1 Key policy insights

Continued convergence in living standards requires bold policy decisions

Prior to the COVID-19 pandemic and Russia's large-scale war of aggression against Ukraine, Poland was one of the fastest growing economies in Europe, expanding on average at 3.7% per annum over the 2010s. This strong convergence was based on sound macroeconomic policies that included inflation targeting, a flexible exchange rate and a solid fiscal framework. The pandemic hit Poland hard, but the economy recovered quickly thanks to effective policy support. With Russia's invasion of Ukraine, more than 1 million refugees fleeing the war are living in Poland. Both the government and the population have undertaken considerable efforts to receive them. At the same time, global energy prices have soared, and activity, confidence and investment have declined.

Poland stands at a critical juncture, where today's decisions will shape the economy and society for decades to come. Inflation has reached double digits, increasing pressure on households and businesses. The geopolitical situation highlights the need for an energy transition that factors in energy security and the role that renewables can play in achieving a challenging net zero emissions goal by 2050. Improvements in productivity, including through digitalisation, will be key to continued convergence of living standards. Effective integration of refugees will be needed to ensure good social outcomes. The health prospects of the population, which continues to suffer from considerable levels of pollution, need to be improved. These issues come on top of the longstanding challenges of population ageing and the low labour force participation of older workers.

Against this backdrop, the main messages of this Survey are:

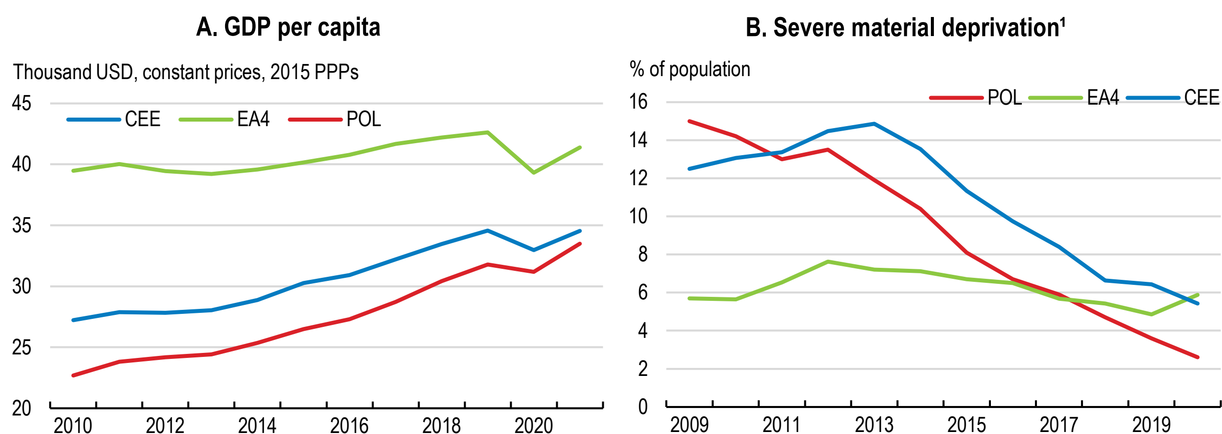
- Policy support that softens the blow of the energy crisis and accommodates the inflow of refugees should continue, but there is scope to improve targeting of energy and food supports in the future. Both monetary and fiscal policies should ensure that higher inflation does not become entrenched.
- In the face of an ageing population, raising growth potential is a priority. Long-term fiscal pressures need to be addressed by broadening the revenue base, raising the effective retirement age and improving spending efficiency, in areas such as health and infrastructure. Given its continued reliance on coal and changes in energy supply, a revision of plans on how to achieve the transition to climate neutrality is needed. Setting out a clear path for carbon prices would provide clarity to households and businesses.
- Further digitalising the economy can help unleash the entrepreneurial potential of Polish businesses at home and in global markets. Adoption of digital technologies is relatively low among Polish firms, particularly SMEs, as are the digital skills of certain population groups such as older adults. Successful digitalisation requires a comprehensive policy approach. More measures are needed to help SMEs adopt digital technologies. The authorities should continue promoting life-long learning and increase flexibility of formal and non-formal education.

Russia's invasion of Ukraine has darkened the economic outlook

Inflation has reached high levels and growth is slowing

Prior to the pandemic, Poland enjoyed uninterrupted economic growth since 1992. It has successfully integrated into global supply chains, 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 was impressive (Figure 1.1, Panel A). Rising household incomes contributed to gains in inclusiveness, with material deprivation and inequality declining (Figure 1.1, Panel B).

Figure 1.1. Recent decades brought income convergence and lower poverty



Note: CEE is the average of the Czech Republic, Hungary, Slovak Republic. EA4 is the average of Germany, France, Italy and Spain.
1. 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.
Source: OECD National accounts database; and Eurostat "Severe material deprivation rate" database (tespm030).

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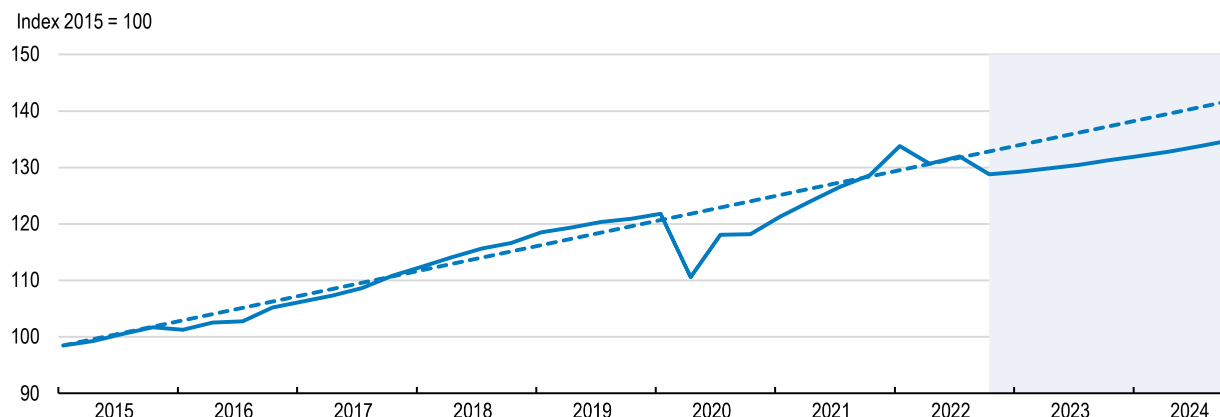
The COVID-19 pandemic resulted in a recession with GDP falling by 2% in 2020. Boosted by comprehensive fiscal support, the economy recovered strongly in 2021, growing by 6.8%. Economic growth slowed to 4.9% last year (Figure 1.2). The impact of Russia's war of aggression against Ukraine is overshadowing the economic outlook. As Poland imports around half its fuels, the terms-of-trade deteriorated by an estimated 3.7% in 2022 on the back of higher import prices. Consequently, the growth of real disposable incomes and consumption have slowed down considerably, after a relatively strong post-pandemic recovery.

Figure 1.2. A quick recovery from the pandemic but a weaker outlook ahead



Source: OECD Economic Outlook database.

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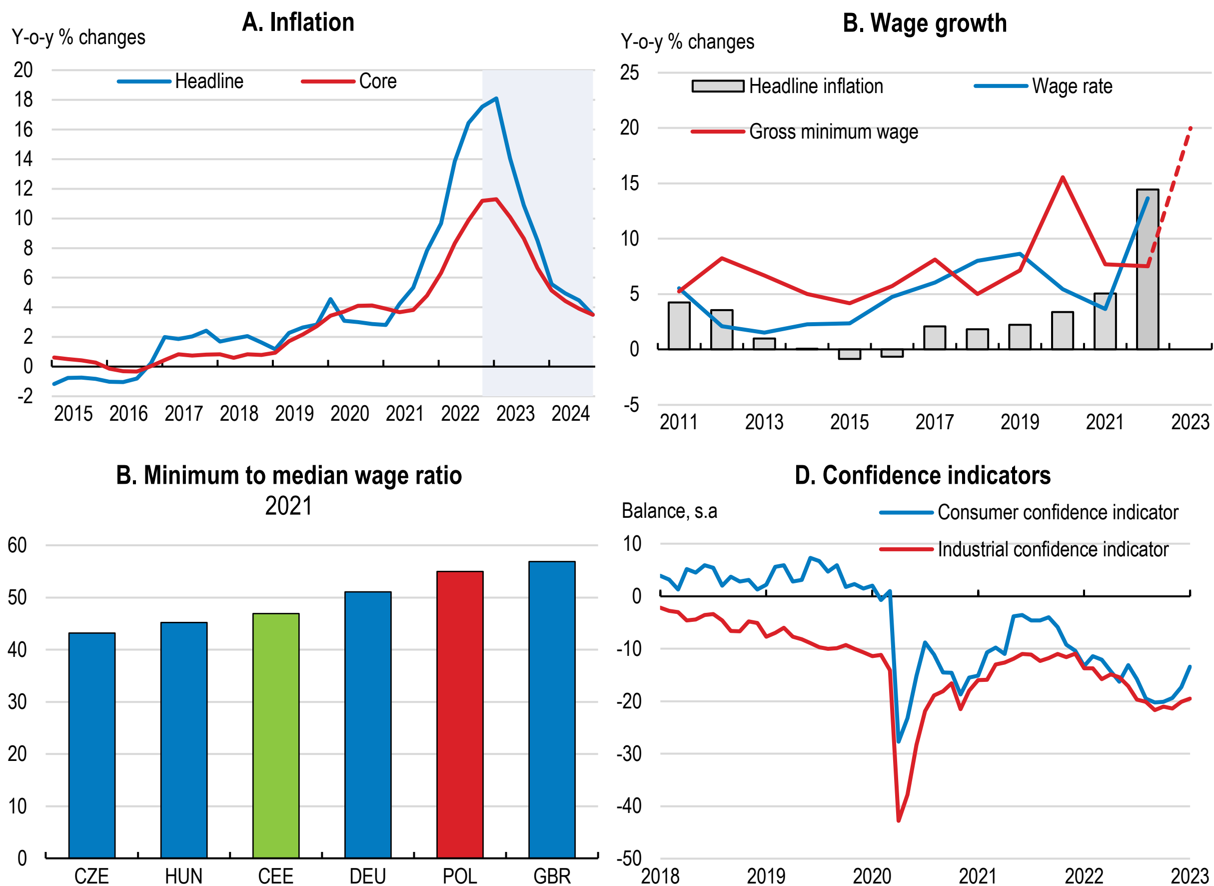
Direct trade with Russia, Belarus and Ukraine before the war was relatively small. Exports to these countries accounted for 3.7% and imports for 5% of GDP in 2020, slightly above the Central and Eastern European (CEE) countries' average (Czech Republic, Hungary and Slovak Republic). With Poland's energy production and supply heavily skewed towards coal, gas was used for some 17% of energy supply in 2020, mainly for industrial consumption, electricity generation and residential heating. Poland has long been planning to reduce its reliance on Russia and has diversified its gas supplies with new pipelines and gas terminal capacity. Nevertheless, it has been affected by the global and European surge in coal and gas prices, complicating the management of energy transition while trying to ensure energy security.

Inflation rose rapidly in 2022. This was due to the energy price shock, largely driven by Russia's invasion of Ukraine, global supply chain disruptions, strong growth in global commodity prices and a tight labour market in Poland. Annual consumer price inflation reached 17.2% in January this year and core inflation stood at 11.5% in December 2022. Domestically generated inflation remains significant, and much will now depend on the extent of second-round effects. Headline inflation is projected to ease to 12.7% this year as energy prices moderate and fall to 4.6% in 2024, still above the central bank's target (Figure 1.3). Core inflation is expected to peak on an annual basis at 9.1% in 2022 and fall to around 4.2% in 2024, but there are risks that price and wage inflation could remain persistently high for a longer period of time (OECD, 2022a).

Figure 1.3. Inflation and wages have grown fast, while confidence has fallen



Note: In panel B wage rate for 2022 refers to 2022Q3.
Source: OECD Economic Outlook database; Eurostat (ei_bsco_m, ei_bsin_m_r2), European Commission Business and consumer surveys; and OECD Earnings database.

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GDP growth is projected to slow to 0.9% in 2023 amid high inflation, elevated uncertainty and decelerating private consumption (Table 1.1). Weaker demand growth in Poland's major trading partners is projected to moderate export growth. Fiscal policy will support growth but interest rates are now higher. Inflation is expected to decline as energy price growth moderates and spare capacity exerts downward pressure on inflation. GDP growth should recover gradually to 2.4% in 2024 as the economy adjusts to higher energy prices and inflation falls, but output is likely to be permanently lower due to the higher cost of energy (Figure 1.2).

Major downside risks overshadow these projections. An escalation of the Russian war against Ukraine and an additional disruption of energy supplies could further impact the Polish and European economies, leading to higher inflation and lower activity, as well as an additional inflow of refugees. Other potential shocks to the economy would alter the outlook further (Table 1.2). On the upside, public and private investments supported by European Union (EU) funds could be deployed faster than projected. Moreover, expansionary fiscal policy may prolong high inflation and require additional monetary tightening.

Table 1.1. Macroeconomic indicators and projections

	2019	2020	2021	2022	2023	2024
	Current prices PLN billion	Annual percentage change, volume (2015 prices)				
GDP at market prices	2 288.5	-2.0	6.8	4.9	0.9	2.4
Private consumption	1 322.3	-3.4	6.3	3.0	2.0	2.5
Government consumption	412.4	4.9	5.0	1.9	3.0	2.1
Gross fixed capital formation	432.9	-2.3	2.1	4.6	1.2	3.5
Final domestic demand	2 167.6	-1.6	5.2	3.0	2.0	2.6
Stockbuilding[1]	36.1	-1.1	3.0	4.4	-1.9	0.0
Total domestic demand	2 203.8	-2.8	8.3	8.8	0.3	2.4
Exports of goods and services	1 217.4	-1.1	12.5	4.8	1.2	1.5
Imports of goods and services	1 132.7	-2.4	16.1	6.4	1.8	1.5
Net exports[1]	84.7	0.6	-1.0	-0.7	-0.3	0.0
Memorandum items index						
GDP deflator		4.3	5.1	11.7	10.1	4.2
Consumer price index		3.4	5.1	14.4	12.7	4.6
Core inflation index [2]		3.8	4.1	9.0	9.1	4.2
Unemployment rate (% of labour force)		3.2	3.4	2.9	3.5	3.8
Household saving ratio, net (% of disposable income)		7.3	0.4	-0.1	-0.5	-0.5
General government financial balance (% of GDP)		-6.9	-1.8	-3.5	-4.9	-4.0
General government debt, Maastricht definition[3] (% of GDP)		57.2	53.8	51.8	53.2	54.9
Current account balance (% of GDP)		2.5	-1.5	-2.9	-3.5	-2.8

1. Contributions to changes in real GDP, actual amount in the first column.
2. Consumer price index excluding food and energy.
3. The Maastricht definition of general government debt includes only loans, debt securities, and currency and deposits, with debt at face value rather than market value.
Source: OECD Economic Outlook database.

Table 1.2. Possible further shocks to the economy

Shock	Likely impact	Policy response
Intensification of the Russian aggression against Ukraine.	Renewed inflow of Ukrainian refugees and an increase in military spending. These factors could push inflation higher and increase the pressure on public finances.	Make appropriate contingency plans. Develop strategies to maintain supply-chains based on various conflict scenarios.
Large-scale cyber attack.	A cyber-attack could disrupt business operations or shut down domestic infrastructure vital for the functioning of the economy.	Invest further in cybersecurity, with the central government playing a co-ordinating role.
A more virulent COVID-19 resurgence or another pandemic.	Economic activity would fall as people avoid activities that put them at risk and are restricted by containment measures.	Bolster the resilience of the healthcare system.

Poland has successfully managed a large inflow of refugees

An estimated 1.6 million Ukrainian refugees have settled in Poland (Box 1.1). From the first days of the war those fleeing the conflict have been met with unprecedented support from the Polish population, non-governmental organisations, and local authorities. Public and private spending during the first three months of the conflict has been estimated at close to 1% of GDP, while estimates of public spending for 2022 put the cost at 0.4-0.6% of GDP (Baszczak et al., 2022; NBP, 2022d). In line with EU policy the initial response was to offer temporary protection permits for 18 months, immediate working rights and, access to

education, housing, healthcare, financial support, vocational training, and job search assistance. Digital platforms and hotlines were launched to inform the newly arrived of their rights and reception conditions. While some Ukrainians returned after the initial surge, many remain. Given the tightness of the Polish labour market prior to the war, many of the newly arrived adults found jobs quickly and it is estimated that around 60% of them are working already (Gromadzki and Lewandowski, 2023).

Overall, the management of such a large inflow of refugees in such a short period of time has been effective, meeting the needs of this vulnerable population without overwhelming the capacity of the state. Much of the responsibility for providing reception policies so far has been on local governments. There has been strong support from the non-governmental sector as well (Duszczyk and Kaczmarczyk, 2022). The sudden increase in population, however, adds to housing needs that were considerable already prior to the war, with lack of affordable housing and widespread overcrowding (OECD, 2020a). Urban populations between February and April 2022 grew by as much as 15% in Warsaw, 23% in Krakow and 53% in Rzeszow, which is close to the Ukrainian border (Wojdat and Cywiński, 2022).

