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

(summary and update)

This is a summary of a three-part publication from July 2017 under the same title (approx. 40 pages long). Like the study from July, this summary is divided into three parts: (1) social reforms, (2) the economy and finance, (3) security and justice. The summary was updated with the Government's major decisions and measures taken in the recent weeks.

Part 1 – Social reforms

The Family 500+ Program. The Family 500+ Program is the flagship project of the Government, which Law and Justice (PiS) announced during the election campaign and has faithfully implemented after winning the election. The Program was launched in April 2016. It provides Polish families with a tax-free child benefit of PLN 500 monthly for the second and any subsequent child aged up to 18 (€ 1 = PLN 4.25; \$ 1 = PLN 3.60). Over 2.6 million families benefit from the Program, with the money going to 4 million children (57% of all children aged up to 18). More than PLN 33 billion has been received by Polish families so far. This year an estimated PLN 24-25 billion will be spent under the Program. The Family 500+ Program has two core objectives – the social objective (supporting families with children) and the demographic objective (increasing the number of births). According to 2016 World Bank estimates, the Program has reduced extreme poverty in Poland by 48% and extreme child poverty by 94%. In the first half of 2017, about 200,000 children were born in Poland, i.e. by 14,000 more than in the first half of 2016. Over 10 years, the Program is to increase the birth rate from 1.3 to the EU average of 1.6 (ultimately, the required rate to ensure generation replacement is about 2.1). The Family 500+ Program continues to enjoy widespread social support (77% positive vs. 20% negative responses).

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 medium-income citizens. 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 flat. The Program is available to all Polish citizens but preference will be given to low-income and multiple-children families. The flats will be built both in major metropolitan cities and in smaller towns. So far, over 40 towns and cities have been found eligible for the Program. The target is to construct more than ten thousand apartments a year. A total of more than 10,000 are being prepared, of which more than 1,200 are already under construction (all 10,000 units are planned to be under construction by the end of 2017). The overall project cost exceeds PLN 2 billion. The first Housing+ flats will be handed over in Q1 2018.

Educational reform. In December 2015, an act was passed to reinstate the compulsory school age of 7. It was overturning the reform brought into force 2 years earlier by the PO-PSL Government, under which the compulsory school age started at 6. The Educational Law of December 2016 established a new educational system with an 8-year primary school and a 4-year upper-secondary school (replacing a 6-year primary school, a 3-year lower-secondary school, and a 3-year upper-secondary school). The new system also includes a 5-year secondary technical school, a 3-year lower vocational school, and a 2-year upper vocational school. Vocational education will be provided in cooperation with employers in order to align it with labour-market needs. The reform is aimed at establishing modern schools but also strongly rooted in Polish culture and tradition. The educational reform will be implemented gradually: the changes will start in the school year 2017/2018 and end in 2022/2023. The majority of society (57%) believe that the new educational system will be better than the former one (with 24% claiming the opposite).



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Healthcare reform. In June 2016, an act on free-of-charge medicines for people aged 75 or more entered into force. Those medicines are for old age diseases: heart diseases, Parkinson's disease, osteoporosis, etc. In May 2017, an act establishing the "hospital network" entered into force. According to the Government, the reform will provide patients with several benefits: treatment will be coordinated, hospitals will provide comprehensive care (hospital treatment, specialised care, rehabilitation), healthcare provided at night and on holidays will be more accessible (shorter queues in hospital emergency departments), etc. In June 2017, the pharmaceutical law was amended. New pharmacies may be opened only by pharmacists (the "pharmacy for pharmacists" principle). There may be no more than one pharmacy per 3,000 persons and the distance between pharmacies must be at least 500 m. A single entity may own a maximum of 4 pharmacies. Public spending on health care is to increase from the current 4.7% of GDP to 6% of GDP in 2025 or earlier.

