Country Profile Series

Poland

In-depth PESTLE insights
OVERVIEW

Catalyst

This profile analyzes the political, economic, social, technological, legal, and environmental (PESTLE) structure in Poland. Each of the PESTLE factors is explored on four parameters: current strengths, current challenges, future prospects, and future risks.

Summary

Key findings

Poland has a strong foreign policy, but differences between coalition partners are a cause for concern

The country is a member of the North Atlantic Alliance and the European Union (EU), and enjoys good relations with the US. The Polish government has strong ties with the US, Germany, France, Great Britain, Italy, Lithuania, the Czech Republic, Slovakia, and Hungary. The country’s bilateral co-operation with Ukraine remains stable. In Afghanistan, the country is following objectives laid down by the United Nations (UN) charter. The country plans to develop trade and business contacts with Asian, Latin American, and African countries in infrastructure, finance, tourism, and high technology.

However, the coalition has been growing increasingly divided over a number of issues, which has raised considerable red flags over its stability. Relations between the Civic Platform (Platforma Obywatelska [PO]) and the Polish Peasants’ Party (Polskie Stronnictwo Ludowe [PSL]) reached a new low when Deputy Prime Minister Waldemar Pawlak went on the offensive and accused the PO of indifference to new ideas. In fact, he began discussions with the opposition in October 2012 to gain support for his ideas. The finance minister Jan Vincent-Rostowski blocked economic proposals devised by Pawlak, which led to the controversy. The discussion with the opposition indicates that there are differences in the coalition. In addition, in 2012 MP Artur Dunin’s liberal civil union bill drew a lot of criticism from PO’s conservative wing, and sparked controversy as the conservatives claimed to have no information about the bill. Moreover, the coalition is divided on social issues, and the PSL is openly airing its views against the government’s policies. The fractiousness within the coalition with regards to policy matters is likely to delay the implementation of crucial reforms.

While the Polish economy is resilient, close interlinkage with the eurozone makes it vulnerable

Poland was the only country in the EU that escaped recession in 2009, recording growth of 1.60% owing to its strong economic policies and robust domestic demand. A strong banking sector and a flexible currency also supported the country’s growth, as other Eastern European economies witnessed severe contractions as a result of the global economic crisis. For example, Slovenia saw a contraction of 8% in 2009, and the Hungarian economy contracted by 6.77% during the same year. The Polish economy recorded better growth than the Baltic States in 2008–09, some of which experienced double-digit annual falls in output. The economy grew further by 3.91% in 2010 and 4.28% in 2011.

However, Polish manufacturing firms are highly interlinked with other euro area countries through cross-border supply chains, meaning the economy is more likely to suffer from fluctuations in external demand in other European countries. As of 2011, more than 50% of Poland’s total exports were accounted for by European countries, implying high dependency on the European countries for exports, thus exposing the economy to spillover risks from the euro area in the future. According to the International Monetary Fund (IMF), 75% of total foreign direct investment (FDI) liabilities were within the euro area as of 2010, reflecting the fact that the country has been heavily dependent on its European
counterparts for investment. Moreover, the increasing foreign investors’ share in government bond holdings (more than 30% of total holdings as of January 2012) is a cause for concern in case of a reversal of investor sentiment. The strong interdependency of the Polish economy on Europe is evidenced by Poland’s real GDP growth rate becoming increasingly correlated with the euro area, standing at 0.81 in the post-2004 period in comparison to 0.52 during 1995–2011.

**Poland performs strongly in terms of human development indicators, but unfavorable demographic changes remain a problem**

Poland has performed well on various social parameters. According to the United Nations Development Programme’s 2011 Human Development Report, Poland’s Human Development Index (HDI) score was 0.813, which placed it 39th out of 187 countries. In the HDI, a score of zero is the worst possible performance and a score of one is the best. The country’s Gini coefficient (a measure of income disparity, with zero corresponding to complete equity and 100 to extreme inequity) was 34.2 in 2010 according to the Central Intelligence Agency’s The World Factbook. As of 2012 the infant mortality rate is 6.42 deaths per 1,000 live births, while life expectancy at birth for the whole population in Poland stands at 76.25 years.

However, like most Western European countries Poland may witness demographic challenges owing to a declining birth rate and an aging society. In 2012, the birth rate was 9.96 per 1,000 people and the fertility rate was low at 1.31 children born per woman. According to the European Commission (EC), the total age dependency ratio (people aged 14 and below and aged 65 and above over the population aged 15–64) is set to increase by 45.8 percentage points by 2060 from 2010 levels, well above the EU average of 26.5 percentage points. Further, according to the EC the working age population (15–64) as a percentage of the total population will decline from 71.3% in 2010 to 53.4% in 2060, a sharp drop of 17.9%. The elderly population (65 and over) as a percentage of the total population will increase from 13.5% in 2010 to 34.6% in 2060, a steep rise of 21.1%. The government has to tackle the demographic changes through new social reforms, otherwise it is likely to put pressure on public finances and the labor market in the long run.

**Poland is emerging as a major business process outsourcing hub, but low research and development expenditure could hamper innovation**

The country has been emerging as a business process outsourcing (BPO) hub. The city of Krakow has been ranked among the top 20 outsourcing destinations in 2012. Further, two other Polish cities (Warsaw and Wroclaw) were ranked among the top 100 outsourcing destinations, while Katowice is expected to join the list as it moves away from its tradition of heavy industry. The city is part of the bigger metropolis Silesia. The key factor that is propelling the region to become the next BPO hub is the availability of a highly educated labor force, given that the region has 29 universities. In addition, labor costs are quite low, providing further impetus to companies to set up offices in Poland. Another major factor that makes Poland a good prospect to become the next BPO hub is that more than a quarter of the population is fluent in the English language. Poland has all the ingredients to become one of the top outsourcing destinations in the world.

However, Poland spends a relatively low amount on research and development (R&D). According to the Innovation Union, the country’s total R&D expenditure was around 0.68% of GDP in 2009, almost one-third of the EU average of 2.01% in the same year. Poland’s spending on R&D has been low compared to other Baltic countries. Moreover, business enterprise expenditure on R&D as a percentage of GDP stood at a meager 0.19% of GDP in 2009, well below the EU average of 1.25%. Further, researchers per 1,000 labor force were registered at 3.6, compared to the EU average of 6.3 in the same year. The primary reason for this is low spending on R&D projects by foreign companies in Poland, as well as a lack of implementation of new technologies. The government needs to massively invest in R&D to maintain the competitiveness of the economy.
Poland has a comprehensive legal structure, but its weak business environment remains a challenge

Poland’s government is balanced between the legislative, executive, and judicial authorities. It is a unitary state and a legal republic with a combination of presidential and parliamentary systems. The constitution offers provisions for different categories of courts: the Supreme Court, common courts, administrative courts, and military courts. The judicial system of Poland has witnessed significant reforms over the years. The current legal system is based on the foundation of Polish law. The Polish constitution, formed in 1997, provides a distinction between universally binding law and internal law. The system relies on a series of codes, which include the Civil Code, the Commercial Code, the Labor Code, customs laws, the Foreign Exchange Act, tax laws, insurance laws, the Law of the Supreme Chamber of Control, and the Law on Public Finance.

However, the country has scored poorly in terms of its business environment. Poland was ranked as the world’s 64th freest economy on the Heritage Foundation’s and the Wall Street Journal’s 2012 Index of Economic Freedom. The country was ranked 29th in the European region out of 43 countries. In the World Bank’s 2013 Doing Business report, the country was ranked 55th out of 185 countries. According to the report, starting a business in Poland requires six procedures and 32 days, compared to the Organisation for Economic Co-operation and Development (OECD) average of five procedures and 12 days. Further, the amount of time taken for parameters such as dealing with construction permits, securing electricity, registering property, paying taxes, trading across borders, enforcing contracts, and resolving insolvency is much higher in Poland than the OECD averages. The country is way below OECD benchmarks in spite of being recognized as the number one performer in improving its business regulations according to the Doing Business 2013 report. It must further simplify its business regulations in order to attract more investment and reach OECD standards.

Poland has a strong environmental policy framework, but the power sector is excessively dependent on coal

Poland has a strong environmental policy framework in place. The country has amended its environmental law to ensure that environmental protection and development occur simultaneously. The country has also developed an environmental impact forecasting system for road construction projects up till 2012 that reconciles both development and environmental interests. Under the new General Directorate for Environmental Protection, the process of obtaining environmental clearance for building roads and motorways has been reduced from 300 to 100 days. The country is developing new waste management laws that will act as the basis for the recovery and recycling of hazardous wastes, and is implementing the GreenEvo Green Technology Accelerator project, which aims to promote the transfer of innovative environmental protection technologies globally.

However, excessive dependence on coal for electricity generation is a cause for concern, as these plants are a major cause of CO2 emissions. The country generates around 94% of its electricity through coal-fired power stations, making it the most coal-dependent state in the EU. Most of the coal-fired power plants have been functioning for more than 30 years and require modernization. The country has been facing high pollution levels over the years due to sulfur dioxide emissions from coal-fired power plants and acid rain that has caused damage to its forests.

PESTLE highlights

Political landscape

- Poland was ranked in the 79.3 percentile on voice and accountability in 2011. Poland fared better than its neighbor the Czech Republic, which scored a percentile rank of 76.5 in the same parameter.
- Poland’s political and bureaucratic system is alleged to be corrupt, which acts as an impediment to foreign investment. Poland ranked 41st out of 183 countries in Transparency International’s 2011 Corruption
Perceptions Index.

**Economic landscape**

- The financial system of Poland is dominated by a strong and stable banking sector. Polish banking has been highly resilient and reported an increase in profits to the tune of 37% year-on-year in 2011. According to the IMF, banks reported a healthy capital adequacy ratio of 13% in 2011, with Tier 1 comprising around 90% of total capital.

**Social landscape**

- The government has undertaken pension reforms to secure the interests of future pensioners, increase their performance, and reduce the state debt on pension funds.
- According to the OECD Health at a Glance 2012 report, total healthcare spending accounted for approximately 7% of GDP in Poland in 2010, below the OECD average of 9.5%.

**Technology landscape**

- Poland has a well-developed ICT market. The country ranked 49th among 142 countries on the Networked Readiness Index according to the World Economic Forum’s Global Information Technology Report for 2012.
- According to the Innovation Union Scoreboard 2011, Poland ranks among the moderate innovators due to weaknesses in research systems, linkages and entrepreneurship, and intellectual assets and innovators, as well as a decline in small- and medium-sized enterprise innovation and collaboration.

**Legal landscape**

- As part of its efforts to simplify business management in the country, the government introduced a deregulation package under which companies have been able to issue, send, and store electronic invoices with no electronic signature since January 2011.
- Trade unions have become a major obstacle for privatization and restructuring of businesses, as they constantly strike to preserve the jobs of union members.

**Environmental landscape**

- The government is increasing its use of renewable energy sources such as biomass, wind, and water energy. The government plans to increase the share of renewable energy in the gross energy balance of the country to 15% by 2020.
- In June 2011, Poland opposed the EC’s 2050 Low Carbon Roadmap, which targets a 40% cut in carbon emissions by 2030, a 60% cut by 2040, and an 80% cut by 2050 compared to 1990 levels. The EU countries arrived at a consensus for 25% cuts by 2020 (up from the current 20%), which was also opposed by Poland.
### Key fundamentals

**Table 1: Poland – key fundamentals**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP, constant prices ($bn)</td>
<td>241.47</td>
<td>250.91</td>
<td>261.64</td>
<td>268.81</td>
<td>276.95</td>
<td>285.87</td>
<td>295.63</td>
</tr>
<tr>
<td>GDP growth rate (%)</td>
<td>1.60</td>
<td>3.91</td>
<td>4.28</td>
<td>2.74</td>
<td>3.03</td>
<td>3.22</td>
<td>3.42</td>
</tr>
<tr>
<td>GDP, constant 2000 prices, per capita ($)</td>
<td>6,337.62</td>
<td>6,586.87</td>
<td>6,872.48</td>
<td>7,065.96</td>
<td>7,285.63</td>
<td>7,527.75</td>
<td>7,793.87</td>
</tr>
<tr>
<td>Inflation (%)</td>
<td>3.71</td>
<td>2.61</td>
<td>4.20</td>
<td>3.82</td>
<td>2.74</td>
<td>2.62</td>
<td>2.55</td>
</tr>
<tr>
<td>Exports, total as a percentage of GDP</td>
<td>38.32</td>
<td>40.98</td>
<td>43.61</td>
<td>47.66</td>
<td>50.17</td>
<td>52.18</td>
<td>53.55</td>
</tr>
<tr>
<td>Imports, total as a percentage of GDP</td>
<td>40.16</td>
<td>44.19</td>
<td>46.35</td>
<td>49.36</td>
<td>51.17</td>
<td>52.57</td>
<td>53.44</td>
</tr>
<tr>
<td>Mid-year population (millions)</td>
<td>38.10</td>
<td>38.09</td>
<td>38.07</td>
<td>38.04</td>
<td>38.01</td>
<td>37.98</td>
<td>37.93</td>
</tr>
<tr>
<td>Unemployment rate (%)</td>
<td>8.24</td>
<td>9.57</td>
<td>9.67</td>
<td>9.57</td>
<td>9.27</td>
<td>8.88</td>
<td>8.50</td>
</tr>
<tr>
<td>Mobile penetration (per 100 people)</td>
<td>118.08</td>
<td>124.64</td>
<td>130.53</td>
<td>132.82</td>
<td>134.83</td>
<td>136.59</td>
<td>138.13</td>
</tr>
</tbody>
</table>

**Source:** Country Statistics, MarketLine
TABLE OF CONTENTS

Overview

Catalyst

Summary

2

Key Facts and Geographic Location

Key facts

Geographic location

12

13

PESTLE Analysis

Summary

Political analysis

Economic analysis

Social analysis

Technological analysis

Legal analysis

Environmental analysis

14

15

18

21

24

26

28

Political Landscape

Summary

Evolution

Structure and policies

Performance

Outlook

30

30

32

37

37

Economic Landscape

Summary

Evolution

Structure and policies

Performance

39

39

40

42
<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outlook</td>
<td>51</td>
</tr>
<tr>
<td>Social Landscape</td>
<td>52</td>
</tr>
<tr>
<td>Summary</td>
<td>52</td>
</tr>
<tr>
<td>Evolution</td>
<td>52</td>
</tr>
<tr>
<td>Structure and policies</td>
<td>52</td>
</tr>
<tr>
<td>Performance</td>
<td>55</td>
</tr>
<tr>
<td>Outlook</td>
<td>57</td>
</tr>
<tr>
<td>Technological Landscape</td>
<td>58</td>
</tr>
<tr>
<td>Summary</td>
<td>58</td>
</tr>
<tr>
<td>Evolution</td>
<td>58</td>
</tr>
<tr>
<td>Structure and policies</td>
<td>58</td>
</tr>
<tr>
<td>Performance</td>
<td>59</td>
</tr>
<tr>
<td>Outlook</td>
<td>61</td>
</tr>
<tr>
<td>Legal Landscape</td>
<td>62</td>
</tr>
<tr>
<td>Summary</td>
<td>62</td>
</tr>
<tr>
<td>Evolution</td>
<td>62</td>
</tr>
<tr>
<td>Structure and policies</td>
<td>62</td>
</tr>
<tr>
<td>Performance</td>
<td>65</td>
</tr>
<tr>
<td>Outlook</td>
<td>65</td>
</tr>
<tr>
<td>Environmental Landscape</td>
<td>66</td>
</tr>
<tr>
<td>Summary</td>
<td>66</td>
</tr>
<tr>
<td>Evolution</td>
<td>66</td>
</tr>
<tr>
<td>Structure and policies</td>
<td>66</td>
</tr>
<tr>
<td>Performance</td>
<td>67</td>
</tr>
<tr>
<td>Outlook</td>
<td>68</td>
</tr>
<tr>
<td>Appendix</td>
<td>69</td>
</tr>
</tbody>
</table>
**TABLE OF FIGURES**

| Figure 1: | Map of Poland | 13 |
| Figure 2: | Poland – key political events timeline | 32 |
| Figure 3: | Poland – key political figures | 33 |
| Figure 4: | Composition of the Sejm (lower house of parliament) | 34 |
| Figure 5: | Poland – historical GDP growth, 1991–2011 | 40 |
| Figure 6: | GDP and GDP growth rate in Poland, 2005–15 | 43 |
| Figure 7: | GDP composition by sectors, 2011 | 44 |
| Figure 8: | Agricultural output of Poland, 2006–11 | 45 |
| Figure 9: | Industrial output of Poland, 2006–11 | 46 |
| Figure 10: | Services output of Poland, 2006–11 | 47 |
| Figure 11: | External trade of Poland, 2007–11 | 48 |
| Figure 12: | Consumer price index and consumer price index-based inflation in Poland, 2005–15 | 50 |
| Figure 13: | Unemployment and growth rate in Poland, 2005–15 | 51 |
| Figure 14: | Poland – composition by religion, 2002 | 54 |
| Figure 15: | Expenditure on healthcare in Poland, 2004–10 | 56 |
| Figure 16: | Public expenditure on education in Poland, 2004–10 | 57 |
| Figure 17: | Internet users in Poland, 2007–11 | 60 |
| Figure 18: | Carbon dioxide emissions in Poland, 2003–10 | 68 |
# TABLE OF TABLES

| Table 1: | Poland – key fundamentals | 6 |
| Table 2: | Poland – key facts | 12 |
| Table 3: | Analysis of Poland’s political landscape | 15 |
| Table 4: | Analysis of Poland’s economy | 18 |
| Table 5: | Analysis of Poland’s social system | 21 |
| Table 6: | Analysis of Poland’s technology landscape | 24 |
| Table 7: | Analysis of Poland’s legal landscape | 26 |
| Table 8: | Analysis of Poland’s environmental landscape | 28 |
| Table 9: | Mid-year population by age (millions), 2011 | 53 |
| Table 10: | Patents received from the USPTO, 2004–11 | 59 |
# Key Facts and Geographic Location

