showCASE
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CASE – Center for Social and Economic Research

Overview: In this issue of showCASE, our authors discuss the halving of public subsidies to the social contributions paid by nannies, analyzing it in the context of the government's broader family policy.

The Government Saves Money on Nannies

By: Klaudia Wolniewicz-Slomka, CASE Economist

New regulations on childcare services for children under the age of 3 in Poland came into force on 1st January as a result of the Act of 7th July 2017, which amended acts related to the Polish family support system. Among the many changes introduced by the new law, parents who employ a nanny will be among the most affected. Indeed, according to the new law, the government's subsidy to the social insurance of nannies will be reduced by half, shifting the burden to parents for the social insurance of the nannies that they hire.

Photo: Pixabay

Before 2018, the government fully subsidized the social insurance of nannies in Poland on the condition that they were hired on the basis of an activation agreement (*umowa uaktywniająca*), registered in the Polish Social Insurance Institution (*Zakład Ubezpieczeń Społecznych*), and that their remuneration did not exceed a pre-determined minimum salary (if it exceeded this minimum, parents would contribute insurance proportional to the excess salary). This regulation was part of the system reform introduced by the Act of 4th February 2011 on care for children under the age of 3, the rationale of which was to reduce the extent of shadow work of nannies. According to data CASE obtained from the Polish Social Insurance Institution, the number of registered nannies was around 8,376 at the end of 2016, and the estimated number of nannies was 400,000 (the total number of available nannies registered on the website niania.pl).

Discouraged by the these numbers and by the cost of the program (estimated at PLN 49.2 million in 2017), especially when seen in light of all the other expenditures that the current government has committed itself to, a decision was made to reduce financial support for parents. The Ministry of Family, Labour and Social

Policy announced that the "savings" from these foregone expenditures would be spent on building new nurseries instead.

This decision can have important consequences. First of all, the growth in the number of nannies in shadow employment is expected, as parents will be tempted to cancel formal contracts with nannies (even if they have to share the resulting savings with them) due to the increased cost. Secondly and more importantly, by promoting mainly nurseries, as announced by the representative of the Ministry of Family, Labour and Social Policy, the development of other forms of childcare will be hindered. Diversifying childcare in Poland, including across nurseries, children clubs, daycare providers, and nannies, was one of the main goals of childcare system reform in 2011. It is believed that having a diversity of forms of childcare gives more flexibility to parents and helps to better to achieve a work-life balance. Given that parents have different preferences related to the provision of childcare, the government has instead chosen one way as preferential. Thirdly, building new nurseries is bound to take time, and there may need to be a transition period for the phasing out of assistance. Instead of this approach, the Polish government has cut off subsidies but has not started building nurseries yet.

The decision made by the Polish government appears to be an easy one, but the government should consider different solutions which could help to encourage more nannies to register, modifying financial support to make it more effective. Instead, without a transition plan, it decreased the amount of money spent on social insurance of nannies, an action which could have unforeseen costs in the short-term. Rather than a coherent family policy, the government has gone for expedient measures.

This week: Poland's unemployment rate in December 2017 equalled 6.6%, 0.1 percentage points more than in November, but 1.6 percentage points less than in December 2016. The lowest rate (3.7%) was recorded in the Wielkopolskie Voivodeship, while the highest (9.7%) in the Podkarpackie Voivodeship. Small increases in unemployment are predicted in the next two months due to the seasonal effect of winter.

GDP (Q3 2017)

5.2% y/y (est.)

Up from 4.2% in Q2

Inflation (Dec 2017)

2.1% y/y

Down from 2.5% in Nov

Unemployment (Dec 2017)

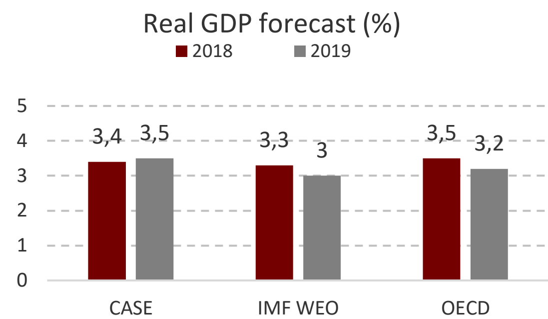
6.6%

Up from 6.5% in Nov

NBP Base rate

1.5%

From 2% Mar 2015



This week: The EU sanctions (and Russian counter-sanctions) over Russia's aggression on Ukraine are still in force, but the German exports to Russia grew for the first time in five years, according to Germany's Federal Statistics Office. In the period from January to November 2017 the exports to Russia grew by 21% on the analogical period in 2016, reaching EUR 24.1 billion. German imports from Russia, driven by a high demand for gas and oil, also experienced growth, rising by 19% (and reaching EUR 28.6 billion) in the same period.

