

Reg. No. 87/2024/P/24/001/KBF

Reg. No. 88/2024/P/24/002/KBF

ANALYSIS

OF EXECUTION OF THE STATE BUDGET AND MONETARY POLICY ASSUMPTIONS FOR 2023

VOLUME I



President of the
Supreme Audit Office

Marian Banaś

Approved by the
COUNCIL OF THE SUPREME AUDIT OFFICE
on 6 June 2024

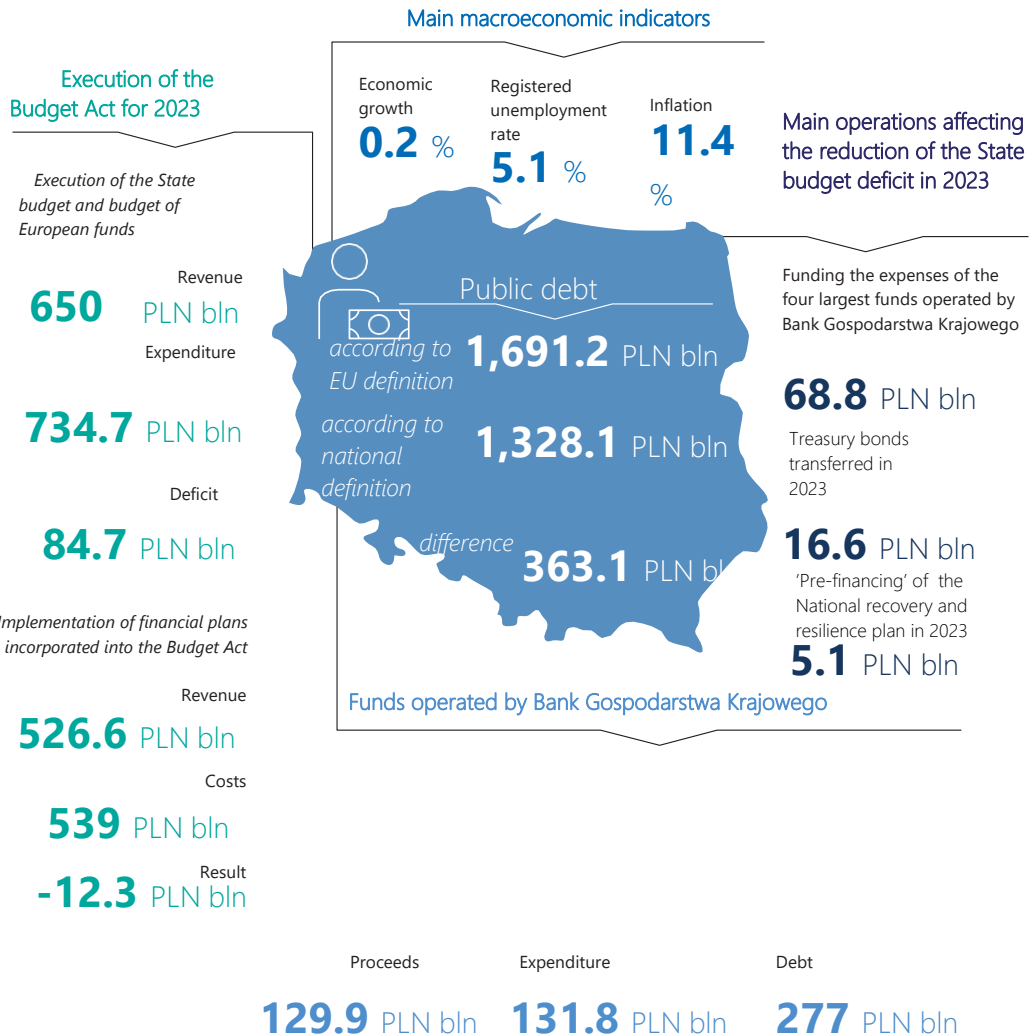


TABLE OF CONTENTS

I. INTRODUCTION	1
II. KEY FINDINGS AND CONCLUSIONS	5
1. Key findings of the audit of the State budget execution in 2023	8
2. Key findings of the audit of the monetary policy assumptions execution in 2023	41
3. The most significant irregularities in the audit of the State budget execution in 2023 and in the audit of the monetary policy assumptions execution in 2023	44
4. Key findings on the execution of the State budget and monetary policy assumptions in 2023	46

I. INTRODUCTION

1. Introduction

One of the key tasks of the Supreme Audit Office is to provide objective information on the state of the country and its functioning. Each year, through the analysis of execution of the State budget and monetary policy assumptions, content is published that informs on the regularity of the accumulation and disbursement of public funds.

The Supreme Audit Office, fulfilling its constitutional obligation¹, submits to the Sejm of the Republic of Poland the *Analysis of execution of the State budget and monetary policy assumptions in 2023*, along with an opinion on the discharge of the Council of Ministers. These documents, together with the *Report of the Council of Ministers on the State budget execution for the period from 1 January to 31 December 2023*, form the basis for the Sejm to assess the spending of public funds and to decide on discharging the Council of Ministers.

This document presents an assessment of the execution of the State budget, the budget of European funds, and the financial plans of public finance sector entities included in the Budget Act for 2023, dated 15 December 2022². It also includes an evaluation of the effectiveness of the National Bank of Poland's activities in executing the monetary policy assumptions³.

This year's *Analysis* is divided into two parts⁴, with the first providing a brief introduction to the document and a synthesis of the findings detailed in the second part. Volume Two focuses on the presentation and evaluation of the planning and implementation of the Budget Act and the execution of the monetary policy assumptions. It also discusses the implementation of the macroeconomic assumptions adopted for the Budget Act's preparation. The actions taken by the Council of Ministers, the Prime Minister, and the Minister of Finance in managing the execution and liquidity of the State budget and the budget of European funds are also presented and assessed. The analysis also includes:

- an opinion on the reliability and credibility of the data contained in the budget reports, the report of the Council of Ministers on the execution of the State budget for 2023, and an assessment of the accounts of selected budgetary units;
- analysis of the development of the State Treasury debt, State public debt, and the status of guarantees and warranties of the State Treasury;
- discussion of the implementation of the financial plans of the public finance sector entities included in the Budget Act⁵ and public revenues and expenditures.

¹ Referred to in Article 204(1)(1) and (2) of the Constitution of the Republic of Poland of 2 April 1997 (Dz. U. [Journal of Laws] No 78, item 483, as amended) and arising from Article 7(1)(1) and (2) of the Act of 23 December 1994 on the Supreme Audit Office (Dz. U. [Journal of Laws] of 2022, item 623).

² Dz. U. [Journal of Laws] of 2023, item 256, as amended.

³ Resolution No 15/2022 of the Monetary Policy Council of 7 September 2022 on setting monetary policy assumptions for 2023 (Monitor Polski [Official Gazette of the Government of the Republic of Poland] item 915).

⁴ Also referred to as volumes.

⁵ Annexes 11, 13, and 14 to the Budget Act for 2023 include financial plans of State special purpose funds, executive agencies, and State legal persons referred to in Article 9(14) of the Act of 27 August 2009 on public finance (Dz. U. [Journal of Laws] of 2023, item 1270, as amended).

The actions taken in 2023 to achieve the National Bank of Poland's main objectives and the adequacy of the Monetary Policy Council's monetary policy decisions were also assessed.

Given the growing scale of financing public tasks by entities outside the public finance sector, an analysis of the financial plans of funds managed by Bank Gospodarstwa Krajowego was conducted, considering the results of audits carried out by the Office in this area.

The document also presents and assesses the implementation of the national recovery and resilience plan (NRRP), focusing on the investments planned under this instrument and the financing mechanism adopted.

The *Analysis* was developed primarily based on the results of the audit of the *State budget execution in 2023*, conducted by the Supreme Audit Office in 157 entities, and the audit of the execution of the monetary policy assumptions at the National Bank of Poland. The results of other planned and *ad hoc* audits conducted by the Supreme Audit Office, which impact the issues discussed in this document, were also taken into account. Additionally, publicly available reporting, statistical, and analytical materials were used in preparing the *Analysis*.

Infographic 1. Reference materials for the *Analysis of execution of the State budget and monetary policy assumptions in 2023*



Source: own elaboration of the Supreme Audit Office

As part of the audit of the *State budget execution in 2023*, 169 audits⁶ were conducted, including those covering selected:

- State budgetary units, encompassing the majority of administrators of State budget sections, except for units audited cyclically⁷. The audit excluded 25 administrators of budgetary sections whose expenditures in 2022 were less than PLN 150 million, who were not excluded from the previous two audits, whose State budget execution had received positive assessments in the last three audit years, and where no other grounds for their exclusion were identified⁸;
- financial plans of State special purpose funds, executive agencies, and State legal persons;
- local government units;
- other entities utilising public funds,

as well as the National Bank of Poland and Bank Gospodarstwa Krajowego.

Within the audited local government units, inspections were carried out in Marshal's Offices, where the use of the special-purpose subsidy from the State budget for organising, financing, and providing conditions for postgraduate internships for doctors was verified. Additionally, the use of special-purpose subsidies from the State budget for the implementation of tasks assigned to the Ministry of National Defence and the Ministry of Health was verified in one company and four other entities.

For the calculations presented in the following section, the value of gross domestic product in 2023 was assumed to be PLN 3,410.1 bln⁹. Due to the fact that some indicators of the Central Statistical Office are published in the second half of the year, in some cases the findings were based on forecasts or preliminary data.

Figures presented in tables and infographics may show slight differences due to rounding. The tables included in the *Analysis* contain the following notations:

- (–) – when there is no quantitative data for the period;
- (0.0) – the phenomenon existed in a magnitude less than 0.05;
- (.) – means a complete lack of information or no reliable information;
- (x) – means that it is impossible or inexpedient to complete the item.

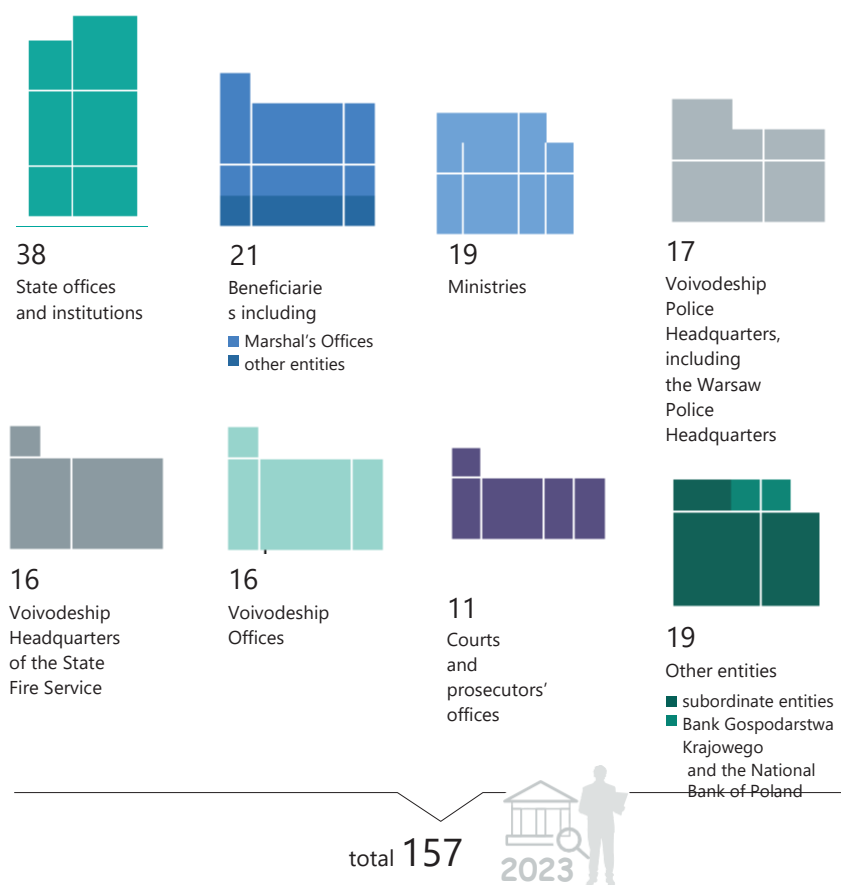
⁶ The activities of 86 administrators of budgetary sections, 63 lower-level administrators, and 21 grant beneficiaries were assessed. Additionally, 28 financial plans of public finance sector entities included in annexes to the Budget Act were evaluated, alongside the management and settlement of the State budget by the Minister of Finance and the banking operation of the budget carried out by the National Bank of Poland and Bank Gospodarstwa Krajowego.

⁷ As part of audit P/24/001 – *State budget execution in 2023*, two out of 11 courts of appeal were audited.

⁸ This involved auditing parts such as: *the National Broadcasting Council, the Personal Data Protection Office, Membership of the Republic of Poland in the European Union, Communications, Tourism, the Public Procurement Office, the Energy Regulatory Office, the Office of Competition and Consumer Protection, the State Mining Authority, the Patent Office of the Republic of Poland, the Polish Academy of Sciences, the National Atomic Energy Agency, the Office of Rail Transport, the General Prosecutor's Office of the Republic of Poland, the Government Legislation Centre, the Office of Electronic Communications, the Regional Audit Chambers, the Copernicus Academy, and seven self-government appeals boards.*

⁹ Announcement of the President of the Central Statistical Office of 15 May 2024 on the first estimate of the gross domestic product in 2023 (Monitor Polski [Official Gazette of the Government of the Republic of Poland], item 368).

Infographic 2. Number of entities covered by the State budget execution audit in 2023



Source: own elaboration of the Supreme Audit Office.

I I. KEY FINDINGS AND CONCLUSIONS

II. Key findings and conclusions

- **The State budget, the budget of European funds, and most financial plans of extra-budgetary entities of the public finance sector were implemented in accordance with the Budget Act for 2023. However, this Act did not cover significant financial operations related to the implementation of State tasks, including those affecting the growth of public debt.**
- **The financing of a significant portion of public tasks and the NRRP occurred outside the State budget, disregarding the budgetary rigours or even the Budget Act, and even outside the public finance sector. In 2022–2023, the financing of further important public tasks was excluded from parliamentary scrutiny.**
- **The Supreme Audit Office gave a positive opinion on the annual budget reports of 96.2% of the audited administrators of budgetary sections and 94.1% of the audited third-level administrators. The accuracy of the accounts was also positively assessed in 81% of the audited administrators in this scope.**
- **The stabilising expenditure rule, as in the previous two years, did not significantly limit public expenditure growth. Neither did the spending reviews contribute to strengthening the State budget planning process or impact the efficiency of public spending.**
- **In 2023, there was a further significant increase in the funds allocated to specific reserves, which collectively accounted for as much as 17.5% of the expenditure limit of the State budget and the budget of European funds. The Supreme Audit Office raised concerns regarding the planning of parts of these reserves.**
- **In 73% of the cases examined in detail concerning the allocation of funds from the general reserve, inconsistent with its intervention nature, these funds were allocated for tasks that did not stem from urgent, unpredictable situations requiring immediate action.**
- **Significant irregularities were identified in the planning and financing of Police units, as well as expenditures allocated for grants and promotional and advertising activities.**
- **In 2023, there continued to be serious problems with financing Police units. The audit of these units identified significant irregularities in budget planning and execution.**
- **Significant irregularities were also identified in the area of expenditures allocated for grants and promotional and advertising activities.**
- **The costs of servicing the public debt accounted for more than 9% of State budget expenditure in 2023, almost equalling capital expenditure.**
- **In 2023, there was a further increase in the imbalance between revenues and costs of State special purpose funds, whose financial plans are included in the annexes to the Budget Act. Moreover, some of these funds continued to finance tasks unrelated to the purposes for which they were established.**
- **2023 was another year in which funds were planned and transferred in the form of Treasury securities, bypassing the State budget. In 2023,⁵**

Treasury bonds with a nominal value of PLN 21.6 billion were transferred in this way.

- The net borrowing needs of the State budget sharply increased in 2023, reaching PLN 137.6 billion. However, these needs did not account for all the outlays required for implementing public tasks.
- At the end of 2023, there was a difference of more than 20% (PLN 363.1 billion) between the size of the public debt calculated according to EU rules and the size of this debt calculated according to national rules.
- The general government deficit in 2023 amounted to PLN 173.8 billion, representing 5.1% of gross domestic product, significantly higher than in the previous year (PLN 105.9 billion). Consequently, Poland may face an excessive deficit procedure in 2024.
- In 2023, a large part of the government subsector deficit was again included outside the deficit relating to the State budget and the budget of European funds. The deficit generated by extra-budget entities amounted to PLN 50.4 billion, making the State budget deficit an unreliable indicator of the State's financial health.
- The results of two audits completed in 2024 indicate a reduction in the financial autonomy of local government units between 2019 and 2023 and their increased dependency on funds allocated by elected government authorities on a discretionary basis, using unclear criteria. This was not in line with the provisions of the European Charter of Local Self-Government.
- The combined share of negative and descriptive assessments in the 2023 audit of the State budget execution increased by 10.4 percentage points compared to the previous year's audit.
- Throughout the year, the inflation rate significantly exceeded the monetary policy target, which was to maintain inflation at 2.5% in the medium term, with a permissible deviation range of ± 1 percentage point. The consumer price index peaked at 18.4% in February 2023 and began a gradual decline in the following months, falling to 6.2% in December 2023. The reduction in the inflation rate was mainly due to the favourable development of external factors, independent of monetary policy.
- For the first eight months of the year, the Monetary Policy Council pursued an inflation-targeted monetary policy without changing interest rates. In September 2023, the Council cut the reference rate by 0.75 percentage points, the largest reduction since January 2009, followed by a further 0.25 percentage point reduction in October 2023.
- The decision of the Monetary Policy Council in September 2023 to cut interest rates was, in the opinion of the Supreme Audit Office, based on unclear grounds and was inconsistent with earlier communications from the President of the Monetary Policy Council regarding the timing and conditions under which such decisions would be made.
- The operational objective of monetary policy to keep the Polonia rate close to the National Bank of Poland's reference rate was achieved in 2023 using open market operations, deposit and credit operations, and the mandatory reserve system. In 2023, the National Bank of Poland did not carry out currency interventions.

