How Can the Response to the Covid-19 Crisis Reshape the Future of Poland's Economy?[1]

ALINA LIGIA DUMITRESCU
European Studies Center
Institute for World Economy of the Romanian Academy
Casa Academiei, Calea 13 Septembrie nr.13, București
ROMANIA
alinaligia1@yahoo.com

Abstract: - The articles analysis the impact of Covid-19 pandemic on the Polish economy on the one hand, and on the other the anti-crisis measures to combat or reduce the negative effects due to the restriction of economic activities. The author presents both the shield program against the Covid-19 pandemic and the draft recovery and resilience plan adopted by the Polish government. The multidisciplinary research methodology is based on a quantitative analysis of statistical macroeconomic indicators coupled with the qualitative research of the European Union documents. The conclusion of the article is that the most important impact of the current Pandemic Covid-19 crisis will be the "paradigm shift" that will reshape the future of all member states economies and EU on the whole. The Recovery and Resilience Facility and the National Recovery and Resilience Plans are two important instruments for the development of the paradigm shifts.

Key-Words: Covid-19, Poland, Romania, economic impact, anti-crisis measures, recovery and resilience plan
JEL Classification : E6, H12, H7, J2, J3

1. The resilience of the Polish economy to the pandemic Covid-19

After joining the EU, between 2004-2019, Poland has performed in terms of stable economic growth and socio-economic development, but in 2020 the Covid-19 pandemic outbreak has interrupted Poland's cycle of continue GDP growth.

According to the European Commission's *European Economic Forecast Winter 2021*, published on February 6, Poland's economy rebounded in the third quarter of 2020, following a sharp decline in economic activity in the first half of the year. After a record decline in real GDP of 9% in the second quarter of 2020 compared to the first quarter of 2020, it increased by 7.9% in the third quarter compared to the second quarter, due to the rapid return of household consumption and exports. The economy continued its recovery trend during the last quarter of 2020, but the growth in SARS-COV-2 infections and the reintroduction of restrictions to control the pandemic have decreased economic activity at the end of the year. As a result, despite favourable developments in industrial production and retail sales in the last months of 2020, a slight contraction of 2.2% is expected in the fourth quarter of 2020 and an annual slowdown in real GDP of 2.8%, according to the latest data provided by the National Statistics Office of Poland. It should be noted that the European Commission's experts in the Winter Economic Report have estimated the same rate of GDP decline of 2.8% (note that in the Autumn Economic Report published in November 2020 was estimated a higher rate of decline of 3.6%).

The European Commission (2021a) estimates that the extension of restrictions at the beginning of 2021 will negatively affect economic activity in the first quarter of the year. However, as the number of vaccinations gradually increases and the severity of isolation measures diminishes, GDP growth is expected to pick up in the second half of the year. It should be noted, however, that in 2020, Poland experienced a moderate recession compared to the other Central and Eastern European countries, members of the EU, with the slowdown in GDP being by far the lowest. The European Commission forecasts real GDP growth of 3.1% in 2021 and 5.1% in 2022. However, this Commission forecast does not include any economic stimulus measures to be funded under the Recovery and Resilience Mechanism.

