INTERNATIONAL MONETARY FUND

IMF Country Report No. 25/6

REPUBLIC OF POLAND

January 2025

2024 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE REPUBLIC OF POLAND

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 2024 Article IV consultation with the Republic of Poland, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its January 10, 2025 consideration of the staff report that concluded the Article IV consultation with the Republic of Poland.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on January 10, 2025, following discussions that ended on October 17, 2024, 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 December 16, 2024.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for the Republic of Poland.

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.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: http://www.imf.org

International Monetary Fund
Washington, D.C.

PRESS RELEASE

PR25/004

IMF Executive Board Concludes 2024 Article IV Consultation with the Republic of Poland

FOR IMMEDIATE RELEASE

Washington, DC – **January 21, 2025:** The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with the Republic of Poland.

Economic growth is estimated to have accelerated in 2024 to 2.8 percent, driven by a rebound in domestic demand, mainly from private consumption rising due to strong nominal wage growth and lower inflation. This is partially offset by net exports becoming a drag on growth as higher imports from increased consumption outpace exports hindered by weak Euro Area demand. The outlook is positive, further supported by expected absorption of Next Generation EU (NGEU) funds, with growth projected at around 3.5 percent in 2025 and 2026. Over the medium-term, as the impact of NGEU funds absorption unwinds, growth is expected to moderate to slightly below 3 percent largely due to population ageing.

The fiscal deficit is estimated to have widened to 5.9 percent of GDP in 2024 amidst a moderately expansionary fiscal stance (0.3 percent of GDP) as permanent increases in public sector wages and social benefits outweighed savings from the lower cost of energy support measures. The deficit is expected to remain elevated in 2025 at 5.6 percent of GDP, in part due to high defense spending. The authorities have announced fiscal consolidation over the medium-term aiming for a deficit of 2.9 percent of GDP by 2028. That said, some of the consolidation measures remain to be identified. Staff projects, based on measures identified so far, that the deficit will decline to 3.5 percent of GDP over the medium-term with public debt stabilizing around 65 percent of GDP.

Inflation has declined considerably from 2023 but remains well above the central bank inflation target despite the tight policy stance. Core inflation remains elevated in the context of strong wages growth amid a still-tight labor market. Absent surprises, both core and headline inflation should peak before mid-2025, then moderate to around the upper end of the target range of 2.5±1 percent by end-2025.The financial system remains resilient and private credit is recovering slowly. Capital and liquidity buffers remain well above regulatory requirements, while asset quality has improved. Bank profits increased due to wider net interest margins with high liquidity keeping deposit rates subdued. Private sector credit has recovered somewhat since bottoming out in mid-2023, partly due to a subsidized mortgage scheme.

---

[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]

Executive Directors agreed with the thrust of the staff appraisal. They commended the Polish authorities' prudent policies that have resulted in impressive economic and social gains and accelerated absorption of New Generation EU funds. While welcoming the ongoing recovery and the positive near-term outlook, Directors noted that risks are tilted to the downside and inflation remains elevated, given a tight labor market and strong wage growth. Directors highlighted the need to rebalance the policy mix to help rebuild buffers, strengthen resilience, and support private investment-led growth. Structural reforms to boost productivity and tackle longer-term challenges from ageing and the climate transition are also important.

Directors agreed that fiscal policy should increasingly focus on rebuilding buffers and supporting disinflation efforts as the recovery becomes more entrenched. While welcoming the Medium-Term Fiscal Structural Plan, Directors emphasized the need to identify the necessary fiscal measures upfront to strengthen its credibility. They saw merit in efforts to mobilize revenues, improve the targeting of social benefits, and reform the pension system. Directors generally agreed that frontloading more of the planned medium-term deficit reduction to 2025, would help to reduce debt, enhance resilience, and create leeway for a faster decrease in interest rates. Noting the need to further enhance fiscal transparency and governance, Directors welcomed the plans to establish a fiscal council.

Directors emphasized the importance of maintaining a tight monetary policy stance to ensure inflation converges to target. In this context, they agreed that interest rate cuts should commence only when wage growth is decelerating, and inflation is firmly declining towards the target.

Directors welcomed the soundness of the financial system supported by tightened regulatory policies in recent years. Noting the ample capital and liquidity buffers, Directors highlighted that further regulatory policy tightening should consider the impact on the nascent credit recovery. Directors called for efforts to proactively reduce legal risks to financial sector stability and remove distortions affecting private credit. In that context, they welcomed the elimination of the mortgage credit holidays.

Directors underscored the importance of comprehensive structural reforms to foster sustainable growth. Policies should focus on capital deepening, facilitating resource reallocation, nurturing innovation capacity, and decarbonizing the economy to meet EU targets for 2030. Noting the need to ensure adequate labor supply, Directors encouraged policies to support the integration of women, old age adults, and refugees into the labor market. Directors recognized the progress on reducing emissions and encouraged further actions to meet climate goals and safeguard competitiveness.

---

[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

Table 1. Republic of Poland: Selected Economic Indicators, 2022–29

	2022	2023	2024	2025	2026	2027	2028	2029
			Projections					
Activity and prices								
GDP (change in percent) 1/	5.3	0.1	2.8	3.5	3.3	3.1	2.8	2.7
Output gap (percent of potential GDP)	2.3	-0.9	-1.0	-0.4	-0.2	0.0	0.0	0.0
Headline CPI inflation (percent)								
Average	14.4	11.4	3.8	4.6	3.5	2.9	2.5	2.5
End of period	16.6	6.2	5.1	3.7	3.3	2.5	2.5	2.5
Unemployment rate (average, according to LFS)	2.9	2.8	2.9	3.1	3.2	3.2	3.4	3.5
Public finances (percent of GDP) 2/								
General government net lending/borrowing	-3.4	-5.3	-5.9	-5.6	-4.9	-4.1	-3.6	-3.5
General government cyclically-adjusted balance	-4.6	-4.8	-5.4	-5.4	-4.8	-4.1	-3.7	-3.4
General government primary balance	-3.1	-2.7	-3.0	-2.9	-2.2	-1.5	-1.1	-0.9
General government debt	48.8	49.7	54.1	57.8	61.3	62.5	63.2	63.8
Balance of payments								
Current account balance (percent of GDP)	-2.3	1.8	0.3	-0.3	-0.7	-0.9	-1.2	-1.5
Total external debt (percent of GDP)	53.2	48.8	45.1	43.9	42.9	41.9	41.0	40.1
Memorandum item:								
Nominal GDP (billion zloty)	3100.8	3401.6	3601.6	3898.7	4169.8	4409.6	4646.5	4889.1

Sources: Polish authorities; and IMF staff calculations.

1/ Real GDP according to 2020 base year.

2/ According to ESA2010.

REPUBLIC OF POLAND

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION

December 16, 2024

KEY ISSUES

Background: The Polish economy is recovering, driven by a rebound in domestic demand. Private consumption growth is being driven by rising nominal and real wages, and lower inflation; still, inflation remains well above target against a tight labor market. The current account surplus has diminished in 2024 as imports increased, while exports are contained by the subdued growth in the Euro Area. Fiscal pressures remain high, in part due to elevated defense spending.

Outlook and risks: The outlook is positive, supported by the absorption of Next Generation EU (NGEU) funds, with growth expected to accelerate further in 2025-26. Absent surprises, inflation should peak before mid-2025, and then moderate to slightly above the upper end of the central bank's target range by end-2025. Medium-term growth is expected to moderate as the impact of NGEU funds absorption unwinds. Nevertheless, there is substantial uncertainty with risks tilted to the downside for growth and upside for inflation.

Policy Recommendations: The overarching objective is to balance the mix of monetary and fiscal policy and preserve debt sustainability, while strengthening the economy to face longer-term challenges.

Fiscal policy: Tightening policies in 2025 to rein in the high deficit would help disinflation and create monetary policy space to support private investment. Over the medium-term, fiscal measures of around 1.5 percent of GDP additional to those already in-train should be implemented to help stabilize debt around 60 percent of GDP while ensuring adequate space for public investment.

Monetary policy: The current tight stance is appropriate given the still-high core inflation. There may be scope for limited and gradual policy rate cuts starting around mid-2025 if wages decelerate and there is a sustained decline in inflation towards the target.

Financial sector policy: Following the introduction of various tightening measures over the past few years that helped bolster buffers, the authorities should take into account the impact of any further regulatory tightening on the provision of credit and aim to reduce litigation risks weighing on the banking system. Any further regulatory tightening should consider repercussions for credit provision. Credit holidays should be allowed to expire, and the bank asset tax should be redesigned to eliminate bias against private credit.

Structural policies: Growth engines that delivered past success in convergence to EU income levels are threatened by diminishing cost-competitiveness, population aging, limited capital deepening, and the climate transition, on top of a subdued growth outlook in the main trading partners. Against this backdrop:

- Sustaining growth requires ongoing public investment in infrastructure, as well as a broad set of reforms that addresses bottlenecks to investment and reduce barriers to competition. To help ensure an adequate labor supply, policies should support the integration of women, old age adults, and refugees in the labor market through adequate childcare, training, and skill-matching. Innovation should be nurtured by supporting the provision of private equity and venture capital.

- Securing a credible climate transition is critical to addressing risks to competitiveness from Poland's elevated carbon footprint. This calls for extending carbon pricing and accelerating permitting for green projects to facilitate achieving climate commitments.

Approved By
Uma Ramakrishnan (EUR) and Fabian Bornhorst (SPR)

Discussions were held in Warsaw on October 8-17, 2024. The team comprised Messrs. Jan Kees Martijn (head), Mr. Kareem Ismail, Ms. Alla Myrvoda, and Mr. Yang Yang (all EUR). Mr. Geoff Gottlieb (Senior Resident Representative) and Messrs. Robert Sierhej, Krzysztof Krogulski, and Maciej Onoszko (all Resident Representative Office) also participated in the discussions. Mr. Patryk Łoszewski and Ms. Marta Pietrzak (both OED) 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 Mukherjee (EUR) provided administrative support and Can Ugur (EUR) provided analytical support.

CONTENTS

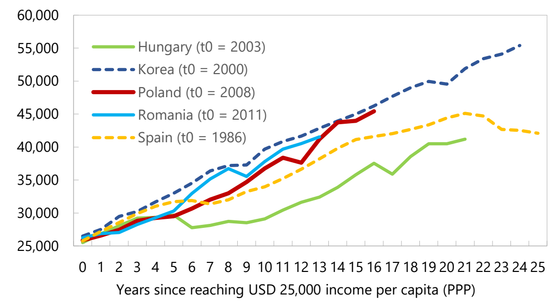
CONTEXT

1. **Poland has achieved substantial economic convergence within the EU.** The economy has roughly doubled in size over the last two decades. Real GDP per capita over the same period has increased from just under 50 percent of the EU27 average to 80 percent. Growth has been among the fastest historically for an economy of its income level and size, now the 20th largest in the world in real terms. Social indicators have also improved markedly with strong education outcomes and declining poverty rates. Moreover, income inequality in Poland is among the lowest in the OECD.

Text Figure 1. Poland's Economic Convergence

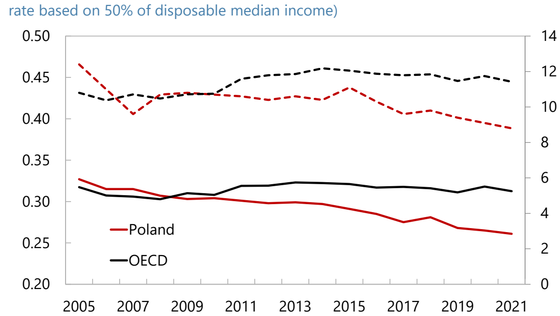
The economy continued robust convergence following the Global Financial Crisis..

GDP Per Capita After Reaching 25,000 Income Per Capita
(2021 USD, PPP-adjusted)



... coupled with progress on reducing poverty, and with low income inequality compared to OECD peers.

Income Inequality and Relative Poverty /1
(LHS: Gini coefficient based on disposable income; RHS: dashed line, percent poverty rate based on 50% of disposable median income)

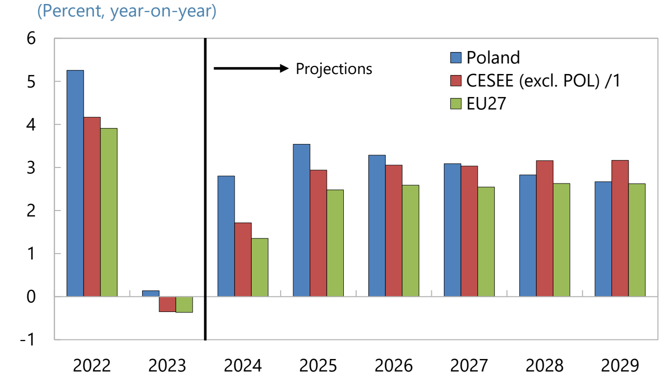


Sources: OECD, World Economic Outlook, and IMF staff calculations
/1 OECD is calculated as an average of countries with data available that year.

2. **Poland's near-term outlook has improved after weathering the successive COVID and energy shocks.** A cyclical recovery is underway and is supported by recently unlocked NexGen EU Funds (NGEU). Inflation has declined helped by a tight monetary stance, and its descent to target is on track provided prudent policies are maintained.

3. **Longer-term economic prospects are clouded by fiscal pressures and headwinds to growth.** The fiscal deficits are expected to remain elevated, boosted by high defense spending following Russia's invasion of neighboring Ukraine, which calls for consolidation to credibly stabilize debt at a prudent level. Meanwhile, growth engines that delivered past convergence success are threatened by diminishing cost-competitiveness, population aging, limited capital deepening, and the climate transition, on top of a subdued growth outlook in the main trading partners.

Real GDP Growth
(Percent, year-on-year)



Sources: IMF, World Economic Outlook (October 2024); and IMF staff calculations.
/1 CESEE (excl. POL) = ALB, BGR, BIH, CZE, EST, HRV, HUN, KOS, LTU, LVA, MDA, MKD, MNE, ROU, SRB, SVK, SVN.

RECENT ECONOMIC DEVELOPMENTS

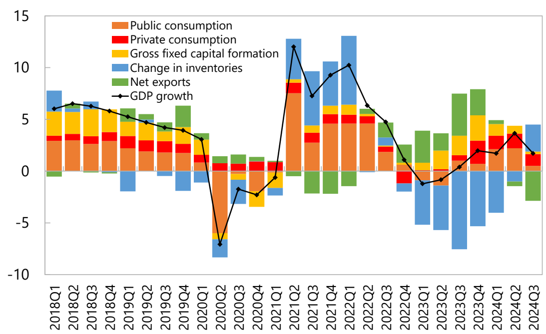
4. **A domestic-demand led recovery has been underway since growth bottomed out in mid-2023.** Private consumption has picked up with the sharp rebound in real wages. Fixed investment, driven by the public sector, also continued its gradual recovery though remaining as a share of GDP below pre-pandemic levels. Net exports, however, are imposing some drag as imports recovered on the back of higher consumption while exports are held back by weak demand from the Euro Area. This drag has been partially offset by the recent normalization of the inventory cycle following the drawdown of substantial inventory (built-up in 2021-22) in 2023, which withdrew 5.7 percentage points from GDP growth in that year. As a result, growth is estimated at 2.8 percent in 2024, up from 0.1 percent in 2023. The negative output gap is gradually closing and estimated to have averaged -1 percent of GDP in 2024.

Text Figure 2. Recent Economic Activity

Economic activity has been accelerating since Q3 2023..

Contributions to GDP Growth

(Y/y growth, 2020 constant prices, SA)



Driven by consumption supported by recovering real wages..

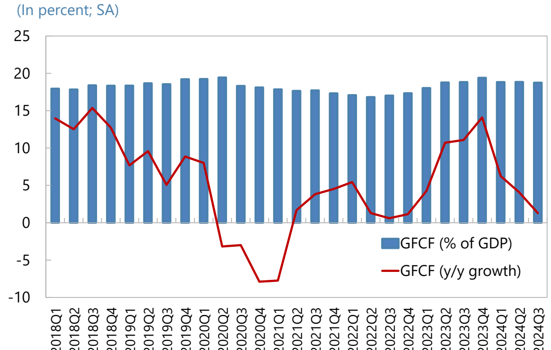
Real Wages and Private Consumption Growth

(Percent, year-on-year growth; NSA)

with fixed investment, driven mainly by the public sector, also contributing to growth …

Gross Fixed Capital Formation

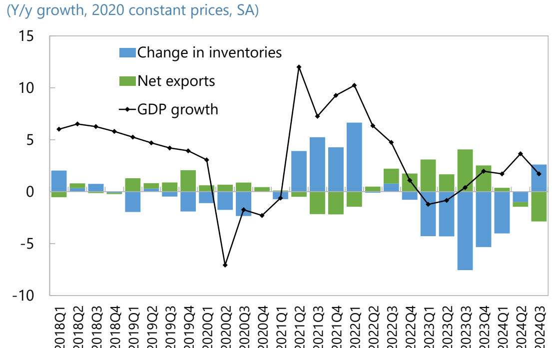
(In percent; SA)



While the drawdown of inventories was a substantial drag in 2023 and is now normalizing.

GDP Growth: Contributions of Inventories and Net Exports

(Y/y growth, 2020 constant prices, SA)



Sources: Statistics Poland; and IMF staff calculations.

5. **The labor market has cooled somewhat but remains tight.** Labor supply has benefited from Ukrainian refugees (Annex I) and increased labor market participation, while labor demand has

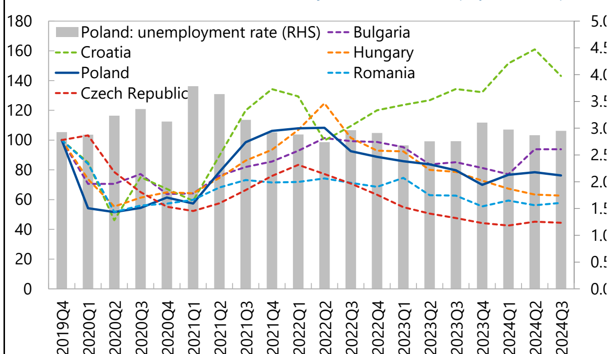
eased. But unemployment remains near historical lows (2.9 percent in Q3 2024). The still-tight conditions together with sharp increases in 2024 in minimum wages (by 20.4 percent) and public sector salaries (20 to 30 percent) have supported strong average nominal wage growth (13.4 percent y/y as of Q3 2024), which together with lower inflation implied a rapid recovery in real wages. Within the enterprise sector, wages have already decelerated since Q1 in both nominal and real terms as labor demand continued to moderately ease.

Text Figure 3. Labor Market Developments

Labor markets somewhat cooled, but remain tight with historically low unemployment..

Labor Market Tightness

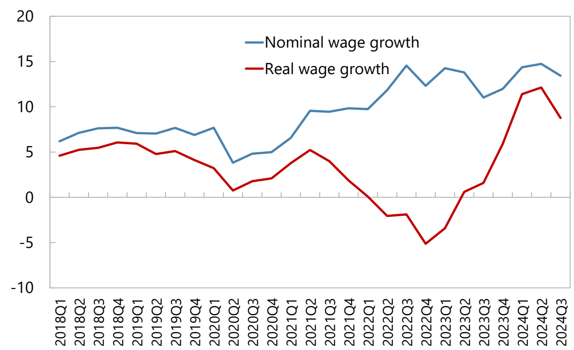
(LHS: Index, 2019Q4=100, measured as a ratio of job vacancies to unemployment; RHS: percent



... supporting robust nominal wage growth, which have yielded real gains as disinflation kicked in.

Average Wage Growth

(Percent, year-on-year)

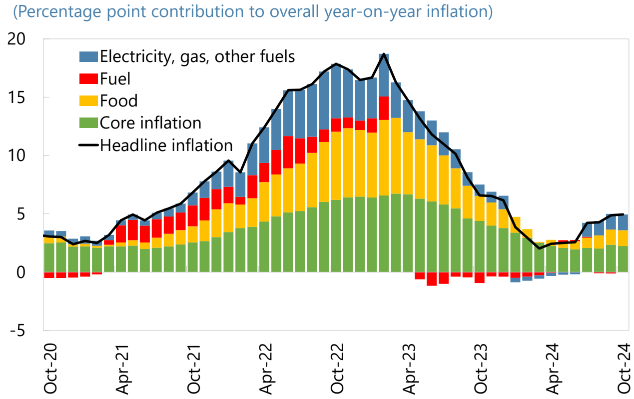


Sources: Haver Analytics; Eurostat; Statistics Poland Labor Force Survey; and IMF staff calculations.

6. **Inflation has declined sharply but remains elevated.** Food and fuel disinflation together with a tight monetary stance and an appreciating exchange rate helped bring down 12-months average inflation to 4 percent in October 2024 from a peak of 16.6 percent in April 2023. Over the same period, core inflation declined at a more moderate pace to 5 percent from 10.7 percent, with services inflation remaining sticky around 6 percent. Sequential inflation has increased since July mainly due to the phase out of energy price caps introduced following Russia's war in Ukraine, but also reflecting still-elevated sequential core inflation. Monetary policy has remained on hold since a cumulative 100 bps cut in the policy rate (to 5.75 percent) in Sept-Oct 2023.

Consumer Price Inflation

(Percentage point contribution to overall year-on-year inflation)



Sources: Haver Analytics; National Bank of Poland; and IMF staff calculations.

7. **The financial system remains resilient and private credit is recovering slowly.** Capital and liquidity buffers remain well above regulatory requirements, while asset quality has improved. Bank profits increased due to wider net interest margins with high liquidity keeping deposit rates subdued, resulting in return on equity at 15.1 percent in August 2024. Private sector credit has

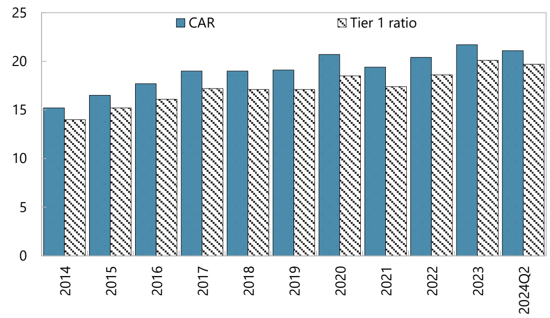
recovered somewhat since bottoming out in mid-2023, partly due to a subsidized mortgage scheme, yielding a positive credit impulse.

Text Figure 4. Banking Sector Developments

Banking sector is well-capitalized….

Capital Adequacy of Banking Sector

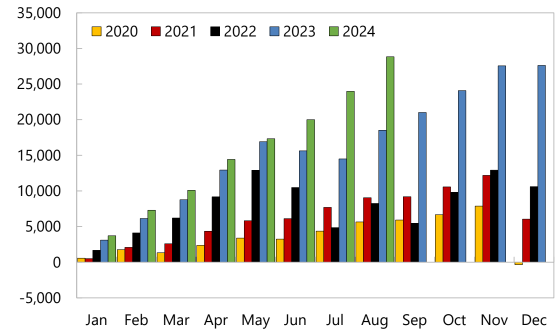
(Percent; end of period measures)



…and profits continued their increase since 2020…

Net Profits of the Banking Sector

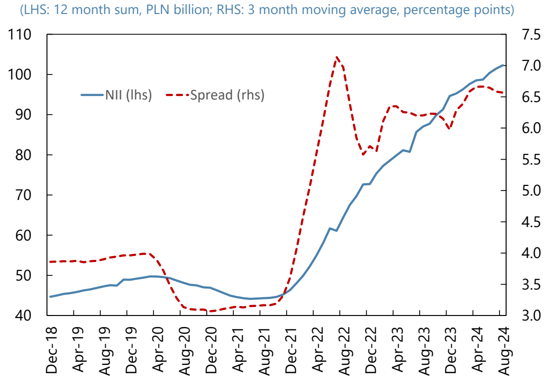
(Within-year cumulative in PLN million)



…as high spreads support net interest income.

Net Interest Income and Lending-Deposit Spread

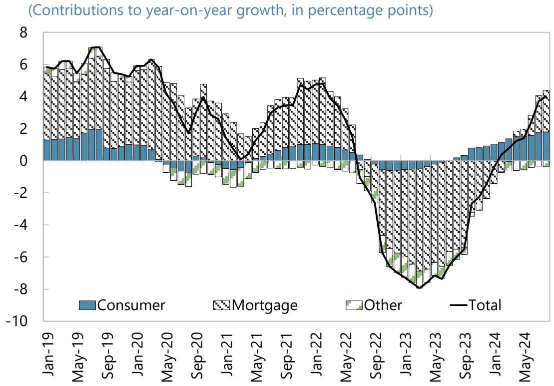
(LHS: 12 month sum, PLN billion; RHS: 3 month moving average, percentage points)



Household credit growth is recovering since mid-2023.

Credit to Households

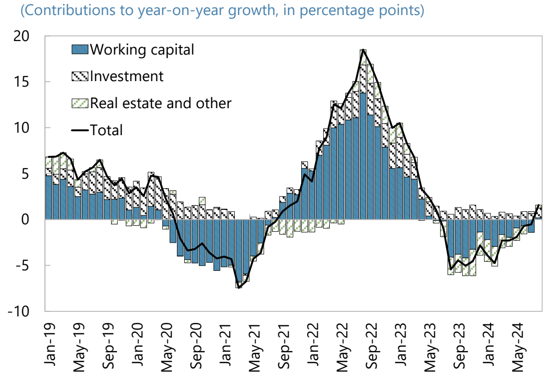
(Contributions to year-on-year growth, in percentage points)



…while the rebound in corporate credit is weaker…

Credit to Non-financial Firms

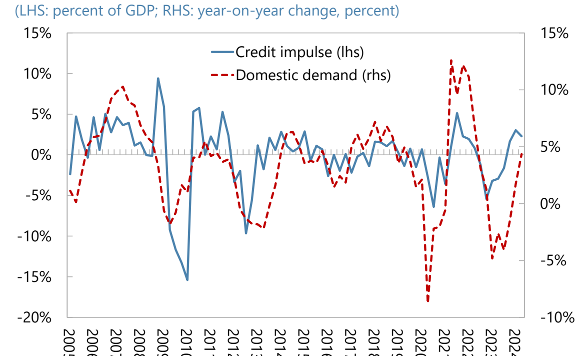
(Contributions to year-on-year growth, in percentage points)



…but the overall credit impulse became positive.

Credit Impulse and Domestic Demand 1/

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



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

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

8. The fiscal deficit is estimated to have widened further in 2024, putting Poland in the EU's Excessive Deficit Procedure (EDP). In 2023, the fiscal deficit increased substantially from 3.4 percent of GDP in 2022 to 5.3 percent of GDP due to cyclical factors. In 2024, a further widening is foreseen to 5.9 percent of GDP, amid a moderately expansionary fiscal stance (0.3 percent of GDP). Lower costs of energy support measures (Text Table 1, Text Figure 5) and support for refugees are more than offset by permanent increases in public sector wages and social benefits. Energy support to households became more targeted with the lifting of price caps while providing energy vouchers to lower-income households.

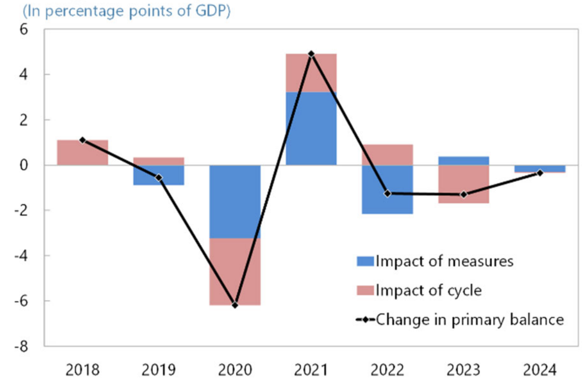
Text Table 1. Fiscal Impact of Energy Measures 1/

	Percent of GDP			
	2022	2023	2024 est.	2025 proj.
Total	**2.4**	**1.4**	**0.6**	**0.1**
Revenues	1.3	-0.2	-0.2	0.0
Change in tax rates	1.3	0.3	0.1	0.0
Energy revenue cap and windfall gains tax	0.0	-0.8	-0.4	0.0
Loss of VAT receipts due to windfall gains tax	0.0	0.4	0.1	0.0
Expenditures	1.1	1.6	0.9	0.1
Compensation to energy suppliers	0.3	1.2	0.6	0.1
Other transfers	0.8	0.3	0.3	0.0
To low-income households	0.1	0.0	0.1	0.0
To households for heating	0.6	0.1	0.1	0.0
To energy-intensive firms	0.1	0.2	0.0	0.0

Source: Ministry of Finance; news articles; and IMF staff estimates and calculations.
1/ Positive sign indicates an increase in fiscal expenditure.

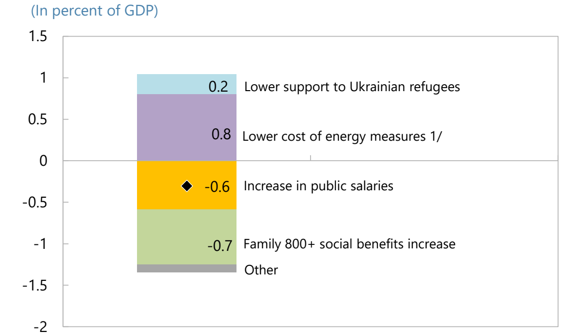
Text Figure 5. Fiscal Position in 2024

Change in Primary Balance
(In percentage points of GDP)



Sources: IMF staff estimates and calculations.

Primary Balance Change in 2024: Impact of Measures
(In percent of GDP)



Sources: IMF staff estimates and calculations.
1/ Includes anti-inflation shield withdrawal, impact of energy measures on VAT, revenue cap, energy subsidies, and transfers to households.

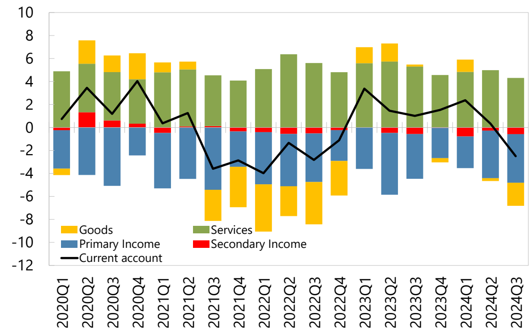
9. The current account (CA) was broadly balanced in the first three quarters of 2024 following a surplus of 1.8 percent in 2023, as exports remained stagnant and imports edged up. On a preliminary basis, staff assesses the external position in 2024 to be stronger than the level implied by medium-term fundamentals and desirable policies (Annex II). FDI inflows moderated as retained earnings of exporters declined. The REER has appreciated by more than 20 percent since mid-2022, driven by both nominal appreciation and inflation differentials with trading partners. Gross reserves remain adequate at about 160 percent of the IMF's reserve adequacy metric.

Text Figure 6. External Sector Developments

The CA has strengthened considerably on account of import compression…

Current Account Balance

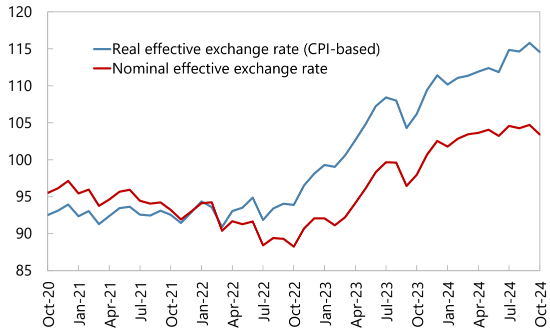
(Percent of GDP, NSA)



Despite significant nominal and real appreciation since 2022.

Effective Exchange Rates

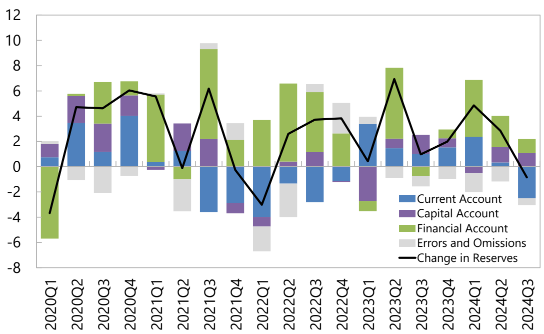
(Index, 2010=100)



Together with capital and financial inflows, this helped support international reserves…

Balance of Payments and Change in Reserves

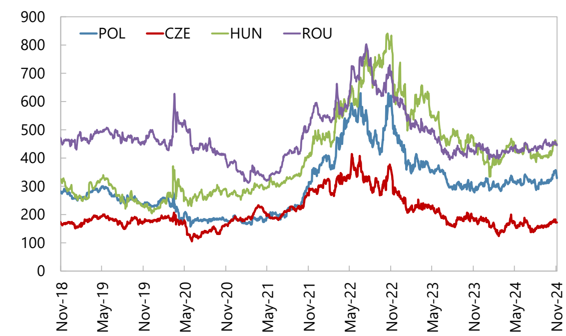
(Percent of GDP; in PLN)



with spreads nearly back to pre-pandemic levels.

