



**POLAND'S
ECONOMY
CREDIBILITY
INDEX
THIRD EDITION
SUMMARY**



**open '24
eyes
economy
summit**



Fundacja **Wolność
Gospodarczej**



Instytut
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Contents

| | |
|---|----|
| Introduction | 3 |
| What is the Poland Economic Credibility Index? | 5 |
| What are the index indicators for the analysed countries? | 7 |
| Rule of law | 8 |
| Freedom of business activity | 11 |
| Credibility of public finances | 13 |
| Stability of money and the financial system | 17 |
| Occupational health and safety | 19 |
| Quality of public services | 21 |
| Climate and environment | 24 |
| Respecting international obligations | 27 |
| Threat maps for the next three years – qualitative research | 30 |

Introduction

The country's economic credibility index. Analysis and tips on what we should improve in the economy and management of the country.

Is Poland an economically reliable country? What does it mean? How does Poland fare against other analysed countries? What has changed for the better in economic and social life over the recent months and over the past eight years? In what areas did Poland fail to improve or did it record regress? What areas of economic and social life require changes or correction? And what should they consist in?

The "Poland's Economic Credibility Index - 3rd Edition" contains reliability analysis for five Central European countries: Poland, Czech Republic, Romania, Slovakia, and Hungary. This publication is a form of independent and objective citizen consultancy, intended to facilitate and organize public debate on the desired directions of economic and social policy. The report will be presented at the 9th International Congress of the Value Economy Open Eyes Economy Summit (19-20 November 2024). Among the analysed countries, Poland and Hungary score significantly worse at shaping economic credibility. This concerns primarily the rule of law, credibility of public finances, stability of money and the financial system, and respect for international obligations. The experts also formulated recommendations for actions in each of the discussed areas. And, while the recommendations related to the areas subject to analysis, their importance is not limited to a single area.

The Report "Poland's Economic Credibility Index - 3rd edition" was created thanks to the involvement of the key partners: the European Financial Congress (Europejski Kongres Finansowy, EKF), the Lewiatan Confederation, the Warsaw School of Economics, the Economic Freedom Foundation, the Institute of Public Finance, and the Open Eyes Economy Summit (OEES).

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The report was supplemented with comments from foreign and domestic experts.

The publication was created in cooperation and with the support of: the European Financial Congress, the Economic Freedom Foundation, the Institute of Public Finance, the Lewiatan Confederation, the Warsaw School of Economics, and the Małopolska School of Public Administration of the Krakow University of Economics.

The publisher also thanks the report's benefactors: ING Bank Śląski, Warta, Kruk, Dr Irena Eris, and the Polish Business Roundtable.

We would like to encourage you to read the full version of the Report "Poland's Economic Credibility Index - 3rd edition", which can be downloaded for free at: <https://hub.oees.pl/en/main-page/>. This brochure presents a summary of selected information and the study results.

What is the Poland's Economic Credibility Index?

The index takes a multifaceted look at the condition of the economy and the country. A modern economy needs the credibility of the state. Its weakening makes the economy more vulnerable and less resistant to various types of economic shocks. However, the economic credibility of a country is determined both by the condition of its economy and the state model, including the manner of running economic and social policy. In order to assess the economic credibility of a given country, it is necessary to assess: the stability of the economy and business operating conditions, as well as the extent to which the country's economic and social policy aids the durability of democracy. Therefore, the system of indicators presented in the Index is of an interdisciplinary nature, the calculation of which was performed on the basis of 89 indicators sourced from various databases, including: Eurostat, OECD, or the World Bank, and describing eight areas of economic and social life. These include:

Rule of law,

Freedom of business activity,

Credibility of public finances,

Stability of the money of the financial system,

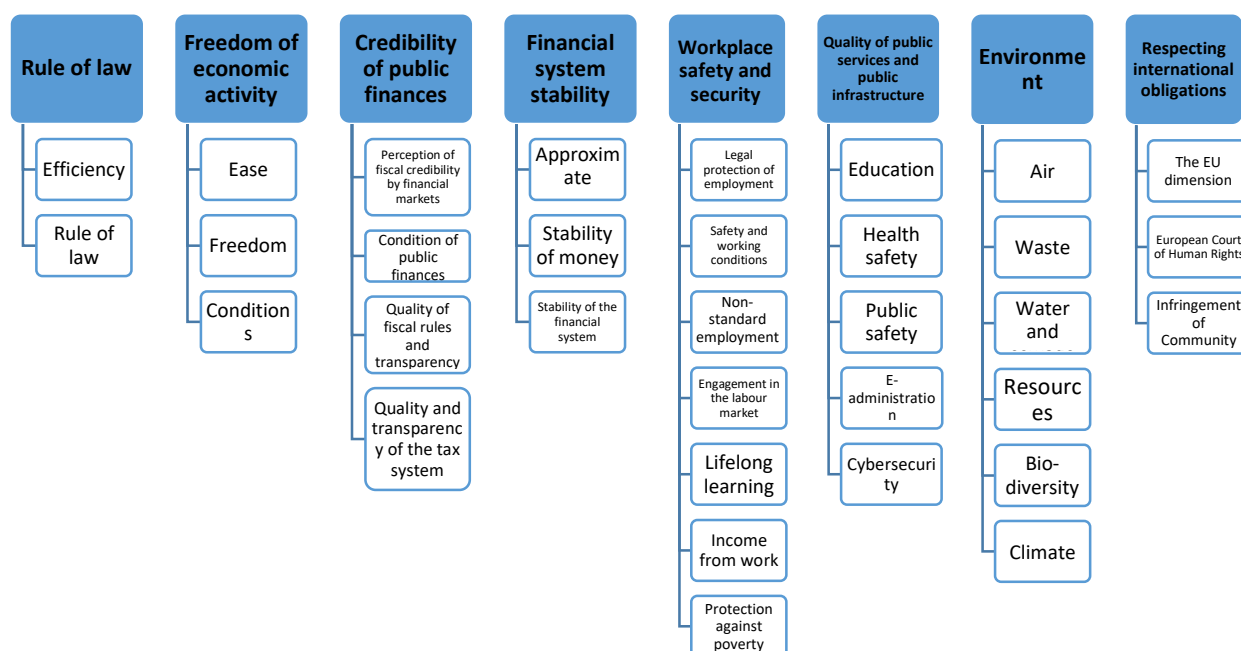
Occupational health and safety,

Quality of public services,

Climate and environment,

Respecting international obligations.

Figure 1. System of areas and dimensions of the assessment of the economic credibility index of countries



Source: Poland's economic credibility index. 3rd Edition, Kraków 2024.

In this year's Index, the report authors decided to include Romania among the countries analysed in the previous years.

The final value of the index consists in synthetic information about changes which occurred in a given year compared to the average level of all five analysed countries.

Credibility is not a black or white notion (it exists or it does not exist): it is gradable. The report assumes that a negative index value stands for a regression in relation to the average value from the years 2008–2023, a positive index value means an improvement in relation to the so determined average value, and 0 means no observed changes.

The rationale behind the choice

The report authors emphasise that the conclusions resulting from the analysis of changes in the applied indicators are a useful point of reference for public discourse on the desired directions of running the public policy. They are a form of independent and objective citizen consultancy. The system of indicators used for the purpose of measuring the Index was developed following the takeover of power in Poland by populists. Change in the state model, brought thereby and leading to the limitation of democracy and market mechanisms, began to create a threat of losing the key achievement of the systemic transformation, that was maintaining the economy on a stable and rapid growth path, which resulted in three decades' worth of uninterrupted economic growth and rapid real convergence, as

economics terms the process of economically catching up with highly developed countries¹. The long period of populist rule highlighted strongly the connections between the state model (especially the state of the rule of law) and the quality of economic policy. That period showed in a clear way how the dismantling of democracy and the resulting erosion of state institutions lays the country open to interventionist economic policy aimed at achieving short-term political goals, which inevitably leads to deterioration of the efficiency of the economy and the growth of macroeconomic imbalances, including the deepening of the budget deficit beyond the amount of national savings that are available to finance it.

In recent years, a growing number of countries ruled by populists and those where a threat of the populists' becoming the ruling force is looming, has resulted in an ever greater awareness that only democracy allows for running prudent, long-term development-oriented economic policies which bring a gradual increase in social well-being and stability of business activities. In this situation, not only civil society institutions, but also business associations across several countries have begun to join in the defense of democracy and its values, and they are beginning to engage not only in traditional lobbying for the stability of business conditions, but also in the defense of democracy as such.

Additionally, the current decade is characterised by a rapidly growing level of regional and global uncertainty - which is manifested by the occurrence of subsequent shocks in a situation where the previous ones have not been effectively contained or, at best, mitigated (the global financial crisis). We happen to live in times of polycrisis: pandemic, disruption of global supply chains, migration waves, Russia's invasion of Ukraine, energy shock, or war in the Middle East. **The economic credibility of the country is always important. And in times like these, it is fundamentally important. Its noticeable reduction narrows down possibilities of counteracting crisis situations - both on an international and national scale.**

Low economic credibility of the state translates into the unstable economy. The effects that one is affected by include, for instance, increased profitability of domestic treasury securities, low effectiveness of anti-inflation measures, and exchange rate fluctuations. Citizens pay for this through more expensive purchases of goods and services and worse access to health care and education. For entrepreneurs, this means not only a significant increase in costs, but also an increase in uncertainty, which inhibits investments and thus reduces the number of new jobs.

Long-term consequences of dissipation of a state's economic credibility are usually revealed gradually and with a significant delay. For instance, negative effects of increasing consumption at the expense of investment begin to outweigh the short-term positive effects only after 7-8 years. One should also bear in mind that they lead to permanent, structural weakening of the economic growth potential, which ultimately brings about stagnation.

