COUNCIL DECISION

of 7 July 2009

on the existence of an excessive deficit in Poland

(2009/589/EC)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Article 104(6) thereof,

Having regard to the recommendation from the Commission,

Having regard to the observations made by Poland,

Whereas:

(1) According to Article 104 of the Treaty Member States shall avoid excessive government deficits.

(2) The Stability and Growth Pact is based on the objective of sound government finances as a means of strengthening the conditions for price stability and for strong sustainable growth conducive to employment creation.

(3) The excessive deficit procedure (EDP) under Article 104 of the Treaty, as clarified by Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure [1], which is part of the Stability and Growth Pact, provides for a decision on the existence of an excessive deficit. The Protocol on the excessive deficit procedure annexed to the Treaty sets out further provisions relating to the implementation of the EDP. Council Regulation (EC) No 3605/93 [2] lays down detailed rules and definitions for the application of the provisions of that Protocol.

(4) The 2005 reform of the Stability and Growth Pact sought to strengthen its effectiveness and economic underpinnings as well as to safeguard the sustainability of public finances in the long run. It aimed at ensuring that, in particular, the economic and budgetary background was taken into account fully in all steps in the EDP. In this way, the Stability and Growth Pact provides the framework supporting government policies for a prompt return to sound budgetary positions taking account of the economic situation.

(5) Article 104(5) of the Treaty requires the Commission to address an opinion to the Council if the Commission considers that an excessive deficit in a Member State exists or may occur. Having taken into account its report in accordance with Article 104(3) of the Treaty and having regard to the opinion of the Economic and Financial Committee in accordance with Article 104(4) of the Treaty, the Commission concluded that an excessive deficit exists in Poland. The Commission therefore addressed such an opinion to the Council in respect of Poland on 24 June 2009 [3].

(6) Article 104(6) of the Treaty states that the Council should consider any observations which the Member State concerned may wish to make before deciding, after an overall assessment, whether an excessive deficit exists. In the case of Poland, this overall assessment leads to the conclusion set out in this Decision.

(7) According to the April 2009 EDP notification by the Polish authorities, subsequently validated by Eurostat, the general government deficit in Poland reached 3,9 % of GDP in 2008, thus exceeding the 3 % of GDP reference value. The deficit was not close to the 3 % of GDP reference value and the excess over the reference value cannot be qualified as exceptional within the meaning of the Treaty and of the Stability and Growth Pact. In particular, it does not result from an unusual event within the meaning of the Treaty and of the Stability and Growth Pact. Moreover, it does not result from a severe economic downturn in the sense of the Treaty and of the Stability and Growth Pact. Despite growth slowing down to 3,3 % year-on-year in the last quarter of 2008, which affected revenue collection in the last quarter of the year and added to the worse-than-expected deficit outcome, overall GDP growth was still relatively robust at 4,9 % in 2008.

Potential GDP growth is estimated to be of the order of 4 ½ % and the output gap to have reached about 3 ½ % of potential GDP, indicating favourable cyclical conditions. Furthermore, the excess over the reference value cannot be considered temporary. According to the Commission services' spring 2009 forecast, the general government deficit is expected to reach 6,6 % of GDP in 2009 and, on a no-policy-change assumption, 7,3 % in 2010 against a GDP contraction of 1,4 % in 2009 and GDP growth of 0,8 % in 2010. The deficit will increase in 2009 also according to the Polish authorities which, on 22 June 2009, announced that the general

(1) OJ L 209, 2.8.1997, p. 6.
(2) OJ L 332, 31.12.1993, p. 7.
(3) All EDP-related documents for Poland can be found at the following website: http://ec.europa.eu/economy_finance/netstartsearch/pdfsearch/pdf.cfm?mode=m2

government deficit may significantly exceed the 4,6 % of GDP planned for the current year in the Spring 2009 EDP notification [1]. Therefore, the deficit criterion in the Treaty is not fulfilled.

(8) General government gross debt remains below the 60 % of GDP reference value and stood at 47,1 % of GDP in 2008. However, due to high expected deficits, the general government debt is likely to reach almost 60 % on a no-policy-change assumption in 2010 according to the Commission's spring 2009 forecast.

(9) 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. While the implementation of these reforms leads to a temporary deterioration of the budgetary position, the long-term sustainability of public finances clearly improves. Based on the estimates of the Polish authorities, the net cost of this reform amounted to 2,9 % of GDP in 2008, rising to 3,2 % of GDP in 2009, as recalled by the Polish authorities in their letter of 22 June. According to the Stability and Growth Pact, these can be taken into account on a linear degressive basis for a transitory period and only where the deficit remains close to the reference value. Since the deficit does not remain close to the reference value in 2008-2010, the cost of the pension reform cannot be taken into account.

(10) According to Article 2(4) of Regulation (EC) No 1467/97, 'relevant factors' can only be taken into account in the steps leading to the Council decision on the existence of an excessive deficit in accordance with Article 104(6) of the Treaty if the double condition — that the deficit remains close to the reference value and that its excess over the reference value is temporary — is fully met. In the case of Poland, this double condition is not met. Therefore, relevant factors are not taken into account in the steps leading to this Decision,

HAS ADOPTED THIS DECISION:

Article 1

From an overall assessment, it follows that an excessive deficit exists in Poland.

Article 2

This Decision is addressed to the Republic of Poland.

Done at Brussels, 7 July 2009.

For the Council

The President

A. BORG

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[1] Letter from Finance Minister Mr Rostowski to Commissioner Almunia.