

Local Government Unit Budgets in Poland, 1999–2023

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Abstract

In 1999, additional levels of local government were established in Poland: the county (Polish: powiat) and the voivodship (Polish: województwo). The year 2024 marks the 25th anniversary of this reform. Therefore, the study aims to examine the formation of the Local Government Units finances and to identify the factors influencing them. Budgets of these units in the years 1999–2023 were analyzed. The study reveals that the revenue and expenditure potential of municipalities, including cities with the county rights, is considerably higher than that of counties and voivodships. However, among all levels of local government, voivodships experienced the highest income growth between 1999 and 2023. Local government revenues and expenditures were influenced by legislative changes, economic conditions, and the uneven distribution of EU funds. In recent years, budgets have also been affected by shocks such as a pandemic, the war in Ukraine, and high inflation. Comparing local government revenues to GDP indicates the evolving role of local government within the state. The recent downward trend in this ratio for communes (Polish: gmina), cities with county rights, and counties is unfavourable.

Keywords: local government unit, budget, revenue, expenditure

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Introduction

The year 2024 marks the 25th anniversary of Poland's administrative reform and, consequently, the reform of its local government. Concurrently with the local government reform, three other reforms were implemented in the country: education (establishing middle schools), social security, and health insurance. These three reforms were eventually reversed. Only the administrative reform remained, but the long-promised changes to create larger units in place of the numerous small communes—changes that would have helped to rationalize spending—were not enacted. Furthermore, modern local or regional taxes were not introduced to replace the outdated taxes that only benefited the communes and cities with the county rights.

The reform of the territorial administration and the establishment of additional tiers of local government units were driven by the consensus on the need to modify the territorial division. The rationale for local government reform was (Miszczuk 2003, 146-147):

- The need to deepen the principle of subsidiarity. The majority of communes could not meet many of the inhabitants' needs, hence, the establishment of counties and voivodships, which were better able to identify the needs of inhabitants on the ground than the government administration.¹

1. Currently (as of 1 January 2024), Poland is divided into 16 voivodships (Polish: *województwo*), 380 counties (Polish: *county*) and cities with the county rights (Polish: *miasto na prawach powiatu*), and 2,477 communes (Polish: *gmina*); see: *Toponymic Guidelines of Poland for Map Editors and Other Users*, 5th revised ed., Commission on Standardization of Geographical Names Outside the Republic of Poland, affiliated to the Surveyor General of Poland, Warsaw 2024.

- Small communes. This premise follows from the previous one. The functioning of small communes, sometimes not exceeding 2,000 inhabitants, did not allow many tasks to be carried out by a body elected from within the local community.
- The need to decentralize public finances. There was a need for a legal basis for the expansion of tasks, and thus revenues, in large cities and, incidentally, in Poland as a whole.
- The planned accession to the EU and the need to establish self-governing regions. Another important premise of the self-government reform was the necessity to establish regions, as this role was not fulfilled by the 49 voivodships created in 1975 for political reasons.

The new system of finances created in connection with the self-government reform had to provide funds for the newly appointed units, on the one hand, and, on the other, reflect the further decentralization of public finances, which, in a highly centralized state was needed to rationalize public spending. This paper aims to demonstrate how the budgets of local government units at all levels evolved between 1999 and 2023. Additionally, the study presents the impact of various factors and shocks on the finances of local government units.

1 Budget revenues of local government units, 1999–2023

Along with the establishment of local government units, the state separated the assets of these units from its own assets. It was also necessary to separate the revenues of counties and voivodships. Accordingly, a new law on revenues of local government units was introduced, which assigned revenues to the various levels of local government, including communes. It was not of a definitive nature, as its title specified only two years. However, the deadline for the final determination of the local government revenue system was repeatedly postponed. Eventually, a new law passed in 2003 established the revenues of local government in Poland indefinitely from 2004 onward, which did not mean, however, that there were no ongoing changes to the legislation. Table 1 shows the development of budget revenues of local government units between 1999 and 2004, also taking into account the division into particular levels and additionally distinguishing cities with the county rights.

The revenues presented in table 1 show the income potential of local government units at the beginning of the extended self-government. The data shows that communes, together with cities with county rights, are the fundamental units. The potential of counties and voivodships considerably smaller. These proportions have generally been maintained through 2023 (see table 4). It is worth noting that the income potential of counties did not grow as dynamically as that of voivodships. Since 2002, subsidies to counties have been decreasing due to the reduction of their responsibilities in terms of services, inspections, and guards. In cities with the county rights, these changes were less visible due to the greater range of tasks in these units, but their subsidies have also been declining since 2002.

