Foreign trade of Poland during the global financial crisis

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Abstract

The global financial crisis turned to be less severe for the Polish economy and financial system than in many others countries in Europe or even in the world. Poland was the only one country in the European Union which in 2009 recorded, small but positive rate of economic growth. Particularly important for such a situation were: the growth of domestic household spending and a situation in the Poland's foreign trade. The objective of this paper is to present the situation in Poland's foreign trade in conditions of the global financial crisis during 2008-2009 and to show the positive and negative phenomena in exports and imports. To achieve this objective first of all the Poland's foreign trade statistics are analysed. The results show that the situation in Poland's foreign trade was among others influenced by: a less economic openness, a strong depreciation of the domestic currency, a greater export diversification and a stronger decline in imports than exports.

Key words

foreign trade, global financial and economic crisis, exporters, importers

JEL Classification: F4, F10, G01,

1. Introduction

The financial crisis, which since September 2008 had started to spread globally, very quickly ceased to be only the crisis of the global financial system and became the economic crisis. The crisis affected the activity of many different "actors" from both the financial and the real sphere. It influenced, not only the decisions and plans of the financial institutions, governments, central banks, financial supervisory authorities, international financial organizations, but also the enterprises and households in many countries all over the world.

The uncertainty about global economic growth prospects was one of the consequences of the crisis. During 2008-2009 the economic activity decreased (especially in the manufacturing sector), which entailed, among others the largest decline in the world trade since World War II. The growth rate of the global economy dropped from 5.2% in 2007 to about 3.2% in 2008 and to -0.5 in 2009. The volume of world trade decreased from 7.2% in 2007, to 2.8% the following year and to -10.7% in 2009. This was caused among others by a strong decline in demand (especially consumption and investment demand), a strong reduction of inventories, a fall of prices in international commodity markets and a weak lending activity.

The global financial and economic crisis, did not remain without an impact on the Poland's economy. But the impact was not so negative as in the case of other countries and Poland was

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The researches are funded from the Polish budget sources for science in years 2010-2012 as the individual project titled "The influence of global financial crisis on the real sphere of the economy with the example of changes of financial situation of Silesian companies" (original title: „Oddziaływanie światowego kryzysu finansowego na sferę realną gospodarki na przykładzie zmian sytuacji finansowej śląskich przedsiębiorstw"), the agreement No. 2569/B/H03/2010/39.

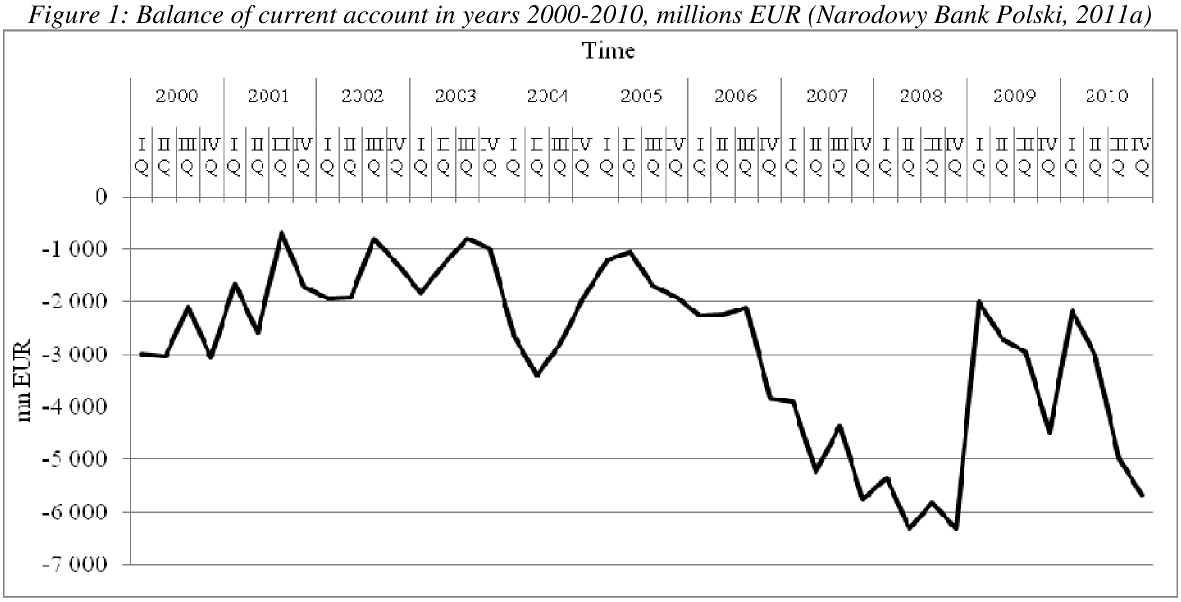
the only member of the European Union whose economy did not fall into recession during the global crisis. Poland remained "the green island" in the European landscape. The strength of the Polish economy during the crisis was, among others, the situation in foreign trade. The aim of this paper is to present the situation in Poland's foreign trade during the global financial crisis in 2008-2009 and to show the positive and negative phenomena in exports and imports.

