# POLAND

| Table 1 | 2022 |
|---|---|
| Population, million | 38.4 |
| GDP, current US$ billion | 690.2 |
| GDP per capita, current US$ | 17959.9 |
| Upper middle-income poverty rate ($6.85)[a] | 0.9 |
| Gini index[a] | 28.9 |
| School enrollment, primary (% gross)[b] | 84.1 |
| Life expectancy at birth, years[b] | 75.6 |
| Total GHG emissions (mtCO2e) | 333.6 |

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2019), 2017 PPPs.
b/ WDI for School enrollment (2020); Life expectancy (2021).

*After a robust 5.1 percent growth in 2022, Poland's GDP growth decelerated sharply in the first half of 2023 as high inflation, tighter financing conditions, and an unwinding inventory cycle weighed on growth. Private consumption declined due to declines in real wages, loss of purchasing power, and weak consumer sentiment. The large number of displaced Ukrainians joining the labor market relieved some of the pressures in the tight labor market. The share of the population at risk of poverty is expected to remain elevated through 2024.*

## Key conditions and challenges

The well-diversified Polish economy has recovered robustly after the COVID crisis recession in 2020 (-2 percent) -- one of the shallowest recessions in the region.

Long-term inclusive growth and poverty reduction were supported by a sound macroeconomic framework, effective absorption of EU investment funds, a sound financial sector, access to long-term credit and to the European market. Strong domestic labor markets and higher median and bottom 40 real incomes have supported private consumption. The improved business environment and the accession to the EU fostered the integration into regional value chains (RVCs) and economic diversification. Higher private investment, an improved innovation ecosystem, and further upgrading of RVCs are needed to boost productivity and growth.

The policy response to mitigate the impacts of the COVID crisis and high inflation have narrowed the available policy space. Increased efficiency of spending and tax expenditure is needed to rebuild fiscal buffers, accommodate higher spending on health, defense, the green transition, and to prepare for fiscal pressures linked to the rapidly aging population.

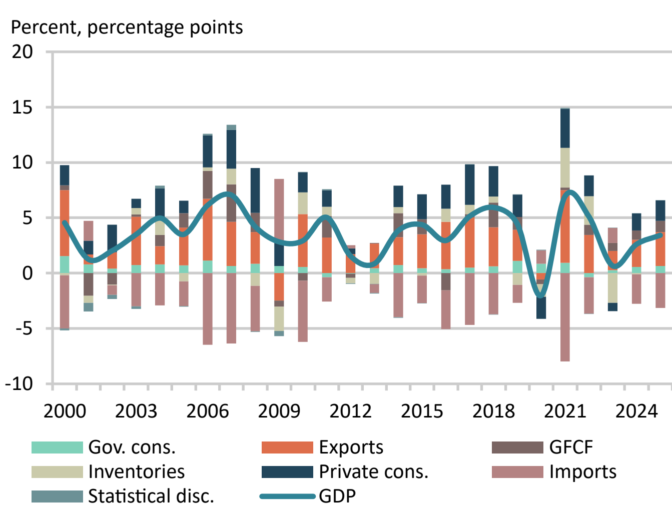
Over the medium term, a key challenge stems from expected declines in labor supply due to the declining and rapidly aging population. The large influx of displaced Ukrainians, estimated at nearly 1 million, temporarily eased some of the labor market tightness and boosted private consumption. Meeting decarbonization commitments is another challenge. Institutional strengthening is also needed for sustained and inclusive growth and for narrowing regional disparities.

## Recent developments

Economic growth has decelerated markedly in the first half of 2023, from a robust 5.1 percent growth recorded in 2022, with a particular drag coming from household consumption which contracted in response to high inflation, tighter financing conditions, the unwinding of household support measures, and weak consumer sentiment. This is despite a robust labor market, with low unemployment rates, higher employment, and double-digit increases in average and minimum wages. The unwinding of the sizeable buildup in inventory is now representing a significant drag on growth. Strong financial performance of firms has bolstered investment activity, particularly for medium-sized and large companies in the energy, mining, and water sectors. Export growth remained robust, while weak domestic demand reduced import demand.

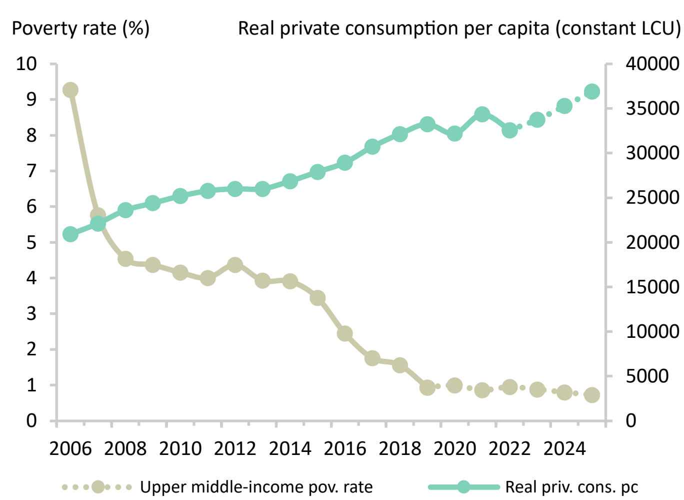
Inflation decelerated markedly from 18.4 percent in February 2023, to 10.1 percent by August, as global commodity prices, including energy prices, declined, the zloty appreciated, and supply disruptions eased. The zero VAT rate on staple food products and statutory price caps

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




Sources: GUS and World Bank staff calculations.

**FIGURE 2 Poland** / Actual and projected poverty rate and real private consumption per capita




Source: World Bank. Notes: see Table 2.

on fuels sold by local governments maintain prices lower.

