

**EXECUTIVE  
BOARD  
MEETING**

SM/22/26

February 3, 2022

To: Members of the Executive Board  
From: The Secretary  
Subject: **Republic of Poland—Staff Report for the 2021 Article IV Consultation**

Board Action:	Executive Directors' <b>consideration</b> (Formal)
Tentative Board Date:	<b>Friday, February 18, 2022</b>
Publication:	Yes*
Questions:	Mr. Cuevas, EUR (ext. 34802) Mr. Lindquist, EUR (ext. 30234) Ms. Taheri Sanjani, EUR (ext. 36742) Mr. Foda, EUR (ext. 34359)
Document Transmittal in the Absence of an Objection and in accordance with Board policy:	Friday, February 4, 2022—European Central Bank, European Commission After Board Consideration—European Bank for Reconstruction and Development, European Investment Bank, Food and Agriculture Organization, Organisation for Economic Cooperation and Development, United Nations Development Programme, World Trade Organization

**\*Unless an objection from the authorities is received prior to the conclusion of the Board's consideration, the document will be published.**





# REPUBLIC OF POLAND

## STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION

February 1, 2022

### KEY ISSUES

**Background:** The Polish economy has rebounded strongly, with policy actions limiting the damage from the pandemic-induced recession by supporting employment and avoiding unnecessary bankruptcies. While the pandemic continues to take a toll on lives, the economy has been less impacted by successive waves of the pandemic.

**Outlook and risks:** The robust economic expansion is projected to continue in 2022–23, with inflation remaining high in the near term. Policies must navigate the risks from the pandemic against the countervailing risk of overheating as output moves above potential. The continuation of disputes with the EU risks delays in investments.

### Policy Recommendations

**Fiscal policy:** An expansionary fiscal stance should be avoided in the context of overheating risks, calling for the fiscal impact of the tax reform to be offset elsewhere in the budget. However, the extension of targeted fiscal support would be appropriate should the pandemic again significantly disrupt economic activity. Some additional deficit reduction over the medium term would be appropriate to rebuild fiscal buffers.

**Monetary policy:** The central bank should continue to tighten monetary policy to drive inflation back to the target. The conclusion of asset purchases is consistent with monetary tightening, and this instrument should be reserved to periods of disorderly market conditions.

**Financial sector policy:** With the banking sector remaining stable through the pandemic and sound asset quality and capital levels, the ongoing gradual phase out of crisis-related financial sector measures is appropriate. Legal risks of foreign exchange mortgages are the main source of risk to the banking system. Banks should proactively seek to reach voluntary restructuring agreements with clients, supported by supervisory policy initiatives.

**Structural policies:** To bolster long-term growth and convergence, the authorities should strengthen active labor market policies, outline a strategy for the financing of the energy transition, and improve central coordination of public investment.

Approved by  
**Jörg Decressin (EUR)**  
**and Kristina Kostial**  
**(SPR)**

Discussions were held remotely on November 29–December 13, 2021. The team comprised Alfredo Cuevas (head), Karim Foda, William Lindquist, and Marzie Taheri Sanjani (all EUR). Nadeem Ilahi (Senior Resident Representative) and Robert Sierhej and Krzysztof Krogulski (both Resident Representative Office) also participated in the discussions. Messrs. Trabinski (Executive Director) and Piasecki (Advisor to Executive Director) also joined the mission. The mission met with senior officials from the government, central bank, and financial supervision agency, along with representatives of trade unions, businesses, and financial institutions. Rafaela Jarin (EUR) provided administrative support, while Shituo Sun and Sadhna Naik (both EUR) provided analytical support.

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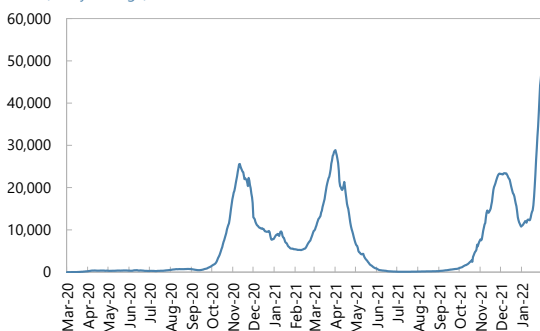
# CONTEXT

**1. Poland has been enduring another difficult pandemic winter.** After COVID-19 cases declined to low levels during the summer, permitting the easing of most mobility restrictions, cases increased again in the fall, peaking in December at a similar level to earlier waves, with similar levels of hospitalization and deaths (Figure 1). The Omicron variant is leading a new surge in early 2022. The authorities modestly tightened mobility restrictions in mid-December, targeted at unvaccinated persons. At 57 percent of the population, the vaccination rate lags behind the EU average (Figure 2). The authorities have mandated vaccination for health workers and are considering mandates for the military and teachers.

**Figure 1. Poland: COVID-19 Indicators**

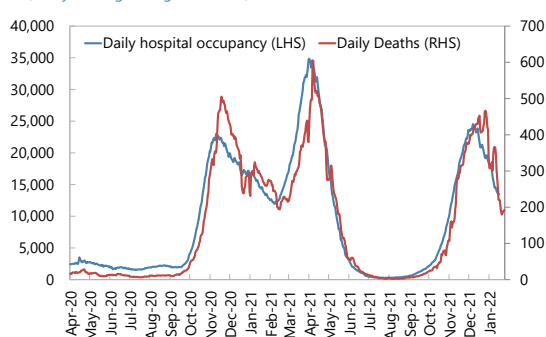
*A fourth wave peaked in early December, and the Omicron variant is leading a new surge in early 2022.*

**New COVID-19 Cases**  
(7-day average)



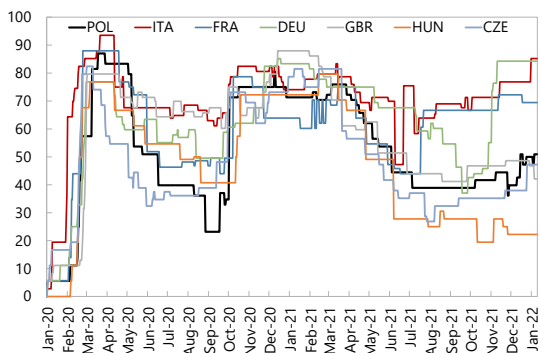
*The fourth wave was accompanied by a sharp increase in hospitalizations and deaths.*

**COVID-19 Hospitalizations and Death**  
(7-day moving average for death)



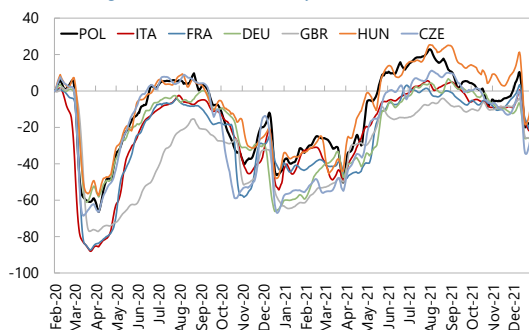
*Mobility restrictions remain much lower than during earlier waves of the pandemic...*

**Covid-19 Government Response Stringency Index**  
(Index: 100=most restrictive)



*...and mobility has similarly declined only modestly.*

**Retail and Recreation Mobility**  
(Percent change from baseline; as of January 28, 2022)

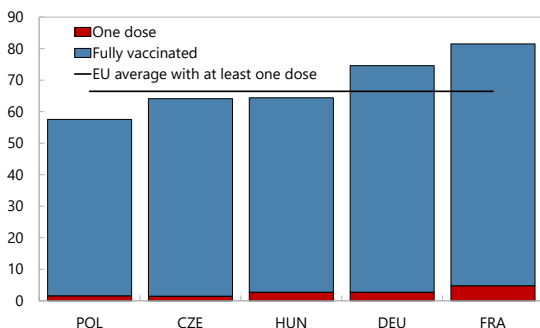


Sources: Bloomberg; European Centre for Disease Prevention and Control; Blavatnik School of Government at University of Oxford; Google; and IMF staff calculations.

**Figure 2. Poland: Trends in COVID-19 Vaccination**

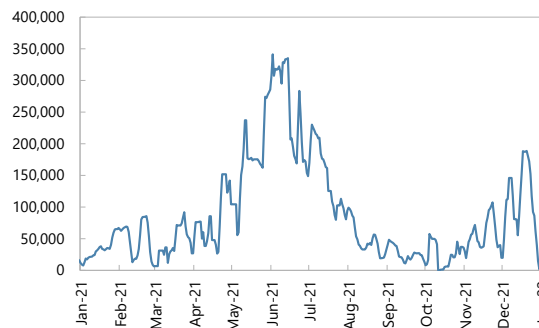
Poland's vaccination rate lags the EU average....

**COVID-19 Vaccination Rates, Selected EU Countries**  
(Percentage of population; as of January 10, 2022)



...and the recent increase in vaccinations owes more to boosters and child eligibility than new adult vaccinations.

**Daily COVID-19 Vaccinations Administered in Poland**  
(7-day moving average)

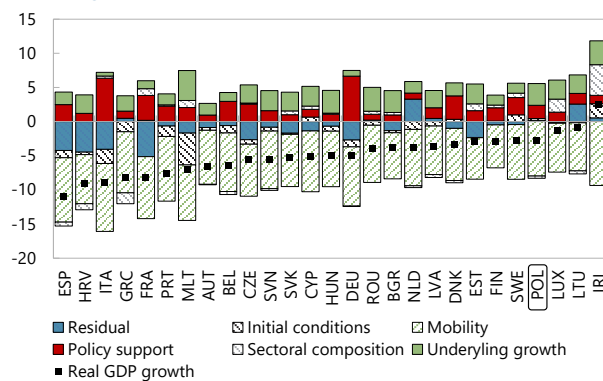


Sources: Our World in Data; and IMF staff calculations.

## RECENT ECONOMIC DEVELOPMENTS

**2. Strong policy support bolstered the Polish economy in 2020.** The economy contracted 2.5 percent in 2020, much less than the EU-wide 6 percent contraction. Poland's favorable performance appears linked to its higher rate of underlying growth and to policy support. In addition to monetary easing, a favorable fiscal situation provided scope for a large fiscal response, with some 4 percent of GDP in above-the-line measures implemented. In view of the ongoing recovery, fiscal policy support has been largely phased out.

**EU-27: Decomposition of Real GDP Growth, 2020**  
(Percentage points)



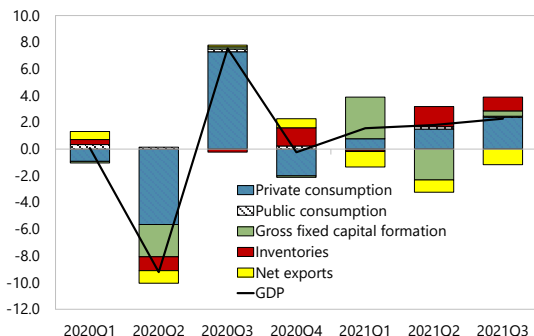
Source: October 2021 European Deaprtment Regional Economic Outlook

**3. The economy rebounded strongly in 2021.** Output recovered in Q1–Q3:2021, led by private consumption as the second and third waves receded, and the level of pre-pandemic output was surpassed in Q2 (Figure 3). The economy has been less impacted by successive pandemic waves as consumers and producers have adapted. Although supply chain issues at times affected the automotive industry, Poland's diversified industrial base has diluted its impact. Construction has lagged, reflecting a lull between cycles of EU capital transfers. High frequency data suggest that strong economic growth continued in Q4:2021.

**Figure 3. Poland: Economic Activity Indicators**

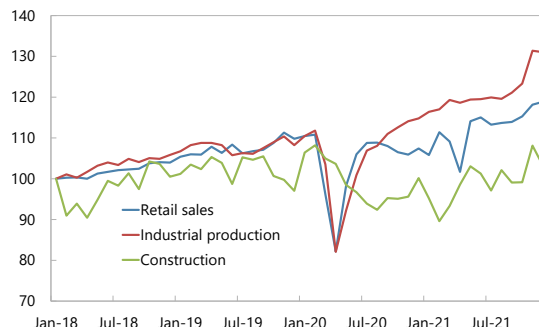
Output rebounded strongly in 2021 after a small decline in Q4:2020...

**Poland: Contributions to Quarterly GDP Growth**  
(Quarter-on-quarter, SA; based on 2015 constant prices)



...supported by strong recoveries in industrial production and retail sales of goods.

**Monthly Activity Indicators**  
(Index: January 2018 = 100; seasonally adjusted)



Sources: Statistics Poland; and IMF staff calculations.

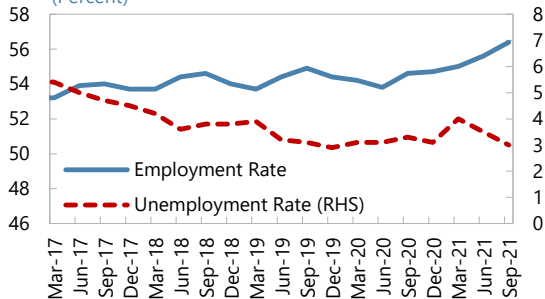
**4. Significant policy support cushioned the impact of the pandemic on labor markets.**

After a moderate reduction in employment and participation in 2020, labor markets have returned to pre-pandemic tightness (see Annex III). The unemployment rate has remained broadly stable between 3.0 and 3.5 percent despite the expiration of pandemic aid requirements to maintain employment. Still, employment losses persist in contact-intensive sectors. At around 9 percent year-on-year, average wages are currently increasing somewhat above the pre-pandemic trend (Figure 4). Levels of poverty and inequality have declined in Poland in recent years, but the impact of the pandemic is not fully known yet (Annex IV).

**Figure 4. Poland: Labor Market Developments**

The unemployment rate has remained relatively stable...

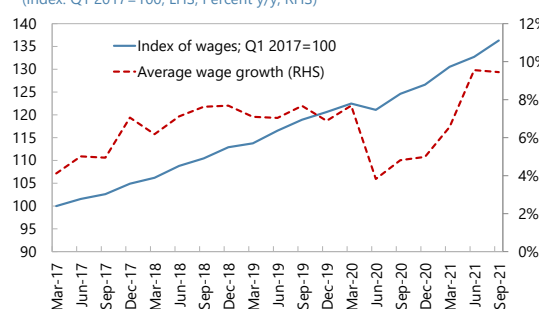
**Employment and Unemployment Rates 1/**  
(Percent)



1/ A series break in Q1 2021 makes the increase in the unemployment rate difficult to interpret.

...while wage growth appears to have returned to the pre-pandemic trend.

**Average Wage Growth 1/**  
(Index: Q1 2017=100, LHS; Percent y/y, RHS)

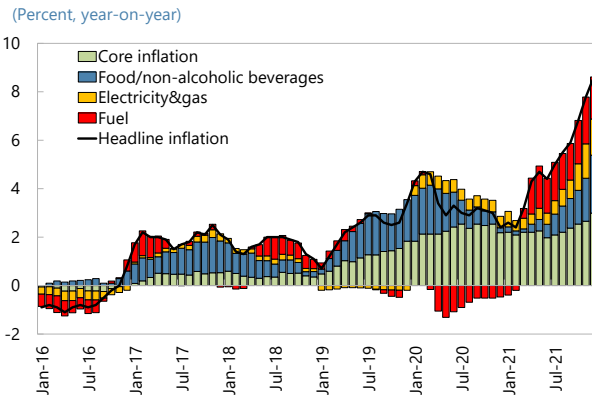


1/ The acceleration of average wage growth to nearly 10 percent y/y in Q2 2021 owes to base effects from the decline in the average wage in 2020.

Sources: Statistics Poland; and IMF staff calculations.

**5. Headline inflation accelerated significantly in 2021.** Rising global oil prices, combined with increases in food prices and electricity/gas, have led headline inflation to surge from 2.4 percent at the end of 2020 to 8.6 percent in December, well above the target (2.5 percent  $\pm$  1 percent). Core inflation (CPI excluding food and energy), which began to rise in 2019 alongside labor market tightness and some administered price increases, averaged 4.1 percent in 2021. While on average close to the level in 2020, core inflation trended upwards in H2:2021.

**Contributions to Headline CPI Inflation**

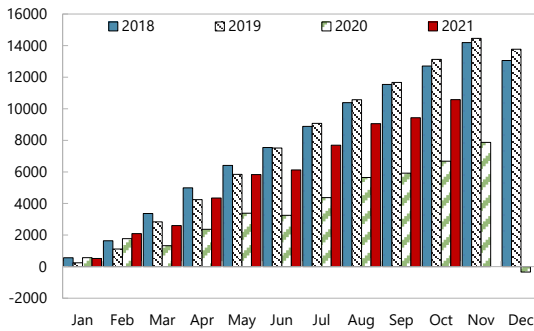


Sources: Statistics Poland; NBP; and IMF staff calculations.

**Figure 5. Poland: Banking Sector Indicators**

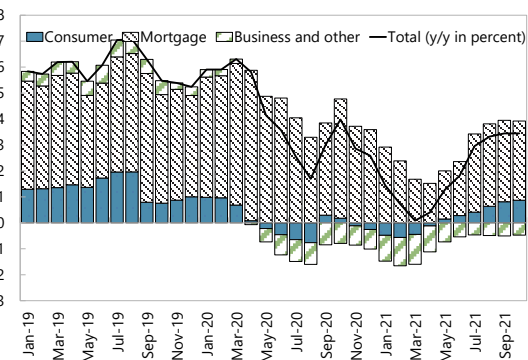
*Banks are rebuilding earnings in 2021.*

**Net Profit of the Banking Sector**  
(Cumulative year-to-date in PLN million)



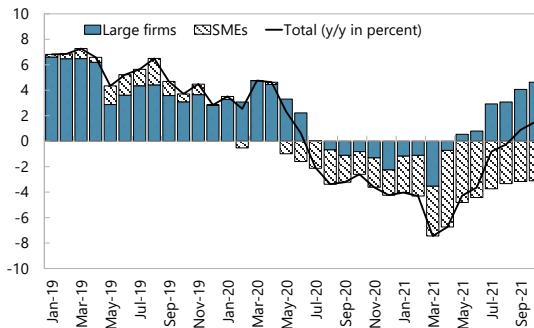
*Household credit growth slowed in 2020...*

**Household Credit Developments**  
(Contributions to y/y change in percent)



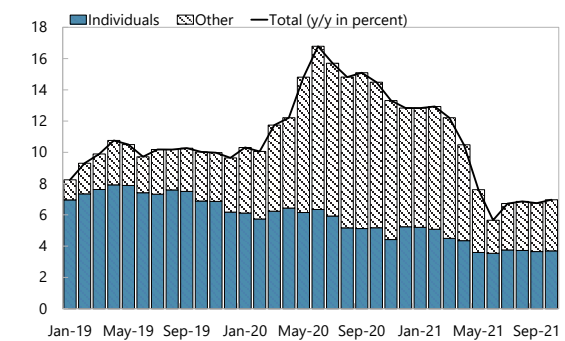
*...while corporate credit declined...*

**Corporate Credit Developments**  
(Contribution to y/y change in percent)



*...as fiscal support led to an increase in business deposits.*

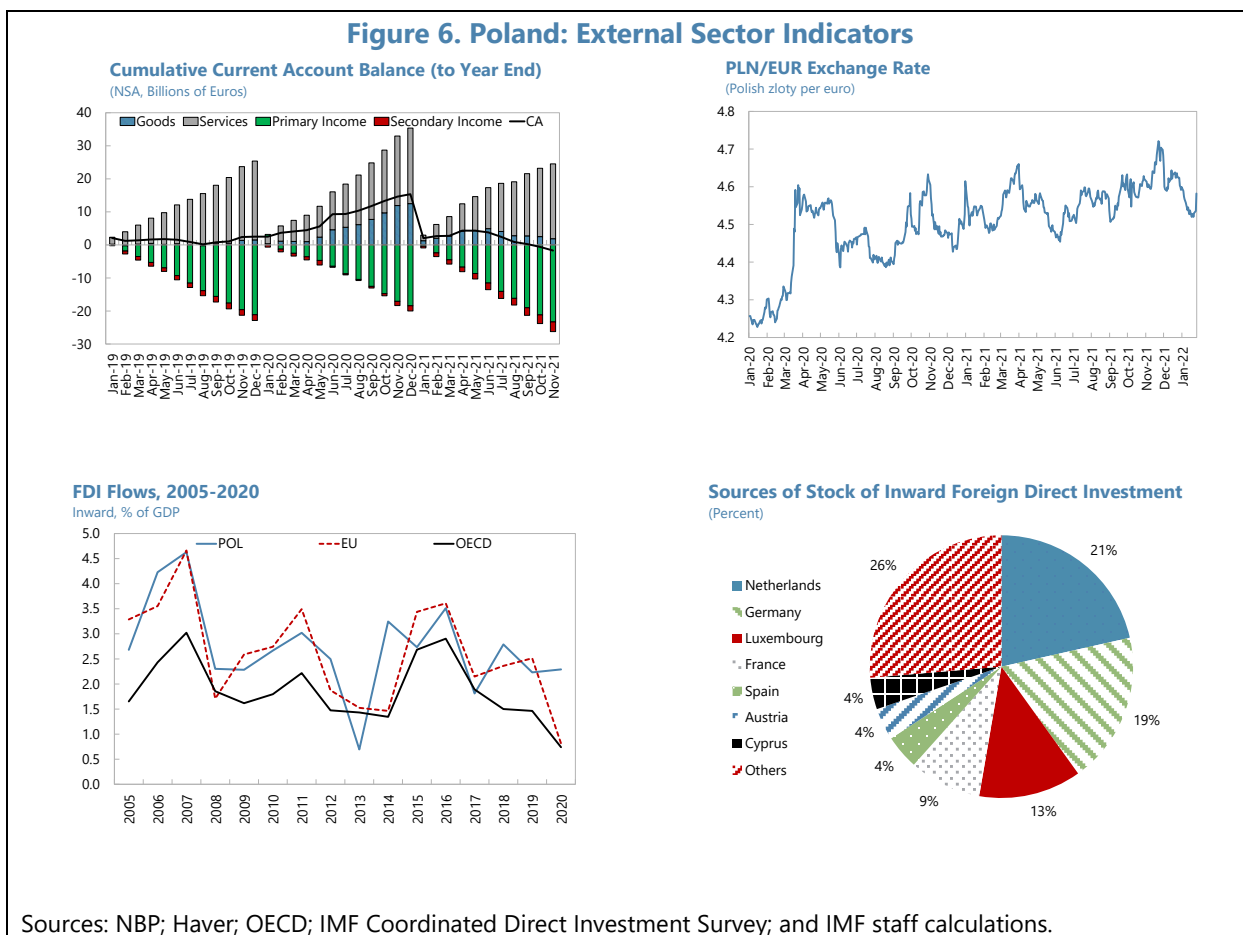
**Non-Financial Sector Deposits**  
(Contribution to y/y change, in percent)



Sources: NBP; and IMF staff calculations.

**6. The banking sector has remained stable.** Lending to the non-financial sector declined 1 percent in 2020. Demand for credit weakened, particularly from the corporate sector, which benefited from liquidity loans as part of the pandemic response, while banks initially tightened lending conditions. Due to lower interest income, asset repricing, and larger provisioning, profits declined in 2020. Profits would have been about half 2019 levels but were erased by a large reserve for restructuring of foreign exchange mortgages created by the largest bank. Earnings are recovering in 2021 (Figure 5). At end-2020, the authorities smoothly resolved a small undercapitalized commercial bank, whose weakness pre-dated the pandemic.

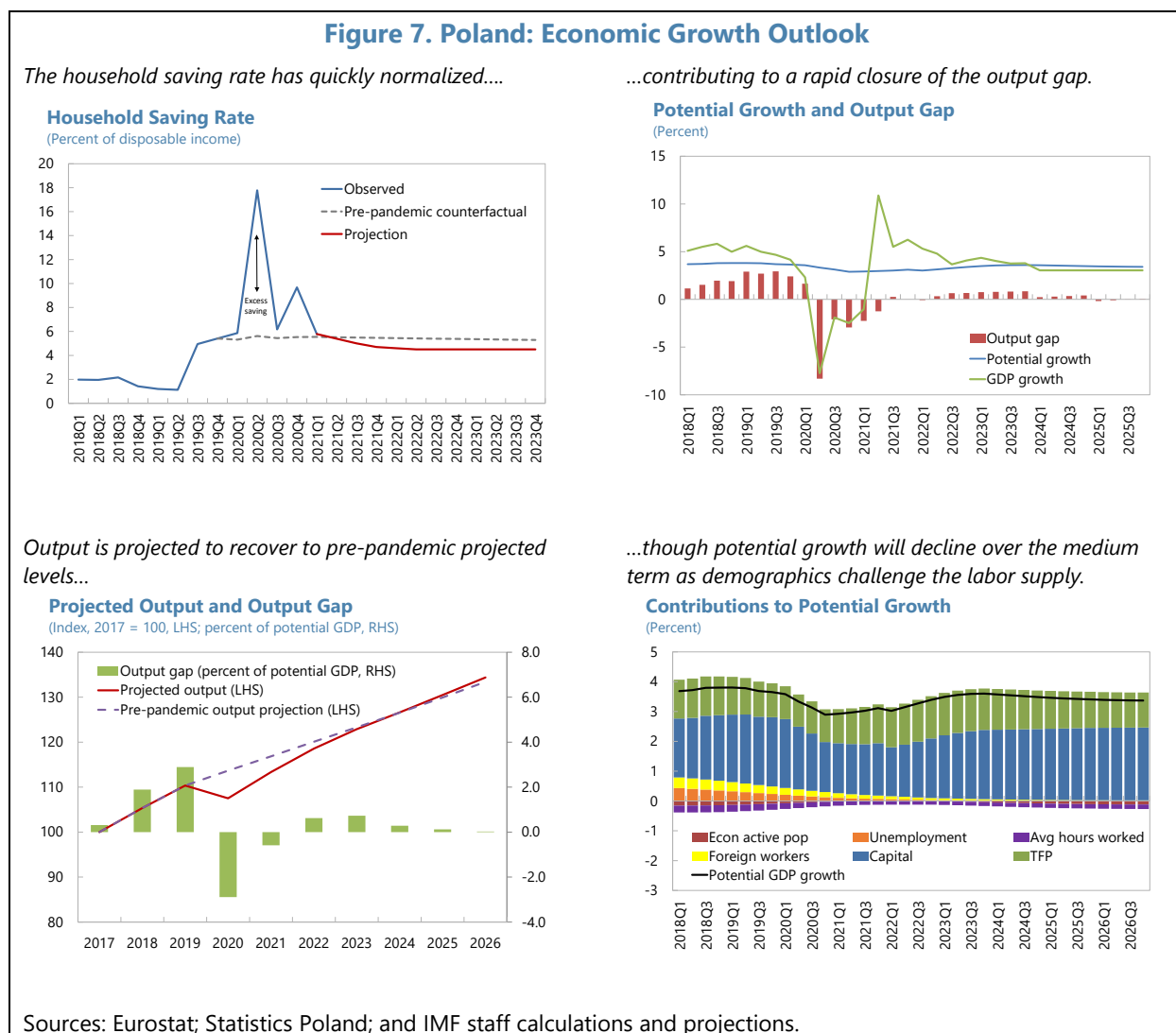
**7. The current account moved into deficit in 2021 as the economy recovered.** Goods imports increased, driven by recovering domestic demand and high energy prices, while export growth slowed due to supply chain issues (Figure 6). The primary income deficit rebounded as the profitability of foreign companies improved. After the large recession-driven surplus of 2.9 percent of GDP in 2020, the current account is projected to return to a deficit of 0.3 percent of GDP in 2021, the first deficit since 2018. Inward FDI has remained strong, despite the pandemic.<sup>1</sup> The Polish zloty depreciated 2.7 percent on average against the euro in 2021, while the REER was stable on average through November relative to 2020 average.



<sup>1</sup> An amendment to the law on FDI screening was adopted in June 2020 that for 24 months expands the scope of screening of investment in Polish companies by investors outside the EU/EEA/OECD.

# OUTLOOK AND RISKS

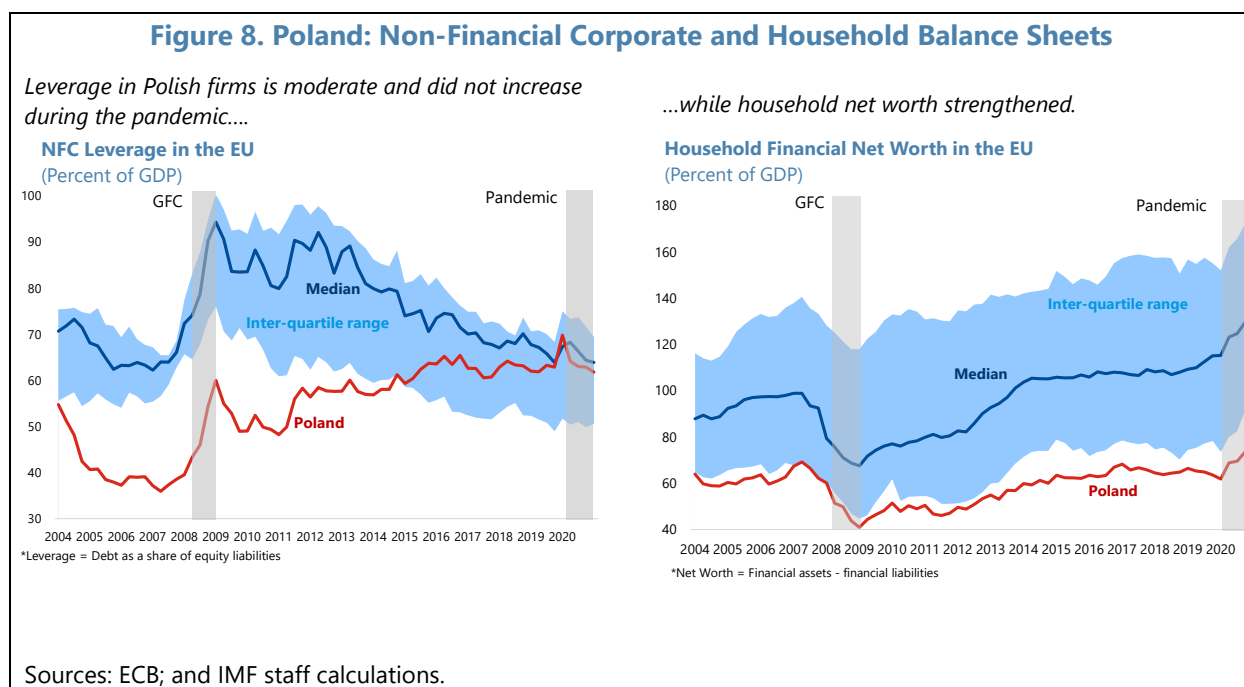
**8. Economic growth is projected to remain strong in 2022, and inflation will remain elevated in the near term.** Growth is estimated at 5.4 percent in 2021, with robust growth continuing in Q4 despite the fourth wave.<sup>2</sup> Growth in 2022 is projected at 4.6 percent, with quarterly growth rates accelerating following an anticipated Omicron-induced slowdown during the winter. Private consumption will continue to drive the recovery, supported by a robust labor market and strong household balance sheets. Investment is also projected to strengthen in 2022, as survey data suggest that corporates remain optimistic about new investments, while the assumed start of Next Generation EU expenditures would provide a boost to public investment. The output gap is projected to close in 2022. Recent increases to gas and electricity prices are projected to drive a further acceleration in headline inflation, projected to average 7.4 percent in 2022.



<sup>2</sup> The Staff Report includes data available until January 19, 2022. According to the preliminary estimate released on January 31, real GDP grew 5.7 percent in 2021.

