

STATE BUDGET IN A CHANGING ECONOMIC AND SECURITY ENVIRONMENT: THE POLISH EXPERIENCE

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Introduction

The state budget is one of the main tools of government in the implementation of economic policy. It indicates the character of the policy (direct or indirect) and its role in macro-stabilisation and restructuring of the economy. The evolution of the state budget has to be studied through analysis of the revenues and expenses and their structure. The size of the budget deficit and methods of financing it are also important in assessing the state's policy. The evolution of the state budget in a transforming economy indicates: (1) scope and advancement of systemic changes; (2) sequencing of undertaken steps; (3) decentralisation; (4) scale of state's presence in the economy; (5) proportions between state and market; (6) continuation of reforms despite changes of government. As far as the security environment is concerned, two issues should be taken into account: **internal** social constraints linked with transformation of the system and changes in the economy; **external** costs of security in changing international relations of the post-Cold War period.

Restructuring of the state budget influences all state spending including military expenditure (MILEX). Reduction of MILEX cannot be considered as a simple follow-up of changes in state expenditure. This was rather caused by the end of the Cold War and the process of restructuring of the army. An increase can be expected in the light of adjustments to NATO membership requirements, although this will not influence the share of MILEX in state expenditure, this being caused by the expected expansion of the economy.

Polish experience gained in the construction and evolution of state budgets can serve as an example of wise economic policy covering the whole transformation period since 1989. The aim of this paper is to present the evolution of the Polish state budget with specific focus on changes in its structure on both the income and expenditure sides as well as with the scale of the deficit and sources financing it. The final section will be devoted to changes in MILEX.

General Remarks on Polish State Finances in the Years 1991-1998

After 1989 Poland had to change its system of public finances, adjusting them to market requirements. Despite the fact that in the former system some of the institutions of the finance system were identical in name to the institutions of a market economy, economically and socially their role was different.¹ The following notions can be used to exemplify this: state budget, taxes or social security system. The utilization of the state budget was similar as in a market economy. It was an instrument responsible for distribution of incomes. The main difference can be ascribed to the fact that this redistribution was defined by goals and economic proportions set in the central plan. Taxes were the main channel of financial flow between enterprises and the budget. The main difference here was that the flow took place within the same ownership structure, which automatically excluded the possibility of this tool playing the same role as under market conditions. Also the social security system, fully financed by the state, was not based on commercial conditions. The procedure of changes in the budgetary system is a complex undertaking, accomplishment of which takes time.

In the years 1989-1998, the definition of budget expenditures and incomes was accompanied by changes to legal regulations. The evolution of incomes and expenditures was smooth which enabled the promulgation of a wise macro-stabilisation policy. This policy can be considered as safe in two ways. Firstly, from the point of social security and secondly from the angle of economic-monetary requirements.

Table 1 - State Budget in 1991-1998 (in million zloty)

Contents	1991	1992	1993	1994	1995	1996	1997 ^a	1998 ^b
Revenues	21088,5	31277,5	45900,8	63125,2	83721,7	99674,5	99700,0	129040,7
Expenditures	24185,8	38189,0	50242,8	68865,0	91169,7	108841,7	108700,0	143440,7
Balance	-3997,3	-6911,5	-4342,0	-5739,8	-7448,0	-9167,2	-9200,0	-8164,0
Financing the deficit:								
Internal sources	-	7194,4	4928,3	6979,4	6519,5	9779,7	-	-
In banking system	-	6618,8	3753,9	4926,0	1548,3	3583,8	-	-
Beyond banking sys.	-	575,6	1174,4	2053,4	4971,2	6195,9	-	-
Foreign sources	-	-282,9	-586,3	-1239,6	928,5	-612,5	-	-

a - first assessments made by GUS, quoted after A. Wiernik Deficyt budżetowy i dług publiczny, Raport o stanie transformacji gospodarki IRiSS 1997.

b - plans from the budget law for 1998.

Source: Rocznik Statystyczny GUS 1997, Ustawa Budżetowa 1998.