10-Year Government Bond Yield Spreads Against Germany

(Basis points)



Sources: Bloomberg L.P.; Statistics Poland; NBP; Haver Analytics; INS; and IMF staff calculations.

OUTLOOK AND RISKS

10. The near-term outlook is positive. Growth is expected to accelerate to 3.5 percent in 2025 driven by consumption and investment supported by NGEU Funds. Real and nominal wage growth are expected to continue their gradual deceleration, while profits are expected to continue shrinking as firms have limited capacity to pass through cost increases to prices while the output gap remains negative. Average 12-month Inflation is expected to peak around 5 percent by mid-2025 with the pass-through of administrative energy price increases before moderating back to around 4.6 percent by end-2025. Stronger consumption, normalization of inventories, lagged impact of the REER appreciation and release of EU funds are expected to support imports and generate a modest CA deficit given the subdued outlook for exports.

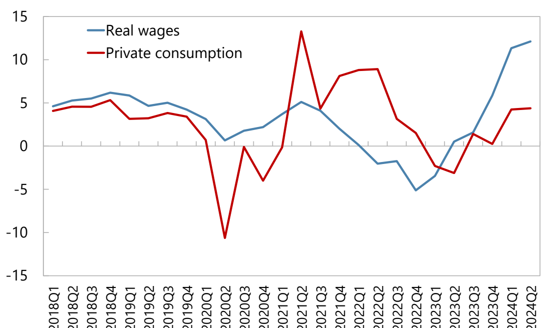
11. Growth is projected to converge to slightly below 3 percent over the medium-term as the output gap closes by 2026 (Box 1). Investment will be supported by NGEU funds over 2025-26 and the recovery in credit growth. Only moderate FDI growth is expected over the medium-term given a subdued outlook for exports and limited evidence of near shoring thus far (Text Figure 7). The overall positive investment outlook is partially offset by expected headwind from a declining working age population. Total Factor Productivity (TFP) growth is expected to recover somewhat from recent labor hoarding but remain below pre-pandemic levels given that much of the productivity gap with advanced economies has been closed.

12. Risks are tilted to the downside amidst high uncertainty (Annex III). A slower-than-expected recovery in Europe, delayed absorption of EU funds, and heightened geopolitical risks could derail the recovery. At the same time, risks to inflation remain elevated from the tight labor market against the backdrop of accelerating domestic demand and potential supply-side shocks. Upside risks to growth include a larger-than-expected workforce from higher immigration, a stronger-than-expected catalytic role from NGEU funds on private investment and productivity, and potential nearshoring as an upside from geoeconomic fragmentation.

Text Figure 7. Economic Growth Outlook

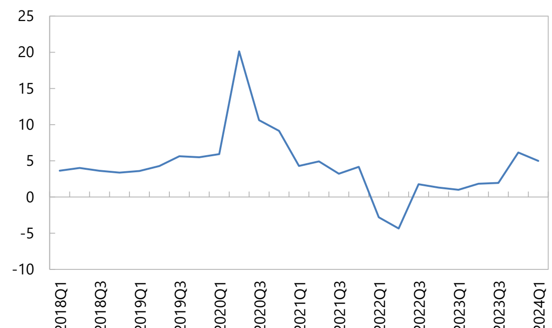
The rebound in real wages continues to support the recovery in private consumption

Real Wages and Private Consumption Growth
(Percent, year-on-year growth; NSA)



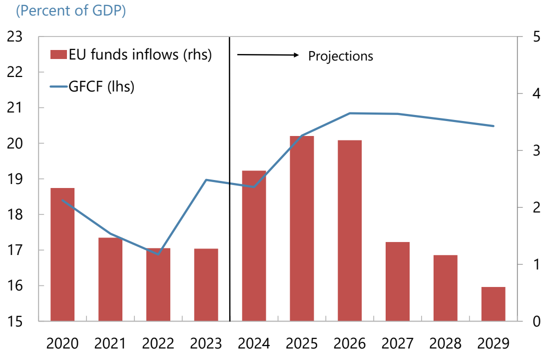
As households savings have recovered to the pre-pandemic trend…

Household Saving Rate
(Percent of disposable income)



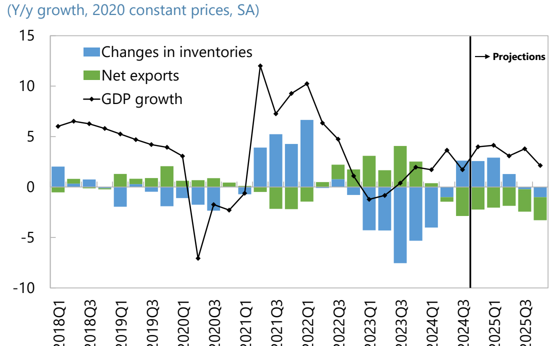
…Disbursement of NGEU funds will support investment…

Gross Fixed Capital Investment and EU Funds Inflows
(Percent of GDP)



while the inventory headwind to growth has subsided, offsetting a drag from net exports.

GDP Growth: Contributions of Inventories and Net Exports
(Y/y growth, 2020 constant prices, SA)

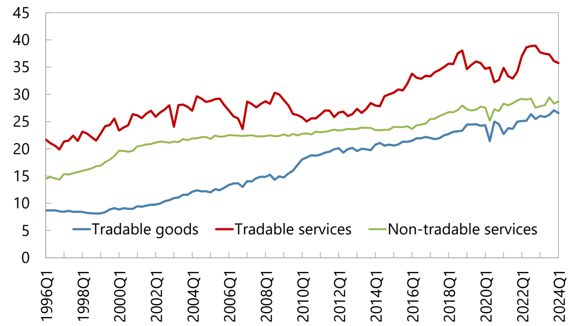


Sources: Polish authorities; Statistics Poland; Eurostat; and IMF staff calculations and projections.

Box 1. Potential Growth in Poland

Poland's economic convergence to the EU has been sustained by labor productivity growth. Labor productivity increased through structural transformation as labor shifted to more productive services, while within sector productivity increased for non-tradables (see Selected Issues paper) due to TFP gains and capital deepening. Labor supply's contribution to growth has been more muted given population aging, but rising labor force participation helped offset the negative demographic trends. Net migration has been positive since 2016, with Poland receiving substantial Ukrainian refugees in 2022, which has contributed to labor supply.

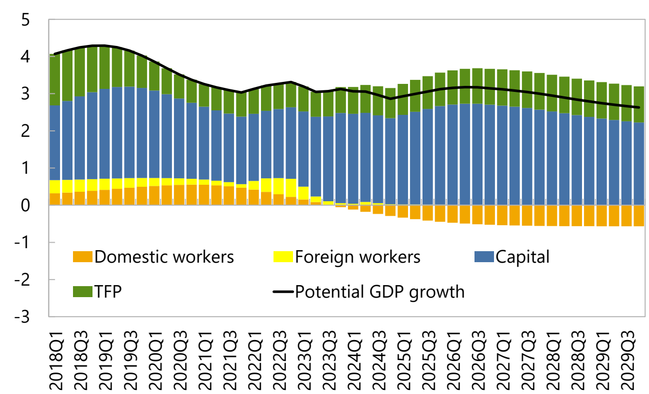
Labor Productivity /1
(Constant 2015 Polish zloty)



Sources: Eurostat; Haver Analytics; and IMF staff calculations.
/1 Labor productivity calculated as real GVA divided by number of employees.

Poland's potential growth is projected to decline slightly to 2.7 percent by 2029, due to aging, and diminishing scope for low-hanging productivity gains. Poland's working age population is expected to steadily decline (Eurostat). Combined with plateauing labor force participation rates, and hours worked declining as incomes rise, the domestic labor supply will pose an increasing drag on potential growth (-0.6% in 2029). There is significant uncertainty on migration (see scenario analysis in SIP) and we assume no net inflows over the medium-term. Investment remains the biggest driver of potential growth but is expected to moderate following the absorption of temporary NGEU funds. For TFP, we project a gradual rebound to 1 percent in the medium-term, slightly below pre-pandemic levels. Structural reforms could help foster higher productivity, promote investment, and mitigate the drag on growth from demographic headwinds (see Section D).

Contributions to Potential Growth
(Percent)



Sources: IMF staff calculations.

Authorities' Views

13. **The authorities broadly shared staff's views on the outlook but considered growth prospects to be higher in 2025 with risks more balanced.** While broadly agreeing on the expected pace of recovery in private consumption, they emphasized higher expected catalytic gains to investment from the absorption of NGEU Funds. On that basis, the government agreed with staff's estimate of growth around 3 percent for 2024 but expected growth in 2025 at 3.9 percent. Government officials agreed that slower-than-expected growth in Germany remains the key risk but considered the profile of risks as more balanced with upside risks to Poland from near- and off-shoring given Poland's still relative cost-competitiveness within the EU and access to Western European markets. Over the medium-term, the authorities expected potential growth to remain

around 3 percent, slightly higher than staff's estimate of 2.7 percent by 2029, owing largely to an expected lower drag from demographics on account of net immigration.

POLICY DISCUSSIONS

While overall policy settings are sufficiently tight to support disinflation given the negative output gap, rebalancing the policy mix by shifting the burden from monetary to fiscal policies would help rebuild policy buffers. This should be embedded in a credible medium-term fiscal consolidation plan that would stabilize public debt around 60 ppt of GDP. Financial policies should carefully weigh the impact of any further tightening measures to avoid derailing the nascent credit recovery and eliminate distortions against private credit. Such recalibration of policies would strengthen resilience and support private investment-led growth. To further support growth, reforms are needed to boost productivity and tackle longer-term challenges including from ageing and the climate transition.

A. Fiscal Policies

Near-Term Policies

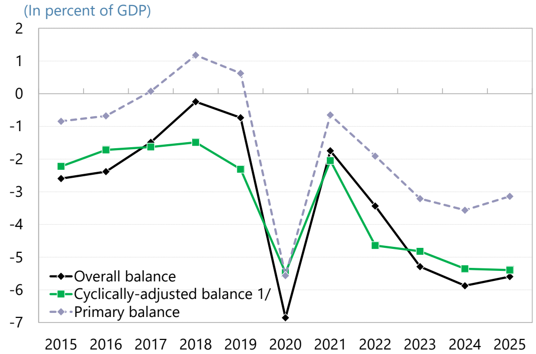
14. The fiscal deficit is projected to remain elevated in 2025 at 5.6 percent of GDP with a broadly neutral fiscal stance. A lower primary deficit by 0.4 ppts of GDP, in line with cyclical factors, will be partially offset by increased interest expenses (+0.2 ppts of GDP). The lower cost of energy measures, gains from unchanged nominal PIT brackets, and a higher excise tax on tobacco are largely offset by higher defense expenditure and social benefits (Text Figure 8).

15. The expected near-term growth acceleration presents an opportunity to rebuild fiscal buffers and help complete the disinflation process by tightening fiscal policies. The narrowing of the negative output gap due to favorable cyclical winds and the ramp up in NGEU spending presents an opportunity to tighten policy in 2025. Thus, staff recommends a modest fiscal adjustment of around 0.5 percent of GDP in 2025, considering the economic slack while delivering a still-meaningful adjustment. This can be still achievable within the 2025 budget by saving possible revenue overperformance and limiting non-priority spending (e.g. on goods and services). Such adjustment would help modestly lower debt and rebuild fiscal buffers to safeguard against future shocks; it would also remove some of the burden from tight monetary policies to rein in inflation, potentially freeing space for additional policy rate cuts while supporting faster convergence of inflation towards the NBP target.

Text Figure 8. Fiscal Deficit in 2025

The overall and primary balances are expected to improve slightly in 2025, …

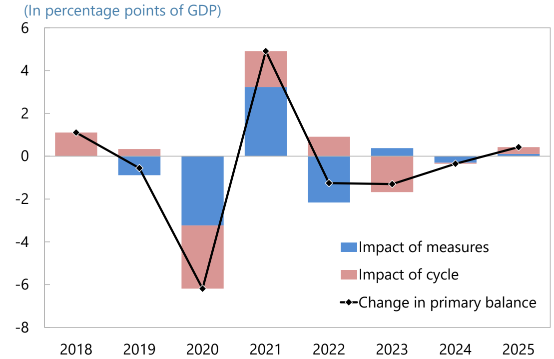
Overall and Primary Fiscal Balance
(In percent of GDP)



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

… driven largely by cyclical factors.

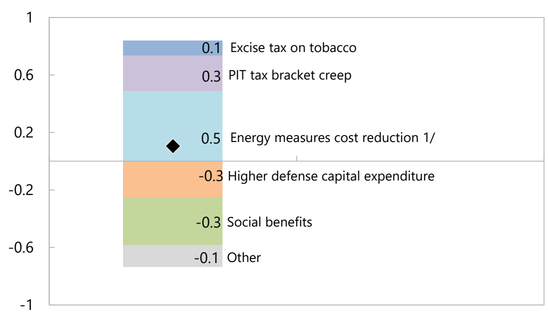
Change in Primary Balance
(In percentage points of GDP)



Sources: IMF staff estimates and calcualtions.

But with also a marginal contribution from policy actions would not

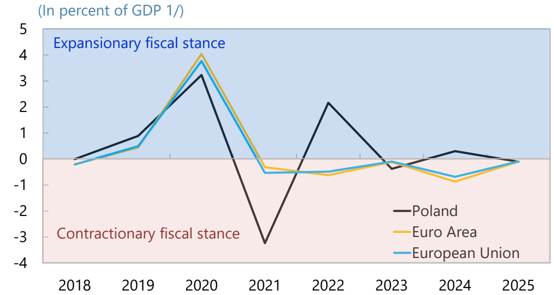
Change in Primary Balance in 2025: Impact of Measures
(In percent of GDP)



Sources: IMF staff estimates and calculations.
1/ Includes anti-inflation shield withdrawal, impact of energy measures on VAT, revenue cap, energy subsidies, and transfers to households.

.. leaving the fiscal impulse close to neutral, similar to the EU average.

Fiscal Impulse
(In percent of GDP 1/)

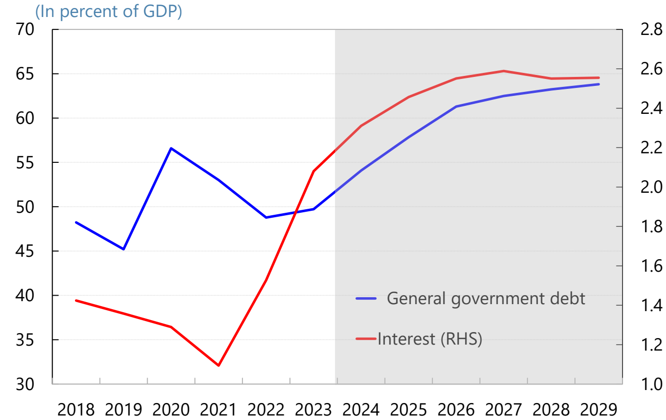


Sources: Statistics Poland; IMF WEO; and IMF staff calculations.
1/ The fiscal impulse is calculated as the annual change in the cyclically adjusted primary balance in percent of GDP, multiplied by -1. A positive (negative) fiscal impulse implies an expansionary (contractionary) fiscal stance. Euro Area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

Medium- and Long-Term Policies

16. Medium-term fiscal pressures remain elevated. An elevated wage bill and higher spending on defense, social benefits, and interest will maintain pressures on public finances. Nevertheless, the fiscal deficit is expected to narrow gradually to around 3.5 percent of GDP by 2029, due to higher revenues driven by the fixed nominal PIT tax brackets, higher VAT collection with the rollout of E-invoicing, higher excise taxes on tobacco, and lower spending on nominally indexed social benefits. Staff assess that Poland has some fiscal space, as low sovereign spreads continue to provide favorable access to financing, and the overall risk of sovereign debt stress is low (Annex IV). However,

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



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

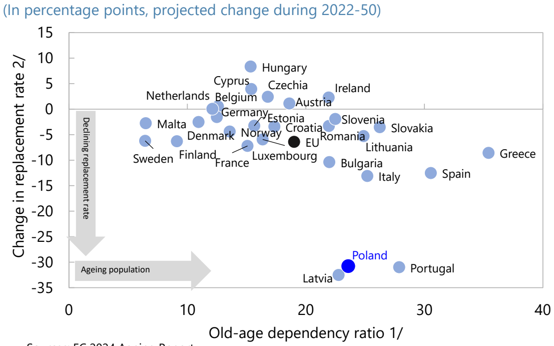
medium-term risks are notable, as debt is not expected to stabilize and is projected to increase from 50 to 65 percent of GDP over 2023-29. However, several factors, mitigate risks, including conservative deficit projections and financing assumptions under the baseline (Annex V).

Box 2. Pension Reforms

Population aging is projected to undermine the adequacy of the Polish public pension system over the long-term, particularly for poorer pensioners, women, and non-standard employees. Without any reforms, by 2050, the average benefit ratio would decline from 45 to 29 percent. Counteracting the effects of population aging to maintain the benefit ratio would entail additional fiscal costs of some 6 ppts of GDP by 2050. The steep decline in the benefit ratio would imply a convergence of the average pension to the minimum pension, eventually creating a universal system (see Selected Issues paper).

Population Ageing and Falling Pension Replacement Rate

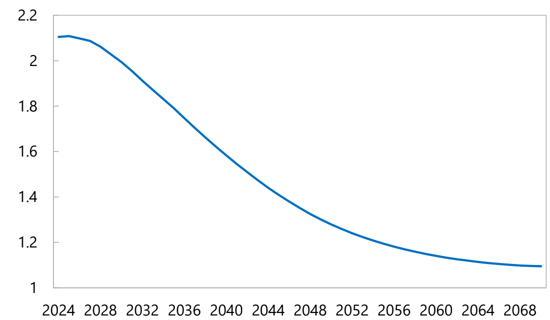
(In percentage points, projected change during 2022-50)



Sources: EC 2024 Ageing Report.
1/ Defined as the ratio of persons aged 65 and older to persons aged 20-64.
2/ Defined as gross replacement rate at retirement (old-age earnings-related public pensions).

Ratio of Average Pension to Minimum Pension

(Ratio 1/)



Sources: 2024 Ageing Report; Ministry of Finance; and IMF staff calculations.
1/ In this calculation minimum pensions are indexed by the CPI plus 0.2*(real wage growth).

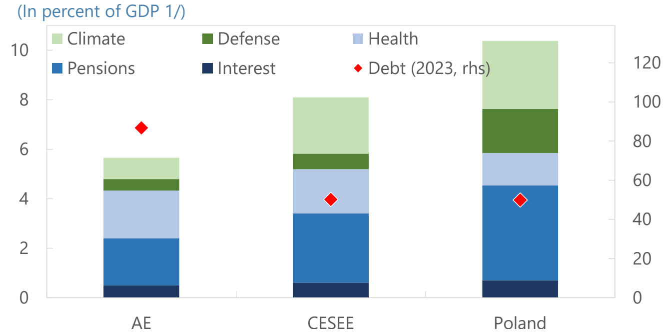
A comprehensive multi-pronged approach is needed to help cushion the effects of population aging. Potential measures include:

- Equalize statutory retirement age for men and women and increase it over time with life expectancy.
- Extend effective working lives beyond the statutory retirement age and incentivize pensioners to work.
- Introduce a minimum contributory period to encourage longer working lives and reduce administrative costs on very small payouts.
- Pursue active labor market policies to help raise labor force participation rates and increase contributors. This includes removing barriers to young parents' working, such as improving the availability of affordable childcare and establishing options for elderly care; and promoting part-time work.
- Improve workers' skills and better integrate vulnerable groups into the labor market. With lack of skills often being a key contributor to early withdrawal from the labor market, extending the period of labor market participation should be supported by lifelong learning and promoting best practices in training.
- Promote and increase the level of household savings in the economy, including by maintaining regulatory stability, and increasing financial education and communication to pension account holders about their pension prospects.
- Base contributions of the self-employed on actual income. This would help improve future pensions of the self-employed and close the gap between the self-employed and employees.

17. Poland will face additional strains on its public finances over the longer-term stemming from climate change, ageing, and the need to expand investment. The high carbon-intensity of the economy and rapid population ageing will result in higher spending pressures relative to peers. NGEU grants currently support the financing of climate transition, but long-term funding sources remain unidentified. Absent structural reforms, average pensions will become inadequate (Box 2).

Annual Spending Pressures in 2050

(In percent of GDP 1/)



1/ Annual spending pressures beyond baseline. Baseline level: defense spending 2021/22, health and pensions 2023, interest at constant interest rate. Climate transition at 2011-20 levels. Weighted by GDP. Excludes AND, BLR, ISR, KOS, RUS, SMR, TUR, and UKR. Debt figure for general government. CESEE = Central, Eastern, and Southeastern Europe. For details, see Eble S. et al "Long-Term Spending Pressures in Europe", EUR Departmental Paper, IMF, forthcoming.

Sources: European Commission, European Investment Bank, WEO, and IMF staff estimates and projections.

18. Fiscal consolidation should be anchored in a clear medium-term plan to stabilize debt. The recently published Medium-Term Fiscal Structural Plan (MTFSP) is an important and welcome step in this direction as it aims to bring the overall deficit by 2028 under 3 ppt of GDP, in line with the EU's Excess Deficit Procedure.[1] Staff recommendations are broadly in line with the objective in the MTSFP, and envisage a structural adjustment of around 3 ppts of GDP by 2029, reducing the deficit to 2½ percent of GDP, putting debt on a downward path from a peak somewhat above 60 percent of GDP in 2027 . Achieving this would require additional measures of 1 ppt of GDP beyond those already identified in the MTFSP. [2] In addition, the public investment-to-GDP ratio is projected to decline under the baseline once the NGEU inflows end in 2026 (-0.5 ppts of GDP). Staff advocates preserving capital expenditure over the medium-term given the substantial investment needs, which would support higher potential output. This would require savings elsewhere, bringing the total need for additional adjustment measures to about 1.5 ppts of GDP (Text Table 3). Furthermore, raising the PIT tax-exempt threshold, as under current consideration, would require further measures to offset the cost. Potential measures that would support consolidation, while strengthening the social safety net include (Text Table 2):

Text Table 2. Potential Fiscal Measures[1]

Fiscal measure	Percent of GDP[2]
Increase VAT revenues and property tax reform	0.9
Ty retirement age to life expectancy, 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.

- **Raise PIT revenues by increasing progressivity and bringing them more in line with EU peers.** The 2022 "Polish Deal" raised income tax progressivity but permanently reduced

[1] The MTFSP presents a 4-year fiscal consolidation plan driven by backloaded consolidation, mostly after 2025. The measures include maintaining PIT thresholds and the tax-free amount in nominal terms, increasing excise duties on tobacco products, limiting the increase of energy price measures, maintaining some social benefits in nominal terms, and a minimum CIT tax (10%).

[2] This corresponds with 0.7 percent of GDP in measures yet to be identified under the MTFSP plus an additional adjustment of about 0.2 percent of GDP in 2029.

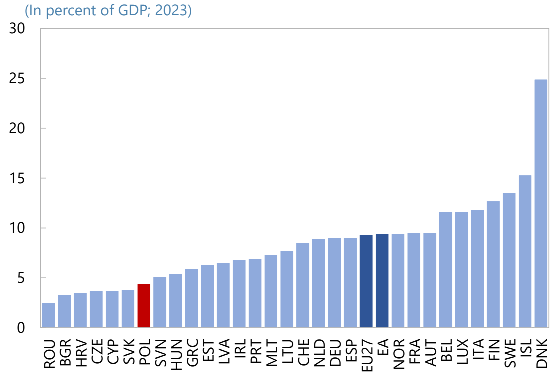
government revenues by about 0.5 percent of GDP. Still, both PIT revenues and progressivity remain well below the EU average (Text Figure 9). While Gini coefficients suggest less inequality in Poland relative to other EU countries, the modest difference between the pre- and after-tax Gini coefficients indicates that the tax and benefit system is less effective at reducing inequality than in other EU countries.

Text Figure 9. Personal Income Tax

Poland's PIT revenue intake is well below the EU average.

Personal Income Tax /1

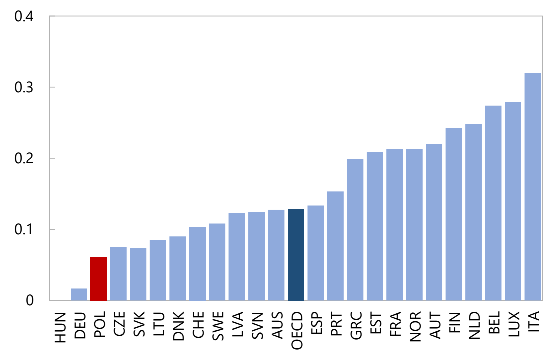
(In percent of GDP; 2023)



The average and marginal tax wedges also suggest low progressivity relative to other OECD countries.

Index of Progressivity /2

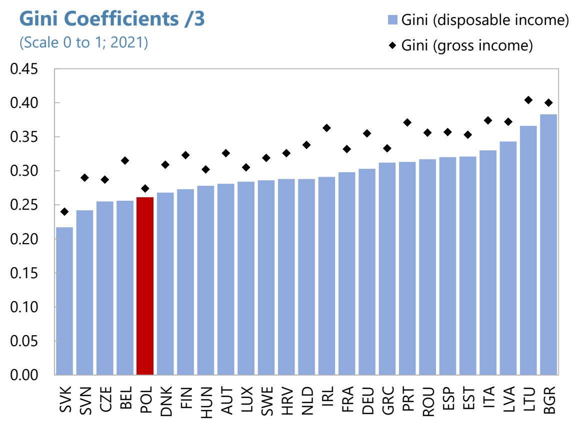
(Index from 0 to 1; higher index indicates more progressive tax system; 2023)



While the low Gini coefficients suggests lower inequality than in some other EU countries, ….

Gini Coefficients /3

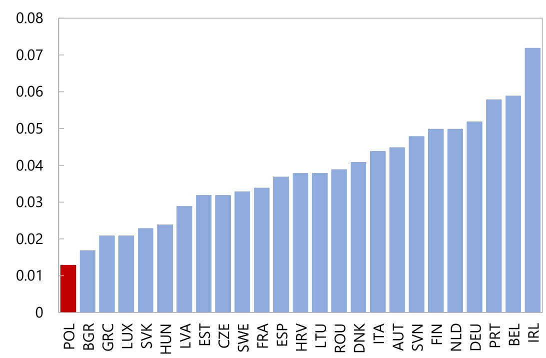
(Scale 0 to 1; 2021)



…the modest difference between pre- and after-tax Gini coefficients points to a less effective tax and benefit system at reducing inequality than in other EU countries.

Difference between Pre- and Aftertax Gini Coefficients /4

(Scale 0 to 1; 2021)

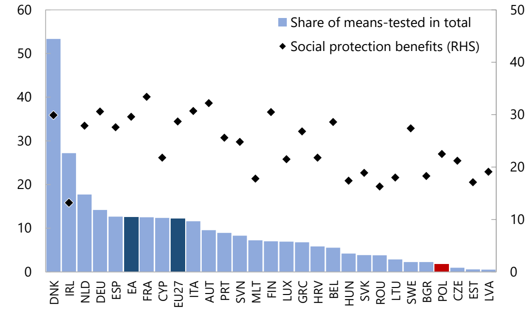


Sources: Eurostat; OECD; and IMF staff calculations.
/1 Defined as taxes on individual or household income including holding gains.
/2 Calculated as (1-(100-marginal tax wedge)/(100-average tax wedge)), where average and marginal tax wedges are in percent of labor costs. Calculations are done for a full time worker, earning 100 percent of average wage, single, no children. Higher value of index implies higher progressivity.
/3 Defined as gross income and disposable income Gini coefficients. Data for 2021 or latest available.
/4 Defined as the difference between gross income and disposable income Gini coefficients. Data for 2021 or latest available.

- **Increase the targeting of social benefits to better support the vulnerable.** Poland spends less on social benefits than many other EU countries. Yet, most benefits are universal, leaving fewer resources for the most vulnerable. Benefits in real terms have also been eroded by inflation, as payments are in nominal terms. Well-targeted means-tested social assistance could help reduce poverty and curb expenditures.

- **Increase property taxation**. Revenues are low by OECD comparison (Text Figure 10). Land and buildings are taxed based on area, while business structures are taxed based on the initial value of construction. Establishing market-based-value taxation and increasing taxes on vacant properties in urban areas could raise revenues.

Share of Means-Tested Social Protection Benefits
(Percent of total, 2021)



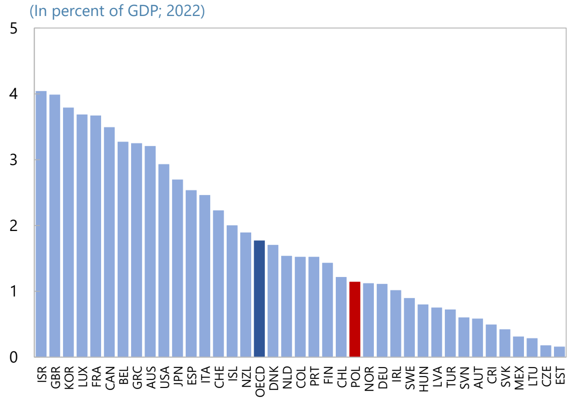
Sources: Eurostat; and IMF staff calculations.

- **Narrow VAT expenditure and gaps by taxing more non-essential items at the standard VAT rate**. While total VAT receipts are broadly in line with the EU average (Text Figure 10, right chart), VAT tax expenditures (estimated at about 2.6 percent of GDP in 2015; largely in the form of reduced rates) are often regressive (e.g. hotels/restaurants). The VAT gap has increased in recent years and the authorities, together with IMF's FAD technical assistance, are working on assessing its magnitude and causes.

Text Figure 10. Property Taxes and VAT

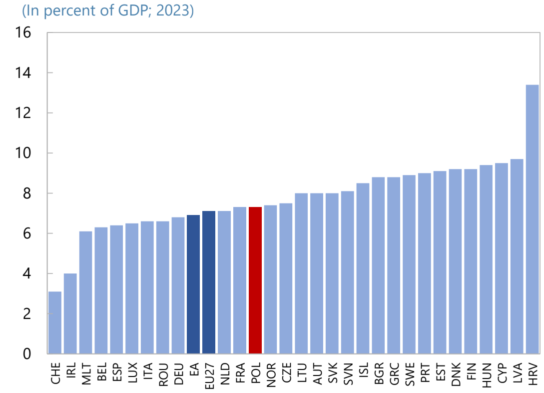
Property tax revenues are low by international standards.

Taxes on Property /1
(In percent of GDP; 2022)



While VAT revenues are broadly in lie with the EU average, there are substantial VAT tax expenditures.

VAT /2
(In percent of GDP; 2023)



Sources: OECD; Eurostat; and IMF staff calculations.
/1 Scope of government is general government. 2022 or latest available. OECD refers to OECD average.
/2 Defined as general government value added type taxes in percent of GDP.

- **Equalizing the retirement age for men and women and then adjusting it over time in line with life expectancy.** Gradually aligning the retirement age for men and women by 2030 and then increasing it in line with life expectancy would reduce public pension expenditures by 0.3 percent of GDP in 2030.[3]

- **Addressing the preferential and regressive treatment of the self-employed.** While the self-employed in Poland have different taxation options, they often choose to pay a flat 19 percent

[3] 2024 Ageing Report.

rate.[4] Most self-employed also pay relatively low pension contributions compared to employees because only a flat-rate amount is mandatory.[5] If implemented, recent proposals to reduce the health contributions of the self-employed could further increase their preferential treatment.

- **Introducing carbon taxation.** See paragraph 32, bullet 5.

