

## Shaping labour market in Poland

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### Introduction

The labour market in Poland is relatively one of Poland's 'brands' in the EU: the exceptional combination of skilled labour with moderate wages on the market. This feature was one of the advantages during the crisis, that helped Poland to keep manufacturing and economic growth at the moderately high level up to 2015.

The overall picture on Poland's labour market is relatively optimistic. In 2014, the total population reached 38,02 million people, out of which 17.43 million people are active on the market. 15,86 million citizens are working in 2014 whereas 1.57 million Poles are unemployed, which means that the unemployment rate reached 9%.<sup>1</sup>

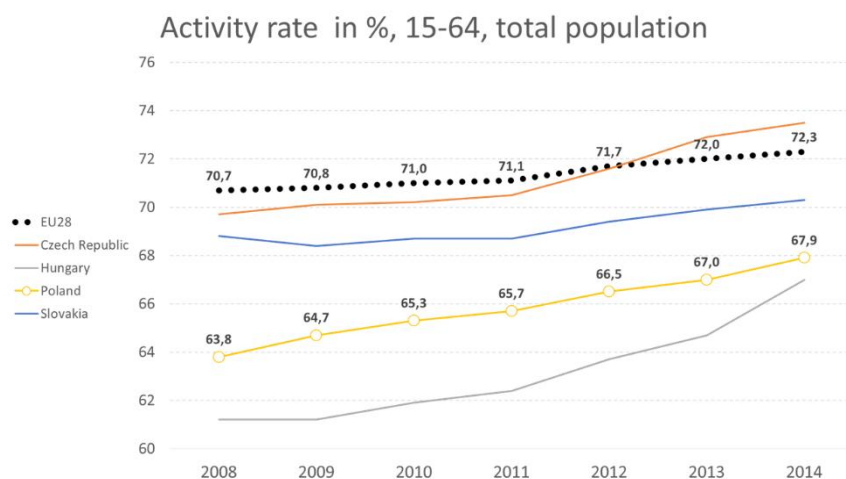
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<sup>1</sup> This figure may vary, depending on the applied methodology. According to the Eurostat using Life Force Survey, 9% is a correct figure, while for unemployment registered by the local employment offices and measured by the Central Statistical Office of Poland it is 11,4% (see: <http://stat.gov.pl/obszary-tematyczne/rynek-pracy/bezrobocie-rejestrowane/bezrobotni-oraz-stopa-bezrobocia-wg-wojewodztw-podregionow-i-powiatow-stan-w-koncu-grudnia-2014-r-,2,28.html> (date of entry: 11.01.2016)). The differences between these two figures arise from some changes in the methodology. First of all, the main difference is the measuring method: LFS bases on quarterly surveys (a share of the total population is surveyed, there exists a sample), the national methodology bases on the registers prepared by the local authorities (a citizen need to register to be a qualified officially as the unemployed) on a monthly basis. The other main issues are the difference in the age (LFS 15-74; national method 15-retirement age) and the time constraints (LFS: a not employed citizen was seeking a job within 4 last weeks and is able and willing to take a job within two next weeks: national methodology: a citizen is not currently employed and he/she is willing and able to take a job). More about both methodologies: [http://stat.gov.pl/cps/rde/xbcr/gus/Zasady\\_metodyczne\\_stat\\_ryнку\\_pracy\\_i\\_wynagrodzen.pdf](http://stat.gov.pl/cps/rde/xbcr/gus/Zasady_metodyczne_stat_ryнку_pracy_i_wynagrodzen.pdf).

### The activity in Poland's labour market

The relatively low unemployment rate may create bias on the overall picture of the labour market. But when this figure is compared with the activity rate (which was at the level of 67.9%), the Polish market appears to be less perfect. Fortunately, the upward trend of this indicator points at the improvement in the field of labour market participation of the citizens.