2. The situation on the current account of the balance of payments in the first years after Poland's accession to the European Union

Poland's accession to the European Union had changed the conditions of foreign trade. The adoption of the common European principles, notably the principle of free movement of goods and the common customs tariff, contributed to the elimination of tariff and non-tariff barriers in trade, as well as to minimization the existing physical, technical or tax barriers within the Community (Czaja and Wach, 2009).

Polish accession to the European Union had a significant impact on all the variables that determine the balance of payments, including the determinants of the balance on current account. A noticeable trend was the increasing deficit on current account, which steadily declined in previous years (Fig. 1). According to the Urząd Komitetu Integracji Europejskiej (The Office of the Committee for European Integration) (2008) a similar phenomenon could had been observed in some other countries, which like Poland joined the EU in 2004.

Figure 1: Balance of current account in years 2000-2010, millions EUR (Narodowy Bank Polski, 2011a)



Despite this, it should be stressed that the Polish accession to the European Union had a positive effect on export growth, especially in the first two years when export volume rose by 45% compared with 2003. After the accession the average monthly level of exports was by 11% higher than before and in the case of imports by 5%.

There was also a strong growth in exports to the new EU member states. It should be noted that the increase in exports occurred despite an increase in domestic demand and an unfavourable foreign exchange conditions. Though certainly those two negative factors reduced the beneficial impact of the EU membership on the dynamics of exports (Ministerstwo Gospodarki, 2007).

In the fourth quarter of 2006, merchandise trade growth in imports (especially the import of intermediate goods) occurred to be greater than the increase in exports. And there was also a further deepening of the negative balance of income on the current account. The tendency of the faster growth in imports than exports remained also in 2007, which resulted in a deepening of the trade deficit in goods and, consequently, the deficit on current account. These negative trends also maintained in 2008 – the year of the outbreak of the global financial crisis.

