

## **EQUALISATION PAYMENTS AT THE REGIONAL SELF-GOVERNMENT LEVEL IN POLAND: THE CASE OF MAZOWIECKIE PROVINCE<sup>1</sup>**

**Introduction.** In Poland reducing interregional inequalities takes place primarily through the obligatory transfers between the budgets of provinces (equalisation payments) and the part of the regional general subsidy. In recent years the construction of the horizontal equalisation mechanism has been criticised [2]. The aim of the article is to present the scope of redistribution of revenues among the highest level of local self-government units – regions, taking into account the Mazowieckie Province.

**Construction of equalisation mechanism for provinces in Poland since 2004.** The horizontal equalisation mechanism involves equalisation payments made by the wealthiest provinces to the central budget and the regional part of the general subsidy financed from these payments. It is a self-financing mechanism, i.e. the payments are the only source of the aforementioned part of the general subsidy and the central budget acts only as an intermediary transferring the resources between the provincial budgets. This mechanism is regulated by rules of ordinary law [3].

The regional part of the general subsidy for provinces equals the total amount of the contributions made by provinces whose tax revenues *per capita* ratio (W) exceeds 110% (in years 2004–2010, 2012–2014) or 120% (in 2011) and 125% (in years 2015–2016) of the ratio of tax revenues *per capita* for all provinces (Ww). The ratios are calculated on the basis of revenues from shares in PIT and CIT. Since 2015 the amount of the annual payment may not exceed 35% of tax revenues the province for the year preceding the base year. In some cases, the compensatory payments may be reduced by 10%.

In years 2004-2014 the regional part of the general subsidy was divided into all provinces; this was done taking into account 5 different criteria (the unemployment rate, the surface of roads *per capita*, the GDP *per capita*, the expenses on regional railway passenger services, the expected revenues from selected sources). Since 2015 the amount of that part of the general subsidy receiving only province in which tax revenues increased by a compensatory part of the this subsidy, *per capita*, is less than 125% of the index Ww. Since then this part of subsidy is divided on the basis of 2 criteria: the unemployment rate and the amount of income from some sources (tax revenues, regional and equalisation part of subsidy) in relation to 125% Ww. The base for the calculation of obligatory equalisation payments and the amount of the regional part of the subsidy in a given fiscal year is their revenues from two years ago.

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<sup>1</sup> This article is based on [1].

**Fiscal inequalities between provinces in Poland and equalization payments.** The units of provincial self-government vary strongly with respect to their fiscal capacities (Table 1).

Table 1 – Values of W and Ww ratios in 2008–2016 (in PLN)

Province	2008	2009	2010	2011	2012	2013	2014	2015	2016
dolnośląskie	126.49	159.60	177.61	154.58	151.25	185.81	263.97	202.29	170.35
kujawsko-pomorskie	71.74	91.20	100.88	95.10	81.03	94.81	101.48	102.15	107.00
lubelskie	49.12	68.36	74.74	66.13	57.26	69.94	73.19	77,71	80.50
lubuskie	72.03	101.50	102.87	84.86	81.13	89.60	84.01	91,76	99.82
łódzkie	76.71	100.77	114.42	120.91	122.31	122.66	115.50	122,49	123.04
małopolskie	82.92	103.31	134.45	112.45	94.60	105.73	103.09	104,79	112.46
mazowieckie	275.90	343.73	375.14	327.01	283.97	299.09	295.46	258.29	279.05
opolskie	86.00	103.12	116.39	113.12	88.43	92.47	91.47	101,79	89.92
podkarpackie	53.48	69.89	72.32	69.41	62.28	77.30	72.16	75,09	82.20
podlaskie	49.41	70.72	75.83	76.77	62.74	60.67	59.20	75.33	71.69
pomorskie	96.40	96.40	96.40	96.40	96.40	96.40	122.54	141.08	146.46
śląskie	106.65	126.19	140.39	114.82	120.62	144.57	124.39	116.61	125.13
świętokrzyskie	57.69	80.41	108.30	103.63	66.60	89.98	74.60	68.69	73.23
warmińsko-mazurskie	50.07	66.89	70.29	62.53	63.66	60.14	63,24	71,17	74.50
wielkopolskie	108.90	135.94	149.85	143.28	140.28	144.59	128,46	132,69	146.28
zachodniopomorskie	38.91	38.91	38.91	38.91	38.91	38.91	90.31	91.15	94.91
<b>Ww ratio</b>	<b>110.22</b>	<b>139.03</b>	<b>154.99</b>	<b>138.60</b>	<b>126.97</b>	<b>140.10</b>	<b>139.86</b>	<b>132.90</b>	<b>137.78</b>

Source: own work based on [4].