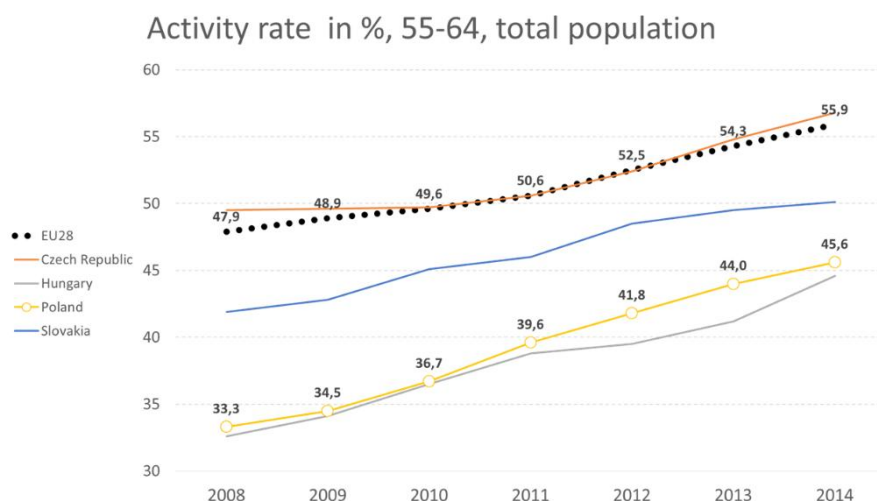
Graph 1. Activity rate in 2008-2014, 15-64 years old



Source: Eurostat

This trend is particularly visible regarding to the older citizens (55-64 years): more than 12 percentage points increase of the activity rate in 2008-2014 took place. This was the effect of the changes in the pension system, which limited the possibility to go for an early retirement. Still the activity rate of this group is much lower (45.6%) than the activity rate of the entire population.

Graph 2. Activity rate in 2008-2014, 55-64 years old

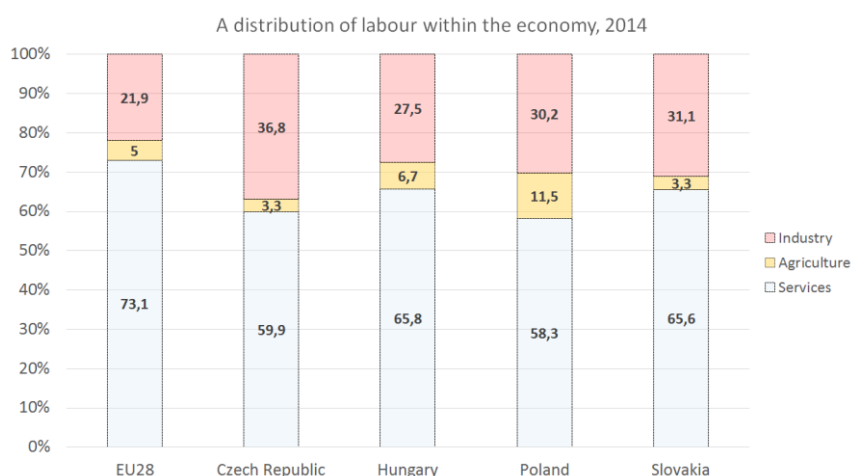


Source: Eurostat

### Structure of the employment

Regarding the structure of economy, although it is changing, still in Poland, the distribution of labour in is disadvantageous to the other EU countries. Contrary to the other Visegrad countries and the EU, a share of employees in the agricultural sector is relatively high (see graph 3). This is due to the cultural reasons in the agricultural sector, where the small family farms dominate. On the other hand, Poland, such as the other V4 countries has also significantly higher, compared to the rest of the EU, share of labour in industry, which at the moment gives a competitive advantage in manufacturing at the EU-level. Still, however, as many of the jobs in the industry moderately require not so much sophisticated skills, they are relatively exposed to relocate outside their borders, to countries with more cost-competitive labour markets.

