

RESEARCH ARTICLE

## External and Internal Circumstances for the Use of Numerical Fiscal Rules in Poland

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### Abstract

The current situation in the sector of public finances in numerous states is highly unstable with quite uncertain prospects which are unlikely to be assessed. Risk levels have soared disproportionately on domestic and international markets, thereby impeding efforts to overcome the slowdown and even shrinking the sphere of the real economies of various states. One of the most visible signs of this turbulence in economic life is continued sovereign debt at hazardously high levels. Against such a background, it was crucial to take decisions with regard to immediate measures, such as spending cuts or tax rises, as well as long-term measures reinforcing institutional and organizational frameworks in the sphere of public finances. One of the elements of new fiscal frameworks postulated is a collection of tools for leading-edge public funds management, defined as fiscal rules.

**Keywords:** *Budget, Fiscal rules, Public finance, Public debt.*

### Introduction

An efficient fiscal policy has proved to be a tremendous challenge for a wide range of states in the second decade of the 21st century. Complexities underlying public finances management is connected with the ramifications of the deepest financial downturn over the recent decades under the circumstances of the global financial market and advanced instruments, operations and transactions on an unprecedented scale. The current situation in the sector of public finances in numerous states is highly unstable with quite uncertain prospects which are unlikely to be assessed. Risk levels have soared disproportionately on domestic and international markets, thereby impeding efforts to overcome the slowdown and even shrinking the sphere of the real economies of various states. One of the most visible signs of this turbulence in economic life is continued sovereign debt at hazardously high levels. Against such a background, it was crucial to take decisions with regard to immediate measures, such as spending cuts or tax rises, as well as long-term measures reinforcing institutional and organizational frameworks in the sphere of public finances. One of the elements of new fiscal frameworks postulated is a collection of tools for leading-edge public funds management, defined as fiscal rules. OECD states, also including the EU member states, run systemic actions seeking to develop and implement or enhance fiscal rules.

Focus on the fiscal rules principally stems from realizing autonomy of the fiscal policy, remaining virtually an exclusive prerogative of individual governments, no matter whether a given state is a member of international formations such as the European Union, or is subject to varied arrangements arising from international agreements, both multi and bi-literal. By respecting the autonomy of fiscal policy it was stated that formulation of certain rules to affect public finances, and then their use allows for rational policy and may serve as a criterion for assessing the financial credibility of the given state as well as the quality of its financial management. Formulation of the rules and compliance with them heightens the transparency and predictability of fiscal policy; it also holds out the possibility of improved relative and earlier assessment of the fiscal situation in states with downgraded credit ratings which otherwise would need to wait many years to strengthen its image.

