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POLAND'S NATIONAL AND FOREIGN DEBT

GLOBAL FINANCIAL CRISIS AND EXCESSIVE BUDGET DEFICIT PROCEDURES

The global financial crisis at the turn of 2010 and 2020 was a fact which had serious macroeconomic consequences for the world, Europe, the Eurozone, and Poland.

It can be assumed that the fall of one of the largest American investment banks, Lehman Brothers, was a strong manifestation of the global financial crisis and take this date as the starting point for crisis analyses though the reasons of the crisis probably lie much deeper and reach much further back. Lehman Brothers went bankrupt on 15 September 2008 and they were the first domino to fall – it was soon revealed that their collapse impacted many seemingly powerful financial institutions. The dominant role of banks in unleashing the crisis stemmed from liberalisation of economy accompanied by its deregulation. This created favourable conditions for the fast growth of refundable forms of financing enterprises and consumption. The competition between banks and the increased market supply and consumption were not insignificant as their synergy led to the granting of loans to individuals and entities with decreasing repayment capacity. The rescue plan of US Secretary of State Henry Paulson was to buy out mortgage secured non-liquid assets of banks in return for USD 700 billion. After numerous heated discussions, the plan was implemented, which was the curtain-raiser for large-scale intervention activities. It seems likely that the crisis spread mainly through financial channels and to a large extent resulted from collective actions of financial market players. Intervention activities focused mainly on sustaining financial liquidity of the banking sector. This was done by guaranteeing the repayment of liabilities by banks, extension of deposit warranties, lowering interest rates, increasing the capital of banks, as well as by taking over threatened assets and imposing limits on short-term, and to a large extent speculative, sales (to 15 days).[1] The rescue plan for banks operating in the UK equalled

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[1] *Cf.* W. Nawrot (2009), *Globalny kryzys finansowy XXI wieku. Przyczyny, przebieg, skutki, prognozy*, Warszawa, pp. 131-138, cf. also http:__www.efixdm.pl_C_P_doc_News_0020OgraniczenieSS.html. Accessed 11 November 2011.

USD 697 billion, which matched the level of financial aid provided in the United States.[2]

Owing to international financial ties, the crisis that surfaced in the USA spread out to Europe and countries with less-developed economies.[3] The situation complicated seriously with the economic crisis in Greece, Portugal and Ireland, as well as in Spain and Italy – large states of the euro area. This might impact the entire European Union. The common denominator of the wide-spread crisis is the growing public debt.

The Delors report drafted in 1989 presented the concept and stages of establishing the Economic and Monetary Union underlining that fiscal policy discipline is equally important for the functioning of the single currency as the monetary policy. Limitations on this policy should be incorporated in the institutional framework of national policies and included in the Community's legal framework.[4] General provisions of the Treaty of Maastricht on limiting budget deficit to 3% of GDP and public debt to 60% of GDP were to be detailed in the Stability and Growth Pact.[5] The implementing regulations imposed numerous obligations on the Member States. The most important ones were the obligation of Eurozone states to draft stability programmes and in the case of non-euro EU Member States to draft, convergence programmes. The 2005 revision introduced the requirement to submit medium-term budget objectives for each and every Member State, except for the UK. The excessive budget deficit procedures were introduced and precisely formulated. It was also agreed that the sanction on not meeting pre-set limits could not exceed 0.5% of GDP.[6]

Excessive budget deficit procedures apply to all Member States, but financial sanctions can only be imposed on Eurozone Member States. The procedures foresee the submission of e.g.:

1. a report by the European Commission on the relation of government and local government institutions' deficit to the GDP and its monitoring by the EC;
2. an opinion of the Economic and Finance Committee composed of representatives of the Ministry of Finance and the central national bank of a Mem-

[2] *Cf.* W. Nawrot, *op. cit.*, p. 149.

[3] 2001 Nobel Prize winner, American economist Joseph E. Stiglitz underlined that "the current global financial crisis carries a *made-in-America* label", after: A. Wojtyna, *Gospodarki wschodzące wobec kryzysu gospodarczego – duża odporność czy podatność?* in: A. Wojtyna (ed.) (2011), *Kryzys finansowy i jego skutki dla krajów o średnim poziomie rozwoju*, Warsaw, p. 19.

[4] *Cf.* L. Skiba, *Polityka fiskalna w unii walutowej*, http://www.piotr.wseip.edu.pl/pliki/R–06.pdf. Accessed 15.11.2011.

[5] *Cf.* http:/europa.eu_legislation–summaries_economic–and–monetary–affairs_stability–and–growth–pact_index–en.htm. Accessed 17 November 2011.

