REPUBLIC OF POLAND

CONVERGENCE PROGRAMME

2020 UPDATE

Warsaw, April 2020

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Introduction

The European Union Member States submit annually the updates of stability or convergence programmes to the European Commission and the Ecofin Council. Based on the analysis of these documents, the Ecofin Council subsequently issues recommendations for the economic policies of the Member States, which shall be taken into account when designing budgets for the following year. In the opinion of 9 July 2019 on the last year's update of the *Convergence Programme*, the Ecofin Council recommended that Poland:

- ensure that the nominal growth rate of net primary government expenditure[1] does not exceed 4.4% in 2020, which would correspond to an annual structural adjustment of 0.6 % of GDP,
- take further steps to improve the efficiency of public spending, including by improving the budgetary system.[2]

Poland and many other countries, including the European Union Member States, are mobilising additional budgetary resources in 2020 aiming to stop the COVID-19 pandemic and mitigate the effects thereof. The challenges to the healthcare system and the decline in economic activity caused by the epidemic are unprecedented in recent decades. The expected recession triggered by the freezing of the economy this year shall have a significant negative impact on public finances. The combined effect of measures aimed at stopping the epidemic, protecting jobs and wages of workers affected by the pandemic, liquidity support for companies and industries affected by the pandemic, as well as the loss of tax revenues shall lead this year to a significant deterioration in the general government balance and an increase in the general government debt.

The Ecofin Council also recently assessed, following the European Commission[3], that there has been a severe economic downturn across the EU caused by the pandemic[4]. Based on the above considerations, the conditions for the use of the general escape clause enshrined in the EU's *Stability and Growth Pact* are fulfilled. The activation of the clause allows countries to temporarily depart from the EU Council's recommendations on fiscal policy in 2020, provided that this does not endanger fiscal sustainability in the medium term.

Similar approach is foreseen in the current situation with regard to the stabilising expenditure rule. The stabilising expenditure rule assumes an escape clause to be applied in emergency situations.

In accordance with the guidelines of the European Commission, the format of this year's *Convergence Programme* update (hereinafter referred to as the *Programme*) has been streamlined and focuses on budgetary policy measures taken in response to the COVID-19 outbreak. The Member States in their updates of stability or convergence programmes submitted to the Commission and the Council by the end of April shall present fiscal impact of their response to the pandemic. The Commission shall use this information to prepare country-specific recommendations under the European Semester, the

[1] The assessment of compliance with the Stability and Growth Pact examines general government expenditure, minus: debt service costs, fully EU-funded expenditure and cyclical unemployment benefit expenditure, while national investment expenditure (in year t) is replaced by a 4-year average of such expenditure (t-3; t).

[2] *Council Recommendation of 9 July 2019 on the 2019 National Reform Programme of Poland and delivering a Council opinion on the 2019 Convergence Programme of Poland* available at: https://op.europa.eu/en/publication-detail/-/publication/5a0d61d8-cffe-11e9-b4bf-01aa75ed71a1/language-pl

[3] *Communication from the Commission to the Council on the activation of the general escape clause of the Stability and Growth Pact available at:* https://data.consilium.europa.eu/doc/document/ST-7102-2020-INIT/pl/pdf

[4] Statement of EU ministers of finance of 23 March 2020 on the *Stability and Growth Pact in light of the COVID-19 crisis* available at: https://www.consilium.europa.eu/pl/press/press-releases/2020/03/23/statement-of-eu-ministers-of-finance-on-the-stability-and-growth-pact-in-light-of-the-covid-19-crisis/?utm_source=dsms-auto&utm_medium=email&utm_campaign=Statement+of+EU+ministers+of+finance+on+the+Stability+and+Growth+Pact+in+light+of+the+COVID-19+crisis

implementation of which would ensure coordination and an appropriate level of budgetary measures aimed at supporting the economy.

The *Programme* was created in parallel with this year's edition of the *National Reform Programme* (NRP), containing, inter alia, a review of structural reforms aimed at meeting the objectives of the *Europe 2020* strategy and Council recommendations formulated on the basis of the analysis of the 2019 NRP. The presented forecasts take into account the budgetary measures announced by 17 April this year. The *Programme* was adopted by the Council of Ministers on 28 April this year.

