

EU funds in Poland: absorption issues and economic impact

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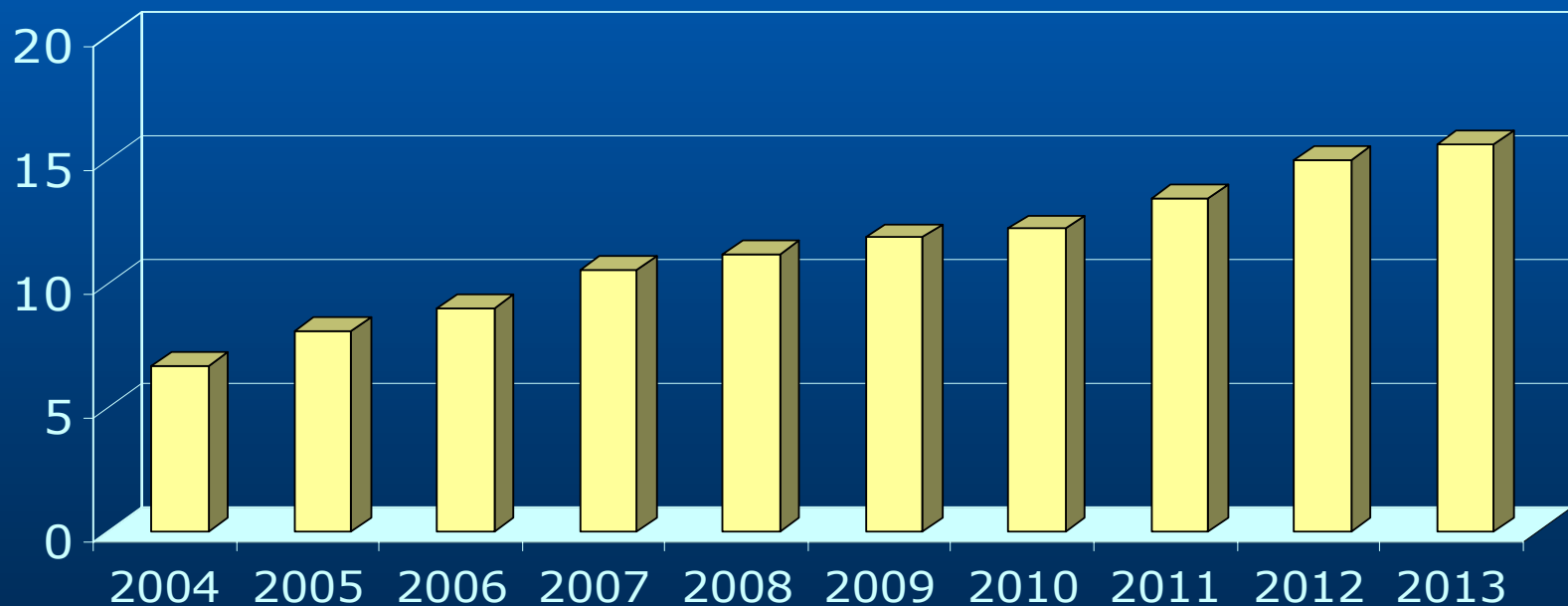
Structure of the presentation:

- Available funds at glance
- Absorption
 - Initial problems
 - Measures taken
 - Results achieved
 - Challenges ahead
- Economic implications
 - Contribution to growth
 - Exchange rate implications
 - Fiscal dimension

The future looks bright...

...growing commitments seem to offer a chance to accelerate economic convergence

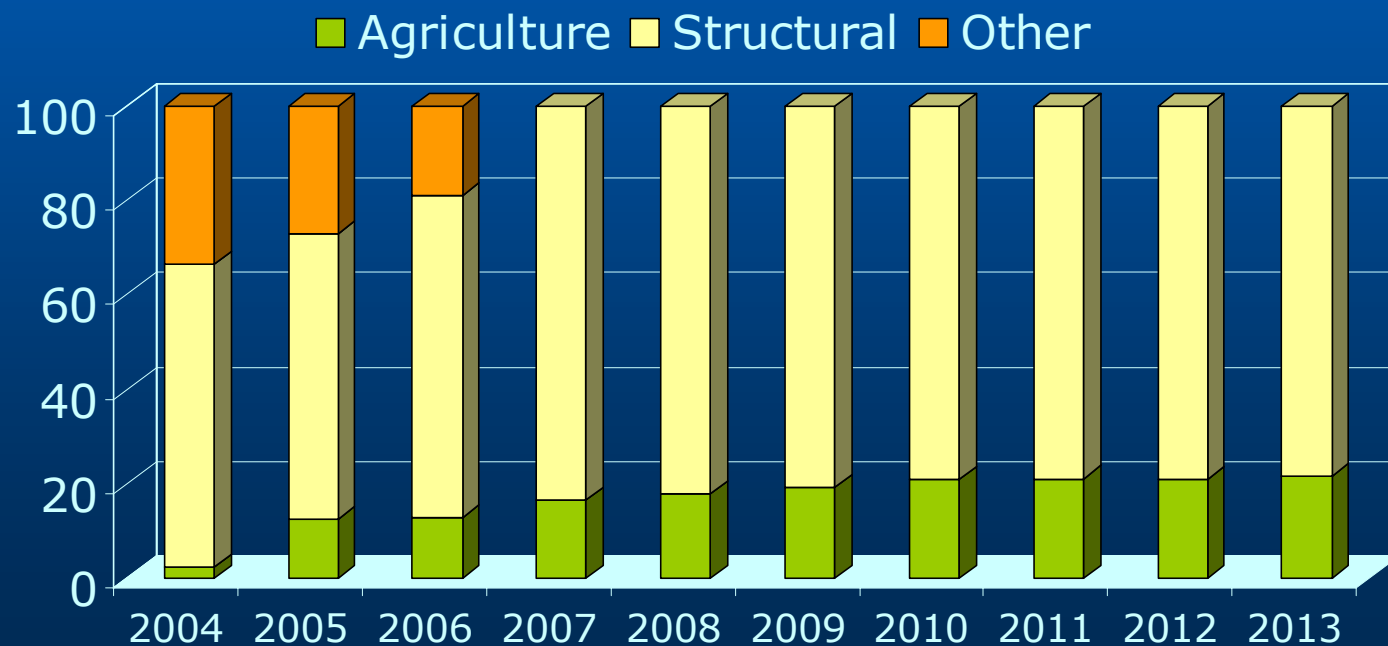
Poland: EU commitments 2004-2013 (Euro billion, 2004 prices)



Development funds are growing...

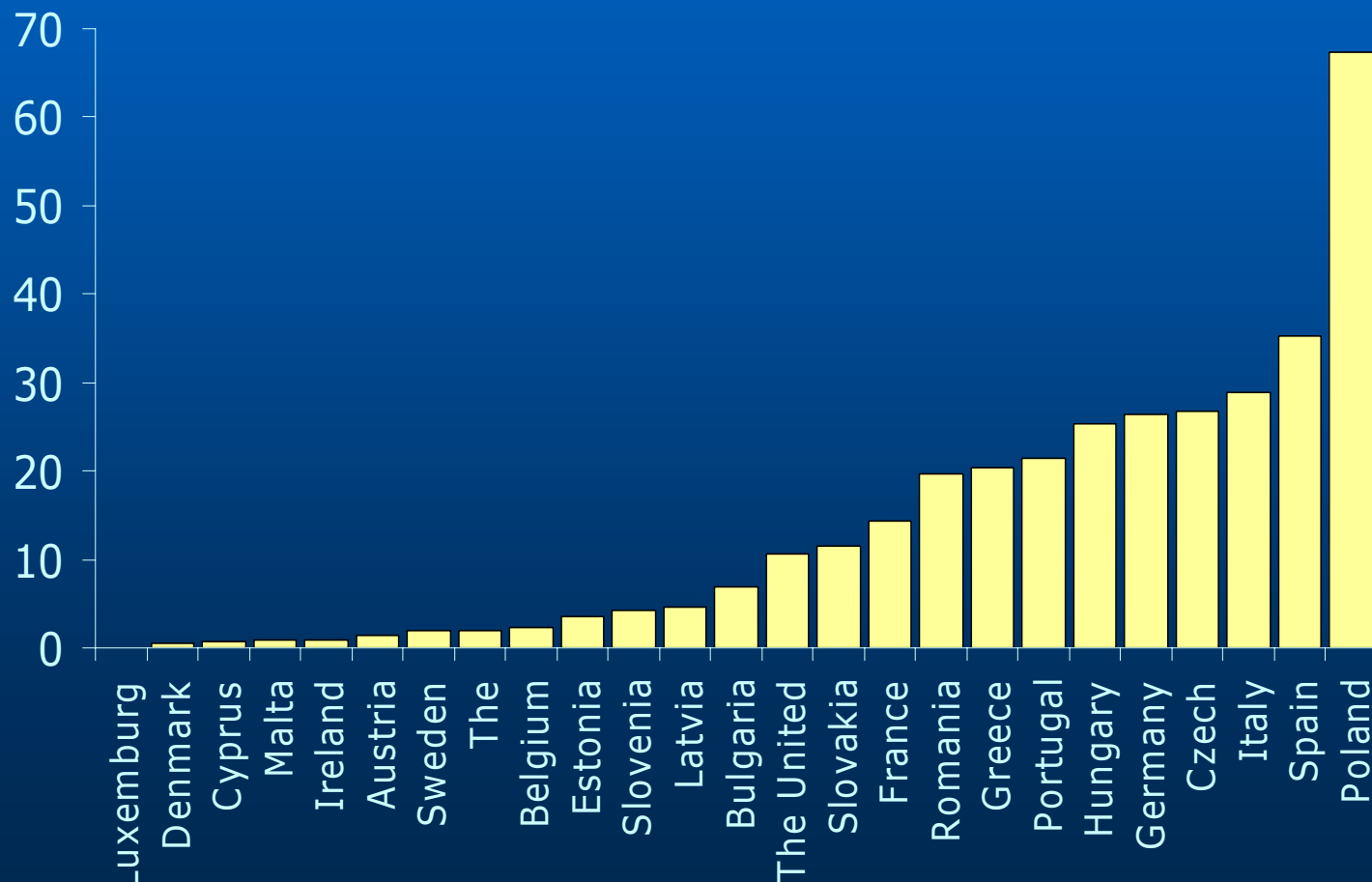
...share of structural and cohesion funds is increasing substantially