[6] http:/eur-lex.europa.eu/LexUriServ_LexUriServ.do?uri/CELEX:31997R1466:PL:NOT, http:/eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri/DD:10:01:31997R1466:PL:PDF. Accessed 17 November 2011.

ber State and a representative of the Commission and the European Central Bank;
3. a preliminary opinion of the European Commission on launching the excessive budget deficit procedure;
4. the final position of the European Commission on starting the abovementioned procedure;
5. the final confirmation of the excessive budget deficit issued by the EU Council. The EU Council also specifies the period in which the deficit should be lowered to less than 3% of GDP and recommends how this should be achieved.

The EU Council has the right to oblige a Member State to submit a non-interest-bearing deposit that can be converted into a fine.

The algorithm used to calculate the deposit amount is:

$$D = 0.1\ (P + 0.002\ \mathrm{GDP})$$

where:
D – agreed deposit amount
P – amount by which the deficit limit was exceeded
GDP – gross domestic product

However, the procedures presented above have not been applied so far and their efficiency has been notably limited. In 2003 the described procedure had been initiated in the case of Germany and France, the largest EU Member States and Eurozone members. The Commission assessed that their draft budgets for 2004 did not implement the recommendations on limiting deficits and prepared a draft declaration for the EU Council, which was to constitute the basis for imposing financial sanctions on Germany and France. Despite the recommendations of the European Commission, the EU Council did not share its opinion on the need to start the procedure. Steps taken by Germany and France ensured that the European Commission's decision was not supported by the required majority of votes. Despite many efforts of the Commission, the European Court of Justice ruled that decisions of the Council are sovereign in this respect.[7]

The reasons for the increase in public debt are numerous and they constitute a complex structure of cause-and-effect dependencies, however, bringing the initiated procedures to a halt was conducive to the growth of debt and led to the weakening of strict procedural principles.

[7] *Cf.* Department of Media and Communications, press release no. 57/0413, July 2004. Judgement of the Court of Justice in Case C-27/04, the Commission of the European Communities vs. the Council of the European Union, http:/curia.europa.eu/jcms/upload/docs/application/pdf/2009-02/cp040057pl.pdf. Accessed 18 November 2011.

POLAND'S PUBLIC DEBT AND DEBTS OF EU MEMBER STATES

Public debt and budget deficit are closely related economic categories. Their meanings are only seemingly obvious and uncontroversial. In economics, public debt is associated with the loans taken out by the state.[8]

From the Polish perspective, the definition seems to be important as it is not entirely clear whether the debt incurred under the Communist rule (and associated with the financing of not always rational economic undertakings) has been fully repaid.[9]

In Polish publications, the term "public debt" is often referred to its definitions in successive public finance acts.[10]

Polish legal solutions[11] use the term "state [national] public debt"[12] which covers the financial liabilities on treasury bills and bonds, credits, loans, received deposits, and obligations (liabilities) due to e.g. execution of court rulings, administrative decisions, etc.[13]

The term "budget deficit" does not arouse any doubts about its interpretation. It means expenditure higher than income.[14] Budget deficit can also be defined from the perspective of budget balance, i.e. the situation where budget expenditure is covered by income, whereby a budget surplus, i.e. the positive difference between income and expenditure, does not disrupt the balance.[15]

The causes of budget deficit and public debt are interwoven. Undoubtedly, the abovementioned judgement of the European Court of Justice endorsed more lenient sanctions applied in the case of excessive budget deficit, which stimulated Member States to increase debt with impunity.

[8] "The accumulated borrowed amounts of the government go by the name *government debt* or *public debt*" (P. A. Samuelson, W. D. Nordhaus (1995), *Ekonomia*, vol. 1, Warsaw, p. 541).

[9] Public (national) debt is the total outstanding debt of the state. "If the government is responsible for the debts incurred by nationalised industry sectors (as is the case in Great Britain), then it would be correct to combine the state budget deficit with the debt of nationalised industry sectors and consider it to be the public sector debt" (D. Begg, S. Fischer, R. Dornsbusch (1992), *Ekonomia*, vol. 2, Warsaw, p. 84).

[10] "By public debt, one understands the total of nominal liabilities of entities classed as public finance sector entities, after the deduction of mutual liabilities (i.e. after debt consolidation)" A. Wernik (2011), *Finanse publiczne*, Warsaw, p. 106.

[11] "Public debt is most often defined as the sum of financial liabilities of public authorities (state and local government) resulting from incurred loans" (S. Owsiak (2004), *Finanse publiczne. Teoria i praktyka*, Warsaw, p. 251).

[12] Article 72 of the Public Finance Act of 27 August 2009 (Journal of Laws No. 157 of 2009, item 1240).

