

**EXECUTIVE  
BOARD  
MEETING**

SM/22/26

Correction 1

February 16, 2022

To: Members of the Executive Board

From: The Secretary

Subject: **Republic of Poland—Staff Report for the 2021 Article IV Consultation**

Board Action: The attached corrections to SM/22/26 (2/3/22) have been provided by the staff:

**Mischaracterizations of the Views of the Authorities** **Pages 20 (para. 30) and 21**

**Evident Ambiguity** **Page 20 (Figure 12)**

**Factual Errors Not Affecting the Presentation of Staff's Analysis or Views** **Pages 6, 14, 19 (para. 29), 20 (para. 29), 51, 74**

**Typographical Errors** **Page 19 (para. 26)**

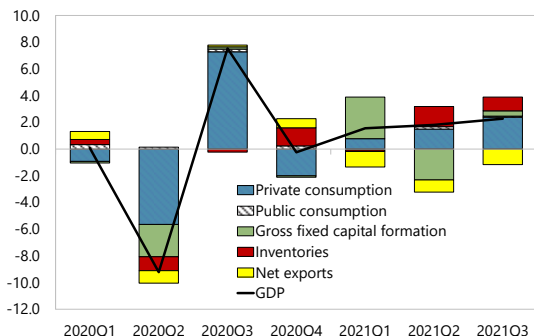
Questions: Mr. Cuevas, EUR (ext. 34802)  
Mr. Lindquist, EUR (ext. 30234)  
Ms. Taheri Sanjani, EUR (ext. 36742)  
Mr. Foda, EUR (ext. 34359)  
Mr. Sierhej, EUR (RSierhej@imf.org)  
Mr. Krogulski, EUR ([KKrogulski@imf.org](mailto:KKrogulski@imf.org))



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

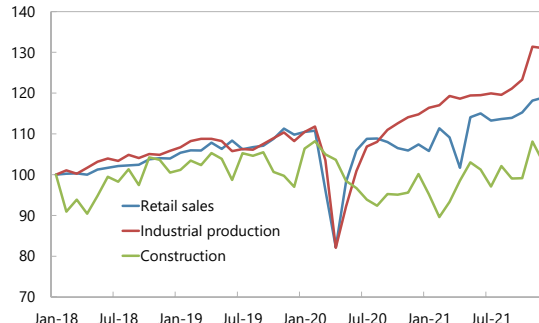
Output rebounded strongly in 2021 after a small decline in Q4:2020...

**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.

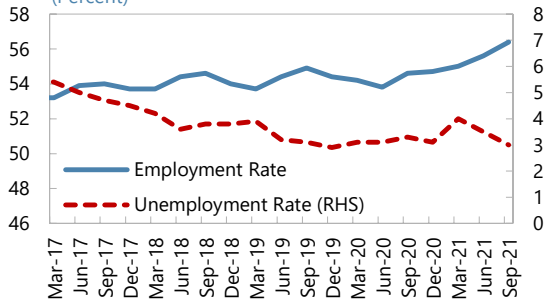
**4. Significant policy support cushioned the impact of the pandemic on labor markets.**

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 3.54.0 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....

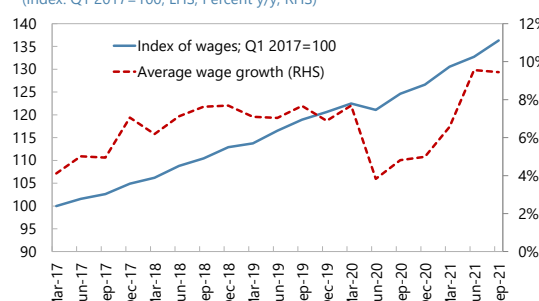
**Employment and Unemployment Rates 1/**  
(Percent)



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.

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.

