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NOTE

From:	General Secretariat of the Council
To:	Permanent Representatives Committee/Council
No. Cion doc.:	9421/22 - COM(2022) 622 final
Subject:	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

Delegations will find attached the abovementioned draft Council Recommendation, as revised and agreed by various Council committees, based on the Commission proposal COM(2022) 622 final.

COUNCIL RECOMMENDATION

of …

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] 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, 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 transitions, 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 maximum financial contribution per Member State under the Recovery and Resilience Facility will be updated in June 2022, in line with Article 18(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 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 Porto Social Commitment signed on 7 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 of the European Parliament and of the Council[3], the Commission also adopted the Alert Mechanism Report, in which it did not identify Poland as one of the Member States for which an in-depth review would be needed. On the same date, the Commission also adopted a proposal for the 2022 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 Joint Employment Report on 14 March 2022.

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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).

(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 through, inter alia, higher prices for energy, food and raw materials, and weaker growth prospects. The higher energy prices weigh particularly heavily on the most vulnerable households experiencing or at risk of energy poverty as well as on firms most vulnerable to energy prices hikes. The Union is also seeing an unprecedented inflow of people fleeing Ukraine. The economic effects stemming from Russia's war of aggression have impacted Member States asymmetrically. In this context, on 4 March 2022, Council Directive 2001/55/EC[4] was triggered for the first time by Council Implementing Decision (EU) 2022/382[5], granting displaced persons from Ukraine the right to legally stay in the Union, as well as access to education and training, the 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.

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4 Council Directive 2001/55/EC of 20 July 2001 on minimum standards for giving temporary protection in the event of a mass influx of displaced persons and on measures promoting a balance of efforts between Member States in receiving such persons and bearing the consequences thereof (OJ L 212, 7.8.2001, p. 12).

5 Council Implementing Decision (EU) 2022/382 of 4 March 2022 establishing the existence of a mass influx of displaced persons from Ukraine within the meaning of Article 5 of Directive 2001/55/EC, and having the effect of introducing temporary protection (OJ L 71, 4.3.2022, p. 1).

(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 European Semester cycles. The 2019 and 2020 country-specific recommendations remain equally relevant also for the 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 other country-specific recommendations issued up to the date of submission of such revised, updated or amended recovery and resilience plans.

(5) The general escape clause of the Stability and Growth Pact has been active since March 2020. In its communication of 3 March 2021 entitled 'One year since the outbreak of COVID-19: fiscal policy response', 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 Union or euro area compared to pre-crisis levels (end of 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 Recommendation of 18 June 2021[6] delivering a Council opinion on the 2021 Convergence Programme of Poland, the overall fiscal stance is currently best measured as the change in primary expenditure (net of discretionary revenue measures and excluding temporary emergency measures related to the COVID-19 crisis) but including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other Union funds, relative to medium-term potential growth[7]. 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[8] primary current expenditure (net of discretionary revenue measures and excluding temporary emergency measures related to the COVID-19 crisis) and investment.

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6 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).

7 The estimates on the fiscal stance and its components in this Recommendation are Commission estimates based on the assumptions underlying the Commission's 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.

8 Not financed by grants under the Recovery and Resilience Facility or other Union funds.

(7) On 2 March 2022, the Commission adopted a communication providing broad guidance for fiscal policy in 2023 ('the fiscal guidance') aimed at supporting the preparation of Member States' Stability and Convergence Programmes and thereby strengthening policy coordination. The Commission noted that, on the basis of 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, while standing ready to react to the evolving economic situation, would appear appropriate in 2023. The Commission announced that the fiscal recommendations for 2023 should continue to differentiate between 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 European Semester spring package of late May 2022.

(8) With respect to the fiscal guidance, 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 Commission's 2022 winter forecast. Against these considerations, the fiscal response has to expand public investment for the green and digital transitions 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, including challenges that arise from Russia's war of aggression against Ukraine with regard to defence and security, and has to differentiate between Member States according to their fiscal and economic situation, including as regards their 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. 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, on 1 June 2022 the Commission assessed the relevance, effectiveness, efficiency and coherence of the recovery and resilience plan, in accordance with the assessment guidelines of Annex V to that Regulation.

(10) The Commission published the 2022 country report for Poland 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 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.

(11) On 23 May 2022, 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 is planned to exceed the Treaty reference value of 3 % of gross domestic product (GDP). 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 will reassess whether it is necessary to propose the opening of such procedures in autumn 2022.

(12) In its Recommendation of 20 July 2020[9], the Council recommended Poland to take in 2020 and 2021 all necessary measures, in line with the general escape clause, to effectively address the COVID-19 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, according to data validated by Eurostat, Poland's general government deficit decreased from 6,9 % of GDP in 2020 to 1,9 %. The fiscal policy response by Poland supported the economic recovery in 2021, while temporary emergency measures declined from 4,5 % of GDP in 2020 to 2,7 % in 2021. The measures taken by Poland in 2021 were 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. According to data validated by Eurostat, general government debt fell from 57,1 % of GDP in 2020 to 53,8 % of GDP in 2021.

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9 Council Recommendation of 20 July 2020 on the 2020 National Reform Programme of Poland and delivering a Council opinion on the 2020 Convergence Programme of Poland (OJ C 282, 26.8.2020, p. 135).

