

Article

The Debudgetisation of Public Finances in Poland After Covid-19 and the War in Ukraine

Maciej Serowaniec^{1,2}

¹ Department of Constitutional Law, Nicolaus Copernicus University, Poland; mserowaniec@umk.pl

² Historical Archives of the European Union, European University Institute, Italy

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Abstract

The experience of dealing with the socio-economic consequences of the Covid-19 pandemic and the war in Ukraine confirms the thesis that decisions on financial assistance must be taken without delay and that the government must have a certain degree of freedom and flexibility to act. However, do emergencies entitle governments to bypass the principles of responsible and transparent fiscal policy-making? Do the challenges countries face in dealing with the effects of the Covid-19 pandemic and the war in Ukraine also legitimise governments' furthering of the debudgetisation of public finances? This article aims to answer these questions. The background of the considerations will be an analysis of Polish legal solutions and systemic practice. First, it is worth noting that anti-crisis measures in Poland have been taken primarily through extra-budgetary financial instruments, which are not included in the monitored scope of public finance. Surprising budgetary solutions appear, such as transferring Treasury securities instead of subsidies or pushing certain expenditures outside the state budget, to circumvent regulations and legally binding restrictions. In the context of parliamentary scrutiny, this means that a significant proportion of public debt is outside parliamentary control, and the scale of circumvention of the constitutional limit on public debt has been increasing for several years, reaching a considerable percentage of the GDP in 2021. This phenomenon is also accompanied by a record increase in public debt, fuelled by borrowing to finance tasks related to countering the Covid-19 pandemic and the socio-economic consequences of the war in Ukraine. It is, therefore, worth taking a closer look at the Polish government's budgetary solutions, which undoubtedly do not contribute to fostering transparency in budgetary policy.

Keywords

budget process; Covid-19; debudgetisation; Poland; public debt; public deficit; state budget; war in Ukraine

Issue

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1. Introduction

The European Union and its member states have faced unprecedented challenges recently. On the one hand, they have been struggling with the effects of the Covid-19 pandemic, which has become a major socio-economic crisis (Fabbrini, 2022). Healthcare measures and restrictions on movement, affecting production, demand, and trade, have reduced economic activity and led to rising unemployment, falling business incomes, increasing public deficits, and widening inequalities

within and between member states. For this reason, it has become a priority for the European Union to take various initiatives aimed at minimising the negative economic and social effects of the crisis, any fragmentation of the single market, and significant divergences and imbalances in the EU economy (Woźniakowski et al., 2023). Poland was one of the European Union countries in which the economic crisis had a relatively mild course, as evidenced by a relatively small decrease in the value of the gross domestic product, as well as the maintenance of a low unemployment rate and a real increase

in average wages in the national economy, including in the enterprise sector. The mild course of the crisis in Poland was significantly influenced by the provision of extensive financial support by the state (launch of the so-called “Anti-Crisis Shield”) aimed at compensating commercial entities and their employees for the financial consequences of the pandemic, the most significant of which were the losses caused by administrative restrictions imposed on economic activity and the decline in demand caused by changes in the population’s lifestyle (Serowaniec & Witkowski, 2020, pp. 162–163). Thanks to the Anti-Crisis Shield, entrepreneurs could apply for exemptions from paying social security contributions for three months. During this period, they were still entitled to health and insurance benefits. The Shield also provided for the payment of a standstill benefit to the self-employed. This benefit was non-contributory and tax-free. The Shield was designed to protect employees as well as employers. Employers could apply for a subsidy for employees’ salaries in connection with reduced working hours. Significant funding was also allocated to direct increases in healthcare facilities and measures to adapt economic operators and public institutions to operate under pandemic conditions. The state’s extensive support of the public and private sectors in counteracting the negative effects of the pandemic has also exacerbated the imbalance in public finances. Overall, the state has provided more than €51 billion in aid (Moszyński, 2021, pp. 171–182).

Just one year after the global economy returned to growth after a brief but deep recession triggered by the Covid-19 pandemic, there was another unexpected economic shock caused by Russia’s aggression against Ukraine. As a result of this event, global prices of energy commodities and food jumped, triggering price increases for other goods and services. In connection with the geopolitical situation, the intensification of the process of expanding the defence potential of the member states, including the process of modernising their armed forces, has also become important. Central and Eastern European countries, including Poland, were in a particularly difficult situation. Not only did they have to rapidly switch their source of massive amounts of raw material imports from Russia to other regions of the world (which contributed to an increase in the prices of these raw materials and, consequently, very high inflation), but they also faced challenges arising from the need to assist refugees from Ukraine and the rapid deterioration of the geopolitical situation in the region (Fabbrini, 2023).

