COUNCIL OF
THE EUROPEAN UNION

Brussels, 5 June 2013

10007/13

UEM 103
ECOFIN 390
SOC 358
COMPET 337
ENV 447
EDUC 161
RECH 190
ENER 211

**COVER NOTE**

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| from: | Secretary-General of the European Commission,<br>signed by Mr Jordi AYET PUIGARNAU, Director |
| date of receipt: | 31 May 2013 |
| to: | Mr Uwe CORSEPIUS, Secretary-General of the Council of the European Union |
| No Cion doc.: | COM(2013) 371 final |
| Subject: | Recommendation for a COUNCIL RECOMMENDATION on Poland's 2013 national reform programme and delivering a Council opinion on Poland's convergence programme for 2012-2016 |

Delegations will find attached Commission document COM(2013) 371 final.

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Encl.: COM(2013) 371 final

EUROPEAN
COMMISSION

Brussels, 29.5.2013
COM(2013) 371 final

Recommendation for a

**COUNCIL RECOMMENDATION**

**on Poland's 2013 national reform programme**

**and delivering a Council opinion on Poland's convergence programme for 2012-2016**

{SWD(2013) 371 final}

Recommendation for a

**COUNCIL RECOMMENDATION**

**on Poland's 2013 national reform programme**

**and delivering a Council opinion on Poland's convergence programme for 2012-2016**

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(2) thereof,

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

Having regard to the resolutions of the European Parliament[3],

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 Commission's proposal to launch a new strategy for growth and jobs, 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, on the basis of the Commission's proposals, 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[4], 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 COM(2013) 371 final .
3 P7_TA(2013)0052 and P7_TA(2013)0053.
4 Council Decision 2013/208/EU of 22 April 2013.

(3) On 29 June 2012, the Heads of State or Government decided on a Compact for Growth and Jobs, providing a coherent framework for action at national, EU and euro area levels using all possible levers, instruments and policies. They decided on action to be taken at the level of the Member States, in particular expressing full commitment to achieving the objectives of the Europe 2020 Strategy and to implementing the country-specific recommendations.

(4) On 6 July 2012, the Council adopted a recommendation on Poland's national reform programme for 2011 and delivered its opinion on Poland's updated convergence programme for 2011-2015.

(5) On 28 November 2012, the Commission adopted the Annual Growth Survey[5], marking the start of the 2013 European Semester of economic policy coordination. Also on 28 November 2012, the Commission, on the basis of Regulation (EU) No 1176/2011, adopted the Alert Mechanism Report[6], in which did not identify Poland as one of the Member States for which an in-depth review would be carried out.

(6) On 14 March 2013, the European Council endorsed the priorities for ensuring financial stability, fiscal consolidation and action to foster growth. It underscored the need to pursue differentiated, growth-friendly fiscal consolidation, to restore normal lending conditions to the economy, to promote growth and competitiveness, to tackle unemployment and the social consequences of the crisis, and to modernise public administration.

(7) On 30 April 2013, Poland submitted its 2013 convergence programme covering the period 2012-2016 and its 2013 national reform programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

(8) Poland undertook considerable consolidation efforts in 2011-2012 in line with the Council recommendation. However, in view of a deteriorating global economic situation the deadline to correct the excessive deficit has been missed and more time is needed to correct it. Based on the assessment of the 2013 convergence programme pursuant to Council Regulation (EC) No 1466/97, the Council is of the opinion that the macroeconomic scenario underpinning the budgetary projections in the programme is optimistic. In particular, private consumption and private investment is expected to increase more strongly than in the Commission 2013 spring forecast, leading to an overall higher growth rate in 2013 (1.5% against 1.1%). The objective of the budgetary strategy outlined in the programme is to bring the deficit to 3.5% of GDP by 2013 (one year after the original 2012 EDP deadline) and reach the medium-term budgetary objective (MTO) by 2016. However, the 2013 Convergence Programme plans to bring the headline deficit below 3% of GDP only by 2015. Given the overly optimistic growth forecast and revenue projections in the programme the Council considers that the fiscal effort envisaged by the authorities is not compatible with an actual correction of the excessive deficit by 2013 unless significant additional measures are taken to reinforce the effort for this year. The programme is based on an optimistic scenario and not sufficiently supported by detailed measures in order to credibly ensure the correction of the deficit at the latest by 2014. Additional efforts are therefore required based on detailed measures for both 2013 and 2014. The authorities have not sufficiently exploited the pre-crisis growth environment to reform the

[5] COM(2012) 750 final.
[6] COM(2012) 751 final.

