

# CONTEMPORARY ISSUES IN ECONOMY

The background features a series of concentric, overlapping circles in shades of blue and green. Scattered across these circles are several black silhouettes of human figures. Dashed lines connect some of these figures, creating a network-like pattern. The overall aesthetic is modern and academic.

11

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## Transparency of publicly available information about fiscal and monetary policy in Poland

**JEL Classification:** E58, H30; H60

**Keywords:** *transparency, fiscal policy, monetary policy*

### Abstract

**Research background:** The quality of information provided by fiscal and monetary authorities are important in a democratic state. Ensuring fiscal policy transparency reduces fiscal risk and corruption and promotes public acceptance of fiscal reforms. Ensuring transparency in monetary policy allows market participants to anticipate central bank responses and take their effects into account when making investment and consumption decisions.

**Aim of the article:** The aim of the article is to evaluate the transparency of information provided to the public by the fiscal and monetary authorities in Poland in the light of international standards of fiscal and monetary policy transparency and to propose changes to increase it.

**Methods:** Qualitative analysis, deductive and inductive reasoning were used. The assessment of the level of transparency of publicly available information on fiscal and monetary policy in Poland was based on the analysis of the implementation of good practices formulated by the International Monetary Fund and the open budget index calculated by the International Budget Partnership.

**Findings and added value:** There are no publications in the national literature dealing with the transparency of publicly available information on fiscal and monetary policies in the context of coordination of these policies. Poland lacks transparent message about public finance, with particular emphasis on the state budget, which would allow citizens to control the government's fiscal policy actions. There is a lack of transparent information about the operations of the NBP in relation to the government. There is a lack of clear, reliable and complete information for citizens about the coordination of actions taken by the fiscal and monetary authorities in Poland to achieve specific objectives of the state's financial policy.



## Introduction

Transparency is a mandatory element of the functioning of a democratic state and one of the conditions for the financial stability of a country. Transparency in the field of fiscal and monetary policy can be seen as the degree of public understanding of the process of these policies and political decisions made. It is important not only the availability of information to the public in this regard, but also its scope, quality, ease of access to it. Transparency of actions taken should be ensured by fiscal authorities (first of all, the government) conducting fiscal policy and responsible for security of public finance, and monetary authorities (central bank) conducting monetary policy and responsible for stabilization of the price level.

The aim of this paper is to assess the transparency of information provided to the public by fiscal and monetary authorities in Poland in the light of international standards of fiscal and monetary policy transparency and to propose changes to increase their transparency. Qualitative analysis, deductive and inductive reasoning were used. The evaluation of the level of transparency of publicly available information on fiscal and monetary policy in Poland was based on the analysis of the implementation of good practices defined by the International Monetary Fund (IMF) and the Open Budget Indicator (OBI) calculated by the International Budget Partnership (IBP).

The literature review section discusses the essence of fiscal and monetary transparency. The part devoted to discussion of research methodology assesses the extent of implementation of good practices in Poland in the field of fiscal and central bank transparency developed by IMF, indicating the reasons for limited fulfillment of these standards. The discussion section points out the dysfunctional actions of fiscal and monetary authorities in Poland during the COVID-19 crisis and suggests actions that should be taken to increase the level of fiscal and monetary transparency in Poland. The last part of the article presents conclusions from the conducted research.

## Literature review

Publicly available fiscal and monetary policy information should enable the electorate and financial markets to accurately assess the financial position of the state and the real benefits and costs of government actions, including the current and projected economic and social consequences of those actions (Koptis, Craig, 1998, p. 2).





Fiscal transparency is defined as openness to the general public about the functions of government, the type of fiscal policy, public sector accounts and its projections, but opaque fiscal practices tend to create a number of allocative distortions in public finance. This transparency can be considered from three points of view, i.e. transparency: institutional, accounting, indicators and forecasts (Koptis, Craig, 1998, p. 6,8,9 ). An attempt to measure the level of fiscal transparency in this view was made by Alt & Lassen (2003). It should be noted that the literature recognizes the benefits of fiscal transparency (Stiglitz, 2001, p. 32-34), but there are few empirical studies that have convincingly examined its effects (Wehner, de Renzio 2015, p. 9).

Fiscal transparency is supported by effective fiscal rules, independent fiscal institutions, medium-term budgetary frameworks.

Fiscal rules are permanent restrictions on fiscal policy, defined in legal acts and are designed to strengthen the discipline of public finance and limit the freedom of politicians in shaping fiscal policy. So, they are an instrument of social and market control over public spending (Kopits, Symansky, 1998, p. 2). Fiscal rules are also understood as rules of the budgetary procedure in terms of preparing, passing and executing the state budget, or affecting the level of public revenue and expenditure, deficit and public debt (Alesina, Perotti, 1996, p. 401).

