



# Country Report 2019 Poland

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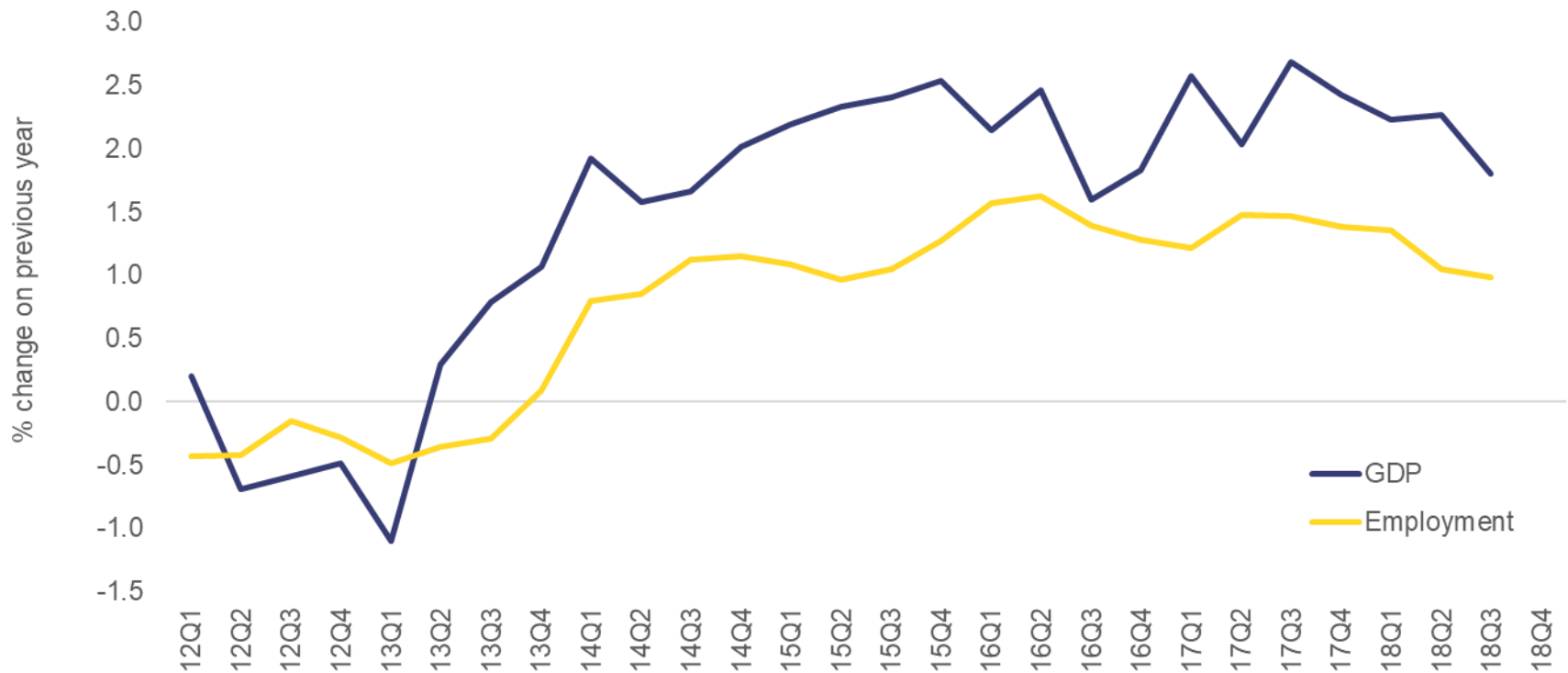