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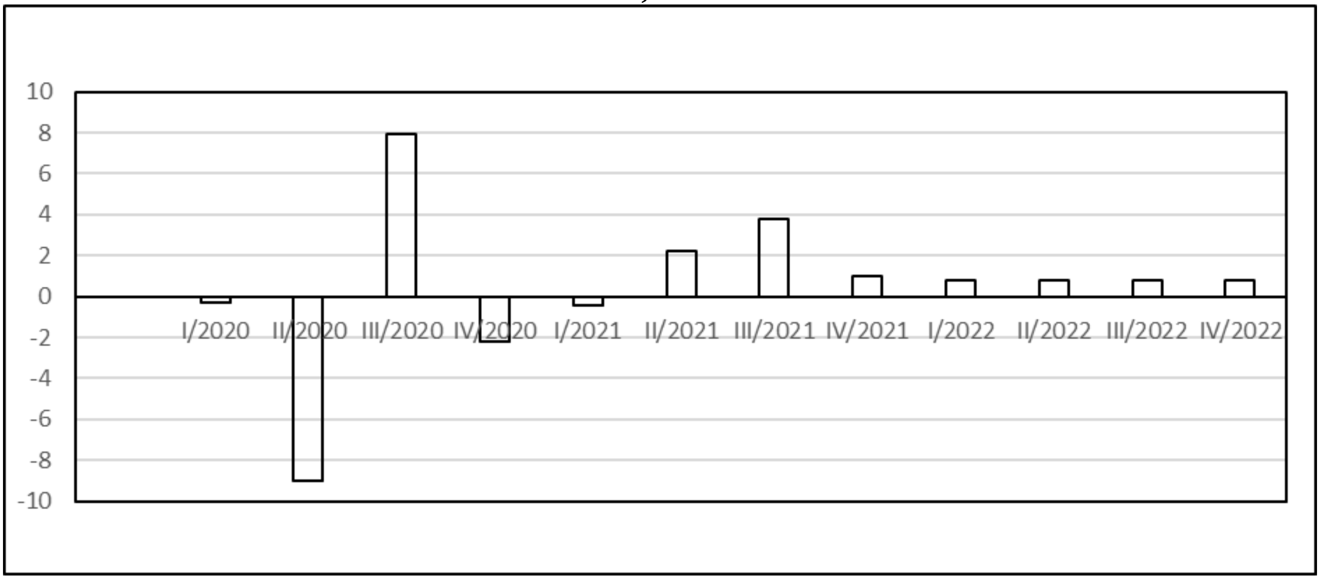
[1] The article is based on some of the conclusions from the presentation at the Bilateral Romanian-Bulgarian Round Table, organised by the Institute for World Economy, Romanian Academy, 24th November 24, 2020.

Chart 1: The evolution of growth rate (percentage change compared to the previous quarter), estimates in 2020, forecasts 2021-2022



Source: Author based on European Commission (2021a) data.

On March 19, the *Fitch Ratings Agency*, has granted Poland economy a stable outlook **(A-)**, which "reflects Poland's resilience to the coronavirus shock and Fitch's expectations that GDP growth will recover and the budget deficit will narrow this year, against a marked increase in government debt last year and continued downside risks from the path of coronavirus". Fitch (2021) forecasts the fiscal deficit to shrink from 7.2% of GDP in 2020 to 5.7% of GDP in 2021 (official target: 6%), and 3.7% in 2022 on expectations of lower than projected take-up of Covid related fiscal measures. Fitch Ratings Agency identifies the strengths and the weaknesses of the future evolution of the Polish economy (Table 1).

Table 1: The resilience factors and the risks of the Polish economy

RESILIENCE FACTORS	**RISK FACTORS**
- Public Finances: Fiscal consolidation over the medium term that leads to a sustained decline in government debt/GDP.	- Public Finances: Sustained increase in government debt, for example from a failure to consolidate public finances, crystallisation of contingent liabilities or weakening of economic growth over the medium term.
- External Finances: Sustained improvement in external finances, including a further decline in net external debt/GDP.	- Structural: Deterioration in governance standards or the business climate leading to an adverse impact on the economy.
- Macro: GDP growth that supports faster income convergence towards the 'A' category median.	- Core inflation continues to be strong, averaging 3.9% in 2020, reflecting supply-side constraints as well as a Covid-19 surcharge imposed by many service providers.
- The Polish banking sector is stable, well-capitalised (end-2020: total capital ratio of 21%), with healthy asset quality (end-2020: impaired loan ratio of 6.9%) and profitable. Banks were an important conduit for distribution of state-guaranteed credit from the BGK (Bank Gospodarstwa Krajowego) and Polish Development Fund in 2020.	- Fitch expects the current account surplus to shrink to 1.3% in 2021 before falling into deficit in 2022, as import growth picks up due to an expected uptick in domestic investment and consumption.

