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Current economic situation in the Republic of Poland

Obecna sytuacja ekonomiczna w Polsce

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Abstract. The priorities for next years are structural reforms (OECD, 2021):

- education and skills: promote participation in lifelong learning;
- labor market: increase the labor force participation rate of older workers and women;
- environmental policy: reduce air pollution levels and carbon emissions;
- healthcare: improve efficiency in health and long-term care;
- competition and regulation: ease business regulations and improve bankruptcy proceedings.

Recommendation for business policy for coming years in Poland should take following aspects under consideration: ensuring the coherence of fiscal and monetary policies (the so-called policy mix) and restoring credibility each of these policies, stabilization of public finances, strengthening free market approach in the economy, launching KPO, stimulating investments, including energy transformation, the independence of banks from politics. It has been shown the following threats for Polish economy: inflation, energy price rise, conflict between Russia and Ukraine, COVID-19, lower consumption, rising unemployment. To protect and to help Polish economy should take under consideration many different aspects in wide understanding areas in fiscal and macroeconomic policy. Cooperation of all institutions with government should be considered to pick up the best options to protect the Polish economy.

Keywords: macroeconomy, Republic of Poland, current economic situation

Abstrakt. Priorytetami na najbliższe lata są reformy strukturalne (OECD, 2021):

- wykształcenie i umiejętności: promowanie uczestnictwa w uczeniu się przez całe życie;
- rynek pracy: zwiększenie wskaźnika aktywności zawodowej starszych pracowników i kobiet;
- polityka środowiskowa: zmniejszenie poziomu zanieczyszczenia powietrza i emisji dwutlenku węgla;
- opieka zdrowotna: poprawa efektywności opieki zdrowotnej i długoterminowej;
- konkurencja i regulacje: złagodzenie przepisów biznesowych i usprawnienie postępowań upadłościowych.

Rekomendacja dla polityki gospodarczej w Polsce na najbliższe lata powinna uwzględniać następujące aspekty: zapewnienie spójności polityki fiskalnej i monetarnej (tzw. policy mix) oraz przywrócenie wiarygodności każdej z tych polityk, stabilizacja finansów publicznych, wzmocnienie wolnorynkowego

podejścia w gospodarce, uruchamianie KPO, pobudzenie inwestycji, w tym transformacja energetyczna, niezależność banków od polityki.

Wskazano na następujące zagrożenia dla polskiej gospodarki: inflacja, wzrost cen energii, konflikt między Rosją a Ukrainą, COVID-19, mniejsza konsumpcja, rosnące bezrobocie. Aby chronić polską gospodarkę i jej pomagać, powinno się uwzględniać wiele różnych aspektów w szeroko rozumianych obszarach polityki fiskalnej i makroekonomicznej. Trzeba rozważyć współpracę wszystkich instytucji z rządem w celu wybrania najlepszej opcji ochrony polskiej gospodarki. Należy wskazać zatem na współpracę środowiska akademickiego ze środowiskiem politycznym w celu wybrania najlepszej opcji gospodarczej w zaistniałej sytuacji.

Słowa kluczowe: makroekonomia, Rzeczpospolita Polska, obecna sytuacja ekonomiczna

Introduction (basic information about Poland)

Poland, the Republic of Poland (RP) – a unitary state (sejm.gov.pl, 1997) in Central Europe (Johnson, 1996, p. 3), located between the Baltic Sea in the north and the Sudetes and Carpathians in the south, mostly in the basin of the Vistula and the Oder. From the north, Poland borders with Russia (with its Kaliningrad Oblast) and Lithuania, from the east with Belarus and Ukraine, from the south with Slovakia and the Czech Republic, and from the west with Germany (Geohistory, 2017). Most of Poland's northern border is marked by the coast of the Baltic Sea. The Polish Exclusive Economic Zone in the Baltic Sea borders on the zones of Denmark and Sweden. The borders with Ukraine, Belarus and Russia are also the external border of the European Union and the Schengen area.

Poland's administrative area is 312,696 km² (GUS, 2018), which ranks it 69th in the world (Wikipedia, 2021) and 9th in Europe. Inhabited by 38,179,800 people (GUS, 2022), it ranks 38th in terms of population in the world (Worldometers, 2022) and 5th in the European Union. Poland is divided into 16 provinces. Its largest city and at the same time the capital is Warsaw. Other metropolises are: Kraków, Łódź, Wrocław, Poznań, Gdańsk, and Szczecin. The largest Polish polycentric agglomeration is the Upper Silesian conurbation. Poland is an ethnically homogeneous country – 97% of the population declares Polish nationality (Wikipedia, 2021).

