

A parliamentary view of Poland's plans to enhance the role of existing institutions in place of establishing an independent fiscal institution

The issue of fiscal council (FC) in Poland

Arguments for creation the fiscal councils were known in Poland many years ago (since the 1990s)¹, and they were promoted largely by the representatives of international organizations (IMF, World Bank) and a few national experts. It is worth to underline that they were mostly ideas or concepts presented by economists and they focused on the critical evaluation of the negative effects of fiscal policy such as rapid growth of public debt and its negative influence on economic growth. Sometimes the arguments for creating fiscal councils have been put forward in the aspect of the benefits brought by functioning of the independent monetary policy councils.

The recent crisis was the main reason why the European Union adopted a number of regulations very quickly. They were aimed at the reform of public finances, including tightening rules of the Stability and Growth Pact and the Directive on requirements for budgetary frameworks of Member States². According to that directive, a budgetary framework means the set of arrangements, procedures, rules and institutions that underlie the conduct of budgetary policies of general government, in particular: (i) systems of budgetary accounting and statistical reporting; (ii) rules and procedures governing the preparation of forecasts for budgetary planning; (iii) country-specific numerical fiscal rules; (iv) medium-term

¹ See. Wren-Lewis, S., *Avoiding Fiscal Fudge*, *New Economy*, 3, (1996), p. 128-132
Ball L., *A proposal for the Next Macroeconomic Reform*, *Victoria Economic Commentaries*, (1997), p. 1-7, Gruen, N. *Making Fiscal Policy Independent of Government*, http://www.lateraleconomics.com.au/outputs/Independent_Fiscal_Policy.pdf

² See: Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States. <http://eur-lex.europa.eu/Notice.do?mode=dbl&lang=pl&lng1=pl,en&lng2=bg,cs,da,de,el,en,es,et,fi,fr,hu,it,lt,lv,mt,nl,pl,pt,ro,sk,sl,sv,&val=627176:cs>

budgetary frameworks - MTBF; (v) mechanisms that regulate fiscal relationships between public authorities across sub-sectors of general government³.

This directive also indicated that: *“Strong numerical fiscal rules should be equipped with well-specified target definitions together with mechanisms for effective and timely monitoring. Those rules should be based on reliable and independent analysis carried out by independent bodies or bodies endowed with functional autonomy vis-à-vis the fiscal authorities of the Member States”*.

It is worth noting that the European Commission and the Council have recommended some Member States to invoke such institutions and comply with regulations related to the adopted reforms. For example, according to the instructions given to Spain (during the second European Semester) Council requested the authorities of that country to establish an independent fiscal institution to provide analyses, advice and monitor fiscal policy, to maintain the binding nature of Spain's medium-term fiscal framework, and also closely monitor compliance throughout the year budgetary objectives at all levels of government⁴. Although such recommendations were not addressed to Poland in official statement⁵, they were still present⁶.

As practice shows, institutions established for activities in the field of fiscal policy (existing or planned) can be divided into three groups according to the nature of their powers, which can be described as very soft, soft and hard⁷. "Very soft" character of such institution lies in the fact that the solutions which apply during the budget

³ For each headline, the Directive specifies a number of essential standards. Member States have to transpose these into their law by 31 December 2013. In July 2011 added impetus was given by the political commitment of the Heads of State and Government of the euro-area Member States to transpose the Directive by the end of 2012. Finally, the adoption of the intergovernmental Treaty on Stability, Coordination and Governance (TSCG) provided a follow-up to the Directive. 25 Member States committed to establishing a domestic budget-balance rule in structural terms. See: *Interim Progress Report on the implementation of Council Directive 2011/85/EU on requirements for budgetary frameworks of the Member States*, Occasional Papers 128, European Commission Directorate-General for Economic and Financial Affairs, February 2013.

⁴ See COM(2012)397 final, p. 6.

⁵ <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2011:217:0005:0008:EN:PDF>
<http://register.consilium.europa.eu/pdf/en/12/st11/st11267.en12.pdf>

⁶ See: *Fiscal frameworks across Member States: Commission services country fiches from the 2011 EPC peer review*, Occasional Papers of European Commission Directorate-General for Economic and Financial Affairs, 2012.

http://ec.europa.eu/economy_finance/publications/occasional_paper/2012/pdf/ocp91_en.pdf p. 51.

