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## **POLAND'S BUDGETARY EXPENDITURES IN YEARS 2006-2016 AND NATIONAL PUBLIC DEBT**

### **Summary**

The purpose of this study is to analyze budget expenditures and public debt in Poland over the years 2006-2016. The dynamics and correlation between these data are examined and, on this basis, the impact of budget expenditures on public debt in Poland is described. The author reviews the literature on the subject and conducts a statistical analysis based on correlation indicators. Some attention is also devoted to the sense of public debt. As a result of the analysis, a very strong positive correlation has been found between budget expenditures and public debt. This means that an increase in public expenditure leads to an increase in public debt. Therefore, it can be presumed that the budget revenues in each of the following years were not sufficient to even slightly reduce the public debt.

**Keywords:** state budget, public debt, budget expenditures

**JEL classification:** H11, H50, H63

### **1. Introduction**

Public debt is a very important issue for Polish politics and the economy. This results, among other things, from the fact that limiting the size of public debt is one of the conditions of convergence which the European Union requires of Poland. In order to fully participate in the European Community, Poland must adhere to certain limits. Public debt must remain under 60% of GDP, which means that it cannot exceed this level of Gross Domestic Product. For this reason, an attempt is made here to statistically analyze the dynamics of budget expenditures and public debt in Poland in the years 2006-2016. The work uses a statistical method based on the analysis of dynamics and structure.

### **2. State budget**

The most important goals of a fiscal policy are:

- to ensure an efficiently functioning state budget, sustainable in the long term,

- to fund a sufficient supply of substantive goods, as well as consistently use inflows and outflows to stabilize economic development and, what is particularly important for the social development of households, guarantee a fair distribution of income and wealth and a decent standard of living for elderly, sick and unemployed people [Leszczyńska, 2013, p. 158].

Public management, regarded as a sub-discipline of management sciences, is focused on management of government administration, local government units and non-governmental organizations, as well as the institutional determinants of managerial practices and cooperation between the public sector and economic organizations. Managing the public sector differs from that in the private sector [Wąsowska, Wąsowski, 2016, p. 11] since the former is based on one fundamental legal act – the state budget.

The concept of state budget is variously defined in the literature. In the widest, colloquial sense, a 'budget' means an estimate of revenues and expenditures for a predetermined period. However, the term usually refers to the basic financial plan of the state, of directive character, adopted in the course of a specific type of proceedings for a predetermined period. According to W. Wójtowicz, it contains not only the amount and type of state revenues, usually nonrefundable, that are predicted for the budgetary period included in the plan, but also the amount and type of nonrefundable expenditures for public purposes made by the state (or local government units). On the other hand, according to J. Gluchowski, the state budget is one of the most important financial plans in the country, including centralized monetary resources which constitute the material basis for the implementation of many tasks of the state [Borski, Malarski, 2015, p. 206].

A specific role in the public finance system is assigned to the state budget. Following an analysis of the multi-criteria functions of the budget, they can be divided into two broad groups according to economic and political aspects. In the case of the latter, the following functions can be listed [Staśkiewicz, 2014, p. 127]:

- allocation,
- redistribution,
- stabilization,
- fiscal,
- credit,
- transfer.

The state budget for a given financial year is presented in the form of an act. The budget act defines the sources and amounts of particular incomes and the types of expenditures, therefore, it is a law which provides the legal norms of fiscal management for a given financial year. The budget is implemented by the state and local government bodies and consists in collecting and spending public resources at various levels of government and under various budgets. [Adamowicz, Wawrzonkiewicz, 2012, p.189].

### 3. Budget expenditures

The provisions of the budget act are legal regulations and fulfill legal functions. This particularly applies to decisions regarding budget expenditures, which are related to specific sanctions for their violation. Such a character of these provisions serves to maintain the level and structure of annual expenditures in the form specified by the budget act. Exceeding the prescribed limit of expenditure is a violation of the public finance act, the budget law and other laws. Essentially, it is an act that violates public finance discipline specified in the Act of the 17th December 2004 on Liability for Breach of Public Finances, and especially Article 11 of this Act [Borodo, 2016, p. 11].

Economists agree about the possible negative impact of state expenditures on the economy. In the theory of economics, the displacement effect theory, confirmed in numerous empirical studies, is well established. Because of this, good fiscal policy should strive to increase savings, and thus the sources of funding expenditures, in such a way that the total demand is not reduced. At the same time, post-crisis assessments of the effectiveness of the anti-crisis packages introduced in the years 2009-2010 in the United States and Europe assign greater importance to the positive dependence between the domestic product and investments than that between the domestic product and budget expenditures [Lubieniecka, 2013, p. 247].