Source: Author based on Fitch Ratings (2021)

2. A shield against the effects of the Covid-19 pandemic

On March 2020, the Polish government has launched the package of support actions for the society and entrepreneurs referred to as "Anti-crisis Shield". The package role was to limit the negative effects of the pandemic, consisted of 5 main pillars including different areas of the economy, and was estimated at total of 212 billion zlotys (about 47,3 billion euros). It has included a series of anti-crisis measures to protect employees and jobs, amounting to 32 billion zlotys (approximately 7.14 billion euros). Supplementary, to counter the impact of the crisis caused by the Covid-19 pandemic on companies, the Polish government provided companies with loans which focused on ensuring the liquidity of companies, and included, among other things, postponing payments of taxes and social security liabilities, as well as extending the guarantees provided by the National Development Bank (BGK) for the provision of loans (Chancellery of the Prime Minister of Poland, 2020).

According with the European Commission (2021b), the policy measures adopted as Covid-19 anti-crisis are classified according to the following categories: (1) expenditure measures, (2) tax measures, (3) measures related to public guarantees, (4) other measures than fiscal providing liquidity support (Table 2).

Table 2: The Covid-19 anti-crisis measures adopted by the Polish government

CATEGORY OF MEASURES	APPLICATION NORMS
1. EXPENDITURE MEASURES	**1.1. MEASURES WITH IMPACT IN 2020** - Between period March – May 2020, the reduction in social security contributions for firms employing up to 50 people and self-employed. • Those employing up to 10 people and – in most cases – self-employed can benefit from a full reduction. • For the self-employed, there is also a cap on the income, excluding the high-income earners from the scheme. • For the entities employing 10 – 50 people the reduction amounts to 50%. • Bigger companies are not eligible. • To be eligible, the beneficiaries cannot have arrears in social security payments and must explicitly apply for this support. - Initially introduced for April 2020, then extended until June 2020 the economic downtime benefit for self-employed and those working on nonstandard (civil law) contracts. • A lump sum benefit for self-employed (50% or 80% of the minimum wage) and those working on non-standard labour contracts (up to 80% of the minimum wage) to compensate them for a drop in revenue. • To be eligible, the beneficiaries need to record a drop of at least 15% in revenue on a monthly basis due to the pandemic. • There is no need to the keep the activity running (it may be suspended due to the pandemic).

	- Subsidies to salaries and social contributions for companies applying or not for **Short-time work** (**STW**[2]) or furlough. • Entities, independently of their size, may ask for co-financing of their costs of salaries and social security contributions for a period of 3 months maximum. • The companies must record a drop in their revenue. • Several separate instruments regulated by different legal provisions are concerned. • In some cases, firms must reduce working time to get subsidies. • In other cases, firms are not allowed to participate in the STW to benefit from subsidies (to avoid double financing); however, they can but do not need to reduce working time. - Subsidies to self-employed not hiring employees. • Co-financing of a part of costs of running a business by natural persons not hiring employees. • Granted for maximum 3 months. • The amount depends on the decrease in turnover and amounts to 50% - 90% of the minimum salary. • The entrepreneur is required to maintain operations during the period for which the funding is granted. - A package of loans to firms that can amount up to 100 billion zlotys (4.5% of GDP). • A part of those loans (up to PLN 60 billion, over 2.5% of GDP) can be further granted under certain conditions (continuation of operations after the end of epidemic restrictions and preserving jobs). • Operational and technical details of those measures differ depending on the firms' size (micro – up to 9, SME – 10-250 and large – over 250 employees). • The loans are granted by the Polish Development Fund which in turn issues bonds to finance the operation. Bonds are guaranteed by the state and bought by the National Bank of Poland. - Loans to micro-companies / self-employed and NGOs of up to 5,000 zlotys (EURO 1,100 euros). • The loans may be converted into grants if the company continues operations for 3 months after the loan is paid.

