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Subject:	COUNCIL RECOMMENDATION on the 2023 National Reform Programme of Poland and delivering a Council opinion on the 2023 Convergence Programme of Poland

Delegations will find attached the above-mentioned draft Council Recommendation, as discussed by the Council and European Council, based on the Commission Recommendation COM(2023) 621 final.

COUNCIL RECOMMENDATION

of …

on the 2023 National Reform Programme of Poland and delivering a Council opinion on the 2023 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 Article 121(2) and Article 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] OJ L 209, 2.8.1997, p. 1.

(1) Regulation (EU) 2021/241 of the European Parliament and of the Council[2], which established the Recovery and Resilience Facility ('the Facility'), entered into force on 19 February 2021. The Facility provides financial support to the Member States for the implementation of reforms and investments, entailing a fiscal impulse financed by the Union. In line with the priorities of the European Semester, the Facility contributes to economic and inclusive recovery and to the implementation of sustainable and growth-enhancing reforms and investments, in particular reforms and investments to promote the green and digital transitions and to make the Member States' economies more resilient. It also helps strengthen public finances and boost growth and job creation in the medium and long term, improve territorial cohesion within the Union and support the continued implementation of the European Pillar of Social Rights. The maximum financial contribution per Member State under the Facility was updated on 30 June 2022, in accordance with Article 11(2) of Regulation (EU) 2021/241.

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2 Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17).

(2) On 22 November 2022, the Commission adopted the 2023 Annual Sustainable Growth Survey, marking the start of the 2023 European Semester for economic policy coordination. On 23 March 2023, the European Council endorsed the priorities of the 2023 Annual Sustainable Growth Survey, which are centred around the four dimensions of competitive sustainability. On 22 November 2022, on the basis of Regulation (EU) No 1176/2011 of the European Parliament and of the Council[3], the Commission also adopted the 2023 Alert Mechanism Report, in which it did not identify Poland as one of the Member States that may be affected or may be at risk of being affected by imbalances. As such, an in-depth review would not be needed. The Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area and a proposal for the 2023 Joint Employment Report, which analyses the implementation of the Employment Guidelines and the principles of the European Pillar of Social Rights. The Council adopted the Recommendation on the economic policy of the euro area[4] on 16 May 2023 and the Joint Employment Report on 13 March 2023.

(3) While the Union's economies are showing remarkable resilience, the geopolitical context continues to have a negative impact. As the Union stands firmly with Ukraine, the Union's economic and social policy agenda is focused on reducing the negative impact of energy shocks on both vulnerable households and firms in the short term, and on keeping up efforts to deliver on the green and digital transitions, support sustainable and inclusive growth, safeguard macroeconomic stability and increase resilience in the medium term. It also focuses heavily on increasing the Union's competitiveness and productivity.

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[3] 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).

[4] Council Recommendation of 16 May 2023 on the economic policy of the euro area (OJ C 180, 23.5.2023, p. 1).

(4) On 1 February 2023, the Commission issued a Communication entitled 'A Green Deal Industrial Plan for the Net-Zero Age' ('the Green Deal Industrial Plan'). The aim of the Green Deal Industrial Plan is to boost the competitiveness of the Union's net-zero industry and support the fast transition to climate neutrality. It complements ongoing efforts under the European Green Deal and REPowerEU. It also aims to provide a more supportive environment for scaling up the Union's manufacturing capacity for the net-zero technologies and products required to meet the Union's ambitious climate targets, and to ensure access to relevant critical raw materials, including by diversifying sourcing, properly exploiting geological resources in Member States and maximising the recycling of raw materials. The Green Deal Industrial Plan is based on four pillars: a predictable and simplified regulatory environment, faster access to finance, the enhancement of skills, and open trade for resilient supply chains. On 16 March 2023, the Commission issued a further communication entitled 'Long-term competitiveness of the EU: looking beyond 2030', structured along nine mutually reinforcing drivers with the objective of working towards a growth-enhancing regulatory framework. It sets policy priorities aimed at actively ensuring structural improvements, well-focused investment and regulatory measures for the long-term competitiveness of the Union and its Member States. The recommendations below help address those priorities.

