Chapter 5.

Economic Integration and Interdependence in Poland

Fast Success?

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The Conditions at the Beginning of the Integration Process

The state of the Polish economy at the verge of the systemic transformation was in recession. In 1989, the consumer price index reached 251.1%. The economy was in poor shape due to the input shortages related to inflation. The elections conducted under the agreement signed after the round table discussions made the changes in the economic system possible, so the government of Prime Minister Mazowiecki could start the changes that was hoped to bring a total change in the functioning of the economy which was to ensure a much higher quality of life.

The transformation process of the Polish system started in 1989, when the parliament accepted the reform package known as the Balcerowicz Plan after its main proponent and implementer who was a minister of finance and deputy prime minister. The Plan was aimed at the transformation of the Polish economy from central planning to market economy. The Plan included 10 acts. These are related to, among others, the following issues:

- removing the guarantee of existence of all state-owned enterprises, thus enabling bankruptcy proceedings against unprofitable enterprises;
- prohibiting the financing of the budget deficit by the central bank, which made it impossible to issue unlimited funds without coverage;
- abolishing credit preferences of state-owned enterprises by binding the interest rate with the inflation rate – this changed the terms of previously concluded credit agreements with a fixed interest rate;

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- introducing special tax on remuneration growth so as to limit the growth of inflation;
- implementing rules on conducting economic activity;
- unifying tax regulation irrespective of the type of ownership of companies. (Wikipedia s. a.)

These acts enabled the transformation of the Polish economy from the centrally planned one into the market one. This included changes in the structure of ownership, opening the economy, shaping conditions for competition and creating capital and labour market.

The implementation of the Plan was considered a shock therapy as the changes were fast and profound. The figures show that it was effective in stabilising the economy. However, the transformation process and the privatisation linked to it led to the appearance of unemployment, a phenomenon not known in a centrally planned economy. Unemployment grew rapidly to a high figure. Moreover, the tax on increasing remuneration in the context of high inflation was seen as the reason for too strong fall in the life standard of numerous groups of citizens. Therefore, the social costs are seen by some experts too high. (Rolski 2013)

The reforms conducted in the first years of the transformation soon put Poland on the GDP growth path. The structure of the economy and the direction of the Polish export changed significantly. Germany became the key economic partner and Poland's economic situation started to be correlated with the German one. Germany also became the most important investor in Poland. Foreign direct investment played a vital role in speeding up the structural changes and the increase of labour productivity.

Interdependence and Economic Penetration

The Polish economy had to struggle not only with inner economic problems in its transformation process, but it was also faced with the collapse of its exports markets as the Soviet bloc, its chief buyer, heeded into recession and political turmoil. The export markets were closed due to the problems of the socialist economies. The Polish economy had to change its exporting orientation which came at a cost to former export leaders and took some time. The biggest loser of the changes was the heavy industry. The problems of this sector were so immense that most of the companies had to close down which led to a rapid and significant growth of unemployment.

After the beginning of the transformation process, foreign direct investment in Poland exceeded PLN 712 billion. (Czerniak–Blauth 2017) The key foreign investors were the EU and the USA. Foreign capital increased the productivity of the Polish economy by introducing modern technologies. The added value of the companies acquired by foreign owners was increased by 2.2% annually more than other entities. (Czerniak–Blauth 2017) Foreign Direct Investment (FDI) also contributed to the development of the Polish economy. Demand generated by it amounted to 3% of the GDP. It also positively influenced labour productivity, the level of remuneration and employment. It is vital to emphasise that the share of foreign companies in the Polish export amounts to 67.1%. (Czerniak–Blauth 2017) This shows their importance in shaping the Polish trade balance.

The changes in ownership structure were first and foremost the result of the opening of the Polish market and the need to modernise it. Therefore, with the lack of internal funds and investors, foreign ones were more than welcomed. Naturally, the closer cooperation with more developed countries and international organisations led to further changes in regulations concerning foreign investments. Moreover, the growing economy ensured a satisfactory level of legal and political stability. Foreign companies played the most important role in restructuring the Polish banking sector. In 1999, due to OECD membership and EU accession negotiations, most of the limitations to the foreign banks presence in Poland was lifted which resulted in a quick transformation of the sector. Currently, approximately 70% of it is owned by foreign investors. (Siemiątkowski 2011) Until 2003, the annual value of funds withdrawn from Poland did not exceed several thousand USD, but later it started to grow reaching a record level of USD 9 billion in 2009. (Siemiątkowski 2011) As for the incomes of foreign investors in Poland, in 2016 they reached a record level of almost EUR 18.8 billion. (Eurostat 2017) This meant that every EUR 100 invested brought EUR 8.4. After 2007, also the rate of the reinvestment was a record one reaching 3.8%. (Eurostat 2017)

Poland is the biggest of the European former socialist bloc countries bordering Germany. Therefore, the most important economic advantage Poland can offer to investors and companies is the size of the Polish market and proximity to the EU15 markets. Still, as from the beginning of the transformation process, an important attracting factor is skilled and cheaper labour force than in EU15. Since the Polish EU accession, the Polish FDI inward position has been oscillating around 1/3 of the GDP (Table 1). A significant fall was observed in 2008 in the middle of the financial crisis. The Polish FDI outward position is much lower compared with the inward one, but it increased significantly in the last decade.