Table 1. Total revenues of Local Government Units (LGUs) and their dynamics, 1999–2004

Year	Total revenue in billion PLN					Dynamics of LGUs' income in % ^a	Number of drops in LGUs' income
	LGUs	Communes	Cities with the county rights	Counties	Voivodships		
1999	64.9	32.4	19.4	9.8	3.3		
2000	72.6	34.6	21.8	12.6	3.7	111.86	0
2001	79.6	37.3	23.7	14.0	4.6	109.64	0
2002	80.0	34.5	29.0	12.3	4.2	100.50	3 (g, p, w)
2003	79.1	36.0	27.4	11.1	4.6	98.88	2 (m, p)
2004	91.5	40.3	31.8	12.5	7.0	115.68	0

Source: Own compilation and calculations based on data presented in the *Statistical Yearbooks of the Republic of Poland* published by Statistisc Poland.

Abbreviations: g—communes, p—counties, w—voivodships, m—cities with the county rights

^a Previous year = 100.

The year 2004 was characterised by stabilisation of revenues of local government units. Revenues of all levels of local government showed an increase compared to the previous year. Voivodships recorded a particular increase in revenue, which resulted, among other things, from a substantial increase in the share of corporate income tax (CIT) from 0.5% to 15.9% (Wójtowicz 2021, 157). In the case of communes and cities with the county rights, there was no continuous increase in revenue, as the economic slowdown that affected the global economy at the turn of the millennium also had an impact (Orłowski 2010, 16). This was particularly evident in these units due to their fairly large revenues from shares in state budget taxes.

Table 2 illustrates the development of revenues in subsequent years, from 2005 to 2010. This period is characterized by uninterrupted growth in the revenues of local government units. However, it can be noted that in 2009, compared to 2008, the growth rate clearly decreased in communes and cities with the county rights. This was associated with changes in personal income tax (PIT) (reduction of rates) and also with the economic slowdown in Poland, resulting from the global economic crisis (Paździor 2013; Piech 2012). This also resulted in a decrease in revenue even from some local taxes or property income. The voivodship, on the other hand, showed a very high income growth in 2009 compared to the previous year, related to development subsidies (EU funds). However, they were also the only level of local government that showed a decrease in income in 2010. This significant decrease, compared to 2009, in voivodship revenues cannot be linked to the change in the regulations on local government shares in income taxes of the state budget. Although one might be tempted to conclude that the voivodship's large share of CIT exposes it to greater fluctuations during economic changes than the other levels of local government, whose share of state budget taxes from this tax is relatively small (Wójtowicz 2021, 158), the drop in voivodship revenues was due to a significant decrease in subsidies related to EU funds in 2010 (Nowak et al. 2011, 636).

Table 2. Total revenues of Local Government Units (LGUs) units and their dynamics, 2005–2010

Year	Total revenue in billion PLN					Dynamics of LGUs' income in % ^a	Number of drops in LGUs' income
	LGUs	Communes	Cities with the county rights	Counties	Voivodships		
2005	102.9	45.8	36.3	13.8	7.1	112.46	0
2006	117.0	51.7	41.0	14.8	9.5	113.70	0
2007	131.4	57.0	46.9	16.2	11.3	112.31	0
2008	142.6	62.3	49.4	18.1	12.7	108.52	0
2009	154.8	64.9	50.3	20.1	19.5	108.56	0
2010	162.8	72.3	53.9	22.5	14.1	105.17	1 (w)

Source: Own compilation and calculations based on data presented in the *Statistical Yearbooks of the Republic of Poland* published by Statistisc Poland.

Abbreviations: w—voivodships; ^a Previous year = 100.

Table 3. Total revenues of Local Government Units (LGUs) and their dynamics, 2011–2016

Year	Total revenue in billion PLN					Dynamics of LGUs' income in % ^a	Number of drops in LGUs' income
	LGUs	Communes	Cities with the county rights	Counties	Voivodships		
2011	171.3	75.8	56.9	23.6	15.1	105.22	0
2012	177.4	78.4	61.2	22.5	15.2	103.56	1 (p)
2013	183.5	80.0	64.2	23.1	16.1	103.44	0
2014	194.3	84.5	68.3	23.8	17.7	105.89	0
2015	199.0	87.7	70.6	23.7	17.1	102.42	1 (p)
2016	213.7	101.8	74.4	23.9	13.5	107.39	1 (w)

Source: Own compilation and calculations based on data presented in the *Statistical Yearbooks of the Republic of Poland* published by Statistisc Poland.

Abbreviations: p—counties, w—voivodships; ^a Previous year = 100.

The analysis of budget data from 2011 to 2016, as illustrated in table 3, shows a continuous increase in local government revenues. Communes and cities with the county rights did not record a decrease in budget revenues during this period. The situation was different for counties and voivodships. Counties had a decrease in revenue twice during the period, although it was not substantial. In 2012, county revenues fell as a result of a decrease in subsidies from the state budget, primarily those related to the absorption of EU funds. In 2015, the decrease in revenue was also caused by a decrease in EU funds and a slight decrease in the educational part of the general subvention. A fairly significant decrease in voivodship revenues in 2016 was also related to a decrease in EU funds.

