

INTERVIEW

INTERVIEW WITH MAREK TATALA¹

Svetlomira Gyurova - interviewer²

1. Poland's economy has grown for 26 consecutive years and the country seems on track to be formally recognized as a developed economy. Why is Poland the first from the CEE region to pass that mark? What is the Polish economic recipe? What are the key policy moves that have facilitated Poland's developed market status promotion? Can any one administration realistically claim responsibility and the benefits of this development?

Poland can be regarded as a success story of transformation. For over two decades Poland was developing at a pace exceeding an average of 4 per cent a year, faster than other countries of Central Europe. Per capita income, adjusted for differences in price levels, increased from 29% of income per capita in Germany in 1992 to 55% in 2015. The economic and political reforms initiated in 1989 in Poland enabled economic growth and peaceful institutional transition. Comparative research of the ex-Communist countries in Europe shows that rapid, "big-bang" reforms at the beginning of transition led to better economic and social outcomes than gradual approach or lack of necessary reforms. Poland took the rapid, radical path in 1989, including the so called "Balcerowicz plan" and it contributed to the radical economic improvements.

What has been also important is continuation of the pro-reform path by the consecutive governments and institutional improvements, e.g. in the areas of monetary policy and financial supervision, so the economic growth in Poland has not only been rapid but stable. Finally, it is important to remember that the political transition since 1989 was also smooth and peaceful. Different political parties ruled and changed in power after elections without any violence. Domestic efforts and external incentives such as EU and NATO admissions have all led to significant improvements in the institutional framework.

Developed market status is a result of the accumulation of many policies and their outcomes that led to economic development.

The rapid reforms in the late 80s and early 90s enabled Poland to move quickly towards the market-based economy. Radical pro-market policies and stabilization triggered a broad transfer of technology and pro-efficiency structural changes. Liberalization and privatization of the economy enabled several million workers to leave agriculture and outdated, inefficient state-controlled industry and to find work in more efficient services and private industrial enterprises. Structural reforms and economic openness which stimulated the inflow of foreign direct investment contributed to dynamic growth in exports and improvement of its structure.

¹ Marek Tatala, Vice President and Economist at the Civil Development Forum (FOR), a think tank from Poland founded by Professor Leszek Balcerowicz. Graduate of the University of Bristol, Warsaw School of Economics and Atlas Leadership Academy. His research interests include law and economics, rule of law, justice system reforms, populism and economic freedom.

² Bulgarian version -

https://www.capital.bg/politika_i_ikonomika/sviat/2018/10/19/3329503_marek_tatala_politikata_na_polskoto_pravitelstvo_e/

Thanks to parallel institutional improvement, which finally enabled Poland to join the EU, Poland also avoided problems with oligarchs capturing control over certain economic sectors like in some other countries of the region. Corruption has been much smaller problem for business and citizens in Poland than in other CEE countries. Finally, stability of the economic growth is owed to a large degree to weaker growth of credit and of current account deficit than in most EU countries and in the region. Tightening of monetary and fiscal policy broke the boom associated with the accession to the European Union so these imbalances did not reach such a large size as elsewhere.

2. Poland has registered both high investor confidence in its equity markets and steady economic progress, but suffers from continued demographic outflow. Is a slowdown due to labour shortage to be expected and to what extent can we expect developed market status to alleviate that?

Demographic changes in Poland are one of the biggest challenge for the policy makers and entrepreneurs as the Polish society is aging rapidly. Labour shortage is nowadays mentioned as one of the top barriers to growth by business representatives and it may worsen in the future while number of people in a productive age will fall. It will also increase the costs of the pension system as a burden on the working population.

Developed market status is unable to solve these problems alone. What is needed are labour market and pension reforms. Poland has still quite low employment rate, in comparison to many other EU countries, among certain groups – younger (18-25) and older people (55+), women of various age. Therefore, labour market reforms should target barriers to employment among these groups, including unnecessary restrictions in the labour code or social traps discouraging people from working. Minimum retirement age should be increased again to 67 years for both men and women and it may require future adjustments connected with the growing life expectancy. This important reform undertaken by the previous PO-PSL government was unfortunately reversed by PiS. What can also alleviate labour shortage is better immigration policy to facilitate economic immigration from Eastern Europe and other directions to Poland. At the same time the key to discourage emigration from Poland or attract Poles who left Poland after the EU accession is to lower the gap in standards of living between Poland and Western Europe. It requires rapid and stable economic growth in the future.

3. How immediate can we expect the benefits of market status upgrade to be? What further operations of reindexation and restructuring are left for Polish equity markets?

The potential benefits depend not only on the status but also on the government policies and perception of foreign investors based on these policies. So far many of the policies by PiS, especially connected with the rule of law and economic nationalism, have been criticized by the foreign institutions and media. Better PR is not enough. The government should also change its policies as they do not only harm Poland's economy and legal system but also weaken good image of Poland which has been built since 1989 transition.

Weakening of the role of private pension funds, which played an important role in the financial market, by the previous PO-PSL government had a negative impact on the development of the capital market in Poland. Therefore, development of some new elements of the pension system e.g. Employee Capital Plans (PPK) might become a new boost for the stock exchange as long as the market is dominated by private entities and not investment agencies controlled by the government and focused on political interests.