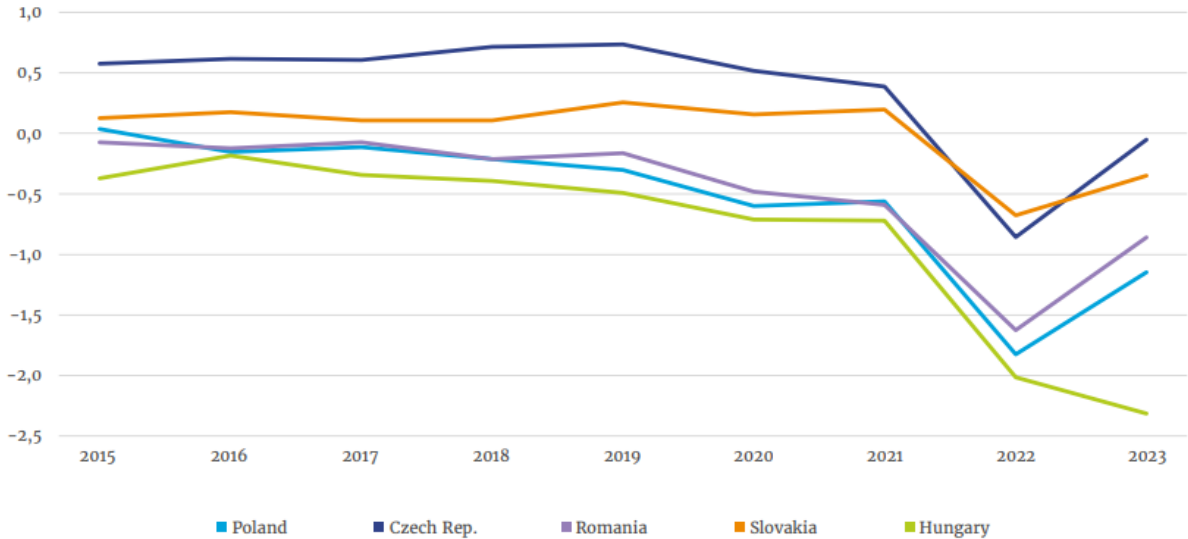
An important aim of the research is to assess the extent to which the economic and social policy pursued in Poland is conducive to strengthening democracy, and thus the state model which it characterizes.

¹ M. Gradzewicz, J. Growiec, M. Kolasa, Ł. Postek, P. Strzelecki (2018) "Poland's uninterrupted growth performance: new accounting evidence", *Post-Communist Economies* vol. 30(2): 238-272

What are the index indicators for the analysed countries?

The value of the general indicator for all analysed countries in the year 2023 is negative. It is the lowest, that is -2.32, for Hungary, the highest, although still below zero, for the Czech Republic: -0.05. In the case of Poland it is -1.15, slightly better than a year before (-1.83), but significantly worse than two years ago (-0.56)

Chart 1. Total assessment of the state's economic credibility



Source: Poland's economic credibility index. 3rd edition, Kraków 2024.

Table 1. Total assessment of the country's economic credibility

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Poland | 0.04 | -0.15 | -0.11 | -0.21 | -0.30 | -0.60 | -0.56 | -1.83 | -1.15 |
| Czech Rep. | 0.58 | 0.62 | 0.61 | 0.72 | 0.74 | 0.52 | 0.39 | -0.86 | -0.05 |
| Romania | -0.07 | -0.12 | -0.07 | -0.21 | -0.16 | -0.48 | -0.59 | -1.63 | -0.86 |
| Slovakia | 0.13 | 0.18 | 0.11 | 0.11 | 0.26 | 0.16 | 0.20 | -0.68 | -0.35 |
| Hungary | -0.37 | -0.18 | -0.34 | -0.39 | -0.49 | -0.71 | -0.72 | -2.02 | -2.32 |

Source: own study

Rule of law

The relationship between the rule of law and credibility (not only the economic one) is obvious, however, determining the rule of law on its own is more difficult. In general terms, it is universal

observance of legal norms. The problem is that in practice, the interpretation of reality which is supposed to result in a decision whether a given action - and even more so the totality of actions - is lawful, is no longer clear. For the purposes of determining the Index, the Rule of Law area was divided into two dimensions: efficiency of the justice system and the rule of law. The analysis of indicators showed that in Poland, in the years 2021-2023, there occurred a disturbing trend of an increase in the number of pages of adopted legal acts (acts and regulations). That number increased from approximately 15,000 to almost 35,000. Overproduction of law is largely a result of a poorly conducted legislative process. Oftentimes, the requirement of public consultations is disregarded, and when they do take place, they are often ostensible. As a result, the legislative process is riddled with errors, which must then be removed through amendments. This modus operandi not only results in an increase in the number of adopted laws, but also affects the sense of regulatory stability. Entrepreneurs, for whom it is the main barrier to developing business in Poland, and citizens, who are losing trust in the state, are complaining about this fact.

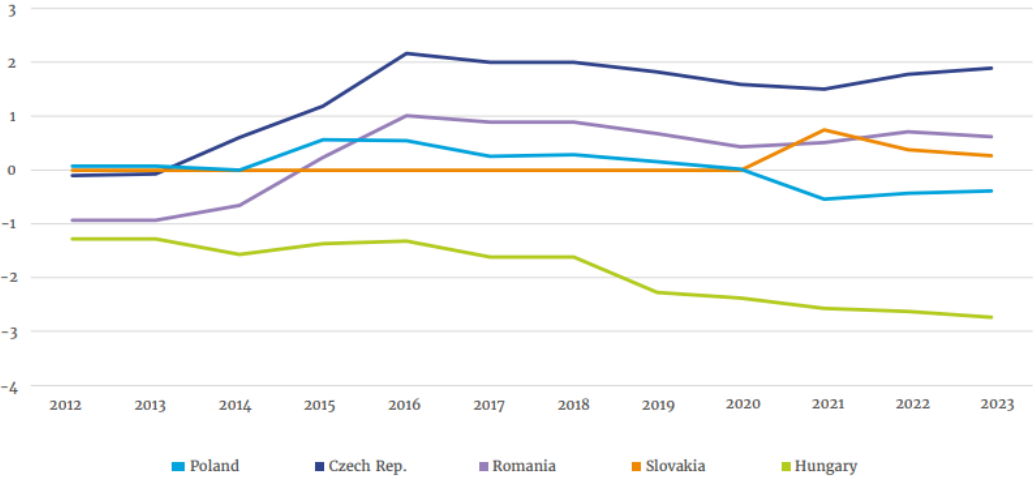
In 2023, the percentage of legal acts without documented consultations decreased significantly (from 42% to 24%), which is the best result since 2015. Since 2020, however, the percentage of legal acts in which their authors did not respond to the submitted opinions has been on the increase (in the years 2020-2023, it increased from 21% to 49%).

In order to determine efficiency of the justice system, it was verified whether civil proceedings are conducted in a timely manner (without unjustified delay) and what is the actual effectiveness and timeliness of enforcing civil court decisions. In 2023, Poland recorded a slight improvement in this respect, but among the compared countries, only Hungary fares worse than Poland. Similar efficiency was recorded in Slovakia. However, the distance between Poland and the Czech Republic and Romania is considerable.

Other conclusions from the analysis of indicators include: judicial power is exercised in Poland in a manner that does not enable obtaining a final decision quickly enough so as to ensure its timely enforcement. However, the executive power does not show sufficient openness nor is it able to limit itself.

In the three-year perspective, a lack of legal certainty in Poland will constitute the most significant threat, this including legal dualism and disregard for the actual independence and impartiality of judges. The inefficiency of the justice system and lengthiness of court proceedings are similarly menacing. Moreover, the factors of above-average importance and above-average probability of materialization included: tarnished credibility of the constitutional judiciary and unconstitutionality of the National Council of the Judiciary.

Figure 2. Total assessment of the state's economic credibility for the Rule of Law area



Source: Poland's Economic Credibility Index 2024

Table 2. Total assessment of the state's economic credibility for the Rule of Law

| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Poland | 0.07 | 0.07 | 0.00 | 0.57 | 0.55 | 0.26 | 0.29 | 0.15 | 0.01 | -0.56 | -0.44 | -0.40 |
| Czech Rep. | -0.11 | -0.09 | 0.60 | 1.19 | 2.18 | 2.01 | 2.01 | 1.83 | 1.60 | 1.51 | 1.79 | 1.90 |
| Romania | -0.95 | -0.95 | -0.67 | 0.23 | 1.02 | 0.90 | 0.90 | 0.68 | 0.43 | 0.51 | 0.72 | 0.62 |
| Slovakia | -0.02 | -0.02 | -0.02 | -0.02 | -0.02 | -0.02 | -0.02 | -0.02 | -0.02 | 0.75 | 0.38 | 0.26 |
| Hungary | -1.28 | -1.28 | -1.57 | -1.37 | -1.32 | -1.62 | -1.62 | -2.29 | -2.39 | -2.59 | -2.65 | -2.76 |

Source: own study

Recommendations

It is necessary to develop reliable regulatory impact assessments (ex ante RIA) for all projects. Each draft (of the MP, Senate, Presidential, or Government) should satisfy the same requirements with regard to consultations and the submission of a regulatory impact assessment (RIA). Such solutions were announced by the Speaker of the Sejm. However, consistent implementation of this idea is necessary. The obligation to prepare RIA should also include citizens' legislative initiatives. In the case of such initiatives, the responsibility should rest with the government or the Chancellery of the Sejm, so as not to hinder actions undertaken as part of direct democracy.

Structural reforms of common courts should aim to introduce two tiers (instead of the current three tiers), which in turn would make it easier to manage the workload of judges in various units. Currently, common courts in Poland include district, regional, and appellate courts. Despite the three-tier structure, the proceedings involve two instances only. This results from the adopted principle that more complicated or serious cases in the first instance are to be referred to the regional court, which in other cases acts as the second-instance body. This, however, is an unnecessary complication affecting even distribution of the workload among

judges working in different units.

