

**“The Impact of War in Ukraine
on the Polish Economy (2022)”
(First Part)
(by Dr. Rafał Kusy)**

The Russian Invasion of Ukraine on 24th February 2022 led to a panic on the global financial markets and it has had an impact on the social and business life of society throughout almost the entire world. A cut price occurred throughout all world economies and the Stock Exchange Market in Warsaw (GPW) noticed the third weakest session in their operations. The stock-index WIG20 decreased by 10.9% and this is the worst result in the history of the GPW as well. Greater falls were observed only in 1997 and 2022. A real crash has taken place on the stock exchange market in Moscow where the stock-index RTS sometimes dropped in value by 48% but by the end of the day reached the level of minus 33%. The stock exchange sessions on Thursday will be consigned to the history of capital markets as the one of their “worst moments”. Nevertheless the war in Ukraine will also have a real impact on the development of economic parameters in Poland:

The main problems for the Polish economy are as follows:

Reduction of the growth dynamics of GDP,

1. More expensive prices and less availability of raw materials
2. Runaway inflation following the raising of interest rates by the Monetary Policy Council
3. Large inflow of Ukrainian refugees to Poland
4. Increased budgetary expenditures and inflow of funds from the EU
5. Raise of the level of public debt
6. Exchange rate
7. Low share of Polish trade in countries involved in the war
8. Possible recession in the United States

With reference to 1)

According to experts from BNP Paribas the decrease of the growth dynamics of the GDP in Poland **could be lower by one percentage point reaching 3.5%** [\[1\]](#).

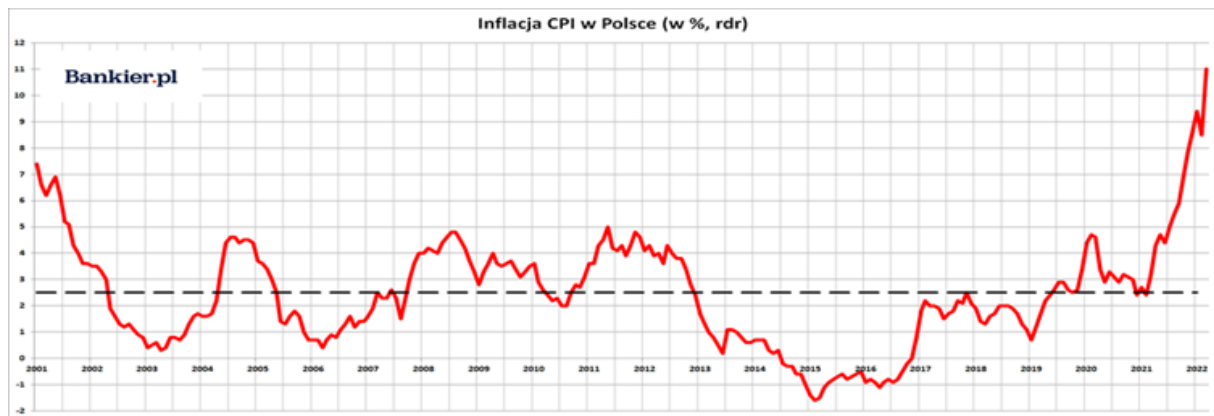
However, because of the high uncertainty as to the economic consequences of the war, they see a risk that economic growth this year may be lower due to the slowdown of activities in the Euro-Zone. The increase of the prices of raw materials, a weaker exchange rate and disturbances occurring in the supply chains will additionally fuel high inflation.

With reference to 2)

The prices of raw materials are growing fast, in particular crude oil prices, causing a significant increase of oil costs at petrol stations. If the high prices of raw materials will sustain over a longer period of time, then the buying power of households will suffer causing a decrease of economic growth in this year. The direct impact on the Polish economy, resulting from reduced exports to Ukraine and Russia, should be rather moderate. **The share of each of these countries within Polish international sales is not particularly high and last year it was valued at around at 2 – 3%.** More disruption may result from import problems. **Poland still remains dependent on the export of energy fuels from Russia,** although the launching of the pipeline “*Baltic Pipe*”, connecting our country with gas fields in the North Sea, will increase energy security. Analysts underline that high prices of energy resources and some difficulties with obtaining them will hit Poland **not only indirectly but also directly** due to a lower level of business activity in the EU which is a key trade factor to our country being responsible for about 75% of Polish export. Russian natural gas covers about 40% of gas consumption in the EU. The leaders of the European states have clearly declared that the purchase of Russian gas will be significantly reduced. To this end, importation will fall by even up to 65% this year. Although from a geopolitical point of view this decision is certainly right, this will have economic consequences. **More expensive gas will also impinge on the operative costs of European entities and will reduce consumer demand.**

