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Focus Notes: Poland

Convergence Report 2010 for Poland

On May 12, 2010, European Commission (EC) and ECB published the Convergence Report 2010 for the new EU member states. The main points of the report are the following:

- ✓ Over the reference period from April 2009 to March 2010, the 12-month average change of Harmonised Index of Consumer Prices (HICP) inflation in Poland was 3.9% i.e. well above the reference value of 1.0% for the criterion on price stability. (Table 1)

Table 1

Poland's deviation from inflation criterion (annual % change)

Period	12-month average of HICP in Poland	Criterion on price stability
April 2009	4.0	3.4
May 2009	4.0	3.0
June 2009	4.0	2.6
July 2009	4.0	2.2
August 2009	3.9	1.8
September 2009	3.9	1.3
October 2009	3.9	1.1
November 2009	3.9	0.8
December 2009	4.0	0.5
January 2010	4.0	0.4
February 2010	4.0	0.3
March 2010	3.9	0.2

Source: European Commission (Eurostat) and EFG-Eurobank Research calculations.

The latest available inflation forecasts from major international institutions range from 2.2% to 2.4% for 2010 and from 1.9% to 2.6% for 2011. (Table 2) The upside risks are associated mainly with a stronger than expected economic recovery in Poland and higher than expected commodity prices. The downside risks relate mainly to the size of the pass-through of the recent appreciation of the zloty, which might dampen import prices.

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Table 2

Inflation forecasts (annual % change)

	2010	2011
HICP, EC (Sping 2010)	2.4	2.6
CPI, OECD (December 2009)	2.2	1.9
CPI, IMF (April 2010)	2.3	2.4
CPI, Consensus Economics (April 2010)	2.4	2.4

Source: EC, OECD, IMF and Consensus Economics

- ✓ Poland is at present subject to an EU Council decision on the existence of an excessive deficit. In the reference year 2009 the general government budget balance showed a deficit of 7.1% of GDP, i.e. significantly above the 3% of GDP reference value. The general government debt-to-GDP ratio was 51.0% of GDP, i.e. below the 60% of GDP reference value. The deficit is forecast by the EC to increase to 7.3% of GDP in 2010 and to fall to 7.0% of GDP in 2011. The government debt ratio is projected to increase to 53.9% of GDP in 2010 and to 59.3% of GDP in 2011. (Table 3) It must be noted that in Poland there is a constitutional threshold regarding the government debt ratio of 55% of GDP. According to EC's 2009 Sustainability Report, Poland appears to be at medium risk as its fiscal position is in much better place than that of many other EU member states including many EMU countries. Turning to fiscal challenges, Poland must bring its budget below the 3% of GDP reference value by 2012 in line with the Excessive Deficit Procedure (EDP) commitments. This requires strict fiscal consolidation measures particularly on the expenditure side of the budget.

Table 3

General government fiscal position

	2008	2009	2010	2011
General government balance (% of GDP)	-3,7	-7,1	-7,3	-7,0
Reference value: -3,0% of GDP				
General government debt ratio (% of GDP)	47,2	51,0	53,9	59,3
Reference value: 60% of GDP				

Source: European Commission

- ✓ Polish law does not comply with all the requirements of central bank independence. Poland is a member state with derogation and must therefore comply with adaptation requirements. The change concerning the Polish central bank independence has to be approved by Poland's constitution. This requires a 2/3 majority and no veto exertion by the Polish President. Taking into consideration that the presidential elections, to be held on June 20, 2010), will most likely favour the ruling government candidate, this issue will be solved soon.

All in all, according to the Convergence Report 2010, achieving an environment conducive to sustainable convergence in Poland requires, inter alia, maintaining a price stability-oriented monetary policy in the medium term and implementing a comprehensive and credible fiscal consolidation path.

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