# POLAND

| Table 1 | 2021 |
|---|---|
| Population, million | 37.9 |
| GDP, current US$ billion | 658.1 |
| GDP per capita, current US$ | 17365.9 |
| International poverty rate ($1.9)[a] | 0.4 |
| Lower middle-income poverty rate ($3.2)[a] | 0.5 |
| Upper middle-income poverty rate ($5.5)[a] | 1.2 |
| Gini index[a] | 30.3 |
| School enrollment, primary (% gross)[b] | 97.2 |
| Life expectancy at birth, years[b] | 77.9 |
| Total GHG Emissions (mtCO2e) | 321.7 |

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2018), 2011 PPPs.
b/ Most recent WDI value (2019).

*The Polish economy rebounded from the COVID-19 recession, expanding at its fastest pace since 2007. Easing of COVID-related restrictions, robust investment, and favorable labor market conditions supported the recovery. Inflation has accelerated markedly, fueled by sharp increases in commodity prices and supply chain disruptions, feeding into rising poverty. The war in Ukraine is impacting the economy, through commodity prices and trade channels, confidence effects, and the large influx of displaced Ukrainians.*

## Key conditions and challenges

The well-diversified Polish economy has proven to be one of the most resilient in the EU, with employment growth in 2020 despite a relatively small contraction in GDP of 2.5 percent, the first output contraction since 1991.

A sound macroeconomic framework, effective absorption of EU investment funds, a sound financial sector, better access to long-term credit and access to European labor markets have supported long-term inclusive growth and poverty reduction. Strong domestic labor markets and increases in median and bottom 40 real incomes have supported private consumption. With an improving business environment, Poland integrated well into regional value chains (RVCs). Higher private investment, an improved innovation ecosystem, and further upgrading of RVCs are needed to boost productivity and growth.

The full economic and social impact of COVID-19 remains uncertain as new variants emerge amidst a vaccination rate of 66 percent of the adult population.

The unprecedented policy response to mitigate the impacts of the COVID crisis and inflationary pressures has narrowed available fiscal space.

Increased spending and tax expenditure efficiency is needed to rebuild fiscal buffers, accommodate higher spending on health, the green transition, and to prepare for the growing fiscal burden arising from aging.

Over the medium term, a key challenge is a tightening labor supply made more acute by the aging population. The recent large influx of displaced people from Ukraine could help address the labor market tightness. Achieving decarbonization commitments is another challenge. Institutional strengthening is needed for sustained and inclusive growth and for narrowing regional disparities.

## Recent developments

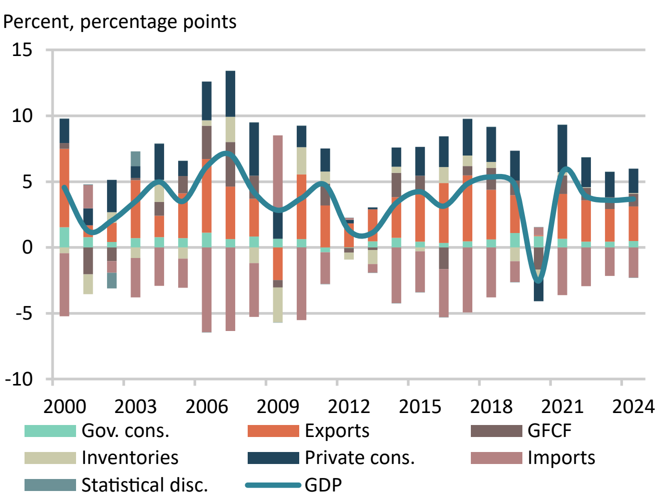
The economy rebounded strongly from the COVID-19-related recession, with output expanding by 5.7 percent in 2021. Poorer workers, who saw sharper income impacts during the early stages of the pandemic that fed into rising inequality, saw a rebound in incomes. Even as the ample fiscal stimulus provided in the wake of the crisis tapered off in 2021, domestic demand expanded by 8.2 percent, on account of robust household consumption, a recovery in investment, and rebuilding of inventories.

A strong labor market supported wage growth, while high-capacity utilization and strong corporate balance sheets supported investments.

