and the nominal change in the currency basket, 1994–2000 (% change)

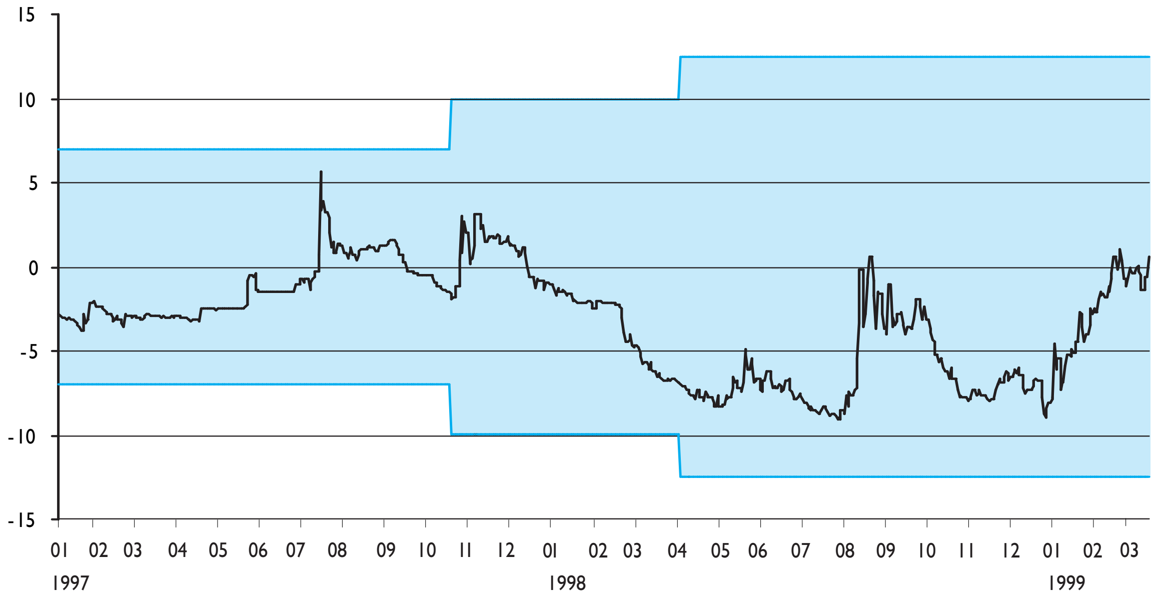


Source: CSO, NBP and CASE.
Note: Starting from 1Q99 – forecast.

foreign exchange market was the Russian crisis (since 17th August 1998). This resulted in a decline in the inflow of foreign capital during the highest period of zloty depreciation (in August the exchange rate of the zloty at the fixing lost over 11 percent of its value). The NBP decided not to intervene to defend the zloty and considered the Russian crisis as a short-term external shock. The decision of the NBP proved correct, since the exchange rate started to strengthen again, reaching upward deviations from the central rate at the levels comparable to ones prevailing before the crisis (6–8 percent).

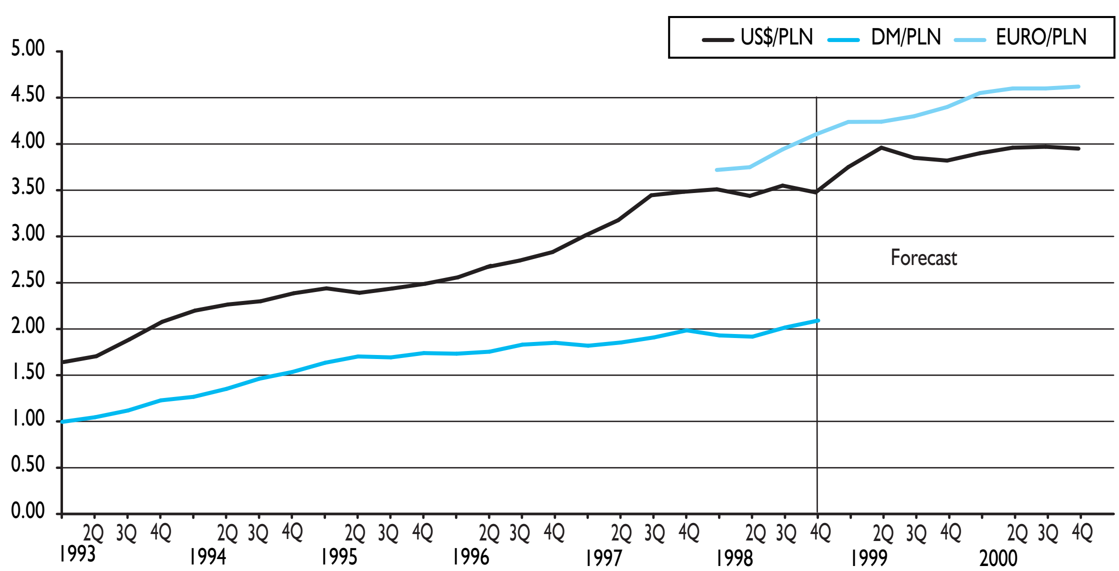
As a result of the two decisions of the Monetary Policy Council (9th December 1998 and 20th January 1999) the NBP

Figure 11. Average deviation of US$/PLN and DM/PLN exchange rates (EURO/PLN since 1999) from the central parity



Source: NBP.
Note: The currency basket consisting of 55% DM and 45% US$; 55% Euro and 45% US$ since 01.01.1999

Figure 12. Exchange rates of selected currencies, 1993–2000 (per zloty)



Source: CSO and CASE.
Note: Starting from 1Q99 – forecast.

has substantially cut basic interest rates, on average by 4.5 percentage points. Additionally, a considerable deterioration in the balance on the current account from September 1998, together with slower economic growth, have been contributing to a weakening of the zloty since January 1999.

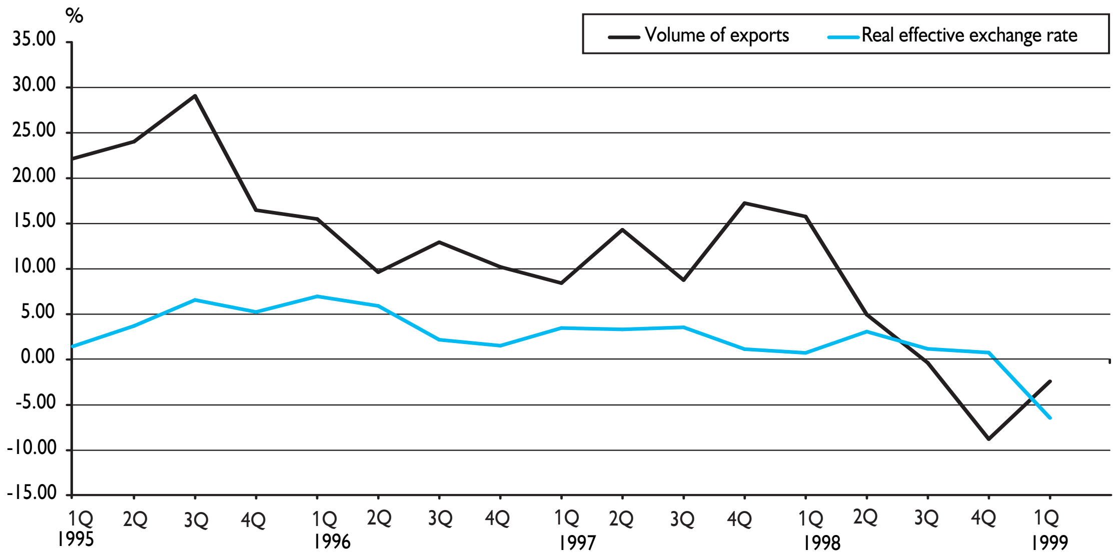
The currency basket was changed on January 1 1999. The former basket of 5 currencies (consisting of of US dollar, German mark, pound sterling, French franc and Swiss franc) was replaced with a basket comprising 55 percent Euro and 45 percent US dollar.

Table 15. Selected exchange rates, 1996-2000 (per zloty)

Periods		US$	German mark	Euro	Real effective exchange rate
Estimate					
1996	1Q–4Q	2.70	1.79	3.3774	143.6
1997	1Q–4Q	3.28	1.89	3.7055	147.8
1998	1Q–4Q	3.49	1.99	3.8800	149.9
Forecast					
1999	*1Q–4Q*	*3.85*		*4.29*	
2000	*1Q–4Q*	*3.95*		*4.59*	
Estimate					
1996	1Q	2.54	1.73		145.5
	2Q	2.67	1.75		144.4
	3Q	2.74	1.83		141.9
	4Q	2.83	1.85		142.7
1997	1Q	3.01	1.82		150.6
	2Q	3.18	1.85		149.2
	3Q	3.44	1.91		146.9
	4Q	3.48	1.98		144.4
1998	1Q	3.51	1.93	3.72	151.7
	2Q	3.44	1.92	3.75	153.8
	3Q	3.55	2.02	3.94	148.7
	4Q	3.48	2.09	4.10	145.5
1999	1Q	3.76		4.22	141.9
Forecast					
1999	*2Q*	*3.96*		*4.24*	
	3Q	*3.85*		*4.30*	
	4Q	*3.82*		*4.40*	
2000	*1Q*	*3.90*		*4.55*	
	2Q	*3.96*		*4.60*	
	3Q	*3.97*		*4.60*	
	4Q	*3.95*		*4.62*	

Source: Annual and quarterly data: real effective exchange rate – JP Morgan, other – NBP. Forecasts – CASE's calculations.
Note: Average exchange rates for a given period.

Figure 13. The volume of exports and real effective exchange rate, 1995–1999 (% change)



Source: CSO and JP Morgan.

Table 15 shows the average exchange rates of the dollar and the Euro, and for 1996–98 – average exchange rates of the German mark. In addition, the real effective exchange rate is given (calculated as an average weighted by shares in Polish exports of exchange rates of 26 currencies of developed countries and 20 of developing countries).

Table 15 shows that the real effective exchange rate was declining since 2Q98. One should expect an even lower exchange rate in the first-half of the year. However, if in the forthcoming months there is no currency or financial crisis (like the one experienced in Brazil), then pressure on an appreciation of the zloty will appear again.

We expect the average annual exchange rate of the dollar to reach approximately 3.85 zloty in 1999. The highest exchange rate is forecasted in 2Q and in the following quarters we expect a relative strengthening of the zloty as well as a weakening of the dollar against the Euro.

Budget

In 1998, as in previous years, the planned state budget deficit was not met. The real level of the budget deficit was about 13.3 billion zlotys instead of the planned 14.4 billion zlotys. The state budget revenues were lower than assumed in the budget by 2.5 billion zlotys. The lower than planned revenues stemmed from smaller revenues from indirect taxes, in particular excise taxes (the gap amounted to about 2.3 billion zlotys).