There is also a need to further increase the remuneration of experts, whose opinions give basis to many judgments. The increases introduced in April 2024 should be assessed positively. However, the introduction of higher rates should be combined with streamlining the process of commissioning an opinion, its delivery, and answering questions from the court and the parties.

Freedom of business activity

The assessment of freedom of business activity in Poland is significantly worse in this year's Index than in the 2023 edition. There were analysed three dimensions: ease, freedom, and conditions. These dimensions reflect the quality of the environment for implementation of economic activities in the market economy, which in many segments of social life most effectively ensures satisfaction of human needs. In this sense, freedom of economic activity is crucial for the economic credibility of the state.

In comparison with the previous edition of the Index, there was observed a regression in the ease dimension. Firstly: the entrepreneurial activity of Poles, measured by the number of new business entities, has remained at a low level. For several years, our statistics compared to other EU countries have been similar to the least favourable data for Austria and Germany - approximately 2 new entities per 1,000 inhabitants between the ages 15 and 64. Secondly, the cost of electricity for business clients was relatively favourable compared to other EU countries, however, in relation to the previous year's ranking, Poland's position against other EU countries has deteriorated. Thirdly, the concentration index of the banking sector was relatively favourable - the value of assets of dominant entities was lower than in most EU countries, which landed Poland a high position in the ranking for the entire community, although in this case the situation slightly worsened in comparison with previous years. Fourthly, while in contrast to the analysed countries, Poland had a relatively lower level of subsidies (2.1% of GDP), these values were high, thus pushing us to lower positions in the EU.

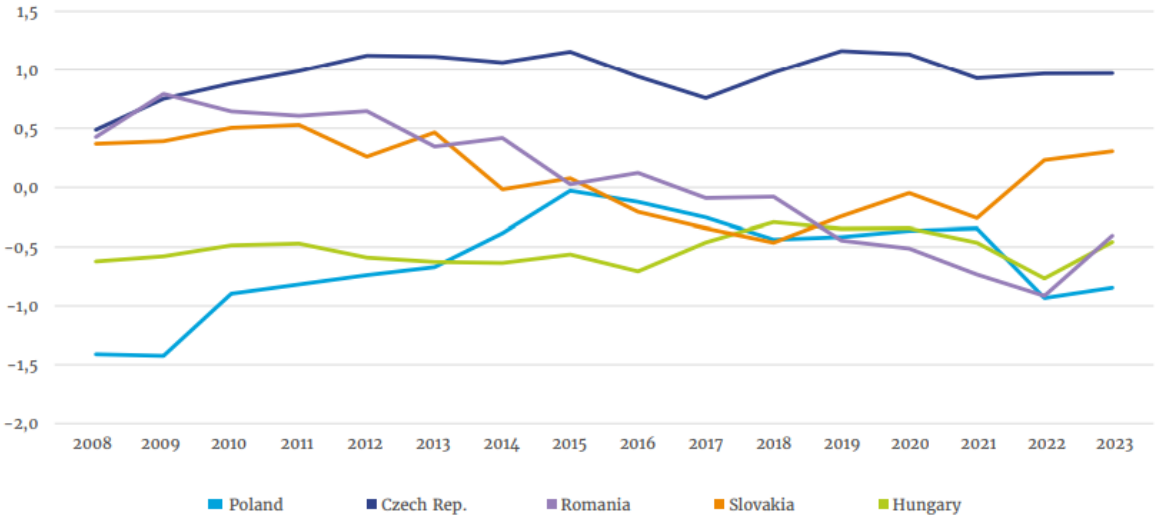
In terms of economic freedom, Poland's position among the countries in the region is average. The Czech Republic scores the best, and Hungary the worst. In the 2024 edition (data for the year 2023), the indicators for property rights, business freedom, and investment freedom were relatively better than in the previous fifteen years. However, it was the fiscal situation (higher public spending) and monetary freedom (related to the level of inflation) that deteriorated. The score for trade freedom also reflects the decreasing scope of freedom, although in this case Poland's assessment is identical to that of other European Union countries.

Analysing the freedom of conditions (or "conditions") indicator, the report authors divide them into institutional and infrastructural conditions. In relation to the former, they use WGI indicators, which have been collected by the World Bank experts since the 1990s on the basis of information sourced from specialised institutions providing investigation services of investment conditions in a given country. Assessment is offered in six categories: freedom of speech and accountability of government, political stability and freedom from violence, rule of law, administrative effectiveness, quality of regulations, and dealing with corruption. Although assessment of these conditions may be subjective, it reflects the assessment of potential and actual investors and affects the actual willingness to cooperate with local entities. Therefore, it reflects a real, important area of the state's economic credibility. Poland is rated similarly to previous editions – it is ranked 18th among other European Union countries. Hungary is rated slightly worse, and Romania is rated significantly worse. Since 2009, the Czech Republic has been the ranking's leader.

In order to assess the infrastructure conditions, there were used the IMD Institute's indicators, which were analyzed with a view to assessing economic competitiveness of over 60 countries around the world. In the case of basic infrastructure, the Czech Republic and Hungary are rated higher, while Slovakia and Romania are rated lower. In the case of scientific and educational infrastructure, Poland is ranked to be just behind the Czech Republic.

In this year's edition of the index, assessment of freedom of business activity in Poland is unfavourable (-0.85), although slightly better than in the last year's edition (-0.94). The value remains at a low level. If the current values were compared with the median for Poland for the period since 2008, it would transpire that the credibility indicators in the analysed area have deteriorated. The most important reason for such situation lies in deterioration of assessment of energy costs, concentration on the banking market, and granted subsidies. Unfortunately, rising electricity costs will continue to affect business conditions in Poland for years to come. In the near future, this will drive down the value of the index because for many previous years the energy bill of enterprises remained relatively low in comparison with foreign competitors. High energy prices weaken competitiveness of domestic enterprises, especially those operating large machinery facilities - they undercut profitability of investing in machines. On the other hand, the Poles remain very unwilling to set up own businesses. This situation has been going on for many years, which means that measuring and limiting the burden calls for even more attention, especially in the case of people running a sole proprietorship. The threat over the next three years will lie in excessive tax and quasi-tax burdens combined with the opaque and unstable tax system.

Figure 3. Total assessment of the state's economic credibility for the area of Freedom of business activity



Source: own study

Table 3. Total assessment of the state's economic credibility for the area of Freedom of business activity

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Poland | -0.02 | -0.12 | -0.25 | -0.44 | -0.41 | -0.36 | -0.34 | -0.94 | -0.85 |
| Czech Rep. | 1.17 | 0.95 | 0.77 | 0.99 | 1.17 | 1.15 | 0.94 | 0.98 | 0.98 |
| Romania | -0.57 | -0.71 | -0.46 | -0.29 | -0.34 | -0.34 | -0.46 | -0.77 | -0.46 |
| Slovakia | 0.08 | -0.21 | -0.34 | -0.47 | -0.24 | -0.04 | -0.26 | 0.24 | 0.31 |
| Hungary | 0.03 | 0.13 | -0.09 | -0.08 | -0.45 | -0.52 | -0.74 | -0.92 | -0.40 |

Source: own study

Recommendations

The basic recommendation is to intensify the efforts to make up for many years' worth of neglect in the modernisation of the energy production system. Actions aimed at reducing the burden of energy costs on entrepreneurs as quickly as possible may, on the one hand, require entering into negotiations with EU partners with regard to the time for adjustment, and, on the other hand, reviewing the amount of charged taxes and fees determining the price of electricity for entities other than households.

It is also advisable to urgently reform and more fairly distribute the burden of social security contributions, including health insurance, on entrepreneurs. The burdens turn out to be destructive, especially for entrepreneurs temporarily earning low income. We also postulate reorganization of the system of representing entrepreneurs in relation with public administration and the legislative authority.

Credibility of public finances

Credibility of the state is tied in with credibility of public finances and vice versa. If our trust in the state and the authorities is low, it has a negative impact on our trust in the system of public levies and fulfillment of tax obligations (so-called tax morality). If public finances are non-transparent, both trust in institutions dealing with public finance management and trust in the effectiveness of spending public funds are low.

Therefore, in addition to the financial and macroeconomic dimensions, the Index includes a dimension assessing quality of fiscal rules, the quality and transparency of the public finance system, and the transparency, predictability, complexity and effectiveness of the public levies system.

The lack of economic credibility in the area of finance results in higher debt servicing costs, the need for a larger share of foreign debt due to lack of confidence in the local currency, and more speculative investors. Public finances become more vulnerable to various types of turmoil in the economy or financial markets - they are not resistant. As a consequence, this leads to a permanent imbalance in public finances and, eventually, to loss of solvency and a financial crisis. This increases the likelihood of socially "painful" spending cuts and tax increases, an economic crisis, recession, increased unemployment and inflation, and, ultimately, a decline in society's well-being.

In the next three years, the key threat to Poland's economic credibility in the area of credibility of public finances is the persistently high public finance deficit combined with expansionary fiscal policy. At the same time, the danger lies in low transparency and disintegration of public finances, including inconsistency of statistics on the state of public finances and the limited role of the budget act.

The level of perception of fiscal credibility by financial markets is the best in Slovakia and the Czech Republic, where these values are positive, which means that they were above the median for the values observed in the analysed period in the five countries. In this dimension, Poland is ranked in the middle, although the value of the indicator is negative. Romania fares the worst, followed by Hungary. In 2023, in all analysed countries, with the exception of Slovakia, this dimension saw an improvement. Five-year CDS contracts in 2023 remained at an increased level in Romania and Hungary - in Poland they decreased. They are the highest in these three countries. In the Czech Republic and Slovakia, they do not exceed 50 base points. In 2023, the average level of the ASW 5Y spread increased in all analysed countries, with the exception of Romania. On average, it was the highest in Poland and Romania.

In order to examine the state of public finances and compliance with the EU fiscal rules, there were adopted six indicators: the ratio of public debt to GDP, nominal and structural deficit, and resulting total debt servicing costs. These variables refer to the paths of basic fiscal aggregates. Additionally, taken into account was the question whether the EU fiscal rules (budget rules) were implemented, a binary variable indicating whether the rule is satisfied, and a variable expressed in % of GDP illustrating violation of the rule.

