INTERNATIONAL MONETARY FUND

IMF Country Report No. 23/189

REPUBLIC OF POLAND

2023 ARTICLE IV CONSULTATION—PRESS RELEASE; AND STAFF REPORT

June 2023

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2023 Article IV consultation with the Republic of Poland, the following documents have been released and are included in this package:

- A **Press Release.**
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse-of-time basis, following discussions that ended on March 24, 2023, with the officials of the Republic of Poland on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on May 10, 2023.
- An **Informational Annex** prepared by the IMF staff.

The documents listed below have been or will be separately released.

Selected Issues

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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PRESS RELEASE

PR23/192

IMF Executive Board Concludes 2023 Article IV Consultation with the Republic of Poland

FOR IMMEDIATE RELEASE

Washington, DC – **June 1, 2023:** The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with the Republic of Poland and considered and endorsed the Staff Appraisal on a lapse-of-time basis without a meeting.

The Polish economy has slowed significantly amid still-high inflation. Following a rapid recovery from the pandemic, the Polish economy grew 5.1 percent in 2022, though the economy slowed considerably later in the year. With high inflation eroding real wage growth and investment facing headwinds from energy prices and interest rates, economic growth is projected at 0.3 percent in 2023 before a projected rebound in 2024. Over the medium term, Poland's potential growth is projected to remain around 3 percent, with strong investment, supported by Next Generation EU grants, temporarily offsetting the negative effects of population aging.

As the authorities implemented a personal income tax reform and temporarily reduced taxation on food and energy to prevent higher inflation, the general government deficit widened to 3.7 percent of GDP in 2022 from 1.8 percent of GDP in 2021, with general government debt declining to 50 percent of GDP. The general government deficit is projected to widen further to 4.5 percent of GDP in 2023, mainly due to the slowing economy. Over the medium term, the general government deficit is projected to stabilize around 3.5 percent of GDP and debt to increase to about 55 percent of GDP.

While the substantial increase in inflation in 2022 was driven primarily by external factors, including food and energy prices, core inflation also increased and remains at high levels. The central bank tightened monetary policy significantly in 2021-22 before pausing in late 2022. The projected stabilization of food and energy prices is projected to drive a significant decline in headline inflation in 2023, though the easing of core inflation is projected to be more protracted. Inflation is projected to decline near the target by the end of 2025.

Bank asset quality has remained stable, and sector-wide capital adequacy levels remain significantly above regulatory requirements. Supported by rising lending interest rates, banks remained profitable in 2022, despite the cost of mortgage credit holidays. The legal risks stemming from foreign-currency denominated mortgages remain the most significant source of uncertainty and potential losses for banks.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

Executive Board Assessment[2]

After the rapid recovery from the pandemic, the Polish economy has weakened significantly amid still-high inflation. The economy slowed abruptly in 2022, facing energy price shocks, monetary policy tightening, and slowing external demand. Labor markets remain tight, though some signs of cooling have emerged. High inflation has been driven primarily by food and energy price shocks – exacerbated by Russia's war in Ukraine – though underlying inflation has also accelerated. The external position is preliminarily assessed to be broadly in line with medium-term fundamentals and desirable policies. Foreign exchange reserves are adequate to insulate against external shocks and disorderly market conditions.

Despite the projected slowdown in 2023, medium-term economic prospects remain favorable. In the near term, high inflation has eroded real wage growth, while investment faces headwinds from energy prices, interest rates, and declining housing activity. As shocks fade and real wage growth recovers, the economy is projected to rebound in 2024 and 2025. Nevertheless, considerable near-term uncertainty will require deft policy management as policymakers seek to lower inflation without incurring an excessive cost to economic output.

A fiscal expansion in 2023 should be avoided to help combat still-high inflation. While the fiscal deficit is projected to widen in 2023 mainly due to the slowing economy, any policy driven fiscal loosening should be avoided unless major downside risks materialize. Further energy price measures, if needed, should be temporary, targeted, and preserve price signals. Over the medium term, the authorities should create fiscal space to accommodate new defense and other expenditure priorities without placing general government debt on an upward trajectory. Ending the reliance on extra-budgetary funds and requiring all spending to go through the budgetary process would enhance fiscal transparency.

Monetary policy needs to be tight until price pressures are under control and a sustained reduction in inflation towards its target has been achieved. The expected stabilization of food and energy prices should reduce headline inflation in 2023. However, further disinflation hinges on an easing of underlying inflation. Monetary policy should remain data dependent and be tightened further if core inflation momentum, wage growth, and the economy fail to slow as projected. Foreign exchange intervention should continue to be reserved for disorderly market conditions.

While the banking sector has remained stable, there are significant legal and regulatory challenges. Asset quality has not deteriorated, and sector-wide capital adequacy levels remain significantly above regulatory requirements. However, ongoing challenges reduce banks' profitability and could limit their ability to provide credit to the economy over the medium term. Most importantly, to address the ongoing litigation of foreign exchange mortgages, banks should continue to proactively seek to reach voluntary agreements with clients to convert their mortgages into local currency. The authorities should also explore policy options to help reduce the uncertainty that foreign exchange mortgage legal risk casts over the banking sector. In addition, untargeted mortgage credit holidays are inefficient, costly, weaken monetary policy transmission, and should not be extended.

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[2] The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

Ongoing public investments and structural reforms are needed to bolster longer-term economic growth and convergence and meet climate goals. Over the medium term, Poland's potential output would be supported by strong investment, projected to be financed in part by Next Generation EU grants, which would help temporarily counteract the negative effects of population aging. A sustained increase in immigration would increase Poland's competitiveness and raise medium-term growth. The successful integration of Ukrainian refugees could be furthered with additional training and skill development. Substantial investment in clean sources of energy is necessary to support sustainable economic growth and meet energy transition goals. Additional policy instruments may be needed to meet decarbonization targets, and the authorities are encouraged to consider a role for carbon taxation.

It is recommended that the next Article IV consultation be held on the standard 12-month cycle.

Republic of Poland: Selected Economic Indicators, 2021–27

	2021	2022	2023	2024	2025	2026	2027
			Projections				
Activity and Prices							
GDP (change in percent) 1/	6.9	5.1	0.3	2.4	3.7	3.4	3.1
Output gap (percent of potential GDP)	0.6	2.2	-0.6	-1.3	-0.6	-0.2	-0.1
CPI inflation (percent)							
Average	5.1	14.4	12.4	6.2	4.2	3.5	2.9
End of period	8.6	16.6	7.7	5.1	3.6	3.3	2.5
Unemployment rate (average, according to LFS)	3.4	2.9	3.2	3.5	3.4	3.4	3.4
Public Finances (percent of GDP) 2/							
General government net lending/borrowing	-1.8	-3.7	-4.5	-4.1	-4.1	-4.1	-3.9
General government cyclically adjusted overall balance	-2.1	-4.9	-4.2	-3.4	-3.8	-4.0	-3.9
General government primary balance	-0.7	-2.2	-2.8	-2.2	-2.1	-2.0	-1.8
General government debt	53.6	49.1	50.2	51.5	52.4	53.7	54.4
Balance of Payments							
Current account balance, percent of GDP	-1.4	-3.0	-2.4	-2.1	-2.0	-2.0	-2.0
Total external debt, percent of GDP	53.6	53.5	50.4	47.8	45.2	43.6	42.4
Memorandum item:							
Nominal GDP (billion zloty)	2631.3	3078.3	3464.9	3776.2	4089.9	4384.1	4659.1

Sources: Polish authorities; and IMF staff calculations.
1/ Real GDP according to 2015 base year.
2/ According to ESA2010.

INTERNATIONAL MONETARY FUND

REPUBLIC OF POLAND

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION

May 10, 2023

KEY ISSUES

Background: Following a strong rebound from the pandemic, the Polish economy in 2022 faced energy and food price shocks, which exacerbated inflationary pressures and slowed economic growth. With Russia's war in Ukraine, the authorities seek to increase defense expenditures and energy security.

Outlook and risks: The economy has slowed considerably, though inflation remains well above the target. While the economy is projected to rebound in late 2023 and 2024 and inflation to decline, the pace of growth and underlying inflation are subject to considerable uncertainty, highlighting the policy challenges related to returning inflation to the target without incurring an excessive loss of output.

Policy Recommendations

Fiscal policy: In the near term, the authorities should avoid a new fiscal expansion. Energy price measures should be temporary and move towards greater targeting. Over the medium term, the authorities should create fiscal space to accommodate new defense expenditures without placing public debt on an upward trajectory.

Monetary policy: Monetary policy should continue to respond to changing data and conditions. The central bank should resume tightening if core inflation momentum, wage growth, and the economy fail to slow as projected.

Financial sector policy: While voluntary restructurings of foreign exchange mortgages should continue, the authorities should explore options to reduce the uncertainty that legal risks cast over banks. Untargeted credit holidays should be discontinued.

Structural policies: The authorities should consider carbon taxation to meet decarbonization targets and continue to facilitate Ukrainian refugees' integration into Polish labor markets.

Approved By
Uma Ramakrishnan (EUR) and Eugenio Cerutti (SPR)

Discussions were held in Warsaw on March 14-24, 2023. The team composed Jan Kees Martijn (head), William Lindquist, Alla Myrvoda, and Marzie Taheri Sanjani (all EUR). Geoff Gottlieb (Senior Resident Representative) and Robert Sierhej and Krzysztof Krogulski (both Resident Representative Office) also participated in the discussions. Mr. Łoszewski (Alternate Executive Director) joined some of the meetings. The mission met with senior officials from the government, central bank, and financial supervision agencies, along with representatives of trade unions, businesses, and financial institutions. Kelly MacKinnon and Ritzy Dumo (EUR) provided administrative support, and Sadhna Naik (EUR) provided analytical support.

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TABLES

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CONTEXT

1. **In the wake of Russia's war in Ukraine, Poland has not only supported Ukrainian refugees, but also faced energy supply shocks, high inflation, and slowing growth.** The authorities have tightened monetary policy significantly and are using administrative measures to mitigate energy price shocks. They also seek to increase defense expenditures and balance energy security with climate mitigation goals. The main current challenges are to lower inflation to the target without unduly weakening the economy and to maintain medium-term fiscal discipline in the context of new expenditure pressures. Parliamentary elections are due by the fall of 2023.

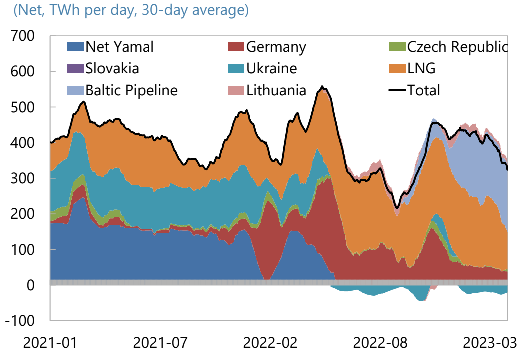
RECENT ECONOMIC DEVELOPMENTS

2. **Russia's war in Ukraine disrupted energy supplies, though shortages were mostly avoided.** Investments in diversification prior to the war allowed Poland to substitute Russian gas with other sources, primarily LNG and the new Baltic pipeline (Figure 1). Coal proved more difficult to replace after a ban on Russian coal imports, leading to disruptions in household heating supplies. The main challenge was soaring wholesale energy prices. In response, the authorities froze retail prices for households but left corporates more exposed, leading to some production disruptions.

Figure 1. Energy Sector Developments

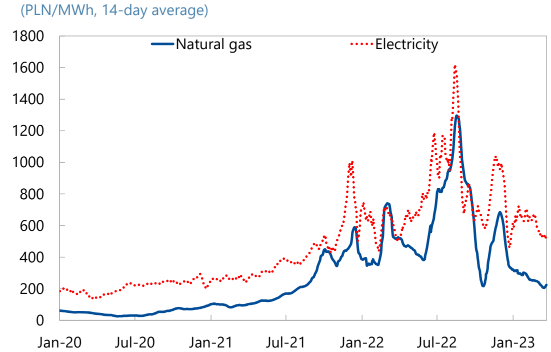
Poland has replaced the gas previously imported from Russia via the Yamal pipeline.

Natural Gas Net Inflows to Poland
(Net, TWh per day, 30-day average)



Prices for electricity and gas soared after the start of the war but have since fallen to pre-war levels.

Wholesale Prices of Electricity and Natural Gas
(PLN/MWh, 14-day average)



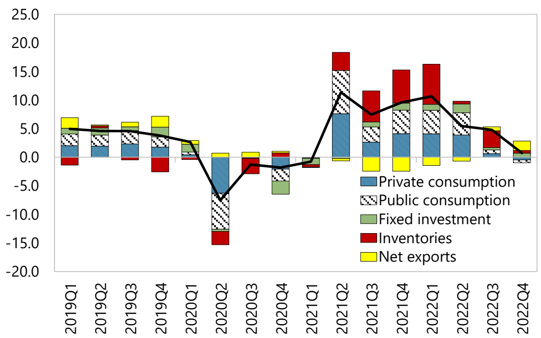
Note: Chart shows providers of LNG to Poland on a net basis. Net Yamal is the difference between inflows to Poland and outflows to Germany via the Yamal pipeline. Negative values indicate net outflows from Poland.
Sources: European Network of Transmission System Operators for Gas, Towarowa Gielda Energii, and IMF staff calculations.

3. **Economic growth slowed over the course of 2022.** The economy rebounded in 2021 from the pandemic, buoyed by policy support, growing 6.9 percent. Strong growth continued in 2022, at 5.1 percent, though momentum slowed sharply in H2 2022, driven by slowdowns in consumption and fixed investment, as the economy absorbed external shocks and monetary policy tightening, and inflation eroded real wages (Figure 2).

Figure 2. Recent Economic and Labor Market Developments

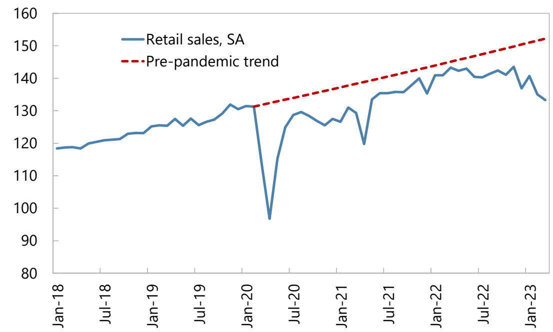
Growth slowed sharply in H2 2022, led by a slowdown in private consumption growth…

Contributions to GDP Growth
(Percentage points, y/y based on 2015 constant prices)



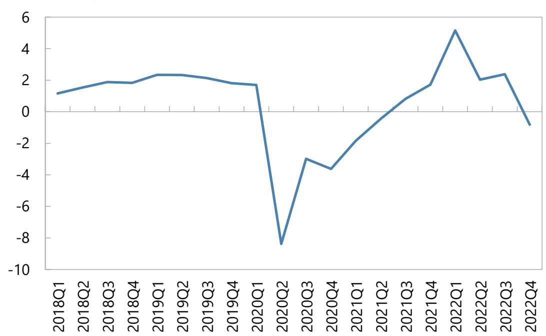
…and weakness in retail sales has continued in early 2023.

Retail Sales in Constant Prices
(2015=100, SA)



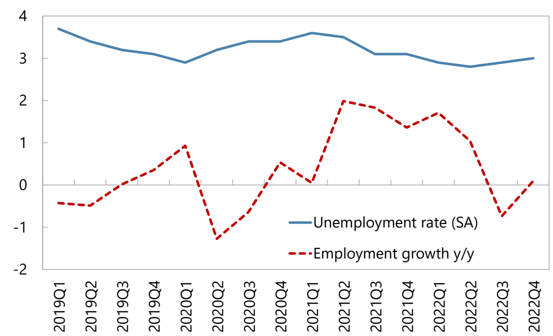
The strongly positive output gap is estimated to have closed by the end of 2022.

Estimated Output Gap
(Percent of potential GDP)



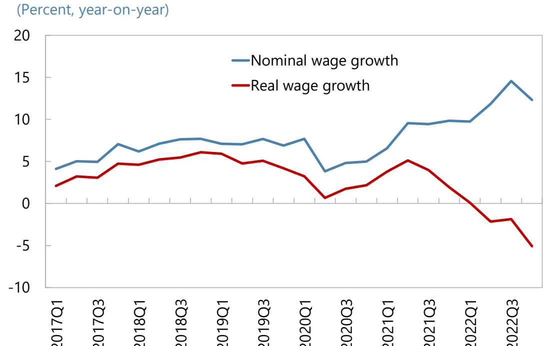
While the unemployment rate remains low, growth of employment has slowed…

Unemployment Rate and Employment Growth
(Percent)



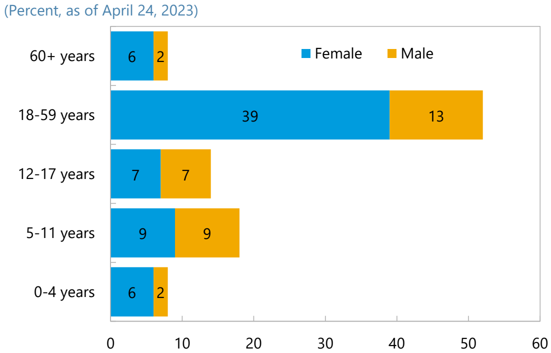
…and real wage growth turned negative as high inflation outpaced wage growth.

Average Wage Growth
(Percent, year-on-year)



48 percent of Ukrainian refugees are children and elderly, and 39 percent are women of working age.

Ukrainian Refugees Registered for Temporary Protection
(Percent, as of April 24, 2023)

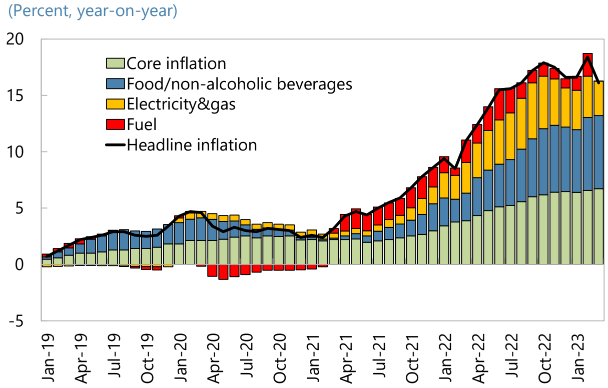


Note: Contributions to growth may not sum to headline GDP growth due to statistical discrepancies.
Sources: Statistics Poland; United Nations High Commissioner for Refugees; Powszechny Elektroniczny System Ewidencji Ludnosci (PESEL); and IMF staff calculations.

4. Labor markets remain tight, though signs of cooling emerged in late 2022. While the unemployment rate remains at historic lows below 3 percent, employment growth came to a halt in Q3 2022 (Figure 2). Labor shortages remain a challenge amid a declining working age population but have been moderated by the absorption of around one million Ukrainian refugees, with about 65 percent of working age refugees estimated to be employed (Annex VI). Average nominal wage growth accelerated to above 12 percent but turned negative in real terms. The minimum wage will increase nearly 20 percent in 2023.

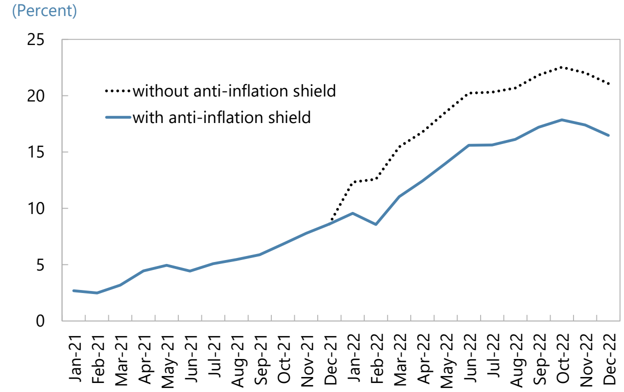
5. Inflation accelerated further in 2022 and likely peaked in February 2023. Average inflation increased to 14.4 percent from 5.1 percent in 2021, mostly driven by external food and energy prices increases. Core inflation rose to 9.1 percent on average, reflecting supply-constrained goods, second-round effects, and the positive output gap. Without "Anti-Inflation Shield" measures implemented in early 2022 – which included reductions in the VAT and excises on food, fuels, and electricity – headline inflation could have averaged some 4 p.p. higher around 19 percent. Headline inflation increased to 18.4 percent in February 2023, as the "Anti-Inflation Shield" tax reductions expired, before declining on base effects to 14.7 percent in April.

Contributions to Headline CPI Inflation
(Percent, year-on-year)



Sources: Statistics Poland; NBP; and IMF staff calculations.

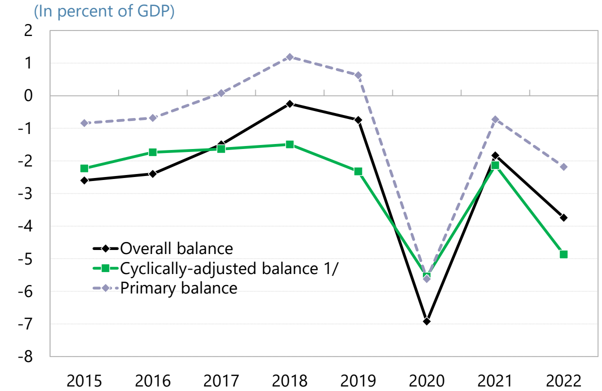
Headline Inflation: Estimated Impact of Anti-Inflation Shield
(Percent)



Sources: Statistics Poland; and IMF staff estimates.

6. The fiscal stance loosened in 2022. Despite a buoyant economy, the general government fiscal deficit increased to 3.7 percent of GDP from 1.8 percent in 2021. The "Anti-Inflation Shield" lowered tax revenues by about 1.3 percent of GDP (Annex IV), while personal income tax (PIT) cuts lowered revenues by around 0.7 percent of GDP. The authorities also provided 0.5 percent of GDP in support to Ukrainian refugees (Annex VI). Higher inflation contributed to a decline in general government debt from 54 percent of GDP in 2021 to 49 percent of GDP.

Overall and Primary Fiscal Balance
(In percent of GDP)

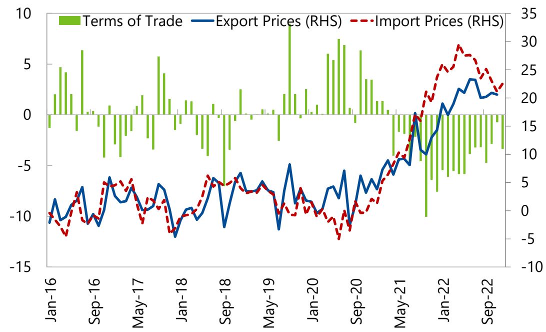


Source: Haver Analytics; and IMF staff estimates and calculations.
1/ Cyclically-adjusted balance using the output gap.

Figure 3. External Sector Developments

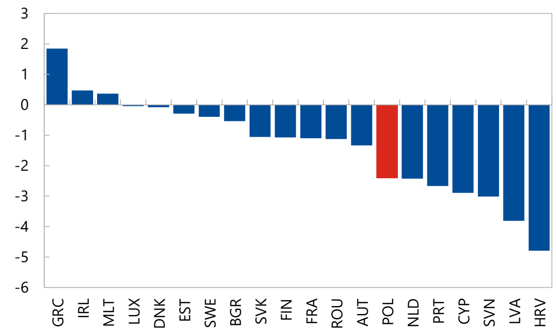
The terms of trade (ToT) deteriorated due to the energy price shock…

Export and Import Prices
(year-on-year percentage change)



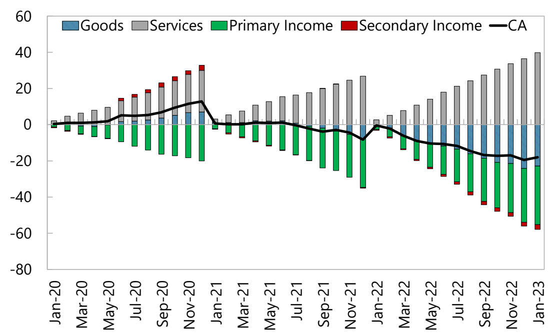
…though less severely than many EU peers.

Terms of Trade
(year-on-year percentage change)



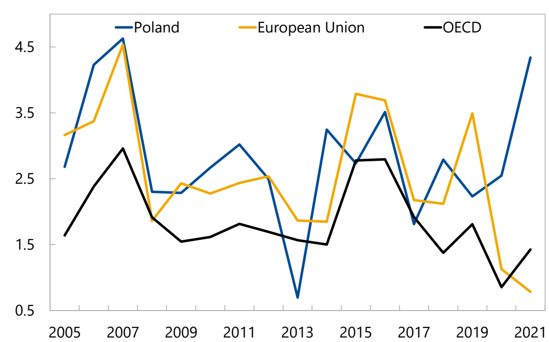
The CA deficit widened due to the ToT shocks….

Cumulative Current Account Balance (to Year End)
(NSA, Billions of Euros)



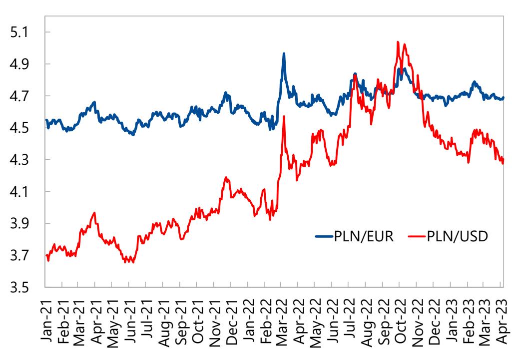
…however, the CA deficit is mainly financed by FDI inflows, thanks to large re-invested earnings.

FDI Inflows
(In percent of GDP)



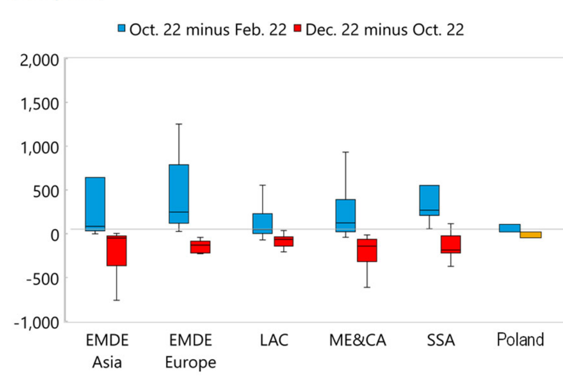
The zloty weakened by about 2.6 percent against the euro and 15.4 percent against the USD in 2022…

Polish Zloty Exchange Rates



…and volatility in sovereign bond spreads was limited in 2022 relative to other EMs.

Change in EMDE Sovereign Spreads
(Basis points)



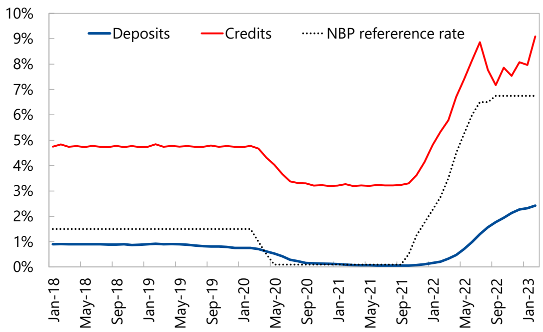
Source: NBP; Haver Analytics; World Economic Outlook, IMF; and IMF staff calculations.

Figure 4. Banking Sector Indicators

Monetary policy tightening was quickly transmitted to lending rates…

Interest Rates

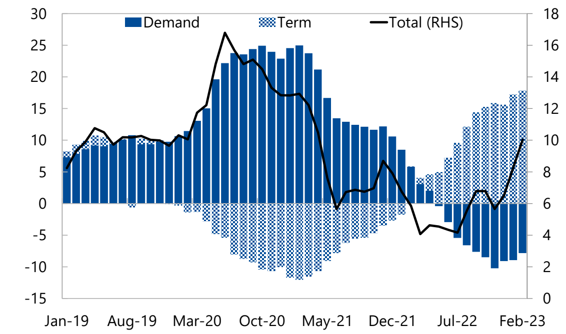
(Percent, calculated as weighted average on outstanding stocks)



…while households and firms shifted to term deposits.

Non-Financial Sector Deposits

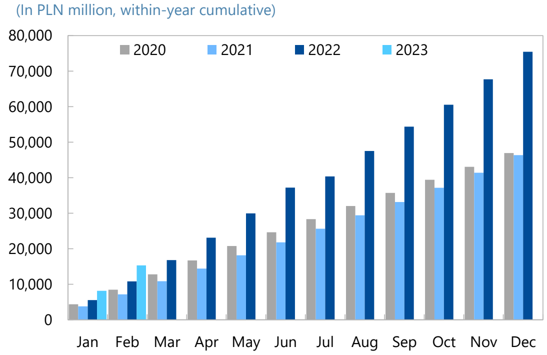
(LHS - contributions in percentage points; RHS - year-on-year percentage change)



Higher lending rates boosted banks' net income….

Net Interest Income of the Banking Sector

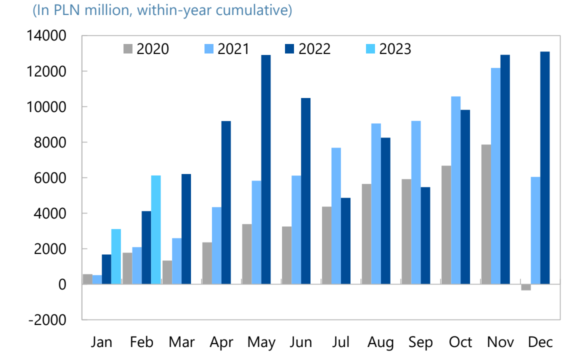
(In PLN million, within-year cumulative)



…and supported overall profits, notwithstanding losses from the mortgage credit holiday.

Net Profit of the Banking Sector

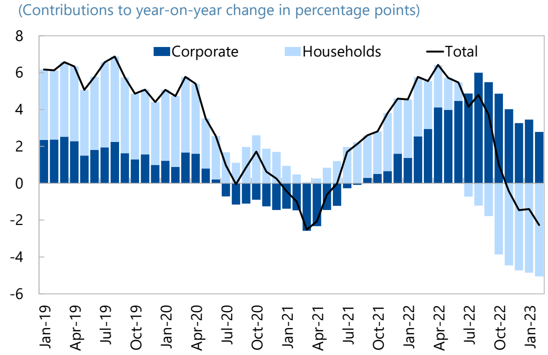
(In PLN million, within-year cumulative)



With credit growth slowing sharply…

Non-Financial Sector Credit

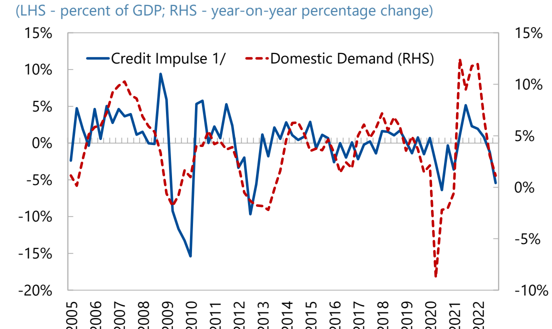
(Contributions to year-on-year change in percentage points)



…the credit impulse has become negative.

Credit Impulse and Domestic Demand

(LHS - percent of GDP; RHS - year-on-year percentage change)



Sources: NBP; Statistics Poland; and IMF staff calculations.

1/ Year-on-year difference in quarterly change of non-financial credit to GDP.

7. The current account (CA) deficit widened further in 2022. Due to the large terms-of-trade (ToT) shock related to energy prices (Figure 3), the CA deficit increased from 1.4 percent in 2021 to 3.0 percent of GDP, fully financed by strong FDI inflows. The NEER depreciated by 3.6 percent in 2022, while the REER appreciated 1.1 percent, reflecting positive inflation differentials. External debt, which has declined in recent years, stabilized at 54 percent of GDP in 2022. The external position in 2022 is preliminarily assessed to be broadly in line with medium-term fundamentals and desirable policies (Annex X). At 157 percent of the Fund's Assessing Reserve Adequacy metric, gross reserves are ample.