Table 1.

Polish FDI position in the period of 2005–2016

Specification	**FDI outward position**	**FDI inward position**	**FDI outward position**	**FDI inward position**
	in USD millions		**as a share of GDP**	
2005	1,776	86,338	0.6	28.2
2006	4,402	115,796	1.3	33.6
2007	7,280	164,377	1.7	38.3
2008	8,204	148,402	1.5	27.8
2009	11,503	167,381	2.6	38.1
2010	16,407	187,602	3.4	39.1
2011	18,928	164,424	3.6	31.1
2012	26,102	198,953	5.2	39.8
2013	27,725	229,167	5.3	43.7
2014	21,797	211,951	4.0	38.9
2015	22,281	183,869	4.7	38.5
2016	27,076	185,042	5.8	39.4

Source: Compiled by the author based on OECD 2018.

An important issue related to the interdependence in case of Poland is the export. Until the end of the1980s, the key destination for the Polish exports was the Soviet Union. After it collapsed and the countries of the Soviet bloc were suffering an economic crisis, Poland had to find new markets for its goods. Already in 1990, Germany has gained the position of the first Polish trade partner and it has kept it ever since. Germany's share in the Polish export fluctuated between 25%–30% in the period of 2004–2017 (Table 2). In fact Germany does not only occupy the first position in the Polish export, but its share is over 4 times larger than the country's in the second position. Yet, it is not only Germany that is vital for the Polish export. When looking at the ten countries that have the highest share in the Polish export, it is clearly visible that it depends on the EU countries. The only non-EU countries that during the period of 2004–2017 made it to the list of ten key Polish export destinations more than once were Ukraine and Russia. The EU related Polish export accounts for approximately 75% of the Polish export. This shows the importance of the EU to Poland and the dependence of the Polish economy on the situation in the EU and especially in Germany.

Table 2.

Most important Polish export destinations in the period of 2004–2017 and their share in the Polish export (%)

Year/ Position	**1**	**2**	**3**	**4**	**5**
2004	Germany	Italy	France	United Kingdom	Czech Republic
	30.05	6.12	6.05	5.41	4.32
2005	Germany	France	Italy	United Kingdom	Czech Republic
	28.20	6.21	6.13	5.58	4.57
2006	Germany	Italy	France	United Kingdom	Czech Republic
	27.15	6.53	6.24	5.71	5.54
2007	Germany	Italy	France	United Kingdom	Czech Republic
	25.90	6.61	6.09	5.94	5.54
2008	Germany	France	Italy	United Kingdom	Czech Republic
	25.04	6.21	5.98	5.77	5.70
2009	Germany	France	Italy	United Kingdom	Czech Republic
	26.15	6.94	6.86	6.40	5.84
2010	Germany	France	United Kingdom	Czech Republic	Italy
	26.10	6.77	6.28	5.98	5.93
2011	Germany	United Kingdom	Czech Republic	France	Italy
	26.09	6.45	6.23	6.12	5.32
2012	Germany	United Kingdom	Czech Republic	France	Russia
	25.15	6.77	6.32	5.87	5.35
2013	Germany	United Kingdom	Czech Republic	France	Russia
	25.09	6.50	6.19	5.61	5.26
2014	Germany	Czech Republic	United Kingdom	France	Italy
	26.31	6.47	6.37	5.59	4.54
2015	Germany	United Kingdom	Czech Republic	France	Italy
	27.11	6.74	6.64	5.54	4.84
2016	Germany	United Kingdom	Czech Republic	France	Italy
	27.38	6.65	6.57	5.50	4.77
2017	Germany	Czech Republic	United Kingdom	France	Italy
	27.41	6.40	6.37	5.62	4.91

Year/ Position	6	7	8	9	10
2004	Netherlands	Russia	Sweden	Belgium	Ukraine
	4.30	3.82	3.51	3.20	2.74
2005	Russia	Netherlands	Sweden	Belgium	Ukraine
	4.44	4.16	3.08	2.98	2.91
2006	Russia	Netherlands	Ukraine	Sweden	Hungary
	4.28	3.85	3.60	3.21	3.04
2007	Russia	Ukraine	Netherlands	Sweden	Hungary
	4.62	3.96	3.83	3.22	2.91
2008	Russia	Netherlands	Ukraine	Sweden	Hungary
	5.20	4.03	3.72	3.17	2.77
2009	Netherlands	Russia	Hungary	Sweden	Spain
	4.21	3.67	2.70	2.68	2.6
2010	Netherlands	Russia	Sweden	Hungary	Slovakia
	4.38	4.19	2.96	2.83	2.70
2011	Russia	Netherlands	Sweden	Hungary	Ukraine
	4.49	4.37	2.85	2.56	2.48
2012	Italy	Netherlands	Ukraine	Sweden	Slovakia
	4.85	4.48	2.85	2.68	2.59
2013	Italy	Netherlands	Ukraine	Sweden	Slovakia
	4.32	3.97	2.78	2.71	2.64
2014	Russia	Netherlands	Sweden	Hungary	Slovakia
	4.23	4.16	2.84	2.63	2.54
2015	Netherlands	Russia	Sweden	Hungary	Spain
	4.43	2.85	2.74	2.66	2.62
2016	Netherlands	Sweden	Russia	Spain	Hungary
	4.48	2.90	2.82	2.72	2.65
2017	Netherlands	Russia	Sweden	Spain	United States
	4.39	3.03	2.77	2.72	2.69

