

BTI 2016 | Poland Country Report

	scale	score	rank	trend
Status Index	1-10	9.23	# 5 of 129	
Political Transformation	1-10	9.50	# 4 of 129	➔
Economic Transformation	1-10	8.96	# 5 of 129	➔
Management Index	1-10	7.22	# 5 of 129	

This report is part of the Bertelsmann Stiftung’s Transformation Index (BTI) 2016. It covers the period from 1 February 2013 to 31 January 2015. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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Key Indicators

Population	M	38.0	HDI	0.834	GDP p.c., PPP \$	24882.3
Pop. growth ¹	% p.a.	-0.1	HDI rank of 187	35	Gini Index	32.4
Life expectancy	years	76.8	UN Education Index	0.825	Poverty ³	% 0.3
Urban population	%	60.6	Gender inequality ²	0.139	Aid per capita	\$ -

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | UNDP, Human Development Report 2014. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.10 a day at 2011 international prices.

Executive Summary

Poland experienced two relatively calm years on the domestic political front. The coalition of Civic Platform (PO) and the Polish Peasant Party (PSL) worked well, with the PSL remaining a loyal partner. Nevertheless, there were some internal disputes among the different wings of both parties. For the PO, they ended with the defection of Jarosław Gowin, a former minister of justice and the most prominent opponent of Donald Tusk. Gowin even went on to found his party, Poland Together, in December 2013. Internal disputes in the PSL led to a change in party leadership from Waldemar Pawlak to Janusz Piechociński in November 2012. These disputes possibly hindered the full realization of the government's program. After Tusk's electoral victory in 2011 – the first time that a government had been re-elected in democratic Poland – he tried to push forward reforms, such as the highly contested pension reform, attempted to legalize same-sex marriage, reform the health care sector and implement further modernization of rural areas and infrastructure.

Except for the pension reform, planned reforms were only partially realized. In June 2014, illegal tape recordings of conversations between Polish politicians were published, resulting in embarrassment for the government. However, those involved maintained these were private conversations which should never be recorded and leaked. Prime Minister Tusk called for a vote of confidence in his government, which was passed in July 2014, so the affair did not really harm the PO. In August 2014, EU leaders named Donald Tusk as the successor of Herman Van Rompuy for the post of President of the European Council. In September 2014, a former speaker of the lower house of Parliament, Ewa Kopacz, was sworn in as prime minister and formed her cabinet. Relations with the opposition Law and Justice party (PiS) continued to be hostile. The PiS criticized the government for showing no concern for socio-economic policies. In the European Parliament elections, the PiS lost only narrowly, with 31.8% compared to Civic Platform's 32.1%. However, it won the regional elections in November 2014 with an equally narrow margin of 26.9% compared to the PO's 26.4%. Nevertheless, the PO managed to secure its majority in 15 out of 16 regional districts (voivodeships) by forming coalitions with the PSL.

In the European Union, Poland remained a reliable partner and presented itself as a country eager to be more involved and take more responsibility. However, in the area of climate and energy policy, and the EU budget, Poland strongly defended its national interests, which were sometimes at odds with the EU's position. Poland was not willing to accept restrictions for its coal industry. It also supported a higher budget for EU structural funds.

Poland's economy remained on a firm footing. Although economic growth slowed from 4.5% in 2011 to around 1.6% in 2013, partly due to the impact of the euro zone crisis and a decrease in domestic consumption, it was the only country in the EU that did not have recession during the crisis. The government succeeded in maintaining confidence within the bond markets without pushing the economy into recession through excessive fiscal tightening, and continued some structural reforms, such as for the pension system, higher education and research and innovation policy, and childcare provisions. However, health care reform is still pending.

The violent conflict in Ukraine after Russia's occupation of Crimea is of significant concern to Poland because of domestic and international security issues in addition to the economic consequences. Poland backed the sanctions against Russia and tried to be engaged in finding a diplomatic solution to resolve the conflict.

Overall, Poland has confirmed its stable political and economic situation and has remained an important actor in the European Union.

History and Characteristics of Transformation

1989 was a turning point for Poland, marking the end of communism and the beginning of the democratization process. It was the year of the Round Table Agreement between the communist leadership and the Solidarity-led opposition to initiate political and economic reforms. In June 1989, a semi-free parliamentary election took place where 35% seats to the Sejm were freely contested. The Solidarity movement won all of these seats and all but one in the Senate (which went to an independent). A grand coalition led by the first non-communist prime minister, Tadeusz Mazowiecki, was then formed. Subsequent constitutional amendments were introduced, including electoral law changes and the removal of the leading role of the Communist party. In addition, the Polish People's Republic was renamed the Republic of Poland. The break-up of the mono-party system based on the communist PZPR party gave rise to a multiplicity of political parties in the early 1990s. The first direct presidential elections in December 1990 saw the victory of Solidarity leader Lech Wałęsa. Political regime change in Poland was accompanied by the economic transformation from a centralized command economy to a market economy. This was initiated by the reform program introduced by Finance Minister Balcerowicz, based on stabilization, privatization and price liberalization. With his "shock therapy," Balcerowicz managed to decrease the country's high foreign debt, the budget deficit and the inflation rate, and foster economic growth.

While the stability-oriented path of economic policy was not heavily contested initially, the direction of political reforms led to intense disputes among the political elite. One of the

consequences of this was the very long process of drafting the constitution. In 1992, the Sejm passed an interim Small Constitution, which was substituted by a New Constitution only in 1997. This constitution, legitimized by a referendum, strengthened the role of the government in relation to the president and reconfirmed a political system based on the principles of the rule of law, political pluralism and national sovereignty, in addition to the principle of territorial self-governance and local elections. Only with the passing of the new constitution in 1997 was the transition to democracy concluded and the process of consolidating Polish democracy initiated.

Since the early 1990s, Poland has shown its ambition to join international organizations. After concluding an association agreement with the European Union in 1991, Poland applied for EU membership in April 1994 and started accession negotiation in 1998. The following years were marked by intense efforts to implement the *acquis* into Polish law. Although the main political parties strongly supported Poland's accession to the EU, there were also critical voices expressed by the League of Polish Families and the Self-Defense of the Republic of Poland. They demanded greater consideration of Poland's national interests and small Polish farms. The accession treaty was signed on April 16 2003, and in June 2003 58.85% of all eligible voters took part in the referendum. Some 76.9% voted in favor of EU membership and Poland joined the European Union on 1 May 2004. The Poles are in favor of EU membership. Surveys show that more than 70% of respondents support EU membership. It is interesting that, although farmers initially strongly opposed EU membership, they are now among its strongest supporters, mainly because of generous subsidies. In addition, Polish politicians have been very engaged in EU politics and have made Poland a relevant player on the EU scene. In 2009, Jerzy Buzek was elected president of the European Parliament. The Polish presidency of the European Council from July 2011 to December 2011 was considered successful.