The budget expenditures were lower than planned by some 3.6 billion zlotys, mainly due to lower than anticipated costs of servicing internal debt (the gap reached some of 1.6 billion zlotys) and external debt (amounting to some 1.2 billion zlotys).

The state of the budget was particularly favourable in the first-half of 1998, when revenues from indirect taxes were relatively higher thanks to the accumulation of official price increases. This allowed a reduction in deficit financing and was one of the factors contributing to a lowering of the cost of money in the second-half of the year.

The Russian crisis and the ensuing economic slowdown have influenced the budget situation only marginally in 1998. Its indirect results will be visible while implementing the 1999 budget

The Sejm passed the 1999 Budget Act on 9th January 1999. Revenues of the state budget in 1999 are set at a level of 129.3 billion zlotys (i.e. 21.5 percent of GDP), and expenditures are assumed to amount to 142.1 billion zlotys (23.5 percent of GDP). This means the planned deficit of the state budget will reach a level of 12.8 billion zlotys (2.2 percent of GDP).

The share of the budget as a percent of GDP was reduced in comparison to the previous years. This was due to changes in the function and scope of its financing by the central administrative authorities while reforms of the self-government (creation of poviats and voivodships), health (emergence of the territorial health care funds) and social security systems are implemented.

We believe that while planning the budget, overly optimistic macroeconomic assumptions prevailed. This concerns mainly

Table 16. Selected items of the state budget, 1996–2000 (billion zloty)

Periods		Revenue		Expenditures	Budget deficit	
		total	including tax revenues		billion zloty	% of GDP
Estimate						
1996	1Q–4Q	99.7	83.7	108.8	–9.2	–2.4
1997	1Q–4Q	119.8	98.5	125.7	–5.9	–1.3
1998	1Q–4Q	126.5	113.8	139.8	–13.3	–2.4
Forecast						
1999	*1Q–4Q*	*130.4*	*117.6*	*142.7*	*–12.3*	*–2.0*
2000	*1Q–4Q*	*142.9*	*129.4*	*154.3*	*–11.4*	*–1.7*
Estimate						
1996	1Q	21.3	17.0	24.0	–2.8	–3.3
	2Q	22.5	19.2	25.0	–2.5	–2.8
	3Q	26.3	22.0	27.0	–0.7	–0.7
	4Q	29.7	25.5	32.8	–3.1	–2.8
1997	1Q	23.5	20.2	27.4	–3.9	–3.8
	2Q	27.1	21.1	30.6	–3.5	–3.1
	3Q	32.8	26.4	31.4	1.4	1.1
	4Q	36.4	30.7	36.3	0.1	0.1
1998	1Q	28.7	25.6	32.3	–3.5	–2.9
	2Q	29.3	26.3	35.1	–5.8	–4.4
	3Q	33.1	29.9	34.1	–1.1	–0.8
	4Q	35.5	32.1	38.3	–2.8	–1.8
1999	1Q	27.7	24.6	36.7	–9.0	–6.8
Forecast						
1999	*2Q*	*29.6*	*26.6*	*31.9*	*–2.3*	*–1.6*
	3Q	*34.6*	*31.4*	*35.0*	*–0.4*	*–0.3*
	4Q	*38.5*	*35.1*	*39.1*	*–0.6*	*–0.3*
2000	*1Q*	*29.9*	*26.7*	*36.5*	*–6.6*	*–4.4*
	2Q	*32.5*	*29.3*	*37.1*	*–4.6*	*–2.8*
	3Q	*37.6*	*34.2*	*37.6*	*0.0*	*0.0*
	4Q	*42.9*	*39.2*	*43.1*	*–0.3*	*–0.1*

Source: Data for 1996–98 – Ministry of Finance, forecast – CASE's calculations.

GDP growth (5.1 percent), average annual inflation rate (8.5 percent), unemployment rate (reduction from 9.7 to 9.4 percent) and a negative balance of current transactions in the balance of payments.

The impact of GDP growth is less relevant for budgetary revenues than an increase in domestic demand since most of the revenues are derived from indirect taxes. Our forecast for domestic demand is similar to that of the budget. Thus the only component that makes the budget assumptions different from our own is the rate of inflation. There is a very small chance that annual average inflation will remain above 8 percent. If inflation amounts to some 6.5 percent (as is assumed in the forecast of this report), then the nominal indirect tax revenue will substantially differ from that assumed in the budget.

Neither the level of the budget deficit nor the structure of its financing gives rise to any reservations. About 54 percent of the deficit is to be covered with revenues resulting from privatisation. Furthermore, it is assumed that the budget will be financed to a large extent from foreign sources.

The state budget for 1999 will be very difficult to implement. The greatest danger for the stability of the budget stems from problems related to the financing of the four major reforms, in particular health and social security. Additional difficulties may arise from the need to repay the debt of the health service units estimated at some 8 billion zlotys.

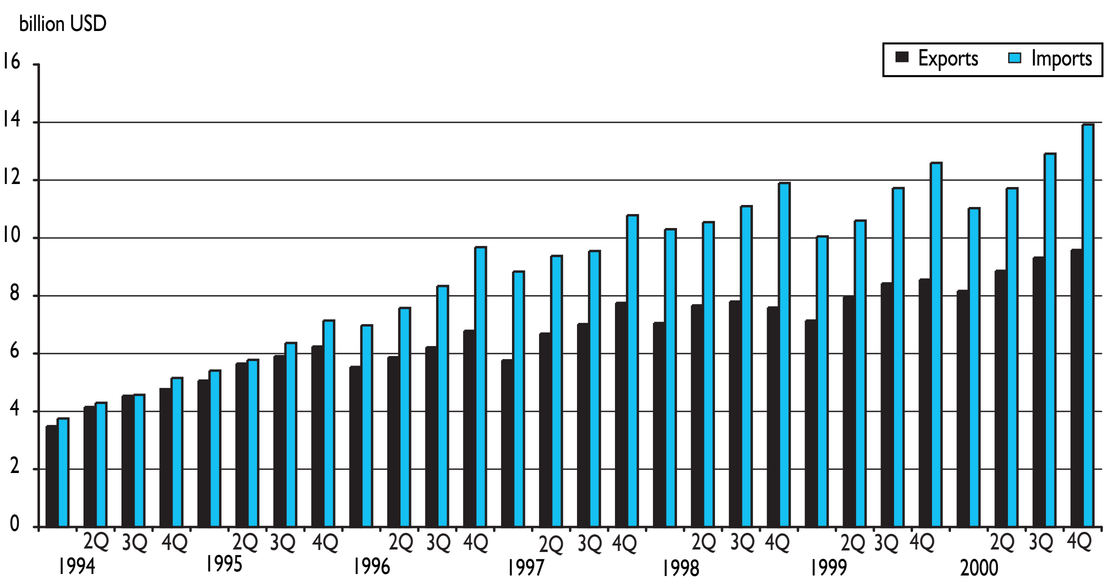
Subsidies to the territorial self-government may prove insufficient. Difficulties may substantially increase because of the poviats total dependence on transfers from the state budget.

We consider, therefore that, in spite of the expected tensions in the budget, particularly in the first-half of 1999, the costs of reforms borne today may in future help to increase the effectiveness of operations of the entire budgetary sector. They nevertheless have to be minimised as much as possible otherwise positive effects may be lost by the perception of excessively high costs (of both financial and non-financial character) implementing the reforms.

Foreign trade

The growth of foreign trade turnover was to a large extent determined by developments in the world economy. At the beginning of 1998 both exports and imports grew in favourable directions. The weakening of the zloty in the first-half of 1997, as well as a clear improvement in economic activity in the EU, also prove beneficial to exports in 1Q98. We estimate that the volume of exports of goods and services (including cross-border trade) was nearly 16 percent higher in 1Q98 than in the corresponding period of the previous year. However, the demand for Polish goods in 2Q was already smaller and the volume of Polish exports increased only 5 percent.

Figure 14. Exports and imports, 1994–2000 (US$ billion)



Source: NBP and CASE.
Note: Starting from 1Q99 – forecast.

In addition, a reduction in the growth rate of domestic demand caused a drop in imports. We estimate that in 2Q98 imports increased over 14 percent, while in 1Q they rose more than 19 percent. The imports of investment and consumer goods increased at a rate higher than average.

Export trends underwent a radical change in the subsequent two quarters of 1998. The Russian crisis resulted in a collapse in exports to Russia and Ukraine, while the strong zloty forced a reduction in export growth to the EU. Thus, in 3Q the volume of exports decreased 0.4 percent, and in 4Q

Table 17. Exports, imports and the foreign trade balance; 1996–2000 (US$ billion)

Periods		Exports		Imports		Net exports	
		NBP	CSO	NBP	CSO	NBP	CSO
Estimate							
1996	1Q–4Q	24.42	24.44	32.57	37.14	–8.15	–12.70
1997	1Q–4Q	27.23	25.75	38.50	42.31	–11.27	–16.56
1998	1Q–4Q	30.12	28.23	43.84	47.05	–13.72	–18.82
Forecast							
1999	*1Q–4Q*	*32.06*	*30.30*	*44.92*	*48.53*	*–12.86*	*–18.23*
2000	*1Q–4Q*	*35.94*	*33.75*	*49.59*	*53.52*	*–13.66*	*–19.78*
Estimate							
1996	1Q	5.54	5.95	6.98	8.20	–1.44	–2.25
	2Q	5.87	5.78	7.58	9.06	–1.70	–3.28
	3Q	6.22	6.37	8.34	9.30	–2.11	–2.93
	4Q	6.79	6.34	9.68	10.58	–2.89	–4.24
1997	1Q	5.77	6.12	8.84	9.77	–3.07	–3.65
	2Q	6.69	6.31	9.38	10.56	–2.69	–4.24
	3Q	7.02	6.21	9.55	10.15	–2.53	–3.94
	4Q	7.75	7.11	10.78	11.84	–3.03	–4.73
1998	1Q	7.06	7.02	10.30	11.09	–3.24	–4.06
	2Q	7.67	7.04	10.55	11.69	–2.88	–4.65
	3Q	7.80	6.89	11.10	12.00	–3.30	–5.10
	4Q	7.60	7.27	11.90	12.28	–4.31	–5.00
1999	1Q	7.10	7.26	10.00	11.03	–2.90	–3.77
Forecast							
1999	*2Q*	*7.97*	*7.36*	*10.60*	*11.73*	*–2.63*	*–4.38*
	3Q	*8.43*	*7.47*	*11.72*	*12.41*	*–3.30*	*–4.95*
	4Q	*8.56*	*8.22*	*12.60*	*13.36*	*–4.03*	*–5.14*
2000	*1Q*	*8.17*	*8.21*	*11.03*	*12.10*	*–2.86*	*–3.89*
	2Q	*8.86*	*8.19*	*11.72*	*12.97*	*–2.86*	*–4.78*
	3Q	*9.32*	*8.22*	*12.92*	*13.68*	*–3.60*	*–5.46*
	4Q	*9.59*	*9.12*	*13.93*	*14.77*	*–4.34*	*–5.64*

Source: For 1996–98 NBP (merchandise trade payments), CSO (customs statistics), national accounts (CASE's estimates); forecasts – CASE's calculations.
Note: Data for customs statistics may differ from recently published information on the foreign trade turnover (in particular those related to exports).

