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THE PROBLEM OF PUBLIC DEBT IN POLAND AND METHODS OF STABILIZING THE DEBT

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Abstract:
Public debt is a common phenomenon occurring both in Poland and around the world. It is usually defined as the total obligations of public authorities, resulting from borrowing. Currently, the debt problem is not perceived as an extraordinary threat to individual economies if its size and growth rate are fully controlled by the public authorities of particular countries. The aim of this publication is to identify the causes of the public debt, as well as the analysis of the evolution of the debt levels in Poland in 2008 - 2015. Particular attention has been paid to various factors and conditions, having a close impact on the size of the debt. Also acceptable ways of stabilizing the level of public debt were presented in the scope of this paper.

Keywords: public debt, cause of the public debt, stabilizing debt levels, budget deficit

1. INTRODUCTION

Public debt is actually one of the most important economic problems, both in Poland and around the world. Increased interest in the above problem occurs when there is undesirable increase of debt level in a country. Public authorities should therefore take steps designed to reduce the level of debt, or at least inhibit its further growth.
The aim of this publication is the enunciation and detailed description of the causes of the public debt and thorough analysis of the evolution of public debt in Poland in 2008 - 2015, taking into account all the factors affecting the level of debt in the period considered. Futhermore, there was made a presentation of the admissible ways of contributing to the stabilization of the public debt. These methods are extremely important and worth considering especially at the present time. The economic situation in our country may indeed arouse some concern because of the level of public debt.
The research method used in this publication is the analysis of changes in the level of public debt in the period considered. The figures were derived mainly from the publication of the Ministry of Finance.

2. THE CONCEPT OF PUBLIC DEBT AND ITS ECONOMIC ESSENCE

In the literature there are many definitions of public debt. According to the most universal terms, public debt is the financial obligations of the public authorities in virtue of borrowings. According to other sources in the field of public finance, public debt concerns all the obligations entered into by the State Treasury, municipalities, and the state funds with legal personality (Górniewicz, 2012, p. 10).
In the economic aspect, the public debt can be interpreted as the cumulative sum of public finances' deficits from past periods. Public debt arises as a result of the operation having a close connection with the financing of deficits, or issuing securities and borrowing. In the economic models there is acceptable to consider that the annual increase of the public debt is equal to the deficit of the public finance sector in a year. The size of debt is presented both in monetary terms and in relation to GDP. The public debt-to-GDP ratio is the basis for assessing the size of the debt, both to monitor its changes over time, as well as international comparisons. The secure size of the public debt should not exceed 60% of GDP (Górniewicz, 2012, pp. 108-109).

Concretizing these observations it should be noted that public debt is mostly the result of state obligations caused by the following factors:
a) taking out direct loans - in the spectrum of loans they can be classified as deposits of various entities, which are invested in the accounts of public authorities,
b) issuing of securities, which are a specific form of borrowing money (securities are a confirmation of the relationship between public authorities and lenders),
c) unsettling outstanding obligations by public sector entities (Owsiak, 2013, p. 330).

3. THE CAUSES OF THE PUBLIC DEBT

In countries with high and medium economic development, with stable economic situation, the public debt is a common phenomenon, lasting for decades. The situation of individual countries, both in Europe and in the world is different. However, it should be concluded that the public debt is a permanent part of the financial structure of the economy and public finances of the vast majority of States. The described situation leads to fundamental questions concerning the causes of the public debt (Owsiak, 2013, pp. 336-337).
In literature, there are usually mentioned the following causes of public debt:
1) perpetuation of budget deficit over a long period of time,
2) periods of intensified public spending for wars, natural disasters, severe economic crises,
3) implemented by the authorities the economic doctrine which assumes deliberate keeping of the budget deficit and public debt, which may serve as the tools of state intervention,
4) the realization of the State Authorities' goals, through not raising taxes as well as not taking steps leading to cuts in spending,
5) falling of public authorities into the debt trap (Górniewicz, 2012, p. 22).
The most important cause of the public debt is the budget deficit, which occurs in subsequent periods. In order to finance the deficit, the Treasury and Government entities are forced to take out bank and non-bank loans. They constitute revenues of the budget, or they are defined as income feedback. Therefore, they must be returned at certain points in the future. During the adoption of the budget deficit and seeking sources of its coverage, public authorities should bear in mind that the debt will charge budgets in the future. Therefore, it is essential that the funds from extraordinary influence covered primarily capital expenditures, which positive effects may be noticeable in the community for a long time. The realization of this postulate could guarantee the separation of current expenditure from capital expenditure in the budget and financing of the first only by income non-refundable, mainly taxes (Daniłowska, 2008, p. 110).
The budget deficit turns into a debt existing in a larger size in a time of war and severe economic crises. During armed conflicts there are incurred huge expenses, which coverage by using a regular income is not possible. Therefore, governments are forced to borrow the missing funds from businesses, the public, foreign governments or by operations in foreign financial markets, or direct issue of money, which causes inflation. Analyzing the level of public debt in many countries, one can see a clear relationship between public debt and the expenses of war. It should be noted that even in the early years after the end of World War II, public debt continued to increase. This was due to the obligation of the state to participate in repair and recovery of the economy. The consequences of incurring public debt during the First and Second World War, many countries perceive to this day (Owsiak, 2013, p. 338).
The problems associated with balancing budgets appear even during economic crises. The revenue decrease in the breakneck pace and scope of the spending cuts is very limited. In this situation, a balanced budget model loses its meaning because its respect would cause much greater damage to the state and community than a deficit leading to an increase in public debt (Owsiak, 2013, p. 338).
Implemented by the government economic doctrine, which is based on interventionism, is another cause of public debt. Proponents of the concept of state intervention J. M. Keynes often use increased public expenditure. This leads to a simultaneous increase in the level of public debt in order to achieve other important socio-economic objectives. These purposes include stimulating economic growth, reducing unemployment and mitigation of the economic cycle (Gołębiowski, 2008, p. 367).
Another reason for the formation of public debt is leaving by the government tax burden unchanged, along with the tendency to avoid budget cuts. The justification for such proceeding is to establish neutrality of the public debt to the economy and community of the country. If the government assumes the validity of the thesis presented above, it is far preferable to the new commitment from imposing a new taxes or increase the rates of existing taxes (Górniewicz, 2012, p. 22).
The last-mentioned cause of debt is falling public authorities in the so-called debt trap. In the case of long-term budget deficit, resulting in public debt, the state may fall into the so-called. a spiral of sovereign debt. This is a situation where the current public debt servicing is not entirely financed from budget revenues, but forced to incur new obligations. In this case we talk about the phenomenon known generally as a

