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POLISH PUBLIC DEBT IN PERIOD OF INTEGRATION WITH EUROPEAN UNION

SUMMARY

Public debt is currently one of the biggest economic issue in Poland. In the last few years, its proportions systematically increased. The debt of government as well as local government sector grew. The ministry of finances made various efforts to reduce the public debt by prior buying of liabilities and accounting manipulations.

Keywords: public debt, government sector, local government sector, demography

POLSKI DŁUG PUBLICZNY W OKRESIE INTEGRACJI Z UNIĄ EUROPEJSKĄ

STRESZCZENIE

Dług publiczny należy od lat do największych problemów ekonomicznych Polski. Skala zadłużenia systematycznie wzrasta. Dług sektora rządowego stanowi obok długu sektora samorządowego jego największą część. Minister finansów stosował różne metody zmierzające do redukcji długu publicznego, z których część określana jest jako kreatywna księgowość.

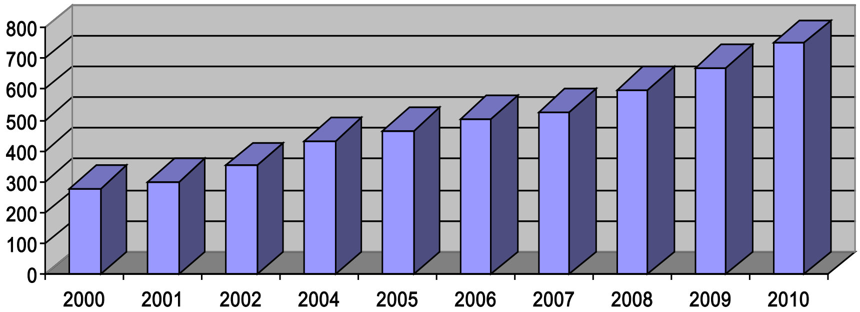
Słowa kluczowe: dług publiczny, sektor rządowy, sektor samorządowy, demografia

1. POLISH PUBLIC DEBT – A GENERAL OVERVIEW

In the first decade of XXI century, the permanent growth of Polish public noted was noted (see diagram 1). Already in 2000, it amounted to slightly more than 280 mld PLN only to reach 747,9 mld PLN (52,8% of national gross product).

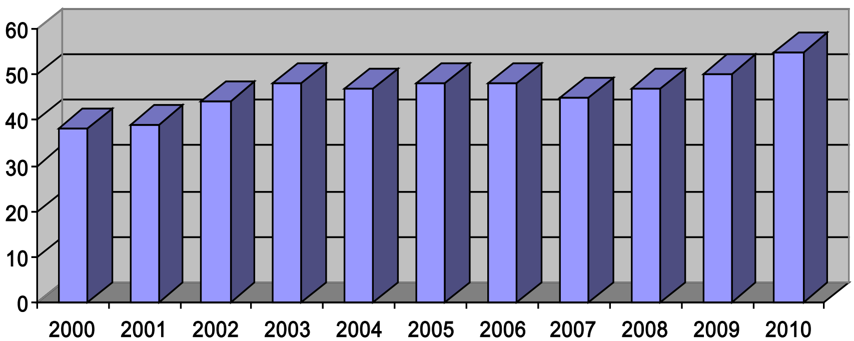
In accordance with the European Union methodology (ESA 95), that is together with the debt of National Road Fund, public debt steadily remained at the level of 776,8, which amounted to 54,9% of national gross product.

Diagram 1. Polish public debt within 2000–2010 (in mld PLN)



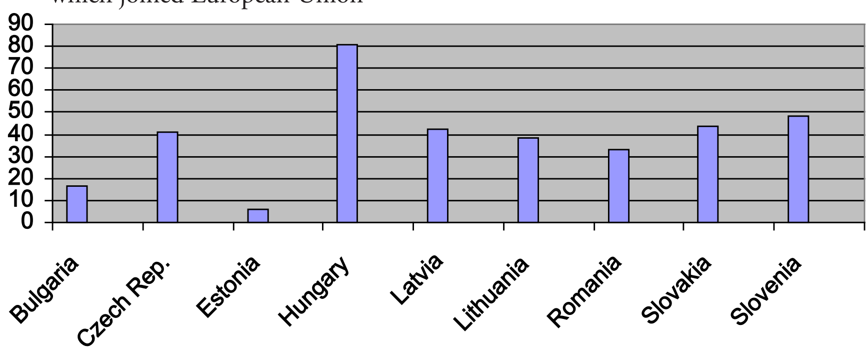
Source: Rocznik Statystyczny Rzeczypospolitej Polskiej 2003, GUS, Warszawa 2003, s. 535–536; Rocznik Statystyczny Rzeczypospolitej Polskiej 2005, GUS, Warszawa 2005, s. 628–629; Rocznik Statystyczny Rzeczypospolitej Polskiej 2007, GUS, Warszawa 2007, s. 626–627 oraz Rocznik Statystyczny Rzeczypospolitej Polskiej 2009, GUS, Warszawa 2009, s. 644.

Diagram 2. Relation of Polish public debt to national gross product (in %)



Source: my own work on the basis of the data by Eurostat and the Ministry of Finances.

Diagram 3. Relation of public debt to national gross product in post-socialism countries which joined European Union



Source: my own work on the basis of the data by Eurostat.

