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## Executive Summary

## 1 Key Policy Insights

- Ensuring continued convergence with higher living standards
- The economy requires continued policy support
- The economy weakened substantially
- A comprehensive fiscal package has cushioned the initial crisis impact
- Monetary policy has been appropriately accommodative
- Risks to financial stability have increased and require close monitoring
- Boosting the recovery while containing medium-term spending pressures
- The crisis legacy will compound long-term challenges
- Ageing will put significant pressures on the quality of pension, health and long-term care
- Improving the tax system
- Improving productivity, employment and well-being
- Enhancing labour market inclusiveness
- Greening growth is essential for well-being
- Preventing corruption and economic crimes

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(Numbers in parentheses refer to the OECD average)**

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<th>124.0</th>
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<td>Over 65 (%, 2018)</td>
<td>17.5</td>
<td>Men (2018)</td>
<td>73.9</td>
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<td>Foreign born (%, 2012)</td>
<td>1.8</td>
<td>Women (2018)</td>
<td>81.8</td>
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<td>Latest 5-year average growth (%)</td>
<td>0.0</td>
<td>Latest general election October-2019</td>
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<th>Value added shares (%), 2018</th>
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<td>In current prices (billion PLN)</td>
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<td>Latest 5-year average real growth (%)</td>
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<td>CO2 emissions from fuel combustion per capita (tonnes, 2018)</td>
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<td>Water abstractions per capita (1 000 m³, 2018)</td>
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<tr>
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<td>CO2 emissions from fuel combustion per capita (tonnes, 2018)</td>
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<tr>
<td>Water abstractions per capita (1 000 m³, 2018)</td>
<td>Municipal waste per capita (tonnes, 2018)</td>
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* The year is indicated in parenthesis if it deviates from the year in the main title of this table.
** Where the OECD aggregate is not provided in the source database, a simple OECD average of latest available data is calculated where data exist for at least 80% of member countries.
*** National account definition. Public debt (Maastricht definition, as used in the main text) was at 45.7% of GDP in 2019.

Executive Summary
The global crisis interrupted long-term socio-economic progress

The coronavirus (COVID-19) crisis has hit the economy and society hard. The pandemic occurred after a long expansion of living standards when unemployment and poverty rates had fallen to historically low levels (Figure 1). Early containment measures have limited contagion in the first part of 2020. Though production and consumption rebounded quickly after their easing until September, a new rise of infections led to renewed restrictions in October.

Despite extensive policy support, the recession will have long-lasting consequences (Table 1). Broad fiscal measures and unprecedented monetary support cushioned the socio-economic impact of the pandemic. Growth and employment have hold up well at the beginning of 2020, notably compared to European peers. Yet, even if sanitary conditions improve progressively, GDP is projected to drop sharply, while further outbreaks would weaken economic outcomes.

Figure 1. The long-term expansion stalled GDP volume, 2005Q1=100

![Graph showing GDP volume from 2005 to 2020 for Poland, OECD, and the Euro Area.](image)


StatLink [https://doi.org/10.1787/888934207880](https://doi.org/10.1787/888934207880)

Uncertainty is particularly high. More severe than expected coronavirus outbreaks or the delayed roll-out of an effective vaccine could hurt economic conditions. International trade tensions also remain high and could spread further.

The crisis legacy will compound long-term issues. Employment has declined and public debt has increased abruptly, while the low productivity of some workers, weak environmental outcomes and the shrinking working-age population remain key challenges.

In welcome moves, the government has vouched to increase healthcare spending and to boost investment, innovation and entrepreneurship.

Table 1. The recovery remains uncertain

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross domestic product</td>
<td>4.5</td>
<td>-3.5</td>
<td>2.9</td>
<td>3.8</td>
</tr>
<tr>
<td>Unemployment rate (%)</td>
<td>3.3</td>
<td>3.8</td>
<td>5.5</td>
<td>4.3</td>
</tr>
<tr>
<td>Fiscal balance (% of GDP)</td>
<td>-0.7</td>
<td>-10.8</td>
<td>-6.8</td>
<td>-4.8</td>
</tr>
<tr>
<td>Public debt (Maastricht, % of GDP)</td>
<td>45.7</td>
<td>56.5</td>
<td>62.0</td>
<td>63.6</td>
</tr>
</tbody>
</table>

Source: OECD Economic Outlook 108.

Macroeconomic policies should remain supportive

As economic conditions weakened rapidly, fiscal and monetary policy easing helped cushion the coronavirus shock.

The government adopted a comprehensive fiscal package, worth around 5.2% of GDP in 2020, to support the most affected households and firms. Temporary measures, combined with the spontaneous impact of the recession, will push the deficit to 11% of GDP in 2020. Maastricht debt will reach historically high levels. In addition, the Financial Shield programme supports small, medium and large companies. The discussed EU budget and the planned EU recovery package are also set to support the economy. As high uncertainty and weak global conditions will dent the recovery, the fiscal stance should remain supportive. Frontloading investment, notably in healthcare and infrastructure, would boost short- and long-term prospects, while supporting the transition to a more sustainable economy. Once the recovery is firmly underway, the authorities should pursue fiscal consolidation to reduce public debt.

Monetary policy responded quickly and forcefully. The Central Bank reduced its policy rate to 0.1%, and introduced unprecedented quantitative easing. The authorities also eased firm financing, extended liquidity support and decreased capital requirements for banks. In the case of a further weakening, monetary policy could expand asset purchases further or consider negative nominal rates, especially as inflationary pressures have receded on the back of depressed total demand.
Tax reforms should support the recovery. The labour tax wedge shows little progressivity, tax breaks remain numerous and property taxes are relatively low. The tax wedge for low-skilled workers could be lowered to boost job creation. When the recovery is firmly underway, Poland could build on its past successes to further increase tax compliance and revenue collection to finance such measures. Reducing inefficient tax expenditures and strengthening property taxes, notably on vacant properties and building lots, would raise revenues and housing supply.

Boosting productivity and inclusiveness

Strengthening the recovery to sustain the catch-up of living standards is a challenge. The reforms proposed in this Survey – targeted at improving productivity, skills and employment outcomes – could have a substantial impact, lifting GDP by 5.6% after 10 years.

The productivity of many workers and small and medium-sized enterprises (SMEs) is low (Figure 2). The pandemic has disproportionately affected weaker regions, smaller firms and disadvantaged workers. The development of higher-technology sectors is also increasing the demand for non-routine tasks and higher skills, and many workers are at risk of being left behind.

Figure 2. The SMEs productivity gap is wide
Relative value added per employee, large firms=100


StatLink https://doi.org/10.1787/888934207899

Improving the business environment would boost the growth and internationalisation of numerous small-firms. Tax-compliance costs remain high, while regulatory and tax changes are frequent. Tax expenditures and derogatory regulative measures for small firms lower these costs, but they run the risk of creating fiscal and regulatory “cliff edges” hindering firm expansion. Continuing to foster the use of digital tools by the tax administration and smoothing tax and administrative thresholds would support firm growth. Ensuring effective consultations and evaluations in the design of taxes and regulations would also support firm growth and investment. Finally, fostering judicial independence is key for business confidence, notably from foreign investors, which would require limiting the potential involvement from the executive branch in procedures applicable to judges.

Digital and transport infrastructure are still a bottleneck for innovation and resource allocation. Absorption of EU funds for large transport infrastructure has reduced infrastructure gaps, though it focused on new roads. A stronger focus on local public transport and the maintenance of the local roads would reduce congestion, pollution and trade costs. The development of high-speed broadband and data hubs, for example in the health sector, would also boost productivity. Establishing an independent evaluation body for ex-ante cost-benefit analyses would ensure better management of large local projects. Tasking this institution in collecting data on projects’ ex-post performance would provide more evidence for spending prioritisation.

Ensuring the supply of the right skills would boost job creation and productivity. The test scores of 15-year olds have made impressive progress, but lagging adult basic skills (except for younger workers) limit employment opportunities. Small firms have lacked engagement in upskilling strategies, hampering the diffusion of new technologies and their productivity and internationalisation. The planned integrated skills strategy should provide stronger guidance for SMEs looking for employees and encourage the creation of SMEs’ consortia for training. Evaluating and scaling-up effective training and consulting programmes for digital technology diffusion in SMEs would help to boost worker reallocation and productivity.

Higher job quality is key to an inclusive recovery. The 2020-21 minimum-wage rises could eventually weigh on the labour-market recovery and increase some atypical forms of
employment. Strengthening incentives for permanent contracts, including through labour law enforcement, will be essential for low-wage workers and SMEs. Rapidly developing a well-designed international migration strategy would also increase employment opportunities for migrant workers.

**Strengthened active labour market policies and a more efficient housing market would support access to jobs.** Unemployed and low-skilled workers make little use of training, and information about training quality should be developed. The new schemes to develop the rental market should go hand in hand with increased mobility vouchers for low-income workers. Strengthening urban planning would avoid further urban sprawl and the associated risks of concentrating poverty and negative consequences on congestion and pollution.

**Ensuring sustainable growth**

Air pollution and population ageing are pressing concerns. Greening investment and containing demographic pressures are essential to support the recovery and sustainable growth.

The use of poor quality coal and biomass in the housing sector, together with low energy efficiency, produces substantial urban air pollution (Figure 3). This, together with an old car fleet and mostly coal-fired electricity generation capacity, contributes to climate change and poses health hazards that have a negative impact on productivity.

**Strengthened environmental policies would improve health and environmental outcomes.** The “Clean Air programme” that targets energy efficiency in the housing sector and efforts to develop electric mobility and reduce the dependence of the energy mix on coal are welcome. Once the economy is on a clear recovery path, increasing the tax rates on energy use while boosting social transfers for the poorest households would be positive. Adopting a clear strategy together with higher and more homogeneous price signals, notably taxes on cars and carbon emissions, should be a priority to ease the transition towards a less carbon intensive energy mix. This should include relevant support for low-income households.

**Figure 3. Exposure to air pollution remains widespread**

% of population exposed to more than 15 micrograms/m² of PM2.5

<table>
<thead>
<tr>
<th>Year</th>
<th>Poland</th>
<th>CEEC</th>
<th>OECD</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>20</td>
<td>10</td>
<td>5</td>
</tr>
<tr>
<td>2017</td>
<td>15</td>
<td>15</td>
<td>10</td>
</tr>
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**StatLink** [https://doi.org/10.1787/888934207918](https://doi.org/10.1787/888934207918)

Ageing will weigh on labour supply and public finances. The old-age dependency ratio is rising (Figure 4). The ongoing increase in healthcare spending and the foreseen decline of pension replacement rates will boost social expenditures in the long term, while public debt is historically high.

**Figure 4. Demographic pressures are high**

Ratio of 65 and over to 15-64 population, %

<table>
<thead>
<tr>
<th>Year</th>
<th>Poland</th>
<th>CEEC</th>
<th>EU28</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>15</td>
<td>20</td>
<td>30</td>
</tr>
<tr>
<td>2030</td>
<td>25</td>
<td>30</td>
<td>40</td>
</tr>
<tr>
<td>2050</td>
<td>35</td>
<td>40</td>
<td>50</td>
</tr>
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</table>


**StatLink** [https://doi.org/10.1787/888934207937](https://doi.org/10.1787/888934207937)

Increasing the efficiency of health-related spending and promoting longer working lives is essential to free up public resources in the longer term. Beyond pandemic related expenditures, the planned increase in health spending should focus on prevention and coordinated care to reduce the high prevalence of risky behaviours and costly hospital admissions. Incentives to expand working lives and policies to improve the employability of old-age workers are also needed to encourage old-age employment and boost long-term growth.
Fiscal and monetary policy have responded quickly and effectively to the crisis. Yet, uncertainty about the pace of the recovery and potential new coronavirus outbreaks remains high.

Widespread uncertainty could hold back the recovery.

Poland’s healthcare system had low funding over the long term. Further coronavirus outbreaks could put the system under heavy strains.

The coronavirus crisis has increased public debt, while ageing and other spending pressures weigh on long-term fiscal sustainability.

The crisis and its legacy will potentially imply large-scale reallocation of workers. Too many adults, notably older ones, have weak basic skills. Lifelong training opportunities are low for unemployed, low-skill and older workers.

Labour costs on standard contracts are relatively high and the tax wedge lacks progressivity. Low-skilled workers suffer from weak career prospects.

Enrolment of young children in child-care facilities remains low, despite recent progress.

The health care system lacks efficiency and access is uneven. The government has announced a significant increase in spending by 2024.

Stimulus measures need to be aligned with long-term environmental goals. Yet, regulatory uncertainty has hold back investment in the energy sector.

The pricing of the environmental costs of fossil fuels is uneven in all sector of the economy. The transport sector is responsible for increasing greenhouse gas emissions and air pollution.

Reduced VAT rates and exemptions are widespread. Broadening the tax base would help lower tax rates on labour.

Pension replacement rates are set to shrink and the effective retirement ages of men and women are lower than the OECD average.

Potential involvements of the executive in disciplinary proceedings of judges may undermine judicial independence and investment.

Many small local firms are not integrated into national and international supply chains.

The government improved tax compliance successfully, but tax procedures remain overly time consuming for SMEs.

Access to high-quality infrastructure remains uneven across regions. Infrastructure needs remain high, notably on transport, energy and digital technologies.

Digitalisation remains uneven. The use of big data is constrained which may limit productivity gains and evidence-based policymaking, in particular in the healthcare sector.

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Digitalisation remains uneven. The use of big data is constrained which may limit productivity gains and evidence-based policymaking, in particular in the healthcare sector.

Macroeconomic and financial policies

If economic conditions weaken rapidly, ease fiscal and monetary policies further, by ensuring that additional fiscal spending supports the most affected households and firms and considering further asset purchases.

Bring forward green and digital investment to kick-start the recovery.

Expand intensive care capacity and ensure a successful testing, tracing and isolation strategy.

When the recovery is firmly underway, pursue fiscal consolidation to decrease the public debt-to-GDP ratio.

Ensuring an inclusive recovery

Strengthen lifelong learning opportunities notably for low-skilled workers, with a special focus on developing digital skills.

Envisage an income-tax-credit and/or subsidise social security contributions for low-income workers.

Continue to expand the supply of childcare and long-term care facilities, targeting low-income households and disadvantaged areas.