8.8 percent. The volume of imports continued to grow substantially in 3Q, amounting to nearly 16 percent. Only in the last few months of 1998 did import growth decrease somewhat – to over 7 percent in 4Q of the year.

We believe that the deterioration in the foreign trade situation will reverse itself in 1999. However, the negative merchandise trade balance will reach US$13 billion (i.e. over 8 percent of GDP). We expect, the volume of exports to grow by over 5 percent in 1999, and over 12 percent in 2000. The level of imports will stabilise at around 9 percent *per annum*. This will stabilise the negative balance in 2000. Detailed information is given in Table 17. It should be stressed that CSO provides trade data on the basis of customs receipts (SAD), whereas NBP records trade data based on financial flows.

Balance of payments

In the first-half of 1998, the negative balance of merchandise trade (smaller than in the previous year as mentioned in the earlier section), higher positive transfer balances, and balances of unclassified current transactions contributed to an improvement in the current account balance. According to the NBP, the negative balance of current transactions, which amounted to US$2.0 billion in 1Q98, decreased to US$0.64 billion in 2Q.

The additional inflow of foreign currency stemming from FDI and portfolio investments resulted in an increase in official gross currency reserves from US$20.7 billion at end-December 1997 to US$25.3 billion at end-June 1998.

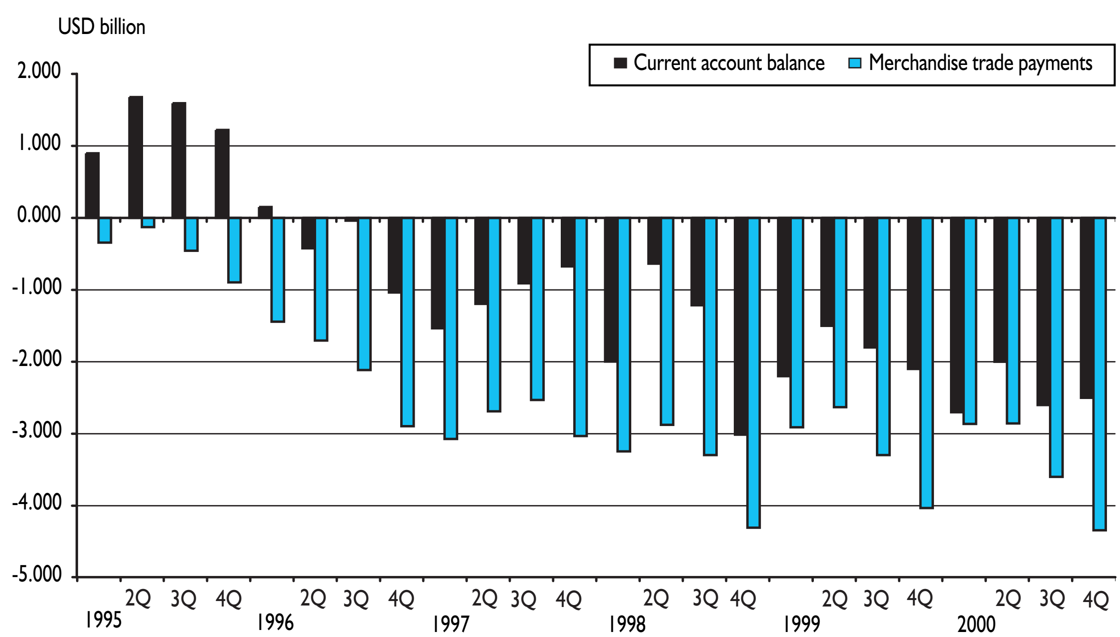
The balance of payments started to deteriorate in September 1998. A negative current account balance, after an increase of US$(-1.22) billion in 3Q, increased to US$(-3.01) billion. It should be stressed that the negative current account balance was roughly 4.5 times smaller in the last quarter 1997 and amounted to US$0.67 billion.

Despite of such a rapid deterioration in the current account in 4Q, the inflow of FDI (US$2.4 billion) and portfolio investments (US$0.92 billion) was higher than the negative current account balance. This resulted in a further increase of official foreign currency reserves to US$27.38 billion at the end of the year (selected components of the Polish balance of payments are given in Table 18).

We estimate that the current account deficit, calculated according to the methodology of the NBP, was 6.3 percent of GDP in 1Q999. Calculated according to the IMF methodology (without taking into consideration the unclassified current transactions) the deficit was much higher and amounted to 8.5 percent of GDP.

We are of the opinion that the balance of payments situation will continue to deteriorate until the end of 2Q99. In the follow-

Figure 15. Merchandise trade balance and current account balance, 1995–2000 (US$ billion)



Source: NBP and CASE.
Note: Starting from 1Q99 – forecast.

Table 18. Components of the balance of payments, 1996–2000 (US$ billion)

Periods	Balance				Balance				Change in official gross currency reserves	Official gross currency reserves
	of current account		of merchandise trade	of unclassified current transactions	of capital transactions	of		loans > 1 year		
	US$ billion	% of GDP				FDI	portfolio investments			
Estimate										
1996 1Q–4Q	–1.35	–0.9	–8.15	7.15	4.78	2.74	0.24	–0.24	3.07	18.03
1997 1Q–4Q	–4.31	–3.0	–11.27	6.01	5.41	3.04	2.10	0.42	2.64	20.67
1998 1Q–4Q	–6.86	–4.4	–13.72	6.00	10.80	5.00	1.33	1.51	6.71	27.38
Forecast										
1999 1Q–4Q	*–7.60*	*–4.8*	*–12.86*	*5.30*	*6.67*	*6.42*	*0.18*	*0.02*	*1.22*	*28.60*
2000 1Q–4Q	*–9.80*	*–5.6*	*–13.66*	*5.90*	*12.40*	*10.00*	*1.50*	*1.20*	*3.40*	*32.00*
Estimate										
1997 1Q	–1.53	0.5	–3.07	1.12	1.28	0.46	0.41	0.05	–0.06	17.98
2Q	–1.19	–1.2	–2.69	1.47	2.36	0.78	1.07	0.17	1.71	19.69
3Q	–0.91	–0.1	–2.53	1.62	0.80	0.78	0.64	–0.06	0.37	20.05
4Q	–0.67	–2.6	–3.03	1.80	0.97	1.03	–0.02	0.26	0.62	20.67
1998 1Q	–2.00	–4.5	–3.24	1.16	3.24	0.90	0.21	0.24	2.39	23.06
2Q	–0.64	–3.4	–2.88	1.72	2.29	1.00	0.36	0.36	2.19	25.26
3Q	–1.22	–2.6	–3.30	1.87	2.64	1.26	–0.86	0.06	1.83	27.08
4Q	–3.01	–1.7	–4.31	1.25	2.73	1.68	1.61	1.07	0.30	27.38
1999 1Q	–2.23	–6.3	–2.90	0.80	1.07	1.12	–0.32	–0.12	–0.78	26.60
Forecast										
1999 *2Q*	*–1.40*	*–3.1*	*–2.63*	*1.50*	*1.50*	*1.40*	*–0.20*	*–0.20*	*–0.10*	*26.50*
3Q	*–1.80*	*–6.7*	*–3.30*	*1.60*	*1.70*	*1.90*	*0.30*	*0.20*	*0.90*	*27.40*
4Q	*–2.40*	*0.0*	*–4.03*	*1.40*	*2.40*	*2.00*	*0.40*	*0.10*	*1.20*	*28.60*
2000 *1Q*	*–2.70*	*–5.7*	*–2.86*	*1.10*	*3.20*	*2.40*	*0.60*	*0.20*	*0.40*	*29.00*
2Q	*–2.00*	*–3.8*	*–2.86*	*1.60*	*3.20*	*2.50*	*0.40*	*0.30*	*1.00*	*30.00*
3Q	*–2.60*	*–4.5*	*–3.60*	*1.70*	*3.00*	*2.40*	*0.30*	*0.30*	*1.30*	*31.30*
4Q	*–2.50*	*–5.2*	*–4.34*	*1.50*	*3.00*	*2.70*	*0.20*	*0.40*	*0.70*	*32.00*

Source: Data for 1996–98 – NBP, forecast – CASE's calculations.

ing two quarters we expect a gradual stabilisation of the negative current account balance, but at a relatively high level. We forecast that the negative current account balance will increase in 1999 to US$7.6 billion (i.e. 4.8 percent of GDP), and in the year 2000 to US$9,8 billion (5.6 percent of GDP).

Monetary policy

The monetary policy of the NBP up until 1999 showed an inconsistency between intermediate goals and officially declared ones. Presently, after adopting inflation targeting, the objective of a medium-term direct inflation target, which is supposed to achieve 4 percent at the end of 2003, renders monetary policy more transparent. This, in turn, will help to reduce inflationary expectations. The direct inflation target is a a legally binding mandate of the NBP (i.e. reducing the level of inflation). The implementation of this goal however assumes a skilful fine tuning of all instruments of monetary policy in the hands of the NBP and their effective co-ordination with fiscal policies, an equally challenging task.

The cut in the NBP's basic interest rates (resolution of Monetary Policy Council (MPC) of 20th January 1999, see Table 21) of 275–300 basis points was the result of continued declining trends in inflation. It was also an expression of the NBP's determination to influence the economy in view of the weakening of GDP growth and the deterioration of the current account in 4Q98. Despite the NBP declarations that it intend to concentrate on short-term open-market operations to allow the market to determine long-term interest rates, such a decisive "one-off" reduction in interest rates had a substantial impact on the situation in the money and currency markets. The first effect of the NBP's decision was a weakening of the zloty. The currency market reacted immediately, since just a day after the MPC's decision the deviation of the average rate of the zloty from its central parity decreased 1 percentage point, whilst at the beginning of the year the negative deviation of the average rate (the Euro and dollar currency basket) from the central parity reached nearly (-9) percent, in March the exchange rate deviated from its central parity within the range of (-1,3) to (+1) percent.

