14th October 2025 | 27 pages

Primer on Poland

What you need to know about Poland

This note is intended to provide key information on the Polish economy, its institutional framework and the political system. The report should be most useful to investors who are looking for one source of information on the country or for whom Poland is a relatively new market.

Structure of the economy — In the note we present key information on the structure of the Polish economy, its key export markets, demographic changes, labour market trends with an overview of environmental sustainability issues. We try to present data in comparison to other EU countries, in particular Central European peers.

Institutional framework — We present details on Polish monetary authorities, their goals, how members of the Monetary Policy Council are appointed and how often the central bank intervenes in the FX market. We describe also the fiscal policy framework, fiscal rules and the budget adoption process.

Political landscape — Our note provides also information on who is who in Polish politics and how a path to early elections/government formation looks like.

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Key Takeaways

- In recent years Poland has been one of the EU's fastest-growing economies, with GDP per capita (PPS) rising from 52% of the EU average in 2004 to over 80% in 2024. Growth has been supported by a diversified industrial base, strong domestic demand, and relative resilience to external shocks, resulting in the highest volatility-adjusted growth in the EU. However, exports remain highly concentrated on Germany, leaving the economy exposed to cyclical fluctuations in its main trading partner.

- Poland faces a severe demographic challenge, with population already past its 2012 peak and ageing rapidly, as the share of 65+ in the population rises fast. Persistently low fertility and weak labour force participation, especially among women, will weigh on growth and public finances in the coming decades. Immigration, particularly from Ukraine, has provided an important, but only temporary relief, highlighting the need for structural reforms to boost participation over the long run.

- Poland's labour market has improved markedly since EU accession, with unemployment rate falling from around 20% in 2004 to one of the lowest in the EU today. Productivity growth has been robust and minimum wages, though still modest in nominal terms, are broadly aligned with Western Europe in PPS. Educational outcomes remain strong, with a sharp rise in tertiary attainment. Nonetheless, low participation in adult learning and vocational training continue to weigh on long-term labour quality.

- Poland remains one of the EU's most carbon-intensive economies, with coal still accounting for around half of electricity generation. At the same time, the country has seen rapid growth in solar and wind capacity, alongside plans for its first nuclear power plant, marking important steps toward diversification. EU funds play a key role in accelerating the green transition.

- EU membership has been a major driver of Poland's economic transformation, boosting growth, trade integration, and institutional modernization. The country has benefited substantially from EU funds, being the largest beneficiary among EU countries. Although euro adoption remains a formal obligation, it is still a distant prospect with no clear timeline ahead.

- Poland's fiscal framework, combining domestic thresholds and EU rules, has kept public debt relatively low despite repeated breaches of the 3% deficit cap. The tax-to-GDP ratio remains well below the EU average and heavy reliance on indirect taxation makes revenues more volatile. At the same time, defence spending has surged to the highest level in NATO, adding further pressure on fiscal balances.

- Poland's monetary policy is based on inflation targeting, with the NBP adjusting interest rates to maintain price stability. Interest rates which surged in 2021-2022 have since been on a gradual downward path, while real rates turned positive in 2024. FX interventions have been rare, though the NBP intervened in December 2020 and March 2022, during the COVID-19 shock and Russia Ukraine war.

- Poland is a parliamentary republic with a directly elected President as head of state and a Prime Minister leading the government, supported by the Polish parliament and Senate. The parliament is composed of a broad range of parties with Civic Coalition, Polish People's Party, Poland 2050 and The Left forming current government, while Law and Justice remains the largest opposition force. Other groups such as Together Party, Confederation and Confederation of the Polish Crown also hold seats, reflecting significant political diversity.

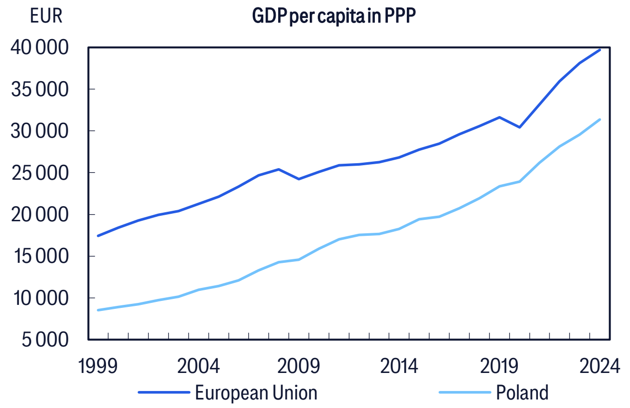
Primer on Poland

Economic structure

Poland's economy has undergone a profound and impactful transformation since its post-communist reforms in the early 1990s and, particularly, since its accession to the European Union in 2004. This journey has positioned Poland as one of Europe's major economic success stories, characterized by robust growth, increased integration into global markets, and evolving political and social dynamics.