Compared to other Central and Eastern European countries, Poland coped with the challenge of the new economic situation. Admittedly, inflation in Poland was as high (14.4%) as in other countries in the region. However, the economic growth rate placed Poland among the top countries in Central and Eastern Europe, and the unemployment rate was one of the lowest in the European Union. Not all economic indicators look

so favourable, however. In addition to very high inflation, Poland is struggling with a declining investment rate (16.7%), among the lowest in the European Union. Only Greece and Bulgaria had a lower investment rate among the EU and candidate countries than Poland in 2022. In comparison, the Czech Republic had an investment rate of 27%, Slovakia 20.4%, Romania 24.9%, and Hungary 28.4%. Fiscal policy, in turn, has again become pro-cyclical and pro-inflationary (Supreme Audit Office, 2022, pp. 12–13). The effect of such macroeconomic policies does not improve the economy’s competitiveness and shifts the burden of the costs of these policies onto future generations. The pro-inflationary effect of the pursued policy may also make it difficult to determine the social and economic consequences in the coming years and entail significant costs for public finances. Poland’s main macroeconomic indicators for 2020–2022 are presented in Figure 1 (Supreme Audit Office, 2020, 2021, 2022).

As is well known, in emergencies, the executive becomes the “main player” in managing a given threat (Bar-Siman-Tov, 2020, pp. 11–12). The experience of dealing with the socio-economic impact of the Covid-19 pandemic or the war in Ukraine only confirms this thesis. Decisions on financial assistance have to be taken without delay, and the government must have a certain degree of freedom and flexibility to act in this respect (Serowaniec, 2023, pp. 83–91). In Poland, these activities were mainly carried out through various types of funds. At first sight, there is nothing unusual about such an arrangement. Indeed, several EU member states (including Germany, France, Spain, Italy, and the Czech Republic) have established Covid-19 counteracting or defence funds. These solutions have given governments flexibility in managing crisis-related expenditures. In these countries, however, the funds are either an integral part of the state budget or are subject to parliamentary control (Chiru, 2023, pp. 37–52). In contrast, the “originality” of the Polish solutions lies in the creation of additional funds for crisis prevention that are not included in the state budget. This means that, in addition to the state budget, there are separate sources of public funds that are not subject to the regime that is appropriate for such funds that are collected within the budget. New budgetary solutions have also been introduced into the Polish legal system. These include the transfer of state securities instead of subsidies and reporting state budget expenditure in periods other than those in which it was actually incurred. In this situation, the state budget does not properly reflect the state’s finances. A significant part of the resources allocated for public purposes is redistributed outside the state budget. As a result, a significant part of the public funds spent and collected are removed from the control of the parliament and the public. After all, it should not be forgotten that social and parliamentary control over the use of public funds is one of the pillars of a democratic state that abides by the rule of law (Kuca, 2022b, pp. 320–332). Therefore, the process

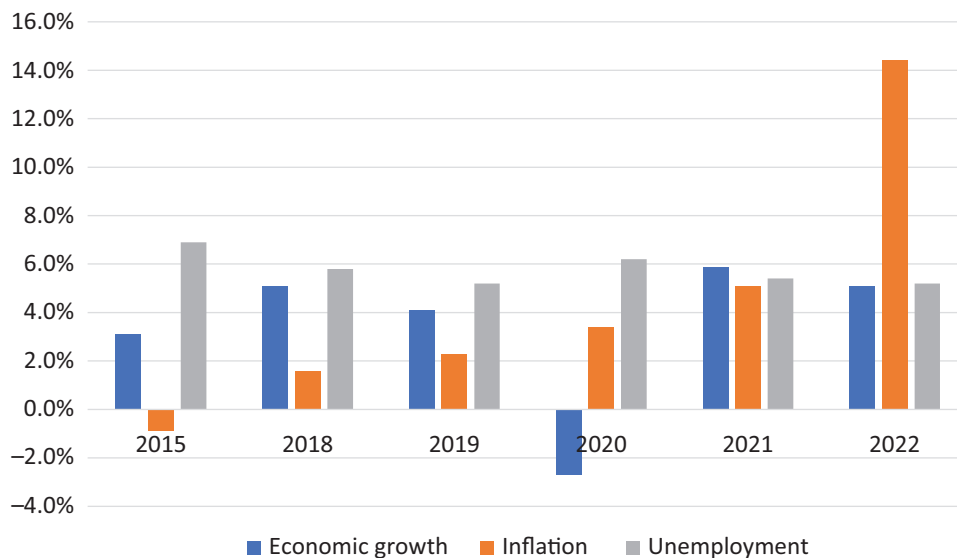


Figure 1. Poland’s macroeconomic situation 2015–2022. Source: Author’s work based on Supreme Audit Office (2020, 2021, 2022).

of debudgetisation of public finances, which allows public funds to be spent outside the state budget, is advancing in Poland. It is worthwhile to have a closer look at this process in detail.

The article seeks to answer two key questions. Does the occurrence of emergencies legitimise those in power to bypass the principles of responsible and transparent fiscal policy-making? Do the challenges Poland faces in counteracting the effects of the Covid-19 pandemic and the war in Ukraine legitimise the government to debudgetise the public finances? The research objective outlined in this way determines the temporal scope of the analysed systemic practice, which will primarily cover the years 2020–2023, i.e., the period in which Poland experienced these extraordinary circumstances affecting the economy and public finances. The background of the considerations will be the analysis, not only of the Polish systemic practice but also of the recommendations of the EU bodies, formulated towards the Polish government, among other things, within the framework of the European Semester.