In this publication, the authors pointed out, that: *“Some countries suffered until recently from weak frameworks, including a lack of any independent fiscal institution supporting the preparation, execution and assessment of annual budgets, as well as scarce numerical fiscal rules (often limited in scope) and poor medium-term planning”*, p. 6.

⁷ See: X. Debrun, D. Hauner, M.S. Kumar, *Independent fiscal agencies*, „Journal of Economic Surveys”, Volume 23, 2008 and G. Gołębiowski, *Rada polityki fiskalnej*, Infos BAS No. 9(79) 2010.
http://orka.sejm.gov.pl/wydbas.nsf/0/DB639B355CB34C48C12577150029468A/%24File/infos_79.pdf

process are based on the expert opinions as optional. Examples of such solutions can be found in Germany – the German Academic Council of Experts, Japan - the Fiscal System Council, Korea - Korea's National Assembly Budget Office and in Poland, to a certain extent – the Research Bureau of the Sejm⁸ - BAS). In the second solution of fiscal policy “soft” council is an advisory and prognostic body that issues opinions. It provides of many macroeconomic variables as well as independent advice on the formation of fiscal policy in the country, representing a point of reference for the government. Such institutions exist in Belgium (the High Council of Finance), Denmark (Danish Economic Council), the Netherlands (Netherlands Bureau for Economic Policy Analysis), or relatively recently in Sweden (established in August 2007, The Swedish Fiscal Policy Council). In the third solution (“hard” institutions) the council shall set annually budget balance level and / or the expected level of public debt. It is assumed to be a goal that shall be met by the government in the budget process. The boundary between the criterion of “soft” and “very soft” is quite fluid. Some take the division into two groups such institutions, those which set annual targets for the budget balance and public debt level or specify fiscal rules and those whose task is to influence the design of fiscal policy by independent analysis, forecasts, and advice.

Recommendation of the European institutions⁹ on the establishment of fiscal policy council or other independent institution from the budgetary authority is in practice implemented in different ways by the Member States. This is due to the fact that the functions to be fulfilled by these institutions should be consistent with the existing legal and organizational system of the state. It should be noted that although there is a trend of appointing fiscal councils, still there are many countries which have not created such institutions so far, especially the “hard” ones (e.g. Cyprus, Finland, Bulgaria, Czech Republic, Germany), and instead of that they use hitherto a wider range of institutions or strengthen the existing ones (for example, State Audit Institutions – SAI and research institutions). This applies for example to Germany, which is using the support of institutions established in the 1950s, and in Austria, which uses independent institutions established in different years of the last century – see: Table 1.

⁸ The Polish Parliament lower chamber.

⁹ The Council and the European Commission.

In Poland, the bill on the Fiscal Council was submitted to the Sejm in 2012 (the Sejm paper no. 611) by the Democratic Left Alliance, ie, one of the opposition parties. It was probably in response to the EU expectations. The Sejm, however, rejected this bill during the first reading (12 September 2012), because the creation of such body in Poland might trigger off serious constitutional and other concerns. These doubts were reported and shared by the BAS and the Legislative Bureau of the Chancellery of the Sejm and by the Sejm Legislative Committee, which considered the project as legally unacceptable. Many critical elements appeared in opinion of the National Bank of Poland (NBP), as well as, in the opinion expressed by the representative of the government. See: table 2 which presents excerpt from the bill on Fiscal Council (Paper no. 611) and table 3 which presents some arguments for the rejection of the bill on Fiscal Council.

In one of the three written opinions submitted to this bill by the parliamentary Research Bureau¹⁰ the conclusion was expressed that *"It seems pointless setting up a new body in the Polish legal system and in the current state budget situation. It is worth to consider the possibility of strengthening (transformation) of existing institutions that could carry out the tasks set for the fiscal councils"*.