Text Table 3. Medium-Term Projections, Baseline versus Fiscal Adjustment Scenario
(Percent of GDP, unless otherwise noted 1/2/)

	2024	2025	2026	2027	2028	2029
Real GDP growth (percent)						
Baseline	2.8	3.5	3.3	3.1	2.8	2.7
Adjustment	2.8	3.2	3.1	3.3	3.2	2.9
Headline inflation (percent, period avg)						
Baseline	3.8	4.6	3.5	2.9	2.5	2.5
Adjustment	3.8	4.4	3.0	2.5	2.5	2.5
Output gap						
Baseline	-1.0	-0.4	-0.2	0.0	0.0	0.0
Adjustment	-1.0	-0.7	-0.6	-0.3	-0.1	0.0
Gross operating balance 3/						
Baseline	-1.1	-0.5	0.2	0.7	1.0	1.2
Adjustment	-1.1	0.0	0.9	1.4	2.3	2.7
Fiscal balance						
Baseline	-5.9	-5.6	-4.9	-4.1	-3.6	-3.5
Adjustment	-5.9	-5.3	-4.6	-3.7	-2.9	-2.4
Debt						
Baseline	54.1	57.8	61.3	62.5	63.2	63.8
Adjustment	54.1	57.8	61.5	62.5	62.4	61.9
Fiscal impulse						
Baseline	0.3	-0.1	-0.7	-0.7	-0.4	-0.2
Adjustment	0.3	-0.5	-0.7	-0.7	-0.6	-0.5
Capital expenditure						
Baseline	4.8	5.1	5.1	4.7	4.7	4.6
Adjustment	4.8	5.3	5.5	5.2	5.2	5.1
Memo item:						
Capital expenditure excl. EU funds & defense						
Baseline	3.9	3.7	3.3	3.3	3.2	3.3
Adjustment	3.9	3.9	3.7	3.7	3.7	3.8

Source: Country Authorities; and IMF staff calculations and projections.
1/ Fiscal government accounts correspond to the general government.
2/ Fiscal multiplier under the adjustment scenario of around 0.75 is assumed in 2025-2026 due to a negative output gap (declining to 0.58 when gap is closed), with the output gap gradually closing and potential output higher due to higher public investment by a cumulative 2 percent of GDP by 2029.
3/ The difference in operating balance of about 1.5 ppts of GDP in 2029 corresponds to the additional measures, which need to be identified to support consolidation while preserving public investment.

19. **The authorities have made commendable progress in strengthening the fiscal framework (Annex VI).** They have amended the stabilizing expenditure rule, with support from Fund TA, to help align it with the EGF and expand its coverage (Annex VII). Greater fiscal transparency has been also achieved with improved oversight over extrabudgetary funds, with the fiscal plans of off-budget funds administered by the Polish Development Bank (BGK) included as an

[4] In contrast, employees pay 12 percent on income up to PLN 120 thousand (excluding the tax-free amount of PLN 30 thousand), and 32 percent on income exceeding PLN 120 thousand.

[5] The general pension system in Poland covers the self-employed, and, in principle, they pay the same contribution rates, but the base is different from that for employees and amounts to about 60 percent of the average wage.

appendix to the 2025 budget and the quarterly publication of the BGK progress reports. Efforts to establishing a fiscal council are ongoing and would further strengthen accountability and governance.

Authorities' Views

20. The authorities agreed with the need for fiscal consolidation over the medium-term, as presented in their MTFSP, and maintained that there is little room to frontload fiscal consolidation in 2025. The authorities noted that several discretionary measures had already been introduced to reduce the deficit in 2025, including increasing the excise tax on tobacco and lowering the cost of energy support measures. They argued that there was little room for tighter fiscal policy in 2025, noting the criticality of high defense spending and the strong case for boosting public investment. Over the medium-term, the authorities indicated that about half of the necessary measures to reduce the deficit had already been identified, with the remaining measures to be spelled out in annual budgets. The authorities agreed that investment needs and population aging present long-term challenges for public finances. They highlighted that the NGEU funds were helping support climate-related public and private projects.

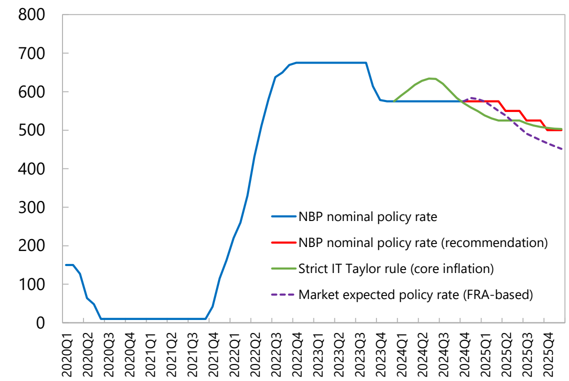
B. Monetary Policies

21. Monetary policies are appropriately tight. Policy rate cuts in 2023 surprised markets with the large scale of easing, and exhausted space for rate cuts in 2024, decoupling Poland from regional peers, where central banks were in a position to cut rates in 2024. However, the NBP's monetary stance is now appropriate, becoming moderately tight as inflation expectations declined while the NBP kept the policy rate on hold at 5.75 percent since November 2023. As one indicator, the current policy rate is broadly consistent with a strict core inflation targeting Taylor rule. While headline inflation has seen substantial bumps with the unwinding of fiscal anti-inflation measures, core inflation remains elevated, including on a sequential basis. In part, this reflects the impact of wage acceleration on demand and costs in a still-tight labor market, which risks exacerbating the pass-through of supply-side shocks by feeding into inflation expectations and wage setting. Against this backdrop, policy makers have kept rates on hold and signaled that cuts can potentially commence in 2025. Market expectations for 2025 rate cuts as of end-October have been around 100-120 bps, while inflation expectations have remained anchored.

22. Policies should remain tight at least through 2025 with cuts commencing only when inflation is on a clear downward path towards the target. Absent surprises, both core and headline inflation are expected to peak in year-on-year terms before mid-2025, significantly above the target, before moderating slightly above the upper end of the target range of 2.5±1 percent by end-2025. However, uncertainty on the inflation trajectory is substantial, including due to uncertainty regarding energy prices, developments in the labor market, and the pace of economic recovery. While monetary policy should remain both data-dependent and forward-looking, the current context warrants placing significant weight on realized inflation declining towards the target over several months on the back of decelerating wages. On this basis, there may be scope for limited and gradual policy rate cuts to start around mid-2025 of around a cumulative 50-100 bps by end-year. A more contractionary fiscal stance in line with staff recommendations may free space for potentially another 25-50 bps in policy rate cuts (Annex VIII).

Nominal Policy Rate

(Basis points)



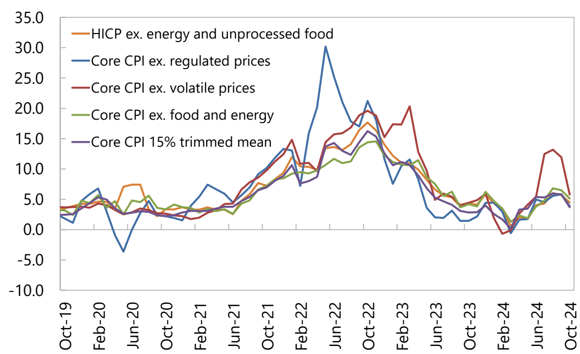
Sources: National Bank of Poland; Haver Analytics; Bloomberg L.P.; IMF staff estimates and calculations.

Text Figure 11. Inflation: Recent Developments and Outlook

After declining substantially since mid-2023, sequential core inflation moderately picked up in since Q2 2024..

Measures of Underlying Inflation

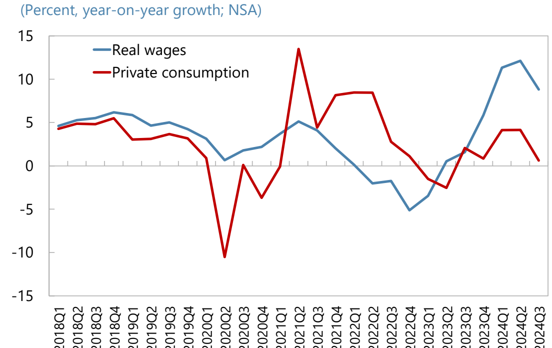
(In percent, month-on-month growth, SAAR, 3 month moving average)



..driven by recovering demand on the back of strong real wage growth..

Real Wages and Private Consumption Growth

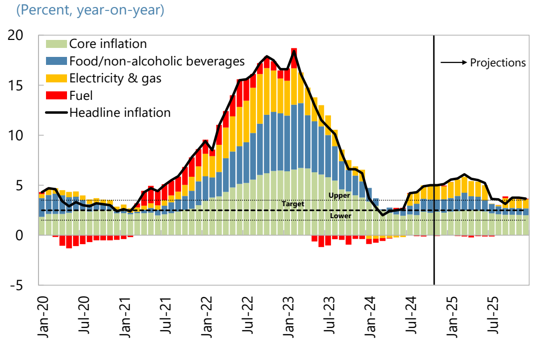
(Percent, year-on-year growth; NSA)



Together with unwinding energy subsidies, this is leading to a temporary pickup in headline inflation

Contributions to Headline CPI Inflation

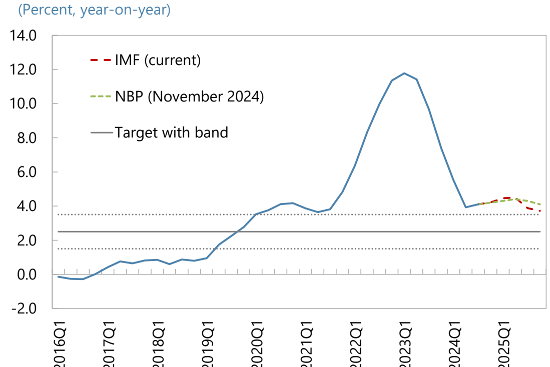
(Percent, year-on-year)



..with core inflation also projected to moderate by H2 2025 as wages decelerate.

Core Inflation Projections: CPI Ex Food and Energy

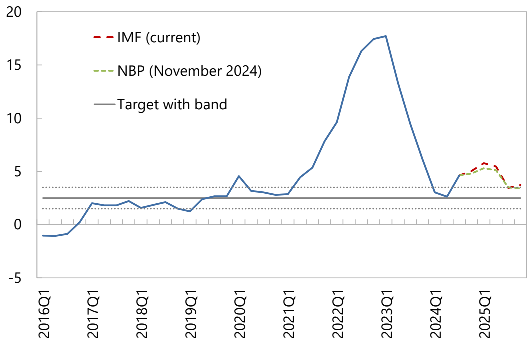
(Percent, year-on-year)



Text Figure 11. Inflation: Recent Developments and Outlook (Concluded)

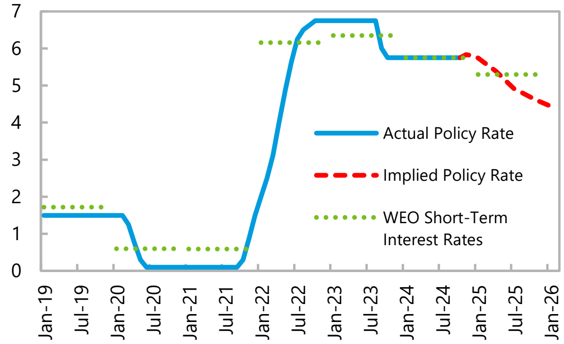
Coupled with receding base effects from administrative price hikes, this will allow headline inflation to approach the tolerance range.

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



Opening space for expectations of policy rate cuts in 2025.

Actual and Implied Policy Rate /1
(Percent)



Sources: Bloomberg L.P.; National Bank of Poland; Eurostat; Statistics Poland; Haver Analytics; and IMF staff calculations.
/1 The implied policy rate is calculated using forward rate agreements, based on data for October 2024.

Authorities' Views

23. The monetary authorities broadly shared staff's view on the outlook and emphasized the need for monetary policies to remain forward-looking. The NBP expected inflation to be above 5 percent y/y in H1 2025, well above the central bank target, with a second peak in the last quarter of 2025, driven by the administrative decision regarding energy prices, before eventually moderating down to reach the inflation target of 2.5 ±1 in 2026. They considered this forecast to be subject to risks from unfreezing of energy prices amid a tight labor market, an elevated core inflation, and expected strengthening of economic growth. In this context, the NBP noted their strong track record in forecasting near-term inflation and emphasized that policies should remain forward-looking.

C. Financial Sector Policies

24. Risks to financial stability appear contained and have diminished. The financial system is relatively small and dominated by banks. Banking sector stability has improved, notwithstanding an overhang of litigation risks, with risks on CHF mortgages mitigated by large provisions. Banks have also managed to place debt instruments eligible for bail-in requirements, which helped to preserve capital buffers. Contagion risk diminished after the resolution of a mid-sized ailing bank, successfully completed by a sale of the bridge bank to a foreign investor in March 2024. Insurance companies enjoy strong profits and high liquidity, which allows them to absorb the cost of recent floods without negative systemic repercussions.

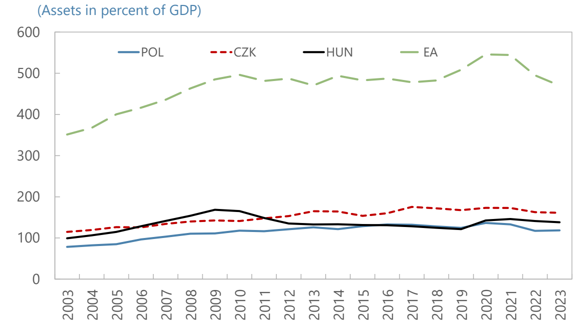
25. Financial policies since the pandemic have prioritized raising prudential buffers and supporting borrowers, which amplified the pass-through of monetary tightening to new credit, with one of the largest declines in credit-to-GDP in the EU since the pandemic (Annex IX).

Text Figure 12. Poland's Financial Sector Size and Structure

Financial sector is smaller than typical in the Euro area....

Financial Sector Size

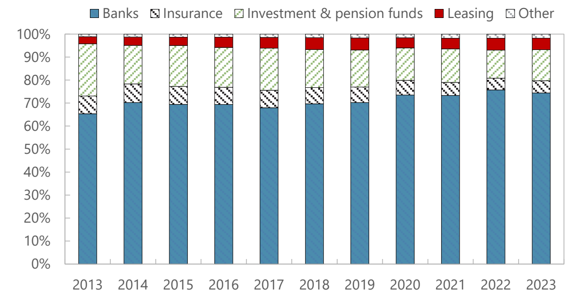
(Assets in percent of GDP)



...with a clear dominance of banks.

Financial Sector Assets

(Percent of total)

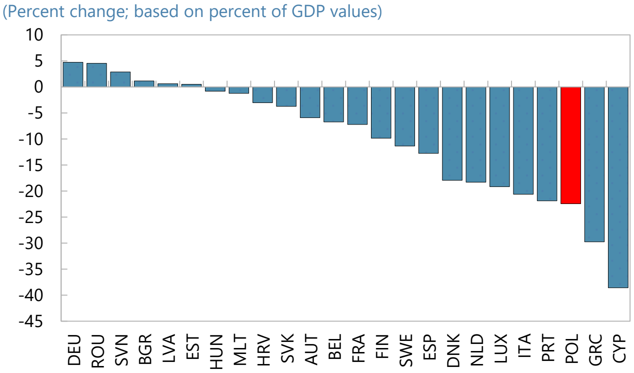


Sources: Financial Sector Development Reports, NBP.

- **Recent decisions will tighten prudential policies further.** Regulators are imposing: i) a *neutral Countercyclical Buffer (CCyB)* at 1 percent of risk-weighted assets, to be raised to 2 percent after one year; and ii) a Long-term Funding Ratio (LFTR) requirement for banks to increase long-term funding for mortgages to reduce maturity mismatch.

Loans and Debt Securities Issued by Domestic Banks to the Private Sector, Total Change from 2020 to 2023

(Percent change; based on percent of GDP values)



Sources: European Central Bank; Eurostat; Haver Analytics; and IMF staff calculations.

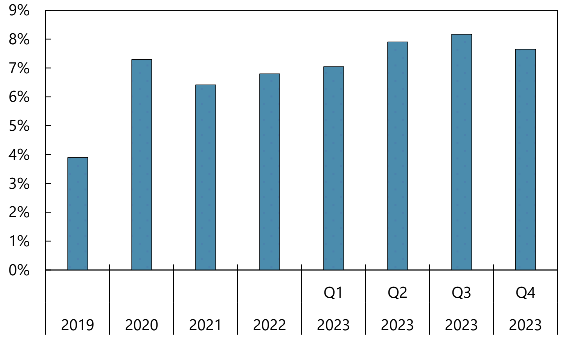
- **Mortgage credit holidays have been extended to end-2024, although with some phase out.** Taken by more than half of borrowers, they cost almost a third of banking sector profits in 2022-23, while disproportionately benefiting wealthier households, triggering an accelerated wave of early repayments. Targeting was improved in 2024 by adding a 30 percent Debt-Service-to-Income criterion.

- **Housing credit subsidies boosted demand and elevated prices.** A housing credit subsidy scheme was introduced in mid-2023, allowing first-time house buyers to pay 2 percent interest for 10 years, with the difference to market rates covered by the budget (fiscal cost of 0.5 percent of GDP over ten years). The scheme triggered a surge in credit demand and a sharp acceleration of housing prices, without improving housing availability. The program was terminated at end-2023, as its budgeted envelope was exhausted sooner than planned. Despite the recent acceleration in housing prices, the cumulative real increase since 2019 has been contained to around 10 percent. Supply indicators from housing starts point to an expected increase in volumes over the coming two years, which should support availability.

Text Figure 13. Banks Increased Safe Assets Rather than Credit

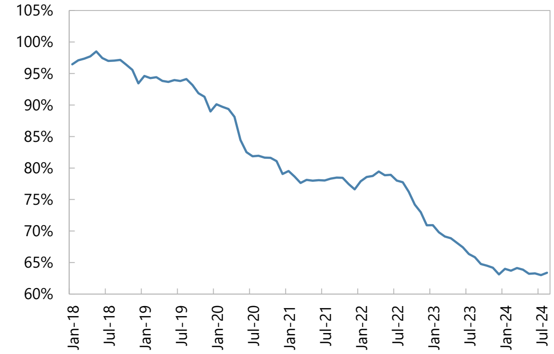
Excess capital buffers are high…

CET1 Surplus above Regulatory Requirements 1/ 2/
(In percent of total risk-weighted assets)



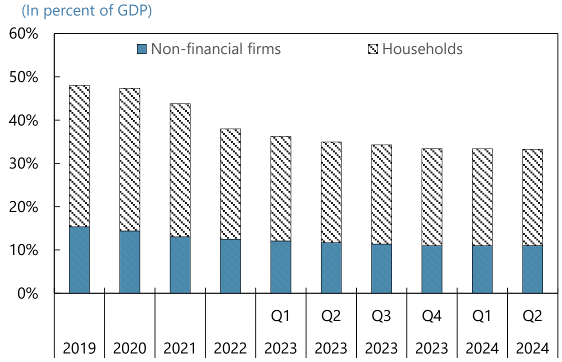
…and liquidity abundant…

Non-financial Sector Credits to Deposits Ratio
(In percent)



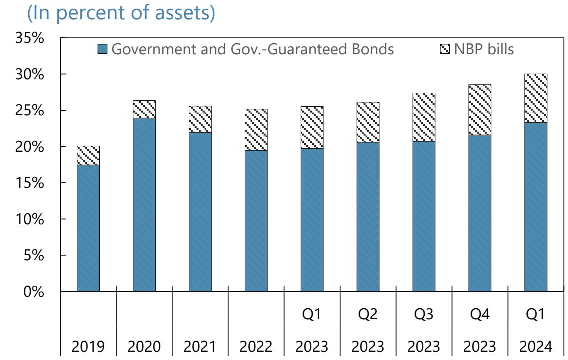
…but credit to the non-financial sector is weak…

Credit to Private Non-financial Sector
(In percent of GDP)



…while holding of government securities and NBP bills has increased.

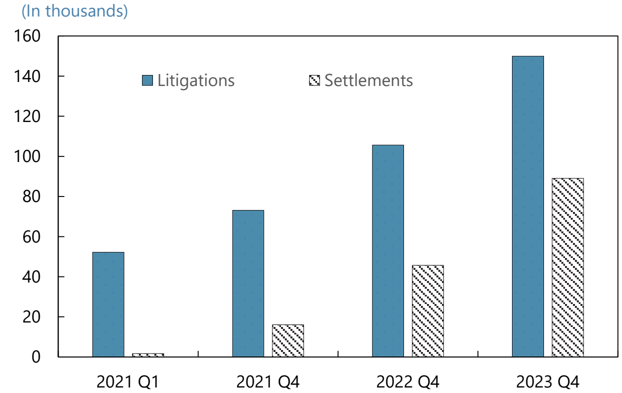
Government Bonds and NBP Bills 1/
(In percent of assets)



Sources: NBP; and IMF staff calculations.
1/ Excluding state development bank BGK.
2/ Surplus over Pillar I, Pillar II, and combined buffer requirement.

26. Litigation risks further add to the cost overhang on the system. The legacy CHF mortgage portfolio is subject to growing litigations, with courts typically nullifying questioned contracts. Risks from litigations and the cost of voluntary restructuring are well-mitigated by high provisioning, representing a third of banks' capital. The cost of remaining provisioning needs is manageable given the strong financial position of banks. Staff welcomes the authorities' efforts to incentivize

FX Mortgages and Litigations
(In thousands)

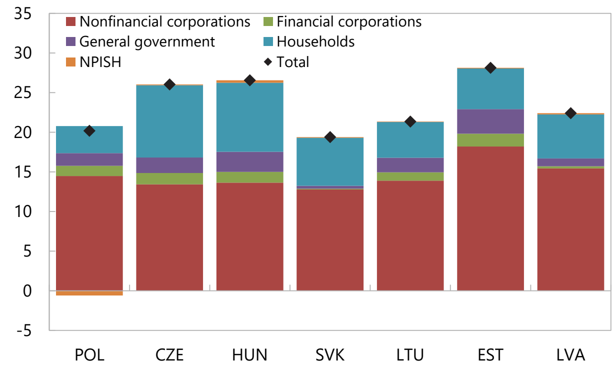


Sources: Financial Supervision Authority (KNF); and NBP.

voluntary settlements, including by jointly developing with banks and borrowers a blueprint for settlement agreements. More widespread settlements would also help to ease the administrative burden posed by litigations on the judiciary system. Another litigation wave might erupt related to the existing benchmark interest rate (WIBOR) used across loan contracts, with a case currently pending in the European Court of Justice.

27. Capital markets remain shallow. On the demand side, firms' financing relies mostly on retained earnings. On the supply side, private pension funds are growing from a small base. Households invest primarily in bank deposits and real estate. Limited scope of attractive capital market instruments may have affected their choices and suppressed the savings rate, one of the EU's lowest.

Gross Savings, Average 2018-2022
(Percent of GDP)

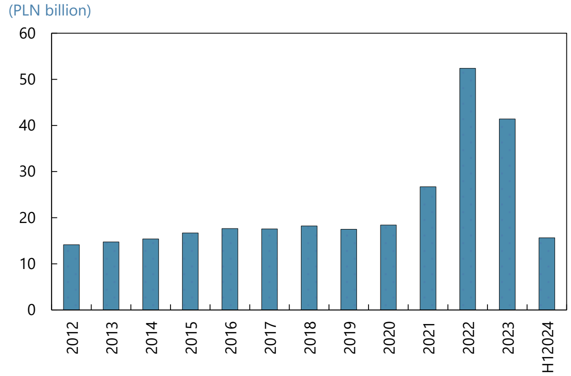


Sources: Eurostat; Haver Analytics; and IMF staff calculations.

Text Figure 14. Impact of Housing Credit Interventions

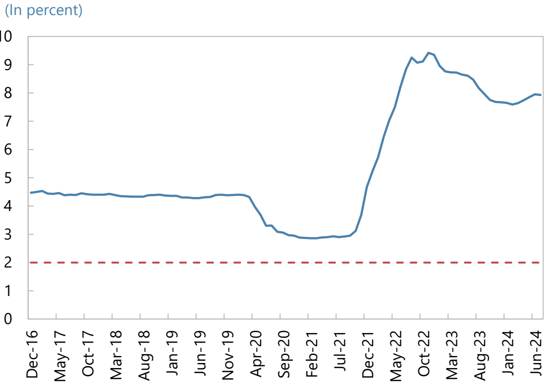
Credit holidays accelerated early repayments…

Early Repayments of Housing Credits
(PLN billion)



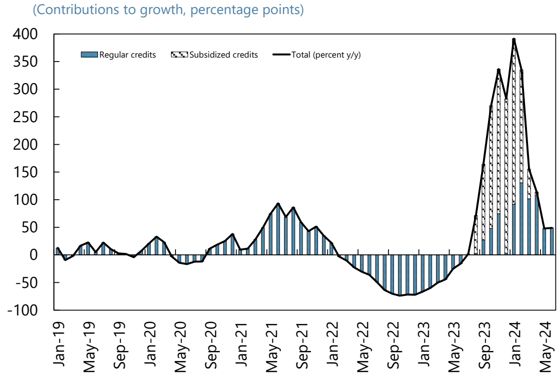
…and subsidized mortgage rates were below market…

Interest Rate on New Housing Credits
(In percent)



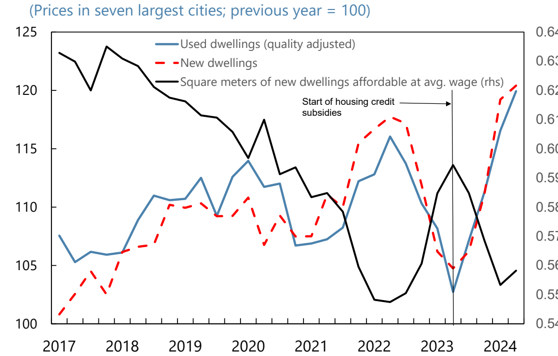
… yielding a credit demand boom….

New Housing Loans
(Contributions to growth, percentage points)



…and price surge, but not a better affordability.

Housing Prices and Affordability
(Prices in seven largest cities; previous year = 100)



Sources: NBP; Bureau of Credit Information (BIK); and IMF staff calculations.

28. To help safeguard the nascent credit recovery, the authorities should take into account the repercussions for credit growth of any further regulatory tightening, and aim to reduce litigation risks. Bank capital and liquidity buffers are already robust, and protracted credit weakness could dampen the economic recovery, especially as investment grows more reliant on credit now that corporate profits are diminishing. In addition, the authorities should reduce legal risks to financial sector stability, which would also support credit intermediation. In this regard, the authorities should explore legislative solutions to mitigate litigation risks surrounding the WIBOR benchmark.

29. Distortionary measures affecting credit should be eliminated. Credit holidays have ultimately been paid for by banks' clients and should be allowed to expire, as the existing special fund financed by banks is sufficient to assist vulnerable borrowers. Any new housing program, including a possible new subsidy scheme for mortgages, should be crafted carefully, addressing both demand and supply side to avoid de-stabilizing prices. Finally, the asset tax on financial institutions gives preferential treatment to holdings of state-backed securities, which disincentivizes private credit. This tax should be redesigned to remove this distortion and to ensure a level playing field for private sector credit.

30. Progress has been made on AML/CFT. Compliance with sanctions is closely monitored, and new regulations on crypto assets are underway. The Financial Supervision Authority (KNF) carries out inspections, surveys, and desk reviews to assess compliance with sanctions against Russia and Belarus. The findings suggest that banks effectively mitigated this risk with internal compliance programs. The Polish Financial Intelligence Unit continues cooperation with foreign partners and intensified exchange of information with its Ukrainian counterpart. The authorities are preparing a new law on crypto assets, which will give KNF power to supervise virtual asset service providers.

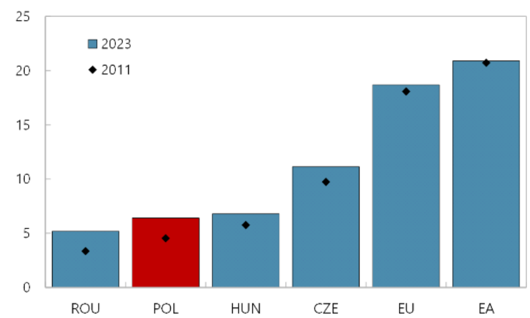
Authorities' Views

31. The authorities underscored the resilience of the financial sector. They stressed the high profitability of banks, ample liquidity, and strong capitalization. They noted ongoing efforts to encourage voluntary settlements of CHF mortgages, which might alleviate the cost overhang on the banking system. The subdued performance of private sector credit was primarily ascribed to weak demand with limited signs of supply constraints. The authorities considered risks from emerging litigations of WIBOR-linked mortgages to be relatively limited, underscoring the legitimacy of the benchmark. They considered strong banking profits and excess capital as an opportunity to impose a neutral positive countercyclical buffer (CCyB) to guard against shocks. Regarding the long-term funding ratio (LTFR) for mortgages, the supervisory authority considered these as a helpful tool to address maturity mismatch, safeguard against deposit runs, and promote fixed-rate credits. At the same time, the NBP pointed out that retail deposits comprised a sufficiently stable base to finance mortgages, while LTFR requirement would increase funding costs, inject additional liquidity, and possibly add exchange rate risk if eligible instruments are issued in foreign currencies. The fiscal authorities were open to considering changes in the design of banking assets tax in a fiscally neutral manner but currently had no specific plans on this.

D. Reforms to Support Growth

32. After two decades of impressive convergence, Poland's growth model needs to adjust to a new economic landscape. Exports, especially through EU linkages, have played a significant role in Poland's economic success. However, significant real appreciation over the past two years, catching up to past productivity growth, weighs on cost-competitiveness. Meanwhile, the regional outlook remains subdued, with conflicts and geoeconomic fragmentation presenting headwinds to penetrating new markets. Moreover, shallow domestic capital markets and low savings weigh on investment, with ageing a substantial drag on employment. To sustain, policies should focus on: 5[6]

Net Capital Stock per Person Employed
(Million 2015 euros)



Sources: European Commission, AMECO database; Haver Analytics; and IMF staff calculations.

- *Supporting investment.* Poland's capital stock is significantly below comparators. Policies should aim to support business financing—as discussed above—and ease regulatory hurdles to investment including FDI, such as from lengthy permitting processes. To support private investment, NGEU grants should also be absorbed fully and effectively to address infrastructure gaps and support digitalization. Addressing Poland's comparatively high energy costs—as discussed below—would also tackle one of the main reported obstacles to investment.

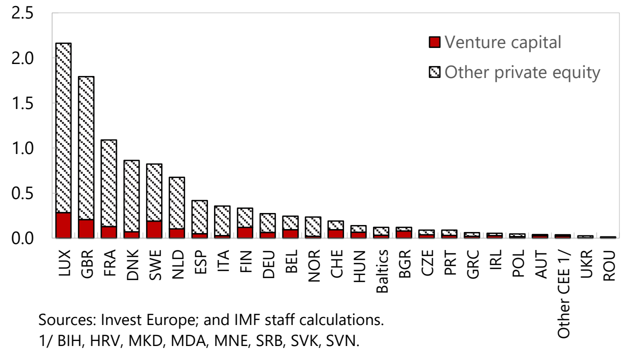
- *Improving allocative efficiency.* Relaxing labor market restrictions in some services and occupational entry barriers could facilitate workers' movement within and between sectors and improve competition. Strengthening insolvency procedures including by enhancing the capacity of courts for timely processing. would also support higher dynamism.

- *Ensuring an adequate labor force. S*trengthening vocational training and skill-matching could improve skills. Raising labor force participation among older cohorts should be complemented by enhancing adult learning. Female labor participation should be supported by ensuring adequate child and elderly care. Following the successful initial absorption of Ukrainian refugees, better integrating foreign workers through adequate language training, social support, transportation, and enhanced recognition of foreign credentials could increase productivity and attract foreign labor.

[6] Recommendations draw on the OECD, Economic Survey of Poland, 2024

- *Nurturing innovation.* Poland has closed on Europe's productivity frontier in most sectors (except manufacturing and ICT) (see Selected Issues). To sustain growth, it will need to transition from technology adoption to innovation. However, Research and Development capital in Poland is scarce relative to peers, and R&D spending is low. In this regard, promoting private equity and venture capital from very low current levels would support innovation and create a more conducive environment for R&D. At the same time, streamlining the administrative process to access government initiatives supporting R&D would facilitate access by SMEs.

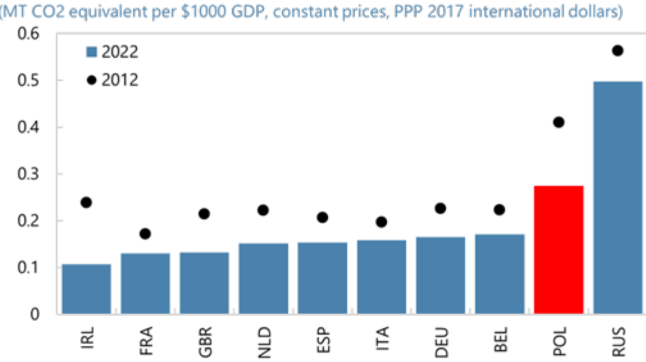
Private Equity Investments, 2022
(Percent of GDP)



Sources: Invest Europe; and IMF staff calculations.
1/ BIH, HRV, MKD, MDA, MNE, SRB, SVK, SVN.

