BUDGET DEFICIT IN POLAND
– A CHOICE AND A NECESSITY

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ABSTRACT
A balanced budget implies a necessity for the budget revenue and the budget expenditure to be compatible, so that the financial liquidity of the budget sector is obtained. In practice, a full synchronisation between income and expenditure is hard to achieve, hence the imbalance between them in the form of a budget surplus or a budget deficit. The latter is the most frequent in most of the countries with a market economy.

The aim of the article is to present the budget imbalance in Poland from both the theoretical and practical point of view. The paper constitutes a confirmation of conclusions put forward in an article published in Bank & Credit in 1997, which assumed the inevitability of budget deficits in Poland in the years that followed and the fact that the budget deficit was forced down.

Despite the fact that Poland succeeded in meeting the satisfactory deficit target below 3% of GDP and that the public debt dipped much below 60% of GDP (mainly as a result of redemption of treasuries from Open Pension Funds (OFEs) within the framework of the OFE reform), an increase in deficit and debt in terms of value can be observed.

INTRODUCTION
The literature on the subject often states that ensuring the balance between the public revenue and the government spending is a basic element of the public finances in every market economy. Both the public revenue and the government expenditure, which constitute two opposite ends of the state budget, are cash flows, while the balance between them implies a certain kind of synchronisation. The amount of cash flows as well
as their intensity and regularity on the revenue side may differ from those on the expenditure side. It results from the fact that a major part of expenditure is fixed, as it is connected with the financing of the key areas of the public sector that decide about the efficient functioning of the state and the society at the same time.

The budget balance implies a necessity for ongoing and mutual adjustment of the budget revenue and expenditure in order to ensure the financial liquidity in the budget sector. In practice, a full synchronisation between revenues and expenses is hard to achieve, therefore the imbalance between them may occur in the form of a budget surplus or a budget deficit (Ciak, 1997). The latter can be observed most often in countries with a market economy.

The article aims at presenting the budget imbalance from both the theoretical and practical point of view. The paper constitutes a confirmation of conclusions put forward in an article published in *Bank & Credit* in 1997, which assumed the inevitability of budget deficits in Poland in the years that followed and the fact that the budget deficit was forced down.

The article puts forward the following hypothesis: due to the fact that the fiscal policy of public authorities was not disciplined enough, it was not possible to overcome the long-term imbalance in Poland’s state budget. The activities undertaken so far have not brought expected results and the unfavourable economic trend has not resulted in improving the budget balance.

The article presents a method of analysis of literature on the subject and of statistical data.

Deficits and their effects for economy were, and still are, an issue of interest to economists, politicians and the public opinion (Ball & Mankiw, 1995; Barro, 1988, 1989; Perotti, 1996; Brauningger, 2003; Pinho, 2004; Krawczyk, 2004; Ciak, 2012; Ciak, 2013; Ciak & Kolosowska, 2015). They are basically inseparably linked to the majority of currently voted budgets and can be observed in numerous, even the most highly developed countries (Ciak, 2002; Kosterna, 1995). At present, a negative influence of budget deficits on economies is starting to be emphasised more and more often. A negative assessment of deficits has a long tradition and for a long time it has been believed that a healthy budget policy means avoiding deficits. The last worldwide financial crisis in 2008 confirmed this belief. The theory of J.M. Keynes was once again positively verified and the imbalance in public finances (large budget deficits greatly increasing public debt) constituted a rescue for the financial sector as well as a tool for stimulating the demand (Owsiak, 2013).

Simultaneously, there are indications for the need of reaching a medium-term situation which would be close to the balance and ideally this would be a budget surplus. The surplus should especially take place in the periods of economic growth, so that in a situation of decrease in economic activities the public finances would be protected from the deepening deficit of income (Ciak, 2013).

Currently, the budget imbalance is a common phenomenon and it would be hard to give an example of a country or countries in the European Union where a long-term budget balance occurs.
DIFFERENT APPROACHES TO BUDGET IMBALANCE

It is emphasised in the literature on the subject that the issues of budget imbalance are closely related to the stages of development of the world economy, which can be linked to the models of the night-watchman state, the welfare state and the mixed economy. In each model the demand for the public revenue and expenditure changes. In the theory of public finance two different approaches can be seen: an interventionist approach and a liberal approach.

