Poland: Cash buffer cut due to strong fiscal stance

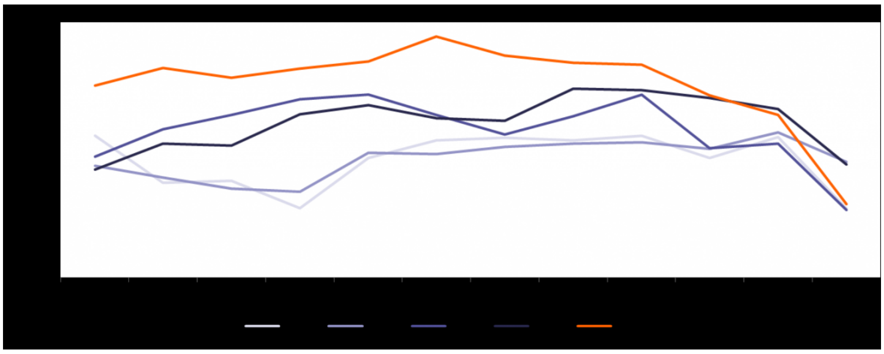
The December 2017 drop was deeper than the seasonal pattern, likely reflecting Ministry of Finance confidence that 2018 borrowing needs will be easily financed

In Dec-17 the cash buffer dropped to PLN25.9bn from PLN85.1bn in Jul-17. This decrease was much deeper than the seasonal norm but should be hardly surprising given:

- Subdued debt supply in 3-4Q17
- Extra buyback of POLGBs from BGK books
- High 32% pre-financing of 2018 borrowing needs
- In 2H17 we saw MinFin paying more EU funds than they received from EU Institutions. In late Dec-17 Brussels transferred €1.9bn funds to MinFin (which likely was exchanged in the FX market strengthening PLN vs EUR recently)

We think this aggressive cut of the cash buffer (and cancelling of FCL from IMF in 2H17) reflects MinFin confidence that 2018 borrowing needs will be easily financed. The reason is a strong fiscal position; we see the 2018 general government deficit at 1.5%GDP vs 1.7% in 2017. Also, this is likely to be reflected in limited debt supply in 1H18 (MinFin planned just PLN20-35bn for 1Q18), possibly contributing to Bund spread tightening.

MinFin cash buffer (PLNbn) - seasonal plot



Source: Ministry of Finance in Poland

Author

Rafal Benecki
Chief Economist, Poland
rafal.benecki@ing.pl

Disclaimer