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Assessment of the 2012 national reform programme and convergence programme for POLAND

Accompanying the document

Recommendation for a

COUNCIL RECOMMENDATION

on Poland's 2012 national reform programme and delivering a Council Opinion on Poland's updated convergence programme for 2012-2015

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CONTENTS

EXECUTIVE SUMMARY

In 2012, Poland's economic activity is expected to slow down as compared to 2011. Nevertheless, GDP growth is still projected to increase by 2.7%. Unemployment is foreseen to slightly rise to 9.8%.

Poland's public finances are improving. Helped by solid economic growth in 2011, Poland has reduced its budget deficit in line with the Commission's recommendations. The parliament adopted a major reform of the country's pension system, which would gradually rise the statutory retirement age to 67. In other areas however, reform efforts have been limited, particularly as regards the labour market, education, energy, transport and regulation.

In the medium to long term, Poland is faced with a number of challenges. The budget deficit has to be further reduced to reach the medium-term objective. Financial markets require continued attention. A very low labour force participation rate, in particular women, and the quality of vocational training and education are major concerns given an ageing population. There are also signs of labour market segmentation affecting the youth. The low level of public and private R&D spending, weak links between science and industry and the poor innovation performance call for improvements. Poland's infrastructure, particularly its railway and energy system, remains underdeveloped. The efficiency of public administration, tax collection and law-making needs to be significantly improved. Unjustified restrictions in the field of professional services impede economic growth. .

1. INTRODUCTION

In May 2011 the Commission proposed 7 country specific recommendations (CSRs) for economic and structural reform policies for Poland. In July 2011 the Council adopted these recommendations which concerned public finances, the pension system, education and training, the labour market, energy, transport and deregulation.

In November 2011, the Commission published its Annual Growth Survey for 2012 (AGS 2012) in which set out proposals for building the necessary common understanding about priorities for action at national and EU level in 2012. It focused on five priorities — growth-friendly fiscal consolidation, restoring normal lending to the economy, promoting growth and competitiveness, tackling unemployment and the social consequences of the crisis, and modernising public administration. It encouraged Member States to implement them in the 2012 European Semester.

Against this background, in April 2012 Poland presented updates of its national reform programme and convergence programme detailing progress made since July 2011 and plans going forward.

This Staff Working Document assesses the state of implementation of the 2011 CSRs, as well as the AGS 2012 in Poland. It identifies current policy challenges and, in this light, examines the country's latest policy plans.

Overall, Poland implemented the Council Recommendations only partially. On the positive side, economic growth was robust in 2011, and the country managed to reduce its fiscal deficit as required under the Excessive Deficit Procedure (and repeated in the CSRs). Notwithstanding these important achievements, reform efforts were limited, particularly as regards the labour market, education, energy, transport and regulation. Therefore, in these areas, the challenges identified in July 2011 and reiterated in the AGS 2012 remain valid. As regards the pension system, Poland has unveiled a major reform proposal that aims to raise the statutory retirement age to 67, by 2020 for men and by 2040 for women.

Poland's most pressing challenges are in public finances, the labour market, infrastructure development, and the business and innovation environment. The budget deficit has to be further reduced to reach the medium-term objective and maintain the confidence of financial markets. A very low labour force participation rate is another major concern in the medium to long term, given an ageing population. Originating in the poor labour market performance, poverty and social exclusion is another challenge. Youth unemployment has increased and there are signs of labour market segmentation affecting the youth. Moreover, the efficiency of public administration needs to be significantly improved. Notwithstanding sizeable investments in the road network, the country's infrastructure, particularly its railway system, remains underdeveloped and is thus a factor that severely hinders growth. The low level of R&D spending and poor performance regarding innovation is another important policy issue. Finally, in the light of persistent uncertainties in international financial markets, Poland should continue to pursue prudent and pre-emptive policies in financial regulation and supervision.

The policy plans submitted by Poland are relevant. They focus on the fiscal consolidation, increasing the employment rate and improving business environment. However, in some areas, in particular as regards further reforms of the pension system, they lack the ambition to address the challenges in a comprehensive way.

2. Economic developments and challenges

2.1. Recent economic developments and outlook

On the back of a solid export performance, economic activity expanded strongly in Poland before the financial crisis. Continuous improvements in price- and non-price competitiveness helped exporters to gain market share and attracted considerable foreign direct investment in productive sectors. Thanks to resilient domestic demand and improved absorption of EU funds, the country was able to weather the financial crisis and its aftermath, with real GDP increasing by 1.7% in 2009, and a robust 3.9% in 2010.

In 2011, the Polish economy picked up strongly. GDP is estimated to have grown by 4.3%. In the first half of the year, strong external demand fuelled manufacturing and private investments. In addition, EU co-financed infrastructure projects gave investment a further push. Private consumption picked up on the back of a strong labour market. However, with growing tensions in global financial markets in the second half of the year, consumer confidence deteriorated and private consumption lost steam. A sharp fiscal consolidation, resulting in weak public consumption, added to negative pressure on domestic demand. Thus, despite continued strong external trade, helped by currency depreciation, the labour market outlook also started to weaken.

Following a drop in 2010, inflation picked up again in 2011. Surging commodity prices and a depreciating currency pushed up consumer price inflation from 2.7% in 2010 to 3.9% in 2011. Despite sustained rises in employment, the unemployment rate stabilised at around 9.6% in 2010-2011, keeping nominal wage growth in check. As a result, real wages remained broadly stable over the past two years.

Looking forward, the ongoing recession in the euro area is likely to slow down economic activity in Poland significantly. Real GDP is projected to increase by 2.7% in 2012 and 2.6% in 2013. In 2012, still favourable, albeit somewhat weakened, labour market conditions, the continued inflow of EU funds, increasing investments from the corporate sector and a still depreciated currency will be the main factors supporting growth. In 2013, private consumption is expected to inch up again as the global environment starts to improve. Lower domestic demand and further external trade gains are set to improve the current account position somewhat. The rate of inflation is forecast to decrease gradually in 2012-2013, as food and fuel prices stabilise and the negative effect of currency depreciation peters out.

In the absence of adverse financial and external developments, GDP growth could average 3½% in 2014-2015**.** This should bring down the unemployment rate to around 8¼% by end-2015. Given unfavourable demographic developments, a broad range of structural reforms will have to be undertaken to keep growth at this level in the medium term and to deal with underlying imbalances, particularly to reduce the relatively high current account deficit.

The national reform programme and the convergence programme were adopted by the Council of Ministers on 25 April 2012. The convergence programme outlines in an integrated manner the fiscal consolidation efforts, the key structural reforms and the reforms that underpin macroeconomic stabilisation. The national reform programme evaluates progress towards meeting national Europe 2020 targets for employment, R&D, education, energy and climate change and poverty reduction. These targets set out the longer-term development trajectory to modernise the Polish economy and put imminent reform priorities in a broader context. The national reform programme also describes the measures Poland plans to take to fulfil its obligations under the Euro Plus Pact.

Both documents share the same economic outlook. For 2012, the outlook is broadly in line with the most recent Commission forecast. However, for 2013, the Polish authorities are more optimistic and forecast real GDP growth of 2.9 %.

2.2. Challenges

Despite remarkable growth performance during and after the financial crisis, Poland could speed up its reform agenda to maintain or improve its growth potential. The main policy challenges for the country have remained broadly unchanged, though the progress the government has made with its reform agenda requires some adjustments.

In particular, continued fiscal consolidation is required to reach the medium-term objective (MTO) for the deficit and to maintain the confidence of financial markets. Increasing the still low share of growth-enhancing expenditure remains a prerequisite for sustaining good macroeconomic performance. Moreover, the structural weaknesses of the fiscal framework, identified in the 2011 Commission Staff Working Document, are still present: poor monitoring of budget implementation, discrepancies between the public accounting and reporting system and the European System of National and Regional Accounts (ESA95), and problems with coordination between various tiers of the general government in the annual and multi-annual budgetary planning.

Regarding labour supply, Poland still has the second lowest employment rate among older workers in Europe, particularly of older women, and one of the lowest average exit ages from the labour market. This is of particular concern in the medium to long term, given an ageing population and growing life expectancy. The old age dependency ratio (population aged 65 and over as a percentage of the population aged 15-64) in Poland will double in the next 30 years, from about 20 % to 40 %. Women's participation in the labour market is very low, owing partly to the lack of affordable childcare. Thus, the main challenge is to prolong working life by raising the statutory and effective retirement age in line with longer life expectancy and to improve availability of childcare for infants and young children. A subsidised social security system for farmers keeps an unnecessarily large part of the labour force in agriculture, and thus holds back productivity growth and keeps regional labour mobility at a low level.

A key challenge for Poland is to maintain its economic growth through raising and increasing effectiveness of growth-friendly expenditure, notably in education, research and innovation investment. Current growth is to some extent based on the inflow of structural funds, a price-competitive labour force and growing integration of Polish subcontractors and manufacturing centres into the global value chain. . In a medium-term perspective, however, a shift toward an innovation-driven economy is necessary. Measures adopted so far have not led to visible improvement in the innovativeness of Polish companies. Low public R&D spending, weak linkages between science and industry, and severe underinvestment in research and innovation in the private sector need to give way to a new approach with well-designed incentives and effective support through public funding, including more public-private cooperation.

Poland also needs to promote growth and competitiveness by improving business conditions, modernising public administration and raising the quality of vocational training and education. Limited competition among incumbent electricity suppliers, insufficient interconnections with other Member States and ageing energy generation capacity keep energy prices high. Moreover, Poland's underdeveloped and neglected transport infrastructure, in particular in the rail sector, continues to be a major growth bottleneck.

Businesses would greatly benefit from improvements in tax administration, streamlining of procedures for starting up and closing down businesses, as well as from better contract enforcement and property registration. In the long run, an overhaul of the entire law-making system, including effective impact assessment, stakeholder consultation and monitoring would be required.

Since 2011, challenges arise in the financial sector. Poland has built up a financial system that functions well and implemented a prudent and pre-emptive regulatory policy. This has helped the country to withstand the financial crisis and attracted foreign investments. This success, however, has also created a new risk. Continued inflows of foreign capital into sovereign debt markets and the financial system have increased the country's dependency on external financing. While in a normal environment, the level of capital inflows Poland registered in the past few years would not be perceived as harmful, in the current context of high economic uncertainty and volatile capital markets, it requires special attention. A sudden stop or reversal of these capital inflows would lead to a serious limitation in credit supply and increases in financing costs for the government, as it did in many other EU countries during the current crisis. To mitigate such potential negative consequences, vigilant financial supervision as well as strengthened prudential regulation are appropriate tools.

Another important challenge, also highlighted in the Annual Growth Survey 2012, is the fight against youth unemployment. Despite continued growth, the youth unemployment rate rose to 25.8% in 2011. Young people often lack the necessary skills to find a job, which points to the need to improve the education system. In addition, there are signs of labour market segmentation, since the transition rate from temporary to permanent contracts is low, particularly for the young. The partial abuse of self-employment and civil law contracts which are not governed by the Labour Law appear to be the main cause for the low transition rate. The in-work poverty rate for temporary workers is twice as high as for workers on permanent contracts owing to the wage penalty associated with temporary contracts, one of the highest in the EU.[1] Moreover, and contrary to its commitment in the Euro Plus Pact, Poland decided to increase non-wage labour costs by raising the disability pension contribution paid by employers from 4.5% to 6.5%. This measure helped fiscal consolidation, but it is likely to hinder job creation and the government's efforts to reduce the high share of the shadow economy, with a particularly strong negative impact on young and low-skilled workers.

