POLAND

GDP growth is projected to exceed 3% in 2017 and 2018 as domestic demand accelerates and investment recovers on the back of growing business confidence, faster EU structural funds disbursement and low real interest rates. Underlying price pressures are set to build as the labour market tightens.

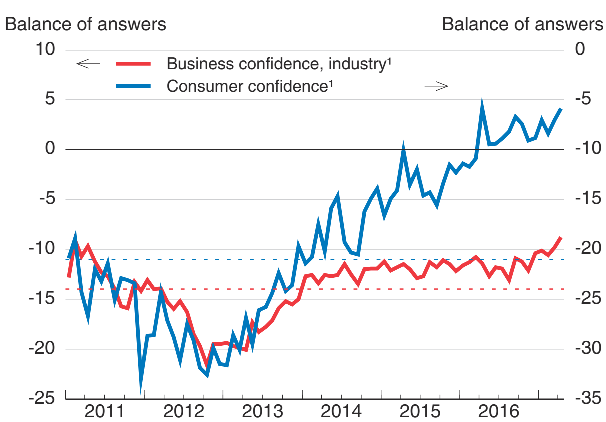
The central bank is projected to start raising interest rates in early 2018 as inflation increases and slack disappears. The budget deficit may widen due to rising social benefits. Removing VAT tax breaks would put the public finances on a firmer footing and could also provide room to increase infrastructure and age-related social spending.

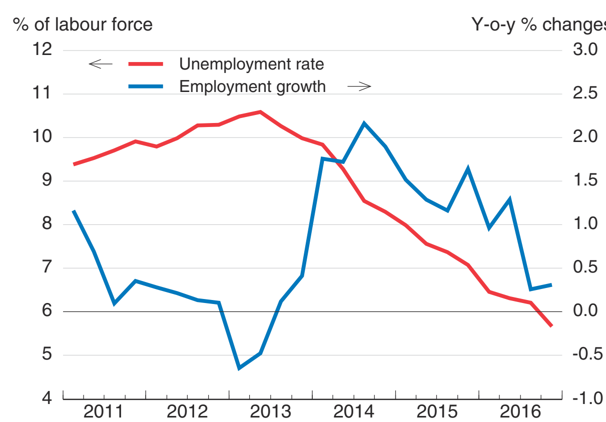
Poland has benefitted substantially from its integration into global value chains. As foreseen in the government's responsible development plan, stimulating private R&D spending and improving research quality and university-industry collaboration will be essential to improve Poland's ability to innovate and adopt new technologies to move towards higher technology production and strengthen trade prospects. Too many adults have low skills; improving their access to training while strengthening firms' engagement in vocational education would ensure that globalisation benefits are shared more widely.

Economic growth seems to be picking up

GDP expanded at a rapid pace recently, and high-frequency indicators such as consumer and business sentiment suggest this positive momentum is likely to continue. Ongoing employment gains have led to a record-low level of unemployment, which in combination with rising wage rates and social transfers are supporting private consumption and a decline in inequality. Inflation has increased, driven by higher energy and food prices. However, underlying inflation remains low, even if it has risen.

Poland





1. Long-term averages are displayed as dotted lines.
Source: OECD Economic Outlook 101 Database; and Eurostat, Business and Consumer Surveys Database.

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Poland: **Demand, output and prices**

	2013	2014	2015	2016	2017	2018
	Current prices PLN billion	Percentage changes, volume (2010 prices)				
GDP at market prices	1 656.8	3.3	3.8	2.7	3.6	3.1
Private consumption	1 009.7	2.4	3.0	3.8	3.9	3.0
Government consumption	300.4	4.1	2.4	2.8	3.0	3.8
Gross fixed capital formation	311.7	10.0	6.1	-7.9	3.3	4.7
Final domestic demand	1 621.8	4.2	3.5	1.1	3.6	3.5
Stockbuilding[1]	2.8	0.5	-0.2	1.2	-0.1	0.0
Total domestic demand	1 624.6	4.7	3.3	2.4	3.5	3.4
Exports of goods and services	767.5	6.7	7.7	9.0	7.8	6.3
Imports of goods and services	735.2	10.0	6.6	8.9	6.5	7.1
Net exports[1]	32.3	-1.3	0.6	0.3	0.9	-0.2
Memorandum items						
GDP deflator	_	0.5	0.8	0.2	1.4	1.8
Consumer price index	_	0.1	-0.9	-0.7	2.3	1.8
Private consumption deflator	_	-0.1	-1.1	-0.6	1.9	1.9
Unemployment rate	_	9.0	7.5	6.2	5.2	5.0
General government financial balance[2]	_	-3.5	-2.6	-2.4	-2.9	-3.0
General government gross debt[2]	_	70.0	69.4	71.9	72.7	73.6
General government debt, Maastricht definition[2]	_	50.2	51.1	54.4	55.1	56.1
Current account balance[2]	_	-2.1	-0.6	-0.3	-0.2	-0.1

1. Contributions to changes in real GDP, actual amount in the first column.
2. As a percentage of GDP.
Source: OECD Economic Outlook 101 database.

StatLink http://dx.doi.org/10.1787/888933506056

Structural reforms are needed to ensure continued benefits from globalisation

Despite a sharp jump in social spending, the budget deficit improved slightly in 2016 as public investment shrank. The deficit is projected to widen in 2017-18, reflecting a further step-up in social spending and a rebound in public investment. Efforts to improve tax compliance and the extension of the increased VAT rate are welcome and will help limit the rise in the deficit. However, the debt-to-GDP ratio is projected to climb further, suggesting a need for additional tax revenues, particularly as investment needs and social spending are set to grow, especially with population ageing. Revenues can be raised by removing VAT tax breaks, as Poland has one of the European Union's largest VAT revenue shortfalls. The central bank should gradually raise its policy interest rate from early 2018 as inflation moves closer to the target and economic slack dissipates.

Poland has benefitted substantially from its integration into global value chains. Moving towards higher-technology production would raise living standards and ensure continuing globalisation benefits. In this respect, raising skills by improving adults' access to training and strengthening firms' engagement in vocational education and developing transport and communication infrastructure would enhance labour mobility, boost productivity and promote inclusive growth. Modernising electricity and heat generation capacity will secure a greener and more reliable energy supply. Increasing green taxes and ensuring that climate-change policies are clear and aligned with European and international objectives will raise revenues while promoting well-being.

Domestic demand is projected to strengthen

GDP growth is projected to pick up to over 3% in 2017-18, underpinned by strong private consumption driven by increasing labour incomes and social transfers. EU-financed public investment should soon regain momentum, and strong business sentiment and low real interest rates are expected to support business investment. A modest recovery in external demand should also buttress export growth, allowing the current account deficit to remain broadly stable. Unemployment should continue to ease, pushing up underlying consumer price inflation.

The main domestic financial risk is related to the Swiss-franc-denominated mortgage loans, as the costs of the potential forced compensation mechanism imposed on banks could limit credit extension. Policy uncertainty related to the details of planned changes to the tax system could also hamper the recovery in investment and have adverse employment effects. Alternatively, strong wage growth and a swift implementation of the government's responsible development plan would lead to more buoyant domestic demand. A stronger euro area outlook would boost exports more than expected, but weaker activity in the euro area would undermine the investment recovery and economic activity.