

Joint ICEG – IMF Workshop

**EU funds in Poland:
absorption issues and
economic impact**

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IMF Regional Office
December 13, 2006
Budapest

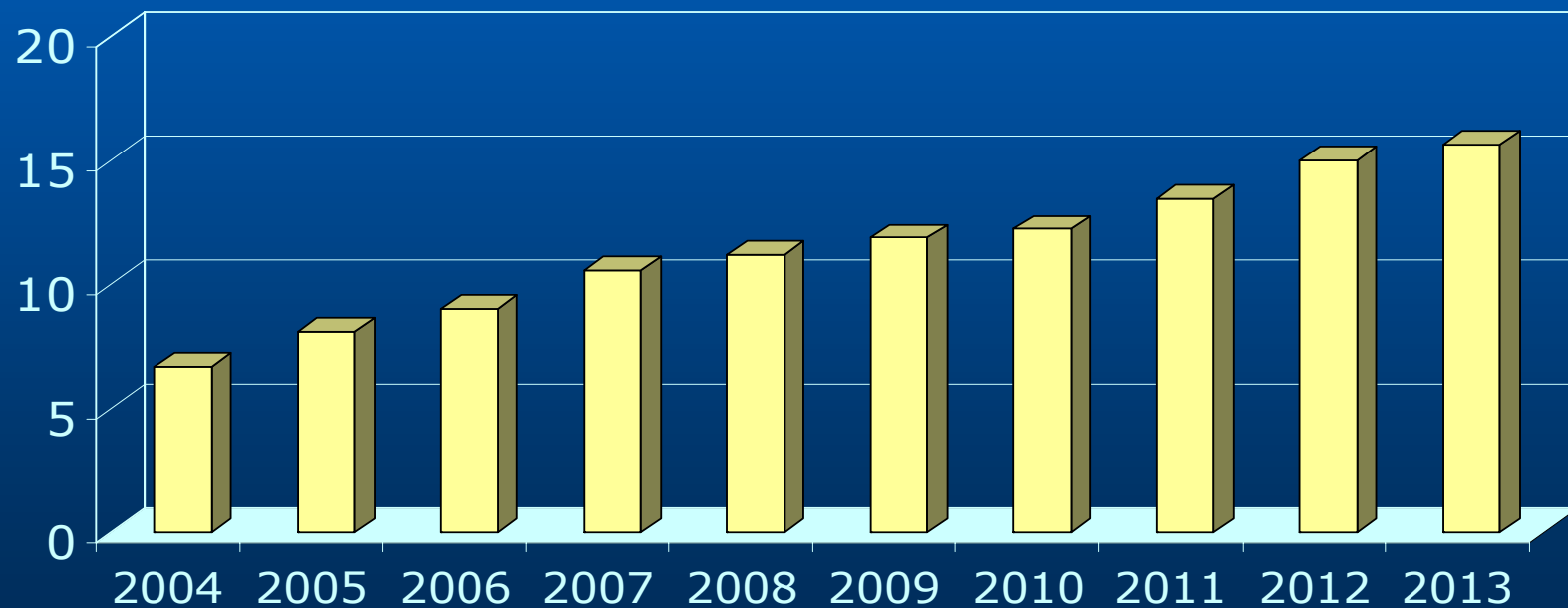
Structure of the presentation:

- 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)

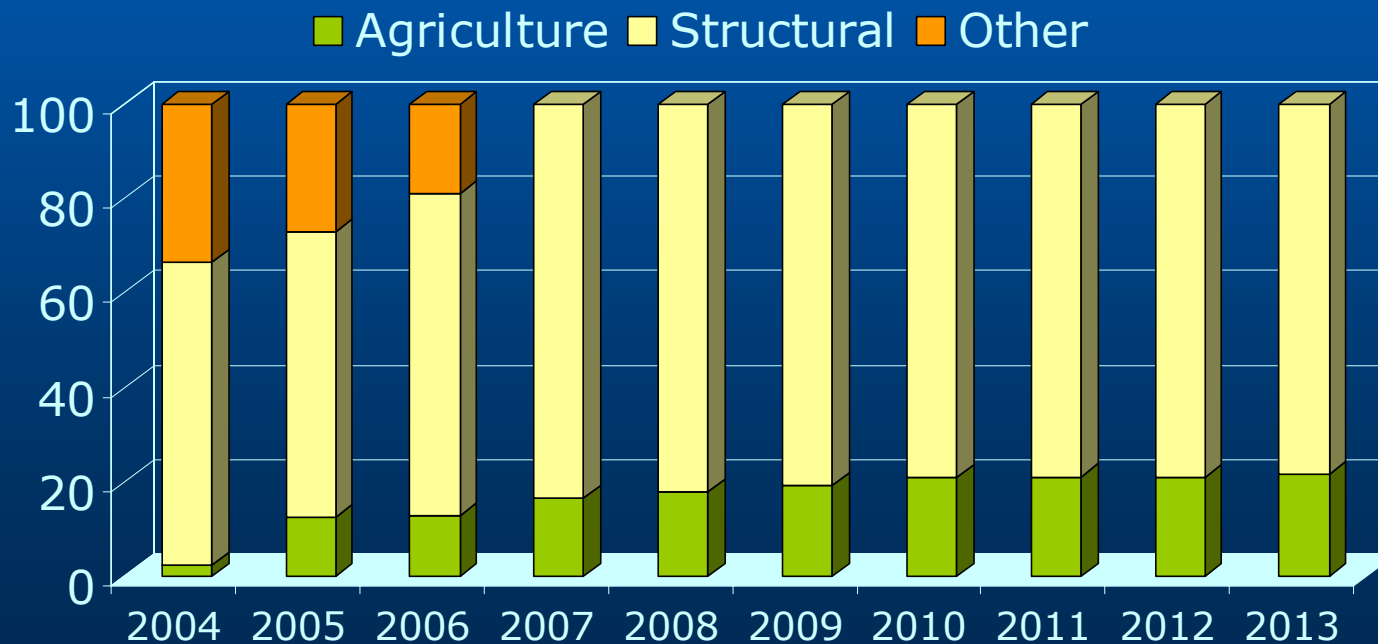


Source: National authorities.

Development funds are growing...

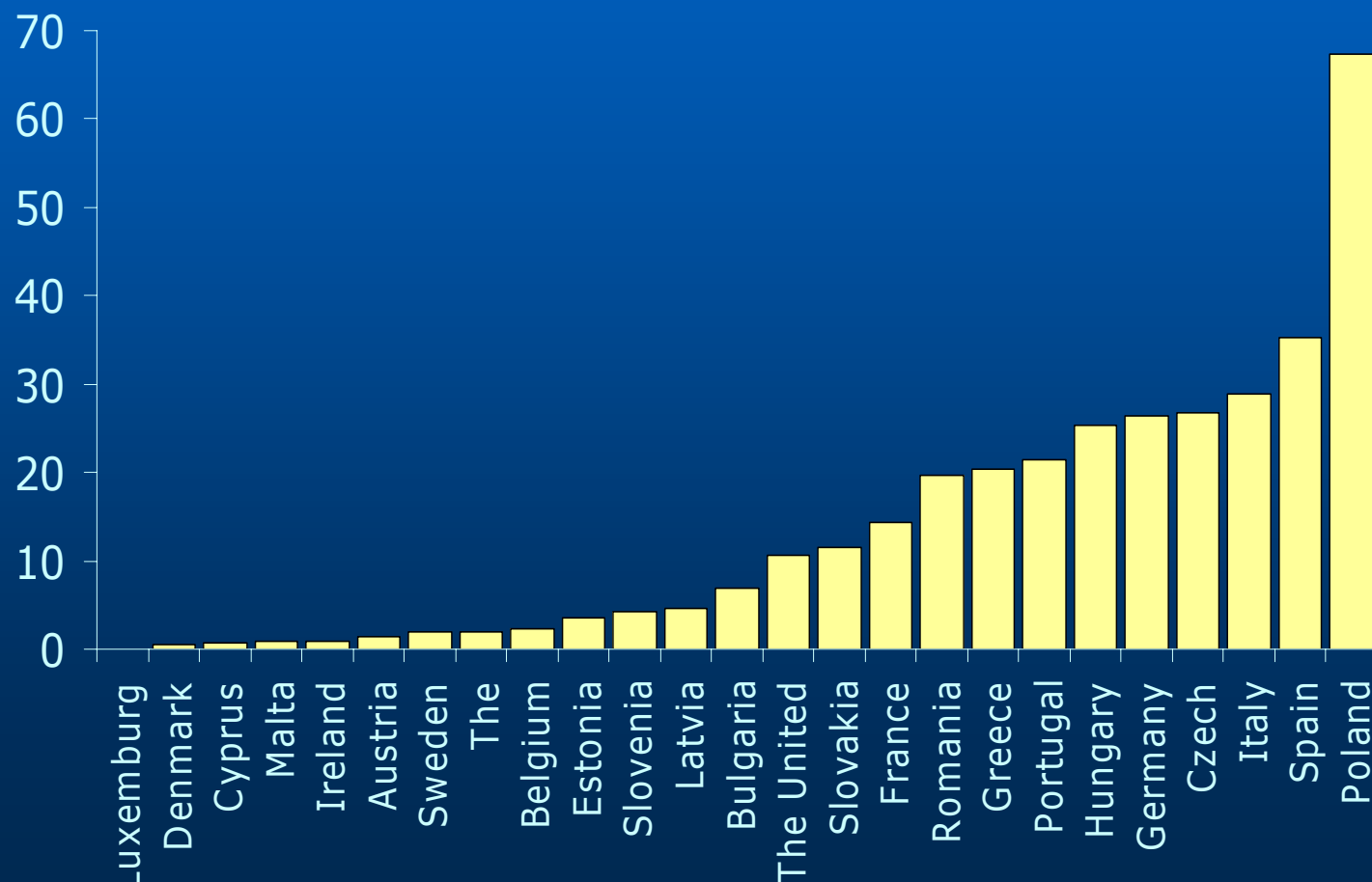
...share of structural and cohesion funds is increasing substantially