3. ASSESSMENT OF THE POLICY AGENDA

3.1 Fiscal policy and taxation

Budgetary developments

In its 2012 convergence programme, the Polish government confirmed its objective to correct the excessive general government deficit in 2012 and to continue fiscal consolidation thereafter in order to reach the medium-term objective (hereinafter 'MTO'), i.e. a structural deficit of 1% of GDP, in 2015. The programme is precise on how to achieve the 2012 deficit target and specifies an MTO deadline for the first time. However, it lacks sufficient information on fiscal measures and reforms needed to ensure progress towards the MTO.

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[1] • In Poland temporary workers represent 27% of total employment (against EU average of 14%). Temporary workers are on average paid 28% less than other workers with similar qualifications and experience, and they face twice as high a risk of poverty compared to workers on permanent contracts (12% against 6%).

Public finances have improved significantly since the 2011 European Semester. An ambitious consolidation programme and robust economic growth of 4.3% in 2011 allowed the Polish government to decrease its general government deficit by almost 3 pp from 7.9% in 2010 to 5.1% of GDP in 2011. Despite an unexpected fall in revenues, mainly from social contributions and financial transfers, the deficit turned out 0.5% lower than planned, thanks to a considerably lower expenditure, mainly on public investment, social transfers, and government consumption.

In 2012 a further reduction of the deficit is expected. The Commission services' 2012 spring forecast expects the deficit to marginally exceed 3% of GDP, while the national authorities project it to reach 2.9% of GDP. The gap between the two forecasts is mainly due to different assumptions on public investment and corresponding inflows of EU funds. Whereas the Polish authorities expect public investment to drop significantly following a sharp slowdown in EU financing after a peak in 2011, the Commission projects a smoother decline. For the same reason the composition of the consolidation process differs between the two projections. Both revenue-to-GDP and expenditure-to-GDP are somewhat higher in the Commission forecast. Compared to the previous programme, the 2012 one projects both revenue and expenditure lower by 1.1 pp of GDP, with lower tax revenues and public investment as the main drivers.

In 2013, the 2012 spring forecast envisages a further reduction in the headline deficit to 2.5% of GDP, while the Polish government expects 2.2% of GDP. The difference is due to a base effect (as the starting point for 2013 is slightly different) and assumptions on financial transfers and corresponding public co-financing of investment projects.

The deficit targets of the 2012 convergence programme differ from those presented in the previous update. The planned consolidation path is more ambitious, despite a considerably less optimistic macroeconomic scenario.[2] As the revised macroeconomic scenario will result in lower tax revenues, the 2012 convergence programme assumes that consolidation for 2013 onwards is driven by significant cuts in expenditure, almost exclusively on public investment.

In 2012, the adjustment effort is concentrated on the revenue side, although total expenditure is expected to decline based on measures introduced in previous years (see table below for main measures in 2011 and 2012). The 2012 Budget also envisages revenues from dividends of state-owned enterprises, classified as a one-off measure.

From 2013 onwards, adjustment shifts exclusively to the expenditure side. Over the period 2013-2015, both expenditure-to-GDP ratio and revenue-to-GDP ratio are planned to fall gradually in every year. In case of revenues, the authorities are planning a sharp decline from 42.6% in 2012 to 38.6% in 2015. In the absence of significant new measures,[3] the fall in revenues will result from the expiry or gradual reversal of some consolidation measures implemented in 2011 (see Box 1 below for details).

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[2] In particular, in 2012 an unchanged target of 2.9% of GDP is foreseen with 1.5 pps. lower growth (2.5% against 4.0%). In 2013, a 0.3 pp lower deficit shall be reached despite 0.8 pp slower growth (2.9% versus 3.7%). Finally, in 2014 a 0.1 p. faster reduction in the deficit (to 2.0% of GDP) will be accompanied by 0.7 pp slower growth.

[3] Some reforms with a positive, though minor, budgetary effect are planned but not enacted yet. They include an increase in PIT revenues on the author's rights revenues, abolishment of PIT exemptions on internet use and multiple children upbringing, as well as the introduction of CO2 emission payments and the sale of rights to use additional radio frequencies.

A decrease in expenditure as a share of GDP (from 39.6 % in 2012 to 37.6 % in 2015) will more than offset the fall in the revenues. The envisaged consolidation is expected to be driven by a sharp decline in public gross fixed capital formation and a further decline in the pension expenditure due to the abolishment of the early pension system in 2009. Moreover, Poland's temporary expenditure rule will limit increases in existing discretionary and new expenditures. It is also expected that the wage fund for public sector employees (with some specific exceptions) remains frozen, but as long as the measure is not legally enacted, its budgetary effects cannot be guaranteed.

Overall, the steps discussed above have put Poland on track to fulfil the Council recommendations on fiscal consolidation. The headline deficit is forecast to marginally exceed 3.0% of GDP in 2012, but since Poland's debt-to-GDP ratio is consistently below the 60 % of GDP reference value, Council Regulation (EU) No 1177/2011 allows to take into account the cost of a systemic pension reform for assessing whether effective action has been taken. This cost is estimated at around 0.6 % of GDP in 2012, which is higher than the gap between the expected deficit and the reference value.

Poland's average annual fiscal effort is expected to meet the Council's recommendation thanks to the consolidation package implemented in 2011 and 2012. According to the 2012 spring forecast, the structural balance is forecast to decline significantly, reaching 5.0% of GDP in 2011 and 2.8% of GDP in 2012, 0.3 pp higher than the (recalculated) structural balance[4] forecast by the Polish authorities. The average annual fiscal effort over the reference period amounts therefore to 1.5% of GDP, above the recommended 1¼%.

[4] Cyclically adjusted balance net of one-off and temporary measures, recalculated by the Commission on the basis of the information provided in the programme, using the commonly agreed methodology.

Box 1. Main budgetary measures

Revenue	Expenditure
2011	
Amendment of the pension reform (0.6% of GDP) Increase in VAT rates by 1 pp (0.4% of GDP) Nominal freeze of PIT thresholds (0.1% of GDP) Abolition of VAT reimbursement for company cars and fuel (0.1% of GDP) Changes in excise duty regulations (0.1% of GDP)	Expenditure rule (including nominal freeze in wage fund, except for teachers) (0.5% of GDP) Replacement of early retirement by 'bridge' pensions (0.3% of GDP) Cuts in spending on active labour market policies (0.3% of GDP)
2012	
Amendment of the pension reform (0.5% of GDP) Changes in excise duty regulations (0.2% of GDP) Increase in disability contribution (0.4% of GDP) Tax on copper and silver extraction (0.1% of GDP) Increase in dividends from state-owned companies due to exceptionally high profits (0.1% of GDP)	Expenditure rule (including nominal freeze in wage fund) (0.1% of GDP) Replacement of early retirement by 'bridge' pensions (0.3% of GDP) Decrease in complementary payments to farmers (0.1% of GDP)
2013	
Amendment of the pension reform (-0.1% of GDP) Abolition of specific VAT exemptions (-0.1% of GDP) Reversal of revenues from dividends to the long-term trend (-0.1% of GDP)	Reversal of the freeze in the wage fund (-0.1%)
2014	
Amendment of the pension reform (-0.1% of GDP) End of temporary increase VAT rates by 1 pp. (-0.4% of GDP)	

Note: The budgetary impact in the table is the impact reported in the programme, i.e. by the national authorities. A positive sign means that revenue/expenditure increases/decreases as a consequence of the measure. The degree of detail reflects the type of information made available in the stability or convergence programme and, where available, in a multiannual budget.

The Council also recommended that Poland should make adequate progress towards the MTO, i.e. a structural general government deficit of 1% of GDP. The Polish government is committed to reach the MTO in 2015, targeting a (recalculated) structural deficit of 0.7% of GDP for that year. Thus, a further annual structural improvement of 0.6% of GDP is planned after the expected correction of the excessive deficit in 2012. This is more than the benchmark rate of 0.5% of GDP both on average and in every year of the reference period.

The analysis of the expenditure benchmark provides slightly different conclusions. According to the information provided in the programme, the growth rate of government expenditure, net of discretionary revenue measures, over 2013 (1.19%) will not exceed a rate which is lower than the reference medium-term rate of potential GDP growth (2.58%) and which ensures an annual structural adjustment towards the MTO by 0.5 % of GDP. However, according to the Commission services' forecast, the benchmark will be exceeded with the growth rate of expenditure amounting to 2.81% in 2013. According to the programme, expenditure growth is expected to remain in line with the benchmark later too, in 2014 and 2015.

Based on the information contained in the programme on enacted structural measures, timely progress towards the MTO may require additional efforts for several reasons.

First, no additional consolidation measures for the years 2013-2015 have been enacted so far. Thus, the reduction towards the MTO largely relies on a sizeable cut in public investment expenditure (from 5.8 % of GDP in 2011 to 2.8 % of GDP in 2015). However, given the continued inflow of committed EU structural funds going forward and the government's obligation to co-fund them, it seems unlikely that such a decrease can be achieved. On the other hand, a sharp drop in public investment is likely to have an adverse impact on Poland's growth potential and as such is in conflict with the recommendation to 'minimise cuts in growth-enhancing expenditure in the future' (see first priority of AGS 2012 and 2011 recommendation on fiscal policy).

Second, the structural measures adopted or announced so far, in particular the reforms aiming at improving the long-term sustainability of and unifying the pension system, while relevant and corresponding to the specific recommendations in the AGS 2012 are not likely to bring budgetary sizeable effects in the short-to-medium term.

Third, the projected consolidation path is subject to a number of risks. Poland's growth prospects, and thus its tax revenues, may be negatively affected by the deteriorating global outlook. In addition, volatile financial markets and depreciation of the zloty may result in a rise in the government's interest costs. On the upside, the rate of GDP growth may be higher than assumed, leading to a more rapid increase in revenues.

After a rise from 45.0 % of GDP in 2007 to 56.4 % of GDP in 2011, general government debt is projected to remain below 60 % of GDP in Poland and to keep falling over the programme period, both according to the 2012 convergence programme and the Commission 2012 spring forecast. However, the speed of reduction differs between the Commission's and the national authorities' projections. While the programme projects the debt to decline from 56.4 % of GDP in 2011 to 53.7 % in 2012 and 52.5 % in 2013, the Commission forecasts a slower reduction to 55.0% in 2012 and to 53.7% in 2013. The difference in 2012 is due to different assumptions on stock-flow adjustments, mainly exchange rate movements, while in 2013 a somewhat lower budget deficit projected by the national authorities is important. Since the debt-to-GDP ratio is below the reference rate, the debt reduction benchmark is not applicable.