In 2023, the highest level of public debt was recorded in Hungary - 73.5% of GDP. In Slovakia, it was 56% of GDP, in Poland - 49.6% of GDP, in Romania - 48.8% of GDP, and in the Czech Republic - 42% of GDP. In all countries the nominal deficit in relation to GDP exceeded 3%. It was the highest in Hungary and Romania, just over 6% of GDP. In Poland, it amounted to 5.1% of GDP, in Slovakia it was 4.7%. It was the lowest in the Czech Republic - 3.7% of GDP. In all countries, an increase in the nominal deficit was recorded in 2023. As for the structural deficit, Hungary and Romania saw the highest value (6% of GDP). In Slovakia and Poland the structural deficit amounted to approximately 4.6-4.7%, and in the Czech Republic 3.2%. This means that all five countries are dealing with a persistent imbalance of public finances.

Debt service costs (*implicit interest rate*) are calculated as the ratio of the level of total debt servicing costs to the debt level at the beginning of the year, i.e. taken into account are exchange rate changes, debt structure, and the speed with which current bond yields materialize in current debt servicing costs. The highest resulting percentages were recorded in Hungary, i.e. 7.2 percent, in Romania - 4.8 percent, and in Poland - 4.7 percent. It is worth noting that in Poland, within two years, the implied interest doubled - it increased by 2.5 percentage points, which is faster than in Romania, the Czech Republic, and Slovakia.

Subject to examination were also quality of fiscal rules as well as quality and transparency of the public finance system. The authors point to the fact that public finances, for their credibility, should be planned in the medium term. Poland appears to be the weakest in terms of long-term planning, which is only rudimentary in our country, and there is no Fiscal Council present in Poland (announced for next year).

Only in Poland there exist two definitions of public debt. Financial transparency is measured as the difference between the debt determined by the national methodology and the debt determined by

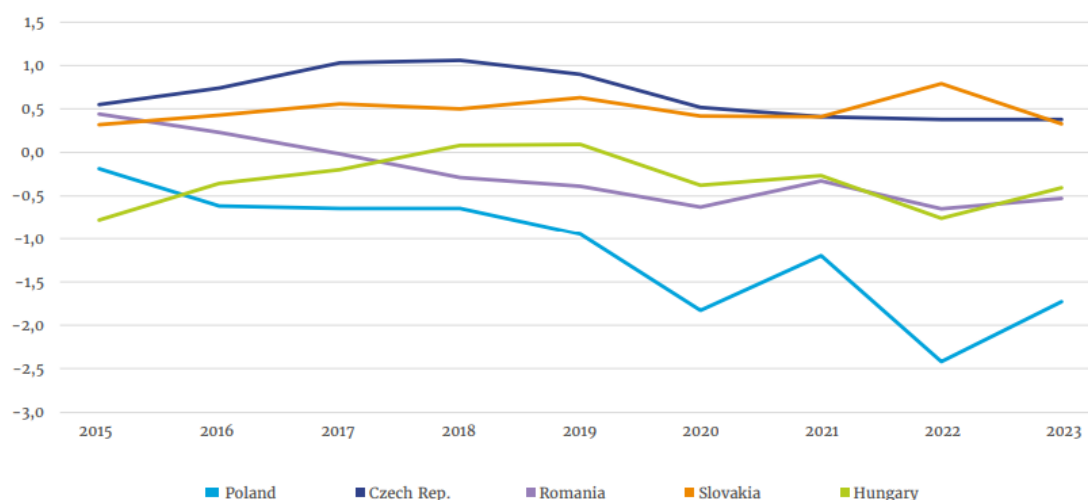
the ESA2010 methodology. The difference shows the scale of debt in entities and funds spending public funds outside the control of parliament. This debt falls also outside the constitutional definition of debt. Recently, the scale of debt beyond the constitutional definition has increased significantly - at the end of 2023, almost 21.5% of the debt fell outside this definition. In relation to GDP, it was 10.7 percent in 2023. To make matters worse, this spread continues to grow.

Another measure of opacity of finances is the practice of giving away treasury bonds. It involves issuing treasury bonds solely for the purpose of them being transferred to other entities of the public finance sector, instead of subsidies. This operation lowers the state budget result and, in the case when bonds are transferred to entities not covered by the expenditure rule, SRW aids to circumvent the expenditure rule. Such practice may be illustrated by transfer of bonds to public media as part of an alleged compensation for low revenues from radio and television license fees. The scale of this practice is already huge and still growing. In recent years, these operations have lowered the state budget deficit in Poland by 0.3 percent, and at the peak even by approximately 0.9 percent GDP per year. In some years, this value made up almost half of the real deficit. No other country from among the analysed ones records two definitions of public debt or the procedure of giving out bonds.

The credibility of the state is low if the system of collecting public levies is complicated, non-transparent, and unpredictable. The index therefore includes assessment of transparency, predictability, complexity, and effectiveness of the public levy system. In this dimension, Poland obtains the worst result, and lags behind the rest of the countries subject to analysis. In the Tax Competitiveness Index survey, Poland ranks 33rd, far behind the best-scoring Estonia, the Czech Republic, Turkey, Finland, and Spain, and in the Tax Complexity Index ranking, which measures the complexity of the tax system, we take the penultimate place, 63rd, just ahead of Peru.

In 2023, the credibility of the state in the area of Credibility of public finances improved in Poland (although in this area it is the lowest of all sub-indexes), in Hungary and Romania, while it deteriorated in Slovakia. In the Czech Republic, no change was recorded. In the Czech Republic and Slovakia, the indicator was positive and amounted to 0.38 and 0.33, respectively. In other countries, the indicator was strongly negative. In Hungary and Romania, it was -0.41 and -0.53, respectively. In Poland, the index was as much as -1.73 in 2023, compared to -2.42 in 2022, when it reached the all-time low.

Figure 4. Total assessment of the state's economic credibility for the area: Credibility of public finances



Source: own study on the basis of indicators adopted to assess subsequent dimensions.

Table 4. Total assessment of the state's economic credibility for the area: Credibility of public finances

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Poland | -0.19 | -0.62 | -0.65 | -0.65 | -0.95 | -1.83 | -1.20 | -2.42 | -1.73 |
| Czech Rep. | 0.55 | 0.74 | 1.03 | 1.06 | 0.90 | 0.52 | 0.41 | 0.38 | 0.38 |
| Romania | 0.44 | 0.23 | -0.02 | -0.29 | -0.39 | -0.63 | -0.33 | -0.65 | -0.53 |
| Slovakia | 0.32 | 0.43 | 0.56 | 0.50 | 0.63 | 0.42 | 0.41 | 0.79 | 0.33 |
| Hungary | -0.78 | -0.36 | -0.20 | 0.08 | 0.09 | -0.38 | -0.27 | -0.76 | -0.41 |

Source: own study

Recommendations:

The first step to rebuilding the credibility within the area of public finances (which does not involve any costs) is restoring the unity, openness, and transparency of public finances: introducing an obligation to formally include financial plans of all public finance sector units into the budget act in accordance with the scope of the EU methodology. These units should be subject to parliamentary scrutiny, and the budget law should be consistent with Art. 219 of the Constitution. Ultimately, there is a need of a comprehensive institutional and organizational reform of public finances, aimed at reducing funds and agencies and redefining the “state budget” as the “budget of the entire central sector”, so that the government receives a full and non-defective discharge.

It is necessary to tighten fiscal rules and protect them from tampering: this, ultimately, stands for introduction into the Constitution of a definition of public debt consistent with the EU methodology. It is also necessary to introduce a requirement for the acceptance of changes in fiscal rules by 2/3 of

the Parliament and to base the exit clause from fiscal rules on states of emergency set forth in the constitution. This also applies to introducing the state of epidemic into the constitution.

It is important to establish a politically independent Fiscal Council and equipping it with broad competences to assess and monitor all parameters and data within the field of public finances - including assessment of budget forecasts and analysis of the long-term sustainability of public finances.

It is of vital importance to promptly launch the central register of public finance sector contracts.

There should be introduced a code operating as a statutory instrument and rules for introducing changes in the tax and contribution system, which would limit the frequency of tax changes, introduce a minimum *vacatio legis*, and enforce an appropriate and reliable consultation process. It is also necessary to frequently evaluate the system for transparency and complexity, as well as simplify the tax and contribution system.

Stability of money and the financial system

Last year, the credibility deficit in the area of Stability of money and the financial system decreased in all countries in the region with the exception of Hungary. It was the decline in inflation and inflation expectations that served as the common and most important source of this improvement. In line with our last year's predictions, the Czech Republic was the fastest to reduce the credibility deficit owing to the fact that the Czech central bank reacted more decisively to the inflation surprise in the years 2021-2022 than banks in other countries. As a result, the Czech Republic regained its leading position in this area. Although the example of the Czech Republic shows that the credibility deficit does not have to be permanent, its deficiency remains significant. Although rebuilding credibility is possible, it is a time-consuming process.

As inflation continues to fall this year, the credibility deficit within the area of money stability and the financial system is expected to decrease everywhere. In the case of Poland, the results of last year's parliamentary elections marked an important moment contributing to restoration of credibility. Following the elections, the central bank's willingness to undertake non-standard actions which enabled the government to finance its borrowing needs disappeared. The National Bank of Poland began to attach great importance to the stable price level, which, after all, is its primary task. The change in the approach to monetary policy was also reflected in the Bank's other actions. The Monetary Policy Council stopped the cycle of interest rate cuts first started in September 2023.