The healthcare system has also come under additional strain. The refugees have a higher need for psychological consultations and need to overcome the language barrier (Duszczyk and Kaczmarczyk, 2022). The authorities set up medical evacuations of patients, both civilians and soldiers, to provide specialised treatment and rehabilitation in medical entities, as well as a voluntary relocation mechanism of patients to other EU countries, in particular for children requiring oncological treatment. A pilot project of setting up trauma consultations is under way. Certain vaccines and medicine shortages were solved by drawing on international co-operation and a vaccination campaign is to be launched in co-operation with UNICEF to increase routine childhood vaccination coverage. Ukrainian medical personnel that have come to Poland are helping to ease some pressures in the healthcare sector, supported by simplified rules for their employment that have been in place since 2021.

Box 1.1. Ukrainian refugees in Poland

Russia's war against Ukraine resulted in significant inflows of war refugees. While almost 9 million Ukrainians crossed the Polish border, official estimates show that by January 2023 around 1.6 million stayed, equivalent to 4% of the Polish population. Half of the war refugees settling in Poland during 2022 are adults, largely women of working age (Duszczyk and Kaczmarczyk, 2022).

The Ukrainian refugees benefit from long-standing flows of migrants to Poland. Ukrainian migrants were already the largest foreign-born population in the country in 2020, with some 1.3 million living in Poland and many more coming for seasonal work. Traditionally, the majority of the labour migrants were men working in industries such as construction, manufacturing, and farming, mostly under the age of 45. Following general mobilisation in Ukraine, many of them returned home.

Data between February and April 2022 show that new arrivals went to regions with higher incomes and lower unemployment, a higher presence of Ukrainians before the war, and available accommodation (Gromadzki and Lewandowski, 2023). Geographically, refugees concentrated in the Western areas of the country and in large metropolitan areas such as Warsaw, Krakow, and Wrocław.

Given the decline in Poland's working-age population that started in 2011, skilled migrants can help to ease some labour market pressures. Indeed, around half of the adult refugees have tertiary education (Chmielewska-Kalinska et al., 2022). While estimates show that as many as 60% of those settled in Poland were working by April 2022, over half of them found jobs in so-called elementary occupations (e.g., cleaners, food preparation assistants, and labourers), pointing to considerable skills-mismatch. Similarly to the pre-war economic migrants, most found jobs in service sectors.

Source: Chmielewska-Kalińska et al., 2022; Duszczyk and Kaczmarczyk, 2022; Gromadzki and Lewandowski, 2023.

The experience of OECD countries illustrates that early intervention to integrate migrants provides strong payoffs (OECD, 2014). Despite the uncertainty about the number of those who will eventually settle in Poland, comprehensive policies addressing availability of housing, healthcare, and education are needed. Social, educational, and spatial integration are essential, including for children. Their chances of doing well in school, and later in the labour market, hinge on the ability to speak Polish (OECD, 2016). While over half a million Ukrainian refugees are children of school age, only 185 000 had enrolled in Polish kindergartens and schools by last September. Others are likely to be continuing online remote learning following the Ukrainian curriculum. Many children could be integrated in the education system via participation in sports activities or having a dedicated space for online study with all necessary equipment in schools (Duszczyk and Kaczmarczyk, 2022).

Moving from temporary emergency response to medium and long-term policies requires mainstreaming support measures and addressing secondary flows (OECD, 2022b). Part of the funds for immediate reception support and medium-term integration measures have been provided by various EU instruments. However, longer-term financing, such as expanding school capacities and follow-up healthcare are borne by the state budget. A comprehensive approach to integrating migrants is needed. Addressing the current migration wave through such an approach should include close co-ordination across levels of government, as it is often local governments that deliver these policies. Building on disaggregated data to get an accurate picture of the evolving situation, the authorities should carry out needs assessments and situation reports.

Macroeconomic policy needs to strike a fine balance

Monetary policy has been tightened

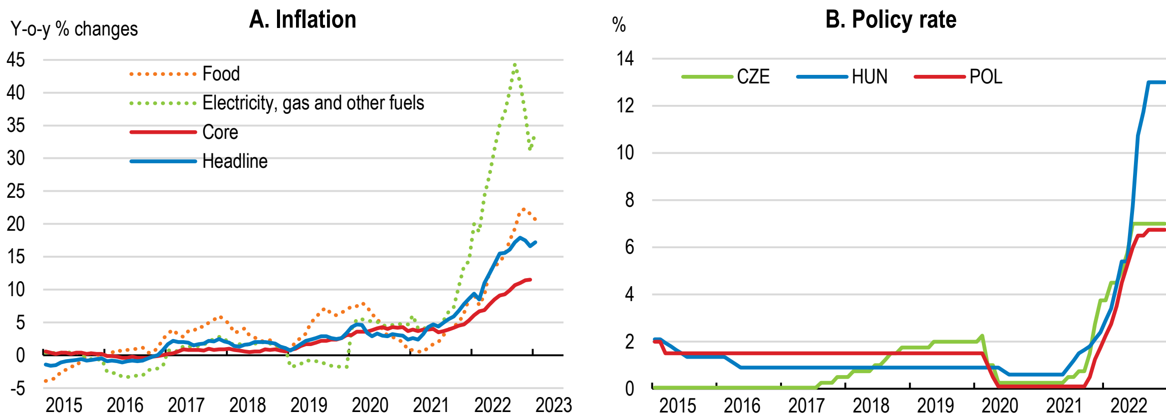
With interest rates having been cut to near zero during the pandemic, the central bank started to tighten monetary policy in October 2021, earlier than many other central banks. The asset purchase programme ended in November 2021 (Figure 1.4). Policy interest rate rose to 6.75% by September 2022. Asset prices have fallen and the growth of both consumer and housing loans has come to a halt (NBP, 2022a). As with currencies of certain other CEE countries, the zloty (PLN) weakened for much of last year, largely on the back of an appreciating dollar, although since October 2022 this trend has to some extent reversed (Figure 1.5). Up to two-thirds of headline inflation came from food and energy prices in 2022. Surveys of professional forecasters report inflation expectations around 10% a year ahead and around 6% two years ahead, and consumers' and firms' inflation expectations remain elevated (NBP, 2022b).

Some of the rise in inflation is domestically generated. The labour market was already tight prior to the pandemic and recovered strongly with the unemployment rate at a record low of 2.6% during the third quarter of last year. This is well below estimates of non-accelerating wage inflation rate of unemployment of around 4.3% (NBP, 2022a). The employment rate has recovered too, reaching 76.5% of the resident working age population in the third quarter of 2022 (Eurostat, 2022). Nominal wage growth in the third quarter reached 14.6%, although real wages declined by 1.5% year-on-year. More recent survey data indicate a slight weakening of labour demand, but the relatively high nominal wage growth is expected to continue (NBP, 2022a). The minimum wage, at around 50% of the median wage in 2021 and paid to some 13% of employees, will increase by almost 20% in this year (Figure 1.3).

Due to lags in the monetary policy transmission, the full impact of the tightening is expected over the course of this year and 2024. The central bank's target is headline inflation of 2.5% in annual terms with a tolerance band of +/- 1 percentage point, and the targeting horizon has now been extended from 2 to 3 years ahead. Under the assumptions of a gradual decline in commodity prices, increased interest rates in major economies, subdued domestic demand, and a broadly neutral fiscal stance in 2023, the central bank's November Inflation Report forecast implied no need for further monetary tightening (NBP, 2022b). However, inflation remains high with fiscal support in place, and there is considerable uncertainty about

future wages and prices. This could require further increases in interest rates, if it proves necessary to achieve the inflation target in the medium term (OECD, 2022a). The authorities should continue to ensure that currently elevated inflation expectations do not become entrenched and stand ready to increase interest rates further if necessary.

Figure 1.4. Monetary policy has tightened but core inflation is rising



Note: Preliminary data for January 2023.
Source: OECD Main Economic Indicators (MEI) database; Statistics Poland; and OECD Analytical Database.

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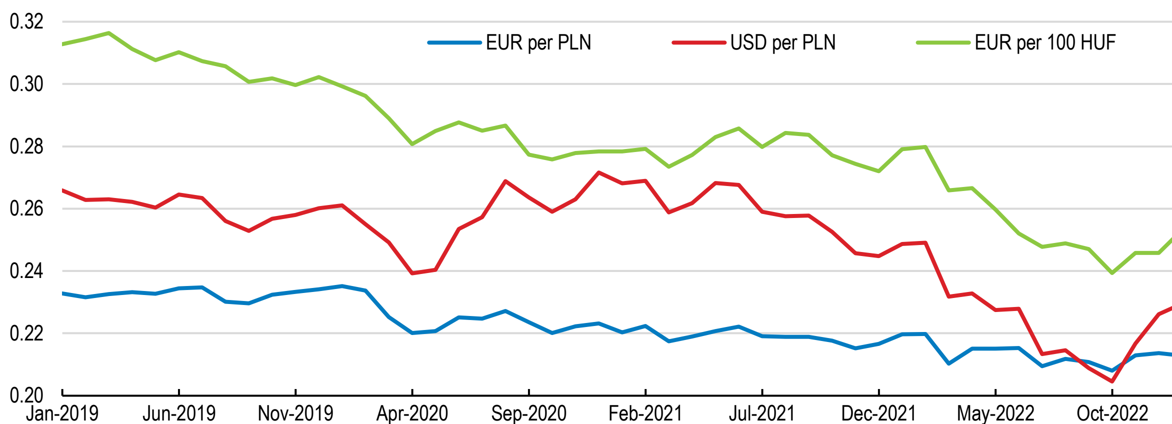
Figure 1.5. The zloty weakened during much of 2022

Monthly exchanges rates



Source: National Bank of Poland; and Refinitiv.

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A policy of blanket mortgage payments relief put in place August 2022 is potentially weakening the transmission of monetary policy. Mortgage service holidays allow for a postponement of four mortgage instalments in the second half of 2022 and four instalments in 2023. Assuming a full take up of the scheme, the cost is estimated at around PLN 20 billion or around 0.8% of GDP. So far, take-up has varied between 65% and 70% across banks (estimated at PLN 13 billion). The scheme should not be extended any further beyond 2023. Providing help across the board sends the wrong signals to borrowers. Using an already

existing tool, the borrowers support fund, would have been a better option, as it targets people who lose their jobs or whose monthly payments exceed 50% of household monthly income.

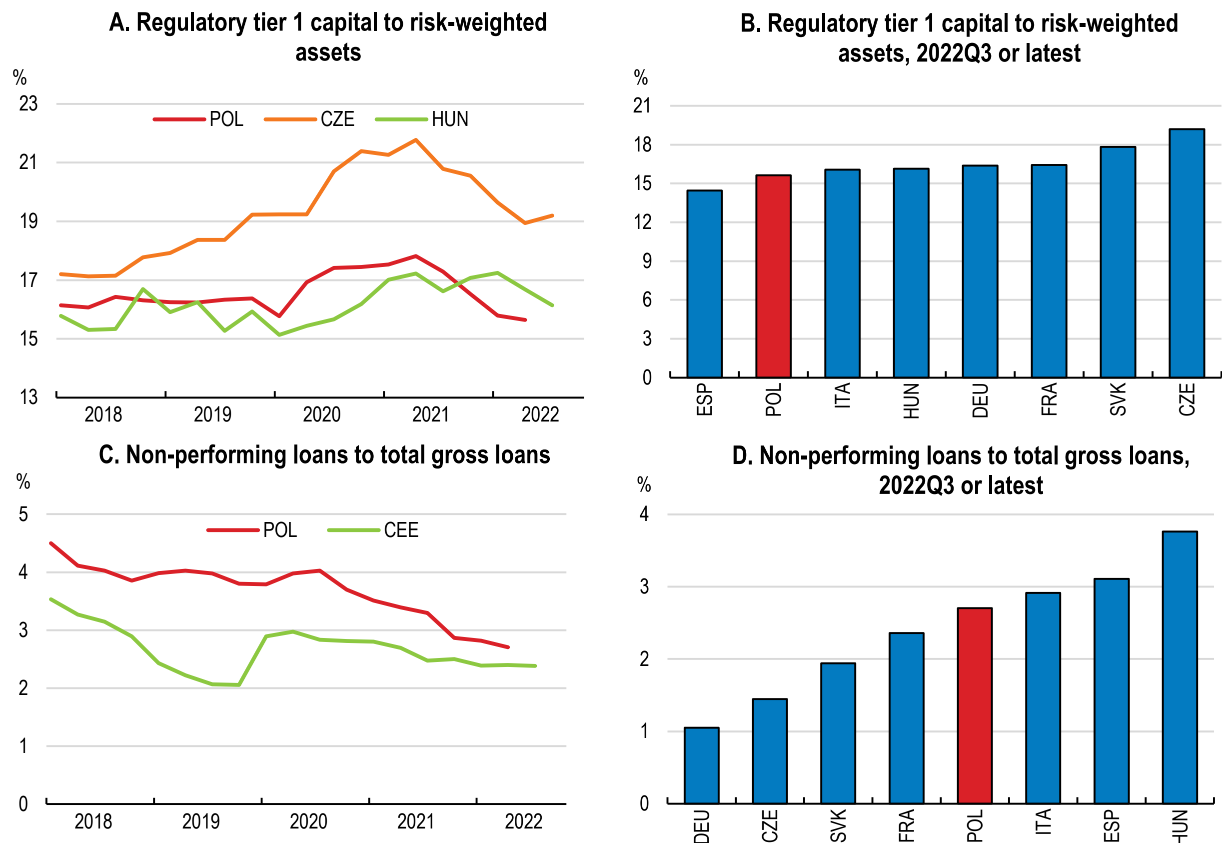
The financial sector is stable but there are domestic and global risks

The banking sector has significant capital resources (Figure 1.6). The direct exposure of the financial sector to Ukrainian, Russian, and Belarussian entities is low. However, the slowdown of economic growth, high inflation and increasing interest rates could have a negative effect on the strength of the financial sector (NBP, 2022b). Household debt stood at 30% of GDP and non-financial corporates' debt at 42% of GDP (of which 13% in the banking sector) in the second quarter of 2022 (BIS, 2022). At the end of 2021, mortgages with a variable interest rate accounted for around 90% of the stock of housing loans. Many loans granted after 2020 have relatively high loan-to-income ratios, although credit risk should be limited as borrowers can currently benefit from blanket mortgage payments relief or call upon the borrowers' support fund.

Another risk to financial stability comes from continued legal uncertainty on foreign-currency (FX) housing loans. These loans, mainly denominated in Swiss francs, were granted before 2012, as large interest differentials and favourable exchange rate meant lower servicing costs than borrowing in domestic currency. Today, these loans represent around EUR 20 bn of outstanding credit, and at the end of 2021 accounted for around 4% of the assets of the banks that granted them. Subject to Polish and European court rulings, the indexation or foreign exchange risk clauses have been often found abusive and thus cancelled. Some 20% of these loans (circa 100 000) are currently being disputed in courts. The Financial Supervisory Authority advocated a voluntary conversion of the FX loans at original exchange rates, applying the same terms as for PLN loans at the time, that would have cost 19% of own funds of the affected banks, depending on the exchange rate. Five banks (two of which are controlled by the state) have formally launched such programmes, while 13 banks offer voluntary conversion settlements according to their own rules. Altogether, around 40 000 settlements have been reached so far. While the net interest margin of the banking sector has been improving, profitability has come under pressure, as the sector has increased provisions for the legal risk of FX loans portfolios and due to the cost of the blanket mortgage payments relief (NBP, 2022c).

The latest round of stress tests, based on April 2022 data, suggests that the capital of banks should be sufficient for absorbing losses from both an adverse macroeconomic scenario and increasing provisions for the legal risk of FX housing loans, and, for a majority of the banks, to cover minimum requirements for their own funds and eligible liabilities and combined buffer requirements (NBP, 2022c).

Figure 1.6. The banking sector is well capitalised

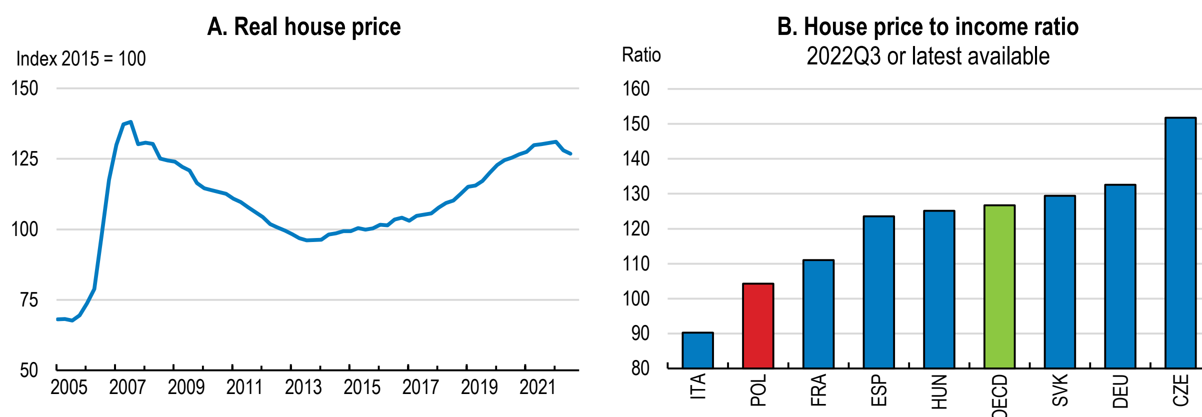


Note: A blanket mortgage payment relief is in place until December 2023, distorting the data on and assessment of non-performing loans.
Source: IMF, Soundness Indicators Database.