### Level-1 Heading

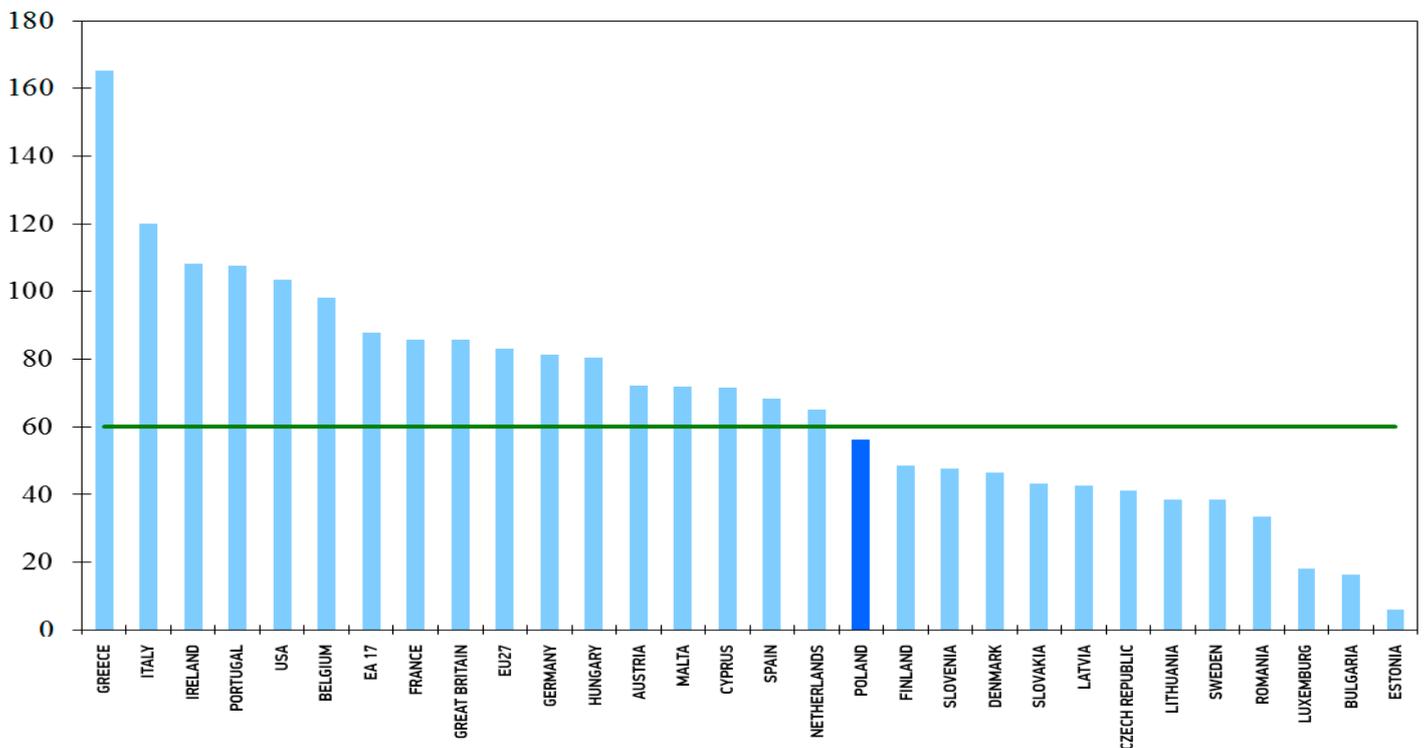
The fiscal rules currently employed may be classified from the viewpoint of the policy element to which they directly apply to in the following manner.

- Budget balance rules, set out as an outcome of public finances sector (or its fraction), likely to be manifested in nominal, structural, cyclically-adjusted terms, or within the cycle;

- Debt rules, which typically set explicit numeric limits or targets for public debt, typically in relation to GDP.
- Expenditure rules, mostly set as permanent limits on total, primary or current expenditures, either in absolute terms, growth rates, or as a percentage of GDP.
- Revenue rules set a ceiling or floor for revenues aimed to increase revenue and/or avert excessive tax burdens.

Within the illustrated classification of fiscal rules only one of them refers directly to the size of the public debt. However, it should be noted that all remaining rules must indirectly affect the public debt. Previous practice of formulating fiscal policy principles in a wide range of states has pragmatically recognized the superiority of the remaining fiscal rules (i.e. those not directly regarding the debt), i.e. pertaining to the performance of the sector, revenues or

expenditures. The guiding considerations included their potentially greater directness, pace and effectiveness of application. It is hard not to agree, as the magnitude of debt is an effect of such precise design of revenues, expenditures and outcomes in the public sector. The design of the institutional measures applied by the European Union placed a key emphasis on constraining deficit seeking to safeguard against excessive debt as the ultimate adverse effect of excessive fiscal expansion. The practice of underrating a debt component in the fiscal criterion prevailing until 2010 underlay the ineffectiveness of the excessive debt procedure applied. Disregard by some states of the magnitude of sovereign debt was one of the causes triggering the deepest financial slump in the history of the European Union, which fundamentally swept through states sharing the same euro currency. Chart 1 demonstrates findings illustrating the scale of the soaring public debt in specific EU states and the US over recent period.



Source: AMECO, own study.

