



Shaping public finance accounting and budgeting systems in accordance with a political regime radical change: evolution not revolution in Poland 1918–2015

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Abstract

In the wake of the 2007–2008 financial crisis, long-term tendencies to enhance public sector structures, mechanisms, and methods of accountability seemed to increase, at least within the EU. This crisis afflicted Poland to a lesser degree, and the changes occurring in the Polish public sector didn't come from it directly. Their causes have their roots in the need to reduce public debt and further adapt to the systems and standards of the Eurozone. These changes have taken place in the context of unique historical transformations from the political regime of a market economy before World War II to the post World War II political regime of a centrally planned economy, and then from this political regime of centrally planned economy to the 21st century market economy. Historical and theoretical perspectives have been adopted. The results of our deliberations point out that the public finance sector change is of an evolutionary character rather than a revolutionary one. In addition, the evolution determinants and tempos come from the socio-political environment. The issue undertaken in this paper is of the character of primary research, but the form of the paper is closer to a scientific essay than a research paper.

Keywords: accounting, public sector, public finance, political regime, change, system.

Streszczenie

Kształtowanie systemu rachunkowości i budżetowania finansów publicznych w rytmie radykalnych zmian systemu politycznego: ewolucja a nie rewolucja w Polsce w latach 1918–2015

Po kryzysie finansowym lat 2007–2008 w sektorze publicznym zaczęła narastać, przynajmniej w Unii Europejskiej, długofalowa tendencja do wzmacniania struktur, mechanizmów i dróg rozliczania się z wydatków. Polskę kryzys ten dotknął w mniejszym stopniu, a zmiany zachodzące w polskim sektorze publicznym nie są wprost jego skutkiem. Ich korzenie tkwią raczej w potrzebie redukcji długu publicznego i kontynuacji adaptacji do systemów i standardów strefy euro. Zmiany te następują w kontekście unikalnych transformacji historycznych od systemu politycznego i gospodarki rynkowej sprzed II wojny światowej do monopartyjnego systemu politycznego i gospodarki centralnie sterowanej po niej, a następnie od tego systemu politycznego i gospodarki centralnie planowanej do demokracji i gospodarki rynkowej XXI wieku. W artykule przyjęto perspektywę teoretyczno-historyczną. Wyniki przeprowadzonych rozważań wskazują na bardziej ewolucyjny niż rewolucyjny charakter zmian w sektorze finansów publicznych. Wskazują też, że o tempie i determinantach ewolucji decydują czynniki społeczno-polityczne. Podejście do podejmowanych kwestii ma charakter badania pierwszego, w rezultacie tego forma artykułu bliższa jest formie eseju naukowego niż artykułu badawczego.

Słowa kluczowe: rachunkowość, sektor publiczny, finanse publiczne, reżim polityczny, zmiana, system.

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Introduction

There is an observation that in the wake of the 2007–2008 financial crisis the tendencies towards enhancing public sector structures, mechanisms, and methods of accountability are going to be potentiated. This crisis afflicted Poland to a lesser degree, and the changes occurring in the Polish public finance sector haven't come from it directly. They have their roots mainly in the need to reduce public debt and in further adapting to systems and standards of the Eurosphere. It should be underlined that these changes are taking place in a country at an advanced stage of its unique transformation from a centrally planned economy to Western-oriented market economy.

The paper is devoted to looking for factors and patterns of changes within the Polish public finance sector regulations concerning budgeting, accounting, and reporting. It determines possible directions and tools of discovering character of changes within the regulations in question, using the example of unique Polish transformations. Thus, historical and theoretical perspectives have been adopted. The considerations are of a very general level.

1. Research method

The author have chosen to focus on one country in his study, Poland, and due to the unique perspective, their work can be classified as primary research. Thus, there are no known scientific predecessors in the field. The method we adopt is of an empirical nature, namely archival, with analytical and theoretical approach elements. In addition, the empirical observations are to a great extent interpreted through the lenses of models of change of and in the public sector, functioning within the Comparative International Governmental Accounting Research (CIGAR) network.

The period of observations covers years the period 1918–2015. Polish legal regulations of government budget planning, passing and executing, government accounting and reporting, and government income sources serve as the sources of empirical data. Government budget planning, passing and executing, government accounting and reporting, and Polish legal regulations on government income sources serve as the basis for the empirical data. However, the form of the paper is closer to a scientific essay than to research paper. In this paper, the terms 'public finance' and 'public finance sector' are used synonymously.

2. Public sector budgeting, accounting and reporting as a social institution

The basis for considering public sector planning, accounting and reporting as a social institution has been based on the idea of the state as an organization, „as a unified sovereign entity that encompassed people with a shared culture and a common good”

(Bevir, 2012, p. 16). This idea allows us to see government accounting, budgeting and reporting as tools of social coordination within the governmental sector as a subsystem of the state. These tools are of an institutional character. According to Scott (2013, p. 56) „institutions comprise regulative, normative, and cultural elements that, together with associated activities and resources, provide stability and meaning to social life”. All of the three aspect of institution are shown in Figure 1.

