

Expensive crude oil threatens economy

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On Thursday price of crude oil in London was close to as much as USD 120 per barrel.

"If high prices of the fuel remain unchanged through the entire 2011, balance of trade in Poland will deteriorate and the inflation will increase" said Małgorzata Starczewska-Krzysztozek, PhD, chief economist at PKPP Lewiatan.

"Rapid rise in crude oil prices on global markets can already be well felt on petrol stations where prices of petrol are instantly increasing. High prices of petrol translate into rise in inflation. And we already have higher price rise because of the rise in food prices.

If the situation does not normalize, companies will have to amend their business plans, including their assumed net financial results and profitability. They can also put their investment related decisions off in anticipation of crude oil market stabilization. The question is, what will be the reaction of the Monetary Policy Council – will this new situation reinforce the direction it decided on in January, i.e. increasing interest rates. Probably yes. For companies this will be equal with another cost increase – the capital acquisition costs. The situation does not look good because crude oil price rise, if it sets in, can lead to economic weakening.

Moreover, adverse phenomena on the crude oil market will worsen the already debit balance of current accounts of Central European countries, including Poland. All this because all the countries are net importers of crude oil. Global economy would experience adverse effects of the crude oil price rise within the next months. The world may at the very least be threatened with weakening of the already not too fast rate at which it is coming out of the economic crisis" adds Małgorzata Starczewska-Krzysztozek.

Polish Confederation of Private Employers Lewiatan (PKPP Lewiatan)