

# Poland: Macro Outlook, Budget Performance and Policy Challenges



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# Outline

The macro outlook in the face of the global twin crisis

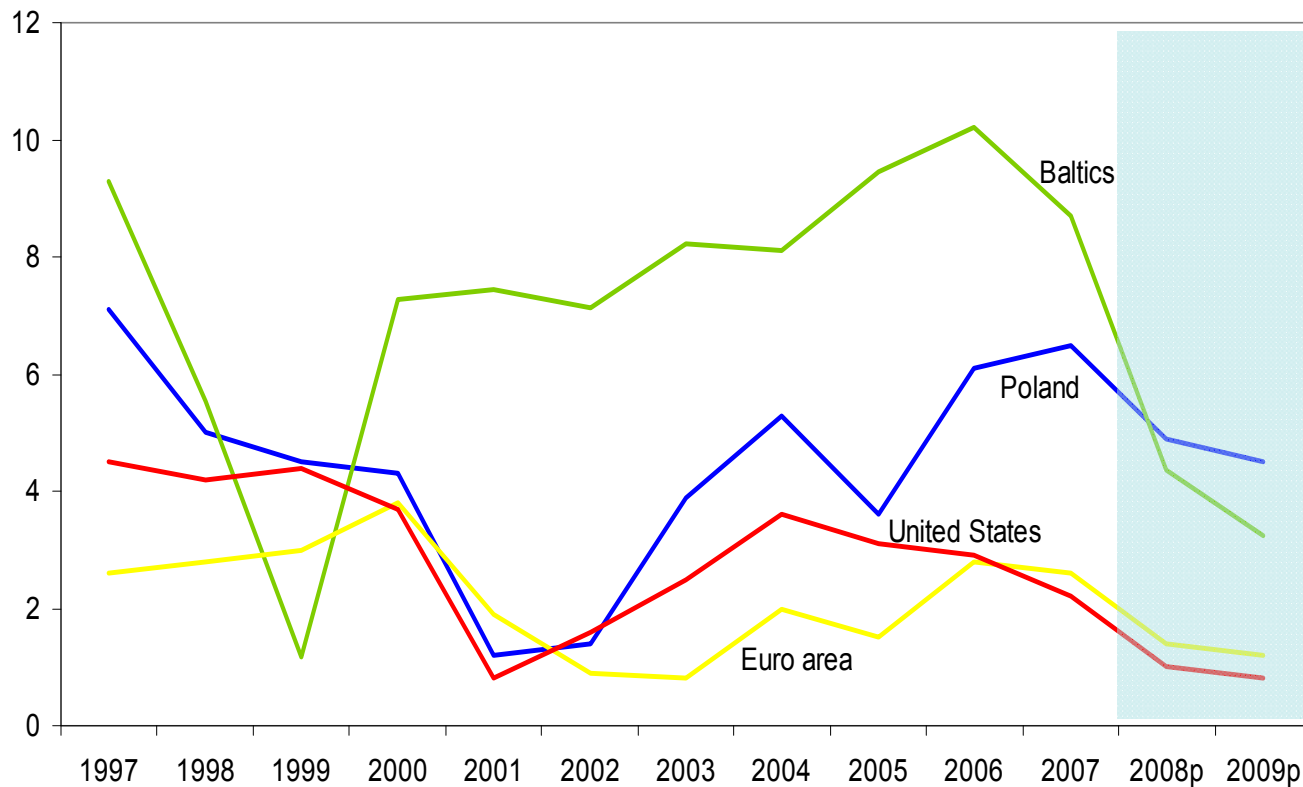
- growth
- inflation
- external balance

Budget performance: sources and prospects

