

The Feasibility of Growth Acceleration in Poland

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Table 1

**Utilization and productivity of labour and capital in Poland, 1990-2001
(annual changes, %)**

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Total employment	-6.2	-5.9	-4.2	-1.6	1.1	1.8	2.3	2.4	-0.3	-2.6	-1.6	-3.2
- in industry	-5.6	-8.0	-8.7	-3.0	-0.8	3.2	-0.7	0.8	-1.0	-6.1	-6.2	-5.2
Unemployment rate	6.5	12.2	14.3	16.4	16.0	14.9	13.6	10.3	10.4	13.1	15.0	17.4
Productive fixed assets	1.1	-1.2	1.3	1.9	2.6	2.1	4.8	3.5	3.9	3.9	4.2	2.7
- in industry	2.4	0.9	1.2	1.7	2.8	0.3	6.1	3.6	3.2	3.6	3.3	2.4
Capacity utilization in manufacturing (%)	74	61	62	63	66	71	73	77	77	78	77	75
Labour productivity	-5.8	-1.2	7.1	5.8	4.3	5.1	3.6	4.3	5.1	6.9	5.7	4.3
- in industry	-19.7	-4.2	12.6	9.7	13.0	6.3	9.9	10.6	4.5	11.6	13.8	4.5
Capital productivity	-12.6	-8.1	1.3	1.9	2.5	4.8	2.0	3.2	0.9	0.2	2.5	-1.7
- in industry	-26.0	-12.7	1.6	4.6	9.0	9.4	2.3	7.6	1.5	1.2	3.4	-2.9
Real unit labour costs in industry	.	22.7	-7.2	-5.7	-3.0	-1.5	1.8	-2.6	-1.8	-8.9	-10.9	3.0

Table 2
Factors of GDP growth, 1990-2001
(annual changes, %)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
GDP	-11.6	-7.0	2.6	3.8	5.2	7.0	6.0	6.8	4.8	4.1	4.0	1.0
Employment (labour)	-6.2	-5.9	-4.2	-1.6	1.1	1.8	2.3	2.4	-0.3	-2.6	-1.6	-3.2
Productive fixed assets (capital)	1.1	-1.2	1.3	1.9	2.6	2.1	4.8	3.5	3.9	3.9	1.5	2.7
Capital-labour ratio	7.7	5.0	5.7	3.5	1.5	0.3	2.4	1.1	4.2	6.7	5.7	6.1
Labour contribution to growth	.	.	-2.7	-1.0	0.7	1.2	1.5	1.6	-0.2	-1.7	-1.0	-2.1
Capital contribution to growth	.	.	0.5	0.7	0.9	0.7	1.7	1.2	1.4	1.4	1.5	0.9
TFP	.	.	4.8	4.1	3.6	5.1	2.8	4.0	3.6	4.4	3.3	2.1

Salient features of Polish growth

- Fast and consistent rise in productivity of labour and capital
- Dominant role of TFP growth (however, should be interpreted with caution)
- Some growth of labour and capital stock
- Changing pattern of factors' utilization
- Fastest growth – positive contribution of both TFP, and labour and capital stock

Underlying reasons for 2001-02 slow down

➤ Demand-side

- Excessive cost of fast disinflation
- Crowding out of private investment

➤ Supply-side

- Negative contribution of labour input
- Mounting structural barriers
- Institutional backlash

Table 3

Saving and investment in selected transition economies, 1994-99

	1994	1995	1996	1997	1998	1999
P O L A N D						
Gross domestic investment	17.6	19.7	21.9	24.8	26.2	27.1
- private	.	17.0	18.8	21.0	22.5	23.9
Gross domestic saving	18.3	23.9	20.9	21.6	21.9	19.7
- private	.	24.2	21.5	21.5	21.3	20.0
Foreign saving	-0.7	-4.2	1.0	3.0	4.3	7.4
C Z E C H R E P U B L I C						
Gross domestic investment	29.8	34.0	34.9	32.8	29.7	28.5
Gross domestic saving	27.8	31.4	27.5	26.7	27.3	26.5
Foreign saving	1.9	2.6	7.4	6.1	2.4	2.0
S L O V A K R E P U B L I C						
Gross domestic investment	23.1	27.3	37.1	36.6	36.1	31.9
Gross domestic saving	27.9	29.5	26.5	27.0	26.5	26.3
Foreign saving	-4.8	-2.1	10.6	9.6	9.7	5.5
S L O V E N I A						
Gross domestic investment	20.9	23.3	23.4	24.1	25.6	28.2
Gross domestic saving	25.1	23.2	23.6	24.3	25.6	25.3
Foreign saving	-4.2	0.1	-0.2	-0.2	.	2.9
H U N G A R Y						
Gross domestic investment	22.2	23.9	26.8	27.4	29.7	28.8
Gross domestic saving	12.8	18.4	23.1	25.2	24.8	24.5
Foreign saving	9.4	5.6	3.7	2.1	4.9	4.3

Saving, investment and growth

Poland's peculiarity:

combination of fastest economic growth
in Central Europe (1992-2000) with lowest
propensity to save and lowest investment-
GDP ratio

Preconditions for growth acceleration: savings and investment

- Narrow fiscal gap
 - Cut expenditure rather than raise taxes (if possible, cut also taxes)
 - The 'second-worst' – raise indirect taxes
- Change policy mix
- Enhance deepening of financial markets

Preconditions for growth acceleration: institutional and structural reforms

- Downsize the government, redefine its functions and improve its effectiveness
- Restructure sensitive sectors
- Finish 'top-down' privatization
- Embark on in-depth, comprehensive reform of public finance

Preconditions for growth acceleration: institutional and structural reforms 2

- Undertake in-depth labour market reform
- Focus on generating positive externalities for corporate sector, and in particular
 - Support domestic R&D effort
 - Encourage creation of human capital
- Fight the ‘soft state’ disease
- Enhance growth of ‘social capital’