Source: Compiled by the author based on GUS[7] s. a.

Poland has a positive trade balance with the EU as a whole. EU countries are more important for Poland as export destinations than as a source of imports. The EU's share in the Polish imports was stable in the period of 2002–2016 and amounted to approximately 60%, while its share in exports increased significantly (Table 3).

[7] GUS: Główny Urząd Statystyczny (en – Statistics Poland).

Table 3.
The EU's share in the Polish imports and exports in the years 2002–2016

Year	Imports	Exports
2002	61.7	68.7
2003	61.1	68.8
2004	68.3	79.2
2005	65.6	77.2
2006	63.2	77.4
2007	64.2	78.9
2008	61.9	77.8
2009	61.9	79.6
2010	59.5	79.1
2011	59.6	78.0
2012	57.5	76.1
2013	58.4	74.8
2014	59.0	77.5
2015	60.0	79.4
2016	61.2	79.8

Source: Compiled by the author based on the data of GUS 2007; 2010; 2012a; 2017.

Foreign direct investment has been important for Poland's development ever since the beginning of the transformation. The scale of FDI coming to Poland was fluctuating in the period of 2000–2016 (Table 4). The structure of FDI changed. In recent years, reinvestment of profits has become the most important part of FDI. This shows a growing involvement of companies that invested in Poland and thus, a growing interdependence.

Table 4.
Amount of FDI coming to Poland in the period of 2000–2016 (in million EUR)

Year	Shares and other forms of equity	Reinvestment of profits	Debt instruments	Total
2000	9,666	–434	1,002	10,234
2001	5,908	–1,161	1,480	6,226
2002	4,521	–1,294	1,038	4,265
2003	4,032	–75	–436	3,522
2004	5,972	4,989	–925	10,036
2005	3,595	2,717	1,499	7,812
2006	5,741	4,530	4,373	14,644
2007	5,592	6,770	3,474	15,836
2008	6,712	–654	3,440	9,497
2009	3,804	3,581	1,187	8,572
2010	3,148	5,620	891	9,659
2011	1,483	5,236	6,412	13,131
2012	–1,153	4,362	2,331	5,540
2013	–5,447	4,124	3,531	2,208
2014	3,324	6,485	1,444	11,253
2015	5,470	7,286	1,635	14,391
2016	2,107	8,556	3,066	13,729

Source: Compiled by the author based on the data of NBP[8] 2013–2018.

This interdependence is especially related to EU countries as their share in the amount of FDI in recent years amounted to at least approximately 90% of the total amount (Table 5). The key investor countries are Germany, France and the Netherlands.

[8] NBP: Narodowy Bank Polski (en – National Bank of Poland).

Table 5.
The share of the EU in FDI coming to Poland in the period of 2011–2016 (% of total)

Year	Share
2011	122.8[9]
2012	86.6
2013	183.5
2014	108.1
2015	92.5
2016	91.9

Source: Compiled by the author based on the data of NBP 2013–2018.

The Use of EU Funds

Poland, as other states which have become EU members since 2004, benefited from EU pre-accession support. The support included the following funds: PHARE, ISPA and SAPARD. The first pre-accession fund was PHARE. The operation of the programme started in 1990. The fund's support covered a wide range of sectors and problems as PHARE was aimed at supporting the process of reforms in transition countries. Poland was the largest beneficiary of PHARE funds. It received EUR 3,994.1 million out of EUR 18,673.1 million targeted at the candidate countries covered by this support in the period of 1990–2006. According to the fund's ex-post evaluation "[I]mplementation of Phare in Poland is considered generally successful in the areas such as environment and internal market, where Phare funds and projects provide notable value added. In some limited cases remedial actions had to be taken. Some sectors remain problematic, such as transport, and agriculture, where several remedial actions had to be taken

[9] The share can be higher than 100% when there is an outflow of investments by other investors.