## Key Facts

### Table 2: Poland – key facts

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Country and capital</strong></td>
<td></td>
</tr>
<tr>
<td>Full name</td>
<td>Republic of Poland</td>
</tr>
<tr>
<td>Capital city</td>
<td>Warsaw</td>
</tr>
<tr>
<td><strong>Government</strong></td>
<td></td>
</tr>
<tr>
<td>Government type</td>
<td>Parliamentary republic</td>
</tr>
<tr>
<td>Head of state</td>
<td>Bronisław Komorowski</td>
</tr>
<tr>
<td>Head of government</td>
<td>Donald Tusk</td>
</tr>
<tr>
<td><strong>Population</strong></td>
<td></td>
</tr>
<tr>
<td>Population (as of 2012)</td>
<td>38.41 million</td>
</tr>
<tr>
<td><strong>Currency</strong></td>
<td></td>
</tr>
<tr>
<td>Currency</td>
<td>Zloty</td>
</tr>
<tr>
<td><strong>GDP per capita adjusted by purchasing power parity</strong></td>
<td>$20,600(2011)</td>
</tr>
<tr>
<td><strong>Internet domain</strong></td>
<td></td>
</tr>
<tr>
<td>Internet domain</td>
<td>.pl</td>
</tr>
<tr>
<td><strong>Demographic details</strong></td>
<td></td>
</tr>
<tr>
<td>Life expectancy (as of 2012)</td>
<td>76.25 (total population)</td>
</tr>
<tr>
<td></td>
<td>72.31 (male)</td>
</tr>
<tr>
<td></td>
<td>80.43 (female)</td>
</tr>
<tr>
<td>Ethnic composition (2002 data)</td>
<td>Polish (96.7%), German (0.4%), Belarusian (0.1%), Ukrainian (0.1%), other and unspecified (2.7%)</td>
</tr>
<tr>
<td>Major religions (2002 census)</td>
<td>Roman Catholic (89.8%), Eastern Orthodox (1.3%), Protestant (0.3%), other (0.3%), unspecified (8.3%)</td>
</tr>
<tr>
<td>Country area</td>
<td>312,685 sq km</td>
</tr>
<tr>
<td>Languages (2002)</td>
<td>Polish (97.8%), other and unspecified (2.2%)</td>
</tr>
<tr>
<td>Exports</td>
<td>Machinery and manufactured goods, foodstuffs, live animals</td>
</tr>
<tr>
<td>Imports</td>
<td>Machinery and transport equipment, intermediate manufactured goods, chemicals, minerals, fuels, lubricants, and related materials</td>
</tr>
</tbody>
</table>

Source: Central Intelligence Agency (CIA), The World Factbook
Geographic location

Poland is situated in Eastern Europe, and is bordered by the Baltic Sea and Kaliningrad Oblast (Russia) to the north; Lithuania, Belarus and Ukraine to the east; Slovakia and the Czech Republic to the south; and Germany to the west.

Figure 1: Map of Poland

Source: CIA, The World Factbook
PESTLE Analysis

PESTLE ANALYSIS

Summary

Poland’s political landscape has evolved into a stable democracy since the fall of communism. The country’s strong foreign policy assures it political and economic security. The privatization of companies is one measure among many the government is taking to reduce its budget deficit. However, Poland’s political and bureaucratic systems are alleged to face problems with corruption; Further, differences among the coalition partners could derail the current government’s fiscal consolidation measures and other reforms.

The strong banking sector has protected the country against the recessionary and financial shocks that other countries have faced since 2008. However, the country has to deal with rising inflation and declining foreign direct investment (FDI) inflows. A high unemployment rate poses additional challenges to the economy. Further, strong trade interlinkages with the euro area expose the economy to fluctuations in external demand, making it vulnerable to spillover risks.

The country has performed well on social indicators, and the population is among the most highly educated in the world. Furthermore, the government has implemented several social welfare schemes aimed at reducing poverty and increasing income levels. The government has introduced pension reforms to ease the financial strain on the social security system. However, the unfavorable demographic situation due to the country’s declining birth rate is a cause for concern. Meanwhile, the low allocation of public expenditure toward healthcare will significantly strain Poland’s healthcare services sector.

Poland has a well-developed ICT market. The country was ranked 49th among 142 countries on the Networked Readiness Index according to the World Economic Forum’s Global Information Technology Report for 2012. The Polish IT market is expected to be among the region’s fastest growing over the next few years. The number of Internet users increased at an average rate of 24.51% during 2001–11. Banks and telecommunications companies remain the major spenders on IT solutions, along with the public sector. Under the Digital Poland strategy, the government is expected to spend €3.2bn on 23 e-government projects by 2013. The country plans to have 95% of its top 20 public services online by 2013. However, the country’s performance is weak in innovation. According to the Innovation Union Scoreboard 2011, Poland ranks among the moderate innovators due to a below average performance in innovation. Low research and development (R&D) expenditure in the country has only made the situation worse.

Poland has an independent judicial system that is responsible for the maintenance of the country’s law and order. Poland’s government is balanced between the legislative, executive, and judicial authorities, and is structured as a unitary state with a combination of presidential and parliamentary systems. Tax reforms also provide incentives to companies to invest in the country. However, the weak business environment and high tax compliance costs for businesses represent a major challenge.

The country has amended its environmental law to ensure environmental protection and development. The government is increasing the use of renewable energy sources such as biomass, wind, and water energy, and plans to increase the share of renewable energy in the gross energy balance of the country to 15% by 2020. However, the country is facing high pollution levels due to sulfur dioxide emissions from coal-fired power plants, as well as acid rain that has caused damage to Poland’s forests. The country’s opposition to the European Commission’s (EC’s) 2050 Low Carbon Roadmap reflects badly on its commitment to move to a low carbon economy.
PESTLE Analysis

**Political analysis**

**Overview**

Poland’s political landscape has evolved into a stable democracy since the fall of communism in the country. Its strong foreign policy assures it political and economic security. Ever since the setting up of a democratic framework, various governments of Poland have undertaken initiatives to privatize companies in several industries. The government is in the process of privatizing numerous financial institutions, as well as companies in the power, chemical, and petroleum sectors. The privatization of companies is one among many measures the government is taking to reduce its budget deficit. However, Poland’s political and bureaucratic systems face widespread corruption, which has been a barrier to foreign investment. The country is also challenged by the diplomatic row with Russia over the investigation of the air crash that killed then Polish President Lech Kaczynski in 2010. In addition, growing factionalism within the coalition will make things difficult for the government.

<table>
<thead>
<tr>
<th>Current strengths</th>
<th>Current challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transition to democracy</td>
<td>High levels of corruption</td>
</tr>
<tr>
<td>Strong foreign policy</td>
<td>Diplomatic row with Russia</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Future prospects</th>
<th>Future risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growing ties with China</td>
<td>Falling popularity of the government</td>
</tr>
<tr>
<td></td>
<td>Differences among coalition partners</td>
</tr>
</tbody>
</table>

Source: MarketLine

**Current strengths**

**Transition to democracy**

Poland has evolved into a stable democracy since the fall of communism in the country, and has made significant progress in terms of safeguarding human rights and protecting minorities following this political transformation. In the 1980s, Poland underwent a transition from a centralized, authoritarian political system to a democratic, free market system based on the principles of freedom and liberty for its citizens. The country's admission to the European Union (EU) in 2004 further strengthened its democratic credentials.

**Strong foreign policy**

The important reference points of Poland’s foreign policy are its membership in the North Atlantic Alliance and the EU and its partnership with the US. The Polish government has been a strong supporter of the American military presence in Europe. Poland and the US signed an amended agreement in July 2010, under which US missile interceptors will be based in Poland. In addition, along with Germany and France, Poland has reactivated the Weimar Triangle. The country enjoys strong relations with Great Britain, Italy, and Lithuania. Poland is an active member of the Visegrad Group, which includes the Czech Republic, Slovakia, and Hungary. After the presidential election held in July 2010, Poland and Russia emphasized a willingness to make efforts to normalize bilateral relations. The country’s bilateral co-operation with Ukraine remains stable. However, Poland follows a policy determined by conditionality toward Belarus due to the
violation of fundamental human and civil rights in the country. In Afghanistan, Poland is following objectives in accordance with the United Nations charter. The country plans to develop trade and business contacts with Asian, Latin American, and African countries in infrastructure, finance, tourism, and high technology.

Current challenges

High levels of corruption

Poland’s political and bureaucratic system allegedly suffers from corruption, which acts as an impediment to foreign investment. Poland ranked 41st out of 183 countries in Transparency International’s 2011 Corruption Perceptions Index. Legal and bureaucratic obstacles along with persistent corruption are hampering the country’s development, and Poland has faced a series of scandals in recent years. In July 2007, Polish politician Andrzej Lepper was sacked as deputy prime minister and agriculture minister following allegations of corruption. The former sports minister Tomasz Lipiec was arrested in 2007 after similar accusations were raised against him. Poland’s deputy health minister Krzysztof Grzegorek stepped down from his post in 2008 following claims that he had been taking bribes. In 2009, Prime Minister Donald Tusk dismissed Deputy Prime Minister Grzegorz Schetyna, justice minister Andrzej Czuma, and deputy economy minister Adam Szejnfeld in an effort to minimize the consequences of an alleged corruption scandal. In June 2011, trials began against three former employees of Philips Poland and many regional hospital directors for allegedly accepting bribes to the tune of more than $1m to buy Philips Medical equipment in regional hospitals.

In July 2012, Polish agriculture minister Marek Sawicki resigned over allegations of the misuse of state funds related to his ministry. In the same month pharmaceutical major GlaxoSmithKline’s (GSK’s) Polish subsidiary was accused of corrupt practices through reward programs used to influence doctors to prescribe GSK medicines. Further, in September 2012 Polish generic drug maker Lek-Am was accused of corruption linked to the use of government funds for R&D purposes. The company misused grants from the state totaling PLN19m ($6.03m), which was allocated for developing new drugs. In addition, it has been alleged that the company changed the labels of competitors’ drugs and sold them under its own name, besides manipulating documents linked to the shelf life of drugs. A series of corruption scandals have reduced trust in the government. Therefore, there is increasing pressure on the government to eliminate corruption and reinforce transparency in decision-making.

Diplomatic row with Russia

Investigations into the April 2010 air crash that killed the then Polish President Lech Kaczynski continue to impact bilateral relations between Poland and Russia. Initially, a Russian investigation concluded that errors on the part of the Polish pilots led to the crash. This led to loud protests from Polish politicians alleging a cover up. Subsequently, a Polish investigation into the crash found that both the Russian air traffic controllers and the Polish pilots were at fault for the accident. Polish defense minister Bogdan Klich resigned in July 2011 after the air crash investigation report pointed to systematic errors in the flight planning including inadequate training of the crew. Although the Polish report echoed Russian findings, it also stated that the Russian investigation was incomplete, as it failed to report whether Smolensk airport (where the crash occurred) and its air traffic control were ready to receive air traffic.

The report rejected Russian claims that Poland’s air commander, General Andrzej Blasik, forced the pilots into a dangerous landing under the influence of alcohol, and questioned the authenticity of the Russian autopsy that showed alcohol in his blood samples. The incident has soured relations between the countries, and has made many Poles skeptical about Russian diplomacy. Further, Russian investment into Poland has drawn criticism from the Polish polity, with many questioning Russia’s intentions. Relations with Russia are expected to remain troubled in the near term.
PESTLE Analysis

Future prospects

Growing ties with China

Poland's and China’s bilateral ties were strengthened in 2011. The Polish President Bronislaw Komorowski said in October 2012, that the country would continue to enhance its relationship with China. In 2011, Komorowski visited China to discuss political, economic, and cultural ties, and Chinese Premier Wen Jiabao’s return visit in 2012 reinforced the link. In April 2012, at a meeting in Poland, China offered $10bn in credit toward the Central and Eastern European (CEE) countries for developmental purposes through joint co-operation in which Poland forms an integral part. Among the CEE countries, Poland has been the largest trading partner, accounting for more than $13bn in 2011. With Poland looking to diversify its exports away from Europe toward the emerging markets, relations with China will be useful in the long run.

Future risks

Falling popularity of the government

Fiscal consolidation has led to falling popularity ratings for the government as the effects of the austerity measures are beginning to take effect. While the government has seen a fall in its popularity ratings, the major opposition party, the right-wing Law and Justice (Prawo i Sprawiedliwość [PiS]), saw its popularity ratings soar in the second half of 2012. This was mainly because the PiS came up with an alternative budget that featured populist policies. A TNS OBOP poll result showed that the opposition’s rating increased from 22% in mid-2012 to 26% in September 2012; on the other hand, the Civic Platform’s (Platforma Obywatelska’s [PO’s]) rating fell from 32% to 27% after the Euro 2012 football tournament. The government’s popularity levels are 10% below its rating in the October 2011 election, which increases political uncertainty if the coalition tries to impose unpopular reforms measures.

Differences among coalition partners

However, the coalition has been growing increasingly divided over a number of issues, which has raised considerable red flags over its stability. Relations between the PO and the Polish Peasants' Party (Polskie Stronnictwo Ludowe [PSL]) reached a new low when Deputy Prime Minister Waldemar Pawlak went on the offensive and accused the PO of indifference to new ideas. In fact, he began discussions with the opposition in October 2012 to gain support for his ideas. The finance minister Jan Vincent-Rostowski blocked economic proposals devised by Pawlak, which led to the controversy. The discussion with the opposition indicates that there are differences in the coalition. In addition, in 2012 MP Artur Dunin’s liberal civil union bill drew a lot of criticism from PO’s conservative wing, and sparked controversy as the conservatives claimed to have no information about the bill. Further, justice minister Jaroslaw Gowin decided to go ahead with restructuring smaller courts despite severe opposition from the PSL. The coalition is also divided on social issues, and the PSL is openly airing its views against the government’s policies. The fractiousness within the coalition with regards to policy matters is likely to delay the implementation of crucial reforms.
Economic analysis

Overview

The country proved its economic resilience in the financial crisis during 2008–09 when it grew by an average rate of 3.35%. Moreover, the country has been emerging as one of the favorite investment destinations. Further, falling bond yields bode well for the economy in driving down its debt servicing costs. However, inflation and unemployment has been difficult to contain. The economy remains vulnerable to external shocks due to the strong interlinks of the banking system and trade and investment within the euro area.