Poorly designed fiscal rules can cause procyclicality. Therefore, independent fiscal councils (IFIs) are established to maintain the credibility and sustainability of fiscal policy without undermining its support for stabilizing the economy (IMF, 2013, p. 6). These councils have an important role in enhancing fiscal discipline, mainly by tackling excessive deficits in good times, which contributes to increasing the fiscal space for countercyclical fiscal policy during recessions (Alesina, Tabellini, 2005, p. 2-4). The rationale for IFIs is also the problem of information asymmetry between the government and the public/electorate (Beetsma, Debrun, Fang, Kim, Lledo, Mbaye, Zhang, 2018, p. 3). This may be due to fiscal illusion, i.e. insufficient understanding of the government's intertemporal fiscal constraints (Buchanan, 1967, p. 125), and temporal inconsistency, where the government saddles its successors with large debts, leaving less fiscal space in the future (Hagemann, 2011, p. 81).

Monetary policy, whose main objective is to stabilize prices, shapes private sector expectations through both communication and interest rate decisions (Geraats, 2002, p. 533). Increased central bank transparency is beneficial and is associated with significantly better private forecasts (Ehrmann, Eijffinger, Fratzscher, 2010, p. 6). During periods of uncertainty, the more market participants trust the actions of the monetary authority, the less vol-

atile inflation and output will be, leading to a more stable economy (Papadamou, Arvanitis, 2014, p. 106).

Features that are considered necessary in the institutional transparency of the central bank are a numerical target for monetary policy, producing and making available an inflation report (explains the expected effects of monetary policy instruments), producing and making available an inflation forecast (explains why changes have occurred), evaluating past policies and their effects (Próchniak, Szyszko, 2019, p. 394). Difficulties in assessing the effectiveness of specific central bank monetary policy decisions lead to research on what effects the lack of central bank transparency generates and how this affects the effectiveness of monetary policy (Demertzis, Hallett, 2015, p. 279).

Assessing the impact of central bank communication on private sector expectations is difficult due to its complexity. Moreover, the tone of central bank policy documents or statements is difficult to measure. Therefore, managing expectations is a key challenge for central banks and depends on the communication strategy they adopt (Blinder, Goodhart, Hildebrand, Lipton, Wyplosz 2001, p. 4-6). In order to increase the transparency of monetary policy and ensure central bank communication, voting records of individual monetary policy council members should be made public (Seelaraoen, Budsaratragoon, Jitmaneeroj, 2019, p. 369).

Empirical research focuses primarily on central bank transparency and its impact on market expectations of short-term interest rates. The impact of national government transparency and the availability of reliable data on the domestic economy from sources other than the central bank on social and market expectations is rarely assessed. And yet, greater government transparency, independent of central bank transparency, reduces the duration of inflation and currency crises, increases the predictability and credibility of national economic policy, and increases confidence in the effectiveness of policy decisions (Shambaugh, Shen, 2018, p. 393). There should also be research on whether central bank interest in fiscal policy topics (in addition to traditional monetary policy issues) is a consistent feature of central bank communication (Moschella, Pinto, 2018, p. 515).

## Research methods

The idea of developing a framework for fiscal and monetary policy transparency emerged during the Asian financial crisis of the late 1990s. Following this crisis, IMF published a Code of Good Practice on Fiscal Transparency (IMF, 1998), and subsequently the Organization for Economic



Cooperation and Development issued its own standards, known as Best Practices for Fiscal Transparency (OECD, 2002). The standards formulated by the IMF highlight the right of citizens to have access to information on fiscal policy and to have an effective opportunity to participate in its formulation, as well as the right to have access to information on monetary policy. The International Monetary Fund offers an assessment of each country's fiscal transparency practices according to criteria grouped in the pillars mentioned above. In 2003, it assessed our country's fulfillment of fiscal transparency standards (IMF, 2004). The Fiscal Transparency Code contains a set of principles built around four pillars (IMF, 2019): fiscal reporting, fiscal forecasting and budgeting, fiscal risk analysis and management, resource revenue. The International Monetary Fund has also developed a set of good transparency practices for central banks' monetary policies, which are also classified under four pillars (IMF, 1999): transparency of central banks' roles, responsibilities and objectives for monetary policy, open process for formulating and reporting monetary policy decisions, public availability of monetary policy information, accountability and assurances of integrity on the part of the central bank.

