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THE MANAGEMENT OF THE PUBLIC FINANCE SECURITY OF POLAND

Abstract:

Poland, like every European Union Member State, should treat financial security as a priority of its policy. Financial security of the state primarily concerns the safety of public finances. Ensuring good financial condition of the state not only allows its existence, but also its development. For that reason, limiting the value of the debt is necessary. At the same time, the state may take financial risks on the condition that it follows the order of law and its fundamental principles, allowing the building of mutual trust. The aim of the article is to present the state of public finances in Poland between 2007 and 2016 as one of the elements to build financial security of the country. An attempt was made to evaluate the stability of the financial policy conducted by the general government authorities as well as the level of the financial security. What should be particularly taken into account is the risk of a possible underestimation of the official debt, which may result in posing the threat to the financial security of Poland.

Keywords:

management, financial security, public finances, public debt, public deficit, public finance sector

JEL Classification: E69, E62

1 Introduction

One of the national interests, pursuant to Article 5 of the Constitution of the Republic of Poland (OJ 1997 no. 78 item 483), is to 'ensure balanced and sustainable development of the social and economic potential of the state, paying special attention to the protection of the natural environment and living conditions and the life and health of the population as the basis of existence." (*The strategy of national security of the Republic of Poland,* 2014) Furthermore, macro-priorities of the economic security in the *National Program "Foresight Poland 2020"* are as follows: the financial system in Poland, structural changes - sectoral and ownership-related in the Polish economy, development and use of human resources, technological gaps, availability and use of mineral raw materials with particular regard to energy resources (*Results of the Foresight Poland 2020,* 2009 National Program). The mobile and active social potential and competitive and innovative economic potential are important factors of the economic growth. Unfortunately, the ageing of the Polish society, rapidly growing demographic crisis, the rising migration (mainly of economic nature), irrelevance of the education system to the needs of the labor market, the level of life and income of citizens, the access to goods and services constitute a serious threat to the economic security of Poland and result in an increased burden on public finance. At the same time, it requires implementation of reforms in the public finance system due to the emergence and build-up of new categories of public expenditure. The effect of failure to perform those actions may be the reduction of the economic growth rate and security of the national public finance.

Financial risks include revenues and expenditure of the state, too high a level of indebtedness, economic crime, money laundering, tax evasion, instability of economy in the event of economic crises. The subset of financial risks that are crucial for the possibility to ensure economic security of the country may be extended in the future. In the absence of financial risks, any state may fulfil its basic functions, despite the presence of external interference or due to the business cycles. It is therefore necessary to provide essential goods for ensuring economic security in financial terms, i.e. financial resources to fulfil the basic functions of the state. The possibility of implementing the obligations of the state depends on the reasonable level of indebtedness.

Failure to maintain the proper level of indebtedness results in a loss of capacity to meet the obligations and the impossibility to provide debt servicing. This creates the risk of the country's insolvency. Moreover, the reduction of the inflow of foreign capital may result in a significant reduction in investments and the pace of economic development. A lower level of GDP, investment opportunities and emergency operations involving the renegotiation of debt, clearly indicate the violation of the level of indebtedness, which prevents the settlement of obligations. This is a serious economic threat of financial nature. In this situation, the authorities may conclude an agreement with banks on postponement of credit payments. (Księżopolski 2011, pp.42-45)

The financial security of the state is possible when balancing public finance in the medium term. Furthermore, it requires adaptation of tasks intended for financial institutions to modern threats and reinforcement of supervision over financial institutions. To this end, it is necessary to: improve the state of public finance, increase savings and investment, enable expansion of domestic manufacturers on foreign markets, increase innovativeness, ensure development based on knowledge and also create a favorable investment climate and environment for entrepreneurs by improving legal, financial and organizational conditions. These actions should positively affect the competitiveness of the economy and prevent economic risks. Therefore, the strategic objective in the field of economic security (resulting from national interests) is e.g. the financial stability of the state.

The aim of this article is to present the state of public finances in Poland in the years 2007-2016 as one of the elements that constitute the financial security of the country. There were attempts to assess the stability of the financial policy of the central authorities as well as the level of financial security. In particular, the risk of possible underestimation of the official debt must be taken into account, which may result in the risk to the financial security of Poland.

2 The analysis of the revenue and expenditure of the public finance sector budget

The state budget in accordance with Article 219 (1) of the Constitution of the Republic of Poland (OJ 1997 no. 78 item 483) is the annual financial plan. It is the basis of the state's financial economy management. It includes a detailed statement of revenue and expenditure and income and expenditure of public authorities, including government administration bodies, control and law enforcement authorities, courts and tribunals. It is adopted in the form of a budget law for a financial year. The analysis of revenue and expenditure of the state budget does not, however, give the full picture of the state finances as it covers only a small portion of public revenue and expenditure. The reason for this is that the overwhelming majority of budget revenues comes from entities outside the public finance sector and in the expenditure of the state budget transfers to other units of the public finance sector predominate.

