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Recommendation for a

COUNCIL RECOMMENDATION

on the economic, social, employment, structural and budgetary policies of Poland

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Recommendation for a

COUNCIL RECOMMENDATION

on the economic, social, employment, structural and budgetary policies 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 Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and on multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97[1], and in particular Article 3(3) 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) 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 to the Member States for the implementation of reforms and investment, entailing a fiscal impulse financed by the EU. In line with the European Semester priorities, it helps achieve the economic and social recovery and implement sustainable reforms and investment, in particular to promote the green and digital transitions and 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 EU and support the continued implementation of the European Pillar of Social Rights.

(2) The REPowerEU Regulation[3], adopted on 27 February 2023, aims to phase out the EU's dependency on Russian fossil fuel imports. This would help achieve energy security and diversify the EU's energy supply, while increasing the uptake of

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1 OJ L 2024/1263, 30.4.2024 ELI: http://data.europa.eu/eli/reg/2024/1263/oj.

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) ELI: http://data.europa.eu/eli/reg/2021/241/oj.

3 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) ELI: http://data.europa.eu/eli/reg/2023/435/oj.

renewables, energy storage capacities and energy efficiency. Poland added a new REPowerEU chapter to its national recovery and resilience plan in order to finance key reforms and investments that will help achieve the REPowerEU objectives.

(3) On 16 March 2023, the Commission issued a Communication on the 'Long-term competitiveness of the EU: looking beyond 2030'[4], in order to inform policy decisions and create the framework conditions for increasing growth. The Communication frames competitiveness along nine mutually reinforcing drivers. Among these drivers, access to private capital, research and innovation, education and skills, and the single market emerge as paramount policy priorities for reform and investment to address current productivity challenges as well as to build up the long-term competitiveness of the EU and its Member States. On 14 February 2024, the Commission followed this Communication with the Annual Single Market and Competitiveness Report[5]. The report details the competitive strengths and challenges of Europe's Single Market, tracking yearly developments according to the nine competitiveness drivers identified.

(4) On 21 November 2023, the Commission adopted the 2024 Annual Sustainable Growth Survey[6], marking the start of the 2024 cycle of the European Semester for economic policy coordination. The European Council endorsed the priorities of the survey around the four dimensions of competitive sustainability on 22 March 2024. On 21 November 2023, on the basis of Regulation (EU) No 1176/2011, the Commission also adopted the 2024 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, and for which an in-depth review would be needed. The Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area, which the Council adopted on 12 April 2024, as well as the proposal for the 2024 Joint Employment Report analysing the implementation of the Employment Guidelines and the principles of the European Pillar of Social Rights, which the Council adopted on 11 March 2024.

(5) On 30 April 2024, the EU's new economic governance framework came into force. The framework includes the new Regulation of the European Parliament and of the Council (EU) 2024/1263 on the effective coordination of economic policies and multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97. It also includes the amended Regulation (EC) No 1467/97 on the implementation of the excessive deficit procedure and the amended Directive 2011/85/EU on the budgetary frameworks of Member States[7]. The objectives of the new framework are public debt sustainability and sustainable and inclusive growth through gradual fiscal consolidation as well as reforms and investments. It promotes national ownership and has a greater medium-term focus, combined with more effective and coherent enforcement. Each Member State should submit to the Council and to the Commission a national medium-term fiscal-structural plan. National medium-term fiscal-structural plans contain the fiscal, reform and investment commitments of a Member State, covering a planning horizon of 4 years or 5 years

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4 COM(2023) 168 final.

5 COM(2024) 77 final.

6 COM(2023) 901 final.

7 Council Regulation (EU) 2024/1264 of 29 April 2024 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L, 2024/1264, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1264/oj) and Council Directive (EU) 2024/1265 of 29 April 2024 amending Directive 2011/85/EU on requirements for budgetary frameworks of the Member States (OJ L, 2024/1265, 30.4.2024, ELI: http://data.europa.eu/eli/dir/2024/1265/oj).

