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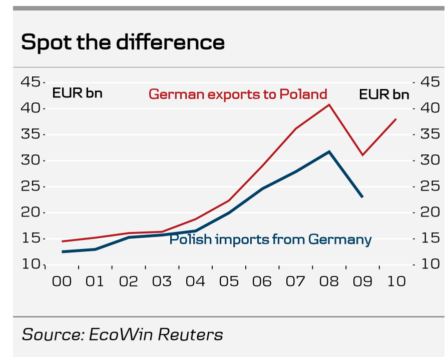
Flash Comment

Poland: Stat problems increase twin deficit fears

- According to Poland's central bank adviser, Miroslaw Gronicki, there have been serious problems with the balance of payment statistics and the 'errors and omissions' have reached 4% of GDP.
- This is most likely the result of imports being seriously underestimated.
- We think imports could have been underestimated by as much as EUR10-15bn in 2010. This would mean that GDP (as well as GDP growth) has been overestimated. As a result, all of Poland's key macroeconomic ratios would look worse: higher budget and current account deficit as a share of GDP and higher debt-to-GDP ratio (probably above the key level of 55%).
- These 'statistical issues' raise a numbers of questions about the overall quality of Polish macroeconomic data, which is likely to be negative for the Polish FX and fixed income markets.

Spot the difference



Source: EcoWin Reuters

Errors and omissions – now a market mover

Normally the 'errors and omissions' factor in the balance of payment statistics does not attract a lot of market attention, but this might be about to change – in Poland at least.

On Monday in an interview with Reuters, former finance minister and current adviser to the Polish central bank, Miroslaw Gronicki, said:

"The central bank delayed the publication of the balance of payments to 21 March. This is caused, among other things, by statistical issues. We have a problem. In the balance of payments, in the errors and omissions category, a huge number appeared reaching 4% of GDP. If this is caused by underestimated imports, the trade and services deficit is bigger and therefore the current account deficit is also bigger. Such a situation would cause financial investors to change how they view Polish instruments and, secondly, would impact GDP estimates. Underestimated imports means GDP is overestimated with all the consequences related (we have underestimated debt, deficit levels, etc)."

This is obviously a serious issue. Not only have Polish imports (apparently) been underestimated in recent years, this also means that GDP has been overestimated. This is bad news as it basically calls into question the quality of the entire Polish national accounts since EU accession in 2004 – this is when the problem with increased 'errors and omissions' apparently started. In that regard, it should be noted that Poland and Romania are the only EU countries which do not publish national accounts that comply with Eurostat standards (ESA95).

Furthermore, we could suddenly see a situation where Poland might in fact have had a close to double-digit deficit on both the current account and the public budget in 2010. This of course is in stark contrast to the general perception in the markets of Poland as a 'high quality' investment destination.

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Imports have been underestimated by EUR10bn

According to the comments from Mr Gronicki, the 'statistical issue' might have been caused by a underestimation of Polish imports. We would tend to agree with this. We have looked at Polish import data and at the export statistics of Poland's major trading partners (Germany, China, Russia, France and Italy). We have simply compared Polish imports from Germany with German exports to Poland. The numbers should be more or less the same. For China, Russia, France and Italy, this is in fact more or less the case. However, in the case of German-Polish trade, it seems that Polish imports from Germany are as much as EUR10-15bn lower than German exports to Poland (see graph on page 1). The question is: do we trust the Polish or the German data? We would tend to trust the German data as the difference between the two sets of data is more or less the same size as the errors and omissions in the balance of payment statistics. If this assumption is correct, we might be in for a marked revision of not only the Polish import data, but also a downward revision of Polish GDP data – perhaps going as far back as 2004.

In terms of the risk of data revisions, it should be noted that the Czech statistics office and the Czech central bank recently (10 March) revised its trade data significantly, which led to a significant negative revision of the Czech current account data. This might be an indication of what we could expect in the Polish case – just on a bigger scale.

Potential revision of GDP data raises serious questions

If we were to get a large downward revision of Polish GDP data going back in time, it would raise a number of serious questions. The direct consequences would be:

- The current account and budget deficit in Poland in 2010 as share of GDP might have been close to double digits (or at least 7-8% of GDP). This is a 'twin deficit' of a similar size to Hungary in 2005-06 when the country was forced to implement significant austerity measures.
- The public debt might already have topped 55% of GDP – potentially triggering a 'forced' tightening of fiscal policy due to Poland's quasi-constitutional limits on public debt. This obviously raises serious political questions as the Polish government has consistently said the debt would not top 55% of GDP. In this regard, it should of course be noted that there will be parliamentary elections later this year.
- The Polish government has said it will meet the demands of the European Commission to cut the budget deficit to below 3% of GDP in 2012. A large downward revision of Polish GDP data would make it almost impossible to reach a budget deficit of 3% without implementing Draconian budget cuts. Lack of action on fiscal policy could heighten the conflict between the European Commission and the Polish government on this issue.
- If import growth has been higher than previously thought since 2004, the Polish growth performance in the same period will obviously also have been less impressive than previously thought.

This will weigh on the Polish markets

It is very hard to say what impact these rather complex statistical issues might have on the Polish markets. However, it is hardly positive that the overall macroeconomic balances in Poland now look significantly worse than previously expected – not only due to the statistical issues, but also due to the general macroeconomic development (especially overly loose fiscal policy). Furthermore, when a central bank adviser like Mr Gronicki calls into question the quality of official data, it is likely to worsen the general investor perception of the Polish economy and hence weigh on both the Polish FX and fixed income markets going forward – or, put another way, the risk premium on Polish assets is likely to increase going forward.

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