[13] *Cf.* Article 72, par. 1, point 1-4 of the abovementioned Act, *ibid*.

[14] D. Begg, S. Fischer, R. Dornsbusch, *op. cit.*, vol. 2, p. 68.

[15] *Cf.* A. Wernik, *op. cit.*, p. 73.

Table 1

Public deficit and debt and profitability on 10-year bonds in EU Member States

	2009			2010		
	Deficit/ surplus	Debt	10-year interest	Deficit/ surplus	Debt	10-year interest
	% of GDP	% of GDP	%	% of GDP	% of GDP	%
Greece	-15.4	127.1	5.17	-10.5	142.8	9.09
Italy	-5.4	116.1	4.31	-4.6	119.0	4.04
Belgium	-5.9	96.2	3.90	-4.1	96.8	3.46
Portugal	-10.1	83.0	4.21	-9.1	93.0	5.40
Hungary	-4.5	78.4	9.12	-4.2	80.2	7.28
France	-7.5	78.3	3.65	-7.0	81.7	3.12
Germany	-3.0	73.5	3.22	-3.3	83.2	2.74
Austria	-4.1	69.6	3.94	-4.6	72.3	3.23
United Kingdom	-11.4	69.6	3.36	-10.4	80.0	3.36
Malta	-3.7	67.6	4.54	-3.6	68.0	4.19
Ireland	-14.3	65.6	5.23	-32.4	96.2	5.74
The Netherlands	-5.5	60.8	3.69	-5.4	62.7	2.99
Cyprus	-6.0	58.0	4.60	-5.3	60.8	4.60
Spain	-11.1	53.3	3.98	-9.2	60.1	4.25
Poland	**-7.3**	**50.9**	**6.12**	**-7.9**	**54.9**	**5.78**
Finland	-2.6	43.8	3.74	-2.5	48.4	3.01
Sweden	-0.7	42.8	3.25	0.0	39.8	2.89
Denmark	-2.7	41.8	3.59	-2.7	43.6	2.93
Latvia	-9.7	36.7	12.36	-7.7	44.7	10.34
Slovakia	-8.0	35.4	4.71	-7.9	41.0	3.87
Czech Republic	-5.9	35.3	4.84	-4.7	38.5	3.88
Slovenia	-6.0	35.2	4.38	-5.6	38.0	3.83
Lithuania	-9.5	29.5	14.00	-7.1	38.2	5.57
Romania	-8.5	23.6	9.69	-6.4	30.8	7.34
Bulgaria	-4.7	14.6	7.22	-3.2	16.2	6.01
Luxembourg	-0.9	14.6	4.23	-1.7	18.4	3.17
Estonia	-1.7	7.2		0.1	6.6	
Eurozone	**-6.3**	**79.3**	**3.82**	**-6.0**	**85.1**	**3.62**
EU	**-6.8**	**74.4**	**4.13**	**-6.4**	**80.0**	**3.83**

Source: *Strategia zarządzania długiem sektora finansów publicznych w latach 2012-2015*. http://mof- net.gov.pl/–files–/dlug–publiczny/strategie–zarzadzania–dlugiem/strategia–zarzadzania–dlugiem–2012-15.pdf. Accessed 21 November 2011.

One should also mention social costs as they become an especially heavy burden in times of crisis, when the economy breaks down and income drops, and the state needs to provide more financial support to various entities. Economic slowdowns entail interventions that, according to Keynesian theory, are most often connected with increasing the debt. In Poland, apart from the abovementioned causes, one should also point to the costly pension reform. Its implementation requires additional PLN 20 billion per year as both the "old" system needs to be sustained and the new one has to be financed. It should also be mentioned that some decisions on reduction of pension premiums and taxes were not the best.

The starting point for performing this evaluation is the observation that the average budget deficit of EU Member States in 2010 amounted to 6.4% of GDP and decreased by 0.4% of GDP within one year. In the Eurozone, the average deficit was lower and dropped from 6.3% to 6%. In Poland, the deficit went up from 7.3% to 7.9% of GDP. Similar trends could be observed in the relation of public debt to GDP. The EU average in 2009 amounted to 74.4% and, in the course of 2010, went up to 80.0%. The relevant index for the Eurozone increased from 79.3% to 85.1%. The share of public debt in Poland's GDP rose from 50.9% to 54.9% in the same period.

It follows from the above data that although the share of Poland's public debt in the GDP was notably lower than that in Eurozone states and in the entire European Union, the rise of the budget deficit to the GDP ratio from 7.3% to 7.9% could be interpreted as a highly alarming phenomenon that called for counteractions.