2. Transparency and Efficiency of Public Spending in Poland From an EU Perspective

One of the key challenges highlighted by EU bodies in the context of the condition of Poland’s public finances is the problem of the increasing scale of the Polish government’s circumvention of the principles of efficient and transparent fiscal policy. For the first time, this significant problem was highlighted in the Council of the EU recommendations of 9 July 2019 on the 2019 National Reform Programme of Poland and delivering a Council opinion on the 2019 Convergence Programme of Poland (Council of the EU, 2019). At that time, an increase in public expenditure as a proportion of GDP was noted. In doing so, it

rightly pointed out that Poland’s public finances would be exposed to upward spending pressures in the future, particularly to an ageing population. These factors reinforce the need to introduce new instruments to manage better expenditure, including regular assessment of its effectiveness and efficiency. Therefore, the Council recommended that the Polish government take further steps to increase the efficiency of public spending, including by improving the budget system (Serowaniec, 2021, pp. 340–350). The document also noted the need to establish a fiscal council in Poland. In fact, Poland still does not have a body to monitor the medium-term sustainability of the public finances, which in most cases takes the form of a fiscal (policy) council. The council is treated as a non-partisan public body, not a central bank, government, or parliament. Its role is to prepare macroeconomic forecasts used in the preparation of the state budget, to monitor progress in the implementation of fiscal policy, or to provide advice to the authorities. Poland is the last EU country not to have such a body (Fasone, 2022, p. 261). As a side note, it is worth noting that during the parliamentary debates on the European Semester, the Sejm devoted relatively little space to issues of budgetary transparency. The focus was more on health, social, and energy policy issues (Schweiger, 2021, pp. 131–132; Woźniakowski, 2021, pp. 159–160).

The Council of the EU recommendations of 12 July 2022 on the 2022 National Reform Programme of Poland and delivering a Council opinion on the 2022 Convergence Programme of Poland (Council of the EU, 2022) reiterated that one of the major challenges facing the Polish government is the need to increase spending efficiency by addressing long-standing deficiencies in the budget process. These include complex and outdated budget classifications, sub-optimal recording of information, lack of viable medium-term planning, and

the fact that expenditure reviews do not directly affect the budget process. These factors increase the need for new tools to improve expenditure management, including regular evaluation of effectiveness and efficiency. The Council rightly points out that during the pandemic, most of the spending on Covid-19 measures was done through a special fund managed by the Bank Gospodarstwa Krajowego (BGK) and through off-budget financial instruments. While this gave the government greater flexibility in managing crisis-related spending and avoided the risk of exceeding the constitutional level of public debt, it reduced parliamentary scrutiny of spending and public access to up-to-date information. For this reason, considering the level of central sector deficit outside parliamentary control, according to data collected by Eurostat, Poland ranked first among the large EU countries and second among all EU countries (behind Cyprus). By comparison, 16 EU member states have no deficit that is outside parliamentary control (Dudek et al., 2022, pp. 25–26).

In its 2022 report, the European Commission (2022a) highlighted that Poland was unprepared from a structural deficit perspective before the pandemic crisis. Poland had not taken advantage of the good economic situation before the Covid-19 pandemic to prepare its public finances for a downturn. The Polish economy was developing dynamically, the labour market situation was the most favourable ever, and Poland's main trading partners were experiencing strong economic growth. Instead of preparing public finances for the downturn, Poland implemented costly policies that not only burdened its public finances in the short term but also generated high long-term liabilities (e.g., income-independent social benefits for families with children and pensioners and reversal of earlier reforms, such as extending working lives). As a result, while most EU countries were generating surpluses before the pandemic, Poland was running budget deficits. Consequently, Poland was among the three countries (alongside Hungary and Romania) with the most worrying structural state of public finances. In its forecasts, the European Commission also highlighted a sharp increase in the average cost of servicing Polish debt. In 2023, according to European Commission forecasts, Poland's average debt servicing costs will be the second highest in the European Union, with only Hungary incurring higher costs. High debt servicing costs will also increase the public finance deficit by 1% of GDP (European Commission, 2023). Obviously, the phenomena mentioned above affecting the transparency and efficiency of public spending is not exclusive to Poland, as they are faced by old (e.g., Spain, Portugal, Italy) and new member states (Cyprus, Romania, or Hungary; Ehnts & Paetz, 2021, pp. 235–236; Ramkumar & Rebegea, 2021). However, given that the Institute for Responsible Finance estimated the off-budget deficit to account for more than 80% of the real central sector deficit in 2022, analysing the Polish case seems particularly interesting (Dudek et al., 2023, p. 5).

