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Recommendation for a

COUNCIL DECISION

abrogating Decision 2009/589/EC on the existence of an excessive deficit in Poland

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THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 126(12) thereof,

Having regard to the recommendation from the Commission,

Whereas:

(1) On 7 July 2009, following a recommendation from the Commission, the Council decided, in accordance with Article 104(6) of the Treaty establishing the European Community (TEC), that an excessive deficit existed in Poland.

(2) On the same date, in accordance with Article 104(7) of the TEC and Article 3(4) of Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure[1], the Council, based on a recommendation from the Commission, addressed a recommendation to Poland with a view to bringing the excessive deficit situation to an end by 2012.

(3) On 21 June 2013, the Council concluded that Poland had taken effective action but adverse economic events with major implications on public finances had occurred after the adoption of the original recommendation. Therefore, the Council, following a recommendation from the Commission, considered that the conditions foreseen in Article 3(5) of Regulation (EC) No 1467/97 were fulfilled and issued a new Recommendation to Poland under Article 126(7) of the Treaty, with a view to bringing the excessive deficit situation to an end by 2014[2].

(4) On 10 December 2013, the Council decided under Article 126(8) of the Treaty that Poland had not taken effective action in response to the Council Recommendation of 21 June 2013 to correct its excessive deficit by 2014[3], and under Article 126(7) of the Treaty recommended Poland to put an end to the excessive deficit situation by 2015[4]. Poland was recommended to reach a headline deficit of 4.8% of GDP in 2013, 3.9% of GDP in 2014 and of 2.8% of GDP in 2015 (excluding the impact of the asset transfers from the second pillar pension system). Based on the macroeconomic forecast underlying the Council recommendation, this was consistent with an improvement of the structural balance of 1% of GDP in 2014 and 1.2% of GDP for 2015. Poland was

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1 OJ L 209, 2.8.1997, p. 6.

2 Council Recommendation of 21 June 2013 with a view to bringing an end to the situation of an excessive government deficit in Poland.

3 Council Decision 2013/758/EU of 10 December 2013 establishing that no effective action has been taken by Poland in response to the Council Recommendation of 21 June 2013.

4 Council Recommendation of 2 December 2013 with a view to bringing an end to the situation of an excessive government deficit in Poland.

also recommended to implement rigorously the measures it had already announced and adopted, while complementing them with additional measures to achieve a sustainable correction of the excessive deficit by 2015. Poland was given a deadline of 15 April 2014 to report on the measures taken to comply with this recommendation.

(5) On 2 June 2014, the Commission concluded that no further steps in the excessive deficit procedure were needed at that moment.

(6) In accordance with Article 4 of the Protocol on the excessive deficit procedure annexed to the Treaties, the Commission provides the data for the implementation of the procedure. As part of the application of this Protocol, Member States are to notify data on government deficits and debt and other associated variables twice a year, namely before 1 April and before 1 October, in accordance with Article 3 of Council Regulation (EC) No 479/2009 of 25 May 2009 on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community[5].

(7) The Council should take a decision to abrogate a decision on the existence of an excessive deficit on the basis of notified data. Moreover, a decision on the existence of an excessive deficit should be abrogated only if (i) the Commission forecasts indicate that the deficit will not exceed the 3% of GDP threshold over the forecast horizon[6]; and (ii) the debt ratio fulfils the forward-looking element of the debt benchmark.

(8) Moreover, in accordance with the Stability and Growth Pact, due consideration should be given to systemic pension reforms introducing a multi-pillar system that includes a mandatory, fully-funded pillar.