Strengthening green and sustainable growth

Use the planned increase in health spending to strengthen primary care and prevention.

Implement stable climate-change policies aligned with European and international objectives.

Once the economy recovers, increase road pricing and introduce CO₂-based vehicle taxation, together with redistribution targeted towards poorer households.

Limit the use of reduced VAT rates and exemptions over the medium term.

Progressively align male and female statutory retirement ages and increase it in line with life expectancy gains in good health.

Amend the disciplinary procedures applicable to judges, in particular by excluding the possibility for the executive to intervene in these proceedings.

Boosting productivity and SMEs’ internationalisation

Scale up existing programmes for SMEs with a focus on training and showcase best practices based on thorough impact analyses.

Reduce the use of special tax provisions (e.g. exemptions, special rates).

Involve stakeholders further in the design of taxes and regulations through early consultation procedures.

Conduct systematic ex-ante and ex-post evaluations of regulations.

Strengthen the role of ex ante cost-benefit analyses in the selection of infrastructure projects, for instance by establishing an independent evaluation body.

Develop data hubs providing companies and public services with access to large databases, notably in the healthcare sector, while ensuring digital security and privacy.
Key Policy Insights

Ensuring continued convergence with higher living standards

Poland has experienced strong economic growth over the past two decades. It has been very successful in integrating into global trade, not least thanks to its increasing role as an outsourcing destination for business services. The catch-up with average living standards in other OECD countries and regional peers has continued (Figure 1.1). Until the outbreak of the coronavirus, rising household incomes had contributed to more inclusive economic development, while poverty rates, inequality and the unemployment rate had declined (Figure 1.2).

Figure 1.1. The catch-up with living standards in other OECD countries has continued

A. Convergence in GDP per capita has been impressive
   Current USD PPPs, OECD = 100

B. Real GDP growth has been robust
   Average annual % change, 2010-19

The coronavirus pandemic threatens these achievements made over the past decades. Though the initial shock has been lower than in many OECD countries, the economy is projected to see a marked contraction in economic activity in 2020 before partially recovering in 2021 (Figure 1.3). As confinement measures were lifted in May 2020, many businesses reopened and most workers returned to work, and consumption and production are rebounding from their low confinement levels. Yet, the pace of the recovery remains very uncertain: unemployment has risen slightly, renewed sanitary restrictions have been imposed in the autumn, uncertainty is high and global demand is still depressed.

1. EA4 is the average of Germany, France, Italy and Spain.
2. CEEC is the average of Hungary and the Czech and Slovak Republics.
StatLink  
https://doi.org/10.1787/888934207956

OECD ECONOMIC SURVEYS: POLAND 2020 © OECD 2020
Figure 1.2. Poverty had fallen until the onset of the crisis

1. Poverty rate after taxes and transfers, Poverty line 50% of median equivalised disposable income.
2. CEEC is the average of Hungary and the Czech and Slovak Republics.
3. Severe material deprivation rate is defined as the enforced inability to pay for at least four items that are considered by most people to be desirable or even necessary to lead an adequate life.
4. EA4 is the average of Germany, France, Italy and Spain.


Figure 1.3. The COVID-19 crisis has dented economic prospects

1. CEEC is the average of Hungary and the Czech and Slovak Republics.


Policy support should remain available while the economy is still operating well below capacity. The shock will dent prospects for some industries, and many workers risk losing attachment to employers and facing difficulties in finding new jobs. The measures announced by the government and at the European Union level (Box 1.1) should also be used as an opportunity to ensure more sustainable and inclusive growth in the longer term. Poland faces pressing environmental issues, with high greenhouse gas (GHG) emissions and air pollution. Persistent air pollution hurts people’s health, including by making individuals more...
vulnerable to acute respiratory illnesses like the coronavirus. More generally, Poland scores below the OECD average in terms of health status, housing adequacy, and labour productivity per employee, the latter being 23% below the OECD average in 2018, despite its fast growth. The country also faces significant demographic pressures owing to low fertility and past negative net migration rates, as well as a still significant gender participation and employment gaps, which will weigh on GDP growth and challenges the current labour-intensive growth model. This, together with the legacy of the coronavirus pandemic, will reduce Poland’s ability to finance pension and health-related spending in the longer term (Figure 1.4).

While government interventions have shielded most families from the brunt of the shock (Box 1.2, OECD, 2020a), the pandemic could raise inequalities. In particular, the high share of temporary and self-employed workers could suffer from the ongoing labour-market adjustments (Figure 1.6, Panel A). About 14% of temporary workers work on freelancing type of contracts and are not fully covered by workers’ rights and some contracts may not be covered by social security benefits. At the same time, many micro- and smaller firms have weak productivity and connections to local, national and international markets, which translates in low wages and job quality (Chapter 2). These firms may have less resilience and flexibility in dealing with the costs of the pandemic and changes in work processes, such as suppliers and export markets shocks, as well as the shift to teleworking and prevention measures due to the pandemic (OECD, 2020b).

**Figure 1.4. The impact of population ageing is already visible**

Disparities between regions could grow further. Disparities had already widened over 2011-16 (OECD, 2018a). Disposable income per household is 20% below the national average in some regions and 20% above in the capital (Statistics Poland, 2019a), and regional well-being indicators show significant gaps, despite some recent progress (Figure 1.5). Many small cities and rural areas still struggle with the outmigration of young people, and access to high quality public services such as healthcare, education or public transport (EC, 2019a). Following the coronavirus outbreak, in April 2020, the change in average paid employment ranged from -5.2% to +0.7% year on year (Statistics Poland, 2020), the most recent declines being much more pronounced in weaker regions (Figure 1.6, Panel B).

In this context, the key messages of this Economic Survey are:

- There is high uncertainty about economic growth. Macroeconomic policies need to support the recovery and should be ready to act in case of further waves of contagion or unexpected downturn.
To sustain the recovery and more inclusive growth, policies should help job prospects of disadvantaged groups, and improve the links between SMEs and national and international markets.

More sustainable growth should be supported by policies focusing on innovation, the greening of infrastructure and increasing employment opportunities for women and older workers.

**Figure 1.5. Regional disparities are high**

Regional well-being, regional ranking, 2017

1. Relative ranking of the regions (refers to Poland’s 17 voivodeships – NUTS 2) with the best and worst outcomes in the 11 well-being dimensions, with respect to all 395 OECD regions. The eleven dimensions are ranked according to the size of regional disparities in the country. Source: OECD (2019), OECD Regional Well-Being Database.

**Figure 1.6. The crisis could widen inequalities**

A. The share of self-employed and temporary workers is high

B. Employment dropped in weaker regions following the coronavirus outbreak

1. 2019 or average of the four latest available countries. Share of self-employment and temporary contracts among 15-64 employed workers, excluding agriculture, forestry and fishing.
2. CEEC is the average of Hungary and the Czech and Slovak Republics.
3. Regions refers to Poland’s 17 voivodeships (NUTS 2).

Box 1.1. Measures adopted to contain the coronavirus outbreak and support the economy

**Confinement measures**
Following the first coronavirus cases in early March, the government took rapid action to ban mass events, close schools and universities and move to online education, promote remote working, and progressively close large public venues. International air and rail passenger traffic was suspended and borders reinstated. On March 24, a strict lockdown was implemented. Leaving home was only allowed unless necessary to buy food and medicine, to consult a doctor or to go to work. In October, the authorities have applied renewed restrictions to curb the rebound of infections. The wearing of face masks in public places has been made mandatory, most schools have moved to distance learning, gyms and eat-in restaurants have closed again, while public gatherings, the number of customers in retail shops and cultural events have been limited.

**Health care measures**
As the March lockdown was progressively eased, the government made the wearing of masks mandatory in public spaces, unless a minimum two meters distance could be respected. The authorities unlocked more than EUR 23 million (PLN 98 million) for hospitals at a very early stage of the epidemic and an additional EUR 2.3 billion (PLN 10.1 billion) package for the healthcare sector was announced later on. Pharmacists were allowed to issue prescriptions directly and extra funds were made available for personal protection equipment to rescue and fire services, the police and the railway sector.

**Fiscal measures**
The government implemented a fiscal package as early as March 19. The package was revised three times since, with additional measures to support the economy. The new crisis fund in the State development Bank (BGK) is set to finance fiscal measures of around EUR 22.7 billion (PLN 100 billion) in 2020. In addition, EUR 2.8 billion (PLN 12.2 billion) have been earmarked to support local-government investment.

**Income support for individuals**
Parents whose children were affected by the closures of schools and early childcare facilities could apply for a care allowance. Firms could apply for a wage subsidy if experiencing difficulties, conditional on not dismissing workers for the duration of the benefit. Self-employed and workers on freelancing civil-law contracts could also apply for a subsidy up to 80% of the statutory minimum wage, exempted of social security contributions and taxes. The government also introduced a solidarity benefit of PLN 1400 per month, for up to three months, for workers who lost their job after March 15 and increased the monthly minimum unemployment benefits by 36% to EUR 272 (PLN 1,200) from September 2020.

**Public subsidies, loans, loan guarantees and capital injections to businesses**
The government announced the Financial Shield, an unprecedented loan and subsidies scheme worth EUR 22.7 million (PLN 100 billion) for firms to maintain liquidity and protect jobs. The programme managed by the Polish Development Fund (PFR) is dedicated to small, medium and large firms. The loans were awarded for three years, with zero interests, and repayments will only start in the second year. If firms keep their employees for the entire loan duration, up to 60% of the value of the support may be disbursed as a grant instead.

The State Development Bank (BGK) also increased its loan guarantees de minimis programme for firms by EUR 4.5 billion (PLN 20 billion) initially, and an additional EUR 91 million (PLN 400 million) in EU funds was redirected for further loan guarantees at the end of April. For small firms, the guarantee coverage was extended from 60 to 80% of the loans and a new liquidity guarantee fund in BGK was created for loans taken by medium and large enterprises.
The Polish Development Fund (PFR) increased its investments and financing operations on preferential conditions. The government also announced that further capital injections would be financed by drawing on available EU regional funds.

**Taxes and social security contributions deferrals**

Self-employed and micro-firms experiencing an important drop in revenues could apply for the deferral of taxes and the temporary cancellation of the payment of social security contributions. The measure was later extended to firms with between 10 and 49 employees.

**Monetary policy and prudential regulation**

Monetary policy has been exceptionally accommodative. The National Bank of Poland (NBP) reduced its policy interest rate three times, from 1.5% in early March to 0.1% at the end of May. In addition, the central bank introduced repo operations to provide liquidity to the banking sector and announced it would purchase Polish Treasury securities and government guaranteed debt securities in the secondary market. The NBP introduced a programme to provide funding for bank lending to non-financial private enterprises similar to the ECB’s TLTRO.

Macro prudential regulation was eased. Reserve requirements were lowered from 3.5% to 0.5%, while the interest on mandatory reserves was set at the level of the policy rate (currently 0.1%). Following recommendations from the Financial Stability Committee, banks were released from the obligation to maintain the systemic risk buffer, and allowed to reduce the risk weight from 100% to 50% for some secured exposures on commercial real estate, which considerably increased their available capital. The Polish Financial Supervision Authority (KNF) introduced some flexibility in the classification of exposures and allowed banks to operate below the combined buffer requirement and the Loan-to-Capital ratio.

**The “Next Generation EU” plan**

The “Next Generation EU” recovery plan agreed among EU leaders in July 2020 reaches EUR 750 billion. After approval by the European Parliament and the Council of the legislative proposals that will create the financial instruments necessary to make “Next Generation EU” operational, the plan is expected to start being implemented from 1 January 2021. It will be financed through borrowing by the Commission on financial markets and repayments will take place over 2028-58. This plan is completed by the 2021-27 EU budget – which would itself reach EUR 1,074.3 billion – to a total of EUR 1,824.3 billion over 2021-27.

The “Next Generation EU” plan creates new financial instruments and is frontloaded over the coming years. The new Recovery and Resilience Facility concentrates most funds (EUR 672.5 billion, of which 312.5 in the form of grants and 360 in the form of loans) to help finance investment and reforms over 2021-23. In particular, grants of the Recovery and Resilience Facility are set to reach around EUR 23.1 billion for Poland (around 4.4% of 2019 GDP over six years). According to the foreseen allocation, the EUR-30-billion “Just Transition Fund“ to support the transition towards a climate neutral economy could increase this amount to a total of around EUR 29.1 billion for Poland (5.5% of 2019 GDP) (EC, 2020).

The economy requires continued policy support

**The economy weakened substantially**

Following the first positive cases in early March, Poland’s daily new COVID-19 infections surged until the beginning of April (Figure 1.7). On 8 March, in the wake of the first confirmed cases, the authorities took rapid action to promote remote working, banned mass events, suspended schools and universities and progressively closed all cultural, accommodation, food and entertainment venues, together with shopping centres (Box 1.1). In mid-March, international air and rail passenger traffic came to a halt and border controls were reinstated. A few days later, the government declared a state of epidemic emergency and implemented tighter confinement measures. The swift introduction of these measures helped limit the extent of the contagion. However, new cases have again increased rapidly in the autumn and the authorities imposed renewed sanitary restrictions.

Industrial production and retail sales dropped sharply in April to below levels observed during the global financial crisis (Figure 1.8). The end of the two months lockdown in May allows activity to resume. Industrial production and retail sales have improved markedly. Accommodation, food services and the transportation sectors have been hit particularly hard. Mobility to retail shops and restaurants decreased by 28% compared to a normal period and retail sales in enterprises employing up to 9 persons dropped by 23% year-on-year in April. Exports and imports, that had been resilient during the first quarter, have also dropped sharply and bounced back thereafter. Business confidence remains relatively low in most sectors, notably services, and the recent resurgence of the pandemic has hurt confidence: domestic demand and mobility indicators started falling again with the renewed restrictions.

