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MONTHLY MEETING

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THE MONTHLY MEETING IN SEPTEMBER WAS DEVOTED TO DISCUSSING THE IMPACTS OF THE COVID-19 PANDEMIC ON THE POLISH ECONOMY. THE PANELISTS WERE **PIOTR ARAK**, DIRECTOR OF THE POLISH ECONOMIC INSTITUTE, **SŁAWOMIR DUDEK**, CHIEF ECONOMIST AT EMPLOYERS OF POLAND (PRACODAWCY RP), AND **PIOTR KALISZ**, CHIEF ECONOMIST AT CITI HANDLOWY.

MONTHLY MEETING

SEPTEMBER

WE ARE ALL IN THIS TOGETHER!

RETURNING THE ECONOMY TO ITS PRE-PANDEMIC PERFORMANCE WILL BE AN UPHILL BATTLE, BUT NEW BUSINESS OPPORTUNITIES WILL ABOUND

The September Monthly Meeting, which took place at the Warsaw Marriott, was devoted to discussing the impacts of the Covid-19 pandemic on the economy. The panelists were Piotr Arak, Director of the Polish Economic Institute, Sławomir Dudek, Chief Economist at Employers of Poland (Pracodawcy RP), and Piotr Kalisz, Chief Economist at Citi Handlowy. Tony Housh, AmCham Chairman, moderated the discussion. The meeting in September was another in a series of hybrid meetings involving an in-person audience at the hotel as well as online participants who joined the meeting via Webex's video conferencing platform. Both in-person and online participants could direct their questions to the panelists.

CONSUMER CONFIDENCE

Poland's economic growth is driven by internal consumption, which is why the data depicting consumer sentiment are crucial in understanding short-term trends in the economy. According to Piotr Arak, consumer spending in July-

August was a bit higher than in the same period of 2019, and the growing trend was stable. Confined to their homes during the spring lockdown, consumers began to spend more on home-related items such as furniture and interior decoration. However, live entertainment, including cinemas and theaters, dropped by 23 percent in July-August compared to the same period in 2019. Shopping—not including e-shopping—also dropped, and so did international tourism, as many people dropped their plans to travel abroad in the summer.

"The worry is that consumers are not very optimistic about the economy," Arak said, "which is a serious factor in projecting future economic performance. We do not know if consumers are going to act in a few months as they have been doing so far."

According to Sławomir Durek, data from the Central Office for Statistics (GUS) revealed that consumer confidence was not as high this year as it had been the year before after the summer. "We do not know if it is a strong tendency or just

a correction after the summer," Dudek said, "and to what degree it is driven by economic uncertainty."

EXPORTS

Another important aspect contributing to the growth of the economy is international trade. With Poland's main trading partners being the EU states, "the situation is not clear," Arak said. Poland exports a diverse range of products to those countries, and it is difficult to say what product categories will continue to generate demand in export markets.

"Our main trading partners are Germany, the UK, France, Italy, and the situation in those countries is not good," Arak said. Poland is a huge manufacturer of automotive vehicles and car parts. Since the automotive industry had been badly hit across the union, this sector is not going to thrive in the months to come. Arak noted that economies such as Slovakia and Hungary rely on the automotive sector to a much higher degree than Poland. Because of the downturn in Europe's automotive market, the crisis will

affect them even more significantly. Piotr Kalisz noted that one reason the Polish economy did well during the first economic lockdown (which took place during the second quarter of 2020) was that Germany, Poland's largest trading partner, implemented a massive aid program to support the liquidity of companies. "In March-April 2020, the German economy and the German consumer market did much better than in Poland and other EU countries," Kalisz said. "Poland benefited from the growth in internal consumer demand in Germany, while the Czech Republic, for instance, benefited from the revival of German exports."

THE BALANCE SHEET

In addition to internal consumer demand, the performance of the private sector is another critical factor when it comes to generating economic growth. During the economic lockdown, the private sector was aided by a government aid program called the Anti-Crisis Shield. Because of the program, the liquidity of companies in Poland in July-August was nearly at the same level as in the same period of 2019, according to data from the Ministry of Finance. With this, Poland's GDP in the second quarter of 2020 dropped by 6 percent, below what Eurostat, the statistical office of the European Union, had forecasted. "There are countries in the European Union where the drop was much more dramatic," Arak said. Along with introducing the aid program for companies, the government stabilized the economy by introducing an aggressive fiscal policy against market shocks, noted Sławomir Dudek. It was the first such move by the government in 10 years.

All of this contributed to a relatively optimistic economic outlook for 2020 from the Ministry of Finance, which predicted the Polish GDP to contract by 3.2 percent. The forecast was in sync with the projections of many commercial banks and independent economic centers. The AmCham meeting took place in early September when it seemed that the pandemic was conveniently under control in Poland and other EU countries, and few economists doubted that the markets would rebound in 2021. At that time, the European Commission had projected the Polish GDP would increase by 4.1 percent in 2021.