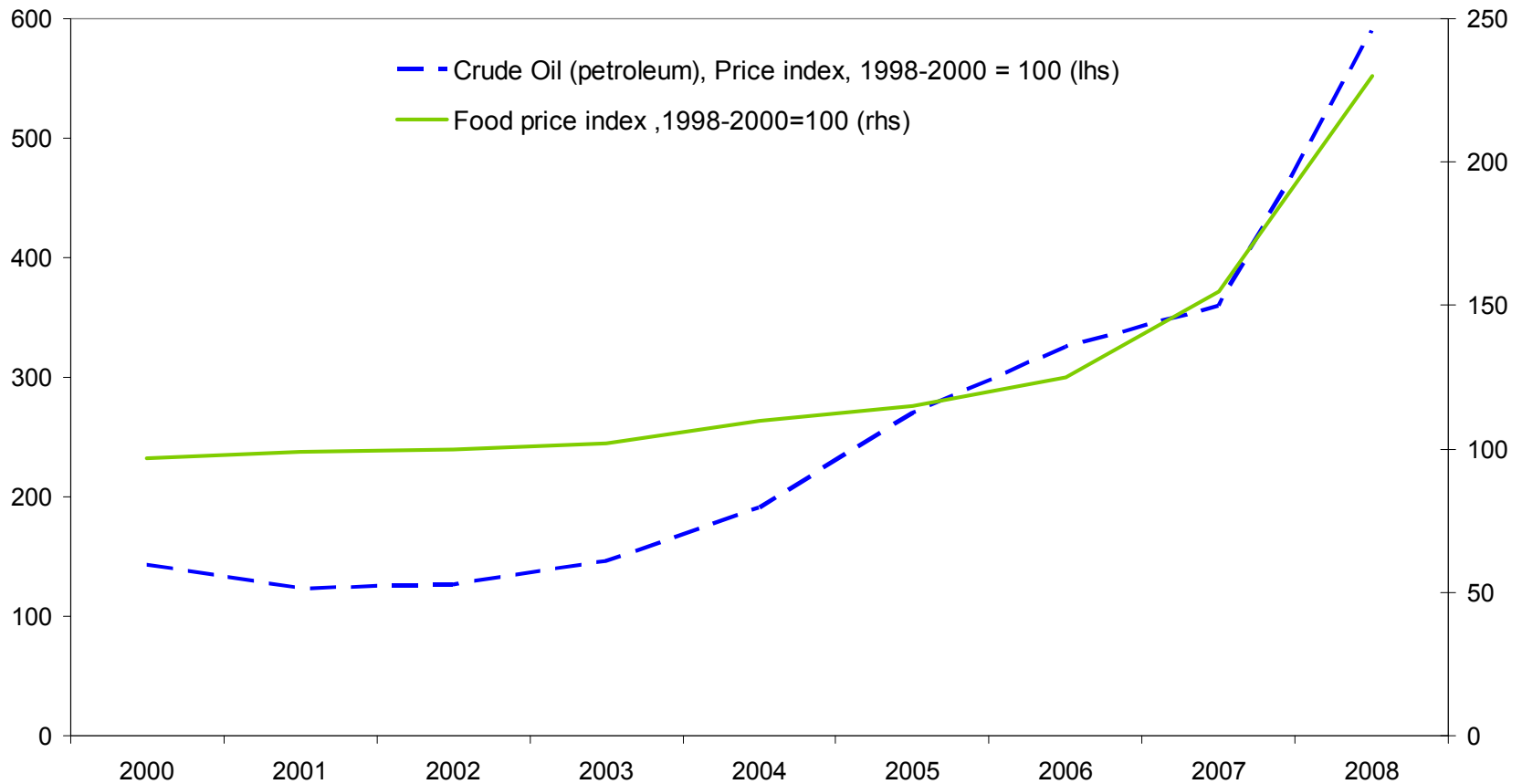
Policy challenges

# The slowdown in the US and Europe is affecting the region

**Annual GDP growth (percent)**

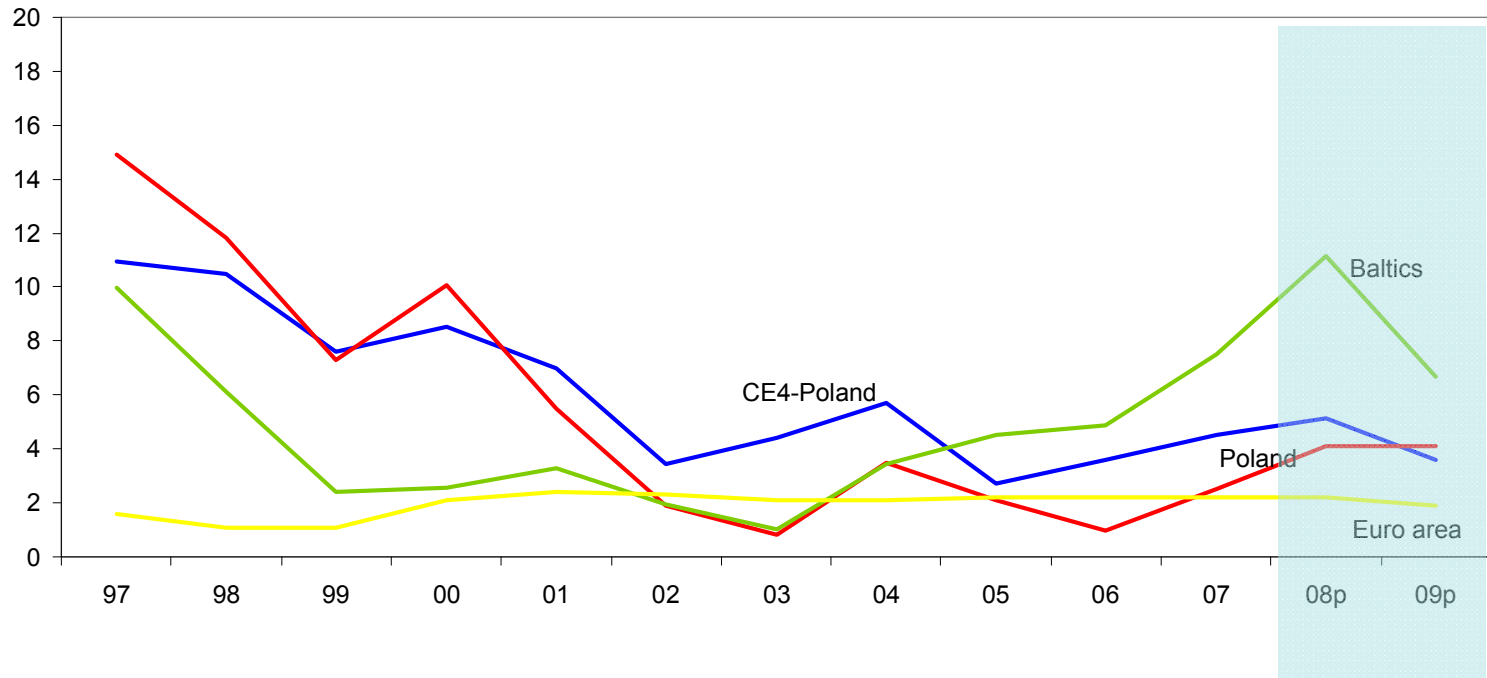


# Global food and energy prices are on the rise



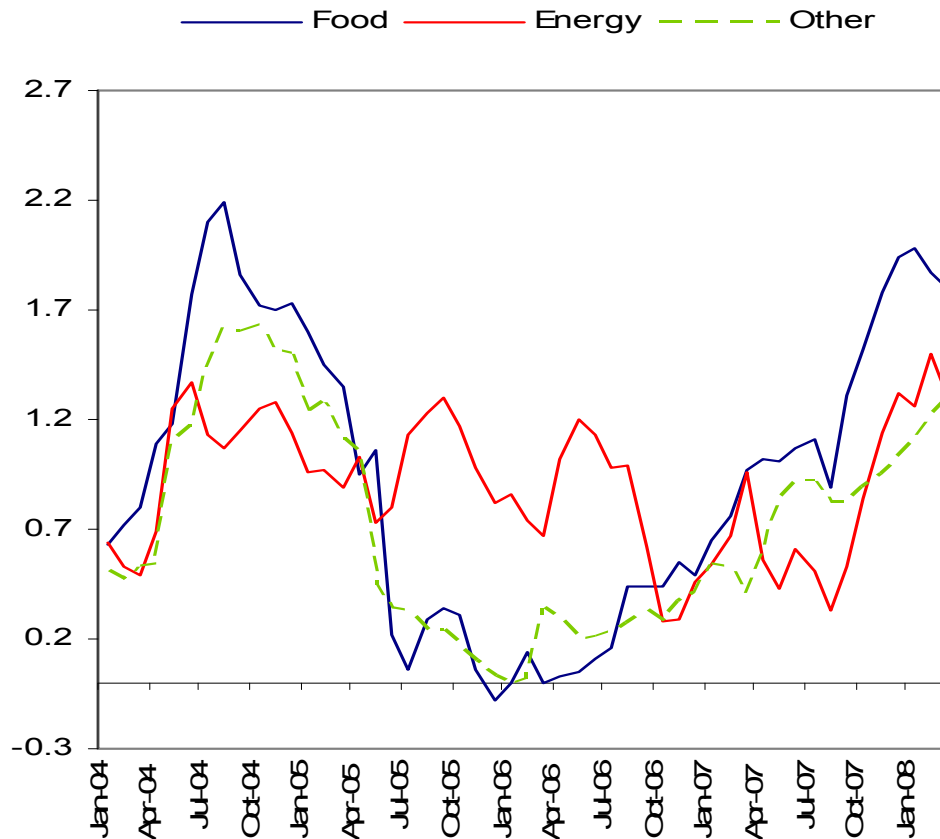
# As a result inflation is on the rise throughout the region

