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CHANGES IN THE STRUCTURE OF BUDGET EXPENDITURE ON THE AGRICULTURAL SECTOR IN POLAND IN THE PASSING FINANCIAL PERSPECTIVE 2014-2020

Key words: agricultural policy, CAP, agricultural budget, ASIF, EU

ABSTRACT. The aim of this article was to demonstrate the changes that took place in the structure of financing the budget of the Polish agricultural sector in the passing EU financial perspective 2014-2020. The subject of the research was expenditure on agriculture, including both the state budget and EU funds. The structure of expenses in particular areas of the agricultural budget was also considered, regarding agriculture, agricultural markets and rural development, seen as investment in the development and modernization of the agricultural sector, as well as social expenses within The Agricultural Social Insurance Fund (ASIF). The study used methods of structure and dynamics analysis and was based on source material from draft budget bills for relevant years. It was proved that the importance of the agricultural sector, considered through the perspective of the funds allocated to it from the state budget, is systematically decreasing. These expenditures are significantly boosted by EU funds, which, despite the continuing downward trend, still play an important role in the development and support of the agricultural sector in Poland. The tendency is also that the share of expenditure on items from the “agriculture” part of the budget is higher than on the “agricultural markets” part of the budget, and that the agricultural budget is being renationalised (after the state budget being multiplied by European funds for several years, the share of state funds in the expenditure has increased).

INTRODUCTION

The total budget of the European Union within the passing financial perspective 2014-2020 amounted to just over a trillion euros (EUR 1,082.6 billion, in 2013 prices). The Common Agricultural Policy occupied a key place in the multi-annual financial framework for this period, as it absorbed 39% of total funds, i.e. EUR 312.7 billion (29%) for market spending and direct aid (1st pillar), EUR 95.6 billion (9%) for rural development (2nd pillar) and EUR 11.7 billion (1%) for fisheries [Kancelaria Senatu 2013]. Poland is one of the main beneficiaries of the integration process. For the period 2014-2020, EUR 115.4 billion (10.6% of total spending) from European EU funds have been allocated to Poland,

which was almost entirely allocated under the Cohesion Policy (EUR 82.5 billion) and the Common Agricultural Policy (EUR 32 billion). As a result, the topical agricultural sector in Poland, in addition to funds from the state budget, remains strongly supported by EU funds. However, the structure of expenditure on its needs changed during the period under review, which was driven by the economic policy adopted by the country, and also by current needs. The aim of this article is to describe the changes that have taken place in Poland's annual agricultural budgets over the past seven years, and outline relevant trends. The evaluation will be general. The article offers an overview of the volume and share of expenditure on the agricultural sector in state budgets for the years 2014-2020, and then traces the structure of expenditure in individual areas of the agricultural budget, divided into: agriculture, agricultural markets and rural development. There is also a discussion on the expenditure structure regarding financing the development of rural areas and agriculture, as well as social policies reflected by spending on The Agricultural Social Insurance Fund (ASIF), and an overview of financing the Polish agricultural sector from state and EU funds. A selection of methods of structure and dynamics analysis were used, and source material was derived from draft budget bills for the relevant years and quoted budget specialist reports.

EXPENDITURE ON THE AGRICULTURAL SECTOR IN POLAND IN 2014-2020 IN PARTICULAR AREAS OF THE AGRICULTURAL BUDGET

Expenditure on the agricultural sector consists of funds allocated to: agriculture (in part 32), rural development (in part 33), agricultural markets (in part 35), voivodship agricultural budgets (in part 85) and special purpose reserves (excluding funds for co-financing and pre-financing EU objectives and programmes as well as expenditure on financing the Agricultural Social Insurance Fund (ASIF). In the years 2014-2020, the total amount of budget expenditures has been growing dynamically – from PLN 324.6 billion to PLN 435.3 billion, while the funds allocated to the agricultural sector were at a stable, average level of PLN 27 billion (with a coefficient of variation of 1%, see Figure 1).

Figure 1. Total budget expenditure and expenditure on the agricultural sector in Poland (national funds only) in 2014-2020

Source: own elaboration based on [Czyżewski 2014-2018, MF 2014-20120a, MF 2014-2020b, MRiRW 2014-2020]

Thus, it seems that the agricultural sector in Poland did not benefit from the effects of economic growth, which, in the analysed period, cumulatively reached over 24% (in nominal terms, and nearly 20% in real terms), and growing budgetary expenditures (by over 1/3 in nominal terms [GUS 2019]). While the shortage of benefits for the agricultural sector may be explained, to some extent, by the economic growth of the country (relatively rigid income elasticity of demand for food, especially low-processed food and agricultural raw materials – Engel’s law), the decline in the importance of a sector of strategic importance for the state budget – because of food security – is difficult to explain. The share of public spending on the agricultural sector has decreased by 2.3 percentage points over seven years, and the trend seems to be clearly downward (see Figure 2). Thus, the role of the national agricultural budget in general is declining, despite the fact that nominal state budget expenditure as well as the value of GDP are increasing significantly.