**9. Economic growth is projected to average 3¼ percent over 2023–26, with minimal scarring from the pandemic.** The level of output is projected to converge to pre-pandemic projections in 2024 (Figure 7).<sup>3</sup> Given unfavorable demographic trends, potential growth in the medium term will be largely driven by investment and productivity growth. Investment financed by Next Generation EU grants is projected to raise the level of output by nearly 1 percent by 2025, and strong non-financial corporate balance sheets should support private investment (Figure 8).

**10. The current account deficit is projected to increase over the medium term as domestic demand outpaces growth in trading partners.** The estimated current account deficit of 0.3 percent of GDP in 2021 is preliminarily assessed to be moderately stronger than implied by medium-term fundamentals and desirable policies (Annex IX). Over the medium term, the current account deficit is projected to increase to 1 percent of GDP, driven by the return of a deficit in trade in goods. At about 154 percent of the Fund’s ARA metric, the level of gross reserves is adequate. (SDR holdings are included in the central bank’s gross reserves.)



**11. Uncertainty about the outlook is considerable, with near-term risks raising policy tradeoffs.** While the baseline considers only a moderate decline in economic growth over the winter, a new wave—possibly driven by new variants—could disrupt the economy. An intensification of supply chain disruptions could constrain economic growth. Continued supply disruptions, energy price increases, and the entrenchment of higher inflation expectations in wage formation would also prolong the period of elevated inflation. The dispute with the EU on rule of law issues risks a further delay of the disbursement of Next Generation EU funds, affecting the outlook for investment. The materialization of geopolitical risks in Eastern Europe may bring economic spillovers to Poland. Over

<sup>3</sup> See Selected Issues Paper “Post-Pandemic Potential Output and Scarring” for further discussion.

the medium term, potential growth could disappoint if TFP growth fails to return to pre-pandemic rates. On the other hand, growth could outperform the baseline if households spend excess savings, possibly accompanied by overheating.

### **Authorities' Views**

**12. The authorities broadly agreed with staff's baseline scenario and balance of risks.** The Ministry of Finance and National Bank of Poland (NBP) broadly agreed with staff's economic growth projections, though the NBP, as detailed in the November Inflation Report, projected faster growth at 4.9 percent in 2023 (under an assumption of constant policy interest rates). The authorities pointed to the future course of the pandemic, supply bottlenecks, and the impact of inflation on real income growth as key risks, while noting that they continue to work with the EU on their approval of the National Recovery Plan. The authorities anticipated that potential growth over the medium term would remain similar to pre-pandemic rates, around 3¾ percent, and agreed that scarring from the pandemic would be minimal. While the authorities agreed that the current account would likely remain in deficit over the medium term, they noted that Poland's external financing needs would be close to zero, considering anticipated capital account surpluses supported by EU capital transfers.

## **POLICY DISCUSSIONS**

*Discussions focused on two main themes: (1) completing the transition away from extraordinary policy support; and (2) structural policies to support the next wave of growth and convergence.*

### **Transition from Extraordinary Policy Support**

**13. Upside and downside risks make the transition from policy support a delicate exercise.** The baseline scenario of a strong domestic demand-led expansion calls for continuing the phase out of policy support while avoiding expansionary policies. While upside risks could lead to overheating, policymakers must also evaluate the risk of disruptions from the pandemic. Fiscal and monetary policies' have natural assignments should these risks materialize. Renewed targeted fiscal support would be the appropriate response to pandemic risks, while monetary policy tightening can primarily address overheating risks.

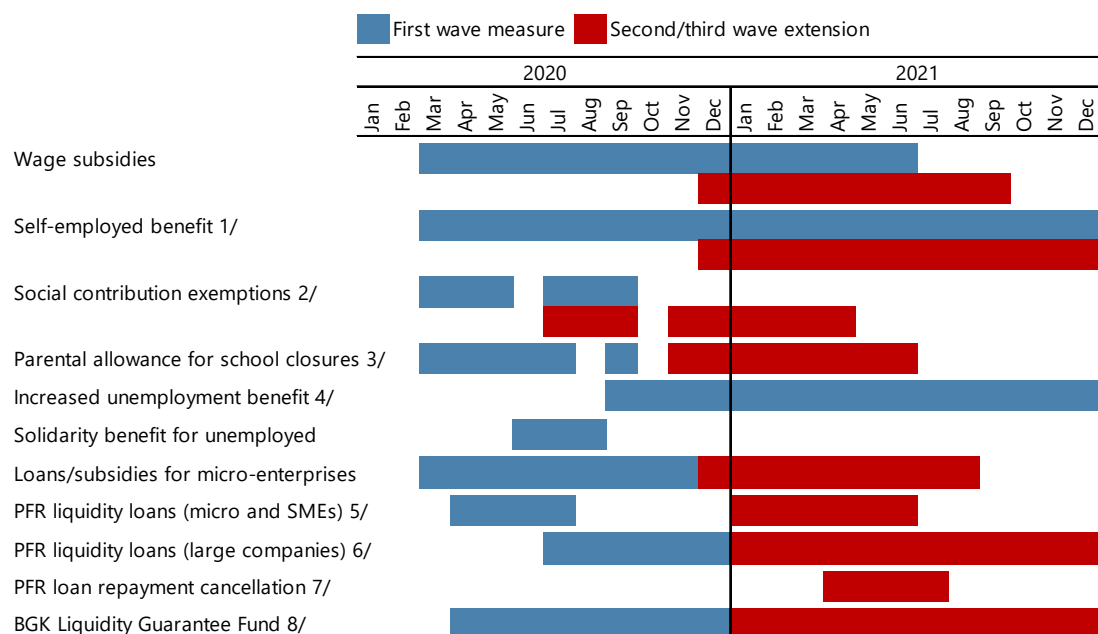
### **Fiscal Policies**

**14. Fiscal support appropriately became more targeted as the pandemic evolved.** Policies focused on preserving jobs and incomes through wage subsidies and worker benefits. Companies were offered liquidity loans, eligible for partial forgiveness. Most measures were extended for the second/third waves, though with greater targeting (Table 1). Above the line, these measures totaled 4.4 percent of GDP in 2020 and an estimated 1.4 percent of GDP in 2021 (Table 2). Support for businesses had been mostly phased out by Q3:2021, with some targeted help for workers still in effect in Q4. The authorities have not extended support programs further during the fourth wave. While the implementation of fiscal support measures through off-budget funds (some 2 percent of GDP in 2021) was a reasonable workaround for domestic debt limits in a crisis situation, the

authorities should avoid additional off-budget expenditure and allow the pandemic-related off-budget fund to wind down over time to prevent a further deterioration in fiscal transparency.

**15. Substantial fiscal space exists to reintroduce targeted support, if needed.** Driven by a strong recovery of tax revenues and reduced emergency support, the general government fiscal deficit is estimated to have declined in 2021 to 2.9 percent of GDP from 7.1 percent of GDP in 2020. General government debt is estimated to have declined 1 p.p. to 56 percent of GDP in 2021.

**Table 1. Poland: Timeline for Duration of “Anti-Crisis Shield” Fiscal Measures**



1/ Applications are allowed until three months after the state of epidemic has been lifted. The government has not yet declared an end to the state of epidemic.  
 2/ Exemptions for social contributions extended to April 2021, with applications to be submitted by end-June 2021.  
 3/ Parental allowance was extended until end-June 2021, but most payments ended after April 2021, when schools generally reopened.  
 4/ Unemployment benefit increased 35 percent in late 2020. This measure is permanent.  
 5/ PFR liquidity loan applications (micro and SMEs) must have been filed by end-July 2020. Program extended for second/third waves for companies in targeted sectors. Applications could be filed by end-June 2021.  
 6/ Applications for large companies are due by end-December 2021 and loans may be paid until end-Q1 2022.  
 7/ Repayable portion of PFR liquidity loan fully cancelled for micro and SMEs in targeted sectors, subject to cumulative decline in revenues from March 2020-March 2021 of at least 30 percent.  
 8/ Liquidity guarantee program was extended until December 2021.

Source: Government of Poland; Ministry of Finance.

**Table 2. Poland: Estimated Impact of COVID-19 Fiscal Measures on General Government Net Lending/Borrowing**

	PLN billion		Percent of GDP	
	2020	2021	2020	2021
Subsidies	75.5	19.9	3.2	0.8
Wage subsidies for firms	15.3	5.8	0.7	0.2
Wage benefit for self-employed and civil law contracts	5.8	1.6	0.2	0.1
Exemption from social security and health contributions	13.4	3.0	0.6	0.1
PFR loan write-offs	41.0	9.5	1.8	0.4
Social benefits	5.3	4.8	0.2	0.2
Child-care benefits	2.6	1.5	0.1	0.1
Tourist vouchers	0.2	1.5	0.0	0.1
"Solidarity Allowance" and other social benefits	2.5	1.8	0.1	0.1
Other current transfers	13.3	10.1	0.6	0.4
Support for health care	4.6	10.1	0.2	0.4
Other spending	8.7		0.4	0.0
Capital transfers	9.0	0.5	0.4	0.0
Subsidies for micro and small firms	9.0	0.5	0.4	0.0
<b>Total</b>	<b>103.1</b>	<b>35.3</b>	<b>4.4</b>	<b>1.4</b>

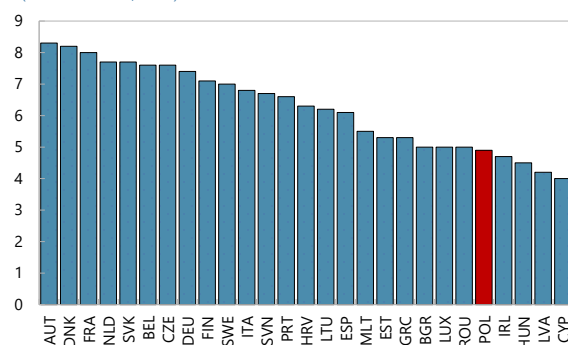
Sources: Ministry of Finance; and IMF staff estimates.

**16. The authorities have implemented safeguards to combat waste and fraud in pandemic support programs.** The largest program has been liquidity loans granted to 350,000 corporates. SMEs were the main beneficiaries, and about 100 large companies benefited too. Social security and tax administration data verified that companies existed pre-pandemic (about 10 percent of applications were rejected, usually due to tax or social security arrears). Through ex-post analysis, the Anti-Corruption Office detected possible fraud in under 1 percent of loans, which are being followed up. Loans were distributed through banks, with usual AML procedures in place. Loan beneficiaries could not be domiciled in countries on the EU tax haven list.

**17. Looking beyond the pandemic, the authorities will implement the "Polish Deal" economic program beginning in 2022.** The program includes a personal income tax (PIT) reform while also calling for increases in health care spending around 2 p.p. to 7 percent of GDP, housing affordability, and investment. The PIT reform will increase the standard deduction and the threshold income for the second tax bracket, while reducing the deductibility of health contributions. The reform is estimated to reduce the labor tax wedge for low wage earners while increasing the wedge for high earners, increasing

**General Government Health Expenditures**

(Percent of GDP, 2019)



Sources: Eurostat.

progressivity. However, on net, the reform will lower revenues. The tax reform is projected to increase the general government deficit by about 1 p.p. of GDP beginning in 2022.

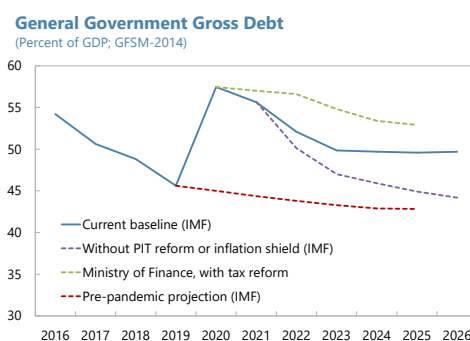
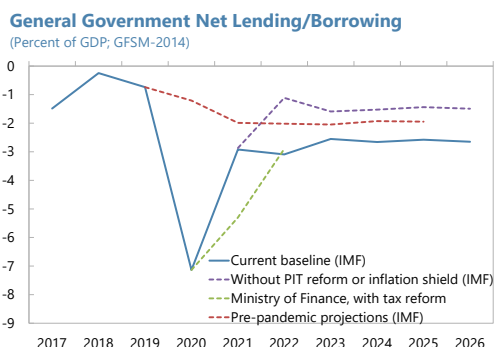
**Table 3. Poland: Summary of “Anti-Inflation Shield” Measures**

Category/Action	Shield 1.0	Shield 2.0
<b>Fuel</b>	Excise taxes cut; retail turnover and emissions charges waived (Jan - May)	VAT reduced from 23 to 8 percent (Feb - July)
<b>Electricity</b>	Excise duty waived; VAT cut from 23 to 5 percent (Jan - March)	VAT to continue at 5 percent (April - July)
<b>Natural gas</b>	VAT cut from 23 to 8 percent (Jan - March)	VAT reduced to 0 percent (Feb - July)
<b>Heating energy</b>	VAT cut from 23 to 8 percent (Jan - March)	VAT reduced to 5 percent (Feb - July)
<b>Vouchers</b>	Payments to low-income households between PLN 200 and 1,100 per month	N.A.
<b>Food</b>		VAT reduced from 5 to 0 percent (Feb - July)
<b>Fertilizers</b>		VAT reduced to 0 percent (Feb - July)

Sources: Government of Poland

**18. With the tax reform, the general government deficit is projected to stabilize at 2½ percent of GDP over the medium term.** In 2022 the deficit will be temporarily increased by two “anti-inflation shields” consisting of VAT and excise reductions on energy and food and vouchers for low-income households (Table 3). These temporary shields are projected to cost about 0.8 percent of GDP in 2022, bringing the general government deficit to 3.1 percent of GDP. Absent the (permanent) PIT reform and anti-inflation shields, the general government deficit would be projected to decline to around 1.1 percent of GDP in 2022. In the medium term, the deficit is projected at 2½ percent of GDP, versus around 1½ percent of GDP without the PIT reform (Figure 9).

**Figure 9. Poland: Medium-Term Fiscal Outlook**



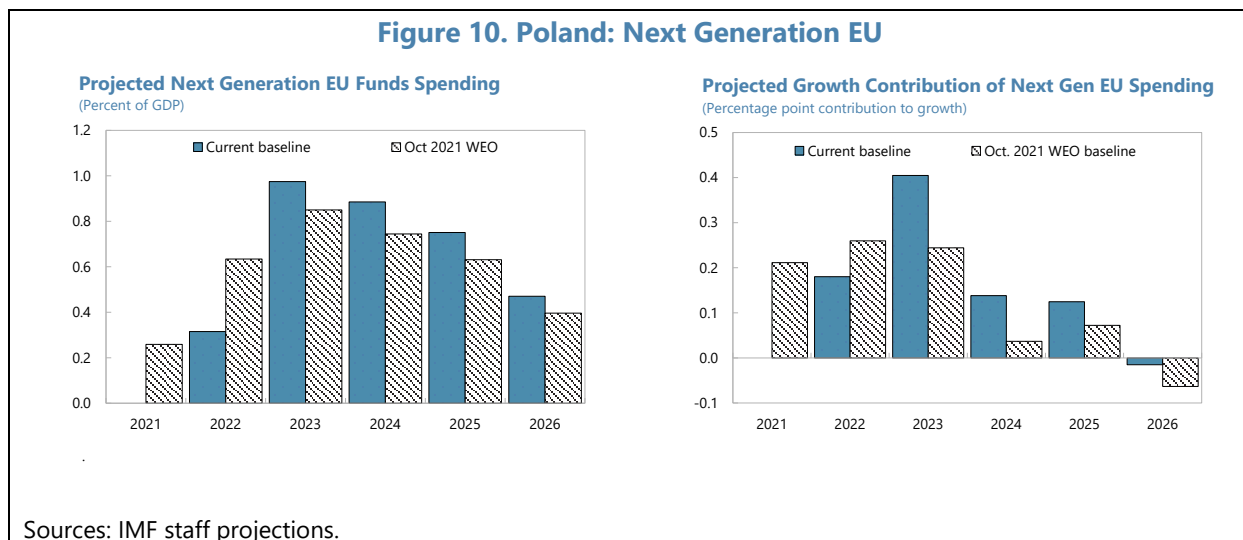
Sources: Ministry of Finance; and IMF staff projections.

**19. Excluding variations in pandemic-related spending, a roughly neutral fiscal stance would be appropriate in 2022.** This implies approximately a recommended deficit around 1½ percent of GDP versus the 3.1 percent of GDP projection. The expansionary nature of the PIT reform is thus inopportune in the context of overheating risks. While increased tax progressivity is a valuable goal, permanent expansionary fiscal measures should be offset elsewhere in the budget. If pandemic-related risks materialize, a temporary increase in the deficit in 2022 from additional targeted spending would be appropriate. While the tax reductions in the “anti-inflation shields” can provide some relief to households most affected by energy price inflation, they are inefficient and should be temporary, lest they mount in cost and come to be seen as a substitute for other policy adjustments to address inflation. Energy poverty risks are best addressed through targeted instruments such as the vouchers. The authorities should avoid increasing expenditures in 2022 in the context of a likely revenue windfall from the unexpectedly high inflation.

**20. A modest further reduction in the general government deficit over the medium term would restore the ample policy room for maneuver from before the crisis, helping prepare for future challenges.** General government debt is projected to stabilize around 50 percent of GDP over the medium term and is assessed to be sustainable, though it would increase steadily under various shocks (Annex VI), indicating limited robustness. Some additional reduction in the deficit towards the medium-term objective of 1 percent of GDP—similar to its pre-pandemic level—would create policy space to address future shocks and prepare for long-term fiscal pressures related to population aging and the energy transition. An improvement to expenditure policies, including by reversing the previous reduction in the pension age and better targeting of social benefits, could be considered for further deficit reduction.

**21. Next Generation EU grants provide an opportunity to boost public investment and growth over the medium term.** The authorities plan investments in green energy and efficiency, digital transformation, labor market resilience, mobility, and health care. Due to ongoing disputes with the EU on rule of law issues, however, the EC has not yet approved Poland’s plan, delaying initial transfers. Poland stands to receive some 4.5 percent of 2020 GDP in grants, to be spent by 2026. Staff assumes that funds begin to flow in mid-2022, postponing the peak growth impact to 2023, when Next Generation EU spending is projected to add nearly 0.4 p.p. to growth (Figure 10). Given ample fiscal space, in the event of further delay, the authorities should consider financing key investments from budgetary resources, to be later reimbursed by the EU. While financing initial investments from own resources would temporarily increase the fiscal deficit, the additional expenditures would not generate significant demand pressure in the near term given the gradual ramping up of projects.

**Figure 10. Poland: Next Generation EU**



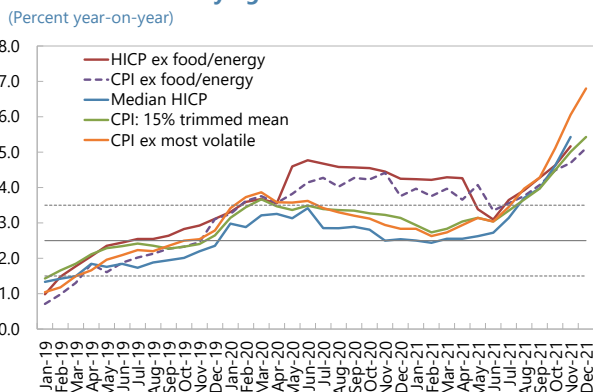
**Authorities' Views**

**22. The authorities stressed that the fiscal response had successfully shielded the economy from the pandemic and that PIT reform would increase tax progressivity.** They did not think that additional pandemic-related support was needed at this time. While their latest projections showed the general government deficit declining to 5.9 percent of GDP in 2021, the authorities expected the actual deficit to be much smaller. The authorities emphasized that the Polish Deal also contained incentives for innovation—such as corporate income tax allowances for R&D spending—and aimed to increase health spending. The Ministry of Finance noted that it had proposed a carveout for defense expenditures in future EU fiscal rules, expenditures which it viewed as geopolitically important. Discussions with the EC over the National Recovery Plan were ongoing at both technical and political levels, with hopes for a quick resolution. If approval is further delayed, the authorities would consider initially financing priority projects through budgetary resources.

**Monetary and Exchange Rate Policies**

**23. Inflationary pressures became broader based over 2021.** The significant divergence from mid-2020 to early 2021 between traditional measures of core inflation (CPI excluding food/energy) and median-based measures indicated an unusual prevalence of large, one-off price increases. The convergence of all these measures at an elevated level by the summer of 2021, however, suggests that underlying inflation pressures had become broader based. Core inflation increased by nearly 200 bps in

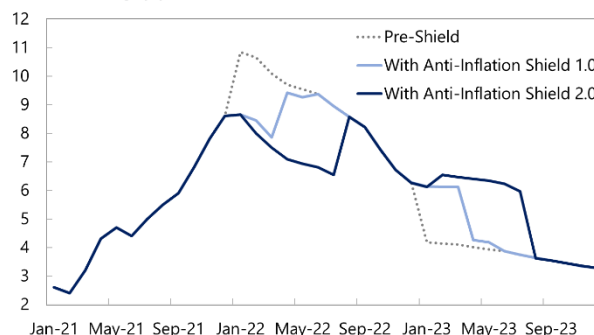
**Measures of Underlying Inflation**



H2:2021, reflecting a tightening labor market, buoyant demand, possible second-round effects from high energy prices, and some impact of supply chain disruptions.

**24. “Anti-inflation shield” tax reductions will temporarily mitigate the impact of higher energy prices.** A substantial step increase in regulated electricity and gas prices announced in December 2021 would have lifted headline inflation to over 10 percent in early 2022. However, the “anti-inflation shield” tax reductions are projected to lower fuels and food prices temporarily through July 2022 and delay large final price increases for gas and electricity until August 2022. Overall, these measures are projected to reduce headline 12-month inflation by 2.5 p.p. through July 2022 and 1.4 p.p. on average for the full year. The shields will result in a correspondingly higher rate of average inflation in 2023 through positive base effects (Table 4).

**Headline Inflation: Impact of Anti-Inflation Shield**  
(Percent change y/y)



Sources: Statistics Poland; and IMF staff calculations.  
Note: Anti-Inflation Shield 1.0 includes measures approved in December 2021. Anti-Inflation 2.0 includes additional measures approved in January 2022.

**Table 4. Poland: Impact of Anti-Inflation Shield Measures on Average Headline Inflation**  
(Percentage point change relative to pre-Shield baseline)

	2022		2023	
	Shield 1.0	Shield 2.0	Shield 1.0	Shield 2.0
<b>Headline</b>	-0.5	-1.4	0.5	1.3
<b>Fuels</b>	-0.1	-0.2	0.1	0.2
<b>Electricity &amp; Gas</b>	-0.4	-1.1	0.4	1.0
<b>Food</b>	-	-0.2	-	0.1

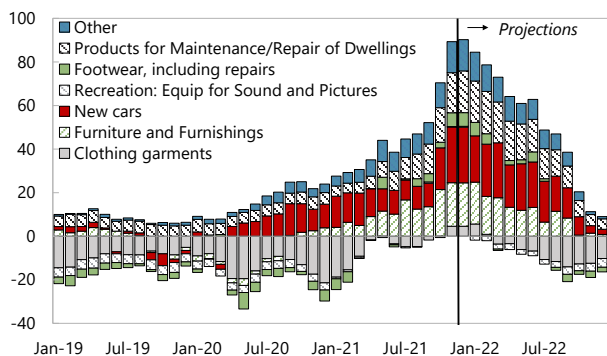
Source: IMF staff calculations

Note: Negative sign denotes percentage point reduction in average headline inflation. Positive sign denotes an increase. The impact of Shield 2.0 also includes the impact of Shield 1.0 measures.

**25. Core inflation is projected to decline slowly, with 12-month headline inflation falling within the target tolerance range only at the end of 2023.** Monetary policy tightening—including further tightening implied in market expectations—is projected to contribute to a gradual decline in core inflation, with a peak impact in 2023. A presumed normalization of supply chain disruptions in 2022 would also contribute to a decline in core inflation over the course of the year. While difficult to estimate precisely, the contribution of certain non-energy, non-food goods—many of which may have been subject to supply constraints—to core inflation increased considerably in 2021. These goods are estimated to have contributed around 45 bps to average core inflation in 2021, and nearly 90 bps at end-2021. Should price pressures in these categories subside in the first

half of 2022 as supply constraints ease, the base effects would be disinflationary. Headline inflation is projected to average 7.4 percent in 2022 and 5.1 percent in 2023, falling within the target tolerance range by end-2023 at 3.3 percent. Core inflation is projected to average 4.9 percent in 2022 and 3.7 percent in 2023 (Figure 11). However, continued energy price pressures and the possibility of a wage-price spiral are clear risks.

**HICP Core Inflation: Contributions of Non-Energy Goods**  
(Basis points)

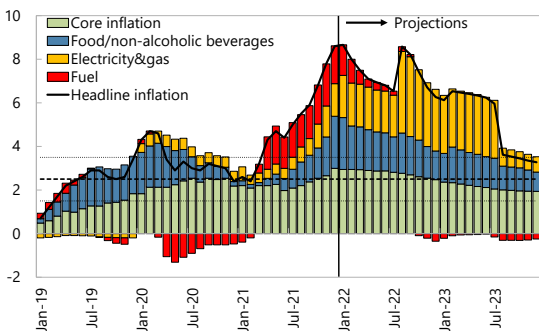


Sources: Eurostat; Haver; and IMF staff calculations  
Note: "Other" includes transport spare parts, motorcycles & bicycles, and household utensils.

**Figure 11. Poland: Inflation Developments and Outlook**

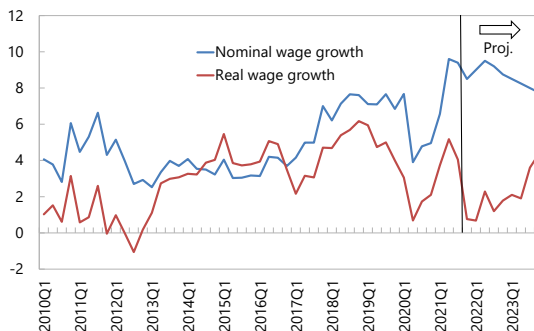
*"Anti-inflation shield" tax cuts will produce a volatile path for headline inflation in 2022–23...*

**Contributions to Headline CPI Inflation**  
(Percent, year-on-year)



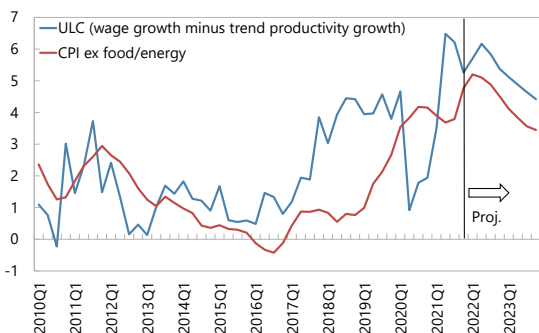
*...while some projected slowdown in wage growth...*

**Average Wage Growth 1/**  
(Percent, year-on-year)



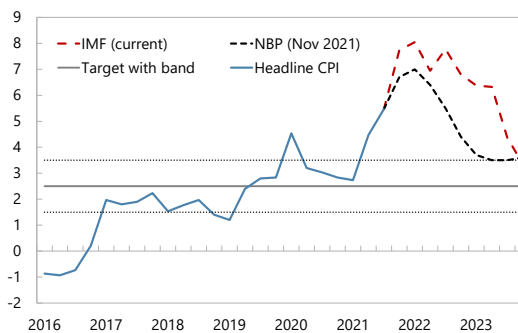
*...and strong productivity growth contain ULC, contributing to a moderation of core inflation...*

**Core Inflation and Unit Labor Costs**  
(Percent change, year-on-year)



*...and headline inflation returns within the target tolerance range by the end of 2023.*

**Headline CPI Inflation Projections 2/**  
(Percent, year-on-year)



1/ The spike is nominal wage growth in Q2:2021 is largely due to base effects and is not viewed as indicating the start of a wage-price spiral.

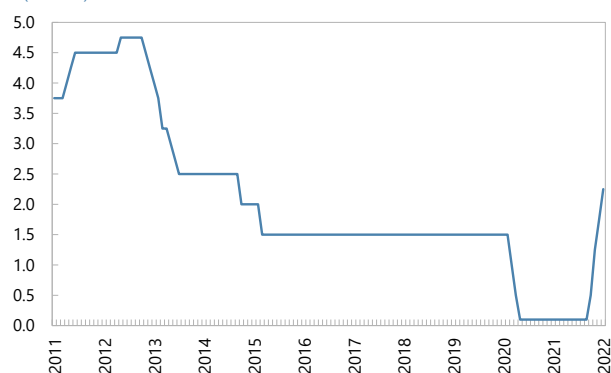
2/ NBP President Glapiński noted in late December 2021 that the NBP's projection for average inflation in 2022 had increased to 7.6 percent due to electricity/gas price increases, but further details are not yet available.

Sources: Statistics Poland; NBP; and IMF staff calculations and projections.

**26. The NBP began tightening monetary policy last fall, starting a series of rate increases.**

The NBP had held the policy rate at 0.1 percent since May 2020 and until October 2021 had indicated that monetary policy tightening would be inappropriate in the context of externally driven price pressures. However, the NBP surprised markets with a 40 bps rate increase in October 2021, citing the increased risk of second-round effects from higher and persistent commodity prices. Three more rate increases followed, bringing the policy rate to 2.25 percent, in January above its pre-pandemic level. As of late January, markets were expecting a further 175 bps in tightening in 2022.

**NBP Policy Rate**  
(Percent)

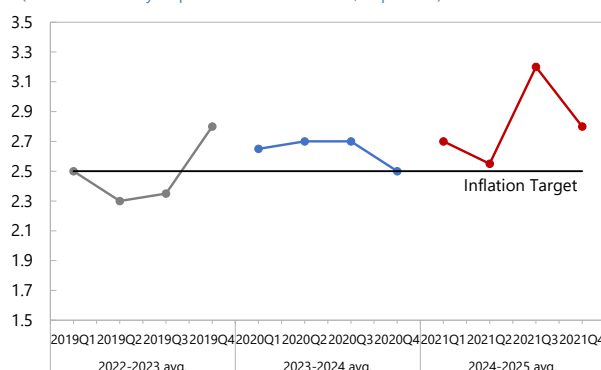


Sources: Haver, and National Bank of Poland

**27. The NBP should continue to tighten monetary policies to drive inflation back to target.**

Though the acceleration in inflation has been largely driven by factors outside the control of monetary policy, their persistence risks intensifying second-round effects as output moves above potential. Further rate increases will be necessary to minimize second-round effects, counter overheating risks, and anchor medium-term expectations, which have risen markedly and remain above the inflation target.

**Inflation Expectations, 3-4 Years Ahead**  
(Median of survey of professional forecasters, in percent)



Source: NBP Survey of Professional Forecasters; and IMF staff calculations.

