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The Role of Fiscal Expenditure Rules in Maintaining the Financial Stability of the State

Abstract: One of the main challenges which legal science faces nowadays is the creation of legal mechanisms guaranteeing sound public finance. The aim of this article is to assess the role of national fiscal rules in maintaining financial stability. Firstly, to fulfil this aim, the role of fiscal rules and their efficiency was analysed. Next, based on the commonly used tool assessing the quality of national fiscal rules – the Fiscal Rule Index – the quality of expenditure rules in the EU countries was analysed in order to evaluate the Polish stabilising expenditure rule and the escape clause of its application. Therefore, the following research question is to be answered: whether in the face of an unstable financial situation of the state connected with an increasing deficit, deviation from the stabilising expenditure rule should be considered as being right. Research methods based on non-reactive research, i.e., analysis of professional literature, legal acts, and statistical data published by the European Commission, were used in this article. Due to this analysis, it was indicated that expenditure rules are regarded as one of the most effective tools to manage public funds, and therefore any derogations from the application of these rules should be evaluated negatively.
Keywords: deficit, escape clause, expenditure rule, fiscal rules, financial stability

Introduction

One of the main challenges which legal science faces nowadays is the creation of legal mechanisms guaranteeing sound public finance. An essential role in ensuring them is played by legal and financial instruments limiting deficit, and public debt, of the *general government* sector, arising both from national (constitutional or legislative), and EU, law.[1] Among these instruments, fiscal rules are of fundamental importance, since their task is not only to limit deficit and debt, but mainly to discipline fiscal policy in such a way as to ensure the balance of public finance in the long term[2], which impacts the financial stability of the state. Therefore, fiscal rules are an important instrument serving as countercyclical management of public finance as well as an instrument influencing the credibility of a given government[3]. Fiscal rules may have procedural or numerical character and diverse legal importance from which depends their legal basis and possibilities of derogation from their application.

The aim of this article is to evaluate the role of national fiscal rules in maintaining financial stability of the country. Firstly, to fulfil this aim, the role of fiscal rules and their efficiency was analysed. Next, based on the commonly used tool assessing the quality of national fiscal rules applied in the EU Member States – the Fiscal Rule Index – the quality of expenditure rules in the EU countries was analysed in order to evaluate the Polish stabilising expenditure rule and the escape clause of its application. Therefore, the following research question is to be answered: whether in the face of an unstable financial situation of the state connected with increasing deficit, derogation from stabilising expenditure rule should be considered as being right. Research methods based on non-reactive research, i.e., analysis of professional literature, legal acts, and statistical data published by the European Commission, were used in this article.

1. The Essence and Efficiency of Fiscal Rules

Fiscal rules may be defined in a broad and narrow way[4] and may have procedural or numerical character[5].

1 Legal and financial instruments may directly or indirectly impact limiting public debt and minimising its effects by proper formation of the level of deficit (surplus), expenditure and revenue. More on legal and financial instruments reducing deficit and public debt: E. Lotko, U.K. Zawadzka-Pąk, Prawnofinansowe instrumenty ograniczania deficytu i długu publicznego w Polsce na tle doświadczeń europejskich, Bialystok 2018.

2 M. Postuła, A. Kawarska, Wpływ reguł fiskalnych na strukturę wydatków publicznych w krajach Unii Europejskiej, „Annales Universitatis Mariae Curie-Skłodowska, sectio H – Oeconomia" 2020, vol. 54, no. 4, p. 112.

3 A. Corbacho, T. Ter-Minssian, Public Financial Management Requirements for Effective Implementation of Fiscal Rules, (in:) R. Allen, R. Hemming, B. Potter (eds.), The International Handbook of Public Financial Management, London 2013, p. 38.

4 K. Wójtowicz, Problem konstrukcji optymalnej reguły fiskalnej w warunkach kryzysu finansowego, „Zeszyty Naukowe. Polskie Towarzystwo Ekonomiczne" 2011, no. 10, p. 138.

5 Compare: e.g., J. Ayuso-i-Casals, S. Deroose, E. Flores and L. Moulin, who distinguished three categories of legal and financial instruments reducing deficit and public debt: procedural fiscal rules, numerical fiscal rules and independent bodies supporting the compliance with procedural and numerical rules – fiscal councils. J. Ayuso-i-Casals, S. Deroose, E. Flores, L. Moulin, Policy

