WBG Governor's Statement No. 9

October 15, 2020

Statement by the Hon. **ADAM GLAPINSKI,**
Governor of the Bank for **THE REPUBLIC OF POLAND**

Statement by the Hon. Adam Glapinski,
Governor of the Bank for the Republic of Poland

The 2020 Annual Meetings of the World Bank Group (WBG) and the International Monetary Fund (IMF) will be remembered not only because of the fact that they are held in virtual format, but first and foremost, because the international community has gathered to discuss the unprecedented economic, social and development challenges posed by the Covid-19-related crisis.

At the outset let me sincerely thank the heads of the WBG and the IMF for their leadership and excellent cooperation in these challenging times. We deeply acknowledge the determination and commitment of Mr David Malpass in providing timely and well targeted assistance to all the countries in need while mobilizing the extraordinary international effort starting as early as the first, critical months of the Covid-19 crisis. At the same time we highly appreciate Ms Kristalina Georgieva for bravely leading the IMF through the pandemic storm and being a strong voice calling for international solidarity in supporting the poorest member countries in their struggle against the health, social and economic effects of the pandemic.

The outbreak of the pandemic has had a calamitous effect on global economic activity. Determined to protect lives and to slow the spread of Covid-19, authorities implemented stringent containment measures that ensured the medical systems around the world were not overwhelmed. Fiscal and monetary policy support – accompanied by tremendous efforts taken by international financial institutions – has limited the impact of the sharp contraction in economic activity on households and firms, but has not saved the world economy from plunging in 2020 into the deepest recession since the Great Depression of the 1930s.

The outlook for 2021 looks more optimistic, as global growth is projected to reach 5.2%, despite expectations of continued restrictions affecting citizens and businesses. Nevertheless, the growth projections imply wide negative output gaps and elevated unemployment rates in the medium term across both advanced and emerging market economies. Moreover, the expected recovery remains vulnerable to further infection waves and is subject to exceptional uncertainty. There is also a worrying risk that the Covid-19 crisis will widen income inequalities, while it is already evident that it will have a highly negative impact on the progress in reducing global poverty steadily made since the 1990s.

Amid the economic slowdown in the European Union, in 2019 Poland's GDP grew by 4.5%, driven by strong domestic demand. Higher social transfers, stable employment and higher wages have supported private consumption, while favourable monetary conditions fuelled investment growth. The unemployment rate dropped to a record low level, reaching 2.9% in the fourth quarter of 2019. However, with the outbreak of the pandemic – as has also been the case in other economies – Poland's economic outlook deteriorated. Data for the second quarter of 2020 confirmed a sharp fall in foreign demand as well as in household consumption and corporate investment. This was accompanied by a fall in the number of people employed and a decline in wage growth in the economy. As a result, GDP is estimated to have fallen by 8.2% y/y in the second quarter of 2020.

As the nationwide lockdown was gradually lifted, the Polish economy started to rebound. The latest data signal a relative stabilisation of economic activity in September 2020. Nonetheless, persistently high uncertainty about the further course and effects of the pandemic, as well as lower income growth and relatively weak sentiment of economic agents, continues to strongly affect the medium-term outlook for Poland's economy. In the whole of 2020 the recession is expected to be milder than initially assumed. According to the latest IMF estimates, the Polish economy is projected to decline by 3.6% in 2020, while the European Commission's estimate is 4.6%. However, both the IMF and the European Commission share the same view that in 2020 Poland will have one of the mildest recessions among the EU countries. Given that a further rise in infections will not force the authorities to reintroduce countrywide containment measures, a strong rebound is expected in 2021, with GDP growth reaching 4.6% (according to the latest IMF estimates).

Poland entered the pandemic crisis with abundant policy space, both on the monetary and fiscal side. Therefore, in the face of pandemic shocks, the Polish central bank (Narodowy Bank Polski, NBP) and the government were able to provide a synchronized and decisive stimulus to the struggling economy.

