



# **Poland**

## **Social Sector and Public Wages**

### **Public Expenditure Review**

## **From Maastricht to Vision 2030**

### **Overview**

**Warsaw, Poland**  
**May 17, 2010**





Title	Authors
<b>Chapters</b>	
<b>Pensions</b>	Prepared by Ufuk Guven, Anita Schwarz, Sergiy Biletsky.
<b>Agricultural Pensions</b>	Prepared by Leszek Kasek, updating 2006 report <i>Poland: Reform Options for the Agricultural Social Insurance Fund</i> by Jan Pakulski, Csaba Feher and Joseph Goldberg.
<b>Education</b>	Prepared by Alberto Rodriguez and Mikolaj Herbst.
<b>Health</b>	Prepared by Mukesh Chawla and Charles Griffin. The chapter benefited from contributions provided by Adam Kozierekiewicz (corporatization program, DRGs, and other aspects of health policy) and Monika Bazyl (analysis of household budget survey and opinion poll data used in the household expenditure/equity section).
<b>Social Assistance Cash Transfers</b>	Prepared by Truman G. Packard, Anna Ruzik and Katarzyna Pietka.
<b>Labor Market Programs</b>	Prepared by Jan Rutkowski. The chapter benefited from information provided by the staff of the Ministry of Labor and Social Policy, in particular Malgorzata Sarzalska, Iga Magda, Justyna Garbarczyk oraz Ireneusz Piętakiewicz. Useful information on the functioning of local Labor Offices was provided by Jerzy Bartnicki, Director of Kwidzyn Labor Office.
<b>Medium-Term Budgeting and Performance Budgeting</b>	Prepared by Marc Robinson.
<b>Background Notes</b>	
<b>Social Insurance Fund simulations</b>	Prepared by Maciej Bukowski (The Institute for Structural Research).
<b>Labor Fund simulations</b>	Prepared by Piotr Lewandowski (The Institute for Structural Research).
<b>Public Sector Wages</b>	Prepared by Malgorzata Guzowska.



# From Maastricht to Vision 2030

- **Poland spends fairly well**
  - Recent reforms lowered spending
  - High efficiency and good equity
  - Cheque is in the mail
- **But there is need for change**
  - Poland 2030
  - Crisis 2009
- **Directions of reform**
  - Fiscal
  - Structural

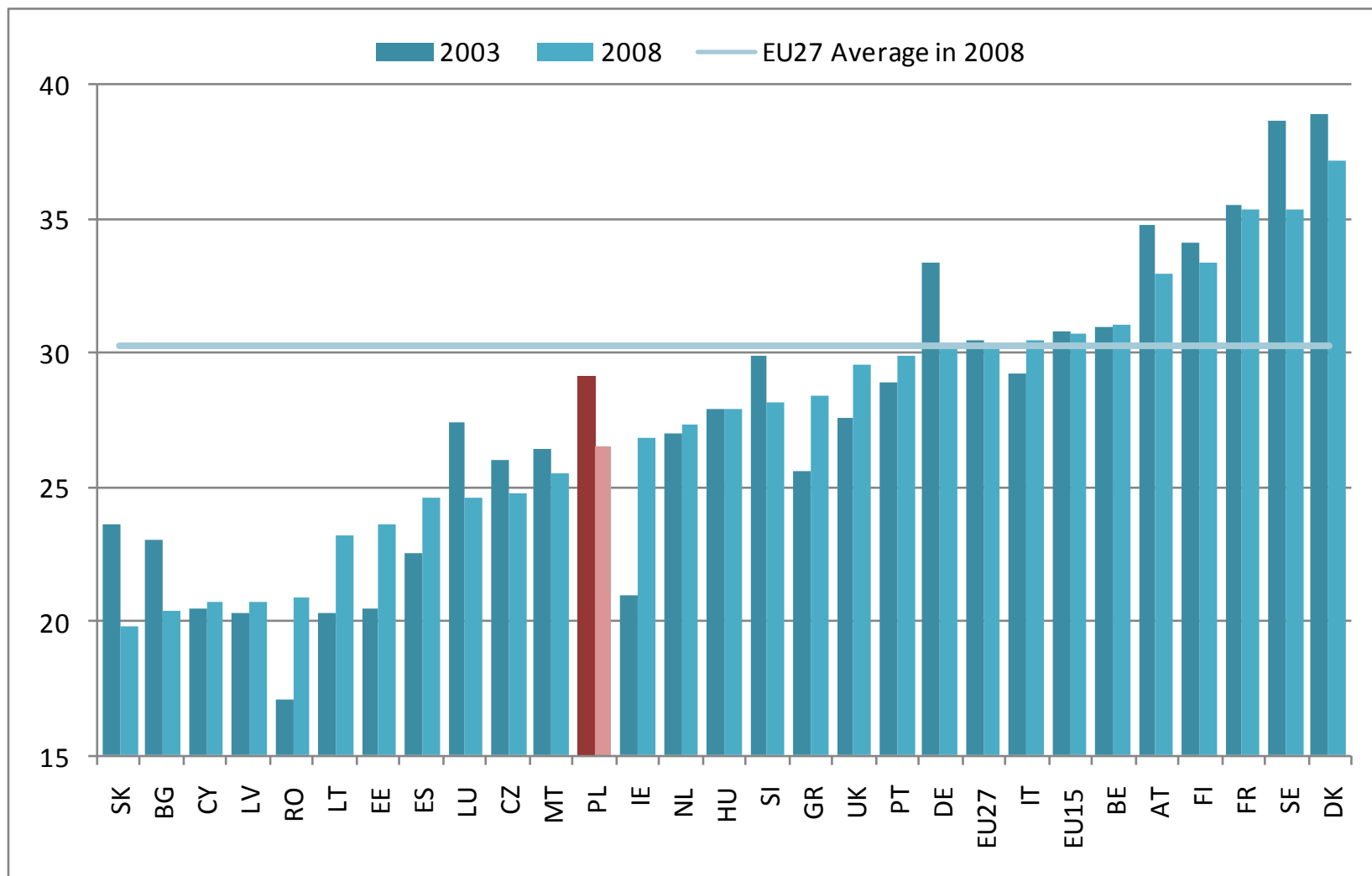


# Poland Spends Fairly Well



# Poland lowered social spending recently

EU general government expenditures on social sectors, percent of GDP

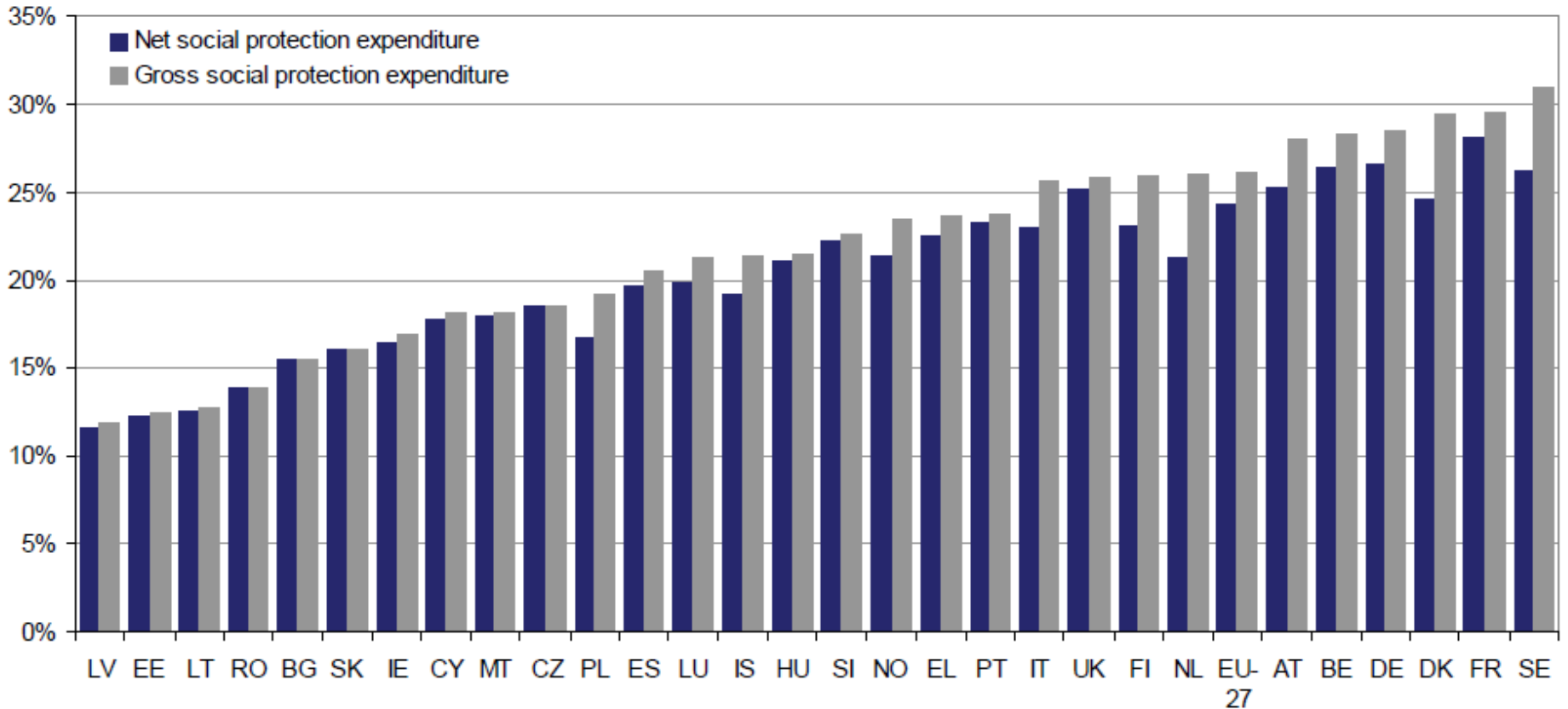


Source: Eurostat, World Bank staff calculations



# Poland net social spending is less than thought

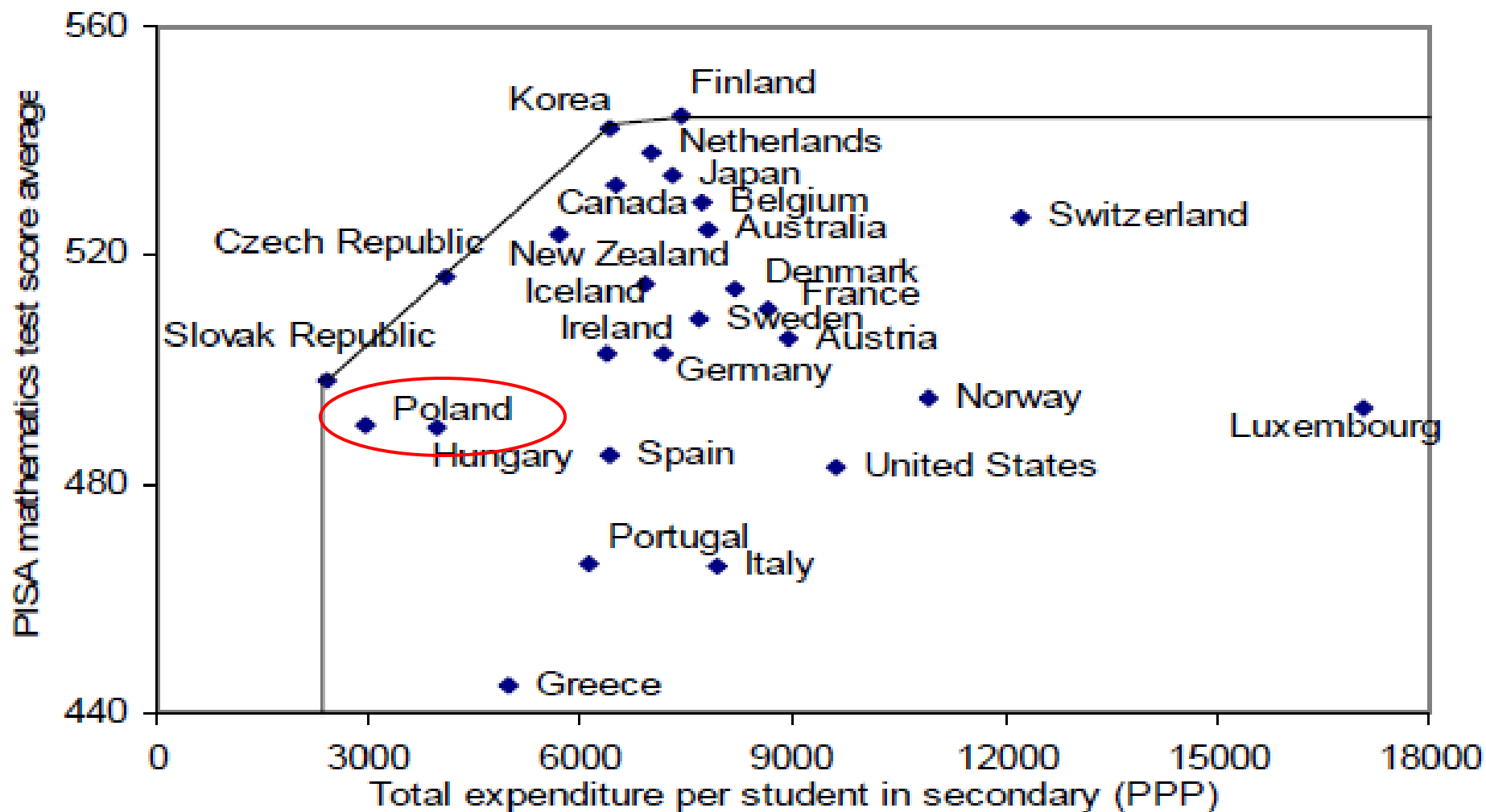
EU net and gross social protection benefits in 2005, percent of GDP



