5 November 2025

Opinion of the Monetary Policy Council on the *2026 Draft Budget Act*

At its meeting on 26 September 2025, the Council of Ministers adopted the *2026 Draft Budget Act*. Pursuant to the Act on Narodowy Bank Polski (Article 23, Journal of Laws 2022, item 2025, consolidated text) the Governor of NBP submits, on behalf of the Monetary Policy Council (MPC), the Council's opinion concerning the draft budget act to the Council of Ministers and the Ministry of Finance.

While drawing up the Opinion, the MPC pays particular attention to the macroeconomic assumptions of the *Draft Ac*t, the expected impact of fiscal policy on the economy, and the outlook for fiscal sustainability.

As in the previous years, the *Draft Act* covers only some of the revenue and expenditure of the general government sector in ESA2010 terms. From the *Draft Act* and its *Explanatory Memorandum*, as well as other acts in force, it follows that some of the government measures implemented in 2025 and planned for 2026 will be financed from extra-budgetary funds. Therefore, in addition to the *Draft Act*, this Opinion is based on other government documents, including, in particular, regulatory impact assessments of draft laws as well as NBP estimates and projections of the revenue and expenditure of the general government sector in ESA 2010 terms.

I. Macroeconomic assumptions of the *Draft Budget Act*

In the opinion of the MPC, the forecast of real GDP growth and its structure as assumed in the *Explanatory Memorandum* to the *2026 Draft Budget Act* is realistic and close to the expectations of the NBP November projection. The *Explanatory Memorandum* expects Poland's real GDP to increase by 3.5% in 2026, following a rise of 3.4% in 2025. In line with the assumptions of the *Draft Act*, economic growth in 2026 will be mainly driven by private consumption, whose pace will be close to that observed in 2025. The *Draft Act* anticipates private consumption growth in 2026 to be supported by the persistently strong economic climate, along with favourable labour market conditions reflected in a stable and low unemployment rate and continued wage growth. The *Draft Act* also assumes gross fixed

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capital formation growth, which in real terms will accelerate on the 2025 figure, to be an important driver of economic growth in 2026. According to the *Explanatory Memorandum*, investment growth will be fuelled by the ongoing economic recovery in Poland and a decline in the cost of capital, a lagged effect of interest rate cuts. In addition, investment growth will be boosted by the cumulation of National Recovery Plan (NRP) fund inflows, defence spending and the implementation of government infrastructure projects. The *Act* further assumes that the impact of inventory changes on GDP growth will be slightly positive in 2025 while the contribution of net exports to growth will be negative, which is broadly in line with the NBP November projection.

The *Draft Act* assumes average annual consumer price inflation in 2026 to decrease to 3.0% (compared to 3.7% in 2025), thus running close to the November NBP projections. Both the November NBP projection and the *Explanatory Memorandum* have assumed that a decline in inflation will be crucially supported by moderate import price growth and depressed global prices of energy commodities. However, in NBP's assessment, accelerating economic activity in 2026 will constrain the scale of the decline in inflation, including core inflation.

The *Explanatory Memorandum* mentions the following as factors of risk to the assumed economic growth: the shape of the US trade policy, further developments in the Russian invasion of Ukraine and a lagged or incomplete take-up of EU funds, including those under the NRP plan. Those factors are also listed as uncertainty sources in the NBP projection. At the same time, the *Explanatory Memorandum* points out that energy price forecasts are subject to elevated uncertainty related to the geopolitical situation, which is also consistent with NBP's assessment.

II. Situation of public finances in 2025

The starting point for the assessment of the *Draft Act* is the fiscal policy pursued in 2025, and the much higher than assumed general government deficit in 2024. In the *Explanatory Memorandum* to the *Draft Act*, the Ministry of Finance estimates that the general government deficit in ESA terms will rise to 6.9% of GDP in 2025, against the 5.5% planned for 2025 in the *2025 Budget Act* of September 2024. A discrepancy of 1.4 percentage points of GDP between the deficit planned for 2025 and its projected actual level is exceptionally large. Such a significant deterioration in the government's deficit forecasts can be attributed to, among others, unrealised forecasts of State Budget revenue in both 2024 and

2025, and a large and unplanned increase in health care expenditure, amid limited transparency of this expenditure.