**Annual average CPI**  
*percent*



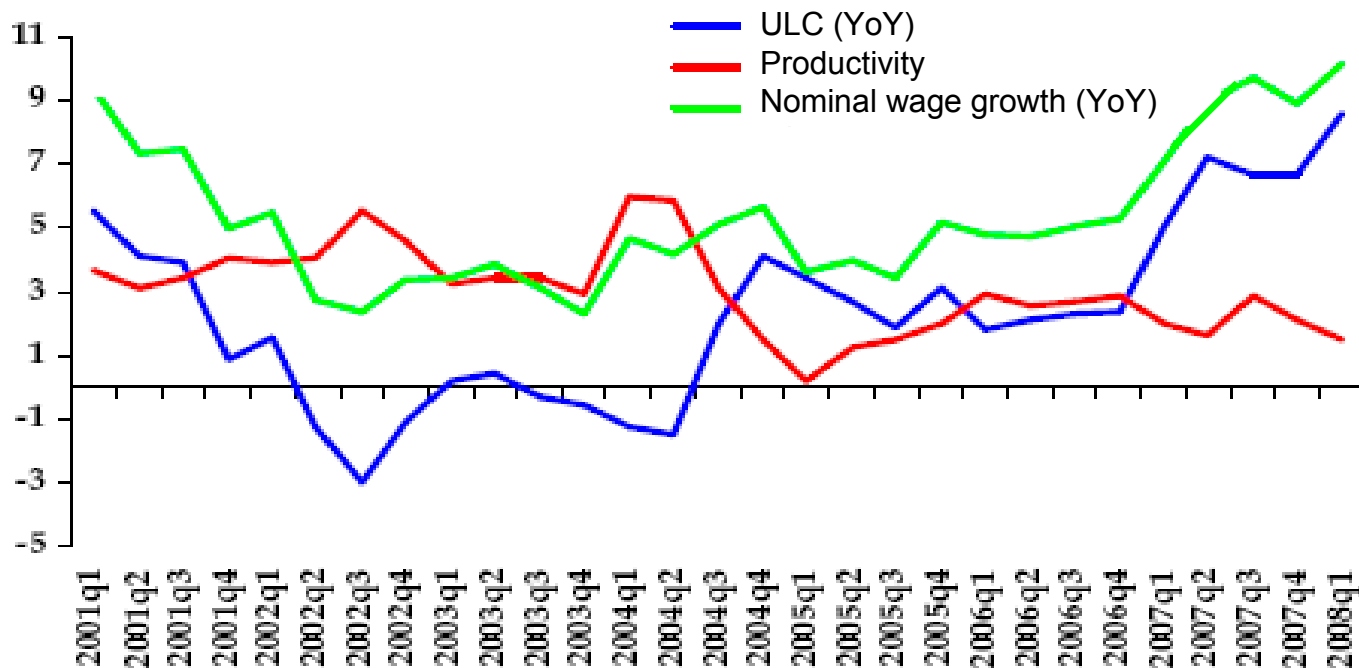
# Food and energy have contributed to much consumer price inflation in Poland but recently core inflation is up as well

Contribution to HICP  
(YoY, p.p.)



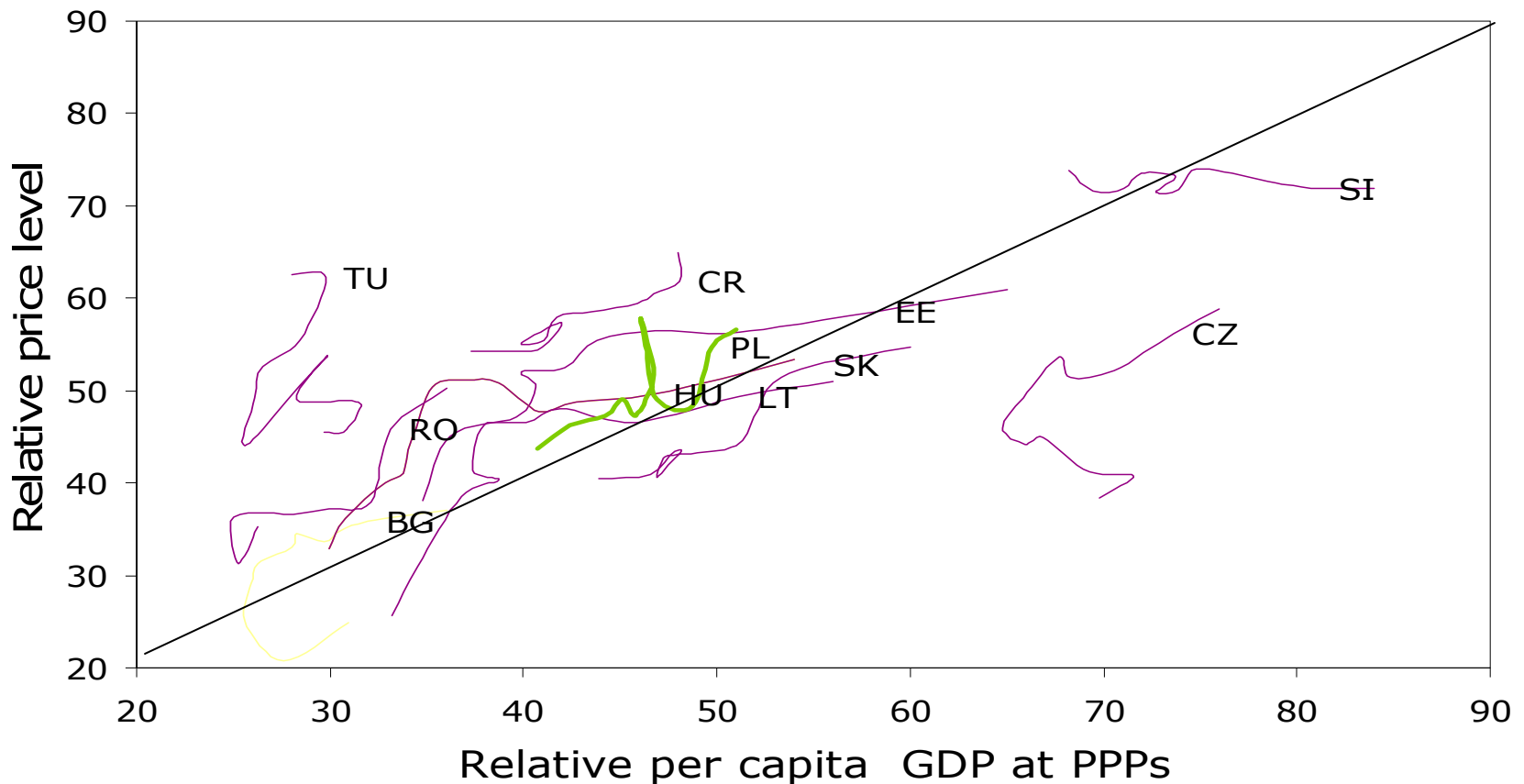
# Rising wages threaten the inflation outlook and competitiveness