In 2023, the methods of spending State Treasury funds outside the State budget, which had been employed in previous years, were used on a large scale. This included the transfer of Treasury securities to certain entities instead of grants, which allowed for lower reported expenditures and a reduced State budget deficit. Additionally, a significant portion of public expenditures was financed through funds managed by Bank Gospodarstwa Krajowego. A key issue in 2023 was the financing of public tasks related to the implementation of the national recovery and resilience plan by Polski Fundusz Rozwoju S.A., with the expectation that these funds would be reimbursed to the company by the State Treasury in the future¹⁰.

The actions described above led to a diminishing of the State budget's importance, which the Constitution of the Republic of Poland and the Public Finance Act have designated as the central financial plan of the State. According to Article 219(1) and (3) of the Constitution, the Sejm enacts the State budget in the form of a budget act for the financial year, and in exceptional circumstances, State revenues and expenditures for a period shorter than one year may be specified by a provisional budget law. Thus, the Constitution equates the concept of the State budget with that of State revenues and expenditures. Furthermore, the Public Finance Act grants special significance to the Budget Act, stipulating in Article 109(1) that the Budget Act is the foundation for the State's financial management.

The year 2023 saw a continued increase in the disparity between general government debt and consolidated public debt, with the gap reaching PLN 363.1 billion by the end of the year. This was primarily due to the inclusion in the general government debt of liabilities incurred to finance State tasks through extra-budgetary funds operated by Bank Gospodarstwa Krajowego, as well as a portion of the debt of Polski Fundusz Rozwoju S.A. Although the transfer of funds by this company to entities implementing tasks under the NRRP resulted in increased State Treasury liabilities, this was not reflected in the report of the Council of Ministers. Consequently, the exclusion of these growing liabilities from the consolidated public debt limits the relevance of its size when assessing the true scale of the State's indebtedness.

The State's significant financial imbalance contributed to a sharp rise in the net borrowing needs of the State budget in 2023. While these needs amounted to PLN 50 billion in 2020 and were *de facto* non-existent in 2021–2022, they soared to PLN 137.6 billion in 2023.

Moreover, in 2023, effective mechanisms to ensure the proper use of the COVID-19 Prevention Fund and the Aid Fund were still lacking. The irregularities identified were due to unreliable actions by the Chancellery of the Prime Minister and the Minister of Education and Science.

In light of the above, the Supreme Audit Office reaffirms its request to the Council of Ministers, as expressed in the *Analysis of execution of the State budget and monetary policy assumptions in 2022*, to initiate efforts to cease the redistribution of funds for financing State tasks outside the Budget Act or through Treasury securities. Additionally, it is imperative to reinforce the State budget's role as the central financial plan of the State, in line with the Constitution of the Republic of Poland.

¹⁰ Such a solution was already used in 2022, but on a much smaller scale than in 2023.

KEY FINDINGS AND CONCLUSIONS

It is essential that, as a rule, all operations within the government sector that impact the public debt are included in the State budget's revenues and expenditures. This would ensure that the budget outcome directly influences changes in the public debt, while acknowledging the autonomous position of local governments and state-owned legal entities, whose contribution to the public debt is, however, disproportionately smaller than that of the State Treasury. Furthermore, all significant liabilities of general government entities should be included in the public debt. This approach would allow for a more accurate assessment of the State's indebtedness, reducing significant discrepancies between general government debt and consolidated public debt. A situation where these figures differ markedly suggests that one of them — specifically, the public debt — does not accurately reflect the State's actual debt level, thereby limiting its usefulness for evaluation purposes.

1. Key findings of the audit of the State budget execution in 2023

Overall assessment of the execution of the Budget Act

1. The State budget has been implemented in accordance with the Budget Act for 2023. As part of the audit of the State budget execution in 2023, the Supreme Audit Office conducted 169 unit audits, resulting in 202 assessments¹¹. The share of positive assessments decreased significantly compared to the previous year, dropping by 9.8 percentage points to 60.9%. There was an even more pronounced decline in the assessments of the State budget execution compared to 2020, with the share of positive assessments falling by 17.4 percentage points during this period.

At the same time, the share of negative assessments has steadily increased since 2021. In 2020, negative assessments were less than 1%, but by 2023, they had risen to 4.5%. Negative assessments were issued regarding the execution of the State budget in the budget sections managed by the Minister of National Defence, the Minister of Family, Labour, and Social Policy¹², the Ombudsman for Children, and the President of the Institute of National Remembrance – Commission for the Prosecution of Crimes against the Polish Nation. Negative assessments were also issued following audits of the Armament Agency, the De Republica Institute¹³, the Medical Fund, and the Government Agency for Strategic Reserves¹⁴.

¹¹ The Supreme Audit Office uses a three-stage rating scale: positive, descriptive, or negative. A descriptive assessment is given to entities where irregularities in the audited activities are significant enough that a positive assessment cannot be justified, yet the extent of these irregularities does not warrant issuing a negative assessment.

¹² In the *Family* section.

¹³ By Order of the Prime Minister No 21 of 1 March 2024 on the liquidation of the De Republica Institute (Monitor Polski [*Official Gazette of the Government of the Republic of Poland*], item 183), the entity was placed into liquidation, with the deadline for completion set for 30 June 2024.

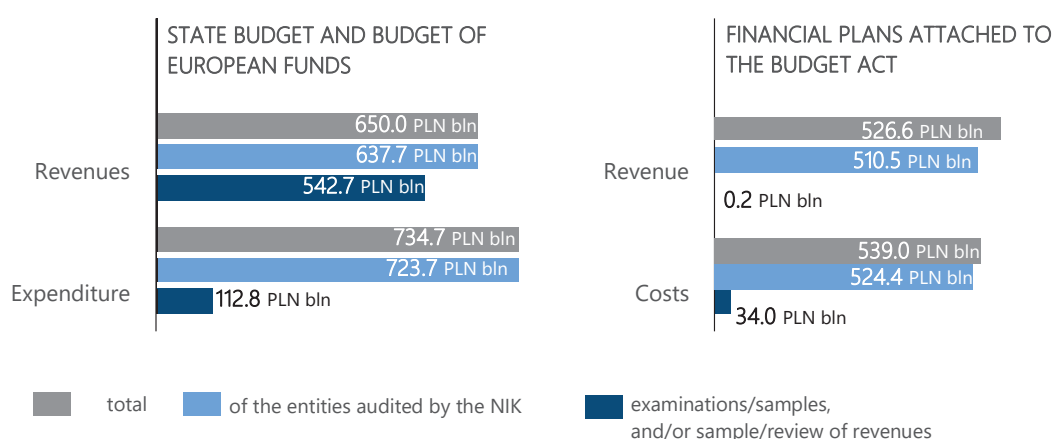
¹⁴ Additionally, the use of subsidies from the *Health* section by one of the four audited beneficiaries received a negative assessment

¹⁵ .

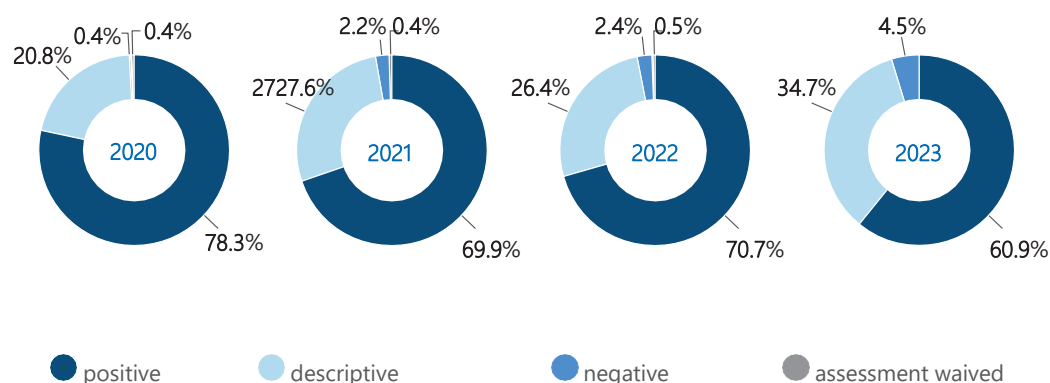
KEY FINDINGS AND CONCLUSIONS

The proportion of descriptive assessments also increased compared to previous years, reaching 34.7% in 2023 — up by 8.3 percentage points from 2022 and 13.9 percentage points from 2020. This shift in the structure of assessments was significantly influenced by audits conducted in Police units and Marshal's Offices¹⁵, where descriptive assessments accounted for 85% and 75% of the total evaluations, respectively.

Infographic 3. Aggregate summary of the audit of the State budget execution in 2023



STRUCTURE OF THE ASSESSMENTS MADE AS A RESULT OF THE AUDIT OF THE STATE BUDGET EXECUTION



Source: own elaboration of the Supreme Audit Office based on the results of the audit of State budget execution in 2020–2023 and data from the Ministry of Finance.

- The State budget revenues amounted to PLN 574 billion, representing a 13.7% increase compared to 2022. However, they were 4.6% lower than the projected revenue in the amended Budget Act for 2023.

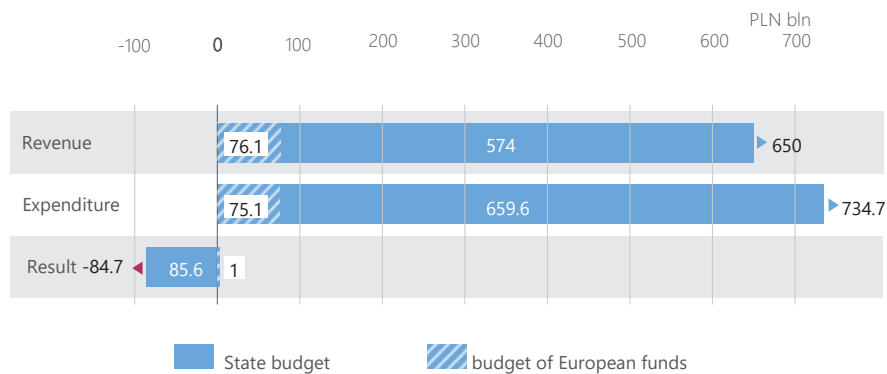
The State budget expenditures totalled PLN 659.6 billion, marking a 27.5% increase from 2022 but 4.9% below the expenditure limit set in the amended Budget Act.

The State budget deficit for 2023 reached PLN 85.6 billion, which is 93.1% of the limit established in the amended Budget Act. This deficit was nearly seven times higher than the 2022 deficit and more than three times greater than the 2021 deficit.

15 In the audit of the Marshal's Offices, the use of a special-purpose subsidy from the State budget for the implementation of tasks related to the organisation, financing, and provision of conditions for postgraduate traineeships for doctors was audited.

KEY FINDINGS AND CONCLUSIONS

Infographic 4. Revenue, expenditure and result of the State budget and the budget of European funds in 2023



Source: own elaboration of the Supreme Audit Office based on the results of the audit in the Ministry of Finance.

- Revenues of the budget of European funds amounted to PLN 76.1 billion, accounting for 71.1% of the planned budget as outlined in the Budget Act. This represents a 4.6% increase compared to 2022.

The expenditures from the European funds budget amounted to PLN 75.1 billion, which is 60.9% of the budget limit set in the Budget Act and 1.3% higher than the previous year.

Due to the significantly lower execution of the expenditure plan compared to the revenue plan, the European funds budget ended with a surplus instead of the planned deficit. It amounted to nearly PLN 1 billion, while a deficit of over PLN 16 billion was planned in the Budget Act.

- Combined revenues of the State budget and the budget of European funds totalled PLN 650 billion, a 12.5% increase from 2022. There was a much higher increase in the combined expenditure of these two budgets. The combined expenditures amounted to PLN 734.7 billion, a 24.2% increase from 2022. This resulted in a total deficit of the State budget and the budget of European funds amounting to PLN 84.7 billion in 2023, which was PLN 70.7 billion higher than in 2022 and PLN 58.9 billion higher than in 2021.

Opinion on budget reports

- The Supreme Audit Office concludes that the *Report of the Council of Ministers on the execution of the State budget for the period from 1 January to 31 December 2023* was prepared based on the data included in the reports of individual administrators of the State budget and in accordance with applicable legal principles. The data included in the audited accounts reflected the nature of the operations performed. The data presented in this Report are credible. The Report thus presents, in all material respects, a fair picture of the implementation of the Budget Act.
- However, the Supreme Audit Office notes, for the second consecutive year, that the Council of Ministers' Report is increasingly less reflective of the actual state of public finances. In addition, the Supreme Audit Office notes that the Report does not show the State Treasury's liabilities to Polski Fundusz Rozwoju S.A., which arise from the need to reimburse this company for funds it transferred in 2022–2023 to entities implementing the national recovery and resilience plan. As of the end of 2023, this liability amounted to PLN 5.2 billion.

7. The Supreme Audit Office expresses a positive opinion on the accuracy of the preparation of both the annual budget reports and the reports on liabilities by debt titles, sureties, and guarantees by the administrators of budgetary sections. This opinion is based on objective evidence obtained through audits conducted in line with the established audit methodology.

The Supreme Audit Office gave a positive opinion on the annual budget reports of 76 administrators of budget sections (representing 96.2% of those audited) and reports of 128 third-level administrators (94.1% of those audited).

The data presented in the consolidated reports stemmed from individual reports, which were consistent with the figures in the accounting records. The existing management control mechanisms effectively ensured the accuracy of the reports produced. Any identified irregularities were either corrected during the audit process or did not significantly impact the correctness of the data presented in the *Report of the Council of Ministers on the State budget execution for the period from 1 January to 31 December 2023*.

8. The Supreme Audit Office has positively assessed the accuracy of the accounting books in 17 out of the 21 budgetary administrators audited in this area. In these cases, no irregularities were found, or the scale and nature of any irregularities were such that they did not affect the overall assessment of the accounts' accuracy. However, significant irregularities that precluded a positive assessment of the books were identified in the Chancellery of the Prime Minister (both in the audit conducted at the administrator of a budget section and the third-level administrator), the Voivodeship Headquarters of the State Fire Service in Białystok, and the De Republica Institute. In these entities, the bookkeeping was assessed in a descriptive form.

Implementation of macroeconomic assumptions to the Budget Act

9. The implementation of the Budget Act in Poland in 2023 was shaped by both internal and external factors. Internally, the government's spending priorities, including the financing of social programmes, protective measures to mitigate the effects of rising energy prices, and the modernisation of the armed forces, played a significant role. Externally, the factors included rising global market prices, especially for energy raw materials and agricultural products, the ongoing war in Ukraine, the restrictive monetary policies of central banks, and a slowdown in gross domestic product (GDP) growth across the European Union.
10. In 2023, Poland's GDP growth rate was 0.2%, which was 0.7 percentage points lower than the forecast in the explanatory memorandum to the draft amendment to the Budget Act. Although Poland avoided a recession, the growth rate was among the lowest seen in the past decade, with similarly low rates recorded only in 2013 (0.9%) and in 2020 when the real GDP decreased by 2%. This slowdown in economic growth was not unique to Poland; other countries also experienced similar trends. Across the European Union, GDP growth declined from 3.5% in 2022 to 0.4% in 2023, and in the euro area, it decreased from 3.4% to 0.4%. In Germany, Poland's largest trading partner, the GDP growth rate fell from 1.8% to -0.3% during the same period.

KEY FINDINGS AND CONCLUSIONS

11. The lower-than-expected growth in Poland's GDP was primarily influenced by a weaker contribution from domestic demand. Both consumption dynamics and gross accumulation dynamics were lower than projected. The decline in private consumption dynamics, compared to previous years, was attributed to the overall deterioration of the economic situation, concerns about a renewed rise in inflation, as well as efforts to rebuild savings and the low growth in real wages. The decline in gross accumulation dynamics was also affected by the use of inventories that had been accumulated by businesses over the previous two years due to concerns about irregular supplies of production components following the COVID-19 outbreak.
12. The dynamics of gross fixed capital formation, which represents investment dynamics in 2023, was 13.1%, 12 percentage points higher than the forecast included in the draft amendment to the Budget Act for 2023. This led to an increase in the investment rate from 16.4% in 2022 to 17.8% in 2023. Despite this increase, Poland's investment rate remained low, especially when compared to other European Union countries. In 2023, the average investment rate in the European Union was 22.7%, nearly 5 percentage points higher than in Poland.
13. The current account balance of Poland's balance of payments in 2023 was positive, amounting to 1.6% of GDP. This balance was better than both the forecast included in the explanatory memorandum to the draft amendment to the Budget Act (minus 1% of GDP) and the balance in 2022 (minus 2.4% of GDP). The main factor behind this improvement was the higher nominal trade balance. Real export dynamics in 2023 were 1.7 percentage points higher than assumed, supported by relatively high price competitiveness and a broad diversification of exported goods. On the other hand, import dynamics were lower than expected, mainly due to weaker-than-anticipated domestic demand, including a reduction in inventories, which are typically characterised by high import intensity.
14. Average employment in the enterprise sector in Poland in 2023 amounted to 6.529 million full-time equivalents (FTEs), indicating that employment growth was slightly lower than forecast at the time of the amendment to the Budget Act. A slower growth rate in the number of full-time jobs was observed across all sectors of the economy. The average remuneration in the national economy in 2023 was PLN 7,155, which was 1% higher than the forecast included in the justification for the amendment to the Budget Act for 2023. The registered unemployment rate at the end of 2023 in Poland stood at 5.1%, which was 0.4 percentage points lower than assumed during the amendment to the Budget Act. According to Eurostat methodology, Poland's unemployment rate was 2.8%, significantly lower than the European Union average of 6.1%, placing Poland among the countries with the lowest unemployment rates in Europe.
15. It should be emphasised that the Polish labour force was adversely affected by demographic trends. Since 2010, the percentage of people of working age has been declining, dropping to 58.4% in 2023. At the same time, the number of people of working age was just under 22 million, which is 184,000 fewer than the previous year. Since 2010, the working-age population has decreased by nearly 3 million people, while the population of post-working age has increased by over 3 million, reaching 8.8 million. The percentage of this population has risen from just under 15% in 2010 to over 23% in 2023. It is worth noting that in 2023, only about 272,000 live births were registered, the lowest number of births in the entire post-war period. This will have a negative impact on the Polish labour market in the future.