(5) In 2023, the European Semester for economic policy coordination continues to evolve in line with the implementation of the Facility. The full implementation of the recovery and resilience plans remains essential for delivering the policy priorities under the European Semester, as the plans address all or a significant subset of the relevant country-specific recommendations issued in recent years. The 2019, 2020 and 2022 country-specific recommendations remain equally relevant for the recovery and resilience plans revised, updated or amended in accordance with Articles 14, 18 and 21 of Regulation (EU) 2021/241.

(6) Regulation (EU) 2023/435 of the European Parliament and of the Council[5](the 'REPowerEU Regulation'), which was adopted on 27 February 2023, aims to rapidly phase out the Union's dependency on Russian fossil-fuel imports. This will contribute to energy security and the diversification of the Union's energy supply, while increasing the uptake of renewables, energy storage capacities and energy efficiency. The REPowerEU Regulation enables Member States to add a new REPowerEU chapter to their national recovery and resilience plans in order to finance key reforms and investments that will help achieve the REPowerEU objectives. Those reforms and investments will also help boost the competitiveness of the Union's net-zero industry as outlined in the Green Deal Industrial Plan and address the energy-related country-specific recommendations issued to the Member States in 2022 and, where applicable, in 2023. The REPowerEU Regulation introduces a new category of non-repayable financial support, made available to Member States in order to finance new energy-related reforms and investments under their recovery and resilience plans.

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[5] Regulation (EU) 2023/435 of the European Parliament and of the Council of 27 February 2023 amending Regulation (EU) 2021/241 as regards REPowerEU chapters in recovery and resilience plans and amending Regulations (EU) No 1303/2013, (EU) 2021/1060 and (EU) 2021/1755, and Directive 2003/87/EC (OJ L 63, 28.2.2023, p. 1).

(7) On 8 March 2023, the Commission adopted a communication providing fiscal policy guidance for 2024 ('the communication of 8 March 2023'). It aims to support the preparation of Member States' stability and convergence programmes and thereby strengthening policy coordination. It recalled that the general escape clause of the Stability and Growth Pact will be deactivated at the end of 2023. The Commission called for fiscal policies in 2023–2024 that ensure medium-term debt sustainability and raise potential growth in a sustainable manner and invited Member States to set out in their 2023 stability and convergence programmes how their fiscal plans will ensure that the Treaty reference value of 3 % of gross domestic product (GDP) is adhered to and ensure a plausible and continuous debt reduction, or for debt to be kept at prudent levels, in the medium term. The Commission also invited Member States to phase out national fiscal measures introduced to protect households and firms from the energy price shock, starting with the least targeted ones. It indicated that, if support measures needed to be extended because of renewed energy price pressures, Member States should better target such measures at vulnerable households and firms. The Commission stated that the fiscal recommendations would be quantified and differentiated. Moreover, as proposed in its communication of 9 November 2022 on orientations for a reform of the EU economic governance framework, the fiscal recommendations would be formulated on the basis of net primary expenditure. It recommended that all Member States continue to protect nationally financed investment and ensure the effective use of the Facility and other Union funds, in particular in light of the green and digital transitions and resilience objectives. The Commission indicated that it will propose to the Council to open deficit-based excessive-deficit procedures in spring 2024 on the basis of the outturn data for 2023, in line with existing legal provisions.

(8) On 26 April 2023, the Commission presented legislative proposals to implement a comprehensive reform of the Union's economic governance rules. The central objective of the proposals is to strengthen public debt sustainability and promote sustainable and inclusive growth in all Member States through reforms and investments. In its proposals, the Commission aims to improve national ownership, simplify the framework and move towards a greater medium-term focus, in combination with effective and more coherent enforcement. According to the Council conclusions of 14 March 2023 on orientations for a reform of the EU economic governance framework, the objective is to conclude the legislative work in 2023.