transfer of debt. This mechanism is based on the purchase collapsing tranche for the funds that come from the new obligations incurred in place repaid (Gołębiowski, 2008, p. 368).
The combination of the above reasons, it follows that the public debt represents the direct or indirect consequences of the adoption of the state concept of financing costs, incurring new obligations. The state authorities do not use other alternatives, of which the most important is an active operation in the area of the tax system (Daniłowska, 2008, p. 112).

4. THE SIZE OF PUBLIC DEBT IN POLAND IN 2008 – 2015

This section provides a detailed analysis of the evolution of debt in Poland. The study was based on data from 2008 to 2015. At the beginning it should be mentioned that this period was characterized by a very unstable economic situation around the world, as reflected in our country. Here it is, first of all, the financial crisis that began in 2008. The crisis affected primarily the economy of countries highly developed in the world, but the effects of the economic downturn also occurred in Poland. However, it should be noted that these consequences affected Poland to a lesser degree than other European countries. The table shows the results of the public finance sector and the size of public debt in our country in relation to DGP in 2008 – 2015. The table also shows the nominal value of public debt.

Table 1. The results of the public finance sector (% of GDP), the size of public debt (% of GDP) and the nominal value of the debt in Poland in 2008-2015.

Year	The balance of the public finance sector in relation to GDP	Public debt in relation to GDP	Nominal public debt (in billions of PLN)
2008	-3,6%	46,8%	597,8
2009	-7,3%	49,2%	669,9
2010	-7,5%	52,0%	747,9
2011	-4,9%	52,5%	815,3
2012	-3,7%	52,0%	840,5
2013	-4,0%	53,1%	882,3
2014	-3,3%	47,8%	826,8
2015	-2,8%	51,3%	877,3

Source: own study based on data: http://www.finanse.mf.gov.pl/documents/766655/8661b4bc-1fc7-4e20-b548-c711c8dde031 and http://pl.tradingeconomics.com/poland/government-debt-to-gdp

By analyzing the data shown in the preceding table, particular attention should be paid to the outcome of the general government balance in the period considered. Budgets over the years showed a deficit. It should be noted especially the year 2009 and 2010, when the budget deficit exceeded 7% of GDP. This was due to occurring at the time the economic slowdown. It left a highly noticeable effect, which was to increase public deficits in most EU countries.
Staying in the subject of the general government balance in Poland,, it is necessary also to mention the procedure of excessive budget deficit. Poland was covered by the excessive deficit procedure in 2009. In practice this meant that Poland was obliged to follow the guidelines of letters from the Council of the European Union. In June 2015, the Council closed the excessive deficit procedure against the Polish. This is made possible by reducing the budget deficit to below 3% of GDP (Forbes, 2015, http://www.forbes.pl/rada-ue-zdjela-z-polski-procedure-nadmiernego-deficytu,artykuly,196130,1,1.html).
After a thorough analysis of the budget deficit in the examined period, one must proceed to discuss the present Polish government debt. In 2008 - 2013 there was an increase in debt in nominal terms by tens of billion PLN each year. In 2013, public debt was up to 882.3 billion PLN, which accounted for 53.1% of GDP at the same time. Decrease of public debt belongs to notice in table in 2014. This was the result of the operation, carried out at the beginning of February, 2014. It consisted in the transfer of 51.5% of the assets of the open pension funds to the social insurance. This operation was taken on the basis of the Act amending the pension system, which applies from February 1, 2014. As a result of this operation part of the bond Open Pension Funds with a value of 153 billion 15 million PLN was transferred to the Social

Insurance. Public debt declined then about 9% of GDP. In 2015 there was re-growth of debts in Poland to the level 877,3 billion PLN, which accounted for 51.3% of GDP.
In the previous part of the publication was a thorough analysis of shaping public debt in 2008 – 2015. The author also present the size of public debt in the period, with a separate indication of the balance of the public finance sector in relation to GDP as well as the public debt in relation to GDP and the nominal value in the analyzed period. The author paid special attention to 2014 in which there was a decrease in the level of debt. This was due to the transfer of certain assets of the Open Pension Funds to the Social Insurance.