Transparency is rather a qualitative concept, defined quite flexibly. Despite this limitation, attempts are made to create indicators, to measure fiscal and monetary transparency. However, these are not indicators that do not need to be changed, improved. The creation of such indicators makes it possible to study the level of fiscal transparency, primarily in relation to the state budget, or monetary transparency, in relation to the central bank, over time and space (Szyszko, 2016, p. 12).

In empirical studies of the level of fiscal transparency, there is a focus on assessing the transparency of the state budget, as the primary public fund. The International Budget Partnership (IBP) has been conducting research on central budget transparency since 2006. The level of budget transparency is assessed by the level of the Open Budget Index (OBI), which is based on an evaluation of the amount and type of information in the most important documents concerning the central budget. The index is calculated based on responses to approximately 100 questions from the Budget Openness Questionnaire. It assesses: public access to key budget documents, comprehensiveness of the budget bill, comprehensiveness of other key budget documents, strength of oversight institutions, and public involvement in the budget process. The questionnaires are completed by independent experts - researchers from academic institutions or civil society organizations, not politically involved. The impartiality and accuracy of the responses are verified by an independent reviewer - someone with knowledge of the budget system and then reviewed by IBP staff. The gov-



ernments of the countries being assessed are also asked to comment. The main advantage of the IBP survey is its broad scope and time series diversity, and the disadvantage of focusing only on the national budget, with some of the survey questions focusing on aspects of fiscal transparency whose relationship to actual budget transparency may be imperfect. In addition, the IBP survey is primarily concerned with the comprehensiveness and timely availability of budget information, but not its reliability. Many of the questions are derived from: the IMF's code of good practices on fiscal transparency and the OECD's best practices on fiscal transparency (Wehner, de Renzio, 2012, p. 97; Arapis, Reitano, 2018, p. 551). The level of transparency of the state budget in Poland was assessed by IBP six times, three times as considerable (OBI above 60 points out of 100 possible points) and three times as limited (OBI below 60 points). Thus, it can be concluded that the average level of OBI in these six studies was 62 points. It is worth noting that in successive surveys, Poland's position in the ranking of the level of state budget transparency systematically decreased as the number of countries included in the survey increased (2008 10th place and in 2019 32nd place, except 2015 - Table 1). Among the areas of state budget transparency covered by the IBP survey, the strength of supervisory institutions (the activities of the Supreme Audit Office - SAO) was rated highest, and public participation in the budget process, especially in the process of preparing the draft budget law, was rated lowest. There is also a lack of mechanisms for identifying budget priorities consistent with the public's point of view (e-mail, telephone, internet, surveys, interviews, meetings). The principle of budget openness is fulfilled through media broadcasts of parliamentary sittings with regard to the budget debate, public access to the transcripts of these sittings (on the website of the Sejm and the Senate). There is also public participation in the formulation of audit plans (SAO), but there is no information as to how complaints were taken into account in the audits carried out.

Fiscal information in Poland is provided primarily by the Minister of Finance and the following documents informing about the government's fiscal policy are available on the website of the Ministry of Finance: the draft budget law, the budget act, the report on execution of the state budget (including the report on execution of local government budgets), the Long-term Financial Plan of the State, the Public Debt Management Strategy. In addition, on the website of the Public Information Bulletin (BIP) it is possible to obtain financial documents of entities covered by the BIP.

The structure of the system of public finance in Poland and the mechanism of financing public tasks have assigned the state budget, the role of a public fund transferring a significant part of public funds to local govern-



ment units, state special purpose funds, executive agencies. It makes its place in the system of public finance less and less understood. In 2014-2019, public revenues included in the Budget Law accounted for about 73% of total sector revenues and public expenditures included in the Budget Law accounted for about 57-61% of total sector expenditures, with state budget revenues accounting for only more than 41-44% of total sector revenues and state budget expenditures for more than 19-22% of total sector expenditures (Table 2). In practice, greater importance is attributed to the state budget than it results from its share in public revenues and expenditures. The debate on the condition of public finance in our country is dominated by the discussion of the Budget Act, and to a lesser extent, the execution of the state budget and assessment of state budget execution. Information contained in documents concerning the state budget is incomprehensible for a citizen without specialist knowledge of public finance. These documents mainly contain many tables with data according to budget classification. There is also a question whether the representatives of citizens elected in the Sejm and the Senate understand what they are talking about (the Budget Act, budget discharge). Although the Chancellery of the Sejm and the Chancellery of the Senate support deputies and senators with expert opinions on the draft budget law in its entirety or its individual fragments, they are not always publicly available (Jastrzębska, 2020, p. 7).