The NBP assumed such a weakening would favourably influence Polish exports (at least to the EU) and the increased internal demand would be reflected in an increase of domestic output as opposed to imports. On the other hand, it was expected that lower interest rates in the EU and the USA would still prove a sufficient incentive to attract portfolio investments to Poland. However, the deterioration in the current account and a substantial decrease in interest rates both resulted in a withdrawal of portfolio investments in 1Q99.

A second effect of the interest rate reduction was an increase in demand for domestic currency and increased credit from banks (see below). The third effect, an improvement in the current account balance, will only be visible after 6 months or so. The significant cuts in interest rates in January have limited the scope for fine-tuning of monetary policy instruments during the rest of the year. Unfavourable developments in budget policy may involve a need to increase interest rates. However, the market could react unfavourably. Thus, the set of instruments available to the NBP during the rest of the year includes open market operations (but to a very limited extent) and a reduction in the average rate of monthly devaluation of the zloty.

Reserve money and monetary policy instruments

In 1Q99 the first decline in the level of net foreign assets of the NBP since 5 years took place – they decreased 8.8 percent YoY. A similar decline of 2.7 percent occurred in 4Q94. 1Q is usually not a period of weak increases in the level of net foreign assets and although foreign assets rose by a mere 1.8 percent in 1Q97, in 1Q98 the increase amounted to 24.3 percent. As a result gross official reserves of the NBP dropped by US$784 million to US$26.6 billion at the end of March 1999. They still cover 6 months of imports.

The decrease in the level of foreign assets stemmed from a lower balance on the financial account (lack of sizeable revenues from capital privatisation and outflow of portfolio investments) and a higher current account deficit. Net domestic credit declined 1.8 percent in 1Q. This was a result of a reduction in loans to the budget sector (0.5 percent) and financial sector (1.3 percent). As a result, reserve money increased a mere 0.4 percent in 1Q99, as a result of exchange rate adjustments and an increase in the balance of other items. The components of reserve money are given in Table 19.

Assumptions in the forecast reveal that changes in the supply of reserve money will be influenced mainly by changes in net foreign assets. The latter will result mainly from the pace of privatisation and the level of the zloty.

Table 19. Components of the reserve money supply, 1997–1999 (cumulative %)

Periods		Reserve money (RM)	Net foreign assets (NFA)	Net domestic credit (NDC)	Net claims on government (NCG)	Claims on deposit money banks (CDMB)	Other items net (OIN)
1997	1Q	10.12	1.80	12.05	14.22	–2.17	–3.73
	2Q	20.44	28.20	5.66	26.67	–21.01	–13.43
	3Q	31.65	43.56	11.55	25.77	–14.21	–23.47
	4Q	23.50	57.45	54.16	17.14	37.01	–88.13
1998	1Q	4.82	24.32	–7.00	–5.31	–1.69	–12.50
	2Q	17.54	38.95	–10.22	–8.74	–1.48	–11.19
	3Q	17.50	56.59	–4.39	–6.35	1.96	–34.69
	4Q	26.78	64.54	–0.90	2.95	–3.85	–36.85
1999	1Q	0.44	–8.83	–1.76	–0.50	–1.25	11.02

Source: The NBP Bulletin and authors' calculations.
Notes: The components of the reserve money are calculated from the following formula:
$\Delta RM/RM_{-I} = \Delta NFA/ RM_{-I} + \Delta NCG/ RM_{-I} + \Delta CDMB/ RM_{-I} + \Delta OIN/ RM_{-I}$,
Net foreign assets were adjusted in value for the effects of floating exchange rate of the zloty to US$, using average exchange rate for the zloty.

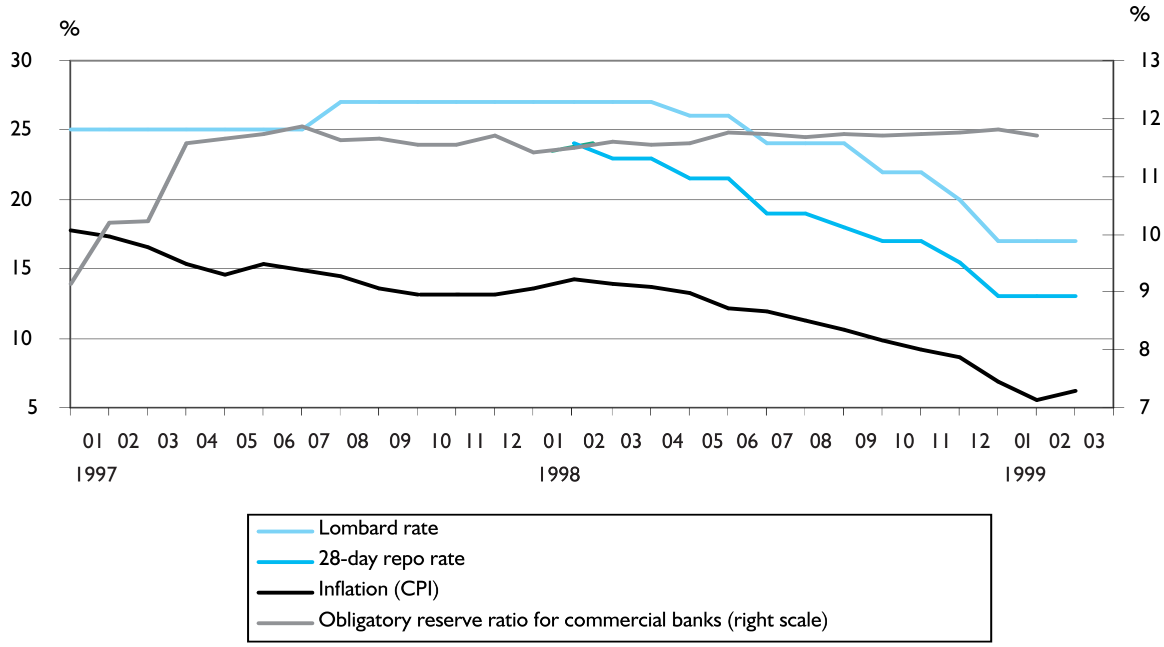
Given the presumed increase in inflation in the second-half of the year, coupled with a limited supply of treasury bonds, one should not expect a rise in portfolio investments. This situation may change if the budget faces difficulties on the revenues side (lower inflation); excessive spending resulting from wage claims in the budget sphere; or delays in gaining access to sources for financing the deficit (income stemming from capital privatisation). In the forecast we adopted an optimistic assumption that the government will not amend the 1999 Budget Act. Besides, we anticipate a further reduction in interest rates in 3Q99 after achieving the direct inflation target (see Table 17).

In our forecast we do not expect further downward pressure on the exchange rate (see Table 18). This stems from our assumption of a gradual recovery of Polish exports to Russia and Ukraine and an increase in demand for Polish goods in the second-half of 1999 being the result of an improvement in the economic performance of the EU. Our forecast assumes the situation in world financial and capital markets will not be subject to any major disruptions. At the same time, we expect both privatisation and strong macroeconomic fundamentals to attract further capital investments in Poland.

The weaker zloty in 1999 (compared to 1998) coupled with similar inflows of FDI as in 1998 (including revenues from capital privatisation this is expected to amount to some US$10 billion) will mean a higher supply of reserve money in 1999. Sterilisation of foreign capital inflows by the NBP will prove more difficult to manage when a considerable accumulation of revenues from privatisation is expected to occur in 3Q and 4Q99. Varied periods in the level of privatisation revenues are not possible any more, in particular when this now helps to finance the budget deficit and is not as in previous years an item considered as revenue. Therefore, we recommend the NBP not to undertake any measures intended to weaken the zloty. In our forecast we assume a reduction in the average monthly rate of devaluation to the level of 0 percent at the end of the year. After a reduction of the average monthly devaluation rate to 0.3 percent, only one or two more reductions are possible before the final abolition of the crawling peg regime.

An additional factor complicating the management of liquidity of the NBP and of the banking sector as a whole is the pressure to reduce interest rates and the level of the obligatory reserve ratio for commercial banks. Since January 1999 the calculation of obligatory reserves has been substantially revised (daily calculation replaced with weekly ones), while in the second half of the year a major cut in the ratio is expected. This results from the effort to harmonise NBP instruments with these of the European Central Bank. Moreover, this will help to avoid penalising domestic banks unlike foreign ones. In the EU the required reserve ratio is set between 1.5 and 2.5 percent. We assume in our forecast that this will neither result in an increase in reserve money nor in the money multiplier. In order to avoid inflationary pressures and limit the expansion of domestic credit, the NBP will introduce a financial instrument purchased by commercial banks for amounts released from obligatory reserves. At the same time, this instrument will not compete with treasury bonds and money bills of the NBP so as to avoid a crowding-out effect. The opposition of commercial banks to such a measure by the NBP would be unacceptable by the NBP. The NBP fears an increase in liquidity in the banking system and has no resources to sterilise them at the market price. However, a further delay in the reduction of obligatory reserves may limit the scope for NBP's manoeuvres and increase the cost for banks.

Figure 16. Monetary policy instruments, 1997–1999



Source: NBP.
Note: Starting form 1Q99 – forecast.

The banking system and broad money

The weakening of the zloty in 1Q99 resulted in a change in the currency structure of new loans drawn by Polish banks and enterprises, as well as a reduction in the level of net foreign assets in the banking system. The demand for loans denominated in foreign currencies decreased, while the demand for credits denominated in zlotys rose. Thus, the weaker zloty resulted in an increase in demand for M2 money, which, in contrast to the rise in 1Q98 went up more than 2 percentage points. The domestic M2 velocity continued to decline, as was also the case with the broad M2 which amounted to 2.65 and 3.14 respectively (in comparison with 2.92 and 3.52 in 1Q98). The increase in the demand for credit resulted in a stronger rise in the money multiplier than in previous years, to 4.27 in March 1999 (3.75 in March 1997 and 4.07 in March 1998). In 1Q99 there was no significant increase in the share of credits for the budget sector in the creation of M2 aggregate, in spite of financial difficulties resulting from the implementation of the four social reforms. M2 increased 4.3 percent due to a rise in bank credits (see Table 20). This implies an increase in the monetisation of the Polish economy to 34.5 percent of GDP. In the following quarters we forecast M2 to grow as fast as GDP.

