

# Public finance consolidation in Poland

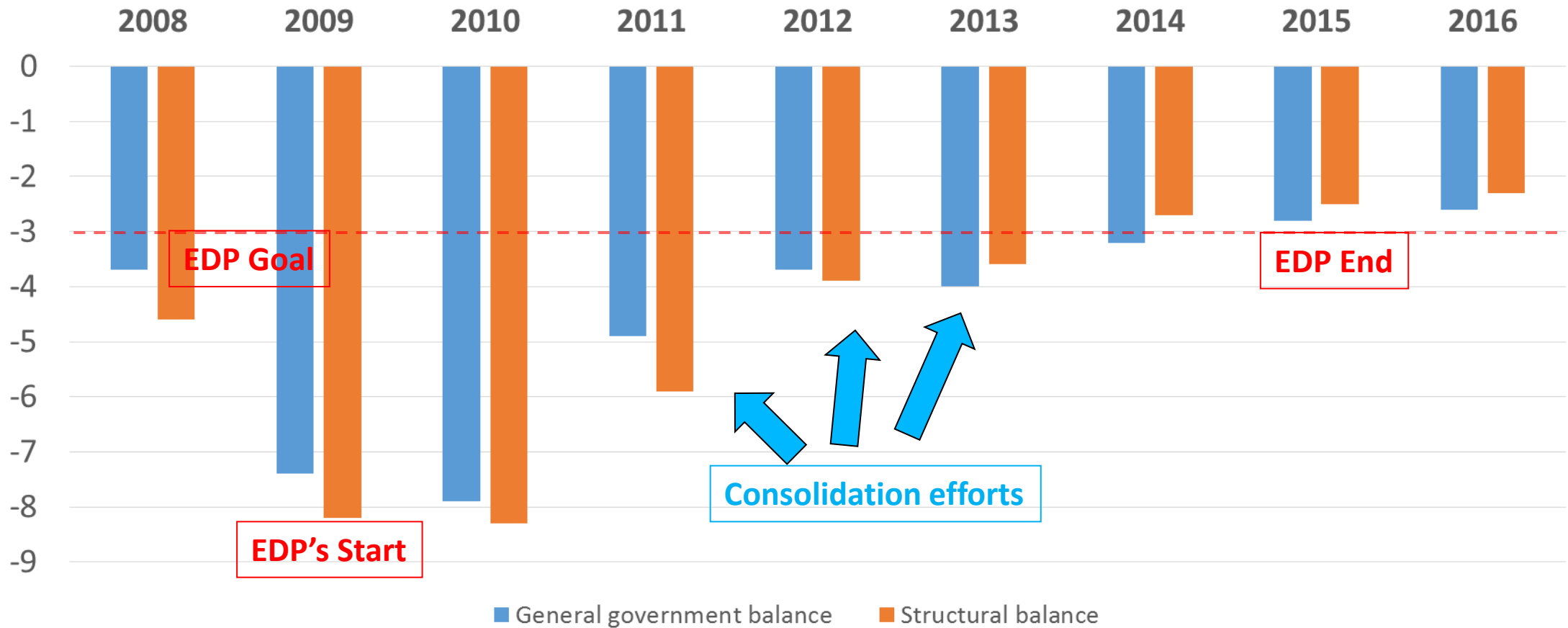
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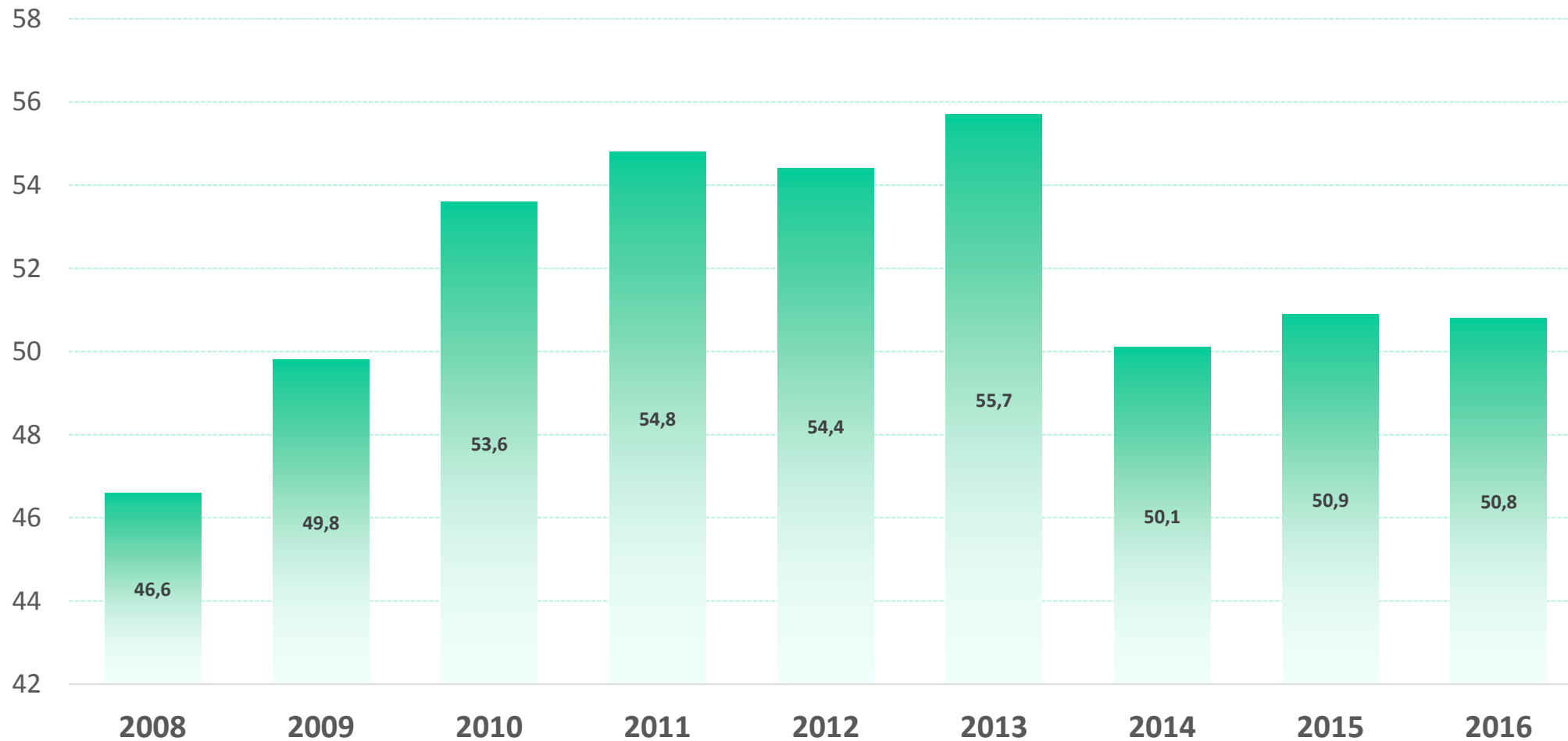
Webinar on Public Finance Consolidation