Assessing the fulfilment of international fiscal transparency standards in Poland, developed by the IMF, it may be concluded that these standards are fulfilled to a limited extent, which is due to the following phenomena. First of all, there are no consolidated financial statements of the public finance sector in Poland, which means that the analysis can be carried out at the level of the state budget, local government budgets, but not all the entities of the sector, and it is impossible to fully identify the financial flows between them. Uniform accounting principles and chart of accounts apply only to a part of the sector units, which makes it impossible to compare the management of public funds within the sector. In addition, the data in the national fiscal reports are not comparable with those of Eurostat. It should also be stressed that reporting by the sector units is dominated by budget reporting based on budget classification, which is not transparent to the average citizen. Although most of the sector entities' financial reports are subject to external control (the Supreme Chamber of Control, regional chambers of auditors), they do not enable accountability and responsibility of the entities' public funds' administrators. Moreover, there is a lack of formulation of clear and measurable objectives of fiscal policy in its individual areas, and instead the focus on the state budget deficit and State Treasury debt prevails. The credibility of medium-term planning is low, as



it is not fully linked to budgets for subsequent years. In addition, reports on the implementation of key strategies and programmes, especially in the government subsector, are inconsistent with annual budgetary reports. It should also be stressed that important data in the area of public finance are published in a form that makes them difficult to process or are not published at all. There is a lack of synthetic budget information (e.g. in the form of a budget for the citizen), a comprehensive analysis on medium-term and long-term consequences of programmes financed from public funds (especially implemented by the government), an analysis of the sensitivity of the budget forecast to changes in macroeconomic indicators (Jastrzębska, 2018, p. 4-5).

Assessing the fulfilment of international monetary transparency standards in Poland developed by the IMF, it can be stated that the standard of the legally guaranteed independence of the NBP is fulfilled and National Bank of Poland (NBP) fulfils these standards. It provides on its website the necessary information about the level of key interest rates, the level of core inflation, the level of average exchange rates of major international currencies, prices and quotations of gold. It also provides information on the macroeconomic outlook in inflation reports, inflation and GDP projections. It also provides data on: balance of payments, reserve assets, M3 money supply, debt, government debt securities, liquidity situation in the banking sector, open market operations, loans granted by NBP. There are also available such documents as monetary policy strategy, monetary policy assumptions, reports on the implementation of monetary policy assumptions, voting results of the Monetary Policy Council and information from press conferences. You can also find information on the activities of the Financial Stability Committee in the area of macroprudential supervision and reports on the financial system in Poland.

## Discussion

Fiscal policy in Poland is conducted within the national and EU fiscal framework (Ciak, 2014, p. 35-36). The basic national fiscal rules include: the constitutional limit of state public debt at 3/5 of GDP; prudential and sanctioning procedures aimed at not allowing this limit to be exceeded; and the stabilizing expenditure rule. The basic EU fiscal rules include: general government deficit and debt to GDP ratio in % (accordingly 3% and 60%). The European fiscal framework is complemented by a requirement to maintain the structural deficit at or close to the medium-term objective (MTO). The stabilization expenditure rule serves this purpose and the introduction



of this rule increased the level of the fiscal rule indicator for Poland from 1.04 in 2014 to 1.54 in 2015-2019 (European Commission, 2021).

However, steps are still being taken to push public spending outside the state budget to increase the fiscal space for its growth. Such actions is incompatible with the mechanism and purpose of implementation of the stabilization expenditure rule. The scale of this phenomenon has increased significantly in 2020. The expenditures of the Polish Development Fund and the COVID-19 Anti-Crisis Fund are made outside the limitations of the stabilization expenditure rule. In addition, the source of financing of their expenditures is the issue of bonds, and the resulting debt is not included in the level of public debt calculated according to the national methodology (the difference was approximately PLN 224 billion - data from the ministry of finance - retrieved from <http://www.mf.gov.pl>). These funds are outside the control of the minister of finance and parliament. Therefore, it is very important to ensure the transparency of these funds, i.e. information should be publicly available on where they receive funds for the implementation of tasks, what is the effectiveness and efficiency of spending these funds (forecast and realized). External audit institutions should play an important role in this evaluation. In addition, it is necessary to determine the timeframe and path of the state's exit from financial support of private companies after the COVID-19 crisis (Rahim, Allen, Barroy, Gores, Kutzin, 2020, p. 3).

In 2020, the application of the stabilization spending rule was suspended due to the state of the epidemic. In 2021, it is applied again, but in a "loosened" formula. This makes the principles adopted in shaping the framework for public expenditure unclear and may be based on a high degree of discretion. According to the government's announcement in the draft budget law for 2021, in 2022-2024 there is to be a return to the old construction of this rule, although attempts are still being made to introduce new exclusions. It should also be noted that the mechanism introduced in the last few years to finance the activities of various entities (e.g. universities, broadcasting entities) by transferring treasury securities makes the stabilization expenditure rule, as an instrument to control public spending, practically irrelevant.