The Polish economy sent signs of revival in early September, which surprised many market analysts. "Economic performance is close to pre-crisis levels and consumer

consumption is above 2019 levels," Sławomir Dudek said. He noted that the Polish economy is thought "to be doing better" than the economies of many other EU countries, "but Poland's revival is very fragile."

THE ROLE OF THE GOVERNMENT

According to Sławomir Dudek, "while the business sector needed government support to survive the lockdown, there are voices calling for increasing the government's role in the economy. The crisis showed that firms and the economy could not survive without government help," Dudek said. However, he noted that there should be clear-cut lines on how far the government can interfere in the economy. Many companies fear that the government's role in the economy will be extended too far due to the pandemic. For Piotr Arak, government intervention is a necessity. The enormous scope of the crisis requires government involvement, "but it is not that everybody in the public service now wants to own a part of a company. Rather, it happened out of necessity." It is commonly acknowledged that, in this time of need, the government should help the economy to a much higher degree than ever before, and this will prevail as long as the economic turmoil continues. "We all would probably agree that the circumstances of the pandemic are exceptional, and when we think of the new normal, governments will have to be somewhere there on the horizon," Arak said.

BUDGETARY CONCERNS

The government's role in helping the economy through the pandemic is even more pressing when considering the new tax measures that will come into force in 2021. "If companies take advantage of these tax breaks, the government will collect some PLN 6 billion less in taxes in 2021," Piotr Kalisz said. Poland's budget deficit is already huge, and next year the government will need to safeguard effective revenue generators. The question is how. "We do not want economic austerity as we had after the 2008 financial crisis, because if governments decide not to spend, it will hinder economic growth," Kalisz said.

On the other hand, a growing number of entrepreneurs fear tax increases in 2021, Sławomir Dudek noted. He said that "There are plans to introduce new taxation to business, which is worrisome, especially when you realize that there will be a variety of new taxes introduced in

Poland in 2021, including a retail trade tax, sugar tax, and new fees on energy prices. This is a big concern, and we hope that during our talks with government representatives through the process of social dialogue, we will be able to persuade the government not to add new fiscal burdens to business in Poland."

LABOR MARKET

One reason the government introduced the Anti-Crisis Shield was to save jobs in the economy. Some 200,000 jobs were lost during the lockdown in spring, noted Sławomir Dudek. Not included in this number were some 100,000 jobs performed by foreigners, mostly Ukrainians. Universally, foreigners from outside of Poland's eastern border are known as the "last hired, first fired," which is why the labor market did relatively well during the lockdown. Piotr Arak noted that market analysts were surprised that the unemployment rate did not skyrocket due to the lockdown. "We do not expect the unemployment rate to grow rapidly in any way now," Arak said, adding that, "According to the Ministry of Finance, it will remain at the level of 8 percent, which is a very realistic prognosis." However, he noted that a key question remains about what the companies that had resorted to the government aid program will do when the program expires. Market analysts are not still positive about what those companies will do and what impact their decisions and actions will have on the economy. However, when the economy bounces back, which all panelists agreed will take place sometime in 2021, employers may find it challenging to recruit new employees to ensure rapid business growth, given the demographic situation in Poland (an aging society) and the fact that the pool of workers is limited already.

THE NEW NORMAL

The pandemic's reality has encouraged many businesses to transform and embrace new technologies, especially when it comes to communications. There are new threats, but also new business opportunities. "Some branches of the economy, such as the hotel sector and convention centers, should look for new business models," said Sławomir Dudek. "They should see the crisis as an opportunity to reshape," he noted, adding that in many cases, it was not clear what business models should be applied. "We all agree that the MICE sector (Meetings, Incentives, Conferences and Exhibitions)

may need further support from the government."

In turn, Piotr Kalisz noted that while the pandemic has introduced many new risks, "There are also opportunities because there are changes in the way we work."

While many businesses will fail to adapt to the new normal, "new businesses can emerge in this new situation," Kalisz said, pointing to domestic companies that had begun producing face masks and detergents, filling in a gap that emerged after supply chains from China were disrupted. "This is how the economy works, and there are new business opportunities in this new reality," Kalisz said, adding that the new normal is "a creative destruction not triggered by technology and competition, but by a pandemic. All businesses will need to adapt to this new situation."

If its companies recognize this and adapt to the new situation, Poland will continue to attract foreign investment. This trend grew stronger after Brexit was announced, especially in the sector of business services centers. "This might continue because Poland now has experience in working from home. This is an in-

centive for investors to optimize costs by employing Poland's experienced, well-educated and qualified labor force that works for lower salaries money than in the West," Kalisz said.

