



# **OXFORD ANALYTICA**

**POLAND**

**FISCAL TRANSPARENCY**

**Country Report 2006**

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# POLAND



## COMPLIANCE RATINGS

| <i>Fiscal transparency</i>  | 2006        | 2005        | 2004        | 2003 |
|-----------------------------|-------------|-------------|-------------|------|
| Clarity of roles            | ●●●●        | ●●●●        | ●●●●        | --   |
| Availability of information | ●●●●        | ●●●●        | ●●●●        | --   |
| Budget preparation          | ●●●●        | ●●●●        | ●●●●        | --   |
| Accountability              | ●●●●        | ●●●●        | ●●●●        | --   |
| <b>Score</b>                | <b>4.00</b> | <b>4.00</b> | <b>4.00</b> | --   |

## OUTLOOK & COMMENTARY

Significant improvements in Polish fiscal transparency have characterised the last few years, although further progress may be compromised by difficulties in reconciling a generally populist policy stance with fiscal prudence. Current government policies seem to be in line with fiscal responsibility principles: its deficit targets are met, and there are no significant attempts to disguise the true position of the public finances.

The fiscal reform programme being carried out by the Finance Minister, Zyta Gilowska, includes measures that are expected to result in enhanced fiscal transparency. Consolidation of EU funding into the budget has already been achieved, and the Ministry of Finance is currently working on incorporating extra-budgetary funds into the state budget. This process is expected to be complete by the end of 2007, after which the government will start preparations for introducing performance-based budgeting.

Work to reduce discrepancies between national and ESA95-compliant accounting methodologies is ongoing. A committee composed of representatives of the Ministry of Finance, the National Bank of Poland and the Central Statistical Office is making efforts to ensure that national accounts are compiled in compliance with ESA95 standards.

## EXECUTIVE SUMMARY

### 4.00 Compliance in progress

Continuing its progress towards the highest standards of fiscal transparency, Poland is characterised by a relatively clear budget preparation process. The current government is making efforts to further enhance its transparency and improve the accuracy and timeliness of information on budget execution, despite coalition politics constraints. The Law and Justice (PiS) party has been in office for a year, but its government has been unstable, and there have been frequent changes of finance minister.

The current incumbent, Zyta Gilowska, is committed to a fiscal reform plan whose main elements are expected to improve fiscal transparency. The first stage, consolidating EU funding into the budget, has just been completed and will enable full state control over spending related to EU programmes. The second stage will focus on bringing extra-budgetary funds within the state budget by the end of 2007, while the third stage -- to begin in 2009 -- will aim at introducing performance-based budgeting. However, the amendments to the *Act on Public Finances* proposed in October 2006 have already introduced an obligation for the budget act to include a complete list of objectives, performance criteria and expected costs of planned tasks.

Figures for medium-term forecasts -- incorporated in the budget documents -- are only informative and can be changed without any consequence for the fiscal position, as only the annual budget is legally binding. Since 2006, a rolling three-year debt management strategy must also be appended to the budget, and the first strategy report for the period 2007-09, completed by the government in September 2006, is available in English on the website of the Ministry of Finance.

The government is making efforts to reduce discrepancies between the national cash-based accounting and the ESA95-compliant accrual accounting methodologies. Currently, the Central Statistical Office converts the government data into an ESA95-compliant format that considers general government, including both central and local government accounts, when it reports to Eurostat. Revenues and expenditures included in national accounts, however, are reported on a cash basis, and only the central government is covered on a monthly basis. A committee composed of officials from the Ministry of Finance, National Bank of Poland and Central Statistical Office is therefore working to ensure that financial and non-financial national accounts are compiled in compliance with ESA95 standards. The government has also committed to reclassifying private pension funds outside the general government sector starting in March 2007, which will lead to an increased debt-to-GDP ratio.

Poland's overall score remains unchanged from last year.

## 1. CLARITY OF ROLES, RESPONSIBILITIES, AND OBJECTIVES

●●●● Compliance in progress

**The government sector should be distinguished from the rest of the public sector and from the rest of the economy, and policy and management roles within the public sector should be clear and publicly disclosed.**

### Structure, functions, and responsibilities of government

The 1997 Constitution of the Republic of Poland, the 1998 *Act on Public Finances* as amended in 2005 (in force since 1 January 2006), and several other legal documents define the responsibilities of the government and set it apart from the private sector. The government consists of the central government in Warsaw, 16 regional voivodships (*województwa*), 308 counties (*powiaty*), and some 2,425 municipal administrations (*gminy*).<sup>1</sup> Although the *Act on Public Finances* provides a formal delineation of the public sector, the practical significance of its provision has tended to be compromised by the operation of a number of agencies and funds engaged in fiscal activities outside it.<sup>2</sup>