At the domestic level, the parliamentary election of 2005 took place in the aftermath of a deep political crisis caused by corruption scandals in which the governing Democratic Left Alliance was involved. This election witnessed the deepening of the cleavage between the Law and Justice and the Civic Platform parties. The government which subsequently came to office was led by the Law and Justice party (PiS). The PiS leadership consisted of State President Lech Kaczyński (October 2005 until his death in 2010) and his twin brother Jarosław Kaczyński (prime minister from May 2006 until September 2007). This leadership pursued anti-communist, anti-corruption and nationalist policies, promised to redistribute income more equally and promoted national interests in foreign affairs. The coalition of the PiS with the League of Polish Families (LPR) and Self-Defense of the Republic of Poland, formed in 2006, broke up in August 2007 amid bitter infighting. An early election was called for October 2007. The liberal-conservative Civic Platform (PO) secured 41.5% of the vote in the 2007 election, yet fell short of an outright majority. It thus formed a coalition government with the agrarian Polish Peasant Party, headed by the PO's leader, Donald Tusk. Tusk has demonstrated a pro-European stance and more liberal politics than the previous Polish government. In economic terms, Poland has endured the economic crisis and its aftermath very well. The cleavage between the two parties and within society has continued. The Civic Platform party was re-elected to office in 2011.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

There is no competition with the state's monopoly on the use of force. Public order and security are fully guaranteed throughout the whole territory.

Question
Score

Monopoly on the
use of force
10

The majority of Polish citizens accept the nation-state and the corresponding laws. Nevertheless, there are controversial debates among political parties on the issue of national identity. The rightist parties stress the idea of a strong nation-state and collective, religious, conservative values, while the more leftist and the liberal parties opt for a more Europeanized Poland.

State identity
10

All citizens have the same civic rights. The status of ethnic minorities is adequately regulated in the constitution and they in turn respect these rules. In 2012, the Tusk government adopted a new law on migration and integration as well as a reform of Polish citizenship law. Pushed by EU law and favored by the demographic change in Poland, the reforms have made it easier to acquire Polish citizenship and to apply for a work and residence permit in one procedure. It also extended the period for foreign graduates in Poland to find employment to one year. President Komorowski signed the law in December 2013 and it came into force on 1 May 2014.

The Polish state is secular. Article 25.2 of the 1997 Constitution stipulates that public authorities shall be impartial in matters of religious beliefs. Nevertheless, Poland remains one of the most religious countries in Europe: some 93% of the population belongs to the Roman Catholic Church. However, over the past 10 years, the number of non-believers has increased slightly. The clergy still possesses a certain influence on politics and society, especially among the rightist parties. There has been some attempt by a conservative-religious radio station, Radio Maryja (led by Father Tadeusz Rydzyk), to influence the parties of the right but its impact has been curtailed under the current PO-PSL government. Religious dogmas have generally lost influence under the current PO-PSL government and people discuss misbehavior of priests and problems such as pedophilia and homophobia more openly and more critically.

No interference of
religious dogmas
9

The administration has a differentiated structure throughout the whole country. Decentralization has increased since legal changes were implemented in 2009 and financial assistance for territorial self-administration has also increased. Against the backdrop of local elections in 2014 and the EU regional policy for 2014-2020, the newly elected institutions of local self-administration can engage further in the improvement of infrastructure, transport and communications.

Basic
administration
10

2 | Political Participation

There are no constraints on free and fair elections. Poland has had free and fair elections since 1990. The parties representing ethnic minorities are even favored in the registration procedure as they have to gather fewer signatures than normal parties in order to be placed on the electoral lists and are not subject to the 5% threshold. Hence, the German minority has been continuously represented in the Sejm since 1991. After the November 2014 local elections, the opposition voiced concerns about a computer system failure which hindered the timely publication of election results. The Law and Justice party even accused the Electoral Commission of purposeful manipulation, but these accusations were unfounded.

Free and fair
elections
10

Democratically elected political representatives have the effective power to govern. The government headed by the prime minister and the president of the republic have executive powers in Poland. The opposition plays a constructive role. The church may have some influence on the strict abortion laws and social and education issues, but does not have any direct say in policymaking.

Effective power to
govern
10

The freedom of association and assembly is unrestricted and constitutionally guaranteed (Articles 11, 12, 57 of the 1997 Constitution). The previous politically motivated limitations on gay parades and other public activities have been lifted since the PO and the PSL came into government in 2007. However, an amendment of the Law on Public Assembly, introduced in 2012 by President Komorowski in reaction to violent clashes between hooligans and the police on National Independence Day, would make it more difficult for citizens to organize demonstrations. The amendment would make it almost impossible to organize two demonstrations in the same place at the same time and would extend the minimum time that must lapse between the registration of a demonstration and the event itself. The amendment would also ban minors from organizing public assemblies and would introduce fines for organizers if public order is disturbed. NGOs protested against the bill and, after discussion in the Senate, it was sent to the Constitutional Tribunal. A decision is still pending.

Association /
assembly rights
10

Freedoms of opinion and expression are constitutionally guaranteed (Article 54 of the 1997 Constitution) and they are also realized in practice. People in Poland have full access to different sources of information and thus a plurality of opinions. Nevertheless, the media are politicized to an extent. In particular, the National Broadcasting Council (KRRiTV), which has supervisory functions with respect to the state media and is supposed to guarantee freedom of speech, has been dominated by power struggles among political parties since its existence. Other incidents demonstrate that political actors occasionally try to influence what is reported in the media and there are cases where prosecutors and police overstep their competencies. In 2013, transport minister Sławomir Nowak sued Wprost for EUR 7 million in a libel suit, leading Reporters Without Borders to voice concerns over the intimidation of journalists. On 18 June 2014, the Prosecutor's Office and Internal Security Agency officers raided the editorial office of Wprost to confiscate computers containing recordings of alleged private conversations between the head of the Polish central bank and the Interior Minister. The raids were not authorized by a court decision, leading the OSCE representative for the freedom of media to call upon the authorities to safeguard journalists' rights to protect their confidential sources of information. The then Prime Minister Tusk later declared it was not intended to restrict freedom of information but to investigate the illegal recordings in the restaurant. On another occasion in November 2014, two journalists reporting on a protest in the aftermath of the regional elections were held in custody after not immediately leaving the State Electoral Commission's headquarters when requested to by police.

