showCASE
No. 52 | 13.11.2017

CASE – Centrum Analiz Społeczno-Ekonomicznych
CASE – Center for Social and Economic Research

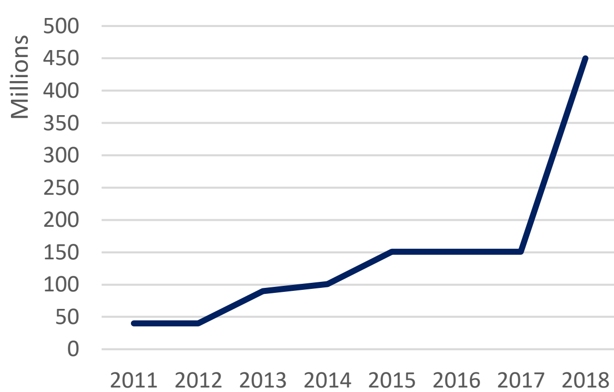
Overview: In this issue of showCASE, our social policy expert discusses the "Maluch plus" program, which is the Polish government's attempt to improve the childcare services in the country. This edition also features a guest contribution from CASE's partner organization Sandbag in anticipation of the seminar "How can Poland effectively fund energy-efficient buildings? New sources of modernization support" organized by CASE, Sandbag, and the Institute for Environmental Economics on November 21 in Warsaw.

Little Children, Big Money, and Poland's Childcare Services Reform

By: *Klaudia Wolniewicz-Slomka, Economist at CASE*

The Polish Minister of Family, Labor, and Social Policy Elżbieta Rafalska announced on October 26 that her government is going to assign PLN 450 million for 'Maluch plus 2018', a program dedicated to developing childcare services for children under the age of 3. This sum triples the current investment in the program (Figure 1) and is a response to a major shortage of vacancies in childcare institutions (around 70% of municipalities have no childcare institutions). As with so many government solutions, however, the question arises whether simply providing more money is the best solution.

Figure 1. Money assigned to 'Maluch' program



Source: Ministry of Family, Labour and Social Policy

In February, 2011 a new law regulating childcare services in Poland was passed by the Polish Parliament. The Act of 4 February 2011 on care for children under the age of 3 (Polish Journal of Laws of 2011, No. 45, item 235) and its later amendment (10th of May 2013) reformed the whole system of childcare services addressed to the youngest members of society.

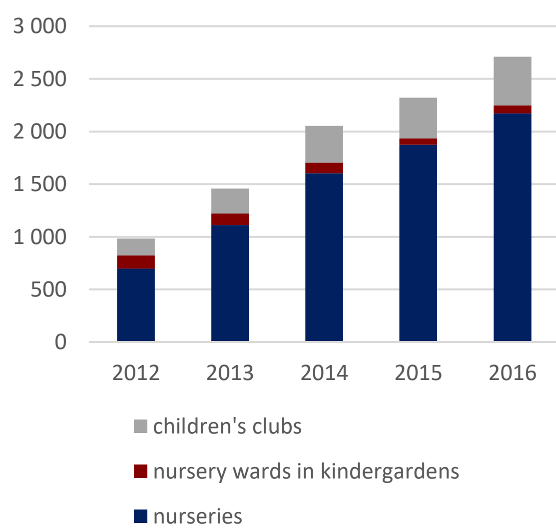
Along with the new law, a new financial program, called "*Maluch*" ('little child') was launched. It was aimed at supporting the development of nurseries and children's clubs and popularizing the institution of daycare providers. Since its establishment, the program has been changed several times in regard to both its budget and the types of institutions that could benefit from it. In October 2017 Minister Rafalska announced that from 2018 on, *powiats* (counties or districts) and *voivodships* (equivalent to a province) will be eligible for funding. There are also modules of the program addressed only to these *gminy* that actually do not have any childcare institutions.

Before this year, the amount of money assigned to *Maluch* was increasing gradually. Minister Rafalska admitted that she is interested in developing childcare institutions being run by municipalities, rather than by private entities, because they are cheaper. The question remains: will an increased budget and an extended range of institutions entitled for support be enough to encourage municipalities to create and develop childcare institutions, especially if they are not obliged to do so? In reality, a different subsidy system could be more effective.