TABLE 2. Draft on Fiscal Council (Paper no. 611) excerpt

<p>(...)</p> <p>Article 2 The Fiscal Council shall consist of three members appointed by the Sejm by a simple majority of votes in the presence of at least half of the statutory number of MPs, one at the request of the Polish President, the President of the National Bank of Poland and the President of the Polish Academy of Sciences, among persons distinguished by their knowledge and experience in the system of public finance.</p> <p>(...)</p> <p>Article 6 The term of office of members of the Council lasts 6 years from the date of appointment of the last member. Composition of the 1/3 of Council changes every 2 years.</p> <p>(...)</p> <p>Article 7. 1. Council supervises the national public debt and method of its calculation, including the observance of the discipline of public finances and the projected long-term expenditures.</p> <p>2. The tasks of the Council are in particular:</p> <p>1) to analyze borrowings and financial guarantees for public sector entities within the meaning of the Act of 27 August 2009, the Public Finance Act (Journal of Laws No. 157, item. 1240, as amended), following the which the public debt may exceeds by 3/5 of the annual gross domestic product;</p> <p>2) to inform the Council of Ministers, the Sejm and the Senate about the possibility of exceeding the value referred to in point. 1;</p> <p>3) to approve, at the request of the minister responsible for public finances, the methodology for calculating public debt;</p> <p>4) to inform the Sejm about the need to bring the Prime Minister or a member of the Council of Ministers on trial before the Tribunal of State for violation of Article 216 Paragraph 5 of the Constitution¹¹;</p>

¹⁰ See: opinion No. 2208/12 of the BAS.

¹¹ Article 216 par. 5: "It shall be neither permissible to contract loans nor provide guarantees and financial sureties which would engender a national public debt exceeding three-fifths of the value of the annual gross domestic product. The method for calculating the value of the annual gross domestic product and national public debt shall be specified by statute".

<p>5) to inform the Sejm, the Senate and the Council of Ministers on the need for legislative initiatives to prevent exceeding the public debt by 3/5 of the annual gross domestic product;</p> <p>6) to analyze the state budget project in terms of its consistency with the objectives set and macroeconomic forecasts;</p> <p>7) to analyze the state financial policy compliance with the business cycle, taking into account the long-term solvency of the public finance system;</p> <p>8) to analyze the financial policy of compliance with applicable state fiscal rules and the Polish international obligations;</p> <p>9) to analyze the economic and budgetary effects of drafts, particularly those whose financial effect may be to increase spending or reduce revenues of public sector entities in relation to the size of the applicable regulations;</p> <p>10) to inform the Sejm, the Senate, the President of the Polish Republic on the credibility and quality of the public finance system in Poland;</p> <p>11) to inform the Sejm and Senate of the activities undertaken by the Council, in particular the developed analysis;</p> <p>12) to inform the public about the activities undertaken by the Council;</p> <p>13) to promote public debate about the actions taken by the Council;</p> <p>14) to disseminate the studies, analysis and publication of the Council;</p> <p>(...)</p> <p>Article 8 1. In cooperation with the minister responsible for public finances Council controls the units of public finance sector in the field of planned budget expenditures, including the discipline of public finances and the projected long-term costs.</p> <p>2. The Council inspection is aimed at the current and planned expenditures and planned legislative changes that may result in increased costs or reduced revenues of public sector entities in relation to the size of the applicable regulations, or that may affect the excess of the public debt 3/5 of the annual gross domestic product.</p> <p>3. The Council fulfills its responsibilities by:</p> <p>1) free access and navigate through the controlled entity without the requirement to obtain a pass;</p> <p>2) access to documents relating to the audited entity, the collection and preservation for the receipt of documents related to the scope of the inspection, subject to the provisions of the legally protected secrecy;</p> <p>3) preparing, if necessary, request preparation necessary to control the copies or extracts from the documents and statements or calculations;</p> <p>4) processing the personal data to the extent necessary to carry out the inspection;</p> <p>5) requesting oral or written explanations on matters concerning the scope of the inspection;</p> <p>4. Bodies of public sector entities are required to cooperate with the Council and provide free help in carrying out the tasks set out in the Act.</p> <p>5. The Council may co-operate with other national bodies and institutions, and international organizations to the extent necessary for the performance of statutory duties.</p> <p>(...)</p> <p>Article 9 The Council receives long-term plans for an opinion prior to their adoption by the Council of Ministers, in sufficient time for pour opinion. Council issues an opinion within 14 days of receipt of the plans.</p> <p>Article 10 The Council performs its duties with the help of the Office</p> <p>(...)</p> <p>Article 12. Operating costs of the Council and its office are covered by the State budget.</p> <p>(...)</p> <p>The Council of Ministers approves a Treasury four-year debt management strategy and its impact on the public debt after obtaining the opinion of the Fiscal Council and submits it to the Sejm together with the justification of budget bill.</p>

TABLE 3 Some arguments for the rejection of the bill on Fiscal Council

A. Government representative pointed out that:

- The project interferes with the functioning of State bodies constitutionally appointed to carry out specific tasks and breaks the rule of law and separation of powers (by encroachment on the powers of the various bodies: The Council of Ministers, the Minister of Finance, the Supreme Audit Office - SAI, the Regional Audit Chambers. etc.).
 - Project appoints a body which would be beyond any control, which would not be consistent with the Constitution.
 - The tasks of Fiscal Council are not clearly defined and coincide with the tasks of other existing institutions.
- In accordance with Article 1 of the Constitution, public authorities carry out tasks in the field of public policy

and, therefore, the scope of these tasks should be clearly defined and, above all, as a rule, should not fall within the competence of other bodies.

