

Poland's 2022 budget brings high fiscal expansion

The government passed a 2022 budget, now to be debated in the Parliament. The moderate deficit of the central government and the entire public sector (2.8% of GDP) masks a high structural gap widening to 5.2-5.5% of GDP from around 4.5% this year



Source: Shutterstock

In 2022 budget revenues are assumed at PLN481.4bn and expenditures at PLN512.4bn. This yields a central government budget deficit of PLN30.9bn, very close to the August proposal. The general government deficit is projected to fall to 2.8% from 5.3% of GDP this year. The expenditures are some PLN7bn higher than expected in August, but should be compensated by improved revenues, reflecting their outperformance this year.

Despite no tangible changes in macro assumptions and projected deficits (both the central government budget and the general government sector), the new bill assumes the general government debt at 56.6% of GDP next year, up from 55.5% expected in the August proposal. Also the public debt under the local methodology is higher, which suggests that the government plans to fund spending outside the central government. They should be covered without raising the central and sector deficit. The funding should be covered by sending Polish government bonds

(POLGBs) to public institutions outside the central government. That is presumably why government debt grew in the last version of its projections.

In order to estimate what would be total size of fiscal expansion affecting the economy, we estimate the overall structural balance. In our view it should reach 5.2-5.5% of GDP, increasing from around 4.5% this year. This consists of: (1) the general government deficit at 2.8% of GDP, (2) we add at least 0.5% correction for a cyclical improvement on the revenue side, (3) we add non-returnable Recovery Fund aid from the EU (we expect an equivalent of 1% of GDP to be spent next year) and (4) 1.1% of spending in projects outside of the central government budget.

The above suggests that the government aims to deliver another strong fiscal impulse in 2022 and it should be 0.7-1.0% of GDP higher than in 2021. The structural gap in 2022 is expected to widen to 5.2-5.5% of GDP from c.4.5% this year.

That high level of fiscal expansion comes at a time when GDP has already fully recovered from the pandemic, and the positive output gap in 2022 is already expected. Hence it should result in inflation remaining persistently high next year, though with a bit different structure compared to 2021. Core inflation should remain very high, while YoY inflation of energy, especially fuels should subside bringing headline CPI lower in 2H22, but this is only a base effect.

The budget proposal suggests that currently the government aims to rely more on government debt issuance, rather than agency debt next year. This may reflect the lacklustre demand for BGK bonds seen this quarter, especially since the National Bank of Poland may phase out its QE programme relatively soon. Some Monetary Policy Council members, including the chairman, said that QE may not continue alongside rate hikes. This supports our scenario of higher POLGBs' yields in the remainder of 2021 and in 2022.

Authors

Rafal Benecki

Chief Economist, Poland
rafal.benecki@ing.pl

Piotr Poplawski

Senior Economist, Poland
piotr.poplawski@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>.