According to the 2025 October fiscal notification, the 2024 deficit amounted to 6.5% of GDP, compared to the 5.1% assumed in the *Explanatory Memorandum* to the *2024 Budget Act* of December 2023. Factors behind the general government sector deficit turning out higher than planned include, among others, lower-than-planned State Budget revenue (by PLN 59.1 billion, i.e. 1.6% of GDP, including VAT receipts by PLN 28.7 billion). Another driver of the greater-than-assumed deficit was higher public expenditure. Healthcare was an area of a particularly sizeable rise in spending. The *Explanatory Memorandum* to the *2024 Budget Act* stated that in accordance with the *Act on Healthcare Services Financed From Public Funds*, the index of expenditure on health care was envisaged at 6.24% of GDP in 2024,[1] while according to Statistics Poland (GUS) data, it reached 6.85% and the public expenditure on health care rose by 0.4 or 0.7 percentage points of GDP, depending on the adopted methodology.[2] The considerable discrepancy between the two methodologies may be illustrative of the scale of the uncertainty surrounding the estimates of the impact of healthcare spending on the general government balance.

The increase in public expenditure in 2024 was also due to fiscal measures agreed on after the government adopted the *Draft Budget Act*. These included in particular the extension of subsidies to electricity and natural gas prices, whose net cost (i.e. after deducting the receipts from the gas write-off established to fund these measures) can be estimated at 0.2% of GDP. In total, public expenditure in relation to GDP rose to 49.4%, i.e. the highest level in almost 30 years.

Alongside the higher-than-assumed deficit of the general government sector in 2024, the considerable revision of the deficit projected for 2025 can be accounted for by the considerably lower State Budget revenue than envisaged by the *2025 Budget Act* (by PLN 29.4 billion, according to the *Explanatory Memorandum* to the *Draft Act*).

Apart from lower revenue, 2025 will probably also see higher general government expenditure than planned, notably on healthcare. The higher-than-planned expenditure in this area is indicated by the advancement of subsidies from the State Budget under the

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[1] The index of expenditure related to GDP from two years prior.

[2] In accordance with a Statistics Poland study *Healthcare expenditure in 2022–2024*, public expenditure on health care (according to the National Health Account) had risen from 5.6% of GDP in 2023 to 6.3% of GDP in 2024. On the other hand, spending on health care according to the "statutory" methodology had risen from 5.4% of GDP to 5.8% of GDP.

health care heading, which reached 109.9% of the budget plan by August, as well as the pace of wage increases in this sector (a 14.34% increase in the base amount since July 2025).

Another factor of uncertainty to the fiscal balance in 2025 is the balance of local government units (LGUs), affected by the reform introduced at the beginning of the year, which increased their total revenue. Due to change in the seasonal schedule of disbursement of the State Budget funds to local governments under this reform, currently available data do not allow an assessment to be made of the extent to which the higher revenue will translate into LGUs' higher spending and to which – into their better financial position.

The increase in the sector's deficit in 2025 will also result from the cost of subsidies to energy prices, whose extension was not envisaged in the *2025 Draft Budget Act* and whose cost can be estimated at 0.2% of GDP.

III. Fiscal policy in 2026

The *Explanatory Memorandum* to the *Draft Act* envisages a reduction of the general government deficit in ESA terms from 6.9% GDP in 2025 to 6.5% of GDP in 2026. It should be noted that due to the considerably higher than previously assumed level of the general government deficit in 2024 and 2025, the deficit planned for 2026 is 2 percentage points of GDP higher than assumed by the government in the *Medium-Term Fiscal-Structural Plan* adopted in October 2024. The estimate of the 2025 deficit is subject to considerable uncertainty related to the lack of transparency about health care finances and the reform of LGUs' finances. On the other hand, the 2026 deficit may – in light of NBP forecasts – prove to be higher than assumed in the *Explanatory Memorandum*.

On the revenue side, under the current legal framework,[3] domestic revenue in relation to GDP may be expected to rise slightly in 2026 (by 0.3 percentage points). The increase will be mainly driven by the freezing of the PIT tax threshold and the tax-free allowance. As to VAT, it should be pointed out that the revenue from this tax in 2025 may prove lower than the expected realisation figure. At the same time, the *Draft Act* conservatively assumes an increase of 5.1% y/y in this revenue in 2026. As a result, the ratio of VAT revenue to GDP should be stable. Likewise, the excise tax revenue will probably grow faster than nominal

[3]This Opinion is based on the legal status as of October 10, 2025. This means that the tax regulations considered here are those in whose case the legislative process had been completed before that date.