Analysis of the ownership structure of Poland's public debt reveals a potential risk factor. At the start of 2012, about 30 % of domestic debt (issued in PLN) was owned by foreign investors. In addition, foreign investors held a large majority (around 95 %) of internationally issued sovereign debt. Poland's total dependence on foreign investors was thus as high as 50 %. A smooth roll-over of maturing debt therefore requires continued willingness of foreign investors to keep the share of Polish assets in their portfolios constant. Moreover, the accomplishment of projected reduction of debt partially relies on the completion of privatisation operations. However, their success depends crucially on future prospects of the Polish economy.

Long term sustainability

Poland's long-term change in age-related expenditure is below the EU average. The initial budgetary position compounds the long-term costs. Assuming no policy change, debt would fall to 50 % of GDP by 2020. The full implementation of the programme would put debt on an even steeper downward path by 2020.

Fiscal framework

The Polish fiscal framework is composed of three main elements: (i) fiscal rules, applicable to general and local levels of government separately, (ii) medium-term programming (based on the Multiannual Financial Plan of the State and Multiannual Financial Projections for local governments), and (iii) performance budget system (still in the implementation phase). At the level of general government, a debt rule, set out in the Constitution and the Public Finance Law, puts a limit on the general government debt-to-GDP ratio, while a temporary expenditure rule limits the annual nominal growth of all newly-enacted expenditure items and existing discretionary items to the inflation rate (CPI) plus 1 %.[5] At the local level, a complex set of deficit, expenditure and debt rules are not compatible with the rules applying to central government.

The Polish government has not yet taken action to implement a permanent expenditure rule by 2013, as in the recommendation on the fiscal framework. According to the programme, work on a permanent rule is at an advanced stage, but the final version has not yet been announced. There has also been no progress on adjusting the national classification of public accounts to ESA95 standards, and on improving coordination among different levels of government when it comes to the budgetary process. A new deficit rule for local governments, which is expected to enter into force in 2013, is also at the final stage of preparations. It is also not yet known whether compatibility between the local and the central expenditure rules and the mechanisms to implement and monitor the process will be ensured.

Tax system

The tax burden on labour in Poland is among the lowest in the EU and the implicit tax rate on labour has been steadily decreasing. The tax burden has decreased with the introduction of the new personal income tax system in 2009, which removed the highest income tax rate of 40 %. However, non-wage charges constitute a substantial part of the cost of labour in Poland, and the disability contribution rate paid by employers has been increased as of 2012 from 4.5 to 6.5 %, partially reversing earlier reductions.[6]

Tax compliance appears to show scope for improvement, with the shadow economy estimated as accounting for as much as 25.0 % of GDP, well above the EU average of 15.2 %. Moreover, Poland tops the ranks of most burdensome administrations in the EU in terms of time needed to comply with tax requirements and the high administrative cost of revenue collection. Progress on this front would enable Poland to comply with the AGS 2012 recommendations, as improved efficiency in tax collection and lower tax evasion would make Poland's fiscal consolidation more growth-friendly.

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[5] This rule is expected to be replaced by a permanent expenditure rule for the central government once the Council adopts a decision abrogating the EDP for Poland.

[6] The disability contribution is one of four components of Poland's social security fund, which together finance a broad range of social security benefits.

The VAT revenue ratio (measuring actual VAT revenues as a percentage of theoretical revenue if the standard rate were applied to all final consumption) is below the EU average, at 48.7%, compared with 54.2% in the EU in 2010. Poland has potential for increasing VAT efficiency by extending the scope of the standard rate. The standard rate is 23%, whereas reduced rates, applied to a relatively wide range of goods and services, are 5% and 8%.

Increased tax rates on energy products other than renewable energy could be one of many cost-efficient instruments to facilitate Poland's transition toward achieving the Europe 2020 targets for reduction of CO_2 emissions and total energy consumption. Excise duties on energy products other than transport fuels are among the lowest in the EU, but in line with EU requirements. While Poland obtains a relatively high share of revenues from energy taxation (2.1% of GDP, compared with 1.8% of GDP in the EU), the implicit tax rate on energy consumption is only around half the EU average, as the energy intensity of production is very high.

Overall, the composition of tax revenue is rather favourable, as a high share is raised from indirect taxes, which are considered less distortionary. Poland has one of the highest levels of revenue from consumption taxes other than VAT, such as excise duties on alcohol and tobacco, recurrent property taxes or energy taxes.

3.2. Financial sector

Financial sector stability

Financial institutions in Poland have adopted a rather conservative, domestically oriented business model, which, in combination with prudent financial regulation, has allowed the banking sector to weather the financial crisis well and to benefit from a subsequent rebound. In 2011, total banking profits reached pre-crisis levels and the quality of the loan portfolio stabilised. The share of non-performing loans fell to 4.7% in 2011, from 4.9% in 2010 (compared to the EU average of 7% in 2010),[7] mainly as a result of improved profitability in the corporate sector. The capital adequacy ratio (Tier 1) for the banking sector as a whole decreased slightly to 11.8%, but remains well above the level required under the Basel III agreement. No Polish financial institution was in need of recapitalisation within the temporary bank recapitalisation exercise launched by the European Council of October 2011 and coordinated by the European Banking Authority.

The Polish government has addressed credit and liquidity risks in the banking sector. These risks stem from the fact that 36% of the outstanding loan portfolio comprises foreign currency loans (mainly housing loans in Swiss francs). The Polish financial supervisory authority has revised prudential recommendations to limit the extent to which foreign currency mortgages are used. Moreover, closing down a subsidised housing-loan programme, '*Family on its own*', may result in falling demand for housing and mortgage loans. These regulatory and legal changes are relevant and effective, as banks have limited the supply of foreign currency housing loans (77% of all new housing loans in 2011 were granted in the domestic currency). Overall, these measures have addressed this challenge in an effective manner.

Despite a recent increase, the average funding gap (difference between loans granted to domestic sectors and deposits collected) in the banking sector remains at a relatively low level

[7] IMF Financial Soundness Indicators at: http://fsi.imf.org/.

(17%). However, this number conceals significant differences among Polish banks. In particular, subsidiaries of foreign financial institutions have a higher funding gap and often depend on the ability and willingness of their parent entities to continue funding. Recent changes in the taxation of retail deposits, intended to close a legal loophole in capital gains tax, might lower the availability of domestic deposits, ultimately increasing the funding gap. However, the financial supervisor, in cooperation with the central bank, wants to revive the market for securitised instruments. Once implemented, this should provide long-term funding for banks. Moreover, the supervisory authority monitors liquidity flows in the banking sector on a daily basis and has recommended retaining 2011 profits, depending on the capital situation of individual banks. These steps are intended to strengthen the liquidity and capital positions of banks and to facilitate access to long-term funding. Consequently, Poland is effectively supporting lending activity in line with AGS priorities.

Overall, the country should continue with its prudent and pre-emptive regulatory policy, though more ambitious efforts to increase domestic deposits, ultimately lowering the loan-to-deposit ratio, might be useful. Moreover, the financial supervisor could identify early warning indicators and immediate measures to allow a quick reaction in case of intensified capital outflows.

Financing of the real economy

Banks continued to provide lending to the corporate sector, SMEs in particular, fuelling investment activity and growth. However, there are still bottlenecks for specific segments of the market, namely those where innovative SMEs and start-up companies seek financing. In particular, the venture capital market is still in its infancy and the availability of risk capital is limited. Moreover, relatively high collateral requirements limit the scope for SMEs to receive credit. Poland is trying to tackle these issues with the National Capital Fund. Since the fund only became operational in 2010, it is too early to assess its impact on the development of start-ups and seed capital funds.

3.3. Labour market, education and social policy

One of the strengths of the Polish economy is its endowment with labour and the regulatory set up of the labour market. The labour force is relatively skilled, labour taxes are comparatively low and labour laws provide for a sufficient degree of flexibility. However, Poland faces a number of challenges that need to be addressed properly to allow the country to exploit its untapped growth potential and to counteract negative demographic developments.

A main concern is the overall low participation rate. Only 64.8% of the population between the ages of 20 and 64 is active on the labour market, and the rates are even lower for youth, women and elderly people. Youth unemployment is above the EU average and is mainly the result of skills mismatch and low access to apprenticeships. Women, particularly those with children, find it difficult to combine family and job because of the lack of availability of childcare. Elderly workers exit the labour market early because the current tax and pension systems provide only limited incentives to stay in the labour market. Finally, employers are discouraged from employing elderly workers who — after reaching a certain age — enjoy special protection and cannot be easily dismissed.

The government has acknowledged these challenges, which were identified in last year’s recommendations and were also highlighted in the AGS 2012. The national reform programme set an ambitious employment target for 2020, at 71%, and the main aim of the

National Action Plan for Employment 2012-2014[8] is to facilitate access to the labour market and to ensure a high level of participation, combating poverty and increasing mobility.

An action cutting across all groups is the implementation of the flexicurity principle. Its objective is to simultaneously enhance flexibility and security in the labour market. The basic idea is to combine flexible and reliable contractual arrangements, comprehensive lifelong learning strategies, and effective active labour market policies. In this context, the efficiency of Public Employment Services will be improved. These measures are a step in the right direction, but their budgetary impact must be carefully assessed. Moreover, they must be implemented in parallel with an overhaul of the social benefit system that will ensure the right incentives to stay in employment, while protecting the most vulnerable and reducing the shadow economy.

A number of measures are planned to facilitate the entry of young people into the labour market. The most important are a reform of the benefit system and a reform aimed at facilitating the access to regulated professions. In addition, improving the efficiency of the tax system, including incentives to take up legal employment, will help to combat undeclared work. In the context of promoting lifelong learning, specific attention will be given to training in the workplace and strengthening cooperation with employers, e.g. by promoting apprenticeships. The Ministry of Labour has also designed a new pilot programme, *'30 minus'*, addressed to those under 30.

Improving the childcare system is an important tool for raising the participation of women in the labour market. The number of places in child-care institutions for children up to the age of three will increase by 4 560 in 2012 compared to 2010, thanks to the continued implementation of the Toddler Programme, with significant support from the European Social Fund. However, the number of places could be more ambitious, given the low starting point. This measure alone is unlikely to lift the participation rate of women significantly. Poland has the lowest enrolment rate in pre-school education in Europe (70.9 % in 2009).[9] This is due mainly to the lack of places, the lack of adequate infrastructure and of qualified staff. Moreover, the government's declaration that it would generate additional funds for creating pre-school institutions (3-5 years of age) is not reflected in the 2012 Budget Law, which decreased funding for education. These inconsistent measures not only cast doubts on the government's willingness to create more places, it also resulted in some municipalities closing down schools and kindergartens, thus undermining the credibility of the reform.

To address the low participation of elderly workers in the labour market, Poland has announced a pension reform. The statutory retirement age (currently 65 for men and 60 for women) will be gradually raised from 2013 onwards, to 67 for men in 2020 and for women in 2040. Changes in the pension system will be accompanied by reforms in the health sector to improve the health of the workforce. Moreover, for the pension reform to be successful, it would have to be underpinned with a major programme of active ageing measures. For now, an important policy aspect is to break the entrenched practices of early retirement, in particular the alignment of special schemes with the general pension scheme.

Poland has also continued its efforts to limit favourable retirement conditions for uniformed services. A draft law adopted by the government envisages the possibility of retirement after fulfilling two conditions: 25 years of service and 55 years of age (currently only 15 years of

[8] An operational document to the National Reform Programme, draft of 4 April 2012.

