

## POLAND

**Economic growth is projected to remain solid, but ease gradually as labour resources become scarcer and production costs rise. Domestic demand will continue to drive growth: consumption will be supported by a tight labour market and investment by the disbursements of EU structural funds and low real interest rates. Intensifying labour shortages will boost wage growth and inflation.**

**The budget deficit will remain broadly stable, although a tighter fiscal stance would help confront demographic challenges and strengthen the fiscal position to deal with a potential future downturn. The central bank is projected to raise interest rates gradually to counter rising inflationary pressures. Removing impediments to employment of seniors and females, and making more effective use of workforce skills, would raise medium-term growth and living standards, while investing further in early childhood education would promote more inclusive growth.**

### ***Economic growth has been strong***

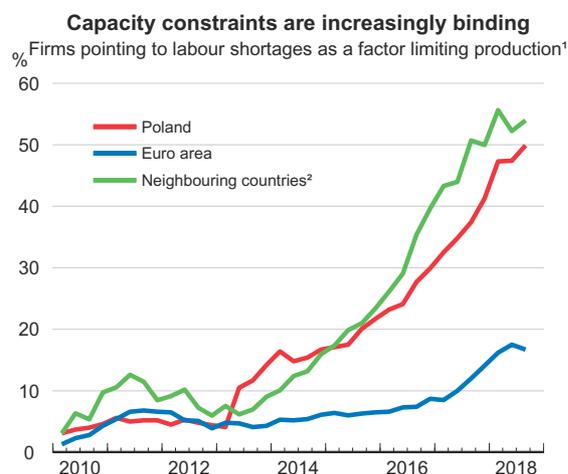
Economic activity has continued to expand at a rapid pace. A booming labour market and rising social transfers have supported private consumption. Investment is recovering, driven by a rebound in public investment and a pick-up in residential construction. Export performance has continued to improve, but the trade surplus is falling as growth in imports has recently outpaced increases in exports.

The labour market is increasingly tight as the unemployment rate has reached a record low. Job vacancies are elevated, businesses increasingly report labour shortages, and wages are growing rapidly. However, underlying inflation remains low for the time being.

### ***Revenue-raising reforms would help address medium-term challenges***

A pick-up in public investment and an increase in pension spending due to a cut in the statutory retirement age are putting upward pressures on public spending. However, strong

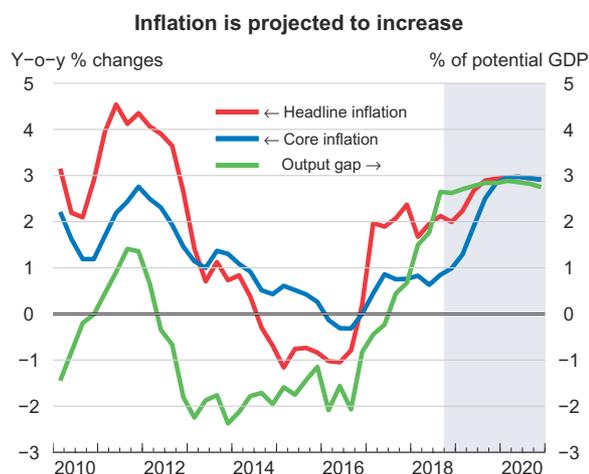
### Poland



1. Manufacturing firms.

2. Unweighted average of Hungary, the Czech Republic and Slovak Republic.

Source: Eurostat, Business Survey Database; and OECD Economic Outlook 104 database.



StatLink <http://dx.doi.org/10.1787/888933877126>

Poland: **Demand, output and prices**

	2015	2016	2017	2018	2019	2020
	Current prices PLN billion	Percentage changes, volume (2010 prices)				
<b>GDP at market prices</b>	1 800.2	3.1	4.8	5.2	4.0	3.3
Private consumption	1 051.5	3.9	4.9	4.6	4.2	3.7
Government consumption	324.7	1.9	3.5	3.9	4.2	4.1
Gross fixed capital formation	361.5	-8.2	3.9	6.4	6.9	5.8
Final domestic demand	1 737.7	1.0	4.4	4.8	4.7	4.2
Stockbuilding <sup>1</sup>	6.8	1.2	0.5	1.0	-0.1	0.0
Total domestic demand	1 744.5	2.3	4.9	5.7	4.5	4.1
Exports of goods and services	891.1	8.8	9.5	6.2	7.2	5.7
Imports of goods and services	835.4	7.6	10.0	6.9	8.4	7.3
Net exports <sup>1</sup>	55.7	0.8	0.1	-0.1	-0.4	-0.8
<i>Memorandum items</i>						
GDP deflator	—	0.3	2.0	0.6	2.4	3.3
Consumer price index	—	-0.7	2.1	1.9	2.7	2.9
Core inflation index <sup>2</sup>	—	-0.2	0.7	0.8	2.1	2.9
Unemployment rate (% of labour force)	—	6.1	4.9	3.7	3.2	3.0
Household saving ratio, net (% of disposable income)	—	1.5	-1.2	-1.8	-0.2	1.0
General government financial balance (% of GDP)	—	-2.2	-1.4	-0.8	-0.8	-0.9
General government debt, Maastricht definition (% of GDP)	—	54.2	50.6	49.2	47.6	46.2
Current account balance (% of GDP)	—	-0.5	0.1	-0.2	-0.9	-1.1

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

2. Consumer price index excluding food and energy.

Source: OECD Economic Outlook 104 database.

StatLink  <http://dx.doi.org/10.1787/888933878057>

private consumption and measures to improve tax compliance are increasing revenues from indirect taxes, while social security contributions and direct taxes on households benefit from the strong labour market. Given the current strength of the economy and future spending needs due to ageing, revenue-raising reforms would be appropriate. Eliminating reduced VAT rates, raising environmentally-related taxes, and raising the personal income tax by introducing lower initial and more intermediate tax brackets and ending the preferential tax treatment of the self-employed would increase revenues, while promoting a more environmentally sustainable and inclusive growth.

Monetary policy has been appropriately accommodative given subdued inflationary pressures. Yet, wages are projected to accelerate, as capacity constraints become increasingly binding. The central bank is projected to initiate a tightening cycle in early 2019 to counter rising inflationary pressures.

Structural policies could increase growth and inclusiveness. Further developing high-quality childcare services will be vital to support women's labour force participation and child development, particularly for those from disadvantaged backgrounds. Strengthening efforts to make the public aware of the benefits of working longer could induce workers to delay retirement. Making Poland more attractive to domestic and foreign workers alike by developing a migration strategy, while making a more effective use of workforce skills by incentivising employers to promote adult training and vocational

education, would also raise growth and provide an opportunity to enhance the lifetime chances of those currently under-privileged.

***Growth will decline gradually***

Real GDP growth is projected to decline to 4% in 2019 and 3.3% in 2020. Private consumption will continue to grow strongly thanks to a booming labour market, but it will slow as the recent child benefit will no longer support households' disposable income growth. Investment will gather pace thanks to rising disbursements of EU structural funds and low real interest rates. The main upside domestic risks are higher-than-projected private consumption supported by the buoyant labour market or larger-than-expected private investment spurred by capacity constraints. An increase in protectionism would have adverse effects on exports and investment, harming productivity and potential growth.