depending on the regular length of the national legislature. The net expenditure[8] path in the national medium-term fiscal-structural plans should comply with the requirements of Regulation (EU) 2024/1263, including the requirements to put or keep general government debt on a plausibly downward path by the end of the adjustment period at the latest, or for it to remain at prudent levels below 60% of GDP, and to bring and/or maintain the government deficit below the 3% of GDP reference value over the medium term. Where a Member State commits to a relevant set of reforms and investments in accordance with the criteria set out in Regulation (EU) 2024/1263, the adjustment period may be extended by 3 years at most. For the purpose of supporting the preparation of those plans, on [21 June] 2024, the Commission is set to provide Member States with guidance on the content of the plans and the subsequent annual progress reports that they will need to submit and, in accordance with Article 5 of Regulation (EU) 2024/1263, will transmit to them technical guidance on the fiscal adjustments (reference trajectories and technical information, where applicable). Member States should submit their medium-term fiscal-structural plans by 20 September 2024, unless the Member State and the Commission agree to extend the deadline by a reasonable period of time. Member States should ensure the involvement of their national parliaments, and the consultation of independent fiscal institutions, of social partners and other national stakeholders, as appropriate.

(6) In 2024, the European Semester for economic policy coordination continues to evolve in line with the implementation of the Recovery and Resilience Facility. The full implementation of the recovery and resilience plans remains essential for delivering the policy priorities under the European Semester, as the plans help effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations issued in recent years. The 2019, 2020, 2022 and 2023 country-specific recommendations remain equally relevant also for recovery and resilience plans revised, updated, or amended in accordance with Articles 14, 18 and 21 of Regulation (EU) 2021/241.

(7) 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 of Annex V to that Regulation. On 17 June 2022, the Council adopted its Decision on the approval of the assessment of the recovery and resilience plan for Poland[9], which was amended on 8 December 2023 following Article 18(2) of Regulation (EU) 2021/241 on the update of the maximum financial contribution for non-repayable financial support, as well as to include the REPowerEU chapter[10]. The release of instalments is conditional on a decision by the Commission, taken in accordance with Article 24(5) of Regulation (EU) 2021/241,

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8 Net expenditure as defined in Article 2 of Council Regulation (EU) 2024/1263 of 29 April 2024 (OJ L 2024/1263, 30.4.2024. ELI: http://data.europa.eu/eli/reg/2024/1263/oj). Net expenditure means government expenditure net of (i) interest expenditure, (ii) discretionary revenue measures, (iii) expenditure on programmes of the Union fully matched by Union funds revenue, (iv) national expenditure on co-financing of programmes funded by the Union, (v) cyclical elements of unemployment benefit expenditure, and (vi) one-offs and other temporary measures.

9 Council Implementing Decision of 17 June 2022 on the approval of the assessment of the recovery and resilience plan for Poland (9728/22).

10 Council Implementing Decision of 8 December 2023 amending the Implementing Decision of 17 June 2022 on the approval of the assessment of the recovery and resilience plan for Poland (15835/23).

that Poland has satisfactorily fulfilled the relevant milestones and targets set out in the Council Implementing Decision. Satisfactory fulfillment presupposes that the achievement of preceding milestones and targets has not been reversed.

(8) The Commission published the 2024 country report for Poland[11] on 19 June 2024. It assessed Poland's progress in addressing the relevant country-specific recommendations adopted by the Council between 2019 and 2023 and took stock of Poland's implementation of the recovery and resilience plan. Based on this analysis, the country report identified gaps with respect 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 on implementing the European Pillar of Social Rights and on achieving the EU headline targets on employment, skills and poverty reduction, as well as progress in achieving the UN's Sustainable Development Goals.

(9) Based on data validated by Eurostat[12], Poland's general government deficit increased from 3.4% of GDP in 2022 to 5.1% in 2023, while the general government debt rose from 49.2% of GDP at the end of 2022 to 49.6% at the end of 2023. As announced in the fiscal policy guidance for 2024[13], the Commission is taking the first step for the opening of deficit-based excessive deficit procedures on the basis of the outturn data for 2023, in line with existing legal provisions. On 19 June 2024, the Commission adopted a report under Article 126(3) of the TFEU[14]. That report assessed the budgetary situation of Poland, as its general government deficit in 2023 exceeded the reference value of 3% of GDP. The report concluded that in the light of this assessment, and after considering the opinion of the Economic and Financial Committee as established under article 126(4) TFEU, the Commission intends to propose in July to open an excessive deficit procedure, by recommending to the Council to adopt a Decision under Article 126(6) establishing the existence of an excessive deficit, for Poland.