Figure 2. Share of spending on the agricultural sector in total budget expenditure in Poland (national funds only) in the years 2014-2020

Source: see Figure 1

It is worth mentioning that the share of expenditure on the agricultural sector still in the first years following Poland’s accession to the EU was two-digit, reaching 12.6% (in 2007), which was partly due to the requirement of higher co-financing from national CAP programmes (e.g., state contribution to direct payments made to farmers). The above suggests that national budget expenditures on agriculture, rural development and agricultural markets, as well as the budgets of voivodes, special purpose reserves and ASIF are not prioritized in budget expenditures of the state and voivodes. If it were not for the financial support from the EU (as discussed below), the disproportions in the distribution of funds from the national budget among sectors would increase in an even more pronounced way. This can be partly attributed to adjustments to current conditions caused by the need for savings, due to increased state social spending (e.g. the family benefit 500+, 13th salary and bonus pension, etc.), but the scale of the reduction is too large and disproportionate, especially considering the successive growth of the real GDP level in the analysed years.

DEVELOPMENT AND SOCIAL EXPENDITURE IN AGRICULTURAL BUDGETS

The expenditure in the agricultural budget can be divided by function. The simplest way is to distinguish measures that serve development objectives of the agricultural sector and secure the social needs of rural residents. The first group includes expenditure on agriculture, rural development and agricultural markets, the largest share of which since EU integration have always been funds for the development of rural areas. In the examined period, they constitute, on average, about 3/4 of the “development” expenditure and are mainly related to the co-financing of the Rural Development Programme 2014-2020 implemented by the Agency for the Restructuring and Modernisation of Agriculture. At the same time, there is a decrease in spending on agricultural markets, which were among the aims of the Agricultural Market Agency until 2017. Currently, this part of the budget is used to fund the activities of the Agricultural and Food Quality Inspection – thus, the share of expenditure on the budget area called “agricultural markets” fell from about 9% to less than 1%. An interesting item showing an upward trend is expenditure in the “agriculture” budget area – its share increased from 14 to 26% in the analysed period (see Figure 3).

Figure 3. Structure of expenditure on agriculture, rural development and agricultural markets in total budget expenditure in Poland (national funds only) in 2014-2020

Source: see Figure 1

It is due to the growing expenditure in particular years on, among others: subsidies for the insurance of agricultural crops and livestock, lower and upper secondary vocational schools, further education and training of teachers, or social and motivational financial aid for students.

Spending allocated within ASIF is linked to the social dimension of agriculture, and at the same time, it partly performs the redistributive function of the budget, contributing to an increase of farmer household incomes, and thus to the reduction of income disparity between farmers and other socio-professional groups, and the reduction of excessive income disparities among farms [Kulawik 2009, Juszczuk et al. 2016]. Social spending distributed by ASIF nominally takes up the most funds in the analysed agricultural budgets, if state transfers to the agricultural sector are considered (on average as much as 2/3 of

Figure 4. Share of ASIF spending in expenditure on the agricultural sector from state funds and in total, in Poland, in the years 2014-2020

Source: see Figure 1

them, see Figure 4). However, it should be noted that the share of spending on ASIF in the total state budget expenditure is decreasing. In comparison, in 2020, it is 4.12%, while in 1998 it was 10.16%, which means that since then it has decreased by nearly 60%, i.e. 2.5 times in real terms [Czyżewski 2014-2020].

Their nominal level should be considered relatively stable in the examined period, as it was about PLN 17.7 billion. However, it should be noted that over the last three years (2018-2020) expenditure on ASIF has actually decreased by nearly 7%. This is incomprehensible as the number of recipients stabilized after a strong decline (in 2014 it was 1.2 million people and in Q1 2020 it was 1.12 million, when in 1998 there were still more than 2 million of them), while the pension paid out increased by 17% in nominal terms during the period under review, to PLN 1,173 (in Q1 2020). It is also worth adding that the budget subsidy to the Pension Fund (PF) amounted to PLN 17,628 billion in 2020, and the revenues of this Fund amounted to PLN 20,534 billion, i.e., with the refund of the costs of converging benefits and other transfers. As mentioned above, the number of insured persons is decreasing, fewer people pay contributions to the PF, and people who do not meet the conditions of agricultural insurance are also excluded [KRUS 2020]. However, if the overall spending on the agricultural sector is considered (state and EU funds), then it can be observed that the share of ASIF is relatively growing (in 2014-2020 an increase of 6 percentage points), but this is a result of decreasing transfers from the EU, which results in decreasing spending on the Polish agricultural sector in general. Nevertheless, in 2020, expenditure on ASIF is almost double (198.8%) the planned expenditure on agriculture, rural development and agricultural markets in the national agricultural budget. Notably, in 2019, this ratio was 192%, 204% in 2018, 185% in 2017, 217% in 2016, 189% in 2015, and 152% in 2014 [Czyżewski 2014-2018]. It can, therefore, be concluded that, in the recent financial perspective, the agricultural budget has increasingly been leaning toward social purposes as a direct result of decreasing spending on development. However, the social security provided by ASIF is essential, especially

