



World Scientific News

An International Scientific Journal

WSN 127(3) (2019) 260-271

EISSN 2392-2192

Analysis of the implementation of the assumptions of the budget economy and monetary policy in Poland

Lidia Czuma-Imiołczyk

Faculty of Management, Czestochowa University of Technology, Czestochowa, Poland

E-mail address: lidkacz1@o2.pl

ABSTRACT

The following study discusses the implementation of the monetary policy assumptions in Poland. The theoretical part explains the concept of the state budget, which is the basic tool for collecting and spending cash in the state and the role of monetary policy. In the empirical part, the state budget analysis was carried out in 2017.

Keywords: Budget economy, budget, monetary policy

1. INTRODUCTION

Monetary policy is treated as one of two instruments of achieving macroeconomic objectives, in addition to fiscal policy. The theory and practice of monetary policy is the subject of research by a significant number of economists, as evidenced by the multiplicity of literature in this regard. The central bank conducts an expansive or restrictive monetary policy depending on current macroeconomic situation of the country, at the same time influencing its decisions on the process of managing the average consumer.

The change introduced in the Public Finance Act, which is the basic act regulating the course of financial processes in public sector entities, is on the one hand a response to the

requirements of day-to-day management of public funds, on the other is an expression of the desire to reform Polish financial law to increase savings and efficiency and effectiveness of performing public tasks. The new regulations strengthen and improve the transparency of public finances, which is primarily guaranteed by the limitation of the organizational and legal forms of the public finance sector.

The financial economy in the country is based on the budget economy. The concept of the state budget is at the same time what particular attention should be paid to, variously defined in the doctrine. [1] In the widest possible - the colloquial meaning of this word - the budget is referred to as a statement of income and expenditure for a predetermined period. Most often, however, this term is understood as the basic financial plan of the state (territorial self-government units), which has a directive character, adopted for a predetermined period in a special manner. On the one hand, it contains the volumes and titles of non-returnable revenues from the state (local government units), which are provided for the budget period covered by the plan, and on the other - the volumes and titles of non-returnable expenditures for public purposes carried out by the state (or local government units). The state budget is one of the most important financial plans in the country, including centralized monetary resources, constituting a material basis for the implementation of many state tasks. [2]

Budgetary and monetary policies have a significant impact on shaping financial resources in the country. The goal of fiscal policy is to provide the state's income, and thus to satisfy the state's demand for money; the monetary target - the defense and regulation of the domestic money supply and ensuring the security of the national currency in relation to the rest of the world. [3]

2. THE EXISTENCE OF BUDGETARY AND MONETARY POLICY IN THE COUNTRY

Systemic transformation of economies from real socialism to free the market in the 1990s and the difficult to overcome effects of the global economic crisis that began in the financial crisis of 2008 showed that the operation of the market does not only depend on the pricing mechanism, but also on its institutional structure that translates into a way, in which people perceive the logic of its operation and react to its dysfunctions.

On the basis of the opinions of many researchers, it can be concluded that the tools of neoclassical economics, because of these limitations, they are not enough to explain the economic changes taking place over many centuries. The starting point for the discussion of this work will be the achievements of D. North, whose output is more focused on market institutions than the historical determinants of the ego mechanism. It was considered that the reference to the theory North's neo-institutionalism is more appropriate since the history of the oldest banks. The central banks operating in the world allow us to draw the conclusion that the activity of monetary authorities is more strongly determined by the network of market institutions than historical heritage.

Despite the fact that budget policy, to some extent, including tax policy, are not carried out at the supranational level, their importance for the economic development of the whole Community is extremely important for several reasons. First of all, it is a serious part of economic policy for its other elements, e.g. monetary policy, thereby conditioning its effectiveness. Secondly, fiscal policy instruments enable implementation the main objectives

of the Community and the European Union not only of an economic nature - the establishment of the Internal Market, economic growth, growth competitiveness, but also objectives related to employment protection, protection social security, health, increased level and quality of life, or environmental protection natural. For these reasons, budgetary policy is coordinated in two dimensions: objective - within the whole economic policy EU and subjective - between Member States.