Figure 1. The three pillars of institutions

Aspect	Regulative	Normative	Cultural-Cognitive
Basis of compliance	Expedience	Social obligation	Taken-for-grantedness Shared understanding
Basis of order	Regulative rule	Binding expectations	Constitutive schema
Mechanism	Coercive	Normative	Mimetic
Logic	Instrumentality	Appropriateness	Orthodoxy
Indicators	Rules Laws Sanctions	Certification Accreditation	Common beliefs Shared logic of actions Isomorphism
Affect	Fear guilt/Innocence	Shame/Honor	Certainty/Confusion
Basis of legitimacy	Legally sanctioned	Morally governed	Comprehensible Recognizable Culturally supported

Source: Scott (2013, p. 60).

These three pillars are immanent in every institution, but the level of the exposure of each of them depends on the kind of institution, place and time. For government budgeting and accounting in Poland, historically and currently, the most emphasized has been the regulative one. All elements of this pillar have appeared since the dawn of the regulations of the contemporary State of Poland, i.e. since 1918. Thus, public finance budgeting, accounting and reporting in Poland historically has been characterized by:

- legality as a basis of legitimacy;
- regulative rules as a basis of order;
- expedience as a basis of compliance;
- instrumentality as logic;
- coerciveness as the mechanism;
- fear guilt/innocence as the result of influence.

It should be underlined that among the results of the Polish public sector's evolution, more and more manifestations of the presence of the normative and cultural-cognitive pillars can be seen.

3. Current public sector in Poland

Currently, the public sector in Poland consists of entities under public control, both for-profit and not-for-profit. Not-for-profit entities under public control constitute public finance sector (see Figure 2).

Figure 2. Public finance sector in Poland

		Control	
		Private	Public
Benefits	Economic		
	Other		Public finance sector

Source: author's research.

The 2009 Public Finance Act (UoFP2009) specifies a catalogue of fourteen types of entities, both government-type and business-type, that belong to the public finance sector. This catalogue generally covers public authority bodies and their component entities, central executive agencies, social security and health national institutions, public health service entities, public institution of higher education and scientific research, and public institutions of culture. Central and local government enterprises, research institutes, banks, and commercial law companies remain outside of this catalogue¹.

4. Governmental accounting and budgeting in Poland during the period 1918–until now

It can be assumed that the era of modern accounting regulations begins in Poland in 1934 with the introduction of the 1934 Tax Statute. This statute focused on central and local taxes and other levies. As for accounting, there is a part within it on commercial

¹ In the World, there are different ways of public finance sector definition. For example, IPSAS Board defines it as public sector: „The public sector includes national and subnational (regional, state/provincial, and local) governments and related governmental entities. It also includes international public sector organizations” (IPSASB CF, 2014, Introduction, footnote 1).

and economic accounting books, and their review/auditing (articles 86–95). According to article 87, the books should be kept in line with the rules prescribed by the Polish Commercial Code, accounting principles and business habits, or should be kept as simplified books in line with rules prescribed by the Minister of Treasury. This Statute can be seen as the beginning of taking commercial accounting as the basis for contemporary Polish governmental accounting as a whole. With regard to budgeting by the state, there is chapter VII entitled „Budget” within 1935 Constitution.

The sequence of steps in the shaping of government budgeting and accounting in Poland in the period 1918–2015 is presented in Figure 3. Government accounting always fits budgeting regulations. However, it should be underlined that in the course of cultural-cognitive and normative pillars, the evolution of government accounting has been divided into two branches: accrual accounting for public sector entities, and modified cash accounting for the budgets of local governments and the State government. Similarly, reporting has been divided into financial reporting for entities, and budgetary reporting for budgets and their relationships with entities. The two branch of accounting have been regulated jointly, and the two branches of reporting have been regulated separately.

As milestones within budgeting and accounting, the institutional evolution has seen political changes with consequences for economy, i.e., new state creation in the 1920–30s, reorientation towards the Soviet-type centrally planned economy at the turn of 1940s/1950s, and reorientation towards a Western-type market economy during the 1990s.

