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Statement by Mr. Bevilaqua, Mr. Saraiva, and Ms. Mohammed on Republic of Poland (Preliminary)
Executive Board Meeting
February 3, 2021

We thank staff for the informative report and Mr. Trabinski and Mr. Piasecki for their informative statement. The pandemic has hit Poland after years of strong growth, resulting in a recession after almost three decades with an estimated contraction of 3.4 percent in 2020. We take positive note that Poland is among the least affected countries in the European Union and commend the authorities for their swift and robust support measures to mitigate the impact of the crisis. While an effective rollout of vaccines to contain infections represent a key upside risk to drive a faster recovery in 2021, the outlook remains significantly uncertain with risks still tilted to the downside, dominated by the virus, especially with the new variants and the current wave of infections. We encourage the authorities to remain steadfast in pursuing appropriate policy responses to navigate toward a sustainable recovery while minimizing possible scarring to the long term.

Fiscal policy should remain supportive, based on existing ample space and significant buffers previously built. We recognize that prudent macroeconomic management and declining public debt over the years have permitted Poland to enter the crisis with substantial buffers and ample fiscal space to mitigate the impacts of the crisis. We welcome the large front-loaded fiscal support package which has aided in preserving employment, providing liquidity to companies and supporting households. We positively note that the guarantees and loans subject to partial forgiveness/write-off, have been effective in providing much needed liquidity and preventing the deterioration of corporate balance sheets. However, given the high risks associated with widespread social discontent and political instability highlighted in the Risk Assessment Matrix, it is important that support be well targeted and flexible to alleviate the impact to the most vulnerable sectors and prevent scarring. Once the recovery is entrenched, the fiscal stance should move towards gradually reducing the deficit over the medium term to replenish the buffers and set debt back on a downward path. In this context, we welcome the authorities' commitment to continue to improve tax revenue administration and boost spending efficiency by undertaking a public investment and management assessment later this year. The pandemic has placed a heavy burden on the health care system in Poland and providing additional support to this area should be a priority going forward. *Relatedly, could staff elaborate on what is the expected path for vaccination beyond the first quarter implied in the baseline scenario?*

Monetary policy should remain accommodative until the recovery is well established. The monetary policy easing has appropriately supported the economy and remains suitable in the near term, given the projected decline in inflation and the significant uncertainty of the recovery. While the high core inflation prevailing in the second semester of 2020 is reason for concern, we take positive note that staff projects a declining trend that would take core inflation to below 2 percent by the end of this year. *What is staff's assessment of the balance of risks for this projected path for core inflation in 2021?* We are pleased that the central bank's asset purchase program has been effective in providing liquidity in the government securities markets and strengthening the monetary policy transmission during the crisis. We also note that the authorities' view that asset purchases contributed to the reduction of the bond yields and price volatility and have had a stabilizing effect on the government bond market. It is important that monetary policy communication continue to be clear and transparent to support its effectiveness.

The financial sector is stable, but the authorities should remain vigilant as challenges exist. We welcome the comprehensive actions taken by the authorities to safeguard the financial sector and positively note that banks remain well capitalized and asset quality has modestly deteriorated. Nevertheless, we note that the reduced earnings, and increased credit risk and provisioning for losses may pose challenges to the financial stability and we encourage the authorities to remain vigilant. Also, maintaining credit to the private sector would be of utmost importance going forward. Considering that the legal risks from FX mortgages represented a source of major uncertainty and potential losses for some banks, we welcome the authorities' close monitoring of the legal developments and their encouragement for the banks to actively promote voluntary bilateral restructuring of FX mortgage loans. *Could staff provide more information on how this voluntary exchange is proceeding and what are the main constraints that need to be overcome?* In parallel, we welcome the improved financial independence for the Polish Financial Supervisory Authority and encourage them to continue to strengthen its supervisory oversight of the financial sector and AML/CFT compliance.

Structural reforms are key to strengthen the growth potential and facilitate a sustainable recovery. Enhancing labor market policies and improving productivity should be a priority to mitigate the long-term effects of the pandemic, once conditions allow. The new grants under the Next Generation EU (NGEU) would play a catalytic role to expedite the recovery by boosting growth and improving public investment. We welcome the Recovery and Resilience Plan that is currently being prepared and recommend that it should also seek to address the challenges in the labor market, including skill mismatches and low labor force participation, in particular among women and youths.