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FISCAL SUSTAINABILITY – A COMPARATIVE APPROACH

STABILNOŚĆ FINANSÓW PUBLICZNYCH – ANALIZA PRAWNOPORÓWNAWCZA

Summary: The article's subject is to examine the factors affecting the fiscal sustainability in Central and Eastern Europe and Georgia, and to assess their effectiveness - primarily in times of economic, political, and social crises. The fiscal sustainability should be understood as the government's ability to maintain the current expenditure, tax, and fiscal policy in the long term – to avoid threatening the state's solvency, meet its obligations, and perform public tasks. The study contains a comparative legal analysis to show how the factors contributing to the fiscal sustainability influence the ability of states to counteract crises and their consequences. Current problems related to the SARS-CoV-2 pandemic and the geopolitical situation will also be considered. The study aims to indicate the threats of destabilization of public finances, factors that may lead to it, and measures to prevent its occurrence.

Keywords: fiscal sustainability, public debt, economic growth

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Streszczenie: Przedmiotem artykułu jest zbadanie czynników wpływających na stabilność finansów publicznych w Europie Środkowo-Wschodniej i Gruzji oraz ocena ich skuteczności – przede wszystkim w czasach kryzysów gospodarczych, politycznych i społecznych. Stabilność finansów publicznych powinna być rozumiana jako zdolność rządu do utrzymania bieżącej polityki wydatkowej, podatkowej i fiskalnej w długim okresie – w celu uniknięcia zagrożenia niewypłacalności państwa, wywiązywania się ze swoich zobowiązań i wykonywania zadań publicznych. Artykuł zawiera analizę prawnoporównawczą mającą na celu pokazanie, w jaki sposób czynniki składające się na stabilność finansów publicznych wpływają na zdolność państw do przeciwdziałania kryzysom i ich skutkom. Uwzględnione zostaną również aktualne problemy związane z pandemią SARS-CoV-2 oraz sytuacją geopolityczną. Celem artykułu jest wskazanie zagrożeń destabilizujących finanse publiczne, czynników, które mogą do niej prowadzić oraz działań zapobiegających ich wystąpieniu.

Słowa kluczowe: stabilność finansów publicznych, dług publiczny, wzrost gospodarczy

INTRODUCTION

The fiscal sustainability is one of the financial law's primary and most essential concepts. It is a crucial issue not only from the point of view of theoretical considerations but also affects the counteracting and removing the effects of crises. Thus, achieving stable public finances should be the goal of fiscal policy and one of the factors influencing the decisions made by the governments.

This article explains the concept of fiscal sustainability and the crucial aspects that affect its achievement. It also aims to make a comparative analysis of legal solutions affecting individual factors of this sustainability, which are adopted in selected countries – considering the current geopolitical situation. As a result, the authors will try to indicate the postulates, the implementation of which will lead to the achievement of stable public finances and answer the question about the effectiveness of measures to counteract crises.

The fiscal sustainability is essential in Central and Eastern European countries and Caucasia because it is an indispensable factor influencing their development and economic growth after the political transformation. For this reason, the analysis included countries of the former Eastern Bloc in different economic and geopolitical situations – those belonging to the European Union (Poland, the Czech Republic, Romania) and those just striving to obtain this status (Georgia). Additionally, various legal solutions and factors that affect the fiscal sustainability dictated the choice of countries.

Implementing the described intentions requires using several research methods, including the dogmatic and legal method, the comparative law method, and, incidentally, the historical method.

THE CONCEPT AND ASPECTS OF FISCAL SUSTAINABILITY

Considerations on the impact of the fiscal sustainability on the economy's condition and the effectiveness of measures aimed at ensuring that sustainability should begin with explaining the concept. The fiscal sustainability is explained as the government's ability to maintain the current level of its expenditures, tax, and fiscal policy in the long term so as not to pose a threat to the solvency of the state and meet its financial obligations and make the necessary expenses[1]. In this sense, it is also the task of cushioning possible market shocks and economic crises – so that the financial system can continue to perform planned operations and achieve goals[2]. In addition, it is characterized by a stable level of employment in the economy, a stable currency value, a persistently low level of inflation, and trust in public and financial institutions[3]. The fiscal sustainability is also explained as the ability of the public finance sector to continue the current policy without violating the intertemporal budget constraint, consisting of balancing the current government liabilities and the assumed value of future budget revenues[4].

Summing up the above characteristics, one can distinguish features that affect the fiscal sustainability. The authors define these features broadly, recognizing that many economic, political, and legal factors have a tangible impact on sustainability. The first is the state debt level as an element of the government's fiscal policy[5]. A critical goal that directly links the level of debt and the fiscal sustainability is minimizing the costs of debt servicing while maintaining a low level of risk, resulting, for example, from exchange rate fluctuations or changes in interest rates[6].