**Fig.1: Debt of the government and local government sector in EU states and the US in 2011 in relation to GDP in %**

Underrating of the debt criterion was manifested by tolerating high, at least exceeding 60 per cent, debt thresholds in booms. Following 2007 when many European states plunged into economic recession an average debt to GDP ratio in the EU-27 surged by 24 percentage points up to 83.0% over four years. In 2011 a peak debt to GDP ratio was recorded in Greece (165.3% - an increase by 57.9 percentage points since 2007),

Italy (120.1%), Ireland (108.2%). Portugal (107.8%). At the same time the debt to GDP ratio

rose almost 11.3 percentage points up to 56.3% which means that this ratio was going up twice as slowly as the EU average. The ratio surge was constrained for Poland by the effects of a nominal GDP increase, despite an excessive deficit. An additional aspect to be considered in comparisons of rising debt is the fact that around 30% of Polish debt resulted from financing the state budget loss,

concerning public pension contribution revenue, connected with the capital pillar established within the pension scheme in 1999. In a number of other European states which failed to put in place a pension reform these long-term liabilities remain hidden and thus deteriorate the quality of public finances in an implicit manner. Hidden long-term liabilities are not reflected in ongoing data on deficit and public debt. For example, for Poland deduction of these liabilities decreased the debt-GDP ratio by almost 20 percentage points in 2011. Further, it should be highlighted that incorporation of these hidden liabilities would further worsen debt to GDP ratios for the majority of European states. For the purposes of these deliberations this should be assumed as an extra argument for boosting the standing and significance of the debt criterion for designing an adequate fiscal policy. Actions undertaken to support the case fall into the primary trend for changes effected with a view to reinforce the system of public finances management in the OECD, EU states, etc. After all, one of the key priorities of the EU member states over recent years continues to be placing a budgetary policy on a good footing whilst securing political strategies for fostering growth and efficiently steering the financial sector along the path of economic recovery. In measures adopted preference is given to establishment of robust and rational budgetary frameworks including optimal procedures and methods of budgeting that make use, to a far larger degree, of numerical fiscal rules.

### Level-1 Heading

Since 2011 there is a new system for coordinating budget, macroeconomic and structural policies of the EU member states in operation. In the first half of each year the “European assessment period”, otherwise called “European Semester” is performed. A new schedule introduced as well as a method for coordination of economic policy, including the fiscal one should allow the EU member states to consider the EU remarks at the stage of creating a domestic budget and designing economic policy. Also, an improved monitoring system enables responsible supervision over compliance with rules and procedures applicable to a given state. A package of six legal acts (so-called “Six Pack”) seeking to strengthen surveillance of the budget and public deficit was adopted in November 2011. Legal deeds forming the “economic six-pack” include two regulations targeting the euro area countries with regard to efficient enforcement of budgetary surveillance as well as enforcement means for correcting excessive

macroeconomic imbalances. The remaining two regulations covering the whole European Union are intended to bolster the surveillance of budgetary items as well as surveillance and coordination of economic policies, and prevent and correct macroeconomic imbalances. The last resolution aims to accelerate and clarify the procedure of excessive deficit and to amend the resolution as of 1997 regulating this matter (previously amended in 2005). On top of that, detailed provisions were enacted with respect to identification of macroeconomic imbalances within the EU as well as prevention of excessive macroeconomic imbalances and their corrections along with money in the event that these provisions are breached. The amended regulation over the procedure of excessive deficit clearly asserts that the rules regarding the budgetary discipline should be tightened, notably through placing more emphasis on the debt level and its changes as well as on the overall stability of public finances. It was also stressed that mechanisms for ensuring compliance with these rules and their enforcement should be enhanced. The numerical formula for debt reduction in the event that debt exceeds 60% of GDP was established.