(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 2022 Convergence 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's 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 mainly because of lower revenues and the assumed increase in the cost of aid to displaced persons from Ukraine. The Commission's 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. According to the Commission's 2022 spring forecast, the medium-term (10-year average) potential output growth is estimated at 3,4 %. However, that 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 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's 2022 spring forecast are estimated at 1,0 % of GDP in 2022 and are expected to be phased out in 2023.[10] Those measures mainly consist of cuts to indirect taxes on energy consumption and social transfers to poorer households. Those measures have been announced as temporary. However, in the event that energy prices remain elevated in 2023, some of those measures could be continued. Some of those measures are not targeted, in particular across-the-board cuts in value added tax and excise duties. The government deficit is also impacted by the cost of offering temporary protection to displaced persons from Ukraine, which in the Commission's 2022 spring forecast is projected at 0,6 % of GDP in 2022 and 0,8 % in 2023[11].

(15) In its Recommendation of 18 June 2021, the Council recommended that in 2022 Poland pursue a supportive fiscal stance, including from the impulse provided by the Recovery and Resilience Facility, and preserve nationally financed investment. The Council 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.

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10 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.

11 It is assumed that the total number of persons displaced from Ukraine to the Union will gradually reach 6 million by the end of 2022, and their geographical distribution is estimated on the basis of 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 Union 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.

(16) In 2022, according to 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 grants under the Recovery and Resilience Facility and other Union 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. That significant expansionary contribution includes the additional impact of the 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.

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12 A negative sign of the indicator corresponds to an excess of primary expenditure growth compared with medium-term economic growth, indicating an expansionary 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).

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's 2022 spring forecast at +1,7 % of GDP on a no-policy-change assumption[15]. Poland is projected to continue using the grants under 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 grants under the Recovery and Resilience Facility and other Union 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).

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

16 Other nationally financed capital expenditure is projected to provide a contractionary contribution of 0,1 percentage point 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 2022 Convergence 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. According to 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. Those 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 managing the crisis-related expenditure and allowed them to avoid running the risk of breaching the constitutional public debt level, 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 Union 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's 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 submitted its cohesion policy programming documents provided for in Regulation (EU) 2021/1060 of the European Parliament and of the Council[17] on 15 December 2021. In line with Regulation (EU) 2021/1060, Poland is to 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 coordination, complementarity and coherence between those cohesion policy 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.

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[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).

(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 Member States, and limited access to childcare hampers women from entering the labour market. In addition, the insufficient 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 Union 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 be high, especially among 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. Those 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 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, including funding, 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 Union 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 Member States. The primary care system is understaffed, and its services are overstretched. Its potential remains untapped thus overburdening higher levels of care. Whereas expanded e-health services help address some of the challenges faced by the health system, their uptake 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. At the same time, social benefits coverage for some people working under civil law contracts is limited, making that 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 are expected to 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 research and development (R&D) spending is low at 1,39 % of GDP. Business R&D expenditure remains well below the Union 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 limited adoption of technologies in firms contribute to significant productivity gaps between small and medium-sized enterprises 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 Union 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 notably challenged the primacy of Union law, putting at risk the functioning of Poland's 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 Union-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 Union Heads of State or Government set out in the Versailles Declaration, the Commission's proposal for a REPowerEU plan aims to phase out the Union’s dependence on fossil-fuel imports from Russia as soon as possible. For this purpose, the Commission intends to identify the most-suitable projects, investments and reforms at national, regional and Union level in dialogue with Member States. These measures aim to reduce overall reliance on fossil fuels, and 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 Union 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 Union average of 54 %. 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 the Union average of 26 %. Poland's dependency on Russia for natural gas in 2020 stood at 55 %, compared to 44 % for the Union average[19]. Ongoing and planned infrastructure projects within Poland and with neighbouring countries (including the GIPL interconnector with Lithuania that is operational as of 1 May 2022), when accompanied by corresponding supply contracts, are expected to fully 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.

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18 Climate Action Progress Report (2021)

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. As of 27 April 2022, Poland is no longer receiving gas from Russia.

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 Union. However, the suspension requires an acceleration of ongoing and planned supply diversification projects, as well as increased coordination of further actions within the Union.

(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 renewable energy sources with the grid. These include restrictive rules on energy cooperatives, restrictive rules and lengthy permitting procedures for onshore wind development, the complexity and instability of tax regulations, and 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 Commission communication of 18 May 2022 ('REPowerEU communication') has indicated that increasing sustainable biomethane production will contribute to phasing out the Union'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 employed in the cogeneration of heat and electricity and of renewable hydrogen, which could help to decarbonise 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 the 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. A further increase in ambition in respect of reducing greenhouse-gas emissions and increasing renewable energy and energy efficiency will be needed in order for Poland to be in line with the “Fit for 55” objectives.

(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's 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 Union 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 Union 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 socioeconomic impact of the transition in the most-affected regions. In addition, Poland can make use of the European Social Fund Plus, established by Regulation (EU) 2021/1057 of the European Parliament and of the Council[20], 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[21] is reflected in recommendation (1),

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

1. In 2023, ensure that the growth of nationally financed primary 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 transitions, and for energy security taking into account the REPowerEU initiative, including by making use of the Recovery and Resilience Facility and other Union 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 system. 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 on the 2021–2027 cohesion policy programming documents with a view to starting their implementation.

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[20] Regulation (EU) 2021/1057 of the European Parliament and of the Council of 24 June 2021 establishing the European Social Fund Plus (ESF+) and repealing Regulation (EU) No 1296/2013 (OJ L 231 30.6.2021, p. 21).

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

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.

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 procedures 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