structure of public spending to prioritise growth-enhancing items. The programme confirms the previous MTO of -1% of GDP, which reflects the objectives of the Pact. Based on the (recalculated) structural deficit, the MTO is not projected to be attained by 2016, as planned in the programme, as the planned annual progress towards the MTO of 0.3% of GDP (in structural terms) in 2015 and 0.7% of GDP in 2016 is not sufficient. The growth rate of government expenditure, taking into account discretionary revenue measures, is in line with the benchmark of the Stability and Growth Pact over the entire programme period. Additional efforts as well as changes in the composition of the adjustment may be required also in the outer years of the programme as the progress towards the MTO predominantly relies on sizeable cuts in public investment expenditure and is not sufficiently supported by detailed measures. General government debt is projected to remain below 60% of GDP in Poland over the programme period. The national authorities forecast it to remain broadly constant at slightly above 55.5% of GDP until 2014/2015 (and decrease in 2016), whereas the Commission, taking account of possible risks to the consolidation plans and debt decreasing items, expects an increase to around 59% of GDP in 2014. Tax compliance remains a key issue in terms of combating tax evasion, which also requires reducing the administrative burden on taxpayers and improving the efficiency of tax administration. To ensure the success of the fiscal consolidation strategy, it is important that the fiscal consolidation is backed by comprehensive structural reforms.

(9) A low share of growth-enhancing expenditure (education, research and innovation) and declining public investments hamper long term growth prospects. The health sector in Poland is confronted with limitations in access to care and cost-inefficiencies, while healthcare spending is expected to grow considerably in the medium to long term because of an aging society, increasing the burden on public finances. The system could be improved by strengthening primary care and referral systems and exploiting the potential for cost-efficiency gains in hospital care.

(10) The Polish government has not yet implemented a permanent expenditure rule consistent with the European System of Accounts (ESA). Poland made also no progress in medium-term planning and improving coordination among different levels of government when it comes to the budgetary process.

(11) Youth unemployment is growing which is largely the result of the insufficient match between education outcomes and labour market needs. While implemented reforms of education systems are meant to address the job-skills mismatch, there is still a need to increase the availability of apprenticeships and work-based learning, to strengthen the cooperation between schools and employers and to improve the quality of teaching. The implementation of a Youth Guarantee, building upon current efforts, would contribute to support young people into employment. The proportion of adults participating in lifelong learning remains very low and the adoption of the lifelong learning strategy is pending.

(12) With respect to early childcare, government efforts have concentrated on implementing the 'Toddler programme'. As a result, the number of nurseries has almost doubled over the last two years, but is still extremely low in relative terms and do not satisfy demand. Poland took only minor steps to address the extensive use of temporary employment. The country has the third highest share of involuntary fixed-term employment in the EU, in particular in the age group 15-24. While fixed term contracts are often argued to be an instrument for the unemployed to enter the labour

market with a view to later move into a permanent contract, this seems not to be the case for the majority of workers in Poland. Instead, the extensive use of such contracts appear to have a negative impact on the quality of human capital and on productivity, as temporary employees tend to have less access to vocational training. Wage penalty on fixed-term contracts is also relatively high, leading to one of the highest in-work poverty rates in the EU. In addition, the use of revolving civil law contracts with significantly reduced social protection rights is widespread. According to the government report 'Youth 2011', over 50% of young workers are employed on the basis of such contracts.

(13) Poland faces low employment rates of older workers. Whereas possibilities for early retirement have been significantly reduced and general pension reform has been carried out, a special pension scheme for miners remains. In addition, the social security system for farmers (KRUS) creates incentives for small-scale farmers to remain in the agricultural sector mainly since individual farmers' incomes are not accurately traced in the system. This results in hidden unemployment in rural areas, holding back productivity growth and keeping regional and sectoral labour mobility at bay.

(14) Poland is among the EU countries with the lowest level of R&D expenditure and is one of the worst performers in broader innovativeness indicators. The overall ratio of R&D expenditures to GDP in Poland, at 0.77 % in 2011, was among the lowest in the EU. In particular, private R&D expenditure is low (0.2% of GDP in 2011). Polish enterprises have relied largely on technology absorption, i.e. application of already existing technologies through fixed capital investment. While this has been successful in ensuring productivity gains and economic growth, Poland now needs a transition towards a more indigenous innovation-based model. Reforms of the science and higher education system initiated a major restructuring to induce science-industry cooperation. No evaluation of these reforms is available yet. A more holistic approach is needed to align efforts in research, innovation and industrial policy and ensuring that there are adequate instruments supporting the whole innovation cycle.