The deficit in the state budget has already become almost an inherent part of the Polish public finance sector, as every year since 1991, state budget expenditures have been higher than the earned income. In the first decade of this century, we had to struggle with a growing budget deficit, while the years 2005-2007 were a period of stabilization of its size, thanks to a high rate of economic development, which exerted a positive impact of the cyclical factors contributing to budgetary balance [Budzyński, 2014, p. 46].

Poland has faced a deficit ever since 1991. In that year, when Leszek Balcerowicz was the Minister of Finance, there was a small budget surplus, but in the subsequent years the budgetary situation of Poland kept deteriorating. It should be noted that the constant perpetuation of the deficit in the following years was a general trend in the macroeconomic policy pursued by Poland in comparison with other European countries in the period 1990-2010 [Piskorz, 2015, p. 52]. The acceptable level of state budget deficit in 2014 was set in the Budget Act at PLN 47.5 billion, which meant a reduction of the deficit by 8.4% in comparison with 2013. Due to the discrepancy between the actually implemented budget in 2013 and the previous forecasts, the deficit in 2013 proved to be lower than the predicted PLN 51.6 billion, amounting only to PLN 42.2 billion. Eventually, the level of deficit prescribed in the Budget Act meant its increase by 12.6% [Wernik, 2015, p. 5]. However, the budget deficit is still an intrinsic part of the Polish state budget. The development of expenditures in Poland's budget is presented in table 1.

TABLE 1

**Budget expenditures in Poland in 2006-2016**

Year	Budget expenditures in thousands of zlotys
2006	222702946
2007	252323889
2008	277893478
2009	298028478
2010	294893878
2011	313344394
2012	318001861
2013	327294440
2014	312519527
2015	336680000
2016	368548526

Source: own study based on the Ministry of Finance website [www.mf.gov.pl].

Among legally determined expenditures, the basic ones are public debt servicing, payments to the European Union budget, subsidies for the Pension Fund (the Agricultural Social Insurance Fund) and the Social Insurance Funds, local government subsidies, pensions paid from the state budget, and benefits for natural persons paid by the Social Insurance Institution (ZUS) and the Agricultural Social Insurance Fund (KRUS) [Wernik, 2014, p. 17].

#### 4. Public debt

By interpreting Articles 72 and 73 of the Public Finance Act, a definition can be made of the state public debt as a nominal value of liabilities of public finance sector entities, excluding mutual obligations between these entities resulting from the following:

- securities issued for pecuniary receivable debt,
- incurred loans and credits,
- accepted deposits,
- due liabilities resulting from separate provisions, final court rulings, or final administrative decisions and recognized as indisputable by a competent public finance sector entity (debtor) [Lotko, Zawadzka-Pań, 2016, p. 55].

Consolidated public debt (or, in the terminology of the Public Finance Act, the state public debt) is, therefore, understood as the sum of due liabilities of public finance sector entities, excluding mutual obligations [Wernik, 2013, p. 23].

A discussion of the views of economists on budget deficit and public debt would be incomplete without a look at the antiquity. The subject of public lending rarely appears in the works of the scholars and philosophers of the era. However, their stance on this practice is reflected in the views they expressed on interest-bearing

loans. Both ancient Greeks, like Aristotle or Plato, and Roman thinkers, i.e. Cicero and Cato, had very negative attitudes towards usury. Jews in the Old Testament were banned from charging interest on loans given to other Jews. Later, the Christian church also condemned usury. For a long time, lending money on interest was illegal. However, since Medieval Christians considered Jews to be impure, they allowed them to lend money to Christians. Thus, Jews became more adept at this practice than anyone else. The word 'bank' derives from the Italian *banci*, which denotes benches on which Jews who offered loans used to sit in medieval Italy [Wielechowski, 2016, p. 57].

Inadequate coverage of public expenditures from public revenues is one of the reasons for the demand for loan money on the part of public authorities. In the Public Finance Act, the issue of the borrowing needs of the state budget plays an important role. These needs are not generally defined, however. The Act specifies the amount of financial resources demanded by the state budget, and namely: the financial resources necessary to finance the state budget deficit, the budget of the European funds, and the outlays of the state budget. The long-standing practice of financing the state budget by the National Bank of Poland is no longer applicable. The Constitution of the Republic of Poland states that the Budget Act cannot provide covering for the budget deficit by incurring liabilities in the central bank of a state [Famulska, 2012, p. 44]. Table 2 illustrates the value of public debt in Poland in years 2006-2016.

