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PROBLEMS OF POLISH PUBLIC DEBT – STATE BEFORE COVID-19[1]

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Abstract: The paper presents the main problems of public debt in Poland before the pandemic disease of COVID-19, which has started in 2020. These problems will get deteriorated in following years because of low level of income - significantly below the budgetary act level - and extremely high level of expenditures of the public finance sector. It is also a result of expected recession in the economy of the country. Moreover, the deterioration is amplified by the erroneous fiscal policy during last five years; especially not having taken into account the possibility of materialization of different types of risks and featuring excessive level of expenditures and deficit. In the future, the fiscal policy of the country has to be based on responsibility and safety. Recovery and long-term stability has to be achieved as soon as possible in close cooperation with EU institutions.

Keywords: public debt, Poland, state deficit, national economy, budgetary policy

1. Introduction

Polish economy has achieved a high level (potential) of growth in the period 2015–2019 (on the average about 4.5% per annum). This was an effect of: good economic situation in EU countries, financial transfers from the EU, direct foreign investments in Poland, and a significant level of budgetary deficit of central government (CG) during first three years of the period mentioned. As a result, the public debt/GDP ratio has decreased to approximately 46% (conform to ESA’2010 system) at the end of 2019; the deficit of the public sector was also significantly

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lower during the last two years considered, i.e. 2018–19. However, the main problems of Polish public debt are still valid and will be significantly amplified after the expected recession. The main problems before COVID-19 were as follows: low rating and high level of servicing costs (profitability) of debt, high ratio of foreign debt of the central government, high level of debt in foreign currency, lack of long term optimal debt strategy, lack of adhesion to the EURO zone.

The position of the public debt in Poland is rather poor in comparison with those of the EU countries (satisfying of EU requirements), which avoided the debt crisis, including neighbor countries like Slovakia and Czechia. This position was much better at the end of the previous century. In 2020 the expected rate of GDP growth was negative, about -4% (the actual value being at -2.7%), while the deficit of public sector was supposed to attain about 7–9% (the actual value being equal 7%) of GDP. Consequently, public debt was supposed to attain 57.5% of GDP (forecast of European Commission, June 2020), and the actual value was the same. The recovery of the economy, expected in the next years, i.e. in 2021 and later, will not brighten of the public sector position instantly. In the opinion of the present author, financial policy of Poland requires thorough reform, especially concerning the government expenditures side – the wastefulness of public funds has to be stopped. It is not an easy problem, because many fields of public activity require high outlays from the public spending sources, especially: natural environment, pension system, health care systems, etc. The problem of accession to the EURO zone is also valid, because Polish policy heads in obscure direction with this respect.

The purpose of the present paper is to present the problems of public debt in Poland, taking into account the effects of COVID-19, and to indicate the directions of improvement. The main directions are: development and application of optimal middle-term and long-term debt strategy, consistency with EU requirements of stability and growth, and accession to the EURO zone.

The paper consists of five sections. The second section presents the problems of the Polish debt during the 21st century, especially concerning the consequences of the world financial crisis. The next section compares Polish debt to that of selected EU countries, especially: crisis countries, low debt countries and neighboring countries. The fourth section discusses briefly the accession to the EURO zone – the advantages and the doubts of the opponents. The last section presents an evaluation of the debt level after COVID-19 and recommendations for the public finance sector for the following years, including also the necessary changes of the Polish law.

2. Polish public debt during the 21st century

Current data (mid-year 2020), related to the deficit and public debt of Poland are presented in Table 1., as based on the statement of Main Statistical Bureau of Poland (dated 22-th of April, 2020).

The data, contained in Table 1. imply the following conclusions:

1) the deficit of the general governmental sector (central government, local governments and national social insurance funds) was equal 16 828 million Polish zlotys in 2019, i.e. 0.7% of GDP; it was significantly lower than in 2016 and 2017 years. The deficit of the central government equals -1,2% of GDP, of local governments -0.2% of GDP (cumulatively -1,4%), while the national social insurance funds had a surplus of 0.6% GDP;
2) the deficit of the central government was equal -27 134 million Polish zlotys, i.e. it was higher than in 2018 (-11 491 million Polish zlotys, i.e. 1.2% of GDP);
3) the deficit of the local governments was equal 4 417 million Polish zlotys, i.e. lower than in the previous year (6 695 million Polish zlotys); deficit from the last two years, 2019 and 2018, was higher than the surplus in the years 2016 and 2017;
4) the national social insurance funds had the surplus of 14 723 million Polish zlotys, i.e. 0.6% GDP – similar as in the preceding year 2018;
5) the debt of the general government sector was equal 1 045 122 million Polish zlotys, i.e. it was higher than in the previous year (1 035 703 million Polish zlotys); in relation to GDP the debt equaled 48.8% and 46.0%, respectively. The decrease of the relative value at the end of 2019 is an effect of GDP growth, coupled with the increase of the price level, increase of tax revenues and the surplus of social insurance funds.

