



Toward a soft landing?

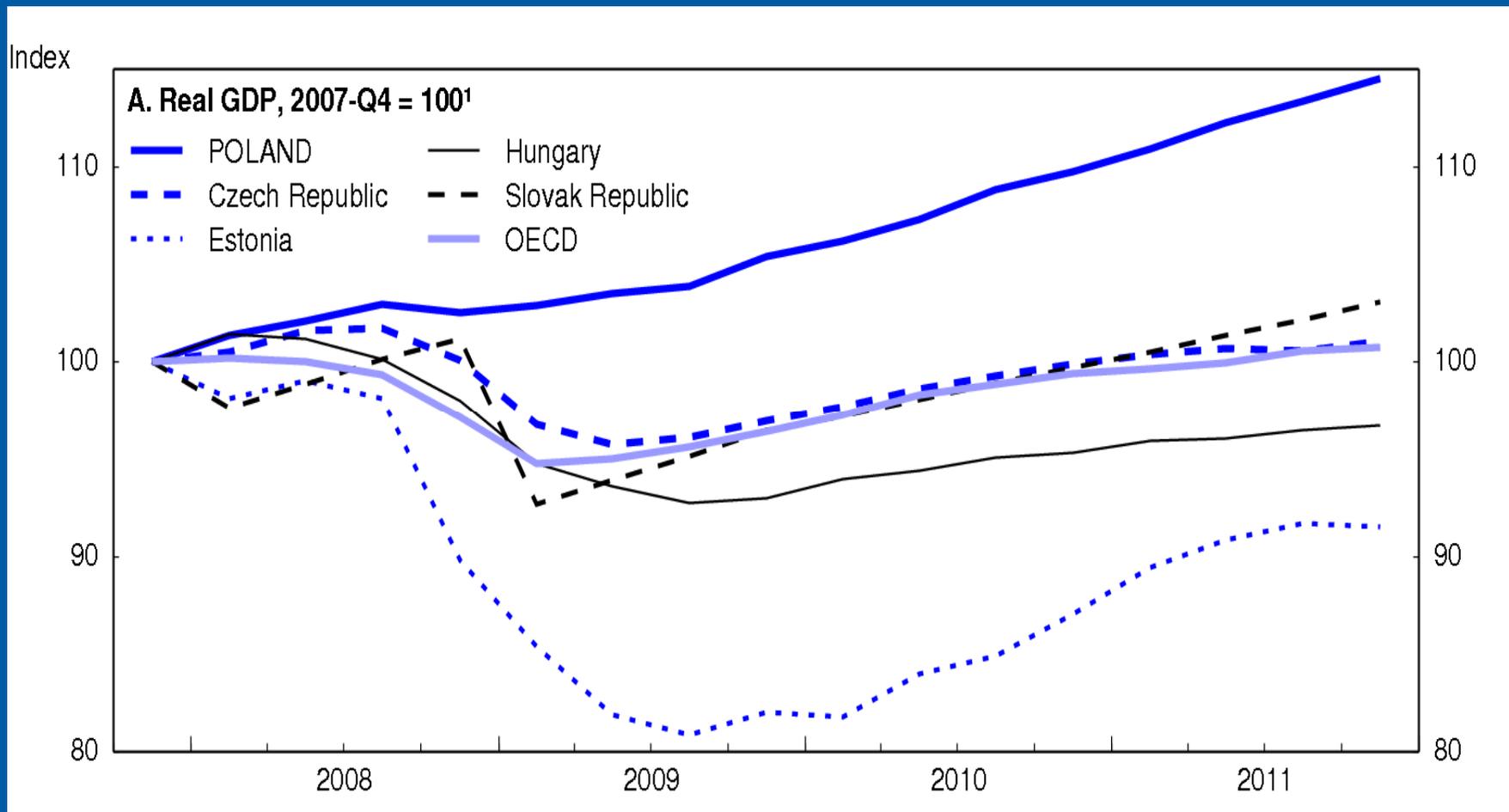
Hervé Boulhol

OECD, Economics Department

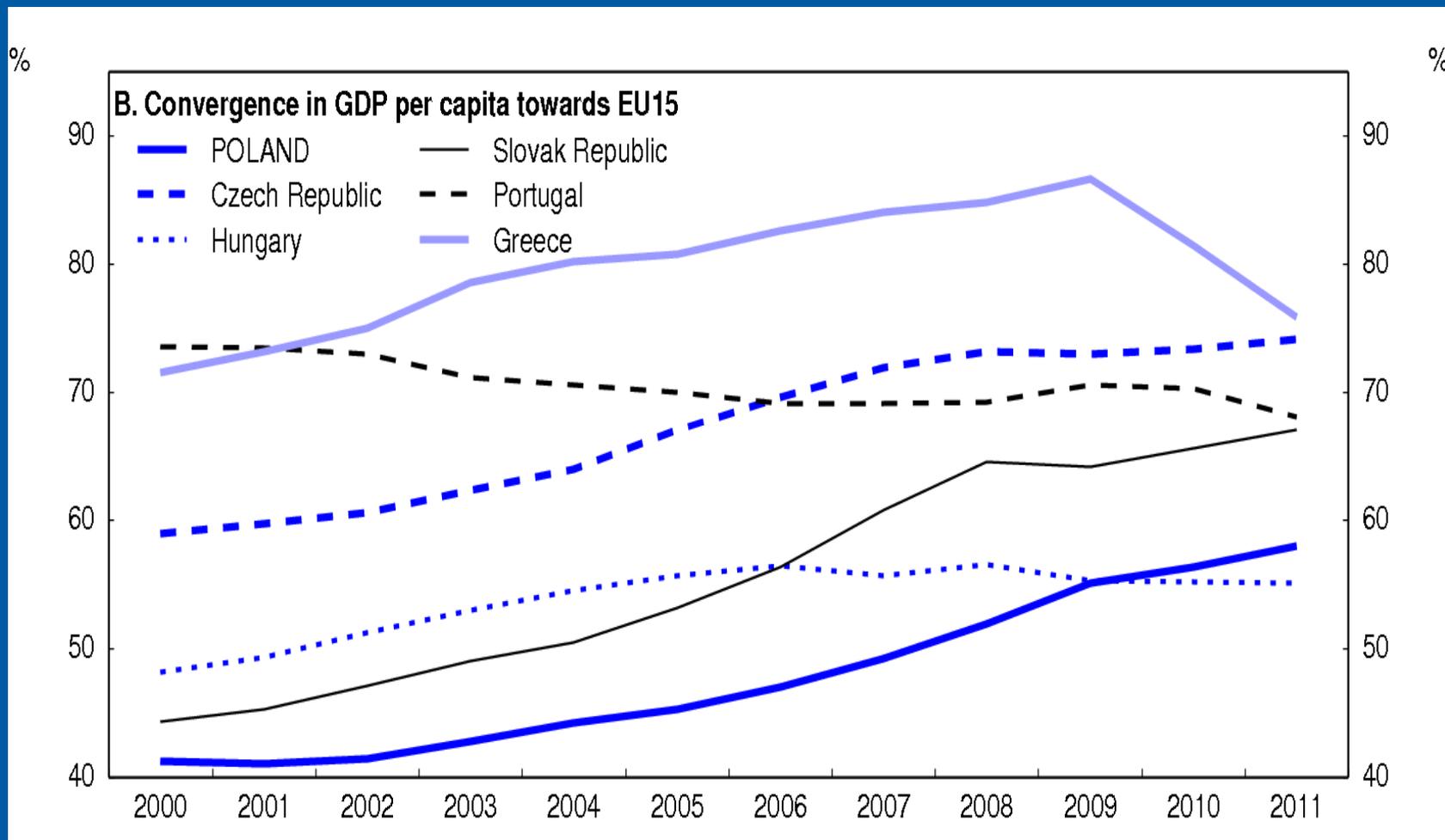
CASE, 29 mars 2012



Best performer within OECD in terms of cumulated real GDP growth since 2007



The speed of convergence has doubled



What are the reasons?