**Wages, unit labor cost and productivity**  
(percent)



# Higher inflation rates are a natural by-product of convergence

Relative price level vs. relative GDP per capita (PPP), 1995-2006, (EU25=100)





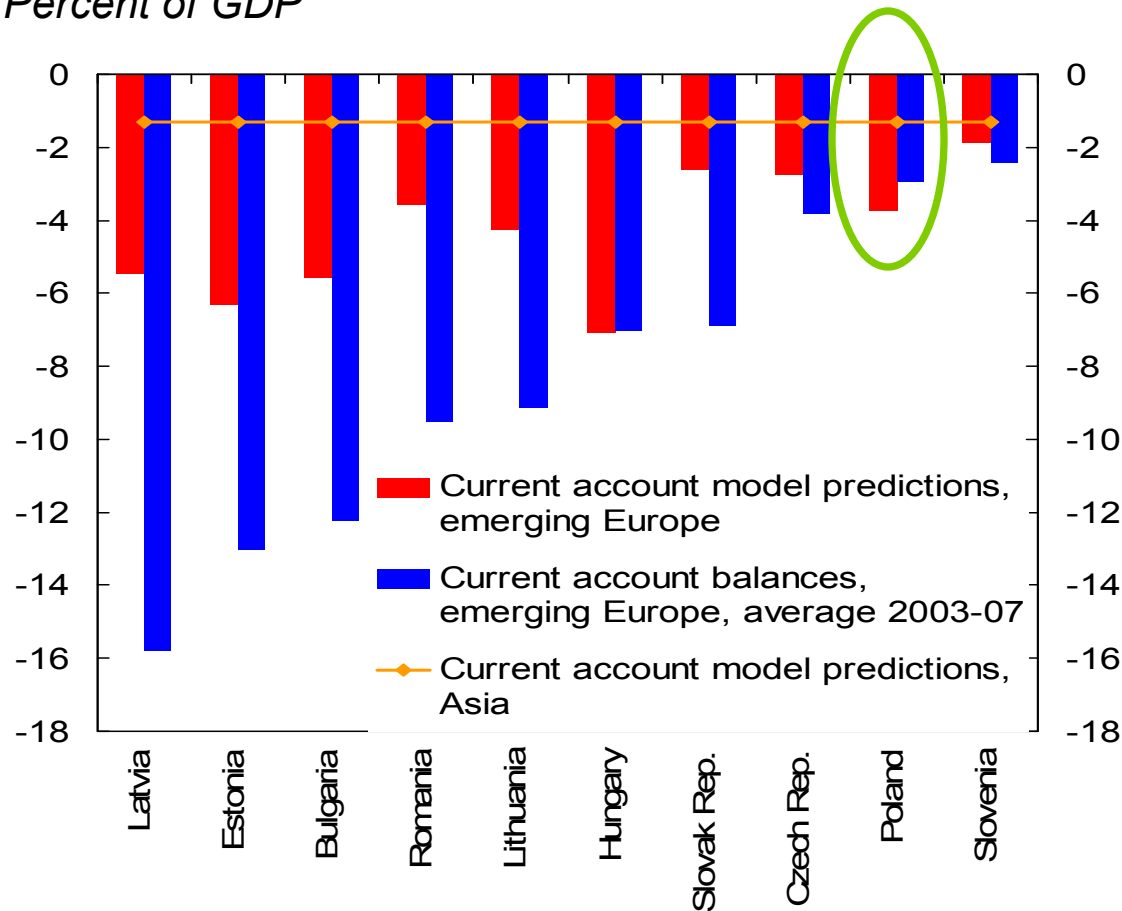
# Higher commodity prices are also contributing to a widening of the current account

## Current account deficit (in percent of GDP)



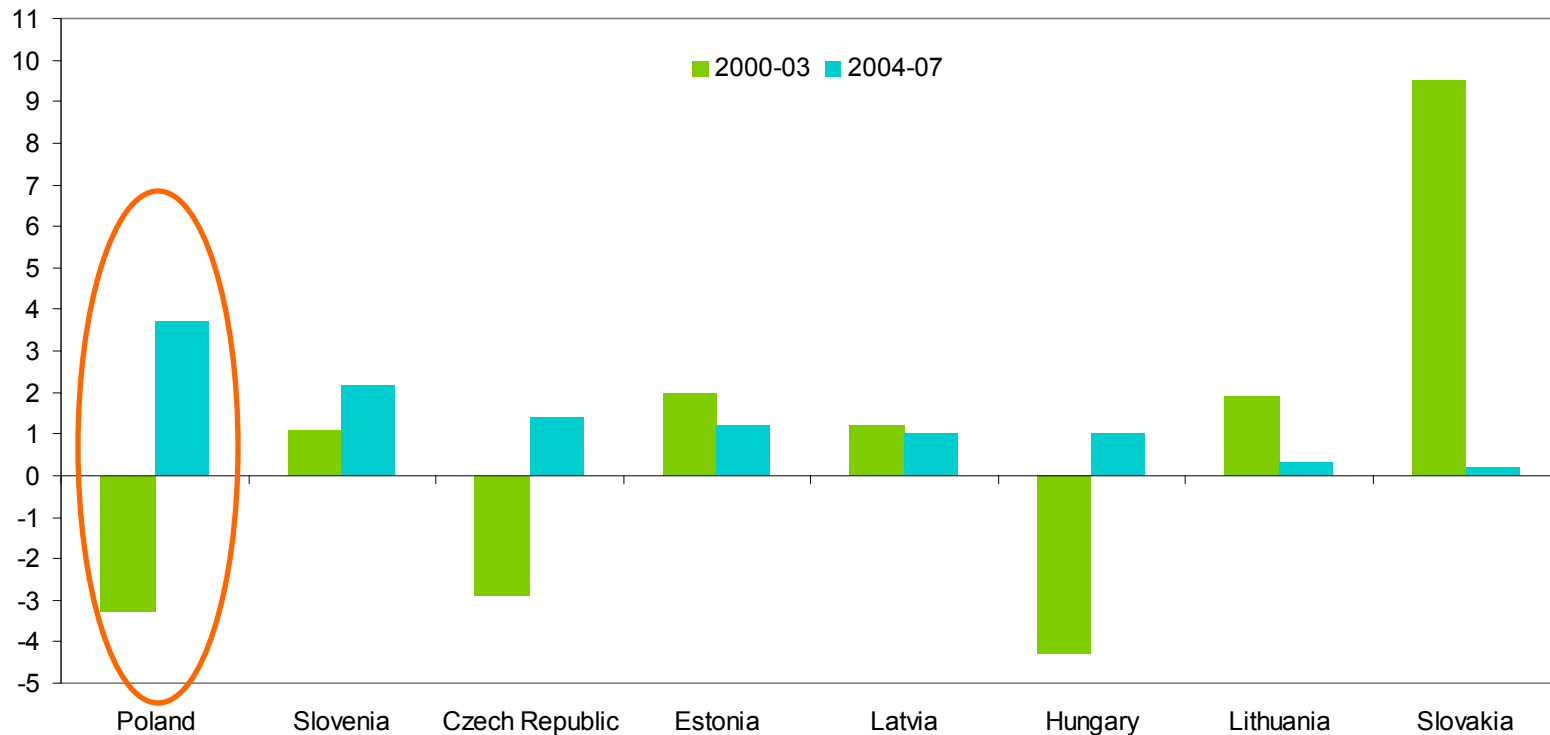
# Unlike in some other new member states, Poland's current account deficit has been consistent with fundamentals