3. The foreign trade in 2008 – the year of the outbreak of the global financial crisis

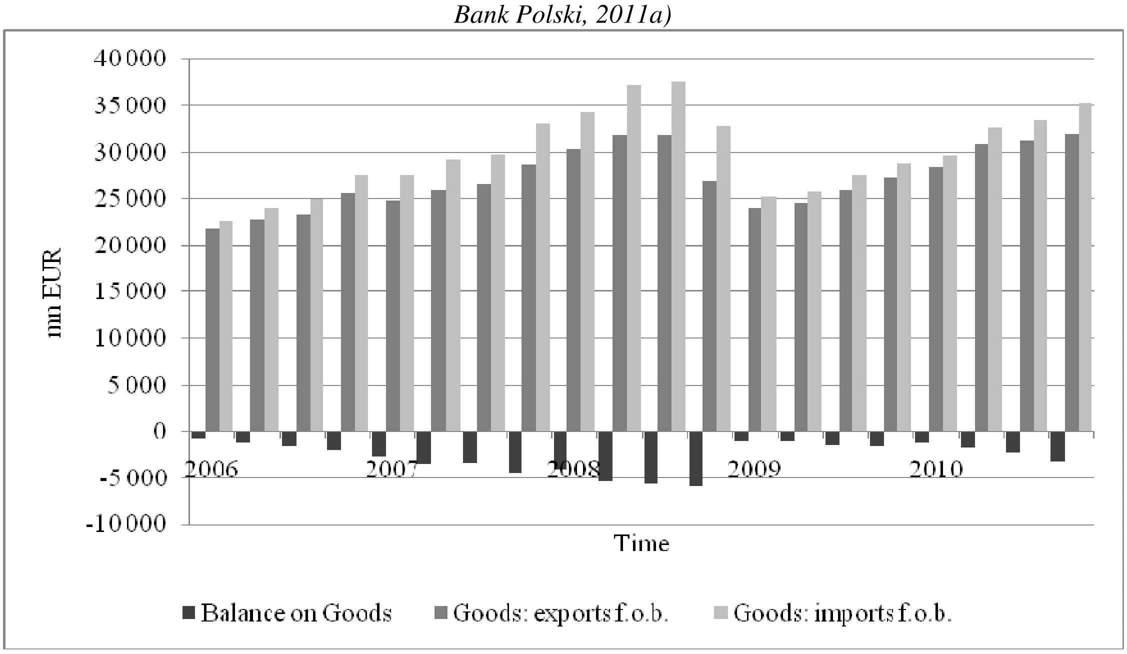
In the first three quarters of 2008 the trade deficit deepened. The growth in exports (21.3%) slightly exceeded the growth rate of imports in the first quarter (21.1%) of 2008, but in subsequent quarters there was a return to the negative trend - imports grew faster than exports.

Significant impact on the changes in Polish foreign trade had the production networks developed by the transnational corporations. The growth of exports in the branches of foreign enterprises in the first three quarters of 2008, was influenced by the high demand growth in developing countries. The increase in exports during this period was also influenced by the new investment projects (particularly in the electronics sector). It is estimated however, that the strong appreciation of the Polish zloty during that period had rather a small effect on the changes in exports.

The increase in imports, in turn, was affected by such factors as: high domestic demand (both consumption and investment), as well as the demand of the export sector for intermediate goods, the strong appreciation of domestic currency and an increase in prices of raw materials (e.g. crude oil) - the effect of which was weakened a bit by the strong zloty.

The outbreak and spread of the global financial crisis from September 2008 caused a weakening of economic activity and a deep drop of the demand on the global scale, so the last quarter of 2008 was marked by a distinct fall in exports and imports (Figure 2) and the ratio of current account balance to the GDP dropped to -5.2%.

Figure 2: Exports and import of goods and balance on goods in years 2006-2010 millions EUR (Narodowy Bank Polski, 2011a)



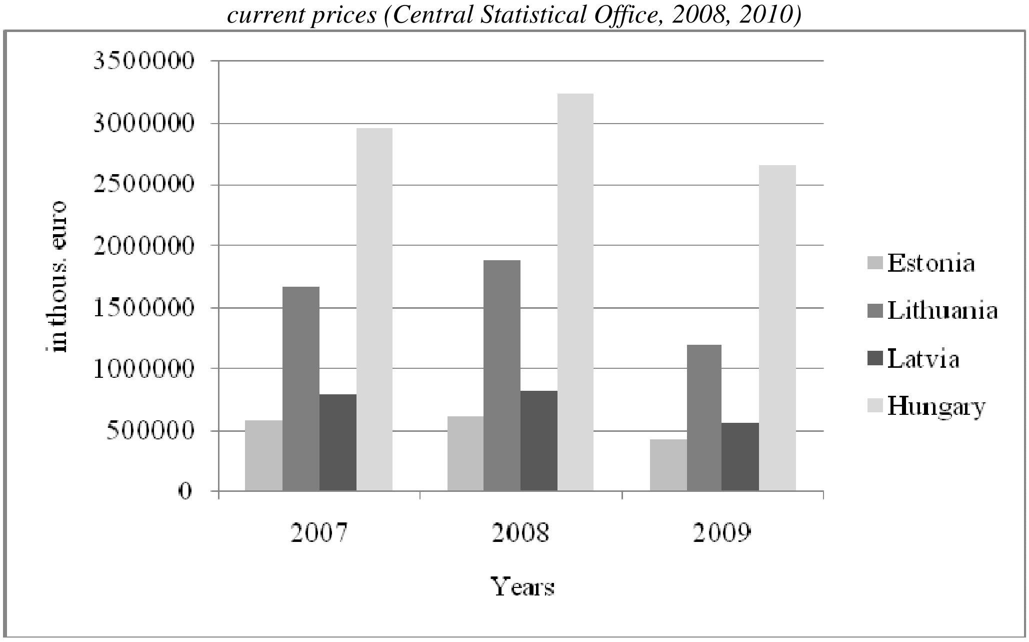
The decline in the external demand particularly negatively influenced the export of intermediate goods, as well as the group of goods classified as raw material (for example, the sale of copper in the fourth quarter of 2008 decreased by almost 20% and in the first quarter of 2009 - by 40% compared with the previous year). In this case, besides the drop in demand, the export performance was significantly affected by the decline in commodity prices in the international markets. Regarding the export of unprocessed products, in this case the lower external demand was not so severe. For instance in case of the agricultural products - the value of exports increased in the last quarter of 2008 by 5.8% (Mroczek, 2009). There were also no decrease in the export of chemical industry products (mostly the pharmaceuticals).