Source: Eurostat, World Bank staff calculations

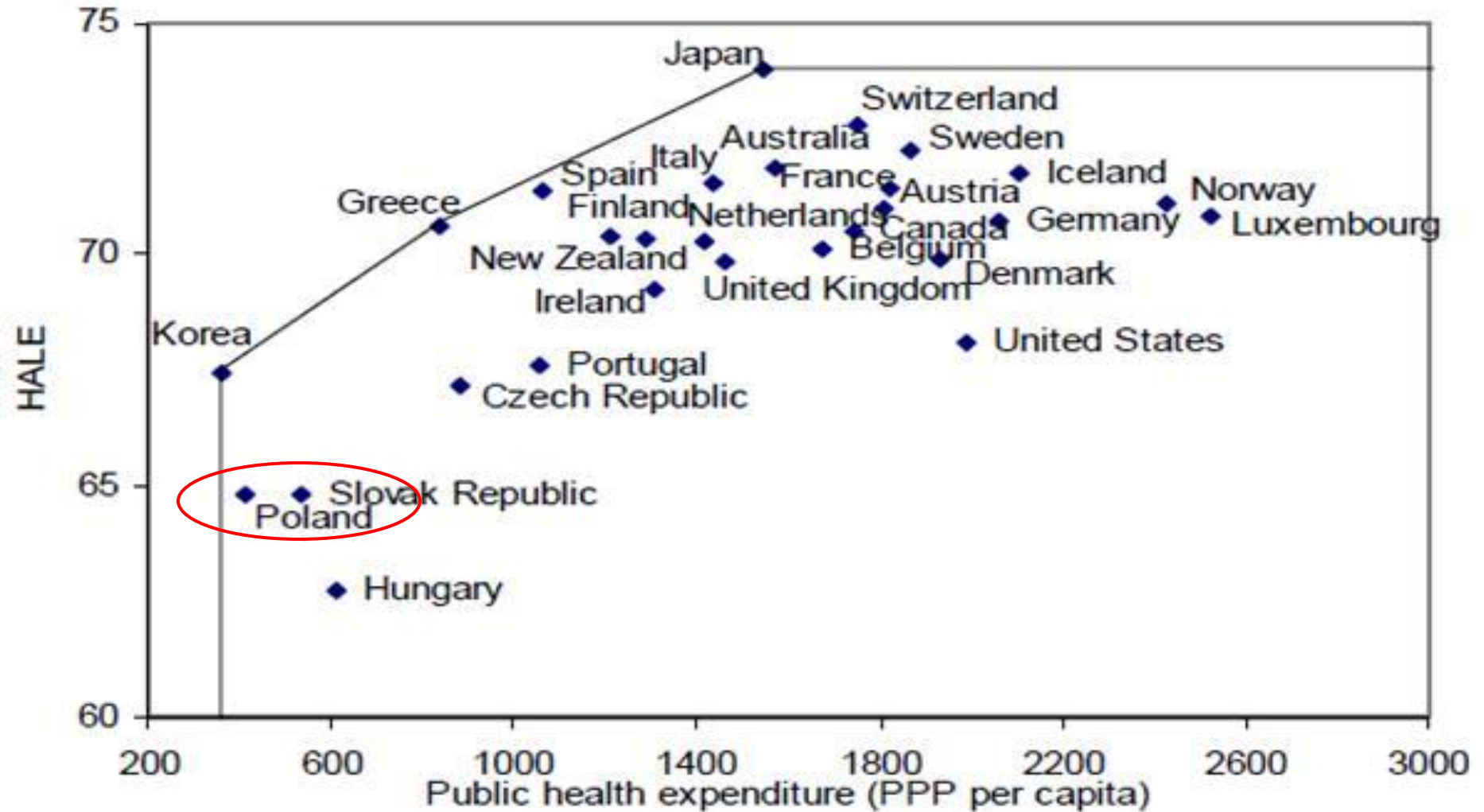


# Efficiency in Education





# Efficiency in Health

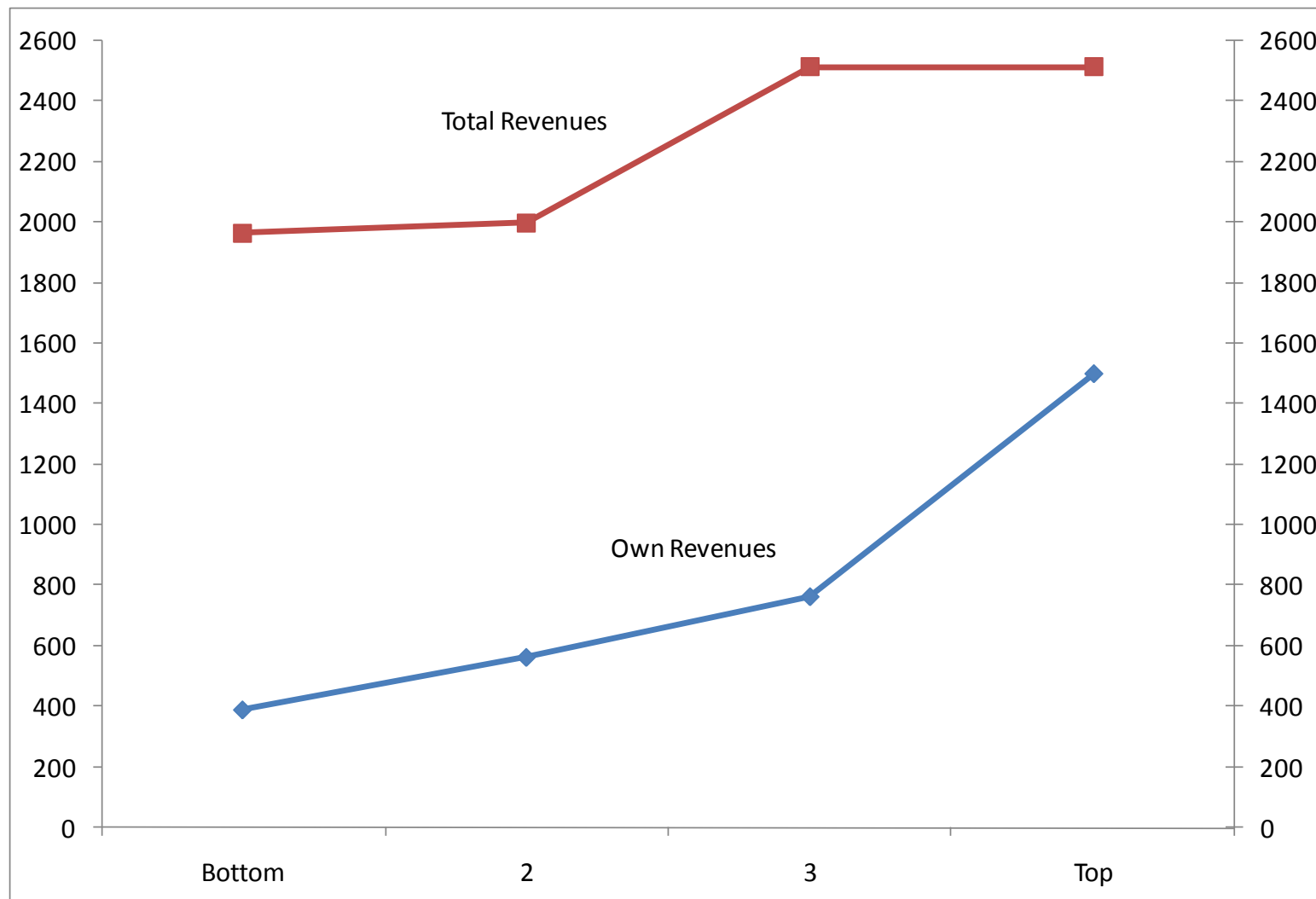






# Equity across Gminas

Fiscal Equalization in Gminas by Own Revenue Per Capita Quartiles in 2006 (PLN Per Capita)