# 2019 European Semester

**Joost Korte, DG EMPL**

# Current economic trends in Europe

## Real GDP and employment growth in the EU



# 2019 European Semester

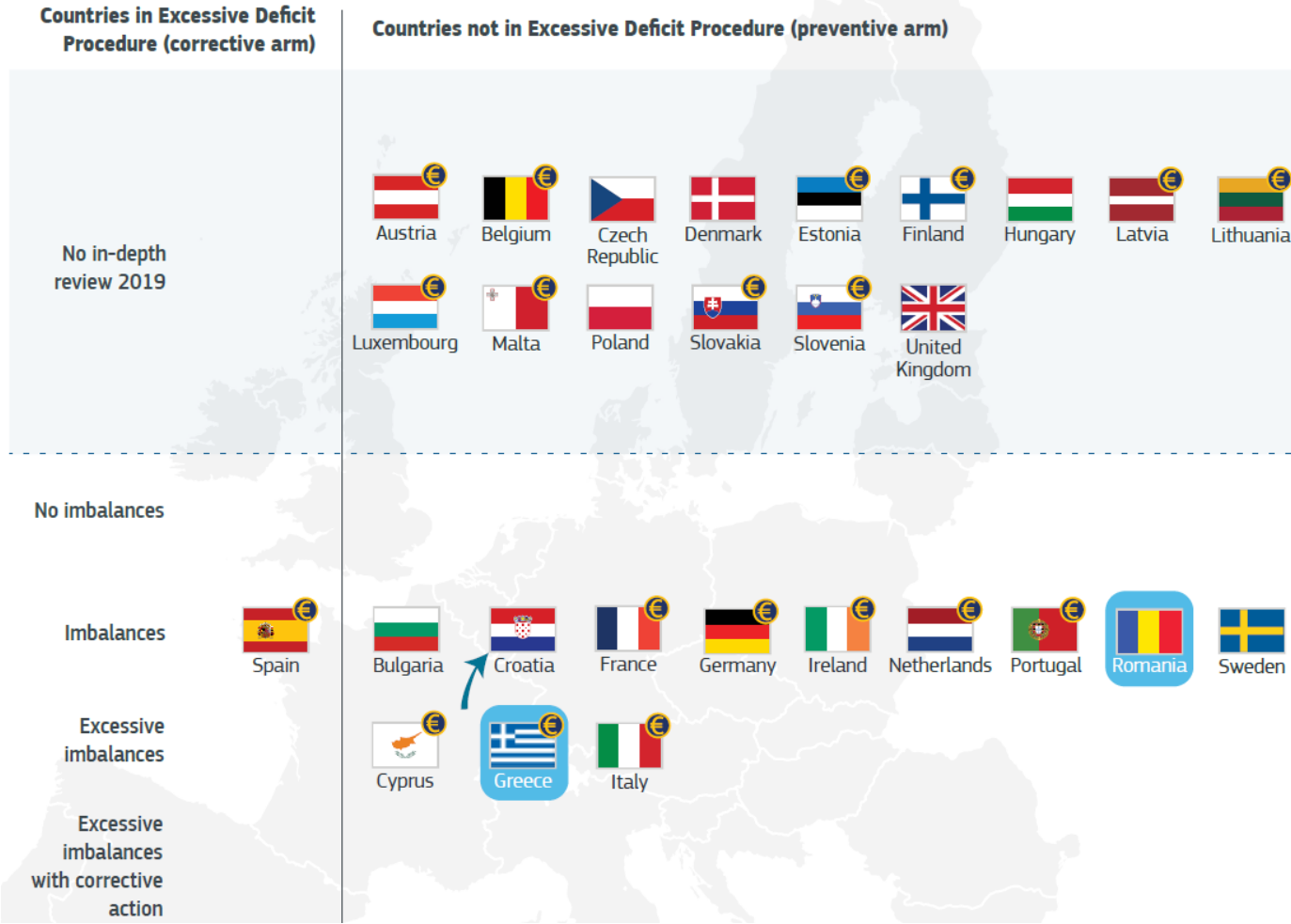
- Country reports published on 27 February
- Analytical parts consulted with the Polish authorities before publication
- Stronger link with the Multiannual Financial Framework
- Focus on investment needs