Until 1990, the state budget embraced balances of incomes and expenditures of the central budget, local budgets and sources beyond the budget, prepared according the classification of the state budget. In 1991, considerable systemic

changes in the construction of the state budget were introduced. According to the regulations on Budget Legislation dated 5 January 1991 (Dz. U. No. 4, pos.18) the budgets of local administration (communes) were excluded from the state budget. This step supported the process of decentralisation and was conducive to the development of democratic structures.²

The state budget embraced the former central budget and the budgets of the voyevods (district expenses).³ The communes became financially independent units. The legal basis of commune finances is formulated in regulations dating from 1990 which define the principles of commune revenues and their subventions, indicating at the same time changes in the rules of local governing. The local budgets are tied up with the central expenditures by general subventions granted from the state budget and the share of taxation collected by the state budget. The state budgets also assigns targeted allocations that serve to finance locally defined projects as well as those ordered by the central administration.

In 1991, most of the aimed funds were cancelled and taken over by the state budget. Some expenditures of specific character were kept. This concerns expenditures on insurance, social goals, culture and protection of the environment.

According to the regulations introduced in 1990 the state budget covered: national incomes which included current incomes (i.e. turnover taxation, income tax, dividends, import tax and revenues from custom duties) and incomes from privatisation as well as foreign incomes (deriving from credits granted by Poland abroad). Incomes of the communes cover: (1) incomes from taxation introduced and collected under separate regulations (i.e. following taxes: on agriculture, on transport and property); (2) incomes from payments (local and fiscal); (3) shares in the taxes that make up the state budget (income tax of corporate bodies and individuals, income tax, etc.); (4) subventions gained from the state budget; (5) assigned allocations received from the state budget.

Since the introduction of regulations on state incomes and expenditures in 1990, the rules were modified several times, adjusting the law to new requirements and responsibilities of the state.⁴ Those changes have produced a new definition of public finances which recently cover all the financial resources at the disposal of the budgetary system. The legal regulations form general principles for the gathering of financial resources that are embraced in the state budget and local budgets. Annual incomes and expenditures of the state budget are approved by the Polish Parliament for each financial year. Local expenditures are approved locally by local authorities. This also happens in each financial year which begins with the calendar year. Regulation of both the form and the principles of the decision-taking process for local budgets are defined in regulations on local administration finances. The incomes and expenditures of the state and local authorities are grouped according to the budgetary classification that is formed by the Minister of Finance in a form of disposition.

In sum, the budget in Poland is beginning to play a distributive role - allocating financial resources among economic subjects and institutions. Both

the sources of revenues and subjects receiving the money have gone through a serious and deep evolution. These changes are mirrored by changes in legislation.

Procedure of Decision Taking and Democratic Control

The procedure of preparing the state budget and its administration are defined in the following documents: (1) the Constitution; (2) budget law; (3) orders and decrees amending the budget law. The budget system is understood to be a system of law and procedures which lay down how revenues based on the tax system are collected and what are the basic state obligations indicated as spending. The budget itself is an annual financial plan covering revenues and expenditures. The state budget is a balance sheet of all revenues/assets and expenditures which are approved by Parliament on annual terms as a budgetary act. This presents classification of all expenditures and revenues dividing them into main budget holders and main expenditure groups.

The procedure for preparation of the state budget, as with the military budget, is defined in the "Budget Act" dated 5 January (with later amendments). The first stage is collecting information about incomes and expenditures from the Board of Ministries, Polish National Bank and all other ministries by the Ministry of Finance. The latter is responsible for the preparation of the draft budget. The ministries, or more precisely the coordinators of specific sections of budget classification in each ministry, prepare the plan for the division of financial limits ascribed for expenditures of their respective divisions. This is done within the limits assigned in the draft, including the expenses of the ministries. The Ministry of Finance and the Polish National Bank (PNB) both make the decision concerning the scale to which the budget deficit will be financed by the PNB. The PNB and Ministry of Finance then prepare the projection of balance of payment. The responsibility of macro-economic prognosis, including budget revenues - lies with the Department of Financial Policy and Analyses. The draft of expenditures is prepared by the Department of State Budget. Both departments use projections of incomes and expenditures prepared by respective departments of the Ministry.⁵

The budget draft takes into account goals included in the current year plan as well as the fulfillment of the budget in the previous year. Then the documents are forwarded to the Ministry of Finance. Using this information, the Ministry of Finance presents the budget proposal at the meeting of the Board of Ministers. This proposal gives sources to balance the inputs and outputs as well as ways to cover the deficit. The Board of Ministers finally defines the mentioned limits of spending. The division of offered limits by each ministry is the next step. The received money has to be assigned for the realization of specific activities. Following the disposal of allocated limits, the ministries and other subjects return the prepared proposals for the division of resources among individual

projects back to the Ministry of Finance which in turn uses the information to prepare the Budget Act. This, along with all relevant documentation and outstanding disputes is then presented to the Board of Ministers for acceptance.