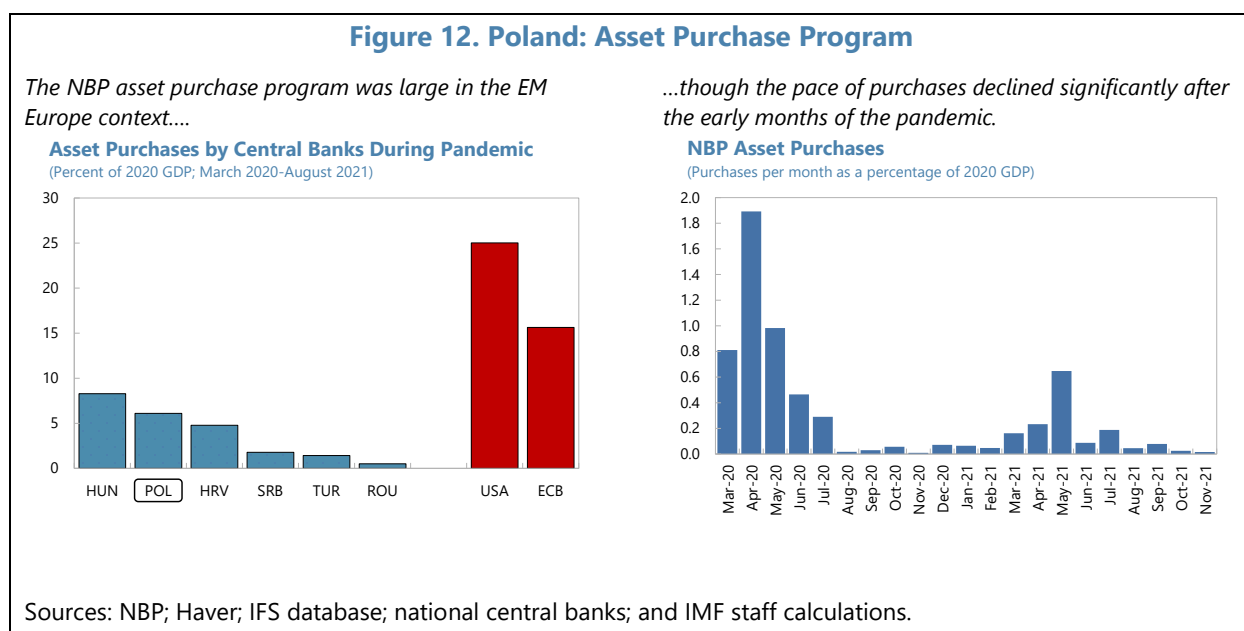
**28. The timing and magnitude of future monetary policy decisions will need to consider evolving economic conditions, which pose upside and downside risks to the inflation outlook.**

Monetary policy decisions should aim to ensure that inflation moves with a high probability toward the target within the NBP's forecast horizon. On the upside, a faster normalization of prices for supply-constrained goods or a stronger reaction of core inflation to recent rate increases may warrant smaller future rate increases or an earlier pause in the tightening cycle. However, tightening may need to progress further if inflation pressures persist or intensify, including from stronger-than-expected wage dynamics or larger second round effects from increased energy tariffs. The high degree of uncertainty surrounding these drivers, including the persistence of supply side disruptions or the degree of second-round effects from energy inflation, underscores the importance of careful monitoring and clear communication.

**29. The conclusion of regular asset purchases in December is welcome and consistent with monetary policy tightening.**

At 6 percent of 2020 GDP, the NBP's asset purchase program (APP) was

one of the largest in emerging markets.<sup>4</sup> Although on a small scale, bond purchases continued through 2021, despite initial goals of relieving financial market dysfunction and supporting monetary policy transmission having long been met (Figure 12). Like foreign exchange intervention, asset purchases should be reserved to addressing disorderly market conditions. The NBP should provide timely guidance on its intentions regarding its bond portfolio as initial maturity dates approach. Should the NBP intervene in the foreign exchange market, it should publish the relevant data, in line with best practices.



### Authorities' Views

**30. The NBP broadly agreed on the appropriateness of a tighter monetary policy stance but highlighted uncertainty around evolving economic conditions.** The NBP cited an ongoing economic recovery, persistence of elevated commodity prices, and global supply chain disruptions as primary drivers of inflation in Poland. The Anti-Inflation Shield will help curb inflation in 2022, though favorable labor market conditions and the potential for lasting impacts of external shocks on price dynamics could maintain inflation above the target range in the medium term. In the November Inflation Report, the NBP projected inflation to average 5.8 percent in 2022 and 3.6 percent in 2023. In December, NBP President Glapiński publicly commented that NBP revised its 2022 inflation projection to 7.6 percent, including announced extensions of the Anti-Inflation Shield that were later approved in January. If current economic conditions persist, the NBP is therefore likely to raise rates further in 2022 to drive inflation back to target and anchor expectations. However, the NBP will consider rapidly changing conditions and heightened uncertainty around the evolution of the pandemic in future decisions to ensure medium-term price stability while remaining

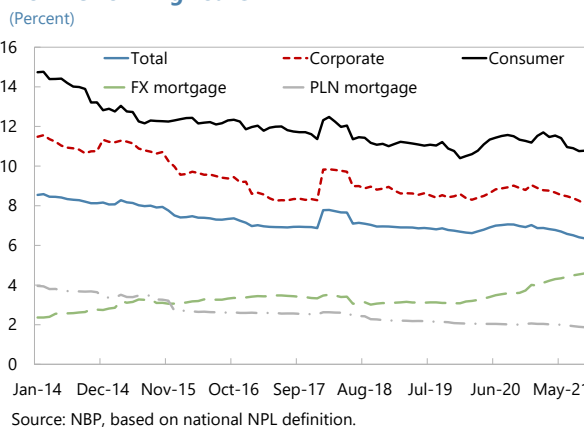
<sup>4</sup> See IMF European Departmental Paper "[Asset Purchase Programs in European Emerging Markets](#)" for a discussion of asset purchase programs in emerging European economies, including Poland, during the pandemic.

supportive of the economic recovery. The NBP noted that it reserved the option of making further asset purchases or intervening in foreign exchange markets, if warranted by market conditions.

**Financial Sector Policies**

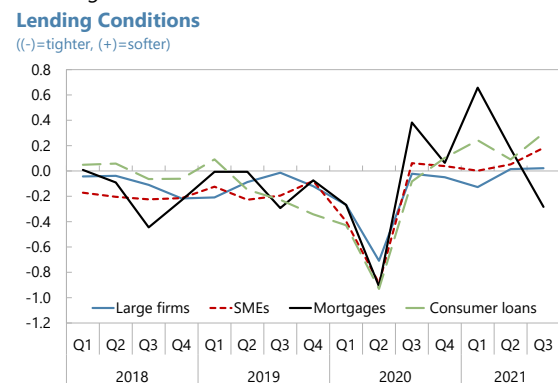
**31. Bank asset quality has remained stable.** After increasing moderately in 2020. NPL ratios have been trending down gradually in 2021. Banks offered voluntary debt-service moratoria, and a mandatory scheme was legislated for persons who lost jobs during earlier waves of the pandemic. These programs were little used, however, as corporates and households benefited from fiscal support.

**Non-Performing Loans**

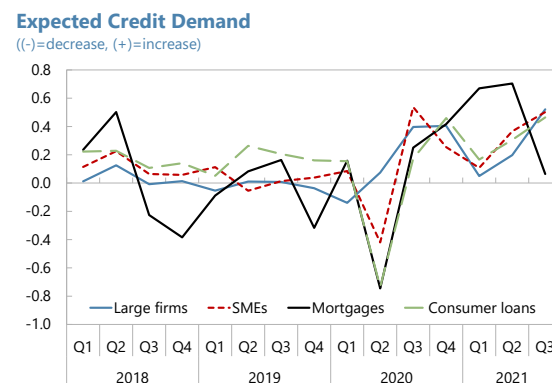


**Figure 13. Poland: NBP Loan Officer Survey**

After tightening in 2020, lending conditions are loosening....



...while expected demand for credit is recovering.

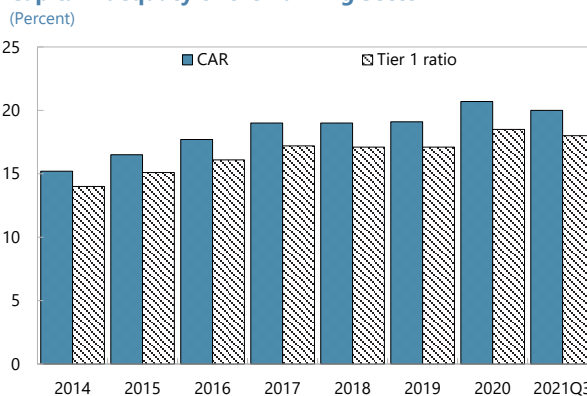


Sources: NBP; and IMF staff calculations.

**32. With banks well placed to support the recovery, crisis-related financial sector policies should be gradually normalized.**

Capital adequacy levels improved in 2020 to 20 percent of assets (versus the regulatory minimum of 10.5 percent), mainly due to retention of profits from previous years and increased holdings of zero risk-weighted government bonds. Crisis-related financial sector policies are being gradually normalized (Table 4). The 3 percent systemic risk capital buffer remains revoked, driven by concerns

**Capital Adequacy of the Banking Sector**



Source: NBP.

about the capital implications of FX mortgage legal risk. While lending conditions are loosening (Figure 13), the bank asset tax (which exempts Treasury securities) may at the margin deter credit allocation to the private sector and should be redesigned to reduce this disincentive.

**33. The authorities' proposals to increase housing affordability should consider the impact on the housing market and financial stability.** The housing market has returned to pre-pandemic robust conditions (Figure 14). The state development bank plans to offer partial mortgage guarantees in lieu of mortgage down payments to support applicants for smaller mortgage loans, which could increase demand for mortgage loans and fuel further price growth. Mortgages are mostly floating rate, boosting housing affordability during the recent time of extraordinarily low interest rates. However, households could become overstretched as interest rates normalize, risking a deterioration in credit quality. To mitigate these risks, it is important that banks continue conservative creditworthiness assessments in line with supervisory guidelines, including an LTV limit at 80 percent, stressed DSTI at 40–50 percent with an interest rate buffer of 250–300 bps, and loan maturities capped at 25 years. Early signals suggest increasing policy interest rates are likely to dampen demand for mortgage credit.

**Table 5. Poland: Main Pandemic-Related Measures in Financial Sector**

Measure	Current status
Reduced reserve requirements	<b>Partially reversed.</b> Reserve requirement was increased from 0.5 percent to 2.0 percent, effective November 30, 2021.
Repeal of systemic risk capital buffer	<b>Remains in place.</b> The 3 percent systemic risk buffer capital requirement remains repealed.
Restrictions on distribution of profits	<b>Partially reversed.</b> KNF allowed conditional payments of dividends in 2021, providing that supervised entity meets a set of conditions related to capital adequacy and supervisory review and evaluation.
Lower risk weights for loans collateralized by real estate	<b>Remains in place.</b> Risk weight for credit collateralized by commercial real estate remains reduced from 100 to 50 percent, providing that the business does not involve renting or sale of commercial real estate.
Longer deadline for MREL requirements	<b>Remains in place:</b> Revised MREL target dates have not been altered.
NBP asset purchase program	<b>Suspended:</b> Regular APP auctions have been suspended, effective from December 1, 2021; NBP maintains the option of returning to APP depending on market conditions.
Discount credit facility	<b>Discontinued:</b> There was no demand from banks for a program to refinance loans to firms, and NBP ended the program in October 2021.
Repo auctions	<b>Remains in place:</b> However, there has been no demand from banks since March 2020.
Credit moratoria	<b>Mostly reversed:</b> Following EBA guidelines, banks' moratoria were prolonged in subsequent waves of pandemic, with deadline set for March 2021. Mandatory moratoria remain in place, but with little use given strong labor market.
Credit guarantees	<b>Remains in place:</b> BGK guarantee schemes remain in place until end-2021; banks extended PLN18.5 billion (0.8 percent of GDP) in credits under public guarantee schemes in 2020.

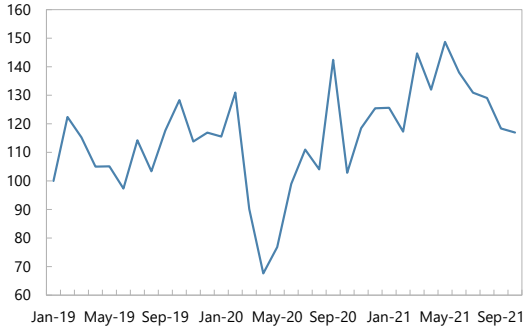
Sources: NBP; KNF; and ZBP.

**Figure 14. Poland: Housing Market Indicators**

After falling at the start of the pandemic, housing starts have returned to pre-pandemic levels....

**Poland: Housing Starts**

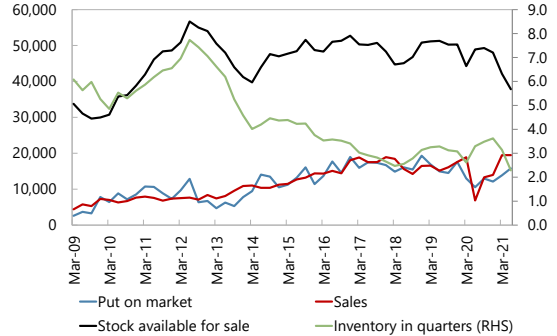
(Index: Jan 2019 = 100; SA)



...while sales have outpaced supply in 2021, reducing the inventory of available housing.

**Housing Sales and Inventory**

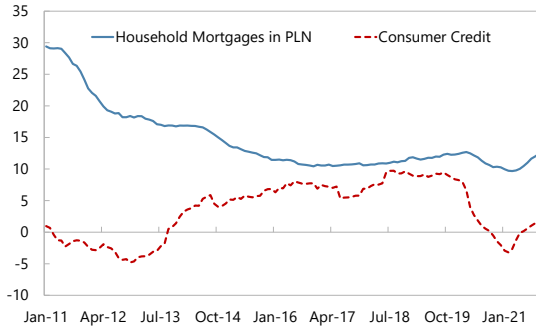
(Units, LHS; Quarters, RHS)



Household mortgage lending has returned to pre-pandemic growth rates....

**Household Sector Credit Growth**

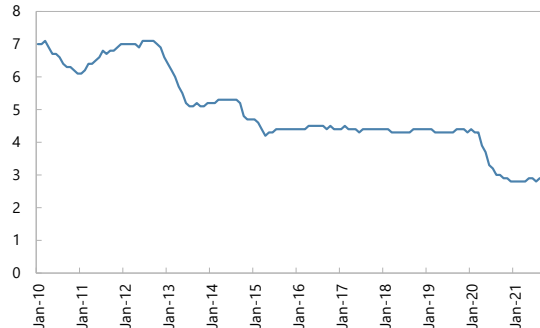
(Year-on-year percent change)



...supported by historically low mortgage lending rates, which are now beginning to increase.

**Average Interest Rate on New PLN Mortgage Loans**

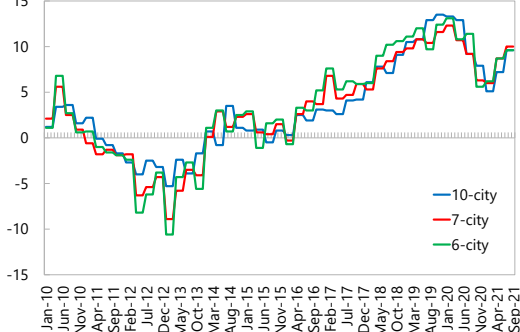
(Percent)



Housing price growth has accelerated after a brief slowdown at the beginning of the pandemic...

**Hedonic Prices of Existing Real Estate**

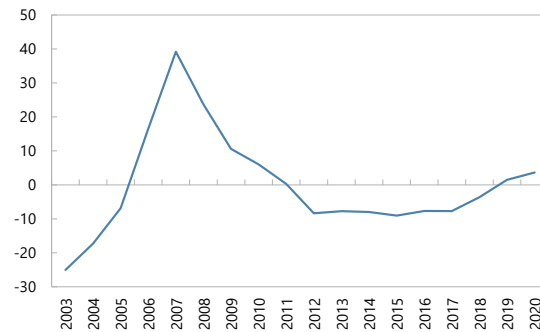
(Year-on-year percent change)



...pushing the price-to-income ratio back above the historical average for the first time in a decade.

**Residential Real Estate: Price-to-Income Ratio**

(Deviations from period average, in percent)

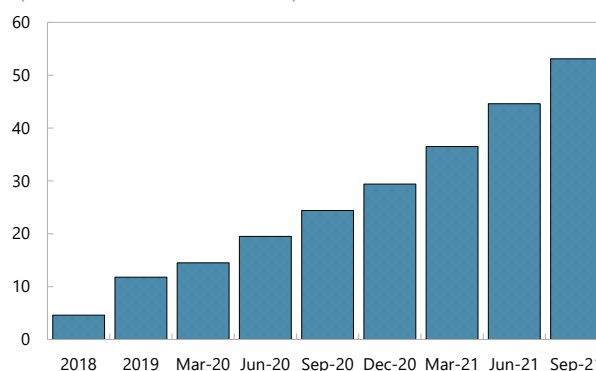


Sources: Statistics Poland; NBP; Haver Analytics; and IMF staff calculations.

### 34. Legal risks related to FX mortgages continue to pose a burden for banks

(Annex V). With long-awaited guidelines from the Supreme Court delayed, uncertainty remains large, and banks continue to increase provisions for legal risk. The range of potential losses for the sector is significant—between 5 and 130 percent of banks’ capital, depending on how courts treat the conversion of mortgages to domestic currency. However, it appears that the likelihood of the costliest scenario for banks—in which banks are unable to get back the principal from borrowers—has been reduced (but not eliminated) by a verdict issued by a narrow composition of the Supreme Court Civil Chamber.

**Foreign Currency Mortgage Litigations**  
(Number of court cases in thousands)



Source: Reports of banks quoted at Warsaw Stock Exchange.

**35. Banks are gradually progressing with voluntary restructuring of FX mortgages.** The KNF has proposed that banks offer clients to convert their FX mortgages at original exchange rates, providing equal treatment with original domestic currency mortgage holders of the same vintage. As an incentive, the Financial Stability Committee has also proposed a temporary reduction of FX mortgage risk weights for banks implementing such programs. The estimated conversion cost at 15 percent of banking sector capital would be manageable, but more exposed banks may be discouraged by their own higher costs. State-controlled PKO BP bank was the first to offer settlements based on the KNF proposal, recently followed by ING Bank Śląski and state-owned BOS Bank, while other banks are offering conversion programs on different terms.

**36. Cooperative banks, relatively less affected by the pandemic crisis, are undergoing gradual structural changes.** Cooperative banks weathered the COVID-19 crisis relatively well, with profits down by only 20 percent in 2020, and recovering above pre-pandemic levels in 2021. The cooperative segment is undergoing gradual consolidation—with 19 mergers in 2021, almost twice the pre-pandemic full-year figure—and is changing business models to increase income from fees. Given their comparatively high share of net interest margin in revenues, cooperative banks should benefit from interest rate normalization.

**37. Amended AML/CFT regulations increase oversight on trading virtual currencies.** In line with the EU directive, Poland revised its AML Act in 2021. The amended regulations cover entities involved in trading and exchange of virtual currencies, as well as the intermediaries in such trading. These activities became regulated in November 2021, with the obligation to apply security measures to transactions exceeding EUR 1,000 and to have clean criminal records for certain persons, like members of the management boards, in entities involved in such trading. The authorities are encouraged to follow the recommendations regarding virtual assets (VAs) and virtual asset service providers (VASPs) from the recent Council of Europe/MONEYVAL assessment against the FATF standard. The definition of VASPs should be aligned with the FATF definition.

## Authorities' Views

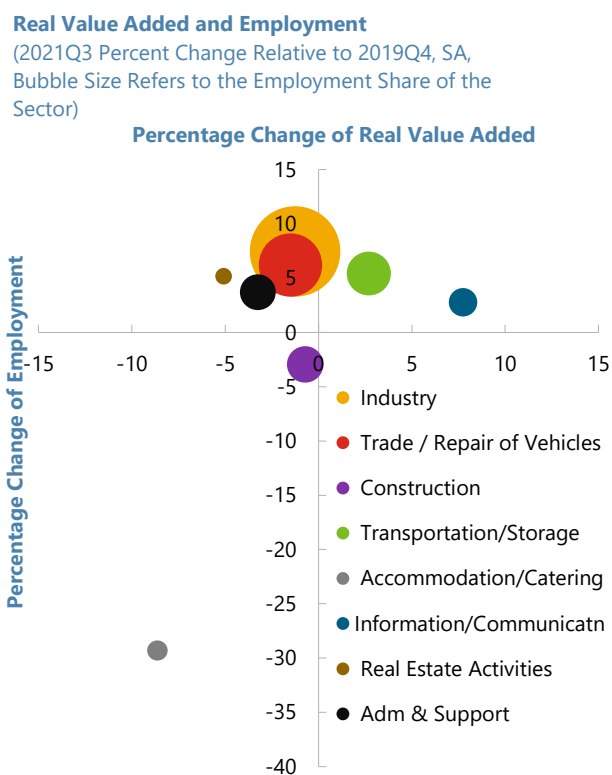
**38. The authorities noted that the banking sector had remained stable, despite the pandemic crisis.** Anti-crisis measures that supported households and corporates had averted threats to banking sector stability. The ongoing economic recovery and growing demand for credit are expected to improve earnings, in addition to interest rate normalization, particularly relevant for cooperative banks. The authorities pointed to progress in consolidation of cooperative banks. While rising housing prices and mortgage credit growth warrant monitoring, the authorities did not see overheating in the residential real estate market. The authorities believed that the magnitude of new demand from state guarantees for mortgage down-payments was still difficult to assess but noted that such credits would remain subject to rigorous credit risk analysis.

**39. The authorities believed that the costliest FX mortgage scenario for banks would likely be averted, based on the verdict issued by a narrow composition of the Supreme Court.** The authorities noted that strong capital buffers should allow banks to absorb higher provisions as litigation continues to grow. Three banks were offering voluntary conversions based on the KNF proposal, and some others were proposing conversions on their own terms, and there was substantial borrower interest in such settlements. Weaker banks, which may not be able to absorb the cost of restructuring agreements, were relatively small and did not pose a systemic threat.

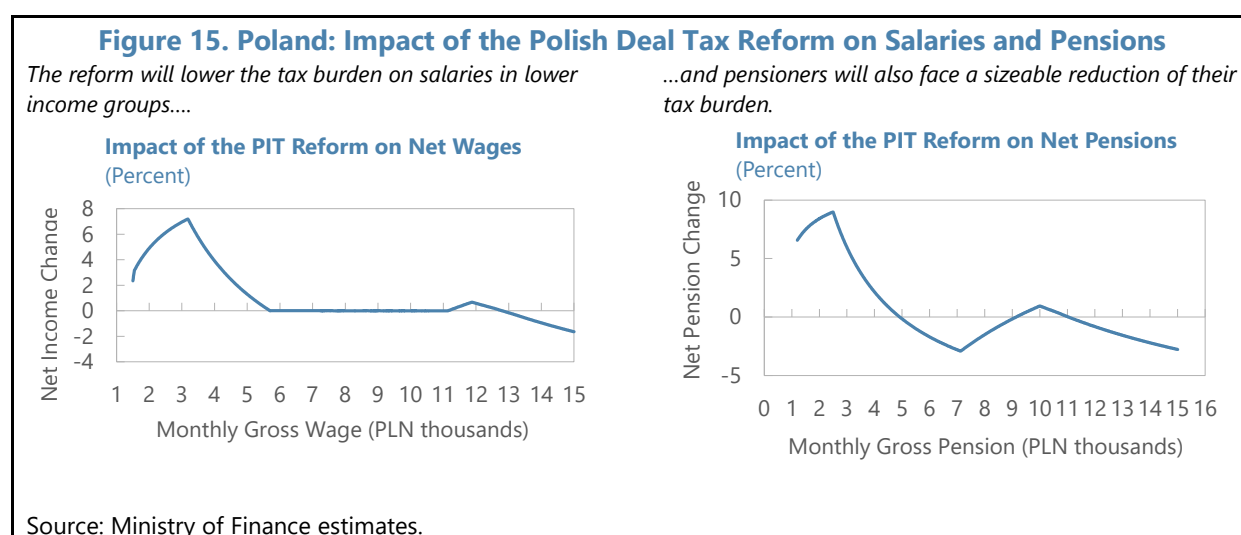
## Structural Policies for the Next Wave of Growth and Convergence

### Labor Markets

**40. Active labor market policies (ALMP) are needed to facilitate labor reallocation toward expanding sectors.** While policy support reduced the impact of the pandemic on labor markets, the decline in output in high-contact sectors has far exceeded their declines in employment, while expanding sectors increasingly demand skilled labor. Also, certain groups including youth and low-skilled individuals may need special assistance transitioning to new jobs. ALMPs should be enhanced to facilitate upskilling and reskilling, particularly in digital skills. Decarbonization will present longer-run challenges for coal mining, which represents a small share of overall employment but has regional significance. The energy transition calls for a strategy to prevent a disproportionate impact on workers in coal-rich regions.



**41. Although not an ALMP, the Polish Deal tax reform could positively affect labor supply, but the magnitude of this effect is uncertain.** The reforms will reduce the tax wedge for lower income groups, particularly those between 50–75 percent of the average wage (Figure 15), which could incentivize inactive persons to enter the labor market. However, participation has already risen significantly, with the main drivers not fully understood, and the reform will also significantly reduce the tax burden for most pensioners, which may tip some workers into anticipating their retirement, although this is a smaller group. A positive effect of the tax reform on participation rates would help delay the ultimate impact of adverse demographic trends on the labor force. Other efforts in this direction could include the implementation of measures to allow longer periods of employment for foreign workers.



### Climate Change

**42. Poland has achieved a significant reduction in carbon emissions, but its carbon footprint remains large owing to its reliance on coal.<sup>5</sup>** Since 1990, greenhouse gas (GHG) emissions have declined by 16 percent, even as real GDP tripled. Nevertheless, output remains more carbon intensive than in EU peers. Unlike most other EU countries, the main contributor to emissions is the power sector. Despite an increased use of renewables, domestic coal remains the mainstay of the power sector and is also prevalent in household heating. Emissions are increasing in the transport sector as efficiency improvements have been more than offset by increasing traffic.

**43. In 2021, Poland adopted an energy policy strategy to significantly reduce coal power by the 2040s.** The strategy specifies a comprehensive list of measures expected to reduce GHG emissions by 30 percent from the 1990 level by 2030 and the share of coal in electricity from 77 percent in 2018 to below 56 percent in 2030, underpinned by large investments in generation

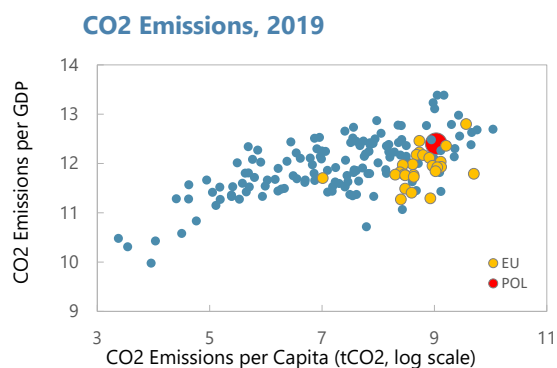
<sup>5</sup> See Selected Issues Paper “Challenges of Energy Transition in Poland”

and increased efficiency. A more ambitious EU climate policy and higher carbon prices in the EU ETS system may necessitate an updated energy transition plan, which should set a target date for carbon neutrality and a path to phase out coal mining. Access to clean energy is also an increasingly important factor in foreign investors' decisions.

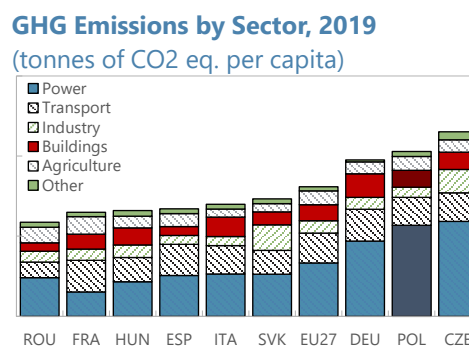
**44. The power sector transition is the most pressing challenge.** Given majority state ownership of most coal mines and energy producers, direct government intervention will be required. Aging energy production capacity and infrastructure and the deteriorating financial viability of coal-powered generation create risks for supply stability, which means that investments will be needed in all events. But EU support will be available if investments do not just replace capacity, but reduce emissions too. The authorities estimate that the energy transition will cost about 15 percent of 2021 GDP in the 2020s in the energy sector alone. EU financing will support the process, but other funding will also be needed, including to finance investments that may not qualify for EU funding. A carbon tax and targeted rebates should be considered to further incentivize private sector decarbonization, while seeking to protect the most vulnerable households. Carbon pricing is a cost-effective tool to discourage emissions while raising revenues to support energy transition. The authorities should review the regulatory framework for energy generation to attract private investment too.

**Figure 16. Poland: Carbon Emissions**

*Poland's economic output remains relatively carbon intensive....*



*...with the power sector a large contributor to emissions.*



Sources: EDGAR; WEO; UNFCCC; and IMF staff calculations.

### **Public Investment**

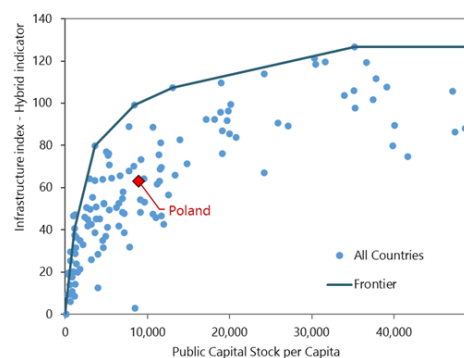
**45. Improvements in the public investment management framework can help increase the efficiency of public infrastructure assets.** Public investment is expanding towards more complex and riskier projects in support of the government's convergence program and energy transition goals. The investment efficiency gap suggests that more than one-third of public investment did not result in the increase in the level or quality of infrastructure that would have been achieved by the most efficient country. Stronger information flows across public entities can help facilitate a more

collaborative infrastructure framework with greater complementarities and synergies of infrastructure projects, raising the overall efficiency of public investment.

### **Authorities' Views**

**46. The authorities outlined ongoing and planned AMLP and structural policy initiatives.** The authorities plan to modernize Public Employment Services and strengthen access to training, with a special emphasis on digital skills. An extension of the period in which foreign workers may be employed on declaration is under consideration. The authorities believed that the PIT reform would incentivize higher participation at lower income levels and that this effect would outweigh any increase in retirements. On energy policy, they believed that the energy strategy would place Poland on a path to carbon neutrality by 2050. A revised strategy, due in 2023, would incorporate the EU's "Fit for 55" package. The authorities emphasized the need to consider energy security and preferred to guide the energy transition through tighter standards and policies rather than through direct carbon pricing. They also did not support the extension of ETS coverage to household and transport sectors, citing the risk of energy poverty. On the public investment management framework, the authorities noted that they would consider staff's recommendations, including improved coordination to facilitate the infrastructure investment strategy across different public sector entities.

**Public Investment Efficiency Frontier (Index)**



Source: IMF staff estimates  
 Note: Index is based on a hybrid indicator which combines physical and survey-based indicators into a synthetic index of the coverage and quality of infrastructure networks. Methodology described in *Making Public Investment More Efficient*, IMF (2015).

## **STAFF APPRAISAL**

**47. While the pandemic has taken its toll on lives, policy actions have limited the economic damage from the pandemic.** After a long period of strong growth, Poland experienced a recession in 2020, though it was one of the least severe in the European Union. The Polish economy's relative resilience owes in part to strong policy actions that averted destructive losses of employment and bankruptcies. Output has rebounded strongly and already surpassed the pre-recession peak, with the economy less impacted by successive pandemic waves. The authorities should nevertheless consider strategies to increase vaccination coverage in Poland to reduce health risks and mitigate the potential for further pandemic-related economic disruptions. The external position is preliminarily assessed to be moderately stronger than the level implied by medium-term fundamentals and desirable policies. Foreign exchange reserves are adequate to insulate against external shocks and disorderly market conditions.