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)



Source: European Commission DG REGIO

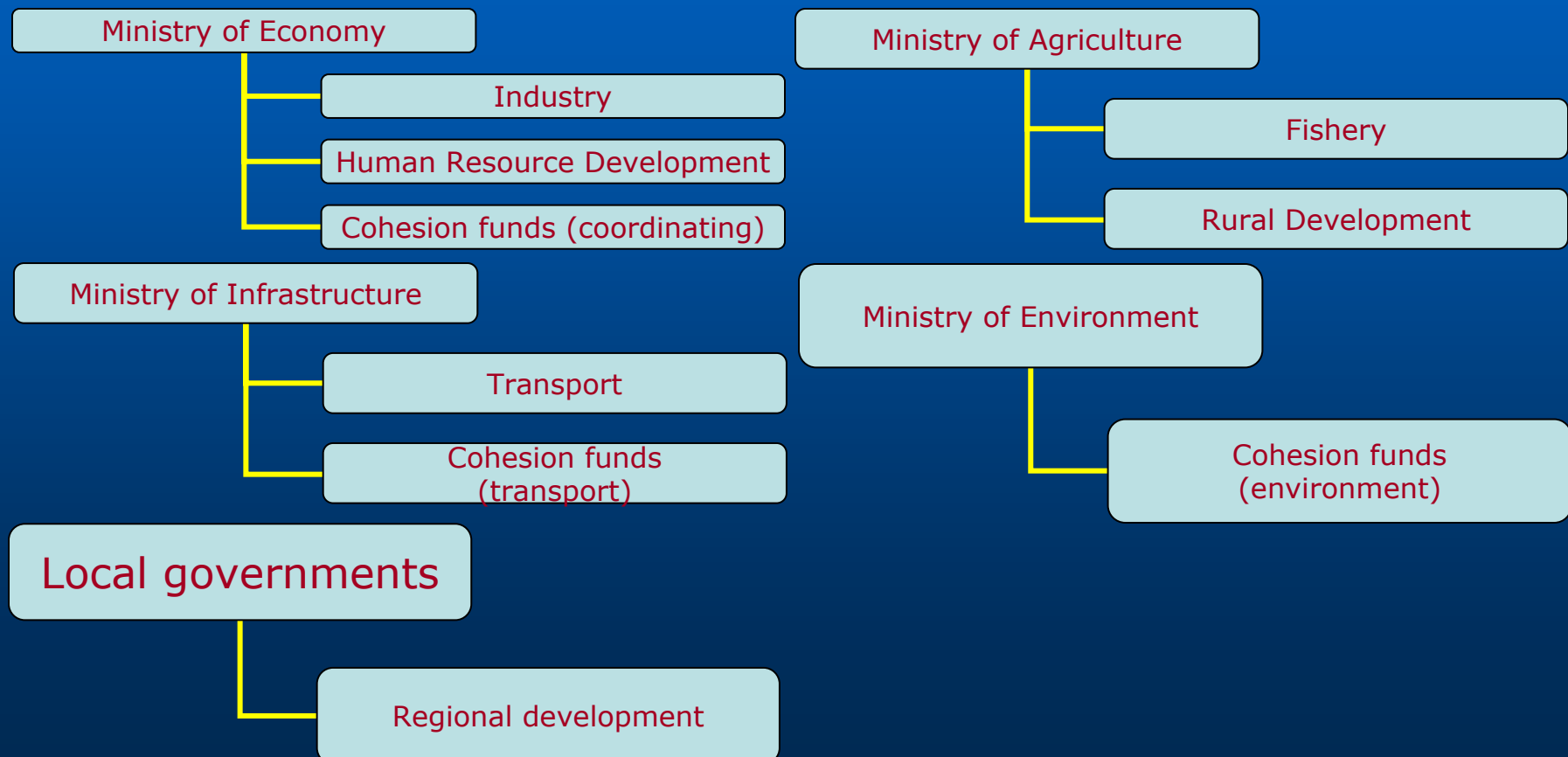
EU commitments are a promise but not a guarantee of positive effects:

- 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...

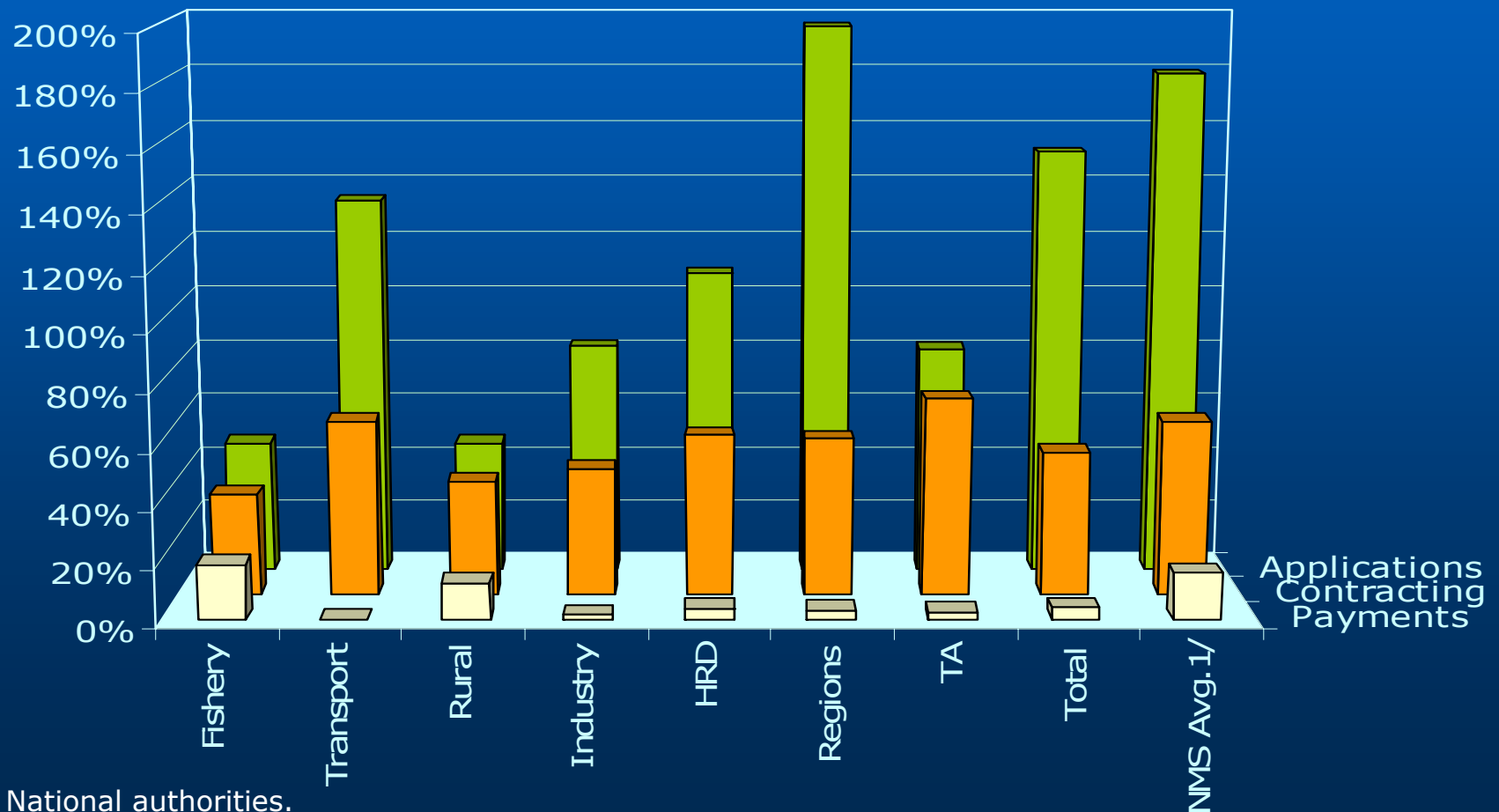
Poland:

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)