Graph 3. Division of labour in 2014

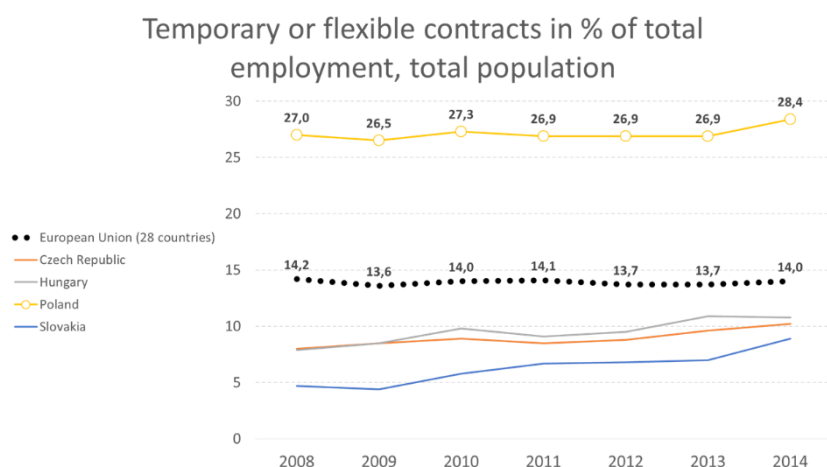


Source: Eurostat

A huge problem in Poland is the abuse by the employers of the flexible contracts, which is a result of the high tax wedge on labour. The prevalence of these contracts is extraordinary in the EU (see graphs 4 and 5). In Poland, this kind of contracts is commonly named as "junk contracts". Partly it also refers to self-employment, which is also one of the highest in the EU. Whereas it enabled the

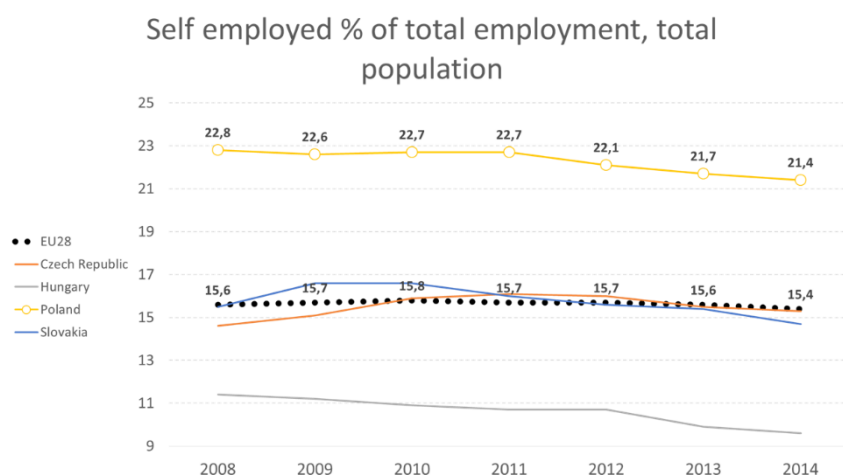
entrepreneurs to keep the competitive edge, it in many cases increased uncertainty on the side of the employees.