8. While credit growth slowed sharply in 2022, banking sector earnings increased. The revival of credit growth in 2021, supported by low interest rates and the end of pandemic corporate support, proved short lived. In 2022, monetary policy tightening and new supervisory requirements – including an increased interest rate buffer in mortgage creditworthiness assessments – dampened mortgage lending, while corporate lending slowed with the economy (Figure 4). Nevertheless, commercial banks' income grew as floating lending rates increased more rapidly than deposit rates. Interest earnings more than offset the cost of a mortgage credit holiday, provisioning for foreign exchange (FX) mortgage legal risks (¶29), and contributions to an institutional protection scheme (IPS) for commercial banks.[1] Loan quality generally improved, reflecting strong corporate profits and a tight labor market, but since mid-2022 banks have accelerated provisioning for higher-risk loans (Figure 12). Cooperative banks – representing 7 percent of system assets – continued a gradual consolidation process, remained well capitalized, and significantly increased profits, which permitted additional contributions to their IPSs in 2022. The authorities resolved in 2022 an undercapitalized medium-sized commercial bank burdened with FX mortgages. The FX mortgages remain in the residual bank to be liquidated, while the healthy assets were moved to a for-sale bridge bank, capitalized by the resolution authority and the IPS.

OUTLOOK AND RISKS

9. A significant growth slowdown is projected in 2023, with a risk of recession. Baseline projections assume that Russia's war in Ukraine neither escalates nor reaches a quick resolution. The economy continues to absorb high energy prices, monetary policy tightening, and a slowdown in the Euro Area. Private consumption is projected to decline as high inflation eroded real wages, while fixed investment faces headwinds from energy prices, interest rates, and declining housing activity. Growth is projected at 0.3 percent in 2023 (Figure 5). As shocks fade and real wage growth recovers, the economy is projected to pick up in the second half of the year and grow at 2.4 percent in 2024.

10. Economic growth is projected to exceed 3 percent over the medium term. The output gap is projected to turn modestly negative in 2023-24, followed by a cyclical rebound. The baseline assumes that Next Generation EU (NGEU) milestones agreed with the EU will be met, including on outstanding judicial reforms. NGEU funds would support investment over 2024-26, raising the level

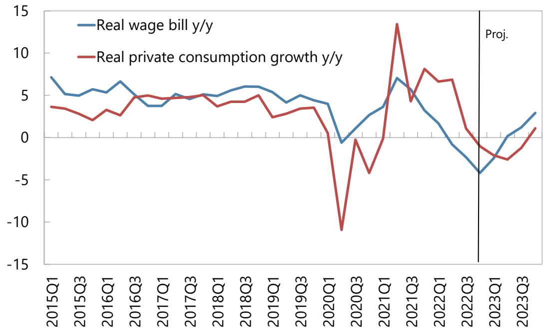
[1] The eight largest commercial banks paid about 0.1 percent of GDP in contributions to a newly established voluntary IPS, the resources of which can be used to aid bank resolution.

of output by about 1 percent by 2025 versus a scenario without the funds (Annex III).[2] Over the medium term, the negative effects of population aging are projected to be broadly offset by strong investment, financed in part by NGEU grants.

Figure 5. Economic Growth Outlook

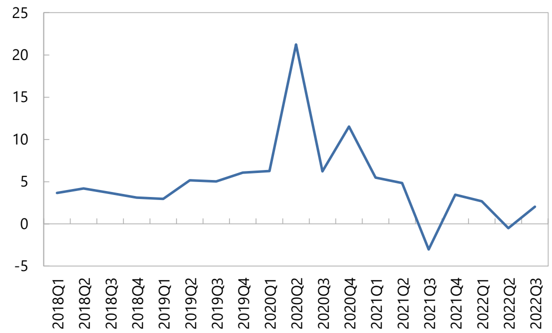
A declining real wage bill is projected to limit consumption in 2023.

Real Wage Bill and Private Consumption Growth
(Percent)



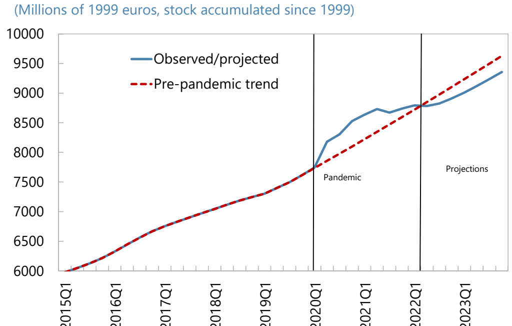
The household saving rate has already fallen below pre-pandemic levels…

Household Saving Rate
(Percent of disposable income)



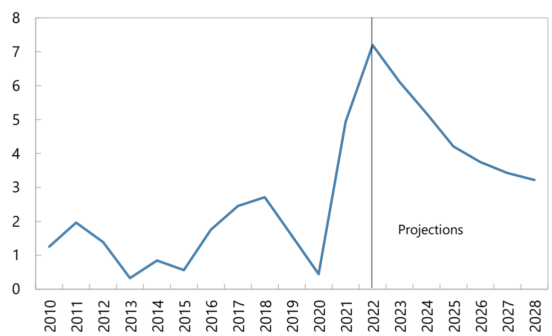
…and the stock of excess savings accumulated during the pandemic has declined, providing less cushion for consumption growth.

Stock of Household Savings
(Millions of 1999 euros, stock accumulated since 1999)



A projected decline in inventory investment to historical levels will be a headwind to growth.

Inventory Investment
(Percent of GDP)



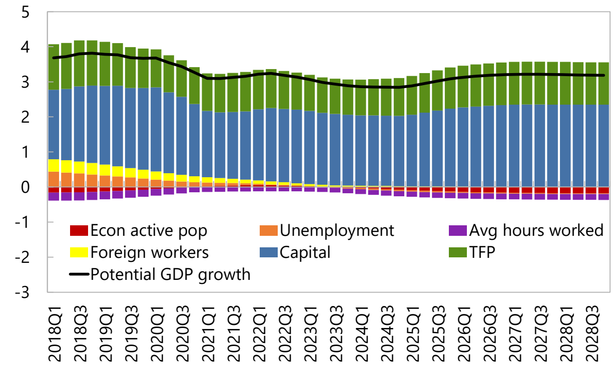
Sources: Statistics Poland; Eurostat; and IMF staff calculations and projections.

11. **The current account deficit is projected to shrink over the medium term.** Fading energy price shocks and slowing domestic demand will narrow the deficit in 2023, while sectoral saving-investment balances are projected to improve as household saving increases with real wage recovery and lower inventory levels moderate gross corporate investment. Over the medium term, the CA deficit is projected to decline to 2 percent of GDP, with EU funding and higher military spending keeping the CA in deficit.

[2] The Polish Development Fund (PFR) is pre-financing Next Generation EU-related investments in 2023.

12. Uncertainty is considerable, with risks tilted to the downside (RAM, Annex IX). While bilateral trade linkages to Russia and Ukraine are relatively small (Figure 6), an escalation of the war would harm sentiment and could create new commodity price shocks. The authorities should provide additional humanitarian assistance to a possible new wave of refugees and temporary and targeted support to mitigate the risk of poverty in case of higher commodity prices. An intensification of banking sector turmoil in advanced economies could increase risk aversion and weaken external demand. While fiscal prudence is appropriate in current circumstances, should a new demand shock materialize, Poland is assessed to have substantial fiscal space to undertake temporary fiscal measures to support the economy.[3] Besides a near-term end to the war, upside risks include a faster-than-expected decline in underlying inflation. Nearshoring could boost FDI further over the medium term, while a sustained increase in immigration would raise medium-term growth.

Contributions to Potential Growth
(Percent)

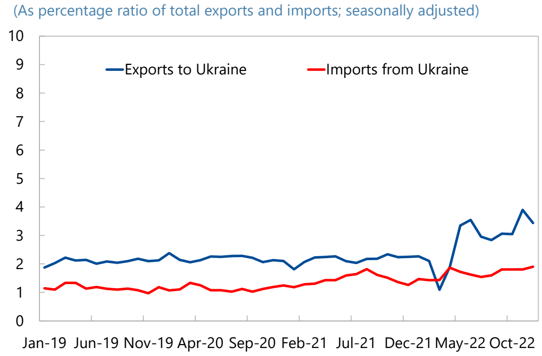


Sources: IMF staff calculations.

Figure 6. Bilateral Trade with Russia and Ukraine

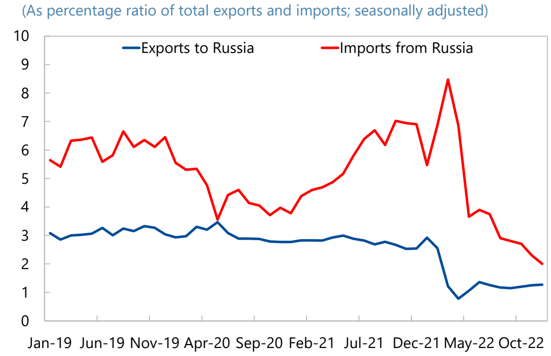
Polish exports to Ukraine have increased…

Bilateral Trade with Ukraine
(As percentage ratio of total exports and imports; seasonally adjusted)



…while imports from Russia have declined.

Bilateral Trade with Russia
(As percentage ratio of total exports and imports; seasonally adjusted)



Sources: Haver Analytics; NBP; and IMF staff calculations.

[3] See 2018 IMF policy paper "Assessing Fiscal Space: An Update and Stocktaking."

Authorities' Views

13. The authorities broadly shared staff's views on the economic outlook and key risks. They believed that the economy may bottom out in Q1 2023 and then begin a cyclical recovery, with growth around 1 percent in 2023. The authorities noted that labor market adjustment tended to lag the slowdown in growth and expected most of the adjustment to come via lower wage growth rather than any substantial increase in unemployment, given structural labor shortages in Poland. They saw risks to potential output as balanced over the medium term, with the negative effects of the energy price shock potentially offset by an increased number of foreign workers and possible benefits from nearshoring. The authorities projected a smaller current account deficit than staff over the medium term, in line with historical trends, arguing that Poland's trade balance would continue to improve as it became more integrated into global value chains.

POLICY DISCUSSIONS

A. Fiscal Policies

14. The fiscal deficit is projected to widen in 2023 due to the slowing economy and higher interest payments. The net impact of discretionary measures is minor. The full-year implementation of the "Polish Deal" PIT reforms will further reduce revenues.[4] To cushion the impact of energy prices, the authorities have replaced the "Anti-Inflation Shield" with an "Energy Shield" that caps electricity and natural gas prices, entailing net expenditures around 1.9 percent of GDP (Annex IV and Table 1). To partially offset costs, the authorities intend to utilize an energy sector revenue cap and a windfall gas tax that could increase revenues by 0.9 percent of GDP. Defense expenditures will increase as part of a multi-year plan. The general government fiscal deficit is projected to increase from 3.7 to 4.5 percent of GDP, though the fiscal impulse is expected to be mildly contractionary (Figure 7).

Table 1. Poland: Fiscal Cost of Energy Support Measures (percent of GDP) 1/

	2022	2023
Total	2.5	1.9
Revenues	1.3	-0.6
Change in tax rates	1.3	0.3
Energy revenue cap and windfall gains tax	0	-0.9
Expenditures	1.1	2.5
Compensation to energy suppliers	0.3	2.0
Natural gas	0.3	0.9
Electricity	0.0	1.1
Heating	0.0	0.0
Other transfers	0.8	0.6
To low-income households	0.1	0.0
To households for heating	0.6	0.4
To energy-intensive firms	0.1	0.2

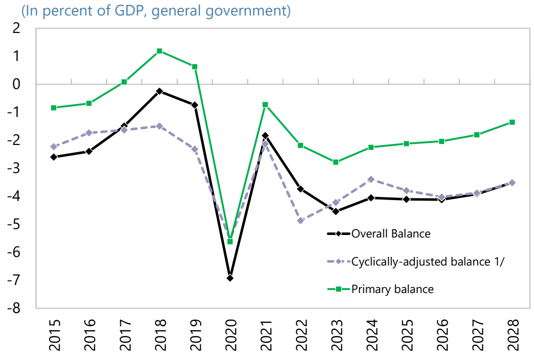
1/ See Annex II for details. Positive sign indicates an increase in fiscal cost.
Source: Ministry of Finance; and IMF staff calculations.

[4] The 2022 "Polish Deal" PIT reform increased the standard deduction and the threshold income for the second tax bracket, while reducing the deductibility of health contributions, with the goal of reducing the labor tax wedge.

Figure 7. Contributions to Change in Primary Balance in 2023

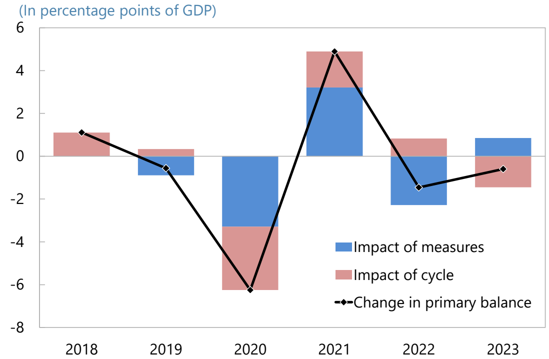
The overall balance is expected to worsen in 2023, driven by a slowing economy and higher interest payments.

Headline, Cyclically-Adjusted, and Primary Fiscal Balance
(In percent of GDP, general government)



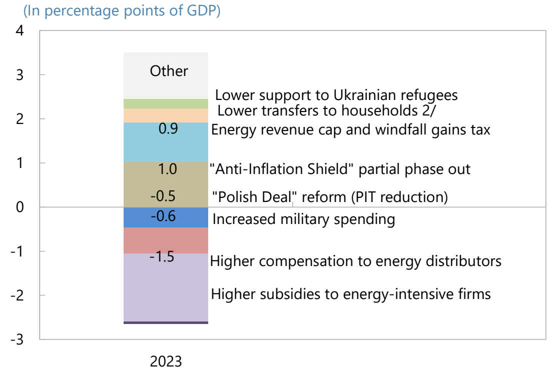
The primary balance is expected to deteriorate further in 2023, largely driven by cyclical factors.

Change in Primary Balance
(In percentage points of GDP)



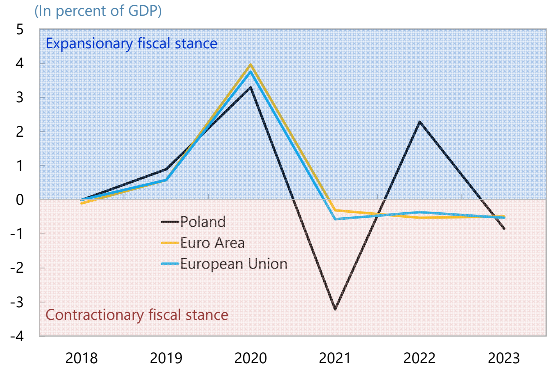
With a smaller fiscal cost of discretionary fiscal measures in 2023 relative to 2022…

Primary Balance Change in 2023: Impact of Measures
(In percentage points of GDP)



… the fiscal impulse is expected to be mildly contractionary, similar to European peers' average.

Fiscal Impulse
(In percent of GDP)



Note: The fiscal impulse is calculated as the annual change in the cyclically adjusted primary balance in percent of GDP, multiplied by -1. A positive (negative) fiscal impulse implies an expansionary (contractionary) fiscal stance. Euro Area and European Union averages are weighted by purchasing-power-parity-adjusted nominal GDP in U.S. dollars.
1/ Cyclically-adjusted balance using the output gap.
2/ Includes transfers to low-income households and energy transfers.
Sources: Statistics Poland; IMF WEO; and IMF staff calculations.

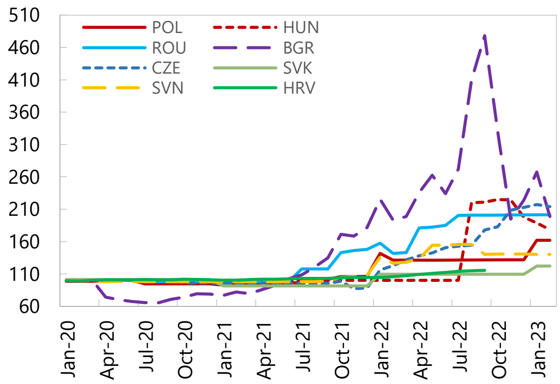
Near-Term Policies

15. Following a fiscal expansion in 2022 and amid still-high inflation, the authorities should avoid another expansion in 2023. While general government debt is projected to remain stable at about 50 percent of GDP and the fiscal impulse is projected to be mildly contractionary, a tighter fiscal position in 2023 would support the central bank's efforts to lower inflation. At a minimum, the fiscal stance should not be looser than currently projected, unless major downside risks materialize, and any potential fiscal cost reduction stemming from lower energy prices should be saved.

Figure 8. Energy Price Developments

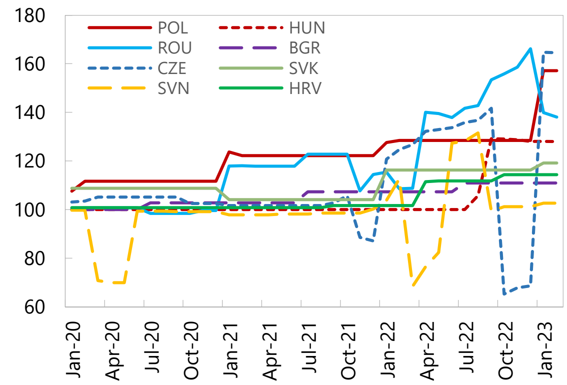
Natural gas prices for households in Poland were frozen in 2022 but increased in 2023 as VAT rates normalized....

HICP: Natural Gas
(Index, Dec-2019=100)



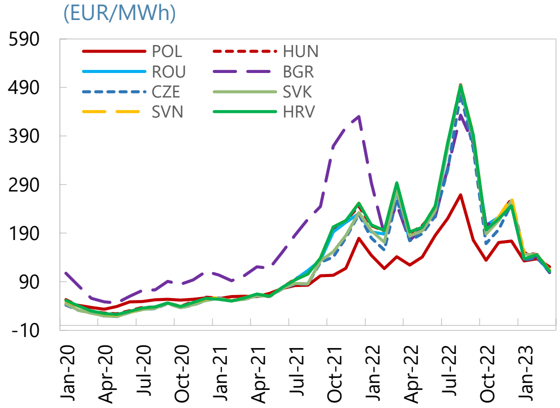
...with similar developments for household electricity prices...

HICP: Electricity
(Index, Dec-2019=100)



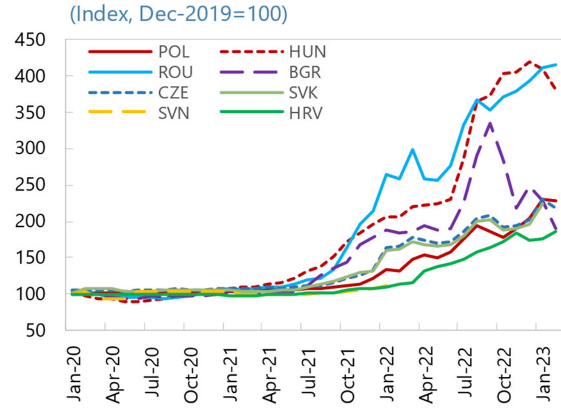
...shielding households from wholesale price volatility.

Day-Ahead Wholesale Electricity Prices
(EUR/MWh)



Meanwhile, energy prices for non-households increased significantly in 2022.

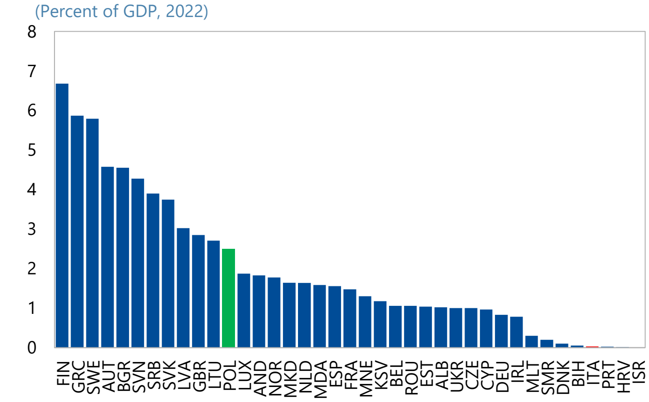
PPI: Electricity, Gas and Steam
(Index, Dec-2019=100)



Source: Eurostat.

16. If Poland faces additional energy price shocks, policies should protect the most vulnerable, encourage energy conservation, and remain temporary. Except for small means-tested transfers to low-income households, the energy price measures introduced have been mostly universal. However, the "Energy Shield" of 2023 does offer some price signals to incentivize energy saving, including through: i) a discount on 2024 electricity prices if 2023 household consumption falls by more than

Fiscal Support Measures for Energy Crisis
(Percent of GDP, 2022)



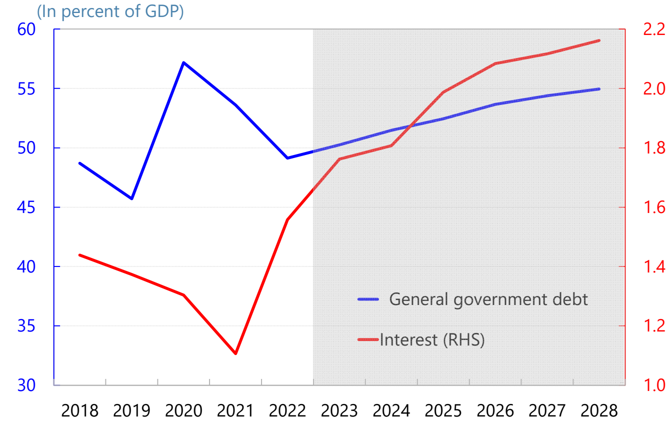
Source: IMF staff estimates and caclulations; and updated results of the DEFPA IMF Country Desk Survey from Amaglobeli, D., M. Gu, E. Hanedar, G. Hong, C. Thévenot, 2023, "Policy Responses to High Energy and Food Prices", IMF *Working Paper 23/xx.*

10 percent; ii) an electricity block pricing mechanism with consumption above 2,000 kWh priced at higher tariff, up to a maximum price capped by law; and iii) an energy VAT rate normalization, which raised energy prices for all households, incentivizing savings. However, retail prices are still set by the government and are largely insulated from market developments (Figure 8). Energy price measures are authorized only for 2023.

Medium-Term Policies

17. With a projected general government deficit around 3.5 percent of GDP over the medium term, debt is projected to rise gradually to around 55 percent of GDP. The reduction in PIT revenues and increased defense spending will maintain pressure on the deficit. With borrowing rates projected to remain higher, interest expenditures are expected to increase from 1.1 percent of GDP in 2021 to over 2 percent of GDP over the medium term, partially offsetting a decline in the primary deficit as temporary energy-related expenditures lapse.

General Government Debt and Interest Bill
(In percent of GDP)



Source: Haver Analytics; and IMF staff estimates and calculations.

18. To accommodate additional defense expenditures, the authorities should find offsetting savings to prevent debt from increasing over the medium term. General government debt is assessed to be sustainable, though the medium-term modules suggest a moderate level of risk, as debt is not expected to stabilize under the baseline (Annex VII). As the recovery takes hold, the authorities could consider several reforms to preserve the fiscal space that has served Poland well during recent crises. While the size of fiscal savings would depend on the specific design, possible options are summarized in Table 2. While fiscal adjustment may temporarily lower economic growth, it would also support the central bank's efforts to lower inflation over the next three years (Table 3).

Table 2. Poland: Potential Medium-Term Fiscal Adjustment Measures[1]

Fiscal measure	Percent of GDP[2]
Increase VAT revenues and property tax reform	0.9
Increase retirement age to 67 years, align special pension regimes with general rules	0.9
Better target family benefits	0.6
Total	**2.4**

Source: OECD (2023), OECD Economic Surveys: Poland, *https://www.oecd-ilibrary.org/economics/oecd-economic-surveys-poland-2023_6fc99a4b-en*.

[1] Quantification is illustrative and does not allow for behavioral responses. See source for details.

[2] In percent of current year GDP, indicating potential permanent fiscal impact (improvement of fiscal balance) of each measure.

Table 3. Poland: Medium-Term Projections: Baseline versus Fiscal Adjustment Scenario

(Percent of GDP, unless otherwise noted)

	2023	2024	2025	2026	2027	2028
Real GDP growth (percent)						
Baseline	0.3	2.4	3.7	3.4	3.1	3.1
Adjustment	0.0	2.3	3.4	3.9	3.2	3.1
Core inflation (percent, period avg)						
Baseline	11.2	7.7	5.0	3.6	2.9	2.5
Adjustment	11.1	7.3	4.4	3.0	2.6	2.5
Gen. gov't fiscal balance						
Baseline	-4.5	-4.1	-4.1	-4.1	-3.9	-3.5
Adjustment	-4.1	-3.6	-3.2	-2.9	-2.7	-2.2
Gen. government debt						
Baseline	50.2	51.5	52.4	53.7	54.4	55.0
Adjustment	49.8	50.6	50.8	50.9	50.5	50.0

Source: IMF staff projections.

- **Redesign and increase property taxation.** The contribution of property taxes to general government revenues is below the OECD average (Figure 9). Under the current system, land and buildings are taxed based on area, while structures connected with business activity are taxed based on the initial market value of construction.[5] Establishing market-value-based property taxation and increasing taxes on vacant land and properties in urban areas could raise additional revenues.

- **Enhance the targeting of social benefits.** Poland spends less on social benefits than many EU countries. Yet, most benefits are universal, leaving fewer resources for the most vulnerable. For instance, families in the bottom 20 percent of the income distribution receive less than 12 percent of the program expenditures of the "Family 500+" program.[6] At the same time, the real value of the benefit is eroded by inflation, as payments are set in nominal terms. Well-targeted means-tested social assistance could help further reduce poverty and curb expenditures.

- **Limit the use of VAT tax expenditures.** VAT tax expenditures, which constitute the largest share of tax expenditures, exist largely in the form of reduced rates.[7] For instance, a reduced VAT

[5] Different rates apply to buildings depending on their use. Residential buildings are typically taxed at the lower rate and commercial buildings at the highest rate per square meter. Tax exemptions are granted to properties owned or used by socially relevant organizations, such as universities and nursery schools.

[6] For details, see World Bank Group, Poland Public Finance Review, (June 2021), https://www.worldbank.org/en/country/poland/publication/poland-public-finance-review

[7] The most recent data suggest that the foregone tax revenue was about 5 percent of GDP in 2015, of which VAT accounted for about 2.6 percent of GDP. Source: World Bank Group, Poland Public Finance Review, (June 2021), https://www.worldbank.org/en/country/poland/publication/poland-public-finance-review

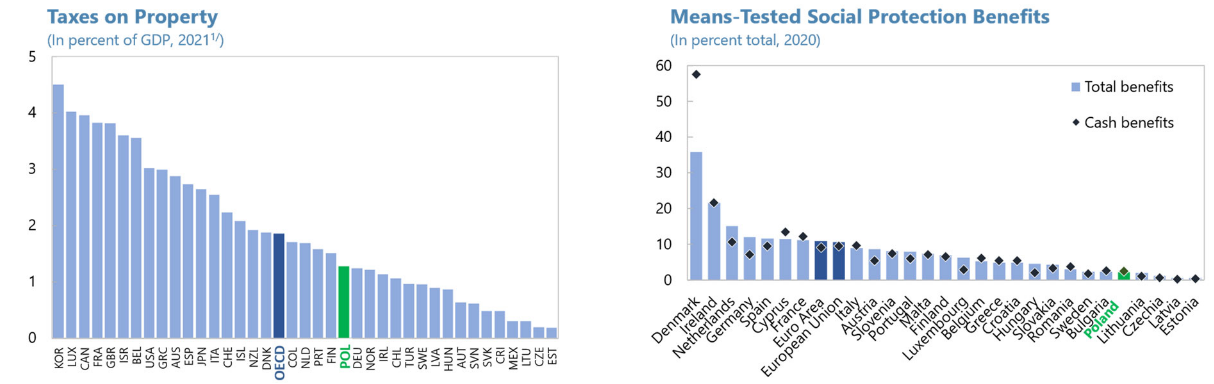
rate on hotel accommodation and restaurant services may help promote tourism, but at the cost of lower tax progressivity, given that higher income individuals tend to consume such services.

- **Raising the retirement age.** Population aging will imply a declining pension-to-wage replacement rate over the medium term, under the notional defined contribution system (see Annex VII). To soften this trend, the retirement age should be increased in line with life expectancy gains and accompanied by the gradual alignment of the male and female statutory retirement ages. This would also support economic growth by limiting the gradual decline in the labor force.

Figure 9. Property Taxes and Social Benefits Targeting

The contribution of property taxes to government revenues is lower than the OECD average.

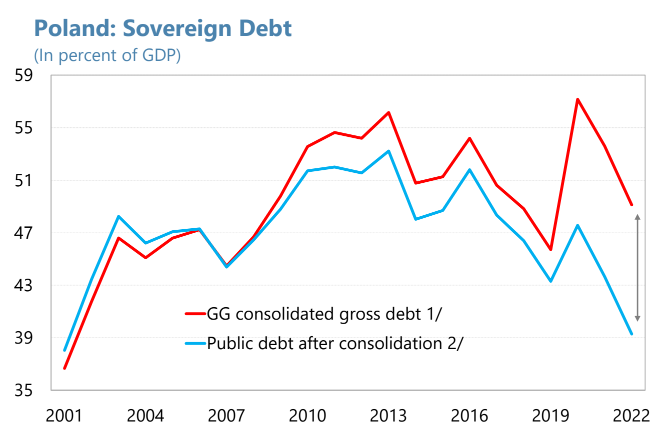
Targeting of social benefits is low by EU standards, and the share of means-tested benefits has declined.



Sources: OECD; Eurostat; and IMF staff calculations.
1/ Scope of government is general government. 2021 or latest available OECD refers to OECD average.

Fiscal Transparency and Public Financial Management

Staff welcomed the authorities' intention to reduce the role of off-budget expenditures. In 2023, 3-4 percent of GDP in general government spending will be executed through off-budget funds administered by the Polish Development Bank (BGK).[8] While some spending outside the state budget during the pandemic was understandable given the emergency and the risk that pandemic spending could push debt close to domestic limits, this justification is no longer valid. Going forward, these



Source: Haver Analytics; and IMF staff estimates and calculations.
1/ EU definition (Excessive Deficit Procedure, EPD).
2/ Polish regulation.

[8] Off-budget funds are included in the general government accounts. These funds issue government-guaranteed debt, which is included in general government consolidated debt, consistent with ESA-2010, but is not included in various domestic definitions of government debt.

new expenditures in BGK funds should be moved on budget to enhance transparency and permit full scrutiny by the legislature and civil society. At a minimum, off-budget funds should be included as appendices to the budget law.

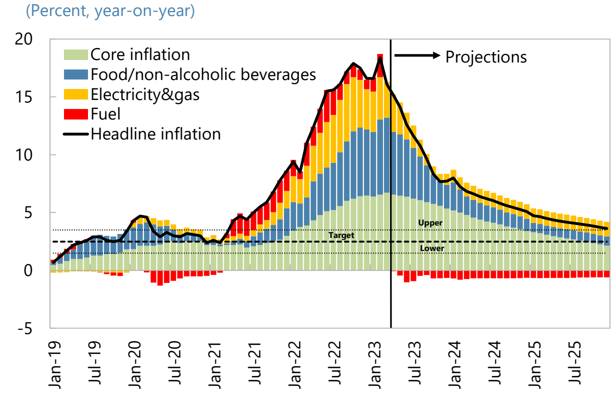
Authorities' Views

19. The authorities declared that the changed regional security situation necessitated a temporary increase in defense expenditures that could be accommodated through an increase in debt. They noted that through the recent crises, the fiscal balances had remained under strict control, supported by ongoing improvements in revenue collection. While the authorities agreed that defense spending and rising debt service costs would present a medium-term fiscal challenge, they considered that automatic mechanisms such as the non-indexation of social benefits and PIT tax brackets would reduce the medium-term deficit. While noting that broad-based energy price measures had been common in EU countries, the authorities broadly agreed that any future energy measures should be more reflective of market price signals and more targeted to support the vulnerable. Regarding the off-budget fiscal funds, the authorities announced that their use would be reduced to enhance transparency, but further details were not yet available. On pensions, the authorities argued that tax allowance schemes were introduced to incentivize the deferral of retirement beyond the statutory retirement age, thus increasing the effective retirement age.

B. Monetary and Exchange Rate Policies

20. Inflation is projected to approach the top of the medium-term target of 2.5 percent with a ±1 percentage point band for deviations at the end of 2025. Headline inflation is projected to continue to decline in 2023 on commodity price base effects. However, a further decline in inflation to the target will require an easing in core inflation. Given the tight labor market and limited projected economic slack, the decline in core inflation is projected to be protracted, averaging 11.2 percent in 2023 and 7.7 percent in 2024 (Annex V). Headline inflation is projected to average 12.4 percent in 2023, before slowing to 5.1 percent at end-2024 and 3.6 percent by end-2025 (Figure 10).