16. In 2023, the average annual consumer goods and services price index stood at 11.4%, which was 0.6 percentage points lower than the forecast included in the explanatory memorandum to the draft Budget Act amendment. Food prices increased particularly sharply (by 15.1%), as did housing-related costs (by 13.4%). The inflation rate in 2023 was three percentage points lower than in 2022, although excluding that year, the last time such high inflation occurred in Poland was in 1998. In 2023, Poland ranked fourth among European Union countries in terms of the highest inflation rate, behind Hungary, the Czech Republic, and Slovakia.
17. In 2023, the reference rate of the National Bank of Poland averaged 6.45%, which was 0.3 percentage points lower than the rate included in the explanatory memorandum to the draft Budget Act amendment. The average annual exchange rates of the euro and the US dollar against the zloty did not significantly differ from the rates assumed in both the preparation of the Budget Act and its amendment.

Drafting and Amendment of the Budget Act

18. In the Budget Act for 2023 dated 15 December 2022, State budget revenues were set at PLN 604.5 billion, expenditures at PLN 672.5 billion, and the deficit at PLN 68 billion. Revenues were to be 22.9% higher and expenditures 28.9% higher than those planned in the State budget for 2022. The deficit was to more than double.
19. Over 90% of State budget revenues were to come from tax revenues. Among the four main sources of tax revenues, the largest increase compared to 2022 was planned for personal income tax (23.6%) and value-added tax (23.1%). The growth in tax revenues was to be influenced, among other factors, by high inflation and economic growth, as well as the then-expected expiration of anti-inflation shields at the end of 2022 and the increase in the State budget's share of personal income tax revenues following a one-time reduction of this share in 2022 in favour of local government units.
20. Among the main categories of State Budget expenditures, expenditures on State Treasury debt service were to increase the most – by 153.8%. These expenditures were planned to be PLN 40 billion higher than those envisaged in the Budget Act for 2022, reaching PLN 66 billion. This compares with planned capital expenditure of PLN 59.3 billion.
21. In 2023, as in 2021–2022, expenditures planned for defence purposes included spending on the education of full-time civilian students and doctoral candidates at military universities. This was based on Article 22 of the Act of 1 December 2022 on specific solutions serving the implementation of the Budget Act for 2023¹⁶. Meanwhile, according to Article 460(10) of the Act of 20 July 2018 – *Law on Higher Education and Science*¹⁷, expenditures on this task should not be included in

16 Dz. U. [Journal of Laws], item 2666, as amended

17 Dz. U. of 2023, item 742, as amended.

- defence expenditures¹⁸. According to the Supreme Audit Office, the issue of including these expenditures in defence expenditures requires clear regulation, and once a principle is adopted, it should be consistently applied in subsequent years. The Supreme Audit Office raised this issue as early as 2022¹⁹.
22. According to the Supreme Audit Office, an excessively large portion of State budget expenditures in the draft Budget Act for 2023 was allocated to specific reserves. These reserves accounted for 7.6% of State budget expenditures. Furthermore, for some reserves, there were no grounds to consider that they were planned reliably.
 23. In 2023, the practice of financing an increasing number of public tasks outside the State budget and even outside the Budget Act continued. In recent years, there has been a significant increase in the amount of public expenditure planned in the funds operating within Bank Gospodarstwa Krajowego. This made it possible to circumvent the strict rules governing the implementation of the Budget Act. Moreover, this was done with reduced parliamentary oversight and limited openness and transparency of data. In December 2019, the planned expenditure of these funds, set for the purpose of implementing the stabilising expenditure rule in the following year, amounted to PLN 14.1 billion, while in September 2022, it reached PLN 64.6 billion.
 24. The explanatory memorandum to the draft Budget Act for 2023 indicated that the projected deficit of the general government sector was expected to be around PLN 150 billion in 2023, which is approximately 4.5% of gross domestic product. Given that the State budget deficit for that year was expected to be PLN 68 billion, this means that the majority of the deficit in the aforementioned sector was planned outside the State budget. Consequently, the State budget deficit ceased to serve as a reliable indicator of the extent of the country's financial imbalance. It should also be noted that the general government deficit was calculated unreliably, as it did not account for additional needs related to the payment of the so-called 14th pension. The Prime Minister and the Minister of Family and Social Policy announced the planned payment of this benefit in October 2022, just under three weeks after the draft Budget Act for 2023 was submitted to the Sejm.
 25. When drafting the Budget Act for 2023, it was assumed that the anti-inflation shields would expire at the end of 2022. However, on 7 November 2022, the Prime Minister announced his intention to maintain zero tax rates on certain food products in 2023 and to replace the shields for other goods with a different inflation protection mechanism. Despite this, the Council of Ministers did not revise the draft Budget Act that was under consideration in the Sejm. As a result, the Budget Act had to be amended in July 2023 to adjust the State budget revenue forecast.

18 In accordance with Article 460(10) of the Law on Higher Education and Science, the use of the financial resources referred to in sec. 8 point 2 (i.e., those assigned to tasks related to the education of full-time students and doctoral students who are civilians in military higher education institutions) shall not constitute budgetary expenditure as referred to in Art. 7 sec. 1 of the Act of 25 May 2001 on Reconstruction, Technical Modernisation and the Financing of the Polish Armed Forces (currently: in Article 40(1) of the Homeland Defence Act of 11 March 2022).

19 Supreme Audit Office, *Analysis of execution of the state budget and monetary policy assumptions in 2021*, p. 20–21 and 42–43.

KEY FINDINGS AND CONCLUSIONS

26. According to the forecast contained in the explanatory memorandum to the draft Budget Act for 2023²⁰, the ratio of general government sector debt to gross domestic product was expected to be 53.3% at the end of 2023, an increase of 1.6 percentage points compared to the end of 2022. In contrast, the ratio of consolidated public debt to gross domestic product was expected to remain almost unchanged during this period, standing at 40.6% at the end of 2023. This was expected to lead to a further increase in the discrepancy between general government debt and public debt. The Supreme Audit Office had already highlighted this issue in its *Analysis of execution of the state budget and monetary policy assumptions in 2020-2022*, recommending the harmonisation of the method of determining public debt.
27. While the amount of expenditure referred to in Article 112aa(1) of the Public Finance Act was calculated in accordance with this provision, the calculation of the expenditure limit referred to in Article 112aa(3) of this Act was incorrect. This limit was increased by the revenue from the capacity charge²¹, although the expenditures of the entities receiving this revenue are not subject to the expenditure rule. This indicated a malfunctioning of the expenditure rule mechanism and required actions to eliminate this irregularity, as the Supreme Audit Office had already pointed out following its audit P/21/012 – *Drafting of Budget Acts for the years 2021–2022*²².
28. The stabilising expenditure rule, as in the previous two years, did not significantly limit public expenditure growth. This was primarily due to the exclusion of most investment expenditures from the rule, which allowed the limit on expenditures covered by the expenditure rule to be PLN 184 billion higher. The Supreme Audit Office emphasises that the importance of this rule is systematically decreasing, which may lead to Poland being subject to the excessive deficit procedure in the future.
29. The year 2023 was another year in which solutions were planned that allowed the transfer of funds from the State Treasury without being included in the State budget expenditure plan. As a result, the transfer of these funds did not affect the State budget deficit or the limit on expenditure covered by the stabilising expenditure rule. These solutions included the provision of Treasury securities to selected entities instead of grants and subsidies from the State budget to provide financial support to these entities. There were also concerns about the introduction of the possibility to provide loans from the state budget instead of grants to the Social Insurance Fund, the Solidarity Fund and the Government Agency for Strategic Reserves, especially since such loans had been waived in previous years.
30. The Supreme Audit Office notes that the total limit of State budget expenditure for 2023 resulting from the application of the stabilising expenditure rule was determined only at the final drafting stage when the individual budget administrators had already prepared their expenditure plans for their respective budget sections. This points to a lack of transparency in the budget process, where expenditures for individual budget sections are planned first, and only then is the limit established, which should serve as a reference point for State budget planning.

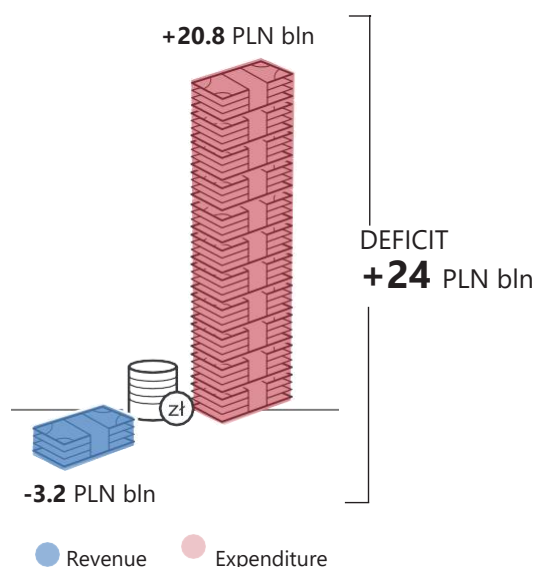
²⁰ Page 29.

²¹ The purpose of this readiness charge to secure the supply of electricity is to ensure energy security (uninterrupted supply of electricity).

²² Post-audit statement from audit P/21/012 – *Drafting of Budget Acts for the years 2021–2022*, No KBF.410.008.01.2021.

31. In the opinion of the Supreme Audit Office, the explanatory memorandum to the draft Budget Act for 2023 was prepared in an unreliable manner. It omitted basic information that is crucial for the analysis and assessment of the financial situation of the entities described, as well as of the general government sector as a whole.
32. In the European funds budget, revenues were planned at PLN 107 billion, and expenditures at PLN 123.2 billion. The deficit for this budget was expected to be PLN 16.2 billion. The share of specific reserves in the planned expenditures of the European funds budget was 58.4%. This high percentage was due to the inclusion of the entire expenditure (PLN 26.8 billion) for the national recovery and resilience plan in the specific reserves.
33. On 7 July 2023, the Sejm amended the Budget Act for 2023. The analysis conducted by the Supreme Audit Office indicates that the main objective of this amendment was to increase expenditure, while the revision of the revenue forecast was relatively minor. The revenue forecast was reduced by PLN 3.2 billion to PLN 601.4 billion, while the expenditure limit was increased by PLN 20.8 billion to PLN 693.4 billion. As a result, the State budget deficit was set at PLN 92 billion, which is PLN 24 billion above the Budget Act of 15 December 2022.

Infographic 5. Change in the planned State budget revenues, expenditures, and deficit as a result of the amendment to the Budget Act for 2023



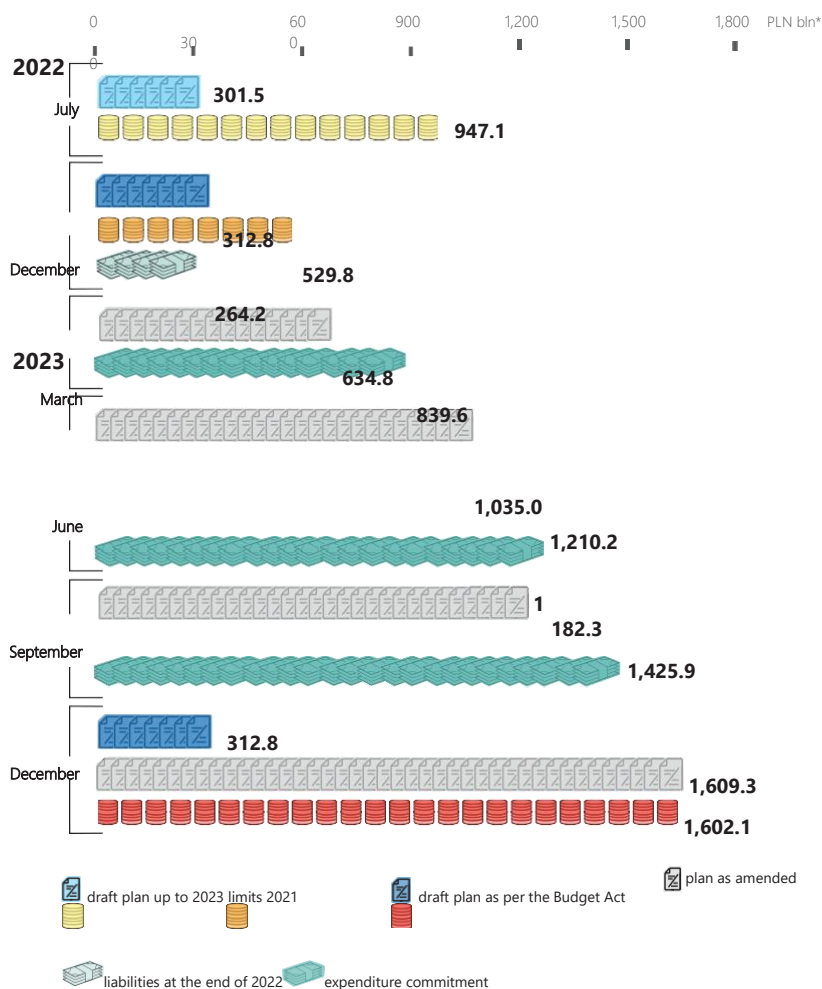
Source: own elaboration of the Supreme Audit Office based on the results of the audit in the Ministry of Finance.

34. As a result of the amendment to the Budget Act, the share of specific reserves in budget expenditures increased even further. In total, these reserves accounted for as much as 17.5% of the expenditure limit for the State budget and the budget of European funds, compared to 14.7% in the previous year and approx. 11% in 2020–2021.
35. In the amended Budget Act, the State budget specific reserves were planned at PLN 65.4 billion. This amendment included the creation of a specific reserve of PLN 16 billion for combating the effects, including socio-economic, of the crisis caused by the armed conflict in Ukraine. This reserve was planned unreliably.

Most the funds were used for purposes not in line with the intent specified in the act The purpose indicated by the Council of Ministers when creating the specific reserve was largely altered shortly after the amended Budget Act came into effect. A significant portion of the funds planned in this reserve (43%) was allocated to the Solidarity Fund to finance the so-called 14th pension, increased by the Council of Ministers. Despite being aware of the need to finance this benefit, the Minister of Finance did not allocate the necessary funds for this purpose in the appropriate budget section.

36. Despite the creation of substantial specific reserves in the State Budget, a significant increase in the funds planned in the general reserve was also foreseen. After the amendment of the Budget Act, this reserve amounted to PLN 1,235 million, which is 25.4% more than in the Budget Act for 2022.
37. The process of planning budget expenditure to fund police units was unreliable. The funds allocated in the Budget Act for the financing of police operations did not cover their basic needs, including the purchase of fuel for service vehicles. Liabilities in this respect were settled with a delay of up to six months, resulting in interest amounting to PLN 11.2 million. The method of planning and financing police units requires immediate changes, which should be made by the Minister of Interior and Administration in close cooperation with the Minister of Finance. In the opinion of the Supreme Audit Office, the underfunding of police units may affect the maintenance of public safety and order.

Infographic 6. Level of coverage for non-payroll current expenditures of the audited police units

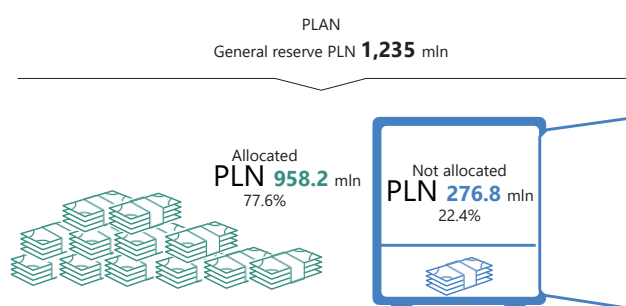


* in the chapters of the Police's core activities (75401, 75402, 75404, 75405, 75407)
 Source: own elaboration of the Supreme Audit Office based on the results of the audit in the police units.

Execution of the Budget Act

38. The Supreme Audit Office has a negative view of the execution of a significant portion of public expenditures outside the State budget. This was done, among other things, through 20 funds managed by Bank Gospodarstwa Krajowego. The total expenditures of these funds (PLN 131.8 billion) accounted for 20% of the State budget expenditures executed in 2023 and 3.9% of gross domestic product.
39. In the opinion of the Supreme Audit Office, the financing of a significant portion of public tasks through funds managed by Bank Gospodarstwa Krajowego violated the principles of budget unity, comprehensiveness, and transparency of public finances. As a result, the outcome of the 2023 State budget did not reflect the state of the country's financial imbalance, and a significant part of the funds earmarked for the implementation of state tasks remained outside the control of the Parliament and the Minister of Finance, and outside public scrutiny. This severely limited the transparency of the State's financial management.
40. In 2023, as in previous years, the additional annual benefits for pensioners, known as the 13th and 14th pensions, were financed in a non-transparent manner.
41. The Supreme Audit Office views negatively the publication of estimated data on the execution of the State budget as of the end of August 2023, only 47 days after the end of the month to which the data pertained. Due to this delay, citizens were deprived of timely access to current information on the state of public finances during the election campaign for the Sejm and Senate of the Republic of Poland.
42. Out of the PLN 1,235 million planned in the general reserve of the State budget, PLN 958.2 million, or 77.6%, was allocated.

Infographic 7. General reserve in 2023



Source: own elaboration of the Supreme Audit Office based on the results of the audit in the Ministry of Finance.