Fiscal rules *sensu largo* are a set of legal norms which may shape fiscal policy[6]. In this perspective, they mean all institutional solutions which are constraints applied at every stage of legislative procedure, i.e., during preparation, adoption, and execution of a budget. They shape rights and common relations of budget procedure participants in order to increase the transparency of actions taken, efficiency, and thus responsibility for the state of public finance. Whereas fiscal rules *sensu stricto* mean quantitative limitations of fiscal policy with relatively stable character which are expressed by a selected budget indicator. The rule in this perspective may regard e.g., the level of budget deficit, the level of public debt, the amount of incurred liabilities, revenues, or public expenditure[7]. Therefore, numerical rules introduce quantitative limitations in the scope of fiscal policy of the state. Four categories of these rules may be distinguished: 1) budget-balance rules which are used to constrain balance on an annual basis or in the period of an economic cycle. These rules may be applied to introduce overall balance, to primary balance, or to current balance, 2) debt or financing rules setting the limit of debt to GDP ratio. These rules may also impose restrictions regarding central bank financing or incurring debt in a foreign currency, 3) revenue rules setting constraints to prevent introduction of excessive tax burden or determining the level prompting the receipt of revenue, 4) expenditure rules setting limits for all or selected categories of public finance [8].

However, regardless of the type of rules, it is essential for the rule to fulfil its objective. Therefore, several conditions, connected mainly with its structure, decide about the efficiency of fiscal rules. First of all, the importance of a given rule is determined by the legal standing of the document specifying its use. The higher the standing of the document introducing the rule, the bigger the chances for its proper use and efficiency, which significantly limits the possibility to modify its structure. The effectiveness of fiscal rules is also determined by their possibly constant monitoring, based on reliable data, i.e., available in the proper time and implemented by units which are independent of legislative and executive bodies. Efficiency of fiscal rules is also conditioned by precise determination of budget indicator which the rule concerns as well as its simple and transparent structure. It is also important to state the scope of units subjected to the rule, since the biggest efficiency may be achieved when the whole public finance sector and all significant operations regarding public funds are covered. Another condition is to determine the sanctions for noncompliance with the limits set by fiscal rules, whose introduction increases credibility and chances to

Instruments for Sound Fiscal Policies. Fiscal Rules and Institutions, Brussels, Basingstoke 2009, p. 7.

6 J.M. Poterba, Do Budget Rules Work? NBER Working Paper no. 5550. National Bureau of Economic Research, Cambridge 1996, p. 9.

7 G. Kopits, S. Symanski, Fiscal policy rules, IMF Occasional Paper 162, Washington 1998, p. 3.

8 A. Corbacho, T. Ter-Minssian, Public Financial…, *op. cit.*, pp. 40–41.

respect them, as well as to specify the body authorised to impose those sanctions. Due to the fact that the goal of sanctions should be striving to get back, as soon as possible, to the state where it would be possible to reshape fiscal parameters in accordance with the principles of a given fiscal rule, they may have institutional or personal form. However, regardless of their form, sanctions have to be precisely regulated in the provisions introducing fiscal rules or in the provisions complementing them, they have to be proportionate to derogations and should ensure at least minimal discretionary measures. Moreover, when implementing a fiscal rule, it needs to be determined what procedures will be applied in the case of breaching the rule. The last element influencing the effectiveness of fiscal rules are the possibilities to suspend the application of a rule, i.e., escape clauses. They introduce the possibility to suspend the application of a rule in specific circumstances, such as natural disaster or deep financial crisis. However, derogation from a given rule has to be precisely regulated and should establish the time and manner of return to the rule.[9]

Particular types of fiscal rules may have a different legal form which gives them legal standing. The highest in the hierarchy are the rules included in the constitutional order of particular countries. On the other hand, the lowest in the hierarchy are fiscal rules arising from international law. Fiscal rules of such rank, which are in the EU countries, result from the membership in the EU. Thus, the first transnational fiscal constraints at the EU level were introduced under the Treaty on the Functioning of the European Union (the so-called Maastricht Treaty), pursuant to which excessive debt procedure was established as well as convergence criteria (fulfilment of which conditioned the accession to the European Economic and Monetary Union) obliging only to maintain deficit of the *general government* sector at the maximum level of 3% of GDP, and debt of this sector at the maximum level of 60% of GDP. Another important document for fiscal policy framework implemented by the EU states was the Stability and Growth Pack[10] signed in 1997 which, besides the criteria referring to deficit and public debt established under Maastricht Treaty, introduced the necessity

9 Conditions for fiscal rules effectiveness have been elaborated on the basis of foreign and domestic professional literature : G. Kopits, S. Symanski, Fiscal policy…, *op. cit.;* A. Corbacho, T. Ter-Minssian, Public Financial…, *op. cit.,* pp. 38–62; B. Anderson, J.J. Minarik, Design choices for fiscal policy rules, (in:) Fiscal Policy: current issues and challenges, Research Department Public Finance Workshop, Banca d'Italia 2007, pp. 512–556; S. Franek, Reguły fiskalne w przemianach instytucjonalnych finansów publicznych, „Zeszyty Naukowe Uniwersytetu Szczecińskiego, Finanse, Rynki Finansowe, Ubezpieczenia" 2010, no. 39, pp. 67–68; S. Franek, M. Postuła, Pomiar siły instrumentów fiskalnych oraz ich skuteczność w poprawie stabilności finansów publicznych w krajach Unii Europejskiej, „Materiały i Studia NBP" 2019, no. 334, p. 30; K. Marchewka-Bartkowiak, Reguły fiskalne, „Analizy BAS" 2010, no. 7, p. 3; K. Marchewka-Bartkowiak, Reguły fiskalne w warunkach kryzysu finansów publicznych, „Ekonomia i Praw" 2012, no. 3, p. 48.