Figure 3. The sequence of steps in government budgeting, accounting and reporting shaping in Poland during the years 1918–2015

Regulation system development	Stage characterization
1918: Poland regains independence, the State restitution begins	<p>A series of external (global) political events, under heterogeneous Central European market economy</p> <p>Regulations from former Russia, Prussia, and Austro-Hungary are in force in different parts of the newly-born state</p> <p>Fresh regulations for the new state are a matter of historic urgency</p>
1921: 1921 Constitution	The first constitution of new state; there is nothing on public finance and public authorities' budgets
1924: President of Poland order on the obligation and method of covering communal unions' expenditures (budgets of communal unions)	Local government finance consolidation after Poland regains independence in 1918, under a heterogeneous Central European-type market economy

Figure 3. The sequence of steps in government budgeting, accounting and reporting shaping in Poland during the years 1918–2015 (*cont.*)

Regulation system development	Stage characterization
1927: Minister of Internal Affairs and Minister of Treasury order on communal unions' accounting and cash service	Local government financial management improvement after Poland regains independence in 1918, under a heterogeneous Central European-type market economy
1934: Tax Statute (parliamentary act)	Consolidation of tax issues regulation for the first time after Poland regains independence in 1918 (in the wake of the 1930s Great Depression), under a still inhomogeneous Central European-type market economy
1935: 1935 Constitution	Chapter VII entitled „Budget” (art. 58–60) concerning the state budget
1939: World War II begins in Poland, and lasts until 1945	Wartime political and economic reorientation towards a German-style economy
1946: Government Decree on tax proceedings	The beginning of political reorientation towards a Soviet-oriented centrally planned economy
1946: Minister of Treasury order on commercial accounting books, simplified accounting books, and tax accounting books	The beginning of political reorientation towards a Soviet-oriented centrally planned economy with some elements of market economy (small business, agriculture)
1949: Minister of Treasury order on commercial accounting books and tax accounting books	The beginning of political reorientation towards a Soviet-oriented centrally planned economy with some elements of market economy (small business, agriculture)
1950: Minister of Finance ordinance on regulations on State budget executions and budgetary accounting for the State budget (Nov. 25 – not published)	Deepened political reorientation towards a centrally planned economy
1950: Minister of Finance ordinance on removal of the contemporary system of the State budget and former self-government unions, and the introduction of the new principles of the State budget executions (Dec. 9, published)	<p>Deepened political reorientation towards a Soviet-oriented centrally planned economy</p> <p><i>The state budget comes to cover both central government and local governments, and consists of two parts: the central government part and the local government part</i></p> <p><i>The new budgetary law separately regulates central government matters and local government matters</i></p> <p><i>Budgeting and accounting are regulated individually by separate regulations</i></p>

Regulation system development	Stage characterization
1951: Minister of Finance ordinance on budgetary accounting regulations for the State budget	Advanced political reorientation towards a Soviet-oriented centrally planned economy
1952: 1952 Constitution	There are articles on the state budget (art. 19) and local government budgets (art. 41)
1952: Government Decree on the passing and execution of the State budget	Advanced political reorientation towards a Soviet-oriented centrally planned economy, still with some elements of a market economy (small business, agriculture) <i>The state budget has come to cover both central and local government, local government budgets have come to be part of the state budget</i>
1958: Act on budgetary law	Improvements in advanced political reorientation towards a more Polish-style centrally planned economy, with some elements of a market economy (small business, agriculture)
1970: Act on budgetary law	Polish-style centrally planned economy improvement, with some elements of a market economy (small business, agriculture), after 1960s internal stagnation
1984: Act on budgetary law	„More market” reform towards a Polish style centrally planned economy recovery and strengthening, under the presence of 'Solidarity', with some elements of a market economy (small business, agriculture)
1991: Act on budgetary law	Political and economic reforms under the political beginning of the transition towards a Western-oriented market economy, and under huge presence of 'Solidarity' <i>The local government budgets stopped being part of the state/central budget</i> <i>However, the new act on budgetary law regulates both central government matters and local government matters</i> <i>Budgeting and accounting are still regulated individually by separate regulations</i>
1997: 1997 Constitution	Chapter X (art. 213–227) on public finance
1997: Tax Statute (parliamentary act)	The first tax statute under a Western-oriented market economy

Figure 3. The sequence of steps in government budgeting, accounting and reporting shaping in Poland during the years 1918–2015 (*cont.*)

Regulation system development	Stage characterization
1998: Act on public finance	Deepened political and economic reforms towards the acceleration of the Western-oriented market economy transition, and in preparation for joining the European Union, and under the still strong presence of 'Solidarity' <i>Budgeting and public sector accounting systems come to be regulated under a single regulation</i>
2004: Act on responsibility for public finance discipline violation	Reform of fiscal responsibility on the doorstep of joining the European Union, under a Western-oriented market economy, and under the rather weak presence of 'Solidarity'
2005: Act on public finance	Adaptive reform of public finance in the wake of joining the European Union, under a Western-oriented market economy, and the rather weak presence of labor unions
2009: Act on public finance	Adaptive reform of public finance in the wake of the 2007–2008 financial crisis, and for public finance debt, better observing and controlling under a Western-oriented market economy, and the rather weak presence of labor unions*
2009–2015: amendments to 2009 Act on public finance	Subsequent adaptive changes of public finance in the wake of the 2007–2008 financial crisis, EU budgetary directive (EUD, 2011) and, for public finance debt, better observing and controlling under a Western-oriented market economy, and rather weak presence of labor unions

* And also in the face of Protocol (no. 12) on the excessive deficit procedure to the Treaty on the Functioning of the European Union (ToUE Protocol no. 12, 2008).

