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Statement by Mr. Tanaka, Mr. Chikada, and Mr. Shimada on Republic of Poland (Preliminary)
Executive Board Meeting
February 3, 2021

We thank staff for the informative paper and Mr. Trabinski and Mr. Piasecki for their insightful Buff statement. Poland had overcome the first wave of the pandemic with less infections and fatalities, and its economic impact is mitigated by the decisive policy measures. While the country is currently hit hard by the second wave, the continued policy support and stronger pre-crisis fundamentals, including a sizable fiscal policy space and stronger balance sheet of the corporate sector, put the country a good position for the recovery, which clearly shows the importance of accumulating buffers for rainy days. As we broadly agree with the staff appraisal, we will provide the following comments for emphasis.

We welcome that fiscal measures have effectively supported the economy. The employment is well secured by the incentive for the firms, while income supports are provided for the unemployed and self-employed. We also take positive note of the authorities views that frontloading of support had created buffers for the economy, and support their stance that the new round of support would be targeted to sectors most affected by the new restrictions. Once the pandemic abates, the fiscal deficit should be gradually reduced to accumulate fiscal buffers against unpredictable shocks and foreseeable long-term budget pressures.

Accommodative monetary policy should be maintained until the recovery is well established. The monetary easing, including the newly introduced asset purchase program (APP), is appropriate to mitigate the economic impact from the pandemic. We also welcome the NBP's clear external communication regarding the APP, including the detailed publication on its purchase and holdings. In connection to that, while we understand that the government *de facto* enjoys the low interest rate environment partly as the result of the APP, it is clear that the aim of the APP is to "ensure liquidity in secondary markets for the purchased securities and strengthen the monetary policy transmission mechanism" and not to lower the government's debt service burden per se. In this context, we caution that some sentences on Annex V[1] could convey a misleading message that could confuse the aim and result of the APP to the public. As for the FX intervention for the monetary policy purpose, we agree with staff that such intervention should be limited in case that other monetary policy measures, namely the APP, would not work effectively, and should be communicated clearly, in order not to undermine the inflation targeting regime.

While we welcome that financial sector seems sound, the impact from the pandemic as well as low profits environment for the banks should be monitored closely. In this regard, we welcome that the financial independence of the Polish Financial Supervisory Authority (KNF) has been strengthened, which is in line with staff's recommendation of the last FSAP review. Regarding the bank asset tax, while we acknowledge the divergence views between the authorities and staff, we lean to agree with staff recommendation that the tax should be reconsidered to be more neutral for asset allocation, especially considering the current banks' preference to hold government bonds, which are exempt from the tax. On the issue of low profits for cooperative banks, we note of the authorities' views that it is not an immediate threat and cooperative banks needed to change their business models over the medium term. *In this regard, could staff elaborate whether the authorities have the medium-term strategy or target on this issue? Also, we would like to hear the effect on banking sector stemming from the digitalization as well as the emergence of Fintech firms.*

It is important to promote structural reforms, with effectively utilizing the funds form EU, to achieve more inclusive and sustainable recovery. We welcome that proposed Next Generation EU funds provide an opportunity to boost public investment, while their focus on digitalization and a green recovery would help Poland advance with the modernization of its economy. We also would emphasize that effective support, including the re-training for workers, should be provided to promote sectoral reallocation of labor.

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1 The APP appears to have been effective in meeting its stated goals. Despite a significant increase in the government's borrowing needs to finance crisis-related expenditures, the government's cost of financing has declined, with yields falling across the curve, in part due to a reduction in the term premium (Annex V, para3).