Table 1. The public debt in Poland within (in mln PLN)

Particular years	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total	**280322**	**302106**	**353843**	**408631**	**432282**	**466591**	**504991**	**527442**	**597797**	**669881**	**747906**
I.government sector detb	**271096**	**291320**	**338572**	**392083**	**413887**	**439335**	**481708**	**500214**	**566907**	**623596**	**692362**
Treasury debt	265888	*282617*	*326770*	378505	402233	439335	476552	498963	565461	623390	691211
1.national debt	145053	183708	218213	250727	291031	313727	352328	377841	415718	453617	507011
1.1. SPW total	132985	176048	21237	245979	286888	311966	350354	380169	419423	462484	506984
SPW short-term	23442	35215	42030	48067	46900	24400	25800	22586	50403	47545	27966
SPW middle-term	79825	108050	130871	151335	145416	165800	157729	15168	139760	197810	243450
SPW long-term	29718	32782	39468	46577	94572	121766	167005	204415	229260	217129	235569
1.2. remaining debt	12997	8980	6995	5187	4771	3513	5156	240	779	460	27
2. Zagraniczny	120835	98909	108557	127778	111202	124689	126198	121122	149744	168773	194839
2.1. Treasury bonds issued onto international capital market	22537	23366	29187	44267	48462	83862	90639	92254	121156	134065	155468
2.2.foreign bonds	4463	7229	18829	39804	44894	79970	88878	90935	120148	133218	154588
2.3. bonds of the type Brady	18074	16136	10358	4463	3568	3892	1761	1319	1008	847	880
2.4. credits and loans in convertible currencies	98298	75542	79369	83511	62740	40827	35559	28868	28588	34708	39371
2.4.1. Paris Club	87725	64987	65960	67122	50255	25154	17941	10526	3173	326	307
2.4.2. European Investment Bank	1915	-	-	-	-	9340	11365	13042	19266	20846	22361
2.4.3. World Bank	7260	6934	7215	7477	4390	4735	4812	4093	4661	12386	15683
2.4.4. remaining	1398	3620	6193	8912	8095	1598	1441	1207	1488	1150	1020
II. government sector debt	**9225**	**10786**	**15270**	**16548**	**18393**	**20172**	**23283**	**24483**	**28115**	**39325**	**53525**
III. social insurance sector debt	**3125**	**-**	**-**	**-**	**-**	**7084**	**5060**	**2745**	**2775**	**6960**	**2019**

Source: my own work on the basis of: Mały Rocznik Statystyczny Polski 2010, GUS, Warszawa 2010, s. 441–442; Mały Rocznik Statystyczny Polski 2011, GUS, Warszawa 2011, s. 442- -444; Rocznik Statystyczny Rzeczypospolitej Polskiej 2003, GUS, Warszawa 2003, s. 535–536; Rocznik Statystyczny Rzeczypospolitej Polskiej 2005, GUS, Warszawa 2005, s. 628–629; Rocznik Statystyczny Rzeczypospolitej Polskiej 2007, GUS, Warszawa 2007, s. 626–627 and Rocznik Statystyczny Rzeczypospolitej Polskiej 2009, GUS, Warszawa 2009, s. 644.

In the recent years, the relation of public debt to national gross product (see diagram 2) deteriorated. At the end of 2010 it amounted to 54,9% exactly, that is only 0,1% less than the acceptable limit.

According to the data of Eurostat, among post-socialism countries being member countries of European Union, only Hungary had more disadvantageous relation of public debt to national gross product in 2010. Pain-staking details are presented in the diagram 3.

In the whole analyzed period, in the structure of public debt, it was government sector debt that dominated. That debt amounted to over 94% of the whole debt. Furthermore, the public debt comprises the local government debt and the social insurance sector. The details are presented in the table 1.

In the following sections of the paper, the debt of two sectors, that is government sector (The Treasury) and local government sector shall be scrutinized. Furthermore, the actions taken by the Polish government aimed at decreasing public debt shall be presented shortly.

2. TREASURY DEBT

The following table shows the structure broken down by entities of the Treasury debt. Almost throughout the analyzed period, the major part of the debt fall within national investors being outside the bank system. At the end of 2010, the amount exceeded 248mld PLN and from 2000 it increased more than 2-fold.

The biggest growth (more than 7-fold) fell within foreign investors. On the other hand, national banks experienced over 2-fold growth.

Table 2. National debt of the Treasury according to its creditors (in mld PLN)

Particular years	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
National banks	66,6	77,3	78,6	86,1	85,7	75,0	80,6	87,8	135,6	146,0	130,5
National ovestors outside the bank system	61,5	86,9	109,3	123,9	143,5	171,5	197,3	218,0	228,7	235,1	248,2
Foreign investors	17,7	20,7	31,3	41,1	62,3	68,9	74,3	74,4	55,8	81,8	128,3

Source: opracowanie my own work on the basis of: Dług publiczny – Raport Roczny 2010, Ministerstwo Finansów, Warszawa 2011, s. 105., Mały Rocznik Statystyczny Polski 2010, GUS, Warszawa 2010, s. 441–442; Rocznik Statystyczny Rzeczypospolitej Polskiej 2003, GUS, Warszawa 2003, s. 535–536; Rocznik Statystyczny Rzeczypospolitej Polskiej 2005, GUS, Warszawa 2005, s. 628–629; Rocznik Statystyczny Rzeczypospolitej Polskiej 2007, GUS, Warszawa 2007, s. 626–627 and Rocznik Statystyczny Rzeczypospolitej Polskiej 2009, GUS, Warszawa 2009, s. 644.

Table 3 presents the structure of Treasury Debt related to the Treasury securities issued. In the very structure, fixed-rate and Treasury bonds dominate. The total of issued national Treasury securities increased every successive year and finally reached the amount of 507 mld PLN. At the beginning of the analyzed period, the amount reached 176 mld PLN.

Table 3. The structure of Treasury debt related to Treasury securities in 2001–2010 (in mld PLN)

Particular years	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Treasury securities	35,2	42,0	48,1	46,9	24,4	25,8	22,6	50,4	47,5	28,0
Treasury bonds	140,8	170,3	197,9	240,0	287,6	324,7	357,6	369,0	414,9	479,0
Bonds with fixed interest	102,7	140,4	175,3	209,1	249,7	278,2	294,6	300,4	348,6	394,4
Bonds with variable interest	38,1	29,9	22,6	28,3	33,2	40,1	54,8	57,8	55,4	69,7
Indexed bond	0,0	0,0	0,0	2,6	4,7	6,5	8,2	10,8	10,9	14,9
Total	176,0	212,4	246,0	286,9	312,0	350,5	380,2	419,4	462,5	507,0

Source: my own work on the basis of: Dług publiczny – Raport Roczny 2010, Ministerstwo Finansów, Warszawa 2011, s. 105.

