



# Public Finances Medium-term and Annual Planning in Poland

Warszawa, November 2007

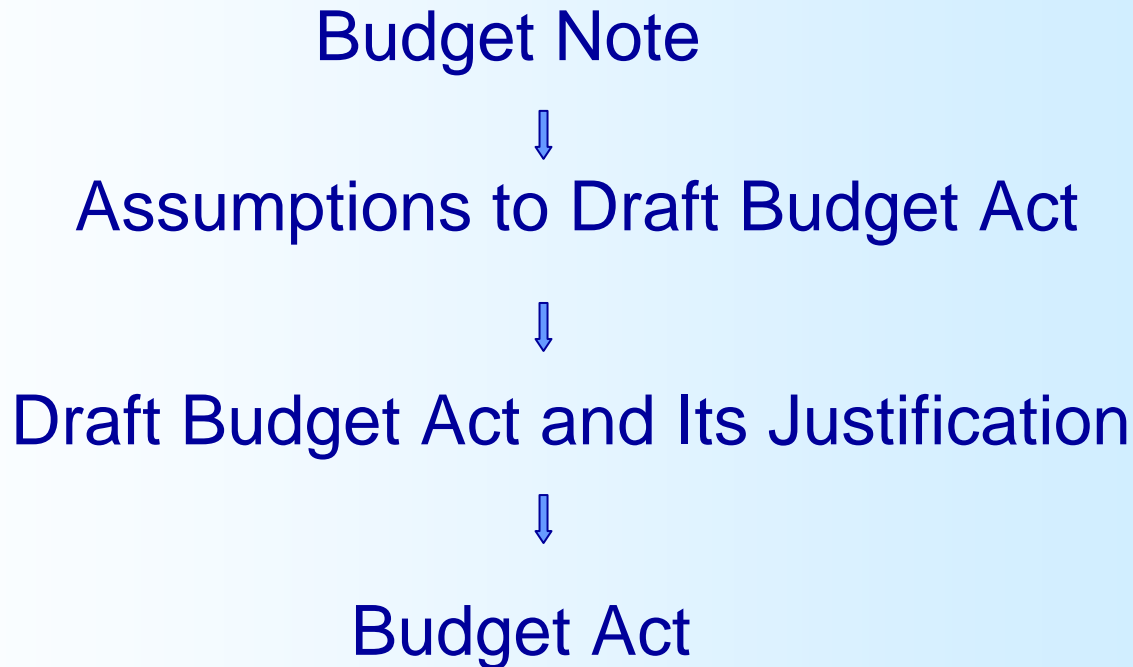
# Plan

- # Procedures and content of Budget Act,
- # Domestic fiscal rules,
- # Medium-term forecasts – Convergence Programme – Update 2007’
- # Other government strategies and programmes;

# Fiscal Policy – Planning Horizon

- # Current – liquidity management
- # Annual and Medium-term
  - Budget Act,
  - Convergence Programme and its updates,
  - Debt Management Strategy;
- # Medium- and Long-term
  - Government strategies and programmes

# Preparation of Budget Act Main Steps and Documents



# Assumptions to Draft Budget Act

- ✚ Content (budgetary year)
  - Macroeconomic forecasts,
  - Broad assumptions of State budget revenues, expense and balance;



# Budget Act and Its Justification (1)

## Content

- Macroeconomic assumptions (3-year horizon),
- General government balance and debt (3-year horizon),
- Revenues, expense and balance of public finances and its financing (budget year),
- Financial plans of earmarked funds and government agencies (budget year),
- Since 2008 – State budget balance based on performance based budgeting (target 3-year horizon);

# Budget Act and Its Justification (2)

## Parties to the process

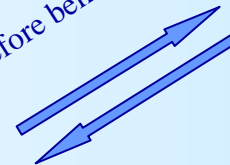
Ministry of Finance  
(leading institution)

Other managers of  
budget chapters



Council of  
Ministers

20 days before being sent to the Sejm



Trilateral  
Commission

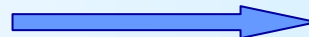


end of September

Sejm  
Senat

within 4 months from being sent to the Sejm

Speaker of the  
Sejm



President  
(signing within 7 days)

## Main domestic fiscal rules (1)

### ➤ State budget balance:

- Sejm cannot vote State budget deficit higher than presented in the draft Budget Act (Constitution),
- Upper limit of the annual State budget deficit set at PLN 30 billion (Council of Ministers);

## Main domestic fiscal rules (2)

- **Expense** (Act on Public Finances)
  - Strictly determined objectives,
  - Upper limit,
  - Strictly limited changes in allocation,
  - Higher revenues – deficit reduction not increase in expense;