[9] The EU average was 92.5 % in 2009.

service). However, the new conditions would apply only to new officers (those currently employed would be able to join the new system on a voluntary basis) which significantly limits the impact of the reform on the labour market and the public finances. Poland also intends to modify a special retirement scheme for miners. The new scheme would apply only to miners who work underground, thus restricting the number of beneficiaries.

Poland has one of the highest numbers of farmers in the EU. They form a very diverse group. Some own very modern farms that produce high-quality products. However, most produce only for local markets and benefit from special social and pension systems. These subsidised systems need to be reformed. In 2011, Poland introduced some changes to the farmers' social security fund (KRUS). The state will continue to pay health contributions for the smallest farms (up to 6 ha), whereas owners of larger farms will have to pay for themselves. However, it is only a temporary solution for 2012 and then may be extended for 2013. A permanent reform still needs to be designed and implemented.

At 11.4% in-work poverty in Poland is fifth highest in the EU and its statutory minimum wage is among the lowest. Coupled with very low net transfers to low-income earners and strong eligibility rules, the impact on reducing poverty among the working population is very limited. Those on temporary contracts or civil law contracts are particularly exposed, since this group represents as much as 26.8% of total employment and holding a temporary contract involves a wage penalty of 27.8% relative to permanent contracts. These elements tend to trap people in poorly paid jobs and hamper upward mobility.

An important challenge for Poland is pre-school education, a pre-requisite for good educational attainment and the development of social skills. In particular, it is a chance for children from disadvantaged backgrounds to catch up with social and learning skills so that they have an equal start with others at school. Poland needs a substantial increase in the number of pre-school places to cater for this challenge.

A horizontal measure in this field is in lifelong learning, in which Poland is well below the EU average, with an adult participation rate of 5.3 % (vs. 9.1 % for the EU). Access to tailored and individualised support programmes, including dedicated training and apprenticeship programmes leading to a first vocational experience, is low. There should be more support for encouraging apprenticeships (e.g. by reimbursing employers' training costs) and more cooperation between vocational schools and employers. The new programme '*Business for education*' is a useful tool in this regard. The reform of Vocational Education and Training (VET), set to be implemented as of 2012/2013, aims to introduce more cooperation between VET schools and employers and more flexible learning pathways. Moreover, the reform is intended to increase the number of apprenticeships and to develop the skills of both the older and the unskilled workforce, using dedicated vocational training. While these reforms are relevant and respond to the challenges identified in the country recommendations, they are not ambitious enough. Allocating more funds to raise the number of apprenticeships and to encourage employers to accept trainees could remedy the situation. Further efforts are required to make VET more attractive, and to reduce the skills mismatch by improving the quality of teaching.

Poland started implementing an ambitious higher education reform in the second half of 2011 that aims to strengthen university-business links and to address the skills and job mismatch. The reform aims to make courses on offer more flexible, responding better to changing labour market needs. Academic Enterprise Incubators are a good example of an initiative that offers students and graduates a chance to develop entrepreneurial skills on preferential terms. It also promotes self-employment. Another instrument in this area is the introduction of a financing mechanism for higher education institutions based on their qualitative performance. Nevertheless, there is still a need to strengthen the relevance and quality of teaching provision, with a particular focus on tertiary private institutions.

Given all measures taken, in terms of ambition and adequacy, Poland addressed the country-specific recommendations related to the labour market and education only partially. In particular, much remains to be done regarding changes to the farmers' social security fund. Reforms in higher education and VET are heading in the right direction, but the quality of tertiary education in Poland still needs to be improved significantly, particularly as regards private higher education institutions, and there are shortcomings in the provision and quality of career guidance.

3.4. Structural measures promoting growth and competitiveness

Poland has been able to secure continued growth even during the financial crisis and remains a 'growth engine' in the European Union. To enhance its growth potential, it is important that the country continues along this path and tackles the challenges that were identified in the European Semester 2011 and the AGS 2012. The country has to continue its modernisation, focusing on improving the business environment and infrastructure, strengthening innovation, and reducing energy dependency.

Structural funds

Poland is the largest beneficiary of cohesion policy in 2007-2013, with a total allocation of nearly EUR 68 bn. Financial progress is more than satisfactory, with nearly 40 % of payments from the Commission made. Currently Poland is focusing on avoiding backlogs in the final years of the funding period and spending the remaining 60 % of the allocation on time to avoid any de-commitments. Overall, progress is good, but some sectors, in particular *information society and broadband* and *railways*, require further attention.

Transport and infrastructure

Poland's underdeveloped transport infrastructure continues to be a major bottleneck to growth. This particularly applies to rail infrastructure, where substantial investment in a deteriorating, ageing rail network is a priority. Out of about 20 000 km of lines operated, only 36 % is in good technical condition. In November 2011, the government adopted a multiannual plan for investment in railway infrastructure by 2013 *(as required by the recommendation on infrastructure)*. This plan, with an overall budget of PLN 20.4 billion (including EU, EIB and national funds), will focus on modernising the existing railway network and will enable 2 300 km of lines to be upgraded. However, the plan lacks ambition in terms of scope, is not sufficiently consistent with other programmes, and its funding may be problematic.

Despite the fact that the need for investment in the rail network is huge, Poland is not fully using the Cohesion Fund resources available for this purpose. On the contrary, in June 2011, it asked the Commission to accept a shift of EUR 1.2 billion from rail to road projects. This request delayed the implementation of its rail transport master plan *(as required by the recommendation on infrastructure).* Progress with the implementation and use of EU funds available for modernisation of the existing railway network, in particular TEN-T corridors, are possible steps for improvements.

Car ownership and road use are constantly growing, and the motorway and expressway network is being extensively developed with support from EU funds. There are currently 530 km of motorways and 740 km of expressways under construction. However, over the 2007-2013 funding period, the investment ratio between road and rail is 3:1, strongly favouring road projects. Therefore, the quick adoption and implementation of a new integrated transport strategy should provide a better balance in investment priorities in various transport modes, together with better prioritisation of specific investments. The country specific recommendations relating to the transport sector remain partially valid and should be followed up this year.

As regards development of the information society, Poland is below the EU average. Take-up of broadband connections by households is slightly slower than the EU average (58 % vs. 61 %). In particular, there is a lack of coverage in rural areas. Poland has recently mobilised public funding to increase its rural broadband coverage. However, more is needed to bring about widespread connectivity.

R&D and innovation

Another major weakness of the Polish economy continues to be a low level of R&D and innovation investments and a lack of innovativeness in businesses. Despite recent growth, Poland's R&D expenditure remains relatively low (0.74 % of GDP in 2010) and is among the lowest in the EU. The pervasive underinvestment of the private sector is particularly worrying. The low levels of investments are also reflected in a poor scientific and technological performance.[10]

Poland recognises these shortcomings. Recent reforms of the science and higher education systems initiated a major restructuring and shift towards a more efficient and competitive system, including support mechanisms to induce science-industry cooperation. However, there are still structural problems with the functioning of an innovation-friendly environment, which at present fails to drive private-public collaboration, and does not stimulate the growth of innovative companies. So far, structural fund support for R&D and innovation has been skewed towards absorption of new technologies, and has been less successful in undertaking indigenous research and innovation projects, especially at regional level. As a result, ongoing reforms need to be accompanied by more effective support measures, in particular for innovative young companies and SMEs.

The National Research Programme adopted in August 2011 is an important step in tackling the existing fragmentation of R&D efforts. However, it remains unclear how priorities are linked and taken forward in innovation, and more broadly, in industrial policy. Poland needs to ensure better coordination between science and innovation policy and further concentrate funding on key strategic areas, including developing private-public partnerships in these areas. Another critical challenge is not sufficient internationalisation of Polish science.

Environment and energy

As regards the environment, waste management, water and air pollution are among the main challenges. Too much municipal waste is still landfilled — 73 %, while the EU average is below 40 %, and recycling accounts for only 18 %. Valuable resources in waste are being buried in landfills, with negative economic and environmental impacts. More could be done to use cohesion funds to support the development of the infrastructure needed, complemented by a landfill tax and other economic instruments such as 'Pay As You Throw' schemes

[10] In the 2011 Innovation Union Scoreboard, the country dropped to rank lowest among moderate innovators (23rd place).

creating additional incentives. Moreover, atmospheric emissions levels in Poland are among the highest in the EU, and the urban population's exposure to particulate matter and ozone is still above EU targets. Energy production, household combustion and transport largely account for emissions. Health benefits lost from not achieving the 2020 targets of the Air Strategy are estimated at between EUR 6 bn and EUR19 bn.

With respect to energy, coal remains the dominant fuel source for power generation. Poland still has to make a considerable effort to reach its 15 % Europe 2020 renewables target. Furthermore, congestion on the Polish domestic electricity grid could be reduced by more capacity to interconnect to neighbouring markets, as these shortcomings slow down market integration. Regarding natural gas, the key problem is lack of diversification, with almost 90 % of gas imported from Russia. However, the situation is improving, thanks to a set of new investments (co-financed by the EU), such as an LNG import terminal, new interconnections with the Czech Republic and Germany, and new storage facilities. Furthermore the creation of a gas trading platform and phasing out regulated prices would stimulate competition in the gas sector. Adoption of a national programme of development of the nuclear power in 2011 was another step towards enhancing country's energy security. Implementation of EU energy legislation, particularly regarding the Second and Third Energy Package and the EU Renewable Energy Directive, is lagging behind, and a number of infringement procedures are pending.

Poland is not obliged to reduce greenhouse gas (GHG) emissions and has to limit the increase in GHG emissions to 14 % (compared to 2005) by 2020 as part of the energy and climate headline target. As of 2010, emissions had increased by 12 % (compared to 2005). According to the latest Polish projections, emissions are expected to decrease by 4.5 % by 2020, leading to overachievement by 18.5 percentage points.

Compared to the EU average, Poland has a higher and increasing share of private cars in passenger transport, and a lower share of railways, buses and trams. This overall trend is ongoing, and is negative from the point of view of greenhouse gas and other atmospheric emissions and energy efficiency. There is generally underinvestment in urban transport, which needs modernisation. The proportion of road freight has risen in recent years. To reduce energy demand and emissions levels, intermodal transport should be promoted in Poland. Its share in total freight is currently under 5 %).

In 2011, Poland adopted the Energy Efficiency Act that introduced a new white certificate scheme intended to deliver at least half the overall energy savings the Polish authorities have set as targets. As part of this scheme, energy companies are obliged to obtain either a set amount of energy savings among end-use consumers or energy generation (e.g. district heating) or to pay a fee that could be used by the public administration to support new energy efficiency investments. More than two thirds of energy savings are expected from investments in the residential sector and through refurbishment of public buildings.

Professional services

Unjustified restrictions in the field of professional services hamper economic growth. Poland has notified 368 regulated professions to the Commission (32 % in construction and industry, 21 % in the transport sector and 20 % in the health sector). Recently, Poland announced a plan to scale regulation in professional services down by half, regarding both educational requirements and licensing. The government launched a public consultation on a first draft law liberalising access to around 50 professions in March 2012. It intends to adopt subsequent draft laws covering around 200 professions in total in the second half of 2012. The government estimates that such deregulation may increase employment in the professions concerned by 15-20%. It would result in 50 000 to 100 000 new jobs. Moreover, the reform will increase competition, cut red tape and reduce prices of selected services.