The housing market recovered quickly to robust pre-pandemic conditions in 2022 but is facing challenges (IMF, 2022) (Figure 1.7). The large majority of the population lives in owned dwellings and there is only a small rental market (4.2% of dwellings at market price). The housing stock in Poland has grown almost exclusively thanks to private construction and a considerable share of new flats has been built in the few largest cities and their suburbs, where prices are the highest (OECD, 2020a). Both housing starts and mortgage lending has returned to pre-pandemic levels supported by historically low mortgage lending rates for much of 2021.

Nevertheless, with increasing interest rates and the worsening economic outlook demand for and issuance of new housing loans to households dropped markedly in the second half of 2022. As mentioned earlier, in major metropolitan areas the housing market has come under considerable pressure from the large influx of refugees. Moreover, the lack of affordable housing and poor-quality infrastructure constrain labour mobility within the country, preventing the efficient matching between workers and jobs and giving rise to local employment shortages (OECD, 2020a).

Figure 1.7. The housing market recovered quickly



Source: OECD Analytical house price indicators database.

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Table 1.3. Past recommendations on financial stability and actions taken

Past OECD policy recommendations	Policy actions since the 2020 Economic Survey
Strengthen the process for nominating board members of the financial supervision authority.	No action taken.

Fiscal policy is supporting activity at the risk of fuelling inflation

Fiscal policy continues to support economic activity. Following comprehensive pandemic-related packages in 2020-21, last year the government introduced so-called "Anti-Inflation Shields" and other measures to soften the impact of high inflation (Box 1.2). Estimated at around 1.5% GDP, these reduced taxes on energy and food and introduced various allowances for households and energy-intensive businesses. This year, these measures were largely replaced with electricity and gas price caps for households and businesses up to an amount based on average energy consumption. The zero VAT rate on food is maintained and so are subsidies to energy-intensive companies. Net fiscal cost of the support measures is estimated around 0.9-1.4% of GDP, as they will be partly financed by revenues cap and a levy on energy companies (Box 1.2).

These measures are temporary, which is sensible given the uncertainty. While cushioning the impact of higher energy prices on households and firms is warranted, most of the measures so far have not been targeted, distort price signals, thereby reducing incentives to lower energy use and switching to more carbon-neutral energy sources. The use of price caps with an upper limit improves targeting. Any future support measures beyond the current period should be better targeted to those in greatest need to improve the trade-off between providing support and preventing second-round effects on inflation. This could include making more use of the tax and benefit system to provide supports or providing a fixed amount rather than linking it to energy consumption.

Other fiscal measures are helping to cushion the impact of high inflation. Pensions were increased in 2022, both by annual indexation and by supplementary one-off payments, at a cost of 0.6% GDP, while personal income taxes (PIT) were lowered at a cost of 1% of GDP (NBP, 2022d). Public support for Ukrainian refugee has been estimated at 0.4% of GDP (NBP, 2022d). All in all, the 2022 government deficit is estimated at 3.5% of GDP and 4.5% in 2023 but is expected to narrow gradually in the medium term (Ministry of Finance, 2022).

Box 1.2. Measures addressing the current cost-of-living crisis

The Polish authorities have adopted a number of measures aimed at shielding households and businesses from elevated energy and food prices.

In 2022, two packages ("Anti-Inflation Shields") temporarily lowered VAT rates on energy, food, and fertilisers, froze natural gas tariffs, introduced means-tested subsidies to low-income households and universal subsidies for heating. Energy-intensive industries could apply for compensation for high electricity and gas prices.

This year, these measures have been replaced by a system centred on electricity and gas price caps:

- Electricity price and distribution fees for households are kept at the 2022 level for first 2 MWh (around average household consumption), with higher thresholds for large families, households with disabled and farmers. The electricity price for consumption over 2MWh is capped at PLN 693 (EUR 147)/MWh.
- SMEs, public entities, and the non-governmental sector benefit from a price cap at PLN 785 (EUR 167)/MWh.
- For households, gas prices are capped at PLN 202 (EUR 43)/MWh.
- The zero VAT rate on food continues to apply.
- The price of coal for residential heating is also regulated.
- Energy companies are subject to a cap on revenues from the electricity market and a levy on gas production (estimated revenue around 1-1.5% of GDP).

Table 1.4. Fiscal supports to address the cost-of-living crisis

	Estimated fiscal cost	Targeted	Temporary	Energy-saving incentives
0% VAT rate on food	0.28% GDP	No	Yes	NA
Partial freeze on electricity price and a gas price cap	2% GDP	Partly	Yes	Partly
Subsidies to energy intensive companies	0.1% GDP	Yes	Yes	Partly

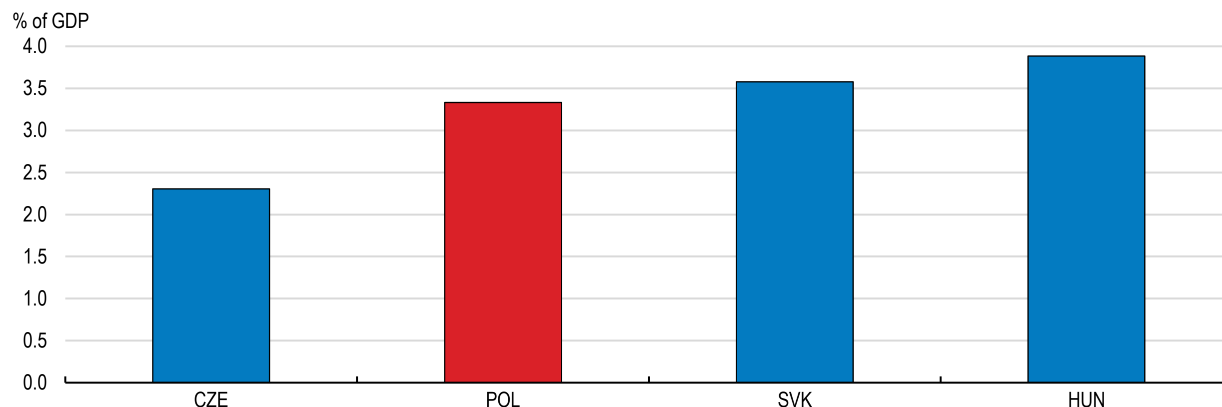
Source: National Bank of Poland (2022a) and Ministry of Finance.

Other expansionary fiscal measures include increases in defence and healthcare spending, alongside public investment from EU funds. Defence spending is expected to rise from 2.2% of GDP in 2022 to 3% of GDP this year and remain at that level in the following years. Public healthcare spending is set to increase gradually from 4.7% of GDP in 2020 - one of the lowest levels in the European Union - to 6% in 2024. EU funds could contribute up to 3.3% of annual GDP, on average, over this decade if all funds that have been earmarked are drawn down (Figure 1.8). However, actual spending will depend on the capacity to implement eligible projects. So far, Poland has been successful in drawing on these funds, with a so-called absorption capacity at around 70%. Disbursement to Poland of the funds estimated at EUR 23.9 billion in grants and EUR 11.5 billion in loans under the Recovery and Resilience Facility (RRF), the centrepiece of Next Generation EU, the EU's recovery plan, is currently uncertain and depends on the resolution of issues around the implementation of reforms to improve the rule of law. Over half of these funds is set for projects advancing the energy transition, and a third for advancing digitalisation. The

authorities expect to release the funds in the second half of this year. Meanwhile, some projects are being pre-funded via public development funds.

Figure 1.8. EU funds can provide substantial funding for public projects

Annual average over 2021-2027, % GDP



Note: Includes funding available to countries under the following EU instruments: Recovery and Resilience Facility, European Agricultural and Guarantee Fund, European Agricultural Fund for Rural Development, Cohesion Policy and Just transition Fund.
Source: European Commission Budget pre-allocations.

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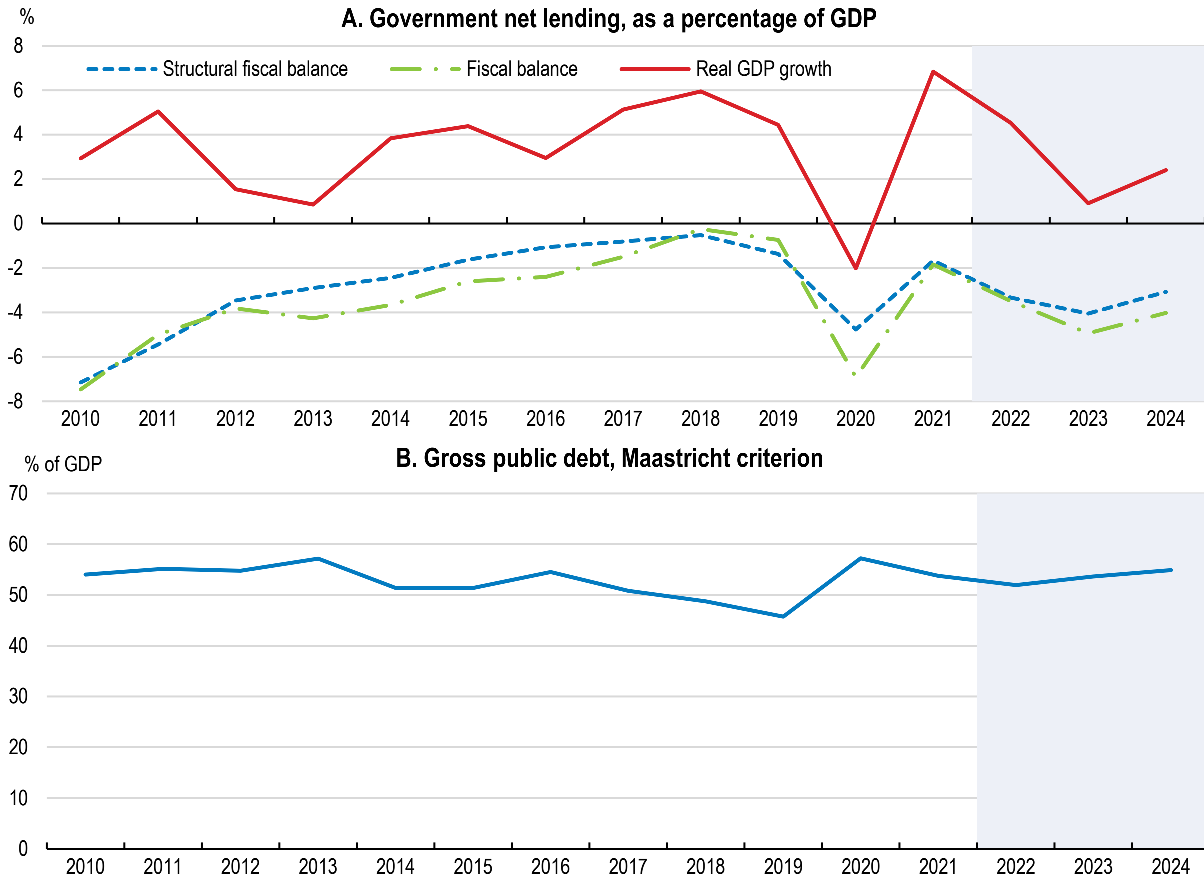
In terms of fiscal balance, the general government headline deficit had largely closed in the years just before the pandemic, but a structural deficit now appears to have opened up. While most spending measures related to the pandemic and the energy crisis are temporary, the 2022 tax package and the increases in health and defence spending, in combination with previous generous expansions of social benefits are expected to widen the underlying structural deficit (Figure 1.9) (IMF, 2022; OECD 2020a). Uncertainty about the medium-term economic outlook and future ageing costs warrants prudent fiscal policy and measures to improve the fiscal balance when circumstances improve.

In this context, the Family 500+ programme, and the 2017 reversal of the minimum retirement age reform, estimated to cost in total more than 2% of GDP annually, should be reviewed (OECD, 2020a). In addition to means-tested family allowances, the Family 500+ programme introduced in 2016 a new child benefit of PLN 500 (EUR 100) per month and per child. This was made universal in 2019. In view of medium-term ageing fiscal pressures and efficiency of poverty prevention, universal coverage of this child benefit programme should be reviewed. Social safety net replacement rates for lowincome earners in households with no children remain modest (OECD, 2022h). Only around 15% of the child benefit programme is estimated to go to households in the poorest income quintile (Myck and Trzcinski, 2019).

Figure 1.9. The underlying fiscal position has weakened since 2019



Note: the structural fiscal balance is expressed in percentage of potential GDP.
Source: OECD Economic Outlook 112 database.

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Further strengthening the fiscal framework would help to ensure sustainability over the longer term (OECD, 2020a). The current system is based on a constitutional requirement to keep public debt below 60% of GDP based on a national definition of debt. There are two thresholds that trigger corrective action, at 43% and 48% of GDP, and a restriction is applicable when debt exceeds 55% of GDP. In 2020, the first threshold was crossed, but the exceptional circumstances of the pandemic led to the suspension of this mechanism during 2020-22, as was the case under the EU fiscal governance framework. The government has resorted to making frequent use of off-budgetary funds in the form of special vehicles and financing from development banks to fund additional pandemic and inflation relief measures. While this approach is justified by the urgent need to take action, it reduces fiscal transparency and increases the risk of fiscal mismanagement in the future.

Poland should modernise and strengthen its fiscal framework over time, taking into account current reforms to EU economic governance. While the constitutional debt rule has proved helpful in the past, its operation will become difficult with debt approaching the ceiling and this may lead to overreliance on workarounds. A new numerical framework based on general government accounting principles should be introduced depending on the outcome of EU fiscal governance reforms, although it would require a constitutional change and need to be carefully designed, including considerations of future ageing costs. Poland remains the only EU Member State without a fiscal council (EC, 2019a). The experience of other countries suggests that it would be helpful to have an independent institution make ex-ante assessments of the government's

fiscal plans and conduct long-term fiscal sustainability analyses (OECD, 2016), even if the central bank's Monetary Policy Council issues opinions about the draft budget and the Supreme Audit Office (NIK) conducts ex-post reviews. A fiscal council could, in the near term, help bring more transparency into the fiscal policy debate, while boosting the credibility of fiscal plans.

Given the structural deficit and long-term spending pressures, future governments will need to develop a long-term strategy for rebalancing public finances and maintaining them on a sustainable path. This would be supported by a review of options to raise taxation in an efficient and fair way, and by strengthening the process for spending reviews. Poland has carried out a number of spending reviews since 2015, but these have not been integrated into the budget process and have had little impact on outcomes (Wiczewski, 2020). An enhanced approach that is better integrated with the budget cycle could be implemented, either through targeted annual or cyclical reviews, with the aim over time to look at the efficiency of how all public services are delivered and whether resources are best allocated across different areas (Box 1.3) (OECD, 2017 and 2021a).

Box 1.3. Government spending reviews in OECD countries

Government spending reviews have two main purposes: to give the government improved control over the level of aggregate expenditure, and to improve expenditure prioritisation. Countries with a longer experience of using spending reviews have demonstrated that it can focus governments to improve expenditure prioritisation and to find fiscal space for new spending priorities. Given the difficult fiscal context facing many OECD governments, such a tool could prove invaluable, particularly if it becomes a more permanent feature of the budget process.

Following the global financial crisis, the use of spending reviews increased across OECD countries. In 2020, 31 OECD countries reported conducting spending reviews. Twenty do so annually and 11 periodically. Historically there are two models of spending reviews: targeted annual reviews (Netherlands and Denmark), and cyclical comprehensive reviews (United Kingdom). A targeted spending review focuses on a specific list of review topics decided at the outset. By contrast, a comprehensive spending review is not constrained by any such *ex-ante* list of review topics.

Political ownership and commitment are crucial to the effectiveness of spending reviews, both to ensure co-operation across government throughout the process, and to take decisions on the objectives and scope of reviews and the recommendations to adopt. The spending review governance model determines how and when each institution is involved in a spending review. With respect to roles and responsibilities in the spending review process, firm political oversight and direction of the process is critical. The most common approach is for spending reviews to be primarily led by the central budget authority (Belgium, Canada, France, Finland, Ireland, Latvia, Mexico, New Zealand, Switzerland and the United Kingdom). A smaller number of OECD countries have opted for a review led by the president or prime minister's office (Italy and Luxembourg) with mixed results. Other OECD countries tend to have a mixed model of spending review governance, where a number of government actors have significant responsibilities. In Japan, experts outside the government have primary responsibility for spending review procedures.