## Main domestic fiscal rules (3)

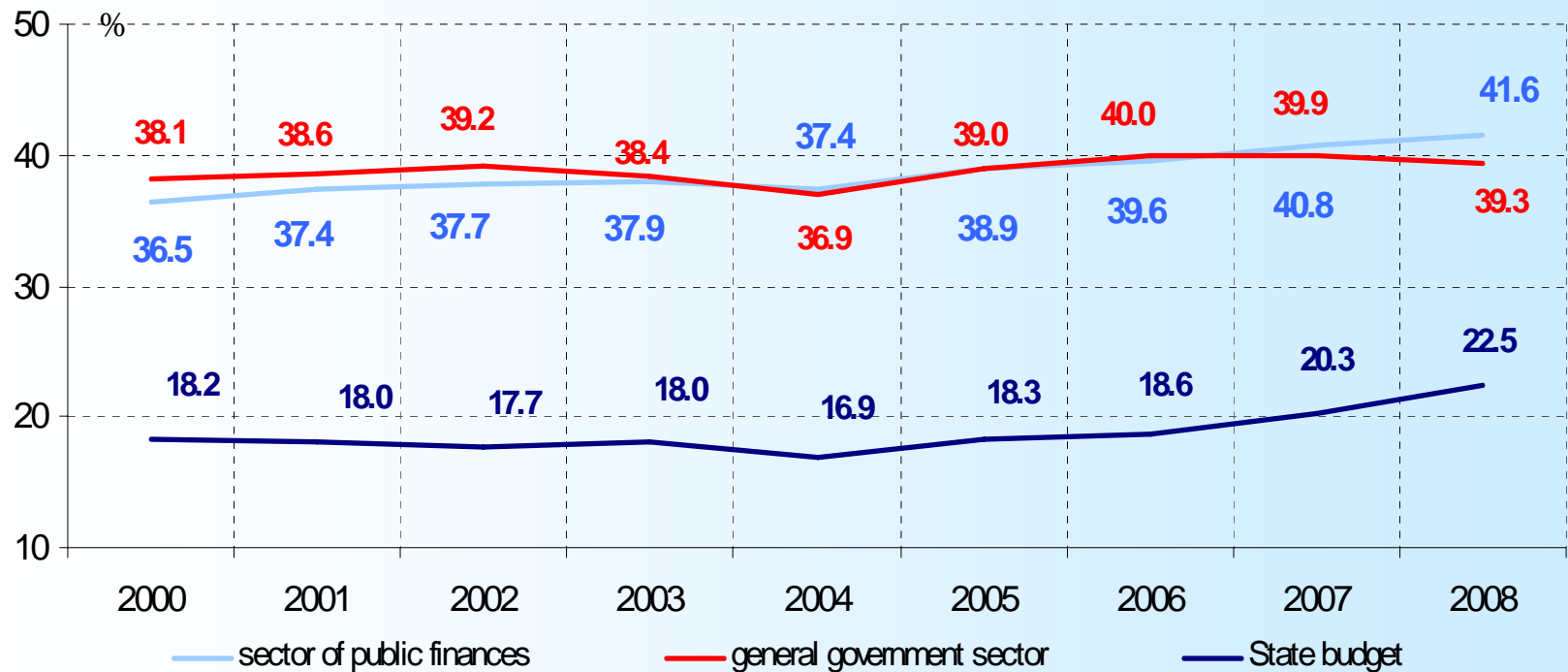
- **Public debt** (Constitution, Act on Public Finances)
  - Ban on financing of borrowing needs in NBP,
  - Limit on debt to GDP ratio (60%, 55%, 50%) and remedial procedures;
  
- **Guarantees** (Act on Public Finances)
  - Issue and amounts limited by law;
  
- **Outlays** (Act on Public Finances)
  - Upper limit;

## Main domestic fiscal rules (4)

- **Incurrence of liabilities** (Act on Public Finances)
  - Objectives and amounts subject to limits,
  - Some parameters of liabilities issued subject to limits;
- **Others** (Act on Public Finances)
  - Restricted scope of assets to invest,
  - Changes in financial plans of central government entities subject to limits (approval of supervisory body, agreement of Minister of Finance after approval of Budget Commission of the Sejm);

