

Impact of the Council Directive on Requirements for Budgetary Frameworks of the Member States on the Polish Public Finance System

Marta Postuła¹

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Abstract

Purpose: The paper discusses the validity of the thesis according to which Polish budgetary framework in place in 2011 required only minor adjustments in order to be consistent with the principles set forth in the EU Council Directive on requirements for budgetary frameworks of Member States adopted in November 2011. Basic elements of the budgetary framework laid down in the Directive had already been provided for in Polish law.

Methodology: A comparative analysis of the provisions of the Directive with relevant acts of Polish legislation, including the Public Finance Act, was carried out. The author outlines the Polish budgetary framework before 2011 and the most important adjustments introduced by the end of 2013 on the basis of the budgetary framework structure set forth in the Directive.

Findings: The assessment of the convergence of provisions encompassed definitions, accounting, statistics, forecasts, numerical fiscal rules, medium-term budgetary frameworks, transparency and consistency. Its results demonstrate that Polish regulations complied with the provisions of the Directive. In order to confirm their correctness, an assessment of the practical application of recent adjustments, which entered into force in 2014, must be carried out.

Constraints to research: The analysis addresses the main concepts and their most important characteristics, and therefore a synthetic approach to the subject required omitting a number of specific issues.

Originality: The paper analyses the convergence of the Polish budgetary framework in 2011 and its subsequent adjustments to the provisions of the Directive of the EU Council requiring Member States to amend their legislation by the end of 2013.

Keywords: public finance, budget, fiscal rules, Poland, European Union

JEL: H30, H60, H61, H83

¹ TIGER, Kozminski University; University of Warsaw

Correspondence address: University of Warsaw, Faculty of Management, 1/3 Szturmowa St., 02-678 Warsaw, Poland, e-mail: mpostula@wz.uw.edu.pl

Introduction

Pursuant to the Treaties, EU Member States coordinate their economic policies and this coordination is in their common interest. The Treaty on the Functioning of the European Union (TFEU)² adopted basic methods and principles of shaping a common economic policy. These issues are referred to in Chapter 1 Economic Policy under Part VIII Economic and monetary policy. Key provisions of this chapter are contained in Article 121 (on multilateral surveillance and coordination of economic policy) and in Article 126 (on avoiding excessive government deficits). Provisions of the Treaty relating to economic policy coordination of EU Member States are expanded further in the Stability and Growth Pact (SGP), adopted in 1997. SGP encompasses an appropriate resolution³ and two regulations of the Council of the European Union⁴. Without going into a detailed discussion, it can be argued that the majority of EU Member States failed to conduct, since 2000, an economic policy that would fully abide by the principles set forth in SGP and that the objectives of the Pact have not been attained. The stability of public finances in the majority of EU Member States has proven insufficient, which was associated with the low efficacy of SGP. Attempts at improving the fiscal situation at the EU level took place together with the subsequent updates of the SGP, the most extensive of which was conducted at the end of 2011.

In November 2011, a package of six acts (the so-called “Economic Sixpack”) was adopted at the EU level with the view to improving budgetary control and curbing public debt. Legal acts constituting the “Economic Sixpack” entered into force on 13 December 2011 and they included four regulations of the European Parliament and of the EU Council, one Regulation of the Council of the EU and one Directive of the EU Council, which is a non-legislative document⁵. The objectives of the directive formulated by the EU Council were set on the basis of new developments (which occurred prior to 2011) and provide

² Consolidated version of the Treaty on the Functioning of the European Union, Official Journal of the European Union, C 83/01, 30.03.2010.

³ Resolution of the European Council on the Stability and Growth Pact Amsterdam, 17 June 1997, OJ C 236, 2.8.1997.

⁴ Regulation (EU) No 1175/2011 of the European Parliament and of the Council of 16 November 2011 amending Council Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies, OJ L 306/12, 23.11.2011, p.1; Council Regulation (EU) No 1177/2011 of 8 November 2011 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure, OJ L 306/33, 23.11.2011, p. 6.

⁵ Regulation (EU) No 1173/2011 of the European Parliament and of the Council of 16 November 2011 on the effective enforcement of budgetary surveillance in the euro area, OJ L 306/1, 23.11.2011.