I. Budgetary policy response to the COVID-19 outbreak

This year's *Convergence Programme* is unique. It focuses on measures taken in response to the COVID-19 outbreak. Limiting the spread of Coronavirus shall reduce the incidence of the disease, limit the pressure on the healthcare system and prepare for a gradual rebound of the economy.

In order to protect the Polish economy and mitigate the effects of the COVID-19 epidemic, the government, in cooperation with Bank Gospodarstwa Krajowego (BGK), the Polish Development Fund (PFR), the Office of the Polish Financial Supervisory Authority (UKNF) and the Narodowy Bank Polski (NBP), prepared a package of solutions called the *Anti-Crisis Shield* (hereinafter referred to as the *Shield*). The aim of these measures is to stabilise the economy and provide an investment impulse. The *Shield* consists of 5 pillars:

- safety of employees;
- financing of enterprises
- support for the healthcare system;
- strengthening the financial system;
- support for public investment.

The first three pillars of the *Anti-Crisis Shield* have mostly been introduced in respective legal Acts (cf. the basis for implementing discretionary measures in table 1). The fourth pillar consists of autonomous measures taken by the UKNF and the NBP. The fifth pillar aims at supporting the economy in returning to the path of economic growth once the threat is over. Under the above-mentioned *Act on specific support instruments in connection with the spread of the SARS-CoV-2 virus*, the newly established COVID-19 Counteraction Fund may allocate funds to finance or co-finance the implementation of tasks related to the prevention of the epidemic. The President of the Council of Ministers shall be responsible for the management of the Fund and the allocation of funds. The impact of the creation of the Fund on the general government has not been directly addressed due to the absence of a draft financial plan. However, as the COVID-19 Counteraction Fund shall finance the tasks set out in the *Anti-Crisis Shield*, the forecast assumes that these tasks shall be financed by other general government entities, including the State Budget.

The *Anti-Crisis Shield* was supplemented by the *Polish Development Fund Financial Shield for Companies and Employees* (hereinafter referred to as the *Financial Shield*). The legal basis for the *Financial Shield* was established by the aforementioned amendment to the *Act on the Development Institutions System*. Based on that Act, the Council of Ministers was able to set up two aid schemes in relation to the effects of COVID-19 and to entrust them to the Polish Development Fund. Microenterprises, SMEs and large enterprises shall receive almost PLN 100 billion in subsidies, of which about PLN 60 billion may be retained by the enterprises as non-refundable funds under the condition that they continue to operate after the support has been granted and that jobs are preserved. The programme shall be financed using the Polish Development Fund resources mainly through issuing bonds subject to State Treasury guarantees on the domestic or foreign market. The type and conditions of support provided by the *Financial Shield* have been divided according to the size of the enterprise:

- microenterprises (employing 1 to 9 people) will receive PLN 25 billion,
- SMEs (employing 10 to 250 people) will receive PLN 50 billion,
- large enterprises (more than 250 employees) – PLN 25 billion.

Work is ongoing to complement these anti-crisis solutions. Detailed description thereof is provided in the *National Reform Programme*. Table 1 presents budgetary measures with a significant impact on the general government (minimum of PLN 1 billion), using data available as of 17 April this year. The table does not take into account the impact of the Polish Development Fund *Financial Shield*.

All the measures indicated in Table 1 increase government expenditure and should be considered under the general escape clause of the *Stability and Growth Pact*.

Table 1. Discretionary measures taken in response to COVID-19 outbreak

	Measure	2020 % GDP	ESA Code (expenditure /income component)	Basis for implementation*
1.	standstill benefit for persons working under civil law contracts and self-employed persons	0.71	D.39	1, 2
2.	3-month exemption from social security contributions applicable to micro-firms (up to 9 insured people) and self-employed who do not insure anyone except themselves (subject to revenue condition), as well as to small firms (10-49 insured people), but limited to 50% of social security contributions for the latter group	0.65	D.75, D.39	1, 2
3.	under the condition of a decrease in turnover, co-financing part of employees' salaries for companies employing employees and part of the operational costs for entrepreneurs not employing employees	0.56	D.39	1, 2
4.	increasing the availability of loans to microenterprises	0.38	D.75	1, 2
5.	support to the healthcare system in the measures related to the epidemic	0.31**	D.63/P.51/D.1**	1
6.	provision of additional capital to the Polish Development Fund	0.22	D.9	3
7.	additional care allowance for carers of children aged 8 or less and for farmers	0.19	D.62	1, 4
8.	creation of a support programme for the national receivables insurance market and for entrepreneurs who will not be able to obtain insurance protection for their trade receivables on the commercial insurance market	0.10***	D.99	5
9.	Industrial Development Agency - re-guarantee mechanism with regard to leasing contracts	0.08	D.9	1
	Total	**3.20**		

Source: estimates of the Ministry of Finance.