In accordance with Article 9 of the law on public finance, the sector of public finance is constituted by: "public authorities, including government administration bodies, state control and law enforcement authorities and courts and tribunals, local self-government units and associations thereof, metropolitan associations, budgetary units, local government budgetary establishments, executive agencies, institutions of budgetary economy, state special purpose funds, Social Insurance Company and the Funds managed by it, and the Agricultural Social Insurance Fund with its subsidiary funds managed by the President of the Agricultural Social Insurance Fund, the National Health Fund, individual public health care units, public universities, Polish Academy of Sciences and its organizational units, state and local government institutions of culture, other national or local government legal persons established on the basis of separate acts to perform public tasks, excluding enterprises, research institutes, banks and companies of commercial law."(OJ 2017 Item 2077).

Therefore, for a comprehensive analysis of the state of public finance and to assess the effectiveness of public funds management, one should analyze the phenomena occurring in the entire sector of public finance.

Table 1 Revenue and expenditure of the public finance sector in the years 2010-2016

Description	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
in bilion PLN										
Revenue	**470,0**	**494,1**	**518,8**	**528,8**	**588,8**	**642,9**	**639,6**	**668,9**	**684,7**	**698,7**
Tax revenue	258,4	274,9	268,0	276,0	301,3	307,4	302,4	319,0	328,0	346,4
including: indirect taxes	146,3	153,4	154,8	165,0	180,1	181,1	175,0	186,6	186,7	193,2
PIT	61,0	67,2	62,7	62,5	67,5	70,6	73,8	78,1	83,1	89,3
CIT	32,0	34,5	30,7	27,8	31,6	31,8	29,2	29,6	32,8	33,7
National non-tax revenue	196,6	198,2	214,7	211,8	235,3	266,9	264,4	279,0	289,3	311,4
Funds from EU and other sources of non-repayable aid	14,9	21,0	36,1	41,0	50,7	68,7	72,8	70,8	67,4	40,8
Expenditure	**485,2**	**534,0**	**590,0**	**635,8**	**660,1**	**689,3**	**699,2**	**716,9**	**731,8**	**747,9**
Current	434,6	475,3	521,5	553,8	573,3	601,3	627,7	634,1	647,0	685,3
Including: benefits:[1]	118,5	203,2	223,8	237,4	242,7	255,2	276,2	285,2	297,0	325,2
Debt servicing	29,1	26,9	34,1	36,5	39,1	46,2	45,1	36,5	30,7	33,5
EU own resources	10,6	12,2	13,4	14,3	14,7	15,9	18,1	17,3	18,2	19,2
Other expenditure	206,4	233,0	250,2	265,6	276,8	284,0	288,3	295,1	301,0	307,4
Asset-related expenditure [2]	50,6	58,7	68,5	81,9	86,8	88,0	71,5	82,7	84,9	62,7
Deficit	**-15,2**	**39,9**	**-71,2**	**-107,0**	**-71,3**	**-46,3**	**-59,6**	**-48,0**	**-47,2**	**-49,3**
previous year =100										
Revenue	**116,1**	**105,1**	**104,7**	**101,9**	**111,4**	**109,2**	**99,5**	**104,6**	**102,4**	**102,0**
Tax revenue	118,5	106,4	97,5	103,0	109,2	102,0	98,4	105,5	102,8	105,6
including: indirect taxes	114,9	104,9	100,9	106,6	109,2	100,9	96,2	106,6	100,1	103,5
PIT	125,3	110,2	93,3	99,7	108,0	104,6	104,4	105,9	106,4	107,5
CIT	126,5	107,8	89,0	90,6	113,7	100,7	91,9	101,1	110,8	102,9
National non-tax revenue	106,4	100,8	106,9	98,7	11,1	113,4	99,1	105,5	103,7	107,7
Funds from EU and other sources of non-repayable aid	752,9	140,7	184,2	113,5	123,7	135,5	106,1	97,3	95,2	60,5
Expenditure	**109,7**	**110,1**	**101,1**	**107,8**	**103,8**	**104,4**	**101,4**	**102,5**	**102,1**	**102,2**
Current	108,1	109,4	109,6	106,2	103,5	104,9	104,4	101,0	102,0	105,9
Including: benefits:[1]	104,0	107,8	110,1	106,1	102,2	105,1	108,2	103,3	104,1	109,5
Debt servicing	99,0	92,4	126,7	107,0	107,2	118,1	97,7	80,9	84,1	109,1