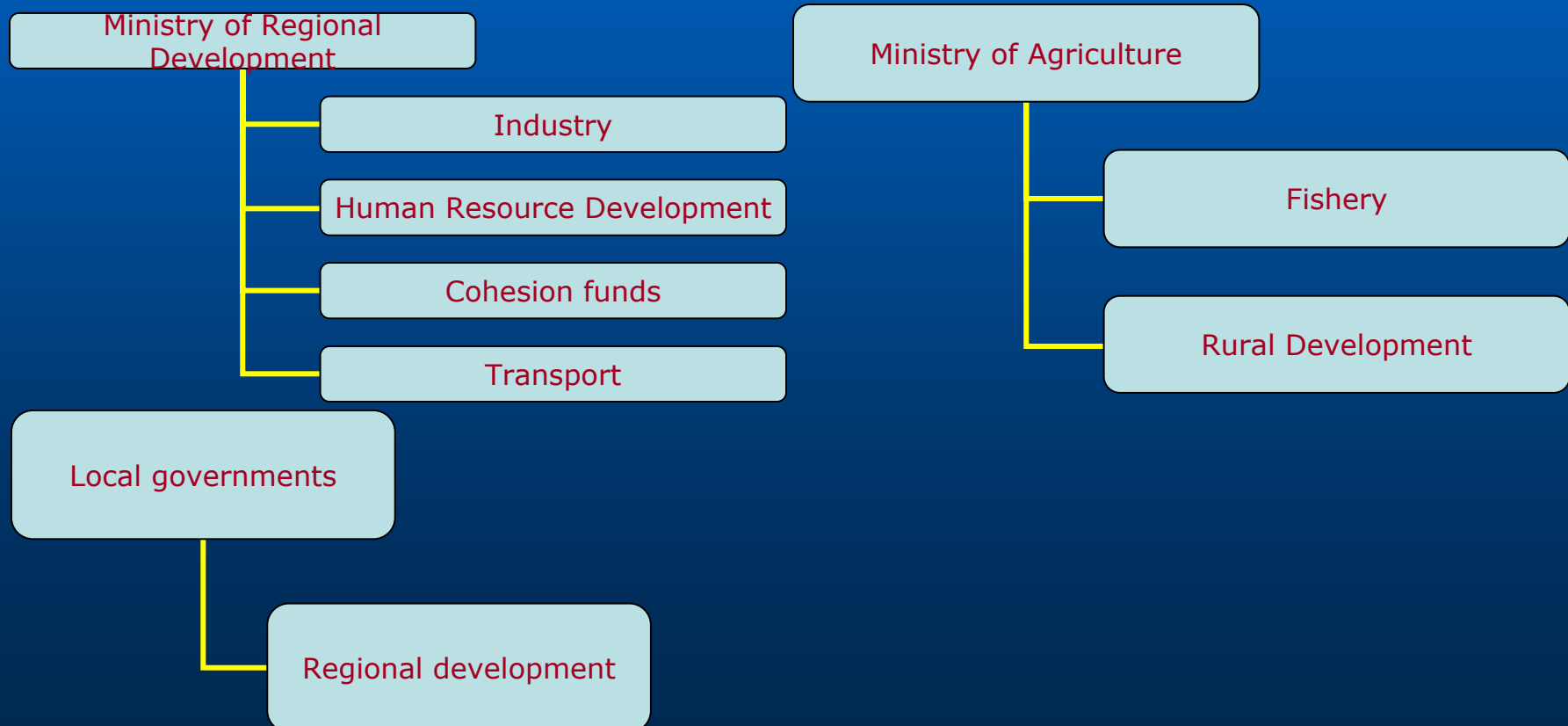


Source: National authorities.
1/ NMS Avg. data for Dec 2005.

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.

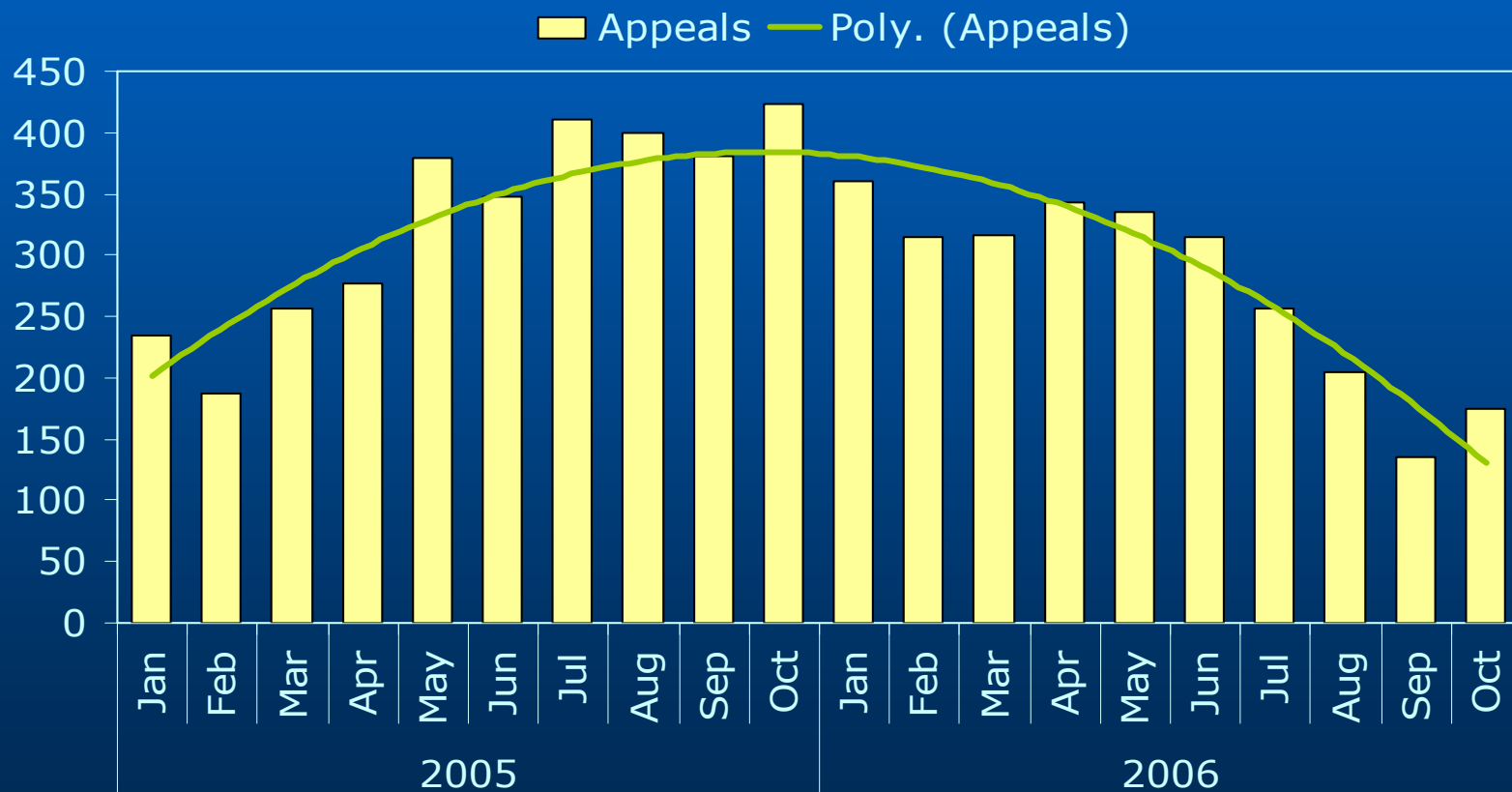
Poland:

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

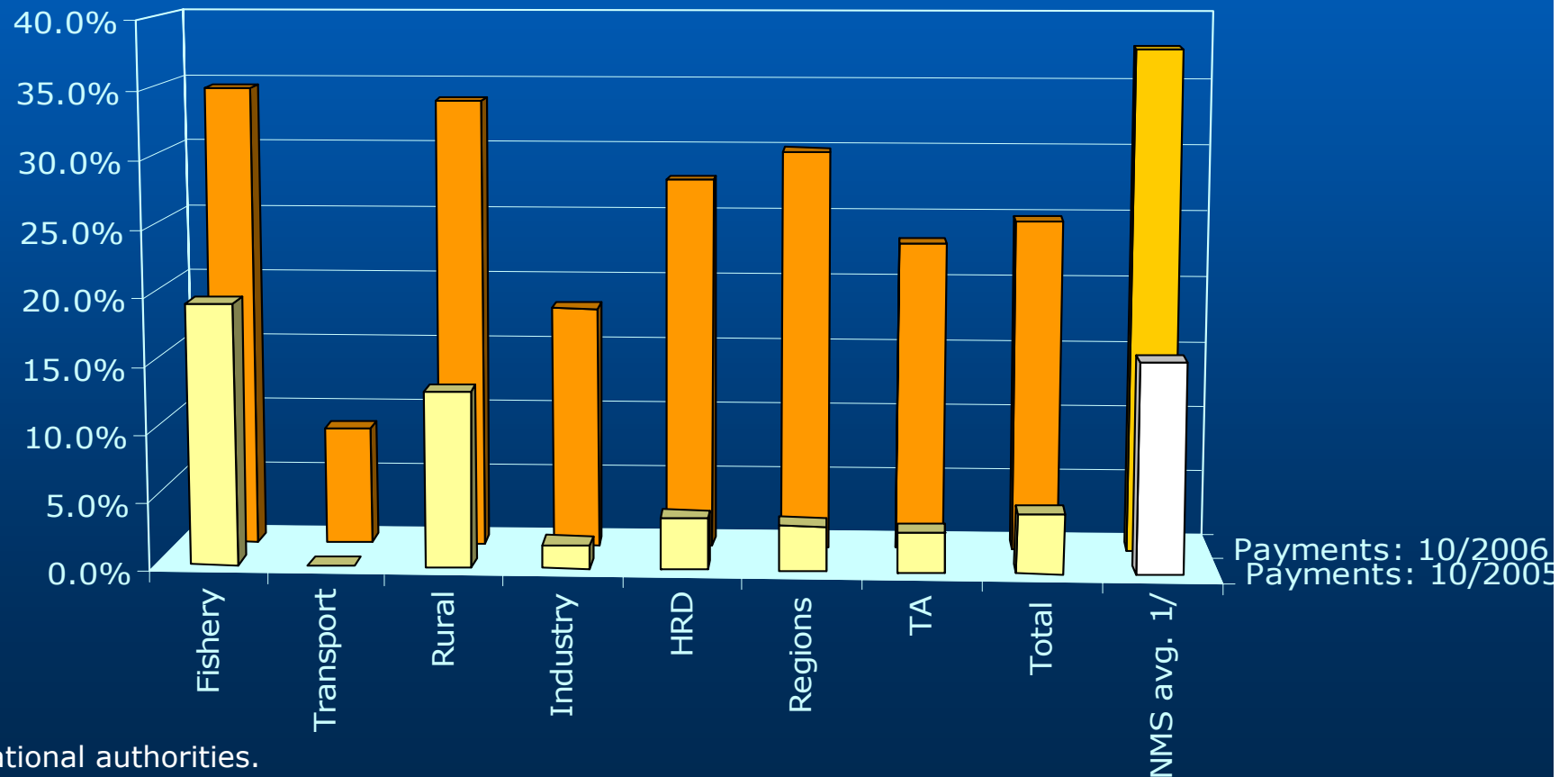
Undoubtedly, the number of appeals was reduced 😊