Regulation (EU) No 1174/2011 of the European Parliament and of the Council of 16 November 2011 on establishing enforcement measures to correct excessive macroeconomic imbalances in the euro area, OJ L 306/8, 23.11.2011; Regulation (EU) No 1175/2011 of the European Parliament and of the Council of 16 November 2011 amending Council Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies, OJ L 306/12, 23.11.2011.

Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances, OJ L 306/25, 23.11.2011.

Council Regulation (EU) No 1177/2011 of 8 November 2011 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure, OJ L 306/33, 23.11.2011.

for an enhanced alignment of measures taken by Member States with EU objectives and respect for uniform fiscal rules. The major effect is compliance with the provisions of the Protocol (No 12) on the excessive deficit procedure annexed to the Treaty on European Union (TEU) and the TFEU. New – and seemingly comprehensive – “budgetary framework” for EU Member States have been provided for in the Directive of the EU Council on requirements for budgetary frameworks of the Member States⁶ (hereinafter referred to as the Directive). In accordance with the definition adopted in the Directive, budgetary framework is understood as a set of arrangements, procedures, rules and institutions that underlie the conduct of budgetary policies of general government and local authorities. The scope of the framework has been set out in the Directive as follows:

- accounting and statistical systems;
- forecasting procedures;
- numerical fiscal rules;
- budget process procedures;
- medium-term budgetary framework extending the policy perspective;
- transparency of processes;
- relations between public authorities in all sub-sectors.

The main subject of analysis in this paper is the Directive itself and its adjustment to national regulations in force in Poland. The author strove to verify the correctness of the thesis according to which Polish fiscal framework requires relatively minor adjustments in order to meet the principles formulated in the Directive on requirements for budgetary frameworks of the Member States, as the main elements set forth by the Directive had already been in place in the Polish public finance system. The author shall conduct a comparative analysis of the contents of the Directive with the content of relevant acts of Polish legislation. Evaluation shall be formulated on the basis of the available literature and author’s own research and professional experience.

Budgetary framework developed in Poland before 2011, i.e. prior to the publication of the Directive

Solutions provided for in the Directive stem from many years of experience of the EU economic policy coordination procedures, including the first decade of the economic and monetary union. The majority of these solutions had previously been applied by

⁶ Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States, OJ L 306/41, 23.11.2011.

individual EU countries, although on a selective basis and in a non-uniform manner. To some extent, Polish experience also influenced the final version of the Directive, through the participation of Polish experts and institutions in the legislative procedure during which the documents of the “Sixpack” were drawn up. It is also worth noting that due to Poland’s presidency of the EU in the second half of 2011, regulations and directives were signed on behalf of the Council of the EU by the Polish Minister of Finance. Joint regulations of the European Parliament and the Council of the EU were signed not only by the Polish Minister of Finance, but also by the then President of the European Parliament, Jerzy Buzek.

From the very beginning of the socio-economic transformation (1989), Polish budgetary system has been subject to significant changes. Some of the new legal regulations introduced in Poland were substantially consistent with fiscal rules developed by individual Member States and those adopted at the EU level. Apart from political changes typical of a democratic state, regulations relating to fiscal policy were influenced by Poland’s past experiences, the consequences of foreign debt reduction processes and sustained efforts undertaken against excessive public debt. Bad experiences have undoubtedly impacted the establishment of the constitutional sovereign debt rule. Chapter X of the Constitution of the Republic of Poland, adopted in 1997, contains provisions relating to public finances; pursuant to Article 216 (5), “it shall be neither permissible to contract loans nor provide guarantees and financial sureties which would engender a national public debt exceeding three-fifths of the value of the annual gross domestic product”. In the Act of 26 November 1998 on Public Finances, this rule was complemented by the introduction of prudential thresholds in relation to public debt. Exceeding its level in relation to GDP (50%, 55% and 60%) triggers prudential and remedial procedures. The acceptable level of public debt was the same as in Article 1 of the Protocol (No 12) on the excessive deficit procedure annexed to the TFEU. It should be noted that given the importance of the Polish rule, as well as the potential consequences of non-compliance, its impact on fiscal policy and the size of public debt was significantly better in comparison with EU regulations. Negative evidence confirming this thesis is provided by the analysis of debt level changes in EU Member States that were most affected by the post-2007 crisis. Conclusions drawn from this situation led to restoring or strengthening the importance of the debt part of the fiscal criterion of the nominal convergence criteria in the revised SGP.

