

## Poland: Spending pledges and the budget impact

The Polish government's spending pledges are higher than expected and while they pose limited risk to the budget in 2019, we worry about 2020 and beyond. After two years of very positive surprises on the fiscal side, there is now more uncertainty and we should end up with quite a different picture. Still the EU threshold, at 3% of GDP, is not under threat so far



Source: Shutterstock

### What exactly has the ruling party pledged?

The ruling PiS has announced its spending pledges before the 2019 European and general elections. These include:

- A broadening of the 500+ family support programme to cover first children as well. According to our estimates, this will cost PLN17-18 billion in 2020 and half of that in 2019 as the programme starts midyear.
- 13th pension for retirees (lump-sum PLN1100), paid in 2019 for sure, but possibly also in the following years subject to PiS re-election and fiscal space (yearly costs at about PLN10

billion).

- Cut of personal income tax to zero for young people (below 26). Annual cost at about PLN2-3 billion, to be implemented in 2020.
- Raising of deductible expenses from personal income tax base (cost for budget about PLN4-8 billion), to be implemented in 2020.

We estimate the total cost of the above measures at PLN18 billion in 2019 (0.8% of GDP) and PLN35-40 billion in 2020 (1.7% of GDP, cumulative costs). This is above what we expected (PLN15 billion in 2019 and PLN20 billion in 2020 cumulative). Also PiS wants to provide a more generous package than what was delivered after the 2015 elections, with child benefit and a cut in the pension age costing PLN33 billion).

# PLN35-40bn

The fiscal impulse pledged for 2020

Higher than expected

## How do we assess the package?

We don't like the fact that three quarters of the package is spent on clear social measures, which are politically effective (supporting PiS's position in the polls), but providing only a transitory boost for GDP (not solving any structural issues). We would prefer to spend three quarters of the package on education or health care or to simply stop the tax system from tightening (more tightening will come when the economy slows to keep the deficit under control). The earlier tightening of the tax system had a very negative impact on private investment, which grew by just 3.5% year-on-year in 2018, below the pace of GDP. As a result, Poland is losing its competitiveness in the region in terms of investment's share of GDP, which undermines long-term growth potential.

Still, the PiS election spending pledges are higher than expected while posing rather moderate risks to budget conditions. We estimate the 2019 public sector deficit at PLN1.6% of GDP and 2020 deficit at PLN2.2-2.5% of GDP.

The fiscal impulse provided should boost GDP by about 0.6% in 2019 and 0.8% in 2020. Thus it shields economic growth in Poland against a potential global slowdown. We see moderate upside risk to our 3.6%YoY GDP forecast for 2019, and 2020 at 2.8%YoY. But the uncertain global picture is the main risk (even after the Trump-Xi agreement we worry about the state of global trade).

## How will the financial markets react?

We think the package is neutral for the Polish zloty (PLN) but we expect a further limited widening of the Polish government bond spread over German Bunds as well as the asset swap spread.

PLN suffered recently from a much more dovish bias of the National Bank of Poland than the Czech National Bank and National Bank of Hungary. The fiscal pledges make any rate cuts in 2019-2020 unlikely (in line with our long standing view that we see stable rates until the end of 2020, but possibly cut afterwards).

In terms of the impact on POLGB's, the fiscal picture has changed from very safe to one with

higher tail risks.

The near-term outlook for the fiscal side is still safe. The Ministry of Finance has already covered 52% of this year's borrowing needs (effectively more - NBP profits should also be deducted from net borrowing needs) and the 2019 deficit is reasonable (1.6% of GDP). That is why we see a rather limited impact on POLGB's spread over the Bund.

After 2019, however, the picture is more risky. POLGBs may be more sensitive to future signs of slowdown or signals showing that PiS is losing in the polls before elections (European in May 2019 and general in October 2019), which makes further pledges more likely. The momentum on the political scene has changed. The ruling PiS made several mistakes, while the Civic Platform set a coalition of four oppositional parties for European elections, which should provide a turning point in the polls (some of which are showing the coalition above PiS).

## 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>.