**Current Account Balances and Model Predictions**  
*Percent of GDP*



# Poland's fiscal adjustment during the past three years has been impressive, reversing earlier lapses

## NMS: Fiscal consolidation (ESA95, percent of GDP)



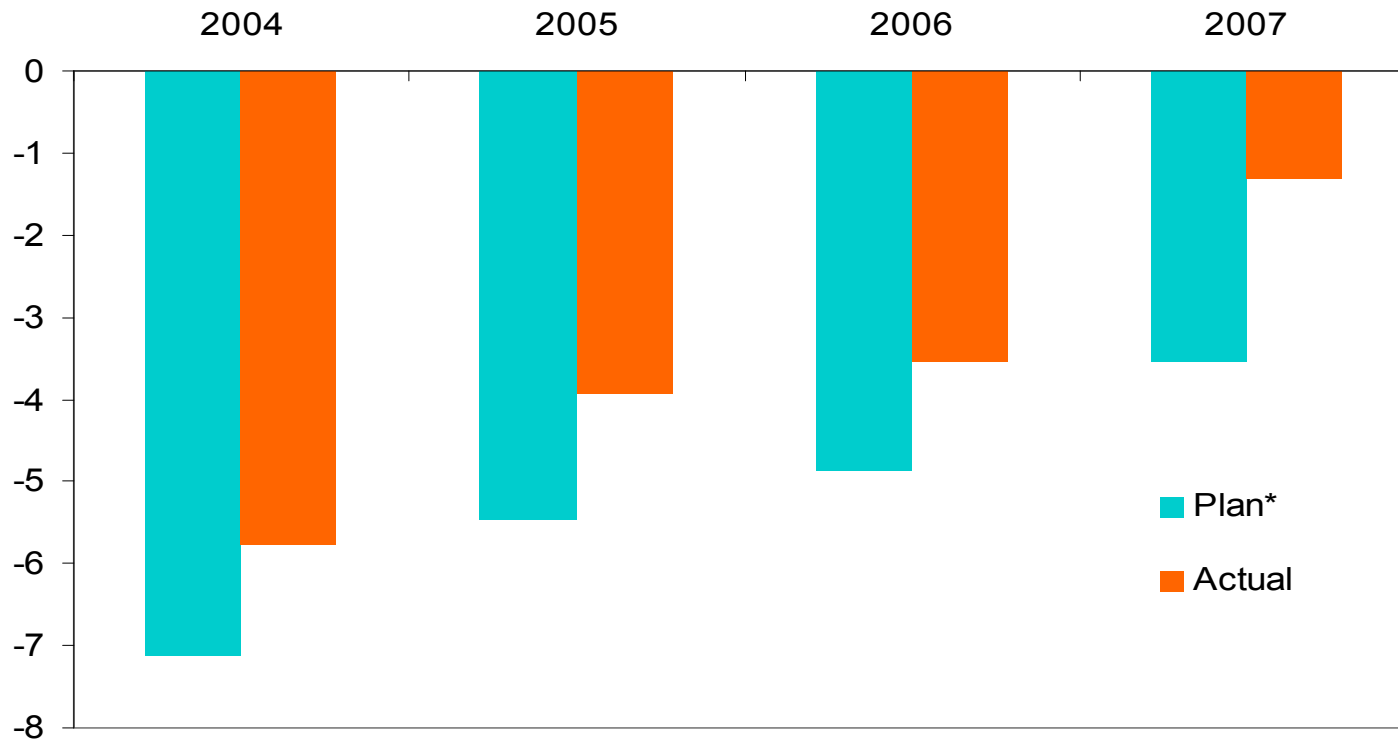
This was achieved despite a (much criticized) lack of measures to reduce the deficit

- **Hausner Plan (2004-07)**; approved measures would have reduced deficit by 2.4 pp of GDP, but about 1/2 were reversed in 2008
- **Post accession tax increases (2004)**: effect was likely small
- **Lowering of disability contributions (2007-08)**: *ceteris paribus increased* the deficit by about 2 pp of GDP

