



Macroeconomic Challenges and Forecasts for Poland

June 2018

**EFC warns - the best is behind us
and proposes actions**

Macroeconomic Challenges and Forecasts for Poland – Opinion of the European Financial Congress

There is a general consensus among the European Financial Congress' macroeconomic experts that a slowdown in economic growth should be expected in the next three years. It can be assumed that 2017/2018 is the peak period of the economic growth. Although the Polish economy will continue to grow quickly, the growth will be slower than in 2018. The crucial factor is the economic condition of Poland's main trading partners, and it is in this area that the EFC experts see the main risk for the development of the Polish economy. The most important internal barrier to growth is the limited availability of labour, resulting from unfavourable demographic changes and insufficient migration to Poland.

According to the forecasts, the GDP growth rate in Poland is expected to decline from 4.5% in 2018 to below 3% in 2021. The increase in domestic demand is forecast to be around 5% in 2018. What is expected to be an important component of domestic demand is gross capital expenditure, i.e. investments, which should increase by 8% in 2018 after the stagnation observed in the recent years. Unfortunately, their growth rate is expected to decline in the years to come, which underlines the need for effective measures aimed at increasing Poland's investment attractiveness for private capital. There is no full consensus among the EFC experts with regard to the rate of investment growth in the next few years. The standard deviation from the mean forecast investment growth rate in 2021 estimated at 4.6%, is 2.1 pp.

Individual consumption will continue to be a major GDP growth driver, which will be fostered by very low unemployment (below 4%) and fast-growing wages (6–7% annually). However, one should not expect consumption growth to remain at the present level (4–5% annually) and it will probably drop to approx. 3% in 2021. The experts' opinions are highly consistent in this regard.

A quick increase in labour costs may significantly constrain the competitiveness of Polish businesses and export. This fact, combined with imports expected to grow at a higher rate than exports, will be reflected in a growing current account deficit.

The experts agree on how much inflation will rise in Poland. The median forecast indicates that inflation will slightly exceed the NBP inflation target in 2020 and then return to the target. At the same time, the NBP reference rate and WIBOR rate are expected to increase. 3M WIBOR may increase from the current 1.7% to 2.6%, which means a significant surge in credit costs. In this context, the current and forecast growth rate of household debt should cause concern. The risk of interest rates increase is currently underestimated in Poland.

* Starting this year, the European Financial Congress will be preparing macroeconomic forecasts for Poland. The forecasts will be published in June and December each year. They are prepared by EFC experts, chief economists from the largest banks, regulatory bodies, consulting firms, as well as representatives of the academia, who share their opinions on a pro bono basis, expressing solely their own views, and not those of the organizations they work with. The EFC forecasts pay attention to both quantitative aspects as well as qualitative and behavioural factors.

The EFC uses a modified Delphi method in producing the forecasts.

