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Recent Parliamentary Budgeting Developments in Poland from a parliamentary perspective

Polish Constitution from 1997 includes ban on increasing the public debt which would engender a national public debt exceeding 60% of the value of the annual GDP, additionally there are appropriate prudential and rehabilitation procedures in the Act on public finances in situation when national public debt exceeds thresholds: 50%, 55% and 60% of GDP. Our constitution consists also a provision that the increase in spending or the reduction in revenues from those planned by the government may not lead to the adoption by the parliament of a budget deficit exceeding the level provided in the draft budget.

At present, work is being done on revising the Polish Constitution, but it is difficult to say whether it will bring good solutions from budgetary point of view. For example theoretically, such a solution could be: introduction of one-mandate constituencies, introduction of further restrictions for the second chamber of Parliament in the work on the budget, reduction in the number of parliamentarians, limiting the right to make amendments to the budget and strengthening the role of the Minister of Finance on budgetary matters, introduction of legislation requiring the achievement of fiscal sustainability of public finance sector (including local governments) in the medium term.

Recent budgeting and public expenditure developments and reforms in Poland should merit a positive assessment of the parliament. This is due to that:

- Execution of budget 2010 was better than expected and it also seems that similar situation may occur in 2011 (for example higher payment to the budget coming from the profit of the National Bank of Poland),
- In 2010-2011 Parliament passed laws (submitted by the Government), resulting in a reduction of state budget expenditures and creating favourable conditions for increasing revenues.

- Government has submitted an ambitious multi-annual financial plan for 2011-2014 (which is a new institution created by the new Act on Public Finances from 2009), with its linkage to the more important strategies, indicating the development priorities and actions for the consolidation and reform of public finances. Government is also preparing new regulations which will allow Poland to get out of the excessive deficit procedure, increase the transparency of public finances and create state institutions acting more friendly for citizens and entrepreneurs.
- In the current year, due to the Polish presidency in the second half of the year, and to change the parliamentary term (in October), the Polish government intends to submit to Parliament a draft state budget for the coming year at an earlier date than in previous years. This project will be accompanied by other acts which aim to facilitate the implementation of the budget and reduce government deficit, public debt and net borrowing needs of the state budget - **see more information in the attached tables.**
- The year 2012 will be the fifth consecutive year when we may watch the progress of work on the performance-based budget.

When the term is changing, however, there is real danger that MPs are not willing to support government projects and a greater range of parliament will consist of amendments to the draft budget and other bills associated.

ACTION TO REDUCE THE EXCESSIVE DEFICIT IN POLAND

From 2008 Poland is in the procedure of the excessive budget deficit. In 2011 (according to an estimated data) such deficit constituted about 7,9% of GDP.

In March of this year, Minister of Finance has informed the Sejm`s Public Finances Committee about planned actions aimed to reduce that deficit on amount 72 billion PLN (4,44 percentage points) during 2011-2012. Up to now, that reduction, meets expectations of the European Commission.

Proposed actions to reduce general government deficit in Poland are as follows:

- temporary expenditure rule (including the effect of freezing nominal wages), together with the imposition of new expenditure rule for new expenditures – 1,16 p.p.

- changes in the pension system (limiting contributions to pension funds) - 1,14 p.p.,
- effects of reduced benefits for early retirement (due to the introduction of bridging pensions) – 0,76 p.p.
- changes in the VAT, including raising tax rates by 1 percentage point and restriction on the deductibility of VAT paid on the purchase of cars with so-called. "grid" – 0,46 p.p.
- new additional rule restricting growth of the local governments deficit – 0,40 p.p.
- lower expenses of the Labour Fund – 0,28 p.p.
- others (reduction of funeral benefit and debt servicing costs, the abolition of relief in excise duty on bio-components, freezing the scale of Personal Income Tax, increasing the excise tax on cigarettes) - 0,24p.p.

