Poland: Balanced budget for 2020; Overly optimistic but still POLGBs positive

The 2020 balanced budget bill is technically feasible but on overly optimistic assumptions and at the cost of some spending cuts (other than election transfers). It also relies on some one-off revenues

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Higher social transfers leaves no room for spending on other public services

The government has presented a draft of the budget bill for 2020. Both revenues and expenditures are set to reach PLN429bn. This means that the revenues will need to grow a lot (by PLN42bn compared to the 2019 budget bill) and the expenditures should grow unrealistically little (by PLN14bn), despite generous pre-election spending projects worth PLN18bn in 2019 and an additional PLN24bn in 2020 (mostly in social transfers). This leaves no room for spending growth in other policy areas, such as security, education and health. Moreover, the government seems to have abandoned the policy of setting the deficit at a higher level than it actually aims, leaving no room for manoeuvre in case of an emergency. Achieving a balanced budget next year will already be a stretch, so setting such a goal in a budget bill seems incompatible with the principle of budgetary prudence.

Where will the additional revenues come from?

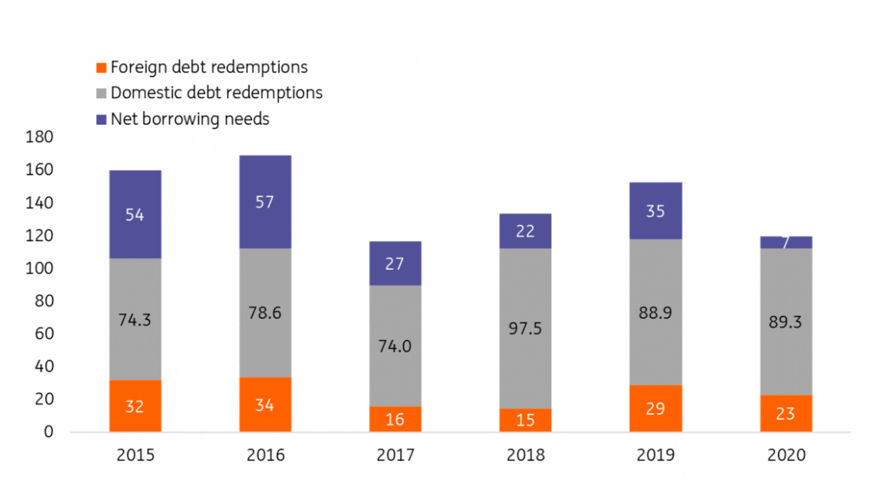
Public revenues in 2020 are set to grow by PLN42bn (11%) compared to the amount assumed in the 2019 budget bill. Additionally, the government needs to fill the gap of PLN15bn caused by the cut of PIT (Personal Income Tax) rates and lower excise for electricity. It expects to obtain such revenue from (1) one-off revenues, (2) continued tax tightening and (3) still strong cyclical revenues growth. The first item includes revenues from the transformation of the OFE pension fund as well as sales of 5G frequencies and a sale of CO2 allowances. The government expects to receive PLN18bn from that source. This assumption is reasonable and our main worry is that these are one-off revenues, so budget balancing is temporary.

The draft of the 2020 budget bill seems over-optimistic when it comes to tax tightening. The low hanging fruits of such policy have already been gathered and the GDP slowdown won't help to harvest more. Still, the government assumes that the VAT revenues will grow by PLN21bn (or PLN14.5bn if we assume expected over-performance of 2019 VAT), which is a lot without raising VAT rates (2020 nominal VAT growth should almost double what will be achieved in 2019). The expectations for CIT (Corporate Income Tax) of PLN7bn additional revenues are more reasonable because they already surprise on the upside.

Summary

The 2020 balanced budget is overly optimistic election fireworks, but still good news for Polish government bonds (POLGBs). Since the April Convergence report, when the Ministry of Finance presented the funding for elections pledges (social programmes), we pointed out that 2020 net borrowing needs should be close to zero. But this is a rather transitory phenomenon. We estimate that 2020 gross borrowing needs should stand at PLN120bn (including PLN7bn of net borrowing needs to rebuild a safety buffer) vs PLN152 in 2019 (including PLN35bn of net borrowing needs). 2021 and more likely 2022 should bring the return to higher net borrowing needs, but still, the fiscal side should stay under control and the sector deficit below the 3% EU threshold.

The borrowing needs (PLNbn)



Source: Source: MinFin, INGF

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