It is also worth noting that the recommendations issued for Poland under the European Semester on improving the efficiency of public spending and the budgetary process were also taken into account within the National Recovery Plan. As a result, the National Recovery Plan, as a so-called milestone, formulates the demand for a significant reform of the fiscal framework (Reform A1.1). In the current version of the National Recovery Plan, accepted by the European Commission, it is stated that “the overarching objective of the reform is to increase transparency and efficiency of public spending” (Recovery and Resilience Facility: Operational arrangements between the European Commission and Poland, 2022, p. 8). To this end, future reform should aim to: (a) enable more efficient management of public funds, (b) increase transparency and accountability in the management of public funds, and (c) enhance the sustainability of public finances and prevent unsustainable expenditure growth. According to the milestones, the reform is to implement two legislative measures. First, the Public Finance Act is to be amended by the introduction of a new classification system, a new budget management model, and a redefined medium-term budgetary framework. As a result of this amendment, a new budgetary system will be established. Secondly, the Public Finance Act will be amended by extending the scope of the Stabilisation Expenditure Rule to more general government entities, particularly special purpose funds. According to the arrangements, the reform implementation should be completed by 31 March 2025.

3. The Phenomenon of Debudgetisation of Public Finances in Poland

Although the Constitution of the Republic of Poland of 2 April 1997 gives the institution of the state budget particular importance in the processes of spending and collecting public funds, the growth of the extra-budgetary economy, subject to specific formal and material rigours, has intensified in recent years (Kornberger-Sokołowska, 2022, pp. 311–312). The principle of transparency of public finances in Poland is essentially being weakened by the emergence of public resources that are separate from the state budget and not subject to such strict rigour in their operation and parliamentary control (Serowaniec et al., 2021, pp. 47–52). A comparison of the content of the state budget with the Budget Act and other laws related to state expenditure leads to the conclusion that more and more state revenues and expenditures are included outside the state budget and even the Budget Act (Kuca, 2018, pp. 144–153). In recent years, more and more funds, foundations, agencies, institutes, and other units located outside the system of the public finance sector (in the meaning given by the Public Finance Act) and not subject to the regulations of the Public Finance Act have been established—placing them outside the state budget and beyond any parliamentary control (Kuca, 2021, pp. 28–29). In this situation,

the state budget does not properly reflect the state's finances, as a significant part of the funds allocated for public purposes is redistributed outside this budget. In the context of parliamentary control, this means that a significant part of the public debt is outside parliamentary control, and the scale of circumvention of the constitutional limit on public debt has been increasing for several years (Kuca, 2022b, p. 320). This phenomenon is also accompanied by a record increase in public debt, driven by borrowing to finance tasks related to countering the Covid-19 pandemic and the socio-economic impact of the war in Ukraine.

3.1. Emergence of Resources of Public Funds Separate From the State Budget

One of the basic forms used by those in power to circumvent the principles of transparent budgetary policy is the creation of further funds, foundations, agencies, institutes, and other entities outside the state budget. They are not included in the monitored scope of public finances, and budget rules do not cover their operation. For example, due to Russia's armed aggression against Ukraine, the Armed Forces Support Fund (FWSZ) was established based on the Law on Homeland Defence (U3O) of 11 March 2022. According to the act, the FWSZ is a special-purpose fund established within the structures of BGK to increase expenditure on the modernisation of the Polish armed forces. The fund is to be one of the three sources of funding for the Programme for the Development of the Armed Forces, in addition to the state budget and revenues from the sale of shares in companies with industrial defence potential. In 2022–2023, nearly €15 billion was intended to be allocated from the FWSZ for this purpose, of which €12 billion was to come from the proceeds from the issuing of bonds. The first version of the plan was a public document, but after problems with the bond issuing came to light, the document was made secret. Such a step towards a plan containing only the amounts of revenue and expenditure of the FWSZ (financial information) has to be assessed critically. It can be compared to the secrecy of the Budget Act in the defence section (Sejm, 2022a).

In accordance with the requirements of Article 41(1) of the U3O, the financial and accounting service of the FWSZ is provided by BGK. It is worth noting that BGK is a Polish state-owned bank, the only entity of its kind in Poland wholly owned by the State Treasury. It was established by law to support government social and economic programmes as well as local government and regional development programmes. It specialises in servicing government financial programmes, distributing related special purpose funds, and servicing state institutions' bank accounts. The contract for the financial and accounting service of the FWSZ between the Ministry of Defence and BGK was signed on 10 May 2022. The planned receipts and expenditures of the FWSZ in 2022–2023 were included in the Financial Plan of the

FWSZ for 2022 and 2023, unclassified documents prepared by BGK. Both plans were presented to MPs during the 79th Public Meeting of the Parliamentary National Defence Committee, on 22 June 2022. The documents contained only financial data on planned revenues and expenditures from the FWSZ. However, they did not specify what the planned funds were to be spent on (material plans), information that is not normally covered by the secrecy clause (Sejm, 2022b).

Following the failure of the BGK bond issue for the FWSZ scheduled for 24 October 2022, a correction was made to the Financial Plan of the FWSZ for 2022, and a new version was presented to the MPs of the Parliamentary Committee on National Defence for their opinion on 4 November. This time, however, the meeting was kept secret, and the Financial Plan of the FWSZ for 2022 became a classified document. As a result, the Polish taxpayer does not have any information about the sources from which the technical modernisation process of the Polish army will be financed in part concerning the FWSZ (Sejm, 2022a). This is up to one-third of the planned expenditure for this purpose, expected to reach nearly €34 billion in 2023. In addition, the decision will mean that the Ministry of Defence will no longer have to publicly explain the non-execution of the FWSZ revenue and expenditure plan, which could prove politically advantageous given the parliamentary elections scheduled for 2023 (Sejm, 2023a).