Poland: Structure of EU commitments 2004-2013 (in percent of total)



Poland becomes the largest beneficiary of development funds

Structural and Cohesion Funds 2007-2013 (bn EURO, current prices)



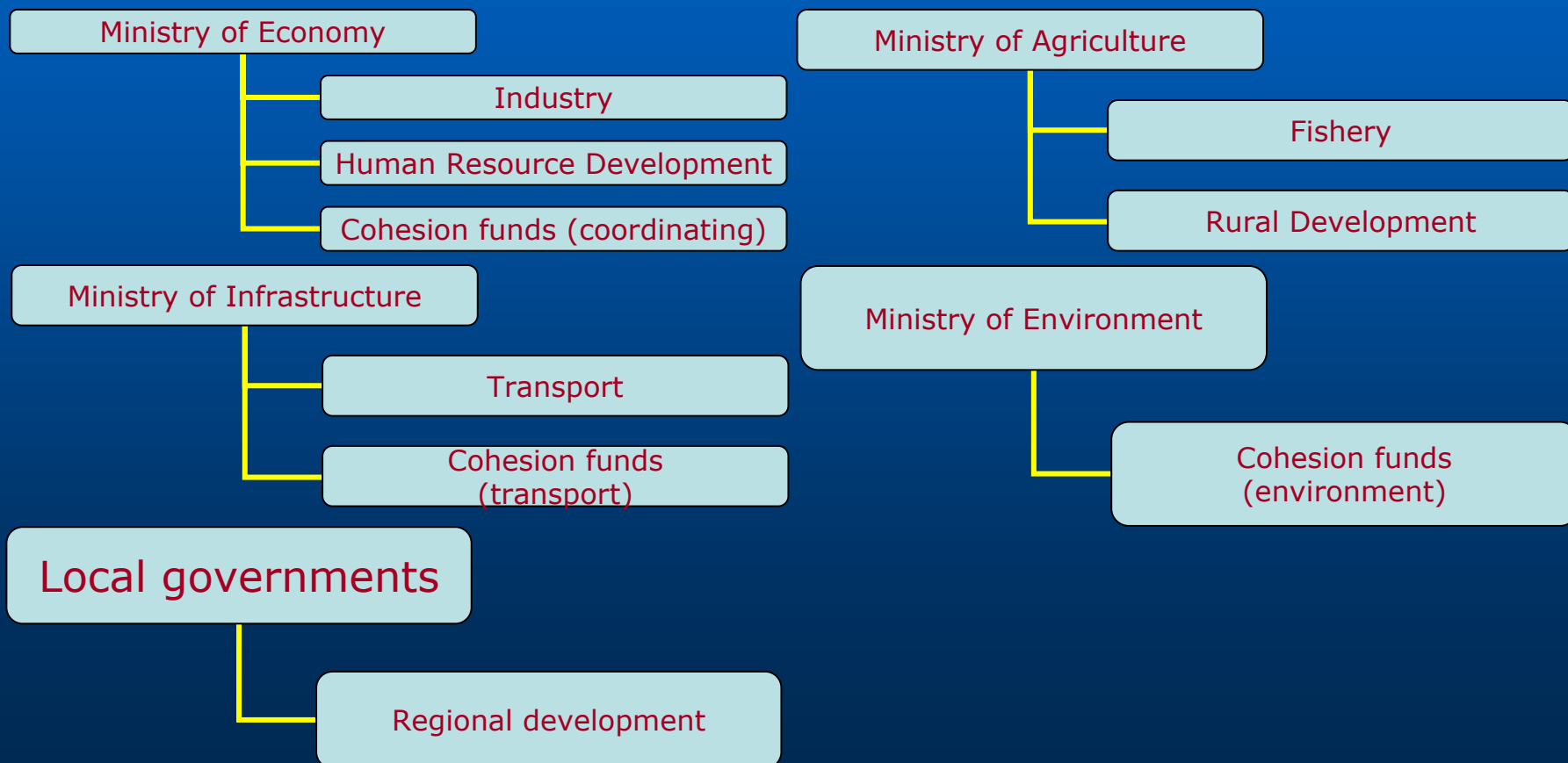
EU commitments are a promise but not a guarantee of positive effects:

- Absorption of structural and cohesion commitments is a challenge:
 - Institutional and regulatory frameworks must be adequate
- Poland encountered problems in both areas
- Unless properly addressed, such problems may result in de-commitments and opportunities would never materialize!
- Allocation priorities are crucial to ensure economic benefits, but this is beyond the scope of this presentation ☹

Initial institutional framework looked fairly impressive...

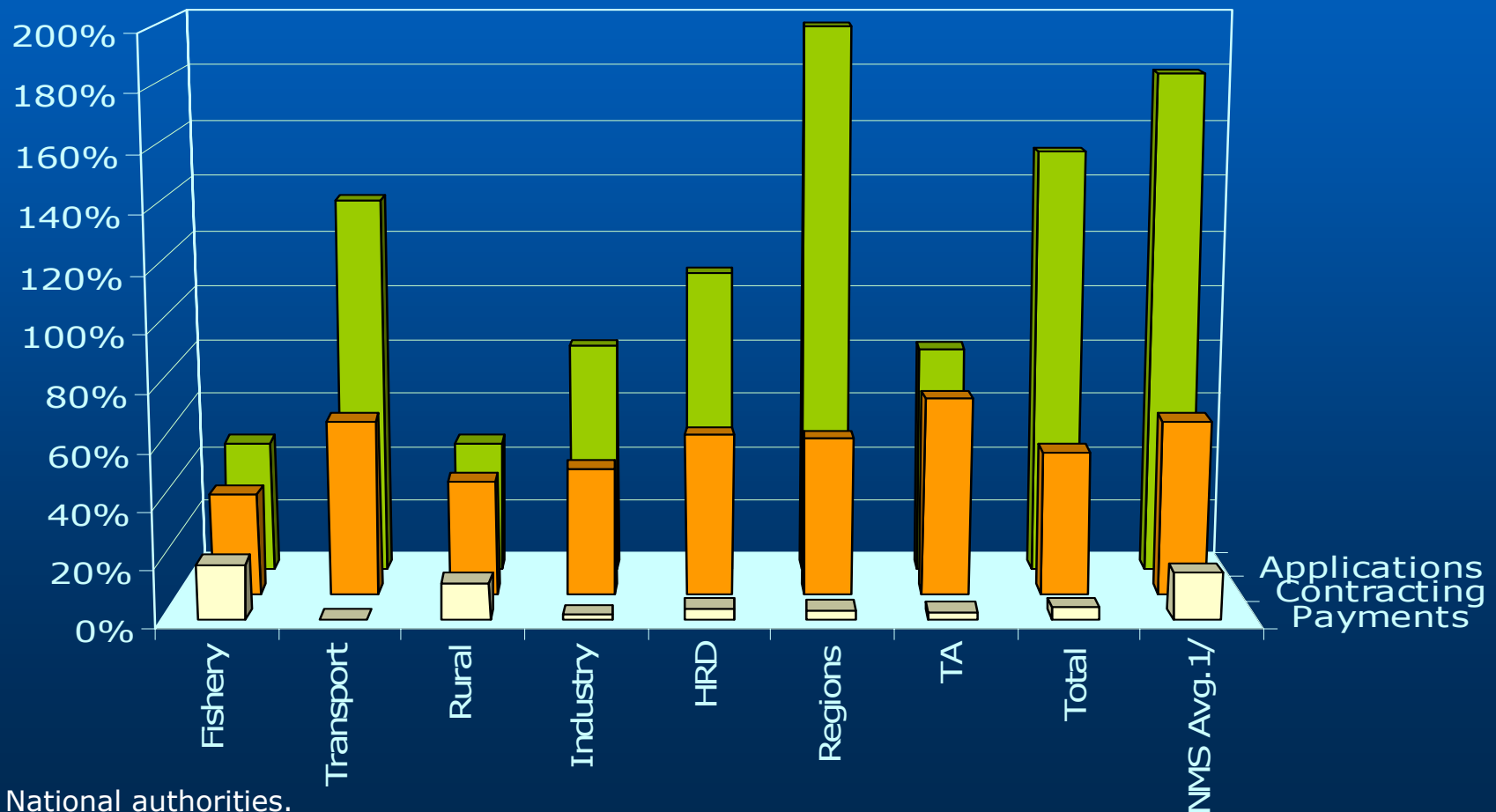
Poland:

Managing Authorities for EU-financed Operating Programs--until end-2005



...contrary to absorption results!