<table>
<thead>
<tr>
<th>Current strengths</th>
<th>Current challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Resilience of the economy</td>
<td>• Rising inflation</td>
</tr>
<tr>
<td>• Emerging investment destination</td>
<td>• Decline in FDI inflows</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Future prospects</th>
<th>Future risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Low yields on government bonds</td>
<td>• Cross-border risks to the banking system</td>
</tr>
<tr>
<td>• Measures to reduce budget deficit</td>
<td>• Strong trade and investment interlinks with Europe</td>
</tr>
</tbody>
</table>

Source: MarketLine

Current strengths

Resilience of the economy

While many economies in Europe are reeling under severe recessionary conditions, the Polish economy proved to be comparatively well-placed to fight the crisis. Poland has emerged as one of the most stable economies in Eastern Europe. With the start of the global financial crisis, Poland’s growth rate declined to 5.10% in 2008. Poland was the only country in the EU that escaped recession in 2009, recording growth of 1.60% owing to its strong economic policies and robust domestic demand. A strong banking sector and a flexible currency also supported the country’s growth, as other Eastern European economies witnessed severe contractions as a result of the global economic crisis. For example, Slovenia saw a contraction of 8% in 2009, and the Hungarian economy contracted by 6.77% during the same year. The Polish economy recorded better growth than the Baltic States in 2008–09, some of which experienced a double-digit annual fall in output. The Polish economy grew further at 3.91% in 2010 and 4.28% in 2011

Emerging investment destination

Poland was ranked 14th in transnational corporations’ top prospective host economies for 2012–14, published in the United Nations Conference on Trade and Development (UNCTAD) World Investment Report 2012. FDI in Poland grew to $15.13bn in 2011, up from $8.85bn in 2010. In 2011, according to PAiIIZ (the official investment promotion agency) Poland closed 53 projects valued at €1.17bn, and 144 projects are being evaluated as of 2012. The projects are expected to create 10,284 jobs in the future. FDI investments were driven mainly by mergers and acquisitions, although greenfield investments grew by 9.2% in 2011. In the same year, UNCTAD reported that Poland’s performance in terms of utilizing foreign capital was above average. Further, many business surveys have ranked Poland as one of the favorite
PESTLE Analysis

investment destination among the CEE countries. An educated workforce, a good strategic location, and a strong domestic market all bode well for the economy to emerge as one of the favorite investment destination in Europe.

Current challenges

Rising inflation

Poland has traditionally experienced high inflation levels. However, these have gradually been brought under control over the past few years. Poland’s inflation increased from 1.09% in 2006 to 4.22% in 2008 due to a significant rise in energy and food prices. The annual growth of consumer goods and services prices in Poland increased in 2009, and average annual inflation hovered around 3.71%. The high level of inflation was due to growth in food prices and excise goods. However, inflation came down to 2.61% in 2010 due to weak domestic consumption. Inflation figures rose in 2011 to reach 4.22% against a backdrop of increased food prices due to unfavorable weather conditions. Poland’s inflation rate is the second highest in the EU, and is well above the Narodowy Bank Polski (NBP) target of 2.5%.

Although an appreciating zloty will put downward pressure on inflation figures in 2012, they are expected to stay above the target. The NBP is one of the few central banks to hike the benchmark interest rate in 2012, when other central banks have been following an accommodative policy to boost their respective economies. MarketLine expects inflation to dip slightly to 3.82% in 2012. Reducing inflation will be a major challenge for the government.

High unemployment rate

According to MarketLine, unemployment stood at 9.67% in 2011, up from 9.57% in 2010. The economy is expected to slow down further in 2012, which will weaken domestic demand and worsen consumer and business sentiment. This is likely to put upward pressure on unemployment figures. The government has allocated PLN500m ($158.92m) to fight unemployment, but questions remain as to the extent to which this will help. With a significant percentage of the working age population unemployed, improving the labor market’s performance remains a significant challenge for Poland.

Future prospects

Low yields on government bonds

Owing to its low debt figures (56.1% of GDP by the first quarter 2012) compared to the euro area (88.2% of GDP), the government has been able to tap into the bond market at the lowest yields since 2006. The bonds were auctioned at an average yield of 4.36% in July 2012, around 40 basis points lower than the last auction in April 2012, implying rising investor confidence in Polish sovereign bonds based on the sound economic fundamentals of the economy. The July 2012 auction was oversubscribed by 2.5. In comparison, its European peer Hungary had to auction bonds at a higher yield of 7.40% in 2012. A strong banking system along with the freedom of the NBP to set its own monetary policy and investors’ appetite to look for assets outside the troubled European nations has driven bond yields down. Falling yields will help drive down debt servicing costs for the government and will contribute to improving deficit figures.

Measures to reduce budget deficit

Government policies will continue to focus on containing the budget deficit against the backdrop of slow growth and risks from the eurozone. The government has removed several tax breaks and introduced sector specific taxes and new corporate taxes to be effective from 2013. Further, the government has hiked the social security charges of employers by 2 percentage points. Moreover, the retirement age will be increased for both men and women effective from 2013. The government is contemplating changes to the tax system, especially for miners and farmers, and has imposed new taxes in copper and silver extraction. The privatization plans are expected to be given a push as the government is likely to miss the budget deficit figures for 2012 by 0.5%, from its target of 3%. Therefore, the government is expected to give a
Future risks

**Cross-border risks to the banking system**

The strong interconnectedness of the Polish banking system with other European banks keeps the economy susceptible to risks emanating from the European financial system. According to the International Monetary Fund (IMF), foreign banks’ claims on Polish banking assets amounted to 59% of GDP, which implies 59% of the Polish banks are foreign owned, with a particular emphasis on the eurozone. Further, a negative net foreign asset position implies that Polish banks are in a net liability position to foreign financial institutions, and thus are prone to risks of deleveraging from European parents and are susceptible to funding constraints. Around 80% of the total funding is denominated in foreign currency by the parent banks to Polish subsidiaries, which forms a major part of foreign currency credit for households and the non-financial corporate sector. The high amount of funding in foreign currency denominated loans by the European parents is exposing Polish subsidiaries to currency risks, especially those with higher loan to deposit ratios. Further, the Polish banks have high exposure (4.75% of GDP as of Q1 2012) to long foreign currency positions in their balance sheets (5.5% of balance sheets). The banks have chosen to close off their open positions in the foreign exchange through off balance sheet hedging with foreign financial institutions. However, this exposes the banking sector to market sentiment and currency volatility, as any depreciation in the zloty would require the banks to increase their hedging positions; in addition, this would make it difficult to rollover derivative contracts and would put strain on the banks’ liquidity positions. The strong connection of Polish banks with their European counterparts keeps the banking system vulnerable to cross-border risks.

**Strong trade and investment interlinks with Europe**

Polish manufacturing firms are highly interlinked with other euro area countries through cross-border supply chains, meaning the economy is more likely to suffer from fluctuations in external demand in other euro area countries. As of 2011, more than 50% of total exports are within European countries, implying high dependency on said nations for exports, thus exposing the economy to spillover risks from the euro area in the future. According to the IMF, as of 2010, 75% of total FDI liabilities were in the euro area, reflecting the fact that the country has been heavily dependent on its European counterparts for investments. Moreover, the increasing foreign investors’ share in government bond holdings (more than 30% of total holdings as of January 2012) is a cause of concern in the case of a reversal of investor sentiment. The dependence on the European countries is evidenced by the real GDP growth rate of Poland becoming increasingly correlated with the euro area, standing at 0.81 post-2004 in comparison to 0.52 during 1995–2011. The spillover risks from the European debt crisis will remain a major risk for the Polish economy in the near term.
Social analysis

Overview

The country has performed well on social indicators, and the population is among the most highly educated in the world. The activities of the state have been complemented by booming private participation in education. Furthermore, the government has implemented several social welfare schemes aimed at reducing poverty and increasing income levels. The government has also introduced pension reforms to ease the financial strain on the social security system. However, the unfavorable demographic situation pertaining to the country’s declining birth rate is a cause for concern. A high life expectancy and low birth rate will increase the aged population in the country and put pressure on public finances. In addition, the limited allocation of public expenditure toward healthcare will significantly strain Poland’s healthcare services sector.

<table>
<thead>
<tr>
<th>Current strengths</th>
<th>Current challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Good performance on social indicators</td>
<td>• Low spending on healthcare</td>
</tr>
<tr>
<td>• Highly educated population</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Future prospects</th>
<th>Future risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Pension reforms</td>
<td>• Unfavorable demographic situation</td>
</tr>
<tr>
<td>• Social reforms</td>
<td></td>
</tr>
</tbody>
</table>

Source: MarketLine

Current strengths

Good performance on social indicators

Poland has performed well on various social parameters. According to the United Nations Development Programme’s 2011 Human Development Report, Poland’s Human Development Index (HDI) score was 0.813, which placed it 39th out of 187 countries. In the HDI, a score of zero is the worst possible performance and a score of one is the best. The country’s Gini coefficient (a measure of income disparity, with zero corresponding to complete equity and 100 to extreme inequity) was 34.2 in 2010 according to the Central Intelligence Agency’s (CIA’s) The World Factbook. In 2012, the infant mortality rate is 6.42 deaths per 1,000 live births, while life expectancy at birth for the whole population in Poland stands at 76.25 years.

Highly educated population

Poland’s population is among the most highly educated in the world. The country’s higher education sector has expanded rapidly, and the curriculum has broadened significantly since 1989. The activities of the state are complemented by flourishing private participation in education. The literacy rate in the country was around 99.5% in 2010 according to the CIA’s The World Factbook, which signifies the presence of a good number of educated workers in the economy. The government adopted legislation in 2009 that stipulated compulsory pre-primary education at the age of five. The legislation came into effect in 2011. According to the new legislation, primary education will begin at the age of
six; this has been implemented since 2012.

Current challenges

Low spending on healthcare

The healthcare system in Poland lags behind other European countries. According to the Organisation for Economic Co-operation and Development (OECD) Health at a Glance 2012 report, total healthcare spending accounted for approximately 7% of GDP in Poland in 2010, below the OECD average of 9.5%. In 2010, Poland had 2.2 practicing physicians per 1,000 population, well below the OECD average of 3.1; there were 5.3 nurses per 1,000 population, below the OECD average of 8.7; and the number of acute care hospital beds in Poland was 4.4 per 1,000 population, down from 4.7 in 2005. The number of hospital beds per 1,000 population in Poland fell from 6.7 in 2009 to 6.6 in 2010. Low public expenditure toward healthcare is likely to place strain on the country's healthcare services.

Future prospects

Pension reforms

In May 2011, the government introduced improvements to the open pension funds system in order to secure the interests of future pensioners, increase their performance, and reduce the state debt that funds the system. Under pension reforms, it plans to introduce a uniform services pension plan, and has started consultations with trade unions on the issue. Therefore, the government has decided to introduce changes to the functioning of these funds. In 2012–13, the premium rate will be reduced from 7.3% to 2.3%, while the remaining 5% will be forwarded to new individual sub-accounts in the Social Insurance Institution. The government plans to gradually increase the premium transferred to open pension funds to 3.5% in 2017. Additionally, individuals who opt to allocate extra funds to the Individual Pension Security Accounts from 2012 onward will be given a special tax allowance of 4%, deferred from their income tax. According to the IMF, the pension contribution changes are expected to yield 0.5% of GDP in 2012.

Further, in May 2012 the government hiked the retirement age for both men and women to 67. The increase will take place over a period of eight years for men and 28 years for women starting 2013. The measures will help bring about sustainability of pensions in the long term, in addition to increasing the labor participation rate, which was below the EU average as of 2012.

Social reforms

The government has put a lot of emphasis on improving social infrastructure during 2012–13. The main measures taken by the government include investments in healthcare infrastructure, improvement of the quality of healthcare services (mainly for the dependent and the old aged), strengthening and modernizing the education system, and improved access to social services for the country's youth and children. The labor market implementation of a lifelong learning policy will be carried out during 2012–13. In addition, the government plans to increase the labor participation of the 50+ age group and the under 30 age group.

Further, improvements have been suggested by the government in terms of general education to better match the skills required by the labor market, which are to be implemented by 2013. Further, policies have been taken up for reforms of pensions and polices toward enhancing the work-life balance. The government has also stressed the importance of childhood education in the National Reform Programme 2012, and will undertake social housing projects to reduce social exclusion. In addition, the government is planning to subsidize employment for the disabled, encourage social entrepreneurship, and rehabilitate disabled persons. The government has also taken measures for social inclusion of immigrants.
Future risks

Unfavorable demographic situation

Like most Western European countries, Poland may witness demographic challenges owing to a declining birth rate and an aging society. In 2012, the birth rate was 9.96 per 1,000 people, and the fertility rate was low at 1.31 children born per woman. According to the EC, the total age dependency ratio (people aged 14 and below and aged 65 and above over the population aged 15–64) is set to increase by 45.8 percentage points from 2010 levels, well above the EU average of 26.5 percentage points. Further, according to the EC the working age population (15–64) as a percentage of the total population will decline from 71.3% in 2010 to 53.4% in 2060, a sharp drop of 17.9%. The elderly population (65 and over) as a percentage of the total population will increase from 13.5% in 2010 to 34.6% in 2060, a steep rise of 21.1%. The government has to tackle the demographic changes through new social reforms, otherwise it is likely to put pressure on public finances and the labor market in the long run.
PESTLE Analysis

**Technological analysis**

**Overview**

Poland has a strong ICT market with high mobile penetration. Under the government’s Digital Poland strategy, €3.2bn will be spent to place 95% of the government’s top 20 public services online by 2013. However, the country’s performance in terms of innovation is poor. According to the Innovation Union Scoreboard 2011, Poland ranks among the moderate innovators due to a below average performance in innovation. The low level of R&D expenditure in the country has only made the situation worse. There is tremendous scope for increasing R&D expenditure. Moreover, Poland is on its way to becoming the next big outsourcing hub, which would do well to boost its ICT sector.

<table>
<thead>
<tr>
<th>Table 6: Analysis of Poland’s technology landscape</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current strengths</strong></td>
</tr>
<tr>
<td>• Well-developed ICT market</td>
</tr>
<tr>
<td><strong>Future prospects</strong></td>
</tr>
<tr>
<td>• Emerging business process outsourcing hub</td>
</tr>
</tbody>
</table>

**Current strengths**

*Well-developed ICT market*

Poland has a well-developed ICT market. The country ranks 49th among 142 countries on the Networked Readiness Index according to the World Economic Forum’s Global Information Technology Report for 2012. The mobile market in Poland grew 4.66% in 2011, with total mobile connections at 47.48 million for the year. Poland is rapidly transforming into a knowledge-based economy. The Polish IT market is expected to be among the region’s fastest growing over the next few years. The number of Internet users increased at an average rate of 24.51% during 2001–11. Banks and telecommunications companies remain the major spenders on IT solutions, along with the public sector. Under the Digital Poland strategy, the government is expected to spend €3.2bn on 23 e-government projects by 2013. The country plans to have 95% of its top 20 public services online by 2013.

**Current challenges**

*Weak performance on innovation indicators*

Poland’s innovation performance is well below the EU average. According to the Innovation Union Scoreboard 2011, Poland ranks among the moderate innovators due to a below average performance in innovation. The country has weaknesses in research systems, linkages and entrepreneurship, and intellectual assets and innovators. In addition, it has also seen a strong decline in small-and medium-sized enterprise innovation and collaboration, as well as dwindling patent applications as of 2010. Poland should step up support for innovation in order to boost the competitiveness of the country in this area.
PESTLE Analysis

Future prospects

Emerging business process outsourcing hub

The country has been emerging as a business process outsourcing (BPO) hub. The city of Krakow has been ranked among the top 20 outsourcing destinations in 2012. Further, two other Polish cities (Warsaw and Wroclaw) were also ranked among the top 100 outsourcing destinations in 2012. Further, Katowice is expected to join the list as it moves away from its traditional heavy industries. The city is part of the bigger metropolis Silesia. According to the Association of Business Service Leaders in Poland, as of 2012 the metropolis has 36 service centers (30 are foreign owned), which form part of the bigger business services cluster. The service centers are diversified in the field of IT services, customer service, finance and accounting, human resources, R&D, financial services, and various other areas. Major foreign transnational corporations operating out of Poland are PricewaterhouseCoopers, CapGemini, Mentor Graphics, Rockwell Automation, Kroll Ontrack, and Displaylink.