Table 4. Total revenues of Local Government Units (LGUs) and their dynamics in 2017–2023

Year	Total revenue in billion PLN					Dynamics of LGUs' income in % ^a	Number of drops in LGUs' income
	LGUs	Communes	Cities with the county rights	Counties	Voivodships		
2017	229.9	111.2	78.5	25.4	14.8	107.58	0
2018	251.8	121.4	85.5	28.0	17.0	109.53	0
2019	278.5	135.2	93.9	30.7	18.8	110.60	0
2020	304.9	149.1	100.3	34.6	21.0	109.48	0
2021	333.4	163.5	111.0	36.1	22.8	109.35	0
2022	345.7	171.8	110.2	39.0	24.6	103.69	1 (m)
2023	362.0	170.3	114.3	45.3	32.1	104.72	1 (g)

Source: Own compilation and calculations based on data presented in the *Statistical Yearbooks of the Republic of Poland* published by Statistisc Poland.

Abbreviations: g—communes, m—cities with the county rights; ^a Previous year = 100.

In contrast, between 2017 and 2021, as table 4 indicates, local government units at all levels saw increases in revenue. Notably, these were quite large increases compared to 2011–2016, despite the COVID-19 pandemic, which restricted the economic activities of many businesses. The highest revenue growth was recorded in 2019. However, in 2020 and 2021, during the pandemic, growth was also quite high. This was the result of a large increase in revenue for communes in particular, but also for cities with the county rights. In 2022, the revenue growth declined. This was a consequence of a significant decrease in the share of subsidies in total income in cities with the county rights and voivodships. This decline was partly to the transfer of the 500+ payment to the Social Insurance Institution (ZUS) and in part to the distribution of subsidies according to the political affiliation, i.e., the alignment of the entity's authorities with the ruling party. Many main cities with the county rights were not governed by Law and Justice (PIS) party members (Swianiewicz and Flis 2022). In contrast, income from the share of personal income tax in communes fell, despite concerns about the introduction of the Polish Order. Cities with the county rights faced a different situation, where the share of personal income tax fell nominally in 2022 compared to 2021. Coupled with the need to assist Ukrainian refugees, the situation of these cities deteriorated greatly (Surówka 2023).

To summarize the analysis of budget revenues of local government units, it is still worth examining figure 1, which shows the development of budget revenues of all local government units and by level. The curve depicting the revenues of all units has been steadily climbing upwards. The graph of commune revenue looks somewhat different, with a marked decline in 2002 and in 2023. In the cities with the county rights, a deceleration in revenue growth in recent years is clearly visible. For counties, the curve is least differentiated, and the voivodships show a clear decline in 2010, but a definite increase in 2023.

The discussion of trends in revenues of local government units should be expanded by analyzing their structure. Table 5 illustrates the share of own revenues and subsidies in total revenues in selected years of the 1999–2023 period. The data in table 5 indicate a low potential of own income of the counties, although this income has been growing relatively since 1999. The share of own income has also been growing in the voivodships, but not continuously. There was a very high

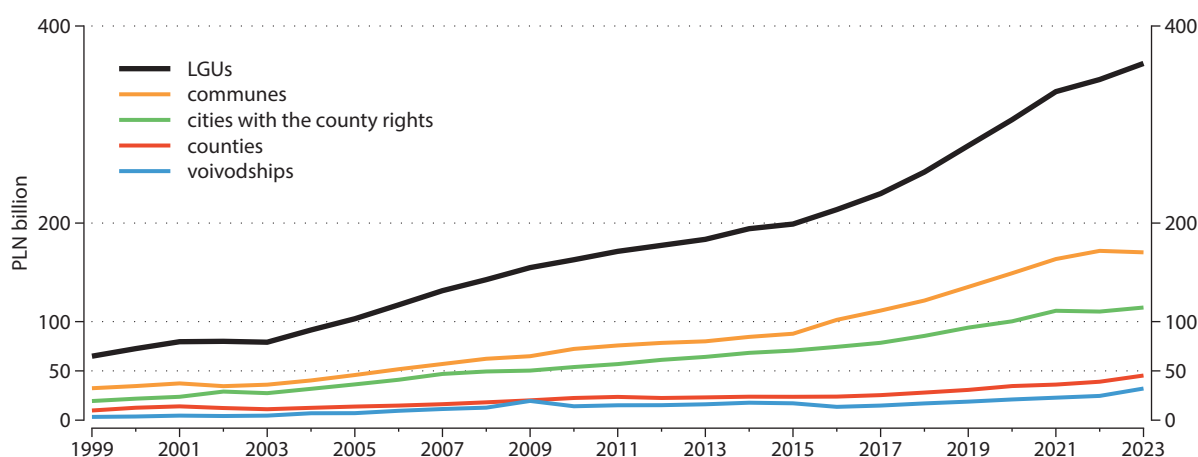


Figure 1. Total revenue of Local Government Units (LGUs) in 1999–2023

Source: Own compilation based on data published by Statistics Poland

Table 5. Shares of own revenues and earmarked subsidies in total revenues of Local Government Units in selected years (in %)