To get to know issues under the spotlight more precisely, one should take a closer look at the structure of selling Treasury securities (tab.4). In the whole presented, Treasury bonds dominated and in the latest period their dominance is the most conspicuous.

Table 4. The structure of selling Treasury securities on the national and foreign market within (in mld PLN)

Particular years	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Treasury bills	35,2	42,0	48,1	46,9	24,4	25,8	22,6	50,4	47,5	33,9
National bonds	45,8	67,6	68,4	93,8	94,1	102,4	83,3	68,4	104,0	130,3
Foreign bonds	3,8	10,9	18,2	14,1	38,3	13,6	10,4	8,3	25,6	27,4
Total	98,1	126,5	143,6	156,6	159,4	145,0	116,2	127,1	177,1	191,6

Source: my own work on the basis of: Dług publiczny – Raport Roczny 2010, Ministerstwo Finansów, Warszawa 2011, s. 103.

The Treasury debt changed in relations to selling Treasury securities. Apart from 2006 and 2007, it permanently increased (see tab.5). Towards the end of 2010, it grew most because of issuing Nationals bonds (63,5 mld zł). Selling foreign bonds at the time caused the growth of debt by 19,9%.

Tab. 5. The change of Treasury debt related to issuing National securities within 2001–2010 (in mld PLN)

Particular years	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
Treasury bills	11,8	6,8	6,0	-1,2	-22,5	1,4	-3,2	27,8	-2,9	-19,6
National bonds	21,4	29,0	27,0	41,2	46,1	35,9	31,2	10,0	45,6	63,5
Foreign bonds	2,0	5,4	12,3	13,0	38,3	9,8	10,2	7,8	16,4	19,9
Total	35,2	41,3	45,3	53,0	61,9	47,2	38,1	45,6	59,1	63,8

Source: my own work on the basis of: Dług publiczny – Raport Roczny 2010, Ministerstwo Finansów, Warszawa 2011, s. 103.

The particularly upsetting is the fact that the dynamic growth of public debt in Poland within 2007–2010 takes place assisted with the massive selling of national wealth. In 2009, the revenues due to privatization amounted to 13 mld PLN, and in 2010 they exceeded 25 mld PLN and the plans for the future year predict that the revenues will amount to about 15 mld PLN. Furthermore, in this period, the government took away all the revenues from public corporations[1].

In the currency composition of the Treasury debt, Polish zloty dominate (see tab.6), which is undoubtedly a favourable phenomenon. The second currency, assuming the aforementioned criterion, proved to be Euro. In the recent year, the role of American dollar got diminished. The dollar occupied the second position at the beginning of the analyzed period.

Table 6. Currency composition of Treasury debt in 2001–2010 (in mld PLN)

Particular years	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
PLN	172,1	212,7	250,4	291,7	315,5	352,3	380,4	420,2	462,7	507,0
EUR	42,6	50,7	72,2	69,5	81,8	89,4	87,3	107,5	119,1	139,3
USD	49,0	41,9	32,8	22,9	22,7	17,3	13,3	14,4	22,8	26,9
JPV	4,7	4,7	5,6	6,3	9,0	9,5	9,0	13,6	12,2	13,4
CHF	3,3	3,6	3,5	3,8	6,2	5,8	8,4	12,1	12,8	15,3
remaning	12,3	14,3	14,5	8,7	5,0	4,1	3,1	2,1	1,8	0,0
total	283,9	327,9	378,9	402,9	440,2	478,5	501,5	569,9	631,5	701,9

Source: my own work on the basis of Dług publiczny – Raport Roczny 2010, Ministerstwo Finansów, Warszawa 2011, s. 107.

[1] Z. Kużmiuk, 300 mln zł dziennie!, „Gazeta Finansowa" 2010, nr 34, s. 5.

In the first decade of XXI century, the cost of the Treasury debt service grew (see the table below). At the end of 2010, the cost exceeded 34 mld PLN, the majority of which cost fell within the national debt service (almost 27 mld PLN). Simultaneously, the cost of debt service equaled 2,4% of national gross product and in relation to the budget spendings the cost amounted to 11,6%. In that respect, within the analyzed period, one can safely say that the cost was relatively stable.

Table 7. The cost of the Treasury debt service in 2001–2010 (in mld PLN)

Particular years	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
total	20,9	24,0	24,1	22,7	25,0	27,8	27,6	25,1	32,1	34,1
national	17,1	20,3	20,4	18,5	21,3	23,3	22,6	20,0	25,6	26,8
foreign	3,8	3,7	3,8	4,2	3,7	4,5	5,0	5,1	6,7	7,4
total / NGP	2,7%	3,0%	2,9%	2,5%	2,5%	2,6%	2,4%	2,0%	2,4%	2,4%
total / national budget spendings	12,1%	13,1%	12,8%	11,5%	12,0%	12,5%	10,9%	9,0%	10,8%	11,6%

Source: my own work on the basis of: Dług publiczny – Raport Roczny 2010, Ministerstwo Finansów, Warszawa 2011, s. 106.

In the analyzed period, there occurred the growth of external debt in Poland. It resulted for a few fundamental reasons. One of them was the clear strengthening of Zloty in relation to American dollar and taking new credits devoted to the broadly defined needs for government transformation. The structure of these credits is presented in tab.8.