European Commission

# Stability and Growth Pact

## Macroeconomic Imbalances Procedure



↑ = MIP move compared to 2018 cycle

□ = Countries not covered by in-depth review in 2018 cycle

€ = euro area

## Poland has made limited progress in addressing the 2018 CSRs

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



# **Economic outlook, investment and sectoral policies**

**Benjamin Angel, DG ECFIN**

## Key challenge and investment needs

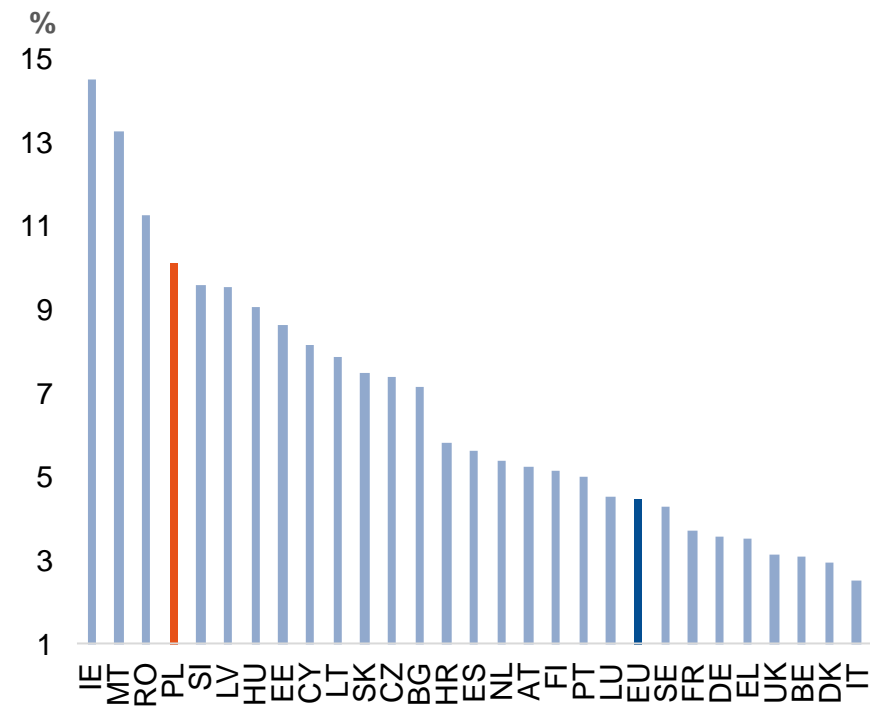
- Poland's long-run economic prospects depend on economy's capacity to move towards knowledge-based economy producing advanced products and services
- Increasing investment to support innovation, education and skills development, better infrastructure and cleaner energy are crucial for long-run success



# 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

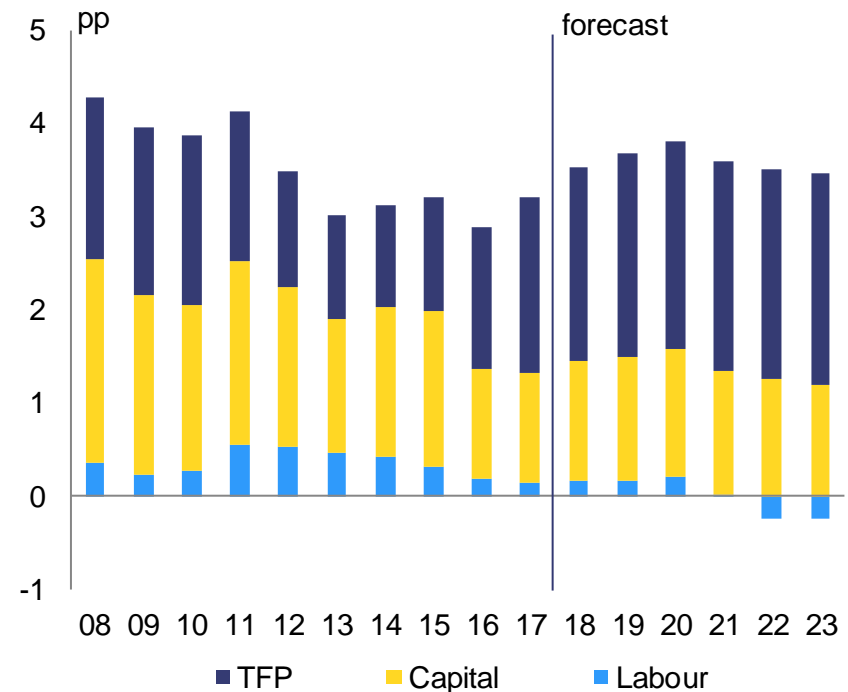
Cumulative GDP growth, 2017-2018E



# 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*

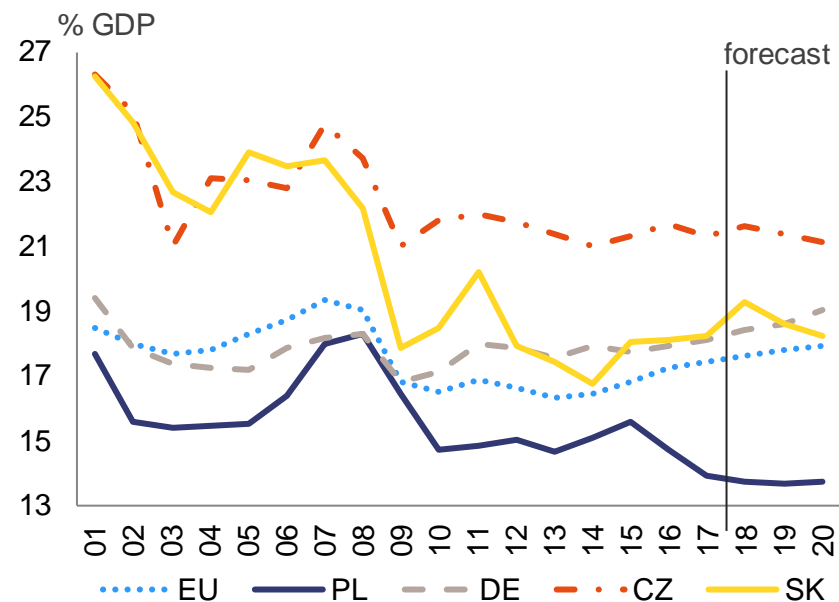
Estimated composition of potential growth