In 2008-2016 the tax revenues ratio of only two provinces exceeded the average. In the case of 6 provinces the W ratio was always clearly under the average value. In some years the tax revenues of 3 other provinces exceeded the average. This means that although the state conducts the equalisation policy, fiscal inequalities among provinces do not disappear.

The criterion on the basis of which provinces are selected to make equalisation payments is incorrectly defined. This is confirmed by the data from Table 2 which show that equalisation payments were made by only 3 provinces, with the share of the Mazowieckie Province in the regional part of the general subsidy at the level of almost 100%, excluding 2014. Other provinces either do not make payments or the payments they make are much lower. At the same time the interregional inequalities do not decrease.

Table 2 – Equalisation payments in 2008–2016 (in million PLN)

Specification	2008	2009	2010	2011	2012	2013	2014	2015	2016 <sup>a</sup>
<b>In total, in which:</b>	<b>721</b>	<b>891</b>	<b>956</b>	<b>628</b>	<b>687</b>	<b>735</b>	<b>915</b>	<b>324</b>	<b>318</b>
dolnośląskie	12	15	16	–	27	74	268	52	–
mazowieckie	709	876	939	628	659	661	647	272	318
wielkopolskie	–	–	–	–	2	–	–	–	–

a) plan; b) the dash means that the phenomenon did not occur.

Source: own work based on [5].

**Horizontal equalisation mechanism on the basis of the Mazowieckie Province.** The results of the analysis conducted for years 2004-2014 show the significant burden on the Mazowieckie Province for the benefit of other provinces. The total amount of the equalisation payments was about 25-28% of the total revenues and 36–40% of this province’s own revenues. The record year with this respect was 2010 in which this relation was 38% and 55% respectively. The equalisation payment of this province is very high, sometimes higher than capital expenditures (Fig. 1) and constitutes a significant burden for the province. In 2013, every month, irrespective of the extent to which the planned revenues have been generated, the province has to pay to the central budget 55 million PLN, i.e. every second zloty worked out by its inhabitants.

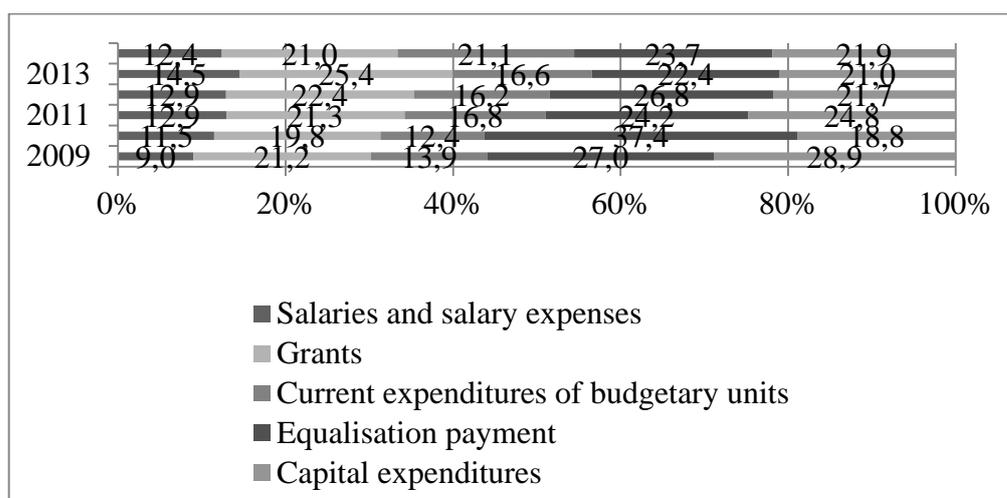


Figure 1. Expenditures of Mazowieckie Province with equalisation payment specification in 2009–2014 (in %)

Source: own work based on [6].

In order to pay consecutive monthly instalments of the payment, the management of the province was looking for savings and incurring liabilities. In 2014, the province paid 634.016 thousand PLN, of which almost 27% was the amount of liabilities for unpaid payment for 2013.