Contributions to Headline CPI Inflation
(Percent, year-on-year)

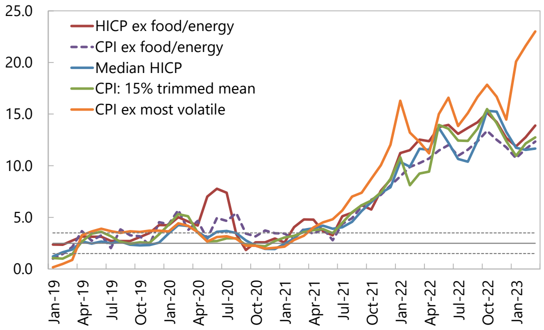


Sources: Statistics Poland; NBP; and IMF staff calculations.

Figure 10. Inflation Developments and Outlook

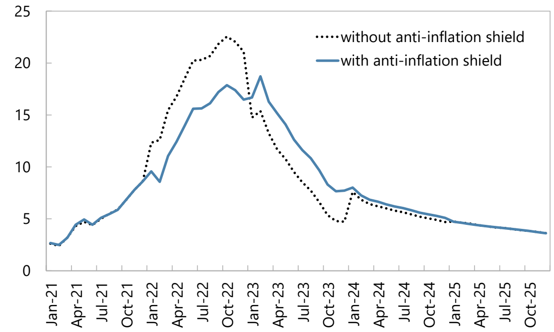
Sequential core inflation momentum has stabilized, but a clear decline is not yet visible.

Measures of Underlying Inflation
(Percent, m/m seasonally-adjusted annualized rate, 3mma)



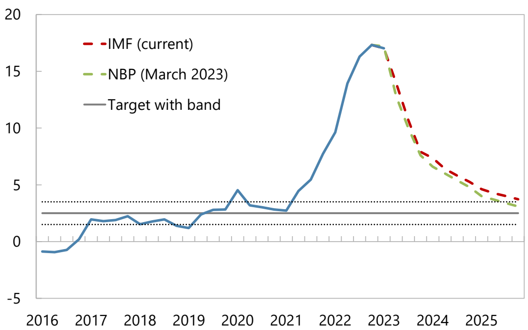
The unwinding of the anti-inflation shield will add to headline inflation through 2024.

Headline Inflation: Estimated Impact of Anti-Inflation Shield
(Percent)



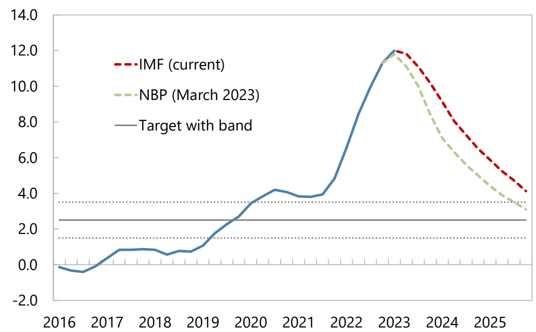
Headline inflation is projected to approach the tolerance range around the target only at the end of 2025…

Headline CPI Inflation Projections
(Percent, year-on-year)



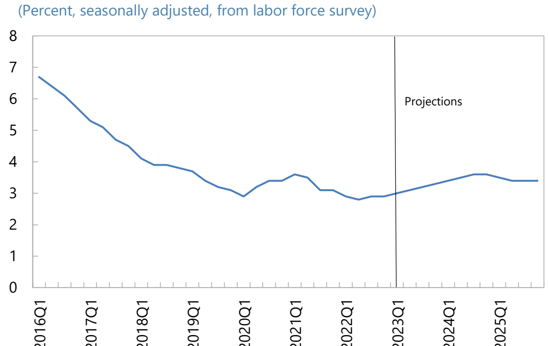
…with staff projecting a slower core disinflation than the NBP.

Core Inflation Projections: CPI Ex Food and Energy
(Percent, year-on-year)



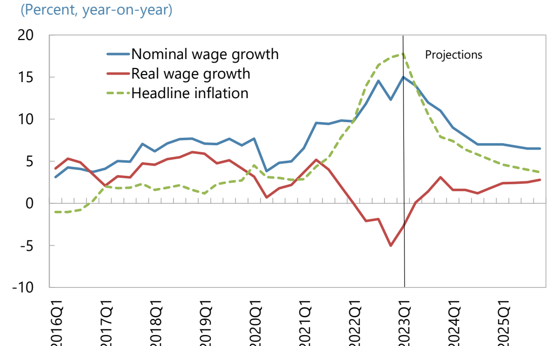
While labor markets are projected to remain tight, given labor shortages…

Unemployment Rate
(Percent, seasonally adjusted, from labor force survey)



…signs of a wage-price spiral are not evident, and wage growth is projected to moderate as inflation declines.

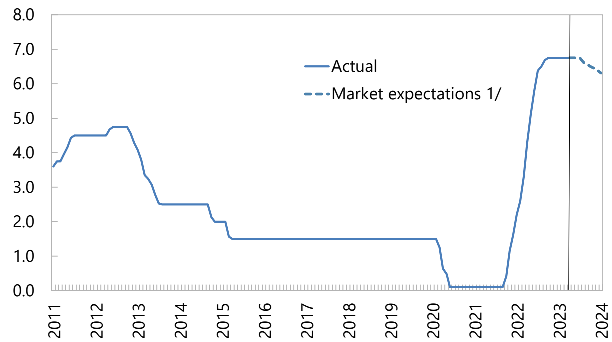
Average Nominal and Real Wage Growth
(Percent, year-on-year)



Sources: Statistics Poland; Eurostat; NBP; and IMF staff calculations and projections.

21. The National Bank of Poland (NBP) should continue to respond to changing data and conditions and, in particular, be prepared to raise interest rates further, if necessary to reduce inflation to the target by end-2025. The NBP's Monetary Policy Council (MPC) appropriately raised its policy rate from near zero in 2021 to 6.75 percent before pausing in October 2022. This tightening has been effective in dampening activity through the interest rate and credit channel. The MPC has not declared an end to the tightening cycle, though markets are pricing in rate cuts in late 2023. In staff's baseline scenario, the economy slows sufficiently to lower inflation near the target range by end-2025. However, the pace of disinflation is difficult to predict. Even if food and energy price inflation persistently decline, the MPC should resume tightening if key indicators – core inflation momentum, wage growth, and economic growth – fail to slow as projected. In contrast, fiscal adjustment as recommended by staff would support disinflation and ease the burden on monetary policy (see Figure 11 for an illustrative scenario). The MPC should consistently communicate that its current focus remains on the maintenance of a tight policy stance, making clear that discussion of rate cuts is premature.

NBP Policy Rate
(Percent)



1/ As of April 28, 2023
Sources: Haver; NBP; and PKO Bank Polski.

22. The NBP should also improve transparency on foreign exchange intervention. The NBP sold foreign exchange in early March 2022 in the context of disorderly market conditions at the beginning of the war.[9] Foreign exchange intervention should continue to be reserved to periods of disorderly market conditions. The NBP should also disclose information on the size of its interventions with a reasonable lag, in line with best practices.

Authorities' Views

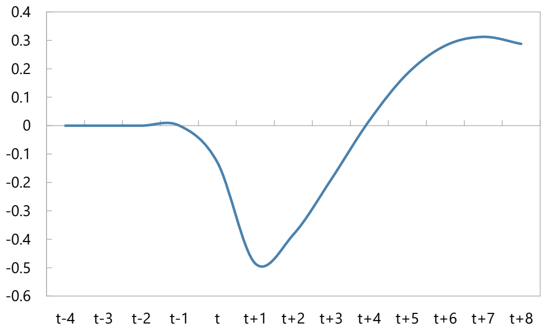
23. The NBP projected that inflation would decline to the medium-term target of 2.5 percent (±1 p.p.) by the end of 2025 and saw broadly balanced risks to the path of disinflation. The authorities stressed their commitment to reducing inflation to the target over the medium term. They judged that the current monetary policy stance was appropriate, noting that the strong tightening had already dampened demand and credit and that risks of excessive wage growth were limited. While the NBP's headline inflation projections were broadly similar to those of staff, they believed that the economy may be weakening faster than earlier projected, presenting downside risks to inflation projections. The NBP was thus conscious of the risks of a procyclical overtightening of policy.

[9] The NBP builds up its foreign exchange reserves mostly as a result of the purchase of foreign exchange inflows from the government.

Figure 11. Illustrative Reaction to Fiscal Tightening

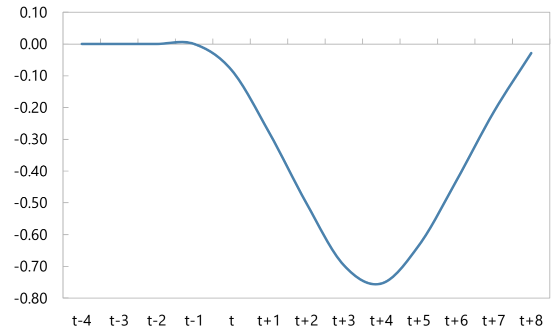
In response to an illustrative 1 p.p. tightening in the structural fiscal balance and a stronger exchange rate from a positive market reaction, the output gap declines....

Reaction of Output Gap to Fiscal Tightening
(Percent, relative to baseline)



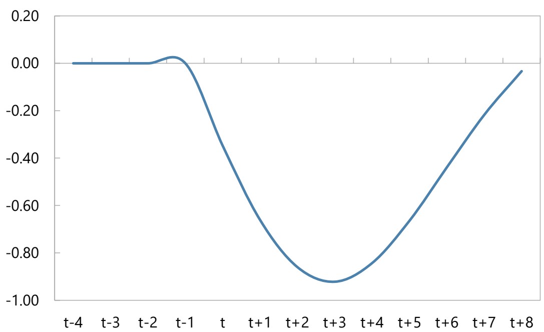
...leading core inflation to decrease by about 75 bps relative to the baseline...

Reaction of Core Inflation to Fiscal Tightening
(Percent, relative to baseline)



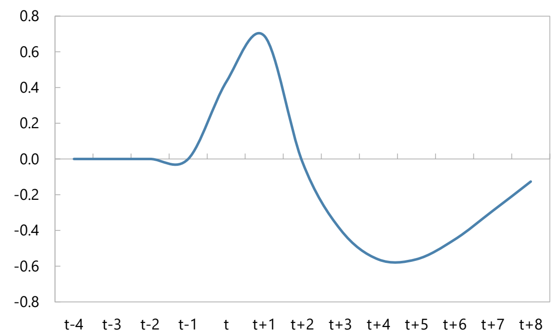
...prompting about 90 bps in monetary policy easing under a calibrated Taylor rule...

Reaction of Policy Rate to Fiscal Tightening
(Percent, relative to baseline)



...loosening monetary conditions after the initial exchange rate appreciation tightens conditions.

Reaction of Monetary Conditions Index to Fiscal Tightening
(Percent, relative to baseline)



Source: IMF staff calculations using the Quarterly Projections Model.

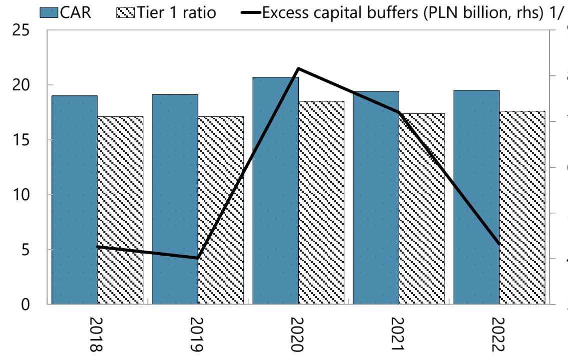
C. Financial Sector Policies

24. While the banking sector remains well capitalized and stable, banks face legal and regulatory challenges. The sector-wide total capital ratio was stable in 2022 at 19.5 percent. While capital comfortably exceeds regulatory requirements, excess capital buffers shrank, almost halving from 2021 due to repricing of T-bonds and interim targets for MREL.[10] Regulatory and legal challenges – including final MREL targets and FX mortgage legal risks – and policies that increase

[10] Minimum Requirements for Own Fund and Eligible Liabilities, or funds available for bail-in in the event of resolution.

costs for banks (including mortgage credit holidays) risk an erosion over time of profitability and excess capital buffers that could hamper banks' ability to expand credit to support the economy.[11]

Capital Adequacy of Banking Sector
(end of period, in percent)



1/ Tier1 capital above all regulatory and MREL requirements (2022 Q2).
Source: NBP

25. Commercial banks need to issue debt instruments to meet final bail-in requirements to avoid an erosion of excess capital buffers. Banks will be required to meet final MREL requirements at the start of 2024. The largest commercial banks have issued eligible debt instruments to meet MREL requirements, despite adverse market conditions, while some foreign-owned banks have assurances that their parents will purchase such debt. However, some commercial banks may have problems tapping markets. Banks that fail to issue eligible debt would need to meet the requirement with own funds, which would erode excess capital buffers and weigh on their ability to expand credit. The 3 percent systemic risk buffer, revoked at the beginning of the pandemic, has not been reinstated, given MREL requirements and the authorities' concerns about the capital impact of FX mortgage legal risk.

26. Distortive policy measures – including mortgage credit holidays and the bank asset tax—should be reconsidered. The mortgage credit holiday (Table 4), approved in 2022 to shield borrowers from increasing debt service, has covered 68 percent of outstanding mortgage credit, indicating its use by the more affluent. The holiday has proven costly for banks at 6 percent of capital as of Q3 2022. Credit holidays also weaken monetary policy transmission. Rather than extending the measure, the recently enlarged support fund for distressed borrowers appears sufficient to address capacity to pay problems, or it could be scaled up, if needed. Separately, the bank asset tax – which now exempts state-guaranteed securities in addition to Treasury securities – may at the margin crowd out credit allocation to the private sector—for firms that cannot attract capital from abroad—and should be redesigned to reduce such disincentives.

27. A wider availability of fixed-rate mortgages could shield borrowers from large increases in debt service. Given the dominance of floating-rate mortgages, the rise in policy interest rates has sharply increased debt service (Figure 13). Though demand was low during the period of low interest rates, rising rates has increased demand, with fixed-rate mortgages (usually for 5-10 years) increasing to about 50 percent of new loans in 2022, tripling their share in the stock of mortgages to more than 10 percent. Fixed-rate mortgages received regulatory support in early 2023 when supervisors permitted a reduction to 250 bps on the interest rate buffer used for creditworthiness assessments on such credit, lower than the buffer on floating-rate loans. Further policy support for fixed-rate mortgage market development could be considered, including a clarification of legal provisions related to early repayments, more flexible interest rate buffers for

[11] While lending conditions tightened in 2022, the decline in credit growth owed mainly to a lack of demand (see Figure 12).

creditworthiness assessments, and options to develop the covered bond market to support long-term funding.

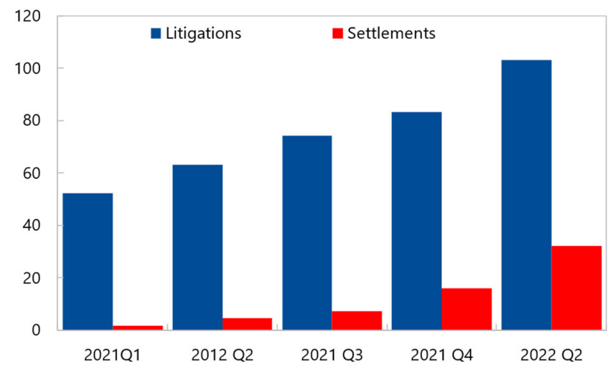
Table 4. Poland: Support Measures for Mortgage Borrowers

Measure	*Description*	*Targeting*
Credit holidays	Allowing non-payments of interest and principal for eight months in 2022-23, four months each year, effectively extending loan maturity by eight months. Cost-free for borrowers, no interest accrues during holidays. Available to all PLN mortgage borrowers, covering one mortgage credit used for own housing needs. About two million borrowers eligible, maximum cost for banks was estimated at close to PLN20 billion. So far, the cost was PLN13 billion, with slightly above 1 million borrowers using holidays.	Untargeted
Support for distressed borrowers	Contributions paid by banks to Borrowers Support Fund (FWK) increased by PLN1.4 billion to provide support to a growing number of distressed mortgage borrowers. Eligibility criteria: (i) debt service to income ratio above 50 percent, (ii) at least one borrower unemployed, (iii) monthly income after debt service below certain thresholds (PLN1,552 in one-person, PLN1,200 per person in multi-person households). Support is up to PLN72,000 (PLN2,000 per month for 36 months), repayable in 144 installments with no-interest, after 100 installments the remainder is remitted. FWK provided support to more than 8,000 borrowers in 2022, more than a seventyfold increase on 2021.	Targeted

Source: Polish legislation.

28. FX mortgages legal risks continue to cast a high level of uncertainty over the banking system. While the legacy portfolio of FX (mostly Swiss franc) mortgages is declining, contracts in litigation increased to nearly 30 percent of such credit by mid-2022. Welcome progress in voluntary settlements converting FX mortgages to local currency, combined with significant provisions – now fully covering the value of litigated loans – have lowered systemic risk. However, legal uncertainty remains high, and important aspects of in-court settlements lack clear guidance. A recent EU Court of Justice (ECJ) Advocate opinion proposed that banks should not receive renumeration in in-court settlements for their cost of capital. Without such remuneration, banks may need to more than double their current provisions. If provisions had to be made quickly – subject to auditors' decisions after a final ECJ ruling – banks would face large losses, with the most exposed banks likely in breach of capital requirements. While the authorities should continue to encourage banks to pursue voluntary restructurings, they should also explore policy options to help incentivize more widespread restructuring and disincentivize litigation. Resolving this issue would not only reduce uncertainty, but it may also help to quell emerging litigation of local currency mortgages.[12]

FX Mortgages Litigations and Settlements
(In thousands)



Sources: Financial Supervision Authority (KNF); and NBP.

29. The authorities are monitoring possible evasion of sanctions in cooperation with foreign partners. Banks have dissolved correspondent accounts with Russian banks, except for

[12] In these recent cases, borrowers allege having received inadequate information about interest rate risk and question the regulation and transparency of WIBOR, the local interbank benchmark rate.

those needed for oil and gas settlements. Supervised entities have mechanisms for monitoring sanctions evasion, with the General Inspectorate of Financial Information (GIFI) identifying cases of potential evasion, mostly involving dormant domestic firms which became active in H2 2022. GIFI also participates in the international exchange of information and is a member the Russia-Related Illicit Finance and Sanctions (RRIFS) international working group. Regarding virtual assets (VA) and VA service providers, Polish financial institutions continue to apply de-risking policies, given VA anonymity and related AML/CFT risks.

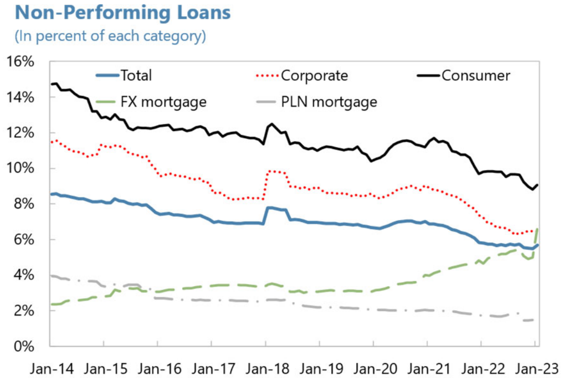
Authorities' Views

30. The authorities underscored the resilience of the financial sector. They highlighted that banks were well capitalized, liquid, and profitable, with profitability expected to increase further with strong interest earnings. They considered that recent banking sector turmoil abroad should not notably impact Polish banks, given negligible direct exposures alongside a traditional banking model and transparent balance sheets. The authorities expected banks to be able to meet MREL targets, mostly with debt instruments for commercial banks and own funds for cooperative banks. The authorities viewed recent attempts to litigate local currency mortgages as completely unfounded, as they considered the benchmark interest rate to be objective and compliant with all regulatory requirements. The authorities considered the exemption of state-guaranteed bonds from the tax on certain financial institutions to be aimed at reducing borrowing costs and improving the liquidity of these markets. The authorities did not envisage further changes in the design of the tax, except for an exemption for bridge banks.

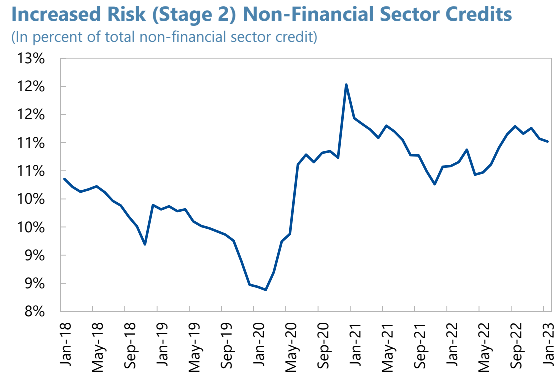
31. The authorities viewed FX mortgage litigation as the main financial sector risk and were considering policy options if risks were to escalate. While the authorities agreed that the pending ECJ ruling might increase risks, they underscored that banks had made substantial provisions already and should be able to make further provisions in a gradual manner. They considered, however, that a possible need for large, upfront provisions could pose a systemic risk that might merit a legislative solution. While the authorities did not have a detailed proposal, there was broad consensus that any solution should discourage litigation and ensure a level playing field between FX and domestic currency mortgage borrowers. In the meantime, the authorities suggested that banks should intensify efforts to reach voluntary settlements with borrowers.

Figure 12. Lending Conditions and Credit Outlook

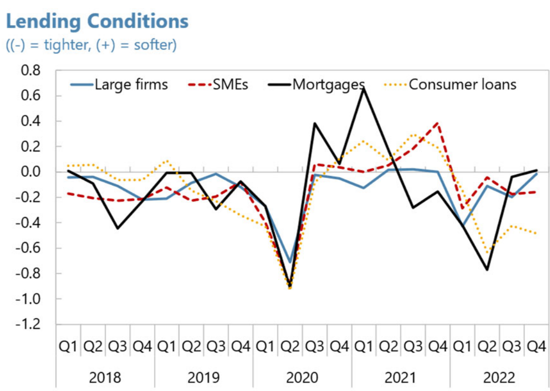
While NPL ratios continue to decline in most categories….



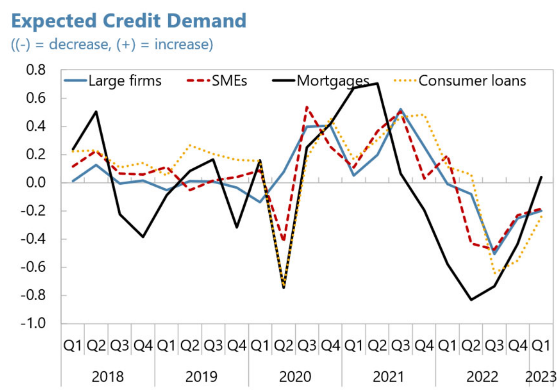
…a growing share of credit is considered higher risk.



Lending conditions have tightened…



…and banks expect credit demand to remain subdued.

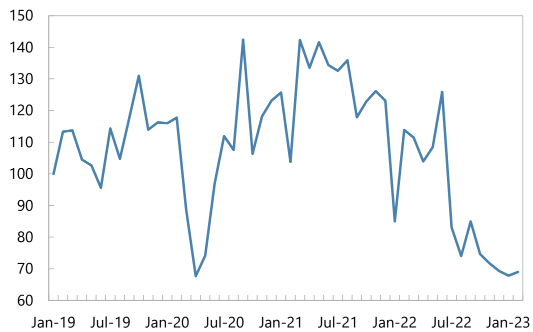


Sources: NBP; Financial Supervision Authority (KNF); and IMF staff calculations.

Figure 13. Housing Market Indicators

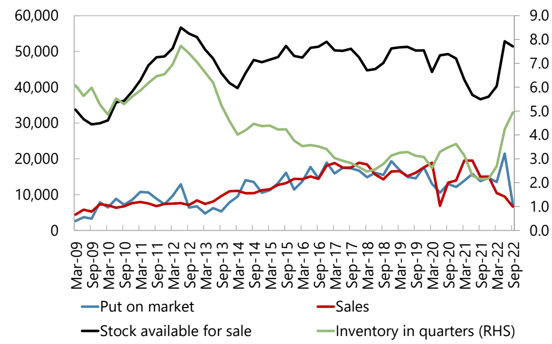
Housing starts declined significantly in 2022….

Housing Starts
(Index: Jan 2019 = 100; SA)



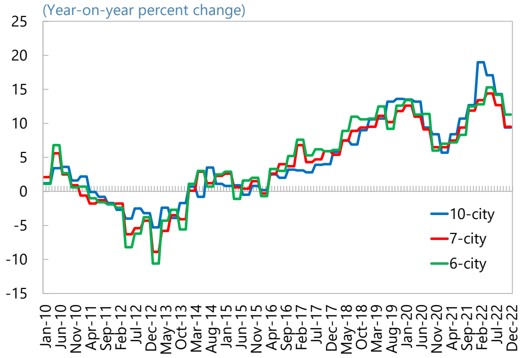
…as sales declined and housing inventory increased…

Housing Sales and Inventory
(Units, LHS; Quarters, RHS)



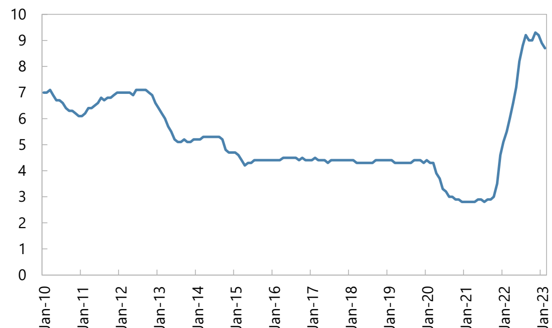
…but housing price growth has slowed only mildly.

Hedonic Prices of Existing Real Estate
(Year-on-year percent change)



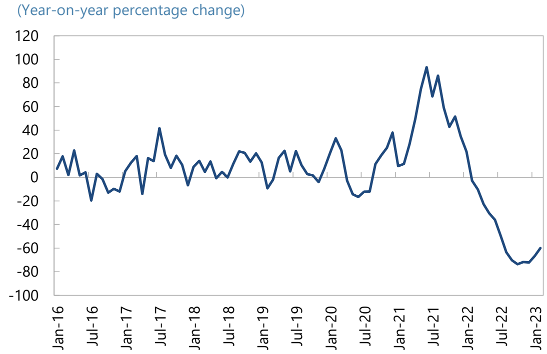
Interest rates on mortgages increased significantly…

Average Interest Rate on New PLN Mortgage Loans
(Percent)



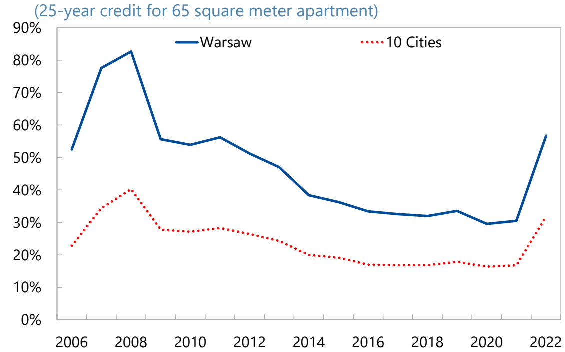
…contributing to a collapse in new mortgage lending…

New Housing Mortgages
(Year-on-year percentage change)



…while borrowers face increasing debt service costs.

Housing Credit Installment to Average Wage
(25-year credit for 65 square meter apartment)



Source: Statistics Poland; NBP; Haver Analytics; and IMF staff calculations.

D. Energy and Climate Policies

32. Despite progress in increasing renewable energy, Poland remains one of the most carbon-intensive economies in the EU. Greenhouse gas (GHG) emissions rebounded in 2021 as the economy recovered, exceeding the post-2000 average. While the energy intensity of Poland's economy continued to decline in 2021, the emissions intensity of energy supply remained high, reflecting the slow decarbonization of the coal-based power sector, the largest contributor to carbon emissions (Figure 14). The renewables share in energy consumption remains below the EU average.

33. An increased use of renewables would reduce carbon intensity while preserving Poland's low energy import dependency. The prevalence of coal has contributed to Poland's low energy import dependency, but Poland has also been slow to adopt non-fossil domestic energy compared to EU peers. While the planned introduction of nuclear energy in the next decade could permit a phase-out of coal, a significant reduction in GHG emissions by 2030 could be achieved by accelerating the adoption of renewable energy.[13] The prevalence of coal in residential heating adds to pollution and carbon emissions while also posing a risk to energy security due to the high import share of heating coal. Eradicating solid fossil fuels from the residential sector would help Poland achieve its emission reduction targets under the EU's Effort Sharing Regulation, which requires member states to reduce greenhouse gas emissions in sectors not covered by the EU Emissions Trading System (ETS).

34. The authorities should consider a carbon tax to meet climate goals. The energy strategy, approved in 2021, envisaged a 30 percent cut in greenhouse gas emissions by 2030, with a significant role of natural gas as a transition fuel. While the updated strategy, expected in Q2 2023, is expected to better align with the current and more ambitious EU's decarbonization goals, meeting these targets will be challenging without additional policy instruments. A gradual implementation of carbon pricing beyond the ETS would incentivize a transition away from fossil fuels. A support scheme could mitigate the impact on vulnerable households.

Authorities' Views

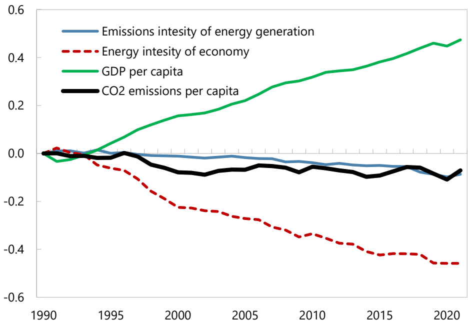
35. The authorities noted that the energy strategy update would incorporate the EU's "Fit for 55" package and consider the impact of Russia's invasion of Ukraine on natural gas prices and availability. The authorities envisaged an overhaul of the electricity system by 2040, with renewable and nuclear energy as key components and fossil fuel energy playing a minor role. Given heightened concerns about energy security, the authorities were scaling down the planned switch to gas, offset by a more prolonged use of coal and faster development of renewables, with more favorable rules for windfarms. They viewed ETS price volatility as a barrier to energy investment and opposed additional carbon pricing, including the extension of the ETS to other sectors, due to distributional concerns.

[13] See accompanying Selected Issues Paper "Balancing Decarbonization with Energy Security in Poland."

Figure 14. Decarbonization and Energy Security in Poland

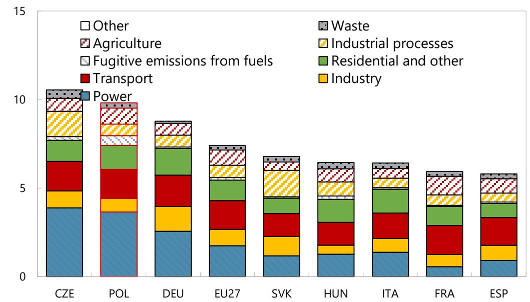
CO2 emissions decoupled from GDP growth in Poland, but improvement in emissions intensity of energy was limited…

Drivers of CO2 Emissions in Poland
(Index, 1990=1; in logs)



…and Poland remains one of the most carbon-intensive economies in the EU.

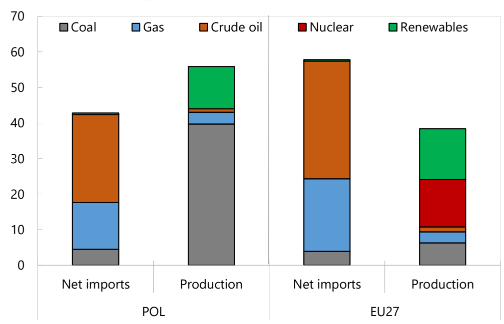
GHG Emissions by Sector, 2020
(kg of CO2-eq. per capita)



Note: Solid fill reflects energy-related emissions

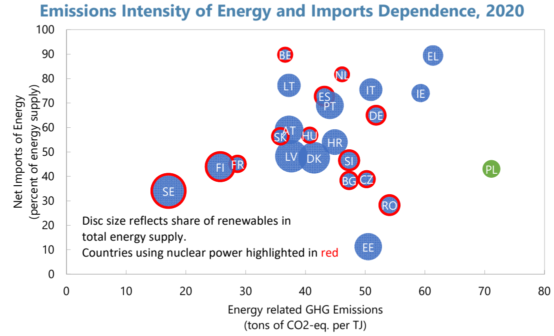
Poland's low energy imports dependence is explained by reliance on domestic coal…

Share of Primary Energy Sources by Origin, 2020
(Percent of total energy supply)



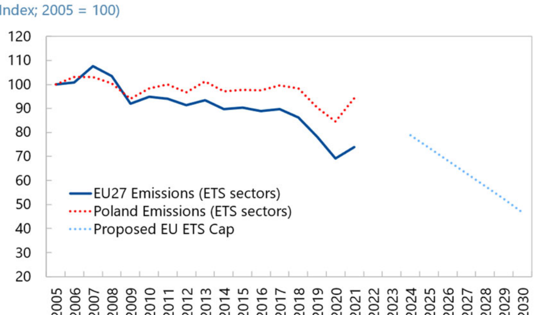
…but there is no tradeoff between import dependence and a low carbon footprint.