Year	Share of own revenue in total revenue					Share of subsidies in total income				
	LGUs	G	M	P	W	LGUs	G	M	P	W
1999	42.51	52.71	48.15	6.14	17.73	22.14	11.55	21.69	49.39	47.3
2000	40.70	50.80	47.86	7.77	15.91	22.67	13.73	20.33	44.40	46.22
2005	50.62	44.87	64.46	27.16	62.51	16.73	16.22	11.77	22.13	43.10
2010	48.27	44.62	63.62	28.17	40.44	22.75	24.02	14.47	28.49	38.71
2015	51.98	49.7	63.46	33.54	41.82	22.23	21.30	16.87	24.02	46.53
2020	48.00	44.01	55.90	40.48	50.91	30.02	34.79	25.37	20.7	33.77
2022	50.69	46.19	60.29	39.46	56.85	27.64	33.50	20.48	32.21	25.87
2023	49.52	45.93	59.39	33.19	56.40	22.94	26.43	15.77	26.26	25.28

Source: Own compilation and calculations based on data published by Statistisc Poland.

Abbreviations: G—communes, M—cities with the county rights, P—counties, W—voivodships

share of own income in 2005, but in 2010 and 2015 it was much lower (as a result, as previously indicated, of lower EU funding). Cities with the county rights have the highest share of own income, with the exception of 1999 and 2000, when communes held the highest share. In the last year under review, communes rank only third after cities with the county rights and voivodships, despite the fact that, unlike voivodships, they have numerous local taxes in their own revenues.

Subsidies in local government units showed great variation. The dramatic decrease in subsidies in the counties can be explained by a reduction in the tasks of services, inspections, and guards, which were financed on the basis of targeted subsidies. In the cases of other units, the different shares resulted from the absorption of EU funds and changes in the financing of tasks (e.g., the transfer of social welfare tasks to communes and cities with the county rights). It is also worth adding that this income structure was compounded by changes to the general subvention in 2020 in connection with the pandemic and remote learning. Funds for these purposes flowed to local government units, feeding into the general subvention, which slightly altered the shares of other revenues (Patrzalek et al. 2022, 76).

2 Budgetary expenditures of local government units, 1999–2023

The budget expenditures of local government units between 1999 and 2004 are a function of income, as indicated in Tables 1 and 6. Nearly identical amounts of income and expenditures are found in subsequent years and at different levels of local government.

Table 6. Total expenditures of Local Government Units (LGUs) and their dynamics, 1999–2004

Year	Total expenditure in billion PLN					Dynamics of LGUs' expenditures in % ^a	Number of drops in LGUs' expenditure
	LGUs	Communes	Cities with the county rights	Counties	Voivodships		
1999	65.8	32.8	20.0	9.8	3.3		
2000	75.7	36.2	23.1	12.7	3.8	115.05	0
2001	82.7	38.6	25.1	14.3	4.7	109.25	0
2002	83.2	35.0	31.2	12.7	4.3	100.60	3 (g, p, w)
2003	81.0	37.0	28.2	11.4	4.7	97.36	3 (LGU, m, p)
2004	91.4	40.9	32.1	12.4	5.9	112.84	0

Source: Own compilation and calculations based on data presented in the *Statistical Yearbooks of the Republic of Poland* published by Statistisc Poland.

Abbreviations: g—communes, p—counties, w—voivodships, m—cities with the county rights

^a Previous year = 100.

Table 7. Total expenditures of Local Government Units (LGUs) and their dynamics, 2005–2010

Year	Total expenditure in billion PLN					Dynamics of LGUs' expenditures in % ^a	Number of drops in LGUs' expenditure
	LGUs	Communes	Cities with the county rights	Counties	Voivodships		
2005	103.8	45.8	36.5	13.9	7.6	113.57	0
2006	120.0	53.2	41.2	15.6	10.0	115.61	0
2007	129.1	56.1	45.9	16.1	11.1	107.58	0
2008	145.2	62.9	51.2	18.1	13.0	112.47	0
2009	167.8	70.0	56.2	21.2	20.5	115.56	0
2010	177.8	79.7	59.0	23.8	15.2	105.96	1 (w)

Source: Own compilation and calculations based on data presented in the *Statistical Yearbooks of the Republic of Poland* published by Statistisc Poland.

Abbreviations: w—voivodships; ^a Previous year = 100.

The analysis of expenditure dynamics also shows a high similarity to income. Decreases in expenditure occurred, as in income, only in 2002 and 2003 and concerned the same levels of local government units. The only difference is that in 2003, there was also a decrease for the local government as a whole, as a result of a rather significant decrease in expenditure in cities with the county rights. This means that local government units show a high degree of responsibility when incurring liabilities, which is admittedly enforced by uniform regulations. The evolution of expenditures in local government units from 2005 to 2010 is illustrated in table 7.