Graph 4. Temporary and flexible contracts as % of total employed in 2008-2014



Source: Eurostat

Graph 5. Self-employed as % of total employed in 2008-2014

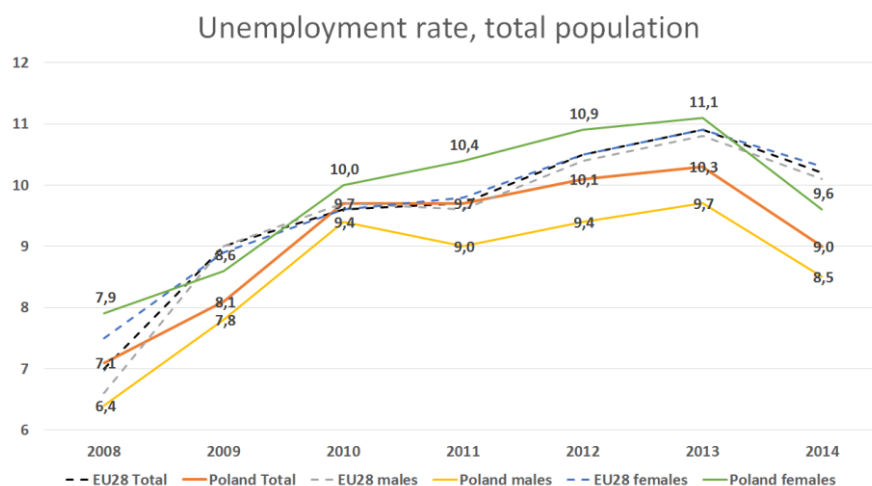


Source: Eurostat

### Structure of the unemployment

While since the beginning of the crisis the unemployment rate tended to rise from 7.1% in 2008 up to 10.3% in 2013, in 2014 the trend was reversed (9%). It is partly the effect of the slow recovery in the EU, which is the main Poland's export market. The women, compared to the EU-28 are however slightly more often unemployed than the men (a gender gap in Poland is 0.6 p.p., while in the EU this difference is only 0.1 p.p.)

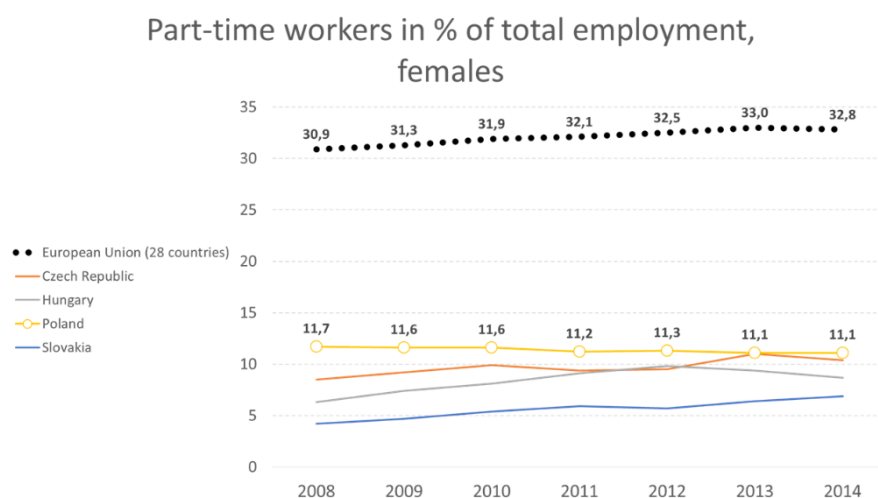
Graph 6. Unemployment rate in 2008-2014



Source: Eurostat

The main reasons for this bigger feminine unemployment are: cultural conditions and still a low appearance of state-induced facilitations to the women to help them keep work-life balance, resulting in a relatively low number of the part time contracts in the country (whereas it is a significant form of contract in the EU, see graph 7).

Graph 7. Female part-time workers as the share of total employment in 2008-2014



Source: Eurostat

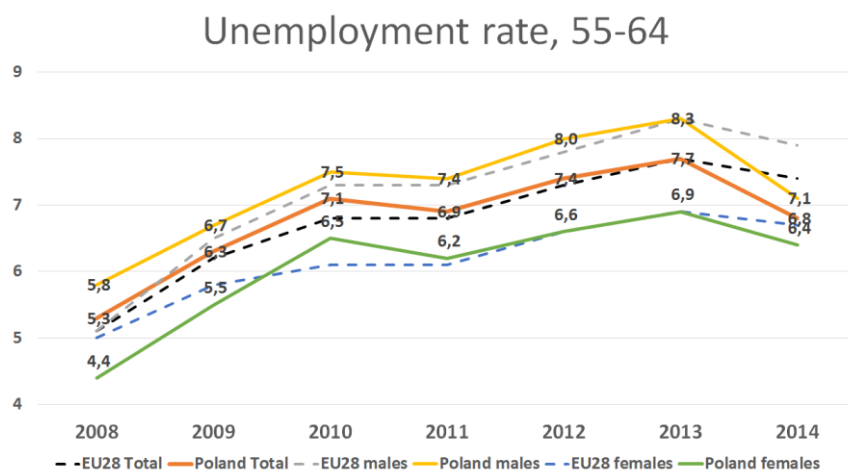
The other significant problem is the youth unemployment. Especially, there is relatively stable group of young citizens not only unemployed, but also not in education process. The share of the NEETs group ("neither in employment nor in education and training") under 25 years old (in 2014 it reached 12%) is similar to the EU share (12.5%).<sup>2</sup>

