Poland's 2023 budget deficit higher as government plans to reduce liquidity buffer

Last week, the Polish government presented an updated fiscal plan for 2023 with a PLN24bn (0.7% of GDP) higher deficit target, mainly on additional spending. Higher borrowing needs are intended to be financed by the reduction of the liquidity cushion rather than new issuance

Loose fiscal policy in 2023 and 2024

Last Friday, Polish authorities announced that the 2023 budget act will be amended and the state budget deficit limit on a cash basis will be increased by PLN24bn from PLN68bn to PLN92bn (0.7% of GDP). The main reason behind such a move is the intention to boost one-off expenditure in 2023 (by PLN20.8bn), which we link to upcoming general elections in Poland in the autumn of this year.

The majority of the spending will be on one-off higher subsidies to local governments (PLN14bn) and one-off bonuses for teachers (excluding academics). Total state budget revenues are expected to be PLN3.2bn lower than previously projected, with tax collections PLN8.5bn lower than assumed in the budget act. VAT receipts are PLN13.4bn short of initial assumptions.

As a reminder, a few weeks ago the government released a plan to increase permanent spending from 2024 onwards on child benefits (from PLN500 per child to PLN800) and provide free pharmaceuticals for youngsters and the elderly (totalling 0.7% of GDP next year).

We hold our 2023 general government deficit estimate unchanged at 5.2% of GDP in 2023 and around 4% of GDP in 2024, as we already assumed loose fiscal policy in the election year.

Higher borrowing needs for 2023 but issuance lower

The budget amendment means that 2023 net borrowing needs will increase to PLN150.6bn from PLN110.5bn initially planned, but it is not necessarily bad news for Polish government bonds (POLGBs) given plans regarding financing. According to the amended plan, the issuance of PLN T-bonds will be PLN21.9bn lower than initially planned. MinFin plans to cover new borrowing needs from an exceptionally high cash buffer, which should be reduced by PLN64.3bn. At the end of May, the Ministry of Finance had PLN117.6bn on budgetary accounts – since the Covid-19 pandemic it has stayed at a very high level.

Downward pressure on yields as demand-supply balance likely to improve

POLGBs issuance so far this year is close to PLN60bn and by the end of 2023 fiscal authorities may tap domestic markets with PLN30bn given the amended financing plan. Taking into account the planned reduction in the budget account balance (liquidity buffer) this year and a more open approach to Eurobonds issuance (the equivalent of PLN38bn issued in euros and dollars by the government so far in 2023) it is likely to boost banking liquidity. Along with poor demand for mortgage loans due to high interest rates, and the rising chance of National Bank of Poland rate cuts before the end of 2023, it should support demand for POLGBs and may push its prices up.

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