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WBG Governor's Statement No. 5

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Statement by the Hon. **PAWEL SZALAMACHA,**
Temporary Alternate Governor of the Bank for **THE REPUBLIC OF POLAND**

Statement by the Hon. Pawel Szalamacha,
Temporary Alternate Governor of the Bank for the Republic of Poland
on behalf of the Hon. Adam Glapinski,
Governor of the Bank for the Republic of Poland

As we gather at the 2022 Annual Meetings of the World Bank Group and the International Monetary Fund, we continue to face global challenges of immense scale and scope. The unprecedented test for the international community and its ability to take joint action continues. Against this background, I sincerely hope that this year's discussions in Washington will provide a further boost to our joint response and strengthen the global solidarity.

Russia's unprovoked and unjustified military invasion of Ukraine occurred when the world's economies were still recovering from the COVID-19 crisis. The war aggravated the supply chain disruptions and additionally strengthened the rise of commodity prices, impacting real disposable incomes of households and production costs. It has brought along the energy and food crises, while putting at risk the development gains of the past decades. Moreover, the uncertainty related to the war has dampened business confidence, adding to the darkening prospects for consumption, investment and international trade.

These implications have a negative impact throughout the global economy as well as on individual countries, including Poland. The strong negative supply shock triggered by the Russian aggression against Ukraine constitutes a significant headwind for economic activity in our country contributing to a slowdown in GDP growth. In the coming quarters the war is forecast to continue to negatively affect economic growth in Poland, both directly – by limiting consumer spending and corporate investment – and indirectly through the expected economic slowdown in the euro area. Yet, at the same time, the scale of the decline in domestic GDP growth will be mitigated by accommodative fiscal policy and continued spending related to an unprecedented inflow of refugees from Ukraine (an estimated 1.0-1.3 million Ukrainian war refugees are currently sheltered in Poland).

The Polish government has introduced a number of measures to mitigate the impact of high energy commodity prices on households, inter alia tax cuts on energy sources were introduced as part of the Anti-Inflation Shield (reduction of the VAT and excise duty rates), as well as social benefits that are intended to limit the impact of rising prices of coal, heating oil and liquid gas on the budgets of households. The overall impact of these measures may be estimated at ca 2% of GDP in 2022.

As a major destination of refugees from Ukraine, Poland has spent 0.5% of GDP on support for immigrants. Another 0.5% has been allocated to other forms of aid for Ukraine (humanitarian, financial and military), making Poland one of the biggest donors to Ukraine. Furthermore, the new defence bill (Homeland Defence Act) enacted in March 2022 envisages a substantial increase in military spending from 2023 (from 2.3% to 3% of GDP). Consequently, despite the significant headwinds, Polish GDP should increase but at a slower pace. According to the latest Narodowy Bank Polski projection published in July, GDP growth will ease from 4.7% in 2022 to 1.4% in 2023.

Due to the nature of the shock related to the war in Ukraine, slower economic growth will be accompanied by heightened inflation (17.2% in September 2022 according to the flash estimate). Given the waning demand pressure, inflation developments will critically depend on administrative prices of electricity, heat and gas, as well as decisions regarding the potential extension of some measures introduced by the government to shield households from the strong increase in cost of living.

NBP already began tightening monetary policy in October 2021, and by the end of September 2022 interest rates were raised 11 times, with the reference rate increased to 6.75% in September 2022 as compared to 0.1% in September 2021. In October 2022, the Monetary Policy Council decided to keep interest rates unchanged. The Council assessed, that hitherto significant monetary policy tightening and the expected economic activity growth slowdown should contribute to curbing demand growth in the Polish economy, which will support a decline in inflation in Poland towards the NBP inflation target. At the same time, given strength and persistence of the current shocks that remain beyond the impact of domestic monetary policy, a return of inflation towards the NBP inflation target will be gradual. This is in line with NBP's inflation targeting strategy that envisages flexible determination of the desirable time necessary to bring inflation back to the target, as bringing inflation rapidly back to the target may entail significant costs to macroeconomic and financial stability.

As one of Ukraine's neighbours, Poland was and continues to be the most active country in responding to the Russian aggression as well as providing assistance and mobilizing the international support for Ukraine. Most importantly, we opened our borders to a massive influx of Ukrainian refugees and people fleeing from the atrocities of the war.

Narodowy Bank Polski plays an important role in the joint efforts to support Ukraine and the Ukrainian people. On the inter-institutional level, we are maintaining close day-to-day contacts with the representatives of the National Bank of Ukraine (NBU), and in April 2022 the Governors of the NBU and NBP signed a *Memorandum of Understanding* as a confirmation of the good relations and strong bonds between the two central banks. Given the extraordinary circumstances related to Russia's aggression against Ukraine, on 21 March 2022 NBP provided the NBU with a USD/UAH currency swap line, in the amount of up to USD 1 billion. Another crucial pillar of our assistance was the decision to enable Ukrainian citizens to exchange hryvnia cash for Polish zloty based on an agreement signed by the NBU and NBP in March 2022. NBP has also been actively supporting the NBU in other domains.

