Polish fiscal stance keeps improving

A surprise PLN 3.8bn budget surplus at the end of September is down to higher tax revenue and sluggish public expenditure

3.8bn

Better than expected

Polish central budget surplus

In Polish zloty (PLN)

Key budget takeaways

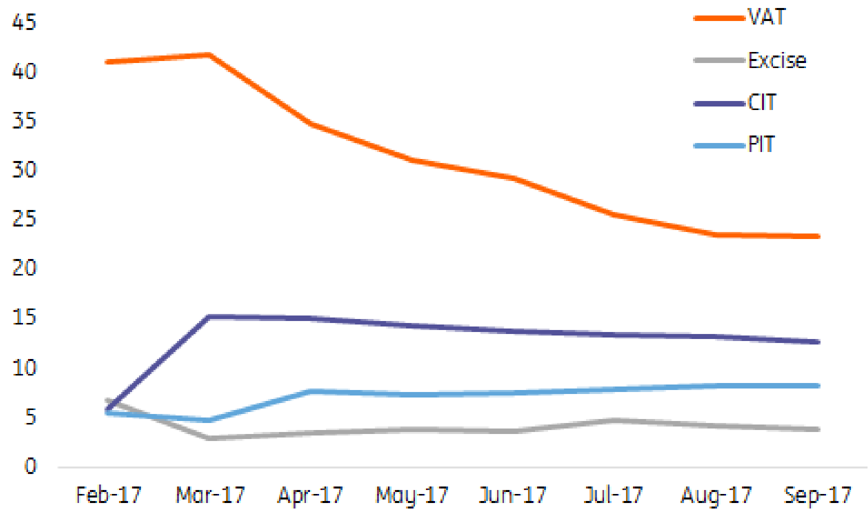
There's a surprise from Poland this Tuesday with better than expected budget figures for the year to September; the government announced a central budget surplus of PLN 3.8-billion There are two main reasons for this:

1. Tax revenues continued their good run from previous months (due to successful tightening of the tax system). The overall VAT revenues grew by 23% year-on-year since the beginning of 2017, followed by CIT and PIT revenue growth of 12.6% and 8.3%YoY respectively.
2. More surprisingly was the sluggishness of budget expenditure. In the first three quarters of 2017, they were slightly lower than in the same period a year ago (PLN258.5bn vs PLN259.2bn). The government promises to boost expenditure in the remainder of the year

to reach the target of PLN31bn for the central budget deficit and an overall general government deficit of 2.5% of GDP.

For some time now we've been doubting that such boost is achievable and today's data reinforces our view. We uphold our forecast that the deficit in 2017 will be slightly below 2% of GDP.

The growth of Polish tax revenue per annum (YtD)



Source: Karol Pogorzelski

The reasons behind expenditure sluggishness

Although tax revenue growth in 2017 was largely expected, the low budgetary expenditure came as a surprise. That expenditure should have grown for a number of reasons.

- Some social programmes introduced by the government have higher costs than last year, most notably the 500+ programme (worth PLN23bn per annum) which, for the first time, will operate throughout the whole year.
- The acceleration of EU-investment should have increased the costs of co-funding by central and local governments.

Unfortunately, the monthly budgetary data isn't detailed enough to tell the exact reasons for low public expenditure. One we know for sure is that contributions to the Social Security Fund surprised positively with 8.2% growth per annum year-to-date., instead of the 3% growth assumed in the budget bill. Therefore the budget will save at least PLN3bn in subsidies to the Fund. The costs of servicing the public debt turned out to be lower than expected (by PLN0.6bn) due to the strong zloty. Another reason is the slower acceleration of EU-investment. The government also must have made savings in some public services (such as health or military defence), but only the 2017 budget implementation report (expected in April 2018) will reveal more details.

The lower than expected deficit will help the government to limit the issuance of Polish government bonds in fourth quarter of 2017. The better fiscal stance will encourage more risk-averse funds to enter the market. This will support POLGB, especially from the shorter end. The longer bonds should be delivered via switching auctions.

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