The structure of the M2 aggregate changed. The cash in circulation increased by nearly 6 percent (maintaining a high

Table 20. Components of broad money, 1997–1999 (cumulative %)

Periods		M2	Net foreign assets (NFA)	Net claims on government (NCG)	Claims on deposit money banks (CDMB)	Other items net (OIN)
1997	1Q	5.04	–1.25	2.29	5.91	–1.91
	2Q	12.59	5.48	2.17	10.72	–5.78
	3Q	20.38	10.96	1.66	16.43	–8.67
	4Q	30.89	15.17	6.28	20.90	–11.46
1998	1Q	2.25	3.48	–2.85	3.70	–2.09
	2Q	8.97	5.49	–2.60	7.86	–1.78
	3Q	15.35	6.27	0.86	12.90	–4.68
	4Q	25.12	10.02	3.42	17.18	–5.50
1999	1Q	4.30	–4.12	1.26	4.44	2.71

Source: The NBP Bulletin and authors' calculations.
Notes: The components of reserve money are calculated from the following formula:
$\Delta RM/RM_{-1} = \Delta NFA/RM_{-1} + \Delta NCG/RM_{-1} + \Delta CDMB/RM_{-1} + \Delta OIN/RM_{-1}$,
Net foreign assets were adjusted in value for the effects of floating exchange rate of the zloty to US$, using average exchange rate for the zloty.

Table 21. Calendar of the most important events in the monetary policy of the NBP in 1Q99

Official Journal of the NBP No.	Date of the resolution	Events
3	20 January	NBP rediscount rate 15.5% Lombard rate 17% Refinancing rate 17/18% 28-day repo rate of return equal to at least 13%
4	20 January	Upper limit of NBP liabilities resulting from loans and credits drawn from foreign banking and financial institutions should not exceed 14% of the value of basic assets of the NBP (does not concern foreign liabilities related to the issuance of NBP securities)
5	29 January	Interest on money resources on current account in the NBP 5.1%
n/a	March	Reduction of the average monthly rate of devaluation of the zloty in relation to the basket of foreign currencies from 0.5% to 0.3%

Source: Official Journal of the NBP, various issues. Authors' compilation.

rate of growth as in all the previous year), and the growth of zloty denominated deposits diminished by half as result of their high elasticity to the reduction in interest rates. In particular, this concerns individual deposits. Foreign currency deposits in dollar increased to a small extent, in particular those held by private individuals. We forecast a strong increase in cash will be maintained in 2Q and will then gradually decline (see Appendix 10). Zloty-denominated deposits of private individuals will grow at a slower rate in the first half of the year and at a faster rate in the second-half. We expect that together with the stabilisation of the zloty there will be a reduction in interest for deposits denominated in foreign currencies in the second-half of 1999 as was the case in the previous year. We also envisage a constant pressure on a lowering of interest rates and the obligatory reserve ratio. Credits for private persons and business entities will increase, in particular in the second-half of the year. This is why in our forecast we recommend the NBP to keep the banks' credit action under control as this may increase domestic demand and cause a deterioration in the current account.

Scenario of 'recession in the European Union'

Change in the assumptions concerning the world economy

This chapter analyses the impact of a possible recession in the developed countries on the Polish economy. Even though most analysts expect a weakening of economic activity to firstly take place in the USA, and only then in the EU, the probability of a short and shallow recession is, at present, much higher than at the beginning of the year.

A mild recession would not be too damaging to the Polish economy. Demand for Polish goods would drop; the inflow of FDI and portfolio investment would decrease; and the reduction in external demand would compel the government and the NBP to cool the economy much faster with all the consequences for economic growth.

Instead of reducing the budget deficit in a period of rapid economic growth the former government actually increased it.

Table 22. GDP for selected countries, 1996–2000 (% change)

	Estimate			*Forecast*	
	1996	1997	1998	*1999*	*2000*
The world	**4.0**	**4.1**	**1.8**	***–0.4***	***–2.4***
OECD	**2.9**	**2.8**	**2.0**	***–0.4***	***–2.9***
USA	2.4	3.8	3.9	*0.0*	*–3.5*
Canada	1.5	3.8	3.0	*0.1*	*–4.0*
Japan	3.5	0.8	–2.9	*–1.8*	*–3.0*
European Union	**1.7**	**2.6**	**2.7**	***0.2***	***–2.2***
Germany	1.4	2.3	2.5	*0.5*	*–2.0*
France	1.5	2.3	3.2	*0.7*	*–1.5*
Italy	0.7	1.5	1.4	*1.0*	*–3.0*
United Kingdom	2.3	3.1	2.1	*–1.0*	*–4.0*
Russia	–5.0	0.9	–4.8	*–6.5*	*–2.0*
China	9.6	8.8	7.8	*5.0*	*2.0*

Source: Estimates for the years 1996–98 IMF; simulation forecasts on the basis of the Mc Fair's model developed at Yale University.

Therefore, there is no possibility now of increasing the budget deficit. In this case, one can deduce that the costs of recession may be incomparably higher than the alternative.

A much deeper recession could have grave consequences for the Polish economy. Even if we think there is little probability of this happening we nevertheless decided to describe such a scenario.

We believe that a world recession in the years 1999–2000 could result in a slowdown of economic growth in most countries (see Table 22). This would be more acute in OECD countries, in particular in the EU. Russia and China would also experience the effects of recession. In comparison to the basic assumptions an economic revival could only be possible after 2001 and world product per capita in 2002 would be at the level of 1998.

The decline in world output would lead to an even lower world inflation rate than the one assumed in the previous sce-

Table 23. GDP Deflator for selected countries, 1996–2000 (% change)

	Estimate			*Forecast*	
	1996	**1997**	**1998**	***1999***	***2000***
OECD	**1.5**	**1.4**	**1.0**	***0.7***	***0.2***
USA	2.2	2.0	1.0	*1.0*	*0.2*
Canada	1.3	0.5	–0.4	*0.3*	*0.0*
Japan	–0.1	0.5	0.4	*–0.4*	*–0.8*
European Union	**2.4**	**1.6**	**1.5**	***1.2***	***0.3***
Germany	1.0	0.6	0.9	*1.0*	*0.3*
France	1.6	1.0	0.7	*0.9*	*0.4*
Italy	4.4	2.6	2.6	*1.5*	*0.5*
United Kingdom	3.1	2.2	2.5	*1.3*	*0.2*

Source: Estimates for the years 1996–98 IMF; simulation forecasts on the basis of the Mc Fair's model developed at Yale University.

Table 24. Volume of imports of selected countries, 1996–2000 (% change)

	Estimate			*Forecast*	
	1996	**1997**	**1998**	***1999***	***2000***
The world	**6.1**	**9.1**	**3.7**	***1.0***	***–5.0***
OECD	**6.2**	**7.8**	**6.8**	***1.4***	***–4.2***
USA	6.4	14.3	10.6	*3.0*	*–5.0*
Canada	5.1	12.6	6.4	*0.0*	*–7.0*
Japan	10.3	2.1	–7.7	*–1.0*	*–4.0*
European Union	**2.6**	**6.0**	**7.5**	***2.0***	***–3.0***
Germany	2.8	6.1	6.1	*2.0*	*–2.0*
France	2.2	6.2	8.0	*2.5*	*–2.0*
Italy	–2.0	3.6	6.1	*1.0*	*–2.5*
United Kingdom	7.8	8.3	8.4	*–1.0*	*–6.0*
Russia	10.0	11.0	–16.0	*–17.0*	*–1.0*
China	14.0	12.0	–3.8	*1.0*	*0.0*

Source: Estimates for the years 1996–98 IMF; simulation forecasts on the basis of the Mc Fair's model developed at Yale University.

nario, in particular in the OECD countries. After 1999 inflation (measured in terms of GDP deflator) would grow on average at a rate lower than 1 percent per year (see Table 23).

The reduction in the growth rate and lower inflation could lead to looser monetary polices in developed countries. In such a situation it would be possible to reduce real interest rates on average by 1 percentage point per year.

The direct effect of this scenario would be a reduction in global trade flows (see Table 24). One could expect a decline in the volume of imports by 5 percent in 2000.

We stress once again that a possible world recession would result in a significant slowdown of Polish economic growth, mainly due to adverse demand impulses. Lower Polish exports would, in turn, lead to lower output and in this case only a lowering of production costs and flexible adaptation to the changed situation in foreign markets could prevent a collapse of the economy.

Analysis of simulation results

The results of our simulation are summed up in the following points (see also Table 25):

(i) The opening of the Polish economy would result in a substantial decrease in economic growth due to the worldwide recession. The expected reduction in the volume of exports (by 1 percent in 1999 and 6 percent in 2000, respectively) would be the main factor behind a reduction in economic growth. GDP would grow 2.9 percent in 1999 and only 0.4 percent in 2000. We expect that, like in the former scenario, an increase in value added in agriculture would be quite small. The rate of growth in non-agricultural sectors would decrease to a level lower than 3 percent in the years 1999–2000. The lowest level would be achieved in 2000 (0.3 percent). We do not expect a recession in the non-agricultural sectors since the internal demand impulse would suffice to maintain a positive, albeit low growth rate.

(ii) Economic policy in the years 1999–2000 should aim to achieve an adequate adjustment in domestic demand. This would be accomplished at the expense of cuts in investment outlays and government purchases. Thus, domestic demand would grow at a slower rate than GDP, and the volume of imports in the years 1999-2000 would decrease by 2 and 12 percent respectively. As it can be seen in Table 25, the basic factor which might allow for a maintenance of positive growth would be individual consumption.

(iii) The exchange rate during the period of recession and relative deflation would be forced to react flexibly to the expected sharp reduction in inflows of foreign capital and an improvement in Polish foreign trade. Thus one can expect, on one the hand, a clear improvement in the balance of trade (in comparison with the former scenario). On the other hand, the balance of payments may be subject to a severe deterioration. We expect that official currency reserves may decrease by over US$7 billion in the years 1999–2000. Therefore, as a result, one can expect a downward pressure on the zloty, which would have to be neutralised with adequate interest rate policy (exchange rates of the dollar and Euro are presented in Table 25).

(iv) The inflation rate (measured as CPI) could decrease much faster than in the former scenario. This well be due to an improvement in the balance of payments and disinflation in the world economy.

(v) The preservation of tight monetary policy during the recession would not be feasible, which is why we assume that both real and nominal interest rates would be substantially lower than in the first scenario. However, real interest rates could still be higher than in developed countries (long-term ones ranging between 1.5–2.5 percent) throughout the whole forecast period. The relation of interest rates could be even more favourable if changes in interest rates were taken into consideration. This situation would prevent an excessive outflow of foreign investment, but at the same time would not facilitate an excessive weakening of the zloty.

