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Recommendation for a

COUNCIL RECOMMENDATION

on the 2022 National Reform Programme of Poland and delivering a Council opinion on the 2022 Convergence Programme of Poland

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Recommendation for a

COUNCIL RECOMMENDATION

on the 2022 National Reform Programme of Poland and delivering a Council opinion on the 2022 Convergence Programme of Poland

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,

Having regard to the resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

Having regard to the opinion of the Economic and Financial Committee,

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

(1) Regulation (EU) 2021/241 of the European Parliament and of the Council[5], which established the Recovery and Resilience Facility, entered into force on 19 February 2021. The Recovery and Resilience Facility provides financial support for the implementation of reforms and investment, entailing a fiscal impulse financed by the Union. It contributes to the economic recovery and to the implementation of sustainable and growth-enhancing reforms and investment, in particular to promote the green and digital transition, while strengthening the resilience and potential growth of the Member States' economies. It also helps to strengthen sustainable public finances and boost growth and job creation in the medium and long term. The final maximum contribution per Member State under the Recovery and Resilience Facility [was] updated on [XX] June 2022, in line with Article 18(2) of Regulation (EU) 2021/241.

(2) On 24 November 2021, the Commission adopted the Annual Sustainable Growth Survey, marking the start of the 2022 European Semester for economic policy coordination. It took due account of the reaffirmed joint commitment of the Porto Social Summit of May 2021 to further implement the European Pillar of Social Rights, proclaimed by the European Parliament, the Council and the Commission on 17 November 2017. The European Council endorsed the priorities of the 2022 Annual Sustainable Growth Survey on 25 March 2022. On 24 November 2021, on the basis of Regulation (EU) No 1176/2011, the Commission also adopted the Alert Mechanism Report, in which it did not identify Poland as one of the Member States for which an

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

in-depth review[2] would be needed. On the same date, the Commission also adopted the proposal for the 2022 Joint Employment Report analysing the implementation of the Employment Guidelines and the principles of the European Pillar of Social Rights, which was adopted by the Council on 14 March 2022.

(3) Russia's invasion of Ukraine, in the wake of the global pandemic, has significantly altered the geopolitical and economic context. The impact of the invasion on Member States' economies has been felt for example through higher energy and food prices and weaker growth prospects. The higher energy prices, observed already back in 2021, weigh particularly on the most vulnerable households experiencing or at risk of energy poverty. The EU is also seeing an unprecedented inflow of people fleeing Ukraine. In this context, on 4 March 2022, the Temporary Protection Directive was triggered for the first time, granting displaced persons from Ukraine the right to legally stay in the EU, as well as access to education and training, labour market, healthcare, housing and social welfare. Exceptional support is made available to Poland under the Cohesion's Action of Refugee in Europe (CARE) initiative and through additional pre-financing under the Recovery Assistance for Cohesion and the Territories of Europe (REACT-EU) to urgently address reception and integration needs for those fleeing Ukraine.

(4) Taking account of the rapidly changing economic and geopolitical situation, the European Semester resumes its broad economic and employment policy coordination in 2022, while evolving in line with the implementation requirements of the Recovery and Resilience Facility, as outlined in the 2022 Annual Sustainable Growth Survey. The implementation of the adopted recovery and resilience plans is essential for the delivery of the policy priorities under the European Semester, as the plans address all or a significant subset of the relevant country-specific recommendations issued in the 2019 and 2020 Semester cycles. The 2019 and 2020 country-specific recommendations remain equally relevant also for recovery and resilience plans revised, updated, or amended in accordance with Articles 14, 18 and 21 of Regulation (EU) 2021/241, in addition to any country-specific recommendations issued up to the date of submission of the modified plan.

(5) The General Escape Clause has been active since March 2020[3]. In its Communication of 3 March 2021[4], the Commission set out its view that the decision on the deactivation or continued application of the general escape clause should be taken as an overall assessment of the state of the economy, with the level of economic activity in the EU or euro area compared to pre-crisis levels (end-2019) as a key quantitative criterion. Heightened uncertainty and strong downside risks to the economic outlook in the context of war in Europe, unprecedented energy price hikes and continued supply chain disturbances warrant the extension of the general escape clause of the Stability and Growth Pact through 2023.