Poland: Utilization of Structural Funds as of October 2005
(percent of commitments for 2004-06)

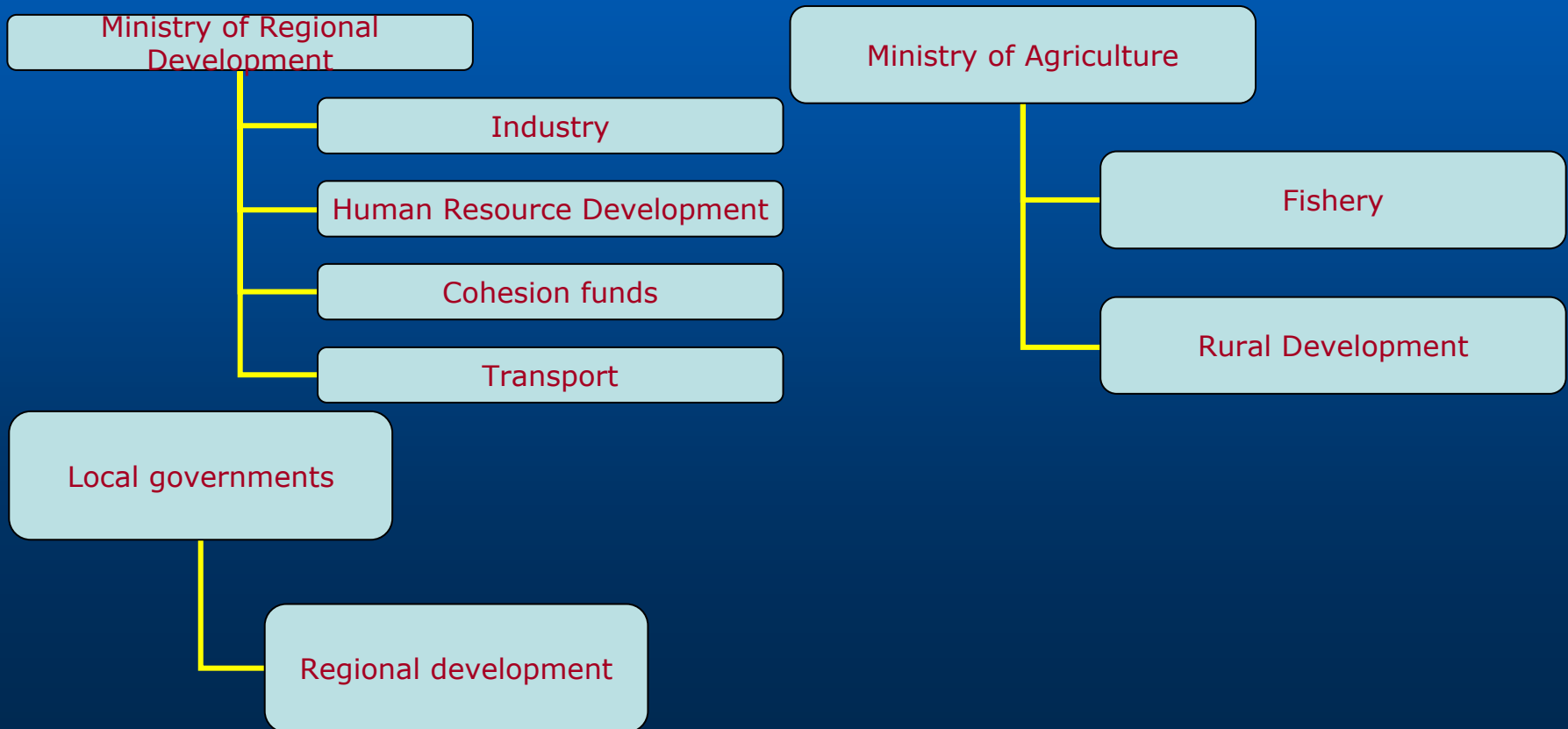


Source: National authorities.
1/ NMS Avg. data for Dec 2005.

The institutional “Christmas tree” was trimmed to improve management coordination...

Poland:

Managing Authorities for EU-financed Operating Programs--since 2006



...regulations were simplified, and absorption became important in evaluating ministers' performance.

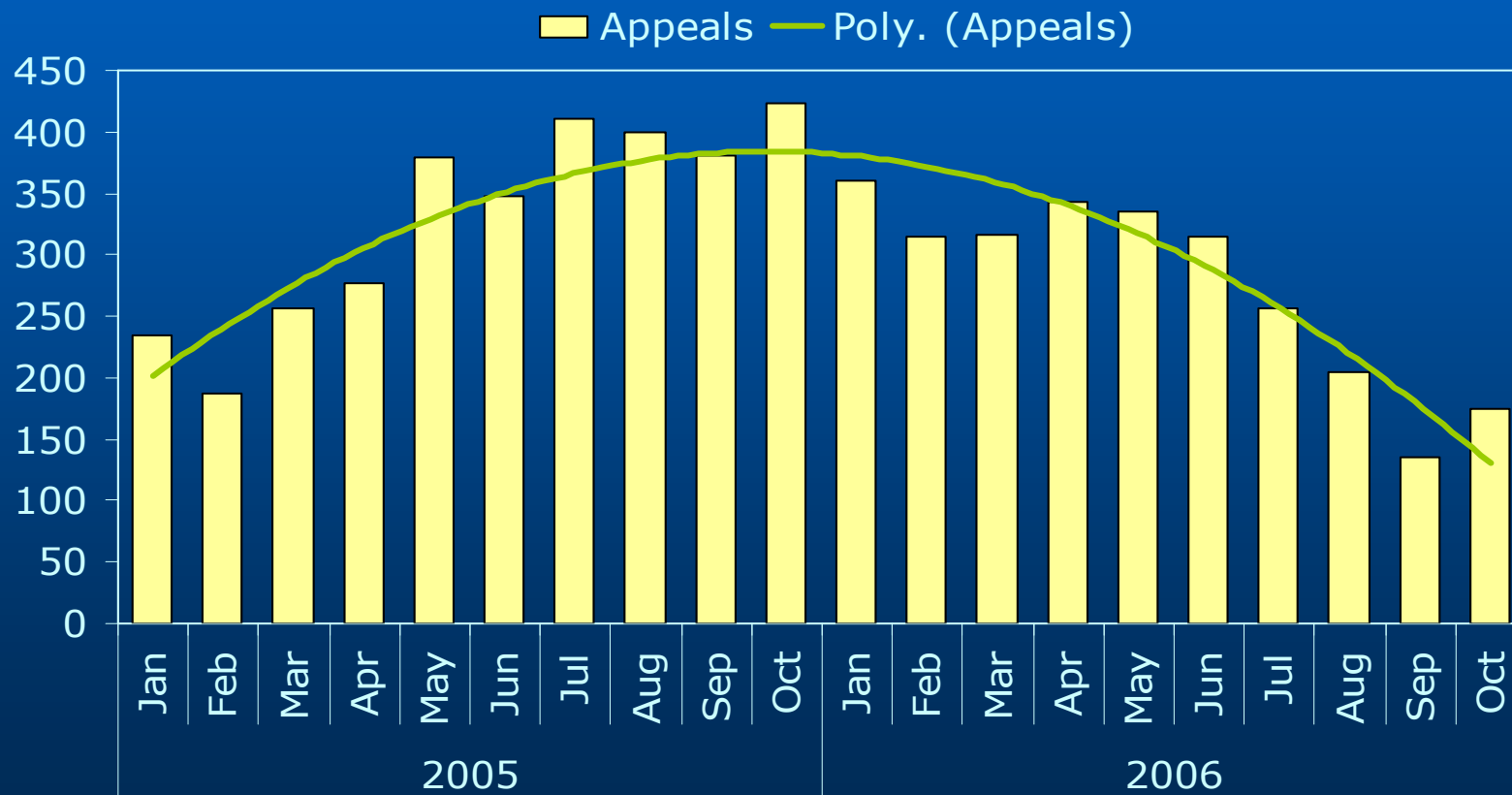
Poland:

Selected regulatory measures to improve absorption of EU funds:

| | |
|---------------------|--|
| Payment system | <ul style="list-style-type: none">* more frequent and simplified submission of refund claims* accelerated certification of payments* simplified (one-stage) verification of invoices |
| Legal framework | <ul style="list-style-type: none">* simplified public procurement rules* no court appeals on bids below Euro 60,000* no ministerial regulations required in all program documents |
| "Political" suasion | <ul style="list-style-type: none">* government monthly monitoring of absorption progress against benchmark projection |