**Figure 1.7. New COVID-19 cases have increased rapidly over the autumn**

Daily new cases, per million of population

[Graph showing daily new cases, 7-day moving average, and share of tests that are positive]


StatLink: [https://doi.org/10.1787/888934208070](https://doi.org/10.1787/888934208070)
A comprehensive fiscal package has cushioned the initial crisis impact

Fiscal policy reacted forcefully to the coronavirus crisis. The authorities have announced an anti-crisis package that foresees discretionary measures worth about 5.2% of GDP in 2020 (PLN 112.2 billion) in addition to the action of automatic stabilisers and the Financial Shield (Box 1.1). In a welcome move, this package aimed at preserving jobs by sustaining business liquidity, boosting healthcare spending and encouraging infrastructure investment during the recovery. The measures extended income support to numerous self-employed and temporary workers. To avoid widening inequalities due to the pandemic, the government enhanced transfers to local authorities and postponed loan repayments, for up to three months, for individuals having lost their job or main source of income. It also introduced a 3-month solidarity allowance payable to the most disadvantaged jobseekers and raised permanently unemployment benefits. A subsidised micro-loan facility supports the cash-flows of the smallest firms, while a loan guarantee scheme cover loans up to PLN 100 billion (4.4% of GDP) for all firms with no tax arrears, in proportion to their size.

1. CEEC is the average of Hungary and the Czech and Slovak Republics.
2. EA4 is the average of Germany, France, Italy and Spain.
Source: Statistics Poland (2020), Short-term monthly indicators and Business confidence indicators; Apple (2020), Mobility trends reports.

StatLink 2 https://doi.org/10.1787/888934208089
Postponed consumption and delayed investment decisions supported the initial recovery, but another outbreak and the associated sanitary restrictions, the expected rise in unemployment and uncertainties around the extent of global value chain destructions are denting household and business confidence. GDP growth will be limited to 2.9% in 2021, after a deep recession in 2020. In case of further epidemic outbreaks, associated with renewed containment measures, the recovery would further weaken. In addition, the slower euro area recovery, as well as a more pronounced deterioration of the outlook for the global automotive industry and business services, will reduce export prospects.

Table 1.1. Macroeconomic indicators and projections

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Poland</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>GDP at market prices</strong></td>
<td>1989.8</td>
<td>5.4</td>
<td>4.5</td>
<td>-3.5</td>
<td>2.9</td>
<td>3.8</td>
</tr>
<tr>
<td>Private consumption</td>
<td>1166.8</td>
<td>4.5</td>
<td>3.9</td>
<td>-4.5</td>
<td>1.7</td>
<td>4.5</td>
</tr>
<tr>
<td>Government consumption</td>
<td>351.9</td>
<td>3.5</td>
<td>6.2</td>
<td>3.1</td>
<td>3.6</td>
<td>1.8</td>
</tr>
<tr>
<td>Gross fixed capital formation</td>
<td>348.7</td>
<td>9.4</td>
<td>7.2</td>
<td>-7.4</td>
<td>-1.6</td>
<td>8.2</td>
</tr>
<tr>
<td>Final domestic demand</td>
<td>1067.4</td>
<td>5.2</td>
<td>5.0</td>
<td>-3.8</td>
<td>1.4</td>
<td>4.6</td>
</tr>
<tr>
<td>Stockbuilding(^1)</td>
<td>47.5</td>
<td>0.4</td>
<td>-1.3</td>
<td>-1.3</td>
<td>-0.4</td>
<td>0.0</td>
</tr>
<tr>
<td>Total domestic demand</td>
<td>914.9</td>
<td>5.6</td>
<td>3.5</td>
<td>-5.0</td>
<td>1.0</td>
<td>4.6</td>
</tr>
<tr>
<td>Exports of goods and services</td>
<td>1077.7</td>
<td>6.9</td>
<td>5.1</td>
<td>-7.0</td>
<td>7.9</td>
<td>11.3</td>
</tr>
<tr>
<td>Imports of goods and services</td>
<td>1002.7</td>
<td>7.4</td>
<td>3.3</td>
<td>-9.6</td>
<td>8.4</td>
<td>14.4</td>
</tr>
<tr>
<td>Net exports(^1)</td>
<td>75.0</td>
<td>0.0</td>
<td>1.1</td>
<td>1.0</td>
<td>0.3</td>
<td>-0.7</td>
</tr>
</tbody>
</table>

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.


Ongoing labour market adjustments will have long-lasting consequences for households and firms (Figure 1.9). The initial shock has been smoothed by government measures, the lowering of working hours and the take-up of unpaid leaves (Statistics Poland, 2020). The number of employees and hours worked have slowly decreased in part due to the effect of the short-time work scheme. The rebound in employment after the initial lockdown has only been partial, and many workers will not be able to retain attachments to employers. These adjustments are set to intensify with the expected weak recovery, the associated likely dismissals and bankruptcies, as well as the significant reallocation and reskilling needs. The unusually large share of workers on temporary contracts or self-employment could bear the main costs. Small and micro enterprises, with little financial reserves, are also particularly at risk. Following the initial outbreak, many of them decreased wages to reduce short-term losses and maintain liquidity without having to resort to redundancies and the renewed autumn’s restrictions are set to weigh further on their financial situations.
Exports are set to be relatively resilient to the depressed global economic conditions (Figure 1.10). Over recent years, Polish exporters resorted to diversification of trade ties to make up for the shrinking demand from the European Union or negative demand shocks from Russia and Ukraine. Poland’s exports of goods are well diversified in terms of composition, although goods exports remain mostly specialised in low- and medium-tech products and directed towards other European countries (Figure 1.11 and Chapter 2). Yet, unlike the sharp currency depreciation experienced during the global financial crisis, the global pandemic shock and the recent monetary policy easing (see below) have not changed much exchange rate levels so far.

The short-term outlook is subject to particularly high uncertainty. New, longer and wider coronavirus outbreaks could hurt local and global economic conditions and be a drag on growth. Escalations of trade tensions risk further lowering the growth of exports and private investment. A further slowdown in the German car industry would also hurt exports and notably the automotive industry. Worsening perceptions about the evolution of judicial independence and the rule of law could also weaken business investment. On the upside, the large-scale roll-out of an effective vaccine commercialised already in 2021 could accelerate the pace of recovery by boosting external demand and investors’ confidence. A faster-than-expected recovery of household confidence could boost private consumption. A number of large possible shocks could also alter the economic outlook significantly (Table 1.3).
Figure 1.10. Exchange rate variations have been limited and export performance has so far been robust

A. Changes in the nominal effective exchange rate have been limited
   Average 2000-2020=100, rise indicates appreciation
   
B. The real effective exchange rate has stabilised¹
   Average 2000-2020=100, rise indicates appreciation

C. Contained unit labour costs have supported exports
   Year-on-year % changes

D. Export growth remains strong
   Annualised growth rate, 2014-2019

1. Based on relative consumer prices.
2. Goods and services, volume.
3. CEEC is the average of Hungary and the Czech and Slovak Republics.

StatLink 2 https://doi.org/10.1787/888934208127

Table 1.2. Low-probability events that could lead to major changes in the outlook

<table>
<thead>
<tr>
<th>Shock</th>
<th>Possible impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long and globalised outbreaks of coronavirus</td>
<td>New, longer lasting and more intensive outbreaks could spread much more widely than assumed. This would hurt global growth prospects and demand in key export markets. This could also constrain Poland’s productive capacity by reducing its labour supply and supply chains.</td>
</tr>
<tr>
<td>A rapid increase in the global risk premium</td>
<td>This would lead to higher domestic rates, and the zloty could depreciate, driving up interest payments and risks of fiscal policy slippages.</td>
</tr>
<tr>
<td>Rise of protectionism and tensions in international trade</td>
<td>Poland would be severely affected by a slowdown of its European partners in case of prolonged and heightened trade tensions. This would have adverse effects on exports and firm entry and undermine investors’ confidence, harming productivity and potential growth.</td>
</tr>
</tbody>
</table>
Box 1.2. Key ongoing policies and reforms

**Increasing social transfers:** the July 2019 extension of the "500+" benefit granted an unconditional monthly benefit of PLN 500 (EUR 117) to every child aged 0-18. The “pension plus" scheme is a yearly one-off lump-sum pension payment amounting to PLN 1,100 gross in 2019 (EUR 249) and PLN 1,200 (EUR 281) in 2020.

**Pension reforms:** the Open Pension Funds (OFE) are set to be dismantled, and the funds transferred to private individual retirement accounts (IKE), or to the personal accounts at the Social Insurance Institution (ZUS). The authorities also set up voluntary Employee Capital Plans (PPK) in 2019. They aim at increasing long-term private savings and, in particular, may improve future pension adequacy.

**Increasing tax expenditures for low-wage earners and younger workers:** Since 2018, the tax-free income for PIT has increased, and the first tax rate has been reduced in October 2019 (from 18 to 17 percent). Young income taxpayers (up to PLN 85,528) have been exempted from the personal income tax in since August 2019 and tax deductible costs have more than doubled in October 2019.

**Improving VAT compliance:** Poland created a centralised data warehouse, merged tax administration, customs and fiscal control operations. It also improved modelling tools to better detect irregularities and facilitated information exchange with banks when suspicion of fraud.

**The government has increased the minimum wage.** An increase of 15.6% took place in January 2020 and another increase of 7.7% will take place in January 2021 (to PLN 2,800).

**The 2018 “Clean Air” and the 2020 “My energy” programmes aim at reducing air pollution from residential heating, improving the energy performance of buildings and increasing the use of small-scale renewable installations.** Grants and loans are available for investments such as stove, window and door replacements, property insulation, and installation of renewable energy systems. The 2020 “My energy” programme will co-finance up to 50% of individual photovoltaic installations.

**Increasing public health expenditures:** Before the COVID-19 outbreak, the government had plans to increase public health-care spending to 6.0% of GDP in 2024 from 4.5% in 2015. Additional spending already occurred in 2020 as a response to the ongoing crisis.

**Increasing some specific taxes:** a new levy on soft drinks and some alcoholic beverages, the so-called “sugar tax”, and a tax on retail sales’ turnover are to be introduced in 2021.

**Initiatives supporting SMEs** (Chapter 2): The 2018 Business constitution and “100 Changes for Enterprises” aim at reducing the administrative burden, notably for SMEs and foreign investors. In addition, in 2019 the authorities lowered the reduced corporate income tax rate for SMEs to 9%.

**Integrated Skills Strategy:** The general part of the Integrated Skills Strategy (ZSU) has been adopted in January 2019. The detailed part is being developed with the support from the OECD.

**Judicial reforms:** In the context of the general pension reform, the authorities lowered the retirement age of judges and allowed the Ministry of Justice to retain selected judges, among other measures. The European Court of Justice ruled the proposed reform to be unlawful (EC, 2019) and the government has subsequently amended the retirement age of judges. Another reform, potentially allowing to dismiss judges for their court rulings, has been criticised by the Polish Supreme Court (2020) and the Council of Europe (2020).

Monetary policy has been appropriately accommodative

Monetary policy has reacted forcefully and quickly to the emerging coronavirus crisis. The central bank cut its policy rate from 1.5% in early March to 0.1% at the end of May coupled with a narrowing of the interest rate corridor (Figure 1.12), strengthened banks’ liquidity through reduced reserve requirements, started an asset purchase programme – including state-guaranteed debt securities – and introduced TLTRO-type refinancing. These measures eased monetary conditions and smoothed the financing of the fiscal anti-crisis measures, as the yields of government bonds have declined markedly (NBP, 2020a). Statements also made clear that the central bank will continue to purchase government securities and government-guaranteed debt securities in the secondary market and will offer bill discount credit aimed at refinancing loans granted to enterprises.

Headline inflation has sharply decelerated, driven by the reversal of earlier energy and food price hikes (Figure 1.13, Panel A). In October, headline inflation (as defined Statistics Poland) stood at 3.1% year on year, down by 1.6 percentage points since its February high. Decreasing oil prices and slowing food price growth have more than compensated increasing wholesale electricity prices, due to recurrent weaknesses in supply (OECD, 2016), and the end of the 2019-electricity price freeze for households in January 2020.
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Yet, core inflation remains relatively high. This reflects lagged effects from administered price hikes, the mild złoty depreciation and the pass-through of the costs of new health-and-safety type procedures, as wage growth has sharply decelerated and unemployment has started to rise. OECD inflation and Central Bank’s projections for inflation are set to remain within the Central Bank’s tolerance band in 2021-21 (Figure 1.13, Panel B, NBP, 2020a and c). Wage growth is projected to ease further and the economy to recover slowly and at a very uncertain pace, as there are ongoing headwinds to activity from weak global growth, risks of more severe and longer-lasting coronavirus outbreaks and rising trade tensions.

Figure 1.12. Monetary policy has reacted forcefully to the crisis


Figure 1.13. Inflationary pressures have decreased

1. Harmonised indices.

Under these circumstances, the current monetary stance appears appropriate. In responding to the coronavirus shock, monetary policymakers have enhanced and expanded their tools. Local currency bond yields fell significantly following the programme announcements, with little effect on exchange rates. The authorities have signalled that they are ready to keep interest rate at their historically low level for an
extended period, and that they will continue to purchase government and government-guaranteed debt securities in the secondary market to strengthen the monetary policy transmission mechanism. Yet, monetary policy decisions should remain data-contingent and forward-looking, responding rapidly should economic conditions deteriorate (or improve) faster than expected. Given potentially limited room for manoeuvre, in case of an even more severe downturn, the authorities may consider adjusting large-scale asset purchases, including through the possibilities for expanding the range of eligible assets, and using of negative interest rates.

**Risks to financial stability have increased and require close monitoring**

The coronavirus crisis raised several financial risks. Before the crisis, the financial system stood in relatively good condition, despite the increase of some vulnerabilities (Figure 1.14). Yet, a long-lasting decrease of employment and fall in corporate revenues would lower households and firms’ capacity to repay outstanding debts and translate into increased credit risk costs for banks (OECD, 2020a and 2020c). This risk is, however, reduced by massive fiscal support and monetary actions (Box 1.1). At the same time, high uncertainty and increasing risk aversion are having a negative impact on banks’ propensity to grant new loans, which could further exacerbate the liquidity position of businesses and their solvency (Figure 1.15, Panel A; NBP, 2020b). Yet, according to banks’ surveys, the decreased pace of new lending over 2020 has been caused rather by subdued demand than tightened credit standards.

**Figure 1.14. Evolution of macro-financial vulnerabilities**

Index scale of -1 to 1 from lowest to greatest potential vulnerability

1. For each aggregate macro-financial dimension, displayed in Panel A, the vulnerability index is based on a simple average of all indicators from the OECD Resilience Database that are grouped under that dimension’s heading. Indicator values are normalised to take values between – 1 and 1. They are positive when the last observation of the underlying time series is above its long-term average, indicating more vulnerability, and negative when the last observation is below its long-term average, indicating less vulnerability. Long-term averages are full-sample estimates calculated since 2000.