- The financial implications of the project are underestimated.
- The tasks assigned to the Council are not consistent with the effects, which are expected to be achieved.

B. The opinion of the National Bank of Poland included following doubts:

- The Fiscal Council grant broad powers to control public sector entities while in Poland there is an extensive system of control which includes the Supreme Audit Office, the Regional Audit Chambers, the Chief Commissioner Discipline of Public Finance and Inter-Commission Trial in cases of violation of public finance discipline and in the Ministry of Finance - Department of Audit of Public Sector Finance;
- The Council is mandated to inform Parliament about the need for bringing the Prime Minister or a member of the Council of Ministers on trial before the Tribunal of State, although in accordance with Article 156 para. 2 of Polish Constitution, only the President of the Republic has the right to formulate such a request;
- The Council is granted to supervise the public debt and its calculation method, though in this regard the Council powers would be in many respects identical with the powers of the Minister of Finance;
- Council is granted by an unrestricted access to the area inspected, to all documents and request authorization to draw up reports, processing of personal data without the predictable sanctions for members of the Council for the misuse of this information or its disclosure (the NBP pointed out that in Poland there is a security system of sensitive information, the violation of which threaten to set sanctions);
- In justification of the project there was information that the Act complies with EU law, while the EU experts were still working on the subject.

C. Experts showed that:

- Some of the Fiscal Council tasks (both informational and promotional) arouse concerns about their normative value, and other tasks appropriate for research institutions, would not be possible to achieve by the Council. What's more, many of these tasks - in accordance with the laws - are the subject of the work of non-governmental bodies (such as the Supreme Audit Office and the Monetary Policy Council), and within the structures of government (for example the Ministry of Finance which is subject to parliamentary control). The BAS, in its opinion¹² remembered the legal issue concerning creating independent FC, and showed that solutions adopted in some countries were diversified. The BAS argued that in Poland functional autonomy of the Council is not clear in relation to the budgetary authority. It pointed out that if the Council would be an independent advisory body it should not be authorized in the Constitution. In this case, however a risk appears that opinions of that body (resulting from the monitoring of the implementation of national fiscal rules) may be disregarded by the government who is responsible for the implementation of the constitutional rules (such as public debt in relation to GDP). If, however, the Council would be a decision-making body (which does not seem like a good option), the problem of mutual relationships, duties and responsibilities arises (with respect to the authorities empowered by the constitution such as the Prime Minister, the Minister of Finance, and the Supreme Audit Office). Generally, accountability of such system need clear division of responsibility.

D. Other comments:

- In 2006, the Government Strategic Studies Center was abolished. The employees of this institution became effective April 1, 2006, the employees of the Office of the Prime Minister or the employees of the office of the minister responsible for regional development.
- In Poland, macroeconomic forecasts are drawn up by many public and private institutions (eg, the Department of Financial Policy, Research and Statistics in the Ministry of Finance¹³, the Central Statistical Office¹⁴, the Forecasting Committee "Poland 2000 Plus" at the Polish Academy of Sciences, the Institute for Market Economics, the CASE – Center for Social and Economic Research, the Polish Confederation of Private Employers Lewiatan¹⁵). Such forecasts are published on web sides of such institutions and often widely commented by the press. In practice, institutions from public sector do not

¹² as in its opinion (No. 259/11) on *Proposal for a regulation of the European Parliament and of the Council on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area (COM (2011) 821 final)* submitted to the Sejm Committee on European Affairs.

¹³ This department prepares analyzes and forecasts necessary for the formulation and implementation of fiscal policy and the coordination of economic and financial policies of the European Union.

¹⁴ The tasks of the President of the Central Statistical Office are for example:

- recognition of the need for information and statistical analysis and drafting programs of statistical surveys and submitting them to the Council,
- drawing up and publishing demographic, economic and social statistical forecasts.