EU own resources	108,0	115,0	109,8	106,9	102,7	108,2	113,7	95,3	105,6	105,0
Other expenditure	113,8	12,9	107,2	106,1	104,2	102,6	101,5	102,4	102,0	102,1
Asset-related expenditure [2]	124,8	116,0	114,2	119,9	105,9	101,4	81,2	115,8	102,6	73,9
Deficit	**40,6**	**262,2**	**175,6**	**150,3**	**66,6**	**65,0**	**128,6**	**80,5**	**98,3**	**104,5**
PKB=100										
Revenue	**39,9**	**38,7**	**37,8**	**36,6**	**37,6**	**39,5**	**38,6**	**38,9**	**38,1**	**37,7**
Tax revenue	22,0	21,5	19,5	19,1	19,2	18,9	18,3	18,6	18,2	18,7
including: indirect taxes	12,4	12,0	11,3	11,4	11,5	11,2	10,6	10,8	10,4	10,4
PIT	5,2	5,3	4,6	4,3	4,3	4,3	4,5	4,5	4,6	4,8
CIT	2,7	2,7	2,2	1,9	2,0	2,0	1,8	1,7	1,8	1,8
National non-tax revenue	16,7	15,5	15,6	14,7	15,0	16,4	16,0	16,2	16,1	16,8
Funds from EU and other sources of non-repayable aid	1,3	1,6	2,6	2,8	3,2	4,2	4,4	4,1	3,7	2,2
Expenditure	**41,2**	**41,8**	**43,0**	**44,0**	**42,1**	**42,3**	**42,2**	**41,7**	**40,7**	**40,4**
Current	36,9	37,2	38,0	38,3	36,6	36,9	37,9	36,9	36,0	37,0
Including: benefits:[1]	16,0	15,9	16,3	16,4	15,5	15,7	16,7	16,6	16,5	17,6
Debt servicing	2,5	2,1	2,5	2,5	2,5	2,8	2,7	2,1	1,7	1,8
EU own resources	0,9	1,0	1,0	1,0	0,9	1,0	1,1	1,0	1,0	1,0
Other expenditure	17,5	18,2	18,2	18,4	17,7	17,4	17,4	17,2	16,7	16,6
Asset-related expenditure [2]	4,3	4,6	5,0	5,7	5,5	5,4	4,3	4,8	4,7	3,4
Deficit	**-1,3**	**-3,1**	**-5,2**	**-7,4**	**-4,6**	**-2,8**	**-3,6**	**-2,8**	**-2,6**	**-2,7**

[1] until 2011 social expenditure

[2] until 2011 capital expenditure

Source: own calculations of the Supreme Chamber of Control (NIK) based on the data provided by the Ministry of Finance and Central Statistical Office, 2008–2016 Budget Execution Report of the Council of Ministers. (NIK 2009-2016).

The public revenue/Gross Domestic Product (GDP) ratio in the years 2007-2016 was close to the long-term average. The year 2007 was the beginning of the previous financial perspective of the European Union and the last one preceding the global economic crisis.

In 2007 the ratio of tax revenues to GDP amounted to 22%. In 2008, the total size of tax revenues in Poland decreased due to the decline in the receipts from indirect tax and a drop in corporate income tax receipts. Also, a growth of public revenue and expenditure in absolute terms and an increase in the public finance sector deficit /GDP ratio were visible. This was a result of the reduction in the public revenue/GDP ratio and the growth of the public expenditure/GDP ratio. The lowest level of tax revenues was observed in 2013 (18.5%). At the same time continuous GDP growth was visible in this period. Lower tax revenues pertained to indirect taxes and personal income tax (PIT) and (especially) corporate income tax (CIT).

The highest growth rate of revenue could be seen in 2011 (an increase by 11.4% as compared to the previous year). While the highest increase in expenditure occurred in 2008 (10.1%) during the world financial and economic crisis. This means that in years

2008-2010 public revenues grew slower than GDP, whereas public expenditure increased faster. In Poland, the ratio of tax revenues to GDP in the years 2009-2011 decreased by more than 19% of GDP, in 2014 - by 18.6% of GDP and in 2015 - 18,2% of GDP, respectively. In 2016, there was an increase in relation to the value of 2015 by 0.5 percentage points. This was due to the higher receipts from personal income tax. Also, the situation on the labor market improved. The receipts from the national non-tax revenues were also at the highest level (16.8%). However, the ratio of total public revenues to GDP decreased to 37.7% (the level of 2011).

Poland, from its accession to the European Union onwards, used the European funds, which improved the financial situation of the state. During the period considered, the average size of public revenues from foreign sources rose to 3.0% of GDP. The highest inflow of funds was reported in 2013 (4,4% of GDP). In the period of the economic crisis, the use of revenues of the European funds budget enabled maintenance of the public revenue level on a similar level as before the crisis. From 2014, the receipts from the EU budget declined. This is due to the completion in 2015 of the implementation of projects from the previous financial perspective of the European Union.

In 2016, tax revenues increased to 18,7 % of GDP and the national non-tax revenue rose to 16,8 % of GDP. Nevertheless, the total revenue decreased due to significantly lower cash inflows from the EU and other programs of non-repayable aid. They reached the lowest level (2.2% of GDP).

The average expenditure of public finance sector /GDP ratio in the years 2007-2016 was 41,9%. Since 2008 the deficits have shown their positive nature in stabilizing the economy. However, it should be noted that the provisions adopted in the European Union aim to reduce an increase of public deficits.

The highest level of expenditure for the public finance sector in Poland was reported in 2010 (44% of GDP), then the expenditure of the public finance sector in relation to GDP decreased constantly. It achieved its lowest level in 2015 - 731,8 billion zlotys (40.9% of GDP) and it was comparable to the result of 2007 (40.7% of GDP).