[2] Short-time work (STW) schemes are defined in a 2020 European Commission regulation proposal as "public programmes that allow firms experiencing economic difficulties to temporarily reduce the hours worked while providing their employees with income support from the State for the hours not worked".

	- The new social benefit paid in June, July and August 2020. • A benefit for parents who needed to stay home to take care of small children (when schools were closed), benefits for persons taking care of disabled person, or dependent adult family member. • Also, a "solidarity benefit" – a lump-sum payment of 1400 zlotys (some 310 euros) to those who lost their job during the pandemic. • Those who qualified for an unemployment benefit (that is lower than the solidarity benefit) got a top-up to 1400 zlotys. - Holiday vouchers. • Amounting to 500 zlotys (some 110 euros) per child, to be redeemed until March 2021. • The initiative of the estimated cost up to 0.2% of GDP aims at supporting the local tourism economy. • It is estimated that nearly 6 million children could benefit from it. -. Effective as from September 2020, increase of the unemployment benefit • The unemployment benefit increased to 1200 zlotys (around 270 euros) for the first 90 days, and then it will amount to 950 zlotys (some 210 euros). - Subsidies to interest on bank loans granted under contracts concluded by 31 December 2020 to business entities whose financial liquidity deteriorated following the negative economic consequences of the pandemic. • The subsidies will apply to revolving and non-revolving working capital loans granted in zlotys. - Increased spending on healthcare, both current expenditure and, to some extent investment. **1.2. MEASURES WITH IMPACT IN 2021 (and/or beyond)** - The operations of the Polish Development Fund regarding loans to companies (see the entry for 2020) are expected to continue to some extent. The exact scale and fiscal impact depend on the 2020 rollout.
2. TAX MEASURES (DISTINGUISHING TAX DELAYS FROM OTHER MEASURES)	- A possibility to amend under certain conditions the 2019 CIT (Corporate Income tax) statements by lowering the 2019 income by the loss generated in 2020. - Inclusion in the tax-deductible costs of expenses related to cancellations of trips.

	- Postponement of the date of entry into force of the new tax obligations (for instance as regards new requirement on the standard audit file or the rollout of the new VAT (Value Added Tax) matrix. - Temporary postponement of payment deadlines of VAT. - Extension of deadlines for 2019 PIT (Personal Income Tax and CIT (Corporate Income Tax) settlements. - Social security contributions deferrals, redemptions or stage payments. - Postponement the application of the retail tax to 2021.
3. MEASURES RELATED TO PUBLIC GUARANTEES	- Guarantees of the development bank (Bank Gospodarstwa Krajowego – BGK). • A scheme of guarantees for medium and large companies affected by the pandemic worth in total 100 billion zlotys (4.5% of GDP). • A guarantee for a single company may amount up to 200 million zlotys, for loans up to 250 million zlotys (80%). • The intended purpose of the loan is to ensure the company's financial liquidity. • Guarantees can be used by firms that did not have financial problems at the end of 2019 and did not have overdue social security or tax liabilities as of February 2020.
4. OTHER MEASURES THAN FISCAL PROVIDING LIQUIDITY SUPPORT	**1.1. MEASURES WITH IMPACT IN 2020** -The interest rates were lowered to a historical low, with the reference rate lowered by 140 basis points to the historically low of 0.1%. • The National Bank of Poland (NBP) purchases government securities and government-guaranteed debt securities on the secondary market as part of the open market operations. • These amounted to over 100 billion zlotys in September (4.5% of GDP). • Deferring of the rollout of the pension savings scheme “Pracownicze Plany Kapitałowe” for medium companies. **MEASURES WITH IMPACT IN 2021 (and/or beyond)** - The National Bank of Poland is expected to continue to purchase government securities and government-guaranteed debt securities on the secondary market as part of the open market operations. The timing and scale of the operations will be not known.