GDP (Q3 2017)

1.8% y/y

Down from 2.5% in Q2

Inflation (Dec 2017)

2.5% y/y

Unchanged since Nov 2017

Unemployment (Nov 2017)

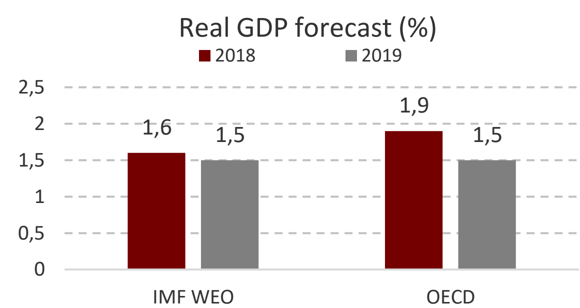
5.1%

Unchanged since Oct 2017

CBR Base rate

7.75 %

From 8.25% in Nov 2017



This week: According to two surveys released last week, confidence in Germany is booming both among consumers and businesses. The Ifo Business Climate Index increased to 127.7 in January from 125.5 in December, and the GfK consumer sentiment rose from 10.8 to 11.0, its highest level since 2001. GfK's sub-index measuring income expectations increased to 56.8 in January from 54.3 a month earlier.

GDP (Q3 2017)

2.8% y/y

Up from 2.3% in Q2

Inflation (Dec 2017)

1.6% y/y (est.)

Down from 1.8% in Nov

Unemployment (Nov 2017)

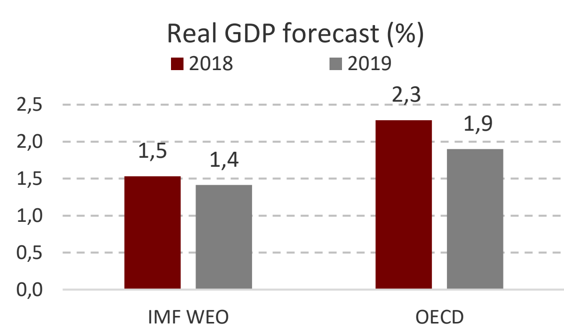
3.4%

Down from 3.8% in Oct

ECB Deposit rate

-0.4%

From -0.3% Dec 2015



This week: The National Bank of Ukraine (NBU) has revised its inflation forecast for 2018 up from 7.3% to 8.9%. Inflationary pressures will come from several sources: growing prices of raw products, increased public expenditures, and higher consumer demand against the backdrop of growing wages and increasing social expectations. The NBU notes that consumer inflation in the years 2018-2020 will fall gradually, reaching the target level in mid-2019.

GDP (Q3 2017)

2.1% y/y

Down from 2.3% in Q2

Inflation (Dec 2017)

13.7% y/y

Up from 13.6% in Nov

Unemployment (Q3 2017)

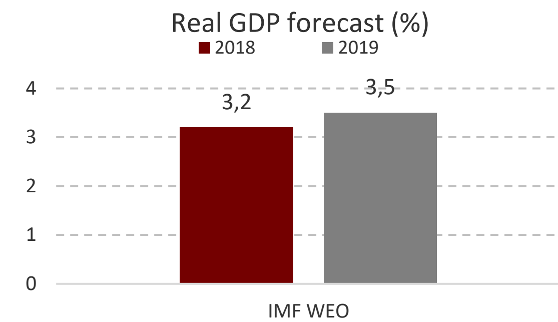
8.9%

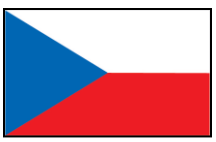
Down from 9.1% in Q2 2017

NBU Base rate

14.5%

From 13.5% in Oct 2017





This week: Czech unemployment rose to 3.8% in December following a four-month decline, according to the Czech Labor Office. Despite the increase, it is still the lowest December unemployment rate since 1997. Meanwhile, inflation slowed down to 2.4% compared to November's rate of 2.6%, mainly due to slow growth in fuel prices.