The financial crisis very quickly started to negatively affect the automotive industry in the world. This tendency was confirmed by the decline of Polish exports when it comes to diesel engines, cars, car parts and accessories (Narodowy Bank Polski, 2009). It should be noted however, that the decline in export of passenger cars in case of Poland (in the fourth quarter of 2008 the value of cars sold was reduced by 9.6%) was not as severe as in other European countries. Mainly due to the introduction to production (several years ago) - small and cheap cars, which were more competitive in the European market.

In the case of imports it should be noted that at the end of 2008 declines were recorded in almost all commodity groups (especially base metals, mineral products and transport equipment). But there was increase in import of consumer goods by almost 10% in the fourth quarter. It reflected the highest growth in Polish households expenditures in the whole EU - by 5.3% during that period (Mroczek, 2009; Narodowy Bank Polski, 2009). It should be mention that Poland is distinguished by the relatively large internal market – this fact also “helped” during the crisis.

Regarding the geographic structure of foreign trade in that period, the reduction in exports to countries outside the EU was smaller (although in the case of Ukraine, experiencing severe economic problems, one could speak of a collapse in exports). The recession and internal problems caused by the financial crisis brought about a sharp decline in exports to the new EU member states (especially the Baltic countries and Hungary); this trend also persisted in 2009 (Fig. 3).

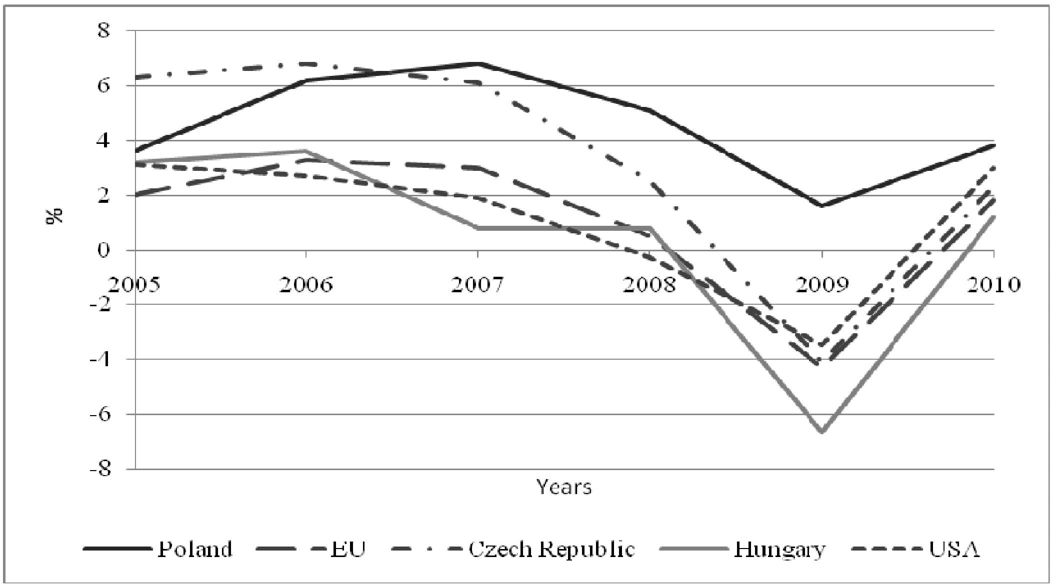
Figure 3: Poland’s exports to Estonia, Lithuania, Latvia and Hungary during 2007-2009, in thousands of EUR, current prices (Central Statistical Office, 2008, 2010)