Table 1. Deficit and debt of central government and local governments in Poland, in 2016 – 2019 (in millions of Polish zlotys).

Items	2016	2017	2018	2019
GDP	1 861 148	1 989 351	2 120 480	2 273 556
Deficit/Surplus of general government	-44 162	-29 200	-4 933	-16 828
% of GDP	-2.4	-1.5	-0.2	-0.7
Deficit/Surplus of central government	-47 427	-72 212	-11 491	-27 134
% of GDP	-2.5	-3.6	-0.5	-1.2
Deficit/Surplus of local Governments	-5 034	2 042	6 695	-4 417
% of GDP	0.3	0.1	-0.3	-0.2
Deficit/Surplus of national social insurance funds	-1 769	40 970	13 253	14 723
% of GDP	-0.1	2.1	0.6	0.6
Debt of central government and local governments	1 009 965	1 007 126	1 035 703	1 045 122
% of GDP	54.3	50.6	48.8	46.0

Source: The statement of the Main Statistical Bureau of Poland about debt and deficit of central government and local governments in 2019.

The positions of both deficit and debt of the public sector at the end of 2019 were much better than after the last global financial crisis. However, the decrease of the debt/GDP ratio was slow, taking into account the relatively fast growth of the GDP value during last four years (GDP'2019 to GDP'2015 – increase by 26.3% in current prices).

The experience of COVID-19 in 2020 year showed that improvement of the position had a weak basis because of significant increase of expenditure side of the government budget. The significant part of expenditures results from social transfers, which were appropriated in electoral years. Some of them are not addressed to target groups of society and do not take into account the possibility of negative shocks in the economy. As a result, the rating of the country has been not enhanced in 2019-2020 and, therefore, high profitability of treasury bonds and instability of exchange rates of Polish zloty is still the problem.

The current (2020), low level of deficit of general government does not pick Poland out to the level of other EU countries. In 2019, 16 of the EU countries had surplus, while 21 countries had lower deficit (see also Table 3. in Section 3). Moreover, some countries with low deficit had also low level of debt, i.e. significantly lower than 60% of GDP (Table 3.).

Polish public debt attained the lowest level in the year 2000, namely 36.5% of GDP (according to the ESA'2010 system). In the same year the real growth of GDP was equal 4.6% and the deficit – 3% of GDP; the country was not under the excessive deficit procedure of the EC. During the last years of the previous century Polish foreign debt was also reduced and restructured (in foreign currencies) and a new legal regulation was established, constraining the debt level. It should be emphasized that there are restrictions on the debt/GDP ratio in the constitution (60%) and two "preventive thresholds" on the levels of 50% and 55% in the public finance law (see *Public Finance Act*, 27-th of August 2009 year). Currently, the threshold of 50% is omitted. The system of debt strategy and management got also improved as a result of PHARE projects.

During the initial five years of the 21st century the level of deficit (expressed in terms of % of GDP) was high – as a result of breakdown of GDP growth in the years 2001 and 2002 and high level of servicing costs of the public debt. The costs resulted from high inflation level and low rating of treasury securities. The debt (again, as % of GDP) extended nearly by 10 percentage points – up to the level of 46.4%.

Improvement of economy and increase of the public sector revenues took place in 2007, which was mainly the effect of the accession to the EU and the decrease of tax level (VAT dropping from 23% to 22%). The debt level was 44.2%, GDP growth – 7%, deficit of the public sector – 1.9%, and the country was not under excessive deficit procedure.

Table 2. Government's public debt of Poland (Polish methodology and ESA'2010 methodology) and deficit of the public sector (ESA'2010), in the years 2000-2019, as % of GDP.