The expenditure/GDP ratio is low in relation to that of other Member States of the European Union and the asset-related expenditure exceeds the expenditure in the majority of member states of the European Union. Poland also managed to maintain an advantage over other members of the European Union in terms of gross capital formation of the general government sector in relation to GDP which amounted to 4.4% of GDP, while the EU average was 2.9% of GDP. The difference resulted mainly from the “catching up” process relating to the deficiencies in the technical infrastructure or improvement of its poor status. In 2015, higher capital accumulation was observed in Hungary (6.7% of GDP), Bulgaria (6.3% of GDP), Slovakia (6.2%), in the Czech Republic and Estonia (5,3 % of GDP), Romania and Slovenia (5.1%), in Latvia (4.4%). As compared to Poland, from among the countries of Central-Eastern Europe, the situation was worse in Lithuania and in Croatia only (NIK 2016).

A large share of current expenditure in total public expenditure of the public finance sector is maintained. With visible growth from 2011 and simultaneous decline of the share of asset-related expenditure (especially those that serve to fund own activities) The participation of grants for the current tasks and investment in expenditure, overall subsidy and benefits for individuals is increasing. The participation of the contributions to the EU budget (on average 2,4%) in public expenditure remained unchanged, which meant that Poland received more funds under the non-returnable foreign aid[1] than it actually paid in. (NIK 2015*,* p. 254-255)

Since 2012, the expenditure of the public finance sector in relation to GDP has decreased, although in absolute terms it has grown. In 2013 the expenditure/GDP ratio grew slower than revenue, which improved the financial result. Unfortunately, this meant a low increase in the asset-related expenditure. Public expenditure and investments decreased significantly.

In 2014 the public finance sector increased its investment expenditure by 15.8% in relation to 2013 (to over 80 billion zlotys). It did not involve any increase of revenues from foreign sources (a decrease by 2 billion zlotys). The investments were covered by national funds. Reduction of the current expenditure made it possible to improve the public expenditure/GDP ratio. The costs of public debt servicing as well as grants and subsidies and contributions to the EU budget decreased.

In 2015 the expenditure of the public finance sector amounted to 731,8 billion zlotys, i.e. 40.9% of GDP. 2007 was the last time such a low ratio of public expenditure to GDP was noted. The average ratio of public expenditure to GDP was 42,1 % of GDP in the last decade. As far as the asset-related expenditure in relation to GDP did not deviate significantly in 2015 from the average value for the last ten years, the level of current expenditure was, in relation to GDP, the lowest since at least a dozen or so years. This was possible not only because of the reduction of expenditure on the public debt servicing, but also because of the decrease in expenditure classified within a very capacious group

[1] Gross capital formation- growth of national assets in the specified time that includes gross fixed capital formation expressed in terms of value, change in inventories, the acquisition of assets with exceptional value reduced by their disposition.

2.The Polish reporting system does not cover the part of the revenue obtained directly from the European Union with the exclusion of the state budget or the budget of the European funds.

called “other expenditure” in which the Minister of Finance includes inter alia the expenditure on current activity of public finance sector units.

In 2016 they amounted to 747,9 billion zlotys (40.4% of GDP). This decrease was due to the reduction of the asset - related expenditure by 28,7 billion zlotys. At the same time, the current expenditure increased nominally and in relation to GDP. In Poland, the scale of social transfers (e.g. Family 500+ program) was increased to its highest level since 2005 (17.2% of GDP). In the EU, the average is 21.0% of GDP and a higher redistribution concerns the countries with high national income.

3 Debt and deficit of the public finance sector in Poland

In accordance with Article 7 paragraph 1 of the law on public finance "a positive difference between public revenue and public expenditure determined for the reference period is the surplus of the public finance sector, whereas such negative difference is a deficit of the public finance sector." (OJ 2017 item 2077) The determination of public revenue and expenditure and the balance of the public finance sector requires elimination of the financial flows between the units of this sector. The budget deficit can be considered a violation of the budget balance, as opposed to the surplus. The latter may be used to pay the liabilities and to lower the public debt. In turn, the adoption of a reference period in national and international studies allows you to separate the problem of budgetary balance from the liquidity of the public finance. One should remember, however, that liquidity management is much more difficult in the event of substantial deficits present in reference periods and eventually such deficits may lead to the occurrence or increase of public debt.

Poland provides information concerning the statistics of general government to Eurostat. This sector includes: "entities of the national economy acting on the principles set out in the law on public finance; entities whose financial system was identified by separate laws and whose primary source of financing are subsidies from the state budget (public colleges, Polish Academy of Sciences and its subordinate units, National Road Fund, Railway Fund, Polish Institute of International Affairs, units of agricultural advisory and government agencies); state and local government independent health care institutions; national and local government institutions culture; funds having legal personality which are related to the state budget or with the budgets of local government units; the Polish Film Institute; the Office of Polish Insurance Ombudsman; institutions servicing social insurance funds (with the exclusion of Open Pension Funds) together with funds managed by them; the National Health Fund." (Sejm [Parliament] of the Republic of Poland)

The approach of the Member States of the euro zone and the European Union to the monetary policy and budget varies. Because of the concurrent overlap of both of these areas of economic policy, minimum supervision and coordination of the budgetary policy are necessary. Without them, it would be very difficult for the European Central Bank to maintain a stable, anti-inflation and uniform monetary policy for all countries.