43. Over one-third of the funds from the general reserve (PLN 324.7 million) were allocated to the Chancellery of the Prime Minister, which transferred most of these funds – PLN 294 million – in the form of grants to non-governmental organisations and entities listed in Article 3(3) of the Act of 24 April 2003 on Public Benefit Activity and Volunteer Work²³, in connection with the commissioning of public tasks by the Prime Minister based on Article 11b of this Act. This was done without an open call for proposals.

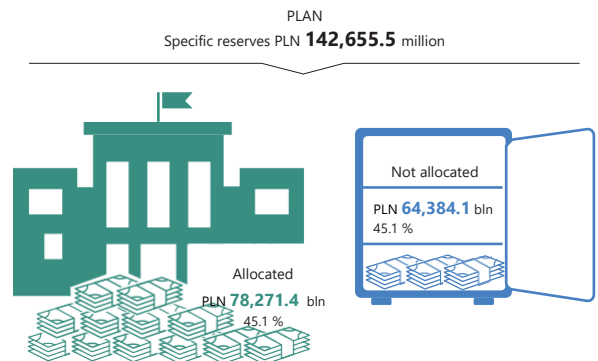
²³ Dz. U. [Journal of Laws] of 2023, item 571.

44. The general reserve is a special financial instrument that enables the Council of Ministers to respond, among others, to urgent and unforeseen situations that could not have been anticipated during the budget preparation process and require immediate financial support. The Minister of Finance²⁴ and the Prime Minister²⁵ also point to this nature of the general reserve. However, the audit conducted in the Chancellery of the Prime Minister found that in 73% of the cases examined in detail, PLN 38.4 million was allocated to tasks that did not arise from urgent, unforeseen situations requiring immediate action.
45. During audits of budget sections managed by voivodes and of the *Transport* section, cases were found where funds from the general reserve of the State budget were requested and allocated for tasks that, in the opinion of the Supreme Audit Office, did not arise from urgent situations. Over PLN 338 million was allocated to these tasks.
46. The Supreme Audit Office assesses that in 2023, funds from the general reserve of the State budget were, as a rule, allocated in accordance with the applicable legal provisions. However, the Supreme Audit Office notes that funds for financing some tasks, which were allocated from the general reserve, should have been planned in the appropriate budget sections of the respective administrators. Furthermore, the criteria for the allocation of funds from this reserve were unclear.
47. The Supreme Audit Office notes that allocating funds from the general reserve to tasks whose financing should have been planned in the appropriate budget sections from the outset limits the ability to use this mechanism in unforeseen situations requiring immediate support, which should be the primary function of the general reserve. This also deprives the Parliament of the opportunity to debate and influence the allocation of these public funds.
48. On 28 December 2023, just three days before the end of the fiscal year, the Minister of Finance created two specific reserves, including a reserve of PLN 236.7 million to finance the payment of increased remuneration referred to in Article 10a of the Act on specific solutions serving the implementation of the Budget Act for 2023, and a reserve of over PLN 5 billion for a contribution to the COVID-19 Countermeasure Fund. As a result of this increase, the specific reserves of the State budget grew by PLN 5.3 billion to PLN 70.7 billion.
49. The specific reserve for the contribution to the COVID-19 Prevention Fund was created by order of the Prime Minister to finance compensation payments for the protection of gas, electricity, and heat consumers which, in the opinion of the Supreme Audit Office, were not directly related to countering COVID-19.
50. The specific reserves of the State budget were allocated in the amount of PLN 52.1 billion, or 73.6% of the revised plan. At the same time, only 36.4% of the specific reserves of the European funds budget were allocated. None of the PLN 26.8 billion planned for expenditures under the national recovery and resilience plan was utilised.

²⁴ Including in the *Information on the general reserve and specific reserves of the State budget included in the Budget Act for 2023 adopted by the Sejm of the Republic of Poland* and in letters sent in 2023 to the Chancellery of the Prime Minister regarding the allocation of general reserve funds by the Prime Minister.

²⁵ In particular, in letters informing the administrators of budget sections or entities offering to carry out public tasks about the refusal to grant funds from the general reserve.

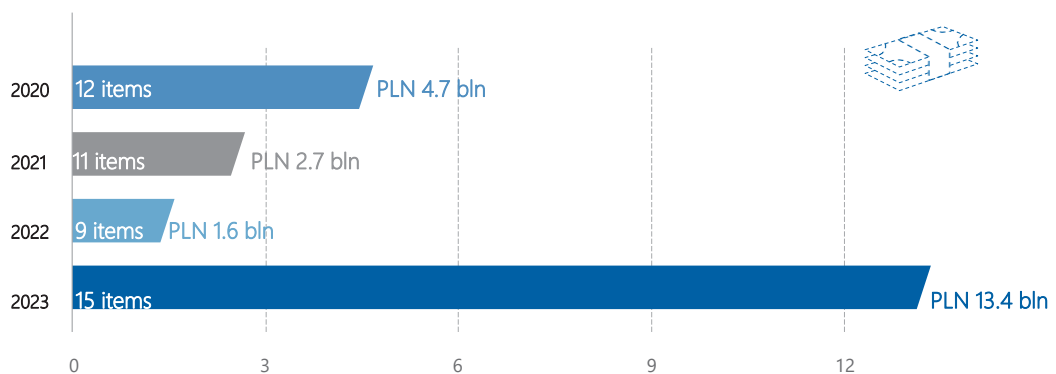
Infographic 8. Specific reserves of the State budget and of the budget of European funds in 2023



Source: own elaboration of the Supreme Audit Office based on the results of the audit in the Ministry of Finance.

51. In 2023, the reallocation of funds planned in specific reserves was unprecedented. The purpose of the entire or partial specific reserves amounting to PLN 13.4 billion was changed, compared to PLN 1.6 billion the previous year and PLN 2.7 billion in 2021.

Infographic 9. Changes in the allocation of specific reserves in 2020–2023



Source: own elaboration of the Supreme Audit Office based on the results of the audit in the Ministry of Finance.

52. Out of the 66 specific reserves planned in the State budget: one reserve remained entirely unallocated, funds from five reserves were only released following a change in their purpose, and in the case of 11 other reserves, no more than half of the funds were allocated for the purposes specified in the Budget Act.

53. According to the Supreme Audit Office, funds for initiatives known at the time of drafting the Budget Act or its amendment, such as the additional annual benefit for pensioners, known as the 14th pension, or the supplementation of funds for police expenditures, should have been planned directly in the appropriate budget sections, rather than being financed from specific reserves after changing their purpose.

54. Based on the samples examined, the Supreme Audit Office’s assessment is that the Minister of Finance has generally dealt properly, i.e., in accordance with the law, reliably, and without undue delay, with the following requests:
 - to release the funds from specific reserves,

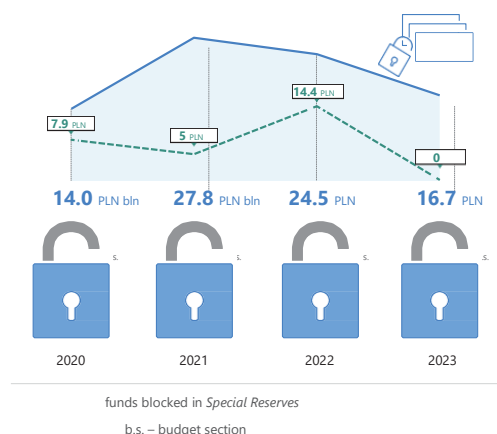
KEY FINDINGS AND CONCLUSIONS

- to provide assurance on the financing or co-financing of tasks,
- to approve increases or decreases in capital expenditure,
- to increase the financial plans of administrators from the general reserve on the basis of orders of the Prime Minister and resolutions of the Council of Ministers.

The actions of the Minister of Finance concerning two requests for funds from specific reserves were deemed unreliable. The irregularities involved responding to a request from the Minister of Infrastructure only three months after it had been submitted and issuing a decision based on a flawed request from the Minister of Interior and Administration, which resulted in an increase in the expenditure plan of the *Internal Affairs* section within budget classifications that made it impossible to legally spend the allocated funds for the purpose indicated in the request.

55. During 2023, planned State budget expenditures totalling PLN 16.7 billion were blocked in 103 budget sections. This amount was lower than in 2021 and 2022.

Infographic 10. Planned expenditure blocked in 2020–2023



Source: own elaboration of the Supreme Audit Office based on the results of the audit in the Ministry of Finance.

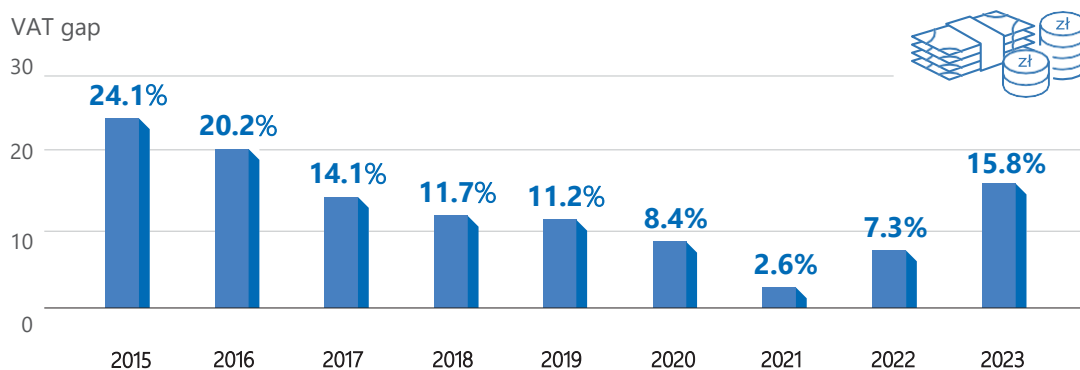
56. The total amount of planned expenditures for which the Supreme Audit Office found irregularities or raised concerns about their blocking exceeded PLN 300 million.
57. In 2023, the Minister of Finance issued 319 decisions ensuring the funding of tasks from the State budget and the budget of European funds for the current and future years, amounting to over PLN 6.5 billion.
58. The spending reviews conducted so far have not contributed to strengthening the State budget planning process nor have they impacted the efficiency of public spending.
59. The Minister of Finance did not include a draft Council of Ministers' regulation on the expenditure review in the Council of Ministers' legislative and programming work plan until January 2024, although the regulations enabling the adoption of this act enter into force on 1 July 2023. The excessively long preparation of the draft regulation prevented the start of spending reviews under the new rules from the beginning of 2024.

60. According to the Supreme Audit Office, it would be appropriate to consider changing the approach to expenditure reviews conducted by the Ministry of Finance. These reviews should primarily aim to identify areas of state activity where savings can be achieved and fiscal space expanded to fund new public tasks. This would eliminate the need for proportionate reductions in expenditures across various budget sections.

State budget and European funds budget revenues

61. State budget revenues were 4.6% lower than those assumed in the amended Budget Act. The shortfall in State budget revenues was primarily due to the underperformance of tax revenue forecasts, which amounted to PLN 506.9 billion, compared to the planned PLN 536.8 billion. Notably, revenues from value-added tax (VAT) were 10.5% lower than forecasted, and revenues from corporate income tax were 12.5% lower. The VAT gap significantly increased, reaching its highest level since 2016, according to preliminary estimates by the Ministry of Finance.

Infographic 11. VAT gap in the years 2015–2023 according to estimates by the Ministry of Finance



Source: own elaboration based on the data of the Ministry of Finance presented in the Multiannual State Financial Plan for 2024–2027, April 2024.

A significant economic downturn was one of the main reasons for the underperformance of the tax revenue forecast. Additionally, a key factor was the high level of VAT refunds made in the last month of 2023. Although the statutory deadline for some of these refunds was in 2024, the Minister of Finance decided to make the payments earlier. In December 2023, tax authorities refunded PLN 29.6 billion to businesses, which was PLN 12.3 billion higher than the average from January to November 2023, and PLN 12.2 billion higher than in December 2022. This means that the underperformance of the State budget revenue forecast was partly due to the decision of the Minister of Finance, and not solely due to factors beyond his control.

62. Despite the underperformance of the forecast, tax revenues in 2023 were 8.9% higher than in the previous year. This increase was partly due to the reinstatement of excise tax rates and most VAT rates that had been reduced in 2022 as part of the anti-inflation shields. However, the most significant increase among tax revenues was in personal income tax, which was 34.6% higher than in 2022. This was due both

to the high growth rate of the wage bill and pensions and to the increased share of the State budget in the revenues from this tax. It should be noted that in 2022, local government units were provided with additional funds amounting to PLN 13.7 billion from the share of personal income tax revenues, which was at the expense of reducing the State budget's share of these revenues. In 2023, this situation did not occur.

There were also negative factors affecting the performance of tax revenues in the year under review. The balance of the annual settlement of personal income tax for 2022 was significantly less favourable for the public finance sector (by PLN 13.8 billion, including PLN 6.9 billion for the State budget) compared to the balance for 2021. This outcome was mainly due to the settlement of taxpayers according to the progressive tax scale. The overpayments declared by this group of taxpayers in their 2022 returns amounted to PLN 23.9 billion, an 81% increase from the previous year, while the amount due for payment, PLN 2.8 billion, was nearly 36% lower. This was a consequence of the systemic changes introduced in 2022. The Supreme Audit Office negatively assessed the implementation of tax changes under the *Polish Deal* programme. The largest change in the tax system in 30 years was introduced hastily, causing chaos in the tax system. The designed and subsequently enacted regulations were not preceded by adequate analyses. Consequently, they required immediate and extensive corrective actions. Additionally, taxpayers and payers were not given sufficient time to prepare for the implementation of the new regulations, as the *vacatio legis* period was only 38 days.

63. Non-tax revenues amounted to PLN 63.7 billion, which was 73.2% higher than the amount collected the previous year. This increase was primarily due to higher State budget revenues from the sale of GHG emission allowances. These revenues totalled PLN 18.3 billion, whereas, in the previous year, only PLN 6.2 billion was transferred to the State budget from this source, with an additional PLN 9 billion allocated to the COVID-19 Prevention Fund. In 2023, this situation did not occur.

In 2023, the level of tax arrears remained largely unchanged compared to the end of the previous year, amounting to PLN 107 billion. Enforcement authorities collected PLN 6.6 billion in tax arrears, a similar amount to that collected in the previous year. At the same time, due to the statute of limitations, PLN 7.7 billion in overdue taxes was written off, and the amount of current tax arrears decreased by 12.7% in 2023. As in the previous year, three-quarters of overdue receivables were tax arrears older than five years.

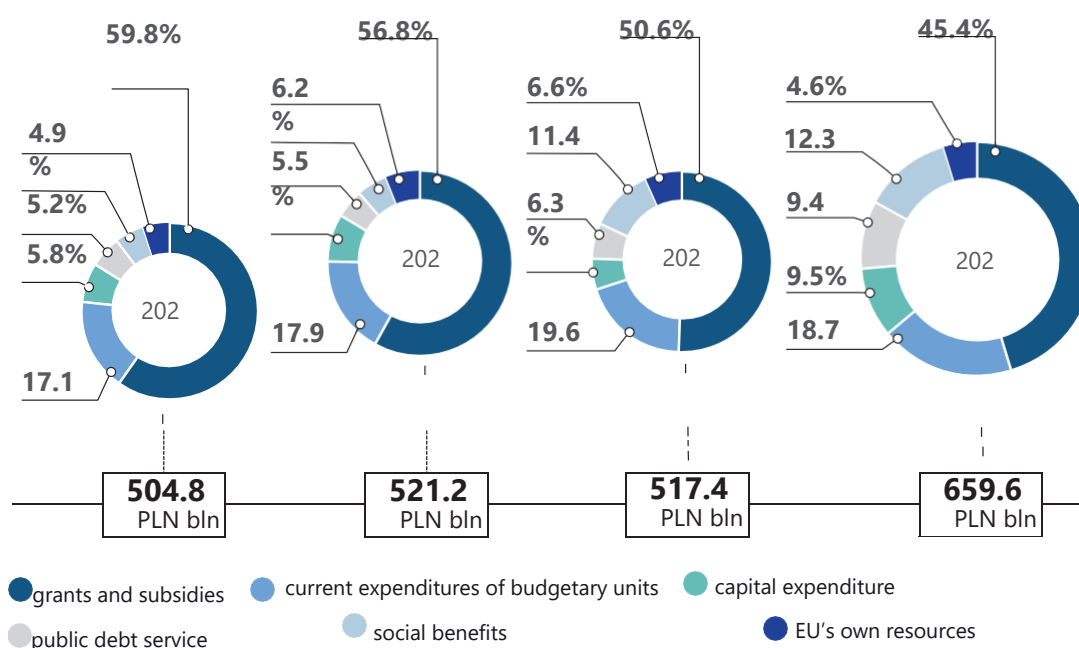
64. Revenues of the budget of European funds amounted to PLN 76.1 billion, which was 4.6% higher compared to 2022. They accounted for 71.1% of the planned budget as outlined in the Budget Act. Revenues could have been significantly higher, but no funds were obtained for the implementation of the national recovery and resilience plan (NRRP) – under the Budget Act, planned revenues from this source were expected to be PLN 26.8 billion. If these funds are excluded, the execution rate of the European funds budget revenue plan would have been 94.8%.

Between 2014 and 2023, Poland remained the largest beneficiary of EU assistance. Among the Member States that joined the European Union since 2004, Poland was the largest recipient of funds for the implementation of cohesion policy and the rural development programme, as well as the main recipient of direct payments under the common agricultural policy.

State budget and European funds budget expenditure

65. State Budget expenditures in 2023 amounted to PLN 659.6 billion, an increase of PLN 142.2 billion (or 27.5%) compared to the previous year. The increase in expenditures occurred across most economic categories. *Subsidies and grants* increased by PLN 37.8 billion, *capital expenditures* by PLN 34.7 billion, *public debt service* expenditures by PLN 29 billion, and both *social benefits* and *current expenditures of budgetary units* rose by PLN 22.3 billion. The only decrease was in the group of the *EU's own resources*, which fell by PLN 4 billion.

Infographic 12. State budget expenditures by economic groups in 2020-2023



Source: own elaboration of the Supreme Audit Office based on the results of the audit in the Ministry of Finance.