(6) Following the approach in the Council opinion of 18 June 2021 on the 2021 Convergence Programme, the fiscal stance is currently best measured as the change in primary expenditure (net of discretionary revenue measures), excluding COVID-19 crisis-related temporary emergency measures but including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other

[2] Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances, OJ L 306, 23.11.2011, p. 25

[3] Communication from the Commission to the Council on the activation of the general escape clause of the Stability and Growth Pact, Brussels, 20.3.2020, COM(2020) 123 final.

[4] Communication from the Commission to the Council on one year since the outbreak of COVID-19: fiscal policy response, Brussels, 3.3.2021, COM(2021) 105 final.

EU funds, relative to medium-term potential growth[5]. Going beyond the overall fiscal stance, in order to assess whether national fiscal policy is prudent and its composition is conducive to a sustainable recovery consistent with the green and digital transitions, attention is also paid to the evolution of nationally financed[6] primary current expenditure (net of discretionary revenue measures and excluding COVID-19 crisis-related temporary emergency measures) and investment.

(7) On 2 March 2022, the Commission adopted a Communication providing broad guidance for fiscal policy in 2023, aiming at supporting the preparation of Member States' Stability and Convergence Programmes and thereby strengthening policy coordination[7]. The Commission noted that, based on the macroeconomic outlook of the 2022 winter forecast, transitioning from an aggregate supportive fiscal stance in 2020-2022 to a broadly neutral aggregate fiscal stance would appear appropriate in 2023, while standing ready to react to the evolving economic situation. The Commission announced that the fiscal recommendations for 2023 should continue to differentiate across Member States and take into account possible cross-country spillovers. The Commission invited the Member States to reflect the guidance in their Stability and Convergence Programmes. The Commission committed to closely monitor the economic developments and adjust its policy guidance as needed and at the latest in its Semester spring package of late May 2022.

(8) With respect to the fiscal guidance provided on 2 March 2022, the fiscal recommendations for 2023 take into account the worsened economic outlook, the heightened uncertainty and further downside risks, and the higher inflation compared to the winter forecast. Against these considerations, the fiscal response has to expand public investment for the green and digital transition and energy security, and sustain the purchasing power of the most vulnerable households so as to cushion the impact of the energy price hike and help limit inflationary pressures from second round effects via targeted and temporary measures; fiscal policy has to remain agile so as to adjust to the rapidly evolving circumstances, and be differentiated across countries depending on their fiscal and economic situation, including as regards the exposure to the crisis and the inflow of displaced persons from Ukraine.

(9) On 29 April 2022, Poland submitted its 2022 National Reform Programme and, on 28 April 2022, its 2022 Convergence Programme in line with the deadline established in Article 4 of Regulation (EC) No 1466/97. To take account of their interlinkages, the two programmes have been assessed together. In accordance with Article 27 of Regulation (EU) 2021/241, the 2022 National Reform Programme also reflects Poland's bi-annual reporting on the progress made in achieving its recovery and resilience plan.

(10) The Commission published the 2022 country report for Poland[8] on 23 May 2022. It assessed Poland's progress in addressing the relevant country-specific recommendations adopted by the Council in 2019, 2020 and 2021. It also assessed Poland's progress on implementing the European Pillar of Social Rights and on

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5 The estimates on the fiscal stance and its components in this recommendation are Commission estimates based on the assumptions underlying the Commission 2022 spring forecast. The Commission's estimates of medium-term potential growth do not include the positive impact of reforms that are part of the Recovery and Resilience Plan and that can boost potential growth.

6 Not financed by grants from the Recovery and Resilience Facility and other EU funds.

7 Communication from the Commission to the Council: Fiscal policy guidance for 2023, Brussels, 2.3.2022, COM(2022) 85 final.

8 SWD(2022)622 final.

achieving the EU headline targets on employment, skills and poverty reduction, as well as progress in achieving the UN's Sustainable Development Goals.