for owners of small and very small farms, which prevail in the agricultural structure of Poland. However, due to the excessive polarization of income within the agricultural sector in Poland, it seems advisable to consider greater differentiation of contributions to ASIF depending on the area of the farm, or, preferably, its economic size. It should be added that expenditure on social purposes are, to some extent, seen as competing with measures aimed at the development of agriculture and farms, for example their modernization. The competitiveness of these expenditures is revealed because, with a limited budget, larger expenditures on ASIF are necessarily constrained by expenditures on other budget titles, including pro-development expenditures; however, it should be added that due to different rules, these are expenditures from two different independent groups.

FUNDING THE NATIONAL AGRICULTURAL SECTOR WITH EU FUNDS

As mentioned above, the funds allocated to the agricultural sector in Poland come from both the state budget and EU funds under the Common Agricultural Policy. It should be noted that, since the beginning of the integration of Poland with the EU, the agricultural sector has been one of the main beneficiaries of this process – also in the years 2014–2020, on average, every third Polish zloty from the funds granted to Poland from the Community budget was allocated to the agricultural sector (34.25% of total funds). In 2014, the EU funds flowing into the sector amounted to PLN 26.15 billion, in 2015 it reached as much as PLN 28.56 billion, and in 2020 it was only PLN 21.14 billion. This indicates that the total funds allocated to the agricultural sector (state and EU combined) are decreasing (see Figure 5). This is a dangerous phenomenon, because while it is natural that the share of agriculture as a sector in the creation of added value in the economy is getting lower (in the analysed period at a level of about 2.7%), it should not weaken, but only shrink. Decreasing financing weakens it both in terms of income and development.

It should also be emphasized that, in the last four years (2017–2020), the effect of multiplication of the national agricultural budget by funds from the EU budget has not occurred, as was the case in 2015 and 2016, when the funds transferred to the agricultural sector from the EU were higher than those from the national budget (see Figure 6). Therefore,

Figure 5. State and EU spending on the agricultural sector in Poland in 2014–2020

Source: see Figure 1

Figure 6. Total share of EU funds in expenditure on the agricultural sector in Poland between 2014 and 2020.

Source: see Figure 1

it can be concluded that in 2017-2020 a trend towards the renationalisation of expenditures was observed – the average share of national funds in the total agricultural budget was 56.1%.

Even though the aforementioned benefits to the Polish agricultural sector are decreasing compared to previous years, they continue in the years 2014-2020. It can be estimated that while for PLN 1 of the contribution made by Poland to the general EU budget there is PLN 3.54 of funds from the EU budget on average, the sector will receive PLN 1.22 on average in the passing budget perspective (see Figure 7).

As mentioned, in the passing perspective, agriculture and rural areas in Poland are the beneficiaries of the process of Poland's integration with the EU structures, however, to a decreasing extent in comparison with previous years. Additionally, the decrease in the level of benefits from PLN 1.57 in 2015 to PLN 0.91 in 2020, i.e., over six years, in terms of contribution to the EU budget per 1 PLN 1, i.e. around 66 gr. less (i.e. by 42%), is significant

Figure 7. Total EU funds and EU funds allocated to the agricultural sector per PLN 1 of contribution paid by Poland in the years 2014-2020

Source: see Figure 1

(see Figure 7). Nevertheless, as a result of additional funds flowing into the agricultural sector under the EU Common Agricultural Policy, the income gap between farmers and other socio-occupational groups decreased [Czyżewski et al. 2020]. It is worth adding that, in the examined period, the share of CAP subsidies in agricultural income in Poland amounts to over 60%, which means that the income from a family farm is mostly state support, without which there would be no economic motivation to undertake agricultural production both in Poland and many EU countries. At the same time, thanks to EU support, we are dealing with a successive reduction of the agricultural income gap, which, however, still exists and therefore constitutes a premise for maintaining redistributive expenditures in the instruments of the current agricultural policy [Czyżewski et al. 2020].

