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Weekly Briefing

Poland Economy briefing:

Economy Development in Poland

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Regarding the latest economic development, two significant points should be discussed. First, the issue of the Polish pension system and its future, and second the situation at the labour market. The core question here is why does the government looking for the private money from the Open Pension Funds, and secondly how does the government try to reply to the labour market shortages?

The Polish pension system is mainly based on two pillars: ZUS Social Insurance Institution – state-run administration – manages Social Insurance Fund (FUS) and PTE - Pension Fund Society asset manager of Open Pension Funds (OFE)[1]. At the moment the government is planning the new reform of the pension system in Poland. During this parliamentary term, Open Pension Funds will be transformed into investment funds, and the majority of the money accumulated there will go to private accounts of Poles - according to unofficial information of "Rzeczpospolita" (one of the leading newspaper in Poland). The pension system reform is one of the priority issues of the government. The Ministry of Finance emphasises that "the consultations regarding the final shape of possible changes are currently being conducted and their impact on the public finance sector, including the situation of the Social Insurance Fund, as well as the labour market and farms, is also assessed". Even before, in July 2016 Mateusz Morawiecki, still a deputy prime minister and minister of development, presented proposals for changes in OFE as part of the Capital Building Program. This reform will be a revolution in the Polish pension system. The second pillar based on the private funds will disappear. About 75 percent of Open Pension Fund net assets is to be transformed into assets of specialised investment funds, which are to be mainly shares of companies listed on the Stock Exchange. In turn, 25 percent of the current Open Pension Fund assets in cash, bonds or shares of companies listed on foreign stock exchanges will be transferred to the

[1] For the further references, please check webpage at http://www.kas.de/wf/doc/kas_12469-1442-2-30.pdf?140325060740

Demographic Reserve Fund (administrated by Social Insurance Institution) as well as subscriptions to Social Insurance Institution.

According to the assumptions presented by Morawiecki, the funds accumulated in the Open Pension Fund will be "mostly privatised and transferred, to those on whose accounts they are saved. Besides, 25 percent of these funds will be used by small and medium Polish companies”. As declared by then the vice prime minister this money will be given to the people, the people on whose accounts are saved those Open Pension Funds. Some part of about 1/4, the government wants to spend on projects that are to serve small and medium Polish enterprises, but also the expansion of Polish companies abroad. This will help as the mechanism for the recapitalisation of the Polish companies.

More to the point it will be the pension system reform that will be developed as follow: every employee will save 2 percent from his/her salary. Also, the employer will add 1.5% from each other, and the state will additionally 250 PLN for a start and 240 PLN in subsequent years. The money of future retirees will go to the account in one of the investment fund companies selected by the employer. The investment strategy will be adapted to the employee's age: to the beginning more aggressively in shares at the stock market, and over time more and more safely - with a majority of treasury securities.

The decision taken by the government is partly dictated by the performance of the Open Pension Funds. In February 2018 Open Pension Funds had “fatal month within the decade”. By breaking down on the stock exchanges, accounts of future pensioners evaporated about PLN 10 billion. For several years, the savings of several million Poles have been exposed to high risk. February was the worst month for the Warsaw Stock Exchange for almost seven years. What's more, such a massive discount, as on the Warsaw Stock Exchange, was not on the stock markets from the USA, through Europe, to Asia. A measurable effect of this was the outflow from the market of nearly PLN 80 billion. This problem touches over 16 million Poles gathered in the Open Pension Funds.

All of the money in Open Pension System at the end of February was about PLN 174 billion. A month earlier there was PLN 10 billion more. Such a clear outflow in the month has not been for ten years - calculate analiz.pl. The members of all eleven Open Pension Fund operating on the market have lost their income, to a very similar degree. Savers got the least in Allianz funds (-4.7 percent) and MetLife (-4.8 percent). The worst in this respect was Pekao OFE (-5.9 percent) and OFE PZU (-5.8 percent) (please check table no 1).