The Stability and Growth Pact became one of the most important mechanisms to ensure discipline of the budgetary sector. Initially, it consisted of the European Council Resolution on the Stability and Growth Pact (OJ. C 236 of 02.08.1997, p.1) and Council Regulation (EC) no 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies (OJ. EC no L 209/1 of 2.08.1997) and Council Regulation (EC) no 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ. EC no L 209/6 of 2.08.1997) in accordance with Article 104 of the Treaty establishing the European Community the basis for estimates of the budgetary situation were specified (OJ C 340 of 10.11.1997 p. 145, OJ EC C 325 of 24.12.2002, p. 7, OJ C 321E, of 29.12.2006, p.7), and in the protocol on the excessive deficit procedure, quantitative reference values were indicated, thus allowing for the assessment of fulfilment of this criterion.

In Poland, since 2008, the sustainability of public finance has deteriorated. Despite the improvement of the economic situation in 2010, the ratio of public finance sector deficit to GDP kept deteriorating by an average of 2 percentage points per year. The public debt and the costs of servicing thereof (which amounted to 2,6 % of GDP) continued to grow whilst the ability to finance public tasks was undermined. On 7 July 2009, the Council, on the basis of the opinion of the Commission dated 24 June 2009, made a decision on the existence of an excessive deficit in Poland (OJ L 202 of 4.8.2009, p.46). The negative state of public finances was due to major uncertainty associated with the worldwide financial and economic crisis. A marked reduction in revenues from personal income tax, social insurance premiums, revenues from the financial institution sector was observed while at the same time no actions were taken to reduce public expenditure. Increased grants for the Social Insurance Fund and the rapid increase in expenditure, including funds related to assets and local self-government bodies were a problem, too.

In 2010, the public debt exceeded 50% of GDP, whereas the debt-servicing cost exceeded 2.6% of GDP. It was necessary to apply cautionary and rehabilitation procedures. Pursuant to them, for the following year, the Council of Ministers should have adopted a draft budget law in which the state budget deficit/state budget revenues ratio (t+2) would not exceed the ratio of the state budget deficit to state budget revenues from the current year resulting from the budget law (t+1)[1].

In 2011 the state of public finances improved. The public finance sector deficit amounted to 71,3 billion zlotys, that is 4.6% of GDP. Its reduction was the result of a significant increase

[1] These costs exceeded the total expenditure on central government authorities, control and law enforcement and judiciary authorities, higher education, science, and public security.

in public revenue and the reduction of the growth rate pertaining to public expenditure. The state of public finances did not guarantee the reduction of the general government deficit below 3 % of GDP. In accordance with ESA'95 methodology, the state public debt rose to the level of 56.3% of GDP (Central Statistical Office Department of National Accounts 2011), which meant that another cautionary threshold was exceeded (Article 81 paragraph 1 point 2. that is Journal of Laws of 157, item 1240 as amended). Consequently, in 2013 the principles of planning the state budget and local government budgets deficit would have to become stricter.

On the basis of the Act of 26 July 2013 on the amendment of the Act on public finances, in 2013 the so-called first cautionary threshold was no longer applied (Article 86 paragraph 1 point 1. Journal of Laws of 2013, item 938). The budget deficit was increased by the Act of 27 September 2013 on the amendment of the budget law for 2013 (Journal of Laws of 2013 item 1212) and the draft budget law for 2014. Eventually, the first threshold was repealed by the Act of 8 November 2013 on amending the law on public finance and certain other acts (Journal of Laws of 2013 item 1646.). Currently, only two remedial thresholds are in force (cf: Nizioł, 2014; Mroczkowski, 2014).

The Act of 22 November 2013 on the amendment of the law on old age pensions and annuities from the Social Insurance Fund changed the pension system implemented under the reform of 1999. The pension system reform in 1999 was intended to improve the stability of the system due to the growing demographic problems in Poland. The public pension system of defined benefits was replaced then with a three-pillar system. The amendment to the law in 2013 increased the importance of the public pillar based on the notional defined contribution system. A part of the assets accumulated in Open Pension Funds (OFE) was transferred to the public pension system. The second pillar based on the capital system lost its universal and mandatory nature. This change resulted in the short-term mitigation of the negative budgetary situation. However, in the long run, it will contribute to the deterioration of the stability of public finances. Benefits obtained due to higher social insurance premiums and lower payments due to interest will be offset by higher pensions paid from the public pension system. This situation is unfavourable and causes an increased risk for the state of public finances in Poland. As a result of the conversion of the state public debt using the average exchange rates of the National Bank of Poland in the year and less free funds for financing public borrowing needs of the state budget in the next financial year, the ratio of public debt to GDP recalculated in 2013 was 52.9%. This resulted in the necessity to adjust expenditure in the budget law for 2015 by 2 percentage points. In turn, in 2014, it was 45%, which enforced the adjustment of expenditure referred to in the budget law in 2016 by 1.5 percentage point and in 2015 it amounted to 47.3%, which requires a correction by 1.5 percentage point to the budget law for 2017.