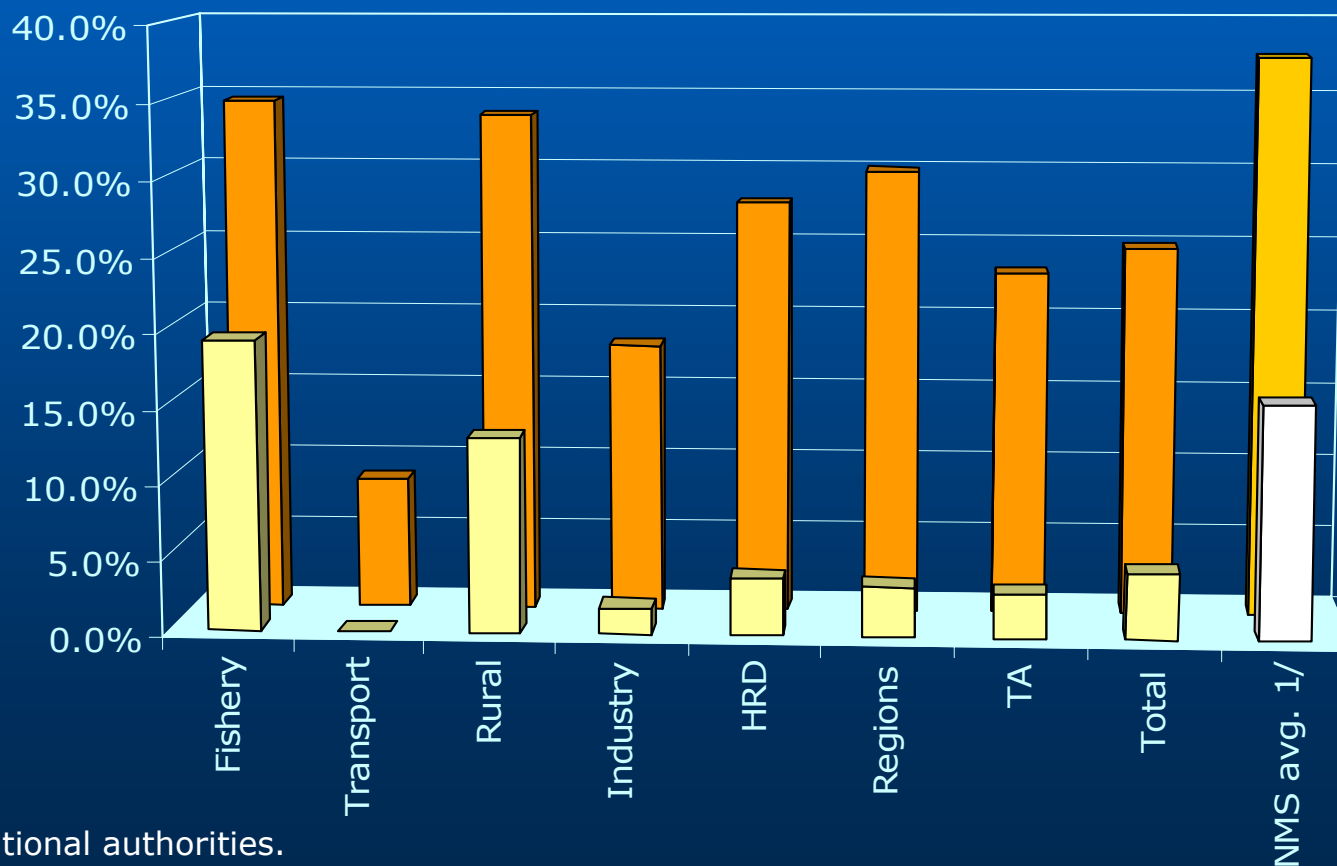
Undoubtedly, the number of appeals was reduced 😊

Poland: Number of Appeals in Public Procurement Bids



Absorption also accelerated, but still remains relatively low

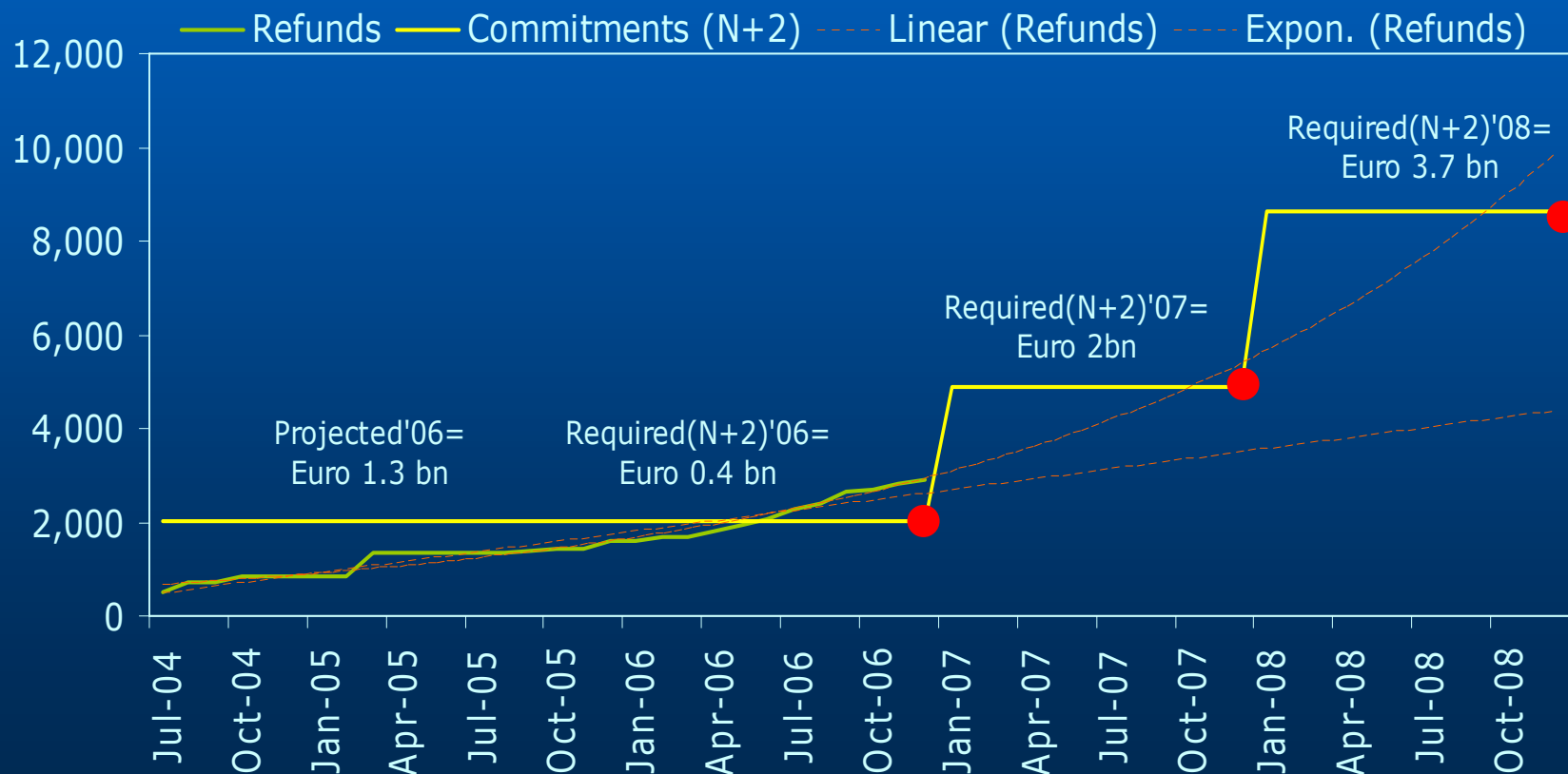
Poland: Utilization of Structural Funds
(percent of commitments for 2004-06)



Payments: 10/2006
Payments: 10/2005

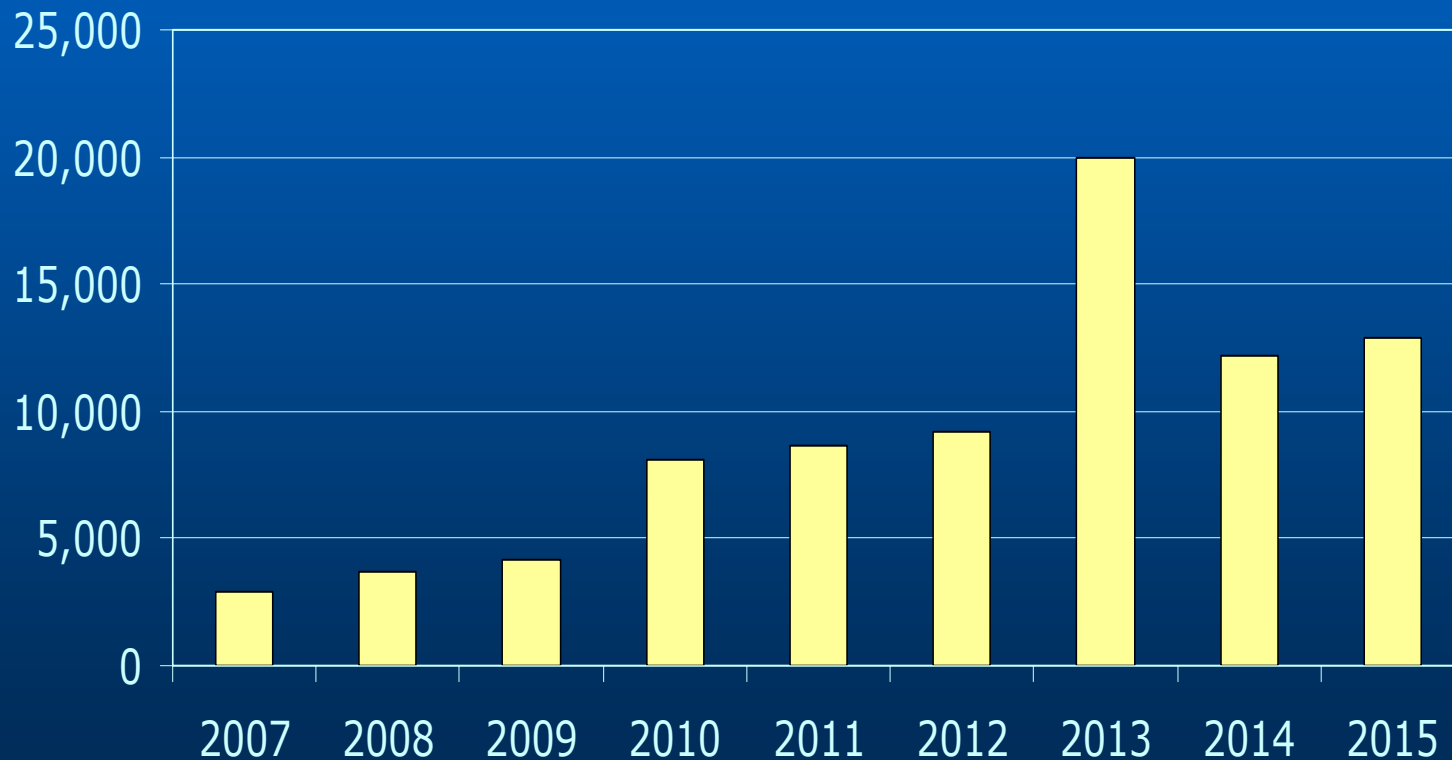
Resting on the laurels may be premature...

Poland: Challenges in absorption of EU structural funds
(in Euro million)



...given the forthcoming EU funds!

