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Three-year results of the Poland’s accession to the European Union – an analyze of changes of the selected indices

JEL classification: F1

Last three years brought significant changes in the Polish economy. Poland’s accession to the European Union in May 2004 has strongly affected all sectors of the economy. Those changes were expected before EU enlargement, but not precisely assessed.

Before Poland joined EU, many estimations and analysis of the implications of the EU enlargement for new-comers were made. For example, on the basis of traditional as well as new theories of international trade E. Czarny and G. Lang (2001) concluded that human capital and capital intensive industries suffer after first of May 2004, concurrently income distribution in Poland significantly changes after all.

From the present point of view, and three year experience of EU membership, there is a proper stage for evaluation of the short-run effects of the Poland’s EU accession. Recent changes in Polish economy are assessed in terms of the labor market, international trade, and labor productivity.

Comparing the previous findings, based mostly on the theories of trade, to the statistics of changes of the Polish economy in 2005 and 2006, we pointed out some conclusions concerning how expectations, assumptions and theoretical simulations are able to foreseen real economies of integration.

Introduction

Poland’s accession to the EU brought significant changes in the economy, as Polish, well as new accession countries. It is extremely difficult to describe all these changes, now. Nevertheless some analysis can be done specially with regards to the migration and changes on labor market.

Before 1 May 2004, many economists tried to predict results of the EU enlargement. E. Czarny and G. Lang (2001) concluded that human capital and capital intensive industries
suffer after Poland joins EU, concurrently income distribution in Poland significantly changes after all.

In recent years, labor market in Poland has been substantially transformed. In the first chapter I present flow of labor force from Poland into EU countries. Later on, I show how migration due to opening the job market affected Polish economy. I will analyze unemployment rate changes, productivity, income distribution and demand for labor in the recent years in Poland. These effects are faced to theoretical predictions presented before EU enlargement in many papers.

I. EU labor market openness for the EU’s new-member states

Free movement of the Euro-citizens is one of the fundamental rights guaranteed by the Community law. It is the most essential element of the European citizenship.

The right to free movement of workers from, to and between the member states that joined the EU on 1 May 2004 (Czech Republic, Estonia, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Slovenia, Slovakia) and on 1 January 2007 (Bulgaria, Romania) may be restricted during a transitional period of maximum seven years after accession. The time of labor market openness is divided on three phases:
- 1 May 2004 – 30 April 2006
- 1 May 2006 – 30 April 2009
- 1 May 2009 – 30 April 2011

For the EU new member countries, three out of the EU-15 member states: Ireland, Sweden and the United Kingdom, fully opened their labor markets under national law in the first stage. The United Kingdom, however, adopted a mandatory Worker's Registration Scheme, under which workers from the EU-8 member states must register with the UK Home Office within 30 days of starting their employment in the UK.

Since 1 May 2006 Ireland, Sweden and the UK are followed by Spain, Finland, Greece and Portugal in openness their labor market. On 27 July 2006 Italy joined the mentioned countries. The Netherlands also lifted all restrictions on its labor market. It took place on 1 May 2007.

On Polish labor market a substantial change has taken place for the last three years. Migration from Poland is characterized by an upward trend. Large number of Poles,
unemployed and less-paid workers took an advantage of the opportunity in going abroad and taking a better paid job there. Their start working in the UK, Ireland, Sweden. First of the reason was, that previously they could not have taken a job because of many restrictions. Secondly, and finally, the most important reason is wage, which is much more higher than in Poland. Here, I need to stress an important change of Polish economy. Due to labor market openness, as many theoretical predictions emphasized (Czarny, Lang, 2001), there has been an equalization in labor cost, which results in wages. There is an explicit growth in wages in Poland. At the end of 2005, 25% of the companies in production industry decided to rise wages. In the middle of the following year, wages increased in 40% of the companies. Average growth of wages in production industry has increased in June 2007 by 4.5 % (to June 2006), but in May 2007 – by 5.2% (to May 2006). As entrepreneurs expect, the pressure for wages growth is probable under current trend on labor market.

Let’s analyze the volume of Poles migration to the EU-15. In the second quarter of 2006, approximately 389 000 Poles were residing abroad for the period more than two months, that is 32% more, than in the same period a year before. Labor market is now opened in Ireland, Sweden, the UK, Spain, Finland, Greece and Portugal, not only for Poles, but also for another new-member countries. However, the largest number of migrating foreigners are Poles. According to the OECD data, Poland holds the first position among the source of immigration coming into European OECD countries (see table 1).

