21. POLAND

Domestic demand to support growth

Private consumption is set to remain the key growth driver but its dynamics will gradually fade as employment gains slow and higher inflation weighs on real disposable income. Public investment activity is projected to remain strong, supported by EU funds, while private investment is set to strengthen. The headline fiscal balance is forecast to remain broadly stable.

Strong growth expected in 2018…

Economic growth in Poland is expected to reach 4.8% in 2018, on par with growth in 2017. As in 2017, private consumption is projected to be the main growth driver, fuelled by favourable labour market developments and strong consumer confidence. Positive growth contributions are also forecast from investment, where the utilisation of EU funds is accelerating and leading to a rise in public investment.

…but expansion set to slow gradually.

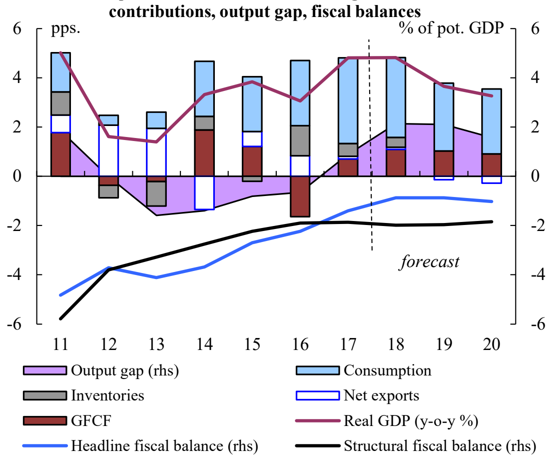
GDP growth is forecast to slow to 3.7% in 2019 and 3.3% in 2020 as private consumption growth cools due to the negative effect of rising inflation on real disposable income and the limited room for further employment gains. Investment growth is projected to remain strong in both 2019 and 2020 as high capacity utilisation levels, low interest rates and a favourable demand outlook spur an increase in private investment following a prolonged period of weak activity. This is expected to make up for the slowing, but still positive dynamics of public investment being supported by EU funding.

Poland is expected to continue gaining export shares in its key markets. Consequently, in the context of slower world trade dynamics, Poland's exports are projected to continue rising over the period 2019-2020, though at a slower pace. This, coupled with strong domestic demand, in particular the investment recovery, is set to translate into higher import demand. As a result, the contribution of net exports to GDP growth is expected to turn slightly negative in 2019 and 2020, after what is forecast to be a marginally positive contribution this year.

Rising wages and record low unemployment

The demand for labour is projected to remain strong, resulting in some acceleration of wage growth. At the same time, employment gains are forecast to slow from 1.4% in 2017 to 0.1% in 2020, given the limited pool of economically inactive and unemployed people with skills sought in the labour market. The employment rate (among 15-74 year olds) is projected to exceed 56% over the forecast period, an all-time high. The unemployment rate is expected to average 3.3% in 2018 and to fall further to 2.8% in 2020.

Graph II.21.1: **Poland - Real GDP growth and contributions, output gap, fiscal balances**



Labour market pressures and energy prices to translate into higher inflation

Inflation has stabilised at low levels since mid-2018, as slower food price increases counteracted the effects of rising energy prices. Inflation is forecast to remain subdued in the last quarter of 2018, due to base effects, but should gradually increase in 2019 and 2020. Faster wage growth is expected to be the main factor behind rising prices, especially in service sectors. Higher electricity prices are also expected to contribute to inflation, both directly through electricity bills paid by households and indirectly through the prices of energy-intensive consumer goods. 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, are forecast to constrain inflation growth.

Balanced risks

The uncertainty surrounding the economic outlook relates primarily to the external environment and the extent to which possible disruptions in international production chains will affect Polish producers. On the domestic demand side, there is a chance that investment could rise more than expected, if projects co-financed by the EU are rolled out more quickly or if business sentiment improves. However, there is also a chance that concerns about the institutional quality of Poland's justice system could negatively affect investment decisions sooner or more severely than assumed.

Stable nominal fiscal deficit

The headline fiscal deficit is forecast to decrease from 1.4% of GDP in 2017 to 0.9% of GDP in 2018. A strong increase in tax revenue, particularly from personal and corporate income taxes and social contributions are set to be the main driver of growing revenue. This strong performance is mostly explained by the favourable labour market developments. The robust macroeconomic environment and, to a lesser extent, new measures to improve collection support the outlook for indirect tax revenue. Public investment is expected to be the fastest growing expenditure item, driven by an increasing utilisation of EU funds and the election calendar.