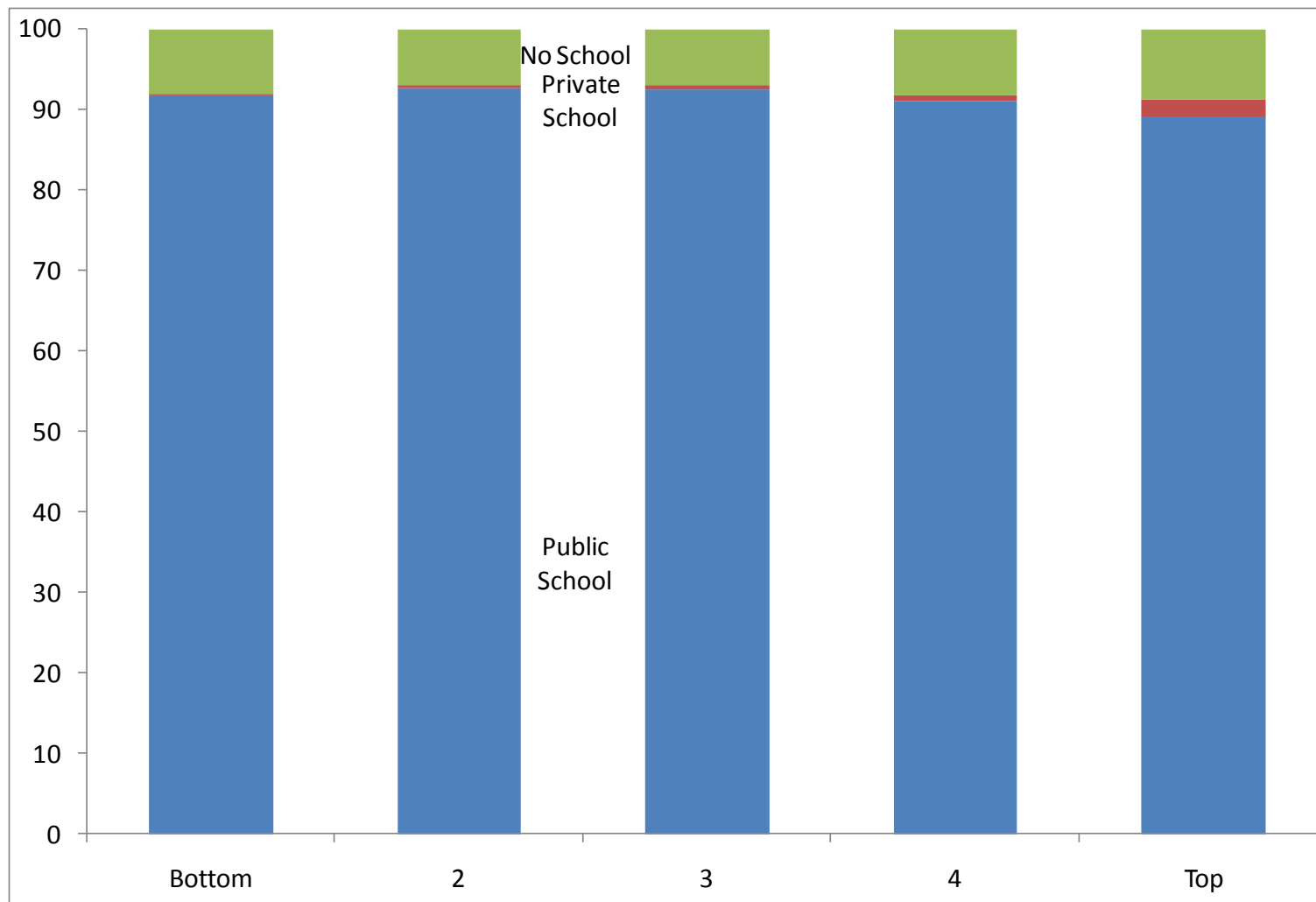


Source: World Bank staff calculations



# Equity in Education

Access to Schooling by Household Per Capita Consumption Quintile in 2007

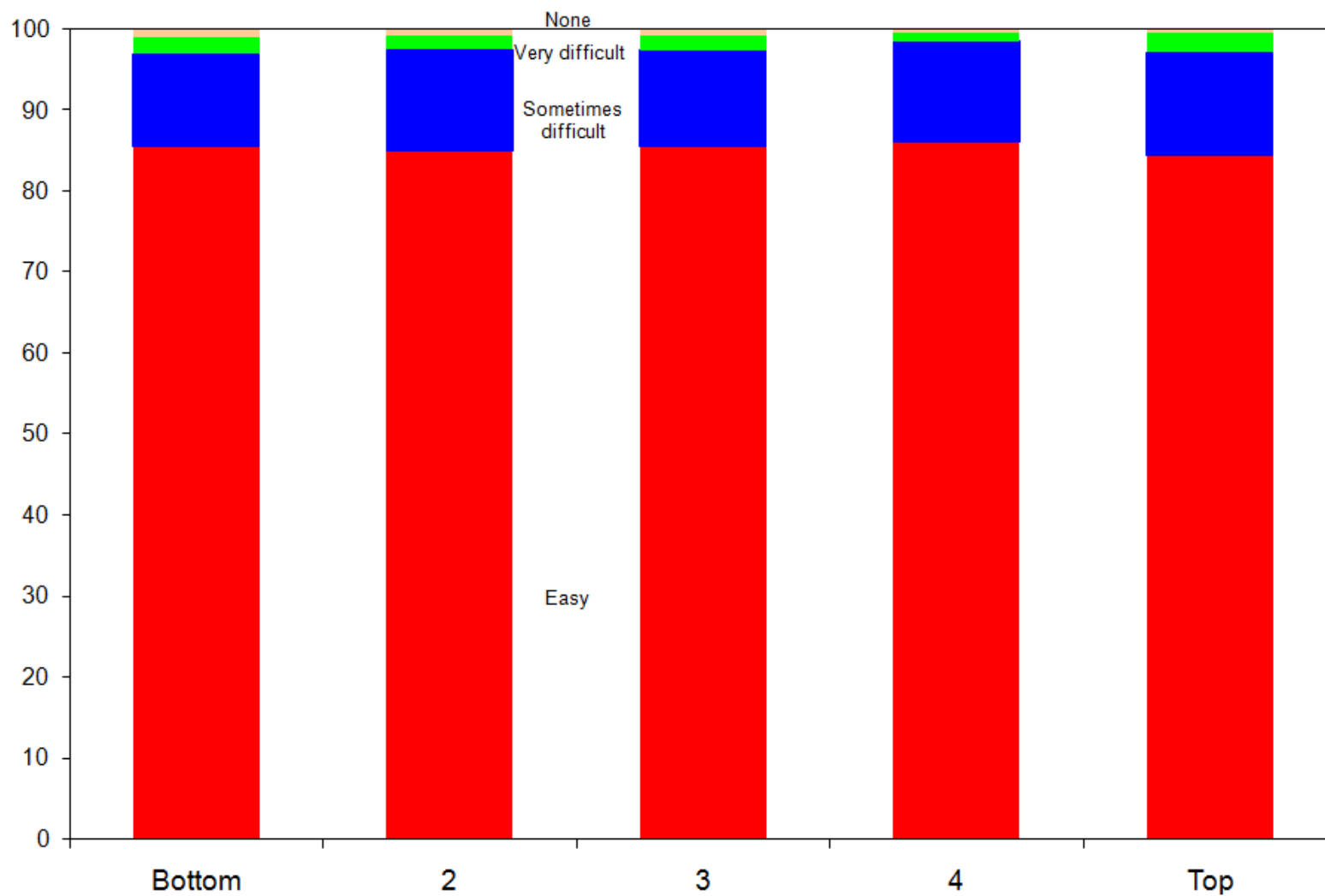


Source: HBS, World Bank staff calculations



# Equity in Health

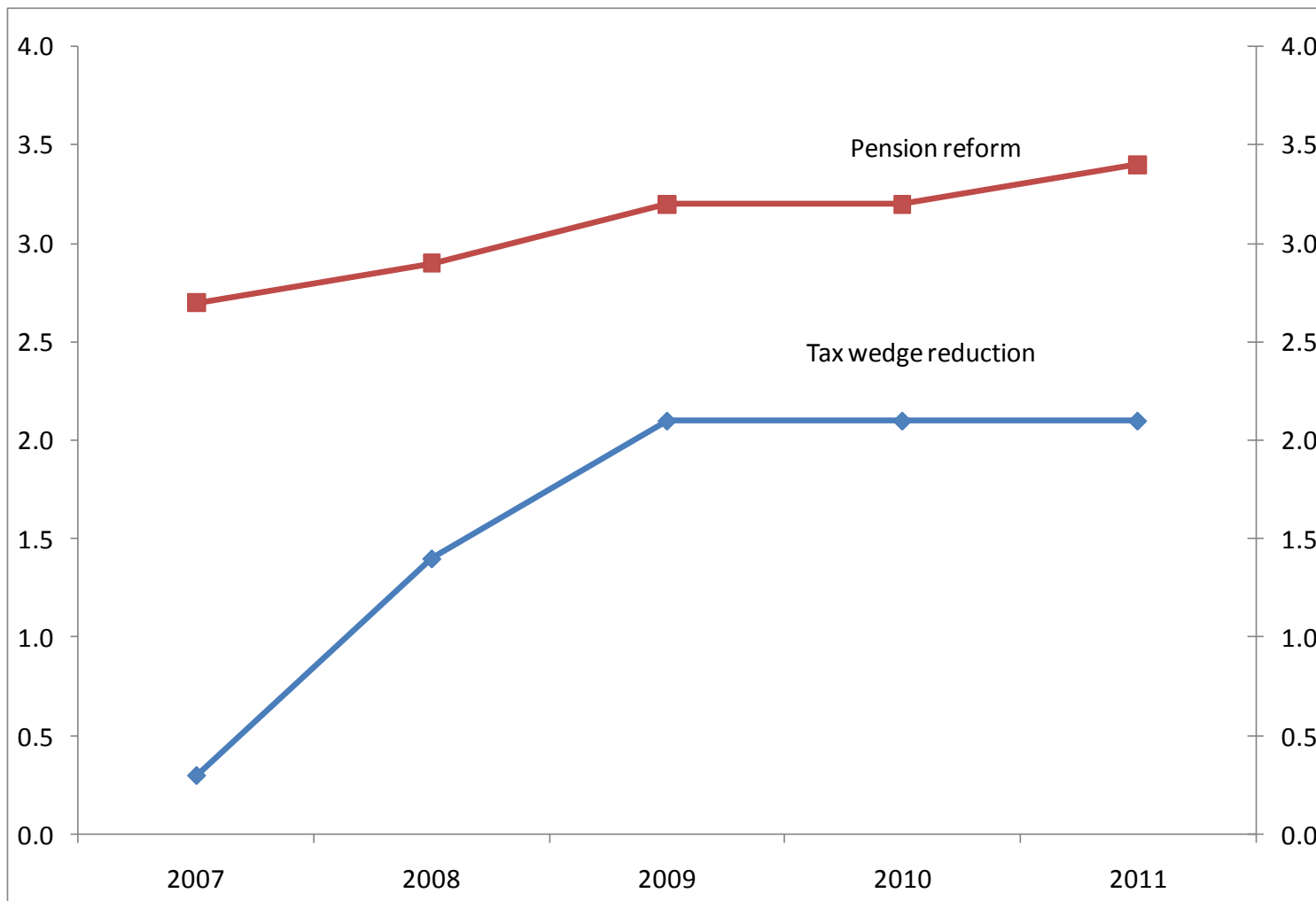
Access to General Practitioner by Household Income Per Capita Quintile in 2007





# Poland spends (& taxes) fairly well – Cheque is in the mail

Fiscal Costs of Structural Reform (% of GDP)

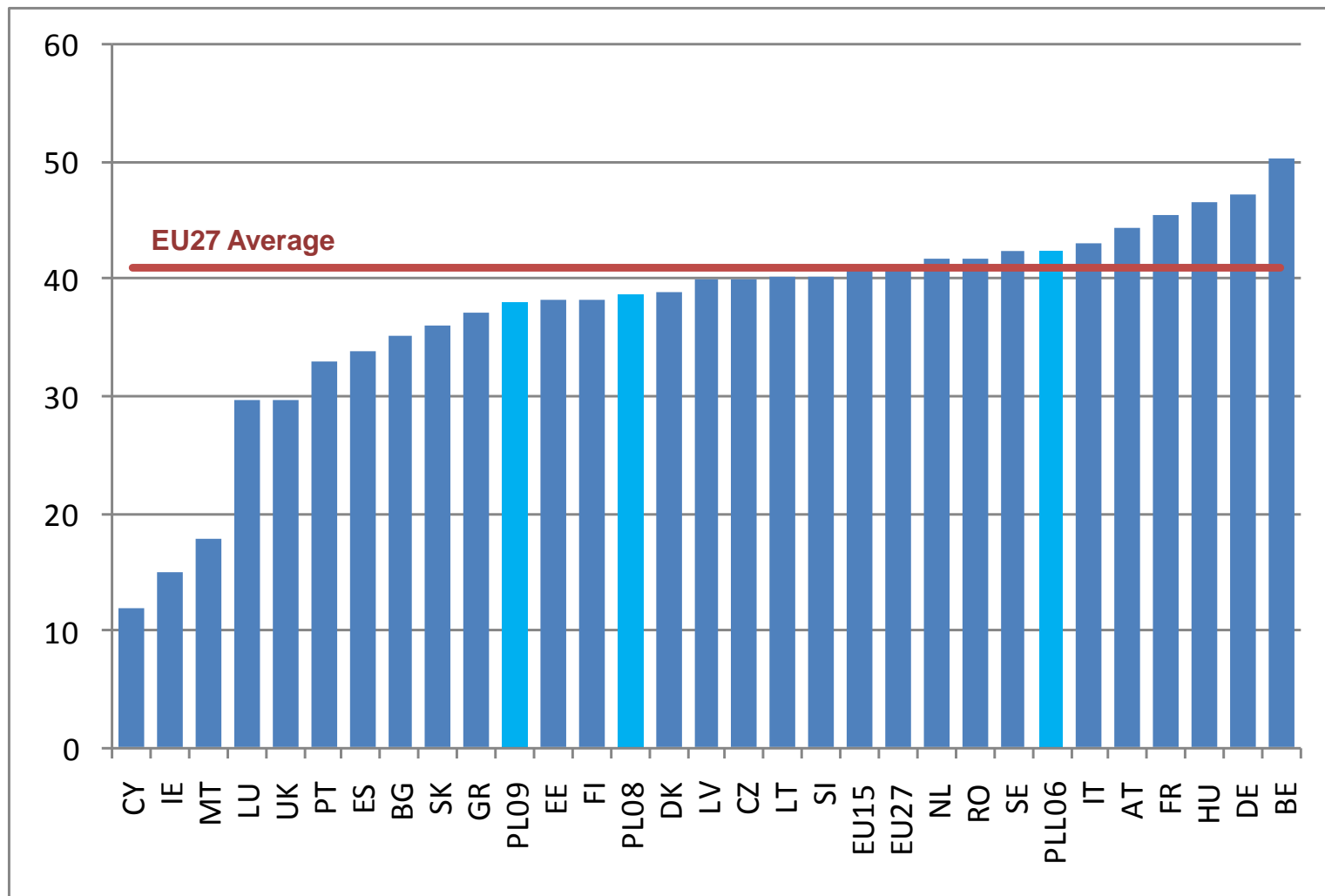


Source: Eurostat, Central statistical Office, World Bank Staff Calculations



# Poland spends (& taxes) fairly well – Cheque is in the mail

Tax wedge on Labor Cost in 2008 for an Employed Person with Low Earnings

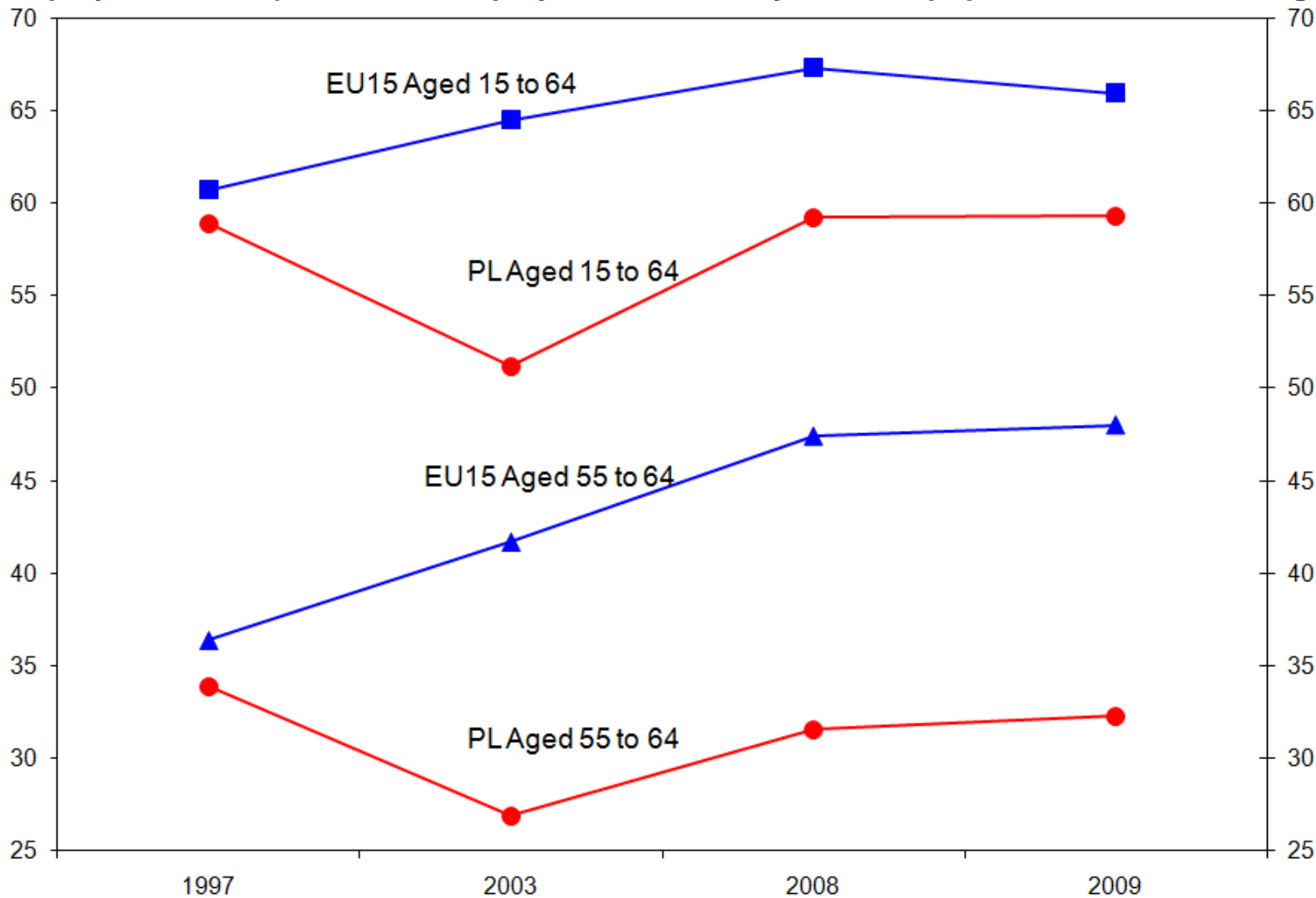


Source: Eurostat, World Bank staff calculations



# Poland spends (& taxes) fairly well – Cheque is in the mail

Employment Rate (Persons in employment divided by the total population of the same age group)

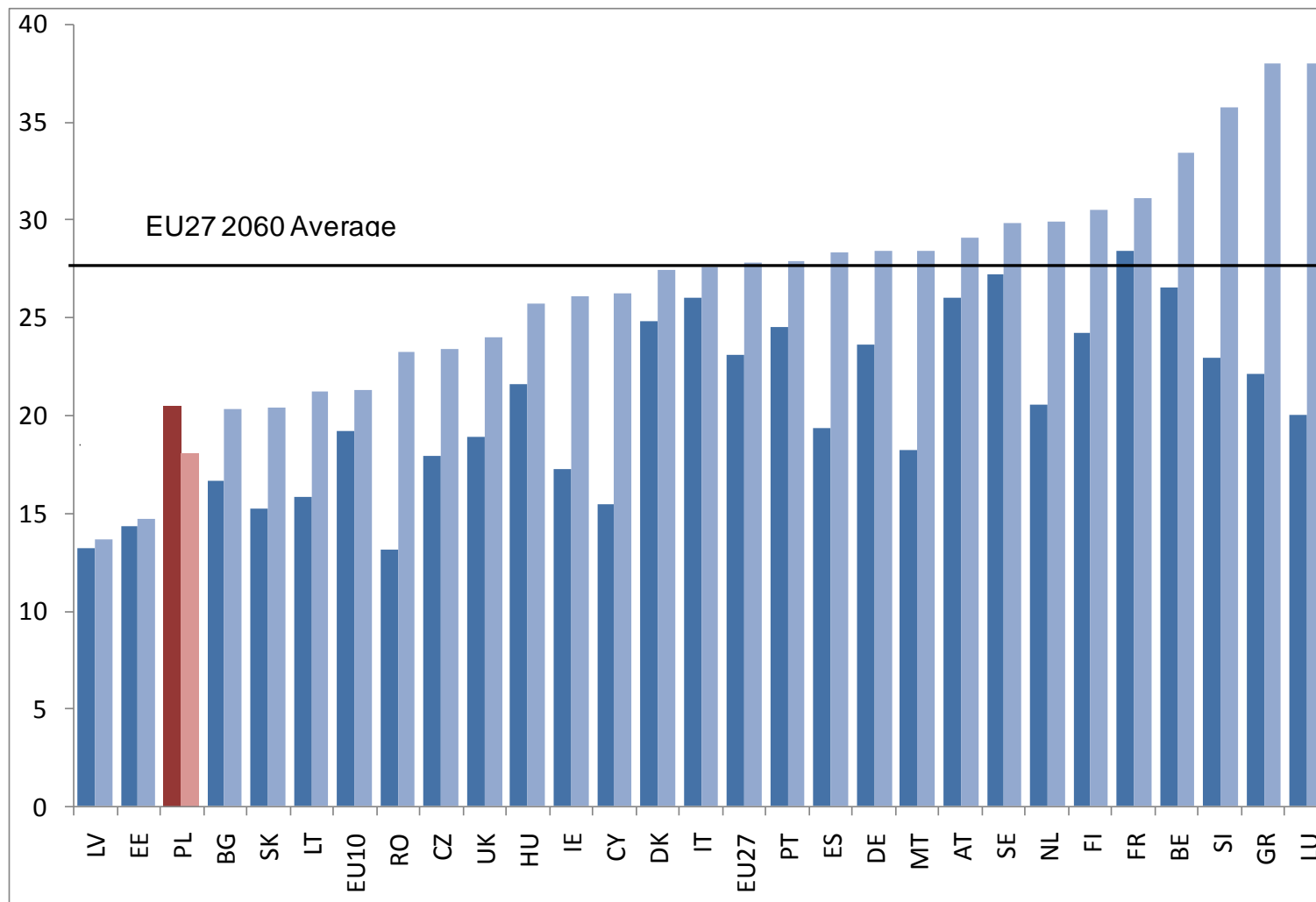


Source: Eurostat, World Bank staff calculations



# Poland spends fairly well – Cheque is in the mail

Age-Related General Government Spending in 2007 and 2060 (% of GDP)



