

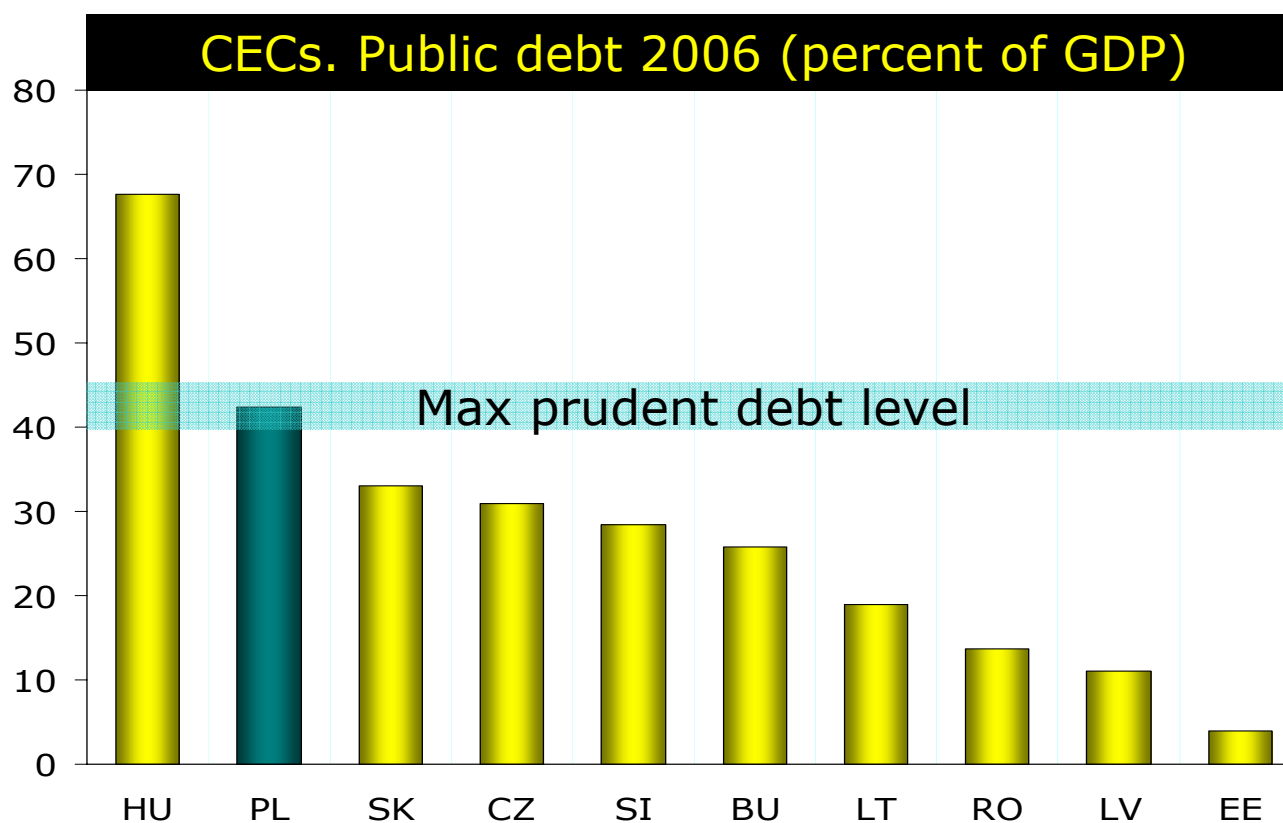


Poland: Some thoughts on fiscal policy

Dr. Christoph Rosenberg
Senior Regional Representative

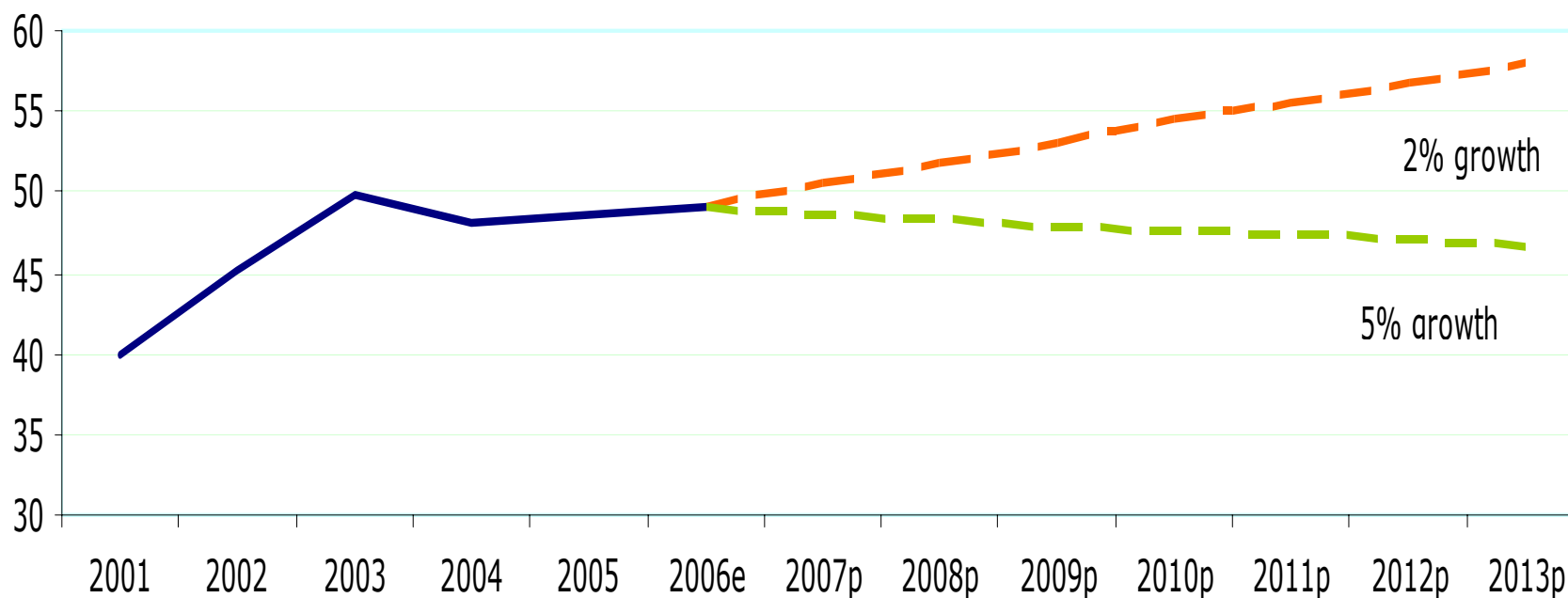
IMF Office for Central Europe and the Baltics