# 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*

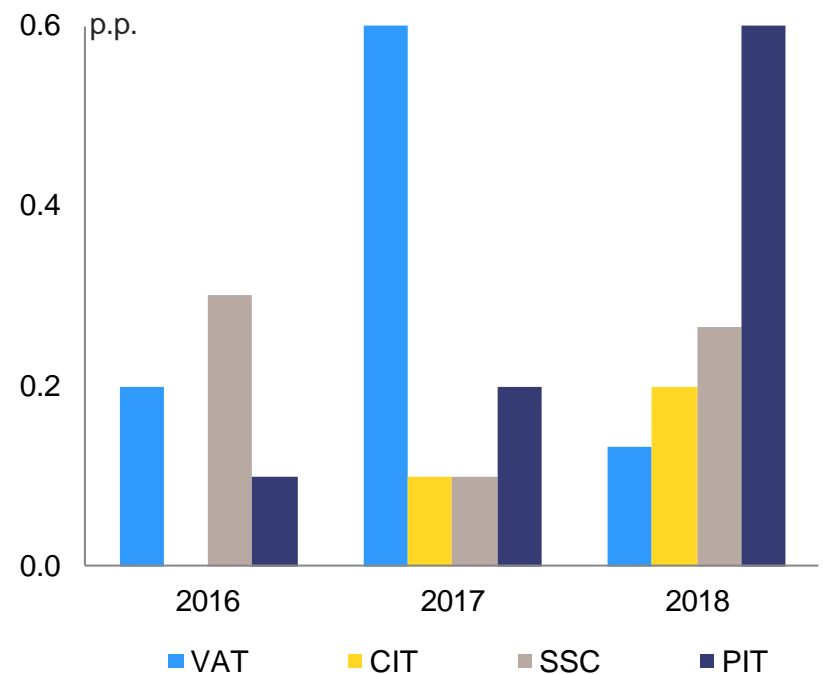
Private investment (% GDP)



# 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

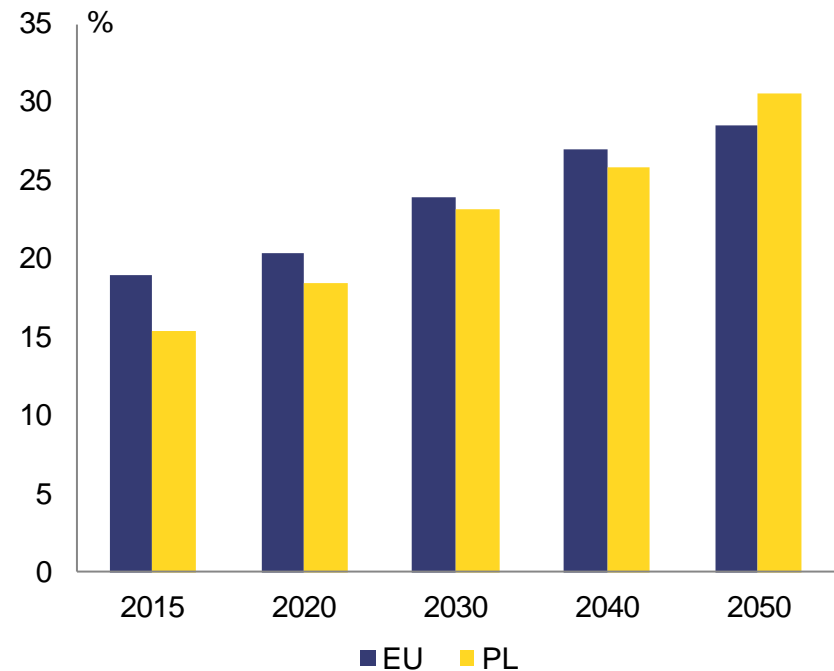
**Yearly change of tax-to-GDP ratios, 2016-2018**  
2017/2018 change based on data for 3 quarters