Freedom of
expression
10

3 | Rule of Law

There is a clear separation of powers with mutual checks and balances. Governments are accountable to the Sejm, the first chamber of parliament, and the deputies have the rights and resources to effectively monitor and supervise the executive. Sometimes, the hostile relations between the two larger parties, the PO and the PiS, overshadow discussions in the policy-making process but do not impact the functioning of institutions. No conflicts occurred between the president and the PO-led governments during the period under review. The Constitutional Tribunal forms part of the checks and balances framework through constitutional assessments of laws. Its independent rulings have made it one of the most respected courts in post-communist Europe.

Separation of
powers
10

The judiciary is independent in Poland. However, certain problems remain such as delays in adjudicating cases, lengthy pretrial detention periods and slow corruption investigations. The Constitutional Tribunal enjoys a good reputation among citizens and survey respondents regularly express a level of trust of about 80%, which stands in clear contrast to the lower courts. These are widely considered to work ineffectively. However, analyses show that courts' decisions are quite independent, contrary to the wishes of some politicians. The then Minister of Justice, Cezary Grabarczyk, announced that he aimed to improve the judiciary and continue the reforms of the former minister, Jarosław Gowin, who simplified court procedures and merged smaller courts in order to distribute justices' workload more evenly. The criminal procedure code was reformed according to the Anglo-Saxon model. As deputy party chairman of the PO, Grabarczyk would have had enough power to continue these reforms but had to step down from office in April 2015 due to allegations of irregularities in issuing firearms licenses.

Independent
judiciary
9

Corrupt office-holders are prosecuted under established laws. Politicians who misuse their public mandate or office can be accused at the State Tribunal. Members of parliament have been obliged to publish their income on the website of the parliament (Sejm) since November 2001. They are also required to disclose any benefits that they or their spouses receive in a public register of interests kept by the speakers of the Sejm and Senate. The Supreme Audit Office and the ombudsman are relevant institutions in the fight against corruption in addition to the Central Anti-Corruption Bureau (CBA). The CBA, founded in July 2006, was initially politicized, but later became more professional. In 2011, the tasks of CBA were expanded to include coordination and investigative functions, and several corrupt public officials in administration and politics were identified and prosecuted. The CBA also engages in public education and facilitates the reporting of corruption. In 2013, new efforts in fighting corruption were launched with a new strategy lasting until 2019 and parliament increased the budget of the CBA by EUR 240,000 in 2014. All in all, the fact that public officeholders are prosecuted for corrupt practices shows that corruption has not been eradicated in Poland but it also shows that the instruments to detect and to punish these incidents are today much improved and well applied.

Prosecution of
office abuse
9

There are no legal restrictions on civil rights in Poland. Violations of human rights under the previous authoritarian regime can be prosecuted in court and people who lie about their previous involvement with the secret service are punished. Since 2000, all citizens have had the right to look into the files of the former security service, although in practice their interest is relatively low.

Civil rights
9

A comprehensive Anti-Discrimination Act in line with EU directives has been in effect since early 2011. The implementation of the Act on Equal Treatment largely rests with the ombudsperson (called the Human Rights Defender). However, the increased responsibilities assumed by the ombudsperson have not been matched by a corresponding increase in resources. In 2013, the ombudsperson addressed 281

petitions to the authorities in order to highlight common practices of applying laws that resulted in violations of human rights and freedoms.

The legal status of same-sex partnerships is a controversial issue in Poland. Three government draft bills on civil partnerships were brought before parliament but were rejected in January 2013. In December 2013, the government adopted the first governmental document that tackles the problem of discrimination, focusing on six areas including anti-discrimination, equal treatment on the labor market, counteracting violence (including domestic violence) and increasing protection of victims, and equal treatment in education, in the health system and in access to goods and services. The program is intended to run until 2016.

In a 2014 report, the Committee for the Prevention of Torture, which is attached to the Council of Europe, noted allegations of physical ill-treatment of persons taken into police custody and provided confirming medical evidence for some cases. The report also noted that Poland had not taken action to implement the committee's recommendations with regard to the fundamental safeguards for persons deprived of their liberty, the regime for remand prisoners and prison health care services.

4 | Stability of Democratic Institutions

Democratic institutions are effective and efficient. Political decisions are prepared, made, implemented and reviewed in legitimate procedures by the appropriate authorities.

Performance of
democratic
institutions

10

Efficient political governance is sometimes hindered by the conflictual relations between the government and the opposition, while the implementation of laws suffers from an administration which is partly politicized. However, the administration has become much more professional since the government placed greater emphasis on improving the training of administrative personnel.

All relevant political players are committed to democratic institutions, even if they have different views on how democracy should be arranged and run.

Commitment to
democratic
institutions

10

5 | Political and Social Integration

The party system in Poland has stabilized around the two camps: the center-right Civic Platform and the conservative Law and Justice party. The main differences between the Law and Justice and Civic Platform parties lie in their social base, their style of governing (the PiS tends to be confrontational; the PO tends to be consensual), and their attitude to foreign policy, the communist past, and views on how a democratic state should be run (the PiS believes in a state with strong executive power whereas the PO supports liberal democracy with civic participation). In addition to the two major parties, three other parties gained representation in the Sejm after the 2011 election. The Polish Peasant Party, which is a junior coalition partner, has stable support from rural constituencies. The Democratic Left Alliance is a social democratic party, which experienced a significant drop in support in early 2000s as a result of corruption scandals. In addition, a new political party gained representation after the 2011 parliamentary election. The libertarian Palikot's Movement, established as a split from PO, received 10% of all votes. However, support for the party has since dropped to around 2%. Despite the arrival of a new party, the Polish party system has shown signs of stability. Electoral volatility has decreased and voter alignment has increased since 2007. Opinion polls show that partisan attachment is around 40%, which is much higher than in the 1990s when the Polish party system was volatile and unstable. Moreover, party system fragmentation is low and legislative party strength is robust, which allows for effective governing. The number of party switches has also decreased in recent years.

However, around 1% of Polish voters are members of a political party, indicating that parties mainly serve as organizations that bring people into political office and less as political bodies that aggregate societal interests through dense networks and interactions with society. Voter turnout is also rather low. After an exceptional increase to 53% in 2007, it decreased again to 48% in 2011.

The network of interest groups is closely knit and has promoted the growth of a participatory democracy in recent years. In 2013, there were 83,000 civil society organizations, of which 60-80% were active. NGOs operate independently and serve as important watchdog organizations. However, the economic standing of NGOs varies, with 4% of NGOs holding 80% of income in this sector. Trade unions are the largest organizations for civic participation, although only 10% of employees were trade union members in 2014. Other interest groups such as religious groups, charity organizations or sport associations are also present, but only 32% of the population actively participates in civil society organizations (CBOS 05/2012).