Source: author's research.

5. Changes in Polish public finance sector reporting and planning models in the wake of the 2007–2008 financial crisis

The new act arose in the initial phase of the financial crisis, when the issue of stabilization and the reduction in the national debt was still at the forefront, but no solution had yet appeared. A bill was put forward by the central government administration, with the dominant role of the Ministry of Finance to get public finance processes effectively

observable and controllable both at the central level and at the local level. First of all, this need resulted from the national aspiration to activate the reduction of developmental gap that separates Poland from countries so-called of „old Union countries”, and adaptation to the provisions and recommendations of **Protocol (no. 12) on the excessive deficit procedure to the Treaty on the Functioning of the European Union** (UE 12008E/PRO/12, 2008). These premises implied the necessity of greater transparency in public finance, long-term planning, and task planning (task budgets). The most important aspect was the transparency of public finance. The authors of the bill in question regarded (UoFP2009-uza, 2008, p. 1) transparency being „a situation, in which are publicly known and clearly defined:

- frames (scope) of sector of public finance,
- division of tasks and of competence in the sector of public finance,
- procedures applied in the sector of public finance and rules of conduct,
- premises and assumptions of the financial policy and their predicted effects,
- information about the sector of public finance”.

- Crucial objectives of the act were formulated as follows (UoFP2009-uza, 2008, p. 2):
- „1) the reinforcement and the improvement in the transparency of public finance was aiming at, above all, limiting organizational and legal forms within the public finance sector;
 - 2) implementing a long-standing financial plan for the State, as the document orienting state financial policy, and the financial multi-annual forecast for self-government entities;
 - 3) implementing solutions concerning task budgeting;
 - 4) accepting stable answers supporting rational financial management in the state budget and in the budgets of self-government entities (...);
 - 5) suggesting new regulations streamlining and enhancing the system of the internal audit;
 - 6) enhancing prudent norms in the state budget and in the budgets of local self-government;
 - 7) implementing changes in the management of European and other non-returnable means coming from foreign sources”.

Enhancing norms and prudent procedures in relation to the level of the national debt in the state budget and in budgets of self-government units turned out to be particularly useful in more distant phases of the financial crisis. Let us mention that implemented prudent procedures introduce a range of 47–60 % for the ratio of the national public debt amount to the GDP. After crossing the threshold of the 60%, procedures written in the Polish constitution (art. 216) come into force.

In the sphere of accounting, the new act practically didn't change the current situation, with its roots in the 1920s, presently shaped by the 1999 Act on public finance (for more see Nowak, 1999, 2001). The public finance act imposes an obligation to keep the accounts in the government sector and resolves special issues, in matters not

regulated within this act, reference is made to the Act on accounting in force. In this way a continuation was provided and they kept:

- the accruals convention as the basis for entity accounting, and the modified cash convention as the basis for the accounting of budgets;
- models of compulsory charts of accounts and specimens of informational structures of financial statements and budgetary reports created by the minister of finance;
- applying provisions of the Accounting act in issues unsettled through public finance law, mainly with reference to basic accounting principles, the evaluation of assets and obligations (of liabilities), and the organization of accounting by entities and the responsibility for the entity's accounting.

By the implementation of task budgets, Polish public finance sector has been introduced into the New Public Management another dimension.

In the **Annex** at the end of the paper author describe the fundamental structure of the 2009 Act on public finance (as amended).

