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Recommendation for a

COUNCIL DECISION

establishing that no effective action has been taken by Poland in response to the Council Recommendation of 21 June 2013

{SWD(2013) 605 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 Article 126(8) thereof,

Having regard to the recommendation from the European Commission,

Whereas:

(1) According to Article 126 of the Treaty on the Functioning of the European Union (TFEU) Member States shall avoid excessive government deficits;

(2) The Stability and Growth Pact is based on the objective of sound government finances as a means of strengthening the conditions for price stability and for strong sustainable growth conducive to employment creation.

(3) On 7 July 2009, the Council decided, in accordance with Article 104(6) of the Treaty establishing the European Community (TEC), that an excessive deficit existed in Poland and issued a recommendation to correct the excessive deficit by 2012 at the latest, in accordance with Article 104(7) TEC and Article 3 of Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure[1]. In order to bring the general government deficit at or below 3% of GDP in a credible and sustainable manner, the Polish authorities were recommended to implement the fiscal stimulus measures in 2009 as planned, ensure an average annual structural budgetary adjustment of at least 1¼% percentage points of GDP starting in 2010, spell out detailed measures that are necessary to bring the deficit below the reference value by 2012 and introduce reforms to contain primary current expenditure over the following years. The Council established a deadline of 7 January 2010 for effective action to be taken.

(4) On 3 February 2010, the Commission concluded that based on the Commission 2009 autumn forecast, Poland had taken necessary action in compliance with the Council recommendation of 7 July 2009 to bring its government deficit within the Treaty reference value and considered that no additional step in the excessive deficit procedure was therefore necessary. On the basis of its 2011 autumn forecast, the Commission considered that Poland was not on track and asked for additional measures, which Poland adopted and publicly announced until 10 January 2012. Thus, on 11 January 2012 the Commission confirmed the Polish authorities had taken effective action towards a timely and sustainable correction of the excessive deficit

[1] OJ L 209, 2.8.1997, p. 6.

and no further steps in the excessive deficit procedure of Poland were needed at the time[2].

(5) On 21 June 2013, the Council concluded that Poland had taken effective action but adverse economic events with major implications on public finances had occurred, and issued revised recommendations[3]. Thus, Poland fulfilled the conditions for the extension of the deadline for correcting the excessive general government deficit as laid down in Article 3(5) of Regulation (EC) No 1467/97. The Council recommended that Poland should put an end to the excessive deficit situation by 2014. Poland should reach a headline general government deficit target of 3.6% of GDP in 2013 and 3.0% of GDP in 2014, which is consistent with an annual improvement of the structural budget balance of at least 0.8% of GDP and 1.3% of GDP in 2013 and 2014, respectively, based on the Commission updated 2013 spring forecast. Poland should rigorously implement the measures already adopted, while complementing them with additional measures sufficient to achieve a correction of the excessive deficit by 2014. Poland should use all windfall gains for deficit reduction. The Council established the deadline of 1 October 2013 for Poland to take effective action and, in accordance with Article 3(4a) of Regulation (EC) No 1467/97, to report in detail the consolidation strategy that is envisaged to achieve the targets.

(6) On 2 October 2013, Poland submitted a report on effective action. The macroeconomic scenario underpinning the report is similar to the one used for the Convergence Programme 2013. After recording an average real GDP growth of 4% per year over 2001-2011, the pace of economic activity slowed down in 2012 to 1.9%. The macroeconomic scenario underpinning the report on effective action projects real GDP growth to slow down further in 2013 to 1.5% before rebounding in 2014 and 2015 with real GDP expanding by 2.5% and 3.8%, respectively. According to the Commission 2013 autumn forecast, real GDP is set to grow at 1.3% in 2013 and accelerate to 2.5% in 2014 and 2.9% in 2015. Compared to the Polish authorities, the Commission has a less optimistic view on domestic demand growth over the forecast horizon, private consumption and private investment in particular.

(7) The Polish authorities foresee a general government deficit of 4.8% of GDP in 2013, up from 3.9% of GDP in 2012. This is worse than 3.5% of GDP provided in the 2013 update of the Convergence Programme and is due to a significant revenue shortfall of 1.2 % of GDP and an expenditure slippage of 0.1% of GDP. Subsequently, the Polish Ministry of Finance projects a surplus of 4.5% of GDP in 2014 on the back of the planned pension reform, which in particular results in a one-off transfer of assets worth 8.5% of GDP. In 2015, the general government balance is expected to turn back to a deficit of 3% of GDP.

(8) For 2013 and 2014, the Commission forecast is similar to the Polish authorities'. It also projects a deficit of 4.8% of GDP in 2013. The deterioration compared to the 3.9% of GDP in the EDP baseline scenario is mainly due to revenue shortfalls. In 2014, the general government balance is projected to be in surplus (+4.6% of GDP) as a consequence of the planned pension reform. For 2015 the Commission is less optimistic than the Polish authorities and expect a general government deficit of 3.3% of GDP. The 0.3 pp. of GDP difference is mainly due to lower current revenues based

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[2] Communication from the Commission to the Council on assessment of budgetary implementation in the context of the ongoing Excessive Deficit Procedures after the Commission services' 2011 Autumn forecast - COM(2012) 4 final, 11.1.2012.

[3] Council Recommendation with a view to bringing an end to the situation of an excessive government deficit in Poland, 21 June 2013.

on a lower projection of nominal GDP growth as well as higher government expenditure on intermediate consumption. The deficit targets are subject to implementation risks.

(9) Both the Polish authorities and the Commission project the general government gross debt to remain below the 60% threshold over the entire period under consideration. According to the Commission 2013 autumn forecast, the debt-to-GDP ratio is forecast to fall from 55.6% in 2012 to 51% in 2014, mainly as an effect of the announced transfer of pension funds' assets of 8.5% of GDP, before edging up to 52.5% in 2015.

(10) Since, according to the Commission's 2013 autumn forecast, the general government deficit in 2013 is projected to reach 4.8% of GDP, Poland is set to miss the headline deficit target of 3.6% of GDP recommended by the Council. Also the annual adjusted structural effort in 2013 (0.3% of GDP) is well below the recommended annual fiscal effort (0.8% of GDP). The bottom-up analysis of new discretionary measures complemented by an assessment of expenditure developments[4], shows an overall fiscal effort of 0.2% of GDP. This falls short of the required additional measures of 0.4% of GDP underlying the fiscal effort set in the Council Recommendation and confirms that Poland has not implemented the fiscal effort in 2013 as recommended by the Council.

(11) In 2014, the Commission expect a general government surplus of 4.6% of GDP. Thus, the headline deficit target is set to be fulfilled only due to the one-off transfer of pension funds' assets. The expected annual adjusted structural effort is with 1.4% of GDP in 2014 above the recommended annual fiscal effort of 1.3% of GDP.

(12) Overall, Poland has not complied with fiscal targets recommended for 2013, while for 2014 the targets specified in the Council recommendation of 21 June 2013 are forecast to be met. However, the Commission projection for 2015 expect the correction of the excessive deficit in 2014 not to be sustainable as the deficit is set to reach 3.3% of GDP,

HAS DECIDED AS FOLLOWS:

Article 1

Poland has not taken effective action in 2013 in response to the Council recommendation according to Article 126(7) of the Treaty of 21 June 2013

Article 2

This decision is addressed to the Republic of Poland.

Done at Brussels,

For the Council
The President

[4] Corrected for expenditure over- and under-execution which is outside the control of the government.