The issue of balance accompanies the development of the interventionist approach due to the fact that in the 18th and 19th centuries it was believed that it was necessary to construct minimum and balanced budgets (Owsiak, Kosiek-Wojnar & Surówka, 1993). The development of A. Wagner’s law and J.M. Keynes’s theory led to the appearance of the problem of imbalance, which is acceptable for a short period of time, though during an economic cycle the budget needs to be balanced.

The budget imbalance as a permanent state resulting from the development of the post-Keynesian economics and the attempt to get back to the balanced public finances, which started in 1980s, appears to be extremely challenging.

The literature on the subject indicates that the first recognised economic theories referred to the concept of the smallest and continually balanced budgets (Owsiak, 2005). Taxes as well as the role of the state were discussed and the neutrality of taxes in relation to economy was emphasised within the classical economic theory. Orthodox economists did not advise any remedial measures for depression, considering balanced budget and deflation to be basic.

A turning point in the interventionist theory took place in the 1970s due to the inflationary processes and decreasing effectiveness of the Keynesian stabilisation policy occurring at that time. In the late 1970s and early 1980s neoliberalism and new fiscal conservatism got active – a deficit started to be considered a negative phenomenon.

BUDGET DEFICIT IN THE ECONOMIC THEORY

The analysis of the appearance of deficits and their impact on the economy should be started with two opposite views on deficits, which are the views of classics and the view of the supporters of the Keynesian economics. According to the former, a government ought to reduce its expenditure to the limit of its tax revenue and, what is more, aim at a balance between these two amounts. A deficit in time of peace was treated as a fiscal irresponsibility. An assumption underlying this reasoning was treating a government like a household, hence the deficit implied the risk of bankruptcy (Kamerschen, McKenzie & Nardinelli, 1990).

The Keynesian theory contested the popularity of a balanced budget. Budget deficits do not have to be treated as a clear signal of a country’s bad financial situation, and sometimes they can be justified by stabilising the budget policy (Keynes, 1985). J.M. Keynes indicated positive features of budget deficits in the context of stabilisation of the economic situation. According to his theory, a budget deficit is not an issue that needs to be feared of or fought with. It is acceptable and in some conditions even desired. The level of balanced revenue obtained by means of a deficit is higher than the level to which
revenue could be lowered without a deficit. Moreover, an increase in the budget deficit financed with securities makes it possible to eliminate excessive savings. The government expenditure is financed by means of sources that in other case would be intended for neither consumption nor investments. In such a situation, the government expenditure complements insufficient personal expenditure and by maintaining the global demand and increasing the use of production capacity it facilitates the increase of future consumption and future investments.

When the demand is low and unemployment is high the budget deficit does not create current or future costs. On the contrary, by causing the increase in global expenditure the deficit enables to employ more people, generate bigger income and produce more goods. Resources such as people or equipment could be not used (Ciak, 1997).

It is worth emphasising that at the beginning of 1970s a significant change in the attitude towards the deficit and the state intervention took place through the use of active (discretionary) budget policy. After a period of strong dominance of Keynesian economics, new classical economics was reactivated due to monetarism and personally, as I. Próchnicki underlines, by Milton Friedman. At that time the deficit was again seen as “evil”, and keeping a balanced budget was considered a requirement of a “healthy” macroeconomic policy (Próchnicki, 2012, p. 173). Moreover, the whole neoclassical trend (monetarism, rational expectations hypothesis, real business cycle theory and supply-side economics) considered the stabilisation policy unnecessary and even harmful. For instance, M. Friedman and A.J. Schwarz proved that state intervention interfered with natural market forces and it rather destabilised and slowed down the economy than accelerated it (Próchnicki, 2012, p. 175; Kiedrowska & Marszalek, 2003, p. 88). Lucas provided additional arguments against the stabilisation policy by considering the foregoing functioning models of economy to be incorrect. It concerned in particular forecasting basing on historical data (coming from the past), which in his opinion was correct as long as an identical economic situation was maintained. In practice, it is hard to obtain due to the cyclical nature of economy (Próchnicki, 2012, p. 175).

Continuing the above-mentioned considerations, it can be stated that the monetary approach considerably weakened the faith in active fiscal policy and, most of all, in the sense of its pursuit as it was regarded as harmful for the economy and state finance. The consequence of such an approach was, and still is, the theory of the so-called “new fiscal conservatism”, which has been referred to up till now. The necessity of an absolutely balanced budget during a budgetary year and of keeping the balance and achieving budgetary surpluses within a business cycle was stated. It resulted from, among others, the existence of notorious budget deficits, hence the accumulation of public debt in the majority of countries.