The project of budgetary regulation, following discussion in the Board of Ministers and along with possible corrections, is forwarded with developed justification to the Sejm (Lower Chamber of Parliament) and later to the Senate (Upper Chamber of the Parliament). The legislation “Budgetary Law” obliges the government to send the project of the budget to Parliament before 31 October of the year proceeding the financial year of the budget.

Table 2 - The Calendar of Budget Preparation in Poland

Month	Phase of preparation
July/August	1. Ministries forward to specialized departments introductory budget materials; 2. Department of Financial Policy and Analyses prepares macro-economic principles and main goals of the budget
7 August ^a	The head of the Ministry of Finances accepts the principles of the project
17 August ^a	Specialized departments supply information to Department of State Budget and Department of the Financial Policy & Analyses on the projects of revenues and expenditures of the state.
20 August ^a	Department of State Budget and Department of Financial Policy and Analyses prepare the first draft of the budget, dividing it into sections.
26 August ^a	The head of the Ministry of Finance accepts the first draft of the budget.
8 September ^a	The Board of Ministers accepts the first draft of the project.
15 September ^a	Ministers - coordinators of individual sections divide parts of the budget among the users of the financial sources according to the plans foreseen in the draft.
30 September ^a	The users of the financial sources supply specialized departments of the Ministry of Finance with their budgetary projects.
1-10 October ^a	Period for inter-ministerial consultations.
15 October ^a	Specialized departments submit to Budgetary Department of the State and Department of Financial Policy & Analyses the final project of all budgetary titles and sections.
20 October ^a	The Head of the Ministry of Finances studies the project of Budgetary Law.
28 October ^a	1. Project of the Budgetary Law is forwarded to the Board of Ministers. 2. Department of Financial Policy and Analyses prepares a verified prognoses of budgetary revenues.
November	The Budgetary Law is accepted in the Parliament (both Chambers). In case of prolongation of the procedure, the Ministry of Finance operates using a provisionary budget.

^a exact dates are shown to illustrate the schedule of budget law preparation.

In the Sejm and Senate the project of budgetary regulation proceeds through all stages of the legislative procedure. As practice shows, the proposed budget is analyzed in detail by parliamentary commissions during the plenary sessions in two Parliamentary Chambers. This includes consecutive readings, opinions and requests for additional resources, but does not usually include information on needed sources to finance the expenditures.

Specific procedure is ascribed to parts of the budget of the following non-governmental institutions such as offices of the President, Sejm, Senate, Highest Chamber of Control, Constitutional Tribunal and Supreme Court of Judicature. The expenditures of these institutions are not verified earlier by the Ministry of Finance. Traditionally, the Commission of Economic Policies and Finances form a special sub-commission that verifies those parts of the budget which are ascribed to the listed subjects. This sub-commission often finds “savings” in expenditure which is subject to intensive bargaining in the last phase of budget preparation.

In practice, the control of budget spending covers six institutions. Their role is differentiated as some of them are engaged in the preparatory phases whilst others are involved in both stages of preparatory and execution. The following institutions are engaged: (1) Highest Chamber of Control (Auditing Office - NIK); (2) Sejm and Senate - plenary sessions; (3) specialized commissions, including those for Economic Policy, Budget and Finance; (4) Ministry of Finance and remaining ministries; (5) Board of Ministers (gathering representatives of all ministries) and the government; (6) Polish National Bank.

The control of military budgets covers: (1) project of budgetary law and fulfillment of the state budget concerning the MoD; (2) economy and procedures related to MoD finances. There are five forms of control of military expenditures in Poland: (1) parliamentary initiatives concerning different forms of defense policy and regulations; (2) detailed analysis at meetings of the National Defence Committee of Sejm and Senate (sittings of the Commission - with specialised hearings of experts); (3) means of desideratum passed to the National Defence Committee of the Sejm and directed to the Prime Minister; (4) individual written questions formulated by members of Sejm and Senate directed to the Minister of National Defence and his deputies; (5) detailed analysis concerning fulfilment of the defence budget conducted by a specialised Department of the Highest Chamber of Control.⁶

In sum, the preparation of budgetary law is scheduled in a relatively short period which is usually exceeded in practice. The main difficulty in preparing the budget law lies in rapid changes of legislation and economic dynamics. Poland is working out the procedures of democratic control of the budget whilst also learning from practice which leads to modifications that help the system to work effectively and smoothly.

