

## Updated Economic Forecast of the Union of Entrepreneurs and Employers (the ZPP) for 2022

### GDP growth

Formerly: 3.7%

Now: 4.5%

### Inflation

Formerly: 12.5%

Now: 14.2%

### Unemployment

Formerly: 5.1%

Now: 5.3%

### Investments

Formerly: 16.2%

Now: 16.5%

### Forecasts of international institutions

Recent years have not been conducive to macroeconomic forecasts. Traditional time-series econometrics works well especially in conditions of relative calmness. Although a properly constructed model is resistant to shocks (those fade over time), geopolitical chaos makes forecasting based on the past complicated. Under such conditions, machine learning models or neural networks can be used.

Regardless of the situation, some institutions are obliged to publish forecasts and models. This must be done, for example, by the Ministry of Finance in the draft budget law. For 2022, the Ministry of Finance forecasts real economic growth of 4.6%, a registered unemployment rate of 5.0% (LFS 2.7%), inflation of either 13.5% (CPI) or 13.3% (HICP) and investments of 4.9%. The forecast of the European Commission, available on the website of the Ministry of Finance, assumes real GDP growth of 4%, HICP inflation of 13.3%, unemployment of 2.7%, and an investment rate of 3.7%.

With regard to GDP growth, the OECD is slightly more optimistic than Eurostat and forecasts 4.5% for 2022. Inflation is to amount to 14.2%, of which the core inflation (without food and energy components) is to be 8.7%. Unemployment is forecast at 2.9%. With regard to the forecasts of the World Bank for Poland in 2022, GDP growth of 4% is expected, gross fixed capital formation (investments) of 4.9%, and inflation of 13.2%.

To sum up, the consensus of international institutions for Poland's GDP growth can be set at 4%, inflation at 13% and unemployment at 3%. The Ministry of Finance is slightly more optimistic and assumes higher economic growth and single-digit inflation.

## Forecast of the ZPP

### GDP growth

In 2022, GDP will increase but at a slower pace than expected. The government faces difficult decisions - inflation is one of the most urgent areas in this regard. Private investments are determined by the current condition of the global economy, which is recovering after the COVID-19 pandemic. The choice of location is also influenced by its security, and the outbreak of war in Ukraine has placed Poland dangerously close to the front.

The GDP dynamics observed in the first half of 2022 is encouraging as, compared to the same period in 2021, GDP increased by more than 16% in nominal terms. **Based on the ZPP forecasts for the second half of 2022, it will amount to 14.8% year-on-year. This is very close to the forecasts of the Ministry of Finance, which assumes nominal GDP growth of 15.1%.** However, a large part of this increase is due to inflation, which causes a disproportionate increase in nominal GDP.

According to our estimates, real GDP growth will amount to 4.5%.

### Year-on-year inflation

In all likelihood, in 2023, inflation will still be high, although it will slow down somewhat due to base effects. The fact that 2023 is an election year is an issue. This limits the government's room for manoeuvre. Normally, an element of the fight against price increases is a reduction of social packages. The government is under strong pressure to maintain spending or even slightly increase it. For the time being, the continuation of payment of additional pension and child benefits has been confirmed. The VAT reduction on food is also to be maintained but not on fuel.

The year-on-year inflation in 2022, observed so far, was 9.7% in Q1, 13.9% in Q2 and 16.3% in Q3, respectively. **For Q4 of this year, the ZPP forecasts a year-on-year inflation of 17%.** Therefore, for the whole of 2022, the inflation rate will amount to approximately 14.2%, in our opinion. Further slight increases are expected at the beginning of next year, although the

pace of inflation has slowed down significantly. We will experience a noticeable decrease only in 2024.

## Unemployment rate

Traditionally, in a crisis situation, decision-makers choose whether to care more about fighting inflation or about employment. The government clearly appreciates the importance of employment. Various measures are being designed to maintain or even reduce unemployment. Ukrainian refugees are also being activated professionally. Based on the data, a significant proportion of Ukrainian refugees, despite their specific demographic structure, have found work in Poland. Previously, despite the pandemic, the government managed to maintain employment.

The Statistics Poland data for 2022 is as follows: 5.8% for Q1, 5.2% for Q2 and 5.1% for Q3. For Q4, the ZPP forecasts an unemployment rate of 5.2%. This means a total unemployment rate of 5.3% in 2022. Moreover, the ZPP predicts that as a result of the slowly improving macroeconomic situation, as well as potential development opportunities resulting from the participation of Polish companies in the reconstruction of Ukraine, unemployment will slowly decrease in 2023.

## Investment rate

It can be said that for years, despite regular critical opinions, stimulating investments has not burdened Polish economic policy as much as, for example, social programmes. Obviously, the introduction of further benefits translated into an increase in consumption, and this, in turn, into an increase in GDP. However, many experts pointed out that this consumption causes an increase in demand for goods that are easy to produce, which does not translate into an improvement in the competitiveness of the Polish economy. At the same time, the consumption booster works well in conditions of prosperity; however, it is investment spending that allows economic growth to be maintained during a period of slowdown. Unfortunately, those predictions proved accurate. In 2021, the investment rate in the economy amounted to only approximately 17%.

With regard to 2022 and 2023, much will depend on whether the government has sufficient resources to attract private investors through public investments. A strong investment boost will come from increased spending on defence. The energy sector also needs investments. Unblocking funds from the National Reconstruction Plan will be important for digitisation and climate projects. In turn, ensuring relative regulatory stability will be of key importance to promoting private investments. **Taking the above into account, for 2022, the ZPP forecasts an investment rate of 16.5%.**