Year	Deficit ESA' 2010	Public debt – Polish method.	Public debt ESA'2010	GDP growth in %
2000	-3.0	37.7	36.5	4.6
2001	-5.1	38.8	37.3	1.2
2002	-5.0	43.6	41.8	2.0
2003	-2.5	47.4	46.6	3.6
2004	-5.0	46.7	45.0	5.1
2005	-4.0	47.5	46.4	3.5
2006	-3.6	47.8	46.9	6.2
2007	-1.9	44.8	44.2	7.0
2008	-3.6	46.9	46.3	4.2
2009	-7.3	49.8	49.4	2.8
2010	-7.3	52.8	53.1	3.6
2011	-4.8	53.4	54.1	5.0
2012	-3.7	52.7	53.7	1.6
2013	-4.1	53.3	55.7	1.4
2014	-3.6	49.9	50.4	3.3
2015	-2.7	48.7	51.3	3.8
2016	-2.4	51.9	54.2	3.0
2017	-1.5	48.5	50.6	4.8
2018	-0.2	47.0	48.9	5.1
2019	-0.7	44.0	46.0	4.1

Source: Statistical Yearbooks of the Republic of Poland (GUS), EUROSTAT - governmental statistics.

The subsequent several years were influenced by the global financial crisis, which decreased also significantly the GDP growth. The result was the increase of the debt to the level of 55.7% of GDP in 2013, i.e. above the threshold of 55%. The deficit of the public sector exceeded 7% in the years 2009 and 2010 and the country was permanently under the excessive deficit procedure. High deficits were the results of the low GDP growth because of low tax revenues of the state budget and of the local authority budgets; low GDP growth correlated with low level of foreign direct investments (see *Foreign direct investments in Poland and Polish direct investments in foreign countries in 2018*). The country did not apply recommendations of the European Commission – the effect of the excessive deficit procedure. There was no sanctions for such an attitude, because Poland does not belong to the EURO zone. It should be emphasized that the debt/GDP ratio was decreased artificially by high inflation rate close to 5% per annum (GDP is expressed in this ratio in current prices). High inflation increases tax revenues of the state budget, but also debt profitability and finally the servicing costs of the public debt. In 2014, the debt was decreased by the extinction of pension bonds, i.e. the transfer of liabilities to the pension system. The debt/GDP relation was also decreased by the replacement of the ESA'95 system by ESA'2010. The effect of transfer of liabilities was about 7 – 8% of GDP, the effect of change of the ESA version amounted to about 3%, i.e. totally about 10%. In the case of no transfer and continuation of the ESA'95 system, the debt level would be higher than the threshold 60%.

The next five years, 2015–2019, brought high economic growth in the EU and the world; in Poland the GDP growth was equal 3.8% in 2015, while the deficit of the public sector was -2.7% of GDP, i.e. below the 3% threshold, requested by the excessive deficit procedure. The deficit below 3% was sustained until the year 2019, and the real GDP growth was significantly above 4%. As the result of GDP growth and the increase of taxation level, the debt decreased to 46.0% of GDP at the end of 2019.

Summing up the above considerations - the following features of Polish debt had been important before COVID-19 epidemics:

- moderate level of debt at the end of the 20th century, but rather positive in comparison to the majority of EU countries and neighbors of Poland;
- loss of good position of public finance during world financial crisis; the debt growth (in terms of percentage of GDP) was higher than on the average in the EU countries and in EURO zone; the debt/GDP ratio was artificially decreased by the transfer of liabilities to the pension system and high increase of the price level;
- slight improvement of position of public finance took place in the period 2014-2017, the period of high economic growth; next two years have brought a better development, but rating of the country remained on the same low level;
- high level of long-term profitability of treasury bonds, much higher than in EURO zone, with exception of the countries most affected by the crisis.

As it was mentioned earlier, many problems of the public sector wait for adequate solutions and require increase of budget expenditures, especially: devastation of natural environment, very low level of fertility, low level of pensions, as well as weakness of public health service. Simultaneously, the public finance system bears a large burden of social transfers, which are rather ineffective because they are not appropriately directed. This situation requires reforms and improvement after COVID-19. Especially important are the following areas: establishing medium-term and long term optimal debt strategy, reconstruction of the social transfers systems, and accession to the EURO zone.