April 2007

Poland's public debt is one of the highest in the region



Public debt has increased and may remain high

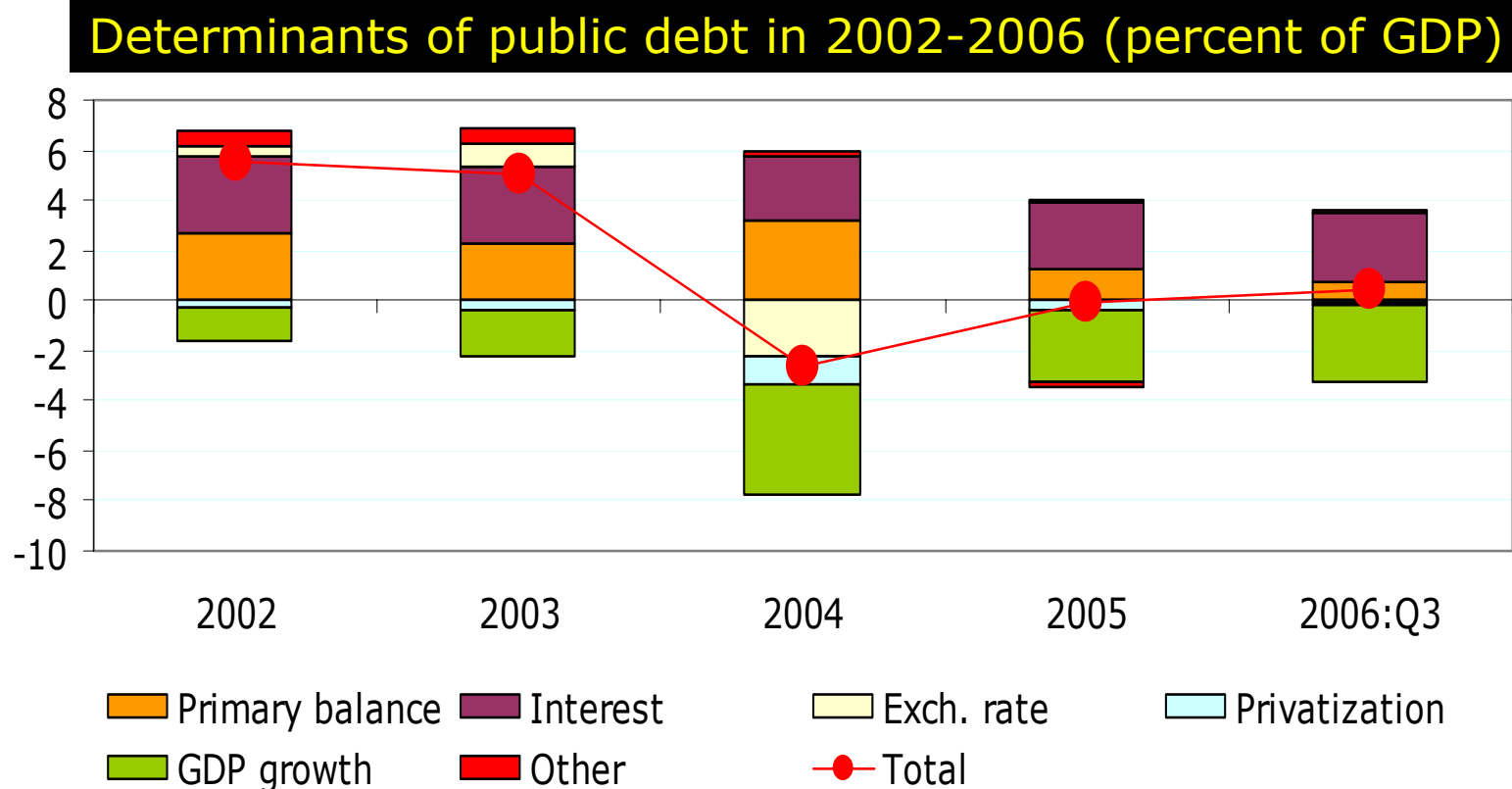
Public debt including OFEs and guarantees (percent of GDP)



