RECENT ECONOMIC AND SECTORAL DEVELOPMENTS

Recent Economic Developments and Outlook

Growth

In the first half of 2015, the economy expanded by 3.4 percent year-on-year, the same rate as in 2014 and up from 1.7 percent in 2013. Domestic demand increased by 3 percent and remained the main growth driver, while the contribution of net exports was slightly positive. Private consumption continued to benefit from higher real disposable incomes as a result of improved labor market conditions, relatively strong credit growth to households, and a boost from persistent consumer price declines. Investment was supported by solid corporate profits, growing confidence, record low interest rates, and final disbursements from the European Union’s (EU) previous financial perspective (budget). On the production side, economic activity has been led by strong growth in financial services, telecommunications, and industry.

Going forward, Poland’s economy is projected to grow at a rate above 3.5 percent, with negligible internal and external imbalances. Domestic demand is likely to remain the main locomotive of growth amid stronger private consumption and solid investment growth. As a result of positive investor confidence and easy financial conditions, production capacity utilization recently rose above 80 percent. Private consumption growth is forecast to reach around 3.5 percent during 2015–16, backed by continued increases in disposable income following the upswing in employment. This is expected to strengthen wage demands and gradually push up core and headline inflation toward their reference rate. In the short term, the decline in food prices is likely to be halted by the country-wide drought. Robust investment growth of around 8 percent in 2015–16 is forecast on the back of solid enterprise profits, record low costs of credit, and sizable EU funds.

These positive domestic demand trends should also boost tax collection. Although the fiscal stance is set to remain fairly conservative in line with fiscal rules (constitutional and legal public debt limits and the permanent expenditure rule), the pace of consolidation will moderate as the constraints imposed by the Excessive Debt Procedure are lifted (e.g., public sector wages may be unfrozen for the first time in six years).

Despite the relatively benign forecast, the balance of risks for the Polish economy is slightly skewed toward the downside. The main challenges are external and start from geopolitical tensions and a possibly protracted conflict in Eastern Ukraine. Globally, unfavorable economic developments both in nearby (EU) and more distant (China) markets may affect Poland directly and indirectly and undermine growth prospects through trade, finance, and confidence channels. Internally, parliamentary elections pose a risk of heightened political instability with the potential for some reversals of the current conservative fiscal policies. Although this is not considered a systemic risk, it may add to external debt deleveraging through parent bank funding of local subsidiaries. Upside risks include a stronger recovery in the Eurozone, backed by European Central Bank (ECB) quantitative easing and structural reforms or further declines in oil prices, which benefit Poland as a large oil importer.

Shared Prosperity and Poverty

Poland’s transition since the 1990s is widely seen as successful. Since 1989, Poland has become the European growth champion, more than doubling its GDP per capita in that period. Its economy is modern, diversified, centered on industry and services (around 30 and 65 percent of GDP, respectively), and deeply integrated into the EU, especially within German supply chains. In 2009, Poland was the only EU country to avoid a recession thanks to the size of its domestic economy, a floating exchange rate regime, limited imbalances at the onset of the crisis, and a fiscal stimulus in part financed through EU Structural Funds. In spite of the Eurozone turbulences, economic growth has remained solid by EU standards since 2010. In 2015, GDP growth is projected to be around 3.5 percent, and living standards are gradually converging to EU averages.

This fast growth has also translated into significant progress for the lowest-earning 40 percent of the population. During 2005–14, the share of the population with incomes below the
Despite this remarkable progress, Poland faces a number of challenges going forward. There remain significant disparities of income between Warsaw (by far the wealthiest part of the country), the western provinces (typically with strong entrepreneurship and better infrastructure), and the eastern provinces (relatively economically backward and poorer). Youth unemployment remained high at 20 percent in July 2015, although this was in line with the EU average. The labor force participation rate for the 15–64 age group (67.9 percent in the first quarter of 2015) is below the EU average. There are also persistent, although slightly declining, gender gaps in labor force participation (61.2 percent for women vs. 74.5 percent for men in the first quarter of 2015) and earnings. Although the gender pay gap for full-time workers fell from 15.2 percent in 2007 to 6.2 percent in 2013, the pay gap for part-time employment increased from 9.2 percent to 13.5 percent during the same period. The country is also rapidly aging; the share of the population over 65 is projected to increase from 13 percent in 2010 to 23 percent in 2030, while the fertility rate stands at 1.3.