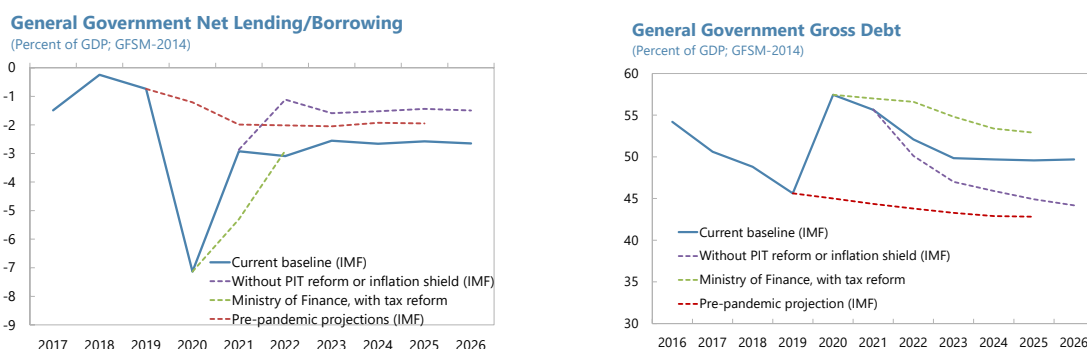
**Table 3. Poland: Summary of “Anti-Inflation Shield” Measures**

Summary of Anti-Inflation Shield Measures		
Category/Action	Shield 1.0	Shield 2.0
<b>Fuel</b>	Excise taxes cut (Dec. 20 - May); 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).

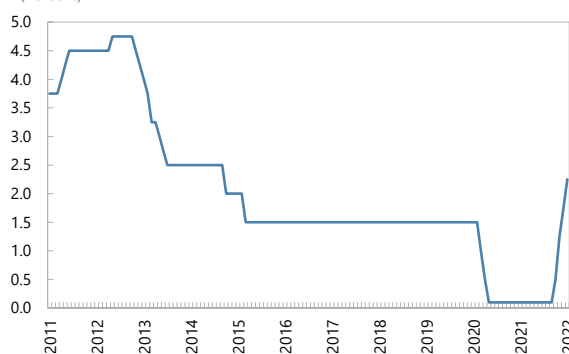
**Figure 9. Poland: Medium-Term Fiscal Outlook**



Sources: Ministry of Finance; and IMF staff projections.

**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<sup>7</sup> in January, above its pre-pandemic level. As of late January, markets were expecting a further 175 bps in tightening in 2022.

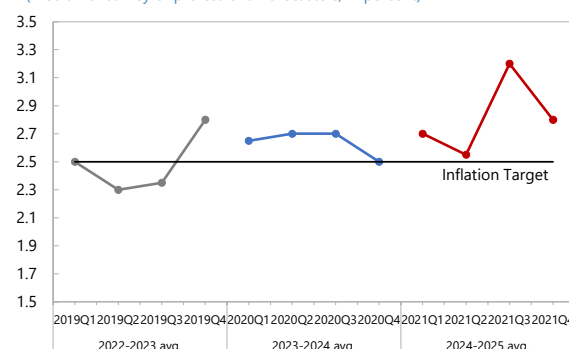
**NBP Policy Rate**  
(Percent)



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)