Pent-up demand and continued income growth fueled a 6.2 percent expansion in household consumption, translating into double-digit import growth. Robust export demand from the EU supported the recovery in the industrial sector and exports, however the contribution of net exports to growth was negative.

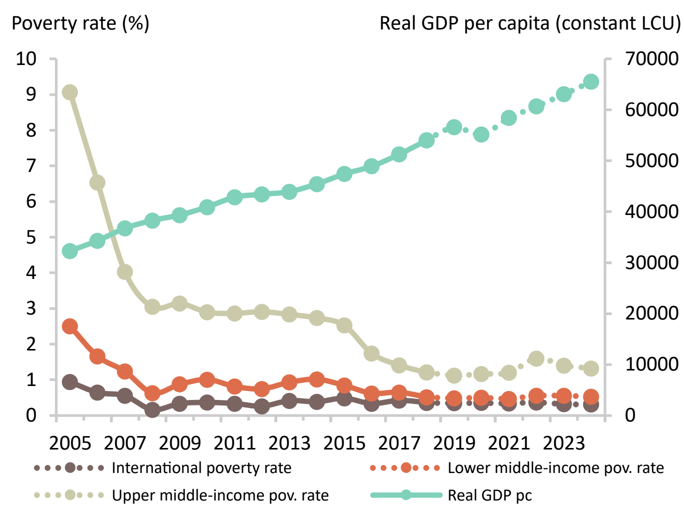
Inflation has accelerated markedly since mid-2021, to 8.5 percent in February 2022,

**FIGURE 1 Poland** / Real GDP growth and contributions to real GDP growth




Sources: GUS, World Bank staff calculations.

**FIGURE 2 Poland** / Actual and projected poverty rates and real GDP per capita




Source: World Bank. Note: see Table 2.

well above the upper bound of the targeted range. Strong increases in energy and agricultural commodities, as well as continued disruptions in supply chains fueled inflation. A fiscal package aimed at limiting inflation (Anti-inflation Shield) and consisting of temporary cuts to VAT rates on electricity, heat energy, natural gas and basic food products, abolition of excise tax on electricity sold to households, lowering of excise tax on motor fuels, and compensation for natural gas distributors, is expected to shave off 2.1 percentage points from CPI in 2022 compared to a business-as-usual scenario.

High inflation triggered a faster than expected normalization in the monetary policy stance, with the central bank raising its reference rate by 300 basis points since October 2021.

Since the start of the war in Ukraine, more than 2.3 million displaced Ukrainians arrived in Poland. The government has reacted rapidly, granting displaced populations the right of temporary residence and access to key public services (health, education), social assistance, and housing.

The current account recorded a 0.4 percent deficit in 2021, as exports of passenger vehicles were affected while high global intermediate goods prices fueled imports.

The unwinding of the large 2020 fiscal stimulus and the strong increase in tax revenues resulted in an improvement in the general government deficit to 3.5 percent of GDP in 2021 from 7.1 percent of GDP in 2020.

The financial sector is well capitalized and has limited direct exposure to Russia, Ukraine, or Belarus.

## Outlook

Economic growth is expected to decelerate to 3.9 percent in 2022, as high inflation, monetary policy tightening, negative confidence effects related to the war in Ukraine, and slowing demand in key trading partners weigh on growth.

The spillover from the war in Ukraine is expected to be significant, with key transmission channels including forced displacement, commodity prices, trade, and confidence effects. While direct economic linkages outside the energy sector are limited, higher energy and food prices, increased uncertainty, and disruptions to supplies to the auto industry will weigh on growth.

A large infrastructure and local public investment program, including through the National Recovery and Resilience Plan (NRRP), higher spending on health, and a boost to consumption related to the large influx of displaced people are expected to support growth. To fund its NRRP Poland requested €23.9 billion in grants and €12.1 billion of preferential loans under the "Next Generation EU", which is expected to be approved in March.

Rising food and electricity prices are expected to weigh heavily on poorer segments, who devote 50 percent of their monthly spending on food and energy. Minimum wage growth of 7.5 percent in 2022 is expected to be outstripped by inflationary pressures, leading to a decline in the real minimum wage in 2022. While measures under the Anti-inflation Shield will soften the household impacts, the share of the population at risk of poverty is expected to remain elevated through 2022 and 2023.