Emissions Intensity of Energy and Imports Dependence, 2020



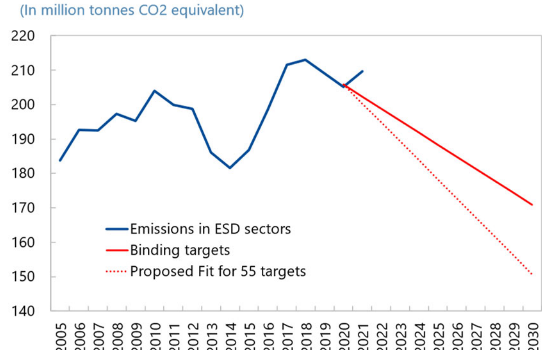
Prices of coal-fired electricity will be affected by EU climate policies…

GHG Emissions Covered by EU ETS and Proposed Reduction in CO2 Allowances
(Index; 2005 = 100)



…while meeting national targets under EU policies will be challenging without additional policy instruments.

GHG Emissions and Effort Sharing Directive Targets
(In million tonnes CO2 equivalent)



Sources: OECD; European Environment Agency; European Commission; and IMF staff calculations.

E. Labor Markets and Refugees

36. Measures to grant Ukrainian refugees access to the Polish labor market have been successful. Around half of the approximately one million Ukrainian refugees are of working age and are mostly employed or have created their own businesses, typically in the services sector (Annex VI). Refugees benefited from Polish government support, including the provision of financial and social assistance, access to health and education systems, and policies which granted refugees full access to Polish labor markets and the ability to start businesses. Their labor market integration also was supported by the favorable cyclical position of the Polish economy in 2022. Further policy measures could support labor market integration, including support for upskilling, reskilling, language training, affordable childcare programs, license recognition, and employment matching services. While the inflow of refugees from Ukraine may be in large part temporary, more generally, measures to facilitate immigration can boost Poland's potential output, offsetting negative drag from demographics.

Authorities' Views

37. The authorities aim to continue their successful policies to promote refugee integration. They emphasized the effectiveness of their prompt policy response, including the provision of full operational rights to Ukrainian firms and workers on par with Polish ones, which they believed has been key to absorbing working-age refugees into the structurally tight labor market. The authorities noted that access to the education system had been important for children. They agreed that more could be done regarding the availability of affordable childcare facilities, addressing skill mismatches, and recognizing professional licenses.

STAFF APPRAISAL

38. After the rapid recovery from the pandemic, the Polish economy has weakened significantly amid still-high inflation. The economy slowed abruptly in 2022, facing energy price shocks, monetary policy tightening, and slowing external demand. Labor markets remain tight, though some signs of cooling have emerged. High inflation has been driven primarily by food and energy price shocks – exacerbated by Russia's war in Ukraine – though underlying inflation has also accelerated. The external position is preliminarily assessed to be broadly in line with medium-term fundamentals and desirable policies. Foreign exchange reserves are adequate to insulate against external shocks and disorderly market conditions.

39. Despite the projected slowdown in 2023, medium-term economic prospects remain favorable. In the near term, high inflation has eroded real wage growth, while investment faces headwinds from energy prices, interest rates, and declining housing activity. As shocks fade and real wage growth recovers, the economy is projected to rebound in 2024 and 2025. Nevertheless, considerable near-term uncertainty will require deft policy management as policymakers seek to lower inflation without incurring an excessive cost to economic output.

40. A fiscal expansion in 2023 should be avoided to help combat still-high inflation. While the fiscal deficit is projected to widen in 2023 mainly due to the slowing economy, any policy driven fiscal loosening should be avoided unless major downside risks materialize. Further energy price measures, if needed, should be temporary, targeted, and preserve price signals. Over the medium term, the authorities should create fiscal space to accommodate new defense and other expenditure priorities without placing general government debt on an upward trajectory. Ending the reliance on extra-budgetary funds and requiring all spending to go through the budgetary process would enhance fiscal transparency.

41. Monetary policy needs to be tight until price pressures are under control and a sustained reduction in inflation towards its target has been achieved. The expected stabilization of food and energy prices should reduce headline inflation in 2023. However, further disinflation hinges on an easing of underlying inflation. Monetary policy should remain data dependent and be tightened further if core inflation momentum, wage growth, and the economy fail to slow as projected. Foreign exchange intervention should continue to be reserved for disorderly market conditions.

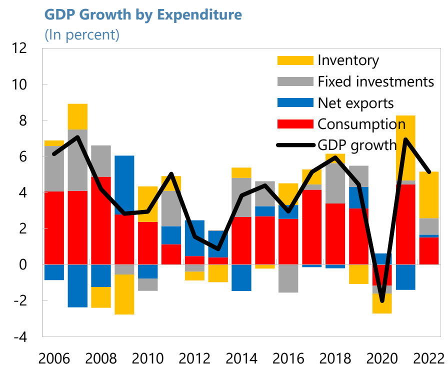
42. While the banking sector has remained stable, there are significant legal and regulatory challenges. Asset quality has not deteriorated, and sector-wide capital adequacy levels remain significantly above regulatory requirements. However, ongoing challenges reduce banks' profitability and could limit their ability to provide credit to the economy over the medium term. Most importantly, to address the ongoing litigation of foreign exchange mortgages, banks should continue to proactively seek to reach voluntary agreements with clients to convert their mortgages into local currency. The authorities should also explore policy options to help reduce the uncertainty that foreign exchange mortgage legal risk casts over the banking sector. In addition, untargeted mortgage credit holidays are inefficient, costly, weaken monetary policy transmission, and should not be extended.

43. Ongoing public investments and structural reforms are needed to bolster longer-term economic growth and convergence and meet climate goals. Over the medium term, Poland's potential output would be supported by strong investment, projected to be financed in part by Next Generation EU grants, which would help temporarily counteract the negative effects of population aging. A sustained increase in immigration would increase Poland's competitiveness and raise medium-term growth. The successful integration of Ukrainian refugees could be furthered with additional training and skill development. Substantial investment in clean sources of energy is necessary to support sustainable economic growth and meet energy transition goals. Additional policy instruments may be needed to meet decarbonization targets, and the authorities are encouraged to consider a role for carbon taxation.

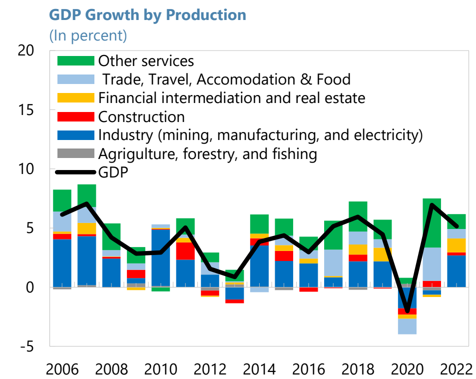
44. It is recommended that the next Article IV consultation be held on the standard 12-month cycle.

Figure 15. Poland: Selected Economic Indicators, 2006-2023

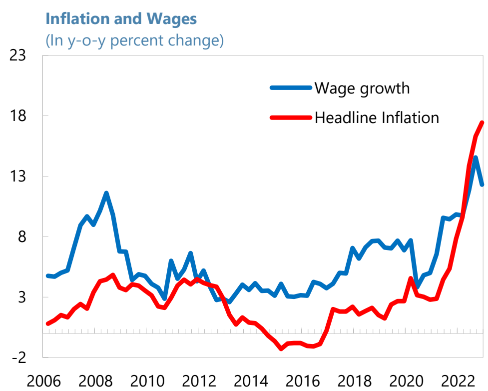
Poland recovered strongly from the pandemic recession….



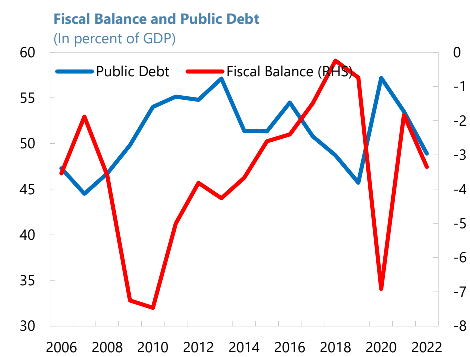
…as services and industry rebounded.



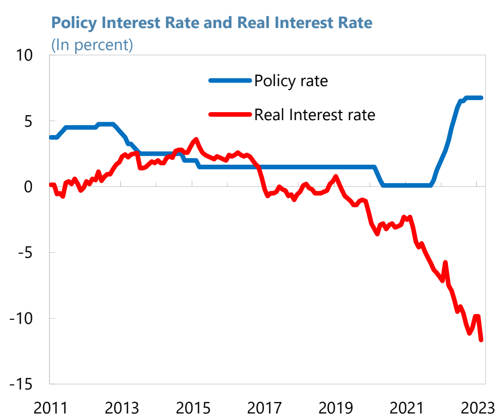
Wage growth followed rapid increases in headline inflation in 2022.



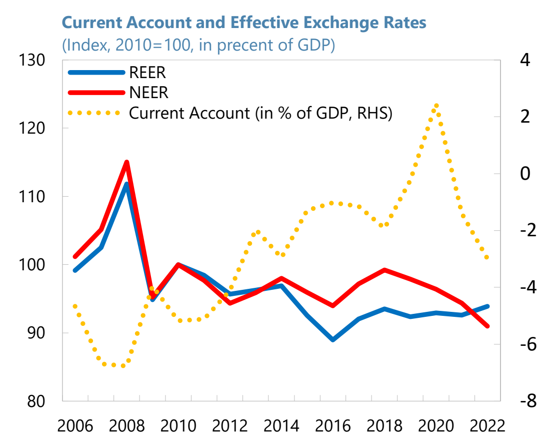
The fiscal balance improved significantly as pandemic-era support programs lapsed.



Despite large rate increases, real rates are negative.



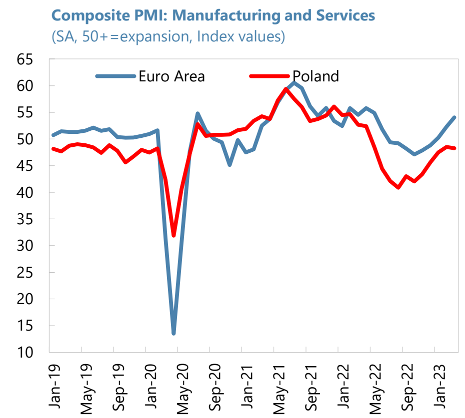
The current account returned to deficit after the pandemic.



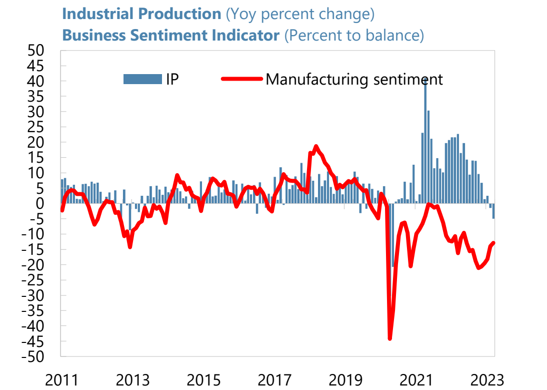
Sources: Haver Analytics; Poland Central Statistical Office; Ministry of Finance; National Bank of Poland; and IMF staff calculations.

Figure 16. Poland: Recent Economic Developments, 2011-2023

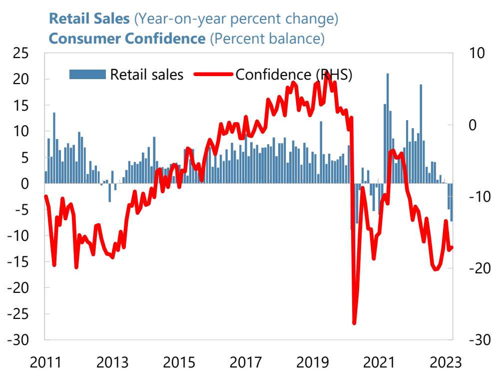
The growth outlook weakened in the second half of 2022…



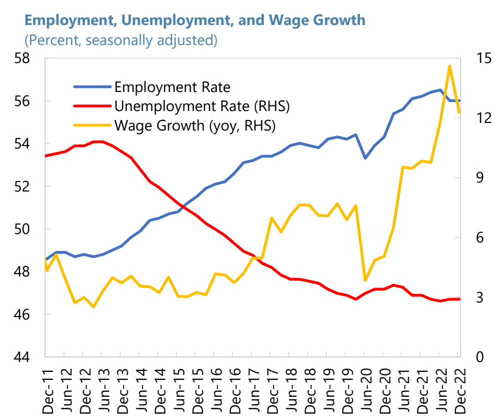
…as industrial production growth slowed and sentiment weakened.



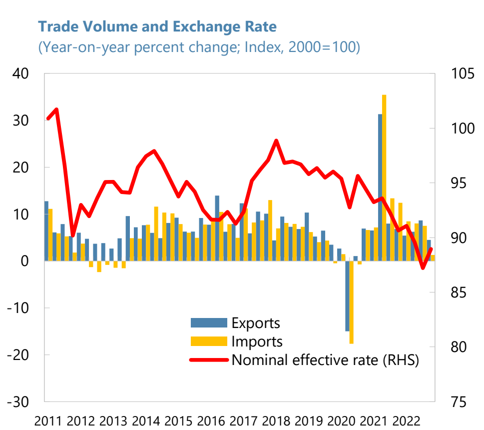
Retail sales growth slowed in H2 2022 as inflation increased…



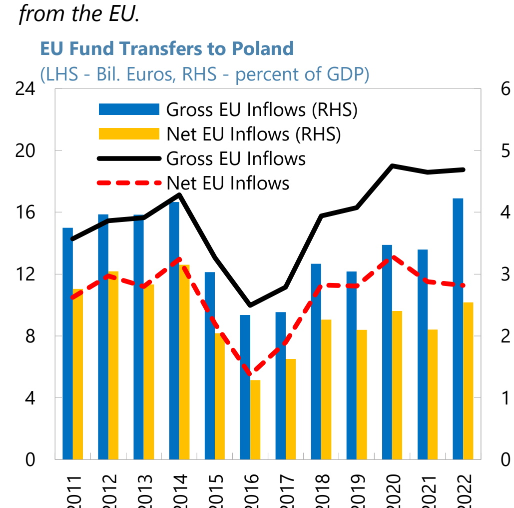
…though labor markets remain tight.



Trade has recovered from the pandemic…



…while Poland continues to receive significant inflows from the EU.

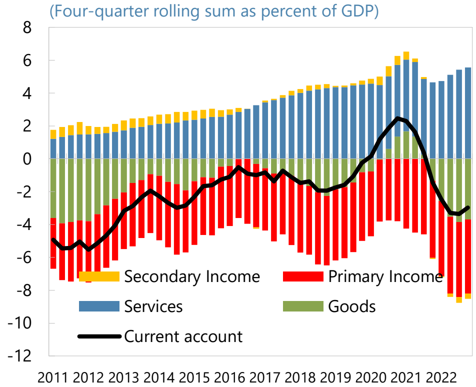


Sources: Haver Analytics; Poland Central Statistical Office; and IMF staff calculations.

Figure 17. Poland: Balance of Payment Developments, 2011-2022

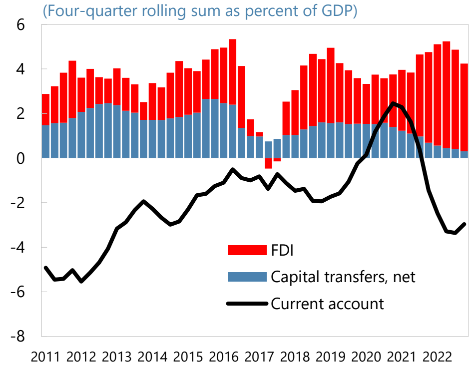
The current account deficit increased in 2022 due to import price shocks widening the goods deficit…

Current Account Balance
(Four-quarter rolling sum as percent of GDP)



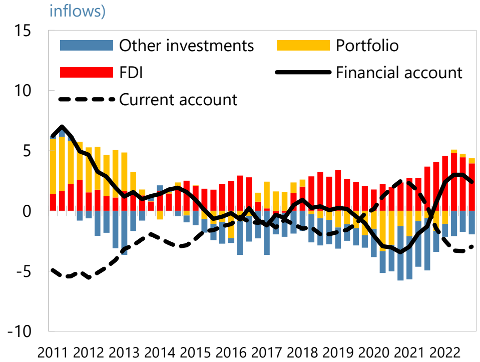
…but is covered by capital transfers and FDI.

Current Account Balance, Capital Transfers, and FDI
(Four-quarter rolling sum as percent of GDP)



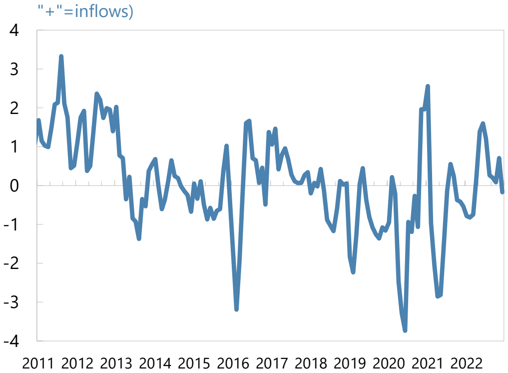
FDI represents the bulk of financial inflows…

Financial Account Balance (Net Flows)
(Four-quarter rolling sum as percent of GDP, "+" = inflows)



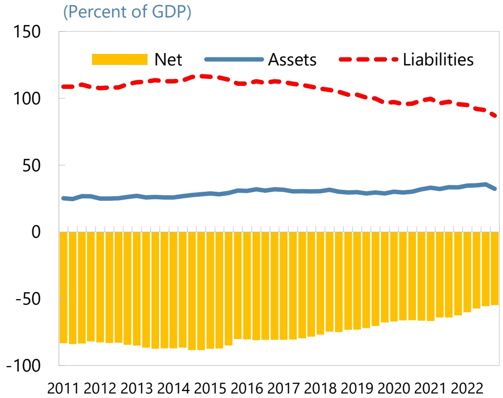
…while portfolio investment flows have been volatile.

Portfolio Flows, Net
(Billions of US dollars, 3-month moving average, "+"=inflows)



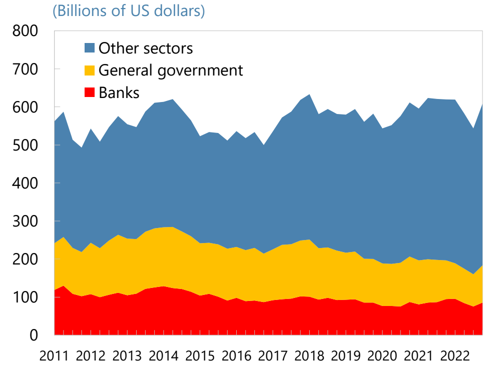
The net IIP continues to improve…

International Investment Position 1/
(Percent of GDP)



…as liabilities decline as a percent of GDP, led by a decline in external holdings of government debt.

International Investment Position, Liabilities
(Billions of US dollars)



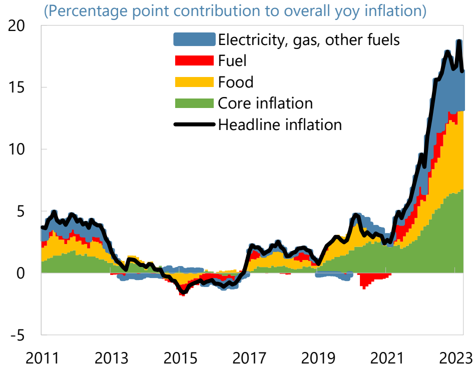
Sources: Narodowy Bank Polski; and IMF staff calculations.
1/ Excludes NBP.

Figure 18. Poland: Inflation and Asset Price Developments

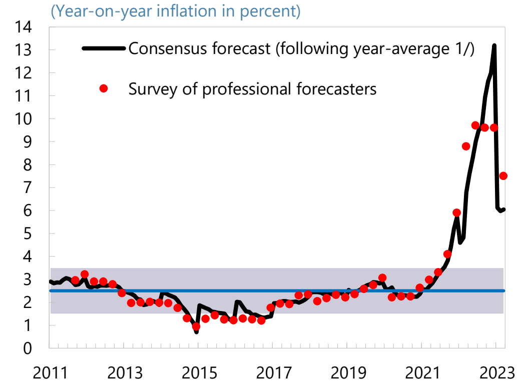
The increase in inflation has been broad based…

…with consumer price inflation expectations mostly backward looking…

Consumer Price Inflation
(Percentage point contribution to overall yoy inflation)



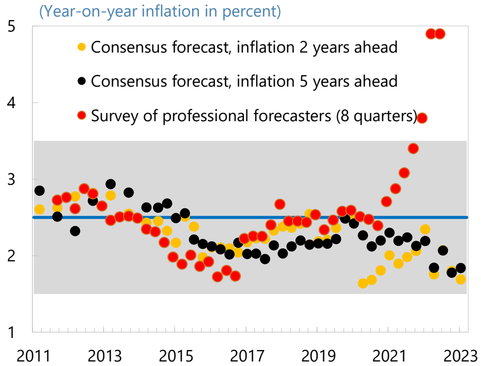
Inflation Expectations, One Year Ahead
(Year-on-year inflation in percent)



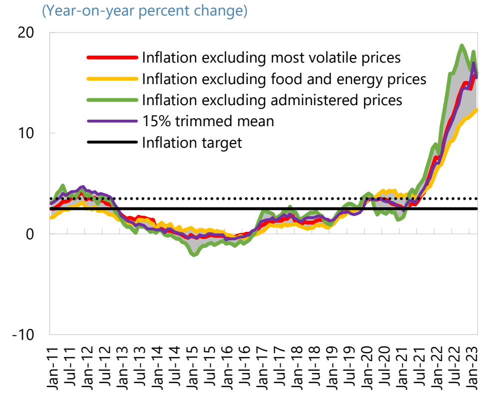
…while longer-term inflation expectations remain anchored.

The increase in underlying inflation pressures…

Longer-Term Inflation Expectations 1/
(Year-on-year inflation in percent)



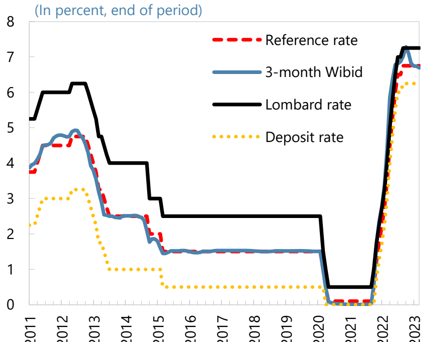
Core Inflation Indices
(Year-on-year percent change)



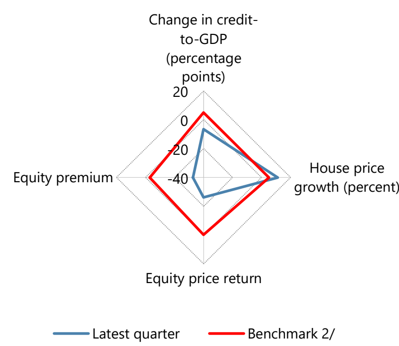
…was a significant factor in monetary policy tightening.

Credit/GDP has declined amid slow lending growth.

Interest Rates
(In percent, end of period)



Asset Price Indicators
(Data as of 2022Q4)

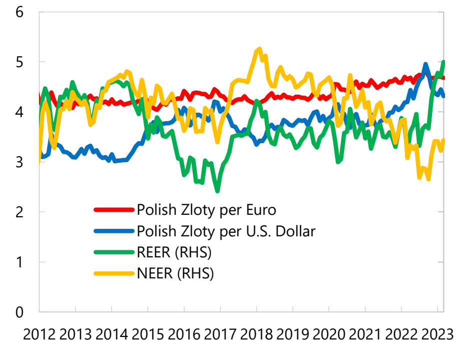


Sources: Consensus Forecast; Haver Analytics; Poland Central Statistical Office; National Bank of Poland; and IMF staff calculations.
1/ Expectations for the following year's average are affected by breaks when the forecast-year changes in January.
2/ Benchmarks are five-year averages of each indicator. For equity returns, it is the five-year average of the MSCI EM Index returns. The benchmark for change in credit-to-GDP ratio refers to the threshold for a credit boom.

Figure 19. Poland: Financial Sector Developments

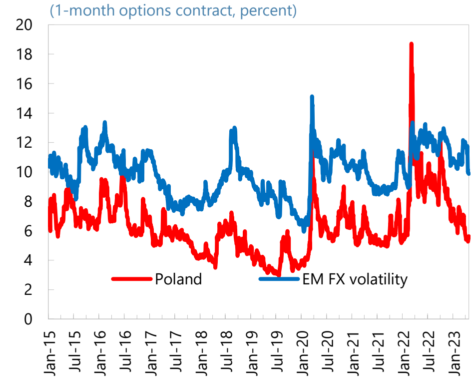
Despite NEER depreciation, the REER appreciated in 2022.

Polish Zloty Exchange Rate
(Period average; Jan. 1, 2010=100)



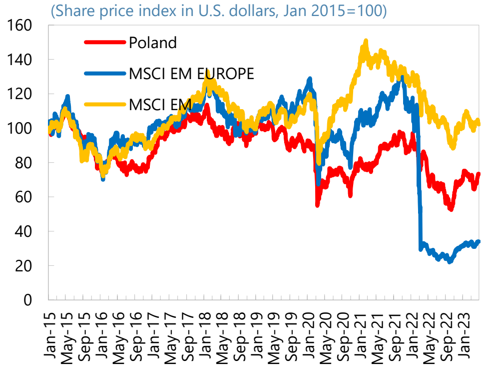
Exchange rate volatility spiked when Russia invaded Ukraine.

Implied Volatility of Exchange Rate vs. Euro
(1-month options contract, percent)



Equities recovered somewhat at the end of 2022.

MSCI Emerging Market Equity Index
(Share price index in U.S. dollars, Jan 2015=100)

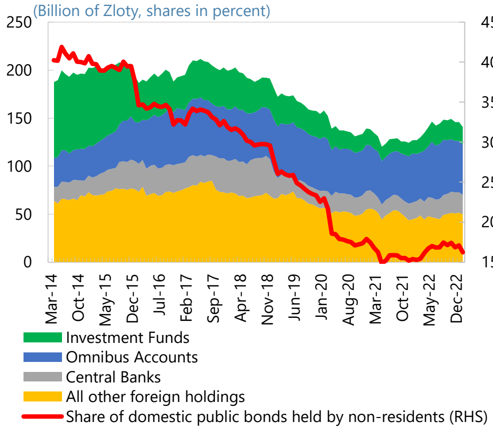


CDS spreads increased somewhat in 2022, until they narrowed starting in the fall months.

Sovereign Credit Default Swap Spreads
(Basis points, 5-year tenors)

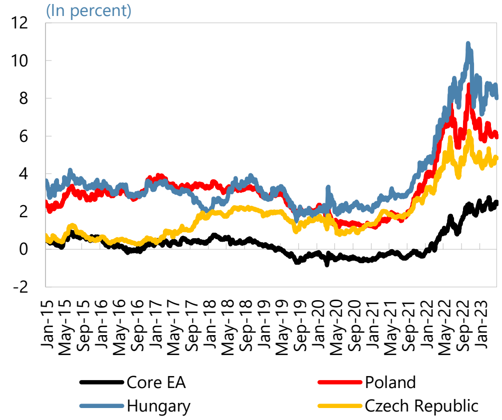
Non-residents continue to reduce holdings of Treasury bonds…

Non-Resident Holdings of Domestically Issued Treasury Securities
(Billion of Zloty, shares in percent)



…while yields increased in 2022 in line with regional trends.

Ten-Year Government Bond Yields
(In percent)

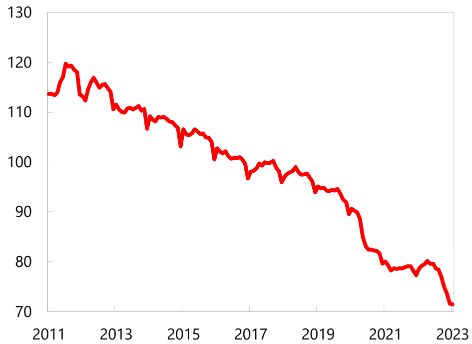


Sources: Bloomberg Finance L.P.; Haver Analytics; Poland Ministry of Finance; and IMF staff calculations.

Figure 20. Poland: Banking Sector Developments

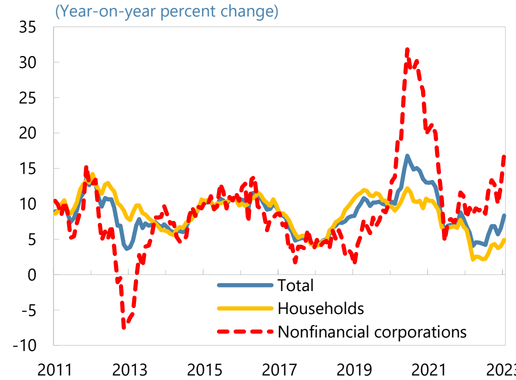
Banks are extremely liquid…

Nonfinancial Sector Loans to Deposits
(Percent)



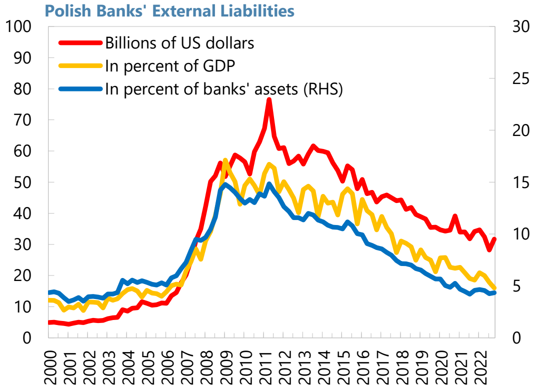
…though deposit growth moderated after pandemic liquidity programs ended.

Private Sector Deposit Growth
(Year-on-year percent change)



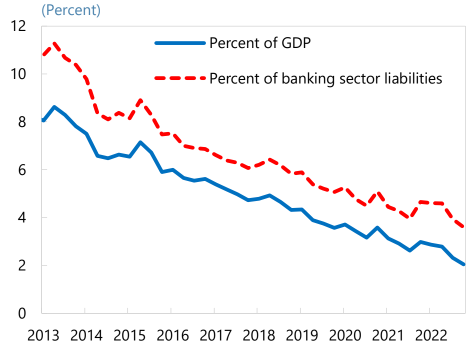
…and banks flush with domestic liquidity have little need for external funding…

Polish Banks' External Liabilities



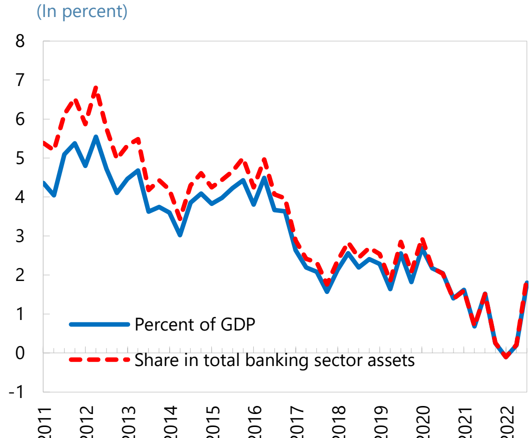
…including from parent banks.

