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The Impact of EU Accession on Poland's Economy

Ewa Balcerowicz

Poland's integration into the EU has been a gradual and lengthy process, and has not been completed yet. It is important to note that the developments in the Polish economy in 2004-2006 were influenced to a large extent by institutional and regulatory reforms undertaken in the years prior to the accession.

The transposition of EU legislation allowed Poland to profoundly reform the way in which its economy is regulated and restrict government intervention in the private sector. Changes in such areas as financial markets, company and competition law, accounting, and intellectual property rights have created a better environment for business and have led to economic growth. Poland has also benefited from access to EU structural funds, which can potentially contribute to the improvement of public infrastructure.

Various studies undertaken before the enlargement estimated gains from the enlargement at 1.3-2.1% of additional GDP growth per year. Estimates by CASE showed that trade liberalization and the reduction of technical barriers would bring an increase of 3.4% to Poland's GDP in the long run. The real wages of unskilled workers in Poland were estimated to increase by 1.7%.

Economy Grew 4.2% a Year

In the first two years of EU membership, Poland enjoyed sound economic growth at an average rate of 4.2% a year, and the trend has continued through 2006, when the rate reached 5.8%. At such a rate, Poland ranked high among the EU-25 countries, yet lagged behind other new members, such as the Baltic states and Slovakia. Poland's convergence with "old" members is clearly taking place: its GDP per capita (in PPS) increased from 40% of the EU15 average in 1997 to 46% in 2005, but the pace is too slow and on account of this Poland lags behind most of the NMS (New Member States).

Table 1. GDP, Polish Exports and Imports, 1997-2005, growth rates (%)

	1997	1998	1999	2000	2001	2002	2003	2004	2005
GDP	7.1	5.0	4.5	4.2	1.1	1.4	3.8	5.3	3.4
Exports	12.2	14.4	-2,5	23.2	3.1	4.8	14.2	14.0	8.1
Imports	21.4	18.6	1.0	15.5	-5,3	2.7	9.3	15.2	4.9

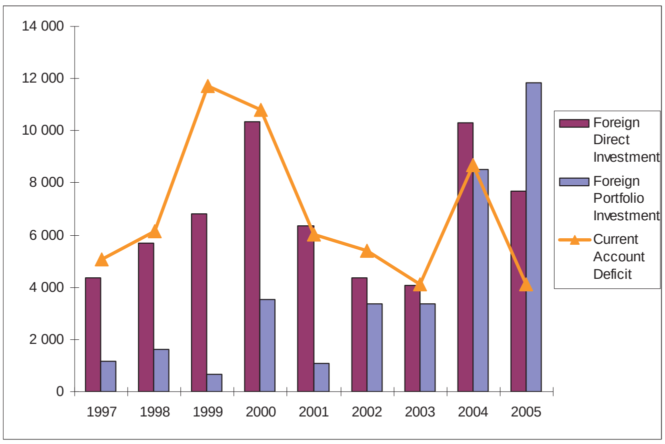
Source: Poland's Central Statistical Office data

Contrary to pessimistic expectations, export growth rate outpaced that of imports and the foreign trade deficit shrank for a sixth consecutive year. In 2005-2006 the trade balance with the EU countries became positive, implying that the current trade deficit has been generated by trade with non-EU countries. Adoption of the Common Customs Tariffs for trade with non-EU countries led to a drop in average tariffs from 8.9% to 4.1%. Not surprisingly, imports from developing countries (mainly China) rapidly increased. Exports to third countries (mainly to Russia and Ukraine) also reached record levels, helped by export subsidies to trade in foodstuffs that now also apply to Poland. Liberalization of trade in foodstuffs generated an increase of Polish exports to the EU.

FDI Reaches Record High

As predicted, there was a spectacular increase in FDI inflows in the accession year as compared to 2003 (see Fig. 1). Altogether EUR 10.29 billion was invested in 2004, nearly reaching the peak level of 2000, when most privatization deals occurred. FDI inflows went down by 22% in 2005, yet they regained momentum in 2006. At EUR 11 billion, it was the best FDI record yet in the transition and post-transition period. Portfolio investment in Poland also increased.

Figure 1. FDI and Foreign Portfolio Investment in Poland, 1997-2005 (in ECU/EUR million)



Source: National Bank of Poland

Until now, Poland has been the main recipient of FDI among the recent EU entrants, and understandably so, considering the size of the Polish economy. In relative terms, however, the cumulative foreign investments in Poland have been

UL. SIENKIEWICZA 12, 00-010 WARSAW, POLAND
TEL: +48 22 622 6627 FAX: +48 22 828 60 69 WWW.CASE.COM.PL

less impressive: they amount to only 31% of GDP, which places Poland close to the end of the rankings (ahead of only Slovenia, Lithuaunia and Romania).