2. Inverted scales, higher values indicate higher potential vulnerabilities.

Source: Calculations based on OECD (2019), OECD Resilience Database, December.

StatLink [https://doi.org/10.1787/888934208203](https://doi.org/10.1787/888934208203)

The healthy position of the banking sector before the crisis and regulatory measures averted problems with banks’ liquidity and capital position so far. Despite historically low interest rates, macro-financial vulnerabilities had receded since 2010. The debt-service ratio of the non-financial corporate sector was low in international comparison (Figure 1.15, Panel B). Loan losses, the share of loans in arrears and impaired loans were decreasing (NBP, 2019). The banking system was also well capitalised and liquid (KNF, 2019; EBA, 2018). These accumulated buffers, as well as the release of the systemic risk buffer recommended by the Financial Stability Committee and the measures taken by the central bank to provide...
liquidity to the banking sector, such as lower reserve requirements, the introduction of repo transactions and structural market operations, have contained liquidity risk and the need to increase banks’ capital.

Notwithstanding the good aggregate indicators, caution is warranted. Bank share prices have declined, impeding their ability to raise funds from external sources if needed. There is heterogeneity across banks, with some smaller institutions that are more sensitive to shocks having suffered losses that significantly reduce their available capital (NBP, 2020b). Though non-performing loans have remained broadly stable until September 2020, the coronavirus crisis has increased the risks of non-performing loans and banks should use their profits to increase their capital buffers, for example by not distributing dividends, as recommended by the regulator.

Figure 1.15. The risk of a credit crunch has increased

The crisis has worsened financial institutions’ profitability. Polish banks were already affected by global downside pressures on profitability (EBA, 2019), as well as domestic factors related to the asset tax introduced in 2016 and increased contributions to the bank-guarantee fund (Figure 1.16, Panel A; NBP, 2019). As demand for banking services and investment products fell during the lockdown, non-interest margins dropped, while lower interest rates reduced banks’ interest margin income. At the same time, higher provisions for credit risk lower banks’ profitability further. Further medium-term risks stem from the declining stock of foreign-currency denominated mortgages, as the ongoing rise of customer challenges and court disputes could negatively affect banks’ profitability if the conditions of particular foreign-currency denominated mortgages are deemed abusive (ECJ, 2019).

Sovereign-financial institution linkages have increased, exposing banks to potential negative feedback effects between the financial situation of the State and the banking sector. Before the pandemic, the state control of the financial system had already increased to around 40% of the sector’ assets, following the purchases of stakes by the authorities in two large banks in 2017 and a 2019 reform strengthening state involvement in nominations to the Polish Financial Supervision Authority (KNF). Banks have also significantly increased their holdings of sovereign bonds (Figure 1.16, Panel B). The 2016 bank asset tax incentivises higher holdings of government securities as such assets are currently exempted. Replacing the current bank asset tax with a tax on profits and remuneration would be less distortive (IMF, 2019).
Strengthening the regulatory framework would support financial stability. The Polish Financial Supervision Authority (KNF) is in charge of the banking sector supervision and its resources have increased in 2019. Yet, its independence remains potentially constrained. The governing members of the KNF should be selected solely based on their expertise and experience. The KNF should also have responsibility for the oversight of its human resources’ management, as well as for evaluating the supervisory effectiveness. In order to improve the effectiveness of early intervention in the case of troubled banks, the KNF should be able to execute bank insolvency assessments, without having to require an external third-party opinion (IMF, 2019).

Figure 1.16. Banking sector’s profitability and holding of sovereign bonds

**A. Return on assets of commercial domestic banks**

- First quartile
- Median
- Third quartile

**B. Holding of domestic sovereign bond**

Per cent of banking sector assets

1. Annualised data.
2. EA4 is the average of Germany, France, Italy and Spain.
3. CEEC is the average of Hungary and the Czech Republic.


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**Boosting the recovery while containing medium-term spending pressures**

The crisis legacy will compound long-term challenges

Before the crisis, the fiscal position was strong in the short term (Figure 1.17). The fiscal deficit had been reduced significantly since 2010 and the public debt-to-GDP ratio was set to decline further from its 2016 peak, bringing it well below the European Union average in 2021. This achievement owed to strong growth, better tax collection (notably through the successful elimination of tax loopholes) and low spending growth till recently. Yet, even before the crisis, the authorities had been raising social expenditures (Figure 1.18 and Box 1.2). In particular, the 500+ child benefit programme introduced in April 2016 (and its later expansion) and the reversal of the minimum retirement age reform (to the levels of 2012) implemented in October 2017 increased medium-term financing needs. Both measures are expected to cost more than 2% of GDP annually. The new child benefits has doubled public support for families to about 3.8% of GDP, well above most other OECD countries (Figure 1.18, Panel A). The additional payment for pension and the reversal of the retirement age reform are set to push public pension spending to close to 12.0% of GDP in 2020 (Panel B).
In the current environment of very low interest rates, which could be long lasting, high public borrowing levels might be sustainable if they finance growth-enhancing investments. Yet, the sharp temporary increase in the deficit in the response to the coronavirus crisis will increase the need for controlling medium-term spending pressures (Figure 1.17). Compared to the OECD November 2019 projections, the crisis will push 2021 Maastricht debt up by 17 percentage points of GDP to 62% of GDP. Long-term sustainability challenges are also significant. There are a number of reasons to expect further pressure on the fiscal balance in the longer run. Firstly, health and long-term care costs are set to rise by around 1.4% of GDP by 2050 (EC, 2018a). Secondly, infrastructure needs will remain strong to allow a transition towards a greener and more efficient economy, as bottlenecks remain in energy and transport infrastructure.

Figure 1.17. The fiscal response to the crisis has been substantial

![Graph A: The crisis has reversed earlier consolidation efforts](image1.png)

![Graph B: The debt legacy will be large](image2.png)


According to illustrative OECD simulations that are surrounded by particularly high uncertainty, Poland’s public debt – Maastricht definition – could increase to around 90% of GDP by 2050 if ageing costs and the legacy of a single coronavirus outbreak were not offset (Figure 1.19). Even taking into account Poland’s spending rule, which imposes to remain close to Poland’s Medium Term Objective of a structural balance of -1% of GDP, the offsetting consolidation efforts would not put public debt on a firmly declining path since ageing will progressively reduce the growth potential. In this scenario, due to the sharp increase in debt stock over 2020-21, the public debt would continue to increase to a level close to 74% of GDP in 2050.

Further strengthening the fiscal framework would help to ensure sustainability over the longer term. The current system requires public debt to be kept below 60% of GDP (national definition) according to the Constitution. In normal circumstances, the application of the 2013 spending rule should lead to a reduction of the deficit if one of the following three instances occur: the preventive net public debt-to-GDP thresholds – 43% and 48% – are crossed; the general government deficit exceeds 3% of GDP; or there are significant deviations from the medium-term budgetary objective. Since 2019, the budget process should also incorporate a medium-term (three years) perspective and provide guideline for future spending ceilings, which is welcome. The National Bank of Poland and the European Commission (through the Convergence Programme) issue opinions about the draft budget and the Supreme Audit Office (NIK) ensure ex-post control. Yet, Poland remains the only EU Member State without a fiscal council (EC, 2019a) and it would be helpful to have an independent institution make ex-ante assessment of the government’s fiscal plans and conduct long-term fiscal sustainability analyses (OECD, 2016).
1. Poland’s public spending on family benefits of 2015, augmented with the costs of the family 500+ child benefits introduced in 2016 with mean testing and its full-year extension in 2020. The full-year costs associated with the 2018 Good Start programme and the 2019 Mother 4 plus scheme are also taken into account in the 2020 estimate. Other changes are not taken into account.

2. The 2020 GDP figures are based on the OECD pre-crisis projections (November 2019 Economic Outlook).

3. The 2020 estimate takes into account the pension plus scheme and the 2019 hike in minimum pension and indexation. The 2016 reversal of the retirement age increase is expected to cost 0.1% of GDP in 2020. Other changes are not taken into account.


https://doi.org/10.1787/888934208279

1. The key long-term assumptions build on Table 1.1 for 2019-21. They assume a long-term potential growth declining from 3.0% in 2021 to 1% in 2050 in line with OECD (2019). The GDP deflator and the debt servicing costs are set at 2.5% after 2026, and 6.7% of net debt after 2031. The primary balance converges from -0.3% of GDP in 2021 to +1.0% in 2031, consistently with Poland’s Medium Term Objective and fiscal rules. Yet, total ageing-related public expenditures (pensions, long-term care, health and education) are not compensated. These add 1.4 percentage points of GDP to annual government spending in 2050 (EC, 2018) and the primary balance is negative at -0.4% of GDP in 2050. Government gross financial assets are kept constant as a share of GDP.

2. The consolidation scenario assumes that the primary balance remains constant at +1.0% of GDP after 2031.

3. The net debt servicing costs increases to 7.7% in 2031 and remains stable thereafter. Compared to the key assumptions, potential growth declines faster and by an additional 0.25 percentage points in 2050.

4. The “OECD-recommended reforms” scenario adds the estimated effects of the reforms recommended in this Survey (Box 1.3) and the expected effects of some of the key recommendations as described in Table 1.6. The primary balance improves faster to 1.25% of GDP in 2026. Potential GDP improves by 5.6% after 10 years compared to the baseline scenario.


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Additional risks could weigh on the debt burden. General government contingent liabilities are substantial. They reached nearly 43% of GDP in 2018 (MF, 2019) and they have increased with the coronavirus crisis. Poland’s government guarantees and liabilities related to Public Private Partnerships are low in international comparison (Eurostat, 2020a). Yet, the liabilities of the numerous state-owned enterprises in the financial and non-financial sectors are large. Monitoring of state-owned enterprises and strengthening their governance should be aligned with OECD best practices (EC, 2019a; OECD, 2020d).

**Ageing will put significant pressures on the quality of pension, health and long-term care**

Before the coronavirus crisis, the financial sustainability of the pension system appeared assured, based on long-term projections. Yet, it would be at the expense of a gradual decline in the level of pension compared to working wages over the longer term. This poses a risk of old-age poverty and many Poles are for this reason concerned by financial security in old age. They also feel that they do not have access to good quality long-term care and healthcare (OECD, 2019a). Reforms need to be implemented that go beyond the sole financial sustainability concerns to ensure efficient and adequate expenditures in the pension, health and long-term care sectors.

*Reforms are needed to reduce risks of old-age poverty and boost employment*

Public expenditures on pensions appear broadly under control over the longer term. Despite one-off increases in 2019-20, public pension spending is set to remain close to the European Union average at about 11% of GDP (Figure 1.20, Panel A). Public expenditures on pensions would remain broadly stable until 2050 according to European Commission’s projections (EC, 2018a). The financial sustainability of the pension system has been ensured by high standard contribution rates and a steep decrease in replacement rates (Panel B) driven by the transition to pensions based on lifetime contributions and the indexation of future pension mostly on prices (rather than the wage bill). This would offset the rapid population ageing. Yet, in the absence of further improvements in labour market outcomes and longer contributory periods, replacement rates are expected to become among the lowest in the OECD.

The recent introduction of an auto-enrolment private occupational savings scheme (PPK) could somehow improve this bleak prospect. The net household saving rate has declined over the long term to around 1.0% of disposable income in 2018. PPKs could increase future pension prospects by adding another component to the pension system if they succeeds to rebuild confidence in private pensions, which was undermined by the reversals of the mandatory funded scheme (OFE) (OECD, 2019b). From July 2019, large companies must enrol their employees into PPK with a standard contribution of 3½ percent of their gross wage financed through employer (2 percent) and employee (1.5 percent) contributions. The State also finances top-ups. Smaller companies followed from 2020 and public entities and the smallest firms are set to be covered in 2021. The participation of employees in large companies was 40%. The authorities expect to cover 75% of employees and inject into capital markets about 0.7% of GDP annually (EC, 2019a). Moreover, in 2019, the authorities increased the minimum pension (after a first hike in 2017), pension indexation and the coverage of women with more than four children through unconditional cash transfers (RSU). One-off benefit for all pensioners in 2019 and 2020 at the level of 0.5% of GDP annually, the so-called pension plus scheme (Box 1.2), are also boosting retirees’ incomes.

Employment rates for workers close to retirement (54-64) and the combination of work and pension have made rapid progress, but old-age poverty risks are still set to increase over the longer term, notably for women. While the average effective retirement ages both for men and for women has increased until 2018, they remain relatively low and the employment rates of 60-64 women and 65-69 men have decreased since 2018 (Figure 1.21). This is likely the consequence of reversing the 2013 retirement age reform to 60 for women and 65 for men in late 2017, as life expectancy at 50 years old has increased by 20 months over 2010-18 (Eurostat, 2020b). Indeed, in many studies, the statutory pension age is a powerful focal point that tends to have a strong effect on retirement decisions beyond any financial incentive effects (Cribb
et al., 2016). Combined with the high share of temporary contracts and self-employed with low contributions and associated pensions (OECD, 2019b and below), these risk raising old age poverty and the share of pensioners who have no more than a minimum pension. Women, whose pension eligibility depends on a particularly low statutory retirement age, tend to benefit from lower replacement rates and are the most at risk (Bledowski et al., 2017; Tyrowicz and Brandt, 2017): their average age at labour market exit today is among the lowest in the OECD.

Figure 1.20. A steep decline in replacement rates is set to contain pension expenditures

A continued increase in the effective retirement age, in line with progress with life expectancy in good health, and improved working opportunities for women and older workers are crucial for labour market participation and the level of pensions. The pension system provides increased benefits for those postponing retirement beyond the statutory retirement age. Moreover, yearly letters and counsellors in regional offices inform and advise workers about their pension situation and the potential benefits of delaying their retirement. Yet, harmonising employment protection for all age groups to avoid disincentives to hiring older workers, who are currently better protected, could raise their employment prospects (OECD, 2015). Raising and equalising the statutory retirement ages for men and women and linking it to healthy life expectancy, as in many other OECD countries, such as Denmark or Portugal, would also help to take into account improvements of health conditions of older workers and accelerate the increase in effective retirement age. Efforts to strengthen job-search assistance and training programmes, and to reduce discrimination for older workers will also be needed.

