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FOR Communication 1/2024:

The new draft state budget - with larger deficit than in PiS assumptions

Synthesis:

- A week after it's swearing-in, the Donald Tusk's government presented Sejm with a draft state budget for 2024. It's a budget with the highest deficit in the history of Poland, even larger than in the assumptions of the PiS government's draft.
- Due to rejecting the so-called budget implementation act by President Andrzej Duda, the government proposed a new bill.
- The deficit is forecasted at 184 billion PLN, and most likely, due to the lack of transfer of NBP's profit, will be even higher, amounting to 190 billion PLN.
- Poland meets the criteria for being covered by the EU's excessive deficit procedure. The new government would then have to implement savings, for which it would be held accountable by the EU institutions.
- According to the European Commission's estimates, Poland in 2023 and 2024 will have one of the highest public finance sector deficits in the European Union.

The Donald Tusk's government submitted a new draft state budget for 2024 to the Sejm on December 19, 2023¹. Following rejecting of the budget implementation act by the president, the government presented a new bill on special solutions for the implementation of the budgetary act for 2024². The project provides for an **increase in the deficit to 184 billion PLN, which is nominally the highest state budget's deficit in the history of Poland**. The assumed deficit is also projected to be **20 billion PLN higher than in the draft proposed by the PiS government** in September 2023. In the 2023's state budget, the deficit

¹ Sejm print no. 125, Rządowy projekt ustawy budżetowej na rok 2024.

<https://www.sejm.gov.pl/Sejm10.nsf/druk.xsp?documentId=D958E26BE7A4E48EC1258A8A00660F8E>

² Sejm print no. 142, Rządowy projekt ustawy o szczególnych rozwiązaniach służących realizacji ustawy budżetowej na rok 2024

<https://orka.sejm.gov.pl/Druki10ka.nsf/0/D2705022447BBC31C1258A940043FD2C/%24File/142.pdf>

amounted to 92 billion PLN. The new draft budget implementation act from December 28 also includes an increase in the amount of treasury bonds that can be transferred to various entities by the State Treasury - from 5 to 12 billion PLN, which will further increase the public debt and the deficit of the general government sector, calculated according to EU methodology.

Table 1. Basic budget data

	State budget for 2023 ³	Draft budget from September 2024 (PiS)	Draft budget from December 2024 (KO-PSL-PL2050-NL)
Revenues	601 billion PLN	684 billion PLN	682 billion PLN
Expenditures	693 billion PLN	849 billion PLN	866 billion PLN
State budget deficit	92 billion PLN	164 billion PLN	184 billion PLN
Public finance sector deficit	5,8% ⁴ GDP	4,5% GDP	5,1% GDP
General government debt at the end of the year (EU Definition)	1 697,1 billion PLN 49,3% GDP ⁵	2 033,8 billion PLN 53,9% GDP	2 041,9 billion PLN ⁶ 54,2% GDP

Source: Own study based on the 2024 budget drafts – from September (PiS government) and December (KO-PSL-PL2050-NL government).

As part of meeting election promises, the government proposed new expensive programs, such as:

³ Forecasts included in the draft 2024 Budget Act, Justification, December 2023.

⁴ According to the European Commission.

⁵ Forecasts included in the draft 2024 Budget Act, Justification, December 2023, p. 27.

⁶ According to the original project. In the government-proposed act of December 28th on budget implementation, there are minor shifts of funds between the state budget and the Compensation Fund for Indirect Emission Costs and the Government Agency for Strategic Reserves, and an increase in the value of Treasury Bonds that can be issued to various entities by the state treasury - from 5 to 12 billion PLN, which will raise the EDP debt by about 7 billion PLN.

- Increase of salaries in the state budget sector - 13 billion PLN (5.2 billion PLN more than in the PiS draft).
- Increase of teachers' salaries, including academic lecturers – about 30 billion PLN⁷ (19 billion PLN more than the PiS draft).
- "Babciowe" benefit – Active Parent.
- Funding of in vitro fertilization – 0.5 billion PLN.
- Extension of zero VAT on food – about 2.7 billion PLN only in the first quarter of 2024.

The servicing of the State Treasury's debt is expected to cost 66.5 billion PLN. The state will spend 63 billion PLN on the "800+" program, and 30 billion PLN on the "thirteenth" and "fourteenth" pensions. National defense (including the Armed Forces Support Fund) will consume 158 billion PLN, i.e., 4.2% of the GDP. Expenditures proposed by the PiS government, such as "care capital" (subsidies for childcare facilities) at 2.6 billion PLN, and „support benefit” for the disabled persons at 3.8 billion PLN, have been maintained.

