

25. POLAND

Growth to slow but remain strong, supported by domestic demand

GDP growth is forecast to remain solid in 2019, at 4.1%. A gradual slowdown is expected in 2020, followed by a stabilisation in 2021. Private consumption is set to remain the key growth driver supported by favourable labour market trends and fiscal stimulus. Investment growth is projected to moderate, due to weaker demand expectations in the private sector, while public investment is expected to continue rising largely driven by EU funds, but at a slower pace. The headline fiscal deficit is forecast to increase in 2019.

GDP growth was strong in early 2019...

Strong domestic demand helped maintain economic growth close to 4.5% (year-on-year) in the first half of 2019. Favourable labour market developments and strong consumer confidence were key factors supporting private consumption. A rebound of private investment from low levels was also visible. Export dynamics weakened slightly.

... but looks set to slow down in 2020

GDP growth is forecast to remain strong in 2019 at 4.1%, but to slow down to 3.3% in 2020 and in 2021. Private consumption growth, which is projected to remain the key driver, is expected to come down from the exceptionally high levels it experienced in 2018. A continued rise in wages is set to underpin these trends. In addition, recent tax and benefit measures are expected to boost household disposable income in late 2019 and early 2020.

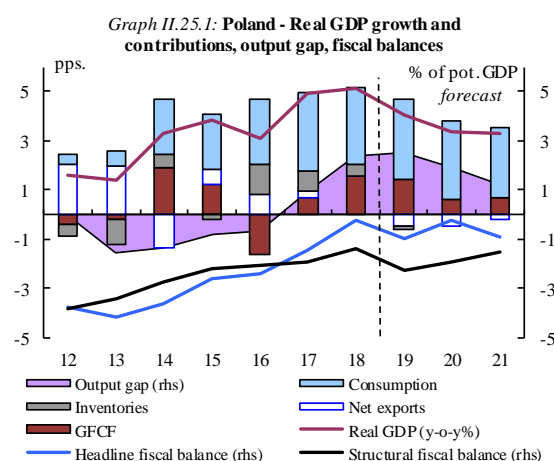
Public investment growth is projected to slow in 2019, in part due to problems in completing certain large infrastructure projects. Given strong incentives to fully utilise EU funding, public investment is expected to continue rising in both 2020 and 2021, though at a moderate pace. Private investment growth is projected to slow, mainly due to weakened confidence about future demand.

Strong international competitiveness is expected to help Poland continue gaining shares in its key export markets. However, export growth is projected to slow from previous years due to the weakening in world trade. As a result, the contribution of net exports to GDP growth is set to remain slightly negative over the forecast horizon.

Stabilisation of wage growth

The demand for labour is projected to remain solid, easing slightly from recent highs. This,

combined with planned increases in public sector wages and a substantial rise in the minimum wage in 2020, is expected to keep average wage growth close to 8% until 2021. Employment is set to broadly stabilise given existing barriers to labour force participation and falling working age population. Following several years of rapid reduction, the unemployment rate is set to stabilise slightly above 3.5% until 2021.



Inflation to peak in early 2020

Food price inflation increased quickly in the third quarter of 2019. In parallel, services price inflation continued to rise, while energy prices fell. Inflation is projected to gradually increase in late 2019 and early 2020, peaking at above 3% in the first quarter, before falling to around 2.5% and staying around that level until end of 2021. High services prices driven by wage increases are expected to be the main factor keeping inflation higher than in the previous five years. Electricity prices are expected to increase in 2020. In turn, strong competition in the markets for consumer goods and services, the rising importance of e-commerce and the assumed path of global oil prices should constrain inflation growth.

Balance of risks slightly tilted to downside

The uncertainty surrounding the economic outlook relates primarily to the external environment and the extent to which possible disruptions in global value chains could affect Polish producers. The balance of risks for GDP growth appears to be tilted slightly to the downside.

Fiscal deficit set to increase in 2019

The large decreases in fiscal deficits of recent years are expected to reverse. The headline deficit is forecast to increase to 1.0% of GDP in 2019, driven by a high rise in transfers to pensioners and middle- and upper-income households with children. Revenue growth from indirect taxes is to slow down as a result of measures to administratively control electricity prices. Both social contributions and direct taxes revenue are set to remain high thanks to robust economic growth and the favourable labour market situation. This forecast includes changes to personal income taxation decided in 2019 with a negative incremental impact on revenue in 2019 and, in particular, in 2020.