**48. The outlook for the Polish economy remains favorable, with minimal medium-term scarring expected from the pandemic.** While ongoing pandemic waves may slow economic growth in the near term, the robust expansion is projected to continue in 2022–23, supported by a strong labor market and corporate balance sheets. Nevertheless, considerable near-term uncertainty requires deft policy management as policymakers must weigh the countervailing risks from the

pandemic against the risk of overheating. Next Generation EU grants should deliver a significant boost to public investment for several years, underscoring the importance of resolving outstanding disputes with the EU.

**49. Fiscal support appropriately became more targeted as the pandemic evolved.** Many of the initially broad-based measures were extended with greater targeting to support sectors most impacted by later waves of the pandemic. The authorities also implemented safeguards to combat waste and fraud in such programs. Reduced pandemic fiscal support and a strong economic recovery contributed to a significant decline in the fiscal deficit in 2021. While most programs have been phased out, substantial fiscal space exists to extend targeted support, if necessary, to confront further waves of the pandemic.

**50. An expansionary fiscal stance should be avoided in the context of near-term overheating risks.** While the personal income tax reform appropriately aims to increase progressivity, it would be appropriate to offset its expansionary impact elsewhere in the budget. Near-term energy poverty risks would also be best addressed through targeted instruments such as vouchers. With general government debt projected to stabilize above the pre-pandemic level over the medium term, some additional deficit reduction towards the medium-term objective of 1 percent of GDP would be appropriate to rebuild buffers to address future shocks and long-term fiscal pressures.

**51. The central bank should continue to tighten monetary policies to drive inflation back to the target.** Inflation increased substantially in 2021 and is projected to remain elevated in 2022. While the recent increase in inflation has been largely driven by factors outside the control of monetary policy, their persistence and the relatively elevated level of core inflation presently suggest that further rate increases will be necessary to minimize second-round effects and stave off overheating risks as output moves above potential. The recent conclusion of regular asset purchases is welcome and consistent with monetary policy tightening. Foreign exchange intervention should be reserved to periods of disorderly market conditions.

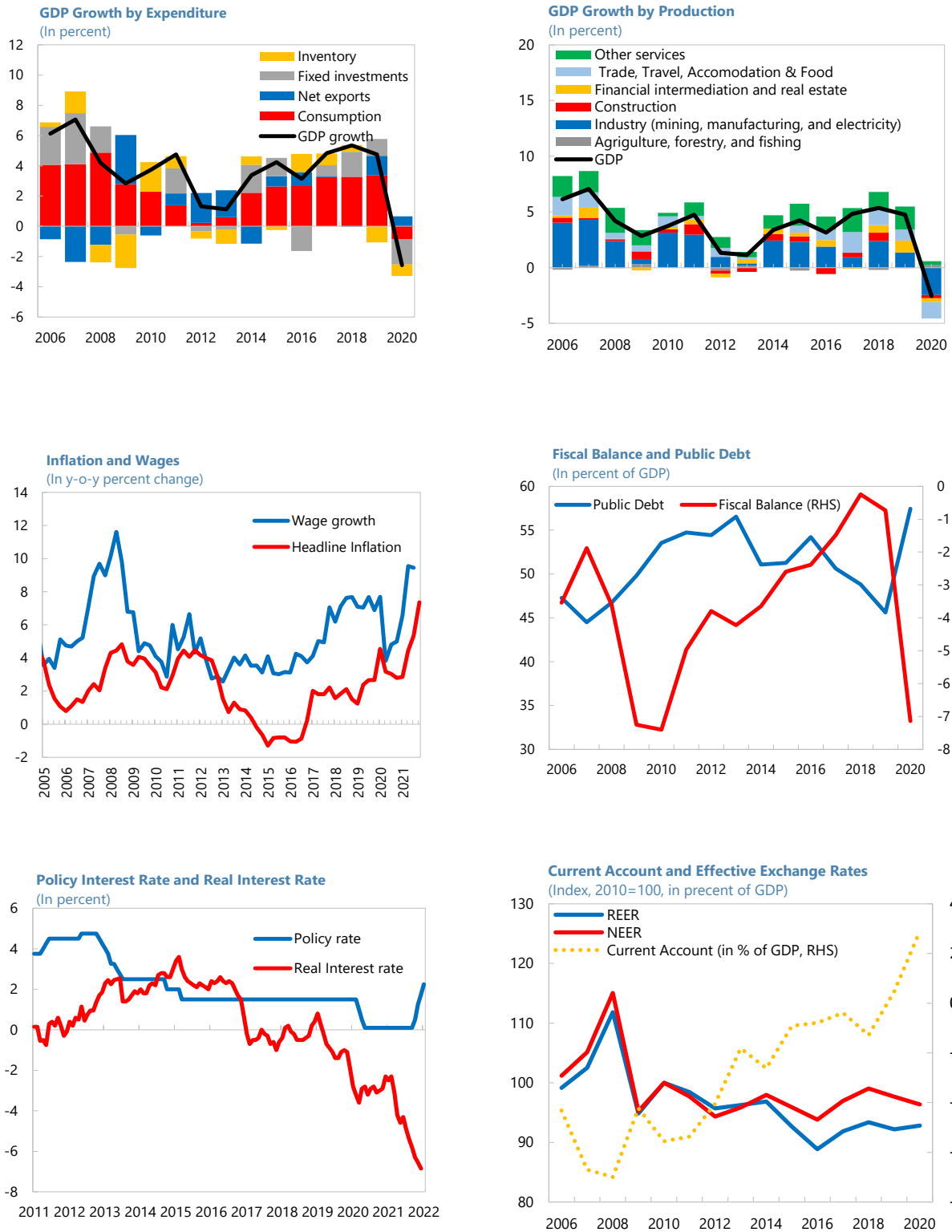
**52. The banking sector has remained stable through the pandemic, though legal risks remain significant.** Asset quality has not deteriorated, and capital adequacy levels remain significantly above regulatory minima. The ongoing gradual phase out of crisis-related financial sector measures has thus been appropriate. In the context of a robust housing market and rising interest rates, it remains important for banks to rigorously test borrowers' ability to service loans. The legal risks of foreign exchange mortgages represent the main source of risk to the banking system. Banks should proactively seek to reach voluntary agreements with clients to convert their mortgages into local currency. While conversion will be costly, it would remove a significant source of uncertainty, and the cost would be manageable for most banks. To support credit growth to the private sector, the authorities should redesign the bank asset tax, which incentivizes banks to hold government securities.

**53. Structural reforms are needed to bolster longer-term economic growth and convergence.** A strengthening of active labor market policies, including improved upskilling and

training with a focus on digital skills, would facilitate the movement of labor to expanding, high-productivity sectors. The personal income tax reform could also increase labor supply for the working age population, but the magnitude of the effect is uncertain. To support a growing economy, attract foreign investment, and meet energy transition goals, substantial investment in clean sources of energy will be needed. While EU financing will support the transition process, additional financing sources will be needed, underscoring the need for a long-term energy investment financing strategy. The authorities should consider a role for carbon taxation to incentivize private sector decarbonization. A more tightly coordinated infrastructure framework with strengthened collaboration across public entities can help raise the efficiency of public investment.

**54. It is recommended that the next Article IV consultation be held on the standard 12-month cycle.**

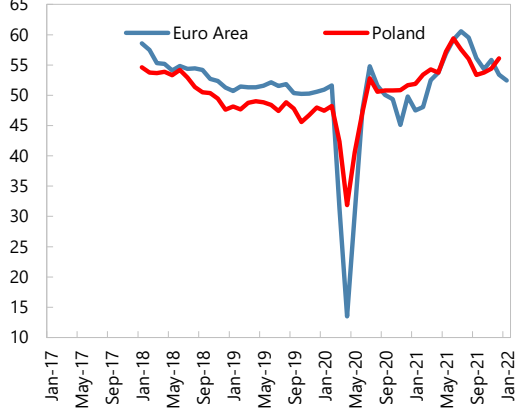
**Figure 17. Poland: Selected Economic Indicators, 2006–2022**



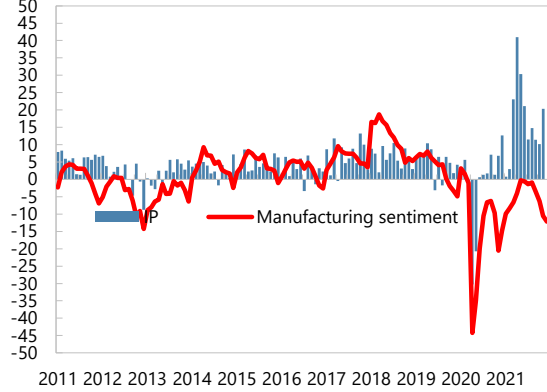
Sources: Statistics Poland; Ministry of Finance; NBP; and IMF staff calculations.

**Figure 18. Poland: Selected Economic Indicators, 2011–2022**

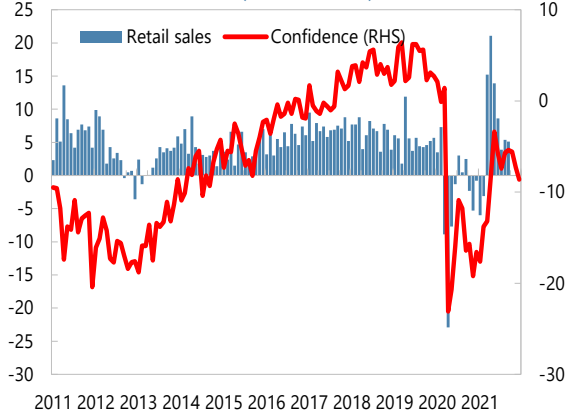
**Composite PMI: Manufacturing and Services**  
(SA, 50+ = expansion, Index values)



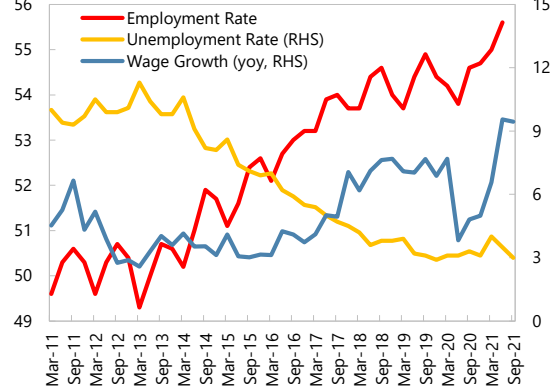
**Industrial Production (Yoy percent change)**  
**Business Sentiment Indicator (Percent to balance)**



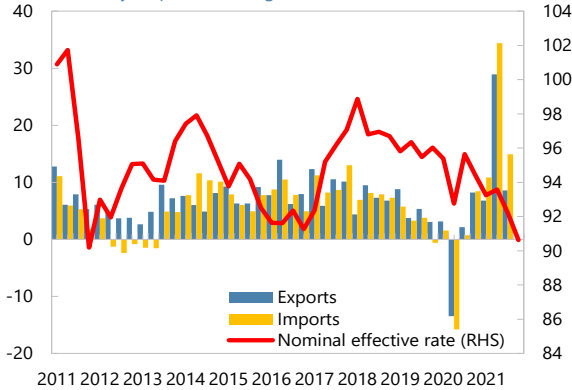
**Retail Sales (Year-on-year percent change)**  
**Consumer Confidence (Percent balance)**



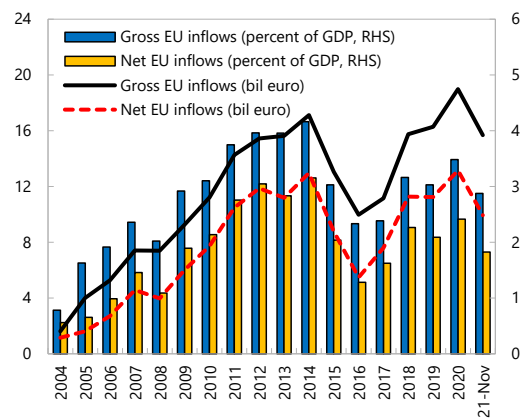
**Employment, Unemployment, and Wage Growth**  
(In percent)



**Trade Volume and Exchange Rate**  
(Year-on-year percent change; Index, 2000=100)



**EU Fund Transfers to Poland**

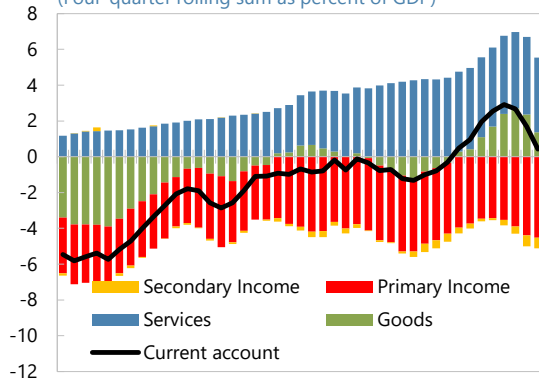


Sources: Haver; Statistics Poland; and IMF staff calculations.

**Figure 19. Poland: Balance of Payments Developments, 2011–2021**

**Current Account Balance**

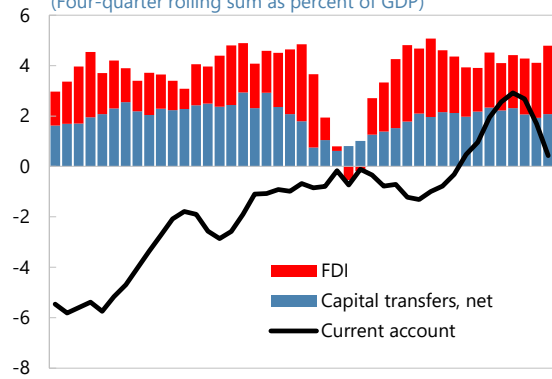
(Four-quarter rolling sum as percent of GDP)



2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021

**Current Account Balance, Capital Transfers, and FDI**

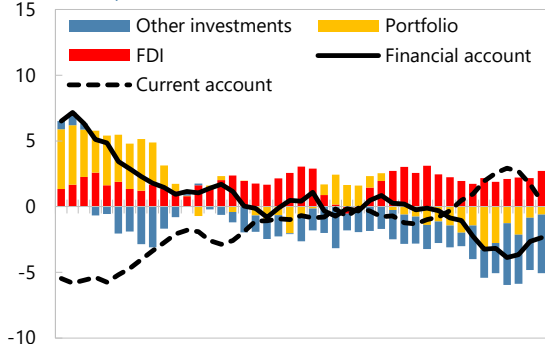
(Four-quarter rolling sum as percent of GDP)



2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021

**Financial Account Balance (Net Flows)**

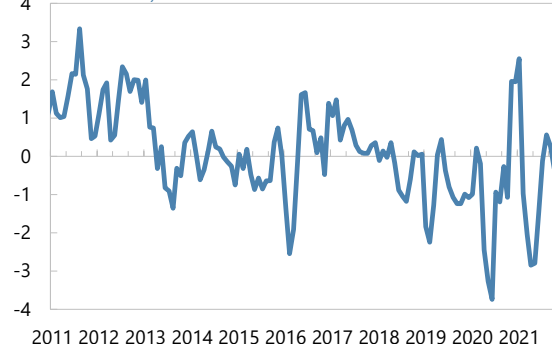
(Four-quarter rolling sum as percent of GDP, "+" = inflows)



2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021

**Portfolio Flows, Net**

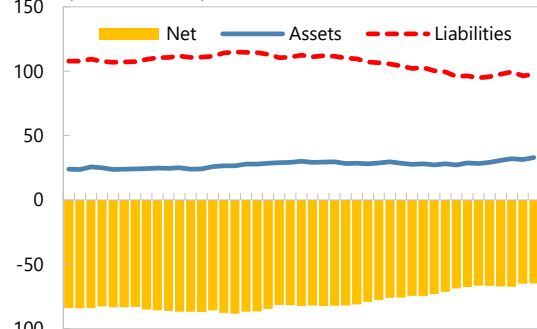
(Billions of US dollars, 3-month moving average, "+" = inflows)



2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021

**International Investment Position 1/**

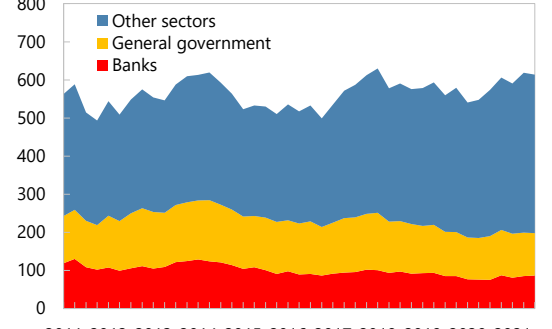
(Percent of GDP)



2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021

**International Investment Position, Liabilities**

(Billions of US dollars)

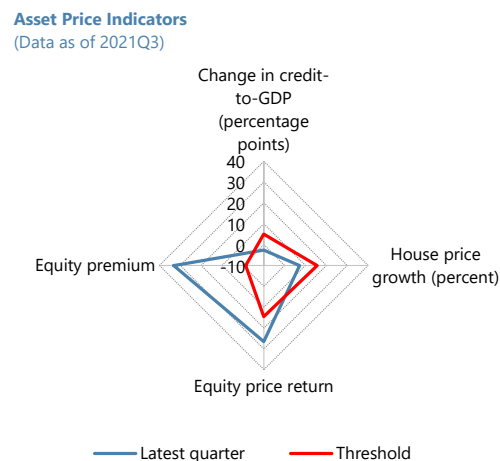
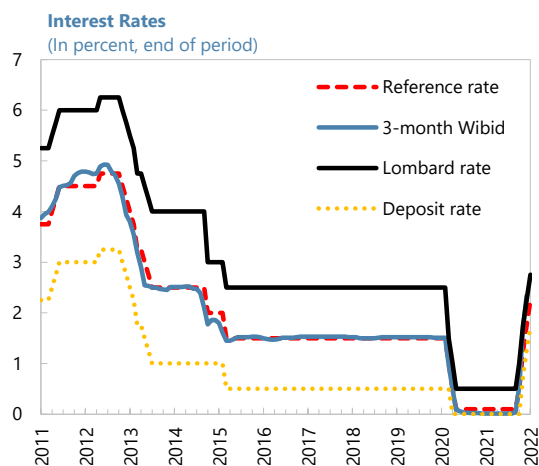
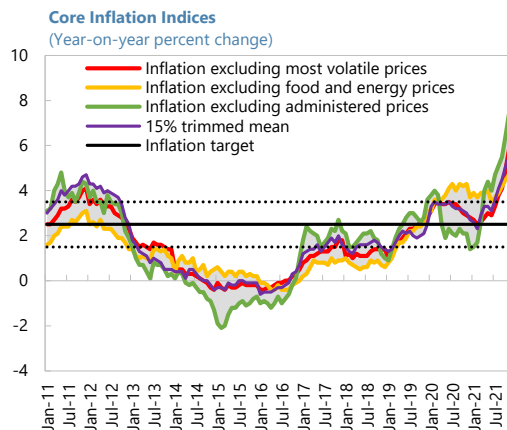
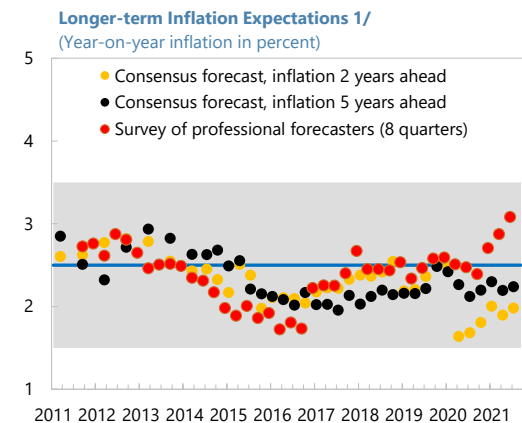
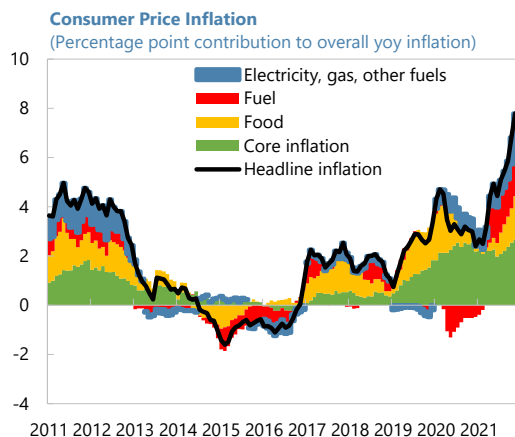


2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021

Sources: NBP; and IMF staff calculations.

1/ Excludes NBP.

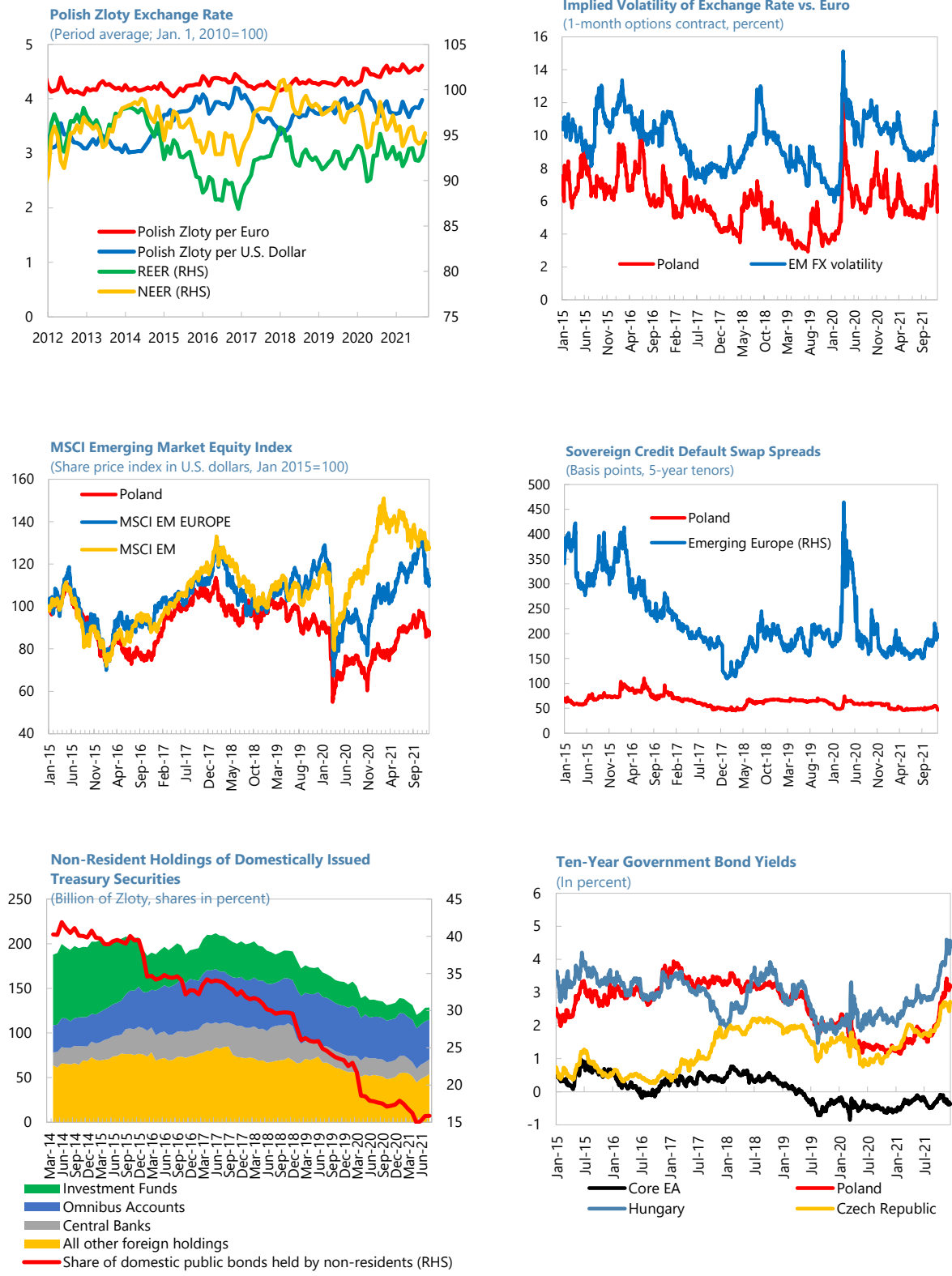
**Figure 20. Poland: Inflation and Asset Price Indicators, 2011–2021**



Sources: Haver; Consensus Forecast; Statistics Poland; NBP; and IMF staff calculations.

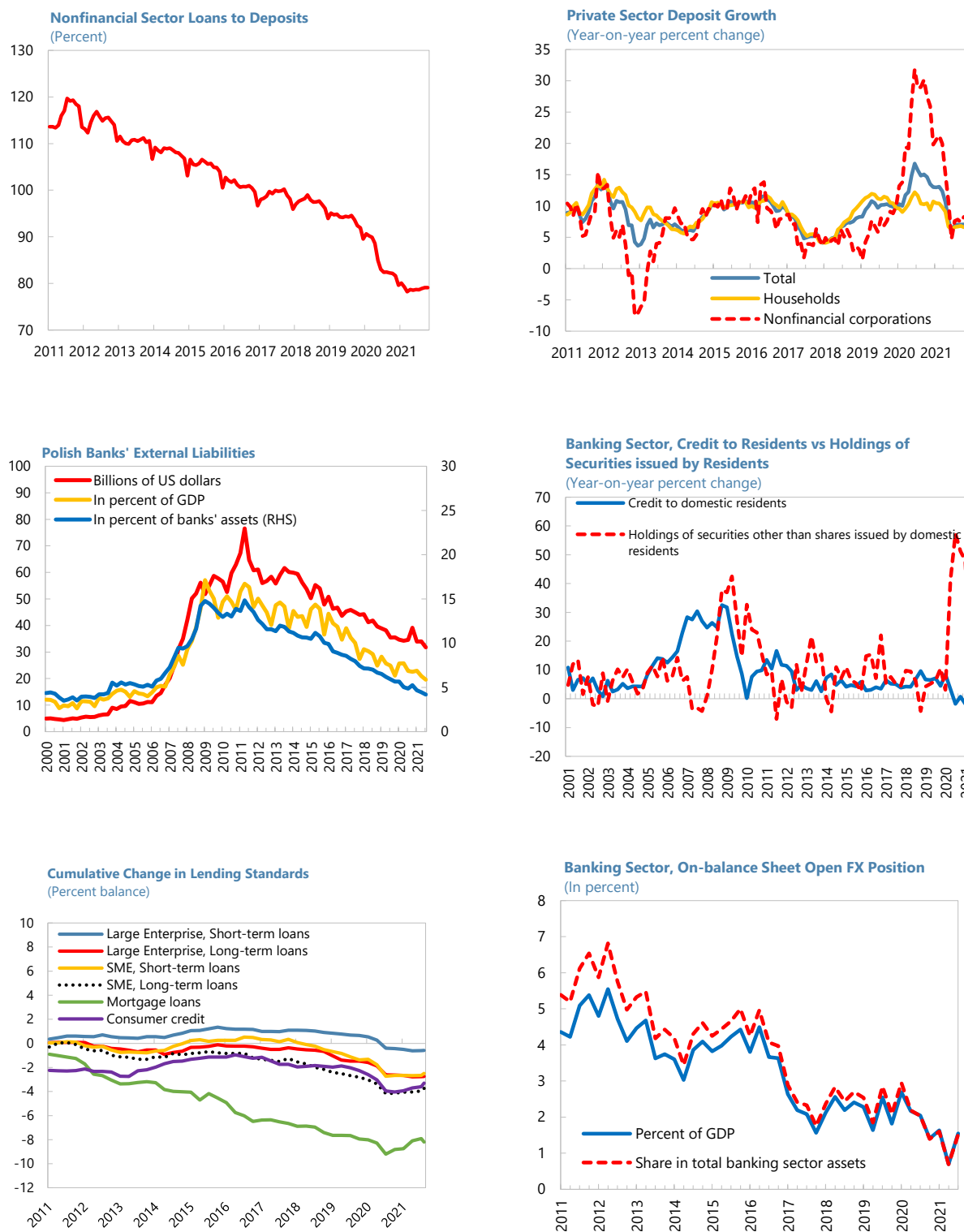
1/ Expectations for the year's average are affected by breaks when the forecast year changes in January.

**Figure 21. Poland: Financial Market Developments**



Sources: Bloomberg Finance L.P.; Haver Analytics; Ministry of Finance; and IMF staff calculations.

**Figure 22. Poland: Banking Sector Developments**



Sources: Haver; Statistics Poland; NBP; KNF; and IMF staff calculations.

Table 6. Poland: Selected Economic Indicators, 2018–2026

	2018	2019	2020	2021	2022	2023	2024	2025	2026
				Est.			Projections		
<b>Activity and prices</b>									
GDP (change in percent)	5.4	4.7	-2.5	5.4	4.6	3.7	3.0	3.0	3.0
Domestic demand	5.6	3.6	-3.3	8.1	6.1	3.9	3.4	3.4	3.2
Private consumption growth	4.5	3.9	-2.9	6.8	6.4	3.4	3.3	3.2	3.1
Public consumption growth	3.5	6.5	4.9	1.6	4.4	3.8	3.2	3.2	3.2
Domestic fixed investment growth	9.4	6.1	-9.0	7.0	8.7	9.1	5.0	4.5	4.0
Inventories (contribution to growth)	0.4	-1.1	-0.8	2.3	-0.2	-0.5	-0.2	0.0	0.0
Net external demand (contribution to growth)	0.0	1.3	0.6	-2.3	-1.3	-0.2	-0.3	-0.3	-0.2
Output gap	1.9	2.9	-2.9	-0.6	0.6	0.7	0.3	0.1	0.0
CPI inflation (percent)									
Average	1.6	2.3	3.4	5.1	7.4	5.1	3.1	2.9	2.6
End of period	1.1	3.4	2.4	8.6	6.3	3.3	3.0	2.7	2.5
Unemployment rate (average, according to LFS)	3.8	3.3	3.2	3.5	3.3	3.0	3.0	3.0	3.0
<b>Saving and Investment</b> (percent of GDP)									
Saving	19.5	20.2	20.2	18.9	18.8	18.6	18.6	18.7	18.9
Investment	20.8	19.7	17.2	19.2	19.3	19.5	19.6	19.8	19.9
Saving - Investment	-1.3	0.5	2.9	-0.3	-0.5	-0.9	-1.0	-1.0	-1.0
<b>Public finances</b> (percent of GDP) 1/									
General government revenues	41.3	41.0	41.5	41.7	39.7	41.1	40.9	40.8	40.6
General government expenditures	41.5	41.8	48.7	44.6	42.8	43.6	43.6	43.4	43.2
General government net lending/borrowing	-0.2	-0.7	-7.1	-2.9	-3.1	-2.5	-2.6	-2.6	-2.6
General government cyclically-adjusted balance	-1.2	-2.2	-5.6	-2.6	-3.4	-2.9	-2.8	-2.6	-2.6
General government debt	48.8	45.6	57.4	56.2	52.1	49.8	49.7	49.5	49.6
National definition 2/	46.4	43.2	47.8	...	...	...	...	...	...
<b>Money and credit</b>									
Private credit (change in percent, end-period) 3/	7.1	4.8	3.2	4.0	6.6	6.8	6.5	6.3	6.2
Credit to GDP (percent)	56.1	54.4	55.3	51.6	49.4	48.9	49.1	49.2	49.5
Deposits (change in percent, end-period)	8.2	8.6	12.0	6.9	6.5	6.7	6.5	6.2	6.1
Broad money (change in percent, end-period)	9.2	8.3	16.4	7.9	7.1	6.8	6.3	6.1	5.9
Policy Rate (percent) 4/	1.5	1.5	0.5	0.3	...	...	...	...	...
<b>Balance of payments</b>									
International Investment Position, Net ( Percent of GDP)	-53.7	-50.4	-46.2	-39.7	-35.0	-32.1	-29.7	-27.8	-26.0
Current account balance (billion U.S. dollars)	-7.5	2.8	17.3	-2.0	-4.1	-7.0	-8.7	-9.5	-9.8
Percent of GDP	-1.3	0.5	2.9	-0.3	-0.5	-0.9	-1.0	-1.0	-1.0
Exports of Goods (billion U.S. dollars)	256.2	260.7	270.0	329.1	367.2	395.1	419.5	447.1	475.5
Export volume growth	6.9	5.2	0.1	11.4	5.0	4.9	4.2	4.2	4.2
Imports of Goods (billion U.S. dollars)	263.6	259.0	255.6	325.5	370.9	401.6	427.3	455.1	483.7
Import volume growth	7.4	3.0	-1.2	16.9	7.5	5.3	4.8	4.8	4.6
Terms of trade (index 1995=100)	105.1	106.4	109.1	109.7	110.0	109.7	110.2	110.9	111.3
Official reserves (billion U.S. dollars)	117.0	128.4	154.2	166.1	181.5	192.5	200.1	203.8	204.7
In percent of short-term debt plus CA deficit	145.9	174.4	158.0	151.8	159.0	164.7	167.3	168.3	166.2
In percent of IMF ARA metric	123.1	133.0	150.7	154.3	...	...	...	...	...
Total external debt (billion U.S. dollars)	362.2	355.0	375.4	413.4	420.3	424.7	432.2	438.3	444.9
In percent of GDP	61.7	59.5	62.9	61.6	56.7	53.4	50.7	47.9	45.3
<b>Exchange rate</b>									
Exchange rate regime				Freely floating					
Zloty per USD, period average	3.6	3.8	3.9	3.9	...	...	...	...	...
Zloty per Euro, period average	4.3	4.3	4.4	4.6	...	...	...	...	...
Real effective exchange rate (INS, CPI based) 5/	101.9	100.6	101.2	...	...	...	...	...	...
Appreciation (percent change)	1.7	-1.3	0.7	...	...	...	...	...	...
<i>Memorandum item:</i>									
Nominal GDP (billion zloty)	2121.6	2293.2	2326.7	2590.2	2886.6	3115.9	3307.5	3504.4	3700.5

Sources: Polish authorities; and IMF staff calculations.

