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Government reforms in Poland: the impact so far and future prospects

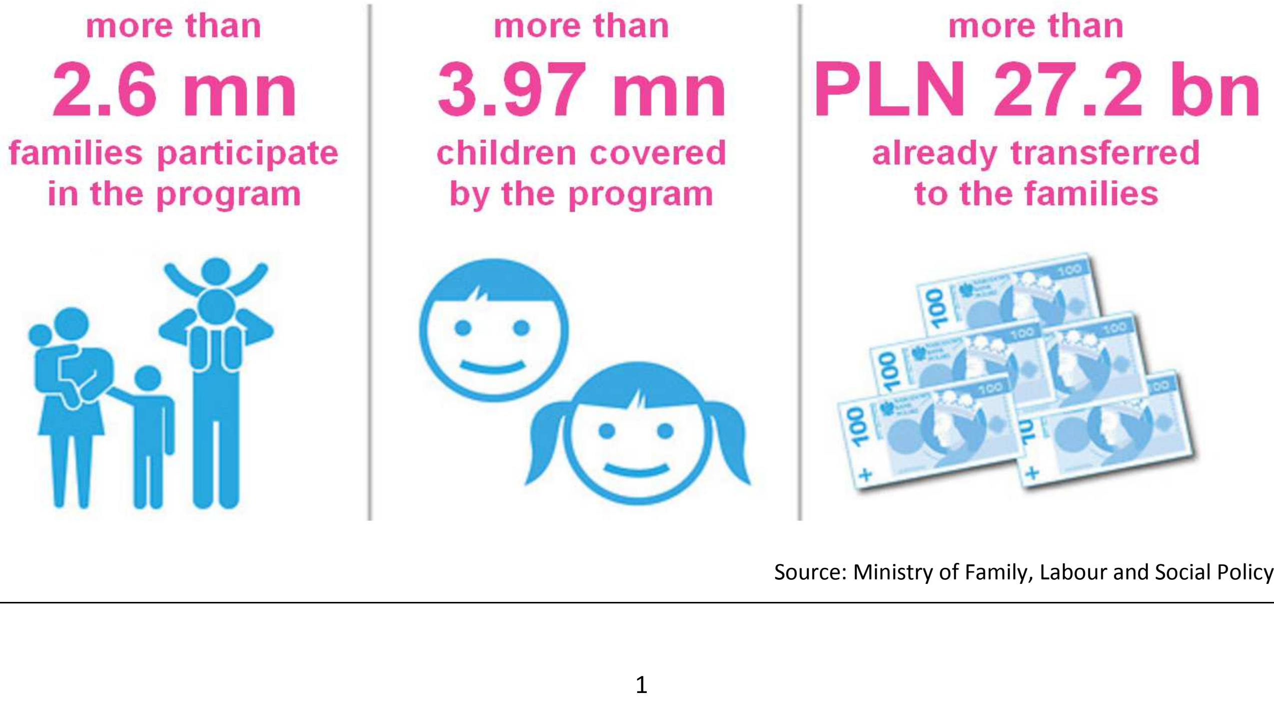
This is an update of the April report under the same title. It discusses the key reforms implemented in Poland by the Law and Justice (PiS) Government formed 20 months ago. The Government reforms are supported by the Polish Parliament and Polish President. As in the previous report, the reforms are presented in three parts, including (1) social reforms, (2) the economy and finance, as well as (3) security and justice. They correspond to the three pillars prioritised by Prime Minister Beata Szydło, i.e. Family-Development-Security.

PART 1 – SOCIAL REFORMS

The Family 500+ Program

The Family 500+ Program is PiS's flagship project, which the party announced during the election campaign and faithfully implemented after winning the election. Prepared by the Ministry of Family, Labour and Social Policy, the Program was launched on 1 April 2016. It provides Polish families with tax-free child benefits of PLN 500 monthly for each second and subsequent child aged up to 18 (no extra conditions apply). These can amount to as much as PLN 6,000 net in annual child support. Less well-to-do families, whose monthly income does not exceed PLN 800 per capita, or PLN 1,200 per capita in the case of families with disabled children, may also claim the benefit for the first child. More than 2.6 million families benefit from the Program, with the money going to a total of almost 4 million children (58% of all children aged up to 18). More than PLN 27 billion has gone to Polish families so far (see Figure 1). It is expected that the Family 500+ Program will spend PLN 24.5 billion this year.

Figure 1
Key Family 500+ figures (as of 31 May 2017)

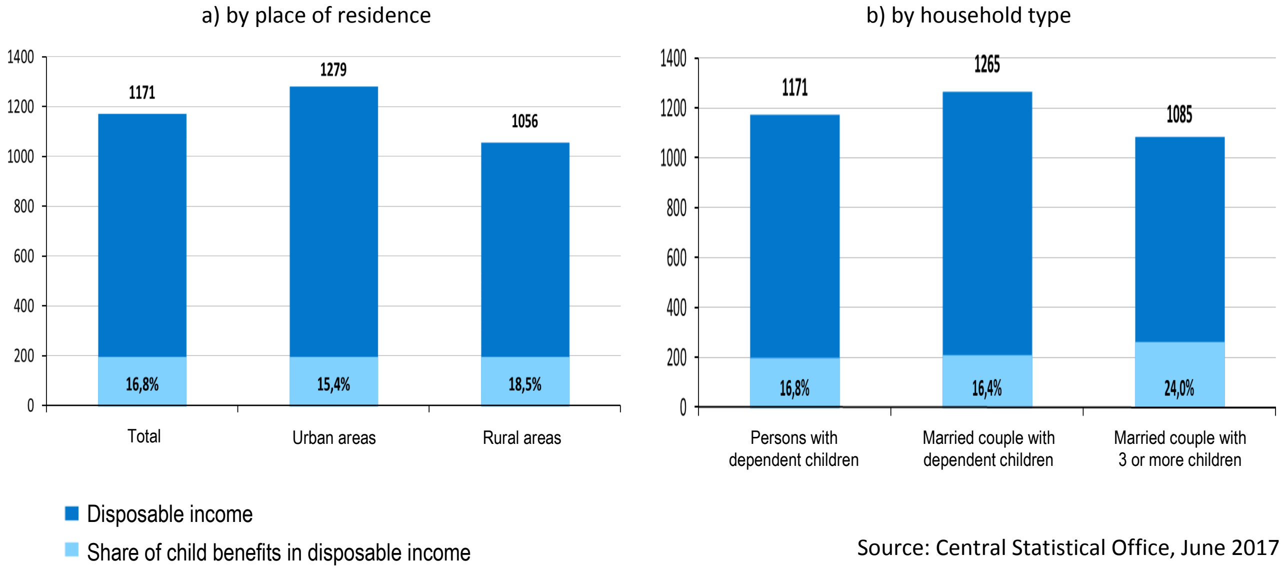


Source: Ministry of Family, Labour and Social Policy

The Family 500+ Program has two core objectives – the social objective of supporting families with children, and the demographic objective of increasing the number of births. Underlying the latter is Poland's grim demographic outlook. According to the Polish Central Statistical Office, and Eurostat, if the current trend continues, Poland's population (now 38.5 million) will shrink to less than 34 million by 2050, and 33 million by 2060. Also, the older population will greatly outnumber the younger population.

As regards the social objective, the Family 500+ Program has substantially improved the financial situation of Polish families, which now use less welfare, child-meals programs, specific-purpose benefits and temporary benefits. According to 2016 World Bank estimates, the Program has reduced extreme poverty and extreme child poverty in Poland by 48% and 94% respectively. A June 2017 National Bank of Poland report shows that real household income increased by 7.6% in Q4 2016 (y/y), with Family 500+ payments accounting for 2.1 percentage points of this increase. A June 2017 Central Statistical Office (CSO) report states that in 2016 the child benefit accounted on average for 16.8% of disposable household income per capita. The corresponding figures for urban and rural areas were 15.4% and 18.5%, respectively. At 24%, this share was notably higher for married couples with three or more dependent children (see Chart 1).

Chart 1
Share of Family 500+ child benefits in the average monthly disposable household income per capita
(PLN, Q2-4 2016)



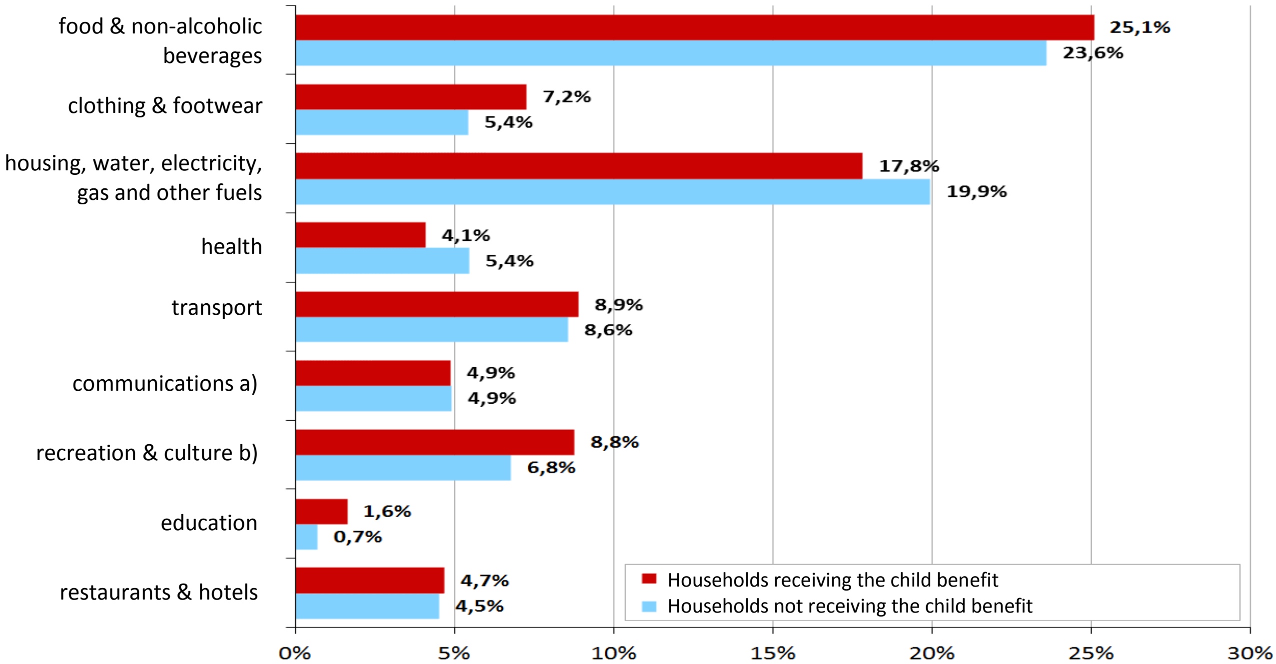
Source: Central Statistical Office, June 2017

An autumn 2016 Centre for Public Opinion Research (CBOS) survey showed that the Program enabled parents to purchase clothes (31%) and footwear (29%), and also to go on family vacations (22%). There has also been a significant effect on education, as 22% of the respondents spent their Family 500+ funds on books and teaching aids, with 20% having paid for extracurricular activities for their children. Therefore, we can see that the critics who claimed that the money would be squandered have proven to be wrong.

This is also confirmed by a June 2017 CSO report, according to which in 2016 food & non-alcoholic beverages was the largest expense category for households receiving Family 500+ child benefits (about 25% of all expenses), followed by housing, water, electricity, gas and other fuels (nearly 18%), transport and recreation & culture (nearly 9% each), clothing & footwear (about 7%), communications and restaurants & hotels (almost 5% each), health (about 4%) and education (almost 2%). Households receiving the benefit had a noticeably higher share of household expenses on recreation & culture (by 2 percentage points), clothing & footwear (by 1.8 percentage points) and food & non-alcoholic beverages (by 1.5 percentage points) than households which did not receive the benefit (see Chart 2).

The concerns that the Program would have an adverse impact on the labour market have also not materialised. In late 2016, some media and opposition parties claimed that 150,000 women would quit their jobs because of receiving the Family 500+ benefits. However, as shown by CSO data, the number of working women in Q4 2016 actually increased by 15,000 compared to Q3 2016. The adverse-impact point is further invalidated by registered-unemployment statistics. In Q1 2017, the number of registered unemployed women with at least one child aged up to 6 was 191,000 – therefore, in annual terms, this figure decreased by 4.4%.

Chart 2
Household expenses per capita by expense category
(% of total expenses, Q2-4 2016)



a) including Internet expenses b) excluding Internet expenses Source: Central Statistical Office, June 2017

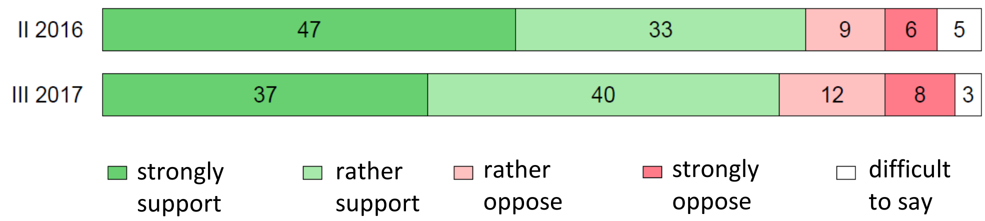
As regards the demographic objective, the Government expects the Program to increase the birth number by about 280,000 over 10 years, and also to increase the birth rate from 1.3 to the EU average of 1.6 (the required rate to ensure generation replacement is about 2.1). While it is too early to draw conclusions, according to CSO data, a total of 385,000 children were born in 2016, which is 16,000 more than in 2015. This outcome exceeded the expectations the Government had before launching the Program (377,000 births in 2016 and 378,000 births in 2017). Currently – taking into account the optimistic CSO data from January 2017 (35,000 births) – the Government estimates that more than 400,000 children (potentially even 410,000-420,000) will be born in 2017. Quarterly data show that these annual estimations are reliable. A total of 100,000 children were born in Q1 2017 (7,300 more than in Q1 2016) and about 200,000 children were born in the first half of 2017 (14,000 more than in the corresponding period of 2016).

A March 2017 CBOS survey showed that the Family 500+ Program continues to enjoy great popular support (77% positive vs. 20% negative responses). The introduction of this Program has radically changed the perception of state family policy. Previously (1996-2013), state family policies were perceived by the vast majority of the public as either satisfactory or unsatisfactory (e.g. in 2012 and 2013, when Civic Platform

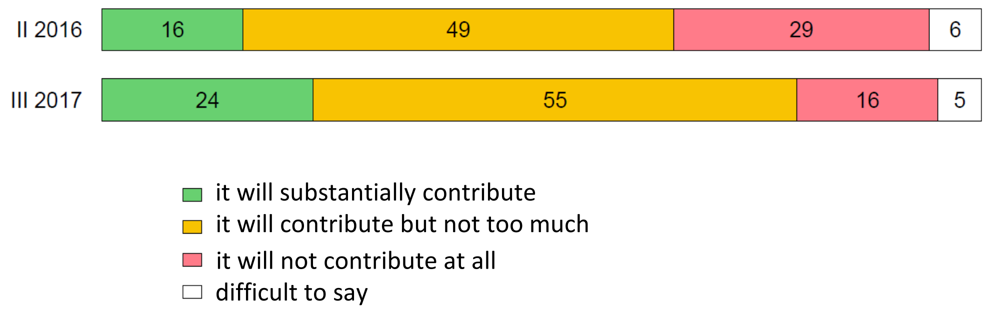
[PO] and Polish People's Party [PSL] were in power, these opinions combined accounted for more than 80% of all responses). In the last survey more than half the respondents (52%) had a good or very good opinion of state family policy. The most responses mentioned the positive impact of the Family 500+ Program on the budgets of households with children – less financial constraints (a total of 34% of the respondents stated that they personally knew people for whom this was the case, or that they themselves had experienced this advantage) and a major improvement in the situation of children from poor families (28% of all responses). The percentage of individuals who expected that the Program would have no effect whatsoever on the birth-rate increase fell over the year (from 29% to 16%), and more respondents (an increase from 16% to 24%) believed that it would substantially contribute to this increase. Most of the respondents (55%) were cautiously optimistic about this issue. Over the same period, there was an increase in the percentage of responses (from 10% to 16%) claiming that child benefits should go to the poorest families, with less respondents (from 43% to 38%) being of the opinion that child benefits should be paid to all families with children regardless of their income. Most of the respondents (42%) believed that families with low or medium incomes should be entitled to child benefits (see Chart 3).

