# DONALD TUSK MARKS ANNIVERSARY OF HIS RETURN TO GOVERNMENT

## Overview of policy results & implications for businesses

**25 November 2024**

## EXECUTIVE SUMMARY


Marking the first anniversary of his (third) coalition government, Polish Prime Minister Donald Tusk is taking domestic and international credit for restoring and strengthening his country's ties with the European Union, as well as for securing Poland's post-pandemic EU recovery funds. Unlocking the recovery funds will greatly benefit Poland's energy, digital, transport and healthcare sectors and has been met with optimism from the business community. However, their relatively late release and the limited time left for utilizing these funds could lead to uncertainty around their distribution.

More than a year after Poland's parliamentary elections, in which three electoral coalitions scored a combined victory over the national-conservative Law and Justice party (PiS), the first year of the third Tusk Cabinet has been overshadowed by its efforts to reverse PiS-era policies over alleged democratic backsliding. This continues to create protracted political battles between the government and the opposition, with critics arguing that policy work has taken a back seat. The senior ruling Civic Coalition (KO) is also yet to follow up on most of its pre-election promises. Furthermore, the central part of Tusk's proposed judicial reform remains blocked by Poland's PiS-allied President Andrzej Duda, along with several other policy initiatives.

At the same time, the Tusk Government has rolled out considerable policy initiatives and secured notable achievements in several business-relevant policy areas, including digital and tech, healthcare, agriculture, finance, energy, infrastructure and national security. These policy stances will provide several opportunities for international investors, especially as Poland continues to focus on utilizing its EU recovery funds.

Heading towards 2025, the government's attention will increasingly focus on Russia's war against Ukraine, Donald Trump's return to the White House, the country's Presidency in the Council of the EU in the first half of next year and the upcoming presidential elections, expected to be held in mid-2025. While the multi-party coalition behind Tusk's government remains stable, these key developments will have a great impact on the country's politics, with implications for domestic businesses and international investors.


**Below, we provide a detailed overview of the first year of the third Tusk Cabinet, with a focus on business-relevant policy areas and implications for 2025.**

## THIRD TUSK CABINET MARKS FIRST YEAR IN OFFICE

Led by centre-right Prime Minister Donald Tusk, Poland's incumbent coalition government entered office[1] in December 2023 after three electoral alliances – the Tusk-led Civic Coalition (KO), the centrist-liberal Third Way and the left-wing Lewica – scored a combined victory in the parliamentary elections in October 2023. Tusk had already served (nearly) two terms as PM until 2014 when he became President of the European Council (2014-2019).

After serving as President of the European People's Party (EPP), the EU-wide alliance of centre-right and conservative formations for three years, Tusk returned to domestic politics in 2021 and played a key role in KO's return to power and the defeat of the previously ruling Law and Justice party (PiS). Following a strong showing in the local elections in April, KO also narrowly overtook the national-conservative PiS in June's EU elections, securing 37.1% versus PiS' 36.2%.

Politically, the first year of the Tusk Cabinet was overshadowed by the efforts of the new ruling bloc to reverse a series of PiS policies over alleged democratic backsliding, institutional corruption and the deterioration of the rule of law under PiS rule. Since the new ruling coalition took power last December, several PiS-linked officials have come under scrutiny through a series of prosecutorial investigations and parliamentary inquiries. While the new ruling bloc saw these efforts as necessary to restore the rule of law and reverse bad political practices, PiS has accused the government of political persecution. Most recently, Poland's National Electoral Commission has accused PiS of improper campaign financing, which will likely leave the party short of funding ahead of the presidential election, expected to take place in mid-2025.

Simultaneously, the past 12 months have seen a series of debates over a number of policy issues within the ideologically and structurally diverse government, while the governing coalition has also been limited in achieving legislative victories due to Poland's PiS-allied President, Andrzej Duda, who frequently exercises his veto powers. Below, we provide a detailed overview of the most business-relevant policy achievements of the third Tusk Cabinet.

## RESETTING TIES WITH THE EU & SECURING RECOVERY FUNDS

Tusk vowed to repair Poland's broken ties with the EU as Warsaw's relations with Brussels were locked in a long-running dispute under the previous, PiS-led governments due to disagreements over the rule of law and alleged PiS influence over the judiciary system. This dispute was the main driver behind the PiS government's inability to unlock the country's post-pandemic EU recovery funds, worth €25.3 billion in grants and €34.5 billion in preferential loans. Poland's EU recovery plan (NRRP) is primarily focused on the green and digital transitions across several industry sectors, along with the modernization of healthcare.

Securing the nearly €60 billion in recovery funds (and an additional €76.5 billion in cohesion funds under the European bloc's current budgetary period) has arguably been among the most significant accomplishment of the new cabinet. After securing the release of €6.3 billion in recovery funds in February, the European Commission approved an additional €9.4 billion in November, making it the largest EU transfer ever received by a member state.