(10) On 12 July 2022, the Council recommended[15] 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[16], 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 was recommended to 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 Recovery and Resilience Facility and other Union funds. In 2023, according to Commission estimates, the fiscal stance[17] was expansionary, by 0.8% of GDP, in a

11 SWD(2024) 621 final.

12 Eurostat-Euro Indicators, 22.4.2024.

13 COM(2023) 141 final.

14 Report from the Commission, prepared in accordance with Article 126(3) of the Treaty on the Functioning of the European Union, 19.6.2024, COM(2024) 598 final.

15 Council Recommendation of 12 July 2022 on the 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.

16 Based on the Commission spring 2024 forecast, the medium-term potential output growth of Poland in 2023, which is used to measure the fiscal stance, is estimated at 14.5% in nominal terms, based on the 10-year average real potential growth rate and the 2023 GDP deflator.

17 The fiscal stance is defined as a measure of the annual change in the underlying budgetary position of the general government. It aims to assess the economic impulse stemming from fiscal policies, both

context of high inflation. The growth in nationally financed primary current expenditure (net of discretionary revenue measures) in 2023 provided a broadly neutral contribution to the fiscal stance of 0.0% of GDP, which is in line with the Council recommendation. The broadly neutral contribution of nationally financed primary current expenditure was due to the reduced costs of the emergency support measures (targeted and untargeted) to households and firms in response to energy price hikes (by 1.2 percentage points of GDP). The main drivers of growth in nationally financed primary current expenditure (net of revenue measures) were increases in public sector wages and pensions. Expenditure financed by Recovery and Resilience Facility grants and other EU funds amounted to 1.5% of GDP in 2023. Nationally financed investment amounted to 3.8% of GDP in 2023, with an annual increase of 0.8 percentage points from 2022. Poland financed additional investment through the Recovery and Resilience Facility and other EU funds, and it preserved nationally financed investment. Poland financed public investment for the green and digital transitions, and for energy security, such as support for the transmission and distribution grids and deployment of renewables, for offshore wind energy plants and for energy-efficient renovation of buildings and green and smart mobility, which are funded by the Recovery and Resilience Facility and other EU funds.

(11) The Commission Spring 2024 Forecast projects real GDP to grow by 2.8% in 2024 and 3.4% in 2025, and HICP inflation to stand at 4.3% in 2024 and 4.2% in 2025.

(12) The Commission Spring 2024 Forecast projects a government deficit of 5.4% of GDP in 2024, while the general government debt-to-GDP ratio is set to increase to 53.7% by the end of 2024. The increase of the deficit in 2024 mainly reflects high spending on defence, salary increases in the public sector and new social benefits. Based on the Commission's estimates, the fiscal stance is projected to be expansionary by 2.4% of GDP in 2024.

(13) Expenditure amounting to 1.0% of GDP will be financed by non-repayable support ("grants") from the Recovery and Resilience Facility in 2024, compared to 0.1% of GDP in 2023, according to the Commission Spring 2024 Forecast. Expenditure financed by Recovery and Resilience Facility grants will enable high-quality investment and productivity-enhancing reforms without a direct impact on the general government balance and debt of Poland. Expenditure amounting to 0.9% of GDP is expected to be backed by loans from the Recovery and Resilience Facility in 2024, compared to 0% of GDP in 2023, according to the Commission Spring 2024 Forecast.

(14) On 14 July 2023, the Council recommended that Poland ensure a prudent fiscal policy, in particular by limiting the nominal increase in net nationally financed primary expenditure[18] in 2024 to not more than 7.8%. When executing their 2023 budgets and preparing their budgets for 2024, Member States were invited to take into account that the Commission would propose to the Council the opening of deficit-based excessive

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those that are nationally financed and those that are financed by the EU budget. The fiscal stance is measured as the difference between (i) the medium-term potential growth and (ii) the change in primary expenditure net of discretionary revenue measures (and excluding temporary emergency measures related to the COVID-19 crisis) and including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other Union funds. A negative (positive) sign of the indicator indicates an expansionary (contractionary) fiscal policy.

[18] Net primary expenditure is defined as nationally financed expenditure net of (i) discretionary revenue measures, (ii) interest expenditure, (iii) cyclical unemployment expenditure, and (iv) and one-offs and other temporary measures.

deficit procedures based on the outturn data for 2023.. According to the Commission Spring 2024 Forecast, Poland's net nationally financed primary expenditure is projected to increase by 12.8% in 2024, which is above the recommended maximum growth rate. This excess spending over the recommended maximum growth rate in net nationally financed primary expenditure corresponds to 2.0% of GDP in 2024. This risks not being in line with what was recommended by the Council.