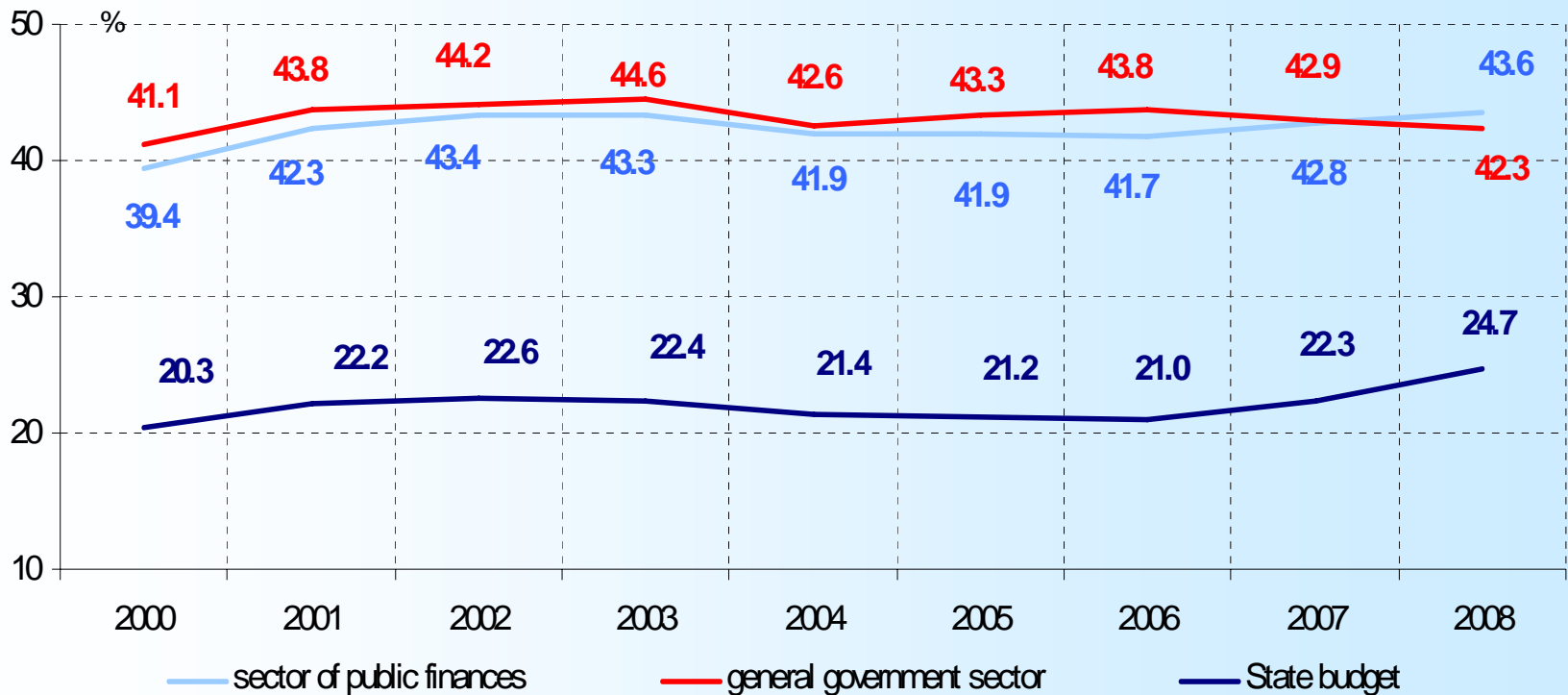
# Budget Act and Its Justification Ratios (1)