Evolution of Incomes

Budget income is estimated with the use of information about the budget of the former year and what actually happened in the first months of the fiscal year. This produces certain limitations which are natural. Nevertheless, prognosis has to take into account several changing elements: (rate of growth of the economy, exchange rate policy, prognoses of tax, customs, excise, incomes, as well as incomes of PNB and other items which are listed in Table 3). It has to include the continuation of reforms, which change the proportions between individual items listed in the budget on both the revenue and expenditure side of the budget.

Changes in budget sources are clearly indicated in the last two columns of Table 3. Some of the sources have disappeared, others were introduced, whilst the remainder were either gaining or losing importance. Generally, the weight of taxes in financing the budget rose in the examined period (6.8%). Several indirect taxes were introduced like VAT, excise or taxes on spirit products, fuels and tobacco products. At the same time turnover tax was withdrawn as it was considered to be a tool punishing companies that increased output.

Table 3 - Evolution of State Budget Revenues in Poland in 1991-1996
(in million zloty)

Contents	1991	1992	1993	1994	1995	1996	1991 in %	1996 in %
Total	21088.5	31277.5	45900.8	63125.2	83721.7	99674.5	100.0	100.0
National revenues	21078.1	31261.5	45895.0	63100.0	83681.6	99647.1	99.9	100.0
Revenues from taxes	16317.4	24615.5	36962.1	51568.4	68975.2	83864.5	77.3	84.1
Indirect taxes - of which:	x	x	17749.4	26884.3	36314.8	46803.1	x	46.9
VAT	x	x	5129.1	15009.9	20666.9	28014.9	x	28.1
Excise - of which:	x	x	3120.3	9001.7	12139.9	15524.0	x	15.6
- taxation of spirit products	x	x	1104.8	3165.4	4134.9	4577.6	x	4.6
- taxation of fuels	x	x	994.5	3322.2	4061.2	5576.4	x	5.6
- taxation of tobacco			x	495.2	2700.2	3852.4	x	3.9
Turnover tax	6119.6	10309.9	9409.5	129.5	41.7		29.0	-
Income tax	5376.2	12288.1	18199.5	18199.5	32348.8	36902.2	25.5	37.0
From corporate bodies	x	5062.0	6257.2	6827.7	8837.0	10730.3	x	10.8
Banks & financial inst.	835.7	1094.8	1418.2	1145.9	925.3	1566.3	4.0	1.6
From individuals	x	7226.1	11942.4	17375.6	23511.8	26171.9	x	26.2
Tax on increase of income	2709.8	1698.8	998.7	469.1	166.9	-	12.8	-
Other tax revenues	2111.8	318.7	14.5	11.7	144.7	159.2	10.0	0.2
Non-tax revenues - incl:	4589.8	6161.6	8152.5	9937.3	12064.8	12032.8	21.8	12.1
- dividend from state firms	1131.4	635.7	338.0	334.4	425.3	428.3	5.4	0.4
- dividend from state shares								
in joint stock companies	126.7	187.5	157.2	158.2	184.5	595.9	0.6	0.6
in banks & financial inst.	-	25.0	196.2	106.9	196.0	200.9	-	0.2
Payments from PNB	660.5	1211.3	1418.2	2355.1	2980.0	359.3	3.1	0.4
Incomes from duties	1705.0	2677.4	4383.2	4888.8	5774.5	6498.3	8.1	6.3
Incomes from privatization	170.9	484.4	780.4	1594.9	2641.6	3749.8	0.8	3.8
Foreign incomes	10.4	16.0	5.8	24.6	40.1	27.4	0.1	0.0

Source: Data from Ministry of Finances, quoted after Rocznik Statystyczny 1997, p. 474.

