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From the Editor: In this issue of showCASE, our Energy Economist discusses the "Clean Air" program, a new initiative by the Polish government aimed at improving air quality across the country.

"Clean Air" Program for Poland: Tales of Desperation and Hope

By: Karolina Zubel, CASE Energy Economist

According to a recent European Environment Agency's (EEA) "Air quality in Europe – 2017 Report" based on official data from 2500 monitoring stations spread all over the continent "7% of the urban population in the EU-28 is exposed to levels above the EU (European Union) limit value, and approximately 82% is exposed to concentrations exceeding the stricter World Health Organization (WHO) Air Quality Guidelines (AQG) value for particulate matter (PM) 2.5." Air pollution has long been a major problem for many local populations across the EU and is now officially referred to by the EU officials as "invisible killer".[1]

Photo: Pixabay, Nadezhda56

Poland, home to 33 of the continent's 50 most polluted cities (according to a WHO statistics), has some of the worst air quality in Europe. The situation is particularly bad in the southern part of the country, where the next United Nations Climate Change Conference (COP24) will be taking place.[2] Silesian towns frequently fall into the index's "very poor" category for high levels of PM2.5 and PM10, two key pollutants estimated responsible for killing approximately 45,000 Poles in 2012. In early 2018, in response to the European Commission (EC) complaint, the EU Court of Justice (ECJ) ruled that between 2007 and 2015 Poland violated the regulations on air quality by not complying with the daily and annual admissible values of concentrations of suspended dust. In the course of at least five consecutive years, the daily PM10 limit values were exceeded in 35 out of 46 zones in which the air quality is measured. In addition, the permissible annual concentrations were also exceeded in nine zones.

[1] See, for example, statements by Karmenu Vella, the European Union (EU) Environment Commissioner.
[2] COP24 will be held in December 2018 city of Katowice, the venue of mining industry's largest trade fair and capital of Europe's largest coal producing region.

The ECJ also stated that none of the air protection programs adopted by Poland at the national or regional level clearly required limiting the overruns as soon as possible. The ECJ judgment means that if the situation does not improve, the EC may impose financial penalties on Poland.

This seems to have mobilized the government to come up with a remedy for the long-term violations of air quality standards, with the largest government assistance program to date aiming to tackle low emissions in single-family buildings about to start this autumn. The 10-year long "Clean Air" program will cost PLN 103 billion (PLN 130 billion with private investments), or approximately one fourth of the national budget. Subsidies granted under the program are expected to amount up to PLN 63.3 billion, while loans – up to PLN 39.7 billion.

At the program's official inauguration in early June, Polish Minister of Finance Teresa Czerwińska confirmed that from 2019 onwards individuals with a net monthly income above PLN 1,600 will be able to deduct 20% from their taxable income on the condition that the money is spent on an effective (as confirmed by energy audits) thermo-modernization of their houses. The relief is to be spread over three years, and in total cannot exceed PLN 53,000 per household. The Ministry of Finance, together with the Ministry of Environment, will prepare a regulation specifying eligible costs borne by the taxpayer, which may be covered by a concession.

Can the program help to improve the air quality in Polish regions? In the report on "Poland – catching up Regions", the World Bank (WB) experts point out to significant issues with calculations provided by the Polish government. According to the WB estimates, the necessary costs have been underestimated by almost PLN 25 billion, i.e. one quarter of program's value.[3] The WB presents precise classification of investments needed to replace non-compliant solid fuel boilers and to complete thermo-modernization in the single-family housing sector focusing on regional dimensions. According to those estimates, the necessary investments in just two voivodships, where air quality is typically the worst – Małopolskie and Śląskie – would absorb PLN 30.1 billion (out of PLN 154.1 billion nationwide). It is unclear how the missing financing could be secured by the government. As the budget of the "Clean Air" program will consist mainly of remittances from the EU subsidies, the National Fund for Environmental Protection and Water Management (NFOŚiGW), and voivodship budgets (which are already heavily burdened), the government might try to consider increasing the so-called fuel charge, although it is highly unlikely that, even if such a controversial decision was made, these receipts would amount to PLN 25 billion. Given this uncertainty, the WB recommends introduction of less budget-burdening incentives with only exceptional subsidization of energy-efficient investments for household owners with lowest incomes.