For most of the years surveyed, the statement that expenditure is a function of income remains true. However, for the year 2009, in communes and cities with the county rights, expenditures quite significantly exceed income. The situation changes in the following year: income and expenditure were essentially at a similar level, with the exception of communes and, to a lesser extent, cities with the county rights. Decreases in expenditure, as with income, were recorded only in voivodships and concerned the year 2010, in which the rules for accounting for EU funds changed. The economic crisis did not affect the limitation of expenditures by local government units.

Table 8 illustrates the expenditures of local government in Poland from 2011 to 2016. Compared to the revenues of these years, numerous decreases in expenditures can be seen. Only in two years did expenditure show an increase. In the other years, communes, counties, and voivodships showed decreases. Although cities with the county rights had a continuous increase in expenditure, this was negligible in 2015. It is worth mentioning, however, that 2015–2016 was characterised by a decline in prices in the economy. Deflation appeared for the first time since 1990. Decreases and increases in expenditure in voivodships resulted from fluctuations in the settlement of EU funds in the previous financial perspective, 2014–2020 (Patrzałek et al. 2022, 80).

Table 8. Total expenditures of Local Government Units (LGUs) and their dynamics, 2011–2016

Year	Total expenditure in billion PLN					Dynamics of LGUs' expenditures in % ^a	Number of drops in LGUs' expenditure
	LGUs	Communes	Cities with the county rights	Counties	Voivodships		
2011	181.6	79.7	61.5	24.1	16.3	102.14	1 (g)
2012	180.5	78.5	63.7	22.5	15.8	99.39	4 (LGU, g, p, w)
2013	183.8	79.4	65.0	22.9	16.5	101.83	0
2014	196.8	85.1	69.7	23.8	18.2	107.07	0
2015	196.4	85.9	69.8	23.4	17.2	99.8	2 (p, w)
2016	206.0	98.2	71.9	23.3	12.6	104.89	2 (p, w)

Source: Own compilation and calculations based on data presented in the *Statistical Yearbooks of the Republic of Poland* published by Statistisc Poland.

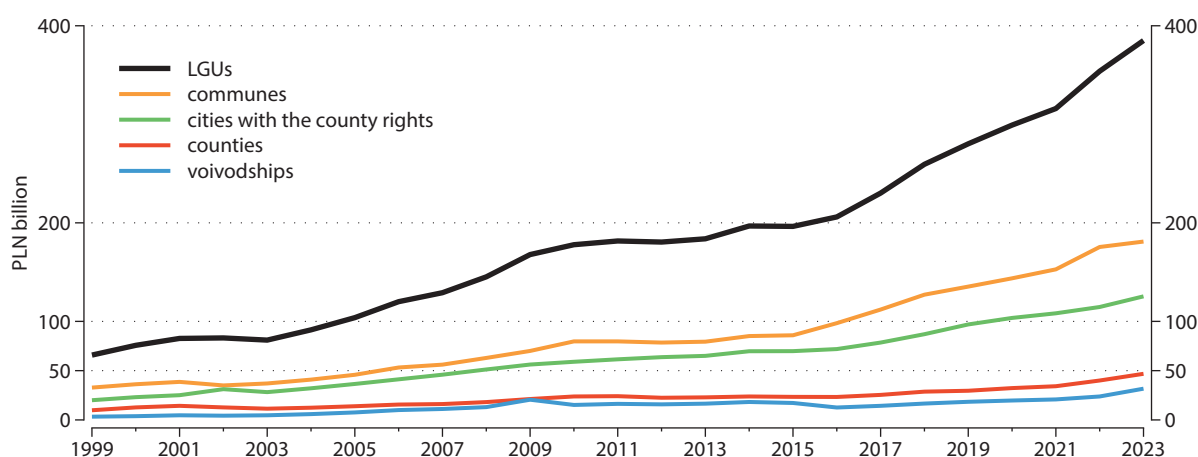
Abbreviations: g—communes, p—counties, w—voivodships; ^a Previous year = 100.

Table 9. Total expenditures of Local Government Units (LGUs) and their dynamics, 2017–2023

Year	Total expenditure in billion PLN					Dynamics of LGUs' expenditures in % ^a	Number of drops in LGUs' expenditure
	LGUs	Communes	Cities with the county rights	Counties	Voivodships		
2017	230.2	112.0	78.5	25.4	14.3	111.75	0
2018	259.4	127.1	87.0	28.7	16.6	112.7	0
2019	280.2	135.3	96.9	29.6	18.4	108.02	0
2020	299.2	143.7	103.5	32.3	19.7	106.78	0
2021	316.0	152.8	108.2	34.2	20.8	105.61	0
2022	353.9	175.5	114.6	40.0	23.8	111.99	0
2023	385.0	181.0	125.4	46.8	31.7	108.79	0

Source: Own compilation and calculations based on data presented in the *Statistical Yearbooks of the Republic of Poland* published by Statistisc Poland.