66. Subsidies and grants continued to dominate State budget expenditures, amounting to PLN 299.8 billion. The second largest category of State Budget expenditures was *current expenditures of budgetary units*, totalling PLN 123.6 billion. In this structure, the share of *public debt service* expenditures increased significantly, by 3 percentage points, and the share of *capital expenditure* increased by 4.1 percentage points.

67. A detailed audit was conducted on subsidies and grants amounting to PLN 57.1 billion and expenditures made in other economic categories amounting to PLN 55.9 billion. Irregularities were found in the execution of State budget and European funds budget expenditures totalling PLN 4.2 billion, representing 3.7% of the expenditures examined. Similar to the previous year, the majority (over 77%) of this amount consisted of irregularities in the expenditure of funds by the Armament Agency within the *National Defence* section. Significant irregularities were also found in expenditures related to promotional and advertising activities. These included increased and often unnecessary spending on promotional and informational activities during an election year, including the use of public funds for actions

KEY FINDINGS AND CONCLUSIONS

that bore the hallmarks of election campaigns by the voivodes of Opolskie and Warmińsko-mazurskie Voivodeships, who were candidates in the parliamentary elections.

68. The lack of financial security for police units in the Budget Act and its amendment resulted in the financing of basic police expenditures, known already at the planning stage, from specific reserves. In 2023, a total of 642 changes were made to the financial expenditure plan of the National Police Headquarters (a second-level administrator) and at least 3,266 changes to the plans of 18 audited third-level administrators. In the plan of the National Police Headquarters—a third-level administrator—funds were included in budget classification chapters that were ultimately not spent by this unit and served as a kind of ‘reserve’ for supplementing the financial plans of provincial police headquarters and the Metropolitan Police Headquarters during the year. In 2023, liabilities amounting to at least PLN 250 million, due to the underestimation of the police budget, were settled late. This situation occurred despite extending payment deadlines in at least 2,000 cases. Settling liabilities after the deadline resulted in the payment of interest on late payments amounting to PLN 1 million. The failure to align the financial plans of the police with actual needs resulted in 97 contracts worth PLN 22.7 million being signed and at least PLN 6.6 million being spent without the necessary funds being included in the financial plans of the units executing these transactions.
69. European funds budget expenditures in 2023 amounted to PLN 75.1 billion. The expenditure plan for this budget was fulfilled at only 60.9%, significantly impacted by the non-execution of expenditures planned for the implementation of the national recovery and resilience plan (NRRP). If these expenditures are excluded, the execution rate of the European funds budget expenditure plan would have been 77.9%. The largest share of these expenditures was dedicated to completing the implementation of national and regional operational programmes under the 2014-2020 Partnership Agreement, amounting to PLN 47.3 billion. Compared to 2022, expenditures on national operational programmes were 0.9% higher, while expenditures on regional programmes were 3.4% lower. The second significant expenditure item in the budget of European funds was the common agricultural policy spending, which amounted to PLN 19.8 billion. The execution of expenditures under the common agricultural policy was 15.1% lower than in 2022.

Expenditures on the implementation of national and regional operational programmes under the 2021–2027 Partnership Agreement, i.e., those incurred under the current financial perspective of the European Union, amounted to only PLN 4.4 billion.

70. By the end of 2023, the total number of contracts signed with beneficiaries and decisions issued for project funding under the 2014-2020 Partnership Agreement amounted to 103,300. The amount of funding from European Union resources reached PLN 363.1 billion, which represented 103.6% of the funds allocated to Poland for the years 2014-2020²⁶. The total eligible expenditures reported in certifications and expenditure declarations submitted to the European Commission and in requests for the 2014-2020 period amounted to

²⁶ This indicator results from over-contracting, which involves signing contracts for amounts exceeding the funds allocated to Poland by the European Union. This approach is used because some projects for which contracts have been signed are not implemented, or the European Commission disputes some of the expenditures for which funds have been allocated. In such cases, the released EU funds are not lost but can be reallocated to finance other projects.

KEY FINDINGS AND CONCLUSIONS

PLN 347.1 billion, representing 99% of the funds allocated to Poland. Compared to the performance as of 31 December 2022, the certification level was 11.8 percentage points higher²⁷.

71. By the end of 2023, the total number of contracts signed with beneficiaries and decisions issued for project funding under the 2021-2027 Partnership Agreement amounted to 1,200. The funding granted from European Union resources reached PLN 30.7 billion, representing 10.2% of the funds allocated to Poland for the years 2021–2027. Meanwhile, the total amount of eligible expenditures certified to the European Commission (the EU contribution) represented only 0.01% of the funds allocated to Poland. The Supreme Audit Office emphasises the low level of contracting and, particularly, certification under the 2021–2027 Partnership Agreement²⁸. The Office emphasises the need for effective actions to accelerate the level of contracting and certification of the planned funds within the 2021–2027 Financial Perspective.

Employment and salaries

72. Expenditures on salaries in state budgetary units in 2023 amounted to PLN 62.4 billion, representing a 15.4% increase compared to the previous year. The average monthly salary in these units reached PLN 8,639. Compared to 2022, the average monthly salary increased by 13.2%, although this increase varied significantly across different budget sections, ranging from 0.6% in the *Energy* section to 28% in the part on the *State Committee for Combating Sexual Exploitation of Minors under the age of 15*.
73. Since 2020, the average monthly salary of individuals not covered by the multiplier salary systems employed in state budgetary units has increased by 35.8%. In 2023, it reached PLN 7,664.5. During the same period, the average monthly salary of individuals covered by multiplier salary systems in these units increased by 27.6%, reaching PLN 9,012.1 in 2023.
74. The audit results indicate that salaries in state budgetary units were also financed:
 - from State budget funds not included in the so-called wage fund – this applies to professional soldiers and officers, for whom PLN 2.7 billion was spent from these funds in 2023;
 - from other sources not included in the State budget or the budget of European funds (PLN 90 million).

Annex 6 to the Budget Act: *Salaries in state budgetary units* does not cover the entirety of salaries in the state budgetary sphere, including, among others, the salaries of employees in offices of public authorities, control bodies, law enforcement, as well as courts and tribunals. It also does not include salaries funded from non-budgetary sources or benefits paid to officers and professional soldiers in connection with their service. Since 2010, the Supreme Audit Office has pointed out the need to present full salary data in the Budget Act and in the State budget execution report.

²⁷ Certification of expenditures – the submission of expenditure certifications to the European Commission. Based on these certifications, the European Commission reimburses Poland for investment expenditures. Eligible expenditure – expenses incurred by an entrepreneur during project implementation that may be reimbursed under funding from the European Commission. These expenditures must be accepted and deemed compliant with the guidelines of the project or financial programme.

²⁸ Contracting – the process of signing contracts for project financing.

Financing of the State budget's net borrowing needs

75. In 2023, there was a significant increase in the net borrowing needs of the State budget compared to previous years. While in 2020 these needs amounted to PLN 50 billion, in 2021 and 2022 they were negative, at PLN -0.8 billion and PLN -5.6 billion, respectively, meaning that there were no actual net borrowing needs for the State budget in those years. However, in 2023, these needs rose to PLN 137.6 billion. This substantial increase in net borrowing needs was driven by three factors: a relatively high State budget deficit, a decrease in the amount of PLN deposits transferred by entities within the public finance sector and some entities outside this sector, which are used by the Minister of Finance to finance budgetary expenditures and outflows, and a decrease in the inflow of foreign currency funds from the European Union, coupled with the need for the Minister of Finance to ensure the financing of the European funds budget.

Infographic 13. State budget net borrowing needs and selected factors influencing their size in the years 2020–2023



Source: own elaboration of the Supreme Audit Office based on the results of the audit in the Ministry of Finance.

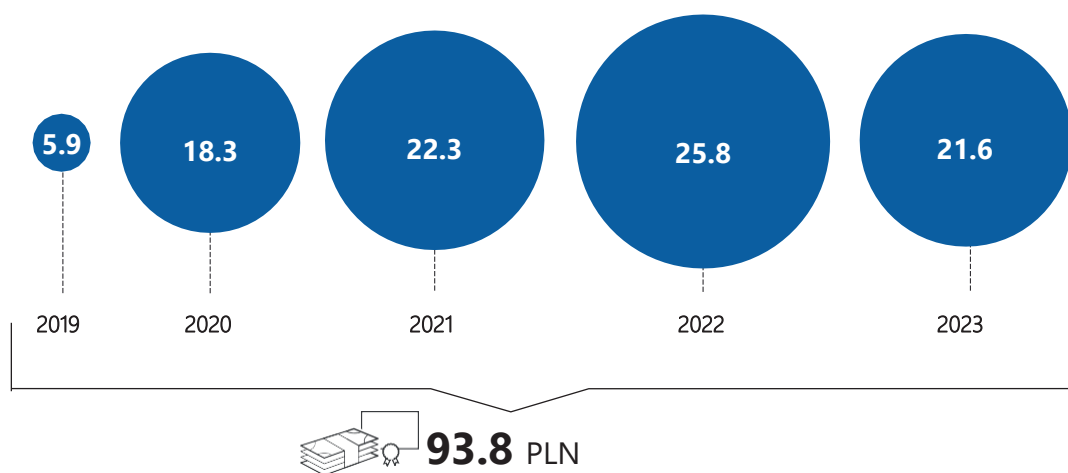
KEY FINDINGS AND CONCLUSIONS

76. The borrowing needs did not account for all expenditures on public tasks, including those incurred for off-budget funds established, entrusted, or transferred to Bank Gospodarstwa Krajowego to carry out certain public tasks. Transfers to these funds, made outside the State Budget, came from various sources, including bonds issued by Bank Gospodarstwa Krajowego, foreign loans, and contributions and loans from other funds. In 2023, these expenditures totalled PLN 68.8 billion. The borrowing needs also did not include the funds allocated for the implementation of tasks related to the national recovery and resilience plan. These tasks were financed by Polski Fundusz Rozwoju S.A. using its own resources which, however, will need to be reimbursed from the State budget or the budget of European funds. In 2023, the company spent PLN 5.1 billion on pre-financing the implementation of the development plan.

The borrowing needs also did not account for the financing of selected entities through the free transfer of Treasury securities. The entities specified in the 2023 Budget Act, the Act on specific solutions serving the implementation of the Budget Act for 2023, and other laws received Treasury securities with a nominal value of PLN 16.6 billion, and including the securities transferred to increase the statutory fund of Bank Gospodarstwa Krajowego, this figure rose to PLN 21.6 billion.

Between 2019 and 2023, the total nominal value of Treasury securities transferred free of charge to selected entities reached PLN 78.8 billion, and including the securities for Bank Gospodarstwa Krajowego, it amounted to PLN 93.8 billion.

Infographic 14. Treasury securities transferred free of charge in 2019–2023



● Nominal value of Treasury securities transferred free of charge to eligible entities

Source: own elaboration of the Supreme Audit Office based on the results of the audit in the Ministry of Finance.

The above transfers, made outside the account of the State budget's expenditures and outflows, amounted to a total of PLN 95.4 billion in 2023.

77. The Supreme Audit Office highlights the need for the Minister of Finance to prepare comprehensive information on the total expenditures for the implementation of State tasks, along with the costs of servicing

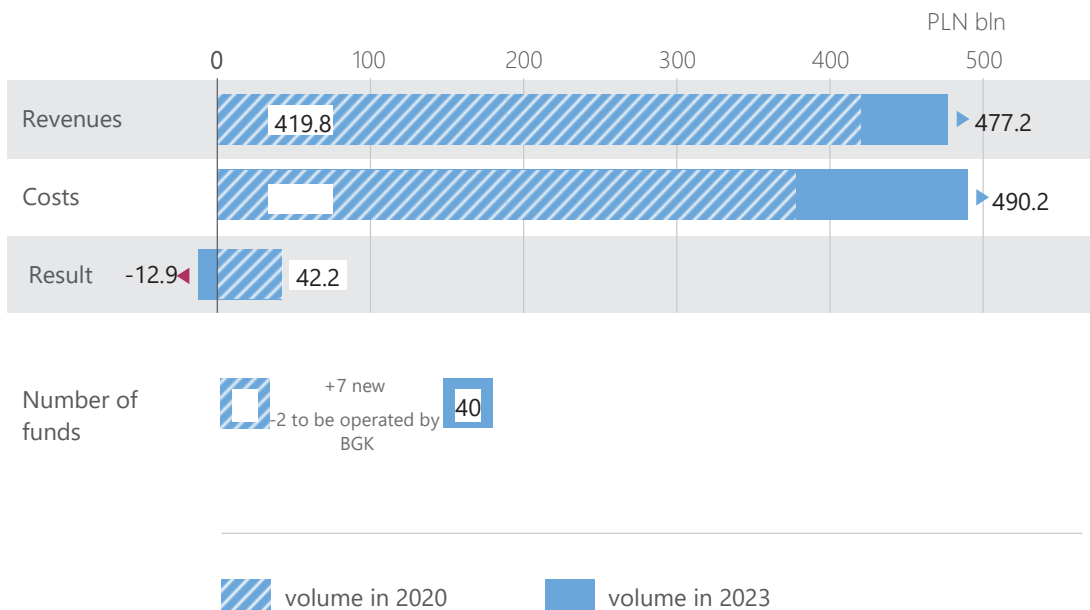
the liabilities to finance these tasks. This will provide the Parliament and the public with better oversight of public spending.

78. The Minister of Finance ensured the full and timely financing of the State budget's borrowing needs. This process proceeded in 2023 with no significant disruptions. The domestic market was the main source of funding for these needs. The financing process was significantly influenced by the high level of available Polish and foreign currency funds accumulated at the end of 2022, which covered 43.3% of the borrowing needs in 2023.
79. The average level of available funds in Polish and foreign currency accounts, which amounted to PLN 65.8 billion in 2023, guaranteed the coverage of gross borrowing needs for a period of four months. The cost of maintaining liquidity in 2023 was offset by income from the deposits of available funds placed in Bank Gospodarstwa Krajowego and the National Bank of Poland.
80. In managing the liquidity of the Polish zloty, the funds consolidated from other entities within the public finance sector and some entities outside this sector played a significant role. Despite a decrease of PLN 38.2 billion in the amount of these funds in 2023, the Minister of Finance still managed PLN 59.2 billion in consolidated PLN accounts by the end of the year. The funds obtained from this source were cheaper compared to funds raised through the issuance of Treasury securities, which was a positive aspect of PLN consolidation.
81. To manage foreign currency liquidity, the Minister of Finance utilised funds provided by the European Commission. These EU funds were used to settle the State Treasury's foreign currency liabilities without incurring costs for acquiring the foreign currency. In addition, the Minister of Finance converted funds transferred by the European Commission from euros into zlotys, using these funds to manage zloty liquidity, and subsequently transferred them to the revenue account of the EU funds budget, according to the needs reported by the entities implementing EU programmes.

Implementation of financial plans incorporated into the Budget Act

82. The practice of including sources of financing for State tasks in the financial plans of public finance sector entities appended to the Budget Act has been observed on a large scale. In 2023, the revenues and costs of these entities corresponded to 81% of total revenues and 73.4% of budget expenditures.
83. Between 2020 and 2023, seven new State special-purpose funds and two State legal entities were established. By 2023, there were 40 State special-purpose funds, 69 State legal entities as defined in Article 9(14) of the Public Finance Act, 10 executive agencies, and 11 budgetary economy institutions.

Infographic 15. Revenues, expenses and financial result of State special-purpose funds in 2020 and 2023



Source: own elaboration of the Supreme Audit Office based on audit results.

84. These entities generated revenues of PLN 526.6 billion, an increase of PLN 67 billion compared to 2022. Nearly one-fifth of these revenues came from the State budget and the European funds budget. Subsidies from the State budget and European Union funds totalled PLN 95.2 billion, with 77.2% of this amount allocated to the Social Insurance Fund and the Pension Fund.

Additionally, three State special purpose funds received payments from the State budget amounting to PLN 11.5 billion.

85. Another significant source of revenue for these entities was the PLN 6.7 billion transferred to two executive agencies from the COVID-19 Prevention Fund, the Aid Fund, and the Government Road Construction Fund.

86. In 2023, these entities incurred total costs of PLN 539 billion, which was PLN 65.3 billion higher than in 2022. As in the previous year, costs exceeded revenues by PLN 12.3 billion, primarily due to the negative balance of the Solidarity Fund, which recorded a deficit of PLN 20.4 billion.

87. The Supreme Audit Office would like to highlight the ongoing issue of financing public tasks from extra-budgetary institutions, which were not originally intended to fund such tasks. In 2023, this applied in particular to the Labour Fund and the Solidarity Fund.

The Solidarity Fund lacked permanent revenue sources to finance the so-called thirteenth and fourteenth pensions. To address this, it relied on payments from the State budget and loans from other State special-purpose funds. Specifically, the Fund secured two loans from the Demographic Reserve Fund in 2020 and 2023, totalling PLN 16.5 billion, and four loans from the Labour Fund in 2019–2020 and 2023, totalling PLN 16 billion. In 2023, the Solidarity Fund disbursed PLN 35.1 billion for this purpose, compared to PLN 22.3 billion in 2021 and PLN 23.1 billion in 2022. This method of

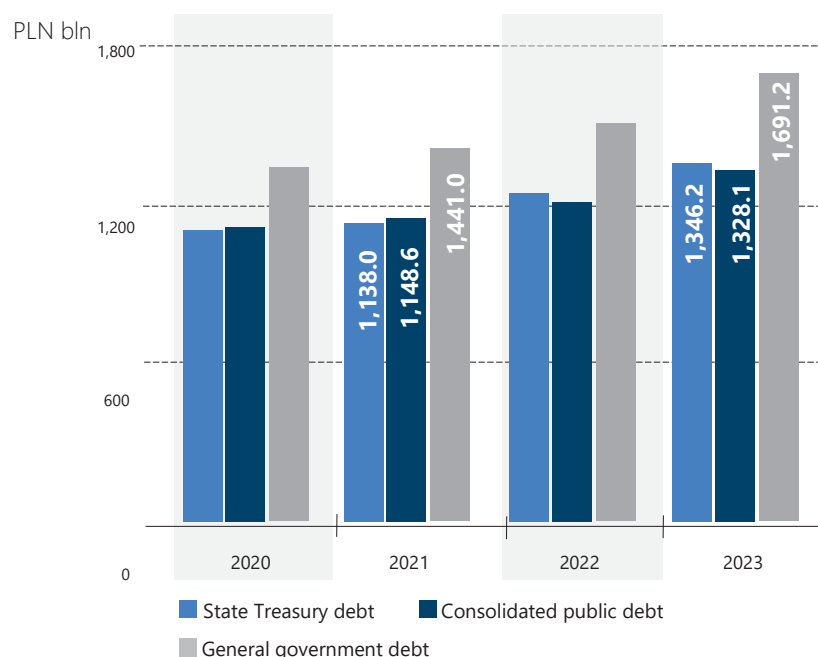
financing may negatively impact the Fund's liquidity and jeopardise its ability to fulfil its statutory tasks in the coming years.