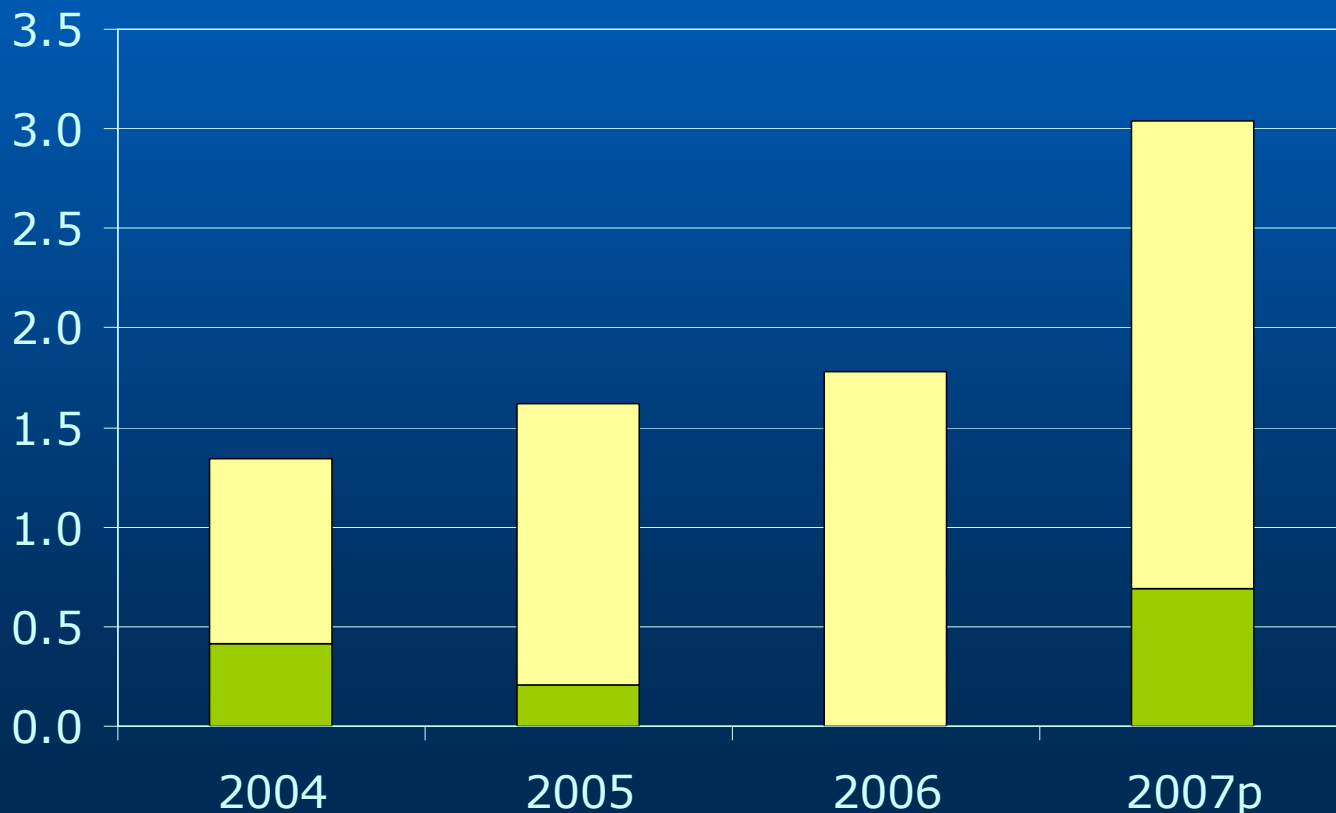
Poland: Annual utilization of EU structural funds needed to avoid de-commitments (in Euro million)



EU transfers are playing an increasing role in the economy...

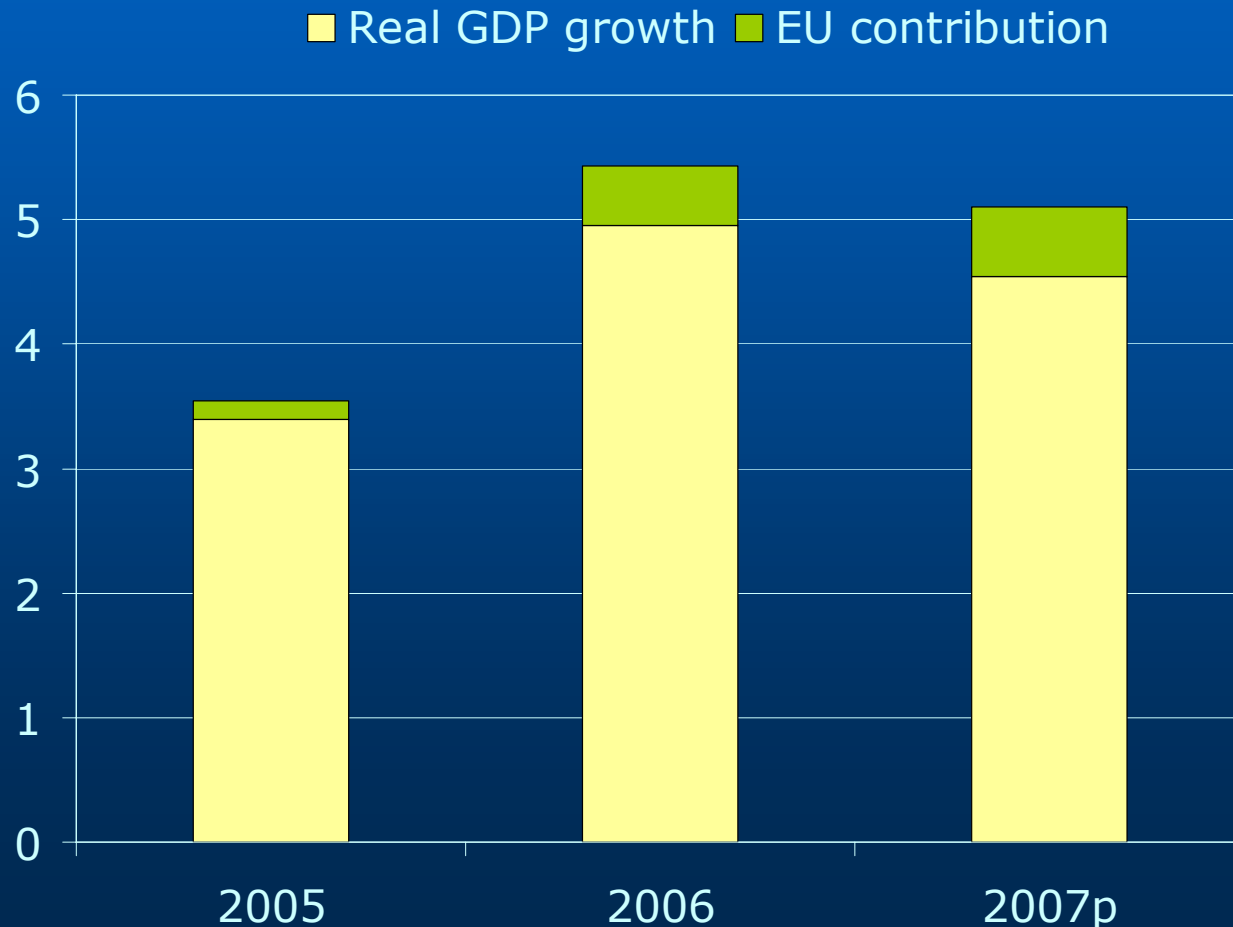
Poland: EU funds (percent of GDP)

■ Advances ■ Other EU funds



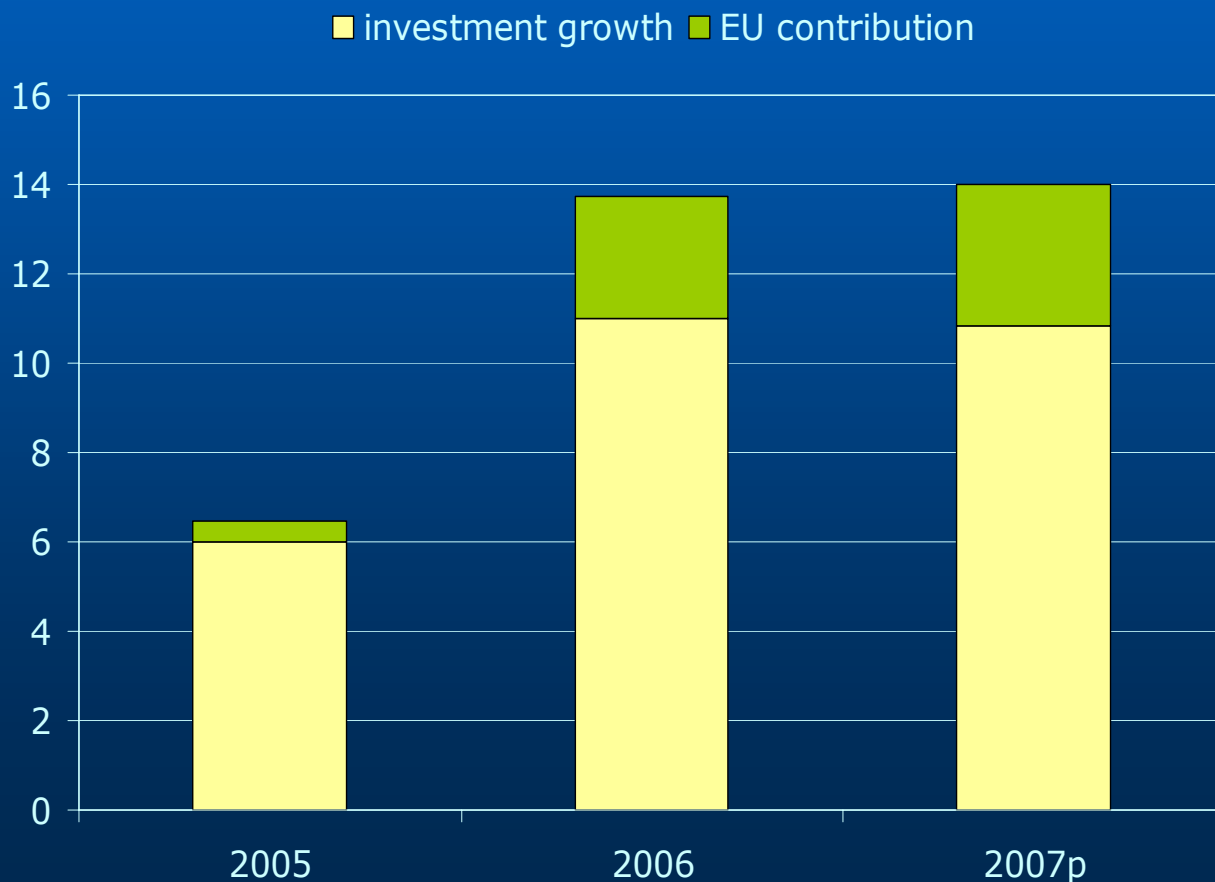
...but their contribution to growth is modest