1/ According to ESA2010.

2/ The difference from general government debt reflects different sectoral classification of certain units.

3/ Credit defined as in IFS: "Claims on other sectors."

4/ NBP Reference Rate (avg).

5/ Annual average (2000=100).

**Table 7. Poland: Balance of Payments on Transaction Basis, 2016–2027**  
(Millions of U.S. dollars, unless otherwise indicated)

	2016	2017	2018	2019	2020	2021		2022		2023		2024		2025		2026		2027		
						Est.	Projections	Est.	Projections	Est.	Projections	Est.	Projections	Est.	Projections	Est.	Projections	Est.	Projections	Est.
Current account balance	-3,719	-2,068	-7,537	2,832	17,319	-2,010	-4,051	-7,024	-8,671	-9,488	-9,818	-10,097								
percent of GDP	-0.8	-0.4	-1.3	0.5	2.9	-0.3	-0.5	-0.9	-1.0	-1.0	-1.0	-1.0								
Trade balance	17,484	19,743	17,798	28,409	40,420	31,249	28,252	27,043	28,201	30,219	32,970	34,581								
percent of GDP	3.7	3.7	3.0	4.8	6.8	4.7	3.8	3.4	3.3	3.3	3.4	3.3								
Balance on Goods	2,262	-463	-7,327	1,699	14,379	3,624	-3,658	-6,506	-7,719	-8,021	-8,258	-9,142								
Merchandise exports f.o.b.	196,383	228,214	256,230	260,732	269,991	329,143	367,220	395,092	419,546	447,092	475,463	506,734								
Merchandise imports f.o.b.	194,121	228,677	263,557	259,033	255,612	325,520	370,878	401,598	427,265	455,113	483,722	515,877								
Balance on Services	15,222	20,206	25,125	26,710	26,041	27,625	31,910	33,549	35,920	38,240	41,228	43,723								
Merchandise exports f.o.b.	48,712	57,868	68,121	70,202	66,326	71,856	81,600	86,206	90,925	95,081	102,373	109,394								
Merchandise imports f.o.b.	33,490	37,662	42,996	43,492	40,285	44,231	49,690	52,658	55,005	56,840	61,145	65,670								
Exports of goods and services																				
percentage change in unit values	4.6	16.7	13.4	2.0	1.6	21.9	11.6	7.6	6.2	6.6	6.3	6.6								
percentage volume growth	9.3	9.6	6.9	5.2	0.1	11.4	5.0	4.9	4.2	4.2	4.2	4.2								
Imports of goods and services																				
percentage change in unit values	2.8	17.0	15.1	-1.3	-2.2	27.3	13.9	8.3	6.4	6.5	6.3	6.6								
percentage volume growth	7.9	10.2	7.4	3.0	-1.2	16.9	7.5	5.3	4.8	4.8	4.6	4.6								
Terms of trade (percentage change)	0.4	0.3	-1.0	1.3	2.6	0.5	0.3	-0.2	0.4	0.6	0.4	0.3								
Primary Income balance	-19,624	-21,643	-23,614	-23,601	-21,253	-30,252	-29,406	-31,635	-34,260	-36,801	-39,546	-41,242								
percent of GDP	-4.2	-4.1	-4.0	-4.0	-3.6	-4.5	-4.0	-4.0	-4.0	-4.0	-4.0	-4.0								
Secondary Income balance	-1,579	-168	-1,721	-1,976	-1,848	-3,007	-2,898	-2,431	-2,612	-2,905	-3,241	-3,437								
Capital and financial account balance	6,254	4,126	13,470	17,999	36,765	20,391	18,421	14,974	11,763	7,592	8,731	9,353								
Capital account balance (net)	4,867	6,795	12,148	11,757	13,846	11,200	11,236	10,999	10,217	8,540	9,274	9,725								
Financial account balance (net)	1,387	-2,669	1,322	6,242	22,919	9,190	7,185	3,975	1,546	-948	-543	-372								
Foreign direct investment (net)(+ = outflows)	-4,398	-7,836	-15,285	-11,709	-12,505	-22,697	-22,888	-22,465	-21,550	-18,502	-13,069	-10,472								
Assets (Increase = +)	13,923	3,926	2,339	5,136	4,883	6,186	6,200	6,300	6,400	6,500	6,500	6,500								
Liabilities (Increase = +)	18,321	11,762	17,624	16,845	17,388	28,883	29,088	28,765	27,950	25,002	19,569	16,972								
Portfolio investment (net)	-3,726	-4,593	4,413	11,824	6,799	19,593	7,245	7,810	8,384	9,089	9,818	10,048								
Assets	-5,827	1,428	625	-282	-4,276	13,012	4,444	4,420	5,765	6,830	6,330	6,330								
Liabilities	-2,101	6,021	-3,788	-12,106	-11,075	-6,581	-2,801	-3,390	-2,619	-2,259	-3,488	-3,718								
Other investment (net)	-13,334	18,674	6,170	-2,814	10,956	488	7,422	7,631	7,065	4,721	1,856	40								
Assets	2,777	6,489	6,214	1,427	15,924	11,128	8,285	8,631	7,565	6,277	6,302	6,302								
Liabilities	16,111	-12,185	44	4,241	4,968	10,640	863	1,000	500	1,555	4,446	6,263								
Financial derivatives	184	-1,126	-1,221	-1,234	-1,074	0	0	0	0	0	0	0								
Errors and omissions	239	-7,396	-3,289	-8,347	-8,246	0	0	0	0	0	0	0								
Financing																				
Reserve assets (Increase = +)	22,661	-7,788	7,245	10,175	18,743	11,806	15,406	10,999	7,647	3,744	851	12								
Memorandum items:																				
Current plus capital account (percent of GDP)	0.2	0.9	0.8	2.4	5.2	1.4	1.0	0.5	0.2	-0.1	-0.1	0.0								
International Investment Position, Net ( Percent of GDP)	-58.1	-66.4	-53.7	-50.4	-46.2	-39.7	-35.0	-32.1	-29.7	-27.8	-26.0	-24.6								
Gross official Reserve	114,392	113,279	116,965	128,405	154,246	166,052	181,458	192,457	200,104	203,848	204,699	204,711								
in months of imports	7.1	5.9	5.3	5.9	7.2	6.1	5.9	5.8	5.6	5.4	5.1	4.8								
Ratio of gross official reserves to short-term debt 1/	145.9	135.4	140.9	141.2	161.3	157.7	169.5	177.9	181.7	182.6	180.6	0.0								
Ratio of gross official reserves to ST debt plus CA deficit	142.2	124.2	145.9	174.4	158.0	151.8	159.0	164.7	167.3	168.3	166.2	163.9								
Ratio of gross official reserves to IMF ARA metric	138.3	117.5	123.1	133.0	150.7	154.3	...	...	...	...	...	...								
Total external debt (percent of GDP)	72.1	72.3	61.7	59.5	62.9	61.6	56.7	53.4	50.7	47.9	45.3	43.4								
Total external debt (percent of exports)	138.8	133.2	111.7	107.3	111.6	103.1	93.7	88.2	84.7	80.8	77.0	73.2								
External debt service (percent of exports)	46.5	46.3	45.5	44.8	46.8	41.9	40.1	38.4	37.0	35.5	33.9	0.0								

Sources: National Bank of Poland; and IMF staff calculations.

1/ Short-term debt is on remaining maturity.

**Table 8. Poland: Statement of Operations of General Government, 2016–2026**  
(Percent of GDP)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
						Est.	Projections				
<b>Revenue</b>	38.7	39.8	41.3	41.0	41.5	41.7	39.7	41.1	40.9	40.8	40.6
Taxes	20.5	21.1	21.9	21.7	22.0	22.7	20.6	21.4	21.5	21.5	21.5
Personal income tax	4.8	4.9	5.2	5.1	5.2	5.1	4.0	4.0	4.1	4.0	4.0
Corporate income tax	1.8	1.9	2.1	2.2	2.3	2.5	2.4	2.4	2.4	2.4	2.4
VAT	7.2	7.8	8.1	7.9	8.0	8.0	7.4	8.0	8.0	8.0	8.0
Excises	3.5	3.5	3.2	3.1	3.1	3.0	3.0	3.0	3.0	3.0	3.0
Other taxes	3.1	3.1	3.2	3.4	3.5	4.1	3.8	4.0	4.0	4.0	4.0
Social contributions	13.8	13.9	14.1	14.2	14.6	14.3	14.2	14.2	14.2	14.2	14.2
Other revenue	4.4	4.8	5.3	5.1	5.0	4.7	4.9	5.5	5.3	5.2	4.9
Capital revenue	0.6	0.7	1.2	1.1	1.2	0.9	1.1	1.7	1.5	1.4	1.1
Sales of goods and services	2.4	2.4	2.4	2.3	2.1	2.1	2.1	2.1	2.1	2.1	2.1
Other current revenue	1.4	1.7	1.8	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7
<b>Expenditure</b>	41.1	41.3	41.5	41.8	48.7	44.6	42.8	43.6	43.6	43.4	43.2
Expense	37.9	37.5	36.9	37.5	44.1	40.0	38.2	38.7	38.9	38.8	38.8
Compensation of employees	10.4	10.2	10.1	10.3	11.0	10.7	10.5	10.4	10.4	10.4	10.4
Use of goods and services	5.5	5.5	5.7	5.7	5.8	5.8	5.8	5.8	5.8	5.8	5.8
Interest	1.7	1.6	1.4	1.4	1.3	1.1	1.3	1.3	1.3	1.4	1.4
Subsidies	0.5	0.5	0.4	0.5	3.7	1.1	0.5	0.4	0.4	0.4	0.4
Social benefits	17.1	17.0	16.7	17.2	18.7	18.3	17.4	17.8	18.1	18.0	18.0
Other expense 1/	2.6	2.7	2.5	2.4	3.5	2.9	2.7	3.0	3.0	2.9	2.8
Other current expenditure	2.0	1.9	2.1	2.0	2.4	2.1	1.7	1.7	1.7	1.7	1.7
Capital transfers	0.6	0.9	0.4	0.4	1.2	0.8	0.9	1.3	1.2	1.2	1.1
Net acquisition of nonfinancial assets	3.2	3.8	4.7	4.3	4.6	4.6	4.6	4.9	4.7	4.6	4.5
<b>Gross operating balance</b>	0.8	2.3	4.4	3.6	-2.5	1.7	1.5	2.4	2.1	2.0	1.8
<b>Net lending/borrowing</b>	-2.4	-1.5	-0.2	-0.7	-7.1	-2.9	-3.1	-2.5	-2.6	-2.6	-2.6
<b>Cyclically-adjusted fiscal balance</b>	-1.9	-1.7	-1.2	-2.2	-5.6	-2.6	-3.4	-2.9	-2.8	-2.6	-2.6
<b>Net financial transactions</b>	-2.4	-1.4	-0.3	-0.7	-7.2	-2.9	-3.1	-2.5	-2.6	-2.6	-2.6
Net acquisition of financial assets	2.2	0.2	1.5	0.7	6.1	1.9	-1.0	-1.0	0.2	0.1	0.1
Currency and deposits	1.0	-0.1	0.8	0.4	3.2	1.4	-1.1	-1.0	0.1	0.1	0.1
Debt securities	0.1	0.2	0.0	0.3	0.5	0.0	0.0	0.0	0.0	0.0	0.0
Loans	0.2	0.1	0.4	0.1	1.5	0.4	0.0	0.0	0.0	0.0	0.0
Equity and investment fund shares	-0.2	-0.2	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other financial assets	1.0	0.2	0.4	0.0	0.9	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	4.6	1.6	1.8	1.4	13.2	4.9	2.1	1.6	2.8	2.7	2.8
Currency and deposits	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt securities	3.8	1.1	-0.1	0.1	10.3	4.2	1.4	0.9	2.2	2.1	2.3
Loans	-0.1	0.0	0.7	0.4	1.5	0.4	0.5	0.5	0.5	0.5	0.4
Other liabilities	1.0	0.6	1.0	0.9	1.4	0.2	0.1	0.1	0.1	0.1	0.0
<i>Adjustment and statistical discrepancies</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Memorandum items:</i>											
Primary balance	-0.7	0.1	1.2	0.6	-5.8	-1.8	-1.9	-1.2	-1.3	-1.2	-1.2
Cyclically-adjusted primary balance	-0.2	-0.1	0.2	-0.9	-4.3	-1.5	-2.2	-1.6	-1.5	-1.3	-1.2
General government debt	54.2	50.6	48.8	45.6	57.4	56.2	52.1	49.8	49.7	49.5	49.6
General government liabilities	73.0	68.7	66.8	63.3	77.2	73.2	69.0	66.8	66.6	66.5	66.6
General government financial assets	29.1	27.7	27.8	26.8	31.6	30.6	29.6	28.6	27.6	26.6	25.6
Nominal GDP in billions of zloty	1,863	1,990	2,122	2,293	2,327	2,590	2,887	3,116	3,308	3,504	3,700

Sources: Eurostat; and IMF staff calculations.

1/ Includes grants.

**Table 9. Poland: Monetary Accounts, 2016–2023**

	2016	2017	2018	2019	2020	2021	2022	2023
						Est.	Projections	
(Billions of zlotys)								
<b>Central bank</b>								
Net foreign assets	390	356	393	435	525	620	654	696
Official reserve assets	478	394	440	488	580	674	709	750
Net domestic assets	-252	-223	-103	-135	-159	-188	-181	-185
Net claims on government	-30	-26	-34	-39	-16	14	14	14
Other items, net	-222	-197	-70	-97	-143	-202	-195	-199
Base money	220	232	292	304	384	432	473	511
Currency issued	187	198	219	238	321	365	402	435
Bank reserves	33	34	73	65	63	67	71	76
<b>Deposit money banks</b>								
Net foreign assets	-156	-123	-102	-90	-96	-94	-65	-36
Net domestic assets	1,226	1,235	1,305	1,396	1,558	1,658	1,730	1,812
Net claims on the central bank 1/	36	38	76	69	65	70	74	79
Net claims on government	297	302	317	328	362	382	413	444
Claims on private sector	1,074	1,111	1,189	1,246	1,286	1,338	1,426	1,524
Claims on corporates	340	358	381	386	365	379	404	432
Claims on households	665	676	723	766	789	821	875	935
Claims on other	69	76	85	94	132	138	147	157
Other items, net	-181	-216	-278	-248	-156	-132	-183	-235
Deposits	1,070	1,111	1,202	1,306	1,462	1,563	1,665	1,776
Demand deposits	613	688	774	883	1,154	1,234	1,314	1,402
Other deposits	458	423	428	423	308	329	351	374
<b>Consolidated banking system</b>								
Net foreign assets	234	233	290	345	429	525	589	660
Net domestic assets	1,031	1,092	1,156	1,221	1,394	1,442	1,518	1,590
Claims on government	267	277	283	290	346	396	427	458
Claims on private sector	1,074	1,111	1,189	1,246	1,286	1,338	1,426	1,524
Other items, net	-310	-296	-317	-316	-239	-292	-336	-391
Broad money (M3)	1,266	1,324	1,446	1,566	1,823	1,968	2,106	2,250
<i>Memorandum items:</i>	(Percentage change from end of previous year)							
Base money	3.9	5.2	25.9	4.0	26.4	12.4	9.6	7.9
Broad money (M3)	9.6	4.6	9.2	8.3	16.4	7.9	7.1	6.8
Net domestic assets	6.6	5.9	5.9	5.6	14.2	3.5	5.2	4.8
Net foreign assets	25.2	-0.7	24.8	18.8	24.3	22.5	12.1	12.1
Net claim on government	19.0	3.5	2.5	2.3	19.5	14.4	7.7	7.3
Claims on private sector	4.9	3.4	7.1	4.8	3.2	4.0	6.6	6.8
Deposit growth	8.4	3.8	8.2	8.6	12.0	6.9	6.5	6.7
	(Percent of GDP, unless otherwise noted)							
Broad money (M3)	67.9	66.6	68.2	68.3	78.3	76.0	73.0	72.2
Private sector credit	57.6	55.8	56.1	54.4	55.3	51.6	49.4	48.9
Broad money Velocity (GDP/M3)	1.5	1.5	1.5	1.5	1.3	1.3	1.4	1.4
Money multiplier (M3/base money)	5.7	5.7	4.9	5.2	4.7	4.6	4.4	4.4

Sources: Haver; IFS; NBP; and IMF staff calculations.

1/ The difference between deposit money bank claims on the central bank and central bank claims on banks relates to banks' reserves and currency in vault.

**Table 10. Poland: Financial Soundness Indicators, 2013–2021**

(Percent)

	2013	2014	2015	2016	2017	2018	2019	2020	2021Q1	2021Q2
<b>Capital adequacy 1/</b>										
Regulatory capital to risk-weighted assets	15.7	14.7	16.0	17.2	18.0	18.3	18.6	19.8	19.8	19.9
Regulatory Tier I capital to risk-weighted assets	14.1	13.5	14.6	15.6	16.2	16.3	16.4	17.4	17.5	17.6
NPLs net of provisions to capital 2/	12.1	12.1	10.2	9.2	8.1	9.4	8.9	7.5	7.5	7.4
Bank capital to assets 3/	9.1	8.9	9.4	9.5	10.0	9.8	9.6	9.4	9.2	9.1
<b>Asset composition and quality</b>										
NPLs to gross loans (nonfinancial sector)	5.0	4.8	4.3	4.0	3.9	3.9	3.8	3.7	3.5	3.4
Sectoral distribution of loans to nonfinancial sector										
Loans to households	51.2	50.6	51.0	51.6	50.6	50.2	51.1	52.2	51.9	51.9
Loans to non-financial corporations	24.8	25.1	25.6	26.0	26.6	25.3	24.9	23.7	23.7	23.2
<b>Earnings and profitability</b>										
Return on average assets (after tax)	1.1	1.1	0.8	0.8	0.8	0.7	0.7	0.0	0.0	0.1
Return on average equity (after tax) RORC 1/	12.1	12.3	9.1	9.2	8.2	7.5	7.8	-0.2	0.4	1.4
Interest margin to gross income 4/	56.1	58.2	57.2	56.9	61.2	62.8	62.8	62.1	59.8	58.0
Noninterest expenses to gross income 5/	57.2	54.9	61.9	59.3	59.8	60.2	60.0	70.1	69.8	69.9
<b>Liquidity</b>										
One month liquidity gap to assets 6/	-46.1	-46.7	-47.7	-47.9	-49.2	-42.7	-42.6	-35.7	-36.0	-31.0
Loans to deposits 7/	106.7	103.1	100.5	96.7	95.9	94.0	89.5	79.6	78.2	78.7
<b>Sensitivity to market risk</b>										
Net open positions in FX to capital 1/	-0.1	0.3	0.8	0.8	0.4	0.1	0.2	8.1	6.2	0.1

Note: 2021Q2 is the latest data available shown for 2021. Data according to Financial Soundness Indicators (FSI), except for asset composition and quality (indicators not part of FSI reporting template).

Sources: IMF FSI Database; KNF.

1/ Data for domestic banking sector (Bank Gospodarstwa Krajowego excluded). Since 2014: data on capital in accordance with CRDIV/CRR.

2/ "NPLs net of provisions to capital" calculated as impaired loans net of provisions (non-financial sector) to total regulatory capital.

3/ "Bank capital to assets" calculated as Tier I capital to assets.

4/ "Interest margin to gross income" calculated as interest income (interest revenues minus interest expenses) to net income from banking activity

5/ "Noninterest expenses to gross income" calculated as operating cost (the sum of banks's general expense and amortisation) to net income from banking activity.

6/ "One month liquidity gap to assets" calculated as (1M assets - 1M liabilities)/assets.

7/ "Loans to deposits" include non-financial sector only.

## Annex I. Implementation of Past IMF Recommendations

2020 Article IV Recommendations	Policy Actions
<b>Monetary Policy</b>	
The accommodative monetary policy stance should be maintained until a recovery is well established. FX intervention for monetary policy purposes could be justified if additional asset purchases failed to adequately pass through to prices.	Policy interest rates were held near zero until October 2021, when the central bank increased rates followed by additional rate hikes in the context of increased underlying price pressures and high output growth. FX intervention has not occurred in 2021.
<b>Fiscal Policy</b>	
Targeted fiscal support should be provided to confront further waves of the pandemic while being flexible enough to support indirectly affected sectors.	Fiscal support became more targeted to the most affected sectors during the second and third waves of the pandemic. The sectors eligible for support were expanded from the initial list.
The fiscal deficit should be gradually reduced as the recovery takes hold.	The economic recovery and smaller pandemic-related fiscal support have contributed to an estimated reduction in the general government fiscal deficit from 7.1 percent of GDP in 2020 to 2.9 percent of GDP in 2021.
<b>Financial Sector Policy</b>	
Redesign the bank asset tax in favor of a quasi-VAT on banks' profits and remuneration.	There are no legal initiatives to modify the design of the tax.
Banks should work with borrowers to reach voluntary agreements to settle legal disputes.	The Polish FSA has proposed a framework for voluntary conversion of FX mortgages to zloty mortgages. The Financial Stability Committee has proposed temporarily lowering risks weights on FX mortgages for participating banks.
<b>Structural Reforms</b>	
Adjust labor market policies to foster participation and facilitate the reallocation of labor. Enhance active labor market policies to help workers acquire the skills needed to adapt to the post-pandemic economy. Bolster public investment, supported by Next Generation EU grants.	Poland's National Recovery Plan outlines a strategy to use Next Generation EU funds to increase public investment. The authorities believe that the PIT reform will increase labor force participation. The authorities plan to modernize job search assistance services and strengthen access to training, with an emphasis on digital skills.
Source: IMF staff.	

## Annex II. Implementation of 2018 Financial Sector Assessment Program Recommendations

Recommendations	Agency <sup>1</sup>	Time <sup>2</sup>	Progress
<b>Risk Analysis</b>			
Address weaknesses in medium-sized banks, including the affiliating banks for cooperative banks, given their systemic importance in the banking system.	PFSA	I-NT	<b>In Progress</b> Affiliating banks are limiting business activity to improve apex functions and focus on service provision for cooperative banks. The use of IPS support funds allowed safe repair of member banks at risk. IPSs have progressed in performing members' internal controls.
Replace the asset tax on financial institutions with a tax on profits and/or remuneration.	MoF	I-NT	<b>Not Done</b> There are no legal initiatives to modify the tax.
Pursue bilateral negotiations to restructure distressed FX loans instead of law changes	PFSA, MoF	I	<b>In Progress</b> In Dec. 2020, PFSA Chair proposed terms for banks to offer voluntary settlements to clients, assuming that FX mortgages would be converted on terms equalizing them with PLN mortgages of the same vintages. The client's new liability takes in account actual payments vs. payments on hypothetical PLN exposure. Mediation between banks and clients shall be conducted at Mediation Centre of the Arbitration Court at the PFSA, and mediators were recruited to increase capacity to settle CHF loans. In 2021, three banks started offering settlements proposed by PFSA Chair.
Close data gaps and improve data for credit risk and interconnectedness analysis.	PSFA	I-NT	<b>In Progress</b> The NBP started a project to build a central credit registry (KRK), with PFSA participation. KRK will allow to monitor loans of a single debtor and a group of affiliated entities at bank-level, as well as at the level of the banking sector. It will also provide a basis for sampling loans for on-site examination. The first reporting is planned in 2023.
<b>Financial Sector Oversight</b>			
Reform and strengthen arrangements for supervision, based on the principles that the PFSA should have (i) sufficient staffing and resources, (ii) operational independence, (iii) effective governance, and (iv) appropriate formal status in the determination of regulatory priorities.	MoF, PFSA, NBP	I	<b>Done</b> In line with FSAP recommendations, legal changes were made to grant the PFSA status of state legal person in 2019, which gave freedom in managing budget and reduced the risk of under-financing. PFSA spending and staffing have increased. Organizational changes were made to improve efficiency of supervisory activities, and new units were established.
<b>Bank</b>			
Provide missing essential enforcement powers including (i) those to ease rigidities constraining prompt corrective action due to Administrative Code procedures; and (ii) power to dismiss both management and supervisory board members	MoF, PFSA	NT	<b>Done</b> The power for the PFSA to dismiss both management and supervisory board members, in a situation where they no longer meet necessary requirements, has been introduced in the Banking Act and entered into force on 28 April 2021.

Recommendations	Agency <sup>1</sup>	Time <sup>2</sup>	Progress
<b>Insurance</b>			
Implement approach to supervision of the insurance-led financial conglomerate	PFSA	I	<b>Done</b> Repealing the waiver issued by the PFSA in 2018 and three administrative decisions on capital adequacy calculation, intragroup transactions (IGT) and significant risk concentration (RC) issued in 2019. Capital adequacy, IGT and RC reports, as well as recovery plan (incl. banks) regularly assessed as a part of on-going supplementary supervision process; organizational changes (dedicated employees, improved cooperation).
P 44 Review approach to insurance conduct of business supervision across the relevant agencies to increase preventative work, especially by the PFSA	MoF, PFSA	NT	<b>Done</b> A review of the approach to insurance conduct of business supervision started in 2019 under the process of updating PFSA's model of conducting supervision of (re)insurers, with adoption and gradual implementation of Strategic Priorities for Insurance Supervision 2019–2020 (internal document). Inter alia, additional reporting for unit-linked products was introduced in 2019, new methodology in Risk Assessment Framework was based on products' lifecycle; customer protection inspections verify adoption of recommendations by (re)insurers., complaints analysis was changed to consider market practices and impact on finances of insurers. Organizational changes in PFSA and increased staffing enhanced conduct of business supervision, incl. thematic reviews/inspections and development of intermediaries register. Inspections assess management of mis-selling risk in unit-linked products, or in claim settlements on MTPL (motor third party liability). The 2 <sup>nd</sup> edition of Strategic Priorities for Insurance Supervision 2021–22 envisages further works to enhance conduct of business supervision.
<b>Capital Markets</b>			
Conduct periodic assessments of the enforcement functions	PFSA	I	<b>Done</b> The PFSA introduced internal policy, which allows Enforcement Department to focus on significant cases, where hard supervisory tools are used. Less significant cases are dealt with by the PSFA supervisory departments authorized to use soft tools. PFSA maintains a register of administrative proceedings and monitors the stage of progress by the employee conducting the case, the manager, and the director.
Strengthen criminal law enforcement	PFSA	NT-MT	<b>Done</b> Changes from 2018 broadened PFSA's Board to include, inter alia, Minister responsible for special services to ensure immediate identification of criminal risks at the financial market. The revised law allowed effective exchange of information (including classified) among PFSA, Internal Security Agency, Central Anti-Corruption Bureau, National Tax Revenue Administration, Police, and Competition and Consumer Protection Office.