to decrease the negative impact from excessive delays, avoid the risk of loss of funds and support Poland's ability to fulfil the acquis in these areas". (Business and Strategies Europe 2015, 40) Instrument for Pre-accession Assistance (ISPA) was a pre-accession fund directed to transport and environmental infrastructure in candidate countries. It operated on the principles valid for the Cohesion Fund. The funds that approximately had EUR 350 million a year, were equally divided between the two priorities. The SAPARD programme was especially important for the processing industry. It launched an accelerated process of upgrading technology that led to growth in competitiveness and enabled successful competition at the single EU market. The largest share of SAPARD funds in Poland was devoted to the implementation of local community infrastructure projects in rural areas (45%). Further 34% of funds were allocated to the investment projects implemented by the agri-food undertakings, whereas the largest number of projects (about 13 thousand) included activities carried out on agricultural holdings. Currently, Poland is the largest beneficiary of the EU funds. The value of the 2004–2006 allocation for Poland constituted 6% of the whole funds within the EU Cohesion Policy for 2000–2006 and almost half of the funds earmarked for Member States which joined the EU in 2004. In the financial perspective between 2007–2013 Poland became the key beneficiary of the EU funds of all Member States receiving nearly one fifths of the available resources (EUR 67.3 billion). For the period of 2014–2020, it was allocated EUR 82.5 billion to the country. Since the EU accession, Poland has received over EUR 96 billion (EU transfers minus Polish contributions to the EU budget). The funds received cover the whole spectrum of EU policy instruments applied to the EU member states in this period (Tables 6 and 7).

Table 6.
Transfers of funds between EU and Poland in the years 2004–2010 (in EUR)

Specification	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
PHARE	364,746,112	333,107,462	222,280,250	855,992	0	0	0
SAPARD	118,293,459	339,076,932	12,481	0	34,716,263	0	0
ISPA	209,177,700	229,083,394	265,031,136	352,620,317	339,577,874	153,175,501	108,459,104
Cohesion Fund	0	0	255,730,261	939,736,508	1,332,079,814	2,269,217,223	2,163,929,765
Structural funds	840,975,083	775,489,907	1,624,939,595	3,448,257,787	3,446,708,115	3,726,732,940	5,377,936,911
Direct payments	0	702,674,035	811,580,923	935,100,872	1,037,600,783	1,446,164,527	1,827,719,773
Rural development	286,640,000	662,100,658	1,149,555,478	1,550,886,535	846,530,427	1,043,825,682	1,571,940,488
Other agricultural support	10,786,208	177,306,955	192,996,993	67,695,146	147,029,790	423,941,485	78,960,948
Transition facility		10,345,174	25,560,724	33,730,473	16,761,542	7,799,641	0
Liquidity instrument	490,295,800	612,043,968	514,292,712	0	0	0	0
Schengen Facility	103,351,872	103,858,296	106,664,337	0	0	0	0
European Fisheries Fund					51,386,780	51,386,480	37,168,509
Migration funds	0	0	0	0	4,477,021	13,770,764	7,770,129
Other transfers	53,365,000	72,968,000	100,204,257	77,341,966	139,503,999	122,426,450	52,031,380
Total	2,477,631,234	4,018,054,781	5,268,849,147	7,406,225,595	7,396,372,407	9,258,440,695	11,229,303,573
Polish contribution to the EU budget	1,318,979,881	2,379,384,673	2,552,450,098	2,779,298,358	3,402,108,330	3,233,746,572	3,489,951,756
Funds returned	0	22,969,276	4,046,130	45,064,096	7,826,157	12,787,124	1,758,255
Balance	1,158,651,353	1,615,700,832	2,712,352,921	4,581,863,142	3,986,437,920	6,011,906,999	7,737,593,561

Source: Compiled by the author based on MF[10] s. a.

[10] MF: Ministerstwo Finansów (en – [Polish] Ministry of Finance).

Table 7.
Transfers of funds between EU and Poland in the years 2011–2017 (in EUR)

Specification	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
ISPA	79,724,373	24,082,951	77,888,836	54,857,443	67,888,577	0	0
Cohesion Fund	2,610,487,227	3,174,473,034	3,482,716,144	4,524,540,951	3,811,899,196	2,354,729,836	2,580,002,961
Structural funds	7,114,227,955	7,270,509,259	7,050,935,433	7,369,627,734	4,053,176,811	2,768,849,039	4,448,542,797
Direct payments	2,395,415,615	2,702,781,649	3,065,995,810	3,154,051,235	3,375,509,410	3,230,960,593	3,313,227,469
Rural development	1,706,015,707	2,024,767,952	1,695,969,389	1,772,534,433	1,428,311,511	1,048,087,364	563,738,811
Other agricultural support	153,794,174	140,706,620	121,065,117	49,677,912	93,332,694	204,553,331	101888118
European Fisheries Fund	71,086,297	63,019,618	116,130,229	132,430,236	160,835,711	38,911,700	3,120,914
Migration funds	9,071,680	19,812,579	19,247,433	8,181,820	16,591,144	51,188,853	10,989,635
Fund for European Aid to the Most Deprived	N/A	N/A	N/A	52,069,519	N/A	57,012,302	49,411,199
Connecting Europe Facility	N/A	N/A	N/A	N/A	36,284,733	213,413,802	69,780,777
Other transfers	130,804,727	19,827,909	5,708,889	6,631,360	10,355,371	8,724,470	11,902,708
Total	14,270,627,754	15,439,981,570	15,635,657,282	17,124,602,643	13,054,185,157	9,976,431,291	11,152,605,388
Polish contribution to the EU budget	3,733,869,437	3,568,719,480	4,439,022,479	4,153,101,502	4,262,068,238	4,493,369,548	3,557,347,001
Funds returned	44,441,271	1,634,227	1,489,218	1,237,753	7,727,673	1,389,807	2,074,821
Balance	10,492,317,046	11,869,627,863	11,195,145,586	12,970,263,389	8,784,389,246	5,481,671,935	7,593,183,566

Source: Compiled by the author based on MF s. a.