10 Stability and Growth Pack includes two Council Regulations: Council Regulation (EEC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies (OJ L 209 of 2.08.1997, p. 1) as well as Council

to comply with medium-term objective of budgetary positions (MTO) close to balance or surplus. However, the provisions of the Stability and Growth Pact were widely criticised[11]. The most questioned issue was the automatic use of the reference value for the deficit criterion as well as the requirement to get close to budgetary balance or surplus without including cyclical variations. This criticism prompted reform of the Stability and Growth Pact conducted under two Council Regulations of 27 June 2005.[12] In these Regulations deficit and public debt limits were confirmed at the level of 3% and 60%, respectively, in relation to GDP, provisions on fair and coherent compliance with these limits in all states were also formulated, the MTO definition was made more precise and the budget balance rule within a business cycle was adopted. Owing to these solutions adaptation mechanisms depending on the phase of the business cycle and were established institutions for monitoring support and evaluation of those rules by independent fiscal bodies were introduced.[13]

Other actions connected with the reform of economic governance, strengthening budgetary surveillance of the Monetary Union and change in the approach to budget balance brought further reforms of the Stability and Growth Pact. This resulted in the adoption of a package of reforms which includes a collection of regulations in the form of "six-pack", "two-pack" and Fiscal Compact (Treaty on Stability, Coordination and Governance – TSCG). Solutions provided in the "six-pack", and in particular Council Directive 2011/85/EU of 8 November 2011, on requirements for budgetary frameworks of the Member States, were a step towards strengthening public finance discipline in the Member States. It allowed determining minimal requirements for budgetary frameworks of every Member State, which include, e.g., the obligation to introduce numerical fiscal rules at the domestic level[14]. On the other hand, "two-pack" regulations, which concern only Euro zone members, focused on increasing the level of economic and budget surveillance in those countries by improved monitoring of the current budget situation with particular focus on strengthening actions reducing

Regulation (EEC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of excessive debt procedure (OJ L 209 of 2.08.1997, p. 1)

11 More on this subject: E. Lotko, U.K. Zawadzka-Pąk, Prawnofinansowe instrumenty…, *op. cit.*, pp. 86–91.

12 Council Regulation No 1055/2005 of 27 June 2005 amending Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and surveillance and coordination of economic policies (OJ L 174 of 7.07.2005, p. 1) as well as Council Regulation No 1056/2005 of 27 June 2005 amending Council Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of excessive deficit procedure (OJ L of 7.07.2005, p. 5)

13 M. Misiak, Pakt Stabilności i Wzrostu w dobie kryzysu fiskalnego w Unii Europejskiej, „Acta Universitatis Lodziensis. Folia Oeconomica" 2010, no. 238, p. 141.

14 M. Tyniewicki, Medium-term budgetary frameworks in the light of Council Directive 2011/85/EU as a basic of multiannual financial planning in member states, „Białostockie Studia Prawnicze" 2014, z. 16, pp. 30–31.

excessive deficit.[15] The above actions did not bring the expected results and the multiplicity of breaking the rules by EU states, as well as the lack of sanctions for noncompliance, resulted in the fact that it was not possible to regard deficit and debt indicators as sufficient and effective to ensure the financial stability of the state[16]. Therefore, on the initiative of the EU institutions and with the consent of the Member States, the majority of the states started to apply structural budget balance rules requiring to maintain the component of structural deficit at the level not higher than 0.5% of GDP, as well as an expenditure rule requiring to shape expenditure increase at the maximal level of medium-term potential economic growth of a given country depending on MTO of the country.

