

21. POLAND

Investment recovery and private consumption set to fuel growth

The continuation of solid growth in private consumption, together with a recovery in investment, is forecast to lead to faster economic growth in 2017 and 2018. The labour market has performed well so far but is expected to tighten with labour supply negatively affected by a lowering of the statutory retirement age. The headline and structural fiscal deficits are set to increase, reflecting higher public investment and social expenditures.

Growth is expected to strengthen in 2017

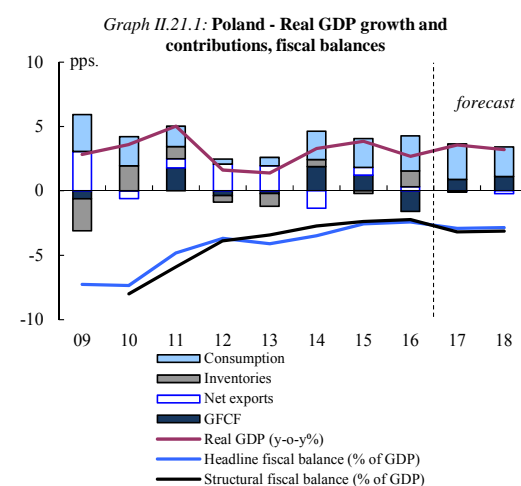
Real GDP growth is expected to rebound to 3.5% in 2017, before slowing slightly to 3.2% in 2018, with domestic demand remaining the key driver of the economy. Specifically, private consumption is forecast to increase strongly in 2017, driven by robust wage growth and the delayed effects of higher social transfers, before moderating in 2018. The expected trends differ between public and private investment. Public investment is projected to quickly recover from its slump in 2016 and remain strong into 2018 as EU funds are put to use and local governments prepare for the 2018 elections. Private investment is forecast to recover only gradually, with higher growth rates in 2018. Solid domestic demand and exports, as well as high capacity utilisation rates, robust corporate profits and low interest rates are all expected to support investment. By contrast, elevated uncertainty is likely to discourage investment decisions.

Exports are projected to continue rising strongly in both 2017 and 2018, driven by higher external demand. At the same time, recovering investment, robust private consumption and a somewhat stronger zloty are set to boost import demand. As a result, the net growth contribution of the external sector is expected to be slightly negative in 2017 and 2018.

Labour market tightening further

In 2017 and 2018, the labour force is projected to continue shrinking. This results from the combination of a gradually falling working age population, a significant lowering of the statutory retirement age in October 2017 and some other recent policy measures that may discourage labour force participation, particularly of low-skilled people. Labour supply constraints are expected to lead to total employment growth slowing in 2017 before coming to a halt in 2018. As a result, the unemployment rate is set to fall to a new record low, reaching 4.4% in 2018.

The tightening of the labour market is expected to lead to faster nominal wage growth, above 5% in 2018. One important factor preventing an even stronger wage acceleration is high and increasing labour immigration that is only partially reflected in employment statistics.



Gradual pick up in core inflation

Inflation increased strongly at the turn of 2016 and 2017, driven by unprocessed food and energy prices. As these price increases subside, annual HICP inflation is projected to broadly stabilise averaging 1.8% in 2017 and 2.1% in 2018. Meanwhile, faster wage growth is projected to fuel a gradual increase in core inflation, excluding energy and unprocessed food prices, reaching 1.2% in 2017 and 2.0% in 2018.

Broadly-balanced risks

Key downside risks to the growth forecast include a possible worsening of business confidence which may weigh on private investment decisions. Public infrastructure investment may face labour supply constraints in some sectors. On the upside, more people than currently projected could stay in the labour force, leading to an improvement in the growth potential of the economy.

Government deficit to increase in 2017

The headline general government deficit narrowed to 2.4% of GDP in 2016, its lowest level since 2007. This resulted mainly from a substantial drop in public investment and to a lesser extent from improved tax collection. Simultaneously, social transfers increased significantly, reflecting an introduction of a universal child benefit in the second quarter of 2016. The previous forecast for 2016 included a one-off revenue of 0.5% of GDP from the sale of mobile internet frequencies. Following new guidance from Eurostat, this was ultimately classified as a rent spread over 15 years.