Budgetary policy (budget, fiscal policy) is quite broad term and at the same time belongs to the subject scope of financial policy. In science public finances and financial law the latter is defined, among others as: Financial policy - conscious and purposeful activity of persons and institutions, consisting in determination and implementation of specific goals by financial means (measures, actions). Each policy is understood as a way of acting and conducting activities in a specific field. The financial policy consists of significant elements: an established goal or goals, measures (instruments) through which objectives are to be achieved and entities that pursue a given policy. Due to the nature of the financial policy and the instruments used to implement it (public funds) it is assumed that it plays a servial role in relation to economic (social) and social policy, and thus is a part of it. Among other things, for this reason, the prevailing view in socialist science was that financial policy is to pursue the general goal that lies beyond its scope, which is the domain of social and economic policy.

At present, however, in a market economy, it is possible to distinguish financial goals that can condition the overall goals of social and economic policy. Due to the wide scope and place of financial policy, one can speak about the multiplicity of set goals, on the one hand, about the main objective, which is indicated within the EU economic policy and narrower and more detailed objectives subordinated to the main objective.

Financial means (instruments) by means of which financial policy is implemented can be classified into the following groups:

- establishing the law, consisting in establishing general norms (law financial) and individual standards (legal and financial acts and rulings);
- determination of financial plans, i.e. financial plans
- various types - state budgets, local government, plans financial statements of individual entities of the public finance sector;
- practical implementation of the law and plans in the course of financial activity.

Fiscal policy - conscious and purposeful activity of individuals and institutions, consisting in setting and implementing specific social and economic goals by means of budget revenues and expenses. The adopted way of understanding budget policy indicates the relationship with tax policy, because taxes are one of the sources of income for each budget. Undoubtedly, it is wrong to identify one with yourself policy with the other, as well as their complete differentiation and deprivation of common points. There are positions in the literature that emphasize the autonomy of tax policy. Because of the huge fact the impact of taxes on both the sphere of the state's activity and the citizens themselves, obliged to bear tax burdens, constitute a special, separate subject of interest. In financial law alone there is a tendency to distinguish tax law as an independent field.

The current budget, being an extremely important institution of public finances, plays an important social and economic role, dividing almost half of the national income earned in the state. In addition, it is also of great political and systemic importance, as it is closely related to the functions of the state and public authorities. [4]

The budget, in accordance with the Constitution of the Republic of Poland and the Public Finance Act, is a financial plan, including income and expenses as well as revenues and outlays of the state, adopted by the Sejm for a period of one calendar year, called the budgetary year, in the form of a budget act. The budget economy, on the other hand, is "financial activity (processes, all financial operations) consisting in collecting and spending funds for public purposes, made on the basis of statutes and budgetary resolutions". In order to ensure the proper implementation of the budget function, and thus optimal organization and functioning of the budgetary economy, the process of collecting and spending public funds should be based on specific principles, thought out and supported by experience, which should be formulated and subject to control. [5]

Budgetary principles are rules at the same time concerning the budget and the budget economy. This is an interesting issue, especially when one looks at the specific catalogs of budgetary principles formulated by the budget doctrine. You can look at budget principles from two different points of view. On the one hand, these principles are often treated as established by the doctrine of "exemplary budget properties" or the postulates of science formulated at the practice - both legislative and application of law - aimed at optimizing the planning and implementation of budgetary tasks. On the other hand, budgetary rules are often treated as features (qualities) of the budget, resulting from its essence, objectively conditioned features.

Undoubtedly, the catalog of the most frequently formulated strictly budgetary principles should include:

- the principle of universality,
- the principle of unity,
- the principle of detail (including specialization),
- the annual rule,
- the principle of balance,
- the principle of priority,
- the principle of openness,
- the principle of transparency,
- the principle of reliability and rationality.

The principle of universality (completeness) is the rule regarding the content of the budget, determines the scope of the budget, gives it an appropriate economic significance. The specified completeness of the budget determines its place and role in the entire financial system. In accordance with the principle of universality, the budget should cover all financial operations of public authorities, all state revenues and expenses, without any deductions or exclusions. None of the areas of public financial management should be outside the budget.

Unity of the budget occurs in two senses, as a formal unity and material unity. The formal unity is understood as the postulate of taking over the state's total income and expenses in a single legal act. Material unity consists in the fact that public funds entering the budget make up one common fund for various public expenses. It can also be understood as "the prohibition of binding specific budget revenues with specific expenses.