The structure of funds received by Poland corresponds with the EU policy and the development level of Poland. Therefore, over 20% of funds transferred to Poland were received from the Cohesion Fund (Figure 1). An important part of the EU support was distributed through the common agricultural policy (CAP) which accounted for approximately 1/3 of the funds allocated for Poland.

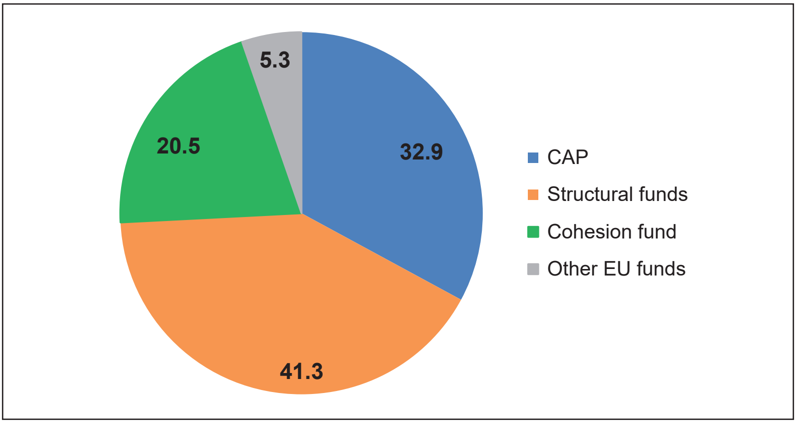

Figure 1.
Structure of EU funds received by Poland in the years 2004–2017
Source: Compiled by the author based on MF s. a.

In all the programming periods, the EU co-financed programmes had objectives directly related to the EU priorities. They were very general and fitted to all regions and activities in every programming period. Within regional operational programmes, the priorities were similar in all the regions and the regions' specific features were hardly visible.

The National Development Plan (NDP) was a document that stipulated the way EU funds were to be implemented in Poland in the programming period 2004–2006. (Rade Ministrów 2003) Its strategic goal was the development of competitiveness of the Polish economy that would enable increase in employment level and lasting sustainable development as well as improvement of social, economic and territorial cohesion with the EU (both at the regional and country level). The total amount of EU funds relating to NDP was EUR 12,800 million. The NDP encompassed the following programmes and instruments.

a) Community Support Framework, including:
- Integrated Operational Programme of Regional Development (European Regional Development Fund—EUR 2,530.4 million, European Social Fund—EUR 438.4 million);
- Sectoral Operational Programme for Development of Human Resources (EUR 1,470 million);
- Sectoral Operational Programme for Increase of Companies' Competitiveness (EUR 1,251.1 million);
- Sectoral Operational Programme for Transportation (EUR 1,163.4 million);
- Operational Programme for Technical Assistance (EUR 28.3 million);
- Sectoral Operational Programme "Restructuring and Modernisation of the Food and rural development" (EUR 1,192.7 million);
- Sectoral Operational Programme for Fisheries and Fish Processing (EUR 201.8 million).

b) Cohesion Fund—EUR 4,178.6 million, equally divided between transportation and environmental projects.

c) Community initiatives, including:
- EQUAL—promotion of gender equality (allocation—EUR 133.9 million);
- INTERREG III (together with neighbourhood programmes)—boarder, transnational and interregional economic co-operation (allocation—EUR 221.36 million).

In the programming period of 2007–2013, the amount of funds allocated to Poland was much higher than in the short programming period 2004–2006. Over 2/5 of the funds within the cohesion policy was allocated to the Operational Programme Infrastructure and Environment (Figure 2). A quarter of cohesion policy funds were allocated to regional programmes.

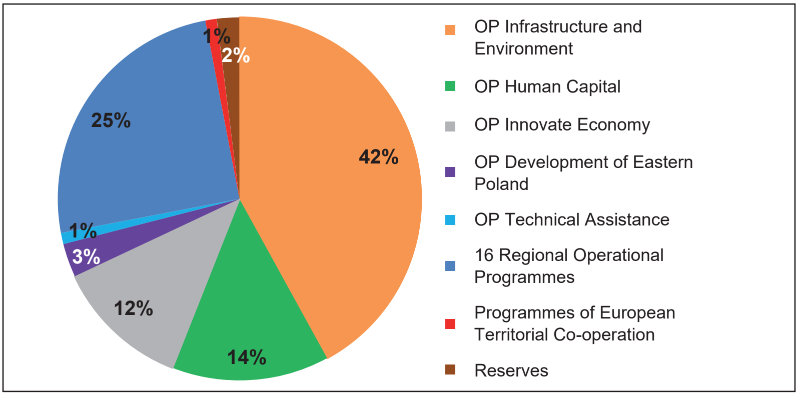

Figure 2.