One problem of the financial market in Poland is its politicization. 12 out of 20 enterprises in WIG20 index are controlled by the government which causes that their performance and the index itself are too much dependent on political decision. Poland should continue privatization initiated after 1989 but the current government is unwilling to do so.

4. Are the policies of the PiS government a threat to the to steady growth in Poland? Many experts are warning PiS could derail growth by meddling in the private sector and trying to fulfill costly populist promises. Are these concerns justified? Can Poland's ongoing conflict with European institutions over its judicial reforms rcreate perceived barriers to market access / slow down of market restructuring?

Policies of the PiS government are a threat to steady growth in Poland. Firstly, they increase vulnerability of the Polish economy to external shocks. Public expenditures on various new social programs have been increased but majority of revenues growth is very dependent on the cyclical factors. Relatively good times in the global economy, as observed today, should be used to repair public finance and generate surpluses. Why general government deficit in Poland in 2018 might be low from a historical perspective it will still exceed the levels in many of the EU countries. Moreover, policies like lowering the minimum retirement age to 60 for women and 65 for men will be costly for this and future generations and stimulate demographic outflow.

Secondly, economic nationalism and populism are harmful for economic freedom in Poland. We observe new sectoral taxes (e.g. on banks) and regulations. Moreover, the slogan of "re-Polonization" is used to increase the government presence in the economy. It has been used for example in the banking sector where growing state ownerships generates new risks for the future connected with politicization of banks and credit.

Finally, PiS policies do not respond to key challenges connected with demography, productivity growth and investment rate so apart for increasing the vulnerability of the economy the government is also weakening chances to catch up with the West. The upcoming elections in 2019 and 2020 may stimulate even more populist policies harmful for Poland's long-term development.

One of the key topics in the public debate about Poland in the last three years was the rule of law. It has also become an important issue in

the foreign media and institutions, including the European Union. It is important to remember that the EU's reaction is a direct consequence of three years of the government policies that have damaged the rule of law, through attacks on the Constitutional Court and independence of judiciary. Many of PiS policies have been unconstitutional attempts to change or circumvent the Polish Constitution and even without any criticism by the European Union or foreign institutions, these policies should be opposed as a violation of the rule of law and institutional achievements of Poland since 1989. The justice system in Poland in 2015 was far from being perfect but instead of real reforms, beneficial for citizens and business, the ruling party has been building much worse system with high risk of using politicized judiciary to fulfil political interests. This process will be gradual but it may hamper longer-term economic growth, diminish Poland's credibility abroad and, what is the most important, significantly weakens quality of democracy in Poland.

5. An aspect of developed markets is consistency and predictability – how has the business world reacted, if at all, to the news of waning judicial independence in Poland? To what extent do perceptions of the rule of law influence the capital and foreign exchange markets in Poland?

If all of the PiS policies in the justice system are finally implemented despite local and EU opposition it will significantly weaken the rule of law. Therefore, despite status of a developed market weak rule of law will be one of the negative characteristics of Poland. Foreign and local investors will have to take it into consideration.

Dziennik Gazeta Prawna, Polish daily newspaper, has recently done a poll among the biggest law firms. 82 per cent responded that foreign investors express interest in the state of rule of law in

Poland and as a result 40 per cent of the lawyers experienced situation in which investors preferred to use other legal jurisdiction in their contracts.

6. Could you elaborate any future barriers to the development and deepening of the Polish growth that are as of yet unresolved?

Apart from challenges connected with demographic changes in Poland two other things should be mentioned. Firstly, productivity growth in Poland has been rapid since 1989 as Poland was moving away from the inefficiencies of the socialist past. Nevertheless, the rate of productivity growth has been slowing down and additional reforms are needed to release available reserves. Therefore, the government should encourage competition and continue privatization. Moreover, there are still too many people employed in agriculture, the least productive sector of the economy. Many of them are kept in the agricultural sector due to various subsidies and regulatory barriers which should be reduced or removed.

Secondly, investment rate in Poland is much lower than in many other CEE countries and far from the government target of 25% of GDP. An important question might be too what extent institutional and legal instability contribute to low investment rate despite relatively good performance of the economy. It is still difficult to give a clear-cut answer. Moreover, we observe some structural weakness of the Polish economy e.g. high proportion of micro and small enterprises whose performance lags behind the performance of other companies more than in any European Union country and that invest little.

Unfortunately, it is very difficult to indicated any policies of the ruling party which can be regarded as a serious attempt to minimize the above barriers to the development in Poland.

7. Poland's use of EU funds is a major source of growth. Yet PiS has picked a number of fights that threaten it. What is the risk that the awakening from Poland's sweet economic dream turns rough?

First of all the EU funds role as a source of growth is often exaggerated and there are other more important benefits from being part of the European Union, including participation in the Single Market and institutional improvement stimulated by the accession process. It is why Poland should be in the EU and should aspire to be present in the core of decision-making processes.

Nevertheless, the future inflow of the EU funds to Poland depends on the negotiation skills of the government and Poland's position in the EU. PiS policies in the area of the rule of law and some other fights with the EU institutions (e.g. only Polish government opposed appointment of Donald Tusk, former Polish prime minister, for the second term as the President of the European Council) weaken Poland's role in the EU. Moreover, the discussion about linking the EU funds with the rule of law is still in progress and this ideas has been triggered mostly by developments in Poland and Hungary.