A persistent budget deficit may also directly affect the economic growth rate. However, the research conducted in this area needs to give precise results. The

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1 B. Filipiak, M. Zioło, *Finanse publiczne wobec ryzyka czynników niefinansowych*, [w:] M. Zioło (ed.), *Finanse publiczne*, Warszawa 2021, s. 126; A. Klonowska, B. Pawełek, *On the stability of public changes in an age of demographic changes*, "Research Papers of Wrocław University of Economics" 2019, no 63(8), p. 22-24.

2 K. Zielońska-Lont, *Sustainable finance initiatives and their impact on financial stability*, "Financial Law Review" 2020, no 20(4), p. 124.

3 P. Nikiforov, R. Greshko, M. Marych, N. Marusiak, V. Kharabara, O. Gladchuk, *Mutual influence of fiscal and monetary policy in the context of ensuring macro-financial stability of the state*, "Management Theory and Studies for Rural Business and Infrasctructure Develompent" 2022, nr 44(4), s. 440; P. Misztal, *Public Debt Management and The Country's Financial Stability*, "Studia Humana" 2021, no 10(3), p. 13-14.

4 Ł. Kielin, *Stabilność fiskalna jako wartość konstytucyjnie chroniona w Polsce na tle porównawczym*, Warszawa 2022, s. 32-33; M. Mackiewicz, *Metody weryfikacji stabilności fiskalnej – porównanie własności*, „Bank i Kredyt" 2010, nr 41(2), s. 91; G. Keliuotytė-Staniulėnienė, *Fiscal sustainability and its impact on financial stability in Lithuania and other new members state of the European Union*, "Ekonomika" 2015, no 94(2), p. 30.

5 P. Misztal, *Public Debt Management and The Country's Financial Stability*, "Studia Humana" 2021, no 10(3), p. 11.

6 P. Urbaniak, *Strategie i cele zarządzania długiem publicznym w Polsce*, [w:] K. Marchewka-Bartkowiak (ed.), *Pieniądz. Rynek. Instytucje*, Poznań 2005, p. 65-87.

long-term economic growth rate is correlated mainly with technological progress, which means that a budget deficit, leading to a reduction in the level of savings or an increase in debt, may harm GDP per capita but remains irrelevant to the economic growth rate. On the other hand, the main factors determining it may be investments and improving human skills, which require financial outlays and may be significantly more difficult in the event of an excessive deficit. Reducing the deficit is a difficult task, especially in times of economic downturn. Therefore, it may temporarily reduce the economic growth rate due to reducing total expenditure. However, this is not a foregone conclusion, as restoring the balance of public finances may also result in long-term and short-term economic growth[7].

It should be mentioned that the International Monetary Fund has also developed its guidelines relating to debt levels, which consider a country's level of economic development. These consider differences in countries' economic development levels, dividing them into developed and developing countries, with the latter being more restrictive. Familiarizing oneself with the guidelines set for each country separately allows for a better understanding of the differences in public fiscal management approaches between countries with various levels of economic development. It highlights the specificity of the norms governing the fiscal sustainability in each national context[8]. Nevertheless, in the context of this article, it is essential to focus on the analysis of the debt limits in force in the individual countries analyzed and the norms set by the European Union.

The second aspect is the tax system, which is the basis for allocating resources and, simultaneously, the fundamental element of the structure of public revenues, enabling the implementation of the state's tasks. Its role is also significant in terms of stimulating and stabilizing public finances. Reducing public law burdens leads to an increase in the activity of citizens and business entities – including those of an investment nature – which translates into economic growth in the long term despite the initial decrease in budget revenues. On the other hand, increasing them has the opposite effect, i.e., it may slow economic growth despite the initial increase in budget revenues. Possible tax reliefs and exemptions and their scale are also essential elements[9].

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[7] J. Ciak, *Źródła finansowania deficytu budżetu państwa w Polsce*, Warszawa 2012, p. 31-33; A. Alesina, R. Perotti, *Fiscal Adjustments in OECD Countries: Composition and Macroeconomic Effects*, "NBER Working Paper" 1996, no 5730.

[8] Guidance Note on the Sovereign Risk and Debt Sustainability Framework for Market Access Countries, online, https://www.imf.org/en/Publications/Policy-Papers/Issues/2022/08/08/Staff-Guidance-Note-on-the-Sovereign-Risk-and-Debt-Sustainability-Framework-for-Market-521884?fbclid=IwAR3nPm2q-0QN-9QfqW2hwUccpaU-1Aw6r_rIJbh3bWMZ4WvgkFVjUerfFJ7g; Guidance Note on the Bank-fund Debt Sustainability Framework for Low Income Countries, online, https://www.worldbank.org/content/dam/LIC%20DSF/Site%20File/assets/documentation/pp122617guidance-note-on-lic-dsf.pdf?fbclid=IwAR3rscI56oE4ybAcQwh9cvav3JuwB0ebO3UTSatyV3Z3ag3nkUrN3K49jnw.