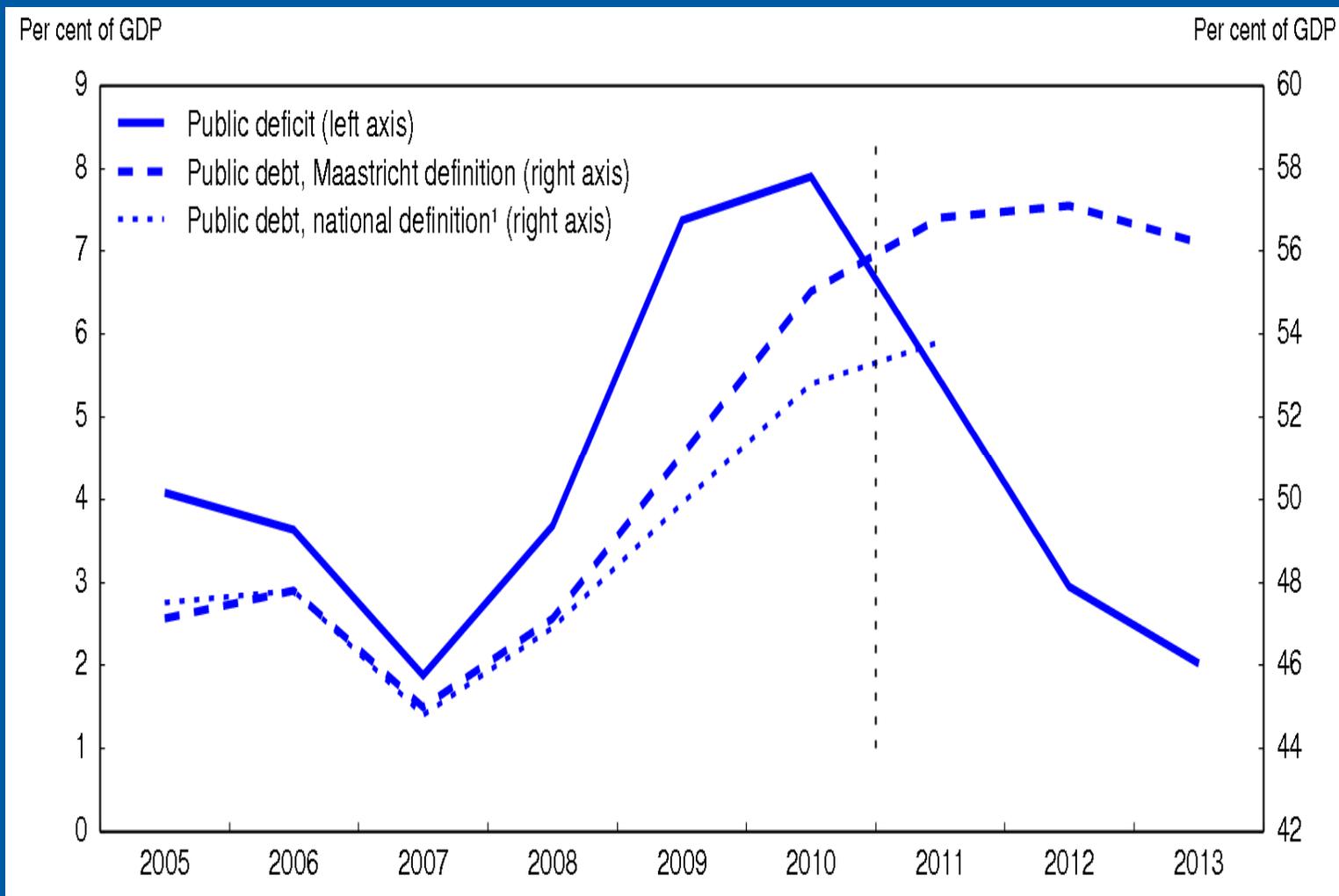
A combination of factors:

- *Effective prudential regulation*
- *Banking system not exposed to the riskiest assets and derivatives*
- *External debt lower than in other Eastern European countries*
- *Supportive public investment driven by substantial inflows of EU funds*
- *Exchange-rate flexibility with sound fundamentals in time of crisis*
- *Appropriate macro policies*

Two main weaknesses

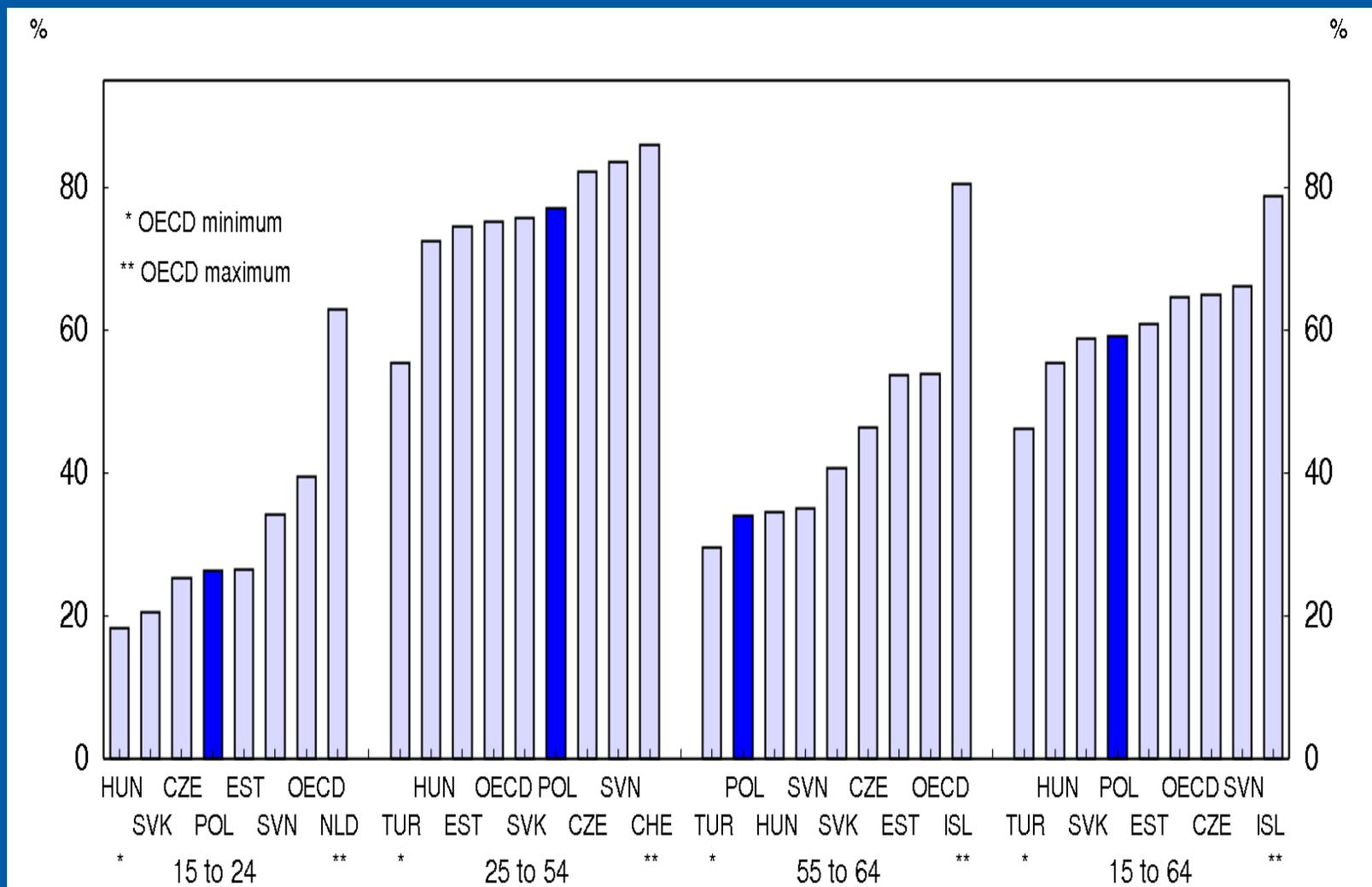
- *Public finance*
- *Unemployment*

Deteriorated public finances