Single market legislation

Although Poland transposed the Services Directive, the effect of the horizontal law on a number of sectoral acts remains uncertain, especially with respect to the cross–border provision of services such as education and tourism (e.g. establishment, registration requirement and obligation to possess a special identity document). The poor transposition of the single market legislation negatively affects business environment, in particular for companies from other Member States.

3.5. Modernisation of public administration

Improvements in public administration, policy design and delivery are crucial for a better business environment and to raise the quality of government and public institutions in Poland. Two major legislative packages were adopted in 2011 in this regard. The revision of the freedom of entrepreneurship act limited administrative constraints on business activity. It decreased the burden of controls and allowed electronic registration of economic activity by creating the Central Electronic Register and Information on Economic Activity. This should bring a one-stop shop closer, and reduce the time needed to start a business. The second legislative package, consisting of two deregulation acts, aimed to reduce information obligations and administrative procedures for citizens and businesses. The new provisions replaced administrative certificates with self-declarations in many areas.

Despite recent efforts, the administrative burden on business remains high and public administration continues to lack efficiency. The main areas of concern include high administrative compliance costs, unstable tax legislation, weak enforcement of contracts, lengthy and burdensome licensing and permit procedures, property registration and zoning legislation.

Judicial proceedings and other legal actions are relatively high in number and long in duration. The introduction in 2010 of simplified electronic procedures targeting mainly small and mass claims, run successfully by an e-court in Lublin (responsible for the entire country), slightly reduced the backlog of pending court cases. In 2011 legislative amendments introducing a general simplification of judicial proceedings for economic cases were adopted, but further changes are necessary to improve the situation. Since 2007, the average time to complete proceedings in civil and commercial matters has continued to increase. The situation in the courts of Warsaw, where the headquarters of most major businesses are located, is worse than in any other part of the country. Insolvency proceedings are longer than the EU average and show very low recovery rates.[11] Furthermore, the length of the legal procedures necessary to enforce contracts in Poland (court proceedings and enforcement of the judgment) gives rise for concern.

E-government services for citizens are not very well developed in Poland. The availability of public services is somewhat below the European average (at 73%) and the take-up is low (at 28%). In addition, efforts to improve the situation have been lacking efficient coordination and integration into a well-functioning system. Online service provision for businesses is

[11] World Bank, Doing Business, Economy Profile, Poland, 2012.

close to the EU average (at 88 %) while use by businesses has greatly surpassed the EU average level (at 89 %).

Efforts to reduce the administrative burden are ad hoc and lack clear orientation. Impact assessments and consultations with stakeholders are poorly conducted and have little impact on the final provisions of legislative acts. Actions are not coordinated at government level and the implementation of existing guidelines is not monitored. Without stronger political commitment, it seems unlikely that the situation will change to any significant extent in the near future. A new strategy, 'Efficient State 2011-2020', due to be adopted soon, should address these challenges in a systemic way.

Regarding state aid, sectoral aid spending is much higher than the EU median. Poland also lacks a coordinating body that would be empowered to vet domestic state aid and a central state aid registry, the existence of which would enable better monitoring of public expenditure.

4. OVERVIEW TABLE

2011 commitments	Summary assessment
Country-specific recommendations (CSRs)	
CSR 1: Implement the measures announced in the draft 2012 Budget Law and take additional measures of a permanent nature if needed to reduce the general government deficit to below 3% of GDP in 2012, in line with the Council recommendations under the EDP. While ensuring adequate progress towards the medium-term objective, minimise cuts in growth-enhancing expenditure in the future.	Poland has partially implemented the CSR. Based on the Commission 2012 spring forecast, Poland has managed to reduce its general government deficit close to the recommended 3% threshold in 2012 (taking into account the cost of a systemic pension reform the Council recommendation is considered to be met), while further consolidation effort is required to ensure adequate progress towards the MTO. In this regard, plans provided lack ambition and are not clear enough.
CSR 2: Enact legislation with a view to introducing a permanent expenditure rule by 2013. This rule should be based on sufficiently broad budgetary aggregates and should be consistent with the European system of accounts. Moreover, take measures to strengthen the mechanisms of coordination among the different levels of government in the medium-term and annual budgetary processes.	Poland has not implemented the CSR. All measures covered by this recommendation, the expenditure rule, the consistency with ESA 95 as well as the deficit rule for local governments have not yet advanced beyond the negotiation stage and details are often missing.
CSR 3: Raise as planned the statutory retirement age for uniformed services, continue steps to increase the effective retirement age, such as linking it to life expectancy. Establish a timetable to further improve the rules for farmers' contributions to the social security fund (KRUS) to better reflect individual incomes.	Poland has partially implemented the CSR. While efforts have been undertaken to limit favourable retirement conditions for uniformed services and an increase in the general retirement age for men and women is planned, these measures should have been more ambitious, as the expected impact, in particular regarding uniformed services, is very modest and will occur only in the long-run. The time span over which the retirement age for women is to be raised is overly long (until 2040).
CSR 4: Implement the proposed lifelong learning strategy, enhance apprenticeships and dedicated vocational training and education programmes for older workers and low-skilled workers. Strengthen links between science and industry by implementing the 'We build on Knowledge' programme ('Budujemy na Wiedzy'). Implement the higher education reform programme 'Partnership for Knowledge' ('Partnerstwo dla Wiedzy') so as to better align educational provision with labour market needs.	Poland has partially implemented the CSR. Poland has introduced several reforms in the areas of education, training and lifelong learning, which are all relevant to tackle the challenges identified in the CSR. There needs to be more effort to reduce the skills mismatch, and more cooperation between companies and higher education institutions. Support mechanisms have been launched to induce science-industry cooperation. However, they need to be scaled up, and more widespread efforts are needed to address persistent structural problems with functioning of the innovation-friendly environment which at present fails to drive private-public collaboration and lacks incentives for companies to innovate.
CSR 5: Increase female labour market participation by taking measures to ensure stable funding for pre-school child-care arrangements, to increase enrolment rates of children under three years.	Poland has partially implemented the CSR. Raising the number of places in child care institutions by 4 500 seems insufficient to increase the female labour participation rate significantly. Moreover, funds for pre-school child-care institutions are reduced in the 2012 budget.

CSR 6: Take measures to improve incentives for investment in energy generation capacity with a view to encouraging low-carbon emitting technologies, and to further develop cross-border electricity grid interconnections; develop a multiannual plan for investment in railway infrastructure and implement the rail transport master plan.	Poland has partially implemented the CSR. Some progress has been made in relation to the diversification of energy supply, but progress is limited in transportation, i.e. rail and implementation of the transport master plan.
CSR 7: Take steps to simplify legal procedures involved in enforcing contracts; revise construction and zoning legislation, with a view to streamlining appeal procedures and speeding up administrative procedures.	Poland has partially implemented the CSR. Despite recent efforts, the administrative burden remains high and administrative efficiency could be improved. Only minor reforms have been introduced, which are not expected to have an impact sufficient to address the challenges.
Euro Plus Pact (national commitments and progress)	
Commitments to further improve public finance sustainability include enforcement of the existing debt rule, temporary expenditure rule (CPI + 1%), introduction of new regulations limiting deficit ratios of local governments and introduction of a permanent expenditure rule.	The public finance commitments have been only partially implemented: The existing debt rule is fully operational and enforceable, although based on national classification of national accounts, different from internationally comparable ESA95. The temporary expenditure rule has been included in the 2011 budget and is to remain in force in 2012. The new deficit rule for local governments has not been implemented as the Ministry of Finance and the local government entities could not agree on its final shape. The permanent expenditure rule is still under preparation.
Commitments to foster employment focus on labour market participation (provision of better care facilities for children under three, preservation of lower disability pension contributions) and education (getting business involved in education).	Labour market commitments have been only partially implemented: Non-wage labour costs were increased by raising the disability pension contribution paid by employers from 4.5% to 6.5%, contrary to one of the commitments. The number of places in child-care institutions for children up to the age of three will increase by 4 500 in 2012 compared to 2010, but the government's declaration to generate additional funds for creating pre-school child-care institutions (3-5 years of age) is not reflected in the 2012 Budget Law, which decreased education subsidies. This reduction not only casts doubts on the government's willingness to create more places, it also resulted in closing down schools and kindergartens by some municipalities, undermining credibility of the reform. Progress in involvement of business in education process is even more limited.
Commitments to foster competitiveness presented by the government focus on education and the science sector (i.e. implementation of the reform of the science system; support to young scientists; transfer of knowledge into the economy and implementation of the reform of the higher education system), infrastructure development (i.e. creation of modern road, rail, energy and digital networks) and the business environment (i.e. reductions in red tape, easier access to bank loans, a pay freeze in	The competitiveness commitments have only been partially implemented: Two new bills on education and science have been enacted and are being implemented. Infrastructure is being upgraded, but progress in the field of business environment is very slow.

the public sector).	
Measures to reinforce financial stability aim for more efficient regulation and supervision of the banking sector (i.e. new regulations for bank resolution funds and support for the activities of the ESRB)	The commitments have been partially implemented: A new banking resolution scheme is still being prepared. Poland is actively involved in the works of the ESRB
Europe 2020 (national targets and progress)	
Employment rate target (in %): 71 %	Employment rate reached 64.9 % in 2009 and 64.6 % in 2010. Despite recent reforms of early retirement regimes, no progress has been made towards achievement of the target.
R&D target (in %): 1.7 %	Gross domestic expenditure on R&D (in % of GDP) reached 0.68 % in 2009 and 0.74 % in 2010. Marginal progress has been made towards achievement of the target.
Greenhouse gas (GHG) emissions target: + 14 % (compared to 2005; ETS emissions are not covered by this national target)	Change in non-ETS GHG emissions between 2005 and 2010: +12 % (this data corresponds to the current ETS scope)
Renewable energy target: 15.48 % target for renewable energy sources in overall final energy consumption; 10 % — share of renewable energy in the transport sector by 2020	The share of renewable energy in gross final energy consumption (in %) reached 8.9 % in 2009. The share of renewable energy in the transport sector reached 3.6 % in 2009. Limited progress has been made towards the achievement of the target. On 22 December 2011, the Ministry of Economy presented a draft Renewable Energy Sources Law.
Energy efficiency– reduction in primary of energy consumption by 2020 in Mtoe: 13.60 Mtoe	The NRP re-confirms the Polish national energy efficiency target for 2020 to stabilise primary energy consumption at the level of 96 Mtoe despite projected economic growth during that period. The NRP estimates that achieving this target will mean primary energy savings of 13.6 % in 2020 as compared to a business-as-usual scenario. Energy efficiency objectives are set according to national circumstances and national formulations. As the methodology to express the 2020 energy consumption impact of these objectives in the same format was agreed only recently, the Commission is not yet able to present this overview.
Early school leaving target (in %): 4.5 %	The share of early leavers from education and training (Percentage of the population aged 18-24 with at most lower secondary education and not in further education or training) reached 5.3 % in 2009 and 5.4 % in 2010. No progress has been made towards achievement of the national target, which is well below the Europe 2020 headline target.
Tertiary education target (in %): 45 %	Tertiary educational attainment reached 35.3 % in 2010. There has been some progress towards achievement of the national target, which is above the Europe 2020 headline target.