(15) There are still very high potential gains from improvements in energy efficiency in all sectors of Poland’s economy, in particular by insulating buildings, and such gains could support growth. The domestic electricity grid is still congested, but plans are advancing to create more interconnection capacity to neighbouring markets. Competition in the gas market is still hampered by a number of factors, notably the phasing out of regulated prices is still to be completed, the incumbent holding a market share of around 97% in retail and whole sale markets and 90% of natural gas imports are from Russia.

(16) Despite some progress, Poland’s underdeveloped transport infrastructure remains a major bottleneck to growth. Major road infrastructure projects have advanced, but railway investment projects are still largely delayed. Degraded rail infrastructure requires substantial, growing investment, since only 36 % of approximately 20 000 km of rail lines in operation are in good technical condition. Despite recent efforts, Poland still lags considerably behind other Member States when it comes to seizing the growth potential of information and communication technologies (ICT). Fixed broadband coverage is the lowest in the EU, both at national and for rural areas. Investment in water networks has remained insufficient.

(17) Poland's public administration performs below the EU average. Key problems include transparency, the complexity of the tax system and compliance costs, the increasing average length of proceedings in civil and commercial cases, and long insolvency proceedings and low recovery rates. The use of eGovernment in the public administration also remains below the EU average. Poland initiated a reform to facilitate access to regulated professions that is behind the initially announced schedule.

(18) In the context of the European Semester, the Commission has carried out a comprehensive analysis of Poland's economic policy. It has assessed the convergence programme and national reform programme. It has taken into account not only their relevance for sustainable fiscal and socio-economic policy in Poland but also their compliance 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. Its recommendations under the European Semester are reflected in recommendations (1) to (7) below.

(19) In the light of this assessment, the Council has examined Poland's convergence programme, and its opinion[7] is reflected in particular in recommendation (1) below,

HEREBY RECOMMENDS that Poland should take action within the period 2013-2014 to:

1. Reinforce and implement the budgetary strategy for the year 2013 and beyond, supported by sufficiently specified measures for both 2013 and 2014, to ensure a timely correction of the excessive deficit by 2014 in a sustainable manner and the achievement of the fiscal effort specified in the Council recommendations under the EDP. A durable correction of the fiscal imbalances requires credible implementation of ambitious structural reforms, which would increase the adjustment capacity and boost potential growth and employment. After the correction of the excessive deficit, pursue the structural adjustment effort that will enable Poland reaching the medium-term objective by 2016. With a view to improving the quality of public finances minimise cuts in growth-enhancing investment, reassess expenditure policies improving the targeting of social policies and increasing the cost effectiveness and efficiency of spending in the healthcare sector. Improve tax compliance, in particular by increasing the efficiency of the tax administration.

2. Ensure the enactment of a permanent expenditure rule in 2013 consistent with the rules of the European System of Accounts. Take measures to strengthen annual and medium-term budgetary coordination mechanisms among different levels of government.

3. Strengthen efforts to reduce youth unemployment, for example through a Youth Guarantee, increase the availability of apprenticeships and work-based learning, strengthen cooperation between schools and employers and improve the quality of teaching. Adopt the proposed life-long learning strategy. Combat in-work poverty and labour market segmentation through better transition from fixed-term to permanent employment and by reducing the excessive use of civil law contracts.

4. Continue efforts to increase female labour market participation, in particular by investing in affordable quality childcare and pre-school education, by ensuring stable

[7] Under Article 9(2) of Council Regulation (EC) No 1466/97.

funding and qualified staff. With a view to improving sectoral labour mobility, take permanent steps to reform the farmers' social security scheme KRUS. Phase out the special pension system for miners with a view to integrating them into the general scheme. Underpin the general pension reform with measures promoting the employability of older workers to raise exit ages from the labour market.

5. Take additional measures to ensure an innovation-friendly business environment by strengthening the links between research, innovation and industrial policy, by further developing revolving instruments and tax incentives and by better targeting existing instruments to the different stages of the innovation cycle.

6. Renew and extend energy generation capacity and improve efficiency in the whole energy chain. Speed up and extend the development of the electricity grid, including cross-border interconnections, and eliminate obstacles in electricity cross border exchange. Reinforce competition in the gas sector by phasing out regulated prices. Strengthen the role and resources of the railway market regulator and ensure effective implementation of railway investment projects without further delay. Accelerate efforts to increase broadband coverage. Improve waste and water management.

7. Take further steps to improve the business environment by simplifying contract enforcement and requirements for construction permits and by reducing tax compliance costs. Adopt and implement the planned liberalisation of access to professional services.

Done at Brussels,

*For the Council*
*The President*