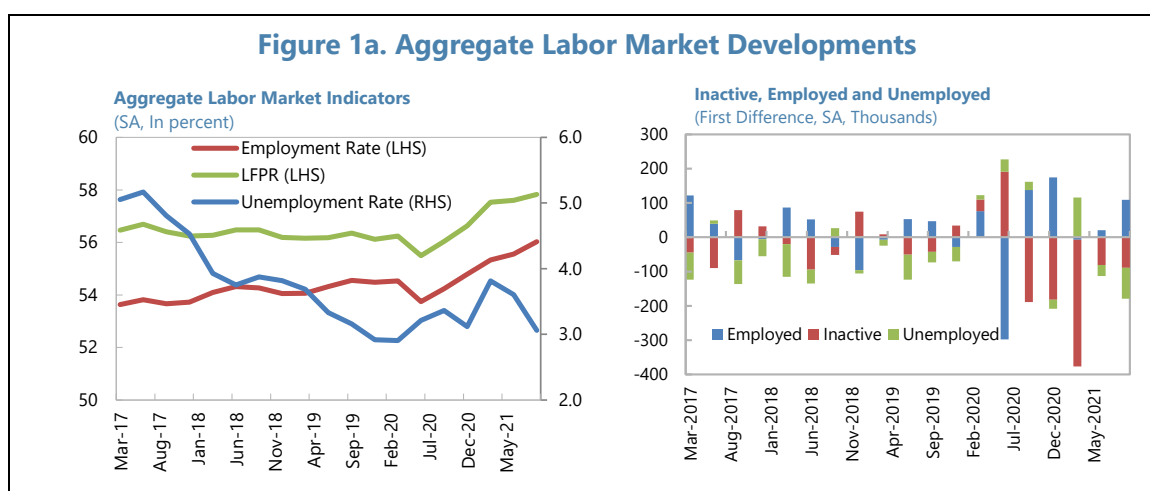
Recommendations	Agency <sup>1</sup>	Time <sup>2</sup>	Progress
			<b>In progress</b> PFSA proposed to add National Prosecutor's Office to the above list to facilitate exchange of information, the project is still discussed.
<b>Macprudential Policies</b>			
Include vulnerability assessments of payment and settlement systems in the FSR and overall systemic risk monitoring	NBP	I	<b>Done</b> After internal analysis, NBP decided not to include assessment of risks in payment system in the Financial Stability Report. It is provided in <i>Polish Payment System Oversight Report</i> presented annually to NBP Board and to Financial Stability Committee (FSC-M), and forming basis for risk assessment by NBP and by FSC-M. The report was first presented to FSC-M in Dec. 2019, and FSC-M noted in <i>Macprudential Policy Strategy in Poland</i> (2019) that resilience of financial infrastructure is one of systemic risk dimensions. Risks related to payment and settlement systems are monitored continuously.
Ensure the timely and substantive vetting of all use of macroprudential instruments by the FSC-M, in order to confirm the FSC-M's overall responsibility in this field	Members of the FSC-M	I	<b>In Progress</b> NBP proposed to formalize in <i>Macprudential Strategy</i> a requirement for FSC-M to discuss changes of macroprudential instruments prior to implementation, which did not gain traction in other institutions. However, in a growing number of cases member institutions consult intended measures in FSC-M prior to implementation. FSC-M intends to review the <i>Macprudential Strategy</i> in 2022, also with a view to enhance its competences in the use of macroprudential instruments.
<b>Crisis Management and Bank Resolution</b>			
Propose legal amendments to provide for (i) more timely petitions for bank bankruptcy; (ii) harmonize the triggers for bankruptcy and use of resolution powers both; (iii) address the need for third-party opinion on solvency; (iv) conduct P&A transactions in lieu of a deposit payout; and (v) BGF independence	MOF with KNF & BGF	NT	<b>Partially Done</b> (i) Timely petitions for bank bankruptcy are a matter of a proper application of the law, and not additional rules. Triggers for pay-out of deposits and resolution have been used without problems with provisions describing the triggers. (ii) Triggers for bankruptcy and use of resolution powers are compatible. PFSA had no problems identifying them. (iii) Legal provisions require audited financial statement to confirm insolvency before PFSA's filing a bankruptcy petition, which may delay the process, but such serious decisions must be based on verified data. (iv) 2018 changes introduced an additional tool to prevent deposits pay-out: takeover of insolvent or illiquid banks by a 'healthy' bank (with consent of acquiring bank) and possible BGF's financial assistance. BGF is working on proposals to introduce administrative insolvency procedures for banks, but such a significant change needs broad consultations. (v) BGF performs public functions and will be classified as public finance

Recommendations	Agency <sup>1</sup>	Time <sup>2</sup>	Progress
			sector entity from Jan. 1, 2022. MoF supervision of BGF involves only legality criteria. MoF may request BGF's Council to dismiss Management Board members in specific cases (e.g., violation of law), but cannot dismiss them independently. From Jan. 1, 2022, BGF Board members' terms will be extended from 3 to 5 years. BGF Council could dismiss Board members, incl. President, before end of term in case of: (1) punishment for criminal or tax offense; (2) resignation; (3) loss of Polish citizenship; (4) loss of legal capacity; (5) not warranting performance of assigned duties. Board members can be dismissed during their terms on inability to perform duties due to long-term illness (above 3 months).
Require recovery plans for affiliating banks, significant credit unions, and banks undergoing rehabilitation	PFSA	I	<b>Partially Done</b> Affiliating banks, as participants of IPSs, can be a part of the group recovery plan. Cooperative banks under rehabilitation are under regime of recovery plans (in case of independent banks) or IPS' group plans (for IPS members). Credit Unions (CUs) are not obliged by the law to prepare resolution plans. CUs recognized by BGF as intended for resolution may be obliged to prepare such plans. SKOK Stefczyka (the largest CU) is preparing a resolution plan, monitored by BGF (draft has been prepared). Other CUs are designed for standard insolvency process and, in case of loss, CUs must prepare and present rehabilitation program for PFSA approval. Major CUs were obliged to prepare such programs and are now revising them to reflect new circumstances (mostly COVID19 pandemic impact). Most of banks under rehabilitation were required to submit recovery plans.
<b>Cooperative Banks and Credit Unions</b>			
Strengthen the supplementary internal control and resolution arrangements to address elevated risk and develop strategies to promote further integration/consolidation	PFSA, MoF, ABs, IPS	I	<b>In Progress</b> Cooperative banking sector is undergoing consolidation, helped by IPSs, with 19 mergers in 2021 and 36 since 2018. IPSs are strengthening internal control and the PFSA reviews its quality. The PFSA promotes integration, including sharing of services and products, and cooperation among cooperative banks is gaining importance. IPSs have made progress in performing internal control among members.
Develop and implement a restructuring strategy to (i) consolidate viable and resolve non-viable credit unions through exit; and (ii) revisit whether a stand-alone credit union sector remains appropriate	PFSA, MoF	I	<b>In Progress/Done</b> Restructuring and consolidation of credit unions' sector is ongoing. CUs initiate mergers within the sector, facing problems with inability to generate funds and lack of interested external stakeholders. (i) Mergers, takeovers by banks and insolvencies reduced number of CUs from 30 in 2018 to 22 in Sep. 2021. (ii) Balance sheet of CUs is steadily declining, and their share in Polish financial sector is very small, but they still provide basic services important for financial inclusion to 1.36 million customers. The priority is to maintain the sector's

Recommendations	Agency <sup>1</sup>	Time <sup>2</sup>	Progress
			activity with restructuring and recovery. A working group in Financial Stability Committee developed, and FSC approved recommendations for actions supporting stability of the CUs sector.
<p><sup>1</sup> Agencies: MoF=Ministry of Finance; NBP=National Bank of Poland; PFSA=Polish Financial Supervision Authority; BGF=Bank Guarantee Fund; FSC-M=Financial Stability Committee-Macroprudential</p> <p><sup>2</sup> Time Frame: C = continuous; I (immediate) = within one year; NT (near term) = 1–3 years; MT (medium term) = 3–5 years</p>			

## Annex III. Labor Market Developments During Pandemic

**1. The pandemic has had a limited and temporary impact on the Polish labor market.** The pandemic and associated containment measures initially caused temporary stress in the labor market, with the unemployment rate (s.a.) peaking at 3.8 percent in 2021:Q1, the employment rate dropping to 53.7 percent in 2020:Q2, and the labor force participation rate (LFPR) dropping to 55.5 percent in 2020:Q2.<sup>1</sup> However, the trend reversed and by 2021Q3 the unemployment rate stood at 3.1 percent; the employment rate (for 15–89 year-olds) reached an all-time high of 56.0 percent, and the LFPR (for 15–89 year-olds) reached 57.8 percent. The number of economically inactive persons dropped to an all-time low of 12.5 million. Among EU countries, Poland has had one of the lowest increases in the unemployment rate and one of the largest employment rate increases during the pandemic.

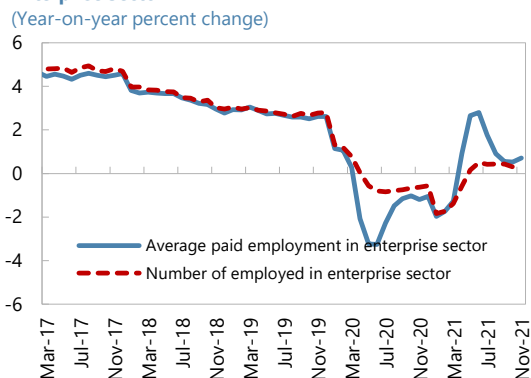


**2. The recovery is advanced, but some measures of slack have not fully returned to pre-pandemic levels.** Employment growth in the enterprise sector turned negative in 2020 but bounced back in 2021. The number of foreign workers, primarily Ukrainians, contributing to social security declined between February and August 2020, but has recovered and has exceeded the pre-pandemic level since September 2020. The number of liquidated jobs increased in the first half of 2020 but quickly recovered to its historical norm. Nonetheless, slack in the form of the number of part-time workers and, especially, unemployed individuals is still above the pre-pandemic level. This may reflect in part the surge in participation. Also, the creation of new jobs, although recovering in the course of 2021, remained below pre-pandemic highs. This may reflect mismatches between the skill requirements of expanding sectors and the skills of individuals who are available to work.

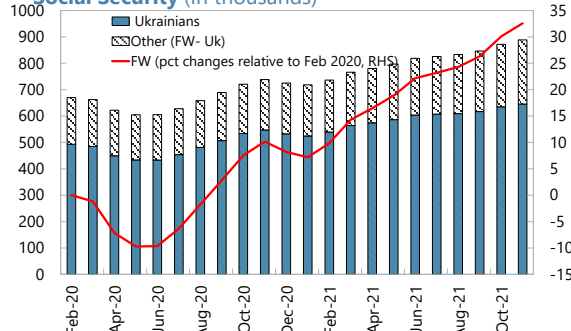
<sup>1</sup> A series break in the Q1:2021 Labor Force Survey makes it difficult to interpret the increase in the unemployment rate in Q1:2021.

**Figure 1b. Aggregate Labor Market Developments**

**Average Employment and the Number of Employees in the Enterprise Sector**  
(Year-on-year percent change)



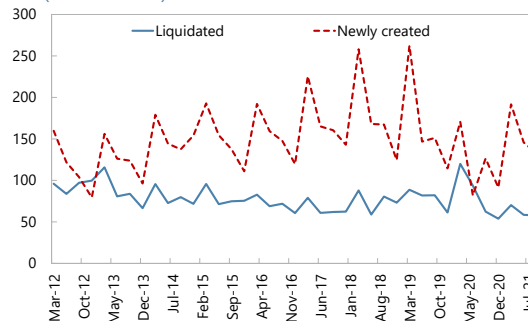
**Number of Foreign Nationals Contributing to Social Security (In thousands)**



**Labor Slack, 20-64 Years (In thousands, NSA, LHS), Hours of work (SA, RHS)**



**Poland: Job Creation and Destruction, 2012-2021 (In thousands)**

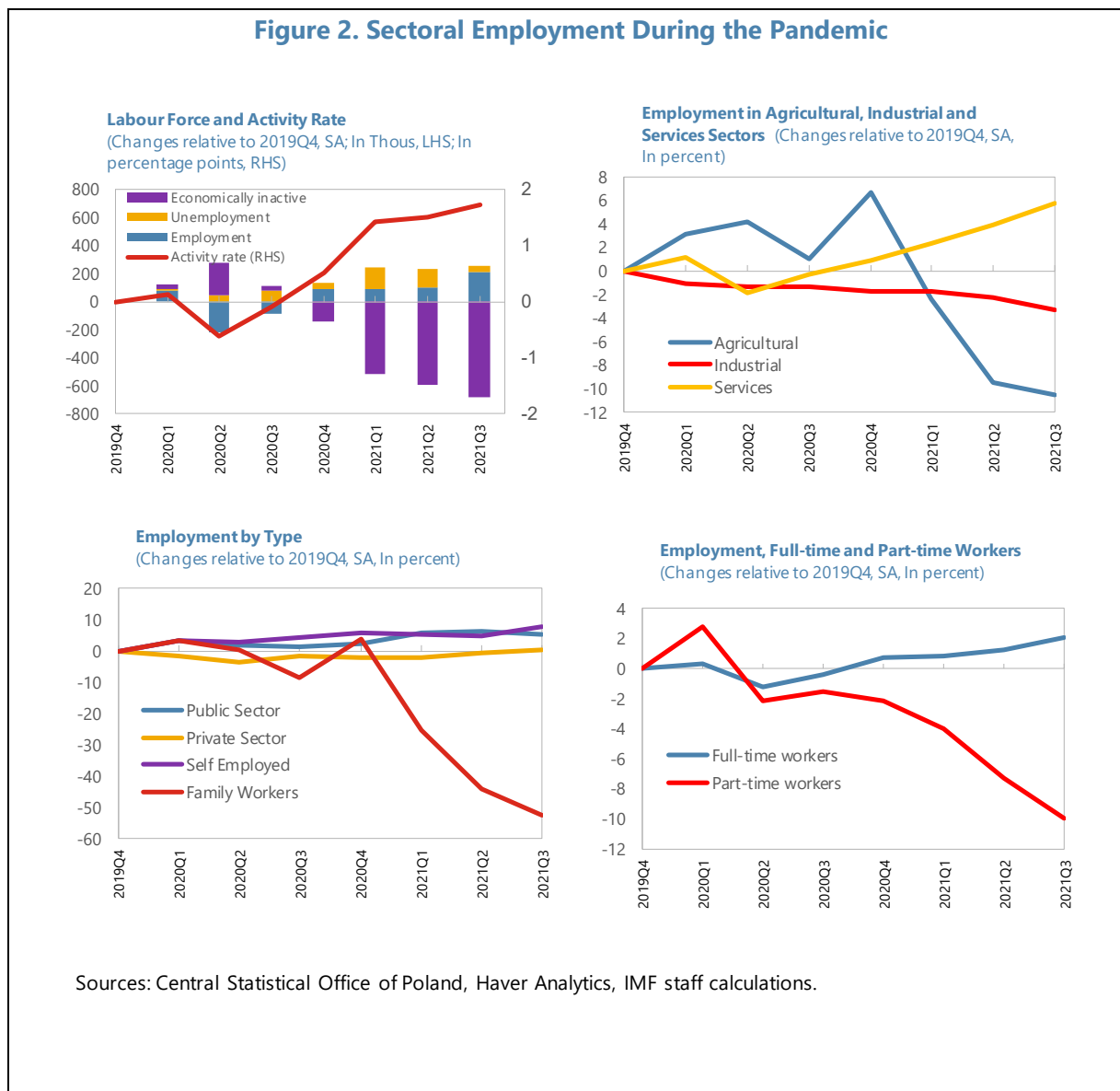


Sources: Central Statistical Office of Poland, ZUS, Haver Analytics, Eurostat, IMF Staff Calculations

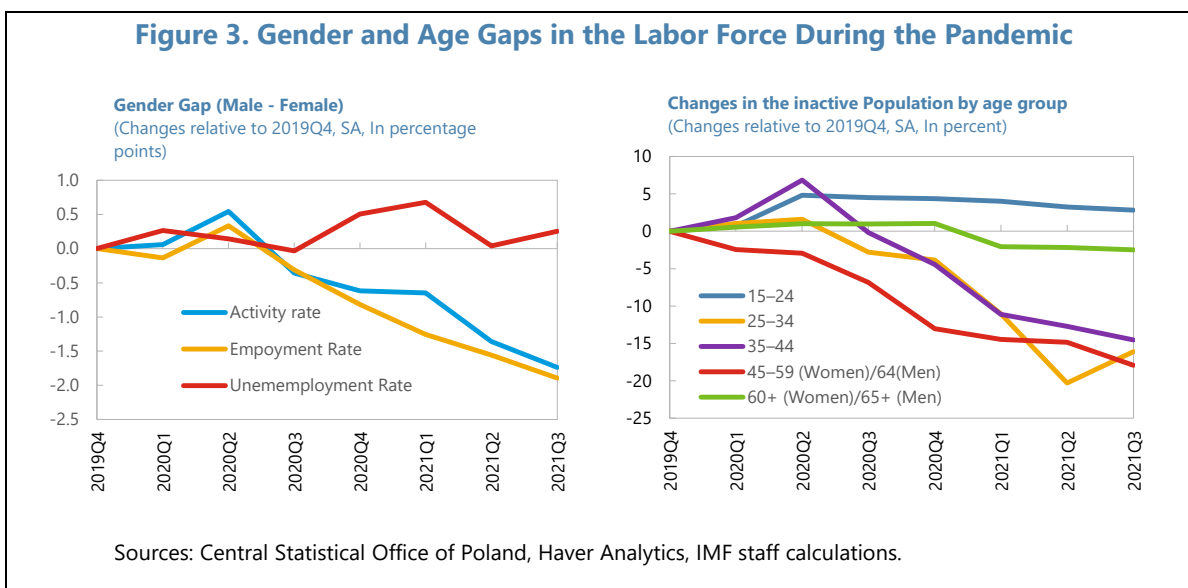
**3. Some differences across sectors and employment types have been visible during the pandemic.** There have been employment losses in the agricultural sector relative to end-2019 and to a lesser extent in the industrial sector, while employment in services has grown. The employment losses for part-time and family workers amount to 10 percent and 52.3 percent, respectively, as of 2021:Q3, while full time employment has increased.

**4. Differences across age groups and gender have also been observed during the pandemic.** Labor stress seems to have been overall less severe (or the recovery more benign) for women than for men in Poland, as shown in Figure 3, where the gender gap is defined as the difference between percent changes in labor market variables for males and females. The dynamic of inactivity rates relative to pre-pandemic levels for different age groups shows that the youngest groups have suffered a persistent but modest impact as the number of inactive persons aged 15–24 stayed elevated (by 3 percent as of 2021:Q3). In contrast, prime-age workers' inactive population,

**Figure 2. Sectoral Employment During the Pandemic**



after initially rising in some cases, have dropped substantially (by 17 percent for 25–59 year-old women/25–64 year-old men), signaling their strong return to the labor market. The pattern of recovery in unemployment is also interesting. Initially the newly unemployed were people who lost jobs, but as the recovery progressed the presence of people not previously employed gain weight among the group of the unemployed, reflecting the rise in participation. Also, low-skilled workers have experienced relatively more persistent unemployment, as shown in Figure 4 (although even for this group a tightening labor market helped reduce unemployment in recent quarters). Therefore, a well-designed skills policy can help reduce long term unemployment. Moreover, reskilling and upskilling, especially for low-skilled workers in contact-intensive sectors, should focus on enhancing digital skills, addressing knowledge deficits, and fostering the acquisition of new skills through lifelong learning. In this context, the authorities’ plans to strengthen access to training, with a special emphasis on digital skills are welcome.

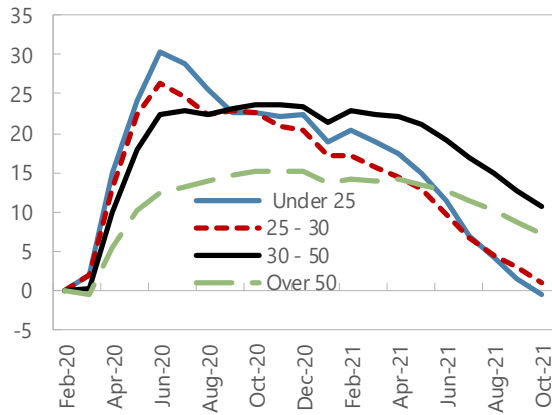


**5. The drive for sectoral labor reallocation can be significant in the wake of the pandemic.** Sectoral employment and value-added data highlight the asymmetric and potentially persistent impact of the COVID-19 shock in contact-intensive sectors, with transition challenges looming large, especially for low-skilled workers who may have a hard time integrating into expanding digital sectors due to skill mismatches. Relative to pre-pandemic, the value-added in the accommodation and catering sector dropped significantly (Figure 5). Employment in most contact-intensive sectors has not yet recovered, with significant losses in the accommodation and catering sectors. However, this sector has a low labor share. High-tech sectors such as information and communication experienced employment growth, thanks to the ability to work remotely and growing e-commerce. The productivity loss in the accommodation and catering sector has been the largest, although this loss has been moderating over time.

**Figure 4. Unemployment During the Pandemic**

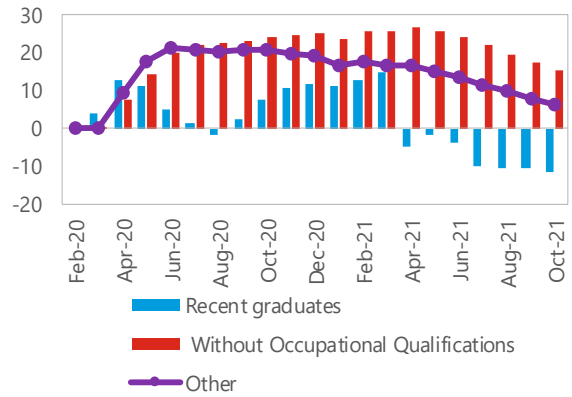
**Unemployed by Age Cohort**

(Percentage changes relative to 2020 Feb., SA)



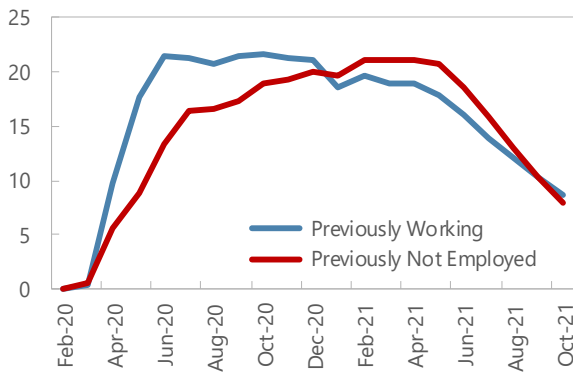
**Unemployed by Skill Level**

(Percentage changes relative to 2020 Feb., SA)



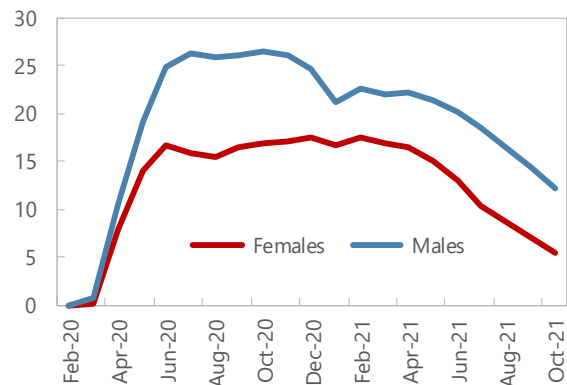
**Unemployed by Previous Employment Status**

(Percentage changes relative to 2020 Feb., SA)



**Registered Unemployed by Gender**

(Percentage changes relative to 2020 Feb., SA)

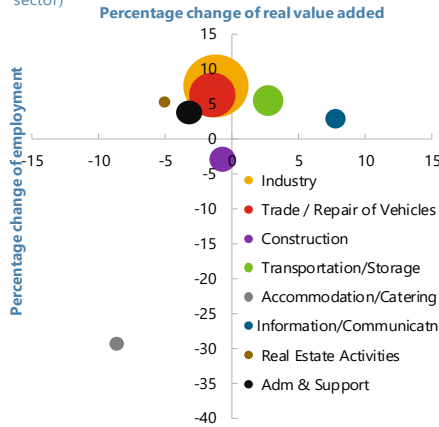


Sources: Central Statistical Office of Poland, Haver Analytics, IMF staff calculations.

**Figure 5. Sectoral Transition, Employment, Value-Added**

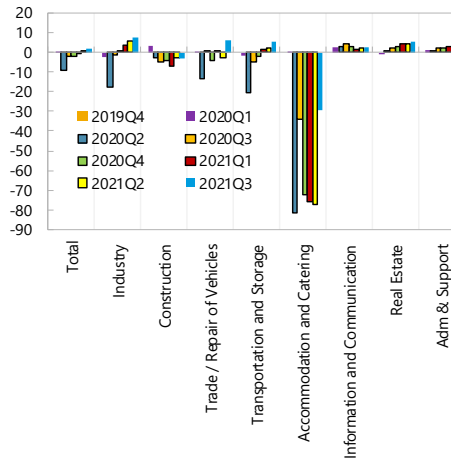
**Real Value Added and Employment**

(2021Q3 percent change relative to 2019Q4, SA, Bubble size refers to the employment share of the sector)



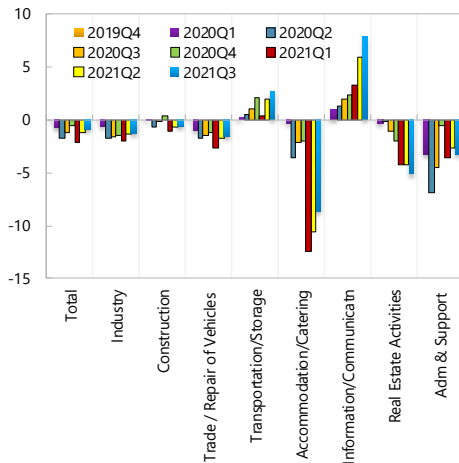
**Real Value Added**

(Percent change relative to 2019Q4, SA)



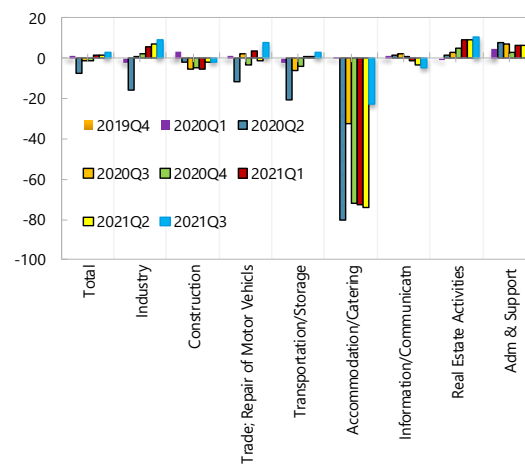
**Employment**

(Percent change relative to 2019Q4, SA)



**Labor Productivity Change**

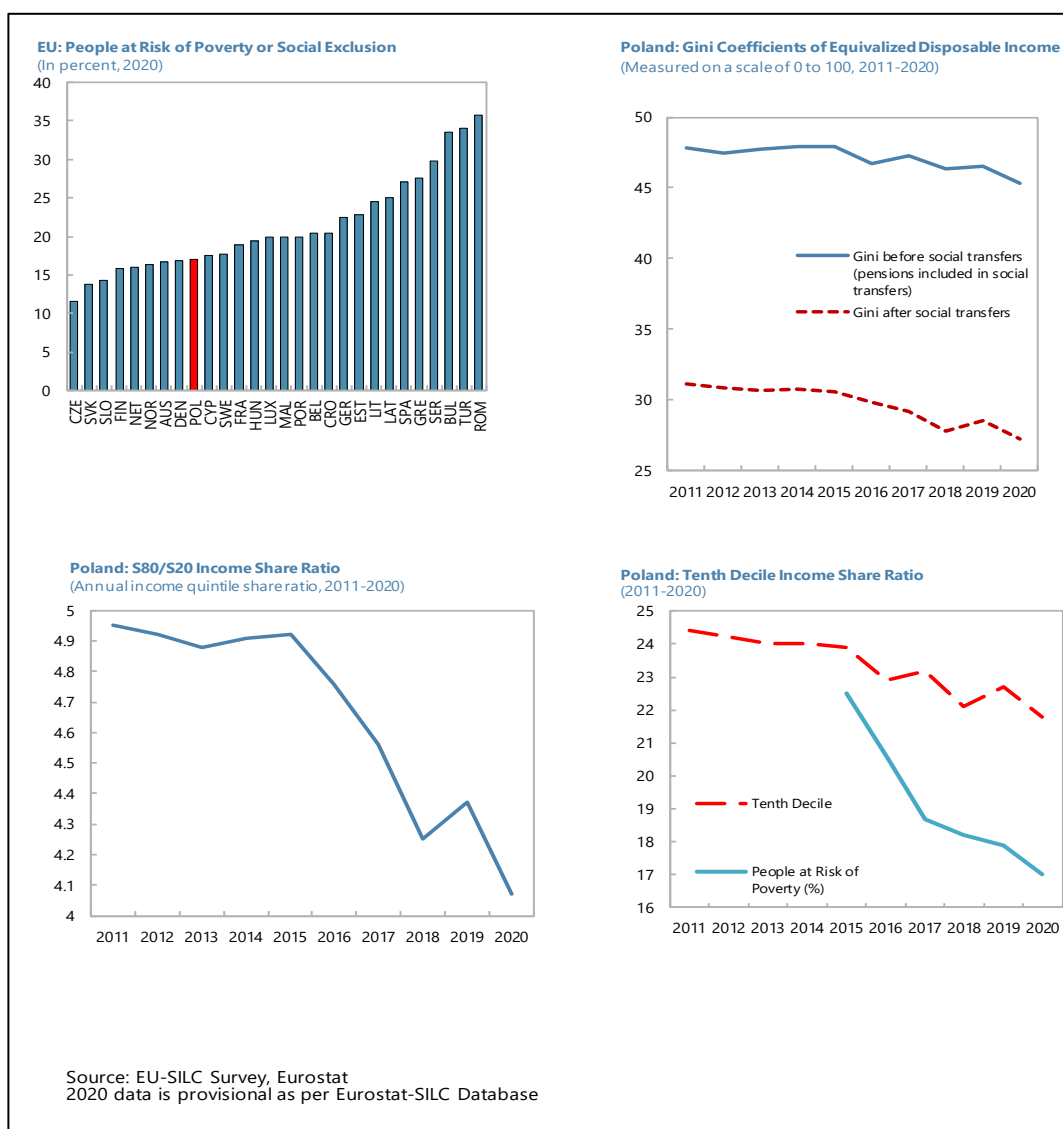
(Million Zolty per thousand employee, Percent change relative to 2019Q4, SA)



Sources: Central Statistical Office of Poland, Haver Analytics, IMF staff calculations  
 Notes: Employment of Adm & Support sector includes administrative and support service activities.  
 Real value added of Adm & Support sector includes Public administration and defense, compulsory, social security, education, health care and social work; professional, scientific and technical, administration and support service activities.

## Annex IV. Inequality and Poverty

**1. Poverty and inequality have declined in Poland in recent years.** The share of the population at risk of poverty declined over the last five years by more than 5 percentage points to around 17 percent, lower than the EU average. Data also point to a reduction in inequality over the last decade including a sustained decline in the Gini coefficient and the ratio of the average income of the 20 percent highest income to the 20 percent lowest income (S80/S20 ratio). Also, the share of the 10 percent of earners with the highest income has fallen over time. Social transfers, including pensions, have played a significant role in income redistribution. Because the relevant survey data for 2020 refer to 2019 incomes, no conclusions can yet be drawn regarding the evolution of poverty and inequality during the pandemic.



## Annex V. Foreign Exchange Mortgages: Legacy Portfolio with Substantial Legal Risks

**1. Foreign currency (FX) housing loans are a legacy issue in Poland.** FX mortgages became more popular in the early 2000s prior to the Global Financial Crisis (GFC). They were mostly issued in Swiss franc (CHF), as large interest differentials and a favorable exchange rate made for lower servicing costs than zloty (PLN) borrowing. Exchange rate (XR) risk was perceived as muted, with PLN appreciation seen as a structural trend driven by income convergence and access to the euro area. While not all banks offered such products, most foreign-owned and medium-sized domestic banks sold FX loans aggressively to gain market share. Supervisors gradually tightened prudential regulations (Box 1), with a recommendation against FX loans to unhedged households effectively ending the practice in 2013. Despite a steady decline in the share of the portfolio in the last decade, FX mortgages still represent a third of banking sector capital and almost half of own funds.

### Box 1. Evolution of Prudential Regulations on FX Mortgages

Banking supervisors initially flagged risks associated with FX mortgages, but with portfolios continuing to grow, prudential regulations were enacted and gradually tightened:

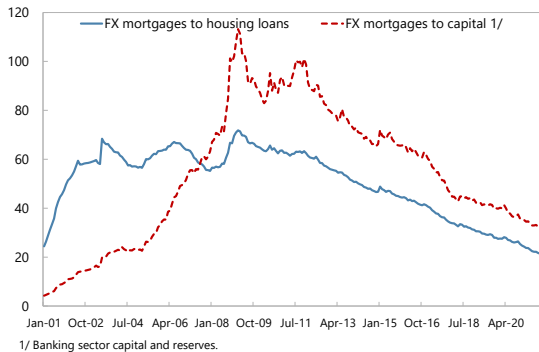
- **Recommendation S in 2006:** Imposed conservative parameters to assess creditworthiness of borrowers: interest rate not lower than PLN-denominated loans, and 20 percent higher principal required to account for XR risk.
- **Amendment of Recommendation S in 2008:** Banks were obligated to clearly present risk and costs of FX mortgages before signing loan agreements.
- **Amendment of Recommendation S in 2011:** Banks should limit XR risk by avoiding currency mismatches between the borrower's income and credit. Maximum debt service-to-income ratio for FX mortgages set at 42 percent (versus 50 percent for PLN-denominated loans).
- **Amendment of Recommendation S in 2013:** Retail mortgages should be granted in the same currency as the borrower's main income. The 2013 revision to Recommendation S effectively banned FX mortgage lending.
- **Other prudential requirements:** Risk weight on FX mortgages was increased gradually to 150 percent in 2017, compared to 35 percent for PLN mortgages, while the Polish FSA requires capital add-ons for banks with substantial exposures to FX mortgages.