3. Polish debt – comparison with some EU countries

The data, concerning the level of debt, deficit, rating and long-term profitability are the basic features of indebtedness of any country. Such data, related to Poland, some EU counties and the averages for the EU are presented in Table 3., more precisely:

- average debt and deficit for EU'28, EU'19 and for selected countries in the last year of the 20th century, selected years of the 21st century, i.e. 2007 (last year before crisis), 2010 (crisis year), 2012 (last year of the crisis), 2014, 2015, 2016, 2019 (good years of EU economy),
- selected countries are: the largest EU economies (France, Germany, UK, Spain, Sweden), the highest debt countries (Greece, Portugal, Italy), the neighbors of Poland (Slovakia, Czechia, Hungary); for these countries we also present the: rating and profitability of long term treasury securities (in December of 2019).

The data from the table indicate the following conclusions:

1^0. The level of deficit of the public sector in Poland after the crisis years, i.e. in the years 2014–2016 was significantly higher than the averages for the EU'28 and EU'19. The averages for EU were as follows: -2.0%, -2.3%, -1.7% (EU'28), -2.5%, -2.0%, -1.6% (EU'19), while for Poland: -3.7%, -2.7%, -2.2%. The last year considered, 2019, shows similar levels, respectively: -0.6%, -0.8%, -0.6%, but the deficit in Poland is significantly influenced by the surplus of the national social insurance funds, which is equal 0.6% (without this subsector, the deficit equals -1.2%).

2^0. Current (2020) rating of Poland, A- (according to S&P), is higher than in the countries of the debt crisis only. This rating was not raised in 2019, notwithstanding high GDP growth and low deficit of the public sector. Therefore, Poland pays rather high costs of the risk of profitability of treasury securities.

3^0. Profitability of Polish long-term treasury bonds, equal 2.03% at the end of 2019, were below the profitability for the countries in deep debt crisis. Countries from the EURO zone with debt level close to 100% of GDP, e.g. Spain and France, featured significantly lower levels, i.e. Spain 0.44%, France 0.04%. Profitability of Portuguese securities was equal 0.41%, while the debt was at 117.7% and the rating was BBB+ only. Therefore, servicing costs of the debt were also significantly lower. Moreover, the profitability of Polish bonds did not satisfy the requirements of accession to the EURO zone.

4^0. Profitability of the long term bonds in the EURO zone are lower than in other EU countries. Thus, for instance, Czechia has the rating of AA- (S&P) and profitability 1.51%, while Slovakia – profitability of 0.13% and rating A+. This is the effect of EU'19 rating and of the monetary policy of ECB.

5^0. Countries with current debt level below 50–60% and high rating have decreased significantly their level of debt after the end of the global financial crisis. In the EURO zone the leader is Germany – 14.7 percentage points, outside the zone it is Czechia with 11.4 percentage points. It was also the result of refinancing of the majority of debt with low or negative profitability. The debt of Poland (expressed as % of GDP) decreased only by 4.4 percentage points in this period; it has also increased in the years 2015 and 2016. Thus, the difference between the debt levels in the years 2019 and 2000 was equal 9.5 percentage points. The forecasted debt level after COVID-19 was about 57.5% (the same as actual level).

Table 3. Deficit and debt (as % of GDP, ESA'2010) of selected EU countries, in selected years, profitability of long term treasury securities and their rating by S&P (end of year 2019)