While Polish businesses have responded positively to restoring ties with the EU and the investment climate in the country is generally optimistic, these funds were still released much later than originally

[1] See here for our overview of the formation of the third Tusk Government from December 2023

anticipated (by the previous government), leaving Poland with only two and a half years to distribute and utilize the EU money. Accordingly, businesses interested in utilizing these funds should prepare for uncertainties around their distribution, including around the decision-making and tendering processes.

## PROMISES MADE, PROMISES (YET TO BE) KEPT

During the 2023 election campaign, the senior ruling Civic Coalition (KO) made 100 promises[2] which Tusk and his party pledged to execute on returning to power. A year since the election, KO has made limited progress in keeping these promises, with many yet to be delivered. These pledges had to be aligned with the other parties supporting the Tusk Cabinet and ideological differences within the coalition continue to hinder policy progress.

| Selected electoral promises from Donald Tusk's 2023 election manifesto | |
|---|---|
| **Electoral Promise** | **Status** |
| Introduction of the cash tax system | Delivered |
| State support for women returning to work after maternity leave | Delivered |
| 1-month pause for micro-entrepreneurs in paying social security contribution | Delivered |
| Return to the lump-sum system of settling the health contribution tax | Delivered |
| Cutting VAT for the beauty sector: from 23% to 8% | Delivered |
| Digitalization of the healthcare sector (introducing e-registration) | In progress |
| Cutting income tax (PIT) for those earning less than PLN 6,000 a month | In progress |
| Raising the share of domestically produced food products to at least 50% in retail | In progress |
| Lifting the Sunday ban on retail chains, stores and shops | In progress |
| Restoring "the principles of the rule of law" (judicial reform) | In progress |
| Reforming the financing of sick leave | In progress |
| Decreasing tax office inspections of micro-businesses | In progress |
| Abolishing the tax on savings and investment for up to PLN 100,000 a year | In progress |
| Construction of a new grain terminal in Gdansk | In progress |
| Abolishing VAT on public transport | In progress |
| Supporting investment into biogas plants, voltaic farms and heat pumps | In progress |
| Verification of the Central Communication Port (CPK) project | In progress |
| 0% credit for the purchase of first apartments | In progress |
| Restoration of reliefs for individual energy producers | In progress |
| Implementing a comprehensive energy transition plan | In progress |

Source: Plan for 100 changes for 100 days by Civic Coalition

[2] See here for our overview of the first 100 days of the third Tusk Government from March 2024

## DIGITAL & TECH

Within the tech sector, cybersecurity has been at the forefront of the government's focus, largely due to an increased number of cyberattacks Poland has experienced in comparison with 2023, originating from mainly Russia and Belarus. The government has so far registered more than 80,000 individual cases this year, a number projected to increase above 100,000 by the end of 2024. For this reason, the government has allocated PLN 10 billion (around €2.2 billion) through the state budget and the country's development bank (BGK) to finance projects that will strengthen cyber resilience.

As elsewhere in the EU, the Polish cyberspace is facing a series of changes due to several pieces of EU legislation, including the Digital Services Act and the Digital Markets Act (DSA & DMA), the transposition of the NIS2 Directive, the EU Cybersecurity Certification (EUCC), the EU's 5G Toolbox and the AI Act.

## ENERGY & INFRASTRUCTURE

Aimed at supporting the production of low-carbon energy, the implementation of a previously announced and comprehensive climate and energy plan has faced several notable delays. However, Poland is likely to make further progress as it starts utilizing its post-pandemic EU recovery funds, a significant share of which is dedicated for the green transition. On the legislative front, the government is currently focused on freezing electricity prices for households, as well as on the transposition of the EU's Renewable Energy Directive (RED) and the preparation of laws aimed at facilitating the use of offshore wind farms.

Regarding infrastructure, the previous government mainly focused on the Central Communication Port (CPK), a major infrastructure project aimed at the construction of a new international airport and the development of a nationwide integrated transport network, to be connected to a new high-speed railway network and an accessible highway system. Following an initial refusal to support the project while in opposition, the incumbent ruling parties have eventually re-modelled the project. With an estimated worth of PLN 43 billion (€10 billion), the first stage of the project will focus on the construction of railway connections.

## HEALTHCARE

In addition to an overall focus on the green and digital transitions, the healthcare-focused component of Poland's post-pandemic EU recovery plan (€4.1 billion) will be invested in the sector's digitalization, as well as in strengthening oncological and cardiological treatment programs, R&D and the education of healthcare professionals. A key priority is oncological and cardiovascular care, with corresponding tenders for hospitals and healthcare providers to follow by the end of 2024, along with tender opportunities for businesses. In line with EU guidelines, this will include a focus on improving access to healthcare and medical equipment.

An additional sectoral objective for the government was to decrease the healthcare contribution tax, which was recently adopted following debates within the ruling bloc. On November 19, the cabinet approved a cut in healthcare contributions paid by certain business owners.