Countering the effects of the pandemic, on the other hand, was financed primarily with funds from the Covid-19 Counteracting Fund, established at the BGK under the Act on Counteracting and Combating Covid-19, fed by both public funds and bonds issued by BGK. The Prime Minister became the dispenser of the funds, and pandemic control entities were able to use them. By excluding the fund from parliamentary control, the government explained that decisions on financial assistance given to entrepreneurs to save jobs had to be taken immediately (Sejm, 2020). Indeed, the government must have the freedom and flexibility to act. The Covid-19 pandemic has faded, so what is the purpose of this fund now? The government has turned the Covid-19 Prevention Fund into a vehicle for social and development projects. Indeed, these funds are now being used for investment programmes and compensation related to freezing electricity and heat prices. This year's amount of expenditure planned by the fund is close to €5.5 billion. However, this amount is not final, as the fund's financial plan can change at any time, as the Prime Minister sees fit; indeed, last year, there were 11 versions of the fund's plan (Sejm, 2023b). Practice also shows that the fund's expenditure increases annually, with changes amounting to billions of euros. Figures released by BGK show that in 2022, the fund's expenditure amounted to €9.6 billion, almost one billion higher than expectations at the beginning of the year (Ministry of Finance, 2022). This shows the alarming scale of the opacity of public finances, which is not justified by countering the effects of Covid-19.

At the end of 2022, BGK operated 20 funds (11 launched after 2019). The inflows and outflows of these funds amounted to more than €22 billion, equivalent to approximately 3.5% of gross domestic product. The expenditure incurred by the funds operated by BGK corresponded to 21% of the state budget expenditure. Both their number and the total value of the funds at their disposal, as well as the variety of tasks financed by these funds, have grown dynamically in recent years, making them, with the appropriate proportions, a kind of alternative budget operating outside the strict control and procedures envisaged for the state budget (Supreme Audit Office, 2022, pp. 339–340).

The problem of the opacity of public finances was also highlighted by the Supreme Audit Office. On the occasion of the audit of the budget execution for 2020, the Supreme Audit Office pointed out “the need to increase the transparency of public finances by stopping the growth of extra-budgetary units in the government sector. As a rule, the tasks of this sector should be financed directly from the state budget” (Supreme Audit Office, 2020, p. 9). In the opinion of the Supreme Audit Office, the exclusion from the state budget account of operations, the nature of which indicated the legitimacy of their inclusion in this budget, significantly reduces the transparency of public finances and lowers the rank of the state budget. In 2022, as in 2021 and 2020, significant funds for implementing public tasks were planned in the Covid-19 Counteracting Fund and in the Polish Development Fund S. A. to support, among other things, enterprises affected by the consequences of counteracting the pandemic (Supreme Audit Office, 2022, p. 5). The Supreme Audit Office did not question the legitimacy of the assistance provided to entities affected by the consequences of the pandemic but pointed out that the planning of these funds took place in disregard of the Budget Act, even though it had a significant impact on the general government deficit and the increase in the sector’s debt. Indeed, in each of the cases analysed above, the Sejm was completely disregarded in the decision-making processes, which raises legitimate questions in the context of the principle of the exclusivity of the legislature in shaping state expenditure and revenue (Supreme Audit Office, 2021, pp. 21–22).

3.2. Other Forms of “Flexible” Implementation of the State Budget

In order to counteract the socio-economic effects of the Covid-19 pandemic and the war in Ukraine, the United Right government also proposed other forms of “flexible” execution of budget expenditure. These included budget solutions not used before, involving the free transfer of Treasury securities instead of subsidies or the “pushing” of certain expenditures outside the state budget. Undoubtedly, gratuitous transfer of Treasury bonds to entities outside the public finance sector instead of grants may contribute to deforming the state budget

result. As a result, these transactions are not recognised as a grant in the state budget, i.e., an expenditure. However, this practice distorts the picture of public finances, even the one in the narrower view of the national methodology. There is a disintegration of the budget deficit ratio and the public debt (Supreme Audit Office, 2022, pp. 5–6).

Moreover, such a procedure generates additional costs for entities receiving bonds and generates additional debt management costs on the part of the Ministry of Finance, as it has to spread these issues over different types of instruments so as not to disrupt the market, as these entities almost immediately dispose of these bonds. This situation is unprecedented anywhere in the world. In 2020, the scale of these operations was just over €4 billion; in 2021, it was already close to €5 billion. In 2022, Treasury securities with a nominal value of almost €5.8 billion were transferred free of charge to various entities, bypassing the state budget expenditure account and, thus, the state budget result. The total value of such financing between 2019 and 2022 amounted to more than €16 billion. An example of this practice is the transfer of bonds to the public media as a supposed compensation for low radio and television licence fee revenues. Because individual public media institutions, such as radio stations, receive a pool of government bonds from the Treasury, these institutions must establish brokerage accounts to service these bonds. They incur additional costs; these bonds are then monetised (sold), and the proceeds are spent on the bodies’ statutory purposes. In the past, these operations were carried out with a normal subsidy from the state budget. The number of entities receiving an implicit subsidy in this form is growing exponentially. Among others, universities, the National Media Institute, the Central Transport Port, and, more recently, even mines are receiving bonds instead of subsidies. These operations were originally intended to be incidental, but in reality, due to their scale and regularity, they have become systemic solutions. The scale of this phenomenon is illustrated in Figure 2.

