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PUBLIC FINANCE IN POLAND IN A COVID FOG: A LOOK THROUGH THE LENS OF FISCAL TRANSPARENCY AND ACCOUNTABILITY

Abstract. Goal – The aim of the article is to identify dysfunctional phenomena (implementation of specific mechanisms/solutions and actions taken), generating increased opacity and limit the responsibility/accountability of public finance in Poland, exacerbated by the COVID-19 crisis.
Methods – descriptive analysis, comparative analysis and financial analysis methods were used.
Results – fiscal transparency and accountability in Poland is limited by: the marginalisation of the role of the state budget, the loosening of the stabilising expenditure rule, the creation of financial mechanisms based on special funds fed by repayable financing sources for the implementation of state tasks, inter alia, in the fight against the effects of the COVID-19 crisis, the use of national and EU methodologies for calculating the deficit and debt of the public sector in order to conceal part of them, the lack of a consolidated financial statement of the public finance sector.

Keywords: pubic finance, fiscal transparency, fiscal accountability.

1. Introduction

Transparency is a mandatory element of the functioning of a democratic state and one of the conditions for state financial stability. Crises (economic, social, political) highlight the need for government institutions to demonstrate financial stability and for more transparent reporting of fiscal data. Information about the country's financial situation should be provided to the public in a reliable, transparent, verifiable and possibly auditable manner. The aim of the article is to identify dysfunctional phenomena generating increased opacity and reduced accountability in public finance in Poland, exacerbated by the COVID-19 crisis. Descriptive analysis, comparative analysis and financial analysis methods were used.

The COVID-19 crisis led to an increase in state interventionism in the economy, necessitating a special role for unconventional state financial policy, primarily fiscal policy. The introduction of lockdown in socio-economic life requires financial assistance from the state through the use of various forms of state aid. The problem, however, is that the scope of the so-called fiscal space within which fiscal authorities can generate funds for public assistance to the private sector varies. Hence, many countries have had to turn to repayable sources of financing, namely the issuance of government debt securities (primarily bonds), in which central banks have been involved in order to maintain liquidity of these securities in the market. On the other hand, however, fiscal policy rules apply, including the need to keep public sector deficits and debt at a certain level. This situation has forced fiscal authorities in many countries, including Poland, to look for solutions to increase public debt in order to meet the rapidly growing borrowing needs of central budget in particular. This state of affairs should not be an excuse for increased opacity of public finance, but on the contrary, it should encourage fiscal authorities to show the public a reliable picture of the fiscal situation in the country, together with forecasts prepared with various options for improving the fiscal situation in the medium and long term. It is important to inform the public on what the public funds raised from repayable sources of financing have been spent, what is the efficiency and effectiveness of spending of these funds, from where the fiscal authorities will derive funds for timely debt servicing. It is therefore important to have fiscal transparency of the entire public sector (and not just the state budget) regarding the public funds collected and distributed and the resulting deficit and debt.

2. The importance of fiscal transparency and accountability

Fiscal transparency is defined as openness to the public about the functions of government, the type of fiscal policy, public sector accounts and their projections. Non-transparent fiscal practices tend to create a number of allocative distortions in public finance [Koptis & Craig, p. 1].

Fiscal transparency is supported by effective fiscal rules, independent fiscal institutions, a medium-term budgetary framework, which is the basis for effective and efficient fiscal risk management. Fiscal rules are permanent constraints on fiscal policy, set out in legislation, and are intended to strengthen the discipline of public finance and limit the freedom of politicians in fiscal policy-making. They are an instrument of so-

cial and market control over public spending [Kopits, Symansky, 1998, p. 3]. Fiscal rules are also understood as rules of budgetary procedure for the preparation, enactment and execution of the state budget, or for influencing the level of public revenues and expenditures, the public deficit and debt – numerical fiscal rules [Alesina, Perotti, 1996, p. 3]. Poorly designed fiscal rules can cause procyclicality. Therefore, independent fiscal councils are set up to maintain the credibility and sustainability of fiscal policy without undermining its support for the stabilisation of the economy. These councils play an important role in enhancing fiscal discipline, mainly by countering excessive deficits in good times, which contributes to increasing the fiscal space for countercyclical fiscal policy during recessions [Alesina, Tabellini, 2005, p. 3]. The rationale for an independent fiscal council is also a problem of information asymmetry between the government and the public/electorate [Beetsma, Debrun, Fang, Kim, Lledo, Mbaye, Zhang, 2018, p. 3]. This may be due to fiscal illusion, i.e. insufficient understanding of the government's intertemporal fiscal constraints [Buchanan, 1967, p. 125], and time inconsistency, when the government burdens its successors with large debts, leaving less fiscal space in the future [Hagemann, 2011, p. 76].

Fiscal accountability is the responsibility of a government to justify that its actions in the current period were consistent with public decisions to raise and spend public funds in the short term [OECD 2002, p. 7].