(15) Moreover, the Council recommended that Poland take action to 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. The Council further specified that, should renewed energy price increases necessitate new or continued support measures, Poland should ensure that these were targeted at protecting vulnerable households and firms, fiscally affordable, and preserve incentives for energy savings. According to the Commission Spring 2024 Forecast, the net budgetary cost[19] of emergency energy support measures is estimated at 0.6% of GDP in 2023 and projected at 0.5% in 2024, and less than 0.1% in 2025. In particular, the price freezing schemes for electricity and gas are assumed to remain in force until June 2024, while price ceilings are assumed to remain in force until the end of 2024 for electricity and gas and until June 2025 for district heating[20]. If the related savings were used to reduce the government deficit, as recommended by the Council, these projections would imply a fiscal adjustment of 0.2% of GDP in 2024, whereas net nationally financed primary expenditure[21] provides an expansionary contribution to the fiscal stance of 2.0% of GDP in that year. The emergency energy support measures are not projected to be wound down as soon as possible in 2023 and 2024. This risks not being in line with what was recommended by the Council. Moreover, the related savings are not projected to be used to reduce the government deficit. This also risks not being in line with the Council recommendation. The budgetary cost of emergency energy support measures targeted at protecting vulnerable households and firms is estimated at less than 0.1% of GDP in 2024 (0.2% of GDP in 2023), of which all preserve the price signal to reduce energy demand and increase energy efficiency.

(16) In addition, the Council also recommended[22] that Poland preserve nationally financed public investment and ensure the effective absorption of Recovery and Resilience Facility grants and other EU funds, in particular to foster the green and digital transitions. According to the Commission Spring 2024 Forecast, nationally financed public investment is projected to increase to 4.0% of GDP in 2024 from 3.8% of GDP in 2023. This is in line with what was recommended by the Council. In turn, public expenditure financed from revenues from EU funds, including Recovery and Resilience Facility grants, is expected to increase to 1.9% of GDP in 2024, from 1.5% of GDP in 2023.

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19 The figure represents the level of the annual budgetary cost of those measures, including revenue and expenditure and, where applicable, net of the revenue from taxes on windfall profits of energy suppliers.

20 Measures that, according to Poland, remain in place until the end of 2024 are, in principle, assumed in the Commission 2024 spring forecast as having a budgetary impact also in 2025.

21 This contribution is measured as the change in general government primary expenditure, net of (i) the incremental budgetary impact of discretionary revenue measures, (ii) one-offs, (iii) cyclical unemployment expenditure and (iv) expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds, relative to the medium-term (10-year) average potential nominal GDP growth rate, expressed as a ratio to nominal GDP.

22 Council Recommendation on the 2023 National Reform Programme of Poland and delivering a Council opinion on the 2023 Convergence Programme of Poland, OJ C 312, 1.9.2023, p. 197.

(17) Based on policy measures known at the cut-off date of the forecast and on a no-policy-change assumption, the Commission Spring 2024 Forecast projects a government deficit of 4.6% of GDP in 2025. The decrease of the deficit in 2025 mainly reflects a cyclical upturn and the expiration of energy support measures. The general government debt-to-GDP ratio is set to increase to 57.7% by the end of 2025. Apart from the high deficits, the increase of the debt-to-GDP ratio is driven by large cash pre-payments for investments in military equipment.

(18) Social benefits are still largely untargeted and without means testing at household level. This results in a welfare system with limited redistributive power. In 2023, universal child benefits were significantly increased, and the 13th pension was maintained. In budgetary documents, transparency regarding ongoing and planned investments could be improved. An integrated and comprehensive overview of ongoing investments and their sources of financing, including extra-budgetary funds and state-owned enterprises, is lacking. While available to varying degrees, such information is scattered across documents, such as multiannual investment programmes and financial plans of state-owned enterprises or of extra-budgetary funds. Procedures for assessing and selecting public investment projects and carrying out *ex post* reviews are weak. Standardised project-assessment methodologies are only in place for EU-financed investments but could be applied to all major government--funded investments. Project selection procedures vary across ministries and are based on the type of project and source of financing. There are no standard criteria for project selection and prioritisation at central government level.