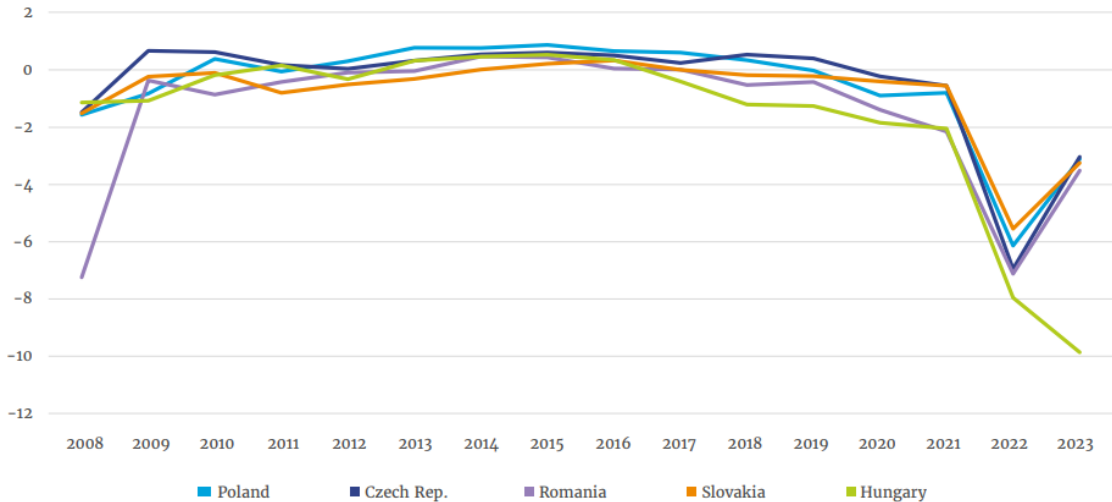
Strong links between banks and the state remained a threat to the stability of the financial system. An exception in this respect is Slovakia, where these connections are clearly weaker than in other countries in the region. One should bear in mind, however, that in the three countries where these links are the strongest, i.e. Romania, Poland, and Hungary, they have weakened slightly. Nevertheless, the high share of treasury bonds in banks' assets means that the standing of banks still depends too much on the standing of public finances.

Real interest rates also continued to be the last year's problem. With the exception of the Czech Republic, they were still far from a level that would balance the economy. However, thanks to large interest rate increases introduced by central banks in 2022, they approached the required level

everywhere last year. Meanwhile, too high credit growth in relation to long-term economic growth does not pose any threat in the analysed countries.

In Poland, there has been observed a growing problem of the decreasing role of credit in the economy. The credit has never played a significant role, and since 2019 it has been steadily declining. It applies in particular to corporate loans. Until 2019, it fluctuated around 15% GDP, and within the following 5 years it decreased to a level slightly exceeding 10%. GDP. As of 2020, it has a smaller share in banks' assets than treasury bonds.

Figure 5. Total assessment of the state's economic credibility for the area Stability of money and tax system



Source: own study

Table 5. Total assessment of the country's economic credibility for the area Stability of money and tax system

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|------------|-------|-------|-------|-------|-------|-------|------|------|------|-------|-------|-------|-------|-------|-------|-------|
| Poland | -1.58 | -0.84 | 0.38 | -0.06 | 0.30 | 0.77 | 0.76 | 0.87 | 0.65 | 0.60 | 0.33 | -0.03 | -0.90 | -0.81 | -6.15 | -3.12 |
| Czech Rep. | -1.49 | 0.66 | 0.61 | 0.16 | 0.04 | 0.31 | 0.54 | 0.60 | 0.51 | 0.24 | 0.53 | 0.39 | -0.23 | -0.56 | -6.96 | -3.05 |
| Romania | -7.26 | -0.37 | -0.87 | -0.43 | -0.10 | -0.05 | 0.46 | 0.43 | 0.04 | 0.00 | -0.53 | -0.42 | -1.40 | -2.16 | -7.14 | -3.52 |
| Slovakia | -1.53 | -0.24 | -0.11 | -0.81 | -0.52 | -0.32 | 0.01 | 0.21 | 0.32 | 0.00 | -0.19 | -0.22 | -0.41 | -0.56 | -5.56 | -3.26 |
| Hungary | -1.14 | -1.09 | -0.19 | 0.15 | -0.33 | 0.32 | 0.46 | 0.52 | 0.35 | -0.41 | -1.22 | -1.27 | -1.85 | -2.05 | -7.97 | -9.87 |

Source: own study

Recommendations:

The experts maintain their last year's position on the need to do away with the banking tax. Even though since last year, chiefly due to the move away from ultra-low interest rates, banks have begun to achieve a return on capital that finally exceeds its cost, their incentives to expand business activities remain distorted. On the one hand, due to the banking tax, lending in Poland is subject to a much higher tax burden than elsewhere in the region or, more broadly, in the European Union (in the case

of household lending, especially long-term lending, an additional, significant barrier is posed by high legal risk). On the other hand, the banking tax is an additional incentive to replace loans with treasury bonds because, unlike loans, they are exempt therefrom. Purchasing treasury bonds not only - as elsewhere - do not require banks to commit their own capital, because the regulator allows for assigning them zero risk, but also reduce the effective tax rate.

Employment security and protection

Employment security and protection is an important area of economic credibility. The right to work, the sense of security related to relationships with employers and conditions of work, as well as receiving fair remuneration are important pillars of public policy. There were adopted seven dimensions of employment security and protection: income from work, protection against poverty, legal protection of employment, safety and working conditions, non-standard employment, involvement in the labour market, and continuous learning.

For the purposes of credibility of employment security and protection, taken into account primarily should be two threats, characterised by a high probability of occurrence and strong impact: the supply barrier in the labour market and increase in the burden of income from work related to the need of ensuring social security in the conditions of ongoing demographic changes and aging of the population.

The condition of the labour market is influenced by long-term demographic trends related to the long-term low fertility rate, the result of which is gradual shrinking of labour resources. In Poland, over 70 percent of employers in the construction industry, almost 70 percent in the heavy industry and more than half in services, point to the lack of employees. Therefore, it is important to properly use labour resources and to engage people in the labour market as fully as possible.

The total Index score in this area in the year 2023 shows that the index value for Poland is lower than in Slovakia, the Czech Republic, and Hungary, but higher than in Romania. Poland has seen a gradual improvement of the synthetic Index since 2010. Since 2020, the Index value for our country has been positive, which means that the situation in the area is better than the median throughout the analysed period. The lowest credibility is related to the dimension of legal protection of employment due to the high share of fixed-term contracts and individuals with short employment experience. The share of individuals with fixed-term contracts remains more than two times as high as in other countries. However, in the case of individuals employed for less than 12 months, the indicator values for Poland are more favourable than in the case of Hungary and the Czech Republic. In Poland, the Czech Republic, and Hungary, the share of employees with the shortest work experience at their current employer decreased in 2023, which is a positive phenomenon.

In the dimension related to involvement in the labour market, there has occurred a stable improvement in the Index value, resulting from the growing employment rates in the Visegrad group, while in Romania in 2021, there was recorded a deterioration in the Index value, only to increase in the following years. The Czech Republic is given the highest rating throughout the entire period, while Romania receives the lowest one. Poland occupies a stable fourth place, which results from the employment rates in all analysed population groups.

In terms of continuous learning, for most of the analysed period, the situation was best in the Czech Republic and worst in Romania. It is worth emphasising that, in comparison with the average in EU countries, participation in various forms of continuous learning for adults in the Visegrad countries and Romania is very low and rarely exceeds 10%. In Poland, after 2020, we can observe an increase in the rate of adults improving their qualifications from 4% in previous years to 8.7 percent in 2023. However, this value is still lower than in Slovakia, the Czech Republic and Hungary.

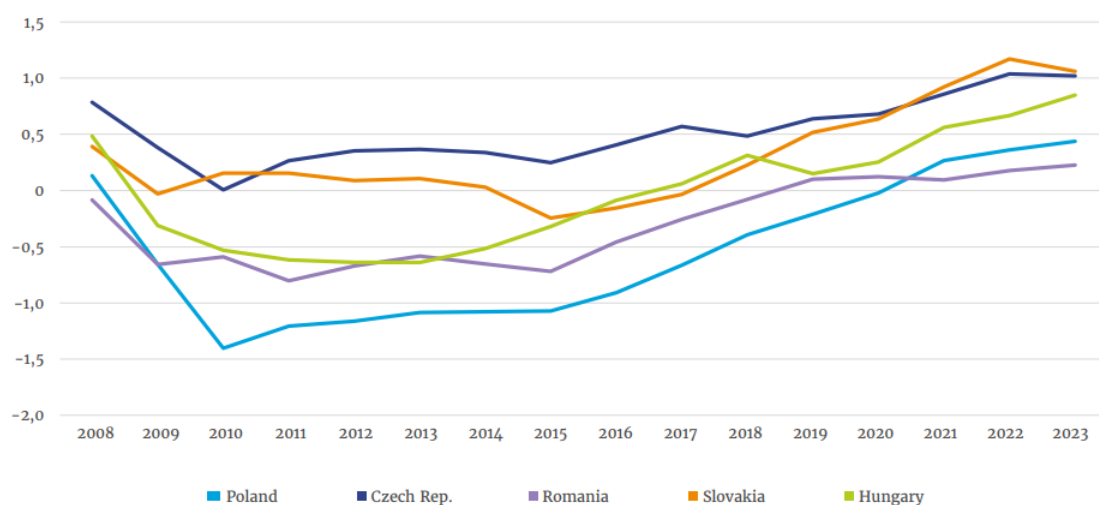
In terms of occupational safety and working conditions, the highest indicator values have been recorded in Poland and Slovakia, and the worst in the Czech Republic.

In terms of the importance of income from work for most of the analysed period, the best situation was recorded in the Czech Republic and the worst in Romania. In the period covered by the analysis, a gradual improvement in the Index value was visible. In Romania and Hungary, the value in question remains below the median of all countries. The risk of poverty among working people in Poland is gradually decreasing, which is a positive phenomenon. The highest percentage of the working poor is recorded in Romania, and in recent years it has increased in Slovakia.