Opposite to this, the unemployment rate of the senior workers is low (see graph 8). But the upward trend is visible. Both, the number of unemployed and the rising tendency are a derivative of the functioning and the changes of the pension system. In the past workers could decide whether to

<sup>2</sup> Source: Eurostat database  
<http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=tesem150&plugin=1> (date of entry: 11.01.2016)

early retire or not. This resulted in the low activity rate of this group (see graph 2) and thus a low unemployment rate. However because of new regulation limiting such option, the activity rate and the unemployment rate are increasing. In 2014 this trend was stopped.

Graph 8. Unemployment rate, 55-64 years old, 2008-2014



Source: Eurostat

The long term unemployment of Polish citizens, compared to the rest of the EU, is moderate. However the problem still exists and it grows over time. While in 2008 it stood for only 33.5% of total unemployment, in 2014 it increased to 42.7% of the total unemployment.<sup>3</sup> This figure is a result of employment problems in some voivodships (i.e. Warmińsko-Mazurskie or Zachodniopomorskie) with high unemployment rate as they cannot create new jobs either by attracting investments or by boosting entrepreneurship. The other reason is the mismatch of the preferred skills by the employers and actual skills possessed by the unemployed and a relatively low mobility of particular unemployed persons.

### General solutions to improve the labour market conditions

In general, the process of the improvement of the labour market and of the reduction of the unemployment in Poland have some common features, compared to the other Visegrad countries. There are some general long-term activities, including the better targeting of the education and training system offered to the unemployed. The educative part of the unemployment assistance system currently consists of facilitating the internship for the unemployed, during which the employer does not bear the financial costs (including taxes, contributions to the pension system), while the intern obtains a grant. Similarly, there exists a system of financing the training course (up to 12 months) for unemployed. Additionally, the potential employer may sign an agreement with training institution and the local authority to better tailor the training to the current employer needs on a particular recruitment. There exists a National Education Fund<sup>4</sup> within a Labour Fund<sup>5</sup> which finances such initiatives.

<sup>3</sup> Own calculations based on <http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=tesem130&plugin=1> and <http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=tipsun20&plugin=1> (date of entry: 11.01.2016).

<sup>4</sup> See: <http://psz.praca.gov.pl/-/55453-krajowy-fundusz-szkoleniowy> (entry date 11.01.2015=6)

The employers may apply for a grant for preparing a job post for a new unemployed person. The value of this aid cannot exceed 6 times the mean salary and it bases on the registered costs of these preparations.<sup>6</sup>

Also, there is a system of public (and intervention) works that incentivise the entrepreneur to apply for a public works compensation (reimbursement of the social insurance).<sup>7</sup> In the case of intervention works a part of salary is also refunded by the local authority. The unemployed persons may work within the framework of the public works for 12 months at the longest and the wages are least at the minimum level.

Alternatively to that<sup>8</sup>, the employers can take a credit (up to 23 372 złoty, that is roughly 5 000 euro) with a reduced interest rate (0.44%),<sup>9</sup> when they create a new job, either it is a completely new economic activity or just a development of a firm. The employer may take bigger credit if it creates more jobs. This facilitation is offered by the Bank of National Development, within a project „My first business – Support at the Start II”.<sup>10</sup>

The unconventional solutions related to boost employment was a gradual deregulation of the professions. It took place in four stages and lifted the regulatory entry barriers in around 200 professions.<sup>11</sup> Still, according to the European Commission,<sup>12</sup> 350 professions remain regulated.<sup>13</sup>

There exist as well some ad-hoc solution related to the current negative conditions. For instance, as a reaction to the deteriorating trade prospects with Russia, which would affect the labour market, the government offered a special purpose aid for the farming industry related to jobs. First the entrepreneurs obtained a repayment of the social nad healthcare insurance. Second, the government offered co-financing of the training to the workers in the threatened sub-sectors.