(9) On 3 May 2021, Poland submitted its national recovery and resilience plan to the Commission, in accordance with Article 18(1) of Regulation (EU) 2021/241. Pursuant to Article 19 of Regulation (EU) 2021/241, the Commission assessed the relevance, effectiveness, efficiency and coherence of the recovery and resilience plan, in accordance with the assessment guidelines set out in Annex V to that Regulation. On 17 June 2022, the Council adopted its Implementing Decision on the approval of the assessment of the recovery and resilience plan for Poland[6]. The release of instalments is conditional on the adoption of a decision by the Commission, in accordance with Article 24(5) of Regulation (EU) 2021/241, stating that Poland has satisfactorily fulfilled the relevant milestones and targets set out in the Council Implementing Decision. Satisfactory fulfilment presupposes that the achievement of preceding milestones and targets has not been reversed.

[6] ST 9728/2022 INIT; ST 9728/2022 ADD 1.

(10) On 27 April 2023, Poland submitted its 2023 National Reform Programme and its 2023 Convergence Programme, in line with Article 8(1) 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 2023 National Reform Programme also reflects Poland's biannual reporting on the progress made in achieving its recovery and resilience plan.

(11) On 24 May 2023, the Commission published the 2023 country report for Poland. It assessed Poland's progress in addressing the relevant country-specific recommendations adopted by the Council between 2019 and 2022 and took stock of Poland's implementation of the recovery and resilience plan. On the basis of that analysis, the country report identified gaps with regard to those challenges that are not addressed or only partially addressed by the recovery and resilience plan, as well as new and emerging challenges. It also assessed Poland's progress in implementing the European Pillar of Social Rights and in achieving the Union headline targets on employment, skills and poverty reduction, as well as progress in achieving the United Nations Sustainable Development Goals.

(12) According to data validated by Eurostat, Poland's general government deficit increased from 1,8 % of GDP in 2021 to 3,7 % in 2022, while general government debt fell from 53,6 % of GDP at the end of 2021 to 49,1 % at the end of 2022. On 24 May 2023, the Commission issued a report under Article 126(3) of the Treaty. That report discussed the budgetary situation of Poland, as its general government deficit in 2022 exceeded the 3 %-of-GDP Treaty reference value. The report concluded that the deficit criterion was not fulfilled. In line with the communication of 8 March 2023, the Commission did not propose to open new excessive deficit procedures in spring 2023. The Commission subsequently stated that it would propose to the Council to open deficit-based excessive deficit procedures in spring 2024, on the basis of the outturn data for 2023. Poland should take account of this in the execution of its 2023 budget and in preparing its budget for 2024.

(13) The general government balance has been impacted by the fiscal policy measures taken to mitigate the economic and social impact of the increase in energy prices. In 2022, such fiscal policy revenue-decreasing measures included the reduced rates of value added tax and excise duties on energy and fuels, while such fiscal policy expenditure-increasing measures included cash subsidies and a cap on electricity prices for households and gas cost subsidies to companies. The Commission estimates the net budgetary cost of those measures at 1,9 % of GDP in 2022. The general government balance has also been impacted by the budgetary cost of offering temporary protection to displaced persons from Ukraine, which is estimated at 0,5 % of GDP in 2022. At the same time, the estimated cost of temporary emergency measures related to the COVID-19 crisis dropped to 0,7 % of GDP in 2022, from 2,4 % in 2021.

(14) On 18 June 2021, the Council recommended that in 2022 Poland[7] pursue a supportive fiscal stance, including from the impulse provided by the Recovery and Resilience Facility, and preserve nationally financed investment.