Target on the reduction of population at risk of poverty or social exclusion in number of persons: 1 500 000	People at-risk-of-poverty or social exclusion in 1 000 persons attainment reached 10 454 in 2009 and 10 409 in 2010. No progress has been made towards achievement of the target.

ANNEX

Table I. Macro-economic indicators

	1995-1999	2000-2004	2005-2008	2009	2010	2011	2012	2013
Core indicators								
GDP growth rate	6.0	3.2	5.4	1.6	3.9	4.3	2.7	2.6
Output gap [1]	-0.4	-0.3	1.3	-0.7	-0.8	-0.2	-0.9	-1.5
HICP (annual % change)	11.3	4.3	2.6	4.0	2.7	3.9	3.7	2.9
Domestic demand (annual % change) [2]	7.5	2.4	6.0	-1.1	4.6	3.7	1.9	2.2
Unemployment rate (% of labour force) [3]	12.0	18.6	12.1	8.2	9.6	9.7	9.8	9.6
Gross fixed capital formation (% of GDP)	21.7	19.9	20.4	21.2	19.9	20.2	20.4	20.1
Gross national saving (% of GDP)	20.3	17.4	18.6	17.3	17.2	17.4	17.7	17.2
General government (% of GDP)								
Net lending (+) or net borrowing (-)	**-4.1**	**-5.0**	**-3.3**	**-7.4**	**-7.8**	**-5.1**	**-3.0**	**-2.5**
Gross debt	**42.8**	**41.8**	**46.7**	**50.9**	**54.8**	**56.3**	**55.0**	**53.7**
Net financial assets	**0.1**	**-21.1**	**-19.7**	**-22.2**	**-29.5**	**n.a**	**n.a**	**n.a**
Total revenue	42.3	38.3	39.9	37.2	37.5	38.5	40.1	39.8
Total expenditure	46.4	43.3	43.2	44.5	45.4	43.6	43.1	42.4
of which: Interest	4.4	3.0	2.5	2.6	2.7	2.7	2.7	2.7
Corporations (% of GDP)								
Net lending (+) or net borrowing (-)	**-4.5**	**-1.8**	**0.0**	**3.6**	**4.6**	**4.7**	**3.9**	**2.3**
Net financial assets, non-financial corporations	**-74.7**	**-74.1**	**-85.2**	**-85.2**	**-79.9**	**n.a**	**n.a**	**n.a**
Net financial assets, financial corporations	**10.3**	**9.0**	**-7.2**	**-2.4**	**-4.4**	**n.a**	**n.a**	**n.a**
Gross capital formation	14.7	12.4	13.0	10.5	10.3	11.1	11.2	11.6
Gross operating surplus	14.7	18.0	22.0	23.5	23.2	23.8	23.9	23.5
Households and NPISH (% of GDP)								
Net lending (+) or net borrowing (-)	**6.3**	**3.4**	**-0.4**	**1.9**	**1.1**	**-2.1**	**-3.1**	**-2.6**
Net financial assets	**37.1**	**47.6**	**58.2**	**46.8**	**49.2**	**n.a**	**n.a**	**n.a**
Gross wages and salaries	35.1	34.2	32.4	32.9	33.0	32.5	32.2	32.4
Net property income	5.6	5.4	3.5	3.3	3.2	2.0	1.6	1.4
Current transfers received	20.4	20.6	19.2	20.0	19.6	19.5	20.0	20.5
Gross saving	10.5	8.1	4.4	6.0	5.7	2.3	1.2	1.8
Rest of the world (% of GDP)								
Net lending (+) or net borrowing (-)	**-2.3**	**-3.1**	**-2.8**	**-1.9**	**-2.1**	**-2.5**	**-2.2**	**-2.9**
Net financial assets	**27.5**	**39.1**	**54.6**	**64.2**	**66.0**	**n.a**	**n.a**	**n.a**
Net exports of goods and services	-2.8	-3.7	-2.3	0.1	-1.2	-1.1	-0.5	-0.7
Net primary income from the rest of the world	-0.8	-1.0	-2.5	-3.5	-3.4	-4.4	-4.2	-4.2
Net capital transactions	0.1	0.1	0.7	1.2	1.7	1.8	1.7	1.3
Tradable sector	53.5	51.3	51.0	51.5	51.0	51.8	n.a	n.a
Non-tradable sector	34.9	37.4	36.8	37.4	37.1	36.0	n.a	n.a
of which: Building and construction sector	6.6	6.0	6.2	7.2	7.3	7.1	n.a	n.a
Real effective exchange rate (index, 2000=100)	93.8	98.7	100.4	90.5	98.9	96.7	94.2	96.0
Terms of trade in goods and services (index, 2000=100)	106.9	100.1	103.7	106.7	105.2	104.0	103.4	102.4
Market performance of exports (index, 2000=100)	92.8	107.4	127.5	144.1	145.2	148.0	150.2	151.8

Notes:

[1] The output gap constitutes the gap between actual and potential gross domestic product at 2000 market prices.

[2] The indicator for domestic demand includes stocks.

[3] Unemployed persons are all persons who were not employed, had actively sought work and were ready to begin working immediately or within two weeks. The labour force is the total number of people employed and unemployed. The unemployment rate covers the age group 15-74.

Source :

Commission services' spring 2012 forecast

Table II. Comparison of macroeconomic developments and forecasts

	2011		2012		2013		2014	2015
	COM	CP	COM	CP	COM	CP	CP	CP
Real GDP (% change)	4.3	4.3	2.7	2.5	2.6	2.9	3.2	3.8
Private consumption (% change)	3.1	3.0	2.0	2.1	2.6	2.7	3.1	3.3
Gross fixed capital formation (% change)	8.3	8.3	4.7	2.8	1.6	0.8	2.9	6.0
Exports of goods and services (% change)	7.5	7.5	3.4	3.0	5.7	6.5	7.4	5.3
Imports of goods and services (% change)	5.8	5.8	1.7	1.8	4.9	6.1	7.6	5.1
Contributions to real GDP growth:								
- Final domestic demand	3.3	3.7	2.2	1.9	2.1	2.8	3.4	3.7
- Change in inventories	0.4	0.4	-0.2	-0.2	0.1	0.6	0.6	0.2
- Net exports	0.7	0.6	0.8	0.5	0.3	0.1	-0.1	0.1
Output gap[1]	-0.2	-0.1	-0.9	-0.9	-1.5	-1.3	-1.2	-0.6
Employment (% change)	1.0	1.1	0.3	0.3	0.4	0.6	0.8	0.9
Unemployment rate (%)	9.7	9.7	9.8	9.9	9.6	9.7	9.3	8.9
Labour productivity (% change)	3.3	3.2	2.4	2.2	2.2	2.3	2.4	2.8
HICP inflation (%)	3.9	4.3	3.7	4.0	2.9	2.7	2.3	2.5
GDP deflator (% change)	3.2	3.2	3.2	3.2	2.3	2.2	2.2	2.5
Comp. of employees (per head, % change)	5.1	4.2	4.7	6.4	5.1	5.7	5.1	6.0
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	-2.5	2.1	-2.2	1.2	-2.9	1.8	2.3	2.7

Note:

[1]In percent of potential GDP, with potential GDP growth according to the programme as recalculated by the Commission services.

Source :

Commission services' spring 2012 forecasts (COM); Convergence programme (CP).

Table III. Composition of the budgetary adjustment

(% of GDP)	2011	2012		2013		2014	2015	Change: 2011-2015
	COM	**COM**	**CP**	**COM**	**CP**	**CP**	**CP**	**CP**
Revenue	**38.5**	**40.1**	**39.6**	**39.8**	**38.7**	**37.9**	**37.6**	**-0.9**
of which:								
- Taxes on production and imports	13.7	14.0	13.7	14.1	13.6	12.9	12.7	-1.0
- Current taxes on income, wealth, etc.	7.0	7.3	7.3	7.4	7.5	7.7	8.0	1.0
- Social contributions	11.4	12.4	12.3	12.4	12.5	12.6	12.6	1.2
- Other (residual)	6.3	6.4	6.3	6.0	5.1	4.7	4.3	-2.0
Expenditure	**43.6**	**43.1**	**42.6**	**42.4**	**41.0**	**39.5**	**38.6**	**-5.0**
of which:								
- Primary expenditure	40.9	40.4	39.8	39.6	38.2	36.9	36.1	-4.8
of which:								
Compensation of employees	9.8	9.7	9.6	9.6	9.6	9.4	9.2	-0.6
Intermediate consumption	5.7	5.6	5.8	5.5	5.7	5.5	5.3	-0.4
Social payments	16.2	16.1	16.0	16.3	15.8	15.8	15.7	-0.5
Subsidies	0.5	0.4	0.4	0.3	0.4	0.4	0.4	-0.1
Gross fixed capital formation	5.8	5.6	5.2	4.9	3.9	3.0	2.8	-3.0
Other (residual)	2.9	3.0	2.8	3.0	2.7	2.7	2.7	-0.2
- Interest expenditure	2.7	2.7	2.8	2.7	2.8	2.6	2.5	-0.2
General government balance (GGB)	**-5.1**	**-3.0**	**-2.9**	**-2.5**	**-2.2**	**-1.6**	**-0.9**	**4.2**
Primary balance	**-2.4**	**-0.3**	**-0.2**	**0.2**	**0.5**	**1.0**	**1.6**	**4.0**
One-off and other temporary measures	0.0	0.1	0.0	-0.1	0.0	0.0	0.0	0.0
GGB excl. one-offs	**-5.1**	**-3.1**	**-2.9**	**-2.4**	**-2.2**	**-1.6**	**-0.9**	**4.2**
Output gap[2]	-0.2	-0.9	-0.9	-1.5	-1.3	-1.2	-0.6	-0.4
Cyclically adjusted balance[2]	-5.0	-2.7	-2.5	-1.9	-1.7	-1.1	-0.7	4.4
Structural balance[3]	**-5.0**	**-2.8**	**-2.5**	**-1.9**	**-1.7**	**-1.1**	**-0.7**	**4.4**
Change in structural balance		*2.3*	*2.5*	*0.9*	*0.8*	*0.6*	*0.5*	
Structural primary balance[3]	-2.3	-0.1	0.3	0.9	1.1	1.5	1.8	4.1
Change in structural primary balance		*2.2*	*2.6*	*0.9*	*0.8*	*0.4*	*0.4*	
Expenditure benchmark								
Public expenditure growth[4] (real)		-0.66	0.98	2.81	1.19	0.62	0.50	-
Reference rate[5,6]		3.77	3.77	3.77	3.77	*3.77*	*3.77*	-
Lower reference rate[5,7]		2.58	2.58	2.58	2.58	*2.58*	*2.58*	-
Deviation in % of GDP from applicable reference rate		-1.25	-0.59	0.09	-0.51	*-0.71*	*-1.16*	-
Two-year average deviation in % of GDP from applicable reference rate		n.a.	n.a.	-0.58	-0.55	*-0.61*	*-0.93*	-

Notes:

[1]On a no-policy-change basis.

[2]Output gap (in % of potential GDP) and cyclically-adjusted balance according to the programme as recalculated by the Commission services on the basis of the information in the programme.