(11) On 23 May 2022, the Commission issued a report under Article 126(3) TFEU. This report discussed the budgetary situation of Poland, as its general government deficit in 2022 is planned to exceed the 3% of GDP Treaty reference value. The report concluded that the deficit criterion was not fulfilled. In line with the Communication of 2 March 2022, the Commission did not propose to open new excessive deficit procedures in spring 2022 and it will reassess the relevance of proposing to open excessive deficit procedures in autumn 2022.

(12) On 20 July 2020, the Council recommended Poland to take in 2020 and 2021 all necessary measures, in line with the general escape clause, to effectively address the pandemic, sustain the economy and support the ensuing recovery. It also recommended Poland to pursue, when economic conditions allow, fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. In 2021, based on data validated by Eurostat, Poland's general government deficit decreased from 6.9 % of GDP in 2020 to 1.9% in 2021. The fiscal policy response by Poland supported the economic recovery in 2021, while temporary emergency support measures declined from 4.5% of GDP in 2020 to 2.7% in 2021. The measures taken by Poland in 2021 have been in line with the Council Recommendation of 20 July 2020. The discretionary budgetary measures adopted by the government in 2020 and 2021 were temporary or matched by offsetting measures. Based on data validated by Eurostat, general government debt stood at 53.8 % of GDP in 2021.

(13) The macroeconomic scenario underpinning the budgetary projections in the 2022 Convergence Programme is realistic. The government projects real GDP to grow by 3.8% in 2022 and 3.2% in 2023. By comparison, the Commission's 2022 spring forecast projects a lower real GDP growth of 3.7% in 2022 and 3.0% in 2023, mainly due to higher projected inflation, which is expected to weigh on private consumption and investment, and a lower contribution of net exports. In its 2022 Convergence Programme, the government expects that the headline deficit will increase to 4.3 % of GDP in 2022 and decline to 3.7% in 2023. The increase in 2022 mainly reflects high cost of aid to displaced persons from Ukraine, measures related to high energy prices and a major tax reform (the Polish Deal). According to the Programme, the general government debt-to-GDP ratio is expected to decrease to 52.1% in 2022, and to 51.5% in 2023. Based on policy measures known at the cut-off date of the forecast, the Commission 2022 spring forecast projects a government deficit for 2022 and 2023 of 4.0% of GDP and 4.4% respectively. For 2022, this is lower than the deficit projected in the 2022 Convergence Programme, mainly due to higher projected nominal GDP. For 2023, the estimated deficit is higher than in the Convergence Programme due to mainly to lower revenues and the assumed increase in cost of aid to displaced persons from Ukraine. The Commission 2022 spring forecast projects a lower general government debt-to-GDP ratio, of 50.8% in 2022 and 49.8% in 2023. The difference is due to the higher projected inflation and to different assumptions on stock-flow adjustments in 2023.

Based on the Commission spring 2022 forecast, the medium-term (10-year average) potential output growth is estimated at 3.4 %. However, this estimate does not include the impact of the reforms that are part of the Recovery and Resilience Plan and can boost Poland's potential growth.

(14) In 2022, the government phased out the measures taken in response to the COVID-19 crisis, such that the temporary emergency support measures are projected to decline from 2.7% of GDP in 2021 to 0.0% in 2022. The government deficit is impacted by the measures adopted to counter the economic and social impact of the increase in energy prices, which in the Commission spring 2022 forecast are estimated at 1.0% of GDP in 2022 and are expected to be phased out in 2023.[9] These measures mainly consist of cuts to indirect taxes on energy consumption and social transfers to poorer households. These measures have been announced as temporary. However, in case energy prices remain elevated also in 2023, some of these measures could be continued. Some of these measures are not targeted, notably across the board cuts in VAT/excise duties. The government deficit is also impacted by the costs to offer temporary protection to displaced persons from Ukraine, which in the Commission 2022 spring forecast are projected at 0.6% of GDP in 2022 and 0.8% in 2023.[10]

(15) On 18 June 2021, the Council recommended that in 2022 Poland[11] pursues a supportive fiscal stance, including from the impulse provided by the Recovery and Resilience Facility, and preserves nationally financed investment. It also recommended Poland to pursue, when economic conditions allow, a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring fiscal sustainability in the medium term, and at the same time, to enhance investment to boost growth potential.