^a Previous year = 100.

**Figure 2.** Total expenditure of Local Government Units (LGUs) in 1999–2023

Source: Own elaboration based on data published by Statistics Poland

Expenditure by local government units showed a steady increase between 2017 and 2023, despite various shocks: a pandemic, war across the eastern border, and high inflation. No group of units showed a decrease in expenditure. However, when the spending dynamics for all local government units are juxtaposed with inflation rates, it is possible to identify the years in which there was a decline in real terms. In 2022 and 2023, the inflation rates were higher than the growth rate.

Expenditure in communes and cities with the county rights fell in real terms, which was primarily related to the successive transfer of 500+ payments to ZUS. However, the increased expenditure of cities related to the war and the influx of refugees also played a role (Surówka 2023). In contrast, voivodships saw around 22% real growth in expenditure in 2023. This consisted of particularly high growth in expenditure on transport and communications, public administration, health care, and culture and heritage protection.

Figure 2 illustrates the expenditures of local government units throughout the period under review. As with revenue, an increase in local government expenditure can be seen. Although periods of small decreases or smaller increases in expenditure can also be seen. However, there is no clear decrease in the last year.

3. Deficits and surpluses in local government budgets in Poland, 1999–2023

Local government budgets do not always close with deficits. They can be compared to the state budget, which, since the beginning of the new system of public finance, has been unbalanced in successive years 1991–2024. The attempt to implement the state budget without a deficit in 2020 had more of a propaganda purpose than a reflection of reality. Nor can this be attributed to the 2020 pandemic, as its inevitability was a foregone conclusion before the 2020 budget was passed. The budget for 2020 was signed by the President of Poland exceptionally late, at the end of March 2020 (Miszczuk 2023, 216).

Table 10 shows the aggregate results of local government budgets from 1999 to 2023. It is clear that these deficits and surpluses comprise the results of the budgets of all units. The situation of the different units varied, as did the behavior to raise refundable revenue. The policy of balancing budgets is generally characteristic of communes that are small (in terms of population) and have low revenue potential, or communes with very high revenue potential due to special advantages (e.g., the location of extracted natural resources within the commune). The former cannot bear larger liabilities, the latter do not need to use repayable revenue at all, as their own resources are sufficient. It is worth mentioning the practice of some entities hiding part of their debt in order to meet the debt-to-total-income ratio requirements. This generally applied to large cities, which

Table 10. Deficits (D) and surpluses (N) of Local Government Units' budgets in Poland, 1999–2023

Year	Deficits or surplus	Year	Deficits or surplus	Year	Deficits or surplus
1999	D (LGU, g, m) N (p, w)	2007	N (all)	2015	D (w) N (LGU, g, m, p)
2000	D (all)	2008	D (LGU, g, m, w) N (p)	2016	N (all)
2001	D (all)	2009	D (all)	2017	D (LGU, g) N (m, p, w)
2002	D (all)	2010	D (all)	2018	D (LGU, g, m, p) N (w)
2003	D (all)	2011	D (all)	2019	D (LGU, g, m) N (p, w)
2004	D (g, m) N (LGU p, w)	2012	D (LGU, g, m, w) N (p)	2020	D (m) N (LGU, g, p, w)
2005	D (all)	2013	D (LGU, m, w) N (g, p)	2021	N (all)
2006	D (all)	2014	D (all)	2022	D (LGU, g, m, p) N (w)
				2023	D (LGU, g, m, p) N (w)

Source: Own compilation based on tables 1–9

Abbreviations: g—communes, p—counties, w—voivodships, m—cities with the county rights

transferred their liabilities to municipal companies in exchange for the promise of “lending” funds (Babczuk 2012, 24–33). The behavior of local government entities in this regard is overlaid by changes in legislation requiring entities to comply with certain limits when incurring liabilities. Until 2013, rigid limits—identical for all local government units—were in place (limiting debt to 60% of income and debt service, together with repayment of debt instalments, to 15% of income), causing the aforementioned policy of shifting funds to municipal companies. Since 2014, an individual debt indicator was introduced, while the debt limitation ceiling was abandoned (Miszczuk and Miszczuk 2021, 110–111). The individual indicator had many drawbacks (Miszczuk and Miszczuk 2021, 111–112). It was eventually replaced by a new one, much more favorable to the local government in terms of its ability to incur liabilities. Given that the previous indicator was below 15% in most units, this should have reduced local government indebtedness and thus budget deficits. However, the data in the table, do not indicate such behavior by local government units, at least at the start of the new legislation. In 2014, local government as a whole showed deficits at all levels. In subsequent years, however, it is noticeable that budget surpluses prevail. After the change of the indicator in 2020, the situation of the units improved briefly. Due to the pandemic, new restrictions were introduced for the local government in terms of incurring liabilities. This can be seen in 2021, where local government budgets as a whole closed with surpluses.