This has given rise to the concept of fiscal stability according to which the safety of government finances is more important than the need to stabilise the economy. The base is constituted by minimising the negative effects of financing public expenditure with a deficit, that is specifying optimal size of the public debt. Thereby, indicators (fiscal rules) concerning the maximum size of the debt and its relation to the GDP need to be established. Exceeding the safe level of the debt may lead to limiting the solvency of a given country or eventually to its bankruptcy.
CAUSES OF BUDGET DEFICITS

The causes of a budget deficit can be of different nature and the deficit can produce various (most often negative) effects for economy and the economic situation of a given country. A deficit can be assumed in the Budget Act (New Universal Encyclopedia PWN, 1995; Budget Acts for the years 1992-2016), it can occur as a result of mistakes or due to independent factors. It may be connected with an unfavourable economic situation of a country or with a deficit in payment transactions with foreign countries. Moreover, it should be consciously used by a government as an instrument of pursuing a specific economic policy (Ciak, 1997).

One of the causes of a deficit can be taxes, the amounts of which were planned at a level that did not guarantee covering the expenses. It may happen if the government revenues are based mostly on tax revenues (at the level of about 92% of the total revenue) (Report on the Implementation..., 2001). The tax collection mechanism may also not work properly. It is much easier to ensure better tax collection, for instance, by means of execution of tax than to take the risk of raising taxes, which would meet with profound social disapproval and cause repercussions for the legislature and the executive. Moreover, increasing taxes could influence the economic development to a large extent, in particular, through transferring part of revenue to the so-called 'grey market' area. High taxes have a demotivating influence. When they take up a significant part of income, the motivation to continue business activity disappears. An increase in the personal income tax weakens the motivation to work and leads to decreasing people's incomes which, in turn, reduces the amount of potential demand. Taxes on company profits decrease their motivation to invest. Taking into account the current situation in Poland, such actions as increasing personal income tax or taxes on company profits (corporate income tax) should not be carried out.

Overly high expenses can be another cause of a budget deficit, though they can be socially or economically justified. In such a case savings cannot be found through resigning from spending this part of financial resources. It happens because excessive expenditure is caused by far-reaching social protection or an excessive increase in employment in the so-called state-budget sector. Improving the efficiency or a change of organisation could contribute to limiting expenditure in this sector and to reducing a deficit.

The methods of accumulating and distributing the budget revenue and planning the budget expenditure are also of huge importance. They depend on the stability or instability of the economy in a given country. When the economy is strong, simple methods of forecasting, namely extrapolation methods, are used to forecast the budget revenue and expenditure. In the case of economies characterised by dynamic changes in the forms of an increase or decrease in production, interest rates, prices or wages, more complex techniques of planning revenue and expenditure are necessary. The existence of a particular type of instruments that may decide, as early as during planning, whether the budget will be balanced or not is of distinct importance. They are the so-called

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1 The budget law of many countries, including Poland, requires specifying the manner of financing the budget deficit. It is discussed in detail in the explanations of New Universal Encyclopaedia and, in particular, in Budget Acts for the years 1992-2016.
general and specific-purpose reserves and they are exhaustively listed sources of covering a planned deficit, which is clearly specified in budget laws for every financial year. In a stable economy, reserves do not constitute an important element of budget expenditure, as balance can be achieved when revenue and expenditure are properly planned. Developing inflationary phenomena causes a different situation in which it is possible to transfer cash and cash equivalents from reserves to where budget tasks may not be carried out.²

The sources of financing of budget deficits indicated in budget laws are also tools ensuring budget balancing at the planning stage. In particular, it concerns the laws that assume deficits. In such a situation it is important to indicate the sources of financing of the planned deficits, set the maximum level of the government debt and present the strategy leading to repaying public debt in the following years. Such a debt contributes to budget balancing and simultaneously influences the balance in the long run. The difficulties of analysing the effects of budget deficit and debt relate also to the fact that the deficit, as one of the causes of many economic processes, is influenced by them as well. Tax revenue increases along with economic growth characterised by a high and growing level of revenue, profits and employment. The increased budget revenue influences the deficit by decreasing it. Limiting the deficit is additionally strengthened by lowering spending on unemployment payments (unemployment benefits) (Wojtyna, 1988).

