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Statement by Mr. Chodos, Mr. Lischinsky, and Mr. Corvalan Mendoza on Republic of Poland
(Preliminary)
Executive Board Meeting
February 3, 2021

We thank staff for the informative report on the Republic of Poland and Mr. Trabinski and Mr. Piasecki for their helpful Buff Statement.

The country has experienced economic growth since 1991, which translated into an expansion of higher living standards for the population, buttressed on a decline in unemployment and poverty rates. The Covid-19 pandemic caused a temporary pause in the long-term economic growth trend, with a recession in 2020, which the authorities project to be -4.6 percent of GDP followed by a 4.0 recovery in 2021. The Next Generation EU (NGEU) recovery package will enhance the economic recovery in the coming years with EU grants of approximately 23 billion euros for Poland in 2021-2023, which represents 4.5 percent of 2020 GDP.

The authorities' reaction to tackle the first wave of the pandemic was bold and strong. Fiscal, monetary, and financial policies were swiftly deployed to cushion the external shock the country was experiencing. They were able to act decisively due to ample policy space the country had accumulated from previous years. The second wave of the pandemic was cushioned with a more targeted and calibrated policy response because restrictions affected supply chains and the service and manufacturing sectors. All in all, the support to companies and workers during the pandemic inched up the fiscal deficit to 8.4 percent of GDP in 2020, but a potential economic rebound to 2.7 percent in 2021 would create the space to gradually withdraw fiscal stimulus and reduce the deficit to 5.1 percent of GDP this year.

Given the favorable position in the cycle, the window of opportunity to replenish fiscal buffers is warranted for the medium term, especially when factoring in the NGEU recovery package, which seems sizable. We are encouraged by the authorities' prudent fiscal policies track record, which is reflected in the manageable ratio of public debt to GDP. As is well described in Annex VI, public debt is sustainable and well monitored, and well below the 60 percent of GDP limit, as defined in the public finance act of the country.

On monetary policy, we welcome the central bank's decision to be more patient with removing monetary accommodation, especially given the uncertainties posed by the pandemic on credit recovery and the lack of a promising global outlook due to vaccine distribution and the slowdown in Europe. The reduction of the monetary policy rate from 1.5 percent to 0.1 percent in 2020, plus the implementation of an asset purchase program (APP), helped stabilized the economy and create the needed environment to restore confidence once the pandemic abates. We found Annex V "NBP asset purchase program" interesting and useful as a point of reference for other policy makers in the membership. *In this regard, we would appreciate further details from staff on transparency mechanisms used by the authorities on the APP. As we see it, these positive signals to economic agents are relevant in times of market distress.*

Regarding the financial sector, we are encouraged by the enhanced financial independence for the Polish financial supervisory authority (KNF). The strengthening of the institution would become the corner stone of financial system stability, and responsible for accurately assessing all related financial risks and developing measures to contain it. We are aware that the banking sector entered 2020 with positive profits and enough capital ratios to accommodate the shock from the Covid-19 pandemic. The previous favorable position in the cycle, for banks' capital, liquidity, and NPL's allowed the system to resist the shock well. However, some pockets of vulnerabilities within the numerous cooperative banks and the potential legal risks in foreign currency denominated mortgages need close attention. We take comfort in the authorities' recognition of these risks in the financial sector and their commitment to act promptly if necessary.

On the structural front, if the EU multiannual financial framework and the EU recovery and resilience facility are adopted, the country would benefit from annual capital transfers from the EU close to 2.5 percent of GDP over the coming five years. These fresh financial resources will boost productivity and shift investments to a cleaner energy production. It will also facilitate the transition to digital economy. Going forward, providing adequate conditions for foreign direct investment could help accelerate technology transfers and economic diversification. We encourage the authorities to continue with their efforts to strengthen policy frameworks, governance, transparency, and data provision, which are necessary elements to enhance investment and support decision making.

With these comments, we wish the people of Poland every success in their future endeavors in these difficult times.