**PROGRAM INFORMATION DOCUMENT (PID)**

**CONCEPT STAGE**

November 19, 2013

Report No.: AB7451

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| **Operation Name** | First Resilience and Growth Development Policy Loan |
| **Region** | EUROPE AND CENTRAL ASIA |
| **Country** | Poland |
| **Sector** | Public Finance (40%), Labor Market (30%), Financial and Private Sector (30%) |
| **Operation ID** | P146243 |
| **Lending Instrument** | Development Policy Lending |
| **Borrower(s)** | GOVERNMENT OF POLAND |
| **Implementing Agency** | Ministry of Finance |
| **Date PID Prepared** | November 14, 2013 |
| **Estimated Date of Appraisal** | April 14, 2014 |
| **Estimated Date of Board Approval** | May 22, 2014 |
| **Corporate Review Decision** | Following the corporate review, the decision was taken to proceed with the preparation of the operation. |

1. **Key development issues and rationale for Bank involvement**

Strengthening public finances, sustaining economic growth and facilitating job creation are the key priorities of the Polish Government. Over the past few years, significant progress has been achieved in strengthening Poland’s institutional framework, in particular in the area of fiscal and financial sector institutions and social spending.

This DPL is set to support further reforms of the Polish Government in the area of public finances, labor market, financial and private sector development. They are aimed at lifting growth potential through increased institutional resilience and improved competitiveness.

1. **Proposed Objective(s)**

This proposed first loan in a programmatic series of two development policy loans aimed at strengthening Poland’s institutional resilience to promote economic growth, which is key to fostering shared prosperity and particularly income growth for the bottom forty percent of the population.

The DPL supported reforms are designed to help bolster Poland’s economic recovery while lifting growth potential by creating a dynamic economy able to weather future shocks. The DPL supported measures will help create the needed fiscal space to maintain and increase investments in infrastructure and human capital to support sustained growth, as well as bolster the framework to respond to future shocks. While restoring job growth requires strong economic growth, structural reforms are also critical for reducing barriers and promoting participation, especially given Poland’s historically high structural unemployment rate. While Poland remains well positioned to benefit from the gradual pick-up in the growth rates of its main trading partners, the DPL also supports measures to reduce administrative burden and measures, such as the insolvency and restructuring regime, and the macro prudential and financial sector risk management framework, that would allow it to move up global supply-chains and strengthen Poland’s ability to cope with future shocks.

The authorities value the support of the Bank through policy lending for several reasons: it embeds technical advice for reform design; it signals the Government’s commitment to key structural reforms; it establishes a time table to anchor the reform process; and it comes with lower transactions costs and longer maturity than investment lending.

1. **Preliminary Description**

The programmatic DPL is structured around three pillars: (i) enhancing fiscal resilience, by reducing the general government fiscal deficit and debt levels toward the Medium Term Objective (MTO); (ii) strengthening labor market resilience and employment promotion; and (iii) enhancing private sector resilience and promoting competitiveness.

The proposed DPL measures to be supported under each pillar are as follows:

*Pillar 1:* Enhancing fiscal resilience: A well-managed fiscal consolidation remains a top priority for the government, to provide sufficient counter-cyclical buffers while promoting expenditure efficiency. Structural reforms in the public finances – in particularly implementation of a new permanent fiscal (expenditure) rule for the central government and new debt rules for the local governments, as well as a prudent budget for 2014 and 2015, will contribute to ongoing fiscal consolidation efforts. These will enhance Poland’s fiscal resilience by putting public debt on a downward path.

*Pillar 2:* Strengthening labor market resilience and employment promotion: While restoring job growth requires strong economic growth, structural reforms are also critical for reducing structural barriers and promoting participation, especially given Poland’s historically high structural unemployment rate. The Government has launched reforms 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 reform of its Public Employment Services to support job seekers through better profiling and targeting.

*Pillar 3:* Enhancing private sector resilience and promoting competitiveness: Based on previous reforms that have strengthened competitiveness, Poland remains well positioned to benefit from the gradual pick-up in the growth rates of its main trading partners. However, further measures are needed to reduce administrative burdens and to complete reforms in critical areas, such as the insolvency regime. The authorities continue to work on the legal frameworks for macro-prudential supervision, bank resolution and corporate restructuring. There are also initiatives to create one-stop shops for business start-ups and to reduce other barriers to doing business, including in obtaining construction permits. These reforms will enable the business sector to better take advantages of future growth opportunities.

1. **Poverty and Social Impacts and Environment Aspects**

Poverty and Social Impacts

The overall poverty and social impacts of policy measures supported under this DPL series are expected to be positive. Several of the policy measures will improve the living standards of the poor, both directly through reforms to unemployment services and the reduction of restrictive labor practices and indirectly through improved stability and solvency of public finances, which increases the scope to smooth economic downturns, and measures to enhance the business environment for sustained growth.

Environment Aspects

The specific policies supported by the DPL series are not likely to have significant effects on Poland’s environment, forests, water resources, habitats or other natural resources.

1. **Tentative financing**

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| --- | --- |
| Source: | ($m.) |
| Borrower | 0 |
| International Bank for Reconstruction and Development | 800 |
| Borrower/Recipient |  |
| IBRD  Others (specifiy) |  |
| Total |  |

1. **Contact point**

**World Bank**

Contact: Theo David Thomas

Title: Lead Economist and Sector Leader, PREM

Tel: 5786+497 / 32-2-504-0997

Fax:

Email: tthomas3@worldbank.org

Location: Brussels, Belgium (IBRD)

**Borrower**

Contact:

Title:

Tel:

Email:

1. **For more information contact:**

The InfoShop

The World Bank

1818 H Street, NW

Washington, D.C. 20433

Telephone: (202) 458-4500

Fax: (202) 522-1500

Web: http://www.worldbank.org/infoshop