The occurrence of deficits or surpluses in local government budgets was also due to the inflow of EU funds. The cyclical nature of these funds, associated with the EU financial perspective, was reflected in the budget deficits of units in 2009–2012. In 2016, there was no such phenomenon as a result of perturbations in the settlement of EU funds. On the other hand, the years of the pandemic, the war in Ukraine, and high inflation do not allow us to unequivocally identify the reasons for the formation of the budget results of local government units. One can only assume that the surpluses in 2021 were due to the expectation of new funds from the seven-year EU financial perspective for 2021–2027.

4 The revenue potential of local government in the economy

The potential of local government units can be measured by the amount of their revenue relative to GDP. Table 11 illustrates the income of local government units as a proportion of GDP from 1999 to 2023, and Tables 12–15 show the share of income of communes, cities with the county rights, counties, and voivodships in GDP.

Based on the data in table 11, it can be concluded that the potential of local government units in the economy grew between 1999 and 2022. Although, there were occasional minor decreases and also larger shares of income in GDP (e.g., 2001 or 2020), the 2023 indicator puts the units back to where they were in the early 2000s in this respect. The following tables illustrate the shares of local government units at each level.

Table 12 refers to communes. Like all local government units, the position of communes in the economy is strengthening, but in 2023 the revenue-to-GDP ratio drops dramatically. In turn, based on table 13, it can be concluded that the potential of cities with the county rights changed similarly to communes. However, the decline in the share of cities’ incomes was already marked in 2022 and deepened in 2023. Thus, one can speak of a kind of erosion of cities’ finances (as coined by Patrzalek et al. 2022).

Table 11. Revenues of Local Government Units in GDP, 1999–2023 (in %)

Year	Revenue	Year	Revenue	Year	Revenue	Year	Revenue	Year	Revenue
1999	9.01	2004	9.81	2009	11.29	2014	11.43	2019	12.17
2000	9.70	2005	10.39	2010	11.35	2015	11.07	2020	13.04
2001	10.18	2006	10.94	2011	11.03	2016	11.53	2021	12.67
2002	9.85	2007	11.06	2012	11.00	2017	11.59	2022	12.48
2003	9.34	2008	11.09	2013	11.25	2018	11.84	2023	10.64

Source: Own elaboration based on data published by Statistics Poland

Table 12. Communes' revenues as a share of GDP, 1999–2023 (in %)

Year	Revenue	Year	Revenue	Year	Revenue	Year	Revenue	Year	Revenue
1999	4.50	2004	4.32	2009	4.73	2014	4.97	2019	5.91
2000	4.62	2005	4.63	2010	5.04	2015	4.87	2020	6.38
2001	4.77	2006	4.84	2011	4.88	2016	5.49	2021	6.21
2002	4.25	2007	4.80	2012	4.86	2017	5.61	2022	6.20
2003	4.32	2008	4.85	2013	4.91	2018	5.71	2023	5.01

Source: Own elaboration based on data published by Statistics Poland

Table 13. Revenues of cities with the county rights as a share of GDP, 1999–2023 (in %)

Year	Revenue	Year	Revenue	Year	Revenue	Year	Revenue	Year	Revenue
1999	2.69	2004	3.40	2009	3.67	2014	4.01	2019	4.10
2000	2.91	2005	3.66	2010	3.76	2015	3.92	2020	4.29
2001	3.03	2006	3.83	2011	3.66	2016	4.02	2021	4.19
2002	3.57	2007	3.95	2012	3.80	2017	3.96	2022	3.98
2003	3.24	2008	3.85	2013	3.94	2018	4.02	2023	3.36

Source: Own elaboration based on data published by Statistics Poland

Table 14. Counties' revenues as a share of GDP, 1999–2023 (in %)

Year	Revenue	Year	Revenue	Year	Revenue	Year	Revenue	Year	Revenue
1999	1.37	2004	1.34	2009	1.46	2014	1.40	2019	1.34
2000	1.68	2005	1.39	2010	1.57	2015	1.32	2020	1.48
2001	1.80	2006	1.39	2011	1.52	2016	1.29	2021	1.37
2002	1.51	2007	1.36	2012	1.40	2017	1.28	2022	1.41
2003	1.31	2008	1.41	2013	1.42	2018	1.31	2023	1.33

Source: Own elaboration based on data published by Statistics Poland

Table 15. Voivodships' revenues as a share of GDP, 1999–2023 (in %)

Year	Revenue	Year	Revenue	Year	Revenue	Year	Revenue	Year	Revenue
1999	0.46	2004	0.75	2009	1.42	2014	1.04	2019	0.2
2000	0.49	2005	0.71	2010	0.98	2015	0.95	2020	0.90
2001	0.59	2006	0.89	2011	0.97	2016	0.92	2021	0.88
2002	0.52	2007	0.96	2012	0.94	2017	0.74	2022	0.89
2003	0.54	2008	0.98	2013	0.99	2018	0.80	2023	0.94

Source: Own elaboration based on data published by Statistics Poland

The income potential of counties in relation to GDP looks completely different compared with other levels (table 14). The variability of the indicator. Counties had the highest share of income in GDP in 2001. There was a decline after that year, but it was not sustained, as it increased from 2008 to 2010. Finally, in 2023, this indicator settled at a fairly low level, although close to the revenue shares to GDP in 2015–2019. This is the only level of local government whose potential in the last year under review was lower than at the beginning of the period under review. Here, the erosion of county finances is particularly evident.

