Dear Mr. President,

Allow me first to express my gratitude for the World Bank’s continued support over the past few years to the reform process in Poland. Budgetary support operations, technical assistance projects and knowledge activities continue to play a significant role in supporting the economic and social reforms undertaken by the Polish Government amid a turbulent and uncertain external environment.

With that in mind, I am writing to request your approval for the programmatic Resilience and Growth Development Policy Loan (DPL) in the amount of EUR 700 million. The loan is the first in a series of two lending operations aimed at strengthening macroeconomic resilience and promoting economic expansion, which are key to fostering income growth, particularly of the bottom forty percent of the population. The loan, prepared in close collaboration with the World Bank, builds on the Government’s strategic priorities of reinvigorating economic growth, promoting jobs and innovation in Poland.

Macroeconomic Framework

In the past four years, in spite of the uncertain external environment, Poland’s economic fundamentals have remained strong, underpinned by sound macroeconomic policies. Poland has enjoyed the highest economic growth among EU countries. This strong performance can be credited to the considerable diversification of Poland’s economy, limited external imbalances prior to the crisis and prudent macroeconomic policies. Counter-cyclical policies were vital to lessening the economic slowdown. However, this resulted in higher fiscal deficit and public debt levels. The fiscal consolidation effort initiated in 2011 reduced the general government deficit from 7.9 percent of GDP in 2010 to 3.9 percent in 2012 and stabilized the public debt level. In 2013, in light of weak economic growth, automatic stabilizers were allowed to operate and the fiscal deficit increased to an estimated 4.5 percent of GDP. Going forward, the Polish Government is committed to maintaining a balanced approach of pursuing sustainable fiscal policy while actively supporting economic growth in the private sector. These efforts are aimed at further trimming the deficit to allow Poland to exit the Excessive Deficit Procedure in 2015 and reducing the structural deficit towards Poland’s medium-term objective.
Government Program

The Government is committed to continuing the reform program announced after the parliamentary elections in October 2011 and reiterated in the Prime Minister’s speech to Parliament in autumn 2012. Given the prolonged uncertainty in the external environment and the slowdown in the Polish economy, the reform agenda is focused on strengthening public finances and macroprudential safeguards, facilitating job creation and sustaining private sector-led economic growth and innovation to build a competitive economy for the future.

In 2014 and beyond, in order to strengthen public finances, the Polish Government will manage budget spending through a new permanent fiscal rule, limiting the growth of expenditures to a rate not exceeding trend GDP growth. The rule will foster further fiscal consolidation and reinforce the long-term stability of public finances. In addition, the Polish Government has deferred the planned reduction in VAT rates, maintained a nominal freeze of the public sector wage bill and frozen PIT thresholds. The fiscal consolidation strategy is also based on changes to the second pillar of the pension system, which are aimed at eliminating the inherent inefficiencies and are expected to bring about fiscal savings of close to 1 percent of GDP annually and reduce the public debt to GDP ratio to below 50 percent. Going forward, the Polish authorities’ plan is to focus on further reforms of public finance, including on the revenue side, both through improvements in tax policy (by increasing the tax burden on civil-law labor contracts) and tax administration with the emphasis on tax compliance. In the area of local government finance the fiscal rule has been modified to allow for increased absorption of EU structural funds from the new multiannual financial framework for 2014-2020 and measures have been taken to improve the cost-effectiveness of local governments by allowing them to create shared service centers for IT, payroll administration and personnel, which should help them free up resources for growth enhancing expenditures.

The Polish Government is committed to continuing reforms to establish sound macroprudential safeguards. As a first step, there is a plan to establish a Systemic Risk Board, which would be the macroprudential decision-maker, responsible for systemic risk identification and analysis and authorized to request that other agencies take measures to control or limit systemic risk. With help from the World Bank the Polish Government has also been continuing its efforts to finalize the legislative proceedings regarding the bank resolution framework.

One of the main priorities for the Polish Government is to enhance labor market flexibility and facilitate job creation. Protracted recession and the resulting protracted recovery in the Euro Area, coupled with the slowdown in the Polish economy have strained the labor market with rising unemployment. While restoring job growth requires strong economic growth, structural reforms are also critical to reducing structural barriers and promoting participation. Reforms have been launched aimed at supporting employment by increasing the flexibility of the Labor Code, deregulating access to certain professions and facilitating labor market re-entry for young mothers. The Government is also planning to launch a comprehensive revamp of the Public Employment Services to support job seekers through better profiling and targeting.

Spurring private sector growth and innovation remains at the core of the Government agenda. Support to SMEs shall be continued through the successful “De Minimis” program aimed at mitigating credit constraints for enterprises and through a government investment fund “Polish Investments”. In addition, further improvements to the ease of doing business are being introduced by creating one-stop shops for business start-ups and by reducing other barriers to
doing business, including in obtaining construction permits. With help from the World Bank, the Polish authorities have also been working on enhancing the framework for insolvency to promote rehabilitation rather than the winding-up of viable debtors. The Government is also committed to promote enterprise innovation through increased private and public spending on R&D. Work is currently being carried out on two strategic documents – the Enterprise Development Program and Smart Growth Operational Program - which are aimed at making R&D spending more streamlined and effective.

In light of the above, I strongly believe that the World Bank can provide valuable support to the Polish Government’s reform program and its financial assistance and expertise will serve as a crucial impetus towards the fulfillment of the program’s objectives.

Yours sincerely,

Mateusz Szczurek