One of the most important elements of the EU fiscal surveillance reform was the necessity to apply national numerical fiscal rules by the Member States. It needs to be emphasised that particular Member States use several rules simultaneously, which is the consequence of introducing international rules as well as of the awareness that a set of fiscal rules brings better results in maintaining financial stability. Therefore, when countries use both international rules (deficit rule and public debt rule) and their own fiscal rules, most often expenditure rules limiting the increase in public spending over set limits, it provides the best outcomes in ensuring financial stability.[17]

2. The Quality of Expenditure Rules in the EU Countries

The objective of expenditure rules is to increase predictability and continuity of fiscal policy in the long term, and boundary conditions set, allowing to them serve as a brake on public spending and to limit the freedom in shaping this policy. Additionally, if they have countercyclical form, i.e., are correlated negatively with economic situation, they may fulfil the function of automatic stabilisers of economic situation.[18]

Therefore, expenditure rules are considered as one of the most effective tools of managing public funds, and which are used more and more often by the EU countries. The majority of expenditure rules are included in domestic legislature, which arises

15 Regulation (EU) No 472/2013 of 21 May 2013 of the European Parliament and the Council on the strengthening of economic and budgetary surveillance of Member States experiencing or threatened with serious difficulties in respect to their financial stability in the euro area (OJ L 140 of 27.05.2013, p.1) as well as the Regulation (EU) No 473/2013 of 21 May 2013 of the European Parliament and the Council on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area (OJ L 140 of 27.05.2013, p.11)

16 T. Machelski, European Union financial crisis – austerity or political short-termism to blame? „Białostockie Studia Prawnicze" 2014, z. 16, p. 79.

17 M. Postuła, A. Kawarska, Wpływ reguł…, *op. cit.,* p. 115.

18 R. Mroczkowski, Numeryczne reguły wydatkowe jako instrumenty wzmacniające stabilność fiskalną, (in:) W. Miemiec, K. Sawicka (eds.), Instytucje prawnofinansowe w warunkach kryzysu gospodarczego, Warsaw 2014, pp. 319–320.

from solutions adopted in the "six-pack". In 2019, 17 expenditure rules were binding in the national legislatures of 15 states[19] (in comparison – in 2000, only 8[20]). These rules cover the scope of government administration, the *general government* sector, local government, or the social insurance sector.

Well-structured expenditure rule may efficiently limit pro-cyclical expenditure policy. Due to the fact that public spending rises in the so-called good times and falls in bad times, fiscal rules may be a great tool mitigating this phenomenon and strengthening the financial stability of the state. Whether this is possible or not depends on the broad scope of the rule, its legal standing, an independent system monitoring the compliance with the rule, and a precisely determined system of sanctions for noncompliance[21]. All features assessing the effectiveness of the rule are measured by the Fiscal Rule Index introduced by the European Commission. The basis for the calculation of this index are data sent to the European Commission by every EU country. The index includes five criteria divided thematically, to which are assigned from 0 to 4 points depending on the quality of analysed fiscal rule within a given criterion.[22] It is presented in the table below.

Table 1. Fiscal Rule Index: scoring of each dimension

Criterion 1: Statutory/legal base of the rule			**Criterion 2: Room for setting or revising objectives**
3	Constitutional (including higher than ordinary law)	3	The target of the rule, as defined in in its establishing act, cannot be changed or temporarily suspended by the Government except in well-defined situations (i.e., escape clauses)
2	Legal Act of ordinary nature	1	Subject to parliamentary approval, the Government can either temporarily change the target or it is mandated to decide on the target (in case the target is not defined in its establishing act)
1	Coalition agreement (including Government programme voted in parliament or agreement between government sub-sectors which is not a law)	0	The government can change the target of the rule at any time without parliamentary approval (e.g., the statutory base of the rule merely contains broad principles of the obligation for the government or the relevant authority to set targets)
0	Political commitment by a given authority (central/local government, minister of finance) or an annual budget law		
Criterion 3a: Nature of the body in charge of rule monitoring and the correction mechanism			**Criterion 3b: Real-time monitoring**
3	Monitoring by an independent authority (i.e., fiscal council type of institution	1	Real-time monitoring (quarterly or more frequent) takes place, and the statutory base of the rule specifies corrective actions to be taken during budget execution in case a risk of non-respect of the rule is detected through the real-time alert mechanism

19 The analysis of statistical data in the article covers 15 EU Member States.

20 C. Belu Manescu, E. Bova, Effectiveness of national expenditure rules: Evidence from EU member states, https://voxeu.org/article/effectiveness-national-expenditure-rules (25.05.2021).

21 European Commission, Report on Public Finances in EMU (online) 2019, INSTITUTIONAL PAPER 133, July 2020. Part II Performance of spending rules at EU and national level – a quantitative assessment, p. 61.

22 European Commission, Fiscal rules database https://ec.europa.eu/info/publications/fiscal-rules-database_en (25.05.2021).