GDP, due to higher excise rates for tobacco products and alcohol introduced in 2021 and 2024.

On the expenditure side, the ratio of total domestic public expenditure to GDP can be expected to remain relatively stable, but will be subject to a range of changes with positive and negative impact on the fiscal balance.

In accordance with the existing legislation, the expiry of subsidies to the prices of electricity, gas and distribution heat will render a decrease of approx. 0.2 percentage points of GDP in the public expenditure-to-GDP ratio. The planned reduction in spending on child benefits will have a similar effect, as the amount of the benefit will remain unchanged and its availability for the refugees from Ukraine limited. On the other hand, legislative changes adopted in 2024 and 2025, in particular the introduction of the so-called widows' pensions and heating vouchers, coupled with a rise in the funeral allowance, will contribute to faster expenditure growth. Overall, however, a decline of 0.1 percentage points of GDP in expenditure on social benefits can be expected.

As regards the sector's current spending, including the compensation of employees and purchases of materials and external services, its ratio to GDP may be expected to remain stable in 2026. Although the *Draft* provides for a public sector wage increase indicator of 3.0%, according to Appendix 6 to the *Draft*, the wage fund in state budgetary units in 2026 is 5.8% higher than in the 2025 *Draft Budget Act*.[4] Furthermore, this figure does not cover the salaries of health care employees, which will probably rise much faster, notably when taking into account the previously mentioned increase in the medical staff's base amount as of July 2025.

Public investment can also be expected to increase in 2026 – according to NBP estimates, by 0.4 percentage points of GDP, primarily due to the expected increase in the take-up of funds under the NRP. The pace of the NRP-funded investment implementation so far has been slower than expected. The relatively high number of agreements concluded for this expenditure, combined with the obligation to settle funds for the grant component of the NRP by the end of 2026 suggests that this spending will accelerate in 2026. In line with ESA principles for national accounting, an increase in public investment financed from EU

[4] The average salary in the public sector usually rises faster than the average annual wage growth indicator provided for by the Budget Act. Data contained in the Supreme Audit Office's report "Analysis of the Implementation of the State Budget and the monetary policy guidelines in 2024" show that in 2022-2024, average wage growth in the government sector was on average 14.2%, while the annual average wage growth planned in the Budget Act – 9.3%.

funds will not affect the general government balance. At the same time, domestically funded investment can be expected to rise by 0.1 percentage points of GDP, due to, among others, the planned spending on civil defence financed from the State Budget and railway investment. On the other hand, according to the *Explanatory Memorandum*, the value of military equipment deliveries is to amount to 1% of GDP in 2026, i.e. a level close to the amount provided for in the *2025 Budget Act* and the actual performance in 2024.

In 2026 expenditure on interest payments may be expected to rise; according to NBP forecasts it will increase by approx. 0.3 percentage points of GDP. This will mostly result from the rapid accumulation of the public debt and will occur despite the decline in market interest rates in the wake of NBP interest rate reductions.

Considering the above-mentioned potential developments in the revenue and expenditure of the sector, NBP forecasts show that under the current legislation, the general government deficit in 2026 may be curbed only to a marginal degree. However, even if the government's forecast were to be realised, 2026 will be yet another year in which the deficit of the sector, including the structural deficit, will remain at very high levels. As a result, the persistently high general government deficit restricts the space for monetary policy easing. At the same time, the latest forecasts of the International Monetary Fund (of October 2025) indicate that in 2026, Poland will record the highest general government deficit in the European Union. This would happen for the first time since Poland's accession to the EU.

IV Public debt and financing of the borrowing requirement

In the period covered by the *Public Finance Sector Debt Management Strategy in the years 2026-2029* attached to the *Draft Act*, the government anticipates an unprecedented increase in the public debt-to-GDP ratio. Under national methodology (state public debt, SPD), this ratio is expected to increase from 44.1%[5] at the end of 2024 to 59.5% of GDP at the end of 2029, running marginally below the 60% limit stipulated in the Constitution of the Republic of Poland. Thus, the current *Strategy* is the first in over 20 years to envisage that the prudential limit set out in the Act on Public Finance (55%) might be exceeded, which would trigger automatic adjustment measures[6] affecting the shape of fiscal policy. In turn,

[5] Value taking into account the revision of GDP data for 2024 published by Statistics Poland in October 2025 and not covered by the Strategy.