Fiscal responsibility is closely linked to control. An important role in this respect must also be played by social control, complementing the functioning of control and law enforcement bodies, exercised directly by citizens and their organisations and the mass media. The exercise of social control over public finance undoubtedly depends on the quality of fiscal information provided to the public, especially concerning the central level. It is worth noting that Sustainable Development Goal 16 [ONZ, 2015, pp. 29–30] recommends, among others, developing effective, accountable and transparent institutions at all levels; ensuring flexible, inclusive, participatory and representative decision-making at all levels; ensuring public access to information. The government can improve data collection and create a centralised forum (platform) where all fiscal data is collected. In developing the content of budget documents, it can follow international standards and create citizen budgets that include a description of recent economic and fiscal performance and prospects, as well as a description of the implications of the budget for the citizen. Transparency can also be promoted indirectly, by providing protection for whistleblowers who make public information about mismanagement of public funds [Kuosmanen, 2016, p. 14].

Citizens have a right to transparent, participatory and accountable fiscal policy. With a view to strengthening the relationship between people's rights and fiscal policy, seven Latin American civil society organisations, together with a group of Latin American experts, developed the Principles of Human Rights in Fiscal Policy (adopted in May 2021). The Principles contain 15 standards guiding different aspects of fiscal policy and serve two purposes: to provide guidance for decision-makers who seek to align fiscal policy with human rights in their sphere of action, and to provide tools to help promote accountability of judicial and quasi-judicial actors, international institutions and civil society. The Principles call on the State to: strengthen its fiscal culture, provide and ensure access to good quality fiscal information, disaggregate information in a way that allows analysis of the impact of fiscal policies on different individuals or groups, limit access to fiscal information only in very exceptional cases and under strict limitations, make sure that fiscal policy decision-making processes are open to informed public debate; assessing the impact of fiscal policy on human rights [Mamberti, Minatta 2022, pp. 304–305].

The Constitution of the Republic of Poland guarantees the right to obtain information on the activities of public authorities and persons performing public functions, as well as information on the activities of other authorities, persons and entities to the extent to which they perform the tasks of public authority and manage communal property or property of the State Treasury. On the other hand, in the Act on public finance we can find regulations concerning openness and transparency of public finance. Operationalisation of the principle of openness takes place primarily through: openness of budget debates and deliberations of the Sejm on the report on execution of the state budget, making public key information on public finance, making available a list of entities from outside the public finance sector (the PFS) to which a grant was made from public funds or a list of entities to which tax arrears, interest on arrears or prolongation fees were written off, together with an indication of the amount written off and the reasons for such write-off [Małecka-Ziembińska, 2021, p. 14].

In Poland, responsibility for public finance is equated with responsibility for the breach of legal regulations contained in the Act on Responsibility for Breach of Public Finance Discipline. The term responsibility and accountability of public authorities for fiscal decisions is practically non-functional. Low social participation in the process of formulating and implementing fiscal policy is not conducive to this either.

For the discipline of public finance, the formal introduction of an epidemic state (epidemic threat) is important, as it results in a modification of

the rules of conduct compared to those that were in place before. The formal introduction of the state of epidemics (epidemic threat) is important for the discipline of public finance, as it results in a modification of the rules of conduct compared to those that were previously in force. A number of changes that are important from the point of view of public finance discipline, which are important in the practice of control bodies, include in particular: provisions depenalising acts that would otherwise constitute an infringement of public finance discipline, provisions that exclude the obligation to apply procedures the non-application or incorrect application of which constitutes an infringement of public finance discipline (this primarily concerns regulations that exclude the application of the public procurement procedure to contracts awarded in connection with an epidemic or in general during an epidemic), provisions that introduce specific solutions related to pursuing liability for a breach of public finance discipline with respect to activities undertaken in connection with combating the effects of an epidemic [Robaczyński, 2021, pp. 706–707].

In a pandemic situation, a key role is played by fiscal support targeted at businesses and households that have been most affected by the crisis. Doubts may relate to: the size of fiscal packages, the legitimacy of the implementation of specific instruments, the implementation of a fiscal policy that is transparent and responsible and coordinated with other actions of those in power, while maintaining the principle of security and balance in public finance in the medium term [Wildowicz-Szumarska, 2021, p. 125].

3. Dysfunctional phenomena generating increased opacity and limit the responsibility (accountability) of public finance

The main thrust of the own research carried out is the phenomena generating problems of transparency and accountability of public finance in Poland, intensifying from 2020. These include: marginalisation of the role of the state budget primarily (pushing public expenditures to various types of extra-budgetary funds, or funds operating outside the public finance sector); loosening the stabilising expenditure rule; creation of financial mechanisms based on special funds fed by repayable sources of financing for the implementation of the state's tasks, inter alia, in combating the effects of the COVID-19 crisis; use of national and EU methodologies for calculating public sector deficit and debt to conceal parts of them; the lack of consolidated financial statements for the public finance sector.

