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Recommendation for a

COUNCIL RECOMMENDATION

on the 2015 National Reform Programme of Poland

and delivering a Council opinion on the 2015 Convergence Programme of Poland

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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(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,

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) 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. The strategy focuses 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, on the basis of the Commission's proposals, 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 it adopted a decision on guidelines for the employment policies of the Member States. Together these form the 'integrated guidelines' which Member States were invited to take into account in their national economic and employment policies.

[1] OJ L 209, 2.8.1997, p. 1.
[2] COM(2015) 270.
[3] P8_TA(2015)0067, P8_TA(2015)0068, P8_TA(2015)0069.

(3) On 8 July 2014, the Council adopted a Recommendation on Poland's National Reform Programme for 2014 and delivered its opinion on Poland's updated Convergence Programme for 2014.

(4) On 28 November 2014, the Commission adopted the Annual Growth Survey[4], marking the start of the 2015 European Semester of economic policy coordination. On the same day, on the basis of Regulation (EU) No 1176/2011, the Commission adopted the Alert Mechanism Report[5], in which it did not identify Poland as one of the Member States for which an in-depth review would be carried out.

(5) On 18 December 2014, the European Council endorsed the priorities for boosting investment, accelerating structural reforms and pursuing responsible growth-friendly fiscal consolidation.

(6) On 26 February 2015, the Commission published its 2015 country report for Poland[6]. This assessed Poland's progress in addressing the country-specific recommendations adopted on 8 July 2014.

(7) On 29 April 2015, Poland submitted its 2015 National Reform Programme and on 30 April 2015 its 2015 Convergence Programme. To take account of their interlinkages, the two programmes have been assessed at the same time.

(8) Poland is currently in the preventive arm of the Stability and Growth Pact [following the abrogation of the Excessive Deficit Procedure in June 2015]. In its 2015 Convergence Programme, the government plans to gradually reduce the headline deficit from 3.2% of GDP to 2.7 % of GDP in 2015 and further to 1.2% of GDP in 2018. Based on the Commission 2015 Spring forecast, the excessive deficit can be considered to have been already corrected in 2014, one year ahead of the deadline, taking into account that the excess over the 3% of GDP reference value is explained by the net budgetary cost of the systemic pension reform. According to the Convergence Programme, the government plans to reach the medium-term objective – a structural deficit of 1% of GDP – by 2019. After a peak of 51.7% in the government debt-to-GDP ratio in 2015 the government plans to reduce it to 49.1% in 2018. The macroeconomic scenario underpinning these budgetary projections is plausible in 2015 and favourable in 2016. On the basis of an overall assessment, Poland is projected to comply with the required adjustment towards the medium-term objective in 2015 since net expenditure growth is below the benchmark. Measures to support the planned deficit targets from 2016 have not been sufficiently specified. In the light of the Commission's 2015 spring forecast there is a risk of some deviation from the required adjustment in 2016 as the structural adjustment falls short of the requirement. Therefore, further measures will be needed in 2016. Based on its assessment of the Convergence Programme and taking into account the Commission's 2015 spring forecast, the Council is of the opinion that Poland is expected to broadly comply with the provisions of the Stability and Growth Pact. Tax revenues could be increased by reducing the extensive use currently made of reduced VAT rates and by increasing the efficiency of the tax administration.

(9) Poland's fiscal framework would benefit from the creation of an independent body, responsible for carrying out *ex ante* and *ex post* assessments of compliance with

[4] COM(2014) 902.
[5] COM(2014) 904.
[6] SWD(2015) 40 final.

fiscal rules, assessment of macroeconomic and budgetary forecasts, and analysis of the long-term sustainability of public finances.

(10) Poland reversed the systemic pension reform of 1999 at the end of 2013. While producing some budgetary relief in the short term, the reversal of the systemic pension reform of 1999 does not improve the long-term sustainability of public finances, as the short term from higher social contributions and lower interest payments will be offset by higher future pension payments from the public pension pillar. Overall the reversal of the systemic pension reform of 1999 carries some risks for Polish public finance in the long run.

(11) The social security privileges granted to farmers and miners continue to hamper professional mobility and impose significant costs on public finances. These preferential schemes deter people from moving to more productive sectors, create hidden unemployment and, due to low contributions, are heavily subsidised by taxpayers. Poland's agricultural sector employs 11.4 % of the workforce, more than double the EU average, while generating only 3.3 % of national gross value added. State subsidies to the social security scheme for farmers are worth almost 1 % of GDP, and those to miners' pensions 0.5 % of GDP. The link between contributions and benefits is weak and contributions are mostly based on a flat rate. Farmers on high incomes cannot be systematically excluded from the scheme, and the system is therefore open to abuse. Introducing a system for recording and assessing farmers' incomes would constitute an indispensable first step towards a reform of the social security scheme for farmers.

(12) Labour market segmentation persists in Poland. The incidence of temporary contracts is the highest in the EU, while the transition rate from temporary to permanent employment is low and the wage differential the highest in the EU. Rigid dismissal provisions, long judicial proceedings and other burdens placed on employers encourage the use of fixed-term and non-standard employment contracts. Furthermore, the perceived high cost of contracts covered by the labour code leads to excessive use of civil law contracts (*umowy cywilno-prawne*), which are attractive to employers due to the associated lower social security contributions. The high proportion of contracts of this type, i.e. associated with lower contributions, may, however, reduce the quality of employment available, especially for young workers. Youth unemployment is high, partly as a result of the mismatch between candidates' qualifications and skills, on the one hand, and labour market needs, on the other. Continued efforts are therefore needed to reform the system of vocational education and training and increase the low level of participation in lifelong learning. Female labour market participation remains low. In order to address this issue, Poland has increased the availability of pre-school education, but still ranks among the poorest performing countries in the EU for the availability of early childcare services.

(13) The railway sector suffers as a result of high track access charges and inadequate national financing. Procedures for designing and implementing projects tend to be lengthy and cumbersome, as a result of the regulatory and administrative environment. While the recent legislative changes may have a positive effect on railway transport, they are unlikely to affect investment projects launched during the 2007-2013 programming period. Over the period 2014-2020, however, EU funding for the railway sector is to be significantly increased.

(14) In the context of the European Semester, the Commission has carried out a comprehensive analysis of Poland's economic policy and published it in the 2015

country report. It has also assessed the Convergence Programme and the National Reform Programme and the follow-up given to the recommendations addressed to Poland in previous years. It has taken into account not only their relevance for sustainable fiscal and socioeconomic 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. The recommendations under the European Semester are reflected in recommendations 1 to 4 below.

(15) 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 take action in 2015 and 2016 to:

1. Following the correction of the excessive deficit, achieve a fiscal adjustment of 0.5% of GDP towards the medium-term objective both in 2015 and 2016 Establish an independent fiscal council. Limit the use of reduced VAT rates.

2. Start the process of aligning the pension arrangements for farmers and miners with those for other workers, and adopt a timetable for progressive full alignment; put in place a system for assessing and recording farmers' incomes.

3. Take measures to reduce the excessive use of temporary and civil law contracts in the labour market.

4. Remove obstacles to investment in railway projects.

Done at Brussels,

For the Council
The President

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