The principle of detail means that the budget should be prepared and implemented with a breakdown into specific income and expenses, and not only as a comprehensive (summary) approach to both revenue and expenditure sides. The principle of detail is reflected in the budget classification understood as legally established principles of grouping of budget revenues and

expenses based on various criteria, which allows the budget to be adopted with detailed amounts of various types of income and expenses.

Programming financial activities within the budget system requires establishing the period in which expected financial operations should be made. The necessity to determine such a period has its economic justification, because budget revenues and expenses, as cash flows, have to be recognized in a certain period of time. Although the adopted budget period can not be completely arbitrary, its length is contractual. This period can not be too long (due to the changeability of conditions), nor too short, which could indicate an ad hoc action, and this certainly is not conducive to their rationality. At the same time, it is worth emphasizing that in practice it seems important to go beyond the framework of one-year budgetary planning postulated by this principle. Many plans financed from public funds require a long-term perspective, long-term view.

The principle of budget balance is a demand for mutual adjustment of the overall amount of budget expenditure to the total amount of income. Its strict observance would rule out a deficit and public debt. Currently, it is primarily a postulate of rational financial policy and economic balance of the country on a multiannual scale and the relative balance of the budget for a given year. A balanced budget is one in which fixed expenditures, as well as in a private economy, are satisfied by constant incomes. The problem of balancing the budget is not only a theoretical dimension. In a situation of long-term deficit of the public finance sector, it takes on a specific meaning. In order to implement the program formulated in the provisions of the Constitution of the Republic of Poland, the state is obliged to undertake various political, social, protective and economic activities that require cash. Expenditure on them should, to a large extent, be covered by incomes that are planned in the state budget.

The principle of priority means that the budget should be adopted by the end of the year preceding the budget year. It was expressed in art. 222 of the Constitution of the Republic of Poland, which, however, does not treat it in a categorical manner. In case of danger of non-compliance with this requirement, it provides for the possibility of adopting the so-called budget provisional.

The principle of openness was expressed in the Constitution and the Public Finance Act. In the formal sense, it is realized through the availability of public works on the budget and its publication as a budget act. The manifestations of budget transparency are, among others:

- openness of the budget debate,
- publication of the budget act with attachments,
- publication of data on public debt.

In the material sense, it manifests itself in the legibility of the budget, i.e. the ability to easily read the volumes indicating the state's financial policy. Material publicity is more difficult to achieve than formal openness. The principle of openness is of fundamental importance in a democratic state of law, as it enables verification of the compliance with the law of proceedings of individual authorities.

The principle of transparency means clarity, readability, comprehensibility, orderliness and logical arrangement of budget information. The principle of transparency is therefore to include the content of the budget so that, first and foremost, the parliament as the body that will consider and approve the budget can easily find out about government intentions and correctly assess them. This principle requires a precise and systematic wording of the descriptive and numerical financial management of the state for the next budget period.

The principles of reliability and rationality require the programming of budgetary operations in accordance with their nature and in the most feasible manner. Both principles are closely related and complement each other. While the principle of reliability concerns the qualitatively appropriate characteristics of budgetary operations, the principle of reality focuses on the correct prediction of the size of these operations, ie on the quantitative aspect

The budget is part of the financial system and sarni is also a system. As a "system", it is based on certain interrelated general assumptions, known as budget principles, which are not isolated concepts, but on the one hand are based on the actual construction and operation of the budget, and on the other hand are also some guidelines, according to whose budget is to be built and is to function, including them in the construction of the budget and compliance with its functioning is to improve its construction and more efficient, ie in accordance with the objectives of functioning, rigid, unchangeable canons, like the budget itself and the nature of the principles on which it is based, depends on a specific social, economic and political system.

The issue of the definition and scope of monetary policy is not one of the issues clearly and precisely defined in the literature.

The broadest definition of monetary policy assumes that "Monetary policy in the widest scope includes all actions of governments, central banks and other public authorities that affect the amount of money and bank credit. Therefore, it includes those aspects of economic policy that relate to such matters as: selection of the domestic monetary system, determination of the domestic monetary unit both in relation to gold and foreign currencies, determination of the scale and types of government operations of monetary operations, establishment and regulation of the central banking system as well as the establishment and regulation of commercial banks and other relevant financial institutions.