6. Some remarks through the lenses of public sector change models

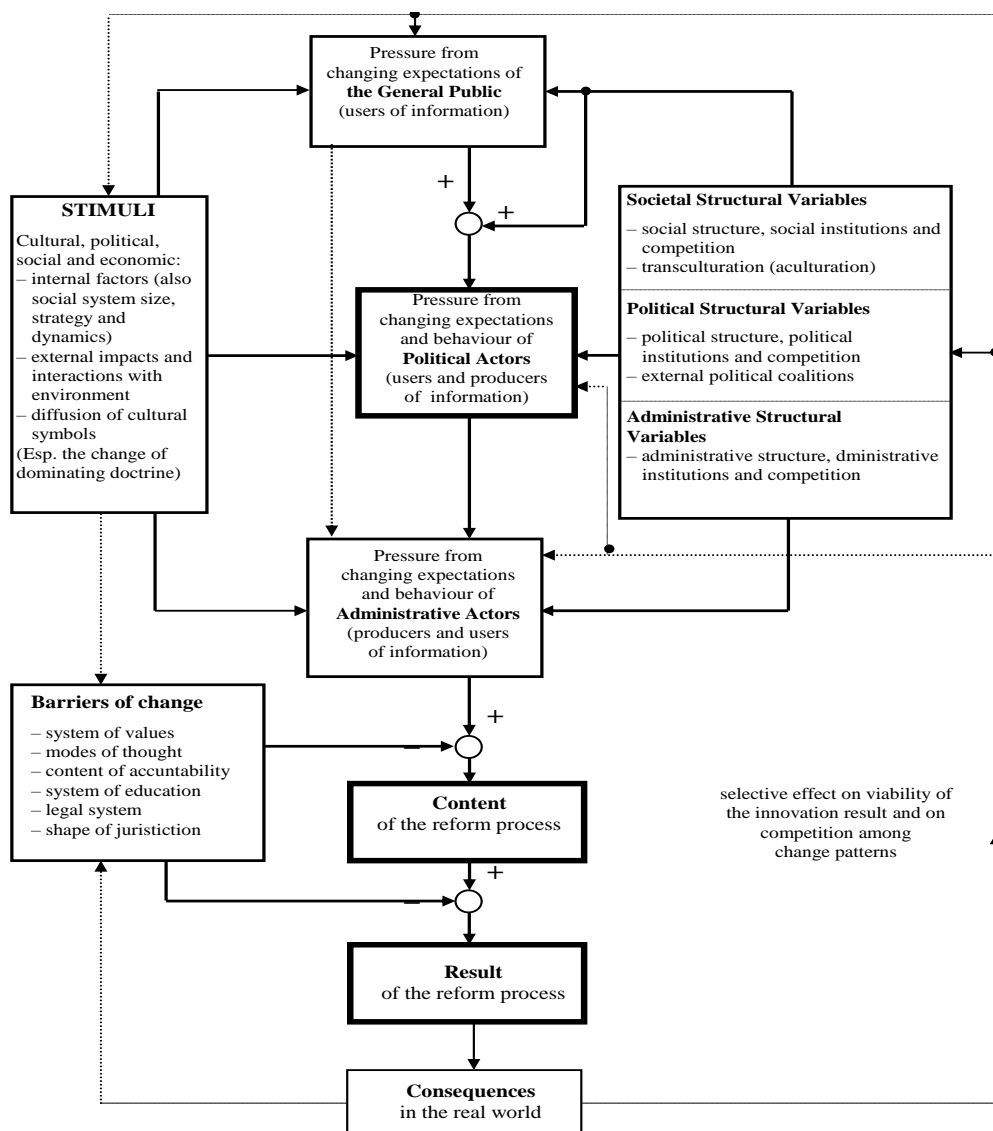
Analysis of the shaping of public finance regulations occurring in Poland in the period 1918–2015 shows the impressive sequence of general regularities:

- political factors are the primary stimuli of changes;
- fundamental regulations of the public finance occurred directly after the passing of the new constitution of the state;
- amendments to the public finance regulation adapting to current political and economic fluctuations appear;
- drafts of the regulation are drawn up by the administrative apparatus of central public authorities;
- social expectations play a lesser role;
- the influence of the financial stress as the main factor of changes emerges only within the framework of a steady political system;
- one should distinguish changes in the structure and functions of the public finance sector from changes in entities functioning within the framework of this sector;
- changes to public finance regulations have an evolutionary character even in terms of the swings of the political system.

These observations suggest that when using public sector change models one should take into account the limitations of the applicability of these models. We present four of the models in Figures 4–7. These models were formulated by representatives of the academic sphere as being functional in the specific conditions of local, historical, and socio-cultural perspectives. The models from figures 4 and 5 came into existence in terms of the Polish socio-cultural perspective and great historical changeability, however, the models from figures 6 and 7 were created in terms of the Western-European