The Public Finance Act of 1998 was a comprehensive legal act regulating the functioning of the entire sector of public finances and its organizational units. It was subject to systematic updates and, eventually, replaced in 2009 with a new one: Act of 27 August 2009 on Public Finances. The latter contains the basic building blocks of the current

structure of the Polish fiscal framework (outlined in accordance with the scheme of the Directive). Specific accounting, planning and reporting rules applicable in the public finance sector are set forth in Articles 40–41. Forecasts for fiscal planning were based on the macroeconomic forecast contained in the draft state budget for the following year (Article 138 (1) of the Act). Numerical fiscal rules encompassed mainly the disciplinary spending rule (Article 112a) and debt prudential and remedial procedures (Article 86). Basic regulations that make up the medium-term budgetary framework were represented by the provisions on the Multiannual Financial Plan (MAFP) in Article 103–108, a four-year debt management strategy of the Treasury (Article 75) and multiannual forecasts of local government units in Articles 226–232. The principles of openness and transparency of public finances were established in Chapter 4 of the Public Finance Act. We should note Article 36 setting out information obligations associated with the public finance sector and, among others, monthly state budget execution. Information obligations of local government units are specified in Article 37. Detailed obligations relating to the publication of data on public debt and the sector's results are contained in Article 38 and 38a. The chapter also specifies the types, dates and forms of reports on the collection and distribution of public funds. An analysis of these solutions allows us to conclude that the basic framework is consistent with the future Directive. In order to ensure full compliance, more detailed provisions had to be introduced and the quality of the regulation required improvements.

The process of adaptation to current SGP solutions was crowned with the latest amendments to the Public Finance Act introduced by virtue of the Act of 8 November 2013 on the amendment to the Public Finance Act (Dz. U. of 2013, item 1646). The explanatory memorandum to the Act clearly states that it implements Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of Member States.

Convergence of the Polish budgetary framework with the provisions of the directive and their basic adjustments

The convergence of Polish legal solutions with the recommendations of the Directive and its impact on Poland's current budgetary framework shall be analysed in line with the contents of the Directive. The conceptual scope of the budgetary framework is relatively broad. It shall be presented as a synthetic comparison of the contents of each chapter of the Directive with the relevant regulations of the Polish law.

Basic definitions

The scope, basic definitions and terminology are set forth in the initial parts of the Directive. General principles governing public finances are formulated in the Public Finance Act⁷ in Chapter I Principles of public finances. In the Polish legal system, accounting principles relating to public sector entities, the mode of conducting financial audits and rules governing the provision of bookkeeping services are regulated by the Law on Accounting⁸, as well as implementing acts issued on the basis of statutory authorization.

Key terms used in the Directive apply to the concepts of public deficit, investment and budgetary framework. The Public Finance Act specifies the following:

- processes related to the collection and allocation of public funds (Article 3),
- public funds (Article 5),
- scope of the public finance sector (Article 9),
- deficits and surpluses of public finances (Article 7).

The Act does not introduce definitions of sub-sectors of general government, although individual components of the sector specified in Article 9 allow for a relatively simple aggregation of individual sub-sectors of general government.

Accounting and statistics

Chapter II of the Directive pertains to the issues of accounting and statistics. The accounting system in place in Poland encompasses in a comprehensive and coherent manner the entire sector of general government. According to Article 40 (1) of the Public Finance Act, public sector entities keep accounts in accordance with accounting regulations and pursuant to additional rules set out in the Public Finance Act. The list of entities obliged to apply it (according to the Accounting Act) includes, among others, other legal persons or legal entities, i.e. entities having legal personality (Article 2 (1) point 1). Article 2 (1) refers to gminas, poviats and voivodeships and associations thereof, as well as state entities, state enterprises and their auxiliary facilities, as well as state or self-government special purpose funds. It can be therefore inferred that all public sector entities are required to apply statutory accounting prin-

⁷ Ustawa o finansach publicznych z dnia 27 sierpnia 2009 r., tekst jednolity z dnia 21 czerwca 2013 r. (Dz. U. z 2013 r. poz. 885 wraz ze zmianami opublikowanymi pod poz. 938 i 1646).

