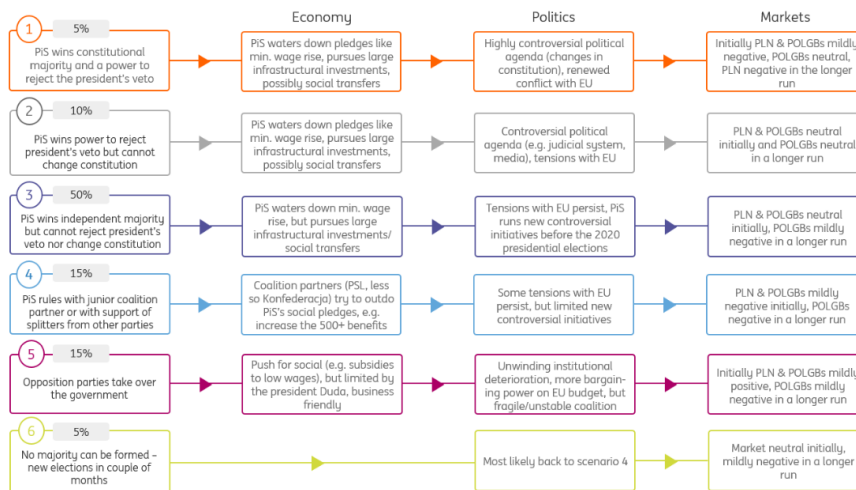


Poland: Elections preview

General elections take place in Poland this weekend. According to polls, the ruling PiS party will retain a single party majority. This should have a limited market impact. We expect a negative reaction if PiS gets significantly less than an absolute majority and is forced into a populist coalition

ING Election Scenarios



Source: ING

PiS leading in the polls

Ahead of the October elections, opposition parties have formed blocs either to consolidate or increase their odds of entering parliament. By coming together under the umbrella of a single party, these separate entities face a 5% threshold to enter parliament compared to the higher 8% threshold needed by a coalition. Four blocs have effectively been formed: Civic Coalition (Civic Platform + Nowoczesna + Inicjatywa Polska + Greens), Left (SLD + Wiosna + Razem), New PSL (Peasants Party + Kukiz'15) and Confederation (KORWiN + National Movement).

Public backing for the ruling PiS has continued to improve this year despite several public controversies. The party seems to be gaining traction after announcing social measures including the extension of child benefit payments, additional pension handouts and recently a generous rise in the minimum wage (+15% in 2020 and 2021). Based on poll aggregator eWybory, support for PiS has risen from 36% to 45%. Out of five major pollsters, only one does not show PiS's support at record highs.

Civic Coalition, created by the largest opposition party, saw a significant drop in support in the first half of the year (20-22%) but has since recovered to 25-30%. This rise seems to be at the Left's loss, currently at 12-15%. New PSL is fluctuating just above 5%, having been in a constant downtrend this year. Confederation is just below 5%.

PiS should retain the single-party majority

Based on the numbers, three to four parties/blocs should enter parliament. Based on estimates of local sociologists (Marcin Palade and Badania Pro), such support would translate into the following seats in the lower chamber of parliament (Sejm): PiS: 246-259 seats, Civic Coalition 142-146 seats, Left: 46-54 seats, Peasants Party + Kukiz'15: 12-13 seats, German minority: 1 seat. This would imply that PiS rules independently (53-56% of seats), but would not acquire either a presidential (276, 60% of seats), or constitutional majority (307, 2/3 of seats).

Comments from sociologists and political commentators suggest that turnout may be particularly high during the elections, as happened during the last European elections. Trends in polls suggest that a high turnout benefits the ruling party more than the opposition, especially since PiS is targeting smaller cities and rural areas, which are typically poorly covered by the polls.

Based on our talks with political commentators, we believe that PiS is not only trying to maintain a single party majority, but also to keep smaller, right-wing parties out of parliament. The ruling party is supposedly afraid that such entities would take away some of its core backing. This includes the entirety of Confederation and Kukiz'15. If this happens, PiS may be forced to pivot further to the right to regain support.

Economic programmes – opposition competes with PiS social spending

Should PiS be reelected, its current pro-social policy bias will continue. Proposed policies are creating additional burdens for Polish entrepreneurs and competitiveness (e.g. a 15% rise of the minimum wage for two consecutive years and then a further 10% rise in the following three years). We think the government may also undertake big infrastructure projects, like the central airport and offshore wind. It would also continue controversial institutional changes for example, regarding the judiciary system and media.

