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Recommendation for a

COUNCIL RECOMMENDATION

on Poland’s 2012 national reform programme

and delivering a Council Opinion on Poland’s convergence programme for 2012-2015

{SWD(2012) 323 final}

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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 5(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,

After consulting the Economic and Financial Committee,

Whereas:

(1) On 26 March 2010, the European Council agreed to the European Commission's proposal to launch a new strategy for jobs and growth, Europe 2020, based on enhanced coordination of economic policies, which will focus 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 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, adopted a decision on guidelines for the employment policies of the Member States[4], which together form the 'integrated guidelines'. Member States were invited to take the integrated guidelines into account in their national economic and employment policies.

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1 OJ L 209, 02.08.1997, p. 1
2 COM(2012)323 final
3 P7_TA(2012)0048 and P7_TA(2012)0047
4 Council Decision 2012/238/EU of 26 April 2012

(3) On 12 July 2011, the Council adopted a recommendation on Poland’s national reform programme for 2011 and delivered its opinion on Poland’s updated convergence programme for 2011-2014.

(4) On 23 November 2011, the Commission adopted the second Annual Growth Survey, marking the start of the second European semester of ex-ante and integrated policy coordination, which is anchored in the Europe 2020 strategy. On 14 February 2012, the Commission, on the basis of Regulation (EU) 1176/2011, 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 2 March 2012, the European Council endorsed the priorities for ensuring financial stability, fiscal consolidation and action to foster growth. It underscored the need to pursue differentiated, growth-friendly fiscal consolidation, to restore normal lending conditions to the economy, to promote growth and competitiveness, to tackle unemployment and the social consequences of the crisis, and to modernise public administration.

(6) On 2 March 2012, the European Council also invited the Member States participating in the Euro Plus Pact to present their commitments in time for inclusion in their stability or convergence programmes and their national reform programmes.

(7) On 25 April 2012, Poland submitted its convergence programme covering the period 2012-2015 and, on 27 April 2012, its 2012 national reform programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

(8) Based on the assessment of the 2012 convergence programme pursuant to Council Regulation (EC) No 1466/97, the Council is of the opinion that the macroeconomic scenario underpinning the budgetary projections in the programme is plausible and is in line with the Commission's 2012 spring forecast. The objective of the budgetary strategy outlined in the programme is to correct the excessive deficit by 2012 and reach medium-term budgetary objective (MTO) by 2015. The programme confirms the MTO of a deficit of 1% of GDP, which adequately reflects the requirements of the Stability and Growth Pact. The planned correction of the deficit is in line with the deadline set by the Council and the planned fiscal effort complies with the recommendation under the Excessive Deficit Procedure. Based on the (recalculated) structural deficit[6], the planned annual progress towards the MTO is higher than 0.5% of GDP (in structural terms). The growth rate of government expenditure, taking into account discretionary revenue measures, is in line with the benchmark of the Stability and Growth Pact over entire programme period, but exceeds the expenditure benchmark by a small margin in 2013, according to the Commission's 2012 spring forecast. Sufficient progress towards the MTO may require additional efforts as it predominantly relies on sizeable cuts in public investment expenditure and is not sufficiently supported by detailed measures in the outer years of the programme. General government debt is projected to remain below 60 % of GDP in Poland over

[5] COM(2012) 68 final

[6] Cyclically adjusted balance net of one-off and temporary measures, recalculated by the Commission services on the basis of the information provided in the programme, using the commonly agreed methodology.

the programme period. The national authorities forecast it to decrease gradually from 56.3% of GDP in 2011 to 49.7% of GDP in 2015, whereas the Commission, taking account of possible risks to the consolidation plans, expects the improvement to be slower.

(9) The Polish government has not yet taken action to implement a permanent expenditure rule by 2013. Work on a permanent rule is still in preparation and no details have been disclosed so far. There has also been no progress on adjusting the classification of national accounts to the European system of accounts (ESA95 standards) and on improving coordination among different levels of government when it comes to the budgetary process.

(10) Youth unemployment is above the EU average and is largely the result of skills mismatch and low access to apprenticeships and work-based learning. Measures are planned to facilitate the entry of young people into the labour market. The partial abuse of self-employment and civil law contracts which are not governed by Labour Law appear to be a cause of labour market segmentation and in-work poverty, which is among the highest in the EU. Additionally, the scope and adequacy of in-work benefits support for low-wage earners should be reviewed

(11) Poland started implementing an ambitious higher education reform in the second half of 2011. This aims to strengthen university-business links and to address the skills and jobs mismatch. The reform aims to make courses more flexible and more responsive to changing labour market needs. It also promotes self-employment. Nevertheless, there is still a need to improve the relevance and quality of teaching provision, with a particular focus on tertiary private institutions.

(12) The participation of women in the labour market needs to be raised by improving the childcare system. Poland currently has the lowest enrolment rate in pre-school education in Europe. This is due to the lack of places, lack of adequate infrastructure, and of qualified staff. The Government's declaration that it would generate additional funds to set up pre-school childcare institutions (3-5 years of age) is not reflected in the 2012 Budget Law, which decreased education subsidies. This has resulted in some municipalities closing down schools and kindergartens.