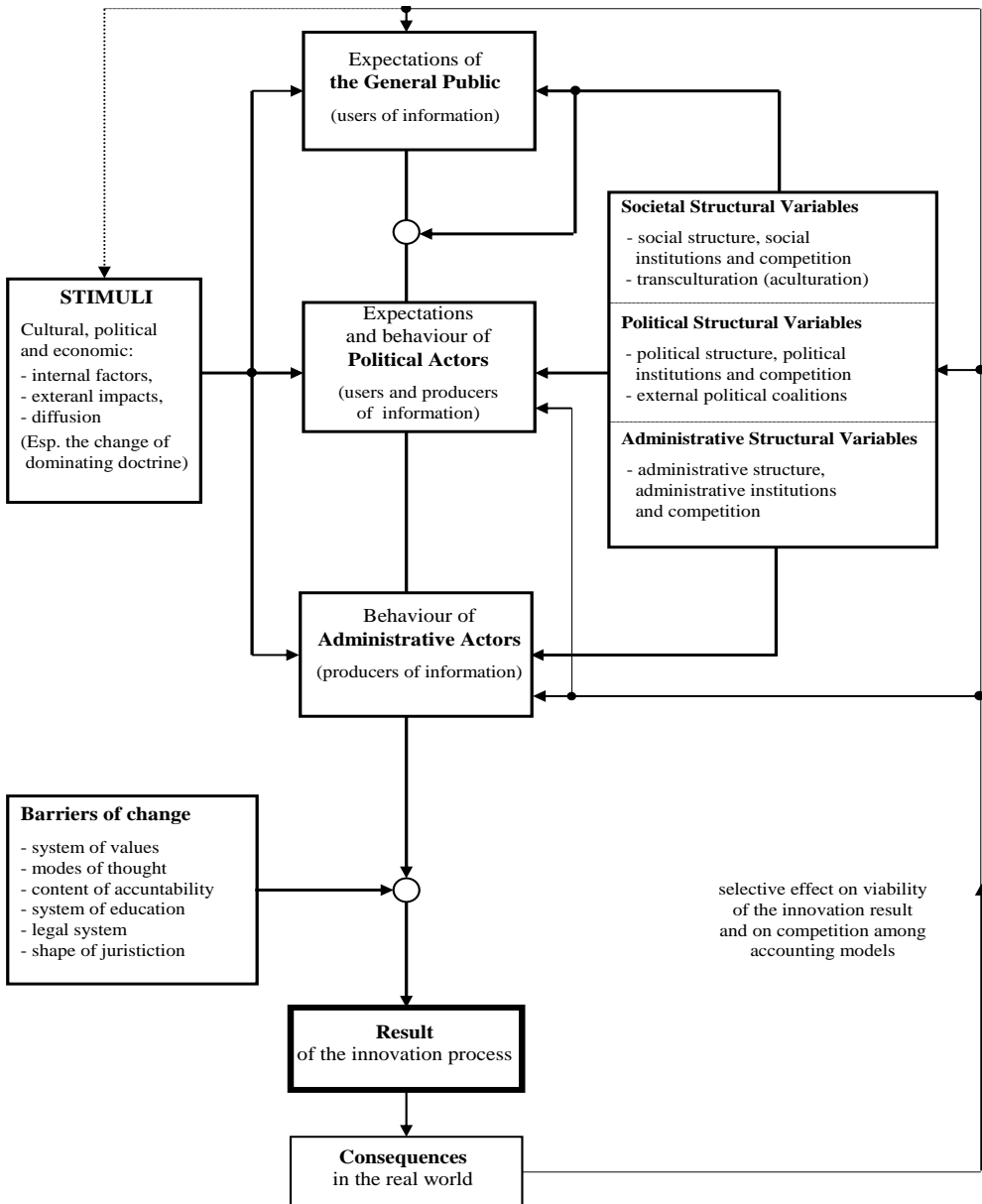
socio-cultural and historical prospect. The Polish prospect takes into account the greater scope of the changeability and has a higher level of generality. In turn, considerable pragmatism and the present time orientation characterize the Western-European prospect.