Higher import prices, and higher primary income outflows are expected to result in a deterioration in the current account deficit to 2.5 percent of GDP in 2022, with a moderate improvement over 2023-2024 as terms of trade improve.

The fiscal deficit is expected to remain above the medium-term budgetary objective, as a result of the structural tax reform (Polish Deal) and the temporary impact of the Anti-inflation Shield. The fiscal cost of these packages is estimated at 0.7 percent and 1.1 percent of GDP, respectively in 2022. Furthermore, there will be additional public spending to manage the large influx of displaced people from Ukraine.

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

| | 2019 | 2020 | 2021e | 2022f | 2023f | 2024f |
|---|---|---|---|---|---|---|
| **Real GDP growth, at constant market prices** | 4.7 | -2.5 | 5.7 | 3.9 | 3.6 | 3.7 |
| Private Consumption | 3.9 | -2.9 | 6.2 | 3.9 | 3.3 | 3.2 |
| Government Consumption | 6.5 | 4.9 | 3.6 | 2.4 | 2.5 | 2.7 |
| Gross Fixed Capital Investment | 6.1 | -9.0 | 8.0 | 5.3 | 5.1 | 5.4 |
| Exports, Goods and Services | 5.2 | 0.1 | 6.0 | 5.5 | 4.2 | 4.5 |
| Imports, Goods and Services | 3.0 | -1.2 | 7.0 | 5.6 | 4.0 | 4.3 |
| **Real GDP growth, at constant factor prices** | 4.6 | -2.6 | 5.7 | 3.9 | 3.6 | 3.7 |
| Agriculture | -0.8 | 13.8 | 1.3 | 2.0 | 1.0 | 1.0 |
| Industry | 2.2 | -5.2 | 7.0 | 4.6 | 3.3 | 3.3 |
| Services | 6.0 | -1.8 | 5.3 | 3.6 | 3.8 | 3.9 |
| **Inflation (Consumer Price Index)** | 2.3 | 3.4 | 5.1 | 9.6 | 7.5 | 4.0 |
| **Current Account Balance (% of GDP)** | 0.5 | 2.9 | -0.4 | -2.5 | -1.6 | -1.3 |
| **Net Foreign Direct Investment (% of GDP)** | -2.0 | -2.1 | -1.2 | -1.1 | -0.9 | -0.9 |
| **Fiscal Balance (% of GDP)** | -0.7 | -7.1 | -3.5 | -3.5 | -3.6 | -2.9 |
| **Debt (% of GDP)** | 45.6 | 57.4 | 57.0 | 54.5 | 51.9 | 49.5 |
| **Primary Balance (% of GDP)** | 0.6 | -5.8 | -2.5 | -2.0 | -2.3 | -1.8 |
| **International poverty rate ($1.9 in 2011 PPP)**[a,b] | 0.3 | 0.4 | 0.3 | 0.4 | 0.3 | 0.3 |
| **Lower middle-income poverty rate ($3.2 in 2011 PPP)**[a,b] | 0.5 | 0.5 | 0.5 | 0.6 | 0.6 | 0.5 |
| **Upper middle-income poverty rate ($5.5 in 2011 PPP)**[a,b] | 1.1 | 1.2 | 1.2 | 1.6 | 1.4 | 1.3 |
| **GHG emissions growth (mtCO2e)** | -5.4 | -6.0 | 1.4 | -0.2 | -0.5 | -0.6 |
| **Energy related GHG emissions (% of total)** | 87.4 | 87.7 | 87.3 | 87.0 | 86.9 | 86.9 |

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
a/ Calculations based on ECAPOV harmonization, using 2007-EU-SILC and 2018-EU-SILC. Actual data: 2018. Nowcast: 2019-2021. Forecasts are from 2022 to 2024.
b/ Projection from 2019 to 2021 using point-to-point elasticity (2007-2018) with pass-through = 1 based on GDP per capita in constant LCU. Projection from 2022 based on estimates incorporating differential income growth among poorer households.