¹⁵ It is a nation-wide organization representing employers to the State and trade unions.

have problems with knowing the forecasts prepared by the private sector and vice versa. Sometimes, for a particular purpose forecasts are prepared jointly by the public and private units¹⁶. Forecasts vary in the timing, the objective and time of publication¹⁷, which contributes that their use can be limited.

- The creation of an independent fiscal institution, in order to produce its own competitive forecasts as the base for draft budgets is therefore unjustified. Government forecasts (including those prepared in the MoF) should be regarded as good, especially when we take into account that it is difficult to identify successful private institution which macroeconomic forecasts were accurate to 100% and which forecasts were more reliable than governments ones in an over a longer period.

- Recently the Chairman of the Sejm Public Finance Committee organizes informal meetings for interested members of the committee 2 times a year. Eminent external experts (including working or retired professors of the Institute of Finance, the London School of Economics and Independent Center for Economic Studies, BAS experts and main analysts of some of banks) participate in such meetings. They respond to MPs questions such as the reality of the macroeconomic assumptions of the budget, the risks in the implementation of the budget and necessary action to rectify the public finances.

- The Public Finances Committee at its meeting on January 3, 2013 debated the government's information on the financial situation of our country, the steps they intend to take the ruling to remedy the situation and the data on the implementation of the budget last year and the current year.

- In Poland, the Financial Stability Committee was also established in 2008¹⁸. Members of this Committee are: the Minister of Finance (he is also the chairman of that committee, the President of the National Bank of Poland and the Chairperson of the Financial Supervision Authority. The aim of the Committee is to ensure effective cooperation in promoting and maintaining the stability of the domestic financial system through the exchange of information, opinions and assessments of the situation in the financial system in the country and abroad, and coordination of activities in this area. The Committee's tasks include in particular:

1) assessments of the situation in the domestic financial system and the international markets and to ensure the proper flow of information between the members of the Committee on the major events and trends that may threaten the stability of the national financial system;

2) development and adoption of management procedures in the event of a threat to the stability of the financial system;

3) coordinating the activities of the Committee in the event of a direct threat to the stability of the domestic financial system.

Strengthening existing institutions can be done theoretically by:

- legislative changes involving for example:

- a) introducing to the Polish Constitution of the principle of sustainability of public finances (the balanced general government budget or with surplus). Failure to comply with this principle should result in the end of parliamentary term.

Pros: It is a radical solution which would imply strong pressure to consolidate public finances, reduction in spending, and realistic planning of incomes. It would also protect against the consequences resulting from non-compliance with the fiscal pact (penalties, directing the case to the European Court).

¹⁶ E.g. social spending projection constituting part of the National Development Plan for 2007-2013 was prepared in joint cooperation of the Ministry of Labour and Social Policy and the Institute for Market Economics and it was based on the methodology of the ILO.

¹⁷ For example: Forecast of incomes and expenditures of Social Insurance Fund in 2011-2015 and Forecasts of Polish population for the years 2008-2035.

¹⁸ See the Act of 7 November 2008 on the Financial Stability Committee (Journal of Law 2008 No. 209 item 1317).

Cons: There is no political will currently for such deep changes of the Constitution, because they would result in a reduction of economic growth, increasing unemployment, and high social discontent. Hence, future possible introduction of that principle should provide for an adjustment period (*vacatio legis*). Practice shows that such a solution does not work in times of crisis. Additionally, this proposal would be too restrictive in comparison to the Fiscal Pact.

In the case of Poland's scheduled ratification of the Fiscal Pact¹⁹, Poland will be required to abide by the rules of this pact, which are among others as follows:

- The budgetary position of the general government shall be balanced or in surplus.
- The above rule shall be deemed to be respected if the annual structural balance of the general government is at its country-specific medium-term objective as defined in the revised Stability and Growth Pact with a lower limit of a structural deficit of 0.5 % of the GDP at market prices.
- Rapid convergence towards its respective medium-term objective shall be ensured (the time frame for such convergence will be proposed by the Commission taking into consideration country-specific sustainability risks. Progress towards and respect of the medium-term objective shall be evaluated on the basis of an overall assessment with the structural balance as a reference, including an analysis of expenditure net of discretionary revenue measures, in line with the provisions of the revised Stability and Growth Pact).
- Poland may temporarily deviate from medium-term objective or the adjustment path towards may have place only in exceptional circumstances²⁰.