## Revenues to GDP



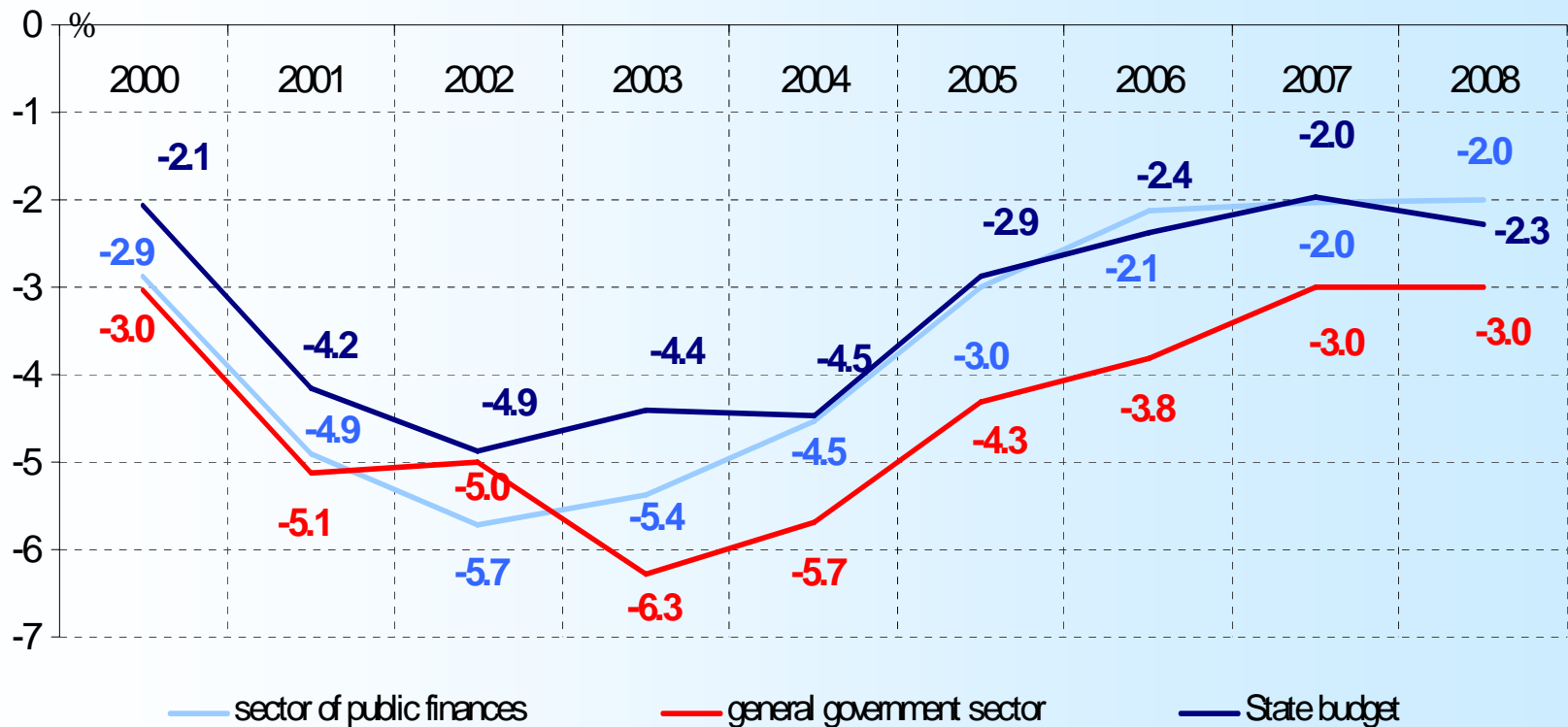
# Budget Act and Its Justification Ratios (2)

## Expense to GDP



# Budget Act and Its Justification Ratios (3)

## Balance to GDP



# Convergence Programme (1)

- # Legal basis: Stability and Growth Pact
  - Candidate countries – Pre-Accession Economic Programme,
  - Non-Eurozone members – Convergence Programme,
  - Eurozone members – Stability Programmes;

## Convergence Programme (2)

- # Content - *Code of Conduct*:
  - Macroeconomic and fiscal forecasts (3-year horizon),
  - Medium-term Objective,
  - Sensitivity analysis and risks,
  - Long-term fiscal sustainability (impact of demography, 2050),
  - Quality of public finances and institutional features;

# Convergence Programme in Poland

- # 2001 -2003 – Pre-Accession Economic Programme and its updates,
- # April 2004 – Convergence Programme (CP),
- # 2004-2007 – updates to the Convergence Programme (CPU);

# Convergence Programme Update 2007 (1)

## # Background

- Excessive Deficit Procedure (EDP) and Council Recommendations
  - *reduce the general government deficit in a credible and sustainable manner and to this end ensure an improvement of the structural balance by at least 0.5 percentage points of GDP between 2006 and 2007,*
  - *ensure the correction of the excessive deficit by 2007;*
- Medium term budgetary objective: structural balance at -1% GDP;

# Convergence Programme Update 2007 (2)

## ✚ Effects

### ➤ 2007

- Reduction of general government deficit to the reference value (3% GDP),
- Reduction of structural deficit by 0.6 perc. points;

### ➤ Within the CPU horizon

- Ending of the EDP,
- Meeting nominal convergence criteria, including fiscal criterion,
- Evaluation of the real convergence - setting the date for adoption of the euro by Poland;