(9) Based on data provided by the Commission (Eurostat) in accordance with Article 14 of Regulation (EC) No 479/2009, following the April 2015 notification by Poland, the 2015 Convergence Programme and the Commission 2015 spring forecast, the following conclusions are justified:

– In 2014, the general government deficit amounted to 3.2% of GDP. Since this number can be considered to be close to the reference value and Poland's debt-to-GDP ratio is below the 60% of GDP reference value in a sustained manner, Poland is eligible to the provisions regarding systemic pension reforms of Article 2(7) of Regulation (EC) 1467/97. The Polish systemic pension reform from 1999 has been reversed by a law adopted in December 2013. Based on this reversal, part of the assets accumulated in the private, fully-funded pension funds (forming the second pillar of the Polish pension system) were transferred to the public social security scheme (first pillar of the Polish pension system). Moreover, the second pillar of the pension system lost its universal coverage, in the sense that participation stopped being compulsory. As a result, the 2013 reversal put to an end the systemic nature of the 1999 reform. However, until end-July 2014 social contributions of all participants still went to the second pillar. These contributions are net costs of the systemic pension reform of 1999 and are to be taken into account when assessing the correction of the excessive deficit. Total direct net costs for the period January – July 2014 are estimated at 0.4% of GDP, and are thus sufficient to explain the excess of the general government deficit over the 3% of GDP Treaty reference value in 2014.

[5] OJ L 145, 10.6.2009, p. 1.

[6] In line with the "Specifications on the implementation of the Stability and Growth Pact and Guidelines on the format and content of Stability and Convergence Programmes" of 3 September 2012. See: http://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/coc/code_of_conduct_en.pdf

– The convergence programme, submitted by the Polish government on 30 April 2015, targets at deficit of 2.7% of GDP in 2015 and of 2.3% of GDP in 2016. The Commission 2015 spring forecast projects a deficit of 2.8% of GDP in 2015, and, based on a no-policy change assumption, of 2.6% of GDP in 2016. Thus, the deficit is set to remain below the Treaty reference value of 3% of GDP over the forecast horizon.

– The Commission estimates the structural balance, that is the general government balance adjusted for the economic cycle and net of one-off and other temporary measures, to have improved by 0.9% of GDP in 2014.

– The general government gross debt amounted to 50.1% in 2014. The Commission 2015 spring forecast projects the general government gross debt to amount to 50.9% of GDP in 2015 and 50.8% of GDP in 2016, i.e. below the 60% of GDP reference value.

(10) As from 2015, which is the year following the correction of the excessive deficit, Poland is subject to the preventive arm of the Stability and Growth Pact and should progress towards its medium-term objective at an appropriate pace, including respecting the expenditure benchmark. The Commission 2015 spring forecast projects the structural balance to improve by 0.2% of GDP both in 2015 and 2016, based on the no-policy change assumption. On the basis of an overall assessment, Poland is projected to be compliant with the required adjustment towards the medium-term objective in 2015 based on a net expenditure growth below the benchmark, whereas there is a risk of some deviation from the required adjustment in 2016 as the structural adjustment falls short of the requirement in 2016 so that further measures will be needed in that year.

(11) In accordance with Article 126(12) of the Treaty, a Council Decision on the existence of an excessive deficit is to be abrogated when the excessive deficit in the Member State concerned has, in the view of the Council, been corrected.

(12) In the view of the Council, the excessive deficit in Poland has been corrected and Decision 2009/589/EC should therefore be abrogated.

(13) The Council recalls that the systemic pension reform of 1999 replaced a defined-benefit public pension scheme, with a three-pillar system based on defined contributions. The main objective of the reform was to improve the sustainability of the Polish pension system especially in light of the very challenging demographic outlook Poland is facing. The reversal of the systemic reform at the end of 2013, increased again the role of the first, public pillar, which, contrary to the second pillar, is not fully funded, but a notional defined-contribution system. While producing some budgetary relief in the short term, the reversal of the systemic reform of 1999 does not improve the long-term sustainability of public finances, as the short-term benefits from higher social contributions and lower interest payments will be offset by higher future pension payments from the public pension pillar. Overall, the reversal of the systemic pension reform of 1999 carries some risks for Polish public finances in the long run,

HAS ADOPTED THIS DECISION:

Article 1

From an overall assessment it follows that the excessive deficit situation in Poland has been corrected.

Article 2

Decision 2009/589/EC is hereby abrogated.

Article 3

This Decision is addressed to the Republic of Poland.

Done at Brussels,

For the Council
The President