Table 8. Credits taken in international financial institutions (in mld PLN)

	2001	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**
World Bank	0,6	0,3	0,2	1,1	0,8	0,6	0,0	0,2	8,3	4,2
European Investment Banks	0,4	0,8	2,6	1,3	3,7	2,4	2,8	3,8	2,5	3,0
Council of Europe Development Bank	0,05	0,03	0,01	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Total	**1,4**	**1,3**	**3,0**	**2,3**	**4,5**	**3,0**	**2,8**	**4,0**	**10,8**	**7,2**
Balance related to taking and repaying credits	0,8	0,7	2,0	1,2	3,9	2,4	2,1	3,1	9,7	6,0

Source: my own work on the basis of: Dług publiczny – Raport Roczny 2010, Ministerstwo Finansów, Warszawa 2011, s. 104.

The greatest number of credits was received from the World Bank and the European Investment Bank. On the other hand, the period in which the debt was the biggest was last two analyzed years. In that very period, the balance resuling from the indebtedness and repaying the credits was indisputably the worst.

There was a major event at the end of the first quarter in 2009. Poland virtually finished repaying non-market external debt of the Treasury, that is our debt to Paris Club, which encompasses government creditors[2]. On 31 March, the payment of the last installment, amounting to 886 mln USD, took place. That debt resulted from the agreement entered into in April, 1991 with 17 creditor countries. The agreement concerned the reorganization and the reduction of Polish debt taken already in the seventies, the repayment of which was interrupted in the eighties. In 1991, its amount reached beyond 32 mld USD to decrease in 2009 almost to zero[3].

There was still "long-standing" debt to repay (dating from the seventies). The debt was to be paid repaid to London Club encompassing commercial banks. The debt comprises Brady's bonds and their maturity is 2024[4]. Only then will the debt resulting from E. Gierek's actions be repaid.

Recently, Poland has taken new credits abroad. In October 2010, European Investment Banks gave Polish government a credit amounting to 2 mld Euros. That was the biggest credit ever given by EIB to any member country having joined EU after 2004. Acquired means were to be devoted to financing projects of European Union programmes. Innovative Economy (e.g. investments in the sector of small- and medium-sized enterprises), Operational Programme "Human Resources Development" (e.g. for employment and education), Environmental Infrastructure (e.g. for the actions within the programme Natura 2000) and Eastern Poland Development (e.g. for the acceleration of the social-economical development of the least developed regions in EU).

Creditting period is 15 years. The actual interest rate will be determined once the credit has been released. However, as Jacek Rostowski said, the Minister of Finances, the interest rate will be about 1% smaller than the interest rate valid for 10-year bonds in Euros, the interest rate of which is 3,8%. Altogether in 2010, the value of agreements between Poland and EIB amounted to over 5 mld Euros. Poland became the sixth biggest debtor in relation to EIB, being preceded by Spain, Italy, Germany, Great Britain and France. The amount of credit given to Poland by EIB proved to be the biggest amongst the newly-joined members. In the last 5 years, it amounted to 19 mld Euros altogether[5].

3. THE DEBT OF LOCAL GOVERNMENTS

Apart from the Treasury debt, the important part of public debt of Poland could be reducible to the debt of local governments in the recent years. At the end of 2010, the debt amounted to over 53,5 mld PLN, which proved to be 14 mld PLN higher than the total for the previous year.

[2] Only the part of debt remains to be repaid and that amounts 118 mln USD. These are the liabilities in relation to Japan. The amount mentioned above shall be repaid according to the schedule until 2014. The information by the Minister of Finances. Spłata długu wobec Klubu Paryskiego www.mf.gov.pl

[3] G. Górniewicz, *Dług publiczny. Historia, teraźniejszość, przyczyny i perspektywy*, Oficyna Wydawnicza Mirosław Wrocławski, Bydgoszcz 2012, s. 198.

[4] According to the information given by the Ministry of Finances, the external debt amounting to 340,5 mln dolloras of the external debt remains to be repaid to commercial banks.

[5] G. Osiecki, *Polska bierze 2 mld euro kredytu z EBI*, „Rzeczpospolita" 2010, nr 242, s. B5.

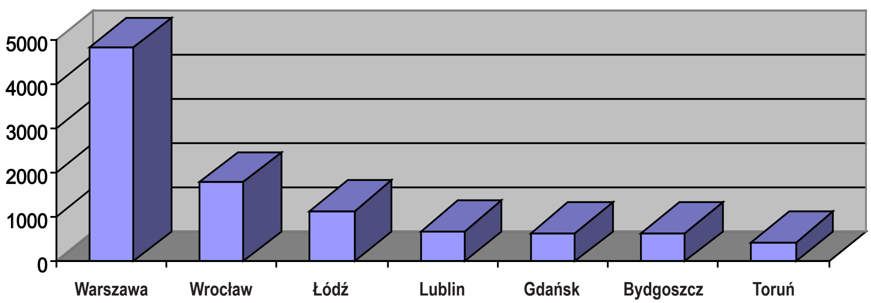
Theoretically speaking, there are barriers putting some limit on the debt of local government sector. The debt cannot exceed 60% of their annual revenues and for the repayment one cannot spend more than 15% of the revenues. Local governments had nonetheless some methods of evading those limitations. These are the following:

1. „joint venture way": local governments pass some duties to joint ventures and that is the joint venture that incurs liabilities, which are thus no burden for some administrational[6];
2. „leasing way" – instead of taking credits, local governments lease a commodity or a service. Thanks to that, the liabilities are attributed to fixed-cost base and thus the cost does not increase the debt
3. „good uncle way" – the local government enters into a contract (concerning, for instance, building a road within a year), but the payment stipulated in the contract can be realized within 20 years and that will be the contractor to whom the government will pay installments. The installments will not be categorized as debt but as fixed-cost base[7].

The bonds issued by Polish cities were of little interest to potential investors. Low profitability is a side effect of the so-called "margin war", which the banks were involved in. Within 2010, the margin levels for organizing the issuing fell dropped two- or three-fold. For instance, the issues of the bonds of the city Gdansk were burdened – depending on the maturity – with the margin ranging from 0,39 to 0,55% of over 6-month WIBOR. The results of the decrease of margin levels were at least two-fold. The first was the increase of interest in the issues of municipal bonds on the part of big cities (Warsaw issued bonds amounting to 900 mln PLN, Poznań – 180 mln PLN. Wrocław – 130 mln PLN and Gdansk – 100 mln PLN).