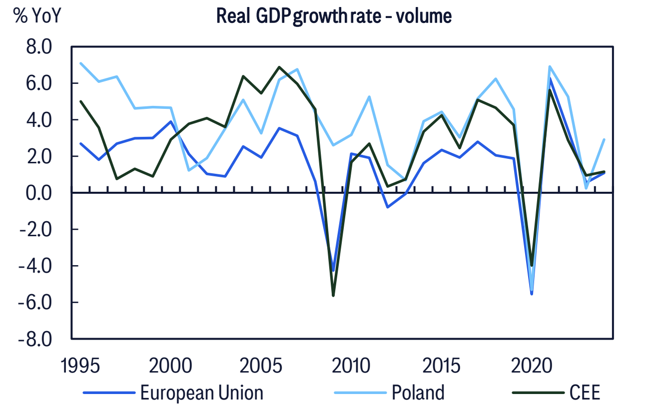
In recent years Poland has been one of fastest growing economies in Europe, gradually catching up with its Western European peers. In 2024 GDP per capita (PPS) exceeded 80% of the EU average, vs. only 52% in 2004. Poland's economic growth over last two decades was not only higher than on average in the EU, but it was also significantly less volatile. Facing the 2008-2009 Global Financial Crisis, Polish economy proved surprisingly resilient, distinguishing itself as the only EU member to avoid recession. This resilience was further evident during the 2011-2012 Eurozone sovereign debt crisis and the 2020 COVID-19 pandemic.

Figure 1. Poland has been gradually catching up with the euro area, closing the gap in GDP per capita



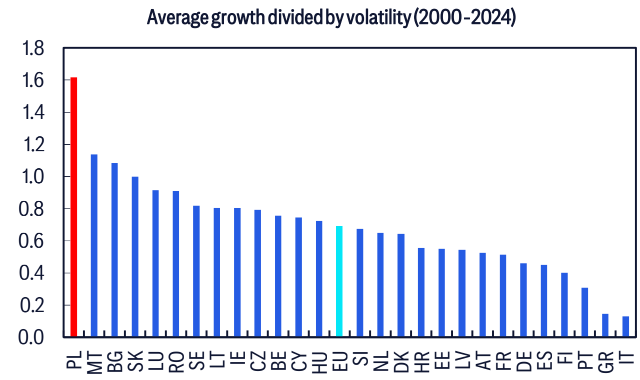
Source: Eurostat, Citi Handlowy

Figure 2. Growth remained – on average – higher than in the region or the EU



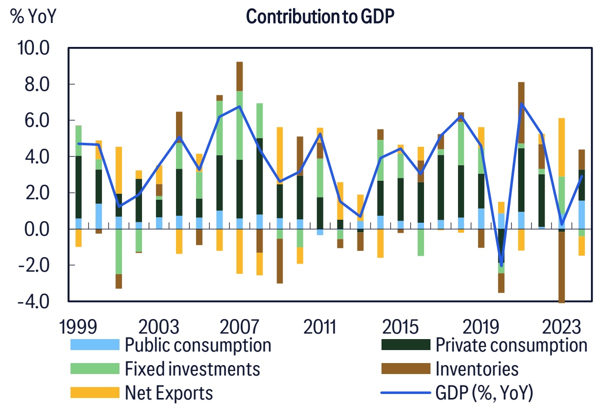
Source: Eurostat, Citi Handlowy

Figure 3. Poland stands out with the highest volatility-adjusted growth in the EU



Source: Eurostat, Citi Handlowy

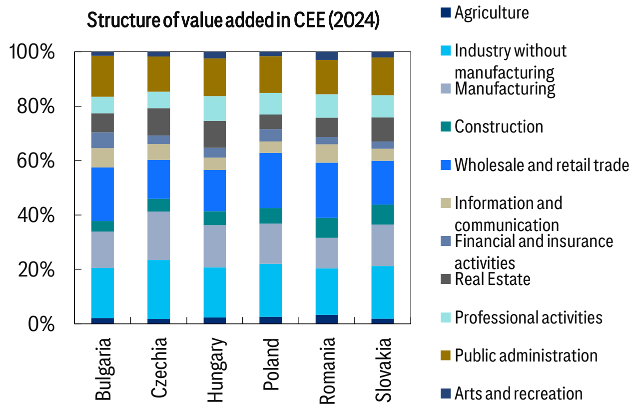
Figure 4. Key drivers of economic growth



Source: Eurostat, Citi Handlowy

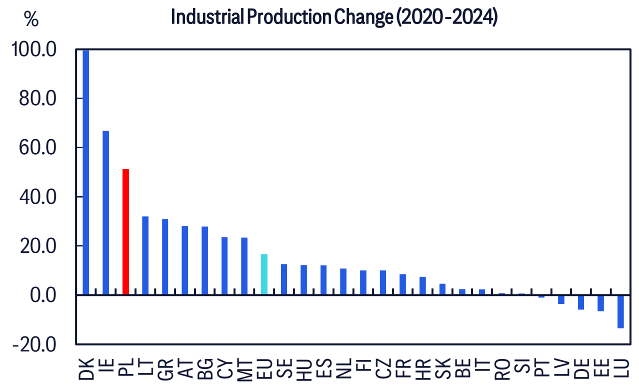
Poland's resilience to external shocks can be attributed to its economic structure. Compared to other CEE economies, the Polish economy benefits from a broader and more diversified industrial base, a relatively larger domestic market, and a sectoral composition that is less dependent on highly cyclical industries, making it more resistant to global downturns. For instance, the structure of Poland's manufacturing is more diversified, with significantly higher share of food and beverages production and a lower share of transport equipment. Given the lower sensitivity of food industry to cyclical swings, its prominence in manufacturing helps to lower the overall volatility of Poland's GDP. In addition, smaller importance of the car industry explains why the Polish industrial output was able to quickly recover after the pandemic shock, while regional peers with bigger share of the automotive industry faced more serious supply chain disruptions. As a result, between 2020 and 2024 Poland ranked among the top EU countries in industrial production growth, significantly outperforming the EU average (Figure 6).