Banking Sector Debt to Parents
(Percent)



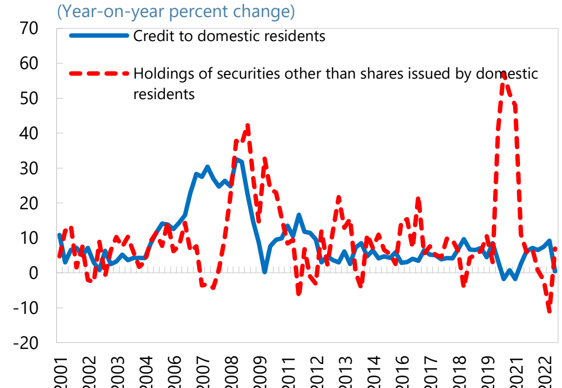
Open FX positions have declined over time.

Banking Sector, On-Balance Sheet Open FX Position
(In percent)



Banks took on significant new amounts of government and guaranteed debt during the pandemic.

Banking Sector, Credit to Residents vs Holdings of Securities Issued by Residents
(Year-on-year percent change)



Sources: NBP; Statistics Poland; KNF; Haver Analytics; and IMF staff calculations.

Table 5. Poland: Selected Economic Indicators, 2020-2028

	2020	2021	2022	2023	2024	2025	2026	2027	2028
				Projections					
Activity and prices									
GDP (change in percent)	-2.0	6.9	5.1	0.3	2.4	3.7	3.4	3.1	3.1
Domestic demand	-2.8	8.6	5.1	-1.1	2.2	3.9	3.5	3.2	3.2
Private consumption growth	-3.4	6.1	3.3	-1.2	2.5	4.2	3.6	3.5	3.5
Public consumption growth	4.9	5.0	-2.0	-2.1	4.1	3.8	3.5	3.1	3.1
Domestic fixed investment growth	-2.3	1.2	5.0	2.2	3.3	8.0	5.5	4.0	3.5
Inventories (contribution to growth)	-1.1	3.6	2.6	-0.4	-0.6	-0.7	-0.3	-0.2	-0.1
Net external demand (contribution to growth)	0.7	-1.3	0.1	1.4	0.3	0.0	0.1	0.0	0.0
Output gap	-2.7	0.6	2.2	-0.6	-1.3	-0.6	-0.2	-0.1	0.0
Headline CPI inflation (percent)									
Average	3.4	5.1	14.4	12.4	6.2	4.2	3.5	2.9	2.5
End of period	2.4	8.6	16.6	7.7	5.1	3.6	3.3	2.5	2.5
CPI inflation excluding food and energy (percent)									
Average	3.9	4.1	9.1	11.2	7.7	5.0	3.6	2.9	2.5
End of period	3.7	5.3	11.5	9.8	6.2	3.9	3.3	2.5	2.5
Unemployment rate (average, according to LFS)	3.2	3.4	2.9	3.2	3.5	3.4	3.4	3.4	3.4
Saving and Investment (percent of GDP)									
Saving	21.2	20.4	20.9	20.7	20.2	20.0	19.9	19.7	19.5
Investment	18.8	21.8	23.9	23.1	22.3	22.0	21.8	21.6	21.5
Saving - Investment	2.5	-1.4	-3.0	-2.4	-2.1	-2.0	-2.0	-2.0	-2.0
Public finances (percent of GDP) 1/									
General government revenues	41.3	42.3	39.8	41.8	42.2	42.2	42.0	41.7	41.8
General government expenditures	48.2	44.1	43.5	46.3	46.2	46.3	46.2	45.7	45.4
General government net lending/borrowing	-6.9	-1.8	-3.7	-4.5	-4.1	-4.1	-4.1	-3.9	-3.5
General government cyclically-adjusted balance	-5.5	-2.1	-4.9	-4.2	-3.4	-3.8	-4.0	-3.9	-3.5
General government debt	57.2	53.6	49.1	50.2	51.5	52.4	53.7	54.4	55.0
National definition 2/	47.6	43.7	39.3	...	...	...	...	...	...
Money and credit									
Private credit (change in percent, end-period) 3/	3.2	5.6	2.7	3.1	4.8	6.9	7.8	7.8	7.8
Credit to GDP (percent)	55.0	51.6	45.3	41.5	39.9	39.4	39.6	40.2	40.9
Deposits (change in percent, end-period)	12.0	7.7	5.9	6.0	7.1	6.5	6.3	6.2	6.2
Broad money (change in percent, end-period)	16.4	8.9	5.4	6.6	7.5	6.6	6.2	6.0	6.0
Policy Rate (percent) 4/	0.5	0.3	5.3	...	...	...			
Balance of payments									
International Investment Position, Net (Percent of GDP)	-45.5	-37.5	-34.2	-33.7	-33.2	-32.2	-31.7	-31.5	-32.0
Current account balance (billion U.S. dollars)	14.9	-9.5	-20.7	-18.0	-16.8	-17.2	-18.2	-19.4	-19.9
Percent of GDP	2.5	-1.4	-3.0	-2.4	-2.1	-2.0	-2.0	-2.0	-2.0
Exports of Goods (billion U.S. dollars)	252.5	311.5	336.8	346.8	364.6	389.6	415.4	441.9	470.0
Export volume growth	-1.1	12.3	6.2	3.2	2.8	4.2	4.2	4.0	4.0
Imports of Goods (billion U.S. dollars)	244.3	320.2	362.2	366.2	382.3	408.1	435.1	462.6	491.4
Import volume growth	-2.4	16.1	6.2	0.5	2.5	4.6	4.4	4.2	4.2
Terms of trade (index 1995=100)	109.5	107.2	104.1	103.2	103.6	104.1	104.3	104.6	104.9
Official reserves (billion U.S. dollars)	154.2	166.1	166.7	171.6	175.0	178.6	181.5	185.0	187.5
In percent of short-term debt plus CA deficit	142.7	134.4	128.4	125.9	121.9	118.1	113.6	110.8	108.1
In percent of IMF ARA metric	151.3	158.6	157.3	...	...	...	...	...	...
Total external debt (billion U.S. dollars)	377.5	365.6	369.3	378.0	383.8	391.7	402.2	413.6	425.0
In percent of GDP	63.0	53.6	53.5	50.4	47.8	45.2	43.6	42.4	42.2
Exchange rate									
Exchange rate regime			Freely floating						
Zloty per USD, period average	3.9	3.9	4.5	...	...	...	...	...	...
Zloty per Euro, period average	4.4	4.6	4.7	...	...	...	...	...	...
Real effective exchange rate (INS, CPI based) 5/	101.4	101.0	102.4	...	...	...	...	...	...
Appreciation (percent change)	0.6	-0.4	1.4	...	...	...	...	...	...
Memorandum item:									
Nominal GDP (billion zloty)	2337.7	2631.3	3078.3	3464.9	3776.2	4089.9	4384.1	4659.1	4939.2

Sources: Polish authorities; and IMF staff calculations.
1/ According to ESA2010.
2/ The difference from general government debt reflects different sectoral classification of certain units.
3/ Credit defined as in IFS: "Claims on other sectors."
4/ NBP Reference Rate (avg).
5/ Annual average (2000=100).

Table 6. Poland: Balance of Payments on Transaction Basis, 2018-2028

(Millions of U.S. dollars, unless otherwise indicated)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
						Projections					
Current account balance	-11,338	-1,464	14,882	-9,491	-20,652	-17,978	-16,837	-17,237	-18,226	-19,409	-19,892
percent of GDP	-1.9	-0.2	2.5	-1.4	-3.0	-2.4	-2.1	-2.0	-2.0	-2.0	-2.0
Trade balance	12,115	22,064	34,425	22,980	12,932	18,172	22,057	24,730	25,879	27,293	28,477
percent of GDP	2.1	3.7	5.7	3.4	1.9	2.4	2.7	2.9	2.8	2.8	2.8
Balance on Goods	-13,214	-4,885	8,181	-8,717	-25,421	-19,361	-17,675	-18,491	-19,677	-20,772	-21,385
Merchandise exports f.o.b.	242,272	246,640	252,508	311,519	336,753	346,806	364,592	389,630	415,403	441,874	470,032
Merchandise imports f.o.b.	255,486	251,525	244,327	320,236	362,174	366,168	382,267	408,121	435,079	462,646	491,417
Balance on Services	25,329	26,949	26,244	31,697	38,353	37,533	39,732	43,221	45,556	48,065	49,862
Merchandise exports f.o.b.	68,333	70,445	66,660	81,143	95,629	95,875	96,292	100,540	103,088	106,168	108,620
Merchandise imports f.o.b.	43,004	43,496	40,416	49,446	57,276	58,342	56,560	57,320	57,533	58,103	58,758
Exports of goods and services											
percentage change in unit values	13.3	2.1	0.7	23.0	10.1	3.0	5.1	6.9	6.6	6.4	6.4
percentage volume growth	6.8	5.3	-1.1	12.3	6.2	3.2	2.8	4.2	4.2	4.0	4.0
Imports of goods and services											
percentage change in unit values	15.1	-1.2	-3.5	29.8	13.5	1.1	4.4	6.8	6.6	6.3	6.2
percentage volume growth	7.5	3.2	-2.4	16.1	6.2	0.5	2.5	4.6	4.4	4.2	4.2
Terms of trade (percentage change)	-0.9	1.2	2.9	-2.0	-3.0	-0.8	0.4	0.5	0.2	0.2	0.3
Primary Income balance	-24,846	-24,925	-22,859	-32,019	-31,369	-33,895	-36,473	-39,415	-41,677	-43,997	-45,377
percent of GDP	-4.2	-4.2	-3.8	-4.7	-4.5	-4.5	-4.5	-4.5	-4.5	-4.5	-4.5
Secondary Income balance	1,393	1,397	3,316	-452	-2,215	-2,255	-2,421	-2,552	-2,428	-2,705	-2,991
Capital and financial account balance	8,718	14,924	29,124	478	-15,832	-15,418	-9,537	-8,320	-9,101	-9,785	-10,305
Capital account balance (net)	9,234	9,175	8,487	4,729	1,887	1,280	3,650	4,458	4,563	4,812	4,794
Financial account balance (net)	-516	5,749	20,637	-4,251	-17,719	-16,698	-13,187	-12,779	-13,663	-14,597	-15,098
Foreign direct investment (net)[+ = outflows]	-16,786	-12,264	-13,950	-27,694	-27,803	-26,100	-24,336	-21,888	-18,579	-19,693	-19,725
Assets [Increase = +]	2,274	5,324	5,085	9,364	7,144	6,300	6,000	6,000	6,100	6,100	6,838
Liabilities [Increase = +]	19,060	17,588	19,035	37,058	34,947	32,400	30,336	27,888	24,679	25,793	26,564
Portfolio investment (net)	4,366	12,146	6,744	11,401	-2,681	7,685	8,217	8,613	9,234	9,790	10,356
Assets	649	-294	-4,103	4,988	3,153	3,481	4,117	4,383	3,403	3,403	3,413
Liabilities	-3,717	-12,440	-10,847	-6,413	5,834	-4,204	-4,100	-4,230	-5,831	-6,387	-6,944
Other investment (net)	6,116	-2,798	10,330	-3,730	-190	-3,212	-455	-3,078	-7,252	-8,198	-8,198
Assets	6,061	1,320	14,968	12,263	18,352	1,160	1,350	1,302	1,198	1,302	1,302
Liabilities	-55	4,118	4,638	15,993	18,542	4,372	1,805	4,380	8,450	9,500	9,500
Financial derivatives	-1,283	-1,399	-1,115	-3,505	2	0	0	0	0	0	0
Errors and omissions	1,588	-1,962	-2,732	511	1,046	0	0	0	0	0	0
Financing											
Reserve assets [Increase = +]	7,071	10,064	18,628	19,277	12,953	4,929	3,387	3,574	2,933	3,504	2,469
Memorandum items:											
Current plus capital account (percent of GDP)	-0.4	1.3	3.9	-0.7	-2.7	-2.2	-1.6	-1.5	-1.5	-1.5	-1.5
International Investment Position, Net (Percent of GDP)	-52.5	-49.3	-45.5	-37.5	-34.2	-33.7	-33.2	-32.2	-31.7	-31.5	-32.0
Gross official Reserve	116,965	128,405	154,246	166,050	166,695	171,624	175,011	178,585	181,518	185,022	187,490
in months of imports	5.5	6.1	7.6	6.2	5.5	5.6	5.5	5.3	5.0	4.8	4.6
Ratio of gross official reserves to short-term debt 1/	139.6	140.6	156.4	161.3	149.0	143.6	138.5	133.3	128.3	125.4	122.1
Ratio of gross official reserves to ST debt plus CA deficit	137.2	168.0	142.7	134.4	128.4	125.9	121.9	118.1	113.6	110.8	108.1
Ratio of gross official reserves to IMF ARA metric	123.3	133.9	151.3	158.6	...	...	...	...	...	...	...
Total external debt (percent of GDP)	61.9	59.6	63.0	53.6	53.5	50.4	47.8	45.2	43.6	42.4	42.2
Total external debt (percent of exports)	116.8	112.0	118.3	93.1	85.4	85.4	83.3	79.9	77.6	75.5	73.4
External debt service (percent of exports)	49.8	45.9	48.2	43.8	35.7	37.7	37.9	37.1	36.6	36.3	35.7

Sources: National Bank of Poland; and IMF staff calculations.
1/ Short-term debt is on remaining maturity.

Table 7. Poland: Statement of Operations of General Government, 2018-2028

(Percent of GDP)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
						Projections					
Revenue	41.2	41.1	41.3	42.3	39.8	41.8	42.2	42.2	42.0	41.7	41.8
Taxes	21.8	21.8	21.9	23.5	21.3	23.0	22.4	22.5	22.6	22.7	22.9
Personal income tax	5.3	5.3	5.3	5.3	4.4	4.1	4.1	4.1	4.2	4.2	4.3
Corporate income tax	2.1	2.2	2.3	2.6	2.8	3.5	2.5	2.5	2.5	2.5	2.5
VAT	8.1	8.0	8.0	8.6	7.3	8.3	8.6	8.6	8.7	8.7	8.8
Excises	3.4	3.2	3.1	2.9	2.6	2.6	2.6	2.6	2.6	2.6	2.6
Other taxes	3.0	3.1	3.3	4.1	4.3	4.5	4.6	4.6	4.7	4.7	4.7
Social contributions	14.1	14.2	14.5	14.0	13.7	13.8	13.8	13.9	13.9	14.0	14.0
Other revenue	5.3	5.2	4.9	4.8	4.8	5.1	6.0	5.8	5.5	5.0	5.0
Capital revenue	1.2	1.1	1.2	0.9	0.7	0.9	1.9	1.7	1.4	0.8	0.9
Sales of goods and services	2.3	2.3	2.1	2.1	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Other current revenue	1.8	1.8	1.7	1.8	2.0	1.9	1.9	1.9	1.9	1.9	1.9
Expenditure	41.4	41.9	48.2	44.1	43.5	46.3	46.2	46.3	46.2	45.7	45.4
Expense	36.8	37.5	43.7	40.0	39.5	42.0	41.2	41.0	40.8	40.5	40.3
Compensation of employees	10.1	10.3	10.8	10.4	9.7	10.3	10.4	10.5	10.5	10.5	10.5
Use of goods and services	5.7	5.7	5.8	5.9	6.3	6.3	6.2	6.0	5.9	5.9	5.9
Interest	1.4	1.4	1.3	1.1	1.6	1.8	1.8	2.0	2.1	2.1	2.2
Subsidies	0.4	0.5	3.6	1.2	0.9	2.5	0.9	0.5	0.5	0.5	0.5
Social benefits	16.6	17.3	18.6	18.0	17.1	17.3	17.7	17.9	17.7	17.7	17.6
Other expense 1/	2.5	2.4	3.6	3.4	4.0	3.9	4.2	4.2	4.0	3.8	3.7
Other current expenditure	2.0	2.0	2.4	2.3	2.3	2.5	2.5	2.5	2.5	2.5	2.5
Capital transfers	0.4	0.4	1.2	1.1	1.7	1.4	1.8	1.7	1.6	1.3	1.2
Net acquisition of nonfinancial assets	4.7	4.3	4.6	4.0	4.0	4.3	5.0	5.3	5.4	5.2	5.0
Gross operating balance	4.4	3.6	-2.4	2.2	0.3	-0.2	0.9	1.2	1.3	1.2	1.5
Net lending/borrowing	-0.2	-0.7	-6.9	-1.8	-3.7	-4.5	-4.1	-4.1	-4.1	-3.9	-3.5
Cyclically-adjusted fiscal balance	-1.5	-2.3	-5.5	-2.1	-4.9	-4.2	-3.4	-3.8	-4.0	-3.9	-3.5
Net financial transactions	-0.3	-0.7	-7.0	-1.8	-3.8	-5.8	-5.0	-4.6	-4.3	-3.6	-3.0
Net acquisition of financial assets	1.5	0.7	6.2	2.1	0.0	0.4	0.4	0.4	0.4	0.4	0.5
Currency and deposits	0.9	0.5	3.3	1.3	1.0	0.4	0.5	0.5	0.5	0.5	0.5
Debt securities	0.0	0.3	0.5	0.4	-0.8	0.1	0.1	0.1	0.1	0.1	0.1
Loans	0.4	0.1	1.6	0.2	0.3	0.1	0.1	0.1	0.1	0.1	0.1
Equity and investment fund shares	0.0	0.0	0.1	-0.1	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Other financial assets	0.3	-0.2	0.7	0.3	-0.3	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2
Net incurrence of liabilities	1.8	1.5	13.1	3.9	3.8	4.9	4.4	4.5	4.5	4.4	4.0
Currency and deposits	0.1	0.0	0.0	0.0	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Debt securities	-0.1	0.1	10.3	0.9	0.6	3.7	3.3	3.3	3.4	3.3	3.0
Loans	0.7	0.4	1.5	1.8	2.1	1.0	1.0	1.1	1.0	1.0	0.8
Other liabilities	1.0	0.9	1.3	1.1	0.9	0.1	0.0	0.1	0.1	0.1	0.1
Adjustment and statistical discrepancies 2/	0.0	0.0	0.0	0.0	-0.1	-1.3	-0.9	-0.5	-0.2	0.3	0.5
Memorandum items:											
Primary balance	1.2	0.6	-5.6	-0.7	-2.2	-2.8	-2.2	-2.1	-2.0	-1.8	-1.4
Cyclically-adjusted primary balance	-0.1	-0.9	-4.2	-1.0	-3.3	-2.5	-1.6	-1.8	-1.9	-1.8	-1.4
General government debt	48.7	45.7	57.2	53.6	49.1	50.2	51.5	52.4	53.7	54.4	55.0
General government financial liabilities	66.6	63.4	76.8	68.0	61.8	59.8	59.3	59.3	59.9	60.7	61.2
General government financial assets	27.7	26.9	31.4	30.6	26.2	23.6	22.0	20.8	19.8	19.1	18.4
Nominal GDP in billions of zloty	2,127	2,288	2,338	2,631	3,078	3,465	3,776	4,090	4,384	4,659	4,939

Sources: Eurostat; and IMF staff calculations.

1/ Includes grants.

2/ Includes adjustment to account for the difference in recording expenditures based on cash and accrual methodology.

Table 8. Poland: Monetary Accounts, 2017-2024

	2017	2018	2019	2020	2021	2022	2023	2024
							Projections	
	(Billions of zlotys)							
Central bank								
Net foreign assets	356	393	435	525	605	646	712	737
Official reserve assets	394	440	488	580	674	734	800	825
Net domestic assets	-223	-103	-135	-159	-161	-227	-247	-227
Net claims on government	-26	-34	-39	-16	34	20	20	20
Other items, net	-197	-70	-97	-143	-196	-247	-268	-248
Base money	232	292	304	384	452	423	465	509
Currency issued	198	219	238	321	355	368	407	447
Bank reserves	34	73	65	63	97	55	58	62
Deposit money banks								
Net foreign assets	-123	-102	-90	-96	-80	-7	-22	-24
Net domestic assets	1,235	1,305	1,396	1,558	1,654	1,674	1,790	1,918
Net claims on the central bank 1/	38	76	69	65	99	70	73	77
Net claims on government	302	317	357	415	327	309	368	448
Claims on private sector	1,111	1,189	1,246	1,286	1,358	1,394	1,438	1,507
Claims on corporates	358	381	386	365	380	414	428	448
Claims on households	676	723	766	789	827	794	819	859
Claims on other	76	85	94	132	151	186	192	201
Other items, net	-216	-278	-277	-208	-130	-98	-90	-115
Deposits	1,111	1,202	1,306	1,462	1,575	1,668	1,768	1,894
Demand deposits	688	774	883	1,154	1,305	1,162	1,232	1,320
Other deposits	423	428	423	308	270	506	536	574
Consolidated banking system								
Net foreign assets	233	290	345	429	525	639	690	713
Net domestic assets	1,092	1,156	1,221	1,394	1,460	1,452	1,540	1,683
Claims on government	277	283	318	399	362	329	389	468
Claims on private sector	1,111	1,189	1,246	1,286	1,358	1,394	1,438	1,507
Other items, net	-296	-317	-344	-291	-260	-271	-287	-292
Broad money (M3)	1,324	1,446	1,566	1,823	1,985	2,091	2,230	2,396
Memorandum items:	(Percentage change from end of previous year)							
Base money	5.2	25.9	4.0	26.4	17.6	-6.4	9.9	9.6
Broad money (M3)	4.6	9.2	8.3	16.4	8.9	5.4	6.6	7.5
Net domestic assets	5.9	5.9	5.6	14.2	4.7	-0.5	6.0	9.3
Net foreign assets	-0.7	24.8	18.8	24.3	22.5	21.7	8.0	3.3
Net claim on government	3.5	2.5	12.3	25.3	-9.3	-9.0	18.2	20.5
Claims on private sector	3.4	7.1	4.8	3.2	5.6	2.7	3.1	4.8
Deposit growth	3.8	8.2	8.6	12.0	7.7	5.9	6.0	7.1
	(Percent of GDP, unless otherwise noted)							
Broad money (M3)	66.8	68.0	68.4	78.0	75.4	67.9	64.4	63.5
Private sector credit	56.0	55.9	54.5	55.0	51.6	45.3	41.5	39.9
Broad money Velocity (GDP/M3)	1.5	1.5	1.5	1.3	1.3	1.5	1.6	1.6
Money multiplier (M3/base money)	5.7	4.9	5.2	4.7	4.4	4.9	4.8	4.7

Sources: Haver; IFS; NBP; and IMF staff calculations.

1/ The difference between deposit money bank claims on the central bank and central bank claims on banks relates to banks' reserves and currency in vault.

Table 9. Poland: Financial Soundness Indicators, 2015-2022

(Percent)

	2015	2016	2017	2018	2019	2020	2021	2022
Capital adequacy 1/								
Regulatory capital to risk-weighted assets	16.0	17.2	18.0	18.3	18.6	19.8	18.6	17.2
Regulatory Tier I capital to risk-weighted assets	14.6	15.6	16.2	16.3	16.4	17.4	16.5	15.2
Asset composition and quality								
NPLs to gross loans (nonfinancial sector)	4.2	3.9	3.8	3.9	3.8	3.7	2.9	2.6
Sectoral distribution of loans to nonfinancial sector								
Loans to non-financial corporations	32.8	32.9	33.9	34.3	33.8	32.2	32.2	36.1
Loans to households	66.6	66.5	65.4	65.1	65.6	67.1	67.1	63.2
Earnings and profitability								
Return on average assets (after tax)	0.8	0.8	0.8	0.7	0.7	0.2	0.5	0.4
Return on average equity (after tax) RORC 1/	9.1	9.2	8.2	7.5	7.8	-0.2	2.8	1.2
Interest margin to gross income 2/	57.2	56.9	61.2	62.8	62.8	62.1	58.0	72.1
Noninterest expenses to gross income 3/	61.9	59.3	59.8	60.2	60.0	70.2	65.4	66.5
Liquidity								
Loans to deposits 4/	100.5	96.7	95.9	94.0	89.5	79.6	78.7	76.9
Sensitivity to market risk								
Net open positions in FX to capital 1/	0.7	0.7	0.3	0.1	0.2	7.1	1.4	3.6

Note: 2022Q3 is the latest data available shown for 2022. Data according to Financial Soundness Indicators (FSI), except for asset composition (indicators not part of FSI reporting template) and liquidity.

Sources: IMF FSI Database; KNF.

1/ Data for domestic banking sector (Bank Gospodarstwa Krajowego excluded). Since 2014: data on capital in accordance with CRDIV/CRR.

2/ "Interest margin to gross income" calculated as interest income (interest revenues minus interest expenses) to net income from banking activity.

3/ "Noninterest expenses to gross income" calculated as operating cost (the sum of banks's general expense and amortisation) to net income from banking activity.

4/ "Loans to deposits" include non-financial sector only.

Annex I. Implementation of Past IMF Recommendations

2021 Article IV Recommendations	Policy Actions
Monetary Policy	
The central bank should continue to tighten monetary policy to drive inflation back to the target. Asset purchases should be reserved to periods of disorderly market conditions.	The policy interest rate was increased to 6.75 percent, and the NBP projects that inflation will decline near the target by end-2025. The NBP has not made asset purchases since 2021.
Fiscal Policy	
An expansionary fiscal stance should be avoided in the context of overheating risks. Targeted fiscal support would be appropriate should the pandemic again disrupt economic activity.	The fiscal stance loosened in 2022 due to a personal income tax reform and temporary tax cuts on food and energy. The latter tax cuts did help contain the increase in headline inflation.
Some additional deficit reduction over the medium term would be appropriate to rebuild fiscal buffers.	Specific measures to reduce the general government fiscal deficit over the medium term have not been enacted, though automatic mechanisms such as a lack of indexation of tax brackets would increase revenues over time.
Financial Sector Policy	
The ongoing gradual phase out of crisis-related financial sector measures is appropriate.	Most pandemic-era financial sector policies have lapsed. However, a mortgage credit moratorium was implemented in 2022. The 3 percent systemic risk capital buffer remains revoked.
Banks should proactively seek to reach voluntary restructuring agreements with FX mortgages clients, supported by supervisory policy initiatives.	Several banks are actively restructuring FX mortgages based on the terms proposed by the Polish FSA, while some other banks have pursued restructuring on different terms. Risk weights on FX mortgages have been temporarily reduced for banks offering conversion on the terms proposed by the Polish FSA.
Structural Reforms	
To bolster long-term growth and convergence, the authorities should strengthen active labor market policies, outline a strategy for the financing of the energy transition, and improve central coordination of public investment.	The authorities have adjusted labor market policies to provide Ukrainian refugees with full access to Polish labor markets, thus bolstering labor supply at least in the near term. On public investment, the authorities are developing an e-procurement platform to improve the analysis of public procurement data.
Source: IMF staff.	

Annex II. Implementation of 2018 Financial Sector Assessment Program Recommendations

Recommendations	Agency[1]	Time[2]	Progress
Risk Analysis			
Address weaknesses in medium-sized banks, including the affiliating banks for cooperative banks, given their systemic importance in the banking system.	PFSA	I-NT	**Done** Affiliating banks are limiting business activity to improve apex functions and focus on service provision for cooperative banks. Affiliating banks significantly improved their capital adequacy and asset quality, which were the main areas of concern. Risk management in affiliating bank constantly improves and complies with binding regulations and supervisory expectations. The use of IPS support funds allowed safe repair of member banks at risk. IPSs have progressed in performing members' internal controls.
Replace the asset tax on financial institutions with a tax on profits and/or remuneration.	MoF	I-NT	**Not Done** There are no legal initiatives to modify the tax in such a way.
Pursue bilateral negotiations to restructure distressed FX loans instead of law changes	PFSA, MoF	I	**In Progress** In Dec. 2020, PFSA Chair proposed terms for banks to offer voluntary settlements to clients, assuming that FX mortgages would be converted on terms equalizing them with PLN mortgages of the same vintages. The client's new liability takes in account actual payments vs. payments on hypothetical PLN exposure. Mediation between banks and clients shall be conducted at Mediation Centre of the Arbitration Court at the PFSA, and mediators were recruited to increase capacity to settle CHF loans. As at the end of 2022, 4 banks offered settlements on the terms proposed by the PFSA Chair, and 13 banks offered their own programs of settlements, with conversion from CHF to PLN at preferential XR rate and individually negotiated conditions. At the end of Dec. 2022, there were 46,000 settlements concluded in total, half of which on PFSA Chair terms.
Close data gaps and improve data for credit risk and interconnectedness analysis.	PSFA	I-NT	**In Progress** The NBP started a project to build a central credit registry (KRK), with PFSA participation. KRK will allow to monitor loans of a single debtor and a group of affiliated entities at bank-level, as well as at the level of the banking sector. It will also provide a basis for sampling loans for on-site examination. KRK project is currently suspended, awaiting decision of the NBP Management Board regarding allocation of funds. The planned implementation date of 2023 will be postponed.

[1] Agencies: MoF=Ministry of Finance; NBP=National Bank of Poland; PFSA=Polish Financial Supervision Authority; BGF=Bank Guarantee Fund; FSC-M=Financial Stability Committee-Macroprudential

[2] Time Frame: C = continuous; I (immediate) = within one year; NT (near term) = 1–3 years; MT (medium term) = 3–5 years

Recommendations	Agency[1]	Time[2]	Progress
Financial Sector Oversight			
Reform and strengthen arrangements for supervision, based on the principles that the PFSA should have (i) sufficient staffing and resources, (ii) operational independence, (iii) effective governance, and (iv) appropriate formal status in the determination of regulatory priorities.	MoF, PFSA, NBP	I	**Done** In line with FSAP recommendations, legal changes were made to grant the PFSA status of state legal person in 2019, which gave freedom in managing budget and reduced the risk of under-financing. PFSA spending and staffing have increased. Organizational changes were made to improve efficiency of supervisory activities, and new units were established.
Bank			
Provide missing essential enforcement powers including (i) those to ease rigidities constraining prompt corrective action due to Administrative Code procedures; and (ii) power to dismiss both management and supervisory board members.	MoF, PFSA	NT	**Done** The power for the PFSA to dismiss both management and supervisory board members, in a situation where they no longer meet necessary requirements, has been introduced in the Banking Act and entered into force on 28 April 2021.
Insurance			
Implement approach to supervision of the insurance-led financial conglomerate	PFSA	I	**Done** Repealing the waiver issued by the PFSA in 2018 and three administrative decisions on capital adequacy calculation, intragroup transactions (IGT) and significant risk concentration (RC) issued in 2019. Capital adequacy, IGT and RC reports, as well as recovery plan (incl. banks) regularly assessed as a part of on-going supplementary supervision process; organizational changes (dedicated employees, improved cooperation).
Review approach to insurance conduct of business supervision across the relevant agencies to increase preventative work, especially by the PFSA	MoF, PFSA	NT	**Done** A review of the approach to insurance conduct of business supervision started in 2019 under the process of updating PFSA's model of conducting supervision of (re)insurers, with adoption and gradual implementation of Strategic Priorities for Insurance Supervision 2019–2020 (internal document). Inter alia, additional reporting for unit-linked products was introduced in 2019, new methodology in Risk Assessment Framework was based on products' lifecycle; customer protection inspections verify adoption of recommendations by (re)insurers., complaints analysis was changed to consider market practices and impact on finances of insurers. Organizational changes in PFSA and increased staffing enhanced conduct of business supervision, incl. thematic reviews/inspections and development of intermediaries register. Inspections assess management of mis-selling risk in unit-linked products, or in claim settlements on MTPL (motor third party liability). The 2nd edition of Strategic Priorities for Insurance Supervision 2021–22 envisages further works to enhance conduct of business supervision.

