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The Acting Chair's Summing Up
Republic of Poland—2010 Article IV Consultation
Executive Board Meeting 10/44
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Executive Directors expressed their deepest sympathy to the people and authorities of the Republic of Poland for the death of their President, his wife and many senior country officials in the recent airplane crash.

Directors agreed with the thrust of the staff appraisal. They commended the authorities for their swift and timely response to the global crisis. Anchored in a strong macroeconomic framework and financial system, and buttressed by access to the Flexible Credit Line, this response enabled Poland to escape a recession in 2009.

Directors noted that economic growth is set to increase gradually as the global environment improves, banks' risk appetite reemerges, and the inflow of EU funds accelerates. Given the still fragile recovery and surrounding uncertainties, the timing and manner of the withdrawal of fiscal and monetary stimuli will have to be carefully managed.

Directors considered that policy interest rates should not be raised at this stage, in view of the contained outlook for inflation and the excess capacity in the economy. If increased capital inflows put persistent upward pressure on the zloty and inflation remains subdued, interest rates could be further cut, possibly complemented by transparent foreign-exchange interventions. Directors welcomed the authorities' commitment to euro adoption, while not setting a target date at this juncture. This will allow them to continue to take all the steps, including on the structural front, for successful euro adoption at an appropriate time, while preserving exchange rate flexibility in the face of external shocks.

Directors stressed the need to gradually start withdrawing the fiscal stimulus while carefully balancing short-term cyclical priorities and longer-term objectives. They welcomed the steps already taken by the authorities to reduce the deficit and called for further measures, including reform of entitlement programs and revenue enhancements, to meet the deficit target of 3 percent of GDP. A number of Directors endorsed the authorities' intention to achieve this target by 2012, noting that although ambitious, this would be achievable. A number of other Directors, however, were of the view that a somewhat more gradual consolidation would be preferable so as not to stifle the incipient recovery. In order to help

anchor confidence in fiscal policy, Directors recommended introducing a permanent fiscal rule with a deficit or debt anchor consistent with the authorities' medium-term targets.

Directors considered that, although the financial sector has been well buffered, continued vigilance is necessary. They welcomed the Polish Financial Supervision Authority's recent recommendations aimed at strengthening lending standards for household loans. Directors noted that the renewed appetite for foreign-exchange lending could pose risks. They encouraged the authorities to ensure that such lending is funded and hedged on a longer-term basis as well as to raise capital requirements on foreign-exchange-denominated mortgages to reflect higher credit and valuation risks. Directors also underscored the importance of cross-border cooperation in this area.

Directors stressed that despite Poland's strong fundamentals, raising its exceptionally low labor participation rate remains critical to boosting long-term growth. They encouraged labor supply-enhancing reforms with complementary measures such as equalizing and gradually increasing the retirement age and merging special pension schemes with the general scheme. This, together with vigorous pursuit of the ambitious privatization agenda, would help to enhance the economy's flexibility and bolster its long-run potential.

It is expected that the next Article IV consultation with the Republic of Poland will be held on the standard 12-month cycle.