Enhancement of existing mechanisms included in the Stability and Growth Pact fuelled by the abovementioned legal instruments is aimed at boosting the effectiveness of assessing updates of stability and convergence programmes with the use of reinforced coordination within member states at the ex-ante phase. The mechanism of the “European semester” is expected to enable member states to reap benefits from assessment of the fiscal policy pursued at the EU level, among others, in the course of charting national fiscal plans and national reform programmes. Earlier time limits for submitting updates of stability and convergence programmes (SCPs) and national reform programmes (NRPs) are intended to shore up thorough evaluation of economic situation of the given state and augmented synchronization with national procedures regarding drawing up the budget. A further document confirming and to an extent specifying some measures of the “economic six pack” cited is the Treaty on Stability, Coordination and Governance signed on 2 March 2012 and constituting an intergovernmental agreement signed by 25 EU member states (all but Czech Republic and UK). The Treaty will come into force in 2012 or later following ratification by at least 12 „euro-area member states”.

A tremendously significant measure from the viewpoint of this article, representing a boost for the Stability and Growth Pact, is an obligation to establish effective fiscal frameworks at the national level, including implementation of fiscal

rules enshrined in the law. National fiscal rules should be complementary to those adopted in the Pact. New “budgetary frameworks” for the EU states were set out in the Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States [1]. The budgetary frameworks are construed as a suite of arrangements, procedures, rules and institutions providing the foundation for the conduct of budgetary policies in the government and local government sector. Chapter IV of the directive contains recommendations for application by member states of numerical fiscal frameworks embracing target definitions and scope of rules, procedures for monitoring compliance with the rules, independent of fiscal authorities, the consequences of non-compliance with the rules, stringent procedures for temporary non-compliance with the rules or resignation from these rules (in accordance with Art. 8 of the referred Directive, its recommendations regarding fiscal rule do not apply to Great Britain). Numerical fiscal rules are designed to underpin the fulfilment of member states’ obligations by the government and local government sector in the long run in the area of budgetary policy arising from the Treaty on the Functioning of the European Union (TFEU). The rules should principally encompass the issues of limits for deficit and debt, as well as supporting compliance with the medium-term budgetary objectives in the specific state. Under the directive, the budget act enacted should incorporate binding numerical fiscal rules in a given state.

The European Commission defines a comprehensive Fiscal Rule Index [2], FRI, designed to measure numerical fiscal rules used in the EU member states. The index integrates five basic criteria and its value is calculated on an annual basis, based on data provided by individual states in the questionnaires. For the index to be constructed only two rules are examined, a larger number of rules are not considered. The first step is to calculate assessment of so-called fiscal rule strength. To gauge this parameter five criteria are taken into account. The legal status of the fiscal rules, i.e. the legal basis of the rule is evaluated on a scale of 1-4. The top rank (4) pertains to the rules anchored in the Constitution, 3 is awarded to the rules enshrined in the act, 2 refers to the rules agreed on under the coalition agreement or arrangements at the level of varied tiers in the central administration, whereas the lowest rank 1 is connected with political obligations of the specific tier of administration. Another element of the assessment is flexibility of definition or