Item	Years								Long term. profit., rating
	2000	2007	2010	2012	2014	2015	2016	2019	
UE28, def.	-0.1	-0.9	-6.4	-4.3	-2.0	-2.3	-1.7	-0.8	0.54
Debt	60.1	57.6	78.9	83.8	86.4	84.4	83.3	79.3	-
UE19, def.	-0.5	-0.7	-6.2	-3.7	-2.5	-2.0	-1.6	-0.6	-
Debt	68.2	65.0	84.6	89.7	91.8	89.9	89.1	84.1	
PL, def.	-3.0	-1.9	-7.3	-3.7	-3.7	-2.7	-2.2	-0.6	2.03
Debt	36.5	44.2	53.1	53.7	50.4	51.3	54.2	46.0	A-
F, def.	-1.3	-2.6	-6.9	-5.0	-3.9	-3.6	-3.5	-3.0	0.04
debt	58.9	64.5	85.3	90.6	94.9	95.6	98.2	98.1	AA
D, def.	0.9	0.2	-4.2	0.0	0.6	0.8	0.9	1.4	-0.30
Debt	58.9	63.7	81.0	79.9	74.5	70.8	67.9	59.8	AAA
UK, def.	1.4	-2.6	-9.3	-8.1	-5.4	-4.2	-2.9	-2.1	0.78
Debt	37.0	41.7	75.2	84.1	87.0	87.9	87.9	85.4	AA
I, def.	-2.4	-1.5	-4.2	-2.9	-3.0	-2.6	-2.5	-1.6	1.37
Debt	105.1	99.8	115.4	123.4	131.8	131.6	131.4	134.8	BBB
ES, def.	-1.1	1.9	-9.4	-10.5	-6.0	-5.3	-4.5	-2.8	0.44
Debt	50.8	35.6	60.1	60.1	100.4	99.3	99.3	95.5	A-
P, def.	-3.2	-3.0	-11.2	-5.7	-7.2	-4.4	-2.0	0.2	0.41
Debt	50.3	68.4	96.2	126.2	130.6	128.8	129.2	117.7	BBB+
GR, def.	-4.1	-6.7	-11.2	-8.9	-3.6	-5.6	0.5	1.5	1.42
Debt	104.9	103.1	146.2	159.6	178.9	175.9	178.5	176.6	B+
SI, def.	-12.0	-1.9	-7.5	-4.3	-2.7	-2.6	-2.2	-1.3	0.13
Debt	49.6	30.1	41.2	52.2	53.5	52.2	51.8	48.0	A+
H, def.	-3.0	-5.0	-4.5	-2.4	-2.6	-1.9	-1.6	-2.0	1.88
Debt	55.3	65.5	80.2	78.4	76.6	76.6	75.9	66.3	BBB-
CZ, def.	-3.6	-0.7	-4.2	-3.9	-2.1	-0.6	0.7	0.3	1.51
Debt	17.0	27.5	37.4	44.5	42.2	40.0	36.8	30.8	AA-
S, def.	3.2	3.4	0.0	-1.0	-1.6	0.2	1.1	0.5	0.07
Debt	50.7	39.2	38.6	38.1	45.9	44.2	42.4	35.1	AAA

Source: EUROSTAT (ec.europa.eu/eurostat/data/database), 9.04.2020 r.

6^0. The level of indebtedness in EU'28 and EU'19 is higher than in Poland, but it is overestimated by the contribution of the countries with debt crisis. The majority of the countries of EU'19 have high ratings and in fact can service the debt higher than 60%.

7^0. The trend of debt/GDP ratio for Poland has been in some periods contrary to that for the EU; e.g. in the period 2014-2017 the increase took place by 0.2 percentage point, while the decrease between 2012 and 2017 amounted to only 3.1 percentage points. Polish debt strategy has had no benefits from the monetary policy of the ECB.

8^0. The level of profitability of Polish treasury securities hampers the decrease of the debt/GDP ratio. Servicing costs of the debt are close to 1.5% of GDP and can increase in the future as a result of increase of inflation(!) or exchange rates.

9^0. During the period of 2014 - 2019 the average annual growth of GDP (constant prices) was at the level of 4.3%, but the decrease of the debt/GDP ratio assumed the value of 4.4% percentage points only. Moreover, the price growth was positive in this period and, therefore, the nominal GDP level was significantly higher than for the constant prices. Thus, the progress in debt reduction was weaker than on the average in the EU.

4. Accession to EURO zone – some consequences for Polish public debt, monetary policy and economy

The crucial problem for the Polish debt policy is the accession to the EURO zone – according to the accession treaty. As it was mentioned above, profitability of treasury securities and servicing costs are significantly lower in the EURO zone – as the result of high rating and monetary policy of ECB.