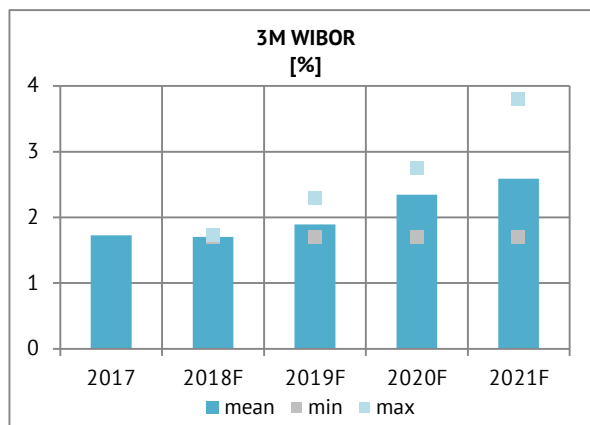
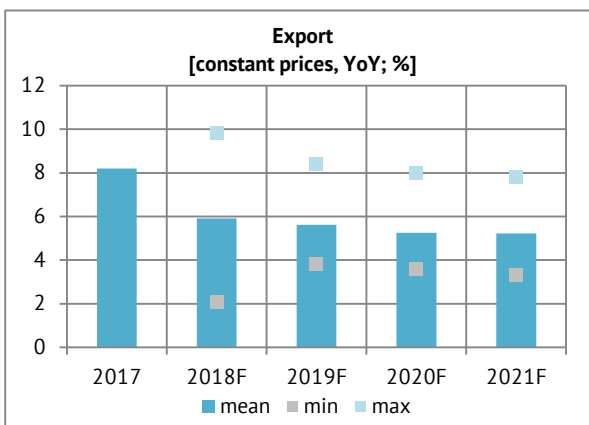
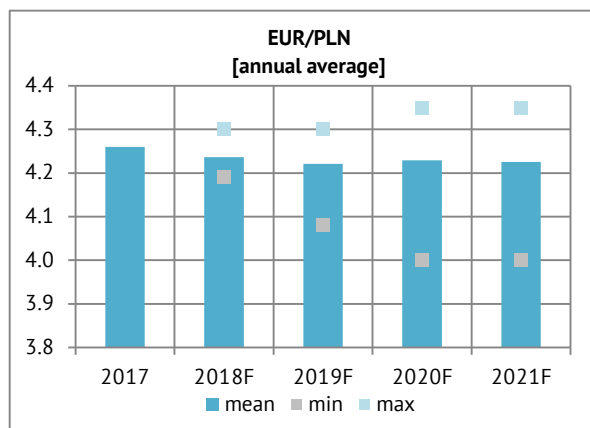
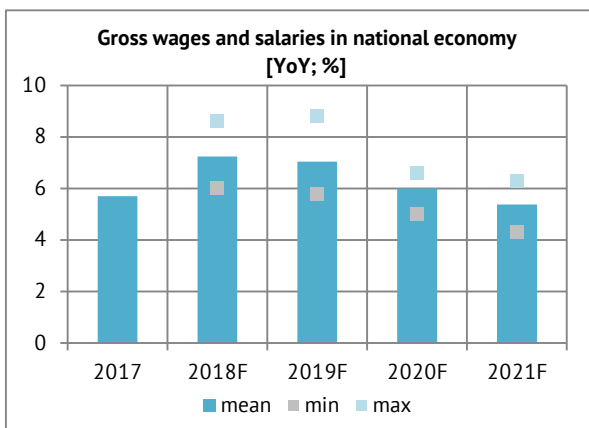
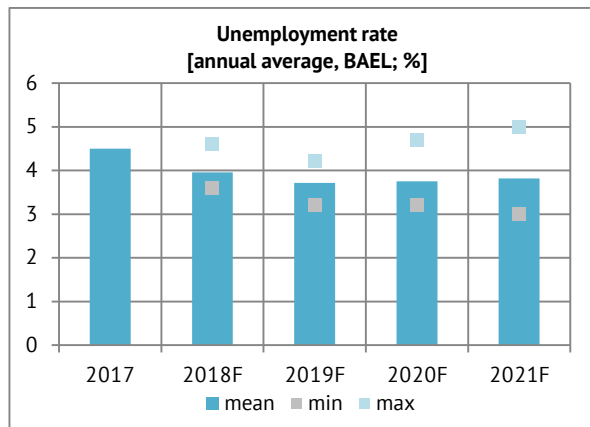
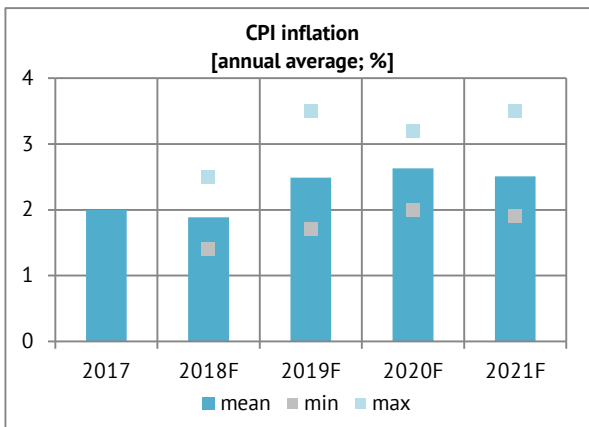