Figure 5. Value added structure by country



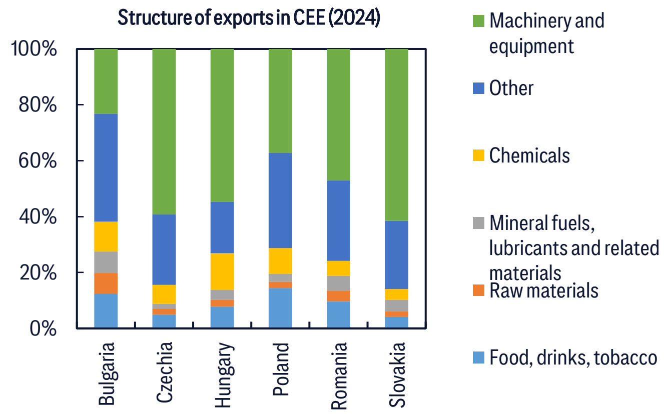
Source: Eurostat, Citi Handlowy

Figure 6. Top EU performers in post-pandemic recovery in industrial output include Poland



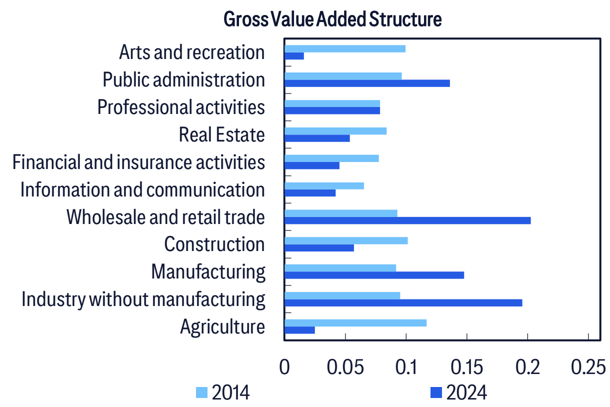
Source: Eurostat, Citi Handlowy

Figure 7. Poland has a diverse export mix



Source: Eurostat, Citi Handlowy

Figure 8. Trade and manufacturing have the biggest share in gross value added in Poland

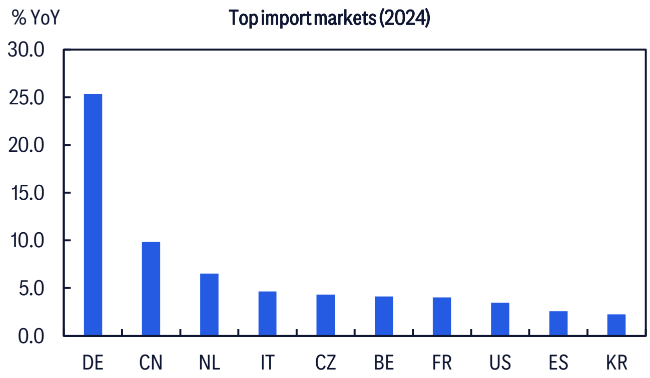


Source: Eurostat, Citi Handlowy

The exports-to-GDP ratio had been on an upward trend for many years, peaking at 62% in 2022. Since then, it has declined to 52% in 2024, reflecting a slowdown in external demand and weaker trade dynamics. Most of exports goes to the euro area and Germany remains the biggest trading partner, accounting for around 25% of exports of goods in 2024 (Figure 9). This high concentration underscores both the benefits of deep integration with German industry and the potential vulnerability to cyclical slowdowns in Germany. Some of goods sold to Germany are used there as inputs in the production process and are then re-exported to other countries, amplifying Poland's role as a manufacturing and assembly hub within Europe. Exports to other EU economies, including France, the UK, and the Netherlands, contribute notable shares, providing some diversification, although Poland's export structure is still heavily concentrated in one key market.

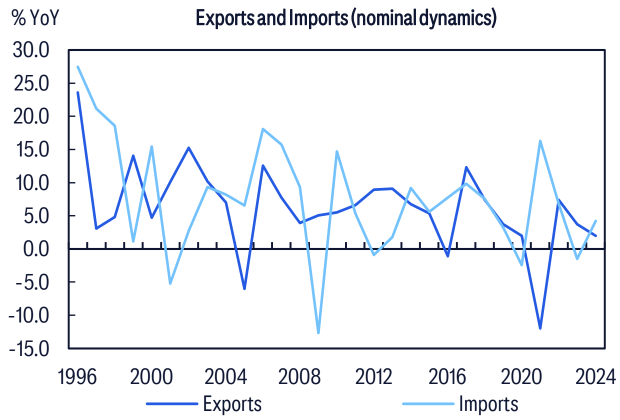
The trade balance, which had moved into a noticeable deficit in 2022 due to surging energy import costs, improved in 2023 and returned to a modest surplus in 2024. Over the next few years, the current account position will depend largely on the economic outlook in the euro area – particularly in Germany – and on Poland's ability to diversify export markets beyond the EU. Key risks include renewed increases in global energy prices, prolonged weakness in European manufacturing, and potential supply chain disruptions linked to geopolitical tensions. On the upside, further integration into high-tech manufacturing and stronger trade links with selected Asian markets, and other fast-growing economies could provide additional support to the trade balance.