Retirement reform. On 1 October 2017, retirement age was reduced to 60 years for women and 65 years for men (however, retirement at those ages will not be obligatory). The 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. A law was passed in December 2016 to increase the minimum retirement and disability pensions to PLN 1,000 (50% of the minimum wage). Also in December 2016, an act was passed to reduce the sizeable retirement and disability pensions paid to former security service officers of the communist Polish People's Republic. The act entered into force on 1 October 2017 – since then they are to receive average pensions paid by the ZUS (Social Insurance Institution). As regards Open Pension Funds (OFE), they have been deemed ineffective due to the low expected pension levels they will provide. The plan is to transfer 75% of OFE assets (PLN 103 billion) to Open Polish Equity Investment Funds under Individual Retirement Accounts. The remaining 25% of OFE assets (PLN 35 billion) is to be reallocated to the Demographic Reserve Fund, but also credited to sub-accounts of the ZUS. The reform is to enter into force in July 2018.

Part 2 – The economy and finance

The Responsible Development Strategy. In February 2017, the Government adopted the strategy that determines the directions of Poland's development by 2020 with a perspective to 2030. The strategy focuses on increasing innovation of the Polish economy and on territorially sustainable growth narrowing disparities between the country's regions. In April 2017, the support package for medium-sized towns (255) was announced. The strategy is to be implemented at both national and regional level. Key regional projects include the construction of international expressways: Via Baltica (from Poland through Lithuania and Latvia to Estonia) and Via Carpathia (from Lithuania to Greece through 7 EU Members States – in Poland through the eastern voivodeships). In June 2017, the Government increased the funding limit for the National Roads Construction Program until 2023 – from PLN 107 billion to 135 billion. Other regional plans include establishing a gas transmission and trade centre for the CEE countries, constructing the Central Communication Port, etc. Such activities are a chance to strengthen economic cooperation and mutual relationships within the Visegrad Group and the Three Seas initiative, i.e. 12 EU countries in Central and Eastern Europe (CEE) between the Adriatic, Baltic and Black Sea (Poland is the region's largest country).

The Business Constitution and the package for entrepreneurs. One of the Government priorities is the development of entrepreneurship, including micro, small and medium-sized enterprises, which account for over 90% of all enterprises in Poland. The Government prepared the most far-reaching reform of Polish economic law since 1989 – to be implemented in two packages: "100 changes for companies" and the Business Constitution. In April 2017, the Parliament amended the Code of Administrative Procedure and adopted the "creditor package". With those changes, official cases will be proceeded more quickly ("the tacit handling of a case") and companies will sooner recover their debts. The Business Constitution is to introduce a series of business-friendly principles, e.g. everything which is not forbidden is allowed, presumption of the entrepreneur's honesty, etc. In 2018, other measures will be introduced: simplification of the inheritance of a family enterprise, shortening the period of keeping employee files (from 50 to 10 years) and their digitalization, "simple joint stock company" to be used by start-ups, etc. It is also crucial to build a bridge between science and businesses, i.e. between scientific research and their implementation in business.



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Foreign investments in Poland. Poland is one of the most attractive European countries for investment and the leader of the Central and Eastern Europe region in foreign direct investments (FDI). In 2016, foreign investors announced their plans to implement over 250 projects in Poland, which earned Poland 5th place among European countries. Poland is also 2nd in Europe in the number of jobs created as a result of FDI. In 2016, over 22 thousand jobs were created, i.e. more than in Germany or France. Poland has become the first choice of foreign investors from the industrial production sector, e.g. car and aircraft engine manufacturers. Regional specialisation is being observed in individual branches of industry – for example, Silesia is becoming a hub for the automotive industry, Subcarpathia is regarded as the aviation valley, and Pomerania has seen the revival of the shipyard industry (under the PO-PSL Government the shipyards in Szczecin and Gdynia were put into liquidation). Those 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 in 2018 will be PLN 2,080 (compared to PLN 2,000 this year and PLN 1,850 last year), i.e. 46% of the average pay in the enterprise sector. The Government also decided that the minimum hourly wage in 2018 will be PLN 13.5 (now PLN 13). Before, people employed under civil-law contracts (around 1.3 million) had very low hourly wages (PLN 5-6), so their remuneration was lower than the minimum wage. In January 2017, a new income tax threshold came into effect – PLN 6,600 per year. The PO-PSL Government used to apply a much lower threshold (around PLN 3,100), which meant the taxation of income at the minimum level of existence. In 2015, the Constitutional Tribunal deemed it contrary to the Polish Constitution. As regards the current income tax threshold, over 3 million Poles with the lowest incomes (retirees, pensioners, students) have benefited from it. In October 2017, the Government decided that the threshold will increase to PLN 8,000 in 2018 (5-6 million Poles will benefit from it). Moreover, in January 2017, the CIT rate for small enterprises was lowered from 19% to 15%. Around 90% of CIT taxpayers (400,000 entities) have benefited from it.