* Basis for implementation:

1 – *Act of 31 March 2020 amending the Act on special arrangements for the prevention, counteracting and combating of COVID-19, other infectious diseases and the crisis situations caused by them and certain other Acts* (Journal of Laws of 2020 item 568).

2 – *Act of 16 April 2020 on specific support instruments in relation to the spread of the SARS-CoV-2 virus* (Journal of Laws of 2020 item 695).

3 – *Act of 31 March 2020 amending the Act on the system of development institutions* (Journal of Laws of 2020 item 569).

4 – *Regulation of the Council of Ministers of 10 April 2020 on determining a longer period of receiving an additional care allowance to counteract COVID-19* (Journal of Laws of 2020 item 656) and *Regulation of the Council of Ministers of 10 April 2020 on determining a longer period of receiving a care allowance in order to counteract COVID-19* (Journal of Laws of 2020 item 659).

5 - *Support Programme for trade receivables insurance market* (draft Act still to be processed in the Sejm)

** Item 5 - maximum effect of the Act; other ESA codes possible, depending on the final structure of expenditure.

*** Item 8 - the adoption of the *Support Programme for trade receivables insurance market* would have an additional fiscal impact also in 2021, but lower than in 2020.

Moreover, the NBP has recently taken steps, within the framework of its primary objective to maintain price stability, while supporting the economic policy of the Government (insofar as this does not constrain the pursuit of the basic objective of NBP) and the financial system stability measures, within the tools at its disposal, including:

- reduction in interest rates and reserve requirements;
- liquidity-providing operations for banks – so-called repo operations;
- purchase of Treasury bonds on the secondary market as part of structural open market operations;
- introduction of a bill discount credit for banks.

Table 2 presents the guarantees planned in connection with the epidemic. The support is estimated at PLN 131.6 billion, but this amount may be increased.

Table 2. Government guarantees planned in response to COVID-19 outbreak

	Measure	Maximum amount of contingent liabilities PLN billion	Basis for implementation*
1.	State Treasury guarantees related to the issue of bonds by the Polish Development Fund	115	1
2.	State Treasury guarantees for BGK's liabilities incurred for the purposes of the new COVID-19 Counteraction Fund	no data	1, 2
3.	State Treasury guarantees for BGK's liabilities incurred for the purposes of the National Guarantee Fund	-	2
4.	State Treasury guarantees for BGK's liabilities incurred for the purposes of the new Liquidity Guarantee Fund of BGK**	16.6	2
	Total	**131.6**	

Source: Ministry of Finance, Bank Gospodarstwa Krajowego.

* Basis for implementation:

1 – *Act of 16 April 2020 on specific support instruments in relation to the spread of the SARS-CoV-2 virus* (Journal of Laws of 2020 item 695).

2 – *Act of 31 March 2020 amending the Act on special arrangements for the prevention, counteracting and combating of COVID-19, other infectious diseases and the crisis situations caused by them and certain other Acts* (Journal of Laws of 2020 item 568).

** Item 4 – Bank Gospodarstwa Krajowego (BGK) may, in accordance with the *Act of 31 March 2020 amending the Act on special arrangements for the prevention, counteracting and combating of COVID-19, other infectious diseases and the crisis situations caused by them and certain other Acts* provide own-account guarantees in connection with the consequences of a pandemic (forecast amount: PLN 100 billion plus interest and potential other costs). BGK's expenditure on these guarantees is covered by the Liquidity Guarantee Fund, which in addition to funds from the State budget may also be financed from the BGK bond issue. Their repayment is in turn to be guaranteed by the State Treasury. The amount of PLN 16.6 billion is the estimated amount of State Treasury guarantees to be related to the aforementioned bond issues.