Interest rates on medium- and long-term treasury bonds are indicative of investment risk and financial stability of countries that issue them. Lack of financial stability and increased investment risk are reflected by higher interest on such securities. It ought to be underlined that the drop (Table 1) in the interest on Polish 10-year bonds from 6.12% to 5.78%, i.e. by 5.6%, reflects the increase in Poland's trustworthiness on international markets.

One ought to note that the interest on Greek, Portuguese, Irish and Spanish bonds rose, and that interest on Italian government bonds is on the rise. This process is clearly correlated with the worsening economic situation of these Member States.

POLAND'S PUBLIC DEBT AND BUDGET DEFICIT IN THE YEARS 2009-2011

In this part the focus is on Poland's public debt and budget deficit in the years 2009-2011. The year 2009 is the starting point as that is when the first symptoms of the crisis triggered by turmoil on the real estate market became apparent.

As statistical data and financial reports on the GDP are published on a quarterly basis, the quantitative data is to be presented for three-month periods. In 2009, Poland's nominal GDP amounted to PLN 1,343.4 billion. In 2011, it equalled PLN 1,522.7 billion.

The debt incurred by the public finance sector went up from PLN 627.6 billion to PLN 815.3 billion at the end of 2011, i.e. by 29.96%. The public debt to GDP ratio displayed an upward trend. That index went up from 46.72% to 53.54% at the end of 2011.[16]

The debt of the government sector rose from PLN 597.5 billion to PLN 748.81 billion, i.e. by 25.32%, but its share in the GDP exhibited a downward trend (drop from 95.21% to 91.84% in 2011). The debt of the local government sector grew by 131.85%, and its share grew from 4.41% to 7.8%.

The debt incurred by the social security system was highly volatile, and in the last period it exhibited an explicitly downward trend. This component of the public debt was highest in Q4 of 2009 reaching PLN 7.0 billion, i.e. 1.0% of public debt total. At the end of 2011, it amounted to PLN 2.28 billion, i.e. 0.28% of public debt.

From the above data provided by the Central Statistical Office (GUS) and the Ministry of Finance, it follows that despite a difficult situation marked by economic downturn, in the analysed period the public debt to GDP ratio exhibited a slightly downward trend and started to grow in the last six months. The ratio depends on the volatility of the debt of the government, local government and the social security system. The debt generated by the government sector is slightly but systematically growing. However, its share in the GDP is on decrease. The debt generated by local government keeps growing. This is mainly due to the necessity to pre-finance municipal investments the cost of which is partly reimbursed at a later date. The dynamic growth of the latter is one of the causes of the increase in the debt-to-GDP ratio.

The decreasing deficit in the social security sector is a positive development which results mainly from the diversion of a portion of pension contributions from the so-called "second pillar" individual accounts.

The 2011 data show that the public-debt-to-GDP ratio was 53.54%, i.e. below the 55% threshold and thus its level was relatively safe. Was it higher, strict prudential and remedial procedures would have to be launched.

PRUDENTIAL AND REMEDIAL PROCEDURES

The provisions of the Maastricht Treaty concerning public debt are reflected in the Constitution of the Republic of Poland. Public debt cannot exceed 3/5 of annual gross domestic product.[17] This constitutional limitation was the basis for adopting special prudential and remedial procedures whose launch is to prevent exceeding the specified debt limit. Should the limit be exceeded, the threat is that further necessary and excessive credits generating unduly high service costs would be taken out and probably disrupt the economy notably.

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[16] Data on 2011 GDP, Statistics Department of the National Bank of Poland, *Informacja wstępna nr 2 z 2012 r.*, http://www.nbp.gov.pl/publikacje/informacja–wstepna/2012/2012–02.pdf. Accessed 4 April 2012.

[17] *Cf.* Article 216 par. 5. Constitution of the Republic of Poland (Journal of Laws of 1997, No. 78, item 483, of 2001, No. 28, item 319, of 2006, No. 200, item 1471, of 2009, No. 114, item 946).