Chart 3
Family 500+ public opinion survey results (%)

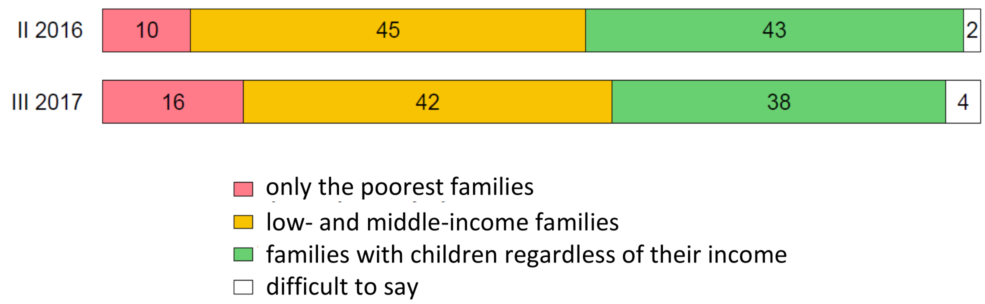
a) Do you support the Family 500+ Program or oppose it?



b) Do you think that the Family 500+ Program will contribute to an increase in the number of births in our country?



c) Who do you think should be eligible to receive the PLN 500 child benefit?



Source: CBOS, March 2017

In a summary of the first year of the Family 500+ Program in early April 2017, the Government announced that it would review the family-support systems. The general framework would be left unchanged, while the proposed changes would aim at a tighter system to eliminate fraud identified during the first year. In early July 2017, the Polish Parliament passed a law to eliminate a number of loopholes in the Family 500+ Program, including to prevent some of the beneficiaries from engaging in (rarely, but still) undesirable behaviour such as misrepresenting income to meet the income criterion to be eligible to receive the benefit for a first child, falsely claiming single parenthood, collecting the benefit in spite of living outside Poland, etc. The law also aims to improve the enforceability of child maintenance (overdue child maintenance is estimated at PLN 10 billion), modernise the Big Family Card (by launching its mobile-app version), improve care services for the youngest children (aged up to 3), etc. The law will enter into force on 1 August 2017 (with a few exceptions, which will become effective on 1 January 2018 and 1 January 2019).

The latter is an addition to the existing solutions (e.g. the 12-month parental leave and the obligation for communes (*gmina*) to accept all 3-year-olds into pre-schools from September 2017) and is designed to increase accessibility to nurseries, children's clubs and day carers (the Maluch+ [Little One+] Program). It is worth noting here that in 2010, when the PO-PSL coalition was in power, there were 511 nurseries and nursery departments, which had a total of more than 32,000 places, while now there are approx. 3,700 care institutions (nurseries, children's clubs, day carers), which have a total of 100,000 places. Currently, 11.2% of children aged up to 3 attend such facilities. For comparison, the corresponding figure in 2010 was 2.6%. Starting from 2018, the Government is planning to increase public spending from the current PLN 151 million to PLN 500 million to support the development of nurseries, children's clubs and day carers (PLN 250 million will come from the budget and the remaining PLN 250 million from the Labour Fund).

The Housing+ Program

In September 2016, the Government adopted a resolution on the National Housing Program (NHP), with the aim of making housing more affordable for low- and middle-income persons. One of the core elements of the NHP is the Housing+ Program, which will facilitate the construction of affordable rental housing with an option to purchase the ownership right to the apartment. The rent is planned to average PLN 10-20 / m^2 (plus maintenance and utility costs) and if the ownership option is chosen, the rent will be PLN 12-24 / m^2. The Program is available to all Polish citizens, but preference will be given to low-income and multiple-children families. The apartments will be constructed in both major metropolises and smaller cities which have not seen any new housing developments for decades.

In April 2017, Prime Minister Beata Szydło announced that the work on the Housing+ Program would be implemented jointly by Bank Gospodarstwa Krajowego (BGK – a Polish national development bank) and the Ministry of Infrastructure and Construction. By that time, BGK Nieruchomości (BGK Real Estate) had already signed more than 80 letters of intent with local governments and state-owned companies. The letters have been signed both by major cities (Gdańsk, Katowice, Kraków, Poznań, Wrocław) and smaller towns (Ciechanów, Koluszki, Łowicz, Trzebinia, Września, etc). More than 40 cities have been found eligible for the program. The target it to construct more than ten thousand apartments a year.

In early July 2017, the construction of 172 apartments for rent started in Gdynia. Construction works are also underway in Wałbrzych (215 apartments) and Pruszków (329 apartments). A number of projects launched earlier in Biała Podlaska (186 units) and Jarocin (258 units). A total of more than 10,000 apartments are being prepared, of which more than 1,200 are already under construction (all 10,000 apartments are planned to be under construction by the end of 2017). The number of apartments in preparation reached over three quarters exceeds the capacity of Poland's largest developers by three-fold. The overall project cost is more than PLN 2 billion (see Figure 2). The first Housing+ apartments will be handed over in Q1 2018.

Figure 2
Key Housing+ figures (as of 10 July 2017)

Source: Ministry of Infrastructure and Construction / BGK Real Estate

In early July 2017, the Council of Ministers adopted a draft act on the National Real Estate Resource (Krajowy Zasób Nieruchomości – KZN), prepared by the Ministry of Infrastructure and Construction. The KZN is to be a "land bank", i.e. to bring together state-owned real property and manage it in such a manner as to increase the supply of housing property. Its task will be to supervise the lease of apartments, including the rents, so that they remain within statutory limits (the KZN will have the right to impose administrative penalties for non-compliance). The KZN will monitor compliance with the rental housing size requirements, maintenance costs, terms of lease, etc. It will also act as the intermediary in the selection of tenants.

Under the draft act, state-owned real property will be handed over to the KZN by the entities which have managed it so far – district governors, mayors, the Agricultural Property Agency, the Military Property Agency and the State Forests. The KZN will also be authorised to purchase or receive housing property from local-government units, the Polish State Railways and the Polish Post. Also, in specific cases, the KZN will have the right to provide local-government units (such as communes) with real property to construct municipal and protected housing, night shelters, homeless shelters, winter emergency slots, etc, and also roads and utilities (e.g. water supply and sewerage systems) to serve local communities.

The Government has set some ambitious goals for the Program to be met by 2030 (as defined in the NHP). First, the local governments of communes should be able, by 2030, to satisfy the housing needs of all households currently on the waiting list for communal rental housing. This means that the communes must have more than 165,000 apartments constructed. Second, the number of dwelling units per 1,000 residents should increase from the current 363 to the EU average of 435 by 2030, which means that about 2 million new apartments will have to be built. Third, the number of people living in sub-standard conditions (poor state of repair, unavailable basic utilities, overcrowding) should decrease by 2 million (from 5.3 million to 3.3 million).

Educational reform

The first component of this reform was implemented soon after the election, in December 2015, when an act was passed to reinstate the compulsory school age of 7 (starting from the school year 2016/2017). This entailed the rescinding of the reform implemented two years earlier by the PO-PSL Government, under which the compulsory school age started at 6. The PO-PSL Government lowered the compulsory school age against the will of the majority of parents, who protested against the bill in 2012 and 2015 by signing citizen's draft bills to reinstate the compulsory school age of 7, and also by signing the 2013 petition for a referendum on this issue. It should be noted that the December 2015 act allows parents to decide to send their children to school at the age of 6, provided that their children have completed a year's pre-school preparation, or have been deemed fit for school by a child counsellor.

As shown by a February 2017 CBOS survey, the large majority of the respondents (78%) agreed with the view that it was parents who should decide whether their children should start school at 6 or 7 (this has not changed since 2009 – the survey conducted back then found that 79% agreed with this view). Regarding the compulsory school age, more than half the respondents (58%) believed that the right age for starting education was 7, whereas just over one third (35%) saw the age of 6 as the appropriate age to start school education.

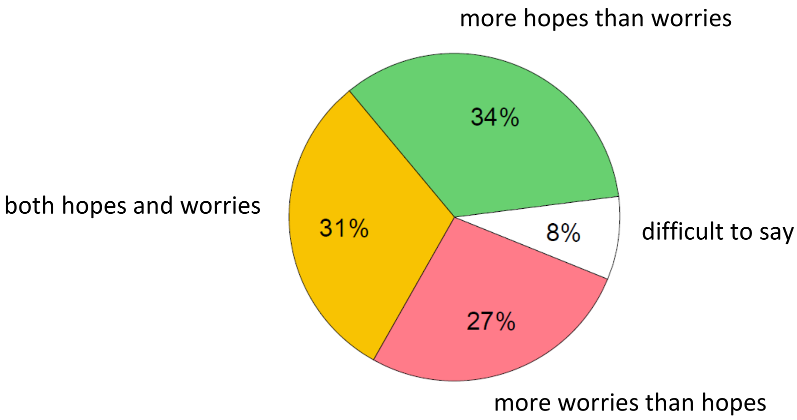
The core component of the reform was implemented a year later. It was preceded by broad public consultations, i.e. the nationwide education debate called “Student. Parent. Teacher. Good Change” (March-June 2016) and cross-ministerial arrangements (September-October 2016). Passed in December 2016, the Educational Law Act established a new educational system with an 8-year primary school and a 4-year general secondary school (replacing a 6-year primary school, a 3-year lower secondary school, and a 3-year upper secondary school). The new system will also include a 5-year technical school (*technikum*), a 3-year lower vocational school (*szkoła branżowa I stopnia*), and a 2-year upper vocational school (*szkoła branżowa II stopnia*). Vocational education will be provided in cooperation with employers in order to align it with labour-market needs. The reform has the overall objective of establishing schools that are modern and strongly ingrained in Polish tradition at the same time. School curricula will place emphasis on teaching foreign languages, ICT and mathematics competence. School-leaving students should cherish their mother tongue and culture along with its entire historical legacy. School's task should be to provide students with the general knowledge of a range of sciences, rather than just teaching them how to do tests.

The 2016 reform will phase out lower secondary schools (*gimnazjum*), introduced under the 1999 reform, which have failed to meet their primary objective of ensuring equal educational opportunities. Lower secondary schools have remained in close ties with primary schools and started to become similar to them. As a result of the drop in the birth rate, nearly 60% of lower secondary schools have failed to meet the initially expected number of students, despite the number of these schools constantly growing. Three-year upper secondary schools (*liceum*) have also failed to serve their intended purpose, as they have essentially amounted to a “preparatory course” for the school-leaving exam (*matura*) and their graduates were ill-prepared for higher education (26 out of 37 higher-school rectors noted that graduates were insufficiently prepared to take up higher education, due to their secondary education's being too short). Recognising this, some of the higher-education institutions launched the so-called Year Zero courses to supplement the education of their future students. Education in vocational schools, which account for the most unemployed graduates (more than 40% among graduates of basic vocational schools and more than 30% among technical-school graduates), has also been unsatisfactory.

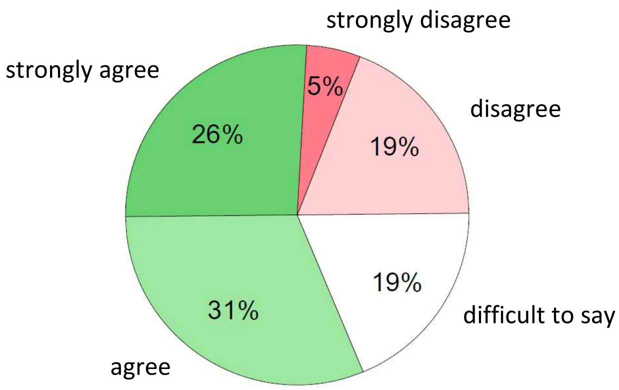
The educational reform will be implemented gradually. The changes will start in the school year 2017/2018 and end in the school year 2022/2023. Secondary general schools and secondary technical schools will start to be reformed in the school year 2019/2020, and their reform will be completed in the school year 2023/2024. Starting from the school year 2018/2019, the so-called eight-grader exam will be introduced (including Polish language, modern foreign language and mathematics, and starting from 2021/2022 one additional subject will be mandatory, to be selected by the student: biology, chemistry, physics, geography or history). The eight-grader exam will be mandatory. Its results will not be a factor in whether a student graduates from the primary school, but they will be taken into account during secondary-school recruitment. Graduates of general secondary schools, technical schools and upper vocational schools will receive the same secondary-school leaving certificates. This means that graduates of upper vocational schools will be able to apply for admission at any university.

Chart 4
Educational reform public opinion survey results

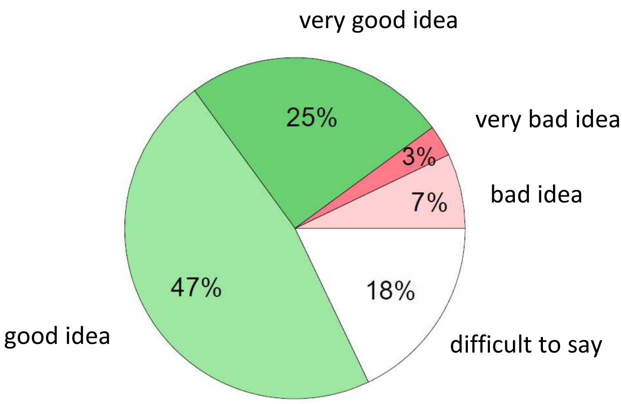
a) In general, what are your feelings about the proposed changes in the educational system?



b) Do you think that an educational system with an 8-year primary school, 4-year general secondary school and 5-year technical school will be better than the existing one with a 6-year elementary school, 3-year lower secondary school, 3-year upper secondary school and 4-year technical school?



c) Do you think that the introduction of a two-cycle vocational school is a good or bad idea?



Source: CBOS, February 2017

A February 2017 CBOS survey found that the majority of the respondents (57%) believed that the new educational system would be better than the existing one, with every fourth respondent claiming the opposite (24%) and almost every fifth respondent (19%) having no opinion on this issue. One third of the respondents (34%) were hopeful rather than anxious about the reforms, with slightly less respondents having mixed feelings about them (31%) and more than one quarter (27%) being more anxious than optimistic about the reforms. More than half the respondents thought the changes proposed by the Government would go in the right direction (51% “right-direction” vs. 33% “wrong-direction” responses), but the opinion that the reforms were ill-prepared was also common (44% “ill-prepared” vs. 28% "well-prepared” responses). The plans to replace basic vocational schools with two-cycle vocational schools were assessed very favourably (72% favourable responses vs. 10% unfavourable) (see Chart 4).

A regulation was signed in February 2017 on the core curriculum for pre-schools and primary schools, set to enter into force on 1 September 2017 (the new core curriculum will apply to first-, fourth-, and seventh-graders in primary schools). A regulation was signed in March 2017 regarding the core curriculum for vocational education, and one-month pre-consultations started in late April on the draft core curriculum for secondary schools (the draft regulations should be signed by the Minister of National Education by the end of August 2017). A range of other regulations were also signed in March 2017, including regarding coursebook subsidies, detailed organisation of public schools and pre-schools, framework teaching plans for public schools, school branches and sporting schools, etc. By the end of March 2017, almost all commune and district (*powiat*) councils (99%) had confirmed their readiness to adapt their school networks to the new educational system. In spring 2017, publishers filed nearly 190 applications with the Ministry of National Education to have their coursebooks approved for school use. New coursebooks (34 million), consistent with the new core curriculum, will be introduced in schools before 1 September 2017 (students will receive the coursebooks and other educational materials free of charge at their schools).

The Ministry of National Education and the Ministry of Digitalisation are making efforts to provide each school in Poland with access to broadband Internet. Works are also under way to set the objectives of the “Active Blackboard” Government program, which will help to equip schools with multimedia devices replacing traditional blackboards over a period of three years. From grade 4 in primary school to the last grade of the secondary school, the number of computer science instruction hours will increase (from 210 to 280 instruction hours). A pilot program was launched last year to teach programming, one of the core skills of the 21st century. More than 2,000 schools are currently involved in this project.

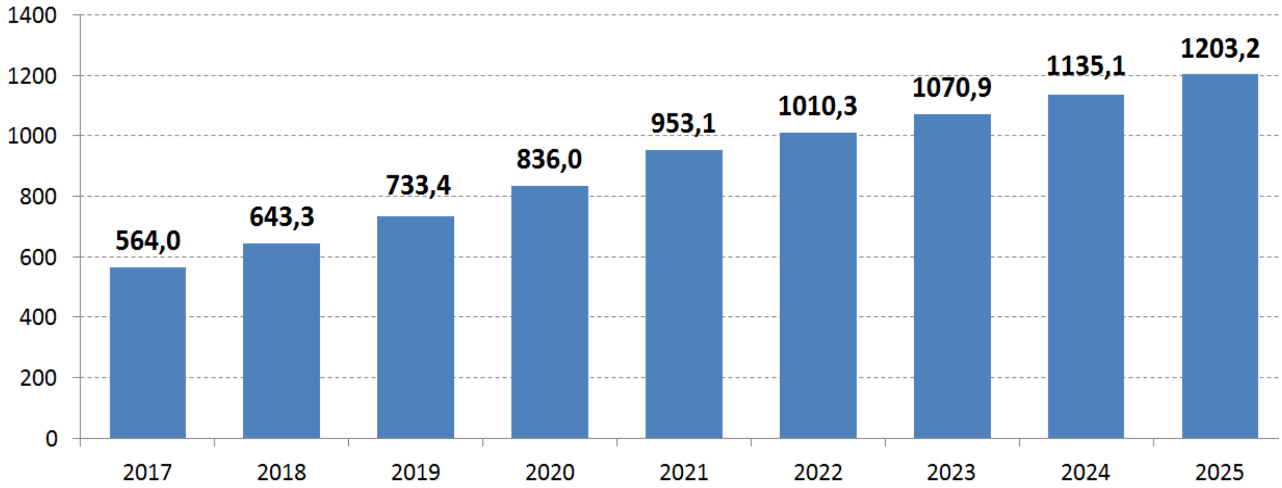
Teachers were primarily concerned about losing their jobs as a result of the reform. The Ministry of National Education (MEN) has assured them, however, that the reform will not cause any lay-offs, as old-system teachers will become new-system teachers by virtue of the law (for example, teachers at school complexes comprising current 6-year primary schools and lower secondary schools will become teachers in 8-year primary schools). The new legislation also establishes mechanisms to help teachers make a smooth transition from old-system to new-system schools without having to terminate their existing agreements and sign new ones. MEN estimates that the reform will add about 5,000 new teaching posts. Then again, the Polish Teacher's Union (ZNP) claims that as many as 45,000 teachers might lose their jobs as a result of the reform. This claim has been reiterated by the opposition. To oppose the reform, ZNP staged a nationwide teachers’ strike in late 2017 (according to ZNP, almost 40% of schools and pre-schools joined the strike, while MEN claims this figure was only 11%).