# 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

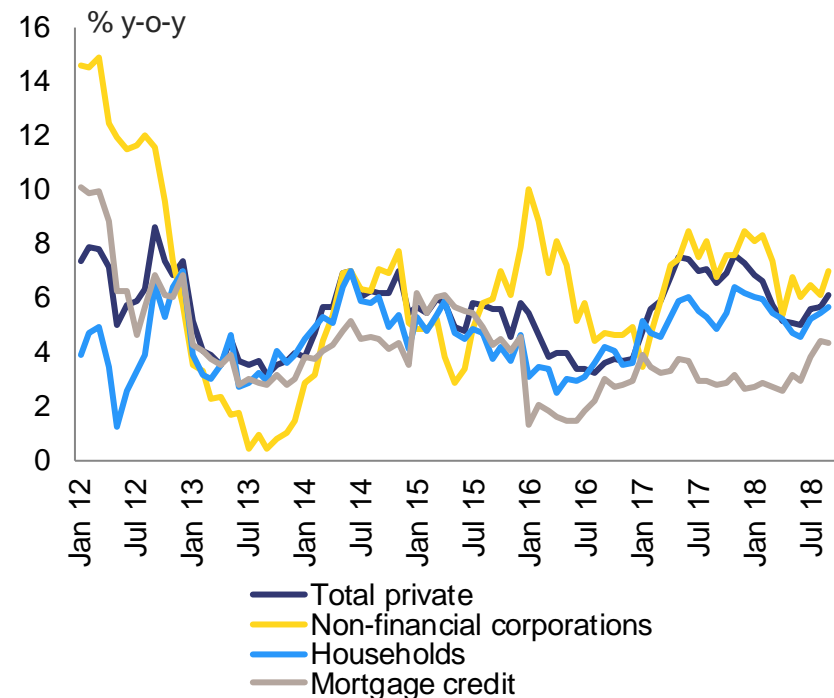
Proportion of population aged 65+



# 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*

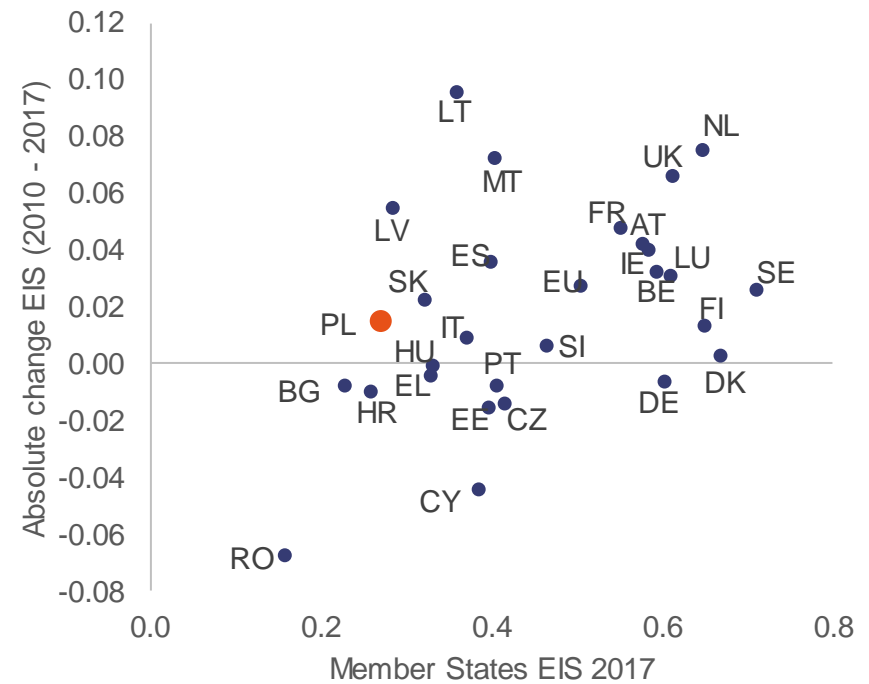
## Lending developments



# 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*

**Poland's ranking in  
Innovation Scoreboard, 2010 - 2017**