2	Monitoring by the court of auditors (if not hosting an independent fiscal council) and/or parliament	0.5	Real-time monitoring (quarterly or more frequent) takes place, but the statutory base of the rule does not specify corrective actions to be taken during budget execution in case a risk of non-respect of the rule is detected through the real-time alert mechanism
1	Monitoring only by the ministry of finance or other government body	0	No real-time monitoring takes place
0	No regular public monitoring of the rule (no report systematically assessing compliance)		
Criterion 3c: Nature of the body in charge of monitoring the correction mechanism in case of deviation from the rule			**Criterion 3d: Independent body providing/endorsing macro/budgetary forecasts**
1.5	An independent authority (e.g., fiscal council or court of auditors endowed with appropriate mandate)	2	If there is an independent body providing or endorsing the official macroeconomic and budgetary forecasts on which the annual budget is prepared
1	The court of auditors and/or parliament	1	If there is an independent body providing or endorsing the official macroeconomic or budgetary forecasts on which the annual budget is prepared
0	The ministry of finance or other government body	0	If there is no independent body providing or endorsing neither the official macroeconomic nor budgetary forecasts on which the annual budget is prepared
0	No specific body in charge of monitoring the correction mechanism		
0	No correction mechanism in place		
Criterion 4: Correction mechanisms in case of deviation from the rule		**Criterion 5: Resilience to shocks or events outside the control of the government** The score of this dimension is simply the sum of the elements defined below:	
4	The correction mechanism is triggered automatically and there are pre-determined rules framing the nature/size and/or timeline of the correction	1/0	Does the rule contain clearly defined escape clauses which are in line with the SGP?
2	The correction mechanism is triggered automatically or there are pre-determined rules framing the nature/size and/or timeline of the correction	1/0	Is there a budgetary margin defined in relation to the rule (i.e., the planned spending targets are set at a lower level than the expenditure ceilings) or a safety margin linked to the MTO which is enshrined in national legislation?
1	The government is obliged to take or present corrective measures before the parliament or the relevant authority, but without a predefined timeline for such action and with no pre-determined rules framing the nature/size and/or timeline of the correction	1/0	Are targets defined in cyclically adjusted terms or do they account for the cycle in any way (e.g., targets defined over the cycle)?
0	The government is not obliged to take or present corrective measures and there are no pre-determined rules framing the nature/size and/or timeline of the correction	1/0	Are there exclusions from the rule in the form of items that fall outside authorities' control at least in the short term (e.g., interest payments, unemployment benefits)?

Source: C. Belu Manescu, E. Bova, National Expenditure Rules in the EU: An Analysis of Effectiveness and Compliance, DISCUSSION PAPER 124, April 2020, https://ec.europa.eu/info/sites/default/files/economy-finance/dp124_en_national_expenditure.pdf (25.05.2021), p. 15; European Commission, Fiscal rules database https://ec.europa.eu/info/publications/fiscal-rules-database_en (25.05.2021).

All national fiscal rules are assessed within particular categories and features according to the assumed method and points determined. After points are assigned, all collected scores are aggregated to calculate the Fiscal Rule Strength Index (FRSI). The obtained results, in the scope of the abovementioned five categories, are firstly standardised in such a way that the median amounts to 0, standard deviation to 1 and final results are close to the average calculated from the points given earlier for particular criteria. Calculations conducted in this way allow the obtaining of one index determining the assessment of the power of impact of every examined fiscal rule. Further, every FRSI is multiplied by scope of impact percentage factor of the given rule on the public sector. In the case when ,in the same subsector of government, and local government institutions, more than one rule is binding, the rule with the highest FRSI is measured with the factor valued 1, whereas the second and third ranked rules get 1/2 and 1/3 value, respectively. The obtained results are added, and their score makes the FRSI of a given country.[23] The Table below presents FRSI in 15 European countries.

Table 2. FRSI in particular European countries in 2019

Country	Sector	Coverage of GG finances	Criterion											FRSI
			C1	C2	C3a	C3b	C3c	C3d	C4	C5a	C5b	C5c	C5d	
Austria	GG	61.5%	3	3	3	0	1	1	2	0	0	1	1	7.33
Belgium	SS	34.9%	2	3	3	0.5	0	1	2	0	0	0	0	5.53
Bulgaria	GG	100%	3	3	3	0	0	0	4	0	1	0	0	7.3
	LG	26%	3	3	1	0	0	0	0	0	0	0	0	4.27
Denmark	GG	75%	2	1	3	1	1.5	0	4	0	0	0	1	5.97
Spain	LG, CG, RG	45.5%	3	3	3	1	0	1	4	0	0	1	1	8.33
Finland	CG	21.5%	1	0	3	0	0	1	0	0	1	0	1	2.73
Italy	RG	2.0%	2	3	1	0.5	0	1	4	0	0	0	0	6
	GG	100%	3	3	3	0	1.5	1	1	0	0	1	1	6.97
Lithuania	CG, SS	76.6%	3	3	3	0.5	1	1	4	0	1	1	1	8.97
Latvia	GG	100%	2	1	3	0	0	1	0	1	0	0	0	3.57
Croatia	GG	91.5%	2	3	3	0	0	0	0	1	0	0	1	5.13
Netherlands	GG	99.0%	3	1	3	0.5	0	1	1	0	0	1	1	5.37
Poland	GG	90.0%	2	3	2	0.5	0	0	0	1	0	0	1	5
Romania	GG	88.0%	3	3	3	0	1.5	0	4	4	0	1	1	8.2
Sweden	CG, SS	31.7%	2	1	3	1	1	0	4	0	1	0	1	6.33
United Kingdom	GG	54.0%	2	1	3	0	1.5	2	2	0	0	0	1	5.23

GG – General Government
SC – Social Security
LG – Local Government

23 European Commission, Fiscal rules database, https://ec.europa.eu/info/publications/fiscal-rules-database_en (25.06.2021).