Budgetary savings

Since the beginning of last parliamentary term budgetary savings were bigger than 20 billion PLN. Thanks to that, Poland has not fallen into the trap of excessive debt and may focus on improving economic conditions to reduce debt. Billions of savings are obtained among the others by a reform lowering the operational costs of public administration and the introduction of bridging pensions. However another reform is under preparation, this time it is connected with uniformed pensions. Consultations on this matter are held with representatives of that service.

Expenditure

From 2011 the so called spending rule has been introduced. According to it, the budget expenditures will be able to grow annually by only 1 percentage point above inflation.

Changes in the general pension system

Up of 200 billion from the 700 billion PLN of Polish debt resulted from funding OFEs (Open Pension Funds or II pillar) debt. Therefore, the government decided to change the operation of pension funds. During the years 2012 - 2013 contribution to OFE will decrease from 7.3 percent to 2.3 percent. A 5 percent difference will be forwarded to a specially created individual sub-accounts in Social Security Fund. These measures will be indexed (based on the average rate of economic growth). Additionally their inheritance will also be possible, as in the case of capital in pension funds. In subsequent years, the contribution transferred to the pension funds will increase gradually, so in 2017 it will reach 3.5 percent. In addition, people who wish to defer additional money to the so-called individual pension accounts (IKZE), will be allowed from 2012 to benefit from a special tax credit of 4 percent tax base for personal income.

VAT

VAT has been temporarily raised by 1 percentage point. From 2011 there are rates of 5 percent, 8 percent and 23 percent. At the same time, there was a reduction of a rate from 7 to 5 percent on low-processed foods, so the prices of basic foodstuffs will not change. The new rates will be valid for three years.

ACTIVITY OF MPs in POLAND

From several years, the right of submitting amendments during the second reading does not belong to an individual MP but it belongs to a group of at least 15 MPs[1].

In fact, many amendments are submitted to the Public Finances Committee, but the vast majority of them are rejected by that Committee and by the Parliament.

They reject amendments, which are contrary to the law, for example:

- exceeding budget deficit proposed by the government,
- providing funding for the expenditure, which may be financed from the local government budget, because these are their own tasks for which they should have money in their budgets,
- providing multi-year programs or a new long-term investment, since only government has the right to that,
- there is no statutory basis for making the projected expenditure,
- generating an extra public aid without prior notification of this fact to the European Commission. Such amendment is contrary to the EU law.

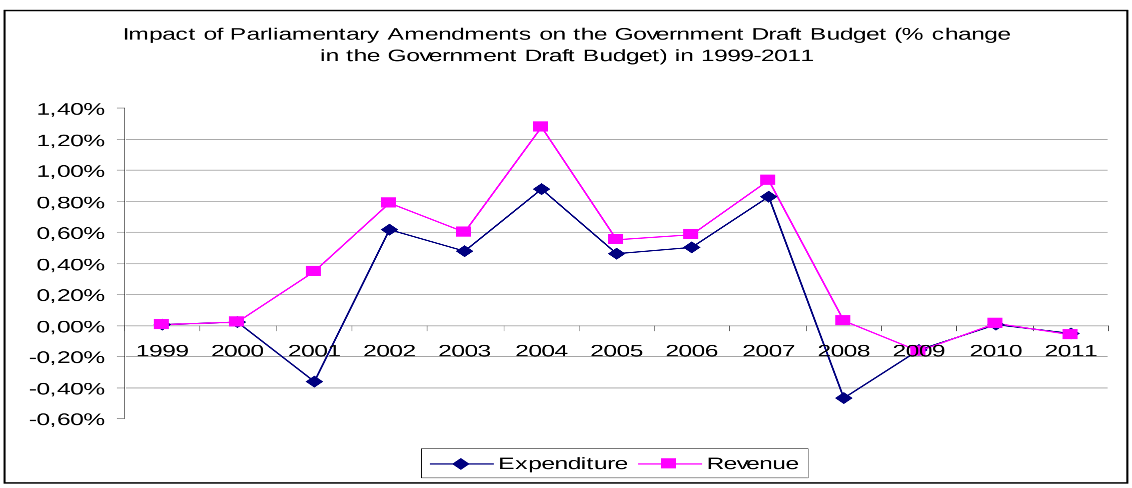
At present (during that parliamentary term) Public Finances Committee has rejected all amendments which were not accepted by the government (the same does the Sejm and the Senate). The only exception was the reduction of