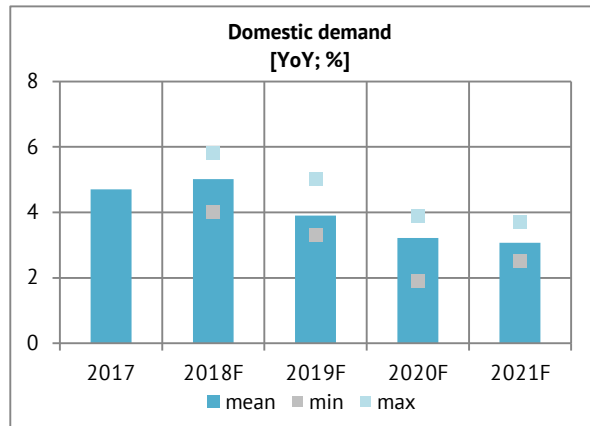
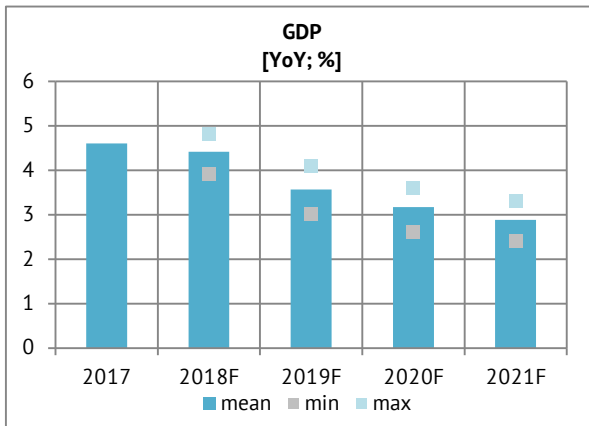
In the first stage, the EFC invites leading macroeconomic experts to present their forecasts for the current year and for the next three years, as well as to specify the following:

- three major threats to the economic situation in Poland,
- three major threats to the stability of the Polish financial system,
- three recommendations for the national economic policy.

In the second stage, the experts' opinions regarding threats and recommendations are anonymized and grouped into homogeneous classes. They are then presented to all the experts participating in the forecasting project. The experts are asked to distribute the total of 100 points among particular groups of answers depending on how important they consider the threats and recommendations to be. The experts are also asked to assess how likely the threats are to materialize. This way the EFC produces a map of challenges regarding the economic situation and the stability of the financial system in Poland. The EFC forecasts also include recommendations for the national economic policy.

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FORECASTS OF SELECTED MACROECONOMIC INDICATORS IN 2018-2021

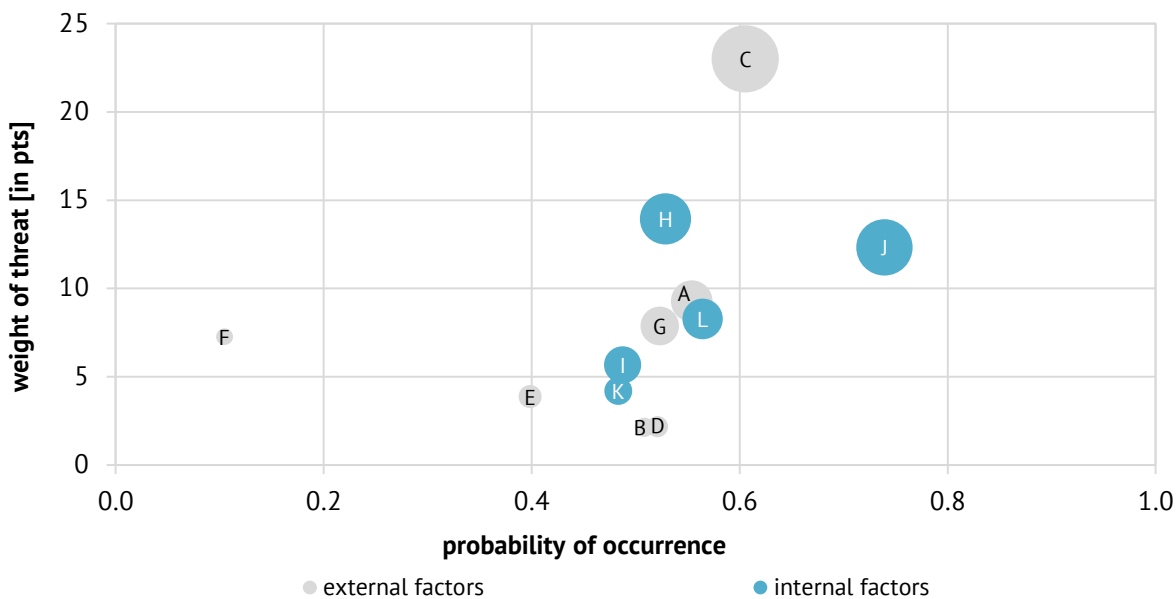


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FORECASTS OF SELECTED MACROECONOMIC INDICATORS IN 2018-2021

Indicator	Metric	2017	SURVEY RESULTS			
			2018F	2019F	2020F	2021F
GDP (YoY; %)	mean	4.6	4.41	3.57	3.17	2.88
	standard deviation		0.22	0.31	0.24	0.25
Domestic demand (YoY; %)	mean	4.7	5.02	3.90	3.22	3.07
	standard deviation		0.44	0.45	0.50	0.35
Individual consumption (YoY; %)	mean	4.8	4.58	3.72	3.28	3.08
	standard deviation		0.42	0.40	0.40	0.37
Gross fixed capital formation (YoY; %)	mean	3.4	8.14	5.85	4.64	4.59
	standard deviation		1.35	1.69	2.43	2.07
Public finance sector result, EU methodology (% of GDP)	mean	-1.7	-1.86	-2.20	-2.48	-2.83
	standard deviation		0.36	0.42	0.49	0.60
Unemployment rate (annual average, BAEL)	mean	4.5	3.96	3.72	3.75	3.82
	standard deviation		0.25	0.32	0.41	0.55
Gross wages in national economy (YoY; %)	mean	5.7	7.24	7.04	6.00	5.38
	standard deviation		0.85	0.78	0.49	0.61
Export (constant prices, YoY; %)	mean	8.2	5.91	5.62	5.25	5.22
	standard deviation		2.15	1.36	1.26	1.32
Import (constant prices, YoY; %)	mean	8.7	7.16	6.81	5.68	5.55
	standard deviation		2.14	1.65	1.30	0.99
Inflation (CPI, annual average)	mean	2	1.89	2.49	2.63	2.51
	standard deviation		0.29	0.39	0.29	0.38
Base inflation excl. food and energy prices	mean	0.7	1.09	2.06	2.42	2.34
	standard deviation		0.30	0.55	0.47	0.37
EUR/PLN (annual average)	mean	4.26	4.24	4.22	4.23	4.23
	standard deviation		0.03	0.06	0.10	0.11
USD/PLN (annual average)	mean	3.78	3.50	3.45	3.51	3.49
	standard deviation		0.10	0.22	0.31	0.31
Reference rate (annual average)	mean	1.5	1.52	1.64	2.09	2.34
	standard deviation		0.05	0.17	0.32	0.51
3M WIBOR	mean	1.73	1.71	1.89	2.35	2.59
	standard deviation		0.01	0.19	0.36	0.51
Yield on 5Y bonds (annual average)	mean	2.78	2.56	2.88	3.36	3.37
	standard deviation		0.08	0.21	0.23	0.29

MAJOR THREATS TO POLAND'S ECONOMY IN 2018-2021



* the size of the circle represents the sum of the products of factor weight multiplied by factor probability of occurrence as assigned the experts

	Weight (1 means the highest weight)	Probability	Percentage of respondents
A Protectionism and international trade restrictions	4	0.55	73%
B Economic downturn in the USA			53%
C Economic downturn suffered by Poland's main trading partners	1	0.61	100%
D Economic downturn in China			53%
E Italian crisis and new disruptions in markets leading to debt crisis in the Eurozone			60%
F Disintegration of the Eurozone			53%
G Correction and increase in volatility in global financial markets resulting in capital outflow and depreciation of currencies in emerging economies (including Poland)			80%
H Excessive growth of imbalances resulting from procyclical fiscal and monetary policy in Poland	2	0.53	93%
I Reduction of EU funding for Poland resulting from the EU rule-of-law procedure			60%
J Supply barrier in the labour market (limited availability of skilled labour; unfavourable demographic structure and insufficient labour migration)	3	0.74	87%
K Continued wage growth exceeding growth in labour productivity			60%
L Uncertainty with regard to economic policy resulting in private investment slowdown	5	0.56	87%