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Recommendation for a

COUNCIL RECOMMENDATION

on the National Reform Programme 2011 of Poland

and delivering a Council opinion

on the updated Convergence Programme of Poland, 2011-2014

{SEC(2011) 729 final}

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THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Articles 121(2) and 148(4) thereof,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies[1], and in particular Article 9(3) thereof,

Having regard to the recommendation of the European Commission[2],

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

After consulting the Economic and Financial Committee,

Whereas:

(1) On 26 March 2010, the European Council agreed to the European Commission's proposal to launch a new strategy for jobs and growth, Europe 2020, based on enhanced coordination of economic policies, which will focus on the key areas where action is needed to boost Europe's potential for sustainable growth and competitiveness.

(2) On 13 July 2010, the Council adopted a recommendation on the broad guidelines for the economic policies of the Member States and the Union (2010 to 2014) and, on 21 October 2010, adopted a decision on guidelines for the employment policies of the Member States[3], which together form the 'integrated guidelines'. Member States were invited to take the integrated guidelines into account in their national economic and employment policies.

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1 OJ L 209, 2.8.1997, p. 1.
2 OJ C , , p. .
3 Maintained for 2011 by Council Decision 2011/308/EU of 19 May 2011.

(3) On 12 January 2011, the Commission adopted the first Annual Growth Survey, marking the start of a new cycle of economic governance in the EU and the first European semester of ex-ante and integrated policy coordination, which is anchored in the Europe 2020 strategy.

(4) On 25 March 2011, the European Council endorsed the priorities for fiscal consolidation and structural reform (in line with the Council's conclusions of 15 February and 7 March 2011 and further to the Commission's Annual Growth Survey). It underscored the need to give priority to restoring sound budgets and fiscal sustainability, reducing unemployment through labour market reforms and making new efforts to enhance growth. It requested Member States to translate these priorities into concrete measures to be included in their Stability or Convergence Programmes and National Reform Programmes.

(5) On 25 March 2011, the European Council also invited the Member States participating in the Euro Plus Pact to present their commitments in time to be included in their Stability or Convergence Programmes and their National Reform Programmes.

(6) On 27 April 2011, Poland submitted its 2011 Convergence Programme update covering the period 2011-2014 and on 29 April 2011 its 2011 National Reform Programme. In order to take account of the interlinkages, the two programmes have been assessed at the same time.

(7) The global financial crisis led to a slowdown in economic activity in Poland, with the rate of real GDP growth dropping to 1.7% in 2009, but stopping short of a recession. In 2010, real GDP growth bounced back to 3.8% as strong external demand fuelled manufacturing and turned the inventory cycle, while a resilient labour market supported private consumption. The unemployment rate rose to 9.6% in 2010, up from 7.1% in 2008, despite increasing employment. The crisis has taken a heavy toll on public finances. The general government deficit rose from 3.7% of GDP in 2008 to 7.3% in 2009. In 2010, despite a modest consolidation package and in the face of strong growth, it reached 7.9% of GDP. The debt-to-GDP ratio has risen from 50.9% in 2009 to 55.1% in 2010, still below the 60% Treaty threshold and the Polish Constitutional debt break.

(8) Based on the assessment of the updated Convergence Programme pursuant to Council Regulation (EC) No 1466/97, the Council is of the opinion that the macroeconomic scenario underpinning the budgetary projections is plausible, while based on slightly too favourable growth assumptions for 2012. The programme plans to bring the deficit below the 3% of GDP reference value by 2012, the deadline set by the Council. The average annual fiscal effort over the period 2010-2012 is broadly in line with the 1.25% of GDP recommended by the Council under the excessive deficit procedure (EDP) on 7 July 2009. Achievement of the medium-term objective (MTO) is not envisaged during the programme period. The amendment to the pension reform — reducing the structural budget deficit by 0.7% in 2011 and by a further 0.5% of GDP in 2012 — does not improve the underlying budgetary situation as it increases long-term liabilities by the same magnitude. Risks to budgetary targets are tilted to the downside. In particular, direct tax revenues might turn out lower than projected because of optimistic assumptions on elasticities with respect to the tax base; programme projections on social contributions rely on favourable scenarios for employment and wage growth; and potential implementation delays and changes to

the deficit-reducing measures, also beyond the direct control of the government, could result in a slippage in budget execution.