Of course, this is not the only definition of monetary policy that can be found in economic literature. Almost all of them aim at price stabilization as a goal, meaning a low inflation rate. [6] Further goals such as: supporting sustainable economic growth, high employment levels and balance of foreign payment transactions appear only in some definitions. However, all these definitions combine a very close connection with the central bank's legislation in a given country, in particular with the statute of the national central bank and the objectives and tasks set out therein. [7]

According to art. 227 par. 1 of the Constitution of the Republic of Poland (Journal of Laws of 1997, No. 78, item 483, as amended) "The National Bank of Poland is responsible for the value of Polish currency". The Act of 29 August 1997 on the National Bank of Poland (Journal of Laws of 2017, item 1373) in art. 3 par. 1 stipulates that "the basic objective of the NBP's activity is to maintain a stable price level, while supporting the Government's economic policy, as long as it does not limit the basic objective of the NBP."

In implementing the basic obligations of the National Bank of Poland, hereinafter referred to as the "NBP" contained in the Constitution of the Republic of Poland and the Act on the National Bank of Poland, the Monetary Policy Council, hereinafter referred to as "the Council", strives to maintain price stability. At the same time, monetary policy is conducted in such a way as to foster the maintenance of balanced economic growth and the stability of the financial system.

The NBP pursues economic objectives in accordance with the provisions of legal acts, using modern monetary policy tools. Some authors postulate radical solutions concerning limiting the autonomy of the NBP as the authority determining the direction monetary policy in the country. The assumptions of monetary policy should determine.

The Sejm, while the tasks of the Council of the Bond Policy should go beyond the achievement of the inflation target: care for economic growth and full employment. It seems, however, that the National Bank of Poland should remain an independent body primarily due to the goal of stabilizing financial markets, which markets are extremely susceptible to all political decisions. For the stability of the banking system and a stable price level necessary there is an independent assessment of the banking sector by autonomous authorities monetary, fluctuating, occurring along with the change of political option.

It should be remembered that in the perspective of the next few years, and thus Poland's entry into the euro area, the nature of the central bank's goals and activities in Poland, and so far independence, will change dramatically.

3. ANALYSIS OF THE IMPLEMENTATION OF THE BUDGETARY ACT

State budget revenues were made in the amount of PLN 350.414,7 million and were by 7.7% higher than the forecast specified in the budget act. The state budget expenditure in 2017 constituted 97.7% of the limit specified in the Budget Act and amounted to PLN 375,788.5 million, including PLN 1,296.6 million in expenses which in 2017 did not expire at the end of the budget year.

The state budget deficit, the limit of which was set at PLN 59,345.5 million, was made at PLN 25,333.8 million and was lower by 57.3% than the one set. The deficit of the European funds budget is specified in art. 2 para. 3 of the budget act in the amount of PLN 9.634,5 million. The implementation amounted to 4.3% of the plan after the changes.

According to art. 174 of the Public Finance Act, the Minister of Finance exercises general control over the implementation of income and expenditure as well as revenues and expenditures of the state budget, including the efficiency and effectiveness of the implementation of the budget in a task setting. He also exercises, pursuant to art. 74 of the aforementioned Act, control over the public finance sector as regards compliance with the principle that state public debt can not exceed 60% of the value of annual gross domestic product and the state of debt of the State Treasury. The Minister of Finance also provides financing for the borrowing needs of the state budget.

The disposers of budgetary parts exercising, in accordance with art. 175 of the Public Finance Act, supervision and control over the entire financial management of organizational units subordinate to them, in the event of determining delays in the implementation of tasks, excess of funds or mismanagement in certain units, they undertake - in accordance with art. 177 of the Public Finance Act - decisions on blocking planned expenditures and inform about these decisions of the Minister of Finance. During 2017, disposers blocked expenditure in 85 budget sections for PLN 12,070.2 million (in 2016, they were blocked in 96 parts for PLN 5,574.1 million).

Total revenues implemented in 2017, state budget revenues accounted for 88.0%, and European funds budget 12.0%. The state budget revenues in 2017 exceeded the amount planned in art. 1 of the Budget Act by 7.7%, i.e. by PLN 24.986.7 million. In the implemented expenditures, the state budget expenditure accounted for 88.7%, and the European funds budget - 11.3%. The state budget deficit accounted for 98.4%, and the budget deficit accounted for 1.6% of the total deficit realized.