[9] P. Ciżkowicz, P. Opala, A. Rzońca, *Rola systemu podatkowego przed, w trakcie i po kryzysie finansowym*, „Ruch Prawniczy, Ekonomiczny i Socjologiczny" 2012, no LXXIV(1), p. 136-144.

The third feature examined in the context of the fiscal sustainability is the structure of public revenues and expenditures. It plays a vital role in preventing the adverse effects of economic crises and slowdowns within the business cycle, recovering from crises, and stimulating the economy to develop after periods of destabilization and recession. A beneficial mechanism is using counter-cyclical fiscal rules, assuming, for example, the reduction of public spending in good economic times to use these funds in crisis years. In addition, the most desirable types of spending – especially during an economic slowdown or recession – are those related to investments, education, and health care. On the other hand, non-productive expenditures, particularly those of a social nature, should be limited – or at least not increased – which, however, is associated with a negative public perception[10].

Another factor is the demographic situation. An aging society makes it necessary to increase expenditures on health services. However, above all, it raises a problem related to the functioning of the pension system, which is part of the state's public finances. A significant percentage of budgetary expenditure is spent on pensions – and their overall share in the structure is constantly growing. Actions affecting the fiscal sustainability consist mainly of rationalizing the social security system, which can be carried out in two ways. On the one hand, the reforms focus on raising the retirement age, extending the period of professional activity, limiting pension privileges, and closely linking the old-age pension amount with the capital accumulated as part of contributions. Such solutions are often used in countries with a high GDP per capita, especially Western Europe. The second way is to increase the importance of pension funds offered by private companies and link the number of benefits paid to the efficiency of financial markets. The indicated changes will stabilize public finances, ensure an adequate number of benefits, and increase the degree of flexibility of the system and its ability to adapt to current economic conditions. This method was characteristic of Central and Eastern European countries and Caucasia[11].

The last of the aspects discussed in this article is the impact of the political situation on the fiscal sustainability. It concerns both the approach to the structure of public spending and fiscal policy, conditioned by the programs of political parties, and thus also possible budget deficits and the amount of state public debt; but also,

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[10] L. Sineviciene, A. Vasiliauskaite, *Public expenditure policy in the context of cyclical development*, "Economics and Management" 2011, nr 16, s. 1185-1190; U. Zawadzka-Pąk, *Performance budgeting and the multiannual programming of public finances*, "Białostockie Studia Prawnicze" 2014, no 20(4), p. 118-133.

[11] E. Gubernat, *Zobowiązania systemu emerytalnego w warunkach niestabilności finansów publicznych*, "Nauki o Finansach" 2012, no 3(12), p. 32-39; M. Tyniewski, M. Kozieł, *Current Problems of Financial Law in Poland and in the Czech Republic Including Effects of the COVID-19 Pandemic*, "Białostockie Studia Prawnicze" 2021, no 26(4), p. 67-68; A. Klonowska, B. Pawełek, *On the stability of public changes in an age of demographic changes*, "Research Papers of Wrocław University of Economics" 2019, no 63(8), p. 23-32.

credibility in the international arena as a state of law and national security, related to the geopolitical situation and geographical location[12].

FISCAL SUSTAINABILITY – COMPARATIVE ANALYSIS

FISCAL SUSTAINABILITY IN THE LAW OF THE EUROPEAN UNION

At the turn of the 20th and 21st centuries, problems related to the fiscal stability, including fluctuations of financial markets, rising unemployment, economic slowdown, and inflation, caused the Member States of the European Union to take action to improve the situation employing mechanisms supporting economic growth. The goal of the European community has become to transform the economy of the European Union into a stable one conducive to integration, a higher level of employment, and social cohesion. Implementing these intentions required improving public finances, including adopting regulations limiting the amount of budget deficits and public debt and protecting currencies against derogation and speculative attacks[13].