Figure 9. Like in exports, Germany is Poland's largest import source



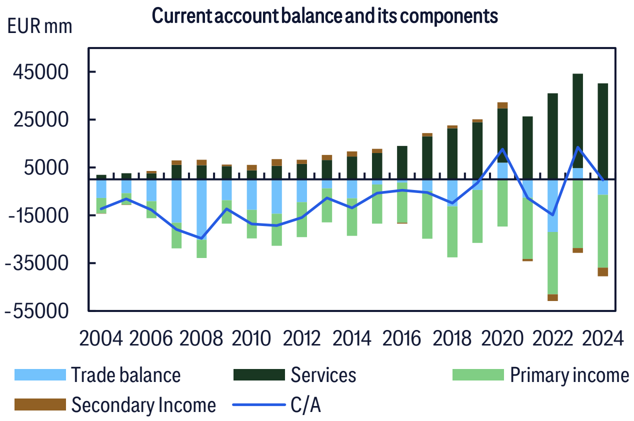
Source: IMF, Citi Handlowy

Figure 10. Trends in foreign trade



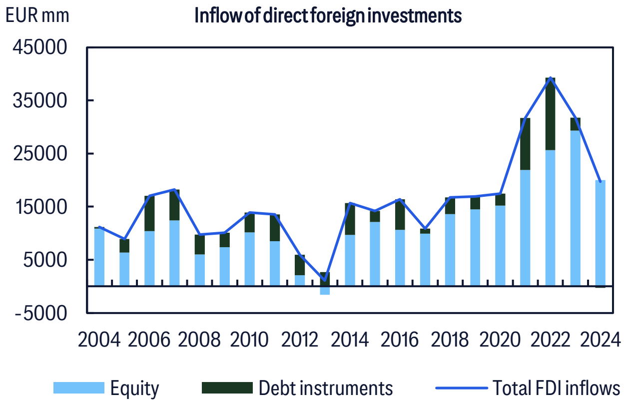
Source: Eurostat, Citi Handlowy

Figure 11. Current account balance narrowed after recent improvement



Source: Eurostat, Citi Handlowy

Figure 12. FDI inflows drop from record highs, but remain above pre-pandemic levels



Source: Eurostat, Citi Handlowy

Figure 13. CEE Top 10 export markets - TiVA: share of final demand in domestic value added (2022)

	Czechia		Hungary		Poland		Romania		Slovakia		EU	
1.	Germany	17.1%	Germany	19.3%	Germany	15.3%	Germany	14.8%	Germany	13.8%	China	17.0%
2.	China	12.0%	China	8.0%	China	13.7%	Italy	6.6%	China	9.0%	US	16.5%
3.	Poland	6.8%	US	5.4%	US	6.3%	China	6.4%	Czechia	7.8%	UK	9.4%
4.	US	5.6%	Poland	5.1%	Italy	4.1%	Russia	5.7%	Russia	7.8%	Russia	5.1%
5.	Norway	4.3%	Austria	4.5%	Russia	4.1%	France	5.6%	Poland	5.5%	Norway	4.7%
6.	Russia	3.8%	Russia	4.3%	France	3.9%	Poland	4.5%	US	4.5%	Switzerland	4.7%
7.	UK	3.6%	France	4.0%	Norway	3.7%	US	4.2%	France	4.0%	Japan	3.0%
8.	Slovakia	3.5%	Italy	4.0%	UK	3.6%	Türkiye	3.6%	Korea	4.0%	India	2.9%
9.	Austria	3.1%	Netherlands	3.3%	Netherlands	2.8%	Austria	3.1%	Italy	3.7%	Türkiye	2.7%
10.	Netherlands	2.7%	Czechia	2.7%	Spain	2.2%	Hungary	3.0%	Austria	3.1%	Korea	2.0%
	RoW	37.5%	RoW	39.4%	RoW	40.3%	RoW	42.5%	RoW	36.8%	RoW	32.0%

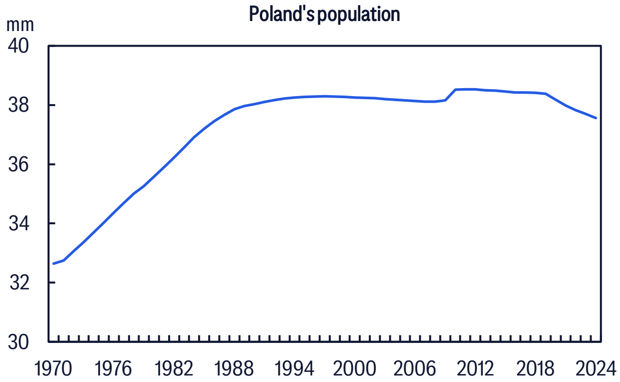
Source: OECD TiVA, Citi Handlowy

Demographic trends

Poland faces a severe demographic challenge that will weigh heavily on its economy in the coming decades. The country has already passed its demographic peak in 2012 of 38.5 million people, and the population is set on a declining trajectory. What makes Poland's outlook particularly difficult is not only the declining number of people, but the speed of population ageing. The share of those aged 65+ is growing quickly, reflecting both increased life expectancy and persistently very low fertility, and that trend is set to continue due to ageing of people currently in 40-59 age group. With one of the lowest fertility rates in the EU (Figure 17), well below replacement level, there is little prospect of reversing these trends in the near future.