¹⁹ The first reading of the government's draft law on the ratification of the Treaty on stability, coordination and governance in the Economic and Monetary Union... (the Sejm paper No. 961) was held on 5 December 2012. The report of 3 joint committees (the Public Finances Committee, the European Union Affairs Committee and the Foreign Affairs Committee) is recommending the adoption of the bill without amendments (the Sejm paper No. 999 prepared on 19 December 2012). Soon there will be a second reading of the draft (19 February 2013).

²⁰ "Exceptional circumstances" refer to the case of an unusual event outside the control of the Contracting Party concerned which has a major impact on the financial position of the general government or to periods of severe economic downturn as defined in the revised Stability and Growth Pact, provided that the temporary deviation of the Contracting Party concerned does not endanger fiscal sustainability in the medium term.

- Where the ratio of government debt to GDP at market prices is significantly below 60 % and where risks in terms of long-term sustainability of public finances are low, the lower limit of the medium-term objective can reach a structural deficit of at most 1.0 % of the gross domestic product at market prices.
- In the event of significant observed deviations from the medium-term objective or the adjustment path towards it, a correction mechanism shall be triggered automatically²¹.
- When the ratio of their general government debt to GDP exceeds the 60 % reference value Poland shall reduce it at an average rate of one twentieth per year as a benchmark.²²
- If, on the basis of its own assessment or of an assessment by the European Commission, a Contracting Party considers that Poland has not taken the necessary measures, it may bring the case before the Court of Justice and request the imposition of financial sanctions. This court may impose on it a lump sum or a penalty payment appropriate in the circumstances and that shall not exceed 0,1 % of its GDP.

b) Introducing in the Act on Public Finance of solutions assuming that the methodology of calculation of GDP and public debt is constant over time, eg 7 years.

Pros: Such introduction would prevent the possible temptation of manipulating these values and made the public finances more transparent.

Cons: The solution can hinder the introduction of appropriate changes.

Hence, in case of the need for methodological changes, these changes should be well explained, and for some time (e.g. 2 years) data should be presented in double form (the existing and the new method).

²¹ The mechanism shall include the obligation of the Contracting Party concerned to implement measures to correct the deviations over a defined period of time.

²² As provided for in Article 2 of Council Regulation (EC) No. 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure, as amended by Council Regulation (EU) No. 1177/2011 of 8 November 2011. The existence of an excessive deficit due to the breach of the debt criterion will be decided according to the procedure set forth in Article 126 of the Treaty on the Functioning of the European Union.

c) Introduction - if needed – regulations strengthening the position of some bodies and institutions. For example, the Minister of Finance position may be strengthened in relation to other ministers, local governments and other holders of public money, the position of Chairman of Central Statistical Office may be strengthened by making macro-economic forecasts in the areas of government interest (now his tasks include, among the others, development and publication of forecasts of demographic and statistical forecasts of economic and social issues), the Parliamentary Research Bureau (BAS) position may be strengthened by performing additional work for parliamentary committees and subcommittees.

Strengthening the existing institutions can be also done by involving non-legislative changes such as for example:

- a) Opening, on the website of the Ministry of Finance (MoF), a platform where all interested parties could comment on the macroeconomic assumptions of planned budgets (although it could be noted that the Government Legislative Centre has its own platform on which the legislative process is precisely described. This platform also provides consultation stage).
- b) Opening, on the website of the BAS, a platform where all interested parties could comment the draft budgets submitted by the government to the Sejm (but it should be noted that the BAS has been submitting general and specific opinions on draft budgets the Sejm Committees. Some of these opinions are prepared by eminent scholars).
- c) Publishing, on the website of the Ministry of Finance or the BAS, macroeconomic forecasts prepared by different bodies (research centers, analysts of major banks, think-thanks and so on) and information on the accuracy of these predictions. This could possibly serve to improve the methodology of forecasting, (although it should be noted that so far the quality of forecasts of the MoF was well judged. It is worth noting that there are no perfect forecasts²³).
- d) Publishing, of the website of the Ministry of Finance, revenue forecasting methodology (this year MPs from opposition party were interested in

²³ For example, inflation target adopted by the Council of Monetary Policy – which is independent and supported by good research facilities - differs from the assumed. The target is inflation 2.5% + -1 percentage point, but in 2010, inflation was 2.6%, in 2011, 4.3% and in 2012, 3.7%.

obtaining such information from the MoF, because experts doubted reality of projected incomes for the year 2013).