changes in specified limits on the scale from 1 to 3, hinged on the duration of limits from precisely determined in the document depicting the rule, through a certain constrained margin for limit changes to full freedom in limit changes. The third criterion (scale 1-4) applies to possibilities for establishment of limits as well as their potential changes from automatic sanctions and rules for non-compliance with limits, to lack of previously defined responses in the event of non-compliance with the rules. A further criterion investigates on the scale from 1 to 3 the specifics of the organ monitoring observance and enforcement of fiscal rules, and takes account of the degree of independence of the organ (e.g. parliament, government, lack of such institution). Another criterion evaluates enforcement mechanisms for fiscal rules (who enforces compliance with the rule), in an analogous hierarchy as in the case of the previous criterion. The latest criterion deals with availability to the public of the results on fiscal rules strength. In this case the top rank 3 when media closely monitor fulfilment of the rule, and in the event of non-compliance there is a high probability of provoking a public debate, 2 even though bringing the compliance with the rule under the spotlight, the case of non-compliance fails to stir a public debate. The lowest grade 1 is related to the lack of media appeal. The values of the foregoing criteria diminishing accordingly are used to compute an ultimate assessment of the specific fiscal rule strength. Due to methodological considerations, instead of a weighted average of results for criteria applied, calculations are made repeatedly reflecting varied possible weighting for five criteria specified. Results with regard to these five criteria are standardized in values between 0 and 1. To generate random weights the Sutherland method is used. These calculations make it possible to attain a single index of fiscal rules strength. The results are close to an average of the score value for criteria. Further on, two values of fiscal rules strength are weighted by the coverage index of the public sector of the respective rule. In the event that the rule covers all entities, the index amounts to 1, restricted scope for rule application proportionally diminishes its value. Based on the assessment determined for two rules, a fiscal rules index is measured for a specific state. A higher rule strength is adopted in full, whereas a rule with a lower assessment is only considered at half its value. Ultimately, the sum of these two values provides a fiscal rules index for a specific country. On the basis of the detailed analysis of FRIs for EU states the European Commission concluded that the quality of fiscal rules applied proves to be low and requires strengthening which was then

evidenced in the aforementioned legislative amendments to the Stability and Growth Pact. Finally, the effectiveness of the rules applied within the fiscal policy, validating its quality and adequacy, is practically verified by the performance of the government and local government sector, gauged by its balance and debt level. Since the mid-90s of the 20<sup>th</sup> century, deficit of the sector on average in Poland stood at around 4.5% of GDP, and its temporary squeezing was largely an effect of the boom, to a lesser degree, in consolidation measures. Even in the peak boom period expenditures exceeded revenues of the government and local government sector, which implies that structural deficit within the period surveyed stayed explicitly higher than the level of the medium-term objective (MTO) which for Poland was 1,0% of GDP [3]. At the same time the debt to GDP ratio, regardless of the methodology employed (European or national), constantly fell below the constitutional and treaty cap of 60%.

### Level-1 Heading

In the case of Poland, the repercussions of the global crisis in real economy proved to be significantly less poignant than in most of other European countries. The Polish economy, as the only one in the EU and one of the few in the OECD reached economic growth in 2009, whereas within 2010-2011 it scored a second rank across the EU. Yet, due to strong slowdown of growth, adverse structure of this growth from the fiscal perspective and impact of structural reforms on falling revenues of the government and local government sector (among others, decline in disability pension contribution in previous years, decrease in tax scale in PIT since 2009, and changes in VAT tax settlements being beneficial for taxpayers), Poland also experienced substantial aggravation of fiscal imbalances. As a consequence, deficit of the government and local government [4] sector soared from 3.7% of GDP in 2008 up to 7.1% of GDP in 2009 and 7.9% in 2010. The consolidation measures initiated allowed for bringing down the deficit level in 2011 to 5.1%, chiefly due to reducing the state budget deficit, and forecasts for 2012 suggest possibilities of further curbing to the level of around 3%.

However, slump in the external environment is not a key factor determining the stance of public finances in Poland. Overall, fiscal imbalances basically have structural grounds and are the result of excessive pro-cyclical fiscal policy within the boom period. Since the mid-90s of the 20<sup>th</sup> century the deficit of the government and local