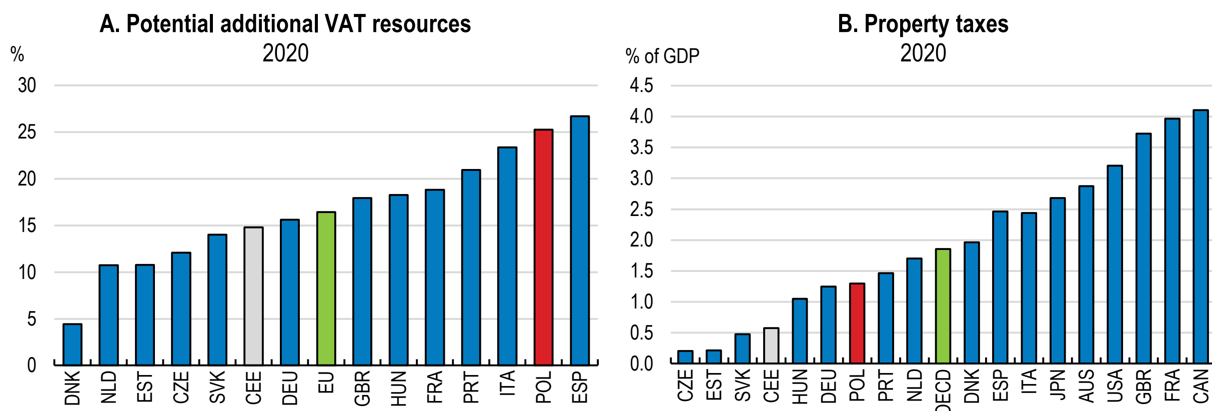
Despite their growing popularity, spending review outcomes are not always clear. Better tracking of spending review implementation and effectiveness represents an area for potential improvement. Drawing on the experience of OECD countries, Tryggvadottir (2022) identifies the following features as best practices: setting out clear objectives and scope, identification of distinct political and public service roles, setting up clear governance arrangements, ensuring integration with the budget process, implementation of the recommendations in an accountable and transparent manner, full transparency of the review reports and framework, and a regular update of the review framework.

Source: OECD (2017), OECD (2021a), Tryggvadottir (2022).

At 36% of GDP, the tax-to-GDP ratio is above the OECD average of 33.5% but low compared to European norms. Recent tax reform measures have decreased the lowest rate of the PIT from 17% to 12% as of 2022, increasing progressivity and reducing marginal tax rates for lower-income workers. Other notable recent tax policy measures include a cancellation of tax deductibility of healthcare insurance, that has been replaced by a ten-fold increase in the tax-free allowance. A further streamlining of the high number of reduced VAT rates and exemptions would help increase revenues as would alignment of various environmental taxes with the goal of transitioning to net zero emissions by 2050 (OECD, 2020a).

Redesigning and increasing property taxation should also be on the agenda as taxation of property has been shown to be among the least economically distortive forms of taxation. Currently, the revenue from recurrent taxes on immovable property is close to the OECD average of 1.1% of GDP (Figure 1.10), but this reflects low tax rates on property in many countries. Reliance on these taxes is to some extent correlated with income levels as more advanced OECD countries tend to rely more on immovable property taxation than developing ones. In most OECD countries, property taxes depend on the estimated market value of the property, but Poland uses an area-based system where the tax liability is primarily based on the size of the property. For business properties, the depreciated value is used. The actual rates are set by local governments and upper limits for increasing the rates are indexed to inflation (OECD, 2022c).

Figure 1.10. VAT and property taxation offer potential for new revenues



Note: Panel A - % of theoretical VAT liabilities. So-called “actionable VAT gap” takes into account reduced rates and exemptions but exclude exemptions on services that cannot be taxed in principle, such as imputed rents or the provision of public goods by the government.
Source: OECD tax revenues statistics; European Commission (2021).

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Table 1.5. Past recommendations on fiscal policy and actions taken

Past OECD policy recommendations	Policy actions since the 2020 Economic Survey
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.	This has occurred, largely through additional expenditures related to Russia's war against Ukraine and fiscal supports in response to increased energy prices.
Bring forward green and digital investment to kick-start the recovery.	Much of the Recovery and Resilience projects focus on green and digital transition, but the implementation of these projects has not yet started.
When the recovery is firmly underway, pursue fiscal consolidation to decrease the public debt-to-GDP ratio.	Public finances posted a deficit of 1.8% in 2021 and the public debt to GDP ratio fell to 53.8% from 57.2% in 2020.
Task an independent institution to conduct ex-ante assessment of the government's fiscal plans and long-term fiscal sustainability analyses.	No action taken.
When the recovery is firmly underway, increase recurrent taxes on property, notably on vacant properties and land in urban areas.	No action taken.
Limit the use of reduced VAT rates and exemptions over the medium term.	Implementation of EU Directive is under way.
Envisage an income-tax-credit and/or subsidise social security contributions for low-income workers.	The lowest PIT rate has been decreased from 17% to 12% and the tax-free allowance has increased considerably. At the same time, healthcare insurance is no longer deductible from the PIT.

Ageing is reducing room for manoeuvre

Fiscal sustainability could ultimately come under pressure from implicit liabilities related to pensions. Current policies imply a gradual but considerable decline in the replacement rates for future pensioners (European Commission, 2021). A worker entering the labour market today, working a full career at around the average wage will receive less than 40% of the pre-retirement income when retired, one of the lowest replacement rates in the OECD (OECD, 2021b). This poses a risk of old-age poverty, for women in particular, who tend to leave the labour market early but live longer (OECD, 2020a). It could add to fiscal pressures in the future through higher social benefits for retired people or public demand for pensions to be increased.

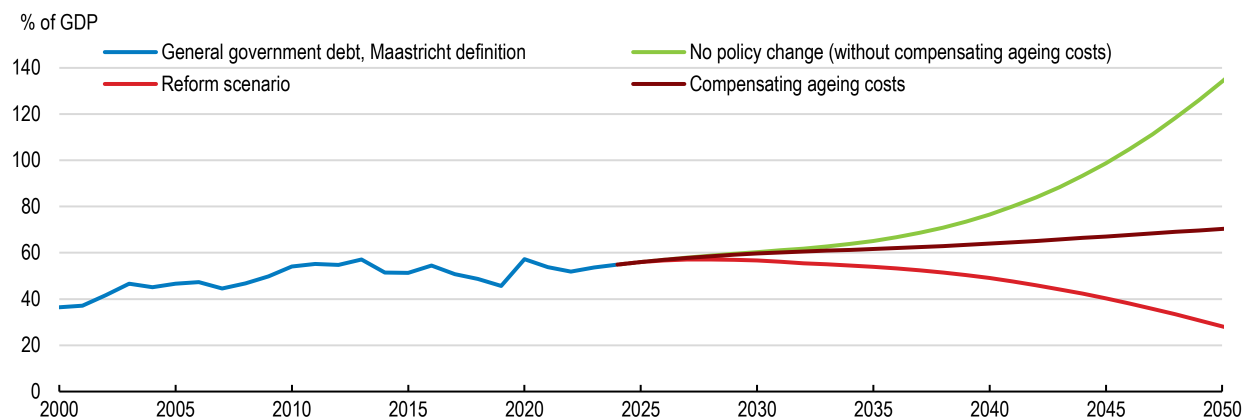
To encourage people to work longer, pensions are increased if they defer retirement beyond the statutory age. The recent introduction of the "PIT-0" scheme creates a new tax allowance for men over 65 and women over 60 who do not claim a pension and continue to work on earnings up to PLN 85 528 (1.2 times the average wage). Labour market participation among older workers has increased with the effective retirement age reaching 60.6 for women and 65.2 for men in 2021, slightly above the statutory retirement ages. While encouraging people to work longer, the fiscal savings are reduced under these measures by the cost of the incentives provided. Working lives should be extended, including by gradually aligning male and female statutory retirement ages and increasing them in line with life expectancy gains in good health. Reviewing early retirement allowances and aligning special pension regimes with the overall system can also improve fiscal sustainability of the pension system.

Private occupational pensions can further help improve replacement rates. The authorities introduced voluntary occupational schemes with auto-enrolment in large companies in 2019 ("*Employee Capital Plan*", PKK), with a gradual increase in coverage to smaller companies and public entities. So far, participation is low, with only 31% of eligible employees enrolled and low contribution rates (up to 4.5% between the employee and employer). As of this year, participation will be based on auto-enrolment. Past policy reversals of private pension savings could be undermining incentives for participation in the voluntary pension pillar, so maintaining regulatory stability will be key to rebuilding its reputation and avoiding old-age poverty.

To ensure debt sustainability, rising ageing costs would have to be offset and additional growth-enhancing reforms implemented. Illustrative OECD simulations suggest that Poland's public debt (Maastricht definition) would be on an ultimately unsustainable upwards path under a "No policy change" scenario, driven by rising ageing costs and constant primary spending in other areas (Figure 1.11). This scenario assumes that the government will need to finance replacement ratios at the current level, which may provide an upper-bound estimate of these risks, unlike official projections from the EU Ageing Working Group that assume this risk does not materialise. Assuming that the government fully compensates ageing costs by offsetting tax or spending changes, the debt-to-GDP ratio will rise more modestly ("compensating ageing costs scenario"). The small rise in the ratio is partly due to a current structural primary deficit although this decreases over time. Implementing structural reforms such as raising the pension age as well as reforms to accelerate digitalisation, increase spending on active labour market policies (ALMP) and ease restrictive product market regulations could boost growth and reduce the public debt to GDP ratio by 15 percentage points by 2040 relative to the no policy change in the "Reform scenario" in Figure 1.11.

Figure 1.11. Ageing will put further pressure on public debt

General government debt, Maastricht definition



Note: The key long-term assumptions assume a long-term potential growth declining from 2.5% in 2023 to 1.3% in 2050 in line with Guillemette and Turner (2020). In the "no policy change" scenario, primary spending is held fixed as a share of national income but ageing-related public expenditures (pensions, long-term care, health and education) are allowed to rise. Pension expenditures increase also as a result of a stable benefit replacement ratio, an assumption that differs substantially from the national and EU Ageing Working Group projections. In the "compensating ageing costs" scenario, ageing costs are offset and the primary balance remains at its end-2024 level in structural terms throughout the projection period. In the "reform scenario", the following recommended reforms are implemented: funding of active labour market increases to the level of top OECD performers, retirement age rises gradually to 67 years of age, various measures to enhance digitalisation of the economy and a decrease of product markets regulation to a lower PMR score by 0.25. Government gross financial assets are kept constant as a share of GDP.

Source: OECD calculations based on OECD (2019), OECD Economic Outlook: Statistics and Projections (database), November; OECD (2018), Long-term baseline projections.

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Table 1.6. Key assumptions underlying long-term public debt projections

	2000-07	2008-2020	2021-2030	2031-2050
Potential GDP per capita growth (per cent)	4.2	3.6	2.8	2.0
Trend labour efficiency growth (per cent)	4.0	2.3	2.5	2.2
Capital per worker growth (per cent)	2.9	2.8	2.7	2.8
Potential employment rate (pp change)	0.1	0.6	0.3	-0.1
Share of active population (pp change)	0.4	-0.1	-0.2	-0.2
Primary balance (as a % of GDP)	-1.9	-2.1	-2.0	-1.0
Implicit average interest rate paid on debt (pp)	5.7	3.4	3.3	4.7
Interest receipts (as a % of GDP)	0.4	0.3	0.3	0.9
Interest payments (as a % of GDP)	2.7	2.0	2.2	3.4

Note: The assumptions refer to the baseline scenario. Data until 2021 and projections thereafter. Numbers represent multi-year averages based on annual figures. The population refers to ages 15-74.
Source: Guillemette and Turner (2021).

Box 1.4. Quantifying the impact of proposed structural reforms

Reforms proposed in the Survey are quantified where possible in the table below. These estimates are based on empirical relationships between past structural reforms and productivity, employment and investment. They do not necessarily reflect detailed Polish institutional settings. As such, these quantifications are illustrative. This exercise suggests that the main policy levers are measures to raise productivity, notably through intensifying digitalisation, and reforms to increase the labour supply of older workers.

Table 1.7 Potential impact of structural reforms on GDP

Reform	Long-run effect on the level of GDP per capita (2050)
Labour market policies	
Increase in retirement age for both women and men to 67 years of age	3.9%
Increase in spending on active labour market policies to that of top OECD performers	0.6%
Productivity enhancing measures	
A 0.25 reduction in OECD Product Market Regulation Indicator	3.7%
Implementation of various digitalisation policies	5.9%

Note: Immediate fiscal costs are not considered.
Source: OECD calculations based on Guillemette and Turner (2020) and Egert et al. (2017)

General government contingent liabilities, at over 47% of GDP in 2020 (Eurostat, 2021), are an additional risk weighing on public finances. Poland's government guarantees and liabilities related to Public Private Partnerships are low in international comparison, at 0.6% of GDP at the end of 2019 (IMF, 2022). However, the liabilities of state-owned enterprises (SOEs) in the financial sectors were 34% of GDP.

Public ownership of firms is more extensive than in most other OECD countries and it extends beyond the sectors in which SOEs generally operate. State-owned or controlled entities include a number of entities in mining, energy and petrochemical production as well as two banks and an insurance company. There is a growing trend towards centralisation of state ownership functions among OECD countries, but the governance of Polish SOEs relies largely on a decentralised model. This means that several line-ministries set and monitor corporate objectives and exercise ownership rights with a limited co-ordinating role for the Prime Minister. There are no specific requirements for SOEs to put in place internal audit functions, unless otherwise specified by a listing or other requirement, and the government only produces ad-hoc reports to Parliament on SOE performance.

The monitoring of state-owned enterprises and their governance should be better aligned with international good practice as identified in the *OECD Guidelines on Corporate Governance of State-Owned Enterprises* (EC, 2019a, OECD, 2020a). The coordination can be further strengthened by the state publishing an aggregate annual report about its SOE portfolio, by establishing non-partisan appointment committees for selecting candidates for management and supervisory boards and regularly reviewing the necessity of state ownership (OECD, 2020a). The process of selling state assets could also be simplified as each transaction is currently subject to high-level political approval from the Council of Ministers.

Estimates of the fiscal impact of the reforms proposed in this Survey suggest that measures to broaden the tax base, reform the pension system and targeting of certain social benefits would be sufficient to achieve a primary surplus and potentially generate some fiscal space, either to reduce the debt burden more quickly or fund new initiatives (Table 1.5). This quantification is illustrative and does not allow for behavioural responses. A number of measures for advancing digitalisation assume EU funding, so do not have a direct fiscal cost.

Table 1.8 Potential fiscal impact of structural reforms

Fiscal savings (+) and costs (-), % current year GDP

Reform	% of GDP
Increasing VAT revenues and reform recurrent taxes on immovable property	+ 0.85%
Increase in retirement age for both women and men to 67 years of age, align special pensions regimes with the general rules	+ 0.9%
Better target of family benefits	+ 0.6%
Provide continued financial support to new digital firms including finance and development at later stage	-0.05%
Increase direct funding for ICT R&D	-0.05%
Total	+2.25%

Table 1.9. Past recommendations on inclusiveness, labour market and health and actions taken

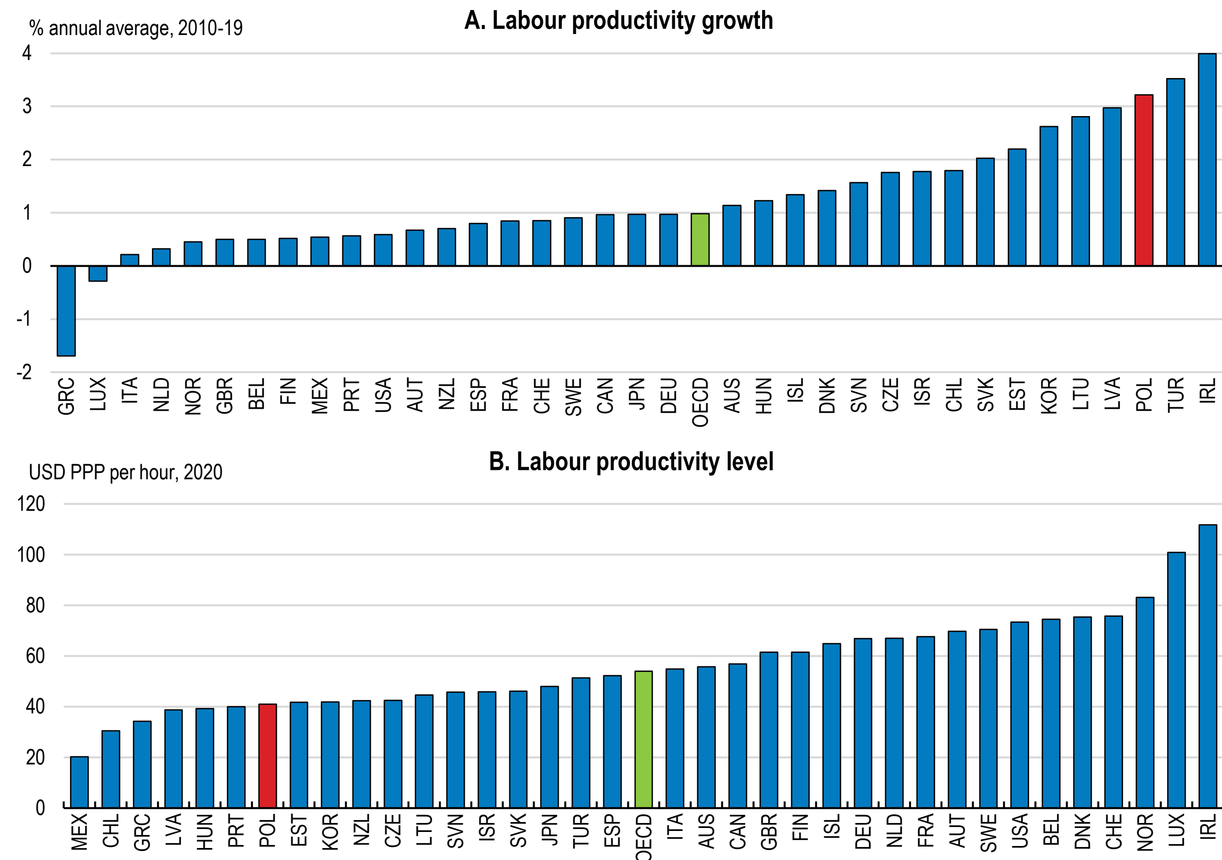
Past OECD policy recommendations	Policy actions since the 2020 Economic Survey
Progressively align male and female statutory retirement ages and increase retirement age in line with life expectancy gains in good health.	No action taken.
Strengthen labour law enforcement, and further align contributions on civil and labour law contracts.	As of January 2021, a register of contracts for specific works is kept by the Social Insurance Institution (ZUS). It should be notified within seven days of concluding such a contract.
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.	A draft of migration strategy for 2021-22 was adopted by the Standing Committee of the Council of Ministers prior to the conflict in Ukraine, but needs an update given the change of circumstances. Some recent measures have simplified integration into the labour market: extension of work allowed under simplified procedure from six to 24 months; simplification of checking the comparability of salaries. Further measures aimed at third-country nationals are foreseen in the Recovery and Resilience Plan.
Harmonise employment protection for all age groups.	No action taken.
Ensure sufficient incentives and training to boost the effective retirement age.	Workers and entrepreneurs who continue to work even after reaching retirement age and defer drawing pension pay do not pay PIT on work income up to PLN 85 528 annually. National Training Fund currently focuses on employees over 50 years old.
Progressively align special pension schemes arrangements with the general rules.	No action taken.
Continue to expand the supply of childcare and long-term care facilities, targeting low-income households and disadvantaged areas.	Child-care capacity is under expansion. Additional benefits have been adopted, thought these are not targeted.
Use the planned increase in health spending to strengthen primary care and prevention.	The National Health Programme for 2021-25 puts among other priorities (e.g. mental health, suicide prevention, environmental health and infectious diseases, demographic challenges) emphasis on prevention of overweight and obesity. Financial incentives introduced for strengthening primary care and co-ordinated care.