Initially, the European Union did not require member states to develop long-term financial plans consistent with the EU's financial perspective. However, the countries belonging to the eurozone needed to prepare plans for stability programs and convergence programs in the case of other countries. This obligation resulted from the Stability and Growth Pact, concluded in 1997. Its main objectives were to prevent an excessive budget deficit (the reference value was set at 3% of GDP) and to strengthen the supervision and coordination of economic policies. The economic crisis in Europe in 2008 proved the ineffectiveness of the adopted solutions and the need to introduce new regulations[14]. Therefore, the European Parliament adopted six legal acts of the package strengthening the Stability and Growth Pact, the purpose of which is to maintain the stability of the Member States' public finances and minimize the risk of recurring economic difficulties. The main factors that have been highlighted are macroeconomic budgetary surveillance. The possibility of initiating the excessive deficit procedure was introduced when the deficit exceeds 3% of GDP and when the public debt reaches 60% of GDP. Then the country will be obliged to reduce its debt by 5% per year for three consecutive years. If it proves impossible to reduce the debt

[12] L. Sineviciene, A. Vasiliauskaite, *Public expenditure policy in the context of cyclical development*, "Economics and Management" 2011, no 16, p. 1185-1190; B.Z. Filipiak, D. Wyszkowska, *Stabilność fiskalna w krajach Unii Europejskiej*, "Wiadomości statystyczne. The Polish Statistication" 2022, no 67(8), p. 24-25, 3336.

[13] M. Vuta, *From the Rules of Stability and Growth Pact at Six-pack: Financial Certainty*, „SEA Practical Application of Science" 2013, no 1, p. 231-232.

[14] M. Tyniewicki, *Medium-term budgetary frameworks in the light of Council Directive 2011/85/EU as a basic of multiannual financial planning in member states*, „Białostockie Studia Prawnicze" 2014, no 16, p. 26-28.

level within this period, the country will be subject to an excessive deficit procedure. The new directive obliges the introduction and implements national fiscal frameworks that contain common standards and guidelines for planning, monitoring, and implementing their budgets, which is also closely related to the functions performed by public finance and fiscal policy[15].

POLAND

One of the manifestations, which is to guarantee the fiscal sustainability in Poland, is the introduction of fiscal rules limiting the possibility of making public expenditures. Currently, such a function is performed by the stabilizing expenditure rule regulated in art. 112aa of the Public Finance Act[16]. The stabilizing expenditure rule applies mainly to flexible and new expenditures legally determined for each subsequent financial year[17]. An essential feature of the stabilizing expenditure rule is its anti-cyclical nature. This means that in dynamic economic growth and sound public finances, expenditure should grow slower than gross domestic product and faster during an economic slowdown or recession. The consequence of such a mechanism should be a medium-term increase in expenditure at a level close to GDP growth[18]. However, this procedure proved ineffective in practice. Despite imposing strict standards on budget expenditure, it did not fulfill its role, as it did not protect public finances from the crisis caused by the coronavirus pandemic. Moreover, the easy possibility of changing the stabilizing expenditure rule means that in crises, instead of using it as an instrument intended to accelerate the end of the crisis and counteract its effects, changes are made that limit its scope.

Moreover, the doctrine indicates the constitutional foundations of fiscal sustainability. This function is performed, among others, by the principle of the common good and the principle of budgetary balance, together with the constraints on the level of state debt that result from it. Against this background, the links between the fiscal sustainability of the state and the guarantees of implementing individual rights, including social rights, are significant. It is possible to limit the amount of public expenditure if it is required to protect a significant value, including the state's fiscal sustainability – because it is qualified as a common good in the jurisprudence[19].

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[15] A. Jachowicz, *Finanse publiczne w Polsce w świetle Paktu Stabilności*, „Research Papers of Wrocław University of Economics" 2012, no 271, p. 217-219.

[16] Ustawa z dnia 27 sierpnia 2009 r. o finansach publicznych (Dz.U. z 2023 r., poz. 1270, ze zm.).

[17] A. Młynarczyk, *Dostosowanie polskich regulacji prawnych do przepisów prawa unijnego w celu zapewnienia stabilności finansów publicznych*, „Finanse Komunalne" 2014, no 3, p. 7-15; A. Mikos-Sitek, *Komentarz do art. 112aa*, [w:] A. Mikos-Sitek (ed.), *Ustawa o finansach publicznych. Komentarz*, Legalis 2023.

[18] W. Bożek, *Komentarz do art. 112aa*, [w:] *Ustawa o finansach publicznych. Komentarz*, LEX 2021.

[19] M. Zubik, W. Sokolewicz, *Komentarz do art. 1*, [w:] L. Garlicki i M. Zubik (ed.) *Konstytucja Rzeczpospolitej Polskiej. Komentarz*, Warszawa 2016, LEX; wyrok TK z dnia 12 stycznia 2012 r., K 1/12;

An essential aspect of the fiscal sustainability is also the constitutional norm limiting the ratio of the state public debt to the annual gross domestic product to 60%. Undoubtedly, an enormous advantage of the Polish debt rule is its durability, resulting directly from its constitutional legal basis. However, it should be pointed out that the Polish debt rule is unsuitable for operational use, as it by no means defines the notion of "public debt" or "GDP". It recognizes how these indices are calculated as a statutory matter. This indirectly allows the government to influence the fiscal rule under discussion. Based on a parliamentary majority, this body can initiate legislative changes, which, by modifying the method of calculating the public debt or GDP, shall reduce the constraints implied by the Constitution. In addition, the Public Finance Act introduced prudence and recovery procedures if the debt value was close to or exceeded this limit. Currently, it is regulated in Art. 86-88 of the Public Finance Act. They oblige the government to introduce restrictive fiscal solutions to reduce the public debt ratio to GDP. For twenty years of its functioning, the constitutional debt limit did not directly constrain the conduct of fiscal policy. This resulted mainly from the relatively low level of public debt in Poland[20]. The limitations in the state budget deficit result from the provisions of the European Union, including the Sustainability and Growth Pact[21].