**Inflation**

Despite the solid pace of economic activity, inflation has decelerated sharply over the past two years. Inflation remains well below the National Bank of Poland’s (NBP) 1.5–3.5 percent target range, affected by strong declines in food and energy prices. The headline inflation rate has been negative since July 2014, and in August 2015, consumer prices fell by 0.6 percent compared to one year earlier. Negative inflation reflects a combination of factors, predominantly low imported inflation from Eurozone trading partners and declining global food and energy prices. Twelve-month core inflation stood at 0.4 percent in August 2015, while inflation expectations for the next 12 months hovered around 0.2 percent.

The NBP’s Monetary Policy Council (MPC) maintains a relaxed monetary policy stance. The main policy interest rate was cut in October 2014 and in March 2015 by 100 basis points altogether, and the reference rate remains at a record low of 1.5 percent.

Low inflation in the Eurozone will continue to weigh on price movements, which together with low energy and food prices are dampening prospects for inflation. Inflation is expected to remain below the 2.5 percent inflation target through end-2017.

**Trade and Capital Flows**

The current account deficit widened from 1.3 percent of GDP in 2013 to 2.3 percent in 2014. A significant improvement is expected in 2015, as a result of strong export and moderate import growth. Polish exports have benefited from increased demand in Europe, especially from neighboring Germany, and the złoty is stable. Because of the small size of the current account deficit and the composition of its funding, a moderation of foreign capital flows or increased portfolio investment volatility pose limited threats to Poland’s external stability. Gross external debt increased from 69.6 percent of GDP in 2013 to 71.9 percent of GDP in 2014 and stabilized at that level in the first quarter of 2015. The share of short-term debt in total external debt remains broadly stable at around 20 percent, while the ratio of short-term debt to official reserves stood at 70 percent. International reserves account for the equivalent of 5.3 months of imports of goods and services.

Over the medium term, the current account deficit is expected to stay below 3 percent of GDP as exports and imports pick up modestly, in line with the gradual recovery. The current account deficit is projected to be financed mostly by foreign direct investment (FDI) inflows and EU transfers. External debt peaked at around 73 percent of GDP in 2012 before falling below 70 percent in 2015 and declining over the medium term.
Fiscal Performance

Fiscal consolidation enabled Poland to exit the EU Excessive Deficit Procedure in spring 2015, one year ahead of the deadline. The general government deficit declined from 4.0 percent of GDP in 2013 to 3.2 percent in 2014, owing to a rebound in direct and indirect taxes related to more dynamic domestic demand and the continued freeze on central government wage and employment levels. At the same time, interest payments declined due to record low yields of new bonds and changes to the pension system. The latter also contributed to a fall in public debt from 55.7 percent of GDP in 2013 to 50 percent of GDP in 2014. Going forward, Poland is expected to remain on a gradual fiscal consolidation path. The country’s institutional fiscal policy framework, including public debt rules, stabilizing expenditure rule, and compliance with the EU debt and deficit criteria, gives some assurance of a broadly conservative fiscal stance. The gradual adjustment in public finance is to come from limiting aggregate expenditure for the general government in line with the expenditure rule. On the revenue side, the Government has recently revealed its proposal to unify and reduce the tax burden on labor and improving compliance with the EU.

In the central scenario, the public debt-to-GDP ratio is expected to remain below 52 percent of GDP over the medium term. Changes to the pension system, associated with a transfer of pension fund assets to the government, and the change in the European System of Accounts (ESA) methodology contributed to a significant reduction of the debt-to-GDP ratio from 55.7 percent of GDP in 2013 to 50 percent in 2014. Continued fiscal consolidation and a favorable differential between projected GDP and the real interest rate are expected to help keep public debt below 52 percent of GDP over the medium term. This would ensure that public debt remains below the Maastricht ceiling of 60 percent of GDP and key national debt thresholds. The public debt sustainability analysis suggests that the debt path is highly sensitive to a growth shock, but it is not expected to put the level of public debt above the threshold of 60 percent of GDP.