Numerous refugees from Ukraine who decide to stay in Poland receive comprehensive assistance from the Polish authorities, including child benefits and social assistance, as well as free access to public education and health care. At the same time, tremendous efforts continue to be made by thousands of Polish citizens hosting the refugees in their own houses, and offering all kinds of support to Ukrainians. However, the generous fiscal support poses substantial challenges for the Polish economy as it is putting an increased burden on government financing for family assistance, schooling, healthcare and housing.

The consequences of the Russian aggression against Ukraine impact the global community, requiring a coordinated and adequate response from international financial institutions. Therefore, we highly appreciate the IMF's immediate financial support for Ukraine and disbursement of USD 1.4 billion under the unconditional *Rapid Financing Instrument* (RFI) to help meet urgent financing needs and mitigate the economic impact of the war. We also welcome the establishment of an Administered Account (AA) for Ukraine, which is intended to channel donor resources in the form of grants and loans aimed at assisting Ukraine to meet its balance of payments and budgetary needs and help stabilize its economy. We strongly welcome the Fund's continued engagement with the Ukrainian authorities, especially as a trusted advisor on economic policies.

NBP continues to participate in the temporary increase of the IMF's resources. As a participant in the *New Arrangements to Borrow* (NAB), NBP stands ready to disburse loans to the IMF up to an amount equivalent to the established limit of SDR 2.57 billion. Moreover, under the *Bilateral Borrowing Agreement* (BBA), NBP remains prepared to provide loans to the IMF up to the SDR equivalent of EUR 2.7 billion. Furthermore, NBP is also providing the IMF's PRG-HIPC Trust with an interest-free deposit in the amount of SDR 7.1 million.

Given the current global challenges, we support the creation of a temporary food shock window as part of the IMF emergency financing. This newly established window can help countries affected by rising food prices to continue importing and exporting fertilizers and cereals, reducing the risks of a systemic global food crisis, thereby also containing the risks of social unrest and macroeconomic instability in countries that are already under stress. Consequently, we fully supported Ukraine's access to this new IMF emergency instrument.

We welcome the fact that the World Bank Group expressed its unwavering commitment to Ukraine and its people from the very start of the Russian invasion. The WBG commitment to Ukraine constitutes a commendable combination of publicly expressed support by President David Malpass and other WBG representatives and – at the same time – mobilises large volumes of direct financing to respond to Ukraine's growing needs. The WBG also implemented highly innovative, out-of-the box solutions, including mobilising extraordinary support from IDA. Finally, the WBG used its convening power and coordination expertise, establishing umbrella trust funds and appealing to donors to make generous contributions.

Nevertheless, despite these unprecedented efforts, it is not the time to be complacent. The most recent damage and needs assessment presented by the World Bank bluntly depicts the scale of the challenge related to the reconstruction of Ukraine, and we should consider this challenge with all due seriousness. As of now, reconstruction and recovery needs are estimated at about USD 349 billion, but we may reasonably expect this number to be much higher once this destructive war is over. Given its engagement so far and its role in this area, the WBG should be in the forefront of the international action, mobilising and coordinating all relevant stakeholders with the aim of providing Ukraine with the much-needed assistance.

We must also bear in mind that at the same time, the war in Ukraine has exacerbated several other overlapping crises, resulting from the still present COVID-19 pandemic, major price spikes posing a risk to food and energy security, as well as extreme weather events. Uncertainty has become the key word and key sentiment reverberating around the globe. Therefore, in order to provide a meaningful response to the challenges of today and tomorrow, the global community – public and private sectors, as well as philanthropic entities – must step up to partner with and supplement development finance. Strengthening blended finance seems to be crucial in this respect. However, at the same time additional efforts should be taken to increase transparency of data regarding blended finance transactions, to develop blended finance benchmarks, to build sustainability-linked bond markets, as well as to invest in monitoring and evaluation to get credible transaction results. These are all areas where the WBG, and IFC in particular, can be more active.

Faced with this challenging global environment, we welcome the fact that Poland's cooperation with the World Bank Group continues to develop and focuses on the areas where the transformation gaps still remain. One of the examples in this regard is the Board's approval of the *Clean Air* project. This approach of our well-targeted collaboration with the WBG was recently highlighted during the work on the *Performance and Learning Review* of the *Country Partnership Framework for Poland*. The review report approved by the Board has captured well the key elements of our cooperation and its perspectives in the coming years.

Finally, let me emphasize that, as the impact of the war in Ukraine adds another major shock to countries still recovering from the pandemic, it is of crucial importance that the World Bank Group upholds its "all-clients bank" approach. The WBG is a central pillar of global development assistance and it should continue to offer a value proposition for all countries, irrespective of their level of development and income.