Changes in the tax system have been made many times in recent years. They are mainly concerned with personal income tax. Changes introduced were said to be favorable for the lowest earners, consisting of increasing the tax-free amount to 30 000 PLN and lowering the tax rate within the first threshold – to 12%. The justification for the changes introduced was creating a fairer tax system. As other goals, it was also indicated to ensure growth and stabilization of budget revenues and investments made after the SARS-CoV-2 epidemic. At the same time, the possibility of deducting the health insurance contribution from the amount of income tax due has been eliminated. These changes are unfavorable for above-average earners and most entrepreneurs.

In addition to the indicated changes in the tax system, numerous new public law burdens have been introduced, which, however, are formally not called taxes – they have all the characteristics of a tax[22]. They include, for example, a sugar fee, a fee on alcoholic beverages sold in a package of up to 300 ml, a fee on plastic bags, or the so-called rain tax.

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wyrok TK z dnia 20 stycznia 2010 r., Kp 6/09; wyrok TK z dnia 4 maja 2004 r., K 40/02; wyrok TK z dnia 27 lutego 2002 r., K 47/01.

[20] P. Panfil, *Fiscal Rules and Fiscal Illusions – The Experience of Poland*, „Financial Law Review" 2021, no 4, p. 25-40; P. Panfil, U. Zawadzka-Pąk, *France and Poland's Compliance with European Commitments Regarding Fiscal Rules*, „Financial Law Review" 2023, no 1, p. 48-52; P. Panfil, *Fiscal Stability Protection in Poland in the Face of the Debt Crisis*, "Springer Proceedings in Business and Economics" 2018, p. 165173.

[21] Ł. Kielin, *Stabilność fiskalna jako wartość konstytucyjnie chroniona w Polsce na tle porównawczym*, Warszawa 2022, p. 55.

[22] Ustawa z dnia 29 sierpnia 1997 r. – Ordynacja podatkowa (Dz.U. z 2022 r., poz. 2651, ze zm.).

The described changes in the tax system show a noticeable tendency to take actions that increase budget revenues. They are partly related to the increase in public spending resulting from the growing social spending sphere. On the other hand, they respond to the demand caused by crises and destabilizing public finances. Such situations in recent years include the coronavirus pandemic, war in Ukraine, and the influx of refugees entitled to health care, social benefits, education, and culture. This causes increased budget expenditure and destabilization of the state's financial system.

The last discussed factor in the case of Poland, influencing the fiscal sustainability, is the political situation. It is responsible for the level of investment implementation and the possibility of using funds from the European Union budget. When the political situation – both in the internal sphere (regarding legal certainty) and external (related to the war in Ukraine) is unstable, it discourages investors, including foreign ones, from developing their enterprises in a given country. The political situation may also be why the amount of transferred European funds is limited. A manifestation of this is that the funds from the European Reconstruction Fund still needed to be transferred to Poland due to doubts related to the rule of law.

CZECH REPUBLIC

In the Czech Republic, one of the main problems with the fiscal sustainability is the issue of state debt. Currently, the principle of long-term budget balance applies, according to which the budget should be balanced over a long period, not in a given year. However, a specific legal regulation was introduced only in 2017. According to EU law, the relevant provisions should have been introduced by the end of 2013. The delay was due to the political crisis and the government's resignation in 2013. Thus, it became impossible to implement the regulations in the form of constitutional rank provisions. It was done within the framework of an ordinary act. As part of the new regulations, the transparency of public finances was increased, and the expenditure rule was introduced – i.e., solutions to ensure the long-term sustainability of Czech public finances – concerning the entire public finance sector. The debt rule, in turn, assumes that if the debt of the public finance sector, after deduction of the cash reserve in financing public debt, is at least 55% of annual GDP, the state authorities are obliged to apply measures aimed at balancing public finances. Importantly, these provisions do not apply in the cases listed in the Act, including in the event of a significant deterioration of the economic situation and states of emergency. As part of the discussed regulation, the Czech Fiscal Council was also established to ensure the fiscal sustainability[23]. It is worth noting that the Czech Republic was the last EU Member State to ratify the EU Fiscal Compact in 2019[24].