He stressed the "cost and labor quality" aspect of Poland's attractiveness by saying that the country is "the most promising emerging market out of all the EU's emerging markets," which, combined with "the quality labor force" and "relatively low costs," is "a phenomenal opportunity for investors."

According to Piotr Arak, the new normal is an excellent opportunity for Poland to digitize its economy further and continue developing a strong services sector for business. Poland also has a strong industrial sector that emerged from the 2008 financial crisis unscathed, which is why the Polish economy recovered so well. The same situation may repeat in our "new normal."

Piotr Kalisz noted that the European Union earmarked many funds for Poland, which the country will receive through the Economic Recovery program. The funds can be used to develop new energy sources, technology, and innovation. "Even if Poland uses only half of the

money earmarked by the EU, it may add over 1 percent to the country's GDP in 2021, which is significant," Kalisz said. "It is going to be a very strong stimulus for economic development that will be spread out over time." Kalisz is optimistic that even if fiscal policies are tightened in the coming years, the Polish economy will see "a recovery, not a stagnation." Sławomir Dudek agreed but noted that the fourth quarter of 2020 might be worse than the third quarter. "There are some uncertainties, but this is normal. We are now more optimistic than we were two months ago. We are aware of the uncertainties lurking in the fourth quarter of this year, and we believe that there is going to be a period of weakness from the fourth quarter of this year to the second quarter of 2021." Beyond that point, however, the Polish economy is predicted to improve. "Next year, the economic recovery will reach some 5 percent GDP, depending on various details," Kalisz said. "In the second quarter of 2021, the economy will return to pre-crisis levels, which is not bad, given the shock that we experienced in March 2020 and later."

PIOTR ARAK



Director of the Polish Economic Institute. His work experience includes Deloitte, the Polityka Insight think tank, the United Nations Development Program, the Ministry of Administration and Digitization, and the Chancellery of the Prime Minister. Arak studied Social Policy at the University of Warsaw, followed by further studies on using statistical

methods in business, and received an MBA from the Warsaw School of Economics and University of Quebec in Montreal. Arak is currently working on a Ph.D. in Public Policy at the University of Warsaw and has authored many papers on digitization, the economics of health care, and economic policy.

SŁAWOMIR DUDEK



Chief Economist at Employers of Poland (Pracodawcy RP). An expert in public finance and a member of the Association of Polish Economists (TEP). Since 2003, he has been associated with the Research Institute of Economic Development at the Warsaw School of Economics. Dudek is also the former Director of the Macroeconomic Policy Department at the Ministry of Finance.

From 1996-2019, Dudek served at the Ministry of Finance, heading the Division of Macroeconomic Simulations and Forecasts (2001-2008) and serving as Deputy Director (2008-2012) and Director of the Macroeconomic Policy Department (2012-2019). From 2012-2019, Dudek chaired the Polish delegation to the Economic Policy Committee's meetings at the OECD.

PIOTR KALISZ



Head of Central and Eastern Europe Economics at Citi Research and Chief Economist for Poland at Citi Handlowy. Kalisz is responsible for macroeconomic analyses and forecasts for Central European economies and for marketing these views to institutional and corporate clients. His team includes economists based in Budapest, Prague, and Warsaw. Before joining Citi in

2005, Piotr was the Senior Economist at PKO BP. Kalisz holds a Master's degree in Quantitative Methods and Information Systems from the Warsaw School of Economics (SGH). He completed a one-year management program at the ICAN Institute and is a Certified Financial Analyst charterholder.

AmCham in Warsaw

Staying Connected

The September Monthly Meeting hosted by the Warsaw Marriott was another in a series of

hybrid meetings held by AmCham involving an in-person audience at the hotel and online

participants. Both in-person and online participants could direct their questions to the panelists.



1. The panelists: Sławomir Dudek, Chief Economist at Employers of Poland (Pracodawcy RP); Tony Housh, AmCham Chairman (Northrop Grumman) who moderated the discussion; Piotr Arak, Director of the Polish Economic Institute; Piotr Kalisz, Chief Economist at Citi Handlowy. 2. Łukasz Kowalski, MSL; Aleksandra Kazimierski, Morgan Philips; David DeBenedetti, DeBenedetti, Majewski, Szcześniak. 3. Jolanta Jaworska, AmCham Board Member (IBM Poland); Anita Kowalska, AmCham; Tisha Loeper-Viti, Anna Jaros, US Embassy. 4. Frank Wagner, Lufthansa; Tim Hyland, Travel Express. 5. Tony Housh; Jolanta Jaworska. 6. Tomasz Korkosz, Takeda; Marzena Dreła, AmCham.