The World Bank in Poland

Country Snapshot

An overview of the World Bank's work in Poland

October 2016

POLAND	2015
Population, million	38.0
GDP, current US$ billion	534.3
GDP per capita, current US$	14,058
Poverty rate ($5/day 2005PPP terms) (2012)	5.1
Life Expectancy at birth, years (2014)	76.7

At a Glance

- Poland has grown rapidly over the past 25 years, which has translated into significant welfare gains across the entire income distribution.
- However, Poland will have to contend with a rapidly aging population in the coming decades, which will pose a challenge to future growth and the shared prosperity agenda. Continued growth in Poland, shared by all Poles, requires a new wave of policy changes.
- The World Bank has worked with the Government of Poland to implement policies to sustain overall economic growth, enhance the business environment, strengthen the social safety net, and boost the effectiveness of public finance.
- The World Bank's Warsaw office makes a point of sharing the lessons of Poland's successful economic transformation with other countries that might benefit from Poland's experience.

Country Context

With a population of about 38 million and GNI per capita of US$13,400 (2015), Poland has the largest economy in Central Europe. Since joining the European Union (EU) in 2004, the country's ambitions have been marked by the desire to rapidly catch up with the core of the EU in terms of economic growth and living standards. Despite a successful performance so far, a coherent set of policies are needed to respond to long-term challenges and opportunities, including managing one of the most rapidly aging societies in Europe and leveraging technological change.

This set of policies would include a greater focus on raising productivity and decreasing the country's reliance on cheap labor while mobilizing domestic investments for sustained growth. In the years ahead, productivity gains are to be increasingly driven within individual firms and through innovation. This can be supported by greater investments in the labor force to promote skill levels that meet the needs of a modern economy.

In order to respond to these challenges, Poland's new Government of the Law and Justice (PiS) party recently announced the Strategy for Responsible Development. It is aimed at boosting domestic investments, largely through a mobilization of domestic resources, improved business conditions, and the better coordination of investments from EU funds.

Poland's new Government also targets inclusive economic growth with a focus on the poorer segments of society. Its new policy measures include generous family spending under the Family 500+ program and the introduction of an hourly minimum wage, while the additional social spending is to be funded from improved tax compliance and the introduction of sectoral taxes on financial institutions and large retailers.

The World Bank and Poland

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 World 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 an emerging actor on the global development scene.

Moreover, Poland's use of the Bank's sophisticated knowledge products can inform the sectorial dialogue in other countries. In a country like Poland, where extreme poverty is marginal, the Bank's program is aimed at promoting shared prosperity to ensure that the benefits of growth are enjoyed by the bottom 40% of the population. There are four strategic engagement areas:

- economic competitiveness
- equity and inclusion
- climate action
- Poland as a global development partner

Key Engagement

Poland's economic performance over the past 20 years has been remarkable, in part due to the very high absorption of EU funds. However, the actual impact of these funds remains a concern. Although during the 2007–13 programming period a large percentage of EU funds were directed to hard infrastructure assets, during the current 2014–20 period, there is a shift in focus toward strengthening competitiveness, innovation, and entrepreneurship.

To respond to the country's long-term challenges, the World Bank, in collaboration with Poland's Ministry of Economic Development and the European Commission, has begun a new task aimed at supporting the improvement of human capital resources and business development in two lagging regions: Podkarpackie and Świętokrzyskie.

WORLD BANK PORTFOLIO

- IBRD Lending: 2 Loans ($688 Million)
- Reimbursable Advisory Services: 3 ($11.7 Million)
- Trust Fund: 1 ($1.1 Million)

Within the framework of this project, World Bank experts are focused on activities to foster the development of cooperation between science and business, support vocational education and training, develop local entrepreneurship, and facilitate the path to starting a business.

Recommendations based on this work will be made available in the middle of 2017. Experts from the World Bank will then support the local governments in Podkarpackie and Świętokrzyskie in jointly implementing those recommendations and guidelines. Working groups, made up of representatives of the local administration, the business community, the nongovernmental organization (NGO) sector, and the World Bank, are already in place for each area covered by this project.

