BDO

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Soaring labor costs in Poland

Recent months have brought a significant increase in labor costs in Poland. This is caused by an unfortunate coincidence of several factors. The already present relatively high inflation was exacerbated by the impact of the tax and social security reform under the so-called Polish Deal, an increase in minimum wage, the NBP's interest rate hikes that have significantly raised the credit burden, as well as a worsening of the socio-economic environment due to the war in Ukraine that started at the end of February.

Compared to 2021, this year's total cost of a full time employee working on an employment contract for minimum monthly wage will increase by PLN 253,02 (to PLN 3626,46 from PLN 3373,44). One of the reasons is the increase in minimum monthly wage to PLN 3010 (from PLN 2800 in 2021). For employment contracts, employers now have to contribute their own funds to cover 20,48% of the gross monthly wage of each full-time employee. Contracts for services are subject to the minimum hourly wage which this year has been set at PLN 19,70 (compared to PLN 18,30 in 2021). It should also be noted that according to available data, in January 2022 wages increased by an average of around 8,5% (with 8% inflation). According to GUS, in January 2022 the average gross monthly wage in the business sector amounted to PLN 6064,24, which constitutes an increase of 9,5% YOY. In December 2021 wages had grown by 11,2% YOY.

I. Inflation out of control

An important factor that significantly affects wage pressures is the growing rate of inflation. It began to grow rapidly even before the start of the war in Ukraine. Whilst this year's inflation was expected to amount to from 5,1% to 6,5%, it had already reached 8% YOY in January to be followed by as much as 9,2% YOY in February. It should be noted that inflation is not distributed evenly, and so for example, in December 2021 the price of energy grew by a whopping 18,2% YOY. The National Bank of Poland (NBP) and market experts expect that the overall situation relating to the war in Ukraine, the rising prices of fuel, energy and many types of raw materials and food will cause Poland's inflation to reach as much as 12%. Some of the experts even believe that because of the economic impact of the war in Ukraine, inflation may be much higher than the projected 12%. The consequences of inflation, i.e. decreasing spending power, are right now one of the main factors of upward wage pressure on employers. Inflation is the main argument currently raised by employees during wage negotiations with employers.

II. Changes in taxes have hit the middle class

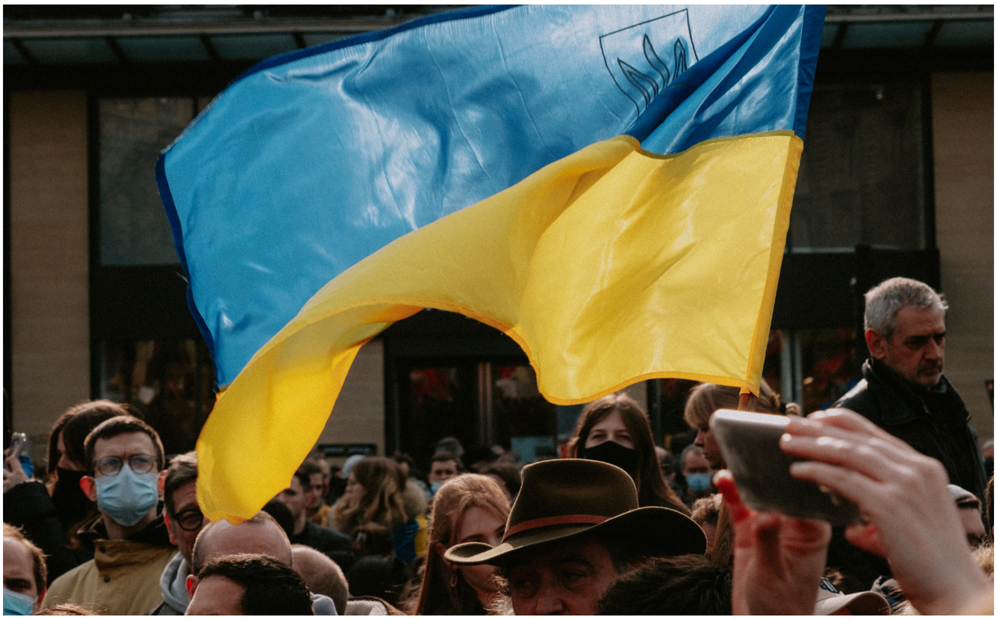
Another important factor that affects wage pressure and thus raises the costs of employment (no matter the form) are the provisions of the so-called Polish Deal, i.e. changes in the tax and social security system. Even though the changes have increased the so-called tax-free amount to PLN 30 thousand and raised the 32% tax threshold to PLN 120 thousand, in reality they are only beneficial to those who make no more than around PLN 5 thousand per month, whilst all of those who make slightly more than PLN 12 thousand have seen a jump in taxes. This is caused by the elimination of the health insurance premium deduction. The health insurance premium amounts to 9% of the calculation base and is in its entirety collected from the employee's wages. Up until the end of 2021, the actual burden incurred by employees in connection with the health insurance premium was only 1,25%, as the remainder was tax-deductible. This has resulted in a sharp increase in fiscal costs, especially for those in specialist and managerial positions.

III. Substantially higher burden for members of management and supervisory boards

The Polish Deal has also clearly increased the fiscal burden on those who have been appointed as members of management or supervisory boards. Their remuneration is now subject to the 9% health insurance premium, which significantly reduces amounts they actually receive. To ensure that their net remuneration is close to that from before the reform, companies must increase it by nearly 10% for this reason alone. And they must still take into account other factors, such as the decreasing time value of money due to high inflation.

IV. Higher payroll preparation costs

Additional costs are also generated due to the need to incur additional expenses to efficiently handle employee accounting following the chaotic introduction of changes in tax and social security regulations. This is caused by, for example, the necessity to incur higher expenses as payroll departments have more work associated with performing double calculations of tax advances. The government has imposed a requirement to calculate tax advances using the old rules in effect through 2021, as well as the new rules that went into effect with the introduction of the Polish Deal in 2022.



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V. Sharp increases in NBP interest rates

Another significant fact that raises wage pressures and borrowing costs is the recently observed rise in NBP interest rates. At this time, the NBP reference rate (which directly affects the interest charged on credits and loans) already amounts to 3,5%, whilst it had amounted to only 0,5% as recently as in October 2021. The NBP has announced that the latest increase from 2,75% to 3,5% was not the last, whilst the Polish Financial Supervision Authority has suggested that banks assess credit worthiness as if it amounted to 7,75%. Considering that the majority of those in stable employment have in recent years taken out mortgages with what are now soaring installments, this will continue to increase wage pressures on employers, especially from the most valuable specialists and managers. In addition, increasing reference and the related WIBOR rates result in a continued rise in company borrowing costs, and this does not only pertain to credits and loans, but also to, for example, lease installments.

VI. War in Ukraine affects Polish economy

The war in Ukraine will continue to impact the situation and growing wage pressure in Poland. There has been a jump in the prices that shape the cost of living, coupled with a considerable weakening of the Polish zloty. One of the most visible symptoms of soaring prices is the price of fuel. The price of a liter of gasoline has gone up from just over PLN 5 to more than PLN 7 and still continues to grow. According to market experts it may go up to as high as PLN 10 per liter. At the same time, the Polish zloty has lost more than 8% against the euro and 11,50% against the US dollar in less than two weeks.