Recommendations	Agency[1]	Time[2]	Progress
Capital Markets			
Conduct periodic assessments of the enforcement functions	PFSA	I	**Done** The PFSA introduced internal policy, which allows Enforcement Department to focus on significant cases, where hard supervisory tools are used. Less significant cases are dealt with by the PSFA supervisory departments authorized to use soft tools. PFSA maintains a register of administrative proceedings and monitors the stage of progress by the employee conducting the case, the manager, and the director.
Strengthen criminal law enforcement	PFSA	NT-MT	**Done** Changes from 2018 broadened PFSA's Board to include, inter alia, Minister responsible for special services to ensure immediate identification of criminal risks at the financial market. The revised law allowed effective exchange of information (including classified) among PFSA, Internal Security Agency, Central Anti-Corruption Bureau, National Tax Revenue Administration, Police, and Competition and Consumer Protection Office. **In progress** PFSA proposed to add National Prosecutor's Office to the above list to facilitate exchange of information, the project is still discussed.
Macroprudential Policies			
Include vulnerability assessments of payment and settlement systems in the FSR and overall systemic risk monitoring	NBP	I	**Done** After internal analysis, NBP decided not to include assessment of risks in payment system in the Financial Stability Report. It is provided in *Polish Payment System Oversight Report* presented annually to NBP Board and to Financial Stability Committee (FSC-M), and forming basis for risk assessment by NBP and by FSC-M. The report was first presented to FSC-M in Dec. 2019, and FSC-M noted in *Macroprudential Policy Strategy in Poland* (2019) that resilience of financial infrastructure is one of systemic risk dimensions. Risks related to payment and settlement systems are monitored continuously.
Ensure the timely and substantive vetting of all use of macroprudential instruments by the FSC-M, in order to confirm the FSC-M's overall responsibility in this field	Members of the FSC-M	I	**In Progress** NBP proposed to formalize in *Macroprudential Strategy* a requirement for FSC-M to discuss changes of macroprudential instruments prior to implementation, which did not gain traction in other institutions. However, in a growing number of cases member institutions consult intended measures in FSC-M prior to implementation.
Crisis Management and Bank Resolution			
Propose legal amendments to provide for (i) more timely petitions for bank bankruptcy; (ii) harmonize	MOF with KNF & BGF	NT	**Partially Done** (i) Timely petitions for bank bankruptcy are a matter of a proper application of the law, and not additional rules.

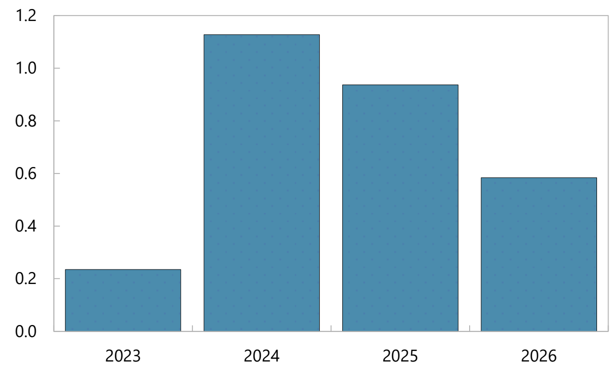
Recommendations	Agency[1]	Time[2]	Progress
the triggers for bankruptcy and use of resolution powers both;			Triggers for pay-out of deposits and resolution have been used without problems with provisions describing
(iii) address the need for third-party opinion on solvency; (iv) conduct P&A transactions in lieu of a deposit payout; and (v) BGF independence			the triggers. (ii) Triggers for bankruptcy and use of resolution powers are compatible. PFSA had no problems identifying them. (iii) Legal provisions require audited financial statement to confirm insolvency before PFSA's filing a bankruptcy petition, which may delay the process, but such serious decisions must be based on verified data. (iv) 2018 changes introduced an additional tool to prevent deposits pay-out: takeover of insolvent or illiquid banks by a 'healthy' bank (with consent of acquiring bank) and possible BGF's financial assistance. BGF is working on proposals to introduce administrative insolvency procedures for banks, but such a significant change needs broad consultations. (v) BGF performs public functions and will be classified as public finance sector entity from Jan. 1, 2022. MoF supervision of BGF involves only legality criteria. MoF may request BGF's Council to dismiss Management Board members in specific cases (e.g., violation of law), but cannot dismiss them independently. From Jan. 1, 2022, BFG Board members' terms will be extended from 3 to 5 years. BFG Council could dismiss Board members, incl. President, before end of term in case of: (1) punishment for criminal or tax offense; (2) resignation; (3) loss of Polish citizenship; (4) loss of legal capacity; (5) not warranting performance of assigned duties. Board members can be dismissed during their terms on inability to perform duties due to long-term illness (above 3 months).
Require recovery plans for affiliating banks, significant credit unions, and banks undergoing rehabilitation	PFSA	I	**Partially Done** Affiliating banks, as participants of IPSs, are part of the group recovery plan. Cooperative banks under rehabilitation are under regime of recovery plans (in case of independent banks) or IPS' group plans (for IPS members). Credit Unions (CUs) are not obliged by the law to prepare resolution plans. CUs recognized by BGF as intended for resolution may be obliged to prepare such plans. SKOK Stefczyka (the largest CU) is preparing a resolution plan, monitored by BGF (draft has been prepared). Other CUs are designed for standard insolvency process and, in case of loss, CUs must prepare and present rehabilitation program for PFSA approval. Major CUs were obliged to prepare such programs and are now revising them to reflect new circumstances (mostly COVID19 pandemic impact). Most of banks under rehabilitation were required to submit recovery plans.
Cooperative Banks and Credit Unions			

Recommendations	Agency[1]	Time[2]	Progress
Strengthen the supplementary internal control and resolution arrangements to address elevated risk and develop strategies to promote further integration/consolidation	PFSA, MoF, ABs, IPS	I	**Done** Cooperative banking sector is undergoing consolidation, helped by IPSs, with 15 mergers in 2022 and 53 since 2018. Vast majority of mergers reflect from banks' voluntary, business decisions. IPSs are strengthening internal control and the PFSA reviews its quality. The PFSA promotes integration, including sharing of services and products, and cooperation among cooperative banks is gaining importance. IPSs have made progress in performing internal control among members, both in terms of its quality and frequency.
Develop and implement a restructuring strategy to (i) consolidate viable and resolve non-viable credit unions through exit; and (ii) revisit whether a stand-alone credit union sector remains appropriate	PFSA, MoF	I	**In Progress/Done** Restructuring and consolidation of credit unions' sector is ongoing. CUs initiate mergers within the sector, facing problems with inability to generate funds and lack of interested external stakeholders. (i) Mergers, takeovers by banks and insolvencies reduced number of CUs from 30 in 2018 to 19 in Dec. 2022. (ii) Balance sheet of CUs is steadily declining, and their share in Polish financial sector is very small, but they still provide basic services important for financial inclusion to 1.35 million customers. The priority is to maintain the sector's activity with restructuring and recovery. A working group in Financial Stability Committee developed, and FSC approved recommendations for actions supporting stability of the CUs sector.

Annex III. Impact of Next Generation EU on Medium-Term Growth

1. **The need to complete the milestones agreed with the EU has delayed disbursement of new EU grants.** Poland stands to receive some €23 billion (4.5 percent of 2020 GDP) in "Next Generation EU" grants, to be spent by 2026. While technical documentation and related projects have been prepared, a request for disbursement has been delayed pending EC approval that milestones, including one related to the rule of law, have been met.

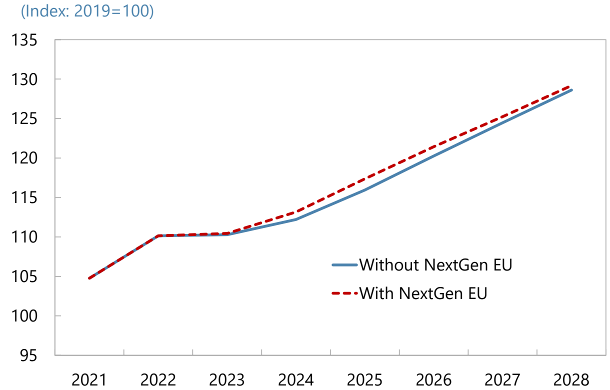
Projected Next Generation EU Funds Spending
(Percent of GDP)



Source: IMF staff projections.

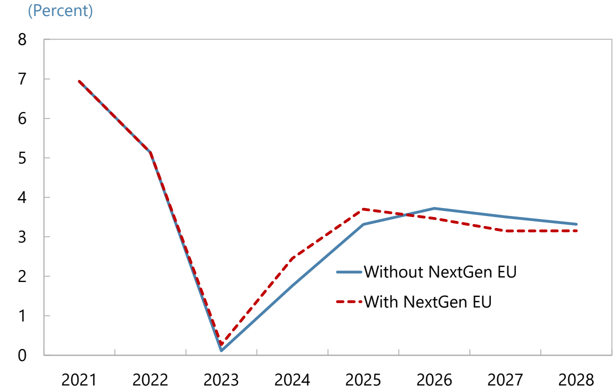
2. **Next Generation EU expenditures are projected to raise GDP growth over 2023-25.** The baseline assumes that spending will begin in 2023, with 0.2 percent of GDP in investment, pre-financed by the Polish Development Fund. The spending is initially assumed to carry a multiplier of 0.8 in 2023-25, when there is a projected negative output gap, declining to 0.5 as the output gap closes. The increased output persists by a factor of 0.8, meaning that the effect on the level of GDP dissipates after about five years. Versus a scenario without Next Generation EU spending, GDP growth increases by 0.2 to 0.7 p.p. in 2023-24, and the level of GDP in 2025 is 1.2 p.p. higher. Growth over 2026-30 would be slightly lower due to base effects as the additional spending tapers and the effect on output eventually dissipates. The level of GDP and growth over the longer term would be similar in the two scenarios.

Real GDP
(Index: 2019=100)



Sources: Statistics Poland; and IMF staff projections.

Real GDP Growth
(Percent)



Sources: Statistics Poland; and IMF staff projections.

Annex IV. Fiscal Response to Energy Price Shocks[1]

Measure	Category	Description	Means tested?	Period coverage	Fiscal cost (Percent of GDP) 2022	2023
"Anti-inflation shield" 2/	Tax	A set of measures introduced in early 2022 that reduced VAT on energy, food, and fertilizers. VAT rate was reduced from 23 percent to 8 percent on vehicle fuels; from 23 percent to 5 percent on heating and electricity; and from 23 percent to 0 on natural gas, basic food, and fertilizers. Most VAT rates were restored to 23 percent in 2023, with the remaining measure (reduction in the VAT rate on food) in place at least for the first half of 2023.	No	2022	1.3	0.3
Support to low-income households 3/	Transfers to households	One-off transfers to low-income households.	Yes	2022	0.1	0.0
Coal heating	Transfers to households	Payments of a one-time coal subsidy of PLN 3,000 to households whose main source of heat is coal or carbon-based fuels.	No	2022-23	0.4	0.0
Fossil fuels and electricity heating	Transfers to households	One-off benefits to households using fossil fuels or electricity for heating.	No	2022-24	0.2	0.3
Natural gas price cap	Transfers to energy distributors	A scheme to compensate natural gas distributors, which caps the natural gas tariffs and freezes distribution fees at 2022 levels to ensure that the price does not rise above PLN 200.17 per MWh. The measure covers households, housing communities, and other institutions; the list of covered public utility institutions covered by regulated prices and tariff freeze was broadened.	No	2022-23	0.3	0.9
Electricity price freeze and cap 4/ 5/	Transfers to energy distributors	Electricity price freeze for households, with consumption up to a threshold of 2 MWh (approx. median annual consumption) and electricity cap on price with consumption above the threshold. Price caps also introduced for local governments, public utility institutions and SMEs.	No	2023	0.0	1.1
Support to energy-intensive firms	Subsidies	Subsidies to energy-intensive firms in selected sectors affected by high electricity and gas prices. Some 250 firms are expected to benefit from the program.	No	Late 2022 -2023	0.1	0.2
Revenue cap and windfall gains tax	Tax	Includes: (1) a levy on the mark-up of electricity producers and traders. Revenues more than the level covering the cost of recovery and a small profit are to be transferred to an extrabudgetary fund. (2) Windfall gains tax on gas producers.	No	(1) Dec. 2022 - Jun. 2023 (2) 2023	0.0	-0.9
Total					**2.5**	**1.9**

1/ Includes VAT reduction on food and fertilizers. Also includes excise tax reduction on vehicle fuel and electricity and retail sales tax and emissions fee waiver on vehicle fuel.
2/ Eligibility threshold set at about 20 percent above the social minimum.
3/ The measure also introduces a discount for 2024 electricity price, if 2023 consumption of a household is reduced by at least 10 percent.
4/ Electricity price cap takes effect in December 2022.

Source: Impact studies of various draft legislations.

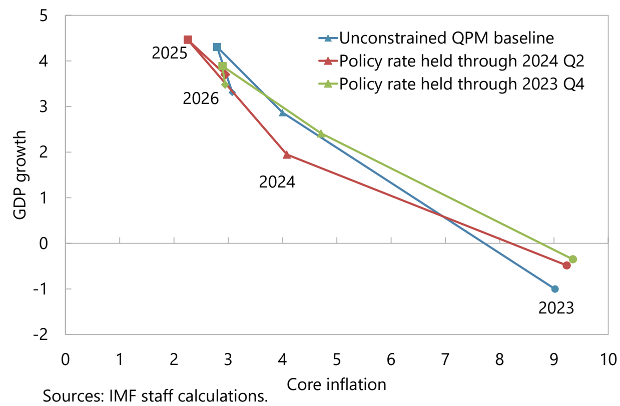
[1] As of mid-March 2023. Energy-related support measures introduced in 2023 are referred to as the " Energy Shield" .

Annex V. Monetary Policy Analysis Using the Quarterly Projections Model

1. **The Quarterly Projections Model (QPM) is useful for analyzing the impact of monetary policy decisions and the tradeoffs central banks face.** The QPM is a "gap model" that uses estimates of the output gap, inflation gap, real interest rate gap, and real exchange rate gap to project growth and inflation and inform monetary policy analysis.[1] The reduced-form nature of the model suggests that its results should inform, but not mechanically drive, baseline projections. The model uses four key equations: (1) an aggregate demand (IS) curve; (2) Phillips Curve; (3) a monetary policy reaction function (Taylor rule); and (4) the exchange rate based on uncovered interest parity.

2. **QPM scenarios suggest that tighter monetary conditions could accelerate the return of core inflation to the target within the horizon for monetary policy.** Due to the currently outsized impact of commodity price developments on headline inflation – which cannot be explained or affected by factors in the QPM – we focus on core inflation in the QPM. We examine the implications of several monetary policy scenarios (Figure 1):

Growth and Core Inflation Under Monetary Policy Scenarios
(Percent)



Sources: IMF staff calculations.

- *Unconstrained QPM baseline:* We impose no constraints on the model. Based on estimates of the output gap and the level of core inflation, the Taylor rule suggests that the policy interest rate, currently held at 6.75 percent, should be raised a further 125 bps before easing in late 2023. Core inflation returns near the 2.5 percent target by late 2024, though at the cost of a negative output gap peaking around 1.75 percent of GDP in 2024.

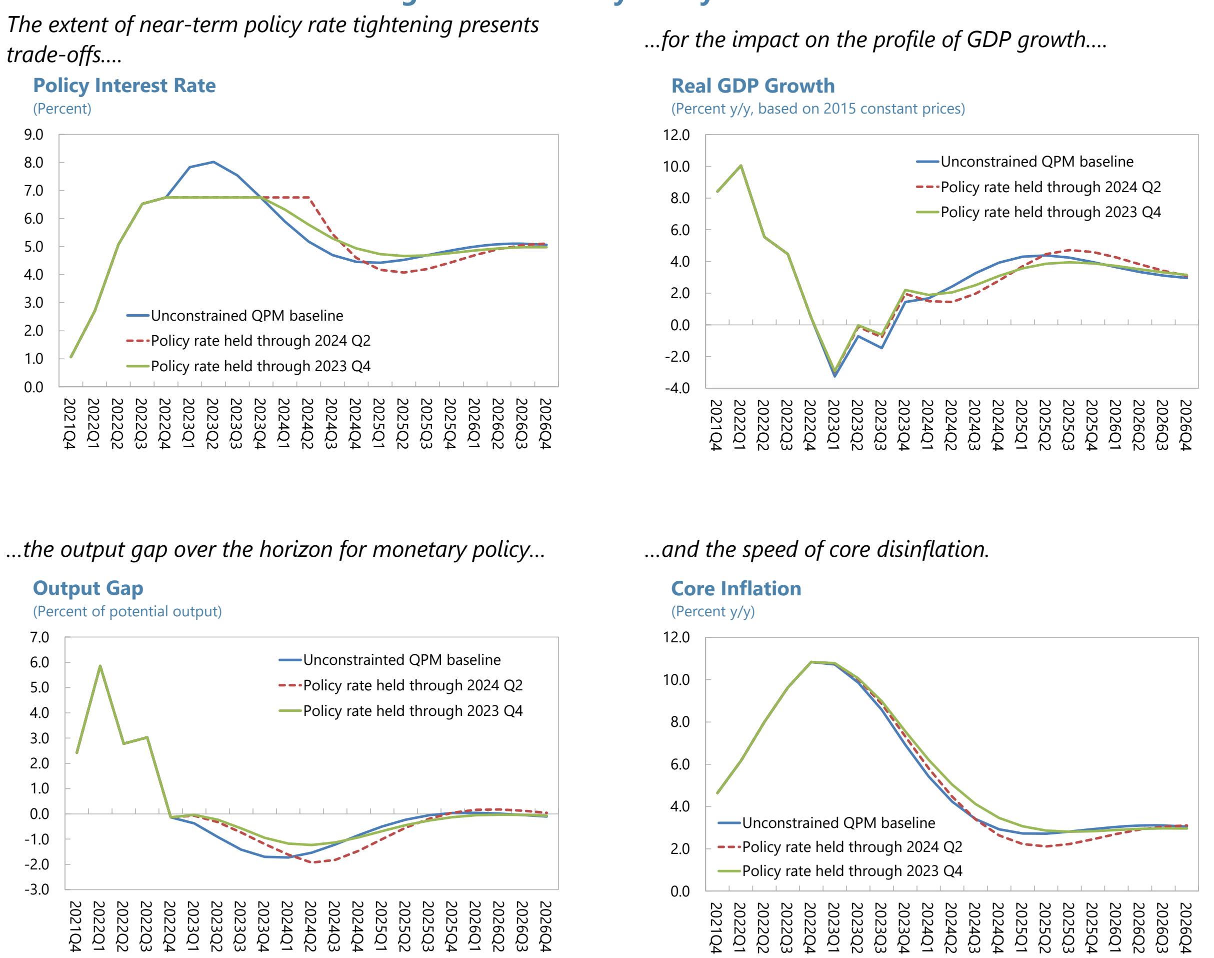
- *Policy rate held through 2024 Q2:* Holding the policy rate at 6.75 percent through Q2 2024 produces sufficiently tight monetary conditions to place core inflation on a downward path, permitting rate cuts in Q3 2024. This scenario produces a somewhat slower decline in inflation and a smaller near-term cost to output relative to the unconstrained QPM baseline. However, the peak in the negative output gap is simply delayed by a few quarters relative to the baseline.

- *Policy rate held through 2023 Q4:* The Taylor rule suggests that a continued rate pause in 2023 could be followed by gradual rate cuts back towards the neutral rate. The near-term cost to output in 2023 would be lower than in other scenarios, but core inflation would approach the target only in 2025 rather than 2024.

[1] See the accompanying Selected Issues Paper for further details.

3. The QPM scenarios illustrate the tradeoffs between aggressive versus less aggressive monetary policy tightening. Earlier, more aggressive tightening comes at the cost of a larger negative output gap and lower growth in the near term, but with a faster disinflation and more rapid recovery. (As the QPM assumes monetary policy neutrality over the medium term, the level of output converges by 2026 in the various scenarios.)

Figure 1. Monetary Policy Scenarios



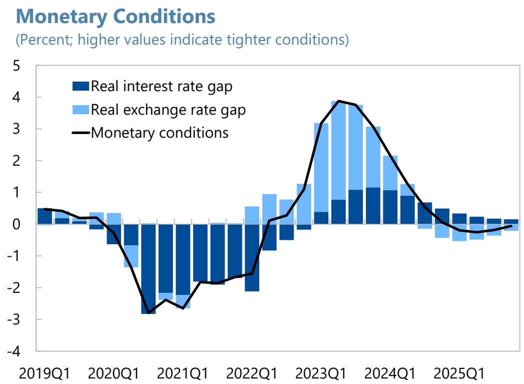
Sources: NBP; Statistics Poland; and IMF staff calculations.

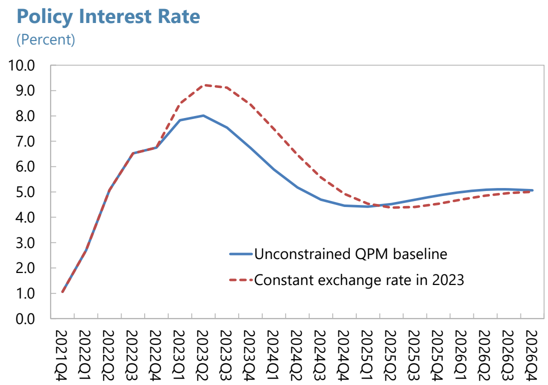
4. Exchange rate developments may influence the path of policy rates and inflation. The QPM suggests that a projected exchange rate appreciation (due to interest rate differentials) would be the most significant near-term driver of disinflation. Nevertheless, exchange rate appreciation has failed to follow monetary policy tightening so far, perhaps due to increases in the risk premium tied to geopolitical factors or due to a permanent price level shock compared with the euro area. Under a scenario of a constant nominal exchange rate through 2023, the model would suggest additional rate increases to achieve a sufficient tightening in monetary conditions (Figure 2).

Figure 2. Exchange Rate Sensitivity Analysis

In the unconstrained QPM baseline, the exchange rate produces the most significant near-term tightening of monetary conditions.

Absent an exchange rate appreciation, policy interest rates would need to increase further to tighten monetary conditions in this simulation.





Sources: NBP; and IMF staff calculations.

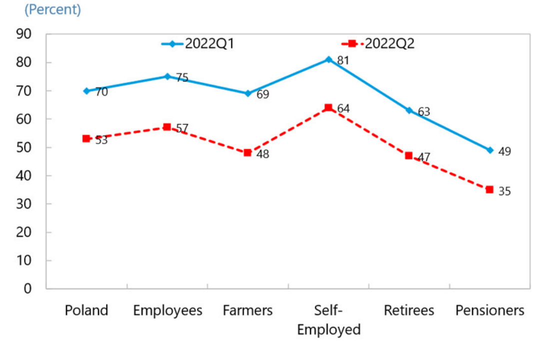
5. **While QPM analysis suggests that policy rate risks are primarily to the upside, several caveats are needed.** It is important to recognize the limitations of the QPM and treat its projections as illustrative, helping to inform, but not dictate, projections and policy recommendations. For example, the QPM cannot capture certain global inflationary – and possibly disinflationary, as they unwind – factors in core inflation that are independent of the output gap or exchange rate, such as supply chain pressures or spillovers from commodity prices into core inflation. Similarly, the QPM may under-estimate the near-term impact of the energy price shock on economic growth and the output gap. The estimates of the output gap and real interest rate gap, for example, are also subject to uncertainty.

Annex VI. Ukrainian Refugees in Poland

1. **Ukrainian immigration to Poland had already grown significantly before the Russian invasion.** Immigration accelerated in 2014 after the outbreak of armed conflict in Ukraine. Between 2014 and 2022, the number of Ukrainian migrants registered in the Polish pension insurance system increased from about 35,000 to around 746,000. After the Russian invasion, a large wave of Ukrainian refugees entered Poland in 2022. As of April 2023, over 1.5 million refugees had officially registered in Poland, out of which an estimated 0.5 million had subsequently left Poland.[1] At the same time, around 150,000 male Ukrainian workers, who mainly held blue-collar jobs, returned to Ukraine.[2] The main demographic indicators of the refugee population, as of April 2023, indicate around 40 percent are children and youth, 8 percent are elderly, 39 percent are women, and 13 percent are men of age 18-59 years old.[3]

2. **The integration of Ukrainian refugees in Poland has been successful thanks to the authorities and the generosity of the Polish people.** Around 70 percent of Polish households provided support to refugees in 2022:H1,[4] including in-kind donations and direct and indirect financial support. The authorities have also implemented effective policies to support refugees, including financial support, access to the health and education systems, access to labor markets, and the ability start a business in Poland.[5] Better economic opportunities, the availability of accommodations, and public administration funding are among the factors driving the high inflow at the county level.[6] The dispersed geographical distribution of refugees attests to the success of their integration. Refugees in Poland largely followed the pre-war locations of Ukrainian economic migrants.

Households Helping Ukrainian Refugees
(Percent)



Sources: Household Budget Survey, Statistics Poland.

[1] Situation Ukraine Refugee Situation (unhcr.org). The available data on refugees are partial and not consistent across the various sources. Hence the various data offered in this Annex, which uses a range of sources, may not be strictly comparable.

[2] These workers have been partially replaced by foreign workers of other nationalities, mostly Belarusians.

[3] The registered refugees receive a PESEL identification number in Poland, which allows them to receive official support. Having a PESEL number is a prerequisite for receiving (i) a one-time benefit of 300 zloty per person to cover living expenses, (ii) the parental benefit (500 plus), (iii) the benefit "Dobry start," the family care capital, (iv) family and social assistance benefits, and (v) access to the health and education services. The PESEL is not needed to work legally in Poland or benefit from the education system.

[4] Source: Statistics Poland / Topics / Living conditions / Living conditions / Support granted by households to the inhabitants of Ukraine in the first half of 2022 on the basis of results of the Household Budget Survey

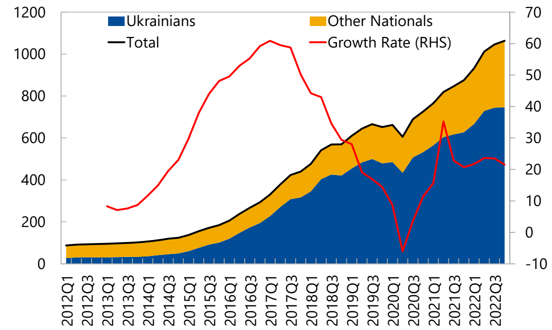
[5] The authorities implemented a PLN 16.2 bn policy package (0.5 percent of GDP, of which PLN 7 bn support from local government and NGOs) to support refugees, including a benefit for private parties hosting refugees in their homes, child benefits and social assistance for refugees, and a one-off benefit.

[6] To read more, see Gromadzki and Lewandowski (2023), "Refugees from Ukraine on the Polish labour market", USTIP journal.

Figure 1. Demographic Characteristics of Ukrainian Refugees

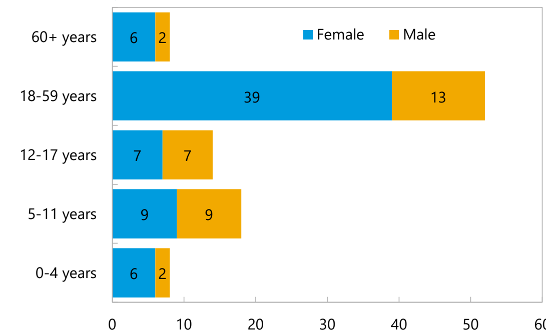
Ukrainians represent the largest share of foreign workers in Poland.

Number of Foreign Nationals Contributing to Social Security
(LHS - in thousands; RHS - year-on-year percentage change)



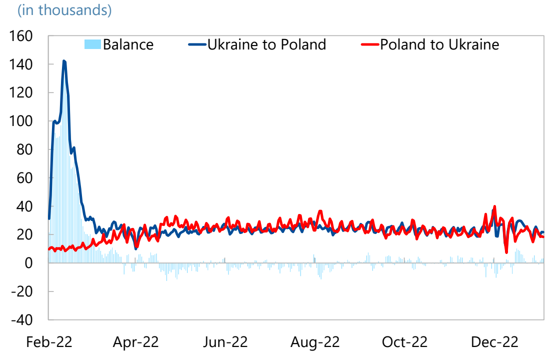
The refugee population is mostly women and children.

Ukrainian Refugees Registered for Temporary Protection
(Percent, as of April 24, 2023)



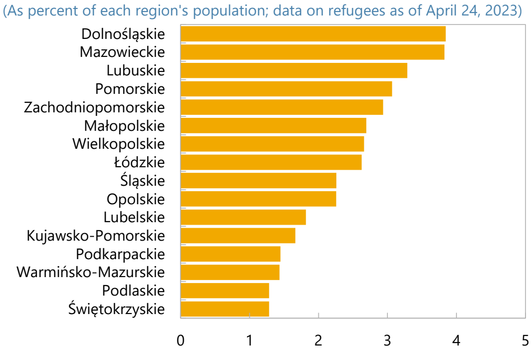
Cross-border flows were especially large at the onset of the war and quickly slowed.

Flows on Poland-Ukraine Border
(in thousands)



Refugees are geographically distributed across the various regions of Poland.

Regional Share of Ukrainian Refugees in Total Population
(As percent of each region's population; data on refugees as of April 24, 2023)



Source: ZUS; Poland Social Insurance Institution; Universal Electronic System for Registration of the Population (PESEL); PFR; Statistics Poland; UNHCR; Otwarte Dane; Haver Analytics; and IMF staff calculations.
Note: The above reflects the cumulative number of persons registered in the register of citizens of Ukraine and their family members who have been assigned a PESEL number under the special law. However, some registrations were deactivated as their holders left Poland for more than 30 days bringing the number of active PESEL registration to around one million.
Note: PESEL data is published here "Registered applications for the UKR status due to the conflict in Ukraine - Otwarte Dane"

3. **Refugees' strong labor force participation helped close some gaps in the structurally tight Polish labor market.** Ukrainian refugees' educational profile, existing social networks, and cultural and linguistic proximity have facilitated integration.[7] Around 65 percent of Ukrainian refugees that arrived in 2022 of working age are now employed.[8] To support their integration, the

[7] The potential contribution of Ukrainian refugees to the labor force in European host countries (oecd.org)

[8] According to the NBP survey of Ukrainian migrants carried out in May and November 2022. Additionally, the NBP survey indicates the recent survey point to a 37pp higher employment rate than the previous survey from May 2022,

(continued)

authorities granted full operational rights to Ukrainian businesses on par with ones run by Poles, which has led to the establishment of a record number of new businesses by Ukrainians. Favorable business conditions, in addition to the existing diaspora network and cultural/geographic proximity, are among the main reasons for refugees to establish companies in Poland.[9] That said, recent academic research[10] suggests that: (i) skill mismatch is an issue because most refugees are relatively well educated, but the majority of them work in low-skilled jobs; and (ii) the impact of Ukrainian refugees on the labor market prospects for Polish citizens and other foreign workers (i.e. their earning and employment opportunities) has been negligible.

4. Despite positive labor market outcomes, concerns remain about some efficiency aspects of integration. During 2022, the favorable cyclical position of the Polish economy contributed positively to refugees' employment. However, in the near term, the risk to the outlook is on the downside, posing downward pressure on labor demand, especially in the services sector in which many refugees are active. Additionally, refugees' skill mismatches are not only inefficient, given the existing vacancies for high-skilled jobs, but also present a high opportunity cost if the refugees do not learn new skills to use in Ukraine after the war that could also boost economic ties between Poland and Ukraine. Hence, policies could usefully address skill mismatches, support refugees through language training, provide access to affordable childcare programs, and assist refugees in searching for jobs that match their educational levels.

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but well below 94 percent ratio for foreign workers and migrants who arrived before the war. The NBP survey can be found here, https://nbp.pl/publikacje/rozne-publikacje/publikacje-o-przeplywach-migracyjnych/

[9] According to the study by PIE-Raport_Ukraińskie_firmy_2022 (EN).indd

[10] Refugees from Ukraine on the Polish labour market | Ubezpieczenia Społeczne (ustip-journal.com.pl)

Figure 2. Contribution of Ukrainian Refugees to the Polish Labor Market

Refugees' businesses are mainly in the construction, ICT, services, retail, and transportation sectors.

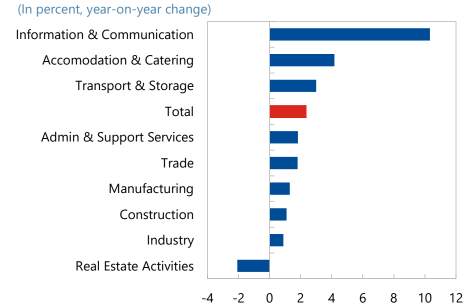
Sectoral Distribution of Ukrainian Companies in Poland 1/

(In percent, Businesses Established in 2022, Survey based)

Refugees likely contributed to the growth of employment in ICT and hospitality services in 2022.

Growth of Employment in Enterprise Sector, 2022

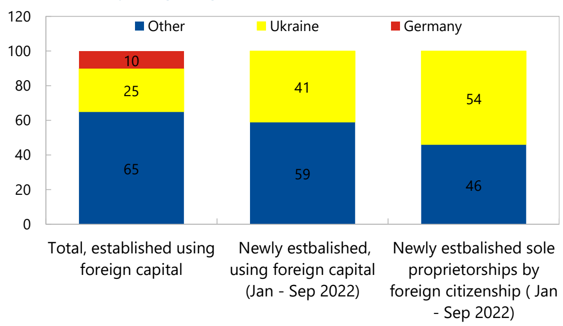
(In percent, year-on-year change)



Businesses by Ukrainian refugees or capital from Ukraine represented the majority of the newly established ones.

