Country Report
2019
Poland

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2019 European Semester

Joost Korte, DG EMPL
Current economic trends in Europe

Real GDP and employment growth in the EU

% change on previous year

GDP
Employment

12Q1 12Q2 12Q3 12Q4 13Q1 13Q2 13Q3 13Q4 14Q1 14Q2 14Q3 14Q4 15Q1 15Q2 15Q3 15Q4 16Q1 16Q2 16Q3 16Q4 17Q1 17Q2 17Q3 17Q4 18Q1 18Q2 18Q3 18Q4
2019 European Semester

- Country reports published on 27 February
- Analytical parts consulted with the Polish authorities before publication
- Stronger link with the Multiannual Financial Framework
- Focus on investment needs
Stability and Growth Pact

Countries in Excessive Deficit Procedure (corrective arm):
- No in-depth review 2019
  - Austria
  - Belgium
  - Czech Republic
  - Denmark
  - Estonia
  - Finland
  - Hungary
  - Latvia
  - Lithuania
  - Luxembourg
  - Malta
  - Poland
  - Slovakia
  - Slovenia
  - United Kingdom

Countries not in Excessive Deficit Procedure (preventive arm):
- No imbalances
  - Spain
  - Bulgaria
  - Croatia
  - France
  - Germany
  - Ireland
  - Netherlands
  - Portugal
  - Romania
  - Sweden

Legend:
- Euro area
- MP move compared to 2018 cycle
- Countries not covered by in-depth review in 2018 cycle
Poland has made limited progress in addressing the 2018 CSRs

<table>
<thead>
<tr>
<th>#</th>
<th>Country-specific recommendation</th>
<th>Evaluation</th>
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<tbody>
<tr>
<td>1</td>
<td>Ensuring fiscal framework compliance, improving efficiency of public spending.</td>
<td>Limited progress</td>
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<tr>
<td>2</td>
<td>Increasing labour market participation and removing obstacles to more permanent types of employment. Ensuring sustainability and adequacy of the pension system.</td>
<td>No progress</td>
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<td>3</td>
<td>Strengthening the innovative capacity of the economy. Ensuring effective public consultations in the legislative process.</td>
<td>Limited progress</td>
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Economic outlook, investment and sectoral policies

Benjamin Angel, DG ECFIN
Key challenge and investment needs

- Poland’s long-run economic prospects depend on economy’s capacity to move towards knowledge-based economy producing advanced products and services.

- Increasing investment to support innovation, education and skills development, better infrastructure and cleaner energy are crucial for long-run success.
Poland is enjoying good economic times

- Uninterrupted fast growth over the last decade; growth to remain solid in the short term
- Household consumption and gradually increasing investment (mainly public) are main drivers
- Best labour market situation in 30 years
- No short-term risks to fiscal sustainability
Long-term prospects call for structural reforms

- Favourable economic environment offers unique opportunity to address structural challenges:
  - Decline in working-age population
  - Skill shortages & innovative capacity of the economy
  - Investment climate: quality of institutions, policies and regulatory environment
Role of investment

• Overall, investment has been weak since 2016
  • *In GDP-ratio terms, in 2009 – 2015 Poland used to be above the EU average, then declined strongly*

• Public investment with large role, significant contribution from EU funds

• Private investment remains subdued, especially after 2015
  • *Low level of corporate investment*
  • *Result of increased uncertainty and certain structural factors*
No short-term fiscal risks

- Narrowing fiscal deficit, driven by: economic cycle, labour market developments and better tax compliance
- Declining public debt ratio
- Less optimistic picture in structural terms
- Short- and medium-term path of the fiscal deficit uncertain following the announcement of a new social and tax package

Yearly change of tax-to-GDP ratios, 2016-2018
2017/2018 change based on data for 3 quarters

<table>
<thead>
<tr>
<th>Year</th>
<th>VAT</th>
<th>CIT</th>
<th>SSC</th>
<th>PIT</th>
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<tbody>
<tr>
<td>2016</td>
<td>0.2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td>0.6</td>
<td>0.4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td>0.6</td>
<td></td>
<td>0.4</td>
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Fiscal sustainability challenges exist

- Ageing population: drag on sustainability
  - Pension system adequacy
  - Health and long-term care
- The role of effectiveness and efficiency of public spending will be increasingly important
Financial sector is overall solid

- Banking sector is overall sound
  - Well capitalised and profitable
  - Stable modest lending expansion
- FX mortgage loans gradually paid off, but legislation uncertainty remains
- Independent financial supervision is crucial
  - The state controls about one third of the banking sector and the largest insurer
  - Stronger financial-sovereign links
Investment: innovation

- Poland’s innovation performance remains modest

- Science-business links remain underdeveloped
  - *Higher education reform addresses some of the challenges*

- Innovative activity of firms is hampered by some barriers
  - *e.g. limited access to highly qualified specialists*
**Investment: transport & ICT**

- Road network in Poland has improved significantly with a key role of EU funds
  - ...but road safety remains a concern
- Progress in modernising the railways is slower
- Fast internet access developed quickly, but broad access to ultra-fast internet is a challenge
Investment: clean energy & environment

- Electricity generation dominated by coal
  - Including recently built power plants
  - Development of RES negatively affected by regulatory changes
- Investment to improve the energy efficiency crucial for containing demand for energy and to limit GHG emissions
- Limited interconnectivity adds to electricity price tensions
- Air pollution remains a concern
Regulatory climate & public administration

- General business environment is favourable
- Compliance with certain administrative requirements is burdensome and may prolong investment processes
- Fast-track legislative procedures without proper public consultation feeds uncertainty
- Rule of law
Labour market, education and social policies

Joost Korte, DG EMPL
Labour market outcomes continue to improve

- Rising employment, accelerating wages
- Unemployment rate at the lowest level in recent history
- Shortage of skilled labour
But some structural challenges persist

- Low participation of certain groups:
  - women
  - older workers
  - people with disabilities
  - less-skilled people

- Labour market segmentation

Enrolment in formal childcare, children below the age of 3

* Provisional data
Education and skills: strengths and weaknesses

• Good PISA results and low early school leaving

• Low attractiveness of the teaching profession

• Reforms in higher education and VET

• Low participation in adult learning

* Provisional data, % of population aged 25 to 64
Social protection and healthcare

• Poverty and income inequalities continue to decrease

• Structural challenges in social policy

• Future pension adequacy is a key challenge

• Healthcare affected by low public financing, staff shortages and misallocation of resources
Regional dimension

Marc Lemaître, DG REGIO
Regional dimension

• All regions have been developing fast for the last decades

• Poland's success in the catching-up process is based on polycentric growth

• However, strong disparities persist in spite of the outstanding socioeconomic progress. They are even more pronounced at sub-regional level
Regional dimension

- Urban-rural divide remains wide
- Large cities are the primary drivers of development while smaller cities struggle to adapt to rapid economic and technological transitions
- While disparities result from long-lasting structural issues, a targeted policy may help to reduce them