Social transfers protecting against the risk of poverty are the best in Hungary and the Czech Republic, and the worst in Romania. In 2023, it was the Czech Republic which obtained the highest rating in this dimension, and was followed by Poland. In Poland, since 2017, there has been a clear improvement in the role of transfers in reducing poverty among both women and men, which is related to the introduction of the 500+ family benefit.

In Poland, the gender gap in wages is large (in comparison with other countries subject to analysis). The increase in the minimum wage contributed to an improvement of the income situation of employees in Poland, although the pace of its growth exceeded the increase in average wages, which resulted in tensions on the labour market. The development of skills, including digital skills, remains a challenge, especially within the context of rapid technological changes.

Figure 6. Total assessment of the state's economic credibility for the area of occupational health and safety



Source: own study on the basis of indicators adopted to assess subsequent dimensions.

Table 6. Total assessment of the country's economic credibility for the area of Occupational health and safety

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|------|------|------|
| Poland | 0.13 | -0.66 | -1.41 | -1.21 | -1.17 | -1.09 | -1.08 | -1.08 | -0.91 | -0.67 | -0.39 | -0.21 | -0.02 | 0.27 | 0.36 | 0.44 |
| Czech Rep. | 0.79 | 0.38 | 0.00 | 0.26 | 0.35 | 0.37 | 0.34 | 0.25 | 0.40 | 0.57 | 0.48 | 0.64 | 0.68 | 0.86 | 1.04 | 1.02 |
| Romania | -0.08 | -0.66 | -0.59 | -0.81 | -0.67 | -0.59 | -0.66 | -0.72 | -0.46 | -0.26 | -0.08 | 0.10 | 0.13 | 0.10 | 0.18 | 0.23 |
| Slovakia | 0.39 | -0.03 | 0.15 | 0.15 | 0.09 | 0.10 | 0.03 | -0.25 | -0.16 | -0.04 | 0.23 | 0.52 | 0.64 | 0.92 | 1.17 | 1.06 |
| Hungary | 0.49 | -0.31 | -0.53 | -0.62 | -0.64 | -0.64 | -0.52 | -0.32 | -0.09 | 0.06 | 0.31 | 0.15 | 0.25 | 0.56 | 0.67 | 0.85 |

Source: own study on the basis of indicators adopted to assess subsequent dimensions.

Recommendations:

The challenge for the future involves green transformation and the resulting need to change the employment structure. Poland is one of the countries where the share of employment in the sectors that will be affected is one of the highest. This, in turn, means the need of investing in development of new competences and increasing to a significant degree participation of adults in various forms of education and training in order to acquire new skills.

Along with the decreasing number of people in the working age, there increases the role of foreigners on the labour market, including those coming from outside the European Union (Ukraine, Belarus, or India). This situation favours segmentation and limiting social protection of employment, which may result in a growing number of working people at risk of poverty. It is, therefore, essential to monitor employer practices and apply appropriate employment security and protection measures for all employees. In some segments of the labour market (e.g. domestic workers), the large scale of informal employment remains a challenge. Platform work or forced self-employment often result in less social protection for employees. Therefore, it is of great importance to provide appropriate information about applicable regulations and working conditions, especially to individuals coming to work from outside Poland, as well as appropriate control and monitoring of compliance with the law.

Quality of public services

Public services: education, health care, and public safety exert a direct impact on people's everyday lives and their development opportunities. High quality of such services promotes social equality, strengthens trust in state institutions, and supports the country's development. Appropriate adaptation of public services to the changing needs of citizens, as well as transparent management thereof, contribute to the cohesion of society. In order to calculate the index in this area, the indicators measure actions undertaken by public authorities (output indicators) and the achieved effects (result indicators). Take into account were five dimensions: education, health, safety, e-government, and cybersecurity.

The countries subject to analysis have both their strengths and weaknesses. In comparison with other countries, Poland has performed quite well throughout the entire period since 2015. It has

scored particularly high in the areas of e-administration and safety. Poland offers credibility in creating conditions for healthy living at a level slightly better than Hungary and Romania, yet still worse than the Czech Republic. Cybersecurity is an aspect to which the state should pay ever increasing attention. However, the most pessimistic picture is to be seen in Polish education, which has fallen from the position of the clear leader in the region to the category of average. This is a process that has been going on for about 10 years. To make matters worse, its effects are felt only in the long run. Even in the previous decade, in contrast with the Central European countries, our education system was preparing students well, hence, in the PISA survey (*Programme for International Student Assessment*), their average result, e.g. in 2012, was 20 points higher than in the case of the Czech Republic. Over ten years, Poland dropped significantly in the ranking, and the average result went down to a level comparable to that of the Czech Republic. We are still doing better than Hungary or Slovakia, but the advantage that has been for many years characteristic of Poland plunged.

In the years 2012-2014, we spent 4.4% GDP on all educational levels and we were a clear leader against the backdrop of other Visegrad countries. In the consecutive years, expenditure on education systematically decreased to land at 3.9% in 2021, which was a weaker result than in Slovakia (4.2%) and the same as in the Czech Republic.

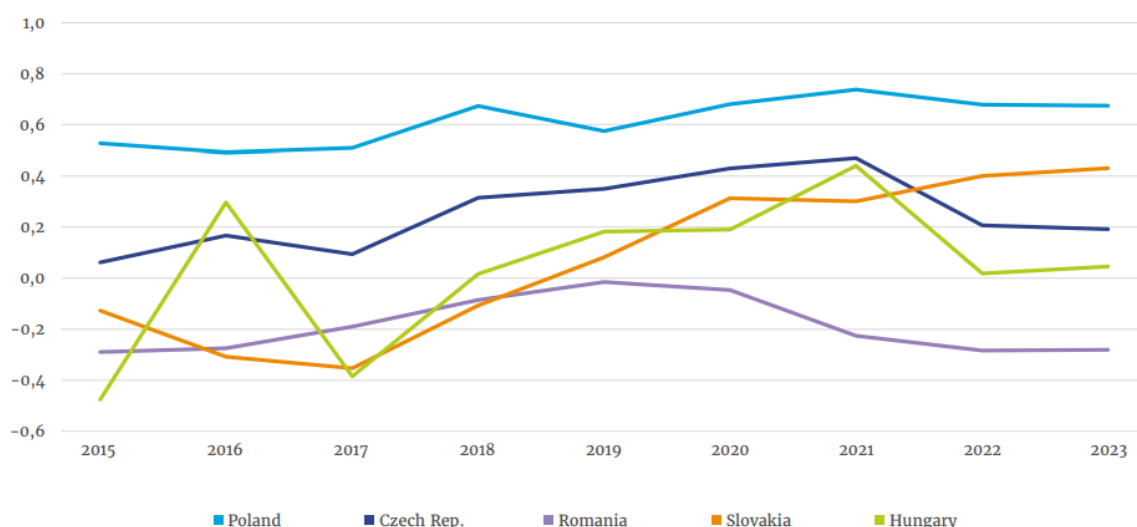
In comparison with other countries, the Polish are quite pessimistic about their health condition - about 10% respondents believe that it is bad or very bad. In other countries, health condition of citizens is slightly better, especially in Romania, where only 6.7 percent people consider their health condition to be bad or very bad. Interestingly, self-esteem indicators improved significantly after the COVID-19 pandemic. The analysis of public expenditure on health care shows clearly that the Czech Republic is in the lead. After the COVID-19 pandemic, the share of public spending on health in the Czech Republic increased to almost 10% GDP. In Poland, it is still below 7%, similarly to Romania and Hungary. The value of the Index in the health dimension points to a conclusion that the situation is definitely the best in the Czech Republic, which remains the leader throughout the entire analysed period. Romania is doing slightly worse, its position has deteriorated slightly, mainly due to a large decline in life expectancy in the aftermath of the pandemic. In this area of analysis, Poland's result is similar to that of Hungary and higher than that of Slovakia.

According to the UN data, which tracks development of e-government in countries around the world, the Central European countries have made great progress in this regard, and Poland has recorded spectacular progress in the last 5-7 years. The COVID-19 pandemic was a mobilizing factor.

In recent years, the number of cyberattacks has been systematically increasing in each of the 5 countries. Private enterprises, especially large ones, have long paid attention to ensuring that the security of IT systems and collected data is at an appropriate level. The public sector still faces the challenge of building its credibility in this area.

In Poland in 2017, there were registered over 7 attacks per 100,000 inhabitants, while in 2022 there were over 19 events.

Figure 7. Total assessment of the state's economic credibility for the area of Quality of public services



Source: own study.

Table 7. Total assessment of the state's economic credibility for the area of Quality of public services

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Poland | 0.53 | 0.49 | 0.51 | 0.67 | 0.57 | 0.68 | 0.74 | 0.68 | 0.68 |
| Czech Rep. | 0.06 | 0.17 | 0.09 | 0.32 | 0.35 | 0.43 | 0.47 | 0.21 | 0.19 |
| Romania | -0.29 | -0.28 | -0.19 | -0.08 | -0.01 | -0.04 | -0.23 | -0.29 | -0.28 |
| Slovakia | -0.13 | -0.31 | -0.36 | -0.11 | 0.08 | 0.32 | 0.30 | 0.40 | 0.43 |
| Hungary | -0.48 | 0.30 | -0.39 | 0.02 | 0.18 | 0.19 | 0.44 | 0.02 | 0.05 |

Source: own study

Recommendations:

The level of public expenditure on education should return to approximately 4.5% GDP in the coming years. This will support increasing the quality of human capital in Poland. It is this factor that, in recent years, has made Poland stand out in the eyes of foreign investors. Actions aimed at improving the quality of education are also necessary. Of particular importance is prompt elimination of the educational gap which has appeared in the aftermath of the Covid-19 pandemic and ill-considered changes in the education system (liquidation of junior high schools).