Continued improvements in productivity are needed to boost living standards

In the years before the pandemic, Poland made rapid progress in raising living standards, with GDP per capita reaching around 80% of the OECD average, thanks to labour productivity gains that averaged 3.2% per year from 2010 to 2019 (Figure 1.12). With low unemployment and high employment rates, getting more people to work only would achieve relatively modest future gains in living standards, although removing barriers to the labour market participation of older workers and women would help. Much of the future improvement in living standards will have to continue to take place through a growing capital stock and improvements in efficiency. There is a welcome shift towards activities with higher added value, including pharmaceuticals and digital services. But progress is held back by labour shortages and regulatory barriers impeding the growth of small and dynamic firms. The green transition will provide a valuable opportunity to move to a more sustainable energy mix.

The following sections review the main policy challenges to continued improvements of living standards. Chapter 2 focusses on advancing digitalisation as a source of continued catch-up. It examines policy levers to advance adoption of digital technologies in firms and to upgrade digital and managerial skills by increasing flexibility of adult education and training.

Figure 1.12. Despite fast productivity growth, substantial scope for catch-up remains



Source: OECD Productivity database.

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Regulatory barriers to competition can be lowered further

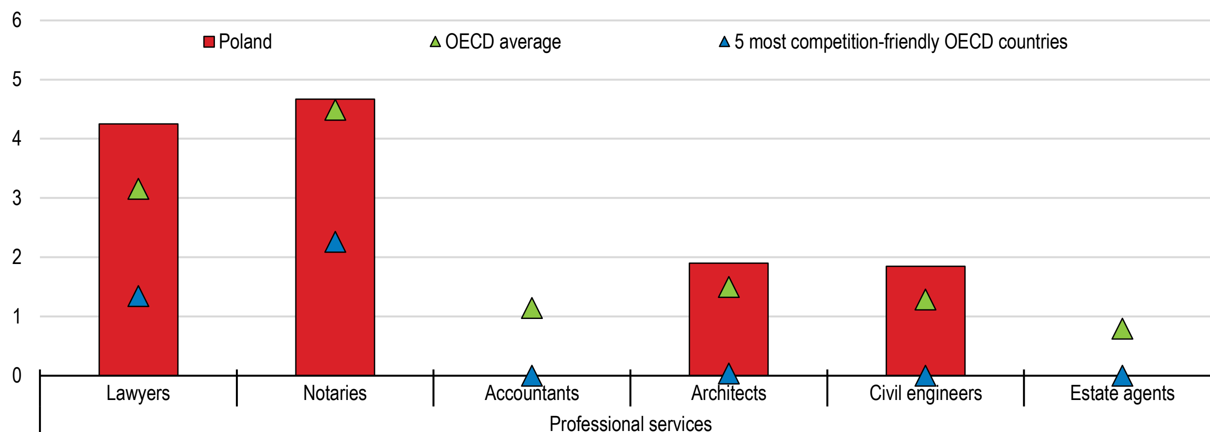
Regulatory barriers to competition remain slightly above the OECD average, as measured by the 2018 edition of the OECD Product Market Regulation (PMR) indicator. While barriers to foreign direct investment are low, regulations of services - that account for around half of the value-added exports - have significant room for improvement, in particular when compared to OECD best performers (Terrero and Vitale, 2023, *forthcoming*) (Figure 1.13). This is the case for lawyers, notaries, architects and engineers, as well as general occupational licensing. For example, lawyers cannot advertise their services, their fees are regulated, and they cannot set up a practice with other professionals. Notaries are restricted by territorial limits and their fees are regulated.

Empirical research has shown that reducing regulatory barriers in these professional services can foster entry and bring about greater quality and prices competition (Paterson et al., 2007; Monteagudo et al., 2012; Kleiner and Soltas, 2019). Moreover, weak regulatory transparency and complex administrative procedures tend to add to firms' operational expenses, weighing particularly on SMEs and potential exporters and affecting their productivity (OECD, 2020a). Recent reforms have among other changes simplified establishing a business and lowered the corporate income tax rate for SMEs from 15% to 9%.

Reviewing competition barriers in services and networks could ultimately improve the competitiveness of Polish exporters by lowering domestic prices.

Figure 1.13. Regulatory barriers can be lowered, particularly for services

Index scale 0 to 6 from most to least competition-friendly regulatory framework



Note: When comparing the indicators across countries, it should be kept in mind that the activities undertaken by specific professions may vary between countries. For instance, in civil law countries, notaries exercise administrative and judicial tasks by virtue of power delegated by the state; hence, they play a special role in the legal services market in the concerned countries and in this aspect, they are different from the other professions included in the OECD's PMR indicator. Information refers to laws and regulation in force on 1 January 2018, except for Costa Rica, Estonia and the United States, for which the information refers to 1 January 2019. If the red bar for one or more indicators does not appear on the chart, it means that its value is 0.
Source: OECD 2018 PMR database.

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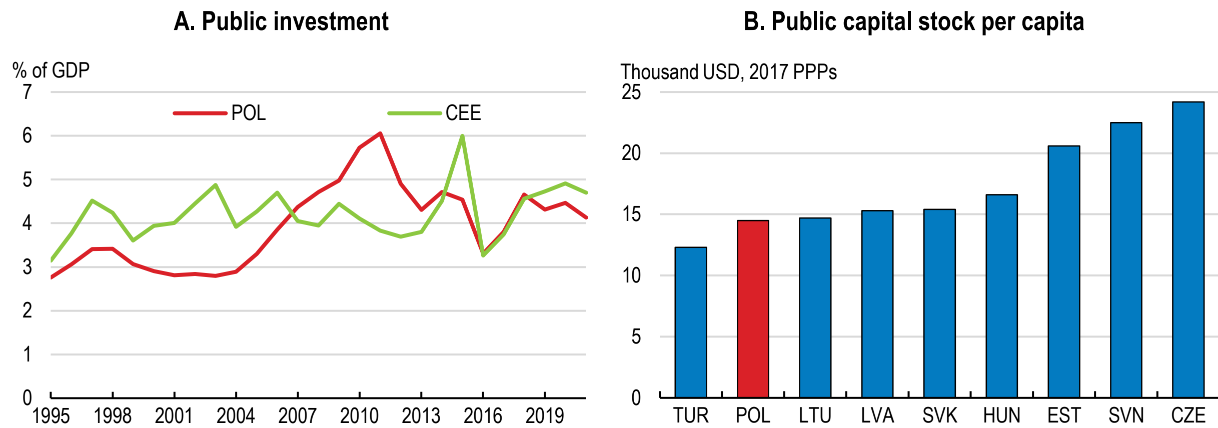
Substantial investment needs require improvements of the public investment framework

Major investment needs include road and energy infrastructure, to improve regional connectivity and advance the transition to net zero emissions. Poland's total investment has been broadly stable over the last decade, with public investment contributing about one fifth of the total. Public investment remained largely stable, despite significant consolidation efforts, in part due to the offsetting role of EU funds (Figure 1.14). Around half the investment is carried out by sub-national governments and there are also several extra-budgetary funds, such as the National Road Fund. So far, Poland has made only limited use of public-private partnerships (IMF, 2022).

Over the medium and longer run, public infrastructure investment can have a positive effect by raising the productivity of existing assets – physical and human capital – but this effect is far from "guaranteed". About one-third of public investment spending in Poland did not result in the increase in the level or quality of infrastructure that would have been achieved by the most efficient comparator country (IMF, 2022). This so-called efficiency gap is higher than the EU average.

Figure 1.14. A lower capital stock per capita than in peer countries, but similar public investment



Source: OECD Analytical Database; and IMF (2022).

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A recent review of the public investment management framework praised strong institutions for national and sectoral planning, budgeting, procurement, project implementation, and monitoring of public assets (IMF, 2022). Nevertheless, most of these tend to be stronger on paper than in practice. The review highlighted that coordination between entities, budget comprehensiveness and unity, maintenance funding, project selection, and portfolio oversight and management remain weak and should be improved.

Addressing the tight labour market by drawing on existing labour resources

In the current context of low unemployment and high employment, scope to raise living standards through labour reform seems limited. Population ageing is weighing on growth of the workforce. However, there is scope to bring more older workers into the labour force though reforms of the pension system, to increase skills and facilitate migration. While Poland experienced large net outflows of workers in the early 2000s, these have eased, and since 2018 there has been net inward migration as Poles have come more likely to stay or to return, and due to inflows from neighbouring countries. Poland has access to workers from other EU countries but could benefit from a comprehensive migration strategy to address economy-wide skill shortages.

In addition, removing barriers to young parents working could help (OECD, 2020a). Low availability of affordable childcare has been an obstacle to combining work and family. The public programme “Toddler plus” is increasing the capacity of childcare by a factor of four between 2011 and 2026, which is welcome as prior to the pandemic enrolment rate in education and childcare was 11% for the under 2-year-olds and 82 % for 3 to 5-year-olds, both below the OECD averages (OECD, 2022d). Several public programmes are in place to help families with childcare costs (such as family care capital, a subsidy for nursery care, 550+ family benefit).

Healthcare should remain a reform priority

Poland was lagging in terms of healthcare outcomes already prior to the pandemic (Figure 1.15) (OECD, 2020a). Poor health affects not only wellbeing but economic activity, as it reduces productivity and the ability and willingness to work. COVID-19 took a considerable toll as illustrated by elevated excess mortality rates in 2020 and 2021. Public spending on health has been low and there are important inefficiencies in the healthcare system (OECD, 2020a). Health care provision continues to rely on expensive in-patient

care, access to quality healthcare is difficult notably in rural areas, there is an acute shortage of doctors and nurses, and inequalities in self-reported health and prevalence of chronic conditions are considerable.

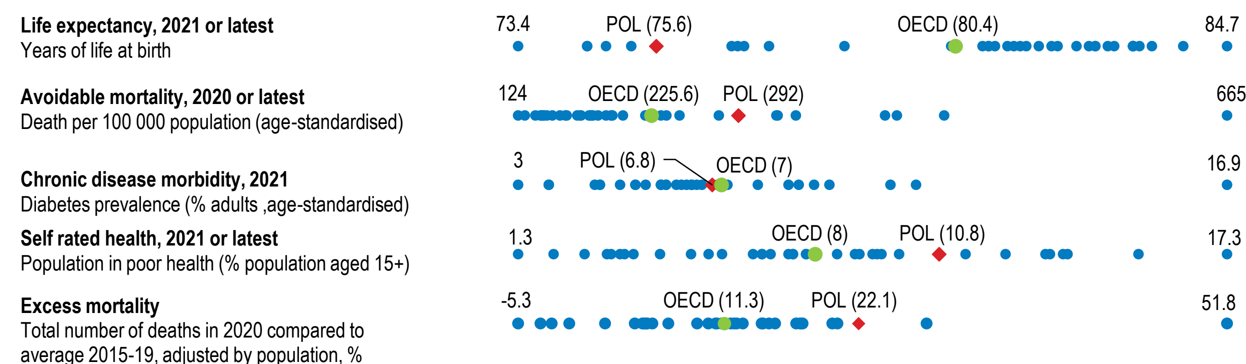
Preventable mortality remains higher than the EU average, while cancer survival rates have improved but are still relatively low (OECD, 2021a, 2021b). In 2019, nearly 92% of all deaths were attributable to so-called non-communicable or chronic diseases, for which unhealthy lifestyles are a major contributor and which are pervasive in Poland. Overweight and obesity affected more than half of the adult population. More than 17% of Poland's adult population smoked daily in 2019, and nearly 35% reported binge drinking at least once a month (OECD, 2021c).

The pandemic disrupted the delivery of most healthcare services in Poland, affecting routine childhood vaccinations, cancer care, scheduled surgeries and increasing already long waiting times (OECD, 2022e). It is important to offset pandemic disruptions such as postponed diagnosis and preventive care. On the positive side, teleconsultations picked up strongly, with 62% of the population having used telehealth services in the first year of the pandemic, twice as much as the EU average (OECD, 2021a). This was possible due to pre-existing infrastructure, such as the Patient's Internet Account, e-prescriptions and other platforms. The large influx of Ukraine refugees has also added new challenges.

In response to the pandemic, the authorities are increasing public funding from 4.5% in 2019 to 6.3% GDP by 2024. Any increase in funding should be underpinned by a stable financing source and an integrated healthcare strategy that focuses on prevention and co-ordinated care to reduce the high prevalence of risky behaviours and costly hospital care (OECD, 2020). A second edition of the National Health Programme (2021-25) aims to increase the number of healthy years and reduce social inequalities. The emphasis on prevention activities is welcome. Achieving healthcare improvements can be challenging as coordination across the system is hampered by fragmented governance, divided between the ministry and three levels of territorial self-governance (OECD, 2021b).

Salaries of healthcare workers will need to rise. In 2020, salaried general practitioners (GP) earned double the average wage, in line with the OECD average. However, remuneration of salaried specialists was 1.4 times the average wage, much lower than in many OECD countries. Furthermore, there were 3.3 practicing doctors per 1 000 inhabitants, one of the lowest ratios in the OECD (OECD, 2022e). Remuneration incentives can be set up to address wider strategic objectives, and as planned, for instance by linking a part of GP funding to prevention activities.

Figure 1.15. Health outcomes remain subpar



Source: OECD Health statistics; and International Diabetes Federation (IDF) Atlas 2021.

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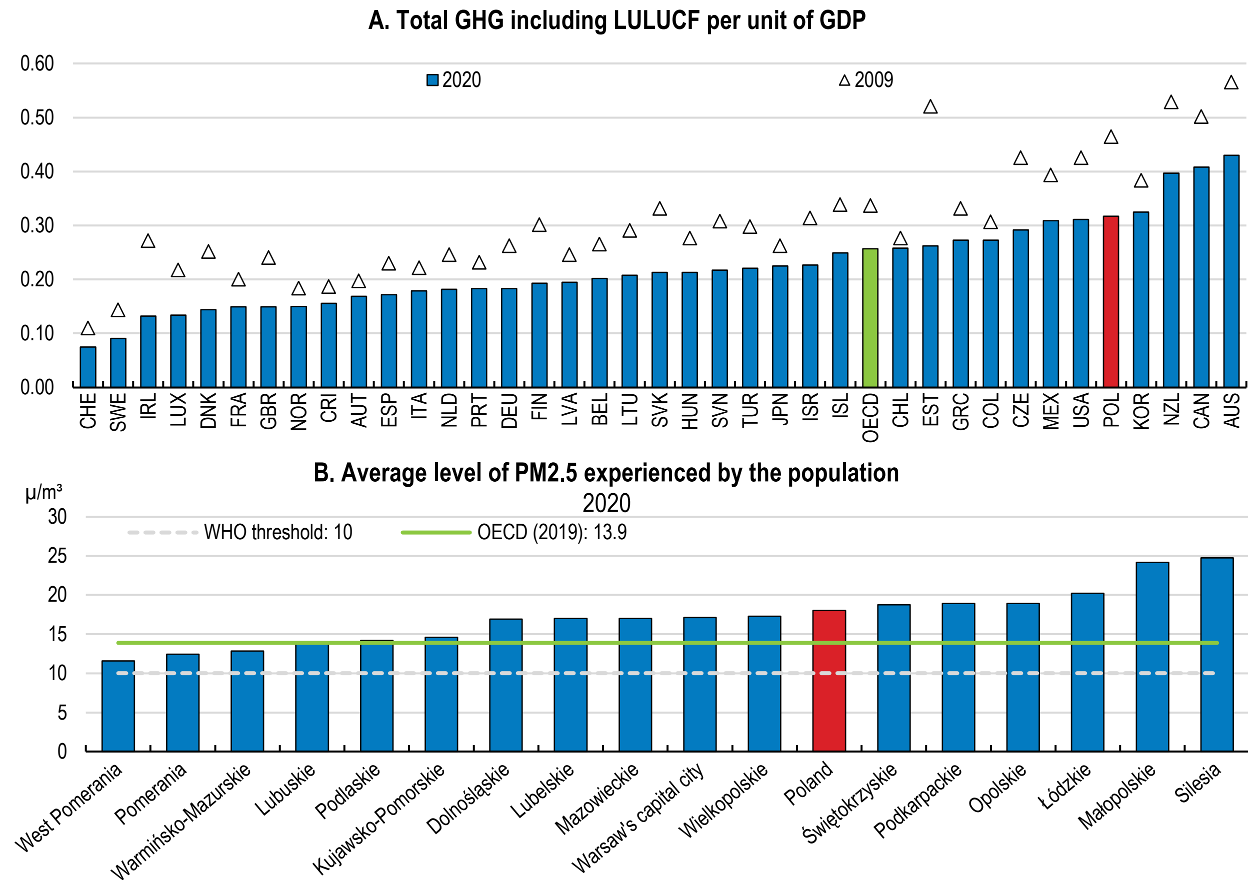
Stronger measures are needed to ensure emissions reduction

Poland has made considerable progress in making economic growth more sustainable. With improvements in industrial energy efficiency and continued expansion of services, energy demand and economic growth have decoupled since 2010. Nevertheless, the carbon intensity of the economy remains high. Poland is the fifth most carbon-intensive economy in the OECD, and the country remains heavily reliant on coal, while the population continues to suffer from poor local air quality (Figure 1.16).