- *Securing a credible climate transition.* Poland has made strides in reducing emissions but remains amongst the most carbon-intensive European exporters, reflecting its reliance on coal, which also undercuts competitiveness and FDI due to the eroding cost advantage of coal power and ESG considerations. The recent draft update to the National Energy and Climate Plan is a welcome step in identifying measures to achieve climate goals and safeguard competitiveness by enhancing energy-related infrastructure and implementing new instruments to support renewable energy sources. In line with this draft plan update, policies should focus on supporting private investment in renewable energy, including by liberalizing regulation for onshore wind farms and accelerating permitting for green projects, and ensuring stability of energy supply through a strengthened electricity grid and interconnectors for cross-border exchange. The Ministry of Climate projects halving coal-fueled power generation by 2030, implying a much steeper coal mining phase- out than agreed with trade unions.[7] This increases the urgency of addressing social impacts on coal mining regions and requires clear communication on the condensed transition timeline. Extending carbon pricing to transportation and heating would also be important for reducing emissions; an early and gradual introduction, combined with measures to protect vulnerable households, would help limit adjustment costs ahead of ETS2 introduction

Top EUR Exporters: GHG Emissions per Unit of GDP
(MT CO2 equivalent per $1000 GDP, constant prices, PPP 2017 international dollars)



Sources: European Commission; World Economic Outlook; Haver Analytics; and IMF staff calculations.
Note: GHG data uses Kyoto Protocol's definition of greenhouse gases emissions excluding land use, land-use

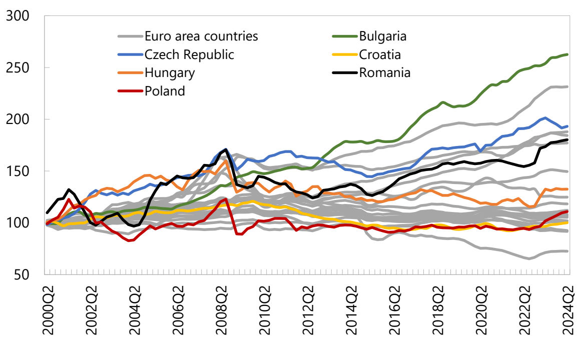
[7] A scenario with additional measures in draft National Energy and Climate Plan envisages a 96 percent reduction in coal-fueled power by 2040. A similar path was outlined in the recent World Bank's CCDR report (Country Climate and Development Report: Poland, 2024)

by 2028. Successful decarbonization will require strong coordination across the government to use the EU funds efficiently.

Text Figure 15. Competitiveness

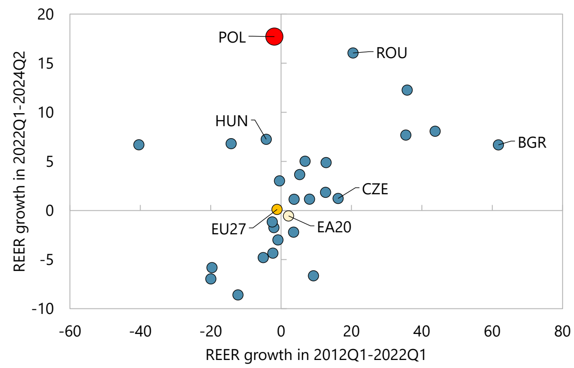
Before 2022, Poland's REER had been stable since the aftermath of the GFC..

REER Deflated by ULC
(Index, 2000Q1=100)



..but appreciation since 2022 has been high compared to EU countries that experienced similar REER stability post-GFC.

EU27: REER Growth /1
(Total period growth, in percent)



Sources: European Commission; and IMF staff calculations.
/1 REER is calculated using real unit labor costs against 37 trading partners, including EU27, Australia, Canada, Japan, Mexico, New Zealand, Norway, Switzerland, Turkey, United Kingdom, and USA.

Authorities' Views

33. The authorities agreed and emphasized that investment-led growth would be essential for achieving Poland's social and climate ambitions.

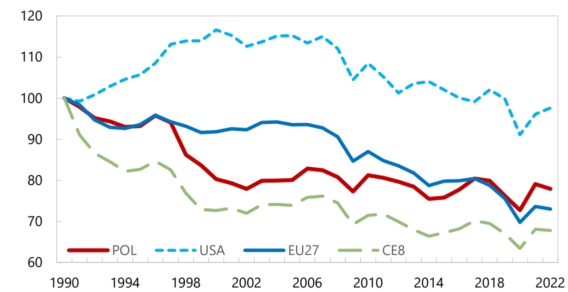
- The MTFSP identifies reforms including to support digitalization and active labor market policies. The authorities noted a new scheme providing incentives for young parents' return to the labor market, which would support the domestic labor supply. The authorities expressed continued commitment to promoting the integration of immigrants and refugees by improving access to education for children, providing career counseling, and recognizing professional licenses. They explained that the government's new migration strategy aimed to prioritize security, focusing on closing visa loopholes and improving procedural efficiency.

- The authorities underlined strong ambitions for the energy transition. They planned to accelerate decarbonization to meet EU targets for 2030 by doubling renewable energy supply and significantly reducing coal reliance. While available green investment financing may be sufficient, given existing economic incentives and EU funds, they noted that skilled labor shortages, sourcing of supplies, and energy security considerations could hinder progress. They continued to consider a gradual coal mining phase-out as necessary given its social impact and the transitory need to maintain coal-powered baseload power. They attributed the delay in adopting ETS2 to difficulties in designing an adequate exemption scheme, flagging potential changes to the implementation timeline at the EU level. The authorities were working on legislative measures to remove barriers to renewable energy investment.

Text Figure 16. Decarbonization in Poland

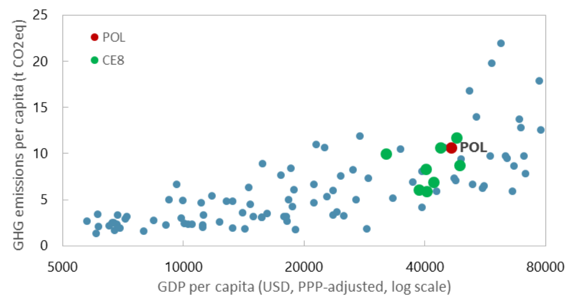
Poland has made notable progress in decarbonization….

GHG Emissions
(Index, 1990=100)



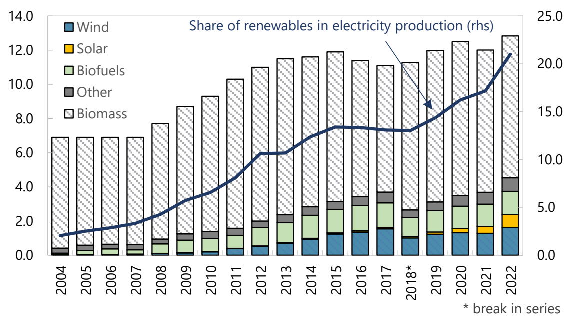
…yet carbon emissions remain higher than in countries at comparable income level.

GHG Emissions per Capita, 2022



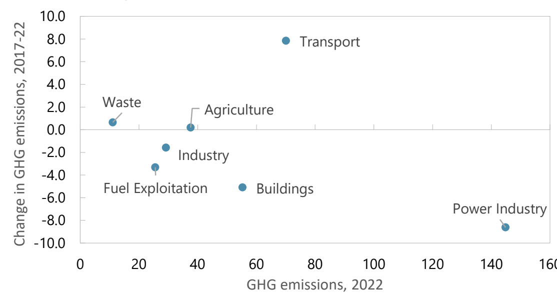
The share of energy from renewable sources has been increasing…

Share of Renewable Sources of Energy
(Percent of generation)



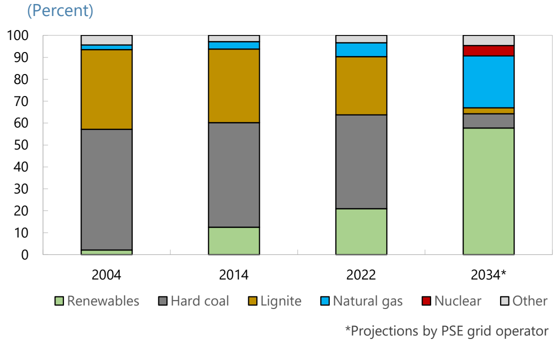
…helping to decarbonize the power industry, the biggest contributor to Poland's emission.

GHG Emissions by Sector
(Mt CO2eq)



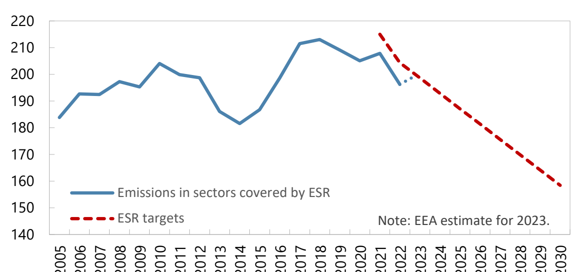
The EU Emissions Trading System supports improvements in the electricity mix over the next decade…

Structure of Electricity Production
(Percent)



…but more measures are needed to decarbonize other sectors.

GHG Emissions and Effort Sharing Regulation Targets
(Mt CO2 eq)



Sources: EDGAR; European Environment Agency; Statistics Poland; PSE; and IMF staff calculations.

STAFF APPRAISAL

34. Poland's near-term outlook is positive and has improved relative to last year despite ongoing sluggish growth across Europe and Russia's war in Ukraine. Near-term growth is expected to accelerate further to 3.5 in 2025 and 3.3 percent in 2026, in line with the ongoing cyclical recovery in consumption and investment, including the absorption of large inflows of EU funds. Despite remaining elevated, inflation has declined and is on track to reach the target range close to end-2025. However, risks remain elevated, including downside risks to growth across Europe. On a preliminary basis the external position in 2024 is assessed to be stronger than the level implied by medium-term fundamentals and desirable policies. Over the medium-term, growth is expected to moderate as EU-financed investments decline and the population ages.

35. As the recovery becomes more entrenched, fiscal policy should increasingly prioritize rebuilding buffers and aiding disinflation efforts. Bringing more of the authorities' medium-term deficit reduction plans up front in 2025 would build more resilience against future shocks, reduce debt, and support more rapid interest rate reductions, which would foster private sector investment and growth while still bringing inflation to target. The recently published MTFSP is an important step towards sustained fiscal consolidation over the medium-term, putting debt on a sustainable and prudent path. Fully identifying the necessary fiscal measures upfront would help strengthen its credibility. Building on recent improvements in fiscal transparency and governance, establishing a fiscal council as planned would further strengthen accountability and governance.

36. Monetary policy is appropriately tight, and interest rate cuts should commence only when there is clear evidence that wage growth is decelerating, and inflation is firmly on track towards the target. Absent surprises, both core and headline inflation should peak in year-on-year terms around mid-2025 before moderating to the upper end of the target range by end-2025. However, uncertainty on the inflation trajectory is substantial, including due to uncertainty regarding energy prices, developments in the labor market, and the pace of economic recovery. In this context, policies should place significant weight on realized inflation declining towards the target over several months on the back of decelerating wages before cutting policy rates.

37. The soundness of the Polish banking system is an important asset to safeguard while also supporting investment. Recent policies have aimed at bolstering further the soundness of the system. At the same time, the recovery in bank credit has remained weak. Further policy measures should: (i) take into account the impact of any further tightening of regulations on the adequate provision of credit; (ii) proactively reduce legal risks to financial sector stability, including by exploring legislative solutions; (iii) even the playing field for private sector credit by replacing the bank asset tax in a manner that eliminates the preferential treatment of public debt and (iv) allow the mortgage credit holiday to expire.

38. Structural reforms need to be reenergized across a range of areas to help sustain Poland's impressive growth record. Significant real appreciation over recent years, the subdued regional outlook, geopolitical conflicts and geoeconomic fragmentation, all present headwinds to

Poland's export-based growth model. Domestically, shallow domestic capital markets and low savings weigh on investment, as ageing poses a drag on employment. To sustain growth, policies should focus on deepening capital, facilitating resource reallocation, supporting an adequate labor supply, fostering innovation capacity, and decarbonization of the economy. Poland has made strides in reducing emissions, but additional measures are needed to reach climate goals and safeguard competitiveness.

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

Table 1. Poland: Selected Economic Indicators, 2020–29

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
					Projections					
Activity and prices										
GDP (change in percent)	-2.0	6.9	5.3	0.1	2.8	3.5	3.3	3.1	2.8	2.7
Domestic demand	-2.8	8.6	4.8	-3.2	4.8	6.0	4.0	3.2	2.9	2.8
Private consumption growth	-3.2	6.2	5.2	-0.3	3.2	3.7	3.5	3.3	3.2	3.2
Public consumption growth	4.8	5.0	0.6	4.0	7.8	5.5	3.7	3.1	3.1	2.8
Domestic fixed investment growth	-3.0	1.5	1.7	12.6	1.7	11.5	6.5	3.0	2.0	1.8
Inventories (contribution to growth)	-1.1	3.4	1.3	-5.7	0.9	0.4	-0.2	0.0	0.0	0.0
Net external demand (contribution to growth)	0.6	-1.2	0.6	3.1	-1.6	-2.1	-0.6	0.0	0.0	-0.1
Output gap	-2.2	1.0	2.3	-0.9	-1.0	-0.4	-0.2	0.0	0.0	0.0
Headline CPI inflation (percent)										
Average	3.4	5.1	14.4	11.4	3.8	4.6	3.5	2.9	2.5	2.5
End of period	2.4	8.6	16.6	6.2	5.1	3.7	3.3	2.5	2.5	2.5
CPI inflation excluding food and energy (percent)										
Average	3.9	4.0	9.0	10.0	4.4	4.1	3.5	2.9	2.5	2.5
End of period	3.7	5.3	11.5	6.9	4.1	3.7	3.3	2.5	2.5	2.5
Unemployment rate (average, according to LFS)	3.2	3.4	2.9	2.8	2.9	3.1	3.2	3.2	3.4	3.5
Saving and Investment (percent of GDP)										
Saving	21.2	20.5	19.8	19.3	17.9	18.9	19.0	18.8	18.4	17.9
Investment	18.8	21.8	22.1	17.5	17.6	19.2	19.7	19.8	19.6	19.4
Saving - Investment	2.4	-1.3	-2.3	1.8	0.3	-0.3	-0.7	-0.9	-1.2	-1.5
Public finances (percent of GDP) 1/										
General government revenues	40.9	41.8	39.8	41.8	43.4	44.0	44.7	44.0	44.2	44.1
General government expenditures	47.7	43.6	43.3	47.0	49.3	49.6	49.5	48.1	47.9	47.5
General government net lending/borrowing	-6.9	-1.7	-3.4	-5.3	-5.9	-5.6	-4.9	-4.1	-3.6	-3.5
General government cyclically-adjusted balance	-5.5	-2.0	-4.6	-4.8	-5.4	-5.4	-4.8	-4.1	-3.7	-3.4
General government debt	56.6	53.0	48.8	49.7	54.1	57.8	61.3	62.5	63.2	63.8
National definition 2/	47.1	43.2	39.0	39.0	...	...	...	...	...	...
Money and credit										
Private credit (change in percent, end-period) 3/	3.2	5.6	1.4	-0.3	5.3	12.5	10.9	8.9	6.8	5.1
Credit to GDP (percent)	54.4	51.0	44.4	40.4	40.2	41.7	43.3	44.6	45.2	45.1
Deposits (change in percent, end-period)	12.0	7.7	5.9	10.9	7.6	10.5	9.5	7.4	5.4	5.3
Broad money (change in percent, end-period)	16.4	8.9	5.4	8.5	7.9	9.1	8.1	7.0	5.3	5.2
Policy Rate (percent) 4/	0.5	0.3	5.3	6.5	...	...				
Balance of payments										
International Investment Position, Net (Percent of GDP)	-46.2	-38.6	-35.1	-34.8	-31.1	-29.5	-27.7	-26.3	-25.3	-24.8
Current account balance (billion U.S. dollars)	14.5	-9.0	-15.8	14.5	2.6	-3.4	-7.1	-9.8	-13.6	-18.0
Percent of GDP	2.4	-1.3	-2.3	1.8	0.3	-0.3	-0.7	-0.9	-1.2	-1.5
Exports of Goods (billion U.S. dollars)	252.4	311.6	341.0	362.7	365.5	369.4	379.2	395.3	412.5	430.7
Export volume growth	-1.1	12.3	7.4	3.7	0.8	0.3	2.0	3.3	3.3	3.2
Imports of Goods (billion U.S. dollars)	244.2	320.4	364.2	357.6	368.9	381.1	394.6	411.6	430.2	450.3
Import volume growth	-2.5	16.3	6.8	-1.5	3.5	4.5	3.3	3.5	3.5	3.5
Terms of trade (index 1995=100)	109.7	107.6	104.4	106.6	106.9	108.9	109.3	109.4	109.5	109.5
Official reserves (billion U.S. dollars)	154.2	166.1	166.7	193.8	200.5	203.6	211.7	218.3	221.8	221.7
In percent of short-term debt plus CA deficit	142.6	139.3	169.5	157.7	144.8	134.0	129.4	124.9	118.9	111.5
In percent of IMF ARA metric	151.0	158.1	156.7	156.9	155.7	151.6	150.9	148.9	145.3	139.6
Total external debt (billion U.S. dollars)	377.5	366.3	370.3	395.4	409.7	424.2	438.9	453.9	469.2	484.7
In percent of GDP	62.3	53.1	53.2	48.8	45.1	43.9	42.9	41.9	41.0	40.1
Exchange rate										
Exchange rate regime			Freely floating							
Zloty per USD, period average	3.9	3.9	4.5	4.2	...	...	...	...	...	...
Zloty per Euro, period average	4.4	4.6	4.7	4.5	...	...	...	...	...	...
Real effective exchange rate (INS, CPI based) 5/	101.4	101.0	102.5	114.6	...	...	...	...	...	...
Appreciation (percent change)	0.6	-0.4	1.5	11.8	...	...	...	...	...	...
Memorandum item:										
Nominal GDP (billion zloty)	2362.9	2661.5	3100.8	3401.6	3601.6	3898.7	4169.8	4409.6	4646.5	4889.1

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 2. Poland: Balance of Payments on Transaction Basis, 2019–29

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

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
						Projections					
Current account balance	-1,645	14,532	-8,970	-15,822	14,535	2,612	-3,364	-7,101	-9,811	-13,603	-18,028
percent of GDP	-0.3	2.4	-1.3	-2.3	1.8	0.3	-0.3	-0.7	-0.9	-1.2	-1.5
Trade balance	21,967	34,088	22,450	14,623	47,774	38,567	29,927	27,409	28,978	30,161	30,940
percent of GDP	3.6	5.6	3.3	2.1	5.9	4.2	3.1	2.7	2.7	2.6	2.6
Balance on Goods	-4,878	8,111	-8,800	-23,193	5,130	-3,461	-11,718	-15,424	-16,332	-17,734	-19,629
Merchandise exports f.o.b.	246,647	252,355	311,571	341,014	362,748	365,470	369,351	379,217	395,271	412,506	430,693
Merchandise imports f.o.b.	251,525	244,244	320,371	364,207	357,618	368,931	381,069	394,641	411,604	430,240	450,322
Balance on Services	26,845	25,977	31,250	37,816	42,644	42,029	41,645	42,833	45,310	47,895	50,569
Merchandise exports f.o.b.	70,452	66,618	81,131	95,374	108,823	109,639	110,804	113,764	118,580	123,750	129,206
Merchandise imports f.o.b.	43,607	40,641	49,881	57,558	66,179	67,611	69,159	70,931	73,270	75,855	78,637
Exports of goods and services											
percentage change in unit values	2.1	0.6	23.1	11.1	8.1	0.8	1.1	2.7	4.2	4.4	4.4
percentage volume growth	5.3	-1.1	12.3	7.4	3.7	0.8	0.3	2.0	3.3	3.3	3.2
Imports of goods and services											
percentage change in unit values	-1.1	-3.5	30.0	13.9	0.5	3.2	3.3	3.6	4.3	4.5	4.7
percentage volume growth	3.2	-2.5	16.3	6.8	-1.5	3.5	4.5	3.3	3.5	3.5	3.5
Terms of trade (percentage change)	1.2	2.8	-1.9	-3.0	2.1	0.3	1.9	0.3	0.1	0.0	0.0
Primary Income balance	-24,895	-22,455	-30,367	-27,490	-31,010	-32,405	-29,864	-31,208	-35,612	-40,714	-46,047
percent of GDP	-4.1	-3.7	-4.4	-4.0	-3.8	-3.6	-3.1	-3.0	-3.3	-3.6	-3.8
Secondary Income balance	1,283	2,899	-1,053	-2,955	-2,229	-3,550	-3,427	-3,303	-3,177	-3,050	-2,922
Capital and financial account balance	14,335	30,269	1,204	-15,671	12,568	-3,283	-2,238	9,664	7,194	3,054	-1,733
Capital account balance (net)	9,911	10,655	5,476	1,139	1,315	-2,947	563	8,382	8,503	8,329	8,148
Financial account balance (net)	4,424	19,614	-4,272	-16,810	11,253	-336	-2,801	1,281	-1,308	-5,274	-9,880
Foreign direct investment (net)[+ = outflows]	-13,643	-15,013	-27,292	-29,177	-19,539	-20,541	-21,284	-22,052	-22,843	-23,659	-24,502
Assets [Increase = +]	5,369	5,073	10,220	12,603	14,777	6,363	6,427	6,491	6,556	6,621	6,688
Liabilities [Increase = +]	19,012	20,086	37,512	41,780	34,316	26,904	27,711	28,542	29,399	30,281	31,189
Portfolio investment (net)	12,098	6,811	11,895	-2,461	4,552	10,669	10,460	10,228	9,996	9,766	9,536
Assets	-283	-4,275	5,052	3,120	14,462	17,396	17,254	17,090	16,927	16,766	16,606
Liabilities	-12,381	-11,086	-6,843	5,581	9,910	6,727	6,794	6,862	6,931	7,000	7,070
Other investment (net)	-2,809	10,140	-4,322	2,654	2,553	2,884	4,897	4,958	5,020	5,082	5,145
Assets	1,413	15,255	12,531	20,685	15,865	8,384	10,447	10,559	10,671	10,785	10,900
Liabilities	4,222	5,115	16,853	18,031	13,312	5,500	5,550	5,601	5,652	5,703	5,755
Financial derivatives	-1,397	-1,067	-3,513	-615	2,837	0	0	0	0	0	0
Errors and omissions	-3,842	-5,573	-778	-2,127	-4,597	0	0	0	0	0	0
Financing											
Reserve assets [Increase = +]	10,175	18,743	18,960	12,789	20,850	6,653	3,126	8,147	6,519	3,537	-60
Memorandum items:											
Current plus capital account (percent of GDP)	1.4	4.2	-0.5	-2.1	2.0	0.0	-0.3	0.1	-0.1	-0.5	-0.8
International Investment Position, Net (Percent of GDP)	-49.8	-46.2	-38.6	-35.1	-34.8	-31.1	-29.5	-27.7	-26.3	-25.3	-24.8
Gross official Reserve	128,405	154,246	166,050	166,695	193,812	200,465	203,591	211,738	218,257	221,794	221,734
in months of imports	6.1	7.6	6.2	5.5	6.5	6.5	6.4	6.4	6.4	6.2	5.9
Ratio of gross official reserves to short-term debt 1/	139.7	155.5	160.6	147.7	154.4	148.5	140.6	137.6	135.5	131.6	125.9
Ratio of gross official reserves to ST debt plus CA deficit	166.0	142.6	139.3	169.5	157.7	144.8	134.0	129.4	124.9	118.9	111.5
Ratio of gross official reserves to IMF ARA metric	133.6	151.0	158.1	156.7	156.9	…	…	…	…	…	…
Total external debt (percent of GDP)	59.6	62.3	53.1	53.2	48.8	45.1	43.9	42.9	41.9	41.0	40.1
Total external debt (percent of exports)	112.0	118.3	93.3	84.9	83.9	86.2	88.3	89.0	88.3	87.5	86.6
External debt service (percent of exports)	46.1	48.9	44.0	39.1	39.6	42.6	43.5	44.9	45.3	45.3	45.2

Sources: National Bank of Poland; and IMF staff calculations.

1/ Short-term debt is on remaining maturity.

Table 3. Poland: Statement of Operations of General Government, 2019–29
(Percent of GDP)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
						Projections					
Revenue	40.7	40.9	41.8	39.8	41.8	43.4	44.0	44.7	44.0	44.2	44.1
Taxes	21.5	21.6	23.3	21.2	21.6	22.7	22.5	22.9	23.2	23.3	23.4
Personal income tax	5.3	5.2	5.3	4.5	4.2	4.9	5.1	5.4	5.7	5.8	5.9
Corporate income tax	2.2	2.2	2.6	2.8	2.6	2.4	2.5	2.5	2.5	2.5	2.5
VAT	7.9	7.9	8.5	7.2	7.3	8.3	8.5	8.6	8.6	8.7	8.7
Excises	3.1	3.0	2.8	2.6	2.5	2.5	2.6	2.5	2.5	2.5	2.5
Other taxes	3.1	3.3	4.1	4.2	4.9	4.6	3.8	3.8	3.8	3.8	3.7
Social contributions	14.0	14.4	13.8	13.6	14.3	15.5	15.6	15.4	15.4	15.5	15.6
Other revenue	5.1	4.9	4.8	5.1	5.8	5.2	5.9	6.4	5.4	5.4	5.2
Capital revenue	1.1	1.1	0.9	0.7	0.9	0.5	1.1	1.5	0.7	0.6	0.4
Sales of goods and services	2.3	2.0	2.1	2.2	2.4	2.3	2.3	2.3	2.3	2.3	2.3
Other current revenue	1.7	1.7	1.8	2.1	2.6	2.4	2.5	2.6	2.5	2.6	2.5
Expenditure	41.4	47.7	43.6	43.3	47.0	49.3	49.6	49.5	48.1	47.9	47.5
Expense	37.1	43.2	39.6	39.5	42.0	44.5	44.5	44.5	43.4	43.2	42.9
Compensation of employees	10.2	10.7	10.3	9.7	10.3	11.5	11.3	11.1	11.0	10.9	10.7
Use of goods and services	5.6	5.7	5.8	6.3	6.6	6.4	6.6	6.7	6.6	6.6	6.6
Interest	1.4	1.3	1.1	1.5	2.1	2.3	2.5	2.6	2.6	2.6	2.6
Subsidies	0.5	3.5	1.4	1.1	2.1	1.4	0.8	0.8	0.6	0.6	0.5
Social benefits	17.1	18.4	17.8	16.8	17.6	19.3	19.4	19.5	19.4	19.4	19.4
Other expense 1/	2.3	3.5	3.1	4.1	3.4	3.5	3.9	3.8	3.2	3.1	3.1
Other current expenditure	2.0	2.4	2.3	2.8	1.8	1.8	2.0	1.8	1.5	1.5	1.5
Capital transfers	0.4	1.1	0.8	1.4	1.6	1.7	1.9	2.0	1.6	1.5	1.5
Net acquisition of nonfinancial assets	4.3	4.5	4.0	3.7	5.0	4.8	5.1	5.1	4.7	4.7	4.6
Gross operating balance	3.6	-2.3	2.3	0.3	-0.3	-1.1	-0.5	0.2	0.7	1.0	1.2
Net lending/borrowing	-0.7	-6.9	-1.7	-3.4	-5.3	-5.9	-5.6	-4.9	-4.1	-3.6	-3.5
Cyclically-adjusted fiscal balance	-2.3	-5.5	-2.0	-4.6	-4.8	-5.4	-5.4	-4.8	-4.1	-3.7	-3.4
Net financial transactions	-0.7	-6.9	-1.8	-3.6	-5.1	-6.9	-6.7	-7.0	-4.4	-3.8	-3.6
Net acquisition of financial assets	0.7	6.0	2.1	0.1	1.6	0.5	1.1	0.2	0.2	0.2	0.2
Currency and deposits	0.5	3.3	1.2	1.1	-0.3	0.4	0.9	0.1	0.0	0.0	0.0
Debt securities	0.3	0.5	0.4	-0.8	0.1	0.0	0.0	0.0	0.1	0.1	0.1
Loans	0.1	1.6	0.2	0.3	0.8	0.1	0.1	0.1	0.1	0.1	0.1
Equity and investment fund shares	0.0	0.1	-0.1	-0.3	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Other financial assets	-0.2	0.6	0.3	-0.2	0.8	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	1.4	12.9	3.8	3.6	6.9	6.4	6.7	5.1	4.3	3.8	3.6
Currency and deposits	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt securities	0.1	10.2	0.9	0.5	4.6	4.8	5.2	3.6	2.9	2.6	2.4
Loans	0.4	1.4	1.8	2.1	1.8	1.4	1.4	1.4	1.3	1.2	1.2
Other liabilities	0.9	1.2	1.1	0.7	0.5	0.1	0.1	0.1	0.1	0.0	0.1
Adjustment and statistical discrepancies 2/	0.0	0.0	0.0	-0.2	0.2	-1.0	-1.1	-2.1	-0.3	-0.2	-0.2
Memorandum items:											
Primary balance	0.6	-5.6	-0.7	-1.9	-3.2	-3.6	-3.1	-2.3	-1.5	-1.1	-0.9
Cyclically-adjusted primary balance	-1.0	-4.2	-1.0	-3.1	-2.7	-3.0	-2.9	-2.2	-1.5	-1.1	-0.9
General government debt	45.2	56.6	53.0	48.8	49.7	54.1	57.8	61.3	62.5	63.2	63.8
General government financial liabilities	62.9	76.8	67.3	58.2	61.6	64.6	66.3	67.1	67.8	68.2	68.4
General government financial assets	26.5	31.8	30.4	27.1	26.1	25.2	24.3	23.0	21.9	21.0	20.2
Nominal GDP in billions of zloty	2,314	2,363	2,662	3,101	3,402	3,602	3,899	4,170	4,410	4,646	4,889

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 and adjustment for NextGen EU loans to be onlent to non-government sector.

Table 4. Poland: Monetary Accounts, 2018–25

	2018	2019	2020	2021	2022	2023	2024	2025
							Projections	
	(Billions of zlotys)							
Central bank								
Net foreign assets	393	435	525	605	646	664	704	727
Official reserve assets	440	488	580	674	734	763	802	826
Net domestic assets	-103	-135	-159	-161	-227	-218	-208	-210
Net claims on government	-34	-39	-16	34	20	21	15	-8
Other items, net	-70	-97	-143	-196	-247	-239	-223	-202
Base money	292	304	384	452	423	451	496	517
Currency issued	219	238	321	355	368	377	416	429
Bank reserves	73	65	63	97	55	74	80	88
Deposit money banks								
Net foreign assets	-102	-90	-97	-79	-7	70	82	102
Net domestic assets	1,305	1,396	1,558	1,654	1,674	1,779	1,907	2,096
Net claims on the central bank 1/	76	69	65	99	70	77	82	91
Net claims on government	317	357	415	327	299	393	547	684
Claims on private sector	1,189	1,246	1,286	1,358	1,376	1,373	1,446	1,627
Claims on corporates	381	386	365	380	415	400	421	474
Claims on households	723	766	789	827	794	777	818	920
Claims on other	85	94	132	151	168	197	207	233
Other items, net	-278	-277	-208	-130	-71	-64	-169	-305
Deposits	1,202	1,306	1,462	1,575	1,668	1,849	1,988	2,198
Demand deposits	774	883	1,154	1,305	1,162	1,257	1,352	1,494
Other deposits	428	423	308	270	506	592	636	704
Consolidated banking system								
Net foreign assets	290	345	429	525	639	734	785	828
Net domestic assets	1,156	1,221	1,394	1,460	1,452	1,534	1,662	1,841
Claims on government	283	318	399	361	319	414	562	676
Claims on private sector	1,189	1,246	1,286	1,358	1,376	1,373	1,446	1,627
Other items, net	-317	-344	-291	-260	-243	-253	-347	-462
Broad money (M3)	1,446	1,566	1,823	1,985	2,091	2,268	2,447	2,669
Memorandum items:	Percentage change from end of previous year							
Base money	25.9	4.0	26.4	17.6	-6.4	6.7	9.9	4.2
Broad money (M3)	9.2	8.3	16.4	8.9	5.4	8.5	7.9	9.1
Net domestic assets	5.9	5.6	14.2	4.7	-0.5	5.6	8.3	10.8
Net foreign assets	24.8	18.8	24.3	22.5	21.7	14.9	7.0	5.5
Net claim on government	2.5	12.3	25.3	-9.4	-11.7	29.7	35.9	20.2
Claims on private sector	7.1	4.8	3.2	5.6	1.4	-0.3	5.3	12.5
Deposit growth	8.2	8.6	12.0	7.7	5.9	10.9	7.6	10.5
	(Percent of GDP, unless otherwise noted)							
Broad money (M3)	67.3	67.7	77.1	74.6	67.4	66.7	67.9	68.5
Private sector credit	55.4	53.9	54.4	51.0	44.4	40.4	40.2	41.7
Broad money Velocity (GDP/M3)	1.5	1.5	1.3	1.3	1.5	1.5	1.5	1.5
Money multiplier (M3/base money)	4.9	5.2	4.7	4.4	4.9	5.0	4.9	5.2

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 5. Poland: Financial Soundness Indicators, 2016-2023

(Percent)

	2016	2017	2018	2019	2020	2021	2022	2023
Capital adequacy 1/								
Regulatory capital to risk-weighted assets	17.2	18.0	18.3	18.6	19.8	18.6	19.4	20.4
Regulatory Tier I capital to risk-weighted assets	15.6	16.2	16.3	16.4	17.4	16.5	17.4	18.7
Asset composition and quality								
NPLs to gross loans (nonfinancial sector)	3.9	3.8	3.9	3.8	3.7	2.9	2.4	2.3
Sectoral distribution of loans to nonfinancial sector								
Loans to non-financial corporations	34.2	35.2	34.4	33.9	32.4	32.5	36.2	35.9
Loans to households	65.1	64.2	64.9	65.4	66.9	66.8	63.1	63.4
Earnings and profitability								
Return on average assets (after tax)	0.8	0.8	0.7	0.7	0.0	0.2	0.4	1.0
Return on average equity (after tax) RORC 1/	9.2	8.2	7.5	7.8	-0.2	2.8	5.4	11.9
Interest margin to gross income 2/	56.9	61.2	62.8	62.8	62.1	58.0	72.6	69.9
Noninterest expenses to gross income 3/	59.3	59.8	60.2	60.0	70.2	65.4	64.0	57.3
Liquidity								
Loans to deposits 4/	98.7	97.9	94.1	89.6	79.6	77.2	71.4	63.6
Sensitivity to market risk								
Net open positions in FX to capital 1/	0.7	0.3	0.1	0.2	7.1	1.4	0.8	-0.6

Note: Data according to Financial Soundness Indicators (FSI), except for asset composition (indicators not part of FSI reporting template), return on average assets (after tax), and liquidity.