(13) To address the low participation of older workers in the labour market, Poland has adopted a general pension reform. The statutory retirement age will be raised gradually from 2013 onwards to reach 67 for men in 2020 and for women in 2040. Poland has continued its efforts to limit favourable retirement conditions for uniformed services. In 2011, Poland introduced some changes to the farmers' social security fund (KRUS). However, the reform is temporary and not sufficient from the labour market perspective. Miners still benefit from a special pension scheme.

(14) Recent reforms to improve the research environment aim to concentrate tailored funding on the institutions that perform best. The National Research Programme, adopted in August 2011, is an important step in this direction. However, it remains unclear how priorities in the programme are linked and taken forward in innovation and industrial policy.

(15) Unjustified restrictions on providing professional services are a major obstacle to further growth, in particular in construction, transport and health. The government has

announced a plan to scale down regulation in professional services by 50 %, regarding both educational requirements and licensing. Despite recent efforts, the administrative burden on business remains high, and public administration continues to lack efficiency. The main areas of concern include high compliance costs, complex and unstable tax legislation, weak contract enforcement, lengthy and burdensome licensing and permit procedures, and property registration and zoning legislation. Judicial proceedings and other legal actions are lengthy and there are a relatively high number of cases pending.

(16) Growth and competition in the energy sector is held back by lagging implementation of EU legislation, in particular regarding the Second and Third Energy Package and the EU Renewable Energy Directive and pending infringement procedures. While the motorway and expressway network is being extensively developed with support from EU funds, the need for investment in the rail network is even more pressing, given the very poor state of the infrastructure. Poland is not fully using Cohesion Fund resources available for this purpose. There are still obstacles to efficient functioning of the railway market.

(17) Poland has made a number of commitments under the Euro Plus Pact. The commitments, and the implementation of the commitments presented in 2011, relate to fostering employment, improving competitiveness, enhancing sustainability of public finances and reinforcing financial stability. The Commission has assessed the implementation of the Euro Plus Pact commitments. The results of this assessment have been taken into account in the recommendations.

(18) In the context of the European Semester, the Commission has carried out a comprehensive analysis of Poland's economic policy. It has assessed the convergence programme and national reform programme. It has taken into account not only their relevance for sustainable fiscal and socio-economic policy, 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. Its recommendations under the European Semester are reflected in recommendations (1) to (6) below.

(19) In the light of this assessment, the Council has examined the 2012 convergence programme, and its opinion[7] is reflected in particular in recommendation (1) below,

HEREBY RECOMMENDS that Poland should take action within the period 2012-2013 to:

1. Ensure planned progress towards the correction of the excessive deficit. To this end, fully implement the budget for the year 2012 and achieve the structural adjustment effort specified in the Council recommendations under the Excessive Deficit Procedure. Thereafter, specify the measures necessary to ensure implementation of the budgetary strategy for the year 2013 and beyond as envisaged, ensuring an adequate structural adjustment effort to make sufficient progress towards the medium-term objective, including meeting the expenditure benchmark. Minimise cuts in growth-enhancing expenditure in the future and improve tax compliance.

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

2. Speed up the reform of the fiscal framework by enacting legislation with a view to introducing a permanent expenditure rule by 2013. This rule should be consistent with the European system of accounts. Take measures to strengthen the mechanisms of coordination among the different levels of government in the medium-term and annual budgetary processes.

3. To reduce youth unemployment, increase the availability of apprenticeships and work-based learning, improve the quality of vocational training and adopt the proposed lifelong learning strategy. Better match education outcomes with the needs of the labour market and improve the quality of teaching. To combat labour market segmentation and in-work poverty, limit excessive use of civil law contracts and extend the probationary period for permanent contracts.

4. Reinforce efforts to increase the labour market participation of women and raise enrolment rates of children in both early childcare and pre-school education, by ensuring stable funding and investment in public infrastructure, provision of qualified staff and affordable access. Tackle entrenched practices of early retirement to increase exit ages from the labour market. Phase out the special pension scheme for miners with a view to fully integrating them into the general scheme. Take more ambitious, permanent steps to reform the social security fund for farmers (KRUS) to better reflect individual incomes.

5. Take additional measures to ensure an innovation-friendly business environment, by ensuring better links between research, innovation and industry, and by establishing common priority areas and instruments supporting the whole innovation cycle; improve access to finance for research and innovation activities through guarantees and bridge financing.

6. Step up efforts to improve incentives for investment in energy generation capacity and efficiency, speed up the development of cross-border electricity grid interconnections and strengthen competition in the gas sector by phasing out regulated prices and by creating a gas trading platform. Strengthen the role and resources of the railway market regulator and ensure effective and swift implementation of railway investment projects. Reduce restrictions on professional services and simplify contract enforcement and requirements for construction permits.

Done at Brussels,

For the Council
The President