### Specific solutions for the youngest market participants

An important part of the system supporting finding jobs is the one related to fight the youth unemployment within the so called “Youth guarantee” framework. The authorities have applied specific solutions for the young people related with the training system. If an unemployed is under 30 it may be offered a training voucher (its value is no higher than a mean salary in Poland) with which this person may choose a training it suits his or her needs<sup>14</sup>.

The employers have several alternative options (in order not to violate the EU law on the state’s *de minimis* aid) how to use the facilitation of the employment. A first option is the refund of social

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<sup>5</sup> See: <http://www.sejm.gov.pl/Sejm7.nsf/BASLeksykon.xsp?t=s&id=5DE16143B290CC23C1257A5A0047F037&q=Fundusz%20pracy> (entry date 11.01.2016)

<sup>6</sup> <http://psz.praca.gov.pl/dla-pracodawcow-i-przedsiębiorcow/wsparcie-tworzenia-miejsc-pracy/refundacja-kosztów-wyposażenia-lub-doposażenia-stanowiska-pracy> (entry date 11.01.2016)

<sup>7</sup> See: <http://psz.praca.gov.pl/dla-pracodawcow-i-przedsiębiorcow/wsparcie-tworzenia-miejsc-pracy/roboty-publiczne> (entry date 11.01.2016)

<sup>8</sup> As the public aid can come only from the one public source.

<sup>9</sup> But the credit requires a collateral. Additionally, the value and the interest rates of the loan vary and are dependent on the mean salary in Poland and the interest rate of the National Bank of Poland.

<sup>10</sup> See: <http://wsparciestarcie.bgk.pl/program/pozyczka-na-miejsce-pracy/> (entry date 11.01.2016)

<sup>11</sup> See: <https://www.ms.gov.pl/pl/deregulacja-dostepu-do-zawodow/> (entry date 11.01.2016)

<sup>12</sup> See: [http://ec.europa.eu/growth/tools-databases/regprof/index.cfm?action=map\\_regulations](http://ec.europa.eu/growth/tools-databases/regprof/index.cfm?action=map_regulations) (entry date 11.01.2016)

<sup>13</sup> But this includes even those professions partly deregulated by the government.

<sup>14</sup> It is under condition that the unemployed proves this training course improves the chance to find a job.

insurance for a young employees within the implemented in 2015 “Job for Youth” programme. It may be also relieved from paying contribution to the Labour Fund and Guarantee Fund.

If the young person (up to 30) wishes to found its own firm, the Bank of National Development offers a credit with a reduced interest rate (0.44%) for a total value of 77 907 złoty, that is roughly 16 000 euro.<sup>15</sup> Additionally the young debtor enjoys one year of credit vacations, which enables him or her to focus on managing the firm.

In order to increase a mobility of the young people, the local authorities also offer a relocation voucher. If a young person changes a residence which is at least 80 kilometres from the previous one in order to start working, the local authorities grant the young people with voucher worth 7 500 złoty (around 1 600 euro)<sup>16</sup>.

### **Solutions to decrease a gender discrimination**

The most important reason for a decreased employment among the women is the maternity period, which partly put females at the disadvantageous situation to males. Because of parenting they are excluded for at least half a year from the labour market, and the return to employment is challenging to many of them.

The government, in order to improve the return rate, focused on development of the system of the childcare institutions. This improvement includes the increase of the number of childcare units, kindergartens and pre-schools. The government guarantees that each child will find a place in a public pre-school (this however does not mean, that it will be placed in the nearest one). The government also offered simplified rules to run a private childcare units, which allowed to open small ones. Since 2014, the “Toddler” programme, enabling the academics to leave children in public pre-schools close to the universities, has been launched.

But one of the most interesting reform was an incentivisation of partly re-entry to the market by introducing a new benefit. A so-called telework grant worth 6 minimum salaries is paid to the employer, who agrees to employ for at least one and half year a parent wishing to return to the labour market on the telework basis. The employer can hire more than one such persons and thus he or she may obtain more than one such grant.

