POLAND

Table 1	2019
Population, million	38.0
GDP, current US$ billion	591.7
GDP per capita, current US$	15581.7
International poverty rate ($1.9)[a]	0.4
Lower middle-income poverty rate ($3.2)[a]	0.6
Upper middle-income poverty rate ($5.5)[a]	1.4
Gini index[a]	29.7
School enrollment, primary (% gross)[b]	100.0
Life expectancy at birth, years[b]	77.6

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2017), 2011 PPPs.
(b) WDI for School enrollment (2017); Life expectancy (2018)

The COVID-19 pandemic and containment measures have pushed the Polish economy in recession; however, it remained one of the most resilient economies. Higher public spending only partially offset falling consumption and investment. To mitigate the impact on firms and employment a sizeable economic package was implemented, significantly narrowing fiscal space. Despite this, the impact on households is expected to be considerable feeding through to higher poverty rates. The key challenge over the short-term is ensuring a robust economic recovery.

Key conditions and challenges

The Polish economy has entered the COVID-19 crisis from a position of strength, having proved to be one of the more resilient economies in the region in previous crises. The economy grew uninterruptedly for the past 28 years, moving to high-income status in less than 15 years. Prudent macroeconomic policies, EU investment funds, a sound financial sector, and better access to long-term credit supported growth and poverty reduction. Rising wages and social programs ("Family 500+", "13th pension") supported consumption-led growth until early 2020. With an improving business environment Poland has integrated well into global value chains (GVC). Higher private investment, an improved innovation ecosystem, and further GVC upgrading can support higher productivity and growth.

Mitigating the impact of the COVID-19 pandemic and setting the basis for a sustained, inclusive and green recovery, while ensuring public debt sustainability are the key challenges in the short-term. The response to the COVID crisis has significantly narrowed fiscal space. Increased spending efficiency is needed to rebuild fiscal buffers and to prepare for fiscal pressures arising from the demographic change. Over the medium-term a key challenge is a tight labor market worsened by the aging population. Strengthening institutions at national and subnational levels and higher efficiency of public administration are needed for sustained, inclusive growth, and for narrowing of regional disparities.

A second wave of the COVID-19 pandemic would threaten the recovery, affect supply chains, depress investor sentiment and consumer demand. In such a downside scenario the economic, social and fiscal impacts would be more severe.

Recent developments

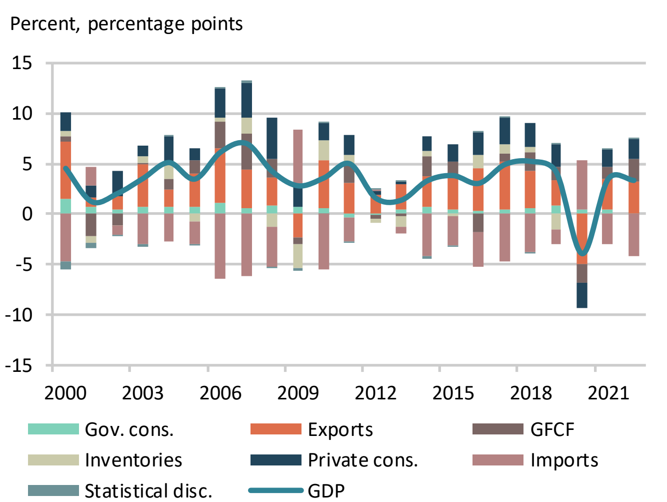
The economy recorded its first recession since 1991, as COVD-19-related supply and demand shocks dragged GDP down by 0.4 and 8.9 percent quarter-on-quarter in Q1 and Q2 of 2020, respectively. Poland performed better however than most EU countries, with output contracting 3.2 percent in the first half of the year, compared with a 6.7 percent average decline in the EU27.

Household expenditure and investment plummeted 10.8 percent and 11.4 percent, while countercyclical government spending contributed less than 1 percent to the quarterly growth in the second quarter.

Disruption to international trade and transport caused by the crisis, containment measures, and lower external demand in key EU exports markets caused both exports and imports to decline.

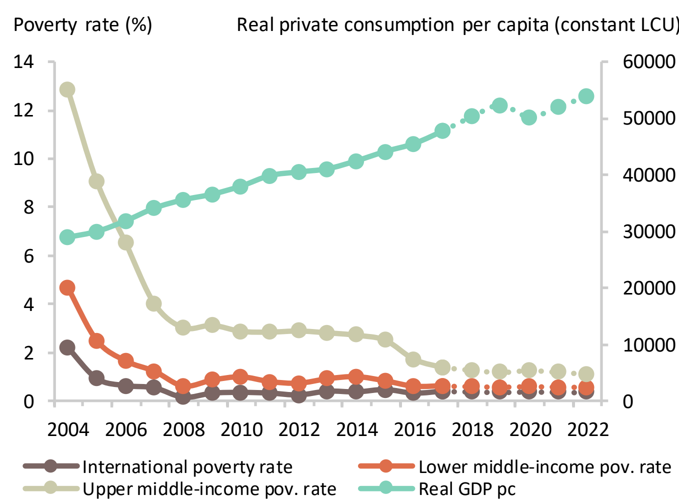
Industrial output was affected by disruptions to GVCs, declining 13.1 percent in the second quarter. Lockdown measures and restrictions to mobility contributed to a collapse of in transportation and storage

FIGURE 1 Poland / Real GDP growth and contributions to real GDP growth



Source: MFMod, World Bank.