Existing preferential pension schemes imply fiscal costs and reduce the mobility of workers between sectors. Special pension expenditures affect more than 22% of current pensioners and amount to 2.6% of GDP (EC, 2018a). In particular, the special social insurance system for farmers (KRUS) based on flat contributions and subsidised at a cost of around 0.8% of GDP, is hampering labour mobility and contributing to hidden unemployment in agriculture, though the share of those working in agriculture has decreased. Although they may be partly justified by hazardous working conditions, the special pension rules of for miners appear substantially more generous than the general rules. Similarly, survivor pension schemes could be reviewed to increase incentives to work at older age and reduce their costs. Indeed, the ratio of the deceased partner’s pension awarded to the survivor, at 85%, is among the highest in the OECD, and greater than the estimated ratio needed to sustain the surviving spouse’s living standards (OECD, 2018d). Progressively scaling back these programmes would allow to boost employment and inclusiveness.
Figure 1.21. Old-age work is low and declining

A. The effective retirement age is low

1. The average effective age of retirement is calculated as a weighted average of (net) withdrawals from the labour market at different ages over a 5-year period for workers initially aged 40 and over. In order to abstract from compositional effects in the age structure of the population, labour force withdrawals are estimated based on changes in labour force participation rates rather than labour force levels. These changes are calculated for each (synthetic) cohort divided into 5-year age groups.

2. CEEC is the average of Hungary and the Czech and Slovak Republics.

3. 4-quarter moving averages.


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Containing the necessary increase in health and long-term care spending

Though early containment measures curbed the contagion of the pandemic, the healthcare system suffers from several weaknesses. Spending on healthcare is relatively low. At 6.3% of GDP in 2018 (among which 71.8% financed through mandatory public schemes, i.e. 4.5% of GDP being publicly funded), it is only around 50% of the OECD average in per capita terms (Figure 1.22, Panel A). This leads to relatively poor health outcomes: amenable mortality, i.e. mortality that could have been avoided through appropriate health care interventions, is above the EU average (OECD/EOHS, 2019). As such, the planned increase in public health financing to a minimum of 6% of GDP by 2024 is welcome. To prepare for a potential second coronavirus outbreak, the priority should be to ensure sufficient resources to boost intensive care capacity and allow for successful mass testing and isolation. Ageing will also add pressure to the health care system in the longer term, as its efficiency is suffering in particular from a high dependency on hospital care. Its coordination could be improved through a more efficient referral system and shorter waiting lists.

Strengthening primary care would avoid an excessive reliance on costly hospitalisations. The number of physicists is low, notably for generalists and avoidable hospital admissions are high (Figure 1.22, Panels C and D). The lack of general practitioners and nurses also effectively limit access to healthcare, notably for poor people living in rural areas. It is partly caused by inadequate remuneration. The general practitioner annual salary in 2016 was by far the lowest among OECD countries with available data. The same problem applies to nurses, whose salaries are second lowest only to Hungarian nurses. To deal with this problem, the authorities have introduced a national long-term policy on nursing and midwifery in 2019, thereby significantly increasing the number of schools for nurses, and raising the wages of nurses and midwives.

Yet, developing, as planned, an integrated healthcare strategy to allocate the forthcoming increase in public spending could go a long way to address these issues, if it gives more prominence to primary care, prevention and e-health services.
Equity is also a pressing concern. Differences in life expectancy by educational attainment are high (Figure 1.22, Panel B). Behavioural risk factors, including dietary risks, tobacco smoking, alcohol consumption and low physical activity, account for almost half of all deaths in Poland (OECD/EOHS, 2019), and the costs of air pollution are substantial (see below). Most of these risk factors are more common among people with lower education or income (Wojtyniak and Goryński, 2018). Preventive care accounts for only 2.3% of total spending, and could do much to close these gaps. Further attention needs to be paid to policy tools such as food and health standards, marketing bans or fiscal instruments such as taxes or subsidies. The 2017 creation of a national centre to promote healthy nutrition and physical activity in the population and the 2020 tax hikes on tobacco and alcohol use, as well as additional charge for sugar-sweetened beverages, are welcome moves. There is also a need for further information campaigns to promote good diet practices and strengthen vaccination rates, notably for people over aged 65.
**Improving the tax system**

Tax reform should support the recovery and inclusiveness and, once the economy is back to a firmly growing path, help to finance increasing spending needs and improve environmental outcomes. In the short term, lower tax rates on labour, notably for low- and middle-income households, would help to strengthen the employment recovery and social cohesion. Over the longer term and insofar as it is necessary, raising additional revenues should be done in the most inclusive and the least growth distortionary manner possible. A streamlining of the large tax expenditures would help in this regard. Indeed, the tax-to-GDP ratio is already in line with the OECD average (Figure 1.23, Panel A) and the tax wedge is relatively high, suggesting that efficiency gains and careful implementation are crucial to limit the necessary raise in some spending items. The government plans to continue to finance higher spending mainly by reducing tax fraud and boosting tax compliance, together with an increase in consumption taxes (Table 1.4). Indeed, efforts to improve VAT compliance have been very successful so far, as the losses due to tax evasion may have been reduced by about 25% in 2017. Yet, this was also partly linked to the favourable economic cycle (EC, 2019a).

**Improving the redistribution of the tax system**

There is room to make personal income tax fairer and decrease the tax wedge for low-income workers to boost inclusiveness and employment (Figure 1.23, Panel B). The contribution of the progressive personal income tax to overall revenues is low in international comparison (OECD, 2018c). The 2017 introduction of a degressive non-refundable tax credit helped to raise the system’s overall progressivity (EC, 2018e). The government also lowered the first tax rate and exempted some young workers (those aged under 26 and with gross labour income below PLN 85 528 annually, around EUR 19 992) from the personal income tax in August 2019, and increased tax deductible costs for employees in October 2019 (Box 1.2). The 2017 personal income tax credit and the lowering of the bottom tax rate are welcome. Yet, the targeting of the youth created substantial age-based threshold, which could lead to higher employee screening and lower tax compliance.

Several measures could raise the progressivity of income and property taxes without endangering growth prospects. Firstly, there is room to strengthen the personal income tax credit. The full amount is available only to very low-income families (in 2019 the threshold was 13% of the average gross wage). Thus, it mostly affects single part-time workers and low-income families subject to joint taxation (Browne et al., 2019). Secondly, there are four regimes for paying taxes and social-security contributions for self-employed workers. The main one is based on shares of the (projected) average wage, notably for health and unemployment insurance contributions. Some of them pay social contributions based only on the minimum wage and a flat-rate personal income tax. These low costs compared to workers on permanent contracts runs risks for job quality of low-skilled workers (see below). Thirdly, once the economy is on a firm growth path, higher property taxes, which contribute relatively little to overall revenues, would be a complement to such reforms (Figure 1.23, Panel C). This could be done by establishing market-value-based property taxes (rather than based on area), by taxing capital gains on investment properties and by increasing taxes on vacant land and properties in urban areas. Such measures would improve inclusiveness, as housing tax revenue fell relatively evenly over the income distribution (Boone et al., 2019), and make the tax system more neutral vis-à-vis other types of investment and thus improve resource allocation (OECD, 2018f).

Once the recovery is firmly underway, the high number of reduced VAT rates and exemptions will require careful examination (Figure 1.23, Panel D). Poland applies reduced VAT rates to a number of goods and services, such as food, confectioned food and hygiene products, newspapers and books, restaurant and hotel services, water supply, housing repairs and some transport services (CASE/IAS, 2019; OECD, 2018vat). In a welcome step, the authorities are simplifying the system of reduced rates to limit uncertainty about their application. Yet, limiting the reliance on reduced rates could allow for lowering the relatively
high statutory rate of 23%, while still increasing tax revenues. These would also allow for a more inclusive structure of taxation. Indeed, reduced rates often benefit higher-income households or firm owners, sometimes disproportionately, for example in the case of the reduced VAT rate on hotels and restaurants, as shown by VAT tax cuts on restaurants in France (Benzarti and Carloni, 2019). Lower-income households could be more efficiently reached through the personal income tax system or targeted social transfers, which have increased but remain low in Poland.

Figure 1.23. Tax revenues are around the OECD average, but could be more redistributive

Strengthening environmental taxation

During the recovery, it is essential for stimulus measures and new investment to be aligned with ambitions on climate change, biodiversity and wider environmental protection (see below). Over the longer term, the phasing out of fossil fuel subsidies is a crucial step towards improving environmental and health outcomes. In 2015 only 15% of CO₂ emissions from energy use were priced above 30 EUR/tonne, which is the low-end estimate of carbon cost today (OECD, 2018b) and effective taxes on energy use are also low (OECD, 2019c). As in other OECD countries, tax rates on energy use are relatively higher in the road sector, but they are low or absent in the residential sector and the electricity excise tax rate is low. Major exemptions from energy taxes are in place, such as exemptions from tax on coal in the agriculture sector and for

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households’ consumption or exemptions from coal and gas excise duty offered to some energy intensive industries (OECD, 2019c). The government should develop a strategy to phasing them out, while ensuring that any impact on energy poverty is alleviated.

Once the recovery is firmly underway, more effective carbon pricing would ease the energy transition (Figure 1.24). Around 48% of Poland’s greenhouse gas (GHG) emissions were covered by EU-wide emissions trading system (ETS) with a price of allowances around 25 EUR/tCO2 in 2019. Yet, effective carbon taxes – i.e. the sum of explicit carbon taxes and fuel excise taxes, net of applicable exemptions, rate reductions and refunds – that complement the ETS system currently fail to provide broad-based carbon price signals (OECD, 2019c). Broadening the tax base would contribute to mitigation of GHGs emissions and air pollution, while raising revenues in the short-term that could be used to finance environmental projects. Though CO2 emissions from road transport remain relatively low, transport emissions per inhabitant have more than doubled over 1997-2017. Poland is one of very few OECD countries without a specific CO2-related vehicle tax. Moreover, diesel is taxed at a lower rate than petrol. Such taxes would need to be accompanied with transitory social measures to improve their acceptability. For the same reason, part of their proceeds could be used to subsidise low-income households when they purchase less polluting cars or heating systems, for example, as was done recently for electric car purchases.

Electricity retail prices should be allowed to increase. In 2019, Poland capped retail electricity prices through a cut in the tax rate on electricity and a decrease in transition fees and electricity tariffs. This cap applied to all electricity consumers in 2019H1 and was later restricted to households, SMEs, local authorities and hospitals. The authorities also compensated electricity trading companies for the difference with market values. This slowed down the transition to greener alternatives for households that were supported through additional programmes (Box 1.2). In a welcome move, the cap on electricity prices was removed in 2020, but the regulator refused high price hike for households in 2020 that could compensate for the increasing production costs and wholesale electricity prices. Before the crisis, plans were to combine the electricity price hike for households with mean-tested transfers towards poorer households in 2021. If well-designed, this could help achieve the environmental goals while avoiding to put an excessive burden on energy affordability for lower-income households (Flues and van Dender, 2017).

Figure 1.24. Tax-based carbon price signals are weak

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Illustrating the fiscal effects of government’s and OECD-recommended reforms

The proposed tax and spending reforms give the government a choice of options to improve the structure of public spending and revenues in the medium run. These options would also make room to boost growth-enhancing investment, for example, public expenditures on R&D. This is quantified in an illustrative manner in Table 1.4.

Table 1.3. Government structural fiscal plans from 2018 to 2025 and OECD’s recommendations

Estimated effects on the 2025 fiscal deficit (% of 2025 GDP)¹

<table>
<thead>
<tr>
<th>Panel A. Key government spending plans until 2025</th>
<th>% of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>The 2019-20 extension of the child benefits programme (500+), independently of households’ income level.</td>
<td>0.8</td>
</tr>
<tr>
<td>The 2018-19 strengthening of other childcare programmes (the 2018 Good Start programme and the 2019 Mother 4 plus).</td>
<td>0.1</td>
</tr>
<tr>
<td>Additional health-care spending: 1.3% of GDP.</td>
<td>1.3</td>
</tr>
<tr>
<td>Additional pension spending due to the reversing of the 2013 retirement-age increases.</td>
<td>0.5</td>
</tr>
<tr>
<td>Increase in R&amp;D spending not financed by EU funds.</td>
<td>0.3</td>
</tr>
</tbody>
</table>

| Panel B. Key government revenue plans until 2025 | | |
|-------------------------------------------------|----------|
| Further improvement in tax compliance. | -1.5 |
| The implementation of a tax on digital firms and the retail tax. | -0.1 |
| New tax expenditures in personal income tax (new threshold, increased tax-free allowance, exemption for young taxpayers) introduced in 2020. | 0.4 |
| The 2020 increase of alcohol and tobacco taxes and the new sugar tax. | -0.15 |
| The reform of the second pillar (OFEs) will bring higher social security contributions. | -0.1 |

| Panel C. Total effect of government plans on the fiscal deficit | 1.55 |

<table>
<thead>
<tr>
<th>Panel D. OECD-recommended reforms</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Rebalancing long-term and childcare spending towards long-term care, the development of childcare facilities and lower-income families: 0% of GDP. An increase of spending on childcare and long-term care services of 1.4% of GDP could be financed by eliminating child tax credits and family benefits that existed before the introduction of the 500+ benefit programme, together worth 0.6% of GDP, and scaling back and reforming the 500+ extension, worth 0.8% of GDP. In net terms this would leave the level of spending unchanged by 2025.</td>
<td>0</td>
</tr>
<tr>
<td>Increasing training for the low-skilled and unemployed workers by 0.1% of GDP.</td>
<td>0.1</td>
</tr>
<tr>
<td>Increase in public spending on higher education and research: a 0.5% of GDP increase in public funding for universities would bring Poland’s spending on tertiary education roughly into line with the United Kingdom and the Netherlands².</td>
<td>0.5</td>
</tr>
<tr>
<td>A reduction of the tax wedge for low-skilled workers equivalent to 0.4% of GDP.</td>
<td>0.4</td>
</tr>
<tr>
<td>Strengthening the progressivity of the personal income tax by increasing revenues by 0.6% of GDP (16% of the gap with the OECD average) and using these revenues to reduce general social security contributions for low-wage workers.</td>
<td>0</td>
</tr>
<tr>
<td>Reducing VAT revenue shortfalls due to reduced rates and exemptions: 0.8% of GDP².</td>
<td>-0.8</td>
</tr>
<tr>
<td>Increasing environmental and property taxes.</td>
<td>-0.85</td>
</tr>
<tr>
<td>Aligning the special pension regime for farmers and the specific rules applied to miners with the general regime. Gradually increase in the statutory retirement age to 67 for women and men phased in over 2020 to 2040.</td>
<td>-0.9</td>
</tr>
</tbody>
</table>

| Panel E: Total effect of OECD proposals on the fiscal deficit | -1.55 |

| Panel F. Total effect of government plans and OECD proposals on the fiscal deficit (=Panel C+Panel E) | 0 |

1. Excluding temporary support measures in response to the coronavirus crisis. Positive numbers indicate a deterioration of the fiscal balance. Numbers may not add to totals because of rounding. Measures enacted before 2018 and that do not have a staggered impact on the deficit are not taken into account.