In 2017, the headline fiscal deficit is projected to widen to 2.9% of GDP. It is set to be driven by a strong rebound in public investment and to a lesser extent by the costs related to the child benefit, and the lowering of the statutory retirement age. These additional expenditure items are projected to be partly offset by a two-year extension of the application of higher VAT rates and increased revenue from social contributions. Additionally, improving tax collection resulting to some extent from several measures implemented in 2016 and 2017, mainly in the area of taxes on production

and imports, is also projected to partially offset the increased expenditure. The 2017 fiscal deficit may turn out to be lower, particularly if the tax tightening measures yield better results than currently assumed.

Under a no-policy-change assumption, Poland's headline general government deficit is expected to stay at 2.9% of GDP in 2018. Both expenditure and revenue as a share of GDP are set to remain broadly stable, despite the increasing costs of the lowering of the statutory retirement age.

The structural deficit narrowed to 2¼% of GDP in 2016, its lowest level since 2010. However, against the background of strong real GDP growth and an increasing headline deficit, the structural deficit is forecast to widen significantly to 3¼% of GDP in 2017 and 3% of GDP in 2018.

The general government debt-to-GDP ratio is set to increase from 54.4% at the end of 2016 to around 55% at the end of the forecast horizon. However, the debt projections for Poland are subject to significant uncertainty due to the high, although slowly declining, share of sovereign debt denominated in foreign currencies.

Table II.21.1:

Main features of country forecast - POLAND

	2015			Annual percentage change						
	bn PLN	Curr. prices	% GDP	97-12	2013	2014	2015	2016	2017	2018
GDP	1799.3		100.0	4.1	1.4	3.3	3.8	2.7	3.5	3.2
Private Consumption	1051.5		58.4	3.8	0.3	2.4	3.0	3.8	3.9	3.1
Public Consumption	323.8		18.0	3.1	2.5	4.1	2.4	2.8	2.8	2.8
Gross fixed capital formation	361.5		20.1	5.4	-1.1	10.0	6.1	-7.9	4.9	6.1
of which: equipment	136.5		7.6	5.2	4.6	11.2	5.3	4.0	4.3	5.5
Exports (goods and services)	891.1		49.5	8.3	6.1	6.7	7.7	9.0	7.7	6.6
Imports (goods and services)	835.4		46.4	7.7	1.7	10.0	6.6	8.9	8.5	7.4
GNI (GDP deflator)	1732.9		96.3	3.9	1.8	2.9	3.9	2.6	3.5	3.1
Contribution to GDP growth:		Domestic demand		4.1	0.4	4.1	3.4	1.2	3.6	3.4
		Inventories		0.0	-1.0	0.5	-0.1	1.2	0.0	0.0
		Net exports		0.0	1.9	-1.3	0.6	0.3	-0.1	-0.2
Employment				0.2	-0.1	1.7	1.5	0.6	0.4	0.0
Unemployment rate (a)				13.4	10.3	9.0	7.5	6.2	5.2	4.4
Compensation of employees / head				7.1	1.7	2.2	1.1	3.6	4.3	5.1
Unit labour costs whole economy				3.0	0.2	0.6	-1.1	1.5	1.1	1.8
Real unit labour cost				-1.2	-0.1	0.1	-1.9	1.3	-0.2	-0.2
Saving rate of households (b)				8.2	2.5	2.1	1.8	3.8	2.8	2.6
GDP deflator				4.4	0.3	0.5	0.8	0.2	1.4	2.0
Harmonised index of consumer prices				4.9	0.8	0.1	-0.7	-0.2	1.8	2.1
Terms of trade goods				-0.2	1.7	2.2	2.9	-1.4	-0.9	-0.1
Trade balance (goods) (c)				-4.3	-0.1	-0.8	0.5	0.5	-0.5	-1.0
Current-account balance (c)				-4.1	-0.5	-1.4	0.1	0.2	-0.6	-1.2
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-3.5	1.5	0.3	2.4	1.8	1.0	0.6
General government balance (c)				-4.4	-4.1	-3.5	-2.6	-2.4	-2.9	-2.9
Cyclically-adjusted budget balance (d)				-4.4	-3.4	-2.9	-2.4	-2.3	-3.1	-3.1
Structural budget balance (d)				-	-3.4	-2.7	-2.4	-2.2	-3.2	-3.1
General government gross debt (c)				45.1	55.7	50.2	51.1	54.4	54.6	55.4

(a) as % of total labour force. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.