[23] A. Vuongova, *Limitation of public debt on the verge of financial crisis*, "Financial Law Review" 2020, no 20(4), p. 106-111.

[24] D. Dmytrenko, R. Provazníková, *Fiscal Compliance and Fiscal Response to the COVID-19 Crisis*

The factor that had a negative impact on Czech public finances was the coronavirus pandemic. In connection with it, from 2020, a dynamic increase in the state debt began, caused by a budget deficit several times larger than assumed. Despite the legal solutions provided for in the fiscal rules for times of economic crises, there was a change in the regulations – and as a result, a significant loosening of fiscal policy. The literature emphasizes that they lead to the risk of limiting control over public spending and the level of debt. On the one hand, public spending has increased, related to, e.g., the health service and the social benefits system, and on the other hand, income has been limited – due to the recession, the economic consequences of the pandemic, but also political decisions reducing taxes, including income tax. Additional, worrying circumstances from the point of view of the fiscal sustainability are also the increase in the so-called hidden public debt, which is formally excluded from the public finance sector, as well as the lack of pension reform – which is considered necessary due to the aging society and the increasing burden of the pension system on the state budget. Such actions of the authorities of the Czech Republic were negatively assessed by the Czech Fiscal Council[25].

ROMANIA

In Romania, critical factors that affect the fiscal sustainability are public debt – although it remains lower than most EU countries, amounting to 35,2% of GDP[26]; the tax system, the structure of income and expenditure, the demographic structure, and the economic situation, including those related to inflation and the pandemic.

The sustainable development of an economy of a country economy is driven by the fiscal instruments and rules used to harmonize cooperation between states. These benchmarks are found in the EU law, which specifies a maximum level of the current or planned deficit in gross domestic product of 3% and a maximum of government debt in gross domestic product of 60%. These fiscal rules are based on a sustainable generation of economic equilibrium in the Member States of the European Union. Romania needed an effective fiscal discipline to set medium and long-term goals at the national level. Romania was in an excessive deficit due to a budget deficit of 4.6% in 2019 and an estimated deficit of 3.6% in 2020 before the pandemic[27].

in Visegrad and Baltic States, „Scientific Papers of the University of Pardubice, Series D: Faculty of Economics and Administration" 2023, no. 1, art. no. 1587.

[25] M. Tyniewski, M. Kozieł, *Current Problems of Financial Law in Poland and in the Czech Republic Including Effects of the COVID-19 Pandemic*, "Białostockie Studia Prawnicze" 2021, no 26(4), p. 64-69.

[26] M.L. Andronic (Bratulescu), *The impact of public debt on economic growth*, "Annals of University of Craiova – Economic Sciences Series, University of Craiova, Faculty of Economics and Business Administration" 2019, no 47(2), p. 13-24.

[27] A. Avram, F.M. Barna, M.L. Nachescu, C.D. Avram, R.L. Avram, *Responsible governance and the sustainability of populist public policies. The implications of wage-led growth strategy in Romania*, „Sustainability" 2020, no 12, art. no. 2975.

The fiscal policy stance in Romania during 2004-2013 was significantly procyclical as the economic advance of over 6% per year in the period 2006-2008 was accompanied by a sharp deterioration in the structural budget balance, from -3.5% to -8% of GDP respectively, virtually exhausting the fiscal space that could have been used to mitigate the effects of an adverse economic shock[28].

A set of fiscal rules were necessary to stimulate economic growth in Romania. The first fiscal rule referred to the setting of the budget and public debt ceilings, being legislative provisions imposed by the Maastricht Treaty, which had to be respected when Romania joined the European Union as a member state. Only in 2010 was adopted the Law on fiscal-budgetary responsibility through which the fiscal-budgetary policy was to be carried out according to the first fiscal rules in Romania. For the first time, it pointed out the necessity of anchoring fiscal policies in a sustainable framework, among the main objectives that the fiscal-budgetary responsibility Law considered. This also prefigured budgetary fiscal discipline and medium and long-term sustainability of public finances, as well as establishing a framework of principles and rules based on which the government could ensure the implementation of fiscal-budgetary policies leading to sound financial management resources. In addition to the three fiscal rules already in place, the fiscal policy conducted in Romania after 2010 has implemented a purely national rule to set capping rules for budgetary expenditure through this law. The overall increase in total consolidated budget expenditure could not exceed the annual nominal growth rate of gross domestic product until the preliminary consolidated general government balance surplus in the previous year of the year for which the draft budget was developed. This condition was abolished in 2013. The share of personnel costs of the general consolidated budget and the general government balance in the gross domestic product could not exceed the annual ceilings established by the medium-term fiscal framework, namely for the first two years covered by it. Public debt could be reduced by the difference in the positive balance of the general government budget if it was to be higher than the one projected in that year and in the next two years. These fiscal rules aimed to ensure medium-term and long-term budgetary equilibrium, as the country's economy could perform to cover public debt and finance sectors of national interest. In 2012, the Treaty on Sustainability, Coordination, and Governance in the Economic and Monetary Union imposed new fiscal rules on European Union Member States, including Romania[29].