If PiS does not get more than 50% of seats and fails to acquire members from other parties, it will likely form a coalition. Potential partners include a bloc of new PSL (especially Kukiz-15), part of Lewica or the far-right Confederation. A coalition with PSL or Left parties (e.g. SLD) should result in more socially-oriented policy, with higher government expenditures. At the same time, the pace of controversial institutional changes may decelerate. A coalition with Confederation has not been well explored so far – we expect a more pro-business stance and prudent fiscal policy but with greater emphasis on ideological issues (e.g. pro-life or anti-migrants) and further conflict with the European Commission.

The alliance of opposition parties is a jigsaw. The Confederation proposes pro-business solutions (instead of a sharp rise in the minimum wage, they propose tax credits for low income employess burdening the budget rather than companies), but its prospective coalition partners are not exactly willing to follow suit. Each of the blocs (KO, PSL, Left) has started to compete with the ruling PiS on social spending, proposing a more expansive policy regarding healthcare (but partially

funded with EU money) and spending on innovations, which should imply looser fiscal policy. On the other hand, such a government should unwind some of the institutional deterioration that PiS implemented, which should be (marginally) positive for credit ratings.

Scenarios and market implications

For the markets, the most welcome option would be PiS retaining its single party majority while failing to reach the presidential and constitutional majority. This would imply relatively stable economic policies and somewhat limited tensions with the EU. In this case, we'd expect a neutral or mildly positive initial reaction (benefiting Polish government bonds more than the zloty). But given that the 2020 balanced budget relies on PLN30 billion of one-off revenues, the borrowing needs in 2021 should rise strongly (from PLN5-10 billion to at least PLN30 billion) - the higher the risk of a slowdown, the stronger the rise in borrowing needs because a thin PiS majority would cause concern that weak GDP could undermine their support.

In the scenarios with higher support for PiS, we expect less expansionary fiscal policy (high political capital should make them less worried about the adverse effects of a GDP slowdown), but a more controversial political agenda, likely putting Poland at odds with the EU once more. Such changes may include a further judiciary overhaul, medial law amendments or other changes which erode institutions (mildly negative for credit ratings). This should be slightly negative for Polish government bonds (POLGBs) and negative for the zloty (PLN).

If PiS rules with a junior partner, this may prove a particularly unwelcome scenario (especially with PSL or the Left whose spending pledges are high). Heavy public spending and more social transfers would bode ill for bonds and be somewhat negative for the zloty.

A victory for the opposition should be welcomed initially by markets as they would be expected to unwind some of the institutional deterioration PiS implemented, which might be (marginally) positive for credit ratings. Also, the opposition should provide more business friendly policies, possibly unlocking private investments and GDP potential. A less migrant averse approach should also raise the odds of pursuing a programme of attracting Ukrainian migrant workers to stay long-term. However, a potential coalition would have to include both PSL and the Left, signalling a strong pro-spending bias. This may include subsidies to low wages (similar to tax-credits). While such an option would seem more business friendly, budget wise, it may increase the deficit and borrowing needs and, in turn, affect Polish government bonds. That risk might be mitigated by PiS President Andrzej Duda's veto power. We are also worried about the stability of a tri-bloc coalition and government.

Economic programs of key parties

Party/coalition for general elections	PiS	KO	Left	PSL	Konfederacja
EU coalition	ECR	EPP	SD	EPP	-
Selected economic policies:					
SOE's engagement in economy:	Present level or higher	Present level excessive	Present level OK	Present level excessive	Minimal engagement
Fiscal policy:	Prudent/Expansive	Prudent / Expansive	Expansive	Very Expansive	Prudent
Target for minimum wage (% average salary):	60% in 2024	50%	60% in 203	50%	No target
Major changes in taxes & subsidies:	14 th pension from 2021 (0.4%GDP), infrastructural projects burdening public sector, SPV's, SOE's	budget subsidy for workers with lowest earning (cost up to 1.5%GDP)	45% rise of minimum pension (0.5 %GDP)		Abandoning PIT, gasoline taxes
Healthcare spending increase (4.9%GDP in 2018):	6% in 2024	6% in 2021	6.8% in 2021 7.2% in 2022	6.8% in 2020	No target
Public R&D expenditures (0.4%GDP in 2017):		1% in 2027	Target – 2%, instant 0.2pp increase		
Housing market support:	Current policy to be sustained – program of cheap rented flats, lower than pledge so far	Return to program from 2013-2018	Policy similar to PiS	PLN50 thousands lump sum for mortgage credit (0.1%GDP per each 4K applications)	No support.
Energy policy					
Renewables share	21% in 2030	30% (no date specified)	40% till 2029 50%+ in 2035	50% till 2030	No information
Stable energy mix components	Diversification between nuclear energy and gas			Focus on gas, against nuclear energy	Greater focus on nuclear energy

Source: ING

Author

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Karol Pogorzelski

Senior Economist, Poland

Karol.Pogorzelski@ing.pl

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.