RG – Regional Government
CG – Central Government
Source: Own study based on: Fiscal rules database, https://ec.europa.eu/info/publications/fiscal-rules-database_en (25.06.2021).

Table 3. General government expenditure to GDP by function (COFOG) 2010–2019 in %

Country	Time										FRSI in 2019
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	
Austria	52.8	50.9	51.2	51.6	52.4	51.1	50.1	49.3	48.7	48.4	7.33
Belgium	53.9	55.3	56.5	56.1	55.6	53.7	53.1	52.0	52.2	52.1	5.53
Bulgaria	36.3	33.9	34.4	37.9	43.3	40.3	35.0	34.9	36.6	36.3	7.3
Denmark	56.7	56.4	58.0	55.8	55.2	54.5	52.5	50.5	50.5	49.2	5.97
Spain	46.0	46.2	48.7	45.8	45.1	43.9	42.4	41.2	41.7	42.1	8.33
Finland	53.9	53.7	55.4	56.8	57.3	56.5	55.6	53.6	53.4	53.2	2.73
Italy	49.9	49.2	50.6	51.0	50.9	50.3	49.1	48.8	48.4	48.6	6.97
Lithuania	42.4	42.5	36.1	35.5	34.7	35.1	34.2	33.2	33.8	34.6	8.97
Latvia	46.0	40.9	38.6	38.2	38.9	38.7	37.4	38.7	39.4	38.4	3.57
Croatia	48.9	49.4	48.8	48.8	49.2	48.8	47.5	45.3	46.0	47.0	5.13
Netherlands	47.9	46.8	46.8	46.5	45.7	44.6	43.6	42.4	42.3	42.0	5.37
Poland	45.8	44.1	43.1	43.0	42.6	41.7	41.1	41.3	41.5	41.8	5
Romania	40.0	39.6	37.5	37.4	35.3	36.1	34.6	33.5	34.9	36.2	8.2
Sweden	50.4	49.7	50.9	51.6	50.7	49.3	49.7	49.2	49.8	49.3	6.33
United Kingdom	47.3	45.8	45.6	43.9	41.1	42.3	41.5	41.3	41.1	41.0	5.23

Source: https://ec.europa.eu/eurostat/databrowser/view/GOV_10A_EXP__custom_1508184/default/table?lang=en (30.06.2012).

The assessment of the impact of the expenditure rules applied in selected EU countries on the level of public expenditure was made on the basis of an empirical analysis of the examined variables, such as the value of the FRSI in 2019, and the level of public expenditure in 2010–2019. The aim of the analysis was to observe changes in the level of expenditure after the introduction of expenditure rules into national legal systems. Eurostat data show that since 2015, the level of public expenditure has decreased in the vast majority of the analysed countries. From the data presented by the European Commission[24], it arises that expenditure rules with a high index

24 European Commission, Report on Public…, *op. cit.*, pp. 95–96.

(i.e., which fulfil the above criteria) contribute to a bigger extent to the decrease of pro-cyclicality of public spending and ensure greater a predictability of fiscal policy. Expenditure rules do not cause the so-called revenue shock, regardless of whether the times are good or bad. Additionally, fiscal policy is the least pro-cyclical when expenditure rules are strengthened with budget balance rules [25].

3. Stabilising Expenditure Rule

Stable public finance is a key element of macroeconomic stability, in particular in the long term; therefore, it is significant to have proper budgetary frameworks. Polish budgetary frameworks also include, besides public debt rules (also at the local government level), the rule limiting the level of public expenses, i.e., a stabilising expenditure rule.