In 2020, the headline deficit is set to temporarily improve to 0.2% of GDP, largely due to a one-off

revenue from a conversion fee of the second pension pillar assets, assuming that 50% of those would be transferred to the general pension system. The strong dynamics of revenue from social contributions and indirect taxes is set to continue, while changes to personal income tax introduced in 2019 will result in slower dynamics in direct tax revenues. This forecast includes only elements that were incorporated in the draft budget law, in particular the removal of the payment cap on social contributions and an increase in excise duties. In 2021, under a no-policy-change scenario, the headline balance is set to worsen to 0.9% of GDP, primarily as there is no one-off revenue expected. Risks to the fiscal outlook include measures proposed during the recent election campaign and not included in the draft budget law, e.g. additional pension payments in the coming years.

The structural deficit is set to worsen from some 1½% of potential GDP in 2018 to around 2¼% of potential GDP in 2019 before gradually improving to 1½%. In turn, the general government debt-to-GDP ratio is set to continue falling from around 49% in 2018 to below 45% in 2021, driven by strong nominal GDP growth and relatively low nominal fiscal deficits.

Table II.25.1:

Main features of country forecast - POLAND

	2018			Annual percentage change						
	bn PLN	Curr. prices	% GDP	00-15	2016	2017	2018	2019	2020	2021
GDP	2115.2		100.0	3.7	3.1	4.9	5.1	4.1	3.3	3.3
Private Consumption	1228.1		58.1	3.1	3.9	4.5	4.2	4.0	3.8	3.4
Public Consumption	376.5		17.8	3.2	1.9	2.9	3.6	5.2	5.7	4.9
Gross fixed capital formation	385.6		18.2	3.7	-8.2	4.0	8.9	8.0	3.3	3.5
of which: equipment	159.5		7.5	4.2	-7.6	8.3	5.6	14.4	3.4	4.4
Exports (goods and services)	1175.9		55.6	8.1	8.8	9.5	7.0	4.8	4.4	4.7
Imports (goods and services)	1103.2		52.2	6.3	7.6	9.8	7.6	5.9	5.6	5.4
GNI (GDP deflator)	2032.1		96.1	3.5	2.7	4.8	5.3	4.2	3.5	3.5
Contribution to GDP growth:		Domestic demand		3.3	1.0	3.8	4.7	4.7	3.8	3.5
		Inventories		0.0	1.2	0.8	0.4	-0.2	0.0	0.0
		Net exports		0.4	0.8	0.3	0.0	-0.4	-0.5	-0.2
Employment				0.5	0.8	1.3	0.3	0.1	-0.1	-0.1
Unemployment rate (a)				12.9	6.2	4.9	3.9	3.5	3.6	3.5
Compensation of employees / head				4.4	4.8	5.8	8.2	8.1	8.2	7.6
Unit labour costs whole economy				1.2	2.5	2.2	3.3	4.0	4.6	4.1
Real unit labour cost				-1.2	2.2	0.3	2.1	1.1	1.4	1.0
Saving rate of households (b)				5.9	4.2	2.9	2.6	4.0	4.0	3.9
GDP deflator				2.6	0.3	1.9	1.1	2.9	3.1	3.1
Harmonised index of consumer prices				2.9	-0.2	1.6	1.2	2.2	2.6	2.5
Terms of trade goods				0.4	0.6	0.2	-1.3	0.9	0.9	1.0
Trade balance (goods) (c)				-3.0	0.7	0.3	-1.0	-1.2	-1.6	-1.7
Current-account balance (c)				-3.5	0.0	0.2	-0.4	-0.4	-0.4	-0.1
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-2.5	1.2	1.1	1.3	1.3	1.2	1.4
General government balance (c)				-4.4	-2.4	-1.5	-0.2	-1.0	-0.2	-0.9
Cyclically-adjusted budget balance (d)				-3.9	-2.1	-1.9	-1.4	-2.2	-1.2	-1.5
Structural budget balance (d)				-	-2.1	-1.9	-1.4	-2.2	-1.9	-1.5
General government gross debt (c)				47.4	54.2	50.6	48.9	47.4	45.5	44.3

(a) as % of total labour force. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.