Poland: Number of Appeals in Public Procurement Bids



Absorption also accelerated, but still remains relatively low

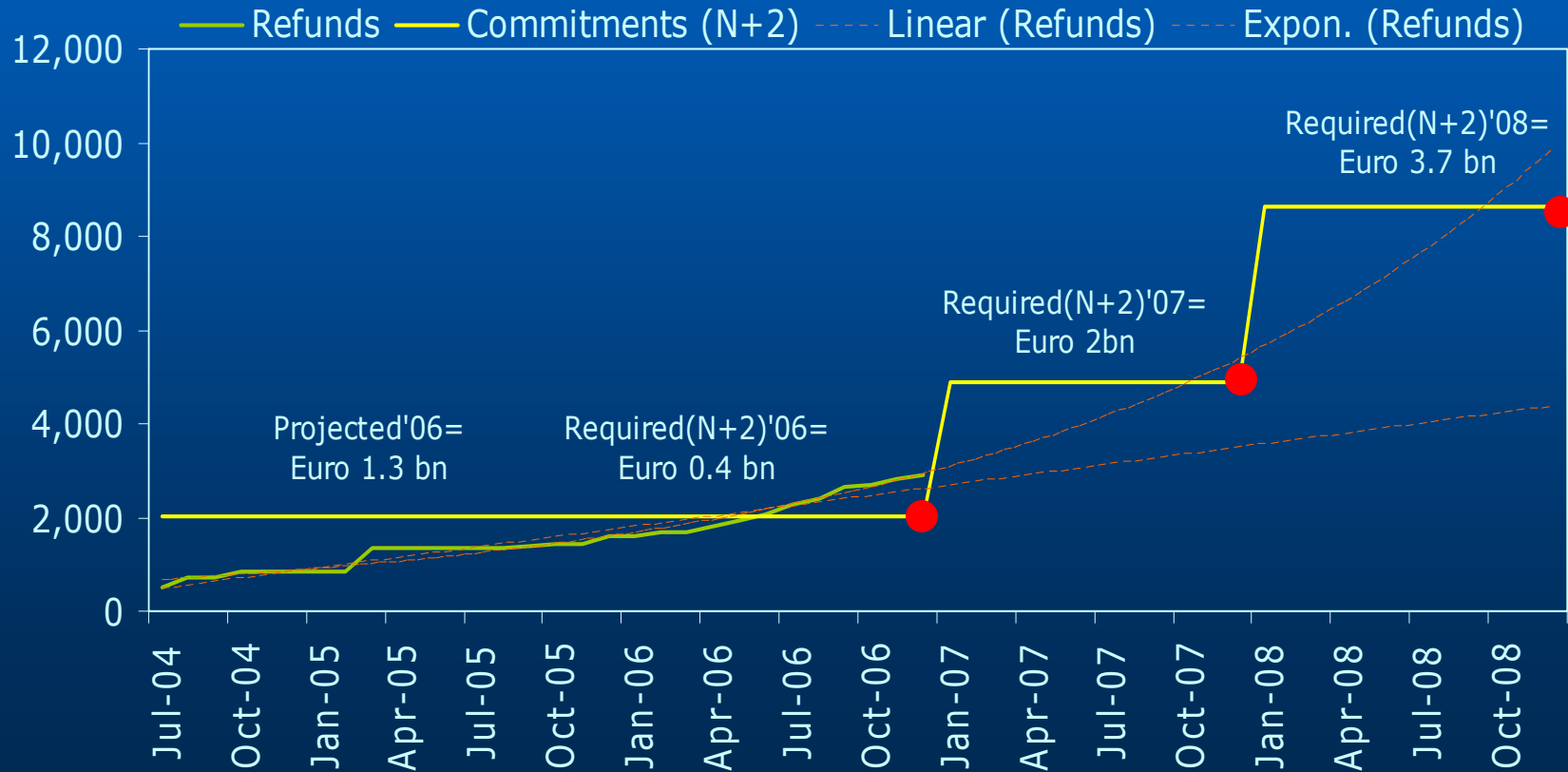
Poland: Utilization of Structural Funds
(percent of commitments for 2004-06)



Source: National authorities.
1/ Data for Dec 2005 and Oct 2006

Resting on the laurels may be premature...

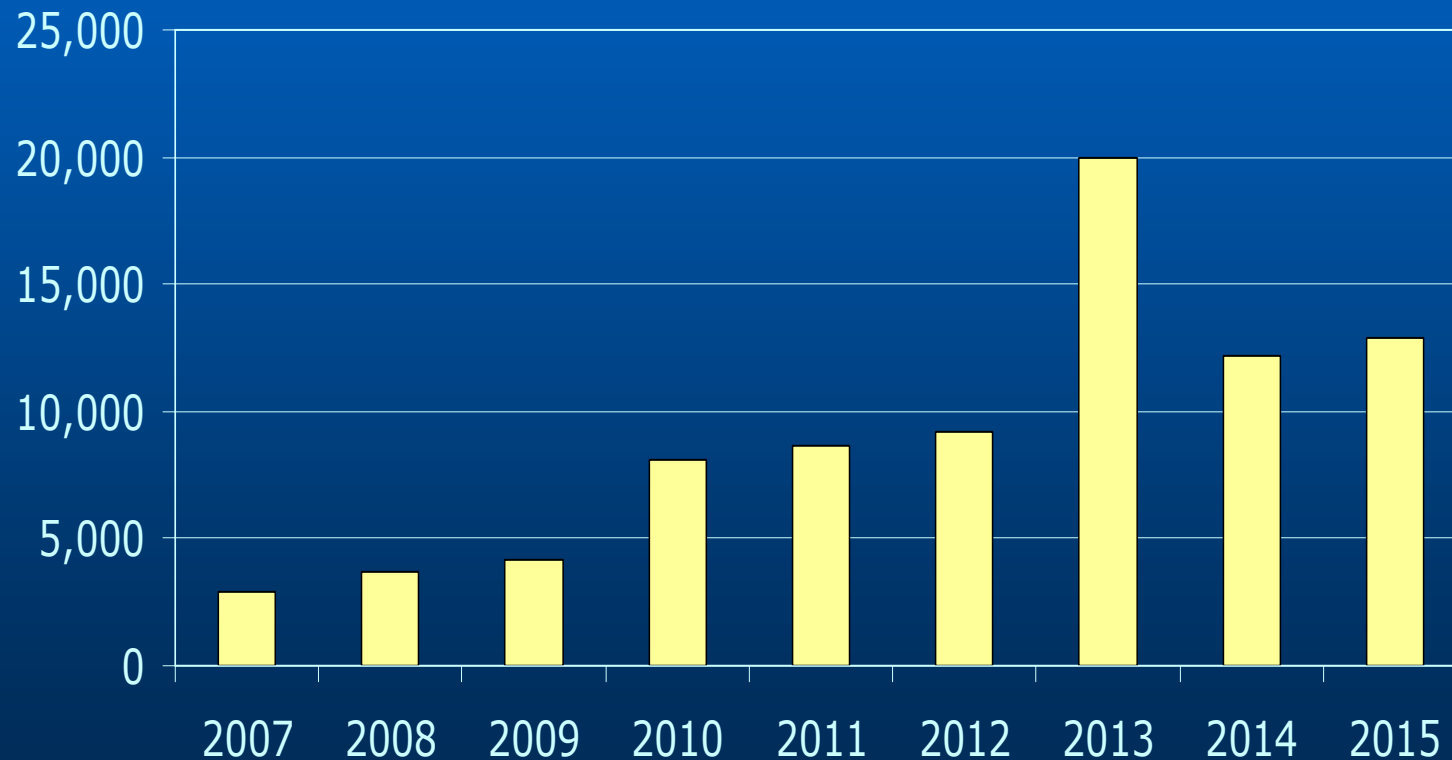
Poland: Challenges in absorption of EU structural funds
(in Euro million)



Source: National authorities, staff estimates.

...given the forthcoming EU funds!