Source: European Commission paper (2021b).

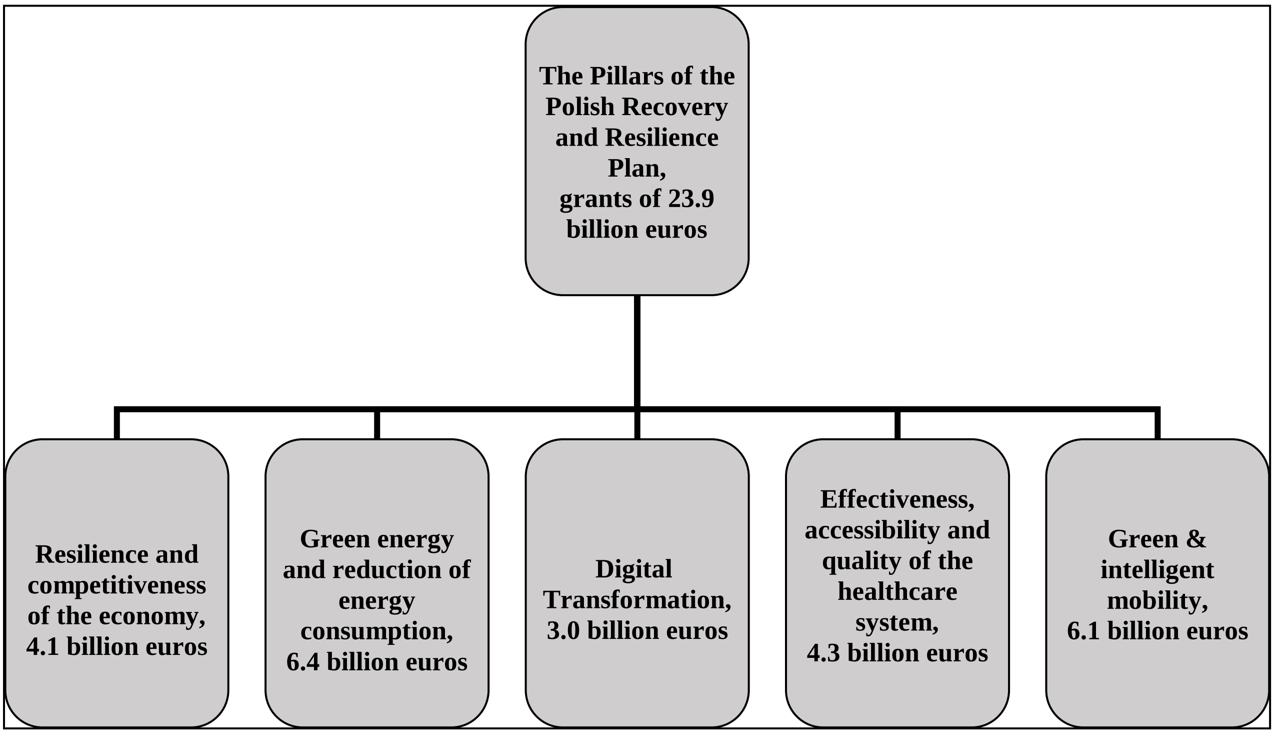
3. The Polish Recovery and Resilience Plan

3.1. The pillars of the Polish Recovery and Resilience Plan

For reforming and reconstructing socio-economic resilience**,** Poland will receive a 58.1 billion euros from the Recovery and Resilience Facility (from a total of 672.5 billion euros for the EU), of which 23.9 billion euros in grants and loans worth 34.2 billion euros, to be utilized through 2026 (within 7 years). It corresponds to an equivalent of grants of 4.8% of GDP and loans of 6.9% of GDP (11.7% of GDP altogether).