The objective of the expenditure rule is to limit the increase in expenses of the *general government* sector, excluding expenses fully financed from the EU and EFTA (European Free Trade Association) funds and spending which does not generate high deficit. The task of the stabilising expenditure rule is also to ensure financial stability of the state, both in the long and short terms, as well as to correct possible imbalance by minimising the risk to tighten fiscal policy, especially in the conditions of significant economic downturn and excessive easing during favourable economic climate.[26] This rule is the fulfilment of provisions of the Council Directive 2011/88/EU of 8 November 2011, on requirements for budgetary frameworks of the Member States in the scope of implementing the numerical fiscal rule and fulfilment of obligations under the Treaty in the scope of maintaining the *general government* deficit and debt below 3% and 60% of GDP, respectively. On the other hand, the Stability and Growth Pact obliged the Member States to formulate, and reach in a given time, the so-called medium-term budgetary objective (MTO). Poland established structural deficit of the *general government* sector as its MTO at the level of 1% of GDP[27], and the main tool to assess progress of achieving MTO is the stabilising expenditure rule. Due to the fact that it has a spending character, the mechanism included in it sets the limit of the whole sector expenses increase for the need of annual budgetary acts as well as in the multiannual fiscal planning horizon, being a legally binding limit. In conditions of public finance balance, the limit dynamic of the *general government* sector expenditure is to be a derivative of medium-term rate of GDP growth, and in the situation of excessive deficit or debt, this dynamic is to be automatically lowered, which, as a consequence, should prevent pro-cyclical fiscal policy.

25 C. Belu Manescu, E. Bova, Effectiveness…, *op. cit.*
26 See: E. Lotko, U.K. Zawadzka-Pąk, Prawnofinansowe instrumenty…, *op. cit.*, pp. 142–148.
27 Rada Ministrów, Wieloletni Plan Finansowy Państwa na lata 2021–2024, April 2021, p. 26.

4. Escape Clause of the Stabilising Expenditure Rule Application

The COVID-19 pandemic forced the starting of actions connected with supporting economies of the EU Member States in order to allow ant-crisis actions during the pandemic. The General Escape Clause[28], proposed in March 2020, by the European Commission and accepted by the Ecofin Council, allows the exceeding of expenditure limits determined by the EU Council recommendations on budgetary policies and departure from approved expenditure growth rate. Adoption of this clause into Polish legislature required the amendment of the public finance act[29],which took place on 8 May 2020.

The act amending the public finance act changed the provisions of article 112d which allows for a temporary suspension of the stabilising expenditure rule and applying the escape clause in the situation when the state of epidemic is announced on the territory of the whole country, with simultaneous deterioration of economic situation, i.e., when annual GDP dynamic in fixed prices forecasted in the draft budget act for a given year is lower by more than 2 percentage points from the average GDP dynamic for the previous 6 years provided by the President of the Polish Statistical Office. In the financial year in which the escape criteria are no longer fulfilled, the return clause will be triggered, and the return to the initial assumptions of the stabilising expenditure rule will depend on the GDP level and the pace of economic growth in the year following the year in which the mentioned requirements were fulfilled. The amount of correction, i.e., possibility to spend additional public funds, in particular years after the suspension of the stabilising expenditure rule, will depend on the sum of financial consequences connected with the effects of epidemic borne in the year in which the rule was suspended.

In connection with meeting the requirements included in art 112d of the Act on public finance, the stabilising expenditure rule was suspended. Deviation from the fiscal expenditure rule allowed increased spending of the *general government* sector in 2020 on an unprecedented scale. As a result, the deficit deepened and according to the estimations of the Ministry of Finance amounted to 8.4% of GDP in 2020 (which significantly exceeds the reference value of 3% of GDP).[30] It needs to be emphasised that since the time of preparing budget act in 2015, the main factor determining the level of budgetary expenditure was the stabilising expenditure rule. However,

28 Komunikat Komisji Europejskiej z dnia 20 marca 2020 r. w sprawie uruchomienia generalnej klauzuli wyjścia w ramach *Paktu Stabilności i Wzrostu*: https://data.consilium.europa.eu/doc/document/ST-7102–2020-INIT/pl/pdf (20.05.2021).

29 Act of 28 May 2020, on the amendment of public finance law (J of Laws item 1175) and justification to the draft of the Act on amendment of public finance law, Parliamentary paper no 383.

30 European Commission, Report from the Commission. Poland. Report prepared in accordance with Article 126(3) of the Treaty on the Functioning of the European Union, Brussels, 20.5.2020 COM(2020) 554 final.

the level of spending for 2021 was calculated on the basis of a modified form of this rule, which caused the amount of spending to be increased by a half of the sum of estimated financial consequences on the side of revenues and expenditure arising from discretionary measures directly aimed at stopping the effects of epidemic and at direct support of entities covered by the rule. The proposed approach is to ensure a gradual return to the initial form of the stabilising expenditure rule and in the long term should not threaten financial stability of the state[31]. However, it is important to bear in mind that in connection with the binding general escape clause, in 2021–2022, EU Member States conduct their budgetary policies without including the limits from the EU side regarding the growth rate of the *general government* sector expenditure. Additionally, it is not necessary to annually enhance the structural result of this sector on the adjustment path to MTO[32]. The consequence of the escape clause may be to cover particular Member countries, including Poland, with excessive deficit procedure and therefore to introduce austerity programmes. The table below presents the evolution of the budget balance of selected EU Member States. It should be stated that only Denmark and Sweden met the requirement of fiscal convergence with regard to the deficit. In the remaining countries, the deficit level significantly exceeded the value of 3% of GDP. Thus, there is a clear relationship between the exit clause for applying expenditure rules and the increase in public deficit.