Healthcare reform

In 2016, an act was passed on free-of-charge medicines for seniors, i.e. people aged 75 or more (the so-called Medicine 75+ Program). The list of these medicines (announced in September 2016 and updated every two months) currently includes 1,200 pharmaceuticals. These medicines are for diseases of old age –

mainly chronic diseases, such as heart and circulatory-system diseases, Parkinson's disease, osteoporosis, etc. In 2015, patients aged 75 or more spent a total of about PLN 860 million on refundable medication. This cost is expected to be reduced by more than 60% in 2017. The project is Government funded and will involve an increase in expenditures each year – ultimately, from PLN 560 million in 2017 to more than PLN 1.2 billion in 2025 (see Chart 5).

Chart 5
Planned state budget funding for the Medicine 75+ Program (PLN million)



Source: Ministry of Health

A new law was passed in March 2017 establishing the so-called hospital network, and appropriate secondary legislation to this law prepared by the Ministry of Health was adopted in June. Hospitals fulfilling specific criteria were approved to make up the so-called primary hospital healthcare system (PSZ) – also known as the “hospital network”. The list of eligible hospitals was announced in late June 2017 – the network comprises 566 hospitals, with 28 hospitals joining on an extraordinary basis, following approval from the Ministry of Health (the network includes 78 non-public entities). About 93% of the existing hospital healthcare spending will be spent on this system. By entering the PSZ, hospitals will have a guarantee that the National Health Fund will sign a contract with them without a bidding procedure. Hospitals which have not joined the network will have the possibility to compete for hospital treatment contracts on a bidding basis – around 7% of National Health Fund money will be allocated for these contracts, as has been the case so far.

The Ministry of Health expects that the hospital network will provide patients with the following benefits – treatment will be coordinated, hospitals will provide comprehensive care (hospital treatment, specialised care, rehabilitation), and healthcare provided at night and on holidays will be more accessible (shorter queues in hospital emergency and admission departments), etc.

Also, the Pharmaceutical Law amendments, passed in April 2017, entered into force in late June 2017. Under the amended law, new pharmacies may be opened only by licensed pharmacists who operate a sole proprietorship, a registered partnership, or a professional partnership, whose sole object is running a pharmacy (the “pharmacy for pharmacists” principle). The act provides for demographic and geographic constraints for newly established pharmacies, i.e. no more than one pharmacy per 3,000 persons may exist and the distance between individual pharmacies must be at least 500 m. Also, controlling entities may own no more than four pharmacies.

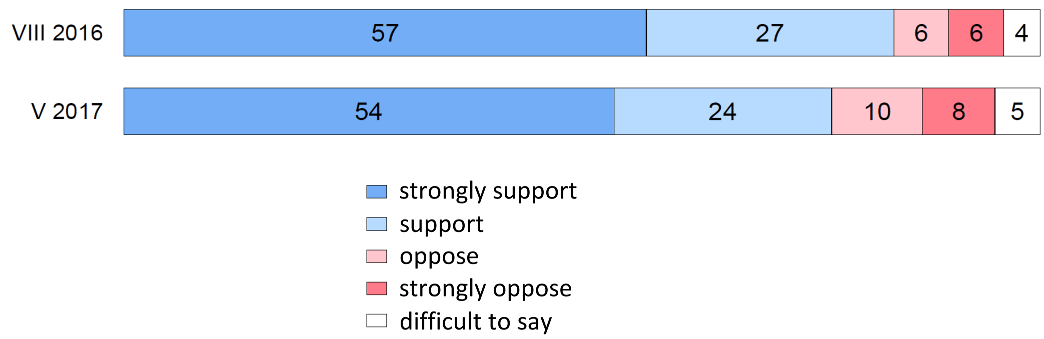
Pension reform

In addition to the Family 500+ Program, the reduction in the statutory retirement age was one of Law and Justice’s centrepiece election promises. The President of the Republic of Poland put forward a draft bill on this reduction in autumn 2015, thus fulfilling his election-campaign promise. The act was passed in November 2016 and will enter into force on 1 October 2017 in order to provide the Social Insurance Institution [ZUS] with some time to prepare its computer systems, etc. Under this new piece of legislation, the retirement age will be reduced to 60 for women and 65 for men (but retirement at these ages will not be obligatory). The changes will apply both to persons insured under the universal-pension system (ZUS) and to farmers insured under the agricultural-insurance system (KRUS). The state-budget costs of this reform are estimated at about PLN 10-15 billion a year.

This reform has undone the changes introduced in 2012 by the PO-PSL Government, which involved a gradual increase in the retirement age for women and men to 67 (by 2020 for men and by 2040 for women). The PO-PSL Government did this against the public will, so it is not surprising that PiS's proposal to reduce the retirement age to 60 for women and 65 for men has been very popular with the public. An October 2016 CBOS survey found that 84% of respondents supported (of which 57% expressed strong support) the plan to re-instate the previously applicable retirement age, while 12% opposed the plan, and according to a June 2017 CBOS survey, the figures have remained similar (see Chart 6). Qualified and unqualified workers (90-92%), and farmers (98%) were the most enthusiastic about reducing the retirement age, while executives and specialists (28%) and business owners (29%) were the most critical of this change.

Chart 6
Reduced retirement age public opinion survey results (%)

In general, do you support or oppose the reduction of the retirement age to 60 for women and 65 for men?



Source: CBOS, June 2017

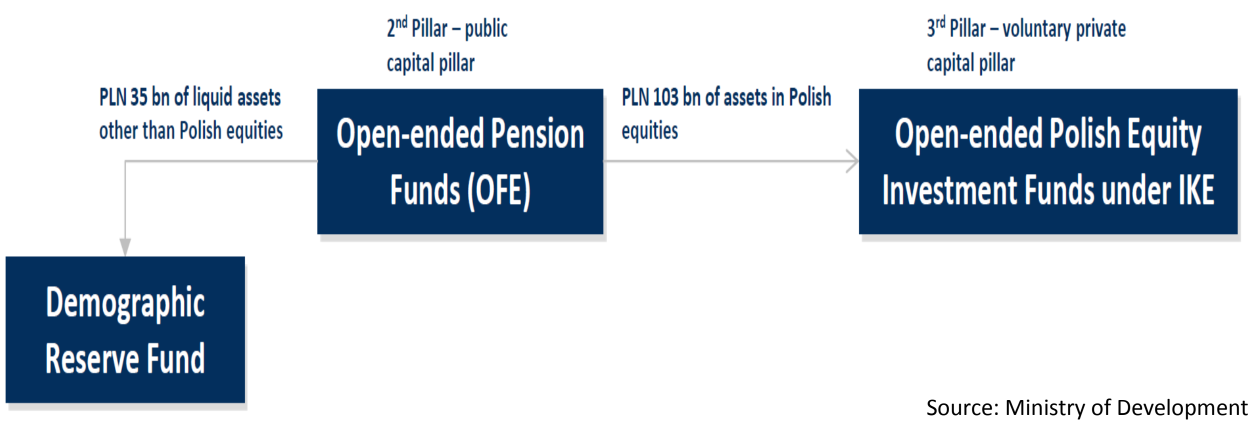
A law was passed in December 2016 to increase the minimum retirement and disability pensions. So far, the minimum pension has been slightly over PLN 882 a month. Starting from 1 March 2017, the minimum pension, the total-disability pension and the survivor pension were all increased to PLN 1,000 gross. Consequently, they now amount to 50% of the minimum wage. The minimum pension can be claimed by women with at least 20 years’ professional service and men with at least 25 years’ service. In July 2017, the Minister of Family, Labour and Social Policy announced that a new solution is being considered (to be applicable from March 2018) that will grant pensioners with the lowest pensions (up to PLN 1,500 gross) an annual supplement of PLN 500 (if the state budget has enough funds).

At the same time, also in December 2016, an act was passed to reduce the retirement and disability pensions paid to former officers of the security service (SB) of the communist Polish People's Republic (this piece of legislation is commonly referred to as *"ustawa dezubekizacyjna"* – the SB-Reckoning Act). Former SB officers used to receive sizeable pensions (often more than PLN 10,000 a month), much in excess of average pension (currently, about PLN 2,000), which most of the public saw as a gross injustice. It was particularly outrageous that former officers of the totalitarian communist regime received much higher pensions than anti-communists active in the times of the Polish People's Republic. Following the reduction under the SB-Reckoning Act, the retirement and disability pensions of these officers may not exceed the average retirement or disability pension paid by ZUS (on average, in June 2016, the retirement pension was PLN 2,053, the disability pension was PLN 1,543, and the survivor pension was PLN 1,725). The adjusted pensions will be paid starting from 1 October 2017.

It was initially estimated that the reduction would apply to about 32,000 individuals and would generate state-budget savings of more than PLN 500 million a year. Currently it is estimated that it might involve as many as 50,000 people since the Institute of National Remembrance (IPN) confirmed in June 2017 that nearly 48,700 people formerly served the totalitarian state (IPN is still investigating information on 1,700 other individuals).

Last but not least, it is worth mentioning the Capital Accumulation Program, which is part of the Responsible-Development Strategy (SOR). The plan under the Program is to establish universal and voluntary Employee Capital Schemes (PPK) and Individual Capital Schemes (IPK) within the third pillar of the pension system, which is underdeveloped (as few as 380,000 individuals use employee-pension schemes – the Program will aim to increase the number of PPK and IKE savers by 5.5 million, i.e. an increase from PLN 12 billion to PLN 22 billion in extra long-term savings annually, and 16.5 million respectively, and to increase the long-term GDP growth rate by about 0.4 pp per year, etc).

Figure 3
Preliminary assumptions for changes in OFE – new pension social contract



Source: Ministry of Development

As far as the second pillar is concerned, Open Pension Funds (OFE) have been deemed ineffective, due to the low expected pension levels they will provide. The plan is to transfer 75% of OFE assets (i.e. about PLN 103 billion in the form of Polish equities) to Open Polish Equity Investment Funds within the IKE (Individual Retirement Accounts), i.e. the third pillar, and to reallocate the remaining 25% of OFE assets (i.e. about PLN 35 billion in the form of liquid assets other than Polish equities) to the Demographic Reserve Fund, but also to credit these funds to ZUS sub-accounts (see Figure 3). This applies to those OFE assets (more than PLN 138 billion) which remained after the PO-PSL Government transferred 51.5% of them to ZUS (the first pillar) in 2014. This reallocation of the above-mentioned PLN 103 billion to IKE accounts would apply to all 16.5 million OFE participants, i.e. on average PLN 6,300 per person.

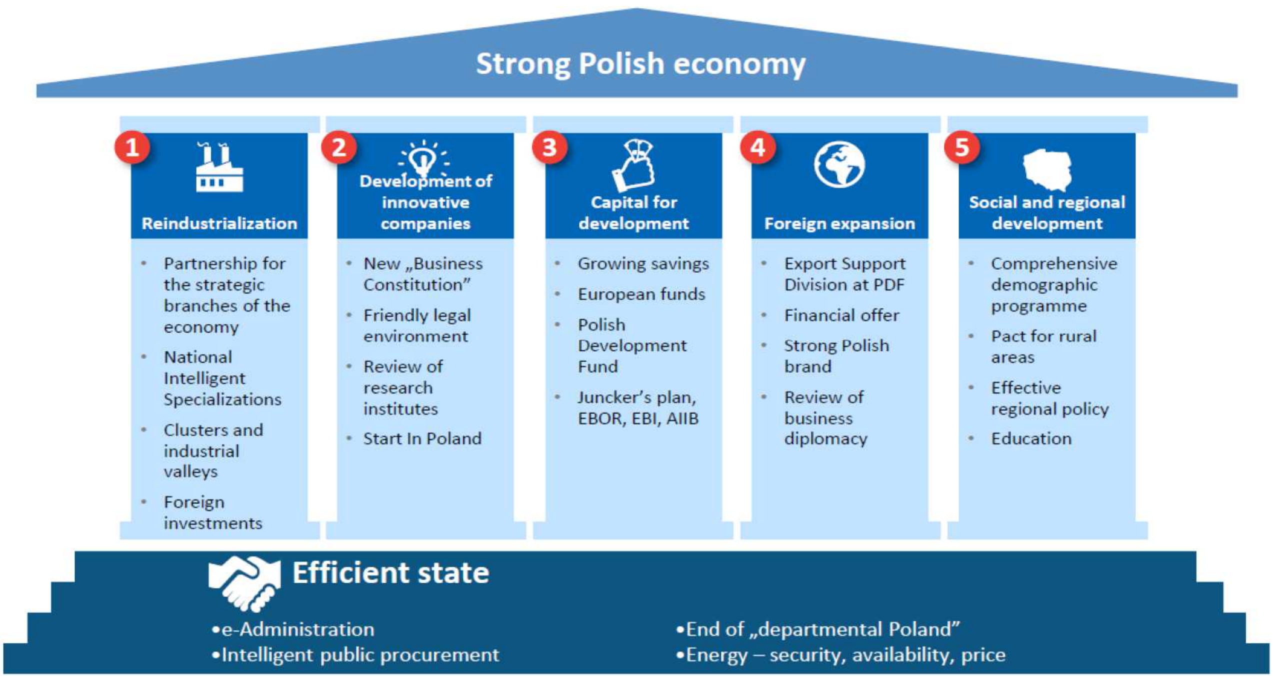
Pursuant to SOR, the Capital Accumulation Program is planned to be ready by 2017 and be implemented between 2018 and 2019. In July 2017, the Minister of Development and Finance announced that the OFE reform will come into force at the beginning of July 2018, i.e. six months later than previously assumed. The reason for the new date is the fact that the reform is very complex and still requires some interinstitutional consultations and preparation on the part of ZUS.

PART 2 – THE ECONOMY AND FINANCE

The Responsible Development Strategy

In February 2017, the Government adopted the Responsible Development Strategy, which is an extension of the Responsible Development Plan (also known as Morawiecki's Plan), put forward in February 2016, which bases Polish economic development on 5 pillars (see Figure 1). This strategy – prepared by the Ministry of Development in collaboration with other ministries – specifies the medium- and long-term directions of Poland's development, i.e. by 2020 and with an outlook to the year 2030.

Figure 1
Responsible Development Plan – five pillars of Poland's economic development



Source: Ministry of Development

The strategy concentrates on three goals: (I) permanent economic growth, which is increasingly knowledge-based; (2) socially sensitive and territorially sustainable development; and (III) an efficient state and institutions. The implementation of this strategy is expected to increase the affluence of Poles and reduce the percentage of the population at risk of poverty and social exclusion. Moreover, it assumes an increase in the average household income to 75-80% of the EU average by 2020 and to reach that average by 2030, at the same time aiming at narrowing the disparities of income between the country's regions.

The strategy places emphasis on introducing more cutting-edge solutions and innovation to the Polish economy. In the last twenty five years, Poland's economic development and growth have been based on low labour costs (a cheap workforce), but this scenario is becoming rarer. There are still too many Polish partnerships and companies which are competitive only in terms of low prices and too few which are bringing innovations to the market. Meanwhile, the world is at the dawn of the fourth industrial revolution (the so-called Industry 4.0) based on digitisation, robotisation, mechanisation, automation, etc. This is why the strategy lists a series of innovative flagship projects such as the Electric car, E-bus, Luxtorpeda 2.0, Batory, Żwirko and Wigura (the design and construction of electric vehicles, innovative rail vehicles, ships, and drones in Poland), the Enigma Cyberpark (cyber security), Telemedicine, the Biotechnology Development Centre, Polish medical devices (Polish medical robot, generic and biosimilar drugs), Eco-construction, Polish furniture, Smart mine, etc.