Source: Eurostat, Central statistical Office, World Bank Staff Calculations



# Need for Change





# Poland 2030

## *Welfare State*

FTJ security (permanent professional career)

State guarantees with regard to the access to: education, healthcare, minimal wage

Unconditioned social transfers

The state is a reference point



## *Workfare State*

Employment security (variable professional career)

State guaranties for the access to efficiently managed education, healthcare, and pension dependent on a job seniority, remuneration and additional savings, minimal wage

Social transfers, often related with the condition of insertion, addressed to the groups in a real need

The state (thanks to the principle of subsidiarity)  
- is decentralised and grants support and help



## *Welfare Society*

Delegation of tasks and services: social circles, local communities, NGOs

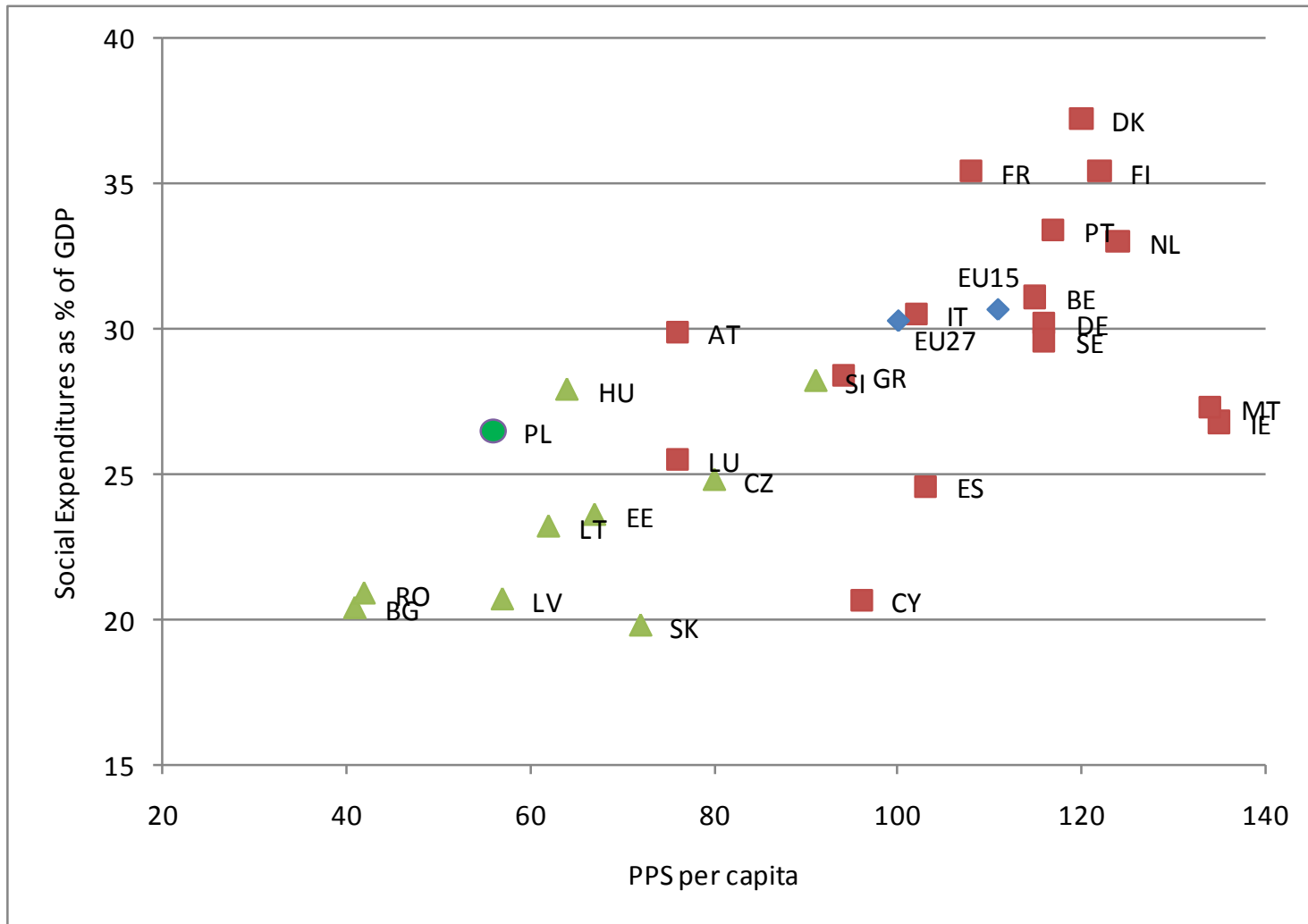
Cooperation of various institutions to help people in need

Awareness of the solidarity of generation



# Poland's social sector is large relative to its income level

Social Sector Expenditures as Percent of GDP Relative to GDP per capita in PPS (EU27=100 in 2008)



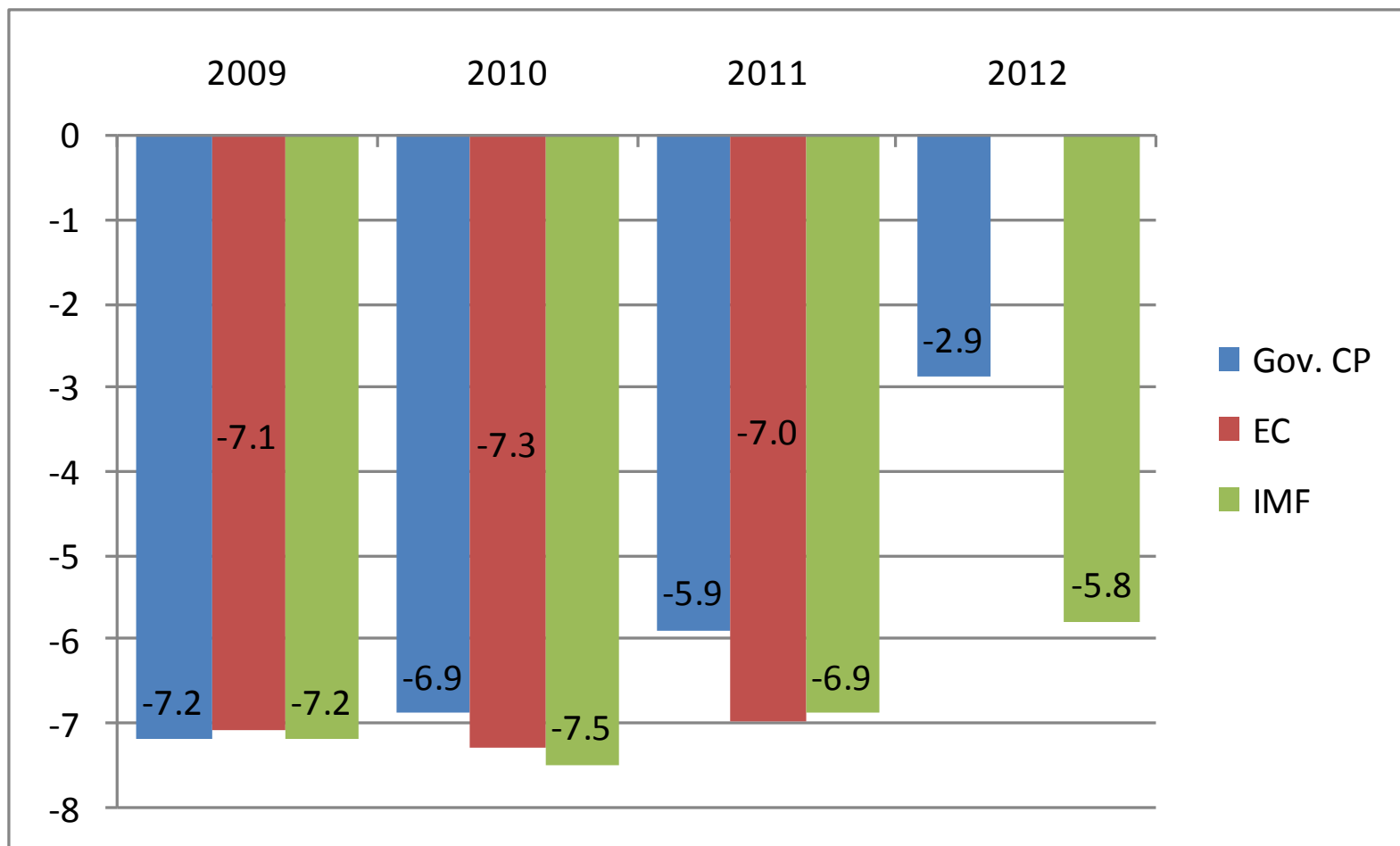
Source: Eurostat, Central statistical Office, World Bank Staff Calculations



# Global Financial Crisis 2009

## Gradual Unwinding to meet Maastricht 3%...

Projected general government deficit, percent of GDP

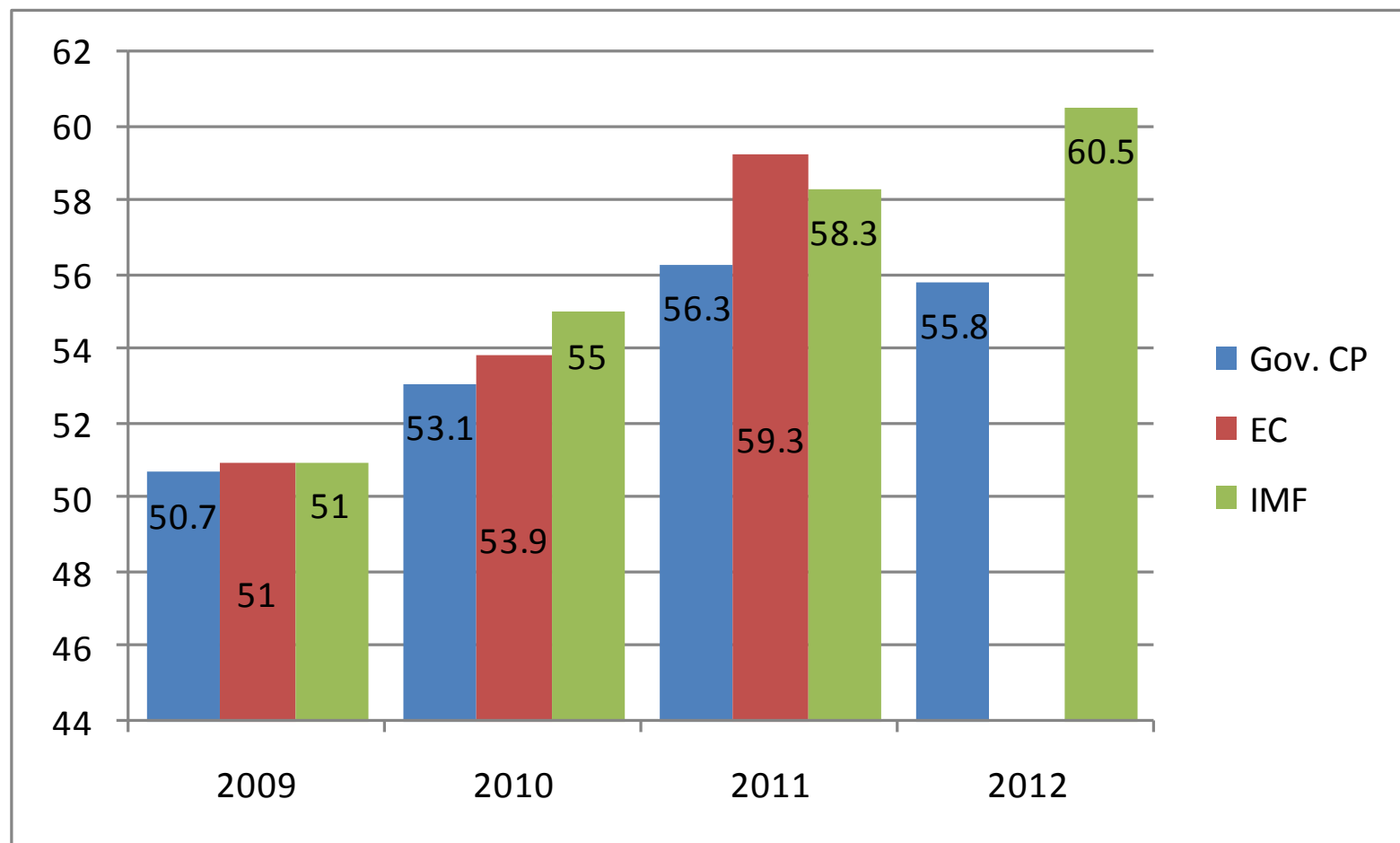


Source: Convergence and Stability Program Updates from January/February 2010, EC Spring Forecast 2010, WEO April 2010, World Bank staff calculations



## ... and public debt targets

Projected general government debt, percent of GDP



Source: Convergence and Stability Program Updates from January/February 2010, WEO April 2010, World Bank staff calculations.