(16) In 2022, based on the Commission's 2022 spring forecast and including the information incorporated in Poland's 2022 Convergence Programme, the fiscal stance is projected to be supportive at -3.4% of GDP, as recommended by the Council.[12] Poland plans to provide support to the recovery by making use of the Recovery and Resilience Facility to finance additional investment as recommended by the Council. The positive contribution to economic activity of expenditure financed by Recovery and Resilience Facility grants and other EU funds is projected to increase by 0.1 percentage points of GDP compared to 2021.[13] Nationally financed investment is projected to provide an expansionary contribution to the fiscal stance of 0.3 percentage points in 2022.[14] Therefore, Poland plans to preserve nationally financed investment, as recommended by the Council. At the same time, the growth in nationally financed primary current expenditure (net of new revenue measures) in 2022 is projected to provide an expansionary contribution of 2.7 percentage points to the overall fiscal stance. This significant expansionary contribution includes the additional impact of the

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[9] The figures represent the level of annual budgetary costs of those measures taken since autumn 2021, including current revenue and expenditure as well as – where relevant – capital expenditure measures.

[10] The total number of displaced persons from Ukraine to the EU is assumed to gradually reach 6 million by the end of 2022, and their geographical distribution is estimated based on the size of the existing diaspora, the relative population of the receiving Member State, and the actual distribution of displaced persons from Ukraine across the EU as of March 2022. For budgetary costs per person, estimates are based on the Euromod microsimulation model of the Commission's Joint Research Centre, taking into account both cash transfers people may be eligible for as well as in-kind benefits such as education and healthcare.

[11] Council Recommendation of 18 June 2021 delivering a Council opinion on the 2021 Convergence Programme of Poland, OJ C 304, 29.7.2021, p. 98.

[12] A negative (positive) sign of the indicator corresponds to an excess (shortfall) of primary expenditure growth compared with medium-term economic growth, indicating an expansionary (contractionary) fiscal policy.

[13] These are Commission projections. The Commission has not yet assessed the Recovery and Resilience Plan for Poland.

[14] Other nationally financed capital expenditure is projected to provide an expansionary contribution of 0.4 percentage points of GDP, including transfers to the Polish development bank (BGK).

measures to address the economic and social impact of the increase in energy prices (1.0% of GDP) as well as the costs to offer temporary protection to displaced persons from Ukraine (0.6% of GDP), while a new care allowance for young children (the Family Care Capital) is also projected to contribute (0.1% of GDP) to the growth in net current expenditure. On the revenue side, the cut in the personal income tax rate under the Polish Deal (0.7% of GDP) and the decrease of the corporate income tax rates (0.1% of GDP) are also projected to contribute to the expansionary fiscal stance. The higher increase in consumer prices compared to the GDP deflator is projected to affect the expansionary contribution of nationally financed primary current expenditure in 2022, by increasing spending on government consumption of goods and services.

(17) In 2023, the fiscal stance is projected in the Commission 2022 spring forecast at +1.7% of GDP on a no-policy change assumption.[15] Poland is projected to continue using the grants from the Recovery and Resilience Facility in 2023 to finance additional investment in support of the recovery. The positive contribution to economic activity of expenditure financed by Recovery and Resilience Facility grants and other EU funds is projected to increase by 0.1 percentage points compared to 2022. Nationally financed investment is projected to provide a contractionary contribution to the fiscal stance of 0.3 percentage points in 2023.[16] At the same time, the growth in nationally financed primary current expenditure (net of new revenue measures) in 2023 is projected to provide a contractionary contribution of 1.4 percentage points to the overall fiscal stance. This includes the impact from the phasing out of the measures addressing the increased energy prices (0.9 % of GDP) and additional costs to offer temporary protection to displaced persons from Ukraine (0.2% of GDP).

(18) In the 2022 Convergence Programme, the general government deficit is expected to gradually decline to 3.1% of GDP in 2024 and to 2.5% by 2025. Therefore, the general government deficit is planned to go below 3% of GDP by 2025. However, no information is provided on the envisaged underlying consolidation measures. According to the Programme, the general government debt-to-GDP ratio is expected to decrease by 2025, specifically with a decrease to 51.0% in 2024 and a further decline to 49.7% in 2025. Based on the Commission’s analysis, debt sustainability risks appear medium over the medium term.