Figure 4. 2008 General Model of Public Finance Sector Change by Nowak

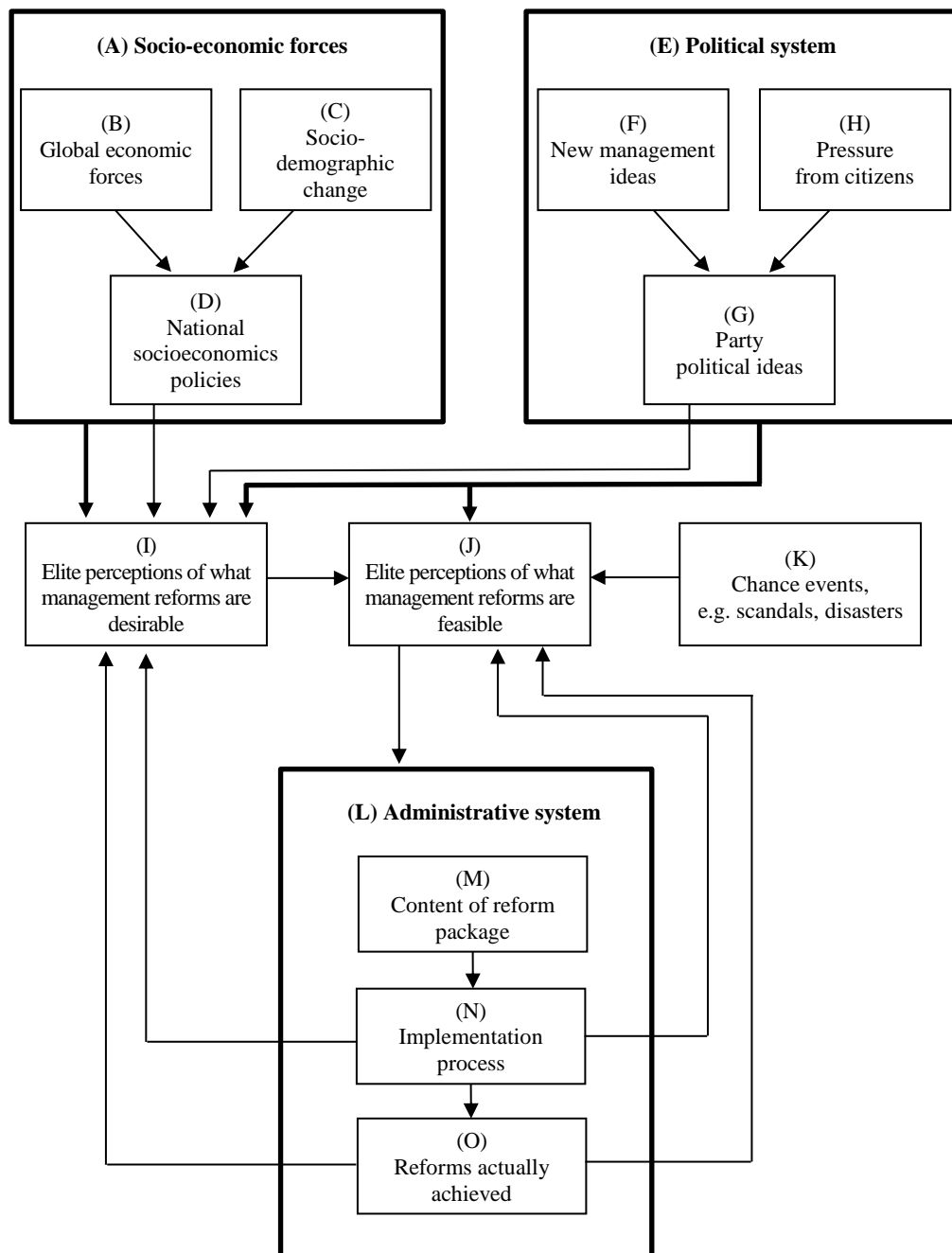


Source: Nowak (2008, p. 158).

Figure 5. 1996 General Model of Public Sector Accounting Innovations
by Nowak and Jaruga