⁸ Ustawa o rachunkowości z dnia 29 września 1994 r. (Dz.U. z 2013 r. poz. 330, ze zm.).

ciples, including the accruals principle, in the process of bookkeeping and drawing up financial statements, in accordance with Article 6(1) of the Accounting Act.

Accounting systems in the public finance sector units are subjected, just as all activities pursued by the above entities, to management control, whose general rules have been introduced by virtue of Article 68–71 of the Public Finance Act. Purposes of management control defined in Article 68 (2) include, in particular, ensuring compliance with laws and procedures and the reliability of reports. Pursuant to Article 69 (3), the Minister of Finance announced management control standards for the public finance sector⁹, among which the range of detailed control mechanisms for financial and business operations was specified. The development of standards has been prescribed in detailed guidelines for planning and risk management for public finance sector units¹⁰, issued pursuant to Article 69 (4) of the Public Finance Act in December 2012. Polish public accounting system encompasses, in a comprehensive and consistent manner, all sub-sectors of general government. Accounting systems are subject to internal control procedures.

Budgetary data for monthly or quarterly periods is published pursuant to Article 36 and 37 of the Public Finance Act. Reporting data are compiled in accordance with the requirements set forth in Article 41 of this Act, through the adoption of appropriate implementing regulations¹¹.

A special instrument, introduced in order to fulfil obligations imposed by Article 3 point 2 of the Directive is a public statistical study carried out since 2014: 1.65.31 Fiscal data for the purposes of the fiscal supervision¹². Fiscal data is collected and made available on a monthly basis with respect to revenue, expenditure, income and costs, as well as the results of central government units and social insurance funds. Analogous data for local government institutions are processed on a quarterly basis. Annual data is collected and published in terms of contingent liabilities, guarantees and the share of the sector of general government in the capital of private and public

⁹ Komunikat Nr 23 Ministra Finansów z dnia 16 grudnia 2009 r. w sprawie standardów kontroli zarządczej dla sektora finansów publicznych (Dz. Urz. Ministra Finansów nr 15 z 30.12.2009, poz. 84).

¹⁰ Komunikat Nr 6 Ministra Finansów z dnia 6 grudnia 2012 r. w sprawie szczegółowych wytycznych dla sektora finansów publicznych w zakresie planowania i zarządzania ryzykiem (Dz. Urz. Ministra Finansów z 18.12.2012, poz. 56).

¹¹ *Inter alia*: Rozporządzenie Ministra Finansów w sprawie sprawozdawczości budżetowej z dnia 3 lutego 2010 r. (Dz.U. Nr 20, poz. 103); Rozporządzenie Ministra Finansów w sprawie sprawozdawczości budżetowej w układzie zadaniowym z dnia 28 grudnia 2011 r. (Dz.U. Nr 298, poz. 1766); Rozporządzenie Ministra Finansów w sprawie sprawozdań jednostek sektora finansów publicznych w zakresie operacji finansowych z dnia 4 marca 2010 r. (Dz.U. Nr 43, poz. 247) ze zm. Dz.U. z 2013 r. poz. 1344.

¹² Program badań statystycznych statystyki publicznej na rok 2014. Załącznik do rozporządzenia Rady Ministrów z dnia 9 sierpnia 2013 r. w sprawie programu badań statystycznych statystyki publicznej na rok 2014 (Dz. U. z 2013 r. poz. 1159), p. 450.

enterprises. On the basis of the study, the Central Statistical Office draws up and publishes a methodical table depicting the transition from cash-based information to statistical data pertaining to the deficit of the general government drawn up in accordance with the ESA methodology¹³.

Forecasts

Pursuant to Chapter III of Directive pertaining to forecasts, they should be realistic and based on most up-to-date information. National forecasts should be confronted with those of the European Commission and, in particular, drawn up in accordance with the schedule of the European Semester. The timeliness of macroeconomic and budgetary forecasts is, to the greatest possible extent, associated with a specific date of their preparation, resulting from the adopted budget work schedule. The schedule of budgetary work, outlined in the Public Finance Act, determines the timeliness of source data used for the forecast. As a rule, the latest available data on the execution of economic parameters and the implementation of the budget are used, pertaining to the period immediately preceding the date of publication of the final document concluding a given stage of budget work, i.e. approximately 1–2 months earlier. In the case of subsequent steps, the following data can be used for forecasts: for MSFP – data from March, for the assumptions of the draft national budget – data from May, for the draft national budget – data from July and August. Once the draft budget is submitted to the Parliament (by 30 September), it is no longer possible to update forecasts in budget documents without compromising their consistency. It seems, however, that the recommendation of forecast timeliness has been fulfilled.