The central government is fairly fragmented in as much as nine social security funds, seven extra-budgetary funds, and a number of other off-budget entities operate separately from the central budget and typically on the basis of their own founding legislation and rules. There is comparable fragmentation at the sub-national level. The state budget in 2003 accounted for only 47% of the consolidated public sector revenues and 52% of the consolidated spending (according to Polish methodology).<sup>3</sup>

Most fiscal activities are undertaken by the central government and municipalities. Indeed, there has been a general tendency to shift responsibilities towards the municipalities, which receive more than a third of the total income tax receipts. The voivodships are relatively unimportant in fiscal terms, where their main responsibility pertains to regional development contracts. The counties are involved in education and public safety (fire), as well as the health sector, where they tend to remain the notional owners of hospitals. It is widely felt that the county structure is too fragmented and the responsibilities of *powiats* diluted, especially in health care. Municipalities are responsible, among other things, for education, local infrastructure, and some social assistance. Equalisation funds are transferred between municipalities and counties.<sup>4</sup>

### Coordination and management of budgetary activities

The coordination of budgetary activities has benefited from the ability of the government to reverse the proliferation of independent public sector agencies since the turn of the decade. A number of administrative offices and agencies have been closed down and integrated with line ministries. This process is set to continue under the current finance minister's fiscal reform plan. However, a 2004 amendment to the *Act on Public Highways* introduced a fuel surcharge, which was earmarked for the National Road Fund (*Krajowy Fundusz Drogowy*) that finances the public highway programme. The government can also transfer funds from its equity holdings in listed companies to such infrastructure projects.<sup>5</sup> A National Health Fund, whose revenues mostly derive from contributions to health insurance, is also off-budget.

The Finance Minister, Zyta Gilowska, plans to bring extra-budgetary funds within the state budget in the second stage of her fiscal reform plan by the end of 2007. The first stage, consolidating EU funding into the budget, has just

been completed and will enable full state control over spending related to EU programmes. The third stage, to introduce performance-based budgeting, will come in 2009, although the amendments to the *Act on Public Finances* proposed in October 2006 have already introduced an obligation to enclose in the budget act a complete list of objectives, performance criteria and expected costs of planned tasks.<sup>6</sup>

The division of labour between the national and sub-national governments has been changed in recent years through de-centralisation. A range of specific state subsidies to local governments has been replaced by allocating them a greater share of the income tax receipts.

### **Relations between government and public sector agencies**

The National Bank of Poland (NBP) is a constitutionally independent entity. The government is unable to influence the policies of the NBP and is constitutionally unable to incur any fiscal liabilities with the central bank.<sup>7</sup> Relations between the NBP and the Ministry of Finance (MoF) have improved significantly in recent years. There are regular monthly meetings of the Public Debt Management Committee, which includes representatives from both institutions. However, the Inter-Departmental Working Group on Poland's Integration with the EMU, that was set up in 2002 to discuss the general macroeconomic situation and prospects for euro adoption, is no longer meeting, and the current government has no target date for euro entry.<sup>8</sup>

The NBP produces an opinion on the government's budget which is available on its website.<sup>9</sup>

The government's stakes in companies are directly managed by the Ministry of the Treasury (MoT), rather than through an independent agency. All state-owned enterprises are managed independently. The government has tended to use state shares in listed companies to recapitalise state-owned enterprises outside of the budget. Starting with the 2004 budget, gross privatisation receipts and their use outside of the state budget are presented in the state budget financing table.<sup>10</sup>

### **Government involvement in the private sector**

The government still holds equity stakes in a number of companies and, indeed, the overall share of public ownership in the economy -- about 25% of GDP -- is higher than in most other countries in the region. State-owned enterprises (SOEs) account for some 20% of total employment in the country. Their number is falling slowly -- to 943 on 30 September 2006, compared with 1,084 a year earlier.<sup>11</sup>

The government headed by Marek Belka in 2004-05 pursued an ambitious privatisation plan with a view to reducing state ownership in the economy to 5-15%. Privatisation procedures were initiated in a total of 354 state-owned enterprises between 2001 and 2005.<sup>12</sup> The Law and Justice (PiS) government has adopted a more cautious stance on privatisation than its predecessor. Many of the remaining SOEs are in sensitive sectors such as coal, energy, transportation and defence. The current coalition believes an element of state ownership is in the public interest, and it treats some SOEs as strategic.