Sources: IMF FSI Database; NBP.

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.

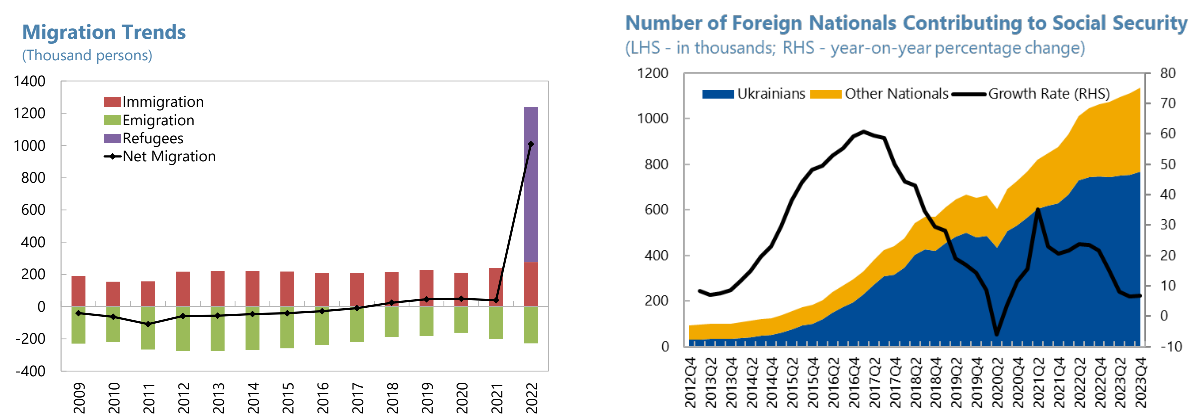
3/ "Noninterest expenses to gross income" calculated as operating cost (the sum of banks's general expense and amortisation) to net income from banking activity.

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

Annex I. Update on Refugees

1. Poland's migration pattern has shifted since 2016 from net outward migration to net inward migration (Annex I, Text Figure 1)**.** Traditionally an exporter of labor, Poland's labor shortage has attracted foreign workers in recent years. Return migration of Poles has also started during the past decade but has been limited in scale. Pre-COVID, immigrants mainly came from Ukraine and Belarus. GUS data shows that immigrants from Ukraine totaled 1.35 million pre-war, predominantly economically active men. Over the period 2018-2021, Ukrainians made up 88 percent of declarations of intent to employ foreigners,[1] 71 percent of work permits and 98 percent of seasonal work permits (Duszczyk and Kaczmarczyk 2022). Post-pandemic labor shortages led to inflows of foreign workers, and Russia's war in Ukraine triggered a large-scale influx of refugees from Ukraine in 2022. While available data are incomplete and hard to reconcile, this annex aims to take stock of the particular role of refugees within these broader shifts.

Annex I. Text Figure 1. Recent Migration Trends



Sources: Eurostat; Haver Analytics; Statistics Poland; ZUS; and IMF staff calculations.

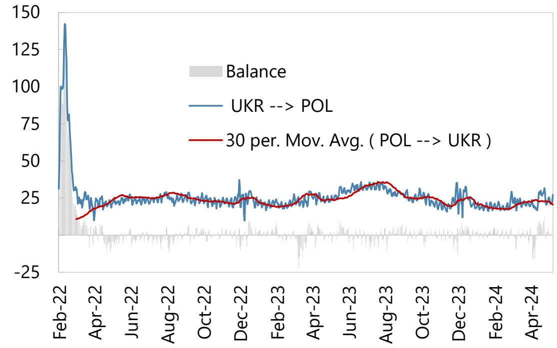
2. The number of Ukrainian refugees has slightly decreased from the 2022 peak of over one million. Ministry of Digital Affairs data indicate there were 976 thousand refugees from Ukraine registered for temporary protection and held an active PESEL (Polish National Identification Number) as of September 2024, compared to at the peak of 1.35 million in August 2022. Notably, there has been an upward trajectory for the number of men applying in 2024 as compared to 2023. Border-crossing data by the Poland border guard and the UNHCR also indicate that activities at the borders with Ukraine has decreased significantly since the onset of the war (Annex I. Text Figure 2). Meanwhile, the number of exits from Poland to Ukraine has remained stable, with no sign of a mass return to Ukraine. The NBP survey shows that refugees comprise about 60 percent of Ukrainian

[1] A declaration of intent to employ foreigners submitted by an employer is a simplified procedure for citizens from 6 countries (Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine) to work in Poland without a work permit, as long as their employment period does not exceed 6 months in a 12-month timeframe.

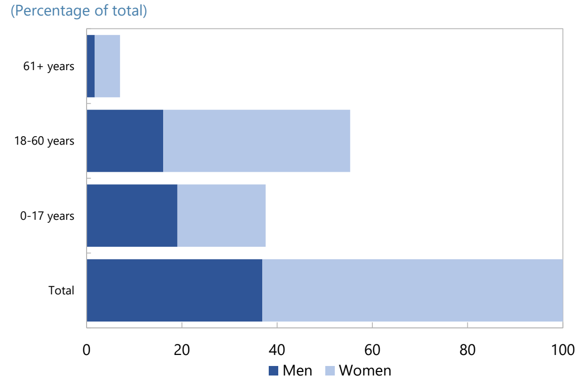
immigrants. Women and children make up the majority of Ukrainian refugees, with 68 percent of respondents being female and almost 40 percent under the age of 18. In addition, a majority of adult refugees are highly educated and skilled, with nearly 50 percent of refugees having completed tertiary education.

Annex I. Text Figure 2. Ukrainian Refugees in Poland

Border Traffic on POL-UKR Border
(In thousands of persons)



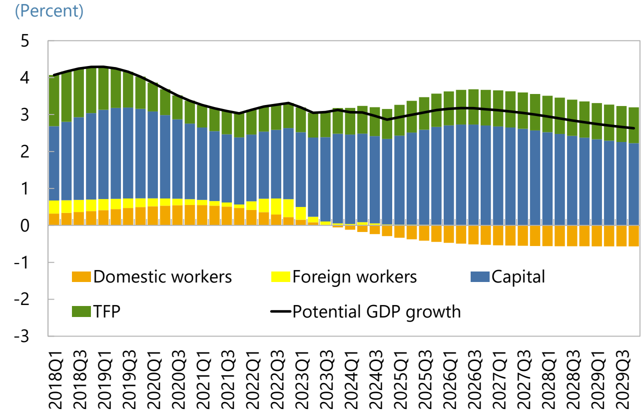
Ukrainian Refugees Registered in Poland by Age and Sex
(Percentage of total)



Source: Border Guard; NBP; Statistics Poland; ZUS; and IMF staff calculations.

3. Foreign workers have played a key role in alleviating labor shortages. While GUS data shows there are about 1 million foreign workers as of March 2024, the actual number is likely to be significantly higher. Statistics for measuring foreign workers are scarce and have weaknesses, and the COVID and refugee shocks have added more complexity to interpreting the available data.[2] GUS estimates that employed foreigners, coming from over 150 countries, totaled 1.01 million (6.6 percent of total domestic employment) as of March 2024. According to ZUS data, 1.14 million foreign workers are enrolled in the social security fund as of July 2024, with two-thirds being Ukrainian citizens. Both data sources exclude those employed in agriculture, working on some civil law contracts for specific work, students working on any civil law contract, and those working in the informal economy. There were about 100,000 foreigners registered as seasonal workers in agriculture in 2021, when Ukrainians

Contributions to Potential Growth
(Percent)

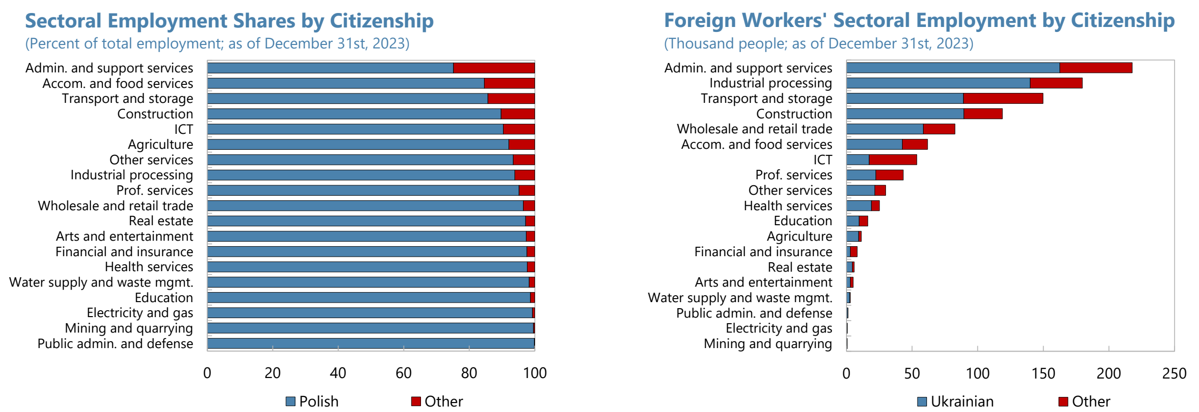


Sources: IMF staff calculations.

[2] Before COVID, the main source of information was the number of declarations of intention to employ foreigners. These statistics became even more difficult to interpret during COVID, as work permits were automatically extended. Moreover, Ukrainians no longer need any permits to work in Poland after Russia's invasion.

were still included in the statistics. This figure is likely to have grown higher now. GUS data indicate that there were 383,000 foreigners out of 2.3 million persons working on civil law contract (mandate contracts and related) as of June 2023. Only about 40 percent of them are accounted for as employed persons in the GUS labor statistics. Industry-wise, foreign workers are mainly employed in service sectors. The administrative and support services sector is the largest employer of foreign workers, with roughly one-fourth of its workforce consisting of foreign employees.[3] (Annex I, Text Figure 3).

Annex I. Text Figure 3. Recent Trends of Foreign Workers



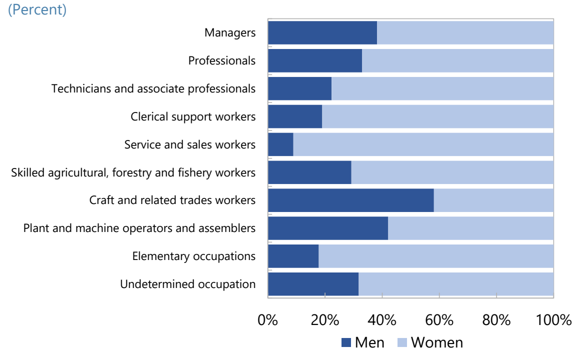
Source: Statistics Poland.

4. Refugees have also been actively participating in the labor market and the overall economy. Data from GUS shows that 190 thousand Ukrainian under temporary protection are working in Poland as of July 2024. The latest NBP survey indicates that 62 percent of working age refugees in Poland are employed in some form (NBP 2024)—which would imply about 350,000 workers. Although the employment rate of refugees decreased slightly relative to 2022, it is still higher than similar figures reported by other host countries. Meanwhile, the share of refugees looking for work remains at approximately 25 percent. The latest UNHCR survey shows a similar high participation rate of 69 percent and an unemployment rate of 8 percent (UNHCR Survey, 2024). While some refugees managed to obtain high-skill jobs such as doctors and IT specialists, most refugees fill jobs in basic service sectors (Annex I, Text Figure 4).

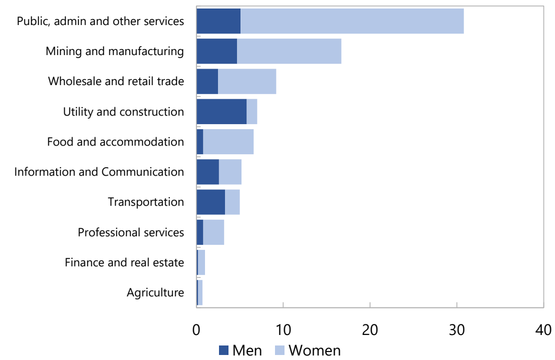
[3] Administrative and support service activities section include among others, the activities of employment agencies providing placement services (job outsourcing). As a result, this workforce might serve in retail, security services, wholesale, transportation or storage.

Annex I. Text Figure 4. Ukrainian Refugees in the Polish Labor Market

Ukrainian Refugees Employed by Sex and Occupational Groups in 2023
(Percent)



Ukrainian Refugees Employed by Sector and Sex in 2023
(Thousand persons)



Source: Statistics Poland; and IMF staff calculations.

5. **Beyond the labor market, integration is progressing at a more gradual pace.** A UNHCR survey shows that 29 percent of refugee households are below the poverty line[4], significantly above 9 percent for Polish nationals. This figure would increase to 46 percent if all housing support (collective sites, accommodation provided by employers, sharing with others etc.) for refugees were removed. GUS data show that as of March 31, 2023, only 38 percent of pre-working-age refugees are enrolled in the Polish education system, with many children reportedly being homeschooled.

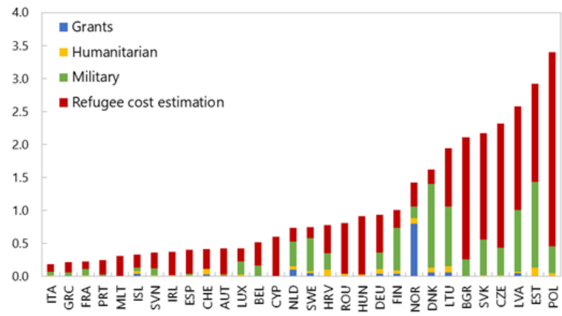
6. **The prospect of refugee returns remains highly uncertain at this stage.** In surveys conducted by the NBP, Mercy Corp and CES, a significant portion of surveyed refugees expressed their intention to return. However, about half of refugees have not decided on how long they will stay in Poland, and most refugees who expressed desire to return only plan to return after the end of the war. A key factor in determining refugees' decisions on return is the time of the end of the war. Poverty and employment have a direct connection to return intention: 77 percent of those not participating in the labor force "hope or plan to return one day" compared to just 62 percent of those that are either employed or looking for work (UNHCR Intention Survey); the NBP survey suggests that only 40 percent of pre-war Ukrainian migrants, many of who have established deep social and economic roots in Poland, anticipate returning to Ukraine when the war ends, compare to 60 percent for refugees.

7. **Foreign workers and refugees are facing several challenges of integration**. The above-mentioned surveys conducted by multiple agencies indicate that language barriers, skill-mismatch, and the recognition of education and qualifications are major challenges. Some also report Poles' attitude towards immigrants as negative. A study by PIE confirms such bias, although it is found to be small.

[4] The poverty line is defined as 50 percent of the median equivalized disposable income in Poland.

8. The Polish people, the government and external partners have been providing much-needed support for refugees to work and live in the country. Poland is estimated to have spent the highest share of GDP for hosting refugees in Europe. The Polish government has been providing access to the labor market, cash transfers, food aid programs, education, and temporary payments to families who host refugees. Polish people have also provided generous assistance to refugees through donations. Europe-wide, the EU's Temporary Protection Directive, which grants refugees residence permits as well as access to labor markets and social assistance, has been extended from March 2024 to March 2025. Nonetheless, there are uncertainty and risks regarding refugee support. The integration of refugees into the Polish society beyond the labor market remains limited. There is also some evidence that while support for Ukrainian refugees remained very high, it has declined somewhat as the war drags on.

Aid to Ukraine and Fiscal Costs to Host Refugees
(Percent of 2023 GDP)



Sources: Ukraine Support Tracker — 16th release (covering January 24, 2022 to February 29, 2024); OECD Migration Outlook 2022; UNHCR refugee data and IMF staff calculation.
Notes: Total bilateral aid allocations to Ukraine acccounted by country between January 24, 2022 to February 29, 2024. Excludes loans, guarantees and CB swaps and EU aid. Includes only allocations defined as aid which has been delivered or specified for delivery, and excludes commitments not allocated.

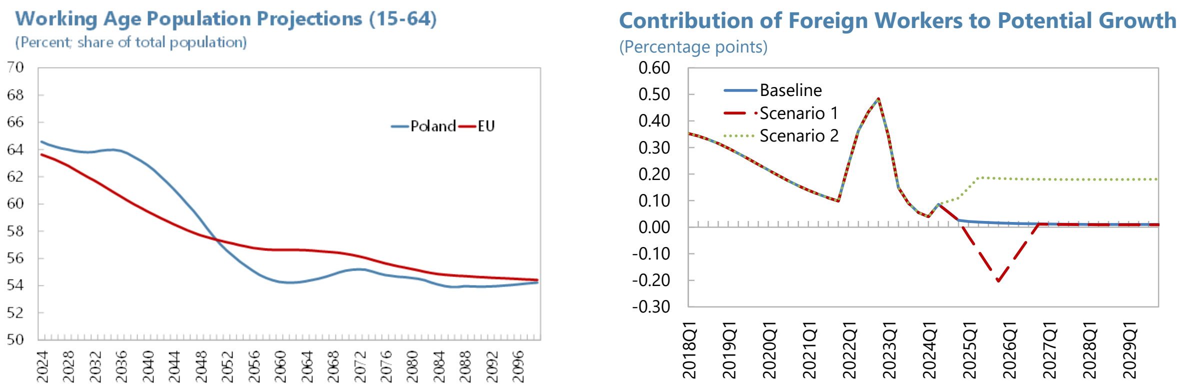
9. Looking ahead, immigrants and refugees offer an opportunity for Poland to help sustain its potential growth over the medium- to long-term. Staff estimates that refugees added 0.4 and 0.2 percentage point to Poland's potential growth in 2022 and 2023, respectively.[5] Returns of Poles could also add to the economy. Their return could bring skills and capital they accumulated abroad to stimulate the Polish economy.[6] Staff estimates that a hypothetical exodus of all refugees in 2025 would reduce growth by 0.3 percentage points (Scenario 1 in Text Figure 5). Over the medium-term, the number of foreign workers would need to increase by 400 thousand, or about one third by 2029, to fully offset the projected decline in the domestic labor force (Scenario 2 in Annex I, Text Figure 5).

10. Reforms of immigration policy can help attract workers and assist refugees. The government is working to update the current immigration strategy and related legislation[7], which offers an opportunity to make immigration policy and procedures more functional, more efficient and better aligned with the new EU strategy[8]. More specifically, the following reforms could help:

---

[5] Other institutions such as Deloitte/UNHCR and the Poland Institute of Economics also estimate a sizable contribution to Poland's GDP from Ukrainian refugees. For example, the impact of Ukrainian refugees on the Polish economy was estimated to be 0.7-1.1 percent of GDP in 2023 in the study commissioned by UNHCR to Deloitte.
[6] A sizable share of the earlier emigrants were high skill workers, which lowered potential and growth and productivity at the time (IMF 2016).
[7] The government's new migration strategy aims to ensure security and social cohesion, focusing on closing visa loopholes and improving procedural efficiency.
[8] In December 2023, the European Parliament and the Council on the Pact on Migration and Asylum reached an agreement on a new strategy designed to share the cost and work of hosting migrants more evenly. The New Pact will start to be implemented in 2024 but could take two years to fully take effect.

Annex I. Text Figure 5. Population and Labor Market Trends



Note: Baseline assumes zero net inflow of foreign workers; Scenario 1 assumes 50 percent of refugees leave in 2025; Scenario 2 assumes an increase of 400 thousand new foreign workers by 2029 to offset the projected decline in the domestic labor force.
Source: Statistics Poland; Eurostat; ZUS; IMF staff calculations.

- Relaxing labor market regulations. Poland has more regulated professions than its EU peers. Reducing entry barriers in regulated professions could address labor shortages in some sectors.

- Strengthening vocational training and skill-matching of foreign workers to improve skills and allocative efficiency.

- Facilitating the integration of foreign workers by providing adequate language training, social safety nets, and transportation. Better integration could increase their labor productivity and increase Poland’s attractiveness among foreign labor.

- Reviewing immigration regimes for non-Ukrainian and non-EU nationals to promote immigration from other countries over the medium-term (IMF 2016). Policy could relax the existing restrictive quota system on other nationalities, taking into account capacity constraints.

- Introducing programs that advertise business and investment opportunities to the Polish diaspora in other countries (IMF 2016).

- Streamlining the procedure for recognizing foreign credentials and experience. This would benefit both foreign workers and returning Poles.

- Improving the availability and quality of data on immigration and refugees to inform policymaking in these areas.

Annex II. External Sector Assessment

<table>
<tr><td colspan="7">Overall Assessment: On a preliminary basis- based on data as of end-September 2024 and staff projections for 2024 H2[1] – The external position in 2024 is deemed stronger than the level implied by medium-term fundamentals and desirable policies. The current account (CA) surplus is projected to decline to 0.3 percent of GDP in 2024 from 1.8 percent in 2023, driven by weaker trading partners' demand and the continued economic recovery. Stronger consumption, the gradual normalization of the inventory cycle, the significant REER appreciation in 2023 and the release of EU funds are all expected to support imports. The CA balance is projected to decline to -1.5 percent of GDP over the medium-term.

Potential Policy Responses: Notwithstanding a still-negative output gap, fiscal and monetary policy restraints are necessary in view of the elevated inflation and rapid increase in public debt. As the output gap closes with the cyclical recovery and absorption of NextGen EU Funds, the current account gap will narrow but will likely remain positive over the medium-term in view of Poland's low investment-to-GDP compared to peer emerging markets. Efforts to boost investment should focus on easing regulatory hurdles to private investments in the energy sector. This would help catalyze investment and financing additional to the Next Generation EU grants to address infrastructure gaps, promote digitalization and support the climate transition.</td></tr>
<tr><td>Foreign Asset and Liability Position and Trajectory</td><td colspan="6">Background. The negative net international investment position (NIIP) has improved markedly over the last decade, both in size and structure, transitioning from volatile sources of financing such as portfolio flows and short-term financing towards more stable FDI. The NIIP is projected to reach -30.7 percent of GDP in 2024 from -34.8 in 2023. Gross external debt is expected to decline to 45.1 percent of GDP in 2024 from 48.8 percent in 2023.

Assessment. The level of external debt has declined substantially, with rollover risk mitigated by the large share of long-term debt (67 percent of total debt) and intercompany lending (37 percent of total debt). The level of gross reserves (151 percent of short-term debt) is adequate and further reduces residual rollover risk.</td></tr>
<tr><td>2024 (% GDP)</td><td>NIIP: –30.7</td><td>Gross Assets: 58.3</td><td>Reserve Assets: 23.9</td><td>Gross Liab.: 89.0</td><td colspan="2">Gross External Debt: 45.1</td></tr>
<tr><td>Current Account</td><td colspan="6">Background. The CA in recent years was characterized by volatile domestic and external demand and ToT changes amid multiple shocks associated with the pandemic and the war, increased government spending to cushion cost-of-living increases and support refugees, robust service exports and strong reinvested earnings of foreign firms. In 2024, the CA is projected to record a surplus of 0.3 percent of GDP from 1.8 percent in 2023. The decline is driven by the domestic economic recovery, the slow normalization of the inventory cycle and weaker demand from major trading partners. The CA balance is expected to decrease into deficit territory in 2025 as growth picks up on the back of accelerating consumption and EU fund-supported investment, with the lagged impact of the sizable real appreciation in the latter part of 2023. Over the medium-term, the CA balance is projected to converge towards a deficit of 1.5 percent, due to robust consumption growth, sustained EU fund inflows and increased military spending.

Assessment. The EBA CA model estimates a CA norm of –1.9 percent of GDP and a cyclically adjusted CA surplus of 0.5 percent of GDP in 2024, implying an EBA model CA gap of 2.3 percent of GDP. The staff CA gap of 2.3 (±0.5) percent of GDP includes identified policy gaps of 1.1 percent of GDP and an unexplained residual of 1.2 percent of GDP. Among the policy variables, the credit gap was the largest contributor to the policy gap. Staff estimates that overall desirable policies together with cyclical demand recovery will help narrow the credit gap over the medium-term.</td></tr>
<tr><td>2024 (% GDP)</td><td>CA: 0.3</td><td>Cycl. Adj. CA: 0.4</td><td>EBA Norm: –1.9</td><td>EBA Gap: 2.3</td><td>Staff Adj.: 0.0</td><td>Staff Gap: 2.3</td></tr>
<tr><td>Real Exchange Rate</td><td colspan="6">Background. The annual averages of the NEER and the REER both appreciated by 1.1 percent as of end-September 2024 relative to 2023, as the zloty remained strong against both the USD and Euro and the positive inflation differential relative to Poland's trading partners diminished.

Assessment. The EBA REER index and level models estimate a 2024 REER gap of 20.0 and –9.1 percent, respectively. Consistent with the staff CA gap and an estimated elasticity of 0.42, staff's overall assessment is a REER undervaluation within a range of -4.3 to -6.7 percent, with a midpoint of -5.5 percent.</td></tr>
<tr><td>Capital and Financial Accounts: Flows and Policy Measures</td><td colspan="6">Background. The capital account balance is projected to decline slightly to 0 percent of GDP in 2024 from 0.2 percent in 2023. Over the medium-term, the capital account surplus is projected to stabilize around 0.6 percent of GDP, supported by inflows of EU funds. The financial account experienced a net inflow of 0.8 percent of GDP in 2024. Both inward and outward FDI declined in 2024, with net inflows expected to reach 2.3 percent of GDP, largely unchanged from that in 2023.

Assessment. The capital account is projected to remain a strong source of support for investment, reflecting EU cooperation frameworks. Vulnerability to capital outflows is contained as foreign holdings of domestic government securities have declined continuously and significantly since 2016, and the foreign investor base remains diversified. The central bank has adequate tools to manage bouts of volatility.</td></tr>
<tr><td>FX Intervention and Reserves Level</td><td colspan="6">Background. FX reserves are projected to increase to US$204 billion in 2024 from US$194 billion in 2023. Net reserves, which net out the central bank's repo operations and government FX deposits, stood at about US$167 billion in 2023 from US$146 billion in 2022. While central bank briefly intervened in foreign exchange markets in March 2022 amid disorderly market conditions at the beginning of the war in Ukraine, no intervention was conducted in 2023 and 2024. The zloty is considered free floating.

Assessment. At about 160 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.</td></tr>
<tr><td colspan="7">[1] The final assessment for 2024 will be provided in the 2025 External Sector Report.</td></tr>
</table>

Annex III. Risk Assessment Matrix

Risks	Likelihood	Expected Impact	Policy Response
		Global Risks	
Intensification of regional conflicts. Escalation or spread of Russia's war in Ukraine, and/or other regional conflicts or terrorism disrupt trade (e.g., energy, food, tourism, supply chains), remittances, FDI and financial flows, payment systems, and increase refugee flows.	**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.	• Continue to provide humanitarian assistance to refugees and 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 allow the flexible exchange rate to adjust.
Commodity price volatility. Supply and demand fluctuations (e.g., due to conflicts, export restrictions, OPEC+ decisions, and green transition) cause recurrent commodity price volatility, external and fiscal pressures and food insecurity in EMDEs, cross-border spillovers, and social and economic instability.	**High**	**High** As an importer of oil and natural gas, higher international energy prices could erode households' purchasing power, increase firms' costs, and ultimately lower private consumption and investment.	• 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. • Allow the flexible exchange rate to adjust.
Global growth surprises: • **Slowdown.** Growth slowdown in major economies, including due to supply disruptions, tight monetary policy, rising corporate bankruptcies, or a deeper-than-envisaged real estate sector contraction, with adverse spillovers through trade and financial channels, triggering sudden stops in some EMDEs. • **Acceleration.** Positive supply-side surprises, monetary easing, productivity gains from AI, and/or stronger EMDE performance raise global demand and trade, and ease global financing conditions.	**Medium** **Low**	**Medium** Poland is highly integrated in the global value chains, with a large exposure to its EU partners (particularly Germany). Lower trading partner growth would lead to slower export growth, higher unemployment, and weaker consumer and business confidence.	• Lower policy interest rates if a weaker economy is expected to lead inflation to fall below the inflation target over the horizon for monetary policy. • Allow the fiscal stance to loosen temporarily, given available fiscal space. • Allow the flexible exchange rate to adjust.
Deepening geoeconomic fragmentation. Broader conflicts, inward-oriented policies, and weakened international cooperation result in a less efficient configuration of trade and FDI, supply disruptions, protectionism, policy uncertainty, technological and payments systems fragmentation, rising shipping and input costs, financial instability, a fracturing of international monetary system, and lower growth.	**High**	**Medium** Poland is highly integrated in the global value chain, with a large exposure to its EU partners (particularly Germany). Therefore, it is vulnerable to trade, FDI and supply disruptions. On the other hand, Poland could benefit from "friend shoring" or "near shoring" by the EU and the US.	• Facilitate structural reforms, focused on business climate and labor market reforms that would support reallocation of resources and economic agility, improving education and vocational training, and boosting infrastructure investment and R&D support to attract FDI and boost future productivity and income growth.

Risks	Likelihood	Expected Impact	Policy Response
			• Ensure that public investment spending remains on track, including projects linked to the Next Generation EU grants.
Domestic Risks			
Slower-than-expected disinflation. The tight labor market, coupled with accelerating domestic demand could slow disinflation. Global supply-side shocks would also disrupt the progress in disinflation made so far.	**Medium**	**High** Higher-than-expected inflation could hurt consumption and confidence and prompt the NBP to adopt a more hawkish monetary stance, which could derail credit growth and the economic recovery.	• Monetary policies remain agile and respond to changing data and conditions, with the aim of keeping inflation expectations anchored and bringing inflation to target within a credible timeframe. • Fiscal policies should support economic stability by rebuilding buffers and supporting disinflation with tighter policies if needed.