Financial Sector

The banking sector is well capitalized, liquid, and profitable, with stable credit growth. Capital adequacy is strong (at 14.9 percent in March 2015, 90 percent of which is Core Tier 1 capital) and liquidity is high. In 2014, the net profit of the banking sector exceeded PLN 16.2 billion (US$4.2 billion), a historical record. However, in the first half of 2015, net profit declined by 8.2 percent in comparison with the first half of 2014. The deleveraging of Eurozone banks has stabilized and the fall in foreign funding was offset by rising domestic deposits. Private sector credit grew by 7 percent in 2014, including a welcome pickup in credit to the corporate sector. In the first half of 2015, the year-on-year growth of bank credit oscillated around 7 percent.

Selected Sectoral Policies for Economic Growth

In the medium term, Poland needs to improve the efficiency of public finances and do more to ensure that economic growth more effectively includes those at the lower end of the income distribution. The country also needs to strike a balance between labor market flexibility and worker protection, and mitigate the existing duality of the labor market. Doing business reforms to encourage productivity and innovation remain another important reform area, especially in light of the changing demographics and aging society. Lastly, the country needs to manage the transition toward a low-emissions economy.

Business Environment

Poland has made the strongest progress in Doing Business (DB) reforms among the EU and Organisation for Economic Co-operation and Development (OECD) countries since 2005. It is ranked 32nd worldwide in Doing Business 2015, above the EU28 average and ahead of all new EU member states in Central Europe. However, the business climate still has weaknesses, including in starting a business, dealing with construction permits, and paying taxes. The World Bank has provided technical advice on amending the insolvency law, streamlining construction permits, and improving contract enforcement. The World Bank has also provided support to enhance financial reporting through advisory services.
The World Bank Group has recently completed an assessment of the local business environment in all 16 regions of Poland. The “Doing Business in Poland 2015” report found significant variations in performance across regions and focused on uncovering good regulatory practices that could be shared between the regions to help improve the overall business climate. If a Polish city were to adopt all the best practices found across the 16 regions, it would rank 24th out of 189 economies in the global Doing Business ranking—eight positions higher than Poland’s current ranking, as represented by Warsaw—placing the country ahead of France and the Netherlands. The World Bank is partnering with government and private sector stakeholders to support the dissemination of the report’s findings and peer-to-peer learning among local governments in Poland. Moreover, building on the findings of the report, the World Bank continues to support the reform process in the construction sector, including through the exchange of national and international good practice examples and advice on local-level implementation of the recent amendments to the building law.

**Innovation**

Poland’s current growth model may be gradually approaching its limit. Over the past two decades, Poland’s growth has been driven by simple “post-transition” reserves in terms of productivity growth and capital accumulation. Yet, as income per capita increases, Poland will need to further move up the value chain and achieve productivity gains through innovation and additional structural reforms. Poland remains one of the least innovative economies in the OECD according to the rankings and still needs to make efforts to best equip its workers for the needs of a modern economy. In 2014, total research and development (R&D) spending amounted to 0.9 percent of GDP, below most peers and below the EU average of 2 percent of GDP. Increasing R&D spending will require a combination of steps to foster more effective “ecosystems” for innovation (and in particular, links between research, entrepreneurs, and financiers) to strengthen public support for innovation; enhance the quality and relevance of general, vocational, and higher education; and further develop skills and entrepreneurship.

More than €10 billion will be made available to support private sector–led innovation under the new 2014–20 EU financial perspective. Both the national and subnational governments have developed “research and innovation smart specialization” (RIS3) to provide a framework for using these resources effectively. The World Bank Group has supported these efforts by carrying out a review of public support to the innovation system and helping develop innovation strategies at both the national and subnational levels. The World Bank Group continues to provide support to the Polish authorities to further increase the efficiency and effectiveness of the innovation system, including a trailblazing project on engaging the private sector in innovation policy making as part of the entrepreneurial discovery process (EDP).

Poland is also stepping up its participation in the digital economy, in particular by expanding broadband access to isolated areas (possibly with the involvement of the private sector) and gradually moving toward e-government services. This is facilitated by the provision of large resources under the EU financial perspective. Yet, despite recent progress, access to the Internet is below the EU average and is of low speed. Hence, further improvement in building a modern information and communications technology (ICT) sector is indispensable to increasing competitiveness, economic growth, and job creation in Poland.