Poland: EU funds contribution to real GDP growth $\alpha=1$
(percentage points)



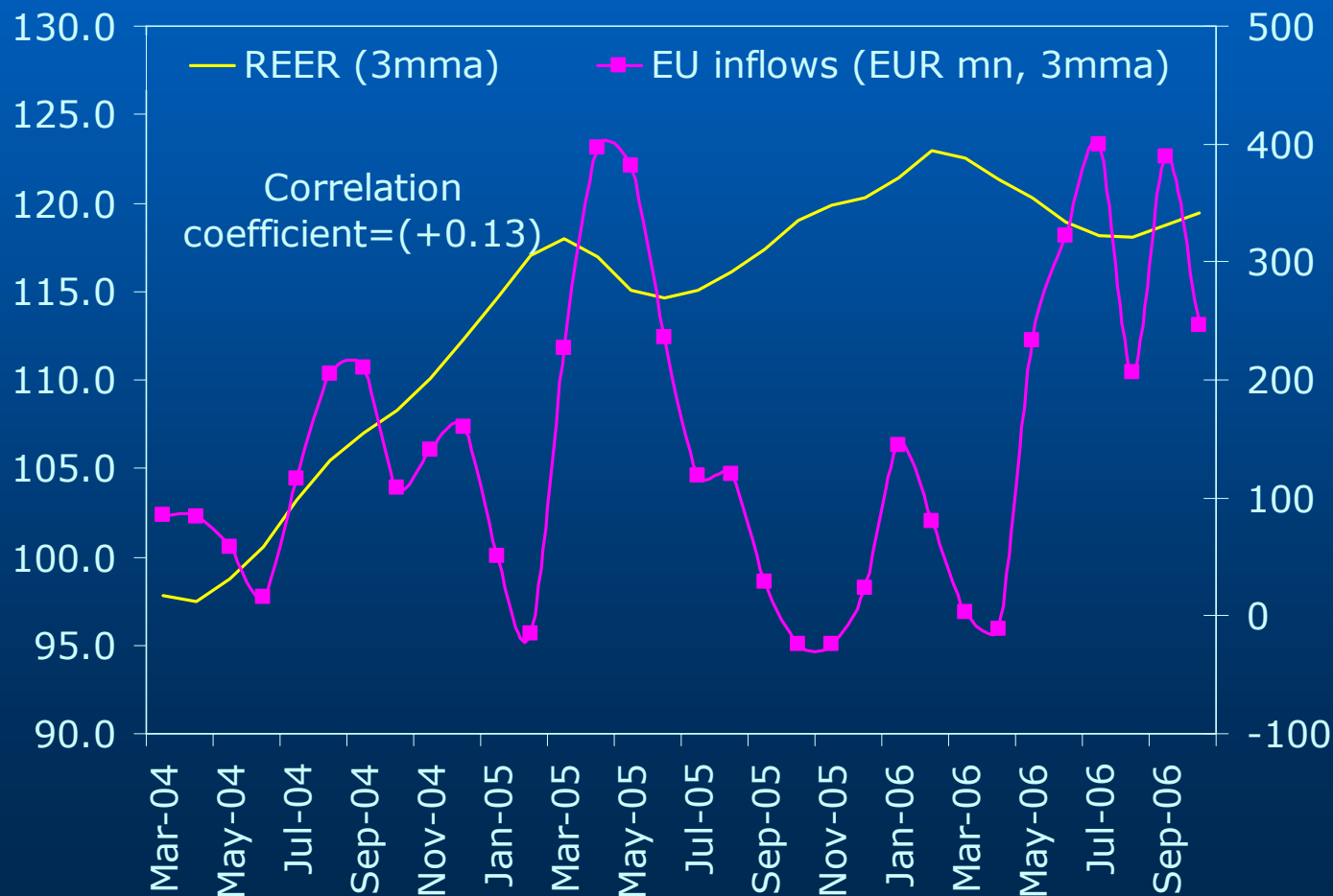
Contribution of structural funds to investments is positive...

Poland: Contribution of EU structural funds to investment growth (percentage points)



So far EU transfers seem to have little impact on REER appreciation

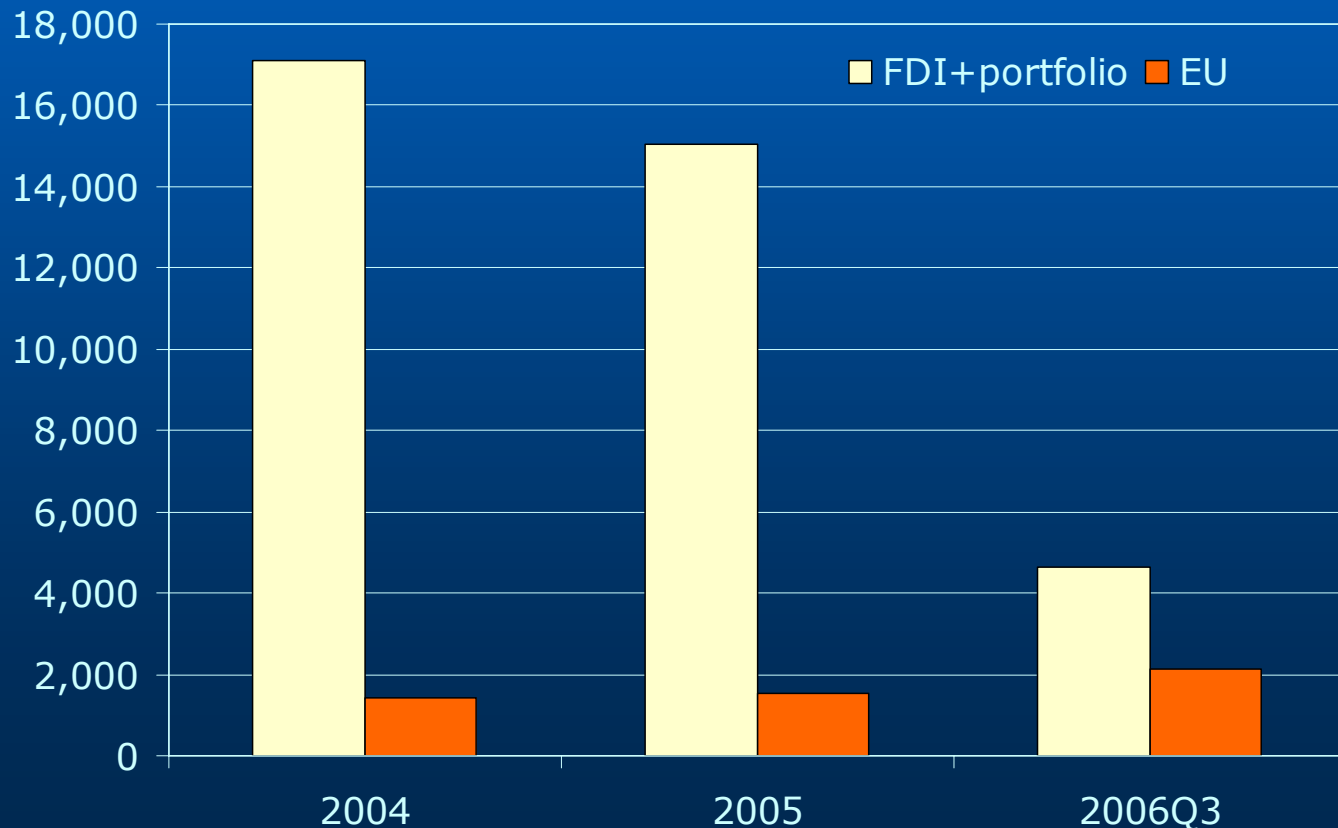
Poland: EU funds flows and movements of REER
(CPI based REER, 12 trading partners, 1999=100)



Source: National authorities, staff estimates.

