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Poland Economics View

Polish bond market – Strong bond supply in 2026

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OUR TAKE

The government has published details of 2026 budget draft, which assumes strong increase in borrowing needs. Gross issuance of bonds is set to increase only slightly, though assumptions related to PLN and FX cash accounts may prove tough to execute.

2025 needs covered — We estimate that borrowing needs for 2025 have been already fully covered, as according to the expected execution the gross needs are seen at PLN 488.6bn vs. PLN 553.2 in the annual plan (realization of original borrowing needs stands at ~90%). We note that decline in borrowing needs in 2025 is mostly a factor of lower amount of loans to be transferred from the budget to residents (RRF loans disbursements to beneficiaries to be delayed to 2026, Figure2). Looking at the financing side, the expected gross issuance of T-bonds has been actually increased to PLN 306.4bn vs. PLN 261.4bn initially budgeted. We think, that sale of bonds may prove even higher, as the planned execution of 2025 financing assumes PLN 75.6bn decline (vs. end of 2024) in cash liquidity cushion. PLN denominated liquidity funds would need to be run down to PLN 28bn from PLN 127bn in July (Figure 3).

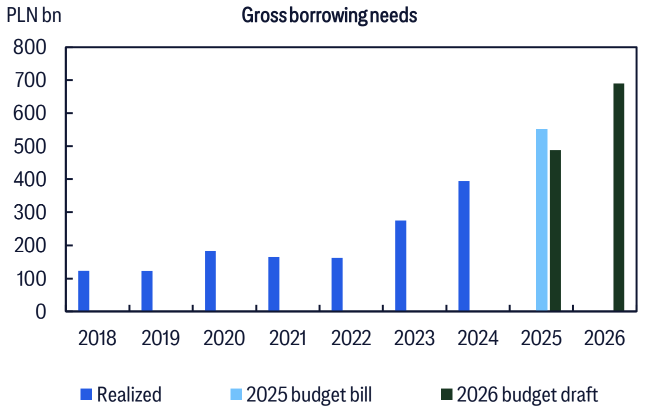
Large flows in the FX account — Flows related to FX account are abnormally large in 2025 and 2026 (see Figure 4). They imply a significant increase in funds denominated in foreign currencies towards EUR ~32bn vs. EUR 11.2bn. We believe the Ministry of Finance may be hesitant to hold more cash funds in foreign currencies than in the zloty. For this reason the authorities may be tempted to exchange those funds either at the NBP or directly in the market (thus having an impact on PLN exchange rate).

Bond issuance to increase only slightly — Despite over 40% increase in gross borrowing needs in 2026 vs. 2025, the gross issuance of bonds is expected to rise only by 6% (to PLN 323.4bn), as the government assumed large utilization of FX cash account. We note, that current level of prefinancing is low and stands at only 2% of 2026 gross borrowing needs. In the last couple of years, the MinFin aimed for prefinancing of at least 25%-30%. The authorities are likely to try to accelerate the prefinancing in the coming months through buybacks of bonds maturing in 2026 (at switching auctions). The question mark, in our view, is the amount of funds in form of liquidity cushion as if the government indeed plans to run down the cushion, the prefinancing (coming from budgetary funds at year-end) would be low (Figure 6).

FX financing — The issuance of FX bonds in 2026 is expected to decline to equivalent of PLN 48.6bn (from PLN 56.1 in 2025). The RRF loans are expected to result in PLN 51.2bn of flows (PLN 16.8bn in 2025). We note, that Poland needs to repay PLN ~6bn of debt stemming from loans received under the SURE programme.

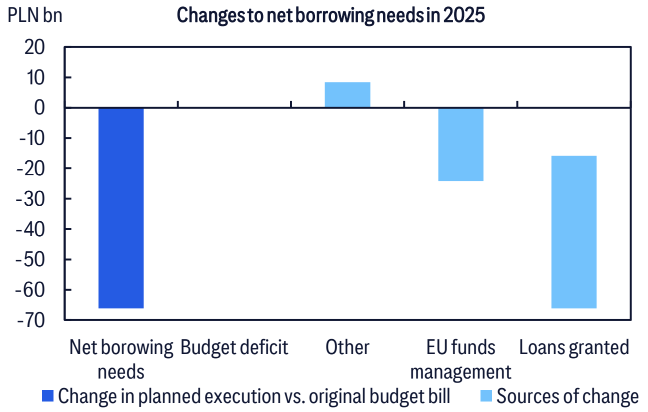
Agency debt and NBP portfolio redemptions — The 2025 budget deficit was heavily influenced by repayments of state guaranteed bonds (PLN 63.2bn), however there are no such redemptions scheduled in 2026. The NBP is set to further reduce its ownership of POLGBs (by PLN 11.6bn or 21% of remaining portfolio) as the central bank is not reinvesting the funds from maturing bonds in local market.

Figure 1. Gross borrowing needs are moving higher in 2026, though the MinFin lowered the estimate for 2025…



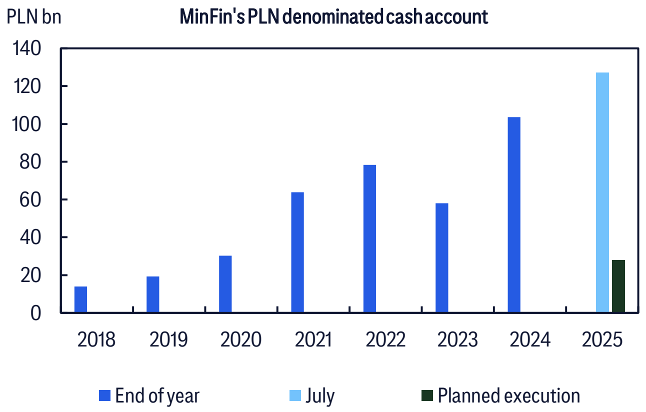
Source: Citi Handlowy, Ministry of Finance