The above-mentioned territorially sustainable growth and the narrowing of the disparities between the country's regions are to be achieved through the support package for medium-sized towns presented in April 2017, among other things. It applies to towns with a population of over 20,000 inhabitants and the towns of 15,000 inhabitants which are the capitals of districts (excluding voivodeship towns) – today 255 localities in the whole of Poland, among which there are 122 urban centres in need of support, as they are losing their social and economic functions to the greatest extent. The main elements of the package are EU subsidies, investment preference, and the facilitation of access to the funds of the Local-Government Investment Fund managed by the Polish Development Fund. Support from the national operational programmes managed by the Ministry of Development is expected to be nearly PLN 2.5 million from EU funds for the years 2014-2020.

The strategy is to be implemented both nationwide and at the regional level. Key regional projects set out in the strategy include the construction of international expressways: the Via Baltica (running from Poland to Lithuania and Latvia to Estonia) and the Via Carpathia (running from Lithuania to Greece through 7 EU states – in Poland through the eastern voivodeships). In June 2017, the Government increased the financing limit for the National Roads Construction Programme until 2023 from PLN 107 billion to PLN 135 billion.

Figure 2
The planned route of Via Carpathia

Source: Ministry of Infrastructure and Construction

Other regional plans include establishing a gas transmission and trade centre for the countries of Central and Eastern Europe. In March 2017, the Central Eastern European Innovators Summit was held in Warsaw. Apart from start-ups, large corporations, economists, and non-governmental organisations, the summit was also attended by Prime Ministers from the Visegrad Group, who signed the so-called Warsaw Declaration on the tightening of regional cooperation in research, technology, innovation, digitisation, etc.

Such activities are a chance to strengthen economic cooperation and mutual relationships within the so-called Three Seas initiative, i.e. the 12 EU countries located in Central and Eastern Europe between the Adriatic, Baltic and Black Sea (Poland is the region's largest country). The Three Seas States cooperate with each other in infrastructure development, energy, digitisation and economic matters. In August 2016, the first Three Sees Summit took place in Dubrovnik (Croatia). The second summit was held in July 2017 in Warsaw. Its honorary guest was US President Donald Trump, who expressed his interest in the Three Seas region in the context of, among other things, energy cooperation, i.e. exporting US gas to Central and Eastern European countries.

The Business Constitution and the package for entrepreneurs

One of the priorities of the Responsible Development Strategy is the development of entrepreneurship, including micro, small and medium-sized enterprises, which constitute more than 90% of all enterprises in Poland. This is why the Ministry of Development prepared the greatest reform of the Polish law since 1989, implemented in two packages – "100 changes for partnerships and companies" and the Business Constitution. Their objectives are to release the potential of Polish entrepreneurs, so far restricted by various legal, administrative and other obstacles.

The "100 changes for partnerships and companies" package introduces into Polish law a number of solutions aimed at eliminating the most troublesome limitations faced by entrepreneurs. Some of these changes entered into force on 1 January 2017: the principle of legal certainty; the raising of the limit of net revenues from the sale of goods, products, and financial transactions for which PIT taxpayers are allowed to keep their revenue and expense ledgers (from EUR 1.2 million to EUR 2 million); the raising of the revenue limit which gives one the right to tax one's economic activity based on the rate of tax on registered revenue (from EUR 150,000 to EUR 250,000); the exemption from conducting a second tax audit if it is intended to examine the period already covered by a previous audit, etc. These changes were introduced by the so-called Deregulatory Act, which is expected to bring considerable savings to entrepreneurs (at least PLN 500 million a year).

In April 2017, the Sejm passed two other acts within the "100 changes for partnerships and companies" package, i.e., the amendment of the Code of Administrative Proceedings and the so-called creditor package. These acts entered into force on 1 June 2017 (with some exceptions). The first act stipulates that there will be more partnership in the relations between the state and the citizen (e.g. thanks to the principle of citizen-friendly interpretation of legal provisions or mediation), official cases will be taken care of more quickly (e.g. "the tacit handling of a case"), and administrative penalties will be commensurate with the severity of the violation. The creditor package will in turn make it possible for partnerships and companies to examine the creditworthiness of contracting parties, recoup debts, counteract payment deadlocks, etc. The act provides for, among other things, shortening court trial stages, doubling the limit of value of the subject of dispute in simplified procedures (from PLN 10,000 to PLN 20,000) and settling entrepreneur cases in class actions (previously available only to consumers). The act also introduces a wider range of options to obtain information on the responsibilities of potential contracting parties from economic information bureaux and registers containing data on receivables. The Register of Public Liabilities and the Central Register of Restructuring and Bankruptcy will begin operating on 1 January 2018.

The objective of the Business Constitution is to implement the principle of economic freedom as set out in the Constitution of the Republic of Poland, so far only partially achieved. The main element of the Business Constitution – the Act on the Law of Entrepreneurs (it is still a work in progress expected to come into force in 2018) – is to introduce a series of business-friendly principles, e.g. the principle "everything which is not forbidden is allowed"; the presumption of the entrepreneur's honesty; the principle of proportionality (a public office does not have the right to impose unjustified charges on entrepreneurs); the principle of the liability of civil servants for breaching the law; "tax relief at the start" (the exemption of novice entrepreneurs from paying social insurance contributions for the first 6 months of their business activities); "non-registered activity" (the exemption of the smallest firms whose monthly revenue does not exceed 50% of the minimum remuneration from the obligation to register their activity), etc.

In 2018, other elements of the "100 changes for partnerships and companies" package will be introduced, including the simplification of the rules of procedure concerning the inheritance of a family enterprise after the death of its owner, the shortening of the period of keeping employee files (from 50 to 10 years) and transferring them to electronic databases, the introduction of the so-called simple joint stock company, adjusted to the needs of start-ups, etc. Other acts which are part of the Business Constitution will put into effect, among other things, the simplification of taxes (e.g. by removing a number of obligations concerning documentation, standardising blank forms, simplifying the rules for settling tax deductible expenses), the formation of the Joint Committee of the Government and Entrepreneurs, the Entrepreneurs Ombudsman, the Information Office for Entrepreneurs, etc.

It is also very important to build a bridge between science and businesses, i.e. between scientific research and their implementation in business. The sector should continue to generate new knowledge that could be implemented by companies as new products and services. It is one of the pillars of the so-called Gowin's strategy.

Foreign investments in Poland

The opposition claims that the economic policy of the PiS Government has been designed to dissuade foreign companies from investing and conducting business in Poland. The expected outcome would be the outflow of foreign investors from Poland to other countries. However, as evidenced in the report by the international consulting firm Ernst & Young (May 2017), Poland remains one of the most attractive European countries for investment and the leader of the Central and Eastern Europe region in foreign direct investments. In 2016, foreign investors announced their plans to implement over 250 projects in Poland (an over 20% increase year on year), which earned Poland 5th place among European countries (the highest since 2008). Poland is also second in Europe in the number of jobs created as part of foreign direct investments. Last year over 22,000 were created, which is more than in Germany or France (see Table 1).

Table 1
Foreign direct investments (FDI) – a ranking of European countries (2016)

a) number of planned projects with FDI

1	UK	1144	7%	⇧
2	Germany	1063	12%	⇧
3	France	779	30%	⇧
4	Spain	308	24%	⇧
5	Poland	256	21%	⇧
6	Netherlands	207	-5%	⇩
7	Russia	205	2%	⇧
8	Belgium	200	-5%	⇩
9	Ireland	141	11%	⇧
10	Turkey	138	3%	⇧

b) number of jobs created by FDI

1	UK	43 165	2%	⇧
2	Poland	22 074	12%	⇧
3	Germany	19 961	17%	⇧
4	Romania	17 545	38%	⇧
5	France	16 980	24%	⇧
6	Serbia	16 396	54%	⇧
7	Russia	15 064	10%	⇧
8	Czech Republic	14 292	53%	⇧
9	Spain	12 969	82%	⇧
10	Hungary	12 450	6%	⇧

Source: Ernst & Young, May 2017

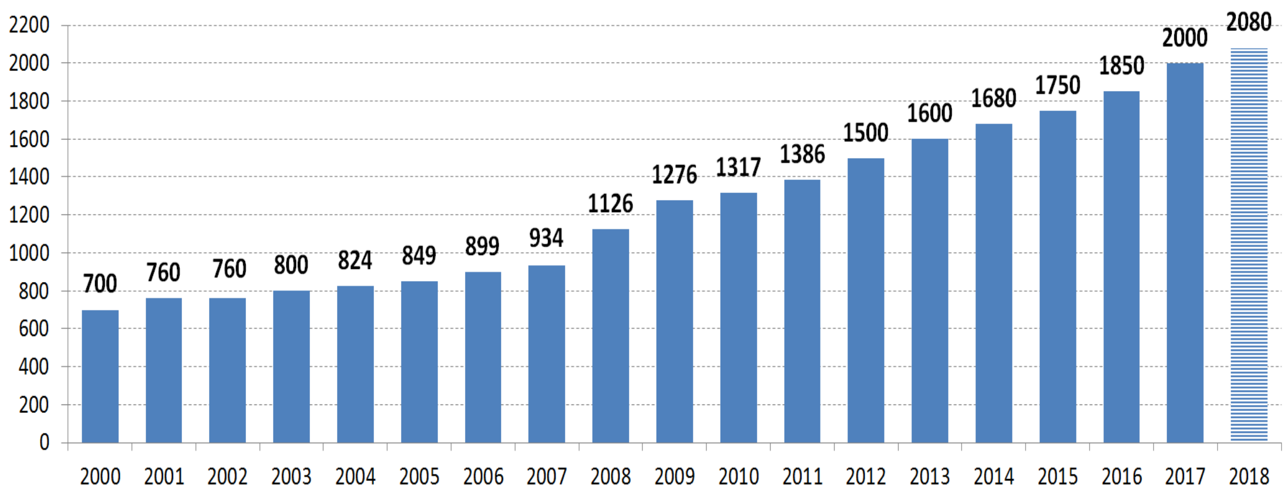
According to the Ministry of Development, since early 2016, as part of the investments making use of various forms of state support, over 300 investments have come to Poland to generate over 16,000 jobs, and indirectly a further 34,000 resulting in a total of 50,000 new jobs. Poland has become the first choice of foreign investors from the industrial production sector, for example car and aircraft engine manufacturers.

Regional specialisation can be observed in individual branches of industry, for example Silesia is becoming a hub for the automotive industry, Subcarpathia – the aviation valley, and Pomerania has seen the revival of the shipyard industry (under the previous Government – PO-PSL coalition – the shipyards in Szczecin and Gdynia were put into liquidation). In the Silesian automotive hub (including the Dolnośląskie, Opolskie and Śląskie voivodeships), the major foreign investments include the construction of a factory in Jawor, which is going to produce new-generation engines for Mercedes-Benz passenger cars (the groundbreaking ceremony was held in June 2017). The investment value will be over PLN 2 billion and it will result in around 500 new jobs. Other examples include the construction of Europe's first factory producing batteries for electric cars in the Kobierzyce Commune. The Korean corporation LG Chem will invest over PLN 1.3 billion there, creating over 700 new jobs. The Subcarpathian Aviation Valley is going to see 10 new aerospace industry investments – in Mielec (3), Trzebownisko (3), Ropczyce (2) and Stalowa Wola (1). The value of individual investments ranges from PLN 5 million to PLN 224 million. Finally, when it comes to the Polish shipyard industry, domestic shipyards will build two seagoing ferries for passengers and cars (previously the Polish Baltic Shipping Company "Polferries" ordered its ferries in China). In January 2017, the Polish Armaments Group (PGZ) purchased the Szczecin Industrial Park in the area of the former Szczecin Shipyard, and in May 2017, it signed a preliminary agreement regarding the purchase of the Navy Shipyard in Gdynia (the agreement will be concluded in September 2017). These investments are aimed at creating a Polish shipyard group, the largest on the Baltic Sea and one of the largest in Europe.

Pay and taxes

In July 2017, the Government decided that the minimum monthly pay for those employed under a contract of employment in 2018 will be PLN 2,080 gross (see Chart 1). From 1 January 2017, it has been PLN 2,000 gross, which is PLN 150 more than in the preceding year, when the minimum pay equaled PLN 1,850. These amounts (PLN 2,000 and PLN 2,080) constitute about 46-47% of the average pay in the enterprise sector (according to the Central Statistical Office, in June 2017, it was PLN 4,502 while PLN 4,277 in January).

Chart 1
The minimum monthly pay in Poland in 2000-2018 (PLN)



Source: Central Statistical Office

Also in July 2017, the Government decided that the minimum hourly wage will be PLN 13.5 in 2018. On 1 January 2017, the minimum hourly wage of PLN 13 gross entered into force. It applies to contracts of mandate and contracts for the provision of services, natural persons and the self-employed. Formerly, those employed under contracts of mandate (around 1.3 million people) received very low hourly wages (e.g. PLN 5-6), which meant that their remuneration was lower than the minimum pay. Since not all employers abided by the new provisions on the minimum hourly wage, the National Labour Inspectorate started to conduct inspections in February 2017. Not only do the inspectors verify whether the hourly wage of PLN 13 is being paid, but also whether civil-law contracts (so-called "junk contracts") are not overused at the expense of employment contracts, which should have been used instead. During the first investigation, the inspectors resort to instructions only; during subsequent ones – if irregularities have not been removed – they are allowed to submit motions to courts, which can result in fines of up to PLN 30,000.

On 1 January 2017, a new income tax threshold came into effect – PLN 6,600 per year, which is more than twice as much as the former one (PLN 3,091). The application of such a low income tax threshold under the PO-PSL Government actually meant the taxation of income at the minimum level of existence (around PLN 6,500 annually), which in autumn 2015 the Constitutional Tribunal deemed contrary to the Polish Constitution. The raising of the income tax threshold will be of benefit to over 3 million Poles with the lowest incomes (retirees, pensioners, students, among others). Those who earn up to PLN 6,600 a year will not have to pay income tax. For the taxpayers who earn more, but less than PLN 11,000 a year, the income tax threshold will gradually decrease to the level of PLN 3,091. Those whose annual income ranges between PLN 11,000 and PLN 85,528 will be taxed on the former basis, with the income tax threshold of PLN 3,091. The income tax threshold for above PLN 85,528 a year will be gradually lowered, and taxpayers earning more than PLN 127,000 a year will not be subject to an income tax threshold.

The income tax threshold of PLN 6,600 is a compromise between the willingness to ensure the minimum of social justice and the current possibilities of the state budget. It costs the budget around PLN 1 billion a year. The raising of this threshold to PLN 8,000 – which was proposed in the electoral campaign and is now being reminded of by the opposition – would today be too much of a burden on the state budget. It is, however, possible to continue to raise the income tax threshold in the future if appropriate budget income is ensured (e.g. thanks to the sealing of the tax system).

On 1 January 2017, the CIT rate was lowered from 19% to 15% for small enterprises, i.e. companies whose annual sales revenue does not exceed EUR 1.2 million. The new rate also applies to companies at the beginning of their economic activity. In total, around 90% of CIT taxpayers will benefit from this, which is nearly 400,000 entities. The lowered CIT rate will cost the state budget around PLN 270 million, but the provisions on the sealing of tax collection which have entered into force are intended to compensate for this deficit in the budget.

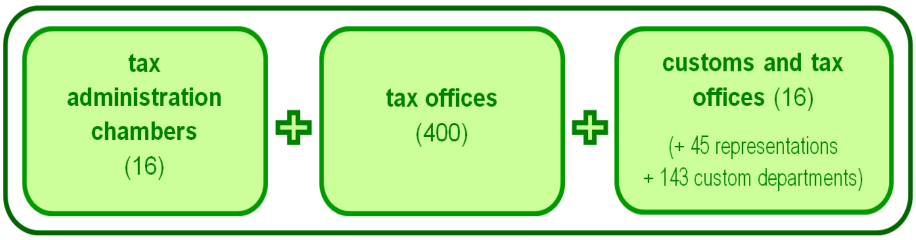
Moreover, the year 2017 brought a significant convenience for taxpayers as regards income tax settlement. In March 2017, the Sejm passed an act under which around 13 million taxpayers who submit their annual PIT declarations will be able to do so in the simplest way possible. It is now enough to send a relevant request to one's fiscal office, and that fiscal office – on the basis of the information included in the request and the information obtained from employers or pension agencies – will fill in the tax return declaration and then send it (within 5 days) to the taxpayer for acceptance. This new form of tax return settlement (carried out via the Internet) is a significant convenience for taxpayers, as it saves their time and eliminates the risk of making a mistake in the declaration.

The state budget – the sealing of the tax collection system

One of the main objections of the opposition to the Government's social (e.g. Family 500+, Housing+, free medicines for seniors, the raising of the income tax thresholds, etc) and economic programmes (e.g. the lowering of taxes for small enterprises) was the alleged lack of funds for their financing. This is indeed a significant burden on the state budget (e.g. the annual cost of the Family 500+ Program is PLN 23-25 billion, whereas the cost of the lowering of the retirement age is another PLN 10-15 billion a year), but these additional expenditures can be recovered from other sources of income, which were previously – under the PO-PSL Government – lost from the state budget as a result of various dishonest or even criminal activities such as tax evasion (the so-called aggressive tax optimisation) and tax-return swindles (the so-called VAT carousels). Each year the state budget lost several dozens of billions – according to different estimates, PLN 10-40 billion from CIT and PLN 40-55 billion from VAT. It is estimated that under the PO-PSL Government, the state budget lost PLN 220 billion, or perhaps even PLN 300 billion. This is as much as Poland received from the EU under the cohesion policy (for catching up with the wealthier EU Member States) in 2014-2020. This would be enough to finance multiple Family 500+ programs, build thousands of kilometres of motorways, schools, hospitals, etc.

