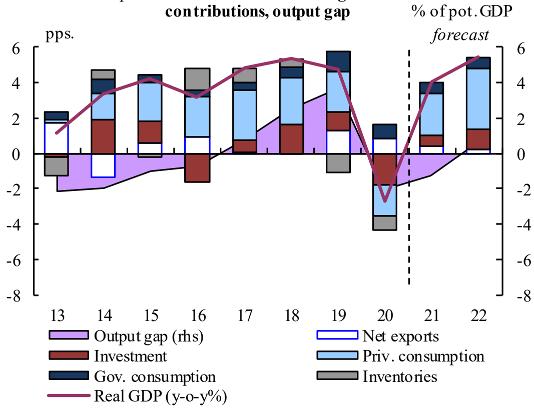
25. POLAND

The COVID-19 pandemic pushed Poland's economy into a broad-based recession in 2020. As the pandemic-related restrictions are gradually lifted, the economy should recover in 2021 and 2022, supported by pent-up consumer demand and the inflow of funds from Next Generation EU. Inflation is forecast to moderate only slightly, as growing energy prices counter the drop in core inflation. The fiscal deficit is set to decrease over the forecast horizon amid the recovery and the phasing-out of support measures.

A recession in 2020...

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



After nearly three decades of uninterrupted economic growth, Poland's economy contracted by 2.7% in 2020. The fall in GDP was milder than the EU average, however, as Poland's low exposure to hard-hit sectors and its diversified economic structure cushioned the impact of containment measures on economic activity.

... followed by a swift recovery

Real GDP growth is expected to resume in 2021. Following a slowdown in the first half of the year due to the reintroduction of containment measures, the recovery is expected to gather pace in the second half of 2021 on the back of pent-up consumer demand and the recovery of Poland's main trading partners. In 2022, the investment and reforms set out in Poland's Recovery and Resilience Plan are expected to start taking full effect and propel output growth, also supported by a sizeable carryover effect. Overall, Poland's economy is projected to grow by 4.0% in 2021 and 5.4% in 2022, with GDP expected to reach the pre-pandemic level in the third quarter of 2021.

A high level of household savings and rising consumer confidence are expected to give a push to private consumption in 2021 and 2022. In particular, increased spending opportunities for consumers following the assumed lifting of restrictions will likely lead to a gradual decrease in the saving rate, which is forecast to return to its pre-pandemic level at the end of 2022. Private investment is also set to recover thanks to improving business sentiment and low borrowing costs, although a delayed recovery in the construction sector will likely weigh on the magnitude of the rebound, particularly in 2021. Regarding foreign trade, the expected improvement in demand from abroad will likely boost exports over the forecast horizon, leading to a slight increase in the trade balance in 2021.

The Polish labour market proved resilient to the crisis in 2020, supported by government aid packages which encouraged cutting worktime rather than jobs. Government support is expected to continue in 2021, and once the restrictions are lifted and economic conditions are improved, the demand for labour will gradually increase. Nevertheless, employment growth will be constrained by pervasive labour shortages, the relatively muted drop in employment in 2020 and the gradual phase-out of government measures, particularly towards the end of 2021. As a result, the unemployment rate is projected to post a moderate increase in 2021 to 3.5%, and to gradually decrease again in 2022 to 3.3%.

HICP inflation to moderate only slightly

Unlike most EU countries, HICP inflation in Poland increased visibly in 2020 to 3.7%, mainly driven by rising service prices. Slower growth in unit labour costs and a large supply of food products are set to dampen HICP inflation in 2021, although the scale of the decline will be limited by growing energy prices. Overall, HICP inflation is projected to fall to 3.5% in 2021 and 2.9% in 2022.

Risks

The risks to this forecast mainly relate to how the labour market and firms will be affected by the gradual phasing-out of policy support measures. The evolution of the pandemic situation and a slower-than-expected vaccination rollout also represent significant downside risks.

Fiscal deficit to decline amid recovery

The COVID-19 pandemic and measures to cushion its effects had a sizeable impact on the general government headline deficit that reached 7.0% of GDP in 2020.

