



POLAND

Highlights

- **Poland entered a recession in 2020.** Nevertheless, the drop in economic activity in the first half of 2020 turned out to be less severe than anticipated by most forecasters.
- **Several anti-crisis measures have been introduced to fight the negative impact of the pandemic.** The estimated value of the measures exceeds 15 per cent of GDP, including guarantees, to support employment, businesses and the healthcare sector.
- **The central bank launched its first quantitative easing (QE) programme.** The National Bank of Poland has been buying treasury bonds and government-guaranteed debt instruments on the secondary markets.

Key priorities for 2021

- **Tapping the EU recovery fund and implementing the Just Transition initiative can support Poland's green economy transition.** Investment in digitalisation and green technologies can boost the post-recession recovery. This also includes investing in human capital and reskilling the workforce in the most polluting sectors, such as electricity production from coal.
- **Further business environment reforms are needed to attract investment.** The pandemic-driven restructuring of production locations of multinationals constitutes an opportunity for Poland, especially for enhanced usage of modern smart technologies and automation.
- **Policies that enhance inclusivity should be strengthened.** A diverse workforce can improve the bottom line of a business, lead to happier and more productive teams and drive innovation among employees. Any discriminatory language and measures, for example regarding sexual orientation, by the central and local governments will likely play against that.

Main macroeconomic indicators %

	2016	2017	2018	2019	2020 proj.
GDP growth	3.1	4.9	5.3	4.5	-3.5
Inflation (average)	-0.2	1.6	1.2	2.1	3.3
Government balance/GDP	-2.4	-1.5	-0.2	-0.7	-10.5
Current account balance/GDP	-0.8	-0.3	-1.3	0.5	3.0
Net FDI/GDP [neg. sign = inflows]	-0.9	-1.4	-2.6	-1.6	-0.5
External debt/GDP	76.4	67.0	63.8	58.8	n.a.
Gross reserves/GDP	24.3	21.4	19.9	21.7	n.a.
Credit to private sector/GDP	52.4	52.1	50.9	50.6	n.a.

Covid-19: macroeconomic implications

The Covid-19 outbreak and resulting restrictions pushed the economy into recession.

GDP growth had continued strongly in 2019 at 4.5 per cent but the outbreak of the coronavirus pandemic and the imposed administrative lockdown caused GDP to fall in the first half of 2020, by 3.2 per cent year-on-year, pushing the economy into recession for the first time since early transition. While Poland is highly integrated into global value chains and has a large exposure to trade, it still managed to show a positive net export contribution to growth in the first half of 2020. The Labour Force Survey unemployment rate remained stable, reaching 3.1 per cent in August 2020, helped by companies retaining employees thanks to the support measures introduced by the government.

Investment remains subdued. The investment-to-GDP ratio, which reached 18.5 per cent in 2019, has continued to be the lowest in central Europe and the Baltic states and has fallen during the first half of 2020. The investment growth rate in this period was down by 6.0 per cent year-on-year, and outlays on means of transport dropped by 24.6 per cent. According to various surveys referenced by the National Bank of Poland's July 2020 report on the conditions of enterprises in Poland, 80 per cent of companies were planning to reduce investments and 75 per cent of small and medium-sized enterprises (SMEs) had not planned any investments during the 2020 summer months.

Public finances have deteriorated. The deterioration of the general government balance in 2020 stems mainly from the new measures undertaken by the government in response to the Covid-19 pandemic and the macroeconomic slowdown. According to the International Monetary Fund's October 2020 estimates, the general government deficit is expected to rise to 10.5 per cent of GDP in 2020, before falling to a deficit of 4.3 per cent of GDP in 2021 as the economy rebounds. At the same time, gross public debt is expected to reach an historic high of 60 per cent of GDP by the end of 2020 and rise further in 2021.

A recovery is expected in 2021 but significant risks remain. The domestic market has proved to be relatively resilient to the effects of Covid-19, but the magnitude of the recovery will depend largely on external factors next year. We anticipate GDP will fall by 3.5 per cent in 2020, and rise by 3.0 per cent in 2021. Key risks to the forecast refer to the direction and magnitude of the development of the pandemic. No severe country-wide lockdowns are expected, although the financial capability of the state to offset any potential local and temporary closures of businesses remains limited. The unemployment rate is likely to rise, weighing somewhat on the recovery of household consumption.

