Weekly Briefing

Poland economy briefing:
Impact of the pandemic on the Polish economy in 2020
Joanna Ciesielska-Klikowska
Impact of the pandemic on the Polish economy in 2020

In 2020, the coronavirus pandemic had a noticeable impact on Polish economy. It affected both employers and employees, and none of the industries remained unconcerned. Since the spring, the government has been preparing further plans to support the economy. How did it in fact suffer in the times of COVID-19 and how did the state authorities help all sectors of the economy?

The uniqueness of the current economic crisis lies in the fact that the sharp slowdown in economic activity is caused by a non-economic factor that has quickly affected almost all countries in the world, including Poland, which has been doing relatively well economically over the last 30 years, and the recent years has been a time of prosperity. Yet, today’s problems do not arise from the weaknesses of the economic system itself, but are rooted in three areas: firstly, in the significant limitation of people’s activity, forced by health issues; secondly, in hitting both the demand and supply sides of economies; thirdly, in the widespread expectation of significant involvement of state in helping all industries affected by the pandemic.

In fact, since the outbreak of COVID-19 in Poland in mid-March 2020, it was clear that its consequences would be serious both for the inefficient and poorly paid healthcare system and for the economy. Focusing on the latter aspect, it should be stated that it is still difficult to predict the final effects of the epidemic today, but it is clear that it has left its mark on the entrepreneurship of Poles.

Economic moods in times of epidemic

According to the latest data presented by Intrum, Poland is among three European countries (along with Greece and Romania) where the citizens were most affected by the crisis. 62% of Polish consumers admit that their financial well-being has worsened recently. When it comes to bringing up children, this percentage is even higher (69%). Only 16% of Polish respondents believe that this issue will improve in the coming time.

The entrepreneurs themselves have no better opinion about the economic situation. 70% admit that they now have less income, which has a direct impact on their business. Almost 50%
declare that Poland is already dealing with a recession or that it will soon face an economic collapse. It can be suspected that the longer the pandemic lasts, the more firms will be convinced of the coming recession - currently 48% of Polish businessmen indicate that the crisis has a negative impact on the functioning of their companies.

Naturally, the pandemic also has influence on the scale of unemployment - this has increased in recent months (May-October 2020) and remains at the level of 6.1% (in the same period last year it was 5.1%), which means that there are currently over 1 million unemployed in Poland. However, the abovementioned data specifies only “registered unemployment”, i.e. refers to people who have registered with labour offices as unemployed. Meanwhile, people who do not look for a job and have been inactive for a long time are not defined as unemployed, but as “professionally inactive”. They are not taken into account when calculating the unemployment rate. And here the number is much higher - there are currently over 3.7 million “professionally inactive” people in Poland. Also, according to the Central Statistical Office, people who are not looking for a job because of the pandemic create a group of 247,000 people, of which 2/3 live in cities.

Theoretically, according to the data of the Central Statistical Office, Poland has the second lowest unemployment rate compared to other EU member states. Yet, the labour market in current crisis is difficult and unpredictable: under the new conditions, there is nowhere to look for a job, and many companies are barely surviving. The biggest problems that enterprises in Poland are facing in 2020 include: maintaining financial liquidity, securing a steady cash flow by rebuilding the demand for the products and services offered, and receiving payments on time. 51% of companies say late payment threatens their survival during the COVID-19 crisis. Moreover, the entrepreneurs point out, that the pandemic has lowered the purchasing power of consumers. Yet, they want to help domestic businesses - as many as 68% of Poles declare that they buy local products instead of choosing international brands.

**Industries hardest hit**

Restrictions introduced regularly since mid-March 2020 did not bypass any sector of the economy. However, they hit the hotel, catering and recreational industries the hardest by far, because they practically prevented them from functioning. In Poland, where summer holidays at the seaside are relatively long (May-September), and winter in the mountains also lasts from November till March – it means, that almost a whole year 2020/21 is and will be dead. At the end of 2020, hoteliers indicated that they literally have no financial resources to maintain their
hotels and guesthouses, including paying all tax contributions and employees’ salaries. The same applies to cinemas or theatres that have been banned from receiving viewers for months.