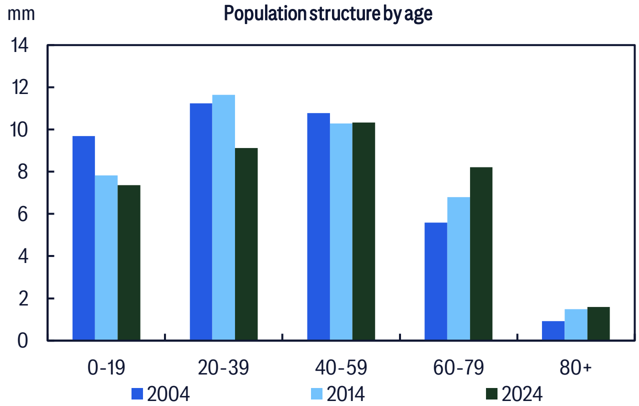
This combination of demographic decline and rapid ageing implies – in the longer term - a smaller labour force, and mounting pressure on public finances, especially the pension and healthcare systems. In the absence of large-scale immigration or structural reforms that boost productivity, Poland's demographic profile threatens to undermine the strong growth performance the country has enjoyed in recent decades.

Figure 14. Poland's demographic peak in 2012 marked the start of population decline



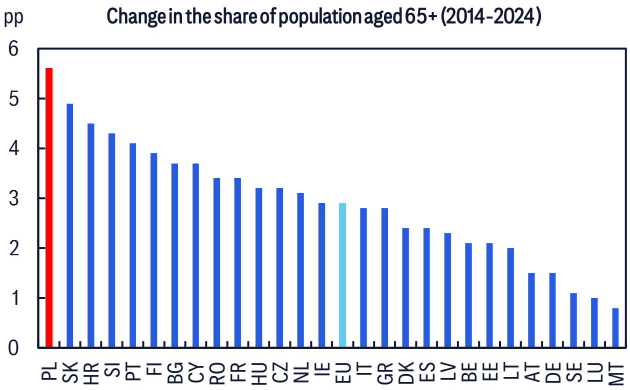
Source: OECD, Citi Handlowy

Figure 15. Population ageing remains one of Poland's most serious challenges



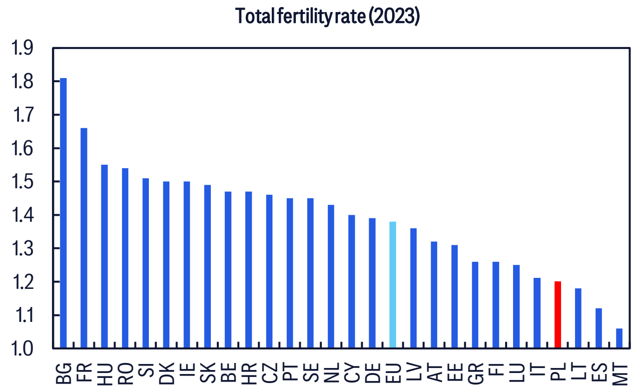
Source: Eurostat, Citi Handlowy

Figure 16. Poland leads the EU in the increase of the 65+ population share (2014-2024)



Source: Eurostat, Citi Handlowy

Figure 17. EU fertility rates in 2023, with Poland among the weakest performers

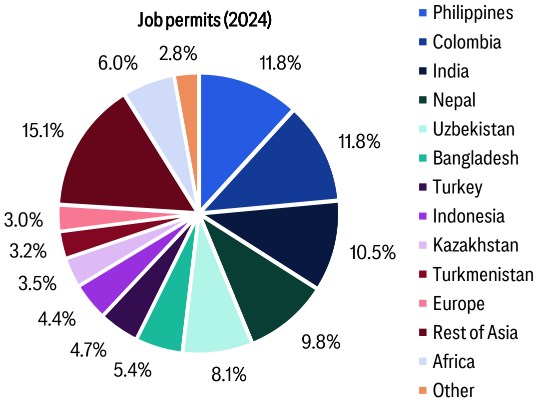


Source: Eurostat, Citi Handlowy

One factor that has helped to cushion the impact of population ageing in recent years was an increase in immigration, especially from Ukraine. After a brief drop due to the COVID shock, the number of foreigners applying for job permits in Poland rebounded. Following Russia-Ukraine war in 2022, Poland experienced a sharp inflow of refugees, who were granted temporary protection in the EU, including immediate access to the labour market. This status has since been extended until March 2026, with the European Commission having proposed an extension until March 2027, supporting labour supply in the short run. Nonetheless, even with high immigration expected in the coming years, the working-age population will likely not be stabilized as a historical net migration rate (except for 2022) has hovered around zero (Figure 18).