Figure 2. …deficit target in 2025 remained unchanged, thus the lower borrowing needs in 2025 are driven by decline in expected RRF loans disbursement



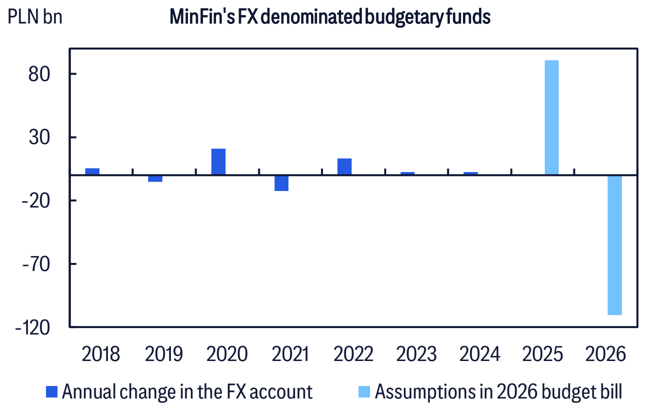
Source: Citi Handlowy, Ministry of Finance

Figure 3. Government plans to deplete the local currency liquidity cushion



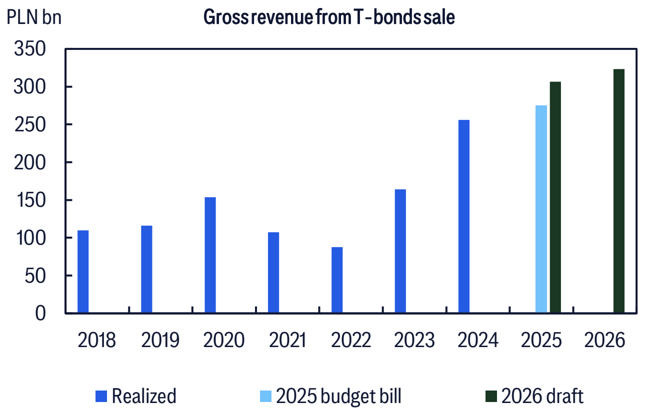
Source: Citi Handlowy, Ministry of Finance

Figure 4. Abnormally large changes to the funds denominated in foreign currencies that are held by the Ministry of Finance are planned in 2025 and 2026



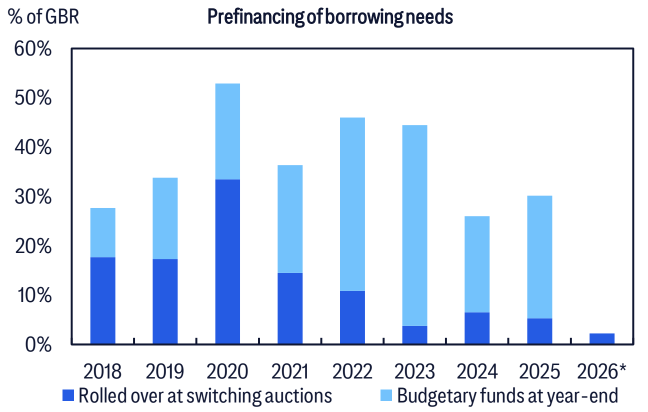
Source: Citi Handlowy, Ministry of Finance

Figure 5. Gross issuance of T-bonds is set to increase only slightly in 2026, though the government raised its expectations for execution in 2025



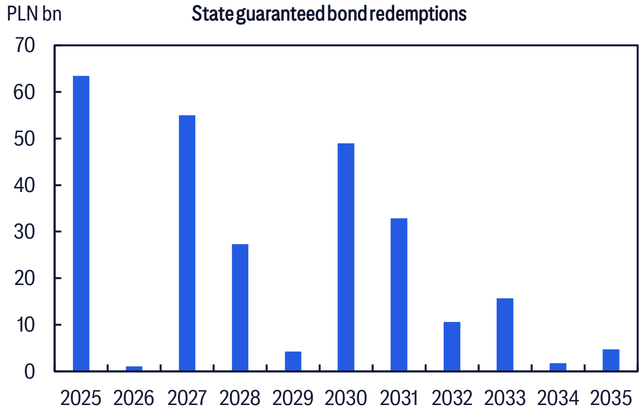
Source: Citi Handlowy, Ministry of Finance

Figure 6. If government would indeed run down its zloty cash account, the prefinancing of borrowing needs for 2026 would prove much lower than in previous years



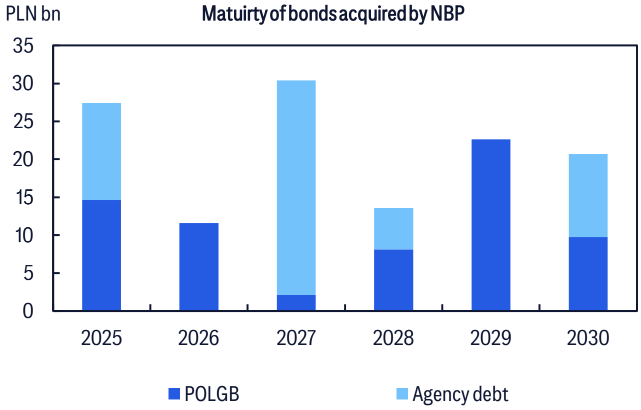
* Conducted from January to August
Source: Citi Handlowy Estimates, Ministry of Finance

Figure 7. No major agency debt redemptions are planned next year



Source: Citi Handlowy, BGK, PFR

Figure 8. Further PLN 11.6bn of POLGBs is expected to mature from the NBP's portfolio



Source: Citi Handlowy, National Bank of Poland

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