The requirement of forecast realism is achieved through the abovementioned process of confronting national forecasts with those of the European Commission services. Ensuring realism within the internal budgetary procedure in Poland is based primarily on an extensive system of consultations pertaining to the draft state budget before it is adopted by the government. Pursuant to Article 3 of the Act on the Tripartite Commission for Social and Economic Affairs and regional social dialogue committees¹⁴, the Commission actively participates in preparing the budget bill. The government provides the Commission with an initial macroeconomic forecast (by 10 May), assumptions of the draft state budget (by 15 June) and a budget bill for the following year together with an explanatory memorandum (20 days prior to their submission to parliament). At each

¹³ The European System of National and Regional Accounts.

¹⁴ Ustawa o Trójstronnej Komisji do Spraw Społeczno-Gospodarczych i wojewódzkich komisjach dialogu społecznego z dnia 6 lipca 2001 r. (Dz.U. Nr 100, poz. 1080) ze zm.

of these stages, dialogue regarding certain issues, such as the realism of assumptions and forecasts, can be conducted, whereas this procedure does not limit in any way the government's sole responsibility for the project. The realism of assumptions and forecasts in their final form is also ensured by the central bank. Pursuant to the Act on the National Bank of Poland, the Monetary Policy Council Budgetary evaluates forecasts, while the President of the NBP, on behalf of the Monetary Policy Council, presents views on the draft budget to the Council of Ministers and the Minister of Finance¹⁵. At this point, the establishment of an independent fiscal institution that would assess fiscal policy in a separate procedure is not planned in Poland. Polish authorities have not considered it necessary to establish a new institution, as its tasks can be performed by the very efficient Supreme Chamber of Control.

Numerical fiscal rules

Chapter IV of the Directive provides for the use of numerical fiscal rules whose main purpose should be to promote long-term stability of public finances. These rules are intended to support conformity with general government debt and deficit reference values, that is, the nominal fiscal convergence criterion and compliance with the medium-term budgetary objective. Article 112aa of the Public Finance Act introduced a stabilizing expenditure rule. It should be added that the latter replaced the disciplinary spending rule (former Article 112a), in force in 2011–2013, which limited the growth of a part of government expenditure to the planned level of inflation plus 1 percentage point.

Stabilizing expenditure rule is aimed at a certain number of public finance sector entities among those listed in Article 9 of the Public Finance Act. The rule encompasses state budget expenditure, funds managed by the President of the Agricultural Social Insurance Fund, the Employment Fund, the Social Insurance Fund, the Bridge Pension Fund and general government's funds in Bank Gospodarstwa Krajowego.

The rule does not impact local government budgetary entities, executive agencies, public sector enterprises, other special purpose state funds (i.e. other than FUS, FER, FP, FEP), the Social Insurance Company, independent public health care institutions (general government), the Polish Academy of Sciences and its organizational units, state and local cultural institutions and state film institutions, other general government legal entities referred to in Article 9 point 14 of the Public Finance Act. These entities have

¹⁵ Article 23 (1) point 2 of Ustawa o Narodowym Banku Polskim z dnia 29 sierpnia 1997 r. (Dz.U. Nr 140, poz. 938) tekst jednolity z dnia 28 czerwca 2013 r. (Dz.U. z 2013 r. poz. 908).

not generated excessive deficits nor have they affected the expansion of the debt of the entire general government sector.

Stability rule does not affect expenditure that has no impact on the expansion of general government deficit (according to ESA methodology). This applies to the European funds expenditure and the part of expenditure financed from non-repayable EU and EFTA aid funds.