II. Economic outlook

Macroeconomic scenario for 2020

The outbreak of the COVID-19 epidemic in China and its further rapid spread throughout the world, including Poland and other EU countries, i.e. the main Polish export markets, as well as the necessary measures taken by the authorities to prevent a sharp development of the outbreak constitute a negative supply-demand shock of unprecedented magnitude. Apart from the consequences in the form of infections and deaths as well as human suffering, the outbreak will considerably affect macroeconomic processes in Poland, including a significant weakening of economic activity, worsening of situation on the labour market and, as a result, a deterioration of public finances, as well as a change in the economic behaviour of households and enterprises.

The data for the first two months of this year, in particular as regards industrial and construction production or retail sales, as well as available forecasts at that time indicated that in 2020 the GDP growth slowdown as compared to the situation one year ago would not be significant, while the situation on the labour market should be favourable. However, administrative restrictions regarding the activity of enterprises and mobility of persons, which were introduced with the aim to limit the spread of the virus, have resulted in a sharp slowdown in economic activity as well as collapse of the current trends in most macroeconomic categories, starting from mid-March. Uncertainty about the short term prospects of the economy has increased considerably. At the same time, the authorities, i.e. the government and the central bank, have taken a number of measures to prevent the disruption of supply chains, mass bankruptcies and loss of liquidity among enterprises, and thus a strong increase in unemployment and the dramatic deterioration of the household income situation.

Under the conditions described above, forecasting the macroeconomic situation is subject to a high risk of error and must be – more than usual – based on assumptions. In the macroeconomic scenario presented below, the basic assumption is that the restrictions comprising the social quarantine relevant for the functioning of the economy will be lifted in May this year, which is consistent with the assumptions of the European Commission. Full recovery shall take longer however, and the fight against the effects of the epidemic shall be long-lasting.

In the second quarter of 2020, a strong drop in economic activity (q/q, sa) is expected in almost all sectors of the economy. The largest decrease will concern hospitality and food services, arts, entertainment and recreation, transport (especially passenger), real estate services or trade, although in this case the effect will be softened by sales of food and grocery and hygiene products as well as online sales. These sectors shall be most affected by restrictions relating to free movement and the need to maintain social distancing. A decrease in activity shall occur in the construction industry, due to, among others, restrictions in access to labour resources (including migrants, especially from Ukraine) and temporary suspension of investments. On the other hand, the situation in industrial processing looks slightly better, although there are also industries (e.g. the automotive industry) where activity will decrease very significantly.

In the third quarter of this year a rebound in economic activity is expected (q/q, sa), although much milder than the slump that took place in the second quarter. As a result, for the whole of 2020 GDP will fall by 3.4%, for the first time since the early 1990s. Despite the fact that real disposable income growth remains positive, there shall be a drop in private consumption, which in turn will contribute to a further increase in household savings. Investment activity shall also decline, especially outside the general government. A strong drop in foreign demand for goods and services shall reduce exports. It has been assumed that the GDP in the EU countries, i.e. the main export markets of Poland, will decrease by 5.1%[5]. However, lower domestic demand will translate into a considerable drop in imports. As a result, net exports should retain their positive contribution to GDP growth.

[5] The forecast of the situation on the Polish export markets in relation to the EU27 GDP was based on the forecast presented in the Gemeinschaftsdiagnose 1-2020 of 8 April 2020 prepared jointly by various German economic institutes.

Significant drop in economic activity will translate into a deterioration of the labour market situation. The number of employed persons will decrease, along with the dynamics of nominal salaries, and a rise in unemployment is to be expected. It was assumed that enterprises will attempt to retain jobs using the mechanism of wage cuts. The measures proposed by the government under the *Anti-Crisis Shield* will help preserve jobs.

The inflation rate increased strongly in Q1 2020, reaching the level of 4.5% (y/y). It is assumed that this will be the highest level this year. In the following months, inflationary pressure should be lower, inter alia, as a result of a drop in economic activity and deterioration of the labour market situation; this in turn will translate into lower core inflation. A strong drop in oil prices in global markets will lead to fuel price decrease. Food price dynamics shall remain high, however. It was assumed that on average this year's inflation shall amount to 2.8%[6], i.e. more than the year before.