[1] According to the Standing Orders of the Sejm of the Republic of Poland the right to introduce amendments to bills during the second reading shall belong to its sponsor, to a group of at least 15 Deputies, to a chairman of a club or chairman of a group or to a deputy chairman authorized by him — on behalf of the club or group, and to the Council of Ministers.
During the second reading the amendments, after having been introduced orally, shall be submitted in writing to the Marshal of the Sejm. Every amendment shall indicate its consequences for the text of a bill.

expenditures of so called non-governmental units[2]. In this case, only Parliament has right to cut expenditures proposed by disposals of these units and Parliament always use this right.

Even if some MP amendments were accepted in the past, in spite of negative government opinion, it was impossible, in some specific situations, to spend money as it was matched by the authors of these amendments[3]. In Poland, the State Budget Act cannot constitute legal basis for budgetary expenditures and incomes, so placing any expenditure in the budget without legal basis arising from other laws prevents government (minister etc.) from spending money (otherwise it may lay itself open to the charge that fiscal discipline was broken).

The number of proposed changes in the budget is bigger at the end of the parliamentary term, but changes which are accepted by the Parliament are not significant (generally they do not exceed 1% of the budget prepared by the government (see graph). These amendments change rather internal structure of the budget.



[2] Such units are listed in the Article 139, paragraph. 2 Act on Public Finances, and they are as follows: the Chancellery of the Sejm, the Senate Chancellery, the Chancellery of Polish President, Constitutional Court, Supreme Chamber of Control, the Supreme Court, Supreme Administrative Court and the provincial administrative courts, the National Judicial Council, the judiciary general, the Ombudsman, the Ombudsman for Children, the National Broadcasting Council , Inspector General for Personal Data Protection, Institute of National Remembrance - Commission for the Prosecution of Crimes against the Polish Nation, the National Electoral Office and the State Labor Inspectorate.

[3] Such situation occurred for example some years ago when Parliament accepted money for the Temple of Divine Providence. In that case, it was impossible to create legal basis for that expenditure which could be in conformity with our Constitution, so there was redeployment of that money.

Additional information

In principle, it can be said that the new Act on Public Finances (from 2009) contains many provisions which seriously limit the possibility of covering expenditures for which no reliable calculation of costs was done or hindering the funding of the tasks that must be completed in the first place. It has also other provisions, for example:

- In the case of a threat to the execution of the Budgetary Act, there may be a blocking for the time designated for the planned expenditures of the state budget; this blocking shall signify a ban that is temporary or binding until the end of the year, on disposing of part or the whole of the planned expenditures, or discontinuance of transfer of funds for carrying out tasks financed by the state budget. The decision on blocking expenditures shall be taken by the Council of Ministers by a regulation, after obtaining a positive opinion in this matter from the Sejm committee competent for budget matters (Public Finances Committee).
- In the case of introduction of a state of emergency on the territory of Poland or its parts, the Council of Ministers may transfer planned budgetary expenditures by a regulation between parts and sections of the state budget for the purpose of carrying out tasks resulting from regulations concerning the introduction of these states.
- When prudential and rehabilitation procedures are implemented (in situation when the value of the ratio of the total amount of the state public debt to the GDP is greater than 55%) it is not expected to increase the salaries of employees of state budget sector, including employees of non-governmental units, and not expected to increase spending in such units higher than in the governmental units[4]. In this situation also indexation of pensions may not exceed the level corresponding to the increase in consumer prices. In addition, a ban on granting loans and credits from the state budget is introduced.