Party system
8

Interest groups
9

Approval of democratic norms and procedures is high at 68% (July 2014). The Poles support democracy in general. However, specific support for Polish democracy is lower. Some 50% of Poles are satisfied with how democracy functions in Poland and 52% reject the view that, for people like them, it does not matter if the government is democratic or not. The latter figure has been stable since 2007. Nevertheless, 36% are of another opinion and can thus be considered alienated from politics. Some 39% of respondents still think that Polish democracy in practice does not meet their expectations (CBOS 07/2014).

Approval of
democracy
9

Although there are a large number of autonomous groups, associations and organizations, the level of civic participation is not very high. Some 80% of Poles devote free time to voluntary social activities, but these are mainly restricted to the circle of family and friends and only 32% engage in public organizations (CBOS 05/2012). Nevertheless, this is an increase of four percentage points compared to 2011. In addition, the level of trust varies. The proportion of Poles who trust family members, friends and colleagues are 97%, 91% and 82% respectively. However, the Poles are very cautious of strangers, with only 35% trusting strangers (CBOS, February 2014). There are also high levels of mistrust towards the political class. Trust in charitable institutions such as the Polish Red Cross and Caritas is always above 80%. TV broadcasters (public and private) are also evaluated positively by 80% of Poles, and the Catholic Church by 62%. The police and the military are trusted by 67% and 66% respectively, while trust in the parliament has slightly improved to 23%. Trust in trade unions is at 37% for N SZZ Solidarność and 25% for OPZZ (CBOS March 2014).

Social capital
8

II. Economic Transformation

6 | Level of Socioeconomic Development

Social exclusion is quantitatively and qualitatively limited but partly rooted in long-standing disparities. There have been some positive changes in recent years. The Gini coefficient of 32.7 (2013) indicates a relatively high level of equality. Only 0.1% of the population lives on less than \$2 a day (2011). Although the HDI index (0.834 in 2013) has again slightly increased in comparison with previous years, the unemployed youth (26.5%) and single mothers are most threatened by poverty. The GDI of 0.139 (2013) demonstrates further improvements concerning the role of women in the Polish society. There are no gender gaps with respect to enrollment in education and there are no structural barriers caused by difficult or unequal access to education, due to literacy levels of almost 100%. As the number of higher education institutions - both private and state run - has constantly grown, the share of people

Question
Score

Socioeconomic
barriers
8

with a university degree has increased significantly, from 9.9% in 2002 up to 16.8% in 2011. The number of women represented in parliament has increased and, after the elections of 2011, 24% of MPs were female. Due to an improved absorption of EU funds, the inequality between rural and urban regions has decreased. Nevertheless, south-east Poland, especially around the city of Lublin, remains the poorest region.

Economic indicators		2005	2010	2013	2014
GDP	\$ M	304411.7	476687.9	526064.0	548003.4
GDP growth	%	3.5	3.7	1.7	3.4
Inflation (CPI)	%	2.1	2.7	1.0	0.1
Unemployment	%	17.7	9.6	10.4	-
Foreign direct investment	% of GDP	3.6	3.8	0.0	-
Export growth	%	9.7	12.9	5.0	-
Import growth	%	6.3	14.0	1.8	-
Current account balance	\$ M	-7242.0	-26863.0	-6988.0	-
Public debt	% of GDP	47.0	53.6	55.7	50.1
External debt	\$ M	-	-	-	-
Total debt service	\$ M	-	-	-	-
Cash surplus or deficit	% of GDP	-4.0	-6.7	-	-
Tax revenue	% of GDP	16.6	16.5	-	-
Government consumption	% of GDP	18.4	19.3	18.1	-
Public expnd. on education	% of GDP	5.5	5.1	-	-
Public expnd. on health	% of GDP	4.3	5.0	4.6	-
R&D expenditure	% of GDP	0.57	0.74	-	-
Military expenditure	% of GDP	1.9	1.8	1.8	1.9

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | International Monetary Fund (IMF), World Economic Outlook, October 2015 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2015.

7 | Organization of the Market and Competition

Market competition is clearly defined and implemented at both macroeconomic and microeconomic levels. Prices are fully liberalized, and the currency is fully convertible. The state fully guarantees the rules of the game for market competition and all market participants, whether domestic or foreign, have equal opportunities. Measures were introduced to facilitate the process of setting up a business, reduce bureaucracy and costs, ease tax-related issues and resolve insolvency. However, the 2015 Doing Business report indicates that it costs more and takes more time to open a business in Poland than the OECD average. Thus, Poland's 2015 ranking was a little lower than in 2014.

Market-based
competition

9

Comprehensive competition laws to prevent monopolistic practices are enforced. The Office of Competition and Consumer Protection is the main anti-monopoly office in Poland, and it has been working well. There is full compliance with EU requirements. State intervention is limited and levels of regulation and competition advocacy remain on the same level.

Anti-monopoly
policy

10

Foreign trade is liberalized, with uniform, low tariffs. Poland has been a member of the WTO since 1 July 1995. The country exports processed fruit and vegetables, meat, dairy products, electromechanical products, vehicles, aircraft and vessels. Imports are mainly capital goods needed for industrial retooling and for manufacturing (i.e., machinery and transport equipment, as well as chemicals, minerals, fuels and lubricants). Most trade goes to the EU countries, which accounted for about 79% of exports and 64% of imports in 2012. Germany is now the most important trading partner, accounting for 25.1% of Polish exports and 26.1% of Polish imports. Recently, Poland has diversified its exports towards new, more dynamic markets and has reduced its current account deficit as a result. However, trade relations with the East have deteriorated due to the conflict between Russia and Ukraine in 2014. Exports to Ukraine declined by more than 25%, while sales to Russia dropped by 11% over the first half of 2014. These two countries represent about 8.3% of Poland's overall exports. The foodstuffs banned by Russia account for only 0.5% of total exports. However, the agribusiness sector is highly exposed, as 20% of all Polish fruit and vegetable exports are destined for Russia (EBRD 2014). Poland has therefore made a formal request that the EU should take Russia to the WTO in order to overturn its ban.