Meanwhile, as some municipalities suggest, in the anticipation of upcoming significant government subsidies, many Poles halted regular home insulation and exchange of poisonous stoves. "Every day, at least a dozen or so people ask how to get the money for single-family building thermo-modernization" reports Tomasz Ożóg, vice-mayor of Skawina, one of the local leaders at the forefront of the fight against smog. This widespread adoption of a "wait and see" attitudes and the suspension of energy efficiency-oriented investments is worrying as the "Clean Air", which is about to commence in less than 3 weeks (September 1), is still in its preparatory phase and any consistent program guidelines have not been published. Not only the list of the detailed objectives of the program seems incomplete but many aspects of its practical implementation – such as deployment of the online system announced by the Minister of Environment

[3] This is also roughly as much as the annual cost of the oft-discussed "500+" program.

Henryk Kowalczyk[4] and training of relevant staff[5] – have not been refined either. Whether the funds will start being deployed as planned is therefore not certain at all.

Although the final shape of the program is still unknown, broad comparisons to other existing programs already suggest some potential problems. One such financing platform, EuroPACE[6], is being currently developed across Europe by CASE and its partner organizations.[7] Unlike the Polish government's "Clean Air" program, on-tax financing scheme within EuroPACE does not generate debt or liabilities for the central or local governments as it is 100% financed through private capital via green bonds issued by municipalities, making it a more sustainable from a financial standpoint. Projects within EuroPACE have better cash flow and are characterized by simpler and more user-friendly re-payments, as the necessary paperwork is conducted in parallel to that related to property taxes and repayment can last over the course of up to 25 years. Additionally, EuroPACE financing stays with the property, not the property owner upon sale, having a positive impact on property value.[8] Last but not least, on-tax financing can be blended with other net zero-energy programs and initiatives so that emissions from buildings can be almost cut more effectively by 2050 to meet the EU targets.

The Polish Government's "Clean Air" program, on the other hand – if not connected to other technical and financial incentives, may be insufficient to meet the ambitious EU emission reduction goals. While it is obviously too early to assess the program's performance, with all the delays and uncertainty regarding to its technicalities, it does not seem to be off to a good start. If the government is serious about its ambition to improve the air quality and avoid the EC penalties, simple tax reliefs to homeowners may not be enough. A long-overdue reform of the Polish coal industry and fixing the problem of illegal waste burning should be the next points in the government's air-fixing agenda.

[4] Reportedly, the delay results from prolonged work on this system, which - as argued by Minister Kowalczyk - is to ultimately replace the "traditional and environment-unfriendly" paper form of submitting applications.
[5] The second and the last training for 200 project-specific energy efficiency advisors took place on July 12. As before, the meeting lasted for a couple of hours and took a form moderately interactive lecture, thus doubts about readiness of project advisors for their field work should not be surprising.
[6] The EuroPACE Project received funding from the European Union's Horizon 2020 research and innovation program under grant agreement No 785057.
[7] These are: Global New Energy Finance (GNE Finance), Joule Assets Europe, Climate Bonds Initiative, Ajuntament d'Olot, Energy Agency of Extremadura (AGENEX), Ente Vasco de la Energía (EVE), Up Social.
[8] Studies in the EU and individual Member States have consistently proved this link to be true (between 5 and 12% depending on MS and location).

This week: According to the Central Statistics Office (GUS) data, average salary in Poland fell in the second quarter of 2018 to PLN 4,521.08 (down from PLN 4,622.84 in the first quarter). In other news, Poland's reserve assets managed by the National Bank of Poland (NBP) stood at EUR 95.6 billion, compared to EUR 93.5 billion in June.

GDP (Q1 2018)

5.2% y/y

Up from 4.9% in Q4 2017

Inflation (July 2018)

2.0% y/y (est.)

Unchanged since June 2018

Unemployment (Jun 2018)

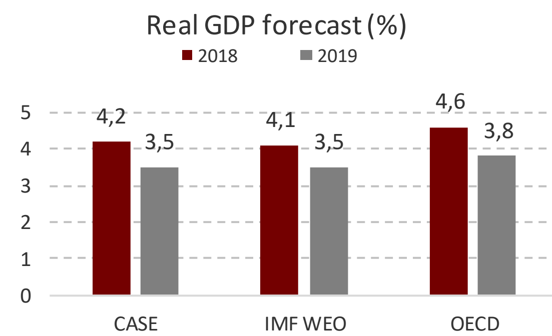
5.9%

Down from 6.1% in May 2018

NBP Base rate

1.5%

From 2% in Mar 2015



This week: Russia's Prime Minister Dmitry Medvedev stated that raising the retirement age (up to 63 and 65 for men and women respectively) is a painful but necessary measure. The bill, which is still waiting for the second and third readings in Russian parliament State Duma, is to be effective starting from 2019. The changes are scheduled to be implemented in stages and completed by 2034.