The basic numerical fiscal rule in Polish Public Finance Act has been designed as follows. Pursuant to Article 110 (2a) the draft budget specifies the amount of planned expenditure, calculated in accordance with the rule and the limit of the planned expenditure of some of the bodies and entities referred to in Article 9 of the Public Finance Act. In accordance with the formula set forth in Article 112aa of the Public Finance Act, the absolute limit of expenditure is the allowed amount of expenditure of the sector to which the rule applies, less the expenses of local governments and their associations, entities listed in Article 139 (2) of the Act and total expenses of the National Health Fund. This means that in the budgeting process, the total amount of expenses is under control. The rule takes into account, but does not limit the expenditure of local governments and their associations, the National Health Fund and entities that elaborate their income and expenditure plans independently, referred to in Article 139 (2) of the Public Finance Act¹⁶. While ensuring the autonomy of these selected sector entities, the rule allows for controlling the majority of public sector expenditure. This mechanism requires a much greater financial effort from this part of the sector, which must flexibly adjust its spending to the expenditure limit.

The selected mechanism should, however, provide for high efficiency of the stabilization rule. It is consistent with the requirement of the Directive, according to which numerical fiscal rules should effectively support the fulfilment of Member States' obligations in the area of fiscal policy – as defined in the TFEU – by the entire sector of general government.

The weakness of the current regulation may be associated with deliberate attempts to breach the rule by shifting public spending to entities to which it does not apply. However, this situation would be transparent and could easily be monitored and determined

¹⁶ It applies to: Chancellery of the Sejm, the Chancellery of the Senate, the Chancellery of the President of the Republic of Poland, the Constitutional Court, the Supreme Chamber of Control, the Supreme Court, the Supreme Administrative Court and all administrative courts, the National Council of the Judiciary of Poland, the judiciary, the Ombudsman, the Children's Ombudsman, the National Broadcasting Council, the Inspector General for the Protection of Personal Data, Institute of National Remembrance – Commission for the Prosecution of Crimes against the Polish Nation, the National Electoral Office and the National Labour Inspectorate.

in successive phases of the budgetary procedure. Importantly, it should also be noted that the potential shifting of expenditure between central and local government sub-sectors does not imply any improvement for the central government, as the entire expenditure of the local government (even after a potential increase due to transfers between sub-sectors) is taken into account for calculating the allowable spending limit. Potential adjustment must be carried out in the government sub-sector.

Other objections to the construction of the rule refer to the absence of an automatic expenditure correction mechanism, for example when the amount of planned expenditure is exceeded by local government entities. As mentioned previously, planned expenditure of the local government is taken into account in the expenditure rule for the entire sector. It can only be exceeded once a necessary resolution is adopted by a given local government entity in the course of the financial year. The eventual extent of changes should not destabilize the entire sector – unless emergency situations occur. The Public Finance Act does not specify the consequences of failure to observe it, nor any repair mechanisms. Existing mechanisms preventing expenditure overruns are set forth in the Public Finance Act and should prove sufficient.

The design of the discipline rule in relation to expenditure evidences that the legislator wished to render it as similar to the optimal expenditure rule as possible; the latter takes into account the course of the business cycle, requires approaching the medium-term budgetary objective and meeting the fiscal criterion of nominal convergence. It is evidenced by the fact that the rule takes into account such parameters as the annual and mid-term real growth rate of gross domestic product, adjustment of the amount of expenditure depending on the ratio of the nominal budget outturn, taking into account the costs of the pension reform and the value of discretionary measures.

The proper functioning of numerical fiscal rules requires – pursuant to the Directive – effective and timely monitoring of compliance with rules, based on reliable and independent analysis carried out by independent bodies. The fulfilment of this condition did not require any new legal regulations, as in accordance with the Act on the Supreme Chamber of Control it is one of the main tasks of the latter¹⁷. Pursuant to Article 3 of the Act, the SCC shall examine, in particular, the implementation of the state budget, of laws and other legal acts pertaining to financial, economic, organizational and administrative activities of public finance entities. Article 4 provides the SCC with sufficient powers to control the implementation of the budget by entities

¹⁷ Ustawa o Najwyższej Izbie Kontroli z dnia 23 grudnia 1994 r. (Dz.U. 1995, Nr 13, poz. 59), tekst jednolity z dnia 23 listopada 2011 r. (Dz.U. z 2012 r. poz. 82).

that prepare their revenue and expenditure plans autonomously (listed in footnote 15). SCC's experience in controlling and analysing the implementation of the budget also guarantees that new obligations, stemming from the updated regulations, shall be fulfilled, in particular those related to the stabilizing expenditure rule.