(19) The ongoing reform of the budget system, when fully implemented, is expected to increase the spending efficiency by tackling long-standing weaknesses in the budget process. These include complex and outdated budget classifications; suboptimal recording of information; lack of genuine medium-term planning, and a lack of direct leverage of spending reviews on the budget process. Poland’s public finances are expected to face pressures for higher spending in the long term, in particular due to population ageing. These factors amplify the need for new tools to strengthen expenditure management, including a regular assessment of the effectiveness and efficiency. Yet, during the pandemic, most of expenditure on COVID-19 measures was channelled via a dedicated fund managed by a development bank and via a financial vehicle outside the budget. While this gave the authorities more flexibility in

15 A negative (positive) sign of the indicator corresponds to an excess (shortfall) of primary expenditure growth compared with medium-term economic growth, indicating an expansionary (contractionary) fiscal policy.

16 Other nationally financed capital expenditure is projected to provide a contractionary contribution of 0.1 percentage points of GDP.

managing the crisis-related expenditure and allowed avoiding breaching the constitutional central government debt levels, it also limited the parliamentary scrutiny of expenditure and public access to timely information on public spending.

(20) Poland is one of the fastest ageing countries in the EU and in the long term demographic trends will impact the pension system. The current defined contribution pension system makes the system financially balanced but does not take into account adequacy of future benefits. However, due to the low effective retirement age, rising life expectancy and some other features of the system, future pension benefits are set to drop strongly in relation to the final salary. This would mean that a large part of pensioners would be at risk of poverty. Commission analysis shows that only to maintain the level of benefits at the current level, Poland would need to spend an additional 6.7% of its GDP by 2070. The main challenges in the Polish pension system concern the low effective retirement age and the special pension regimes (e.g. farmers, uniformed services), which are costly and favour their members as compared to the general system.

(21) Poland has submitted the cohesion policy programming documents[17] on 15 December 2021. In line with Regulation (EU) 2021/1060 of the European Parliament and of the Council of 24 June 2021, Poland shall take into account the relevant country-specific recommendations in the programming of the 2021-2027 cohesion policy funds. This is a prerequisite for improving the effectiveness and maximising the added value of the financial support to be received from cohesion policy funds, while promoting the coordination, complementarity and coherence between these funds and other Union instruments and funds. The successful implementation of the cohesion policy programmes also depends on the removal of bottlenecks to investment to support the green and digital transitions and balanced territorial development.

(22) The unemployment rate in Poland is reaching all-time lows, but the labour market participation of some groups continues to be constrained. The enrolment rate for children under the age of three in formal childcare remains one of the lowest among EU countries, and limited access to childcare prevents women from entering the labour market. In addition, the lack of support for long-term care and the lower retirement age result in an outflow of workforce from the market. Labour market disparities also affect people with disabilities, the elderly and the low-skilled, who witness employment rates below the respective EU averages. Whereas a constant drop in non-standard labour contracts can be observed in recent years, employment under temporary contracts and self-employment with low social contributions continues to affect young and low-skilled workers, increasing the risk of inadequacy of their future pensions.

(23) Poland’s education and training system continues to face challenges in terms of quality and inclusiveness. These challenges have been exacerbated by the pandemic, with prolonged periods of remote learning. Digital skills are lacking among teachers, pupils and the general population. At the same time, ICT equipment and connectivity remain

[17] Regulation (EU) 2021/1060 of the European Parliament and of the Council of 24 June 2021 laying down common provisions on the European Regional Development Fund, the European Social Fund Plus, the Cohesion Fund, the Just Transition Fund and the European Maritime, Fisheries and Aquaculture Fund and financial rules for those and for the Asylum, Migration and Integration Fund, the Internal Security Fund and the Instrument for Financial Support for Border Management and Visa Policy. OJ L 231, 30.6.2021, p. 159.

insufficiently available to schools and households with children. The quality of the initial education received by teachers is insufficient. Additionally, teachers' salaries are relatively low compared to OECD standards. This affects the financial attractiveness of the profession and, together with the lack of professional development, contributes to significant staff shortages. The large inflow of people displaced from Ukraine requires substantial efforts to provide an adequate response in the area of education and training. Significant mismatches between skills and labour market needs lead to labour shortages, as demonstrated by the difficulties faced by employers to fill open positions.