Employment rates are much below the OECD average for younger and older workers, 2010





The economy is likely to slow down

Real GDP growth: 2³/₄-3 per cent in 2012-13

Factors

- *Depressed demand in Europe*
- *Fiscal retrenchment*
- *Exchange rate*
- *EU funds and European football championship*
- *Upside inflation risks*
- *Private consumption (unemployment, wages)*

Current macro stance

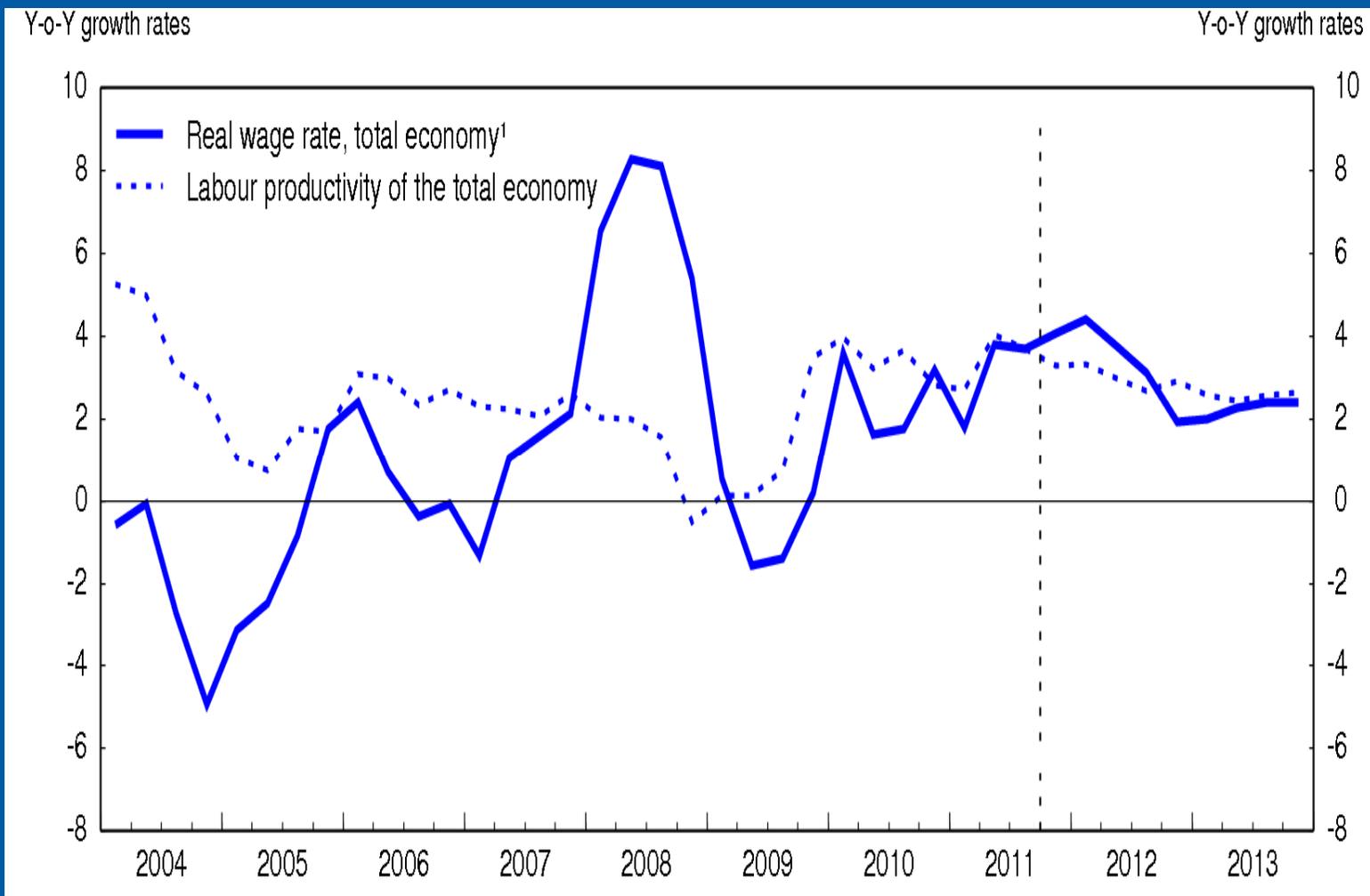
- *Slightly accomodative / watch inflation*
- *Deficit: could be more ambitious in 2013*