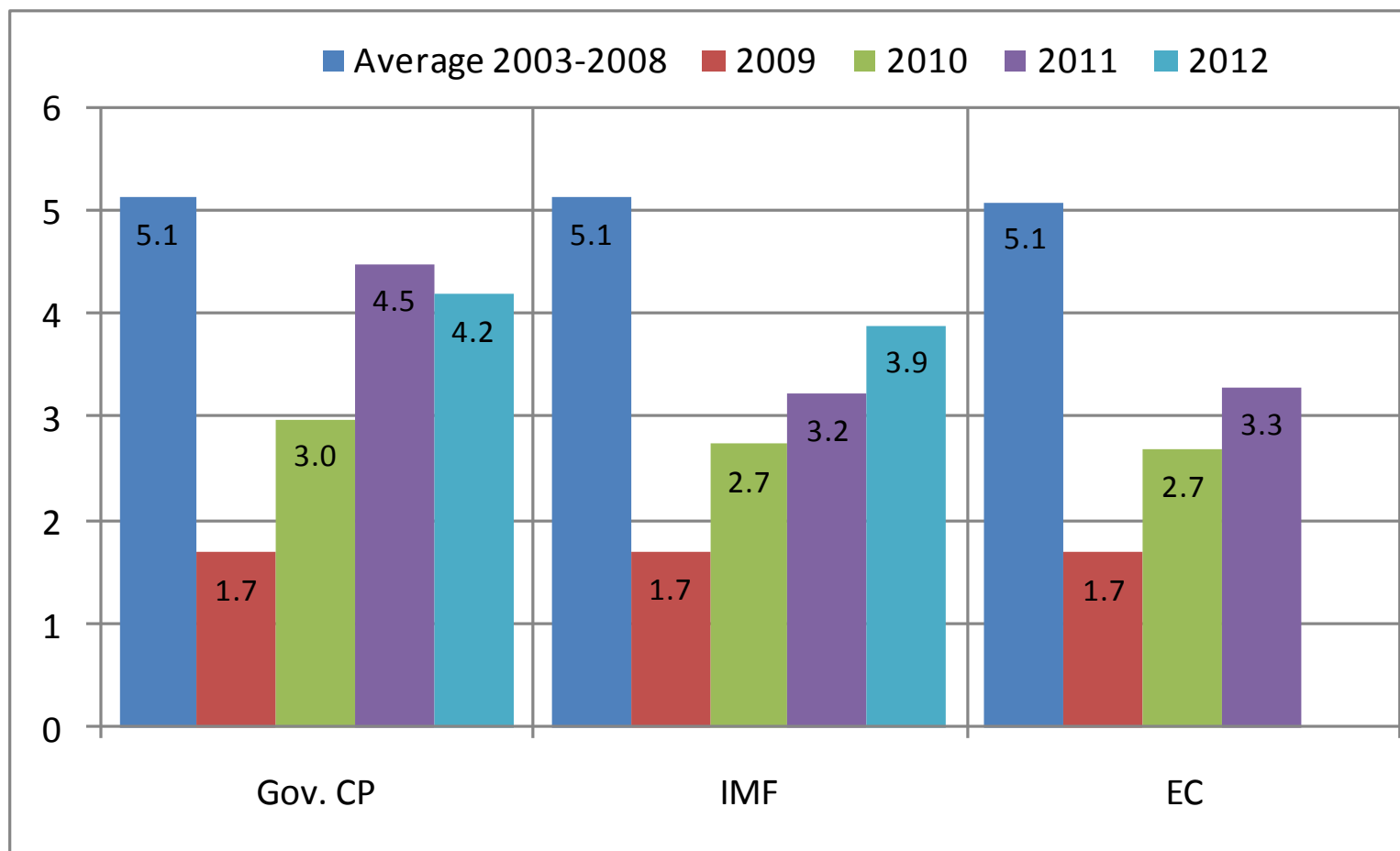


# Fiscal Development and Consolidation Strategy

- **By 2012: fiscal deficit of 2.9% of GDP**
  - Discretionary Expenditures
  - Non-Discretionary Expenditures
  - Revenues
- **Beyond 2012: 1% structural fiscal deficit and 40% government expenditures**
  - Fiscal Rule



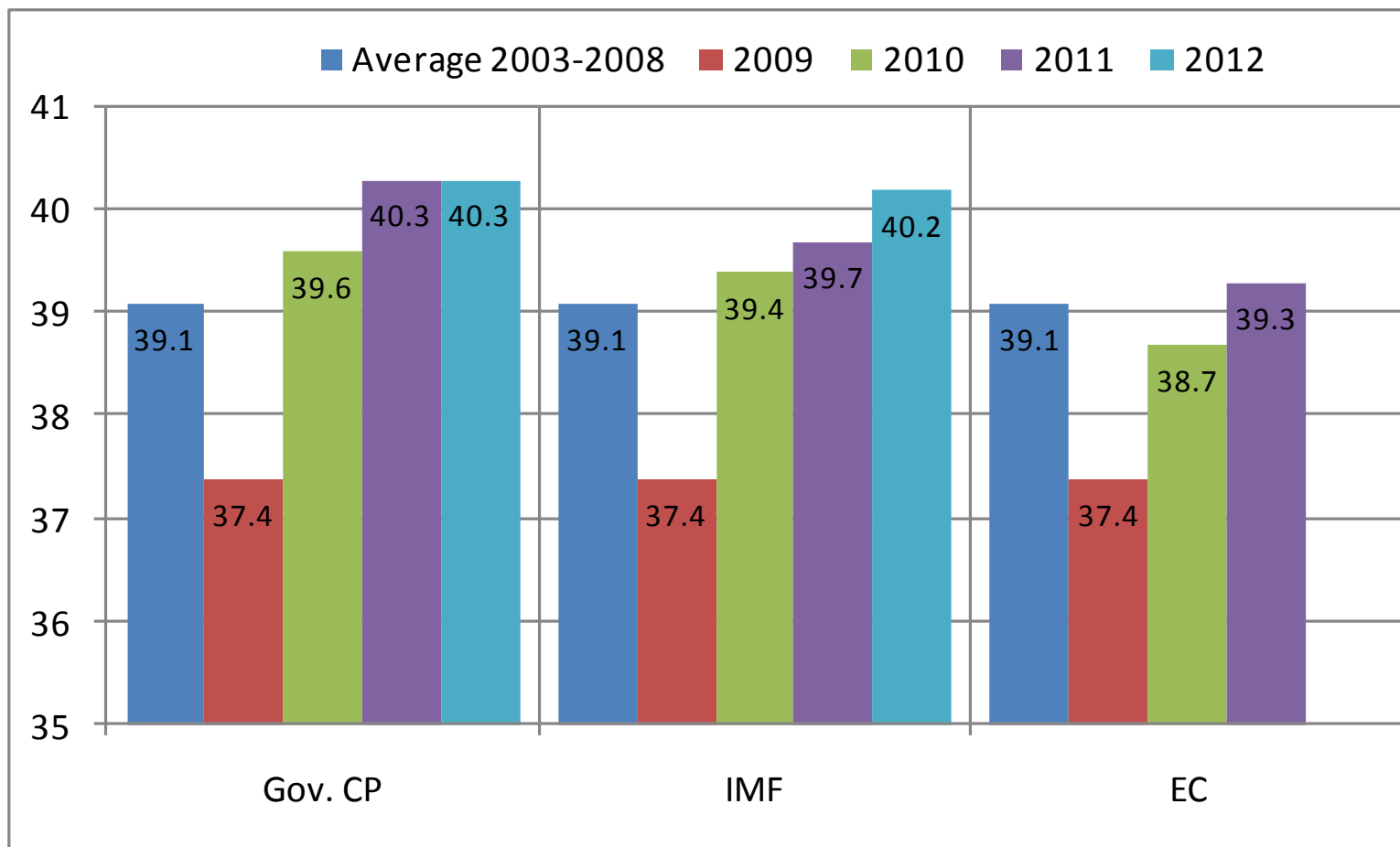
# Growth



Source: Convergence and Stability Program Updates from January/February 2010, EC Spring Forecast 2010, IMF Article IV, World Bank staff calculations



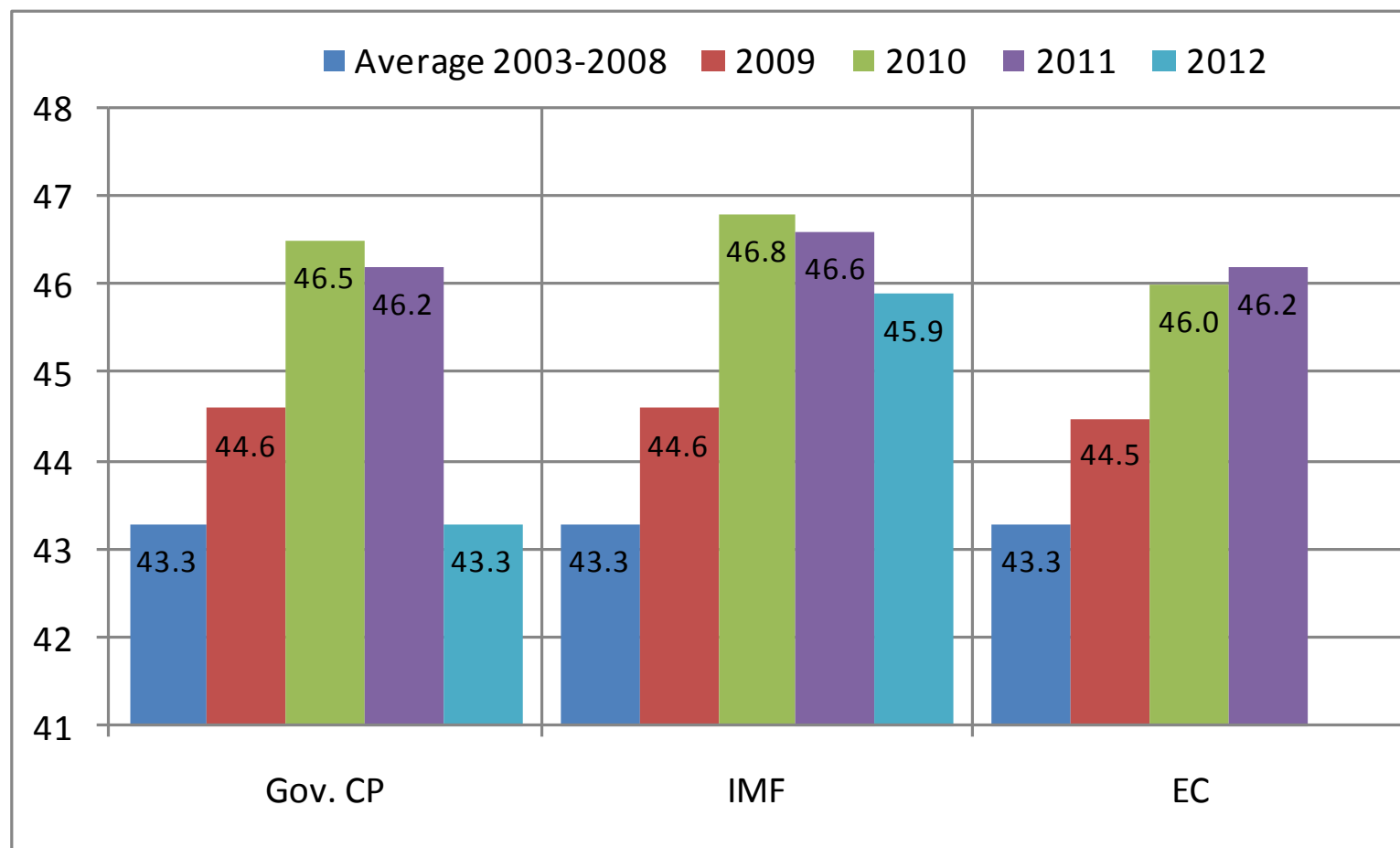
# Revenue



Source: Convergence and Stability Program Updates from January/February 2010, EC Spring Forecast 2010, IMF Article IV, World Bank staff calculations



# Expenditures



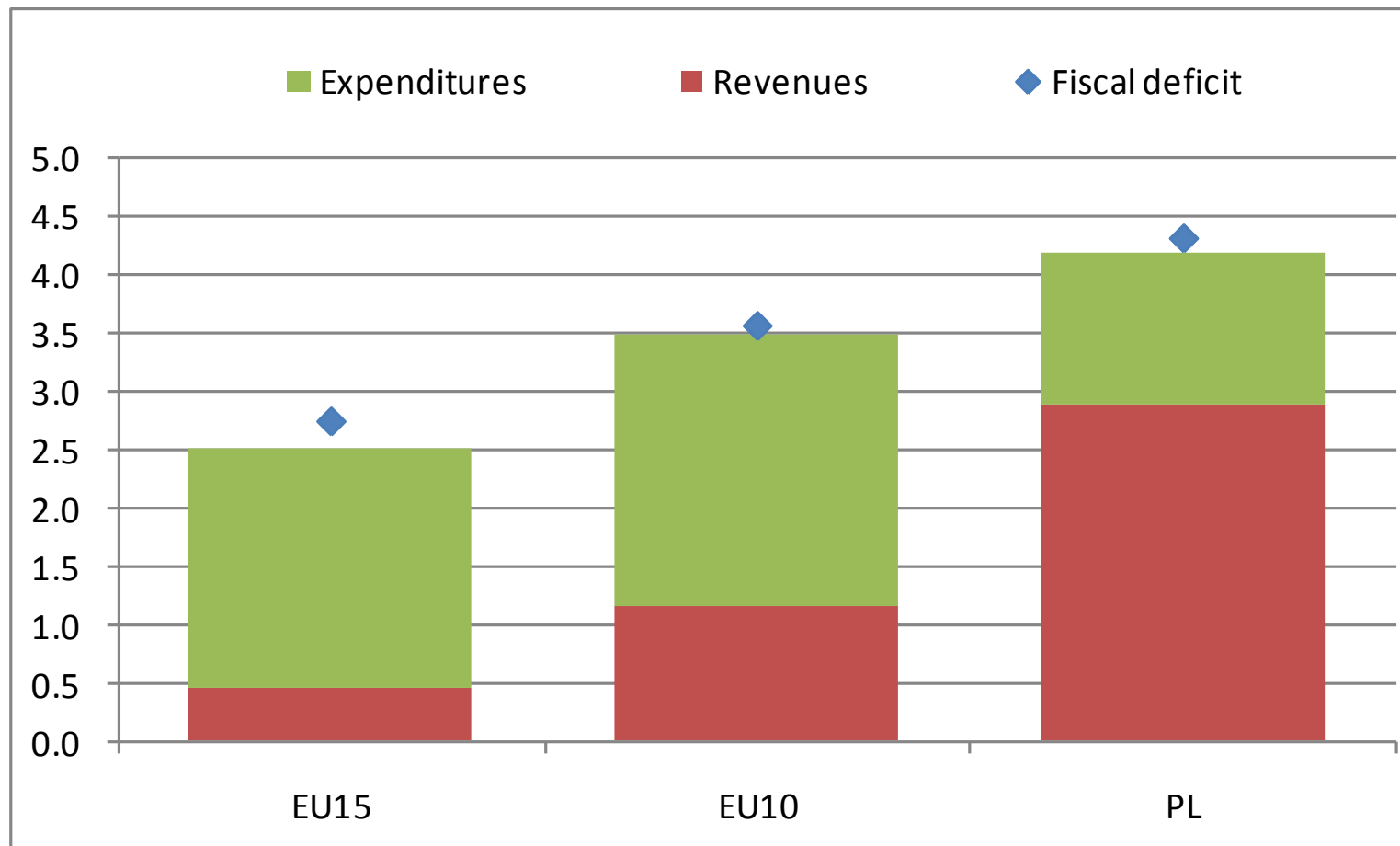
Source: Convergence and Stability Program Updates from January/February 2010, EC Spring Forecast 2010, IMF Article IV, World Bank staff calculations