In 2019 the headline fiscal deficit is expected to remain stable as a share of GDP. In 2020 – under a no-policy-change scenario – it is projected to increase slightly, to 1.0% of GDP. Tax revenue as well as investment and other expenditure items are expected to see lower dynamics than in 2018. At the same time, the labour market situation is expected to remain favourable, which should support strong growth in social contributions.

The structural deficit is forecast to reach 2% of potential GDP in 2018 and 2019 before declining to around 1¾% of potential GDP in 2020.

General government debt is set to continue its descending path, falling from over 50% of GDP in 2017 to around 47% of GDP in 2020, supported by relatively low deficits and strong nominal GDP growth.

Table II.21.1:

Main features of country forecast - POLAND

	2017		Annual percentage change						
bn PLN	Curr. prices	% GDP	99-14	2015	2016	2017	2018	2019	2020
GDP	1988.7	100.0	3.7	3.8	3.1	4.8	**4.8**	**3.7**	**3.3**
Private Consumption	1165.3	58.6	3.2	3.0	3.9	4.9	**4.5**	**3.8**	**3.4**
Public Consumption	351.7	17.7	3.2	2.3	1.9	3.5	**3.6**	**3.2**	**3.7**
Gross fixed capital formation	352.3	17.7	3.8	6.1	-8.2	3.9	**6.2**	**5.7**	**4.9**
of which: equipment	140.4	7.1	3.8	12.1	-7.6	4.4	**4.0**	**5.4**	**4.6**
Exports (goods and services)	1079.7	54.3	7.5	7.7	8.8	9.5	**6.1**	**5.8**	**4.6**
Imports (goods and services)	999.7	50.3	6.0	6.6	7.6	10.0	**6.5**	**6.4**	**5.4**
GNI (GDP deflator)	1911.2	96.1	3.5	3.9	2.9	4.6	**4.4**	**3.6**	**3.2**
Contribution to GDP growth: Domestic demand			3.4	3.4	1.0	4.2	**4.3**	**3.8**	**3.5**
Inventories			0.0	-0.2	1.2	0.5	**0.4**	**0.0**	**0.0**
Net exports			0.3	0.6	0.8	0.1	**0.1**	**-0.1**	**-0.3**
Employment			0.2	1.5	0.6	1.4	**0.7**	**0.3**	**0.1**
Unemployment rate (a)			13.3	7.5	6.2	4.9	**3.3**	**2.9**	**2.8**
Compensation of employees / head			5.2	1.7	5.1	6.0	**6.1**	**7.0**	**7.4**
Unit labour costs whole economy			1.6	-0.6	2.5	2.5	**1.9**	**3.5**	**4.1**
Real unit labour cost			-1.2	-1.3	2.2	0.6	**0.8**	**1.0**	**1.5**
Saving rate of households (b)			6.6	2.3	4.2	1.2	**0.9**	**0.7**	**0.9**
GDP deflator			2.9	0.8	0.3	2.0	**1.1**	**2.4**	**2.5**
Harmonised index of consumer prices			3.4	-0.7	-0.2	1.6	**1.2**	**2.6**	**2.7**
Terms of trade goods			0.1	2.9	0.6	0.1	**-1.2**	**0.1**	**0.2**
Trade balance (goods) (c)			-3.5	0.5	0.7	0.2	**-0.7**	**-1.1**	**-1.5**
Current-account balance (c)			-3.9	0.2	0.2	0.2	**-0.6**	**-0.9**	**-1.3**
Net lending (+) or borrowing (-) vis-a-vis ROW (c)			-3.0	2.6	1.4	1.4	**0.5**	**0.3**	**0.0**
General government balance (c)			-4.4	-2.7	-2.2	-1.4	**-0.9**	**-0.9**	**-1.0**
Cyclically-adjusted budget balance (d)			-4.0	-2.3	-1.9	-1.9	**-2.0**	**-2.0**	**-1.8**
Structural budget balance (d)			-	-2.2	-1.9	-1.9	**-2.0**	**-2.0**	**-1.8**
General government gross debt (c)			46.7	51.3	54.2	50.6	**49.2**	**48.3**	**47.4**

(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.