DOI: 10.20472/BMC.2016.003.021

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PUBLIC DEBT MANAGEMENT IN POLAND COMPARED TO OTHER COUNTRIES OF THE EUROPEAN UNION

Abstract:

The paper discusses the issues of public debt which is generated by huge expenditure demands in countries without relatively high incomes. The problems connected with allocation and the significance of public debt have often risen much controversy. The process of public debt management has become particularly important in recent years. Both Poland and other European countries started to search for a model which, on the one hand, would contribute to economic growth and development of the country and, on the other hand, would ensure stability and would not shake the foundations of the country. Based on legal regulations and available statistical data for the period of 2004-2014, the level of public debt in Poland and the EU countries was evaluated and analysed. The aim of the paper is to demonstrate public debt management as an important instrument of state policy. Analysis concerned the structure, level and costs of public debt service. The methods of public debt management in Poland were also characterized.

Keywords:

management, public debt, public finance, budget deficit

JEL Classification: G01

Introduction

Government debt management in Poland has raised much controversy in recent years, especially in light of the financial crisis that was started in the USA, causing the economic downturn reported in many countries of the European Union. Both Poland and other European countries started to search for a model which, on the one hand, would contribute to economic growth and, on the other hand, would ensure stability and would not shake the foundations of the country. Among 28 countries of the EU, fourteen countries use an agency model of government debt management, including 11 countries of the eurozone. In Poland, the government model remains to be dominant, with the Minister of Finance responsible for government debt management. The aim of this study is to bring selected aspects of government debt management in Poland against the EU countries closer to the reader. From this standpoint, the study attempts to analyse and evaluate the level of debt in Poland and other EU countries. The study employed an ex-post analysis based on historical data obtained from the Ministry of Finance in Poland and from Eurostat. The research period includes the period of 2004-2014, which represents a decade of Polish membership in the European Union.

The concept of government debt and models of government debt management

The investigations of government debt management should be first started from the definition of this concept. Certain definitions of the government debt accentuate the objects of obligations while other emphasize their causes or forms. Therefore, one unequivocal level of safe government debt level recognized in both the theory of economy and economic policy has not been defined to date (Poniatowicz, 2005, s.30). In the literature, the debt that is composed of combined accumulated loans incurred by the government termed government debt represents a total monetary value of state liabilities (Samuelson, Nordhaus, 2012, p. 641). Therefore, government debt represents the wholeness of deficits accumulated by the government (sector of public finances) deficits over a specific time (McConnell, Brue, Flynn, 2009, p. 619; Wernik, 2014, p.112).

In the European Union, the definition of the government debt was reflected by the the European Council Regulation of 22 November 1993 on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community (EC No. 3605/93), which defines government debt as a total gross debt at nominal value outstanding at the end of the year, consolidated for the public sector that includes central government, local governments and social security funds. This debt includes cash, deposits and securities other than shares and loans (Połomka, Zalesko, 2015, p.168).

Furthermore, the protocol on the excessive deficit procedure which represents the Appendix to the Treaty on European Union and the Treaty on the Functioning of the

European Union contains, apart from the definition of the debt, the base value for ratio of the government debt to GDP defined at the level of 60%. Furthermore, the Regulation (EU) No. 549/2013 of the European Parliament and of the Council of 21 May 2013 on the European system of national and regional accounts in the European Union (ESA 2010) contains the definition of individual categories of financial liabilities and the general government sector.

In Poland, government debt is defined as financial liability of public government (state government and local government) due to loans, with the most important cause of the debt being loans for financing budget deficit (Owsiak, 2013, p. 330).

Polish legal regulations concerning government debt management are contained in particular in the Act of 29 August 2009 on public finance (Journal of Laws No. 157, item 1240 with further amendments), according to which the government debt is viewed as a nominal debt of public sector finance, determined after elimination of flow between the entities that belong to this sector. It involves the obligations of the sector of public finances due to issued securities with cash liabilities, credits and loans, deposits received and due liabilities. Furthermore, the Constitutions of the Republic of Poland (Journal of Laws 2009, No. 79, item 483) contains the limit of government debt of 60% GDP because, according to the Art. 216 of the Section 2, it is not allowed to incur the loans or grant the guarantees and hedging which exceed three thirds of the annual GDP.

