POLAND

Table 1	2020
Population, million	38.0
GDP, current US$ billion	594.2
GDP per capita, current US$	15654.9
Upper middle-income poverty rate ($5.5)[a]	1.2
Gini index[a]	30.3
School enrollment, primary (% gross)[b]	96.9
Life expectancy at birth, years[b]	77.6

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2018), 2011PPPs.
(b) Most recent WDI value (2018).

The two COVID-19 waves and containment measures have pushed the Polish economy into recession; however, Poland remained among the most resilient economies in the region. To mitigate the impact on firms and employment, economic measures were introduced that have narrowed the fiscal space. While unemployment impacts have been stymied, work stoppages have resulted in considerable household income impacts. The key challenges over the short term are swiftly rolling out vaccinations and ensuring a robust economic recovery.

Key conditions and challenges

The well-diversified Polish economy is one of Europe's least affected economies by the COVID-19 pandemic. GDP declined however by 2.7 percent in 2020, the first output contraction in over 20 years.

Prudent macroeconomic policies, effective absorption of EU investment funds, a sound financial sector, and better access to long-term credit fed into inclusive growth and poverty reduction. Real wage growth and a range of demographically targeted social programs ("Family 500+", "13th pension") fed into robust consumption growth until early 2020. With an improving business environment, Poland integrated well into regional value chains (RVCs). Higher levels of private investment, an improved innovation ecosystem, and further upgrading of RVCs are needed to boost productivity and growth.

A key challenge over the short term is to continue supporting the sectors most affected by the pandemic, while ensuring public debt sustainability. The unprecedented policy response to the COVID crisis has narrowed available fiscal space.

Increased spending efficiency is needed to rebuild fiscal buffers for future countercyclical policies and to prepare for the growing fiscal burden arising from aging.

The full economic and social impact of COVID-19 hinges on the success of containment efforts, the vaccination rollout and of the policy measures. The second wave of the pandemic weakened the recovery, forcing a lockdown in multiple sectors, in particular retail, accommodations and services, and further straining the healthcare system. The risk of delays in the vaccination rollout and subsequent pandemic waves could undermine the recovery, with implications for jobs and inclusion.

Over the medium term, a key challenge to sustained growth is a tightening labor supply made more acute by the aging population. Achieving decarbonization commitments is another challenge. Strengthening institutions at both the national and subnational level are necessary ingredients for sustained and inclusive growth and for the narrowing of regional disparities.

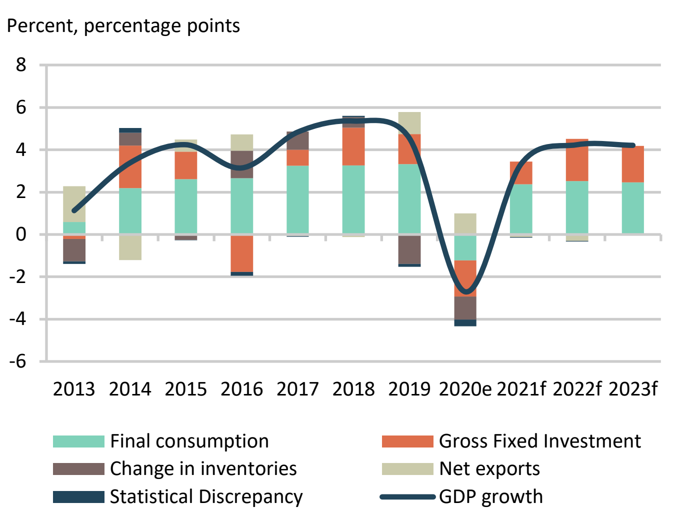
Recent developments

The economy recorded its first contraction since 1991 amid the pandemic, with output contracting 2.7 percent in 2020. The government swiftly implemented exceptional stimulus and accommodative monetary policy to mitigate the health, social impact and prevent economic scarring.

The pandemic, heightened uncertainty, and negative confidence effects dampened private consumption (-3.1 percent) and total investment, (-8.4 percent). Government spending to cushion pandemic impacts and a higher public wage bill contributed to the 3.2 percent increase in public consumption, while public investment remained stable.

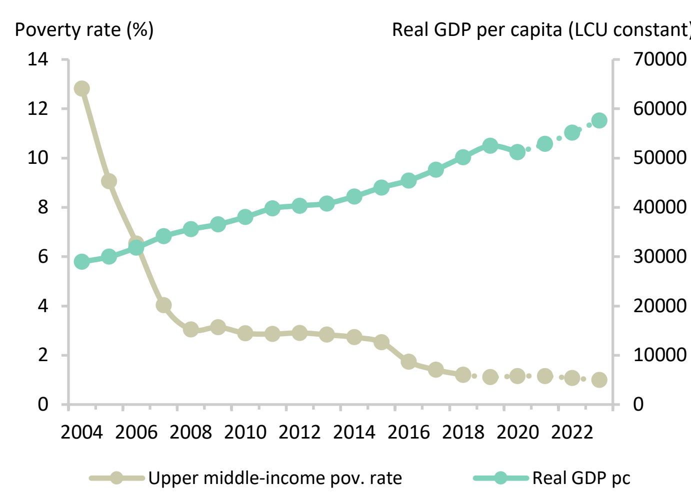
Disruptions to international trade and transport and lower demand from key EU partners caused a 0.5 percent decline in

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 GDP per capita



Source: World Bank. Notes: see table 2.

exports. Lower domestic expenditure caused imports to decline 2.6 percent, with net exports contributing 1 percentage point to growth in 2020.

