POLAND

Table 1	2023
Population, million	37.6
GDP, current US\$ billion	806.5
GDP per capita, current US\$	21428.0
Upper middle-income poverty rate (\$6.85) ^a	0.9
Gini index ^a	28.5
School enrollment, primary (% gross) ^b	100.1
Life expectancy at birth, years ^b	77.3
Total GHG emissions (mtCO2e)	324.1
Source: WDI, Macro Poverty Outlook, and officia	l data.

a/ Most recent value (2021), 2017 PPPs. b/ Most recent WDI value (2022).

Poland's real 2024 GDP growth is forecasted to exceed expectations due to a stronger rebound in private and public consumption on the back of slowing inflation and high wage growth. The positive medium-term outlook depends on the new government intensifying, in 2025, reforms and investments that address structural challenges, particularly accelerating the green transition in line with the European Green Deal and adapting the labor force to technological advancements. A rise in national extreme poverty rates in 2023, expected to continue in 2024, underlines the need to strengthen the social protection system.

Key conditions and challenges

The Polish economy has weathered global and regional shocks, underpinned by a diverse economic structure, integration with regional supply chains, a commitment to macroeconomic stability, a robust financial sector, and tight labor markets that have led to notable wage increases and consumer spending. The shocks however have weakened the fiscal stance, while the energy crisis led to a sharp increase in inflation which reduced purchasing power, weighed down on growth, and increased poverty in 2023.

The new administration that took office in December 2023 marked the first political transition in 8 years. It has since unlocked frozen European Union (EU) funds and shifted course on key agendas, such as upholding the rule of law, strengthening fiscal institutions, and steering the green transition towards the EU commitment. Poland's economic strategy is at a critical turning point: it requires boosting productivity through innovation, rapidly decarbonizing the energy sector to retain economic competitiveness, and re- and upskilling the labor force in the backdrop of a rapidly aging population. Restoring fiscal buffers while supporting investments in healthcare, defense, and renewable energy will require balancing efficient spending and tax policy reforms. Promoting the efficiency of spending on social benefits and promoting adaptive social protection remains a priority for advancing inclusion.

Medium-term economic prospects hinge on reaping the benefits of technological and green transitions, advancing social mobility and inclusion, and addressing labor shortages. Meeting the technological transformation and EU decarbonization objectives requires investment and planning, including ensuring a just transition that supports vulnerable groups while containing regional disparities.

Recent developments

After a sharp deceleration in 2023 (at 0.2 percent) marked by lower private consumption amidst high inflation and the unwinding of household crisis support measures, real GDP growth has accelerated in 2024. Growth surprised on the upside in Q2 (3.2 percent year-on-year (y/y)) thanks to government and private consumption picking up. A tight labor market, staggered increase in the minimum and public wages have resulted in one of the largest increases in average real monthly wage (11.5 percent y/y in Q2).

Inflation markedly slowed down reaching 2 percent y/y in March 2024—down from its peak of 18.4 percent y/y in February 2023 -, due to falling global commodity prices, a stronger zloty, and fewer supply disruptions. The zloty remains strong, thanks to improved risk perceptions and an increasing interest rate disparity vis-à-vis the Euro. Inflationary pressures are expected to pick up in H2 2024, however, primarily

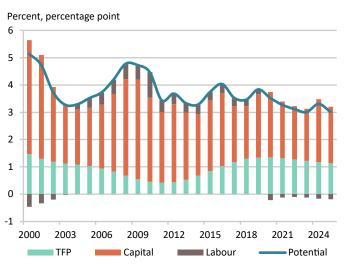
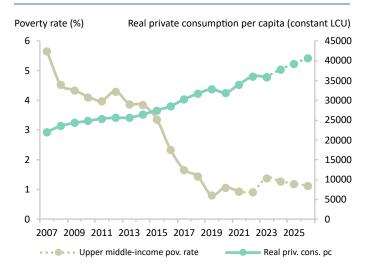


FIGURE 1 Poland / Potential output growth and contributions to potential output growth

Sources: GUS and World Bank staff calculations.

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



Source: World Bank. Notes: see Table 2.

due to the phasing out of energy price caps. This has prevented the National Bank of Poland from continuing its monetary easing cycle, which started in September 2023 (75 bps cut). Headline inflation rose again in August 2024 (4.3 percent y/y). The banking sector remains well capitalized and higher interest rates allowed for further improvement in capital adequacy. Continuous strengthening is required to finance growing investment needs, in the context of an accelerated green transition. The fiscal deficit widened in 2023, reaching 5.1 percent of GDP, on the back of high debt service costs (2.1 percent of GDP), increased defense spending (around 4 percent of GDP), untargeted measures to protect households from the energy and food price shocks, and the time-lagged impact of the significant personal income tax reform in 2022. It is expected to remain at the same level in 2024.