**Effective Public Finance**

The Government has taken significant steps to improve the public financial management system. In its fiscal consolidation effort in recent years, the Government has carried out reforms aimed at strengthening fiscal rules and institutions and improving the quality of expenditure and public sector effectiveness, including in the social sectors and health. The Bank has been actively engaged in this area through successive Development Policy Loan (DPL) series and technical assistance in the areas of spending reviews, management of a public sector wage bill, and local government fiscal management horizontal fiscal equalization transfers, in close cooperation with the European Commission (EC) and the International Monetary Fund (IMF).
Selected Sectoral Policies for Equity and Inclusion

Action in this area is critical to ensure that the lowest-earning 40 percent of the population can enjoy the full benefits of economic growth, including in terms of accessing economic opportunities as well as benefiting from efficient social services. This is a multitiered agenda, where specific support is needed for each of the various groups that altogether constitute the lowest-earning 40 percent of the population, in particular, the unemployed (inclusive and effective labor market), those living in lagging regions (balanced regional development), and the older/less healthy population (strengthened health care and health prevention in an aging society). Social exclusion in Poland is primarily associated with the lack of stable employment and social biases that often hinder access to social services and participation in society. Social exclusion rates are particularly high for households with disabled members, single parent households, and families with more than three children, as well as for those that depend on farm income or pensions.

Labor Market

Labor market outcomes have continued to improve in 2015 on the back of a buoyant private sector. In 2014, the unemployment rate fell by 2 percentage points and by a further 0.5 percentage point in 2015, reaching 7.8 percent in the second quarter of 2015. Increases in private sector employment are predominantly in the form of temporary contracts.

Beyond the short-term gains, however, a number of structural labor market issues remain that more active social policies could try to address. Increased participation in the labor market is critical to Poland’s growth as well as for social inclusion, particularly among people over 50 (especially women), the lower skilled, and beneficiaries of social assistance. The Government is making efforts to improve the employment rates of these groups through the introduction of a new suite of activation policies in labor offices, which will continue to need to support enhanced effectiveness. The dissemination of age management practices, increased access to long-term and child care provision, and the ongoing deregulation of various occupations (supported by the Bank) are also likely to provide increased employment opportunities for disadvantaged groups. Lastly, the labor market duality challenge is partially being addressed through restricting the excessive use of temporary labor code contracts, as well as by increasing the contributory obligations on less-protected civil code contracts. Still, more could be done to reduce both the financial and bureaucratic costs of hiring workers on labor contracts.

Regional Development

The process of national convergence within the EU has been accompanied by increased internal divergence between and within Poland’s regions. Several of the country’s 16 regions have made significant progress in terms of growth and living conditions, but five of them (those located in the eastern part of the country) have experienced a relative loss. These regions remain among the poorest regions of the EU28. In addition, disparities within each region have been on the rise (typically with large cities faring relatively well and rural areas and small towns falling behind) and now rank among the highest in the OECD. Poverty and the risks of economic marginalization have a significant territorial component, due to accessibility constraints, the mixed quality of public services, and initial resource endowments.

Significant EU resources are available in the current 2014–20 programming period to finance investments directly at the subnational level, where local governments have a solid track record for disbursing such funds (€31.28 billion will be invested at the regional level, which represents 40 percent of the total EU envelope for Poland of €82.5 billion). The challenge is threefold: (i) to maximize results (beyond disbursements), especially with regard to reducing the inequality of opportunities across and within regions, which stand in the way of creating shared prosperity; (ii) to ensure the sustainability of these investments, in particular by strengthening local public finance to free up resources for cofinancing, operations, and maintenance; and (iii) to strengthen monitoring and evaluation systems in order to identify the most efficient and effective programs for Poland to prepare for the post-2020 period, at which point the country will need to make investments from its
own resources. An additional objective for Poland is to leverage public resources by private contributions, primarily by developing public-private partnerships and raising the number of hybrid projects. Over the past years, the Bank has worked in close cooperation with the EC, providing a range of knowledge services and developing solid relationships with several key counterparts at both the national and subnational levels.

**Aging and Health**

The Government has engaged in several successive reforms of the pension system. The system, adopted in 1999, rested on a defined-contributions scheme based on a multi-pillar system: (i) a mandatory pay-as-you-go scheme based on notional defined contribution (NDC) accounts and run by the State Social Insurance Institution (ZUS) (“first pillar”); (ii) a mandatory, fully funded, and defined contribution scheme run by the Open Pension Funds (OFEs) (“second pillar”); and (iii) a voluntary private pension scheme (“third pillar”). In 2012, the pension age was raised to 67 (from 60 for women and 65 for men), and the mandatory length of service for “uniformed services” (military, border security, etc.) was increased from 15 to 25 years. In late 2013, the Government introduced changes in the pension system, including: (i) the transfer of government bonds held by OFEs to the ZUS and the banning of any further investment by OFEs in government bonds; (ii) the introduction of a clause making contributions to the second pillar voluntary, with the default option being nonparticipation; and (iii) the transfer of OFE funds to the ZUS over a 10-year period ahead of a contributor’s retirement. The changes have resulted in a significant downsizing of the second pillar in terms of both assets and participants.

