

# SOCIAL CLIMATE FUND

## HOW TO PROTECT HOUSEHOLDS FROM RISING ENERGY PRICES?

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### Problem:

The new carbon tax (ETS2) will increase the cost of heating with coal and gas starting in 2027. Rising energy prices raise concerns about a growing risk of energy poverty.

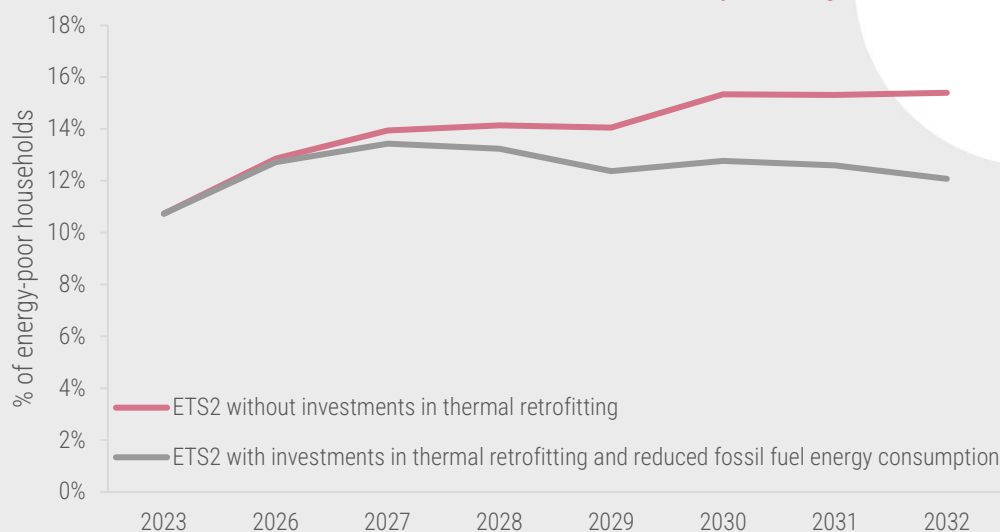
### Findings:

The Social Climate Fund is intended to protect vulnerable households from excessive price increases. It will finance direct transfers and investments aimed at reducing energy consumption, such as thermal retrofits. We show that the risk of energy poverty will increase after the introduction of ETS2, even if thermal retrofitting investments are implemented. Therefore, direct transfers will be necessary. The budget of the Social Climate Fund will be sufficient to ensure that transfers protect low-income households from excessive energy price increases.

### Main findings:

- Over **PLN 15 billion** out of the total **PLN 45 billion**, this is how much Poland can allocate to direct transfers under the Social Climate Fund between 2027 and 2032.
- Annual household energy expenditures will increase by **PLN 400–800** for single-person households and **PLN 600–1800** for multi-person households due to the new carbon tax between 2027 and 2032.
- Energy poverty in Poland will increase by **1.5 percentage points** by 2032, despite investments in thermal retrofitting.
- Between 2027 and 2032, annual payments from the Social Climate Fund should amount to **PLN 700–1100** for low-income single-person households and **PLN 1100–2300** for multi-person households.

**Rising prices will increase the risk of energy poverty, even if energy consumption declines. Transfers to low-income households are necessary to mitigate this effect.**



Note: WAM refers to the "With Additional Measures" scenario of active transformation under the National Energy and Climate Plan. ETS2 is the emissions trading system covering the buildings and transport sectors.

Source: Own elaboration based on: Sokołowski et al. (2025).

The new carbon tax (ETS2) is designed to reduce coal and gas consumption. Starting in 2027, it will increase the cost of heating homes with coal and gas. Revenues from the new levy will feed into the Social Climate Fund. The Fund will finance both investments to lower energy use (e.g., thermal retrofitting) and direct cash transfers. Poland is expected to receive around PLN 45 billion from the Fund between 2026 and 2032.

We estimate that the introduction of ETS2 will increase the risk of energy poverty by 1.5 percentage points by 2032. The scale of energy poverty will rise even if investments in thermal retrofitting are implemented to reduce coal and gas consumption.

We propose the introduction of direct transfers covering 2.5 million households in 2027 and around 700,000 in 2032. Annual transfers should amount to PLN 700–1100 for single-person households and PLN 1100–2300 for multi-person households between 2027 and 2032. The budget of the Social Climate Fund will be sufficient to cover the proposed support.