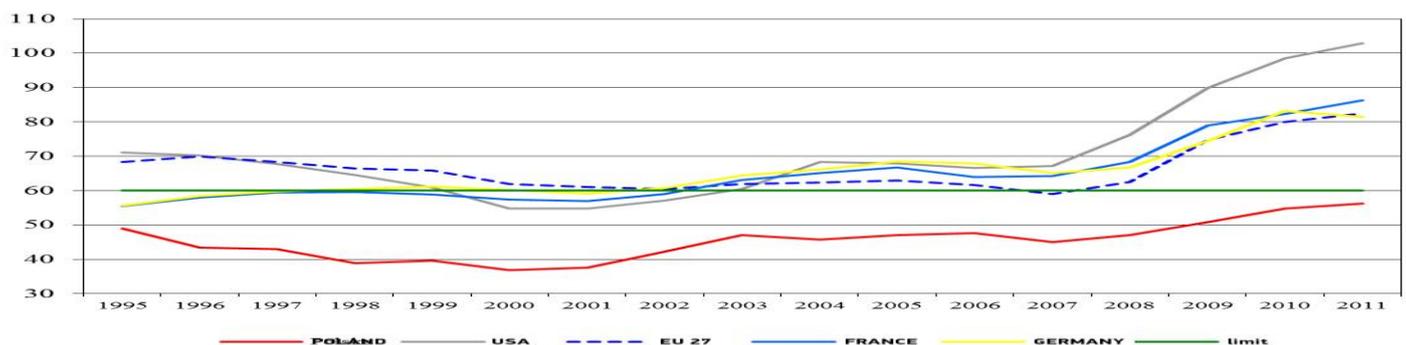
government sector was maintained at a level of 4.3% in Poland, and its temporary reduction was principally assigned to the boom, but very rarely to measures focused on bringing public finances to a sound footing. Even in the peak boom period, in effect, the performance of the government and local government sector failed achieve balance, which means that structural deficit continues to be notably higher than the so-called medium-term budget objective which all EU states are obliged to abide by (A medium-term budget objective, being in compliance with the European Stability and Growth Pact, standing at 1% of DGP for Poland, relates to structural deficit. It means that during a robust economic growth a nominal outcome in the government and local government sector, being compatible with this objective, should be surplus.). Only such a level ensures functioning of automatic stabilizers in the manner which effectively alleviates negative effects of economic slowdown, without detriment to long-term stability of public finances. The upshot of exceeding the reference values from Maastricht (3.0% of GDP) by the government and local government sector was the adoption by the Ecofin Council on 7 July 2009 of a decision, under Article 126(7) of the Treaty on the Functioning of the European Union, on the existence of an excessive deficit in Poland while simultaneously giving recommendations under Article 126(7) of the Treaty with regard to reduction of the excessive deficit. Pursuant to these recommendations, Poland should cut down its excessive deficit throughout 2012 in a reliable and enduring way.

The Structural ground of fiscal imbalance combined with the aftermath of the global crisis led to an increase in public debt in Poland. Public debt (measured according to ESA'95) to GDP ratio rose from 47.1% in 2007 up to 56.3% in 2011. Revenues of the sector in 2011 amounted to 38.5% in relation to GDP, whereas the ratio of the sector spending to GDP was lowered compared to 2009 and 2010 respectively to 43.6%. In 2011 public debt (according to the national methodology) to GDP ratio stayed below the ceiling (55%). Paucity of measures seeking to put public finances on a sound footing would trigger materialization of the risk of exceeding this threshold in the future, and thereby inducing the pressing need for tightening the fiscal policy, arising from remedial procedures provided for in the Act on Public Finances. Fiscal policy remained in the trend of maintaining long-term stable growth. The magnitude of the fiscal impulse launched in Poland to stimulate business cycle within 2009-2010 resulted in a surge in budget deficit, though with its scale being clearly under control. The Fiscal impulse, however, was constrained in terms of the period as well as