The health care system needs strengthening the first contact with the patient by increasing access to general practitioners, community nurses, and primary care specialists. This can be achieved by introducing longer opening hours of facilities or using telemedicine and remote treatment. Preventive health care, however, can be carried out by lending greater support to educational campaigns about a healthy lifestyle, promoting and offering regular preventive examinations, especially among risk groups, which may reduce the incidence of chronic diseases.

An important role in the process of health promotion and prevention is that of employers. Therefore, costs of actions executed in this area should be included in the costs of obtaining income. Currently,

only entities with significant financial and organizational potential undertake investments in employee health.

Public authorities must also support the development of competent local public health centres focused on assessing health needs in various local environments and checking the impact of decisions on shaping the living conditions and health of residents.

Data digitization, which has been carried out in recent years, offers an opportunity to make another breakthrough in public administration. It is about the automation and robotization of processes performed in the public sector. Bureaucratic processes have everything that is required to develop implementation of robotic process automation technologies and, consequently, free up labour resources, which can be used to further increase the quality of public services.

Also necessary is a new cybersecurity strategy, which should include, among others: provisions on strengthening the legal framework, including introduction and enforcement of legal provisions on data protection, privacy, cybercrime, and obligations related to incident reporting. Education and raising awareness of citizens, institutions and enterprises in order to minimise cyber threats are also important.

Climate and environment

In the next three years, the most significant threat to Poland's economic credibility with regard to climate and environment will be the too slow pace of energy transformation. The second high risk lies in continuation of a social and economic model based on unsustainable production and consumption. One should also point out threats related to deterioration of the quality of water resources combined with their quantitative limitation. The persistently high air pollution with PM 2.5 dust still exerts a significant impact on the high rate of premature deaths.

In the Climate and environment area, the country's economic credibility is analysed in six dimensions: climate, air, waste, water, resources, and biodiversity. Credibility of the analysed countries varies. Slovakia (which is the leader), Romania, and Hungary perform very similarly and much better than the Czech Republic and Poland. This is mainly due to differences in the dimensions: carbon intensity, climate, and resources. Changes which have taken place in the last 15 years indicate that all countries' indexes in this area have improved. The greatest progress has been recorded in Hungary and Romania. Poland's situation has improved the least.

Romania is the country with the highest share of renewable energy in energy consumption. All countries achieved the planned RES indicators in energy consumption in 2020 (it was determined individually: for Poland, the target was 15%, for Hungary and the Czech Republic, 13%, and for Romania, 24%).

Three countries - the Czech Republic, Romania, and Slovakia - are significantly reducing their emissions. Poland reduced its national emissions per capita only slightly. Hungary, whose indicator hovered at the lowest level for many years, reduced its emissions per capita only a little. Romania is currently the country where this indicator remains at the most favourable level.

The least favourable situation in terms of air pollution was recorded in Poland, and the best in the Czech Republic and Slovakia. Romania and Hungary found themselves between these countries. PM

2.5 emissions were continuously reduced in the Czech Republic and Slovakia. However, in Hungary, the situation was variable and, following a significant increase in this measure in recent years, there occurred a downward trend. The situation in Poland and Romania was also variable: periods of declines were followed by increases in emissions. The situation in Poland, however, is definitely the least favourable. PM 2.5 emissions here are more than two times as high as in Slovakia and the Czech Republic. Air pollution continues to exert a significant impact on the quality of life and health of citizens in this part of Europe. Clear downward trends in the measure of premature deaths caused by PM 2.5 dust pollution occurred in Romania and Hungary. In Poland, the number of premature deaths attributed to this reason is the highest. In 2021, it was 1,255 deaths per million inhabitants. On the other hand, the situation in the Czech Republic is the most favourable in this respect - 808 deaths per million inhabitants.

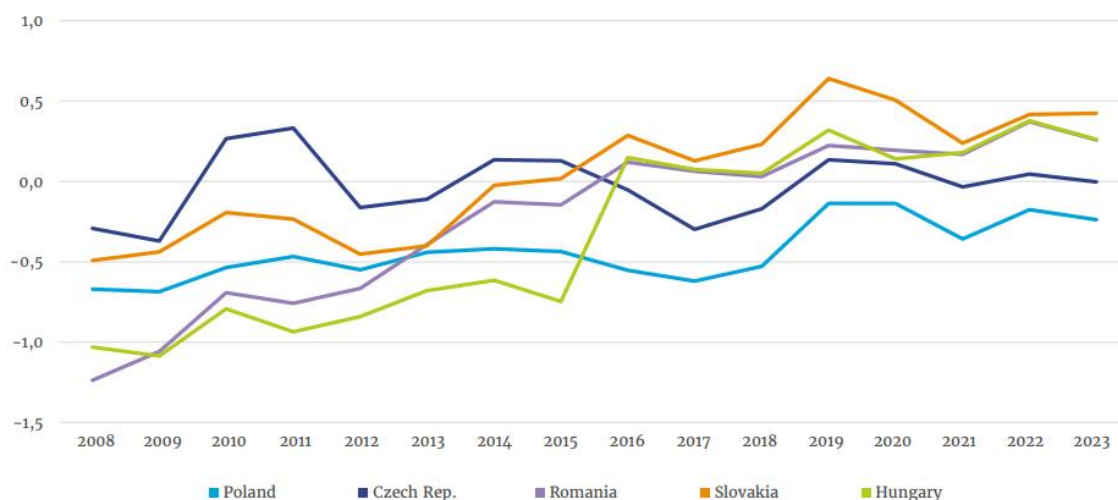
Municipal waste generated in Poland is on the constant increase. In the Czech Republic and Slovakia, this trend is particularly dynamic. In Poland, there has occurred a gradual reduction in the amount of waste per capita, but the Czech Republic and Slovakia have seen a significant increase. The most waste per capita is generated in Romania. Only in Hungary the amount of municipal waste per capita has remained stable.

Water and sewage management is most favourably developed in the Czech Republic, and the greatest challenges in this area concern Romania. In other countries, the index values are similar. However, changes in this dimension have been taking place most rapidly in Hungary and Romania.

There has been a continuous improvement in efficiency of natural resources in the economy - at 1 euro per 1 kilogram of resource. This phenomenon is particularly visible in the Czech Republic and Slovakia. Over the last 15 years, this indicator has doubled in these countries, i.e. the use of one kilogram of a natural resource now brings two times as much value expressed in euros. The situation in Poland is also improving, however, the dynamics of this phenomenon is lower. The smallest changes in this respect have occurred in Romania.

The use of natural resources and energy is improving gradually in all countries. The situation in Slovakia and Romania is the most favourable, and the greatest changes have occurred in recent years in Hungary and Poland.

Figure 8. The value of the state's economic credibility index for the Climate and Environment area



Source: own study.

Table 8. The value of the state's economic credibility index for the Climate and Environment area

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Poland | -0.67 | -0.69 | -0.54 | -0.47 | -0.55 | -0.44 | -0.42 | -0.44 | -0.55 | -0.62 | -0.53 | -0.13 | -0.13 | -0.36 | -0.17 | -0.23 |
| Czech Rep. | -0.29 | -0.37 | 0.27 | 0.34 | -0.16 | -0.11 | 0.14 | 0.13 | -0.05 | -0.30 | -0.17 | 0.14 | 0.11 | -0.03 | 0.05 | 0.00 |
| Romania | -1.24 | -1.06 | -0.69 | -0.76 | -0.67 | -0.39 | -0.12 | -0.14 | 0.12 | 0.07 | 0.03 | 0.23 | 0.20 | 0.17 | 0.38 | 0.26 |
| Slovakia | -0.49 | -0.44 | -0.19 | -0.23 | -0.45 | -0.40 | -0.02 | 0.02 | 0.29 | 0.13 | 0.24 | 0.65 | 0.51 | 0.24 | 0.42 | 0.43 |
| Hungary | -1.03 | -1.09 | -0.79 | -0.94 | -0.84 | -0.68 | -0.62 | -0.75 | 0.15 | 0.08 | 0.05 | 0.32 | 0.14 | 0.18 | 0.38 | 0.27 |

Source: own study.

Recommendations:

The current National Energy and Climate Plan 2030 (NECP) does not correspond with the European ambitions and challenges facing the country's energy transformation. However, the scope, objectives, and adopted scenarios should take into account the full economic calculation, including lost benefits, opportunity costs, and direct investment outlays. The scale of the challenges requires that the financing of activities in this area be carried out with the participation of the commercial financial sector as well as significant support from public funds.

In January 2024, the Council of Europe and the European Parliament reached a preliminary political agreement on a proposal of the European Commission to amend the Water Directive, and in April 2024, the European Parliament adopted a resolution on this matter. This means that, in accordance with the Commission's proposal, limits and standards related to municipal wastewater treatment will be changed. Hence, government plans and programmes aimed at supporting local government units in this area, specifically in non-urbanised areas, are becoming ever so important, desirable, and urgent.

Waste management is also to become an ever increasing challenge. There being no appropriate participation of economic entities and private investments in recycling, reuse, and disposal, investments made solely by local government units may appear insufficient. Therefore, it is an urgent

task to implement the deposit model for packaging agreed with all parties, based on extended manufacturer's responsibility.

Ensuring biodiversity has become an essential and necessary environmental protection activity. Knowledge about changes in this area on a national scale is limited and incomplete. We are not aware of what phenomena occur and what impact structural changes in the economy or technological changes have on biodiversity, e.g. changes in farming methods. Specialized state research institutes should fill this knowledge gap by conducting long-term monitoring studies on biodiversity changes.

Respecting international obligations

Credibility of Poland in terms of compliance with international obligations is shaped primarily by the policy of the Polish authorities (implementation of international treaties and the EU legislation, including judgments of the Court of Justice of the European Union - CJEU and the European Court of Human Rights - ECtHR) as well as changes in the Polish justice system and their compliance with international and the EU legislation, and the functioning of the Polish judiciary (its jurisprudence in response to judgments of the European judiciary, its independence closely related to the issue of EU conditionality with regard to access to budget funds). In recent years, the CJEU and the EPTC have significantly increased their judicial activity in cases concerning Poland. Oftentimes, judgments of these European Tribunals are unprecedented for the legal system of Poland and the entire EU.