The second result proved to be the decrease of the attraction of municipal bonds in relations to previous periods. In 2010, the majority of municipal bonds were purchased by the banks which organized the issues[8].

Rysunek 4. The debt of the chosen cities of Poland (in mln PLN)



Source: my own work on the basis of: K. Ostrowska, Samorządy tracą na decyzjach polityków, „Rzeczpospolita" 2010, nr 236, s. B4.

[6] Polish cities used that method very often. It mainly concerned bigger cities which invested a lot with a view to Euro 2012. If the debts of those cities should be counted, it would transpire that the threshold of debt (60&) was exceeded. In the case of Gdańsk and Poznań, the debts of joint ventures exceeded those cities debt M. Chądzyński, *Długi zamiatane do spółek*, „Dziennik Gazeta Prawna" 2010, nr 204, s. A1 i A5..

[7] G. Osiecki, *Samorządy zagrażają budżetowi*, „Dziennik Gazeta Prawna" 2010, nr 174, s. A3.

[8] M. Chądzyński, *Obligacje miast mało atrakcyjne*, „Dziennik Gazeta Prawna" 2010, nr 182, s. A12.

The diagram above presents the debt of the chosen Polish cities according to their condition at the end August 2010. The debt of Warsaw at that time amounted to almost 4,8 mdl PLN. The debt amounting to more than a billion was experienced by Wroclaw (almost 1,8 mld PLN) and Łódź (over 1,1 mld PLN). According to the data in „Gazety Krakowskiej"[9], the debt in Kraków in the analogous period slightly exceeded 2 mld PLN, and according to the portal epoznan.pl, the debt of Poznań at the end of 2010 will reach the level 2,6 mld. Some other big cities in Poland had relatively low debt. Those cities are Gdańsk (638 mln zł), Szczecin (397 mln PLN) i Katowice (383 mln PLN)[10].

After the record 2010, the debt of Polish local government increased by 16 mld PLN (1,1,% NGP) and totally amounted to over 55 mld PLN. According to the predictions, in 2011, the local governments will be indebted with additional 14 mld PLN. Their total debt will reach the level of 69 mld PLN, which is about 4,7% of national gross product (in 2010, the level was only 3,9% of national gross product).[11].

However, 69 mld PLN is tantamount to only 40% of the total revenues of all the local governments (the limist is 60%). The percentage of the debt of the local governments in relation to the whole public debt would rise from 7% in 2010 to 8,5% in 2011. From 2012 onwards, the debt of local governments is supposed to decrease because the debt is the result of the peak of investment programmes supported by the funds from EU. Thus, the highest debt occurred in 2010–2011. According to the predictions, in 2015, the debt will decrease to only 52 mld PLN[12].

In 2011, eleven Polish cities probably spent more (the ultimate data was yet unknown at the moment of writing the present paper) on the debt service than the limits[13] of their creditworthiness, determined by the Ministry of Finances (see tab. 9). It is to be emphasized that those limits will officially take effect only from 2014, but even in 2011, the local governments took them into consideration while planning their financial agendas. The treasurer of Gdańsk, Teresa Blacharska, believes that the indicator of debt discharge is a result of the intended policy of the city, which intends to repay their credits sooner rather than later.

The source of covering those expenses is to be the issue of bonds. On the other hands, the authorities in Warsaw are planning the purchase of bonds before their maturity in 2013[14].

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[9] G. Górniewicz, *Dług publiczny*, op.cit., s. 201.

[10] K. Ostrowska, *Samorządy tracą na decyzjach polityków*, „Rzeczpospolita" 2010, nr 236, s. B4.

[11] According to the data of European Commission, the worse relations of the debt of local governments in to national gross product in 2010 fell on Holland (8,4%), France (8,3%), Latvia (6,4%), Portugal (5,2%), Germany (5,2%), Great Britain (4,9 %) and Hungary (4,6%). What is surprising, for Grece- at that time suffering from massive financial crisis- that rate amounted to only 0,9% of national gross product.

[12] A. Cieślak-Wróblewska, *Samorządy znów mocno się zadłużą w tym roku*, „Rzeczpospolita" 2011, nr 124, s. B1.

[13] The future limits of debt may be calculated individually for each local government. The spendings for the debt service in relation to their revenues cannot be higher than the average operating surplus in the last three years. That surplus is a difference between current revenues (increased by the revenues resulting from the selling of the property) and current spendings. It favours the local governments which have low profits. A. Cieślak-Wróblewska, *Miasta restrukturyzują długi*, „Rzeczpospolita" 2011, nr 56, s. B5.

[14] Ibidem, s. B4 – B5.

Table 9. The intended spendings on the debt service and the limits in 2011 (in mln PLN)

City	Spendings on debt service	Potential limit of spendings
Warszawa	686,1	640,4
Kraków	524,8	362,5
Gdańsk	332,8	237,9
Kielce	100,9	96,7
Radom	93,2	88,1
Ruda Śląska	51,7	45,2
Tarnów	44,6	38,1
Zielona Góra	41,5	37,1
Gorzów Wielkopolski	41,0	36,8
Włocławek	36,3	34,5
Bytom	32,5	7,3

Source: A. Cieślak-Wróblewska, Miasta restrukturyzują długi, „Rzeczpospolita" 2011, nr 56, s. B4 – B5.

In Poland, there are 65 cites with county rights. Their total debt exceeded the level of 27,8 mld PLN, which is equal to about 48% of their revenues. In the case of these three cities, the debt will exceed 70% (Włocławek 81%, Poznań 72,4% and Toruń 70,5%). However, the credits aimed at the execution of the projects co-financed from EU funds might be excluded while calculating the debt indicator (the Act takes into account the threshold of 60%), which means that, formally speaking, no city will exceed it. After the exclusions, the debt of Toruń in relation to NGP will decrease to 56%, Poznań to 50,8% and Wlocławek to 44,5%[15].