3.1. Marginalisation of the role of the state budget

The state budget in Poland is a public fund transferring a significant part of public funds to local government units, state special purpose funds, executive agencies. In 2014–2019, public revenues included in the Budget Act accounted for more than 73% of total sector revenues (except in 2020 – 75%) and public expenditures for 57–61% of total sector expenditures, with state budget revenues in 2014–2020 accounting for more than 41–44% of total sector revenues and state budget expenditures for more than 18–22% of total sector expenditures (Table 1).

Table 1

Public revenue and expenditure included in the Budget Act against the background of total public revenue and expenditure after consolidation in 2014–2020 in %

Specification	Share of PFS's revenue included in the Budget Act to total PFS's revenue	Share of state budget revenue in total PFS's revenue	Share of PFS's expenditure included in the Budget Act to total PFS's expenditure	Share of state budget expenditure in total PFS's expenditure
2014	73.1	41.4	61.1	21.3
2015	73.0	41.5	61.0	21.0
2016	72.6	44.4	57.5	21.6
2017	73.7	44.6	59.0	22.4
2018	73.1	43.6	58.0	20.4
2019	73.3	42.8	57.1	18.6
2020	75.1	40.4	60.4	20.0

Source: own compilation based on Najwyższa Izba Kontroli, Analiza wykonania budżetu państwa i założeń polityki pieniężnej, https://www.nik.gov.pl/kontrole/analiza-budzetu-panstwa.

In practice, the state budget is given more importance than its share of public revenues and expenditures implies. The debate on the state of public finance is dominated by the discussion of the Budget Law and, to a lesser extent, the execution of the state budget and the assessment of the state budget execution [Jastrzębska, 2020, p. 7]. The transfer of public revenues and expenditures from the state budget to extra-budgetary funds and government agencies does not promote transparency and accountability of public finance. The Budget Law does not cover many financial operations related to the implementation of state tasks, which have an impact on the growth of the State Treasury debt. The growing importance of pub-

lic finance sector entities outside the state budget means that the main source of public finance imbalances in Poland is not the state budget, but the other entities of the sector (in 2019–2022, about 40–70% of the sector deficit arises outside the state budget). This also has an impact on the level of debt servicing costs, which are lower in the case of financing the state budget deficit than in the case of other entities of the public finance sector [Krajewski, 2020, pp. 13–14].

In the period 2020–2022, a variety of solutions are used which, although legal, distort the transparency and annuality of state budget implementation. These include the financing of important tasks bypassing the state budget or the use of operations that allow state budget expenditure to be shown in periods other than those actually incurred (non-expiring expenditure). The use of the mechanism of non-expiring expenditure makes 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. This solution should be incidental as it is a derogation from the annuality of the budget, but it is being abused in 2020–2022. Unexpired expenditure is largely used to finance tasks that do not start until the following year. In many cases, these tasks are introduced into the plan at the end of the year. In addition, the deadline for implementing these expenditures is extended (to the end of November of the following year). Execution of expenditures in a different year than the one in which they were planned distorts not only the level of expenditures and the deficit of the state budget, but also limits the comparability of data in subsequent years and makes it difficult to analyse the effectiveness and regularity of the incurred expenditures [NIK Debate, 2021].

The International Budget Partnership (IBP) has been conducting research on central budget transparency since 2006 in a number of countries around the world. It assesses the level of transparency of this budget through the Open Budget Index (OBI), which is based on an assessment of the amount and type of information contained in key central budget documents. Poland's level of state budget transparency was assessed by the IBP seven times, three times as significant (OBI above 60 points out of a possible 100) and four times as limited (OBI below 60 points). It is worth noting that in successive surveys, Poland's position in the ranking of the level of transparency of the state budget has systematically decreased as the number of countries surveyed has increased ((In 2008, 10th place; in 2019, 32nd place; in 2021. 39th place – 60 points; in 2021. 60 points were achieved by four other countries, with the order being alphabetical – Table 2). Among the areas of state budget transparency in Poland, the highest score was given to the strength of supervisory institutions (the activities of the Supreme

Chamber of Control – NIK), and the lowest score was given to public participation in the budget process, particularly in the process of preparing the draft budget law. It was emphasised that the information contained in the state budget documents is incomprehensible to a citizen without specialised knowledge of public finance. It was also pointed out that there is a lack of mechanisms for identifying budget priorities in line with the public's point of view. The principle of openness of the budget is implemented through media broadcasts of parliamentary sittings on the budget debate, public access to the transcripts of these sittings (on the website of the Sejm and the Senate of the Republic of Poland). The public has the opportunity to participate in the formulation of audit plans of the Supreme Chamber of Control (SCC), but there is no information on how complaints were taken into account in the audits carried out [Jastrzębska, 2021, p. 121].