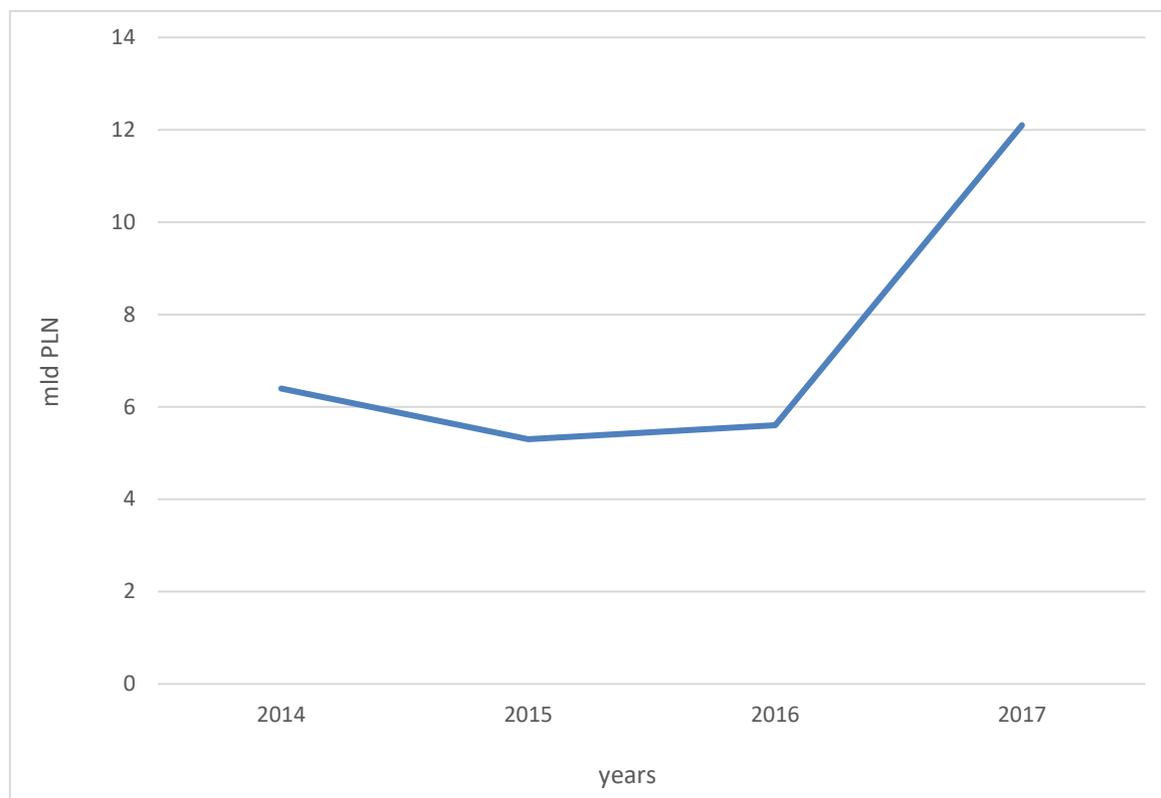


Figure 1. Blockade of budget expenditures in 2014-2017

[Source: Supreme Audit Office Analysis of state budget implementation and monetary policy assumptions in 2017, p. 70]

Table 1. Implementation of the state budget and the budget of European funds in 2014-2017

Specification	2014	2015	2016	2017	
	Spending			Act	Spending
Country budget					
earnings	283.542,7	289.136,7	314.683,6	325.428,0	350.414,7
expenses	312.519,5	331.743,4	360.843,1	384.773,5	375.768,5
financial result	-28.976,8	-42.606,7	-46.159,5	-59.345,5	- 25.353,8
The budget of European funds					
earnings	68.088,4	64.463,7	39.064,2	60.213,9	47.591,4
expenses	68.405,7	67.695,4	51.700,7	69.848,4	48.002,2
financial result	-317,3 --	-3.231,7	-12.636,5	-9.634,5	-410,8

Total					
earnings	351.631,1	353.600,4	353.747,8	385.641,9	398.006,1
expenses	380.925,2	399.438,9	412.543,8	454.621,9	423.770,7
financial result	-29.294,1	-45.838,4	-58.796,0	-68.980,0	- 25.764,6

[Source: Supreme Audit Office Analysis of state budget implementation and monetary policy assumptions in 2017, p. 72.]