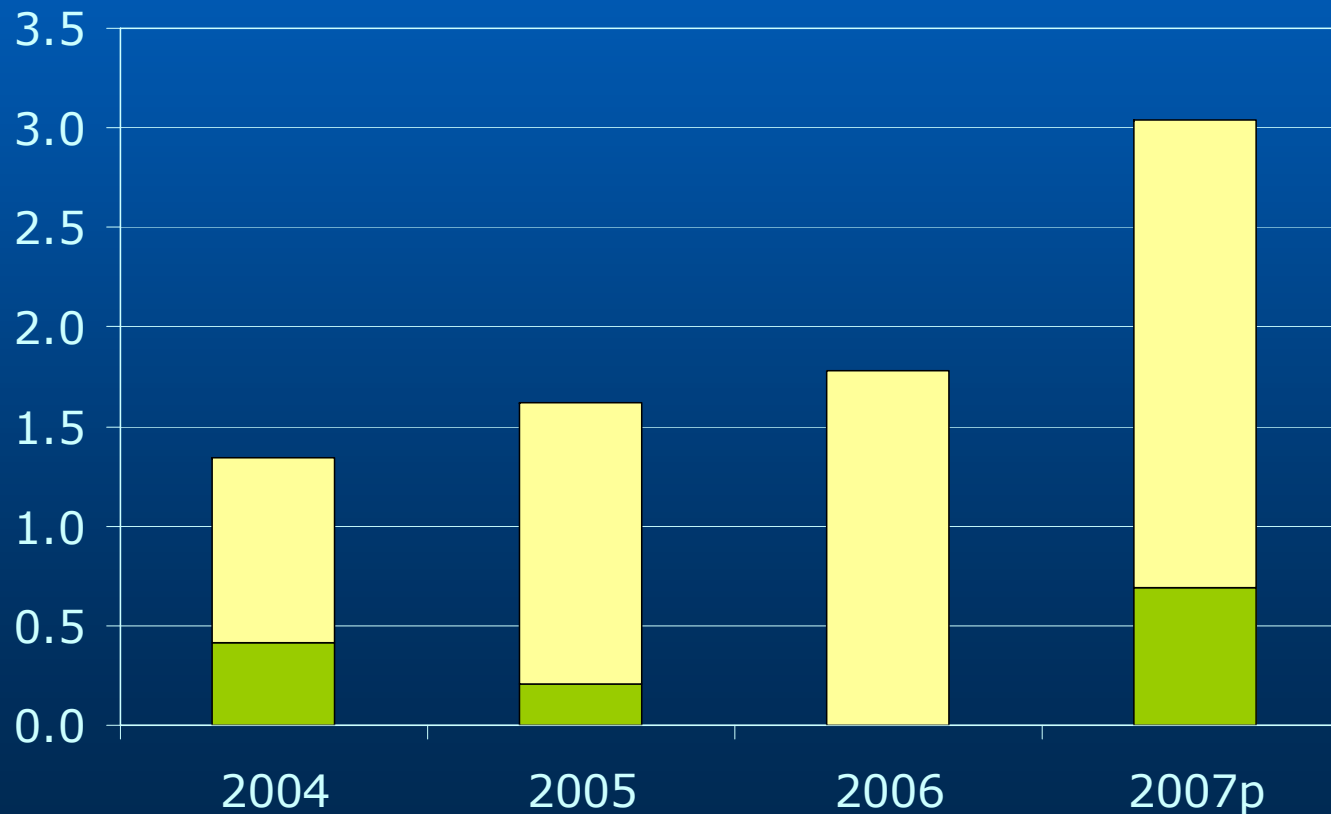
Poland: Annual utilization of EU structural funds needed to avoid de-commitments (in Euro million)



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

Poland: EU funds (percent of GDP)

■ Advances ■ Other EU funds

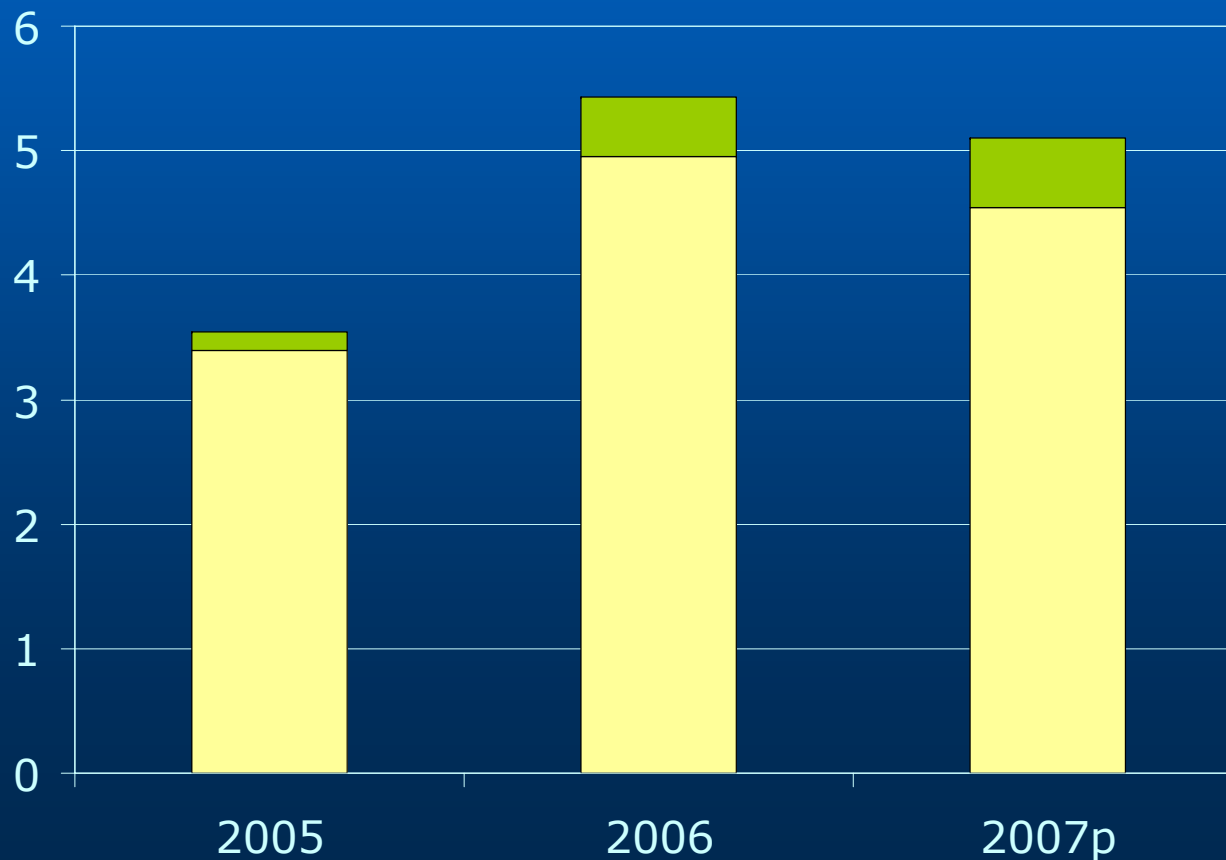


Source: National authorities, staff estimates

...but their contribution to growth is modest

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

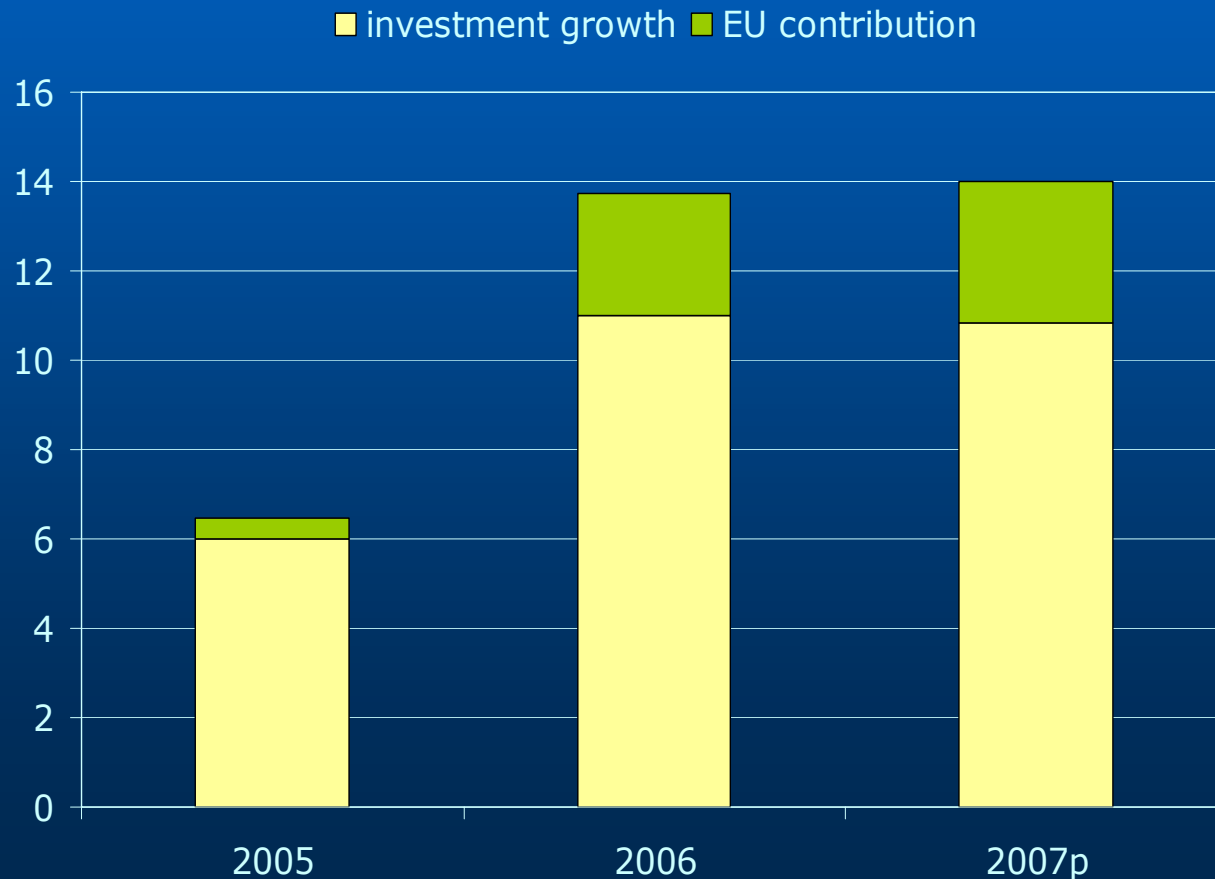
■ Real GDP growth ■ EU contribution



Source: National authorities, staff estimates.