The key factor that is propelling Silesia to become the next BPO hub is the availability of a highly educated labor force, given that the region has 29 universities. In addition, labor costs are also quite low, providing further impetus to companies to set up offices in Poland. Another major factor that makes Poland a good prospect to become the next BPO hub is that more than a quarter of the population is fluent in the English language. Poland has all the ingredients to become one of the top outsourcing destinations in the world.

Future risks

Low R&D expenditure

Poland spends a relatively low amount on R&D. According to Innovation Union, the country’s total R&D expenditure was around 0.68% of GDP in 2009, almost one-third of the EU average of 2.01%. Poland’s spending on R&D has been low compared to other Baltic countries. Moreover, business enterprise expenditure on R&D as a percentage of GDP stood at a meager 0.19% of GDP in 2009, well below the EU average of 1.25%. Further, researchers per 1,000 labor force was at 3.6 compared to the EU average of 6.3. The primary reason for low R&D expenditure is low spending on R&D projects by foreign companies in Poland, as well as a lack of implementation of new technologies. The government needs to massively invest in R&D to maintain competitiveness and give a fillip to innovation in the country.
### Legal analysis

#### Overview

Poland has an independent judicial system that is responsible for the maintenance of the country's law and order. Poland’s government is balanced between the legislative, executive, and judicial authorities, and is structured as a unitary state with a combination of presidential and parliamentary systems. However, Poland faces major challenges in terms of its weak business environment and tax compliance. According to the World Bank’s 2013 Doing Business report, starting a business in Poland requires six procedures and 32 days, compared to the OECD average of five procedures and 12 days. The country has embarked on simplifying its business regulations in order to attract more investment and thereby increase employment. Additionally, trade unions pose a major threat to the government’s privatization initiatives, which will open up the market to healthy competition as well as FDI inflows.

<table>
<thead>
<tr>
<th>Current strengths</th>
<th>Current challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Comprehensive legal structure</td>
<td>• Weak business environment</td>
</tr>
<tr>
<td></td>
<td>• High total tax rate and compliance costs</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Future prospects</th>
<th>Future risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Deregulation</td>
<td>• Trade union hurdle to privatization</td>
</tr>
</tbody>
</table>

**Table 7: Analysis of Poland’s legal landscape**

Source: MarketLine

### Current strengths

**Comprehensive legal structure**

The judicial system of Poland has witnessed significant reforms over the years. The current legal system is based on the foundation of Polish law. The Polish constitution, formed in 1997, provides a distinction between universally binding law and internal law. The system relies on a series of codes, which include the Civil Code, the Commercial Code, the Labor Code, customs laws, the Foreign Exchange Act, tax laws, insurance laws, the Law of the Supreme Chamber of Control, and the Law on Public Finance.

Poland’s government is balanced between the legislative, executive, and judicial authorities. It is a unitary state and a legal republic with a combination of presidential and parliamentary systems. The constitution offers provisions for different categories of courts: the Supreme Court, common courts, administrative courts, and military courts. The comprehensive legal and judicial structure of the country has the capability to address various bottlenecks and structural issues in the system, and gives foundational strength to the investment climate of the country.

### Current challenges

**Weak business environment**

Poland was ranked as the world’s 64th freest economy on the Heritage Foundation’s and the Wall Street Journal’s 2012 Index of Economic Freedom. The country was ranked 29th in the European region out of 43 countries. In the World
PESTLE Analysis

Bank’s 2013 Doing Business report, the country was ranked 55th out of 185 countries. According to the report, starting a business in Poland requires six procedures and 32 days, compared to the OECD average of five procedures and 12 days. Further, the amount of time taken in parameters such as dealing with construction permits, securing electricity, registering property, paying taxes, trading across borders, enforcing contracts, and resolving insolvency is much higher in Poland than the OECD average. The country is way below OECD benchmarks in spite of being recognized as the number one performer in improving its business regulations according to the Doing Business 2013 report. The country has to further simplify its business regulations in order to attract more investment and reach OECD standards.

High total tax rate and compliance costs

According to Paying Taxes 2012, Poland’s total tax rate (including profits taxes, labor taxes, and other taxes) is 43.6%, which is slightly higher than the EU average of 43.4%. Due to its high total tax rate, the country ranked 112th out of 183 countries in this parameter. Further, it takes 110 hours to file VAT in Poland, in comparison to the EU average of 68 hours; as a result the country ranked 130th out of 183 countries in this parameter. The country ranked 127th overall out of 183 countries in terms of paying taxes. The government needs to urgently take measures to simplify tax compliance so as to ease tax compliance costs.

Future prospects

Deregulation

As part of its efforts to simplify business management in the country, the government introduced a deregulation package under which companies have been able to issue, send, and store electronic invoices with no electronic signature from January 2011. The government’s new deregulation law is expected to cut red tape and ease the regulatory burden in businesses cleared by the Senate in September 2011. The law was approved by the Sejm in August 2011. The law aims to abolish the costly requirement of companies to publish financial reports in Monitor Polski B, reduce the statute of limitations on unpaid social insurance and farmers’ insurance payments from 10 years to five years, ease health and safety requirements in the construction and renovation of buildings, and exclude costs on public-private partnership projects from public debt and general government deficit calculations.

Further, the government started easing the administrative process for setting up new businesses, which is a welcome move to spur growth. The government has decided to deregulate 380 licensed professions in three phases over the medium term, starting with 49 professions as of 2012. These measures are expected to ease the restrictions on various sectors of the economy and provide a much-needed impetus for growth for the Polish economy over the medium term.

Future risks

Trade unions are a hurdle to privatization

Trade unions have become a major obstacle for privatization and restructuring of businesses, as they constantly strike to preserve the jobs of union members. This has led to apprehension among companies toward increasing hiring in highly unionized sectors, which is becoming a significant barrier to privatization. Poor market conditions coupled with pressure from trade unions could impact the government’s privatization initiatives, as evidenced by the fact that the share of state-owned enterprises has stagnated at around 20% of GDP as of 2012, in spite of zealous efforts by the government toward privatization. Were the government to postpone some of the sales, its budgetary plans would be directly impacted. Privatization is a key part of the government’s attempts to shore up its poor finances, and it cannot afford any break in its privatization schedule.
Environmental analysis

Overview
Poland’s performance has been commendable in terms of balancing economic growth with the raising of environmental standards. The country has amended its environmental law to ensure that protection and development projects take place simultaneously. It is also developing new waste management laws that will act as the basis for the recovery and recycling of hazardous wastes. The government is increasing the use of renewable energy sources such as biomass, wind, and water energy, and plans to increase the share of renewable energy in the gross energy balance of the country to 15% by 2020. However, Poland is facing high pollution levels due to sulfur dioxide emissions from coal-fired power plants, as well as acid rain, which has caused damage to its forests. The country generates more than 90% of its electricity through coal-fired plants, which is a major cause of CO2 emissions. The country's opposition to the EC’s 2050 Low Carbon Roadmap – which targets an 80% cut in CO2 emissions by 2050 compared to 1990 levels – reflects badly on its commitment to move to a low carbon economy.

<table>
<thead>
<tr>
<th>Table 8: Analysis of Poland’s environmental landscape</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current strengths</strong></td>
</tr>
<tr>
<td>• Strong environmental policy framework</td>
</tr>
<tr>
<td><strong>Future prospects</strong></td>
</tr>
<tr>
<td>• Waste management initiatives</td>
</tr>
<tr>
<td>• Increase in renewable energy use</td>
</tr>
</tbody>
</table>

Source: MarketLine

Current strengths

**Strong environmental policy framework**
Poland has a strong environmental policy framework in place. The Ministry of Environmental Protection and Natural Resources Policy was established in 1985, and is responsible for the protection of the environment. The ministry commissioned the State Environmental Protection Inspectorate, which regulates the industries that cause pollution. The ministry introduced the Act on Waste in 2001, which aims for sustainable development and to limit the amount of waste and its negative environmental impact. It also implemented the Recycling of End-of-Life Vehicles Act in 2005, with a view to safeguarding human health and the environment.

The country has amended its environmental law to ensure environmental protection and development projects take place simultaneously. The country has also developed an environmental impact forecasting system for road construction projects until 2012 that reconciles both development and environmental interests. Under the new General Directorate for Environmental Protection, the process of obtaining environmental clearance for building roads and motorways has been reduced from 300 to 100 days. The country’s strong environment policy framework focuses on implementing environmental policies so as to address its environmental and energy concerns.
PESTLE Analysis

Current challenges

*Excessive dependence on coal*

The energy sector of Poland is one of the largest in Central and Eastern Europe. A major portion of annual demand for energy is met by coal-fired plants. Poland generates around 94% of its electricity through such power stations, making it the most coal-dependent state in the EU. Over the years, Poland has witnessed major economic growth, and its consumption of power is expected to rise by 80–90% by 2025 compared to 2005 levels. In addition, most of the coal-fired power plants have been functioning for more than 30 years and require modernization. Poland has been facing high pollution levels over the years due to sulfur dioxide emissions from coal-fired power plants and acid rain that has caused damage to its forests.

Future prospects

*Waste management initiatives*

The country is developing new waste management laws that will act as the basis for the recovery and recycling of glass, metal, paper, electrical, and electronic waste, batteries and accumulators, and old cars across the country. The new waste management system will enable the government to replace hazardous landfills with efficient facilities, where waste can be segregated, recycled, and even used for energy production. The government has also taken a stringent stand against the country’s waste management black market. The country is implementing the GreenEvo Green Technology Accelerator project, which aims to promote the transfer of innovative environmental protection technologies globally. Technologies cover sewage and wastewater treatment, hazardous waste processing, renewable energy, coke engineering, and energy efficiency.

*Increase in renewable energy use*

The government is increasing the use of renewable energy sources such as biomass, wind, and water energy. The government plans to increase the share of renewable energy in the gross energy balance of the country to 15% by 2020. The country currently depends on coal for 94% of its electricity generation. As part of its commitment to reduce greenhouse gas emissions by 20% by 2020, the government plans to use nuclear energy, and will build two nuclear power facilities by 2020. In June 2011, the Polish parliament passed the nuclear power legislation and the law on investment for constructing nuclear reactors.

Future risks

*Opposition to 2050 Low Carbon Roadmap*

In June 2011, Poland opposed the EC’s 2050 Low Carbon Roadmap, which was supported by all the other EU bloc countries. The roadmap targets a 40% cut in carbon emissions by 2030, 60% by 2040, and 80% by 2050 compared to 1990 levels. The EU countries also arrived at a consensus for 25% cuts by 2020 (up from the current 20%), which was also opposed by Poland. The country uses coal to produce more than 90% of its electricity, which is a major cause of CO2 emissions. This anti-environmental stance does not augur well for the country’s commitment to move toward a low carbon economy.
POLITICAL LANDSCAPE

Summary

Poland has had a turbulent political history. The country became democratic after World War I, but the Soviet Union installed a communist regime following World War II. After many decades of communist association, Poland regained its democracy in 1989. The country is a member of both the North Atlantic Treaty Organization (NATO) and the European Union (EU). As one of Europe’s rapidly growing economies, and the proposed site for NATO’s missile defense system, Poland continues to be of political significance to Europe and the world. Bronisław Komorowski won the presidential election held in July 2010 following the death of President Lech Kaczyński in a plane crash on April 10, 2010. The Civic Platform (Platforma Obywatelska [PO]), which now has control of both the government and the presidency, promises to dismantle more communist policies and focus on economic reforms.

Evolution

Pre-1985

The state of Poland was formed around 956 AD, and it became a kingdom in 1025. In 1569, it entered into a commonwealth association with Lithuania that lasted until 1795. The commonwealth’s political system consisted of the sovereign, whose power was reduced under law, and the legislature (Sejm), which was controlled by the nobility (Szlachta). Conflicts with Sweden (known as the Deluge) and the rebellion of the Cossacks led to the weakening of the alliance. Poland was finally partitioned in three stages between the Russian Empire, the Kingdom of Prussia, and the Habsburg Monarchy in the late 1700s.

Poland re-established its independence in 1918. In 1939, Poland was invaded by Germany and the Soviet Union, which led to the deaths of millions of Polish civilians. After the war, Poland became one of the Soviet Union’s communist allies until 1989, when it finally regained democracy. The post-war government was led by Boleslaw Bierut. His death in 1956 paved the way for Władysław Gomułka to become first secretary. Gomułka was replaced in 1970 by Edward Gierek. Poland became the first communist state to recognize a trade union, Solidarity, led by Lech Walesa. In 1981, martial law was imposed to control civil disturbances. The following year, Solidarity was banned and its leaders arrested. In 1984, martial law was lifted, and General Jaruzelski became president in 1985.

1985–2000

In 1986, Solidarity’s leaders were released. During the 1989 election, Solidarity (which had now been legalized) won the majority in both houses of parliament, and Poland finally regained its democratic status. Walesa was elected as president, and Tadeusz Mazowiecki became prime minister. Poland’s eventful politics continued, with the country having eight prime ministers in the six years from 1990 to 1996. This was partly due to the disruptions caused by the transformation of the Polish economy from a communist system to a capitalistic, market-driven system. The principal political parties during this period were the Democratic Left Alliance (Sojusz Lewicy Demokratycznej [SLD]) and the Polish Peasants’ Party (Polskie Stronnictwo Ludowe [PSL]). In 1995, Lech Walesa lost his re-election bid to Aleksander Kwasniewski, the SLD candidate.

Solidarity Electoral Action (Akcja Wyborcza Solidarnosc [AWS]), the political coalition that grew out of the Solidarity labor union, won the 1997 election and formed a coalition government with the Freedom Union (Unia Wolnosci), a party advocating market reform; the AWS leader Jerzy Buzek became prime minister and worked to speed up the process of these reforms. A new constitution was approved in 1997, reducing the authority of the president and increasing the
Political Landscape

parliament’s relative power. In 1999, Poland joined NATO.

2000–11

President Kwasniewski was re-elected in 2000, but the AWS-led coalition collapsed during the same year, with Prime Minister Buzek remaining in power. This was followed by the electoral victory of the SLD, led by Leszek Miller. The subsequent coalition government consisted of the SLD, the PSL, and the Labour Union (Unia Pracy). Miller became prime minister of Poland in 2001. Economic conditions continued to worsen after 2001, however, leading to the breakdown of the coalition. The PSL was expelled from power, while the SLD led a minority government; this had fallen by 2004, mostly as a result of unpopular budget cuts. In the same year, Poland joined the EU. Miller’s successor was the former finance minister Marek Belka. Continued weakness in the employment sector followed by a series of political scandals led to the erosion of support for the SLD. This led to the socially conservative Law and Justice (Prawo i Sprawiedliwość [PiS]) and the economically conservative PO winning roughly 30% of the seats in the lower house in the August 2005 parliamentary election. However, attempts to create a new coalition government failed due to differences between the two parties.

Polish politics entered into a phase of conservatism with the ascent of Lech Kaczynski as president. Kaczynski belonged to the PiS, and defeated the PO candidate Donald Tusk. The PiS came into power initially by forming a minority government, but secured stability by gathering support from two fringe parties by February 2006. The increasing tensions between the president and Prime Minister Kazimierz Marcinkiewicz led to the prime minister’s resignation. Marcinkiewicz was eventually replaced by Jarosław Kaczynski, leader of the PiS. In November 2007, Tusk was publicly elected as prime minister.