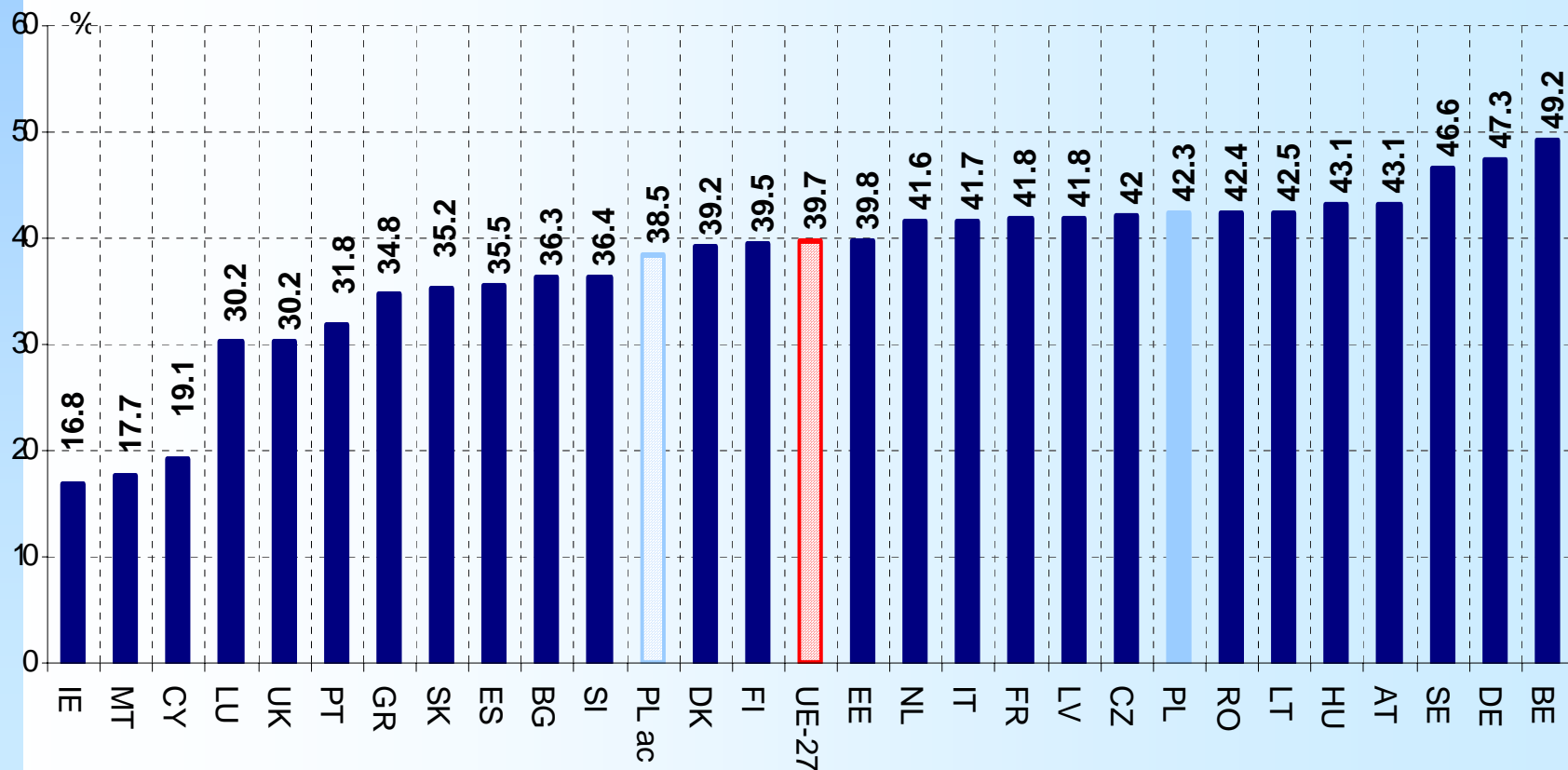
# Convergence Programme Update 2007 (3)

## ▣ Structural balance (%GDP)

	2006	2007P	2008P	2009P	2010P
General government balance	-3.8	-3.0	-3.0	-2.8	-2.5
Structural balance	-3.7	-3.1	-3.1	-2.9	-2.5
Structural balance excluding reduction of the tax wedge		-2.9	-1.9	-1.1	-0.5