In Poland, government debt is managed by the Minister of Finance. However, it should be emphasized that a variety of models of institutional situation of the entity that is responsible for government debt management have been developed. Table 1 presents a short characterization these models.

Table 1: Models of institutional situation of the entity that manages government debt in the EU countries

Model	Characteristic	EU countries
Agency model	- functions of government debt management are concentrated in a single independent institution or in the area of structures of another entity, - high degree of transparency of actions is guaranteed by the standardized scope of rights and duties and a broad information policy, - operating goals and strategies for debt management are developed and achieved in the area of agency with ministerial approval, - multi-stage audit and monitoring of agency activities.	Austria, Belgium, Finland, France, the Netherlands, Greece, Ireland, Latvia, Germany, Portugal, Slovakia, Sweden, United Kingdom
Governmental (ministerial) model	- functions of government debt management are located within the ministerial structure of the government (in one or several departments), - the goals for government debt management are set and achieved within budget goals.	Bulgaria, Croatia, Czech Republic, Cyprus, Estonia, Spain, Lithuania, Luxembourg, Poland, Romania, Slovenia, Malta, Italy,

Bank model	- functions of government debt management are contained in the structures of the central bank - government debt management (objectives, strategies, operations) is subordinate to overriding monetary goals.	Denmark

Source: Own elaboration based on data form: Stategia zarządzania długiem sektora finansów publicznych w latach 2016-2019, 2015, p. 53-52; Gołębowiski, Marchewka-Bartkowiak, 2004, p.19.

There is an agency model dominating in the EU countries as it is characterized by a number of advantages. First and foremost, it allows for the choice of optimal solutions and achievement of long-term objectives for government debt management through limitation of the risk that the managing bodies make their decision based on short-term objectives of fiscal policies. It also ensures greater transparency of activities through employing better mechanisms for control and accounting and, consequently, improved trust among investors and lower costs of financing of the needs. However, this requires development of clear and unequivocal procedures that allow for making fast decisions on market transactions (the prerequisite for effective and active debt management). It helps being competitive compared to commercial financial institutions in terms of acquisition of high-level experts. Furthermore, the governmental model, typical of Poland, is very effective in emerging economies or those under systematic transformations, where the degree of development of the financial market is low (although these are not the only cases where the model is used). This model ensures great opportunities for the government to influence the creation of a specific legal and institutional infrastructure necessary for operation of the effective financial market (Stategia zarządzania długiem sektora finansów publicznych w latach 2016-2019, 2015, p. 53-52).

Analysis and evaluation of the level of Polish debt against the countries of the EU

Poland is characterized by the value of gross government debt measured as a percentage share in GDP below the average for the EU countries (except for years 2006-2007), which is demonstrated by the data contained in the Table 2. In 2004-2008, general government gross debt ranged from 45 to 47%. After 2009, the debt level soared above 50% and was reflected by a constant progression of up to 55.9% in 2013. A reduction to 50.4% of the GDP was recorded in 2014. Therefore, over the period of 10-year analysis, the fiscal criterion of the Maastricht Treaty concerning the government debt was met by Poland as it should not exceed 60% of the GDP although a number of EU countries did not meet this criterion.