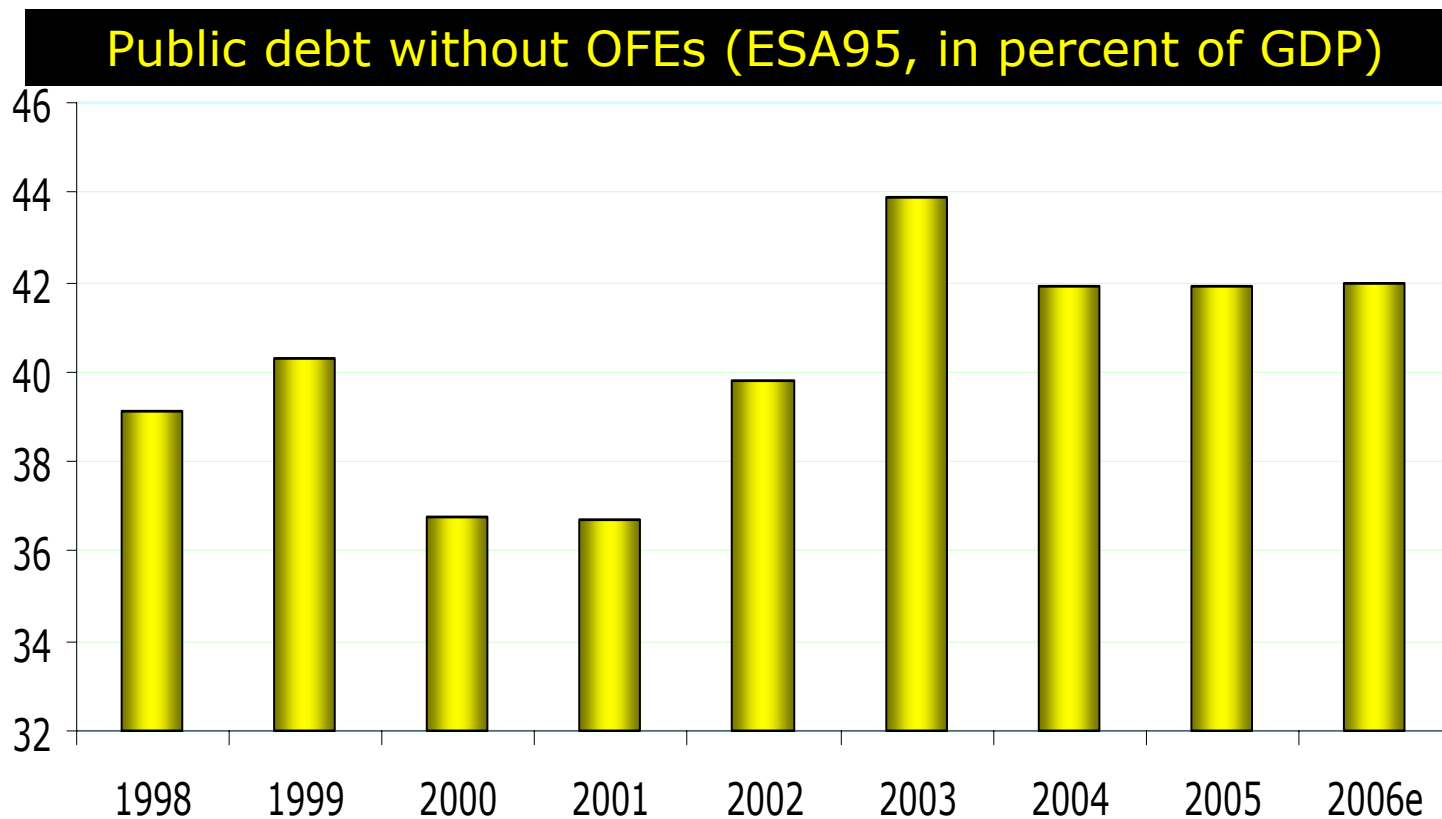
Source: MoF, IMF staff estimates.