The earmarking of income from privatisation has increased in recent years and now accounts for roughly one-quarter of the total. Some 15% of the revenues are transferred to special funds, such as the Fund for Enterprise Restructuring, to reorganise SOEs. The Ministry of the Treasury (MoT) retains some 2% of the receipts to cover the costs of the privatisation process. The MoT also operates a separate Restitution Fund to secure claims associated with the process of restitution of nationalised property; 5% of the shares in 715 Treasury-owned companies have been transferred to the fund.<sup>13</sup> However, income from privatisation has slowed since the PiS took office.

The 1999 reform of the Polish pension system produced two forms of retirement savings. The first, operated by the Social Insurance Institution (ZUS), consists of a defined contribution pay-as-you-go scheme covering those born

before 1948. The second divides into two types of individual accounts, based either on quasi-government bonds, or on instruments traded in financial markets. Private pension funds are operated by 16 fund management companies.<sup>14</sup> The transition to a funded pension system has been complicated by extensive arrears, caused by IT problems, between the State Pension Fund and the privately run open pension funds. The government has tackled the problem by issuing euro-bonds.

Communications with the private sector are of critical importance for allowing the government to meet its borrowing requirements through issues of Treasury debt obligations. The MoF now publishes a debt issuance strategy and plan. A system of licensed primary dealers was established in 2003, alongside efforts to move a growing share of trading from the interbank OTC market to the more transparent Electronic Platform in Government Securities. The MoF has monthly meetings with primary dealers and actively seeks feedback. The government is currently opening up the primary dealer system to foreign market participants.<sup>15</sup>

The central government still regulates some prices (e.g., electricity, heating and gas), as do local governments (e.g., local transport). The share of regulated prices is about one-quarter of the CPI basket.<sup>16</sup>

In general, government regulation of the private sector broadly conforms to EU standards. The Office for the Protection of Competition and Consumers (*Urząd Ochrony Konkurencji i Konsumentów*) plays a key role in the process.<sup>17</sup>

A new Act on Public-Private Partnerships (PPPs) that came into force in June 2006 provides the necessary regulatory framework for increased cooperation between the public and private sectors. However, the investment procedures set out in the legislation can complicate rather than simplify the implementation of certain projects. Before giving their approval for a project, public bodies must now prepare detailed multi-optional assessments of the anticipated benefits and risks of the project.<sup>18</sup>

## **There should be a clear legal and administrative framework for fiscal management**

### **Legal framework for budgetary activities**

The main legal document governing budgetary activities is the *Act on Public Finances*. It regulates the basic parameters of fiscal activity across the public sector, including sub-national governments. It establishes a well-defined budgetary process, delineates the public sector, sets the standards for borrowing, and provides sanctions for non-compliance. Originally passed in 1998, it was revised in June 2005. While commentators have highlighted the importance of further amendments to the *Act on Public Finances* in order to enhance transparency, concerns have also been expressed regarding the possibility that the government might use the legal amendments proposed in October 2006 as a substitute for meaningful fiscal reform.<sup>19</sup>

Even though the *Act on Public Finances* regulates all revenues and expenditure streams defined as public, extra-budgetary funds and state agencies in many cases still operate under their own founding legislation that sets out different standards for budgetary activities.<sup>20</sup>

### **Legal framework for taxation**

Taxes and duties are levied in accordance with formal legal provisions. The tax legislation remains complex, marked by a variety of exemptions and preferences, despite attempts to simplify the system. The tax system remains one of the reasons for a fairly sizeable grey economy estimated at some 13% of GDP.<sup>21</sup> The rights and duties of taxpayers are laid out in the *Tax Ordinance Act*. The 2004 *Customs Law*, which complies with EU standards, is the main legal

document regulating customs duties and procedures.<sup>22</sup> The *Act on Public Finances* is quite detailed about the revenue sources available to local governments, which receive fixed percentages of specific taxes.

The quality of tax administration is widely seen to be fairly low, although reform has brought about some improvements, including service centres at most tax offices and a streamlining of administrative procedures. The MoF has further established a central database of tax laws, along with their interpretation and guidelines for tax administrators.<sup>23</sup> January 2004 also saw the establishment of special offices for large taxpayers.<sup>24</sup> The Polish Customs Administration (*Stuzba Celna*) operates under the auspices of the MoF.<sup>25</sup> It is unclear whether recent revenue increases are due to better fiscal administration or economic growth and reduced incentives for tax avoidance.<sup>26</sup>