Recent trends and outlook

Year-on-year percentage change, volume

	Average 2000-07	2008	2009	2010	2011 ¹	2012 ¹	2013 ¹
GDP at market prices	4.1	5.0	1.6	3.9	4.3	3.0	2.7
Trade balance²	0.2	-0.6	2.7	-0.7	0.4	0.5	0.4
Consumer price	3.4	4.2	3.5	2.6	4.2	3.3	2.5
Unemployment rate	16.8	7.1	8.2	9.6	9.6	10.0	10.2
Total employment	0.4	3.7	0.4	0.6	1.0	-0.2	0.0
Labour productivity	3.8	1.2	1.1	3.4	3.4	2.6	2.6
Current account ⁴	-4.0	-6.5	-3.9	-4.5	-4.5	-4.5	-4.1
General government net lending ⁴	-4.3	-3.7	-7.4	-7.9	-5.5	-3.2	-2.0
Cyclically adjusted government net lending ³	-4.1	-4.2	-7.2	-8.0	-6.1	-3.6	-2.2
Public debt, Maastricht definition ⁴	43.6	47.1	51.1	54.9	56.8	57.1	56.2
Public debt, national definition ⁴	44.4	46.9	49.9	52.8	53.8 ⁵	-	-
Potential output	4.2	4.5	3.6	2.8	3.0	3.2	3.2