EFFECTS OF DEFICITS

The way the budget deficit influences the economy depends on how the concept of budget imbalance is approached. The imbalance may be of a temporary character or it can be a structural phenomenon permanently integrated with the economy. Budget deficits, as well as budget surpluses, are not always planned. They often occur during the budget implementation being not so much means, but rather an effect of the state fiscal policy.

A long-lasting deficit cannot be assessed positively, especially when it is connected with a high increase in public debt or/inflationary money issuance. For the above reasons, each deficit should be controlled in terms of its size and the period of occurrence. The size of a deficit is of particular importance when it is assessed (Wernik, 1998). A high deficit has negative effects, but does a low deficit cause the same? A low deficit can remain neutral and does not have to have any unfavourable repercussions in the form of crowding out or higher inflation. The only problematic issue is to specify what deficit is neutral. Is it a deficit below 1% of GDP or 0.5% of GDP? The level of a neutral deficit cannot be clearly identified because it depends on numerous factors, such as the nature of a given country’s economy, its structural qualities and current economic and political interrelations (Wernik, 1998), especially that a budget is a certain presentation of how a government plans to act, where social, economic and political objectives are

² In Poland, both general and special-purpose reserves are created. A general reserve is created for unforeseen expenditure and it cannot be higher than 0.2% of the total budget expenditure. It is at the disposal of the Council of Ministers. A specific-purpose reserve cannot be higher than 5% of the total budget expenditure.
transformed into given implementation intentions expressed in figures. Therefore, it is
a special law which describes economic issues in a given year and the objectives set by
political leaders in detail.

Moreover, the lack of balance in a state budget may constitute a symptom of ex-
cessive expansion of the public sector in the use of human labour resources (excessive
employment in administration), which under money economy must lead to excessive
budget expenditure and, with insufficient revenue, also to the budget imbalance (Owsi-
ak, Kosek-Wojnar & Surówka, 1993).

The condition of the country’s economy and the global economic situation signifi-
cantly influence the budget revenue and expenditure. An economic recession and
a reduction in the national income result in the limited budget revenue as well as in the
reduction of expenditure financed by the budget.

Some indications concerning the budget deficit were included in the Maastricht
Treaty, in which five main convergence criteria were established (Ciak, 1999). They
included, among others, a criterion of acceptable budget deficit that cannot exceed 3%
of GDP. Can this indicator be treated as an indicator of neutrality of budget deficit? It
seems that it cannot. However, it can constitute a point of reference for determining
whether the budget of a given country may be balanced in the future. A decreasing
trend of budget deficit is necessary here.

The issue of the requirements of the Stability and Growth Pact or the Fiscal Com-
pact, which also take into account the so-called structural deficit, is also important.
It is worth emphasising that the difficulties of conducting fiscal policy aiming at
limiting budget deficits gave rise to the development of fiscal policy rules. The initiators
meant to restrict undertaking harmful activities within the fiscal policy. Despite the fact
that formulating the rules did not seem to be a complicated task, observing them
proved to be the greatest difficulty (Wernik, 2007; Ciak, 2014).

The literature on the subject draws attention to the so called “illusory effectiveness
of fiscal rules” (Franek, 2016a; Franek, 2016b; Spychała, 2014; Wyplosz, 2012). The com-
monly used budget deficit and public debt measures do not specify their effectiveness.
Public authorities have the ability to circumvent the rules due to the so-called quasi
fiscal activities and creative accounting. Most often quasi fiscal activities take the form
of operations using public funds carried out outside the budget (below the line) result-
ing in the fact that the officially declared budget deficit is lower than in reality.