### **Ethical standards for public servants**

The rights and duties of public servants are specified in the 1998 *Act on Civil Service*. The Civil Service Office is responsible for auditing compliance with the legal provisions.<sup>27</sup> The *Act on Restricting the Pursuit of Business Activities by Persons Performing Public Function* is designed to eliminate conflicts of interest at the managerial level. Since 2002, Poland has had a Code of Ethics for the Civil Service that, unusually, is not a normative document. It is made up of five articles and purports to ensure reliability, professionalism, neutrality and political impartiality. However, the authorities have indicated that violations of the Code may trigger disciplinary measures. There are special codes of ethics for internal auditors and the Customs Service.<sup>28</sup>

As with many other transition economies of Central-Eastern Europe, corruption remains an entrenched problem in Poland. The 2006 Transparency International Corruption Perceptions Index, which ranks the least corrupt country most highly, placed Poland 61<sup>st</sup> of the 163 countries reviewed, with a score of 3.7 out of 10.<sup>29</sup> The government adopted an Anti-Corruption Strategy in 2002. The first report on the implementation of the programme was approved by the Council of Ministers in February 2003. Thereafter, quarterly reports have been produced on progress made in the anti-corruption efforts.<sup>30</sup> The government has also created a Central Anti-Corruption Office (CBA), although the fact that it is subordinated to the prime minister has raised doubts in some quarters about its effectiveness.<sup>31</sup>

## 2. PUBLIC AVAILABILITY OF INFORMATION

●●●● Compliance in progress

**The public should be provided with full information on the past, current, and projected fiscal activity of government.**

### Central government operations

The annual budget law covers the operations of the central government budget. The draft budget documents are published on the MoF website simultaneously with their presentation to parliament. The activities of the extra-budgetary funds are attached as separate appendices. Since 2003, the annual financial plans of state agencies have been included in the budget law. The budget documents include information on the outturns of the previous two fiscal years. The *Act on Public Finances* mandates the publication of information on the main fiscal aggregates of the central government on a biannual basis.<sup>32</sup>

Starting in 2003, the MoF has published monthly data on central government accounts in the GFSM 1986 format on its website. In addition, the website includes analytical studies prepared by MoF staff.<sup>33</sup> Local governments release information on their budgets quarterly, although often with a considerable lag.<sup>34</sup>

The government deficit is reported on a cash basis, and some information is provided on expenditure commitments. Central government accounts are published each month with a lag of six weeks, and annual reports are submitted to parliament within five months of the end of the fiscal year.<sup>35</sup> Data on the social security fund, however, are reported only once a year.<sup>36</sup>

The consolidated government statistics include the gross operations of state agencies, as well as all budgetary entities with a legal personality, such as the Polish Academy of Sciences, cultural institutions, and health care providers owned by the central government.<sup>37</sup> The budget now shows EU funds under expenditure and revenue.<sup>38</sup>

### Public sector operations

A 2002 *Act on Access to Public Information* has significantly improved the availability of data on fiscal activities across the public sector. In addition, every public institution is now required to publish a bulletin of public information on its website. Reports on local government operations are published each quarter. Reporting by state agencies and funds tends to be less frequent.<sup>39</sup>

The operations of each extra-budgetary fund are governed by separate legislation with slightly different accounting and reporting standards and practices. The rules governing borrowing vary, with the approval of the relevant line ministry required in some cases. Control over their activities remains limited, and there is no systematic auditing of their operations. Moreover, the consequences of a refusal by a supervising minister to approve a report are typically minimal.<sup>40</sup>

The requirement to prepare convergence programmes annually until euro-zone accession is likely to focus attention on the general government situation. The programmes, among other things, set out medium-term policy objectives. However, they are accepted as being for indicative purposes only and have no connection with the budget process.<sup>41</sup>

## **A commitment should be made to the timely publication of fiscal information.**

### **Debt reporting**

The *Act on Public Finances* now requires the government to develop a rolling three-year debt management strategy, which is appended to the budget. In September 2006, the MoF published this strategy for the period 2007-09, and the document is available on the MoF website in English. The level and composition of gross government debt at issue value are included in the annual budget and further reported on a quarterly basis. Borrowing by sub-national governments is minimal. Although the state budget accounts for only half of general government revenues, its share of general government debt is 95%.

Since 2002, the government debt statistics include the expenditure arrears of health care facilities owned by local governments and the arrears of the state Social Insurance Fund to the second-pillar open pension funds.<sup>42</sup> However, based on an agreement with Eurostat, private pension funds will be classified outside the general government sector starting in March 2007, thus increasing the debt-to-GDP ratio. As of November 2004, the government produces two different sets of data on general government deficit and debt, only one of which includes private pension funds in the general government.