Figure 1.16. Greenhouse gas emissions remain high, and the population is exposed to pollution



Source: OECD Greenhouse Gas Emissions database.

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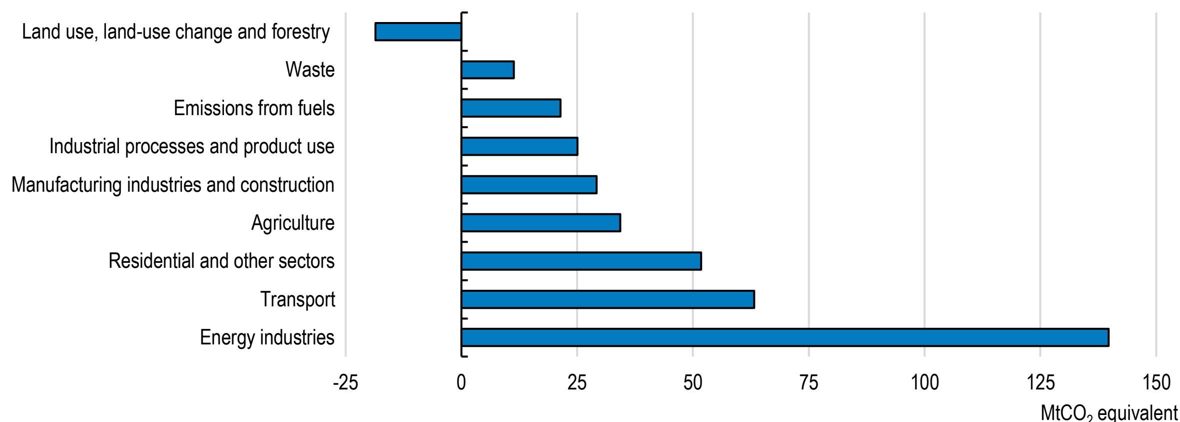
To achieve net zero emissions by 2050, the rate of decarbonisation needs to accelerate by a factor or four in the next decade compared to that of the preceding three decades (Figure 1.19). The current policy plans risk missing the EU's 2030 and 2050 targets (IEA, 2022a). Furthermore, growing demand for energy in the decades ahead will make reaching those emissions objectives more challenging. With increasing economic activity and further electrification, electricity demand is expected to increase substantially by 2050 (McKinsey, 2020). A failure to address the required decrease in emissions adequately will necessitate more forceful policies in the future, making the green transition potentially more challenging for both the economy and the population.

Around 40% of GHG emissions come from energy production that continues to rely heavily on coal, including forms of 'dirty' coal that have particularly high CO_2 (Figure 1.17). Coal plays a significant role also in household heating, with the ensuing negative impact on local air pollution levels (Box 1.6). Numerous programmes have been put in place to replace coal as a source of heating and energy in industry. Most of Poland's fossil fuel subsidies, estimated at around 1.8 billion euros annually (0.3% of GDP), go to coal in the form of compensations for decommissioning of coal mines, termination of long-term power purchase agreements signed with power plants and restructuring in the coal sector (OECD, 2020b).

Figure 1.17. Sectoral breakdown of greenhouse gas emissions

2020



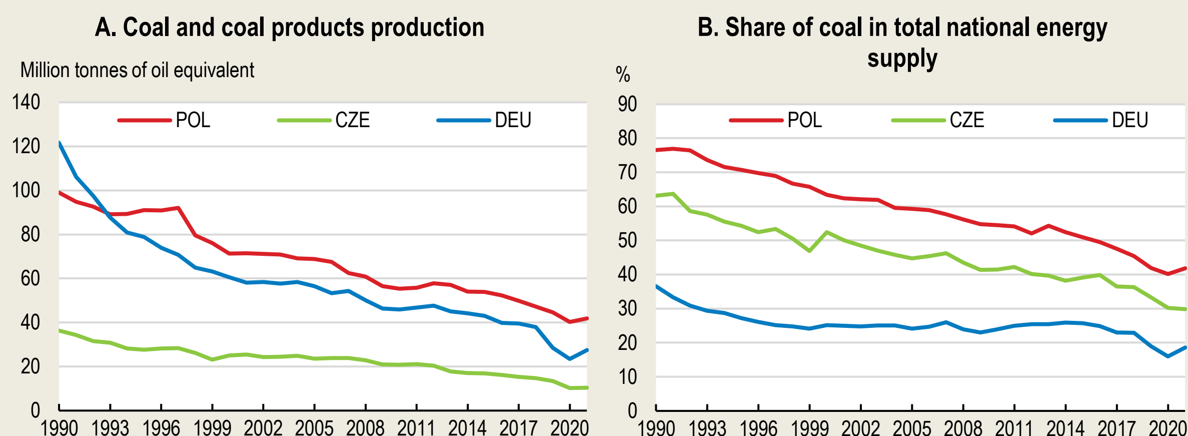
Source: OECD Greenhouse Gas Emissions database.

Box 1.5. Coal in Poland

Poland was the eighth largest coal producer in the world and the largest in the EU in 2021 (IEA, 2022). The country remains reliant on coal for electricity and heat generation. Around 70% of the electricity is generated from coal. Both hard coal and cheaper but more emission-intensive lignite coal can be found in the country.

Coal production has been declining: hard coal production dropped from 76 Mt in 2010 to 55 Mt in 2021, while lignite production declined from 56 Mt to 52 Mt over the same period (Figure 1.18). The contribution of mining and extraction to the country's GDP has also decreased sharply over time from 6.6% in 1990 to 1.7% in 2018 (Sokolowski et al, 2021). Traditionally, Poland has been a net exporter of hard coal, but since 2017 imports have been increasing and now account for around a tenth of its overall coal consumption. Much of these imports came from Russia until these were halted in 2022.

Figure 1.18. The role of coal has been declining



Source: IEA World Energy Balances.

Over 20 hard coal mines are still active, mainly in the Silesia and Lubelskie regions. Lignite mining takes place in open cast mines near power plants in the Dolnośląskie, Wielkopolskie and Łódzkie regions. The current employment in mining is estimated at around 80 000, with a large majority in hard coal mines. Major coal mining companies are state-owned. Employment in the sector has undergone a substantial downsizing since the 1990s, with around 200 000 mining jobs disappearing. The restructuring of the mining sector coincided with structural shocks in a wide range of other industries, with much of the adjustment taking place prior to 2005 (Sokolowski et al., 2021).

Most of the coal demand comes from electricity, co-generation and heat plants, which in 2020 accounted for 76% of the coal demand. The authorities plan to lower coal demand mainly by reducing coal-fired electricity generation from around 70% in 2020 to 11% to 28% in 2040. There are 30 coal power plants, most of which were built between 1960-80, with average age of 33 years. Given the age and state of the existing plants they are expected to become obsolete by 2035. Coal also plays an important role in district heating and individual building heating systems. It is a source for around a half of residential heating in individual houses, predominantly in rural areas. Some industries, such as iron and steel production also rely on coal, although this represents only around 4% of coal demand and Poland is not heavily specialised in these industries.

The profitability of coal mining activity in Poland depends on coal prices and costs. Estimates of public subsidies to the coal value chain and the long-term trend of EU ETS price put its long-run economic viability in question with higher carbon prices lowering the demand for coal (IEA, 2022). Moreover, coal mining companies are not required to cover the cost of decommissioning, clean up and reclamation of coal mines once they end production. Instead, these sites are usually transferred to a state-owned enterprise.

Source: International Energy Agency (2022), Sokolowski et al., (2021).

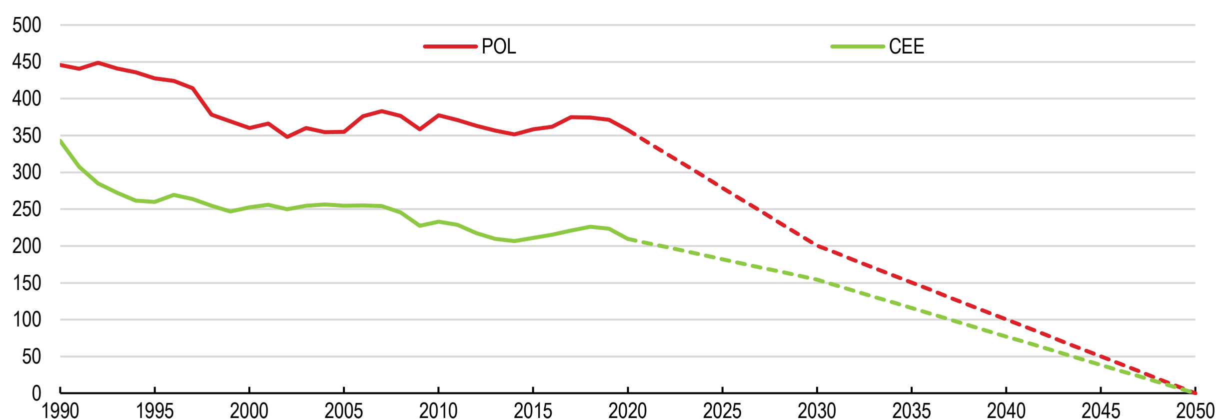
The long-term strategy, *Energy Policy of Poland to 2040*, adopted in 2021, provides welcome policy direction for the energy sector. The strategy sets out a reduction of the share of coal and lignite in electricity generation from 80% in 2021 to 56% in 2030 and 11% to 28% by 2040. With the introduction of nuclear power and expansion of district heating, further development of renewable sources (largely offshore and

onshore wind) is expected to supply around a half of the energy supply. The role of natural gas, liquefied fuels and crude oil is assumed to help reduce emissions during the transition.

The strategy has been criticised as lacking ambition and clarity on specific elements such as renewables (EC, 2022; IEA, 2022a). Indeed, in some respect the most recent strong take-up of renewables has made some of the targets obsolete. The recent changing geopolitical environment and volatile energy prices prompted a review of the strategy in 2022, adding energy security concerns as one of the key objectives. The review is ongoing and scheduled to be completed in this year. The authorities should ensure that additional reliance on coal due to energy security concerns in the near term is minimised. Decreasing policy uncertainty has been shown to lower firm investment in polluting sectors, particularly in large and carbon-intensive sectors that are most exposed to climate policies, and to help avoid the stranding of assets (Berestycki et al., 2022).

Figure 1.19. To reach the net zero target, greenhouse gas emissions need to decline considerably

GHG millions of tons CO_2 equivalent including LULUCF



Note: The dotted line depicts the path to reduce GHG emissions by (at least) 55% in 2030 compared to 1990 level; and reach net 0 by 2050.
Source: OECD GHG database.

Electricity grid investment is crucial for taking full advantage of renewables

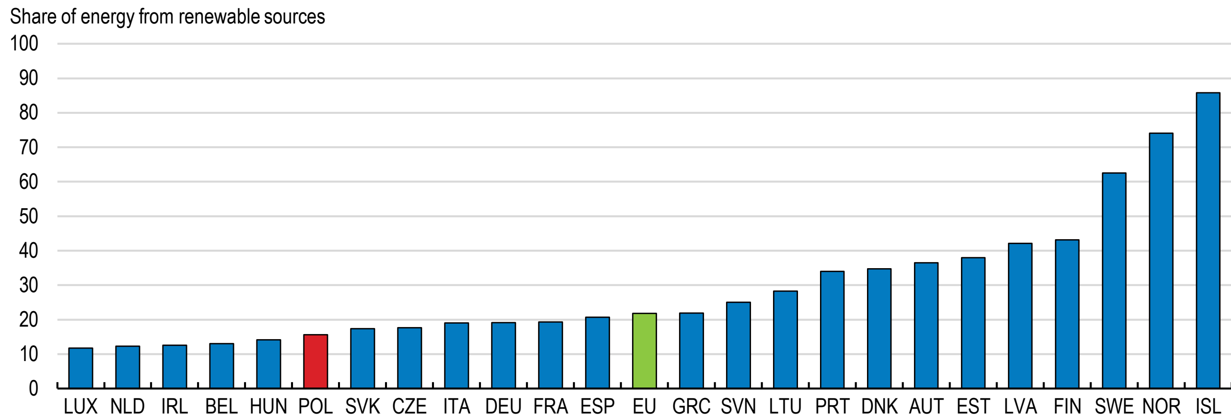
The share of renewables has expanded strongly over the past decade, reaching 16% of total final energy consumption in 2020 and continuing to rise, although Poland is coming from a low base (Figure 1.20). Increases in solar installations added around 3.2 GW of capacity in 2021, helped by subsidies for households introducing micro-photovoltaic installations. As a result, the 2030 national goal for solar has already been achieved. In the initial energy strategy, half of the energy production was planned to come from renewables by 2040 (Ministry of Climate and Environment, 2022a and 2022b). Currently, further increases in renewable capacity are hindered by lack of capacity for the grid to accept additional connections and manage the challenges of fluctuating production associated with renewables. While upgrades of the grid are underway, this process needs to be accelerated through higher investments.

Off-shore wind is expected to play a significant role as the Baltic Sea offers good conditions, given its shallow waters and high wind speed. A new regulation was adopted in 2021 (Offshore Wind Act), setting out rules and regulations. Some 6 GW are receiving state support via “contracts for difference” and further capacity is to be allocated by competitive auctions in 2025, 2027 and 2028, totalling up to 11 GW by 2040 (19% of generated electricity).

A recent auction support scheme contracted around 5 GW of onshore wind energy capacity over 2021-26, of which almost 1.5 GW has been already installed and connected to the power grid. Further development of onshore wind is currently hindered by legislation restricting the distance between the installations and houses and/or protected areas to "no less than 10 times the turbine height". Relaxing such limits – while respecting the rights of residents in the process of granting building permissions – could accelerate further the deployment of wind energy. Legislative changes to this end have been proposed by the government and are under discussion in the Parliament.

Figure 1.20. The share of renewables has been lagging

2021 or the latest available



Source: Eurostat.

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According to the long-term strategy, nuclear could provide up to 16% of the energy mix by 2040. A first nuclear reactor is foreseen by 2033, with five others in operation by 2043, and small modular reactors have been envisaged. There is broad-based political and public support for this policy, including in the municipalities of the potential sites. Technology provider has been selected for the first three nuclear reactors. Upfront financing costs are estimated at EUR 20 billion, but no clear financing plan has yet been decided (IEA, 2022a).

Industry needs stronger incentives to decarbonise

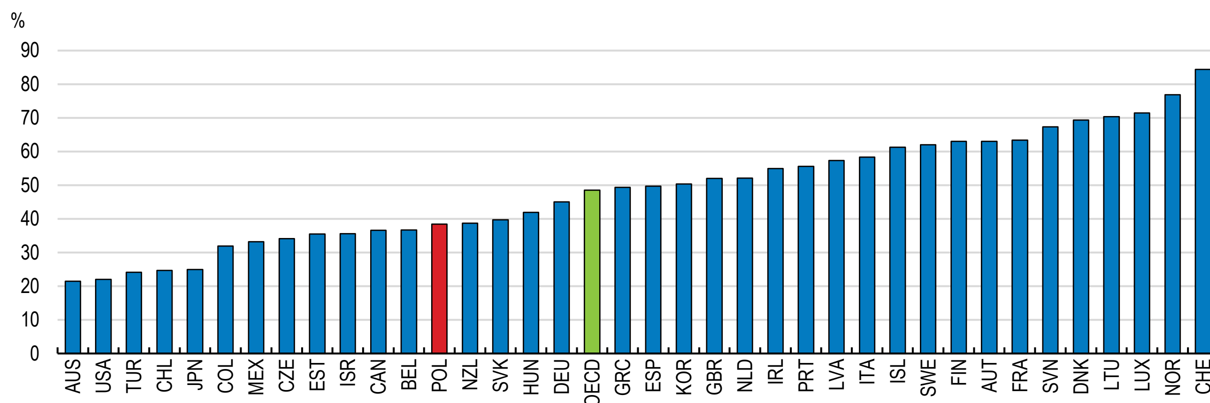
Industry accounts for around 22% of the country's emissions. The EU ETS covers only half of these emissions, which includes energy-intensive companies (Figure 1.21). A national fee paid on GHG emissions covers the rest of these emissions but is currently well below the ETS rate (0.07 euros/tonne of CO_2 in 2021) and well below the EUR 30 or EUR 60 thresholds, thus providing very little incentives for energy efficiency and decarbonisation. This policy creates distortions by incentivising businesses to invest in smaller units to remain outside the EU ETS and limits possible economies of scale (IEA, 2022a). Over the medium term, as the current energy prices fall, the national emissions fee should be increased and eventually aligned with the EU ETS. Adequate price signals are important for the private sector to avoid stranding of assets in unviable activities. Furthermore, energy audits, required by European legislation, could be used for mandating companies to implement measures with a short pay-back, as is done for instance in the Netherlands (IEA, 2022a).