The state budget – sealing of the tax collection system. Under the PO-PSL Government, as a result of various dishonest and criminal activities (mainly fraudulently claimed VAT refunds), the state budget used to lose several dozen billion zlotys every year – in total, PLN 200-300 billion in 8 years. The Parliament is to appoint an investigation committee to explain those financial frauds. The PiS Government is working on sealing the tax system. In March 2017, the National Fiscal Administration (KAS) started its activities. The KAS breaks domestic and international crime groups (illegal trading in fuel, VAT refund frauds, smuggling tobacco and alcohol, etc). Since August 2016, the “fuel package” has been into force, which is to limit the grey area on the fuel market. Since April 2017, the “transit package” has applied, which is to monitor the road transit of goods involving a high risk of tax fraud (fuels, alcohol, etc). In March 2017, severe punishments were introduced for issuing and using false VAT invoices (up to 25 years in prison). In the first half of 2017, budget revenues from all main taxes increased, notably from VAT by 28%, i.e. PLN 18 billion (by the end of the year, VAT revenues are to increase by PLN 25 billion). In mid-2017, the budget surplus amounted to PLN 6 billion. The public finance deficit for 2017 is to be around PLN 50 billion (2.5% of GDP), i.e. much less than planned (PLN 59 billion, i.e. 2.9% of GDP).

Toxic financial products. For years banks used to grant mortgage loans indexed to or denominated in Swiss francs, not informing their clients about the exchange rate risk. In January 2015, the Swiss franc hiked and brought about a significant increase in the general debt of those paying off such loans. In 2016, there were around 900,000 people with such loans (PLN 137 billion). The Parliament is working on draft acts on foreign currency loans. Another problem is misleading savings-insurance products, sold by banks and insurance firms (2009-2013) without informing about the high costs of cancelling them (up to 80-90% of the funds paid). The problem hits around 5 million Poles and is estimated at PLN 50 billion. The Ministry of Justice set up a task-force dealing with this matter. The Public Prosecutor’s Office and the Parliament are also working on the case of Amber Gold, a financial pyramid scheme, which in 2009-2012 led to over PLN 850 million in losses sustained by around 19,000 people. Amber Gold operated during the term of the PO-PSL Government, but the then authorities did not take any steps to explain the matter. Such steps were taken by Law and Justice after the 2015 election. In spring 2018, the parliamentary investigation committee plans to examine the former Prime Minister Donald Tusk in the context of the Amber Gold scandal.