(24) Overall spending on healthcare relative to GDP remains low, at only 6.5 % against an average of 9.9 % for the EU in 2019. The Polish healthcare system relies excessively on hospitals, which suffer from a deteriorating financial situation, a lack of quality assessment and deficiencies in management. Primary and ambulatory care are under-used. The limited attractiveness of medical professions contributes to staff shortages. The number of doctors and nurses per 1000 population (respectively 2.4 and 5.1) is among the lowest of EU Member States. The primary care system is understaffed, and its services are overstretched. Its potential remains untapped thus overburdening higher levels of care. Whereas e-health services help address some of the challenges faced by the health system, their development has been limited so far.

(25) A significant part of social expenditure does not account for different income levels, leaving scope for better targeting. Some social expenditures are not targeted and means-tested, for example the additional one-off benefit paid annually to pensioners. At the same time, social benefits coverage for people working under civil law contracts is limited, making this group more vulnerable. Although the share of population at risk of poverty has continued to decline from 21% in 2016 to 17% in 2020, challenges remain. In particular, some elderly people will be exposed to an increasing risk of poverty. This will particularly affect women, due to their shorter careers resulting in lower future pension benefits. Better targeting of benefits, for example by more common application of means-tested approach, would lead to a more efficient use of public resources in combatting poverty and supporting those who are most in need.

(26) Poland will increasingly rely on science and innovation to ensure long-term sustainable economic growth and competitiveness. However, despite some progress, Poland lags behind in terms of innovative outputs. Total R&D spending is low at 1.39% of GDP. Business R&D expenditure remains well below the EU average at 0.87% in 2020, and the share of innovative companies continues to be weak, according to the Community Innovation Survey. Poland ranks fourth-to-last in the 2021 European Innovation Scoreboard and is qualified in the last category of 'Emerging Innovators'. Increasing fragmentation of the current research support instruments impair science-business cooperation, representing a key obstacle for strengthening innovation. Furthermore, low management skills and adoption of technologies in firms contribute to significant productivity gaps between SMEs and large companies, limiting innovation and productivity growth.

(27) Digitalisation is lagging behind in Poland. In particular, low levels of digital skills hamper the ability of firms to invest in advanced digitalised solutions and move up the value-chain, while also contributing to labour and skill shortages. As for digital infrastructure, while the take-up in fixed broadband is increasing, challenges in the development of 5G remain high. In particular, only 34% of households were covered by 5G technology in 2021, which is below the EU average of 65%, and 5G readiness

is not progressing as the harmonised radio spectrum for 5G deployment is yet to be assigned. Finally, a greater use of digital technologies in public administration could improve the provision of governmental services and help reduce unnecessary regulatory and administrative burden.

(28) A stable and predictable business environment and a friendly investment climate play an important role in both the post-pandemic economic recovery and a sustainable economic growth over the medium to long term. The independence, efficiency and quality of the justice system are essential components in this respect. In Poland, the rule of law has deteriorated, and judicial independence remains a serious concern, as follows from several rulings of the Court of Justice of the European Union and the European Court of Human Rights. In addition, in 2021 the Commission launched an infringement procedure against Poland following certain rulings from the Polish Constitutional Tribunal, which challenged notably the primacy of EU law, putting at risk the functioning of the Polish and the Union's legal order.

(29) A sound and stable regulatory environment is the basis for sustaining economic growth and private investment. However, the investment climate continues to be hindered by an unpredictable and burdensome regulatory environment. Frequent changes to key laws add uncertainty and compliance costs to businesses, mainly due to poor consultation of stakeholders during the law-making process. Private investment as a percentage of GDP has been decreasing since 2016 and is low at 18.5% in 2020, well below the EU-wide average and regional peers. This could limit further productivity gains and hamper Poland's ability to sustain economic growth over the long-term, particularly given that increasing unit labour costs are weighing on cost-competitiveness.