88. In 2022–2023, the financing of other significant public tasks of economic and defence importance was also excluded from parliamentary scrutiny. These tasks were funded by two State special purpose funds, the Government Road Construction Fund and the Armed Forces Modernisation Fund, whose financial plans were annexed to the Budget Act. However, following the liquidation of these funds, the aforementioned tasks are now financed through funds managed by Bank Gospodarstwa Krajowego, whose financial plans are not included in the Budget Act.

State Treasury and public debt

89. In 2023, there was an increase in the amount of State Treasury debt, consolidated public debt calculated according to the national definition, and general government debt calculated according to the EU definition. However, the ratios of the first two volumes to gross domestic product (GDP) slightly decreased during the year, reaching 39.5% and 38.9%, respectively, by the end of 2023. As a result, the volume of consolidated public debt, when measured against GDP, moved further away from the 55% threshold specified in the Public Finance Act and the constitutional debt limit of 60% of GDP.
90. On the other hand, the ratio of general government debt to GDP increased by 0.4 percentage points, reaching 49.6%. Despite this increase, Poland ranked 12th among EU countries with the lowest ratio at the end of 2023. This value was also significantly below the average ratio for the 27 EU countries, which stood at 81.7% of GDP at the end of 2023. However, the Supreme Audit Office draws attention to the rate at which debt, calculated according to the EU definition, is accruing. In the White Paper on Public Finance, the Minister of Finance indicated that the 60% of GDP threshold could be exceeded as early as 2026. This is significant because the stabilising expenditure rule contained in the Public Finance Act refers to the reference values for the general government balance (minus 3% of GDP) and debt (60% of GDP) associated with the EU's excessive deficit procedure. Exceeding either of these reference values triggers an automatic correction mechanism that limits the rate of increase in expenditure for a specific financial year. Additionally, the Supreme Audit Office has, for many years, highlighted the need to unify the method of calculating consolidated public debt with the method of calculating general government debt to avoid having two different methods and different sizes of public debt at the same time.

Infographic 16. Amount of State Treasury debt, consolidated public debt, and general government debt in 2020–2023



Source: own elaboration of the Supreme Audit Office based on the results of the audit in the Ministry of Finance.

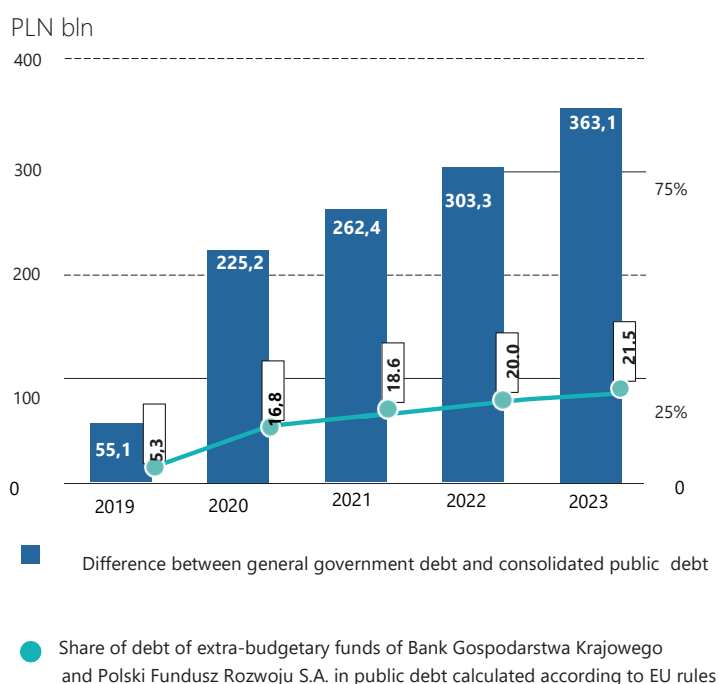
91. The increase in State Treasury debt by PLN 107.7 billion was primarily driven by the financing of the net borrowing needs of the State budget, amounting to PLN 137.6 billion. Other factors, such as the strengthening of the zloty at the end of 2023 and the utilisation of surplus zloty and foreign currency funds obtained through zloty and foreign currency consolidation, contributed to reducing the amount of State Treasury debt.
92. The level of State Treasury debt and consolidated public debt was not influenced by the debt of extra-budgetary funds operated by Bank Gospodarstwa Krajowego or the debt of Polski Fundusz Rozwoju S.A., which have been implementing selected public tasks since 2020²⁹. Since these entities are not part of the public finance sector as defined by the Public Finance Act, their liabilities are not included in the aforementioned categories of public debt. Instead, these liabilities are incorporated into the public debt calculated according to EU rules, specifically within the general government sector debt. As a result of the continued increase in the debt of these entities, the difference between the size of the general government debt and the consolidated public debt grew to PLN 363.1 billion³⁰ in 2023, accounting for 21.5% of the public debt calculated according to EU rules.

²⁹ The National Road Fund has been performing public tasks since 2004.

³⁰ In addition to the debt of extra-budgetary funds operated by Bank Gospodarstwa Krajowego and the debt of Polski Fundusz Rozwoju S.A. (PLN 348.7 billion), this amount also includes the debt of public enterprises within the general government sector, their receivables from Treasury bonds, loans, and borrowings granted by entities within the public finance sector, the volume of deposits in the account of the Minister of Finance, Treasury securities held by funds operated by Bank Gospodarstwa Krajowego, and other differences in entity and debt title classification.

93. Until 2019, the ratio of public debt calculated according to the EU definition to gross domestic product (GDP) in Poland was approximately 2–3 percentage points higher than the ratio calculated according to the national definition. This difference was mainly due to the indebtedness of the National Road Fund and other enterprises included in the general government sector. However, starting from 2020, this gap widened significantly, exceeding 10 percentage points by the end of 2023.

Infographic 17. Difference between general government debt and consolidated public debt in 2019–2023



Source: own elaboration of the Supreme Audit Office based on the results of the audit in the Ministry of Finance.

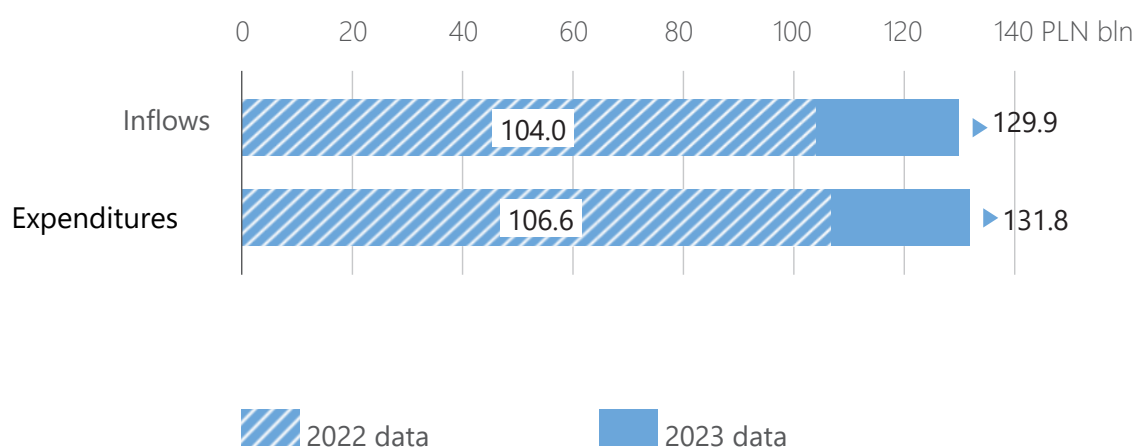
94. The redemption of bonds issued by Bank Gospodarstwa Krajowego (BGK) to provide funds for extra-budgetary funds, as well as the repayment of loans taken to finance them and the redemption of bonds issued by Polski Fundusz Rozwoju S.A., are all guaranteed by the State Treasury, including the ongoing costs of servicing these liabilities. However, the issuance of these guarantees of a total size of PLN 418 billion, as of the end of 2023, was not included in the limits set by the Budget Act, which means that Parliament has no control over the State Treasury's potential liabilities.
95. Bonds issued by BGK between 2020 and 2023 for the benefit of operated extra-budgetary funds, as well as bonds issued by Polski Fundusz Rozwoju S.A., are scheduled to be redeemed by these entities between 2024 and 2042. This redemption process will place a substantial burden on the State budget or public finance sector entities, which may need to subsidise the redemption of these bonds. Raising additional funds for this purpose could significantly strain the State budget, increasing future expenditures, the deficit, borrowing needs, and, consequently, public debt.
96. Financing public tasks through Polski Fundusz Rozwoju S.A. and funds operated by BGK, bypassing the State budget, allows for arbitrary adjustments to the State budget deficit.

97. Public tasks funded by Polski Fundusz Rozwoju S.A. and funds operated by Bank Gospodarstwa Krajowego should be financed directly from the State budget. It is crucial to emphasise that the Budget Act serves as the foundation for the State's financial management within a given financial year. Moreover, there are economic reasons for including these expenditures in the State budget. Notably, the total cost of servicing bonds issued by these entities — in the case of BGK's bonds this pertains to bonds sold to the COVID-19 Prevention Fund, the Aid Fund, and the Armed Forces Support Fund — will be PLN 13.6 billion higher over the entire maturity period than the cost the State budget would incur to service Treasury securities. Additionally, the existence of multiple debt issuance centres leads to the fragmentation of the securities market, reducing the efficiency of fundraising by the Minister of Finance.
98. The principles of public debt management are outlined in the strategy for managing State Treasury debt, which impacts consolidated public debt. This strategy sets the objective for the debt manager: to minimise debt servicing costs over a long-term horizon, within acceptable risk constraints. The above-mentioned strategy is, alongside the Budget Act, a fundamental document for public finance management, adhering to the principles of unity, completeness, detail, and transparency.
99. The Supreme Audit Office noted that the strategy, in its substantive part, does not address the debt incurred by funds managed by Bank Gospodarstwa Krajowego for the purpose of financing specific State tasks. It also does not cover the debt of Polski Fundusz Rozwoju S.A. resulting from the issuance of bonds for the implementation of financial and anti-crisis shield programmes. By the end of 2023, the debt of these entities amounted to PLN 348.7 billion, representing 20.6% of the general government debt. For this portion of the debt, the Minister of Finance did not establish any parameters in the debt management strategy concerning refinancing risk, interest rate risk, exchange rate risk, liquidity risk, or other constraints and risks.
100. Furthermore, the Minister of Finance approved the issuance of bonds by these entities despite knowing that the cost of servicing these bonds was higher than the cost of servicing Treasury securities. According to the Supreme Audit Office, this indicates that the primary objective of the strategy — minimising debt servicing costs — was not achieved. This is particularly critical as most of the funds in question do not generate their own revenue, meaning the State budget will bear the cost of servicing these bonds.
101. The Supreme Audit Office recommends that Parliament should be fully informed about the total public debt, the methods and parameters of its management, as well as the costs associated with its servicing. The Supreme Audit Office believes there is a need for these issues to be properly regulated.

Funds at Bank Gospodarstwa Krajowego

102. In 2023, a portion of public tasks continued to be financed through the 20 funds operating at Bank Gospodarstwa Krajowego, which the bank refers to as flow funds. The ratio of the expenditure of these funds to gross domestic product increased from 3.5% in 2022 to 3.9% in 2023, while the ratio of this expenditure to that of the State budget remained comparable at 21% and 20%, respectively.

Infographic 18. Inflows and expenditures of funds operated by Bank Gospodarstwa Krajowego in 2022–2023



Source: own elaboration of the Supreme Audit Office.

103. The total inflows of funds operated by Bank Gospodarstwa Krajowego amounted to PLN 129.9 billion, with expenditures reaching PLN 131.8 billion. Both inflows and outflows of these funds were higher compared to 2022, with inflows increasing by 24.9% and expenditures by 23.6%. Notably, the inflows from the sale of bonds issued by Bank Gospodarstwa Krajowego and funds transferred by other entities of the public finance sector more than doubled in 2023, amounting to PLN 40.9 billion and PLN 27.4 billion, respectively. However, these funds did not have fixed, predictable sources of inflows in the long term. Three main items — payments from the State budget amounting to PLN 22.2 billion, funds transferred by other public finance sector entities, and debt titles amounting to PLN 56.6 billion — accounted for almost 82% of total fund inflows. Payments from the State budget in 2023 were nearly half of what they were in the previous year.

104. The structure of the funds operating at Bank Gospodarstwa Krajowego, based on inflows and outflows, was dominated by five funds: the COVID-19 Prevention Fund, the Armed Forces Support Fund, the National Road Fund, the Aid Fund, and the Government Road Construction Fund. These funds collectively received PLN 123.1 billion in 2023, representing 94.8% of the total receipts of all funds, and they accounted for PLN 124.6 billion in expenditures, which is 94.5% of the total fund expenditures. The COVID-19 Prevention Fund alone accounted for more than 45% of the total expenditures of these funds in 2023. Contrary to the original assumptions³¹, this fund financed a broad range of tasks, including some not directly related to counteracting COVID-19, such as providing compensation to protect electricity consumers.

³¹ During the establishment of the COVID-19 Prevention Fund, it was emphasized that the fund was intended to be a temporary measure to address the emergency situation caused by the COVID-19 outbreak.

KEY FINDINGS AND CONCLUSIONS

105. In 2023, expenditure on Bank Gospodarstwa Krajowego's remuneration for operating the funds increased by PLN 16.3 million, reaching PLN 74.6 million. This amount represented 0.1% of the total expenditure of the funds.
106. The total debt of the funds at the end of 2023 amounted to PLN 277 billion, marking an increase of nearly 21% compared to the balance at the end of 2022. The debt structure was predominantly composed of bonds, with the debt in bonds amounting to PLN 213.9 billion by the end of 2023, an increase of 21.6% from the previous year. The COVID-19 Prevention Fund had the largest bond debt, which grew by 14.5% compared to the end of 2022.
107. In 2023, two funds — the Railway Fund and the Government Housing Development Fund — were injected with government bonds worth PLN 2.3 billion, nearly three times the value of government bonds transferred in the previous year.
108. At the end of 2023, the receivables of funds operated by Bank Gospodarstwa Krajowego amounted to PLN 24.1 billion. The highest receivables balances were recorded in the Government Road Construction Fund (PLN 4.9 billion), the Armed Forces Support Fund and the Railway Fund (PLN 4.6 billion each), and the National Road Fund (PLN 2.9 billion).
109. By the end of 2023, nearly PLN 30 billion remained in the accounts of the funds operated by Bank Gospodarstwa Krajowego, indicating that these funds might be oversubscribed relative to their actual needs. Consequently, the State budget was not being fully charged with the expenditures on these accounts.
110. The operation of numerous flow funds within Bank Gospodarstwa Krajowego conflicts with the principles of transparency and unity in public finances. Public finances should be presented in a clear and transparent manner, ensuring a well-defined division of tasks and competences. The presence of these funds contradicts the principle of unity, which dictates that budget revenues and expenditures should be covered by a single legal act, and the principle of openness, which involves informing the public about the Budget Act's development and execution. The violation of these principles led to the 2023 State budget result not reflecting the true financial imbalance of the State. Additionally, a significant portion of public funds remained outside the control of Parliament, the Minister of Finance, and public scrutiny.
111. In 2023, the Minister of Finance proposed reforms to enhance public accessibility to the funds' financial plans and performance reports and to reduce the tasks financed from the COVID-19 Prevention Fund. However, these proposals did not pass the legislative process, and no new legislative initiatives were introduced. The Supreme Audit Office acknowledges the Minister of Finance's initiative at the beginning of 2024 to seek permission from all fund administrators to publish, on the Bank Gospodarstwa Krajowego's website, the financial plans of the funds, including amended plans and reports on financial plan implementation, except for classified information. While the initiative to publish these documents is commendable, the Supreme Audit Office emphasises that the primary goal should be to ensure that public tasks are funded from the State budget, not from extra-budgetary funds, in accordance with the principle of non-funding.
112. The audit conducted by the Supreme Audit Office revealed that there were no effective mechanisms in place to ensure the efficient use of the COVID-19 Prevention Fund and the Aid Fund. The irregularities identified were partly due to unreliable operations.

The Chancellery of the Prime Minister³² failed to specify the catalogue of costs that could be included in the commission remuneration of Bank Gospodarstwa Krajowego for operating the COVID-19 Prevention Fund. It did not establish mechanisms for controlling the amount of these costs, did not perform this control, and did not verify the legitimacy of including the costs of the promotion and information campaign of the *Strategic Investments Programme*. This campaign involved the installation of 'benches' stylised in the shape of Poland, costing a total of PLN 4.3 million. These costs were included in the monthly remuneration of Bank Gospodarstwa Krajowego for operating the COVID-19 Prevention Fund.