Table 2: General government gross debt in the EU countries (EDP concept), consolidated in 2004-2014 (in % GDP)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Belgium	96,5	94,6	90,9	86,9	92,4	99,5	99,6	102,2	104,1	105,1	106,7
Bulgaria	35,8	26,6	20,9	16,2	13	13,7	15,5	15,3	17,6	18	27
Czech Republic	28,5	28	27,9	27,8	28,7	34,1	38,2	39,9	44,7	45,2	42,7
Denmark	44,2	37,4	31,5	27,3	33,4	40,4	42,9	46,4	45,6	45	45,1
Germany	64,7	66,9	66,4	63,6	65	72,5	81	78,4	79,7	77,4	74,9
Estonia	5,1	4,5	4,4	3,7	4,5	7	6,6	5,9	9,5	9,9	10,4
Ireland	28,2	26,1	23,6	23,9	42,4	61,8	86,8	109,3	120,2	120	107,5
Greece	102,7	107,3	103,5	103,1	109,4	126,7	146,2	172	159,4	177	178,6
Spain	45,3	42,3	38,9	35,5	39,4	52,7	60,1	69,5	85,4	93,7	99,3
France	65,7	67,2	64,4	64,4	68,1	79	81,7	85,2	89,6	92,3	95,6
Croatia	39,8	40,7	38,3	37,1	38,9	48	57	63,7	69,2	80,8	85,1
Italy	100	101,9	102,5	99,7	102,3	112,5	115,3	116,4	123,2	128,8	132,3
Cyprus	64,5	63,2	59,1	53,9	45,1	53,9	56,3	65,8	79,3	102,5	108,2
Latvia	14,3	11,8	9,9	8,4	18,7	36,6	47,5	42,8	41,4	39,1	40,6
Lithuania	18,7	17,6	17,2	15,9	14,6	29	36,2	37,2	39,8	38,8	40,7
Luxembourg	6,5	6,3	7	7,2	14,4	15,5	19,6	19,2	22,1	23,4	23
Hungary	58,5	60,5	64,7	65,6	71,6	78	80,6	80,8	78,3	76,8	76,2
Malta	72	70,1	64,6	62,4	62,7	67,8	67,6	69,8	67,6	69,6	68,3
Netherlands	49,6	48,9	44,5	42,4	54,5	56,5	59	61,7	66,4	67,9	68,2
Austria	64,8	68,3	67	64,8	68,5	79,7	82,4	82,2	81,6	80,8	84,2
Poland	**45,3**	**46,7**	**47,1**	**44,2**	**46,6**	**49,8**	**53,3**	**54,4**	**54**	**55,9**	**50,4**
Portugal	62	67,4	69,2	68,4	71,7	83,6	96,2	111,4	126,2	129	130,2
Romania	18,6	15,7	12,3	12,7	13,2	23,2	29,9	34,2	37,4	38	39,9
Slovenia	26,8	26,3	26	22,7	21,6	34,5	38,2	46,4	53,7	70,8	80,8
Slovakia	40,6	33,9	30,8	29,9	28,2	36	40,8	43,3	51,9	54,6	53,5
Finland	42,7	40	38,2	34	32,7	41,7	47,1	48,5	52,9	55,6	59,3
Sweden	47,9	48,2	43,2	38,3	36,8	40,4	37,6	36,9	37,2	39,8	44,9
United Kingdom	40,2	41,5	42,4	43,5	51,7	65,7	76,6	81,8	85,3	86,2	88,2
The average value of the debt to the EU	**47,49**	**46,79**	**44,88**	**42,99**	**46,08**	**55**	**60,71**	**65,03**	**68,69**	**72,22**	**73,64**

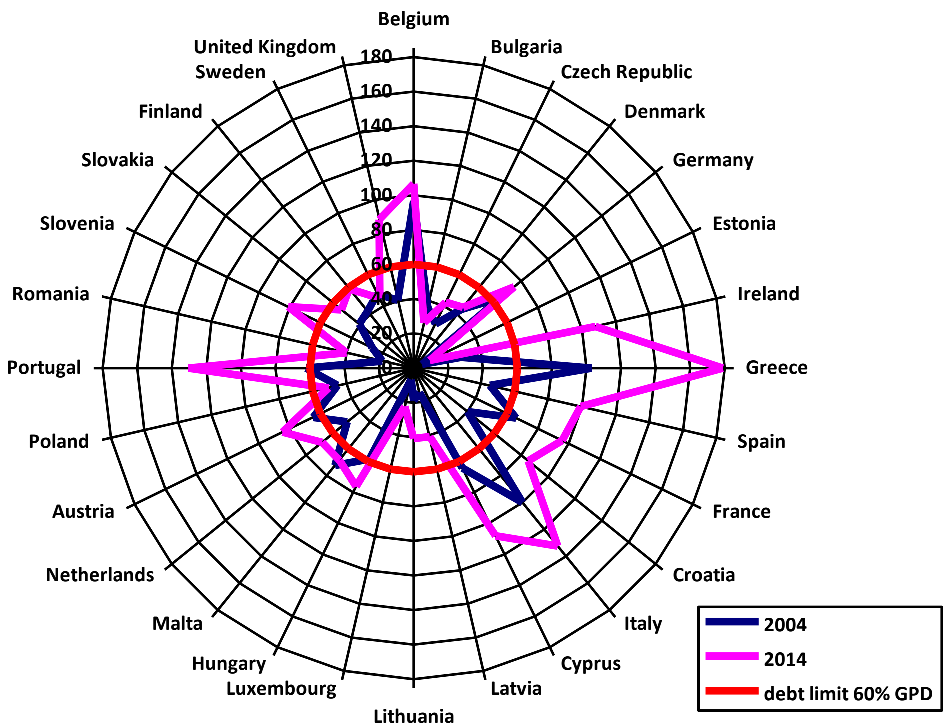
Source: Own elaboration based on data Eurostat http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=tipsgo10&plugin=1(12.02 .2016)

