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Imports, exports and the Polish zloty: Stylized facts and facts

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Summary:

A role of an uncertainty in the Polish zloty currency market and, subsequently, in the external trade in the 2000s is unequivocally confirmed in empirical research. Before the subprime crisis 2008-2009 the Polish zloty rate was driven mainly by interest rate spread and fiscal tensions which manifested themselves in changes in the short-term governmental debt-to-GDP ratio. The abrupt depreciation of the zloty in the height of the subprime crisis had however two another sources. First, changes in the global uncertainty perception launched equilibrium-restoring process in the end of 2008. Second, in the beginning of 2009 the zloty substantially overshot its equilibrium level. Simultaneously, unlike a majority of the EU countries the Polish economy still posted slight, positive GDP growth which was mainly induced by increasing net exports. An intuitive explanation of the above tendencies in the Polish economy seems to be obvious: the fully floating exchange rate regime in Poland had not only insulated the economy form negative external shocks in the height of the subprime crisis but it also had induced a positive short-term increase in the price competitiveness. Therefore the simplest recommendation for the monetary policy in insecure times seems to be also obvious: do nothing with the exchange rate regime before ERM2 entering and keep it fully floating as long as possible.

The main shortcoming of the latter recommendation is that it may have little in common with the processes underlying the imports and exports performance in Poland. Although trends in domestic and foreign demand and fluctuations in real exchange rates are still perceived as the main drivers of imports and exports in short-term macro-analyses and forecasts, the role of other external trade determinants cannot be neglected. Therefore, the paper aims at formal empirical verification of hypotheses assuming that imports and exports are driven by determinants different from demand and relative prices. Disaggregation of the exports and imports into their components eventuating from the process of production fragmentation (global value chains, GVC) and the components created independently of the GVC allow to diversify the importance of the exchange rate in determination of the net exports.

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