The Minister of Education and Science³³ did not exercise effective supervision over the implementation of the 'Laboratoria Przyszłości' [Laboratories of the Future] programme, which was financed from the COVID-19 Prevention Fund. As a result, after two years of implementation and the expenditure of over PLN 1 billion, there was no information on the extent to which the programme's objectives had been achieved.

Regarding the financing of tasks from the Aid Fund³⁴, the material scope of the mandated tasks was not established, nor was the amount of funds that Bank Gospodarstwa Krajowego could have spent on implementing an information campaign aimed at informing the public about the consequences of Russia's attack on Ukraine, in particular about the humanitarian crisis and the challenges posed by the wave of war refugees arriving in Poland and other countries. Moreover, there was no documentation to estimate the PLN 50 million included in the 2022 financial plan of the Aid Fund for financing this campaign. Furthermore, no indicators were defined to assess the effectiveness of the activities commissioned for the information campaign. This lack of indicators made it impossible to monitor the campaign's progress or to reliably assess whether the objectives were achieved and whether the expenditure incurred by Bank Gospodarstwa Krajowego was purposeful and effective.

Additionally, there was no assessment of the impact of the tasks financed from the Aid Fund³⁵ on activities to assist Ukrainian citizens, and no obligation was placed on the administrators of the Fund's auxiliary accounts to report on the outcomes of these activities. It was also found that, despite efforts, the flow of funds for some tasks related to assisting Ukrainian citizens was not fully effective. In some local government units, the funds transferred by the voivodes were insufficient to cover current aid expenses, forcing these units to use their own resources. On the other hand, local government units, through the voivodes, returned significant amounts of unused funds to the fund administrator or held them in bank accounts.

³² Audit I/23/001/KBF – *Selected costs of Bank Gospodarstwa Krajowego's activities, including in the financing of information and promotional tasks and social campaigns, and the activities of the Chancellery of the Prime Minister in the commissioning and settlement of tasks entrusted to Bank Gospodarstwa Krajowego.*

³³ Audit P/23/083/LSZ – *Implementation of the 'Laboratories of the Future' Programme.*

³⁴ Audit I/23/001/KBF, *op. cit.*

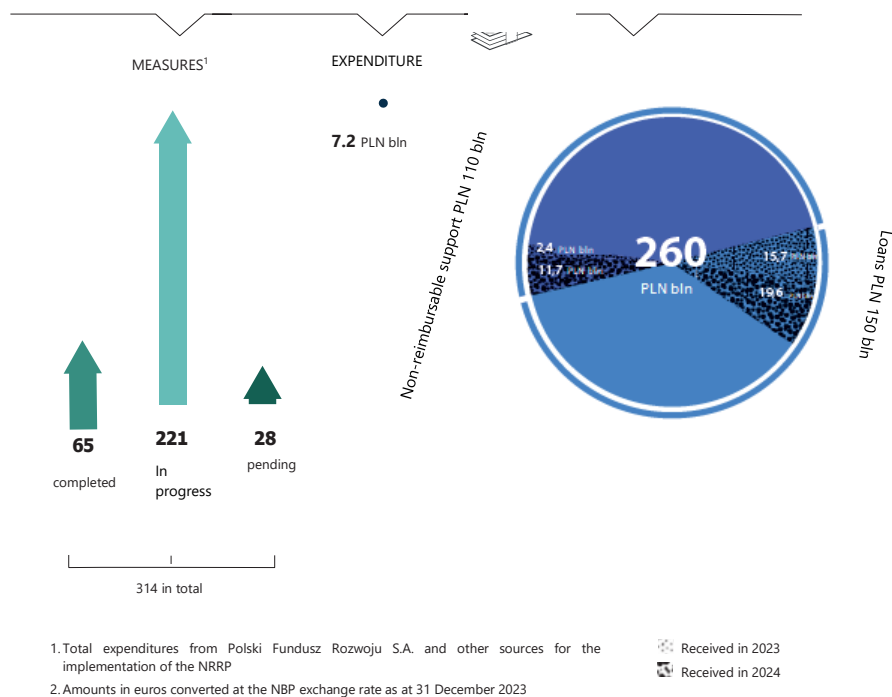
³⁵ Audit P/23/003/KAP – *Activities of selected public administration bodies to assist Ukrainian citizens in connection with the armed conflict on the territory of that country.*

KEY FINDINGS AND CONCLUSIONS

Implementation of disbursements under the national recovery and resilience plan (NRRP) by Polski Fundusz Rozwoju S.A.

113. To implement the NRRP³⁶, Poland is undertaking 56 investments and carrying out 55 reforms. These activities aim to achieve 314 milestones and target values, including 222 measures in the grant component and 92 in the loan component.

Infographic 19. Progress of the national recovery and resilience plan implementation



Source: own elaboration of the Supreme Audit Office based on audit results.

114. The financial servicing of investments financed with non-reimbursable funds under the NRRP was entrusted to Polski Fundusz Rozwoju S.A. The company disburses funds to the final recipients of the support and to the entities responsible for implementing the investments. For the execution of this task, it receives remuneration from the State budget, which amounted to PLN 9.3 million in the years 2022–2023, with more than three-quarters of this sum paid in 2023.

115. The financing method for these investments is based on the provisions of the Act of 6 December 2006 on the Principles of Development Policy³⁷. However, this method conflicts with the principles of openness, transparency, and unity of the budget. It is yet another mechanism for financing significant public tasks outside the State budget, despite the fact that these tasks are performed by budgetary units.

116. The Supreme Audit Office notes that the expenditures incurred by Polski Fundusz Rozwoju S.A. for the 'pre-financing' of the NRRP are not reported by any budgetary unit as a liability of the State Treasury to the company.

³⁶ Following revision accepted by the European Commission on 21 November 2023 and adopted by the Council (EU) on 8 December 2023.

³⁷ Dz. U. [Journal of Laws] of 2024, item 324.

This amount does not appear in the records maintained by these units, nor in the reports they submit. Consequently, this liability is also not included in the calculation of the State Treasury's debt. In 2023, Polski Fundusz Rozwoju S.A. spent PLN 5.1 billion on 'pre-financing' the NRRP, compared to PLN 0.1 billion in 2022.

117. The Minister of Development Funds and Regional Policy, as the coordinating institution for the NRRP, took steps to prepare for the use of EU funds, but these measures were not fully effective. Despite having a system for collecting data and reporting on the NRRP, the Ministry of Development Funds and Regional Policy lacked knowledge of the amounts spent on individual investments. It also did not have reliable information on the committed amounts, such as the value of signed contracts, adjudicated competitions, or ongoing tenders and calls for proposals. Furthermore, the data collected in the IT system designed to support the NRRP were outdated and incomplete. The Supreme Audit Office found that monitoring of investments made under this plan was unreliable.
118. Individual ministers, acting as institutions responsible for the implementation of investments included in the NRRP, took various measures to execute these investments. However, the Supreme Audit Office found that these activities in six ministries were not fully effective, with significant irregularities identified in three. The Minister of Digital Affairs implemented an investment contrary to the rules adopted by the European Commission, resulting in expenditures of PLN 903.2 million that may be deemed ineligible. In the Ministry of Climate and Environment and the Ministry of Economic Development and Technology, omissions or delayed actions contributed to investment delays. In three other cases, despite actions being taken, the audited units were not fully prepared for the smooth implementation of the plan.
119. Between 2022 and 2023, 20.7% of the measures envisaged in the NRRP were achieved, 8.9% of the measures had not been undertaken, and the remaining measures were in the implementation phase. As of 31 December 2023, 36 measures (11.5%) were delayed. The Supreme Audit Office highlights significant delays in the preparation and implementation of the plan. The low level of commitment of the funds granted to Poland by the European Union poses a significant risk of these funds not being utilised by the deadline of 31 August 2026. A key reason for the delays in implementing the NRRP was the lack of funds available to pre-finance the tasks planned for financing through the loan component. Four units indicated that delays caused by the lack of funding sources could jeopardise the timely implementation of the development plan.

Public revenue and expenditure

120. In 2023, general government revenue amounted to PLN 1,420.3 billion, while expenditure reached PLN 1,591.4 billion. This resulted in a deficit of PLN 173.8 billion, significantly higher than the previous year's deficit of PLN 105.9 billion, and accounting for 5.1% of GDP.
121. The substantial growth in the general government deficit, observed for the second consecutive year, was primarily driven by a significant increase in public expenditure without a corresponding rise in public revenue. This imbalance was partly a consequence of the *Polish Deal* programme introduced in 2022, which led to a reduction in real personal income tax revenue. Given the increased spending needs of the State, the justification for such programmes may be questioned, particularly as Poland's public revenues are relatively low compared to other European Union countries.
122. A positive development was the increase in public investment expenditure, which reached 5% of GDP — the highest level since 2011. This increase was largely driven by local government capital expenditures, which rose by 43.5% compared to 2022. However, a potential barrier to sustained local government investment in the longer term is the decreasing operating surplus, which has declined for the second consecutive year.
123. In 2023, a significant portion of the government subsector deficit was again recorded outside the deficits of the State budget and the European funds budget. The deficit generated by extra-budgetary entities amounted to PLN 50.4 billion. This creation of a substantial financial imbalance outside the State budget contradicts the principles of openness and transparency in public finance.
124. The considerable increase in the general grant — by over 33% compared to 2022 — was a response to the instability of the local government revenue system following the introduction of the *Polish Deal* programme. To compensate local government units for lost personal income tax revenue, an additional supplement general grant of almost PLN 14.1 billion was transferred to them in 2023. The previous year, they received an additional share of PLN 13.7 billion in personal income tax for the same purpose. These compensations were introduced during the financial year, using different algorithms for fund distribution between the local governments across the two years. This created significant challenges for local governments in planning and implementing their tasks, as they were uncertain about the timing, amount, and availability of additional funds when they began executing the budgets.
125. In 2023, local government units received PLN 22.4 billion in subsidies from the COVID-19 Prevention Fund — an increase of PLN 3.6 billion compared to 2022 — despite the state of epidemiological emergency being lifted in Poland on 1 July 2023. This reflects the growing use of this fund for purposes other than those for which it was originally established.
126. According to the Ministry of Finance, in 2023, own revenue accounted for less than half of the total revenue of local government units. However, it is important to note that the Ministry's statements overstate this figure. This overstatement is due to the inclusion of various payments from units within the general government sector, which are more akin to subsidies or grants. The Supreme Audit Office argues that these should be classified as transfer revenues rather than own revenues.

127. The results of two audits completed in 2024³⁸ indicate a reduction in the financial autonomy of local government units between 2019 and 2023 and their increased dependency on funds allocated by elected government authorities on a discretionary basis, using unclear criteria. This was not in line with the provisions of the European Charter of Local Self-Government. In addition, the introduction of the *Polish Deal* programme led to a significant loss of personal income tax revenue for local governments. In 2022, the real revenues from this source for local governments decreased by 21.9% compared to the previous year, and in 2023, they fell by an additional 13.5%. The State budget partially compensated for this lost revenue through fund transfers to local governments. However, these funds were distributed according to different criteria each year and were usually allocated during the financial year, often in the final months. Consequently, when local governments began implementing their budgets, they were uncertain whether they would receive additional State budget funds, complicating the planning and execution of their tasks.

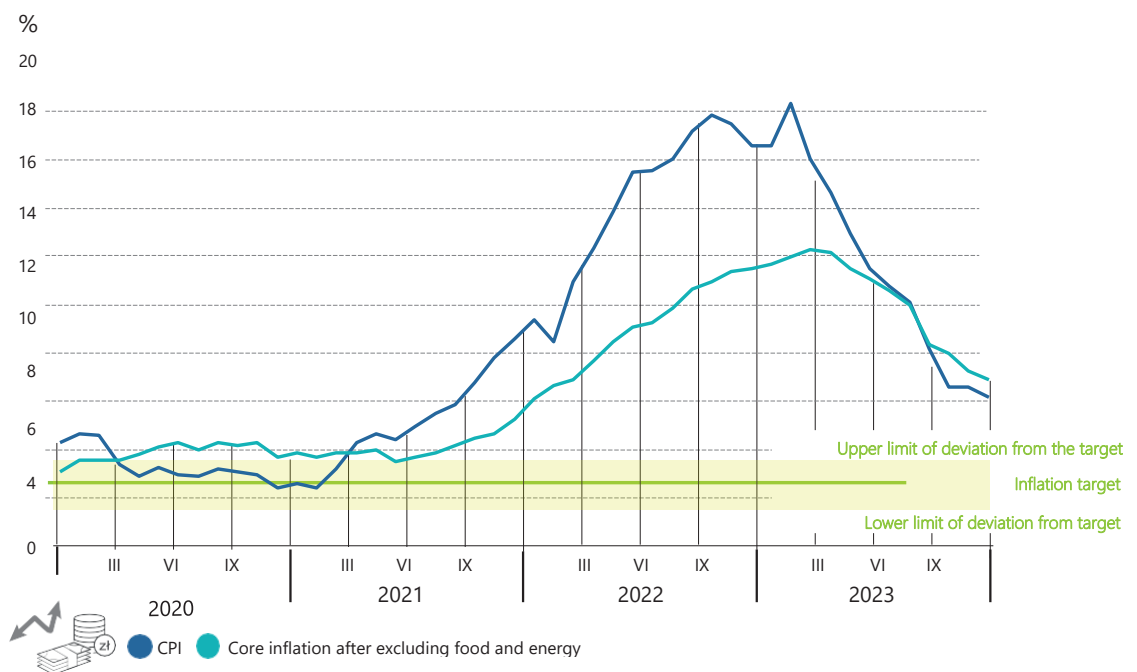
2. Key findings of the audit of the execution of monetary policy assumptions in 2023

2.1. The primary monetary policy objective set in the *Monetary policy assumptions for 2023* was to maintain the inflation rate at 2.5% in the medium term, with an acceptable deviation of ± 1 percentage point. As in previous years, the Monetary Policy Council did not define the specific duration of the 'medium term' in relation to the inflation target. In the *Monetary policy assumptions for 2023*, the Council indicated that the medium-term nature of the inflation target means that inflation might periodically exceed or fall below the target due to macroeconomic and financial shocks, including outside the defined range of deviations. The Monetary Policy Council also noted that since 2004, Poland's average inflation rate had been 2.7% per annum, aligning with the National Bank of Poland's (NBP) target. This approach to formulating the inflation target meant that, even at the time the *Monetary policy assumptions for 2023* were adopted, it was almost certain that the average inflation rate over the period from 2004 onwards would fall within the acceptable range of deviations from the target. The Supreme Audit Office maintains the position it has expressed in previous years that such a flexible definition of the inflation target, particularly when the length of the 'medium term' to which the target refers is not defined in the *Monetary policy assumptions*, diminishes the importance of achieving the inflation target in the current period. The NBP's primary objective is to maintain price stability by minimising deviations from the inflation target, rather than maintaining a multi-year average inflation close to the target. It should also be noted that tolerating a delay in the return of inflation to the target is only justified when an external shock to prices results in increased inflation. Meanwhile, in 2023, a significant external factor — an absolute drop in energy prices on world markets — had a strong deflationary effect. Such a definition of the target complicates the assessment of the implementation of monetary policy assumptions within a given year and allows the National Bank of Poland to justify periodic inflation above the target, even if this situation persists over several years.

³⁸ P/23/009/KBF – *State financial support to local governments during the period of tax reforms and economic recovery following the COVID-19 outbreak*, P/23/049/LBI – *Accuracy of the provision of funding to local government units for public tasks in 2019–2022*.

- 2.2. Throughout 2023, the annual consumer inflation rate was consistently well above the NBP's inflation target and the upper limit of acceptable deviations. In February 2023, the CPI inflation index, which measures the average change in consumer prices compared to the same period in the previous year, peaked at 18.4%. In the subsequent months, it gradually declined, reaching 6.2% in December 2023, marking a decrease of 12.2 percentage points. The average CPI inflation rate for 2023 was 11.4%. By the end of 2023, the cumulative average annual consumer inflation since 2021 stood at 33.9%. According to the Supreme Audit Office's calculations, the elevated inflation, akin to an 'inflation tax', led to a loss in the value of savings by PLN 102 billion in 2023 and a total of PLN 253 billion over the years 2022–2023.
- 2.3. Core inflation, which excludes food and energy prices, exhibited a similar trend. This indicator is regarded as the measure of inflation most closely linked to inflation expectations and demand pressures, which are factors that the National Bank of Poland can influence. Core inflation reached its peak in March 2023 at 12.3%. From April onwards, core inflation steadily decreased, falling to 6.9% in December 2023. Notably, since September 2023, core inflation has remained higher than the overall CPI inflation rate. The average annual growth rate of core inflation in 2023 was 10.1%.

Infographic 20. Core and CPI inflation by month from 2020 to 2023, measured by the change in the prices of consumer goods and services relative to the corresponding month of the previous year



Source: own elaboration of the Supreme Audit Office based on Central Statistical Office data and the results of an audit at the National Bank of Poland.