Creative accounting is easy when public finances are not transparent. In practice,
countries with a transparent fiscal policy attempt to pursue it in a responsible way re-
gardless of the imposed fiscal rules, whereas countries susceptible to excessive budget
deficit circumvent the established fiscal rules in a rather simple way (Głędziński, 2013;

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1 In December 1991, the Maastricht Treaty (formally the Treaty on European Union) was signed by
twelve members of the European Community with the aim to strengthen the convergence of
member states’ economies and to create a monetary and economic union. The Treaty includes
five main conditions the fulfilment of which enabled a given country to join the EU. They are: the
inflation rate criterion, no more than 1.5% higher than in three member states with the lowest
inflation rate; the interest rate criterion, which cannot be higher than 2% of the level in the three
lowest inflation member states; the exchange rate criterion that should be kept in a narrow
range of fluctuations without devaluation; the government deficit criterion that must not exceed
3% of GDP and the government debt criterion that must not exceed 60% of GDP.
Franek, 2016a; Franek, 2016b). The creation of the Economic and Monetary Union led to the development and implementation of rules in the existing legal state and the practice of pursuing the fiscal policy. When maintaining the decentralised fiscal policy, it was assumed necessary to prevent excessive budget deficits and the accumulation of public debt through the introduction of fiscal rules and disciplining mechanisms for the member countries.

Despite the awareness that the fiscal rules may not be enough to ensure the budget balance and their effectiveness in limiting deficits may be far from perfect, it was assumed that the properly designed fiscal rules together with transparent public finances should be a useful tool for ensuring the fiscal stability (Siwińska-Gorzelak, 2006; Postula, 2011; Ciak, 2014; Spychała, 2014; Franek, 2016a; Franek, 2016b).

GOVERNMENT BALANCE AND DEBT IN POLAND IN THE YEARS 2009–2015

In Poland, one of the consequences of the financial crisis is the observed dynamics of the government debt (Analiza wykonania budżetu..., 2016), which results from maintaining a negative balance of this sector. Until quite recently, only the government sector generated a negative budget balance, but the last financial crisis had a negative influence on the balances of other sectors, that is the social insurance sector and the local government sector.

Undoubtedly, the financial crisis had a considerable influence on the state of public finances in all the countries of the European Union (Ciak, 2011).

The literature on the subject often emphasised that before the crisis the deficit of the public finance sector exceeded the average deficit ratio of the European Union countries (in the years 2007–2008). In the period of crisis, the Polish economy achieved better macroeconomic results than the most developed EU countries (Włodarczyk, 2012). Unfortunately, this positive tendency was not utilised (Spychała, 2013; Skica & Pater, 2010; Wielechowski, 2011; Wernik, 2009). The years that followed brought an economic downturn and worsening of the public finance sector balance, including the general government sector.

The issues of impact of the basic data on the result and debt of the central and local government units are presented in Table 1.

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4 In 2015, both the government debt and the State Treasury debt increased to the amounts comparable to those in 2013. It suggests that in the last two years the effects of the redemption of treasuries within the framework of the Open Pension Funds (OFEs) reform in 2014 have been lost.

5 It may be worth noticing that the EU experts emphasised that numerous factors influenced the situation, such as a quick reaction to the current situation within the framework of the fiscal and monetary policy instruments, stable economic foundations and a considerable depreciation of Polish zloty at the beginning of the crisis and a relatively small openness of the Polish economy to foreign countries.
Table 1. Budget deficit and public debt in Poland in the years 2009–2015

