The World Bank in Poland

# Country Snapshot

*An overview of the World Bank's work in Poland* **April 2017**

| POLAND | 2016 |
|---|---|
| Population, million | 38.0 |
| GDP, current US$ billion | 469.8 |
| GDP per capita, current US$ | 12,374 |
| School Enrollment, primary (% gross) (2014) | 101.3 |
| Life Expectancy at birth, years (2014) | 77 |

## At a Glance

- Poland has achieved a development success milestone, moving from middle-income to high-income status in record time. However, further reforms are needed to meet citizen expectations for faster convergence with the developed countries of the European Union (EU).
- In Poland, the World Bank offers knowledge and help in the implementation of complex and sophisticated policy reforms in various areas, such as fiscal policy, health, air quality, innovation, climate policy, and road safety.
- The World Bank's Warsaw office makes a point of sharing the lessons of Poland's economic development with other countries that might benefit from Poland's experience.

## Country Context

With a population of about 38 million and GNI per capita of nearly US$12,400 (2016), Poland has the largest economy in Central Europe. Since joining the 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 sectors and through innovation. This can be supported by greater investments in people to promote skill levels that meet the needs of a modern economy.

In order to respond to these challenges, Poland's Government has recently adopted 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.

The Government targets inclusive economic growth with a focus on the poorer segments of society and less advanced regions. Its new policy measures include generous family spending under the Family 500+ program, while the additional social spending is to be funded from improved tax compliance.

## 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: 1) economic competitiveness; 2) equity and inclusion; 3) climate action; and 4) Poland as a global development partner.

## Key Engagement

Since the political and economic transformation in 1989, Poland's economic performance has been remarkable, in part due to the high absorption of EU funds. Although during the 2007–13 programming period a large percent of EU funds were directed to hard infrastructure assets, the current 2014–20 period focuses on strengthening competitiveness, innovation, and entrepreneurship, particularly at the local level.

To respond to the challenge that many Polish regions have been unable to fully benefit from the recent development opportunities, the World Bank has began a new task of offering the "catching-up" regions analytical and implementation assistance in five areas: fostering science-business cooperation, strengthening vocational education, boosting local entrepreneurship, expediting the process of starting a business, and creating regional financial instruments.

Working hand in hand with the national and regional authorities of the Podkarpackie and Świętokrzyskie regions and the European Commission, World Bank experts provide knowledge mixed with practical expertise to help these regions overcome the development bottlenecks that they themselves have identified.

### WORLD BANK PORTFOLIO

- No. of Projects: 2 ($2.2 billion)
- Trust Funds: 2 ($1.95 million)
- Reimbursable Advisory Services: 3 ($1.9 million)

This work is bringing real changes on the ground, including by modifying regional operational programs to allow implementation of jointly designed procedures and programs, such as expediting the process of company registration in local courts, launching a pilot vocational education program, and establishing a single regional technology transfer office and a regional in-house financial instrument.

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, planning of green transport solutions in Białystok and Lublin, and capacity building for the long-term planning and management of local finance.

Private consumption is still key to growth in Poland.

## Recent Economic Developments

Economic growth slowed to 2.8% in 2016, down from 3.9% a year earlier, dragged by lower investment. Total investment declined by 5.5% in 2016, the largest decline since 2002, despite record low interest rates and high production capacity utilization.

Private consumption was the main driver of growth, expanding by 3.6%, the strongest pace since 2008. It was boosted by robust real income growth due to a record low unemployment rate, solid growth of real wages, and the new Family 500+ benefit program introduced in April 2016.

Growth picked up significantly in the fourth quarter of 2016 compared to the previous quarters, while high-frequency indicators (IP, PMI) have been robust, indicating that the slowdown of the Polish economy could be temporary.

Boosted by higher food and energy prices in international markets and a relatively weak zloty, both producer and consumer prices have rebounded, with the consumer price index (CPI) moving from a small deflation of 0.2% year-on-year in October 2016 to 2.0% inflation in March 2017.

Labor market conditions continued to improve in 2016, as employment increased and unemployment reached record lows (5.5% in the fourth quarter of 2016). Employment rates reached record highs but continue to be below the EU average due to the low labor force participation of young and older workers.

Poverty and shared prosperity indicators are estimated to have continued to improve in 2016, driven by strong private consumption supported by a strong labor market and the introduction of the Family 500+ program.

Moderate poverty is expected to have declined from 4.5% in 2015 to 3.2% in 2016 using the US$5.00/day 2005 purchasing power parity (PPP) poverty line.

## Economic Outlook

GDP growth is expected to pick up in 2017 to 3.3% and broadly stabilize around 3.2% over the medium term, driven by domestic demand.

Investment is expected to grow with a recovery in the EU budget transfers this year, while consumption growth is expected to remain solid due to a strong labor market performance and the payment of Family 500+ benefits for the whole year (they were effective for only three-fourths of the year in 2016).

Robust private consumption and a strong labor market should continue to boost real incomes and lead to further declines in poverty incidence in the short term. The US$5.00/day 2005 PPP poverty rate is projected to decline to 2.9% in 2017.

The general government deficit is set to widen again in 2017 to 2.6% of GDP, only slightly below the 3% EU threshold that would trigger the Excessive Deficit Procedure.

Spending is expected to increase as the full-year cost of the Family 500+ program is reflected in the budget and the Government's decision to roll back the planned increases in the retirement age also start to affect the budget beginning in October 2017.

The change in the retirement age will result in lower social contributions from the cohort eligible for earlier retirement, as well as higher spending on a larger number of pensioners, including retirees who receive minimum pensions or are under preferential pension regimes.

Public revenues are expected to grow moderately, in line with improving economic performance and various legislative, organizational, and IT measures aimed at reducing the sizable value-added tax (VAT) gap.

## Project Spotlight

Effective flood protection requires investments in hard infrastructure.

Devastating flood episodes have reminded Poland of its intrinsic vulnerability to flooding caused by the mountainous and hilly landscape and by decades of neglect.

The pace of urbanization and industrialization over the past half century—and especially since 1995—has far exceeded investment in water resources and flood management. Most dike systems and much of the river infrastructure date back to the beginning of the 20th century.

At the same time, land uses have been altered, exacerbating the generation of flood waves, and damage from floods has become more costly. This vulnerability is forecasted to further increase as climate change projections indicate that, at a regional and/or local level, the country will become subject to gradually increasing temperatures and likely drier summers and more concentrated and more intensive precipitation.

Following the catastrophic "millennium" flood of 1997, the World Bank partnered with Poland in its flood protection efforts. In less than 20 years, 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 visited by thousands of tourists from around the world.

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 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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