(19) Poland is one of the fastest ageing countries in the EU and the long-term demographic trends will impact its pension system. A continued increase in the effective retirement age by ensuring high labour market participation of older workers is crucial for economic growth and the adequacy of future pensions. The 2024 Ageing Report projections for Poland imply the second-largest decline in adequacy, measured as the ratio of the average pension to the average gross wage at retirement. If the adequacy ratio were kept close to the current level, this would increase public expenditure by 4.6 percentage points of GDP by 2070. Pension benefits for farmers are largely subsidised by the state, amounting to 0.6% of GDP in 2023, and the method of calculating collected insurance contributions does not encourage a shift towards the general pension scheme, which hampers intersectoral labour mobility. While Poland implemented one targeted measure in its recovery and resilience plan to promote working beyond the statutory retirement age, further efforts would be needed to address the challenge related to future pension adequacy and sustainability.

(20) In accordance with Article 19(3), point (b), and Annex V, criterion 2.2 of Regulation (EU) 2021/241, the recovery and resilience plan includes an extensive set of mutually reinforcing reforms and investments to be implemented by 2026. These are expected to help effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations. Within this tight timeframe, proceeding swiftly with the effective implementation of the plan, including the REPowerEU chapter, is essential to boost Poland’s long-term competitiveness through the green and digital transition, while ensuring social fairness. To deliver on the commitments of the plan by August 2026, it is essential for Poland to continue the implementation of reforms and to accelerate investments by addressing emerging delays while ensuring strong administrative capacity. The systematic involvement of local and regional authorities, social partners, civil society, and other relevant stakeholders remains

essential to ensure broad ownership for the successful implementation of the recovery and resilience plan.

(21) As part of the mid-term review of the cohesion policy funds, in accordance with Article 18 of Regulation (EU) 2021/1060, Poland is required to review each programme by March 2025, taking into account, among other things, the challenges identified in the 2024 country-specific recommendations, as well as its national energy and climate plan. This review forms the basis for the definitive allocation of the EU funding included in each programme. Poland has made progress in implementing cohesion policy and the European Pillar of Social Rights, but challenges remain and regional disparities between eastern regions and the rest of the country have continuously widened. It is crucial to accelerate the implementation of cohesion policy programmes. The priorities agreed in the programmes remain relevant. It is important for Poland to invest in innovative and smart economic transformation and to strengthen cooperation between science and business. Speeding up the green transition and the shift from coal requires action including expanding clean energy production, increasing investments in net-zero technologies manufacturing, reducing energy consumption, and reducing air pollution. It is important to invest in digital and green skills. It is still a priority to close territorial gaps in the access to quality and affordable childcare. When carrying out the mid-term review of cohesion policy programmes, it is worth paying further attention to investments in the support system for non-EU nationals and opportunities supporting their integration in a comprehensive manner, as Poland has experienced an unprecedented inflow of refugees from Ukraine. Poland could make use of the Strategic Technologies for Europe Platform initiative to support the transformation of its economy, especially in terms of clean and resource-efficient technologies.

(22) Beyond the economic and social challenges addressed by the recovery and resilience plan and other EU funds, Poland faces several additional challenges related to labour shortages, digitisation of businesses, public procurement, district heating, and water management.

(23) Labour shortages undermine the competitiveness of Poland’s economy. In 2023, 66% of Polish employers reported difficulty filling open positions, while 75% reported difficulty finding the talent they needed. This is why it is critical to increase labour market participation among groups with the lowest employment rates, such as people with a disability (the disability employment gap stood at 31.3 percentage points in 2022, much above the EU average of 21.4 percentage points) or women (in 2023, the employment gap between men and women in Poland was 11.8 percentage points on average and 23.3 percentage points for people aged 55-64). Poland falls short of the EU 2030 target of 51.7% participation in adult learning, currently at 20.3%, impeding the transition into labour-demanding sectors through reskilling and upskilling. At the same time, the long-term care system is underdeveloped and continues to rely on families, in particular on women, and on other informal carers. Formal home care coverage is low at 13% of those aged 65 and over in need of such care, well below the EU average (30% in 2022), while the needs are growing fast with the ageing population. The share of the population aged 65 and over is expected to reach 21.9% in 2030 and 29.1% in 2050. Fostering higher economic activity of informal caregivers, mostly women, by improving access to formal home-based and community--based long-term care can increase labour market participation.

(24) The public procurement system still suffers from the low number of companies submitting tenders. This results in a high share of single offers, which has remained at

an exceptionally high level for years (54% in 2023 and above 50% over the last 5 years). Despite expectations, the public procurement law that entered into force in January 2021 did not immediately address the key weaknesses. This calls for a robust and comprehensive root-cause analysis of the persistent and deteriorating problem of low competition in public procurement. Further strengthening the digitisation of the public procurement process and developing the training offer for small to medium-sized enterprises (SMEs) can help address these challenges.