It is also worth noting another completely new solution, which significantly reduces the transparency of the state budget in Poland. It is about transferring around PLN 10 billion of state budget expenditure in the form of non-expiring expenditure that can be implemented by the end of November 2021 (infringement of the statutory principle of budgetary accuracy).

The challenge for the NBP is the growing public debt in Poland and its involvement in the purchase of treasury securities, as well as the pursuit of



a direct inflation target. The substance of the repurchase of Treasury securities by the NBP is important. The National Bank of Poland buys bonds on the secondary market in transactions made primarily with state banks. In this way, it enables the government to significantly increase the issuance of Treasury bonds, needed to finance the so-called anti-crisis shield, without the risk that this will result in a strong revaluation of these securities and an increase in debt service costs. The scale, nature and period of these purchases, as well as the transparency of NBP operations in relation to the government, are very important. It should be noted that the bonds of the Polish Development Fund and Bank Gospodarstwa Krajowego are covered by Treasury guarantees. These transactions entail macroeconomic risk and pose a threat to the independence of the central bank. And one more action of the NBP is controversial, namely two currency interventions by the NBP in December 2020, carried out to weaken the zloty. The policy of weakening the national currency is beneficial for exporters, but it raises the cost of living and reduces the purchasing power of consumers. A measurable effect of these interventions was an increase in the NBP's profit for 2020, but 95% of this profit is state budget revenue.

## **Conclusions**

In assessing the transparency of fiscal and monetary information, the following characteristics should be taken into account: scope, frequency, timeliness, quality (comprehensibility, readability, comparability), integrity, comprehensiveness, orderliness, policy orientation, credibility.

Very important for fiscal transparency is the terminology used for public sector. The recipients of data on deficit and debt of public sector in Poland should be reliably informed about differences in the calculation of their level according to national and EU methodologies.

It is also important to specify in Polish legal regulations the main measure of the public sector deficit, which could serve as a target for fiscal policy and be regularly monitored and published with little delay.

The government should prepare an assessment of the state of public finance, specifying in particular the impact of financing anti-crisis measures on the level of public debt, its servicing costs and Poland's creditworthiness. This would also allow for a comprehensive explanation of the role of the NBP in financing public expenditure that is not included in the state budget.

It is also important to develop a path for the reduction of debt in relation to GDP in the coming years and sources of funds for debt repayment or





refinancing. The government should also take care to strengthen the stabilization expenditure rule, rather than seeking creative solutions to omit it.

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Data sources:

<http://survey.internationalbudget.org>

<http://www.nik.gov.pl>

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## Annex

**Table 1.** Open budget index in 2008-2019 - Poland's place in the ranking

Year	The country with the highest level of OBI*	OBI* indicator level for Poland	Poland's position in the ranking of fiscal transparency of surveyed countries according to the level of OBI*
2008	Wielka Brytania 88	67	10th out of 77 countries surveyed
2010	Republika Południowej Afryki 92	64	16th out of 91 countries surveyed
2012	New Zealand 93	59	25th out of 98 countries surveyed
2015	New Zealand 88	64	22th out of 101 countries surveyed
2017	New Zealand 89	59	30th out of 112 countries surveyed
2019	New Zealand 87	59	32th out of 117 countries surveyed

Notice\*: OBI indicator level 81-100 points - high level, 61-80 points - considerable level, 41-60 points - limited level, 21-40 points - minimum level, 0-20 points - poor level

Source: own compilation based on IBP data (IBP, 2020,2021). Retrieved from <http://survey.internationalbudget.org/#rankings>.

**Table 2.** Public revenues and expenditures included in the Budget Act against the background of total public revenues and expenditures after consolidation in 2015-2020

Specification	Share of PFS's revenues included in the Budget Act to total PFS's revenues in%	Share of state budget revenues in total PFS's revenues in%	Share of PFS's expenditures included in the Budget Act to total PFS's revenues in%	Share of state budget expenditures in total PFS's revenues in%
2014	73.1	41.4	61.1	21.3
2015	73.0	41.5	61.0	21.0
2016	72.6	44.4	57.5	21.6
2017	73.7	44.6	59.0	22.4
2018	73.1	43.6	58.0	20.4
2019	73.3	42.8	57.1	18.6
2020	75,10	40,4	60,4	20,0

Notice \* PFS – public finance sector

Source: own compilation based on Supreme Audit Office data. Retrieved from <http://www.nik.gov.pl>.