The coalition during the election campaign promised to consolidate public finances and restore their transparency. The presented draft budget does not improve the situation in this area in any way. On page 7 of the draft's justification, it only mentions that "actions will be taken in the near future to increase the transparency of public finances."

A public finance sector deficit above 3% of GDP - according to EU methodology, can trigger the excessive deficit procedure. The European Commission had already forecasted in November that the deficit would reach 5.8% of GDP in 2023 and 4.6% of GDP in 2024. The general escape clause – the suspension of EU fiscal rules during the COVID-19 pandemic – expires at the end of 2023.

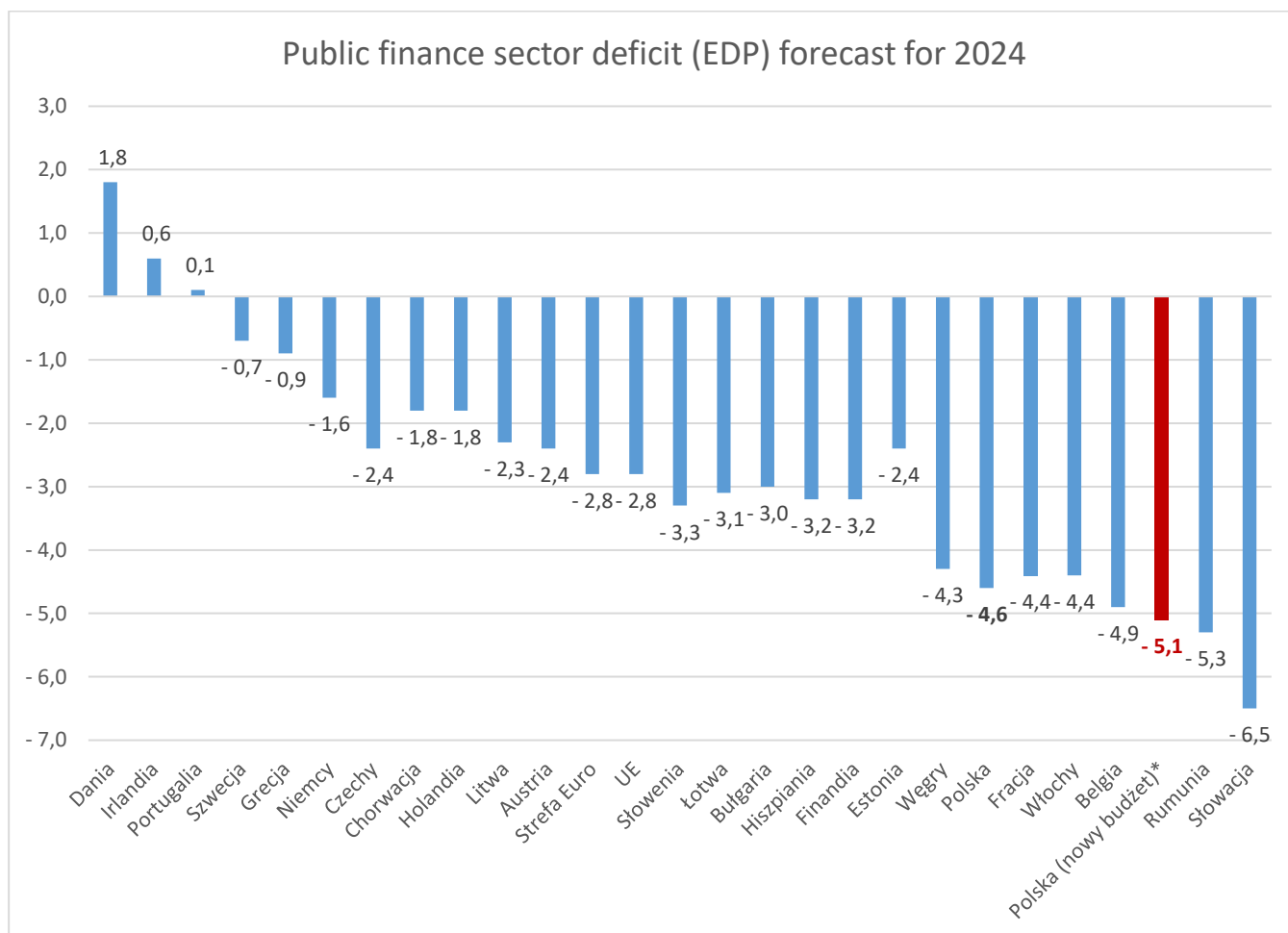
The deficit results solely from the loose fiscal policy of the PiS government, and now the new KO-PSL-PL2050-NL government. It is therefore unlikely that the European Commission will find that special circumstances exist which would allow for not initiating the procedure. This would mean that the new government will be obligated to reduce expenditures and increase budget revenues (taxes) to reduce the deficit. Actions taken by the government will be monitored by the EC, and failure to meet obligations could result in financial penalties for Poland and the suspension of payments from the RRF. Therefore, a better solution would be to cut expenditures now.