[6] In line with the *Strategy*, debt in the understanding of Article 38a (4) of the Act on public finance, which refers to the limit mentioned would exceed 55% of GDP in 2028, which would trigger fiscal adjustment measures in

the ratio of the gross public debt to GDP according to the European Union's ESA2010 methodology is set to increase by as much as – in total – 20 percentage points in 2025-2029, exceeding 60% in 2026 (65,4%) and reaching 75% at the end of 2029. The latest forecasts of the International Monetary Fund (of October 2025) at the same time show that the growth of this ratio in Poland in 2025-2029 will be the fastest among the European Union member states.

In accordance with the *Explanatory Memorandum*, both the net and gross borrowing requirement of the State Budget is to rise considerably in 2026, to levels unseen in previous years. The net borrowing requirement is to reach PLN 422.9 billion (10.2% of GDP), compared to the actual 2025 borrowing at PLN 300.5 billion (7.7% of GDP). It should be pointed out that in 2026 no bonds issued by the state-owned bank BGK for the COVID-19 Counteracting Fund (CCF) and the Polish Development Fund (PFR; the government programme of "Financial Shields") will mature, whereas the amount of the net borrowing requirement in 2025 includes State Budget expenditure on redeeming the maturing debt of these entities. In gross terms, the planned level of borrowing requirement amounts to PLN 688.5 billion (16.6% of GDP) against the expected execution of PLN 488.6 billion (12.5% of GDP) in 2025.

The previously unseen surge in the above-mentioned ratio of debt to GDP (ESA2010) is driven primarily by the planned maintenance of a high general government deficit over the entire horizon of the *Strategy*. The headline deficit is expected to run significantly above the path set out in the *Medium-term Fiscal-Structural Plan*, adopted by the government in the autumn of 2024 (by an average of 2 percentage points of GDP per annum).

Only to a relatively small extent will the increase in the public debt result from the borrowing requirement of the Armed Forces Support Fund. The *Strategy* assumes the Fund's debt at 6.7% of GDP at the end of 2029 (against 1.2% GDP at the end of 2024). In this context, it should be noted that the increase in public debt observed in recent years stemmed only to a limited degree from higher spending on national defence. Assuming as a reference point State Budget spending on national defence at a level binding until 2022, i.e. 2% of GDP, State Budget expenditure under this heading was overall PLN 118.5

2030. These measures (Article 86 of the Act on Public Finance) involve, among others: a) no expected budget deficit, unless its level would enable a reduction in the ratio of the State Budget Debt to GDP as at the end of 2030 compared to the previous year, b) freeze of the central government sector employees salaries, c) no increase of the pension indexation above the inflation rate, d) no deficit to be planned in the budget resolutions of local government units (LGUs), with a few exceptions.

billion higher in 2023-2025, while the debt of the Armed Forces Support Fund is to rise by a total of PLN 63.0 billion in 2023-2025, which renders PLN 181.5 billion additional spending after 2022. This accounts for 22.2% of the increase in ESA-terms public debt in the period 2023-2025, which, according to the *Strategy*, will amount to PLN 818.3 billion.

The *Strategy* envisages an increase in the debt of the COVID-19 Counteracting Fund (CCF) after 2026 (from 5.1% of GDP at the end of 2025 to 5.6% at the end of 2029), while a year ago the government anticipated its decline (to 3.2% at the end of 2028). The document assumes a shift in the current model of financing the servicing and redemption of the bonds issued by state-owned bank BGK for the COVID-19 Counteracting Fund and the Polish Development Fund (the Financial Shields) from State Budget funds earmarked for rolling this debt over under a continued issuance of bonds on behalf of the CCF. Adopting this assumption prevents the State Public debt from exceeding the constitutional ceiling in the horizon of the *Strategy*, while at the same time contributing to further widening of the gap between the domestic and ESA metrics of the public debt (15.8 percentage points of GDP at the end of 2029, against 11.0 percentage points of GDP at the end of 2024).

In the Opinions on the draft budget acts adopted by the Monetary Policy Council for the years 2023-2025, the Council has pointed out each year that in the view of the projected increase in the public debt-to-GDP ratio,, it is desirable to undertake measures to contain this trend. The general government gross debt paths currently assumed in the *Strategy* are much higher than those forecast in previous years. Such a surge in the public debt-to-GDP ratio generates risks to macroeconomic stability. In order to stabilise this ratio and preserve the resilience of the Polish economy to external shocks it is desirable to take measures aimed at curbing the general government deficit.