

The World Bank in Poland Country Snapshot



An overview of the World Bank's work in Poland

April 2019

POLAND	2018
Population, million	37.9
GDP, current US\$ billion	580.6
GDP per capita, current US\$	15,310
Life Expectancy at birth, years (2018)	77.5

At a Glance

- Poland is among the top-three fastest growing economies in the European Union, with inflation under control, a record low unemployment rate, and strong wage growth.
- The main challenges ahead for Poland are a shortage of labor in the economy, a structural weakening in public finances, and the upcoming political calendar, all of which may keep public spending at elevated levels.
- The World Bank Group's new Country Partnership Framework for Poland concentrates the Bank's engagement on key remaining development challenges, including the health care system, environmental threats, and regional convergence.

Country Context

The Polish economy continues to perform strongly. Real GDP growth reached 5.1 percent in 2018, driven by domestic consumption and accelerating investments. Unemployment is below 4 percent, while shared prosperity indicators continue to improve.

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 be exacerbated by the early retirement of an increasing share of the workforce. A scarcity of workers could negatively affect production capacity and investment.

The problem may be amplified by the possibility that other European Union (EU) countries open their labor markets to workers from Ukraine, who have so far helped Poland mitigate the shortfall in the labor supply.

A dense political calendar, with EU, presidential, and general elections all coming up within one year, has inspired a range of procyclical policies.

Proposed measures to increase social benefits, lower tax rates, and inflate the cost of pension payments are expected to put pressure on public finances in the medium term. Due to their irreversible nature, such policies would weigh on Poland's fiscal position in the coming years.

The World Bank and Poland

Since the 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.

Poland's relationship with the Bank is both a partnership of choice and a two-way knowledge collaboration.

It is based 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) for Poland concentrates the Group's engagement on key remaining development problems, including the health care system, environmental threats, and regional convergence.

Key Engagement

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

Health

Since 2013, Poland's Ministry of Health, the 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.

WORLD BANK PORTFOLIO

No. of Projects: 2

Lending: \$688 Million

Reimbursable Advisory Services: 2 (\$17 Million)

Trust Fund-Financed Advisory Services and Analytics: 5 (\$3.6 Million)

At the start 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 covers 300,000 people countrywide.

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.

The project supports Poland's less-developed regions in a number of areas: fostering science-business cooperation, strengthening vocational education, boosting local entrepreneurship, and improving the energy efficiency of single family houses.

The World Bank works hand in hand with national and regional authorities, providing knowledge and practical expertise to help overcome bottlenecks that the regions themselves have identified.

Recent Economic Developments

Poland's GDP grew by 5.1 percent in 2018, driven by slightly decelerating domestic consumption and stronger investments. Private consumption grew by 4.5 percent, fueled by a strong labor market, increased average salaries, and social programs such as "Family 500+".

Despite growing public expenditures, the general government deficit for 2018 is estimated to amount to 0.5 percent of GDP. 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.

The labor market has tightened further despite rising employment rates, partly due to a reduced retirement age, coupled with the introduction of a child benefit that has led workers to withdraw from the labor market during a period of growing demand.

Labor shortages have started to affect business activity, as job vacancies increased in the third quarter of 2018 to 1.2 percent, or by 0.1 percentage points 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 US\$5.50 per day (2011 purchasing power parity) is estimated to have declined to 2.0 percent in 2018.

Economic 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 percentage points 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 balanced by increased salaries, the contribution of private consumption to GDP is expected to fall in the coming years.

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 personal income tax 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.



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Project Spotlight

Odra-Vistula Flood Management Project



Opening ceremony of new flood embankments, Vistula River.

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.

In 20 years, thanks to World Bank support, a considerable stretch of the Odra River has been secured, while Wrocław, 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 Poland’s longest river, 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 US\$1.317 million, with World Bank financing amounting to US\$504 million. The project implementation period is eight years. Subsequent contracts for civil works and technical assistance are being signed and are currently under implementation.



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