EUROPEAN
COMMISSION

Brussels, 20.5.2020
COM(2020) 554 final

REPORT FROM THE COMMISSION

Poland

Report prepared in accordance with Article 126(3) of the Treaty on the Functioning of the European Union

REPORT FROM THE COMMISSION

Poland

Report prepared in accordance with Article 126(3) of the Treaty on the Functioning of the European Union

1. INTRODUCTION

On 20 March 2020, the Commission adopted a Communication on the activation of the general escape clause of the Stability and Growth Pact. The clause, as set out in Articles 5(1), 6(3), 9(1) and 10(3) of Regulation (EC) 1466/97 and Articles 3(5) and 5(2) of Regulation (EC) 1467/97, facilitates the coordination of budgetary policies in times of severe economic downturn. In its Communication, the Commission shared with the Council its view that, given the expected severe economic downturn resulting from the COVID-19 outbreak, the current conditions permit activation of the clause. On 23 March 2020, the Ministers of Finance of the Member States agreed with the assessment of the Commission. The activation of the general escape clause allows for a temporary departure from the adjustment path towards the medium-term budgetary objective, provided that this does not endanger fiscal sustainability in the medium term. For the corrective arm, the Council may also decide, on a recommendation from the Commission, to adopt a revised fiscal trajectory. The general escape clause does not suspend the procedures of the Stability and Growth Pact. It allows Member States to depart from the budgetary requirements that would normally apply while enabling the Commission and the Council to undertake the necessary policy coordination measures within the framework of the Pact.

Data notified by the Polish authorities on 31 March 2020 and subsequently validated by Eurostat[1] show that the general government deficit in Poland reached 0.7% of GDP in 2019, while general government gross debt stood at 46.0% of GDP. According to the 2020 Convergence Programme, Poland plans a deficit of 8.4% of GDP in 2020, while debt is planned at 55.2% of GDP.

The planned deficit for 2020 provides *prima facie* evidence of the existence of an excessive deficit as defined by the Stability and Growth Pact.

Against this background, the Commission has therefore prepared this report, which analyses Poland's compliance with the deficit criterion of the Treaty. The debt criterion can be considered to be met as the debt ratio is below the Treaty reference value of 60% of GDP. It takes into account all relevant factors and gives due consideration to the major economic shock linked to the COVID-19 pandemic.

[1] https://ec.europa.eu/eurostat/documents/2995521/10294648/2-22042020-AP-EN.pdf/6c8f0ef4-6221-1094-fef7-a07764b0369f

Table 1. General government deficit and debt (% of GDP)

		2016	2017	2018	2019	2020 COM	2021 COM
Deficit criterion	General government balance	-2.4	-1.5	-0.2	-0.7	-9.5	-3.8
Debt criterion	General government gross debt	54.3	50.6	48.8	46.0	58.5	58.3

Source: Eurostat, Commission 2020 spring forecast

2. DEFICIT CRITERION

Based on the 2020 Convergence Programme, Poland's general government deficit in 2020 is planned to reach 8.4% of GDP, above and not close to the Treaty reference value of 3% of GDP.

The planned excess over the Treaty reference value in 2020 is exceptional, as it results from a severe economic downturn. Taking into account the impact of the COVID-19 pandemic on Poland's economy, the Commission spring forecast projects a contraction of real GDP in 2020 by 4.3%.

The planned excess over the Treaty reference value is not temporary based on the Commission 2020 spring forecast, which projects the deficit to remain above 3% of GDP in 2021.

In sum, the planned deficit for 2020 is above and not close to the 3% of GDP Treaty reference value. The planned excess is considered to be exceptional but not temporary as defined by the Treaty and the Stability and Growth Pact. Hence, the analysis suggests that *prima facie* the deficit criterion as defined by the Treaty and Regulation (EC) No 1467/97 is not fulfilled.

3. RELEVANT FACTORS

Article 126(3) of the Treaty provides that, if a Member State does not fulfil the requirements under one or both of those criteria, the Commission has to prepare a report. That report must also "take into account whether the government deficit exceeds government investment expenditure and take into account all other relevant factors, including the medium-term economic and budgetary position of the Member State".

Those factors are further clarified in Article 2(3) of Regulation (EC) No 1467/97, which also provides that "any other factors which, in the opinion of the Member State concerned, are relevant in order to comprehensively assess compliance with the deficit and debt criteria and which the Member State has put forward to the Council and to the Commission" need to be given due consideration.