Liberalization of
foreign trade

10

The Polish banking system is organized according to international standards, with functional supervision, minimum capital requirements and market discipline. Poland is the single-largest banking market in Central and Eastern Europe. Its EUR 340 billion of assets constitutes about a third of the region's assets (European Commission 2015). Capital markets are open to domestic and foreign capital, with sufficient resilience to cope with speculative investment. Some 60 to 70% of the market is

Banking system

10

dominated by foreign banks and their involvement is still increasing. The ratio of regulatory tier 1 capital to risk-weighted assets was 14.9% in 2014. Nonperforming loans accounted for 8.2% of gross loans (non-financial sector) in 2014. Laws are being prepared to increase domestic ownership of banks. The Polish banking system has managed to contribute positively to Poland's good economic performance during the financial crisis due to its conservative, risk-averse investment policies. It has remained profitable, well capitalized and liquid. In recent years, the National Bank of Poland has pursued a relatively strict monetary policy with respect to intervening to stabilize the exchange rate of the Zloty. This has prevented the country from developing a financial bubble. The good state of Poland's banking system was confirmed by the results of recent asset quality reviews and stress tests. Overall, Poland's banking system has become one of Europe's top performers.

8 | Currency and Price Stability

Controlling inflation is a recognized goal of economic policy and the inflation rate has been very low, 0.8% in 2013 and 0.4% in early 2014. Limited price increases contributed to deflation in the second part of 2014.

Anti-inflation /
forex policy
10

Poland has delayed the introduction of the Euro, as it has not yet met the criteria. In addition, as the Zloty has developed very well and become a stable currency in recent years, there is still strong resistance against the Euro: 67% the population oppose the Euro. The main concerns are that prices will rise and that changing the currency will not be profitable for the economy. This reluctance makes it quite unlikely that the necessary two-thirds majority will be reached to make the necessary changes to the constitution on the role of the Polish central bank. Poland is actively participating in the re-launch of the Vienna Initiative, which aims at protecting the banking sectors of Central and Eastern Europe from the financial crisis. Poland's central bank director, Marek Belka, is the current chair of the steering committee of this initiative. The Polish central bank is an independent body, which is guaranteed by Article 227 of the 1997 Constitution. It lost some of its reputation when Marek Belka was illegally taped in conversation with Interior Minister Bartłomiej Sienkiewicz in a Warsaw restaurant in July 2013. Belka made unpleasant remarks about central bank council members and said that he would be willing to step in to help save the economy on the condition that Finance Minister Jacek Rostowski was removed. Rostowski did indeed lose his job in a cabinet reshuffle four months later. Belka apologized for his language and, together with Prime Minister Tusk, claimed that the parts of the conversation that became public were cited out of context and that the only concern of the two politicians was the well-being of the state.

The government's fiscal and debt policies promote macroeconomic stability, supported in part by institutional (self-imposed) constraints. While Poland is still subject to the EU's Excessive Deficit Procedure, the general government deficit fell from 7.6% in 2010 to 3.6% in 2014, and is expected to fall below the 3% limit in 2015. This is the result of several deficit-reducing reforms such as changes in the pension system, increases in indirect taxes and social contributions, and a public wage freeze. Fiscal adjustment featured prominently in the initial policy declarations of the second Tusk government. The pension reform of September 2013 did in fact relieve some fiscal pressure and public debt was reduced as a result. The government debt-to-GDP ratio remains below 60% of GDP. Although it increased from 53.6% in 2010 to 55.7% in 2013 because of slower economic growth and higher general deficits, it fell to 48.6% in 2014 due to a transfer of private pension fund assets (European Commission 2015).

Macrostability
9

9 | Private Property

Property rights and the regulation of the acquisition of property are well defined in terms of acquisition, benefits, use and sale. Since Poland's EU accession, foreigners from EU and EEA countries have also been allowed to purchase land and real estate. Further amendments to the land law were introduced in 2011, which have eased the restrictions for investors from non-EU countries. Current obstacles include the slow workings of the judicial system and the continuing piracy of intellectual property, despite the government's efforts to improve protection.

Property rights
10

Private companies are viewed institutionally as the primary engines of economic production and are given appropriate legal safeguards. Their share in employment is above 70%, whereas employment in the state sector has decreased to 23.5%. The private sector accounts for two-thirds of GDP. In general, Poland's private sector is experiencing fewer bureaucratic obstacles than in the past but it still takes a considerable amount of time to set up a company, on average 30 days. However, a recent reform introduced the e-registration of businesses. After revenues of PLN 50 billion (3.3% of GDP) were raised in 2011, the government announced a plan for 2012/13 for further privatization in such sectors as energy, finance and defense. The process is ongoing and in some cases, the government has opted only for partial privatization while maintaining control with respect to some enterprises in the energy, financial and mining sectors. As promised, the government established a fund fed by privatization revenues in 2013 and co-finances infrastructure and investment activities.

Private enterprise
10

10 | Welfare Regime

Social safety nets are well developed and compensate for social risks. A contribution-based pay-as-you-go system is a cornerstone of the Polish welfare state. Although some sections of society (17% in 2011) live below the national poverty line, this number has since decreased. In September 2013, 46% of respondents described their living standards as average, 42% thought they were good, and only 12% said they were bad. A regional gap still exists but a growing number of people living in rural areas consider their material living conditions good (35% in 2013) and only 15% considered them bad, the lowest number ever (CBOS 11/2013).

The employment rate of 61% is still one of the lowest within the EU. Only 0.2% of GDP is spent on labor market policies and the very flexible labor law gives employers a strong position. However, the EU Social Fund helps finance projects that aim at promoting employment. Demographic changes pose a threat to the Polish welfare state. The 2011 census showed that the share of Poles below the age of 17 decreased from 23.2% in 2002 to 19%. The share of Poles above the age of 60 for women and 65 for men increased from 15% to 15.5%.

In December 2013, a reform of the pension system was passed. The amount of pension tax going to the second pillar was reduced from an initial rate of 7.3% to 2.3% until 2017, when it will increase again to 5.2%. Employees entering the labor market for the first time are now able to choose if they want to make payments into the second pillar. These steps should help reduce the burden on the state budget, which also made transfers to the second pillar that have already had an effect. Some experts have criticized this reform because it would harm the local capital market and would destroy the logic of the private pillar.

The most pressing issue is the health care system. The system is inadequately funded and malfunctioning due to a centralized and inefficient organizational structure. Further privatization of hospitals has been widely criticized by the people. The system of health insurance is not well assessed: while a majority are satisfied with the quality of medical care, many Poles complain about the work of the Health Insurance Fund (NFZ), access to specialists and the general administrative aspects of the health insurance system. Only 28% of Poles are satisfied with the Polish health system. Although this is an increase of 9 percentage points compared to 2012, the majority are dissatisfied (CBOS 07/2014). Health Minister Arłukowicz only narrowly survived a vote of no confidence in parliament in January 2014.