**So what explains the sharp reduction in the structural deficit?**

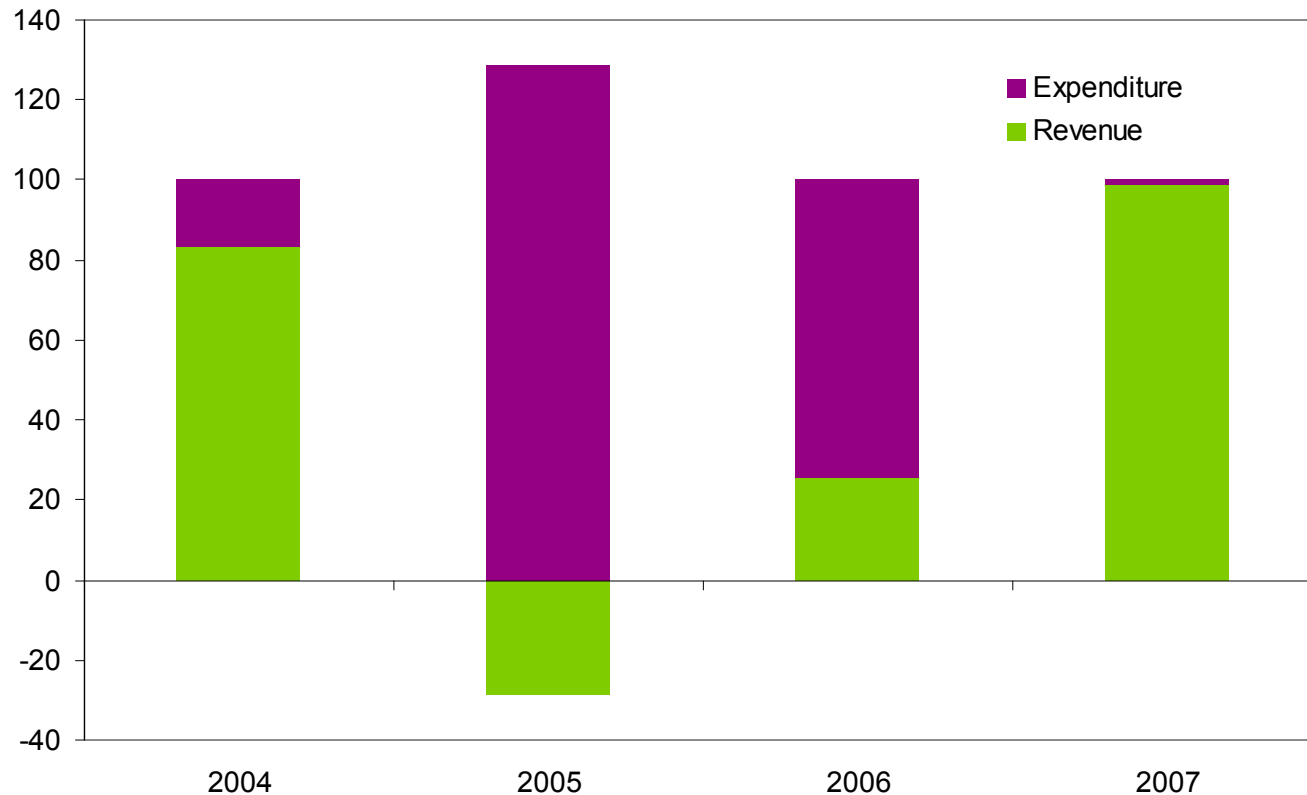
# Fiscal outcomes have consistently exceeded budget targets

**General government balance**  
(percent of GDP, cash basis)



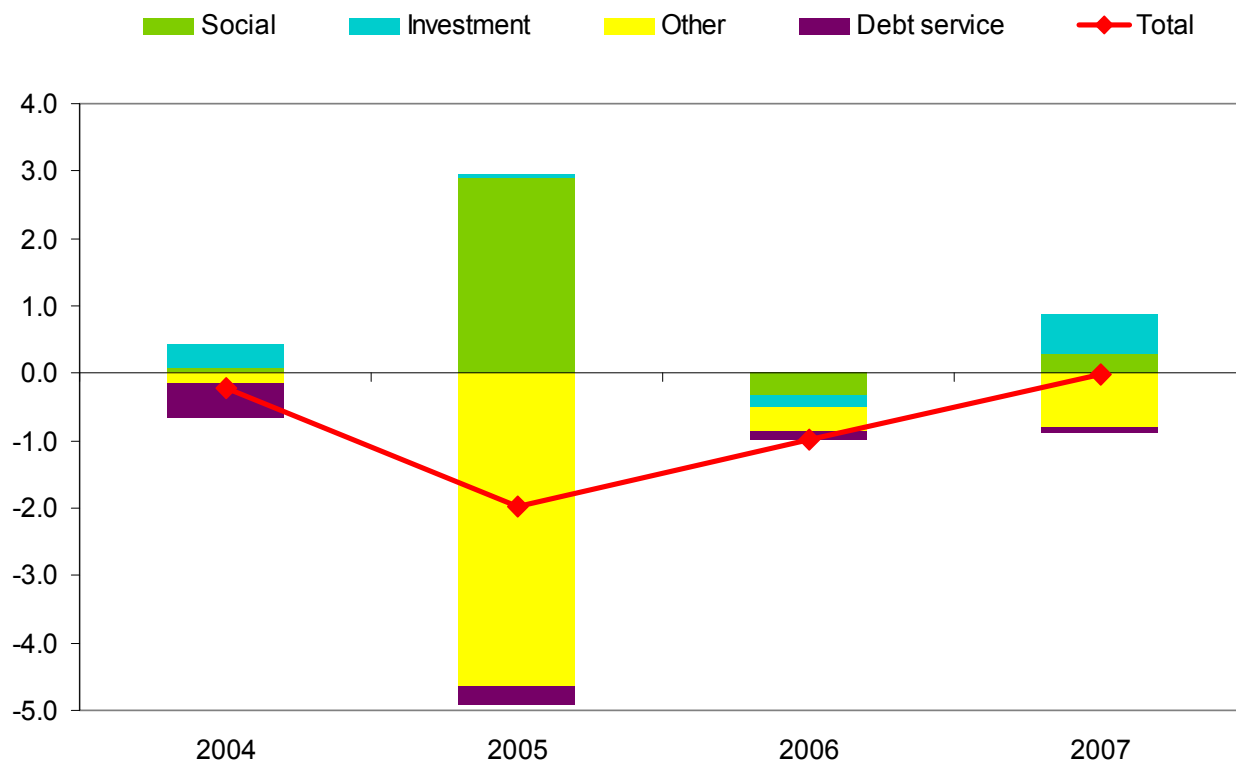
# Both the revenue and expenditure side of the budget have overperformed