Source: Pixabay, LRCL

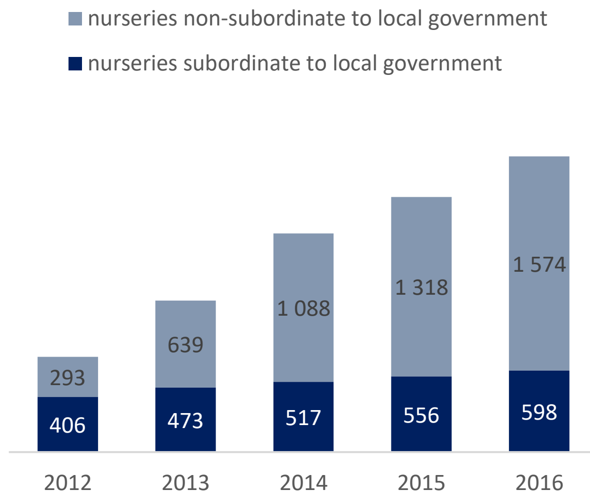
Data shows the number of childcare institutions in Poland has been growing since the new regulations were established (Figure 2). However, the increase in the number of public nurseries (defined by GUS as 'subordinate to *gminy*') is lower than in other types of nurseries (mostly private ones) (Figure 3). As shown in Figures 1 and 3, the highest growth of nurseries subordinate to local governments was seen in 2013, when the government addressed more money to the program (PLN 50 million), resulting in 67 new nurseries; however, when a comparable amount was spent in 2015, only 39 new nurseries were created. Indeed, bigger government investment does not necessarily lead to a significantly growing number of public nurseries.

Figure 2. Number of childcare institutions in Poland, 2012-2016



Source: BDL GUS, 2017.

Figure 3. Growth of nurseries in Poland, 2012-2016



Source: BDL GUS, 2017, author's calculations.

A reason behind this may be that many local governments do not have enough money to invest in the creation of nurseries, and they are more likely to invest in cheaper solutions, such as children's clubs and daycare providers (but these institutions are much smaller than nurseries and offer less places for children). Even if local authorities can afford to build a nursery by applying to funding from the 'Maluch' program, the program does not offer full funding, and so the municipality still has to take care of maintenance (an issue for many localities). With Poland in demographic decline, this investment may be too risky to take.

Given this reality, perhaps the government should be thinking of other ways to spend its money. For example, local governments could receive a yearly subvention for every child aged 0-3. This would guarantee a steady flow of cash into their budgets, in accordance with the number of children in childcare institutions, and allow for some advance planning based on expected birth rates. The solution proposed by the government may yet increase the number of institutions, including nurseries, but in the current environment, there may be more optimal approaches to try.

How Can Poland Effectively Fund Energy-Efficient Buildings? New Sources of Modernization Support Available

By: *Aleksandra Mirowicz, European Climate Policy Analyst and Member States engagement lead at Sandbag*

It has been an interesting year in Brussels for the negotiations of the key EU climate files. With the Emissions Trading System (ETS) reform finished this week and the Effort Sharing Regulation (ESR) soon to be completed, Poland is in the spotlight for the debate on EU financing opportunities for low-carbon investments available to the Member States with lower GDP levels.

33 out of the 50 most polluted cities in Europe are in Poland, according to the World Health Organization; people in the industrial south of the country have been living with dangerous levels of smog for years. These areas also struggle with emissions from buildings, where households burn low-quality coal or rubbish in old stoves for heat. Buildings, together with transport, account for 23% of the country's current emissions. A study published last year by the European Environmental Agency (EEA) attributed an estimated 50,000 deaths per year to air pollution, caused in a large part by the burning of coal. Other countries in the region experience similar problems, as Sandbag showed in the series of reports on health impact of air pollution.

Investment in detached houses is an important part of the solution to this issue. Better insulated homes would not only reduce fuel use and energy bills, but also improve air quality. Previous support programs, which focused on public and commercial developments or multi family houses, failed to address the key residential energy efficiency issues that lead to air quality problems in Poland. Single-family houses (SFH) have been consequently underfinanced, while, according to data by Intelligent Energy Europe, their energy efficiency is low: 70% of SFH have no thermal insulation or their insulation layers are too thin.