After the political changes initiated as a consequence of the Round Table and partially democratic parliamentary elections in June 1989, the first government was appointed with a prime minister from outside the communist party. After the autumn of nations, Poland modified the constitution, changing the name of the state to the Republic of Poland on December 31, 1989 and becoming a democratic country. Despite the huge loss of life and the significant destruction of the country as a result of World War II, Poland managed to preserve a lot of cultural wealth. There are 16 UNESCO World Heritage sites, 54 historical monuments and a large number of registered monuments (Wikipedia, 2021).

Literature review – economic situation of Poland

Author has done some example of overview of articles related to topic in the article taken as table 1 presents.

Table 1. Overview of Polish articles about topics related to economic situation in Poland

Author	Title
Dąbrowska-Prokopowska E.	<i>Critical analysis of the theory of political changes in Poland in terms of local and regional development in relation to the theory of complex system</i>
Kardas A.	<i>Sismond's interpretation of inequality and contemporary concepts</i>
Orłowska J.	<i>Factors and barriers in local development</i>
Stec A., Sarzyński K.	<i>Sustainable economic development on the example of the spatial policy of the city of Krakow</i>
Raganowicz K.	<i>City brand as development sector in Poland</i>
Borowska-Żywno A.	<i>Employees from Ukraine on polish labour market – advantages and disadvantages</i>
Wiśniewska A.	<i>Labour market in Poland before and after social benefit "Rodzina 500+"</i>
Spalek P.	<i>Industrial policy influence on competitiveness of high industrial technology in Poland in years 2007-2014 based on social public funds data base</i>
Żukowski P.	<i>Some chosen aspects of economic cooperation between Poland with Spain and Portugal</i>
Tarnowska J.	<i>Potential directions further integration on EU after Brexit</i>
Banaszczyk P., Gorynia M.	<i>Uwarunkowania polskiej polityki gospodarczej po roku 2022</i>
Banaszczyk P., Deszczyński P., Gorynia M., Malaga K.	<i>Przesłanki modyfikacji wybranych koncepcji ekonomicznych na skutek pandemii COVID-19</i>
Chaberek M.	<i>Ład logistyczny w gospodarowaniu</i>
Gorynia M.	<i>Ewolucja pozycji gospodarki polskiej w gospodarce światowej</i>
Gorynia M.	<i>Innowacyjność, produktywność i konkurencyjność gospodarki a międzynarodowa współpraca gospodarcza</i>
Czech K., Karpio A., Wielechowski M., Woźniakowski T., Żebrowska-Suchodolska D.	<i>Polska gospodarka w początkowym okresie pandemii COVID-19</i>

Source: own source based on literature overview

The article is based on overview of literature and reports which are most current in discussed subject. Some database has been selected for article purpose. So the method used in the article is to overview available data and literature in the presented subject.

According to OECD Economic Outlook “Output in the second quarter of 2022 was only 0.3% higher than in the final quarter of 2021, amid high volatility. Private consumption grew, partly boosted by Ukrainian refugee spending and by the recovery from the pandemic, but investment slowed sharply. Nonetheless labor markets remain robust and wage growth has increased. Annual headline consumer price inflation rose to 15.7% in September, pushed up by higher energy and food prices, and core inflation reached 11.5%. Consumer and business confidence have continued to weaken and industrial production growth has slowed” (OECD Economic Outlook, 2022) (see fig. 1-2).



Fig. 1. Consumer and business confidence in Poland
Source: OECD Economic Outlook, 2022

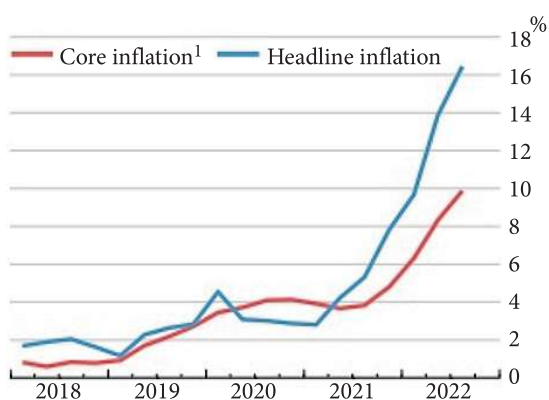


Fig 2. Headline and core inflation in Poland
Source: OECD Economic Outlook, 2022

Following strong GDP growth in 2022, economic activity in Poland is set to weaken due to increased uncertainty, a tightening of financing conditions, and the economy's adjustment to higher commodity prices. Inflation is expected to remain elevated as rising production costs are passed down to consumers. The general government deficit is forecast to widen under the pressure of expenditures related to national defense and the energy crisis (European Commission, Economy and Finance, 2022).

From 6.8% GDP in 2021 has been dropped down to 4.0% and in 2023 will go down at around 0.7%. Decelerating is caused by the economic crisis caused by Covid-19, energy prices increases and military conflict between Russia and Ukraine, which is in boarder with Poland directly. Positive forecast will be seen in rise in 2024 with 2.6% GDP.