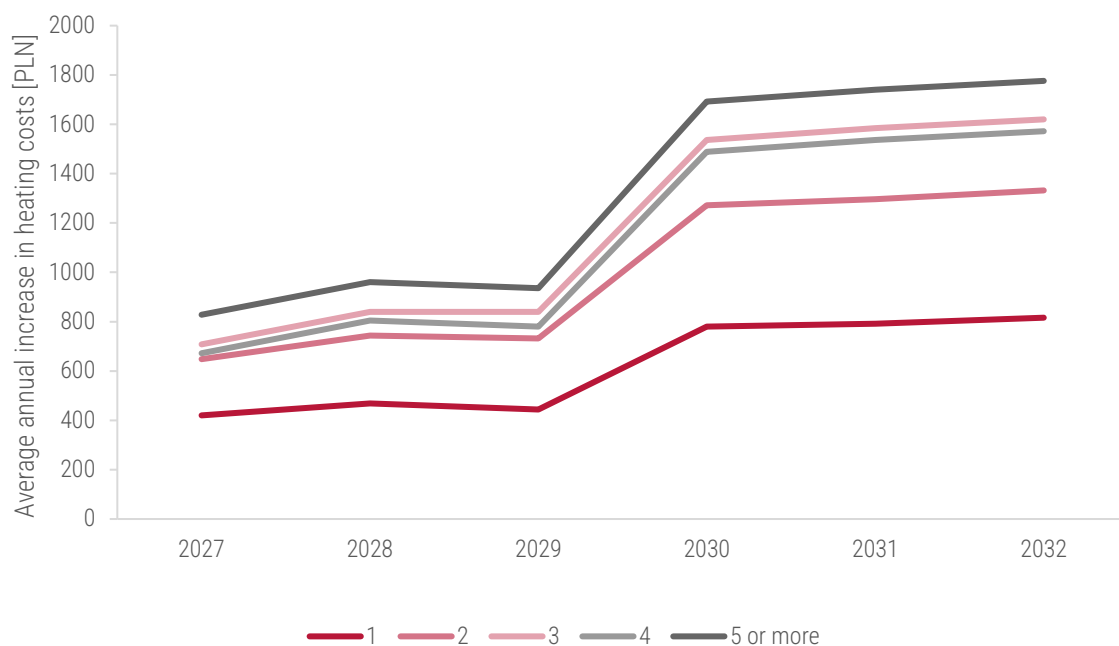
If the implementation of ETS2 is delayed until 2028, transfers should also be postponed accordingly. However, support for thermal retrofitting should begin as early as 2026.

### The new carbon tax will reduce emissions but increase the cost of heating with coal and gas.

The new carbon tax (ETS2), introduced for the years 2027–2032, aims to reduce coal and gas consumption. The system will cover fuel distributors, who will be required to purchase emission allowances. These higher costs for distributors will be passed on to energy consumers. As a result, ETS2 will lead to increased heating costs (Figure 1).

For some households, this will be an incentive to reduce coal and gas consumption. This can be achieved through investments in thermal retrofitting and changing heating systems. At the same time, the higher costs will particularly affect low-income households, which have limited access to alternative heating sources such as heat pumps or biomass stoves.

**Figure 1. The increase in heating costs will be particularly noticeable after 2030, as the price of emission allowances under ETS2 will significantly raise the cost of coal and gas.**



Source: Own elaboration based on: Sokołowski et al. (2025).

## The budget of the Social Climate Fund will be sufficient to protect low-income households from rising energy costs.

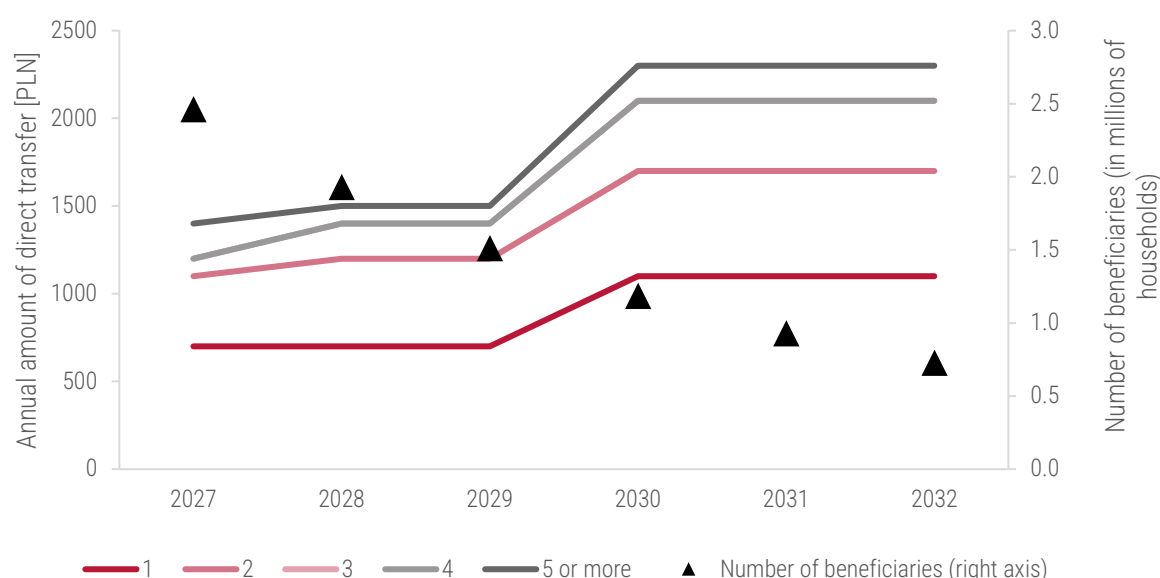
Revenues from the sale of emission allowances under ETS2 will be used to mitigate the impact of rising energy costs. The key instrument in this regard will be the Social Climate Fund (SCF). The Fund will be launched in 2026, one year before the introduction of ETS2 in 2027. Poland will be the largest beneficiary of the Fund in the European Union and is expected to receive approximately PLN 45 billion for the period 2026–2032.