Another means by which budget expenditures may be “flexibly” executed is through the introduction of legal solutions that allow state budget expenditures to be reported in different periods than they were incurred. On the one hand, expenditures that do not expire at the end of the financial year make it possible to finance tasks initiated in a given year, the completion of which is to take place in the first quarter of the following year, thus ensuring greater flexibility in the state budget (Serowaniec, 2021). On the other hand, this solution is a derogation from the principle of annuality of the state budget and should therefore be incidental. The legislator has introduced two exceptions allowing expenditures to be made after the end of the fiscal year. Firstly, it allows the Council of Ministers (not later than 15 December of a given financial year) to determine, after obtaining the opinion of the Parliamentary Committee for the Budget

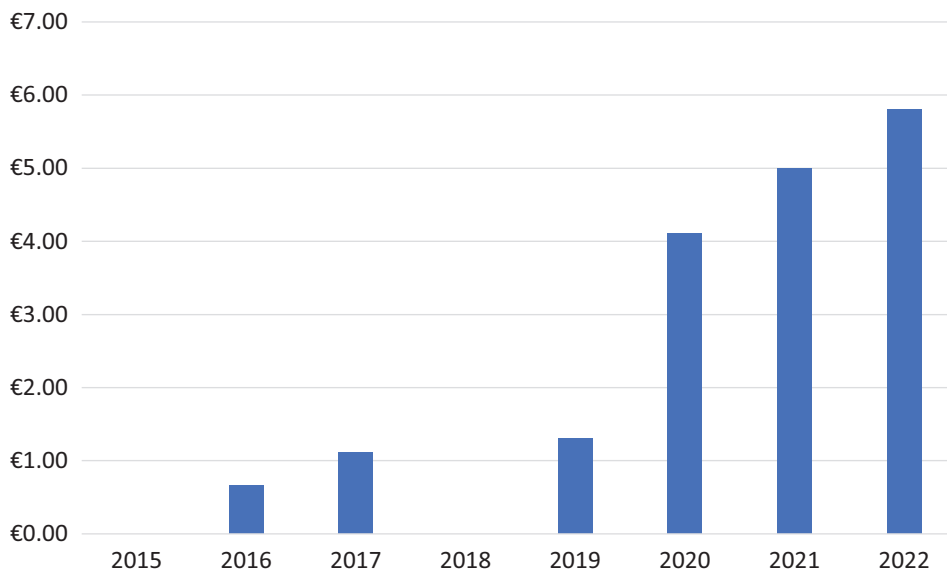


Figure 2. Amount of government bonds transferred from the state budget instead of subsidies between 2015 and 2022 (in billion). Source: Author’s work based on Supreme Audit Office (2020, 2021, 2022).

in this respect, a list and a financial plan of non-expiring expenditures and the final date for their implementation, but no later than 31 March of the following financial year. Secondly, it entrusts the Minister of Finance, at the request of the authorising officer of the budgetary part, with the possibility of agreeing to settle the liabilities due as of 31 December of the previous year against the expenditure plan of that year within nine working days of the following year. Given the need to counteract the effects of the Covid-19 pandemic in 2020, the Council of Ministers were able to establish, through a regulation, no later than 30 December 2020, a list and a financial plan of non-expiring expenditures, taking into account the degree of realisation of state budget revenues and expenditures and the possibility of continuing and implementing tasks financed from the state budget in 2020. Significantly, the expenditures included in this list could have been made until 30 November 2021, which undermines the sense of parliamentary control of state revenues and expenditures, as the resolution on granting or refusing to grant discharge is adopted within 90 days of the submission to the Sejm of a report on the implementation of the Budget Act submitted by the Council of Ministers within five months of the end of the fiscal year (Kuca, 2022a, pp. 158–160). By virtue of the Regulation of the Council of Ministers of 28 December 2020 on state budget expenditures not expiring at the end of the fiscal year in 2020, a detailed list of planned state budget expenditures that do not expire at the end of the fiscal year and a financial plan of state budget expenditures that do not expire at the end of the fiscal year in 2020 was established. These expenditures included as many as 1,186 tasks for a total expenditure of €2.6 billion, which accounted for 2.3% of state budget expenditure. In 2019, the ratio was 0.03%; in 2018 and 2017, 1.3% and 0.3%, respectively (Supreme Audit Office, 2021, p. 91). In addition,

the list of non-expiring expenditures included many tasks which should have been implemented in 2021. This was a consequence of the inclusion in the amendment to the Budget Act for 2020 of tasks scheduled for implementation in 2021. The applied forms of state budget execution were incompatible with the purpose for which the institution of non-expiring expenditures was introduced into the legal system, as they generated the problem of a lack of clear reporting rules and violated the principle of annuality of the state budget (Kuca, 2022a, pp. 167–168).