# 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

Network of high-speed roads until 2023

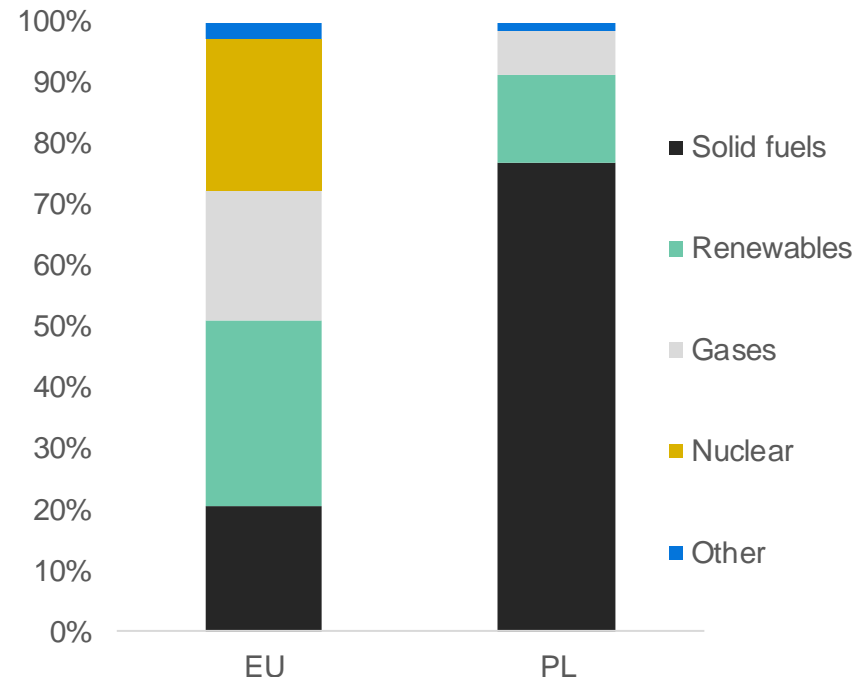




# Investment: clean energy & environment

- 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

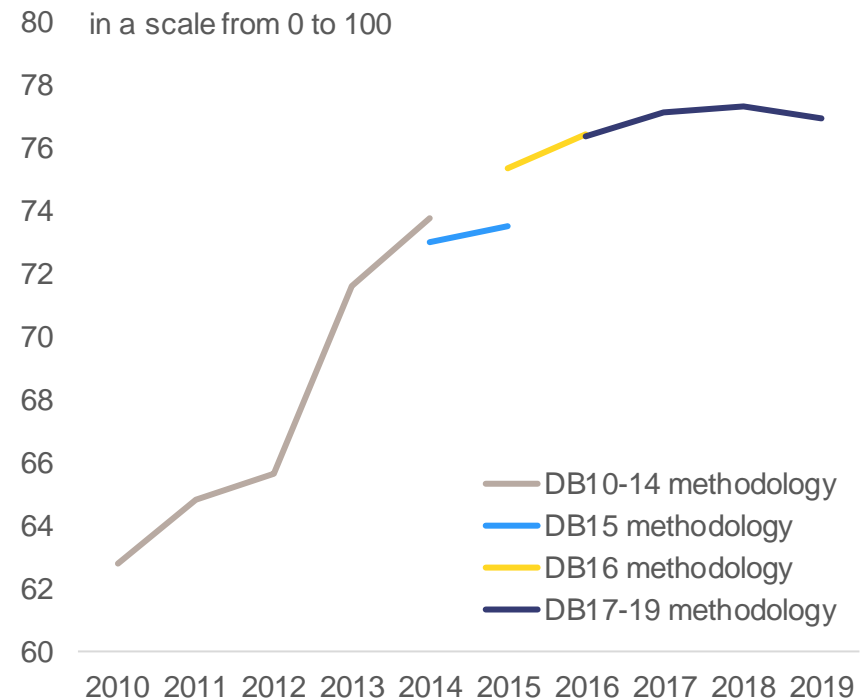
Gross electricity generation by fuel (TWh), 2017