In 2008-2010 and 2012 the dynamics of the equalisation payment increase was greater than the dynamics of the increase of the tax revenues. In 2010, the equalisation payment this region was obliged to make equalled 940 million PLN. If the principles of making this payment had not been changed in 2011, the province would have had

to transfer to the central budget about 800 million PLN. The change in the method of calculating the payment reduced the amount to about 630 million PLN. This means that the regional part of the general subsidy was in 2011 lower by 177 million PLN.

No links between the amount of the equalisation payment and the amount of tax revenues during the financial year caused a fiscal shock on the budget – simultaneous decrease in income and an increase in payments in the same year (2010, 2013). In 2004-2013 the equalisation payment was usually about 40% of the tax revenues (Fig. 2).

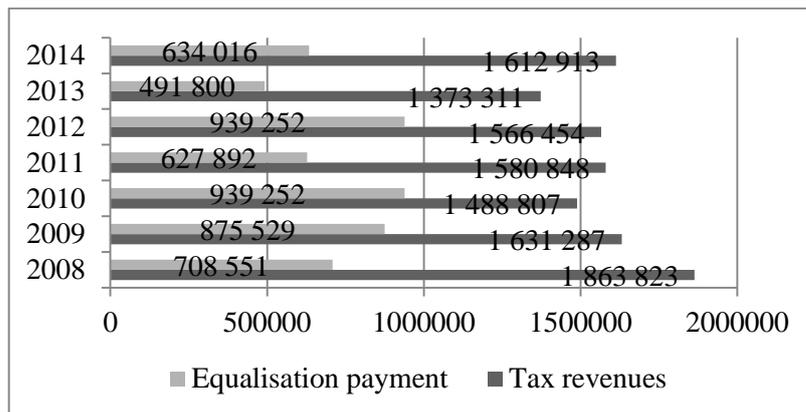


Figure 2. Tax revenues and equalization payments of Mazowieckie Province in 2008-2014 (in thousand PLN)

Source: own work based on [6].

In 2009 and 2010 it exceeded 50%. This means that because of the transfer of resources to other provinces, year after year the financial independence of this region decreased, making it difficult or even impossible for the province to perform its own tasks, including most of all the sustainable development policy within the region. Since 2013, this ratio improves as a result of changes in the design of equalisation payments.

The obligation to make equalisation payment in the conditions of the economic crisis which began in 2008 and led to the lowering of the revenues from shares in CIT (which constitute 80% of the total revenues of the Mazowieckie Province) forced the province to look for savings and take other measures. The savings involve decreasing by 15% the grants for all institutions in the case of which the founder is the province's self-government (offices, museums, theatres). Moreover, some investments were suspended and the implementation of some other – broke into several years. Furthermore, financial resources were decreased for some tasks. Apart from that, the province claimed in court the refund of the resources spent from the province's budget on the tasks assigned by the government administration.

In years 2004-2014 the Mazowieckie Province was both a payer of the equalisation payments and a beneficiary of the regional part of subsidy. During this period the province's net payments for other provinces amounted to 6039 million PLN. The payments worsen its financial result. They are booked as current expenditures and they increase the budgetary deficit. In 2004-2012 the total amount of the budgetary deficit was 1.2 million PLN. If the province did not have to make

the payments, the implementation of the budget would every year end with a surplus. The obligation to make payments stimulates the expansion of the public debt. In 2013 the payments were so great (661.3 million PLN) that the Mazowieckie Province lacks the resources to cover them (to pay part of the instalments the province incurred credit in the amount of 200 million PLN). Therefore an amendment to the budget act was made which made it possible to give the government a loan from the central budget [1].

**Conclusion.** The analysis of the mechanism aimed at reducing interregional inequalities in Poland shows that the construction of the mechanism is incorrect (especially in years 2004-2014). Not only does it not reduce the inequalities (in the long term) but also limits the financial independence of provinces making equalisation payments. This mechanism does not create optimum conditions for the sustainable development of the provinces, and even hinders the achievement of the objectives of the development of the Mazowieckie Province. What remains an open issue is how to change this mechanism so that it contributes to increasing the economic and social welfare of provinces and at the same time is conducive for their financial independence. The first step has already been done: raised the threshold after which the payments are made and established limit to prevent excessive payments (in relation to the tax revenues).

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