Medium-term budgetary framework

Chapter V of the Directive prescribes that the EU Member States adopt a medium-term budgetary framework, understood as a specific set of national budgetary procedures that extend the horizon for fiscal policy-making beyond the annual budgetary calendar, including the setting of policy priorities and of medium-term budgetary objectives. Pursuant to the Directive, the budget and other financial plans of the sector should be consistent with the medium-term budgetary framework. Specifically, revenue and expenditure projections and priorities resulting from the medium-term budgetary framework should be the basis for drawing up the annual budget. According to research carried out by the European Commission¹⁸ prior to the adoption of the Directive, the one-year perspective in budgeting limits the possibility of applying strategic budgetary solutions and implementing structural reforms, in the case of which positive effects become evident in the medium term.

The medium-term framework for budgetary planning in Poland currently consists of the Multiannual Financial Plan, the Public Debt Management Strategy and long-term financial forecasts of local government units. The picture of government documents related to the long-term budgeting perspective would not be complete without the oldest instrument of medium-term planning of public finances, i.e. multi-annual programs. Pursuant to Article 136 of the Public Finance Act, multi-annual programmes are established by the Council of Ministers in order to implement the strategy adopted by the latte, also in the field of defence and security. When adopting a programme, the Council of Ministers selects the entity in charge of executing it. Expenditure limits for multi-annual programmes may be included in the annual Budget Act.

The latest amendment to the Public Finance Act adjusted the Multi-annual State Financial Plan (MSFP) based since 2012 on Article 103 of the Public Finance Act to the provisions of the Directive. MSFP is drawn up for four financial years and it has become a key instrument for long-term budget planning. Since 2014, MSFP consists of the Convergence Programme, prepared in accordance with Council Regulation on

¹⁸ Public finances in EMU 2011, European Economy 3/2011, Brussels 2011, p. 105.

the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies and the Annex, which defines the objectives together with indicators of their implementation, within a system comprising the main functions of the state. The part of MSFP that forms an update of the Convergence Programme also includes the main objectives of social and economic policy, the planned initial amount of expenditure calculated in accordance with Article 112aa (1), i.e. with the stabilizing expenditure rule. The MSFP specifies planned measures and their impact on the level of income and expenditure of general government according to ESA, including the long-term sustainability of public finances. The plan indicates changes in relation to the previous MSFP in terms of measures and targets contained in the updated Convergence Programme. The MSFP includes a preliminary forecast of basic macroeconomic variables and constitutes, in accordance with Article 105 of the Public Finance Act, the basis for preparing a budget bill for the following year.

Expenditure in the state budget is presented in MSFP in accordance with the task structure encompassing state functions, as well as relevant purposes and measures. The plan contains information on the effectiveness of spending on public purposes at the highest level of aggregation, i.e. the level of state functions. Annual reports on MSFP implementation, in addition to expenditure classified according to state functions, contain information on progress in achieving goals.

Changes introduced to the content of MSFP on the basis of the latest amendment to the Public Finance Act increased the importance of Convergence Programme updates in the Polish budget planning system. This document – until 2013 prepared and adopted by the government solely on the basis of EU legislation, was further reinforced by the Public Finance Act. Its structure, personal and material scope, as well as terminology are just as consistent with the provisions of the Directive as Council regulations imposing the obligation to establish stability/ convergence programmes. The schedules of work on macroeconomic and budgetary forecasts, used for updates of the Convergence Programme and the MSFP, as well as assumptions for the next year's draft state budget, were appropriately coordinated.

Pursuant to the provisions of Article 75 of the Public Finance Act, the Minister of Finance is required to develop annually a four-year state debt management strategy and a strategy of impact on public debt. The Minister of Finance presents the strategy to the government; once the latter approves it, the strategy is attached to the explanatory memorandum of the budget bill forwarded to the Parliament. The strategy contains information on the state of public debt and forecasts for the entire public finance sector. Strategies have been drawn up for three-year periods annually since 1999. It was

changed in 2010; the 2011–2014 strategy was the first to outline four-year forecasts. The strategy takes into account financial risk management issues related to debt and the cost of debt servicing¹⁹.