Revenue in 1997 was 119.8 billion zloty, a 20.2% increase over 1996. In comparison with the Budget Law, the revenues exceeded the projected level by 4,438 million zloty, or 3.8%. These additional revenues enabled the deficit to be cut from its planned level by 66%. The additional income was gained from the following sources: (1) unplanned revenues from privatization (2,069 million zloty - 46.6% of total unplanned revenues); (2) unplanned payments of incomes from PNB (835 million zloty - 18.8% of total unplanned revenues); (3) unplanned revenues from abroad (sales of obligations, so called collateral - 437 million zloty - 9.8% of unplanned revenues).

The changes in the structure of revenue reflect the progress of market reform in Poland. It indicates that despite changes of government, the economy was directed smoothly so constraints in the social sphere did not occur. The strongest presence of the state in the economy was observed in the first stages of transformation when revenues were small and insufficient to meet overall needs. The activities of the state were thus financed by the deficit. The budget indicates what still needs to be reformed in the near future, such as education, medical care as well as the rent and pension systems. Partial commercialization of these systems with support from resources gained through privatisation will create new conditions in the budgetary system. This, if accompanied by continuing high rates of growth in the economy (predicted at 6-8%) should ease budget constraints and result in the balancing of the budget as well as allowing a concentration of expenditures on selected issues which influence the competitiveness of the economy as a whole.

Evolution of Expenditures

State budget expenditures have also changed and developed in a similar fashion to revenues. Some new positions appeared like the financing of current expenditure of local communes or those that enjoy town status. More often, individual positions were losing importance and this was reflected in a falling share in the total value of expenditures. This was the case with subsidies, current expenses of budgetary units, salaries and transfers to banks. The only position with a growing share on the side of expenses was service of the public debt.

**Table 4 - Evolution of State Budget Expenditure in Poland:
1991-1996 (in million zloty)**

Contents	1991	1992	1993	1994	1995	1996	1991 in %	1996 in %
Total	24185.8	38189.0	50242.8	68865.0	91169.7	108841.7	100.0	100.0
Subventions - including:	9786.6	15504.1	19442.2	27647.8	31657.1	39997.4	40.5	36.7
- directed subventions	934.6	529.4	702.5	536.6	541.4	783.5	3.9	0.7
- housing and communes	724.7	921.0	595.4	514.5	484.1	492.3	3.0	0.5
- social security fund	2206.0	4950.8	6605.2	8296.9	6000.0	6031.4	9.1	5.5
- rents & pensions fund	1362.1	2247.3	3085.0	4721.6	6101.6	7550.1	5.6	6.9
- aimed subventions								
for local governments	538.1	1006.3	1263.2	2714.9	3568.2	3009.4	2.2	2.8
- for financing current goals	512.9	938.3	1241.9	2657.7	2678.4	2132.0	2.1	2.0
-communes with town status	-	-	-	853.9	282.4	209.9	-	0.2
- for financing ordered goals	-	-	-	-	493.2	423.9	-	0.4
- for co-financing own aims	25.2	68.0	21.3	57.2	402.6	453.5	0.1	0.4
- general subventions								
for local administration	681.0	757.9	1104.2	2219.2	2939.2	8053.9	2.8	7.4
Payments to individuals	765.3	1158.8	2038.3	3116.5	7875.0	9028.3	3.1	8.3
Current expenses on budget units - including:	10084.1	14292.4	19073.9	23581.7	31134.8	36767.0	41.7	33.8
- salaries	4566.7	6837.6	9090.9	10909.7	14788.5	15842.2	18.9	14.6
- social securities and labour fund	1482.4	2317.8	3004.1	3673.7	5122.3	5138.0	6.1	4.7
Bank Transfers	998.1	1952.7	1639.0	2156.5	2016.0	2575.5	4.1	2.4
Public debt servicing	985.3	3330.8	5571.7	9233.0	14359.7	14408.0	4.1	13.2
- from domestic sources	264.1	2153.8	4360.5	7400.9	11097.1	11032.3	1.1	10.1
- from foreign sources	721.2	1177.0	1211.2	1832.1	3262.6	3369.5	3.0	3.1
Property expenses	1566.4	1950.2	2477.7	3129.5	4127.1	6071.0	6.5	5.6
- including investments	1562.4	1945.0	2418.0	3083.4	4018.6	5980.0	6.5	5.5

Source: same as in Table 3.