[28] B. Dumitrescu, *The fiscal consolidation consequences on economic growth in Romania,* „Romanian Journal of Economic Forecasting" 2015, no 3, p. 136-151.

[29] B. Dumitrescu, C.A. Hândoreanu, *Fiscal Consolidation in Romania in the Wake of the COVID-19 Pandemic: How Much and How Fast?* [w:] *Springer Proceedings in Business and Economics*, Bukareszt 2022, p. 137-146.

The results revealed a long-term relationship between the public debt, government expenditure, tax revenue, and deficit. Although the procyclical fiscal policy aimed to manage expenditure, the European fiscal rules implemented in Romania with its accession as a Member State were mainly focused on deficit management. This also resulted from the analysis that government expenditure can only cause an increase or decrease in public debt, the causal relationship being preceded by all other variables[30].

The decentralization of state power in Romania affects the fiscal sustainability and concerns the tax system. The literature analyses the correlation between fiscal decentralization and economic growth. These studies show a positive and significant relationship between the fiscal autonomy of local governments and the fiscal decentralization index, which also translates into an increase in the fiscal sustainability[31].

Local public finance in Romania is considered an essential tool at the administrative-territorial units' level to meet residents' needs, such as culture, education, social and public services. Therefore, local authorities undertake activities aimed at increasing the activity of companies in their area, enabling financial benefits not only for the commune but also for the inhabitants. This way, the number of investments increases, which may translate into increased employment, improved living standards, and increased local tax revenues. Even though communes receive part of their income from some central taxes and fees, it is stated in the literature that as much of the funds as possible come from local taxes and fees. The introduction of financial decentralization mechanisms may affect the fiscal sustainability in Romania by increasing the efficiency of public funds and responsibility in making financial decisions[32].

Romania experienced significant demographic changes in the last decades, including an aging population. This trend impacts the workforce's age structure, which could affect economies. Without appropriate fiscal measures, this may lead to the destabilization of public finances. In addition, aging populations may lead to a reduction in private savings by reducing incomes and increasing expenditures related to health care and elderly care. This, in turn, affects investment and production by reducing funding sources and lower demand for products and services, which can lead to a decline in production[33].

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[30] A.D. Vodă, G. Dobrotă, L.A. Cristea, B. Ciocanea, *Do Fiscal Rules Constrain Fiscal Policy in Romania?*, "KnE Social Sciences" 2019, p. 17-33.

[31] M. Onofrei, G. Paraschiv, E. Cigu, G. Ventila, S.C. Gherghina, *Does Fiscal Decentralization Influence Economic Growth? Empirical Evidence from CEE*, "Transformations in Business & Economics" 2020, no 19(2B), p. 815-817, 821, 823-825.

[32] M.I. Rus, *The impact of local public finances on a community*, "Facultea de Drept Cluj Napoca, Universitatea Crestina "Dimitrie Cantemir" Bucaresti 2020, no 1, p. 182-183, 185-186.

[33] A. Cristescu, *The impact of the aging population on the sustainability of public finances*, "Romanian Journal of Regional Science" 2019, no 13(2), p. 54, 64-65.

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According to the Constitution of Georgia, the fundamental principles of economic policy for ensuring the Organic Law shall define long-term and stable economic growth. In cases of necessity, the organic law shall determine the breaching of any deviation from the limits set by macroeconomic parameters and measures to be taken to return to those parameters. In July 2011, the parliament adopted such an act. In Georgia three following fiscal rules are operating:

– the ratio of the deficit of the state's unified budget, defined by the Budget Code of Georgia, to GDP - not more than 3% (so-called deficit rule);

– the ratio of Government debt to GDP shall not be more than 60% (so-called debt Rule);

– from the date of entry into force of the mentioned Law, the introduction of a new type of national tax, except for excise tax, or the introduction of an increase in the upper margin of the rate according to the type of national tax, except for excise tax, shall be permissible only through a referendum (so-called revenue rule)[34].

The fiscal sustainability in Georgia is interesting because, unlike the other countries discussed, the political situation plays a vital role. This is illustrated by the fact that in terms of the applied fiscal policy after gaining independence in 1991, three primary periods are distinguished, which in the literature are named after the former president of Georgia – Mikhail Saakashvili; as Before, During and After the Saakashvili Period[35].