In the current situation, a key additional factor to take into consideration regarding 2020 is the economic impact of the COVID-19 pandemic, which has a very substantial impact on the budgetary situation and results in a highly uncertain outlook. The pandemic has also led to the activation of the general escape clause.

3.1. COVID-19 pandemic

The COVID-19 pandemic has led to a major economic shock that is having a significant negative impact throughout the European Union. The consequences for GDP growth will depend on the duration of both the pandemic and of the measures taken by national authorities and at European and global level to slow its spread, protect production capacities and support aggregate demand. Member States have already adopted or are adopting budgetary measures to increase the capacity of health systems and provide relief to those individuals and sectors that are particularly impacted. Significant liquidity support measures and other guarantees have also been adopted. Subject to more detailed information, the competent statistical authorities are to examine whether those measures entail an immediate impact on the general government balance or not. Together with the fall in economic activity, these measures will contribute to substantially higher government deficit and debt positions.

3.2 Medium-term economic position

Economic growth exceeded 4% in 2019, mainly due to robust domestic demand. However, due to the COVID-19 pandemic, the Commission 2020 spring forecast projects GDP to decline by 4.3% in 2020, reflecting the disruption in economic activity caused by the lockdown measures and an unprecedented fall in external demand. Private consumption is projected to be hard-hit due to an increase in unemployment, a sharp drop in wage growth and weak consumer confidence. Investment is also set to fall strongly in 2020. Output is set to drop strongly in the first half of the year and recover gradually from the third quarter onwards. This outlook is marked by an exceptional degree of uncertainty on the duration of the pandemic and its economic impact. This a mitigating factor in the assessment of Poland's compliance with the deficit criterion in 2020.

3.3 Medium-term budgetary position

On 13 July 2018, Poland was recommended to ensure that the nominal growth rate of net primary government expenditure does not exceed 4.2% in 2019 ('the expenditure benchmark'), corresponding to a structural adjustment of 0.6% of GDP.[2] The overall assessment points to a significant deviation from the recommended adjustment path towards the MTO in 2019 and over 2018-2019 taken together.

The Convergence Programme provides information on substantial new spending (fiscal impact of 3.2% of GDP in 2020) to contain the pandemic and to support the economy. The highest expenditure is planned for allowances for self-employed and employed on non-standard labour contracts, exempting companies from social contributions, and subsidies to wages for certain companies[3]. The Convergence Programme also takes into account a strong decrease in public revenue triggered by the crisis and cyclical effects. In 2021, according to the Convergence Programme, revenue is set to rise driven by a rebounding of the economy

[2] Council Recommendation of 13 July 2018 "on the 2018 National Reform Programme of Poland and delivering a Council opinion on the 2018 Stability Programme of Poland", OJ C 320, 10.9.2018, p. 88

[3] The Convergence Programme mentions also loans to be paid by the Polish Development Fund of a total value of PLN 100 billion, of which around PLN 60 billion are planned to be converted into grants, without recording them as expenditure in 2020. The 2020 Spring Commission forecast assumes that the expected unpaid amount is recorded as capital transfers when loans are paid to companies (i.e. in 2020).

and cyclical factors. The Convergence Programme does not mention new high expenditure to support the economy. The Convergence Programme underlines the high uncertainty surrounding that projection, driven by the evolution of the pandemic, the length and stringency of the sanitary measures, the strength of the economic recovery, the policy of the central bank and the external situation.

3.4 Other factors put forward by Poland

On 11 May 2020, the Polish authorities transmitted a letter with relevant factors in accordance with Article 2(3) of Regulation (EC) No 1467/97. The analysis presented in the previous sections already broadly covers the key factors put forward by the authorities. Additional factor not yet mentioned above is the determination of the government to reduce the excessive deficit as soon as possbile. Thanks to the stabilising expenditure rule, the authorities plan to bring the deficit to close to 3% of GDP in 2021, in the case the economic situation does not require any additional fiscal impulse.

4. CONCLUSIONS

According to the plans in the Convergence Programme Poland's headline general government deficit in 2020 is planned to reach 8.4% of GDP, above and not close to the 3% of GDP Treaty reference value. The planned excess over the reference value is considered to be exceptional but not temporary.

In line with the Treaty and the Stability and Growth Pact, this report also examined relevant factors. Overall, since the planned deficit is well above 3% of GDP and the excess not temporary, and taking into account all relevant factors, the analysis suggests that the deficit criterion as defined in the Treaty and in Regulation (EC) No 1467/1997 is not fulfilled.