Ass: CPI=2%, nominal XR=const, primary balance at present level -0.8% of GDP

Strong growth has not been enough to reduce public debt

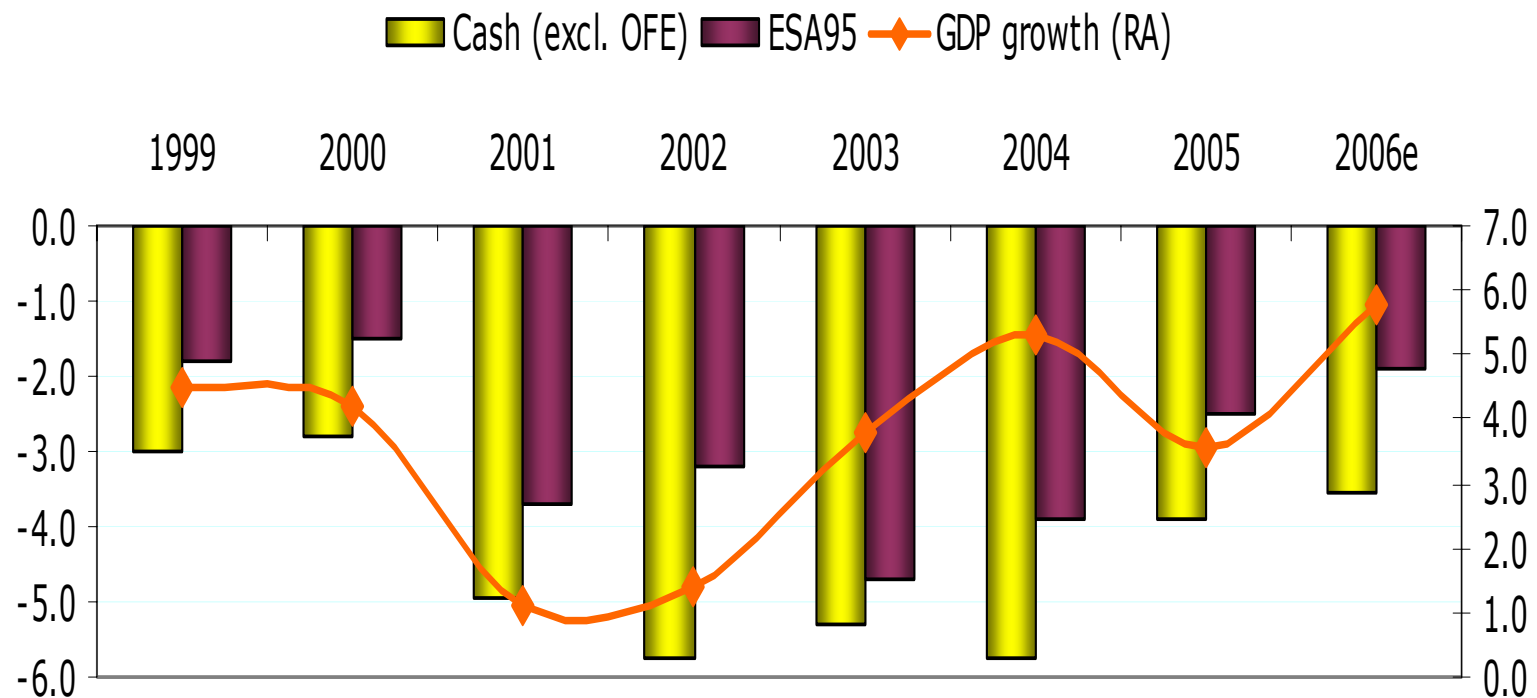


Even adjusted for pension reform, debt has increased since late 90s