(30) In response to the mandate by the EU Heads of State or Government, set out in the Versailles Declaration, the REPowerEU plan aims to phase out the European Union's dependence on fossil fuels' imports from Russia as soon as possible. For this purpose, the most suitable projects, investments and reforms at national, regional and EU level are being identified in dialogue with the Member States. These measures aim to reduce overall reliance on fossil fuels and to shift fossil fuel imports away from Russia.

(31) Poland's energy mix remains heavily reliant on fossil fuels, which provided 86% of its energy supply in 2020, with coal alone accounting for 40% of it. Natural gas represents 17% of the energy mix, whilst oil accounts for 28.9%, with its share increasing in recent years. Poland's rate of decarbonisation has been slow. By 2020, the Polish economy has registered only 8% reduction in total emissions compared to 2005[18]. The greenhouse gas emissions intensity of the economy stands 54% above the EU average. A revised, more ambitious energy policy and targeted action on non-ETS sectors are necessary to advance emissions reduction across the economy. While Poland produces around 80% of the coal it consumes, its dependence on Russia - calculated as the share of import from Russia over total coal imports - has increased and reached 74% in 2020, compared to the 54% EU average. On oil, Poland depends on foreign suppliers for the quasi totality of its demand and imports from Russia account for 72% of total foreign supply, against an EU average of 26%. Poland's dependency on Russia for natural gas stands at 55%, compared to 44% for EU

[18] Climate Action Progress Report (2021)

average[19]. Ongoing and planned infrastructure projects within Poland and with neighbouring countries (including the GIPL interconnector with Lithuania that is operational as of 1st May 2022), when accompanied by corresponding supply contracts, are expected to substantially replace Poland's reliance on Russian gas. New infrastructure and network investments related to gas are recommended to be future-proof where possible, in order to avoid carbon lock-in and stranded assets as well as to facilitate their long-term sustainability through future repurposing for sustainable fuels. Poland's long-term gas supply contract with Russia's Gazprom expires at the end of the 2022 and Poland has no plans to renew it. The direct impact of the suspension of gas supplies by Gazprom as of April 2022 on Poland's energy security is significantly mitigated by Poland's access to alternative supplies, within and outside the EU. However, the suspension requires an acceleration of ongoing and planned supply diversification projects, as well as increased coordination of further actions within the EU.

(32) An accelerated deployment of new renewable energy generation capacity is crucial to lower Poland's dependency on fossil fuel imports and reduce greenhouse gas emissions. Current renewable energy targets under the National Energy and Climate Plans lack sufficient ambitions. However, there are important regulatory, procedural and administrative barriers which limit the deployment of renewable capacity and slow down the integration of RES with the grid. These include restrictive rules on energy co-operatives, restrictive rules and lengthy permitting procedures for onshore wind development, complexity and instability of tax regulations or lengthy grid connection procedures. Infrastructural barriers such as an insufficient distribution grid capacity also slow down the integration of renewables and should be addressed with adequate incentives. Moreover, the REPowerEU Communication has indicated that increasing sustainable biomethane production will contribute to phasing out the EU's dependency on Russian fossil fuels. In this context, Poland has room to exploit the untapped potential of biomethane complying with the relevant sustainability criteria through an appropriate strategy for the establishment of a sustainable biomethane market and concrete proposals concerning its structure. Sustainable biomethane can be notably employed in the cogeneration of heat and electricity and of renewable hydrogen, which could help to decarbonize hard-to-abate sectors. Poland's national renovation scheme, is a major initiative to replace air-polluting boilers and improve the energy efficiency of buildings. However, it could be further streamlined and better targeted to low-income households and worst performing buildings. Moreover, there is room for better designing subsidies for heat source replacements to avoid gas lock-in and provide stronger incentives for deep renovations and heat pump deployment, coherently with the objectives of the Renovation Wave strategy and the REPowerEU communication. The significant cost saving potential of energy efficiency improvements enables the use of repayable financial instruments, which could be deployed to increase rate of renovations among residential, public and commercial buildings. This would further improve air quality, accelerate energy savings and reduce demand for fossil fuels in heating. Further ambition in reducing greenhouse gas emissions and increasing renewable energy and energy efficiency will be needed for Poland to be in line with the "Fit for 55" objectives.