## FINANCE & RETAIL

Currently, the Polish financial sector is preparing for the prospective introduction/implementation of key EU files, including the Payment Service Directive 3 (PSD3), the Payment Service Regulations (PSR), the Financial Data Access (FIDA) regulation and the Consumer Credit Directive 2 (CCD2). Domestically, the latest legislative change takes aim at the so-called bad loans, banning credit unions (SKOKs) from selling their bad loans to related entities, which has been used as a method to release cash for new loans but also an opportunity to earn money for buyers of receivables.

As for the retail sector, the two key promises of the senior ruling KO included reversing the Sunday trading ban and creating a bank holiday for the day of Christmas Eve (24th December). While this has been a recurring issue in Polish politics and the local business community has been more active in corresponding debates, we expect no major progress anytime soon.

## AGRICULTURE

Agriculture has traditionally been one of the politically most sensitive sectors within the Polish economy. In early 2024, a series of protests were organized by farmers across Europe to protest the agricultural obligations of the European Green Deal (an EU policy package aimed at making the bloc climate-neutral by 2050), as well as the continued imports of Ukrainian grain.

Although its overall share in the Polish GDP recently dropped below 3%, the sector employs 22% of the country's workforce, making the Polish protests especially sensitive politically. Earlier this year, the Tusk Government reacted decisively by supporting efforts to simplify the EU's Green Deal during Poland's upcoming Presidency in the Council of the EU in the first half of 2025. Other recent developments in the sector included a decrease in the inflow of agricultural goods from Ukraine, an increase in the state budget for agriculture by 9% (to PLN 85 billion) and the introduction of government subsidies worth €2.1 billion, which increased the profitability of cereal cultivation.

## DEFENCE & NATIONAL SECURITY

In terms of defence expenditure as a share of GDP, Poland tops all other allies within NATO with an annual defence spending share of 4.12%, with the country's Budgetary Act for 2025 setting this level to even higher, 4.7%. Warsaw is one of the highest spenders in terms of armed forces modernization, with its planned military modernization budget estimated at nearly PLN 100 billion (€22 billion). In parallel, Poland is consistently increasing funds to bolster border protection, with the government awaiting additional defence financing from the EU worth €67 million.

Both under PiS and KO rule, Poland has been one of the staunchest supporters of Ukraine as Russia's ongoing war continues and this is unlikely to change with Donald Trump's return to the White House and his plans to negotiate a ceasefire agreement. At the time of writing, the Polish PM is leading calls to step up support for Ukraine and increase measures to bolster the security of NATO's eastern flank.

## IMPROVED DECISION-MAKING PROCESS

From a business perspective, a key result of the past 12 months has been ensuring greater involvement for economic entities in the country's legislative decision-making process. Businesses now have more possibilities when it comes to participating in the public consultations of new legislative and regulatory initiatives within a more reasonable timeframe.

This has allowed businesses to ensure a higher degree of stability and sustainability in their long-term planning and operations, with a potentially positive impact on the country's investment climate.

As of 31st October, all bills presented in the Sejm (lower house of parliament), including those presented by the members of the Senate (upper house) and the President, have to undergo a regulatory impact assessment (RIA) before they are submitted for first reading in parliament. In addition, another important change in the legislative environment is that a special online platform is being created (at the time of writing) for public consultations, to ensure greater involvement in preparing upcoming regulation. In practice, this will limit fast-track legislation to well-defined and exceptional cases, offering more predictability for businesses and investors.

## IMPLICATIONS FOR 2025

For Poland, 2025 will be defined by four key developments: Russia's war against Ukraine, Donald Trump's return to the White House, the country's Presidency in the Council of the EU in the first half of next year and the upcoming presidential elections, expected to be held in mid-2025.

With Trump seeking a negotiated settlement of Russia's war against Ukraine which – under a negative scenario – could potentially result in a Russia that is military emboldened and willing to commit further aggression against Ukraine or any other NATO ally, continued support for Kyiv will likely be the top priority for Warsaw both in the short term and strategically in the long run.

Russia's war against Ukraine will likely overshadow the upcoming Polish EU Presidency, with bolstering European defence and increasing support for Ukraine likely to on top of the Polish agenda (in addition to other related policy areas such as cybersecurity). Tusk, who has emerged as leading regional figure when it comes the security of NATO's eastern flank, will likely play an influential role in upcoming European and transatlantic talks regarding the future of European security.

As for the presidential elections, the government has been locked in protracted political battles with Polish President Andrzej Duda, who – as a key PiS ally – has vetoed several pieces of legislation endorsed by the incumbent ruling coalition, including the proposed judicial reform. An opposition victory in the presidential elections could foresee protracted battles between parliament and the presidential office, while a KO win could ensure a smoother legislative process until the end of the current parliamentary term. Accordingly, the future of several policy proposals depends on the outcome of this crucial electoral contest.

Despite its ideological and structural diversity, as well as recurring debates within the ruling bloc, Poland's multi-party coalition government remains stable, with recent polls suggesting that the senior ruling KO continues to (slightly) lead the main opposition PiS.

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