The World Bank in Poland

Country Snapshot

An overview of the World Bank's work in Poland

April 2020

POLAND	2019
Population, million	38.0
GDP, current US$ billion	628.2
GDP per capita, current US$	16,543
Life Expectancy at birth, years	77.9

At a Glance

- Mitigating the social and economic impact of the COVID-19 pandemic remains the main challenge for Poland in the short term.
- The effects of containment measures introduced by the Government will be significant and almost certainly lead to a technical recession.
- Poland's relatively low level of indebtedness and solid macroeconomic and financial fundamentals give it the space to support economic growth amid the ongoing adverse shock.
- The World Bank continues to support Poland's development efforts, concentrating on key remaining challenges in the areas of climate change, environmental protection, health care, and regional convergence.

Country Context

Before the coronavirus outbreak hit the global economy, Poland was among the fastest-growing economies in the European Union (EU). Household consumption, fueled by increases in budgetary expenditures, a tight labor market, and rising wages, continued to grow.

This, together with continuing low interest rates and the execution of European funds–related investments, helped Poland's economic growth prospects.

In the short-term, however, the main challenge is to mitigate the social and economic impact of the COVID-19 pandemic. Although the full impact of the virus remains uncertain, a prolonged outbreak would significantly curb economic activity, strain the health care system, affect supply chains, and depress investor sentiment and consumer demand, ultimately impacting the supply side and leading to a deeper recession.

Under such a downside scenario, the economic and fiscal impact in 2020 would be more severe, with implications for jobs and poverty. On the positive side, Poland has the fiscal and monetary space to mitigate the adverse effects of lower global and domestic demand and shield its financially vulnerable populations, potentially leading to a quicker rebound in 2021 and 2022.

The main medium-term challenge to sustained growth is a tightening labor supply exacerbated by an aging population.

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 helping introduce a number of key policy reforms.

Poland's relationship with the Bank 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 in critical areas, and for the World Bank through a strengthened relationship with a high-income country that can bring development lessons to other countries around the world.

The World Bank Group's new Country Partnership Framework for Poland concentrates the Group's engagement on key remaining development problems, including the health care system, environmental threats, and regional convergence.

Key Engagement

Despite significant efforts to reduce harmful air emissions during and after the economic transition in the 1990s, Poland remains home to many of the most polluted cities in the EU. Tens of thousands of people die prematurely every year because of smog.

The economic costs associated with disease and premature death from exposure to ambient, small particulate matter (PM2.5) could be as high as US$40 billion a year.

Aware of these problems, as well as of the growing pressure from civil society, the Polish Government has begun taking steps to improve air quality. The World Bank has been supporting these efforts and advising Poland in the implementation of financial mechanisms to launch a national program for anti-smog and energy efficiency.

WORLD BANK PORTFOLIO

No. of Projects: 2

Lending: $688 Million

Reimbursable Advisory Services: 2 ($1.47 Million)

Trust Fund-Financed Advisory Services and Analytics: 6 ($3.83 Million)

The already established Clean Air Program will reach the roughly 4.5 million single family buildings that are now primarily responsible for the smog and that need to replace their heating sources and carry out a thermal retrofitting.

After two years of advisory help provided to Poland and upon the request of the Polish Government, the World Bank is now preparing a Program-for-Results operation to further support reforms in that critical area.

In addition to the expected improvement of health outcomes in the society, the Clean Air Program may also become a driving force for the Polish economy, especially as the immediate COVID-19 crisis subsides, due to the sheer magnitude of the huge financial resources needed for its implementation and the associated creation of jobs related to insulating buildings and replacing heating systems.

Recent Economic Developments

Poland's GDP grew by 4.1 percent in 2019, driven primarily by domestic consumption and robust investment. Rising employment, higher wages, generous social transfers through the "Family 500+" and "13th Pension" programs, and favorable financing conditions have supported private consumption.

Notwithstanding the freezing of energy prices for households and micro and small enterprises at mid-2018 levels, inflation accelerated to 4.7 percent year-on-year in February 2020.
Above-potential GDP growth since 2017 helped to narrow the general government deficit, despite higher social transfers.

Due to a pre-election fiscal stimulus, the general government deficit in 2019 is expected to increase to 1.7 percent of GDP, even as tax revenues exceeded expectations. The primary balance surplus, together with fast economic growth, helped to reduce public debt to 47.4 percent of GDP in 2019.

Average household income rose by 4.3 percent in 2018, although the scale of the change was more limited than in 2017. Although income gains were registered for most households, the bottom 10 percent of the income distribution saw their incomes fall.

A decline in incomes was also seen among farmers, whose harvests were affected by a severe drought in 2018. This fed in to higher national poverty rates in 2018 than in 2017.

Economic Outlook

With the global outbreak of COVID-19, growth is expected to decelerate sharply to 0.4 percent in 2020, amid dramatically lower external demand, a temporary border lockdown, and far-reaching containment and avoidance measures, including the closing of many non-essential businesses, educational institutions, and cultural centers and a temporary border lockdown.

Localized outbreaks are expected to be contained by June, with growth recovering to 2.2 and 2.9 percent in 2021 and 2022, respectively.

The Government has announced measures to contain the spread of COVID-19 and proposed an economic package that includes fiscal spending (roughly 3 percent of GDP) and a liquidity component (of approximately 3.3 percent), backed by €7.4 billion in funding from the European Commission and monetary easing started by the central bank.

These efforts are aimed at supporting both the supply and demand sides of the economy by aiding affected companies' liquidity and introducing tax relief and deferrals as well as a partial coverage of salaries in heavily impacted firms to sustain employment.

The general government deficit is expected to widen in 2020. Although social assistance would continue to protect the poorest households, poor working households will be financially vulnerable to a reduction in the number of hours worked and job losses due to COVID-19 and to the potentially deteriorating economic climate.

Project Spotlight

Odra-Vistula Flood Management Project

A newly constructed stretch of flood protection embankments.

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 caused by the mountainous and hilly landscape and by decades of neglect.

In 20 years, thanks to World Bank support, 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.

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 have been signed and are currently under implementation.

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The "Country Snapshot" is a bi-annual update, highlighting the country's recent developments, economic outlook and major overview of the World Bank's partnership with the country. You can find the latest updates at http://www.worldbank.org/poland