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<tr>
<td>in billions of Polish zlotys</td>
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<tr>
<td>The result of the government institution sector and self-government institution sector:</td>
<td>−99.5</td>
<td>−108.8</td>
<td>−76.0</td>
<td>−60.2</td>
<td>−66.7</td>
<td>−57.0</td>
<td>−46.7</td>
</tr>
<tr>
<td>Government sub-sector:</td>
<td>−72.5</td>
<td>−87.7</td>
<td>−62.9</td>
<td>−59.1</td>
<td>−59.1</td>
<td>−36.8</td>
<td>−18.9</td>
</tr>
<tr>
<td>Self-government sub-sector:</td>
<td>−14.9</td>
<td>−18.0</td>
<td>−11.7</td>
<td>−4.5</td>
<td>−2.9</td>
<td>−3.2</td>
<td>−0.2</td>
</tr>
<tr>
<td>Social insurance sub-sector:</td>
<td>−12.1</td>
<td>−3.1</td>
<td>−1.3</td>
<td>3.5</td>
<td>−4.6</td>
<td>−16.9</td>
<td>−7.6</td>
</tr>
<tr>
<td>The debt of the government institution sector and self-government institution sector:</td>
<td>678.3</td>
<td>770.6</td>
<td>831.7</td>
<td>879.3</td>
<td>927.0</td>
<td>867.9</td>
<td>917.8</td>
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<tr>
<td>GDP = 100</td>
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<tr>
<td>The result of the government institution sector and self-government institution sector:</td>
<td>−7.3</td>
<td>−7.5</td>
<td>−4.9</td>
<td>−3.7</td>
<td>−4.1</td>
<td>−3.3</td>
<td>−2.6</td>
</tr>
<tr>
<td>Government sub-sector:</td>
<td>−5.3</td>
<td>−6.1</td>
<td>−4.0</td>
<td>−3.6</td>
<td>−3.6</td>
<td>−2.1</td>
<td>−2.2</td>
</tr>
<tr>
<td>Self-government sub-sector:</td>
<td>−1.1</td>
<td>−1.2</td>
<td>−0.7</td>
<td>−0.3</td>
<td>−0.2</td>
<td>−0.2</td>
<td>0.0</td>
</tr>
<tr>
<td>Social insurance sub-sector:</td>
<td>−0.9</td>
<td>−0.2</td>
<td>−0.1</td>
<td>0.2</td>
<td>−0.3</td>
<td>−1.0</td>
<td>−0.4</td>
</tr>
<tr>
<td>The debt of the government institution sector and self-government institution sector:</td>
<td><strong>49.8</strong></td>
<td><strong>53.3</strong></td>
<td><strong>54.4</strong></td>
<td><strong>54.0</strong></td>
<td><strong>56.0</strong></td>
<td><strong>50.5</strong></td>
<td><strong>51.5</strong></td>
</tr>
</tbody>
</table>

Source: *Analiza wykonania budżetu państwa i założeń polityki pieniężnej w 2015 roku*, NIK, Warsaw 2016, p. 256, Table 61.

It should be emphasised that a gradual improvement of the economic situation in Poland provided a good opportunity to reduce the public finances imbalance. As shown in Table 1, the opportunity was taken, since the government institutions and self-government institutions deficit decreased from 4.1% of GDP in 2013 and 3.3% of GDP in 2014 to 2.6% of GDP in 2015. As a result, for the first time from 2007, Poland met the deficit criterion and its relation to GDP (the level of 3% GDP) specified in Article 126 of the Treaty on European Union and in Protocol No. 12 on the excessive deficit procedure. Simultaneously, the redemption of treasuries from the Open Pension Funds (OFEs) led to the lowering of the public debt in 2014. The improvement in the situation of the public finances resulted in removing the excessive deficit procedure in Poland by the Council of the European Union. Moreover, in November 2015, the European Commission concluded that Poland found itself in the group of eight EU countries whose fiscal situation was stable enough not to carry out a detailed assessment of macroeconomic disturbances (*Analiza wykonania budżetu..., 2016*).

In individual sub-sectors of the government and self-government institutions sectors the fiscal situation did not change like that. An improvement of the financial result was observed in the social insurance sector and in the self-government institution sector. In 2015, the self-government institution sub-sector found itself in the state of fiscal
Table 2. The public finances situation in the European Union and in Poland in 2001–2015.

<table>
<thead>
<tr>
<th>Eurostat</th>
<th>Government deficit/surplus; % GDP</th>
<th>EMU convergence criterion bond yields; %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Luxembourg</td>
<td>12</td>
<td>2</td>
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<tr>
<td>Finland</td>
<td>8</td>
<td>1</td>
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<tr>
<td>Estonia</td>
<td>11</td>
<td>2</td>
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<tr>
<td>Denmark</td>
<td>8</td>
<td>1</td>
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<tr>
<td>Sweden</td>
<td>6</td>
<td>5</td>
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<tr>
<td>Bulgaria</td>
<td>6</td>
<td>3</td>
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<tr>
<td>Germany</td>
<td>5</td>
<td>4</td>
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<tr>
<td>Belgium</td>
<td>4</td>
<td>1</td>
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<tr>
<td>Netherlands</td>
<td>3</td>
<td>2</td>
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<tr>
<td>Austria</td>
<td>0</td>
<td>1</td>
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<tr>
<td>Latvia</td>
<td>0</td>
<td>6</td>
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<tr>
<td>Lithuania</td>
<td>0</td>
<td>5</td>
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<tr>
<td>Romania</td>
<td>0</td>
<td>3</td>
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<tr>
<td>Czech Republic</td>
<td>0</td>
<td>2</td>
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<tr>
<td>Italy</td>
<td>0</td>
<td>0</td>
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<tr>
<td>Cyprus</td>
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<td>6</td>
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<tr>
<td>Malta</td>
<td>0</td>
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<tr>
<td>France</td>
<td>0</td>
<td>0</td>
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<tr>
<td>Spain</td>
<td>3</td>
<td>4</td>
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<tr>
<td>Slovenia</td>
<td>0</td>
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<td>Slovakia</td>
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<td>Croatia</td>
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<td>Poland</td>
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<tr>
<td>United Kingdom</td>
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<td>Hungary</td>
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<td>Ireland</td>
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<td>Portugal</td>
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<td>Greece</td>
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balance for the first time since 2007. But the deficit of the government institution sub-sector increased to a small extent. While the deficit-to-GDP ratio is at a satisfactory level, the figures by value are not. The government sector deficit amounted to: in 2012 – PLN 31.8 billion; in 2013 – PLN 42.5 billion, in 2015 – PLN 42.6 billion, in 2016 – PLN 54.7 billion and in 2017 – PLN 59.3 billion (Report of the State budget 2010-2016; Budget Laws in the years 2016-2017). The data indicate a significant imbalance of the state budget and a return to a worsening imbalance.