4. Poland‘s exports and imports in 2009

In the subsequent months of 2009 financial crisis deepened and impacted negatively real economy all over the world. In Poland however, the situation was not so difficult as in other countries and Poland was the only one country in the EU in which the increase of the GDP was recorded, although its growth rate was obviously lower than in the previous years (Fig. 4).

Figure 4: Real GDP growth rate in Poland, the EU, Czech Republic, Hungary and USA during 2005-2010 (Eurostat, 2011)



It turned out that one of the positive factor influencing the situation in Poland during the crisis was the less economic openness. The share of exports in the GDP in the case of Poland was much smaller (though growing) than in other countries of Central and Eastern Europe. For example, in Poland that share in 2008 amounted to slightly over 40 percent of the GDP, but in Czech Republic above 77%, in Hungary above 81 percent of the GDP and in Slovakia over 83 percent of the GDP (UNECE, 2011). What is also very important - Polish exports was characterized by greater diversification (Mroczek, 2009; Narodowy Bank Polski, 2009). Table 1 shows the composition of Polish imports and exports by sections during 2005-2009.

Years	*Food and live animals*	*Beverages and tobacco*	*Crude materials inedible, except fuels*	*Mineral fuels, lubricants and related materials*	*Animal and vegetable oils, fats and waxes*	*Chemicals and related products*	*Manufac-tured goods classified chiefly by material*	*Machinery and transport equipment*	*Miscella-neous manufactured articles*	*Commodi-ties and transaction not classified elsewhere in SITC*
Imports										
2005	5.3	0.5	3.0	11.5	0.3	14.3	20.7	35.9	8.5	0.0
2006	5.0	0.5	3.0	10.4	0.3	13.5	20.8	35.9	8.1	2.5
2007	5.3	0.6	3.0	9.9	0.3	13.0	21.2	35.6	8.6	2.5
2008	5.7	0.5	3.1	11.2	0.4	13.0	18.7	35.5	9.1	2.8
2009	6.9	0.6	2.7	9.4	0.3	14.0	17.4	35.6	10.7	2.4
Exports										
2005	8.8	0.6	2.2	5.3	0.1	6.8	22.6	39.1	14.5	0.0

2006	8.4	0.7	2.3	4.5	0.2	7.1	23.1	40.2	13.4	0.1
2007	8.4	0.8	2.3	3.8	0.2	7.3	23.2	40.9	13.0	0.1
2008	8.5	0.9	2.2	4.2	0.2	7.9	21.8	41.4	12.8	0.1
2009	9.6	1.4	1.9	3.1	0.2	7.8	19.5	43.2	13.2	0.1

Table 1: Composition of Polish imports and exports by sections according to SITC nomenclature during 2005-2009, current prices, %(Central Statistical Office, 2008, 2010).

The less importance of exports in the economy "cushioned" the impact of the crisis on the domestic demand (drop by 1%). What more, Poland recorded the highest growth in household spending and the smallest decline in capital expenditure among the EU countries. In Poland however, a strong decline in import demand occurred, mainly due to the significant increase in import prices expressed in the national currency (by 8.6% in 2009), which could be explained, among others, by the strong depreciation of the Polish zloty (Fig. 5).

Figure 5:Exchange rate EUR/PLN, daily average, during 31.12.2007-31.12.2009 (Narodowy Bank Polski, 2011b)

That depreciation was caused by the speculative attack on the domestic currency. It should be mentioned here that when zloty started to weaken sharply many Polish companies began reporting large losses on currency options contracts. The strong appreciation of Polish zloty from the May 2004 until July 2008 inclined domestic exporters to use currency options in management of exchange rate risk. But the strategies advised by financial institutions were rather the speculative ones (first of all the option strategy called collar) and the contracts were asymmetrical (also free-of-charge). The hedged positions of the companies exceeded the value of their export contracts. Several exporters went bankrupt, financial situation of plenty deteriorated. Polish government started to search for proposals to resolve the problem of toxic options.