### **Advance release calendars**

Poland subscribes to the IMF Special Data Dissemination Standard (SDDS) and accordingly publishes release calendars for fiscal data. This is the responsibility of the Central Statistical Office.<sup>43</sup>

### 3. OPEN BUDGET PREPARATION, EXECUTION, AND REPORTING

#### ●●●● Compliance in progress

#### Fiscal policy objectives, macroeconomic framework, and risks

##### Fiscal policy objectives

The annual budget documents identify the government's key fiscal policy priorities. The budget law itself is accompanied by a comprehensive document providing background explanations for the different spending commitments by agency.<sup>44</sup> Poland's main fiscal problem is insufficient central control under the finance minister.<sup>45</sup>

The available information on the government's medium-term policy objectives has tended to be scarce. The government now produces a three-year fiscal forecast according to Polish national and EU methodologies. It is completed by the end of September and included in the budget bill. However, figures for the medium-term are only meant to be informative, and they can be changed without any consequence for the fiscal position, as only the annual budget is legally binding.<sup>46</sup> The requirement to produce annual convergence programmes for the EU is improving the situation, as these programmes have to include data for the current year as well as for three years ahead.<sup>47</sup> However, the convergence programme is usually approved some months after the budget, and there is no formal connection. The 2006 version will be available at the end of the year.

The current government prefers not to set an official target date for joining the euro-area, and its fiscal problems will not help it to meet the Maastricht criteria. According to commentators, 2011-12 is a possible date for euro adoption.<sup>48</sup>

##### Macroeconomic framework

The Department of Financial Policy, Analysis and Statistics of the MoF produces a monthly macroeconomic survey, *Przegląd makroekonomiczny*, which looks at key developments and variables in the economy. The Ministry also publishes monthly analytical data on the exchange rates and the current account. In addition, IMF reports pertaining to Poland are available through the MoF website. Medium-term forecasts are provided in the convergence programme, and, among other things, they assess the impact of structural reforms on the fiscal balance of the country.<sup>49</sup> In 2006, the government published its first report on the macroeconomic situation. This is mainly aimed at foreign investors and is available in English on the MoF website.<sup>50</sup>

##### Fiscal risks

The budget documents typically offer relatively limited information on fiscal risks. However, the government's Strategy for Public Finances and Economic Development includes forecasts over a ten-year horizon, and they include the entire general government and the social security system.<sup>51</sup>

Increased attention to fiscal risks has begun to be paid in medium-term policy documents. The government's debt management strategy for 2007-2009 includes an assessment of fiscal risks.

The 2005 convergence programme contains sensitivity analysis of the economic situation in the country and discusses macroeconomic risks with a potentially significant bearing on the fiscal balance, as well as the fiscal impact of various structural reforms. In addition, the programme analyses longer-term factors such as demography.<sup>52</sup>

## **Fiscal sustainability**

The state budget documents contain no formal assessment of fiscal sustainability.<sup>53</sup> However, the government is bound in its actions by fiscal rules designed to ensure sustainability. The main problem stems from a high proportion of non-discretionary spending, which the current government is not minded to reduce. This could lead to problems if the current benign economic conditions turned adverse.

First, the budgeted annual nominal deficit of the state budget cannot be exceeded without parliamentary approval. In practice, however, this provision has been circumvented through spending reserves and accounting tricks, although substantial progress has been made of late towards discontinuing non-transparent net lending practices.

Second, the national debt is constitutionally capped at 60% of GDP.<sup>54</sup> In addition to this, sub-national governments are legally required to limit their ratio of debt-servicing costs to revenue to below 15%, while the maximum permissible debt-to-revenue ratio is 60%. Foreign-currency borrowing from international financial institutions presupposes central government approval.<sup>55</sup> Borrowing by sub-national governments has not been a problem to date, and the scale of it is controlled by the *Act on Public Finances*. Local governments lack the capacity for sophisticated budgeting, and so they tend to spend cautiously, over-estimating the deficit but running surpluses for the first three quarters of the year and spending more in the fourth. As such, outturns are usually on target.<sup>56</sup>

Basing the deficit rule exclusively on government budgets is somewhat problematic at a time when the importance of the general government fiscal stance has increasingly come to dominate the policy debate.

Sustainability against demographic developments has improved a great deal as a result of the pension reform of 1999. The convergence programme provides some discussion of fiscal sustainability.