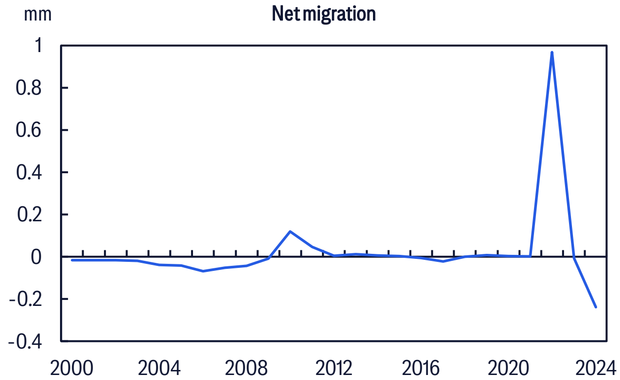
One potential solution to counter the decrease in the working-age population lies in increasing the rate at which women participate in the labour market. Poland shows a relatively low labour activity among women compared to other EU countries (Figure 21). This seems to be partly due to inadequate supply of child-care infrastructure that makes activity in the labour market more difficult. The issue is exacerbated by relatively low popularity of part-time work in Polish firms.

Figure 18. The pool of work permit applicants includes individuals from numerous countries



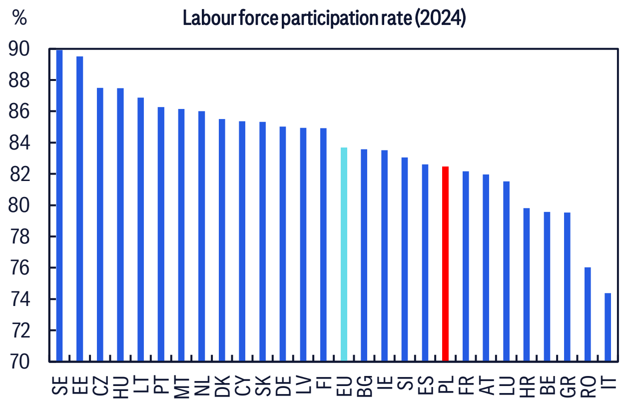
Source: MRiPS, Citi Handlowy

Figure 19. The 2022 surge in net migration was followed by a reversal in 2023, with the rate dropping below zero.



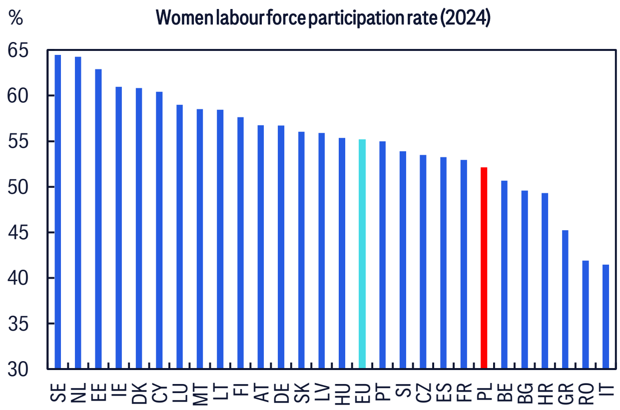
Source: World Bank Group, Citi Handlowy

Figure 20. Boosting labour force participation could reduce the impact of population ageing on growth



Source: OECD, Citi Handlowy

Figure 21. Poland faces challenges in fully integrating women into the labour market



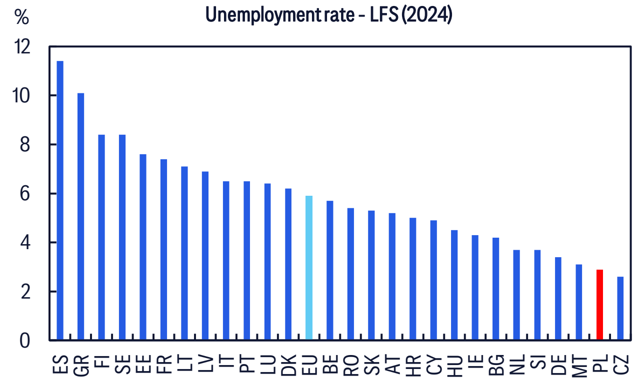
Source: World Bank Group, Citi Handlowy

Labour market

Polish labour market has seen a substantial improvement over last fifteen years. At the time of Poland's entry to the EU in 2004, the unemployment rate was equal to around 20% and was among the highest in the European Union. However, over time unemployment declined - it has remained below the EU average since 2012 and currently is one of the lowest in the EU (Figure 22). Also, following the outbreak of the COVID-19 epidemic, unemployment rate in Poland has hardly budged compared to other member states that have experienced a more significant increase in unemployment figures. This was partly thanks to fiscal policy measures aiming at stabilization of the labour market.