[3]Structural (primary) balance = cyclically adjusted (primary) balance excluding one-off and other temporary measures.

[4]Modified expenditure aggregate used for the expenditure benchmark, growth rates net of non-discretionary changes in unemployment benefit and of discretionary measures.

[5]The reference rates applicable to 2014 onwards will be available from mid-2012. For illustrative purposes, the current reference rates have also been applied to the years 2014 onwards.

[6]The (standard) reference rate applies starting in the year following the one in which the country reaches its MTO.

[7]The lower reference rate applies as long as the country is adjusting towards its MTO, including the year in which it reaches the MTO.

Source:

Convergence programme (CP); Commission services' spring 2012 forecasts (COM); Commission services' calculations.

Table IV. Debt dynamics

(% of GDP)	Average 2006-10	2011	2012		2013		2014	2015
			COM	CP	COM	CP	CP	CP
Gross debt ratio[1]	**49.1**	**56.3**	**55.0**	**53.7**	**53.7**	**52.5**	**50.6**	**49.7**
Change in the ratio	1.6	1.5	-1.3	-2.7	-1.3	-1.2	-1.9	-0.9
Contributions [2] *:*								
1. Primary balance	**2.4**	**2.4**	**0.3**	**0.2**	**-0.2**	**-0.5**	**-1.0**	**-1.6**
2. 'Snow-ball' effect	**-0.8**	**-1.1**	**-0.4**	**-0.3**	**0.2**	**0.1**	**-0.1**	**-0.5**
Of which:								
Interest expenditure	2.5	2.7	2.7	2.7	2.7	2.7	2.6	2.5
Growth effect	-2.1	-2.2	-1.5	-1.3	-1.4	-1.5	-1.6	-1.8
Inflation effect	-1.2	-1.6	-1.7	-1.7	-1.2	-1.1	-1.1	-1.1
3. Stock-flow adjustment	**0.0**	**0.3**	**-1.2**	**-2.5**	**-1.3**	**-0.8**	**-0.8**	**1.2**
Of which:								
Cash/accruals diff.				0.4		0.1	0.1	0.4
Accum. financial assets				-0.9		-0.5	0.2	1.0
Privatisation				-0.2		-0.1	-0.1	0.0
Val. & residual effects				-5.2		-3.1	-3.8	-3.1

Notes:

[1]End of period.

[2]The snow-ball effect captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting, the accumulation of financial assets, and valuation and other residual effects.

Source :

Convergence programme (CP); Commission services' spring 2012 forecasts (COM); Commission services' calculations.

Table V. Long-term sustainability indicators

	PL		EU27	
	no-policy change scenario	Programme (SP) scenario	no-policy change scenario	SCPs scenario
S2	1.5	0.5	2.9	0.7
of which:				
Initial budgetary position (IBP)	0.5	-0.7	0.7	-1.6
Long-term change in the primary balance (LTC)	1.0	1.2	2.3	2.4
of which:				
Pension	-0.6	-0.5	1.1	1.2
Care (HC and LTC)	1.7	1.7	1.5	1.5
Others	-0.1	0.0	-0.3	-0.3
S1 (required adjustment)*	-0.1	-1.4	2.2	-0.1
Debt, % of GDP (2011)	56.3		82.8	
Age-related expenditure, % of GDP (2011)	20.3		25.8	

Notes:

The 'no policy change' scenario depicts the sustainability gap under the assumption that the budgetary position evolves according to the spring 2012 forecast until 2013. The 'stability programme' scenario depicts the sustainability gap under the assumption that the budgetary plans in the programme are fully implemented.

* The required adjustment of the primary balance until 2020 to reach a public debt of 60% of GDP by 2030.

Source:

Commission, 2012 stability and convergence programmes.

Figure. Medium-term debt projection

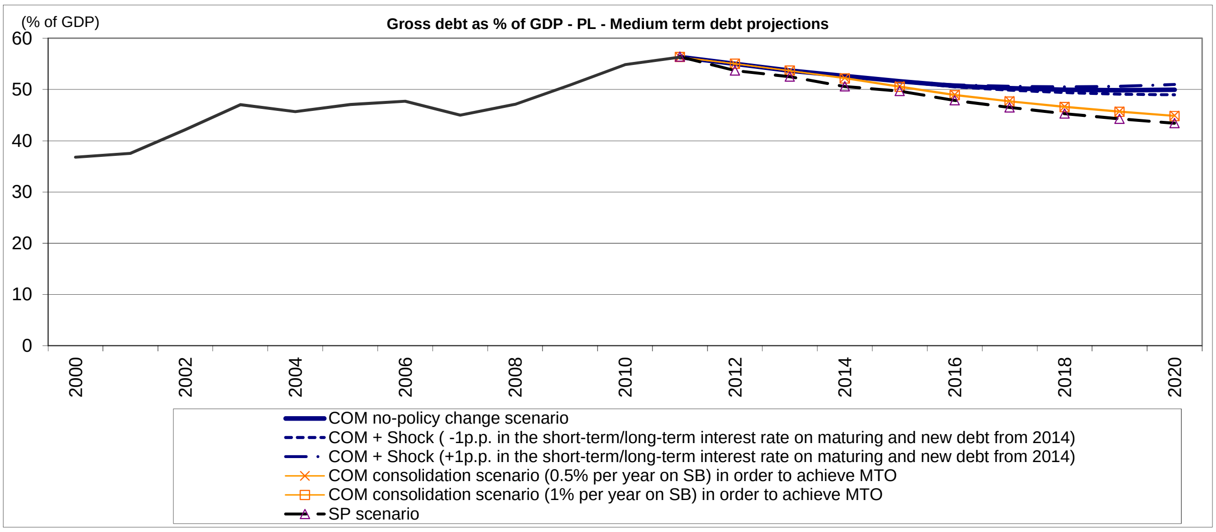

Table VI. Taxation

	2001	2005	2007	2008	2009	2010
Total tax revenues (incl. actual compulsory social contributions, % of GDP)	32.2	32.8	34.8	34.3	31.8	31.8
Decomposition by economic function (% of GDP)[1]						
Consumption	11.1	12.3	12.9	12.9	11.5	12.3
of which:						
— VAT	6.8	7.7	8.3	8.0	7.4	7.8
— excise duties on tobacco and alcohol	1.9	2.0	1.8	2.2	1.6	2.0
— energy	1.8	2.3	2.3	2.2	2.1	2.1
— other (residual)	0.7	0.3	0.4	0.5	0.4	0.3
Labour employed	13.6	12.1	12.2	12.2	11.5	11.3
Labour non-employed	0.8	0.7	0.8	0.8	0.8	0.3
Capital and business income	5.3	6.2	7.2	6.6	6.3	6.3
Stocks of capital/wealth	1.7	1.8	1.9	1.9	1.8	1.8
p.m. Environmental taxes[2]	2.1	2.7	2.7	2.6	2.6	2.6
VAT efficiency[3]						
Actual VAT revenues as % of theoretical revenues at standard rate	40.5	47.5	54.1	50.6	46.8	48.7

Note:

1 Tax revenues are broken down by economic function, i.e. according to whether taxes are raised on consumption, labour or capital. See European Commission (2012), Taxation trends in the European Union, for a more detailed explanation.

2 This category comprises taxes on energy, transport and pollution and resources included in taxes on consumption and capital.

3 The VAT efficiency is measured via the VAT revenue ratio. The VAT revenue ratio is defined as the ratio between the actual VAT revenue collected and the revenue that would theoretically be raised if VAT was applied at the standard rate to all final consumption. A low ratio can indicate a reduction of the tax base due to large exemptions or the application of reduced rates to a wide range of goods and services ('policy gap') or a failure to collect all tax due to e.g. fraud ('collection gap'). See European Commission (2011), Tax reforms in EU Member States, European Economy 5/2011, for a more detailed explanation.

Source: Commission

Table VII. Financial market indicators

	2007	2008	2009	2010	2011
Total assets of the banking sector (% of GDP)	75.2	72.3	88.3	87.9	83.9
Share of assets of the five largest banks (% of total assets)	46.6	44.2	43.9	43.4	…
Foreign ownership of banking system (% of total assets)	67.6	84.9	64.1	…	…
Financial soundness indicators:					
— non-performing loans (% of total loans) [1]	5.2	4.5	8.0	4.9	4.9
— capital adequacy ratio (%) [1]	12.0	11.2	13.3	13.9	13.2
— return on equity (%) [1, 2]	24.9	20.4	10.6	13.2	16.0
Bank loans to the private sector (y-o-y % change)	40.6	19.0	8.5	11.9	1.2
Lending for house purchase (y-o-y % change)	59.5	42.2	12.7	28.6	6.5
Loan to deposit ratio	93.7	108.4	105.2	104.2	105.4
CB liquidity as % of liabilities	0.5	2.0	1.6	0.1	0.0
Banks' exposure to countries beneficiary of official financial assistance (% of GDP)	…	…	…	…	…
Private debt (% of GDP)	43.5	43.6	54.8	54.6	…
Gross external debt (% of GDP) [3]					
— Public	17.4	14.1	18.9	22.8	22.3
— Private	23.9	24.4	27.9	27.0	25.1
Long term interest rates spread versus Bund (basis points)*	126.8	208.8	289.8	303.8	334.8
Credit default swap spreads for sovereign securities (5-year)*	…	226.0	190.8	129.6	171.6

Notes:

[1] Latest September 2011.

[2] Net income to equity ratio. After extraordinary items and taxes. Accumulated income of the last 12 months. Tier 1 capital. Branches of foreign banks are excluded.

[3] Latest data 2011Q3.

* Measured in basis points.

Source:

Bank for International Settlements and Eurostat (exposure to macro-financially vulnerable countries), IMF (financial soundness indicators), Commission (long-term interest rates), World Bank (gross external debt), ECB (all other indicators).

Table VIII. Labour market and social indicators

Labour market indicators	2006	2007	2008	2009	2010	2011
Employment rate (% of population aged 20-64)	60.1	62.7	65.0	64.9	64.6	64.8
Employment growth (% change from previous year)	3.4	4.4	3.7	0.4	0.6	1.1
Employment rate of women (% of female population aged 20-64)	53.1	55.5	57.3	57.6	57.7	57.6
Employment rate of men (% of male population aged 20-64)	67.3	70.2	73.0	72.6	71.6	72.2
Employment rate of older workers (% of population aged 55-64)	28.1	29.7	31.6	32.3	34.0	36.9
Part-time employment (% of total employment)	9.9	9.4	8.6	8.5	8.5	8.1
Part-time employment of women (% of women employment)	13.2	12.7	11.9	11.7	11.7	11.2
Part-time employment of men (% of men employment)	7.3	6.7	6.0	5.9	5.8	5.6
Fixed term employment (% of employees with a fixed term contract)	27.3	28.2	27.0	26.5	27.3	26.9
Unemployment rate[1] (% of labour force)	13.9	9.6	7.1	8.2	9.6	9.7
Long-term unemployment[2] (% of labour force)	7.8	4.9	2.4	2.5	3.0	3.6
Youth unemployment rate (% of youth labour force aged 15-24)	29.8	21.7	17.3	20.6	23.7	25.8
Youth NEET[3] rate (% of population aged 15-24)	12.6	10.6	9.0	10.1	10.8	:
Early leavers from education and training (% of pop. 18-24 with at most lower sec. educ. and not in further education or training)	5.4	5.0	5.0	5.3	5.4	:
Tertiary educational attainment (% of population 30-34 having successfully completed tertiary education)	28.0	30.0	32.1	35.5	37.4	:
Labour productivity per person employed (annual % change)	3.0	2.2	1.2	1.2	3.5	3.3
Hours worked per person employed (annual % change)	0.1	-0.1	-0.2	-0.9	-0.2	-0.4
Labour productivity per hour worked (annual % change; constant prices)	2.9	2.3	1.4	2.1	3.7	3.8
Compensation per employee (annual % change; constant prices)	0.4	0.9	5.6	-0.2	4.3	2.2
Nominal unit labour cost growth (annual % change)	-1.0	2.6	7.5	2.2	2.2	1.9
Real unit labour cost growth (annual % change)	-2.5	-1.3	4.3	-1.4	0.8	-1.2

Notes:

[1] According to ILO definition, age group 15-74)

[2] Share of persons in the labour force who have been unemployed for at least 12 months.