Tradable (so-called white) certificates allocated for implementing efficiency projects have been encouraging energy efficiency in industry. In recent years, these certificates traded at 330-380 euro/tonnes.

However, current long delays in processing applications by the Energy Regulator Office have undermined these incentives (IEA, 2022a). The authorities plan to revise the scheme to allow for the introduction of more innovative solutions, which is welcome. The regulatory office should receive adequate resources to operate this scheme effectively.

Figure 1.21. A large share of carbon emissions is underpriced

Carbon pricing score, EUR 60/tCO_2 (2018)



Note: The carbon pricing score measures the extent to which countries have achieved the goal of pricing all energy related emissions for carbon costs, at certain benchmark values. For example, a CPS of 100% against a benchmark of EUR 60 per tonne of CO_2 means that the country prices all energy related carbon emissions in its territory at EUR 60 or more. In practice, EUR 60 is a midpoint estimate for carbon costs in 2020. Pricing all emissions at least at EUR 60 in 2020 shows that a country is on track to reach the goals of the Paris Agreement to decarbonise by mid-century.
Source: OECD Effective Carbon Rates 2021 database.

https://stat.link/4dig7s

Growing passenger car emissions undermine the ongoing policy efforts

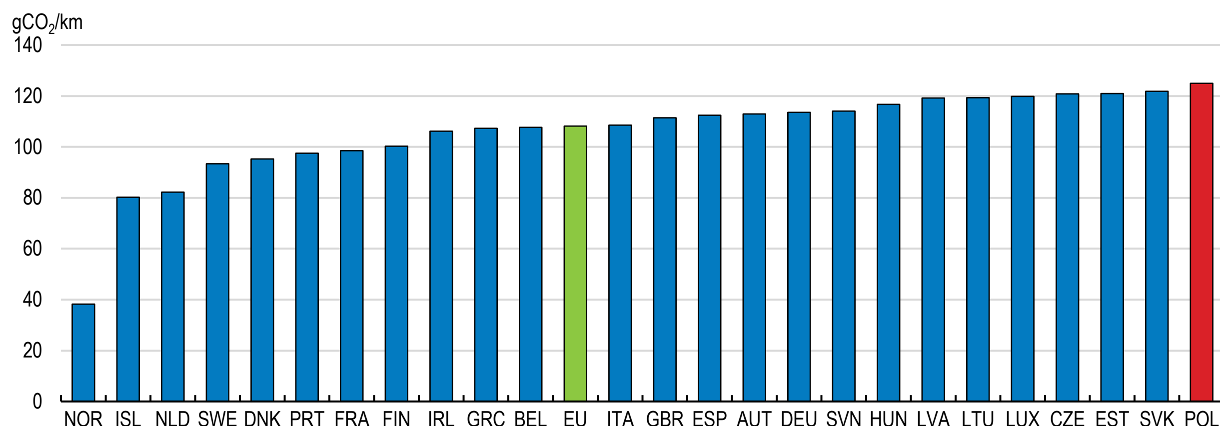
The transport sector is responsible for around 15% of GHG emissions. Setting aside the pandemic years, energy demand in the transport sector has been increasing in recent years, with passenger cars accounting for just over half of that demand. The energy intensity of road freight transport has improved to below the level of Germany, an important step due to Poland's large share of the EU fleet. However, the passenger car fleet has seen a notable decline in efficiency, in contrast with the trend of increasing efficiency seen in most IEA countries (IEA, 2022a). Poland manufactures electric buses and is currently the largest e-bus exporter in the EU. Given this comparative advantage, it has the potential to have one of the largest e-bus fleets in Europe (Guzik et al., 2021).

With nearly 30 million registered cars for the population of 38 million, Poland is one of the most motorised EU countries (Eurostat, 2021). The decline in the efficiency of passenger cars is largely due to imports of older and less efficient cars. Moreover, new cars have also high emissions (Figure 1.22). Electric vehicles (EV) are still rare: 0.12% of the passenger car fleet compared to the EU average of 1.55%. In 2021, the authorities launched a support programme providing subsidies for the purchase of an EV up to EUR 4 100 (and up to EUR 6 000 for a family with at least three children). Furthermore, EVs are exempt from excise duty. Given that most new cars are company cars, the programme includes companies and other legal persons too. There are also various other programmes for increasing the use of electric vehicles in the public sector, and in public transport, and the co-financing of charging infrastructure.

Current vehicle taxation is not in line with best practices and should be based on emissions and environmental impact. Introducing an annual vehicle tax is planned for 2026 and a higher car registration fee is foreseen in 2024. These measures are welcome and should be introduced sooner. They should also include imported used cars (IEA, 2022a). Revenues from these taxes could be used for improving public transport to achieve changes in travel modes and discourage car ownership altogether where feasible. Currently, for around half of the inhabitants of urbanised areas the average distance to public transport is 2km and 65% of the rural population has no public transport option (EC, 2022a). To address transport-related emissions, urban congestion and quality and coverage of public transport services the authorities should work across levels of government.

Figure 1.22. Emissions of new cars are the highest in Europe

Average emissions of new passenger cars, gCO_2/km (2020)



Source: Eurostat (t2020_rk330).

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Housing offers substantial potential for energy savings

Buildings account for around 10% of the country’s GHG emissions, most of which comes from the residential sector with coal heating as the main culprit. The potential for energy savings in buildings is substantial, with up to 70% of houses currently poorly insulated (Castelazzi et al., 2019; Zangheri et al., 2021). Individual heating supplies about 76% of the heat, with the rest coming from district heating networks. Both still rely on coal, leading to poor air quality. The energy strategy plans no more coal use in households in urban areas by 2030 and in rural areas by 2040. Current high energy prices have added to the challenge, even more so as regulatory standards for residential heating have been temporarily lowered recently, which risks undoing years of progress in terms of lowering local pollution.

Changing heating systems to more efficient and less polluting options should go together with thermal renovations and an extension of the energy certificates that currently cover only about 10% of buildings (IEA, 2022a). The Polish population is particularly supportive of mandatory and subsidised insulation of buildings (Dechezleprêtre et al., 2022). As recommended in 2020 *Economic Survey*, tightening of regulation on energy consumption in buildings would help (OECD, 2020a).

Given high upfront costs, subsidies that combine thermal and heating system renovations should become a priority. The existing Clean Air Programme needs to focus on heating systems with the lowest emissions and highest efficiency to minimise the deployment of natural gas boilers, which push the decarbonisation issue to future generations (IEA, 2022a). Moreover, to maximise take-up, public support programmes should be streamlined and targeted at low-income households. The authorities are currently reviewing the programmes with a view to introducing some of these features, which is welcome.

A just transition should target existing support and focus on retraining

Prior to the current energy price increases, some 10% of households faced difficulties in paying their energy bills. Current price caps and extraordinary measures (e.g. VAT decreases, one-off subsidies) will eventually be phased out. A more comprehensive tool for addressing energy poverty needs to deal with poorly insulated homes and inefficient heating systems, especially since the authorities aim to reduce the share of households facing energy poverty to 6% by 2030. Leveraging low-cost distributed generation and energy communities can help lower the energy bills of vulnerable consumers further, while giving them an active and empowered role (IEA, 2022a).

Poland's hard coal mines are scheduled to close by 2049. Phasing out coal is a complex process and requires multiple policy levers (Box 1.6). To ensure a just transition, a social contract agreed in May 2021 between the government and several coal trade unions guarantees workers a job until retirement, an early retirement scheme or a severance package (IEA, 2022a). This covers around 60 000 workers employed in the hard coal mining sector. Coal value chain is estimated to employ around 0.5% in the country, in the Silesia region around 4.5% of local employment (IEA, 2022). In addition to EUR 580 million in regular funds for regional development under the 2021-2027 EU financing framework, the region of Silesia may benefit from around EUR 520 million under the Just Transition Fund (Sniegocki et al., 2022).

The impact of the mine closures on local labour market is likely to be milder than those in the early 1990s and mid-2000s as labour market conditions have improved markedly (Sokolowski et al., 2021). Projections of labour market developments in the region of Silesia, where most of the mines are located, point to a considerable decrease in the number of workers in construction, manufacturing, energy, and logistics due to ageing by 2030. Moreover, around 40% of the currently employed miners will have retired by 2030 (Sokolowski et al., 2021). Often, workers in the coal industry have many of the mechanical and technical skills needed to fill positions in growing clean energy (IEA, 2022b). Well-targeted retraining, a hiring freeze (in the mainly state-owned coal mining sector) as well as inter-sectoral upskilling can help in ensuring a just transition. The social contract should be extended to all coalmines, including the lignite sector, with complementary policies provided for the wider coal value chain.

Box 1.6. Coal phase-out strategies in other OECD countries

Five of G20 member countries aim to fully phase out coal: Canada, France, Germany, Italy and the United Kingdom. Among the G20 only Australia uses a comparable share of coal in electricity generation (55% compared to 70% in Poland) but has no coal phase-out commitment.

A planned phase-out in **Germany**, where coal provides 18% of the energy mix, is scheduled for 2030. Germany designed a regional support programme offering compensation for losses faced by workers and companies. The federal government has pledged EUR 40 billion (1.2% of 2019 GDP) in support of affected coal mining regions up until 2038, focusing on infrastructure, innovation and jobs, as well as up to EUR 5 billion (0.1% of 2019 GDP) for early retirement. The authorities have also put in place a mechanism that provides tenders that compensate plant owners in exchange for retiring coal capacity. Over the course of three auctions, regulators awarded around EUR 670 million for the closure of more than 8 GW of hard coal and small lignite capacity in Germany by 2022 (based on publicly available data

for the first and third auctions, and on an IEA estimate for the second). The tender mechanism targets hard coal and small lignite power plants. Another mechanism to provide direct compensation for the early closure of lignite-fired power plants is subject to a state aid review by the European Commission. The affected regions will also benefit from the EU wide funding mechanism for a just transition.

While the **United States** have an economy wide net zero emissions target, there is no coal phase-out plan. Coal is used for 20% of electricity generation. Regulators have allowed accelerated depreciation schedules, backed by ratepayers, to support faster cost recovery for some assets; some utilities are now looking to refinance coal plants through asset-backed bond issuance and reinvest the proceeds in renewables.

Chile, where some 30% of electricity is generated using coal, has a phase-out strategy to close all coal-fired power plants by 2030. It is supported by blended finance. The country established a phase-out schedule and introduced a carbon tax together with a carbon price floor, supported by a concessional loan from the Inter-American Development Bank; this was instrumental in bringing about the early retirement of two coal-fired units.

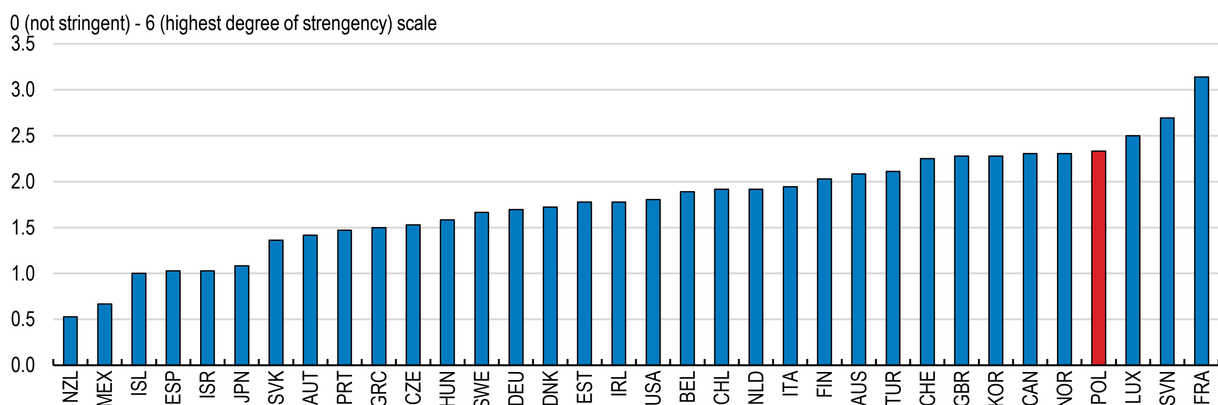
Source: IEA (2021), World Energy Outlook 2021 – Phasing out Coal; IEA (2021), Phasing out unabated coal, IEA (2022c): Coal in net zero transitions. OECD (2022f).

The current policy mix should rely more on price signals

Poland has made important progress in terms of environmental policies, as reflected by the latest OECD's Environmental Policy Stringency Index (EPS), which measures predominately stringency of policies to regulate carbon emission and air pollution (Figure 1.23). Environmentally related taxes bring around 7% of the total tax revenue, some 2.4% of GDP in 2020 (OECD, 2022f). Nevertheless, some 60% of carbon emissions are underpriced (Figure 1.21). Current EU discussions are likely to result in an expansion of the EU ETS, to include the housing and transport sectors. Taking into account policy advances at the EU level, the authorities should set out a clear long-term path of carbon taxation. As the current high energy prices subside, the national emissions fee should increase and eventually become aligned with the EU ETS. Due to the complexity caused by several market failures, contrasting policy objectives and political constraints imply that a well-designed policy mix for the green transition needs to combine non-market and market signals and compensatory policies (OECD, 2021f).

Figure 1.23. The stringency of the environmental policies has increased over the past decade

Absolute change in EPS between 2000 and 2020



Source: OECD Environmental Policy Stringency Index database.

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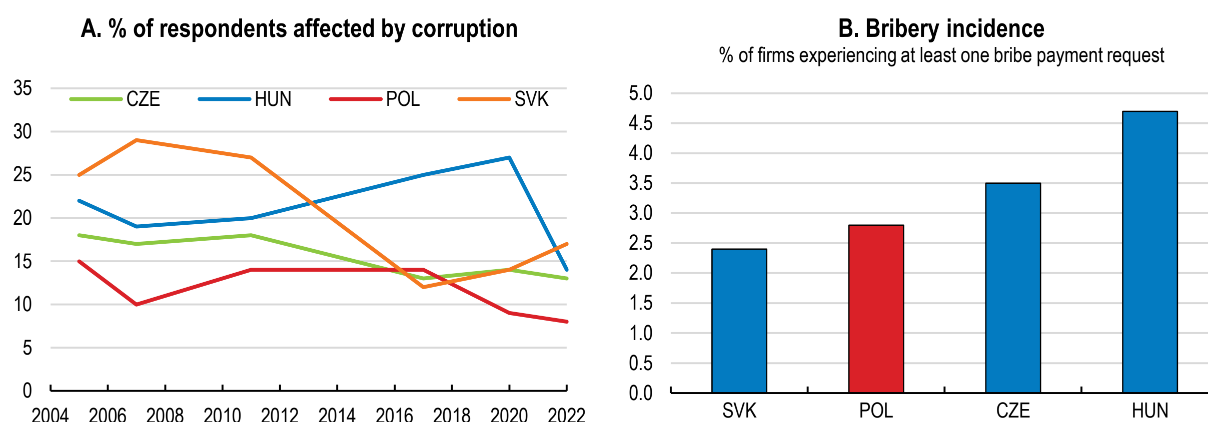
Table 1.10. Past recommendations on climate-change related policies

Past OECD policy recommendations	Policy actions since the 2020 Economic Survey
Implement stable climate-change policies aligned with European and international objectives.	A strategy for the transformation of the energy sector was adopted in 2021 (Energy Policy of Poland until 2040). It is currently under review given the heightened energy security concerns.
Once the economy recovers, increase road pricing and introduce CO2- based vehicle taxation, together with redistribution targeted towards poorer households.	No progress on aligning vehicle taxation with OECD best practice.
Tighten regulations on energy consumption in buildings.	A review of possibilities to tighten the regulations is in progress.
Ease eligibility conditions to energy efficiency programmes for low-income households.	Rules of the Clean Air programme have been adjusted to increase accessibility of all income groups; the programme is under further review.
Provide incentives for the use of smart meters.	Policy goal is to outfit 100% of end users with smart meters by 2031 and utility companies are obliged to install remote reading meters by law.
Evaluate and scale up effective pilot information for SMEs on the benefits of energy efficiency savings and strengthen related energy-efficiency programmes.	No action taken.
Continue to strengthen integrated local spatial plans, by making their coverage mandatory in functional urban areas and increasing their coherence with other spatial plans.	A reform of planning and spatial development is foreseen, under the Recovery and Resilience Plan.