There are opinions that the impact of changes in the exchange rate of domestic currency for foreign trade was asymmetrical, since its effect was stronger on imports than on exports. This can be explained by the fact that exchange rate changes have a greater impact on the domestic entities (companies - exports and imports and households - import of consumer goods) than on foreign companies, which dominated in the export (Mroczek, 2010). It should be mention here that of all the entities participating in Poland's commodities export, around 60% were companies with foreign capital.

However the depreciation of Polish zloty increased the profitability of exporters, allowing them to maintain sufficient liquidity with decreasing sales. The research of the Instytut Badań Rynku, Konsumpcji i Koniunktur (the Institute for Market, Consumption and Business Cycles Research) shows that if not for the depreciation of the zloty, the volume of exports would fall by about 2.5 percentage points more, and the volume of imports by about 2.5 percentage points less. The result was the growth of revenues of Polish exporters of about 11.7 billion zlotys compared to 2008, while expenditures on imports decreased of 42.3 billion zlotys, allowing to maintain profitability at a level only slightly lower than in 2008. In the period of depreciation the value of inventories fell by more than 8 billion zlotys, allowing for relatively greater, than that resulting from high import intensity of production and exports, the decrease in the volume of imports (13.6%), while the decline in exports by only 7.9% (Przystupa, 2010).

It should be noted that the decline in export volume in 2009 took place for the first time since 1993, and was the deepest since 1981 and estimated at 9.3%. But the decline was smaller than the reduction in the volume of world merchandise exports, which amounted to -12.2 percent.

A detailed analysis of the situation in 2009 shows that since the beginning of 2009 the trade balance started to improve. In the first quarter trade deficit decreased, compared to the same quarter the previous year, by 2,801 million EUR, and to the last quarter of 2008 to 4,244 million EUR. This was associated with a stronger decline in imports (by 8,995 million EUR) than exports (by 6,194 million) compared with the first quarter 2008.

The reason for the decline in exports was first of all a reduction in the global economic activity as a result of the crisis, among major Polish trade partners - especially in the first half of 2009. It should be mentioned that the primary buyer of Polish goods are the developed countries and in this group - the EU countries (79,6% in 2009). The reduction of the value of goods sold abroad (especially base metals, machinery and transport equipment) was brought about by the difficult situation in the automotive industry on an international scale due to global financial crisis. The products which experienced the largest decrease of export to the EU were: metallurgy products by 4.2 billion EUR (35%), products of the electromechanical industry by 2.8 billion EUR (7.4%), mineral products by EUR 1.7 billion EUR (38%) and products of the chemical industry by 1.5 billion EUR (15%) (The Ministry of Economy, 2010).

The increase in exports concerned mainly food - wheat and fruit. And it should be noticed that the agricultural and food products were especially "resist" to the crisis.

When it comes to imports – the decrease of the value of imports at the beginning of 2009 was caused by the fall of the volume of imports and lower prices in foreign currencies. The largest decrease in imports concerned: mineral products, machinery and equipment, transport equipment and base metals. This confirm the fact that the economic crisis was particularly severe for the automotive and electromechanical sectors (Narodowy Bank Polski, 2010). The biggest decline occurred in the group of intermediate goods (by 29.6%) and investment goods (29.8%).

The smallest decline in imports concerned consumer goods (especially cars and other durable goods) - by 11.3%. Although the scale of the decline in imports of these goods were similar to those in other Central and Eastern Europe, and even deeper than in other European countries. The main reason was the strong depreciation of the zloty, which caused a significant increase in import prices expressed in domestic currency.

In subsequent quarters of 2009 a gradual increase in both exports and imports was recorded, though their value was still lower when compared to the corresponding quarters of the previous year. In the second quarter of 2009 trade deficit was still lower than in the previous quarter (reached -519 million EUR), and in subsequent quarters, however, began to grow.