At the end of February 2021, the Polish Prime Minister and the Minister of Funds and Regional Policy announced the draft of the National Recovery and Resilience Plan. The document is open for public consultation until 2 April 2021. The draft plan is based on five pillars for the Poland's strategy (Figure1).

Figure 1: The five pillars of the Polish Recovery and Resilience Plan



Source: Author based on Polish Ministry of Investment and Development data

Congruent to the Ministry of Funds and Regional Policy, the National Reconstruction Plan has two main goals: rebuilding and restoring the resilience of EU economies and preparing for unforeseen circumstances, therefore (Polish Government, 2021):

- "Investments related to agri-food processing are also planned, which should help stabilize agricultural markets. It will be of key importance to prepare a new spatial planning system, which will enable quick investment decisions;

- Structural transformation will concern areas of key importance for the development of the Polish economy: industry 4.0, circular economy, strengthening the potential of the science sector to cooperate with enterprises and improving the transfer of knowledge and innovation to the economy. In this regard, many reforms have already been initiated, such as the Łukasiewicz Research Network. It is estimated that the EU funds will support further changes.

- Competitiveness of the economy also means staff/human resources. In this respect, the National Recovery and Resilience Plan focuses on rebuilding vocational education, reforming labour market institutions, and supporting parents' professional activity".

3.2. Experts' opinions on the Polish Recovery and Resilience Plan

According to *Waldemar Buda*, the secretary of state in the Ministry of Investment and Development, the component "resilience and competitiveness of the economy" consists primarily of measures to rebuild the sectors most affected by the pandemic. Due to the crisis, enterprises have to expand their activities or modernize them towards introducing green solutions. It is very important that SMEs will be able to receive both investment support and support related to the retraining of their employees to new activities of the company" (Polish Government, 2021).

The two experts from ING Bank Poland, *Benecki and Kasek* (2021) have pointed out that:

- "The proposed distribution of the grant money does not appear to match fully with the EU guidelines and green and digital priorities, but it probably meets the formal requirements. This suggests, however, a rather lengthy dialogue with the EC to finalize the document.
- We worry that the government lacks advanced reforms and projects e.g., those which would flirt with the idea of economy 4.0 or bring a technological leapfrog. So, for the time being, it proposed investments plans, which rather foster inclusion, regional cohesion, enhance basic infrastructure (roads) or is an extension of the anti-pandemic rescue plan, provided in 2020. There are also structural changes planned, but they seem to be at a quite early stage.
- Poland has not yet made up its mind on the utilization of the loan part of the available EU funding. This financing source is treated as potentially available, to be used in the later phase, maybe ad "calandas grecas".
- The Plan will not give a boost to the Polish economy in 2021, the major fiscal impulse is to occur in 2022-23 (+1.5% of GDP). Unfortunately, this will provide additional proof to the time inconsistency phenomenon in the economic decision-making".

Marcin Korolec[3] (2021), head of the Green Economy Institute, launches the question "What kind of Poland and EU do we want to see after COVID-19?", and underlines that "the Polish National Recovery Plan cannot be treated as an instrument to combat the crisis alone, but by supporting the digital and green transition it should create the foundation for the competitiveness of Poland's economy". In his opinion this plan of recovery and resilience should be seen as a new Marshall Plan and "this is not an opportunity for one year's profits, but for building the competitive advantage of future generations. The commitments undertaken today will take 40 years to repay – at least two generations of Europeans, including Poles".

Pursuant to Eurocities[4], *Rafał Trzaskowski*[5], the mayor of Warsaw explains that "the process of preparing the National Recovery Plan in Poland is not very transparent. The government completely ignores Polish cities in this process, commissioning activities only at the level of voivodeships (regions), including the preparation of project proposals." In fact, out of around 20 proposals made by the city in July last year, roughly half were included in the regional level applications, and, as the Mayor says, "so far we have no feedback on whether we can count on co-financing of Warsaw projects, despite the fact that these are very large, important projects that have an impact on the recovery of the economy after the Covid-19 crisis, such as the development of the metro network" (Eurocities, 2021).