Structure of Businesses by Foreign Ownership 1/

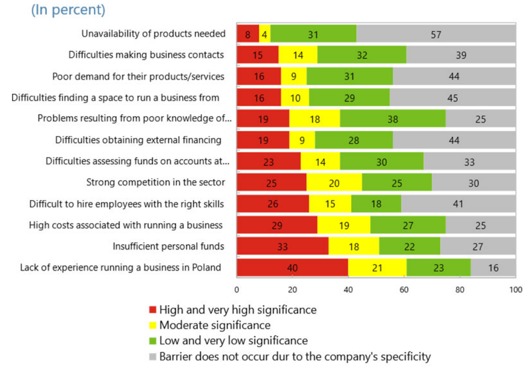
(Based on country of origin, origin of companies' capital and citizenship; in percent)



Refugees cite a lack of experience in running business in Poland and insufficient personal funds as major barriers.

Barriers to Business 1/

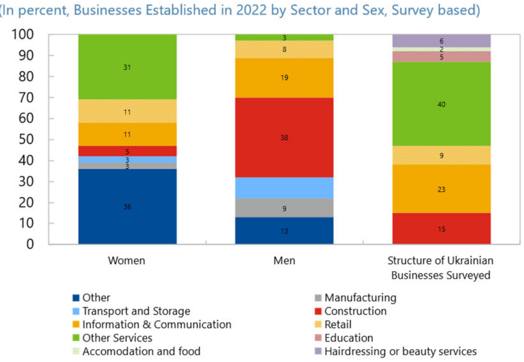
(In percent)



Refugee women are mostly active in the service sector, while men are mostly active in the construction and ICT sectors.

Ukrainian Companies Structure 1/

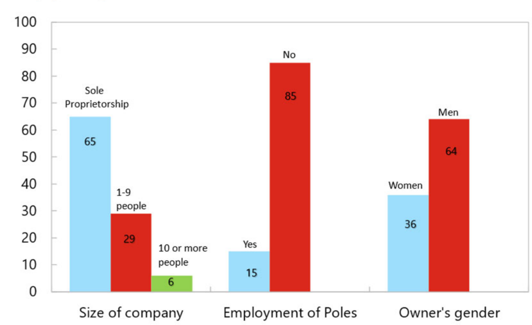
(In percent, Businesses Established in 2022 by Sector and Sex, Survey based)



Most of the businesses established by Ukrainians are small and do not employ Poles.

Structure of Ukrainian Businesses Surveyed 1/

(In percent)

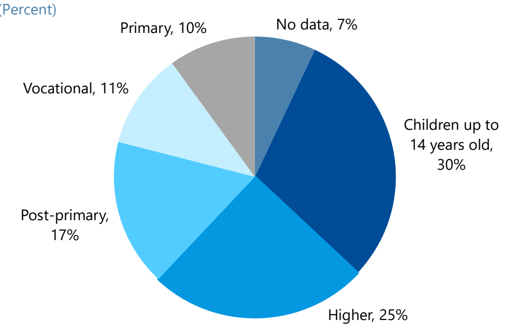


Source: Haver Analytics; Labor Force Survey, [Polish Economic Institute Report (2023), UNCHR]

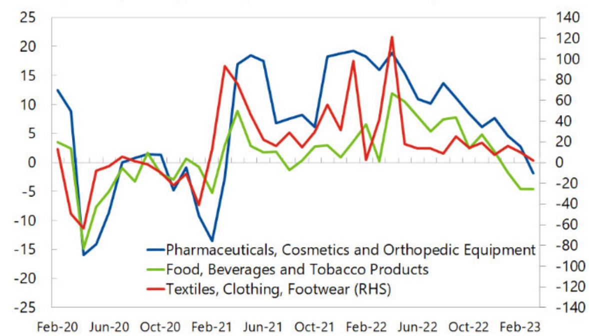
1/ Based on the survey conducted by Polish Economic Institute in October 2022 and supplemented by data from the Central Economic Information Centre (COIG) and Central Register and Information on Business (CEIDG).

5. Ukrainian refugees have the potential to boost the Polish economy over the medium term, subject to significant uncertainty. The employment rate of refugees is relatively high, especially considering challenges related to childcare and language barriers. However, skill mismatches are an issue, despite the high level of educational attainment of refugees. In the short term, refugees boosted the population of Poland by about 3 percent, and their spending on necessities[11] supported retail sales in 2022. According to an NBP survey, around 30 percent of refugees plan to stay in Poland for an extended period or permanently. However, any assumption about refugees' length of stay is subject to much uncertainty, including the length of the war and the nature of reconstruction in post-war Ukraine. While the inflow of refugees from Ukraine may be in large part temporary, more generally, measures to facilitate immigration can boost Poland's potential output, helping to offset negative drag from demographics.

Educational Attainment of Refugees
(Percent)



Retail Sales Growth
(In percent, year-on-year change of retail sales in constant prices)



Source: Household Survey on Health of Refugees from Ukraine in Poland 2022, Statistics Poland; and Haver Analytics.

Note: Survey was conducted between May to September 2022.

[11] During 2022 retail sales of food, pharmaceuticals, and clothing and footwear, supported by additional demand generated by Ukrainian refugees.

Annex VII. Public Sector Debt Sustainability Analysis

Table 1: Poland: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	...	Low	The overall risk of sovereign stress is low, reflecting the authorities' capacity to adopt measures that would address factors leading to moderate levels of vulnerability in the medium- and long-term horizons.
Near-term 1/			
Medium-term	Moderate	Moderate	The two medium-term tools point to moderate level of risk. The Debt Fanchart Module points to moderate risk due to substantial uncertainty around the baseline and a high probability that debt does not stabilize in the medium term. The GFN Module indicates moderate liquidity risks, as gross financing needs remain elevated over the medium-term, albeit liquidity risks are mitigated by the use of a cash buffer and active liability management operations. No stress tests were triggered.
Fanchart	Moderate	...	
GFN	Moderate	...	
	...		
Stress test		...	
Long-term	...	Moderate	The Long-Term Module suggest moderate overall level of risk, as it highlights increasing debt and GFN trajectories under various scenarios. Poland's demographic conditions are also expected to worsen over the long term, as working age population declines amid population aging, affecting labor market outcomes and economic growth. Within public finances, adverse demographic trends will likely lead to higher healthcare costs and imply a decline in the average replacement rate from the current level of about 60 percent to about 40 percent by 2030 under the notional defined contribution system. In this context, the recent introduction (2019) of the long-term private saving pension scheme (PPK) aims to promote households' savings for retirement, with some 75 percent of employees expected to join. 3/
Sustainability assessment 2/	Not required for surveillance countries	Not required for surveillance countries	Not applicable.
Debt stabilization in the baseline			No

DSA Summary Assessment

Commentary: Poland is at a low overall risk of sovereign stress and debt is sustainable, but medium- and long-term risks are notable under the baseline of current policies. General government debt is expected to remain below the debt ceiling of 60 percent of GDP over the next 10 years. Nevertheless, under the current policies, debt is not expected to stabilize over the projection period, with a projected gradual increase from about 49 percent of GDP in 2022 to about 55 percent in 2028. Medium-term risks are moderate, as suggested by the Fanchart and the GFN Module. Gross financing needs are expected to remain elevated, although active liability management operations should help mitigate any potential liquidity risks. Over the medium-term, options for fiscal consolidation should be considered to put debt firmly on a downward trajectory. The Long-Term Module suggest moderate overall level of risk, as it highlights increasing debt and GFN trajectories under various scenarios. Worsening demographic conditions are likely to increase healthcare spending and reduce pensions benefits. The private pension scheme introduced in 2019, however, has the potential to support households' safety in retirement.

Source: Fund staff.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt (""with high probability"" or ""but not with high probability"") is deleted before publication.

3/ For a more detailed discussion on pensions, see 2018 Article IV Consultation Staff Report (IMF Country Report No. 19/37).

Figure 2. Poland: Debt Coverage and Disclosures

1. Debt coverage in the DSA: 1/ CG | **GG** (chosen) | NFPS | CPS | Other

1a. If central government, are non-central government entities insignificant? n.a.

2. Subsectors included in the chosen coverage in (1) above:

					Subsectors captured in the baseline	Inclusion
CPS	NFPS	GG: expected	CG	1	Budgetary central government	Yes
				2	Extra budgetary funds (EBFs)	Yes
				3	Social security funds (SSFs)	Yes
				4	State governments	Yes
				5	Local governments	Yes
				6	Public nonfinancial corporations	No
				7	Central bank	No
				8	Other public financial corporations	No

3. Instrument coverage:

Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/
chosen	chosen	chosen	missing	missing

4. Accounting principles:

Basis of recording		Valuation of debt stock		
Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/
chosen		chosen		

5. Debt consolidation across sectors: **Consolidated** (chosen) | Non-consolidated

Comments

Color code: chosen coverage | Missing from recommended coverage | Not applicable

Reporting on Intra-Government Debt Holdings

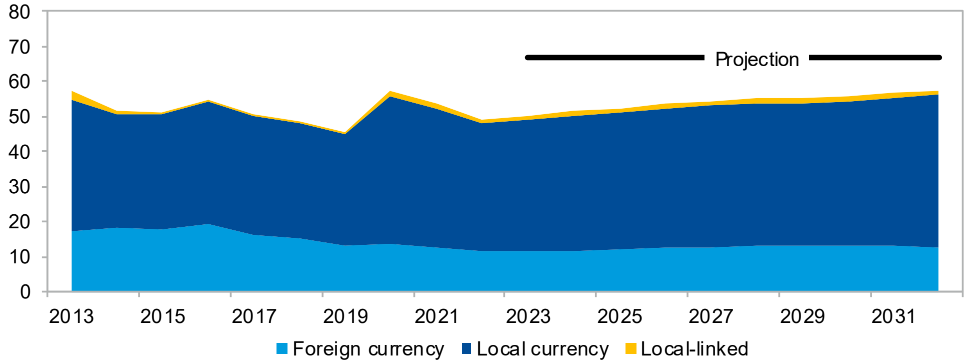
					Issuer \ Holder	Budget. central govt	Extra-budget. funds (EBFs)	Social security funds (SSFs)	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
CPS	NFPS	GG: expected	CG	1	Budget. central gov		57	92	0	3	0	82	0	233
				2	Extra-budget. funds	0		3	0	0	0	62	0	65
				3	Social security fund:	0	0		0	0	0	0	0	0
				4	State govt.	0	0	0		0	0	0	0	0
				5	Local govt.	1	1	0	0		0	0	0	2
				6	Nonfin pub. corp.	0	0	0	0	0		0	0	0
				7	Central bank	0	0	0	0	0	0		0	0
				8	Oth. pub. fin. corp	0	0	0	0	0	0	0		0
					Total	1	58	95	0	3	0	144	0	301

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

Commentary: The coverage in this SRDSA is for the general government. The data on intra-government debt holdings is for 2021 in PLN bn.

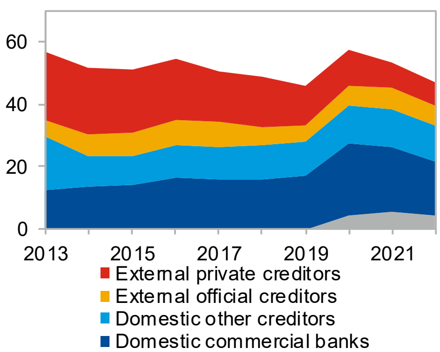
Figure 3. Poland: Public Debt Structure Indicators

Debt by Currency (Percent of GDP 1/)



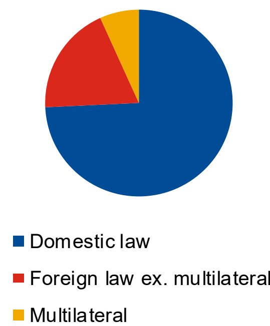
Note: The perimeter shown is general government.

Public Debt by Holder (Percent of GDP)



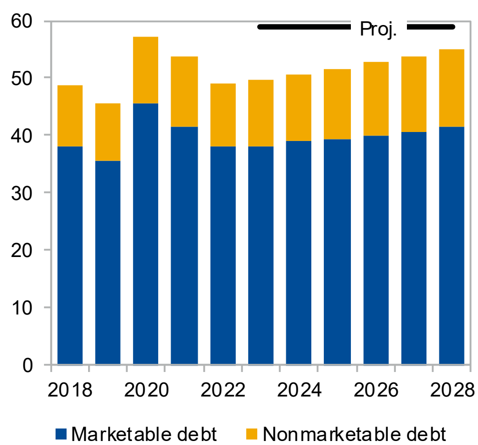
Note: The perimeter shown is general government. Untill 2022Q2.

Public Debt by Governing Law, 2022 (Percent)



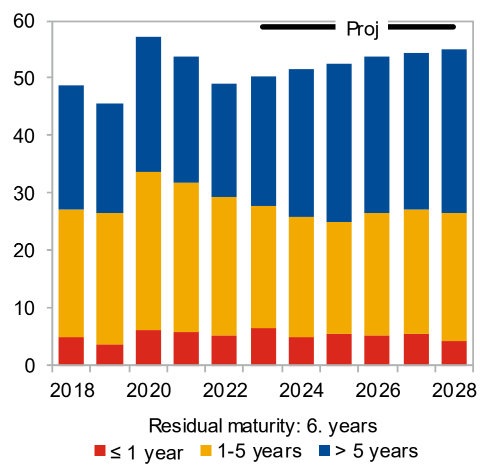
Note: The perimeter shown is general government.

Debt by Instruments (Percent of GDP)



Note: The perimeter shown is general government.

Public Debt by Maturity (Percent of GDP)



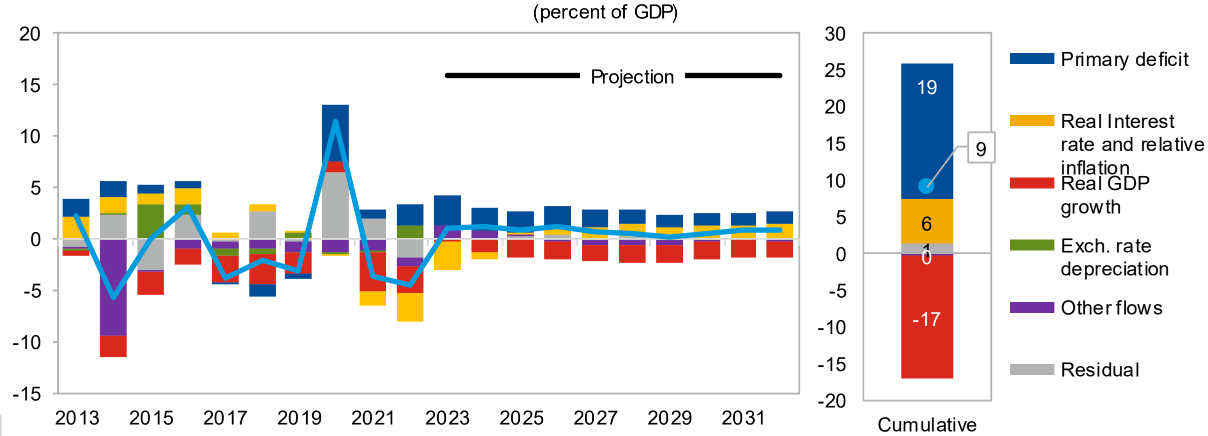
Note: The perimeter shown is general government.

Commentary: Increasingly larger share of debt has been held by domestic creditors. Going forward, most of the general government debt is expected to remain in local currency, largely issued in the domestic market, reflecting the authorities' objective to utilize the domestic market as the main source of financing.

Figure 4. Poland: Baseline Scenario
(Percent of GDP unless indicated otherwise)

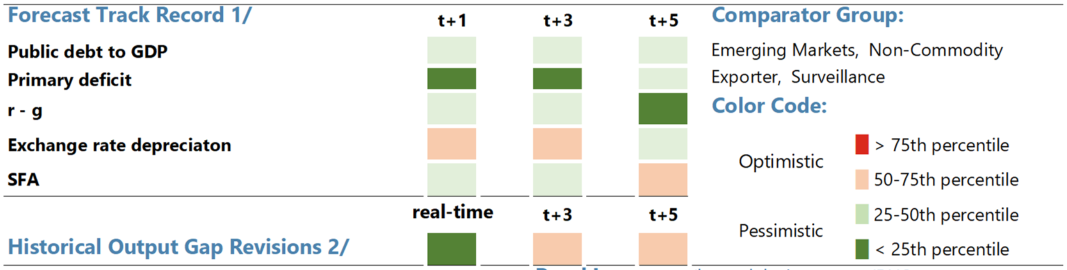
	Actual	Medium-term projection						Extended projection			
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Public debt	49.1	50.2	51.5	52.4	53.7	54.4	55.0	55.2	55.8	56.6	57.5
Change in public debt	-4.5	1.1	1.2	0.9	1.3	0.7	0.6	0.2	0.6	0.8	0.9
Contribution of identified flows	-2.8	1.0	1.1	0.7	0.9	0.7	0.3	0.2	0.6	0.8	0.8
Primary deficit	2.2	2.8	2.2	2.1	2.0	1.8	1.4	1.2	1.2	1.3	1.2
Noninterest revenues	39.8	41.8	42.2	42.2	42.0	41.7	41.8	41.9	41.9	41.9	41.9
Noninterest expenditures	42.0	44.6	44.4	44.3	44.1	43.5	43.2	43.1	43.1	43.1	43.1
Automatic debt dynamics	-4.1	-3.1	-1.9	-1.7	-1.0	-0.5	-0.5	-0.5	-0.4	-0.4	-0.3
Real interest rate and relative inflation	-2.7	-2.9	-0.7	0.2	0.7	1.1	1.2	1.2	1.3	1.3	1.4
Real interest rate	-3.6	-3.9	-1.1	-0.1	0.5	1.0	1.1	1.1	1.2	1.2	1.3
Relative inflation	0.9	1.0	0.4	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1
Real growth rate	-2.6	-0.1	-1.2	-1.8	-1.7	-1.6	-1.6	-1.7	-1.7	-1.7	-1.7
Real exchange rate	1.3	…	…	…	…	…	…	…	…	…	…
Other identified flows	-0.9	1.3	0.7	0.2	-0.1	-0.6	-0.6	-0.6	-0.3	-0.1	-0.1
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions 1/	-0.9	1.3	0.7	0.2	-0.1	-0.6	-0.6	-0.6	-0.3	-0.1	-0.1
Contribution of residual	-1.7	0.2	0.1	0.3	0.4	0.0	0.3	0.0	0.0	0.0	0.0
Gross financing needs	10.1	8.8	10.2	9.1	9.9	9.2	9.1	7.9	7.5	9.6	8.8
of which: debt service	8.0	6.0	7.9	7.0	7.9	7.4	7.7	6.7	6.2	8.4	7.6
Local currency	6.3	4.3	5.9	5.3	6.1	6.4	6.7	5.8	5.6	7.7	6.5
Foreign currency	1.3	1.2	1.5	1.3	1.3	0.9	1.0	0.8	0.6	0.6	1.0
Memo:											
Real GDP growth (percent)	5.1	0.3	2.4	3.7	3.4	3.1	3.1	3.1	3.1	3.1	3.1
Inflation (GDP deflator; percent)	11.3	12.2	6.4	4.4	3.6	3.1	2.8	2.8	2.8	2.8	2.8
Nominal GDP growth (percent)	17.0	12.6	9.0	8.3	7.2	6.3	6.0	6.0	6.0	6.0	6.0
Effective interest rate (percent)	3.4	3.3	3.9	4.3	4.7	4.9	4.9	4.8	5.1	5.1	5.3

Contribution to Change in Public Debt
(percent of GDP)



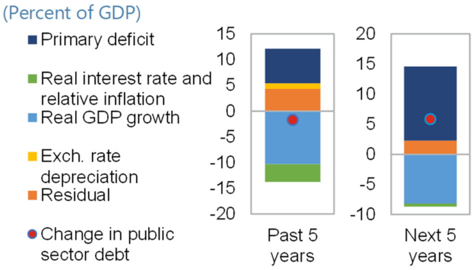
1/ Other transactions include adjustments for cash and accrual accouting.
Commentary: Preliminary data for 2022, which suggest that the general government debt stood at about 49 percent of GDP at end-2022. Over the next 10 years, debt is projected to increase gradually to about 58 percent of GDP under the baseline of current policies but remain below the debt ceiling of 60 percent of GDP, driven largely by deficits. GFN are projected to remain elevated, but remain relatively stable over the projection period.

Figure 5. Poland: Realism of Baseline Assumptions

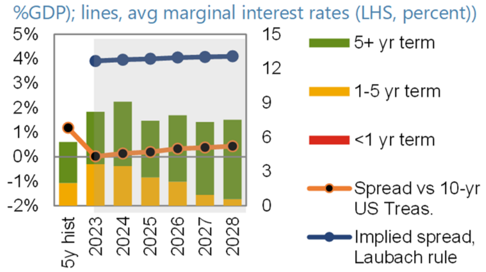


Public Debt Creating Flows

(Percent of GDP)

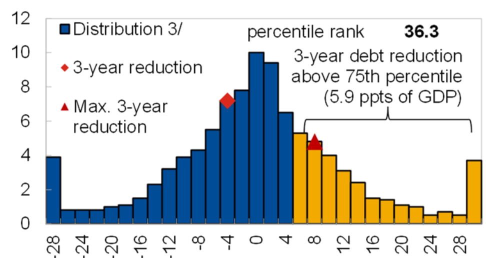


Bond Issuances (bars, debt issuances (RHS, %GDP); lines, avg marginal interest rates (LHS, percent))

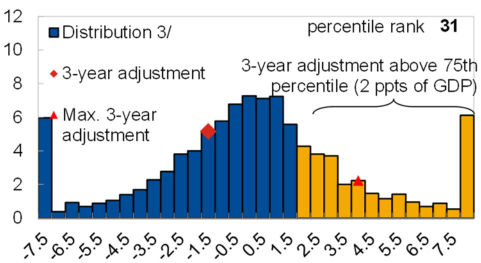


3-Year Debt Reduction

(Percent of GDP)

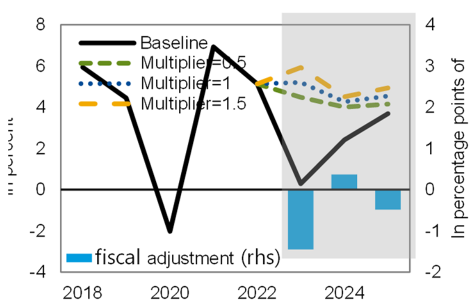


3-Year Adjustment in Cyclically-Adjusted Primary Balance (Percent of GDP)



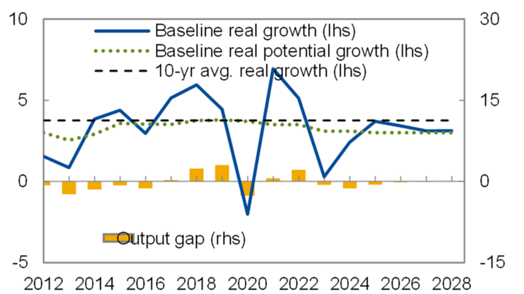
Fiscal Adjustment and Possible Growth Paths

(Lines, real growth using multiplier (LHS); bars, fiscal adj. (RHS)



Real GDP Growth

(In percent)



Commentary: The realism analysis does not suggest any major concerns. Past forecast errors do not show any systematic biases and the projected fiscal and debt trajectories are well within norms. The overall implied spreads over 10-year US Treasuries is expected to decline over the projected period, reflecting the assumption that defense spending will be financed using bilateral and/or multilateral sources.

Source: IMF Staff.

1/ Projections made in the October and April WEO vintage.

2/ Data cover annual observations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

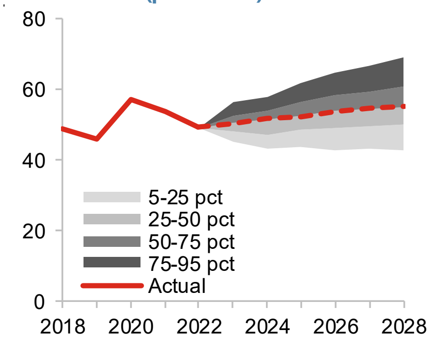
3/ Starting point reflects the team's assessment of the initial overvaluation from EBA (or EBA-Lite).

4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

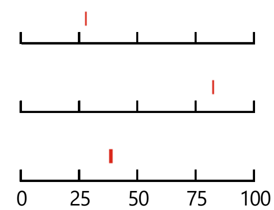
5/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates and final estimates in the latest October WEO) in the total distribution of revisions across the data sample.

Figure 7. Poland: Medium-Term Risk Assessment

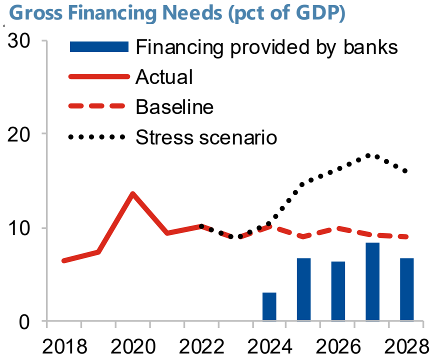
Final Fanchart (pct of GDP)



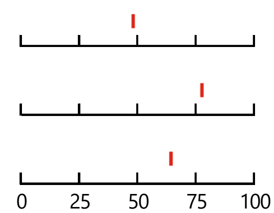
	Value	Contrib 1/	Percentile in peer group 2/
Debt fanchart module			
Fanchart width *(percent of GDP)*	26.1	0.4	
Probability of debt non-stabilizaiton *(percent)*	91.3	0.8	
Terminal debt-to-GDP x institutions index	24.5	0.5	
Debt fanchart index (DFI)		1.7	
Risk signal: 3/		**Moderate**	



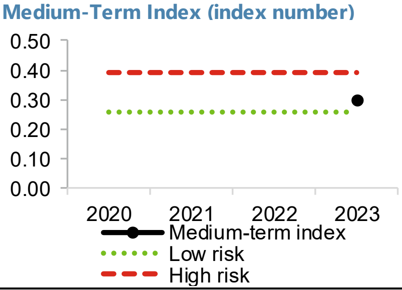
Gross Financing Needs (pct of GDP)



	Value	Contrib 1/	Percentile in peer group 2/
Gross financing needs (GFN) module			
Average baseline GFN *(percent of GDP)*	9.4	3.2	
Banks' claims on the gen. govt *(pct bank assets)*	19.1	6.2	
Chg. In banks' claims in stress *(pct banks' assets)*	14.0	4.7	
GFN financeability index (GFI)		14.1	
Risk signal: 4/		**Moderate**	



Medium-Term Index (index number)



Medium-term risk analysis

	Value	Weight	Contribution
Debt fanchart index (normalized)	0.4	0.5	0.2
GFN finaceability index (normalized)	0.3	0.5	0.1
Medium-term index	0.3		
Risk signal: 5/	**Moderate**		
Final assessment:	**Moderate**		

Prob. of missed crisis, 2023-2028, if stress not predicted: 18.2 pct.
Prob. of false alarms, 2023-2028, if stress predicted: 25.0 pct.

Commentary: The two medium-term tools point to moderate level of risk. The Debt Fanchart Module points to moderate risk due to substantial uncertainty around the baseline and a high probability that debt does not stabilize in the medium term. The GFN Financeability Module indicates moderate liquidity risks, as gross financing needs remain elevated over the medium-term. This suggests liquidity risk, which, however, is mitigated by the government's use of a buffer and undertaking of active liability management operations to smooth out debt redemption profile.

Source: IMF staff estimates and projections.

1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.

2/ The comparison group is emerging market, non-commodity exporting countries, with Fund-supported programs.

3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.

4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.

5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

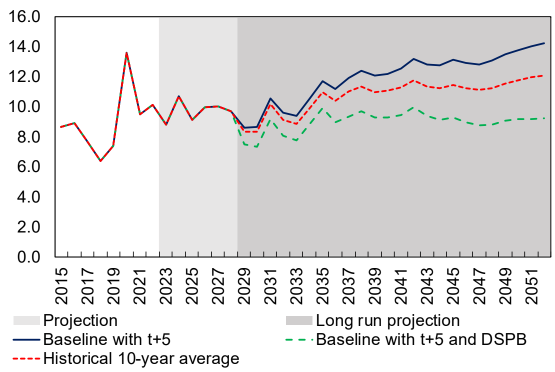
Figure 8. Poland: Long-Term Assessment: Large Debt Amortizations Module

Large Amortization

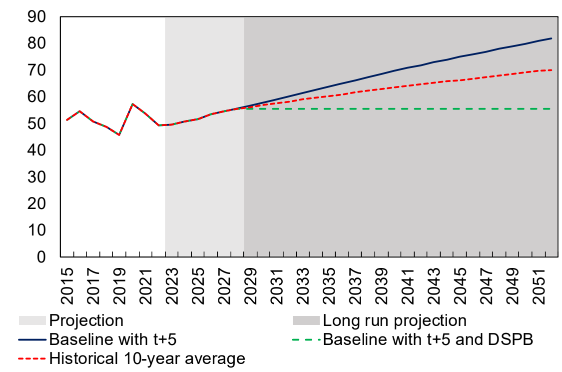
Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	
Medium-term extrapolation with debt stabilizing	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	
Historical average assumptions	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	

Overall Risk Indication	

GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio



External Debt Sustainability Framework, 2018-2028

(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2018	2019	2020	2021	2022			2023	2024	2025	2026	2027	2028	
								I. Baseline Projections						**Debt-stabilizing non-interest current account 5/**
External debt	61.6	59.6	63.0	53.6	53.5			**50.4**	**47.8**	**45.2**	**43.6**	**42.4**	**42.2**	**-0.9**
Change in external debt	-11.4	-2.0	3.4	-9.3	-0.2			-3.1	-2.5	-2.7	-1.6	-1.1	-0.2	
Identified external debt-creating flows (4+8+9)	-8.0	-2.4	-4.2	-7.2	1.3			-5.2	-7.0	-5.2	-3.5	-2.6	-1.0	
Current account deficit, excluding interest payments	0.7	-1.3	-3.7	0.3	1.6			0.8	0.6	0.7	0.9	0.9	0.9	
Deficit in balance of goods and services	-2.1	-3.7	-5.7	-3.4	-1.9			-2.4	-2.7	-2.9	-2.8	-2.8	-2.8	
Exports	52.8	53.2	53.2	57.6	62.6			59.0	57.5	56.6	56.2	56.2	57.5	
Imports	50.7	49.5	47.5	54.3	60.7			56.6	54.7	53.7	53.4	53.4	54.7	
Net non-debt creating capital inflows (negative)	-1.6	-3.0	-2.1	-1.5	-4.1			-3.8	-3.3	-2.8	-2.4	-2.0	-1.6	
Automatic debt dynamics 1/	-7.0	1.9	1.6	-6.0	3.8			-2.2	-4.3	-3.1	-2.0	-1.5	-0.4	
Contribution from nominal interest rate	1.3	1.5	1.2	1.1	1.4			1.6	1.4	1.2	1.1	1.1	1.1	
Contribution from real GDP growth	-3.8	-2.8	1.2	-3.9	-2.9			-0.1	-1.1	-1.6	-1.4	-1.3	-1.3	
Contribution from price and exchange rate changes 2/	-4.4	3.1	-0.9	-3.2	5.2			-3.7	-4.6	-2.8	-1.6	-1.2	-0.2	
Residual, incl. change in gross foreign assets (2-3)	-3.4	0.3	7.6	-2.1	-1.5			2.1	4.5	2.5	1.9	1.5	0.8	
External debt-to-exports ratio (in percent)	116.8	112.0	118.3	93.1	85.4			85.4	83.3	79.9	77.6	75.5	73.4	
Gross external financing need (in billions of US dollars) 3/	134.1	113.0	84.5	108.9	95.8			94.1	93.6	94.9	97.1	99.6	101.3	
in percent of GDP	22.8	19.0	14.1	16.0	13.9	10-Year Historical Average	10-Year Standard Deviation	12.5	11.7	11.0	10.5	10.2	10.1	
Key Macroeconomic Assumptions														
Real GDP growth (in percent)	5.9	4.4	-2.0	6.9	5.1	3.4	2.7	0.3	2.4	3.7	3.4	3.1	3.1	
Exchange rate appreciation (US dollar value of local currency, percent)	4.6	-5.9	-1.5	1.0	-13.4	-2.4	5.2	-3.4	-1.9	-0.2	-0.6	-0.7	-2.5	
GDP deflator in US dollars (change in percent)	6.5	-4.8	1.5	5.3	-8.8	-0.7	7.0	7.4	10.1	6.1	3.8	2.9	0.4	
Nominal external interest rate (in percent)	1.9	2.5	2.1	1.9	2.6	2.2	0.3	3.2	3.1	2.8	2.6	2.6	2.6	
Growth of exports (US dollar terms, in percent)	13.3	2.1	0.7	23.0	10.1	6.2	9.5	2.4	4.1	6.4	5.8	5.7	5.6	
Growth of imports (US dollar terms, in percent)	15.1	-1.2	-3.5	29.8	13.5	5.2	12.5	1.2	3.4	6.1	5.8	5.7	5.7	
Current account balance, excluding interest payments	-0.7	1.3	3.7	-0.3	-1.6	0.1	1.6	-0.8	-0.6	-0.7	-0.9	-0.9	-0.9	
Net non-debt creating capital inflows	1.6	3.0	2.1	1.5	4.1	0.0	1.1	3.8	3.3	2.8	2.4	2.0	1.6	
A. Alternative Scenarios								**II. Stress Tests for External Debt Ratio**						**Debt-stabilizing non-interest current account 5/**
A1. Key variables are at their historical averages in 2018-2025 4/								**62.6**	**66.7**	**68.7**	**70.2**	**71.2**	**71.5**	**10.1**
B. Bound Tests														
B1. Nominal interest rate is at baseline plus one-half standard deviation								73.8	79.8	82.4	84.7	87.2	90.8	0.0
B2. Real GDP growth is at baseline minus one-half standard deviations								76.0	82.9	86.2	89.4	92.8	97.4	0.9
B3. Non-interest current account at baseline minus one-half standard deviations								75.8	82.5	85.6	88.5	91.5	95.7	-0.2
B4. Combination of B1-B3 using 1/4 standard deviation shocks								76.0	83.0	86.4	89.5	92.8	97.3	0.4
B5. One time 30 percent real depreciation in 2019								63.7	69.0	72.1	74.7	78.7	80.3	1.6

Source: IMF staff calculations.