GDP (Q1 2018)

1.3% y/y

Up from 0.9% in Q4 2017

Inflation (July 2018)

2.5% y/y

Up from 2.3% in June 2018

Unemployment (May 2018)

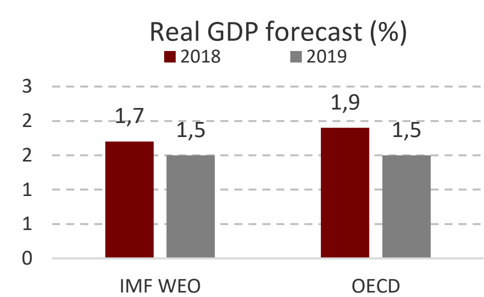
4.7% (est.)

Down from 4.9 % in Apr 2018

CBR Base rate

7.25 %

From 7.5% in Feb 2018



This week: According to the preliminary data published by the German Statistical Office, in June 2018 German exports of goods amounted to EUR 115.5 billion (increase by 7.8% y/y), while imports grew to EUR 93.7 billion (increase by 10.2% y/y). The import values on the exchange of goods with foreign countries were the highest in the history of German statistics, published for the first time in 1950.

GDP (Q1 2018)

2.3% y/y

Down from 2.9% in Q4 2018

Inflation (June 2018)

2.1% y/y

Unchanged since June 2018

Unemployment (May 2018)

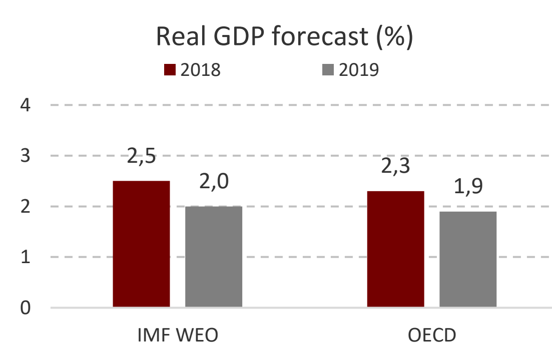
3.5%

Up from 3.4% in May 2018

ECB Deposit rate

-0.4%

From -0.3% in Dec 2015



This week: National Bank of Ukraine (NBU) reported that in July 2018 international reserves of the country decreased by 1.3% and as of August 1, 2018 amounted to USD 17,748.5 million. The NBU clarified that USD 321.5 million were directed to servicing and repayment of debt in foreign currency, out of which USD 231.6 million were denominated in foreign currency domestic government bonds. The volume of reserves was influenced by interventions of the NBU in the interbank foreign exchange market.

GDP (Q1 2018)

3.1% y/y

Up from 2.2% in Q4 2017

Inflation (June 2018)

8.9% y/y

Down from 9.9% in June 2018

Unemployment (Q2 2018)

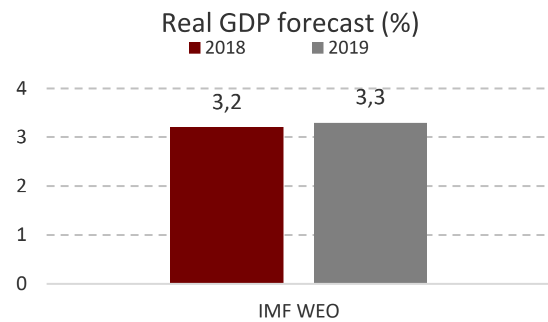
9.7%

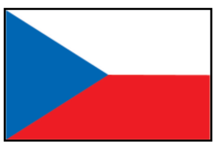
Down from 9.9% in Q1 2018

NBU Base rate

17.5%

From 17.0% in May 2018





This week: Out of six investors who bid for the construction of nuclear power plants in Czechia, President Milosz Zeman openly supported Russian Rosatom. In the meantime, the government of Andrei Babisz appointed a team of experts responsible for developing investment assumptions and selecting the best offer.

GDP (Q1 2018)

4.2% y/y (est.)