The EU15 was the major investor in Poland, accounting for over 83% of total FDI in 2005. The Netherlands, Germany and France topped the list with almost 61% of the cumulative FDI inflow to Poland. Capital flows to Poland from other NMS, although still at a low 2% of cumulative investments, have recently been increasing. Polish investments abroad also increased spectacularly, more than doubling in 2004 (to EUR 636 million) compared to the previous year, and jumping to EUR 2,493 million in 2005.

Increased Migration Pressured Wages but Increased Remittances

As forecasted, the external mobility of the CEE countries' labor force intensified after their EU accession. Inflows were concentrated to the three countries that opened their labor markets: the UK, Ireland and to a lesser extent Sweden. Poland has had an important contribution to this due to the size of its labor force. In 2004, approximately 250,000 Poles stayed abroad for at least two months. This is 20% more people than in 2003. The UK and Ireland have become important destinations for labor migrants; however Germany remains the dominant one (25% in 2005).

Polish migrants are generally younger and relatively better educated than the population on average. The share of young people (under 35 years) among migrants has grown in recent years: from 51% in 2000 to 61% in 2004. Migrants are often overqualified for jobs they take abroad.

Fears that the massive migration from the CEE will have a devastating effect on destination countries have turned out to be unfounded. The size of inflows to the UK, Ireland and Sweden turned out to be below these countries' absorptive capacity, according to the World Bank. The inflow of foreign workers supplemented domestic labor rather than replaced it, and the wages in destination countries remained stable.

In Poland, shortages of skilled workers have been noted in several sectors, particularly in health care. Wage pressures have increased, mainly in agriculture and construction. As a result, Poland may be forced to import labor, and will have to relax its immigration policy vis-à-vis non-EU countries. On the positive side, Poland has benefited from increased remittances and expects to regain some of the labor that has acquired new skills and knowledge.

Using EU Funds

In 2004, Poland was a net beneficiary in the EU budget. Net transfers reached EUR 1.7 billion and accounted for 0.75% of the country's gross national income (GNI). The supply of EU funds to Poland is expected to reach 1.5% of GNI in 2007 and 3.25% of GNI in 2008. Among the new financial instruments available to Poland since the accession, funds for agriculture and rural development and transfers for structural reforms accounted for the biggest shares of transfers, at 27% and 23%, respectively.

Yet absorption of EU budget funds has been slow. The decentralized system of managing structural programs, the poor quality of relevant legislation, insufficient public financing for infrastructure development projects and the co-financing of infrastructural investments, and the inadequate capacity of public administration are to blame for the slow absorption. During 2006, the situation improved, as domestic regulation concerning the use of EU funds was relaxed and administrative capacity increased.

Public Attitude More Positive

The share of people who positively assess the impact of EU membership on Poland has been constantly growing. Two years after the integration, 54% of respondents believed that EU membership brought more benefits than it did costs for the country. This is 15 percentage points more than after the first three months and 8 percentage points more than after the first year of the accession.

The positive perception of Poland's EU accession and its impact on the country and personal well-being dominates in all socio-demographic groups and across the political spectrum, and is especially visible among those who are younger, wealthier, have completed tertiary education, and live in big cities. According to public opinion, the most important benefits are the possibility to legally work in other member countries, open borders, support to agriculture, and the availability of EU funds.

Conclusions

The widespread fears raised in Poland concerning EU entry turned out to be unfounded, except for, to some extent, the increase in prices after the accession. However monetary policy secured price stability in the years of 2004 – 2006. Simultaneously there were positive phenomena which were unexpected. Contrary to expectations, the rate of growth for exports outpaced the rate of growth for imports. Polish exports of foodstuffs to the EU flourished. Surprisingly, public support for Poland's EU membership has been constantly and substantially increasing since accession. Finally, it should be noted that until now no precise assessment of the total impact of the accession on Poland's economy has been made.

Ewa Balcerowicz is the President of CASE – Center for Social and Economic Research. *A version of this paper was originally published in the World Bank's „Beyond Transition" newsletter (Vol. 18, No. 1), accessible here: www.worldbank.org/transitionnewsletter. The full text of the paper can be accessed at: www.case.com.pl. (Studies and Analyses No. 335, 2007).*

E-Brief Series Editor: Paulina Szyrmer
Paulina.Szyrmer@case.com.pl