2. These recommendations are taken from the 2018 Survey.

Table 1.4. Past OECD recommendations on fiscal policy and pensions

<table>
<thead>
<tr>
<th>Main recent OECD recommendations</th>
<th>Actions taken since the 2018 Survey</th>
</tr>
</thead>
<tbody>
<tr>
<td>Evaluate the effects of the pension reform, and make corrections such as aligning male and female retirement ages and indexing them to healthy life expectancy. Inform the public about the impact of working longer on pension income.</td>
<td>Yearly letters are sent to inform about future pensions and a network of local counsellors has been developed. Social campaigns and online pension calculators have been developed. The Council of Ministers adopted an official evaluation of the 2016 reform.</td>
</tr>
<tr>
<td>Strengthen environmentally related taxes, limit the use of reduced VAT rates and exemptions, and make the personal income tax (PIT) more progressive, e.g. by introducing a lower initial and more intermediate tax brackets and ending the preferential tax treatment of the self-employed.</td>
<td>Since 2018, the tax-free income for PIT has increased. The first tax rate was lowered in October 2018 and young workers (aged under 26 and with labour income below PLN 85,528) are exempted from the personal income tax since August 2019. Tax deductible costs for employees were increased in October 2019.</td>
</tr>
<tr>
<td>Redesign and increase the least distortive taxes, by establishing market-value-based property taxes and by taxing capital gains on investment properties.</td>
<td>No action taken.</td>
</tr>
</tbody>
</table>

Improving productivity, employment and well-being

To support the recovery and return to a sustainable growth path, Poland needs to boost innovation and productivity gains, notably in smaller firms. Progress towards more resilient and inclusive growth is held back by low skills, pervasive labour market inefficiencies, and difficulties of small and young dynamic firms to grow (Chapter 2). According to illustrative OECD simulations, structural reforms could increase GDP by 5.6% after 10 years (Box 1.3). The largest gains would come from reforming pension arrangements, developing childcare facilities and increasing the employability of low-skilled workers, through a reduction of their tax wedge and strengthened activation measures.

The Polish economy is shifting towards higher-skilled employment. Since transitioning from central planning, the service sector has expanded and manufacturing has become tightly integrated into global value chains, changing more and more the skill set that is needed in the labour market. The changing structure of the economy, as well as the increase in computerisation and automation, led to higher productivity. However, at the same time, the changing job profiles means that non-cognitive routine jobs are progressively disappearing. Employment is shifting from low- and medium-skilled jobs towards high-skilled jobs (Figure 1.25, Panel A). The growing demand for skilled workers is projected to continue (Cedefop, 2018) and providing workers with the right skills to adapt to a changing environment will sustain productivity growth (Panel B). Preparing the labour market for technological change is high on the political agenda and the government is preparing its skill strategy with the support of the OECD (2019d).

**Enhancing labour market inclusiveness**

**Strengthening skills and their efficient use**

Enhanced education and training will be essential to support the recovery and return to previous growth levels. Up-skilling and re-skilling will be crucial as the economic activity resumes. The number of jobseekers is expected to be higher than before and there may be permanent shifts in the demand for labour across sectors (OECD, 2020a). Training would help to swiftly reallocate displaced workers. Lifting up the skills of workers would also enable local firms to benefit from knowledge diffusion and technological adaptation to move production towards higher-value activities (OECD, 2017). In particular, the wider use of learning models at work could have a sizable effect on Poland’s GDP (Box 1.3).
Educational attainment is high in Poland, but many adults lack basic and digital skills. After considerable progress, Polish 15-year-olds are among the top performers in the OECD’s Programme for International Student Assessment (PISA), finishing among the best of OECD countries in reading, science and mathematics in the 2018 PISA Survey (Figure 1.26, Panel A). Furthermore, the country has a high share of high performers and the lowest share of low performers in the OECD (Panel B) and low number of lagging students (OECD, 2019e). Yet, adult skills are below the PIAAC average, especially in numeracy (Panel C).

Participation in adult learning appears relatively low, according to international surveys. Low-skilled workers are particularly disengaged from learning (Figure 1.26, Panel D). This is also the case for those in rural areas and working in the numerous micro- and small-sized enterprises (Chapter 2). There is too little evaluation of the quality and effectiveness of training programmes (OECD, 2019d). The adoption of individual training accounts (Chapter 2) could promote lifelong learning, notably for those on temporary contracts (see below). This would make training rights “portable” from one job or employment status to another, therefore favouring labour reallocation. Yet, such system would require to secure adequate and predictable funding, to provide greater generosity for those most in need, to develop the availability of effective information, as well as advice and guidance would be critical to ensure its effectiveness (OECD, 2019f). Using digital channels to provide timely and relevant training and to disseminate information about training opportunities and career counselling can be quite effective if face-to-face interactions with Public Employment Services have to remain restricted (OECD, 2020d).
Figure 1.26. Educational outcomes have improved rapidly but there are significant skill gaps

1. The three PISA subjects are reading, mathematics and science; the average of score across these subjects is displayed in Panel A. PISA 2018 data for the Netherlands, Portugal and the United States did not meet the PISA technical standards but were accepted as largely comparable.

2. CEEC is the average of Hungary and the Czech and Slovak Republics, except in Panels C and D, where Hungary is missing.

3. Low-skilled adults are defined as those with a score of less than 2 on the scales of written comprehension and numeracy considered by the OECD’s Survey of Adult Skills, in Panel C, and of written comprehension only in Panel D. The data are based solely on Flanders for Belgium and England for the United Kingdom.


StatLink: https://doi.org/10.1787/888934208431
Box 1.3. Potential impact of some OECD recommended reforms on growth

The impact of some key structural reforms proposed in this Survey are estimated using historical relationships between reforms and growth in OECD countries (Table 1.6). These estimates assume swift and full implementation of reforms.

Table 1.5. Potential impact of some reforms proposed in this Survey on GDP
Effect on the level of GDP

<table>
<thead>
<tr>
<th>Policy</th>
<th>Measure</th>
<th>Effect in 2025</th>
<th>Effect in 2030</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase in the effective retirement age(^1,2)</td>
<td>Gradual increase in the statutory retirement age from 60 to 67 for women and 65 to 67 for men phased in over 2020 to 2040.</td>
<td>0.45%-1.02%</td>
<td>1.23%-3.17%</td>
</tr>
<tr>
<td>Additional spending on child-care and long-term care services(^2)</td>
<td>Rebalancing of long-term care, childcare and child-benefit expenditures towards spending for long-term care, childcare development and lower-income households.</td>
<td>0.57%</td>
<td>1.69%</td>
</tr>
<tr>
<td>Additional spending on business R&amp;D(^2)</td>
<td>Increase by 0.35% of GDP.</td>
<td>0.31%</td>
<td>0.59%</td>
</tr>
<tr>
<td>Improving product market regulations</td>
<td>Streamlining regulations for start-ups to the level of the OECD median.</td>
<td>0.09%</td>
<td>0.13%</td>
</tr>
<tr>
<td>Additional spending on training</td>
<td>Increasing training for the low-skilled and unemployed workers by 0.1% of GDP.</td>
<td>0.46%</td>
<td>0.58%</td>
</tr>
<tr>
<td>Lower tax wedge in particular for low-skilled workers</td>
<td>A reduction of the tax wedge for low-skilled workers equivalent to 0.4% of GDP.</td>
<td>0.22%</td>
<td>0.27%</td>
</tr>
<tr>
<td>Lower tax wedge in particular for low-skilled workers</td>
<td>Strengthening the progressivity of the personal income tax by increasing revenues by 0.6% of GDP (16% of the gap with the OECD average) and using these revenues to reduce general social security contributions, thereby reducing the labour tax wedge by around 0.1% of GDP.</td>
<td>0.06%</td>
<td>0.07%</td>
</tr>
</tbody>
</table>

Total effects from structural reforms\(^3\) | 2.2%-2.7% | 4.6%-6.5% |

1. GDP gains for the increase in retirement age and spending on child-care and long-term care services are calculated based on the model of Cavallini and Guillemette (2017). The range of estimates for the increase in retirement age corresponds to different estimates for the elasticity of elderly employment with respect to changes in the statutory retirement age, which are scaled based on the estimated changes in elderly employment in Poland in the last quarter of 2017 due to the lowering of the statutory retirement age. Estimates for the GDP effects of an increase in business R&D spending, additional spending on active labour market policies and change in the tax wedge are based on Égert and Gal (2017).

2. These recommendations are taken from the 2018 Survey. Such an increase is assumed to result from new public spending on higher education and research (Table 1.4).

3. The table does not fully take into account the impact of the tax reforms proposed in Table 1.4. Yet, the proposed tax reforms - VAT broadening and higher environmental and property taxes - are among the least harmful for growth according to recent OECD estimates (Akgun et al., 2017).


Reducing labour market frictions would improve the use of skills, by securing workers’ labour market transitions and improving the geographical and social mobility of the most disadvantaged groups (Box 1.4; Lewandowski et al., 2020). Despite a booming labour market in the past years, regional disparities in employment rates have remained stable since 2007 (Statistics Poland, 2019b). Inter-regional mobility is the second lowest in the OECD (OECD, 2018a), and, within regions, disparities in unemployment rates are wide across municipalities. Past employment gains have been concentrated in urban regions (OECD, 2018g), and the lack of affordable housing prevents an efficient matching between workers and firms. All Polish regions rank among the bottom 20% of the OECD regions in number of rooms per person.
(Figure 1.5) and, 43.9% of Poles aged 25-34 live with their parents in 2019. An estimated 40% of the population falls into the “rent gap” – remaining unable to purchase or rent a flat under commercial conditions, but with the earnings too high to qualify for social housing (Habitat for Humanity Poland, 2019). The 2017 “Apartment+” package support the construction of affordable housing for rent, with the possibility of eventually acquiring the flat. However, its take-up has been much weaker than anticipated: at the end of 2019, only about 3000 were finalised or under construction, as compared to the initial target of 100 000.

The high home-ownership rate and the poor quality of some local roads (Chapter 2) mean that mobility is not sufficient to avoid pockets with high unemployment. Some cities have large vacant land and buildings in their centres (EC, 2020a). Reducing registration fees and increasing periodic taxes on land and property by gradually aligning them with market prices would encourage owners to sell construction land. This would help develop a subsidised rental market and social housing (Box 1.4). Integrating spatial, economic and sectoral plans and developing the coverage of local spatial development plans would help to closely monitor urban developments and enhance the impacts of construction on productivity and well-being, notably by lowering the costs of developing and running public transport. Indeed, new construction have substantially sprawled in Poland (Figure 1.27), with negative consequences on daily commutes that are mainly by car. Boosting investment in public transport would help to support the recovery and promote worker reallocation, productivity growth and better air quality.

**Figure 1.27. Urban sprawl could reinforce employment access issues**

Change in average urban population density, inhabitants/km², 1990-2014

Better information on job vacancies and candidates would contribute to promote the re-employment of displaced workers and have a positive impact on productivity (Algan et al., 2018 ; Skandalis, 2018). This could be done by providing greater assistance to long-term unemployed, low-skilled workers and SMEs, as well as adapting job search methods. For example, the French Public employment service has developed an application (“La Bonne Boîte”) which allows jobseekers to target their unsolicited applications at enterprises that would be likely to employ them. Supporting SMEs in finding appropriate candidates (Chapter 2) and strengthening mobility vouchers would be useful complementary measures. The European Youth Guarantee provisions, an activation package introduced in 2014, includes job mobility vouchers, but other vouchers for unemployed people taking up employment outside their place of residence are low. They could be extended to interview and first time employment to boost search incentives and promote a more efficient use of skills.
Box 1.4. Housing and labour market outcomes in Poland

As in other OECD countries, the housing and labour markets are tightly linked in Poland, a country with a predominantly outright owned housing (84.2% of the population living in owned dwelling), a small rental market (4.2% renting a dwelling at market price), and large regional disparities in labour market situation. The quality of housing in Poland is rather low – overcrowding rate is high – although it has been steadily improving over last years.

At the local level, regression analyses undergone for this Survey (Lewandowski et al., 2020) show that the spatial differences in construction activity and flat prices are weakly associated with differences in labour market situations. The housing stock in Poland has grown almost exclusively thanks to private construction and a substantial share of new flats has been built in the few largest cities where prices are the highest. Large differences in prices and liquidity between large cities, and towns and villages may constrain potential mobility of flat owners living in towns and villages.

Relative wages do not appear to compensate the higher housing costs in the most dynamic local labour markets and cities. For tertiary educated workers, larger cities offer wage premia that may outweigh higher housing costs, but for workers without tertiary education, the wage gains appear relatively smaller than the relative housing costs, which may discourage internal migration towards localities with better labour market opportunities.


Improving job quality

The share of temporary contracts and self-employed remains high (Figure 1.6, Panel A). Despite a recent decline, temporary contracts still affect particularly young and low-skilled workers, who suffer from an associated wage penalty, and low career prospects and access to training (Figure 1.28; Gora et al., 2017). Non-standard workers were particularly vulnerable to the widespread shutdown due to COVID-19 containment measures (OECD, 2020a). The sectors most directly affected employ a large proportion of these non-standard workers. In addition, 2% (according to the recent labour Force Surveys) work on freelancing type of contracts based on general civil rather than labour law, and are not fully covered by social security contributions and workers’ rights. The government implemented welcome measures to support self-employed and non-standard workers who were severely hit by lockdown measures (Box 1.1). Nevertheless, Temporary Work Agencies, for example, are not well covered by these measures.