(15) According to the Commission estimates, the fiscal stance[8] in 2022 was supportive, at -3,0 % of GDP, as recommended by the Council. As recommended by the Council, Poland continued to support the recovery with investments financed by the Facility. Expenditure financed by grants under the Facility and other Union funds amounted to 1,0 % of GDP in 2022 (1,3 % of GDP in 2021). Nationally financed investment provided an expansionary contribution of 0,2 percentage points to the fiscal stance[9]. Poland therefore preserved 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) provided an expansionary contribution of 2,3 percentage points to the fiscal stance. That significant expansionary contribution included the additional impact of measures taken to mitigate the economic and social impact of the increase in energy prices (additional net budgetary cost of 1,9 % of GDP), as well as the cost of offering temporary protection to displaced persons from Ukraine (0,5 % of GDP). Poland therefore sufficiently kept under control the growth in nationally financed current expenditure.

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[7] 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).

[8] The fiscal stance is measured as the change in primary expenditure (net of discretionary revenue measures), excluding temporary emergency measures related to the COVID-19 crisis but including expenditure financed by non-repayable support (grants) from the Facility and other Union funds, relative to medium-term potential growth. For more details see Box 1 in the Fiscal Statistical Tables.

[9] Other nationally financed capital expenditure provided an expansionary contribution of 0,8 percentage points of GDP, largely reflecting government support to financial institutions.

(16) The macroeconomic scenario underpinning the budgetary projections in the 2023 Convergence Programme is in line with the Commission's 2023 spring Forecast for 2023 and thereafter. The government projects real GDP to grow by 0,9 % in 2023 and 2,8 % in 2024. By comparison, the Commission's 2023 spring forecast projects a slightly lower real GDP growth of 0,7 % in 2023 and 2,7 % in 2024, mainly due to lower projected contribution of domestic demand.

(17) In its 2023 Convergence Programme, the government expects that the general government deficit will increase to 4,7 % of GDP in 2023. The increase in 2023 mainly reflects increased spending on defence, health, public-sector wages and the indexation of pensions while costs of measures to mitigate the economic and social impact of the increase in energy prices are set to remain elevated. According to the 2023 Convergence Programme, the general government debt-to-GDP ratio is expected to increase from 49,1 % at the end of 2022 to 50,5 % at the end of 2023. The Commission's 2023 spring forecast projects a government deficit of 5,0 % of GDP for 2023. This is higher than the deficit projected in the 2023 Convergence Programme, mainly due to measures providing extraordinary aid to farmers which were not yet specified in the 2023 Convergence Programme. The Commission's 2023 spring forecast projects a similar general government debt-to-GDP ratio, of 50,5 % at the end of 2023.

(18) The general government balance in 2023 is expected to continue to be impacted by the measures taken to mitigate the economic and social impact of the increase in energy prices. They consist mainly of new measures such as price freeze schemes for electricity and gas and support measures to energy-intensive industries. The cost of those measures is partly offset by taxes on windfall profits of gas and electricity producers. Taking those revenues into account, the net budgetary cost of the support measures is projected in the Commission's 2023 spring forecast at 1,7 % of GDP in 2023[10]. Most measures in 2023 do not appear to be targeted at the most vulnerable households or firms and they do not fully preserve the price signal to reduce energy demand and increase energy efficiency. As a result, the amount of targeted support measures, to be taken into account in the assessment of compliance with the Council Recommendation of 12 July 2022[11], is estimated in the Commission's 2023 spring forecast at 0,2 % of GDP in 2023 (compared to 0,1 % of GDP in 2022). The budgetary cost of temporary protection to displaced persons from Ukraine is projected to decrease by 0,2 percentage points of GDP compared to 2022. Finally, the general government balance in 2023 is expected to benefit from the phasing-out of temporary emergency measures related to the COVID-19 crisis, which have been estimated at 0,7 % of GDP.

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10 The figure represents the level of annual budgetary cost of those measures, including current revenue and expenditure as well as – where relevant – capital expenditure measures.

11 Council Recommendation of 12 July 2022 on the 2022 National Reform Programme of Poland and delivering a Council opinion on the 2022 Convergence Programme of Poland (OJ C 334, 1.9.2022, p. 171).