An improvement of the fiscal situation in the context of the deficit-to-GDP ratio was not significant enough to lead to reducing the government debt in relation to GDP. On the contrary, the debt of the government and self-government institution sector, after a decrease in its amount in 2014 (the redemption of treasuries from the Open Pension Funds (OFEs)), started to increase again. The above mentioned planning of the deficit amount in the years 2016-2017 will not contribute to its decrease but, quite contrary, to its increase.

Therefore, it can be stated that despite some progress in restoring the state’s fiscal balance in the forthcoming years, successful measures aiming at limiting the deficit should be initiated, which should bring effects in the form of stopping the increase in the public debt and limiting its amount.

It is confirmed by the data in Table 2, which presents the average rates of budget balances in the European Union countries in the years 2001-2015 and the situation of Poland as compared to them.

By analysing the data in the table above it can be stated that the public finances situation in terms of the budget balance and of the average rate calculated from the average rates for the years 2001-2015 is unfavourable. The budget deficit rate in Poland (calculated as an average of an average) is last but three before Greece, Hungary and Romania. This is by no means an optimistic prospect.

SUMMARY

As it was demonstrated earlier, deficits and their consequences for the economy were, and still are, an issue of interest to economists, politicians and the public opinion. They are basically inseparably linked to the majority of currently voted budgets. Today, the negative influence of budget deficits on the economy is emphasised more and more commonly and a negative assessment of deficits has a long tradition. For many years it was thought that a healthy budget policy means avoiding deficits. On the one hand, the issues were contested and they were confirmed by the last global financial crisis in 2008. High budget deficits and the rapidly growing public debt constituted a rescue for the financial sector as well as a tool for stimulating the demand. The effect was the worsening of the fiscal situation in many countries, including those belonging to the European Union.

It has been eight years since the crisis, but the fiscal situation in Poland is not optimistic. In spite of achieving a satisfactory ratio of the budget deficit to GDP below 3% and the public debt much below 60% of GDP (mainly as a result of the redemption of treasuries from the Open Pension Funds (OFEs), the budget deficit and debt are grow-
ing in value. With unfavourable economic growth trend it can result in the ratio to GDP exceeding 3% and imposing the excessive deficit procedure for the third time.

It is worth emphasising that in Poland the financial crisis was not the only reason for the unfavourable, so far, fiscal situation. In fact, the fiscal imbalance was, and still is, structural in origin and, as the literature on the subject indicates (Postuła, 2011), it results from failure to pursue reforms in the period of good economic situation (2006–2007).

In the above mentioned period the public finances failed to be balanced, which means that the structural deficit is still much higher than the level of the so-called medium-term budgetary objective (1% of GDP for Poland). Reaching such a level of deficit should ensure the functioning of automatic stabilisers effectively mitigating the effects of economic downturn with no threat to the long-term stability of the public finances.

The analysis of the statistical data presented in this article indicates poor stability of the public finances in Poland, thus the conclusions presented in the article on the inevitability of the budget deficit (the deficit of the public finance sector) in Poland published nineteen years ago remain valid.

REFERENCE


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