From January until the end of July 2014, the social security contributions to the second pillar were still being made. They constituted the net cost of the 1999 pension reform, which approximately amounted to 0.4% of GDP and should be the correction of the general government deficit (OJ L 163, 30.6.2015, p. 37 - 39). In 2014, the general government deficit in Poland decreased to the level of 3.2% of GDP and in 2015 2.6% of GDP, respectively. In this period, the deficit of the Member States of the euro zone amounted to 2.4% of GDP and of the European Union was 2.9% of GDP. The general government debt in Poland amounted to 94,2 % of the average of the euro zone, and 88.4 % of the EU average and the deficit adjusted by the costs of the pension reform was similar to the situation in those countries that had not implemented any pension capital fund and to the EU average (Ministry of Finance, 2015).

In 2015 the economic situation in the country improved further. It was exploited for the purpose of limiting the financial imbalances of the state. Improvement of the state of public finances enabled the abolition of the excessive deficit procedure against Poland (OJ L 163, 30.6.2015, p. 37 - 39.) by the Decision of the Council of the European Union 2015/1026 of 19 June 2015. In turn, in the convergence program submitted to the Commission on 23 April 2015, it was assumed that the deficit in 2015 would be at the level of 2.7% of GDP and in 2016 2.3% of GDP (Council of Ministers, 2015).

In November 2015, the European Commission included Poland into the group of eight Member States of the European Union with a stable financial situation, as the general government deficit and the public finance sector deficit had been reduced.

In 2015, the general government deficit reached 2,6 % of GDP and was slightly lower - by 0.2 percentage points - than one year before. Poland - the first time since 2007 - fulfilled the criterion laid down in Article 126 of the Treaty on the European Union and in the Protocol No 12 on the excessive deficit procedure. This criterion obliges Member States to maintain the general government deficit up to 3 % of GDP. The general government debt in 2015 totaled 919,6 billion zlotys (increase by 5.7% compared to the previous year), which was around 51,1 % of GDP (Central Statistical Office, Department of National Accounts, 2015).. One should also remember that as of 1 February 2014 (except for Article 1, Article 8, Article 11, Article 23, Article 29, Article 31 and Article 36, which entered into force on 14 January 2014) the amendments to the pension scheme entered into force (Journal of Laws of 2013 item 1717), which resulted in the prohibition of investing funds in the State Treasury Bonds and other debt securities issued or guaranteed by the State Treasury and OFE was obligated to transfer 130,2 billion zlotys in the form of assets held in portfolios of bonds to the Social Insurance Company, which caused the reduction of Poland’s public debt by 9% of GDP. Unfortunately, in the years 2014 and 2015, the public debt increased by almost a full value of the bond redemption. Changes in the pension scheme covered the pension disbursement system. Limitations as to payments into the so-called individual security pension account were introduced. Also, tax incentives in relation to benefits withdrawn from said accounts were implemented; the mandatory capital part (2.92% base[1]) was reduced, the nature of participation in the system was modified by introducing the principle of voluntary participation and by abolishing the obligation of membership in OFE. The whole reform was aimed to reduce the so-called pension debt, which was partially included into the official debt resulting from the introduction of the defined contribution system. The pension debt[2] was the result of the operation of the notional defined-contribution system - i.e. financing pension liabilities from current contributions. It is not a liability of the State Treasury. It is not shown in the official statistics of the public debt. In turn, OFE are based on the capital system - the pension debt is the sum of liabilities on individual accounts held by system participants. It is therefore non-confidential, and the contribution paid to OFE is not considered as public funds. If the entire pension debt was non-confidential and included in the public debt - there would not be a problem of variations concerning its level in case changes in the financing of the pension system are introduced (Rutecka, 2014, pp.6-7).

From 2015, Poland after correcting the excessive deficit, was subject the preventive function of the Stability and Growth Pact. Also, it is necessary to reduce the structural balance by 0,2 % of GDP in 2015 and 2016 (OJ L 163 of 30.6.2015, p. 37 - 39), but that would require the continuation of the existing fiscal policy. The analysis of the current fiscal policy points to the risk of deviation from the required adjustment of the balance, which will force the use of supplementary measures.

[3] It was previously adjusted from 7,3% base to 2.3%, then to 2.8%, only to reach the current the level.

[4] The total liabilities of the pension system are the sum of the balances of pension accounts held by persons who have not retired yet, so-called pension rights, and obligations towards current pensioners.