Table 2

Poland's public debt and GDP in the years 2009-2011 in PLN million

	Q1 2009	**Q2 2009**	**Q3 2009**	**Q4 2009**
GDP, nominal	1,343,366			
Public debt	627,623.1	635,614.8	659,789.7	669,876.4
%	46.72	47.32	49.11	49.87
Government debt	597,532.1	603,894.0	625,698.7	623,592
%	95.21	95.01	94.83	93.09
Local government debt	27,704.3	29,296.9	32,072.0	39,324.7
%	4.41	4.61	4.86	5.87
Social security debt	2,386.7	2,423.6	2,018.9	6,959.8
%	0.38	0.38	0.31	1.04
	Q1 2010	**Q2 2010**	**Q3 2010**	**Q4 2010**
GDP, nominal	1,415,385			
Public debt	688,573.0	721,938.4	746,164.0	747,698.8
%	48.65	51.01	52.72	52.83
Government debt	646,222.7	678,158.1	698,597	692,360.5
%	93.85	93.94	93.63	92.60
Local government debt	38,768.0	40,620.0	44,708.8	53,519.0
%	5.63	5.63	5.99	7.16
Social security debt	3,582.4	3,160.3	2,858.2	2,019.3
%	0.520	0.44	0.38	0.27
	Q1 2011	**Q2 2011**	**Q3 2011**	**Q4 2011**
GDP, nominal	1,522,700			
Public debt	778,214.2	785,981.4	798,919.5	815,324.8
%	51.11	51.62	52.47	53.54
Government debt	722,455.5	729,394.1	739,550.1	748,812.9
%	92.84	92.80	92.57	91.84
Local government debt	54,048.4	54,914.3	57,892.0	64,232.8
%	6.95	6.99	7.25	7.88
Social security debt	1,710.3	1,673.0	1,477.2	2,279.1
%	0.22	0.21	0.18	0.28

Source: http://www.stat.gov.pl/gus/wskazniki–makroekon–PLK–HTML.htm, Part 4. Annual macroeconomic indices: http://www.nbp.gov.pl/publikacje/Informacja–wstepna/2011/2011–09.pdf; http://mofnet.gov.pl/dokument.php?const=5&dzial=590&id=70517; http://www.nbp.gov.pl/publikacje/informacja–wstepna/2012/2012–02.pdf. Accessed 31 March 2012. Author's own calculations.

The Minister of Finance is obliged to annually report the amount of public debt incurred in Poland, as well as the debt of the State Treasury and the amount of non-due liabilities of the State Treasury and local government on account of granted credit warranties and guaranties, and the ratio of these amounts to the GDP. The report is published in the "Monitor Polski", the official journal of the government of the Republic of Poland. That report gives the balance as at the end of the calendar year and should be published by 31 May of the following budget year.[18]

The procedure outlined above has three variants depending on the ratio (henceforth r) of the public debt to the GDP.

1. If $50\% < r \leq 55\%$,

then the Council of Ministers is obligated to present a draft budget act that meets the following requirement:

$$Def_{BPn} / Doch_{BPn} \leq Def_{BP(n\text{-}1)} / Doch_{BP(n\text{-})}$$

where:

Def_{BPn} – state budget deficit in the coming year,
$Doch_{BPn}$ – state budget revenues in the coming year,
$Def_{BP(n\text{-}1)}$ – state budget deficit in the current year as in the budget act,
$Doch_{BP(n\text{-})}$ – state budget revenues in the current year as in the budget act.

2. If $55\% < r < 60\%$,

then the Council of Ministers adopts a draft sustainable budget or specifies the budget deficit *DefBPn* to meet the formula below:

$$DSPn / PKB_{n} < D_{SP(n\text{-}1)} / PKB_{(n\text{-}1)}$$

where:

D_{SPn} – budget deficit planned for the coming year,
PKB_{n} – estimated GDP in the coming year,
$D_{SP(n\text{-}1)} / PKB_{(n\text{-}1)}$ – the ratio specified in a Notice

Moreover, the budget act does not foresee any increases in salaries in the public service sector while indexation of pensions and disability allowances cannot exceed the price index of consumer goods and services announced by the Central Statistical Office (GUS) for the previous budget year. The act bans granting new credits and loans from the budget and any rise in expenditure on institutions whose budgets are part of the state budget (and whose budgets cannot be adjusted by Minister of Finance) cannot exceed the rise index for government administration.[19] The Council

[18] *Cf.* Article 38 of the Public Finance Act of 27 August 2009 (Journal of Laws of 2009 No. 157, item 1240 and 1241, of 2010 No. 28, item 146, No. 96, item 620, No. 123, item 835, No. 152, item 1020, No. 238, item 1578, No. 257, item 1726, of 2011 No. 185, item 1092, No. 201, item 1183).

[19] This refers to the Chancellery of the President, Senate and Sejm [Parliament], Supreme Audit Office, Supreme Court, Constitutional Tribunal, Supreme Administrative Court and its regional bodies, National Council of the Judiciary, common courts, Commissioner for Children's Rights, Commissioner

of Ministers is obliged to carry out a review of expenditure financed from foreign funds and long-term programmes, and is also obliged to present a remedial programme aimed at improving the debt-GDP-ratio.