Source: Pixabay, Alexas_Fotos

In 2016, Sandbag carried out an analysis to assess the abatement potential in the building sector, among other non-ETS sectors, as part of an analysis of Member States' ability to implement the EU non-ETS climate targets. This included an assessment of the abatement potential at different marginal costs across the EU, which has been negative for buildings. This in theory means that investments in energy efficiency should pay for themselves with savings that result from them.

In practice, even though there is a long-term economic rationale for investments, the financial pay-back period is often too long to make them attractive to individuals. At the end of 2014, the Special Task Force on Investment in the EU established that cash constraints and limited creditworthiness, in particular when situations of energy poverty are at stake, can imply that loans cannot be provided on terms that are agreeable to financial institutions and borrowers without some form of public intervention. This is especially relevant to Central and Eastern Europe.

To address the lack of financing capabilities, Central & Eastern Europe will be assigned between 310 and 385 million ETS allowances from the Modernisation Fund, currently worth EUR 7 each. In addition, continued derogation from Article 10c under the EU Emissions Trading System provides an additional 880 to 960 million allowances. These funds can go towards energy system modernization, which is a compensation not available to the Western European states.

At Sandbag we also promote using some of the basic principles of pricing carbon and carbon trading in Effort Sharing, where the idea is to enable EU emissions reductions to be made in the most cost-effective places. A Member State with higher reduction targets and higher decarbonization costs can fund emission reduction projects in another Member State as part of meeting its own reduction targets. Currently the ESR – unlike the ETS – is not a market based instrument and therefore prevents price discovery and new project developments under Article 5 of this legislation. A market mechanism could allow an increase in the EU climate ambition and allow Poland and other CEE countries to sell credits from projects on emissions cuts in non-ETS sectors – such as efficiency projects. We argue that wealthier European countries (such as Belgium, Luxembourg, Austria, Ireland, Finland) can buy Polish credits if approached in advance. If the amount of surplus credits in the ESR system goes down, more countries could grow interest in buying Polish credits.

The discussion around the use of the financing opportunities created under the EU ETS and Effort Sharing is only starting in Poland now as it finishes in Brussels. Investments in buildings should be seen on the one hand as a cornerstone of modernization of the Polish energy sector, together with investments in e-transport and renewables, and on the other hand as a way to address air quality and energy poverty that are a major problem in Polish cities and regions.

This topic, among other alternative methods of upfront financing currently developed in Europe, such as EuroPACE on-tax financing mechanism, will be discussed during the expert seminar "How can Poland effectively fund energy-efficient buildings? New sources of modernization support" organized by Sandbag, Institute for Environmental Economics, and Center for Social and Economic Research on November 21 in Warsaw.

This week: The 2018 Budgetary Act was amended on Thursday, November 10th. An additional PLN 2.3 billion (EUR 0.54 billion) was earmarked for retirement benefits for miners and an additional PLN 1 billion (0.23 billion) for the public television and radio. The amendment was enacted by 235 MPs to 193 MPs. Alternative allocations lodged by the opposition included the construction of roads and the reduction of the budgetary deficit; they were rebuffed.

GDP (Q2 2017, est.)

4.4% y/y

Up from 4.2% in Q1

Inflation (Oct 2017, est.)

2.1% y/y

Down from 2.2% in Sep

Unemployment (Sep 2017)

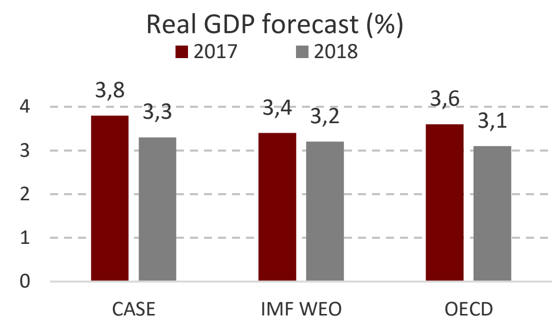
6.8%

Down from 7.0% in Aug

NBP Base rate

1.5%

From 2% Mar 2015



This week: No official meeting took place between President Putin and his US counterpart Donald Trump during the Asia-Pacific Economic Cooperation Summit held last week in Vietnam. Experts emphasized that such a meeting would be advantageous not only for business but could also help to improve diplomatic relations between the two countries, which deteriorated considerably since the first meeting of the two heads of states last July.