...not surprisingly given the size of other capital inflows

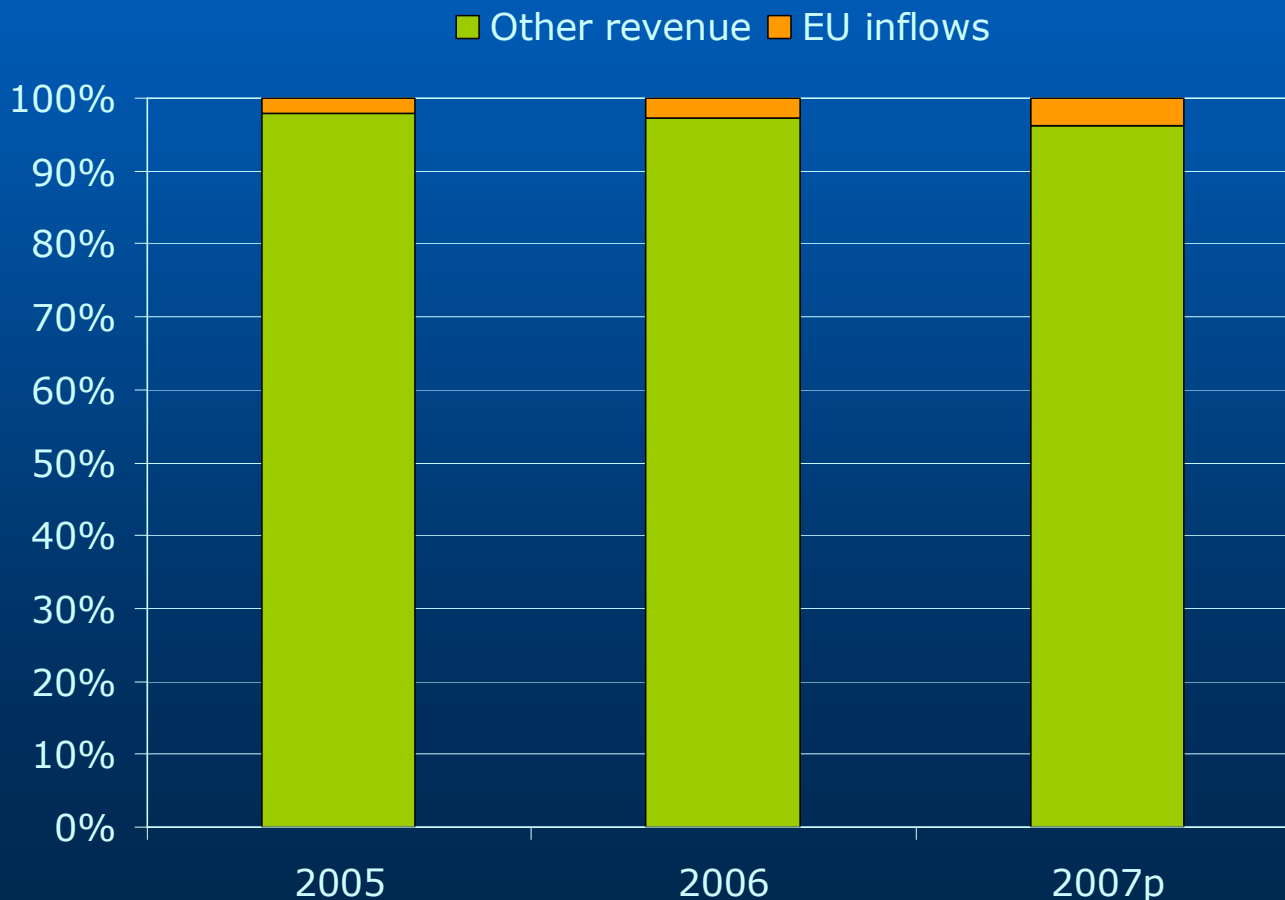
Poland: Net inflows from EU compared to net FDI and portfolio flows (Euro million)



Source: National authorities, staff estimates.

Impact of EU funds on government finances also looks limited

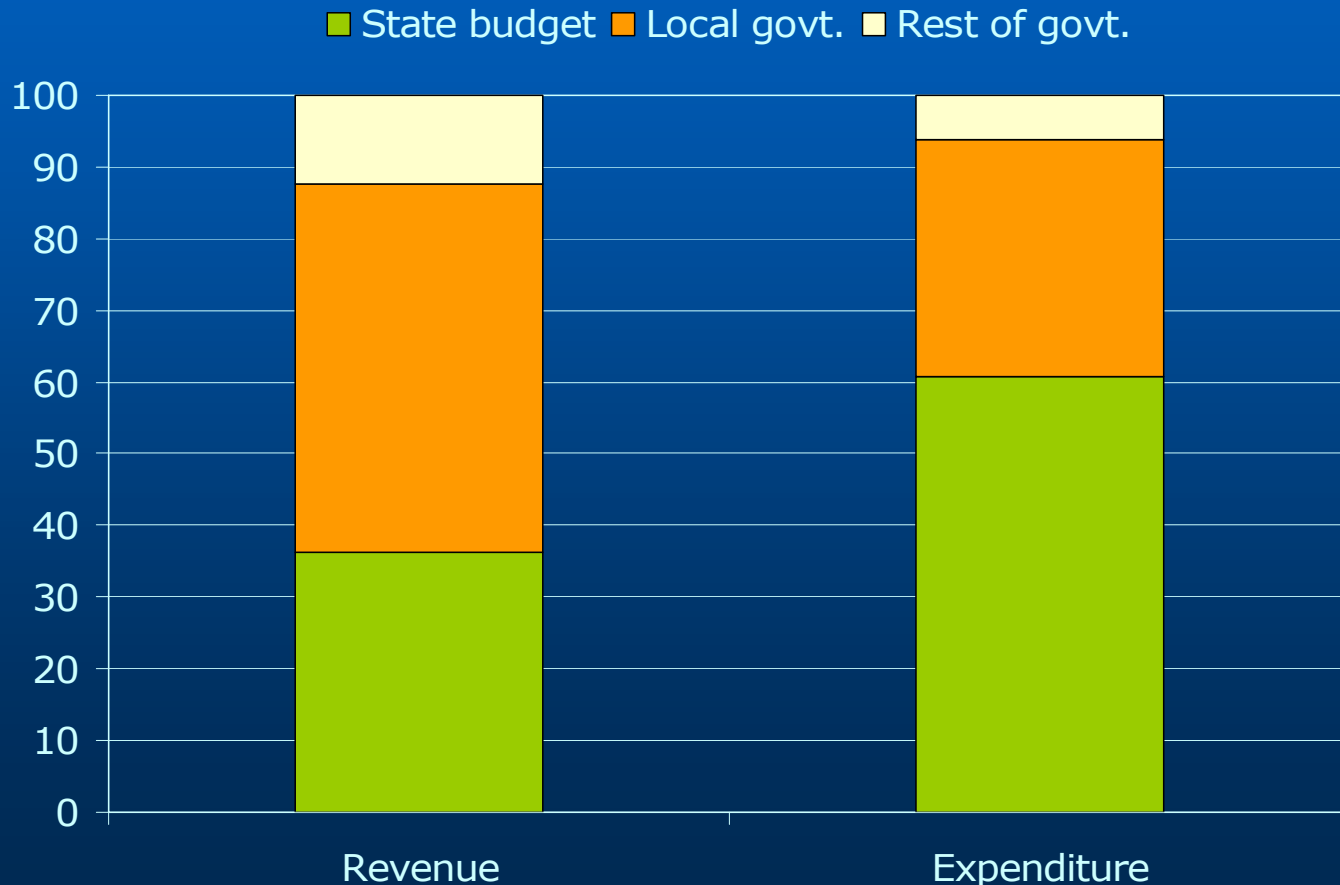
Poland: EU inflows in government revenues
(percent of total)



Source: National authorities, staff estimates.

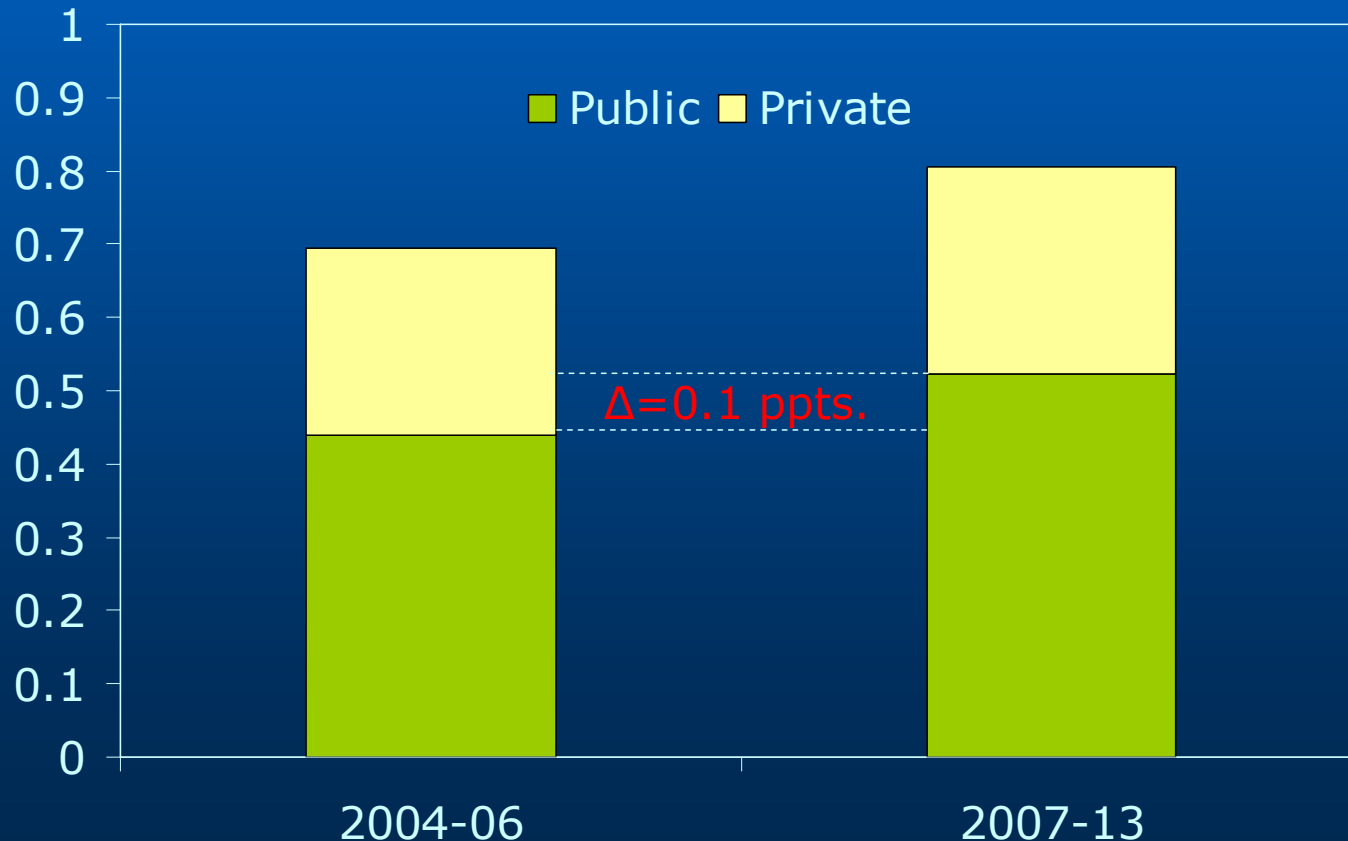
Funds go mostly to local governments, while state budget pays most...