Contribution of structural funds to investments is positive...

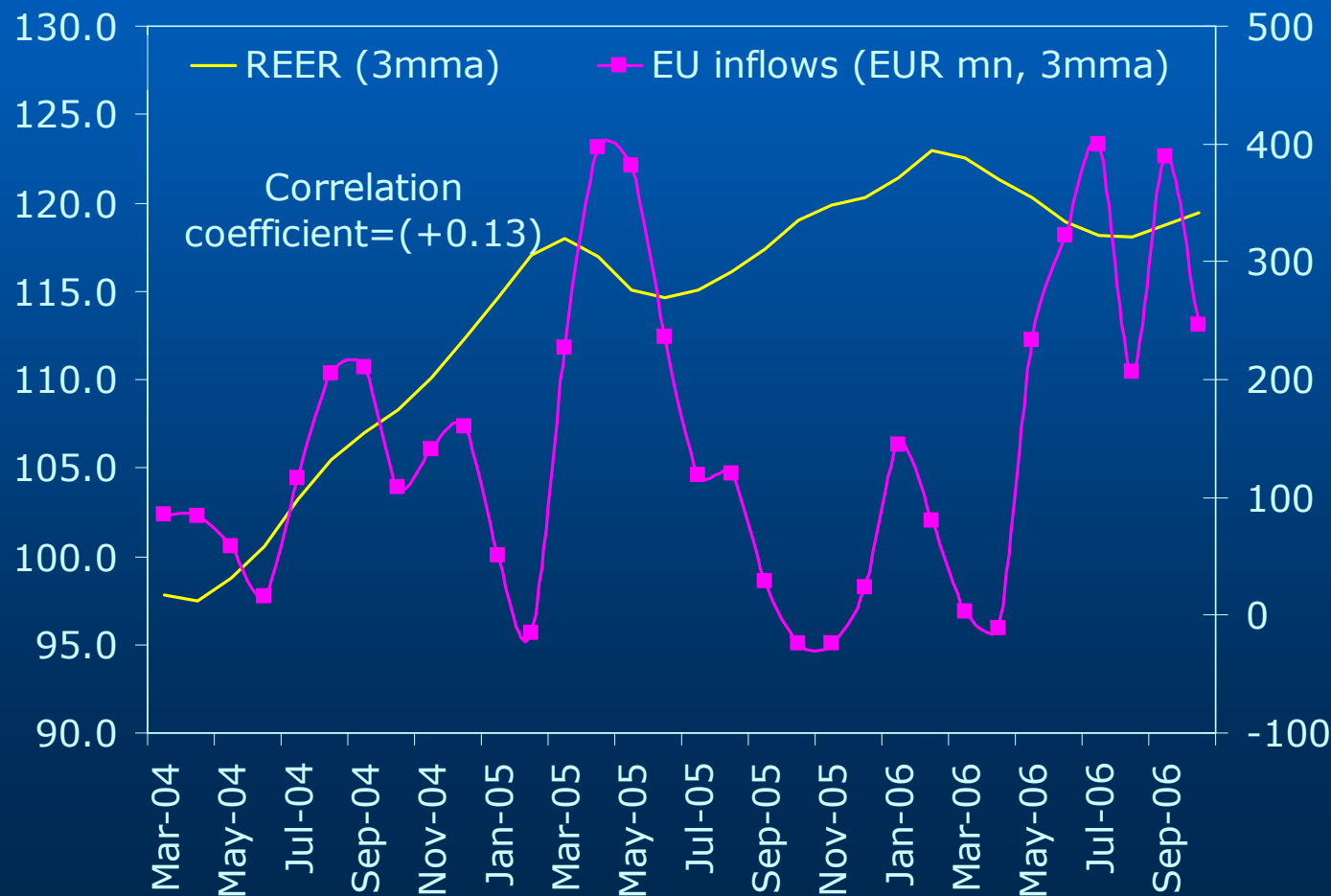
Poland: Contribution of EU structural funds to investment growth (percentage points)



Source: National authorities, staff estimates.

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

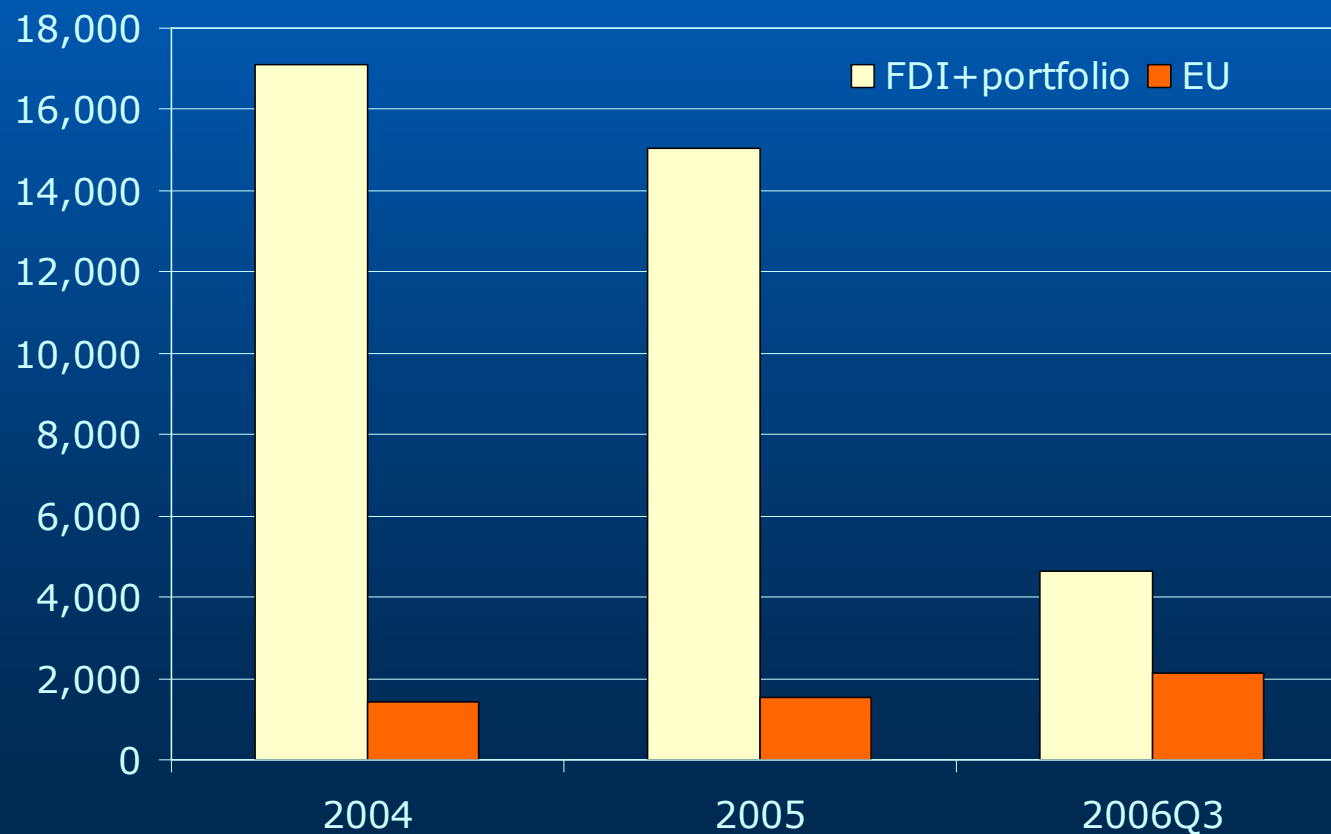
Poland: EU funds flows and movements of REER
(CPI based REER, 12 trading partners, 1999=100)



Source: National authorities, staff estimates.