## **Budget presentation**

### **Data reporting**

The budget documents for the general government clearly classify budget information broadly in line with international best practices, although administrative classification of expenditure commitments is more consistent than either economic or functional classifications. The government budget incorporates the financial plans of the extra-budgetary funds as appendices. They are drawn up on largely similar principles, although the accounting methods and classifications differ. The budget documents clearly differentiate between ongoing and new spending commitments. Programme objectives are clearly identified in each instance. Problematically, however, funds and agencies are able, up to a point, to reallocate spending among budget items unilaterally.<sup>57</sup>

Since 2002, the government's fiscal position has been presented in an ESA95-compliant fashion. The annual budget report explicitly reconciles budget execution with the original estimates and attributes any deviations to causes such as exogenous shocks, policy changes, and forecast errors. However, there is no formal agreement on a single, universally accepted statistical standard, and there remain different ways of measuring the government's fiscal stance. The most popular measure remains the state budget deficit. Other options include the public sector deficit, different GFSM-based measures, and national accounts SNA93-based measures; each method produces significantly different assessments of the overall fiscal situation.

## **Budget execution and monitoring**

The MoF releases monthly data on the execution of the state budget, which are published on the MoF website with a lag of approximately one month. They are based on budget reports and data provided by the Social Insurance Institution, the Board for Social Insurance of Farmers, and the Ministry of the Economy, Labour and Social Policy. Some of the data are provided with considerable lags, and this, therefore, raises questions about accuracy. The monthly figures cover only the broadest categories of government revenues and expenditures, as well as accounting for the financing of the budget deficit. Additional data are provided on the state of reserves and the overall degree of convergence, in the purely quantitative sense, towards the budget targets. The monthly data are considered final on publication, and there are no revision studies.<sup>58</sup>

The government's internal audit system was significantly enhanced in the run-up to EU accession, through amendments to the *Act on Public Finances* in 2001 and 2003. The Office of the Prime Minister reviews the controlling procedures. The Ministry of Finance reviews the execution of the budget, and individual ministries monitor the fiscal operations of their subordinate entities.<sup>59</sup>

Internal audit procedures conform to the recommendations of the Institute of Internal Auditors (IIA). Polish law identifies three basic types of internal audit: financial, systems and performance. The Ministry of Finance has a Department for the Coordination of Financial Control and Internal Audit, which operates on the basis of the *Act on Public Finances* and organises these activities throughout the public sector. The work is supervised by the Chief Inspector of Internal Audit, a high-ranking civil servant.<sup>60</sup>

### **Accounting basis**

The MoF uses a national budgetary classification, which largely corresponds to the GFSM 1986 standard and reports cash data. Reports, including the convergence programme, go to the EU using ESA95 accrual-based methodology. The main problem lies with the national accounts, where revenue and expenditure are reported on a cash basis and only the central government is covered on a monthly basis. However, a committee composed of representatives from the MoF, the NBP, and the Central Statistical Office is working on ensuring that financial and non-financial national accounts -- as well as EDP statistics -- are compiled in compliance with ESA95 standards.<sup>61</sup>

There is minimal performance accounting, since the outcomes of various programmes are not described, and compliance in execution is therefore largely understood in the financial sense.<sup>62</sup> Poland is to move to a performance basis in 2009 as part of the third stage of fiscal reform. The 2007 budget proposes a pilot scheme for the tertiary education and science sectors, that will be the responsibility of the Prime Minister's Office. According to some commentators, this is worrying, as the MoF has far more expertise.<sup>63</sup>

### **Procurement and employment**

Poland has adopted a new public procurement law that fully conforms to EU standards.<sup>64</sup> Uniform rules are applied to the entire public sector, as defined under the ESA95 definition. National preference has been abolished. Stricter transparency standards have been adopted for large contracts of more than five million euros (at least ten million in construction). Conversely, the administrative requirement for smaller bids of 30,000-60,000 euros has been reduced.<sup>65</sup> Some criticism continues on the grounds that, in many situations, methods other than competitive tender would be a more efficient way of allocating projects. Corruption associated with public procurement projects is generally deemed to be more serious at the local than at the national level.<sup>66</sup>

An Office of Public Procurement (*Urząd Zamówień Publicznych*) operates under the auspices of the Office of the Prime Minister. All public procurement projects are publicised on the Office website and in its *Bulletin*.<sup>67</sup>

Employment in the public sector is typically based on competitive search, ability and experience. The regulations broadly match EU standards. Typically for the region, however, nepotism and connections do continue to play a role in certain areas.<sup>68</sup>

## Fiscal reporting

As an EU member state outside the euro-zone, Poland is required to produce annual convergence programmes and report on its fiscal situation on a half-yearly basis. The reports have to include, among other things, medium-term fiscal policy goals designed to ensure a fiscal balance or surplus, a trajectory for attaining the goals, as well as a trajectory of the public debt.<sup>69</sup>

