The East European Miracle: How Did Poland Avoid The Global Recession?

By Connor Adams Sheets | September 29 2012 12:30 PM

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WARSAW, Poland -- As the European Union fell into the global recession that began in 2008, only one nation in the region kept growing while its neighbors saw their economies fall. That title belongs to Poland, which made it through the period without experiencing a single year of falling gross domestic product. Growth slowed down, but even at the lowest point, Poland's economy continued to expand slightly, and Polish officials remain bearish.

"Poland is the only country that was not negatively impacted by the recession. We have been calculating that from 2008 until now, we have almost 16 percent growth," Under-Secretary of State Beata Stelmach said in Warsaw last week. "It's very difficult to predict economic growth for the next five years. However, at our worst, in 2009, our growth was still 1.6 percent. We were green and everybody else was red."

According to the CIA World Factbook, Poland experienced 4.8 percent, 1.7 percent, 3.8 percent and 4.4 percent growth in 2008, 2009, 2010 and 2011, respectively. The same source shows that the EU as a whole experienced 0.8 percent, negative 4 percent, 1.8 percent and 1.6 percent growth in the same years.

Its future is not as certain, as an external assessment of Poland's economic situation compiled by the Australian Department of Foreign Affairs and Trade points out: "The OECD predicts growth will slow to around 3 per cent over the next two years, due to a combination of weaker external demand, Euro zone uncertainty, ongoing fiscal consolidation, the deceleration of public investment following the 2012 soccer championships, and the leveling off of EU funds in 2013." The department did add, however, that "Poland is one of the few emerging economies to still enjoy stable credit ratings."

Looking back over the past several years, it's not yet clear exactly what enabled Poland to be an exception in a world brought to its knees by financial crisis.

Polish business leaders and officials including Stelmach offer a range of explanations, which they believe combined to create an environment conducive to growth in a number of sectors of Poland's maturing market economy.

Rafal Szajewski, team lead for the services section at Poland's Foreign Investment Department, described three key factors that he believes helped the nation weather the economic storm.

The first is the huge amount of European Union funds that have been spent on improving infrastructure and completing other projects in Poland since the nation joined the EU in May 2004.

"All the benefits and funds we got when we joined the EU have helped a lot to improve the business environment and drive change," Szajewski said at an outsourcing discussion held last week in Warsaw.

Stelmach also cited the infusion of E.U. funds as one of the big drivers of Poland's recent prosperity and economic flowering. "Look at other countries, some of them don't have ideas about what to do with the money," she said. "So infrastructure is another sector that has boosted our economic growth."

In 2010, for instance, Poland received more than 1.39 trillion Euros in such funding, according to the European Commission. Those benefits -- which Szajewski estimates were responsible for 0.5 to 1 percent of the nation's GDP growth per year during the recession -- include billions of dollars of infrastructure investments, including major overhauls of the nation's highway system and of the Warsaw subway system.

Middle Class Cash

According to Szajewski, the second factor was internal consumption, as Polish citizens never stopped purchasing even in the worst of the global recession, which helped keep Polish companies afloat, attracted outside investment and kept confidence high among business owners.

“In the early Nineties, after Communism collapsed, we had virtually no middle class. For the next ten years, the middle class started forming,” he explained. “What helped greatly during the recession was that the sizable middle class maintained strong internal demand, people weren't’t afraid to spend, and the businesses continued to grow. It’s as simple as that.”

Till Schreiber, an economist at the College of William & Mary who specializes in economic growth and development, made a similar observation.

"Poland has a substantial domestic market, unlike for example the Baltic countries," he said via e-mail. "Even though it relies on exports to a degree, 38 million Poles could sustain spending enough in 2009 to avoid a recession."

And lastly, Szajewski said the fact that money kept coming in from abroad as a result of the affordability of Poland to foreign investors contributed greatly to the nation’s ability to thrive in comparison to other E.U. countries.

“The third factor that allowed us to keep the growth was foreign investment because when there is a crisis, companies are looking for savings, and Poland was the answer to that because the quality of product or service is equal to or beyond that of countries in Western Europe but costs are much lower,” Szajewski said.

According to Stelmach, while Polish labor is less expensive than that of many other E.U. nations, Polish workers are highly skilled: "In Poland you have very qualified engineers and workforce, but you pay much less than elsewhere in Europe.”

That has contributed, said Marek Lyzwa, vice president at Poland's Foreign Investment Department, to the nation's ability to attract the 146 foreign investment projects currently underway in Poland, which will combine to create 37,000 new jobs once they are completed.

“We are now the fastest-growing economy in the E.U., and the investment climate is improving in many sectors,” Lyzwa said. “Because of our privileged location, companies within the European Union consider Poland their launchpad to eastern markets.”

According to Stelmach, the budgetary and fiscal policies Poland chose also helped.

"Before the crisis, Poland did not see its debt level rise as did some other countries. They employed prudent policies before the crisis, rather than succumbing all-out to 'get-rich-quick' schemes based on government spending largesse," Schreiber said. "This allowed Poland to employ counter-cyclical spending during the crisis. Spending could now go up (because it was more restrained before the crisis than elsewhere). EU funds also kept flowing in."

A Bubble In Poland, Too?

But some outside experts do not see quite as positive a future for Poland. Tatha Ghose, senior emerging markets economist at Commerzbank in London, cites extensive research in analyzing the nation's economic health moving forward:

"Poland itself now has a burst construction bubble after a hectic level of building leading up to the Euro 2012 soccer tournament; construction bankruptcies have reached a peak, and this sector is going into recession," Ghose said via e-mail. "Hence, Poland's capacity to absorb extra workers is low at this time and will probably worsen, resulting in rising unemployment. This is why we expect Polish growth to under perform over the coming year (we forecast c. 2% growth next year, even in a much better environment than post-Lehman 2009, when Polish GDP had increased by 1.7%)."

One solution would be to look more extensively abroad to find new opportunities for growth. Some Polish companies are already beginning to do so, as evidenced by one mega-deal that took place in December, when Polish mining giant KGHM Polska Miedz S.A. (Warsaw: KGH), Europe's biggest copper miner, completed its $3 billion acquisition of Canada's Quadra FNX.

“Today if you look at our numbers, 80 percent of Poland’s foreign trade is done with other European countries. So today is the time for bigger expansion, and some of the companies are doing big expansion in further away countries,” said Stelmach. “If you look at where our economic growth comes from, a large portion of that growth is from exports, so if our [European] partners’ economies slow down, then we will need to turn to new markets.”