At a Glance

- Poland is one of the fastest-growing economies in the European Union, with a benign inflation performance, a relatively low level of public debt, record low unemployment, and strong wage growth.

- In the medium term, Poland’s development path still has vulnerabilities. Complex development challenges, such as demographic shifts, the need for innovation-led growth, and persistent inequalities, require comprehensive policy responses.

- The World Bank is now preparing a new Country Partnership Framework (CPF) for Poland that will define the Bank’s assistance over the near term. The CPF will focus on building Poland’s human capital for the 21st century, promoting global public goods, and strengthening public sector capabilities and private sector opportunities.

Country Context

Poland has reached high-income status over a relatively short period of time. Few middle-income countries have experienced such consistent broad-based growth, both fast and stable (on average 3.6% over the past decade). This transition benefited from increases in productivity, strengthened institutions, human capital investments, and sound macroeconomic management.

However, Poland’s development path still has vulnerabilities and important development challenges remain. First, Poland has the most rapidly aging society in Europe—35% of the population will be over 65 by 2030. This demographic shift will create labor force constraints and place a strain on the health care and pension systems.

Second, the rapid pace of global technological change demands a greater focus on an innovation-led approach to sustainable and inclusive growth. Both will require more and better investments in people.

Third, as overall income levels continue to converge to those of the European Union (EU), it will be important to address the risk of increasing inequality. The disparities between regions are especially significant.

Finally, with growth demanding resources, the sustainable management of natural resources, including water and air quality management, is critical for Poland. The country is today home to 33 of the 50 most polluted cities in Europe, and accelerating the transition to a low-emissions economy will be fundamental for the country’s future.
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 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.

The World Bank Group’s new Country Partnership Framework (CPF), currently under preparation, will mark a departure from previous strategies by concentrating the engagement on the key remaining problems, using the Group’s resources to catalyze change, and identifying opportunities for knowledge spillovers.

Key Engagement

The Poland program consists of two lending operations (flood management projects) and a number of knowledge and advisory products that help the country to address its crucial development challenges, including in the areas of health and regional disparities.

Health

Since 2013, Poland’s Ministry of Health, National Health Fund (NFZ), and the World Bank have been working together to introduce enhanced service delivery integration across all levels of care and all types of providers in Poland. 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.

At the beginning of 2018, the World Bank and the NFZ began implementing integrated care in the primary health care system with the aim of ensuring that diagnostic, therapeutic, and rehabilitation care is focused on patient needs.

Under the new agreement, Bank experts will monitor and evaluate the implementation of a pilot project that will cover 300,000 patients countrywide, contributing to a better quality and greater scope of services in a system that continues to suffer from significant inefficiencies, poor coordination, and a fragmentation of responsibilities.

Catching-Up Regions

To respond to the challenge that many Polish regions have not fully experienced the country’s development opportunities, the World Bank is implementing a “Catching-Up Regions” initiative that supports Poland’s less developed regions in a number of areas: fostering science-business cooperation, strengthening vocational education, boosting local entrepreneurship, improving the energy efficiency of single family homes, and reforming business inspections.

Bank experts are working hand in hand with the national and regional authorities of selected regions and the European Commission, providing knowledge mixed with practical expertise to help overcome bottlenecks that the regions themselves have identified.

The Catching-Up Regions initiative has already been scaled up in Poland and beyond and is now entering its third year.
Recent Economic Developments

Booming domestic demand boosted real GDP growth to 4.6% in 2017 from 2.9% in 2016. Powered by an extremely strong labor market and social spending (mainly for the Family 500+ program), private consumption grew by 4.8%, adding 2.8 percentage points to GDP growth.

Labor market conditions have tightened further. The ratio of vacancies to unemployment has shot past 10%; in four years, the number of low-skilled unemployed has been cut in half and now accounts for just 30% of unemployment. Moreover, for the first time since the transition, long-term unemployment dipped below 500,000. Employment rates have continued to rise and labor shortages have started to affect business activity.

After two years of persistent deflation, consumer prices rose 2% on average in 2017, mainly because of higher global commodity prices, food inflation, and firmer domestic demand. At 2.1% year-on-year in December 2017, inflation is still below the National Bank of Poland (NBP) medium-term target of 2.5%.

It is estimated that poverty and shared prosperity indicators continued to improve in 2017 in light of surging private consumption supported by a tight labor market and government social programs.

More efficient tax collection helped the Government to realize its ambitious 2017 spending plans while running the tightest budget execution on record. This was possible because tax collections were higher, primarily from indirect taxes (due to robust private consumption and improved tax compliance) but also from one-off non-tax revenues, such as higher NBP profits. In 2016, the general government deficit narrowed to a 1.6% of GDP, a record low, after hitting 2.5% in 2016.

Economic Outlook

In light of the positive investment results in 2017 and improved growth prospects in the EU, the previous projection of real GDP growth for Poland has been revised upward by 0.2 percentage points, again, driven by both private consumption and investment. Economic growth may reach 4.2% in 2018 and 3.7% in 2019.

Household spending will benefit from growth in the real wage bill of more than 8% in 2018–19, plus higher state spending on pensions and social benefits. Rising real incomes are expected to lead to further declines in poverty. The US$5.50 per day (2011 purchasing power parity) poverty rate is projected to decline to 1.2% in 2018 and further to 1.0% by 2020.

Public spending is likely to be strong, supported by EU funds and the political cycle leading up to the elections. High corporate profitability and EU funds should support private investment. Exports and industrial production are likely to benefit from stronger European demand in 2018–19, but imports may outpace both.

The general government deficit is set to widen again in 2018 to about 2% of GDP, still safely below the 3% EU threshold. Spending is expected to rise due to higher government consumption, local pre-election investment, and the decision to roll back the planned increases in the retirement age.

The revenue side will also contribute to the increasing budget gap; non-tax revenues could be lower this year due to less NBP profit, and the change in the retirement age will depress social contributions from the cohort eligible for earlier retirement. Public debt will stabilize around 51% of GDP in 2018–19, but the structural budget deficit will widen.
Project Spotlight

Odra-Vistula Flood Management Project

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 Government shifted its attention to 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.

The "Country Snapshot" is a bi-annual update, highlighting the country’s recent developments, economic outlook and major overview of the World Bank’s partnership with the country. You can find the latest updates at [http://www.worldbank.org/poland](http://www.worldbank.org/poland)