According to the Ministry of Finance, the state budget deficit in 2022 was €2.8 billion (0.4% of GDP) against the planned €6.6 billion in the 2022 Budget Act (Supreme Audit Office, 2022, pp. 10–11). In 2021, the state budget deficit was more than twice as high at €5.9 billion (1% of GDP; Supreme Audit Office, 2021, p. 10). The juxtaposition of these figures might suggest that public finances are in an excellent state. Unfortunately, this is not the case, as the real state budget deficit is many times higher, as shown by the data sent to Eurostat. In the report on the Budget Act that the government sent to the Sejm, only approximately 12.5% of the true government deficit was shown: The true deficit is approximately €22.4 billion (Dudek et al., 2023, pp. 5–6). This result is influenced precisely by the use of so-called “flexible” forms of state budget execution. Indeed, the main operations not included in the state budget for 2022 included: the financing of public tasks carried out by BGK-operated funds (€9.5 billion), Treasury bonds transferred in 2022 (€5.8 billion), and non-expiring expenditure from 2021 (€1.7 billion; Supreme Audit Office, 2022, p. 5). In 2020–2022, almost 8% of the annual GDP is a deficit not included in the state budget but in the central sector deficit, which is only under the government’s control. Over the last few years, the government has therefore been generating deficits outside the control of the budgetary process, outside the

control of parliament and social surveillance, as detailed in Figure 3.

A consequence of the “flexible” forms of state budget execution undertaken by the United Right government is also the deepening of the imbalance in public finances, resulting in a significant increase in public debt. This debt, calculated according to the European Union’s methodology, has increased by as much as €50 billion in 2020. The increase in public debt calculated according to this methodology—just for the year 2020 alone—would once have taken almost a decade to reach the same level (Supreme Audit Office, 2020, p. 9). At the end of 2021, the difference between the size of government debt (EDP) and sovereign public debt (PDP) had increased to €58 billion, representing 10% of GDP

(Supreme Audit Office, 2021, p. 303). Ultimately, at the end of 2022, there was a record difference of €67.2 billion between public debt calculated according to the EU methodology and that determined according to national rules (Supreme Audit Office, 2022, p. 5). The resulting differences are due, among other things, to the recognition of the liabilities of the Polish Development Fund S. A. (financing of financial and anti-crisis shields) and BGK (Covid-19 Counteracting Fund) within the debt calculated according to the EU methodology and the non-inclusion of these liabilities in the debt calculated according to the national methodology (Kuca, 2022b, pp. 328–329). Detailed differences in the amount of public debt in Poland calculated according to the EU and national methodologies are presented in Figure 4.

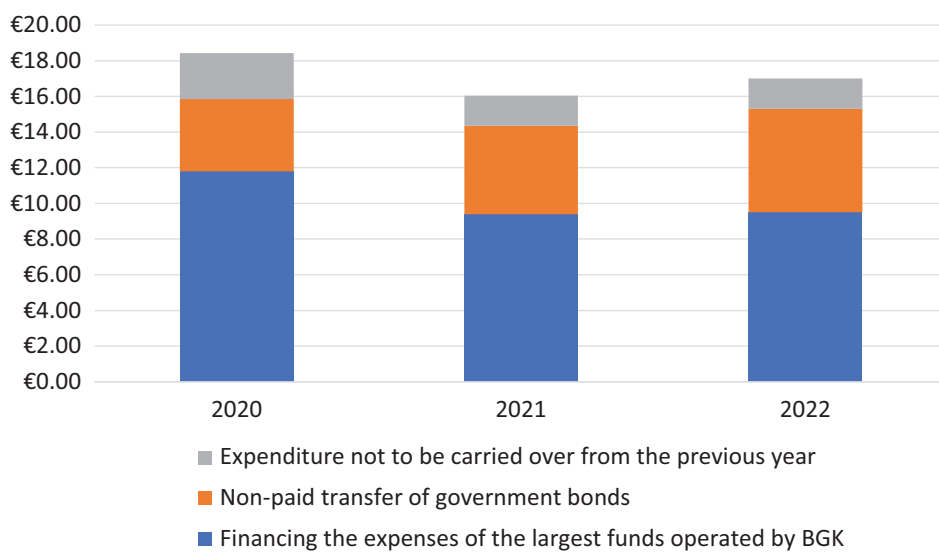


Figure 3. “Flexible” forms of state budget execution in 2020–2023 (in € billion). Source: Author’s work based on Supreme Audit Office (2020, 2021, 2022).