In consideration of the foregoing, immediately after the elections, the PiS Government commenced intensive work aimed at the sealing of the tax collection system. On 1 March 2017, the National Fiscal Administration (KAS) started its activities, consolidating tax administration, fiscal control and customs service (see Figure 3). Previously these three functions were vested in separate institutions which resulted in their tasks being dispersed and duplicated, generated higher costs, etc (as evidenced by e.g. World Bank reports). These structures functioned without much change for over 30 years and the reform aims at adapting them to the current global economy. The reform was planned under PiS Government in 2005-2007, but the 2007 election brought it to a halt as the PO-PSL coalition took power. Since its inception, KAS has been combatting activities which could result in state budget losses. In recent months, KAS investigators, in cooperation with other services (Police, Internal Security Agency, Border Guard) broke numerous domestic and international crime groups illegally trading in fuel in Poland and orchestrating VAT refund frauds using false invoices, closed illegal casinos, secured illegal slot machines, and prevented the smuggling of tobacco, alcohol, fuel and other goods (such as amber, fox skin, caviar), etc.

Figure 3
National Fiscal Administration – type and number of units



Source: Ministry of Finance

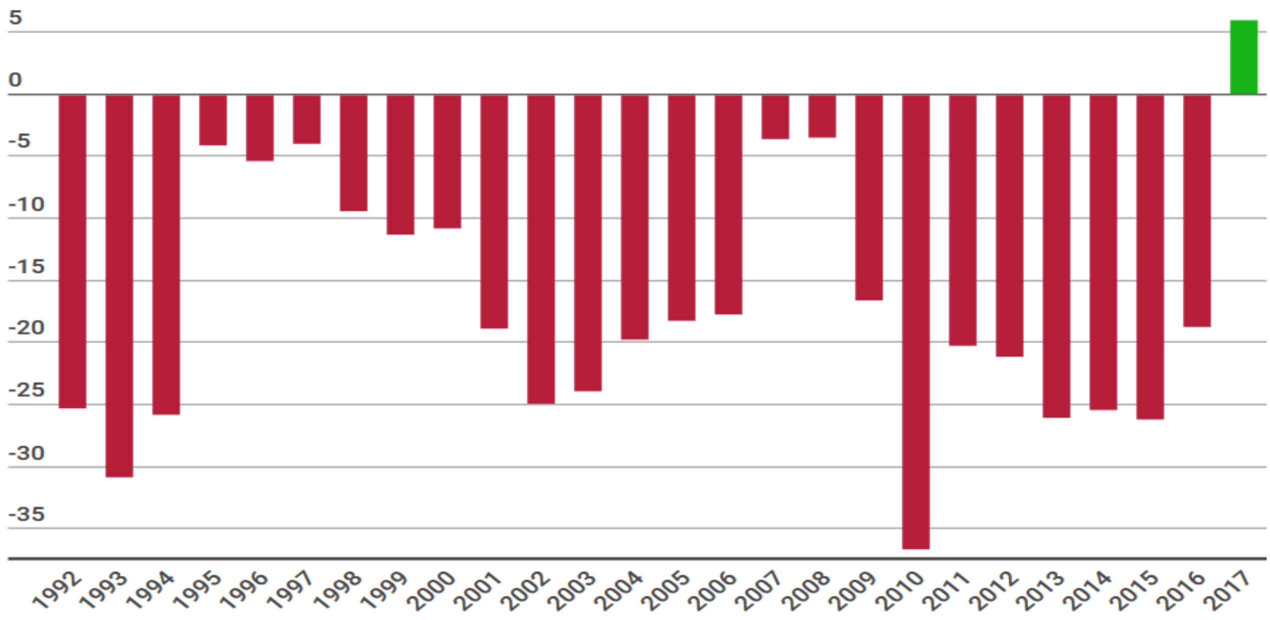
In July 2016, the Ministry of Finance introduced the so-called Standard Audit File (the informatisation of tax book audits allowing, among other things, to detect invoices for non-existent actions). In August 2016, the so-called Fuel Package entered into force, which is a series of legal solutions designed to limit the grey area on the market for liquid fuels (which constitutes up to 30% of the market). The package already started to bring measurable effects in the first months of its operation, e.g. the use of fuels from legal sources increased rapidly – by 29% in August, 26% in September, and 17% in October, compared to the corresponding periods in the preceding year (this data comes from the Polish Organisation of the Oil Industry and Trade). This has been also confirmed by Polish corporations such as Lotos and Orlen, which in the third and fourth quarters of 2016 recorded increases in the sale of fuels by about 20-25% (similarly as in the first half of 2017). In April 2017, the so-called Transportation Package entered into force, which is an act on monitoring the road transit of sensitive goods involving a high risk of tax fraud (motor and energy fuels, alcohol, dried tobacco, etc) as well as sanctions on any violation of these provisions.

As for sanctions, it has to be mentioned that the amended Criminal Code entered into force on 1 March 2017, which stipulates severe punishments for making out false VAT invoices, forging and remaking them in order to use as genuine (the producing of such invoices amounting to over PLN 5 million carries the penalty of at least 3-years' imprisonment, PLN 10 million – from 5 to 25 years of imprisonment). This harsh punishment is motivated by, among other things, the large scale of this type of crime: in 2013, the tax audit authorities discovered fictional invoices amounting to PLN 19 billion, in 2014 – about PLN 33 billion, and in 2015 – as much as PLN 81 billion.

The above actions are just the beginning of the fight against tax crime, but they have already brought desired results. In the first half of 2017, budget revenues increased from all main taxes: 28% from VAT (PLN 18 billion), 8% and 14% from PIT and CIT respectively, and 4% from gambling tax. The revenue from the banking tax introduced in 2016 was PLN 2.2 billion as of the end of June 2017 (it is expected to reach PLN 4 billion by the end of the year). The Government expects that by the end of 2018 the measures sealing the tax system will have increased budget revenue by PLN 16-22 billion. In July 2017, the Ministry of Finance presented draft amendments to tax acts (PIT and CIT), which provide for, among other things, preventing aggressive tax optimisation and regaining the sources of revenue from CIT (these regulations are expected to bring PLN 27.5 billion in additional budget revenue in 2018-2027).

In general, the condition of the state budget is good and is indicative of the strict public finance discipline maintained by the Government. In 2016, the budget deficit amounted to around PLN 46 billion, which is 2.8% of GDP, below the limit required by the EU (3% of GDP). At the end of June 2017, the budget recorded a surplus of nearly PLN 6 billion (see Chart 2). The planned budget deficit in 2017 is about PLN 59 billion (2.9% of GDP), although economists estimate that it will be considerably lower (according to the Ministry of Finance – below PLN 50 billion, i.e. 2.5% of GDP). The planned deficit is within the above-mentioned EU limit (3% of GDP). Under the PO-PSL Government the deficit often exceeded this limit. For example, it was PLN 50 billion in 2009 (3.7% of GDP), 85 billion in 2010 (6% of GDP) and 56 billion in 2011 (3.7% of GDP), which resulted in Poland's being covered by the EU's excessive deficit procedure in 2009-2015.

Chart 2
Budget deficit after June of a given year (PLN billion)



Source: Ministry of Finance

Toxic financial products

For over a dozen years (mainly between 2000 and 2013), the banks had granted large numbers of mortgage loans indexed or denominated in Swiss francs, not properly informing their clients about the exchange-rate risk, i.e. a possible considerable increase of one's debt towards the bank (paid off in Polish zloty) as a result of unfavourable changes in the exchange rate of the Polish zloty to the Swiss franc. As it turned out later, such exchange rate changes occurred a few times – in 2008/2009, 2011 and 2015 (see Chart 3). In mid-January 2015 – in connection with the release of the Swiss franc to euro exchange rate by the Swiss Central Bank – the Swiss franc hiked in relation to the Polish zloty and brought a significant increase in loan instalments and the general debt of those paying off the so-called franc loans. In 2016, there were around 900,000 people with 535,000 loans, aggregating to PLN 137 billion.

Chart 3
The Swiss franc to zloty exchange rate in 2002-2017 (as of 30 June 2017)

Source: National Bank of Poland

In consideration of the foregoing, in 2015 and 2016, there were some ideas for solving the problem of the so-called franc loans, e.g. converting the loans to Polish zloty, the cost of which for banks was estimated to be PLN 21-22 billion (the National Bank of Poland) or PLN 30-40 billion (the Chancellery of the President of the Republic of Poland). In January 2017, an extraordinary subcommittee was formed in the Sejm with a view to considering three bills on foreign currency loans – submitted by the President of the Republic of Poland and opposition parties (PO and Kukiz'15). The President's bill stipulates that the banks would have to return to their clients (including interest) the difference between the admissible *spread* and the one actually applied by them when recalculating instalments from the Swiss franc to the Polish zloty (usually overestimated). The bill proposed by PO stipulates the possibility of converting such loans into the Polish zloty at the exchange rate from the day of the restructuring contract and calculating the difference between the value of the loan converted and the amount of debt, which a debtor would have at that moment if he/she had taken a loan denominated in the Polish zloty (banks would write off part of that amount). The bill of Kukiz'15 stipulates that loans in foreign currencies should be treated as if originally taken out in the Polish zloty. In April 2017, the Polish Financial Supervision Authority (KNF) estimated the costs which banks would have to bear if each of the bills entered into force: PLN 9.1 billion (the President's bill), PLN 11.1 billion (PO's bill), and PLN 52.8 billion (the bill proposed by Kukiz'15). For comparison, the profits earned in the last few years by the Polish banking sector were around PLN 11-16 billion a year (PLN 14 billion in 2016). In early July 2017, following a session of the Monetary Policy Council, the President of the National Bank of Poland announced that the Chancellery of the President of Poland is working on a draft Act on the Borrowers' Support Fund, which contains some new solutions.

Another serious issue is the so-called savings insurance policies (life insurance policies with a capital fund), which banks and insurance firms sold in large numbers to their clients (mainly from 2009 to 2013), not informing them about the high costs of cancelling them, which could mean the loss of a considerable part (even 80-90%) of the funds paid. The problem of savings life insurance policies hits around 5 million Poles and is estimated to amount to over PLN 50 billion. In March 2017, the Ministry of Finance hosted the first meeting of a working team which will handle abuses related to the selling of savings insurance policies. The representatives of the Ministry of Finance, the Financial Ombudsman's Office, the Office of Competition and Consumer Protection, the Financial Supervision Authority, the association of affected consumers, and lawyers from law firms providing legal aid to the aggrieved parties, also took part in the meeting. The participants put forward suggestions for changes to be introduced to the respective acts in order to make it easier for the clients of insurance firms to make complaints, improve the efficiency of collective claims, counteract the blocking of proceedings by creditors, extend consumer rights to small entrepreneurs, and specify what an admissible insurance product is or is not, etc. They also considered the introduction of a statutory limit for fees charged in the case of the terminating of an insurance contract by the client, a limitation on commission, and the introduction of a list of insurance products which cannot be sold to consumers, etc.

Finally, it is worth mentioning the Amber Gold scandal. The operations of this financial pyramid (2009-2012) led to over PLN 850 million in losses sustained by around 19,000 people, including those who lost all their life savings. The Amber Gold company was formed and operated during the term of the PO-PSL Government, but the then authorities did not take any real steps to explain the matter. Such steps were not taken until the elections won by Law and Justice. In March 2016, the Gdansk regional court started a trial into the Amber Gold case. Then, in September 2016, a Sejm investigation committee commenced its activities in order to examine the correctness and legality of the activities of the public authorities and institutions towards the entities forming part of the Amber Gold group (acts and omissions during the term of the PO-PSL Government, potential connections between Amber Gold and the world of politics, etc). The committee has already investigated, among other things, the former president of Amber Gold, the former heads of the National Bank of Poland and the Polish Financial Supervision Authority, and former Prime Minister Tusk's son (who was employed by the airlines that had financial ties with Amber Gold). Before the end of its work, in spring 2018, the committee plans to probe the then Prime Minister Donald Tusk.

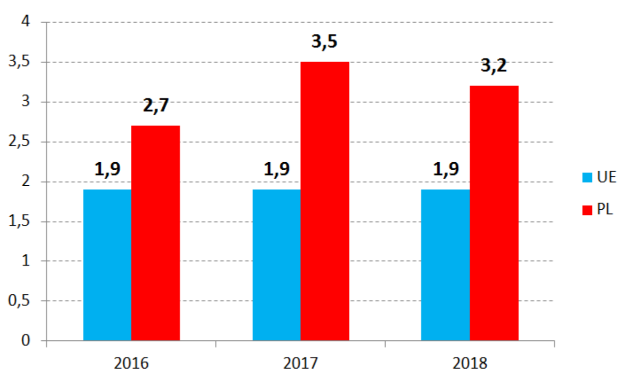
The current economic situation and prospects

Finally, it is worth analysing how the Polish economy is currently assessed by foreign institutions (the European Commission, the International Monetary Fund, major rating agencies), also in the context of the reforms introduced by the Government. Below is a short overview of the key macroeconomic indicators (GDP, inflation, unemployment, public finance).

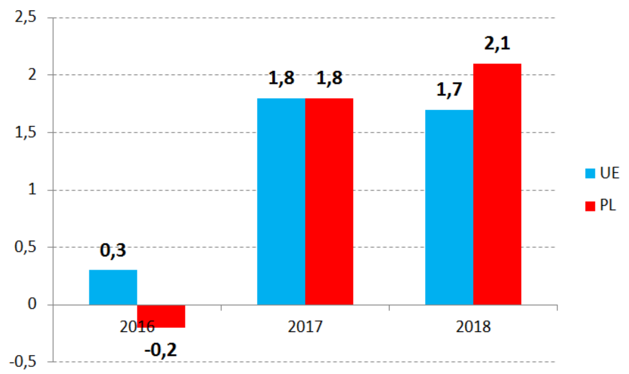
As confirmed by the latest economic forecasts of the European Commission (*European Economic Forecast*, May 2017), Poland is among the EU Member States with the highest rate of economic growth. The expected GDP growth in Poland is 3.5% in 2017 and 3.2% in 2018, which is significantly higher than in the preceding year (2.7%) and considerably above the EU average (1.9%) (see Chart 4a). In the entire forecast period Poland will have the highest growth rate among the 10 largest EU economies and higher GDP growth values are expected only in several smaller EU Member States (Malta, Luxembourg, Romania, Ireland and Hungary). Also the International Monetary Fund in its latest report (*World Economic Outlook*, April 2017) forecasts that the GDP growth in Poland in 2017 and 2018 will be 3.4% and 3.2%, respectively. Similar forecasts were presented by the Fitch rating agency in its latest rating for Poland (July 2017), i.e. 3.3% in 2017 and 3.2% in 2018-2019. In comparison with the forecasts from the first months of this year (January/February), all three institutions increased their figures by 0.1-0.3 percentage point, which means that they positively evaluate the health of the Polish economy. The Ministry of Finance and the National Bank of Poland also raised their expectations as to the GDP growth rate, forecasting 4% this year.

Chart 4
European Commission economic forecasts (spring 2017)

a) GDP growth (%)



b) Inflation (harmonised index of consumer prices)



Source: European Commission, May 2017

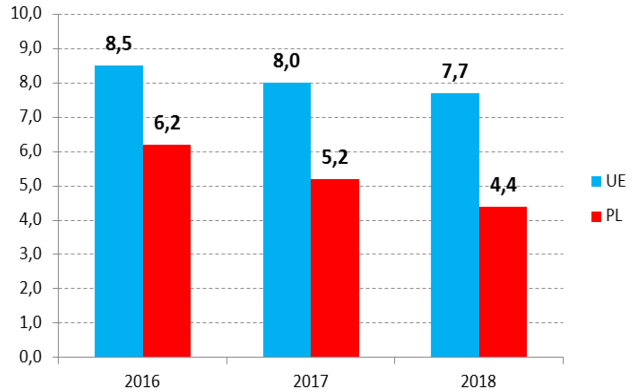
According to the European Commission, the driving force behind this year's GDP growth is domestic demand (a strong increase in private consumption expenditure resulting from robust wages growth and Family 500+ payments), and also investment (mainly public), which were higher than in the preceding year. Fitch provided a similar assessment – household income is supported by decreasing unemployment and higher transfers in the Family 500+ Program, this year's increase in EU funds spending will support investment and Poland will benefit from a stronger economic growth among its EU trade partners.