Distribution of funds allocated to Poland under the cohesion policy between 2007–2013 according to Operational Programmes

Source: 2nd European Funds Forum 2009

In the programming period of 2007–2013, transport infrastructure continued to be a key priority for Poland (Figure 3). The second area with the largest share of funds allocated was research and innovation, followed by human capital and environmental protection.

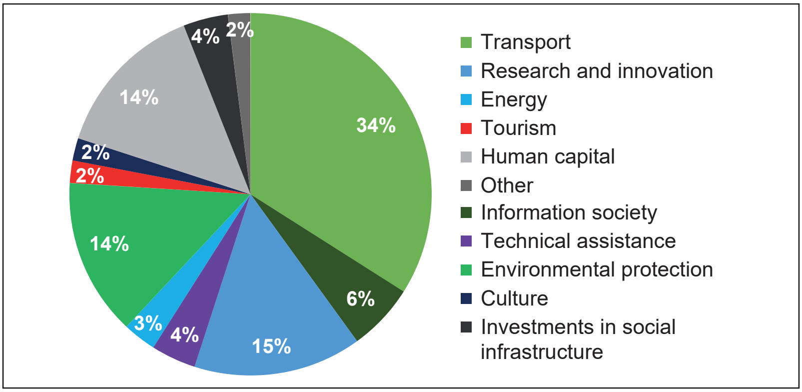

Figure 3.

Distribution of funds allocated to Poland under the cohesion policy between 2007–2013 according to support areas

Source: 2nd European Funds Forum 2009

In the programming period of 2014–2020, the amount of funds earmarked for Poland was even higher than in 2007–2014. It was divided between the following programmes (Figure 4):

- Infrastructure and Environment Programme: under this programme large enterprises will be able to obtain grants for investments in support of transition to low-emission economy, energy efficiency increase and use of renewable energy sources.
- Smart Growth Programme: oriented at development of innovation in Polish economy, mainly by stimulating research and development and transferring the results to the economy sector. This programme will let large enterprises develop innovative projects involving collaboration with scientific units in order to commercialise scientific research results, and will let increase the outlays on research and development in companies.
- Knowledge, Education, Growth Programme: under this programme, companies will be able to carry out projects involving training for employees so that the personnel competences and skills will be developed.
- Digital Poland Programme: addressed to the public sector. Telecommunications companies will receive funds for construction, extension or restructuring of broadband Internet access, and support for e-administration and e-services in collaboration with the local and central government administration. Furthermore, local government units can use this programme to implement tasks aiming at e-integration and e-activation to increase intensity and quality of the Internet use.
- Eastern Poland Programme: covers the Eastern macro-region including 5 provinces: lubelskie, podkarpackie, podlaskie, świętokrzyskie and warmińsko-mazurskie. Large companies may use this programme to obtain aid for research and development work, building and expanding R&D facilities, projects concerning eco-innovation and energy efficiency which would lead to innovation.
- Technical Assistance Programme: it is a tool to build the potential of institutions in charge of financial intervention.
- Regional Operational Programme: the aid under the Regional Operational Programme is distributed in line with the individual needs of the region. As a matter of principle, such investments should

complement national efforts on: popularising information and telecommunications technologies, research, technological development and innovation, infrastructure, environmental protection as well as energy and transport.

The responsibility for the distribution of EU funds in Poland is going to be shifted more to provinces. Significantly more funds are being managed through the Regional Operational Programmes focused on local and regional investments. Between 2007 and 2013, local governments handled about 25% of all funds for Poland, now they are in charge of almost 40%. Consequently, local governments have more freedom in choosing which growth targets they want to focus on.

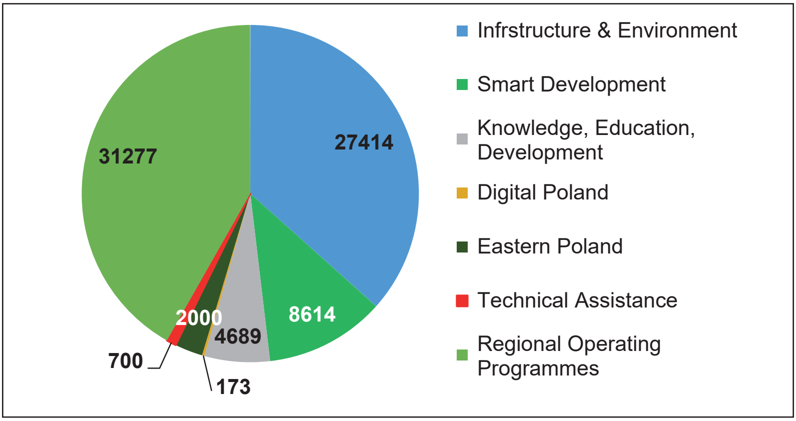

Figure 4.