(25) Poland has scope to improve its performance in the digital transition and to increase its contribution to achieving the EU's Digital Decade targets. While there has been progress in digitalising public services, Poland is lagging behind in the area of digitalisation of business. The share of Polish SMEs having at least a basic level of digital intensity stands at 61%, which is below the EU average of 69% (with the EU's 2030 target being 90%). Only 18% of companies provide dedicated ICT training to their employees, who, as a result, have low levels of digital skills. To strengthen the growth potential of its economy and stimulate private investments, Poland should facilitate access to advanced technologies, especially for SMEs, and incentivise start-up ecosystems by improving access to training, providing technical and financial support and encouraging knowledge transfer.

(26) In the past decade, Poland's final energy consumption has been on an increasing trend. In 2022, it was 14.5% higher than in 2013, while in the EU as a whole, it decreased by 5.5%. Should the trajectory of the past 6 years continue, Poland would overshoot its energy efficiency target by 28%. In particular, district heating systems provide heat to 42% of the population but are still heavily dependent on coal, while a clear decarbonisation pathway with a strong energy efficiency angle is yet to be proposed. While current policies envisage a shift to natural gas and biomass, a decarbonisation pathway needs to be outlined that prioritises energy efficiency, sustainable renewable heat sources and the use of waste heat. Poland has implemented a set of national policies to promote residential building renovations, including major subsidy schemes financed under the recovery and resilience plan. However, these policies need to be further strengthened and aligned with the EU's 2030 climate objectives. Therefore, targeted action is needed to reduce carbon emissions from buildings, with a particular focus on energy efficiency improvements and decarbonising district heating.

(27) Poland faces challenges related to climate change adaptation, for instance concerning risks of drought and flooding. The recovery and resilience plan includes measures to improve water retention in rural areas, but other national policies in agriculture, forestry and water management are still not fitted to address climate risks and impacts. Better policy coherence could be achieved through closer coordination between the different institutions in charge of relevant policies. This could help implement sustainable solutions such as nature-based adaptation solutions to increase water supplies and adapt to climate change while benefiting the long-term sustainability of agriculture and other sectors that rely on ecosystem services.

HEREBY RECOMMENDS that Poland take action in 2024 and 2025 to:

1. Submit the medium-term fiscal-structural plan in a timely manner. In line with the requirements of the reformed Stability and Growth Pact, limit the growth in net expenditure[23] in 2025 to a rate consistent with reducing the general government

[23] According to Article 2(2) of Regulation (EU) 2024/1263, 'net expenditure' means government expenditure net of interest expenditure, discretionary revenue measures, expenditure on programmes of

deficit towards the 3% of GDP Treaty reference value and keeping the general government debt at a prudent level over the medium term. Improve the efficiency of public spending, including through better targeting of social benefits as well as more transparency in investment planning and wider use of standardised procedures for project assessment and selection. Ensure the adequacy of future pension benefits and the sustainability of the pension system, including by taking measures on effective retirement age and reforming preferential pension schemes.

2. Strengthen administrative capacity to manage the recovery and resilience plan, accelerate investments and maintain momentum in the implementation of reforms. Address emerging delays to allow for continued, swift and effective implementation of the recovery and resilience plan, including the REPowerEU chapter, ensuring completion of reforms and investments by August 2026. Accelerate the implementation of cohesion policy programmes. In the context of the mid-term review continue focusing on the agreed priorities, taking action to better support and integrate non-EU nationals, while considering the opportunities provided by the Strategic Technologies for Europe Platform initiative to improve competitiveness.

3. Take steps to increase labour market participation of disadvantaged groups, including by improving quality of and access to formal home- and community-based long-term care. Foster competition in public procurement processes, making these more efficient and less cumbersome, especially for SMEs. Support private investments by fostering digitisation of companies.

4. Take measures to accelerate the phase-out of fossil fuels in the district heating sector by shifting to renewable energy. Improve policies related to the protection and sustainable use of water resources to ensure the long-term sustainability of sectors that rely on ecosystem services.

Done at Brussels,

For the Council
The President

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the Union fully matched by revenue from Union funds, national expenditure on co-financing of programmes funded by the Union, cyclical elements of unemployment benefit expenditure, and one-offs and other temporary measures.