The use of freelancing civil-law contracts is often illegal, but employers’ probability of being inspected over their use of such contracts is below 1% (Gora et al., 2017). Few infractions are fined, and the average penalty is low (OECD, 2016). Hence, labour-law enforcement needs to be strengthened, as previous Surveys have argued. Around 3% of workers have no written contract at all according to Labour Force Statistics. Statistics Poland estimates employment in the informal or hidden economy at 5%. Informal workers remained beyond the scope of income support schemes promoted by the government after the COVID-19 outbreak. At the same time, the government should invest in communications to both workers and employers around minimum wage compliance and enforcement.

The ongoing rise in the minimum wage may adversely affect the economic recovery, employment and job quality. The 2020-21 hikes in the minimum wage (Box 1.2) will make the minimum-to-median wage ratio one of the highest in the OECD and significantly increase labour costs of low-wage workers (Figure 1.29, Panels A to C). The increases directly affect around 13% of workers (Statistics Poland, 2019b). The minimum wage has increased by 15.6% in 2020, while inflation is set to be close to 2.6%. The minimum wage will increase again by 7.7% in 2021 with inflation projected at 2.5%. Given the unprecedented fall in economic activity induced by the COVID-19 epidemic and the projected GDP contraction, there is a risk
that the foreseen increases in labour costs deter employers from re-hiring displaced workers, especially low-wage, low-skill workers, or encourage them to increase more precarious forms of employment (Neumark, 2018). As the labour market impact of COVID-19 related confinement measures are likely to concentrate precisely on workers with lower wages and low skills, it becomes even more important not to discourage firms from employing the most vulnerable (EC, 2020b).

Figure 1.28. Temporary contracts tend not to be a stepping-stone for career development

Since 2017, in a welcome move, many atypical work arrangements have been covered by the minimum wage. In principle, the minimum wage also covers contracts for services between employer and self-employed. Yet, it does not apply to some forms of civil contracts, the so-called contracts for specific tasks (umowa o dzieło). Indeed, high minimum wage hikes have resulted in an increased use of such contracts in low-wage sectors in the United Kingdom for zero-hour contracts (Datta et al., 2019). In addition, even for workers that are covered by the statutory minimum-wage, non-compliance – that appears already high – could increase further (Goraus-Tanska and Lewandowski, 2019). However, the minimum wage increase

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could also have positive effects since it could provide incentives for firms to increase the skills of existing workers to improve their productivity. Some recent evidence points in that direction, as long as the downward wage rigidity does not prevent firms from partially passing on the cost of training to workers during the training period (D’Arcy, 2016). Another potential positive consequence would be to accelerate the shift of labour resources to larger and more efficient companies, provided there are no major obstacles to labour reallocation (Dustman et al., 2019).

Cutting labour taxes significantly on regular labour-law contracts with low wages as initiated in 2019 would create incentives for employers to re-hire displaced workers, reduce incentives to use civil-law and other irregular contracts and would make the tax system more progressive. This could be done by reducing or subsidising social contributions on lower wages, but other financing would be needed to maintain benefits for these groups. Introducing a targeted refundable earned income tax credit would even be more effective in reducing the tax burden on low-wage workers and increase their take-home pay (Boulhol, 2014).

This would increase incentives for the unemployed to take a job at the minimum wage (Figure 1.29, Panel D), and incentives to work more hours at the minimum wage level that are set to remain weak (OECD, 2019g).

Figure 1.29. The minimum wage could increase substantially

1. CEEC is the average of Hungary, the Czech and Slovak Republics.
2. The OECD estimate assumes that the median wage increase in line with the average gross wage projected over 2019-21 (OECD, 2019).
3. The OECD simulations are based on the Tax-Ben model and take into account the Polish tax and transfer system of 2018. Households are comprised of a single person aged 40 with no children who works in the private sector, generates all of his/her income from employment and possesses no other financial assets (OECD, 2019).
4. The participation tax rate when moving from unemployment to a full-time job at the minimum wage is due to higher taxes or lower benefits.


StatLink  
https://doi.org/10.1787/888934208488
Strengthening female employment

The female labour market situation has improved significantly, in many ways restoring the pre-transition situation of high female labour force participation and gender equality in education. The gender pay gap has been on a declining trend and the majority of employed women work full-time. The employment rate of 25-39 women is close to the European Union average. The share of women who reach management positions is also growing, with a fifth of the largest publicly listed companies’ boards occupied by women. Yet, more effort is needed to encourage female participation, notably for the 60-64 old, who were affected by the lowering of the retirement age (see above), and the low-skilled, despite the recent increase of their employment rate. The extension of the 500+ family benefit in 2019 eliminated the potential negative effect of its initial means-testing (Magda et al., 2017). However, the employment rate of young women with children stagnated in 2018 and remains weak for the small number of low-educated mothers (Figure 1.30). Moreover, the COVID-19 economic crisis has been stark on women (OECD, 2020a). Women make up more than 95% of the long-term care workforce in Poland (OECD, 2020e). The closure of schools during the crisis likely amplified women’s unpaid work burden and an on-line survey conducted by the CBOS Foundation reveals that women were disproportionately affected with income and job losses.

Figure 1.30. The employment rate of women with young children has stagnated

Securing affordable childcare services is crucial to encourage female employment. More than 45% of inactive prime-age women cite care responsibilities as a reason for not participating in the labour market (OECD, 2018c). Poland witnessed one of the fastest increases in the enrolment of young children in education across OECD countries. The rate of 3-5 year-olds attending early childhood education has rapidly increased (Figure 1.31, Panel A), and 3-year-olds are legally entitled to a place in an early childhood education institution since 2017. However, access to early education for 0-2 years old remains largely insufficient despite a steady improvement according to EU-SILC data (Panel B).

The government estimates that the reformed Maluch (toddler) programme will help to create new places for toddlers and to increase their enrolment rate to 18% in 2020, although this would still be well below the OECD average. In particular, 58% communes in 2019 still did not have functioning pre-schools for 0-3 years old, posing a challenge especially in rural areas and for low-income households. As a result, little use is made of childcare by the lowest income households (OECD, 2020f), whose labour market participation is more sensitive to child care options (Goux and Maurin, 2010). In a welcome move, ongoing
Public programmes for childcare development target municipalities without any pre-schools, notably in rural areas. Continuing to improve access to childcare, and adapting it to the working hours of less skilled workers, would encourage less-qualified mothers to return to work while allowing for better social and economic mobility. Indeed, children of lower-educated parents would benefit strongly from high-quality early childhood education, as it yields considerable benefits for cognitive skills.

Other countries have recently implemented regulatory measures to legally enforce equal pay between genders. The gender-pay gap is relatively low in Poland, and Poland is supporting employers to monitor gender-pay gaps at the firm level. In France, for example, firms with at least 50 employees are obliged to publish indicators that measure pay gaps between women and men. Firms that fail to bring their score up to a minimum level within three years may incur financial penalties. In Iceland, the onus is no longer on the employee to prove that they are unpaid, but on the firm to prove that they pay workers fairly. Employers must obtain a certification by an accredited auditor that their pay management system complies with a national equal pay standard. Poland could follow such examples to make further progress in closing the gender pay gap.

Figure 1.31. The use of formal childcare is improving

<table>
<thead>
<tr>
<th>A. Enrolment rates in pre-primary or primary education¹</th>
<th>B. Participation rates in formal childcare and pre-school services²</th>
</tr>
</thead>
<tbody>
<tr>
<td>3- to 5-year-olds, 2017</td>
<td>0- to 2-year-olds, 2017</td>
</tr>
</tbody>
</table>

1. Potential mismatches between the enrolment data and the coverage of the population data (geographic coverage and/or the reference data used) may lead to overestimated or underestimated enrolment rates.
2. Or latest available year.
3. CEEC is the average of Hungary and the Czech and Slovak Republics.
4. Data refer to children using centre-based services (e.g. nurseries or daycare centres and pre-schools, both public and private), organised family daycare, and care services provided by paid professional childminders, excluding those using unpaid informal services provided by relatives, friends or neighbours.


Improving migration policies

To compensate for labour shortages in the context of an ageing society, policies can attract skilled labour into Poland. Poland became the largest temporary labour destination in the world (OECD, 2019h). By 2019, most migrants were from neighbouring countries, notably Ukraine from which temporary and seasonal migration has increased (Chmielewska et al., 2019). This has helped cushion the decline in the working-age population that started in 2011 (Strzelecki et al., 2020). Yet, the strong inflow of Ukrainians and from other neighbouring countries may not be sustainable, and opening up to workers from a wider set of countries is desirable. Moreover, the precarious situation of a majority of immigrant workers in Poland creates the risk that they move to another country when the opportunity arises (Chmielewska et al., 2019).
Migration policies should be improved to attract a broad range of skilled workers. Easy accessible information about educational degree verification, work opportunities and the availability of language courses could raise awareness among skilled workers to consider Poland as a destination. A clear migration strategy should help to monitor better the integration of foreigners in line with labour market needs together with the protection of their rights, notably access to education and training for them and their children (OECD, 2018c).

Easing the possibility of providing legal work to citizens from other countries through different work permits and faster resident permits would be helpful. The current administrative process for a standard resident permit for foreigners has not been able to cope with the strong inflow of foreigners. The length of the process of legalising their stay – through resident permits – has increased from 64 to 206 days over the last four years (NIK, 2019) and the duration of the procedures for work permits was close to 58 days in 2019, pushing many immigrants and their potential employers into precarious situations. There are common guidelines in all local offices regarding compulsory matters, but extending their period of validity could help reduce this congestion. Moreover, updating anti-discrimination policies and strengthening their implementation would help to confront ethnicity and nationality-based discriminations (UN, 2019; Antfolk et al., 2019). The government has successfully taken steps to help Polish farmers to recruit migrant labour force during the lockdown period. Some of the simplified procedures could remain in place even after the confinement measures are lifted and borders re-opened.

At the same time, the government should continue to strengthen its strategy to keep ties with the large expatriate community. Returning emigrants could bring skills, networks and financial capital (Brandt, 2016). Many OECD countries provide online hubs for their citizens abroad advertising jobs, training, and business and research opportunities in the home country (DFA, 2015). A job fair was recently organised in London and the authorities also created a website that offers some guidance to Polish workers abroad. Developing a diaspora skills database could help further to directly connect potential returning migrants with employers, as done in Portugal with the “Global Professional Mobility Platform”. Tailored counselling and general assistance related to employment, housing, education and administrative procedures to start a small business, as the Irish “Back to Business” mentoring programme, have also proved quite effective (EC, 2014).

Table 1.6. Past OECD recommendations on labour market and migration policies

<table>
<thead>
<tr>
<th>Main recent OECD recommendations</th>
<th>Actions taken since the 2018 Survey</th>
</tr>
</thead>
<tbody>
<tr>
<td>Develop a national skills strategy with a strong basic skills component. Incentivise employers to develop workplace-based vocational education and adult training.</td>
<td>The general part of the Integrated Skills Strategy (ZSU) has been adopted in 2019. The detailed part is currently being developed with the support from the OECD which published the OECD Skills Strategy: Poland in December 2019.</td>
</tr>
<tr>
<td>Invest in childcare and long-term care facilities. Taper the phase out of the child benefit for the first child.</td>
<td>The Toddler+ programme helped to create an estimated 68 000 new places for toddlers from 2018 to 2020. The enrolment rate of children under 3 years old increased from 8.6% in 2017 to 10.5% in 2018 (based on EU-SILC). Funding for new childcare institutions has increased in 2020. The previously means-tested child benefit was generalised in 2019.</td>
</tr>
<tr>
<td>Allow the public employment services to hire more skilled staff, and ensure that overall resources are better allocated to front-line placement tasks. Promote the adoption of best practices through performance management and benchmarking of providers.</td>
<td>No action taken</td>
</tr>
<tr>
<td>Consider introducing an earned-income tax for workers with a weaker attachment to the labour market.</td>
<td>No action taken</td>
</tr>
<tr>
<td>Develop a migration policy strategy to better monitor integration of foreigners in line with labour market needs, the protection of their rights and access to education and training for them and their children.</td>
<td>In 2018, the system of simplified registration procedure for employers was modified to ensure a higher level of control over the employment of foreigners. Moreover, a new type of work permit – the seasonal work permit entitling foreigners to work for 9 months over 12-month period – was introduced for employment in agriculture and seasonal branches.</td>
</tr>
</tbody>
</table>
Greening growth is essential for well-being

Bringing forward public investments that develop more sustainable alternatives could boost aggregate demand during the ongoing recovery and foster more sustainable growth (OECD, 2020g). Over the past couple of decades, energy and CO₂ emission intensities have been reduced considerably (Figure 1.32). Yet, the carbon intensity of the economy remains high and progress has stalled over the past few years. Coal still accounts for around 78% of electricity generation (Figure 1.33, Panel A) and 75% of coal capacity is over 25 years old. Consequently, many coal power plants have low level of efficiency and remain among Europe’s largest contributors to CO₂ emissions and industrial air pollution (EC, 2019c).

Poland stimulus efforts should target to green further its energy mix. The authorities submitted their National Energy and Climate Plan to the European Commission at the end of 2019 and are preparing the Energy Policy of Poland until 2040. The updated 2020 draft Strategy notably aims at reducing the share of coal in electricity generation to 37-56% (depending on the carbon-price scenario) and boosting the share of renewables in gross final energy consumption to at least 23% by 2030. In addition, the 2020 update of the Nuclear Programme foresees that a first nuclear power plant will be commissioned by 2033 and 5 others by 2043. The government has yet to adopt its long-term strategy.

Despite significant progress (Figure 1.33, Panel B), Poland has room to strengthen its renewable electricity sector. Stricter EU emission standards and increasing CO₂ prices under the EU ETS make lignite-fired power plants increasingly expensive. Taking all costs into account, including environmental and closure costs when comparing the cost of different energy sources, would encourage new investment in renewable and less-polluting technologies (OECD, 2016; IEA, 2017). The draft Energy Policy envisages increasing the use of offshore wind and solar photovoltaic installations. Solar power generation increased twofold in 2019 and the 2019 auctions for renewables capacity will help develop solar power and onshore wind. Yet, the auctions for new renewable capacity are set to end in 2021 and building a more stable regulatory and incentive system would reduce uncertainty. Moreover, stringent regulations for onshore wind still prevent the use of larger and more-efficient turbines. The development of offshore wind will also require strengthening the transmission capacity in the northern part of the country.

