

25. POLAND

Real GDP is forecast to decline by 4¼% in 2020 due to the COVID-19 pandemic and its containment measures, before growing again by around 4% in 2021. As consumer confidence weakens and the drop in economic activity weighs on the labour market, private consumption is set to decrease strongly in 2020. Private investment will likely follow a similar path, pushed by uncertainty and lowered demand expectations. Public investment growth is set to be affected by a fall in public revenue and an increase in other expenditure. The general government deficit is set to rise strongly in 2020 before improving in 2021.

GDP growth remained robust in 2019...

Economic growth exceeded 4% in 2019, mainly due to a robust performance of domestic demand. Supported by high consumer confidence and a buoyant labour market, private consumption continued expanding strongly. Meanwhile, investment made a significant contribution to growth as investment in equipment surged.

... but is set to decline strongly in 2020 and to recover in 2021

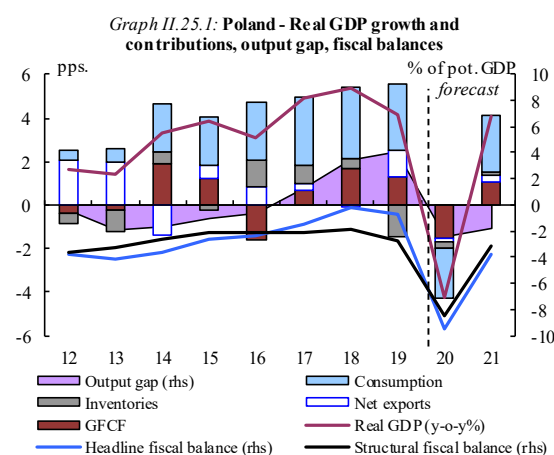
The COVID-19 pandemic is set to end nearly three decades of uninterrupted growth in Poland. GDP is projected to decline in 2020 by about 4¼% due to a disruption in economic activity caused by the lockdown measures and an unprecedented fall in external demand. In 2021, GDP should bounce back by 4% driven by a strong recovery in household consumption. Nonetheless, GDP is unlikely to return to 2019 levels over the forecast horizon.

Despite substantial support measures put in place by the government, private consumption is projected to be hard-hit due to an increase in unemployment, a sharp drop in wage growth and weak consumer confidence. Investment is also set to fall strongly in 2020 as uncertainty mounts and expectations of lower demand are likely to have an impact on firm's investment plans. Meanwhile, public investment may suffer from lower revenue and increases in other expenditure items.

Falling demand from Poland's main trading partners and disruptions in international trade are expected to cause a drop in both exports and imports in 2020. However, owing to the structure of Polish exports and increased price competitiveness, the trade balance is projected to remain broadly unchanged in 2020. As external demand recovers, exports are projected to surge in 2021, improving the trade balance.

Wage growth to plummet amid a surge in unemployment

The labour market is set to be impacted by the lockdown measures and the drop in demand, bringing the unemployment rate to around 7½% in 2020. This will likely lead to a sudden reversal in the increasing trend in wages observed in recent years, especially in the services sector. However, the drop in wage growth is to be partly offset by previously decided increases in public wages. In 2021, while employment is set to recover strongly, wages are expected to follow only moderately.



Price dynamics to be constrained

HICP inflation accelerated to 2.1% in 2019 and is estimated to have peaked in the first quarter of 2020 at almost 4%, driven by an increase in food and service prices. Inflation is then set to weaken markedly from the second quarter onwards, in line with a drop in oil prices, falling demand and a sharp decrease in wage growth. Overall, inflation is expected to moderate to 2.5% in 2020 and to increase to 2.8% in 2021 as the economy recovers.

Risks

Risks to the forecast are tilted to the downside. The recovery will largely depend on the effectiveness of government measures and how they cushion the impact of the shock on the labour market. Also, beyond global downside risks, the virus could have a long-lasting impact on some sectors, particularly services, which could limit the scope for recovery.