The country witnessed a political crisis in September 2006 when the leftist Self-Defence of the Republic of Poland (Samoobrona Rzeczypospolitej Polskiej) left the government, rejoining the following month to avoid forcing an election. Poland’s support for the missile defense treaty and its welcoming of anti-ballistic missile systems to its soil put a strain on its relationship with Russia in 2007. In 2008, the Polish government entered into an agreement with the US to host an American missile defense system. President Kaczynski was killed in a plane crash on April 10, 2010. Three months after his death, Bronisław Komorowski was elected as the new president after a close electoral process. In July 2011, Poland took over the EU rotating presidency for the first time since it joined the bloc in 2004.

The results of the October 2011 parliamentary election showed that the country’s ruling coalition government had secured a majority in the Sejm, the lower house of parliament. Prime Minister Tusk’s PO won 207 seats in the Sejm, while its coalition partner the PSL won 28 seats. Together they have a majority of 235 of the 460 seat Sejm.
**Political Landscape**

**Figure 2: Poland – key political events timeline**

- The state of Poland was formed around 956 AD, and it became a kingdom in 1025. In 1569, it entered into a commonwealth association with Lithuania which lasted till 1795.
- Poland reestablished its independence in 1918.
- In 1939, Poland was invaded by Germany and Russia (after their non-aggression pact), which led to severe loss of Polish life during the conflict.
- In 1945, Poland was liberated from the Nazis by the Red Army; and during the same year, Soviet forces captured Warsaw.
- In 1981, martial law was imposed to control the civil disturbances.
- In 1984, martial law was lifted and General Jaruzelski became the president in 1985.
- During the 1989 elections, Solidarity movement won a majority in both houses of the parliament and Poland finally became a democratic country.
- Free elections were introduced after the meeting between the communist authorities and the Solidarity opposition movement in 1989.
- In 1955, Poland joined the Warsaw Pact defence organization.
- In 1981, martial law was imposed to control the civil disturbances.
- In 2000, President Kwasniewski was re-elected, but the AWS-led coalition collapsed while Prime Minister Buzek remained in power.
- Economic conditions continued to worsen after 2001, leading to the breakdown of the SLD and PSL coalition.
- The PSL was expelled from the government while the SLD, which led a minority government, fell by 2004, mostly as a result of budget cuts.
- In 2004, Poland joined the EU.
- The Law and Justice Party came into power by initially forming a minority government, but secured stability by gathering support from two fringe parties by February 2006.
- In 2007, Donald Tusk was publicly elected as the prime minister.
- Lech Kaczynski, president of Poland died in a plane crash on April 10, 2010.
- In July 2010, Bronislaw Komorowski, the Civic Platform government’s presidential candidate, won 53% of the popular votes, thus defeating Jaroslaw Kaczynski. Komorowski was sworn in as president in August 2010.
- In October 2011, the ruling Civic Platform coalition won a majority of seats in the parliamentary elections with the support of the PSL.

**Structure and policies**

**Key political figures**

The key political figures in Poland are:

- Prime Minister Donald Tusk.
- President Bronislaw Komorowski.
Political Landscape

Structure of government

Structure of legislature

The Polish legislature (or National Assembly) consists of a bicameral parliament consisting of a 460 member lower house (the Sejm) and a 100 member Senate (Senat). Members of the Sejm are elected by proportional representation. The Senat is chosen via a bloc voting system, whereby several candidates with the highest support are elected from each constituency. Only candidates of political parties receiving at least 5% of the total national vote can enter the Sejm, with the exception of ethnic minority parties. The National Assembly is formed on the following three occasions:

- when a new president takes their oath
- when the president is indicted (in the State Tribunal)
- when the president is incapacitated due to ill health.

Executive branch

The head of state is the president. Bronislaw Komorowski is currently the president of Poland. The government consists of a council of ministers led by the prime minister. The council of ministers is appointed by the president following proposals from the prime minister. The president is elected every five years by popular vote. The prime minister is appointed by the president.

Composition of the lower house of parliament

As of October 2011, the lower house of parliament had the following composition: 207 PO members, 136 PiS members, 27 SLD members, 28 PSL members, and 40 Palikot's Movement (Ruch Palikota [RP]) members, with other parties accounting for the remaining 22 seats – 21 United Poland (Solidarna Polska [SP]) members and one German Minority (Mniejszosc Niemiecka) member.

Donald Tusk has been the prime minister of Poland since November 2007. He is a center-right Polish politician and chairman of the Civic Platform. He served as the vice-speaker of the Sejm (lower house) during 2001–05, and has been a member of the Sejm since 2004. Tusk represented the constituency of Gdynia Slupsk during 2001–05, and represented Gdansk during 2005–07.

Bronislaw Komorowski is the president of Poland. When Lech Kaczynski, the former president of Poland died in a plane crash on April 10, 2010, presidential powers and duties were transferred to Komorowski because he was the marshal of the Sejm, the lower house of the parliament. He was the Civic Platform government’s presidential candidate in the resulting 2010 presidential elections, which he eventually won. He was appointed as president in August 2010. Komorowski was Polish minister of national defense during 2000–01. From 2005 to 2007, he was vice-marshall of the Sejm. In November 2007, he became marshal of the Sejm.

Source: MarketLine
**Key political parties**

The PO is a liberal-conservative Christian-democratic political party. Bronislaw Komorowski, the PO government’s presidential candidate, won 53% of the popular vote in July 2010, defeating Jaroslaw Kaczynski of the socially conservative PiS. Komorowski was sworn in as president in August 2010. The party currently has 207 members in the lower house of parliament.

The PiS was established by the Kaczynski brothers Lech and Jaroslaw in 2001. The party’s main ideology is social conservatism with fiscal moderation. The party was initially established by Lech while he was head of the Polish Ministry of Justice from 2000–01. The party is a strong supporter of laws created to combat the influence of communist-era security services by a system of verification. It is also a supporter of strong criminal penalties, including anti-corruption measures, and the strengthening of public institutions. The party is in favor of stronger and closer military and political ties with the US. Following the defeat of anti-abortion amendments to the constitution, there was a minor split in the party in April 2007. Subsequently, seven members of parliament led by Marek Jurek formed their own party, the Right of the Republic (Prawica Rzeczypospolite). Jaroslaw Kaczynski was defeated by Komorowski in the presidential election held in July 2010. The party currently has 136 members in the lower house of parliament.

**Key policies**

**Economic policies**

Government policies will continue to focus on containing the budget deficit against the backdrop of slow growth and risks from the eurozone. The government has removed several tax breaks and introduced sector specific taxes and new corporate taxes to be effective from 2013. Further, the government has hiked the social security charges of employers by 2 percentage points. Moreover, the retirement age will be increased for both men and women effective from 2013.
government is contemplating changes to the tax system, especially for miners and farmers, and has imposed new taxes in copper and silver extraction. The privatization plans are expected to be given a push as the government is likely to miss the budget deficit figures for 2012 by 0.5%, from its target of 3%. However, the Polish prime minister emphasized the importance of growth-led fiscal consolidation, and announced in October 2012 that although the government’s focus would be on curbing the deficit, it would ramp up infrastructure spending over the next two years to the tune of PLN220bn ($69.92bn) to revive growth and job prospects.

Social

The government has put a lot of emphasis on improving social infrastructure during 2012–13. The main measures taken by the government include investment in healthcare infrastructure, the improvement of the quality of healthcare services (mainly for the dependent and old aged), strengthening and modernizing the education system, and improved access to social services for the country’s youth and the children. With respect to the labor market, the implementation of a lifelong learning policy will be carried out during 2012–13. In addition, the government is planning to increase the labor participation of the 50+ age group and the under 30 age group. Further, improvements have been suggested by the government in terms of general education to better match the skills required by the labor market, which are to be implemented by 2013. Policies to reform the pension system and to enhance the work-life balance are to be introduced. Moreover, the government stressed the importance of childhood education in the National Reform Programme 2012. The government has also decided to undertake social housing projects to reduce social exclusion; in addition, measures such as subsidized employment for the disabled, encouraging social entrepreneurship, and the rehabilitation of disabled persons have been introduced. The government has also initiated steps for the social inclusion of immigrants.

Foreign

Poland has made a conscious effort to ally itself with Western European security and economic groups since the signing of the Warsaw Pact. In recent years, there have been signs of an improvement in relations with Russia. Russian president Vladimir Putin journeyed to Warsaw in January 2002 (becoming the first Russian premier to visit Poland in almost nine years in the process), and both countries were keen to dismiss previous disagreements over NATO. Efforts at boosting trade links between the two were at the center of discussions, which also touched upon cross-border crime and energy sector issues. However, Moscow imposed a ban on Polish agricultural imports in 2005 in retaliation to Poland not signing the Energy Charter. Relations between the two countries were also damaged by the Polish support for the Ukrainian Orange Revolution, a series of protests and political events that took place in Ukraine during 2004–05.

When Poland officially opened talks with the EU over joining the then 15 member union in 1998, the country was seen as one of the leading candidates for membership. Over the next couple of years, however, Poland was perceived to have lost ground to other candidates that were seen to be more proactive in reforming institutional and economic arrangements in order to meet Brussels’ strict membership rules. In reality, Poland probably suffered from inflated prior expectations, as the extent of its economic problems was not immediately appreciated. By far the largest of the 10 accession candidates at the time, Poland also had a huge agricultural sector, much of which was viewed by EU officials as “semi-subsistence” in terms of structure and development. Poland’s persistent corruption and high unemployment rates were further economic barriers to EU membership. In 2002, the European Commission listed Poland among the 10 countries recommended for membership in 2004, which is when Poland’s accession, along with that of the other nine candidates, took place.

Poland holds some important positions in the EU. Jerzy Buzek was the president of the European Parliament until January 2012, and Janusz Lewandowski heads the EU budget as of October 2012. The country also holds important positions in the European External Action Service and NATO. Some of the important reference points of its foreign policy
Political Landscape

are its membership in the North Atlantic Alliance and the EU and its partnership with the US.
Germany is Poland’s biggest economic partner, with Polish exports to Germany amounting to 27% of total exports in 2011. Along with Germany and France, Poland has reactivated the Weimar Triangle, under which the heads of state and government hold discussions on defense co-operation, as well as EU relations with Russia and other Eastern European states. The country also enjoys strong relations with Great Britain, Italy, and Lithuania, and is an active member of the Visegrad Group that includes the Czech Republic, Slovakia, and Hungary.

After the presidential election held in July 2010, Poland and Russia emphasize a willingness to make efforts to normalize bilateral relations. Under Komorowski’s governance, Poland is expected to engage in political and economic co-operation with Russia. Poland has negotiated a local border traffic agreement with Russia that opens up the Kaliningrad Oblast to Europe, as well as opening the Strait of Baltiysk for navigation.

The country’s bilateral co-operation with Ukraine also remains stable. The country has implemented a local border traffic agreement with Ukraine, and has opened two new consular offices and established a new seat of the Consulate General in Lviv. The country also supports Ukraine’s accession to the EU. However, Poland follows a policy determined by conditionality toward Belarus. It strongly condemns the violation of fundamental human and civil rights in Belarus, with the country yet to transition to a stable democracy.

In Afghanistan, the country is following objectives according to the United Nations (UN) charter. However, the country has set 2014 as the deadline to end its presence in the country. Poland plans to develop trade and business contacts with Asian, Latin American, and African countries in infrastructure, finance, tourism, and high technology.

Defense

The country’s defense security is enhanced by its membership in NATO and the EU, as well as its strategic partnership with the US. Membership in the North Atlantic Alliance and the EU and the partnership with the US are the main reference points for the country’s defense policy. The country plans to support and be actively involved in the development of the European Defence Agency, which will enhance defense capabilities and the European defense market. The country is developing strong military co-operation with the US, the Weimar Triangle, and the Visegrad Group. Poland actively participates in UN peacekeeping operations, as well as the work of the Organization of Security and Co-operation in Europe.

Poland has significantly fallen short on military investment compared to the past, despite the pressing need to modernize its defense equipment. After joining NATO in 1999, Poland initially focused on reforming its martial ranks through a thorough process of reduction and reorganization and a complete alteration of the military’s mission outlook. While this improved the ability of the armed forces to interoperate with NATO forces in terms of training and flexibility, the gap between its resources and those of its NATO allies has persisted.

Over the years, however, the government has steadily increased its defense spending, with an average increase of around $800m in 2007 and 2008. The increased investment in defense helped the Polish Defense Ministry to fund its F-16 fighter program, as well as other ongoing procurement ventures such as those for the Rosomak armored vehicle, Spike-LR anti-tank weapons, C-295M transport planes, Gawron-class corvettes, ammunition, and C3 equipment. In July 2010, Poland and the US signed an amended agreement related to the deployment of ballistic missile defense interceptors in Poland. The agreed missile defense site in Poland is scheduled to become operational in 2018. The ministry plans to spend around $21bn on modernizing its armed forces by 2018. In October 2012, the government said it is planning to buy 70 military helicopters, which will be one of the country’s biggest ever defense deals. The cost of the procurement is expected to be around PLN10bn ($3.17bn).
Political Landscape

Performance

Governance indicators

The World Bank report on levels of governance used factors such as voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law, and control of corruption as indicators for 215 countries and territories over 1998–2011. The study was conducted by Daniel Kaufmann of the Brookings Institution, Massimo Mastruzzi of the World Bank Institute, and Aart Kraay of the World Bank Development Economics Research Group. For any country, a percentile rank of zero corresponds to the lowest possible score and a percentile rank of 100 corresponds to the highest possible score.

Poland was ranked in the 79.3 percentile on voice and accountability in 2011. Voice and accountability measures the extent to which a country’s citizens are able to participate in selecting their government, along with freedom of expression, freedom of association, and freedom of the media. In comparison, Poland fared better than its neighbor the Czech Republic, which scored a percentile rank of 76.5.

Poland ranked in the 85.8 percentile on political stability and absence of violence in 2011. Political stability and absence of violence measures perceptions of the likelihood that the government will be destabilized or overthrown by unconstitutional or violent means, including domestic violence and terrorism. In comparison, Poland placed below the Czech Republic, which scored a percentile rank of 87.3.

Poland was ranked in the 71.6 percentile on government effectiveness in 2011. Government effectiveness measures the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government’s commitment to such policies. In comparison, Poland placed below the Czech Republic, which scored a percentile rank of 81.5.

Poland’s percentile ranking in terms of regulatory quality was 80.1 in 2011. Regulatory quality measures the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development. In comparison, Poland placed below the Czech Republic, which scored a percentile rank of 86.3.

Poland received a percentile rank of 71.4 in 2011 in the rule of law parameter. Rule of law measures the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, the police, and the courts, as well as the likelihood of crime and violence. In comparison, Poland placed below the Czech Republic, which scored a percentile rank of 81.2.

Poland’s percentile ranking in terms of control of corruption was 71.6 in 2011. Control of corruption measures the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, and the extent to which the state is controlled by elite and private interests. In comparison, Poland placed above the Czech Republic, which scored a percentile rank of 66.8.

Outlook

Poland has evolved into a stable democracy since the fall of communism in the country, and it is now an important ally of the US in Europe. The country is expanding ties with emerging markets, especially China, which is expected to reduce its dependence on Europe for trade and investments. On the international front, diplomatic relations with Russia are expected to remain subdued. Meanwhile, the domestic political landscape is dotted with corruption scandals, which has taken a toll on efficient governance. Further, the falling popularity rating of the present government is a cause for concern, and could hamper reform measures. In addition, increasing factionalism in the ruling coalition is taking a toll on political stability. The coalition is expected to face considerable hurdles, when it presses ahead with the unpopular but
much-needed fiscal reforms to bring in fiscal prudence to bolster market confidence in the economy. With the economy slowing down the opposition is regaining lost ground. Furthermore, rising protests will make it tough for the government in the near term.
ECONOMIC LANDSCAPE

Summary

Poland’s economy is one of the strongest in Eastern Europe. European Union (EU) membership has helped Poland in terms of providing employment and structural funds. Poland was the only country in the EU that managed to avoid a recession in 2009, with the economy posting growth of 1.60% due to strong economic policies, robust domestic demand, and a flexible currency. The economy grew by 3.91% in 2010 and 4.28% in 2011. According to MarketLine forecasts, economic growth is expected to be 2.74% in 2012. The country still needs to implement economic reforms before it adopts the euro as its standard currency.