The assumed greater fall in import growth rate as compared to export growth rate (which in nominal terms will also be a result of the drop in prices of imported energy resources) should translate into an improvement in the balance of goods. The growing business services sector seems to be largely adapted to remote operation, but restrictions on population movement and the expected recession in the rest of the EU shall have a negative impact on transport and foreign travel services. However, with the assumed improvement of the negative balance of primary income (inter alia due to lower income of non-residents from direct investment and lower labour immigration), the current account surplus is expected to increase throughout the year as compared to 2019.

Situation in 2021 and risk factors

In the second half of 2020, economic activity is expected to recover (q/q, sa) after the strong decline recorded in Q2, but the economy will continue to operate differently than before the COVID-19 outbreak. Such a scenario would provide a relatively good starting point for GDP growth in 2021. The GDP growth rate in 2021 is expected to exceed that of 2020. Despite a rebound in economic activity, inflationary pressure next year should be weaker than this year.

For the assumed real GDP growth, the balance of risk factors is negative. Very high uncertainty is also visible. Main risk factors leading to the outcome being worse than expected include the possibility of the need to extend the quarantine beyond what was assumed, as well as functioning of the economy while the restrictions remain in force, limiting the assumed economic rebound in the second half of this year The situation within the external environment of the Polish economy is also an important risk factor. Some forecasts (e.g. IMF) indicate a more considerable GDP collapse of main Polish export markets than those assumed in the presented scenario.

[6] In the current year inflation (HICP) shall be at the level 2.6%, compared to 2.1% in 2019.

III. General government balance and debt

General government situation in 2020-21 will depend largely on the forecast macroeconomic situation and consequences of decisions taken to counteract the spread of the COVID-19 pandemic. The fact that some sectors of the economy have been frozen has a significant negative impact on the general government revenue stream in 2020, while the measures introduced under the *Anti-Crisis Shield*, aimed mainly at supporting enterprise financing, employee safety, healthcare system support and public investment will result in an expenditure surge (cf. Chapter I). As a result, assuming the impact of the measures as presented in Table 1, the general government deficit is projected to increase from 0.7% of GDP in 2019 to 8.4% of GDP in 2020.

The size of the public finance imbalance in 2021 will depend on the length of the lockdown, the pace of lifting those restrictions, as well as the final amount of measures taken to counteract the pandemic.

Factors determining general government revenue

The budgetary situation in terms of main revenue sources, i.e. taxes and social contributions in 2020 and 2021, shall be determined mainly by macroeconomic factors. In 2020, due to the projected drop in real GDP, the general government revenue is projected to fall both in nominal terms and in relation to GDP. The freezing of certain sectors of the economy, restrictions on trade, movement and recreation introduced in March 2020 have a negative impact on consumption and on taxpayers' incomes (both enterprises and employees). This translates into less revenue from indirect taxes, income taxes and social security contributions.

Taxes

Past developments indicate that tax receipts show strong procyclical trends during a period of sudden changes in the macroeconomic situation: the response of these receipts to changes in macroeconomic aggregates is greater than as if it were proportional. As a result, it is expected that the real slowdown in GDP growth will affect tax revenue levels more than the reduction in tax bases would imply. In particular, a significant deterioration in tax revenue, relative to 2019, is projected in VAT and income taxes, i.e. CIT and PIT in the part related to business activity.

Such a strong and sudden deterioration of the economic environment makes it necessary to adopt a conservative assumption as to the scale of additional revenue from measures aimed at tightening the tax system. However, it is assumed that the changes aimed at tightening the tax system, introduced in previous years, shall constitute a significant factor inhibiting potential threats of abuse in this area.

The expected acceleration of economic activity in 2021 should have a positive impact on the level of tax revenues. While the share of tax revenue to GDP is expected to decrease in 2020, it should improve in 2021 through the above-mentioned procyclical mechanism.

Apart from macroeconomic factors, the level of income in 2021 will be positively influenced by the planned introduction of further changes sealing the corporate income tax, i.e. CIT (introducing of withholding tax, introduction into the legal system provisions regulating the effects in personal income tax due to divergences in the qualification of hybrid structures) and changes related to the limitation of aggressive tax optimisation. Solutions introduced as part of the *Anti-Crisis Shield* will have a negative impact, allowing taxpayers who suffer economic consequences due to COVID-19 to deduct the loss incurred in 2020 from their business income earned in 2019 and the possibility to deduct the donations made to counteract COVID-19 from their income/revenue. In addition, in 2021, it is planned to collect revenues from retail tax and implement deferred VAT sealing measures (e.g. *online* cash registers).