The biggest problems with the debt level were found especially with the countries of the "old fifteen" that belong to the eurozone (Greece, Italy, Portugal, Ireland, France, Belgium and, since 2009, Germany and Austria), which is demonstrated by the data contained in Table 1 and the data for the years 2004 and 2014 in Fig. 1. Among "new" EU member (those with accession after 2004), the problems with debt level were observed in Malta, Cyprus and Hungary.

A dynamic increase in the debt in individual EU countries was caused in particular by the financial crisis, which, after 2008, drove the economic slowdown in the EU countries.

Faster rate of the increase in GDP compared to public debt in 2004-2007 helped the EU countries (including Poland) limit the debt index measured as a percentage of GDP in the period of the economic growth. From the standpoint of world crisis, this tendency was reversed, which resulted from increasing budget deficits in individual countries caused by the increase in budget expenditures on anti-crisis activities and social assistance. The result of these activities was the increase in debt, especially short-term debt with maturity dates of up to one year, which negatively affected the evaluation of risk in government debt management (Uryszek, 2011, p. 356).

Figure 1: General government gross debt in the EU countries (EDP concept), consolidated in 2004 and 2014 (in % GDP)



Source: Own elaboration based on data Table 2.

It should also be indicated that the crisis of public finance can also additionally deteriorate the situation of households. The increase in expenditures for goods and services which were previously financed from public funds and fiscal liabilities is also being observed (). High level of debt causes that it is difficult to achieve the goals of the stable development and ensure the effective combating of budget deficit (Borowski, 2014, p. 33).

Analysis and evaluation of State Treasury debt level and costs of debt servicing in Polnad in 2004-2014

Since around 93-94% of general government debt in Poland is the State Treasury debt, which is illustrated by the data presented in Table 3, this part of the study analyses in details its level and costs of servicing in 2004-2014.

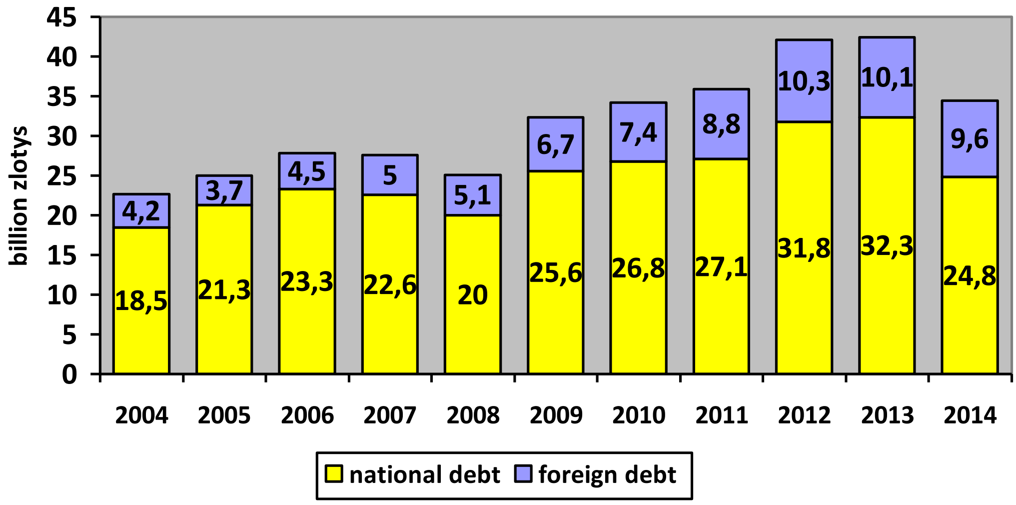
Table 3: General government debt in Poland (2004-2014)