GDP (Q2 2017)

2.5% y/y

Up from 0.5% in Q1

Inflation (Sep 2017)

3.0% y/y

Down from 3.3% in Aug

Unemployment (Sep 2017)

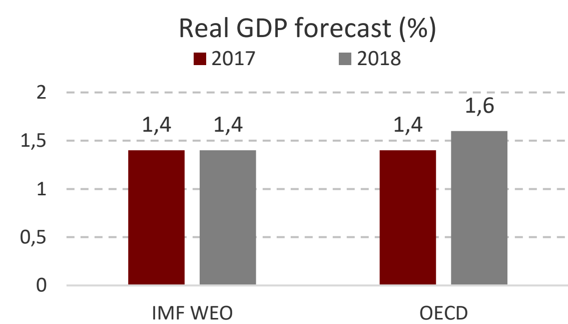
5.0%

Up from 4.9% in Aug 2017

CBR Base rate

8.25 %

From 8.5% in Oct 2017



This week: Electricity prices for private households continue to reach record highs. The average annual increase from last year for a typical family might have reached about 30 EUR. The driving forces behind the increases have been rising taxes, feed-in-tariffs, and network-related charges, which correspond to around 56 % of the consumer price.

GDP (Q2 2017)

2.1% y/y

Up from 2.0% in Q1

Inflation (Oct 2017)

1.5% y/y

From 1.8% in Sep

Unemployment (Sep 2017)

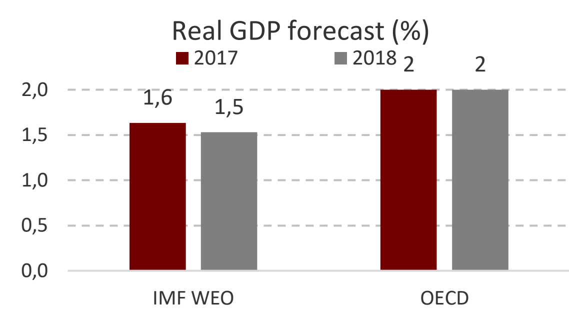
3.5%

Up from 3.7% in August

ECB Deposit rate

-0.4%

From -0.3% Dec 2015



This week: The National Commission, which regulates communication in the country, has begun preparation for a tender for the 4G-license in the 1800 MHz bands. The decision envisages the conversion of the radio frequency in the band of 1800 MHz in all regions of Ukraine. "VF Ukraine," "Lifecell," and "Kyivstar" have been determined as subjects of the conversion.

GDP (Q2 2017)

2.3% y/y

From 2.5% in Q1

Inflation (Oct 2017)

14.6% y/y

Up from 16.2% in Aug

Unemployment (Q2 2017)

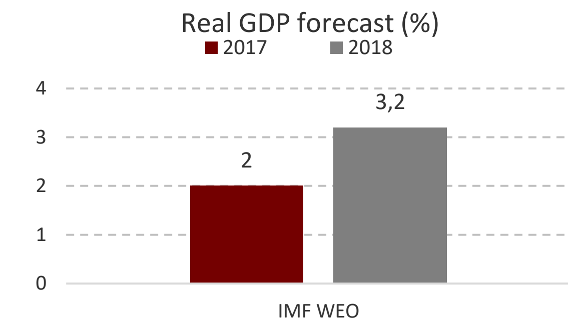
9.1%

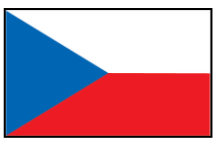
Down from 10.5% in Q1 2017

NBU Base rate

13.5%

From 12.5% in Sep 2017





This week: Unemployment levels remain at record low levels. According to the Czech Employment Office, the number of registered unemployed reached the lowest level in 20 years. The best performing is the western Plzen region with 2.3%, and the worst-performing is the north-eastern Moravskoslezsky region with 5.6%. The Ministry of Foreign Affairs announced a preparation of a new quota program for employees from Asian countries, who enjoy high demand on the market.