# 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

**Ease of Doing Business - Poland**





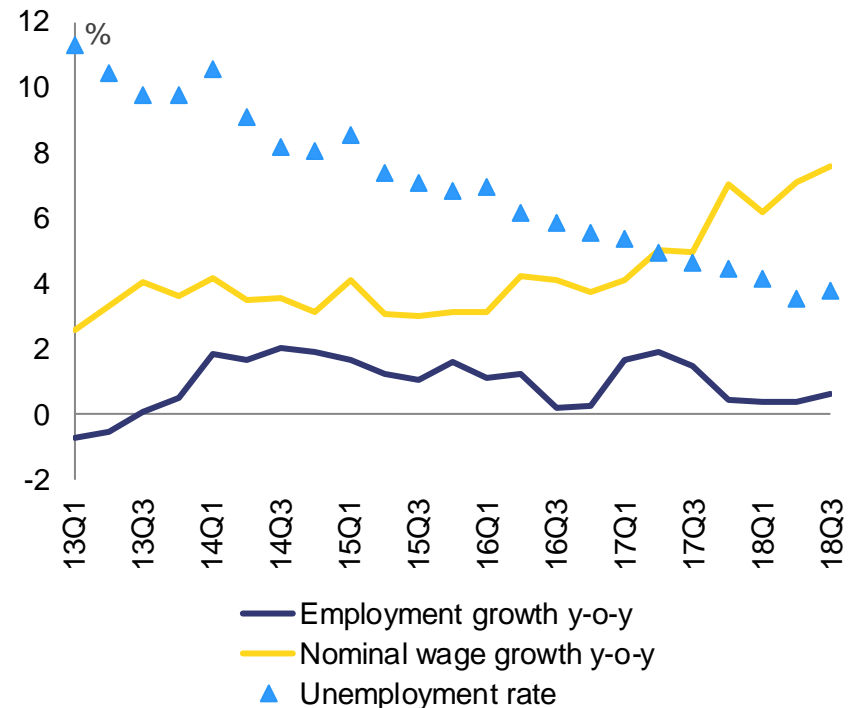
# Labour market, education and social policies