Evolution

1945–90

Poland’s economy was in complete disarray at the close of World War II. The economy had witnessed a slight improvement by 1949 with signs of a more centralized form of government. The 1950 six year plan focused on the country’s transformation into a Soviet economy, which aimed for rapid industrial development – particularly in mining and manufacturing – at the cost of agriculture and consumer goods and services. By the late 1970s, Poland suffered from huge foreign debts, trade deficits, and shortages of food and other essentials.

The economic reforms of the Balcerowicz Plan (a process for transitioning from a communist economy to a capitalist market economy implemented in 1990) eliminated price controls, eradicated most subsidies, provided increased competition in open markets, and imposed strict budgetary and monetary discipline.

1990–2011

Poland has followed a policy of economic liberalization since 1990. The country’s recession ended in the early 1990s, and in 1992 the economy witnessed slow growth. During 1992–94, the country faced high unemployment. Western firms invested significantly in improving the nation’s outdated telecommunications network. By mid-1992, there were around 700,000 new companies and several new jobs provided increased wages. The Polish economy responded quickly to the economic reforms of the early 1990s, enjoying rapid growth mid-decade in response to robust inflows of foreign direct investment (FDI). In the early 2000s, however, economic growth decelerated significantly, falling back to 1.21% in 2001 and 1.44% in 2002.

Since 2003, Poland’s economic performance has been relatively strong, and real GDP growth averaged 4.28% over 2003–05. In 2006, GDP grew at 6.23%, owing to an increase in private consumption and strong growth in FDI and exports. In 2003, Poland signed the Accession Treaty, with a vision of becoming an official member of the EU. Poland acquired EU membership and gained access to EU structural funds in 2004, offering the country a major enhancement to its economy. Poland joined the Schengen area in 2007, which involves the abolition of border posts and checks between countries including Germany, the Czech Republic, Slovakia, and Lithuania. In 2007, the Polish economy attained a growth rate of 6.79%. With the start of the global financial crisis, the growth rate declined to 5.10% in 2008. Poland was the only country in the EU that escaped recession in 2009, recording growth of 1.60% owing to its strong economic policies and robust domestic demand. A resilient banking sector and a flexible currency also supported the country’s growth. The economy grew by 3.91% in 2010 and 4.28% in 2011. According to MarketLine forecasts, economic growth is expected to be 2.74% in 2012.
Structure and policies

Financial system

The financial system of Poland has historically been dominated by a strong and stable banking sector. Since its political transformation in 1989, the country has been able to avoid the serious shocks experienced by other countries in the region. In 2010, the country had 49 commercial banks and 576 co-operative banks, as well as 21 branches of credit institutions. Polish banking has been highly resilient and reported increased profits to the tune of 37% year-on-year in 2011. According to the International Monetary Fund (IMF), the banks reported a healthy capital adequacy ratio of 13% in 2011, with Tier 1 comprising around 90% of total capital. The loan to deposit ratio increased marginally and stood at 113% as of 2011, which may pose some funding risk in the future. Total loans outstanding stood at PLN800.76bn ($254.52bn) in 2011, up from PLN698.53bn ($222.03bn) in 2010. Non-performing loans stood at 8.2% as of 2011.

Financial authorities and regulators

Narodowy Bank Polski (NBP), the central bank of Poland, controls the issuing of Poland's currency and maintains its stability. The bank also has concessions to operate in foreign currencies and buy off credits issued by external companies and banks. The NBP is regulated by the constitution of Poland and the National Bank of Poland Act.

The Polish Financial Supervision Authority (PFSA) was established in September 2006 to supervise the financial market, taking over the roles of the Insurance and Pension Funds Supervisory Commission, the Securities and Exchange Commission, the Commission for Banking Supervision, and the General Inspectorate of Banking Supervision. The PFSA
Economic Landscape

is responsible for the supervision of the banking, capital market, insurance, pension, and electronic money market sectors.

Polish stock markets

The key organizations in the Polish capital market are the Warsaw Stock Exchange (WSE), which manages the cash and derivative markets, and the National Depository for Securities, which handles clearing and settlement activities on the regulated market. The WSE was formed in 1991 and operates electronic paperless trading. The Polish State Treasury, which held a majority share in the WSE, sold 30% of its shares to retail investors in October 2010. The securities traded on the WSE include equities, bonds, and allotment and investment certificates, as well as derivative instruments such as futures contracts, options, index participation units, and warrants. The capital market is administered by the PFSA.

The WSE is the largest stock exchange in Central and Eastern Europe in terms of market capitalization and equity trading value. In February 2010, the WSE was recognized by HM Revenue & Customs, making the Warsaw bourse more attractive and accessible for UK-based investors. The market capitalization of both domestic and foreign companies on the WSE totaled $159.57bn at the end of September 2012. As of September 2012, 855 companies (21 foreign companies) traded on the WSE.

Insurance

According to MarketLine, the Polish insurance market had total gross written premiums (GWP) of $17.7bn in 2010, representing a compound annual growth rate (CAGR) of 9.7% between 2006 and 2010. In comparison, the Russian and Czech markets recorded CAGRs of 14.7% and 6% respectively over the same period to reach values of $34.2bn and $7.9bn in 2010. The life insurance segment was the market's most lucrative in 2010, with total GWP of $8,961.7m, equivalent to 50.5% of the market's overall value. The non-life insurance segment contributed GWP of $8,771.8m in 2010, equating to the remaining 49.5% of the market's aggregate value.

The performance of the market is forecast by MarketLine to decelerate, with an anticipated CAGR of 7% for 2010-15, which will drive the market to a value of $24.9bn by the end of 2015. Comparatively, the Russian and Czech markets will record CAGRs of 12.4% and 4.1% respectively over the same period to reach values of $61.3bn and $9.6bn in 2015.

Asset management

The mutual fund and asset management markets in Poland grew at a rapid pace until 2007, before slackening in 2008. The total market for assets under management in 2007 was worth around $146bn, representing an increase of 32% over 2006. This significant increase was due to the favorable climate for equity markets, as well as low interest rates. At the end of December 2010 there were 50 investment fund management companies in the country, managing 417 investment funds, including 71 open-end investment funds, 47 specialist open-end investment funds, and 229 closed-end investment funds. The PFSA supervises foreign investment funds and sub-funds comprising foreign investment funds that market their shares in Poland. The aggregate profit of investment fund management companies reached PLN442m ($140.49m) in 2010, PLN76m ($24.15m) higher than in 2009. The total value of assets with the investment fund management companies at the end of 2010 was PLN134.2bn ($42.65bn), compared to PLN103.5bn ($32.89bn) in 2009. According to The Chamber of Funds and Asset Managers, the asset management industry total valuation was PLN114.4bn ($36.36bn) in 2011; the drop was mainly due to a fall in retail fund assets to the tune of 14% in 2011.

Key policies

Government policies will continue to focus on containing the budget deficit against the backdrop of slow growth and risks from the eurozone. The government has removed several tax breaks and introduced sector specific taxes and new corporate taxes to be effective from 2013. Further, the government has hiked the social security charges of employers by
Economic Landscape

2 percentage points. Moreover, the retirement age will be increased for both men and women effective from 2013. The government is contemplating changes to the tax system, especially for miners and farmers, and has imposed new taxes in copper and silver extraction. The privatization plans are expected to be given a push as the government is expected to miss the budget deficit figures for 2012 by 0.5%, from its target of 3%. However, the Polish prime minister emphasized the importance of growth led fiscal consolidation and announced in October 2012 that although the government’s focus would be on curbing the deficit, it would ramp up infrastructure spending over the next two years to the tune of PLN220bn ($69.92bn) to revive growth and job prospects.

Performance

GDP and growth rate

Overview

GDP growth in Poland averaged 4.55% during 2002–07, higher than the average growth rate of 3.62% during 1991–2001. Real GDP growth increased to 6.79% in 2007 compared to 1.21% in 2001. Real GDP grew due to an increase in private consumption and strong growth in FDI and exports. Although the growth rate plummeted to 5.10% in 2008, it remained higher than the growth rates of other European nations. Sound monetary and fiscal policies along with reform measures played an important role in the resiliency of the Polish economy. While most European countries were still battling recession, Poland witnessed a GDP growth rate of 1.60% in 2009, which further grew to 3.91% in 2010 and 4.28% in 2011. MarketLine forecasts that the economy will grow by 2.74% in 2012.
**GDP composition by sector**

The services sector was the major contributor to the Polish economy in 2011, constituting around 64.56% of GDP. It was also the fastest growing segment. The industry sector contributed 31.71% of GDP and the agricultural sector contributed 3.72% of GDP.
Agriculture

Agricultural output in Poland has grown significantly since 1990. The sector remains one of the fastest growing of any Organisation for Economic Co-operation and Development nation. As of June 2010, agricultural land constituted around 50% of the total area of the country. Around 17.4% of the labor force was employed in agriculture as of 2005 according to the Central Intelligence Agency’s The World Factbook. The country’s primary agricultural crops include wheat and other cereals, potatoes, sugar beets, and fodder crops. It is also the biggest exporter of apple concentrate and one of the world’s leading producers of berries, cabbages, and carrots. The country’s agricultural output saw a drastic fall in 2005, contracting by 4.84%, but growth picked up again and reached around 11.28% in 2007. Growth contracted by 6.40% in 2008. Agricultural output stood at PLN43.06bn ($13.68bn) in 2009, growing by 4.28%. In 2010, growth increased to 8.55% and output reached PLN46.74bn ($14.85bn). However, in 2011 the growth rate dipped to 4.52% in 2011, with output of PLN 48.85bn ($15.52bn).
Industry

The industrial sector accounted for around 31.71% of GDP in 2011. The country has significant mineral resources, and holds the fifth largest proven reserves worldwide in terms of hard and brown coal. It also has deposits of lead, silver, magnesium, copper, sulfur, zinc, and salt, as well as chalk, kaolin, clays, and potash. Other industries include iron and steel, mining, shipbuilding, automobiles, furniture, textiles and apparel, chemicals, food processing, glass, and beverages. The country’s industrial output recorded an annual average growth rate of around 8.77% during 2003–10. Industrial output amounted to PLN416.11bn ($132.26bn) in 2011, with a growth rate of 3.66%.
Figure 9: Industrial output of Poland, 2006–11

Note: the sectoral breakdown is given in local currency due to the impact of foreign exchange fluctuations on growth figures.

Source: Country Statistics, MarketLine

**Services**

The services segment in Poland contributed around 64.56% of GDP in 2011. Tourism is a significant industry within this sector, and an important revenue generator for the country's economy. The increasing number of foreign visitors – combined with the rising income of inhabitants and the European football finals co-hosted by Poland and Ukraine in 2012 – gave a huge boost to the tourism industry. The country intends to attract approximately 19 million foreign visitors per year by 2012, up from the 15 million recorded in 2007. In addition, according to the Institute of Tourism, the hotel industry of Poland is expected to grow significantly. It is anticipated that over the next five years, the value of hotel construction will rise at an average rate of 17% annually to reach $399.8m in 2012. The country’s services output recorded an annual average growth rate of 6.49% during 2002–10. Services output reached a value of PLN847.13bn ($269.26bn) in 2011, which equated to growth of 5.98%.
Fiscal situation

Consolidation of its fiscal position is Poland’s priority at present. Public debt remained at 56.1% of GDP by the first quarter of 2012, compared to the euro area’s 88.2% of GDP. The government is set to miss its deficit target of 3% by 2012 by 0.5% as per the budget draft released in September 2012; the deficit figure is expected to be 3.5% come the end of the year. However, the government has done a commendable job to narrow the deficit from 7.9% in 2010 to 5.1% in 2011. Measures taken in 2012 to curtail the deficit have included a hike in VAT rates, a public wage freeze, and a freeze in the threshold limit of personal income tax. In addition, other measures on the revenue side that were taken were an imposition of extraction taxes and an increase in disability contributions. On the expenditure side, the government abolished the early retirement scheme. Further, it is expected to garner additional revenue from increases in dividends from public sector companies, the narrowing of local government deficit figures, and changes to pension contributions. The government has embarked on fiscal consolidation to the tune of 1.25% of GDP in 2012.

Current account

According to the IMF, the current account deficit narrowed from 6.60% of GDP in 2008 to 4.30% of GDP in 2011 owing to strong exports. The financing of the current account has mainly been through net FDI inflows and transfers from the EU. However, increased financing of the current account through volatile sources such as portfolio inflows in government bonds has increased concerns. Further, restricted investment inflows from EU banks have raised more questions about the volatility of the sources, as the parent banks faced liquidity constraints in 2012 and became cautious in their funding.
Economic Landscape

of their Polish subsidiaries. Thus the current account deficit is expected to increase marginally to 4.54% in 2012 according to the IMF.

Exports and imports
Trade growth has been robust in the Polish economy. The country conducts around two-thirds of its merchandise trade with EU nations. In 2011, total exports amounted to $224.35bn, whereas imports stood at $238.46bn. Since 1989, EU exports to Poland have increased by 300% and EU imports from Poland have increased by more than 200%. Most of the Polish imports from the EU consist of machinery and electrical goods, which make up almost 27% of the country’s total imports. In 2011, Germany received 27% of Polish exports, followed by the UK (6.6%), the Czech Republic (6.4%), France (6.3%), Italy (5.6%), the Netherlands (4.5%), and Russia (4.2%).

In 2011, Germany provided nearly 28.7% of Poland's imports, making it the country’s most important single import trading partner. Germany was followed by Russia (10.3%) and the Netherlands (5.9%). Other important partners were Italy, China, France, and the Czech Republic. Total trade increased from $400.02bn in 2010 to $462.81bn in 2011.

![Figure 11: External trade of Poland, 2007–11](chart)

Source: Country Statistics, MarketLine

External debt
External debt stood at $333.54bn (64.8% of GDP) in 2011 according to the IMF.
Economic Landscape

International investment position

Foreign direct and portfolio investments

Poland was and still is a very attractive destination for capital inflows. The sustained interest of investors in Poland persists due to strong fundamentals such as location (efficient access to all of Europe), infrastructure (both physical and technological), market access, and labor productivity. There is no discrimination against foreign companies in favor of local companies. Benefits are granted in the form of investment grants, tax benefits, low interest loans, or loans with a state guarantee for exporters. Poland was ranked 14th in transnational corporations’ top prospective host economies for 2012–14, published in the United Nations Conference on Trade and Development World Investment Report 2012. FDI in Poland grew to $15.13bn in 2011, up from $8.85bn in 2010.

Credit rating

As of October 2012, Standard & Poor's long-term foreign currency rating for Poland stood at A- and its long-term local currency sovereign credit rating was A. It also maintained the country’s outlook as stable.

Monetary situation

Key monetary indicators

The NBP is responsible for the implementation of monetary policy in Poland, one of the main objectives of which is to maintain price stability. The bank commenced significant monetary policy tightening from the beginning of 2011 to bring down inflation to the 2.5% target in the medium term. As of October 2012, the interest rate stood at 4.75% (last hiked in May 2012). However, the bank is expected to start a monetary easing cycle, as economic growth is slowing down in 2012.

Inflation

Poland has traditionally experienced high inflation levels. However, these have gradually been brought under control over the past few years. Poland’s inflation increased from 1.09% in 2006 to 4.22% in 2008 due to a significant rise in energy and food prices. The annual growth of prices of consumer goods and services in Poland increased in 2009, and average annual inflation hovered around 3.71% in 2009. The high level of inflation was due to growth in food prices and excise goods. However, inflation came down to 2.61% in 2010 due to weak domestic consumption. However, inflation figures spiked upward in 2011 to reach 4.20%, mainly against a backdrop of increased food prices due to unfavorable weather conditions. The inflation rate is the second highest in the EU and well above the NBP target of 2.5%. Although an appreciating zloty put downward pressure on inflation figures in 2012, inflation figures are expected to stay well above target. The NBP has been one of the few central banks to hike the benchmark interest rate in 2012, when other central banks have been following an accommodative policy to boost their respective economies. MarketLine expects inflation to dip slightly to 3.82% in 2012. Reducing the inflation rate will be a major challenge for the government.
Money supply

As of September 2012, M0 money supply (only currency in circulation) was PLN103.2bn ($32.80bn) (a 0.1% increase over August 2012) and M3 (the broadest measure of money supply, which includes M2 plus repurchase agreements and debt securities) was PLN892.81bn ($283.78bn), a contraction of 0.3% over August 2012.