Table 2

Level of transparency, oversight and participation in the creation of the state budget – Poland's position in the ranking of assessed countries during the period under review

Year	The country with the highest level of OBI*	The level of OBI* for Poland	Poland's position in the ranking of fiscal transparency of surveyed countries according to the level of OBI*
2008	Great Britain 88	67	10th out of 77 countries surveyed
2010	South Africa 92	64	16th out of 91 countries surveyed
2012	New Zealand 93	59	25th out of 98 countries surveyed
2015	New Zealand 88	64	22th out of 101 countries surveyed
2017	New Zealand 89	59	30th out of 112 countries surveyed
2019	New Zealand 87	60	32th out of 117countries surveyed
2021	Georgia 87	60	39th out of 120 countries surveyed

* OBI indicator level 81–100 points – high level, 61–80 points – considerable level, 41–60 points – limited level, 21–40 points – minimum level, 0–20 points – poor level

Source: own compilation based on IBP data, http://survey.internationalbudget.org/#rankings.

3.2. Loosening the stabilising expenditure rule

The stabilising expenditure rule (the SER) has been in place in Poland since 2014, but it has never covered the expenditure of all SFP units. For example, excluded from its application are the expenditures of: public universities, independent public healthcare institutions, state and local government cultural institutions, state and local government legal persons, the Solidar-

ity Fund, the Polish Development Fund (PDF), the National Fund for Environmental Protection and Water Management, funds created, entrusted or transferred to Bank Gospodarstwa Krajowego (BGK).

The so-called general escape clause of the Stability and Growth Pact was triggered in 2020, with a possible extension in 2023 [European Commission, 2022a]. This clause stipulates that in periods of significant economic downturn in the euro area or in the EU as a whole, Member States may be allowed to temporarily deviate from the adjustment path towards the medium-term budgetary objective. For Poland, this implies the possibility to temporarily deviate from or modify the MTO in order to pursue a fiscal policy appropriate to the economic situation. In 2020, the rule was suspended, and in 2021 it was assumed to return in 2023 in the formula used before the pandemic. Accordingly, the amount of expenditure for 2021 has been increased by two-thirds of the sum of the financial impact on the revenue and expenditure side resulting from discretionary measures directly directed at containing and combating the effects of the epidemic state in 2020 and directly supporting those affected. This is particularly the case with the definition of measures to combat the effects of epidemics. It is formulated in such a general way that most expenditure during an epidemic can be justified in this way. This renders the rules adopted in shaping the framework for public expenditure illegible and may be based on a high degree of discretion. It should also be emphasised that, according to the changes to the SER made in 2021, it does not apply to the expenditure of the COVID-19 Fund, nor did it previously apply to the financing of the epidemic shield through the PDF [Ostrowski 2022, pp. 159–160, Ostrowski, 2021, pp. 107–108]. In 2022, another modification of the SER was introduced and it was established that, when calculating the value of budget expenditures, the inflation target indicator is to be replaced by the projected annual average consumer price index, and inflation forecasts are to be subsequently adjusted by the actual CPI readings. This change concerns the planned expenditure of the state budget for 2023. The government is working on changes to the SRW to exclude the expenditure of state special purpose funds [Sobczak, Ojczyk, Koslicki, 2022]. The government's efforts to exclude more types of expenditure from the SRW are still ongoing and will certainly continue. In summary, the rule is no longer an effective instrument to control the level of public spending, as the fiscal space is increased year by year through discretionary changes to its design.

It is also worth noting that the transfer of revenue bonds to SFP units to finance their tasks results in the related transactions not being recognised as a grant in the state budget, i.e. as a budget expenditure. Such

an operation underestimates the outcome of the state budget and allows the SRW to be bypassed. Bonds instead of subsidies are received by, among others, universities, Polska Żegluga Bałtycka, Telewizja Polska, Polskie Radio, Centralny Port Komunikacyjny, mines. These entities have to set up brokerage accounts to handle the bonds and incur additional costs for doing so. These bonds are then sold and the funds from this sale are spent on the statutory purposes of these entities (disintegration of the state budget deficit and the state treasury debt). In addition, such behaviour generates additional costs of public debt management, as the Ministry of Finance has to spread the issuance of treasury bonds so as not to disrupt the market, as these entities almost immediately dispose of these bonds [Dudek, Kotecki, Kurtek, 2022, pp. 27–29].