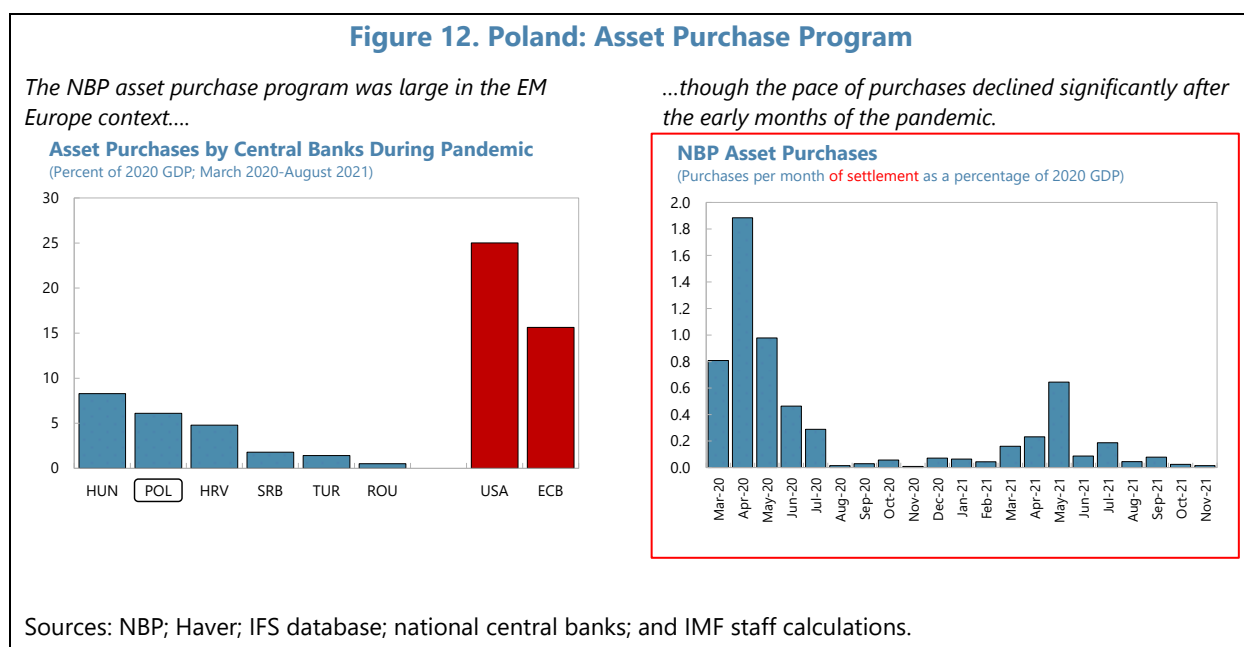


Source: NBP Survey of Professional Forecasters; and IMF staff calculations.

**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~~ **November** is welcome and consistent with monetary policy tightening.** At about 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 until November** 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

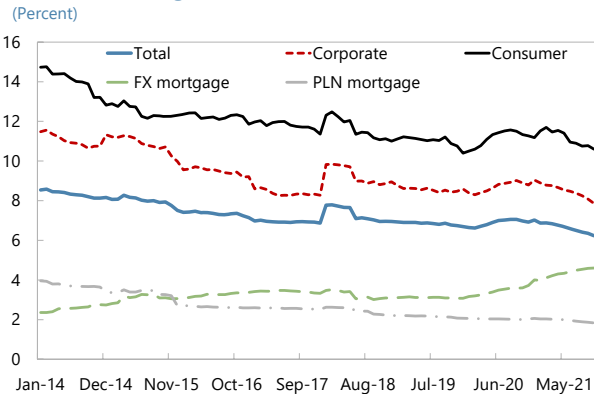
<sup>4</sup> See IMF European Departmental Paper "[Asset Purchase Programs in European Emerging Markets](#)" for a discussion of asset purchase programs in emerging European economies, including Poland, during the pandemic.

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~~ to intervene in the foreign exchange market and use other instruments envisaged in the Monetary Policy Guidelines, depending on 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**



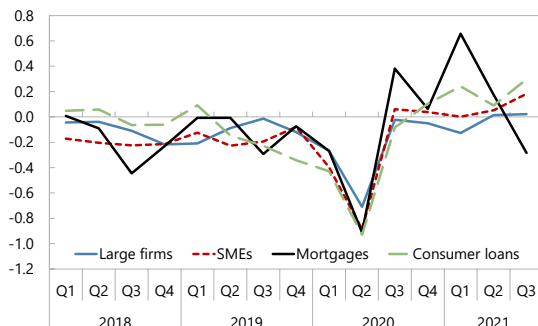
Source: NBP, based on national NPL definition.

