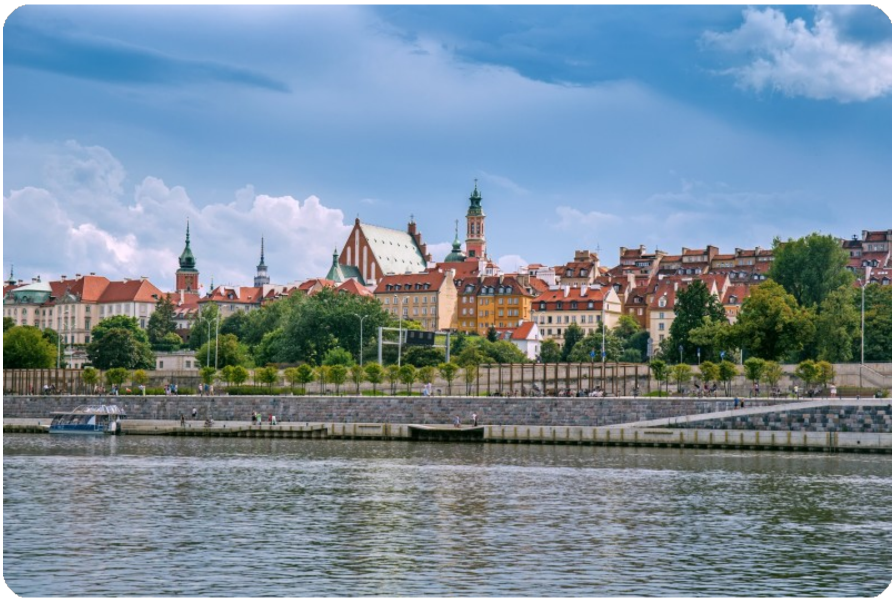
Article | 1 September 2026

POLAND

We take a look at the market implications of Poland's 2027 budget

The planned financing of the state budget's borrowing needs in 2027 appears encouraging when looking at the headline figures. However, taking several risk factors into account could imply higher issuance of government bonds. At the same time, the Ministry of Finance retains considerable flexibility in its choice of funding sources



Warsaw, Poland

Pessimistic scenarios did not materialise

The 2027 Polish budget presented last week was met with a relatively muted market reaction, perhaps because the more pessimistic scenarios anticipated by some market participants, based on experience from previous election cycles, failed to materialise. At the same time, Poland remains the EU country with the highest general government deficit, and the plans for 2027 do little to alter that picture. We discussed these issues in our commentary published immediately after the Finance Minister's press conference (Poland's draft 2027 budget: Not great, not terrible | articles | ING THINK).

Polish 10-year government bond yields nevertheless rose above 6%. However, this can largely be attributed to the timing of the budget announcement, which coincided with a significant increase in sovereign bond yields across core markets.

Excessive deficit to continue for a sixth consecutive year

One of the negative surprises in the Ministry of Finance's proposal is that fiscal consolidation has been postponed by another year. According to the updated figures, the 2026 deficit is now expected to reach 7.1% of GDP, compared with the previously projected 6.5% of GDP, while the deficit-to-GDP ratio is expected to remain unchanged in 2027. This is undoubtedly an unfavourable development and, if it persists, could eventually trigger a response from credit rating agencies.

Borrowing requirements and their financing

Information regarding the financing of borrowing needs represents a somewhat brighter spot for the outlook of the domestic bond market. On the one hand, the Ministry of Finance assumes that both gross and net borrowing needs will be broadly similar to this year's expected outturn and significantly lower than originally planned for 2026. Gross borrowing needs are projected at PLN565bn, compared with an expected outturn of below PLN 600bn this year, while net borrowing requirements are forecast at PLN317bn versus just under PLN321bn this year (see table).

An equally important consideration is the planned funding structure. In 2027, domestic financing through Treasury securities (POLGBs) is expected to be significantly lower than in 2026, by approximately PLN43bn. Under more favourable conditions in global bond markets than those prevailing today, this could provide some relief for the market.

Risk factors that could increase issuance and push POLGB yields higher

A closer examination of the projected net borrowing requirements and their financing reveals several risk factors for Polish government bonds (POLGBs).