CONCLUSIONS

1. Total expenditure on agriculture, rural development and agricultural markets, as well as the special purpose reserves and budgets of voivodes concerning the agricultural sector, together with ASIF and EU funds, constituted, on average, 13.66% of state budget expenditure in the years 2014-2020. However, it should be noted that over seven years this share fell by 5.5 percentage points with a real increase in total state budget expenditure (by 34% in nominal terms) and GDP. This result indicates a significant depreciation of the position of Poland's agricultural budget in the hierarchy of budget expenditures in the state economy.
2. The reason for this is that spending on agriculture, rural development and agricultural markets in the examined period has substantially decreased (maintaining a nominally similar, stable level), and their structure has changed in favour of a higher share of spending on agriculture, and at the expense of a falling share of the „agricultural markets” budget. It is also worth mentioning that in 2018-2020 there has been decreasing RDP support in the European funds budget, which is, to some extent, compensated by increased expenditure for this purpose in the second pillar of the CAP from national funds. Expenditure on ASIF has also decreased in real terms, and most importantly, the budget of European funds allocated to the agricultural sector is also relatively low – in the examined period it decreased from PLN 28.57 billion in 2015 to PLN 21.14 billion in 2020, i.e. nominally by over 35%, and in real terms by nearly 40%.
3. In the last four years, 2017-2020, the expenditures planned in the Polish agricultural budget indicate changes both in terms of quantity and quality. Their multiplication by the European funds budget, which in earlier years often accounted for more than half of the total Polish agricultural budget, has been halted. It can be concluded that after 2016 there was, with varying degrees of intensity, a tendency to renationalise budget expenditure in the Polish agricultural sector. However, while in 2015, Polish agricultural budget expenditure (state and EU funds) amounted to PLN 55.24 billion (the largest amount in the passing perspective), in 2020 it will only be PLN 48.74 billion (in current prices), so it will nominally be nearly 12% lower. Although the financial support for the Polish agricultural sector from EU funds in the years 2014-2020 has been decreasing, agriculture and rural areas in Poland are still beneficiaries of the integration process with EU structures.

4. On the one hand, expenditure on social security for farmers in the form of ASIF shows a declining tendency in terms of share in total budget expenditure. On the other hand, the national agricultural budget is becoming more „social” in the examined period, which manifests itself in the fact that the funds transferred to ASIF represent almost twice as much of the planned expenditure on agriculture, rural development and agricultural markets in the Polish agricultural budget, typically perceived as pro-development and modernization funds for the agricultural sector. Nevertheless, there are grounds to believe that the level of budget expenditure on ASIF, which is close to PLN 18 billion a year in nominal terms, is stabilizing. At the same time, the financial reserves that secure those benefits are relatively small, while there is an obvious need to maintain existing benefits, both in terms of level and scale.

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ZMIANY W STRUKTURZE WYDATKÓW BUDŻETOWYCH NA SEKTOR ROLNY W POLSCE W MIJAJĄCEJ PERSPEKTYWIE FINANSOWEJ 2014-2020

Słowa kluczowe: polityka rolna, WPR, budżet rolny, KRUS, UE

ABSTRAKT

Celem artykułu jest wskazanie na zmiany, które zaszły w strukturze finansowania budżetowego sektora rolnego Polski w mijającej perspektywie finansowej UE 2014-2020. Przedmiotem badań były wydatki na sektor rolny, pochodzące zarówno z budżetu krajowego, jak i funduszy UE. Rozważono również strukturę wydatków w poszczególnych częściach budżetu rolnego, odnosząc się do rolnictwa, rynków rolnych oraz rozwoju wsi, postrzeganych jako wydatki prorozwojowe i modernizacyjne względem sektora rolnego, jak i wydatki o charakterze socjalnym związane z KRUS. Zastosowano metody analizy struktury i dynamiki, opierając badanie na materiale źródłowym pochodzącym z projektów ustaw budżetowych dla odpowiednich lat. Dowiedziono, że znaczenie sektora rolnego rozpatrywanego przez pryzmat środków do niego kierowanych z budżetu krajowego systematycznie spada. Wydatki te są istotnie wzmacniane przez fundusze unijne, które mimo utrzymującej się tendencji spadkowej, nadal odgrywają ważną rolę w rozwoju i wsparciu sektora rolnego w Polsce. Zauważalne są również tendencje większego udziału w wydatkach w części budżetowej „rolnictwo”, kosztem części budżetowej „rynk rolny”, a także do renacjonalizacji budżetu rolnego (zwiększający się udział krajowego finansowania wydatków po kilku latach multiplikacji budżetu krajowego przez budżet środków europejskich).

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