Although disruptions to RVCs and lockdown measures affected industrial activity (-9.4 percent in Q2), the Q3 rebound in domestic activity and exports limited the decline to 1.0 percent in 2020. Accommodation and catering collapsed by 45.5 percent, raising the risk of economic scarring. Most sectors contracted at a moderate pace, while real estate activities and ICT expanded.

Household income and employment impacts of the pandemic were mitigated through multiple additional support measures as well as by demographically targeted transfers that acted as an income base for population segments. Rapid assessments show that household income declines were more widespread and pronounced in the first pandemic wave. Work stoppages have however had a more pronounced impact on lower-wage workers and those in non-standard contract types, who are also less likely to be covered by protective leave policies.

The current account surplus rose to 3.5 percent of GDP, as imports dropped by USD 11.6 billion, while primary income outflows declined by USD 6.6 billion.

The stimulus packages appear to have been effective in preventing a sharper increase in unemployment and earnings losses by subsidizing salaries and supporting domestic enterprises via non-returnable transfers, loans, tax reliefs and deferrals among others. The unemployment rate increase was contained to 1 pp. year-on-year by January 2021, rising to 6.5 percent.

The large fiscal stimulus and the decline in economic activity caused the fiscal deficit to widen to an estimated 8.5 percent of GDP in 2020.

Inflation reached 3.4 percent in 2020, primarily on account of lower international fuel prices and food prices. Meanwhile, higher electricity tariffs and a record low reference interest rate prevented a sharper decline in inflation.

The financial sector's asset quality and capital adequacy remain at satisfactory levels.

Outlook

Trade recovery in the euro area, combined with improved confidence and a rebound in private consumption and investment is expected to support a moderate recovery of around 3.3 percent in 2021, bringing output above pre-crisis levels. The outlook incorporates the uncertainty arising from the new strains of the COVID-19 virus and the current pace of vaccination campaigns throughout Europe. Exceptional policy accommodation in Poland and in the EU more broadly is expected to continue throughout 2021, including near-zero policy interest rates. This baseline assumes that the pandemic is contained, with a vaccine effectively rolled out in 2021.

The persistence of the crisis is expected to put a continued financial strain on poor working households that are more vulnerable to reductions in hours worked and job loss. Therefore, the share of the population at risk of poverty is expected to remain elevated through 2021 before gradually recovering in 2022.

Pent-up domestic demand, especially for capital and durable goods, and stronger demand for Poland's exports from key EU trading partners will support a recovery in the industrial sector and exports. Recovery in imports and increased primary income outflows are expected to contribute to a narrowing in the current account surplus. Poland could receive nearly Euro 28 billion in grants and guarantees under the "Next Generation EU" recovery package to fund its national recovery program, providing support for a green and digital transition.

The fiscal deficit is expected to narrow starting in 2021, as the economy recovers and as support measures are targeted to the most affected sectors and vulnerable groups.

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

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	5.4	4.5	-2.7	3.3	4.2	4.2
Private Consumption	4.5	3.9	-3.1	3.1	3.4	3.3
Government Consumption	3.5	6.2	3.2	3.2	3.3	3.3
Gross Fixed Capital Investment	9.4	7.2	-8.4	5.6	10.2	8.4
Exports, Goods and Services	6.9	5.1	-0.5	2.0	5.1	5.5
Imports, Goods and Services	7.4	3.3	-2.6	2.4	6.1	5.8
Real GDP growth, at constant factor prices	5.3	4.5	-2.8	3.5	4.2	4.2
Agriculture	-9.1	0.1	-3.0	5.5	1.0	1.0
Industry	7.0	2.2	-1.0	2.0	2.8	2.9
Services	5.0	5.8	-3.7	4.2	5.0	4.9
Inflation (Consumer Price Index)	1.6	2.3	3.4	2.6	2.5	2.4
Current Account Balance (% of GDP)	-1.3	0.5	3.5	1.4	0.3	-0.6
Net Foreign Direct Investment (% of GDP)	-2.6	-1.6	-0.9	-1.2	-1.1	-1.0
Fiscal Balance (% of GDP)	-0.2	-0.7	-8.5	-5.1	-3.2	-2.9
Debt (% of GDP)	48.8	45.7	58.2	59.5	59.0	58.1
Primary Balance (% of GDP)	1.2	0.7	-7.2	-3.8	-1.6	-1.4
Upper middle-income poverty rate ($5.5 in 2011 PPP)[a,b]	1.2	1.1	1.2	1.2	1.1	1.0

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, 2017-EU-SILC, and 2018-EU-SILC.
Actual data: 2018. Nowcast: 2019-2020. Forecast are from 2021 to 2023.

(b) Projection based off elasticities calibrated on 2007-2017 growth periods and rapid assessment data, allowing for elasticities to vary between periods of contraction, recovery and expansion.