3.3. Creation of financial mechanisms based on special funds fed by repayable sources of financing for the implementation of the state's tasks, inter alia, in combating the effects of the COVID-19 crisis

The search for extra-budgetary sources for the implementation of expenditures to combat the pandemic is due to the fact that more than three quarters of the state budget expenditures are rigid expenditures (current expenditure, including social expenditure). In 2020, as part of the fight against the COVID-19 crisis, financial mechanisms have been constructed based on the Polish Development Fund, which is a State Treasury company, and the COVID-19 Counteracting Fund, which functions in BGK. Both of these entities are not classified as public sector according to the national methodology, but according to the EU methodology they are. These entities, while implementing government programmes, make expenditures for their implementation outside the state budget and the SER. They finance these expenditures with funds derived primarily from the sale of bonds into which they may be injected. They also have the right to issue bonds guaranteed by the State Treasury, which means that if, at the time of bond redemption, they do not have the funds to finance it, the Minister of Finance is obliged to provide funds for their redemption. The resulting debt is not counted as public debt in national terms, but in EU terms it is. In 2014–2019, the amount of sureties and guarantees issued was relatively low compared to 2020 and 2021, ranging from over PLN 5 billion in 2017 to over PLN 16 billion in 2016. In contrast, it amounted to more than PLN 193 billion in 2020 and more than PLN 63 billion in 2021 (Table 3). In both 2020 and 2021, sureties and guarantees provided for BGK's liabilities arising from bonds issued for the COVID-19 Fund predominated.

Table 3

Guarantees and warranties granted by the Treasury between 2014 and 2021

Wyszczególnienie	2014	2015	2016	2017	2018	2019	2020	2021
Guarantees issued by the Treasury in PLN billion	10,9	8,5	16,5	5,7	11,6	6,9	193,2	63,6
– of which for BGK's liabilities arising from bonds issued for BGK – COVID-19 Counteracting Fund in PLN billion	–	–	–	–	–	–	116,9	50,8
– of which for PDF liabilities arising from bonds issued for government programmes in PLN billion	–	–	–	–	–	–	71,2	10,0
Potential unmatured liabilities of the SP under sureties and guarantees granted in PLN billion	110,8	113,2	124,5	116,9	108,8	111,4	302,9	356,3
– of which for BGK's liabilities arising from bonds issued for BGK – COVID-19 Counteracting Fund in PLN billion	–	–	–	–	–	–	116,9	162,6
– of which for PDF liabilities arising from bonds issued for government programmes in PLN billion	–	–	–	–	–	–	70,5	79,3
– of which for BGK support of Road Fund in PLN billion	–	–	–	–	–	–	84,6	84,5
Potential liabilities under sureties and guarantees issued by the State Treasury to GDP in %	5,6	6,3	6,7	5,9	5,1	4,9	13,1	13,7

Source: own compilation based on Informacja o poręczeniach i gwarancjach udzielonych przez Skarb Państwa, niektóre osoby prawne oraz Bank Gospodarstwa Krajowego, https://www.gov.pl/web/finanse/informacje-roczne-poreczenia-i-gwarancje.

As a result, the amount of sureties and guarantees issued more than tripled between 2020 and 2021, thereby increasing the amount of potential debt counted as public debt under the EU methodology (Table 3).

The National Bank of Poland (NBP) conducted operations to purchase treasury securities and debt securities guaranteed by the State Treasury issued by BGK and the PDF in the secondary market as part of structural open market operations in 2020–2021. Initially, the NBP purchased bonds on the secondary market in transactions made primarily with state-owned banks and preceded by transactions between these banks and the Ministry of Finance. In this way, the NBP enabled the government to sig-

nificantly increase the issuance of government bonds needed to finance the crisis shield programme. Thus, in 2020, there was a shift in Poland from conventional monetary policy to unconventional monetary policy, consisting of a reduction in interest rates to almost zero and significant money creation by the NBP. The scale and nature of the NBP's purchases of financial assets and the transparency of its operations, especially in its relationship with the government, are very important. The NBP's currency interventions, resulting in the depreciation of the zloty (especially at the end of 2020), whose measurable effect was an increase in the NBP's profit, with 95% of this profit being transferred to the state budget in the form of a payment from the NBP's profit (increasing state budget revenues), were controversial. Unfortunately, the side effects of the NBP's monetary policy in the form of very high inflation and an increase in government bond yields are negative. There is a strong likelihood of a return to government bond buying by the NBP due to the ever-increasing borrowing needs of the central level.

The conscious creation of alternative funds, outside the control of the minister of finance and parliament, from which public expenditure can be financed requires that these funds are transparent. That is, information should be publicly available on where they get their money from to carry out their tasks, to which entities financial assistance has been provided and to what extent. External audit institutions should play an important role in assessing their performance.