**General government:  
Composition of fiscal overperformance 2004-07**  
*(cash basis, percent of total)*



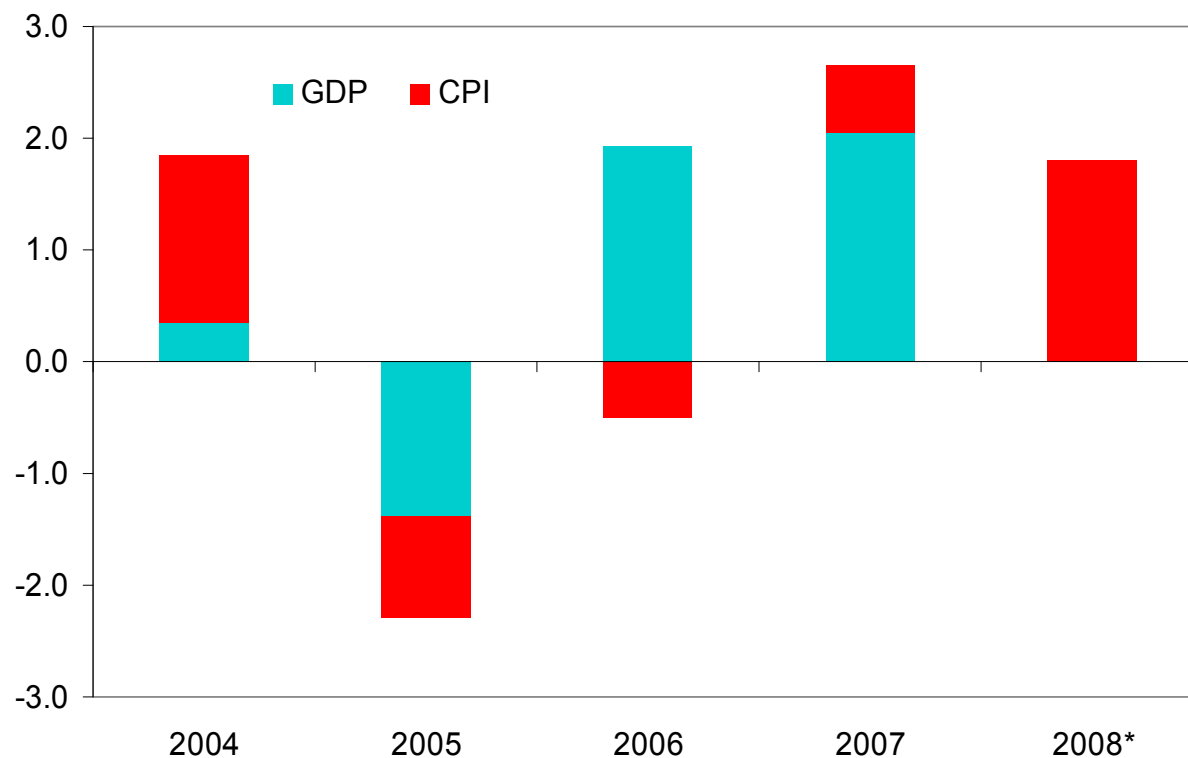
Aggregate expenditures have been on or below target, reflecting binding spending limits (albeit on the central government level only)