The inflation in 2022 has rapidly increased compared to 2021 from 5.2% up to 13.3%. Prediction for next year is still negative as further increase are being forecasted up to 13.8%. Prediction for 2024 is much more positive and inflation should dropped down by 8.9%. Unemployment rate should be almost on the same level with some 0.3 % increase due to the fact of lower consumption and higher energy prices. The accumulation of expenditure that had not been included in the original budget combined with the income tax cuts will likely lead to an increase in the general government deficit in 2022, estimated at 4.8% of GDP. The government has taken a series of measures to mitigate the impact of high energy prices, including lowering of VAT rates, cash heating subsidies to households and a multi-annual support scheme for energy-intensive industries, with the total estimated budgetary impact of 2.1% of GDP. Simultaneously, public finances are impacted by the cost of aid to people fleeing Ukraine, which covers social benefits, accommodation subsidies as well as expenditures on education and healthcare (European Commission, Economy and Finance, 2022) (see table 2).

Table 2. Economic forecast for Poland

Indicators	2021	2022	2023	2024
GDP growth (% yoy)	6,8	4,0	0,7	2,6
Inflation (% yoy)	5,2	13,3	13,8	4,9
Unemployment (%)	3,4	2,7	3,0	3,1
General government balance (% of GDP)	-1,8	-4,8	-5,5	-5,2
Gross public debt (% of GDP)	53,8	51,3	52,9	54,2
Current account balance (% of GDP)	-0,1	-2,9	-2,5	-1,6

Source: European Commission, Economy and Finance, 2022

The key element of weakening the consumption growth rate is the slowdown wage growth rate in the national economy in the next two years (11.1% projected in 2022, and 9.3% in 2023) below the growth rate inflation (12.9 percent and 9.6 percent, respectively). Unemployment rate (LFS definition) will remain low (2.9% in 2022 and 3.1% in 2023, respectively). percent in 2023-2024), while at the same time there will be a further slowdown in the number of employees in the national economy. Experts predict in the next three years 0.7%, 0.2% and 0.0% of employment dynamics. Low unemployment and the low rate of growth in the number of working people are largely a derivative falling labor supply: on the one hand, unemployment will be low, because of reasons demographic, more people leave the labor market than enter it, but at the same time, the shrinking labor supply will hurt even more entrepreneurs, limiting the pace of possible growth of companies, and in macro terms will limit the growth rate of the entire economy (EF Congress, 2022).

List of the most important threats to the economic situation in Poland in a year's perspective 2024, indicated by EFC Experts (EF Congress, 2022):

- perpetuation of high inflation leading to high interest rates interest rates, strongly hampering growth (stagflation scenario);
- problems with prices and availability of raw materials and materials, disruptions in supply chains;
- high energy prices;
- negative impact of long-term hostilities in Ukraine;
- conflict with the EU;
- insufficient level of investment;
- inconsistent policy mix, unreliable macroeconomic policy;
- weakening economic situation in the world;
- state of public finances.

List of the most important threats to the stability of the Polish financial system in perspective 2024, indicated by EFC Experts (EF Congress, 2022):

- deterioration of the quality of the loan portfolio as a result of interest rate increases interest rates, weakening of the currency and deteriorating growth prospects;
- decrease in the value of the bond portfolio held by banks as a result of a strong increase in market interest rates;
- deepening state interference in the banking system, increasing costs and risk of sector operation;
- risk of excessive dependence of selected banks on the state and excessive financing of the state budget by banks;
- no countercyclical macroprudential policy;
- risks related to climate change and necessity adjustments in the green transformation process;

- risk related to the bankruptcy of a large bank;
- growing inconsistency of economic policy, increasing banks' aversion to taking risks.

List of the most important threats to the credibility of the zloty in the perspective of 2024,

- indicated by EKF Experts (EF Congress, 2022):
- high and persistent inflation;
- expansionary fiscal policy, translating into high deficits and an increase in public debt;
- risk of election promises destabilizing public finances;
- sub-optimal monetary policy, inconsistent with fiscal policy;
- low effectiveness of monetary policy due to excess liquidity in the sector banking;
- low credibility of monetary authorities;
- continuation of the war in Ukraine;
- conflict with the EU.

Conclusions

The priorities for next years are structural reforms (OECD, 2021):

- education and skills: Promote participation in lifelong learning;
- labour market: Increase the labour force participation rate of older workers and women;
- environmental policy: Reduce air pollution levels and carbon emissions;
- healthcare: Improve efficiency in health and long-term care;
- competition and regulation: Ease business regulations and improve bankruptcy proceedings.

Recommendation for business policy for coming years in Poland should take following aspects under consideration:

- ensuring the coherence of fiscal and monetary policies (the so-called policy mix) and restoring credibility each of these policies;
- stabilization of public finances, strengthening free market approach in the economy;
- launching KPO, stimulating investments, including energy transformation;
- the independence of banks from politics.

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