# Convergence Programme Update 2007 (4)

■ Tax wedge in 2005

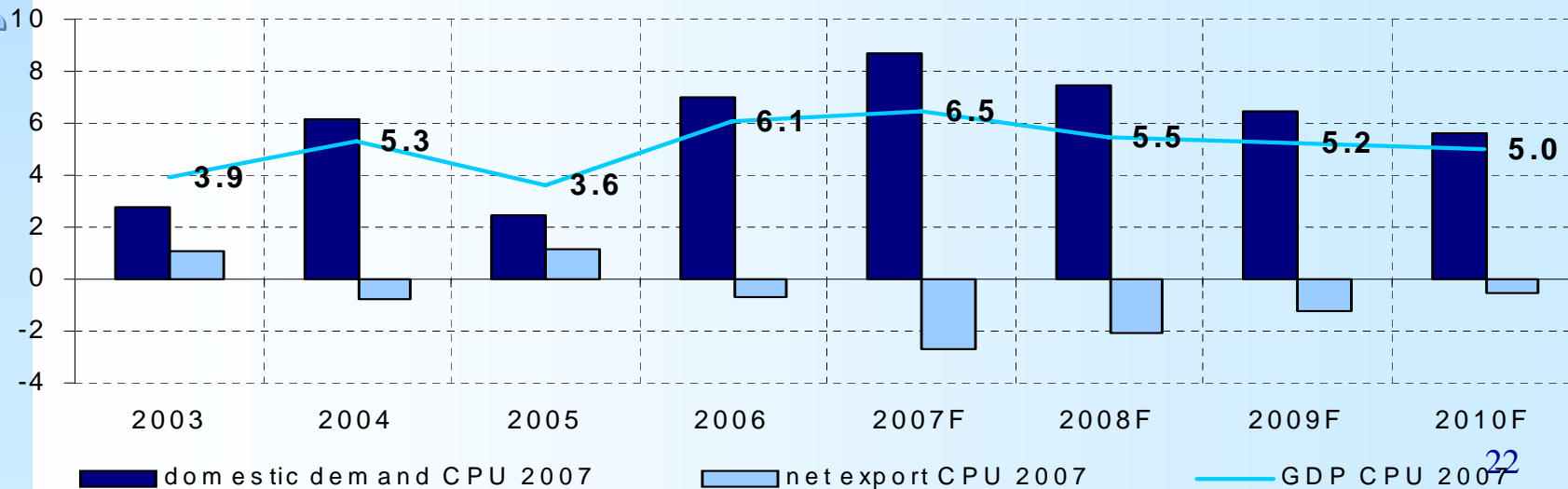
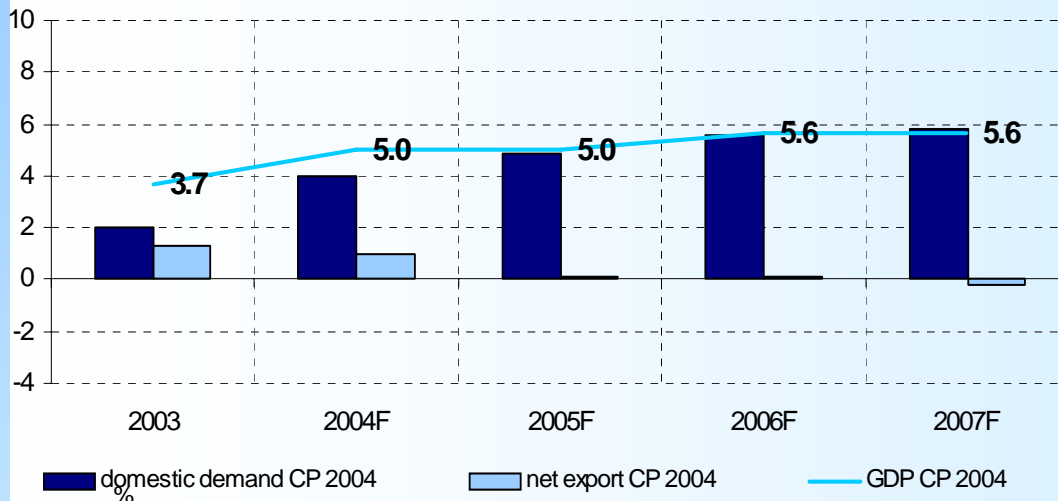


Source: Eurostat; tax wedge for a single person without children, earning 67% of average wage;