Table 25. Basic macroeconomic indicators – a warning forecast

	GDP		Domestic demand	Individual consumption	Investment	Budget deficit	Value added		
							Total	Industry	Construction
	billion zloty	% change	% change	% change	% change	% of GDP	% change	% change	% change
1997 1Q–4Q	469	6.8	9.2	6.8	21.7	–1.3	6.5	10.3	13.6
1998 1Q–4Q	550	4.8	6.7	4.9	14.7	–2.4	4.5	4.2	10.8
Forecast									
1999 1Q–4Q	*599*	*2.9*	*3.3*	*3.0*	*5.0*	*–2.5*	*2.6*	*–2.0*	*2.9*
2000 1Q–4Q	*632*	*0.4*	*–0.2*	*1.6*	*–6.0*	*–3.5*	*0.2*	*–1.0*	*0.3*

	Unemployment rate LFS	Balance of current account	Balance of payments for good and transactions	M2	Rediscount rate	Exchange rate of the dollar	Exchange rate of the euro	CPI	PPI
	%	US$ billion	US$ billion	billion zloty	%	zloty/US$	zloty/euro	% change	% change
1997 1Q–4Q	10.2	–4.3	–11.3	176.4	24.5	3.28	x	14.9	12.2
1998 1Q–4Q	10.6	–6.9	–13.7	220.8	18.3	3.49	3.88	11.8	7.3
Forecast									
1999 1Q–4Q	*10.9*	*–11.1*	*–14.3*	*262.0*	*13.0*	*3.80*	*4.30*	*6.3*	*4.0*
2000 1Q–4Q	*13.2*	*–10.0*	*–11.5*	*280.0*	*12.0*	*3.80*	*4.40*	*4.0*	*2.0*

Source: 1997–98 data – CSO and CASE's calculations, forecast – CASE's calculations

Threats

1. The Polish economic situation in 1999 will be more difficult than in 1998. One can expect considerable tensions in the consolidated budget. Because tax revenues may be lower than assumed in the budget by 1–1.5 percent, social and administrative reforms may prove more expensive than previously expected. This may lead to cuts in other expenditures and, in turn, reduce public consumption. Unless expenditures are limited (in particular in local budgets and in para-budgets), then demand for financing of budget sector may grow excessively. Paradoxically, however, a larger budget deficit in the first-half of the year may lead to relative reduction in credit activities and thus delay the influence of reductions in interest rates on domestic demand.

2. Other trends in macroeconomic aggregates, such as a rapid growth of indebtedness of Polish companies in international financial markets, rise in unit labour costs in industry or else growing unemployment, are additional sources of concern. A further continuation of similar trends could trigger tensions in the Polish economy, similar to those observed in the second-half of 1996.

3. The fundamental dilemma of the Polish economy is how to maintain a high rate of growth. We are of the opinion that stimulation of domestic demand and in turn fuelling inflationary pressures would not be justified if inflation tends to increase again.

4. An additional factor that increases the uncertainty of the forecast is exports. If trends similar to those operating last year prevail, then we can expect further economic difficulties for Poland and slower GDP growth than predicted in the present forecast.

Recommendations for economic policy

1. Economic policy should be adjusted to a lower rate of export growth.

2. Domestic demand should not be stimulated excessively (since this would entail a deterioration in the current account balance); credit activities should be kept under control – this will prove very difficult since the pressure on a reduction of interest rates and required reserve ratio is clearly visible.

3. Interest rates should be reduced very in a cautions manner (keeping in mind their influence on stimulating domestic demand).

4. The NBP should not intervene in the currency market to weaken the zloty since this will prove too costly for the budget (reduction in profits or even the possibility of appearance of a negative result) and the budget would not be able to cover such costs.

Table A1. GDP in constant 1997 prices, 1994–2000 (% change)

Periods		GDP	Gross value added					
			total	agriculture and forestry	industry	construction	market services	non-market services
1994	1Q–4Q	5.2	4.9	–15.1	9.6	2.7	6.9	7.4
1995	1Q–4Q	7.0	6.7	10.4	10.2	5.8	6.0	2.5
1996	1Q–4Q	6.0	5.3	2.4	7.5	2.8	6.1	2.6
1997	1Q–4Q	6.8	6.4	1.1	10.3	13.6	4.4	2.8
1998	1Q–4Q	4.8	4.4	5.2	4.2	10.3	4.6	0.1
Forecast								
1999	*1Q–4Q*	*3.7*	*3.3*	*–1.5*	*3.9*	*5.4*	*3.8*	*1*
2000	*1Q–4Q*	*5.7*	*5.4*	*1.8*	*7.5*	*8.4*	*4.9*	*1.5*
1995	1Q	6.2	6.6	7.3	11.1	7.0	4.6	4.4
	2Q	6.7	6.7	8.1	10.6	7.3	5.1	3.8
	3Q	8.1	7.4	16.3	9.9	6.1	6.0	3.2
	4Q	6.8	6.1	9.0	9.3	4.1	6.8	–0.3
1996	1Q	3.3	3.0	1.8	5.7	–13.6	3.5	2.8
	2Q	5.3	5.2	2.2	7.0	1.0	5.8	2.6
	3Q	7.1	6.3	3.2	9.7	5.2	5.9	2.6
	4Q	7.9	6.5	2.1	7.7	10.1	7.0	2.3
1997	1Q	6.9	6.4	2.3	8.7	14.7	5.5	1.7
	2Q	7.5	6.7	1.8	11.5	15.6	4.4	3.2
	3Q	6.7	6.4	–0.3	10.7	13.3	4.2	3.8
	4Q	6.4	6.3	1.0	10.2	12.2	3.7	2.7
1998	1Q	6.4	6.1	1.6	10.6	15.1	4.3	2.2
	2Q	5.3	5.0	3.9	5.2	12.8	5.6	0
	3Q	4.9	4.5	8.5	3.6	10.2	5.5	–1.1
	4Q	2.9	2.3	5.9	–1.3	7.3	3.4	–0.9
1999	1Q	1.6	1.2	1.9	–2.7	2.9	3.8	0.9
Forecast								
1999	*2Q*	*3.2*	*2.8*	*–1.1*	*2.6*	*5.0*	*3.4*	*1.3*
	3Q	*3.9*	*3.4*	*–3.1*	*4.6*	*5.5*	*3.7*	*1.3*
	4Q	*5.7*	*5.4*	*–2.9*	*10.5*	*6.6*	*4.1*	*0.8*
2000	*1Q*	*5.5*	*5.1*	*–1.8*	*8.9*	*7.8*	*4.3*	*1.4*
	2Q	*5.5*	*5.1*	*0.0*	*7.5*	*7.6*	*4.6*	*1.5*
	3Q	*5.6*	*5.3*	*3.8*	*6.5*	*8.5*	*4.9*	*1.6*
	4Q	*6.0*	*5.8*	*4.6*	*7.4*	*9.0*	*5.5*	*1.6*

Source: 1Q94–1Q99 data – CSO and CASE, forecast – CASE's calculations.

Table A2. Aggregate demand, 1994–2000 (current prices in billion of zloty)

Periods		GDP	Domestic demand	Consumption			Investment	Investment in inventories	Trade balance
				total	individual	public			
Estimate									
1994	1Q–4Q	223.90	219.78	179.40	139.94	39.46	40.39	–0.71	4.83
1995	1Q–4Q	306.32	295.78	238.38	184.78	53.60	57.40	3.30	7.24
1996	1Q–4Q	385.45	387.05	306.66	239.76	66.90	80.39	4.43	–6.03
1997	1Q–4Q	469.37	484.60	373.74	293.87	79.88	110.85	5.15	–20.37
1998	1Q–4Q	550.41	579.37	435.78	344.23	91.55	143.59	5.88	–34.84
Forecast									
1999	*1Q–4Q*	*611.21*	*643.94*	*476.68*	*377.97*	*98.71*	*167.26*	*5.77*	*–38.50*
2000	*1Q–4Q*	*684.85*	*723.02*	*523.80*	*416.97*	*106.83*	*199.22*	*5.73*	*–43.90*
Estimate									
1996	1Q	83.25	82.95	71.35	55.94	15.41	11.60	0.81	–0.52
	2Q	90.65	93.61	76.39	59.20	17.18	17.22	0.89	–3.86
	3Q	98.11	99.32	79.45	62.10	17.36	19.87	0.83	–2.03
	4Q	113.44	111.17	79.47	62.52	16.95	31.70	1.90	0.38
1997	1Q	103.08	103.71	88.23	69.53	18.70	15.48	0.92	–1.54
	2Q	112.24	117.14	93.86	73.12	20.74	23.29	1.04	–5.95
	3Q	118.39	123.27	96.14	75.50	20.64	27.13	1.00	–5.87
	4Q	135.66	140.48	95.52	75.72	19.80	44.96	2.20	–7.01
1998	1Q	122.67	128.95	107.05	84.42	22.63	21.90	1.10	–7.37
	2Q	132.91	140.06	109.51	85.74	23.77	30.55	1.27	–8.42
	3Q	138.70	146.26	111.09	87.77	23.32	35.17	1.14	–8.70
	4Q	156.13	164.11	108.13	86.29	21.84	55.97	2.36	–10.35
1999	1Q	133.22	141.20	116.13	91.95	24.18	25.07	1.11	–9.09
Forecast									
1999	*2Q*	*146.77*	*155.07*	*119.72*	*94.05*	*25.67*	*35.35*	*1.25*	*–9.55*
	3Q	*154.44*	*162.79*	*121.98*	*96.79*	*25.19*	*40.80*	*1.10*	*–9.45*
	4Q	*176.77*	*184.88*	*118.84*	*95.18*	*23.66*	*66.04*	*2.30*	*–10.42*
2000	*1Q*	*149.52*	*157.37*	*127.48*	*101.45*	*26.04*	*29.88*	*1.16*	*–9.00*
	2Q	*164.52*	*173.82*	*131.55*	*103.77*	*27.78*	*42.27*	*1.30*	*–10.60*
	3Q	*172.60*	*182.95*	*134.37*	*107.01*	*27.36*	*48.59*	*1.14*	*–11.50*
	4Q	*198.21*	*208.88*	*130.39*	*104.73*	*25.66*	*78.48*	*2.14*	*–12.80*

Source: 1Q94–1Q99 data – CSO and CASE, forecast – CASE's calculations.