Employment

According to MarketLine, unemployment stood at 9.67% in 2011, up from 9.57% in 2010. The economy is expected to slow down further in 2012. Moreover, as of October 2012 weakening domestic demand and worsening consumer and business sentiment is expected to put upward pressure on unemployment figures. The government has allocated PLN500m ($158.92m) to fight unemployment, but question marks remain about the extent to which this will help reduce unemployment. With a significant percentage of the working age population unemployed, improving the labor market's performance remains a major challenge for Poland.
Outlook

The country has fared well in terms of growth in the past, and weathered the economic downturn of the past five years, reflecting the resiliency of the Polish economy. However, the economy is slowing down in 2012, while unemployment is on the rise. Moreover, the openness of banking and trade has kept the economy vulnerable to external shocks. In addition, risks remain as households' and banks' balance sheets may take a hit from the zloty’s depreciation, as the majority of mortgage loans are denominated in foreign currency. Impaired loans were on the rise in 2011 for both household mortgage loans and the small- and medium-sized enterprise sector, and this remains a cause for concern. Nevertheless, regulatory authorities have increased proactive monitoring over these loans, which is a welcome move to keep things under control. Further, credit growth has been tightening in the second half of 2012, which may not come as a surprise as lending standards are becoming more stringent and the deleveraging process is continuing, which may damage growth prospects.

The government has embarked on structural reforms in a number of sectors, including strengthening the financial sector, improving the labor market, and reducing administrative inefficiency; in addition, it is embarking upon fiscal reforms to reduce the deficit figures, which will help the economy in the long run. No target date has been declared by the Polish government to join the euro, but a significant convergence program is underway to fulfill required eligibility criteria to join the euro in the future.
SOCIAL LANDSCAPE

Summary

At 38.07 million in 2011, Poland's population is one of the largest in Europe. However, population growth is stagnant and the country has been witnessing declining birth rates. Poland enjoys high life expectancy and literacy rates. The ethnic and religious mix is quite uniform, with Roman Catholic Poles representing almost 90% of the population. According to the United Nations Development Programme’s Human Development Report 2011, the country’s Human Development Index (HDI) was 0.813, which placed it 39th out of 187 countries.

Evolution

The social landscape in Poland has undergone various changes with the shifting political, economic, and social orders. During 1918–39, the health services witnessed rapid expansion. Poland was in disorder after World War II, with Nazis having killed millions of Poles and forcing many into labor camps in Germany. During 1945, Catholic churches and schools were closed, and members of the clergy were imprisoned by the Soviet authorities. Under communist rule after World War II, a Ministry of Health was formed in 1945 and the administration of the healthcare system was centralized. Poland developed an extensive healthcare system over the next few decades, which resisted some aspects of the Soviet model. The Nazis’ massacre of the Jews and the Soviets’ acquisition of territory resulted in a more ethnically and religiously homogenous Poland in the years following the war; in the same period, Poland focused on shifting from an agriculture-based economy to an industrial society, with many peasant farmers migrating to the cities. During 1990–91, Poland shifted toward market-based economic growth, which created thousands of jobs and improved the standard of living. However, the country witnessed high unemployment rates and inequality during 1996–2001.

Structure and policies

Demographic composition

At 38.07 million, Poland's population is one of the biggest in Europe. In 2012, the infant mortality rate is 6.42 deaths per 1,000 live births and the death rate is relatively high at 10.24 per 1,000 people, while life expectancy at birth for the whole population stands at 76.25 years

Composition by age and gender

In 2011, around 14.72% of Poland’s population was less than 15 years of age. Those aged between 15 and 64 years constituted 71.62% of the population, and around 13.67% of the total population was aged 65 and above.
Urban/rural composition and migration

In 2010, 61% of the population was urban; however, the country will experience negative urbanization to the tune of 0.1% during 2010–15 according to the Central Intelligence Agency’s (CIA’s) The World Factbook.

Religious composition

The ethnic composition of Poland is quite uniform, with 96.7% of the population of Polish origin; the remainder are German (0.4%), Belarusian (0.1%), Ukrainian (0.1%), or other and unspecified (2.7%) according to the CIA’s The World Factbook. The population is still predominantly Roman Catholic (89.8%), with other religions including Eastern Orthodoxy (1.3%), Protestantism (0.3%), other (0.3%), and unspecified (8.3%).
Education

Poland has high literacy rates due to the legacy of its communist past and because of the special efforts that have been made to promote education. Around 99.5% of the total population in Poland was literate as of 2010 according to the CIA's The World Factbook. Private schools for higher education were introduced in the early 1990s. The country has a comparatively well-educated population with good levels of technical skills.

System of education

Schools

Poland's education system is split into lower education and university-level education. Pupils start in primary school at the age of six, then go on to the lower secondary level at the age of 13, which lasts for three years. In 1999, a reform was introduced wherein several new types of schools were introduced, including a six year primary school, a three year gymnasium, a four year technical secondary school, and a two-to-three year vocational school. The implementation of the reforms also reduced the duration for completing primary school from eight years to six, and for high school from four years to three.

The government adopted a new legislation in 2009, which stipulated compulsory pre-primary education at the age of five. The legislation came into effect in 2011. According to the new legislation, primary education is to begin at the age of six, which has been effective from 2012.

Social welfare

Social welfare policies

The government has put a lot of emphasis on improving social infrastructure during 2012–13. The main measures taken are investments in healthcare infrastructure, improvement of the quality of healthcare services (mainly for the dependent
Social Landscape

and old aged), strengthening and modernizing the education system, and improved access of social services for the country's youth and children. The labor market implementation of a lifelong learning policy will be carried out during 2012–13, in addition to increasing labor participation of the 50+ age group and the under 30 age group.

Further, improvements have been suggested by the government in terms of general education to better match the skills required by the labor market, which are to be implemented by 2013. Further, policies have been taken up for the reform of the pension system and for enhancing the work-life balance. The government has emphasized the importance of childhood education in the National Reform Programme 2012, and intends to undertake social housing projects to reduce social exclusion, as well as introducing subsidized employment for the disabled, encouraging social entrepreneurship, and focusing on the rehabilitation of disabled persons. The government has also taken measures for social inclusion of immigrants.

Performance

Healthcare

According to MarketLine, public healthcare expenditure in 2010 stood at $23.96bn, up from $22.10bn in 2009, which represents growth of 8.40%. Total healthcare expenditure in 2010 was $35.15bn (growth of 10.35%). According to MarketLine, total healthcare expenditure as a percentage of GDP stood at 7.49% in 2010. In 2010, Poland had 2.2 practicing physicians per 1,000 population, well below the Organisation for Economic Co-operation and Development (OECD) average of 3.1; there were 5.3 nurses per 1,000 population, below the OECD average of 8.7; and the number of acute care hospital beds in Poland was 4.4 per 1,000 population, down from 4.7 in 2005. The number of hospital beds per 1,000 population in Poland fell from 6.7 in 2009 to 6.6 in 2010. Low public expenditure toward healthcare is likely to place strain on the country's healthcare services.
Income distribution

The country’s Gini coefficient (a measure of income disparity, with zero corresponding to complete equity and 100 to extreme inequity) was at 34.2 for 2010, in comparison to its neighbor the Czech Republic, which scored 31.

Education

According to MarketLine, public expenditure stood at $26.47bn in 2010, up from $24.05bn in 2009. Public education expenditure as a percentage of GDP stood at 5.64% in 2010, up from 5.58% in 2009. According to the OECD, as of 2010, 89% of the population (against the OECD average of 74%) had attained at least upper secondary education, while 23% of the population (against the OECD average of 31%) had attained tertiary education.
Outlook

In terms of providing basic education to all children, Poland has performed well, with a literacy rate of 99.5% for the total population. However, Poland is likely to face a difficult demographic situation in the long run. A declining birth rate and growing life expectancy will result in a large proportion of people aged 65 and above. Although Poland has one of the largest populations in Europe, its size is forecast to decrease gradually, which is a cause for concern. The government has embarked on social reforms to tackle the issue of an aging population, but much more needs to be done to bring sustainability in pensions.
Technological Landscape

TECHNOLOGICAL LANDSCAPE

Summary

Poland has promoted science and technology on an active basis in order to remain competitive within the European Union (EU). The government's policies are along similar lines to those of the rest of the union. The government has undertaken science sector reform to increase technological innovation in the country. The Polish telecommunications market is one of the largest in Central Europe, and is characterized by relatively high rates of penetration in the mobile phone segment. There is tremendous potential for growth in the ICT sector.

Evolution

The telecommunications sector is supervised by the Office of Electronic Communications (Urząd Komunikacji Elektronicznej [UKE]). The sector has effectively been deregulated, with licensing abolished except for the permits required to operate a radio broadcasting corporation. The UKE chairman performs regulatory activities and also resolves disputes between market players, allocates frequencies, and helps to draft laws and regulations in co-operation with international telecom organizations. Since Poland's political changes in 1989, several telecom policies have been introduced with the aim of liberalizing the telecommunications sector and extending and integrating the existing regulations. A change in government in 1997 led to the privatization of the national operator Telekomunikacja Polska S.A.

Under the Telecommunications Act of 2000, a regulatory reform was introduced that provides licensees with non-discriminatory access to public network resources, facilitates liberalization and privatization, and preserves competition. In 2001, the Ministry of Infrastructure took over the responsibility for handling the telecommunications sector from the Ministry of Economy. On July 2007, the Polish government amended the Telecommunications Act and certain other laws. The act drafted to achieve this is oriented toward streamlining mechanisms and institutions, including making sure that the act complies with EU law and improves the regulative mechanisms available to the president of the UKE.

Structure and policies

Research and development

Poland has generated significant growth in research and development (R&D) over the years, by implementing several policies that place emphasis on products of high value and on the development of employment through increased competitiveness. The government has also introduced several programs with the aim of encouraging foreign participants. The technological policies in Poland have helped the country to gain access to the EU and to develop research, science, and technology in various areas. The two main bodies that aid Poland in co-operation policies within the IT sector are the United Nations Industrial Development Organization (UNIDO) and Hi-Tech Company Limited. With regards to technology policy, the UNIDO Investment and Technology Promotion Office helps to identify and gather information on Polish companies that are interested in investment and have technological agreements with foreign partners. Hi-Tech Company Limited is a private company that promotes advanced technologies in partnership with government agencies.

In October 2010, the government introduced a package of six acts for the science sector reform. The country plans to transform existing R&D entities into research institutes, as well as to establish National Leading Scientific Centers.

Intellectual property

Poland has been successful in eliminating pirated IT materials since being placed on the Priority Watch List by the

International Intellectual Property Alliance (IIPA) for intellectual property rights violations in 2004. In April 2010, the US Trade Representative removed Poland from its Priority Watch List in recognition of its significant reduction in piracy and counterfeiting. However, in a 2011 report the IIPA recommended that Poland be retained on the Priority Watch List. The government’s efforts have led to a decline in losses suffered due to copyright piracy. The losses suffered by the business software sector due to piracy amounted to $362m in 2009, compared to $389m in 2008. In 2011, Poland was granted 57 patents by the US Patent and Trademark Office (USPTO), a significant increase from 16 patents in 2004. The number of patents in the country is comparable to other Eastern European nations, but remains much lower than those of developed economies.

<table>
<thead>
<tr>
<th>Year</th>
<th>Poland</th>
<th>Hungary</th>
<th>Slovenia</th>
<th>Czech Republic</th>
<th>Bulgaria</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>16</td>
<td>48</td>
<td>21</td>
<td>31</td>
<td>3</td>
</tr>
<tr>
<td>2005</td>
<td>23</td>
<td>46</td>
<td>12</td>
<td>25</td>
<td>3</td>
</tr>
<tr>
<td>2006</td>
<td>29</td>
<td>49</td>
<td>21</td>
<td>34</td>
<td>3</td>
</tr>
<tr>
<td>2007</td>
<td>32</td>
<td>47</td>
<td>16</td>
<td>37</td>
<td>6</td>
</tr>
<tr>
<td>2008</td>
<td>54</td>
<td>66</td>
<td>14</td>
<td>48</td>
<td>16</td>
</tr>
<tr>
<td>2009</td>
<td>35</td>
<td>46</td>
<td>22</td>
<td>44</td>
<td>36</td>
</tr>
<tr>
<td>2010</td>
<td>39</td>
<td>91</td>
<td>24</td>
<td>74</td>
<td>58</td>
</tr>
<tr>
<td>2011</td>
<td>57</td>
<td>100</td>
<td>29</td>
<td>93</td>
<td>43</td>
</tr>
</tbody>
</table>

Source: USPTO

Technology agreements and pacts

In October 2010, the government introduced a package of acts of science sector reform, including the Science Financing Act, the Act on the Polish Academy of Sciences, the Research Institutes Act, the Act on the National Centre of Research and Development, and the Act on the National Centre for Science. Under the science reform, the country has introduced a new model of financing the science sector, based on competitiveness, quality, and transparency of procedures. Under the Act on the National Centre for Science, an external agency has been tasked with the distribution of funds for basic research. R&D entities existing before the reform are being transformed into research institutes with strict quality evaluation and systematic audits. The country will establish national leading scientific centers that will be financed initially for five years, with a possible extension of another five years. The reform is expected to increase innovation in the country.

Performance

Telecommunications

The country was ranked 49th among 142 countries on the Networked Readiness Index according to the World Economic Forum’s Global Information Technology Report for 2012. The mobile market in Poland grew 4.66% in 2011. Total mobile connections in 2011 stood at 47.48 million. Poland is rapidly transforming into a knowledge-based economy. Banks and telecommunications companies remain the major spenders on IT solutions, along with the public sector. Under the Digital
Technological Landscape

Poland strategy, the government is expected to spend €3.2bn on 23 e-government projects by 2013. The country plans to have 95% of its top 20 public services online by 2013.

Information technology

Poland is rapidly transforming into a knowledge-based economy. The Polish IT market is expected to be among the region’s fastest growing over the next few years. The number of Internet users increased at an average rate of 24.51% during 2001–11. However, the growth rate of Internet users fell from 5.06% in 2010 to 4.78% in 2011. Internet subscribers as of 2011 stood at 24.75 million, up from 23.62 million in 2010. The Polish Internet access market is forecast to have a value of $2.68bn in 2016, an increase of 51.3% compared to 2011.

Research and development

R&D expenditure

There is great scope for R&D development in the country. Poland spends a relatively low amount on R&D. According to the Innovation Union, the country’s total R&D expenditure was around 0.68% of GDP in 2009, almost one-third of the EU average of 2.01%. Poland’s spending on R&D has been low compared to other Baltic countries. Moreover, business enterprise expenditure on R&D as a percentage of GDP stood at a meager 0.19% of GDP in 2009, well below the EU average of 1.25%. Further, researchers per 1,000 labor force were registered at 3.6, compared to the EU average of 6.3. According to the Innovation Union Scoreboard 2011, Poland ranks among the moderate innovators due to a below
average performance in innovation. The country has weaknesses in research systems, linkages and entrepreneurship, and intellectual assets and innovators. The country has also seen a strong decline in small- and medium-sized enterprise innovation and collaboration.

**Outlook**

With sectors such as ICT, banking, telecommunications, and manufacturing performing impressively over the years, Poland is in a strong position to develop a technology-intensive economy. Under the Digital Poland strategy, the government is expected to spend €3.2bn on 23 e-government projects by 2013. The country plans to place 95% of its top 20 public services online by 2013. Significant opportunities in the ICT segment provide scope for employment, and will attract new foreign investment projects to Poland.