Voivodships, as indicated in Table 15, are the only ones to have more than doubled their potential in 2023 relative to the initial year of their operation. They also achieved a rate close to 1.5% in 2009. These fluctuations were typically explained by the distribution policy of EU funds as well as changes in the share of corporate income tax. Figure 3 compares the revenue shares in GDP of all local government units, with a breakdown by level.

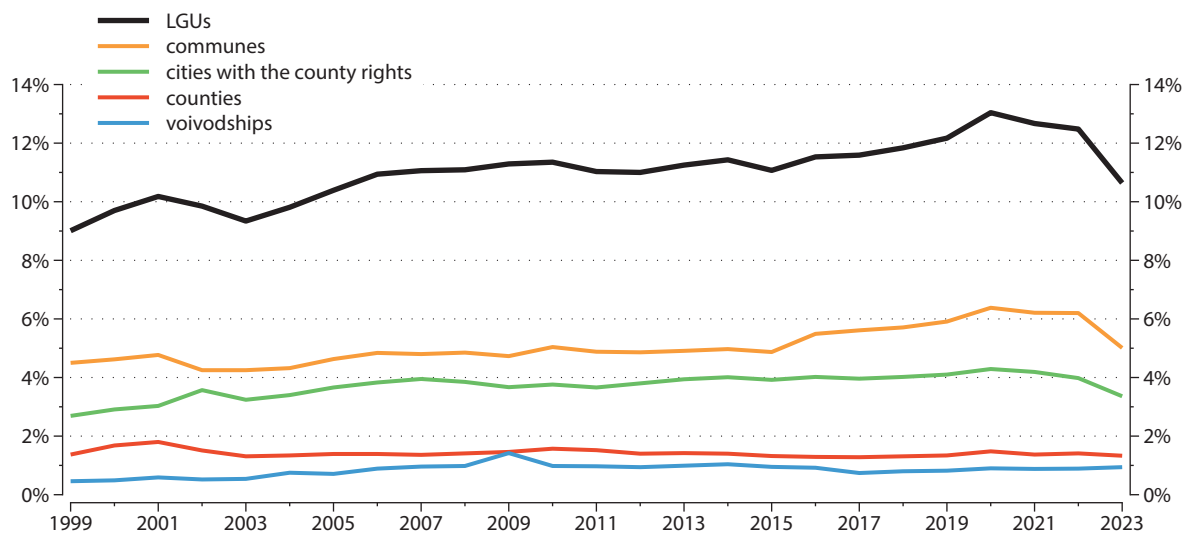


Figure 3. Total revenue of Local Government Units (LGUs), 1999–2023 (in % of GDP)

Source: Own compilation based on published by Statistics Poland

Unlike the previous two charts, figure 3 presents local government finances in relation to GDP. The curves indicate the changing role of local government in the state. The emerging downward trend from 2021 onwards is very worrying, especially as it deepens significantly in 2023. This decline in the share of local government revenues in GDP varies from one level to another. The situation is most difficult for communes and cities with the county rights. If this trend continues, the municipal services that these units provide may not be adequate. Although there are no figures for 2024 yet, it can be assumed that this downward trend will be halted, if only because of the increases for teachers, which will mainly be paid by communes.

Conclusion

Analysis of the data on local government budgets allows for several conclusions. The income and expenditure potential of communes, together with cities with the county rights, is considerably higher than that of counties and voivodships. Among all levels of local government, voivodships experienced the highest income growth between 1999 and 2023.

Revenues and expenditures of local government units were influenced by legislative changes, economic situation, and the uneven distribution of EU funds. In recent years, budgets have also been affected by shocks: a pandemic, the war in Ukraine, and high inflation.

Own revenues remain at a significant level in cities with the county rights and, more recently, also in voivodships.

Although expenditure is largely a function of income in local government, unlike income, it has increased steadily between 2017 and 2023. However, this does not imply real growth. Taking into account the rate of inflation, it can be concluded that expenditure fell between 2022 and 2023.

When comparing revenues and expenditures in individual years, it can be seen that the budgets of local government units have not always closed with a deficit, unlike the state budget. To a large extent, this is due to the special arrangements for incurring liabilities for local government and the cyclical nature of the inflow of EU funds.

Comparing local government revenues to GDP indicates the changing role of local government in the state. There is an unfavourable downward trend in the ratio in recent years in communes, cities with the county rights, and counties. This may affect the quality of services provided by these units.

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