

**Republic of Poland: Report on the Observance of Standards and Codes—  
Fiscal Transparency Module—Update**

This update to the Report on the Observance of Standards and Codes on Fiscal Transparency Module for the **Republic of Poland** was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with the member country. It is based on the information available at the time it was completed in **June 2003**. The views expressed in this document are those of the staff team and do not necessarily reflect the views of the government of the **Republic of Poland** or the Executive Board of the IMF.

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**International Monetary Fund  
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**REPORT ON THE OBSERVANCE OF STANDARDS AND CODES  
REPUBLIC OF POLAND—FISCAL TRANSPARENCY MODULE: AN UPDATE  
JUNE 2003**

*This note reports on developments in fiscal transparency in Poland since the Report on the Observance of Standards and Codes (ROSC) was issued in February 2001. For a full description of institutions and practices, and Fund staff recommendations, this update should be read in conjunction with the original report.<sup>1</sup>*

The original ROSC acknowledged the progress made by Poland in recent years to improve fiscal transparency, most notably by putting in place a modern budget process and clearly defining the boundaries of the public sector. The report also identified the remaining challenges and suggested improvements in a number of areas, including: clarity and timeliness of information on general government activities; quality of published information and budget documentation; tax administration; and dissemination of information to markets with regard to debt issue.

**A. Clarity of Roles and Responsibilities**

**Budget fragmentation**

*The original ROSC concluded that boundaries of the general government were well defined by the public finance law, but proliferation of extrabudgetary funds and agencies had complicated transparency.*

Since then, four state agencies were liquidated in 2002 and their activities were taken over by other agencies or line ministries.<sup>2</sup> Also, the National Labor Office was consolidated with the Ministry of Labor and customs administration was incorporated in the structure of the Ministry of Finance (MoF). A recent public finance reform program under consideration recommends liquidation of more extrabudgetary funds, agencies, and special funds.<sup>3</sup>

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<sup>1</sup> The original ROSC, entitled *Poland—Report on the Observance of Standards and Codes—Fiscal Transparency Module* is available on the IMF website <https://www.imf.org/external/np/rosc>.

<sup>2</sup> The agencies liquidated were: The Highway Building and Operation Agency; The Technology and Techniques Agency; The Sanitary Reserves Agency; and The Privatization Agency.

<sup>3</sup> Special funds, which are outside of line ministries' budgets, are often used for granting performance bonuses to staff.

Moving in the opposite direction, however, the recent use of government-held shares of quoted state-owned companies to recapitalize other state-owned enterprises outside the budget framework has clouded fiscal transparency. Further, the exclusion of judiciary's budget from government control, beginning in 2003, has weakened the unity of the budget, although the judiciary continues to remain part of the annual budget act and subject to the same parliamentary scrutiny and oversight as other budget entities.

*The original ROSC also suggested that fiscal transparency could be enhanced by bringing the entire gross privatization flows into the budget fold.*

Progress in this area has been mixed. On the one hand, a growing share of privatization receipts has moved off-budget following amendments to the Privatization Law in early 2002.<sup>4</sup> Most of these off-budget receipts are earmarked for enterprise restructuring. On the other hand, in 2002 privatization receipts were consolidated in the state budget following the liquidation of the Privatization Agency.

#### **Complicated tax laws and issues in tax administration**

*The original ROSC flagged that clarity of the fiscal system was hampered by complicated tax laws and various tax allowances, preferences, exemptions and privileges.*

The authorities have already taken several steps, and are considering further measures, to streamline the tax system. In 2002, a number of personal income tax allowances—most notably the fiscally-costly housing allowance—were eliminated and more simple depreciation rules were introduced for business taxation. The public finance reform program under consideration recommends the elimination of most of the remaining personal and corporate income tax exemptions.

*The original ROSC also suggested measures to improve tax administration by strengthening taxpayers' services and ensuring uniform procedures among tax offices.*

Since then, service centers have been created in most tax offices. Also, the first regional center providing tax information was established; based on this experience, the authorities would consider the establishment of additional regional centers. Moreover, to ensure uniform procedures and applications, the MoF is creating a central database of tax laws along with their interpretation and guidelines for tax administrators. However, frequent changes in tax regulations and delays in implementation of a country-wide IT system for tax administration continue to hamper the development of uniform tax administration procedures.

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<sup>4</sup> The share of gross privatization receipts going through the budget declined from 98 percent in 2000 to a projected 81 percent in 2003.

## **Communication with financial markets**

*The original ROSC recommended improved communication with financial markets on planned issues of government securities.*

In line with this recommendation, the MoF has strengthened the transmission of information to financial markets. Documents presenting plans and strategy on public debt are now being made available on the MoF website; a system of primary dealers was introduced in 2003; and the MoF holds regular monthly meetings with the primary dealers to inform them about its plans for issuing T-bonds and to seek market feedback.

