POLAND

Table 1	2018
Population, million	37.9
GDP, current US$ billion	580.6
GDP per capita, current US$	15310
International poverty rate ($1.9)[a]	0.4
Lower middle-income poverty rate ($3.2)[a]	0.8
Upper middle-income poverty rate ($5.5)[a]	2.6
Gini index[a]	31.8
School enrollment, primary (% gross)[b]	110.1
Life expectancy at birth, years[b]	77.5

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2015), 2011 PPPs.
(b) Most recent WDI value (2015)

Poland's economy continued to perform strongly in 2018. Real GDP growth is estimated to reach 5.1 percent in 2018, driven by domestic consumption and higher investments. The pace of growth is expected to subside in the coming years in the face of a tightening labor market and slowing growth in the rest of the EU. Labor shortages, procyclical government policies and global factors are the main challenges to sustained growth in the medium term.

Recent developments

Poland's GDP grew by 5.1 percent in 2018, driven primarily by slightly decelerating domestic consumption (4.3 percent growth in 2018 compared to 4.5 percent in 2017) and stronger investments (7.3 percent growth). Private consumption grew by 4.5 percent, fueled by a strong labor market, increased average salaries (by 7.1 percent) and social programs such as "Family 500+". Despite the lower FDI inflow (net FDI increased due to falling outward FDI), investments continued to recover (7.3 percent increase in 2018) after a major decline in 2016 caused by a cyclical fall in EU-funded projects. Increased government investments strongly influenced by local elections held in Autumn and higher absorption of EU funding have contributed to the rebound of total investments. On the production side, industry (up by 5.5 percent), transportation (9.2 percent increase), and construction (up by 17 percent) were the key drivers of growth.

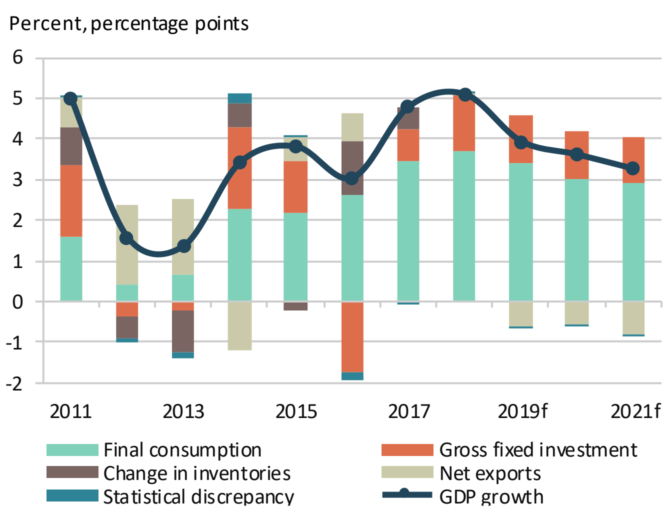
Despite growing public expenditures, the general government deficit for 2018 is estimated to amount to 0.5 percent of GDP, safely below the 3 percent EU threshold. Poland's debt-to-GDP ratio is set to decrease to approximately 49.2 percent, as budget revenues exceeded budget projections. Despite increased energy prices and strong consumption, consumer prices rose by a modest 1.6 percent in 2018, due to low core inflation of 0.7 percent.

Strong domestic demand caused imports to grow by 6.3 percent in the first three quarters of 2018. As Poland's key trade partners experience economic slowdown, growth of exports almost halved to 5.3 percent compared to 9.1 percent growth in the first three quarters of 2017, resulting in neutral net exports. The current-account balance returned to a deficit in 2018 as robust household consumption, higher investments, and depreciated Polish currency pushed up the volume and cost of imports.

The labor market has further tightened despite rising employment rates, partly due to lowering the retirement age while introducing a child benefit that contributed to workers withdrawing from the labor market during a period of growing demand. Labor shortages have started to affect business activity, as the job vacancy ratio increased in quarter three of 2018 by 0.1 pp to 1.2 percent compared to the previous year.

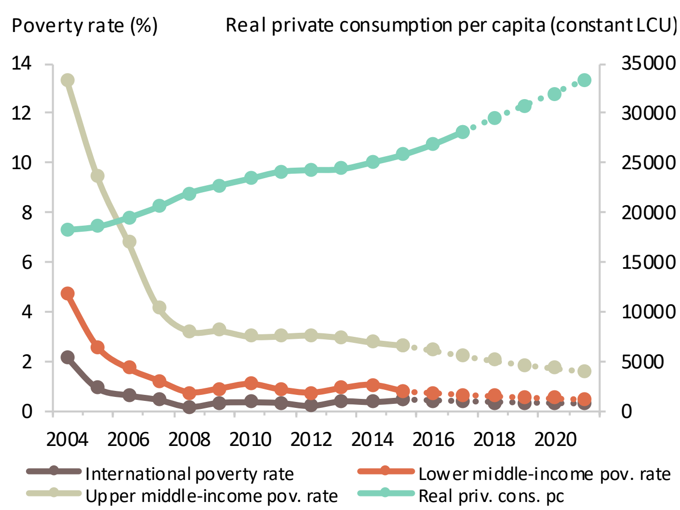
With strong growth, a tight labor market and higher social spending, the poverty rate using the Upper Middle-Income Class line of $5.50 per day (2011 PPP) is estimated to decline from 2.7 percent in 2015 to 2.0 percent in 2018. The Gini coefficient of inequality has progressively declined since 2004, reflecting strong income growth for bottom 40 households as a result of employment and wage growth and an increase in the progressivity of the tax and benefit system following the introduction of Family 500+.