Long-term planning on the level of local government budgets is carried out on the basis of multi-annual financial forecasts (MFF), encompassing the current financial year and at least three previous consecutive years. Pursuant to the Public Finance Act, MFF should be realistic and specify, for each year of the forecast, such aspects as income, expenses and the budget outturn of a local government unit, allocation of surplus or the manner of financing the deficit, revenues and expenditures within the local government budget, as well as the estimated debt amount.

The system of medium-term planning, adopted by virtue of the Public Finance Act and encompassing MSFP, debt management strategy and MFF is sufficiently complex to cover the entire public finance sector, although to varying degrees of accuracy. Relevance and realism of the medium-term plan depends on the quality of MSFP, which shifts responsibility to government services carrying out this task. Changing the content of MSFP and supplementing it with the Convergence Programme, as well as elements referred to in the Directive, indicate that it has been entirely fulfilled. The final assessment of MSFP's consistency with the provisions of the Directive will be possible only after the publication of this document in a form that complies with the amended legal provisions, therefore only after 30 April 2014.

Transparency and coherence of the budgetary framework

Chapter VI of the Directive pertains to the principles of transparency of the general government sector and to the consistency of the budgetary framework. Consistency is understood as ensuring a comprehensive application of the proposed solutions for forecasting, accounting, statistics and numerical fiscal rules. The importance of budget planning coordination mechanisms between sub-sectors is emphasized, as well as the complete identification of all units of the sector and their impact on the budget outturn and debt. Information obligations specified in the Directive, including contingent liabilities and guarantees, are published in Poland in accordance with Article 36 and 38 of the Public Finance Act, and to the programme of public statistics²⁰. In 2014, a system of continual updates to the list of public sector entities was introduced.

¹⁹ Latest available document: *Strategia zarządzania długiem sektora finansów publicznych w latach 2014–2017*, Ministerstwo Finansów, Warszawa, September 2013.

²⁰ Program badań statystycznych statystyki publicznej na rok 2014. Załącznik do rozporządzenia Rady Ministrów z dnia 9 sierpnia 2013 r. w sprawie programu badań statystycznych statystyki publicznej na rok 2014 (Dz. U. z 2013 r. poz. 1159).

A current list of entities shall be drawn up on the basis of data reported to the CSO in statements issued by public sector entities and pertaining to financial operations²¹. The list of public sector entities can thus be compared with the list of general government entities, which is reviewed annually by the CSO in the framework of fiscal notification. The total range of reporting and statistical data fully meets the need of an analysis of the general government sector.

Conclusion

Legal regulations on public finances in Poland have been systematically modified. Firstly, changes have been introduced with the view to streamlining the functioning of the sector, which is consistent with modern management trends referred to as the new public management or new public governance. Secondly, changes have stemmed from the process of adapting Polish regulations to EU legislation, both existing and newly introduced. Both processes intertwine and complement each other. Therefore, the adaptation of concepts contained in the Directive on requirements for budgetary frameworks of Member States required modifications and additions to Poland's existing budgetary framework. It should be noted that institutions and budgetary procedures in place in Poland at the time when the Directive was adopted, i.e. in 2011, fulfilled the requirements that formed its principal structure. Legal solutions in force in 2011 encompassed all major aspects of the fiscal framework described in the Directive, i.e. comprehensive accounting and statistical systems, forecasts, numerical fiscal rules, medium-term budgetary framework and transparency of procedures. Adaptation of the Directive consisted in improving the quality of the tools and adapting the existing mechanisms to the Directive's specific requirements. The most significant changes to regulations on Polish public finances, introduced following the adoption of the Directive pertained to numerical fiscal rules, namely the introduction of the stabilizing expenditure rule. Other areas of change were characterized by a lower intensity of necessary adjustments and pertained to statistics and the transparency of the public finance sector. In terms of medium-term planning framework, the content of documents was adjusted and they were legitimized. Evaluation of the effectiveness of new solutions requires time, access to reporting data and to information on the actual functioning of the legislation that has recently come into force; this means it can be conducted in 2015 at the earliest.

²¹ Rozporządzenie Ministra Finansów w sprawie sprawozdań jednostek sektora finansów publicznych w zakresie operacji finansowych z dnia 4 marca 2010 r. (Dz.U. Nr 43, poz. 247) ze zm. Dz.U. z 2013 r. poz. 1344 – załącznik nr 1: sprawozdanie Rb-Z część F.

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