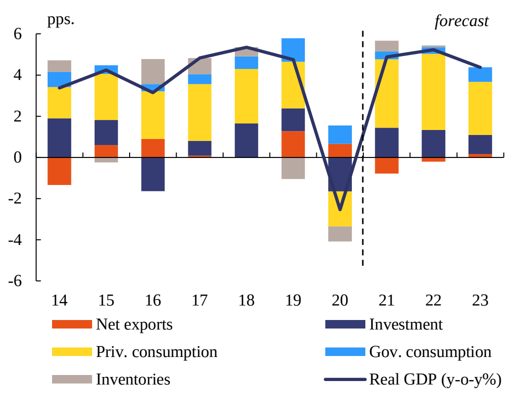
25. POLAND

The Polish economy rebounded strongly in the first half of 2021, reaching pre-pandemic levels of GDP in the second quarter of the year. Economic growth is expected to remain dynamic despite supply disruptions and soaring commodity prices, mainly driven by declining household savings and upbeat investment growth. Inflation is set to be elevated in 2021 and 2022 due to rising energy prices and unit labour costs, but will likely moderate in 2023. The general government deficit and the debt-to-GDP ratio are set to decrease over the forecast horizon.

GDP back to pre-pandemic levels

The Polish economy recovered strongly in the first half of 2021. Real GDP reached its pre-crisis levels in the second quarter of 2021, driven by the gradual easing of COVID-19 restrictions and increased confidence of businesses and consumers. Although supply disruptions and soaring commodity prices are creating headwinds for industry in the second half of the year, a strong performance of the labour market and increased spending opportunities for consumers should keep boosting economic activity, leaving real GDP growth at 4.9% in 2021.

Graph II.25.1: **Poland - Real GDP growth and contributions**



Strong growth to continue in 2022 and 2023

Economic growth is expected to remain strong in 2022 and 2023. Increasing household incomes, a gradual fall of the savings rate, and policy support resulting from changes in the personal income tax will likely propel private consumption growth in 2022 and, to a lesser extent, in 2023. Investment growth is also set to remain dynamic on the back of a favourable financial position of companies, firms' need to increase capacity, and low borrowing costs, which are also expected to support the recovery in the construction sector. On the external side, exports will likely benefit from the recovery of Poland's main trading partners. Nevertheless, the trade balance is expected to contribute negatively to growth in 2021 and 2022 given the strong increase in domestic demand, which is set to boost imports. All in all, real GDP growth is projected to reach 5.2% in 2022 and to decelerate to 4.4% in 2023.

Wage growth fuelled by labour shortages

The labour market has proved resilient to the crisis, with employment levels surpassing pre-crisis peaks in the second quarter of 2021. Job creation is set to continue as the economy grows, but emerging labour shortages will likely act as a significant drag on employment growth. Consequently, the unemployment rate is expected to increase to 3.3% in 2021 and to fall only slightly to 3.0% in 2023. Wage growth is projected to continue gathering pace driven by the drying-out of labour supply and a minimum wage hike in 2022.

HICP inflation to increase in 2021 and 2022

Rising commodity prices, booming demand and supply-side bottlenecks have contributed to a steady and strong rise in HICP inflation in recent months, which reached 5.6% in September. Strong price dynamics are forecast to persist in the remainder of 2021 and 2022, mainly as a result of an increase in energy prices and unit labour costs, which are set to put upward pressure on service price inflation. Furthermore, food prices are expected to increase partly driven by rising energy prices that are passed through to input prices for agricultural production. Some of these inflationary pressures prompted the central bank to tighten monetary policy, including by raising the policy rate. HICP inflation is thus expected to reach 5.0% in 2021 and to accelerate to 5.2% in 2022. Inflation expectations are however assumed to remain broadly contained, thus preventing temporary price pressures from becoming permanent and allowing inflation to slow to 2.6% in 2023.

Risks

The economic outlook remains uncertain and risks are broadly tilted to the downside. A stronger-than-expected rise in inflation stemming from supply constraints and labour shortages could weigh on purchasing power and private consumption growth. A sudden surge in COVID-19 cases, especially given Poland's relatively low vaccination rate, could also hinder the recovery.

Economic recovery to reduce the deficit

The general government headline deficit is set to decline to 3.3% of GDP in 2021. The revenue – mostly from taxes and social contributions – is expected to increase strongly. This is driven by the economic recovery, the favourable labour market developments and cyclical factors. New taxes, in particular the so-called power fee, sugar tax and retail tax, are expected to further increase revenue from indirect taxes. On the expenditure side, whereas the cost of measures to contain the impact of the pandemic is expected to be significantly lower than in 2020, this effect is set to be partly offset by some new expenditure items. This concerns mostly a one-off additional pension payment, the so-called 14th pension benefit, which is estimated to increase the 2021 headline deficit by nearly 0.5% of GDP.