The low level of replacement ratios and the subsequent impact on pension adequacy remain the central issues faced by the Polish pension system. The “dependency ratio” is projected to dramatically increase in the decades to come for demographic reasons. As a result, pensions could drop to as low as 30 percent of pre-retirement incomes, presenting the risk that a large share of the older population would fall into poverty. Measures are needed to ensure the adequacy and sustainability of pension benefits, such as: (i) aligning special pension systems to the general system (in terms of duration of contributions, retirement age, and levels of benefits); (ii) reviewing the disability systems (to cover only the disabled); (iii) considering a further increase in the retirement age as may be needed based on actuarial data; (iv) developing instruments to encourage voluntary long-term individual savings; and (v) ensuring that minimum pensions remain at or above subsistence level. The Bank has been engaged in analytical support of the Government’s policy agenda related to aging through a regional aging project and the “Saving for Growth and Prosperous Aging” Country Economic Memorandum (CEM).

A growing elderly population is also associated with increased health care service utilization as well as with increased risks of old-age exclusion. Poland’s objective in the health sector is to develop an effective care system that can deliver quality services and cope with demographic changes in a fiscally constrained environment. Achieving this will in particular require strengthening the spatial planning for health service delivery to account for the health needs of an aging population, streamlining hospital infrastructure, and developing less hospital-centric care practices. This will also include developing measures to efficiently manage the growth of long-term care needs by prevention and rehabilitation and by expanding the capacity of independent living. Reforms in some areas have already been implemented, in particular the transfer of responsibility for hospital management (and financial losses) to subnational governments, which heightens the pressures for consolidation and restructuring, and also the adoption of a public health law that lays the groundwork for prevention programs or “cancer plans,” developing new treatment pathways for cancer patients. Analytical work on selected health care issues, including health needs assessments maps and a new system of integrated health care, is under way. In both initiatives, the World Bank will play an advisory role to the Government. In addition, a policy paper on the key areas for a more efficient long-term care system in Poland is under preparation.

**Selected Sectoral Policies for Climate Action**
With a domestically abundant supply of coal, Poland’s economy is among the least emissions efficient in the EU. The consumption of energy equal to one ton of oil equivalent generates 3.4 metric tons of CO2 compared to an EU average of 2.5. This largely reflects the dependence on coal, especially in the power sector; very high rates of emission growth in the transport sector; and an energy-efficiency performance that remains below EU averages. Action is needed in a number of areas related to climate-informed policy making, climate change adaptation, and climate change mitigation.

**Climate Change Policy**

The EU climate change and energy package, or the “20-20-20” targets, requires comprehensive action by EU members to achieve, by 2020, a 20 percent reduction of greenhouse gas (GHG) emissions below 1990 levels; a 20 percent level of EU energy consumption from renewable resources; and a 20 percent improvement in energy efficiency. The 20-20-20 package requires Poland’s energy-intensive sectors to contribute to the EU-wide target while allowing the emissions from the country’s other sectors to increase by no more than 14 percent compared to 2005. A World Bank study showed that the transition is expected to generate economic costs in output and employment until 2020 that are higher than the costs for the average EU country, but that the shift toward low emissions through better fuel efficiency, energy efficiency, and other measures would eventually boost Poland’s economic growth in the long term.

In October 2014, the European Council adopted an ambitious climate policy framework, setting a target for the EU to reduce GHG emissions by 40 percent below 1990 emission levels by 2030. Some decisions on how to share the mitigation burden inside the EU are still to be negotiated between the EU member states and the EC. The 2030 target is in line with the Intergovernmental Panel on Climate Change’s (IPCC) suggestion for developed countries to reduce GHG emissions by 80–95 percent below 1990 levels by 2050.