Table 2 Deficit and debt of the public finance sector and the general government sector in the years 2010-2016

Description	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
In billion PLN											
Gross Domestic Product	1176,7	1275,5	1344,5	1445,3	1566,8	1629,4	1656,9	1719,8	1799,4	1858,5	1982,1
General government deficit	-22,1	-47,0	-99,6	-106,1	-75,5	-60,1	-68,1	-62,3	-47,6	-43,6	-33,0
Government sector	-35,3	-49,8	-73,2	-85,0	-62,4	-59,0	-60,5	-39,8	-39,8	-46,5	-75,1
Local government sector	0,5	-2,4	-14,3	-18,0	-11,8	-4,6	-3,0	-3,8	0,1	4,6	1,5
Social insurance sector	12,7	5,2	-12,1	-3,1	-1,3	3,5	-4,6	-18,8	-7,9	-1,8	40,6
General government sector debt	529,4	600,8	684,1	767,8	847,7	875,1	922,8	864,2	919,9	1006,6	1003,4
GDP=100											
General government sector deficit	-1,9	-3,7	-7,4	-7,3	-4,8	-3,7	-4,1	-3,6	-2,6	-2,3	-1,7
Government sector	-3,0	-3,9	-5,4	-5,9	-4,0	-3,6	-3,7	-2,3	-2,2	-2,5	-3,8
Local government sector	0,0	-0,2	-1,1	-1,2	-0,7	-0,3	-0,2	-0,2	0,0	0,2	0,1
Social insurance sector	1,1	0,4	-0,9	-0,2	-0,1	0,2%	-0,3	-1,1	-0,4	-0,1	2,0
General government debt	45,0	47,1	50,9	53,1	54,1	53,7	55,7	50,3	51,1	54,2	50,6

* Data were reviewed in relation to ones the originally published.

Source: based on: [Central Statistical Office, Department of National Accounts] Główny Urząd Statystyczny Departament Rachunków Narodowych, Komunikat dotyczący deficytu i długu sektora instytucji rządowych i samorządowych, Warszawa 2008–2017, https://stat.gov.pl/obszary-tematyczne/rachunki-narodowe/statystyka-sektora-instytucji-rzadowych-i-samorzadowych (downloaded on 20.04.2018).

In 2016, further improvement in the economic situation in the country could be observed. The economic growth rate was lower than in 2015, but higher than in most of the Member States of the European Union. Nevertheless, in Poland, as compared to the European Union in 2016, the general government sector deficit amounted to 2.4%. The expenditure on the implementation of investment tasks was lower with simultaneous higher current expenditure, which resulted in larger financial imbalances. There was an improvement of the financial result in the social security funds sub-sector and local government institution sub-sector. At the same time, the central government sub-sector deficit increased (to 48.2 billion PLN by 8.4 percentage points). The general government deficit reached 2,4 of GDP and the debt rose to 54.4% of GDP (1006,3 billion PLN). Belgium, Romania, the United Kingdom, France and Spain, only had a higher deficit. Germany, Sweden, Czech Republic, Greece, the Netherlands, Estonia, Lithuania and other countries recorded a surplus in the public finance sector. (NIK 2017, pp. 267-268).

From 01 October 2017 the pensionable age was reduced - namely: to 60 years of age for women and 65 years for men. Based on the tentative calculations of the Social Insurance Company (ZUS) it appears that the financial effects of the implementation of the reform are likely to reach some 2 billion zlotys. The subsequent changes in the pension scheme should take place in 2018. There will be no limit with regard to insurance contributions. In addition, changes may take place in the second pillar based on Open Pension Funds managed by Powszechne Towarzystwa Emerytalne [Universal Pension Fund (Management) Companies]. Their assets are to be allocated between the Demographic Reserve Fund (25%) and Individual Retirement Security Accounts (IKZE) (75%). The contribution intended for the Open Pension Funds will go to the Social Insurance Company. OFE will take over the Employee Capital Plans. This will result in the growth of non-wage labor costs and is supposed to stimulate savings.