Figure 1.32. Poland’s energy and carbon intensities have declined but remain elevated

Improvements in energy efficiency should continue, as they are the most cost-effective way of boosting competitiveness, increasing energy security and reducing the environmental footprint (IEA, 2018). The residential sector was responsible for 28% of final energy consumption in Poland in 2018. The energy intensity of space heating in Poland is one of the highest among EU countries. Due to the poor energy efficiency of buildings, energy affordability is an important issue, with as much as 10% of households in Poland suffered from energy poverty in 2017 (Sokołowski J. et al., 2019).
Deep retrofitting, through thermal insulations and replacement of inefficient equipment is key to improve energy performance. A large share of the existing building stock was built before 1990, with poor thermal standards. While progress has been made with regard to multi-apartment buildings, more than 70% of Polish single-family homes are either not or insufficiently insulated (Velux, 2018). The tightening of regulations on energy consumption in buildings, which is currently low, would help. The example of Nordic countries has shown that high insulation standards for buildings may result in energy intensity of heating among the lowest in the OECD countries despite cold climate (IEA, 2018). In addition, a combination of public support and imposing minimum requirements for reserve funds in multi-flat building renovation could help reinvigorate the numerous ageing multi-flat buildings, as in France.

Figure 1.33. Significant investments are needed in the electricity sector

The emission of pollutants, in particular fine particles from heating installations of single-family houses, is the main cause of inappropriate air quality in large areas of Poland and is associated with too low energy efficiency in the heating sector. Air pollution is acute in many cities: among those evaluated in a report from the World Bank, 36 out of 50 most polluted European cities were in Poland (World Bank, 2018a and b). Air pollution has been found to lead to many premature deaths (Figure 1.34) and to have potential significant effects on productivity (Dechezleprêtre et al., 2019).

The government has taken welcome steps to address these challenges. In particular, the Clean Air programme, with a budget of PLN 103 billion, offers means-tested financial grants and loans for replacement of obsolete stoves and thermal retrofits to single-family houses until 2029. Another program, “Stop Smog”, targets the poorest and most polluted municipalities. While the programs only started in 2018, their take-up has been so far much lower than anticipated (EC, 2020a). Complex administrative procedures and low income-thresholds for the highest grants constrained their implementation. Recent positive changes (administrative simplifications, premia for the installation of heat pumps and photovoltaic panels simultaneously, and the inclusion of banks in the provision of loans) could improve their take-up. In addition, regions (voivodeships) with areas exceeding the air-quality thresholds, introduced anti-smog regulations, aiming to limit the burning of fossil fuels in furnaces, notably in cities. Such legal requirements accompanied by fines for noncompliance, if properly implemented, should speed up the replacement of the heating systems.

Expanding and modernising the district heating network can help the clean energy transition. Poland has one of the largest district heating system in the European Union. However, most of the small district heating...
systems, which supply 40% of domestic heating, are old and inefficient (Forum Energii, 2019). They rely mostly on coal and incorporating more renewable energy sources would deliver cleaner energy to households. Poland should also expand its use of smart meters. Pilot smart meter projects in other countries have shown overall energy use reductions, with significant changes at peak times, like in the case of Ireland (BPIE, 2016).

Poland has also made efforts towards a circular economy. It adopted the EU Circular Economy Strategy in 2019. It identifies four priorities: sustainable production, sustainable consumption, bio-economy and new business models. Poland is also preparing its long-term “Strategy for Transformation to a Climate Neutral Economy”. This document will define different scenarios for the development of the Polish economy to meet the objectives of the EU climate-energy policy and the target of the Paris Agreement in 2050. The Strategy will outline possible pathways to cut GHG emissions and their implications for the energy system and the economy by 2050.

The newly agreed “Next Generation EU” recovery plan will have dedicated funds to support the transition to climate neutrality, in line with the growth strategy outlined in the European Green Deal (Box 1.1). Poland should grasp the opportunity to enhance the resilience of its economy and society in the face of both the current recession and accelerating environmental challenges. In fact, several “green” sectors offer significant prospects for job creation, such as the renewable energy production sector (OECD, 2020h).

Figure 1.34. Air pollution levels are high and result in a high number of premature deaths

Mentoring firms could also have significant energy efficiency gains. There is no national programme to promote energy efficiency efforts of micro- and small firms, though EU funds and the EBRD provide dedicated support. As in other countries, SMEs face significant financial and informational barriers that are compounded by their weak management quality in Poland (Chapter 2; Bloom et al., 2010). Carefully evaluating and scaling up the effective measures of a 2018 EU-funded pilot programme for SMEs (Promotion of energy audits and energy efficiency investments in SMEs in Poland) would be positive. The project aims at improving knowledge about energy use and the effect of energy efficiency among SMEs and at raising awareness about energy management, including by encouraging the use of simplified energy audits.
Table 1.7. Past OECD recommendations on environmental policies

<table>
<thead>
<tr>
<th>Main recent OECD recommendations</th>
<th>Actions taken since the 2018 Survey</th>
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<tbody>
<tr>
<td>Develop and implement clear and stable climate-change policies aligned with European and international objectives to reduce uncertainty for innovative green investments.</td>
<td>The National Energy and Climate Plan was submitted to the European Commission in December 2019. Work on the Energy Policy of Poland until 2040 is in progress. The update of the Polish Nuclear Power Programme has been approved by the Council of Ministers on 2 October 2020.</td>
</tr>
<tr>
<td>Ensure the stability and clarity of policies affecting investment decisions.</td>
<td>Mandatory consultations with stakeholders have often been short or avoided by laws proposed by the National Assembly members.</td>
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</table>

Preventing corruption and economic crimes

Poland’s perceived corruption level appears relatively low compared to its peers, but remains above the OECD average (Figure 1.35, Panels A to C). Poland ranks just below the OECD average in most components of the Varieties of Democracy Index, with the judicial system assessed as the least corrupted (Panel D). Poland largely complies with the standards set by the Global Forum on Transparency and Exchange of Information for Tax Purposes which helps reducing money laundering risks.

Yet, GRECO (2019) and Transparency International (2019) have warned against the risks of increased political influence on the judiciary system. While the authorities argued that the judiciary system reform was designed to restore integrity of core State institutions, it risks concentrating the authority within a few central control bodies and decision makers and increase the role of the Minister of Justice in disciplinary proceedings (GRECO, 2019). Despite amendments in late 2019, the Council of Europe (2020) in an urgent opinion identified risks for the independence of judges recommended to increase the role of the judicial community for appointments, promotions and dismissals of judges.

Figure 1.35. There is room to further limit the risks of corruption

Note: Panel B shows the point estimate and the margin of error. Panel D shows sector-based subcomponents of the “Control of Corruption” indicator by the Varieties of Democracy Project. CEEC is the average of Hungary and the Czech and Slovak Republics.

Source: Panel A: Transparency International; Panels B & C: World Bank, Worldwide Governance Indicators; Panel D: Varieties of Democracy Institute; University of Gothenburg; and University of Notre Dame.

StatLink 2 https://doi.org/10.1787/888934208602
Transparency of the government's legislative process and the rules on access to information regarding lobbying activities emerge as key areas to improve corruption prevention (GRECO, 2019). More ambitious integrity policy aimed at parliamentarians is necessary for the rule of conduct and enforcement mechanism regarding gifts and benefits, conflicts of interest and accessory activities, as well as relations with lobbyists and other third parties. More transparent asset declarations and a revision of their immunities would also help limit risks of corruption.

The OECD Working Group on Bribery identified a number of challenges in fighting transnational corruption since 2013. In particular, companies cannot be held responsible for foreign bribery as long as the persons who perpetrated the offence are not convicted, and the fines for companies remain too low to be effective and dissuasive (OECD, 2018h). Whistle-blower protection is weak, with the "impunity" provision in the Penal Code inapplicable to the bribery of foreign public officials, and insufficient protective measures from retaliatory action for employees who report suspected acts of foreign bribery.
### Other recommendations on macroeconomic and selected structural policies

(Memorandum item: key recommendations are presented in the Executive Summary)

<table>
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<th>FINDINGS</th>
<th>RECOMMENDATIONS</th>
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<tr>
<td><strong>Macroeconomic policies and financial supervision</strong></td>
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<tr>
<td>The current financial supervision arrangements do not ensure a clear independence from the government.</td>
<td>Strengthen the process for nominating board members of the financial supervision authority.</td>
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<tr>
<td>The ex-ante scrutiny of the budget process and its macroeconomic assumptions rely on the Central Bank and the European Commission.</td>
<td>Task an independent institution to conduct ex-ante assessment of the government’s fiscal plans and long-term fiscal sustainability analyses.</td>
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<tr>
<td><strong>Inclusiveness, labour market and health issues</strong></td>
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<td>Irregular work relationships are undermining productivity and well-being. They are also increasing risks of old-age poverty. The rental market is weakly developed. Overcrowding is widespread and geographical mobility is relatively weak. High immigration from Eastern neighbours alleviated labour market pressures, but a lack of monitoring hampers the ability of policies to improve its impact on the labour market. Old-age work is low. Many households fail to see the benefits of postponing retirement. Special pension schemes have high fiscal costs and constrain workers mobility. Survivor pensions may have negative effect on labour supply. Social disparities in health conditions are high and linked to the prevalence of risky behaviours among lower-income households.</td>
<td>Strengthen labour law enforcement, and further align contributions on civil and labour law contracts. When the recovery is firmly underway, increase recurrent taxes on property, notably on vacant properties and land in urban areas. Strengthen geographical mobility support and activation measures. Develop a migration policy strategy to better monitor integration of foreigners in line with labour market needs, the protection of their rights and access to education and training for them. Harmonise employment protection for all age groups. Ensure sufficient incentives and training to boost the effective retirement age. Strengthen further information about the benefits of working longer. Progressively align special pension schemes arrangements with the general rules. When the recovery is firmly underway, scale down survivors’ pensions. Strengthen information campaigns on behavioural risks, such as food and drinking habits. Review food and health standards.</td>
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<tr>
<td><strong>Environment</strong></td>
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<tr>
<td>Regulatory requirements on housing heating system and housing efficiency are relatively weak. The take-up of energy efficiency measures and the rollout of demand-management system are low. Eligibility conditions to some support programmes are unduly restrictive for low-income households. Smaller firms make little use of potentially high energy efficiency gains. Urban sprawl is substantial. The coverage of spatial plans is limited and their integration with other strategic document could improve.</td>
<td>Tighten regulations on energy consumption in buildings. Ease eligibility conditions to energy efficiency programmes for low-income households. Provide incentives for the use of smart meters. Evaluate and scale up effective pilot information for SMEs on the benefits of energy efficiency savings and strengthen related energy-efficiency programmes. Continue to strengthen integrated local spatial plans, by making their coverage mandatory in functional urban areas and increasing their coherence with other spatial plans.</td>
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<tr>
<td><strong>Corruption</strong></td>
<td></td>
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<tr>
<td>Interactions between parliamentarians, lobbyists and other third parties are not fully transparent. Whistle-blower protection is weak.</td>
<td>Provide the members of the Parliament with clear guidance on conflicts of interest. Develop a clearly defined mechanism to declare potential conflicts of interest of parliamentarians. Improve protective measures for employees who report suspected acts of foreign bribery.</td>
</tr>
<tr>
<td><strong>Business environment</strong></td>
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<tr>
<td>Private-sector R&amp;D spending is very low, notably for SMEs, which hinders new technology adoption and innovation. General government contingent liabilities are high.</td>
<td>Incentivise SME employers to develop workplace-based vocational education and adult training. Ensure the full independence of the sectoral regulators. Pursue privatisation in competitive segments of the economy while ensuring sound governance of the remaining state-owned enterprises.</td>
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</table>
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### Annex A. Progress on structural reforms

This Annex reviews action taken on recommendations from the March 2018 Survey that are not reported elsewhere in this Chapter.

<table>
<thead>
<tr>
<th>Recommendations</th>
<th>Action taken since previous Survey (March 2018)</th>
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<tbody>
<tr>
<td><strong>Product market competition and business environment</strong></td>
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<tr>
<td>Introduce fixed-term, non-renewable mandates for the President of the Competition Authority and all sectoral regulators, during which they cannot be dismissed without fault, and prevent revolving-door opportunities. Pursue privatisation in competitive sectors.</td>
<td>No action taken.</td>
</tr>
<tr>
<td>Reduce anti-competitive pressures resulting from the participation of Polish Airports State Enterprise (PPL) in many airport entities, and consider long-term concession agreements or privatisation for airport entities. Privatise the national air carrier (LOT).</td>
<td>No action taken.</td>
</tr>
<tr>
<td>Include a simplification component for SMEs to the government’s tax compliance strategy.</td>
<td>The 2019 “package for SMEs” increased digitalisation of tax procedures and automatic filing of information already in the databases of public entities, partly reducing the tax compliance cost for the SMEs.</td>
</tr>
</tbody>
</table>

| **Strengthening higher education, research and innovation** | |
| Enhance industry-science collaboration. Continue to increase funding for higher education and research over time, to merge small universities and independent research institutes to build strong research universities, and to allow underperforming institutions that do not improve over time to shut down. | The 2018 Act on Higher Education and Science strengthens the practical dimensions of education by supplementing practical-profile studies with a compulsory vocational practice, or a dual programme involving the employer. The Research Network: Lukasiewicz has been launched in 2019 to conduct scientific research, including industrial research. |
| Improve the quality of doctoral training by structuring it through coursework and tutoring and tightening entry criteria. Offer well-remunerated academic positions, and base career progression on an evaluation of research and teaching quality by faculty and external experts. | A wide-reaching reform of science and higher education was introduced in 2019 under the label “Constitution for Science”. It included steps aimed at improving the quality of doctoral training and tightening entry criteria, thus making PhD training more selective. |
| If the take-up of the new R&D tax allowance is low among small innovative firms, adjust its provisions. Plan for national financing of business R&D and innovation programmes beyond the current EU budgetary cycle, if necessary. | The take-up of the R&D tax allowance has increased over 2018-2019. Yet, larger firms remain the main beneficiaries. |