

POLAND

Real GDP growth is projected to average 3.3% in 2014 and ease to 3% in 2015 before bouncing back to 3½ per cent in 2016, driven initially by a strengthening in domestic demand and a progressive recovery in export markets. Headline inflation is projected to remain low for a short while, before gently rising as economic slack diminishes.

In response to signs of softer growth and low inflation, the central bank lowered its policy rate by half a percentage point in October 2014, and a further cut around year-end would be appropriate. Most of the fiscal consolidation in 2015 (estimated at 0.5% of GDP) stems from an earlier reform to the second-pillar pension system, which however also boosts implicit public pension liabilities.

Growth has moderated

Since the faster-than-expected expansion in the first quarter of 2014, economic activity has decelerated slightly. Export increases moderated as euro area growth slowed and geopolitical tensions intensified. At the same time, improving consumer confidence and persistent gains in employment and real wages have supported domestic consumption. Improvements in the construction sector were driven by a surge in residential investment and a pick-up in business investment.

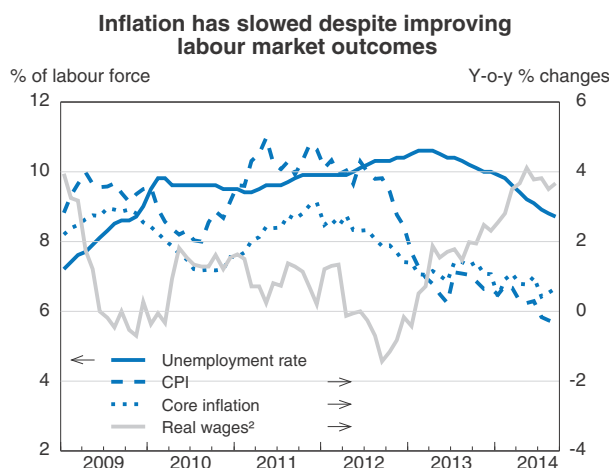
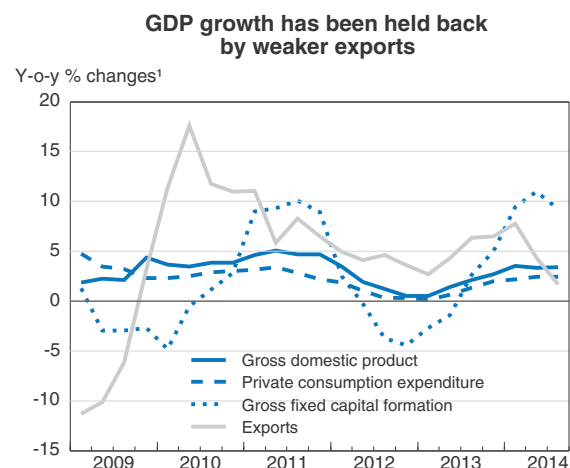
Monetary policy is supportive

Following slower economic growth and falling prices in the second half of 2014, the monetary authorities brought the policy rate to record low levels in October, providing an exceptionally supportive macroeconomic policy stance. The central bank did not rule out further adjustment of monetary policy, as inflation remains well below the 1.5-3.5% official target band, driven by downward pressures on food and energy prices, despite a strengthening labour market.

Fiscal consolidation will slow

The 2014 change in the pension system improved the immediate fiscal situation. The reform raised social security contributions, notably

Poland



1. Volumes, not yet updated to ESA 2010.

2. 3-month moving average.

Source: OECD Economic Outlook 96 database; Eurostat; and GUS.

StatLink <http://dx.doi.org/10.1787/888933169718>

Poland: **Demand, output and prices**

	2011	2012	2013	2014	2015	2016
	Current prices PLN billion	Percentage changes, volume (2010 prices)				
GDP at market prices	1 553.6	1.8	1.7	3.3	3.0	3.5
Private consumption	954.2	0.9	1.0	2.3	2.9	3.3
Government consumption	281.4	0.2	2.1	1.5	2.5	2.4
Gross fixed capital formation	315.6	-1.5	0.9	9.4	5.1	6.0
Final domestic demand	1 551.1	0.3	1.2	3.5	3.3	3.7
Stockbuilding ¹	29.8	-0.6	-0.9	0.0	0.0	0.0
Total domestic demand	1 581.0	-0.4	0.2	3.5	3.3	3.7
Exports of goods and services	670.2	4.3	5.0	3.8	3.3	5.9
Imports of goods and services	697.5	-0.6	1.8	6.6	4.0	6.4
Net exports ¹	- 27.4	2.1	1.4	-1.2	-0.2	-0.1
<i>Memorandum items</i>						
GDP deflator	—	2.2	1.2	0.9	0.7	1.4
Consumer price index	—	3.6	1.0	0.1	0.6	1.6
Private consumption deflator	—	3.2	0.8	0.7	0.4	1.3
Unemployment rate	—	10.1	10.3	9.2	8.6	8.2
General government financial balance ^{2,3}	—	-3.7	-4.0	-3.3	-2.9	-2.6
General government gross debt ⁴	—	61.2	62.3	55.7	57.2	57.9
General government debt, Maastricht definition ²	—	54.9	56.1	49.4	50.9	51.7
Current account balance ²	—	-3.7	-1.4	-0.9	-1.4	-1.5


1. Contributions to changes in real GDP, actual amount in the first column.

2. As a percentage of GDP.

3. According to ESA 2010, with private pension funds (OFE) classified outside the general government sector.

4. As a percentage of GDP at market value.

Source: OECD Economic Outlook 96 database.

StatLink  <http://dx.doi.org/10.1787/888933170506>

because the opt-out rate from the state system was less than anticipated, while also lowering measured public debt. The government recently announced new social expenditures worth around 0.2% of GDP in favour of families and low-income pensioners, but the deficit is expected to decrease to 2.9% of GDP in 2015. Although the fiscal stance is broadly appropriate, some additional consolidation in 2016 would help to reduce public debt below the so-called first corrective threshold of 43% of GDP (according to the national definition) specified in the spending rule, and to prepare for prospective increases in public health care and pension spending.

Growth will strengthen

Real GDP growth is estimated to bottom out in the coming quarters and then increase gradually to a rate that is enough to absorb economic slack at the beginning of 2016. As inflationary pressures would otherwise start to rise, the projections assume that the central bank will start to gradually increase its policy rate late in 2015. The decline in the unemployment rate and real wage growth will sustain rising consumption and domestic demand. Disbursements of EU funds will provide a stable source of funding for public investment. The improving prospects in

Poland's trading partners are projected to lead to a gradual recovery in exports.

**Risks are tilted to the
downside**

Poland is more exposed than most countries to events in the euro area and to geopolitical risks regarding Russia and Ukraine. Polish banks remain vulnerable to a delayed resolution of European banks' problems, despite their declining dependence on foreign funding. By contrast, private consumption and investment could respond more strongly than projected to confidence improvements and income gains.



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