magnitude, so as to prevent from constantly increasing public debt. In essence, the assessment of the situation of public finances from the perspective of the overall business cycle implies the lost opportunity for consolidation of the Polish public sector prior to slump. Specifically, a fall in growth of public debt being essential due to the debt rule, and a cutback in its ratio to GDP requires, above all, reduction in public spending growth, as an attempt to fulfil this objective merely through tax rises would entail far more adverse ramifications for economic growth in years to come. Lowering the rate of increase of public debt requires direct measures concerning expenditure, which should be bolstered with adequate institutional frameworks. Fiscal rules applicable in Poland are assessed relatively highly compared to other EU states, which is reflected in the level of fiscal rule indices published by the European Commission. In the rating of the EU states that summarizes the level of fiscal rule index for 2009-2010 Poland is ranked as eighth [5]. In Poland a core fiscal rule is represented by a so-called debt rule which is enshrined in two legislative instruments – the Constitution of the Republic of Poland as of 2 April 1997 and an act of 27 August 2009 on public finances (first introduced in the act of 26 November 1998 on public finances). A constitutional rule sets out the limit of public debt highlighting that it is not permissible to contract a loan or grant guarantees and sureties which will give rise to sovereign debt exceeding 3/5 of annual GDP. This principle is complemented by the legislative rule specifying prudent thresholds with regard to the public debt through putting in place thresholds for public debt to GDP ratio at the level of 50%, 55% and 60% whose breaking would result in launching prudential and remedial procedures. Sources for instituting the debt rule to the Polish legal system are connected with the process of transformation of the social-economic system in Poland following 1989. One of the additional impediments to the process were outstanding foreign liabilities defaulted in the 80s which were inherited from the previous political system.

Foreign debt was reduced and restructured in the first half of the 90s. Following the execution of these operations it was possible to commence financing abroad on market terms and conditions. In the same period the domestic market was intensely exploited for financing borrowing needs. A rational conclusion drawn from the situation displayed was the proposal of the constitutional rule intended to safeguard from the temptation towards excessive debt.

Overall constraint of the fiscal expansion in Poland both before and after 2004, when on accession to the EU Poland was subject to the excessive deficit procedure related to the necessity of compliance with financial limits for the size of public debt in the annual budget act as well as in medium-term financial projections. (In particular it regards projects for the Strategies of management of debt in the public finances sector following 1997 and projects for Pre-accession economic projects within 2001-2004, projects for Convergence Programmes and its update since 2004.) Ongoing spending needs were confronted on a yearly basis with a precise forecast of public debt and its increase resulting from financing the borrowing needs of the state, as well as a forecast of foreign debt linked predominantly with current and forecast foreign exchange. In Poland in 2009 no additional expenditures stimulating growth were made (unlike those pursued by the majority of EU states), a decision taken few years before on reduction of tax rates and disability pension rates which spurred the increase in deficit. The average real pace of public expenditures assessed by the European Commission stood at 2.5%. This restrictive policy prevented Poland from breaching the 55% prudential threshold (debt measured according to the national methodology). Crucially, it may be ventured to assert that the relatively positive picture of the stance of Polish economy and public finances within the period of the downturn following 2007 is connected with, among others, the effects of extremely effective debt rule being in force since 1997, i.e. over the last 15 years. Effects of the constitutional debt rule in Poland compared to the same relation for the whole EU and selected countries are illustrated in Fig.2.



Source: AMECO, own study

**Fig.2: Debt to GDP ratio in 1995-2011 in Poland and in selected countries in %.**

It should be remembered that a radical change in average public debt to GDP ratio in the EU-27 after 2007 was largely related to the effects of a decline in the size of GDP in 2008, additional government spending despite dwindling revenues as well as costs of support costs for financial institutions (accumulation of net financial assets was responsible for around ¼ increase in average debt ratio within the period 2008-2010) [6]. This last component had an impact on decreased debt in Poland. It stemmed from two reasons: the proceeds obtained from privatization and the good stance of the Polish financial sector which was not in need of support by public funds. As mentioned before, in the case of Poland GDP continued to rise following 2007.

A reasonably good assessment of fiscal rules applied in Poland is only confirmed in part by fiscal parameters, that are the part which deals with relatively good level of debt. Still the excessive size of annual balance in the public sector remains unsatisfactory. The good assessment of the quality of fiscal rules attests to a proper standing and efficiency of the constitutional debt rule. Irrespective of the assessment of the quality of the debt rule it should be underlined that changes in sovereign debt ratio in Poland during the period when the rule remained in force in relation to changes in average debt to GDP ratio throughout the whole EU and other countries are, in effect, smaller.