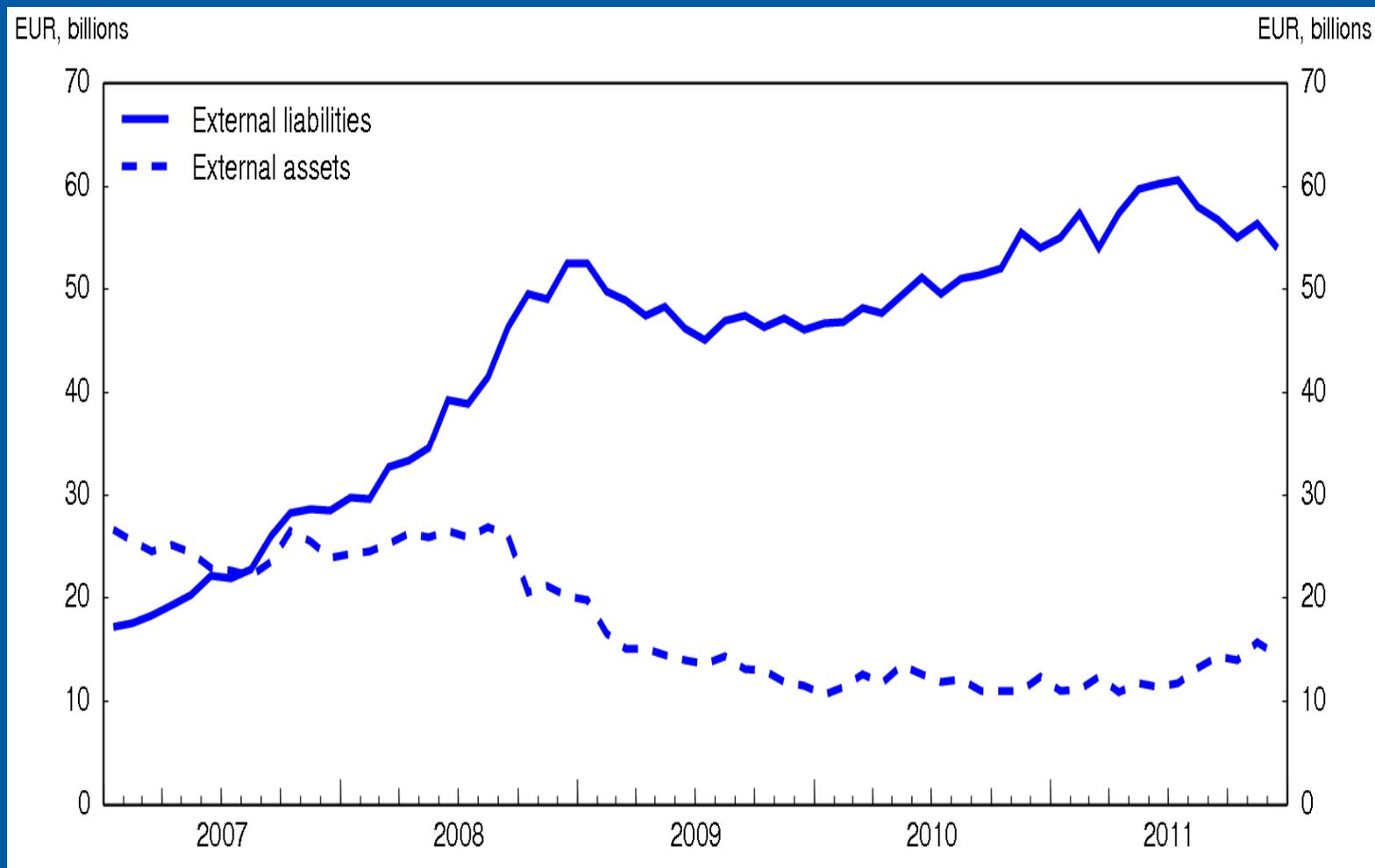
Real wage rates and labour productivity



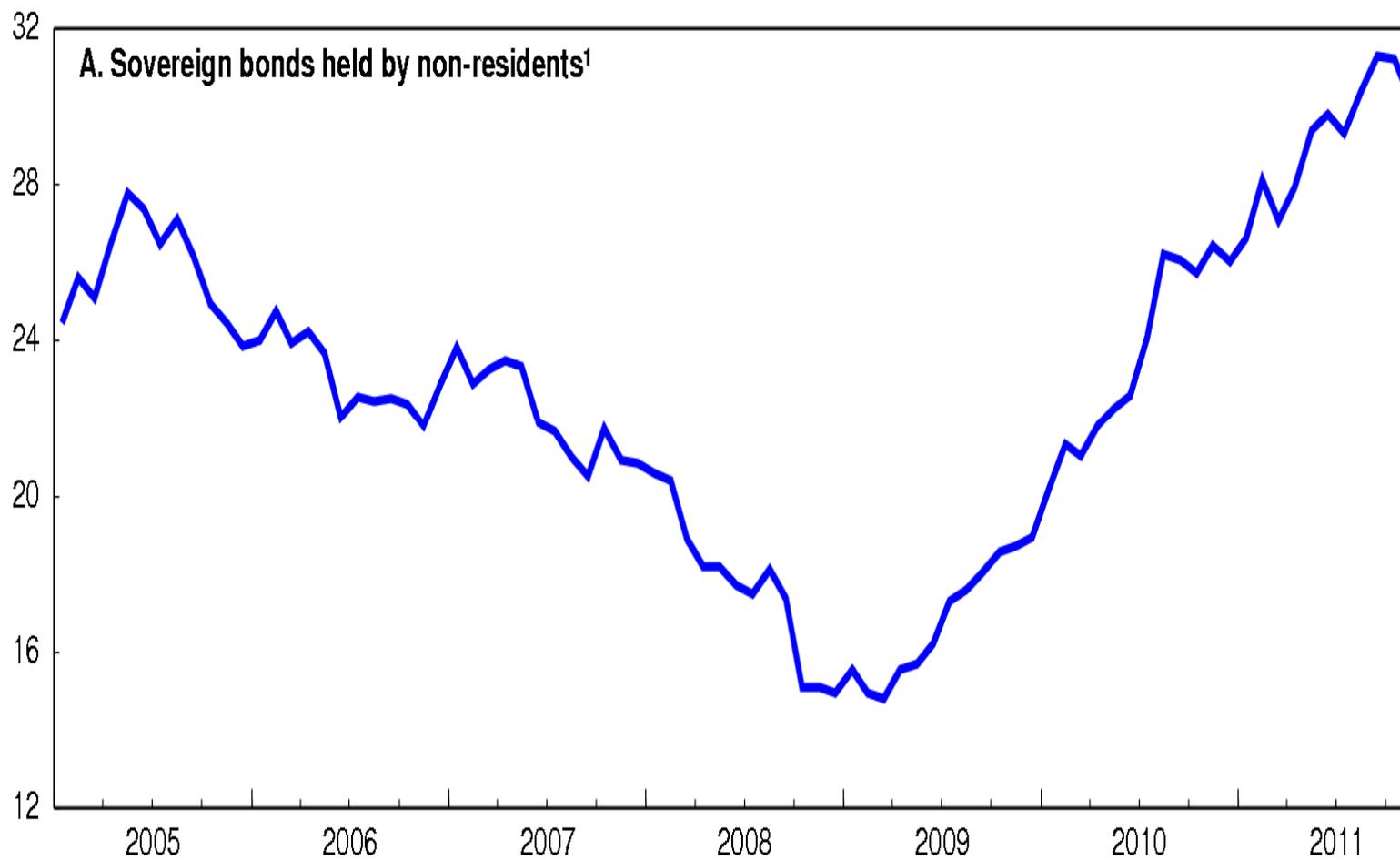
Contagion risks

- *Emerging economies and risk premium*
- *Reliance on foreign funding*
- *Currency / funding structure mismatches*
- *Portfolio investment*
- *EU fund support*
- *Macro space to react to a dramatic scenario*

Polish banks' external position



Strong appetite for Polish government bonds



Fiscal consolidation

- *Would help to limit price pressures, keep external debt under control and enhance fiscal credibility*

Measures should focus on:

- *Cutting tax expenditures (5% of GDP)*
- *Further tightening eligibility criteria in the disability pension system*
- *Reforming the KRUS*
- *Enhancing public-sector efficiency*
- *Shifting the tax structure from labour to property and environmental taxes*

Additional reforms to boost employment and productivity

Pension reform

- *Changes in the second pillar would lower public debt at the cost of lower pension replacement rate*
- *Equalising retirement age between men and women*
- *Increasing retirement age and linking it to life expectancy gains*
- *Removing pension privileges*



Strengthening the fiscal framework

- *Introduce a deficit rule*
- *Put in place detailed multi-year budgeting*
- *Create an independent fiscal council*
- *Harmonise public debt measures*
- *Use period-average exchange rates for the evaluation of the foreign-currency public debt*

Prudential regulation

- *Reduce currency mismatches and reliance on foreign lending: calibrate appropriately liquidity requirements to strengthen banks' banking structure*
- *In due course, preventing a credit boom might require further restricting credit to households (cutting maximum loan-to-value and debt-to-income ratios)*



If you want (to read) the report

herve.boulhol@oecd.org

THANK YOU