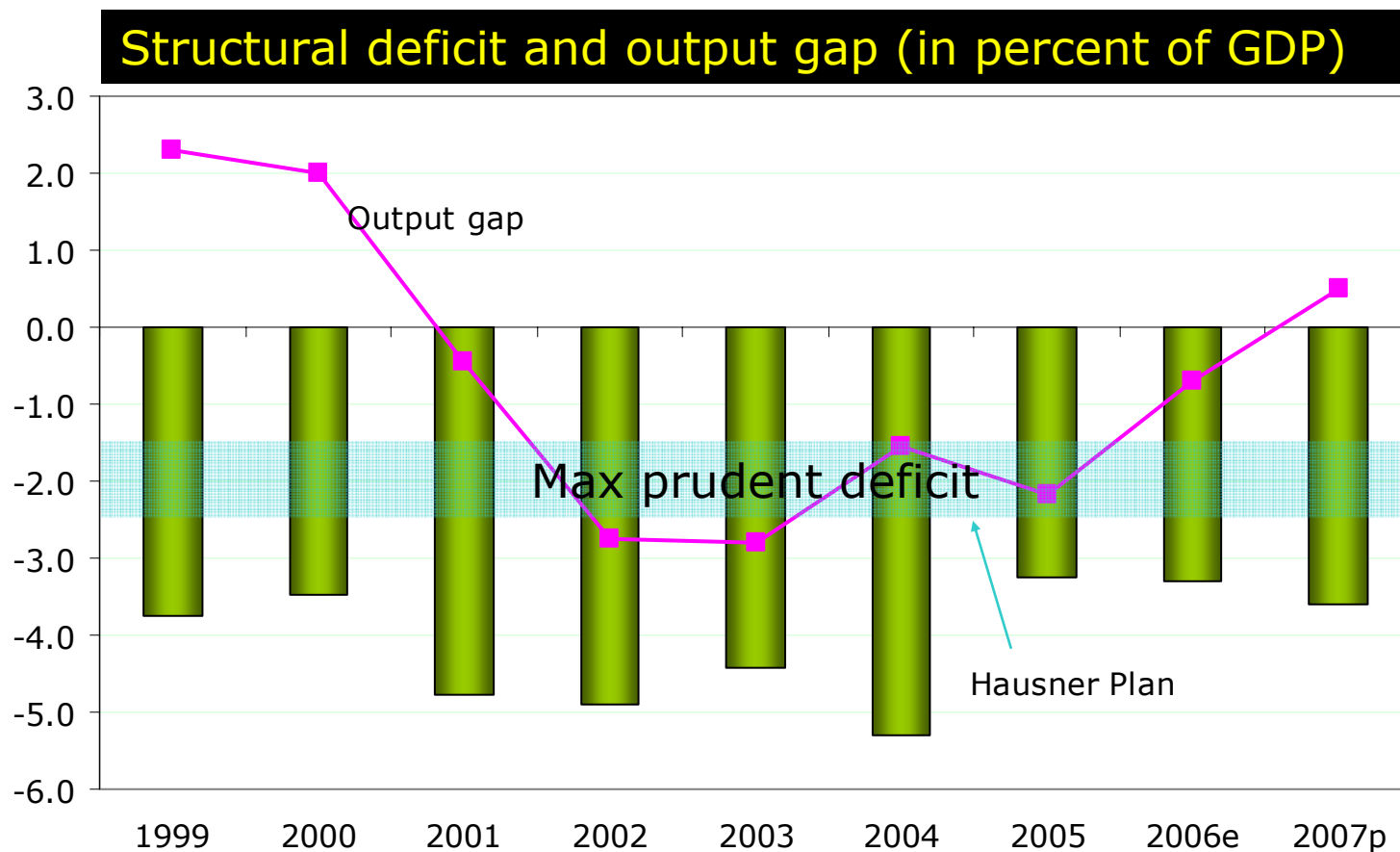


The fiscal balance appears to be drifting with the economic cycle, with no improvement since the late 90s

General government deficit (in percent of GDP)