In the case of local government units, their expenditure should not exceed their revenues plus available funds and available budget surplus of previous years, as well as non-refundable foreign funds.

3. If $r \geq 60\%$,

then the abovementioned procedures are launched, and the Council of Ministers is also obliged to present a remedial programme to the Sejm [Parliament] within one month. The recovery programme should be aimed at lowering the r index to less than 60%. The programme should contain a description of the causes of the incurred debt, the action plan for lowering the debt and a three-year outlook for the relation of the public debt to the GDP. The budgets of local government units cannot close with budget deficit.

Starting from the seventh day after the Notice about the debt- GDP-ratio is published, the units of the public finance sector cannot grant credit warranties or guaranties.

The solutions mentioned above are not applied in the case of martial law introduction, the declared state of emergency due to a natural disaster or the general state of emergency in the territory of the whole state.

THE EXCHANGE RATE AND ITS IMPACT ON PUBLIC DEBT

In this case, it is worth performing a more thorough analysis of the threat of an increase in public debt resulting from an unexpected rise in the value of the Polish zloty (PLN) in relation to the euro and the US dollar, which would be reflected by the increase in the nominal value of foreign debt and might imply the necessity to initiate prudential and remedial procedures.

At the end of 2011, Polish public debt amounted to PLN 815.3 billion, which translates into the debt-to-GDP ratio of 53.54%. The mechanism of prudential and remedial procedures presented above points to hardships to be suffered by the state and the society. In the context of the presented above trends in the debt-to-GDP ratio, unpredictable and sometimes speculative exchange rate fluctuations might play a decisive role in pushing the r index to exceed its limit(s). In this analysis, foreign debt is calculated against the exchange rate at the end of a reporting period.

In the analysed period, i.e. from 2009 to mid-2011, Polish national debt went up by 22.08% while foreign debt increased by 50.76%. One ought to emphasise here that Poland's foreign and national debt increased at a similar pace, which was thus

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for Citizens' Rights, National Broadcasting Council, Inspector General for the Protection of Personal Data, Institute of National Remembrance, Central Election Office, and the National Labour Inspectorate (*cf.* Article 139 par. 2 of the Public Finance Act).

the pace at which the public debt grew. However, since the third quarter of 2011, the share of national debt fell by 4.29% in total, and the share of foreign debt rose by the same percentage. This altered the relation between national and foreign debt. The share of national debt fell from 72.61% to 68.32%, and at the same time the share of foreign debt went up from 27.39% to 31.68%.

The currency of 21.4% of the debt of the State Treasury was incurred in euros, 4.7% in dollars, and only 4.6% in other currencies. One might therefore assume that 82% of foreign debt can be expressed in euros, and 18% in dollars. Consequently, it can be estimated that as at the end of 2011, the debt amounted to EUR 47.9 billion and USD 14.1 billion, according to the table of exchange rates of 30 December 2011 where the exchange rate for EUR 1 equalled 4.4168 and for USD 1 it was 3.4174. Assuming there were no other variables, one can estimate the exchange rate that would lead to the exceeding of the 55% public-debt-to-GDP ratio.

Table 3

National and foreign public debt in PLN million

	Q1 2009	**Q2 2009**	**Q3 2009**	**Q4 2009**
Public debt	627,623.1	635,614.8	669,876.4	669,876.4
National debt	456,312.1	471,101.1	493,817.5	493,817.5
%	72.70	74.12	73.72	73.72
Foreign debt	171,311.0	164,513.5	176,058.9	176,058.9
%	27.30	25.88	26.28	26.28
	Q1 2010	**Q2 2010**	**Q4 2010**	**Q4 2010**
Public debt	688,573.0	721,938.4	747,698.8	747,698.8
National debt	505,044.2	520,699.3	543,388.5	543,388.5
%	73.35	72.13	72.67	72.67
Foreign debt	183,528.8	201,239.1	204,510.3	204,510.3
%	26.65	27.87	27.35	27.35
	Q1 2011	**Q2 2011**	**Q3 2011**	**Q4 2011**
Public debt	778,214.2	785,981.4	798,919.5	815,324.8
National debt	569,224.2	570,725.7	552,424.0	557,055.8
%	73.14	72.61	69.15	68.32
Foreign debt	208,990.0	215,255.7	246,495.4	258,268.9
%	26.85	27.39	30.85	31.68

Source: http://mofnet.gov.pl/dokument.php?const=5&dzial=590&id=70515. Accessed 31 March 2011. Author's own calculations.

