

## Budget deficit under control

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2009-10-27

In the eight months to the end of August 2009 budget revenue amounted to PLN183.4 billion, compared with the PLN272.9 billion planned under the amended 2009 budget law and PLN303.0 billion planned initially.

Indirect taxes accounted for 55.5% of the revenue, corporate income tax (CIT) accounted for 8.6%, personal income tax (PIT) accounted for 12.3% and receipts from EU funds and other non-refundable sources accounted for 14.4%. Receipts from indirect taxes were by 2.6% lower than a year before. Receipts from CIT were lower by 13.6% and receipts from PIT were lower by 5.8%.

In the eight months to the end of August budget expenditure amounted to PLN199 billion, compared with the PLN300.1 billion planned under the amended budget law and PLN321.2 billion planned initially. The implementation of the budget law's expenditure plan was by 10.2% more advanced than a year before. Spending on domestic and foreign debt service accounted for 10.2% of the total expenditure. After the eight months the budget deficit reached PLN15.6 billion, or 57.5% of the total deficit planned for 2009.

**The start of the debate on the 2010 budget bill was an important development in Poland in September and October.**

**Government, Ministry of Finance:** The 2010 budget bill has been drafted on the basis of new provisions of the Aug. 27, 2009 law on public finances. Under article 110 of the law, apart from projected tax and non-tax budget revenue, budget expenditure and budget deficit, the national budget also specifies the total amount of receipts planned from EU funds, the total amount of spending planned from the European funds budget and the balance of the European funds budget. This means that 2010 will be the first year in which the revenue, expenditure and deficit of Poland's "domestic" budget will be separated from the revenue, expenditure and deficit of the European funds budget. The European funds budget will be an annual plan of revenue and refundable expenditure set aside for the implementation of programmes partially funded by the EU. A deficit or surplus of European funds will not be included in the deficit or surplus of the national

budget. A deficit in the European funds budget is to be financed as part of the borrowing needs of the national budget while a surplus in the European funds budget will be used for the repayment of national budget debt incurred in order to cover the deficit of this budget. However, at the current stage of work on the 2010 budget bill, the European funds budget has not been taken into account yet. It will be added at a later stage of work on the bill. Under the 2010 budget bill, it is planned that:

? national budget revenue will reach PLN245,500,784,000;

? national budget expenditure will reach no more than PLN297,715,000,000;

? national budget deficit will reach no more than PLN52,214,216,000.

The projection of budget revenue in 2010 is based on the expected economic scenario and takes into account the expected consequences of systemic changes already introduced and planned. The development of the economic situation is determined in the first place by estimates of the following macroeconomic factors: a decrease in employment by 1.0%, a rise in GDP by 1.2% in real terms, an average annual rise in prices of consumer goods and services by 1.0%, a real increase in wages by 1.0% and a rise in total consumption by 1.2%. (2010 Budget Bill, p. 23-24; [www.mf.gov.pl](http://www.mf.gov.pl)).

### **Opinions of economists and analysts are moderately optimistic.**

#### **Prof. Witold M. Orłowski, Independent Centre for Economic Studies (**

**NOBE):** Whether or not we will manage to avoid open recession in the second half of the year is still an important question. In contrast to many optimistic assessments, I remain sceptical about it. The faint signs suggesting an improvement in Western Europe, will not be enough to revive Polish exports in coming quarters. The gradual strengthening of the zloty will again encourage imports. Meanwhile, the domestic market will still be weakening, although at a slower rate than one could fear. Unemployment will be on the rise and real wages will drop slightly. I also think that investment activity will also be gradually deteriorating. All this makes me stick to my earlier projection of a shallow and quite short recession – of two or three quarters. A revival should come around the middle of 2010 but I am afraid that it will be relatively weak.

Paweł Durjasz, chief economist at PZU: For the time being (...) there is no guarantee that the factors which are now helping the United States to come out of recession will enable transition to a long-term and rapid revival.

**Lukasz Tarnawa, chief economist at PKO BP:** In the baseline scenario, one may now formulate projections of an economic growth in developed countries in

the second half of 2009, but in line with our assumptions, the pace of an economic revival in the world, especially in the United States, will be relatively slow.

**Prof. Władysław Welfe, University of Lodz:** We must not lose sight of the major threats emerging in the second half of 2009. Further threats, rooted in mistakes of the economic policy, may appear in the next years.

**Prof. Krystyna Strzala, University of Gdańsk:** The latest indicators of consumer and property market activity in the United States signal that negative trends in the American economy have started to slow down.

**Prof. Jan Przystupa, IBKkiC:** Despite the injection of huge public funds – over USD1 trillion in the United States alone – the global economy is sinking deeper into crisis.

**Tadeusz Chroscicki, independent expert:** It should be taken into account that this and next year average employment in the national economy will be by over 2% lower than last year and that growth in average gross wages in real terms will slow from 5.7% in 2008 to less than 2% in 2009. Next year it will remain at this year's level.

**Prof. Elzbieta Maczynska, President of the Polish Economic Society:** I share the opinion of the experts who expect a positive economic growth in 2009 and 2010. However, it is necessary to take into account the effects of the growing worldwide uncertainty. In such conditions, it is obvious that every projection is risky because extraordinary unpredictable circumstances may always take place. Much depends on measures taken to pre-empt, prevent and counteract threats. In conditions of the global crisis, it is a real success that Poland's GDP is growing – although at a slower pace than in previous years – and that it has managed to avoid recession. There are reasons for a further improvement in economic conditions but whether this indeed will be the case will be determined by a number of factors. The government's economic policy, apart from the condition of the global economy, will be decisive in this respect. (Source: [www.pte.pl](http://www.pte.pl))

Projections and recommendations concerning fiscal deficit and public debt are now an exceptionally important and topical subject because we are now at the start of a few months' long round of parliamentary work on next year's budget and strategy for government debt management in 2010 and the next years. The voice of independent experts and non-governmental organisations should be a

counterbalance to the pressure of the election cycle and particularistic political and party interests.

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