Beginning in March 2020, the government implemented a fiscal package in response to the Covid-19 crisis focused on containing the long-term damage to the economy, including preventing a wave of bankruptcies and limiting the risk of long-term unemployment. The key element of the package is special loans to companies (mainly small and medium-sized ones) from the Polish Development Fund, which can be largely written off upon meeting specified conditions, such as maintaining employment. Enterprises are also supported through wage subsidies and the suspension of payment of social contributions, while the self-employed and persons employed on temporary contracts received temporary benefits. As of the end of September, the amount of support granted under these schemes amounted to some 5% of GDP out of the planned 6.5% of GDP.

Additionally, the government introduced a temporary monthly benefit for people made unemployed due to the COVID-19 crisis and increased unemployment benefits. Also, an additional child care allowance was provided for parents taking over childcare due to the limited institutional care.

At the same time, the government strengthened the financial system by boosting lending and financing to the non-financial sector and providing an *ex-post* investment stimulus.

NBP was one of the first central banks in Europe to respond ahead of the expected deterioration in the economic situation and started activities in support of the Polish economy as early as mid-March 2020. To that end, NBP cut the reference rate three times, by a total of 140 bps, which brought the NBP interest rate to a historically low level of 0.1%. The substantial monetary loosening translated into a visible fall in bond yields and in interbank market rates that affects monthly instalments of indebted households and enterprises. For the first time since the beginning of the systemic transition, NBP has launched an asset purchase programme. The purchase of government securities and government-guaranteed debt securities on the secondary market, being a part of structural operations, is aimed at changing the long-term liquidity structure in the banking sector, ensuring the liquidity of the secondary market for these securities and enhancing the impact of the NBP interest rate cuts on the economy, i.e. strengthening the monetary policy transmission mechanism. The interest rates cuts and asset purchase programme were accompanied by the reintroduction of repo operations and reduction of the required reserve ratio from 3.5% to 0.5%. Last but not least, NBP has offered bill discount credit aimed at refinancing loans granted to enterprises by banks.

The Polish authorities have effectively deployed a vast range of policy tools to provide unprecedented fiscal and monetary stimulus to the economy, and to support economic agents facing economic hardship for reasons beyond their control. The implemented measures have enabled to safeguard the liquidity of households and businesses, and due to their positive impact on the financial situation of debtors, have also been conducive to the enhancement of financial system stability. Overall the implemented policies helped the economy to adapt to the pandemic reality.

The actions taken by each country were accompanied by unprecedented activity of the international financial institutions. To this end, we welcome the important steps already taken by the IMF to help the emerging market and developing economies hardest hit by the current crisis. In this regard, we fully support the IMF's rapid and enhanced deployment of access to emergency financing, including a temporary doubling of the annual access limit under the Rapid Credit Facility and the Rapid Financing Instrument, as well as providing debt service relief for 29 low-income countries in the form of grants from the Catastrophe Containment and Relief Trust. We also appreciate the adoption of a new Short-Term Liquidity Line and continued provision of the IMF's precautionary support for members with sound fundamentals and policies. We also strongly support the further efforts of Management and staff to serve member countries' needs and strengthen the recovery, including by drawing on relevant experiences from previous crises.

We reaffirm our commitment to a strong, quota-based and adequately resourced IMF at the centre of the global financial safety net. Safeguarding the IMF's lending capacity of USD 1 trillion is critical to maintaining the Fund's ability to fulfil its mandate. Thus, the IMF Executive Board decisions on the doubling of the New Arrangements to Borrow (NAB) and on a new round of Bilateral Borrowing Agreements (BBA) were important steps in this regard. In this respect, we are proud to note that the Polish central bank continues to maintain its financial commitment to both the increased NAB and a new BBA round. We find the enhanced multilateral and bilateral borrowing constitute a temporary – yet significant – supplement to quota resources. At the same time, we emphasize the IMF financing should strengthen, not substitute or weaken, reforms in member countries, catalysing efforts to build a greener, smarter and fairer economy.

The actions at the international level are complemented by regional efforts. In this regard, I would like to refer to the Three Seas Initiative which brings together 12 European Union member states located between the Baltic, Black and Adriatic Seas to cooperate in the area of transport, energy and digital infrastructure. It offers new and attractive investment opportunities and aims to contribute to closing the gap in this area. We are glad that it has been developing steadily, with a growing interest of international partners.