**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

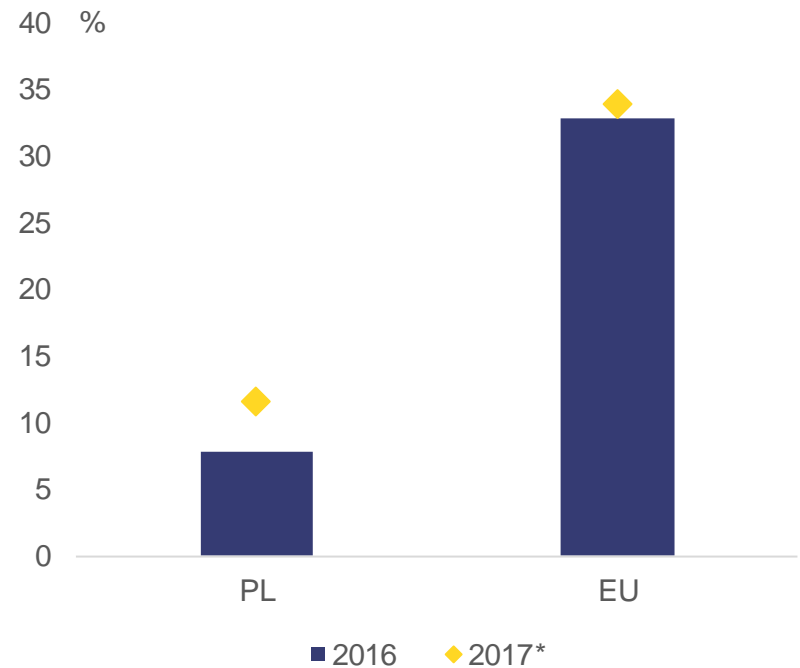
Employment, wages, unemployment rate



# 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

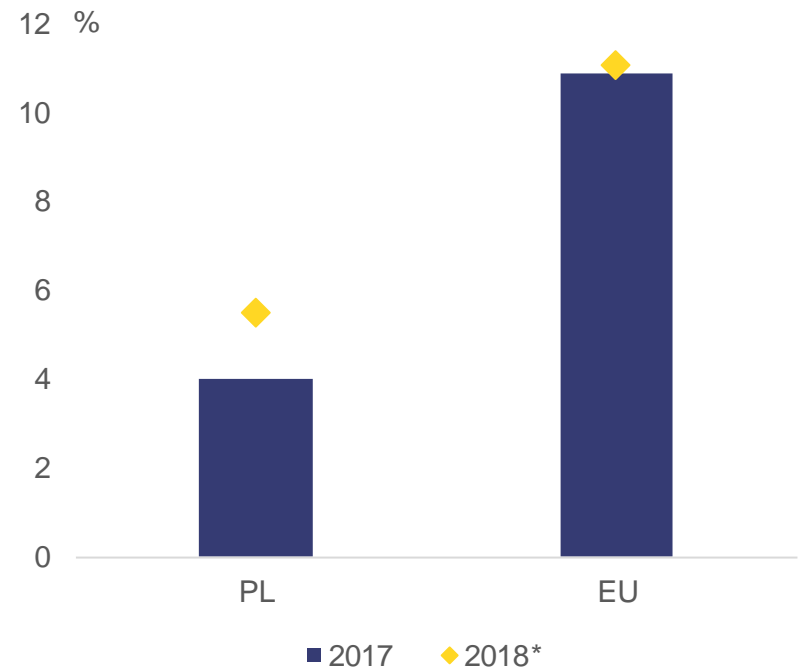


\* Provisional data

# 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

Adult participation in learning

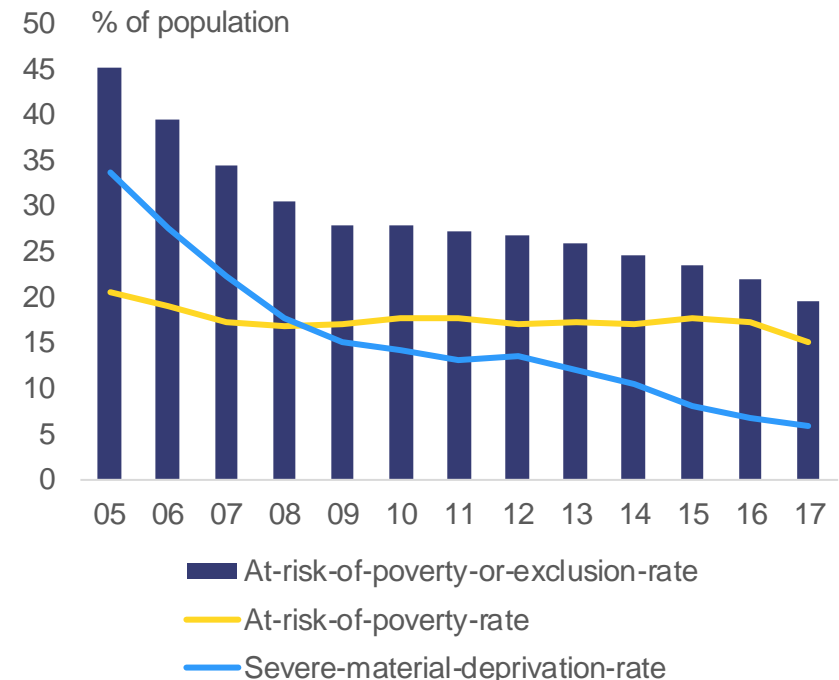


\* Provisional data, % of population aged 25 to 64

# 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

**Key poverty indicators,  
general population**





# Regional dimension

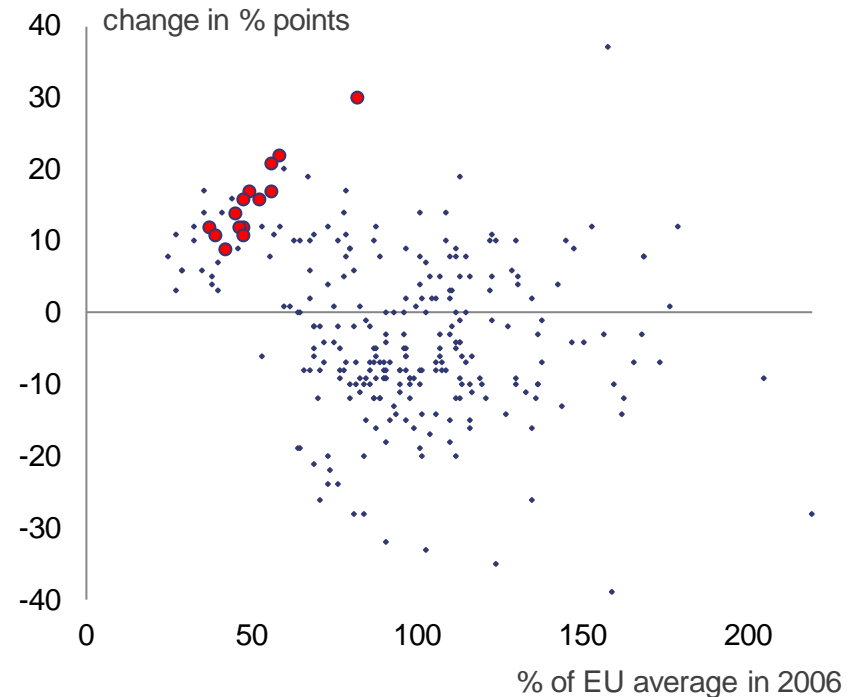
**Marc Lemaître, DG REGIO**



# 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

**Change in regional GDP per capita in PPS relative to the EU average (2006-2016), depending on the 2006 starting point**



# 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