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

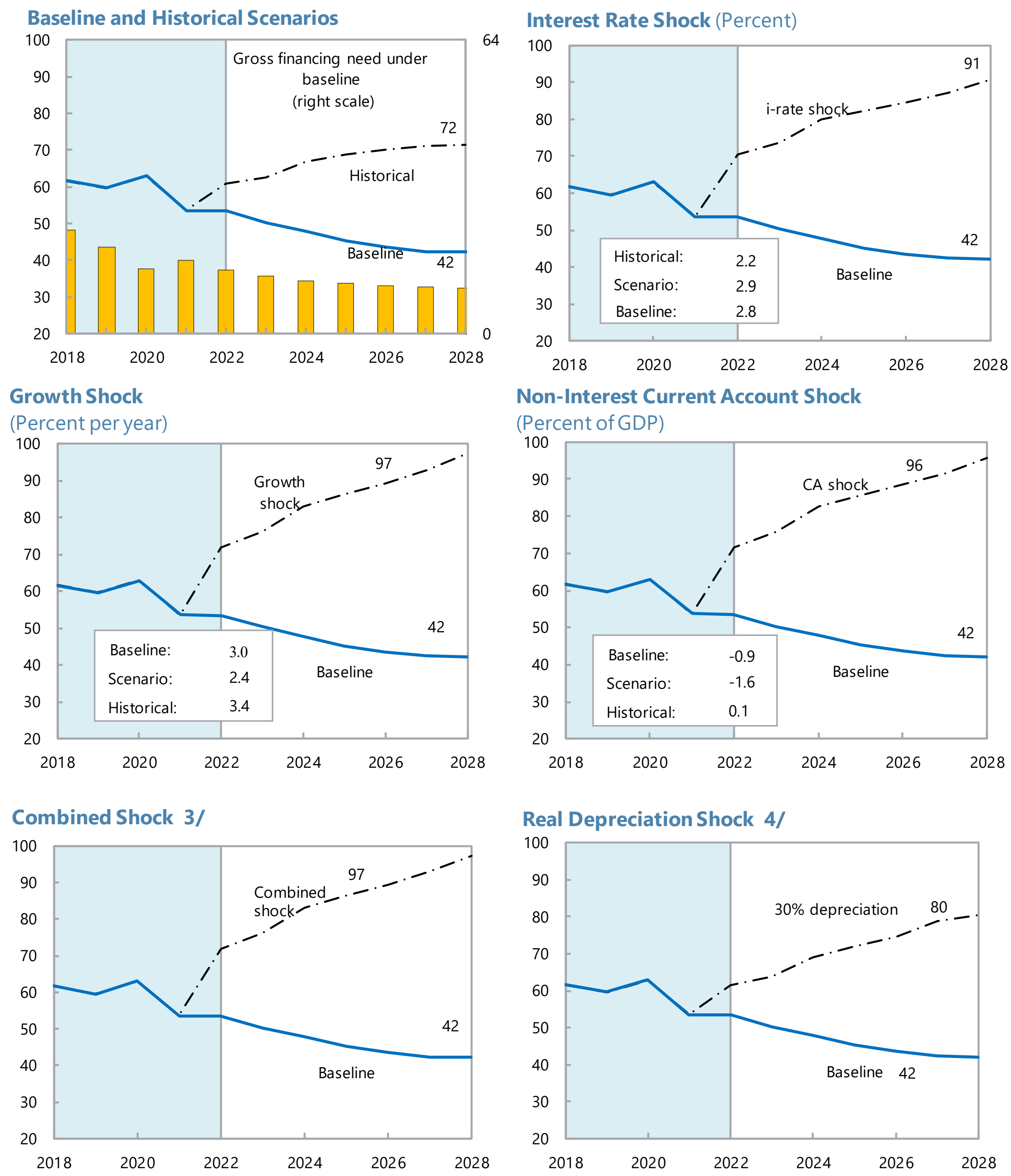
2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

3/ Defined as current account deficit, plus amortization on short-term and medium- and long-term debt.

4/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

5/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Figure 1. Poland: External Debt Sustainability: Bound Tests
(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.

3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

4/ One-time real depreciation of 30 percent occurs in 2021.

Annex IX. Risk Assessment Matrix[1]

Source of Risk	Relative Likelihood	Impact if Realized	Policy Response
Conjunctural and Structural Risks			
Intensification of regional conflict(s). Escalation of Russia's war in Ukraine or other regional conflicts and resulting economic sanctions disrupt trade (e.g., energy, food, tourism, and/or critical supply chain components), remittances, refugee flows, FDI and financial flows, and payment systems.	High	**High** Poland would be significantly affected, with a likely new inflow of refugees, a new shock to business and consumer confidence, higher food and energy prices, and financial market volatility.	• Renew efforts to provide humanitarian assistance to refugees and continue policies to integrate refugees into Polish labor markets. • Provide targeted assistance to address risk of food and energy poverty. • Continue efforts to diversify energy sources. • Central bank should intervene in foreign exchange markets if needed to address disorderly market conditions, while allowing the flexible exchange rate to adjust.
Commodity price volatility. A succession of supply disruptions (e.g., due to conflicts and export restrictions) and demand fluctuations (e.g., reflecting China reopening) causes recurrent commodity price volatility, external and fiscal pressures, and social and economic instability.	Medium	**High** Headline inflation increases again.	• Allow flexible exchange rate to adjust. • Adjust policy interest rates should higher headline inflation threaten second-round effects, an increase in medium-term inflation expectations, and the achievement of the inflation target over the medium term. • Provide targeted assistance to address risk of food and energy poverty.
Source of Risk	Relative Likelihood	Impact if Realized	Policy Response

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term" and "medium term" are meant to indicate that the risk could materialize within one year and three years, respectively.

Source of Risk	Relative Likelihood	Impact if Realized	Policy Response
Social discontent. Supply shocks, high inflation, real wage drops, and spillovers from crises in other countries worsen inequality, trigger social unrest, and give rise to financing pressures and damaging populist policies with possible spillovers to other EMDEs. This exacerbates imbalances, slows growth, and triggers market repricing.	**High**	**Medium** An inadequate policy response and weak global economy lead to higher unemployment and poverty.	• Social spending and unemployment support should be extended but should be targeted according to need. • Facilitate structural reforms, focused on business climate and labor market reforms, improving education and vocational training, and boosting infrastructure investment and R&D support to attract FDI and boost future productivity and income growth. • Allow flexible exchange rate to adjust in the case of capital outflows.
Monetary policy miscalibration. Amid high economic uncertainty and volatility, major central banks slow monetary policy tightening or pivot to loosen monetary policy stance prematurely, de-anchoring inflation expectations and triggering a wage-price spiral in tight labor markets.	**Medium**	**High** A de-anchoring of global inflation expectations prompts a further surge in long-term domestic interest rates, capital outflows, and currency depreciation.	• Adjust policy interest rate in line with cyclical conditions and inflation prospects. • Allow flexible exchange rate to adjust. • Central bank asset purchases could be used to alleviate government bond market dysfunction, if necessary, given that fiscal sustainability is strong. •
Abrupt global slowdown or recession. Global and idiosyncratic risk factors combine to cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and markets fragmentation. Intensifying fallout from the war in Ukraine, worsening energy crisis and supply disruptions, and monetary tightening exacerbate economic downturns and housing market corrections.	**High**	**High** Poland enters a recession, accompanied by an increase in unemployment. The decline in demand and commodity prices result in a faster reduction in inflationary pressures.	• Allow flexible exchange rate to adjust. • Lower policy interest rates if declining commodity prices and core inflation produce projections for inflation to fall below the inflation target over the horizon for monetary policy. • Allow the fiscal stance to loosen temporarily, given available fiscal space.

Source of Risk	Relative Likelihood	Impact if Realized	Policy Response
			• Ensure that public investment spending remains on track, including projects linked to the Next Generation EU grants.
Deepening geo-economic fragmentation. Broader and deeper conflict(s) and weakened international cooperation lead to a more rapid reconfiguration of trade and FDI, supply disruptions, technological and payments systems fragmentation, rising input costs, financial instability, a fracturing of international monetary and financial systems, and lower potential growth.	**High**	**Medium** While geo-economic fragmentation may lower global potential growth, the possibility of a reorientation of some production to countries like Poland could offset some of the negative impact through higher FDI, which typically boosts productivity.	• Facilitate structural reforms, focused on business climate and labor market reforms, improving education and vocational training, and boosting infrastructure investment and R&D support to attract FDI and boost future productivity and income growth. • Ensure that public investment spending remains on track, including projects linked to the Next Generation EU grants.
Cyberthreats. Cyberattacks on critical domestic and/or international physical or digital infrastructure (including digital currency and crypto ecosystems) trigger financial and economic instability.	**Medium**	**Medium** Cyber-attacks would present a disruption, given Poland's increasing digitalization. Financial system disruptions may impede the allocation of credit.	• Strengthen crisis preparedness. • Increase investment in cyber resilience, especially in the financial system and in government.
Extreme climate events. Extreme climate events cause more severe than expected damage to infrastructure (especially in smaller vulnerable economies) and loss of human lives and livelihoods, amplifying supply chain disruptions and inflationary pressures, causing water and food shortages, and reducing growth.	**Medium**	**Medium** EU members may receive migrants from economies facing severe disruptions. An increased global focus on climate change may intensify pressures to decarbonize economies.	• Work with EU partners on region-wide response to migration. • Leverage EU funds to make infrastructure more resilient to natural disasters. • Ease monetary and fiscal policies as appropriate in response to disruption in global economy due to severe events in large economies.
Domestic Risks			
Court rulings lead to larger-than-expected losses for banks on foreign exchange mortgages. A European Court of Justice or Supreme Court ruling on outstanding legal questions	**Medium**	**High** An unfavorable ruling prompts a shift in expectations for the number of lawsuits brought against banks	• Banks facing capital shortfalls present credible plans to rebuild capitalization to required levels. • Banks should intensify efforts to reach voluntary settlements with

related to foreign exchange mortgages is issued that is unfavorable to banks.		and the size of eventual judgments. Provisioning requirements are increased sharply. Banks with larger exposure to foreign exchange mortgages face large losses and fail to satisfy minimum capital requirements.	borrowers to reduce uncertainty about size of eventual losses. • The authorities should explore policy options to help reduce the uncertainty.
Rule of law disputes with the EU lead to indefinite delay of Next Generation EU funds. A failure to resolve the dispute leads to a protracted stalemate, with a significant delay in EC approval of Poland's National Recovery Plan preventing the timely release of the funds.	**Medium**	**Medium** Key investment projects to be funded by Next Generation EU funds are delayed, lowering economic growth. The ongoing dispute with the EU hurts business confidence, especially among foreign investors, dampening private investment growth.	• Utilize substantial fiscal space available to finance initial investment projects through market borrowing to compensate for delay in transfer of funds. • Facilitate structural reforms, focusing on business climate and labor market reforms, improving education and vocational training, and boosting infrastructure investment and R&D support, to attract FDI and boost productivity and income growth. Maintain investment focus on Next Generation EU priorities in digitalization and climate change investments.

Annex X. External Sector Assessment

Overall Assessment: *The external position in 2022 was broadly in line with the level implied by medium-term fundamentals and desirable policies. This assessment is preliminary, and a final assessment will be presented in the 2023 External Sector Report.* The current account (CA) deficit widened in 2022 due to the adverse terms-of-trade (ToT) shock and a decline in saving as the fiscal deficit increased and real wages declined. Escalation of the war in Ukraine, weaker external demand, and the persistently elevated inflation outlook are the main near-term risks.

Potential Policy Responses: In the short term, monetary policy should bring inflation back to the target, while the fiscal stance should support monetary tightening. In the medium term, the fiscal deficit should be reduced while increasing investment by deploying Next Generation EU (NGEU) grants to tackle infrastructure gaps, digitalization, and climate change challenges. Structural policies should: (i) encourage corporate investment and improve productivity, including through initiatives to increase the availability of clean energy and supply of labor; and (ii) safeguard banking sector soundness and incentivize credit allocation to the private sector by redesigning the bank asset tax.

Foreign Asset and Liability Position and Trajectory	**Background.** The net international investment position (NIIP) strengthened to -34 percent of GDP in 2022, from -38 percent in 2021. Gross assets, liabilities, and reserves reached about 57, 91, and 24 percent of GDP, respectively. The stock of net FDI, equivalent to 38 percent of gross external liabilities, remains diversified across sectors and source countries. Gross external debt remained stable at around 54 percent of GDP; 31 percent of debt was intercompany lending, and 70 percent of the debt was of long maturity. In 2022, short-term debt (excluding intercompany debt), amounted to 18 percent of total debt and is mainly owed by banks (currency and deposits) and the non-financial private sector (trade credit). Automatic debt dynamics, helped by NGEU grants, along with GDP growth, are projected to strengthen the NIIP in the medium term. **Assessment.** The level of external debt is moderate, and rollover risk is mitigated by the large share of long-term debt and intercompany lending that tends to be automatically rolled over. The NIIP has improved markedly over the last decade, both in size and structure, indicating less reliance on volatile flows (portfolio and short-term financing) and more on FDI, which is a more stable source of financing. The level of gross reserves to short-term debt (156 percent) is adequate and reduces residual rollover risk.

2022 (% GDP)	NIIP: –34	Gross Assets: 57	Reserve Assets: 24	Gross Liab.: 91	Gross External Debt: 54

Current Account	**Background.** The CA deficit widened to 3.0 percent of GDP in 2022 from a deficit of 1.4 percent in 2021. The external balance in 2022 was characterized by: (1) an increasing trade deficit due to ToT shocks; (2) a continued solid services surplus; (3) a stable primary income deficit which attests to the profitability of foreign firms and strong reinvested earnings; (4) the consumption of refugees driving domestic demand; and (5) strong FDI inflows. In the near term, the CA deficit is set to narrow as adverse shocks fade and domestic demand slows. Over the medium term, the CA deficit is projected to decline to 2 percent as ToT shocks fade, with the continued CA deficit driven by EU fund inflows and higher military spending, which will increase imports. Sectoral saving-investment (S-I) balances are projected to increase as the fiscal deficit declines, household saving improves as real wages recover, and corporate investment moderates as inventories normalize. **Assessment.** The EBA CA model estimates a cyclically adjusted CA of –1.8 percent of GDP measured against a CA norm of –2.8 percent of GDP, with a standard error of 0.5 percent of GDP. An adjustment of –0.1 percent of GDP to the cyclically adjusted CA balance has been made for the transport covid-19 adjustor. The resulting staff CA gap of 0.9 (±0.5) percent of GDP includes identified policy gaps of 2.0 percent of GDP and an unexplained residual of –1.1 percent of GDP.

2022 (% GDP)	CA: –3.0	Cycl. Adj. CA: –1.8	EBA Norm: –2.8	EBA Gap: 1.0	Covid-19 Adj: -0.1	Other Adj: 0	Staff Gap: 0.9

Real Exchange Rate	**Background.** The annual average of the NEER depreciated by 3.6 percent in 2022, while the REER appreciated by 1.1 percent compared with the 2021 average, as inflation in Poland was higher than in trading partners. In 2022, the zloty depreciated by 15.4 and 2.6 percent against the U.S. dollar and the euro, respectively, compared with the 2021 average. **Assessment.** The EBA REER index and level models estimate a REER gap of 2.8 and –19.0 percent, respectively. Consistent with the staff CA gap, the 2022 REER gap is assessed as undervalued in the range of –3.3 to -1.0 percent, with a midpoint of -2.2 percent (using an estimated elasticity of 0.43).
Capital and Financial Accounts: Flows and Policy Measures	**Background.** The capital account surplus declined to 0.3 percent of GDP in 2022 from 0.7 percent in 2021. Over the medium term, the capital account surplus is projected to stabilize around 0.5 percent of GDP, supported by EU inflows. FDI inflows have almost doubled since 2019, reaching 4.0 percent of GDP on a net basis in 2022. The largest sources of the inward FDI stock have been the Netherlands, Germany, Luxembourg, and France. Financial account inflows amounted to 4.4 percent of GDP in 2022. Foreign holdings of domestic government securities have declined continuously and significantly since 2016—reducing the vulnerability to capital outflows— and by the end of 2022 represented 16.9 percent of the total (4.8 percent of GDP). **Assessment.** The capital account is projected to remain a strong source of support for investment, reflecting EU cooperation frameworks. The diversified foreign investor base is also a mitigating factor, and the central bank has the tools to manage bouts of volatility.
FX Intervention and Reserves Level	**Background.** FX reserves increased by about US$645 million in 2022 to US$167 billion. Net reserves, which net out the central bank's repo operations (part of its reserve management strategy) and government FX deposits, stood at about US$146 billion at the end of 2022, reflecting in part the central bank's conversion of a portion of EU funds received by the government to zloty. While the central bank briefly intervened in foreign exchange markets in March 2022 in the context of disorderly market conditions at the beginning of the war in Ukraine, the zloty is free floating. **Assessment.** At about 157 percent of the IMF's reserve adequacy metric, Poland's level of gross reserves is adequate to guard against external shocks and disorderly market conditions.

INTERNATIONAL MONETARY FUND

REPUBLIC OF POLAND

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

May 10, 2023

Prepared By European Department

CONTENTS

FUND RELATIONS

(As of March 31, 2023)

Membership Status: Joined 6/12/1986; Article VIII

General Resources Account:

	SDR Million	Percent Quota
Quota	4,095.40	100.00
Fund Holdings of Currency	3,033.11	74.06
Reserve Tranche Position	1066.09	26.03
Lending to the Fund		
New Arrangement to Borrow	12.28	

SDR Department:

	SDR Million	Percent Allocation
Net Cumulative Allocation	5,229.90	100.00
Holdings	4236.64	81.01

Outstanding Purchases and Loans: None

Latest Financial Arrangements:

In Millions of SDR

Type	Approval Date	Expiration Date	Amount Approved	Amount Drawn
FCL	1/13/2017	11/2/2017	6,500.00	0.00
FCL	1/14/2015	1/13/2017	13,000.00	0.00
FCL	1/18/2013	1/13/2015	22,000.00	0.00
FCL	1/21/2011	1/17/2013	19,166.00	0.00
FCL	7/02/2010	1/20/2011	13,690.00	0.00

Projected Payments to Fund (SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2023	2024	2025	2026	2027
Principal					
Charges/Interest	25.71	34.48	34.45	34.46	34.46
Total	25.71	34.48	34.45	34.46	34.46

Article IV Consultation:

The last Article IV consultation was concluded on February 14, 2022. Poland is on the standard 12-month consultation cycle.

Resident Representative:

Mr. Geoff Gottlieb has been the Senior Regional Resident Representative for Central and Eastern Europe since August 2022.

Exchange Arrangements: The currency of Poland is the zloty. The exchange rate arrangement is free floating. Poland accepted the obligations under Article VIII, Sections 2, 3, and 4 on June 1, 1995. Poland maintains an exchange system free of multiple currency practices and restrictions on payments and transfers for current international transactions, with the exception of restrictions adopted solely for national or international security reasons notified to the Fund in accordance with the procedures of Decision No. 144-(52/51).

Table 1. Republic of Poland: Technical Assistance from the Fund, 1992–2022

Department	Subject/Identified Need	Action	Date	Counterpart
MAE-Coordinated	Periodic visits by experts from central banks cooperating in providing technical assistance to the NBP under the coordination of MAE	Experts' visits	1992–94	NBP
MAE	Payments system, banking supervision, monetary research and analysis	Mission	May 1992	NBP
MAE	Review of progress in the modernization of operational functions	Mission	October 1992	NBP
MAE	Resident expert-Advisor to President of NBP		November 1991–92	NBP
MAE	Additional steps in the modernization process of the NBP	Mission	April 1993	NBP
MAE	Monetary programming and operations, and payments system	Mission	November 1993	NBP
MAE	Central bank modernization	Mission	August 1994	NBP
MAE/LEG	Review of the exchange and payments system	Mission	February 1995	NBP/MoF
MAE	Exchange rate system	Mission	March 1995	NBP
MAE	Review of government securities market, payments system and public debt management	Mission	August 1995	NBP/MoF
MAE	Asset consolidation exercise	Expert visits	Late 1995	NBP
FAD	Tax administration (VAT)	Nine short-term assignments of field experts	August 1992–October 1994	MoF
FAD	Tax administration	Mission	November 1992	MoF
STA	Framework for monetary statistics	Mission	February 1993	NBP
STA	Framework for monetary statistics (follow-up)	Mission	November 1993	NBP

Table 1. Republic of Poland: Technical Assistance from the Fund, 1992–2022 (continued)

Department	Subject/Identified Need	Action	Date	Counterpart
STA	Government finance statistics	Mission	August 1995	NBP/MoF
STA	Money and banking statistics	Mission	January 1996	NBP
STA	Government finance statistics	Mission	July 1996	NBP/MoF
STA	Balance of payments statistics	Mission	November 1996	NBP/MoF
STA	Balance of payments statistics	Follow-up mission	April 1997	NBP/MoF
STA	Review of progress in implementing the SDDS	Visit	February 1998	
FAD	Public expenditure management	Mission	April 1998	MoF
MAE	Operational aspects of monetary and exchange rate policy	Mission	September 1998	NBP
FAD	Tax administration	Mission	October 1998	MoF
FAD	Examination of impact on revenues of proposed tax reform	Mission	November 1998	MoF
FAD	Discussion of tax administration	Mission	March 1999	MoF
FAD	Tax administration seminar	Mission	April 1999	MoF
STA	Government Finance Statistics	Mission	October 1999	MoF/Local
FAD	Tax administration—Introduction of expert	Mission	November 1999	MoF
FAD	Administering Social Security	Mission	March 2000	MoF
IMF/IBRD	FSAP	Mission	May/Sept 2000	MoF/NBP
MAE	Monetary Operations	Mission	July 2001	NBP
FAD	Expenditure restructuring	Mission	December 2001	MoF
MAE	Stress testing	Mission	January 2002	NBP
STA	Data ROSC	Mission	January 2003	CSO/MoF/NBP
STA	Government finance statistics (GFSM 2001)	Mission	October 2003	MoF
STA	Government finance statistics (GFSM 2001)	Mission	January 2005	MoF

Table 1. Republic of Poland: Technical Assistance from the Fund, 1992–2022 (concluded)

Department	Subject/Identified Need	Action	Date	Counterpart
IMF/IBRD	FSAP Update	Mission	April/May 2006	MoF/NBP
FAD	Developing a multi-annual fiscal framework	Mission	June 2008	MoF
STA	Errors and omissions in balance of payments accounts	Mission	July 2009	NBP
FAD	Medium-term fiscal framework	Mission	April 2010	MoF
MCM	Detailed assessment of observance of BCP for effective banking supervision	Mission	Feb/March 2011	KNF
STA	Errors and omissions in balance of payments accounts	Mission	June 2011	NBP
FAD	Developing the fiscal regime for oil and gas	Mission	April 2012	MoF
MCM	Macroprudential framework	Mission	May 2012	NBP
IMF/WB	FSAP update	Mission	Feb/March 2013	MoF/ KNF/NBP
FAD	Tax administration—Modernization challenges and strategic priorities	Mission	November 2014	MoF
MCM	Bank Resolution	Mission	March 2016	BFG
FAD	Medium-term budget framework	Mission	February/November 2017	MoF
FAD	Tax administration	Mission	April/June 2017	MoF
IMF/WB	FSAP update	Mission	Jan/May 2018	MoF/ KNF/NBP
FAD	Medium-term budget framework (MTBF), developing standardized chart of accounts	Mission	Apr/Dec 2019	MoF
FAD	MTBF developing standardized chart of accounts (SCoA)	Resident advisor	May 2019	MoF
FAD	MTBF outstanding issues in development of SCoA	Virtual Mission	Mar/Jun 2021	MoF
FAD	Public Investment Management Assessment (PIMA)	Virtual Mission	Sep/Oct 2021	MoF
FAD	Concluding development of SCoA Phase II	Mission	Oct 2022	MoF

STATISTICAL ISSUES

(As of March 31, 2023)

Assessment of Data Adequacy for Surveillance

General: Data provision is adequate for surveillance.

National Accounts: Statistics Poland (GUS) compiles and disseminates annual and quarterly GDP by production and expenditure approaches, both at current and previous year's prices following the *2008 SNA* and *ESA 2010*. Quarterly financial accounts of general government sector are compiled by the Statistics Poland (GUS). Annual and quarterly financial accounts by institutional sectors are compiled by Narodowy Bank Polski (NBP) following the *ESA 2010* standards and disseminated regularly on its website according to an advance release calendar: the annual financial accounts no later than 25th April of the following year and quarterly financial accounts no later than 25th calendar day of the 4th month following the end of the reference quarter (i.e., no later than 25th of January, April, July, and October). Poland also publishes "flash estimates" of GDP within weeks of the reference quarter.

Price Statistics: The consumer price index does not cover imputed rents of owner-occupied dwellings. The scope of the index covers all resident households, except those in some rural areas. The producer price index does not include any estimation for missing prices; quality and seasonal adjustment techniques are also not implemented. Poland publishes "flash estimates" of CPIs, and a monthly Harmonized Indices of Consumer Prices (HICP) according to a uniform methodology of the European Union.

Government Finance Statistics: The Ministry of Finance (MoF) is responsible for compiling monthly data. The data are compiled in accordance with the IMF's Government Finance Statistics Manual 2001 (GFSM 2001). Monthly cash data cover "core" central government. Revenue and expense are divided by economic type. Financing is classified by sector and by type of debt instrument.

Starting in 2015 (annual data for 2014), GUS is responsible for collecting, processing, and disseminating annual government finance statistics. The data are compiled according to European System of Accounts (ESA2010) and adjusted to GFS Manual 2014. The annual reports cover presentation of fiscal data on operations of the general government sector divided by central government, local government, and social security funds. Revenue and expense are divided by transactions. Financing is classified by sector and by type of debt instrument. General government data are released on a quarterly basis, derived from detailed ESA data. Monthly and annual data are regularly disseminated on the SDDS website.

Monetary and Financial Statistics: Beginning with data for January 2004, the NBP provides the European Central Bank (ECB) with monetary accounts in accordance with the ECB's framework for monetary statistics using the national residency approach. The ECB reports monetary data for Poland to the IMF for publication. Data on other financial corporations (OFC) are currently not available.

Financial Sector Surveillance: In November 2009, NBP in cooperation with GUS, the Polish Financial Supervision Authority (KNF) and MoF began reporting financial soundness indicators (FSI) in line with the IMF's *Financial Soundness Indicators Compilation Guide*. Starting from the first quarter of 2022, FSIs are determined in accordance with the 2019 version of the *Guide* and cover the data of banks, other financial institutions, non-financial corporations and households Poland is currently reporting all core FSIs and 24 of the 35 encouraged FSIs on a quarterly basis with a lag of approximately one quarter. NBP also implemented EU regulation 680/2014, which covers supervisory reporting defined by the Implementing Technical Standards (ITS) prepared by the European Banking Authority. First data were collected with reference date March 2014 for own funds and liquidity related reporting. Financial reporting on a consolidated basis according to the ITS was reported for the first time for September 2014.

External Sector Statistics:

Poland, as all other EU countries, disseminates balance of payments and international investment position data in accordance with the sixth edition of the *IMF's Balance of Payments and International Investment Position Manual (BPM6)* and external debt statistics in line with the 2013 *External Debt Statistics: Guide for Compilers and Users* (2013 *EDS Guide*).

Poland participates in the Coordinated Direct Investment Survey and Coordinated Portfolio Investment Survey and reports data for the Reserves Data Template to the IMF.

Data Standards and Quality

Subscriber to the Fund's Special Data Dissemination Standard (SDDS) since April 17, 1996. Uses SDDS flexibility option on the timeliness of the data on general government and central government operations.

Republic of Poland: Table of Common Indicators Required for Surveillance–as of March 31, 2023

	Date of latest observation	Date received	Frequency of data[7]	Frequency of reporting[7]	Frequency of publication[7]	Memo Items: Data Quality – Methodological soundness[8]	Memo Items: Data Quality Accuracy and reliability[9]
Exchange Rates	3/31/2022	03/31/2022	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	2/2023	03/07/2023	M	M	M		
Reserve/Base Money	2/2023	03/07/2023	M	M	M	O, LO, O, LO	O, O, O, O, O
Broad Money	2/2023	03/22/2023	M	M	M		
Central Bank Balance Sheet	2/2023	03/22/2023	M	M	M		
Consolidated Balance Sheet of the Banking System	2/2023	03/22/2023	M	M	M		
Interest Rates[2]	3/31/2023	03/31/2023	D	D	D		
Consumer Price Index	2/2023	03/15/2023	M	M	M	O, O, O, O	O, O, O, O, O
Revenue, Expenditure, Balance, and Composition of Financing[3] – General Government[4]	2021	03/11/2023	A	A	A	LO, O, O, O	O, O, O, O, NA
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	1/2023	20/03/2023	M	M	M		
Stocks of Central Government Debt[5]	12/2022	02/28/2023	M	M	M		
Stocks of Central Government-Guaranteed Debt[5]	12/2022	02/28/2023	M	M	M		
External Current Account Balance	1/2023	03/16/2023	M	M	M	O, O, O, LO	O, O, O, O, LO
Exports and Imports of Goods and Services	1/2023	03/16/2022	M	M	M		
GDP/GNP	Q4/2022	28/02/2023	Q	Q	Q	O, LO, O, O	LO, LO, O, O, LO
Gross External Debt	Q4/2022	03/31/2023	Q	Q	Q		
Balance of Payments	Q4/2022	03/31/2023	Q	Q	Q		
International Investment Position[6]	Q4/2022	03/31/2023	Q	Q	Q		

[1] Any reserve assets that are pledged of otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.
[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign and domestic financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Not Available (NA).
[7] Reflects the assessment provided in the data ROSC published on November 6, 2001 and based on the findings of the respective missions that took place during May 10–18, 2001 for the dataset corresponding to the variable in each row. For fiscal data, also takes account of the 2009 Fiscal Transparency ROSC. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O), largely observed (LO), largely not observed (LNO), or not observed (NO).
[8] Same as footnote 7, except referring to international standards concerning (respectively) source data, statistical techniques, assessment and validation, and revision studies.
[9] Includes external gross financial asset and liability positions vis-à-vis nonresidents.