The Polish Government has made substantial efforts to better understand the economic and fiscal implications of energy and climate change policy decisions. In recent years, the World Bank Group has carried out analytical work and provided technical assistance to the Government in building its in-house economic modeling capacity. The Bank has successfully supported the Polish Government by providing technical expertise and by building institutional capacity to develop a comprehensive modeling toolbox for energy and climate change policy analysis. The Bank stands ready to continue building analytical capacity for climate policy analysis inside the public administration structure, in particular in sectoral economic models for energy, transport, and agriculture.

**Adaptation: Protection against Floods**

Climate change is expected to heighten flood risks, to which large parts of the country are already exposed, especially in the basins of the two main rivers (the Odra and the Vistula). Effective protection requires a combination of infrastructure investments (e.g., dikes, reservoirs, etc.) and adequate arrangements for coordination between the various entities in charge of administering the river basins. The Government has developed a comprehensive program to enhance flood protection along the Upper Odra River (which was affected by a devastating flood in 1997). Over the last period, the Bank has supported these efforts by providing financing and technical leadership and by mobilizing other financiers (the EC, the Council of Europe Development Bank [CEB], and Poland’s own budget) to implement the Odra River program and the Odra-Vistula Flood Management Project, the latter of which was approved by the Board of Executive Directors in July 2015.

**Mitigation: Resource-Efficient Infrastructure**

In close cooperation with the EC, Poland is making efforts to gradually strengthen its low carbon infrastructure systems, including for transport (railways, urban transport) and energy (energy efficiency, alternatives to coal). This is especially important in the context of a growing economy, with increasing trade with EU partners and a growing demand for mobility, including North-South and East-West transit. Yet, this has proven a challenging endeavor, and in several key sectors (railways, for example) the authorities are facing some difficulties in absorbing the
corresponding EU funds. Over the last period, the World Bank has focused on knowledge exchange and assistance in making urban transport an attractive alternative to individual car transport, and continued an ongoing dialogue and support to institutional reforms and government capacity to implement the multi-sectoral National Road Safety Program 2020.

POLITICAL DEVELOPMENTS

Poland has become a major actor within the EU. With a population of about 38.2 million and a GNI per capita of US$13,080 (2013, Atlas method), Poland has the largest economy in Central Europe. Since joining the EU in 2004, the country has made remarkable progress in catching up with the core of the EU in terms of economic development and living standards (GDP per capita in purchasing power standards [PPS] has risen from 51 percent to 68 percent of the EU average).

The year 2015 is a crucial one in Polish politics. The May 2015 presidential elections resulted in a victory for the Law and Justice (PiS) party’s candidate Andrzej Duda, unseating former President Bronisław Komorowski, who led the ruling Civic Platform (PO) and the Polish Peasants Party (PSL) coalition for the past eight years. The parliamentary elections scheduled for October 25 will see the largest number of parties appearing on the ballot since 2008, including the incumbent PO, the election frontrunner PiS, controversial former musician Pawel Kukiz, the United Left coalition, the newly emerged leftist Razem party, the liberal Nowoczesna, rural-based PO’s junior coalition partner PSL, and the extreme right KOWRiN party.

Poland and Development Cooperation

Poland is aspiring to play an increasingly stronger role in the international arena, in line with its demographic weight, economic performance, and political capacity. The Government is aware of the potential importance of development cooperation in Poland’s foreign policy in helping to raise the country’s profile and influence in selected areas and to contribute to the stability and development of its neighbors and partners. Poland is also playing an active role in a broad range of international forums. From an economic angle, the authorities are keen to support the internationalization of Polish firms and to develop links with the Polish diaspora and with Poles living abroad to help promote Poland’s interests in the world.

Poland has significant experience to share with other countries on economic transition and sectoral reforms. Yet, resources for development cooperation remain very limited, and there are substantial aid effectiveness issues. The aid budget of US$452 million in 2014 included a mandatory contribution to the EU budget and other multilateral organizations (of about US$370 million in 2014), as well as a relatively small bilateral program (about US$82 million in 2014) focused on microprojects implemented by Polish nongovernmental organizations (NGOs) (in the Eastern Partnership countries and in selected International Development Association [IDA] countries). Poland’s contribution to the IDA17 amounted to US$10 million.

THE WORLD BANK GROUP PROGRAM IN POLAND

The World Bank Group’s engagement in Poland aims to support shared prosperity. The International Bank for Reconstruction and Development (IBRD) program is well aligned with the Government’s strategy and with EU priorities (the “smart, sustainable, and inclusive growth” EU 2020 agenda) and follows a “niche” strategy.