The COVID-19 Anti-Pandemic Fund was set up to finance a wide range of anti-pandemic tasks. Over time, however, the fund began to be used to finance expenditure for other purposes, e.g. for the implementation of the "Polish Deal" programme, for anti-inflation shields, for the fight against pollution of the Oder River. In its original conception, the COVID-19 Counteracting Fund was established as a state special purpose fund, with the President of the Council of Ministers designated as its administrator. He could authorise the disposition of the Fund by the disposer of a budgetary part or by the minister in charge of a specific department of government administration, at the same time specifying the scope of this authorisation. Banking services for the Fund were to be provided by BGK, in accordance with principles laid down in an agreement with the Fund's administrator. The Fund's revenues were defined, which were classified as public resources in the light of the Public Finance Act. The Fund's resources were to be used for very broadly, yet generally formulated activities, i.e. financing or subsidising the implementation of tasks related to the prevention of COVID-19, as well as for the payment of remuneration to BGK for providing banking

services. However, as of mid-April 2020. The COVID-19 Countermeasure Fund is not a sovereign special purpose fund and is established at BGK, resulting in its exclusion from the PFS. The Prime Minister has a priority role in influencing its operation. The Prime Minister has a priority role in influencing its operation. The question arises as to the extent of control over the financial management of this fund. The funds for the COVID-19 Fund, later earmarked for the implementation of public tasks, are raised by the BGK, which is an entity outside the PFS. The majority of these funds come from BGK's issuance of bonds guaranteed by the State Treasury. The Fund's liabilities are not included in public debt under the national methodology, but under the EU methodology they are. The change of the Fund's formula makes it possible to bypass the constitutional threshold of public debt, while its financial management does not meet the standards of openness of public finances. The financial plan of the Fund is not available to the public (it is not included in the Budget Act, it is not in the documents published by BGK, the Prime Minister's Office). Moreover, the scope of allocation of funds, their level and proportions of use are not fully publicised. In the Analysis of the Implementation of the State Budget and Monetary Policy Assumptions prepared by the Supreme Audit Office, one can find several pages of description of the implementation of the Fund's financial plan [B. Kucia-Guściora, 2020, pp. 45–47].

Many countries have created extra-budgetary funds to mitigate the effects of the COVID-19 crisis, which can fragment fiscal policy formulation and implementation and make it difficult to understand government budget operations. Typically, extra-budgetary funds do not increase budget deficits and are not subject to the same scrutiny as budgetary funds. In addition, the liabilities they create are often not immediately visible, but are either time-delayed or contingent. The existence of these funds, with independent bodies spending their funds, can undermine accountability and control, creating serious risks to the health of public finances, increasing vulnerability to corruption. Weak legal frameworks, unclear governance arrangements, and a lack of predetermined reporting arrangements can limit transparency and accountability, especially when governments are rapidly increasing public spending. Governments should disclose the existence of COVID-19 funds on their websites and describe their key features, e.g. the legally defined rules and objectives of their operation, the sources of their revenue, the directions and types, and the effectiveness and efficiency of the expenditures made. The costs and fiscal risks of operating these funds should be transparently assessed and disclosed, and instruments to manage these risks should be put in place to ensure transparency, accountability and good governance.

The IMF's fiscal transparency analyses show that CESEE countries face particular challenges in fiscal transparency, particularly in analysing and managing fiscal risks. In order to increase fiscal transparency, these countries need even more than before the COVID-19 crisis to reform their public finance system and new fiscal risk management instruments. Current fiscal risk management instruments tend to rely on routine, direct controls, which unfortunately are not effective in the medium to long term [Rahim, Allen, Barroy, Gores, Kutzin, 2020, p. 1–2].

Governments have failed to manage the fiscal policy response to the COVID-19 crisis in a transparent and accountable manner. More than two-thirds of the governments assessed, in many regions of the world and at different income levels, provided only a limited or minimal level of accountability in implementing their early fiscal policy responses. Poland was not included in these groups, but was included in the group of countries that provided some of the information in question (among the other 28 countries, with only 4 countries included in the group of countries that provided information to the appropriate extent). Governments were taking a number of fiscal initiatives under time pressure, while limiting the role of legislatures and relaxing the procurement procedure. There was also a lack of adequate information on the amount of money spent on pandemic mitigation and its actual impact on the most disadvantaged and vulnerable groups in society. Governments also failed to use appropriate measures, such as full reporting or timely auditing, to strengthen accountability. Public participation, especially of those most affected by the crisis, was overlooked in the decision-making process, undermining the effectiveness of the anti-crisis programmes implemented. It has been noted that countries with stronger accountability systems in normal times tend to have stronger accountability also in times of crisis [International Budget Partnership, 2021, p. 2].

3.4. Use of national and EU methodologies for calculating public sector deficit and debt to conceal parts of them

The terminology used for public finance is very important for fiscal transparency. First and foremost, attention should be paid to differences in the level of outturn and debt of the public finance sector (national approach) and the general government sector (EU approach) due to differences between budget and financial reporting, national accounts (ESA 2010) and the personal scope of the public sector. Depending on the application of the national or EU methodology, the assessment of the state of public finances differs, with no explanation of these differences being published (public debt information is an exception).

