

## Poland faces tougher borrowing as 2024 deficit rises

The 2024 budget amendment increases the state budget deficit by PLN56.3bn to a record high PLN240bn. The general government deficit could exceed 6% of GDP compared to 5.7% in the mid-term fiscal plan. Higher 2024 borrowing needs will be mainly financed from the liquidity cushion, which reduces 2025 pre-financing needs and could increase credit spreads



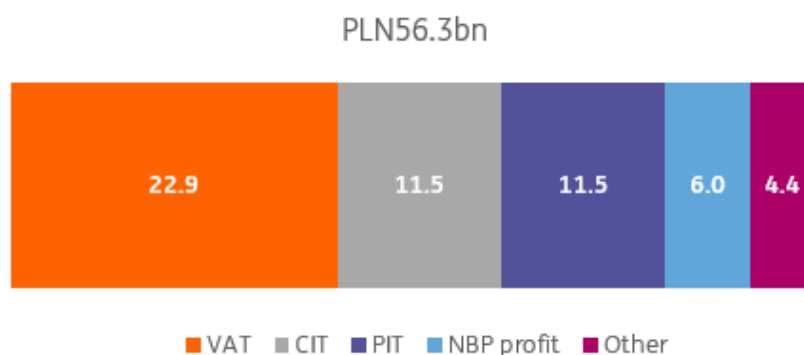
Poland's Ministry of Finance building in Warsaw

### Long-awaited 2024 budget amendment amid lower revenues

Since the beginning of the year, we have been warning that the 2024 budget act was based on the overly optimistic assumptions regarding budget revenues, and the act may need to be amended before the end of the year. In particular, we saw a near- 30% year-on-year increase in VAT as unlikely. Polish authorities had been postponing the inevitable amendment, but eventually admitted that the budget is markedly short of revenues vs. plans. The biggest gaps were in VAT collections, CIT revenues and proceeds from sales of CO2 emissions allowances (see chart below). The total shortfall in budget revenues was estimated at PLN56.3bn (around 1.6% of GDP).

## Shortfall in state budget revenues vs. budget act

PLN billion



Source: Ministry of Finance

## Higher-than-expected increase in deficit

Surprisingly, policymakers refrained from taking any steps on the expenditure side of the budget to cushion the negative impact of lower revenues on the fiscal balance. Consequently, lower revenues increase the state budget deficit by a corresponding amount, pushing the deficit from PLN184bn to PLN240bn, up by 1.6% of GDP. However, the increase in the general government gap is expected to be smaller for two reasons. First, the 5.7% of GDP estimate for 2024 presented by the Ministry of Finance in the mid-term fiscal plan was already taking into account the need for a budget amendment, but probably on a somewhat smaller scale. Second, part of the shortfall in PIT revenues for the central budget stems from lifting the share of local governments in tax revenues. Hence, the deficit at the central government level will be offset by the improved position of the local sub-sector.

## State budget borrowing needs

PLN billion

<i>bn PLN</i>	2024 budget act	2025 draft budget	2024 amendment
<b>Net needs</b>	<b>252.3</b>	<b>215.7</b>	<b>308.6</b>
State budget deficit	184.0	184.0	240.3
EU funds budget	32.5	10.5	32.5
EU funds management	11.6	13.5	11.6
Loans granted	22.6	18.6	22.6
Liquidity management	0.0	-12.2	0.0
Other needs	1.6	1.2	1.6
<b>Maturing debt</b>	<b>196.8</b>	<b>209.7</b>	<b>162.8</b>
<b>Gross needs</b>	<b>449.0</b>	<b>425.4</b>	<b>471.4</b>

Source: Ministry of Finance

## Liquidity cushion to cover most of the higher borrowing needs

With no action taken on the spending side of the budget, lower revenues directly increase the 2024 borrowing needs. According to the draft amendment bill, net borrowing needs will increase to PLN309bn from PLN252bn assumed in the budget act. The PLN56bn increase in borrowing needs will be mainly financed domestically (PLN55bn) with higher issuance of POLGBs (PLN11bn), but predominantly via the reduction of the liquidity cushion by PLN44bn. At the end of September it stood at PLN155bn.

## Upward pressure on credit spreads

Since the majority of the current cash buffer will be utilised to finance 2024 needs, the pre-financing of record-high 2025 gross needs of PLN553bn (14% of GDP) is expected to be low. At the current stage, the pre-financing via switch auctions (buyback of T-bonds maturing in 2025) is around PLN23bn i.e. some 4% of 2025 gross borrowing needs.

The debt management team is facing a serious challenge in the coming quarters. Demand for non-FX Polish treasury debt from foreign investors remains weak, while October primary tenders showed a visible setback in demand from domestic players. A less favourable starting financing position and loose fiscal policy may put upward pressure on sovereign credit spreads in Poland in the coming months.

### Author

#### Adam Antoniak

Senior Economist, Poland

[adam.antoniak@ing.pl](mailto:adam.antoniak@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](http://www.ing.com).