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

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

**Lending Conditions**

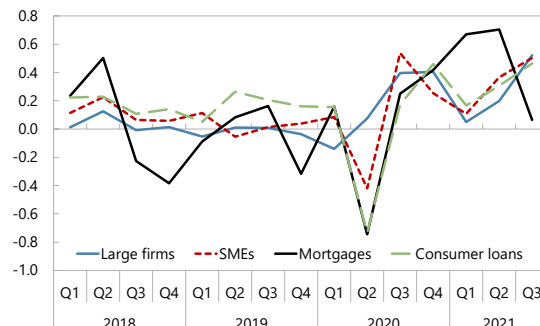
((-) = tighter, (+) = softer



...while expected demand for credit is recovering.

**Expected Credit Demand**

((-) = decrease, (+) = increase

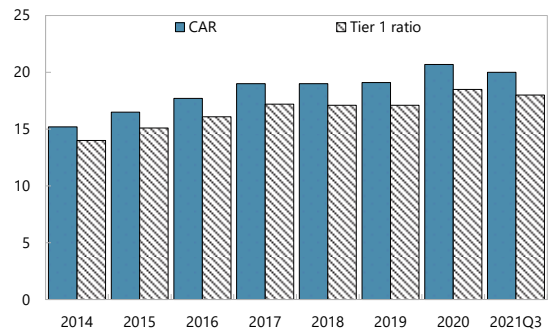


Sources: NBP; and IMF staff calculations.

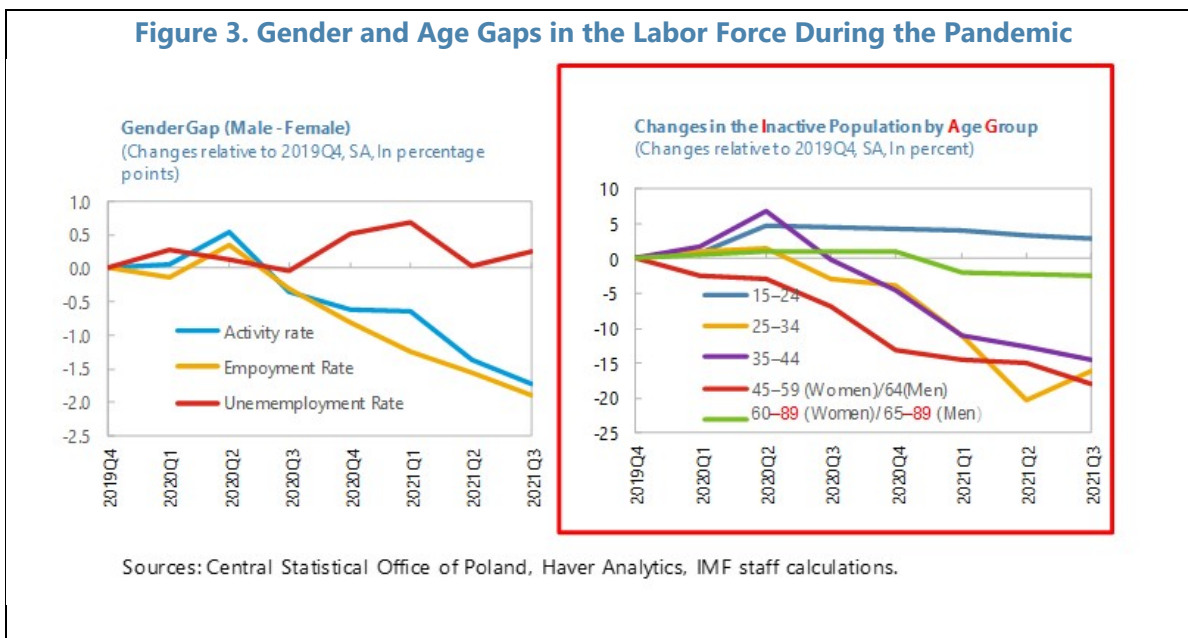
**32. With banks well placed to support the recovery, crisis-related financial sector policies should be gradually normalized.** Capital adequacy levels improved in 2020 to 20 percent of assets (versus the regulatory minimum of 10.5 percent), mainly due to retention of profits from previous years and 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**

(Percent)



Source: NBP.

**Figure 3. Gender and Age Gaps in the Labor Force During the Pandemic**

**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.

## 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 <del>appreciated-depreciated</del> 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>						