The lack of a uniform methodology for calculating public debt in a situation of dynamic growth results in a difference not of more than 2–3% (PLN 45–55 billion), as was the case before the COVID-19 crisis, but of more than 9–10% of GDP (PLN 225 billion in 2020 and PLN 262 billion in 2021). There are also significant discrepancies in the level of the public sector result. In 2014, the deficit of the sector in national terms was PLN 23.0 billion lower than in EU terms, in 2017 the difference was PLN 15.4 billion and in 2020. PLN 132.3 billion. It is also worth noting that in 2019 there was a surplus of PLN 1.3 billion in domestic terms and a deficit of PLN 16.8 billion in EU terms (Table 4). In a situation with a high sector deficit, this difference is significant, allowing fiscal authorities to present a more optimistic fiscal position using the national methodology that applies under Polish regulations.

Table 4

Public sector deficit and debt in Poland according to national and EU methodology

Specifics	2014	2015	2016	2017	2018	2019	2020	2021
Deficit								
EU methodology	–62,7	–46,8	–46,1	–29,6	–5,2	–16,9	–161,7	–49,0
National methodology	–39,7	–44,1	–44,5	–14,2	–3,7	1,3	–29,4	–
Difference	–23,0	–2,7	–1,6	–15,4	–1,5	x	132,3	–
Debt								
EU methodology	873,9	923,4	1 010,0	1 007,2	1 035,7	1 045,9	1 336,6	1 410,5
National methodology	826,8	877,3	965,2	961,8	984,3	990,9	1 111,8	1 148,6
Difference	47,1	46,1	44,8	45,4	51,4	55,3	224,8	261,9

Source: own compilation based on data from: Eurostat (2022), the ministry of finance, https://www.gov.pl/web/finanse/zadluzenie-sektora-finansow-publicznych; https://www.gov.pl/web/finanse/informacja-kwartalna-sytuacja-makroekonomiczna

In 2020, as in the case of public debt, the difference is already very large, i.e. PLN 132.3 billion. In 2020, the general government deficit amounted to PLN 161.7 billion, i.e. 6.9% of GDP, and increased by PLN 144.9 billion compared to 2019, while in 2021 it amounted to PLN 49.0 billion, i.e. 1.9% of GDP, and decreased by PLN 112.7 billion compared to 2020. General government debt amounted in 2020 to. PLN 1 336.6 billion and increased by PLN 290.7 billion compared to 2019, while in 2021 it amounted to PLN 1 410.5 billion and increased by PLN 73.9 billion compared to 2020 (Table 4). Between 2014 and 2021, Poland met the fiscal criterion of the

ratio of public debt to GDP in % at a level of no more than 60%. The level of this ratio was lowest in 2019 at 43.2% and in 2020 it was 57.1% of GDP and in 2021. 53,8%. In contrast, the fiscal criterion for the ratio of the public sector deficit to GDP in % was not met in 2014 and in 2020 (Table 5).

Table 5

Public sector deficit and debt in Poland according to national and EU methodology in relation to GDP in % from 2014 to 2021

Specifics	2014	2015	2016	2017	2018	2019	2020	2021
Deficit								
EU methodology	–3,6	–2,6	–2,4	–1,5	–0,2	–0,7	–6,9	–1,9
National methodology	–2,3	–2,5	–2,5	–0,7	0,2	0,1	–0,3	–
Debt								
EU methodology...	51,1	51,3	54,2	50,6	48,8	45,6	57,1	53,8
National methodology	48,3	48,7	51,8	48,3	46,4	43,2	47,5	43,8
Difference	2,8	2,6	2,4	2,3	2,4	2,4	9,6	10,0

Source: own compilation based on Rada Ministrów, Sprawozdania z wykonania budżetu państwa, https://www.gov.pl/web/finanse/sprawozdania-roczne.

The European Commission's projections for Poland show that in 2022–2023 the structural deficit will increase to twice the level it was before the COVID-19 crisis (up to 4% of GDP). The surge in inflation has increased state budget revenues, but has not yet affected expenditure, which is nominally, relatively rigid in the short term. Indexation formulas and political pressure, will cause public spending in Poland to grow much faster than before. As no measures are being taken to consolidate public finances, expenditure by extra-budgetary funds, financed primarily by the sale of treasury securities, will increase. The average cost of debt servicing in Poland is also forecast to rise sharply and will be the second highest in the entire European Union (after Hungary). High debt servicing costs will increase the sector's deficit by an additional 1% of GDP [European Commission, 2022b, pp. 6, 50].

The International Monetary Fund, the World Bank, world leaders (G-7 and G-20 communiqués) emphasise the need to increase debt transparency, as it can play a key role in mitigating the severity of international debt cycles (its rise and fall). Inadequate debt disclosure undermines debt sustainability analyses and creates serious macroeconomic surveillance challenges.

