POLAND

Table 1	2023
Population, million	39.1
GDP, current US$ billion	808.6
GDP per capita, current US$	20681.2
Upper middle-income poverty rate ($6.85)[a]	1.0
Gini index[a]	28.6
School enrollment, primary (% gross)[b]	95.8
Life expectancy at birth, years[b]	75.6
Total GHG emissions (mtCO2e)	318.9

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2021), 2017 PPPs.
b/ Most recent WDI value (2021).

Poland's GDP growth decelerated sharply in 2023 as high inflation, tighter financing conditions, and an unwinding inventory cycle weighed on growth. The outlook is positive with a newly elected pro-EU government that has unlocked EU funds, should boost investors' confidence, and address structural challenges, notably Poland's needed green transition.

Key conditions and challenges

The Polish economy has weathered global and regional external shocks thanks to a well-diversified economic structure, integration into regional value chains, a commitment to macroeconomic stability, a sound financial sector, and domestic labor markets that have supported significant wage growth and private consumption, feeding into long-term poverty reduction and median income growth. The crises have yet weakened the fiscal stance, and the energy crisis resulting from the invasion of Ukraine has led to a sharp increase in inflation which reduced purchasing power of households and has started to weigh down on growth.

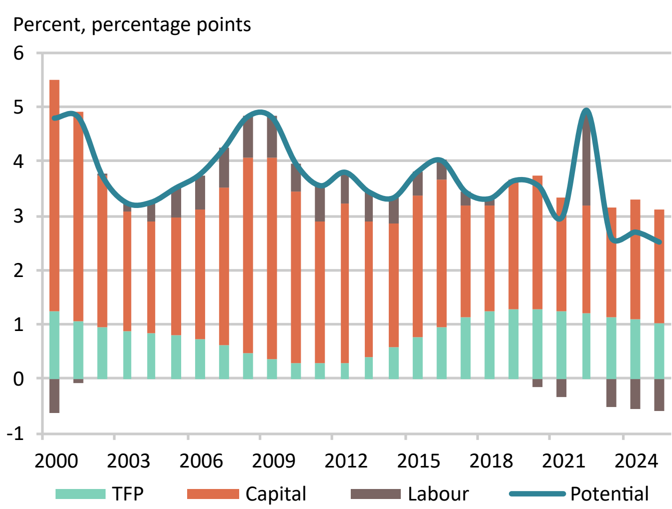
A pro-EU administration took office in December 2023 marking the first political transition in 8 years. It faces steep challenges, notably that of improving the quality of institutions, particularly the rule of law. The Polish economic model is also at a crossroads: it requires boosting productivity through stimulating innovation, decarbonizing the energy sector, tackling rising inequality, and reskilling and upgrading of the labor force in a context of a rapidly aging population. Greater efficiency in public spending and tax expenditures is needed to rebuild fiscal buffers and accommodate spending on health, defense, and renewable energy.

Medium-term economic prospects hinge on achieving the technological and green transitions, advancing inclusion, and addressing labor shortages despite nearly 1 million refugees from Ukraine easing some pressure. The technological transformation and ambitious EU decarbonization objectives, where Poland is lagging other EU Member States (MS), require investment and planning, including ensuring a just transition that contains growing regional disparities, with political uncertainty potentially affecting investments until the end of the electoral cycle in May 2025.

Recent developments

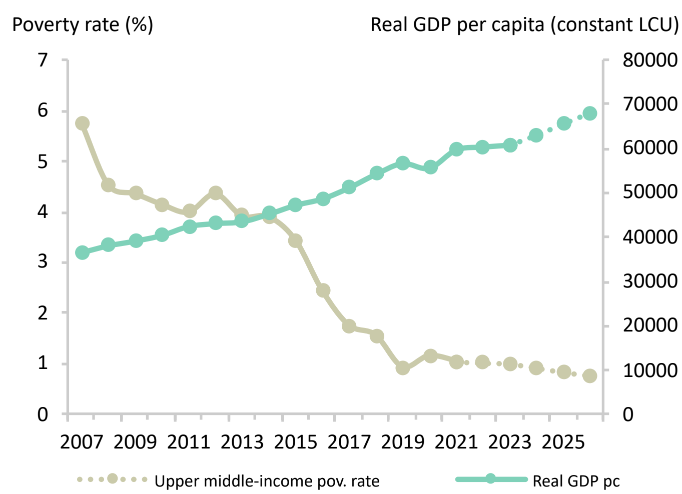
After a robust 5.3 percent real GDP growth in 2022, economic expansion decelerated markedly in 2023, to 0.2 percent. Private consumption was the main drag contracting due to high inflation, tighter financing conditions, and the unwinding of household support measures. This is despite a robust labor market and double-digit increases in average and minimum wages. External demand contracted as major trade partners' economic situations worsened. Exports significantly slowed in H2 2023. To the upside, firms' strong financial performance and the electoral cycle bolstered private and public investments. Inflation peaked at 18.4 percent year-on-year (y/y) in February 2023, then slowed down, reaching 3.9 percent y/y in January 2024, due to falling global commodity prices, a stronger zloty, and fewer supply disruptions. Measures like the extension of the zero VAT on essentials and

FIGURE 1 Poland / Potential output growth, and contributions to potential output growth



Sources: GUS and World Bank staff calculations.