Annex IV. Market Access Countries Sovereign Risk and Debt Sustainability Framework

Annex IV. Figure 1. Poland: 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 a moderate level of risk. The Debt Fanchart Module points to moderate risk largely due to a high probability that debt will not stabilize in the medium term. The GFN Module indicates moderate liquidity risks, as gross financing needs remain elevated over the medium term. 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 modules suggest a moderate overall level of risk but contain substantial uncertainty. Poland's expected worsening demographic conditions over the long term will likely lead to higher pension and healthcare costs, suggesting long-run demographic risks. Large amortization risk remains low, and climate change mitigation risks could be manageable, but the results highlight substantial uncertainty around the level of climate investment needs.
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, but medium- and long-term risks are notable under the baseline of current policies. Although the DSA's mechanical signals remain unchanged relative to the 2023 Article IV Staff Report, the projected debt dynamics have deteriorated. In the absence of consolidation, a shift to a "moderate" overall risk of sovereign stress may become warranted. Under the baseline, debt is not expected to stabilize over the projection period, gradually increasing from below 50 percent of GDP in 2023 to about 64 percent of GDP in 2029, breaching the ceiling of 60 percent of GDP. This is driven by elevated deficits and other debt-creating flows, including loans disbursed under the Recovery and Resilience Facility (RRF), which carry favorable terms (3.8 percent of GDP). As the Fanchart and the GFN Module suggested, medium-term risks are moderate. Several factors outside the mechanical signals mitigate risks beyond the availability of time and identified options for adjustment as needed. First, in line with the EU's Excessive Deficit Procedure (EDP), the authorities' Medium-Term Fiscal Structural Plan (MTFSP) is expected to reduce government deficit and debt-to-GDP ratio. The baseline includes the authorities' identified and legislated measures but excludes measures yet to be identified and aligned with the MTFSP and EDP (Figure 7). These additional measures are expected to further reduce the risk of sovereign stress as they are identified and adopted. Second, calculations rely on conservative financing assumptions as interest costs could be lowered through greater issuance on international in lieu of domestic markets, given ample capacity to tap international markets with low external public debt, strong external balances, and a robust investment grade sovereign rating. Reliance on international markets has trended downward with government bonds issued abroad falling to about 7 percent of GDP compared to over 12 percent of GDP at end-2016. Third, a sustained track record of active debt management, including through liability management operations, has helped smooth out the debt redemption profile, and with such continued operations further mitigating liquidity risks. Still, additional measures for fiscal consolidation should be considered over the medium term to put debt firmly on a downward trajectory. The long-term modules suggest a moderate overall level of risk. However, worsening demographic conditions will likely increase healthcare spending and reduce pension benefits (or increase costs to preserve pension adequacy), creating risk for public finances.

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.

Annex IV. Figure 2. Poland: Debt Coverage and Disclosures

Comments

1. Debt coverage in the DSA: 1/

CG	GG	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/

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/

5. Debt consolidation across sectors: Consolidated | Non-consolidated

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

Reporting on Intra-Government Debt Holdings

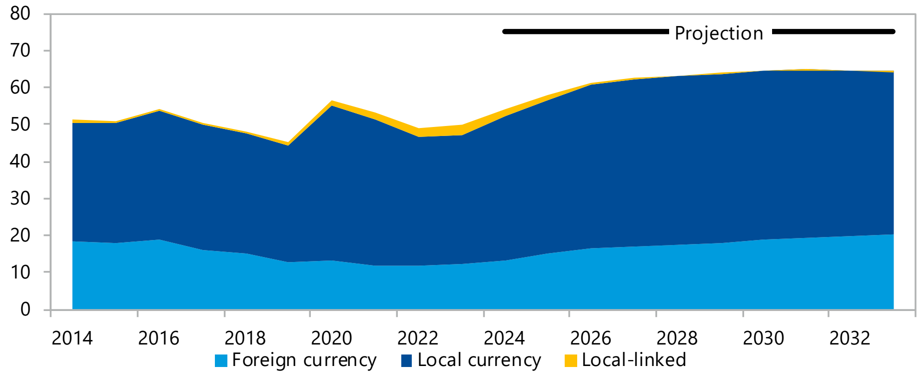
					Issuer \ Holder	Budget. central govt	Extra-budget. funds (EBFs)	Social security funds (SSFs)	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
CPS	NFPS	GG: expected	CG	1	Budget. central govt		77	95	0	4	0	73	0	249
				2	Extra-budget. funds	0		1	0	0	0	62	0	63
				3	Social security funds	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	79	95	0	4	0	135	0	314

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 SRDSF is the general government. The data on intra-government debt holdings is for 2023 in PLN bn. The social security funds, extra-budgetary funds, and the central bank hold significant portions of the central government debt.

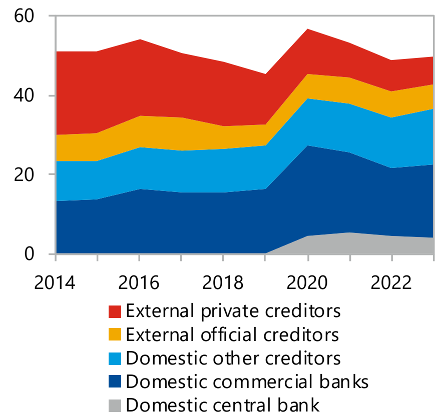
Annex IV. Figure 3. Poland: Public Debt Structure Indicators

Debt by Currency (Percent of GDP)



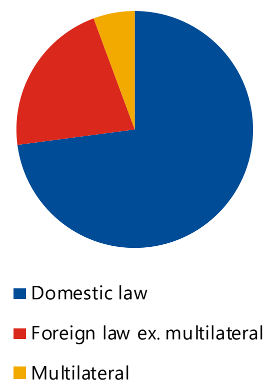
Note: The perimeter shown is general government.

Public Debt by Holder (Percent of GDP)



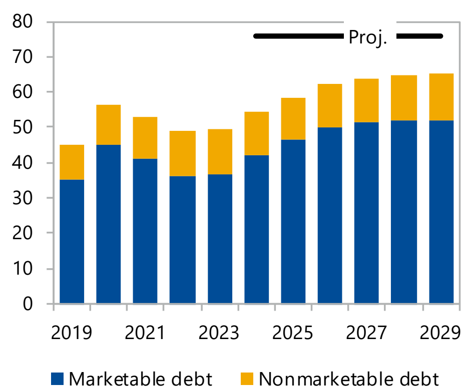
Note: The perimeter shown is general government.

Public Debt by Governing Law, 2023 (percent)



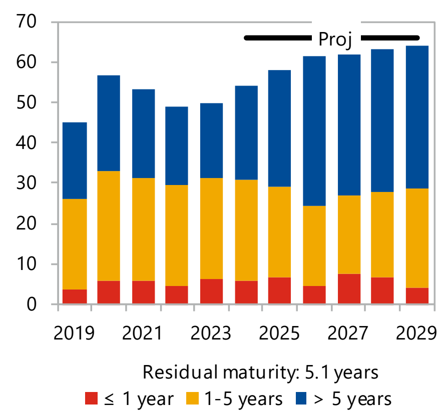
Note: The perimeter shown is general government.

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.

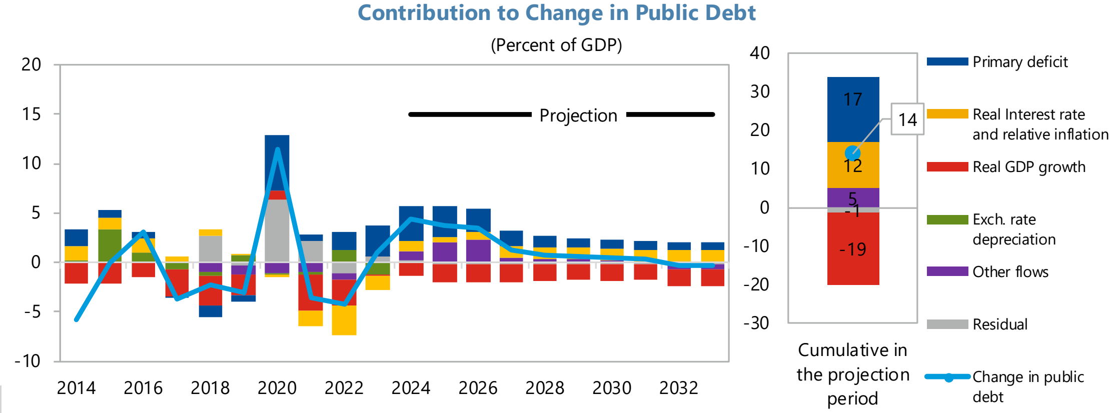
Commentary: Domestic creditors hold an increasingly larger share of debt. In the future, most of the general government debt is expected to remain in local currency, largely issued in the domestic market, reflecting the authorities' objective to utilize the domestic market as the primary source of financing. Debt maturities are expected to increase, driven by the long maturity of military borrowing and loans from the EC's Recovery and Resilience Facility.

Annex IV. Figure 4. Poland: Baseline Scenario

(Percent of GDP unless indicated otherwise)

	Actual	Medium-term projection						Extended projection			
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Public debt	49.7	54.1	57.8	61.3	62.5	63.2	63.8	64.3	64.7	64.4	64.1
Change in public debt	0.9	4.4	3.7	3.5	1.2	0.8	0.6	0.5	0.4	-0.3	-0.3
Contribution of identified flows	0.4	4.2	3.9	3.6	1.3	0.9	0.8	0.6	0.5	-0.2	-0.2
Primary deficit	3.2	3.6	3.1	2.3	1.5	1.1	0.9	0.9	0.9	0.9	0.8
Noninterest revenues	41.8	43.4	44.0	44.7	44.0	44.2	44.1	43.9	43.9	44.0	44.1
Noninterest expenditures	45.0	47.0	47.1	47.0	45.5	45.3	45.0	44.8	44.8	44.9	44.9
Automatic debt dynamics	-2.9	-0.4	-1.3	-0.9	-0.6	-0.5	-0.5	-0.5	-0.5	-0.5	-0.4
Real interest rate and relative inflation	-1.6	1.0	0.6	0.9	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Real interest rate	-2.2	0.9	0.2	0.7	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Relative inflation	0.6	0.1	0.3	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Real growth rate	-0.1	-1.4	-1.8	-1.8	-1.8	-1.7	-1.6	-1.7	-1.7	-1.7	-1.7
Real exchange rate	-1.2	...	...	...	...	...	...	...	...	...	...
Other identified flows	0.0	1.0	2.1	2.3	0.4	0.3	0.3	0.2	0.1	-0.6	-0.6
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(minus) Interest Revenues	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/	0.0	1.0	2.1	2.3	0.4	0.3	0.3	0.2	0.1	-0.6	-0.6
Contribution of residual	0.6	0.1	-0.2	-0.2	-0.1	-0.1	-0.2	-0.2	-0.1	-0.1	-0.1
Gross financing needs	10.8	12.5	11.0	11.1	8.5	10.5	9.8	7.3	5.6	10.1	10.6
of which: debt service	7.6	8.9	7.8	8.7	7.0	9.5	8.9	6.4	4.8	9.3	9.7
Local currency	5.6	6.6	6.0	6.7	5.5	8.3	7.7	5.4	3.9	6.5	6.2
Foreign currency	1.4	1.7	1.5	1.5	1.1	1.1	1.1	1.0	0.8	2.7	3.5
Memo:											
Real GDP growth (percent)	0.1	2.8	3.5	3.3	3.1	2.8	2.7	2.7	2.7	2.7	2.7
Inflation (GDP deflator; percent)	9.5	3.0	4.5	3.6	2.6	2.5	2.5	2.5	2.5	2.5	2.5
Nominal GDP growth (percent)	9.7	5.9	8.2	7.0	5.8	5.4	5.2	5.2	5.2	5.2	5.2
Effective interest rate (percent)	4.7	4.9	5.0	4.8	4.5	4.3	4.3	4.3	4.3	4.3	4.3
Net public debt	38.7	42.6	45.3	48.2	50.0	51.2	52.2	53.1	54.0	54.2	54.4

Contribution to Change in Public Debt



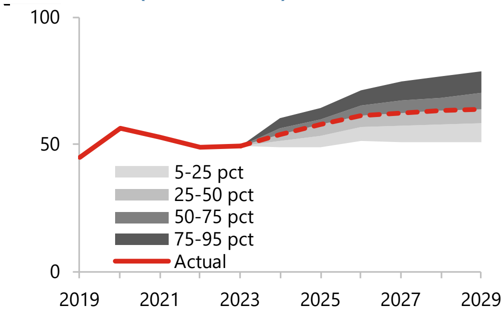
1/ Other transactions include adjustments for cash and accrual accounting and RRF loans to be on-lent to the private sector.

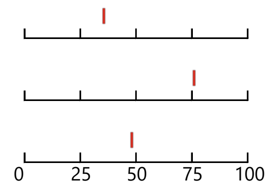
Commentary: At the end of 2023, the general government debt stood at about 49.7 percent of GDP. Under the baseline of current policies, debt is projected to increase to about 64 percent of GDP over the next ten years, mainly driven by deficits and other debt-creating transactions, which include about 3.8 ppts of GDP in loans disbursed by the European Commission under the Recovery and Resilience Facility. A portion of RRF loans (2.6 percent of GDP) are expected to be on-lent to the private sector, mainly for climate-related projects. Long-term maturity and low costs mitigate risks stemming from RRF loan accumulation. GFN is projected to remain elevated but relatively stable over the projection period.

Annex IV. Figure 5. Poland: Medium-Term Risk Assessment

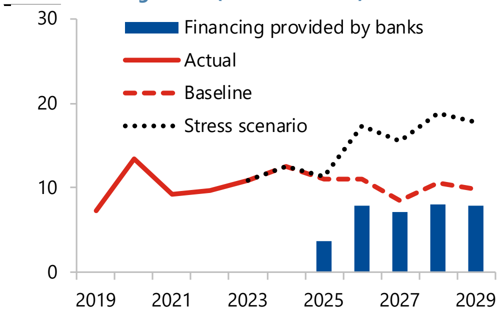
	Value	Contrib 1/	Percentile in peer group 2/
Debt fanchart module			
Fanchart width *(percent of GDP)*	28.0	0.4	
Probability of debt non-stabilizaiton *(percent)*	76.6	0.6	
Terminal debt-to-GDP x institutions index	29.7	0.6	
Debt fanchart index (DFI)		1.7	
Risk signal: 3/		**Moderate**	
Gross financing needs (GFN) module			
Average baseline GFN *(percent of GDP)*	10.6	3.6	
Initial Banks' claims on the gen. govt *(pct bank assets)*	18.6	6.0	
Chg. In banks' claims in stress *(pct banks' assets)*	14.0	4.7	
GFN financeability index (GFI)		14.3	
Risk signal: 4/		**Moderate**	

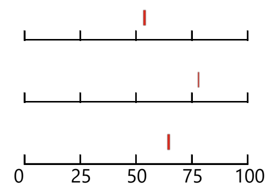
Final Fanchart (Percent of GDP)





Gross Financing Needs (Percent of GDP)

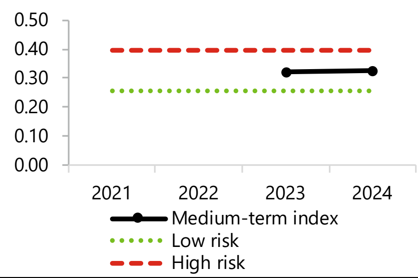




Triggered stress tests (stress tests not activated in gray)

Banking crisis | Commodity prices | Exchange rate | Contingent liab. | Natural disaster

Medium-Term Index (Index Number)



Medium-term risk analysis

	Value	Value (normalized)	Weight	Contribution
Debt fanchart index	1.7	0.4	0.5	0.2
GFN finaceability index	14.3	0.3	0.5	0.1
Medium-term index		0.3		
Risk signal: 5/		**Moderate**		
Final assessment:		**Moderate**		

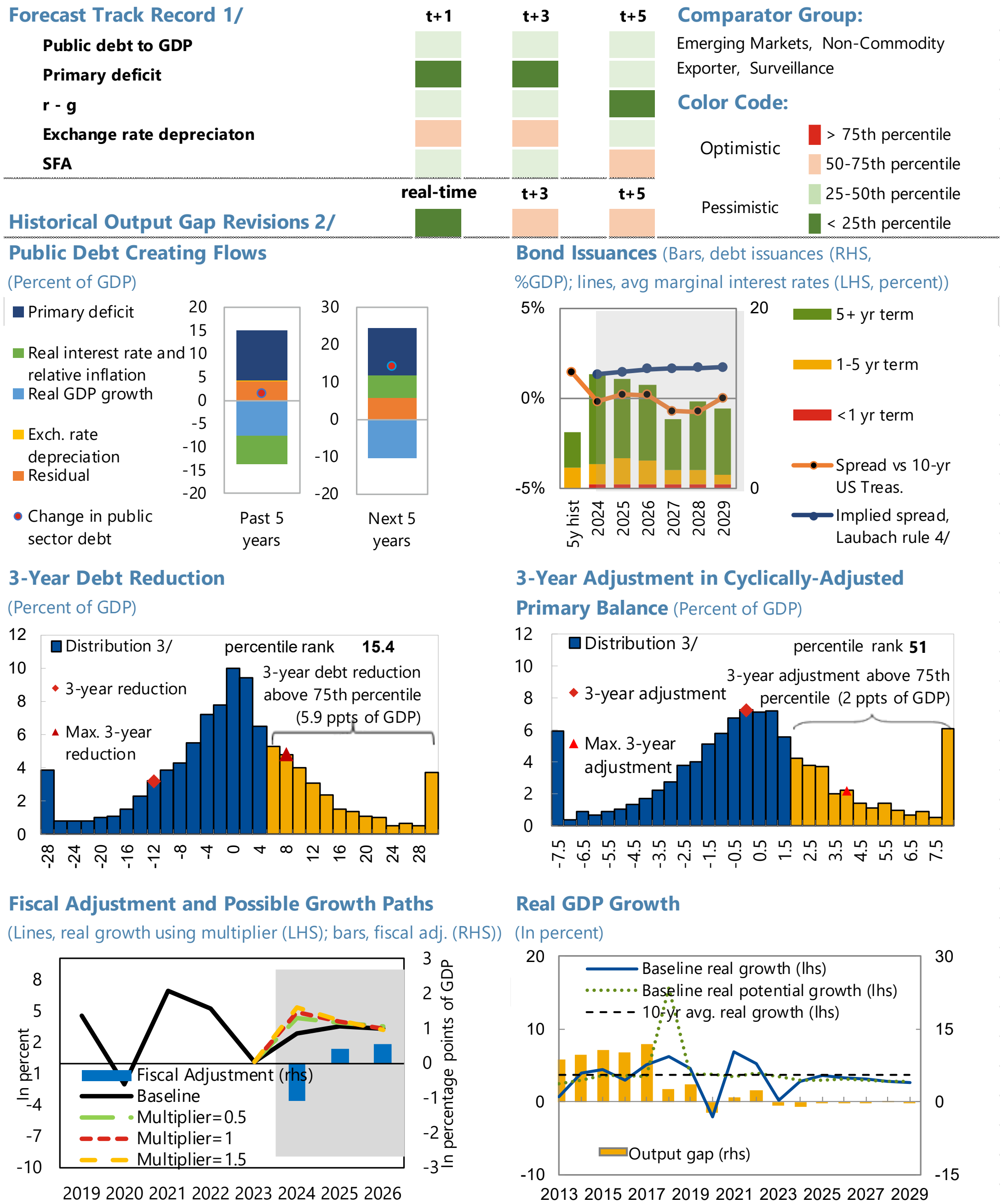
Prob. of missed crisis, 2024-2029, if stress not predicted: 18.2 pct.
Prob. of false alarms, 2024-2029, if stress predicted: 22.7 pct.

Commentary: The two medium-term tools point to a moderate level of risk. The Debt Fanchart Module points to moderate risk largely due to a high probability that debt does not stabilize in the medium term combined with the terminal debt level adjusted by institutional quality. 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 the 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 markets, non-commodity exporter, surveillance.
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.

Annex IV. Figure 6. Poland: Realism of Baseline Assumptions



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

Source : IMF Staff.

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

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates

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

Annex IV. Figure 7. Poland: Long-Term Risk Assessment: Large Amortization

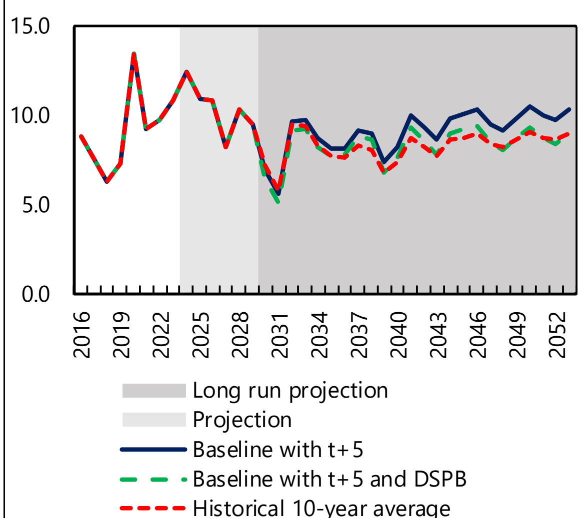
Triggered Modules

Large amortizations	**Pensions**	Climate change: Adaptation	Natural Resources
	Health	**Climate change: Mitigation**	

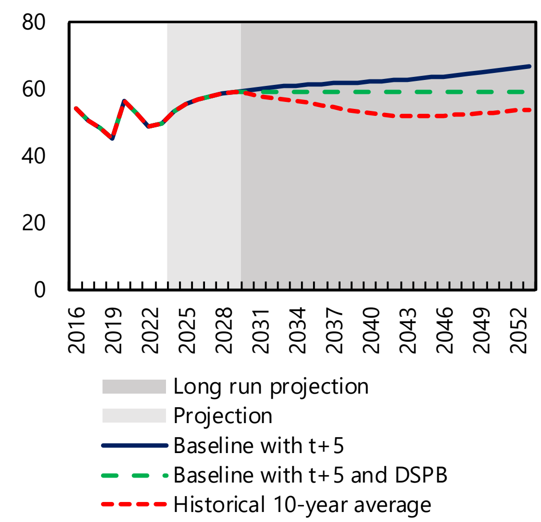
Long-Term Risk Assessment: Large Amortization

Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Medium-term extrapolation with debt stabilizing primary balance	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

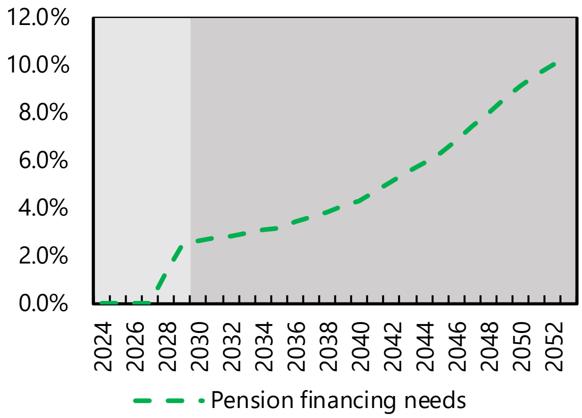


Commentary: The amortization module points to risks, as the projected values exceed the 10-year historical average by more than one standard deviation in at least one year in the long run.

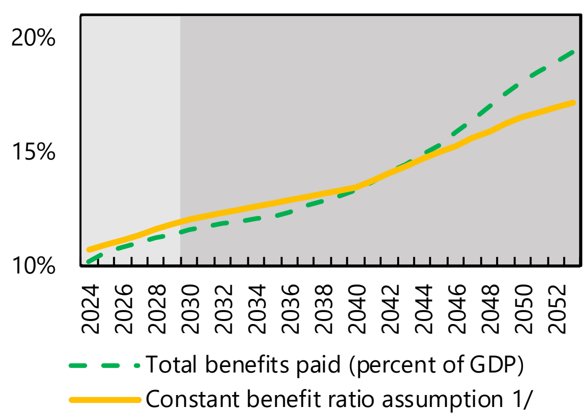
Annex IV. Figure 8. Poland: Demographics—Pensions

Permanent adjustment needed in the pension system to keep pension assets positive for:	30 years	50 years	Until 2100
(pp of GDP per year)	4.6%	7.5%	9.0%

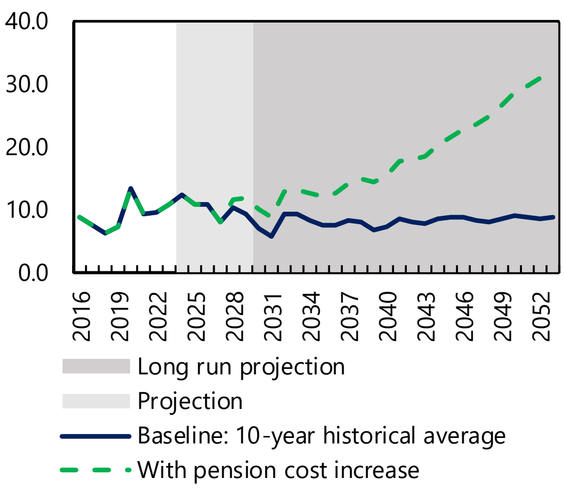
Pension Financing Needs



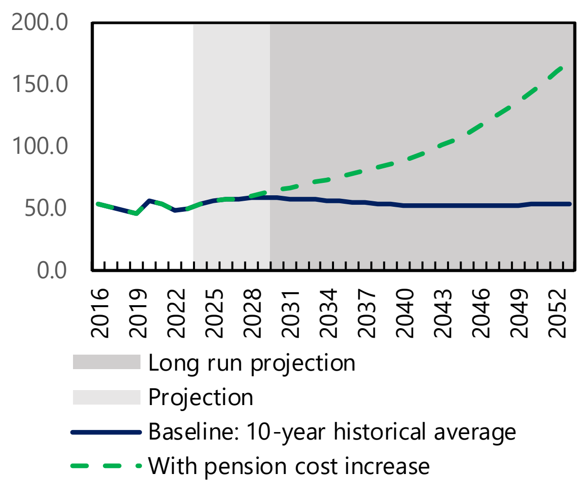
Total Benefits Paid



GFN-to-GDP Ratio



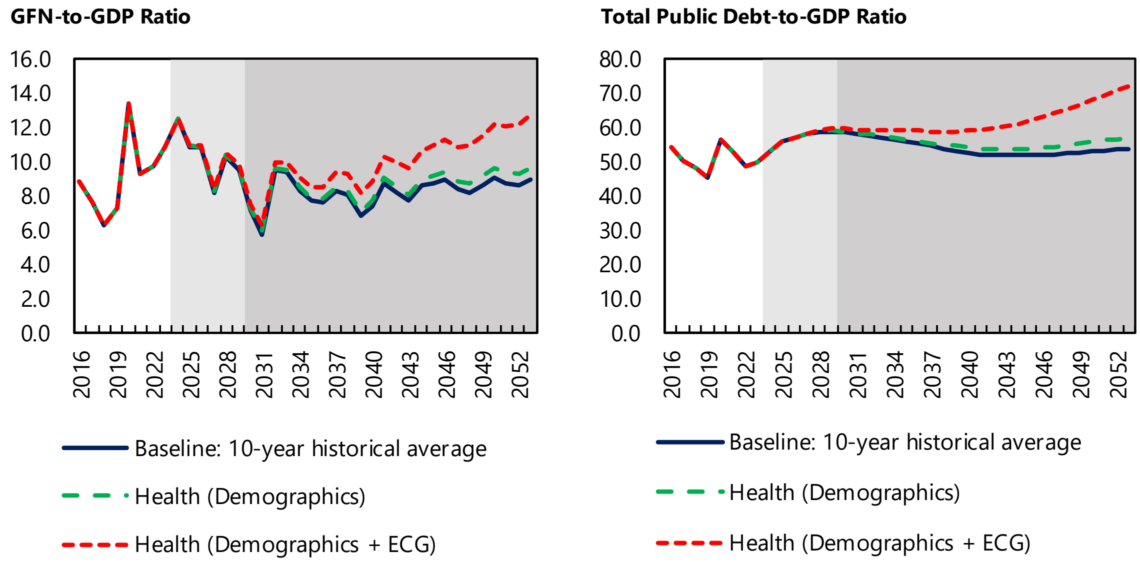
Total Public Debt-to-GDP Ratio



1/ Scenario assumes no adjustments, including of benefits ratios, to counteract population aging. Source: 2024 Ageing Report Poland Country Fiche.

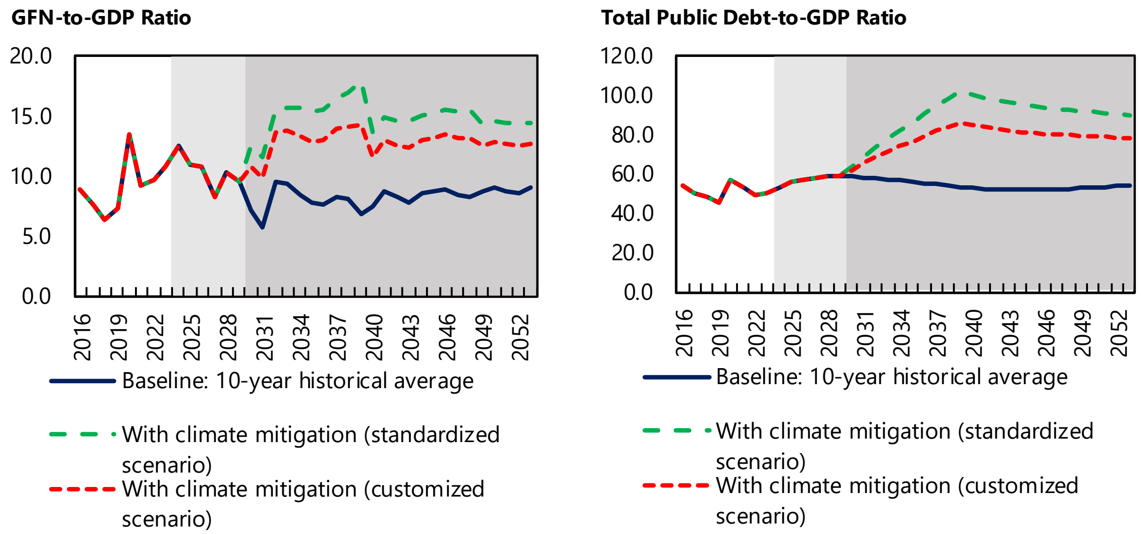
Commentary: This illustrative pension module provides long-term projections of the financing needs arising from demographic changes and other factors. The results show increasing GFN and debt trajectory, pointing to long-run demographic risks on pensions. In the later years, the total paid benefits projected in this module exceed those estimated by the authorities using more detailed data, where no adjustments are assumed, including of benefits ratios to counteract population ageing.

Annex IV. Figure 9. Poland: Demographics—Health



Commentary: Poland's demographic conditions are expected to worsen over the long term as the working-age population declines amid rapid aging. In this context, this illustrative module provides long-term simulations of the future path of healthcare expenditures arising from changing demographics and other factors that increase healthcare costs. The results show increasing GFN and debt-to-GDP ratio trajectory, potentially pointing to long-run demographic risks on healthcare.

Annex IV. Figure 10. Poland: Climate Change—Mitigation



Commentary: This illustrative module provides a long-term simulation of potential future paths of climate change mitigation under various scenarios. The GFN and the debt-to-GDP ratio are projected to increase under the standardized and customized scenarios (assuming 2/3 of investment is financed through public debt). The results suggest that climate mitigation risks may be manageable, especially if at least in part financed by the private sector. Still, the results reflect substantial uncertainty around the level and range of potential climate investment needed for climate mitigation.

