**COUNCIL OF
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Excessive deficit procedure for Poland: Insufficient action taken, Council issues new recommendation

The Council today[1] adopted a decision[2] establishing that Poland has failed to comply with its June 2013 recommendation on measures to bring its government deficit back below the EU's reference value of 3% of GDP.

It issued a new recommendation[3] to Poland on action to be taken to correct its deficit, extending the deadline for correction by one year, to 2015 (*16852/13*).

Poland has been subject to an excessive deficit procedure since July 2009, when the Council called for its deficit to be corrected by 2012. However, its deficit amounted to 3.9% of GDP in 2012, thus missing the deadline set for bringing the deficit below the 3% of GDP reference value.

In June 2013, the Council nevertheless found that Poland fulfilled the conditions for extending the deadline for correcting its deficit by two years, to 2014. It took account of budgetary consolidation measures taken and a fiscal effort exceeding the level it had set[4].

1 At a meeting of the Economic and Financial Affairs Council.
2 Under article 126(8) of the Treaty on the Functioning of the European Union.
3 Under TFEU article 126(7).
4 See press release 11232/13.

According to the Commission's autumn economic forecast, Poland is set to miss the 3.6% of GDP target set by the Council for 2013. The annual adjusted structural effort in 2013 (0.3% of GDP) is well below that recommended by the Council (0.8% of GDP). A bottom-up analysis of new discretionary revenue measures, complemented by an assessment of expenditure developments, shows an annual overall fiscal effort of 0.2% of GDP. This falls short of required additional measures of 0.4% of GDP underlying the fiscal effort set by the Council.

For 2014, the Commission expects a general government surplus of 4.6% of GDP. However, the headline deficit target is set to be fulfilled only thanks to a one-off transfer of pension fund assets, which will not be counted as deficit-reducing under ESA 2010, the new accounting rules that will apply from autumn 2014. Under a no-policy-change scenario, the correction of the deficit in 2014 doesn’t seem sustainable given that the Commission projects the headline deficit for 2015 to reach 3.3% of GDP.

In the light of this, the Council concluded that action taken by Poland in response to its June 2013 recommendation has been insufficient.

It however agreed to extend by an additional year the deadline for correcting Poland’s deficit, given that part of the adjustment needed is a result of the change from the ESA-95 rules to ESA-2010. It noted that the additional structural effort needed to correct the deficit by 2014, amounting to at least 1.6% of GDP, would have been higher than that the 1.3% of GDP set in its June 2013 recommendation. A significant output loss would have resulted at a time when Poland’s output gap is still negative.

The Council set new headline deficit targets of 4.8% of GDP for 2013, 3.9% of GDP for 2014 and 2.8% of GDP for 2015 (excluding the impact of the pensions assets transfer). This is consistent with 1% and 1.2% of GDP improvements in the structural balance in 2014 and 2015 respectively.

The recommendation includes a deadline of 15 April 2014 for taking effective action.