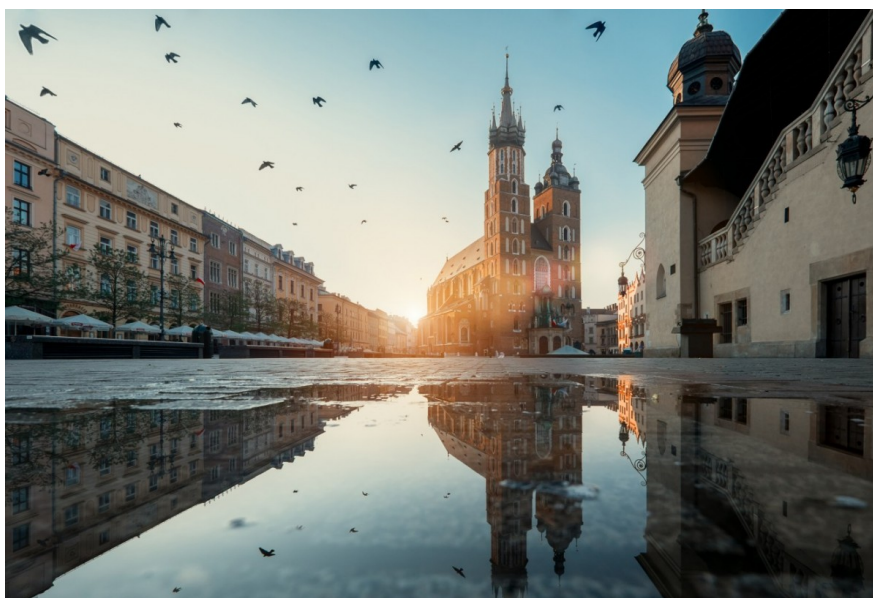


## Better than expected budget surplus in Poland

Tax revenues remain on the fast track and budget expenditure are still on the slow track, which means the fiscal deficit for 2017 will be in the 1.5 -1.8% range



Source: Shutterstock

# PLN2.7bn

Better than expected

Fiscal surplus

At the end of October 2017

### Budget spending still below 2016 level

In October, the Polish government managed to spend nearly PLN34bn - the highest monthly figure since the beginning of the year.

It's tempting to say that this was due to the modernisation of the 2017 budget bill, passed on October 24th, which unlocked some spending projects, such as compensation of miners for lost

coal allowances. However, in the same month last year, public spending was even slightly higher (PLN34.1bn), so the impact of the budget should not be exaggerated.

The overall spending for the first ten months of 2017 equalled PLN292bn and was still PLN1bn below the corresponding 2016 figure.

One of the reasons for the sluggishness of the public expenditure is the better balance of the Social Security Fund, due to the better than expected performance of the labour market. Higher employment and wages have translated into higher social security contributions but the other reasons, unfortunately, remain a mystery.

The government promises to boost public spending in the remainder of the year, but these promises seem overstated, and it is unlikely that the central budget deficit will exceed PLN20bn at the end of 2017, compared to PLN59bn assumed in the initial budget bill.

## Tax revenues maintain a good pace

Since the beginning of the year, tax revenues have grown at a very fast pace thanks to high GDP growth and successful tightening of the tax system. In the year to October 2017, the overall tax proceeds equalled PLN264bn, which is nearly 15% more than last year at the same time. Most of this growth can be attributed to VAT, revenues from which grew by 21.7%YoY since the beginning of the year, but proceeds from other taxes increased at a remarkable pace as well.

### Bottom line

The overall performance of the budget in October 2017 was better than expected. The current path of public revenues and expenditure suggest that the general deficit for 2017 will be in the range 1.5-1.8% of GDP even if the government shifts the deficit from 2018 to 2017, which is 0.2% lower than we expected a month ago.