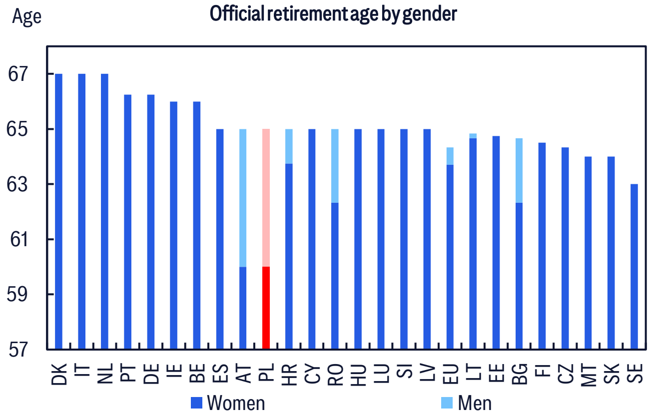
At the same time, Poland's statutory retirement age remains relatively low compared to most EU countries. For women it is set at 60 years and for men at 65, while in many Western European economies the threshold is 65-67 years for both genders (Figure 23). This reduces labour force participation among older cohorts and may pose long-term challenges for labour supply and the sustainability of the pension system.

Figure 22. The unemployment rate in Poland has fallen to one of the lowest in the EU in recent years



Source: Eurostat, Citi Handlowy

Figure 23. Poland, together with Austria records the largest gender gap in statutory retirement age in the EU

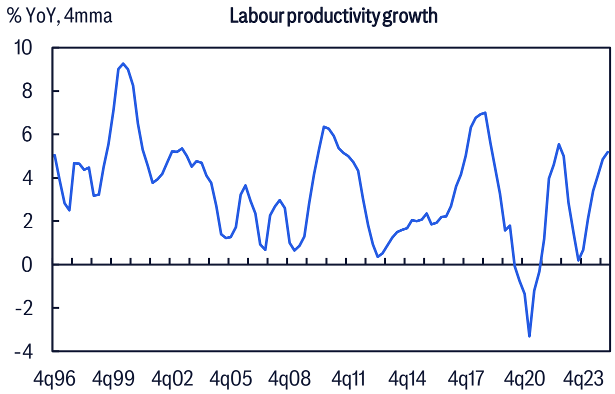


Source: MISSOC, Citi Handlowy

Labour productivity growth has remained high over recent years, excluding the COVID shock (Figure 24). This might result from a decrease in the share of workers in low-productivity sectors, as well as from adoption of technology from more advanced economies and domestic innovation.

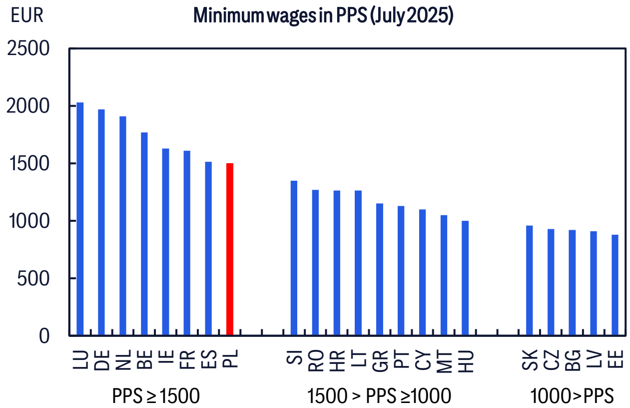
Minimum wage increased considerably in recent years as a result of a series of hikes. Although in nominal terms the minimum wage is relatively low versus other EU countries (in 2025 approx. EUR 1100 per month), in purchasing-power adjusted terms it is comparable to Western European levels (Figure 25).

Figure 24. Labour productivity saw an average growth of 3.7% in the 1996-2024 period (excluding COVID shock)



Source: Eurostat, Citi Handlowy

Figure 25. Poland's minimum wage in PPS is comparable to Western economies

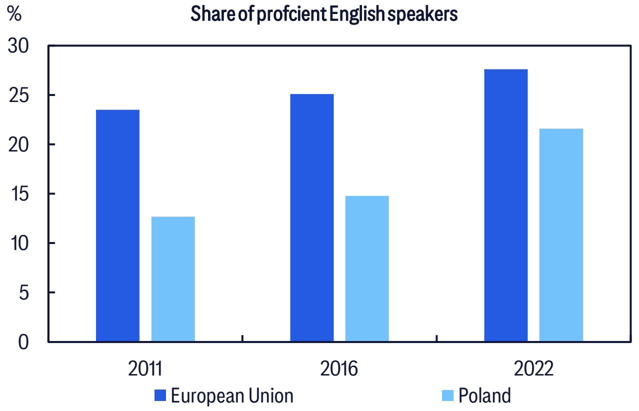


Source: Eurostat, Citi Handlowy

As far as quality of labour is concerned, Poland has experienced an expansion of tertiary education after the accession to the European Union. The share of those obtaining university degrees has almost tripled since 2004 and at the same time the share of population with only basic education (primary and lower secondary) has decreased significantly. Poland is among highest scoring European countries in PISA education rankings published by the OECD. In 2022, Polish 15-year-olds ranked fifth in Europe in all three categories assessed by PISA: reading, science and mathematics (Figure 27).