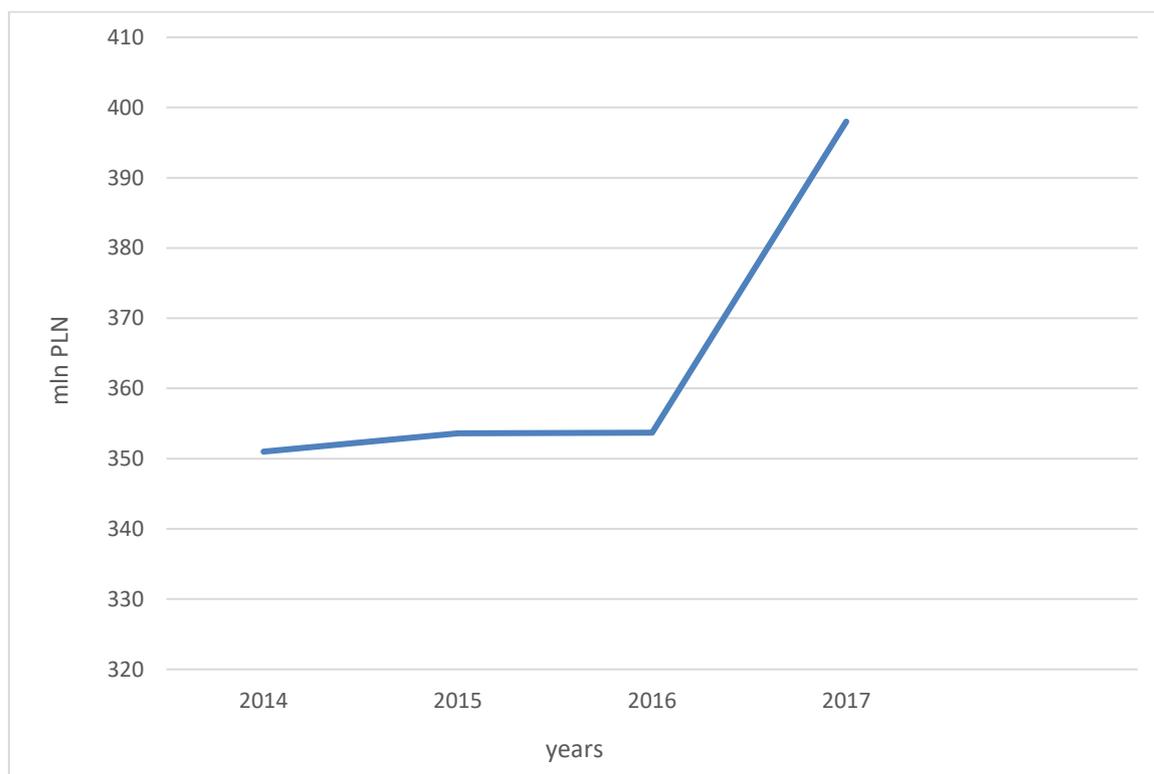


Figure 2. Dynamics of budget revenues in 2014-2017 (in mld PLN)

[Source: Supreme Audit Office Analysis of state budget implementation and monetary policy assumptions in 2017, p. 73]

The revenues of the state budget and the European funds budget amounted to PLN 398,006.1 million and were by 12.5% higher than in the previous year. Revenues of the state budget increased by 11.4%, and the budget revenues of European funds increased by 21.8%. The increase in revenues was influenced, among other things, by tax revenues much higher than in 2016 (by PLN 42,199.0 million), representing 90.0% of state budget revenues. The budget revenues of European funds were realized in the amount lower than planned by 21.0%, which was mainly due to the lower than expected performance of expenses reported by the disposers at the stage of planning the budget act.