The discussion of the global response to the Covid-19 crisis would not be complete without the role of the World Bank Group. So far its contribution has been unprecedented, both in scale and range, swiftly addressing the most urgent needs of its clients. Especially during the most testing time when the whole international community was navigating in the dark, the WBG proved its relevance, initiative and convening power. While organizing a coordinated and multi-layered response to the crisis, it acted in cooperation and dialogue with the IMF, other multilateral development banks and private donors.

Yet, we must not be complacent and should carry on with further efforts when faced with the next phase of the pandemic and the challenges of the recovery phase. The exceptionally high and incremental financing needs of the clients arising from the crisis are likely to persist over the medium term. In this regard, we endorse continuation of the WBG Covid-19 Crisis Response Approach. At the same time, it would be key to ensure the most efficient use of the available resources and monitor the developments as regards the WBG financial capacity beyond FY21 to support a resilient, inclusive and sustainable recovery. The timely and swift subscription of the 2018 IBRD and IFC capital increase will also be important in this regard. Poland will participate in this effort.

The poorest countries are, and shall remain in the years to come, seriously affected by the consequences of the global pandemic, both directly, on the healthcare level, and indirectly, as a result of the worldwide economic slowdown, disrupted supply chains and reversal of poverty reduction. Therefore, the multilateral development banks are the ones that bear an even higher responsibility in terms of offering assistance to the poorest countries, commensurate with the needs imposed by the present situation and consequently, more sizeable when compared to the allocations from previous years. We also welcome the World Bank's close coordination with the IMF focused on enhancing debt sustainability analysis and helping countries manage debt vulnerabilities and fiscal space, incl. through the Debt Service Suspension Initiative.

Yet, in these challenging times, what the WBG needs is not only the increased capability to mobilize resources to finance the needs of the developing countries, but also a pool of more advanced reliable clients across the whole spectrum of its membership. The pandemic and its aftermath hit every single client of the Bank and there are many areas of the WBG cooperation with the high income countries that may prove mutually beneficial. Based on the Polish experience, it mostly refers to knowledge transfer, *via* Reimbursable Advisory Services or Trust Fund-Financed Advisory Services and Analytics. Yet, faced with the challenges of the post-pandemic recovery, well targeted IBRD and IFC investment engagement could also have an added value for this group of clients.

Being aware of the scale of the current challenges and the strains put on the WBG in this regard, we would like to commend the Management and the staff for their efforts of continuing the processes of the IBRD and the IFC shareholding review as well as the IDA voting rights review. The discussions within the IDA voting rights review are gradually moving forward, although not without setbacks. It proves the complexity and the gravity of the process we have embarked on. In this regard, we support the approach of narrowing down options that comes with flexibility and the understanding that "nothing is agreed until everything is agreed". We believe that the principal determinant of the process should be to achieve a compromise solution acceptable for all the parties, and reflecting the principles agreed in 2019.

Looking ahead, the WBG will have to quickly adapt to the new development reality marked by anticipated slower global growth, the reversal of poverty reduction, climate emergencies, increasing demand for humanitarian assistance, demographic shifts and the digital revolution. A particular challenge for the WBG in the coming years will be to combine the implementation of the Forward Look with meeting immediate needs such as those stemming from the Covid-19 crisis. That is why we welcome the fact that the WBG emphasizes its intention of scaling up support for the health, social and economic dimensions of rebuilding while maintaining alignment to long-term development goals. One of the key tasks will be to help clients shorten the time to recovery and use this opportunity to strengthen their policies and institutions for better resilience in the future. For this to happen, a particular combination of financial assistance, advisory support and convening power is needed.

There is no doubt that another challenging time is awaiting the World Bank Group and its shareholders. It is also a very special moment from our perspective as for the next 2 years Poland will be holding the position of the Executive Director in the World Bank Group for the first time since 1950. We are proud to represent all the countries of our Constituency and are determined to further contribute to strengthening the WBG and support it in the challenging global circumstances.