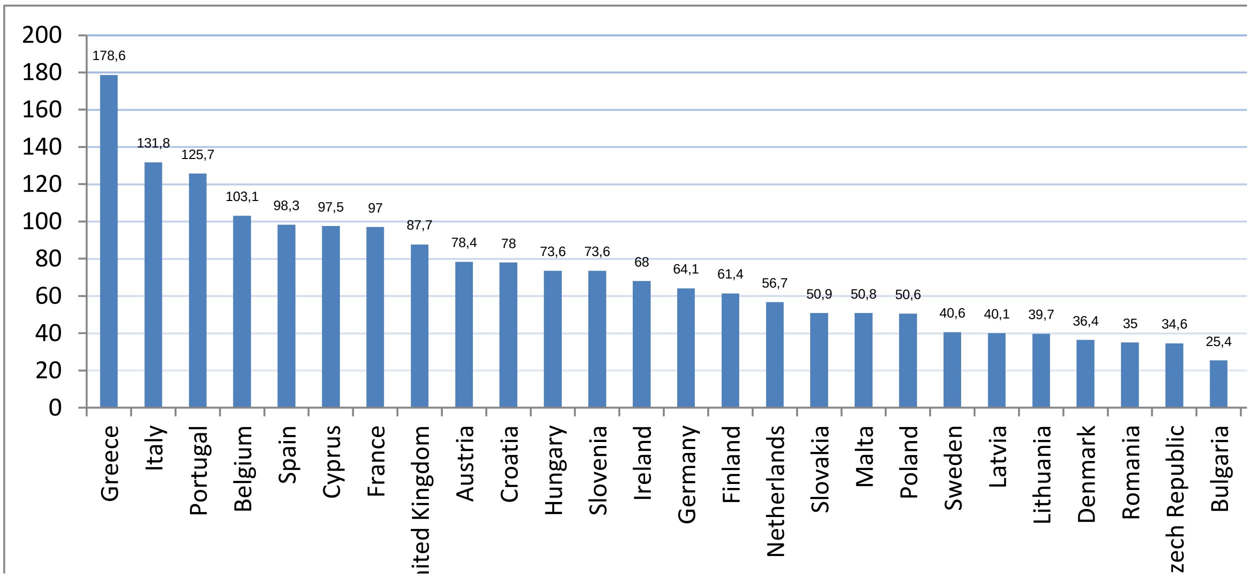
4 Conclusions

The public finance deficit is divided into deficits of entities constituting this sector. It focuses on the deficit of the state budget which acts as a regulatory body supplying other entities with public funds. In Poland, in recent years there has been an improvement of the economic situation in the country. This allowed for reducing the budget deficit of the general government sector from 4 % of GDP in 2013 to 3.3% of GDP in 2014 and 2.6% of GDP in 2015. In accordance with Article 126 of the Treaty on European Union (OJ 2004 no. 90 item 864/2) and provisions of Protocol 12 on the excessive deficit procedure (OJ C 326 of 26.10.2012, p.279), it was possible to maintain the deficit at the level of 3% of GDP. Whereas from 2016 we can observe an increase of the public debt, which is related to the increasing current expenditure and the debt of the government sector. The expenditure connected with the Family 500 plus Program and the lowering of the retirement age were of great importance for the state of public finances. They were offset against increases in tax revenue. However, the public finance sector deficit is close to the reference value of 3%.

In the years 2015 - 2016, the nominal value of the public debt was affected by the weakening zloty. In 2017, a good economic situation and the strengthening of the zloty, allowed for reduction in value of the foreign debt by about 27 billion zlotys. According to the estimates of the Central Statistical Office, the public debt/GDP ratio will drop to 50,6 % in connection with the economic growth and the deficit /GDP ratio is estimated to achieve 1.7%.

In accordance with Eurostat and the European Commission data on the level of debt and deficit, one can clearly see the failure to exploit favorable economic conditions in Poland to improve the state of public finances. Despite the fastest GDP growth (4.6%), Poland has taken 6th place in terms of the level of the deficit/GDP ratio - following Ireland, (7.8%), Romania (6.9%.), Malta (6.6%), Slovenia (5%) and Estonia (4.9%.). Other countries of the European Union seek to exploit the economic situation to reduce debts. The surplus of the public finance sector was reported in the following countries: Malta (the largest (3.9% of GDP surplus), Cyprus (1.8 percent), Czech Republic (1,6 percent), Luxembourg, Germany, Sweden, The Netherlands, Denmark, Bulgaria, Greece, Croatia, Lithuania and Slovenia. The largest deficit/GDP ratio was recorded in Spain (-3,1 percent) and Portugal (-3%). On average in the European Union, the deficit to GDP ratio amounted to 1% (146,6 billion, i.e. almost 100 billion less than in 2016)

Figure 1. General government gross debt (EDP concept), consolidated, 2017. Percentage of gross domestic product (GDP)



Źródło: General government gross debt (EDP concept), consolidated - annual data. Percentage of gross domestic product (GDP).
http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&plugin=1&pcode=tipsgo10&language=en
Eurostat data(downloaded on 20.04.2018).

According to GUS [Central Statistical Office] estimates, the public debt to GDP ratio after its growth from 51,1% in 2015 to 54.2%, in 2016 decreased to the level of 50,6 %. A decline in the public debt to GDP ratio between 2015 and 2017 year resulted from the increase of GDP that was much faster than the debt growth rate. According to Eurostat data concerning the size of the public debt to GDP ratio, the following countries are least indebted: Estonia (9,0 % of GDP), Luxembourg (23,0%), Bulgaria (25,4%), Czech Republic (34.6%), Romania (35,0%.) and Denmark (36.4%). On the other hand, Greece (178,6 %) is the most indebted country and is followed by: Italy (131,8%), Portugal (125.7%), Belgium (103.1%) and Spain (98.3%). The indicator for Poland amounted to 50,6 % and was slightly lower by 3.6 percentage points due to the high pace of the economic growth and the strengthening of the zloty.

The maintenance of very good economic conditions results in a change of public finance security forecasts in Poland. The International Monetary Fund lowered its forecast of Poland's public sector deficit in 2018 from 2.7% GDP to 1,9%. IMF decreased also its forecast of Poland's public debt to GDP ratio - in 2018 to 50.8% (from 53.8%) and in 2022, to 46,2% (from 51,3%). This was possible owing to better forecasts of the GDP level in Poland which is projected at 4.1% (previously 3.3%).

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