Social security contributions

As with taxes, macroeconomic factors will have an impact on the reversal of the trends regarding social insurance contributions in 2020. The projected fall in the number of employed persons and the drop in the income of those employed in the sectors affected by the freeze will have a negative impact on the level of social contributions. In addition, the level of contributions will be affected by the measures introduced under the *Anti-Crisis Shield* referred to in Chapter I. These include, inter alia, a 3-month exemption of the self-employed persons paying contributions exclusively for themselves (with the income criterion) and payers reporting up to 9 employees from paying whole social and health insurance contributions and half of the contributions in the case of payers reporting up to 49 employees. It is estimated that the loss of contributions due to write-off in the total gross amount of 0.65% of GDP (assuming that all entitled persons benefit from the exemption) will be financed using a State Budget subsidy. Insured persons will have the continuity of acquiring pension rights and retain the right to health and sickness benefits. The above-mentioned loss of contributions will be imputed in the transaction of social security contributions and at the same time will be shown as expenditure to the enterprise sector or to the household sector, depending on the type of beneficiary of the aid.

Other income

In addition, due to the postponement of the pension system reform involving the transformation of Open Pension Funds (OFEs) into Individual Pension Accounts, the revenue forecast does not include one-off revenues from the transition fee and the impact of these measures on Social Insurance Fund (FUS) income.

Factors determining general government expenditure

The level of the general government spending in 2020 will be determined primarily by the scale of support channelled through the *Anti-Crisis Shield* to enterprises to sustain business activity and to support the labour market. In addition to the measures indicated in Chapter I, the continuation of social policy instruments introduced in previous years and multiannual investment programmes will have a major impact on the level of the general government expenditure.

Social transfers

Social transfers in 2020 are the result of continuation previous social policy and the introduction of new support instruments under the *Anti-Crisis Shield*. The most relevant programmes introduced in previous years include:

- *Family 500+ programme* extended in mid-2019 to cover all children (without the income criterion) – cost in 2020 is PLN 40.5 billion,
- *Pension Plus programme* adopted as an annual supplementary financial benefit for pensioners. The cost envisaged by the legislator in 2020 is PLN 11.7 billion,
- *Mama 4+ programme* (the cost is PLN 0.7 billion, but it is estimated that the actual cost will amount to PLN 0.5 billion),
- The *500 plus* benefit for disabled persons paid from the Solidarity Fund will cost in 2020 PLN 4.5 billion,
- family and care benefits and benefits from the Alimony Fund – in 2020 it will amount to PLN 12.4 billion.

Public investment

After the slight decline in 2019 (by 2.0% y/y) in nominal terms, the general government investment is projected to remain at a similar level in relation to GDP, i.e. 4.3% in 2020, and will contribute to the return of the economy to the path of economic growth once the epidemic threat is over.

Public investment will be determined, inter alia, by the pursuit of the use of the allocated to Poland funds under the ending EU financial perspective 2014-20 and the implementation of main multi-annual government programmes, namely:

- *National Roads Construction Programme for the years 2014-2023 (with the perspective until 2025)* adopted by the Council of Ministers resolution, financed mainly from the National Road Fund, the State Budget and EU funds,
- *National Railway Programme until 2023*, covering investment expenditures for construction and modernisation of railway network, implemented by PKP Polskie Linie Kolejowe S.A. and financed by the Railway Fund, State Budget, EU funds and from the own funds of PKP PLK S.A.,

— *Programme for the Construction of 100 Ring Roads for 2020-2030*, which defines objectives and investment priorities with respect to the construction of city ring roads within the national road network.

Moreover, support for local governments will be provided by the Local Government Roads Fund, which co-finances the construction and reconstruction of local road infrastructure.

General government debt

Public debt management in 2020 will take place in a context of high general government deficit, uncertainty in financial markets resulting mainly from the macroeconomic environment, the effects of the measures aimed at counteracting the COVID-19 pandemic and the monetary policy of the NBP and major central banks, including the European Central Bank and the Fed.

Taking into account the assumptions regarding the scope of budgetary measures aimed at counteracting the pandemic (cf. Chapter I) the general government debt shall amount to 55.2% GDP in 2020. The changes of the debt-to-GDP ratio in 2020-21 will mainly be a consequence of the scope of the country's borrowing needs and GDP growth. The level of general government debt will be mainly the result of changes in the central government debt.