With reference to 3)

The fundamental problem of the Polish economy is soaring inflation. The Main Statistical Office has revised upwards initial data provided on 1st April 2022 [\[2\]](#). Inflation CPI (Consumer Price Index) reached in Poland in March 2022 for the first time in 21st century a double digit level, i.e. 11% comparing with the analogous month in 2021. This was the highest inflation level since September 2021. Prices went up on a monthly basis even by 3.3% and this was the highest monthly dynamic since January 1996 [\[3\]](#). Thus the results were higher by 0.1 percentage points than the results estimated and published on 1st April 2022.



Source: <https://www.bankier.pl/wiadomosc/Inflacja-w-Polsce-w-marcu-2022-finalne-dane-8319560.html>

On one hand, inflation drives up the price of fuel while on the other hand food prices also go up. Russia and Ukraine represent together a ¼ export of wheat and other cereals as well as oilseeds. If there is a war in Ukraine and there are sanctions imposed upon Russia, then the demand for these goods will naturally be smaller and wherever there is a smaller demand – prices usually go up. The demand also depends on the geopolitical situation and on that where prices for raw materials become stabilized. In order to slow down the rise of inflation and to improve the Polish Złoty rating the Monetary Policy Council (RPP) is raising interest rates. During the April meeting, the RPP decided to increase the reference rate from 3.50% to 4.50%. The same changes were introduced to other interest rates of the Polish National Bank (NBP). The increase by 100 bp (basis point) was quite a surprise as a raise of 50 bp was more expected [4]. This was the 7th and the highest in the line of interest rate increases in Poland. In previous months RPP upgraded the “currency price” by 40 bp in October, by 75 pb in November and by 50 pb in December, January and February and finally by 75 bp in March. **This entire cycle represents the most aggressive increase this century.** The increase of the reference rate of the NBP to 4.5% means that it remains at its highest level since December 2012. Taking into consideration that the inflation will still maintain a double digit growth, **it can be expected that RPP will raise the reference rate the NBP by at least 5.5 - 6.0%.** The risk associated with this prediction shows rather an upward tendency. Lower scale would be possible if economic activity would heavily weaken.

[1] See <https://businessinsider.com.pl/gospodarka/bnp-paribas-szacuje-wplyw-wojny-na-polska-gospodarke/7ykzdz5>

[2] <https://www.bankier.pl/wiadomosc/Inflacja-w-Polsce-w-marcu-2022-finalne-dane-8319560.html>

[3] Food and alcohol free beverages prices have risen the most and they were more expensive by 9.2 % than in the previous year.

Among goods and services given the price increase were as follows: fuel by 61.3% y/y, gas by 49.2%, LPG fuels by 35.3%, crude oil by 41.1% and petrol by 29.2%. As a result of a sharp increase of fuel prices, transport services increased by 24.1% y/y. Housing and energy products increased by 17.7% more than in march 2021. Apartment equipment and maintaining of household were on average 7.8

% more expensive. Alcohol beverages and tobacco products have become expensive by 5.3%, leisure and culture by 7.4%, education by 6.0% and restaurant and hotels by 12.7%. Prices went also up for goods/services that in the recent years according to GUS (Central Statistical Office) usually were cheaper for instance for communication (3.0%) and for clothing and footwear (3.3%). Medical services and medicine become more expensive by 6.0% y/y on average and other goods and services by 6.2%.

Source: <https://www.bankier.pl/wiadomosc/Inflacja-w-Polsce-w-marcu-2022-finalne-dane-8319560.html>

[4] RPP only twice within its over 20 tenure increased the “currency price” stronger: in August 2000 (by 1.5% pp) and in November 1999 (by 2.5%). However, the reference rate amounted to several percent at that time. Source: <https://www.bankier.pl/wiadomosc/RPP-gwaltownie-podnosi-stopy-procentowe-8313559.html>