GDP (Q2 2017)

4.7% y/y

Up from 3.0% in Q1 2017

Inflation (Oct 2017)

2.9% y/y

Up from 2.7% in September

Unemployment (Q3 2017)

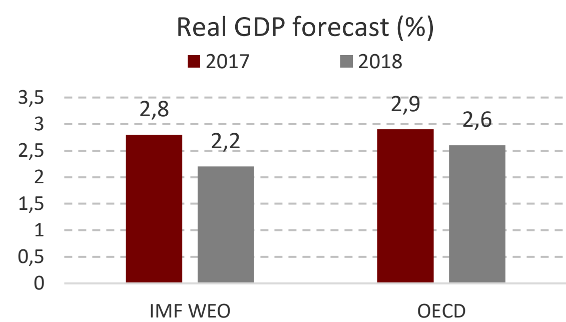
2.8% (preliminary)

Down from 3.0% in Q2

CNB Base rate

0.50%

From 0.25% (3rd November 2017)



This Week: The German company DHL Express, which provides international courier and mail services, has just opened a new operating center in the Budapest Airport. The investment is worth HUF 8 billion (EUR 160 million). According to the Budapest Airport, the new sorting system, which was set up in a warehouse of 6,000 square meters, will speed up the deliveries to the operating center in Leipzig, Germany.

GDP (Q2 2017)

3.2% y/y

Down from 4.2% in Q1

Inflation (Sep 2017)

2.5% y/y

Up from 2.1% in July

Unemployment (Q2 2017)

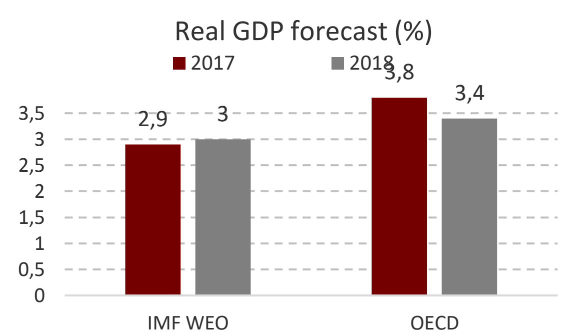
4.2%

Down from 4.3% in Q1

MNB Base rate

0.9%

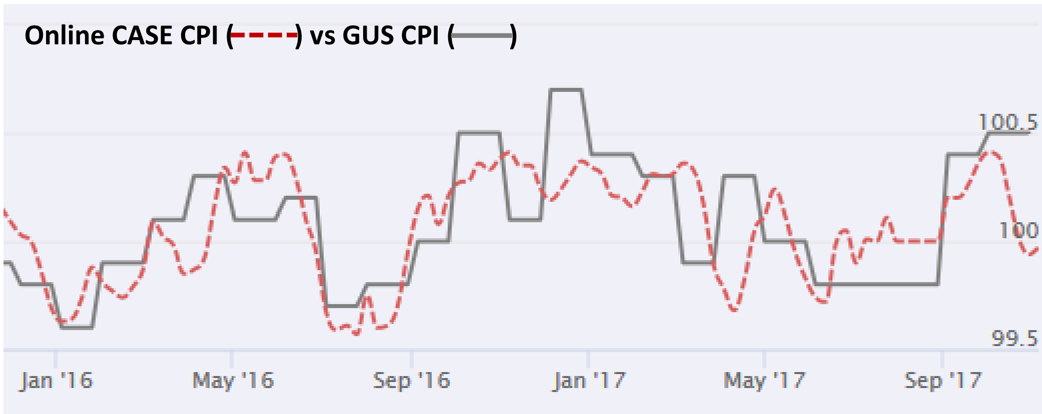
From 1.05% May 2016



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



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
2017	3.8	4.3	2.7	4.3	1.9
2018	3.3	3.3	3.1	3.7	2.1
	Nominal monthly wages	**Merchandise exports (USD, bn)**	**Merchandise imports (USD, bn)**	**Merchandise trade balance (USD, bn)**	**CA balance (USD, bn)**
2017	5.1	201.6	201.8	-0.2	-4.7
2018	3.5	211.3	213.1	-1.8	-5.9

For more information on our weekly online CASE CPI, please visit: http://case-research.eu/en/online-case-cpi
To **subscribe** to our weekly showCASE newsletter, please click here. To see **previous issues** of showCASE, please visit: http://case-research.eu/en/showcase

Contributions: Stanislav Bieliei, Krzysztof Głowacki, Katarzyna Mirecka, Marian Mraz, Aleksandra Polak, Monika Rębała, Katarzyna Sidło, Klaudia Wolniewicz-Slomka **Editor:** Krzysztof Głowacki **Editor-in-chief:** Christopher Hartwell