The Fund's goal is to support the groups most vulnerable to cost increases through direct income transfers (up to 37.5% of the SCF budget) and investments in improving the energy efficiency of buildings (the remaining 62.5%). This means that Poland may use over PLN 15 billion for direct transfers and the remaining PLN 30 billion for investments.

According to our simulations, despite investments in thermal retrofitting, energy poverty in Poland will increase by 1.5 percentage points by 2032 following the introduction of ETS2. The reduction in coal and gas consumption resulting from retrofitting will not be sufficient to fully offset the rise in heating costs. This effect will be particularly severe for low-income households. Therefore, we recommend using the full available budget for direct income transfers, even in the presence of thermal retrofitting investments.

Direct transfers should be launched in 2027, the year ETS2 comes into force, while support for retrofitting investments should begin in 2026. Income support under the SCF should target those most vulnerable to rising energy costs as a result of ETS2 implementation. One such group consists of energy-poor households. Energy poverty refers to the inability to afford adequate heating and electricity due to the combination of high energy costs and low income. We propose adopting an income-based eligibility criterion to identify energy-poor households at risk of rising prices.

**Figure 2. The Social Climate Fund can cover approximately 1.5 to 2 times the average increase in energy costs among low-income households.**



Source: Own elaboration based on: Sokołowski et al. (2025).

The income threshold used in 2024 for the energy allowance—PLN 2,500 for single-person households and PLN 1,700 per person in multi-person households—would make it possible to cover almost 100% of energy-poor households in Poland. The number of beneficiaries would reach approximately 2.5 million households

in 2027 and decline to around 700,000 households by 2032. This reduction results from the modelling assumption of economic growth and rising incomes, combined with no indexation of the income threshold. The decline in the number of beneficiaries by 2032 is also one of the formal requirements of the Social Climate Fund. Keeping the income threshold fixed will naturally reduce the number of eligible households over time, fulfilling this requirement.

We propose linking the amount of support to the number of people in the household, since the rise in energy costs depends on household size. Payments from the Fund should range between PLN 700–1100 annually for single-person households and PLN 1100–2300 for multi-person households (Figure 2). The SCF budget will be sufficient to fund these proposed amounts between 2027 and 2032.

In nominal terms, support will increase by 2032. However, in relative terms, it will cover about twice the average increase in energy costs in 2027, and less than 1.5 times the increase by 2032. This approach helps reduce the risk that households facing above-average cost increases will receive insufficient support. The gradual decrease in direct support until 2032 is also in line with SCF requirements.

### **The Social Climate Fund should become operational in 2026, even if the new carbon tax comes into force in 2028.**

We support the proposal by the National Centre for Emissions Management (KOBiZE) to postpone ETS2 until 2028. However, such a solution would only be justified if investment support from the Social Climate Fund, amounting to approximately PLN 30 billion, is launched already in 2026.

Thermal retrofitting reduces the risk of energy poverty resulting from rising costs under ETS2. An effective and progressive investment support program for retrofitting (e.g., within the "Clean Air" program) would allow more households to move away from coal and gas for home heating. As a result, they would no longer be covered by the ETS2 system, and their heating bills would not increase.

In this scenario, direct transfers would still be necessary, but they could be introduced starting in 2028. Nonetheless, investments alone will not fully protect against the rise in energy poverty following the introduction of ETS2. Therefore, when ETS2 is implemented in Poland, direct transfers should be launched for 2.5 million low-income households. Annual payments should range from PLN 700 to 1100 for single-person households and PLN 1100 to 2300 for multi-person households. This level of support will protect households from excessive price increases.

**References: Sokołowski et al. (2025). *How to Design Direct Social Support in a Social Climate Plan: Lessons from Poland*.**

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