Down from 5.5% in Q4 2017

Inflation (June 2018)

2.3% y/y

Down from 2.6% in June 2018

Unemployment (Q1 2018)

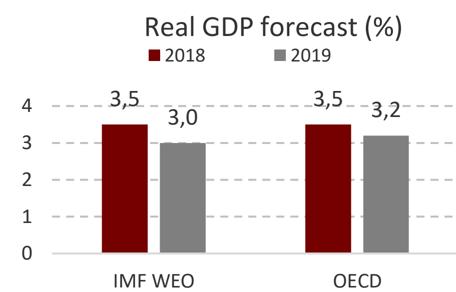
2.4% (est.)

Unchanged since Q4 2017

CNB Base rate

1%

From 0.75% in Feb 2018



This week: BMW, following similar announcements by its biggest competitors: Mercedes and Audi, revealed that it will invest EUR 1 billion in its first European plant in 20 years. The plant is to be based in northern Hungary. According to the country's Foreign Minister Peter Szijjarto, "some 150,000 cars can be produced [there] every year that will initially create more than 1,000 jobs." A generous subsidy awarded by the government to the BWM for the construction of the plant was decried by the opposition.

GDP (Q1 2018)

4.7% y/y (est.)

Up from 4.4% in Q4 2017

Inflation (July 2018)

3.4% y/y

Up from 3.1% in June 2018

Unemployment (Q2 2018)

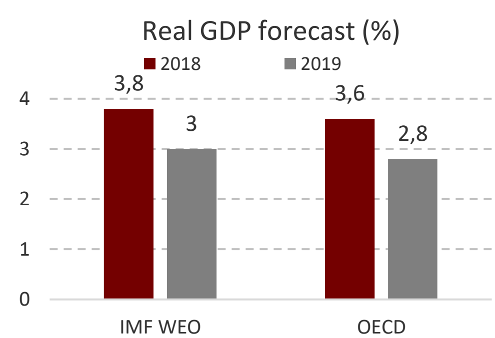
3.6%

Down from 3.7% in Q1 2018

MNB Base rate

0.9%

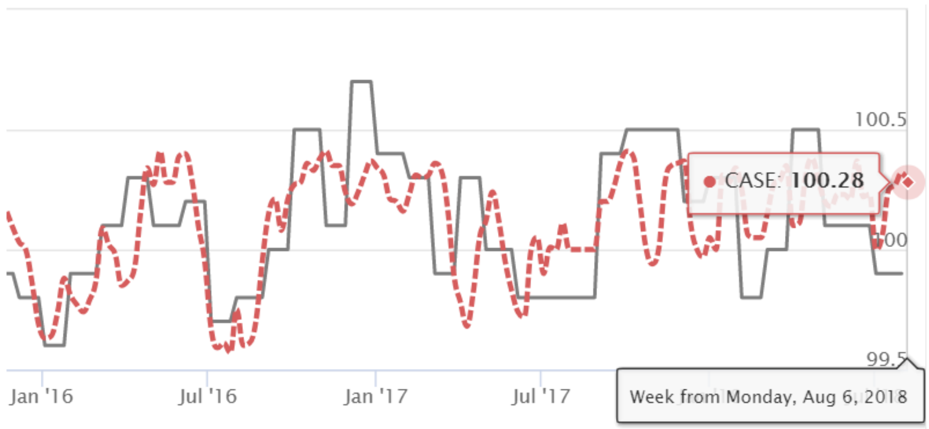
From 1.05% in May 2016



The weekly online CASE CPI

The online CASE CPI is an innovative measurement of price dynamics in the Polish economy, which is entirely based on online data. The index is constructed by averaging prices of commodities from the last four weeks and comparing them to average prices of the same commodities from four weeks prior. The index is updated weekly.

Our weekly online CASE CPI



Online CASE CPI (----) vs GUS CPI (——)

Monthly CASE forecasts for the Polish economy

Every month, CASE experts estimate a range of variables for the Polish economy, including future growth, private consumption, and foreign trade, current account balance, and the CPI.

CASE economic forecasts for the Polish economy
(average % change on previous calendar year, unless otherwise indicated)

	GDP	Private consumption	Gross fixed investment	Industrial production	Consumer prices
2018	4.2	4.1	4.9	3.7	2.5
2019	3.5	3.6	3.3	3.8	2.3
	Nominal monthly wages	**Merchandise exports (USD, bn)**	**Merchandise imports (USD, bn)**	**Merchandise trade balance (USD, bn)**	**CA balance (USD, bn)**
2018	4.5	233.4	235.2	-1.8	-3.9
2019	3.7	242.7	244.6	-1.9	-4.1

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