[4] The Public Finance Act establishes three rules to reinforce the Constitutional limit. If the debt level is above 50% of GDP but not as high as 55%, the deficit may not be higher the following year. In particular, according to the Public Finance Act, the deficit by revenues ratio cannot increase. This applies to local governments as well. If the debt level is at least 55% but not 60% of GDP, the debt level the following year cannot be higher. Finally, if the debt level is 60% or greater, the government at all levels must have a balanced budget or surplus the following year. It should be noted that the definition of debt levels is the domestic one, and is not the same thing as the definition at the European level in the form of the ESA 95 accounting standard.

- Transfer in reducing or increasing spending for programs financed with European funds requires the approval of the minister responsible for regional development,
- Transfers consisting of a reduction or an increase of proprietary expenditures at one time over 100 thousand PLN shall require the consent of the Minister of Finance. Disposers of the budget shall immediately inform the Minister of Finance about the costs of property transfers which do not exceed this amount.
- In the case of expenditure on building projects, each transfer reducing or increasing these expenses requires the approval of the Minister of Finance
- Transfer of expenditure can not increase the planned expenditure on salaries and wages from employment, unless a separate law provides otherwise.
- Appropriations from the state budget to finance multi-annual programs can not be used for other purposes (one exception is using them for others multi-annual programs and for financing obligations of the Treasury).

BELOW THERE ARE TABLES SHOWING THE MOST IMPORTANT INFORMATION FROM MULTI-YEAR FINANCIAL PLAN RECENTLY ADOPTED BY THE GOVERNMENT.

Forecasts of basic macroeconomic indicators for 2011-2014

Category	2011	2012	2013	2014
Real GDP (% change)	4,0	4,0	3,7	3,9
GDP in current prices (in billion PLN)	1517,4	1619,1	1719,9	1830,1
Price indices of consumer goods and services (dynamics)	103,5	102,8	102,5	102,5
Average employment in national economy (dynamics)	102,2	101,3	100,7	100,5
Registered unemployment rate (at year-end)	10,9	10,0	9,3	8,5
LFS unemployment rate (15 years and older)	9,3	8,8	8,5	8,3
Real increase in average salary in the national economy (dynamics)	102,6	102,9	103,2	103,6
EU`s import growth (% change)	6,1	6,3	6,3	5,7

State budget 2011-2014 (in bln PLN)

Specification	**2011***	**2012**	**2013**	**2014**
REVENUE TOTAL	273,1	292,7	309,6	323,3
1.1. Tax revenue	242,7	270,8	285,0	297,8
1.1.1.Indirect taxes	179,7	197,7	203,7	207,0
a) Value Added Tax (VAT)	119,3	132,5	136,3	137,1
b) Excise tax	58,7	63,6	65,9	68,4
c) Tax on games of chance and mutual betting	1,7	1,6	1,5	1,5
1.1.2. Direct taxes	63,0	73,1	81,3	90,8
a) CIT	24,8	30,7	36,1	42,2
b) PIT	38,2	42,4	45,2	48,6
1.2.Non-tax revenue	26,2	18,5	21,2	22,0
1.3.Customs duties	1,8	1,7	1,8	1,8
2.Non-returnable funds from the EU and other sources	2,4	1,7	1,6	1,7
EXPENDITURES TOTAL	313,3	329,6	339,6	351,2
State Budget Deficit	**-40,2**	**-37,0**	**-30,0**	**-28,0**
Net borrowing needs	**49,2**	**51,9**	**32,1**	**35,1**

** as in the Budget Act*

State budget 2011-2014 (% of GDP and dynamics)