(9) The Polish government committed itself to bringing the general government deficit below 3% of GDP by 2012, as recommended by the Council, and to ensuring the stability of public finances in the long term. To this end, in 2011 it has embarked on a plan to substantially consolidate public finances, with measures affecting both revenue and expenditure, including major cuts in public investment expenditure. The draft 2012 budget was adopted by the government on 5 May 2011. It is expected to contribute to a further significant reduction in the deficit. Measures may still need to be implemented in addition to the ones presented in the draft 2012 budget to meet the 2012 deadline for correction of the excessive deficit. However, further cuts in public investment spending would risk limiting the capacity to co-fund the investment projects financed by the EU.

(10) Poland has strengthened its fiscal framework over the years. However, in order to assure sustainability of public finances in the medium to long term the existing fiscal rules and medium-term programming procedures do not appear to provide for sufficient transparency of the budgetary process, incentives for coordination between various tiers of government and flexibility to address macroeconomic shocks and imbalances. The fiscal rules should also be based on sufficiently broad budgetary aggregates and should be fully consistent with the European System of National and Regional Accounts (ESA95). On the basis of current policies, the risks to the long-term sustainability of public finances stemming from the ageing of the population can be assessed as medium.

(11) Although the government has abolished special early pensions for a majority of beneficiaries, special early retirement arrangements for uniformed services and miners remain in place, and the statutory retirement age for women is lower than for men. The effective retirement age is therefore still low. Moreover, the very heavily subsidised farmers' social security fund (KRUS) provides little incentive for farmers to leave the sector, slowing economic restructuring and hampering productivity growth.

(12) The education and training system is not fully tailored to labour market needs. Despite a sharp increase in tertiary education attainment, employability is affected by a skills and jobs mismatch. The higher education system is not adequately linked to the business and employment environment. The proportion of adults (especially older and low-skilled workers) participating in education and vocational training remains very low.

(13) Public spending on R&D is low in Poland, and private spending, amongst the lowest in the EU, does little to compensate. Furthermore, it has been declining over recent years, as the private sector lacks sufficient incentive to invest. This is likely to become a major obstruction to medium- and long-term economic growth. The R&D system is not integrated as universities, research institutes and industry are only weakly interlinked.

(14) Low female labour market participation is partly due to insufficient provision of care facilities for children and dependents. The number of children under three years for whom formal care arrangements are made in Poland is far below the EU average. The enrolment rate of older children, although it has risen over the last few years, is

similarly low. In many cases young parents can only participate in the labour market if childcare is provided by their relatives. In addition, insufficient provision of care services reduces the labour force potential of older women in particular since they leave their jobs or retire early in order to take care of their grandchildren or other dependents.

(15) The underdeveloped network infrastructure is an obstacle to business and foreign investment and the underdeveloped transport infrastructure amplifies regional disparities. The energy infrastructure is ageing rapidly and has reached its capacity limits. Moreover, it needs significant adjustments to meet the requirements associated with climate change mitigation policies. Although Poland's rail system is the third largest in Europe, it cannot properly support the expansion of economic activity because of outdated infrastructure and rolling stock.

(16) The quality of the business environment and efficiency of public administration is low in Poland. In cross-country comparisons, Poland has particular problems in the areas of tax collection, starting and closing businesses, enforcing contracts and registering property. Companies are hindered by lengthy licensing and permit procedures. As regards legal actions, such as contract enforcement and obtaining construction permits, the number of procedures involved is rather high and the overall process is too long.