Table no 1. The results of pension funds in February 2018

FUND	the loss in February (percentage)	the loss in February (amount) (million PLN)
Pekao OFE	-5,90%	-168 mln
OFE PZU	-5,80%	-1 485 mln
PKO BP OFE	-5,30%	-460 mln
AXA OFE	-5,20%	-643 mln
Aegon OFE	-5,20%	-873 mln
OFE Poczytlion	-5,10%	-180 mln
Aviva OFE	-5,00%	-2 148 mln
Nationale-Nederlanden OFE	-5,00%	-2 392 mln
Generali OFE	-4,90%	-467 mln
MetLife OFE	-4,80%	-767 mln
Allianz OFE	-4,70%	-406 mln

The situation on the Polish labour market is perfect. According to the Central Statistical Office, unemployment fell to 6.6 percent. Wages are growing - average salaries in the enterprise sector increased by 7.4% which was the fastest rate since 2009 (PLN 4 574 gross). At the end of February 2018, the number of unemployed amounted to 1,127.8 thousand people. Compared to the end of January this year there were 5.9 thousand of them less (0.5 percent).

Compared to February last year, the number of unemployed fell by 255,500 people (18.5 percent).

According to the labour offices, the decline in the number of unemployed was the resultant decrease in inflow to unemployment with a simultaneous increase in outflow. The increase in the number of deregistration resulted from the activation of an increasing number of unemployed. The rapid change in weather conditions was not without significance for the situation on the labour market. It caused a break in starting some seasonal work. This, in turn, resulted in a decrease in the number of offers submitted by employers to labour offices - the ministry informed.

Although the official date of unemployment should be perceived as right, we need to see another side of the same coin. In fact, the Polish companies are struggling with a growing shortage of employees. During the year, the number of vacancies increased by half. A particularly tricky situation prevails in industry. According to the "Puls Biznesu" (economic daily), data from the Central Statistical Office show that at the end of last year there were 117.8 thousand vacancies in the Polish economy, 40,000 more than a year before. This means an increase of more than half.

Slightly over a quarter of vacancies are attributable to companies operating in the field of industrial processing and about 15 percent is embodied in the car and construction industry.The most sought-after on the market are industrial workers and craftsmen, then operators of machines and assemblers of devices and equipment, and specialists. The problem is that the shortage of workforce is intensifying in Poland the most in the entire European Union. According to the latest Eurostat data, the issue of vacancies concerns as much as 47% industrial enterprises in Poland. According to BIG InfoMonitor, in 2017 35 percent. Poles planned to change jobs. In the previous year, 27 percent. Employees completed this intention, leaving the existing place of employment. From the Grant Thornton report, it appears that 60 percent. Medium and large companies in

Poland have problems finding employees, whereas a year ago this percentage was 32 percent.

In fact, employers are now seeking to reduce staff turnover and retain employees for the longest time. Therefore, they are looking for educated, determined people who have a clear vision of their professional future, who can define their expectations towards the employer and identify sources of motivation. Modern technologies have a significant impact on the current shape of HR processes. According to the expert, the latest technological achievements support the activities of these departments, because they allow reaching specific target groups and environments in which the company wants to get to know each other. From enterprises, it is more profitable to overtake market trends in this area than to later make up for dependents.

Conclusions

The emigration might resolve the problem less educated labour forces from the Eastern part of Europe namely Belarus and Ukraine. But the question arises with the shortages of well-educated people, that would like to emigrate to Western Europe. Furthermore, the record of the low unemployment rate in Poland indicates overheating of the labour market, which is manifested by high demand for workers with low supply. Every second of the surveyed entrepreneurs notes difficulties with recruiting specialists, and every third has problems in hiring any employees. The second problem is the issue of recapitalisation of the Polish SME. If the government would like to use the money from the Open Pension Fund the question is what kind of engine should be used for this. Probably, we are expecting to the newly open governmental agencies that will be responsible for the redistribution of the capital taken from the private pocket. From this perspective, this government is not far different from the previous of the Civic Platform. By shifting some assets from the private funds into ZUS, the government booked those assets on the state balance sheet to offset public debt, giving it more scope to borrow and spend. Finally, it reduced public deficit by about eight percent of GDP**.** This is the precise signal that ones the government will not have private money to take the budget might be in trouble.