(19) In its Recommendation of 12 July 2022, the Council recommended that Poland take action to ensure in 2023 that the growth of nationally financed primary current expenditure is in line with an overall neutral policy stance[12], taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. At the same time, Poland should stand ready to adjust current spending to the evolving situation. Poland was also recommended to expand public investment for the green and digital transitions, and for energy security taking into account the REPowerEU initiative, including by making use of the Facility and other Union funds.

12 On the basis of the Commission's 2023 spring forecast, the medium-term (10-year average) potential output growth of Poland, which is used to measure the fiscal stance, is estimated at 15,5 % in nominal terms.

(20) In 2023, the fiscal stance is projected in the Commission's 2023 spring forecast to be expansionary (-0,8 % of GDP), in a context of high inflation. This follows an expansionary fiscal stance in 2022 (-3,0 % of GDP). The growth in nationally financed primary current expenditure (net of discretionary revenue measures) in 2023 is projected to provide an expansionary contribution of 0,8 % of GDP to the fiscal stance. This includes the increased cost of the targeted support measures to households and firms most vulnerable to energy price hikes by 0,1 % of GDP. This also includes lower cost of offering temporary protection to displaced persons from Ukraine (by 0,2 % of GDP). The expansionary contribution of nationally financed net primary current expenditure is therefore not due to the targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. The expansionary growth in nationally financed primary current expenditure is driven by untargeted energy measures, higher spending on defence and health as well as permanent increases in public-sector wages and social benefits. In sum, the projected growth of nationally financed primary current expenditure is not in line with the Council Recommendation of 12 July 2022. Expenditure financed by grants under the Facility and other Union funds is project to amount to 1,8 % of GDP in 2023, while nationally financed investment is projected to provide a contractionary contribution to the fiscal stance of 0,2 percentage points[13]. Therefore, Poland plans to finance additional investment through the Facility and other Union funds, and it is not projected to preserve nationally financed investment. It plans to finance public investment for the green and digital transitions, and for energy security, in the areas such as energy efficiency of buildings, onshore and offshore wind power, energy storage, modernisation of grids, hydrogen generation and sustainable mobility, which are funded by the Facility and other Union funds.

[13] Other nationally financed capital expenditure is projected to provide a contractionary contribution of 0,6 percentage points of GDP, reflecting the withdrawal effect of the government support to financial institutions in 2022.

(21) According to the 2023 Convergence Programme the general government deficit is expected to decline to 3,4 % of GDP in 2024. The decrease in 2024 mainly reflects the withdrawal of the support measures related to the energy crisis. According to the 2023 Convergence Programme, the general government debt-to-GDP ratio is expected to increase to 52,4 % at the end of 2024. On the basis of the policy measures known at the cut-off date of the forecast, the Commission's 2023 spring forecast projects a government deficit of 3,7 % of GDP in 2024. This is higher than the deficit projected in the 2023 Convergence Programme, mainly due to measures not yet specified in the Programme. The Commission's 2023 spring forecast projects a similar general government debt-to-GDP ratio, of 53,0 % at the end of 2024.

(22) The 2023 Convergence Programme envisages the phasing-out of most of the energy support measures in 2024. The Commission currently assumes net cost of energy support measures of 0,3 % of GDP in 2024. This is based on the assumption of no renewed energy price increases. Most of the energy support measures that are currently planned to remain in place in 2024 do not appear targeted to vulnerable households and do not fully preserve the price signal to reduce energy demand and increase energy efficiency.

(23) Regulation (EC) No 1466/97 calls for an annual improvement in the structural budget balance toward the medium-term budgetary objective, with 0,5 % of GDP as a benchmark[14]. Taking into account fiscal sustainability considerations and the need to reduce the deficit to below the 3 %-of-GDP Treaty reference value, an improvement in the structural balance of at least 0,5 % of GDP for 2024 would be appropriate, according to the Commission. To ensure such an improvement, and in accordance with the Commission's methodology, the growth in net nationally financed primary expenditure[15] in 2024 should not exceed 7,8 %, as reflected in this Recommendation. At the same time, the remaining energy support measures (currently estimated by the Commission at 1,7 % of GDP in 2023) should be phased out, if energy market developments so permit and starting with the least targeted measures, and the related savings should be used to reduce the government deficit. According to Commission estimates, this would lead to a growth in net primary expenditure below the recommended maximum growth for 2024. In addition, according to the Commission's 2023 spring forecast, the growth in net nationally financed primary current expenditure in 2023 is not in line with the Council Recommendation of 12 July 2022. If this is confirmed, lower growth in net primary expenditure in 2024 would be appropriate.