Table A3. Aggregate demand in constant 1997 prices, 1994–2000 (% change)

Periods		GDP	Domestic demand	Consumption			Investment
				total	individual	public	
Estimate							
1994	1Q–4Q	5.2	4.8	3.9	4.3	2.8	9.2
1995	1Q–4Q	7.0	5.5	3.2	3.3	2.9	16.5
1996	1Q–4Q	6.0	9.5	7.1	8.2	3.4	19.7
1997	1Q–4Q	6.8	9.3	6.1	6.9	3.3	21.7
1998	1Q–4Q	4.8	6.6	4.2	4.9	1.7	14.5
Forecast							
1999	*1Q–4Q*	*3.7*	*3.9*	*2.3*	*2.8*	*0.7*	*8.5*
2000	*1Q–4Q*	*5.7*	*5.7*	*3.4*	*3.9*	*1.3*	*12.3*
Estimate							
1996	1Q	3.3	6.9	8.1	6.9	2.4	12.9
	2Q	5.3	8.8	2.3	7.0	5.3	20.1
	3Q	7.1	10.2	1.7	8.1	3.4	25.2
	4Q	7.9	11.6	–3.1	10.8	2.5	19.1
1997	1Q	6.9	7.9	5.2	6.7	3.3	19.6
	2Q	7.5	9.0	2.6	7.1	4.0	21.0
	3Q	6.7	9.3	1.6	7.0	3.7	21.2
	4Q	6.4	10.7	–3.6	6.6	2.3	23.2
1998	1Q	6.4	7.3	5.0	6.4	2.3	17.3
	2Q	5.3	6.0	0.9	4.2	2.0	15.0
	3Q	4.9	6.2	1.8	4.5	1.8	14.4
	4Q	2.9	6.8	–3.7	4.6	0.8	13.4
1999	1Q	1.6	2.9	3.4	2.5	1.4	6.0
Forecast							
1999	*2Q*	*3.2*	*3.5*	*0.9*	*2.8*	*0.4*	*7.9*
	3Q	*3.9*	*3.8*	*1.8*	*2.9*	*0.2*	*8.4*
	4Q	*5.7*	*5.0*	*–3.5*	*3.0*	*0.7*	*10.0*
2000	*1Q*	*5.5*	*4.6*	*3.9*	*3.5*	*1.1*	*11.9*
	2Q	*5.5*	*5.5*	*1.3*	*4.0*	*1.1*	*12.5*
	3Q	*5.6*	*5.8*	*2.0*	*4.2*	*1.4*	*12.3*
	4Q	*6.0*	*6.6*	*–3.6*	*4.0*	*1.6*	*12.2*

Source: 1Q94–1Q99 data – CSO and CASE, forecast – CASE's calculations.

Table A4. Paid employment, 1994–2000 (thousand)

Periods		Total	Paid employment				Market services	Non-market services
			of witch employment	agriculture and forestry	industry	construction		
Estimate								
1994	1Q–4Q	14475	8519	3887	3641	820	3615	2189
1995	1Q–4Q	14735	8570	3836	3757	841	3716	2248
1996	1Q–4Q	15021	8548	4010	3730	843	3814	2277
1997	1Q–4Q	15439	8637	3985	3740	908	4107	2316
1998	1Q–4Q	15699	8752	3961	3723	939	4309	2352
Forecast								
1999	*1Q–4Q*	*15683*	*8699*	*3927*	*3633*	*940*	*4393*	*2349*
2000	*1Q–4Q*	*15702*	*8674*	*3888*	*3559*	*966*	*4468*	*2350*
Estimate								
1994	1Q	14300	8486	3891	3587	797	3579	2145
	2Q	14431	8485	3895	3632	822	3616	2152
	3Q	14461	8517	3916	3636	829	3605	2159
	4Q	14706	8587	3904	3708	831	3660	2300
1995	1Q	14489	8507	3839	3657	800	3648	2233
	2Q	14711	8562	3835	3755	847	3712	2233
	3Q	14763	8534	3863	3782	855	3708	2219
	4Q	14977	8668	3856	3835	862	3797	2307
1996	1Q	14682	8487	4002	3635	737	3721	2260
	2Q	14932	8513	4001	3721	837	3784	2255
	3Q	15083	8522	4044	3754	879	3812	2249
	4Q	15386	8671	4038	3811	919	3938	2344
1997	1Q	15048	8567	3982	3645	789	3990	2290
	2Q	15374	8645	3980	3731	913	4068	2311
	3Q	15594	8675	4020	3771	956	4154	2309
	4Q	15739	8706	4006	3813	974	4218	2356
1998	1Q	15436	8717	3960	3656	844	4237	2349
	2Q	15669	8759	3957	3747	953	4262	2341
	3Q	15771	8714	3995	3732	978	4326	2322
	4Q	15917	8816	3978	3758	982	4405	2395
1999	1Q	15443	8695	3930	3558	843	4336	2359
Forecast								
1999	*2Q*	*15630*	*8709*	*3925*	*3648*	*946*	*4327*	*2350*
	3Q	*15748*	*8670*	*3960*	*3645*	*979*	*4393*	*2328*
	4Q	*15872*	*8721*	*3940*	*3681*	*991*	*4476*	*2358*
2000	*1Q*	*15445*	*8658*	*3898*	*3484*	*860*	*4399*	*2359*
	2Q	*15638*	*8675*	*3890*	*3572*	*970*	*4391*	*2349*
	3Q	*15768*	*8654*	*3920*	*3570*	*1010*	*4464*	*2330*
	4Q	*15905*	*8707*	*3890*	*3608*	*1025*	*4565*	*2360*

Source: 1Q94–1Q99 data – CSO and CASE, forecast – CASE's calculations.
Note: Employment is calculated according to the CSO's methodology.

Table A5. Unemployment, 1994–2000 (thousand)

Periods		Registered unemployment		Unemployment (LFS)	
		thousand	%	thousand	%
Estimate					
1995	1Q–4Q	2341	13.5	2018	11.6
1996	1Q–4Q	2360	13.2	1961	11.5
1997	1Q–4Q	1826	10.3	1737	10.2
1998	1Q–4Q	1831	10.4	1827	10.6
Forecast					
1999	*1Q–4Q*	*2060*	*11.6*	*2066*	*11.8*
2000	*1Q–4Q*	*2167*	*12.1*	*2173*	*12.3*
Estimate					
1995	1Q	2754	15.5	2491	14.7
	2Q	2694	15.2	2156	12.6
	3Q	2657	15.0	2227	12.9
	4Q	2629	14.9	2233	13.1
1996	1Q	2726	15.4	2349	14.0
	2Q	2508	14.3	2103	12.4
	3Q	2341	13.5	2018	11.6
	4Q	2360	13.2	1961	11.5
1997	1Q	2236	12.6	2176	12.8
	2Q	2040	11.6	1927	11.3
	3Q	1854	10.7	1853	10.7
	4Q	1826	10.3	1737	10.2
1998	1Q	1846	10.4	1896	11.1
	2Q	1688	9.6	1753	10.2
	3Q	1677	9.6	1786	10.3
	4Q	1831	10.4	1827	10.6
1999	1Q	2170	12.1	2141	12.5
Forecast					
1999	*2Q*	*2050*	*11.6*	*2048*	*11.9*
	3Q	*1990*	*11.3*	*2034*	*11.6*
	4Q	*2060*	*11.6*	*2066*	*11.8*
2000	1Q	*2309*	*12.8*	*2255*	*13.1*
	2Q	*2183*	*12.2*	*2178*	*12.5*
	3Q	*2110*	*11.9*	*2154*	*12.2*
	4Q	*2167*	*12.1*	*2173*	*12.3*

Source: 1Q94–1Q99 data – CSO and CASE, forecast – CASE's calculations.

Table A6. Selected price indices, 1994–1999 (percent YoY)

Periods		CPI	PPI industry	PPI construction	Export price index	Import price index
1996	01	21.0	14.1	22.0	7.1	6.8
	02	20.4	14.8	21.6	8.6	5.4
	03	20.4	15.5	20.5	3.0	9.8
	04	20.3	14.6	20.5	6.0	8.0
	05	19.8	13.7	19.9	6.6	3.7
	06	19.5	13.2	20.0	12.1	11.6
	07	20.4	11.8	19.7	12.1	7.2
	08	20.5	11.3	18.9	14.6	12.3
	09	19.5	9.6	18.3	10.9	12.3
	10	19.5	10.3	17.5	1.2	17.3
	11	19.1	10.1	16.6	7.5	13.6
	12	18.5	11.2	16.3	8.3	21.7
1997	01	17.8	12.9	14.5	12.5	16.0
	02	17.3	11.9	14.4	7.9	13.4
	03	16.6	11.8	14.5	12.7	9.8
	04	15.3	12.0	14.5	11.9	11.6
	05	14.6	12.4	14.4	9.2	17.0
	06	15.3	12.2	14.0	14.1	8.6
	07	14.9	12.0	14.3	14.5	14.1
	08	14.5	12.5	14.2	10.5	16.2
	09	13.6	13.0	14.1	15.2	14.7
	10	13.1	12.1	14.3	16.3	13.1
	11	13.2	12.1	14.2	12.9	14.8
	12	13.2	11.5	14.5	13.4	14.5
1998	01	13.6	9.2	15.7	9.8	7.9
	02	14.2	9.1	15.7	10.0	11.0
	03	13.9	9.2	15.4	11.5	10.4
	04	13.7	8.4	14.6	8.4	4.4
	05	13.3	8.2	14.4	8.2	0.7
	06	12.2	7.7	14.1	7.8	4.4
	07	11.9	7.0	13.6	6.9	1.5
	08	11.3	6.6	13.0	4.4	–5.6
	09	10.6	6.4	12.4	7.0	3.3
	10	9.9	5.8	11.7	3.8	3.4
	11	9.2	5.1	11.1	3.2	–2.3
	12	8.6	4.8	10.6	4.7	–5.1
1999	01	6.9	3.9	9.9		
	02	5.6	3.7	9.4		
	03	6.2	4.5	9.1		

Source: CSO.

Table A7. Exchange rates, 1996–1999 (in zloty)

Periods		US$/zloty	DM/zloty	EURO/zloty
1996	01	2.5110	1.7189	3.1702
	02	2.5442	1.7350	3.1858
	03	2.5760	1.7437	3.2304
	04	2.6214	1.7435	3.2605
	05	2.6716	1.7432	3.2826
	06	2.7145	1.7774	3.3630
	07	2.7147	1.8047	3.4098
	08	2.7291	1.8401	3.4612
	09	2.7781	1.8443	3.4956
	10	2.8189	1.8435	3.5322
	11	2.8158	1.8628	3.5766
	12	2.8579	1.8447	3.5542
1997	01	2.9273	1.8312	3.5538
	02	3.0279	1.8104	3.5132
	03	3.0793	1.8163	3.5276
	04	3.1212	1.8250	3.5604
	05	3.1713	1.8605	3.6272
	06	3.2385	1.8749	3.6618
	07	3.3965	1.8962	3.7416
	08	3.4817	1.8948	3.7276
	09	3.4566	1.9333	3.7917
	10	3.4223	1.9454	3.8226
	11	3.5033	2.0230	3.9996
	12	3.5256	1.9852	3.9268
1998	01	3.5316	1.9461	3.8432
	02	3.5386	1.9505	3.8503
	03	3.4593	1.8941	3.7560
	04	3.4194	1.8827	3.7329
	05	3.4188	1.9246	3.7917
	06	3.4789	1.9420	3.8362
	07	3.4592	1.9226	3.8002
	08	3.5850	2.0046	3.9543
	09	3.6066	2.1211	4.1713
	10	3.4955	2.1353	4.2071
	11	3.4496	2.0514	4.0323
	12	3.4858	2.0884	4.0979
1999	01	3.5417	2.1007	4.1087
	02	3.7948	2.1727	4.2494
	03	3.9430	2.1928	4.2886

Source: NBP.