Reasonably good and comprehensive data on the general government are compiled in a timely fashion in spite of the lack of a centralised Treasury system.<sup>70</sup> The need to submit ESA95-compliant general government data to Eurostat, in combination with Poland's plans for euro-zone accession, has increased the attention paid to the general government figures. In spite of this, however, the level of available information on certain areas of public sector operations falls clearly short of the standard for state budget data. The Agricultural Social Insurance Fund (*Kasa Rolniczego Ubezpieczenia Społecznego*, KRUS) and ZUS, the state pension fund, for example, receive annual subsidies from the state budget, but reporting on their operations is minimal. Similarly, reporting on quasi-fiscal activities is minimal, even if their importance has declined in recent years. Examples include re-capitalising SOEs from receipts from listed companies with Treasury stakes or Treasury bonds. Similarly, a recent change in the statute of toll highways introduced a fuel charge, the receipts from which are transferred to the National Road Fund.<sup>71</sup>

The final accounts of the government are published in compliance with international best practices and are available on the MoF website.<sup>72</sup>

## 4. ACCOUNTABILITY AND ASSURANCES OF INTEGRITY

●●●● Compliance in progress

### Data quality standards

As a subscriber to the SDDS, Poland broadly meets the IMF standards for the timeliness and quality of fiscal data. However, it still continues to take its entitled flexibility options for general government and central government operations. The periodicity of the data fully complies with the SDDS standards, and the data are consistent both internally and over time. There are some inconsistencies with NBP data, and no systematic reconciliation is conducted. All data are deemed final when published.<sup>73</sup>

The MoF publishes its macroeconomic forecasts, but the models on which they are based have not been made available. This has led to some concern about the independence of forecasting, in as much as it creates at least the theoretical possibility that the forecasts on which the budget is based can be influenced by the government's fiscal needs.<sup>74</sup>

### Independent scrutiny of fiscal information

#### Independent Audit

The accounting and auditing functions are strictly separated within the government. An internal audit programme of budgetary entities by certified internal auditors was launched in 2001. The MoF in 2003 issued a code of good practices for auditors.<sup>75</sup>

The Supreme Audit Office (*Najwyższa Izba Kontroli*, NIK) is a constitutionally independent auditor. It operates on the basis of the constitution and the 1994 *Act on the Supreme Chamber of Control*.<sup>76</sup> NIK is responsible for auditing the accounts of the central government and extra-budgetary funds, and it is required to report to the parliament on an annual basis. In addition, it can audit any public sector entity in accordance with its annual plan of action, which typically identifies five priority areas. The president of NIK is appointed by the parliament for a once-renewable six-year term, and NIK reports are reviewed by a parliamentary committee. Any irregularities are dealt with through internal procedures or by means of a referral to the prosecutor general.<sup>77</sup>

NIK is generally regarded as a highly professional organisation with adequate human and material resources for its tasks. In particular cases, outside experts can be involved in audits, if this is deemed necessary by the NIK staff. All of its audits are required to control legality, performance, efficiency, finances and compliance. The methodology of NIK's operations is publicly available. The findings of all audits are published in the Bulletin of Public Information (*Biuletyn Informacji Publicznej NIK*).<sup>78</sup>

At the sub-national levels, NIK's remit is limited to control of the subsidies paid by the central government. The audit of the sub-national governments is the constitutional responsibility of 16 regional accounting chambers (*regionalne izby obrachunkowe*), which were set up in 1992 to control the fiscal activities of self-governing entities. Their operations are governed by the 1991 *Act on Regional Accounting Chambers*. NIK can audit the regional accounting chambers, although its activities in this area have been limited and have focussed mainly on compliance.<sup>79</sup>

### **National Statistics Agency**

The Central Statistical Office (*Główny Urząd Statystyczny*, GUS) enjoys statutory independence under the *Act on Official Statistics*.<sup>80</sup> The president of the Office is appointed by the prime minister, with the consent of the Statistics Council, for a once-renewable six-year term. The GUS president is accountable to the prime minister and is required to submit an annual programme of statistical surveys to be undertaken, if necessary, with other agencies.<sup>81</sup> Organisations agreeing to participate in the survey programme have to report in accordance with the terms set by the GUS. The GUS has adequate technical and human resources for its work, and levels of professionalism are deemed high. However, the comparatively low compensation levels create problems with staff retention. The *Act on Official Statistics* establishes a Statistical Council with the responsibility to monitor the work of the GUS.<sup>82</sup>