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1 [www nbportal pl](http://www.nbportal.pl); Portal of Economic Education issued by Polish Central Bank
Table 1. Top 10 source countries for immigration, 2000 and 2005 – OECD Europe
(in thousands people)

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<th>2000</th>
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<td>Morocco</td>
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<td>Poland</td>
<td>324</td>
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<tr>
<td>Ecuador</td>
<td>95</td>
<td>Romania</td>
<td>202</td>
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<tr>
<td>Poland</td>
<td>94</td>
<td>Morocco</td>
<td>128</td>
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<td>Bulgaria</td>
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<td>Turkey</td>
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<td>Germany</td>
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<td>Romania</td>
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<td>Ukraine</td>
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<tr>
<td>United States</td>
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<td>Turkey</td>
<td>66</td>
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<tr>
<td>Germany</td>
<td>61</td>
<td>United Kingdom</td>
<td>65</td>
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<tr>
<td>France</td>
<td>60</td>
<td>Russian Federation</td>
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<td>Italy</td>
<td>56</td>
<td>France</td>
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The huge difference in the migration flow is showed on the graphs below, on which statistics for Poland have to have separate scale, than other listed countries. The significant jump in Polish emigrants is seen in majority of countries after 2004. For example, number of Polish immigrants increased in Germany – by 67%, in Spain – by 107 % and in UK – more than three times.
Chart 1. Migration from new EU member countries to selected OECD countries, 1998-2005 (in thousands)
In the UK, in the third quarter of 2006, Poles submitted into the Workers Registration Scheme almost 72% of all applicants. At the same time only 13% of the applicants came from Lithuanians and 10% from Slovaks.\(^2\) According to the data of the Border and Immigration Agency (UK), the highest proportion of immigrants in the UK, counting in approved applicants for job legalization in the Agency, were Polish (65% of the total approved applicants), followed by Lithuanian (10%), and Slovaks (10%) approved applicants.

As many press release inform, and journalists speculates, that Polish community in the UK reached 1 million people up to now. The fraction of immigrants are registered in Workers Registration Scheme. Obviously, some of immigrants work illegally, without insurance and they plan to be back to Poland after some years.

**Remittances (private transfers)**

Poles constitutes 0.1% of the labor force in the UK, but 1.7% low-qualified jobs\(^3\). It can be stated as a brain waste of immigrants. It is hard to proof the thesis that back to the country guarantees the rise in qualification of the workers previously working abroad, because of the lack of empirical data.

The outflow of highly qualified workers occurs in Poland in many sectors, such as: medical care, construction, IT, ship-building. In terms of the migration of high-qualified workers, the argument of transfers has been recently risen. It is said, that transfers positively influence the home-country economy, because they are an additional source of foreign currency for investment and affects the total demand. Unfortunately, the argument of positive role of remittances was refuted by the empirical research by OECD (*International Migration Outlook*). There is a strong negative correlation between education level of immigrants and the value of their money transfers to their home country. According to the OECD survey, the probability of the money transfers decreases by 7% with each additional year of the education of the immigrant\(^4\).

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In statistics it is shown, that the remittances of Polish immigrants reached the value of 1% GDP in 2005, which is 3% of the value of export and 30% FDI.

The effects of remittances in the home-country obviously depends on their value and purposes. The results can be just estimated, because no one may evaluate transfers value precisely. There are non-registered cash transport out of banking system or transport of value in kind. Almost one half of all transfers are expected to be transfer out of the official (out of banks or another financial institutions) way.

The remittances from Polish immigration affected in increasing demand on FMCG (50% of immigrants’ families spendings financed by remittances), housing, that is improving the conditions of accommodation (30%), and education (20%). These spendings work as an accelerator in the economy. For the recent years, demand on in building industry has increased rapidly and prices rose by 100-150% in many Polish cities.

Chart 2. Average price of 1 sq. meter in large Polish cities – prices registered in June each year. Annual average change in brackets.

[Diagram showing average prices in Prague, Cracow, Gdansk, Wroclaw, Poznan with annual changes from 2004 to 2007]

Source: Central Statistical Office in Poland, quarterly reports.

The greatest change in 1 sq. met price was notified in Cracow (278%), Poznan (269%) and in Warsaw (244%) (see chart 2).
Money supply

Undisputed result of cash inflow to the home-country is an increase in money supply and in reducing deficit of the balance of payment. Since May 2004 to October 2006, money supply has risen from 50 billion to 67 billion zlotys. At present, the influence of rise in money supply is not identified. It is just recognized, that immigrants’ families change more foreign currency in the currency exchange offices. It is expected, that it may affect in increasing of money supply of the central bank reserves. For the first half of the 2006, the balance of the currency exchange reached 3174 million euro, and this value increased by 48% in comparison to the first 6 months of 2005. It is obvious sing of transfers of remittances\(^5\).