After the period of deflation (decline in prices) of 2015 and 2016 (also experienced by other EU Member States), which was disadvantageous to the economy, moderate inflation is expected to appear in Poland in the coming years, i.e. 1.8% in 2017 and 2.1% in 2018. The expected rise in prices in Poland is similar to the EU's average inflation rate (see Chart 4b). It is also consistent with the medium-term inflation target of the National Bank of Poland (2.5% with a variation of ± 1 percentage point) and the European Central Bank (below but close to 2%). The International Monetary Fund (IMF) forecasts that the inflation rate in Poland will be 2.3% (2017) and 2.4% (2018). As for this year's inflation rate, the Commission lowered its expectations (by 0.2 percentage point), whereas the IMF increased them (by 0.8 percentage point).

According to the European Commission, in 2017 and 2018, the labour force is projected to continue shrinking, among other things, as a result of lowering the statutory retirement age (from autumn 2017). This will cause an increase in employment and wage pressure, although this could be offset by the influx of economic migrants (especially from Ukraine). The unemployment rate in Poland is expected to amount to 5.2% (2017) and 4.4% (2018) – much below the EU average (see Chart 5). Next year only 3 EU Member States (Czech Republic, Hungary, and Germany) are expected to record lower unemployment levels than Poland (while others are struggling with a much higher rate, e.g. Spain and Greece – nearly 16% and 22%). The IMF also expects a very low unemployment rate in Poland, i.e. 5.5% (2017) and 5.3% (2018). In early

Chart 5
European Commission economic forecasts
(spring 2017)

Unemployment (% of total labour force)



Source: European Commission, May 2017

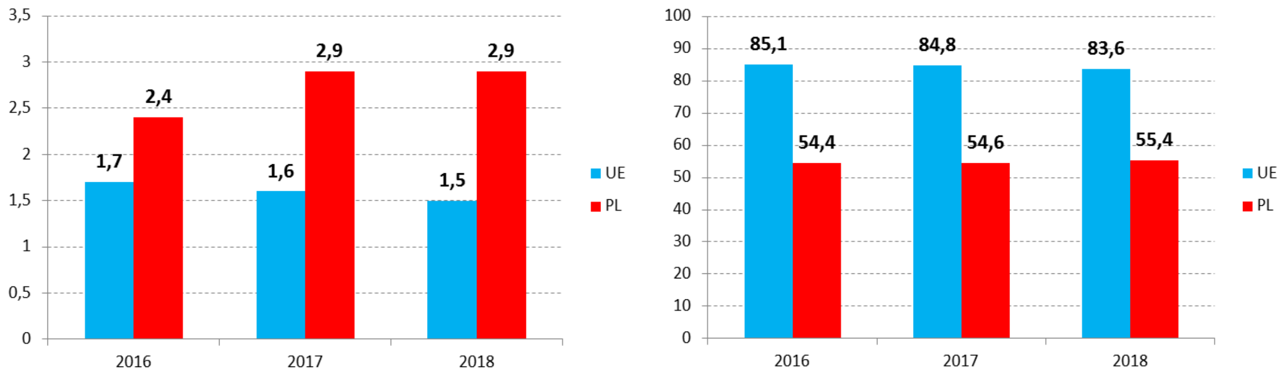
2017 (January/February), both institutions forecasted higher unemployment rates in Poland (the Commission by 0.3-0.4 percentage point and the IMF by 0.7-0.8 percentage point).

These forecasts are consistent with the labour market data published by the Central Statistical Office and the estimates of the Ministry of Family, Labour and Social Policy, although the Polish methodology is different from the EU's (as used by Eurostat). Nevertheless, the domestic data and estimates confirm that unemployment in Poland in recent months (May and June 2017) has hit a 26-year low (7.4% and 7.2%). At the end of June 2017, the number of unemployed people (1.15 million) was by nearly 240,000 lower than a year before. Unemployment will be even smaller in the coming months due to seasonal work.

As for public finance, the European Commission expects that the budget deficit (deficit of the sector of central and local government institutions) will be 2.9% of GDP this year and next year (see Chart 6a), which is lower than the EU limit of 3% of GDP. According to the Commission, this year's deficit may be lower than forecast if the results of sealing the tax system will be better than expected. In IMF's opinion expressed early this year, the deficit in the public finance sector will be 2.9% (2017) and 2.6% of GDP (2018). In comparison to the forecasts from the first months of this year (January/February) both institutions maintained their forecasts for this year at the same level and reduced their forecasts for next year by 0.1-0.3 percentage point. The Fitch rating agency lowered the forecast for this year's deficit from 3% to 2.6% of GDP. It also announced the forecast for 2018-2019, according to which the deficit will be 2.5% of GDP.

Chart 6
European Commission economic forecasts (spring 2017)

a) Public budget balance (% of GDP) **b) Gross public debt** (% of GDP)



Source: European Commission, May 2017

In the Commission's view, the level of 2017 budget deficit is set to be driven by a strong rebound in public investment and to a lesser extent by the costs related to the child benefit (Family 500+) and the lowering of the statutory retirement age. Fitch confirms this opinion – the transfer costs for families from the Family

500+ Program (+0.3% of GDP in 2017) and introducing a lower retirement age (+0.1% of GDP in 2017 and 0.5% in 2018) will largely be set off by the significant rise in budget revenue coming from faster economic growth and improved tax collection.

With regard to public debt (debt of the sector of central and local government institutions), the European Commission is expecting a slightly rising trend: 54.6% (2017) and 55.4% of GDP (2018). However, it will still remain below the EU limit of 60% of GDP (also required by the Polish Constitution), and much below the EU average that is over 80% of GDP (see Chart 6b). According to the IMF, the level of the Polish general government debt-to-GDP ratio is going to consistently decline: 54.6% (2017), 54.1% (2018), 53.6% (2019), 52.9% (2020), 52.3% (2021), and 51.7% (2022).

In terms of Poland's international credit ratings, which serve as a general guideline for foreign investors, all major rating agencies, i.e. Fitch, Moody's and Standard & Poor's (S&P) have announced their ratings in recent months. In July 2017, Fitch confirmed Poland's long-term rating as "A-" with a stable outlook. In May 2017, Moody's maintained the "A2/P-1" rating, but raised the outlook from negative to stable. In April 2017, S&P maintained the "BBB+/A-2" rating for Poland and a stable outlook. These ratings confirm the strong and stable foundations of the Polish economy.

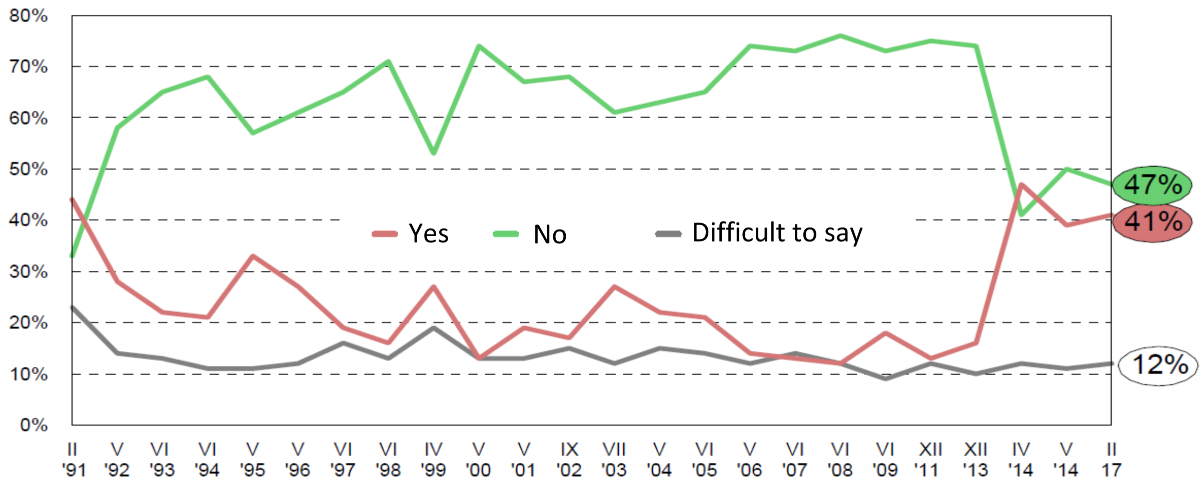
PART 3 – SECURITY AND JUSTICE

Armed forces

Europe has seen a marked decline in security in recent years, especially after Russia's aggression in Ukraine in spring 2014. This is reflected in public opinion polls. As shown by a March 2017 Centre for Public Opinion Research (CBOS) survey, in the years 1992-2013, the vast majority of the respondents claimed that Poland's independence was not threatened. However, in April 2014, due to the Russian aggression in Ukraine, almost half the respondents (47%) thought that there was a threat to Poland's independence, while 41% did not see such a threat. These proportions later reversed, as 47% of the respondents believed that Poland's independence was not at risk, with the slightly smaller proportion (41%) being concerned that there was a threat to the independence of our country (see Chart 1).

Chart 1
Results of a poll on the Polish Armed Forces

Do you think that Polish independence is currently under threat or not?



Source: CBOS, March 2017

In April 2017, the Minister of National Defence outlined a general plan to increase the manpower of the Polish Armed Forces. According to the plan, the Polish Army would have more than 150,000 soldiers by 2019, and between 2020 and 2022 this figure will increase to about 200,000. This was confirmed in the Ministry of National Defence (MON) document "The Defence Concept of the Republic of Poland" (May 2017), which stated that the number of soldiers and army employees will increase considerably for the first time in 30 years, i.e. within the next 8 years, the number of soldiers (including the Territorial Defence Force) will exceed 200,000.

The Territorial Defence Force (WOT) will be an important new military service to reinforce the Polish Army. In November 2016, the Polish Parliament passed an amendment to the Defence Obligation Act, under which the WOT will be the fifth component of the Polish Armed Forces, in addition to Land Forces, Air Force, Navy, and Special Operations Forces. Military people and civilians, both men and women, may enlist with the WOT. The planned WOT service time is one to 6 years, and most military exercises will take place on days off (one or two weekends a month, between September and June – an average of 20 days a year, plus 9-10 days in the holiday periods). According to MON's information, from early July 2017, more than 20,000 volunteers have enlisted so far, including nearly 8,000 out of a total 9,000 planned (3,000 each) in the first three brigades (in the Podlaskie, Lubelskie and Podkarpackie voivodeships). By 2018, the WOT is to have 35,000 soldiers, and the target is to reach about 53,000 by 2019.

Figure 1
The schedule of establishing the Territorial Defence Force brigades in 2016-2019

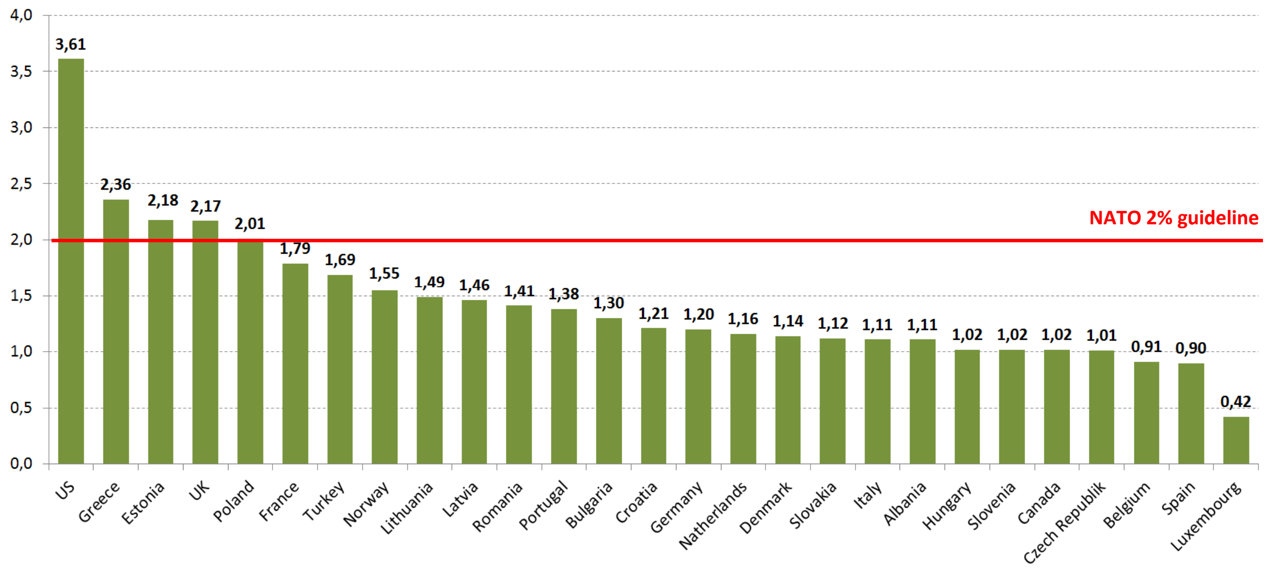
Source: Ministry of National Defence

The plan is to set up a total of 17 WOT brigades. The Office for the Establishment of the Territorial Defence Force was set up in mid-2016 – by the end of 2017, it will become the Territorial Defence Command, based in Warsaw. Three brigades have already been formed in the east of Poland (Rzeszów, Białystok, Lublin), and three more brigades will have been formed in the neighbouring voivodeships (two in the Mazowieckie voivodeship and one in the Warmińsko-Mazurskie voivodeship) by the end of 2017. A further seven brigades will be set up by the end of 2018 (Bydgoszcz, Gdańsk, Łódź, Kielce, Kraków), including two which were initially planned for 2019 – in the Śląskie and Wielkopolskie voivodeships. In 2019, the last four brigades in the western voivodeships will be added (Opolskie, Dolnośląskie, Lubuskie, Zachodniopomorskie) (see Figure 1). The complete WOT system is scheduled to be ready by 2021 (soldier training is expected to take about 3 years).

As found by a March 2017 CBOS survey, nearly half of the Poles surveyed thought that the Territorial Defence Force was needed. WOT supporters (49%) outnumbered WOT opponents (25%) almost two-fold. WOT supporters were more likely than WOT opponents and respondents with no opinion to see Poland's independence as being at risk.

In April 2017, in addition to announcing the Polish-Army enlargement plan, the Minister of National Defence defined the army modernisation priorities for the years to come. They included three key modernisation programs. The first would entail the procurement of the “Wisła” (Vistula) anti-aircraft and anti-missile defence system, which would rely on the combat-proven US Patriot system. In early July 2017, during the visit of US President Donald Trump, the Polish Ministry of National Defence and the US Department of Defense signed a memorandum on the purchase by Poland of the Patriot anti-missile defence system in its most modern configuration (as used by the US Army) and specially adapted to the Polish requirements. The first batteries of Patriot missiles are expected to be delivered to Poland by 2022. Another priority is to procure “Homar” (Lobster) rocket launchers, with a range of 300 km. Proposals from the US, Israel and Turkey were considered. In early July 2017, the Polish Armaments Group (PGZ) chose the offer submitted by the US military corporation Lockheed Martin as the most advantageous. In both cases, “Wisła” and “Homar” (which jointly form the so-called “Firewall”). A part of the offset will involve technology transfer and partial production by the Polish defence industry. The third program, codename “Orka” (Orca / Killer Whale), involves the procurement of three advanced submarine ships for the Polish Navy (the contract is expected to be signed this year, with deliveries starting within several years at the earliest). Furthermore, a call for bids was announced in February 2017 for the delivery of 16 helicopters for the Polish Army. Also, the Minister announced the formation of the so-called cyber military.

Chart 2
The defence expenditures of NATO countries in 2016 (% of GDP)



Source: NATO, March 2017

Adequate funding will be required to meet these and other objectives. In the 2017 Budget Act, defence spending comprises 2% of GDP, as required by NATO (although not all NATO members observe this requirement). A proposal came up to make the level of Polish defence spending in a given year dependent on GDP in the same year (rather than on the previous year, as has been the case). This would result in a real-term increase in military expenditures without affecting the nominal level of spending (2% of GDP). As regards defence spending, MON's document "The Defence Concept of the Republic of Poland" (May 2017) states that until 2030 financing should reach 2.5% of GDP, which should be treated as the required minimum.

In this context, it should be added that Poland is one of five NATO countries which comply with the declarations of the 2014 Wales Summit in Newport, where it was agreed that the allied countries will spend a minimum of 2% of their annual GDP on defence (see Chart 2). In 2016, these declarations were observed by the United States (3.61%), Greece (2.36%), Estonia (2.18%), the United Kingdom (2.17%) and Poland (2.01%). This year Romania is expected to enter this group, with Lithuania and Latvia joining next year. The average defence spending in European countries is 1.5% of GDP per year. US President Donald Trump has for months called on those countries to fulfil those financial obligations (he also spoke about that during his recent visit to Poland).

The year 2017 marks a breakthrough, as the allied forces of the US and NATO are beginning to be based in Poland (see Figure 2). The US and NATO forces to be stationed in Poland on "continuous rotation" are expected to reach about 7,000 soldiers. Poland, in turn, will send its soldiers to Latvia, Bulgaria and Romania.