"Zero carbon economy is not anymore a dream we chase, but a concrete political commitment: from EU by 2050, from China by 2060 and taking into account the recent change of the US administration, I would expect a similar announcement coming from there soon", commented *Jakub Miler*, CEO of EIT InnoEnergy Central Europe. "These are the new rules of the game. For Poland to follow that path is not an 'eco-extravagance', but a harsh necessity to keep the economy competitive and simply stay in the business". (InnoEnergy, 2021).

On Bloomberg Green, *Ewa Krukowska* (2021) reports that "transforming the energy sector in Poland, which depends on coal for more than 70% of power production, is among the top challenges identified in the national recovery plan. The overhaul will be "extremely costly" but in the longer-term green technologies may become the driving force of the economy, according to the government". Krukowska (2021) appreciates that Poland's largest oil company PKN Orlen SA, which is already building a hydrogen hub in central Poland, plans to spend 25 billion zloty ($6.6 billion) by 2030 to reduce carbon-dioxide emissions by more than 20%. In total,

[3] A lawyer and civil servant, he was the minister of environment in Donald Tusk's cabinet from 2011 to 2013 and secretary of state responsible for climate negotiations from 2013 to October 2015.
[4] Eurocities is the network of 190 cities in 39 countries, representing 130 million people.
[5] Rafał Trzaskowski is also a political scientist specializing in European Studies.

about 38% of the 23.9 billion euros of EU grants available will be spent on climate-linked activities by 2026 (Krukowska, 2021) (Table 3).

Table 3: The clean energy component of the Polish Recovery and Resilience Plan- million euros

ELEMENTS	THE AMOUNT
1. Housing sector energy efficiency	**3200**
2. Developing hydrogen and other alternative fuels	**797**
3. Offshore wind generation	**437**
4. Heating sector modernization	**388**
5. Power grid expansion for renewables integration	**329**
6. Improving energy efficiency of schools	**194**
7. Local renewable energy initiatives	**97**
8. Boosting companies' energy savings and renewables use	**28**

Source: Author based on Bloomberg Green (2021)

4. Conclusions

In my opinion, the most important impact of the current Pandemic Covid-19 crisis will be the "paradigm shift[6]", that will reshape the future of all member states economies and EU on the whole. The Recovery and Resilience Facility and the National Recovery and Resilience Plans are two important instruments for the development of the paradigm shifts. This new paradigm foundation is the European Green Deal, which main objectives are to turn climate and environmental challenges into opportunities, boost the efficient use of resources by moving to a clean and circular economy and making the transition just and inclusive for all.

In Poland, which is heavily reliant on polluting coal-fired power stations, the Recovery Plan should be used to decarbonising the energy sector and to build solid foundations for the country's future sustainable development. The green transition will be a great opportunity for the modernization of the economy and the growth of Polish companies, and together with the digital transformation will accelerate the Fourth Industrial Revolution's pace of change and broad impact.

The another sift of paradigm is linked with the fact that we are witnessing a change from an economic model in which services had an important weight, in favour of a model based on the development of productive, processing, industrial and agricultural sectors, which can provide the products necessary for the strategic autonomy of the European community space. The Covid -19 pandemic brought to the surface the instability of global supply chains. The most viable solution would be to shorten supply chains by developing production at local and regional level (in the EU). Certainly, the relocation of non-EU factories to countries such as Poland or other Central and Eastern European (CEE) countries, which have the comparative advantage of cheaper labour than in Western European and well-qualified countries, can be considered. Even if wages in CEE member states are higher than in countries from outside the EU area, the relocated firms from other member states to these areas may become important contributors to the host state budgets, and stimulate the economic development of the disadvantaged areas in the EU and the reduction of the economic gaps between member states.

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[6] A paradigm shift is a concept which was introduced by the American scientist Thomas Kuhn and promotes major changes in the fundamentals and applied practices.

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