Social safety nets
9

Equality of opportunity has largely been achieved. Formally, women and members of ethnic and religious minorities have equal access to education, public office and well-paid jobs. Women are better educated than men; among the 25-34 age group 43% of women have a university degree compared to 29% of men. The gender pay gap at median earnings of 10% is one of the lowest in the EU. The proportion of female managers is 36%, which is a high rating for the OECD. However, there are a lot of informal obstacles. Women have to face the double challenge of combining household/care work with a professional career. Although Poland's score of 0.139 in the UNDP's Gender Inequality Index places it at 26th out of 149 countries, only 5 out of the 100 top positions in the economy are filled by women and only 12% of the members of supervisory boards are female. The government's promise for parity on supervisory boards has not yet materialized. Surveys also indicate some reservations about this idea. Violence against women is a widespread problem. Poland recently signed the Council of Europe's convention on reducing domestic violence. Poland implemented EU anti-discrimination laws in 2011.

Equal opportunity
9

11 | Economic Performance

Poland's economic performance is very good although some problems remain. In 2014, economic activity recovered from a slowdown in 2012-13. This recovery was the result of higher domestic demand and investment replacing external trade as the main factors driving economic growth. In addition, the recovery of the core euro zone countries is expected to have a positive effect on Poland's economy. In 2014, GDP growth was 3.3%, recovering from 1.7% in 2013.

Output strength
9

Although inflation was above target for several years, pressures subsided and resulted in deflation, which is expected to continue until the third quarter of 2015.

Labor market conditions have improved but participation remains low. On the positive side, unemployment fell significantly from 10.3% in 2013 to 9.1% in 2014. This is a result of strong employment growth driven by rising private investment. However, the youth unemployment rate is high. The main challenge is the low overall participation rate of young and older workers and women.

The general government deficit has fallen from 7.6% in 2010 to 3.6% in 2014 and is expected to fall below the 3% limit in 2015. This has been the result of several deficit-reducing reforms such as changes in the pension system, increases in indirect taxes and social contributions and a public wage freeze. The government debt-to-GDP ratio remains below 60% of GDP. Although it increased from 53.6% in 2010 to 55.7% in 2013 because of slower economic growth and a higher general deficit, it fell to 48.6% in 2014 due to a transfer of private pension fund assets (European Commission 2015).

The current account deficit improved from 5.2% of GDP in 2011 to 1.3% of GDP in 2013 because of trade surpluses.

Finally, Poland's growth performance has continued without a high private investment rate. Despite major foreign direct investment inflows, low domestic savings have limited the growth rate of private investment. Nevertheless, Poland has shown remarkable economic growth performance in recent years.

12 | Sustainability

Poland enshrined the principle of sustainable development in Article 5 of its 1997 Constitution and has broadly adopted EU environmental standards. However, there is a political consensus in Poland that economic growth should be prioritized over the protection of the environment. Subsequent governments have been especially keen on protecting the domestic coal industry, which is a large employer and reduces the country's dependence on Russian energy. With the coal industry in mind, the Tusk government tried to obstruct any attempts by the European Union to tighten targets for the reduction of carbon emissions. Poland was also fined by the European Commission for failing to implement the renewable energy directive by treating timber as a renewable energy. However, according to a 2015 OECD report, improved energy efficiency in heavy industry and structural changes in the economy have enabled Poland to reduce its greenhouse gas emissions more than it was required to according to the Kyoto Protocol.

Further controversies have been raised by the government's emphasis on the exploration and production of shale gas and its plan to build a nuclear power station. Some protests have taken place against shale gas and fracking. For example, in 2013/14, the village of Żurawłów in south-east Poland experienced successful protests against the Chevron Company, which had conducted some test drilling. Due to the situation in Ukraine and Russia, Poland continues to remain in favor of exploiting its own fossil energy resources despite potential environmental damage.

The Polish research and development (R&D) and innovation system has been widely reformed but it still scores low on many important indicators such as in-house innovation, scientific excellence and the number of patents. However, science reforms as well as higher education reforms in 2010 and 2011 spurred significant changes. These included a move toward more competitive funding, the creation of two R&D agencies for applied and theoretical research, and efforts to tackle fragmentation through the concentration of funding for the best-performing institutions. In July 2012, the first six national leading scientific centers were selected and, in 2013, private sector R&D expenditure went up by PLN 950 million (17.8% higher than in 2012). In 2011-2013, business expenditure for this purpose increased by around 80%. This is a major achievement, as private investment had been rather

Environmental
policy

7

Education policy /
R&D

8

low for years. Poland's internal expenditure on R&D amounted to PLN 14,424 million in 2013, which amounts to an increase of nearly PLN 71 million compared to 2012, and represents up to 0.9% of GDP. Expenditure on education was 5.17% of GDP (HDI 2014).

Prime Minister Kopacz intends to improve the education system and to find better links between the education system and the labor market. In order to reduce the brain drain, she announced the introduction of new scholarships for students for conducting research abroad on the condition that they then work in Poland for another five years. By 2020, expenditure on R&D is to rise to above 2% of GDP and more emphasis is to be placed on cooperating with industry regarding vocational training, which is also intended to combat youth unemployment. This is to be financed by an operational program under the new phase of the EU structural and cohesion funds.

Transformation Management

I. Level of Difficulty

The structural constraints on governance are low. The relatively high standard of economic development, a well-educated workforce, well-developed infrastructure, the rule of law, and institutional stability produce favorable conditions for the government. Regional imbalances still exist but these have been mitigated thanks to EU's structural funds. There are some concerns about the effectiveness of the administration, the court system, unemployment, and the low employment rate. However, these do not constitute any serious threat to governance.

Structural
constraints
2

Traditions of civil society are strong in Poland. The emergence of a true civil society had much to do with the events surrounding the recognition of the Solidarity trade union by the communists, and its unique activities during 1980-81. In addition, groups linked to the Catholic Church were forums for critical discussions that allowed the organization of anti-state activity and promotion of democratic values during communism. The democratic transition provided impetus for the development and mushrooming of civil society organizations: the number of organizations has grown exponentially over 25 years in Poland. However, the level of civic participation is not high: only 32% of Poles are actively involved, whereas, according to the Eurobarometer survey of all EU member states, almost half of all respondents (45%) reported membership in civil society organizations in 2013. Moreover, electoral participation is low in Poland. The average voter turnout was 50% in the period from 1989 to 2011. In addition, the Poles do not trust political parties and political institutions (only 34% of respondents trusted the parliament, 33% the government and 17% political parties in March 2014, CBOS 68/2014). However, support for democracy has always been high in Poland, with almost 70% of respondents stating that democracy is the best form of governance. In addition, polls show that, at the local level, people increasingly feel that they can exert some influence on local politics and that civic participation makes a difference.

