



SUMMARY

Current context – uncertainty factors, public moods and economic prosperity:

- Poles perceive tense relations with EU institutions as the most serious problem for the state, according to a poll published on 9 November by RMF FM and Dziennik Gazeta Prawna. 31% of respondents see it as the biggest problem, while inflation and the border crisis with Belarus were indicated by 25% of respondents each.
- More and more people are searching for information about Polesxit, pandemics and the energy crisis. Surveys indicate that a growing number of Poles consider Polesxit as a real scenario. In October this year, this opinion was expressed by 42% of respondents in a survey for RMF FM and "Dziennik Gazeta Prawna".
- The Polish economy is in the phase of dynamic revival after the recession caused by the pandemic and the extraordinary actions of state institutions in response to it. The most important economic event in recent months has been high inflation, the level of which has surprised some market participants and the monetary authorities.

Signals in the data, market sentiment and opinions:

- Contrary to the general public in Poland, the financial market currently considers a Polesxit as a very unlikely scenario. This is the conclusion of the observed processes on the financial market, especially the exchange rate of the zloty and the valuation of Polish government bonds and shares. Also, the available data on sentiment and investment activity in the corporate sector do not allow us to defend the hypothesis that economic participants consider Polesxit as a scenario with significant probability.
- Investors assume that an agreement between the EU institutions and Poland will be reached, if only "at the last minute". These expectations may be based on past experiences, such as Poland and Hungary's threats to veto the EU budget at the end of 2020 or the many "last chance" talks with Greece, which was close to leaving the eurozone. It should be added, however, that the perceived probability of a Polesxit scenario may increase by leaps and bounds, i.e. abruptly as a result of events or processes that are difficult to predict. Brexit is an example of such an event, the probability of which was greatly underestimated.
- Undoubtedly, however, the uncertainty related to the state of Poland's relations with EU institutions has a significant and negative impact on the Polish economy. In the short term, the direct and most important effect of the dispute between the Polish government and the EU institutions is the withholding of approval of the National Recovery Plan. This, in turn, translates into a weaker zloty, higher inflation, lower expected economic growth in the coming quarters, and rising treasury bond yields.

The cost of heightened uncertainty for the Polish economy:

- Delaying the NIP until the first half of 2022 in Poland will result in a lower GDP by PLN 2.3 billion in 2021, by PLN 7.3 billion in 2022 and by PLN 12.7 billion in 2023 compared to the hypothetical scenario of the launch of the NIP in mid-2021. In the case of the scenario of no NIP implementation until the second half of 2023, in 2022 GDP will be lower by PLN 12.2 billion, and by PLN 22.9 billion in 2023 compared to the reference scenario, i.e. acceptance of the NIP in mid-2021.
- Due to friction between Poland and the EU, tax revenues of the state budget will also decrease. Depending on the scenario for the NIP, in 2022 the budget will lose from nearly PLN 1.2 to 2 billion in tax revenues, and in the following year the cost will be from PLN 2 to 3.7 billion in lost tax revenues. It should be stressed that the negative effects on the entire public finance sector will be greater, as revenues of local governments and revenues to state special purpose funds, such as the Social Security Fund and the National Health Fund, will also decrease.
- Local self-governments will be particularly sensitive to budget revenue shortfalls, as from 2022 their PIT revenues will decrease in connection with the so-called "Polish Deal". The high uncertainty related to disputes with EU institutions will, in their case, negatively affect tax revenues (through lower GDP growth) and their ability to finance projects due to the freezing of NIP funds.
- The weakening of the zloty over the past 12 months will translate into approximately 0.3 percentage points higher inflation compared to the hypothetical scenario if the NIP is accepted in mid-2021.
- If the NIP is not accepted by the end of 2022, inflation will be 0.4 percentage points higher in the first quarter of 2022 and 0.5 percentage points higher in the following two quarters.
- Due to the delay in the launch of the NIP until the first half of 2022. (baseline scenario), Poles will have to spend PLN 3.8 billion more in the next four quarters if they want to buy the same goods and services as in 2020. If the NIP is not launched by the end of 2022 (pessimistic scenario), Polish consumers will have to spend PLN 5.7bn more in the next four quarters if they want to buy the same "basket" of goods and services as in 2020.
- Further consequences of uncertainty and the related different paths of inflation and GDP may include, inter alia, higher NBP interest rate hikes (due to higher inflation) and an increase in the fiscal burden (or a reduction in other public expenditures or an increase in the public finance sector deficit).
- In terms of the effects of the polexit scenario, there are no appropriate benchmarks, as the UK is a country in a completely different geopolitical and economic situation than Poland. It is a former world superpower with large accumulated capital, in the broad sense of the term, and Brexit was implemented during a period of prosperity in the global economy. All indications are that the coming years will be more difficult for both the Polish and British economies, making the cost of uncertainty greater, not less.