The current four-year Country Partnership Strategy (CPS) sets out the country context, country development program, and envisaged World Bank Group program for Poland for the period 2014–17. The CPS’ two-fold aim is: (i) to foster sustainable income growth for the bottom 40 percent of the population (within the context of Poland’s economic convergence with the EU), and (ii) to support Poland’s emerging role as a global development partner. The program rests on four strategic engagement areas: (i) economic competitiveness (business environment, innovation, public finance); (ii) equity and inclusion (labor market, regional development, health, aging); (iii) climate action (climate policy, flood protection, resource-efficient infrastructure); and (iv) Poland as a global development partner. The strategy foresees two series of two DPLs, with the second one signed in August 2015, and a number of investment lending (IL) programs over the 2014–17 period.
(including in health, flood protection, and social inclusion), including the Odra-Vistula Flood Protection Project approved by the Board of Executive Directors in July 2015.

The International Finance Corporation (IFC) started to reengage over the past year, and several projects are currently under preparation, including one project that went to the Board of Executive Directors in September 2015.

Advisory Services and Analytics (ASA) Program. The World Bank program is largely based on “knowledge products”—analyses and advisory services, in part reimbursed by the Government. The World Bank acts in Poland as an independent broker and a catalyst of global knowledge and expertise in specific technical “niches” (e.g., on a bank resolution framework, innovation and competitiveness, climate change modeling, infrastructure financing, etc.). This serves several purposes, including to inform policy debates and to facilitate the design or implementation of technical reforms. Examples of such work include: (1) support on Doing Business, which is provided across several ministries (on insolvency, contract enforcement, access to electricity, etc.), including Subnational Doing Business conducted in 18 Polish cities; (2) dialogue on innovation and smart specialization, with a series of engagements with the Ministry of Economy, the Ministry of Infrastructure and Development, the National Center for Innovation and Development, and some regional authorities; (3) support to the development of a macroeconomic model to assess the economy-wide impact of climate change–related policy decisions; (4) analytical work on aging (healthy, active, and prosperous aging) and on savings and growth (in a context of aging); (5) support to the Ministry of Finance on issues such as forecasting for subnational governments and macroeconomic analysis as part of preparing for an eventual adoption of the euro and improving the process for spending reviews; (6) development of financial instruments in the energy efficiency and waste management sectors; (7) analytical support to public transport development, including green transport and road safety; (8) financial reporting in the private and public sectors (funded by the Government of Switzerland); (9) assistance in the health sector (long-term care strategy, integrated health care, health maps); and (10) potential support in the areas of construction permit regulations, higher education, and the return on public investment.
**Key Dates:**
- **Approved:** March 21, 2007
- **Effective:** July 9, 2007
- **Closing:** December 31, 2017

**Financing in million Euro:**

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*As per June 30, 2015 Progress Report

The Odra River Flood Protection Project (ORFPP) will better ensure the protection of the population in southeastern Poland (Lower and Upper Silesia) and in particular, the economically crucial city of Wrocław, from loss of life and damage to property caused by severe flooding. These areas are heavily affected by recurrent devastating floods, most recently in 1997. As the final total cost is likely to be close to US$1 billion, this project is among the Bank’s largest engagements in the Europe and Central Asia (ECA) region. The project is cofinanced by the Council of Europe Development Bank (CEB) and European Union (EU) Cohesion grants. The project has three main components:

- **Rehabilitation and modernization of dikes and river embankments in and around Wrocław,** as well as the widening of bridges and weirs and the dredging and improvement of the floodwater by-passing capacity;
- **Construction of a flood retention dry polder (reservoir) near Racibórz** upstream of Wrocław; and
- **Improvement of flood forecasting and flood management capabilities.**