Civil society
traditions
1

There are no violent incidents based on social, ethnic or religious differences, as Poland is an ethnically and religiously homogeneous country. Political cleavages exist but they are expressions of societal divides. There are no violent incidents because of existing cleavages. However, the confrontational nature of politics is occasionally visible, mainly because of a political cleavage dividing the supporters of the Law and Justice and Civic Platform parties.

Conflict intensity
2

II. Management Performance

14 | Steering Capability

Question
Score

The government headed by Prime Minister Ewa Kopacz is as clearly committed to constitutional democracy and a socially responsive market economy as her predecessor in office, Donald Tusk. Institutional measures for impact assessment are in force and applied. Prime Minister Kopacz aims to continue some unfinished reforms of the Tusk government but also sets specific priorities such as greater emphasis on education policy. She supports Tusk's policy on nuclear energy and did not back the EU's climate and energy policies. Before Kopacz's appointment, Tusk had managed to reform the pension system and implement some measures in family policy, but did not undertake the reform of health care system. Prime Minister Kopacz handled recent disagreements with trade unions in mining and farmers well, which shows her strategic capacities.

Prioritization
9

The governments of Donald Tusk and his successor, Ewa Kopacz, have succeed in implementing major and politically difficult reforms, such as the changes in the pension system, a reduction of the budget deficit, the deregulation of professions and the provision of additional funds for the military. In addition, Tusk implemented reforms of higher education that were initiated during his government's first term. This initial impetus for reforms subsequently subsided somewhat in 2014. In a 2015 report on Poland, the European Commission noted that the government had not effectively reduced labor market segmentation and had not reformed the special pension and social benefit schemes for farmers and miners. It is too early to fully assess actions undertaken by Tusk's successor. Nevertheless, the public trusts Ewa Kopacz and her capability to implement further reforms because she is able to present a unified position for the Civic Platform party. She was able to balance internal divisions within the PO through her reorganization of government and competent handling of doctors' and miners' strikes.

Implementation
8

The government has repeatedly demonstrated its policy learning ability by adjusting its policies and responding to social needs, be it with respect to fiscal policy, education policy or social security. The government consults experts on different policy-related matters. However, the consultations are not always very transparent, and in some cases, experts have acted primarily as lobbyists. A learning process was also visible regarding the absorption of EU funds, which has improved in recent years: now, up to 80% of these funds are adequately used. Policymakers have also learned from international examples. The second Tusk government has continued improvements in strategic planning, further strengthened the position of the prime minister in government, expanded regulatory impact assessments and helped improve the fiscal situation of regional governments. Tusk's successor, Ewa Kopacz, has continued his policies.

Policy learning
8

15 | Resource Efficiency

The government generally makes efficient use of available human, financial and organizational resources. To date, there have been no reports of wholesale dismissals of personnel installed by the former government, or hiring practices that might increase budget expenditure too much. In addition, the government's objective is to preserve a sound state budget and improve local administration. Against the backdrop of the economic and financial crisis, the government followed a careful budget policy. The government succeeded in reducing the fiscal deficit from 7.9% of GDP in 2010 to 4% of GDP in 2012. However, due to slower economic growth, the fiscal deficit rose to 4.5% in 2013. Fiscal consolidation is to be facilitated by shifting about half of the assets of the private pension fund back to the state budget. The government plans to meet the 3% deficit target again in 2015. The government has begun to introduce performance-based budgeting but it has not yet created an independent expert advisory body to monitor and evaluate the budget drafts elaborated by the Ministry of Finance.

Efficient use of
assets
8

The government has also sought to develop better tools and state institutional administrative structures so as to engage in more coherent regulatory impact assessments. In addition, the government has strengthened the administrative organization of regions and local entities by amending existing laws.

The government coordinates conflicting objectives and acts in a coherent manner. The Tusk government has continued strengthening the policy expertise of the Chancellery of the Prime Minister of Poland. In a 2013 report on Poland, the OECD noted that the government has integrated numerous different single-sector strategies into a single long-term vision (Poland 2030), a National Development Strategy and nine medium-term integrated strategies addressing cross-cutting issues. The Chancellery's Council of Ministers Committee Department monitors the government's legislative work and issues opinions on documents to be submitted to

Policy
coordination
9

the Council of Ministers. The formal and actual involvement of the Chancellery of the Prime Minister of Poland in the preparation of policy proposals by the line ministries has become stronger. The two most important cabinet committees are the Development Policy Coordination Committee and the Committee on European Affairs. Whereas the former is in charge of coordinating the country's development strategy, the latter is responsible for EU affairs coordination. In both cases, however, coordination has largely been accomplished by top civil servants rather than by the ministers themselves. By contrast, bureaucratic coordination at lower levels of administration is limited. The legal requirements for consulting other ministries at the preparatory stage of legislation are weak, and there is still a strong culture of departmentalism.

The government is eager to contain corruption. The most recent institutional reforms were implemented in 2011, when the office of the anti-corruption plenipotentiary was abolished and the tasks of the Central Anti-Corruption Bureau (CBA) expanded. In 2013, the Ministry of the Interior initiated a debate on a renewed strategy to fight corruption for the 2014-19 period, following domestic and international pressure. The government also initiated public hearings in order to improve this program. The 2014 state budget allocated about EUR 240,000 for the implementation of this new program. Integrity mechanisms, such as transparency with respect to MPs' income, regulations for party financing and a common understanding of the code of conduct are well implemented and work in practice. As a result, corruption at the top is limited. The CBA admits that certain sectors are at risk: road and rail infrastructure, information technology in public administration, EU funds, defense and health care, as well as public procurement at local and regional levels. The CBA also reports cases of corruption in the public procurement system, especially at the local and regional levels. At the same time, tax authorities were able to target and recover a billion euros of unpaid taxes.

Overall, corruption in Poland is much lower than in the past, such as the rampant corruption present in the 1990s.

16 | Consensus-Building

All major political actors agree on the primacy of democracy. The incumbent coalition government of the PO and the PSL favors a less centralized style of government than does the main opposition party, the PiS.

All major political actors agree on the primacy of the market economy. The incumbent coalition government of the PO and the PSL favors less state involvement in the economy than does the main opposition party, the PiS.

Anti-corruption
policy

8

Consensus on goals

10

There are no relevant political actors in Poland that have anti-democratic views.