The main factor contributing to the growth of local government debt was and will be in the nearest future the investment spendings. The biggest investments take place in Warsaw (17,6 mld PLN), in Wrocław (5,8 mld PLN) and in Poznań (5,2 mld PLN). The table below provides the details. It is a commonly held belief that the investment boom results mainly from the subsidies from EU aid programmes. It transpires that only 20–30% of local governments investments are subsidized from EU resources. The lion's share fo them come from credits and issued bonds[16].

Table 10. Investment spendings in Polish cities in 2007–2013 (in mln PLN)

Local government	Total investment spendings	Subsidies for investment from EU
Warsaw	17600	4200
Wrocław	5800	1100
Poznań	5200	513
Katowice	2865	513
Lublin	2500	886

[15] A. Cieślak-Wróblewska, *Długi miast ostro w górę*, „Rzeczpospolita" 2011, nr 67, s. A1 i B4.
[16] A. Cieślak-Wróblewska, *Nie tylko Unia winna długom miast*, „Rzeczpospolita 2011, nr 301, s. B2.

Local government	Total investment spendings	Subsidies for investment from EU
Toruń	2300	570
Bydgoszcz	1754	999
Kielce	1502	568

Source: my own work on the basis of: A. Cieślak-Wróblewska, Nie tylko Unia winna długom miast, „Rzeczpospolita 2011, nr 301, s. B2.

The minister of finances, J. Rostowski, attempted to pass the responsibility for the growing public debt onto local governments. Yet in reality, he had no arguments by dint of which he could limit their debt. According to the law, the government can intervene only when the debt of a given local government exceeds 60% of its revenues and at the end of 2009, on the national level, the indicator was a bit less than 26%. Half way through 2010, only eight out of 2413 of Polish communities exceeded the threshold of 60%.[17]. The representatives of local governments defended themselves by saying: "…we have enough of accusations by the minister Rostowski. He fails to mention that local government debts is the minor part of the public debt. The government is indebted on a much larger scale and it dares to criticize us"...[18]. The local government debt at the beginning of the second half of September 2010 was tantamount to only 6% of Polish public debt.

At the beginning of 2011, the government announced putting limits to the debt of local governments. It was intended to implement similar solutions to those concerning the national debt. Ultimately, the local governments will not be able to spend 1% more than they earn in a given fiscal year[19]. For many cities and communities it might mean stopping investments. To prevent that, the Ministry of Finances suggested that the they should be able to purchase from the other the right for budget gap. It results from the analysis in „Rzeczypospolita" that the biggest seller in 2012 would be Kraków (approx.. 122 mln PLN), Wrocław (approx. 113 mln PLN) and Lublin (approx 74 mln PLN). On the other hand, the biggest creditting needs will have Katowice (approx.. 178 mln zł), Toruń (approx. 160 mln zł) i Szczecin (approx. 158 mln zł)[20].

In accordance with the regulation by the Minister of Finances 23 December 2010, local governments have to count into the debt not only credits, loans and debt securities but also the liabilities resulting from the agreements about public-private partnership leasing and the agreements with the deferment of payment being longer than a year.

According to the National Council of the Regional Chambers of Audit, in 2011, 86 local governments might exceed 60% limit of the debt in relation to their respective revenues[21].

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[17] J. Olechowski, *Rząd ogranicza gminy*, „Dziennik Gazeta Prawna" 2010, nr 186, s. A5.

[18] J. Kowalczyk, *Potyczki skarbników z rządem*, „Puls biznesu" 2010, nr 185, s. 14.

[19] G. Osiecki, *Rząd próbuje wyhamować zadłużanie się samorządów*, „Dziennik Gazeta Prawna" 2011, nr 4, s. A4.

[20] A. Cieślak-Wróblewska, *Wątpliwości wobec handlu deficytem*, „Rzeczpospolita" 2011, nr 91, s. B9.

[21] A. Cieślak-Wróblewska, No*we prawo, mniej inwestycji?*, „Rzeczpospolita" 2011, nr 18, s. B4.

4. THE ACTIONS OF THE POLISH GOVERNMENT AIMED AT DECREASING PUBLIC DEBT

Public Finances Committee ratified 20 October 2010, the changes being about to hold in 2011 the level of debt below the threshold of 55% in relations to national gross product. These changes comprised:

- The growth of VAT (value added tax) to 23 and 8% and determining the common rate for food at the level of 5%
- The reduction of funeral payment
- Abolishing the right for the free-of-charge transfer of property of the Agricultural Property Agency (among others to the State Forests, Polish Academy of Sciences, public shools, local government and those governing special economical spheres).

According to the estimates by the government, the increase of VAT will bring the additional 5 mld PLN of revenues and the concomitant changes should bring the amount of similar value[22].

Furthermore, from 2011, a few public institutions will be obliged to deposit all their disposable financial resources to the account of the Minister of Finances. According to the predictions, that action will decrease by 1,3% the relation of debt to national gross product. That consolidation is bound to decrease the crediting needs[23].

The Polish government also attempted other moves aimed at the reduction of the debt or at least the improvement of its statistical appearance. In September 2010, Poland appealed to European Commission with the claim that the assets collected in Open Pension Funds should not be included in the debt amount. Such a classification of public debt would allow for- in the case of Poland- reducing it by about 15% of national gross product as well as it would allow for easily satisfying the criterion of convergence from Maastricht, being one of the preconditions to join the Euro zone[24]. Polish claim was supported by 8 countries- including the remaining countries belonging to the so-called Visegrad group (Czech Republic, Slovakia and Hungary). One of the main opponents of the claim was Germany, which feared any softening of the rule of calculating the debt lest the precedent which could be taken advantage by the representatives of other countries in the future[25].