Table A8. Foreign trade, 1996–1999 (US$ million)

Periods		Exports		Imports		Balance	
		CSO	NBP	CSO	NBP	CSO	NBP
1996	01	1913	1737	2659	2398	–746	–661
	02	1946	1803	2683	2202	–737	–399
	03	2089	1997	2857	2379	–767	–382
	04	1993	1968	3008	2488	–1016	–520
	05	1898	2030	2998	2679	–1100	–649
	06	1893	1876	3059	2411	–1166	–535
	07	2238	2304	3239	2844	–1001	–540
	08	2036	1906	2874	2716	–838	–810
	09	2095	2011	3186	2775	–1091	–764
	10	2384	2196	3679	3327	–1295	–1131
	11	2107	2145	3490	2950	–1384	–805
	12	1848	2447	3407	3405	–1559	–958
1997	01	2011	1905	3405	3383	–1394	–1478
	02	2029	1941	3051	2650	–1022	–709
	03	2081	1920	3313	2805	–1231	–885
	04	2180	2361	3652	3319	–1472	–958
	05	1947	2035	3336	2864	–1388	–829
	06	2187	2296	3569	3196	–1382	–900
	07	2015	2372	3396	3275	–1382	–903
	08	1888	2157	3073	2876	–1186	–719
	09	2304	2489	3677	3397	–1373	–908
	10	2676	2790	3999	3654	–1324	–864
	11	2292	2359	3898	3311	–1606	–952
	12	2142	2604	3940	3819	–1797	–1215
1998	01	2156	2120	3172	3565	–1016	–1445
	02	2377	2265	3667	3078	–1290	–813
	03	2490	2671	4248	3657	–1758	–986
	04	2340	2468	3849	3496	–1509	–1028
	05	2300	2449	3886	3350	–1586	–901
	06	2401	2753	3959	3699	–1558	–946
	07	2393	2936	3929	3924	–1537	–988
	08	2168	2529	3552	3309	–1385	–780
	09	2332	2336	4516	3864	–2183	–1528
	10	2621	2533	4372	3908	–1750	–1375
	11	2369	2369	4098	3695	–1728	–1326
	12	2283	2693	3807	4297	–1524	–1604
1999	01		2119		3331		–1212
	02		2522		3305		–783
	03		2463		3367		–904

Source: CSO and NBP.

Table A9. Balance of payments, 1997–1999 (US$ billion)

Periods		Balance of						Official reserves, gross
		current account	merchandise trade	current transfers	unclassified current transactions	FDI	portfolio investment	
1997	01	–898	–1478	87	379	108	204	–559
	02	–228	–709	89	350	138	352	–306
	03	–408	–885	80	391	210	–148	374
	04	–766	–958	111	493	317	528	–668
	05	–139	–829	88	524	168	310	–328
	06	–289	–900	78	454	294	233	–954
	07	–318	–903	103	508	290	301	–44
	08	–138	–719	68	527	110	203	–419
	09	–454	–908	90	589	377	135	1
	10	–64	–864	120	762	477	421	–823
	11	–283	–952	96	509	292	–246	–8
	12	–327	–1215	140	525	260	–195	143
1998	01	–963	–1443	102	374	477	–309	–97
	02	–278	–813	131	397	150	268	–2197
	03	–755	–986	120	392	277	253	–284
	04	–428	–1001	121	578	334	89	–848
	05	–200	–901	117	587	539	130	–492
	06	–8	–945	399	550	248	144	–650
	07	–102	–988	192	574	589	121	–1378
	08	183	–780	165	856	661	–643	–174
	09	–1296	–1528	163	438	496	–336	649
	10	–962	–1375	159	449	359	–73	228
	11	–830	–1326	149	363	201	723	–634
	12	–1187	–1604	124	437	638	963	178
1999	01	–894	–1212	101	320	291	–82	–114
	02	–488	–783	102	241	293	–176	–83
	03	–844	–904	174	237	537	–64	–192

Source: NBP.

Table A10. Interest rates (%)

Periods		rediscount rate	lombard rate	3-month WIBOR	28-day repo rate
1996	01	23.0	26.0	22.95	–
	02	23.0	26.0	22.67	–
	03	23.0	26.0	22.65	–
	04	23.0	26.0	22.87	–
	05	23.0	26.0	21.59	–
	06	23.0	26.0	21.63	–
	07	22.0	25.0	20.18	–
	08	22.0	25.0	19.46	–
	09	22.0	25.0	20.01	–
	10	22.0	25.0	19.76	–
	11	22.0	25.0	19.80	–
	12	22.0	25.0	22.43	–
1997	01	22.0	25.0	22.22	–
	02	22.0	25.0	22.55	–
	03	22.0	25.0	22.80	–
	04	22.0	25.0	22.96	–
	05	22.0	25.0	22.94	–
	06	22.0	25.0	22.73	–
	07	22.0	25.0	26.19	–
	08	24.5	27.0	25.80	–
	09	24.5	27.0	25.40	–
	10	24.5	27.0	25.23	–
	11	24.5	27.0	25.50	–
	12	24.5	27.0	26.28	–
1998	01	24.5	27.0	26.50	23.5
	02	24.5	27.0	24.89	24.0
	03	24.5	27.0	25.13	23.0
	04	24.5	27.0	23.74	23.0
	05	23.5	26.0	22.52	21.5
	06	23.5	26.0	22.15	21.5
	07	21.5	24.0	19.95	19.0
	08	21.5	24.0	19.99	19.0
	09	21.5	24.0	18.32	18.0
	10	20.0	22.0	17.00	17.0
	11	20.0	22.0	16.17	17.0
	12	18.25	20.0	15.81	15.5
1999	01	15.5	17.0	13.60	13.0
	02	15.5	17.0	13.18	13.0
	03	15.5	17.0	13.22	13.0

Source: NBP.
Note: End of month.

Table A11. Monetary indicators, 1996–2000 (billion zloty)

Periods		M0	M2	Notes and coin	Zloty deposits			Foreign currency deposits	Credits			Government securities
					total	individual	corporate		total	individual	corporate	
1996	1Q–4Q	34.2	134.8	27.6	103.2	73.3	29.9	28.1	100.3	16.4	83.9	57.1
1997	1Q–4Q	42.3	176.4	27.3	115.5	80.9	34.6	30.2	106.3	18.4	87.9	63.2
1998	1Q–4Q	53.6	220.8	30.2	156.9	109.6	47.3	33.6	138.5	23.9	114.6	72.0
Forecast												
1999	*1Q–4Q*	*62.5*	*257.4*	*33.5*	*183.0*	*135.0*	*48.0*	*40.9*	*179.9*	*31.4*	*148.5*	*84.0*
2000	*1Q–4Q*	*71.4*	*293.7*	*34.2*	*216.0*	*164.0*	*52.0*	*43.5*	*226.0*	*44.2*	*181.8*	*93.2*
1996	1Q	30.0	110.6	20.6	68.9	46.3	22.5	21.1	59.6	6.4	53.2	49.3
	2Q	33.0	116.9	22.3	73.0	49.7	23.3	21.5	64.2	7.8	56.3	54.4
	3Q	32.6	123.3	23.0	77.9	52.8	25.1	22.4	70.6	9.4	61.2	56.5
	4Q	34.2	134.8	23.6	88.0	57.4	30.6	23.3	81.1	11.8	69.3	59.0
1997	1Q	37.7	141.6	24.6	89.4	63.3	26.1	24.6	86.9	12.8	74.1	58.5
	2Q	41.2	151.8	26.8	95.8	68.5	27.3	26.0	93.3	14.8	78.4	57.0
	3Q	44.1	162.3	27.6	103.2	73.3	29.9	28.1	100.3	16.4	83.9	57.1
	4Q	42.3	176.4	27.3	115.5	80.9	34.6	30.2	106.3	18.4	87.9	63.2
1998	1Q	44.4	180.4	27.3	120.2	88.9	31.3	29.1	112.4	18.6	93.8	61.1
	2Q	49.7	192.3	29.7	128.9	95.1	33.8	28.9	118.8	20.1	98.7	63.4
	3Q	49.7	203.5	30.3	138.2	101.8	36.4	30.0	126.9	21.9	105.0	68.9
	4Q	53.6	220.8	30.2	156.9	109.6	47.3	33.6	138.5	23.9	114.6	72.0
1999	1Q	56.6	230.3	32.0	161.2	116.5	44.6	37.1	148.3	25.2	123.1	66.6
Forecast												
1999	*2Q*	*61.6*	*238.3*	*33.5*	*164.0*	*122.0*	*42.0*	*40.8*	*153.8*	*27.2*	*126.7*	*70.5*
	3Q	*60.0*	*245.4*	*34.0*	*171.0*	*128.0*	*43.0*	*40.4*	*164.1*	*29.0*	*135.1*	*77.2*
	4Q	*62.5*	*257.4*	*33.5*	*183.0*	*135.0*	*48.0*	*40.9*	*179.9*	*31.4*	*148.5*	*84.0*
2000	*1Q*	*64.7*	*263.2*	*33.7*	*187.0*	*142.0*	*45.0*	*42.5*	*181.5*	*32.7*	*148.8*	*73.7*
	2Q	*70.9*	*274.1*	*34.5*	*196.0*	*149.0*	*47.0*	*43.6*	*195.8*	*36.2*	*159.6*	*78.5*
	3Q	*68.9*	*282.2*	*34.5*	*204.0*	*156.0*	*48.0*	*43.7*	*207.1*	*38.8*	*168.3*	*85.6*
	4Q	*71.4*	*293.7*	*34.2*	*216.0*	*164.0*	*52.0*	*43.5*	*226.0*	*44.2*	*181.8*	*93.2*

Source: Data for 1996–1Q99 – CSO and CASE, forecast – CASE's calculations.