The problem has been discussed broadly by many authors. A significant analysis of this subject, from the point of view of politics, macro-economy and financial policy, was presented by Professor S. Gomułka (Gomułka, 2019), while the empirical, statistical examination has been performed by Goczek and Mycielska (2014). The first author shows unquestionable benefits from the accession to the EURO zone and even determines it possible date. The author shows also groundlessness of reservations in this subject, like: loss of sovereignty in monetary and fiscal policy and necessity of achieving of European level of earnings of employees. However, it is obvious that EU is the union of sovereign countries, with complete competence in law creation and its amendments. Fiscal requirements from the Maastricht treaty are in fact not restrictive for public finances of the member countries, while the legal rules do not disturb the institutional structure of the respective countries. Recommendations and sanctions are triggered off only in case of not satisfying the requirements of fiscal stability. Another problem discussed, i.e. the increase of the level of earnings depends on productivity of labor. In Poland it is currently the effect of transfer of innovations from the leading countries – this being is also valid for creating new products and technologies. Accession to the EURO zone makes also easier: the access to the credit market with low interest rates and economic convergence with countries – leaders of EU; the convergence relating especially to fiscal and monetary policy. Moreover, Polish economy is now quite open – the sum of import and export is close to the GDP value, which indicates a high level of exchange rate risk for Polish zloty. Moreover, foreign trade volume is growing all the time.

The author, Professor Gomułka, reminds also of the main reasons of the last financial crisis: the excessive public indebtedness, excessive increase of wages causing decrease of competitiveness and excessive risk in large sectors of banking system. They are still valid. Simultaneously, the monetary policy of ECB, after the last world crisis, results in conditions for the decrease of the public debt in the majority of European countries and for the whole Union.

The problems of independence of Polish monetary policy with respect to ECB have been examined with the use of econometric approach in the paper by Goczek and Mycielska (2014). The authors present the results of modeling of independency of the monetary policy on the basis of VAR models expressing dependence of the WIBOR rate (daily, weekly and monthly) at the inter-bank market and the EURIBOR rate. The hypothesis of lack of independence amounts to the existence of the long-term one-sided relationship (without feedback) which is not simultaneous (i.e. displaying lags). The models developed by the authors have been statistically estimated and positively verified with statistical tests. The basic conclusions are as follows: • there is no basis for rejecting of hypothesis about existence of one-sided co-integrated dependency between the WIBOR and EURIBOR rates, i.e. the rates in the EU are not in long-term convergence with the rate in Poland, • there is no basis for the rejection of the hypothesis as to the convergence of the rates in Poland and EU, • a premium for risk of investments in Poland is positive, • independence of monetary policy in Poland does exist, but is confined. The results show that the ECB influences significantly the monetary policy of NBP, the Polish National Bank, i.e. the proposition that the accession to the EURO zone will cause lack of independence is not true.

The current political declarations do not indicate the perspectives of accession to the EURO zone. Moreover, COVID-19 has terminated the period of rapid economic growth. Financial policy of Poland during last four years was "wasteful" – similarly as in some of the countries suffering from crisis of public finance – especially in the times of political elections. It is also contrary to the opinion of S. Gomułka about the necessity of decreasing the deficit of the public sector – about 3–4% of the GDP. The public sector expenditures in the last three years increased faster than the economy (GDP), while during the earlier six years the growth was slower. The high increase took place regarding the social transfers; in 2019 year the „cost" for one person achieved 2 312 Polish zlotys per annum. This value is comparable to the one of health expenditures (2 727 zlotys) or the education-related expenditures (2 824 zlotys). Some social transfers are not addressed at definite target groups of the society and do not come up to expectations as to their effects; e.g. the 500+ program, meant for families with children, did not increase the birthrate (in fact, it decreased in 2019).

5. Summary and conclusions

The main problems of the public debt of Poland from before COVID-19 still wait for constructive solutions. They comprise: low rating and high servicing costs, high level of foreign debt of the central government, high level of debt in foreign currencies in conditions of variability of exchange rates of Polish zloty, lack of satisfying of all requirements of accession to the EURO zone and lack of intention to accede, lack of optimal strategy regarding the debt in the middle- and long-term periods. The financial policy of Poland, with the higher growth of budgetary expenditures than that of the economy as a whole (during the last three years), does not foster solving these problems. Especially, a significant part of the expenditure side is constituted by inflexible social transfers and expenditures for the defense of the country. The direction of changes in the indebtedness of Poland after the international financial crisis was not consistent with that for the other countries of the EU, especially in terms of decreasing of debt profitability and servicing costs. Poland has not determined the date of accession to the EURO area, i.e. the country belongs to a small group of countries without common currency and with low GDP level. The debt strategy of the EU countries with healthy public finances indicates the efficient directions of debt strategy for Poland.

