At a Glance

• Poland has moved from middle-income to high-income status in record time. Nevertheless, further reforms are needed to meet citizen expectations for a more strategic, effective, and accountable state.

• The World Bank offers Poland knowledge and assistance in the implementation of complex reforms in areas such as fiscal policy, health, air quality, and higher education.

• The World Bank is now preparing a new Country Partnership Framework (CPF) that will define the institution’s enhanced assistance over the next four years.

Country Context

Poland, the largest economy in Central Europe, is in many respects a development success story, as broad-based productivity growth over the past decade has translated into remarkable progress in poverty reduction and shared prosperity.

Despite a successful performance so far, however, a coherent set of policies is needed to respond to long-term challenges and opportunities, including managing one of the most rapidly aging societies in Europe and leveraging technological change.

Poland’s future prospects require that some underlying constraints to shared prosperity and sustainable economic growth be addressed. These include:

First, relatively fast demographic changes lead to increased dependency on a shrinking labor force, which could have impacts on growth. Demographic changes also pose fiscal challenges and place a strain on the health care and pension systems.

Second, the global slowdown in innovation in frontier markets translates into reduced productivity for a country like Poland, which has a high trade exposure to Western Europe.

Third, inclusion is threatened by technological improvements that favor high-skilled, nonroutine tasks, leading to higher inequality as income levels in Poland converge with those of advanced countries.

Finally, increasing urbanization poses challenges to the sustainable management of natural resources, including air quality.
The World Bank and Poland

Since early 1990s, the World Bank has been one of the most prominent development institutions in Poland, providing a total of US$16 billion in loans and implementing a number of advisory projects focusing on public finance, doing business, the labor market, infrastructure, and health.

Poland’s relationship with the World Bank is both a partnership of choice and a two-way knowledge collaboration. It is based on mutual trust and on the recognition that the Bank’s presence in the country continues to generate value added for both sides: for Poland through access to financial and knowledge services and for the World Bank through a strengthened relationship with a high-income country and an emerging actor on the global development scene.

The World Bank is now preparing a new Country Partnership Framework (CPF) that will define the institution’s enhanced assistance over the next four years and include programs designed to promote shared prosperity.

Key Engagement

Over the past 20 years, the Polish health system has undergone several fundamental changes. In many respects—and compared to other countries that joined the European Union (EU) in the past decade—the health system performs quite effectively. Health outcomes, such as life expectancy, are improving steadily.

At the same time, substantial improvements are needed, as the health care system is understaffed and suffers from significant inefficiencies, poor coordination, and a fragmentation of responsibilities and accountability.

Health care funding in 2015 at 6.4% of GDP was below the Organization for Economic Co-operation and Development (OECD) average, and within the EU, Poland reports the lowest doctor-to-population ratio. The country also suffers from very poor information sharing between providers arising from a lack of proper IT systems. Waiting times for selected specialist care are the longest in Europe; for example, in 2014, patients in Poland had to wait 414 days for cataract surgery, while in the Netherlands it was only 33 days.

Moreover, greater financial and human resources are needed to provide adequately for diseases related to aging.

Since 2013, Poland’s Ministry of Health, National Health Fund, and the World Bank have been working together to pilot enhanced service delivery integration across levels of care and types of providers. The partnership with the World Bank allows for the sharing of evidence-based resources, such as experiences in the design and implementation of integrated care systems.

These new measures aim to ensure that diagnostic, therapeutic, and rehabilitation care are focused on patient needs. A key objective of the pilots is to create a robust, patient-centric health care system at the local level, one with better prevention programs and effective IT solutions that is integrated with health care solutions at the national level.

The pilots will be implemented by the National Health Fund and will serve as an element of wider primary health care reform.

WORLD BANK PORTFOLIO

• No. of Projects: 2 ($2.2 billion)
• Trust Funds: 2 ($2.35 million)
• Reimbursable Advisory Services: 3 ($1.2 million)
Recent Economic Developments

Poland’s real GDP growth accelerated in the first half of 2017 to 4.0% year-on-year from 2.7% in 2016. The growth rate and its structure were very similar in the first and second quarters: with strong private consumption and moderate public consumption, sizable restocking, and weak but gradually recovering investment. However, the contribution of net exports to growth turned from slightly positive in the first quarter to negative in the second one, as strong domestic demand translated into higher imports.

Private consumption remained the main growth driver, expanding by 4.8% in the first half of 2017. This was boosted by robust real income growth due to a record low unemployment rate of 5%, strong growth in real wages despite a temporary increase in inflation in early 2017, and the stimulus from the Family 500+ benefit program, introduced in April 2016.

Poverty and shared prosperity indicators are estimated to have continued to improve in 2017, driven by strong private consumption that was supported by a strong labor market and the continuation of the Family 500+ program.

Dynamic growth, together with legislative, organizational, and IT tax administration measures, led to an unprecedented improvement in value added tax (VAT) compliance. This was the first time since the early 1990s that the cash-based state budget had recorded a surplus in the first half of the year, accompanied by a surplus at the local government subsector, which reached 0.7% of GDP in the first half of 2017.

With the back-loading of public expenditures during the year, however, these surpluses will turn into deficits. Moreover, the rollback in the statutory retirement age will inflate expenses beginning in October 2017.

Economic Outlook

GDP growth is expected to accelerate to 4.0% in 2017 from 2.7% in 2016 on the back of strong consumption growth and gradually recovering investment, while the contribution of net exports will be broadly neutral. Over the medium term, growth is expected to gradually moderate toward potential rates of about 3.5%, supported by growth in capital accumulation against the backdrop of deteriorating demographics and the rollback in the statutory retirement age.

Robust private consumption and a strong labor market should continue to boost real income growth and are likely to lead to further declines in poverty incidence. The 8% increase in the minimum wage that took effect in 2017 is expected to increase the incomes of the bottom of the distribution, which has so far only been modestly offset by rising prices. The US$5.50/day 2011 purchasing power parity (PPP) poverty rate is projected to decline to 1.5% in 2017 and further to 1.3% by 2019.

The general government deficit is set to widen again in 2018–19 to around 2.6–2.7% of GDP, which is below the 3% threshold. The increase in the deficit is due to higher spending on account of the rollback of the retirement age and the higher co-financing of EU-funded capital spending.

Inflation remains at a very low level, well below the National Bank of Poland’s inflation target of 2.5%.

However, labor market bottlenecks and rising unit labor costs are the main sources of inflation pressure.
The World Bank has been partnering with Poland to strengthen the national flood protection system and secure the lives, health, and property of citizens since 1997, when the devastating “Millennium Floods" struck the country. This natural disaster reminded Poland of its intrinsic vulnerability to flooding caused by the mountainous and hilly landscape and by decades of neglect.

In 20 years, thanks to World Bank support, a considerable stretch of the Odra River has been secured, while Wroclaw, one-third of which was flooded in 1997, today is a vibrant European city.

After significant investments along the Odra River, the attention of Poland’s Government shifted toward the Vistula, where the needs are still high. In 2015, the Government launched the Odra-Vistula Flood Management Project. Its development objective is to increase access to flood protection for people living in selected areas of the Odra and the Upper Vistula river basins and to strengthen the institutional capacity of the Government to mitigate flood events more effectively.

The total project costs are €1.202 million, with World Bank financing amounting to €460 million. The project implementation period is eight years. Subsequent contracts for civil works and technical assistance are being signed and are currently under implementation.