[3] NEET are persons that are neither in employment nor in any education or training.

Sources:

Commission (EU Labour Force Survey and European National Accounts)

Expenditure on social protection benefits (% of GDP)	2005	2006	2007	2008	2009
Sickness/Health care	3.81	3.84	3.93	4.45	4.75
Invalidity	2.05	1.88	1.70	1.60	1.43
Old age and survivors	9.28	9.38	8.72	8.88	9.82
Family/Children	0.84	0.82	0.79	0.73	0.75
Unemployment	0.63	0.57	0.40	0.35	0.40
Housing and Social exclusion n.e.c.	0.13	0.11	0.09	0.06	0.06
Total	19.7	19.4	18.1	18.6	19.7
of which: Means tested benefits	1.23	0.99	0.90	0.78	0.71
Social inclusion indicators	**2006**	**2007**	**2008**	**2009**	**2010**
Risk-of-poverty or exclusion[1] (% of total population)	39.5	34.4	30.5	27.8	27.8
Risk-of-poverty or exclusion of children (% of people aged 0-17)	42.0	37.1	32.9	31.0	30.8
Risk-of-poverty or exclusion of elderly (% of people aged 65+)	32.5	27.3	26.9	25.8	24.4
At-risk-of-poverty rate[2] (% of total population)	19.1	17.3	16.9	17.1	17.6
Value of relative poverty threshold (single household per year) - in PPS	3057	3365	4039	4426	4540
Severe material deprivation[3] (% of total population)	27.6	22.3	17.7	15.0	14.2
Share of people living in low work intensity households[4] (% of people aged 0-59 not student)	12.3	10.0	7.9	6.9	7.3
In-work at-risk-of poverty rate (% of persons employed)	12.8	11.7	11.5	11.1	11.5

Notes:

[1] People at risk of poverty or social exclusion (AROPE): individuals who are at risk of poverty (AROP) and/or suffering from severe material deprivation (SMD) and/or living in households with zero or very low work intensity (LWI).

[2] At-risk-of poverty rate: share of people with an equivalised disposable income below 60% of the national equivalised median income.

[3] Share of people who experience at least 4 out of 9 deprivations: people cannot afford to i) pay their rent or utility bills, ii) keep their home adequately warm, iii) face unexpected expenses, iv) eat meat, fish, or a protein equivalent every second day, v) enjoy a week of holiday away from home once a year, vi) have a car, vii) have a washing machine, viii) have a colour TV, or ix) have a telephone.

[4] People living in households with very low work intensity: share of people aged 0-59 living in households where the adults work less than 20% of their total work-time potential during the previous 12 months.

Sources:
For expenditure on social protection benefits ESSPROS; for social inclusion EU-SILC.

Table IX. Product market performance and policy indicators

Performance indicators	2002-2006	2007	2008	2009	2010	2011
Labour productivity[1] total economy (annual growth in %)	3.6	2.2	1.3	1.3	3.4	2.9
Labour productivity[1] in manufacturing (annual growth in %)	7.8	7.0	4.0	6.4	17.7	n.a.
Labour productivity[1] in electricity, gas, water (annual growth in %)	4.4	3.2	-8.6	-6.4	n.a.	n.a.
Labour productivity[1] in the construction sector (annual growth in %)	2.7	-3.2	-9.4	5.1	5.2	n.a.
Patent intensity in manufacturing[2] (patents of the EPO divided by gross value added of the sector)	0.3	0.4	0.3	n.a.	n.a.	n.a.
Policy indicators	**2002-2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Enforcing contracts[3] (days)	n.a.	830	830	830	830	830
Time to start a business[3] (days)	n.a.	31	31	32	32	32
R&D expenditure (% of GDP)	0.6	0.6	0.6	0.7	0.7	n.a.
Tertiary educational attainment (% of 30-34 years old population)	19.9	27.0	29.7	32.8	35.3	n.a.
Total public expenditure on education (% of GDP)	5.4	4.9	5.1	n.a.	n.a.	n.a.
	2005	**2006**	**2008**	**2009**	**2010**	**2011**
Product market regulation[4], Overall (Index; 0=not regulated; 6=most regulated)	n.a.	n.a.	2.3	n.a.	n.a.	n.a.
Product market regulation[4], Retail (Index; 0=not regulated; 6=most regulated)	n.a.	n.a.	3.2	n.a.	n.a.	n.a.
Product market regulation[4], Network Industries[5] (Index; 0=not regulated; 6=most regulated)	2.4	2.4	2.3*	n.a.	n.a.	n.a.

Notes:

[1]Labour productivity is defined as gross value added (in constant prices) divided by the number of persons employed.

[2] Patent data refer to applications to the European Patent Office (EPO). They are counted according to the year in which they were filed at the EPO. They are broken down according to the inventor's place of residence, using fractional counting if multiple inventors or IPC classes are provided to avoid double counting.

[3] The methodologies, including the assumptions, for this indicator are presented in detail on the website http://www.doingbusiness.org/methodology.

[4] The methodologies for the product market regulation indicators are presented in detail on the website http://www.oecd.org/document/1/0,3746,en_2649_34323_2367297_1_1_1_1,00.html. The latest available product market regulation indicators refer to 2003 and 2008, except for Network Industries.

[5] Aggregate ETCR.

*figure for 2007.

Source :

Commission, World Bank - *Doing Business* (for enforcing contracts and time to start a business) and OECD (for the product market regulation indicators).

Table X. Green growth performance

Poland		2001-2005	2006	2007	2008	2009	2010
Macroeconomic							
Energy intensity	kgoe / €	0.46	0.43	0.40	0.38	0.36	0.37
Carbon intensity	kg / €	1.92	1.75	1.63	1.54	1.44	n.a.
Resource intensity (reciprocal of resource productivity)	kg / €	2.70	2.50	2.60	2.54	2.40	n.a.
Waste intensity	kg / €	n.a.	0.74	0.63	0.54	n.a.	n.a.
Energy balance of trade	% GDP	-1.8%	-2.4%	-2.6%	-3.1%	-2.3%	-2.8%
Energy weight in HICP	%	15	16	16	13	13	13
Difference between change energy price and inflation	%	2.58	5.5	1	5.7	6.8	1.4
Environmental taxes over labour taxes	ratio	18.4%	20.6%	20.7%	20.0%	21.1%	n.a.
Environmental taxes over total taxes	ratio	7.5%	8.2%	7.7%	7.6%	8.0%	n.a.
Sectoral							
Industry energy intensity	kgoe / €	0.39	0.29	0.27	0.21	0.22	n.a.
Share of energy-intensive industries in the economy	% GDP	12.7	5.9	5.6	5.6	5.9	n.a.
Electricity prices for medium-sized industrial users	€ / kWh	0.05	0.05	0.05	0.08	0.09	0.09
Public R&D for energy	% GDP	n.a.	0.00%	0.01%	0.01%	0.01%	n.a.
Public R&D for the environment	% GDP	n.a.	0.00%	0.01%	0.01%	0.01%	n.a.
Recycling rate of municipal waste	ratio	4.1%	6.9%	7.7%	10.5%	17.4%	n.a.
Share of GHG emissions covered by ETS	%	n.a.	52.1%	52.3%	51.6%	50.8%	n.a.
Transport energy intensity	kgoe / €	0.78	0.79	0.80	0.75	0.81	n.a.
Transport carbon intensity	kg / €	2.44	2.20	2.11	2.02	2.17	n.a.
Change in the ratio of passenger transport and GDP	%	0.5%	2.3%	1.1%	6.5%	n.a.	n.a.
Security of energy supply							
Energy import dependency	%	13.4%	20.1%	25.7%	30.6%	31.7%	n.a.
Diversification of oil import sources	HHI	n.a.	0.93	0.91	0.86	0.89	n.a.
Diversification of energy mix	HHI	0.43	0.42	0.41	0.39	0.38	n.a.
Share of renewable energy in energy mix	%	4.6%	4.8%	5.0%	5.6%	6.6%	n.a.

<u>Country-specific notes</u>:
The year 2011 is not included in the table due to lack of data.
<u>General explanation of the table items:</u>
Source: Eurostat unless indicated otherwise; ECFIN explanations given below
All macro intensity indicators are expressed as a ratio of a physical quantity to GDP (in 2000 prices)
- Energy intensity: gross inland energy consumption (in kgoe) divided by GDP (in EUR)
- Carbon intensity: Greenhouse gas emissions (in kg CO2 equivalents) divided by GDP (in EUR)
- Resource intensity: Domestic Material Consumption (in kg) divided by GDP (in EUR)
- Waste intensity: waste (in kg) divided by GDP (in EUR)

Energy balance of trade: the balance of energy exports and imports, expressed as % of GDP
Energy weight in HICP: the share of the "energy" items in the consumption basket used in the construction of the HICP
Difference between energy price change and inflation: energy component of HICP, and total HICP inflation (annual %-change)
Environmental taxes over labour or total taxes: from DG TAXUD's database "Taxation trends in the European Union"
Industry energy intensity: final energy consumption of industry (in kgoe) divided by gross value added of industry (in EUR)
Share of energy-intensive industries in the economy: share of gross value added of the energy-intensive industries in GDP
Recycling rate of municipal waste: ratio of municipal waste recycled over total municipal waste
Public R&D for energy or for the environment: government spending on R&D (GBAORD) for these categories as % of GDP
Share of GHG emissions covered by ETS: based on greenhouse gas emissions as reported by Member States to EEA (excl LULUCF)
Transport energy intensity: final energy consumption of transport (in kgoe) divided by gross value added of industry (in EUR)
Transport carbon intensity: greenhouse gas emissions in transport divided by gross value added of the transport sector
Passenger transport growth : measured in %-change in passenger kilometres
Energy import dependency: net energy imports divided by gross inland energy consumption incl. of international bunkers
Diversification of oil import sources: Herfindahl index (HHI), calculated as the sum of the squared market shares of countries of origin
Diversification of the energy mix: Herfindahl Index over natural gas, total petrol products, nuclear heat, renewable energies and solid fuels
Share of renewable energy in energy mix: percentage-share in gross inland energy consumption, expressed in tonne oil equivalents