In 2021, the deficit is expected to decline to 4.3% of GDP. As compared to 2020, in relation to GDP, tax revenues are forecast to increase, while expenditures are expected to decrease, driven mainly by lower spending on measures to contain the impact of the pandemic. The economic recovery, the overall positive situation on the labour market and cyclical factors are set to be the main drivers of tax revenue developments. On top of this, new taxes are forecast to add over 0.4% of GDP to indirect tax revenues. This concerns mainly the so-called power fee, sugar tax and retail tax. At the same time, based on the information available at the cut-off date, the expenditure to contain the economic impact of the pandemic is set to be significantly lower at 2% of GDP in 2021, as compared to over 4% of GDP in 2020. The biggest expenditure in projected to come from loans granted to firms that are expected to be converted into grants and from additional investment expenditure by local governments from a dedicated fund. At the same time, new items are set to increase expenditure in 2021, particularly a one-off additional pension bonus, the so-called 14th pension benefit. In 2022, the deficit is forecast to moderate to 2.3% of GDP, driven mostly by the macroeconomic evolution.

In the absence of sufficiently detailed information about the national Recovery and Resilience Plan at the time of the cut-off date, this forecast assumes a simplified and linear integration of RRF-financed expenditure (explained in Box I.2.3 in chapter I.2.7), amounting to 0.4% of GDP in 2021 and 0.8% in 2022. The Plan is assumed to finance public and private investment, providing a boost to real GDP.

The general government debt-to-GDP ratio is expected to decline from 57.5% of GDP in 2020 to some 55% of GDP over the forecast horizon.

Table II.25.1:
Main features of country forecast - POLAND

		2019			Annual percentage change					
	bn PLN	Curr. prices	% GDP	01-16	2017	2018	2019	2020	2021	2022
GDP		2293.2	100.0	3.6	4.8	5.4	4.7	**-2.7**	**4.0**	**5.4**
Private Consumption		1318.6	57.5	3.1	4.7	4.5	3.9	**-3.1**	**4.2**	**5.9**
Public Consumption		413.2	18.0	2.8	2.7	3.5	6.5	**4.4**	**3.3**	**3.3**
Gross fixed capital formation		419.5	18.3	3.1	4.0	9.4	6.1	**-9.6**	**3.7**	**7.2**
of which: equipment		170.0	7.4	3.5	8.3	8.0	3.2	**-11.8**	**11.1**	**8.4**
Exports (goods and services)		1270.3	55.4	7.2	9.6	6.9	5.2	**-0.2**	**8.8**	**6.9**
Imports (goods and services)		1161.3	50.6	5.9	10.2	7.4	3.0	**-1.9**	**9.2**	**7.3**
GNI (GDP deflator)		2202.1	96.0	3.3	4.6	5.3	4.9	**-2.6**	**4.2**	**5.5**
Contribution to GDP growth:	Domestic demand			3.1	4.0	4.9	4.5	**-2.7**	**3.6**	**5.2**
	Inventories			0.1	0.8	0.4	-1.0	**-0.8**	**0.0**	**0.0**
	Net exports			0.4	0.1	0.0	1.3	**0.8**	**0.4**	**0.2**
Employment				0.6	1.3	0.5	-0.2	**0.1**	**0.0**	**0.2**
Unemployment rate (a)				12.3	4.9	3.9	3.3	**3.2**	**3.5**	**3.3**
Compensation of employees / head				4.1	5.8	8.1	8.5	**4.6**	**5.9**	**6.0**
Unit labour costs whole economy				1.2	2.3	3.2	3.3	**7.5**	**1.8**	**0.7**
Real unit labour cost				-1.0	0.4	1.9	0.1	**3.3**	**-1.0**	**-1.8**
Saving rate of households (b)				5.5	2.9	1.6	3.6	**8.7**	**6.7**	**3.1**
GDP deflator				2.2	1.9	1.2	3.2	**4.1**	**2.8**	**2.5**
Harmonised index of consumer prices				2.2	1.6	1.2	2.1	**3.7**	**3.5**	**2.9**
Terms of trade goods				0.6	0.2	-1.2	1.5	**2.6**	**-1.0**	**-1.1**
Trade balance (goods) (c)				-2.9	-0.1	-1.2	0.3	**2.4**	**1.9**	**1.1**
Current-account balance (c)				-3.5	-0.3	-1.0	0.9	**3.1**	**2.8**	**2.1**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-2.4	0.6	0.5	2.4	**4.8**	**5.0**	**4.9**
General government balance (c)				-4.4	-1.5	-0.2	-0.7	**-7.0**	**-4.3**	**-2.3**
Cyclically-adjusted budget balance (d)				-4.0	-1.9	-1.5	-2.5	**-5.9**	**-3.7**	**-2.7**
Structural budget balance (d)				-2.2	-1.9	-1.5	-2.5	**-6.2**	**-3.9**	**-2.9**
General government gross debt (c)				48.8	50.6	48.8	45.6	**57.5**	**57.1**	**55.1**

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