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

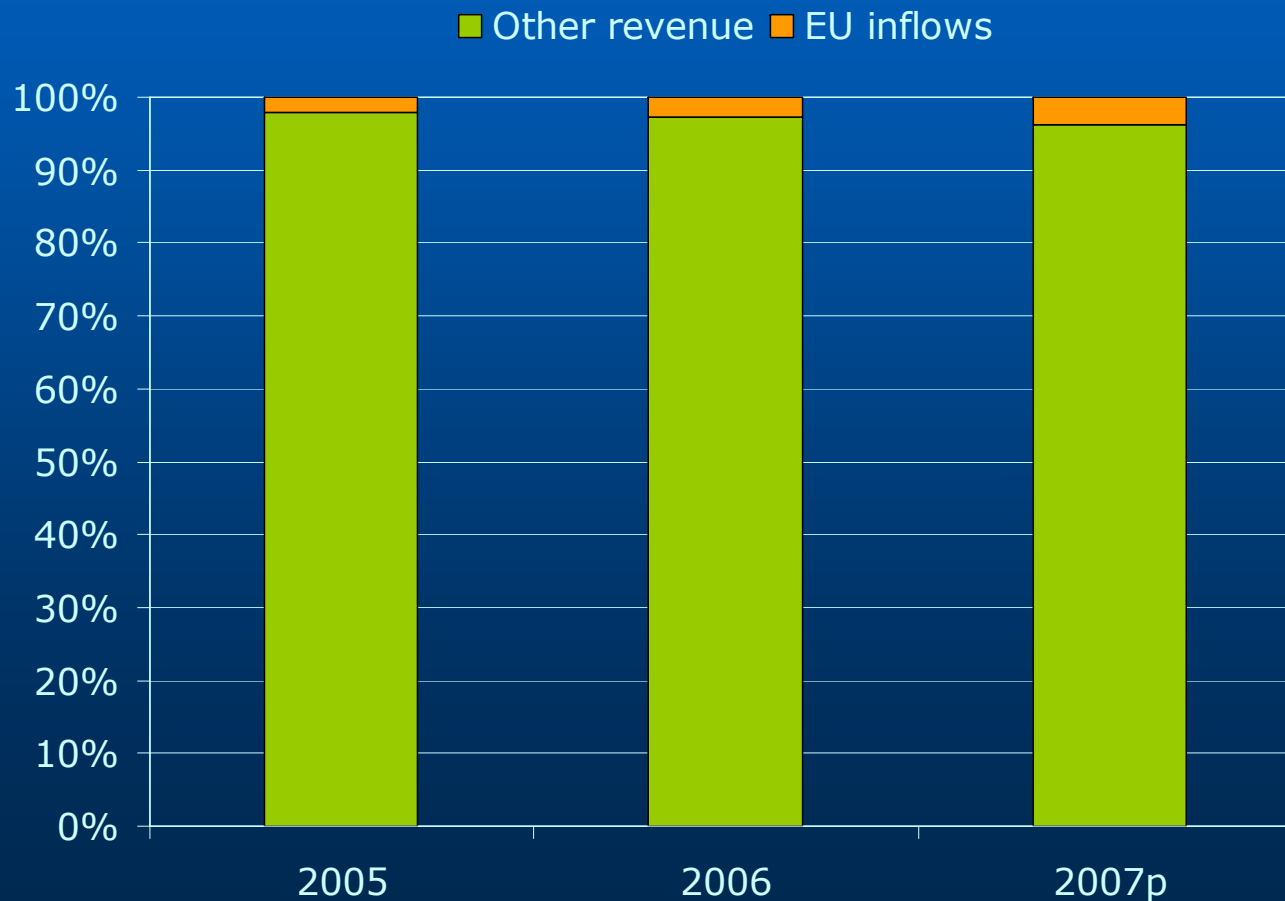
Poland: Net inflows from EU compared to net FDI and portfolio flows (Euro million)



Source: National authorities, staff estimates.

Impact of EU funds on government finances also looks limited

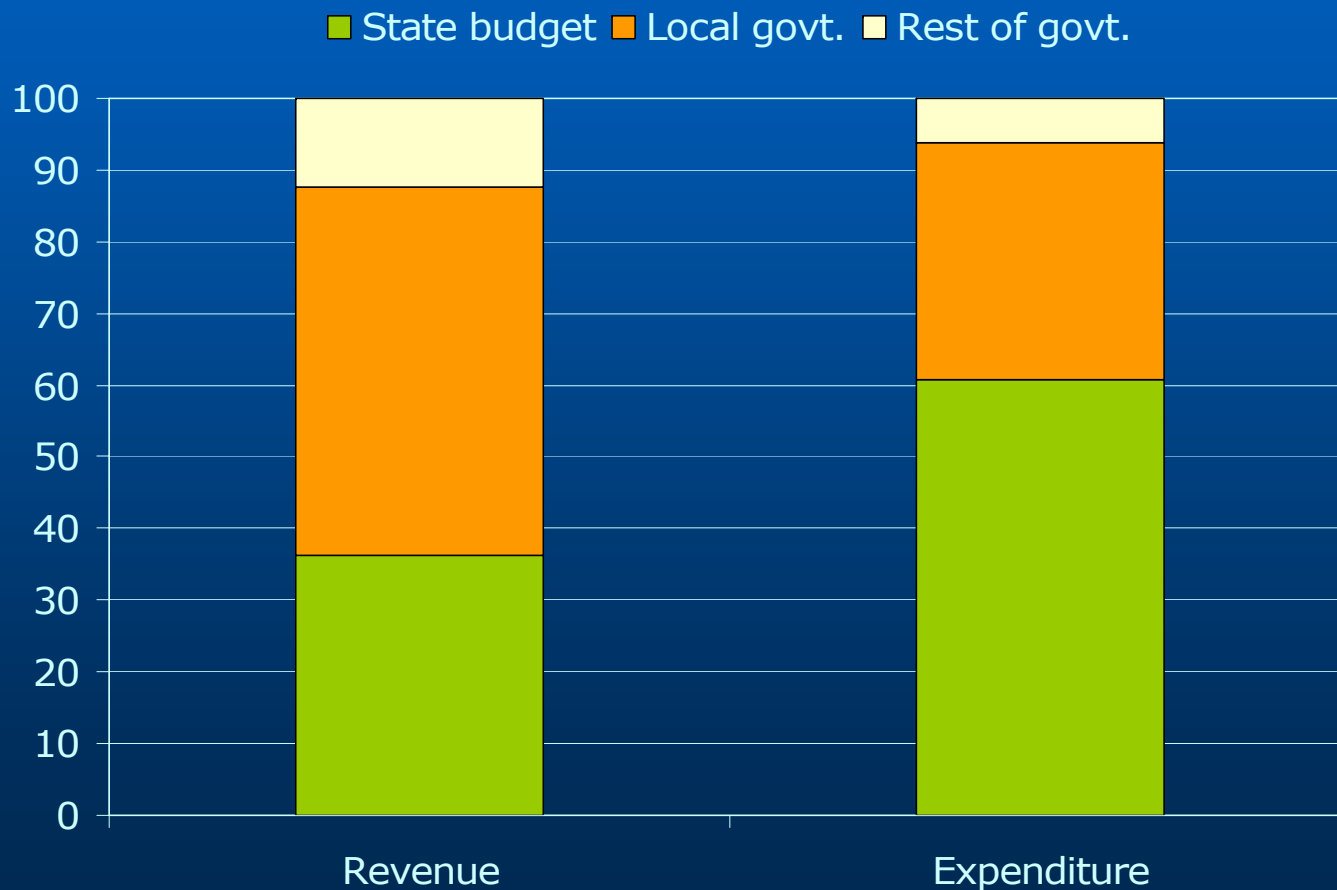
Poland: EU inflows in government revenues
(percent of total)



Source: National authorities, staff estimates.