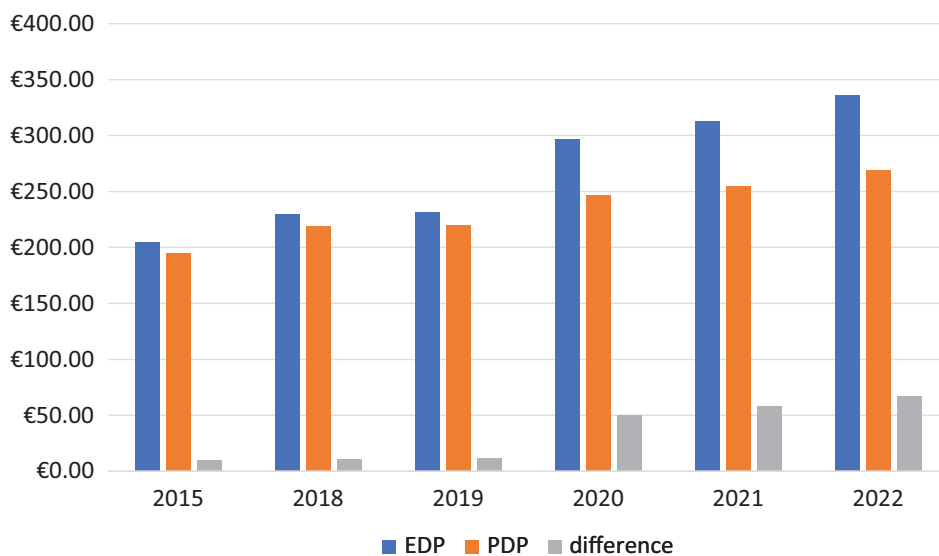


Figure 4. Public debt in Poland according to EU (EDP) and national (PDP) methodologies from 2015 to 2022 (in € billion). Source: Author’s work based on Supreme Audit Office (2020, 2021, 2022).

Therefore, we have a situation that is classically referred to as “breaking the thermometer,” or rather, more accurately, replacing a real thermometer with one where virtually any number can be entered as the temperature. In practice, however, the methods used to avoid exceeding the prudential threshold result in a significant increase in the cost to the public sector of servicing this debt. Indeed, servicing liabilities incurred by BGK and Polski Fundusz Rozwoju S. A., even though the State Treasury guarantees their repayment, costs more than servicing debt incurred directly by the State Treasury (Wantoch-Rekowski, 2023, pp. 350–351). This is surprising, as these expenditures affect the amount of the State Treasury’s debt, but as a result of their exclusion from the Budget Act, they are outside the control of the Sejm (Kuca, 2022b, pp. 328–329). For these reasons, they should be included in the state budget (Kielin, 2022). As a consolation, one can only point out that, considering the level of public debt, Poland, with an EDP of 48.1% of GDP, does not compare badly with other EU countries, where the average is as high as 84%, with Greece (170%) and Italy (145%) holding the record. However, for example, the Czech Republic and Romania have debts of 44% and 47% of GDP, respectively (European Commission, 2022b).

4. Conclusions

A comprehensive assessment of the functioning of the Polish public finance sector under the conditions of the Covid-19 pandemic and the war in Ukraine is hampered by the deteriorating transparency of public finances over the last few years and the lack of publicly available data on financial operations related to counteracting the effects of these extraordinary circumstances. This is particularly evident concerning those institutions (BGK) that fully depend on public authorities and carry out significant financial operations related to the pandemic or the war in Ukraine. At the same time, they are not formally classified as part of the public finance sector; thus, they are not subject to the regulations on financial records and reporting appropriate for entities in this sector. Under the guise of “flexibility” in dealing with crises, we are therefore faced with bypassing the budget process rules.

An example of this is the Covid-19 Prevention Fund, which still exists, but its expenditure is now completely unrelated to the pandemic. The Supreme Audit Office, when assessing the implementation of the Budget Act for 2022, drew attention to the direction of change in the public finance system, which meant that the financial management of the state is largely carried out outside of the state budget, bypassing the rigour that accompanies it. The state budget no longer fulfils the function of the basic act of state financial management. For this reason, for the first time in Poland’s recent history, the Supreme Audit Office gave a negative assessment of the government’s execution of the state budget.

Resolving this situation will require several measures. First, efforts should be made to restore the state budget to its proper rank related to its special character and central position in the public finance system. This must be accompanied by limiting the organisational and legal forms of public financial management to budget entities and the exceptional participation of executive agencies and a few special-purpose funds. Thus, the importance of budgetary principles, particularly fiscal consolidation, can be restored, and the principle of the unity of the state budget can be preserved. Given the substantive changes, it will become necessary to carry out institutional changes, including the creation of a new institutional architecture—a Fiscal Council, which can significantly contribute to the restoration of the due position of the state budget, to the preservation of the principle of transparency and openness of budget management, without which it is difficult to speak of properly conducted budget management. The actual state of public finances would also be more effectively communicated if the government abandoned the practice of reporting revenues, expenditures, deficits, and public debt in two different ways, i.e., according to the national and EU methodology, as many circles advocate.

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Conflict of Interests

The author declares no conflict of interests.

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About the Author



Maciej Serowanec is an associate professor at the Department of Constitutional Law of the Faculty of Law and Administration of Nicolaus Copernicus University. He is also an archives fellow at the Historical Archives of the European Union European University Institute in Florence, and a researcher in the project CONCILIA: Democratic Legitimacy in the Post-Crisis European Economic Governance, founded by the National Science Centre. He is a laureate of the European Court of Auditors Postgraduate Research Grant Programme (2022) and the International Visegrad Fund Research Grant Programme (2023).