Strengthening public integrity to improve the investment climate and public trust

Strong governance and institutions matter for productivity, the investment climate and spending efficiency. With under 10% of surveyed people having experienced or witnessed a case of corruption in the past 12 months, Poland ranks somewhat better than its regional peers and close to the EU average (European Commission, 2022a). In the business sector, around 2.5% of firms experienced at least one bribe payment request in 2019 (World Bank, 2019) (Figure 1.24). Nevertheless, a considerable share of businesses does not see investment protection as very effective (European Commission, 2022d). Expert views of corruption place Poland among its regional peers, and close to Italy and Spain (Figure 1.26). And, in 2021, public trust in government was among the lowest in the OECD (Figure 1.25).

Figure 1.24 Experience of petty corruption is lower than in regional peers



Note: Share of respondents experiencing or witnessing a bribe request and/or payment over past 12 months.
Source: Eurobarometer, 2022; Enterprise Survey 2019.

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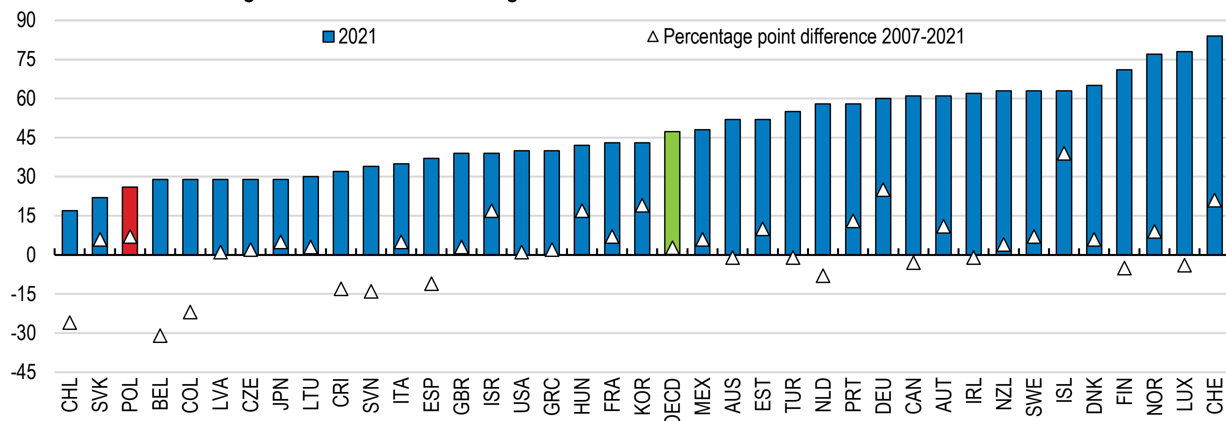
The Anti-corruption Strategy, in place during 2018-20, scored well on OECD's new Public Integrity Indicators, notably in terms of prior analysis of risks and outcome-level indicators (Smidova et al., 2022). However, certain important objectives (e.g., standardisation and digitalisation of various systems of asset declarations for public officials, lobby register) have not been achieved and no new strategy has been put in place. Building on the previous strategy, the government should strengthen public integrity by delivering on its past priorities, addressing remaining issues and involving the non-governmental sector in the formulation and evaluation of the new strategy.

Figure 1.25 Public trust in government is among the lowest in OECD

Confidence in national government and its change since 2007



Note: Share of respondents who responded "Yes" to the question "Do you have confidence in the national government?"
Source: World Gallup Poll.

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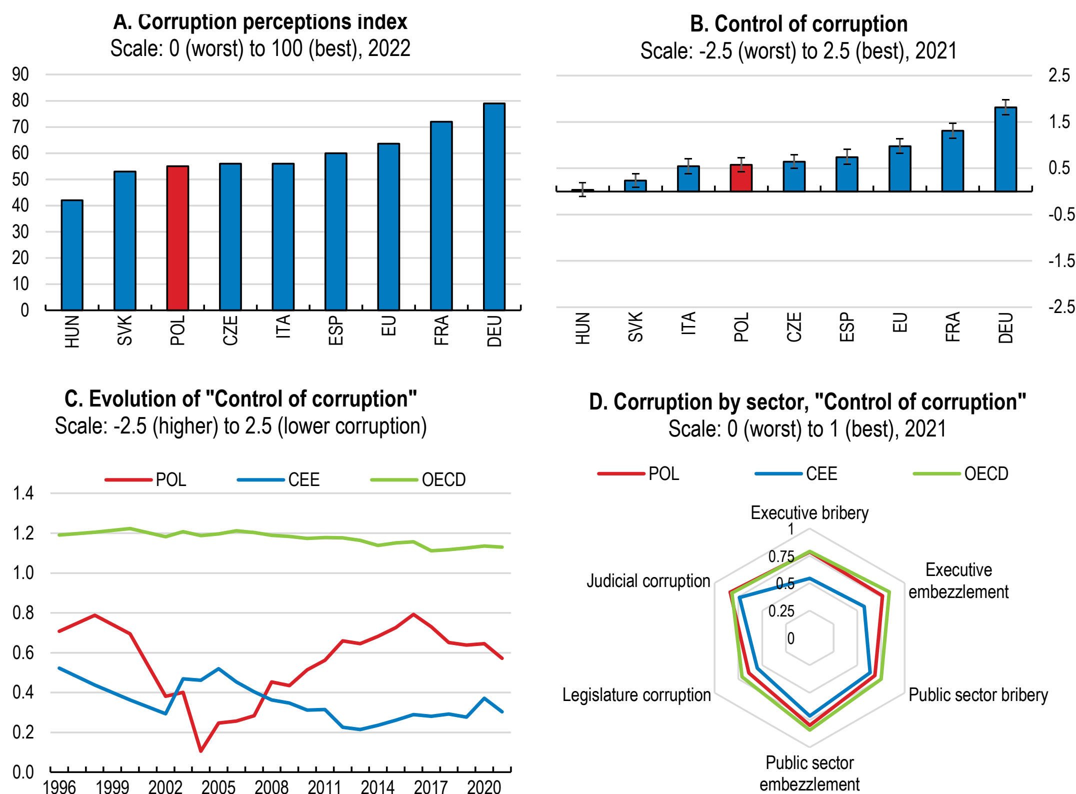
The overall performance of courts has improved with a shortening of the estimated time needed to resolve litigious civil and commercial cases. However, perceived judicial independence among the public and companies has been declining since 2016, due to the perception of interference or pressure from the government and politicians (European Commission, 2022e). Several European institutions have raised concerns about the independence of the judiciary, notably of the National Council of the Judiciary, a public body responsible for nominating judges and reviewing ethical complaints against sitting jurists, although the Polish authorities do not share these concerns. Ensuring judiciary independence is key to a good climate investment. It is thus welcome that the authorities committed to improving judicial independence (European Commission, 2022f).

Figure 1.26 Various expert perceptions of corruption in Poland are broadly in line with each other



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.
Source: Panel A: Transparency International; Panels B & C: World Bank, Worldwide Governance Indicators; Panel D: Varieties of Democracy Project, V-Dem Dataset v12.

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Public procurement and infrastructure projects are generally at high-risk of corruption. Poland is carrying out significant public investments in the area of defence and infrastructure, and state-owned enterprises continue to play a considerable role in the economy, raising the importance of a well-functioning public procurement framework. Over 2017-20, nearly half of public tenders analysed in a study were awarded in tenders where only one bidder participated (World Bank, 2022). Also, in around 70% of procedures, the registration number of the seller and buyer was missing, decreasing transparency, and understanding of who is involved in the procurement process (European Commission, 2022b).

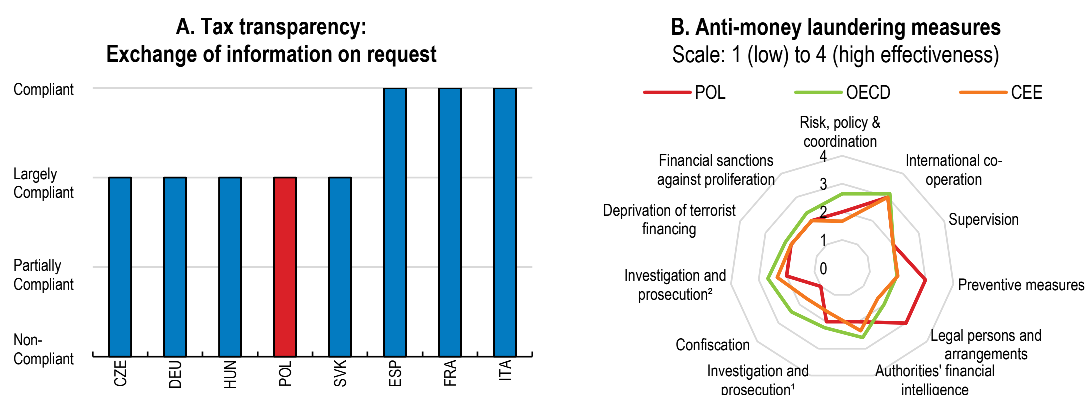
To make the most out of competition among potential providers an even playing field and transparency is key. Recent analysis of public procurement contracts over 2010-20 shows several areas for improvement that could bring about 5% of savings per year, i.e. PLN 24 billion (World Bank, 2022). Increasing the number of bidders can bring the biggest pay-offs. Procuring authorities should become more efficient. Bid evaluations and contract awards could be made faster and less cumbersome, for instance by adopting electronic procedures, in particular when inter-agency approvals and clearances are needed. For high-value and complex projects, where a large number of bidders is expected, bid evaluation teams could be strengthened. Decreasing the number of non-open procedures can also help, as these resulted in higher relative prices during the review period (World Bank, 2022).

Enforcement of the *OECD's Anti-Bribery Convention* has been weak. Efforts to detect foreign bribery allegations are inadequate, fines remain too low to be effective and dissuasive (OECD, 2022g and 2018h).

There have been no investigations or convictions of legal entities under the Convention and only one conviction of foreign bribery of a natural person in 2012. Poland continues to require the conviction of an individual before holding a company liable for foreign bribery. A so-called impunity provision, under which a briber can escape liability if (s)he discloses all substantive circumstances of the crime to a law enforcement authority, has been used on average 460 times annually in cases of domestic bribery and other offences over 2016-21. While this feature can incentivise detection of domestic corruption, where a local public official can be prosecuted, in cases of foreign bribery, it is unlikely that Poland would prosecute foreign officials. Moreover, because it prevents the conviction of the natural person, it prevents the liability of the legal entity (OECD, 2022g).

Poland ranks close to its peers in terms of exchange of information as assessed by the Global Forum on Transparency and Exchange of Information for Tax Purposes. Implementation of the Financial Action Task Force recommendations regards anti-money laundering and terrorist financing can be improved (Figure 1.27).

Figure 1.27 Tax transparency and anti-money laundering measures are largely compliant



Note: Panel A summarises the overall assessment on the exchange of information in practice from peer reviews by the Global Forum on Transparency and Exchange of Information for Tax Purposes. Peer reviews assess member jurisdictions' ability to ensure the transparency of their legal entities and arrangements and to co-operate with other tax administrations in accordance with the internationally agreed standard. The figure shows first round results; a second round is ongoing. Panel B shows ratings from the Financial Action Task Force (FATF) peer reviews of each member to assess levels of implementation of the FATF Recommendations. The ratings reflect the extent to which a country's measures are effective against 11 immediate outcomes. "Investigation and prosecution[1]" refers to money laundering. "Investigation and prosecution[2]" refers to terrorist financing.
Source: OECD Secretariat's own calculation based on the materials from the Global Forum on Transparency and Exchange of Information for Tax Purposes; and OECD, FATF.

https://stat.link/1mbjzd

Table 1.11. Past recommendations on preventing corruption and economic crimes

Past OECD policy recommendations	Policy actions since the 2020 Economic Survey
Amend the disciplinary procedures applicable to judges, in particular by excluding the possibility for the executive to intervene in these proceedings	The EU Recovery and Resilience Plan foresees strengthening the independence and impartiality of courts, as well as remedying the situation of judges affected by earlier decisions in disciplinary cases and judicial immunity cases.
Provide members of the Parliament with clear guidance on conflicts of interest. Develop a clearly defined mechanism to declare potential conflicts of interest of parliamentarians.	No action taken.
Improve protective measures for employees who report suspected acts of foreign bribery.	No action taken. An online portal offering information on the topic created.

Table 1.12. Overview of main findings and recommendations

Main findings	Recommendations (key recommendations in bold)
Striking a balance in macroeconomic policy	
Substantial policy support is being provided to manage the current cost of living crisis.	**Ensure that energy-related support measures to households and firms remain temporary and fiscal policy does not add to inflationary pressure. Any future supports should be better targeted to the most vulnerable.**
Inflation is high and price pressures are broadening.	**Continue to ensure that currently elevated inflation expectations do not become entrenched and stand ready to increase interest rates further if necessary**.
A blanket mortgage payments relief is in place since August 2022 to end of 2023 and is potentially weakening the transmission of monetary policy.	Do not extend the scheme any further beyond 2023.
Poland is hosting over 1 million refugees from Ukraine. While adult Ukraine migrants have quickly integrated to the labour market, children participate less in formal education.	**Continue efforts to support and integrate refugees and prepare in case of a further influx.** Ensure burden-sharing of both short- and long-term integration policies across levels of government. Build on disaggregated data to get an accurate picture of the evolving situation, carry out needs assessments and situation reports.
The coronavirus pandemic and energy crisis have increased public debt, while ageing and other spending pressures such as increased defense spending weigh on long-term fiscal sustainability.	**To improve fiscal credibility, consider long-term changes to the numerical fiscal rules, taking into account the outcome of EU governance reforms, and establish an independent fiscal council.** **In the medium-term, undertake fiscal consolidation. Broaden the revenue base, by reforming or phasing out ineffective and regressive tax expenditures and revising property taxation. On the expenditure side, improve targeting of social supports and conduct a comprehensive spending review.**
Future low pension adequacy increases the risk of old-age poverty and long-term spending pressures.	**Extend working lives, including by aligning gradually male and female statutory retirement age and increasing it in line with life expectancy gains in good health.**
The health of many Poles remains subpar. Considerable disruptions in healthcare provision during the pandemic and the large influx of Ukrainian migrants have added to the strain in the healthcare system.	**Make the healthcare strategy better integrated across the various actors in the system. Over time, increase the remuneration of health workers.**
Strengthening green and sustainable growth	
Poland's planned transition away from coal relied in part on natural gas. Given the current geopolitical situation and volatile energy prices, the Government is reviewing the strategy.	**Implement the updated principles of the energy strategy with an emphasis on accelerating development of renewables, diversifying technologies and improving energy security and efficiency, while minimising the increased reliance on coal in the near term.**
Increases in renewable energy are hindered by capacity and connection constraints of the electricity grid and the regulatory framework.	**Expedite and scale-up investments in the electricity grid, while reviewing regulations and other policy constraints hindering further expansion of renewables.**
Substantial investment needs across the economy persist, notably for the green transition.	Improve the public investment framework by strengthening project selection, portfolio oversight, maintenance funding and budget comprehensiveness for ongoing and planned investment.

The pricing of the environmental costs of fossil fuels is uneven across the economy.	**Set out a clear long-term path of carbon pricing. In the medium-term, increase the national emissions fee and eventually align it with the EU ETS.**
Prior to the current energy increases, some 10% of households had difficulty paying their energy bills.	Develop a comprehensive tool for addressing energy poverty that deals with poorly insulated homes and inefficient heating systems, as well as energy bills.
Poland agreed on closure of hard coal mines in 2049.	**Ensure a just transition through well-targeted retraining, a hiring freeze and inter-sectoral upskilling for the hard and lignite coal sectors. Complementary policies are needed for the wider coal value chain.**
Energy audits are required by the European legislation, but its recommendations are not binding.	Mandate companies to implement measures suggested in energy audits with short pay-back, as done in other OECD countries.
Tradable (white) certificates allocated for implementing efficiency projects have been encouraging energy efficiency in industry. Understaffing of the Energy Regulator Office implementing the programme hinders its efficiency.	Allocate adequate resources to the Energy Regulator Office.
The potential for energy savings in buildings is substantial, with up to 70% of houses currently poorly insulated.	Changing of heating systems to more efficient and less polluting options should go together with thermal renovations. Energy certificates should cover more of the building stock.
The transport sector is responsible for increasing greenhouse gas emissions and air pollution.	Bring forward the planned update of vehicle taxation, ensuring that it reflects emissions and environmental impact.
Regulatory barriers to competition in services can be lowered.	**Reduce regulatory barriers to competition for lawyers, notaries, architects, and engineers as well as in occupational licensing .**
Strengthening public integrity to improve investment climate	
Public trust in government and business perceptions of effectiveness of investment protection are low. The previous public integrity strategy did not achieve important objectives and no new strategy has been adopted.	**Building on the previous anti-corruption strategy, strengthen public integrity by delivering on its past priorities, addressing remaining issues and involving the non-governmental sector in the formulation and evaluation of the new strategy.**
Public procurements often attract too few bidders and can be lengthy and complex, due to low capacity of procuring bodies.	Make procuring authorities more efficient by faster and less cumbersome bid evaluations and contract awards. Decrease the number of non-open procedures.
Implementation of OECD's Anti-Bribery Convention is weak. Fines remain too low to be effective and dissuasive.	Increase corporate fines for foreign bribery offenses and ensure that legal entities can be held accountable without a prior conviction of a natural person.

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