Poland and, particularly, Romania and Hungary differ significantly from the Czech Republic in terms of the degree of compliance with international obligations towards the EU. The value of the subindex for Poland in 2023 was -1.28, while for Romania it was -0.77 and for Hungary -0.37. Slovakia scored -0.06 and the Czech Republic +0.72. In this matter, the recent years have seen a negative trend in the region, manifested by a deterioration of indicators compared to 2015.

In 2023, Poland performed the worst in the region in the EU dimension (judgments of the CJEU finding failure to fulfill obligations of a Member State, new cases in the CJEU with regard to the finding of failure to fulfill obligations, new references for a preliminary ruling in the CJEU), obtaining a score of -3.27, while the second-worst result was that of Slovakia -0.82. Poland's position results primarily from the Peace and Justice government's "reforms" of key judicial institutions in a manner violating the constitution.

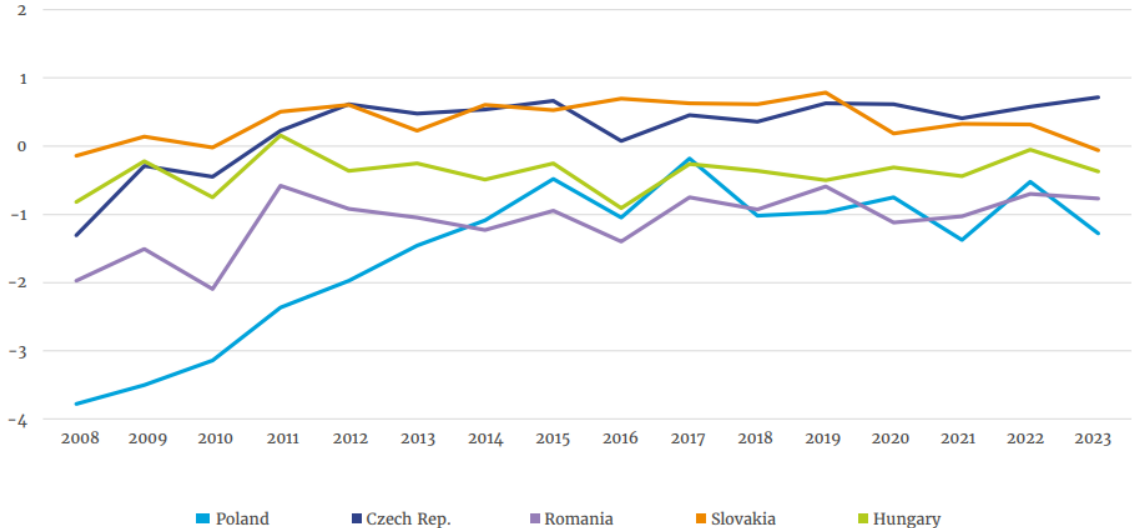
In the case of the ECHR dimension (processed complaints, issued judgments, key judgments not implemented by a given country), Romania clearly achieved the worst result -2.36, Hungary -0.69, and then Poland -0.51.

On 15 February 2023, the EC decided to bring a lawsuit against Poland to the CJEU in connection with violations of EU law by the Constitutional Tribunal. In its complaint, the EC found that due to irregularities in the appointment of the President of the Constitutional Tribunal and three of its judges, the Constitutional Tribunal did not meet requirements of an independent and impartial court. The EC also found that, as a result, persons and institutions participating in proceedings before Polish courts were deprived of full guarantees with regard to effective judicial protection. It was the first time that the EC sued a Member State before the CJEU, accusing it of its constitutional court's losing legality. Of extreme importance - as a pilot one, i.e. aimed at removing the existing problem in the country and preventing further complaints - was the judgment of the ECtHR of 23 November 2023 in the case of

“*Wałęsa v. Poland*” found in favour of the former president. The ECtHR decided that the judicial system in Poland was defective. The basic problems are unconstitutional institutions: the neo-KRS (neo-National Council of the Judiciary) and the neo-judges and neo-chambers in the Supreme Court nominated thereby. Finally, the Tribunal also stated that the issue of extraordinary complaints, which are being abused to challenge final judgments, needs to be resolved. The ECtHR ordered Poland to conduct a broad-based reform of the Polish judiciary, which would comprehensively regulate these issues. Poland has been given one year to comply with the judgment, i.e. to introduce regulations aimed at removing systemic threats to the rule of law.

None of the judgments issued by the CJEU and the ECtHR in recent years with regard to the crisis of the rule of law in Poland - despite the imposition of financial penalties by both courts for no implementation - has so far been implemented by the Polish government in a general aspect, that is, by way of eliminating the systemic problem through legal changes.

Figure 9. Total assessment of the country's economic credibility for the area of Respect for international obligations



Source: own study

Table 9. Total assessment of the country's economic credibility for the area of Respect for international obligations

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Poland | -3.79 | -3.51 | -3.15 | -2.37 | -1.98 | -1.46 | -1.09 | -0.48 | -1.05 | -0.18 | -1.02 | -0.97 | -0.75 | -1.38 | -0.52 | -1.28 |
| Czech Rep. | -1.31 | -0.29 | -0.45 | 0.23 | 0.62 | 0.48 | 0.54 | 0.67 | 0.08 | 0.46 | 0.36 | 0.63 | 0.62 | 0.41 | 0.58 | 0.72 |
| Romania | -1.98 | -1.51 | -2.10 | -0.58 | -0.92 | -1.05 | -1.23 | -0.95 | -1.40 | -0.75 | -0.93 | -0.59 | -1.12 | -1.03 | -0.70 | -0.77 |
| Slovakia | -0.14 | 0.14 | -0.02 | 0.51 | 0.61 | 0.23 | 0.61 | 0.53 | 0.70 | 0.63 | 0.62 | 0.79 | 0.19 | 0.33 | 0.32 | -0.06 |
| Hungary | -0.82 | -0.22 | -0.75 | 0.16 | -0.36 | -0.25 | -0.49 | -0.25 | -0.91 | -0.26 | -0.36 | -0.50 | -0.31 | -0.44 | -0.05 | -0.37 |

Source: own study

Recommendations

The Polish government should decidedly accelerate work on draft laws restoring the rule of law in Poland, so that they are voted on and implemented promptly (as soon as favourable conditions arise). Development of these laws should be carried out in full coordination with the Venice Commission, Polish legal organisations, scientific communities, NGOs involved in monitoring compliance with human rights, and the Ombudsman. This would allow to steer clear of controversies with regard to solutions that could lead to undermining the separation of powers.

Activity of the Sejm in implementing the EU directives into the national legal order, e.g. the directive on copyright and related rights in the digital single market, is insufficient. Poland's economic credibility in the area of respecting international obligations may be questioned if it refuses to participate in the EU legislative initiatives in such key areas as the Green Deal, the Common Commercial Policy, or migration law.

Threat maps for the next three years – qualitative research

Qualitative research formed another part of the work on the Poland's Economic Credibility Index. A broad group of experts (representatives of the academic community, public administration bodies, non-governmental and financial institutions, consulting companies and organisations associating entrepreneurs) were asked for their opinions on potential threats to Poland's economic credibility in the course of the next three years. There was carried out a study divided into individual areas corresponding to the areas included in the Poland's Economic Credibility Index. The experts shared their knowledge and experience *pro public bono*. In each field, there were identified the most important threats, and each expert assigned such threats their individual weight. Each expert had 100 points to divide between threats according to their importance. In this manner, there were created maps of threats to Poland's economic credibility.

The most significant threat to Poland's economic credibility regarding the rule of law is the lack of legal certainty, including legal dualism and disregard for the actual independence and impartiality of judges. A significant threat lies in the inefficiency of the justice system and lengthiness of court proceedings.

The inefficiency of the judiciary, including the length of proceedings and unpredictability of the outcome of the proceedings, is the most significant threat to credibility of the freedom of economic activity. What worried the experts were also excessive tax and quasi-tax burdens as well as instability, unpredictability, and an excessive number of legal regulations.

The key threat to economic credibility related to credibility of public finances is the persistently high public finance deficit combined with expansionary fiscal policy. Another threat lies in low transparency and disintegration of public finances, including inconsistency of statistics on the state of public finances and the limited role of the budget act. Moreover, an opaque, ineffective, and variable tax system will exert a significant impact on economic credibility of public finances.

While reflecting on the risks affecting credibility of the stability of money and the financial system, the economists pointed to threats resulting from the poor condition of public finances and high share of banks in financing the budget deficit. In their opinion, of great importance is geopolitical risk, which has been assigned the highest probability of materialisation.

Among the most serious threats related to occupational protection and safety on the map of threats to Poland's economic credibility are: the supply barrier in the labour market and the risk of increasing burdens on labour income related to the need to provide social security in the conditions of ongoing demographic changes and aging of the population. The lack of systemic solutions enabling people near the retirement and in the retirement age is also of significance for the labour market.

The inefficiency of the public health service poses the greatest uncertainty for credibility of the quality of public services. The second risk lies in threats to public safety. The experts also included factors with an above-average probability of implementation inefficiency of the education system and increase in prices of public services.

As for the climate and environment area, the greatest uncertainty may result from the low pace of energy transformation and continuation of the social and economic model based on unsustainable

production and consumption. The experts also emphasised the threats related to deterioration of the quality of water resources combined with their quantitative limitation.

The research results show that the most serious risk on the map of respecting international obligations may be the threat related to violation of Art. 2 TEU and 19 TEU, consisting in the fragmentary and long-term nature of introducing changes in the justice system in Poland. The negative consequences of the ongoing crisis of the rule of law in Poland and insufficient activity of the Parliament of the Republic of Poland in implementing the EU directives into the national legal order, e.g. the directive on copyright and related rights in the digital single market, were also pointed out.

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