**2. FX mortgages are not a major source of credit risk.** Despite the post-GFC appreciation of the CHF against the PLN, FX mortgages continued to perform well, partly because a decline in CHF LIBOR dampened debt service increases, and partly because regulations mostly limited their use to higher-income borrowers. FX mortgage NPL ratios are below the average NPL ratio and similar to that for PLN mortgages from corresponding vintages. The recent uptick in the NPL ratio mainly reflects provisions for legal risks rather than delinquent payments. While credit risk on FX mortgages is not a systemic threat, the most exposed banks may face challenges in meeting the heightened capital requirements.

**Figure 1. Background on FX Mortgages**

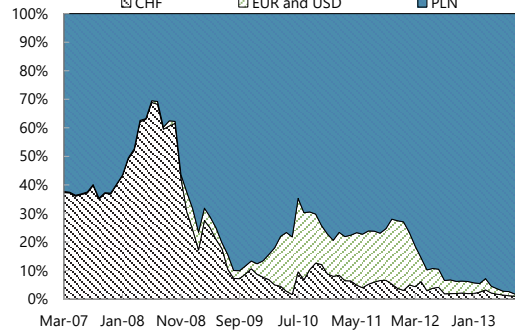
The active FX mortgage portfolio has declined over time....

**Relative Size of FX Mortgages**  
(Current XRs, in percent)



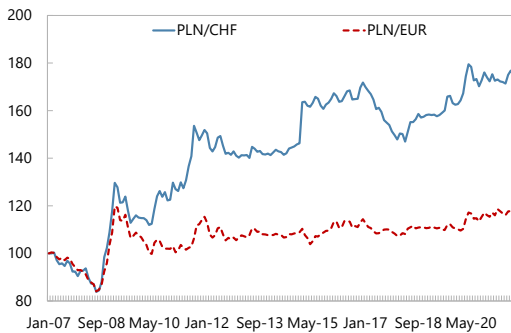
...as regulations banned such loans to unhedged households.

**Currency Structure of New Mortgages**  
(In percent of total)



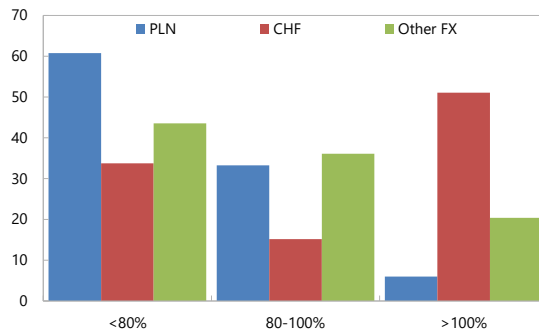
Despite the impact of CHF appreciation on CHF borrowers...

**Exchange Rate Developments**  
(Jan. 2007 = 100)



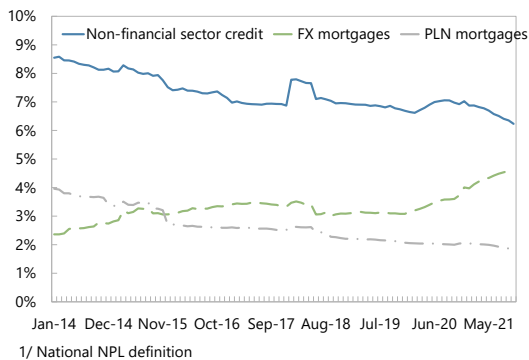
...raising LTV ratios significantly...

**Mortgage LTVs by Currency in 2015**  
(Percent of loans in each category)



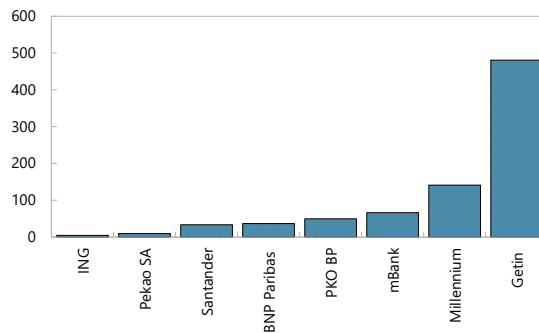
...the credit quality of the FX portfolio remains sound...

**Non-Performing Loans<sup>1</sup>**  
(Share of each category)



...though the relative burden of FX mortgages is uneven across banks.

**CHF Mortgages in Percent of Banks' Own Funds**  
(Percent, of as Q2 2021)



Sources: NBP; KNF; Bankier.pl; reports of banks quoted at WSE; and IMF staff calculations.

**3. Legal risks for FX mortgages have increased sharply.** While PLN depreciation did not erode credit quality, it did inflate the value of principal. Loan-to-value (LTV) ratios for majority of CHF loans exceeded 100 percent by 2015, despite prior amortization. Attempts to enact a mechanism incentivizing conversion to PLN failed to gain legislative approval, leaving dissatisfied borrowers with the option of litigation in court. The number of court cases began to accelerate after the EU Court of Justice (ECJ) verdict of October 2019, which stipulated that contracts containing unfair clauses could be nullified, though judgement was left to domestic courts. After this decision, borrowers have been winning about 90 percent of cases, whereas banks had previously prevailed in  $\frac{3}{4}$  of cases. Courts typically consider XR indexation clauses to be unfair because they refer to banks' internal XRs, with no objective benchmark, and that FX risks may not have been sufficiently disclosed.

**4. Courts have frequently decided to nullify contracts, but verdicts are not homogeneous.** For example, some verdicts mandate conversion to PLN at the original XR but leave the interest rate based on CHF LIBOR. Courts mostly refrain from deciding final settlements between banks and clients, leaving the settlement for separate proceedings. Most verdicts are preliminary, as banks appeal to higher-level courts.

**5. Uncertainty around legal scenarios remains high.** Heightened legal risks have prompted banks to increase provisioning, based on the likelihood of increased lawsuits and possible outcomes. With the heterogeneous lines of judgement and lack of clarity on final settlements, broad outcomes are difficult to predict. The Supreme Court's Civil Chamber was expected to issue guidelines as early as March 2021 to clarify important legal issues for lower courts (Box 2), but this has been delayed without a clear timeline for a decision—although in the meantime some interim guidance from a small panel of Supreme Court judges has become available (see below).

#### Box 2. Issues to be Clarified by Supreme Court

- If XR indexation clauses of FX loans are judged unfair and not binding, can they be replaced with exchange rate clauses based on civil code or customary standards?
- If setting a binding exchange rate for FX-denominated or FX-indexed loans is not possible, could the remaining contractual provisions be binding for both parties?
- If a contract is nullified, but principal was paid by banks (fully or in part) and borrowers made repayments to bank, are claims of borrowers and banks separate, or is there one claim equal to the difference between the two claims?
- If a contract is nullified because of unfair clauses, does limitation of banks' claims to get back principal disbursed to borrowers start at the time of loan disbursement?
- If a contract is nullified, and any of its parties can claim amounts paid to the other party, could it also claim remuneration on using these amounts by the other party?

**6. The NBP has rightly identified FX mortgage litigation as the main risk to financial system stability.** To defuse this risk, the Chairman of the Polish Financial Supervisory Authority (KNF) has proposed that banks offer voluntary conversion of FX mortgages at original exchange

rates, applying the same terms from PLN loans at the time. The KNF estimates that voluntary conversion would cost PLN 35 billion—about a third of outstanding FX loans or 19 percent of own funds of affected banks—but the cost adverse legal scenarios would be much higher (Table 1), posing a risk to financial sector stability. However, the probability of the costliest scenario, in which banks would be unable to get back principal due to limitation of their claims, appears to have diminished after the narrow (seven-person) Civil Chamber of Supreme Court verdict that limitations of claims cannot start at the date of credit disbursement.

**Table 1. Possible Cost of Selected Legal Scenarios**

Legal scenario	Description	Estimated Cost	
		PLN billion	Percent of own funds
NBP exchange rate	Keeping contracts but replacing banks' internal XRs with NBP official XRs	8.8	5
PLN plus LIBOR	Keeping contracts but converted to PLN at original XRs with LIBOR interest	78.5	43
Voluntary conversion	Voluntary conversion as proposed by KNF, FX mortgages converted at original XRs with terms at par with PLN loans from the same vintages	34.5	19
Nullifying with repayment of principal and cost of capital plus markup	Nullifying agreements, banks get back principal and receive remuneration for cost of capital (WIBOR plus markup)	56.4	31
Nullifying with repayment of principal and cost of capital	Nullifying agreements, banks get back principal and remuneration for cost of capital (WIBOR)	70.5	39
Nullifying with principal	Nullifying agreements, banks get back principal, no remuneration for cost of capital	101.5	56
Nullifying without principal and remuneration	Nullifying agreements without returning principal (due to limitation of banks' claims), no remuneration for cost of capital	234	130

Note: The first three scenarios apply to all outstanding credits; others also cover repaid loans.

Source: KNF Opinion for Supreme Court, June 2021.

**7. Progress with FX mortgage restructuring has so far been uneven.** The KNF restructuring proposal was well received by banks, and the NBP signaled a willingness to support conversion—which would require banks to purchase foreign currency to close open FX positions—provided that broad participation is reached, covering most banks and FX loans. To date, only three banks (state-controlled PKO BP and BOS Bank, and private ING Bank Śląski) have formally launched such programs. PKO BP shareholders agreed to create a reserve for this purpose, covering about a third of outstanding FX loans. PKO BP noted an initial positive response, with several thousand customers, out of about 100,000 active FX loans, expressing interest in conversion during the first week. So far, about 10,000 restructuring settlements have been submitted to KNF's arbitration court. While other banks are expected to follow suit, the KNF proposal may be too costly for the most exposed banks, some of which are offering their own proposals. For example, Millennium Bank has concluded more than 4,000 restructuring agreements on its own terms, about one-tenth of its FX mortgage portfolio.

**8. Current legal uncertainties may actually incentivize voluntary restructurings.** Despite recent borrower-friendly court judgements, final outcomes remain far from clear. With both banks and borrowers facing uncertainty, voluntary restructuring agreements can reduce the risk of an inferior outcome for both sides. Financial sector authorities support voluntary settlements, as evidenced by the Financial Stability Committee's (KSF-M) recommendation to temporarily reduce FX mortgage risk weights for banks actively engaged in restructuring in line with KNF guidelines. The recommendation awaits an implementing regulation from the Ministry of Finance.

## Annex VI. Public Sector Debt Sustainability Analysis

*General government debt is projected to decline from 57 percent of GDP in 2020 to 56 percent of GDP in 2021, based on rapid real and nominal GDP growth and a decline in the fiscal deficit. Over the medium term, debt is projected to stabilize around 50 percent of GDP. Debt is assessed to be sustainable, with debt sustainability bolstered by a favorable outlook for economic growth. However, debt would increase steadily over the medium term under various shock scenarios, underscoring the prudence of some additional reduction in the fiscal deficit over the medium term to place debt on a downward path.*

### Baseline and Realism of Projections

- 1. Debt levels.** General government debt is estimated to have declined modestly to 56 percent of GDP in 2021, driven by a rebound in real and nominal GDP growth and reduction in the fiscal deficit to an estimated 2.9 percent of GDP. A continued increase in government deposits estimated at 1.5 percent of GDP in 2021 prevented a further decline in debt. Following an anticipated decline in the fiscal deficit by 2023 under current policies to around 2½ percent of GDP, debt would stabilize over the medium term around 50 percent of GDP. A decline in baseline nominal GDP growth (as both real GDP growth and inflation slow) and an increasing effective interest rate serve to stabilize debt after 2023, despite a relatively constant primary deficit.
- 2. GDP growth.** Following a contraction of 2.5 percent in 2020, real GDP growth is estimated at 5.4 percent in 2021 and projected at 4.6 percent in 2022 and to average 3¼ percent over 2023–26. An anticipated (yet threatened by delays) boost in investment spending financed by Next Generation EU grants is projected to increase GDP growth in 2022–23, but the boost would fade over 2024–26 due to base effects and the phasing out of additional spending. Since 2012, staff's GDP growth projections have been pessimistic on average, with a fairly large forecast bias relative to other countries.
- 3. Fiscal path.** The fiscal deficit is estimated to have declined from 7.1 percent of GDP in 2020 to 2.9 percent of GDP in 2021, as revenues recovered, and crisis-related expenditures were phased out. After a temporary increase to 3.1 percent of GDP in 2022 tied to anti-inflation tax reductions, the deficit would stabilize at about 2½ percent of GDP over the medium term. Staff fiscal projections have shown little bias on average in recent years. While the projected adjustment in the primary balance is relatively large in historical and international context, most of the adjustment already occurred in 2021 by letting most pandemic-related emergency measures lapse.
- 4. Sovereign yields.** The effective interest rate on government debt has been on a declining path since the global financial crisis, reflecting Poland's strong fundamentals and favorable global interest rates. The effective interest rate declined from 3.0 percent in 2019 to 2.9 percent in 2020 and is estimated to have fallen to 2.2 percent in 2021 as the much lower interest rates observed since early 2020 have increased their weight through new issuance to finance significant deficits and maturing debt. However, Polish Treasury yields increased significantly in the last quarter of 2021 as market expectations for policy interest rates increased quickly, with the ten-year yield

increasing in the last quarter by around 100 bps to above 3.0 percent. Should these rates hold, the effective interest rate is projected to increase gradually to 3 percent over the medium term, still lower than the average of 3.3 percent over 2014–2019. The lower effective interest rate is projected to reduce the share of tax revenues devoted to interest payments from an average of 7.2 percent over 2015–2020 to 6.0 percent over 2021–2026. In total, yields on ten-year domestic Treasury securities increased more than 200 basis points in 2021 to nearly 3.4 percent. CDS spreads were broadly stable in 2021 around 50 basis points.

**5. Maturity and rollover risks.** Maturity risks are well managed. The average maturity of outstanding debt is estimated at 4.8 years, and the share of short-term government debt is under 1 percent of the total. There have been significant shifts in the composition of domestic Treasury investors since 2020, as foreign investors reduced their share from 23 percent at end-2019 to 16 percent by October 2021. The central bank is a major new presence in the market, having acquired a 10 percent share of outstanding Treasury securities since March 2020. Despite selling bonds to the central bank, domestic banks' holdings of outstanding Treasury securities have been stable at about 46 percent of total. The overall share of external debt in general government debt declined from 57 percent in 2015 to 35 percent in 2020. In addition, the share of foreign currency debt in state debt was 24 percent in 2020. In line with the authorities' debt management strategy, the baseline assumes that the share of foreign currency debt in total debt will remain at less than 25 percent and external debt in total debt no more than 40 percent over the medium term.

**6. Debt sustainability analysis (DSA) risk assessment.** The heat map highlights risks associated with large gross public financing needs, the relatively large economy-wide external financing requirements (about 17 percent of GDP in 2020), and the share of public debt held by non-residents. Gross public financing needs estimated at 8 percent of GDP were large in 2021, but financing needs were comfortably met. Gross external financing needs are boosted by a high level of intra-company FDI loans, which tends to be more stable than other sources of external debt. While the share of public debt held by non-residents is high, this risk is mitigated by the important role of institutional investors, which tend to be more long-term investors. The willingness of domestic banks and the NBP to step into the Treasury market during the turmoil at the onset of the pandemic in 2020 also facilitated the smooth exit of foreign investors amid global capital flow reversals.

**7. Fan charts.** The symmetric fan charts, which assume symmetric upside and downside risks, indicate that the debt-to-GDP ratio could drop to around 47 percent by 2026 with a 25 percent probability. On the other hand, the upper bands indicate that the debt ratio could increase to 55 percent by 2026 with a 25 percent probability. In a more stringent exercise, assuming only downside shocks to interest rates and GDP growth, there is a 25 percent chance that debt-to-GDP could increase to 57 percent of GDP in the medium term.

## Shocks and Stress Tests

**8. Primary balance shock.** Under an assumed deterioration in the primary balance by 1 percentage point (p.p.) in 2022 and 2023, public debt would increase to 52 percent of GDP in 2023

and stabilize there until 2026, about 2 p.p. higher than in the baseline. Gross financing needs would be proportionally larger in 2022 and 2023.

**9. Growth shock.** This scenario assumes a decline in GDP growth by about 2.5 p.p. in both 2022 and 2023 relative to the baseline, along with a 0.5 p.p. decline in inflation and a deterioration in the primary balance by 1.3 and 2.6 p.p. in 2022–23. Under these assumptions, public debt would increase to 56 percent of GDP in 2026, about 7 p.p. higher than in the baseline, while gross financing needs would increase in 2022–23, with marginal increases over the medium term.

**10. Interest rate shock.** A permanent 500 bps increase in the nominal interest rate beginning in 2022 leads to an increase in the effective interest rate and worsens debt dynamics, with public debt increasing to 53 percent of GDP in 2026, 3 p.p. higher than in the baseline. Gross financing needs increase to 6 percent of GDP in 2026 versus 5 percent in the baseline.

**11. Exchange rate shock.** This scenario assumes a 22 percent nominal exchange rate depreciation in 2022, calibrated to emulate the maximum historical movement of the exchange rate over the last 10 years. The impact on the stock of the public debt over the medium term and gross financing needs, however, would be marginal. This resilience reflects the predominance local currency-denominated debt in the stock of government debt (76 percent in 2020).

**12. Combined shock.** Under the combined macro-fiscal shock—which combines lower GDP growth, a larger primary deficit, higher interest rates, and an exchange rate shock—the public debt/GDP ratio increases to 58 percent of GDP in 2022 and increases to 62 percent of GDP in 2026. Gross financing needs also remain above the baseline during the projection period.

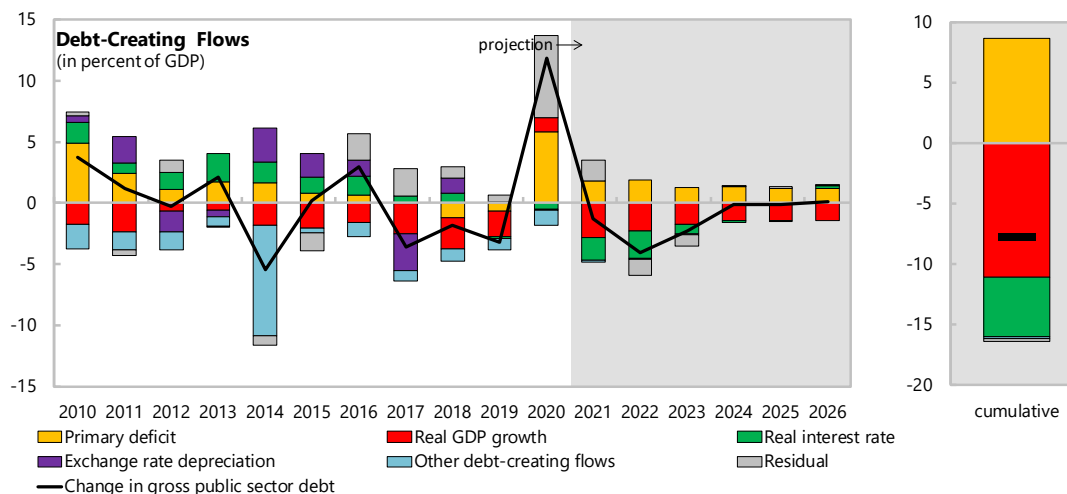
**Figure 1. Poland: Public Sector Debt Sustainability Analysis—Baseline Scenario**  
(in percent of GDP, unless otherwise noted)

**Debt, Economic and Market Indicators**<sup>1/</sup>

	Actual		Projections					As of December 17, 2021		
	2020 <sup>2/</sup>	2021	2022	2023	2024	2025	2026			
Nominal gross public debt	57.4	56.2	52.1	49.8	49.7	49.6	49.7	Sovereign Spreads		
Public gross financing needs	8.9	7.9	6.4	5.7	6.0	5.5	4.8	EMBIG (bp) <sup>3/</sup> 356		
Real GDP growth (in percent)	-2.5	5.4	4.6	3.7	3.0	3.0	3.0	5Y CDS (bp) 46		
Inflation (GDP deflator, in percent)	4.1	5.6	6.6	4.1	3.0	2.8	2.5	Ratings Foreign Local		
Nominal GDP growth (in percent)	1.5	11.3	11.4	7.9	6.1	6.0	5.6	Moody's A2 A2		
Effective interest rate (in percent) <sup>4/</sup>	2.9	2.2	2.5	2.7	2.8	2.9	3.0	S&Ps A- A		
								Fitch A- A-		

**Contribution to Changes in Public Debt**

	Actual		Projections					cumulative	debt-stabilizing primary balance <sup>9/</sup>
	2020	2021	2022	2023	2024	2025	2026		
Change in gross public sector debt	11.8	-1.3	-4.1	-2.3	-0.2	-0.1	0.1	-7.8	
Identified debt-creating flows	5.1	-3.0	-2.7	-1.4	-0.2	-0.2	0.0	-7.6	
Primary deficit	5.8	1.8	1.9	1.2	1.3	1.2	1.2	8.6	-1.2
Primary (noninterest) revenue and grants	41.5	41.7	39.7	41.1	40.9	40.8	40.6	244.8	
Primary (noninterest) expenditure	47.4	43.5	41.5	42.3	42.3	42.0	41.8	253.4	
Automatic debt dynamics <sup>5/</sup>	0.5	-4.7	-4.5	-2.5	-1.6	-1.4	-1.2	-16.0	
Interest rate/growth differential <sup>6/</sup>	0.7	-4.7	-4.5	-2.5	-1.6	-1.4	-1.2	-16.0	
Of which: real interest rate	-0.5	-1.9	-2.2	-0.8	-0.1	0.0	0.2	-4.9	
Of which: real GDP growth	1.1	-2.8	-2.3	-1.8	-1.4	-1.4	-1.4	-11.1	
Exchange rate depreciation <sup>7/</sup>	-0.1	...	...	...	...	...	...	...	
Other identified debt-creating flows	-1.2	-0.1	-0.1	-0.1	0.0	0.0	0.0	-0.2	
Privatization (+ reduces financing needs)	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.4	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Incurrence in liabilities not included in debt	-1.3	-0.2	-0.1	-0.1	-0.1	-0.1	0.0	-0.6	
Residual, including asset changes <sup>8/</sup>	6.7	1.7	-1.4	-0.9	0.1	0.1	0.1	-0.2	



Sources: Bloomberg Financial L.P. and IMF staff.

1/ Public sector is defined as general government.

2/ Based on available data.

3/ Long-term bond spread over German bonds.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as  $[(r - \pi(1+g) - g + ae(1+r))/(1+g+\pi+gr)]$  times previous period debt ratio, with  $r$  = interest rate;  $\pi$  = growth rate of GDP deflator;  $g$  = real GDP growth rate;  $a$  = share of foreign-currency denominated debt; and  $e$  = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

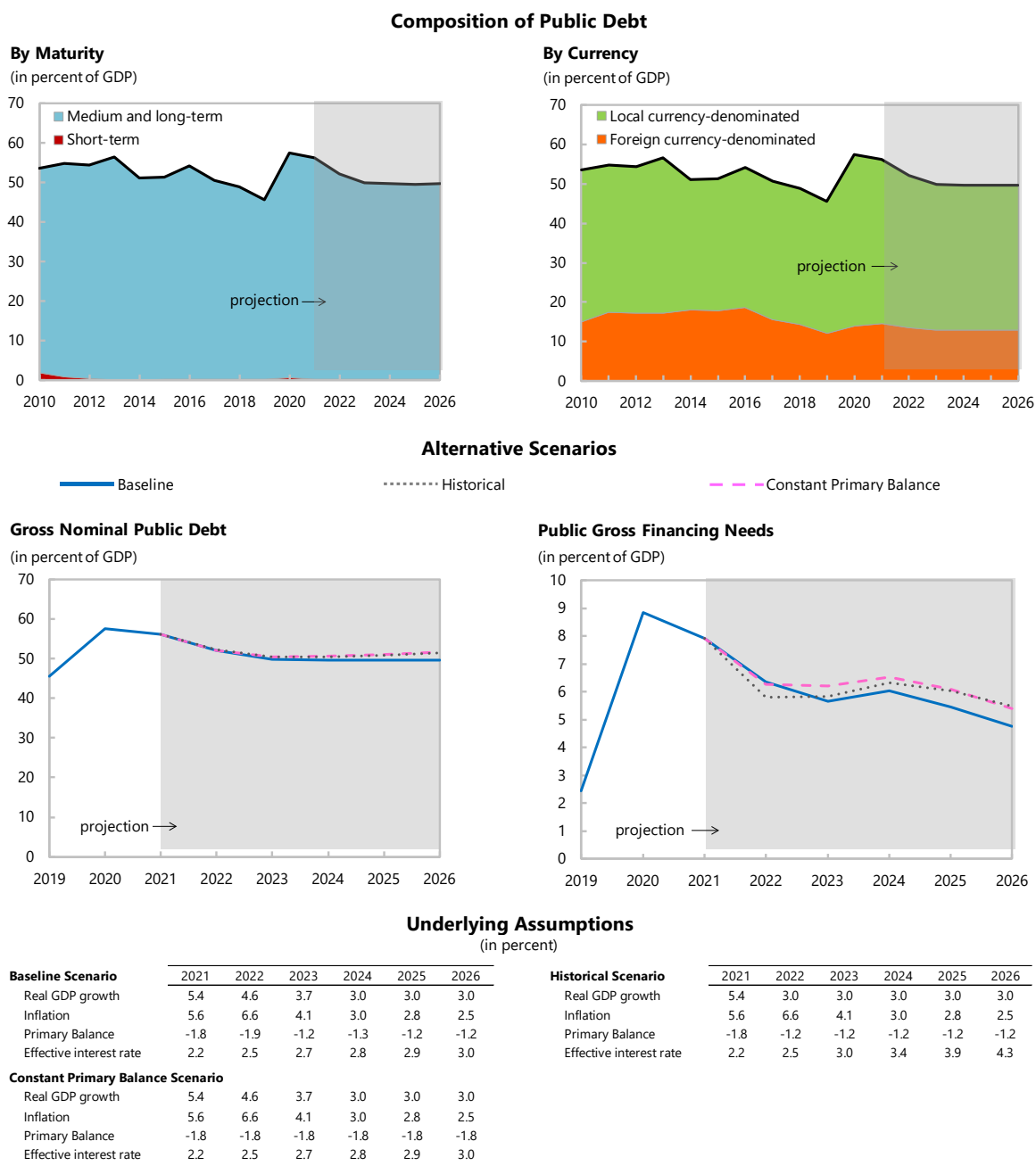
6/ The real interest rate contribution is derived from the numerator in footnote 5 as  $r - \pi(1+g)$  and the real growth contribution as  $-g$ .

7/ The exchange rate contribution is derived from the numerator in footnote 5 as  $ae(1+r)$ .

8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

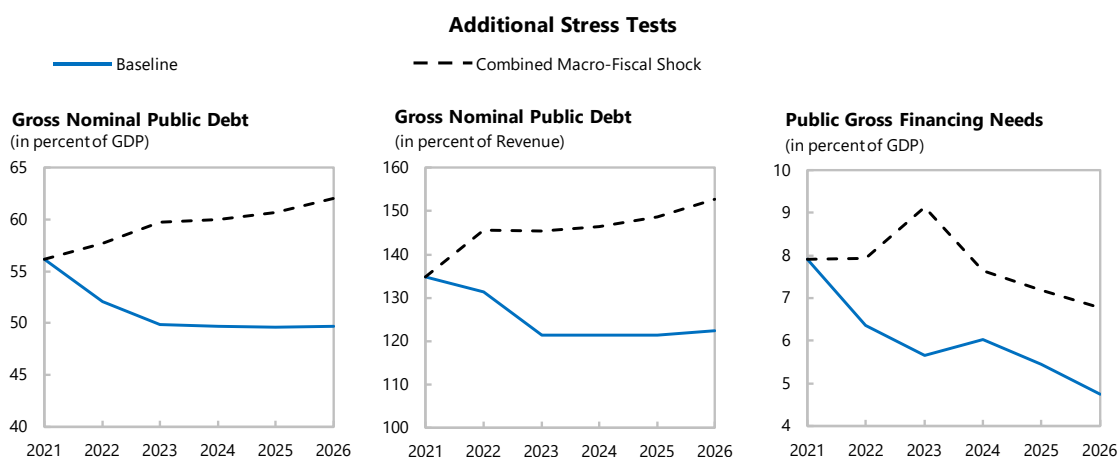
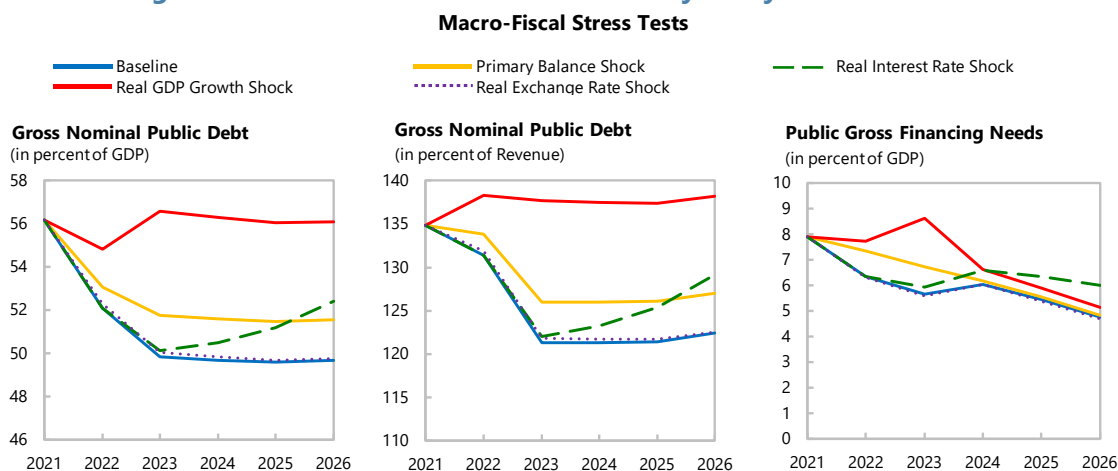
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

**Figure 2. Poland: Public Debt Sustainability Analysis —Composition of Public Debt and Alternative Scenarios**



Source: IMF staff.

**Figure 3. Poland: Public Debt Sustainability Analysis —Stress Tests**



**Underlying Assumptions**  
(in percent)

	2021	2022	2023	2024	2025	2026		2021	2022	2023	2024	2025	2026
<b>Primary Balance Shock</b>							<b>Real GDP Growth Shock</b>						
Real GDP growth	5.4	4.6	3.7	3.0	3.0	3.0	Real GDP growth	5.4	2.1	1.2	3.0	3.0	3.0
Inflation	5.6	6.6	4.1	3.0	2.8	2.5	Inflation	5.6	5.9	3.5	3.0	2.8	2.5
Primary balance	-1.8	-2.8	-2.2	-1.3	-1.2	-1.2	Primary balance	-1.8	-3.1	-3.8	-1.3	-1.2	-1.2
Effective interest rate	2.2	2.5	2.7	2.9	3.0	3.1	Effective interest rate	2.2	2.5	2.7	3.0	3.1	3.1
<b>Real Interest Rate Shock</b>							<b>Real Exchange Rate Shock</b>						
Real GDP growth	5.4	4.6	3.7	3.0	3.0	3.0	Real GDP growth	5.4	4.6	3.7	3.0	3.0	3.0
Inflation	5.6	6.6	4.1	3.0	2.8	2.5	Inflation	5.6	12.0	4.1	3.0	2.8	2.5
Primary balance	-1.8	-1.9	-1.2	-1.3	-1.2	-1.2	Primary balance	-1.8	-1.9	-1.2	-1.3	-1.2	-1.2
Effective interest rate	2.2	2.5	3.3	3.9	4.7	5.4	Effective interest rate	2.2	2.6	2.6	2.8	2.9	3.0
<b>Combined Shock</b>													
Real GDP growth	5.4	2.1	1.2	3.0	3.0	3.0							
Inflation	5.6	5.9	3.5	3.0	2.8	2.5							
Primary balance	-1.8	-3.1	-3.8	-1.3	-1.2	-1.2							
Effective interest rate	2.2	2.6	3.3	4.2	4.9	5.6							

Source: IMF staff.

