

Poland: The Polish Deal

The new stimulus programme is expected to result in higher GDP and CPI in 2022



Source: Shutterstock

The Polish Deal

The Polish Deal was announced on Saturday, 15 May. It is a new socio-economic programme of the Law and Justice party for 2021-30, which includes:

- an increase in spending on healthcare from 5.3% of GDP in 2021 to 6% of GDP in 2023 and 7% of GDP in 2027;
- an increase of the tax-free amount to PLN30k per annum and the tax threshold from PLN85.5k to PLN120k;
- new relief in personal income tax (PIT) for employees working on employment contracts with an annual income between PLN70-130k;
- order contracts should be subject to full social security contributions, with the perspective of introduction of the single contract;
- the launch of linear health care contribution (at 9%) proportional to the incomes for all types of contracts, non-deductible from PIT;

- infrastructural investments: in a network of expressways, railroad lines, the New Central Polish Airport, cultural and sports infrastructure in municipalities and digital infrastructure, all financed from the issue of bonds by a new BGK fund;
- state guarantees for own contribution to mortgage loans, up to PLN150k, or subsidies up to PLN160k for the purchase of social housing or for families with many children;
- assistance in the repayment of mortgages after the birth of second or subsequent children up to PLN150k;
- construction of single-family houses up to 70 square meters only on the basis of notification, without a permit, construction supervision or construction records.

The maximum cost is expected to amount to PLN651.6bn in total in the years 2021-2030, which is PLN65bn yearly. These are very rough estimates, many of the projects are rather concepts than a bill and the timings of majority of the projects are not specified. At this stage we assume that the main demand stimulus should come from (1) cut of personal income tax (PLN20-22bn or 0.8% of GDP in 2022), (2) the higher spending on healthcare in subsequent years should be offset by gradual rise of contribution, so the net effect should be rather neutral for aggregate demand, (3) the housing programme should also increase demand for real estate but the timing of the launch is not specified, and (4) the infrastructural and local public investment also deliver Keynesian effects, but it too early to say when they will start.

How will the gap in the budget be closed?

The proposed changes in personal income taxes, healthcare contribution and spending are a bit more closely specified so based on these assumptions we try to estimate the impact on budget.

The proposed tax changes are not budget neutral. The increase in the tax burdens for the wealthier part of the society and the self-employed will not cover the reduction in the tax burden for the low and mid income taxpayers. According to the Ministry of Finance the lost revenues in PIT should reach PLN20-22bn. The increase in the healthcare contribution should provide PLN14bn, but all of this should be spent due to the pledged rise of healthcare spending from 5.3% of GDP to 6% of GDP in 2023.

In the short term we expect a slower reduction of the deficit as well as cyclical improvement of budget revenues due to high CPI and GDP dynamics.

We do think the European Commission should postpone the suspension of fiscal rules to 2022. The MinFin already incorporated the later return to stabilising the spending rule in the Convergence Programme. Additionally, Poland wants to foster a European discussion on spending rule composition by the proposal to exclude military expenditure from spending limits. Poland spends over 2% of GDP on defense purposes. Excluding this from the spending limit would give room for the implementation of the Polish Deal, but it would also increase the debt.

The cut in taxes is not the only burden the MinFin has to cover. There are other spending, e.g. Family Capital (annual benefit on second and following childrens), which can not be covered from EU money. The past experiences show that the deficit (arising from new social transfers) was closed by higher effective tax rates among other taxpayers, mainly enterprises. The side effect of such actions was constant uncertainty regarding tax regulations and high restrictiveness of the tax

authorities. This resulted in increased uncertainty and, in our opinion, limited private investments, especially in the SME sector.

The demand stimulus should increase the GDP and CPI outlook in 2022

The new programme should generate a new demand stimulus, but on the other hand, we are concerned about a negative impact on the propensity to invest. As a result both should further stimulate the pro-inflationary structure of GDP growth in Poland. The low share of private investment limits productivity growth, which may mitigate price pressures coming from higher consumer demand. This effectively means a higher risk for our GDP forecast for 2022 (5% year-on-year) and the average annual inflation at 3.4% YoY.

Author

Rafal Benecki

Chief Economist, Poland

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>.