Polish claim was rejected. 22 October, 2010, The Minister of Finances got the refusal letter concerning the issue of not including the cost of the pension reform in the public debt[26]. However, Polish party did not resign from the claim...". Poland will show its stand in relation to the issue of public debt at the forthcoming summit of EU. The answer by European Commission to our claims does not satisfy us"…, the spokesman for the department of finances, Magdalena Kobos, said to PAP[27].

A few weeks later, the Polish government managed to achieve some success. In accordance with the agreement dating back to the first months of 2011, European Commission was to present the rules on the basis of which the costs of pension reform shall be included in the

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22 E. Glapiak, *Komisja finansów za ograniczeniem ulg*, „Gazeta Giełdy Parkiet" 2010, nr 245, s. 15.
23 E. Glapiak, *Ograniczyć tempo przyrostu długu*, „Rzeczpospolita" 2010, nr 254, s. B7.
24 G. Osiecki, Albo OFE, albo strefa euro, „Dziennik Gazeta Prawna" 2010, nr 177, s. A4.
25 A. Słojewska, *Polska twardo walczy o lepsze statystyki*, „Rzeczpospolita" 2010, nr 218, s. B2–B3.
26 *Nie będzie zmian w liczeniu długu*, „Rzeczpospolita" 2010, nr 249, s. B3.
27 G. Górniewicz, *Dług publiczny*, op. cit., s. 207.

estimate of the budget situation not only of Poland but also of the remaining member countries of EU[28].

Half way through March, there was the ultimate decision taken. European Commission will not take into account the cost of the pension reform while judging the public debt but th e budget deficits shall be mildly treated. If in a given country the deficit in relation to national gross product slightly exceeds 3% but there is a considerable pension reform conducted, then there will be no excessive deficit procedure conducted. Yet, it was not determined which amount is meant[29].

According to International Monetary Fund, if Polish government genuinely wanted to reduce budget deficit, the actions taken in the second half of 2010 should have been extended. The continuation of the pension reform was necessary as well as the introduction of the fixed rule regulating government spendings[30].

Despite the critical judgment International Monetary Fund provided Poland, in December 2010, with the increased Flexible Credit Line- from 21 to 29 mld USD. That Line is a financial instrument preventing the spread of financial crisis in the countries having solid economical basis. Besides Poland, only two countries got the access to such a kind of credit (Columbia – 3,5 mld USD i Mexico – 47 mld USD). The Ministry of Finances ensured that Poland- as in the case of previous Lines- does not intend to make use of acquired financial means but regards tchem as a precautionary measure against the external economic risk. It is to be emphasized that having Flexible Credit Line is not free of charge. In the case of the previous Line (21 mld USD), Poland had to pay 52 mln USD to International Monetary Fund. The new rate was not revealed[31].

At the beginning of 2011, the number of Flexible Credit Line increased to 13 countries[32].

At the end of 2011, the Ministry of Finances announced that from the following year public debt should be calculated in a different manner to the one before. Annual average rate of exchange will be taken into consideration- not the rate valid 31 December- as it happened before. If those rules had been valid already in 2011, the debt would have decreased by about 23 mdl PLN. The Ministry of Finances was also planning the reform in the rules of calculating net debt. It would involve the exclusion from the debt of the borrowed money which is deposited onto the account and has not been used at a given period[33].

The plans by the Ministry are to be regarded as the next additional precautionary measure against the debt exceeding the threshold of 55% of national gross product. According to the former Minister of Finances, Mirosław Górnicki, it was a typical accountancy mov

On the other hand, other experts- including Janusz Jankowiak (the major economist of the Economic Interest Group) posit that the changes might be useful because of the reduction of Polish currency speculation[34].

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[28] A. Fandrejewska, *Dług i deficyt bez zmian*, „Rzeczpospolita" 2010, nr 290, s. B2.

[29] A. Słojewska, *Ulga za OFE tylko w deficycie*, „Rzeczpospolita" 2011, nr, 62, s. B5.

[30] E. Glapiak, *MFW zachęca rząd do głębszych reform*, „Rzeczpospolita" 2010, nr 255, s. B7.

[31] E. Glapiak, *Większa polisa z MFW*, „Rzeczpospolita" 2010, nr 300, s. B2 – B3.

[32] Największą elastyczną linię kredytową w MFW posiadały: Meksyk (119 mld USD), Grecja (43,5 mld USD), Irlandia (32,6 mld USD) i Polska 29,7 mld USD). Ponadto linie tego rodzaju miały następujące kraje: Węgry, Rumunia, Kolumbia, Ukraina, Egipt, Islandia, Jamajka, Jemen i Kosowo. D. Walewska, *Trwa wyścig do sterów w MFW*, „Rzeczpospolita" 2011, nr 111, s. B4.

[33] E. Glapiak, *Rząd inaczej policzy dług*, „Rzeczpospolita" 2011, nr 274, s. A1.

[34] E. Glapiak, *Inna metoda liczenia, niższy dług państwa*, „Gazeta Giełdy Parkiet" 2011, nr 272, s. 10.

The table below presents the changes in external debt of the public finances sector in Poland according to the so-far method and to the method suggested by the Ministry. It transpires that if the latter form of calculation had been used so far, it would have been profitable from the point of view of the relation of debt to national gross product. The only exception would be year 2008.

Table 11. External debt of the public finances sector in Poland in 2004–2010 (in mld PLN)

Year	2004	2005	2006	2007	2008	2009	2010
The debt according to the so-far method	113	127	129	124	154	176	205
The debt according to the suggested method	125	132	131	131	130	185	206
Difference	12	5	2	7	-24	9	1

Source: my own work on the basis of E. Glapiak, Rząd inaczej policzy dług, „Rzeczpospolita" 2011, nr 274, s. A1.

In the first half of December 2011, the Ministry of Finances conducted the transactions of the purchases of foreign Treasury bonds and they were remitted. On the secondary market, the bonds with the maturity date in 2012 were purchased.:

- Foreign currency bonds in USD of the maturity age 3 July 2012 r. – the purchase of the value 37,1 mln USD,
- Foreign currency exchange in Euro of the maturity age 12 March 2012 r. the purchase of the value 6,0 mln EUR[35].