### **Improvement of the activity rate among the older citizens**

The most important assistance framework launched in 2008 aiming at the increase of the activity rate is the “Solidarity of generations” programme called in short “50+”.<sup>17</sup> Its goal was to reach 50% of activity rate in the 50+ group. The main actions within this framework includes the deduction of the employer's contribution to the Employment and Guarantee Funds or a system of targeted trainings. Like the other programmes, it is co-financed by the EU funds.

### **Main challenges**

The biggest flaw in the Polish labour market is an excessive burden on salary, which makes firms to use unconventional contracts on a broad scale or keep the workers in the grey economy, in order to

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<sup>15</sup> Collateral required. The value and the interest rates of the loan vary and are dependent on the mean salary in Poland and the interest rate of the National Bank of Poland.

<sup>16</sup> See: <http://finanse.wp.pl/kat,1013819,title,Bezrobotny-dostanie-75-tys-zl-Jakie-warunki-musi-splnic,wid,16343458,wiadomosc.html> (accessed: 11.01.2016)

<sup>17</sup> See: <http://www.analizy.mpips.gov.pl/index.php/program-50.html> (accessed 11.01.2016)



maintain low costs. According to calculations presented in graph 9, the amount of money finally reached to the employees stand for 60% of total costs borne by the employers.

## Tax wedge on labour in 2016 – regular job contract

Mean gross salary	919,07 EUR*	Mean gross salary	919,07 EUR*	Total costs
Healthcare Insurance	103,46 EUR*	Accident Insurance	71,36 EUR*	<b>453,37 EUR*</b>
Social Insurance (incl. Pension and old age contribution)	71,36 EUR*	Social Insurance (incl. Pension and old age contribution)	149,41 EUR* (higher since 2012)	Net salary/gross „gross” salary
Sickness insurance	22,51 EUR*	Employment fund	22,51 EUR*	<b>59,1%</b>
PIT	66,4 EUR*	Guarantee fund	0,9 EUR*	
<b>Mean net salary</b>	<b>655,11 EUR*</b>	<b>Gross „gross” salary</b>	<b>1 108,49 EUR*</b>	Net <b>minimum</b> salary/ gross „gross” minimum salary
Employee's costs	263,95 EUR*	Employer's costs	189,42 EUR*	<b>60,8%</b>

\* According to mean NBP exchange rate 1EUR=4,473 PLN, 27.01.2016

Graph 9. The magnitude of the tax wedge in salary

Source: own calculations based on Central statistical office, Ministry of Finance, the Social Insurance Institution, National Bank of Poland

The response made by the previous government to minimise the usage of the inappropriate contracts was the increase of costs of the unconventional flexible contracts. After the reform, the mandatory contracts is burdened almost as heavily as the regular job contract and only special purpose contracts (i.e. for artists, some cases in the healthcare sector) are much less burdened.

The other challenge is remaining high long-term unemployment rate (in particular cases in the least developed regions, but also in the cities, this kind of unemployment is even “inherited”). The lack of mobility and quickly changing requirements of the employers only aggravate the problem.

The issue to address is the fact, that the actual unemployment rate is hidden thanks to the freedom of labour's movement within the EU, which made an exodus of Polish worker to the other Member States. According to the Central Statistical Office, in 2014 the number of Poles being temporarily abroad is 2 300 thousands (that is 13.2% of the active population). If the borders were closed, the unemployment rate could reach 20%. On the other hand, the existence of the grey scale distort the picture in the opposite way.

The other discussed problem is the fact, that addressing the issue of the dual labour market is complex and sensitive. Some critics of the made reform on the mandatory contracts pointed, that only a certain share of workers are forced to choose such contract, whereas the others enjoy this flexible agreements due to their particular circumstances.

The next challenge is linked with preparing the labour market to the external market needs and conditions. Still, too many workers are in the agricultural sector, thus decreasing the efficiency of the whole economy.

Recommendations :

1. The decrease of the tax and insurance burden on salary.
2. The improvement of the mobility (especially in the rural regions).
3. More focus on conditions incentivising flexible solutions (flexi hours, part-time, telework).