Annex V. Figure 1. Poland: External Debt Sustainability Framework, 2019-2029

(In percent GDP, unless otherwise indicated)

	Actual							Projections						
	2019	2020	2021	2022	2023	10-Year Historical Average	10-Year Standard Deviation	2024	2025	2026	2027	2028	2029	Debt-stabilizing non-interest current account 5/
External debt	59.6	63.0	53.8	53.7	48.9			**47.6**	**46.5**	**45.4**	**44.4**	**43.8**	**43.3**	**0.1**
Change in external debt	-2.0	3.4	-9.2	-0.1	-4.8			-1.2	-1.2	-1.0	-1.0	-0.7	-0.5	
Identified external debt-creating flows (4+8+9)	-2.4	-4.2	-7.3	0.7	-12.6			-9.6	-4.6	-5.0	-4.5	-3.5	-3.1	
Current account deficit, excluding interest payments	-1.3	-3.7	0.2	1.1	-3.0			-2.4	-1.3	-0.7	-0.6	-0.3	-0.1	
Deficit in balance of goods and services	-3.7	-5.7	-3.4	-1.9	-6.1			-5.4	-4.0	-3.5	-3.6	-3.7	-3.7	
Exports	53.2	53.2	57.6	62.9	57.8			56.0	54.5	54.1	53.8	54.0	54.3	
Imports	49.5	47.5	54.3	61.0	51.7			50.6	50.5	50.6	50.2	50.4	50.6	
Net non-debt creating capital inflows (negative)	-3.0	-2.1	-1.5	-3.9	-3.0			-2.8	-2.1	-2.5	-2.4	-2.3	-2.2	
Automatic debt dynamics 1/	1.9	1.6	-6.0	3.5	-6.5			-4.4	-1.2	-1.8	-1.5	-0.9	-0.9	
Contribution from nominal interest rate	1.5	1.2	1.1	1.4	1.5			1.4	1.3	1.2	1.1	1.1	1.1	
Contribution from real GDP growth	-2.8	1.2	-3.9	-3.1	-0.1			-1.3	-1.6	-1.5	-1.3	-1.3	-1.2	
Contribution from price and exchange rate changes 2/	3.1	-0.9	-3.2	5.2	-7.9			-4.5	-1.0	-1.5	-1.4	-0.8	-0.8	
Residual, incl. change in gross foreign assets (2-3)	0.3	7.6	-1.9	-0.8	7.8			8.4	3.5	3.9	3.5	2.9	2.6	
External debt-to-exports ratio (in percent)	112.0	118.3	93.3	85.3	84.5			85.0	85.2	83.9	82.6	81.0	79.6	
Gross external financing need (in billions of US dollars) 3/	113.0	85.9	108.1	107.7	82.4			89.9	99.7	105.9	110.0	115.1	120.6	
in percent of GDP	19.0	14.3	15.9	15.6	10.2			10.4	10.9	10.9	10.8	10.7	10.7	
Key Macroeconomic Assumptions														
Nominal GDP (US dollars)	596.0	599.5	681.4	689.9	811.7			862.9	915.5	968.3	1022.5	1071.8	1122.5	
Real GDP growth (in percent)	4.4	-2.0	6.9	5.6	0.2	3.7	2.8	3.0	3.5	3.4	3.1	3.0	2.9	
Exchange rate appreciation (US dollar value of local currency, percent)	-5.9	-1.5	1.0	-13.4	6.1	-2.5	7.6	-0.4	-1.6	-0.9	-0.1	-0.7	-0.7	
GDP deflator in US dollars (change in percent)	-4.8	1.5	5.3	-8.8	17.4	0.3	9.2	10.3	2.1	3.2	3.1	1.8	1.8	
Nominal external interest rate (in percent)	2.5	2.1	1.9	2.6	3.3	2.3	0.4	3.3	2.9	2.7	2.7	2.7	2.7	
Growth of exports (US dollar terms, in percent)	2.1	0.7	23.0	10.5	8.1	7.4	9.1	3.1	3.2	5.0	5.0	5.2	5.3	
Growth of imports (US dollar terms, in percent)	-1.2	-3.5	29.9	13.9	-0.3	6.8	12.4	4.0	5.9	5.9	4.8	5.2	5.3	
Current account balance, excluding interest payments	1.3	3.7	-0.2	-1.1	3.0	0.6	1.7	2.4	1.3	0.7	0.6	0.3	0.1	
Net non-debt creating capital inflows	3.0	2.1	1.5	3.9	3.0	2.4	1.2	2.8	2.1	2.5	2.4	2.3	2.2	

II. Stress Tests for External Debt Ratio							Debt-stabilizing non-interest current account 5/
A. Alternative Scenarios							
A1. Key variables are at their historical averages in 2018-2025 4/	**64.1**	**63.5**	**63.5**	**62.9**	**61.8**	**60.4**	**7.2**
B. Bound Tests							
B1. Nominal interest rate is at baseline plus one-half standard deviation	75.7	77.8	80.7	83.4	86.1	89.2	-0.4
B2. Real GDP growth is at baseline minus one-half standard deviations	78.6	81.5	85.2	88.7	92.4	96.4	0.4
B3. Non-interest current account at baseline minus one-half standard deviations	78.3	81.1	84.6	87.8	91.1	94.8	-0.7
B4. Combination of B1-B3 using 1/4 standard deviation shocks	79.0	82.0	85.9	89.5	93.2	97.3	-0.1
B5. One time 30 percent real depreciation in 2019	65.6	67.4	70.0	73.2	76.0	78.6	0.1

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.

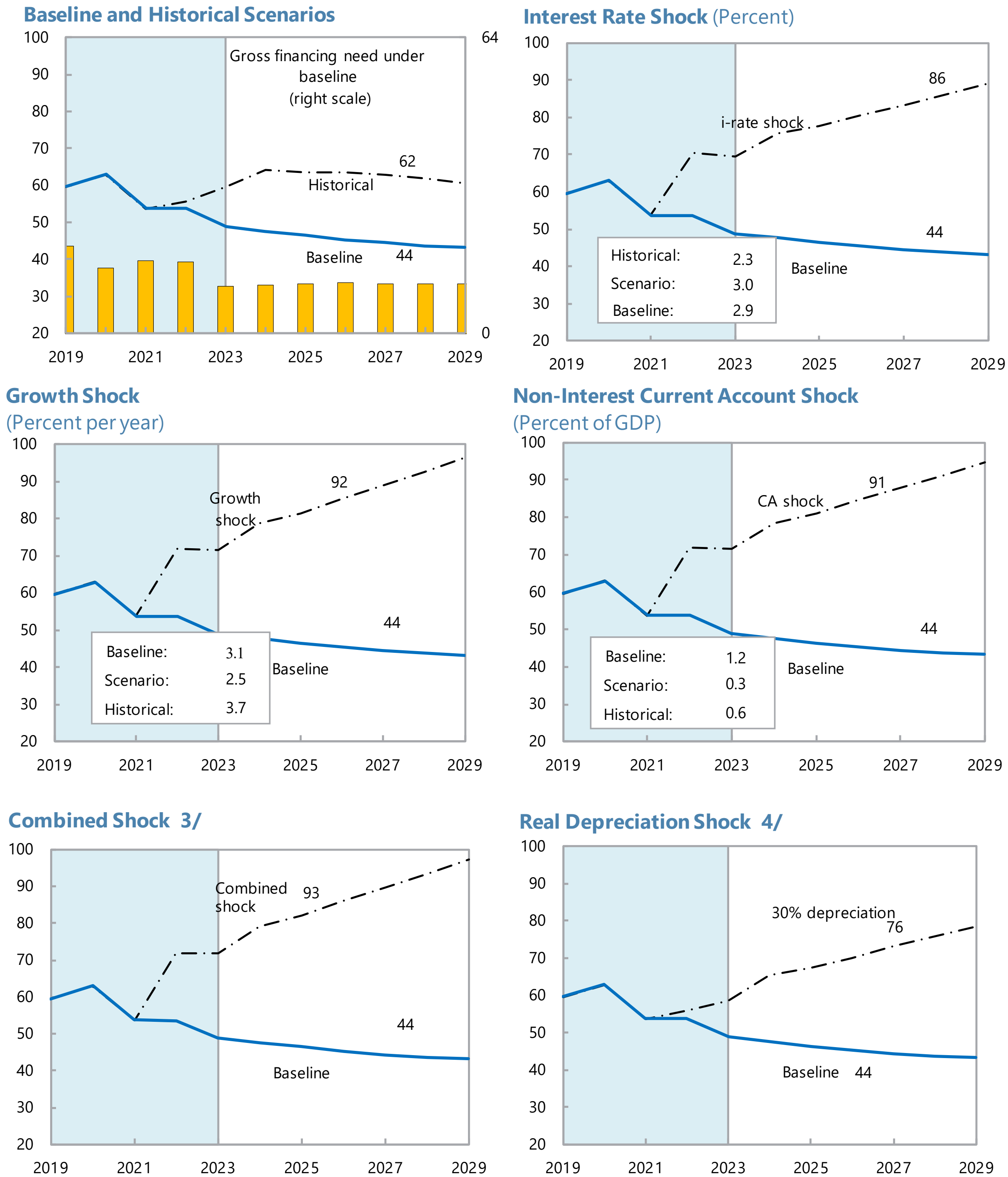
2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

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.

Annex V. Figure 2. Poland: External Debt Sustainability: Bound Tests [1, 2]



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 VI. Implementation of Past Article IV Recommendations

2023 Article IV Recommendations	Policy Actions
Monetary Policy	
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.	Monetary policies were looser than expected in late 2023, surprising markets with a cumulative 100 bps cuts at a time when inflation was still quite elevated. No further easing has been implemented since then, which has helped anchor inflation expectations.
The NBP should also improve transparency on foreign exchange intervention.	Interventions have been halted following the episode in 2022. No data has been published.
Fiscal Policy	
Following a fiscal expansion in 2022 and amid still-high inflation, avoid another expansion in 2023.	The general government deficit was higher than anticipated and additional expansionary measures were passed. Nevertheless, the authorities also took challenging measures to unwind the anti-inflation shield during a busy election cycle, including raising VAT on food back to 5 percent from zero just before local elections.
If Poland faces additional energy price shocks, protect the most vulnerable, encourage energy conservation, and remain temporary.	Energy measures were extended through at least 2024. The focus shifted from energy price cap and freezes to transfers to vulnerable households.
Find offsetting measures to prevent debt from increasing over the medium-term.	The Medium-Term Fiscal Structural Plan identifies many but not all measures of the necessary measures.
Move new expenditures in BGK funds on budget to enhance transparency. At a minimum, include off-budget funds. as appendices to the budget law.	The amended public finance law increases Parliamentary oversight over extrabudgetary funds managed by the state development bank BGK.
Monetary and Financial Policies	
Redesign the bank asset tax to remove disincentives for private credit.	There are no legal initiatives to modify the tax.
Banks should work with borrowers to reach voluntary agreements to settle legal disputes.	Banks offer voluntary conversion of FX mortgages to zloty mortgages. Risk weights on FX mortgages for participating banks have been lowered.

2023 Article IV Recommendations	Policy Actions
Mortgage credit holidays are inefficient and should not be extended.	Credit holidays were extended through 2024, with a 30 percent DSTI criterion, which improves targeting.
Structural Reforms	
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.	There are no legal initiatives to increase the statutory retirement age, or to align the age for male and female retirement.
The authorities should consider a carbon tax.	There are no legal initiatives towards introducing carbon taxation.
Further policy measures could support labor market integration of refugees.	The authorities introduced incentives to participate in the Polish education system.
Measures to facilitate immigration can boost Poland's potential output.	The government is working on a migration strategy.
Source: IMF staff.	

Annex VII. The Stabilizing Expenditure Rule: Amendments

1. **The stabilizing expenditure rule (SER) has been a core component of Poland's fiscal framework.** The rule, effective since 2015, has complemented the constitutional national debt limit – a narrow definition of General Government debt– of 60 percent of GDP.[1] The SER helped instill budgetary discipline and coalesced political consensus around fiscal prudence, which facilitated public debt reduction before the pandemic and provided fiscal buffers for Poland to respond to the COVID shock.

2. **The SER was amended in 2024 with support from Fund technical assistance.**[2] The amendments aimed to strengthen compliance, broaden the SER's coverage, and align it with the new EU Fiscal Framework.

Annex VII. Table 1. Poland: Summary of Poland's Fiscal Rule

(Items underlined represent changes approved in July 2024.)

Main concept	Broadly limit the growth rate of public spending to that of "trend" nominal GDP growth. Trend GDP growth is defined as average nominal GDP growth in last 7 years and projections for current and next year.
Accounting	The spending limit is calculated largely on cash terms with important exceptions. For example, defense spending is calculated on an accrual basis.
Coverage	All general government spending except the following two types of exemptions. In recent years, the exemptions have amounted to less than 10% of total spending. 1. Certain types of spending are exempted: EU funds, <u>co-financing for EU funds, repayment of debt of government entities. The previous exemption of the transfer of T bonds to budget entities has been eliminated.</u> 2. Spending by certain entities is exempted: cultural institutions, Polish Academy of Science, independent public healthcare facilities, public universities, off budget municipal entities. <u>Some previous exemptions of spending by entities (including strategic reserves agency and social security institution (ZUS) have been eliminated.</u>

[1] The national debt limit is the sum of the gross debts of the central government, local government, and Social Security Fund. It does not capture all general government debt given its exclusion of debt by public entities and extrabudgetary funds such as the BGK. The Public Finance Act include a debt brake at national debt levels of 55 percent of GDP.

[2] "Republic of Poland: Technical Assistance Report- Aligning the Stabilizing Expenditure Rule to the European Union Fiscal Framework", 2024, International Monetary Fund

Annex VII. Table 1. Poland: Summary of Poland's Fiscal Rule (concluded)

Adjustors	1. Adjust annual spending limit up/down by size of increase/decrease in revenue measures 2. Adjust annual spending limit down as needed to achieve at least 0.5% fiscal adjustment (or as EC recommends) if EC projections for following year envisage deficit above 3% of GDP or debt above 60% of GDP. 3. Adjust annual spending limit up/down to offset impact of any realized forecast error in the projection component of the trend GDP calculation in the previous year
Enforcement	There are no specific consequences if the general spending limit is exceeded. However, if the spending limit is exceeded on a specific subset of categories, it would be considered a breach of the law which can result in a variety of penalties for the Finance Minister. This so-called "non-breachable limit" starts with the same coverage as the broader fiscal rule but then also excludes 2 funds at BGK (Covid Fund and Support Fund for Refugees), the National Health Fund, local governments, Bank Guarantee Fund, and units with budget autonomy).
Escape clause	Fiscal rule can be suspended under certain conditions: 1. Constitutional triggers: martial law, state of emergency, natural disaster 2. In the event of a pandemic 3. Severe slowdown (projected GDP growth more than 2ppts below trend growth) Fiscal rule should be reinstated within 2-4 years depending on projected GDP growth.

Annex VIII. Monetary Policy, Supply Shocks, and Rebalancing the Policy Mix[1]

A. Overview of the Quarterly Projection Model

1. The Quarterly Projections Model (QPM) is an IMF workhorse model for monetary policy analysis. It provides core support for a forecasting and policy analysis system (FPAS). The QPM is a reduced form neo-Keynesian model, notable for its straightforward economic interpretations and the inclusion of real and nominal rigidities. It operates under the assumption that monetary policy has a neutral impact on output over the medium-term, influencing the path of output around its equilibrium but not its long-term level. Essentially, the QPM is a "gap" model that utilizes estimates of key economic disparities—such as output, inflation, and interest rate gaps—to inform and adjust monetary policy settings, steering the economy towards equilibrium without delving into potential output movements or other trends, which are considered exogenous to the model.

2. The model here is a variation on the core model presented in the 2023 Article IV Staff Report. In addition to the core components outlined in the 2023 Selected Issues Paper, it explicitly incorporates the prices of food, energy (mainly electricity and natural gas), and other fuel (mainly gasoline), enabling modeling responses to supply shocks and pass through via relative prices.

- *Aggregate demand (IS curve)* in which the output gap ($\hat{y}_t$) is a function of output persistence ($\hat{y}_{t-1}$), a monetary conditions index (mci_t), the foreign output gap ($\hat{y}_t^*$), and aggregate demand shocks (ε_t^y). The monetary conditions index is a weighted average of the deviation of the real interest rate from its neutral rate ($\hat{r}_t$) and the deviation of the real effective exchange rate from its trend level ($\hat{z}_t$).

$$\hat{y}_t = b_1\hat{y}_{t-1} - b_2 mci_t + b_3\hat{y}_t^* + \varepsilon_t^y$$

$$mci_t = b_4\hat{r}_t + (1 - b_4)(-\hat{z}_t)$$

- Four *Phillips Curves* reflecting the four components of the CPI. For core inflation, inflation (π_t) is a function of persistence (π_{t-1}), expectations (π_{t+1}), real marginal costs, which is a weighted average of the output gap (to capture the real marginal costs of domestic producers) and the real exchange rate gap ($\hat{z}_t$) (to capture the real marginal costs of importers), and cost-push shocks (ε_t^π). For non-core components, the real marginal cost also includes relative price gaps allowing cost pressures to rise when relative prices are subdued relative to their equilibrium (with the assumption that they would need to accelerate to close the gap).

  Decomposition of inflation into its components:

[1] This Annex benefited from input from collaboration with Gyorgy Molnar (ICD) and helpful discussion with William Lindquist (WHD).

$$\pi_t = w_f \pi_t^f + w_e \pi_t^e + w_g \pi_t^g + \left(1 - w_f - w_e - w_g\right)\pi_t^{core}$$

Where each inflation component x_t (food, energy, fuel, and core) is guided by a Phillips curve in which relative price gaps $\widehat{RP}_t^x$ feed into marginal costs:

$$\pi_{x,t}^x = a_{x1}\pi_{x,t-1}^x + (1 - a_{x1})E_t\pi_{x,t+1}^x + a_{x2}rmc_t^x + \varepsilon_{xt}^{\pi}$$

$$rmc_t^x = a_{x3}\,\hat{y}_t + (1 - a_{x3})(\hat{z}_t - \widehat{RP}_t^x)$$

- *Uncovered interest parity (UIP)* relates the nominal exchange rate (s_t) to its expected future value ($E_t s_{t+1}$), the differential between domestic (i_t) and foreign (i_t^*) nominal interest rates, and a risk premium ($prem_t$).[2] The nominal exchange rate is defined as units of domestic currency per unit of foreign currency (In this case, the euro is the foreign currency).

$$s_t = (1 - e_1)\,E_t s_{t+1} + e_1\left(s_{t-1} + \frac{2(\bar{\pi}_t - \bar{\pi}_t^* + \Delta\bar{Z}_t)}{4}\right) + \ (i_t^* - i_t + prem_t)/4 + \varepsilon_t^s$$

- *Taylor Rule* describes a monetary policy reaction function in which the nominal policy interest rate (i_t) is set as a function of rate persistence (i_{t-1}), the deviation of expected inflation (π_{t+4}^e) from the target ($\bar{\pi}_{t+4}$), and the output gap. The neutral interest rate (i_t^n) is the nominal interest rate that would prevail if inflation were equal to the target and the output gap equal to zero. It is the sum of the trend real interest rate ($\bar{r}_t$) and model-consistent inflation expectations (π_{t+4}^e).

$$i_t = g_1 i_{t-1} + (1 - g_1)(i_t^n + g_2(\pi_{t+4}^e - \bar{\pi}_{t+4}) + g_3\hat{y}_t) + \varepsilon_t^i$$

$$i_t^n = \bar{r}_t + \pi_{t+4}^e$$

B. Calibration

3. Core model parameters are calibrated in-line with the discussion during the 2023 Article IV.

[2] Note that the second term in the UIP equation is the backward-looking component of the exchange rate, which projects the exchange rate as an extrapolation of the past exchange rates adjusted for the trend growth rate of the real exchange rate and the average inflation differential. This reliance on purchasing-power parity tends not to explain exchange rate movements well in the short run but does tend to hold at longer horizons.

Annex VIII. Table 1. Poland: Calibrated Parameter Values

Parameter	Significance	2023 Value	2024 Value	Explanation
		IS Curve		
b_1	Output persistence	0.8	0.7	Estimated via regression of log of output on its lagged value and trend. Tends to vary between 0.5 and 0.9.
b_2	Impact of monetary conditions on output gap	0.3	0.3	Tends to vary between 0.1 and 0.5. Calibrated such that resulting impulse response function of policy rate on output gap is similar to that estimated in NBP (2020).
b_3	Impact of external demand on output gap	0.5	0.35	Tends to vary between 0.1 and 0.7. Set at a level consistent with Poland's structure as a somewhat sizeable open economy.
b_4	Weight of real interest rate and REER gaps in monetary conditions index	0.7	0.7	Effective coefficient on response of output gap to real interest rate becomes 0.3 * 0.7 = 0.2; and on REER becomes 0.3 *(1-0.7) = 0.1. These effective coefficients tend to vary between 0.05 and 0.30. Calibrated such that resulting impulse response function of policy rate on output gap is similar to that estimated in NBP (2020).
		Phillips Curve		
a_1	Core inflation persistence	0.8	0.65	Estimated via regression of quarter-on-quarter rate of core inflation on its lagged value. Tends to be above 0.5 for most countries.
a_2	Passthrough of marginal costs to inflation	0.3	0.3	Estimated via regression of the rate of core inflation on the output gap. Tends to vary between 0.1 and 0.5, with 0.25 to 0.35 a reasonable range for most countries. Implies a sacrifice ratio of 0.2.
a_3	Ratio of domestic costs in firms' aggregate costs	0.7	0.7	Tends to vary between 0.5 and 0.9. Can be related to 1 minus the share of imported goods in CPI basket. 27 percent of the CPI basket is imported goods and intermediate goods that are inputs to consumer goods production. Implied exchange rate passthrough is 0.1.
		Food Prices		
a_{21}	Persistence of marginal costs to food prices	-	0.5	Varies between 0.9 (low persistence) to 0.1 (high persistence).
a_{22}	Passthrough world food prices and the business cycle on food prices	-	0.2	Varies between 0.1 (low passthrough) to 0.5 (high passthrough)
a_{23}	The inverse of the impact of the output gap on food prices	-	0.5	a_{23} is usually high (e.g. 0.7-0.9). Then (1 - a_{23}) coefficient on business cycle output gap is low (limited impact of the business cycle on food prices)
		Energy Prices		
a_{31}	Persistence of marginal costs to energy prices	-	0.5	Varies between 0.9 (low persistence) to 0.1 (high persistence). High persistence chosen to reflect fixed regulated tariffs.
a_{32}	Passthrough from world energy prices and the	-	0.05	Varies between 0 (no passthrough) to 0.5 (high passthrough)

Annex VIII. Table 1. Poland: Calibrated Parameter Values (concluded)

Parameter	Significance	2023 Value	2024 Value	Explanation
	exchange rate on domestic energy prices			
Fuel Prices				
a_{33}	Persistence of marginal costs to fuel prices	-	0.5	Varies between 0.9 (low persistence) to 0.1 (high persistence).
a_{34}	Passthrough from world oil prices and the exchange rate on domestic oil prices	-	0.2	Varies between 0.1 (low passthrough) to 0.5 (high passthrough). A low passthrough in this case reflects dominance of state-owned enterprises in the sector.
Headline Inflation Weights				
w_f	Weight of food prices in the CPI basket	-	0.2763	The sum of the weights of food prices in the Statistics Poland's (GUS) CPI basket.
w_e	Weight of electricity and other fuel prices in the CPI basket	-	0.118	The sum of the weights of fuel prices and electricity and other fuel prices in the Statistics Poland's (GUS) CPI basket.
w_p	Weight of oil prices in the CPI basket	-	0.061	The sum of the weights of oil prices in the Statistics Poland's (GUS) CPI basket.
Taylor Rule				
g_1	Policy rate persistence	0.7	0.7	Policy persistence term tends to vary between 0 and 0.8; setting of 0.7 reflects empirical evidence that policy rate persistence is high in Poland. Consistent with Chmielewski and others (2020).
g_2	Policy reactiveness to core inflation	1.1	0.75	Coefficient on core inflation should be higher than output gap, as NBP is an inflation targeter. Consistent with Chmielewski and others (2020).
g_3	Policy reactiveness to output gap	0.4	0.3	While NBP is an inflation targeter, in practice it should still take into account the output gap in rate setting, even if only due to its indirect impact on inflation. Consistent with Chmielewski and others (2020).
UIP				
e_1	Nominal exchange rate persistence	0.4	0.3	Tends to vary between zero (purely forward-looking FX markets) and 0.9 (backward-looking agents). Calibrated at level that produces the most reasonable impulse response functions for monetary policy and other shocks.

Sources: IMF staff calculations and estimates; and Laxton, Rose, and Scott (2009).

4. Parameter calibrations for the speed of convergence towards the stead state for each variable:

Annex VIII. Text Table 2. Poland: Calibrations for the Speed of Convergence of Selected Variables to Their Trend Values		
Parameter	**Value**	**Definition**
		Relative Prices
$\rho_{\Delta\overline{rp}^{f}}$	0.75	Persistence in the convergence of the relative price of food
$\rho_{\Delta\overline{rp}^{e}}$	0.75	Persistence in the convergence of the relative price of energy
$\rho_{\Delta\overline{rp}^{xfe}}$	0.75	Persistence in the convergence of the relative price of core (excluding food and energy)
$\rho_{\Delta\overline{rp}^{p}}$	0.75	Persistence in the convergence of the relative price of fuel
		Risk Premium
$\rho_{shock^{prem}}$	0.5	Persistent shock to the risk premium
		Trend Variables
$\rho_{\Delta\bar{z}}$	0.8	Persistence in the convergence of the real exchange rate
$\rho_{\Delta\bar{y}}$	0.8	Persistence in the convergence of GDP
$\rho_{\bar{\imath}}$	0.8	Persistence in the convergence of the domestic real interest rate
$\rho_{\bar{\imath}^{RW}}$	0.8	Persistence in the convergence of the foreign real interest rate
		Foreign Output Gap
$\rho_{\hat{y}^{RW}}$	0.8	Persistence in the convergence of the foreign output gap
		Foreign Interest and Inflation Rates
$\rho_{i^{RW}}$	0.8	Persistence in the convergence of the foreign nominal interest rate
$\rho_{\pi^{RW}}$	0.8	Persistence in the convergence of foreign inflation
		World Prices
$\rho_{\Delta s^{cross}}$	0.25	Persistence in the convergence of the cross-exchange rate
$\rho_{\Delta\overline{rp}^{WO}}$	0.9	Persistence in the convergence of the relative world price of oil
$\rho_{\widehat{rp}^{WO}}$	0.5	Persistence in the convergence of the relative world price of oil gap
$\rho_{\Delta\overline{rp}^{WF}}$	0.9	Persistence in the convergence of the relative world price of food
$\rho_{\widehat{rp}^{WF}}$	0.5	Persistence in the convergence of the relative world price of food gap
$\rho_{\Delta\overline{rp}^{WC}}$	0.9	Persistence in the convergence of the relative world price of coal
$\rho_{\widehat{rp}^{WC}}$	0.5	Persistence in the convergence of the relative world price of coal gap
		Inflation Target
$\rho_{\pi^{TARGET}}$	0.5	Speed of inflation target adjustment to the medium-term target (higher values mean slower adjustment)

C. Impulse Response: The Impact of Monetary Policy Shocks

5. The extended model shares a broadly similar monetary policy transmission to the 2023 QPM model. Lag for peak impact is broadly similar to the calibrated model from the 2023 Article IV, three quarters for the output gap and five quarters for core inflation. There are some differences however, including a slightly stronger monetary transmission in terms of peak impact from a 100-bps monetary policy shock: 0.4 percent reduction in core inflation in five quarters compared to a 0.3 percent reduction in the previous model. The simulated impact of the same monetary policy shock on headline inflation is a peak reduction of 0.3 percent within five quarters.

Annex VIII. Text Table 3. Poland: Impact of Monetary Policy Shock
(Increase in policy rate by 1 p.p.) 1/

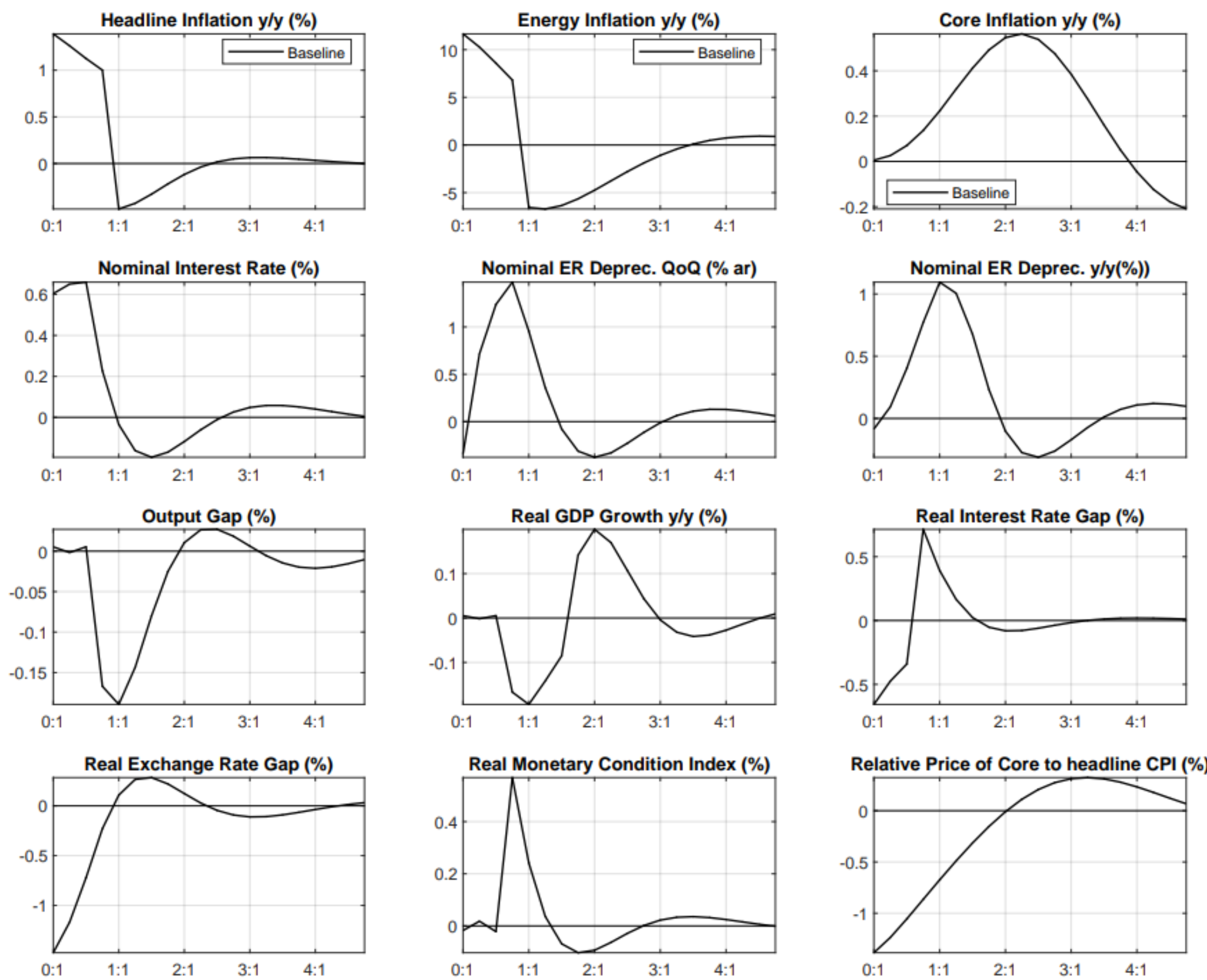
Variable	Peak impact (p.p.)	Lag of peak impact (quarter)
Headline inflation (y/y)		
QPM 2023	…	…
QPM 2024	-0.3	5
Core inflation (y/y)		
QPM 2023	-0.3	5
QPM 2024	-0.4	5
Nominal exchange rate appreciation (y/y)		
QPM 2023	0.4	1
QPM 2024	0.45	1
Real GDP growth (y/y)		
QPM 2023	-0.35	2
QPM 2024	-0.35	2
Output gap (percent)		
QPM 2023	-0.35	3
QPM 2024	-0.35	3
Real exchange rate gap (percent)		
QPM 2023	0.6	4
QPM 2024	0.4	5

1/ Peak impact approximated to the closest 5 bps.
Sources: IMF staff calculations; and Chmielewski and others (2020).

D. Simulation: Impact of Energy Price Shock

6. **There are caveats to the model's capacity to simulate pre-announced administrative price hikes.** In particular, the model does not capture: i) the contractionary impact of the negative fiscal impulse from subsidy phase out given the lack of a fiscal sector; ii) the role of expectations of administrative price hikes, given these policies were pre-announced in the previous quarter and there were long-held expectations that an exit from state support was inevitable; iii) more specific to this case, that administrative prices only affected households (firms were not subsidized) and thus unlike conventional price shocks there was no direct cost-push passthrough outside of the labor market. The model does not distinguish between shocks specific only to households and more general price shocks. With these caveats, an impact response is simulated of an energy price shock raising the energy component of the CPI on a magnitude comparable to that observed in July 2024 following the administrative increase to electricity and gas prices (a 12.5 percent increase in the index) (Annex VII, Text Figure 1).

Annex VIII. Text Figure 1. Simulation of Impact of An Energy Price Shock 1/ 2/



Source: IMF staff calculations.

1/ An energy price shock commensurate to increasing the energy basket (excluding gasoline fuels) by 12.5 percent at impact with no persistence.

2/ Horizontal axis shows (x:y) where x is the x^{th} year following the shock and y is the y^{th} quarter for that year.