The expenditures from the state budget in 1997 amounted to 125.7 billion zloty and exceeded in nominal terms the level of 1996 by 15.5%. In comparison with the state budget law they were lower by 1.5% and 1.8% against the estimated expenses in the revised budget. The growth of expenses in real terms, as in 1996, was minimal. Using a 14.1% price deflator, the increase in real terms was 1.2% (in 1996, 0.17%). If we exclude the cost of public debt servicing, the growth of remaining expenditures in nominal values was 15.7% or 1.4% in real terms. The cost of servicing public debt (taking into account solely interest payments without guarantees) went up by 14.0% but was in real terms the same as in 1996.

The share of social expenditures in the budget in 1997 decreased from 18.6% to 17.6%, while its overall value increased by 10.6%. Costs of servicing public debt decreased, although the fall was only from 13.0% in 1996 to 12.8% in 1997. It is worth stressing that this fall took place in conditions of a strong increase in the servicing of debt. The public debt serviced from the budget

climbed in 1997 by 14.9% in comparison with 1996. The decrease in the share of servicing the public debt was made possible by a decrease in the interest rate calculated from the public debt.

Expenditures from the state budget were lower by 2,242 million zloty in 1997 in comparison with the figures foreseen in the budget law. This has resulted in a one-third decrease in the budget deficit in comparison with the figures from the budgetary law. The decrease in expenditures of 2,942 million zloty have to be counted as savings which were achieved by the cancellation of or reduction in some expenses. The main savings were achieved with the Labour Fund through a strict policy of applying unemployment allowances, making small savings in individual budgets, and needing less money to cover guarantees on foreign and national markets which were overestimated in the budget.

In sum, this evolution of expenditure will be continued in the near future. Poland needs to reform the financing of its pension, education and health systems and is prepared financially to do this. Money will come from the growing economy, an accelerated privatisation schedule and private funds.

Scale of the Budget Deficit and the Policy of its Financing

In 1997 the deficit of the state budget was reduced considerably. After a significant lowering of the deficit in 1993, it stabilised at between 2.5% to 2.8% of GDP. 1997 brought about another decrease to 1.3% of GDP. The state budget deficit in 1997 reached the level of 5,904 million zloty, 46.9% of the value foreseen in the budgetary law. In 1997, the deficit was 35.6% lower than in 1996.

Table 5 - State Budget Deficit in 1992-1997

Contents	1992	1993	1994	1995	1996	1997
Deficit of state budget						
In million zloty	-6,911	-4,342	-5,740	-7,448	-9,167	-5,904
In % of GNP	-6.01	-2.78	-2.73	-2.58	-2.51	-1.34
In % of expenditures	-18.9	-8.62	-8.34	-8.16	-8.42	-4.69

Source: reports of Board of Ministers from fulfillment of the state budget in 1992, 1993, 1994, 1995, 1996 and provisional data on 1997, quoted after A. Wiernik, op. Cit.

The level of state budget deficit in Poland is now below the 3% required by the Maastricht criteria of convergence, but in reality things are different. The deficit in Poland is calculated according to the national definition which is different than the definition used in EU member-states.⁷ First of all, the definition formulated in Maastricht deals with the whole public sector while in Poland the deficit of the budgetary sector is not included.⁸ Secondly, the deficit is calculated as net increase in borrowing, while in Poland it is counted as the difference between revenues and spending. Thirdly, the increase in the deficit has not resulted solely from the budget deficit. Despite these differences, it becomes clear that Poland is focusing its budgetary policy on the requirements of stabilisation formulated in the fiscal criteria of convergence.

The need for borrowing on the home market from the State Treasury in 1997 amounted to 18.6 million zloty, a sum 15.5% lower than in the budgetary law. The borrowing was lower than in previous years, reaching 31.7% of total borrowing against 59.8% in 1996%. The policy of financing the deficit was similar as in former years, i.e. with the emission of securities and obligations bought by commercial banks, other institutions and households. The demand for these forms of investments has shrunk, forcing Poland to issue Treasury Bonds and financially support the PNB. The finances were additionally put under pressure by the recent flooding in Poland. The reserve usually foreseen for unexpected expenses was too small to shoulder the needs that occurred.

In sum, Poland was using traditional ways of financing the deficit, taking into account the requirements of stabilisation policy. The deficit in 1997 continued to fall - a good sign for the reduction of both public debt servicing and the rate of inflation.