The pandemic disease of COVID-19 constitutes a kind of extremal shock for the public finances – the income side of the central budget, local budgets and national social insurance funds decrease drastically, while expenditures increase to unexpected dimensions. The GDP growth of Poland in 2020 is expected to be negative (recession) at about –4%, deficit level will attain about 7–9% of GDP, the public debt – about 57.5% of GDP (for the forecasts of GDP and debt/GDP ratio, see European Commission, April 2020). This is the cost of inactive time of some parts of economy, coupled with health safety, work safety and enterprise safety measures. Yet, this is also the cost of lack of ability to absorb such shocks by the public finance sector.

The main objective of the national economy and the public finance sector in the period after COVID-19 is an efficient and appropriate removal of the effect of the shock mentioned. It is also necessary to meet the requirements of the Polish and EU laws, especially concerning the procedure of excessive deficit. It is suggested also to strengthen the Polish law in the following directions (for more details see Klukowski, 2019):

- to apply ESA'2010 system (for deficit and debt) as a basis in the law restricting the debt level in Poland;
- to introduce into the Polish law constraining the debt level the following rules:

- obligation for application of recommendations from the EC resulting from the procedure of excessive deficit,
- to approve strategic targets concerning the debt level, especially: servicing costs below 0.5% of GDP, no deficit rule except for the servicing costs in the years of potential growth of GDP (according to the evaluation of the Central Bank of Poland),
- no increase of debt/GDP ratio in the periods of GDP growth higher than 1%,
- obligation for approving of the program of debt repayment, which exceeds the servicing costs,
- obligation for the supervision of the optimality of debt strategy (middle- and long-term) and debt management by a commission of independent (non-governmental) experts.

Such regulations would, in general, be consistent with EU rules and similar to those in force in the countries having healthy public finance, e.g. Germany, Sweden, etc.

Some problems require indispensable solving in a time-horizon as short as possible. These are: achieving the rating of at least A+ (according to S&P), decreasing the servicing costs to the level below 1% of GDP, starting of the accession procedure to the EURO zone, reduction of debt/GDP ratio to the level from the year 2000 (36.5% of GDP). Finally, the expected transfers, meant for the recovery of the EU countries after the pandemic disease COVID-19 have to be properly directed – not for the populistic purposes.

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PROBLEMS OF POLISH PUBLIC DEBT – STATE BEFORE COVID-19

Abstract: The paper presents the main problems of public debt in Poland before the pandemic disease of COVID-19, which has started in 2020. These problems will get deteriorated in following years because of low level of income - significantly below the budgetary act level - and extremely high level of expenditures of the public finance sector. It is also a result of expected recession in the economy of the country. Moreover, the deterioration is amplified by the erroneous fiscal policy during last five years; especially not having taken into account the possibility of materialization of different types of risks and featuring excessive level of expenditures and deficit. In the future, the fiscal policy of the country has to be based on responsibility and safety. Recovery and long-term stability has to be achieved as soon as possible in close cooperation with EU institutions.

Keywords: public debt, Poland, state deficit, national economy, budgetary policy

ZAGADNIENIA POLSKIEGO DŁUGU PUBLICZNEGO – STAN SPRZED EPIDEMII COVID-19

Streszczenie: Artykuł przedstawia główne zagadnienia, dotyczące długu publicznego w Polsce przed epidemia COVID-19, tj. przed wiosną 2020 roku. Zagadnienia te staną się jeszcze poważniejsze w kolejnych latach ze względu na niski poziom przychodów budżetowych – znacznie niższy od zakładanych w ustawach budżetowych – oraz bardzo wysokich wydatków w sektorze publicznym. Należy także uwzględnić przewidywaną recesję, jaka może czekać polską gospodarkę. Niezależnie od tego, sprawy pogarsza niewłaściwa polityka fiskalna, prowadzona w okresie ostatnich lat, zwłaszcza zaniedbanie możliwości zaistnienia różnych rodzajów ryzyk i pominięcie znacznie zwiększonych poziomów wydatków budżetowych. W przyszłości, polityka fiskalna musi być oparta na odpowiedzialności i bezpieczeństwie. Odbudowa i stabilność muszą zostać osiągnięte jak najszybciej w ścisłej współpracy z instytucjami UE.

Słowa kluczowe: dług publiczny, Polska, deficyt państwa, gospodarka narodowa, polityka budżetowa