Poland's foreign debt is to a large extent determined by the relation of the PLN exchange rate to the EUR and USD. Considering the GDP at the end of 2012 and national and foreign debt volumes, one can estimate the borderline exchange rates for the EUR and the USD which would lead to exceeding the 55% public-debt-to-GDP ratio. It is worth underlining that the analyses of exchange rate fluctuations given in the tables of exchange rates indicate that the variability pattern of rates for the EUR to the USD and to the PLN is highly similar.

The maximum exchange rate for the EUR and USD to the PLN amounted to PLN 4.90 and PLN 3.90 respectively on 18 November 2009.[20] This corresponds to the volume of foreign debt that amounted to PLN 288.0 billion after its conversion. At those exchange rates, the hypothetical public debt would amount to PLN 845.1 billion, and its relation to the GDP estimated for the current year would produce the index of 55.5% which would necessitate the launch of strict prudential and remedial procedures.

As it is impossible to indicate any significant reasons for such a low PLN exchange rate, one might consider it highly likely, or even bordering on certain, that the rate was a result of speculations directed at weakening the PLN.

Using the same procedure, one can calculate the borderline EUR-to-PLN and USD-to-PLN exchange rates that would rise the public-debt-to-GDP ratio to the level of 55%. This index would mean that public debt reached PLN 837,485 million. The borderline exchange rate is an estimate, so one should assume that national debt remains stable and amounts to PLN 557,055.8 million. This means that the foreign debt hypothetically amounts to PLN 280,429 million. The above corresponds to the index that reflects debt growth triggered by the growth of the exchange rate by 8.57%. It follows that 1 EUR = 4.79 PLN and 1 USD = 3.71 PLN are the rates that do not increase public debt over 55% of GDP.

It seems that exceeding those borderline exchange rates is highly unlikely. However, the question arises whether it is possible to prevent this highly improbable, yet possible threat. Some measures are in the hands of the National Bank of Poland, which has the right to intervene.[21] A limited inflow of euros obtained from the European Union within various policy frameworks via the BGK (Poland's only state-owned bank) to the market was effective, as it both strengthened the Polish currency and the exchange rate for Euro to the PLN was favourable.

[20] http://www.nbp.gov.pl_home.aspx?f//kursy_kursy–archiwum.html. Accessed 31 March 2012.

[21] Communication of the NBP, *W godzinach popołudniowych NBP dokonał sprzedaży pewnej ilości walut obcych za złote*, Publication date: 29-12-2011, http://www.nbp.gov.pl_home.aspx?f//aktualnosci/wiadomosci–2011/in29.html. Accessed 1 January 2012.

PUBLIC DEBT UNDER THE "SIX-PACK" AND INTERNATIONAL AGREEMENTS

The lack of consistency in adhering to the provisions of the Maastricht Treaty on admissible budget deficit and public debt was one of the reasons of the uncontrollable debt growth in such Member States as Greece, Spain, Portugal and Italy. Those developments shook the euro and pushed for strong interventions necessary for restoring financial stability in the entire European Union. At the same time, all EU Member States became aware of the necessity to strengthen fiscal regime. It was necessary to develop consistent and irreversible procedures limiting budget deficits and public debts, and indisputable financial sanctions for their violation.

Taking decisions on those issues – fundamental for the functioning of the Eurozone and the entire European Union, became the task of the Polish Presidency.[22] The agreement reached by the European Parliament and the EU Council is a success in regulating fiscal policy in its broad sense. The necessity to introduce new regulations results from the insufficiency of the Stability and Growth Pact. To solve the problem of incoherent fiscal policy, a new financial directive has been adopted and provisions regulating this policy have been revised. The former is the MTO, i.e. *medium-term budgetary objectives*. The adopted solutions adjust the rigid provisions of the abovementioned Pact by taking into consideration such variables as the impact of a business cycle period, debt volume, increase in costs due to the ageing of the society and the implementation of pension reforms related to the introduction of a capital insurance pillar. Generally, this is about lowering the chances of exceeding the 3% borderline level of public-debt-to-GDP ratio. Member States that do not meet the MTO criterion should lower their debt-to-GDP rate by 0.5% per year.

Another amendment to the regulation applies to those Member States whose public-debt-to-GDP ratio exceeds 60% and obliges the Member States to lower this ratio annually by 1/20 of the amount exceeding the 60% limit.

Taking into account the experience accrued until now, the consequences of implementing sanctions on failing to adhere to the adopted provisions should be considered to be crucial for the effectiveness of fiscal provisions. There is a possibility of imposing sanctions on EU Member States that grossly violate the MTO index. They have to submit an interest-bearing deposit equal to 0.2% of their respective GDP. A non-interest-bearing deposit of the same percentage applies to Member States subjected to the excessive budget deficit procedure. A non-refundable fine can be imposed on Member States that fail to implement recommendations to reduce deficit or falsify statistical data. At the same time, it is possible to implement the excessive deficit procedure at a quicker pace though the provisions do not clearly stipulate what a significant and sustainable reduction of deficit to a level close to the 3% limit means.

