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**Statement by Mr. Hosseini and Mr. Sassanpour on Republic of Poland
(Preliminary)
Executive Board Meeting
February 18, 2022**

We thank staff for the set of well-written papers and Mr. Trabinski and Mr. Piasecki for their informative Buff. Poland's solid economic fundamentals and institutions, and the authorities' strong policy support minimized the impact of the crisis on incomes and employment. The economy rebounded sharply in 2021, with little or no medium-term scarring, and is set to resume its sustained growth and convergence paths. The pandemic is still, however, a source of uncertainty and, accordingly, the authorities are encouraged to intensify their vaccination efforts, focusing on unvaccinated groups, to contain the risks of new infection waves. On the policy front, the authorities would have to strike the right balance between pandemic risks and inflationary pressures arising from an overheating economy.

The significant fiscal stimulus, facilitated by the sizable fiscal space before the crisis, served its purpose. As the crisis receded, the measures became rightly more targeted, and the stimulus was appropriately withdrawn, partly restoring the policy space that could be tapped for targeted support, if needed, to deal with further waves of the pandemic. That said, given the high risk of overheating, a broadly neutral fiscal stance seems appropriate in 2022. The Polish Deal package, while introducing valued tax progressivity and a narrower labor tax wedge, contains permanent expansionary features (e.g., PIT reform) that would need to be offset through other measures. Pandemic-related off-budget spending that supported the economy through the crisis would also need to wind down, additionally improving fiscal transparency. Similarly, the tax relief provided through "anti-inflation shields" to address poverty risks during the crisis should be rolled back in view of their cost and inefficiency. Moving beyond the crisis, the authorities would need to maintain a fairly large policy space to address long-term fiscal pressures arising from population aging and energy transition. An early resolution of ongoing disputes with the EU on rule of law issues, and release of Next Generation EU grants, would be a major boost to investment.

The NBP's substantial tightening of monetary policy has been appropriate in view of persistence of high inflation and risks of inflation expectations de-anchoring. The inflation outlook is subject to high uncertainty related to pressures on both the demand and supply sides. We welcome the authorities' commitment to remain vigilant and act decisively, consistent with sources of price pressure, to ensure medium term price stability that should be the NBP's overriding policy objective. *There are multiple references in the report to foreign exchange market interventions (for example, in ¶29, ¶30 and ¶51) without a background and context. We would welcome staff elaboration.* As regards the financial sector, we welcome the progress in addressing the legal risks of FX mortgages that have been a feature of the Polish housing market for a number of years. The smooth conversion of FX mortgages would remove a major source of uncertainty and ease a great burden on banks, which in turn is likely to facilitate credit growth to the private sector in other sectors.

The background paper on potential growth offers useful lessons for the future growth path, given the uncertainties in the post-pandemic economy related to labor supply, investment and productivity. One of the structural challenges facing Poland is to retool its labor, particularly the young and low-skilled cohorts, to contribute productively to a changing economy favoring digital skills. The impact of the Polish Deal tax reform on labor supply is uncertain, calling for active labor market policies, including those impacting the supply of foreign workers. *Could staff indicate whether the rules governing foreign workers vary by nationality and skillset?* The power sector transition (away from coal), while a pressing challenge, would have to be cognizant of its impact on activity and employment in the traditional and socially (and politically) sensitive coal mining sector, that is mostly concentrated in underprivileged areas. We take note of the authorities' preference to guide the energy transition through tighter standards and policies rather than through carbon pricing.

With that, we wish the Polish authorities and people every success.