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19 Eurostat (2020), share of Russian imports over total imports of natural gas, crude oil and hard coal. For the EU27 average, the total imports are based on extra-EU27 imports. For Poland, total imports include intra-EU trade. Crude oil does not include refined oil products.

(33) Transport is the second most polluting sector after energy production and accounts for around 70% of total oil consumption. Road transport is responsible for the lion share of the sectoral emissions. Accelerated actions to decarbonise mobility are therefore crucial. Incentives for collective, low-carbon and active modes of transport would help in this respect. Increasing the attractiveness and accessibility of public transport, including in rural areas and better connecting suburbs with centres of agglomerations, would help reduce air pollution, address exclusion and improve the quality of life. The share of zero-emission cars in new registration was 0.8% in 2020, well below the EU average of 5.3%. Further support in facilitating the purchase of electric cars and significant investments in the charging infrastructure should be considered.

(34) The targets of Poland's national energy strategy need to be revised upwards in line with the more ambitious 2030 EU climate target. A robust, stable and up-to-date strategic framework is critical for guiding and stimulating public and private investment in the green transition. Poland should consider this increase in the level of ambition to provide certainty to investors and increase the predictability of the business environment, while also accelerating its energy transition in line with the REPowerEU communication.

(35) While the acceleration of the transition towards climate neutrality and away from fossil fuels will create significant restructuring costs in several sectors, Poland can make use of the Just Transition Mechanism in the context of cohesion policy to alleviate the socio-economic impact of the transition in the most affected regions. In addition, Poland can make use of the European Social Fund Plus to improve employment opportunities and strengthen social cohesion.

(36) In the light of the Commission's assessment, the Council has examined the 2022 Convergence Programme and its opinion[20] is reflected in recommendation (1) below.

HEREBY RECOMMENDS that Poland take action in 2022 and 2023 to:

1. In 2023, ensure that the growth of nationally-financed current expenditure is in line with an overall neutral policy stance, taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. Stand ready to adjust current spending to the evolving situation. Expand public investment for the green and digital transition and for energy security, including by making use of the RRF, RePowerEU and other EU funds. For the period beyond 2023, pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions. Improve the efficiency of public spending, including by continuing the reform of the budget process. Ensure the adequacy of future pension benefits and the sustainability of the pension system by taking measures to increase the effective retirement age and by reforming the preferential pension schemes.

2. Swiftly finalise the negotiations with the Commission of the 2021-2027 cohesion policy programming documents with a view to starting their implementation.

3. Increase labour market participation, including by improving access to childcare and long-term care, and remove remaining obstacles to more permanent types of employment. Foster quality education and skills relevant to the labour market, especially through adult learning and improving digital skills. Better target social benefits and ensure access to those in need.

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

4. Improve the resilience, accessibility and effectiveness of the health system, including by providing sufficient resources to reverse the pyramid of care and accelerating the deployment of e-health services. Strengthen the innovative capacity of the economy, including by supporting research institutions and their closer collaboration with business. Enhance further digitalisation of businesses and public administration, including through development of infrastructure.
5. Enhance the investment climate, in particular by safeguarding judicial independence. Ensure effective public consultations and involvement of social partners in the policy-making process.
6. Reduce overall reliance on fossil fuels by removing regulatory, administrative and infrastructural barriers to accelerate permitting and deployment of renewable energy sources. Reform building renovation policies and support schemes to incentivise deeper energy efficiency, promote energy savings and faster phase-out of fossil fuels in heating and accelerated deployment of heat pumps. Accelerate modal shift towards public transport and active mobility and promote faster uptake of electric vehicles with incentives and investment in charging infrastructure. Improve long- and medium-term strategic planning of the green transition by updating national energy policies in line with the European Green Deal objectives and the REPowerEU Communication to provide certainty to the business community and use funding effectively with a view to accelerating clean energy investments.

Done at Brussels,

For the Council
The President