Changes in MILEX

Military expenditures were adjusting to the trends observed in other countries which show deep falls in military budgets as well as their restructuring after the end of the Cold War. In the years 1989-1997 Polish military expenditures went down by more than 50%. The level and structure of MILEX for 1998 as presented in the budgetary law is shown in Table 6.

**Table 6 - MoD Expenditures in Poland for 1998
in million zloty**

Section	Chapter	MoD Budget Part 30 of Budget Act	Plan for 1998	Share in %
85		Health Protection, covering	594.0	5.1
	8511	Hospitals of general types	204.4	
	8512	Clinics	276.2	
	8513	Ambulatory curing	46.8	
	8541	Health resorts	38.7	
	8591	Pharmaceuticals	6.7	
	8595	Remaining activities	21.2	
86		Social care	40.6	0.4
	8617	Family and protection allowances	40.6	
91		Administration	122.4	1.1
	9111	Center of MoD	122.4	
92		Jurisdiction and public prosecution, including	24.8	0.2
	9216	Military Law Courts		
	9223	Military prosecution	8.7	16.1
95		Social securities	2488.6	21.6
	9592	Military retirement payments	2488.6	
98		Military defense, including:	8263.9	71.6
	9813	Military Housing Agency	322.8	
	9814	Land Forces	4202.9	
	9815	Air Forces and Air Defense	1964.2	
	9816	Naval Forces	702.1	
	9817	Remaining Units	976.9	
	9818	Military Information Forces	95.0	
MoD Total Expenditures			11534.3	100.0

Source: Budget Law 1998

Poland has prepared a long-term plan to improve the equipment of the Polish Armed Forces in the years 1999-2012, taking into account future membership of NATO. This plan is also presented in the budgetary law for 1998. Nevertheless, some corrections to this plan are currently being discussed, including a fall in Armed Forces personnel numbers.

Table 7 - A List of Programmes Within the 15-year Technical Modernisation Plan for the Polish Armed Forces

Programmes	Inputs in million zloty		
	Total in 1998-2012	Plans for 1998	Years 1999-2012
Land forces, including:	24241.5	788.3	23453.2
Reconnaissance and radioelectronic warfare equipment	1889.2	95.2	1794.0
Command, Control & Communication equipment	2590.0	125.2	2465.7
Air defense systems	3040.1	71.1	2969.0
Anti-tank systems	931.7	0.0	931.7
Helicopters (multirole and anti-tank)	5740.0	88.9	5651.1
Artillery systems	1971.5	51.7	1919.8
Tanks and other armoured vehicles	3762.9	148.5	3614.4
Personal equipment	947.5	45.1	902.3
Other equipment	3367.8	162.7	3205.1
Air Forces, including:	12268.2	361.9	11906.3
Reconnaissance and radioelectronic warfare equipment	2855.1	122.5	2732.6
Command, Control & Communication equipment	2273.3	58.2	2215.1
Helicopters (multirole and anti-tank)	116.6	14.4	102.1
Air defense systems	43.0	11.7	31.3
Aircrafts (fighter and transport)	4808.5	117.8	4690.7
Personal equipment	4.4	0.3	4.1
Other equipment	2167.3	37.0	2130.4
Navy, including:	4354.2	135.9	4218.3
Reconnaissance and radioelectronic warfare equipment	247.3	22.2	225.1
Command, Control & Communication equipment	102.9	17.4	85.4
Helicopters (multirole and anti-tank)	69.3	26.0	43.3
Ships (combat and support)	3900.8	36.8	3863.9
Personal equipment	0.7	0.1	0.6
Other equipment	33.2	33.2	0.0
Other units, including:	1130.5	56.4	1074.1
Reconnaissance and radioelectronic warfare equipment	45.1	2.7	509.6
Command, Control & Communication equipment	549.5	39.9	42.4
Personal equipment	0.4	0.4	0.0
Other equipment	535.5	13.4	522.1

Source: as in Table 6.