## **B. Public Availability of Information**

### **Availability of fiscal information**

*The original ROSC identified a number of areas where dissemination of fiscal data could be improved, particularly as regards contingent liabilities. It also suggested that immediate steps be taken to address the shortcomings in the IT system of the social security administration (ZUS) in order to improve information flow and the transparency of government operations.*

- The availability of fiscal information has improved considerably in the past 2–3 years. Currently, the MoF disseminates a wide range of fiscal data and documents on its website, including draft budget documents on the date of submission to Parliament. More information is also now available in English on the MoF website.
- Beginning in 2000, the MoF began publishing in budget documents aggregate data on risk-weighted government-backed guarantees and warranties. It also issues annual reports on guarantees and warranties and provides information on their classification among various risk groups.
- As suggested by the ROSC, the 2003 budget was passed by Parliament and was published before end-2002, the first such achievement since the beginning of economic transition.
- Important progress has been made in the IT system of ZUS. The core elements of the new system became operational in mid-2002 following three years of gradual

implementation. The new system has clearly improved the identification of social security files and contributions.<sup>5</sup>

### **Comprehensiveness of fiscal information**

*The original ROSC suggested that the coverage of fiscal information could be improved.*

Important progress has been made on several fronts, notably:

- Gross operations of state agencies were included in the consolidated government statistics from 2001 and their annual financial plans are shown in the budget law from 2003.
- Since 2001, general government fiscal data include budgetary entities with legal personality (e.g., The Polish Academy of Sciences, cultural institutions, and centrally-owned health sector units).
- The coverage of debt statistics was broadened in 2002 by including, inter alia, expenditure arrears of health units owned by local governments and arrears of ZUS to second-pillar open pension funds.

### **C. Open Budget Preparation, Execution and Reporting**

#### **Fiscal rule and complex accounting procedures**

*The original ROSC concluded that Poland's fiscal rules—ceilings on nominal state (central government) budget deficit and public debt—were inflexible, possibly leading to creative accounting practices.*

The rigid limit on state budget deficit in particular creates incentives for pushing the deficit out to the outer layers of the general government and forcing larger borrowing by state agencies and social security funds. While the fiscal rules remain in place, non-transparent net lending practices to meet the deficit target have been discontinued. Moreover, the public finance reform program under consideration includes proposals to increase the flexibility of fiscal rules during cyclical economic downturns.

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<sup>5</sup> For example, the number of unidentified social security files as a share of total declined from 8.4 percent in June 2002 to less than 1 percent by year-end. During the same period, the share of unidentified contributions declined from 3 percent of total to 1½ percent.

### **Measure of fiscal stance**

*The original ROSC stressed the importance of having a clear measure of fiscal stance and in this connection welcomed the establishment of the “economic deficit” concept.*

The economic deficit concept has lost its importance since then as Poland’s imminent EU membership has diverted the focus to the European System of Accounts 1995 (ESA95). The deficit and debt data based on ESA95 were, for the first time, included in the budget guidelines for 2003 and will be included in annual budget reports. ESA95 fiscal data were also presented in Poland’s 2002 Pre-accession Economic Program (PEP).

The authorities have initiated steps to move towards accrual accounting for the entire general government. Work is in progress, with IMF technical support, to migrate accounting classification from cash-based IMF Government Finance Statistics Manual 1986 (GFSM-986) to accrual-based 2001 version (GFSM-2001) which is compatible with ESA95. The ESA95 definition of the deficit is gaining importance for policy purposes as Poland aims to meet the Maastricht deficit criterion over the next few years. A key issue currently under consideration by the EUROSTAT, which would have a significant bearing on the measure of ESA95 deficit in Poland, is the treatment of second pillar open pension funds in the general government.

### **Fiscal risks and sensitivity analysis**

*The original ROSC suggested that budget documents should contain more analysis of fiscal risks and sensitivity to external shocks.*

While there has been little change with respect to the budget documents in this regard, the debt management strategy for 2003–05 carries an assessment of fiscal risks. There was also a wider analysis of fiscal risks in the 2002 PEP together with estimates of the structural fiscal position.

## **D. Independent Assurances of Integrity**

### **Internal audit**

*The original ROSC concluded that budget audit procedures were satisfactory.*

Since 2001, the authorities have been implementing an internal audit program in budgetary entities by certified auditors to further strengthen discipline. Starting initially with some 200 units, they intend to extend the coverage to another 600 central and local budgetary entities in 2004. The MoF also issued a code of good practices for auditors in 2003.

## **E. IMF Staff Commentary**

Poland has made further progress in enhancing fiscal transparency over the last two years. This involved consolidating public finances; improving the coverage and availability of fiscal information; advancing work on international reporting standards; strengthening communication with financial markets; initiating changes in tax administration; and tightening spending discipline within the general government.

However, there are still a number of areas where further progress could be made in line with ROSC recommendations:

- Accounting standards should be harmonized across the general government to avoid misinterpretation of non-consolidated data. The government's intention to implement accrual accounting standards across the general government is welcome. Work on migrating to GFSM-2001 should be expedited toward this end. At the same time, with the EU membership on the near horizon, efforts should continue to publicize the ESA95 methodology and statistics and to explain their differences with the national definition.
- The medium-term budget framework, complete with a detailed assessment of fiscal risks, should be strengthened with the aim of improving budget planning, management and execution, and help overcome the problems arising from excessive budget fragmentation. Within this framework, a move should be made toward output-oriented budgeting in order to permit the Parliament and the general public to better judge the efficiency of delivery of public services.
- A comprehensive indicator of overall fiscal developments, which would be available with a short time lag, would improve monitoring and policy coordination during the year. Further efforts are also needed to improve the periodicity and timeliness of data on local government finances and social security funds, and to reconcile government finance and monetary statistics. Moreover, detailed annual government finance statistics should be regularly disseminated in a time series format.
- More information on tax expenditures and government's quasi-fiscal activities should be made publicly available. The nontransparent recapitalization of state-owned enterprises by shares of other state-owned enterprises should be discontinued.
- Finally, with the expected increase in EU funds following membership, the budget coverage should be modified to show the impact of EU-related financing on the budget. This would also facilitate decisions on budgetary options.