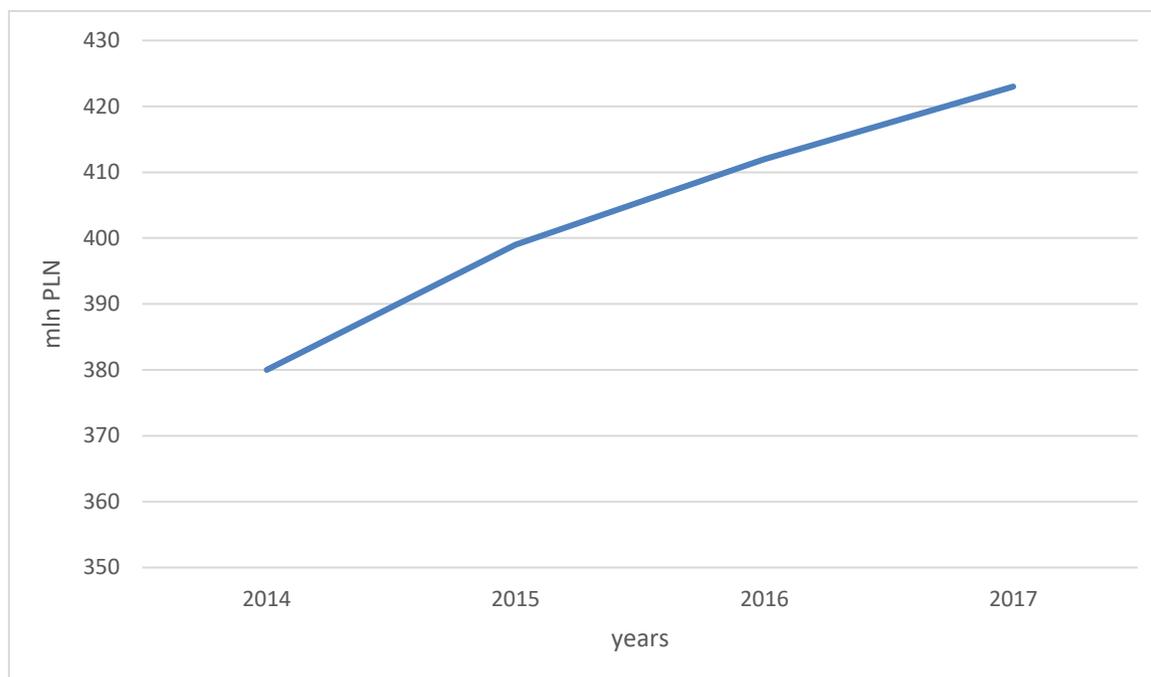


Figure 3. Dynamics of budget expenditures in 2014-2017 (in mld PLN)

[Source: Supreme Audit Office Analysis of state budget implementation and monetary policy assumptions in 2017, p. 73]

The increase in tax revenues was mainly due to the increase in income from goods and services tax (by 23.9%), income tax on individuals (by 9.2%) and income tax on legal persons (12.8%). On the other hand, the planned revenues were not realized, among others, due to the planned introduction of a tax on large-area trade (PLN 1,200.0 million) and excise tax (PLN 738.7 million). Tax revenues were higher than in the previous year by 15.4%. The significant increase in tax revenues was a result of a good situation in the economy, improvement of the efficiency of tax collection and reallocation of VAT refunds from January 2017 to December 2016.

4. CONCLUSIONS

The central bank is the only institution that can conduct monetary policy. This applies to both paper and non-cash money. When conducting monetary policy, the central bank determines the size of paper money issues and relevant financial instruments affecting the volume of lending activities of commercial banks. [8] If the position of a central bank in a given country is weak and it is unable to conduct monetary policy, then it can not be run by any other bank. Such a situation has a negative impact on the monetary system of a given country and inevitably leads to a fall in the value of money. The goal of monetary policy is to maintain a stable purchasing power of money by adjusting its quantity to the needs of circulation and creating a durable and trustworthy banking system. In such conditions, the population of a given country can have confidence both in money and in banks. [9] This, in turn, should support the

maintenance of a stable rate of economic growth, high employment, stable prices and balance of payments with foreign countries. [10] The objectives of monetary policy are implemented through a variety of strategies that, along with changing economic conditions, are subject to numerous changes. The latest global financial crisis has put a new challenge to the authorities in terms of ensuring financial stability. [11] It should be emphasized that changes occurring for many years in the manner of formulating and implementing monetary policy strategies they can have a significant impact on the effectiveness of the monetary policy transmission mechanism. [12-17]