7. **The illustrative results show interest rates temporarily increasing.** Interest rates reach around 60 bps at impact and remain around that level for three quarter, with the interest hike unwinding within four quarters of the shock. At impact, the increased inflation opens a negative real interest gap, which is partially mitigated by the nominal interest rate hike. The impact on output and inflation is offset by the negative real exchange rate gap from appreciation, leaving monetary conditions initially broadly unchanged. By the third quarter, the real interest gap becomes positive and nominal depreciation helps close the real exchange rate gap, resulting in overall tight monetary conditions, which reduces the output gap and headline inflation. The pass-through to core inflation

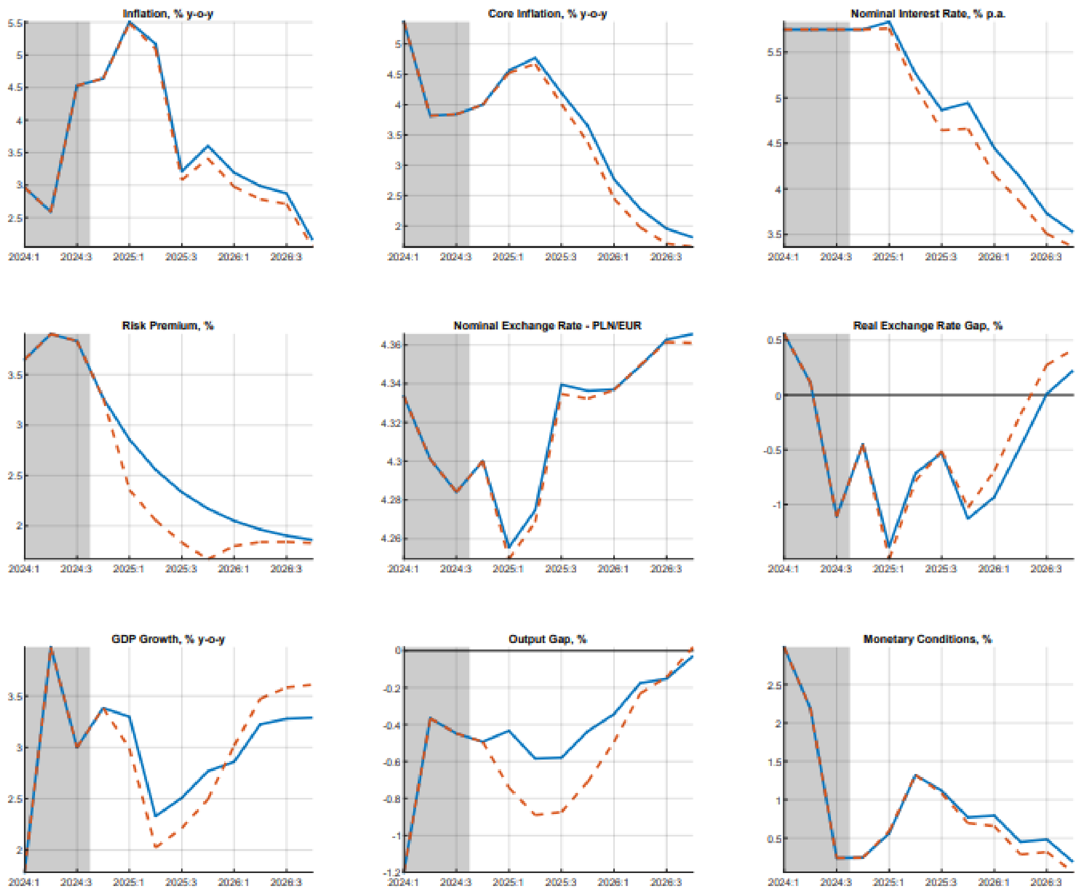
through relative prices is slow and gradual, helped by the monetary tightening, with core inflation y/y peaking at 0.6 percent in the 9^{th} and 10^{th} quarter as relative prices return to trend. Nevertheless, this pickup in core inflation does not cause inflation to breach the 2.5 percent target given the expected deceleration in energy prices after the shock due to their elevated relative prices relative to trend. As a result of the monetary policy response, the positive impact on headline inflation from the supply shock diminishes starting from impact.

E. Simulation: Rebalancing Policy Mix Under the Staff Recommendation Scenario

8. **We simulate the impact of the higher recommended fiscal consolidation in an illustrative scenario.** Staff recommend 0.4 percent of GDP in additional adjustment in 2025 relative to the baseline as part of a medium-term consolidation plan (cumulative 1.5 percent of GDP in additional adjustment over the baseline by 2029). In this simulation, we assume this translates to a persistent negative output shock of -0.3 percent of GDP moderating in 2026 as the output gap gradually closes (and thus fiscal multipliers are assumed around 0.75, higher than our estimate for the fiscal multiplier consistent with a closed output gap of around 0.6). We also assume that the consolidation results in a negative shock to the risk premium, reducing it by around 50 bps.

9. **Results show that fiscal adjustment could support a faster convergence of inflation to target while opening space for up to 50bps of additional monetary easing by end-2025.** A wider output gap together with supportive appreciation dynamics to the exchange rate from a lower risk premium, opens space for monetary policies to ease further with inflation reaching the tolerance range one quarters earlier (Annex VII. Text Figure 1). The assumptions here yield around 30 bps of additional cuts, but the exact room depends on the calibration of the model and the impact of fiscal consolidation on the risk premium, the output gap, and the nominal exchange rate.

Annex VIII. Figure 1. Poland: Simulation of Fiscal Adjustment in Line with Staff Recommendation 1/2/



1/ the Blue line represents the illustrative baseline, while the Red Dashed line represents the illustrative fiscal adjustment scenario.

2/ Model incorporates data until Q2 2024.

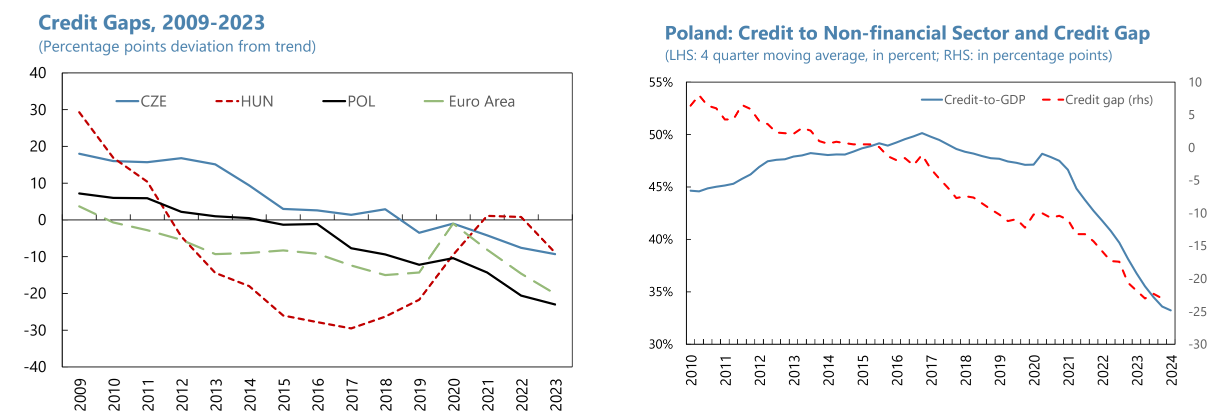
Source: IMF staff calculations.

Annex IX. Overview of Credit Developments

1. **Poland's credit gap is strongly negative and has moved in tandem with a diminishing credit-to-GDP ratio.** According to the Bank for International Settlements (BIS), the credit[1] gap in Poland turned negative around 2016 and has trended down since then, yielding a larger gap than elsewhere in the region (Figure 1). That said, this estimate should be treated with caution, as the BIS methodology assumes financial cycles lasting about 30 years, while a shorter period may be relevant for Poland as it has started transition to a market economy only in 1990. The NBP estimated that a 10.5-year cycle would yield a -3.6pp credit gap—still negative.[2] The gap captures more than banking credits, but banks remain the main source of financing for Polish households and firms, and the gap has been in recent years co-moving with the banking credit-to-GDP ratio.

Annex IX. Text Figure 1. Credit Gap and Credit-to-GDP

The credit gap in Poland is more negative than elsewhere... *... and recently moved similarly to credit-to-GDP.*



Sources: BIS, Haver, NBP, Statistics Poland, and IMF staff calculations.

2. **Since the pandemic, the credit-to-GDP ratio in Poland contracted faster than in regional peers.** Banking credit for non-financial sector as the share of GDP has declined across CEE4 countries. However, this decline has been most pronounced in Poland (Fig. 2). There have been three distinct sub-periods of credit developments in Poland: (i) ***2010-16***: the credit-to-GDP ratio was creeping up, (ii) ***2017-19***: the ratio started to decline, and (iii) ***2020-24***: the decline has accelerated. As a result, credit to non-financial sector as a ratio of GDP has declined by almost 12pp since 2009.

3. **The decline in credit-to-GDP was broad-based, though primarily driven by credit to households (Annex VII. Figure 3).** Household credit accounted for 58% of the drop since 2009, with the contribution intensifying to nearly three-quarters of the overall decline between 2017 and 2024. A significant factor was the downturn in foreign currency mortgages, which fell by 8.1 percentage points of GDP since 2009, outpacing the overall decline in household credit (-

[1] The credit gap represents the difference between credit-to-GDP ratio (not only banking credit) and its long-run trend (Credit-to-GDP gaps - overview | BIS Data Portal).

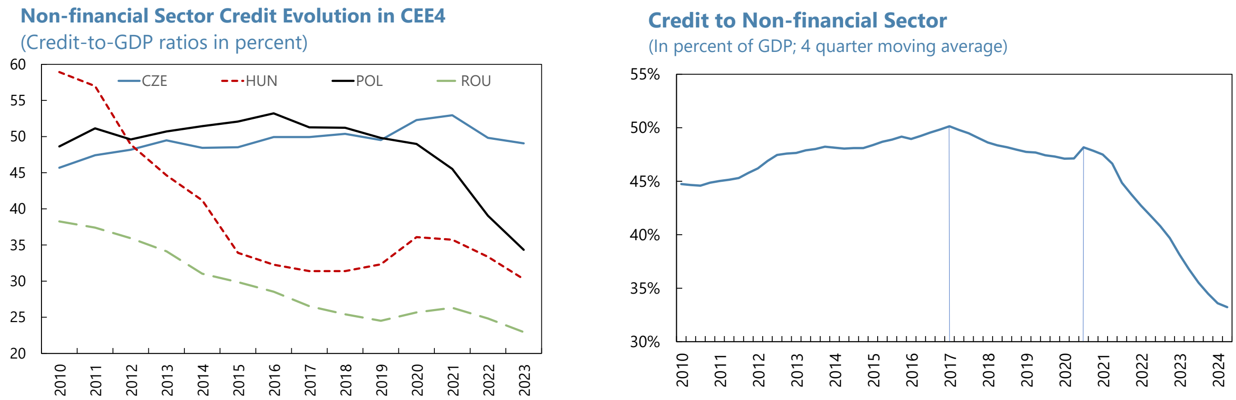
[2] NBP research advocated a shorter financial cycle (M. Pipien, P. Wdowinski, J. Kaszowska: ms332.pdf (nbp.pl)). NBP's credit gap estimates: 8_2024.05-Kwartalny-przeglad-bufora-antycyklicznego-KSF-1.pdf (nbp.pl).

6.7 percentage points) as regulations tightened around FX lending.[3] Post-pandemic, corporate credit also decreased notably, with the fall evenly split between investment and working capital loans, reflecting their shares in total credit to non-financial firms.

Annex IX. Text Figure 2. Credit to non-financial sector in CEE4 and Poland

Poland's post-pandemic credit decline was particularly strong…

… with three stages of credit-to-GDP developments visible since 2009.

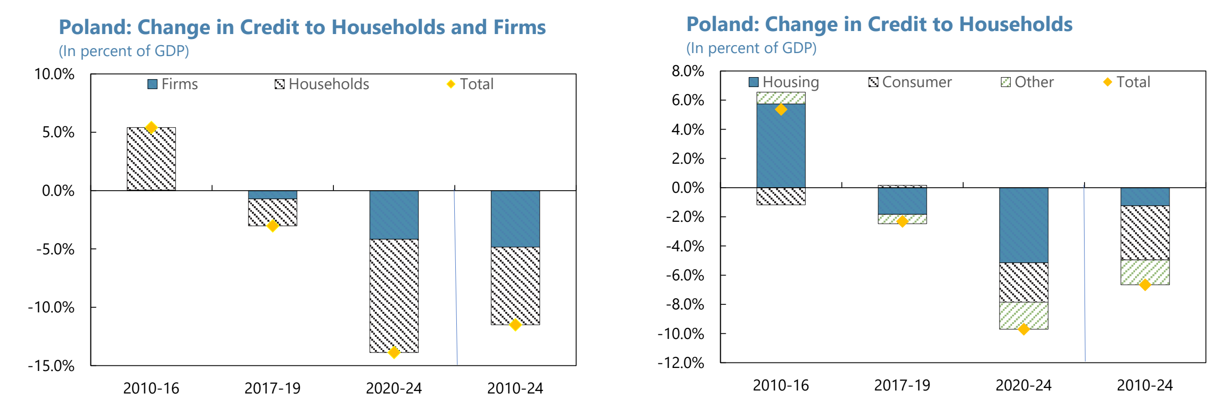


Sources: Haver; NBP, Statistics Poland; and IMF staff calculations.

Annex IX. Text Figure 3. Stylized Facts Behind Credit Developments

Lending to households was the main source of the credit-to-GDP decline …

…with visible weakening of housing credit since 2017…

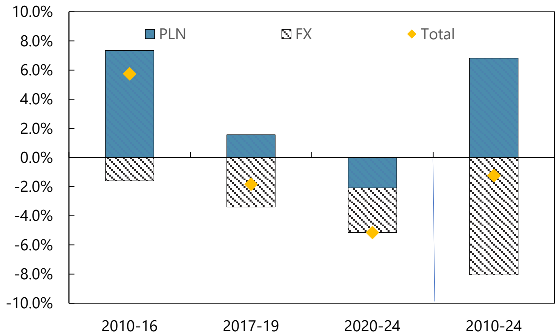


[3] Such loans have been effectively banned by the regulator in 2013 by disapproving foreign currency lending to unhedged households.

Annex IX. Text Figure 3. Stylized Facts Behind Credit Developments (concluded)

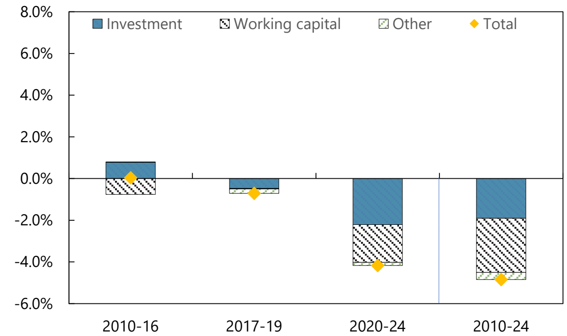
…. primarily reflecting foreign currency mortgages.

Poland: Change in Housing Credit
(In percent of GDP)



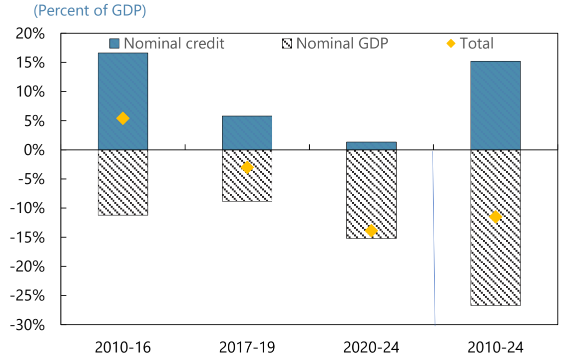
Credit to non-financial sector also declined, mostly in the post-pandemic period.

Poland: Change in Credit to Non-financial Firms
(In percent of GDP)



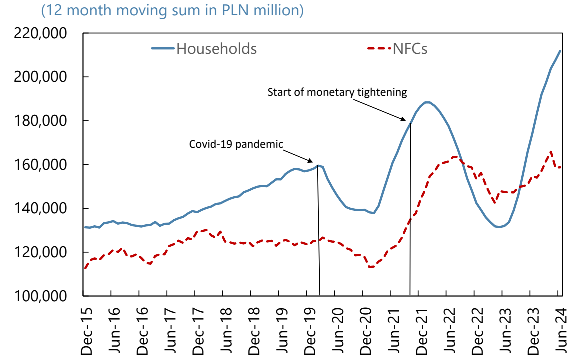
High nominal GDP growth strongly eroded the credit-to-GDP ratio since 2020.

Poland: Composition of Non-financial Credit Change
(Percent of GDP)



Pandemic shutdowns and monetary policy tightening dampened new credits.

Poland: New credits
(12 month moving sum in PLN million)



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

4. Credit-to-GDP weakness was driven in part by inflation and monetary tightening, but financial policies may have also played a role. High inflation and nominal GDP growth mechanically drove down credit-to-GDP, reducing it by 15pp since 2020. Pandemic shutdowns and interest rate hikes visibly dampened appetite for new lending, a desired effect from a monetary policy angle. Nevertheless, these forces were also at play in other CEE countries and do not alone explain the steeper drop in credit-to-GDP in Poland. Possible other explanations include:

- ***Pandemic subsidies:*** The Polish Development Fund extended PLN68 billion (2.7 percent of GDP) in pandemic liquidity loans to SMEs in 2020-21, equivalent to more than half of new credit for the corporate sector in 2019. About three-quarters of this liquidity injection could be written-off, muting demand for new banking loans.

- ***Mortgage credit holidays:*** The 2022-23 scheme was not means-tested and facilitated rapid amortization by wealthier borrowers, making early repayments around PLN20 billion or 0.8 percent of GDP.

- ***Legal disputes regarding foreign currency mortgages:*** Provisioning for legal risk of such loans amounted to PLN75 billion in 2020-23 (2.2 percent of 2023 GDP), exceeding their outstanding value. About a fifth of that was used to cover losses from court verdicts and voluntary conversion to PLN.

- ***Banking tax:*** the asset-based tax excludes government and government-guaranteed securities from the tax base, creating a tax disadvantage for private sector credit. Research estimates that banks halved the growth of credit to non-financial sector after the tax was imposed.[4]

- ***Stress-tested buffer:*** In 2022, the Financial Supervision Authority (KNF) doubled to 5pp the stress-tested buffer for the mortgage creditworthiness assessment, which reduced credit availability. It was restored to 2.5pp for fixed-rate loans in 2023, but the KNF still recommends a higher buffer for floating-rate credits.

Taken together, the above factors could have trimmed the credit-to-GDP ratio by a few percentage points.[5] However, the observed weakness in non-financial sector credit has exceeded this magnitude. According to the NBP, this weakness fundamentally reflects weak credit demand resulting from economic shocks and monetary policy tightening, with no signs of supply-side constraints.[6]

5. Regulatory policies should avoid dampening credit recovery. After a protracted period of weakness, credit demand is expected to recover gradually, with early signs of this process already visible. Nonetheless, NBP projections envisage that non-financial credit as a ratio of GDP could drop below 30 percent in the next couple of years. Given the still weak position in the credit cycle, regulatory policies safeguarding financial sector stability should be mindful of preserving credit recovery. Redesigning the bank tax to remove disincentives for private credit would also be appropriate.

[4] M. Borsuk, O. Kowalewski, J.Qi, "Dark side of banking taxes", Journal of Banking and Finance, 2023.

[5] It should be noted that housing credit subsidies in 2023 worked in the opposite direction; loans under this scheme amounted to about PLN24½ billion (0.7 percent of GDP).

[6] See "Financial Stability Report", NBP, June 2024 (Financial Stability Reports | NBP).

Annex X. Data Issues

Annex X. Table 1. Poland: Data Adequacy Assessment for Surveillance

Data Adequacy Assessment Rating 1/							
A							
Questionnaire Results 2/							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	A	A	A	A	A	A	A
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	A	A	A	A	A		
Granularity 3/	A		A	A	B		
			A		A		
Consistency			B	A		A	
Frequency and Timeliness	A	A	B	A	A		

Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.
1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.
2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF *Review of the Framework for Data Adequacy Assessment for Surveillance*, January 2024, Appendix I).
3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.

A	The data provided to the Fund are adequate for surveillance.
B	The data provided to the Fund have some shortcomings but are broadly adequate for surveillance.
C	The data provided to the Fund have some shortcomings that somewhat hamper surveillance.
D	The data provided to the Fund have serious shortcomings that significantly hamper surveillance.

Rationale for staff assessment. Data provision is adequate for the surveillance. High-frequency data on state budget operations is cash-based, inconsistent with international accrual standards. Data on Treasury debt is reported in a timely fashion and with adequate detail, while general government debt information is released on a quarterly basis, with less granularity. Time lag in releasing data on central government operations exceeds one month due to availability of information on extrabudgetary funds. There is no detailed fiscal statistics on EU funds, with MoF's monthly data on EU flows based on payments. Granularity of MFS data published by NBP is braodly adequate for surveillance, detailed breakdown of private sector credit by currencies is not published. Sstatistics of investment funds is published on a quarterly basis. There is no official statistics on activities of non-bank lending institutions.

Changes since the last Article IV consultation. The authorities have started publishing annual financial plans of extrabudgetary funds operated by the state development bank BGK, as well as their actual performance on a quarterly basis.

Corrective actions and capacity development priorities. The was FAD TA on developing a standard chart of accounts for the governmentr, and the authorities are gradually moving towards unifying reporting standards at all levels of the government. They signaled a possible need for further TA.

Use of data and/or estimates in Article IV consultations in lieu of official statistics available to staff. Staff does not use alternative data if official statistics is available. External data sources are used for structural indicators, including for climate issues.

Other data gaps. While zloty is freely floating and foreign exchange interventions are rare, central bank does not reveal data on such interventions. Statistics Poland started publishing data on migrant workers, but there is still no official comprehensive data on such workers.

Annex X. Table 2. Poland: Data Standards Initiatives

Poland subscribes to the Special Data Dissemination Standard (SDDS) since April 1996 and publishes the data on its National Summary Data Page. The latest SDDS Annual Observance Report is available on the Dissemination Standards Bulletin Board (https://dsbb.imf.org/).
Poland participates in the Coordinated Direct Investment Survey and Coordinated Portfolio Investment Survey and reports data for the Reserves Data Template to the IMF.

Annex X. Table 3. Poland: Common Indicators Required for Surveillance

As of Nov 30, 2024

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Expected Frequency[6,7]	Poland[8]	Expected Timeliness[6,7]	Poland[8]
Exchange Rates	29-Nov-24	30-Nov-24	D	D	D	...	...	1
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Oct-24	Nov-24	M	M	M	30	1W	30
Reserve/Base Money	Oct-24	Nov-24	M	M	M	30	2W	7
Broad Money	Oct-24	Nov-24	M	M	M	30	1M	14
Central Bank Balance Sheet	Oct-24	Nov-24	M	M	M	30	2W	7
Consolidated Balance Sheet of the Banking System	Oct-24	Nov-24	M	M	M	30	1M	14
Interest Rates[2]	29-Nov-24	30-Nov-24	D	D	D	...	...	1
Consumer Price Index	Oct-24	Nov-24	M	M	M	30	1M	15
Revenue, Expenditure, Balance and Composition of Financing[3]–General Government[4]	2023	Oct-24	A	A	A	365	2Q	300
Revenue, Expenditure, Balance and Composition of Financing[3]–Central Government	Sep-24	Nov-24	M	M	M	30	1M	49
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Sep-24	Nov-24	M	M	Q	30	1Q	51
External Current Account Balance	2024Q2	Oct-24	Q	Q	Q	90	1Q	90
Exports and Imports of Goods and Services	Sep-24	Nov-24	M	M	M	30	8W	70
GDP/GNP	2024Q3	Nov-24	Q	Q	Q	90	1Q	45
Gross External Debt	2024Q2	Oct-24	Q	Q	Q	90	1Q	90
International Investment Position	2024Q2	Oct-24	Q	Q	Q	90	1Q	270

[1] Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.

[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank, and domestic nonbank 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] Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual.; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.

[7] Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.

[8] Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (https://dsbb.imf.org/). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "..."

INTERNATIONAL MONETARY FUND

REPUBLIC OF POLAND

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

December 16, 2024

Prepared By	European Department

CONTENTS

FUND RELATIONS

(As of October 31, 2024)

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	3,048.54	74.44
Reserve Tranche Position	1050.55	26.65
Lending to the Fund		
New Arrangement to Borrow	0.0	

SDR Department:

	SDR Million	Percent Allocation
Net Cumulative Allocation	5,229.90	100.00
Holdings	4241.35	81.10

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				
	2024	2025	2026	2027	2028
Principal					
Charges/Interest	9.16	34.06	34.08	34.08	34.09
Total	9.16	34.06	34.08	34.08	34.09

Article IV Consultation:

The last Article IV consultation was concluded on May 26, 2023. 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, 2008–2024

Department	Subject/Identified Need	Action	Date	Counterpart
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

Table 1. Republic of Poland: Technical Assistance from the Fund, 2008–2024 (concluded)

Department	Subject/Identified Need	Action	Date	Counterpart
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
FAD	Grey Economy Diagnostic	Mission	Oct 2023	MoF
FAD/EUR	Aligning the Stabilizing Expenditure Rule to the EU Fiscal Framework	Virtual and Mission	Nov 2023- May 2024	MoF
FAD	Revenue Administration	Mission	Jul 2024, Oct 2024	MoF

Statement by Mr. Łoszewski, Executive Director,
and Ms. Pietrzak, Advisor to the Executive Director
January 10, 2025

On behalf of our Polish authorities, we thank Mr. Martijn and his team for the insightful and constructive dialogue, which resulted in a comprehensive and useful Article IV staff report. The authorities appreciate staff's thorough report and examination of macroeconomic trends, as well as their relevant selected issues paper. The authorities generally concur with the thrust of the staff appraisal and welcome staff's recommendations, which can help inform the domestic debate on macroeconomic, financial, and structural reform policies.

Outlook and Risks

Over the past few years, Poland has demonstrated remarkable resilience in the face of multiple challenges and market instabilities, thanks to its strong fundamentals and effective macroeconomic policies. After a strong rebound in 2024, led by recovering domestic demand, the economy is set to grow at a faster pace this year, achieving the third-largest growth rate in the European Union (EU). While an expected increase in households' real disposable income will help private consumption remain the key driver of growth, expanding investments—including Next Generation EU-funded public investment and investment related to the reconstruction after the September 2024 floods—should further support the recovery. A significant increase in public investment will also result from a necessary further increase in defense spending.

While risks to the outlook appear balanced, significant uncertainties remain—notably due to Russia's unjustified aggression against Ukraine and its impact on inflation, and weaknesses in Poland's main export markets, notably Germany. Despite these challenges, medium-term prospects remain favorable, with growth expected to remain around 3 percent.

Fiscal policy

The general government deficit is projected to have increased to 5.7 percent of GDP in 2024, mainly driven by higher defense spending, an alignment of public sector salaries and an increase in family benefits, including the introduction of a new family benefit to further increase female labor force participation. Public debt is projected to increase gradually over the period 2023-2027, peaking at 61.3 percent of GDP in 2027, while remaining well below the EU average of 82.4 percent of GDP in 2024 and entering a declining path from 2028 onwards. The projected increase is primarily attributed to the prefinancing of military equipment acquisitions, a measure undertaken by Poland in response to the Russian aggression against Ukraine.

The authorities remain committed to implement prudent fiscal policies that build ample buffers against potential adverse scenarios. Fiscal consolidation will start in 2025, anchored in the medium-term fiscal-structural plan over the period 2025-2028, in line with the new EU fiscal framework. The plan sets out an expenditure path to enable a gradual and growth-friendly reduction of the nominal general government deficit to below 3 percent of GDP, and, thereby, an exit from the excessive deficit procedure over the plan horizon. This will allow the authorities to bring public debt below 60 percent of GDP in the medium term.

In line with flexibility provided under EU regulation, the deficit reduction will start with an adjustment of 0.25 percent in 2025 and a consolidation of close to 1 percent of GDP annually over the period 2026-28. As a result, in line with the draft budget act for 2025, the general government deficit is expected to decline to 5.5 percent of GDP in 2025 and then, gradually, to 2.9 percent of GDP in 2028. At the same time, the planned gradual deficit reduction will not jeopardize public investment. The average public investment-to-GDP ratio over the period 2025-2028 will remain higher than before the plan's implementation period and significantly higher than the EU average, which is an important part of Poland's economic development strategy. Securing its financing is, therefore, one of the authorities' main objectives over the plan horizon.

The authorities plan to implement armed forces modernization programs, multi-year government road and rail infrastructure programs funded by the EU's multiannual financial framework for 2021-2027 and the EU's recovery and resilience facility, as well as new programs, including Poland's nuclear energy program. Defense spending will be prioritized and is projected to rise to as much as 4.7 percent of GDP in 2025, up from 4.2 percent in 2024. The establishment of an armed forces support fund will help finance multi-year programs aimed at enhancing Poland's military capabilities.

The authorities have taken significant steps to strengthen the fiscal framework and align it with the new EU fiscal framework. Supported by Fund technical assistance, the stabilizing expenditure rule was refined, which—effective from the 2025 budget year—encompasses a broader range of public sector entities, improves oversight over extrabudgetary funds, and includes stronger provisions for the escape clause. The authorities are also working to establish an independent fiscal council, which will be mandated to give an opinion on official macroeconomic projections, budget compliance with fiscal rules, and the budgetary framework and will become operational in 2026. Furthermore, the authorities took important steps to increase transparency and oversight of extrabudgetary funds. In 2024, they started quarterly publishing of current financial plans and reporting data on funds managed by the Polish Development Bank (BGK). The financial plans were also presented for the first time as an annex to the 2025 budget.

Monetary Policy

While inflation was consistent with the National Bank of Poland's (NBP) inflation target of 2.5 percent, with a symmetric band for deviations of +/-1 percentage point, in the first half of 2024, it rebounded to 5 percent in October 2024, primarily due to increased administered prices of energy carriers and, to a lesser extent, higher annual growth in food and non-alcoholic beverage prices. At the same time, core inflation is strongly elevated at above 4 percent, with services price growth around 7 percent.

The NBP expects inflation to remain well above target over the coming quarters, but projects a return to target in 2026. However, the planned unfreezing of energy prices in the second half of 2025 might delay this return. Second-round effects of higher inflation expectations, which may fuel wage pressures, are a significant risk to price stability, especially in light of the continued economic recovery and tight labor market.

Against this background, the policy rate has been kept unchanged at 5.75 percent since November 2023. The NBP does not commit to any particular future interest rate path, stressing that future decisions will depend on incoming data and prospects for inflation returning to target.

Financial Sector

Poland's financial sector remains resilient. Banks are well-capitalized and liquid, holding substantial excess capital. This provides ample room for both building macroprudential capital buffers and expanding lending.

Despite increased borrowing costs, the credit risk for Polish housing loans has not increased. The rate of non-performing loans has remained broadly stable, partly due to low leverage among borrowing households, high nominal wage growth, and low unemployment rates. Additionally, the expanded scope of the borrowers' support fund helps mitigate the risk of mortgage defaults, while the mortgage credit holiday program active over the period 2022-2024 expired.

The legal risk from the Swiss Franc-denominated housing loan portfolio remains the major burden for the banking system but is effectively managed. Progress on the resolution of the loans has been made and banks set aside appropriate provisions. By the first half of 2024, the accumulated costs of provisions and reserves amounted to over PLN 80 billion. Although the level of future provisions may be significant, it is likely to be markedly lower than the provisions created to date. The pace of future provisioning will be affected by possible successive court rulings and their approach to resolving disputes. The authorities have taken steps to streamline legal proceedings and incentivize voluntary settlements. The NBP's risk assessment assumes that provisioning will continue to be spread over time. However, even if this process would accelerate significantly, the banking sector is expected to remain resilient and report excess capital.

In March 2024, the Financial Stability Committee adopted a new strategy on the application of the countercyclical capital buffer to strengthen the resilience of the banking sector against crises. This strategy introduces the positive neutral rate of the countercyclical capital buffer, which can be released in the event of unexpected shocks. The positive neutral rate will apply throughout most of the financial cycle, thereby reducing the risk of late or incorrect risk identification. The target neutral rate, which is ultimately set at 2 percent, will be applied gradually, starting at 1 percent in September 2025, to give banks time to adjust.

Credit to the non-financial sector is slowly but gradually recovering due to subdued credit demand. Poland's loan-to-GDP ratio is among the lowest in the EU, a structural phenomenon recently exacerbated by cyclical factors. Polish companies mostly rely on their own financial resources, supplemented by unprecedented state support during the pandemic, foreign financing in the case of companies belonging to multinational groups, and leasing. Although banks are pursuing a prudent corporate lending policy, there are no signs of excessive credit rationing. In the coming quarters, the inflow of EU funds and the increase in investment related to the energy transition may lead to an increase in lending to the non-financial sector. The strong capital and liquidity position of the banking sector should further support this growth. The authorities plan to amend the banking asset tax to encourage long-term savings and capital investment.

Structural Reforms

Poland is committed to reduce its carbon emissions and foster a sustainable and environmentally friendly energy sector. The authorities are currently revising key strategic documents—the national energy and climate plan as well as the long-term energy strategy—to set out more ambitious policies to achieve climate goals, reduce energy costs, and enhance energy security. They intend to begin their implementation this year.

The authorities recognize the need to ensure adequate labor supply. In 2024, they introduced a new family benefit to increase female participation and conducted a strategic review of the long-term care system. The authorities plan to reshape active labor market policies to strengthen activation, skills development, and employer cooperation. A new migration strategy, adopted in October 2024, provides a comprehensive framework for labor market access and integration policies for foreigners. New provisions for third-country nationals will ensure safer working conditions and effective integration programs, with legislative changes scheduled for this year.

In 2025, the authorities plan to adopt the first national digitalization strategy. This ten-year plan will aim to enhance digital skills, provide universal digital access to public services, achieve full electronic management of public tasks, and promote the widespread use of artificial intelligence tools in businesses.