Anti-democratic
actors

9

Outside the parliament, there are unimportant small groups that can be labeled as anti-democratic. An extreme right-wing movement marched through Warsaw on the occasion of Independence Day on 11 November 2014. Right-wing extremist movements are neither represented in the parliament, nor do they have any influence on decision-makers.

Among the political parties, the Congress of the New Right, which was successful in the elections to the European Parliament, should be considered as populist and Euroskeptical rather than anti-systemic.

Cases of political involvement by the Catholic Church have become less frequent than in previous years.

The government seeks to depolarize cleavage-based conflicts and expand consensus across dividing lines. It aims to reduce social cleavages and regional inequalities through its policymaking. There are no ethnic tensions in Poland as the country is homogenous and immigration is developing only slowly, especially from its eastern neighbors. While there is a political divide between liberalism/laicism and Catholicism, reinforced by the political interference of right-wing Catholic activists, there is no religious conflict between the Catholic majority and religious minorities. The conflictual relations between the two largest parties, the PO and the PiS, do not help reduce tensions. However, in her inaugural speech, Prime Minister Ewa Kopacz declared her willingness to have a less hostile form of interaction with the main opposition party, the PiS.

Cleavage /
conflict
management

9

The Polish government assigns an important role to civil society actors in the course of policymaking. It is obliged by law to consult all parties affected by proposed legislation. Online consultations with ministries have been introduced as well as the opportunity to follow a bill through the lawmaking process online. Cooperation with trade unions and employers' associations usually takes place before the state budget is passed in the parliament and also for other laws related to labor and social policies. A new and innovative tool implemented in February 2011 has increased the coordination and acceptance of policy reforms, as it enables Polish citizens to track the legislative progress of proposed legislation on the government's website. In practice, however, the consultation of societal actors by the government is often formalistic. The Tripartite Commission, an institutionalized form of consultation in the Polish government, has not always been successful because of obstruction by trade unions.

Civil society
participation

8

The political leadership seeks to achieve reconciliation for historical acts of injustice. This topic is somehow less controversial compared to period of 2005-2007, when the PiS was in government and heated debates on lustration were held. Officials must declare whether they collaborated with communist secret police or intelligence services. If they admit such activities, they are not punished. The government supports the work of the Institute of National Remembrance (IPN), which is the commission for the prosecution of crimes against the Polish nation. The IPN took over the archives of the communist police and, since 2000, has made the files of the secret services accessible for affected persons. The interest of public in these files has always been comparatively low.

Reconciliation
9

17 | International Cooperation

The political leadership makes well-focused use of international aid in order to implement its long-term strategy of development. With respect to Poland, international aid refers especially to access to the EU structural funds. Poland is the largest beneficiary of the funds in the European Union for the period 2014-20, with amounts totaling EUR 105.8 billion (PLN 441 billion), including EUR 72.9 billion (PLN 303.6 billion) in the Cohesion Policy framework and EUR 28.5 billion (PLN 118.8 billion) as Common Agricultural Policy payments (Ministry of the Treasury 2014). Poland's ability to use structural funds has increased in recent years, and now about 80% of available resources are absorbed. The Polish parliament has installed a special committee which is responsible for the necessary adaptations of Polish laws to the Lisbon treaty.

Effective use of
support
10

The government is considered a credible and reliable partner by the international community. In the European Union, Poland has become an equal partner to larger EU member states, especially France and Germany, and one of the more active players after it held the Presidency of the European Council in 2011. In addition, Poland is engaged in active policymaking with regard to the EU's external relations, especially in finding a solution for the military conflict in Ukraine. When Donald Tusk became the president of the European Council in December 2014, this was a clear sign of Poland's increasing status in the European Union. According to a 2014 report by the IMF, Poland has "strong public finances and (a) sound fiscal framework." Poland is rated A-/A-/A2 by the three international credit rating agencies.

Credibility
10

The Polish government is actively and successfully forming and expanding cooperative relations within its region, most notably the European Union. Poland has sufficient capacity to act on the international scene, as shown by its successful EU presidency and its impact on the EU Eastern Partnership. While its capacities have increased due to a growing cooperation with Germany, they could be further enhanced by future membership in the euro zone. Regarding regional security, during the political crisis in Ukraine and the military conflict with Russia, Poland eagerly tried to develop a diplomatic solution together with France and Germany. Poland's position towards Russia differs from its neighbors Hungary and the Czech Republic who favor a more Russian-friendly approach of the EU. However, these differences have not impeded the cooperation among the four Visegrad countries, which has intensified in areas including defense cooperation and energy infrastructure.

Regional
cooperation
10

Strategic Outlook

During the period under review, Poland's performance in the economy and executive governance can be regarded as a success story. There is a general and stable consensus on democracy that is based on material benefits, but also on strong normative orientation. There is some evidence that political actors are starting to use the options which the institutional framework offers for alternative political engagement outside the party system. This may contribute to improving political participation and popular confidence in democratic institutions.

The presidential and parliamentary elections in 2015, the results of which were not known at the time of writing the report, will shape the political constellation in Poland for the coming years. Dissatisfaction with the performance of the incumbent government may lead voters to support opposition parties. However, as the country's economic outlook is seen as the most-influential determinant for electoral behavior, the PO may benefit from the economic recovery. Moreover, the fact that the PiS is unlikely to win a majority on its own and will have trouble finding a coalition partner may discourage strategic voters.

In economic terms, Poland's good economic performance is likely to continue. GDP growth is likely to be robust. Public investment will also increase with new EU-financed projects. Likewise, private consumption is expected to remain strong, supported by strong real wages and employment growth. The general government deficit is expected to fall gradually to reach a level below 3% in 2015, resulting from robust economic activity and expenditure limits. The general government debt-to-GDP ratio will remain below 60% and is predicted to be 49.9% in 2015 and 49.8% in 2016. Moreover, the Polish banking sector is performing well. Against this positive backdrop, the major economic challenges ahead for Poland will be keeping the budget deficit under control (i.e., below the 3% threshold), continuing to reform the health care system and fighting structural unemployment (especially for older and younger people, and women). As Poland has proven successful in securing substantial EU funds for 2014-2020, it will be easier to address some of these issues. Besides EU funds, Poland has to expand its own capacities, especially its innovative capacity, in order to move up the value-added chain. Moreover, the business environment remains burdensome and requires reforms to introduce more efficiency. In the coming months, the government will have to address its two most pressing long-term problems: unemployment and health care system reform. Long-term unemployment has increased, which is worrying. The health care system faces problems of accessibility and inefficiencies. Growing health care expenditures are problematic for the future. Prime Minister Kopacz has had recent success in dealing with protests from doctors and teachers but more concrete steps are required, and the electoral period in 2015 may slow down progress in reforms.