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

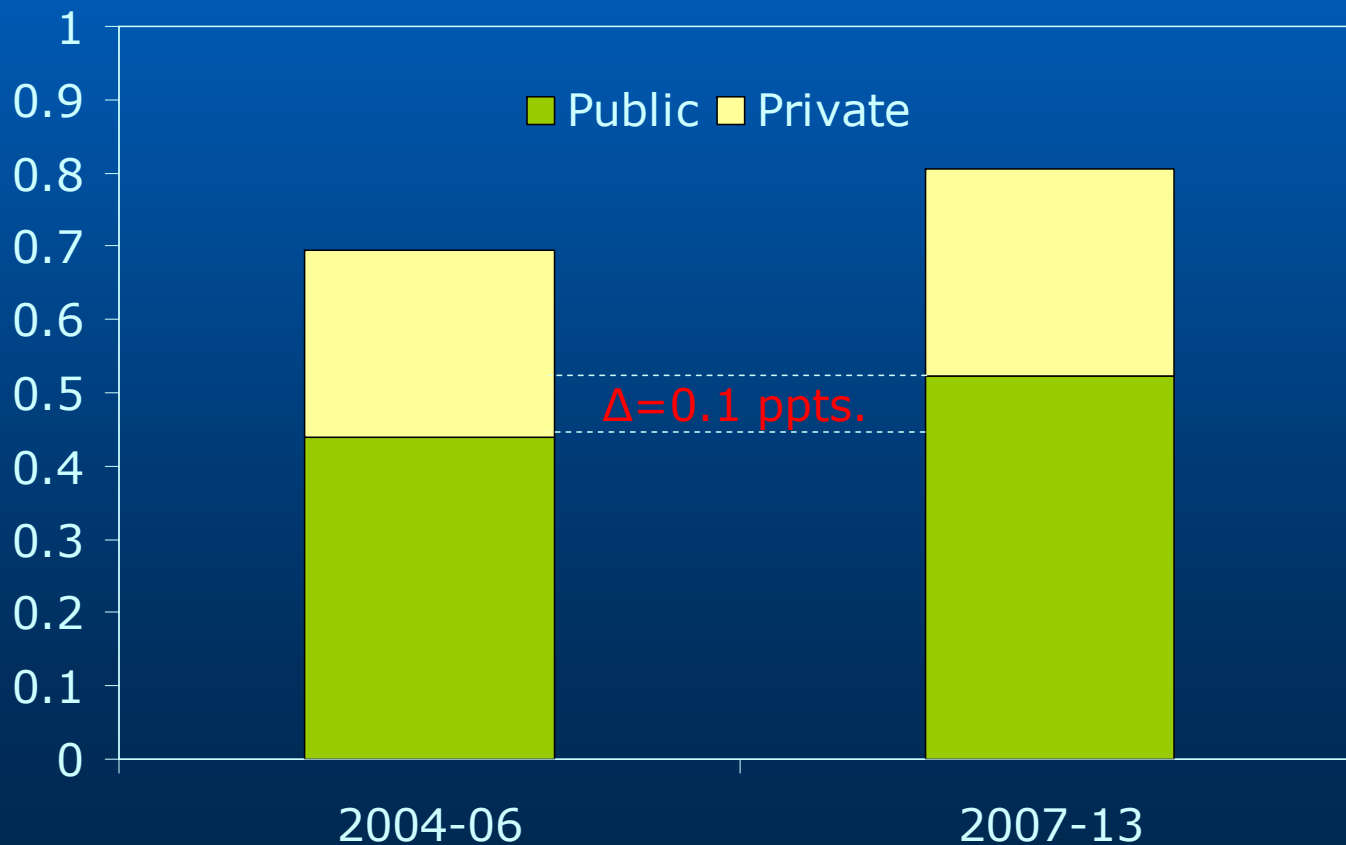
Poland: Breakdown of EU related receipts and expenditures (in percent of total)



Source: National authorities, staff estimates.

...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)



Source: NPR 2004-06, NSRO 2007-13

Growing EU transfers may obscure true fiscal stimulus

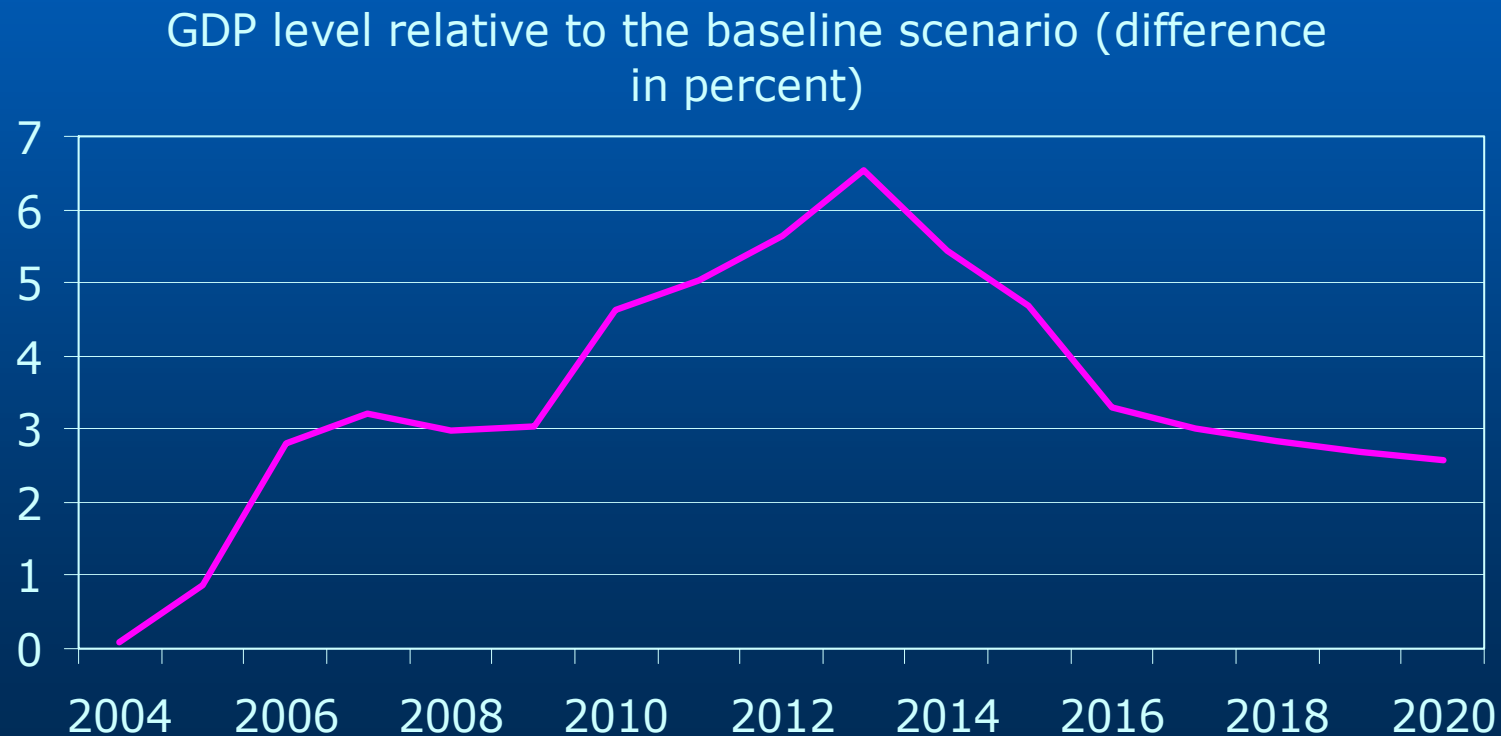
Poland: Assessment of fiscal stimulus

	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)

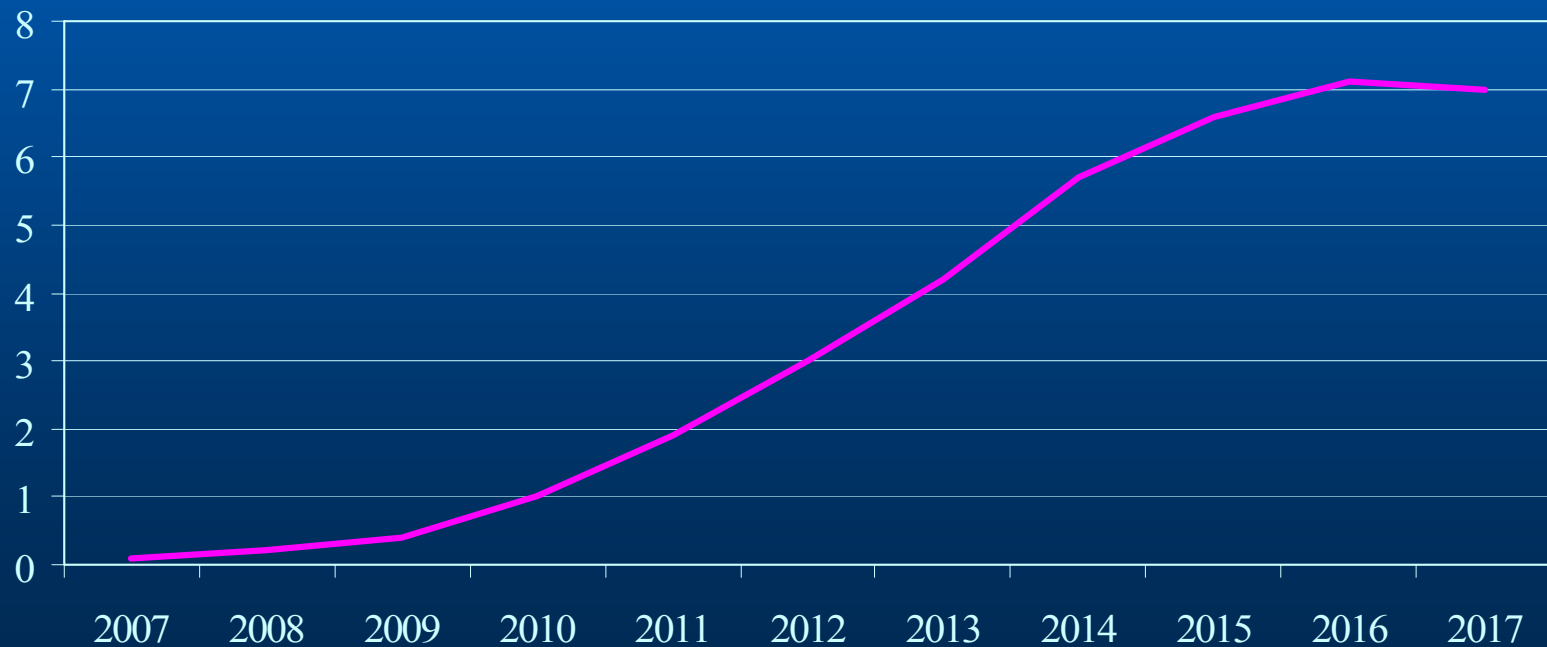


Source: Bradley et. al. 'Evaluating impact of NDP 2004-06 and NSRF 2007-13...', WARR, 2006

...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)**



Source: Gdansk Institute for Market Economy

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!