The elimination of the duality as to the level of public sector deficit and debt calculated according to the national and EU methodology would limit the possibility of an increase in debt not included in the debt calculated according to the national methodology. In addition, under the current legal regulations, the Minister of Finance is responsible for information on the level of the public sector deficit and debt under the national methodology, and the Central Statistical Office is responsible for information on the level of the public sector deficit and debt under the EU methodology. Moreover, the media sometimes misreport fiscal data, e.g. the deficit or debt of the sector according to the EU methodology is reported, but the reference is to the PFS and not to the general government sector. It is worth noting that there are no instruments for verifying the completeness of the reported information on the debt of public sector entities. It should be noted that since 2016, information on revenues, expenditures and the result of the PFS has been systematically limited in the report on the execution of the state budget, and there is none in the report for 2021.

3.5. The lack of consolidated financial statements for the public finance sector

The analysis in terms of public finance can be carried out at the level of the state budget, local government budgets, but not all entities of the PFS. It is not possible to fully identify the financial flows between them, as there is no consolidated financial report of the PFS. In such a situation, there should be an obligation to publish the plans and financial statements of all entities in the PFS, which is currently not the case. It should be noted that there has been systematically limited information on revenue, expenditure and the result of the PFS in the state budget execution report since 2016, and none in the 2021 report. Uniform accounting principles and chart of accounts apply to only some of the sector's units, which makes it impossible to compare the management of public funds within the sector. It should also be emphasised that reporting by sectoral units is dominated by budget reporting based on budget classification, which is not transparent to the average citizen. Despite the fact that most of the sectoral units' financial reports are subject to external control (Supreme Chamber of Control, regional chambers of accounts), they do not enable accountability and responsibility of public funds' administrators (limited role of task-based budgeting – the problem of formulating activity objectives and measures to assess the level of their implementation). Moreover, the data contained in the national fiscal reports are not comparable with

Eurostat data. There is a predominant focus on the state budget deficit and Treasury debt, and there is a lack of formulation of clear, measurable fiscal policy objectives in individual areas. The credibility of medium-term planning is low, as it is not fully linked to budgets for subsequent years. In addition, reports on the implementation of key strategies and programmes, especially in the government subsector, are inconsistent with annual budget reports. It should also be stressed that important data in the area of public finance are published in a form that makes them difficult to process or are not published at all. Above all, there is a lack of synthetic budget information (e.g. in the form of a budget for the citizen), or a comprehensive analysis of information on the medium- and long-term effects of publicly financed programmes particularly implemented by the government [Jastrzębska, 2018, p. 4–5].

4. Conclusions

Openness and transparency of publicly available fiscal information allows for proper assessment of the state of public finance. Poland's financial and creditworthiness is not being served by a sharp increase in the opacity of public finance and very limited accountability in public finance management. It is therefore necessary to take action to eliminate or reduce the dysfunctional phenomena discussed in the article in the field of openness and accountability of public finance in Poland, which have intensified especially in recent years.

Efforts to push public expenditure outside the state budget in order to increase the fiscal space for public expenditure growth were undertaken before and during the COVID-19 pandemic, which adversely affected and continues to affect fiscal transparency and accountability. A manifestation of the diminution of the importance of the state budget, as the most important financial plan of the state, is the planning of expenditure of significant value outside it. Operations carried out in the government sub-sector, affecting the change in the amount of the Treasury debt, should be included in the revenues and expenditures of the state budget. This would ensure parliamentary scrutiny, as well as the implementation of the provisions of the Polish Constitution indicating that it is the state budget that is the public financial plan covering state revenues and expenditures, constituting the basis for conducting its financial management.

The preparation of a medium-term budgetary framework in the context of the Convergence Report, with a comprehensive assessment of fiscal risks,

is very important. Respect of the EU and national fiscal frameworks is very important for assessing the credibility of a country. Undermining this credibility leads to a weakening of the Polish currency and to an increase in the yield of Polish treasury securities, which contributes to the cost of servicing public debt and to an increase in its level.

The COVID-19 crisis has exacerbated the problem of lack of clear economic interpretation, or inconsistency of definitions in national terms with those adopted in international statistics of the basic terms of public finance – public sector, public resources, deficit and debt, which negatively affects fiscal transparency and provides opportunities for data manipulation.

The government should prepare an assessment of the state of public finances, determining the impact of financing anti-crisis measures on the level of public debt, its servicing costs and Poland's creditworthiness. This would also allow for a comprehensive clarification of the role of the NBP in financing public expenditures that are not included in the state budget. It is also important to develop a path for debt reduction in relation to GDP in the coming years and sources of funds for its repayment or refinancing. In addition, the government should ensure that the stabilising expenditure rule is strengthened, rather than seeking creative solutions to omit it, which generate public debt.

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