In the first years after Georgia regained its independence, there was economic stagnation and a profound crisis of public finances. High unemployment, low budget income, the armed conflict over Abkhazia and South Ossetia, and the lack of capital that would enable investment resulted in the impoverishment of the society and led to recession. This situation persisted until the bloodless Rose Revolution in 2003, which led to a change of government, resulting in Mikheil Saakashvili becoming president. The role of the political factor that led to the country's extraordinary economic development is enormous. This is confirmed by the data, which indicate that since Mikheil Saakashvili took office till 2013, economic growth was 70%. Budget revenues increased by 300% three years after the Rose Revolution. The influx of foreign capital – and thus the increase in the level of investment; as well as reducing the level of corruption and changes in the tax system, increasing the level of taxation on the model of Western countries while simplifying proce-

[34] Monitoring Report of the Fiscal Rules Established by the Organic Law of Georgia on Economic Freedom, Parliamentary Budget Office, Tbilisi 2022, online. https://pbo.parliament.ge/media/k2/attachments/Monitoring_Report_of_Fiscal_Rules__2022_ENG-Final_version.pdf.

[35] S. Imamali, E. Aslanov, N. Veliyeva, *Fiscal Policy Implementation in Georgia Before, During and After Saakashvili Period*, "Academic Journal of Economics Studies" 2019, no 4(5), p. 179.

dures and increasing its transparency, led to the development of significant budget surpluses in 2004-2007[36].

Thus, the political factor led to stabilizing public finances and dynamic economic growth directly related to it. This situation also changed due to the political situation – the war with Russia began in 2008. As a result, public expenditure on armaments was drastically increased, while investments and development activities were limited. The Georgian economy has suffered significantly – e.g., due to restrictions on tourist traffic, an essential element, and the budget deficit began to overgrow. Relative stabilization occurred in 2011 when the expenditure rule was introduced regarding fiscal policy and state debt limits[37].

Another aspect that has had a powerful impact on the fiscal sustainability in Georgia is the coronavirus pandemic. As a result, there was an increase in unemployment, the budget deficit, and thus the state public debt, and ultimately an economic recession. Despite taking numerous actions aimed at counteracting the adverse effects of the pandemic, such as allocating public funds for investments stimulating the economy, helping entrepreneurs, counteracting the depreciation of the national currency – it is estimated that the economic consequences and destabilization of public finances, affecting the slower rate of economic growth, will feel for at least a few years[38].

CONCLUSIONS

Due to the critical role of fiscal sustainability in maintaining sustainable economic growth and development of countries, national legal regulations should provide for actions to ensure it. One of the primary mechanisms is fiscal rules concerning the limits of the budget deficit, public debt, or expenditure. Moreover, implementing fiscal rules plays the leading role, which is required from the Member States of the European Union. However, it is also introduced in countries outside the European Union, such as Georgia.

Notwithstanding, the fiscal sustainability is influenced not only by fiscal rules but also by other factors discussed in the article, the role of which depends on the specificity of a given country. Based on the conducted research, there is no doubt that the excessive state public debt and the persistently high level of budget deficits – especially those unrelated to investments or property expenditures – may adversely affect the fiscal sustainability .

[36] V. Verdulize, *Influence of Inflationary Tax in the Regional Economy of Georgia and the National Bank's Monetary Policy*, "Economic Science for Rural Development" 2019, no 52, p. 325-331; S. Imamali, E. Aslanov, N. Veliyeva, *Fiscal Policy Implementation in Georgia Before, During and After Saakashvili Period*, "Academic Journal of Economics Studies" 2019, no 4(5), p. 179-185.

[37] Ibidem, p. 179-185.

[38] I. Kovzanadze, *Economic Challenges During COVID-19 and Post-Pandemic Era*, "Economics and Business" 2020, no 4, p. 27-33.

Nevertheless, the information presented in the article regarding the fiscal sustainability and the application of fiscal rules in individual countries indicates the need for more effective solutions in crises. In reality, at the level of the European Union and individual countries, there is a capitulation in enforcing the application of fiscal rules. In practice, they are ineffective because not only do they not fulfill their role, but they also change, suspend, or mitigate on an ongoing basis in situations where they should be used as the best solution during a crisis. Such claims lead to the conclusion that the existence of fiscal rules on debt or spending policy is pointless in its current form.

According to the authors, the primary factor affecting the fiscal sustainability is sometimes the political factor, on which the emergence of all the others depends. It is a political decision that will result in taking specific actions to counteract crises.

To sum up, an essential question in the current discussion on fiscal rules and the fiscal sustainability is whether the fiscal rules in shape resulting from the current EU law are still an adequate and needed mechanism or whether their continued existence is only a result of ideals which, due to the crisis, must be abandoned and replaced by effective and less restrictive fiscal management.

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