The positive experience of functioning the constitutional debt rule in Poland stands in contrast to a persisting excessive deficit level. A presumed element lacking from the system of managing finances and a solution to the problem may be an expenditure fiscal rule. Further, an urgency for introduction of such rule in Poland is reinforced by the fact that as evidenced by numerous analyses, in Poland an expenditure level (to GDP ratio) is overly high given the level of economic advancement (which is revealed in a number of analyses, by among others the IMF). The consequence of such a situation is the lack of possibilities for further reducing taxes which would be conducive to enhancement of international competitiveness of Poland while maintaining a safe deficit level in the government and local government sector. Until 2010 an expenditure rule was not formulated. Nevertheless within a large scope of tasks performed from public funds there were in place statutory, obligatory principles for determining a level of specific expenditures, curbing flexibility of budget planning, or partly just making it impossible to retain public finances discipline

and control over the level or dynamics of expenditures. Constraint on the range of the obligatorily calculated expenditures and introduction of the rule encompassing the remaining expenditures poses a challenge faced in connection with consolidation measures introduced since 2010.

At the start of 2011 an expenditure disciplinary rule was introduced to the act on public finances capping discretionary spending growth as well as new legally mandated expenditures. The rule refers to specifying the size of overall flexible budget expenditures, and not individual expenditure criteria or expenditures of specific departments. The provisions enumerate state budget expenditures to which the disciplinary rule is not applicable. Pursuant to regulations, flexible state budget expenditures may not grow in real terms by more than by 1 percentage point compared to the previous year. The rule is not applicable in the event of martial law, state of emergency in the whole territory of the Republic of Poland or state of natural disaster in the whole territory of the Republic of Poland. A further mechanism designed to monitor and control expenditures consists in mandatory determination in government draft law of maximum limit for expenditures units within the public finances sector at the ten-year horizon along with potential mechanisms correcting the level of expenditures planned. Ceilings on expenditures and other mechanisms specified in these projects cannot contain discriminatory solutions or confer privileges to specific entities, but solely define the requirement to be fulfilled to safeguard against uncontrolled growth of expenditures in the public finances sector arising from execution of public tasks.

A disciplinary expenditure rule restrains the dynamics and risk of excessive growth of state budget expenditures. During the boom years, buoyant revenues from economic growth were utilized for the reduction of deficit. In 2011 a decrease in sector deficit by 2.8 percentage points in relation to GDP was recorded. It resulted, among other reasons, from squeezed expenditure relation by 1.8 percentage points. In 2012 fall in deficit by at least 1.5 percentage point may be expected. A disciplinary expenditure rule is in force during the period when Poland is subject to the excessive deficit procedure that is when the recommendations as referred to in Article 126(7) of the TFEU are addressed to the Republic of Poland. This rule will stay in force until the above procedure is repealed.

## Conclusion

There are works underway concerning a further expenditure rule defined as stabilizing [3]. Essentially, it connected with the objective behind its implementation which is maintaining the deficit of the government and local government sector at the level of the medium-term budget objective which for Poland was set at the level of 1% of GDP. A stabilizing expenditure rule should rein in a maximum expenditure increase in the government and local government sector, with specific exceptions. The projections involve the exclusion of expenditures of the local government subsector which is subject to other rules as well as of expenditures financed by non-returnable EU funds whose ultimate beneficiaries are units of the government and local government sector (impact of EU funds on deficit is calculated according to ESA'95 tends to be neutral).

Shielded from the stabilizing rule are likely to be costs of public debt servicing. In compliance with a target disciplinary rule, a rise of all remaining expenditures of the sector would not be permissible to breach the medium-term rate of GDP growth. The stabilizing rule should be anti-cyclical in its character. Expectations as to the results delivered by the application of the rules in the fiscal policy tend to be excessive. However, imposing rules over the fiscal policy separates it from the short-term pressures or sector political strains. Pressure of this type continues to be a natural environment for democratic societies. Appropriately robust rules (which is evidenced by the casus of the Polish debt rule) constitute an insurmountable barrier preventing fiscal authorities from entering the path to crisis.

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