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



Source: World Bank. Notes: see Table 2.

fuel price caps until H1 2024 kept prices lower. The National Bank of Poland started its monetary easing cycle with a 75 basis points (bps) cut in September 2023, ending an early monetary tightening cycle started in October 2021 (665 bps). The zloty 10 percent's real appreciation in 2023 mirrored positive government-related risk perceptions.

The banking sector remains well capitalized and higher interest rates allowed for further improvement in capital adequacy. Continuous strengthening will be granted to finance growing investment needs, in the context of an accelerated green transition. The terms of trade shock that led to a current account deficit in 2022 reversed, returning the CAB to surplus in 2023. Untargeted measures to protect households and firms from the energy and food price shocks contributed to the widening of the fiscal deficit to 5.6 percent of GDP, as did higher debt service costs and the time-lagged impact of the PIT reform.

Mid-2023 saw a resumption of real wage growth due to slowing inflation and increases in nominal and real wages, ending a prolonged period of real wage declines. Extreme poverty rates (national concept) remained slightly above those in 2017, due to lingering impacts of pandemic labor disruptions among vulnerable workers, reductions in the coverage of targeted minimum-income programs and in the real value of the Family 500 program, and declining purchasing power amid inflation. The Gini coefficient of inequality continued the upward trajectory visible since 2017.

Outlook

Economic growth is set to accelerate to 3 percent in 2024 and 3.4 percent in 2025, fueled by increased private consumption, as declining inflation and ongoing wage growth persist due to a tight labor market and a staged increase of the minimum wage in 2024. Boosts in the universal family transfers from 500 to 800 PLN per month, the expansion of the 14th month pension, along with investment driven by structural reforms and unlocked EU funds, will support growth, especially in 2025. Net exports' contribution to growth should turn negative in 2024 as domestic demand fuels imports while EU exports remain weak.

Inflationary pressures are expected during H2 2024 primarily due to the reinstatement of VAT on basic foodstuffs and the phasing out of energy price caps. On an annual average, it should stabilize at around 5 percent and move closer to the NBP target of 2.5 percent (+/- 1 percent band) in the medium term.

Revenue shortfalls (from the tax reforms and exemptions), increased defense and election-related spending, are expected to keep the general government deficit at 5 percent of GDP in 2024. Expenditure pressures will remain high, suggesting a slow pace of fiscal consolidation. Public debt is sustainable and should remain below 60 percent of GDP in the forecast period, but the off-budget debt contracted in recent years increases fiscal risks. Poland issued its largest Eurobond to date in January 2024 at favorable terms (115 bps above mid-swaps for the 10-year and at 160 bps for the 20-year).

In 2024, poverty reduction is expected to resume due to expanded untargeted social programs, a strong labor market, and higher minimum wages, feeding into higher living standards for families, retirees, and working poor households. However, socially vulnerable households remain at risk due to long-term reductions in the coverage and adequacy of minimum income programs.

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

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	6.9	5.3	0.2	3.0	3.4	3.2
Private consumption	6.1	5.3	-1.0	3.6	3.5	3.2
Government consumption	5.0	0.3	2.9	2.6	3.0	2.1
Gross fixed capital investment	1.2	4.9	8.4	1.4	6.3	5.5
Exports, goods and services	12.3	6.7	-1.9	0.5	4.0	3.5
Imports, goods and services	16.1	6.8	-8.3	1.7	5.1	4.0
Real GDP growth, at constant factor prices	6.6	5.5	1.1	3.0	3.4	3.2
Agriculture	-11.5	1.1	2.2	0.2	0.1	0.1
Industry	1.9	7.0	-1.0	3.0	3.1	3.1
Services	9.7	5.0	2.1	3.1	3.7	3.3
Inflation (consumer price index)	5.1	14.4	11.4	5.4	4.3	3.6
Current account balance (% of GDP)	-1.2	-2.4	1.6	0.1	-0.4	-0.8
Net foreign direct investment inflow (% of GDP)	3.8	3.7	2.3	2.5	2.5	2.5
Fiscal balance (% of GDP)	-1.8	-3.8	-5.6	-5.0	-4.4	-3.8
Revenues (% of GDP)	42.3	39.9	40.1	40.2	40.3	40.5
Debt (% of GDP)	53.6	49.3	51.4	53.0	53.9	55.6
Primary balance (% of GDP)	-0.7	-2.2	-3.3	-2.6	-2.6	-2.2
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	1.0	1.0	1.0	0.9	0.8	0.8
GHG emissions growth (mtCO2e)	3.6	-3.9	-0.2	0.8	1.2	1.2
Energy related GHG emissions (% of total)	86.8	85.9	86.0	86.1	86.3	86.4

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 2019-EU-SILC and 2022-EU-SILC. Actual data: 2021. Nowcast: 2022-2023. Forecasts are from 2024 to 2026.
b/ Projection using point-to-point elasticity (2018-2021) with pass-through = 0.7 based on GDP per capita in constant LCU.