FIGURE 2 Poland / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

(-18.2 percent) and in trade and repairs (-12.2 percent).

The government announced a stimulus package to mitigate the impact of lower global and domestic demand, prevent a sharper increase in unemployment by subsidizing salaries and support domestic enterprises via loans, tax reliefs and deferrals among others. The support measures helped to protect jobs; however, on account of the lockdown and restrictions to economic activity an estimated 30 percent of workers saw declines in salaries and hours worked in May, while by July the registered unemployment rate increased by 0.9 pp. year-on-year to 6.1 percent.

Furthermore, the large economic package resulted in a widening of the government deficit, which is expected to reach nearly 7 percent of GDP in 2020. Tax deferrals and falling economic activity have undermined tax revenues, which have declined more than 6.5 percent year-on-year in the first half of 2020.

Inflation declined to 2.9 percent year-on-year in August, from a peak of 4.7 percent in February 2020, primarily on account of lower international fuel prices and lower food price inflation. Meanwhile higher electricity tariffs and a record low reference interest rate prevented a sharper decline in inflation.

Outlook

Easing in restrictions to economic activity and mobility together with the economic package being implemented by the government and an incipient recovery in key trade and economic partners are expected to help contain GDP contraction to 3.9 percent in 2020 and set the stage for a moderate recovery over the next couple of years (average 3.5 percent).

Nevertheless, output is not expected to recover to pre-crisis level before 2022. A key assumption for this baseline is that the pandemic is contained, and a vaccine is rolled-out over the course of 2021.

While household incomes were supported by additional support measures during the outbreak, rapid assessments show that lower-wage workers are more likely to report reductions in hours worked and incomes early in the crisis and were also less likely to be covered by protective leave policies. Income declines in July relative to February 2020 were reported by 30% of households, feeding through to more limited purchasing power and slower recovery. Although social assistance will continue to protect the poorest households, poor working households are financially vulnerable to a reduction in hours worked and job loss due to COVID-19 and the deteriorating economic climate. Therefore, the share of the population at risk of poverty is expected to increase and to remain elevated into 2021.

A moderate recovery in economic activity and import demand from Poland's main trading partners, is expected to engender a recovery in exports and support a rebound in the industrial sector.

The sizeable economic package designed by the Polish government to support both the supply and demand side of the economy by providing liquidity to affected companies, granting tax reliefs and deferrals among other measures is expected to support private investment. Poland could receive nearly 1.4 percent of the 2018 GDP annually in national allocations from the Next Generation EU, and an additional 0.3 percent of GDP annually in Just transition funds, which could help support a recovery in investments, both public and private, as more than 80 percent of the Next Generation EU will be used to support public investment and key structural reforms. Gradual improvements in business and consumer sentiment, pent-up demand and the moderate recovery in key EU economic partners are expected to support a recovery in private investment and FDI.

TABLE 2 Poland / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	4.9	5.3	4.1	-3.9	3.5	3.4
Private Consumption	4.5	4.2	3.9	-4.3	3.1	3.6
Government Consumption	2.9	3.7	4.9	2.7	2.2	0.3
Gross Fixed Capital Investment	4.0	9.4	7.2	-9.1	6.2	10.9
Exports, Goods and Services	9.5	7.0	4.7	-9.3	6.1	6.2
Imports, Goods and Services	9.8	7.6	2.7	-9.7	6.3	8.5
Real GDP growth, at constant factor prices	4.8	5.3	4.1	-3.9	3.5	3.3
Agriculture	2.5	-9.0	-0.4	-4.0	1.5	1.0
Industry	2.5	5.2	4.2	-4.1	3.0	3.2
Services	6.1	5.8	4.1	-3.8	3.8	3.5
Inflation (Consumer Price Index)	2.0	1.6	2.3	3.3	2.4	3.0
Current Account Balance (% of GDP)	0.1	-1.0	0.4	1.0	1.1	-0.7
Net Foreign Direct Investment (% of GDP)	-1.4	-2.5	-2.2	-0.5	-1.1	-1.1
Fiscal Balance (% of GDP)	-1.5	-0.2	-0.7	-6.9	-5.2	-4.0
Debt (% of GDP)	50.6	48.8	46.0	54.4	56.0	55.8
Primary Balance (% of GDP)	0.1	1.2	0.7	-5.9	-3.9	-2.5
International poverty rate ($1.9 in 2011 PPP)[a,b]	0.4	0.4	0.4	0.4	0.4	0.4
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	0.6	0.6	0.6	0.6	0.6	0.6
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	1.4	1.3	1.2	1.3	1.2	1.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Calculations based on ECAPOV harmonization, using 2007-EU-SILC and 2017-EU-SILC. Actual data: 2017. Nowcast: 2018-2019. Forecast are from 2020 to 2022.
(b) Projection using point-to-point elasticity (2007-2017) with pass-through = 1based on GDP per capita in constant LCU.