Balance of payment

The fact is, that the value of remittances plays an important role in the balance of payment of the developing countries and its role is getting more important, in contrast to the developing aid transfers. According to the OECD, the value of remittances has been rising in average by 7% yearly (nominal value) for the last 30 years.

It is estimated, that without remittances, the deficit of the balance of payment from October 2004 to November 2005 would have doubled. The value of remittances has been assessed on 3.6% of consumption spendings and almost 10% of export spendings\(^6\).

We identified some changes in international trade, market access, trade volume and so on. All of them were highly influenced by the labor market changes and currency depreciation. Despite of the open market and trade liberalization (reducing in trade barriers since Poland joined European common market), the large outflow of labor force negatively affected exporters. They faced problems in recruiting and finding professionals. It brought up unjustified rise in wages, which induces inflation and unproductive operations of the companies.

From the exporters’ point of view, migration affected them negatively in the two ways. Firstly, it induced higher wages and consequently cost of production rises. Secondly,\(^5\) \(^6\)

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\(^5\) Quarterly report of Polish Central Bank.
due to increasing values of remittances, currency of the home country appreciates, and it deteriorated conditions for business.

Taking into account positive effects of remittances as a source of money and negative effect of remittances, that appreciated currency, and the pressure for production cost rising, we may analyze balance of current account in Poland for the last years. As statistics present, the positive effects are stronger and the deficit in Polish current account has been reducing gradually since 2000, with an exception of 2004. Then, there was an substantial growth in import of goods (see chart 3).

**Chart 3. Current Account as a % of GDP**

With regards to the balance of payment, it is identified, that remittances from Poles working abroad have been rising as a fraction of the balance of current account since Poland joined the EU. Balance of private transfers in the current account is characterized in upward trend in general, but in ups and downs cycle. Those changes are related to the seasonal jobs taken in the second and third quarter.

Remittances in value are greater then positive balance in trade in services. Both values compensate the part of the deficit in current account. Surplus in net remittances compensated 41% of the deficit in trade in goods in 2005 and 34% - in the first half of the 2006 r.

Source: Polish Central Bank, annual reports.
Demographic structure in Poland and unemployment

Following the survey done by Polish Ministry of Economy, the majority of Polish immigrants working abroad declares their will for long-time immigration, what effects the structure of Polish demography and labor market in terms of the job qualifications. In the demographic forecast 2003-2030 General Statistical Office presents that due to the massive migration outflow, Polish society gets older and in 2030 the number of people over 65 and older is 50% greater than in 2007. Moreover, the average age of the citizen rises from 37 years now to 45,5 years in 2030. The most frightening factor is the index of demographic burden (the number of people on retirement to the number of working). This index will double in the analyzing period, from 23% to 44%.

Outflow of labor force results in decrease in unemployment rate. Since May 2004, unemployment rate has fallen down from 19.4% to 13%, which is quarterly decrease by 3.3% and monthly 1.07%.
II. Summarize: Polish economy recent changes

The consequences of enormous migration for economy should be described and evaluated in a broad and long-time analyze. After the last three years, we may point out some significant economic phenomena in Poland.

Based on the theoretical approach, the GDP of Poland, is to decrease, and the GDP of the UK – increase. It has to be emphasize, that the influence of the migration on GDP is marginal. EU Commission assumes, that 10% increase in population due to the inflow of
immigrants, may affect the GDP on the positive way, and results to GDP increase by 0.1-0.2%\textsuperscript{7}.

Absolutely different results of the survey were presented by the National Institute of Economic Review in 2006. Econometric simulation was based on the observation of the Polish migration to UK in 2003-2006 showed. There was an assumption that 1 million Poles leaves the country in 2006-2010 and 50% of them goes to UK, 40% - to Germany, and 10% to another EU counties\textsuperscript{8}.

Result for UK:

(i) after 10 years GDP of UK will be 1.1 percentage points higher than without migration

(ii) cumulative gain in GDP in the period of 2006-2025 may reach 16% of the GDP value in 2005

Results for Poland:

(i) and the result for Polish economy is unfortunately negative - in analyzing period, GDP of Poland will be 3.5 percentage point lower than without migration

(ii) cumulative loss in GDP in the period of 2006-2025 may reach 45% of the GDP value in 2005


\textsuperscript{8} Monthly GDP estimation, National Institute of Economic Review in 2006.
References:

3. Czarny, E., Lang, G., (2001), *Accession Poland’s to the EU*
7. Polish Central Bank, annual reports.