**Figure 4. Poland: Public Debt Sustainability Analysis Risk Assessment**

**Heat Map**

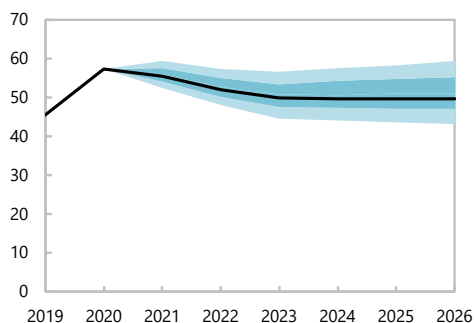
Debt level <sup>1/</sup>	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Gross financing needs <sup>2/</sup>	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile <sup>3/</sup>	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

**Evolution of Predictive Densities of Gross Nominal Public Debt**

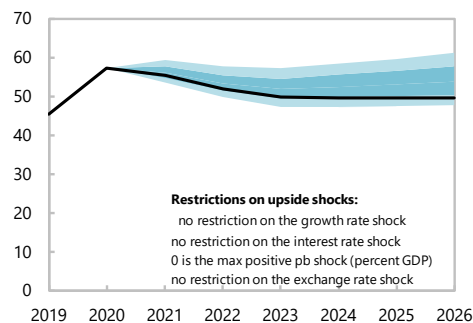
(in percent of GDP)

— Baseline      Percentiles:    ■ 10th-25th    ■ 25th-75th    ■ 75th-90th

**Symmetric Distribution**

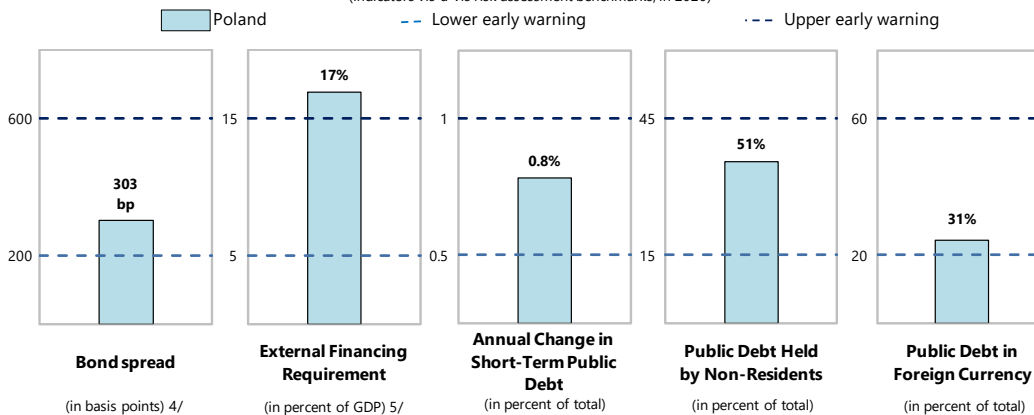


**Restricted (Asymmetric) Distribution**



**Debt Profile Vulnerabilities**

(Indicators vis-à-vis risk assessment benchmarks, in 2020)



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.

Lower and upper risk-assessment benchmarks are:

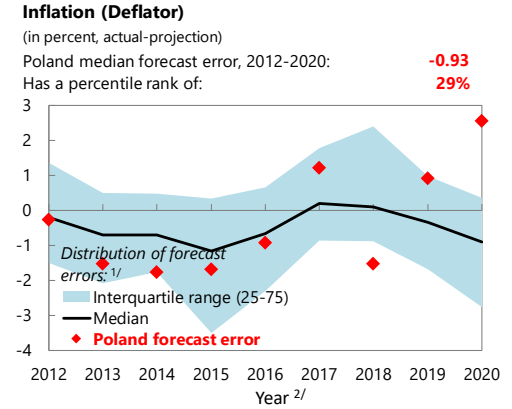
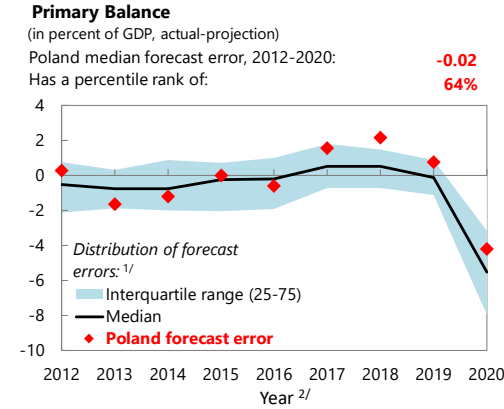
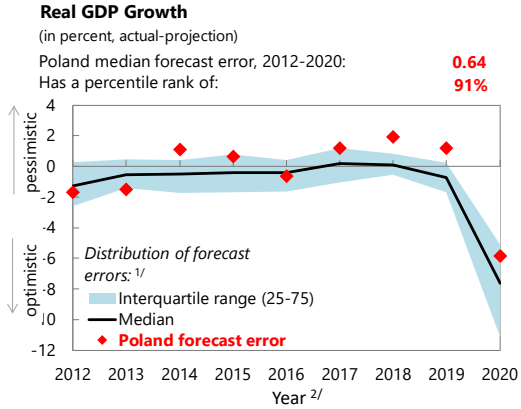
200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ Long-term bond spread over German bonds, an average over the last 3 months, 18-Sep-21 through 17-Dec-21.

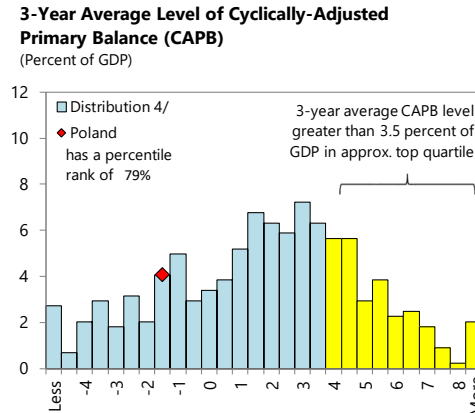
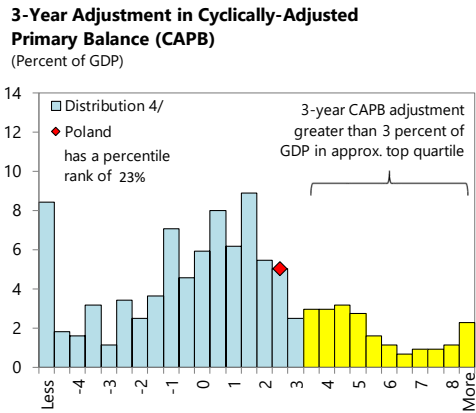
5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

Figure 5. Poland: Public Debt Sustainability Analysis—Realism of Baseline Assumptions

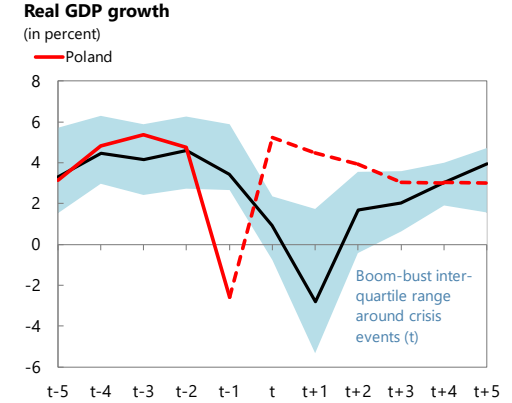
Forecast Track Record, versus all countries



Assessing the Realism of Projected Fiscal Adjustment



Boom-Bust Analysis<sup>3/</sup>



Source : IMF Staff.

1/ Plotted distribution includes all countries, percentile rank refers to all countries.

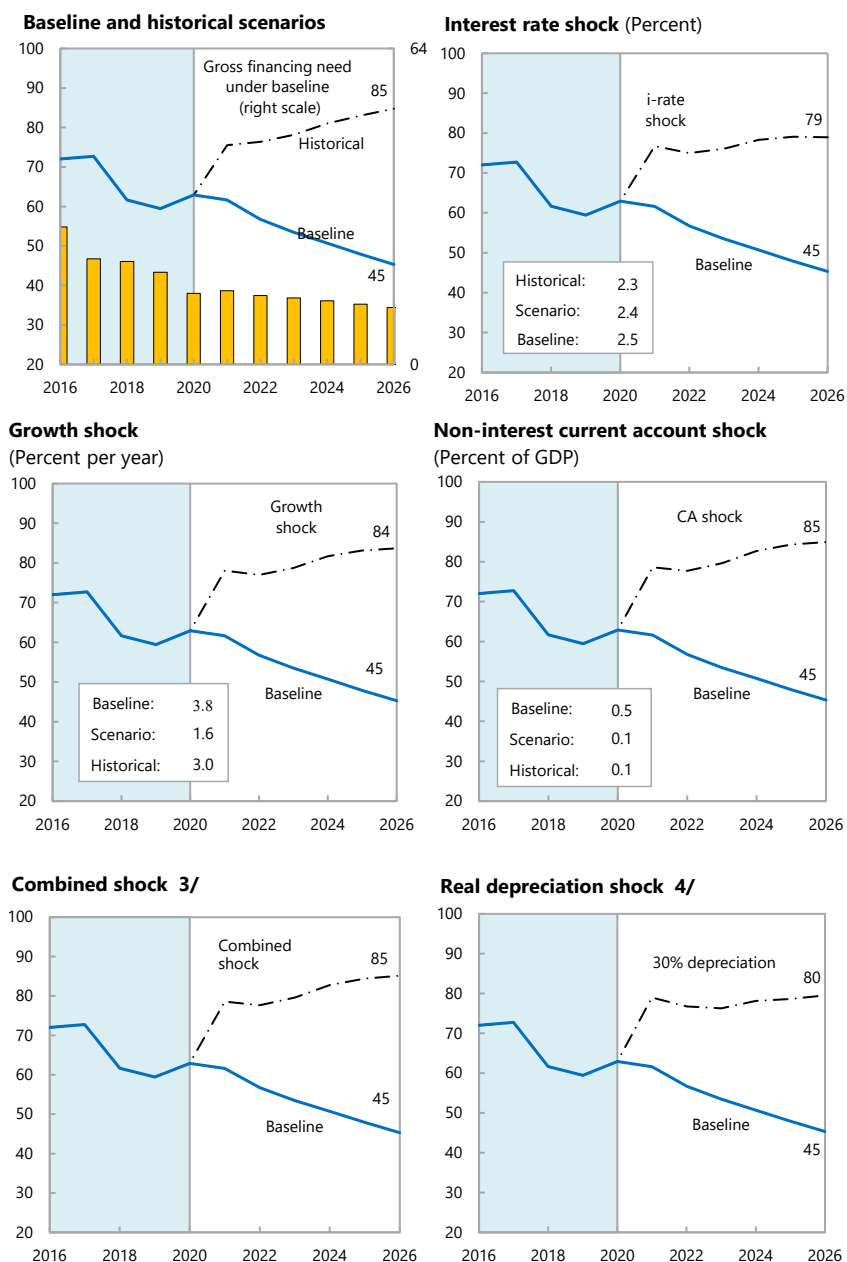
2/ Projections made in the spring WEO vintage of the preceding year.

3/ Poland has had a cumulative increase in private sector credit of 55 percent of GDP, 2017-2020. For Poland, t corresponds to 2021; for the distribution, t corresponds to the first year of the crisis.

4/ Data cover annual observations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.



**Figure 1. Poland: External Debt Sustainability: Bound Tests<sup>1,2</sup>**  
(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.

3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

4/ One-time real depreciation of 30 percent occurs in 2021.

Annex VIII. Risk Assessment Matrix<sup>1</sup>

Source of Risk	Relative Likelihood	Impact if Realized	Policy Response
<b>Conjunctural and Structural Risks</b>			
<p><b>Uncontrolled COVID-19 local outbreaks and subpar/volatile growth in affected countries.</b> Outbreaks in slow-to-vaccinate countries force new lockdowns. For many Emerging Markets and Low-Income Countries, policy response to cushion the economic impact is constrained by lack of policy space, with some market access countries facing additional financial tightening as a reassessment of growth prospects triggers capital outflows, depreciations, and debt defaults.</p> <p><b>Global resurgence of the COVID-19 pandemic.</b> Local outbreaks lead to a global resurgence of the pandemic (possibly due to vaccine-resistant variants), which requires costly containment efforts and prompts persistent behavioral changes rendering many activities unviable.</p>	<b>High</b>	<b>Medium</b> External demand remains volatile, with continued disruptions to global supply chains, dampening the recovery in industry and exports.	<ul style="list-style-type: none"> <li>• Maintain and intensify public health measures and redouble efforts to increase vaccination rates.</li> <li>• Support affected workers but begin to incentivize reallocation of resources if it appears that the pandemic will be disruptive for a longer period or prompt more permanent changes in behavior.</li> <li>• Extend NBP asset purchase program in the case of financial market dysfunction.</li> <li>• Provide liquidity support to banks and use regulatory actions to facilitate the absorption of changes in asset quality and encourage private debt resolution.</li> </ul>
	<b>Medium</b>	<b>High</b> Demand in contact-intensive industries remains depressed, setting back the recovery and potentially leading to more bankruptcies if sectoral viability comes into question.	

<sup>1</sup> The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term" and "medium term" are meant to indicate that the risk could materialize within one year and three years, respectively.

Source of Risk	Relative Likelihood	Impact if Realized	Policy Response
<b>Conjunctural and Structural Risks</b>			
<p><b>De-anchoring of inflation expectations in the U.S. leads to rising core yields and risk premia.</b> A fast recovery in demand (supported by excess private savings and stimulus policies), combined with COVID-19-related supply constraints, leads to sustained above-target inflation readings and a de-anchoring of expectations. The Fed reacts by signaling a need to tighten earlier than expected. The resulting repositioning by market participants leads to a front-loaded tightening of financial conditions and higher risk premia, including for credit, equities, and emerging and frontier market currencies.</p>	Medium	<p><b>Medium</b></p> <p>An unanticipated increase in core yields may prompt an increase in long-term domestic interest rates, capital outflows, and currency depreciation.</p>	<ul style="list-style-type: none"> <li>Adjust policy interest rates in line with cyclical conditions and inflation expectations.</li> <li>Allow flexible exchange rate to adjust.</li> <li>Central bank asset purchases can be used to alleviate government bond market dysfunction, if necessary.</li> <li>Tighten the fiscal stance in line with cyclical conditions in the event of a fast recovery in demand.</li> </ul>
<p><b>Widespread social discontent and political instability.</b> Social tensions erupt as a withdrawal of pandemic-related policy support results in unemployment and, amid increasing prices of essentials, hurts vulnerable groups (often exacerbating pre-existing inequities).</p>	Medium	<p><b>Medium</b></p> <p>An inadequate policy response and depressed global economy lead to higher unemployment and poverty.</p>	<ul style="list-style-type: none"> <li>Social spending and unemployment support should be extended but should be targeted according to need.</li> <li>Broader fiscal and monetary policies should remain accommodative.</li> </ul>
<p><b>Rising commodity prices amid bouts of volatility.</b> Commodity prices increase by more than expected against a weaker U.S. dollar, post-pandemic pent-up demand and supply disruptions, and for some materials, accelerated plans for renewable energy adoption. Uncertainty surrounding each of these factors leads</p>	Medium	<p><b>Medium</b></p> <p>Headline inflation increases rapidly, which in combination with a tight labor market, increases pressures for wage increases, raising the possibility of a wage-price spiral.</p>	<ul style="list-style-type: none"> <li>Allow flexible exchange rate to adjust.</li> <li>Adjust policy interest rates should higher headline inflation threaten second-round effects, an increase in medium-term inflation expectations, and the</li> </ul>

Source of Risk	Relative Likelihood	Impact if Realized	Policy Response
<b>Conjunctural and Structural Risks</b>			
to bouts of volatility, especially in oil prices.			achievement of the inflation target over the medium term
<b>Intensified geopolitical tensions and security risks.</b> Geopolitical tensions in selected countries/regions cause economic/political disruption, disorderly migration, higher volatility in commodity prices (if supply is disrupted), and lower confidence, with spillovers to other countries.	<b>High</b>	<b>Medium</b> Lower confidence could increase risk aversion against EMs and result in capital outflows and depreciation pressures.	<ul style="list-style-type: none"> <li>The flexible exchange rate should be allowed to adjust as a first line of defense.</li> <li>Central bank asset purchases can be used to alleviate government bond market dysfunction, if necessary.</li> </ul>
<b>Cyber-attacks</b> on critical infrastructure, institutions, and financial systems trigger systemic financial instability or widespread disruptions in socio-economic activities and remote work arrangements.	<b>Medium</b>	<b>Medium</b> Cyber-attacks would present a disruption, given Poland's increasing digitalization and use of remote work. Financial system disruptions may impede the allocation of credit.	<ul style="list-style-type: none"> <li>Strengthen crisis preparedness.</li> <li>Increase investment in cyber resilience, especially in the financial system and in government.</li> </ul>
<b>Higher frequency and severity of natural disasters related to climate change</b> cause severe economic damage to smaller economies susceptible to disruptions and accelerate emigration from these economies. A sequence of severe events in large economies reduces global GDP and prompts a recalculation of risk and growth prospects. Disasters hitting key infrastructure or disrupting trade raise commodity price levels and volatility.	<b>Medium</b>	<b>Medium</b> EU members may receive migrants from economies facing severe disruptions. An increased global focus on climate change may intensify pressures to decarbonize economies.	<ul style="list-style-type: none"> <li>Work with EU partners on region-wide response to migration.</li> <li>Intensify domestic focus on decarbonization of energy sources, leveraging EU funds.</li> <li>Easy monetary and fiscal policies as appropriate in response to disruption in global economy due to severe events in large economies.</li> </ul>

Source of Risk	Relative Likelihood	Impact if Realized	Policy Response
<b>Domestic Risks</b>			
<p><b>Court rulings lead to larger-than-expected losses for banks on foreign exchange mortgages.</b> A Supreme Court ruling on outstanding legal questions related to foreign exchange mortgages is issued that is unfavorable to banks.</p>	<p><b>Medium</b></p>	<p><b>High</b></p> <p>An unfavorable ruling prompts a shift in expectations for the number of lawsuits brought against banks and the size of eventual judgments. Banks with larger exposure to foreign exchange mortgages face large losses and fail to satisfy minimum capital requirements. Negative market reaction against banking sector increases borrowing costs for sector at large.</p>	<ul style="list-style-type: none"> <li>• Banks facing capital shortfalls present credible plans to rebuild capitalization to required levels.</li> <li>• Central bank should provide liquidity as needed to solvent banks.</li> <li>• Banks should intensify efforts to reach voluntary settlements with borrowers to reduce uncertainty about size of eventual losses.</li> </ul>
<p><b>Rule of law disputes with the EU lead to significant delay of Next Generation EU funds.</b> A failure to resolve quickly the dispute leads to a protracted stalemate, with a significant delay in EC approval of Poland's National Recovery Plan preventing the timely release of the funds.</p>	<p><b>Medium</b></p>	<p><b>Medium</b></p> <p>Key investment projects to be funded by Next Generation EU funds are delayed, lowering economic growth. The ongoing dispute with the EU hurts business confidence, especially among foreign investors, dampening private investment growth.</p>	<ul style="list-style-type: none"> <li>• Utilize substantial fiscal space available to pre-finance investment projects through market borrowing to compensate for delay in transfer of funds.</li> <li>• Ensure that structural transformation is on track. Facilitate structural reforms, focusing on business climate and labor market reforms, improving education and vocational training, and boosting infrastructure investment and R&amp;D support, to attract investment (including FDI) and boost future productivity and income growth. Maintain investment focus on Next Generation EU priorities in digitalization and climate change investments.</li> </ul>

## Annex IX. External Sector Assessment

<p><b>Overall Assessment:</b> On a preliminary basis and adjusting for transitory factors, the external position in 2021 is projected to be moderately stronger than the level implied by medium-term fundamentals and desirable policies. However, this assessment is highly uncertain given the lack of full-year data for 2021 and the COVID-19 crisis, and a complete analysis will be provided in the 2022 External Sector Report. As the economy recovers from the pandemic, the current account balance is estimated to have returned to a deficit of 0.3 percent of GDP in 2021 from 2.9 percent in 2020, reflecting higher import growth, partially linked to higher energy prices, lower exports due to global supply chain disruptions, and the normalization of the primary income deficit as the profitability of domiciled foreign companies recovers. The course of the pandemic is the main near-term risk, and uncertainty remains high over the medium term. However, as the economy recovers, the CA deficit is expected gradually to reach 1 percent of GDP, as private net saving returns to a lower level. Next Generation EU (NGEU) grants are expected to boost investment, contributing to the decline of the CA balance. Reserves are adequate to insulate against external shocks and disorderly market conditions.</p> <p><b>Policy Responses:</b> In the short term, policies should remain vigilant against the remaining risk of the pandemic, which may call for renewed targeted fiscal support. In the medium term, policies should boost investment by (i) deploying the NGEU grants to tackle infrastructure gaps, digitalization, and climate change challenges; and (ii) using public policies to encourage corporate investment and productivity, including through initiatives to increase the availability of clean energy and supply of skilled labor and ensuring that the banking sector remains sound and reducing disincentives to allocate credit to the private sector by redesigning the bank asset tax.</p>							
<b>Foreign Asset and Liability Position and Trajectory</b>	<p><b>Background.</b> The net international investment position (NIIP) is projected to shrink to –40 percent of GDP in 2021 from –46 percent in 2020. Gross assets and liabilities are projected to reach around 58 and 97 percent of GDP, respectively. The projected stock of net FDI (equity and debt), accounting for 37.4 percent of gross external liabilities, remains diversified across sectors and source countries. While projected gross external debt in 2021 remains sizable at 61.6 percent of GDP, 29 percent of the debt is liabilities to direct investors via intercompany lending, and 73 percent of the debt is of long maturity (as of Q3:2021). Short-term debt (excluding short-term intercompany debt), amounting to 16 percent of total debt (8 percent of GDP) in Q3:2021, is mainly owned by banks (currency and deposits) and the non-financial private sector (trade credit). Automatic debt dynamics, helped by NGEU grants, are projected to reduce the negative NIIP in the medium term.</p> <p><b>Assessment.</b> While sizable external debt is a vulnerability, rollover risk is mitigated by the large share of long-term debt and intercompany lending that tends to be automatically rolled over. Adequate reserves reduce residual rollover risk from short-term debt (gross reserves are estimated at around 158 percent of short-term debt in 2021).</p>						
2021 (% GDP)	NIIP: –40	Gross Assets: 58	Res. Assets: 25	Gross Liab: 97	Debt Liab (Q3:2021): 45		
<b>Current Account</b>	<p><b>Background.</b> The CA moved from large deficits toward surplus between 2008 and 2020. This turnaround features a larger trade surplus (mainly services), despite sustained high primary income deficits from reinvested earnings and dividend payments to direct investors and net earnings of foreign workers in Poland. Low investment and high saving by the corporate sector have been partially offset by net borrowing by households and the government. Poland's CA balance is estimated to have returned to a small deficit of 0.3 percent of GDP in 2021, the first deficit since 2018. The main drivers of the 2021 external balance are: (i) lower exports due to global supply chain disruptions, (ii) higher import growth, due to higher energy prices and recovering domestic demand, and (iii) the normalization of the primary income deficit. In the medium term, in the context of a domestic demand-led economic expansion, and the utilization of the NGEU grants, the CA deficit is expected to reach 1 percent of GDP.</p> <p><b>Assessment.</b> The EBA CA model estimates a cyclically adjusted CA of 0.3 percent of GDP and a CA norm of –2.1 percent of GDP, with the standard error of 0.6 percent of GDP. An adjustment of –0.6 percent of GDP to the cyclically adjusted CA balance has been made to account for transitory pandemic-related factors. This COVID-19 adjustment consists of +0.3 pp to reflect the contraction in tourism net exports, +0.5 pp to reflect net exports of medical supplies triggered by the health emergency, and –1.4 pp to reflect shifts in household consumption composition from services toward consumer goods. The resulting Staff CA gap of 1.8 (±0.6) percent of GDP includes identified policy gaps of 2.2 percent of GDP and an unexplained residual of –0.4 percent of GDP.</p>						
2021 (% GDP)	CA: –0.3	Cycl. Adj. CA: 0.3	EBA Norm: –2.1	EBA CA Gap:	COVID-19 Adj.: –0.6	Other Adj.: 0.0	Staff CA Gap: 1.8
<b>Real Exchange Rate</b>	<p><b>Background.</b> The NEER and REER appreciated by 4.7 percent and 2.1 percent, as of Nov-2021, compared to the 2020 average. Unlike the global financial crisis during the pandemic, movements in the NEER and REER have been muted. In nominal terms, the average annual exchange rate in 2021 appreciated by 1 percent against USD and depreciated by 2.7 percent the euro respectively compared to the average of 2020. Over the same period, inflation in Poland has been only slightly higher than in its trading partners.</p> <p><b>Assessment.</b> The EBA REER index and level models estimate undervaluation of 2.1 and 17.4 percent, respectively. Consistent with the IMF staff CA gap, the IMF staff assess the REER to be undervalued in the range of 2.5 to 5.1 percent, with a midpoint of 3.8 percent (given an estimated elasticity of 0.47).</p>						
<b>Capital and Financial Accounts: Flows and Policy Measures</b>	<p><b>Background.</b> The capital account, dominated by inflows of EU funds for financing investment projects, has averaged about 2 percent of GDP over the past ten years. The capital account surplus is estimated to be around 1.7 percent of GDP in 2021 and is projected to remain strong, supported by Next Generation EU inflows and other EU transfers, before declining to 1 percent over the medium term. As foreign companies' profitability normalizes, FDI inflows are projected to strengthen, and financial flows to revert to historical norms. Financial account net flows are estimated at –1.4 percent of GDP (negative sign means inflow) in 2021.</p> <p><b>Assessment.</b> Foreign holdings of domestic government securities have declined significantly since 2016 and, as of Nov-2021, represented 15.5 percent of the total. Nevertheless, the overall stock remains sizable at 4.8 percent of GDP and could pose some risks, although the diversified foreign investor base is a mitigating factor.</p>						
<b>FX Intervention and Reserves Level</b>	<p><b>Background.</b> FX reserves are estimated to have increased to US\$166.6 billion at end-2021. Net reserves, which exclude the central bank's repo operations (part of its reserve management strategy) and government FX deposits, stood at US\$151 billion at Nov-2021, is increasing due to the central bank's conversion of a portion of EU funds received by the government to zloty. This is consistent with the central bank's strategy of building an adequate precautionary reserve buffer. The zloty is free-floating.</p> <p><b>Assessment.</b> At about 154 percent of the IMF's reserve adequacy metric, the projected level of gross reserves is adequate to guard against external shocks and disorderly market conditions.</p>						



## Appendix I. Draft Press Release

### IMF Executive Board 2021 Article IV Consultation with the Republic of Poland

FOR IMMEDIATE RELEASE

**Washington, DC – February 18, 2021:** The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation<sup>1</sup> with the Republic of Poland on February 18, 2021.

While the pandemic has taken its toll on lives in Poland, as elsewhere, the economy has weathered the pandemic comparatively well. After contracting 2.5 percent in 2020, one of the least-severe recessions among members of the European Union, the economy recovered strongly in 2021, expanding an estimated 5.4 percent. Although a winter wave of the pandemic may slow growth in the near term, the economy has shown increased resilience to successive waves, and the economy is projected to grow 4.6 percent in 2022. Over the medium term, strong household and corporate balance sheets and anticipated Next Generation EU grants should maintain solid economic growth, with little scarring to output anticipated from the pandemic.

Poland's substantial fiscal buffers permitted a strong fiscal response to the crisis. Many of the initially broad-based measures were extended with greater targeting to support sectors most impacted by later waves of the pandemic. Driven by strong revenue growth associated with the economic recovery and a lower level of pandemic-related fiscal support, the general government deficit is estimated to have declined from 7.1 percent of GDP in 2020 to 2.9 percent of GDP in 2021, with general government debt decreasing slightly to 56 percent of GDP. Over the medium term, the general government deficit is projected to stabilize around 2½ percent of GDP, with debt stable around 50 percent of GDP.

Inflation has increased substantially in 2021, primarily driven by external factors, including energy prices, though core inflation has also increased in recent months and become broader based. After easing monetary policy aggressively at the start of the pandemic, the central bank has pivoted to tightening. Headline inflation is projected to remain elevated in 2022, primarily driven by energy price increases, with

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<sup>1</sup> Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

inflation falling within the target tolerance range by the end of 2023, assuming some further monetary policy tightening in response to emerging capacity constraints and strengthening wages.

Bank asset quality has remained stable during the pandemic, permitting a gradual removal of pandemic-related regulatory relief. Non-performing loan ratios have been broadly stable, and loan performance has not deteriorated even after the end of pandemic payment holiday schemes. Capital adequacy remains significantly above minimum levels. The legal risks stemming from foreign-currency denominated mortgages remain a source of uncertainty and potential losses for banks.

### **Executive Board Assessment<sup>2</sup>**

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<sup>2</sup> At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summing up can be found here:

<http://www.IMF.org/external/np/sec/misc/qualifiers.htm>.

Table 1. Poland: Selected Economic Indicators, 2020–26

	2020	2021	2022	2023	2024	2025	2026
		Est.			Projections		
<b>Activity and Prices</b>							
GDP (change in percent) 1/	-2.5	5.4	4.6	3.7	3.0	3.0	3.0
Output gap (percent of potential GDP)	-2.9	-0.6	0.6	0.7	0.3	0.1	0.0
CPI inflation (percent)							
Average	3.4	3.4	5.1	7.4	5.1	3.1	2.9
End of period	2.4	2.4	8.6	6.3	3.3	3.0	2.7
Unemployment rate (average, according to LFS)	3.2	3.5	3.3	3.0	3.0	3.0	3.0
<b>Public Finances (percent of GDP) 2/</b>							
General government net lending/borrowing	-7.1	-2.9	-3.1	-2.5	-2.6	-2.6	-2.6
General government cyclically adjusted overall balance	-5.6	-2.6	-3.4	-2.9	-2.8	-2.6	-2.6
General government primary balance	-5.8	-1.8	-1.9	-1.2	-1.3	-1.2	-1.2
General government debt	57.4	56.2	52.1	49.8	49.7	49.5	49.6
<b>Balance of Payments</b>							
Current account balance, percent of GDP	2.9	-0.3	-0.5	-0.9	-1.0	-1.0	-1.0
Total external debt, percent of GDP	62.9	61.6	56.7	53.4	50.7	47.9	45.3
<i>Memorandum item:</i>							
Nominal GDP (billion zloty)	2326.7	2590.2	2886.6	3115.9	3307.5	3504.4	3700.5
Sources: Polish authorities; and IMF staff calculations.							
1/ Real GDP according to 2015 base year.							
2/ According to ESA2010.							