2020 fiscal deficit to exceed 9% of GDP

In 2019, the general government deficit widened to 0.7% of GDP. In 2020 and 2021, the recession triggered by the COVID-19 pandemic is expected to have a strong negative impact on public finances. It will materialise via two main channels. First, a contraction in tax revenue is expected, due to the recession, unfavourable labour market situation and cyclical factors. This projection includes also changes to the personal income tax decided in 2019. Second, spending is increasing, mainly due to measures to contain the pandemic and support the economy. The 2020 fiscal impact of those measures is expected to exceed 5.5% of GDP, with a part of them being financed from dedicated EU funds. In particular, this projection

includes loans to companies to be granted by the Polish Development Fund, assuming in line with the authorities announcements that about 60% of loans will be cancelled. This lifts the 2020 deficit by some 2¼ pps of GDP. Also, in recent years Poland implemented spending policies that are difficult to reverse. All those factors are set to widen the 2020 general government deficit to 9½% of GDP.

In 2021, under a no-policy-change assumption, the deficit is set to improve to around 3¾% of GDP, driven by the economic recovery and the expiration of the sizeable expenditure to support the economy. The improving labour market situation and growing consumption are expected to drive increases in tax and social contributions revenue. This projection includes measures that have been signed into law and specified in sufficient detail at the cut-off date. Meanwhile, risks to this forecast include public guarantees and loans that may be called or not repaid in the future.

The general government debt-to-GDP ratio is set to strongly worsen to some 58½% in 2020-2021, reflecting deficit and nominal GDP developments.

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	2120.5	100.0		3.7	3.1	4.9	5.3	4.1	-4.3	4.1
Private Consumption	1232.3	58.1		3.1	3.9	4.5	4.5	3.8	-4.9	3.8
Public Consumption	376.7	17.8		3.2	1.9	2.9	3.7	4.9	2.9	2.1
Gross fixed capital formation	386.4	18.2		3.7	-8.2	4.0	9.4	7.2	-8.4	5.9
of which: equipment	161.5	7.6		4.2	-7.6	8.3	1.6	9.0	-11.4	9.1
Exports (goods and services)	1175.9	55.5		8.1	8.8	9.5	7.0	4.7	-9.8	8.6
Imports (goods and services)	1103.2	52.0		6.3	7.6	9.8	7.6	2.7	-10.6	8.9
GNI (GDP deflator)	2031.1	95.8		3.5	2.7	4.7	5.3	3.3	-4.3	4.3
Contribution to GDP growth:										
Domestic demand				3.3	1.0	3.8	4.9	4.4	-3.9	3.6
Inventories				0.0	1.2	0.8	0.5	-1.4	-0.3	0.1
Net exports				0.4	0.8	0.3	0.0	1.2	-0.1	0.3
Employment				0.5	0.8	1.3	0.5	-0.2	-4.5	2.2
Unemployment rate (a)				12.9	6.2	4.9	3.9	3.3	7.5	5.3
Compensation of employees / head				4.4	4.8	5.8	7.9	7.3	3.8	2.6
Unit labour costs whole economy				1.2	2.5	2.2	3.0	2.8	3.5	0.7
Real unit labour cost				-1.2	2.2	0.3	1.8	-0.1	1.0	-1.8
Saving rate of households (b)				5.9	4.2	2.8	1.5	2.4	8.0	4.6
GDP deflator				2.6	0.3	1.9	1.2	2.9	2.4	2.5
Harmonised index of consumer prices				2.9	-0.2	1.6	1.2	2.1	2.5	2.8
Terms of trade goods				0.4	0.6	0.2	-1.2	1.9	0.6	0.3
Trade balance (goods) (c)				-3.0	0.7	0.3	-1.0	0.5	1.1	1.1
Current-account balance (c)				-3.5	0.0	0.1	-0.7	0.4	0.6	0.9
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-2.5	1.2	1.0	0.8	1.9	1.3	1.7
General government balance (c)				-4.4	-2.4	-1.5	-0.2	-0.7	-9.5	-3.8
Cyclically-adjusted budget balance (d)				-4.1	-2.1	-2.1	-1.9	-2.7	-8.3	-2.9
Structural budget balance (d)				-	-2.1	-2.1	-1.9	-2.7	-8.5	-3.1
General government gross debt (c)				47.6	54.3	50.6	48.8	46.0	58.5	58.3

(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.