		2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
General government debt	[billion zlotys]	434,4	466,6	506,3	527,4	597,8	669,9	747,9	815,3	840,5	882,3	826,8
	% GDP	46,5	47,4	47,5	444	46,8	49,2	52,0	52,5	52,0	53,1	47,8
State Treasury debt	[billion zlotys]	402,9	440,2	478,5	501,5	569,9	631,5	701,9	771,1	793,9	838,0	779,9
	% GDP	43,4	44,7	44,9	42,3	44,6	46,4	48,8	49,6	49,1	50,4	45,1
Sare of the State Treasury debt in general government debt	%	92,75	94,35	94,51	95,09	95,34	94,27	93,85	94,58	94,46	94,98	94,33
National debt of the State Treasury	[billion zlotys]	291,7	315,5	352,3	380,4	420,2	462,7	507,0	524,7	543,0	584,3	503,1
Foreign debt of the State Treasury	[billion zlotys]	111,2	124,7	126,2	121,1	149,7	168,8	194,8	246,4	250,9	253,8	276,9
General government debt (in EU methodology)	[billion zlotys]	419,8	459,7	501,9	524,4	595,4	678,3	770,6	851,7	878,8	926,5	867,0
	% GDP	45,3	46,7	47,1	44,2	46,6	49,8	53,6	54,8	54,4	55,7	50,2

Source: Own elaboration based on data from the Ministry of Finance in Poland.

Analysis of the data presented in Table 3 and illustrated in Fig. 2 reveals that in the 10-year period of the analysis, the value of costs of national and foreign debt servicing was characterized by a progression in 2004-2007 (an increase from 22.7 billion to over 27 billion zlotys), decline to 25.1 billion and, in 2009-2013, a second increasing tendency was observed (from 32.2 billion to 42.5 billion zlotys). A reduction in costs of State Treasury debt servicing to 34.5 billion was observed in 2014.

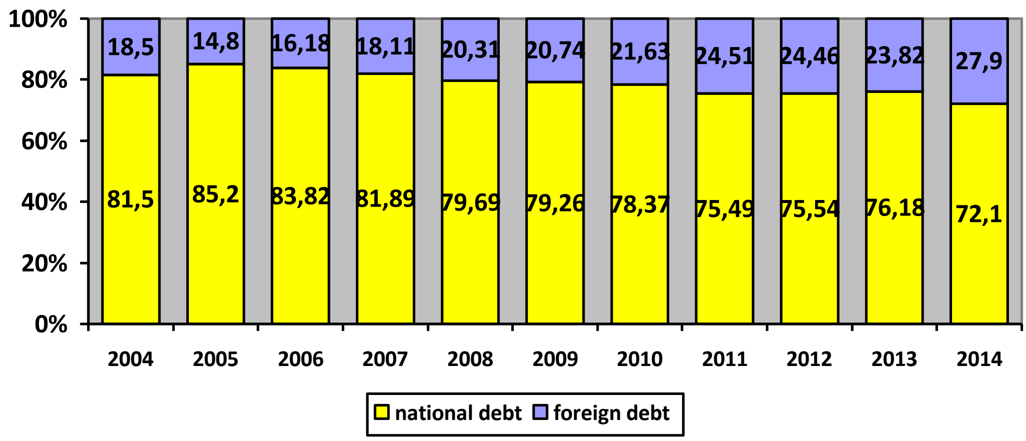
Figure 2: Debt servicing costs of the State Treasury in Poland (2004-2014)



Source: Own elaboration based on data from Table 2.