(24) Assuming unchanged policies, the Commission's 2023 spring forecast projects the net nationally financed primary expenditure to grow at 5,6 % in 2024, which is below the recommended growth rate. The adjustment projected in the Commission's 2023 spring forecast is slightly less than the savings from the full phasing-out of energy support measures, as some of the energy support measures are projected to remain in force in 2024.

[14] Article 5 of Council Regulation (EC) No 1466/97 also requires an adjustment of more than 0,5 % of GDP for Member States with a government debt exceeding 60 % of GDP, or with more pronounced debt sustainability risks.

[15] Net primary expenditure is defined as nationally financed expenditure net of discretionary revenues measures and excluding interest expenditure and cyclical unemployment expenditure.

(25) According to the 2023 Convergence Programme, government investment is expected to remain stable at 4,2 % of GDP in 2024, similar level as in 2023. The 2023 Convergence Programme refers to reforms and investments that are expected to contribute to fiscal sustainability and sustainable and inclusive growth. These include reforms of the fiscal framework, which are also part of the recovery and resilience plan.

(26) The 2023 Convergence Programme outlines a medium-term fiscal path until 2026. According to the 2023 Convergence Programme, the general government deficit is expected to decline to 2,9 % of GDP in 2025 and remain at that level in 2026. Therefore, the general government deficit is planned to decrease below 3 % of GDP in 2025. According to the 2023 Convergence Programme, the general government debt-to-GDP ratio is expected to increase from 52,4 % at the end of 2024 to 55,4 % by the end of 2026.

(27) Considerable scope remains to increase the efficiency of public spending on social benefits. Social benefits remain largely untargeted and without means testing at household level. Better targeting of benefits would lead to more efficient use of public resources in combatting poverty and supporting those most in need.

(28) The rapidly ageing population poses challenges for the Polish pension system. The existing pension system assumes a retirement age that does not increase even as average life expectancy and years spent in retirement continue to rise. The current defined contribution pension system makes the system financially balanced but would lead to a strong drop in future pension benefits in relation to the final salary. This would mean that a large proportion of pensioners would be at risk of poverty. Commission analysis shows that merely to maintain the level of benefits close to the current level, Poland would need to spend an additional 6,7 % of its GDP by 2070. Recent changes in the general pension system and the costly special pension regimes have made pension pay-outs more generous to current pensioners. This has reduced incentives to work longer than the relatively low retirement age, which is set at 60 years for women and 65 for men, and has increased ageing-related spending pressures.

(29) In accordance with Article 19(3), point (b), of Regulation (EU) 2021/241 and criterion 2.2 of Annex V to that Regulation, the recovery and resilience plan includes an extensive set of mutually reinforcing reforms and investments to be implemented by 2026. Due to its late adoption in June 2022, the implementation of Poland's recovery and resilience plan has been significantly delayed. Strengthening the independence and impartiality of courts and remedying the situation of judges affected by the decisions of the Disciplinary Chamber of the Supreme Court in disciplinary cases and judicial immunity cases are a precondition for the Commission to disburse any payment to the country and ensure the protection of the financial interests of the Union, allowing for a swift and steady implementation of the plan. Poland has started to implement key measures in the recovery and resilience plan, among which reforms in the areas of the fiscal framework, healthcare, digital transition, energy efficiency and labour market. Although Poland has not officially submitted addenda to the plan nor a REPowerEU chapter, ongoing discussions with the Commission are taking place. In accordance with Article 14(6) of Regulation (EU) 2021/241, on 31 March 2023, Poland expressed its intention to request EUR 23 billion of additional loan support under the Facility. The swift inclusion of the new REPowerEU chapter in the recovery and resilience plan will allow additional reforms and investments to be financed in support of Poland's strategic objectives in the field of energy and the green transition. The systematic and effective involvement of local and regional authorities, social partners and other relevant stakeholders as well as the overall quality of social dialogue remain important for the successful implementation of the recovery and resilience plan, as well as other economic and employment policies going beyond that plan, in order to ensure broad ownership of the overall policy agenda.