The developments of the average general government debt interest rate will mainly result from the current level of interest rates and expectations as to a possible further their decline over the period covered by the forecast.

Table annex

Table 3. Macroeconomic prospects

	ESA Code	2019 Level	2019 Rate of change	2020 Rate of change
1. Real GDP (PLN billion)	B1*g	2208.4	4.1	-3.4
2. Nominal GDP (PLN billion)	B1*g	2273.6	7.2	-0.3
Components of real GDP				
3. Private consumption expenditure	P.31_S14_S15	1279.0	3.8	-3.0
4. Government consumption expenditure	P.3_S13	395.2	4.9	2.9
5. Gross fixed capital formation	P.51	414.1	7.2	-11.4
6. Changes in inventories and net acquisition of valuables (% of GDP)	P.52+ P.53	1.0	-	-
7. Exports of goods and services	P.6	1230.8	4.7	-7.0
8. Import of goods and services	P.7	1132.6	2.7	-9.7
Contributions to real GDP growth				
9. Final domestic demand		-	4.4	-3.3
10. Changes in inventories and net acquisition of valuables	P.52+ P.53	-	-1.4	-1.1
11. External balance of goods and services	B.11	-	1.2	1.1

The levels of real volumes are expressed in constant prices of 2018.

Table 4. Price developments

	ESA Code	2019 Level	2019 Rate of change	2020 Rate of change
1. GDP deflator			2.9	3.2
2. Private consumption deflator			1.9	
3. HICP			2.1	2.6
3a. CPI			2.3	2.8
4. Public consumption deflator			2.8	
5. Investment deflator			2.1	
6. Export price deflator (goods and services)			3.0	
7. Import price deflator (goods and services)			1.4	

Table 5. General government budgetary prospects

	ESA Code	2019 PLN million	2019 % of GDP	2020 % of GDP
Net lending (EDP B9) by sub-sector				
1. General government	S.13	**-16828**	**-0.7**	**-8.4**
1a. Central government	S.1311	-27134	-1.2	
1b. State government	S.1312			
1c. Local government	S.1313	-4417	-0.2	
1d. Social security funds	S.1314	14723	0.6	
General government debt		**1045122**	**46.0**	**55.2**
General government				
2. Total revenue	TR	938668	41.3	40.0
3. Total expenditure	TE	955497	42.0	48.4
4. Net lending/borrowing	EDPB.9	-16828	-0.7	-8.4
5. Interest expenditure	EDPD.41	31374	1.4	1.3
6. Primary balance	B.9+D.41	14546	0.6	-7.0
7. One-off and other temporary measures		5782	0.3	0.2
Selected components of revenue				
8. Taxes on production and imports	D.2	316254	13.9	13.4
9. Current taxes on income, wealth, etc	D.5	181579	8.0	7.4
10. Capital taxes	D.91	325	0.0	0.0
11. Social contributions	D.61	324691	14.3	14.4
12. Property income	D.4	13266	0.6	0.4
13. Other		102553	4.5	4.4
14. Total revenue (=2)		938668	41.3	40.0
Tax burden (D.2+D.5+D.61+D.91-D.995)		819813	36.1	35.0
Selected components of expenditure				
15. Compensation of employees + intermediate consumption	D1+P2	358383	15.8	16.6
15a. Compensation of employees	D.1	231916	10.2	10.9
15b. Intermediate consumption	P.2	126467	5.6	5.7
16. Social payments		397158	17.5	19.4
***of which* Unemployment benefits**		2110	0.1	0.1
16a. Social transfers in kind supplied via market producers	D.6311, D.63121, D.63131	44703	2.0	2.2
16b. Social transfers other than in kind	D.62	352457	15.5	17.2
17. Interest expenditure (=5)	D.41	31374	1.4	1.3
18. Subsidies	D.3	12429	0.5	2.0
19. Gross fixed capital formation	P.51g	96768	4.3	4.3
20. Capital transfers	D.9	9782	0.4	1.0

	ESA Code	2019 PLN million	2019 % of GDP	2020 % of GDP
21. Other		49603	2.2	3.8
22. Total expenditure (=3)	TE	955497	42.0	48.4
p.m.: Government consumption (nominal)	P.3	406190	17.9	19.0