Poland: Breakdown of EU related receipts and expenditures
(in percent of total)



...and could pay even more, but this does not appear the most important fiscal challenge in Poland

Poland: Co-financing for structural funds (percent of GDP)



Growing EU transfers may obscure true fiscal stimulus

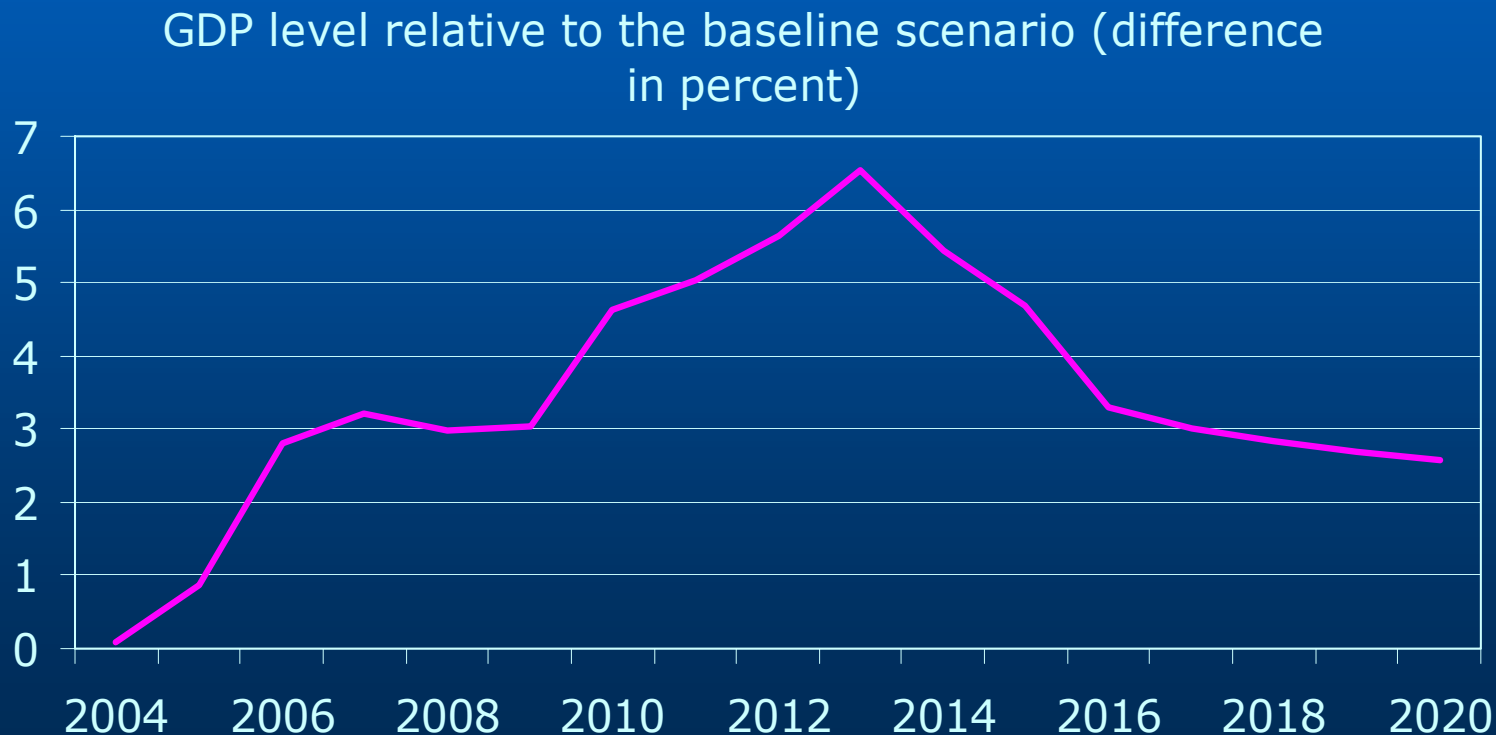
Poland: Assessment of fiscal stimulus

| | 2005 | 2007p |
|------------------------------|-------------------|-------------|
| | in percent of GDP | |
| Revenue | 39.2 | 41.3 |
| o/w EU funds | 0.8 | 1.6 |
| Expenditure | 41.8 | 43.7 |
| o/w contribution | 1.0 | 1.0 |
| Balance | -2.6 | -2.4 |
| Adjusted revenue | 38.4 | 39.7 |
| Adjusted expenditure | 40.8 | 42.7 |
| Adjusted balance | -2.4 | -3.0 |
| Fiscal stimulus: | | |
| headline | | 0.2 |
| adjusted for EU funds | | -0.6 |

Source: MoF and staff estimates

Happy end: EU funds offer rosy economic prospects 😊

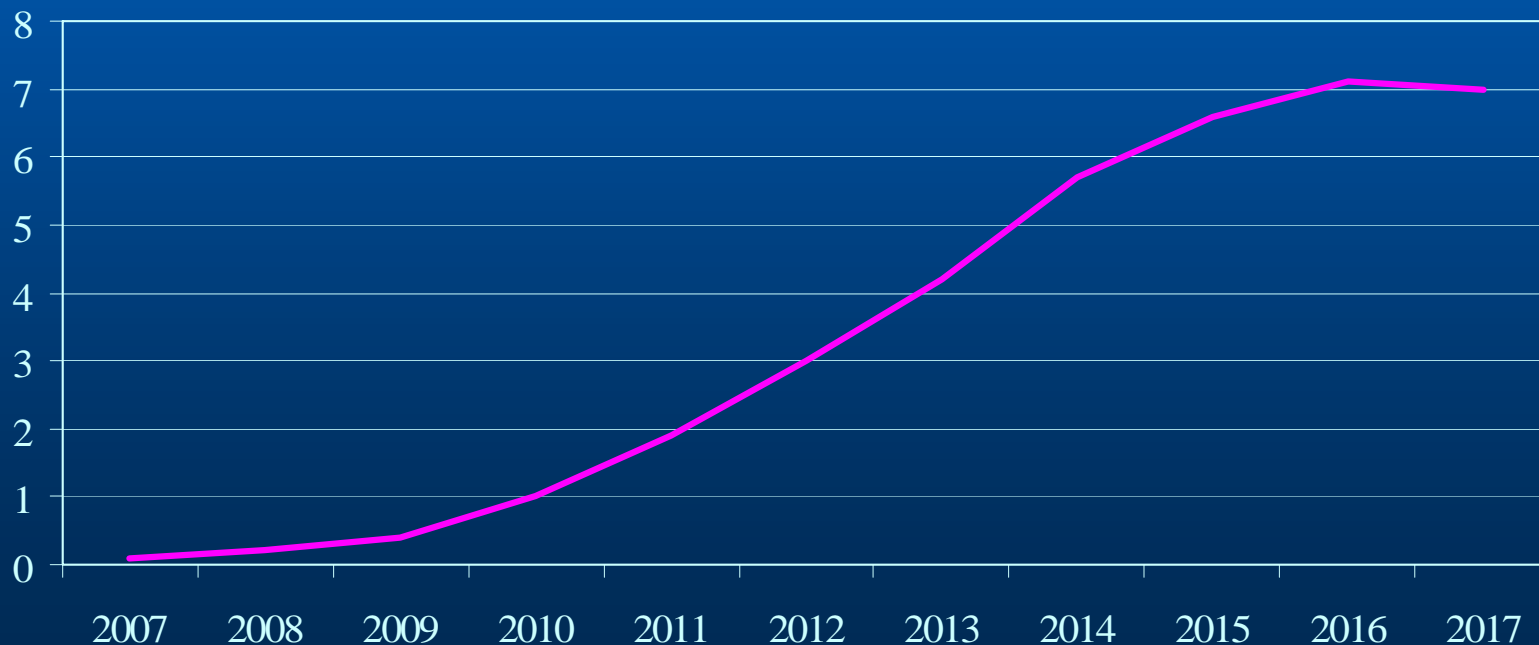
Poland: Impact of structural funds on GDP level 2004-20
(based on HERMIN model)



...or even more happy end: alternative model of the economic impact of EU funds ☺ ☺

Poland: Impact of structural funds on GDP level 2004-17
(based on CGE model)

**GDP level relative to baseline scenario (difference in
percent)**



Some concluding remarks:

- Absorption is a challenge:
 - Early results indicated absorption risks
 - Streamlining and simplifying is trendy
 - Absorption challenges in 2013 look paramount
- Macroeconomic effects
 - Modest economic impact so far
 - The future looks optimistic...
 - ...but improved absorption is a prerequisite to live in these happy years!