The National Bank of Poland started its monetary easing cycle with a surprise 75 basis points cut in September, after an early and aggressive monetary tightening since October 2021 (665 basis points), even as inflation remains well above the targeted range. Markets price in additional rate cuts as inflation pressure eases. The zloty appreciated by 10 percent in 2023, before easing in response to the rate cuts. The banking sector remains well capitalized, although profitability of the banking sector has declined recently.

The terms of trade shock and robust domestic demand widened the current account deficit to 3 percent of GDP in 2022. Stronger exports and subdued imports resulted in a marked improvement in 2023.

Measures to protect households and firms from the energy and food price shock, predominantly untargeted, cost 2.4 percent of GDP in 2022, contributing to the widening of the fiscal deficit to 3.7 percent of GDP, as did higher debt service costs and assistance to displaced Ukrainians (a cumulative 1 percent of GDP), and resolving the Getin Noble Bank S.A. (0.3 percent of GDP). The tax system reform, which enhanced progressivity, contributed to the 0.9 percentage point decline in PIT revenue.

Extreme poverty rates using the national concept continue to remain elevated in 2022 compared to the pre-COVID-19 pandemic period, reflecting the deterioration of purchasing power among households whose consumption baskets are heavily tilted towards necessities; the Gini coefficient of inequality continued the upward trajectory visible since 2017.

## Outlook

Economic growth is projected to decelerate markedly to 0.7 percent in 2023 due to high inflation, negative real income growth, tighter financing conditions, continued negative confidence effects related to the Russian invasion of Ukraine, and an unwinding of the large inventory cycle. A recovery in private consumption and stronger investment activity are expected to support growth over the medium term, although further delays in EU NRRP disbursements represent a downside risk.

Slowing demand from the EU will be partially compensated by stronger exports to Ukraine. This, together with weaker import demand and lower energy import prices, is expected to result in a current account surplus of 1.3 percent of GDP in 2023.

The general government deficit is expected to exceed 4.7 percent of GDP in 2023, on account of the impact of the structural tax reform (Polish Deal, 1.1 percent of GDP), the freeze on electricity and gas prices and the zero-VAT on food (2 percent of GDP), election-related spending, and assistance to displaced Ukrainians (0.2 percent of GDP). Defense spending is expected to rise by 0.8 percent of GDP this year. The general government deficit is expected to remain elevated in 2024.

A prolonged inflationary period poses a risk to progress on poverty reduction, with elevated energy and food prices affecting heavily poorer segments, who spend 50 percent of their monthly budgets on food and energy. The share of the population at risk of anchored poverty is expected to remain 1-2 percent above 2019 levels.

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

| | 2020 | 2021 | 2022 | 2023e | 2024f | 2025f |
|---|---|---|---|---|---|---|
| **Real GDP growth, at constant market prices** | -2.0 | 6.9 | 5.1 | 0.7 | 2.6 | 3.4 |
| Private consumption | -3.4 | 6.1 | 3.3 | -1.3 | 2.8 | 3.3 |
| Government consumption | 4.9 | 5.0 | -2.0 | 1.5 | 3.2 | 3.7 |
| Gross fixed capital investment | -2.3 | 1.2 | 5.0 | 4.0 | 4.5 | 5.4 |
| Exports, goods and services | -1.1 | 12.3 | 6.2 | 3.1 | 4.3 | 5.2 |
| Imports, goods and services | -2.4 | 16.1 | 6.2 | -2.5 | 5.1 | 5.9 |
| **Real GDP growth, at constant factor prices** | -2.0 | 6.6 | 5.0 | 0.8 | 2.6 | 3.5 |
| Agriculture | 15.3 | -11.5 | -1.7 | 5.2 | 0.2 | 0.1 |
| Industry | -4.5 | 1.9 | 6.7 | 0.5 | 3.0 | 3.1 |
| Services | -1.4 | 9.7 | 4.5 | 0.9 | 2.5 | 3.7 |
| **Inflation (consumer price index)** | 3.4 | 5.1 | 14.4 | 12.0 | 6.1 | 3.5 |
| **Current account balance (% of GDP)** | 2.5 | -1.4 | -3.0 | 1.3 | 0.9 | 0.4 |
| **Net foreign direct investment inflow (% of GDP)** | 2.4 | 4.1 | 4.0 | 2.3 | 2.3 | 2.3 |
| **Fiscal balance (% of GDP)** | -6.9 | -1.8 | -3.7 | -4.7 | -4.3 | -3.4 |
| **Revenues (% of GDP)** | 41.3 | 42.3 | 39.8 | 38.0 | 38.2 | 38.6 |
| **Debt (% of GDP)** | 57.2 | 53.6 | 49.1 | 49.4 | 50.9 | 52.4 |
| **Primary balance (% of GDP)** | -5.6 | -0.7 | -2.2 | -2.5 | -1.9 | -1.7 |
| **Upper middle-income poverty rate ($6.85 in 2017 PPP)**[a,b] | 1.0 | 0.9 | 0.9 | 0.9 | 0.8 | 0.7 |
| **GHG emissions growth (mtCO2e)** | -3.5 | 3.4 | 4.4 | -0.2 | 0.9 | 1.3 |
| **Energy related GHG emissions (% of total)** | 91.9 | 91.9 | 91.8 | 91.9 | 91.9 | 92.0 |

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on ECAPOV harmonization, using 2013-EU-SILC and 2020-EU-SILC. Actual data: 2019. Nowcast: 2020-2022. Forecasts are from 2023 to 2025.
b/ Projection using point-to-point elasticity (2012-2019) with pass-through = 0.7 based on private consumption per capita in constant LCU.