# Fiscal balance (% GDP)



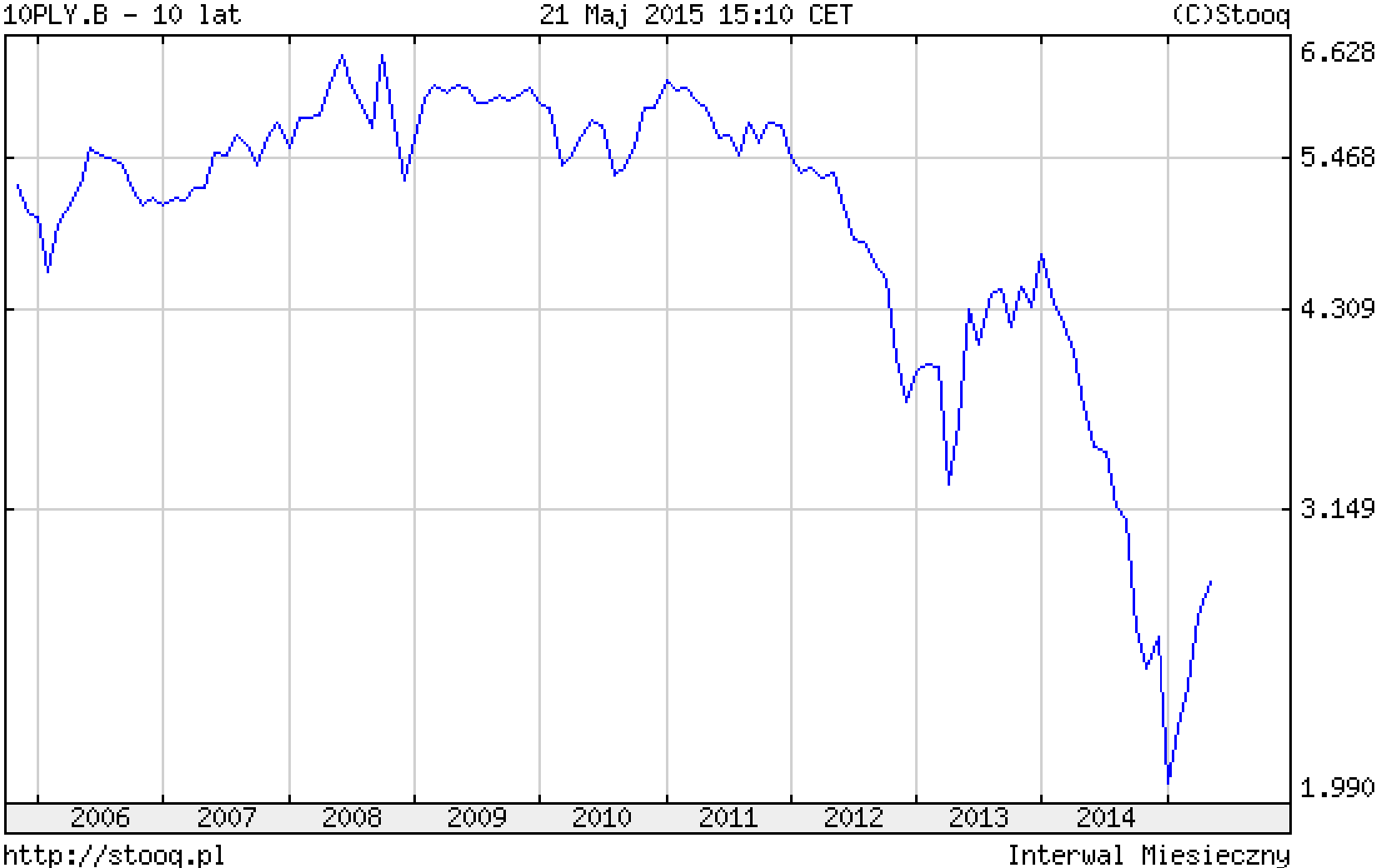
Source: DG ECFIN

# Gross public debt (% GDP)



Source: Eurostat, DG ECFIN's Spring Economic Forecast

# The growing stability in the market



# Consolidation constraints

- 72% of expenditures are fixed (because of regulations influencing the budgetary regulation, pension system etc.).
- A huge part of expenditures is co-financed by the EU funds.
- The majority of possible consolidation on revenue side.

# Consolidation measures – expenditures (p. 1)

In 2010-2013 a reduction of expenditures by 2.8% of GDP.

- the disciplinary expenditure rule since 2011 (Art. 112a of the Public Finance Act): a possible expenditure growth by 1% in real term a year
- in 2013 it was replaced by the stabilising expenditure rule: a focus on correcting imbalances, prevention from excessive cuts harming the economy,
- freezes (in nominal terms) in remuneration system in public administration since 2011,

# Consolidation measures – expenditures (p. 2)

- fiscal rules for local authorities: their accounts should be balanced, debt limits, with some exclusions to protect the spending co-financed by the structural funds
- reducing entitlements to earlier retirements
- reduction of funerary benefit to 4000 PLN in 2011
- introduction of income criterion to receive the one-off child benefit („becikowe”)

# Consolidation measures – revenues (since 2011)

Little effect of these reforms (due to a low domestic demand) up to 2013

- Reduction of the share of the obligatory private pension funds – OFE (from 7.3% of the base to 2.3%)
- VAT increase from 3/7/22% to 5/8/23% rates
- increase of the disability contribution by the employers by 2 percentage points
- limiting the possibilities to deduct VAT
- increasing the excise duties for: oil and fuel; cigarettes
- removing the excise duty relief from biofuels



# Consolidation measures – revenues (since 2011)

- freezing tax thresholds in PIT
- changes in tax from deposits to reduce the tax avoidance
- introduction of tax on natural resources (copper and silver since 2012)
- increasing VAT for postal services to 23% (since 2013)
