THE PUBLIC DEBT AND THE REFORM OF OPEN PENSION FUNDS IN POLAND

1. The causes of the imbalance in public finances nowadays

The bad state of public finance is now considered to be one of the greatest threats to economic stability and development. A highly important element of the said state is the problem of budget deficits and public debt after the 2007 global economic crisis, also due to the fact that the levels of budget deficit and public debt are the basis for the assessment of the fiscal situation of the country.

The recent crisis has undoubtedly contributed to the imbalance of public finance, but bearing both the social and economic consequences of excessive deficits and debts in mind, other factors of imbalances discussed in the source literature should be taken into account. One must mention here, among others, the stabilization of the activities undertaken in order to ensure economic growth (eliminating fluctuations), unforeseen events (e.g. natural disasters), the trend to preserve intergenerational equity in terms of the participation in the financing of public investment, demographic processes, the defectively constructed system of taxation and the dysfunctional process of charging and collecting public contributions. [1, pp. 193-194].

The analysis of the financial condition of European Union countries between 2008 and 2015 leads to the conclusion that there exist examples of economy where the impact of the crisis was limited to a short-term slowdown while in others the public debt was at the very least doubled. At the end of 2015 the debt of the seven EU countries (Belgium, Cyprus, Greece, Spain, Ireland, Portugal and Italy) belonging to the General Government sector exceeded their GBP by 100% and the excessive
deficit procedure covered 10 countries, which causes a problem in fulfilling the nominal convergence criteria. On June 19, 2015, the Council of Ecofin decided to end the excessive deficit procedure in Poland [2, pp.1 and 3]. It is difficult to agree with the statement that Poland managed to fully defend itself from the crisis. Obviously the negative impact of the crisis concerned the depreciation of the Polish zloty in comparison to other, major currencies (dollar and euro) and the outflow of investors from the Warsaw Stock Exchange.

Since September 2014, the deficit and debt of the General Government sector have been developed according to the rules of the European System of National and Regional Accounts -ESA2010 [3]. The submitted changes concerned, among others, the category of pension systems, which influenced the results of the General Government sector. In addition, due to the implementation of the excessive deficit procedure Poland has taken steps to reduce the deficit with, among others, structural reforms: extending the retirement age to 67 and evening it out for both men and women, carrying out the reform of open pension funds (OFE). Therefore, the aim of this paper is to present how the OFE reform affected the level of public debt in Poland while dealing only with selected aspects.

2. The impact of the pension reform of 2014 on the level of public debt

The level of public debt calculated according to both Polish and EU methodology varies as a result of a different approach to the scope of the public finance sector. The data presented in table 1 determine the extent to which Poland fulfills the criteria of consistency and the limits encoded in the national regulations [4].

<table>
<thead>
<tr>
<th>Year</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Government sector debt</td>
<td>46,6</td>
<td>49,8</td>
<td>53,6</td>
<td>54,8</td>
<td>54,4</td>
<td>55,7</td>
<td>50,4</td>
</tr>
<tr>
<td>National public debt</td>
<td>46,8</td>
<td>49,2</td>
<td>52,0</td>
<td>52,5</td>
<td>52,0</td>
<td>53,1</td>
<td>48,1</td>
</tr>
</tbody>
</table>

However, the OFE reform of 2014 resulted in not only a model change principally based on the philosophy of solidarism. First of all, its financial dimension and its implications for public finances should be noted [6, p. 571]. In 2014, open pension funds transferred assets with a market value of 153.2 billion PLN to the Social Insurance Institution (ZUS). This operation transformed Poland’s explicit public debt into its future obligation towards pensioners (i.e. an implicit debt). Treasury securities were acquired by the State Treasury and then remitted; the nominal value of these securities now amounted to 130.2 billion PLN. The remaining assets were transferred to the Demographic Reserve Fund (KFD). The redemption of Treasury securities and the consolidation of the KFD bonds taken over by ZUS resulted in a one-off reduction of Treasury debt by approx. 7.7% of GDP [7, p. 6].

**Table 2**

National public debt in Poland in the years 2008-2014 according to public finance sector in PLN billion

<table>
<thead>
<tr>
<th>Year</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>National public debt, including:</td>
<td>597,8</td>
<td>669,9</td>
<td>747,9</td>
<td>815,3</td>
<td>840,5</td>
<td>882,3</td>
<td>826,8</td>
</tr>
<tr>
<td>1. Central government debt</td>
<td>566,9</td>
<td>623,6</td>
<td>692,4</td>
<td>748,8</td>
<td>770,8</td>
<td>813,5</td>
<td>755,0</td>
</tr>
<tr>
<td>2. Local government sector debt</td>
<td>28,1</td>
<td>39,3</td>
<td>53,5</td>
<td>64,2</td>
<td>67,4</td>
<td>68,4</td>
<td>71,1</td>
</tr>
<tr>
<td>3. Social security sector debt</td>
<td>2,8</td>
<td>7,0</td>
<td>2,0</td>
<td>2,3</td>
<td>2,3</td>
<td>0,4</td>
<td>0,1</td>
</tr>
</tbody>
</table>


The other changes which took place in the level and structure of public debt (Table 2) in 2014 were the result of the financial situation of the public finance sector, mainly the level of the loan needs of the state budget, as well as the macroeconomic situation (the growth of GDP, exchange rates and interest rates). Conversely, changing the social security sector debt resulted primarily from a decrease in debt of the funds managed by the Social Insurance Institution (about 261.2 million PLN, i.e. 68.7 %) [9].
3. Conclusion

It is hard not to agree with the statement that despite the pension reform introduced in 2014 it is impossible to avoid the expansion of public debt. In 2018 the public debt is expected to grow by over 150 billion PLN, insofar as it was lowered by reforming the pension funds. The level of debt in three years is expected to exceed trillion [10]. Leaving aside here the pros and cons of the introduced pension reform, it is worth noting that due to the possibility of choice whether to transfer 2.92% of pension contributions to OFE or ZUS about 80% of Poles chose ZUS, which, together with the mechanism of the so-called security slider contributed to the fact that open pension funds started to sell shares of companies listed on the Warsaw Stock Exchange, which resulted in WIG20 falling by 27% during the past two years [11].

References