

## Poland: European elections are neutral for zloty and government bonds

The support for PiS remains far from the point that would trigger new spending pledges



Source: Shutterstock

The ruling PiS won the European elections in Poland with 43.1% of the votes, European Coalition (incl. Civic Platform and Polish Peasant Party) scored 38.4%, new leftist party Spring (6.7%), rightist Konfederacja 6.2%, antisystemic Kukiz'15 (4.1%). The results are close to the majority of pre-election polls. It was an extremely tight battle. The ruling party pledged 1.6% of GDP in new spending (probably one of the highest stimulus' in Europe recently) and brought many local topics (irrelevant for European politics) to the European election campaign. Finally, they succeeded with reaching support close to 40% in the elections, which traditionally brought lower support for this party. On the other hand, the European Coalition (incl. Civic Platform and Peasant Party) caught up to the ruling PiS in the last weeks and the PiS lost some of their advances over the European Coalition it had in polls in previous months. We find the battle was marginally won by the ruling PiS. What is worth mentioning, the European Coalition did not receive any special premium for unifying many parties as some expected.

## Tight battle in coming months before general elections in October

The early simulation presenting how parties would score in the October general elections, based on the votes they received in Sunday's European elections, shows the battle should remain tight in the coming quarters. According to this early estimates, the ruling PiS would still win the general elections, but lose some of the votes they currently have in the Polish parliament (231 vs about 235 now). They would also have only a vague majority in the 460-seat lower chamber. The low support for PiS' potential junior coalition partners is a problem as they (eg, Kukiz'15) should score below the minimum threshold required to be in Parliament. The European Coalition would still be the second biggest in the Polish Parliament (208 votes), but even with the small parties (new leftist Spring) they would fail to form a majority.

## The key events in coming weeks

The key events which may shape political developments after the European elections are the following: (1) the reconstruction of PM Morawiecki's government, (2) the decision of the Polish Peasant Party whether they stay in the European Coalition for general elections (early predictions show they should hold the 3 members of the European Parliament they had so far, so the party leader may hold his opinion that membership in the Coalition was not negative for the party position), (3) most important, the expected 4 June decision of President of the European Council Donald Tusk on returning to local Polish politics from Brussels; the European Coalition caught up to the ruling PiS somehow in the last weeks, but it lacks a strong leader so Tusk's return is seen as an important game changer before the October general elections.

## Neutral market impact of European elections

Marketwise, the support for PiS is far from the point, which would trigger additional spending pledges, so it is neutral for the Polish zloty and Polish bond market. We think only a 5 percentage point failure of the ruling PiS vs the European Coalition would cause more nervous reactions, so we are far away from that scenario. The ruling PiS should stick to its previous spending pledges from Feb-19 (about 1.6% of GDP) and rather refrain from new ones. They frontloaded pledges, but payments will come subsequently in coming months, so the party can market new social benefits to the electorate before the October general elections and there is no need to add new spending. The supply-demand conditions should remain very favourable for POLGBs in the coming months (2H19 borrowing needs will be lower YoY) and quarters (we estimate 2020 net borrowing needs should drop to PLN21bn from PLN35bn in 2019, partially due to one-off revenues), despite the very generous pledges the PiS provided in Feb-19.

### Author

**Rafal Benecki**

Chief Economist, Poland

[rafal.benecki@ing.pl](mailto:rafal.benecki@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 <http://www.ing.com>.