The *Act on Public Finances* places the ultimate responsibility for collecting, processing and disseminating government finance statistics with the MoF, which collaborates with the GUS and NBP in its work. The MoF does not currently have adequate resources for compiling the data in a GFSM 2001-compliant format. As a result, data that have been collected in accordance with national standards (modified GFSM 1986) are converted by the GUS into the ESA95 framework for presentation to Eurostat.<sup>83</sup>

The MoF submits most fiscal data to the GUS, based on a national reporting system. Institutions with a legal identity, such as those that are not budgetary institutions, report separately using an accrual method. The institutions in question operate mainly in higher education and culture (universities and theatres, among others). Data are typically reported by line ministries on a monthly, quarterly and annual basis.

## INTERVIEWS

Representatives of *Oxford Analytica* interviewed the following individuals during a visit to Poland between 16 and 20 October 2006:

### Ministry of Finance

#### 17 October 2006

|                   |      |   |
|-------------------|------|---|
| Marek Szczerbak   | Head | Public Debt Forecast and Strategy Division  |
| Mauricy Michalski | Head | Public Debt Record and Methodology Division |

#### 18 October 2006

|                              |                   |   |
|------------------------------|-------------------|---|
| Małgorzata Litwin-Staszewska | Economist         | Financial Policy, Analysis, and Statistics Department |
| Paweł Kolski                 | Economist         | Financial Policy, Analysis, and Statistics Department |
| Katarzyna Szuster            | Economist         | Financial Policy, Analysis, and Statistics Department |
| Lukasz Stolarksi             | Specialist        | Organisation of Public Finances Sector Department     |
| Gustaw Guterman              | Head of Division  | State Budget Department                               |
| Agnieszka Wawraszek-Loś      | Senior Specialist | State Budget Department                               |

### National Bank of Poland

#### 17 October 2006

|                   |                          |  |
|-------------------|--------------------------|--|
| Zbigniew Polański | Advisor to the President | Macroeconomic and Structural Analysis Department |
| Adam B. Czyżewski | Director                 | Macroeconomic and Structural Analysis Department |

### ADDITIONAL INTERVIEWS

#### 16 October 2006

|                |           |                             |
|----------------|-----------|-----------------------------|
| Robert Sierhej | Economist | International Monetary Fund |
|----------------|-----------|-----------------------------|

#### 19 October 2006

|              |           |                            |
|--------------|-----------|----------------------------|
| Marek Góra   | Professor | Warsaw School of Economics |
| Leszek Kąsek | Economist | World Bank                 |

## NOTES

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- <sup>6</sup> Interviews in Poland, 16-20 October 2006.
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- <sup>10</sup> “Republic of Poland: Report on the Observance of Standards and Codes—Fiscal Transparency Module—Update,” IMF, 2003, p. 2; “Republic of Poland: Report on Observance of Standards and Codes—Fiscal Transparency Module—Update,” IMF, 2004, p. 2.
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- <sup>13</sup> [www.msp.gov.pl/index\\_eng.php?dzial=33&id=117&poz=6](http://www.msp.gov.pl/index_eng.php?dzial=33&id=117&poz=6)
- <sup>14</sup> [www.zus.pl](http://www.zus.pl); [www.igte.com.pl](http://www.igte.com.pl); “The New Polish Pension System: An Example of a Non-orthodox Approach to Pension Reform,” Marek Góra, 2003, pp.10-11: [www.ier.hit-u.ac.jp/pie/Japanese/discussionpaper/dp2003/dp168/text.pdf](http://www.ier.hit-u.ac.jp/pie/Japanese/discussionpaper/dp2003/dp168/text.pdf); Interviews in Poland, 16-20 October 2006.
- <sup>15</sup> “Republic of Poland: Report on the Observance of Standards and Codes—Fiscal Transparency Module—Update,” IMF, 2003, p. 3; “Republic of Poland: Report on Observance of Standards and Codes—Fiscal Transparency Module—Update,” IMF, 2004, p. 3; [www.mf.gov.pl/index.php?wysw=2&sgl=2&dzial=309](http://www.mf.gov.pl/index.php?wysw=2&sgl=2&dzial=309); “Strategia zarządzania długiem sektora finansów publicznych w latach 2005-07,” Warsaw: Ministry of Finance, March 2004. [www.mf.gov.pl/files/dlug\\_publiczny/strategie\\_zarzadzania\\_dlugiem/strategia\\_2005\\_07.pdf](http://www.mf.gov.pl/files/dlug_publiczny/strategie_zarzadzania_dlugiem/strategia_2005_07.pdf)
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