- reducing the 50% of tax deductible costs due to copyrights (since 2013)
- limitation of the internet tax relief (in PIT) (since 2013)
- applying excise tax on tobacco leaves (since 2013)
- increasing the mandatory conducting the cash register

# Fiscal brake

Poland uses debt brake, which is included in constitution!

- A rule helps to stabilise debt, but destabilises the economy and increases the state's ingerention in economy.
- Debt thresholds:
  - Above 55% - the next budget project should exclude the government deficit or it should assure the decrease of public debt; freezes in remunerations; limiting raises in pension payments; the budget cannot lend loans to any other units; freez in expenditures of the crucial government units; the government is obliged to review the expenditures and to propose a recovery plan; limiting the expenditures of the local authorities
  - Above 60% - like in the case of 55%; the government has a month to present a recovery plan; the local authorities' expenditures not higher than the revenues; the local authorities cannot grant guarantees
  - (suspended since 2013) 50% threshold – the deficit/revenues ratio cannot exceed the one from the previous year

# Hidden debts

- The Poland's financial liabilities due to future payments and related to pensions.
- According to FOR: it includes the ZUS (public pension agency) liabilities to the citizens.
- The National Road Fund (but now included in the ESA95) – but the constitutional debt brake refers to domestic (not ESA95) debt definition.
- The hidden debts of the local authorities (in founded special vehicles: companies of which debt do not account to the municipal debt)

# Challenges

Pension system reform: simplification of the rules,

- limiting the scope of special pensions
- changing the farmers pension system to the regular one

Problem with determining a real debt of the local authorities (they

The EDP is finished in 2015 – the good and the bad news.

# **Public opinion's scrutiny**

# Public debt counter (FOR)



## Public Debt counter (II)



# Public Debt counter (III)