Division of the Cohesion Funds allocated to Poland in the programming period of 2014–2020 (million EUR)

Source: Rödl & Partner s. a.

The use of EU funds is very transparent. The procedures were carefully prepared to ensure that the funds are used according to the EU regulations. There has been no scandal related to the use of EU funds. Naturally, this strive to ensure correctness in the use of EU funds results in long-lasting application procedures thus making the system costly to both public bodies and support applicants.

The Socioeconomic Effects of Integration

In case of the Polish economy, the transition process was closely linked with the integration process. The first step to put the economy on the development path was the fight of hyperinflation. From the beginning of the 21st century, the inflation in Poland does not show double digits (Table 8).

Table 8.
Yearly consumer price index in the years 1989–2017

Year	Previous year = 100	Year	Previous year = 100
1989	351.1	2004	103.5
1990	685.8	2005	102.1
1991	170.3	2006	101.0
1992	143.0	2007	102.5
1993	135.3	2008	104.2
1994	132.2	2009	103.5
1995	127.8	2010	102.6
1996	119.9	2011	104.3
1997	114.9	2012	103.7
1998	111.8	2013	100.9
1999	107.3	2014	100.0
2000	110.1	2015	99.1
2001	105.5	2016	99.4
2002	101.9	2017	102.0
2003	100.8		

Source: GUS 2018

As soon as the Polish economy overcame the recession accompanying the transition process, it entered the growth path which has been following ever since (Table 9). Even during the financial crisis, the Polish economy continued to grow and in 2009 it was the only EU country with a positive GDP growth.

Table 9.
Polish GDP growth in the years 1991–2016 (%)

Year	GDP growth	Year	GDP growth
1991	–7.0	2004	5.1
1992	2.5	2005	3.5
1993	3.7	2006	6.2
1994	5.3	2007	7.0
1995	7.0	2008	4.2
1996	6.1	2009	2.8
1997	6.5	2010	3.6
1998	4.6	2011	5.0
1999	4.6	2012	1.6
2000	4.6	2013	1.4
2001	1.2	2014	3.3
2002	2.0	2015	3.8
2003	3.6	2016	2.9

Source: WB[11] s. a.

Unemployment was a phenomenon not observed in the socialist economy. Due to transformation reforms, it rapidly appeared in Poland being one of the key social burdens associated with market economy. Yet, the highest unemployment rate was not observed at the beginning of the transformation process but at the beginning of the 21st century which was related to the entering to the labour market of a large group of young people (Table 10).

Table 10.
Unemployment in Poland in the years 1991–2017 (% of total labour force)

Year	Unemployment	Year	Unemployment
1991	11.9	2005	17.7
1992	13.3	2006	13.8
1993	14.0	2007	9.6
1994	14.4	2008	7.1
1995	13.3	2009	8.2
1996	12.4	2010	9.6
1997	11.0	2011	9.6

[11] WB: World Bank.

Year	Unemployment	Year	Unemployment
1998	9.9	2012	10.1
1999	12.3	2013	10.3
2000	16.3	2014	9.0
2001	18.4	2015	7.5
2002	19.9	2016	6.2
2003	19.4	2017	5.1
2004	19.1		

Source: WB s. a.

The EU membership brought Poland a huge outflow of people. These were generally young, mostly well-educated people. This process started immediately after the accession to the EU as the United Kingdom and Ireland did not establish any interim period and free movement and thus, legal work, was possible already in 2004. The highest number of Poles temporarily living abroad was observed in 2007 and it amounted to 2.3 million citizens, (GUS 2012b) i.e. about 6% of Poland's population. Over 80% of these citizens were staying in EU countries. Most of the people left Poland in the first years of the Polish EU membership when the unemployment rate in Poland was very high in comparison with the U.K. or Ireland so this was not a significant problem for the Polish economy. In fact, it resulted in lowering of the unemployment rate and the inflow of money transfers which supported the families in Poland. Personal remittances started to grow before the EU accession (Table 11), but their rapid growth was observed in the first years of the EU membership reaching a peak in 2006. Since 2008, there has been a constant fall in personal remittances expressed as a share of GDP.

Table 11.

Personal remittances, received (% of GDP)

Year	Personal remittances	Year	Personal remittances
1994	0.52	2006	2.46
1995	0.51	2007	2.44
1996	0.48	2008	1.96
1997	0.53	2009	1.86
1998	0.61	2010	1.60
1999	0.49	2011	1.46

Year	Personal remittances	Year	Personal remittances
2000	0.87	2012	1.40
2001	0.82	2013	1.41
2002	0.85	2014	1.36
2003	1.05	2015	1.42
2004	1.85	2016	1.42
2005	2.11		

Source: WB s. a.