KEY FINDINGS AND CONCLUSIONS

- 2.4. In 2023, inflation was influenced by the lingering effects of previous negative shocks, particularly those related to Russia's military aggression against Ukraine. However, the strength of these impacts gradually diminished. The decline in the growth of food and energy prices significantly contributed to the overall decrease in inflation, largely due to the substantial weight these categories carry in the calculation of the consumer inflation index.
- 2.5. During the first eight months of 2023, the Monetary Policy Council maintained its stance of no change in interest rates, continuing the policy that had been in place since October 2022. This approach aimed to achieve the primary objective of the National Bank of Poland's activities, as outlined in Article 3(1) of the Act of 29 August 1997 on the National Bank of Poland. With a significant reduction in the consumer inflation rate during the year, this contributed to an increase in the National Bank of Poland's real interest rates, which were thus increasingly less negative. This development was beneficial in counteracting inflationary pressures, although it only mitigated the expansionary nature of the monetary policy.
- 2.6. In September 2023, however, the Monetary Policy Council altered its approach, implementing the most substantial reference rate cut since January 2009 — more than 14 years prior — by 0.75 percentage points. This was followed by an additional 0.25 percentage point cut in October 2023. The changes implemented in 2023 resulted in a total reduction in interest rates of 100 basis points, lowering the reference rate from 6.75% to 5.75%, the Lombard rate from 7.25% to 6.25%, the deposit rate from 6.25% to 5.25%, and the bill rediscount rate from 6.80% to 5.80%. No further changes to interest rates were made by the Monetary Policy Council in November and December 2023.
- 2.7. During its September 2023 meeting, the Monetary Policy Council had access to data indicating a deteriorating economic situation in Poland and its immediate economic environment, which could suggest a reduced risk of higher inflation. Despite this, the Supreme Audit Office found that the Council's decision to cut interest rates in September 2023 was based on unclear premises. The Council primarily relied on data concerning short-term inflationary processes, giving less weight to longer-term inflation projections that suggested inflation would not return to the acceptable range of deviations from the target until the fourth quarter of 2025, with an expected rate of 3.3%. Supreme Audit Office, the revision of short-term projections should not be the main rationale for changes in the National Bank of Poland's interest rates.
- 2.8. The decision to cut NBP's interest rates, and the significant reduction in rates that in September 2023, were inconsistent with earlier statements made by the President of the Monetary Policy Council regarding the timing and conditions under which such decisions would be made. Furthermore, the rationale for the largest interest rate cut in 14 years was not clearly justified.
- 2.9. In the opinion of the Supreme Audit Office, the findings related to the reasoning behind the Monetary Policy Council's decisions in September and October 2023 to cut the interest rates, as well as the communications surrounding these decisions, cast doubt on whether the Council was genuinely guided by data pertaining to the primary objective of monetary policy or whether other, unspecified factors were considered.
- 2.10. The Management Board of the National Bank of Poland achieved the operational objective of monetary policy in 2023, which was to keep the Polonia rate close to the National Bank of Poland's reference rate. This was accomplished through the use of

open market operations, deposit and credit operations, and the mandatory reserve system. In 2023, the National Bank of Poland did not engage in foreign exchange interventions, as the exchange rate volatility of major currencies, in the opinion of the National Bank of Poland, was not deemed to pose a threat to Poland's macroeconomic and financial stability.

- 2.11. In light of the irregularity identified concerning the decisions to cut the interest rates in September and October 2023, the Supreme Audit Office requested that the President of the National Bank of Poland take effective measures to ensure consistency between the Monetary Policy Council's announcements regarding planned and implemented monetary policy measures.

3. The most significant irregularities of the audit of State budget execution in 2023 and the audit of monetary policy assumptions execution in 2023

- 3.1. In 2023, no effective measures were taken to restore the State budget to its central role in the public finance system or to improve the transparency of public finances. This issue had already been highlighted by the Supreme Audit Office in its *Analysis of execution of the State budget and monetary policy assumptions in 2020*, and in the subsequent analyses for the following two years.
- 3.2. The irregularities identified by the Supreme Audit Office in 2023 generally concerned issues that recur annually during the audit of State budget execution. Many of these irregularities involved deficiencies in the granting, use, and settlement of subsidies, as well as errors in accounting records and budget reports. Significant irregularities resulting from non-compliance with the Public Procurement Law, particularly in the diligent conduct of proceedings and the documentation of activities, also persisted. Problems with the proper functioning of management control mechanisms were still evident, including ineffective supervision over the correct use of funds. Other irregularities included the untimely payment of liabilities, unreliable planning and preparation of financial plans and their adjustments, delays in blocking unused funds, failure to recover budgetary claims, and the inappropriate granting of service and function allowances.
- 3.3. The audit of the planning and execution of the State budget in 2023 revealed several significant irregularities:
- overestimation – at the stage of drafting the Budget Act for 2023 – of the limit of expenditures covered by the stabilising expenditure rule by PLN 6.5 billion, and by almost PLN 6.7 billion at the stage of drafting the draft amendment, due to the exclusion of expenditures financed from the capacity charge;
 - non-purposeful inclusion of three specific reserves in the draft Budget Act for 2023, with the funds planned for two of them being inadequately calculated, totalling PLN 9.1 billion;
 - underestimation of inflation forecast adopted during the preparation of the draft Budget Act for 2023;
 - unreliable planning of the specific reserve item 72 – *Expenditure related to counteracting the consequences, including socio-economic ones, of the crisis caused by the armed conflict in Ukraine*, amounting to PLN 16 billion in the draft amendment to the Budget Act for 2023;
 - subsidising selected entities by the transfer of Treasury securities instead of State budget subsidies;

KEY FINDINGS AND CONCLUSIONS

- financing public tasks by funds operated by Bank Gospodarstwa Krajowego and through Polski Fundusz Rozwoju S.A., rather than from the State budget;
- submission by the Minister of Finance of declarations covering Treasury guarantees for liabilities amounting to over PLN 6.6 billion without securing assurance that these guarantees did not constitute state aid, which should not have been granted without a positive decision from the European Commission on their compatibility with the internal market;
- non-transparent and discretionary distribution of funds included in the general reserve;
- inadequate supervision by the Minister of National Defence over the advisability of expenditures by the Head of the Armaments Agency, allowing early payment of advances despite no benefits for Poland, violating Article 44(3) of the Public Finance Act;
- transfer of funds by the Armaments Agency in the amount of nearly PLN 1.4 billion without the counterparties fulfilling the necessary conditions required for the transfer of these funds, as well as the inexpedient disbursement of more than PLN 1.8 billion by this entity for the implementation of four contracts;
- failure of the Minister of Digital Affairs to take effective measures to complete the construction of CEPIK 2.0;
- implementation by the Minister of Digital Affairs of one investment under the NRRP contrary to the requirements of the European Commission, risking the ineligibility of PLN 903.2 million in expenditures;
- awarding by the Undersecretary of State at the Ministry of Foreign Affairs of seven targeted grants to applicants whose bids were not recommended by the competition committee in the Humanitarian Aid 2023 competition;
- awarding by the Minister of Education and Science of targeted grants to 20 entities whose bids did not meet the criterion specified in the call;
- unreliable preparation of the explanatory memorandum to the draft Budget Act for 2023;
- disbursement of PLN 140 million by the National Fund for Environmental Protection and Water Management under the programme for the Protection of Biological and Landscape Diversity to purchase helicopters for the Police, tasks unrelated to the programme's objectives;
- in Police units – unreliable planning of expenditures, making payments in excess of maturity dates, incurring liabilities and making payments in excess of the limits specified in financial plans, allowing and paying interest on late payments, and inexpedient and wasteful increases in service and function allowances for officers leaving the service;
- in the State Fire Service units – inexpedient and wasteful increase in service and function allowances for officers leaving the service;
- inexpedient or wasteful expenditures on promotional and advertising activities at the Ministry of Family and Social Policy, the Chancellery of the Prime Minister, the Ministry of Economic Development and Technology, the Ministry of Justice, the Ministry of Infrastructure, the Ministry of Agriculture and Rural Development, the Ministry of Health, the Ministry of National Defence, the Social Insurance Institution, the Government Agency for Strategic Reserves, and three voivodeship offices (Opolskie, Warmińsko-Mazurskie, and Zachodniopomorskie); some of which appeared to resemble electoral campaign activities before parliamentary elections.

The Supreme Audit Office also noted that the President of the Institute of National Remembrance, as the administrator of the section *Institute of National Remembrance – Commission for the Prosecution of Crimes against the Polish Nation*, made expenditures totalling PLN 17.9 million in violation of the law, or in an unreliable or wasteful manner.

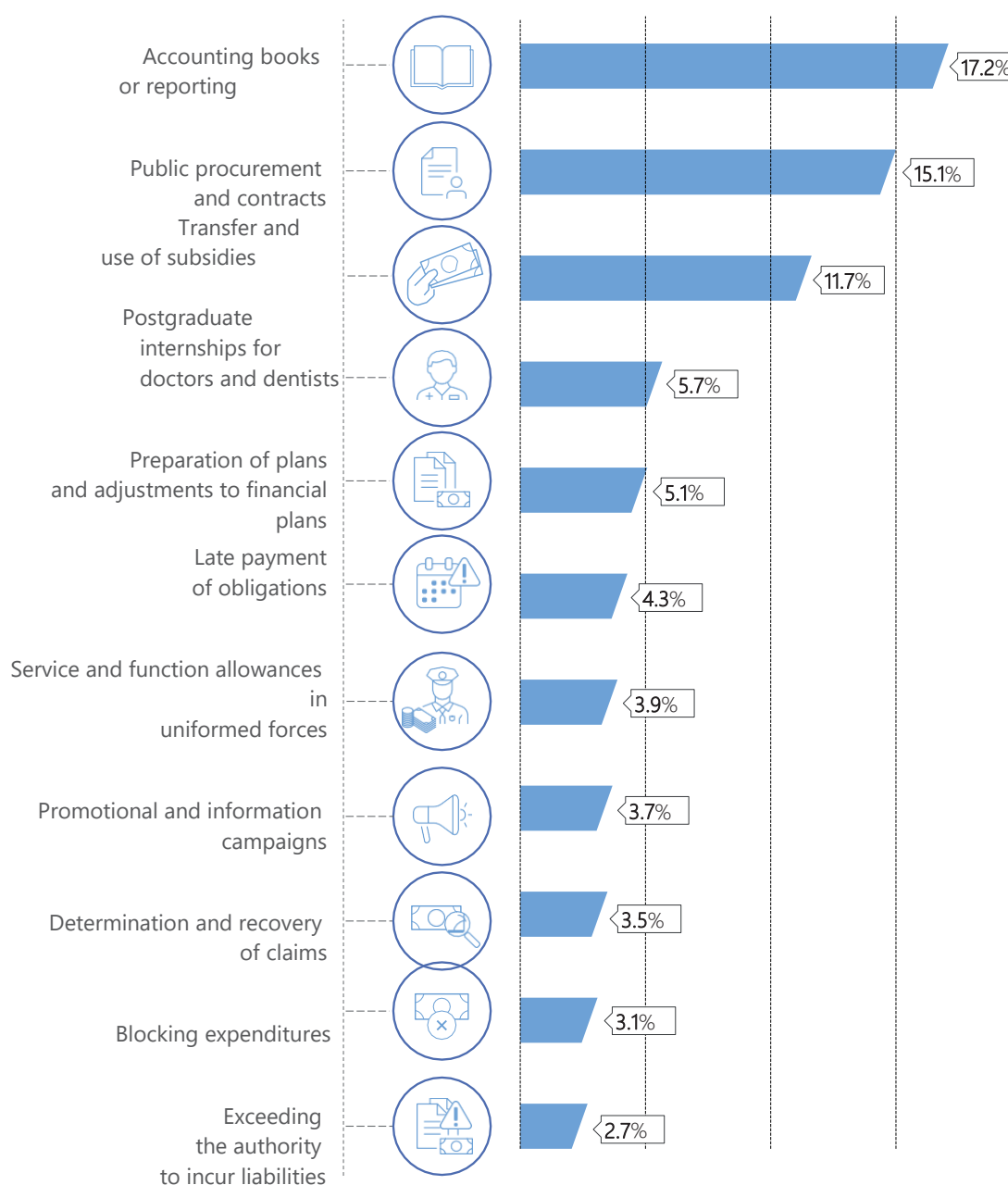
Regarding the audit of the execution of monetary policy assumptions, the Supreme Audit Office highlighted that the communication from the National Bank of Poland on the timing and conditions for decisions on interest rate changes was inconsistent with the subsequent decisions of the Monetary Policy Council, particularly the significant reduction in interest rates in September 2023.

4. The most significant conclusions regarding the execution of the State budget and monetary policy assumptions in 2023

- 4.1. In view of the findings of the audit of the State budget execution in 2023, the Supreme Audit Office formulated over 500 conclusions, which were sent to the managers of the audited entities. This represented a nearly 40% increase compared to the previous year. The significant rise in the number of post-audit conclusions was largely due to inspections conducted in 18 organisational units of the Police.
- 4.2. There was a 2.2 percentage point increase in the share of conclusions related to accounting books or reporting, primarily due to the aforementioned inspections in 18 Police units. In these inspections, 36 out of 88 post-inspection conclusions were related to accounting and reporting.
- 4.3. These conclusions specifically addressed the proper preparation of documentation describing the accepted accounting principles, the accurate recognition of accounting evidence within the correct reporting periods and in line with budget classification, the timely calculation and recording of interest on liabilities in the accounts, and the correction of incorrectly prepared budget reports.
- 4.4. Conclusions in the area of public procurement focused particularly on the application of both generally applicable and internal regulations, the introduction and updating of internal procedures, the timely publication of information on public procurement in the Public Procurement Bulletin, and the proper safeguarding of the State Treasury's interests in concluded contracts.
- 4.5. In the area of subsidies, the conclusions formulated addressed issues such as taking action to recover overpaid funds, settling subsidies in a timely manner, and making necessary corrections to these settlements.

KEY FINDINGS AND CONCLUSIONS

Infographic 21. Structure of post-audit conclusions formulated in the audit of the execution of the State budget in 2023 by main thematic areas



Source: own elaboration of the Supreme Audit Office based on the results of the audit of State budget execution in 2023³⁹

³⁹ The post-audit conclusions in the area of supervision and management control regarding the issues indicated have, for the purpose of this analysis, been assigned to these issues.

- 4.6. As a result of the audit conducted on the organisational units of the Police, the Supreme Audit Office formulated a total of 114 comments and conclusions across all 18 audited units. The comments and conclusions primarily concerned the unreliable process of planning expenditures for 2023, incurring liabilities and making expenditures that exceeded the financial plan, untimely payments, payment of interest due to delayed payments, and the failure to accrue and record interest on liabilities, which led to the incorrect preparation of budget reports.
- 4.7. Additionally, 20 conclusions were formulated regarding the increase of service and function allowances for officers leaving the Police and the State Fire Service. These conclusions specifically addressed the inexpedient and wasteful increase of service allowances following the submission of officers' applications to leave the service.
- 4.8. In the area of the task assigned to voivodeship marshals — controlled for the first time within the framework of the State budget execution audit — concerning the organisation and financing of postgraduate traineeships for doctors and dentists, 29 post-audit conclusions were formulated. These primarily focused on the enforcement by voivodes of subsidies transferred to marshals that exceeded the allocated amount for financing internships, the correct calculation of internship servicing costs, and the provision of information to the Minister of Health on entities authorised by voivodeship marshals to conduct internships.
- 4.9. The Supreme Audit Office once again recommended considering appropriate legislative measures aimed at liquidating the Medical Fund. The Medical Fund Act does not create a new source of public revenue, and the funds transferred to this fund are overwhelmingly sourced from the State budget. As a result of the current arrangements, 7.3 billion PLN was retained in the fund in 2023, which did not reach the healthcare system. The measures taken by the Minister of Health, as the administrator of the Medical Fund, were ineffective and had no significant impact on the development or state of healthcare in Poland.

Systemic conclusions

The Supreme Audit Office reiterates the systemic conclusions presented in last year's *Analysis of execution of the State budget and monetary policy assumptions*. Specifically, it once again urges the **Council of Ministers** to initiate legislative work aimed at discontinuing the redistribution of funds for financing State tasks outside the Budget Act or through the issuance of Treasury securities. The Office calls for the restoration of the State budget to its rightful status as the central financial plan of the State, in accordance with the Constitution of the Republic of Poland. The Supreme Audit Office warns that continuing with the current approach to public finance management will exacerbate the disintegration of public finances, further restrict the transparency of State financial management, and erode both political and legal accountability for this management.

Additionally, the Supreme Audit Office once again highlights the necessity of limiting the use of State budget general reserve funds by administrators to finance tasks that were already anticipated during the budget planning stage. The purpose of the general reserve is to enable rapid response to urgent, unforeseen situations that require immediate intervention.

The Supreme Audit Office issues the following requests to the **Minister of Finance**:

- strengthen the process of conducting spending reviews to ensure they effectively contribute to improving the efficiency of public spending;
- initiate work to unify the methodology for determining the size of consolidated public debt with the methodology used for general government sector debt;
- ensure that the explanatory memorandum to the draft Budget Act includes: information on the impact of the stabilising expenditure rule on the State budget expenditure limit, explanations for the largest items in the State budget, the budget of European funds, and the financial plans accompanying the Budget Act, and justifications for significant changes compared to the previous year;
- reintroduce a detailed discussion of public finances in the explanatory memorandum to the draft Budget Act and in the report on its implementation, including an analysis of the reasons for changes in individual revenue and expenditure items;
- enhance the reliability of planning specific reserves of the State budget and ensure thorough documentation of the work involved;
- cease the practice of including provisions that allow for the acquisition or purchase of shares (stocks) in companies using resources from the Reprivatisation Fund;
- provide Parliament with information on the expenditures required from the State budget to service the debt of funds operated by Bank Gospodarstwa Krajowego and the debt of Polski Fundusz Rozwoju S.A., which have arisen from the performance of State tasks. Additionally, work towards including these liabilities in the public debt and incorporate the associated parameters and risks in subsequent debt management strategies;

In addition, the Supreme Audit Office requests that the **Minister of Finance** ensures that the Budget Act and the State budget execution report include comprehensive data on salaries and employment in State budgetary units, encompassing offices of public authorities, oversight bodies, law enforcement agencies, courts, and tribunals. This data should cover all expenditures related to the employer's obligations towards employees for the work provided.

The Supreme Audit Office also requests the **Minister of Internal Affairs and Administration** and the **Minister of Finance** to estimate the funds required for the proper functioning of the Police and ensure these funds are reflected in the Police expenditure plan during the Budget Act drafting process.

Furthermore, the Supreme Audit Office reiterates its request to the **Minister of National Defence** and the **Minister of Finance** to make a definitive decision on whether expenditures for the education of civilian students and doctoral candidates at military universities should be considered as serving Poland's defence purposes and, therefore, be included under national defence expenditures.

As last year, the Supreme Audit Office calls on the **President of the National Bank of Poland** to ensure that communication is consistent with monetary policy decisions.