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The current economic situation and prospects. Poland is among EU Member States with the highest GDP growth. According to the European Commission, the main driver of the GDP growth is a strong increase in private consumption resulting from the Family 500+ Program. In September and October 2017, the major banks (Morgan Stanley, Goldman Sachs, Crédit Agricole) and rating agencies (Fitch, Moody's) considerably raised their growth projections for Polish GDP – to over 4% in 2018. According to the Commission, the lower retirement age will reduce the number of employees in Poland, causing a rise in employment and wage pressure, although the latter will be offset by Ukrainian immigrants. The unemployment rate in Poland is to amount to 4-5% (much below the EU average). In 2018, only 3 EU Member States (Czech Rep., Hungary, Germany) are expected to record lower unemployment levels. As for public finance, in 2017 and 2018, the budget deficit is to be below the EU limit of 3% of GDP (i.a. due to sealing the tax system), and the public debt is to be below the EU limit of 60% of GDP (required by the Polish Constitution too). In recent months, the major rating agencies (Fitch, Moody's, S&P) confirmed Poland's high rating and stable perspectives. In September 2017, FTSE Russell reclassified Poland from "emerging market" to "developed market" status, which means that Poland will join the 25 most developed economies of the world (from September 2018).

Part 3 – Security and justice

Armed forces. In April 2017, the Minister of National Defence outlined a general plan to increase the manpower of the Polish army. In 8 years, it is to have 200,000 soldiers, including the Territorial Defence Force (WOT), which will be the fifth component of the armed forces – in addition to the land force, air force, special forces, and the navy. The plan is to set up a total of 17 WOT brigades (6 by the end of 2017). The target for WOT is to reach 53,000 soldiers by 2019. In April 2017, the army modernisation priorities were announced – so-called "Vistula" (anti-aircraft and anti-missile defence system relying on the US Patriot system), "Lobster" (rocket launchers), and "Orca" (submarine ships). In 2030, defence spending is to amount to 2.5% of GDP (currently 2% of GDP, with Poland being one of five NATO members which comply with this requirement). In 2017, the allied forces of the US and NATO were deployed in Poland (about 7,000 soldiers are to be stationed in our country on "continuous rotation"). Poland, in turn, will send soldiers to Latvia, Bulgaria and Romania. Moreover, a missile defence system is under construction in Poland.

The migration crisis and anti-terrorism. The Law and Justice Government rejected the "refugee/migrant relocation scheme" proposed by the European Commission. The Government is providing on-site financial aid (mainly in Syria and Lebanon, where there are 1.5 million Syrian refugees). The majority of society (70%) is against settling Muslim migrants in Poland. In June 2016, the Anti-Terrorist Act was passed. It was inspired by the NATO summit in Warsaw and the World Youth Day in Kraków that was attended by 3 million people from all over the world (both events took place in July 2016). The act provided the police and other services with the means to respond to threats quickly and effectively, e.g. extensive access to databases, including confidential bank data, operational surveillance of foreigners (tapping, video surveillance, correspondence surveillance, etc), arresting individuals for 14 days on suspicion of terrorism, expelling from the country all foreigners posing a threat, temporarily closing borders, prohibiting the organisation of mass events, sanctions (e.g. up to 5 years in prison for participating in terrorist training), etc.

The Police and other services. In January 2016, the acts on the Police and other services were amended. It implemented the 2014 judgement of the Constitutional Tribunal. The PO-PSL Government had failed to do so, which could have paralyzed the work of the Police and other services from February 2016. In January 2017, the Police and other services modernisation program (2017-2020) was introduced, which will mandate more than PLN 9 billion in spending on infrastructure and equipment upgrades, pay rises for officers, etc. Program funds will also be spent on the construction of new police stations and restoring the liquidated ones. In 2007-2015, the PO-PSL Government cut the number of police stations by more than half (418 out of 817). Currently, they are being restored – in 2016, a total of 37 police stations were brought back into operation in small towns across Poland, and further 33 stations will be reopened by the end of 2017. The process is to be finalised by 2020. The Government is also working on the anti-corruption program (2018-2020) concerning i.a. the Central Anti-Corruption Bureau (established by the PiS Government in 2006).