This cooperation with the Podkarpackie and Świętokrzyskie regions is the most recent example of World Bank support for developing regions and cities across Poland. Previous initiatives have included the creation and implementation of regional development strategies in Lubelskie and Śląskie and innovation strategies in Świętokrzyskie, the planning of green transport solutions in Białystok and Lublin, and capacity building for the long-term planning and management of local finances in a variety of areas throughout the country.

Recent Economic Developments

Economic growth slowed in the first half of 2016 to 3.1% y-o-y, largely reflecting a surprisingly weak first quarter and a minor improvement in the second. Although private consumption grew at a robust pace of 3.2% accompanied by a 4.4% growth in public consumption, investment declined by 3.6% y-o-y in the first half of 2016. Exports and imports expanded by 8.9 and 9.6%, respectively, leaving the contribution of net exports to growth close to zero.

The stabilization of growth in the second quarter of 2016 reflects a pickup in private consumption by 3.3% on the back of a strong labor market performance and real incomes.

Solid economic growth is creating more jobs. Employment grew by 1.2% in the first half of 2016 after increasing 1.4% in 2015. Employment expanded by 1.9% in the private sector and fell by 1% in the public sector. The activity rate increased by 0.4 percentage points to 56.2%, as both the unemployment rate and the share of inactive workers declined. The Labor Force Survey (LFS) unemployment rate of 6.2% in the second quarter of 2016 was 1.2 percentage points lower than a year before and the lowest since the survey began in 1992.

Economic Outlook

The economic outlook remains favorable, with real GDP projected to increase by 3.2% in 2016 and pick up gradually to 3.4% in 2017 and 3.5% in 2018. The economy is expected to remain well balanced both internally and externally. Prices are expected to continue to fall in 2016, with low inflation forecast for 2017 and 2018. The external current account deficit is projected to increase only slightly to about 1% of GDP by 2018.

Private consumption is set to become an even more dominant growth driver, supported by a tightening labor market and sizable child benefits from the Family 500+ program. More advanced implementation of new EU-funded projects should support a moderate recovery in public investment, while implementation of market-friendly measures from the Strategy for Responsible Development (also known as the Morawiecki Plan) may stimulate private investment also.

However, a revival of private investment may prove challenging in the context of the EU's weakened growth prospects and the increased volatility of Poland's financial markets, which is likely connected to recent credit rating agency decisions.

Under the baseline scenario, a reduction in the headline fiscal deficit from 2.6% of GDP in 2015 to 2.1% in 2016 is projected, largely due to the slower execution of public investment.

Sustained strong private consumption and the growth in employment and real wages should continue to boost real incomes and lead to declines in poverty in the short term. The US$5.00/day 2005 PPP poverty rate is projected to decline to 2.9% in 2017, and then further to 2.7% in 2018.

Small entrepreneurs will benefit from an improved business climate

Project Spotlight

City of Wroclaw is now protected against flood damage

For many years, the World Bank has been an active partner of the Government of Poland in strengthening the national flood protection system and securing the lives, health, and property of millions of citizens living in endangered areas. For example, in less than 20 years since the tragic Millennium Flood of 1997, the Government has secured, with Bank support, a considerable stretch of the Odra, Poland's second longest river.

In 2015, the World Bank initiated its second flood investment in Poland called the Odra-Vistula Flood Management Project. It aims to increase access to flood protection for people living in selected areas of the Odra and Upper Vistula River basins and to strengthen the institutional capacity of the Government to mitigate the impact of floods more effectively.

The project provides three distinct areas with flood management infrastructure and related measures:

(i) the Middle and Lower Odra;
(ii) the Nysa Kłodzka Valley; and
(iii) selected parts of the Upper Vistula, including notably the areas of Krakow, Sandomierz, and communities in the Raba and the San tributary catchments.

The project supports ongoing institutional strengthening activities, including enhancing forecasting capability. The population of the regions in the direct proximity of the proposed works and measures is estimated to be about 15.1 million. The total project costs are €1.202 million, with International Bank for Reconstruction and Development (IBRD) financing amounting to €460 million. The project implementation period is eight years.

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