Under the science reform, the country plans to transform existing R&D entities into research institutes with strict quality evaluation and systematic audits. It also plans to establish national leading scientific centers that will be financed initially for five years, with a possible extension of another five years. The country is poised to become a major business process outsourcing hub in the coming years, which would provide further impetus for technological development.
LEGAL LANDSCAPE

Summary

Poland has enforced European Union (EU) legislation since joining the union. The general rules of doing business are thus quite similar to the ones used in other EU countries. The lack of trade barriers within the EU allows companies located in Poland to move freely across the European market. Tax laws in Poland have been modified to attract international business. Furthermore, business contracts and property rights are generally respected, although not to the same extent as in the rest of the EU. Although Poland’s judicial system has improved in recent years, the nation’s courts are slow and overloaded, partly because of the lengthy judicial process. Delays in court cases can deter foreign companies from doing business in Poland.

Poland was ranked as the world’s 64th freest economy in the Heritage Foundation’s and the Wall Street Journal’s 2012 Index of Economic Freedom, and 29th in the European region. In the World Bank’s 2013 Doing Business report, the country was ranked 55th among 185 countries. According to the report, starting a business in Poland requires six procedures and 32 days, compared to the Organisation for Economic Co-operation and Development (OECD) average of five procedures and 12 days.

Evolution

The legal system of the country is based on the foundation of Polish law. The Polish constitution, formed in April 1997, offers a distinction between universally binding law and internal law. The legal system of the government is based on a balance between the executive, judicial, and legislative authorities. The system relies on a series of codes, which include the Civil Code, the Commercial Code, the Labor Code, customs laws, the Foreign Exchange Act, tax laws, insurance laws, the Law of the Supreme Chamber of Control, and the Law on Public Finance. Poland introduced the Office for Competition and Consumer Protection Act in 1996. The act has had significant implications for businesses in terms of governing mergers, anti-monopoly agreements, and abuses by companies with dominant market shares.

The government introduced the Public Trading of Securities and Trust Fund Act in 1991, the Act on Ownership Transformations in Certain State Enterprises Deemed Crucial to the National Economy and the Act on National Investment Funds in 1993, the Law on Public Trading of Securities in 1997, the Act on Trade Inspection in 2000, and the Law on Prices in 2001. Furthermore, it implemented the Act on Competition and Consumers’ Protection in 2000 with the intention of prohibiting anti-competitive practices. The act forbids any agreements between competitors that segregates market share or fixes prices and/or other terms of purchase. It also prohibits any agreements that eliminate competition. These laws are comprehensive and have been revised to build a strong legal framework in Poland, as well as to harmonize the country’s laws with EU directives.

Structure and policies

Judicial system

Structure of the system

Poland is a unitary state and a legal republic with a combination of presidential and parliamentary systems. The government is balanced between the legislative, executive, and judicial authorities. The constitution provides for different categories of courts, such as the Supreme Court, common courts, administrative courts, and military courts.

The highest court of appeal in Poland is the Supreme Court, which supervises the common and military courts and also
performs other activities specified in the constitution and the statutes. It examines the verdicts given by all lower courts, and hears appeals of the decisions made by the district courts and the minister of justice. The court is divided into four chambers: criminal, civil, labor and social insurance, and military.

The common courts include district courts, provincial courts, and the courts of appeal. The common courts handle cases related to criminal law, civil law, family and custody law, labor law, and social insurance. The court proceedings of these institutions should have a minimum of two stages.

The Supreme Administrative Court was formed in 1980 to evaluate and regulate the administrative rules enforced by government agencies and to resolve citizens' complaints concerning the legality of administrative decisions. The administrative judiciary belongs to the High Administrative Court, which has judicial control over public administration and operates through 10 delegated centers of the same court. In addition, the military courts include the military provincial courts and military unit courts, and handle cases related to criminal matters within the Polish Army.

Tax regulations

Income tax

Poland has a progressive personal tax system. The individual tax rate for wage earners and self-employed persons is between 18% and 32%. Furthermore, if an individual is a permanent resident in the country then their tax is calculated based on their income in Poland and abroad; meanwhile, a foreign resident working in the country is liable to pay tax only on income earned in Poland. Taxpayers running businesses can opt for a 19% flat tax without any allowances.

Corporate tax

The corporate tax rate is 19% in Poland. There is no additional tax rate for capital gains, since any such gains are added to the regular income of an individual or company and are based on the normal tax rates.

VAT

VAT is the major indirect tax in Poland. The normal VAT rate is 23%, but a reduced rate of 5–8% is applicable on certain products and services.

Withholding tax

A 19% withholding tax is levied on dividends while a rate of 20% is charged on interest and royalties. Dividends, interest paid, and royalties paid to non-residents are subject to withholding tax unless exempted under a tax treaty.

Legislation affecting business

The principal law regarding business activity in Poland is the Economic Freedom Act (July 2, 2004), which regulates the opening, running, and closing of businesses in the country. A foreign company looking to set up operations in Poland can choose from the following options:

- **Joint stock company** – A company that intends to start an operation of this type might choose to be either a private company or a public company that is traded on the stock exchange. To operate the business on a larger scale, capital may be gained through the issuance of shares. The company is legally responsible for its debts and obligations along with its whole property, without any limitations. The shareholders are not accountable for the company’s obligations; they bear a risk up to the value of the shares they have taken up. The minimum share capital required for starting these operations is PLN100,000 ($31,785.70).

- **Limited liability company** – The liability of the shareholders of a company of this type is limited, while the business is legally responsible for its debts and obligations. The minimum share capital required for starting
such operations is PLN5,000 ($1,589.28). A limited company can be formed by more than one individual. The company is represented by a management board in accordance with principles laid down in a company deed or charter.

- **Limited partnership** – The liability of at least one of the general partners is unlimited for the joint obligation, with other partners having limited liability. Starting this type of company requires a minimum of two members, of which at least one must have limited liability. There are no rules of law regarding the minimum amount of capital required to start a partnership company.

**Labor laws**

Polish labor forces have been historically given to unionization. The 1949 Trade Union Act consolidated labor interests into the Central Council of Labor Unions. After 1956, arbitration commissions elected by workers’ councils were entrusted with the settling of labor disputes.

The Labor Code is the key law that regulates relations between employers and employees and sets out the conditions under which work can be carried out in Poland. The code bans the employment of children below the age of 15; furthermore, there exist stringent rules governing working conditions for those aged 15–18. The Labor Code also focuses on occupational health and safety standards. An employment contract can be signed for an indefinite term, for a fixed term, or for the time it takes to complete a specific task or stand in for an employee. In the event of the employee’s justified absence from work, the employer can hire another worker under a fixed-term employment contract for the period of absence. All of these contracts can be preceded by an employment contract for a trial period of no more than three months.

Under Polish labor law, employers are prohibited from giving notice to or terminating the employment of certain types of employees. This protection covers employees who find themselves in a specific situation or who belong to a specific group, including employees who are on vacation, maternity leave, or unpaid career leave; employees who are on sick leave with a doctor’s certificate; and employees approaching retirement age. Furthermore, working hours cannot exceed eight hours in any 24, or an average of 40 hours in a typical five-day working week (defined within a reference period applied by the employer of not more than four months).

In 2004, Poland introduced the Employment Promotion and Labor Market Institutions act, which focused on issues related to employment promotion. With a view to increasing the efficiency of labor market policies, the labor minister introduced two regulations in 2007. The first focused on improving the standards of basic labor market services, and the second concentrated on ensuring that labor offices provide basic labor market services.

Under the Trade Union Act of 1991, 10 or more employees can set up a labor union, and there can be several unions in the same company, as is the case in the Polish postal service, Poczta Polska, which has over 200 unions. Trade unions are also entitled to financial support from companies, which further embolden them to strike and attempt to dictate policies. Trade unions have become a major obstacle for privatization and the restructuring of businesses, as they constantly strike to preserve the jobs of union members. This has led to apprehension among companies toward increasing hiring in highly unionized sectors, even though the economy is on the rebound. In the first half of 2011, employment fell by 7% in the mining and quarrying sector, reflecting the impact of trade unions on employment policies. In 2008, there were around 1,000 disputes between labor unions and companies.
Legal Landscape

Performance

Effectiveness of the legal system

Foreign and domestic investors need to abide by the laws regarding taxation, labor practices, health and safety, and the environment. The Central Anti-Corruption Office, formed in 2006, has permitted several institutions to conduct inspections of companies. The government is aiming to reform the bureaucratic hurdles related to procuring the licenses and permits required to open a business. Furthermore, amendments to the corporate tax system in 1999 and 2003 have improved transparency and lowered rates.

As part of its efforts to simplify business management in the country, the government introduced a deregulation package under which companies have been able to issue, send, and store electronic invoices with no electronic signature since January 2011. The measures go a long way toward simplifying business regulations, and should ease the administrative burden on businesses in the medium term.

Poland placed 64th in the Heritage Foundation's and the Wall Street Journal's 2012 Index of Economic Freedom. The country performed above the world average in terms of property rights, freedom from corruption, trade freedom, investment freedom, and financial freedom and monetary freedom, but performed below average in fiscal freedom, government spending, business freedom, and labor freedom. The country was the top performer in terms of improvement of the business landscape according to Doing Business 2013; however, Poland still lags behind the OECD average. The government needs to continue its good progress in improving business regulations, as the legal environment has been one of the major impediment for entrepreneurs.

Outlook

The judicial system of Poland has witnessed significant reform over the years. The comprehensive legal and judicial structure of the country is capable of addressing various bottlenecks and structural issues in the system, and gives foundational strength to the investment climate. The government aims to reform the bureaucratic hurdles related to procuring the licenses and permits required to open a business. The high costs of tax compliance have been a major challenge for businesses operating in Poland.

Trade unions have become a major obstacle for privatization and the restructuring of businesses, as they constantly strike to preserve the jobs of union members. This has led to apprehension among companies toward increasing hiring in highly unionized sectors. Poor market conditions coupled with pressure from trade unions could impact the government’s privatization initiatives. Were the government to postpone some of the sales, its budgetary plans would be directly impacted. Privatization is a key part of the government’s attempts to shore up its poor finances, and it cannot afford any break in its privatization schedule.
Environmental Landscape

ENVIRONMENTAL LANDSCAPE

Summary

Poland is committed to the goal of environmental protection and sustainable development. The country has an extensive system of parks and designated protected areas to safeguard its environment. The country has also integrated an environmental dimension into many of its government policies, in accordance with European Union (EU) regulations.

Evolution

Due to its historical environmental negligence and unplanned approach toward resource development, Poland has suffered as heavily as any other Eastern European country. Poland's environmental condition improved after communist rule, with the country reducing its dependence on heavy industries and seeing an increase in government awareness toward controlling environmental issues. Poland framed the Ministry of Environmental Protection and Natural Resources Policy in 1985. In 1991, the ministry initiated an ecological policy and, in the same year, a State Environmental Protection Inspectorate was formed with a view to regulating the industries that pollute the environment. The Ministry of Environment was formed in 1999 with the aim of monitoring the key environmental issues faced by Poland. It introduced the Act on Waste in 2001, which focuses on sustainable development and on limiting the amount of waste and its negative impact on the environment. It also implemented the Recycling of End-of-Life Vehicles Act in 2005, so as to safeguard human health and the environment.

Structure and policies

Environmental regulations

In the 1990s, Poland faced significant environmental problems due to heavy air, water, and land pollution. In 1991 and 2000, it introduced two national environmental policies to improve the country's environmental quality and strengthen its policy instruments. During 1990–2000, the country increased its usage of economic instruments to execute environmental policies and to recover the operational costs incurred on environmental services. The country also initiated several waste management policies with regards to the use of products. In 2006, the Ministry of the Environment formed the Department of Waste Management with a view to developing and implementing waste management policies both nationwide and at the EU level. It introduced several water protection policies, which focus primarily on maintaining the ecological balance of water bodies and safeguarding the usage of water so as to benefit the public. The water protection policies are aimed at preventing the pollution of ground and surface water with hazardous substances.

Participation in global efforts, agreements, and pacts

Poland has integrated an environmental dimension into many of its government policies, in accordance with EU regulations. It is a signatory to the Kyoto Protocol, and furthermore it has signed a number of international treaties aimed at environmental conservation. In 2004, for instance, Poland entered into an agreement with Lithuania for the implementation of the Convention on Environmental Impact Assessment (the Espoo Convention). The agreement specifies the commitment of both countries toward assessing the environmental impact of certain activities at the initial planning stage.
Performance

Environmental impact

Poland was ranked 22nd among 132 countries on the 2012 Environment Performance Index (EPI). The country had an EPI score of 63.47. According to the Organisation for Economic Co-operation and Development (OECD), as of 2010 Poland had reduced its emissions of greenhouse gases by around 30% since 1988. Poland is the 20th largest greenhouse gas emitter worldwide, but unlike many other countries fulfills the Kyoto Protocol criteria. According to the OECD Poland is expected to achieve its targets even for sectors not in the EU-Emissions Trading System by 2020.

Poland has been facing high pollution levels over the years due to sulfur dioxide emissions from coal-fired power plants, as well as acid rain, which has caused damage to its forests. The discharge of pollutants and hazardous wastes has also significantly contaminated the country’s water resources. However, its ecological conditions have improved compared to 1989, due to a reduced dependence on heavy industries and the increased environmental concerns of post-communist governments. The level of CO2 emissions stood at 303.70 million metric tons in 2010, down from 304.45 million metric tons in 2009.

The country has amended its environmental law to ensure environmental protection and development projects (including infrastructure projects) happen simultaneously without any hindrances. The country has also developed an environmental impact forecasting system for road construction projects until 2012, which reconciles both development and environmental interests. Under the new General Directorate for Environmental Protection, the process of obtaining environmental clearance for building roads and motorways has been reduced from 300 to 100 days.

The country is also developing new waste management laws that will act as the basis for the recovery and recycling of glass, metal, paper, electrical, and electronic waste, batteries and accumulators, and old cars. The new waste management system will enable the government to replace hazardous landfills with efficient facilities, where waste can be segregated, recycled, and even used for energy production. The government has taken a stringent stand against the country’s waste management black market.

Poland is also implementing the GreenEvo Green Technology Accelerator project, which aims to promote the transfer of innovative environmental protection technologies globally. Technologies cover sewage and wastewater treatment, hazardous waste processing, renewable energy, coke engineering, and energy efficiency.

The government is also increasing the use of renewable energy sources such as biomass, wind, and water energy. The government plans to increase the share of renewable energy in the gross energy balance of the country to 15% by 2020. The country currently depends on coal for 94% of its electricity generation. The government plans to use nuclear energy; to this end, two nuclear power facilities will be built by 2020. In June 2011, the Polish parliament passed the nuclear power legislation and the law on investment for constructing nuclear reactors.
Outlook

Poland needs to significantly increase the share of renewable energy that constitutes its overall energy mix. Government estimates suggest that the share of renewable energy in Poland’s energy consumption was only 4% in 2009. The government is increasing the use of renewable energy sources such as biomass, wind, and water energy, and plans to increase the share of renewable energy in the country’s gross energy balance to 15% by 2020 to adhere to EU regulations.

The country has amended its environmental law to ensure environmental protection and development projects take place simultaneously. The country is developing new waste management laws that will act as the basis for the recovery and recycling of glass, metal, paper, electrical, and electronic waste, batteries and accumulators, and old cars. The new waste management system is expected to enable the government to replace hazardous landfills with efficient facilities, where waste can be segregated, recycled, and even used for energy production.

The government also plans to use nuclear energy. Any developments in this area would also help Poland meet demand for electricity and secure clean energy supply.
APPENDIX

Ask the analyst

MarketLine’s Country Analysis Practice consists of a team of economists, analysts, and researchers, all with expertise in their given fields. For any questions or comments about this report you can contact the author directly at reachus@marketline.com

Disclaimer

All Rights Reserved.

No part of this publication may be reproduced, stored in a retrieval system or transmitted in any form by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior permission of the publisher, MarketLine.

The facts of this report are believed to be correct at the time of publication but cannot be guaranteed. Please note that the findings, conclusions and recommendations that MarketLine delivers will be based on information gathered in good faith from both primary and secondary sources, whose accuracy we are not always in a position to guarantee. As such MarketLine can accept no liability whatever for actions taken based on any information that may subsequently prove to be incorrect.