

## High 2026 fiscal imbalance in Poland calls for adjustment plan

The government plans for its fiscal deficit to decline next year, but the 2025 gap is seen higher than expected earlier. Poland is not on the path to correct its excessive deficit until 2028. Net borrowing needs planned for 2026 are higher than in 2025. A convincing fiscal adjustment and choosing new priorities for fiscal policy is urgently needed



Sejm Parliament building in Warsaw

### General government deficit to remain above 6% of GDP in 2026

According to the information presented by the Minister of Finance and Economy Andrzej Domański, the general government deficit in 2026 will amount to 6.5% of GDP, mainly as a result of a higher-than-initially expected fiscal gap in 2025 that is currently seen at 6.9% of GDP vs 6.3% of GDP expected earlier.

The state budget deficit for 2026 (in cash terms) should shrink to PLN272bn vs PLN289bn in 2025, but in comparable terms to 2025 it is the opposite. The 2025 state budget deficit adjusted for burdens on covering “Covid debt” (ie, the redemption of PLN60bn state-guaranteed off-budget bonds issued by BGK and Polish Development Fund) indicates the 2025 deficit is rather PLN226bn vs PLN271bn in 2026.

At the same time the net borrowing needs will be higher than this year (PLN422.8bn vs PLN352bn

expected in 2025). The high deficit plus loans under the EU Recovery and Resilience plan will push the general government deficit in 2026 above 66% of GDP.

## Too many priorities

Fiscal policy seems to have too many priorities given the current tax base. Authorities plan high defence spending (nearly 5% of GDP), while keeping a generous social policy and facing high investment needs on energy transition and infrastructure. At the same time, for political reasons, taxes are to remain low as a % of GDP. President Karol Nawrocki declared that he will veto any tax hikes and government officials still declare they will deliver an increase in the tax free allowance in PIT from PLN30K a year to PLN60K. There is no clear fiscal consolidation in 2026 and possibly in 2027 and Poland's fiscal policy remains loose, which may potentially curb the National Bank of Poland's appetite for more expansionary monetary policy.

## Fiscal developments call for convincing fiscal adjustment plan

The deficit of above 6% of GDP in an environment of the economy expanding at above 3% rate is clearly an expansionary policy. The rating agencies have remained calm so far, while foreign investors have not been in the Polish government bond market in years. We think the rating agencies should be increasingly critical. Poland has a strong track record with the fastest GDP growth in the last 20 years but also recently delivers c.3% GDP growth close to expectations, contrary to the rest of the region, but keeps surprising on the upside. So from a fiscal sustainability point of view, the country seems robust but needs a convincing fiscal adjustment plan to boost confidence.

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