[22] Based on: M. Barańczak, M. Rozkrut, *Sześciopak – nadzieja czy porażka?* http://www.rp.pl/artykul/9157,732018.html. Accessed 3 January 2012.

The presented solutions deserve praise for making procedures precise and streamlining the enforcement of budget deficit and public debt limitations.

The summit of heads of state and government of EU Member States held in December 2011 ended with an agreement on the pact regulating the fiscal policy. This was an international agreement and not an amendment to EU Treaties as this option was vetoed by the UK. Thus the causative power of the provisions has been markedly weakened as they apply to those Member States that sign the agreement only. The agreement was signed by the Eurozone states and 6 other EU Member States, Poland included. Its signing and consistent implementation makes overcoming the public debt crisis and stabilising the Eurozone possible. Achieving stabilisation in this area conditions Poland's accession to the Monetary Union and, as it seems, prevents the development of a two-speed Europe.

THE FISCAL PACT AS THE DESIRED FORM OF INTEGRATED ECONOMIC STABILITY POLICY AND A HIGHER FORM OF EU INTEGRATION

The integration of the monetary policy of EU Member States is highly advanced. Employing available monetary policy instruments should be considered to be effective, and the supreme position of the European Central Bank over national banks does not arouse serious concerns. However, there is a striking divergence between the quite consistent implementation of the monetary policy and the lack of coordination and excessive freedom of fiscal policies. Despite the restrictive regulations of the Maastricht Treaty, not even major EU Member States have adhered to pre-set limits and the postulated solutions have not been implemented. The global financial crisis should force the EU to introduce more radical, generally implemented and enforced solutions. In these circumstances, the launch of drafting the agreement titled the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union should be praised. On 2 March 2012, the document was signed by heads of state and government of 25 EU Member States. Its main objective is to prevent excessive debts of Member States. The key arrangements adopted under this agreement embrace the following:

- the adoption of the budget rule under which the structural deficit cannot exceed 0.5% of nominal GDP, and public debt cannot be higher than 60% of GDP;
- the automatic imposing of financial sanctions amounting to 0.1% of GDP for violating fiscal limitations; rulings in this area are to be issued by the European Court of Justice and the imposed fines are to be transferred to the International Stability Fund.

It ought to be added that the European Commission is to supervise the implementation of fiscal provisions. Member States that declare accession to the Pact should grant legal force to its provisions and give preference to the constitutional sanctioning of the adopted rule.

As the United Kingdom and the Czech Republic did not join the Pact, the document is an international agreement. The UK vetoed the amendment of the contents of the Treaty. The discussed agreement was to enter into force on 1 January 2013 on condition that it was ratified by 12 of the 17 Eurozone member states. One ought to add that only the Member States that ratify the agreement would be entitled to avail themselves of the European Stability Mechanism (ESM), whose resources will most probably exceed the amount of trillion euros.

The purposefulness of the signed agreement is beyond doubt. It is a step toward the deepening of not only economic, i.e. fiscal and monetary, but also of political integration. The question arises whether such integration does not entail undue interference in the internal affairs of EU Member States and whether it does not limit sovereignty. By signing the Maastricht Treaty, Poland undertook to participate in the monetary integration process but did not provide its deadline for completing this task. In the course of time, it has become evident that monetary integration requires the deepening of fiscal integration. The latter offers an opportunity to compete for the old but also the emerging economic powers.

ABSTRACT

The beginning of the global economic crisis can be identified with the collapse of Lehman Brothers, an American investment bank. Liberalisation and deregulation processes enhanced competition on the market of goods and services and also on the market of loans, granted to persons and entities of decreasing repayment capacity. The crisis triggered large-scale interventionism, which in turn led to a substantial growth of public debt. A lack of consequences in implementing the procedures of excessive debt must be considered the major cause of a widespread growth of public debt in the EU Member States. This policy is responsible for the fact that the average public debt of EU countries in 2010 amounted to 80% of the GDP with 85.1% in the Eurozone. The Polish public debt at the end of 2011 was 53.5% of the GDP. Measures aimed at reducing the public debt of the Member States to the level provided for in the Treaty of Maastricht must be appreciated. The considered solutions include the so-called "six pack" and the Treaty on the Stability, Coordination and Governance in the Economic and Monetary Union. Ratification of those agreements and their implementation in respective constitutional arrangements would be desirable.