GDP (Q3 2017)

5.0% y/y

Up from 4.7% in Q2 2017

Inflation (Dec 2017)

2.4% y/y

Down from 2.6% in November

Unemployment (Dec 2017)

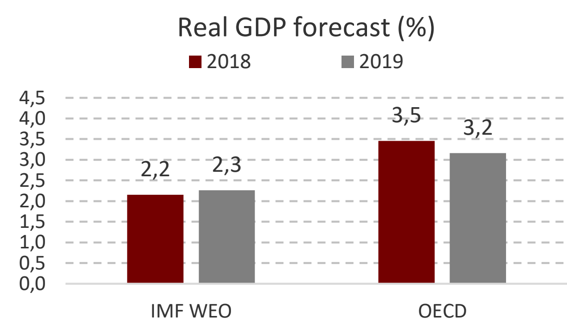
3.8%

Up from 2.8% in Q3 2017

CNB Base rate

0.50%

From 0.25% (3rd November 2017)



This Week: In the Global Talent Competitiveness Index (GTCI) 2018, Hungary ranked 52nd of 119 countries, and Budapest 41st of 90 cities. Hungary ranked lower than last year (when it was 41st), ahead of Ukraine (61st), but behind Czech Republic (25th), Slovenia (28th), and Poland (39th). The GTCI measures countries' ability to "grow, attract, and retain talent", as per its official website.

GDP (Q3 2017)

3.9% y/y (est.)

Up from 3.3% in Q2

Inflation (Nov 2017)

2.5% y/y

Up from 2.2% in October

Unemployment (Q3 2017)

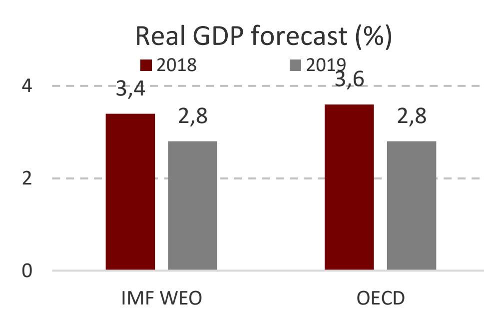
4.0%

Down from 4.3% in Q2

MNB Base rate

0.9%

From 1.05% May 2016



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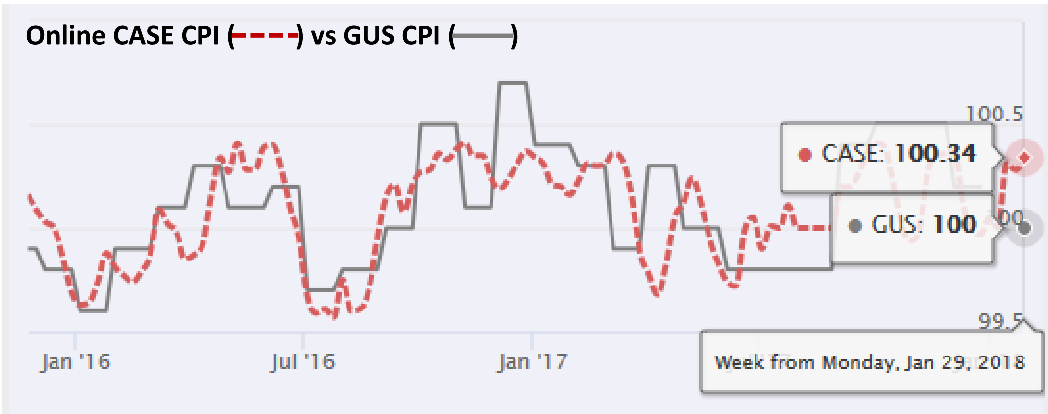
Center for Social and Economic Research

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
2018	3.4	3.5	3.1	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	3.5	233.4	235.2	-1.8	-3.9
2019	3.7	242.7	244.6	-1.9	-4.1

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