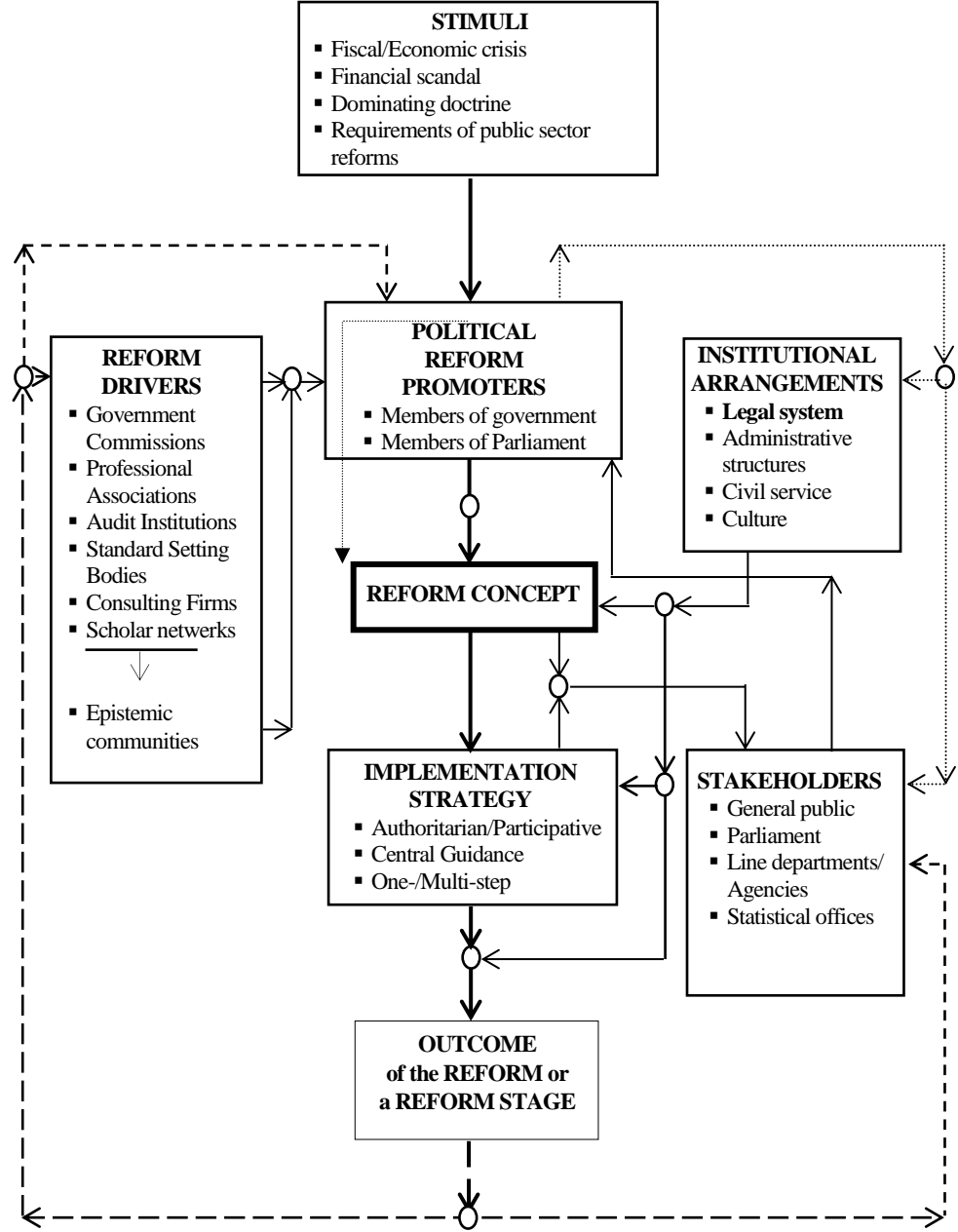


Source: Jaruga, Nowak (1996, p. 30).

Figure 6. A Model of Public Management Reform by Pollit and Bouckaert

Source: Lüder (2002, p. 19).

Figure 7. Financial Management Reform Process Model by Lüder



Source: Lüder (2002, p. 18).

Conclusion

It seems that the pattern of changes within public finance sector budgeting, accounting, and reporting, in the wake of the recent financial crisis, depends on the stage and pattern of financial management evolution in a given country. At the top of the financial reforms there can be motives rooted in the recent financial crisis, or motives rooted in the shared need to accelerate the quality of life and development of the country. Both sets of motives result in pursuing public debt limitation and, due to this, each of the two sets can result in models useful both for financial crisis harnessing and for general development improvement.

The models of public finance sector change which function within the CIGAR network are based on the assumption that budgeting, accounting and reporting are of a social institution nature, and each of them has a specific level of generality and pragmatism. So the scope and method of their applicability are slightly different. It is worth underlining that the changes of public finance sector accounting and budgeting seem to be of an evolutionary character in respect of the rather revolutionary political changes that stimulate them.

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Annex

27 August 2009 Act on Public Finance – Poland (Ustawa z dnia 27 sierpnia 2009 r. o finansach publicznych)

Part I. Public finance principles

- Chapter 1. General articles (art. 1–4)
- Chapter 2. Public resources, public sector finance surplus and deficit (art. 5–7)
- Chapter 3. Public finance sector units (art. 8–32)
- Chapter 4. Public finance openness and transparency (art. 33–41)
- Chapter 5. Principles for public resource management (art. 42–67)
- Chapter 6. Management control and its co-ordination within public finance sector entities (art. 68–71)

Part II. Public debt of the state

- Chapter 1. General articles (art. 72–75)
- Chapter 2. Financing of state budget borrowing needs (art. 76–85)
- Chapter 3. Procedures for precautions and cleansing (art. 86–88)
- Chapter 4. General principles for credit contracting by public sector entities other than the State Treasury (art. 89–94)
- Chapter 5. Principles and methods for treasury securities issuing (art. 95–103)

Part III. Long-standing Financial Plan for the State, and the act on the state budget

- Chapter 1. Long-standing Financial Plan for the State (art. 103–108)
- Chapter 2. Act on the state budget (art. 109–123)
- Chapter 3. State budget expenditures assignment (art. 124–137)
- Chapter 4. State budget preparation and passing method (art. 138–145)
- Chapter 5. State budget execution (art. 146–183)
- Chapter 6. European resources budget execution (art. 184–195)
- Chapter 7. Bank service for the state budget and some public finance sector entities (art. 196–201)

Part IV. Nonrefundable European resources and other nonrefundable resources from foreign sources (art. 202–210)**Part V. Budget, long-standing financial forecast, and budget resolution of local self-government entity**

Chapter 1. Scope of local self-government entity budget (art. 211–225)

Chapter 2. Long-standing financial forecast of local self-government entity (art. 226–232)

Chapter 3. Budget resolution (art. 233–246)

Chapter 4. Local self-government entity budget execution (art. 246–264)

Chapter 5. Mode of local self-government entity budget accomplishment (art. 265–271)

Part VI. Internal audit and its co-ordination within public finance sector entities (art. 272–296)**Part VII. Final article (art. 297)**