# Convergence Programme in Poland

## CP 2004 & CPU 2007 Forecasts (1)

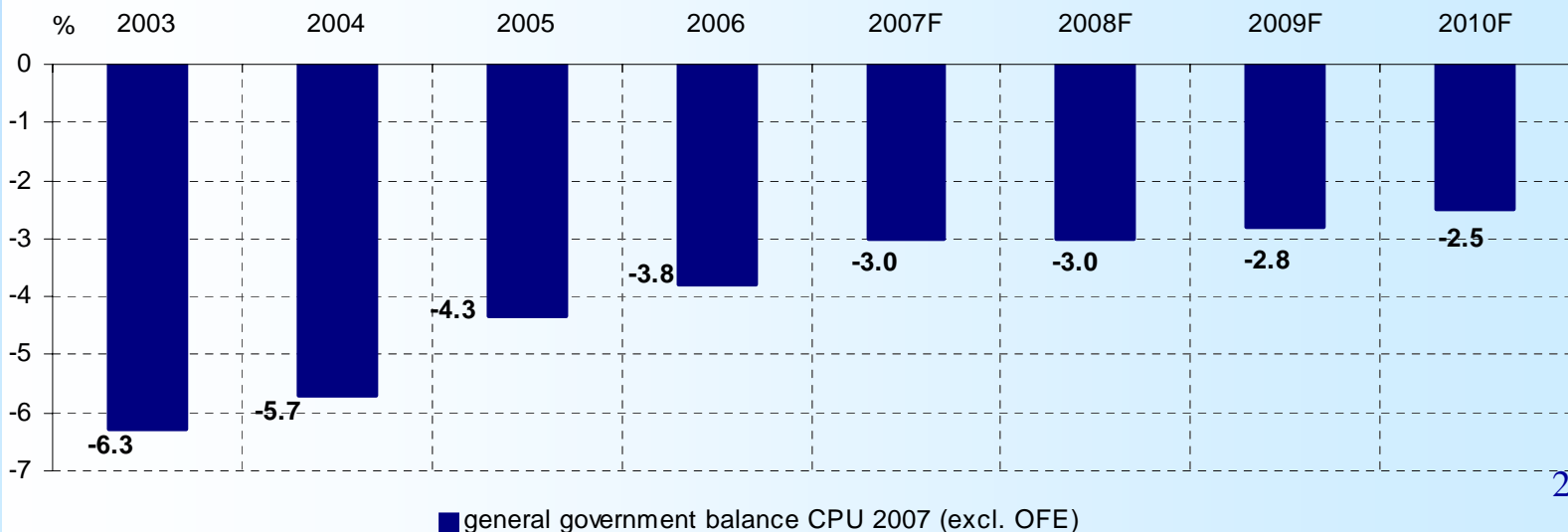
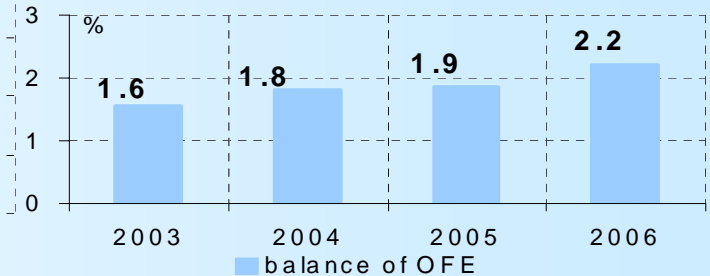
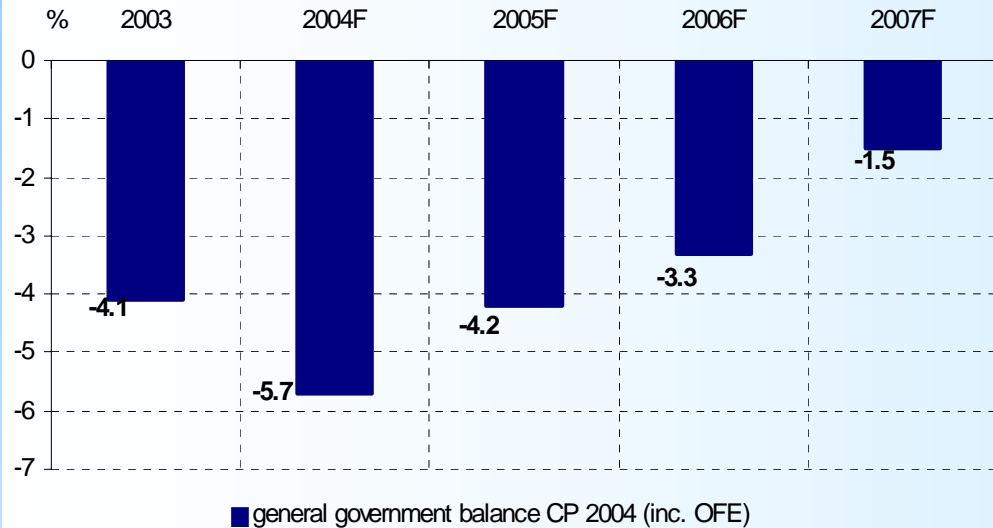
Real GDP growth and contribution of domestic demand and net export



