Past and current reform strategies in Poland

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In the last decade, Poland’s growth has been strongly fueled by real convergence mechanisms

- Capital accumulation (including FDI)
- Human capital accumulation
- Technology diffusion (partly through GVC)

GDP growth decomposition for Poland, 1996-2013

<table>
<thead>
<tr>
<th>Measure</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital</td>
<td></td>
</tr>
<tr>
<td>Quantity</td>
<td>41.5%</td>
</tr>
<tr>
<td>Composition</td>
<td>2.6%</td>
</tr>
<tr>
<td>Labor</td>
<td></td>
</tr>
<tr>
<td>Quantity</td>
<td>-0.8%</td>
</tr>
<tr>
<td>Composition</td>
<td>20.9%</td>
</tr>
<tr>
<td>Others</td>
<td></td>
</tr>
<tr>
<td>Factor utilization</td>
<td>-0.3%</td>
</tr>
<tr>
<td>TFP</td>
<td>36.1%</td>
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</tbody>
</table>

However, a substantial part of the catching-up potential has been due to a relatively low starting point.
Growth-enhancing reforms were driven by long-run planning only to a very limited extent

- **Short-run goal #1**: Economic transformation
  - Market reform package, L. Balcerowicz (1989-90)

- **Short-run goal #2**: EU accession (May 2004)
  - Reforms aimed at satisfying EU requirements

- **Long-run planning had limited impact on the growth processes**
  - Program for Tidying Up and Limiting Public Spending, J. Hausner (2004)

- **Polska 2030 report**, M. Boni (2009)
  - Ten challenges
    1. Growth and competitiveness
    2. Demographic situation
    3. Labor market participation and flexibility of labor resources
    4. Appropriate infrastructure potential
    5. Energy and climate safety
    6. Knowledge-based economy and development of intellectual capital
    7. Solidarity and regional cohesion
    8. Improving social cohesion
    9. Efficient state
    10. Increasing Poland’s social capital

The report had a *Green paper* status
  - Objective: to initiate public debate on development challenges faced by Poland
Real convergence is a powerful source of growth only for backward economies. At the current stage, Poland needs a long-run development plan based on other engines of growth, such as innovation.

Source: NBP computations based on Eurostat data
Poland recognizes the need to improve innovation capacity but little progress has been observed at the aggregate level so far.

Source: Community Innovation Survey, Eurostat

Source: European Innovation Scoreboard 2017, Main report
Perspectives for improving Poland’s innovation capacity in the future are shaped by a few key advantages and barriers

**Advantages**
- Proximity to the EU market
- GVC participation
- Human capital (PISA)
- ICT and business services sectors
- EU funds
- Entrepreneurship

**Barriers**
- Research centers
- Social trust
- Technology gap
- Human capital (PIAAC)
- Demographics

Source: NBP (2016), Potencjał innowacyjny gospodarki: uwarunkowania, determinnty, perspektywy [Innovation potential of the economy: conditions, determinants, perspectives].
To increase innovation potential, multiple steps have to be taken

- **NBP suggestions for the short run (<8 years): removing bottlenecks**
  - Better coordination of strategies and programs
  - Improvement of information flow
  - Better financing of innovative firms at early stages of development
  - Uniform, objective evaluation
  - Tax deductions on R&D
  - Simpler procedures and lower sanctions on bankruptcy
  - Easier access to professional services
  - Increased efficiency of technology transfer centers

- **Medium run issues (8-20 years)**
  - Product market competitiveness
  - Labor market competitiveness
  - Cooperation between firms and universities
  - Clusters, sci-tech parks, incubators

- **Long run issues (>20 years)**
  - Technology gap
  - Human capital
  - Social capital, including social trust

Source: NBP (2016), Potencjał innowacyjny gospodarki: uwarunkowania, determinanty, perspektywy [Innovation potential of the economy: conditions, determinants, perspectives].
Strategy for Responsible Development is an overarching development plan for Poland until 2020 (with a perspective to 2030)

- **5 pillars of the reform**
  - Reindustrialization
  - Innovative firms
  - Capital for development
  - Exports expansion
  - Social and regional development
  - *Bonus pillar*: efficient public sector

- **First steps (2016-17)**
  - Tax credits on R&D
  - Targeted public procurement
  - *Start in Poland* program (since 2016)
  - National Revenue Administration which unifies 3 institutions
    - Reduced misallocation of resources
    - Result: a 15% y/y increase in tax collection (Mar-Aug)

Source: Polish Ministry of Development.
There are also several other important policies aimed at improving Poland’s growth potential

- **Demographic policy**
  - **Family 500 Plus**
    - Transfers to families with 2+ children
    - 2016: >17 billion PLN (0.9% of GDP)
    - 2017Q1: 6 billion PLN (0.3% of GDP)

- **Inflow of immigrants from Ukraine**

**Unresolved issues** include

- Reversal of increased obligatory retirement age (from 67 back to 60/65)
- Social trust, which remains very low
- Inefficient agriculture
- Environmental issues, e.g. air quality

We protect the value of money