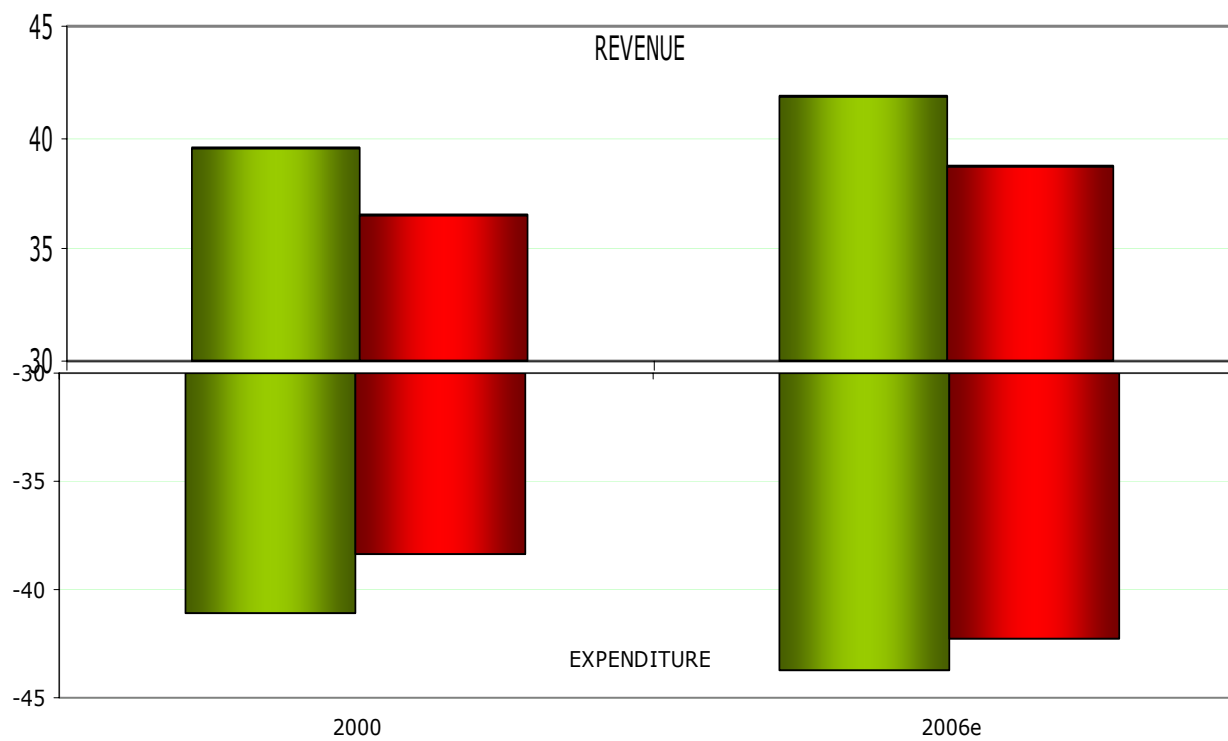
Structural deficits (excl. OFE) show a similar story, possibly more lackluster in recent years



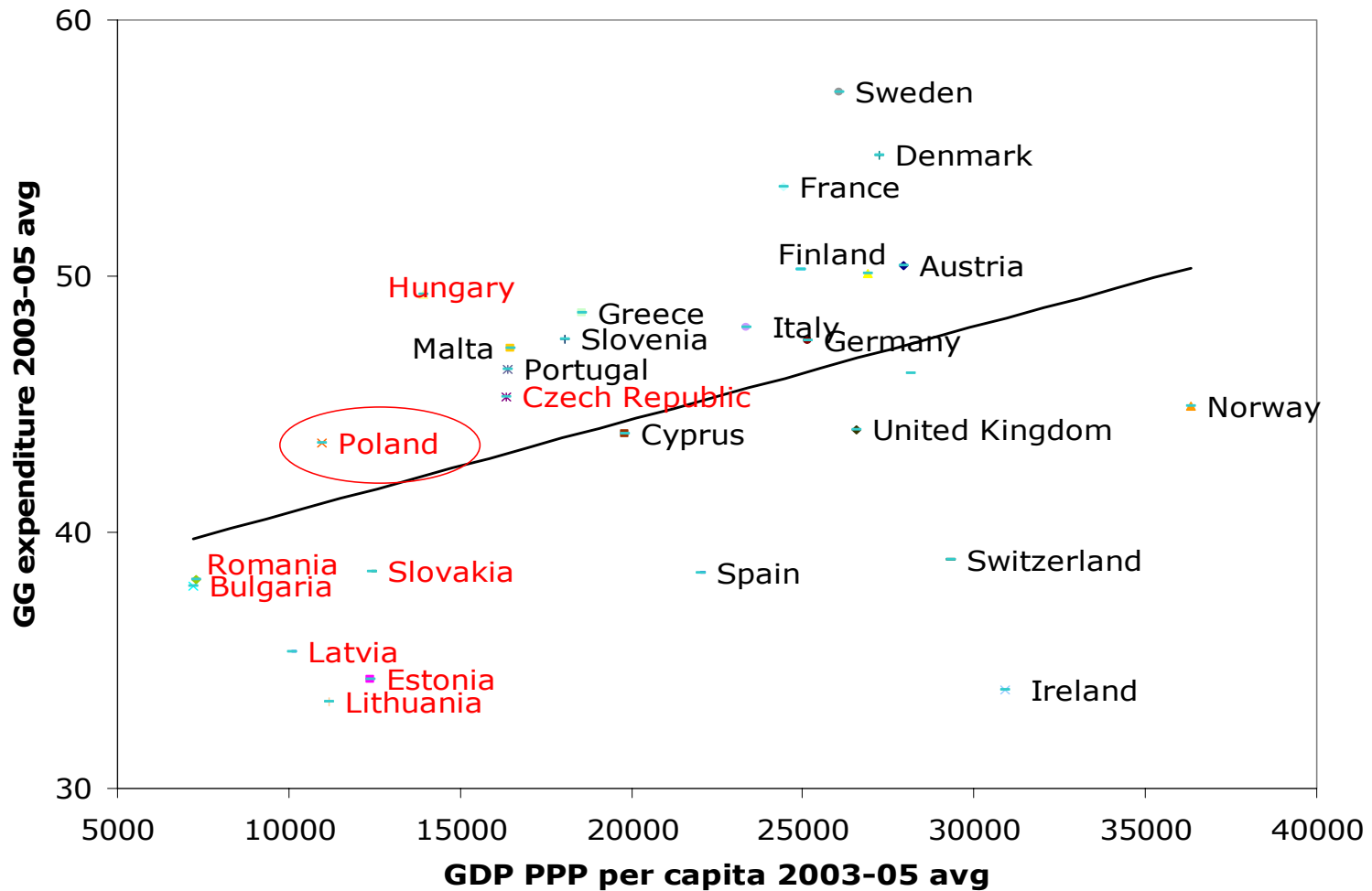
The government's role has increased (partly due to EU related spending)