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The reform of the justice system. The majority of society has a negative opinion on the functioning of the justice system in Poland, with over 80% believing that it needs to be reformed. The key weaknesses of the judiciary system are lengthy court proceedings, overcomplicated procedures, corruption among judges, and excessive leniency towards crime. This is why Law and Justice intends to carry out a thorough reform of the justice system (announced already in 2015). In March and July 2017, amendments to the Act on Common Courts Organisation were passed. They increase powers of the Minister of Justice to appoint and dismiss court presidents and directors. Also, several rules were introduced to streamline court functioning, such as the random assigning of cases to judges, equal distribution of cases, and the invariability of the adjudicating panel. In July 2017, the Parliament adopted amendments to the Act on the National Council of the Judiciary (KRS) and to the Supreme Court Act. However, both of them were vetoed by the President, who announced that within 2 months he would present his own draft acts reforming the judiciary system. In September 2017, the presidential draft acts on the KRS and the Supreme Court were submitted to the Parliament.

Harsher criminal law. In March 2017, the Parliament passed several amendments to the Penal Code and other acts. One of them concerned the “extended forfeiture”, which allows to confiscate assets from crime. The other foresees harsher punishment for crimes against children (mutilation, trafficking, sexual abuse, etc). Another one introduced more stringent alimony laws – failure to make alimony payments may involve penalties of 1 or 2 years in prison. The amount of outstanding alimony in Poland is over PLN 11 billion. As confirmed in October 2017, the new laws have prompted many debtors to make overdue payments.

Combating “wild reprivatization”. In May 2017, the Parliament appointed the Verification Commission to examine “wild reprivatization”, i.e. years-long practice (mainly under the PO-PSL Government) of acquiring, at extremely low prices, Warsaw’s real property worth millions of zlotys (tenements, schools, plots – the most expensive one worth PLN 160 million) or fraudulently claiming high damages from the City (the record amount was PLN 38 million). A group of attorneys, judges, and officials of the City of Warsaw that for 11 years has been led by Hanna Gronkiewicz-Waltz (Mayor of Warsaw and PO Vice-Chairman), was involved in the fraud. As a result, 40-55 thousand people have been evicted. So far, the Commission has issued decisions on 6 real properties – in all cases repealing the reprivatization decisions of the Mayor of Warsaw in full and with immediate effect. The Mayor of Warsaw was summoned several times to testify before the Commission but she has never appeared. Some people involved in “wild reprivatization” have already been arrested. The Commission is probing into “wild reprivatization” in Warsaw, but similar frauds also took place in other Polish cities (Kraków, Łódź, Poznań, etc). In October 2017, the Minister of Justice appointed a task-force (Public Prosecutor's Office / Police) to investigate reprivatization in Kraków. Also in October, the Ministry of Justice presented a draft act on reprivatization aimed at eliminating the above pathologies.

The Constitutional Tribunal. In December 2016, Chairman Rzepliński's term of office expired and a new President of the Tribunal was appointed. This put an end to a year-long crisis surrounding the Tribunal. The crisis was triggered by the unconstitutional changes to the CT Act passed by the PO-PSL coalition in June 2015. On the basis of that act, in October 2015, the PO-PSL coalition appointed 5 judges to the Tribunal. The appointment of the 2 judges (to replace those whose terms of office expired in December 2015) was unconstitutional, as ruled by the Tribunal; and the appointment of the 3 judges (to replace those whose terms of office expired in November 2015) was seen as an unethical last-moment act of legislation – just a few weeks ahead of the parliamentary election. Those appointments were aimed at dominating the Tribunal by judges recommended by PO (14 out of 15 judges), which was to obstruct the Parliament and prevent Law and Justice from implementing its social and economic reforms announced before the 2015 election. In November 2015, the current Parliament (in which Law and Justice had the majority) invalidated the appointment of the above 5 judges. The new 5 judges were appointed in December 2015. However, President Rzepliński refused to allow 3 out of the 5 judges to sit in the Tribunal, which brought the Tribunal to a standstill, with only 12 judges sitting in it while the CT Act required at least 13 judges. A “vicious circle” ensued, and things could get back to normal only after the expiry of President Rzepliński’s term of office.

Warsaw, 15 October 2017