The first American soldiers came to Poland in January 2017. It was part of the Armored Brigade Combat Team comprising about 3,500 soldiers along with appropriate military equipment (tanks, combat vehicles, cars etc). The Team has been located in western Poland (Bolesławiec, Skwierzyna, Świętoszów, Żagań). Furthermore, US Combat Aviation Brigade and Brigade Support Battalion soldiers will be stationed in Powidz under the Atlantic Resolve operation (with the target number of more than 1,000 soldiers and several hundred units of equipment, the transport of which started in May 2017). The US decided to relocate their Mission Command Element (MCE) from Germany to the Polish city of Poznań. The MCE manages the Atlantic Resolve operations of US soldiers in Poland and other countries of the region. Over 100 US soldiers are stationed in Poznań and the participation of Polish officers in the MCE is planned, along with the MCE's cooperation with the international command in Elbląg (see further).

In March and April 2017, NATO deployed about 4,000 soldiers of international units to Poland, Lithuania, Latvia and Estonia (four battalion groups) to reinforce the eastern flank of NATO (as part of what is known as Enhanced Forward Presence), as agreed during the July 2016 NATO summit in Warsaw. In Poland, NATO's Multinational Battalion Battle Group will be stationed in the east, near Orzysz, not far from the Suwalki Gap, which is of strategic importance to NATO in the case of a potential conflict with Russia. The Group is composed of more than 1,300 soldiers – US, British and Romanian (with Croatian soldiers joining in the future). A multinational division command, which will coordinate the four mentioned NATO battalion groups, will be set up in Elbląg. The command will be made up of about 300 officers from 14 NATO countries (in early July 2017, over 200 officers came to Elbląg from the US, Czech Republic, Hungary and other countries) and should be fully operational by the end of 2018.

In June 2017, the Multinational Corps Northeast in Szczecin was certified as a High Readiness Forces Command and became the main NATO command in North-Eastern Europe (connecting all NATO structures in the eastern flank, including the mentioned battalion battle groups). The Corps is ready to immediately take command of the NATO Response Force (which include the VJTF – Very High Readiness Joint Task Force). The new responsibilities of the Corps, which currently comprises about 400 soldiers from 25 countries, were determined during NATO summits in Newport (2014) and Warsaw (2016).

Figure 2
Allied armed forces in Poland

Source: Ministry of National Defence

Poland has also been involved in the construction of the NATO missile defence system, a US missile interceptor base designed to protect the US and NATO allies against ballistic missiles launched from the Middle East (e.g. Iran). The construction of the Polish component of the system, i.e. the US base in Redzikowo, Pomorskie voivodeship, started in May 2016, after the Romanian component became operational. The base is expected to be operational by the end of 2018. About 250 people (US Navy soldiers and civilians) will serve in the Polish base (like in the Romanian one).

The migration crisis and anti-terrorism

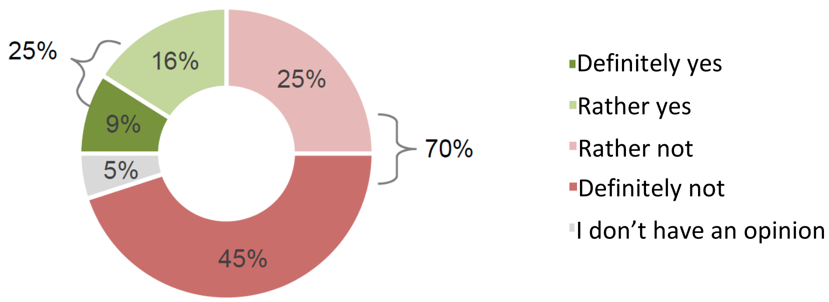
Security in Europe has been seriously compromised in recent years as a result of the migration crisis involving a massive and uncontrolled influx of immigrants and refugees from Asia and Africa to Europe. It peaked in 2016, as more than a million people, mainly Muslims (from Syria, Iraq, Afghanistan, Pakistan, Eritrea, Nigeria, etc), came to Europe. Soon after, radical Islamists started carrying out terrorist attacks in Europe, and these attacks continue. The most violent and deadly attacks took place in 2015, 2016 and 2017 in France, Belgium, Germany, the UK and Sweden, i.e. countries with the largest immigrant populations. These countries have seen a surge in immigrant crimes (thefts, batteries, armed robberies, vandalism, sexual harassment of women, etc). The police have lost control over many Muslim immigrant neighbourhoods. All this has caused a decline in security. Suffice to say, for instance, that the state of emergency in France, declared in autumn 2015 (following the Paris attacks) has been repeatedly extended (currently, until November 2017).

The PiS Government, like the Governments of several other countries (including the Visegrad Group), refused to accept the "refugee relocation scheme" proposed by the European Commission. Poland has provided on-site aid (mainly in Syria, but also in Lebanon, where there are now 1.5 million Syrian refugees), as, according to the Polish Government, this is the only effective help. First, it enables these people to gradually come back to normal life in their home countries. Second, on-site aid is much more effective than arranging the transportation of people to other countries, which is a very costly operation. Poland spent nearly PLN 120 million on Syrian aid in 2016 (four times more than in the previous year). In April 2017, the Government announced that it would become involved in another humanitarian aid project for Syria, donating PLN 4 million for the renovation and reconstruction of destroyed houses in Aleppo.

The Polish Government's approach to the subject, as described above, is in agreement with the expectations of the majority of Polish society. As demonstrated by a CBOS poll (May 2017), the vast majority of respondents (70%) are against accepting refugees from Muslim countries, with 45% strongly against it. One in four respondents (25%) are in favour of accepting refugees, but less than one in ten are strongly in favour (see Chart 3).

Chart 3
Results of a poll on the migration crisis in the EU

Do you think that Poland should accept refugees from Muslim countries?



Source: CBOS, May 2017

Due to the rising terrorist threat in Europe, the Anti-Terrorist Act was passed in June 2016 (the PO-PSL Government worked on a draft of a similar act, but eventually did not pass it). Developed by the Ministry of the Interior and Administration, this new piece of legislation played a significant role in ensuring security at the NATO summit in Warsaw, and also at the World Youth Day in Kraków, which was attended by almost three million people from all over the world (both events occurred in July 2016). It is also useful in the daily operations of the police and other services ensuring the security of the Polish people.

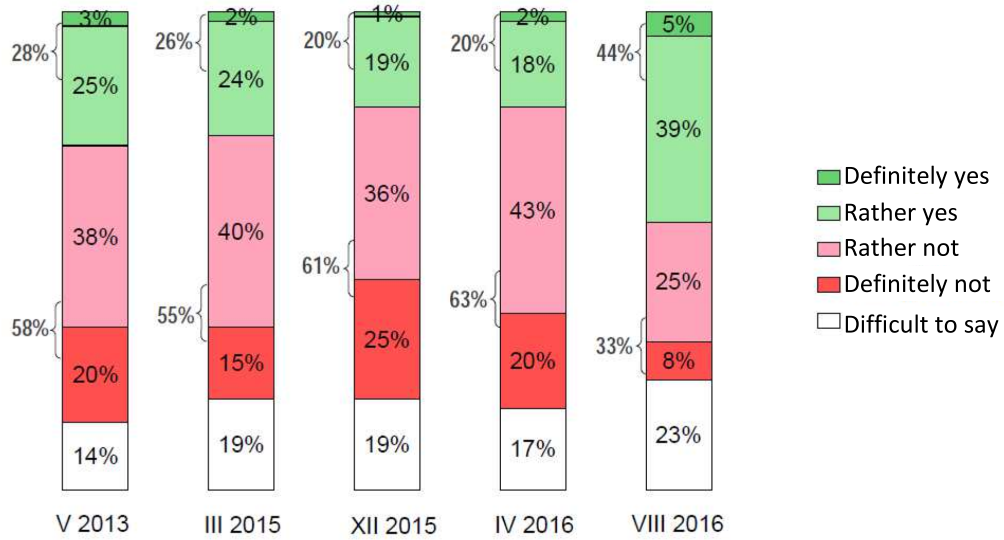
The Anti-Terrorist Act gave the security services the means to respond to threats quickly and effectively. The Internal Security Agency (ABW) has gained extensive access to databases, including to secret bank data. The act makes it legal to conduct a 3-month long or longer operational surveillance of foreigners (tapping, video surveillance, correspondence surveillance, etc), block phone conversations and Internet access, arrest individuals for 14 days on suspicion of terrorism (arrest and search operations can now be run round the clock – before, only between 6 am and 10 pm), immediately expel from the country all foreigners posing a threat, temporarily close borders, prohibit the organization of mass events, etc. It is now obligatory under the act to register pre-paid cards (previously anonymous), and false bomb alarms are punished more severely (a minimum of PLN 10,000 fines, and penalties of 6 months to 8 years in prison), as are terrorist activities (e.g. 5 years in prison for participating in terrorist training), etc. The concerns voiced by the opposition that this new law would restrict civil rights and liberties have not materialised. On the contrary, it has started to bring positive effects, as it has provided the legal basis for expelling from Poland foreign citizens suspected of terrorism (this included the attempted purchase of weapons), and also there has been a decline (60%) in false bomb alarms.

A September 2016 a CBOS survey found that 44% of the respondents considered Polish authorities well prepared to prevent terrorist attacks (33% thought the opposite). A few months earlier, before the Anti-

Terrorist Act was passed, only 20% considered Polish authorities well prepared, with a whopping 63% claiming the opposite. Similar results were found in 2013 and 2015 surveys (20-28% considered Polish authorities well-prepared, while 55-61% claimed they were ill-prepared) (see Chart 4). Most of the respondents would accept stricter checks at the borders, airports and bus/railway stations (90%), stricter immigration laws (78%), and increased prices due to higher defence spending (52%) to improve their security.

Chart 4
Results of a poll on terrorist threats

Do you think that the Polish authorities and public institutions are well-prepared to prevent terrorist attacks in Poland?



Source: CBOS, September 2016

The Police and other law-and-order agencies

An amendment was passed in January 2016 to the Police Act and other acts on other law-and-order agencies. The amendment implemented the July 2014 judgement of the Constitutional Tribunal, which questioned some laws governing the operational techniques of the police and other law-and-order agencies (tapping, video surveillance, correspondence surveillance, etc), and the collection of telecommunications data (phone billings, phone location data, IP numbers, etc). The PO-PSL Government failed to implement the judgement, which could have crippled the police and other law-and-order agencies affected by the amendment (the Border Guard, the Military Gendarmerie, the Internal Security Agency, the Intelligence Agency, the Military Counterintelligence Service, Military Intelligence, the Central Anticorruption Bureau, the Customs Service, and the tax inspection authorities). Opponents of the amended act (which they refer to as “the surveillance act”) claimed that the police and other agencies were gaining too much power. Supporters pointed out that the new legislation restricts, and provides a clearer definition of, the powers of the police and other agencies. For instance, operational surveillance may not last longer than 18 months, and the collection of telecommunications data must be subject to court scrutiny (e.g. in 2014, under the PO-PSL coalition Government, law-and-order agencies had mobile operators disclose about 2 million billings without court scrutiny).

An act was passed in January 2017 on “The establishment of the Police, Border Guard, State Fire Service and Government Protection Bureau Modernisation Program in 2017-2020”. Drafted by the Ministry of the Interior and Administration, the new piece of legislation will mandate more than PLN 9 billion in spending between 2017 and 2020 (from PLN 1.4 billion to PLN 3.1 billion a year) on infrastructure upgrades, new equipment for agencies, and pay rises for officers. The Program is designed to improve the effectiveness and efficiency of the police and other law-and-order agencies. Program funds will also be spent on the construction of new police stations and the reopening of defunct police stations. Between 2007 and 2015, the PO-PSL Government cut the number of police stations by more than half (418 out of 817). They are currently being restored – a total of 37 police stations were brought back into operation in small towns across Poland in 2016, and further 33 stations will be reopened by the end of 2017. Public consultations identified 176 places where police stations should be reopened. The process is expected to be finalised by 2020.

Figure 3
"Moja komenda" mobile app

Source: Police

The Police is embracing modern technologies in order to communicate with and provide safety to citizens. For this purpose, in September 2016, the Ministry of Internal Affairs and Administration launched the new version of the mobile app "Moja komenda" (My Police Department) and the National Security Threat Map. The app allows easy access to the local police community support officer or a police officer present in a given location, even on a leave. The search function works in the offline mode, so Internet access is not required to find the local police officer, police department or station in Poland. In the online mode, the app can navigate the user to the nearest police department or station. Nearly 80,000 people have used the app since its launch. This free application is available for Android and iOS devices.

The National Security Threat Map is the Polish platform for exchanging information between the police and the public. It is an interactive map which can be used to report unsafe locations in your neighbourhood to police officers. The map is simple and intuitive. Simply go to the website (www.policja.pl), click the location and choose the type of threat (e.g. vandalism, illegal street racing, etc). The reports are anonymous and verified by the police. The Ministry of Internal Affairs and Administration and the Police created the map to encourage people to report potential threats. The map helped arrest drug dealers, wanted individuals, vandals etc. The total number of reports to date (as of July 2017) has been more than 400,000, including over 160,000 confirmed ones. The total number of views of the site is as much as 2.7 million.

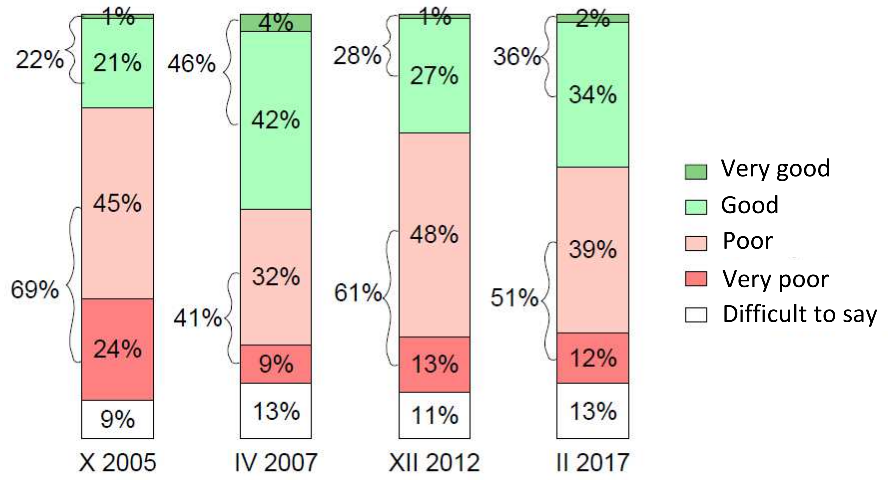
As for other law-and-order agencies, it is worth mentioning the Central Anti-Corruption Bureau (CBA, established by the PiS Government in 2006). In late June 2017, the Ministry of Internal Affairs and Administration began consultations (set to continue until early August 2017) regarding "The Government Anti-Corruption Program for 2018-2019". It is based on the assumptions of a similar program for 2017-2019 as submitted by CBA officers in December 2016. The main objective of the program is to achieve a measurable decrease in corruption in Poland and to raise public awareness on how to prevent it from happening. The 8 main tasks include developing the rules for protecting the legislative system, the most important public procurement tasks and privatisation processes. Other important aspects include incorporating anti-corruption education in the educational and training programs for public officers and individuals holding public offices, as well as strengthening international cooperation in preventing and fighting corruption. The new program is expected to be more effective, although CBA is very effective even without it. For example, in July 2017, CBA officers from Łódź apprehended 11 individuals implicated in the trade of fabricated VAT invoices (32 other people were previously arrested in this case) and the CBA officers from Szczecin apprehended 11 individuals as part of an investigation on corruption events related to the supply of biomass to the Szczecin Power Plant (22 people were previously arrested in this case). In both cases, the criminal activities cost the State Treasury several million zloty.

The reform of the justice system

As shown by a March 2017 CBOS survey, half the respondents (51%) had a negative opinion of how the Polish system worked, with every eighth response (12%) being "very poor". Slightly more than one third of the respondents (36%) had a positive opinion on the justice system, and only a handful of the respondents (2%) had a "very good" opinion of it (see Chart 5). The key weaknesses of the justice system were lengthy court proceedings (48% of the respondents), overcomplicated procedures (33%), corruption among judges (30%) and excessive leniency towards crime (23%).

Chart 5
Results of a poll on the perception of the justice system

What is your general assessment of the justice system in Poland?



Source: CBOS, March 2017

In response to the above-mentioned dysfunctions and the inefficiency of the judiciary, the Law and Justice party (PiS) decided to carry out a thorough reform of the justice system (which was first announced as early as in 2015). The first step was made in March 2017 by adopting the amended Law on Common Courts Organization (prepared by the Ministry of Justice). Under the amended act, which came into force in May 2017, court directors will be appointed and dismissed by the Minister of Justice. Previously, court directors have been appointed by the Minister as well, the difference being that the Minister has had to wait for the selection committees appointed by court presidents to complete deliberations. The competitive selection procedures have been lengthy and have made it impossible to fill in directorial positions quickly, thus compromising the efficiency of court administration. Hence the decision to replace the competitive procedure with the appointment procedure (as defined in the Labour Code) to make the system more orderly and efficient in terms of personnel and financial management. This change aims to relieve court presidents from the burden of court administration, to give them more time to fulfil their role as supervisors of the adjudication work of courts.