TABLE 2

## Public debt in Poland in 2006-2016

Year	Public debt in billions of zlotys
2006	506.3
2007	527.4
2008	597.8
2009	669.9
2010	747.9
2011	815.3
2012	840.5
2013	882.30
2014	826.8
2015	877.3
2016	965.2

Source: own study based on the Ministry of Finance website [www.mf.gov.pl].

### 5. Public debt and budget expenditures in Poland in 2006-2016

This chapter contains a description of the study conducted in order to analyse the research question. Firstly, the dynamics of budget expenditures and public debt in Poland in the years 2006-2016 were examined. Tables 3 and 4 show the results of this analysis. The dynamics were calculated in relation to the preceding years.

**TABLE 3**  
**Dynamics of budget expenditures in Poland in 2006-2016**

Year	Budget expenditures in thousands of zlotys	Dynamics of budget expenditures
2006	222702946	0
2007	252323889	1.13
2008	277893478	1.10
2009	298028478	1.07
2010	294893878	0.99
2011	313344394	1.06
2012	318001861	1.01
2013	327294440	1.03
2014	312519527	0.95
2015	336680000	1.08
2016	368548526	1.09

Source: own study based on the Ministry of Finance website [www.mf.gov.pl].

**TABLE 4**  
**Dynamics of public debt in Poland in 2006-2016**

Year	Public debt in billions of zlotys	Dynamics of public debt
2006	506.3	0
2007	527.4	1.04
2008	597.8	1.13
2009	669.9	1.12
2010	747.9	1.12
2011	815.3	1.09
2012	840.5	1.03
2013	882.30	1.05
2014	826.8	0.94
2015	877.3	1.06
2016	965.2	1.10

Source: own study based on the Ministry of Finance website [www.mf.gov.pl].

A detailed scrutiny of tables 3 and 4 shows that public debt and budget expenditures (in relation to the preceding years) decreased only once – in 2014. In addition,

budget expenditures in 2010 followed a downward trend. However, in all the other years, unfortunately, both public debt and budget spending demonstrated upward trends.

To complete these considerations, the dynamics of budget revenues over the last ten years has also been analyzed. Budget expenditures and public debt cannot be considered without referring to the other side of the budget, i.e. budget revenues. The relevant calculations are presented in table 5. As it can be noticed in the above table, budget revenues also grew steadily. The exceptions are the years 2010 and 2013, when budget revenues decreased.

**TABLE 5**

**Dynamics of budget revenues in Poland in 2006-2016**

Year	Budget revenues in thousands of zlotys	Dynamics of budget revenues
2006	197639812	0
2007	236 367532	1.20
2008	253547261	1.07
2009	274 183500	1.08
2010	250302781	0.91
2011	273144394	1.09
2012	287595114	1.05
2013	279151205	0.97
2014	283542707	1.02
2015	289136706	1.02
2016	314683570	1.09

Source: own study based on the Ministry of Finance website [www.mf.gov.pl].

Finally, the Pearson index was calculated to determine the correlation between public debt and budget expenditures. It amounted to 0.96078, which indicates a very high degree of dependence between an increase in public debt and an increase in budget expenditures. Interestingly, the relationship between budget revenues and public debt is also strong – 0.89689. On the other hand, the coefficient of the relationship between revenues and budget expenditures was found to equal 0.96847. This means that if budget revenues grow, then the expenditures also increase.

## 6. Conclusions

As the above analysis shows, the studied values are mutually dependent. Whenever public spending increases, public debt grows as well. Poland's state budget has functioned in this vicious circle for many years. When budget revenues are insufficient to fully cover the rising expenditures, the state is forced to incur more and more public debt. It is worth noticing that in the last ten years public debt has in-

creased by as much as 90%, whereas expenses have risen only by 65%. Undoubtedly, undue public spending is a major negative factor. To complete the investigations, the last chapter presents an analysis of the dynamics of budget revenues. In the last decade, public revenues have increased only by 59%. Perhaps this is one of the factors that determines the nearly two-fold increase in public debt. The situation is so precarious that in order to continue aspiring to join the Eurozone, Poland should closely monitor its budget revenues and expenditures so as to prevent further debt accumulation. This is undoubtedly a major political task for the current government. It should be noted that not only the new high family benefits, but also the recently increased tax receipts, possible to successful combat against VAT and tax fraud, have an impact on the fiscal situation. However, this is still too little for the state public debt to stop growing at the same pace as before.

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