- e) A broader parliamentary discussion on implementation of Council directive 2011/85/EU on requirements for budgetary frameworks of the Member States and updates of Convergence Programme with experts. As well as assessing the some aspects of fiscal policy: the adequacy of the fiscal targets given the medium-term macroeconomic projections and fiscal framework; the efficiency of public spending; the implications of trend developments in general government revenue and expenditure items on the sustainability of public finances; the consistency of fiscal policy with long-term sustainability of the public finances; the transparency of public finances and quality of the macroeconomic scenario underlying public finance projections; the efficiency of the implementation of structural policies; and finally general government policies on borrowing and guarantees.
- f) A broader and more transparent dissemination of information on the public finances condition, and better explanation of deviations from the adopted forecasts.
- g) Expanding the statistical surveys of the Central Statistical Office by providing information on the condition the general government sector (although it should be noted, and the statistics in this field are constantly adapted to the requirements of the EU institutions and evolution of the Polish budget²⁴. Further changes will be implemented following the entry into force of the Fiscal Pact).

In Poland a visible progress has been made lately on transposing the main provisions of the directive 2011/85/EU on requirements for budgetary frameworks.²⁵

²⁴ For example the draft programme of statistical research prepared by the Central Statistical Office for 2014 takes into account the information on the performance budget.

²⁵ According to the Directive, a budgetary framework means the set of arrangements, procedures, rules and institutions that underlie the conduct of budgetary policies of general government, in particular: (i) systems of budgetary accounting and statistical reporting; (ii) rules and procedures governing the preparation of forecasts for budgetary planning; (iii) country-specific numerical fiscal rules; (iv) medium-term budgetary frameworks; (v) mechanisms that regulate fiscal relationships between public authorities across sub-sectors of general government. For each headline, the Directive specifies a number of essential standards. Member States have to transpose these into their law by 31 December 2013. In July 2011 added impetus was given by the political commitment of the Heads of State and Government of the euro-area Member States to transpose the Directive by the end of 2012.

For example, in the sphere of accounting and statistics:

- All entities classified as “public finance sector entities” follow common provisions specified in the Act on Accounting.
- The entities classified as a part of the “budgetary sector” (sub-category of the “public finance sector”) follow a Ministry of Finance regulation on special accounting requirements and charts of accounts.
- The public sector entities apply the principle of accrual accounting for issuing financial statements. As a result, it is possible to generate cash-based reports on budget execution and accrual-based financial statements.
- Some of the public sector entities with a legal nature are subject to external audit on the basis of the Act on Accounting or the statutory provisions establishing these entities. Additionally, central government and local government entities are subject to audits carried out by the Supreme Audit Office. Local government entities are also subject to audits by the Regional Chambers of Audit²⁶.

In the sphere of forecasts:

- The government compares its forecasts with the projections of other institutions and presents them to different institutional bodies (Monetary Policy Council, Tripartite Commission for Social and Economic Affairs, parliament, banking analysts) to receive their opinion. Some of these procedures are regulated by legal acts.
- The Ministry of Finance, which is responsible for preparing macroeconomic forecasts, usually organises a meeting with private

Finally, the adoption of the intergovernmental Treaty on Stability, Coordination and Governance (TSCG) provided a follow-up to the Directive. 25 Member States committed to establishing a domestic budget-balance rule in structural terms. See: *Interim Progress Report on the implementation of Council Directive 2011/85/EU on requirements for budgetary frameworks of the Member States*, Occasional Papers 128, European Commission Directorate-General for Economic and Financial Affairs, February 2013.

²⁶ Further steps in the area of accounting will depend on the recommendations in the Commission report assessing the suitability of International Public Sector Accounting Standards (IPSAS). Analysis is being carried out in order to assess whether the provisions of the Directive relating to the public availability of fiscal data require any changes in domestic law, including possible extension of the budgetary reporting system. As regards Article 14(1) of the Directive, for statistical needs, all entities that are classified as a part of the general government sector but are not included in the public finance sector are identified.

bank economists to exchange views on the short- and medium-term prospects of the Polish economy.

- After the submission of the budget bill to the Sejm the members of parliament can express their opinion on it.
- The macroeconomic forecasts used for budgetary planning are based on the external assumptions provided by the European Commission (Spring or Autumn Forecast). If these are not available when the Polish projections are prepared, the projections of other international institutions are used (e.g. IMF or OECD).
- Finally, the macroeconomic forecasts used for budgetary planning are assessed *ex post* by the Supreme Audit Office.