**General government:  
Composition of expenditure overperformance 2004-07**  
*(cash basis, percent of GDP)*



# Overperformance, especially on the revenue side, reflects very cautious macro assumptions

**Differences between actual and projected GDP and CPI 2004-07**  
*(percentage points)*

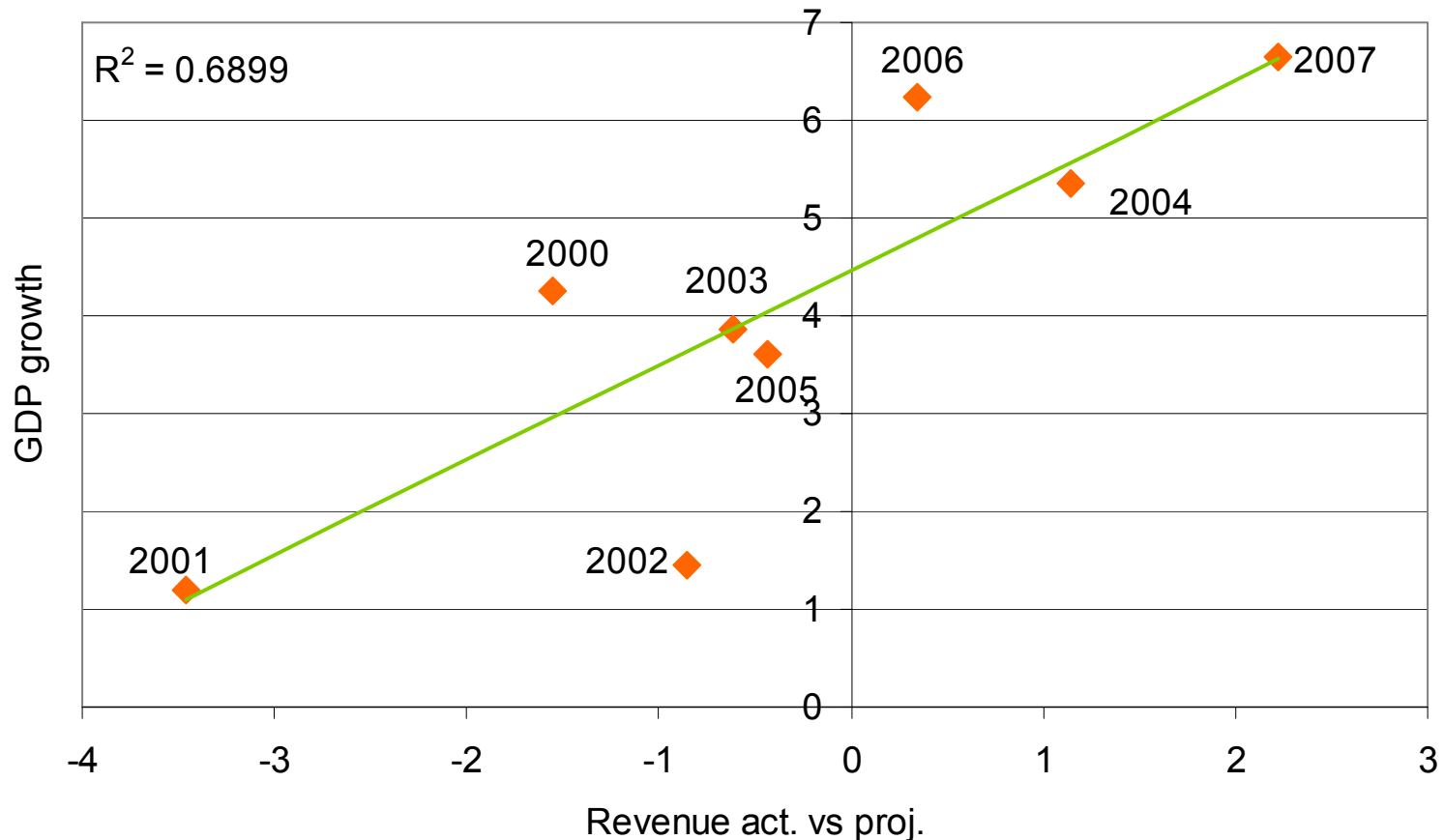


Source: MoF.  
\*Actual = latest projection by MoF



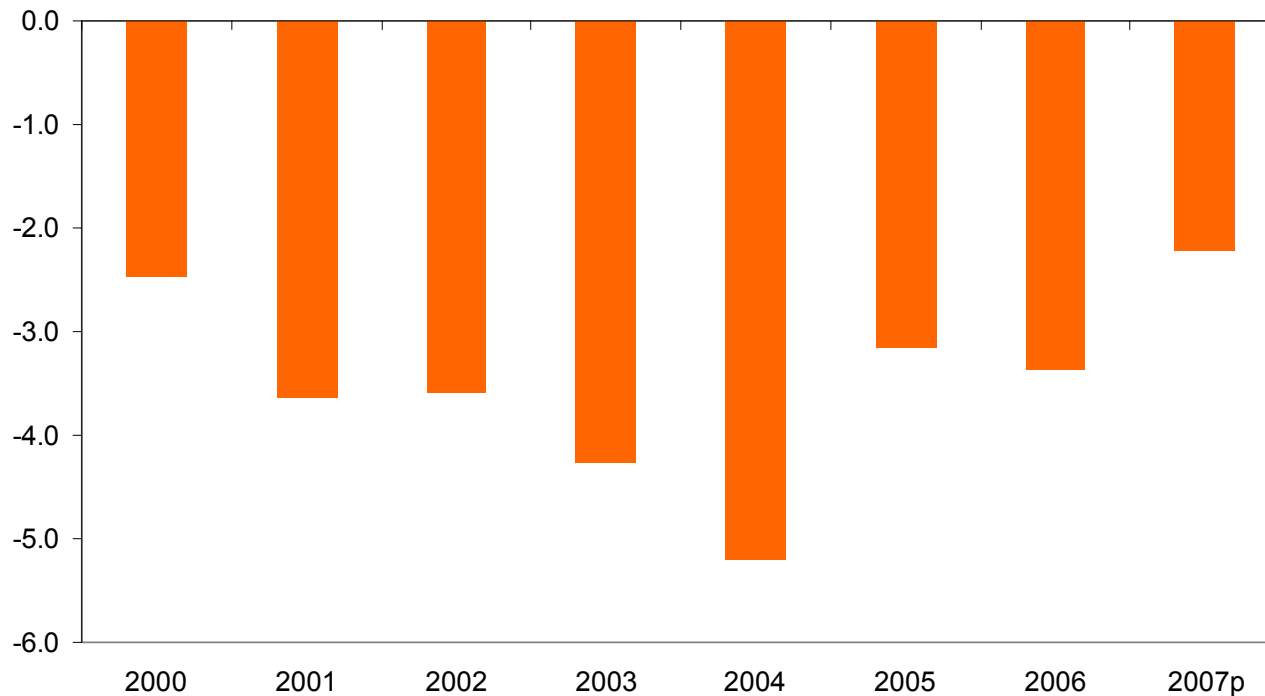
# Looking further back, revenue projections in Poland tend to be too optimistic during slowdowns and too conservative during upswings

## GDP growth and precision of revenue projections



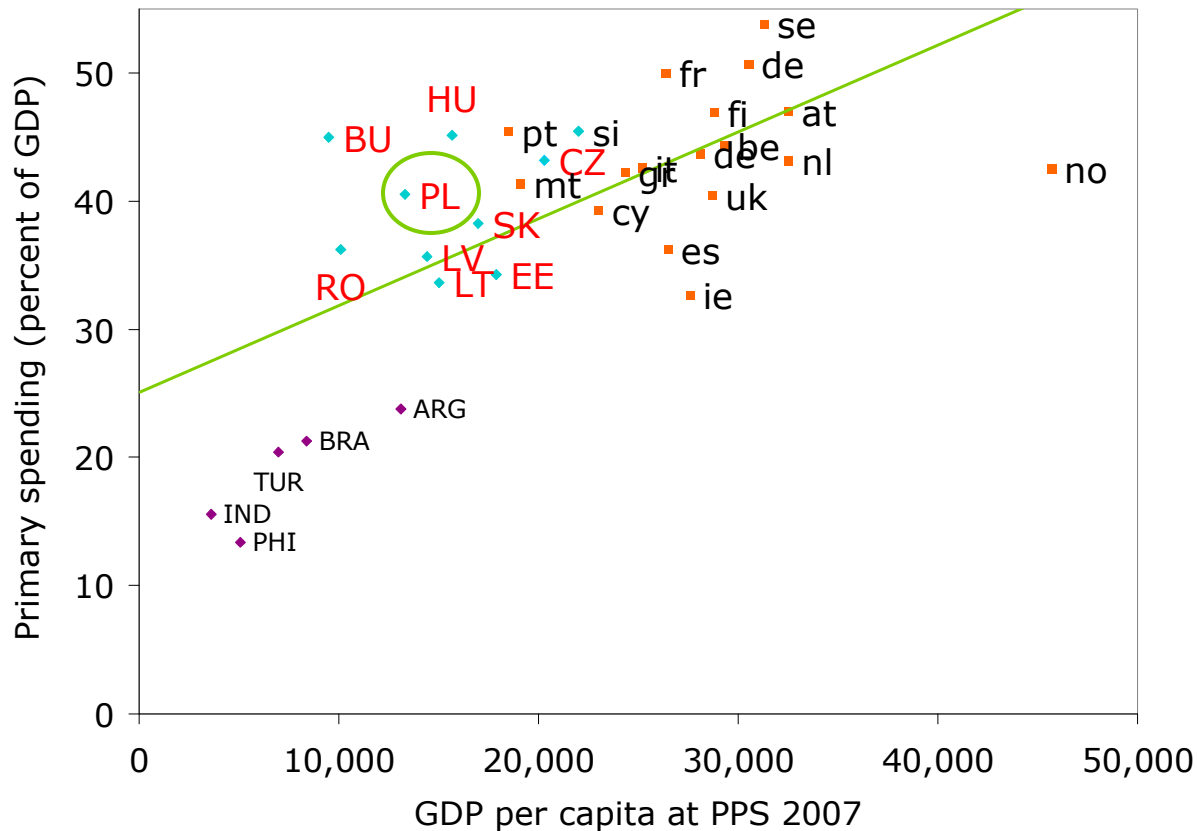
Without structural fiscal measures, the cyclically adjusted deficit is likely to fluctuate in the 2-3 percent of GDP range

**Cyclically adjusted fiscal deficit 2000-07**  
*(in percent of GDP)*



# Structural fiscal adjustments should start on the spending side.

**Primary expenditure, 2000-07 average**  
*(percent of GDP)*



# Policy challenges

- **Securing fiscal consolidation:** strengthen the fiscal framework (medium-term budget, reform of public institutions), focus on expenditure-based adjustment (e.g. indexation formula for social benefits)
- **Taming inflation:** head off second round effects by tightening monetary and fiscal policy, wage restraint, structural reforms (agriculture) to increase the supply response
- **Boosting long-term growth:** Increase labor participation, especially among the elderly, by reforming early retirement provisions and reducing the tax wedge
- **Euro adoption:** Prepare by not only meeting the Maastricht criteria but also by making the economy more flexible

# Thank you!

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