(17) Poland has made a number of commitments under the Euro Plus Pact[4]. On the fiscal side, Poland commits itself to the existing debt and the temporary expenditure rule, the introduction of new regulations limiting deficit ratios of local governments and the introduction of a permanent expenditure rule. To reinforce financial stability, measures aim at more efficient regulation and supervision of the banking sector. Employment measures focus on labour market participation of women as well as of older workers and reforms to strengthen business-education links. The competitiveness measures focus on education and the science sector, transport and broadband infrastructure development and measures to improve the business environment. These commitments refer to the four areas of the Pact and largely reflect the agenda presented in the Convergence and National Reform Programmes. Several important policy challenges remain unaddressed (e.g. the low participation rate of older workers) or are only touched upon (e.g. the improvement of the business administration). The Euro Plus Pact commitments have been assessed and taken into account in the recommendations.

(18) The Commission has assessed the Convergence Programme and National Reform Programme, including the Euro Plus Pact commitments[5]. It has taken into account not only their relevance for sustainable fiscal and socio-economic policy in Poland but also their conformity with EU rules and guidance, given the need to reinforce the overall economic governance of the European Union by providing EU-level input into future national decisions. It considers that the programmes set out an ambitious public finance consolidation plan and encourages the government to proceed with implementation, and to take additional measures, if necessary, to reduce the general government deficit to below 3% of GDP by 2012. Building on the achievements of the past decade, steps should be taken to further increase employment, mainly by implementing reforms in the pension and education systems, and by improving child- and dependent-care services. Moreover, non-price competitiveness should be further

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[4] More details on the commitments made under the Euro Plus Pact can be found in SEC(2011) 729.

[5] SEC(2011) 729.

increased by improving the R&D framework and the business environment and by promoting infrastructure investment.

(19) In the light of this assessment, also taking into account the Council Recommendation of 7 July 2009 under Article 126(7) of the Treaty on the Functioning of the European Union, the Council has examined the 2011 update of the Convergence Programme of Poland and its opinion[6] is reflected in particular in its recommendation under (1) and (2) below. Taking into account the European Council conclusions of 25 March 2011, the Council has examined the National Reform Programme of Poland,

HEREBY RECOMMENDS that Poland should take action within the period 2011-2012 to:

(1) Implement the measures announced in the draft 2012 Budget Law and include additional measures of a permanent nature to reduce the general government deficit to below 3% of GDP in 2012. Minimise cuts in growth-enhancing expenditure in the future, particularly the co-financing of EU funds, while ensuring adequate progress towards the medium term objective.

(2) Enact legislation with a view to introducing a permanent expenditure rule by 2013. This rule should be based on sufficiently broad budgetary aggregates and should be fully consistent with the European system of accounts. Moreover, take measures to strengthen the mechanisms of coordination among the different levels of government in the medium term and annual budgetary processes.

(3) Raise as planned the statutory retirement age for uniformed services, continue steps to increase the effective retirement age and link it to life expectancy. Establish a timetable to amend the rules for farmers' contributions to the social security fund (KRUS) to better reflect individual incomes.

(4) Implement the proposed lifelong learning strategy, enhance apprenticeships and dedicated vocational training and education programmes for older and low-skilled workers. Strengthen links between science and industry by implementing the 'We build on Knowledge' programme ('Budujemy na Wiedzy'); Implement the higher education reform programme 'Partnership for Knowledge' ('Partnerstwo dla Wiedzy') so as to better align educational provision with labour market needs.

(5) Increase female labour market participation by taking measures to ensure stable funding for pre-school child-care arrangements, to increase enrolment rates of children under three years.

(6) Take measures to rebalance incentives for investment in energy generation capacity with a view to encouraging low-carbon emitting technologies, and to further develop cross-border electricity grid interconnections; develop a multiannual plan for investment in railway infrastructure and implement the rail transport master plan.

(7) Establish a timetable to simplify legal procedures involved in enforcing contracts; revise construction and zoning legislation, with a view to streamlining appeal procedures and speeding up administrative procedures.

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6 Foreseen in Article 9(3) of Council Regulation (EC) No 1466/97.

Done at Brussels,

For the Council
The President