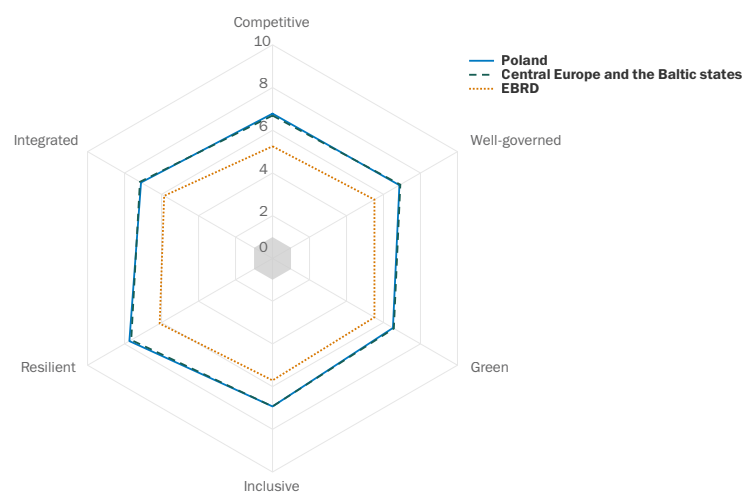
Policy response to Covid-19

The Covid-19 pandemic-related restrictions triggered rapid crisis protective measures. At the beginning of March 2020 the government put in place strict containment measures, including a shutdown of businesses and schools, causing a sharp reduction in economic activities. As a result, the government and the National Bank of Poland launched various relief measures to preserve employment, support companies in a state of hibernation and support household incomes – all designed to dampen the effects of the pandemic. While the majority of restrictions were gradually lifted from May 2020, including those on international travel, some were re-imposed in the third quarter of 2020 on a regional basis where a surge of new cases became evident.

A series of anti-crisis measures have been introduced. In March 2020 the president signed the first of the anti-crisis shields into law, worth about 10 per cent of GDP and comprising dozens of measures to support employment, companies and the healthcare sector, and widen the competences of the state-run Polish Development Fund (PFR). The announced measures include furloughs and preferred loans (with a grant option) for companies with a decline in turnover due to Covid-19 that maintain employment, social security breaks for micro enterprises and reductions for small companies, and cash stipends for the self-employed. The crisis legislation was extended in April to include a PLN 100 billion (about 4.5 per cent of GDP, €23 billion) liquidity scheme, called "the PFR financial shield for companies and employees", managed by the PFR. The scheme includes loans to micro companies, SMEs and large firms, of which some 75 per cent are in the form of grants. Guarantees mostly come from the Polish Development Bank (BGK), announced

at PLN 100 billion (€23 billion). In June 2020 the president signed into law “anti-crisis shield 4.0”, which includes subsidised interest rates on bank loans, support for local government finances, protection for Polish firms from takeover by investors outside the EU, credit holidays and extended care allowances. Financing of the BGK and PFR programmes has been mostly provided through bond placements, also acquired in the secondary market by the central bank through its QE programme. The ultimate value of the anti-crisis measures may differ from the announced figures, in line with policy changes and emerging financial needs.

Assessment of transition qualities (1-10)



Structural reform developments

The government introduced a two-year voucher programme to support the tourism sector.

In July 2020 parliament approved a bill to give families tourism vouchers worth PLN 500 (€1.15) per child, in a programme that will cost an estimated PLN 4.0 billion (€0.9 billion). About 6.5 million Poles are eligible to receive the vouchers, and disabled children receive an additional PLN 500 each. Initial take-up of the programme was slow. However, its fully electronic form should contribute to digital inclusion and take-up of the e-government services. The tourism sector in Poland normally accounts for about 5 per cent of GDP.

The central bank launched its first QE programme. The National Bank of Poland (NBP) started its first QE programme, announced in mid-March 2020, through buying treasury bonds and, since April 2020, government-guaranteed debt instruments on the secondary markets from banks. The ultimate size of the QE was not announced. In addition, through its three rate cuts, the reference rate went down to an historically low rate of 0.1 per cent in May 2020 (from 1.5 per cent in March). The NBP has also conducted repurchase agreement operations to extend liquidity to banks. Other measures introduced by the NBP include bill discount credit aimed at refinancing bank loans granted to enterprises. Furthermore, the Minister of Finance, based on the recommendation of the Financial Stability Committee (KSF), fully released the systemic risk buffer (from 3 per cent to zero).

More EU funds became available to fight the impact of the pandemic, but some funds have been blocked. In July 2020 the European Commission (EC) approved the redirection of about €2.2 billion from cohesion funds to anti-pandemic measures, especially to support SMEs, to enable the remuneration of professions at risk in healthcare, and to purchase medical equipment. The upcoming 2021-27 EU funds will consist of two pillars: the regular multiannual financial framework (MFF) and an extraordinary Covid-19 recovery fund. Poland is expected to receive €139 billion as grants and €34 billion as loans. In July 2020, however, the EC blocked some payments (a total of less than €0.2 million) to six municipalities which had announced themselves as “LGBT-free zones”. In September 2020 the European Parliament adopted a resolution that, among others, expresses concerns regarding fundamental rights in Poland.

Disagreement raised by judicial reform has remained unresolved. The EC and the Polish government have continued to engage in a rule-of-law dialogue within the framework of the Article 7(1) procedure of the Treaty on European Union triggered by the EC in December 2017. On 29 April 2020 the EC launched its fourth infringement procedure against Poland, this time regarding the new law on the judiciary, which was adopted in December 2019 and entered into force in February 2020. The EC concluded that several elements of the new law undermined the judicial independence of Polish judges and violated EU law. On 8 April 2020 the European Court of Justice (ECJ) ruled that Poland must suspend the application of the law until the ECJ's final judgment.