With a growing economy and continuing reform of the budget, Poland will be able to adjust its Armed Forces to NATO membership requirements. The details on this subject were presented in paper "Democratic Control of Defense Expenditures in Poland", presented at the NATO Seminar in Bratislava, April 1998.⁹

Conclusions

Detailed studies of the changes in Poland's state budget since 1989 give a picture of the scope of economic reforms carried out over this transformation period, reforms which were accompanied by institutional and legal changes. Poland from the first days of the reforms was guided by the monetary concepts of the economy. This can be illustrated by the strategy of reducing the state budget deficit and by the methods used to cover the gap between spending and revenue.

If we study budget changes - to its size, structure and shares of individual positions - we can see that the policy conducted was a wise one and was closely linked with the whole macro-stabilisation strategy. The sequencing of steps undertaken can be considered as one of the conditions that allowed for the smooth transformation of the economic system. Moreover, the policy was continued despite regular changes in government. The importance of these findings are crucial given that under the command-distribution system, public finance policy played a passive role in the economy and, as a result, there were very few specialists in the East who could deal with this specific subject.

The consecutiveness of conducted steps has guaranteed both the internal and external security of the state. In other words, although systemic changes were accompanied by certain social costs, the whole process did not lead to an explosion of social tensions. In an international context, Poland was able to restructure its army and equipment in line with NATO membership requirements. Nevertheless, both process are still not fully accomplished.

The process of state budget reform is also not fully accomplished yet. Poland needs to reform its health-care, education and pension systems. Privatisation is still not finished. Plans have been made to bring the reform programme to an end at the beginning of the new century. The lessons Poland has learned in public financing since 1989 will help to accomplish what was started in 1989 or even earlier. It could be expected that future reform of the state budget will not lead towards financial constraints because high annual growth rates of 6-8% are predicted and money from privatisation will continue. Nine years of transformation has imparted experience and taught people how to operate in the new environment. This has to be considered as an additional asset for the remaining steps of reform which lie ahead. In a short time, Poland will be considered as a reliable partner in both the EU and NATO, able to shoulder all relevant commitments, including the provision of equipment for smaller but better educated Armed Forces which will be tailored to the requirements of the new security system under construction. Commitments also include taking into account the costs of adjustments to EU membership, participation in the monetary union in particular.

Military expenditures after 1989 followed the path that was noticed in the majority of countries in the world. The decrease in Poland was deep, with MoD expenditures falling by more than 50%, accompanied by deep restructuring. This process is continuing. Poland is preparing for NATO membership in 1999. This means further effort to change.

Notes

1. S. Owsiak, *Finanse publiczne. Teoria i praktyka*, 1997, p. 262.
2. E. Czarny, B. Czarny, *Od planu do rynku. (Doświadczenia Polskie 1990-1991)*. Fundacja im. Friedricha Eberta w Polsce. *Polityka ekonomiczna i społeczna. Zeszyt 23*, Warszawa 1992.
3. J. Hausner, S. Owsiak, *Kryzys finansowy państwa w procesie systemowej transformacji na przykładzie Polski*, Friedrich Ebert Stiftung, *Polityka Ekonomiczna i Społeczna, Zeszyt 26*. Warszawa, sierpień 1992.
4. The principle regulations are formed in Regulation dated 5 January 1991 on budgetary regulations. This was amended by regulations announced in Dz.U. 1993 No. 72, pos. 344; Dz. U 1994 No. 76, pos. 344, No. 121, pos. 591 and No. 133, pos. 685; Dz. U 1995, No. 78, pos. 390; No. 124, pos. 601 and 132, pos. 640; Dz. U. 1996, No. 89 pos. 402, No. 106, pos. 496, No. 132, pos. 621 and No. 139 pos. 647.
5. *Metody opracowania budżetu państwa. Rozwiązania polskie a systemy innych państw demokratycznych*, Warszawa 1993, p. 52.
6. For more details see: H. Chyłkowski, P. Wieczorek, K. Żukrowska, *Democratic Control of Defence Expenditures in Poland*, paper prepared for NATO seminar on Democratic Control of Military Budgets, held in Bratislava, April 1998.
7. A. Wiernik, *Deficyt budżetowy i dług publiczny, Gospodarka Polska w transformacji, Raport IRiSS 1997*.
8. In 1996 the deficit of budgetary sector was -2,26, while in 1997 it came down to -1,77 of GNP.
9. H. Chyłkowski, P. Wieczorek, K. Żukrowska, *Democratic Control of Defence Expenditures in Poland*, 27-28 April 1998.