In the first half of 2009 the terms of trade improved to 104.1, compared to 101.1 the same period the preceding year. To the improvement of the terms of trade contributed the most: the decline in prices of imported mineral fuels (crude oil and natural gas) by 31.9%. At the same time the prices of export of machinery and transport equipment increased by 18.5% (Szaleniec, 2009).

The improvement in exports in the next quarters of 2009 was connected with its commodity structure - it was more diversified, with a greater share of consumer goods than in other countries of Central and Eastern Europe. And in years 2008-2009 it has been extended with new products (for example, new models of cars, TV sets and computers).

It should be stressed that particularly cars (small and cheap) supported Polish exports during the crisis due to the introduction in many countries of the old EU subsidies for new vehicles in exchange for scrapping the old ones. And as a consequence of the crisis there was a “shifts” in demand in the EU-15 in the direction of cheaper products from Central and Eastern Europe, including Poland, what improved the situation of national exporters.

Regarding the geographical structure of Polish foreign trade in 2009 the smallest drop in exports was recorded in the group of EU-15. The largest drop of export to the EU countries (measured in absolute terms) were recorded in the exchange with: Germany by 3.4 billion EUR (11.8%) – which is the most important Poland’s trading partner, Sweden by 1 billion EUR (28.6%), the Czech Republic by 0.9 billion EUR (13.4%), Lithuania by 0.7 billion EUR (36.4%) and Slovakia by 0.6 billion EUR (21.3%) (The Ministry of Economy, 2010).

The decline in imports occurred in all major groups of countries, however, in the case of China the decrease was the smallest and China became the second, after Germany, Polish trading partner in imports. Table 2 shows major Polish trading partners during 2007-2009.

Years	**Specification**	**First partner**		**Second partner**		**Third partner**	
		Country	**in %**	**Country**	**in %**	**Country**	**in %**
2007	Imports	Germany	24.1	Russian Federation	8.7	China	7.1
	Exports	Germany	25.9	Italy	6.6	France	6.1
2008	Imports	Germany	23.0	Russian Federation	9.7	China	8.1
	Exports	Germany	25.0	France	6.2	Italy	6.0
2009	Imports	Germany	22.4	China	9.3	Russian Federation	8.5
	Exports	Germany	26.2	France	6.9	Italy	6.9

Table 2: Share of the Poland’s major trading partners during 2007-2009, current prices (Central Statistical Office, 2010).

At the end of 2009, the first signs of overcoming the crisis appeared in world economy. The international trade increased in the fourth quarter by 1.4%. Also the Poland's exports and imports had been rising.

5. Recent developments in Poland's foreign trade

The year 2010 was a period of recovery from the recession all over the world. The situation in Poland's foreign trade should be assessed positively at that time. According to the Ministerstwo Gospodarki (2011) - exports in 2010 reached 117.4 billion EUR and the same was 19.5% higher than in the crisis year 2009, when it fell by 15.5%, but at the same time about 1% higher than in pre-crisis year 2008. This means that in early 2010 the restoration of pre-crisis level of exports had come much faster than had been expected. The imports in 2010 reached 130.9 billion EUR, but the growth (21.7%) did not offset the deep decline (by 24.5%) in the previous year. The result was that the level of imports turned to be by 8.1% (by 11.6 billion EUR) lower than in pre-crisis year. As a result, trade deficit, despite deepening to 13.5 billion EUR, was nearly a half lower than the one recorded before the crisis (26.2 billion EUR).

Among the main reasons for the improvement in the situation in the Polish foreign trade in 2010 according to Ministerstwo Gospodarki (2011) were:

- improving overall economic situation in the main markets, especially in Germany;
- rationalization of stocks and intermediate imports for export production;
- relatively strong standing of the Polish banking sector, providing the necessary financing for exporters;
- maintaining a relatively high price and cost competitiveness of Polish exports.

In 2011 however the external environment of that Poland's economy is unstable and very fragile. The problems in the Eurozone and the situation in the USA are among phenomena which can threaten the economic growth all over the world and affect Poland's economy, therefore also the foreign trade.

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