(30) The Commission approved all Poland's cohesion policy programming documents in 2022. Proceeding with the swift implementation of the cohesion policy programmes in complementarity and synergy with the recovery and resilience plan, including the REPowerEU chapter, is key to achieving the green and digital transitions, increasing economic and social resilience, and achieving a balanced territorial development in Poland.

(31) Beyond the economic and social challenges addressed by the recovery and resilience plan and cohesion policy programmes, Poland faces a number of additional challenges related to the investment climate, energy policy and the green transition.

(32) The independence, efficiency and quality of the justice system are essential for a stable and predictable business environment as well as a friendly investment climate. These play an important role in achieving sustainable economic growth over the medium to long term. The investment climate in Poland continues to be impaired by serious concerns related to the rule of law, including the independence of the judiciary, as identified in rulings by the Court of Justice of the European Union (the 'Court of Justice') and the European Court of Human Rights. Furthermore, on 15 February 2023, the Commission referred Poland to the Court of Justice for violations of Union law by the Polish Constitutional Tribunal and its case law, violations that particularly challenge the primacy of Union law.

(33) Poland's energy mix is heavily dominated by fossil fuels, with coal accounting for around 60 % of it and renewable energy sources just 13 % in 2021. Poland has stopped importing natural gas from Russia since April 2022 and oil since February 2023. The impact on the security of the country's energy supply has been lessened by the diversification efforts of recent years. Poland has been decarbonising at a substantially lower rate than other Member States. Poland still has ample scope to address regulatory and administrative barriers to accelerating the deployment of renewable energy sources. Increasing energy generation from renewable sources is key to decarbonising the Polish economy and to achieving climate neutrality. To unleash the potential of renewable sources, Poland needs to improve its internal networks for energy transmission and distribution as well as those for energy storage, and reform its regulatory environment. In particular, Poland should implement measures to remove barriers to the permitting process for renewable energy sources. Those measures should focus on: (i) accelerating the inclusion of renewable energy sources in spatial plans; (ii) setting up renewables go-to areas; (iii) amending rules on grid connection permits; and (iv) modernising obsolete and inefficient distribution networks. Further reforms are needed to: (i) enable industry to benefit from clean energy through long-term contracts for power supply and demand, such as power purchase agreements; (ii) remove restrictions on energy communities; and (iii) promote the deployment of renewables in the district heating sector.

(34) Poland's consumption of natural gas dropped by 13 % in the period between August 2022 and March 2023, compared with the average gas consumption over the same period in the preceding five years, slightly below the 15 % reduction target laid down in Council Regulation (EU) 2022/1369[16]. Poland is encouraged to enhance efforts to temporarily reduce gas demand until 31 March 2024 pursuant to Council Regulation (EU) 2023/706[17]. Despite a number of measures in place to contain energy demand, further efforts are needed to improve energy efficiency, especially for residential buildings and district heating systems. Final energy consumption in Poland was 75.2 Mtoe in 2021, and has been on the rise throughout the last decade. More than half of the energy demand of residential buildings for heating is currently satisfied by coal, either through direct use or indirectly in district heating. However, residential buildings remain largely energy inefficient, contributing to higher investment needs compared to other Member States. Additionally, the district heating sector requires targeted reforms and stepped-up investments to accelerate its decarbonisation, increase its efficiency and ensure its long-term financial viability.