In 2022, the phase-out of anti-pandemic measures will further reduce the deficit. At the same time, while revenue from indirect taxes is set to increase substantially, driven by the macroeconomic environment and increases in some taxes, the growth of revenue from direct taxes is expected to be negatively impacted by several changes to the personal income taxation. Overall, in 2022 the deficit is set to fall to 1.8% of GDP.

In 2023 the deficit is set to reach 2.1% of GDP. The general government debt-to-GDP ratio is forecast to decline from 57.4% of GDP in 2020 to 49.5% of GDP over the forecast horizon.

In the absence of a Council Implementing Decision approving Poland's Recovery and Resilience Plan, this forecast builds on the technical assumptions laid out in Box I.5.1 and includes RRF-financed expenditure envisaged in the plan. The forecast also incorporates expenditures financed by RRF grants, for a cumulative amount of 1.9% of 2019-GDP over the forecast horizon.

Table II.25.1:

Main features of country forecast - POLAND

	2020		Annual percentage change						
bn PLN	Curr. prices	% GDP	02-17	2018	2019	2020	2021	2022	2023
GDP	2326.7	100.0	3.8	5.4	4.7	-2.5	**4.9**	**5.2**	**4.4**
Private Consumption	1320.6	56.8	3.3	4.5	3.9	-2.9	**5.9**	**6.5**	**4.5**
Public Consumption	446.7	19.2	2.7	3.5	6.5	4.9	**2.0**	**1.7**	**3.9**
Gross fixed capital formation	386.3	16.6	4.0	9.4	6.1	-9.0	**8.7**	**7.8**	**5.3**
of which: equipment	150.2	6.5	4.8	8.0	3.2	-12.2	**17.2**	**10.2**	**5.4**
Exports (goods and services)	1307.2	56.2	7.6	6.9	5.2	0.1	**11.6**	**6.9**	**6.2**
Imports (goods and services)	1149.2	49.4	6.9	7.4	3.0	-1.2	**14.8**	**7.9**	**6.5**
GNI (GDP deflator)	2242.3	96.4	3.5	5.4	4.8	-2.1	**5.4**	**5.8**	**4.4**
Contribution to GDP growth: Domestic demand			3.4	4.9	4.5	-2.5	**5.2**	**5.4**	**4.2**
Inventories			0.2	0.4	-1.0	-0.7	**0.5**	**0.1**	**0.0**
Net exports			0.2	0.0	1.3	0.7	**-0.8**	**-0.2**	**0.2**
Employment			0.9	0.5	0.0	-0.1	**0.3**	**0.1**	**0.0**
Unemployment rate (a)			11.4	3.9	3.3	3.2	**3.3**	**3.1**	**3.0**
Compensation of employees / head			3.9	8.1	7.3	3.7	**7.1**	**8.3**	**6.7**
Unit labour costs whole economy			0.9	3.2	2.4	6.3	**2.5**	**3.0**	**2.2**
Real unit labour cost			-1.2	1.9	-0.7	2.1	**-2.1**	**-2.2**	**-0.5**
Saving rate of households (b)			4.8	1.6	2.9	8.8	**5.7**	**4.3**	**3.9**
GDP deflator			2.1	1.2	3.2	4.1	**4.7**	**5.4**	**2.7**
Harmonised index of consumer prices			2.0	1.2	2.1	3.7	**5.0**	**5.2**	**2.6**
Terms of trade goods			0.6	-1.2	1.5	3.0	**0.1**	**0.3**	**0.6**
Trade balance (goods) (c)			-2.7	-1.2	0.3	2.4	**1.3**	**0.7**	**0.8**
Current-account balance (c)			-3.3	-1.0	0.8	3.4	**2.6**	**2.6**	**2.9**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-2.3	0.1	2.1	4.6	**4.0**	**4.1**	**4.6**
General government balance (c)			-4.2	-0.2	-0.7	-7.1	**-3.3**	**-1.8**	**-2.1**
Cyclically-adjusted budget balance (d)			-3.9	-1.4	-2.4	-5.9	**-2.7**	**-1.8**	**-2.4**
Structural budget balance (d)			-2.1	-1.4	-2.4	-6.2	**-2.9**	**-2.1**	**-2.4**
General government gross debt (c)			49.6	48.8	45.6	57.4	**54.7**	**51.0**	**49.5**

(a) Eurostat definition. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.