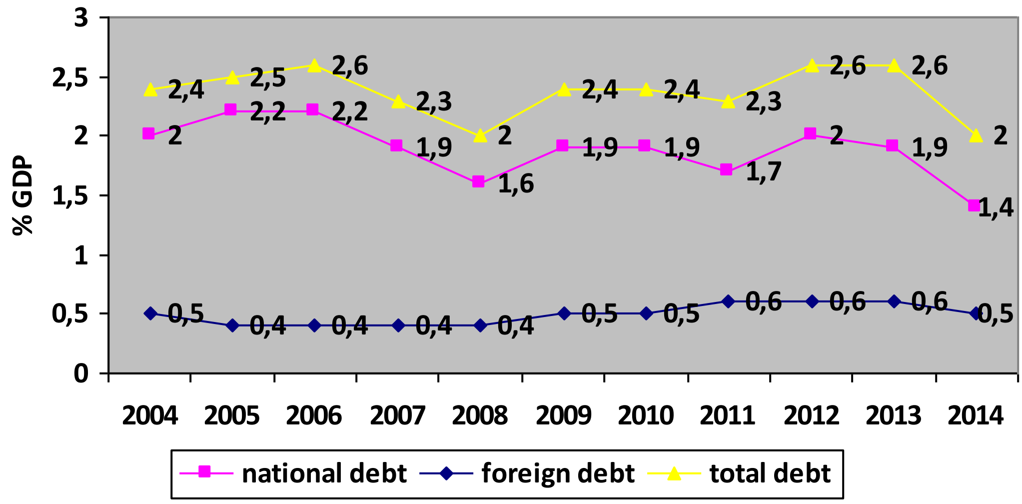
The structure of costs of debt servicing was dominated by the national debt (ranging from 18.5 - 32.3 billion zlotys, which accounted for 72-85% of the State Treasury debt), whereas costs of servicing of the foreign debt ranged from 3.7 to 10.3 billion zlotys (14-27.9%). In conclusion, the costs of foreign debt servicing were lower than the costs of national debt servicing, which is reflected by lower contribution of the foreign debt to the State Treasury debt in total in Poland. This is also illustrated by the data presented in Fig. 3. However, the data also demonstrate that the contribution of foreign debt is increasing from 16.18% to 27.9% in 2014. The progression of costs of servicing of the the State Treasury debt in Poland after 2009 can also be observed (Fig. 2), which is attributable mainly to the increased role of the foreign financing and weaker exchange rate of zloty and expenditures due to the interest on securities.

Figure 3. The structure of the debt servicing costs of the State Treasury in Poland (2004-2014)



Source: Own elaboration based on data from Table 2.

Figure 4: The share of State Treasury debt servicing in the GDP in Poland (2004-2014)



Source: Own elaboration based on data from Table 2.

Furthermore, analysis of the costs of servicing the State Treasury debt measured as a percentage of GDP (Fig. 4) indicates that in 2004-2014, these costs ranged from 2 to 2.6% of GDP, with the value of 2% GDP recorded in 2008 and 2014, and the value of 2.6% GDP observed in 2006, 2012 and 2013. Greater contribution was found for the costs of national debt servicing since the foreign debt showed values at the level of 0.4 to 0.6% of the GDP.

Conclusion

In conclusion of the investigations presented in this study, it should be emphasized that Poland, which is characterized by the government model of debt management is at the level of below the average level of debt in the EU countries. The limit of debt determined according to the Maastricht Treaty at the level of 60% of the GDP was not exceeded in Poland in 2004-2014. Apart from Poland, only 11 countries of the EU in 2014 did not exceed the debt limit (the most of them use a government model of government debt management) and, among 16 countries that were characterized by the government debt of over 60%, the highest level was reached by Greece (178.6% GDP), Italy (132.3% GDP) and Portugal (130.2% GDP). However, the constant progression of debt, increasing budget needs and a relatively low economic growth seem to be a worrying tendency. These determinants also substantially affect the debt of other countries of the European Union. It is necessary for limitation of the public debt to implement a complex reform of public finances, rationalize public expenditures to increase investment expenditures and limit current expenditures, which remain to be dominant in Poland.

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