The project is being implemented in three phases. First, the implementation structure was established and staff trained; the implementation involves several ministries (notably the Ministries of Home Affairs, the Environment, and Regional Development) and four project implementation units (PIUs) inside the four regional Implementing Agencies. Teams of experts (technical assistance, contract engineers) were recruited to assist these agencies. This first phase was completed at end-2009. In the second phase, land was acquired and all permits obtained, in particular for the construction of the 24 kilometer-long dikes for the dry polder in Racibórz—critical protection for downstream Wrocław. An area of 1,260 hectares was acquired for the dry polder dikes; the total polder area is 26 square kilometers. Furthermore, 202 households are being resettled. Forty-seven households have opted to move into the new town Nowy Nieboczyz; the first 25 houses are under construction with the (relocated) church and community center completed and other village infrastructure (e.g., wastewater, electricity) in process. In these areas, culturally significant archeological fragments have also been found, including the Silesian Venus. The third phase, now in full operation, concerns all the construction flood works. Environmentally significant areas, such as Natura 2000 sites, receive protection or are compensated. All works in the immediate Wrocław area will be completed by end-2015. The Bank’s finance will have leveraged about 5–6 times the non-Bank funds, mostly EU Cohesion Funds. It will also have built administrative and policy capacity within the Government to carry out complex large infrastructure works of a national strategic nature, involving numerous national and local agencies. This rich engagement (both on the technical and policy aspects) has resulted in interest from the Government for a follow-on project on the neighboring Vistula River (which suffered from flooding in 2010, unlike in the project areas).

**Expected Results:**

(i) Improved protection for about 2.5 million people in the Wrocław area, as well as other urban centers and towns upstream of Wrocław, against severe flood episodes, such as the 1997 flood.

(ii) Improved flood forecasting to allow for better prevention of flood damage and the minimization of damages.

**Key Partners:** The main partners are the Ministries of Home Affairs and of the Environment; Water Management Boards; the Institute of Meteorology and Water Management (IMGW); and Voivode and local governments. In addition, financial partners are the European Commission (EC) and the Council of Europe Development Bank (CEB).
The Odra–Vistula Flood Management Project (OVFMP) aims to increase access to flood protection for people living in selected areas of the Odra River and the Upper Vistula River basins and to strengthen the institutional capacity of the Government to mitigate the impact of floods more effectively. The Odra and the Vistula are Poland’s main rivers, and the catchment areas of the Odra and the Upper Vistula together cover 54 percent of Polish territory, underscoring the strategic significance of the proposed project. Devastating flood episodes have reminded the country of its intrinsic vulnerability to flooding caused by the mountainous and hilly landscape and by decades of neglect, and this vulnerability is forecasted to further increase as climate change projections begin to be realized. Flood damages in terms of recovery costs and the economic losses from income foregone are significant and recurring; the recent floods have also claimed scores of casualties.

The World Bank, the Council of Europe Development Bank (CEB), and the European Commission (EC) cofinanced the ongoing Odra River Basin Flood Protection Project (ORFPP) as the first significant initiative. They have also cofinanced this new OVFMP as the second initiative of national importance, with the strategic aim of further completing the protection of all the most vulnerable areas in the Odra basin and of implementing a first set of measures to start providing the same level of protection for the Upper Vistula basin. The selection of the activities and investments will follow an exhaustive analysis of the priority nature of all possible investments, based on integrated basin planning, flood risk analysis, and the readiness and no-regret nature of the investment. This new project would also create a platform to start mainstreaming, on a national scale, the lessons learned from the policy and institutional development during the ORFPP. Although the Odra region has been benefiting from numerous studies on the river basin system that have taken place over more than a century, the Vistula region, which features a larger and more complex hydraulic system, has not been studied as thoroughly.

The project provides three distinct areas with flood management infrastructure and related measures: (i) the Middle and Lower Odra; (ii) the Nysa Klodzka Valley; and (iii) selected parts of the Upper Vistula, including notably the areas of Krakow, Sandomierz, and communities in the Raba and the San tributary catchments. The project supports ongoing institutional strengthening activities, including enhancing forecasting capability. The population of the regions in the direct proximity of the proposed works and measures is estimated to be about 15.1 million. The total project costs are €1.2 million. Of this amount, €242 million will be counterpart funding covering, among other things, land acquisition expenditure, while €200 million will be provided from Poland’s allocation of the EU Cohesion Funds that were negotiated in December 2014. €760 million will be furnished by other international financing institutions, of which IBRD financing will amount to €460 million and CEB €300 million. The project implementation period is eight years.

**Expected Results:**
- Total area in the 1 percent flood plain benefiting from enhanced protection and operational forecasts
- Total population benefiting from enhanced protection and operational forecasts (gender disaggregated)
- Flood Operation Centers established and functional

**Key Partners:** The main partners are the Ministries of Administration and Digitization and of the Environment; Water Management Boards; the Institute of Meteorology and Water Management (IMGW); and Voivode and local governments. In addition, the financial partner is the Council of Europe Development Bank (CEB).