Specification	**2011**	**2012**	**2013**	**2014**
% of GDP				
REVENUE TOTAL	18,0	18,1	18,0	17,7
EXPENDITURES TOTAL	20,6	20,4	19,7	19,2
Dynamics				
REVENUE TOTAL	-	107,2%	105,8%	104,4%
EXPENDITURES TOTAL	-	105,2%	103,0%	103,4%

Budget of European funds (in bln PLN)

YEAR	REVENUES	EXPENDITURES	Result (deficit -) (+ surplus)
2011*	68,6	84,0	-15,4
2012	74,1	78,8	-4,7
1013	67,2	56,3	10,9
2014	58,9	49,8	9,1
Total 2011-2014	**268,8**	**268,9**	**-0,1**

** forecast in line with the Budget Act*

State budget expenditures by function for 2011-2014 (in bn PLN)

	FUNCTION	plan 2011	forecast 2012-2014 (total expenditures)
1	Management of State	1,4	4,3
2	Internal security and public order	14,2	44,5
3	Education	13,5	44,9
4	State Financial Management	125,9	410,3
5	Protecting the rights and interests of the Treasury	0,2	0,5
6	Country economic policy	2,7	8,7
7	Land management, construction and housing	1,7	5,7
8	Physical culture and sport	1,1	1,7
9	Culture and national heritage	1,3	5,6
10	Polish Science	4,7	16,3
11	External security and inviolability of borders	20,8	72,3
12	Environment	1,0	3,3
13	Social security and family support	85,0	278,0
14	Labour market	1,0	3,0
15	Foreign Policy	1,8	5,2
16	Civil Cases	1,2	4,4
17	A balanced national development	2,2	6,3
18	Justice	8,8	28,2
19	Transport infrastructure	6,9	22,1
20	Health	8,4	25,5
21	Agriculture and fisheries	5,9	17,9
22	Strategic planning and administrative and technical support	3,7	11,6
	TOTAL	**313,4**	**1020,3**

Expenditures by function according to the arrangement of the role in the coming years

Position	Function	Dynamics expenditures 2012-2014 (expenditures 2011=100)
1	Culture and national heritage	430,8%
2	Civil Cases	366,7%
3	External security and inviolability of borders	347,6%
4	Polish Science	346,8%
5	Land management, construction and housing	335,3%
6	Education	332,6%
7	Environment	330,0%
8	Social security and family support	327,1%
9	State Financial Management	325,9%
10	Country economic policy	322,2%
11	Justice	320,5%
12	Transport infrastructure	320,3%
13	Strategic planning and administrative and technical support	313,5%
14	Internal security and public order	313,4%
15	Management of State	307,1%
16	Health	303,6%
17	Agriculture and fisheries	303,4%
18	Labour market	300,0%
19	Foreign Policy	288,9%
20	A balanced national development	286,4%
21	Protecting the rights and interests of the Treasury	250,0%
22	Physical culture and sport	154,5%

Public finance sector deficit and public debt (national methodology)

Specification	2011*	2012	2013	2014
Public finance sector deficit (in bln PLN)	75,4	46,5	18,5	15,0
as % of GDP (as resulting from the 2011-2014 multi-annual financial plan)	5,0	2,9	1,1	0,8
Public debt (in bln PLN)	799,0	839,6	870,4	909,6
as % of GDP (as resulting from the 2011-2014 multi-annual financial plan)	52,7	51,9	50,6	49,7

Public finance sector deficit and public debt (EU methodology)

Specification	2011*	2012	2013	2014
Public finance sector deficit as a % of GDP according to the draft update Convergence Program 2011*	5,6	2,9	2,5	2,0
Public finance sector public debt as a % of GDP according to the draft update Convergence Program 2011*	54,9	54,1	52,4	50,8

** The level of general government deficit in line with the Budget Act for 2011*

*** Updated Convergence Program 2011 will be taken by the Government of 26 April 2011. It should be emphasized that there are differences in the counting the debt and deficit according to the methodology: national or EU.*