**Republic of Poland: Concluding Statement of the 2015 Article IV Mission**

**May 18, 2015**

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| A Concluding Statement describes the preliminary findings of IMF staff at the end of an official staff visit (or ‘mission’), in most cases to a member country. Missions are undertaken as part of regular (usually annual) consultations under [Article IV](http://www.imf.org/external/pubs/ft/aa/aa04.htm) of the IMF's Articles of Agreement, in the context of a request to use IMF resources (borrow from the IMF), as part of discussions of staff monitored programs, or as part of other staff monitoring of economic developments.   The authorities have consented to the publication of this statement. The views expressed in this statement are those of the IMF staff and do not necessarily represent the views of the IMF’s Executive Board. Based on the preliminary findings of this mission, staff will prepare a report that, subject to management approval, will be presented to the IMF Executive Board for discussion and decision. |

*The economy has recovered from the 2012–13 slowdown, supported by sound policies and continued global integration. The outlook is for robust growth and subdued inflation but downside risks remain. Further structural reforms and stronger policy buffers will mitigate risks and ensure that the recovery is durable and balanced.*

1. **Growth continues to strengthen, while inflation is subdued.** Growth accelerated to 3.5 percent in the first quarter on the back of robust domestic demand, supported by improving labor market and financial conditions. However, deflation persists amid low commodity prices and weak imported inflation. Economic expansion is expected to continue, with growth projected at 3½ percent in 2015 and over the medium term. The negative output gap is expected to close in 2016. This should help gradually return inflation to the target band by end-2016.
2. **Risks remain elevated.** On the external side, an abrupt surge in global financial market volatility could propagate via the substantial foreign participation in the government bond market and in the banking system. Continued geopolitical tensions could weigh on confidence. Nonetheless, these risks are mitigated by Poland’s stable and diversified investor base and declining reliance on foreign bank funding. Domestically, inflation could fail to pick up owing to external factors or if low inflation expectations become entrenched. On the upside, a stronger-than-expected recovery in the euro area and low oil prices would further lift growth in Poland.
3. **Policies should continue to focus on preserving stability and supporting income convergence.** The economy has weathered well several bouts of market turbulence, benefitting from strong fundamentals and policies and the insurance provided by the Flexible Credit Line arrangement with the IMF. Going forward, it will be important to continue building policy buffers to enhance resilience to shocks and implementing structural reforms to lift income standards further.
4. **Monetary policy should maintain an easing bias.** The March policy interest rate cut is welcome and, alongside quantitative easing by the ECB, should help avoid the risk of prolonged low inflation that could ultimately squeeze profit margins with potential negative repercussions for investment, employment, and growth. Additional monetary easing might be needed if inflation expectations continue to disappoint, or if persistent excessive zloty appreciation jeopardizes the inflation objective.
5. **Financial sector performance is strong, but key financial sector reforms should be completed.** The well-capitalized, liquid, and profitable banking system has remained resilient to shocks. Going forward, prompt adoption of the bank resolution framework is essential for a strong and effective financial safety net. Implementing a comprehensive macro-prudential framework will help ensure early detection and prevention of systemic risks. Restructuring of the weak but non-systemic credit union segment should continue.
6. **Gradual fiscal consolidation should continue.** The improvement in the fiscal position in recent years has set the stage for Poland to exit the EDP. This would be a welcome achievement and reflects the authorities’ strong consolidation efforts. The fiscal deficit is expected to decline further to around 2¾ percent of GDP in 2015. The medium-term objective of 1 percent of GDP structural deficit remains an appropriate fiscal anchor to bolster fiscal sustainability and rebuild policy space. Reaching this target would require additional measures of about 1 percent of GDP. Identifying specific expenditure savings to support implementation of the fiscal rule and reducing the large VAT revenue gap would be important measures in this regard.
7. **Structural reforms would boost productivity and facilitate income convergence.** Reform efforts should continue focusing on moving up the value-added chain and redeploying resources toward higher-productivity sectors. Promoting innovation, encouraging greenfield investment, and better targeting education and training to employer needs would help achieve these goals. Recent actions to reduce red tape, streamline the list of regulated professions, and reduce labor market segmentation by better aligning civil law and regular contracts, are welcome in this regard.

*We thank the authorities and other interlocutors for candid and constructive discussions during this mission.*