Poverty rose in 2023 using Poland's extreme and relative concepts, as nominal wage growth was outpaced by price increases and the real value of several benefits declined due to a lack of indexation in transfers or thresholds and smallholder farmers suffering from lower prices. The rise in relative poverty—from 11.7 to 12.2 percent between 2022-23—was muted by real growth in pensions. These compensatory increases however do not extend to the poorest 6.6 percent of the population in extreme poverty in 2023, who rely heavily on means-tested benefits whose coverage deteriorated during the period. The ability of the Polish tax and benefit system to reduce income inequality, which has risen since 2017, remains comparatively low and is expected to remain at the same level in 2024.

Outlook

Economic growth is set to accelerate to 3.2 percent in 2024 and 3.7 percent in 2025. While private consumption will continue to be a major driver, investment stimulated by structural reforms and unlocked EU funds is also expected to play a significant role, especially in 2025-2026. Net exports' contribution to growth should turn negative in 2024 as domestic demand fuels imports while EU exports remain weak. A gradual improvement in exports is expected from 2025 onwards. Inflation should stabilize at around 3.5-5 percent and move closer to the NBP target of 2.5 percent (+/-1 percent band) only in the medium term. The combination of revenue shortfalls (from the tax reforms and exemptions) alongside increased defense and electionrelated spending, is set to keep the general government deficit at 5 percent of GDP in 2024-2025. Entry into the EU's excessive deficit procedure (EDP) should gradually trigger a fiscal consolidation, but the pace is expected to be slow due to the high levels of defense spending in light of geopolitical tensions. Public debt is sustainable but will rise relatively fast in the forecast period, with the 2025 borrowing needs of the general government sector expected to reach record highs.

Household income is projected to grow significantly in 2024 for families, workers, and retirees due to strong labor markets, an increase in real wages and pensions, and the expansion of Poland's child benefit. Consequently, relative poverty is expected to decrease in 2024 and 2025. However, socially vulnerable households remain at risk due to reduced support from minimum-income programs. National extreme poverty rates should remain stable in 2024 and only decline in 2025 when minimum-income programs are recalibrated for inflation. Agricultural price volatility combined with damages from the 2024 floods could lead to elevated extreme poverty rates among farming households in 2024 and 2025.

(annual percent change unless indicated otherwise)

	2021	2022	2023	2024e	2025f	2026f
Real GDP growth, at constant market prices	6.9	5.6	0.2	3.2	3.7	3.4
Private consumption	6.1	5.5	-1.0	4.8	3.6	3.1
Government consumption	5.0	0.5	2.8	5.0	4.0	3.5
Gross fixed capital investment	1.2	2.7	13.1	-0.5	7.8	5.9
Exports, goods and services	12.3	7.4	3.4	2.8	4.0	3.7
Imports, goods and services	16.1	6.8	-2.0	3.9	5.5	4.4
Real GDP growth, at constant factor prices	6.6	5.9	1.2	3.0	3.7	3.3
Agriculture	-11.5	1.1	-0.9	1.6	1.1	1.5
Industry	1.9	7.5	0.7	1.8	3.5	3.1
Services	9.7	5.2	1.5	3.7	3.8	3.4
Inflation (consumer price index)	5.1	14.4	12.0	3.6	4.7	2.9
Current account balance (% of GDP)	-1.2	-2.4	1.6	0.9	0.1	-0.5
Net foreign direct investment inflow (% of GDP)	3.8	3.7	2.3	2.3	2.3	2.2
Fiscal balance (% of GDP)	-1.8	-3.4	-5.1	-5.1	-5.2	-4.5
Revenues (% of GDP)	42.3	40.2	41.6	41.2	41.6	42.0
Debt (% of GDP)	53.6	49.2	49.6	51.4	54.5	57.5
Primary balance (% of GDP)	-0.7	-1.9	-3.0	-2.9	-2.9	-2.2
Upper middle-income poverty rate (\$6.85 in 2017 PPP) ^{a,b}	0.9	0.9	1.4	1.3	1.2	1.1
GHG emissions growth (mtCO2e)	8.0	-3.8	-3.1	1.3	1.5	0.6
Energy related GHG emissions (% of total)	88.0	87.5	87.1	87.3	87.5	87.5

 TABLE 2 Poland / Macro poverty outlook indicators

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 2012-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 (2011-2021) with pass-through = 0.7 based on private consumption per capita in constant LCU.