PLN billion	1 2026 Budget	2 2026 Plan	3 2027 Draft	Difference 2-1	3-2
Net borrowing needs	**422.9**	**320.6**	**317.1**	**-102.2**	**-3.6**
Budget deficit	271.7	271.7	282.6	0.0	10.9
EU budget deficit	36.2	1.9	19.3	-34.3	17.4
Credits and loans	112.8	95.7	7.3	-17.1	-88.4
Pre-financing of EU-funded projects	0.2	0.2	0.2	0.0	0.0
Payments to international institutions	0.4	0.4	0.2	0.0	-0.2
Public sector liquidity management	-10.6	-45.0	23.7	-34.4	68.7
Management of EU funds	12.2	-3.4	6.6	-15.6	10.1
Others	0.0	-0.8	-22.9	-0.8	-22.1
Financing of net borrowing needs	**422.9**	**320.6**	**317.1**	**-102.2**	**-3.6**
1. Domestic financing	**241.6**	**313.8**	**198.5**	**72.2**	**-115.3**
1.1 Treasury Securities	241.6	245.5	198.5	3.8	-47.0
1.1.1 T-bills	28.2	-11.9	0.0	-40.1	11.9
1.1.2 Fixed	150.2	181.7	164.1	31.5	-17.6
1.1.3 Floaters	36.6	56.3	29.4	19.7	-26.9
1.1.4 Indexed	8.5	3.4	4.9	-5.1	1.5
1.1.5 Retail	18.2	16.1	0.1	-2.1	-16.0
1.2 Budgetary accounts	0.0	68.3	0.0	68.3	-68.3
2. Foreign financing	**181.2**	**6.9**	**118.6**	**-174.4**	**111.7**
2.1 T-bonds	27.9	32.3	31.9	4.4	-0.5
2.2 Credit received	-1.6	-2.1	-1.4	-0.5	0.6
2.3 Loans from EU	45.3	45.8	0.0	0.5	-45.8
2.4 Flows on FX account	109.6	-69.2	88.1	-178.9	157.3

Source: Government sources

Historical discrepancies between financing plans and actual outcomes: the Ministry of Finance issues more debt in favourable conditions

Past experience suggests that budget plans rarely survive intact when confronted with reality. In 2026, substantial differences have emerged between the Budget Act and the expected performance, which warrants caution when assessing financing projections.

Particularly striking is the reduction in total net borrowing requirements by PLN102bn despite an increase in the general government deficit, as illustrated in the table above. The reasons are lower budget burdens associated with the slower progress in EU-cofounded projects.

Also, the discrepancy between the budgeted and projected funding plan may be explained by the foreign-currency account in 2026, which amounts to nearly PLN180bn.

At the same time, almost all Treasury bond issuance in PLN exceeded the original plan by almost PLN44bn, although this was partly offset by a PLN40bn reduction in Treasury bill issuance. So, in favourable market conditions, the Ministry of Finance issued more Treasury securities and reduced outstanding T-Bills to create a safer debt structure.

Planned use of the liquidity buffer

The 2027 budget proposal assumes the use of PLN68.3bn from funds held in budgetary accounts at the end of 2026. However, a reduction in the liquidity buffer had already been envisaged in previous years and ultimately did not materialise. This is one of the mechanisms that allows the Ministry of Finance to present lower projected bond supply in its initial plans and subsequently, should market conditions prove favourable, increase issuance and rebuild its liquidity buffer.

The refinancing of quasi-sovereign issuance guaranteed by the State Treasury should be added to government bond supply

A separate issue, important when assessing the actual supply of debt instruments, concerns off-budget issuance, particularly that undertaken by Bank Gospodarstwa Krajowego (BGK) and the Polish Development Fund (PFR). According to the financing plan of the COVID-19 Fund (FPC) attached to the budget proposal, PLN22.6bn will be required to roll over maturing FPC bonds. In the case of PFR bonds, the redemption requirement amounts to approximately PLN18.8bn. Taken together, this implies refinancing needs of more than PLN41bn. This means that, under conditions comparable to previous years, the effective supply of POLGBs, once quasi-sovereign issuance by BGK/FPC and PFR is added, is PLN41bn higher than suggested by the official financing plan. This could translate into additional upward pressure on government bond yields.

Conclusions

The Ministry of Finance continues to retain considerable flexibility in its choice of instruments used to finance the deficit. It still makes relatively limited use of foreign-currency bond issuance and, in 2026, successfully reduced its reliance on Treasury bills. In addition, it maintains sizeable and regularly replenished safety buffers in the form of a substantial liquidity reserve. In practice, higher debt supply, including greater issuance of fixed-rate bonds relative to the optimistic assumptions set out in the financing plan, is likely only under favourable market conditions. Should market conditions deteriorate, the Ministry of Finance is likely to rely once again on alternative sources of funding.

Author

Rafal Benecki
Chief Economist, Poland
rafal.benecki@ing.pl

Leszek Kasek
Senior Economist, Poland
leszek.kasek@ing.pl

Mateusz Sutowicz
Senior Economist, Poland
mateusz.sutowicz@ing.pl

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