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



Source: World Bank.

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



Source: World Bank. Notes: see table 2.

Outlook

After three consecutive years of accelerating growth, the pace of Poland's economic expansion is expected to decline. Amid the economic slowdown in the EU, Poland's GDP growth may reach 4.0 percent in 2019, driven by both private and government consumption, as well as investments. The previous projection of 2019 real GDP growth has been revised upward by 0.1 pp due to persistently strong domestic consumption and expanding investments. Household consumption expenditures are set to continue growing, fueled by government spending on social benefits and labor market conditions. However, as the positive effects of the Family 500+ program fade and are not fully compensated for by increased salaries, the contribution of private consumption to GDP is expected to fall in coming years. A stable banking sector, low interest rates and availability of EU funds are expected to support private investments and offset an anticipated post-election decline in growth of local government investments. A trade deficit is predicted to emerge on the back of a slowing German economy, which accounts for roughly a quarter of Polish exports, and it is expected to widen the current account deficit. In the medium term, economic growth is forecast to decelerate to 3.6 percent in 2020 and 3.3 percent in 2021. Nonetheless, rising real incomes are expected to lead to further declines in poverty. The $5.50/day 2011 PPP poverty rate is projected to decline to 1.9 percent in 2019 and further to 1.6 percent by 2021.

Fiscal performance remains a challenge despite the sound budget position so far. In the short-term public expenditure is likely to increase significantly due to recently announced policies that are expected to enter into force prior to the general elections in October 2019. Subsidized energy prices, the extended "Family 500+" program, lower PIT rates and the 13th month pension payment are expected to elevate the general government deficit in 2019 and will become a fiscal burden in the medium term. Thanks to the economic expansion, general government gross debt is expected to stabilize at around 49 percent of GDP in 2019-20.

Risks and challenges

The three main challenges ahead for Poland are a shortage of labor in the economy, procyclical government policies encouraged by the political calendar and adverse global factors.

The shortage of labor will eventually weigh heavily on potential GDP growth, and will be exacerbated by the early retirement of an increasing share of the workforce. Too few workers could negatively affect production capacity and investment. The problem may be amplified by the possibility that other EU countries open their labor markets to workers from Ukraine, who have so far helped Poland mitigate the shortfall in labor supply.

A dense political calendar, with EU, presidential, and general elections all coming up within a year, inspired a range of procyclical policies. Proposed measures increasing social benefits, lowering tax rates and inflating the cost of pension payments are expected to put pressure on public finances in the short and medium term. Due to their irreversible nature, such policies would weigh on Poland's fiscal position in the coming years and may push the deficit towards the EU threshold.

Poland's economy is likely to feel the negative impact of global factors. A slowing German economy will affect Polish exports. In addition, given that the UK is the third biggest market for Polish exports, Poland's economic growth could be further weakened, should a no-deal Brexit scenario materialize

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

	2016	2017	2018 e	2019 f	2020 f	2021 f
Real GDP growth, at constant market prices	3.1	4.8	5.1	4.0	3.6	3.3
Private Consumption	3.9	4.9	4.5	4.1	3.9	3.7
Government Consumption	1.9	3.5	5.9	5.7	4.0	4.2
Gross Fixed Capital Investment	-8.2	3.9	7.3	6.0	5.9	5.6
Exports, Goods and Services	8.8	9.5	6.4	4.5	4.2	3.8
Imports, Goods and Services	7.6	10.0	6.7	5.9	5.4	5.4
Real GDP growth, at constant factor prices	3.0	4.7	5.0	3.8	3.5	3.2
Agriculture	3.0	5.2	4.0	3.0	2.3	1.8
Industry	3.9	5.2	5.5	4.8	4.0	3.4
Services	2.4	4.4	4.8	3.4	3.2	3.1
Inflation (Consumer Price Index)	-0.6	2.0	1.6	3.0	2.7	2.5
Current Account Balance (% of GDP)	-0.5	0.1	-0.1	-0.2	-0.2	-0.5
Net Foreign Direct Investment (% of GDP)	0.9	1.2	2.0	1.7	1.5	1.0
Fiscal Balance (% of GDP)	-2.2	-1.2	-0.5	-1.4	-1.6	-1.8
Debt (% of GDP)	54.1	50.6	49.2	49.0	48.7	48.6
Primary Balance (% of GDP)	-0.5	0.3	0.9	0.0	-0.1	-0.2
International poverty rate ($1.9 in 2011 PPP)[a,b]	0.4	0.4	0.3	0.3	0.3	0.3
Lower middle-income poverty rate ($3.2 in 2011 PPP)[a,b]	0.7	0.6	0.6	0.5	0.5	0.5
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	2.4	2.2	2.0	1.9	1.7	1.6

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.
(a) Calculations based on ECAPOV harmonization, using 2004-EU-SILC and 2015-EU-SILC. Actual data: 2015. Nowcast: 2016-2018. Forecast are from 2019 to 2021.
(b) Projection using point-to-point elasticity (2004-2015) with pass-through = 1 based on private consumption per capita in constant LCU.