5. POSSIBLE WAYS TO STABILIZE THE LEVEL OF PUBLIC DEBT

This section will discuss methods, leading to a stabilization of the public debt. These operations can be carried out by national governments, who want to counteract the constant increase in the ratio of debt to GDP. M. Burda i Ch. Wyplosz present three ways to stabilize public debt:
1) reducing the budget deficit,
2) use of seignorage and the inflation tax,
3) repudiation of public debt (Burda & Wyplosz, 2013, p. 699).
The first method of stabilizing the public debt is to reduce the budget deficit, which can cause almost immediate economic recovery. To cause the desired effect it can be enough to reduce deficit in a certain way, namely by limiting public spending through cuts in salaries of employees who hold official positions and reduce unemployment benefits. Therefore, there is less competition between employment in enterprises and work in government institutions and due to the reduction of benefits falling profitability of unemployment. As a result of these operations, there are greater changes of lowering taxes. Enterprises can carry out the reduction in commodity prices, which leads to increase sales and achieve higher profits (Rzońca, 2008, p. 23).
Reducing the budget deficit also affects decisions undertaken by legal entities, relating to their own savings. The reduction of the deficit causes fading concerns about the economic crisis and increase in expenses of these entities. Excess owned savings turns out to be unnecessary under favorable economic conditions (Ciak, 2012, p. 33).
The second mentioned method of stabilizing the public debt is the use of seignorage and the inflation tax. The concept of a seignorage is related to the functioning of cash in the economy. Because it is the income received by the issuer (usually central bank) for putting cash into circulation. In the case of issuing banknotes, seigniorage is the result of the fact that the banknotes do not bear interest. The central bank, which issues these banknotes, delivers them to other entities (usually commercial banks), and acquires the assets of these entities, which are usually bonds. These assets are owned by the central bank, while banknotes are in circulation, and their interest is the profit for the central bank, ie the pension issue (Opustil & Porzycki, 2012, pp. 215-216).
At first glance it may seem that the inflation tax is an easy way to defaulting on existing debt. However, reality clearly shows that it is not. When inflation rises, bond buyers of the new issue expect a rise in nominal interest rates, so as not to incur losses. Additionally, perceptive lender less and less regard will accept long-term loans. When approaching maturity of existing debt, the government is obliged to issue new bonds to repay the earlier debt. In order to sell the bonds, the state must offer higher than the previous nominal interest rate. In case of instability of the accumulation of debt, the state is obliged to the creation of a greater amount of cash, which results in acceleration of inflation. On the other hand, inflation will again rise in nominal interest rates (Burda & Wyplosz, 2013, p. 701).
The last, quite controversial method of stabilizing the level of public debt is the refusal to repay the debt by the state, called repudiation. The main reason for such a decision is to reduce the real value of public debt and its servicing costs. There are two types of repudiation: total and partial. Total repudiation is identical with the announcement by the central government inability to repay the debt. Partial repudiation often results from conscious government operations, leading to a devaluation of the national currency, higher inflation or higher taxes. These operations should result in the repayment of existing debt (Marchewka-Bartkowiak, 2008, p. 57).
Summing up the above issues it should be noted that implementation of public debt stabilization methods can help to prevent the emergence of budget problems, which in turn can cause a very serious and severe financial crises. The most preferred, although the most difficult in the implementation way of stabilizing the debt, are the operations of government leading to a reduction of the budget deficit. The other presented methods cannot solve effectively the debt problem in the country. On the contrary, they can only be illusory escape from the existing problem.

6. CONCLUSION

The aim of this publication is to present the economic essence of the public debt, which is commonly occurring phenomenon in most countries in the world. It is the financial obligations of the public authorities in virtue of borrowings. The causes of debt include: sustained over a long period of budget deficit, periods of increased public expenditure in emergency situations in the country, conscious of keeping the budget deficit and public debt by the government, leaving the tax burden unchanged avoiding the reduction of budget expenditures and falling authorities public into the debt trap.
There has also been the analysis of the level of public debt in Poland in 2008 - 2015. In general, there is a trend of increasing debt levels in Poland. The exception was only in 2014 when there was a transfer of part of the assets from the Open Pension Funds to the Social Insurance. Then the level of public debt declined. Also discussed ways to stabilize the public debt. These include: reducing the deficit, the use of seignorage and the inflation tax, and failing to repay the debt, also called in the literature repudiation. The most recommended, but also the most difficult in the implementation of the method is, of course, reducing the deficit. This is the only way that can really help to stop the dangerous growth of public debt.

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