(35) Between 2005 and 2021, greenhouse gas emissions from domestic transport (except aviation) in Poland grew by 88,3 %, in stark contrast to the decrease by 7,5 % in the Union on average. Even with the additional measures included in Poland's energy and climate plan, by 2030, greenhouse gas emissions from that sector are projected to be still 56 % higher than in 2005. Building on the reforms and investments in Poland's resilience and recovery plan, further effort is necessary to promote sustainable public transport modes. The electrification of domestic transport needs to go hand in hand with the decarbonisation of the electricity supply to reduce sectoral emissions effectively.

[16] Council Regulation (EU) 2022/1369 of 5 August 2022 on coordinated demand-reduction measures for gas (OJ L 206, 8.8.2022, p. 1).

[17] Council Regulation (EU) 2023/706 of 30 March 2023 amending Regulation (EU) 2022/1369 as regards prolonging the demand-reduction period for demand-reduction measures for gas and reinforcing the reporting and monitoring of their implementation (OJ L 93, 31.3.2023, p. 1).

(36) Labour and skills shortages in sectors and occupations key for the green transition, including manufacturing, deployment and maintenance of net-zero technologies, are creating bottlenecks in the transition to a net-zero economy. High-quality education and training systems that respond to changing labour market needs and targeted upskilling and reskilling measures are key to reducing skills shortages and promoting labour inclusion and reallocation. To unlock untapped labour supply, those measures need to be accessible, in particular for individuals and in sectors and regions most affected by the green transition. In Poland, in the context of the green transition, labour shortages in key sectors have increased in recent years, also linked to a lack of relevant skills, and are creating bottlenecks in the transition to a net-zero economy. In 2022, labour shortages were reported as a factor that constrained production in industry (63,4 % of firms) and construction (74,6 % of firms).

(37) In the light of the Commission's assessment, the Council has examined the 2023 Convergence Programme and its opinion[18] is reflected in recommendation (1),

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

HEREBY RECOMMENDS that Poland take action in 2023 and 2024 to:

1. Wind down the emergency energy support measures in force, using the related savings to reduce the government deficit, as soon as possible in 2023 and 2024. Should renewed energy price increases necessitate new or continued support measures, ensure that such support measures are targeted at protecting vulnerable households and firms, are fiscally affordable and preserve incentives for energy savings.

   Ensure prudent fiscal policy, in particular by limiting the nominal increase in nationally financed net primary expenditure in 2024 to not more than 7,8 %[19].

   Preserve nationally financed public investment and ensure the effective absorption of grants under the Facility and of other Union funds, in particular to foster the green and digital transitions.

   For the period beyond 2024, continue to pursue a medium-term fiscal strategy of gradual and sustainable consolidation, combined with investments and reforms conducive to higher sustainable growth, in order to achieve a prudent medium-term fiscal position.

   Improve the efficiency of public spending, including through better targeting of social benefits. Ensure the adequacy of future pension benefits and the sustainability of the pension system by taking measures to increase the effective retirement age and reforming preferential pension schemes.

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[19] Which is estimated to correspond to an annual improvement in the structural budget balance of at least 0,5 % of GDP for 2024, as described in recital 23.

2. Urgently fulfil the required milestones and targets related to the protection of the financial interests of the Union in order to allow for a swift and steady implementation of its recovery and resilience plan. Swiftly finalise the REPowerEU chapter with a view to rapidly starting the implementation thereof. Proceed with the speedy implementation of cohesion policy programmes, in close complementarity and synergy with the recovery and resilience plan.

3. Enhance the investment climate, including by safeguarding judicial independence.

4. Accelerate the phasing-out of fossil fuels and the deployment of renewable energy. Reform the legal framework for grid connection permitting and for renewable energy sources, including energy communities, biomethane and renewable hydrogen. Implement measures to promote energy savings and gas demand reductions. Scale up investment in energy efficiency for buildings and decarbonise the heat supply in district heating in order to address energy poverty. Further promote sustainable public transport modes. Step up policy efforts aimed at the provision and acquisition of skills and competences needed for the green transition, including for building renovation.

Done at Brussels,

For the Council
The President