In July 2017, the Sejm passed another amendment to the Law on Common Courts Organization (the draft act was put forward by Law and Justice MPs in April 2017). Its basic aim is to make courts work more effectively, shorten their proceedings and build trust by issuing better judgements. The changes are also meant to protect judges from being pressured by their superiors, thus fostering their impartiality and independence. To this end, the act introduces a number of new rules. First, the rule of randomly assigning judges to cases, which is meant to reduce the informal influence of court presidents on judgements by being able to freely assign judges. Second, the rule of evenly distributing cases to judges (using a special electronic system designed after a similar German system). Third, the rule of the invariability of the adjudicating panel, which states that an adjudicating panel, once randomly chosen, should not be changed until the case is closed (derogations are possible in specified cases, such as a judge's illness). The act grants more power to the Ministry of Justice for appointing and dismissing court presidents and vice-presidents. The new legislation would also expand the scope of property and assets which the judges must disclose, and also to extend this disclosure obligation to court directors

Also in July 2017, the Sejm adopted the amendment to the Act on the National Council of the Judiciary (KRS), taking into account the amendments submitted by the President of the Republic of Poland (the draft act was prepared by the Ministry of Justice in March 2017). This reform was aimed at ensuring better verification of aspiring judges in order to make courts work more effectively and restore popular confidence in the justice system. To this end, it was a prerequisite to change the way of election of KRS members, keeping in mind that they select judge candidates and present them to the President for approval (KRS also has influence on judges' promotions). Therefore, the Government was of the opinion that it was necessary to introduce a democratic and objective procedure to select KRS members, replacing the existing procedure, which is complicated and non-transparent. This would give representatives of the public actual influence over the election of KRS members (and, indirectly, judges). So far, only judge circles, immune to public scrutiny, have been allowed to exert this influence.

The KRS currently has 25 members, including 15 judges elected by judge assemblies. Following the reform, those 15 judges would be elected by Parliament. The seats of current KRS members (15 judges) would expire 30 days after the entry into force of the amended law as the KRS would have a joint term of office (instead of existing individual terms of office which were found unconstitutional by the Constitutional Tribunal in June 2017). Following the Polish President's suggestion submitted in July 2017, the selection of judges-members of the KRS would in future be carried out by the Sejm by a 3/5 majority vote (in practice, this means that no governing party or coalition would have the power to select them independently, requiring the votes of at least some of the opposition's MPs). KRS member candidates could be put forward by the Presidium of the Sejm or a group of at least 50 MPs choosing from among judges recommended by the legal community. Competence, rather than connections within judge circles, would be the sole criterion, so each judge would have equal chances of being elected, regardless of the level of the court in which they sit (so far, over 28 years of KRS's existence, only two judges from district courts – the lowest level of the judiciary, but also one which handles the most cases – have been KRS members).

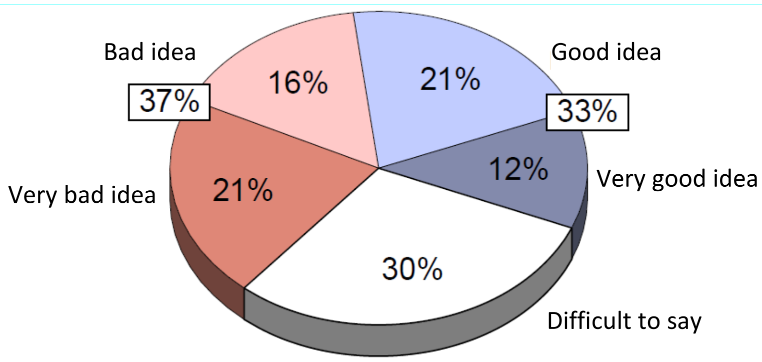
The adopted KRS Act provided for a new way in which candidates for general court, administrative court, military court and Supreme Court judges would be selected. Currently, they are selected by all the KRS members collectively (25 members). The new act stipulated two assemblies within the KRS. The members of the first assembly would include the First President of the Supreme Court, the President of the Supreme Administrative Court, the Minister of Justice, four MPs, two Senators and a representative appointed by the Polish President (a total of 10 members of the KRS before and after the reform, in compliance with the Polish Constitution). The other assembly would comprise 15 judges, as mentioned above. Each assembly would examine judge candidates separately, and candidates would have to be approved by both assemblies. If the assemblies differed in their assessment of a candidate, the candidate could be examined by the KRS collectively. In order to secure the approval, such a candidate would have to be decided by the full Council and gain support of 2/3 of the members of the whole Council.

The reform was being criticised by the opposition and judge circles, with the latter claiming that the new KRS legislation was moving towards "the politicisation of courts and undermining their independence". The Ministry of Justice has dismissed these claims as ill-founded, pointing out that similar solutions work successfully in Europe – in Germany, for instance, federal-court judges are appointed by federal ministers in conjunction with a committee comprising State ministers and Parliament-appointed members; in Austria judges are nominated by the federal President at the request of the federal Government; in Sweden judges are appointed by the Minister of Justice at the request of the Judge Nomination Council, whose members are selected by the Government and Parliament; in the Czech Republic, judge candidates are put forward by presidents of regional courts, and then the Ministry of Justice decides which candidates should be presented to the President for nomination.

A March 2017 CBOS survey showed that the Polish public is clearly divided on this reform. One third of the respondents (33%) were in favour of KRS judges' being elected by Parliament, and a slightly larger proportion (37%) thought it was a bad idea, with 30% of the respondents having no opinion on this issue (see Chart 6).

Chart 6
Results of a poll on the public perception of the justice system

Do you think it is a good idea to leave the selection of the judges for the National Council of the Judiciary to the Parliament, instead of the assemblies of judges, as before?



Source: CBOS, March 2017

The last act adopted by the Sejm in July 2017 was aimed at reforming the Supreme Court. It provided for changes in the procedure of appointing Supreme Court judges and the retirement of the current judges – except for judges indicated by the Minister of Justice and approved by the President of the Republic of Poland (according to previous suggestions, the Minister of Justice was to do it himself). Three new Chambers were to be established in the Supreme Court – the Chamber of Private Law, the Chamber of Public Law, and the Disciplinary Chamber. The latter would examine disciplinary cases involving Supreme Court judges, common court judges, military court judges, prosecutors, IPN prosecutors, attorneys, legal counsels, civil-law notaries, and court enforcement officers. The rules and regulations of the Supreme Court would be defined by the Polish President after consulting the KRS (and not, as initially planned, by the Minister of Justice).

In July 2017, all three acts adopted by the Sejm and Senat (the Law on Common Courts Organization, the KRS Act, and the Supreme Court Act) were submitted for signature to the President of the Republic of Poland. President Andrzej Duda signed the first of them and vetoed the other two (on the KRS, and on the Supreme Court), even though those acts incorporated his suggestions (including the selection of KRS members by a cross-party majority of 3/5 of votes). The President did not question the need to introduce far-reaching changes in the Polish judiciary, but the rather hurried pace of adopting those changes, which had sparked street protests in various Polish cities and concerns among some of the public (inter alia, with regard to the independence of judges and compliance of the acts with the Constitution). President Duda announced that he would soon (in 2 months) present his own draft acts reforming the Polish judiciary, which would be subject to consultation with various organizations and circles. The President expressed the hope that the amended acts would be adopted by the Polish Parliament as soon as possible. The Sejm and Senat will be returning to work in September 2017.

Harsher criminal law and the fight against "wild reprivatisation"

In March 2017, the Parliament adopted the amendment, drafted by the Ministry of Justice, to the Penal Code and other acts, involving the so-called extended forfeiture, which makes it legal to confiscate assets gained from crime. Perpetrators will have to prove that the assets they acquired over the previous five years are legal (in other countries this period is longer, going back to as many as 15 years). Under the new law, asset forfeiture will also apply to third parties in order to prevent perpetrators from making over their illegally acquired assets to other persons, e.g. relatives. Assets may now be forfeited without a conviction – e.g. when criminal proceedings have to be discontinued or suspended due to the death or flight of the perpetrator. Other EU States use this solution as well (about 40% of all retrieved funds come from forfeiture without a prior conviction and 13% come from traditional confiscation). The new law allows the forfeiture of a business which is not owned by the perpetrator but has been used for criminal activities, such as money laundering. As a means of protecting honest entrepreneurs, however, business forfeiture may not be ordered if an illegal activity of an entrepreneur involved only a marginal portion of the overall business of such an entrepreneur. The act entered into force in April 2017.

In March 2017, the Parliament passed another amendment of the Penal Code and other acts, drafted by the Polish President. Its aim is to extend more protection to minors (below 15) and vulnerable adults. The new law prescribes harsher punishment for crimes against the life, health and liberty of children (mutilation, abduction, abandonment, trafficking, sexual abuse, etc). For instance, perpetrators who have caused a severe health impairment, a crime for which the law previously prescribed one to 10 years' imprisonment, will now face at least 3 years' imprisonment. If the consequence of the mentioned impairment results in the victim's death, the previously applicable 2 to 12 years' imprisonment will now be replaced with at least 5 years' imprisonment, or 25 years' imprisonment, or life imprisonment. Failure to report a crime will also be penalised. For instance, individuals who were aware of an act of child sexual abuse and failed to immediately report this to law-enforcement agencies will be liable to 3 years' imprisonment. The act entered into force in July 2017.

The above examples provide a good picture of the overall approach of the current Government to the justice system, targeting the most dangerous criminals, including organized crime, while protecting the most vulnerable members of the community. This is the exact opposite of the approach prevailing during the PO-PSL term, when the justice system was lenient on criminals and ruthless to regular citizens ("strong against the weak and weak against the strong," to quote Jarosław Kaczyński, Chairman of the Law and Justice party). Law and Justice's measures towards harsher criminal laws meet the expectations of the Polish society. Indeed, a March 2017 CBOS survey found that 70% of the respondents viewed the Polish law as being too lenient on offenders and criminals. Only 5% of the respondents held the opposite view.

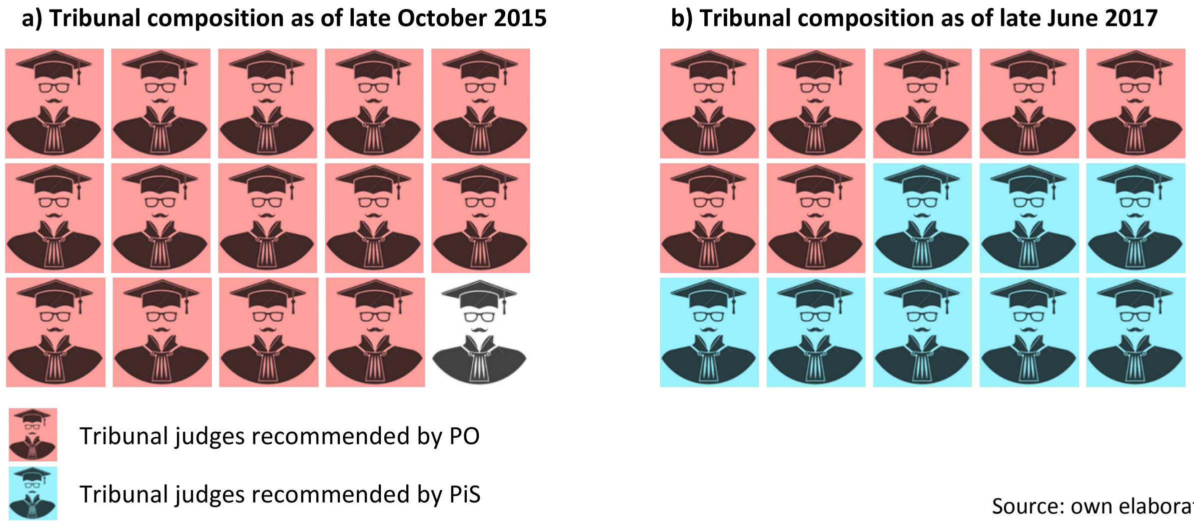
The Law and Justice party used a similar approach to tackle the issue of "wild reprivatisation," the years-long practice (mainly under the PO-PSL Government) of acquiring, at extremely low prices, Warsaw's real property worth millions of zloty (tenements, schools, plots – the most expensive of them worth PLN 160 million) or fraudulently claiming high compensations from the city (the record amount was PLN 38 million). A group of attorneys, judges and officials of the Warsaw City Hall was involved in the practice. For more than 10 years, the Warsaw City Hall has been led by Hanna Gronkiewicz-Waltz, Mayor of Warsaw and Vice-Chairman of the Civic Platform (PO) party. Tenements were acquired along with their tenants, whom the "tenement cleaners" threw out onto the street (for example, by increasing rent from a few to more than a dozen times). This way about 40,000 people were evicted in Warsaw (the evictions were also carried out in other cities, such as Poznań and Łódź). This led to a tragedy in Warsaw – a social activist who had defended the evicted tenants, Jolanta Brzeska, was brutally murdered (burnt alive in Kabaty Woods) in 2011. The Prosecutor's Office and the Police did not attempt to solve the case, but instead covered up the tracks and even suggested the absurd theory that it was a suicide (self-immolation). The case was discontinued and nobody was convicted. In 2016, the investigation was taken up again.

In May 2017, the Sejm appointed the Verification Commission (the Commission for the elimination of the legal effects of reprivatisation decisions regarding Warsaw real property issued in violation of the law). The Commission, which began its work in June 2017, is to examine the legality of reprivatisation decisions. The Commission may repeal such decisions and replace it with a different one, allowing to reclaim unlawfully claimed real property. The Commission may also impose a financial penalty on individuals who benefitted from such decisions. The amount of this penalty is equivalent to the value of the unlawfully claimed real property. In July 2017, the Commission issued decisions on three Warsaw properties – at 8 and 10 Twarda street (the latter housed a lower secondary school, which had to relocate to a different city district) as well as 70 Chmielna street (a plot next to the Palace of Culture and Science, estimated at about PLN 160 million). In all cases, the Commission repealed the reprivatisation decisions of the Mayor of Warsaw in full and with immediate effect. The Commission will examine further witnesses and investigate other reprivatisation decisions (relating, inter alia, to the former Jewish tenement at 16 Noakowskiego street, which was claimed by the family of Hanna Gronkiewicz-Waltz in 2006/2007 and sold to a private company for several million zloty). The Mayor of Warsaw was summoned four times to testify before the Commission, but she did not appear. Some of the people involved in "wild reprivatisation" have already been arrested by the Central Anti-Corruption Bureau (CBA). The Commission is probing into "wild reprivatisation" in Warsaw, but this practice also took place in other Polish cities.

The Constitutional Tribunal

In December 2016, Julia Przyłębska became the new President of the Constitutional Tribunal, replacing Andrzej Rzepliński, whose term of office had expired. This put an end to more than a year of crisis surrounding the Tribunal, which had been caused by the unconstitutional changes in the Constitutional Tribunal Act made in June 2015 by the PO-PSL coalition. These changes were made to ensure that the Tribunal was dominated by judges elected by the PO-PSL coalition. As the Law and Justice (PiS) party was expected to win the October 2015 election, the Tribunal's role would be to obstruct the new Parliament and prevent PiS from implementing social and economic reforms announced during the campaign.

Figure 4
The past and present composition of the Constitutional Tribunal



Source: own elaboration

In October 2015, under the above-mentioned act of June 2015, the former Parliament (in which the PO-PSL coalition had the majority) elected 5 new judges to the Constitutional Tribunal. The election of two judges whose terms of office expired in 2015 was unconstitutional, as ruled by the Tribunal. The election of the three judges whose terms of office expired in November 2015 was seen as an unethical last-moment act of legislation – only several weeks ahead of the October 2015 parliamentary election. The motives were clearly political, in that the coalition wanted to have the Tribunal dominated by judges recommended by PO (14 of 15 judges). Opinions on the election of those three judges were divided – some lawyers and experts claimed that the judges had been elected in accordance with the applicable laws and procedures, others said the opposite was true.

Due to these controversies, President Duda refused to administer the oath of office to all five judges elected by the former Parliament. In November 2015, the current Parliament (in which PiS had the majority) invalidated the election of those five judges and decided that their posts should be subject to another election. In December 2015, the Parliament elected five new judges, and President Duda immediately administered the oath of office to them. However, the President of the Constitutional Tribunal (Andrzej Rzepliński) refused to allow three out of the five judges to sit in the Tribunal, claiming that they had been elected unlawfully. His decision brought the Tribunal to a standstill, with only 12 judges sitting in it, while the new Constitutional Tribunal Act (passed in December 2015) required that as a rule, the Tribunal should issue rulings collectively, i.e. with at least 13 judges involved. President Rzepliński chose to ignore this act and designated other (non-statutory) adjudicating panels, which the Government believed to have made Tribunal's rulings illegal and acted on this belief by refusing to publish them. A "vicious circle" ensued, from which there seemed to have been no way out, despite many legislative attempts by Parliament to restore the situation to normal. It was not until the expiry of President Rzepliński's term of office that things could go back to normal.

Warsaw, July 2017