Government revenue and expenditure (percent of GDP)

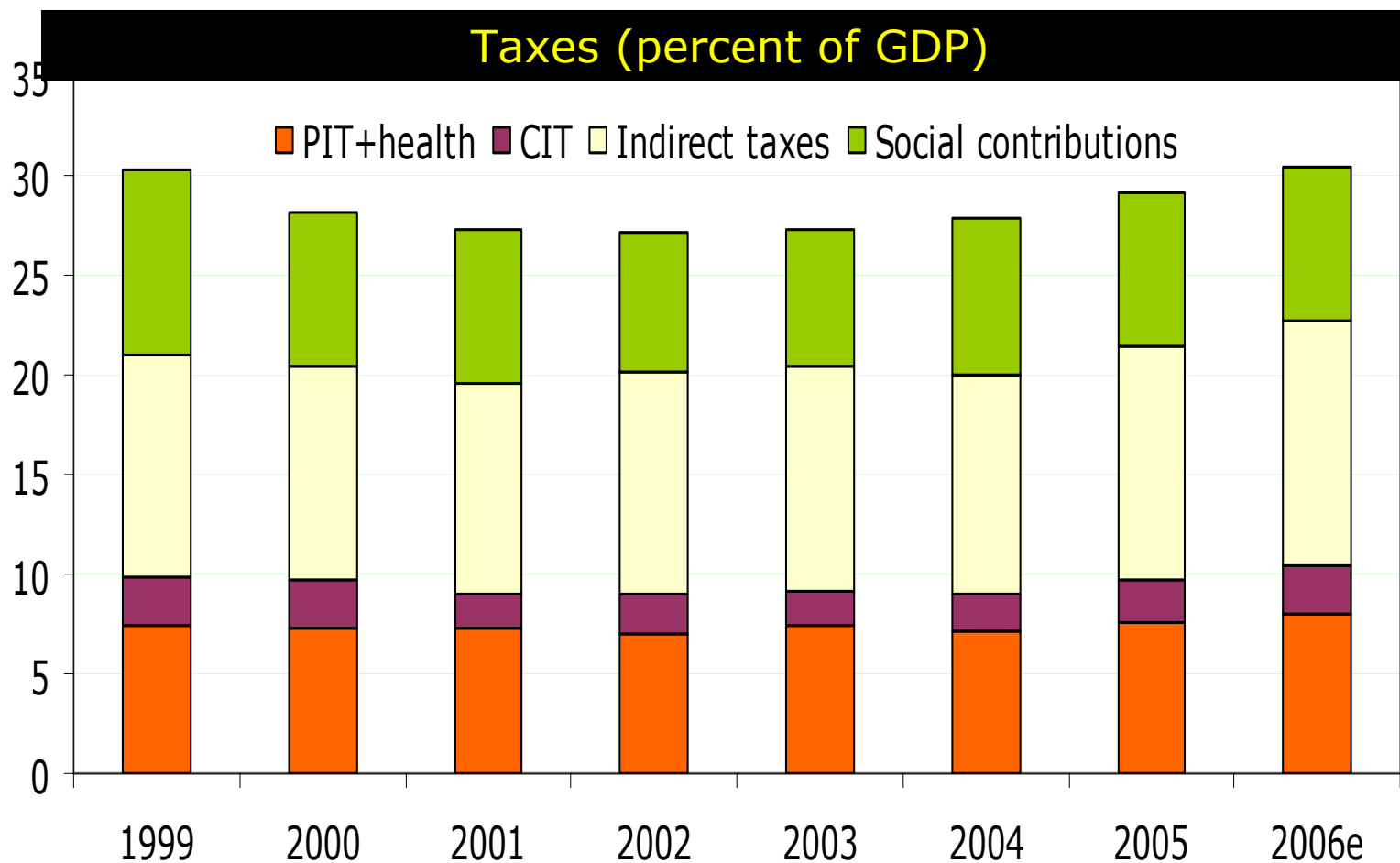
■ ESA95 ■ Cash excluding OFE



Spending is relatively high by EU standards



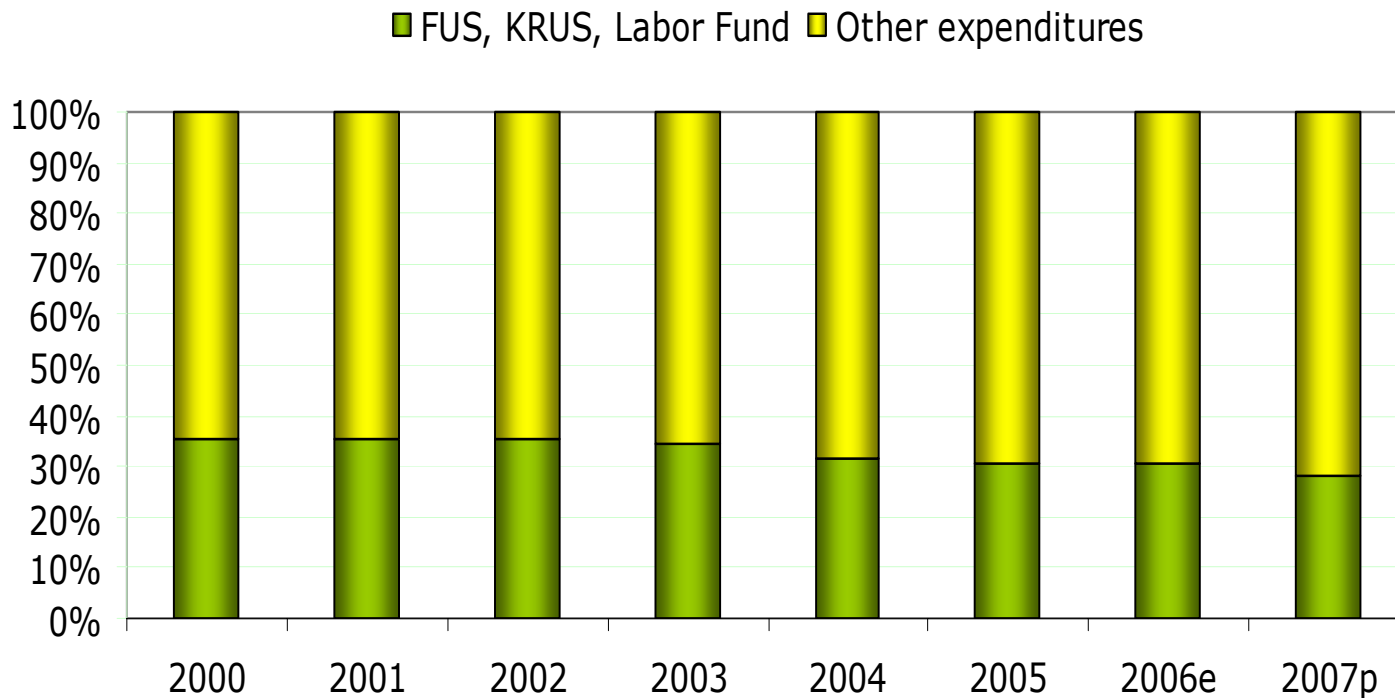
Immediate fiscal risks are low due to cyclically strong taxes...



Source: MoF, IMF staff estimates.

...and a moderation in social spending (mainly due to the Hausner plan)

Expenditure of main social funds and other spending of the government (structure in percent)





The planned measures seem costly and counter-cyclical

Planned fiscal measures: costs and gains (including second round effects, in zloty billion)

	2007	2008	2009
Costs:	2	18	25
Lower tax wedge (net)	2	12	13
New indexation formula for pensions (net)		4	2
Pro-family package		1	1
Support to bio-fuels		1	1
Lower PIT rates			8
Gains:		5	5
Consolidation of government		5	5
Net cost of reforms	-2	-13	-20
in percent of GDP	-0.2	-1.0	-1.5



Conclusions

- Public debt is rising , despite an exceptionally favorable environment
- The size of the government is growing over time and is out of line with regional peers
- Fiscal policy is overly procyclical
- Planned fiscal measures will ceteris paribus increase the deficit



Policy issues

- Using the cyclical upswing in revenue to reduce public debt (rather than permanently increasing spending)
- Reducing the size of the government
- Increasing the flexibility of the budget, especially in the view of euro adoption (discretionary vs. non-discretionary spending)