# Expenditure and revenue-based consolidation ...

Composition of fiscal deficit reduction from 2009 to 2012, percent of GDP

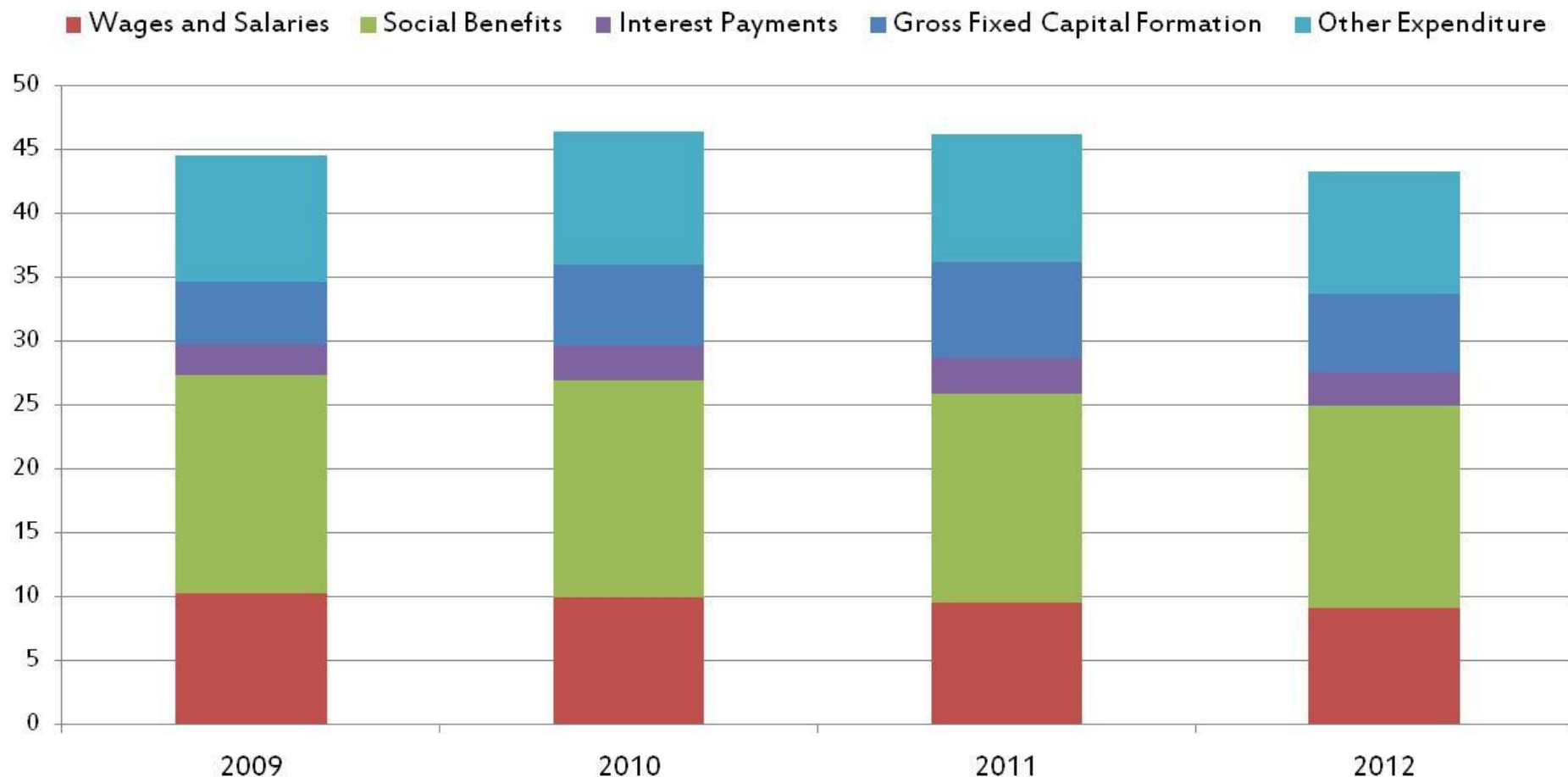


Source: Convergence and Stability Program Updates from January/February 2010, World Bank staff calculations



## ... including of social benefits and public wages ...

Composition of general government expenditure reduction from 2009 to 2012, percent of GDP

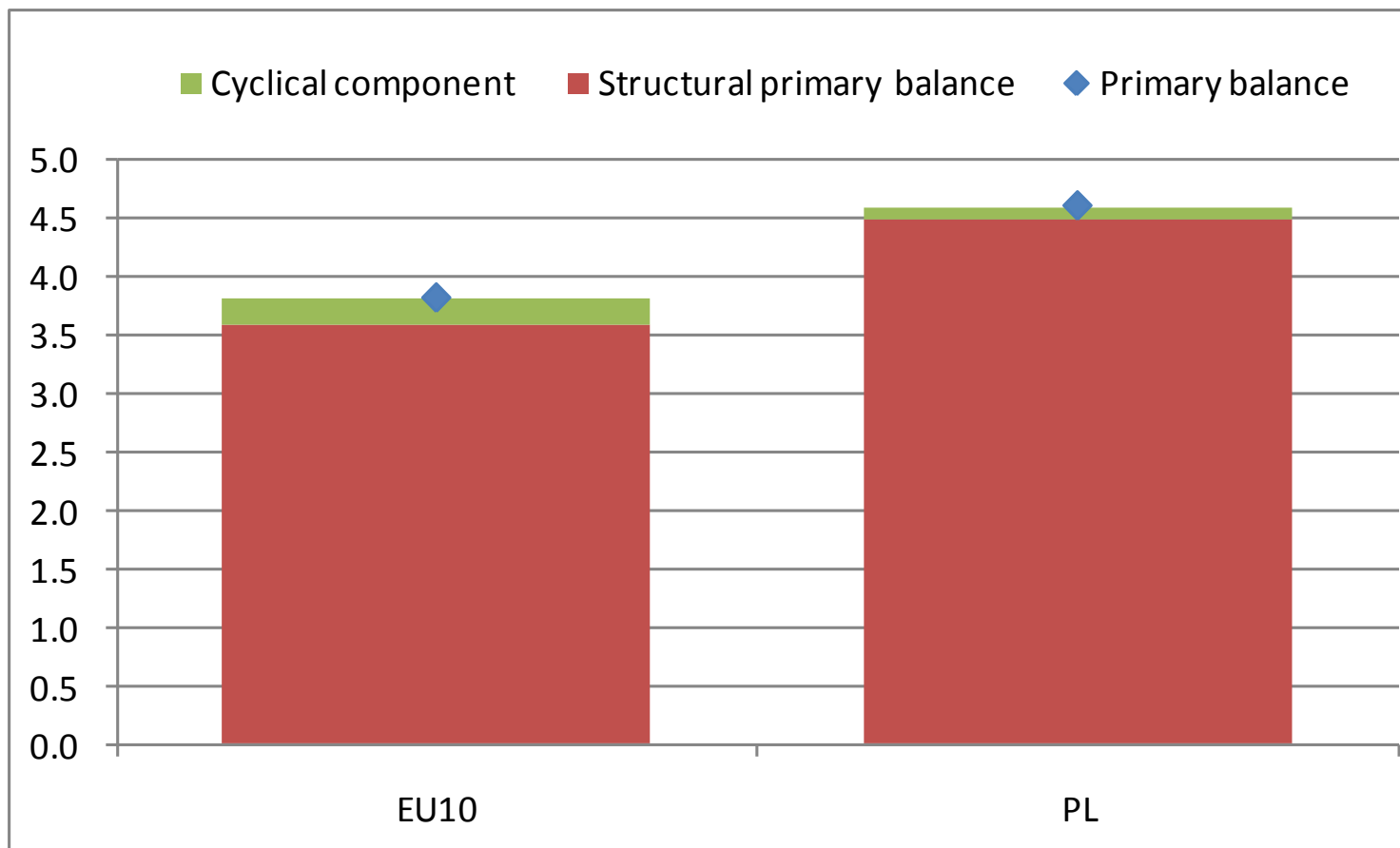


Source: Convergence and Stability Program Update 2010, World Bank staff calculations



## ... and structural adjustment ...

Composition of primary deficit reduction from 2009 to 2012, percent of GDP

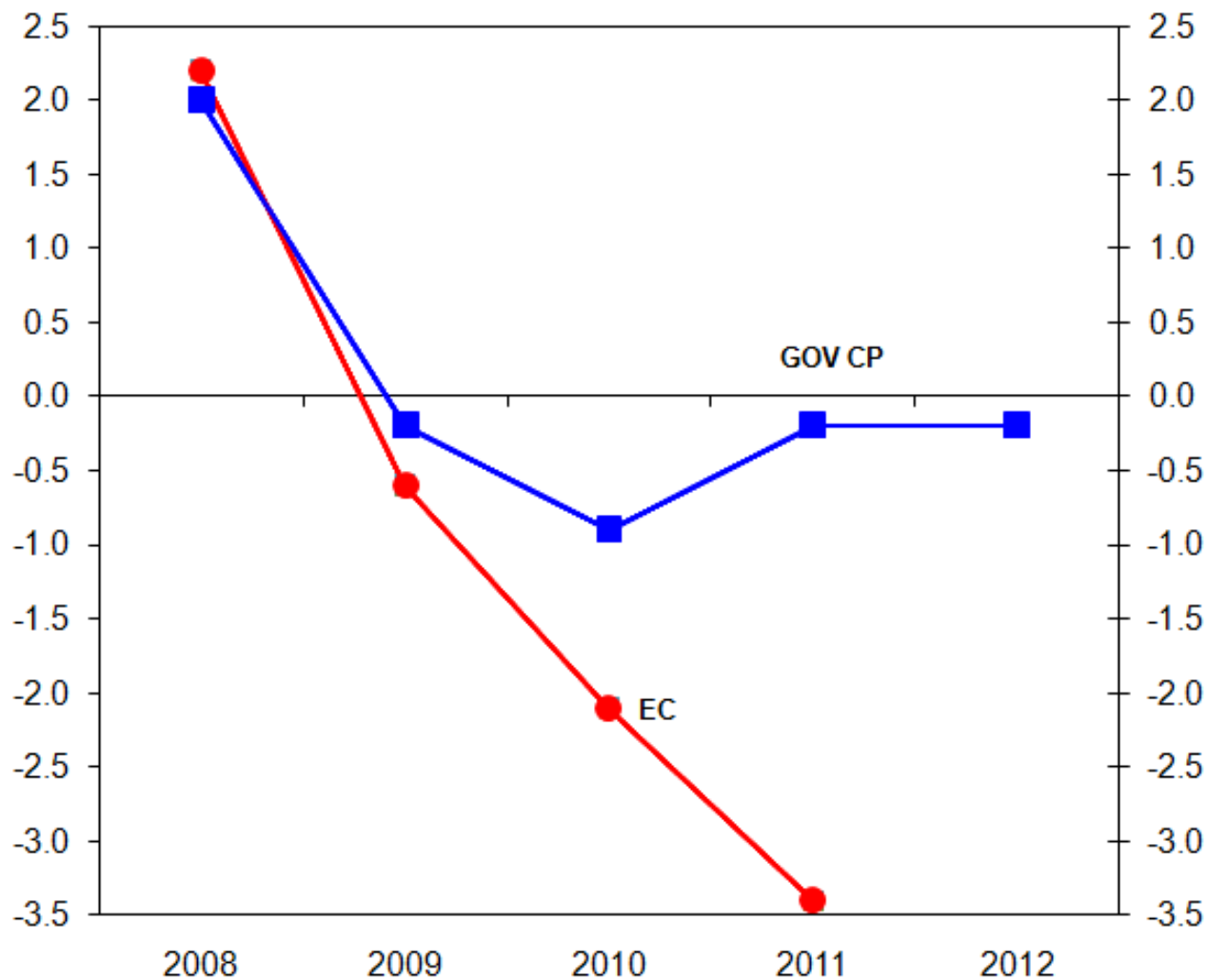


Source: Convergence and Stability Program Updates from January/February 2010, World Bank staff calculations



# ... as actual output remains below potential output

Output Gap, actual output as percent of potential output, 2008-12



• Source: World Bank staff based on CP updates



# Fiscal consolidation measures in 2010 – Visegrad Countries

	Pensions	Public wages	Revenues
PL	No	Minor	Minor
CZ	Minor	Minor	Major
HU	Yes	Yes	Major
SK	No	Yes	Minor

