

## Budget deficit

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At the end of January the president signed the 2010 budget bill into law. The bill was adopted by the parliament on December 18.

In January 2010 data for the implementation of the budget law were available only for January-November 2009. We wrote about it in the previous issue of Economic Monitor. The budget deficit was PLN24.4 billion, or 89.8% of the amount planned under the budget law. Initial surveys suggest that in December budget revenue rose while the budget deficit remained at a level similar to that recorded in the first 11 months of 2009.

Thanks to better-than-projected results for the 4th quarter of 2009 and an upward revision of GDP growth projections for 2010, it should be possible to implement the budget revenue plan and keep the budget deficit within the limits assumed by the budget law.

**The government has prepared the plan for developing and consolidating finances for 2010-2011 in order to create conditions which would ensure a permanent equilibrium of public finances.**

The main assumption of the plan for developing and consolidating finances for 2010-2011 is to introduce two rules – expenditure rule and budget rule – which in the long run are supposed to prevent an increase in government deficit and ensure economic growth for Poland. The plan was presented (...) on January 29, 2010 by Prime Minister Donald Tusk, Minister of Finance Jacek Rostowski and Member of the Council of Ministers Michał Boni at a conference at the Warsaw University of Technology. As the head of government said, although Poland is the only European country to have registered a positive growth rate in 2009 and compares well with Western European countries in terms of the debt-to-GDP ratio, it is still trying to catch up with the most developed countries. In order to effectively reduce the deficit, the government proposes adopting statutory instruments strengthening control over public finances. One of them is the spending rule aimed to curb non-fixed spending so that its increase is not higher than inflation plus 1 percent. The

head of government said, however, that the increase in spending in 2010 will still be higher than 1%. Additionally, in the future public spending could not be higher than 40% of GDP and the ratio of government debt to GDP higher than 3%. The latter is one of the conditions for euro-zone entry. Donald Tusk said that the achieved growth would be divided proportionally and used to counteract the indebtedness of the state, reduce deficit and address social priorities. The budget rule is based on the assumption that budget spending will be growing at a slower pace than the Polish economy grew in the past five or six years. "In good times, this rule will prevent public money from being spent in an unrealistic way, as previous governments tended to do," said Minister of Finance Jacek Rostowski pointing to the importance of combining the budget rule with a multi-annual financial plan. Fixed expenditure will have to comply with both the rule and the plan. (Source: [www.mf.gov.pl](http://www.mf.gov.pl))