The contemporary budget is an extremely important public finance institution. The state budget adopted in the form of a budget act should be constructed, adopted and implemented in accordance with budgetary principles, among which the principle of completeness deserves special attention. This principle means a postulate to cover all state revenues and expenses with the budget. Parliament, when adopting the budget act, should decide on all state incomes and expenses, and not only on some of them. It also means the need to give the parliament real influence over the government's economic policy. [18]

References

- [1] J. A. Robinson, R. Torvik. A political economy theory of the soft budget constraint. *European Economic Review* 2009, no 53(7), p. 786-798
- [2] P. Miller, T. O'leary, Mediating instruments and making markets: Capital budgeting, science and the economy. *Accounting, Organizations and Society* 2007, 32(7-8), p. 701-734
- [3] M. Freitag, P. Sciarini. The political economy of budget deficits in the European Union: the role of international constraints and domestic structure. *European Union Politics* 2001 2(2), pp. 163-189
- [4] I. S. Rubin, I. S. The politics of public budgeting: Getting and spending, borrowing and balancing CQ Press 2019, p. 120.
- [5] A. Brender, A. Drazen, A. Political budget cycles in new versus established democracies. *Journal of Monetary Economics* 2005, no 52(7), p. 1271-1295
- [6] M. Freitag, P. Sciarini. The political economy of budget deficits in the European Union: the role of international constraints and domestic structure. *European Union Politics* 2002, no 2(2), pp. 163-189
- [7] A. Cornwall, V. S. Coelho. Spaces for change? The Politics of Participation in New Democratic. Zed Books; 1 edition (30 Nov. 2006), ISBN-13: 978-1842775530
- [8] M. Shi, J. Svensson. Political budget cycles in developed and developing countries. Institute for International Economic Studies, Stockholm University 2002, p. 18.
- [9] J. C. Cuaresma E. Gnan, Four Monetary Policy Strategies in Comparison: How to Deal with Financial Instability? *Monetary Policy & the Economy* 2008, no. 3, 65-102
- [10] C. E. Walsh Monetary Theory and Policy, The MIT Press Cambridge, Cambridge 2010, MA. P. 118.

- [11] D. Gerdesmeier, F. P. Mongelli, B. Roffia. The Eurosystem, the US Federal Reserve and the Bank of Japan: Similarities and Differences. *Working Paper Series*, No. 742, ECB, Frankfurt am Main 2007, p. 120
- [12] Mishkin, Frederic S. 1995. Symposium on the Monetary Transmission Mechanism. *Journal of Economic Perspectives*, 9 (4): 3-10. DOI: 10.1257/jep.9.4.3
- [13] Claudio Borio, Haibin Zhu. Capital regulation, risk-taking and monetary policy: A missing link in the transmission mechanism? *Journal of Financial Stability* Volume 8, Issue 4, December 2012, Pages 236-251. <https://doi.org/10.1016/j.jfs.2011.12.003>
- [14] Luca Dedola, Francesco Lippi. The monetary transmission mechanism: Evidence from the industries of five OECD countries. *European Economic Review* Volume 49, Issue 6, August 2005, Pages 1543-1569. <https://doi.org/10.1016/j.euroecorev.2003.11.006>
- [15] Filippo Ippolito, Ali K. Ozdagli, Ander Perez-Orive. The transmission of monetary policy through bank lending: The floating rate channel. *Journal of Monetary Economics* Volume 95, May 2018, Pages 49-71. <https://doi.org/10.1016/j.jmoneco.2018.02.001>
- [16] Matteo Ciccarelli, Angela Maddaloni, José-Luis Peydró. Trusting the bankers: A new look at the credit channel of monetary policy. *Review of Economic Dynamics* Volume 18, Issue 4, October 2015, Pages 979-1002. <https://doi.org/10.1016/j.red.2014.11.002>
- [17] Jorge David Quintero Otero. Industrial structure and transmission of monetary policy in Latin American countries. *Investigación Económica* Volume 76, Issue 302, October–December 2017, Pages 103-129. <https://doi.org/10.1016/j.inveco.2018.01.004>
- [18] M. Shi, J. Svensson, J. Political budget cycles: Do they differ across countries and why? *Journal of Public Economics* 2006, 90(8-9), p. 1367-1389.