• Source: World Bank staff based on CP updates



# Directions of Reform



## Reform Directions - Sectors

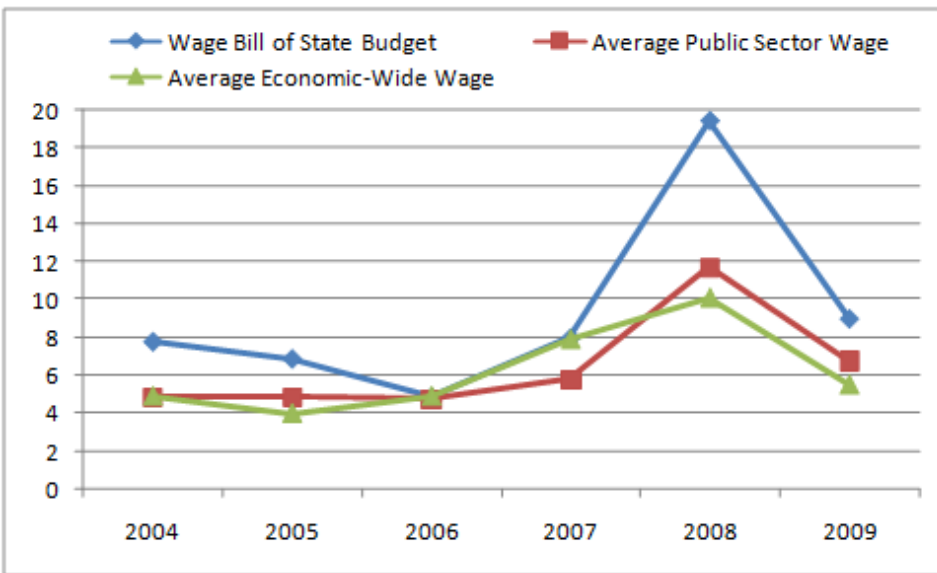
- Public Wages
- Pension
- Education
- Health
- Social Assistance
- Labor
- Public Financial Management



# Reform Directions – Public Wages

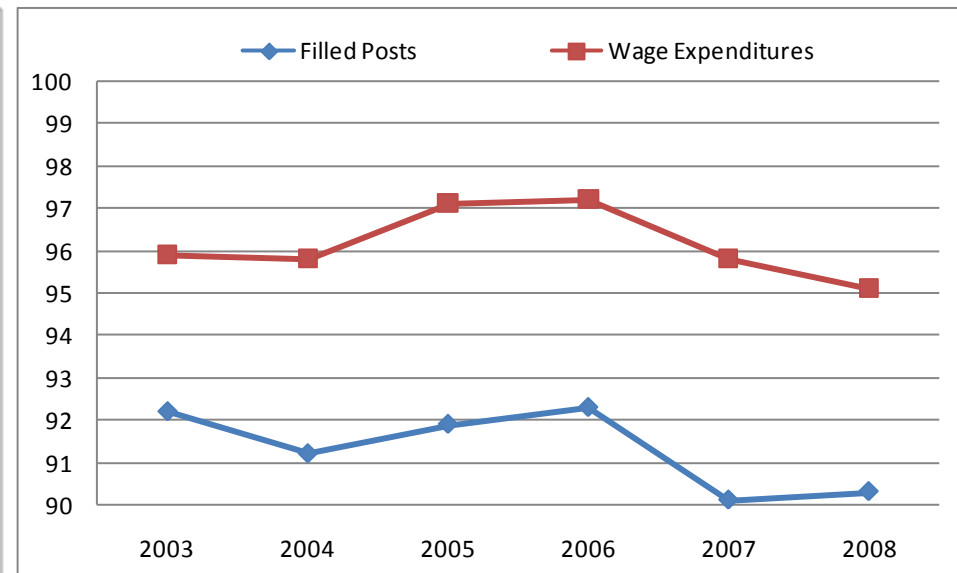
- Adjust employment limits in the budget to reflect actual utilization
- Allow adjusted wage bill to grow with CPI over medium term
- Increase transparency of public wage bill

Nominal Growth Rates of Wages and Wage Bill  
(2004 to 2009)



Source: World Bank staff calculations

Budget Execution of Employment Limits and Wage Expenditures (2003 to 2008)



Source: World Bank staff calculations

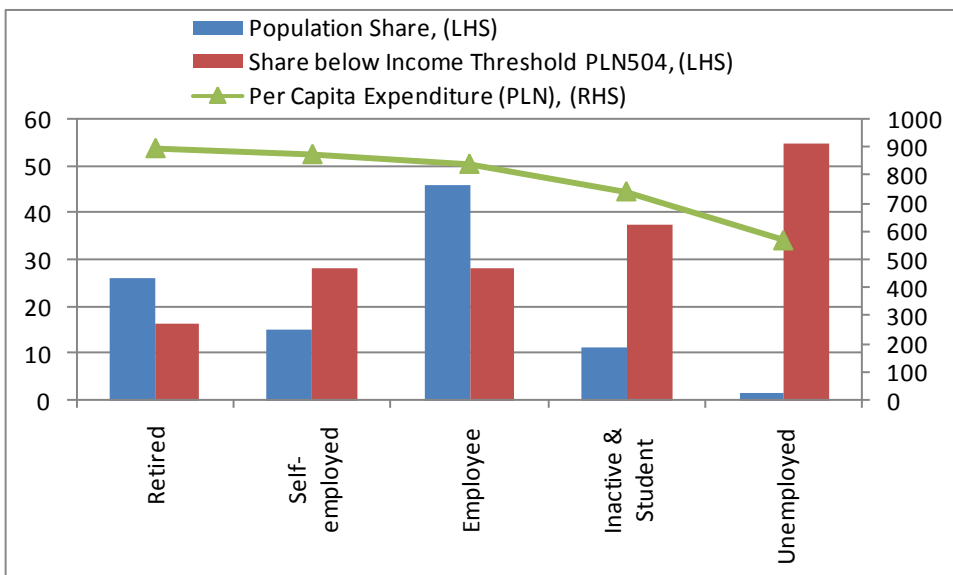




# Reform Directions – Pensions

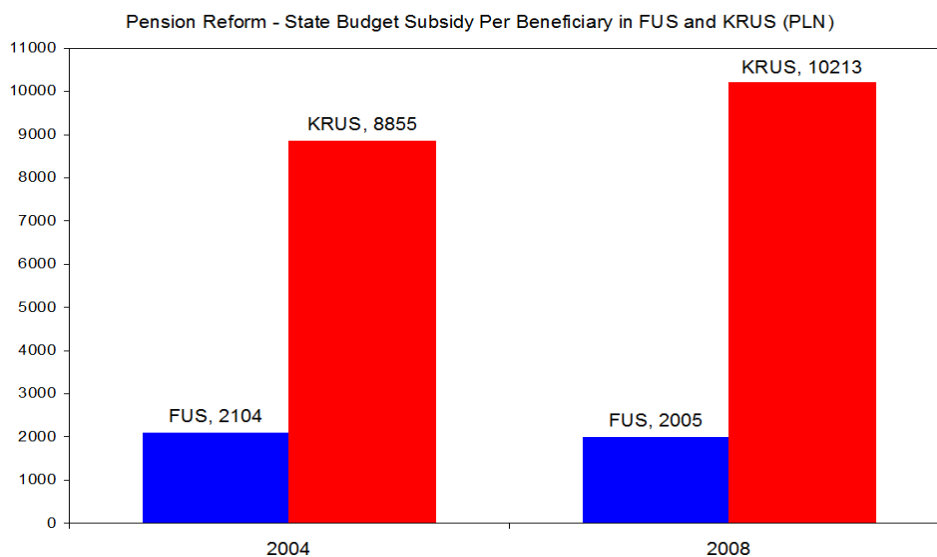
- Raise retirement age, especially for women
- Align disability benefits with pension benefits
- Integrate special schemes, phase out pensions privileges
- **Shift to full CPI indexation**
- Strengthen 2<sup>nd</sup> pillar through reduction in management fees and adoption of multiple portfolios

Shares and Expenditure Levels of Households by Household Head (2008 HBS)



Source: World Bank Staff calculations based on HBS 2008

State Budget Subsidy Per Beneficiary (PLN)



Source: World Bank Staff calculations



# Reform Directions – Pensions in Fiscal Consolidation Strategy

Pensions	
Increase of retirement age, especially for women	<ul style="list-style-type: none"><li>• Initiate gradual increase and equalization of the retirement age for women and men which would not include people over 55</li></ul>
Alignment of disability benefits with pension benefits	<ul style="list-style-type: none"><li>• Introduce uniform principles of calculation of disability benefits and retirement benefits in the pension system</li></ul>
Integration of special schemes	<ul style="list-style-type: none"><li>• Integrate uniformed services (soldiers, policemen, firemen, and others) into public pension, disability and health care systems from January 1, 2012 onwards</li><li>• Consider equalizing retirement age for newcomers from January 1, 2012 onwards</li><li>• Initiate gradual reform of the farmers' retirement and disability pension system while maintaining KRUS as stand-alone entity</li></ul>
Strengthening of 2 <sup>nd</sup> pillar	<ul style="list-style-type: none"><li>• Consider reforms to increase the effectiveness of pension pillars through external benchmark for OPF investments; life-cycle approach; and phasing out OFE investment limits.</li><li>• Introduce ban on promotion and advertising activities of OFE and further reduce administration fees</li><li>• Resolve the problem of rising accounting public debts generated due to different classification of pension contributions collected in OFE and on individual pension account in ZUS.</li></ul>

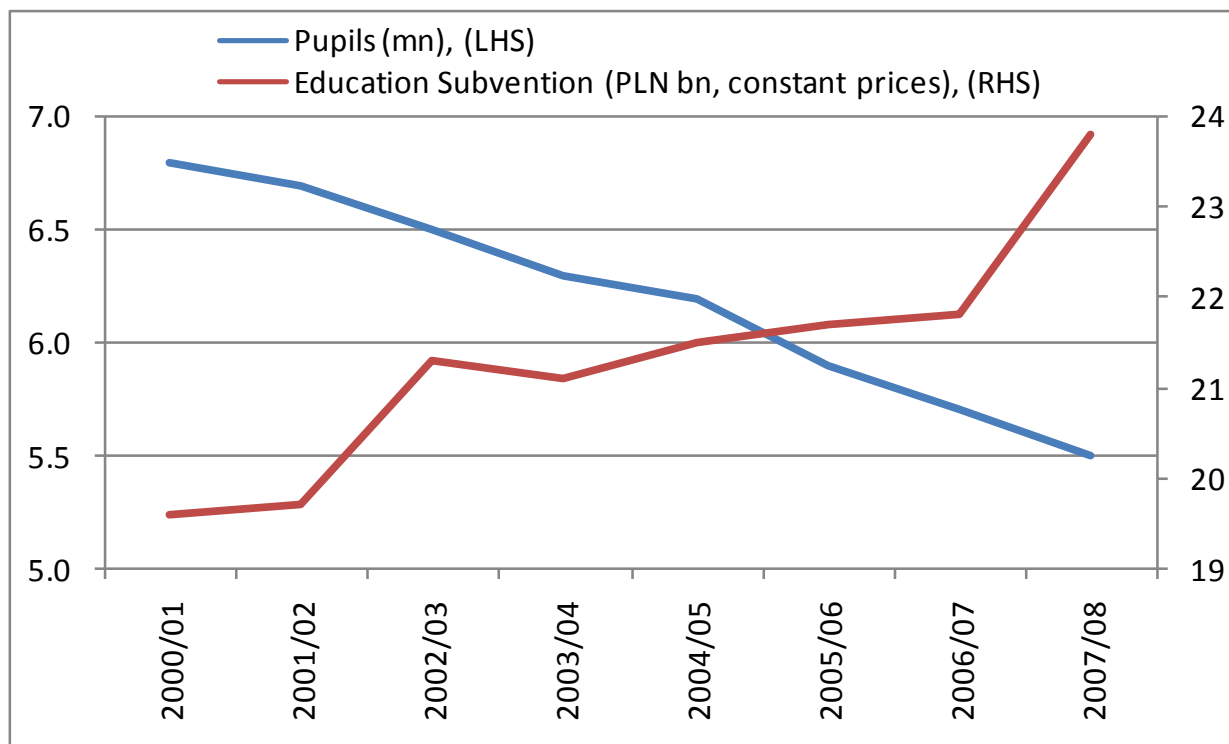
Source: Government Convergence Program Update 2010



# Reform Directions – Education

- Increase coverage of preschool education
- Determine per-student allocation of education subvention based on standard class sizes etc
- Enhance equitable and fiscally sustainable financing of higher education

Education Subvention and Primary and Secondary Students  
(2000/01 to 2007/08)



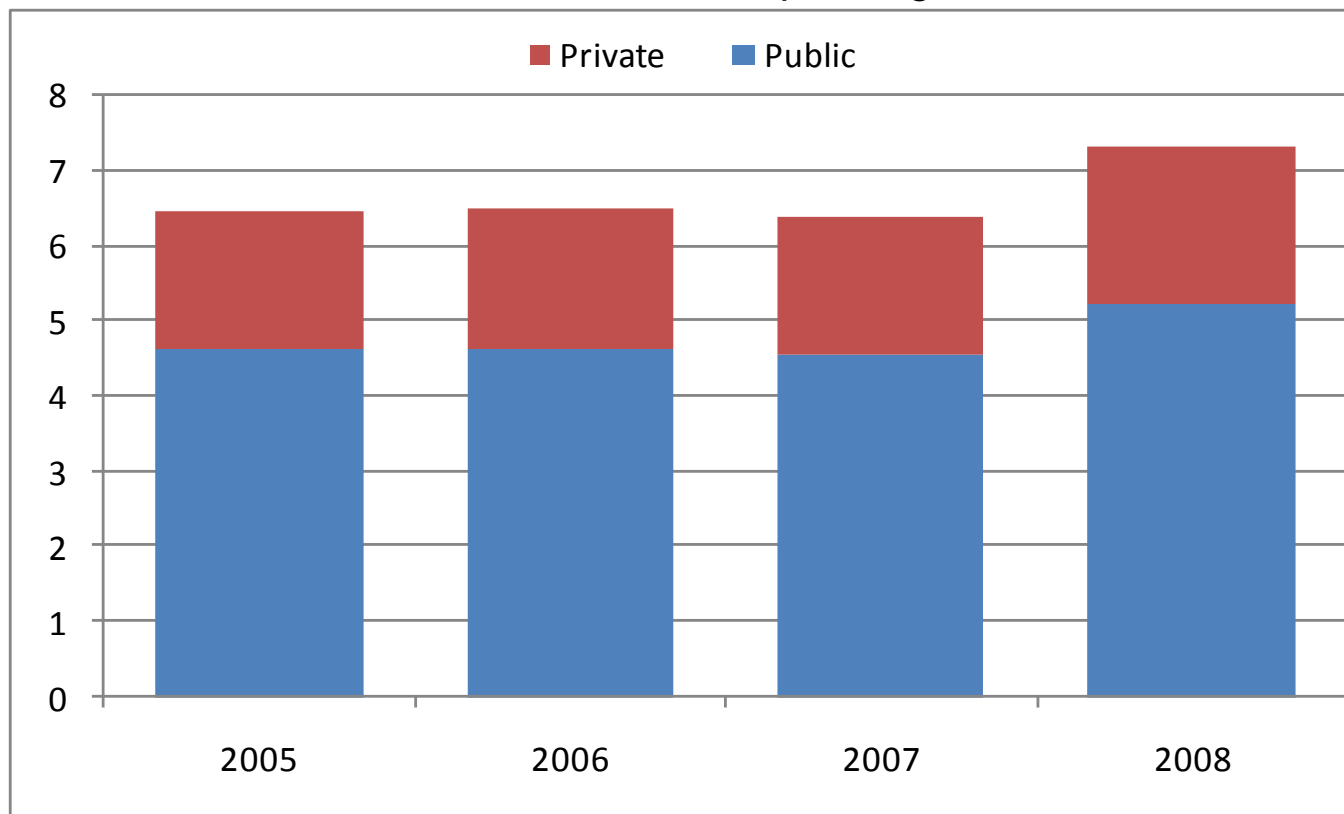
Source: World Bank Staff calculations



# Reform Directions – Health

- Large increases in health spending over the recent years allow for savings in NHF subsidy
- Use hospital corporatization, DRGs, accreditation to improve spending efficiency

