

Poland

Resilient economy but the impact on households sector is clear

Marcin Mrowiec

- Even though Poland is the only EU country with positive GDP growth in 2009, the situation in the labour market continues to deteriorate, which will put a lid on a key element of household wealth creation – namely a lower wage dynamic. This in turn will be reflected in a slow-down in household deposits growth
- The year 2009 saw a rebound in equity-related elements of financial wealth, as stock indices recovered from the trough recorded the previous year and sentiment gradually improved
- Deterioration of economic prospects, and in particular a continued (albeit more gradual than initially feared) slowdown in wages and employment will also translate into a lower propensity to take fresh loans. A slower dynamic of liabilities compared to assets should ensure positive growth of net financial wealth in the coming years

Table 1: Household real and financial indicators

	2006	2007	2008	2009 e	2010 f	2011 f
Per capita net financial wealth (EUR)	3,356	3,848	2,673	3,075	3,380	3,806
Monthly wage (EUR)	678	762	905	834	958	1,030
Monthly wage (% YoY LC)	5.0	9.1	10.5	14.9	2.1	9.0
Unemployment rate (%) ⁽¹⁾	16.2	12.7	9.8	10.9	12.3	12.0
Home ownership (%)	58.9	n.a.	n.a.	n.a.	n.a.	n.a.
Household financial assets (% YoY LC)	22.0	16.1	1.1	12.2	7.9	8.4
Household financial liabilities (% YoY LC)	34.4	38.6	44.9	10.4	5.6	6.8
Household financial saving ratio (% GDP)	7.0	3.2	-8.3	4.3	3.4	3.5
Household net financial wealth (% GDP)	46.3	44.9	33.2	35.8	37.7	39.5
Housing affordability index (house price per sqm over gross monthly wage)	2.0	2.6	2.3	n.a.	n.a.	n.a.
Mortgage in % GDP	7.4	10.0	15.3	15.5	15.8	16.0
FX indexed / denominated loans (% total)	31.5	28.5	40.2	36.6	32.9	32.1
Households NPLs ratio (%) ⁽²⁾	5.5	4.0	3.5	5.4	6.2	5.6

Note: (1) According to local definition; (2) Over gross loans
Source: CSO, NBP, UniCredit Group CEE Strategic Analysis – Pekao Research

After the (crisis-related) significant slowdown in wealth creation that took place in 2008, the year 2009 saw a return to positive trends.

Poland was the only relatively sizeable EU country to record positive GDP growth in 2009. The global economic slowdown has however generated enormous spare capacity, which will dampen the need for new investment in the corporate sector. Domestic and international companies invested heavily in recent years in the country, only to discover that both domestic and foreign demand has contracted significantly and will take time to recover to the pre-crisis level. This will discourage companies from new investment and hiring new staff. Investment-driven demand for new employees, combined with the post-EU accession outflow of workers abroad were the two major forces that significantly pushed up wages, speeding up

income and wealth accumulation across households. Not only rising income and higher wages were allowing an increase in living standards, but very bright prospects on the job market were fuelling the demand for new credit and thus the higher consumption propensity.

The crisis corrected those processes – real growth in wages faltered to almost zero in annual terms, whereas employment was running at a negative 2–4% yoy. This has had an impact on households' behaviour, leading to more moderate consumption and higher saving propensity, but in general to only moderate accumulation of new savings. Still, compared to the 2001–2002 slowdown, the labour market has the potential to act as a buffer: unemployment is increasing at slower pace and the real unemployment rate (around 8.5–9%, according to ILO data) is much lower than back then (17–18%, ILO data).

2010 and 2011 will see GDP increasing by 2.3%–2.7% in each of those years. The situation in the domestic labour market is expected to remain unfavourable, and we remain sceptical regarding future significant gains in equities – that will keep financial assets growth limited. The highlighted slowdown in wage growth will significantly lower the pace of growth of households deposits – for 2010 we forecast an increase slightly above 5%, which means half the growth recorded in 2009. On the other hand, the slowdown should be even more visible in financial liabilities, as households are less prone to borrow, and banks have tightened credit conditions due to the rise in the cost of risk. This situation will allow net financial wealth accumulation to continue to increase.

Mortgage loan penetration in Poland remains fairly low against the Western European benchmark (around 15% mortgage over GDP ratio in Poland, vs 38% in the Eurozone at the end of 2008, with many CEE countries recording higher ratios), an indicator of this market's long term potential. In the next years, however, we forecast only a moderate path of recovery. Labour market conditions

will prevent any sizeable increase in demand, while the market is also affected by a change in its structure. With FX loans representing more than 60% of total mortgages, the weakening of the zloty during the crisis increased the awareness of "currency risk", resulting in lower demand for FX-loans, and contraction on the supply side. The zloty-denominated loans proved to be less appealing to domestic homebuyers – although remaining relatively stable (as official rates were reduced, the margins increased). In addition, house and apartment prices remain high vs. domestic wages, despite a downward correction of some 15–20% recorded relative to peak levels. All these factors suggest that recovery might be very gradual in the mortgage segment, with growth remaining below potential for some time.

We see a further marked slowdown in the consumer credit market in 2010, while we reckon there is hardly any difference in the penetration of the consumer financing segment relative to Eurozone countries.