Table 4. General government deficit/surplus to GDP in % on 2010–2020

Country	Time										
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Austria	-4.4	-2.6	-2.2	-2.0	-2.7	-1.0	-1.5	-0.8	0.2	0.6	-8.3
Belgium	-4.1	-4.3	-4.3	-3.1	-3.1	-2.4	-2.4	-0.7	-0.8	-1.9	-9.1
Bulgaria	-3.7	-1.7	-0.8	-0.7	-5.4	-1.9	0.3	1.6	1.7	2.1	-4.0
Denmark	-2.7	-2.1	-3.5	-1.2	1.1	-1.2	0.1	1.8	0.8	4.1	-0.2
Spain	-9.5	-9.7	-10.7	-7.0	-5.9	-5.2	-4.3	-3.0	-2.5	-2.9	-11.0
Finland	-2.5	-1.0	-2.2	-2.5	-3.0	-2.4	-1.7	-0.7	-0.9	-0.9	-5.5
Italy	-4.2	-3.6	-2.9	-2.9	-3.0	-2.6	-2.4	-2.4	-2.2	-1.5	-9.6
Lithuania	-6.9	-8.9	-3.2	-2.6	-0.6	-0.3	0.3	0.4	0.5	0.5	-7.2
Latvia	-8.6	-4.3	-1.4	-1.2	-1.6	-1.4	0.2	-0.8	-0.8	-0.6	-4.5
Croatia	-6.4	-7.9	-5.5	-5.5	-5.5	-3.4	-0.9	0.8	0.2	0.3	-7.4

31 Rada Ministrów, Założenia projektu budżetu państwa na rok 2021, Warsaw 2020, pp. 11–13.
32 Rada Ministrów, Wieloletni Plan…, *op. cit.,* p. 27.

Netherlands	-5.3	-4.5	-4.0	-3.0	-2.3	-2.1	0.0	1.3	1.4	1.7	-4.2
Poland	-7.4	-5.0	-3.8	-4.2	-3.6	-2.6	-2.4	-1.5	-0.2	-0.7	-7.1
Romania	-6.9	-5.4	-3.7	-2.1	-1.2	-0.6	-2.6	-2.6	-2.9	-4.4	-9.4
Sweden	-0.1	-0.3	-1.1	-1.5	-1.5	0.0	1.0	1.4	0.8	0.6	-2.8

Source: https://ec.europa.eu/eurostat/databrowser/view/tec00127/default/table?lang=en (22.10.2021).

Conclusions

The analysis conducted in this article leads to the following conclusions:

Firstly, in the EU member states fiscal policy is regulated by national and EU regulations shaping the level of deficit and public debt. The main task of national fiscal rules is to maintain financial stability so that the level of both deficit and debt does not exceed reference values.

Secondly, the basic objective of expenditure rules is to increase predictability and continuity of fiscal policy in the long term and boundary conditions set due to them are to limit public expenditure and freedom of shaping expenditure policy. Additionally, if they are countercyclical, i.e., they are negatively correlated with economic situation, they may fulfil the function of automatic stabiliser. Therefore, expenditure rules are considered as one of the most effective tools of managing public funds.

Thirdly, introduction of the stabilising expenditure rule into the Polish legal order in 2015, whose mechanism includes limiting the level of spending and allows calculation of a legally binding absolute limit of expenditure for a given financial year, should be assessed positively. The more so that as the above analysis indicates, the strength index of the Polish expenditure rule is high and therefore it should be regarded as an effective tool to conduct a stable expenditure policy.

Fourthly, the task of the stabilising expenditure rule is to set limit of the *general government* sector spending at the level guaranteeing to maintain the deficit of this sector below 3% of GDP. The analysis presented in the article showed that the fiscal expenditure rules applied by the governments of individual EU member states have a direct impact on the level of public expenditure and the level of the public deficit. The Escape clause of this rule application means freedom in increasing public expenditure without the obligation of additional receipts to the budget that would balance the spending. This situation was confirmed by the presented data, which show that the deficit level was not exceeded in 2020, in only two countries. A dangerously high increase in the deficit has been observed in the rest of the EU. Thus, the steps taken the by the legislator to temporarily suspend the stabilising expenditure rule may be considered as not being right, since in the current situation financial stability is at threat. Therefore, one of the main challenges which legal science faces nowadays is to create legal mechanisms guaranteeing sound public finance and not its suspension.

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