# Convergence Programme in Poland

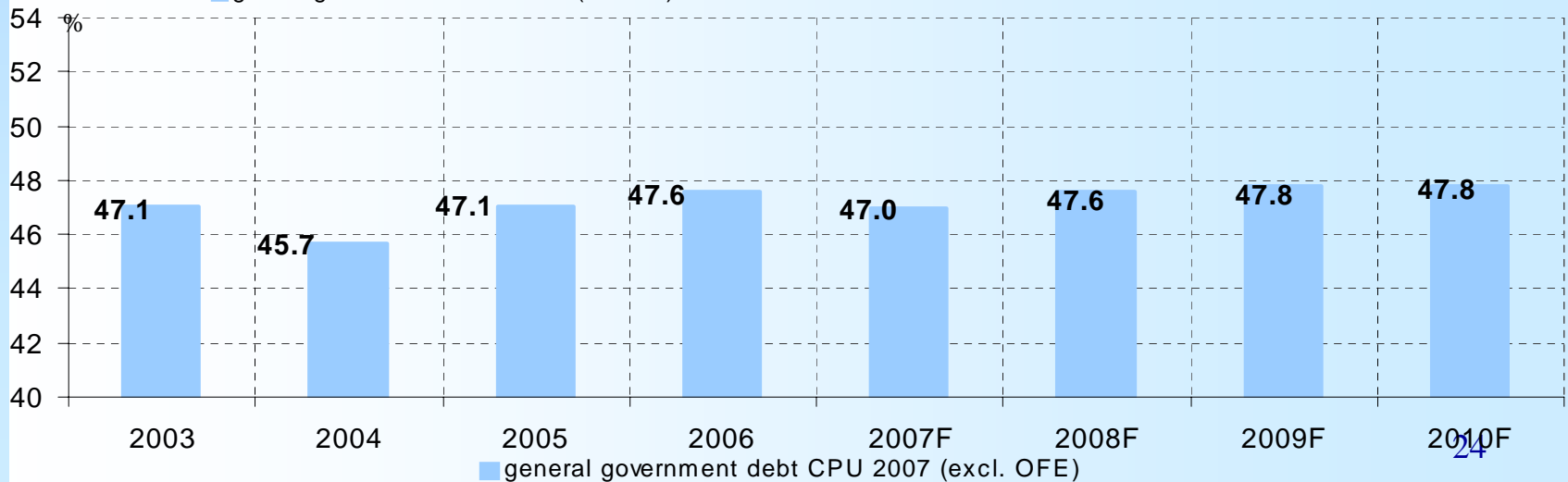
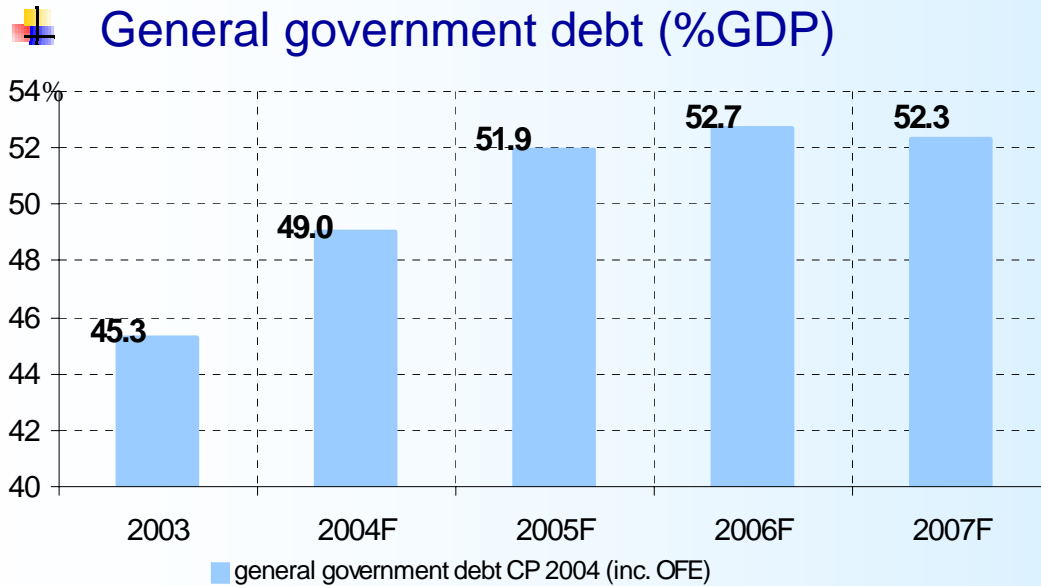
## CP 2004 & CPU 2007 Forecasts (2)

■ General government balance (%GDP)



# Convergence Programme in Poland

## CP 2004 & CPU 2007 Forecasts (3)



# Debt Management Strategy

- # Prepared annually with the Justification to the draft Budget Act,
- # 3–year horizon,
- # Debt management objective  
*minimisation of debt servicing costs over a long-time horizon with accepted limitations regarding the level of risks;*

# Government Strategies & Programs

- # Consequences of government strategies and programmes should be taken into account in medium-term planning,
- # Examples of government strategies and programs :
  - National Reform Programme 2005-08 (2008-11)
  - National Development Strategy 2007-15,
  - 5-year programme of construction of roads;

# Summary

- # Performance based budgeting:
  - Chance for solving problems with medium-term planning of expense,
  - Links between plans of expense and programs run by different ministers,
  - Improvement of quality of forecasts;