

Is Poland in Danger of Zero GDP Growth, and the U.S. of Hyperinflation?

The chances of the emergence of hyperinflation in the U.S., that is, the monthly increase in prices by over 50%, appear to be relatively low, although the chances are pretty big on the price increase by about 10% -20% per year, such as in the seventies during the oil crisis. U.S. credit crunch adversely affected the economy of the European Union and will contribute to lower level of growth of Polish economy. Given the delay in the start of infrastructure investments by Poland, it is likely that the increase in Gross Domestic Product (GDP) in 2009 may amount to little more than 0%. What are the arguments for such a scenario?

Economy in Poland

According to the latest assumptions of Polish government the GDP in Poland in 2009 will increase by 1.7%. It is highly probable that the presumption is heavily underestimated. By adopting the pessimistic assumption that due to the budgetary savings, the start of infrastructure investments will be delayed, GDP growth may reach a level of just over 0%.

Moreover, the argument in favor of the low level of GDP growth in Poland in 2009 may be a high level of interest rates, which was held by the Monetary Policy Council (MPC) for too long. It is understood that the impact of interest rates on the economy is seen in approximately 18 months and the MPC has completed series of increases of interest rates in June 2008, which means that a significant deterioration in expectations and financial performance of companies in Poland will take place in the near future, and their improvement can be expected in the second half of 2010.

Worse financial results of companies mean that we will witness the economic slowdown. Companies want to survive in the market during the slowdown/recession, they will seek to maintain liquidity and cut costs in the short term. Therefore, during this year it can be expected a progressive increase in the unemployment rate and reduced growth of wages. Fear of an employment loss and frozen wages can result in that Poles will not be willing to go for a shopping anymore, and this will translate into a lower GDP growth.

In conclusion, it should be recalled the old maxim, that the stock exchange forecasts the future trend in the economy. The main stock exchange index in Poland, WIG, fell down over 2008 by more than 50%. The decrease has been still continuing since the beginning of 2009, and in February this year, it was broken on the main index WI, the long-term upward trend launched in mid 1993 (*see Chart 1*). It should be noted that the percentage decrease of the level of the main stock exchange index in 2008 (-50%) is greater than that during the Russian crisis in 1998 (-28%) or in the previous bear market in 2000/2001 (-35%), which was characterized by a strong economic slowdown. If GDP growth was at around 3.5% in 1998 while in the years 2000/2001 at 1.5%, what level of GDP growth can be expected in 2009? Referring to the theory that share prices of listed companies, inter alia, are affected by the generated profits it can be concluded that in the future profits of companies are likely to fall down very much, and this in turn means that it will be a strong slowdown/recession. There is therefore a strong likelihood of GDP growth in Poland in 2009 at just over 0%.

Graph 1: The Breakout of the Long-Term Upward Trend for the WIG Index in February 2009.



Source: Bossa.pl

Hyperinflation in the U.S.

Falling down prices of commodities, including liquid fuels, and food mean that now we see a decrease of inflation in the world. Lower prices caused that the United States decreased the interest rates to a historic low level of 0.0-0.25%, and all the time are injecting to the market hundreds of billions of dollars to rescue the financial system. Federal Reserve Bank is eager to print generally empty money in order to save the world before the financial crisis. Is the American economy threatened by hyperinflation? Referring to the definition, hyperinflation is caused by the total collapse of the financial system of the country and a huge budget deficit covered by the uncontrolled debt issuance and printing of empty money. Although, economists differ on what constitutes of inflation and hyperinflation, for a notional limit of hyperinflation is often assumed the increase in prices of at least 50% within one month.

The current economic slowdown in the U.S. will contribute significantly to the wave of job losses and bankruptcies and the collapse of many companies, and thus to lower state revenue from taxes. Their decline is likely to be covered from the issuance of debt, i.e. issue of bonds and treasury bills by the U.S. government, which, combined with the printing of money without the cover in order to rescue the financial system will affect the magnification of the already huge deficit. Taking into account the "Obama Plan" and the Chinese authorities, according to which the economy will be stimulated, inter alia, by the construction of infrastructure it can be concluded that the inflation impulse will be again generated in the form growing prices of commodities. The chances of the emergence of hyperinflation appear to be relatively low, because the U.S. is the country developed and rapidly adjusting to changes and will not be likely to collapse the financial system, but chances are pretty big for an annual 10-20% increase in prices, such as in the seventies.

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