Therefore, over the following months, when the functioning of industries such as events and meetings, fitness, gastronomy and hospitality was practically impossible, their representatives sent petitions to the government, calling to urgently develop comprehensive sectoral solutions. Among others, a cancellation of taxes, introduction of additional subsidies and compensations for the affected industries were demanded. Entrepreneurs plead that they are “on the brink of survival”, and that “emotions among the approx. 3 million workers [...] of these sectors of the economy reach their peak”. The government’s response to the needs of all industries were to become the so-called Anti-crisis shields.

Anti-crisis shields

Polish government from the very beginning of the pandemic developed plans to combat the economic effects of COVID-19, realizing that sooner or later all industries will be hit by financial constraints in some way. Therefore, throughout the year 2020 instruments were introduced to support the maintenance of activities and jobs in enterprises.

Already in the first weeks, the Anti-crisis shield 1.0 (on April 1) was launched, under which entrepreneurs who experienced a decline in economic turnover could apply for benefits for the protection of jobs. The shield integrated solutions for employers, including i.e.:

- making employment more flexible,
- subsidizing the salaries of employees affected by economic downtime or reduced working hours,
- co-financing for employee salaries, for employees employed in non-governmental organizations and other entities conducting public benefit activities,
- exemption of private business entities employing up to 9 people from paying state insurance contributions for March-May 2020,
- loans for micro-entrepreneurs (up to PLN 5,000; EUR 1,135).

The anti-crisis shield 1.0 also included assistance for the employed:

- standstill benefits for the self-employed and those employed under civil law contracts,
- additional care allowance,
sickness benefit for persons obliged to quarantine.

Anti-crisis shield 2.0 from April 17, extended these solutions also for newly established enterprises (registered between February 1 and April 1, 2020). It included exemptions from paying social security contributions for the self-employed and expanded the scope of entities exempt from paying them with enterprises employing 9-49 people.

The third version of the shield, adopted on May 15, completed these arrangements, but also directed assistance to specific sectors (support for the cultural sector, wood processing sector), and introduced a number of administrative facilitations (electronic correspondence, etc.)

The fourth version from June 24, introduced provisions on subsidies to the interest rate of bank loans granted to provide financial liquidity to entrepreneurs suffering from the effects of COVID-19. The Anti-crisis shield 4.0 also established the requirement to obtain the consent of the Office of Competition and Consumer Protection for the takeover of a Polish company or the acquisition of a significant block of shares / stocks (20% of shares or a share of profit in a Polish company) by an entity from outside the EU, EEA or a non-OECD country.

Anti-crisis shield 5.0 entered into force on October 15, as a specifically dedicated “industry shield”, under which funds were allocated to the support of tourism and cultural industry (i.e. standstill benefit, additional standstill benefit and exemption from social insurance contributions for July-September 2020).

The last Anti-crisis shield 6.0 entered into force on December 14, and also applied to individual industries, in particular those that suffered the most during the second wave of the epidemic. The catalogue of industries covered was extended, among others for catering and transport companies, as well as the rental and lease of machines, tourist agents or companies dealing with the organization of artistic ventures and some forms of entertainment and recreation (sport centres).

The total cost of all existing shields providing support for the Polish economy is to amount to approximately PLN 300 billion (EUR 68 billion), and by the end of the year over half of that sum has been already spent.
Summary

Concluding, the year 2020 was difficult for the Polish (and international) economy. According to the predicted data, Poland’s GDP will shrink by 4.3%, unemployment will eventually increase to 7.5%, and inflation will remain at a very high level of 3.8%. Consumers’ habits are also changing - due to the pandemic, as many as 87% of consumers buy online (an increase of 11% compared to 2019), which will remain a permanent element of the economy.

For now, however, the situation is not yet dramatic, although many industries and businesses are in serious trouble. Successive Anti-crisis shields support domestic entrepreneurs, though undoubtedly the help should be even greater, long-term and, above all, strategically thought out for many years to come. The bureaucratic sphere, the constantly changing regulations and implementing provisions of the Anti-crisis shields still leave much to be desired. The fight against the pandemic continues and its economic effects will be felt in 2021 as well.