The development of the Polish economy accompanied by a much smaller but still present outflow of Poles and demographic changes led to a reduction of unemployment rate. In recent years, the situation on the labour market became a reverse of the one observed in the beginning of the 21st century. There is a shortage of employees in more and more professions. This includes both highly qualified employees and the ones with only basic skills. The problem includes, among others, nurses, shop assistants and construction workers. The inflow of Ukrainians mitigates the problems with finding employees and limits the growth of salaries. Yet, the structural shortages in numerous professions that are going to be observed in the coming years will not be easy to alleviate based only on Ukrainians.

Currently, Poland occupies the 36th place in the Human Development Index (HDI) ranking (Table 12). The value of the HDI was increasing steadily in the period of 1990–2015, showing changes resulting from the Polish transformation reforms and the EU accession.

Table 12.

Human Development Index for Poland in the years 1990–2015

Human Development Index (value)				Average annual HDI growth (%)				Current rank
1990	2000	2010	2015	1990–2000	2000–2010	2010–2015	1990–2015	
0.712	0.784	0.829	0.855	0.97	0.56	0.62	0.74	36

Source: Compiled by the author based on UNDP[12] 2012.

[12] UNDP: United Nations Development Programme.

It must be emphasised that a significant role in the socio-economic development of Poland has been played by the EU funds. There is no sufficiently robust way to evaluate the impact of EU funds on the Polish economy as it is impossible to separate the effects of the EU funds from other factors. Naturally, each of the policy measures as well as programmes has a different focal point and cannot in a similar extent contribute to each of the developmental priorities named. Yet, generally it is also difficult to name the key impact mechanism and effect, as policy instruments contribute to several policy objectives both directly and indirectly. It is estimated that the cohesion policy in the 2007–2013 period increased Polish GDP by 1.7% a year in relation to what it would have been without the cohesion policy investment. Moreover, it increased the employment by 1%. In 2020, it is estimated that the Polish GDP will be over 4% higher than without the cohesion policy between 2007–2013. It must also be mentioned that in the period of 2010–2012, the cohesion policy investment amounted to approximately 55% of the public investment in Poland. (EC[13] 2014)

Conclusion and Outlook: Drawing the Balance of the Results of Integration

Polish integration has been successful. Poland has made a good use of the opportunities given by the EU single market and the EU funds allocated to it. In numerous locations and parts of the economy, the EU support enabled leapfrogging several stages of technology development thus significantly modernising the economy. Polish governments have always tried to form the integration in a way that supports Polish national interests. Naturally, the understanding of what is in the Polish state interest has been changing with political parties coming to power. The same applies to the effectiveness of the efforts when negotiating with the European Commission and other member states.

The primary reason for the success was the willingness of authorities at every level of Polish administration to make full use of the EU funds and the willingness of individual people and companies to grab the opportunity for development and improvement. Naturally, this positive attitude and willingness to act had to be accompanied with the capacity to do so.

[13] EC: European Commission.

This capacity was created by a significant increase in the employment in public administration. A huge number of young people who graduated after 1990 and were keen on introducing effectiveness and efficiency in public administration as well as building well-functioning administrative units were vital for success.

The economic integration with the EU is not complete. Poland is obliged by its accession treaty to become a member of the Eurozone. The debate on this issue has its ebbs and tides. After becoming an EU member, Poland was very keen to quickly get the access to the Eurozone club but its economy was still not transformed enough to fulfil the Maastricht criteria for accepting the euro. Yet, the government's economic policy was aimed at fulfilling these standards. The tight binding of the Polish economy with the EU makes it already strongly dependent on the situation of the Eurozone countries, however, the financial and economic crises showed that Poland as a relatively big country could safeguard economic growth even in 2009 when all the other EU member states experienced a negative change in the GDP. The period of crises showed that the ability to shape one's own economic policy can bring positive results and the lack of full integration can be a barrier for spilling off a crisis. Currently, there is not much debate on the euro. Public opinion on the matter fluctuates depending on the economic situation and exchange rate. Yet, as the study by Goczek and Mycielska (2014) found, the Polish monetary policy shows such a close resemblance to the one conducted by the European Central Bank that the argument of the independence of the monetary policy as a reason for keeping the Polish zloty is not valid. It seems that the political benefits of joining the Eurozone outweigh the economic ones.

The other problem Poland is facing is the need to foster development and avoid the so-called middle income trap. The way to avoid it is to boost innovations. Yet, despite the growing economy, Poland still remains at the end of the most competitive and innovative EU countries. The increase in innovations would enable to base the Polish economy on more stable competitive advantages. Moreover, Poland needs to increase its efforts in transforming its economy from carbon-based to green and circular one. This is not only the issue of contributing to the EU developmental strategy but also an urgent need to ensure sustainable development and to reduce the problem of low quality of air. Currently, numerous Polish cities are ranked high on the list of the EU's most polluted cities with the level of smog particles exceeding the norms by several hundred percent.

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