Public and Private Health Spending as % of GDP

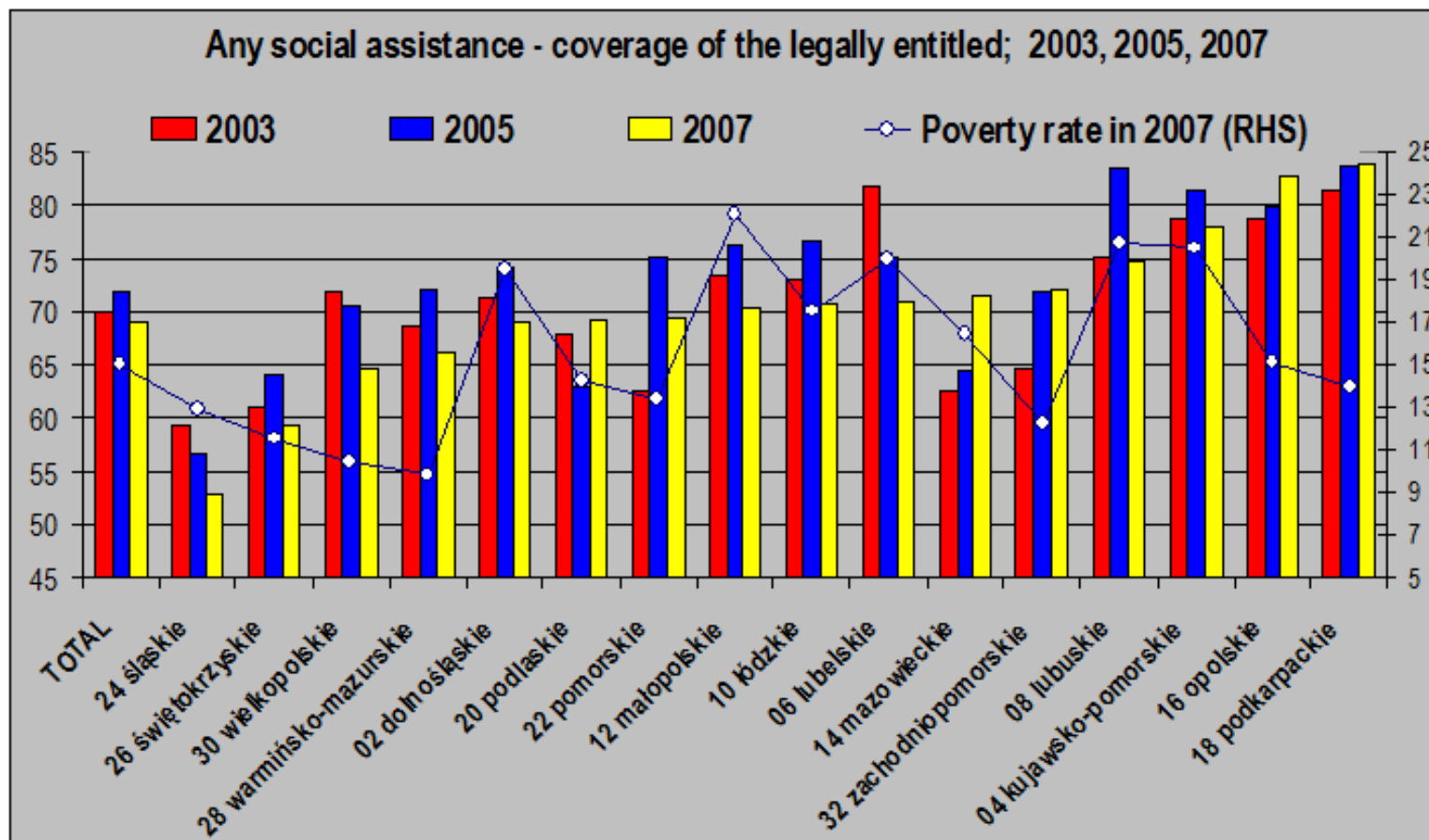


Source: OECD, World Bank Staff calculations



# Reform Directions – Social Assistance

- Enhance outreach to vulnerable groups to limit coverage gaps
- Step up central monitoring and supervision to ensure consistent application of standards
- Enhance cross-checking of databases to limit leakage
- Fund increased family benefit entitlements

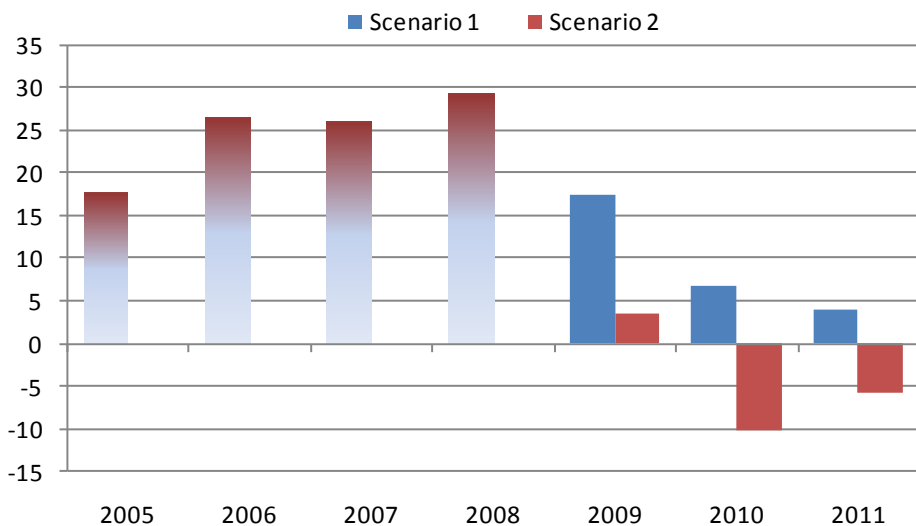




# Reform Directions – Labor Market Programs

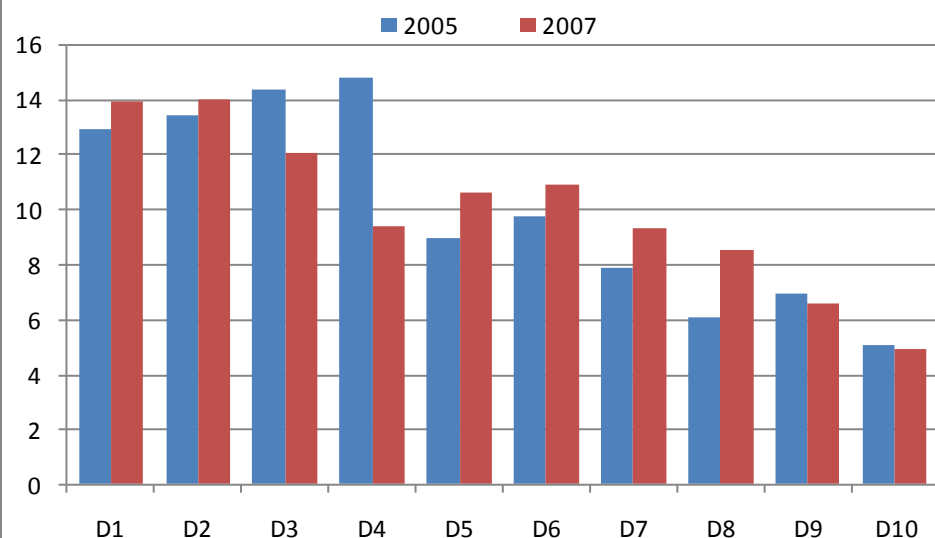
- Ensure adequate financing of unemployment benefits
- Introduce system for monitoring and evaluation of labor market programs
- Develop activation policies

Labor Fund Balance as % of Revenues,  
2009-2011 Projection (Sc1: 8.7%; Sc2: 11.2%)



Source: World Bank Staff calculations

Distribution of Expenditures on Unemployment Benefit by  
Consumption Decile 2005 and 2007



Source: World Bank Staff calculations



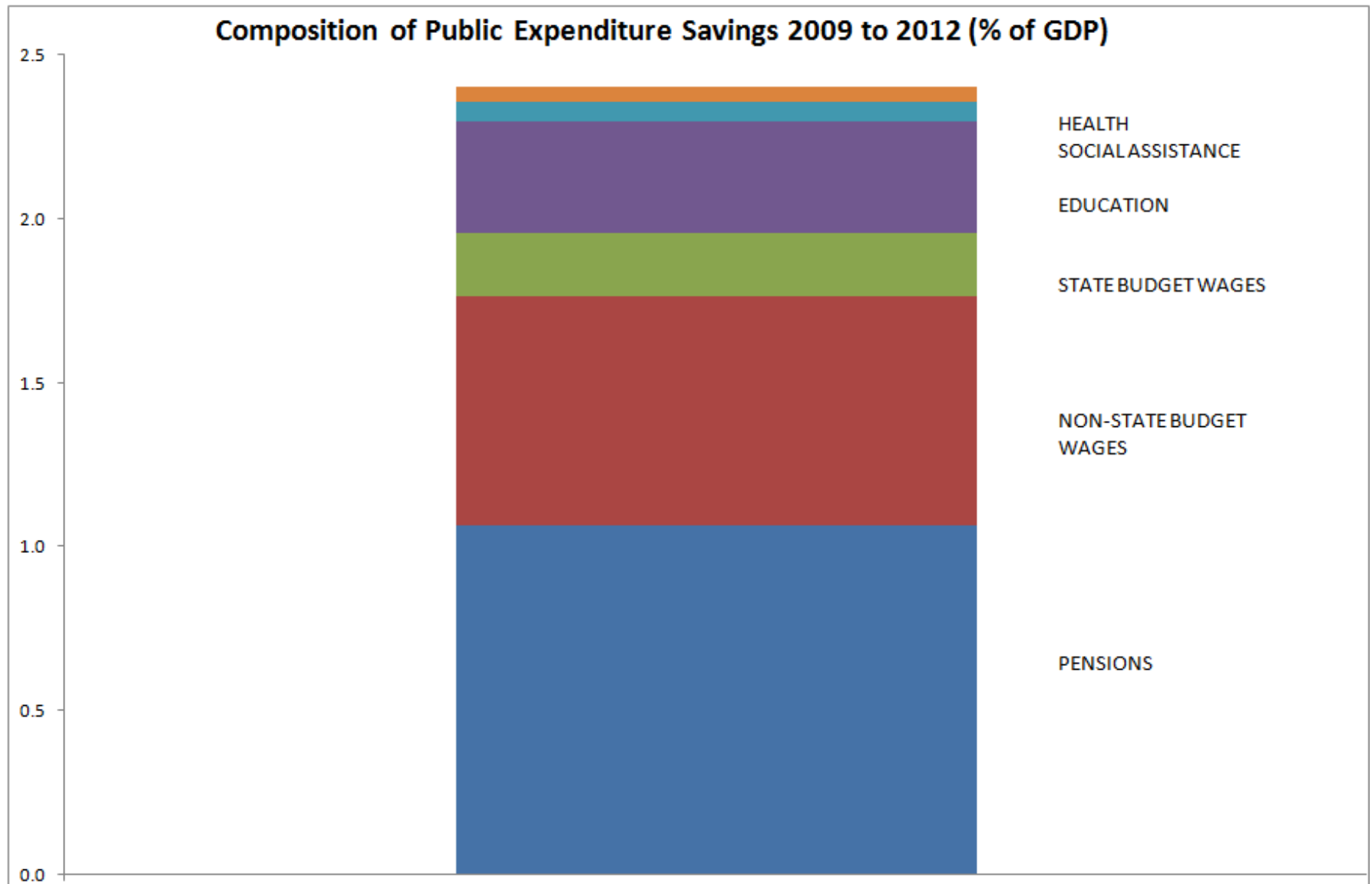
# Reform Directions – Public Financial Management

Implement roadmap for performance-based and medium-term budgeting

2009	2010	2011	2012	Action
✓				Develop new budget classification <i>(not yet commenced)</i>
✓				Formulate new chart of accounts <i>(not yet commenced)</i>
✓				Define required functionality for financial information systems <i>(not yet commenced)</i>
✓				Guidelines and support manuals on program objectives and key performance indicators <i>(not yet commenced)</i>
✓	✓			Further refine program classification <i>(already underway)</i>
✓	✓			Improve specification of objectives <i>(already underway)</i>
✓	✓			Extend sectoral coverage of indicative program budget <i>(already underway)</i>
✓	✓	✓	✓	Performance indicator improvement <i>(already underway)</i>
	✓	✓	✓	Develop program evaluation
✓	✓	✓	✓	MoF to further develop policy and performance analysis capacity <i>(already underway)</i>
	✓	✓	✓	Implement changes to financial management information systems <i>(not yet commenced)</i>
			✓	Preparation of first program-based budget law for 2013 financial year
✓	✓			Create systematic expenditure review routines in the budget process <i>(not yet commenced)</i>
✓	✓	✓		Further develop processes for review of new spending proposals <i>(not yet commenced)</i>
✓	✓	✓	✓	Improvements to forward estimates methodology <i>(not yet commenced)</i>
		✓	✓	Base budget preparation on the forward estimates



# Indicative Composition of Public Expenditure Savings







# Summary

- **Achieving medium-term fiscal consolidation targets depends on**
  - Demographic dividend
  - Moderate wage growth
  - Strong revenue growth
  - High economic growth
- **Achieving long-term structural targets requires additional entitlement and fiscal reforms**



# THANKS

[krichter@worldbank.org](mailto:krichter@worldbank.org)



# Indicative Medium-term Public Expenditure Savings

