BPI

Poland

Outlook

								Forecasts	
	Average 10-14	2015	2016	2017	2018	2019	2020	2021	2022
GDP growth (%)	2.9	4.2	3.2	4.9	5.4	4.5	-2.8	3.0	4.9
CPI inflation (%)*	2.2	-0.7	-0.2	1.6	1.2	2.1	3.7	2.1	2.2
Fiscal balance (% of GDP)	-4.8	-2.6	-2.4	-1.5	-0.2	-0.7	-8.8(e)	-4.2	-3.0
Public debt (% of GDP)	53.9	51.3	54.2	50.6	48.8	45.7	56.6(e)	57.3	56.4
Reference rate (%)*	3.5	1.6	1.5	1.5	1.5	1.5	0.5	0.1	0.5
Exchange rate (PLN/USD)*	3.1	3.8	3.9	3.8	3.6	3.8	3.9	3.6	3.6
Current account balance (% of GDP)	-3.7	-0.9	-0.8	-0.3	-1.3	0.5	2.9(e)	1.6	0.5
External debt (% of GDP)	68.0	69.7	72.4	67.8	62.9	59.1	58.8(e)	53.3	51.4

Notes: * Annual average. (e) estimation.
Source: BPI Research, based on data from national statistical agencies and AMECO.

- **Compared with its neighbours in the region and the euro area as a whole, the Polish economy managed to weather the first outbreak of COVID-19 relatively well.** The low rate of infections in the first wave and its limited dependence on the tourism sector were key factors that led to a moderate fall in GDP in Q2 2020. However, the second wave was more severe and the damage to economic activity toward the end of the year was similar to the one observed in the rest of the EU. In general terms, GDP shrank by 2.8% in the whole of 2020 and it is expected to recover and grow by 3% in 2021, thanks to the EU aid and monetary and fiscal stimulus. However, the country continues to face the long-term challenges of improving productivity to reach the levels of advanced countries in the EU, the population decline, halting the spiral of confrontation in the EU and meeting the EU's climate targets.

- **Impact of COVID-19.** The first wave of the pandemic was not very severe in Poland, as was the case for its neighbours in Eastern Europe, and infections in the region were notably below the average in the EU. However, the severity of the second wave forced the Polish authorities to impose further lockdown measures. In any event, over the whole year, Poland was one of the economies in the region that was least hard-hit by the pandemic, as the Polish economy depends less on the sectors that were worst affected by restrictions on mobility, such as tourism.

- **Economic policy response**
  - **Monetary policy.** The Polish Central Bank (NBP) responded quickly to this exceptional situation and cut the official interest rate by 140 bp to 0.1% and it bought 105 billion zloty-worth of public debt on the secondary market (around 5% of GDP). Moreover, the NBP also launched measures aimed at increasing liquidity in the financial system and it lowered the reserve requirements to allow credit to continue flowing into the economy.
  - **Fiscal policy.** The government implemented various fiscal measures, with the aim of mitigating the pandemic's impact on the economy and supporting the start of the recovery. In particular, the measures to increase direct spending and loans and guarantees amounted to 3.3% and 4.5% of 2019's GDP, respectively. Despite the significant rise in public expenditure, the medium-term sustainability of debt is not in question and we expect it to remain well below 60% of GDP in the coming years.

Closing date of this edition: 2 February 2021

Outlook (continued)

- **Next Generation EU.** The EU recovery plan will transfer over 26 billion euros to Poland (5% of GDP). Most of these funds will be received between 2021 and 2023 and they should help not only to prop up the economic recovery, but also to overcome the challenges of digitalisation and climate change. Poland must make huge efforts on this latter point, as it is one of the EU countries with the highest percentage of workers in polluting industries. In this regard, Poland is the biggest beneficiary of the EU's Just Transition Fund, which is aimed at helping workers and businesses currently in the most polluting industries to adapt to the green transition.

- **Evolution of the exchange rate.** The zloty depreciated in 2020 due to the global preference for safe haven assets, such as the dollar or Japanese yen. In this regard, insofar as the economic recovery will be stronger in Poland than the EU as a whole, we expect the zloty to strengthen. This will also be aided by the NBP withdrawing monetary stimulus before the ECB does so. However, the NBP has indicated that the over-appreciation of the national currency represents a risk to the recovery and it has intervened in the foreign exchange market to limit its rise.

Main risks

- **Political risk.** Support for the government's main party (Law and Justice) has fallen due to tensions with its coalition partners and the damage done by having to tackle the pandemic. Although it is likely that the current government will be able to complete its term in 2023, as expected, it will find it more difficult to implement reforms than in its previous term (2015-2019). In external matters, Poland continues to drift apart from the EU and move diplomatically closer to Russia and the US.

- **Risks to the financial system.** The Polish banking sector is facing several challenges which, despite being properly identified and well provisioned, threaten the profitability of the financial sector as a whole. Firstly, there is the ongoing issue of the Court of Justice of the European Union ruling in favour of converting Swiss franc-denominated mortgages to zloty at the original exchange rate. Although the banks concerned have provisioned for part of this potential cost, the final amount to be compensated is uncertain. Secondly, the financial sector may also be negatively affected by the low interest rates and an eventual rise in non-performing loans. To limit this potential rise, it would be best if state aid were not withdrawn prematurely and support continues to be provided to solvent companies in the medium and long terms, until economic activity returns to normal.

	Rating	Last changed	Outlook	Last changed
Standard & Poor's	A-	12/10/18	Stable	12/10/18
Moody's	A2	12/11/02	Stable	12/05/17
FitchRatings	A-	18/01/07	Stable	23/08/13

■ Indicates that the country has "investment grade".
□ Indicates that the country does not have "investment grade".