At the end of 2011, the rating of Polish bond had quite a healthy appearance. All the rating agencies regarded the prospects as stable. (see tab. 12).

Table 12. Financial rating of Polish bonds in December 2011

Rating agency	Foreign exchange		National currency		Prospects
	Long-term	Short-term	Long-term	Short-term	
Fitch	A-	F2	A	no	stabilna
Moody's	A2	P-1*	A2	no	stabilna
Standard & Poor's	A-	A-2	A	A-1	stabilna

* the guaranteed rating cap
no – not susceptible to evaluation

source: dane MF (http://www.mf.gov.pl/index.php?const=5&dzial=2122&wysw=2&sub=sub3).

In the second half of December 2011, Treasury bonds amounting to 2,25 mld PLN were purchased before their maturity date. Their maturity date was February, March and May 2012. The Ministry of Finance decided to make use of the financial means it had at its disposal and thus reduce at the end of the year the amount of public debt. The purchase reduced the debt by 0,15% of national gross product[36]. A similar operation was conducted 27 December.

[35] G. Górniewicz, *Dług publiczny*, op. cit., s. 210.
[36] A. Fandrejewska, *Polski sposób na dług*, „Rzeczpospolita" 2011, nr 295, s. B2.

On that day the Ministry of Finance purchased the Treasury bond with the maturity date in February and March 2012, the bonds being tantamount to 2,49 mld PLN. The result of both tenders was the reduction of public debt by slightly more than 0,3% of national gross product[37] and thus putting away the danger of exceeding the prudence threshold at the level of 55% of national gross product. Also the economic growth in the last quarter of 2011 being bigger than preliminarily expected could have saved the situation.

5. THE SUMMARY

To summarize, in the last four analyzed years (2007–2010), the gigantic increase of public debt was noted in Poland. Nominally, it was 4 times as big as during the decade in which E. Gierek ruled the country. Its relation to national gross product equaled 21% and it would have amounted to even 40% but for privatization and European Union aids. In the seventies, the relation of the increase in debt to national gross product equaled 24%[38].

The particularly disturbing is the fact that the increase in debt occurred even in spite of the selling of national property (the financial means acquired due to privatization of national enterprises should have resulted to the lesser national needs for credits). The government's actions aimed at reducing the rate of public debt increase are to be treated as accounting operations hiding the debt before the citizens of Poland and not as genuine reforms. The example of such operations is the debt of National Road Fund, which debt is included in public debt calculated by the European Union methodology. However, when we assume Polish law, that very debt is not included in the public debt. Another example is other suggested changes in the method of calculating the debt, which includes taking into consideration the annual average currency rate instead of the currency rate from the end of the year. It seems that in that very situation, one could at least consider some untypical solutions. Some part of economists[39] proclaim the opinion that some resource of the National Bank of Poland should be used to cover some part of public debt. It would require the common decision by the government, parliament, the president and central banks as well as not calling such an operation into question by the Constitutional Tribunal. However, such an idea does not appear realistic for political reasons.

For the future debt situation in Poland, demographic issues can be of utmost importance. As the data from the table below shows, in the nearest two decades, the number of inhabitants of Poland will systematically shrink and it will have reached the level of less than 36 mln people by 2035. The number of young people will drastically decrease (in the pre-working age) and so will the number of people in working age. Throughout the predicted period however, there will be a grow in the number of people in post-working age, that is the people taking advantage of pensions and disability pensions. That very phenomenon, also referred to as aging of societies, is going to lead to either the increase of Treasury debt or to the decrease of (anyway low) transfer payments or to both. The increasing share of elderly people in the number of all the inhabitants in a given society also raise suspicions as for their health and thus the necessary growth in spendings for medical and care services.

[37] A. Kamińska, *Dług Polski mniejszy, ale balansuje na granicy*, „Rzeczpospolita" 2011, nr 301, s. B1.

[38] K. Rybiński, *Zmarnowana dekada*, „Forbes" 2010, nr 11, s. 10.

[39] G. Kołodko, *Rezerwy na ciężkie czasy*, „Gazeta Finansowa" 2011, nr 50, s. 4–5.

Table 13. The prediction concerning the inhabitants of Poland

Particular year	**2010**	**2015**	**2020**	**2025**	**2030**	**2035**
Total (in thousands of people)	38092	38016	37830	37438	36796	35993
Inhabitants in pre-working age (in thousands of people)	7107	6918	6959	6816	6253	5632
Inhabitants in working age (in thousands of people)	24571	23718	22503	21625	21254	20739
Inhabitants in post-working age (in thousands of people)	6414	7380	8368	8997	9289	9622
Inhabitants in working age per 100 people in working age	55	60	68	73	73	74

Source: my own work on the basis of: Rocznik Statystyczny Rzeczypospolitej Polskiej 2008, GUS, Warszawa 2008, s. 206.

Another factor additionally weakening the demographic situation is and still will be in the nearest future the exodus of Poles abroad. According to the report „Polska 2030", Poles are the most mobile nation in the European Union. In the peak of those migrations (2007), the number of emigrants amounted to 2,3 mln people. Despite the fact that the economic crisis forced many people to return to their native country, 1,9 mln people still live abroad (the end of 2010). What is worse, it is usually young people that emigrate, while it can be immigrants that can be of some value to Poland. Yet, to attract them, the radical decrease of taxes on labour is needed[40].

The demographic situation is connected with the hidden debt, including also pension system, which is highly indebted in Poland. In the first half of 2001, more than 2 bn PLN was on the account of the National Insurance Company[41]. Actually, that money was already non-existent as it was spent to pay out the current pensions. Therefore, the payment of pensions in the forthcoming years will be severally threatened- even more when the number of people paying premiums will fall. On the other hand, one can count on the growth of national gross product, the revenues and the contributions paid.

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[40] G. Górniewicz, *Dług publiczny*..., op. cit., s 213
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