In 2023, Poland will have the second highest deficit (after Romania) of central government and local government institutions – 5.8% of GDP⁸. What is more, in 2024, we will be among the countries with the highest deficit in the European Union. Moreover, this forecast does not take into account the new budget, and thus, an even higher state budget deficit. A deficit of 5.1% of GDP in 2024 would place Poland on the third place in the EU (after Slovakia and Romania).

⁷ According to the original project, it was 28.3 billion PLN. The new budget measures act increased the subsidy to local governments, which finance the salaries of preschool teachers.

⁸ DG ECFIN Ameco

Chart 1. EDP public finance sector deficit forecasted by the EC in November 2023 for the year 2024



*Public finance sector deficit according to the draft state budget presented by KO-PSL-PL2050-NL.

Source: DG ECFIN Ameco

It is important to note that the new government, similar to the PiS government⁹, adopted an optimistic assumption that the Polish GDP will grow by 3% in 2024¹⁰. International institutions (OECD¹¹ and the European Commission¹²) forecast growth at 2.6% and 2.7%, respectively. The government's draft assumes inflation in 2024 at 6.6%. According to NBP's projections, inflation is expected to be 4.6%¹³, and according to the EC – 6.2%¹⁴. Higher inflation is beneficial for the state budget - nominally higher incomes and expenditures of individuals and legal entities, results in higher collected taxes. This supports budget revenues. If GDP growth is lower, closer to that forecasted by the OECD, and inflation is lower,

⁹ FOR Communication 25/2023 Projekt budżetu na 2024 rok: pocałunek śmierci PiS. <https://for.org.pl/pl/a/9496,komunikat-25/2023-projekt-budzetu-na-2024-rok-pocalunek-smierci-pis>

¹⁰ 2024 Budget Act, Justification, December 2023, p. 5.

¹¹ OECD Economic Outlook, Volume 2023 Issue 2: Preliminary version.

¹² Autumn 2023 Economic Forecast, European Commission.

¹³ Inflation and GDP projection – November 2023, NBP, <https://nbp.pl/projekcja-inflacji-i-pkb-listopad-2023>

¹⁴ Autumn 2023 Economic Forecast, European Commission.

as predicted by the NBP, the state budget will have nominally lower revenues, which, while maintaining the same anticipated expenditures, will mean a higher deficit. Expenditures are usually rigid and quantified – e.g., “800+” for each child, budgets of state institutions, etc.

Another blow to the draft’s assumptions will come from the National Bank of Poland. Budget projects – both from September and December – assume that 6 billion PLN will be transferred to the state treasury in 2024 as the NBP's profit for 2023. According to the information provided by members of the Monetary Policy Council, NBP will incur a loss this year, hence it will not pay out the profit “promised” by Adam Glapiński in August¹⁵. Just for this reason, it is practically certain that the deficit will amount to 190 billion PLN.

The new government inherited a bad budget from its predecessors, which required changes in a very short time. Only a week passed from the swearing-in of the government to the submission of the draft to the Sejm. Unfortunately, instead of moving away from loose fiscal policy, the new government also continues a reckless and harmful approach to state finances, increasing budget expenditures financed by debt.

¹⁵ Wielka dziura w NBP jeszcze większa? Członek RPP: grubo powyżej 20 mld zł, money.pl <https://www.money.pl/gospodarka/wielka-dziura-w-nbp-jeszcze-wieksza-czlonек-rpp-grubo-powyzej-20-mld-zl-6975360006953792a.html>

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