In the sphere of fiscal rules:

- The design of a fiscal rule fully compliant with the principles of Articles 5 and 6 of the Directive is almost completed. The rule is to be implemented in Polish law through an amendment to the Public Finance Act. It is intended to stabilise the nominal general government balance at the medium-term objective (MTO) level in the medium term and prevent public debt from breaching a predefined threshold corresponding to the reference value stipulated in the Treaty of Functioning of the European Union (TFEU).
- The medium-term horizon for meeting the general government balance target should provide space for countercyclical fiscal policy, as deviations from the target would be allowed in the short run. To reach the MTO, the rule also sets an overall expenditure growth cap for general government, net of expenditure financed with non-returnable EU funds. The formula for the growth cap is based on the medium-term GDP growth rate. Significant deviations of the general government balance from the MTO in the medium term, a high level of public debt, or the initiation of the excessive deficit procedure (EDP) procedure will trigger a correction mechanism. This will reduce the expenditure growth limit below the medium term GDP growth rate until the excessive deviation from the target is corrected. The correction mechanism is not expected to be fully automatic, as it will take into account cyclical developments.

- Escape clauses will come into effect only in the case of war or martial law.
- Monitoring of compliance with the rule is to be carried out by the Supreme Audit Office.

In the sphere of Medium-Term Budgetary Framework:

- The Multi-Year Financial Plan of the State (MYFP) is a “*plan of revenues and expenditures as well as incomes and expenses of the State budget drawn up for four budget years*”. The Council of Ministers uses the MYFP as a tool for joint strategic planning and budgetary decisions for budgetary years covered in MYFP. The MYFP covers all functions of the State, along with objectives and measures of the extent to which specific objectives have been achieved.
- The MYFP takes into consideration: (i) the objectives of the medium-term development strategy of the state, referred to in the Act on Development Policy Making; (ii) the directions of the Council of Ministers’ social and economic policy.
- The MYFP constitutes the basis for preparing a draft budgetary act for the subsequent budget year. For example, it stipulates the level of deficit not to be exceeded in the draft budgetary act. It also specifies “the directions of fiscal policy”, key elements of which also correspond to the current Convergence Programme adopted by the Council of Ministers.
- The MYFP also specifies the amount of public debt. The public finance sector debt management strategy (medium-term, four-year strategic document) covers the MYFP’s time horizon.
- Yearly updates of the MYFP (“*The MYFP shall be updated by the Council of Ministers by resolution on an annual basis for preparing the budgetary act for the subsequent budget year*”). In order to strengthen the framework described above, further analytical studies are being conducted.

In the sphere of mechanisms of coordination across sub-sectors of general government:

- Coordination between general government sub-sectors is in accordance with the Act on Development Policy-Making. Under this Act, the minister responsible for the regional development coordinates the execution of development strategies and the national strategy for regional development 2010-2020.

- The financing of development policy is to be based on the MYFP and regional contracts.
- The Ministry of Finance prepares guidelines concerning basic macroeconomic indicators for multi-annual planning at the level of local government units. If local government units do not adhere to the assumptions prepared by the Ministry of Finance in their forecasts, they must justify this.

Finally, it may be noted that the last amendment to the Act on Public Finance from the end of 2012²⁷:

- Introduces adjustment in presentation of data in the Multi-Year Financial Plan of the State (MYFP) to the current State Budget Act and ensure its clarity,
- indicates the new date for the Council of Ministers to prepare the update of MYFP. This date is consistent with the European Semester and Council Regulation No 1466/97/WE of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies.
- States that the prepared consolidated spending plan for the year and three consecutive years of state budgetary units, executive agencies, budget institutions, state special-purpose funds and other institutions will constitute a part of the budget bill justification, drawn up in the system of budgetary tasks along with the purposes and measures of the achievement of these purposes.
- Provides a basis for the systematic collection of information on the projected financial position of local government units relevant to exercising by the Minister of Finance the overall control of: a) the public finance sector in order to respect the principle that public debt must not exceed 60% of the annual GDP, including control over the State Treasury Debt, b) the level of the general government deficit,
- provides information from local government for long-term financial projections only in electronic form and in uniform format.

²⁷ As published in Journal of laws from 2012, item No. 1456.