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Statement by Mr. Pösö on Republic of Poland
(Preliminary)
Executive Board Meeting
February 3, 2021

We thank staff for their clear and insightful report in the context of Poland's Article IV consultation. We also thank Mr. Trabinski and Mr. Piasecki for their informative Buff statement. We commend the national and EU authorities' resolve to fight the economic, social, and health consequences of the ongoing pandemic.

After almost three decades of strong growth, Poland's GDP is expected to have experienced one of the smallest economic contractions in the EU in 2020. The near-term outlook is subject to a historically high level of uncertainty, but we expect a durable recovery once the pandemic is contained. Targeted support should continue until the recovery is underway, while pursuing prudent medium-term fiscal positions and enhancing investment. Alongside national fiscal support, EU funds are expected to play a major role in supporting the recovery and underpinning a structural transformation towards a green and digital economy. To this end, it is crucial that Poland creates the institutional capacity for the efficient and effective absorption of EU funds. We broadly agree with the Staff Appraisal and thrust of the report, but would like to emphasize the following points

Macroeconomic developments

We broadly concur with staff's views on the economic outlook and risks, which appear balanced, amid a very high level of uncertainty. We take note of staff's macroeconomic projections, which, considering the different assumptions (e.g. on the inclusion of EU funds), and cut-off dates, are broadly in line with those of the European Institutions. The short-term outlook is dominated by the pandemic and its dynamics and is therefore subject to an unprecedented level of uncertainty, but we expect a durable recovery throughout 2021 on account of Poland's favorable fundamentals. Risks to the outlook appear broadly balanced,

with the evolution of the pandemic being a downside risk over the short term, and an effective absorption of the substantial EU funds being an upside risk for the outer years of the projections. We broadly concur with the inflation outlook, although we expect a stronger pickup in consumer prices in 2021 and beyond on account of recent commodity price developments.

Fiscal Policy

We agree that effective targeted fiscal support should continue, and once the recovery is underway, the focus should be shifted to restoring fiscal buffers. Poland responded appropriately to the pandemic with substantial and effective support facilitated by its initial low public debt-to-GDP ratio. We agree that policies should remain supportive in a targeted and temporary manner until the recovery takes hold, with a view to limiting scarring effects and supporting the recovery. When economic conditions allow, authorities should pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. In this regard, we would like to ask staff for caution on their assessment that Poland has substantial fiscal space. While the general government deficit and debt were gradually declining before the pandemic, Poland needs to be vigilant over the long-term impact on public finances of new expenditure measures. We therefore encourage the authorities to review the budgetary framework, while ensuring its flexibility and safeguarding its credibility. At the same time, there is scope to improve the effectiveness of the health system, better target social expenditure to those in need, and increase the effective retirement age.

Structural policies

We agree that structural policies should aim at increasing growth potential and underpinning the green transition, with a focus on the labour market and on enhancing investment, including through the effective use of EU funds. There are areas where Poland can further catch up with other advanced EU economies, such as improved infrastructure, digitalization, health, and R&D and innovation, among others. These areas require a substantial increase in investment, where an effective use of the EU funds, including the Resilience and Recovery Facility and the Just Transition Fund, are key. This is also an opportunity to adopt ambitious measures aimed at a clean energy transition given the economy's high carbon intensity. In order to be effective, it is crucial that Poland creates the institutional capacity for the efficient and effective absorption of the EU funds in order to frontload productive spending and structural reforms as much as possible. To foster the recovery, it will also be crucial to address long-term structural challenges in the labour market in order to cope with labour force shortages, such as facilitating the inclusion of women, migrant workers, youth and other vulnerable groups in the labour market, and upgrading skills.

Monetary and Financial Sector Policies

We broadly share staff's assessment on the appropriate monetary policy stance and financial sector measures, noting that financial stability risks, although increased, remain well contained. The quick and decisive actions by the Polish Central Bank in response to the COVID-19 outbreak have been appropriate. The Polish financial sector entered the pandemic relatively well capitalised and without major imbalances, and the fast and decisive actions by the authorities were successful in providing liquidity to the banking sector and sovereign debt markets, and in maintaining the credit flow to the corporate sector. While, going forward, the sector's profitability will be challenged by increased provisioning needs, the low interest rate environment, and growing non-performing loans, most lenders should be able to weather the impact of the pandemic, and at present, the credit flow has not been disrupted. The pandemic will also accelerate the sector's transformation, along with continuing legal risks linked to the growing number of court cases in foreign-exchange denominated mortgages, which may pose challenges. Given the increased role of the state in the financial system, it is crucial that the supervisor preserves competition and a level playing field for all banks.