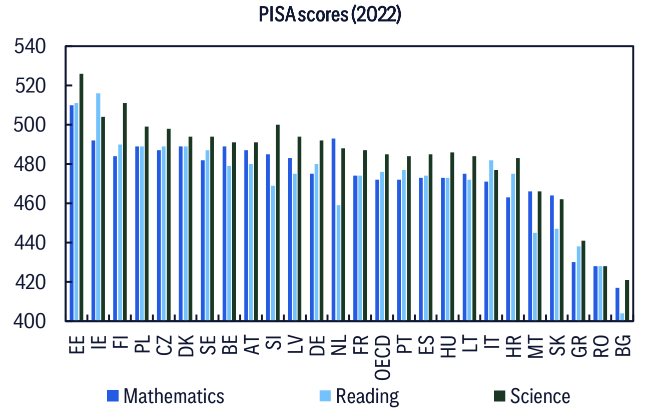
One of potential issues related to functioning of the labour market refers to work-related adult learning and continuing vocational training (CVT). According to 2022 statistics from Eurostat, Poland exhibits a low level of adult participation in education and training compared to other EU member states (Figure 29). In particular, the proportion of employees engaging in adult learning is among the lowest in the European Union. Lack of ongoing work-related training can lead to skills imbalances, which can have a negative effect on labour productivity.

Figure 26. While the percentage of proficient English speakers is still below the EU average, the gap is narrowing



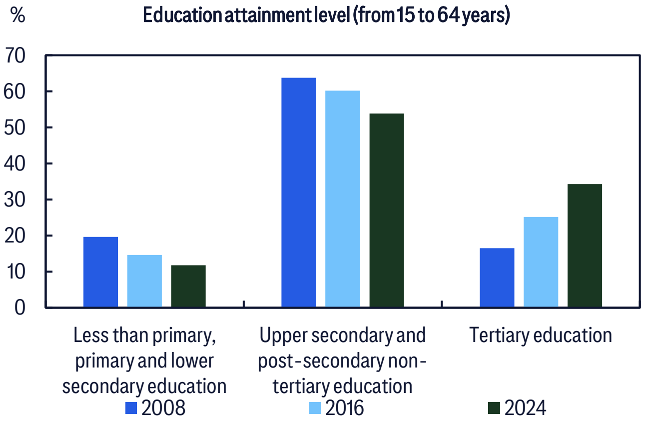
Source: Eurostat, Citi Handlowy

Figure 27. Programme for International Student Assessment (PISA) ranking



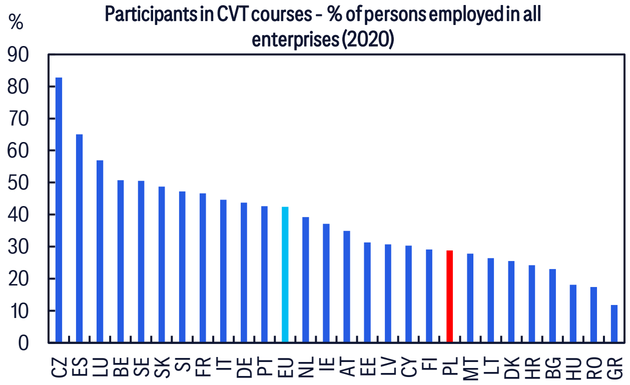
Source: Eurostat, Citi Handlowy

Figure 28. Share of people with tertiary education is continuously rising in favour of people with other education



Source: Eurostat, Citi Handlowy

Figure 29. Participation in continuing vocational training



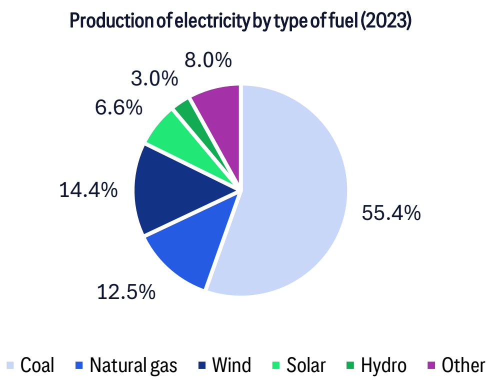
Source: Eurostat, Citi Handlowy

Environmental sustainability

Environmental sustainability has become one of the most pressing challenges for Poland. The country remains one of the most carbon-intensive economies in the EU, with around 55% of electricity still generated from coal in 2024, compared to the EU average of around 10%. Coal extraction is concentrated in Silesia and Greater Poland, regions heavily dependent on mining jobs, which makes the transition particularly sensitive from a socio-political perspective. At the same time, coal reserves are declining in quality and competitiveness, forcing an increasing reliance on imports – primarily from Australia, Colombia, Kazakhstan and the United States, following the 2022 EU embargo on Russian coal.

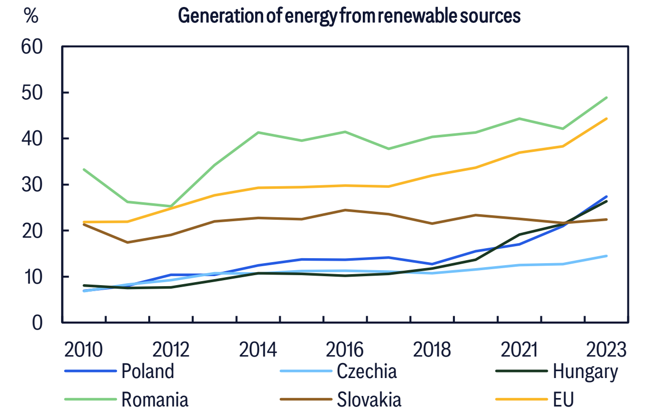
Poland's energy security has historically been shaped by its dependence on imported fossil fuels. Natural gas, once largely sourced from Russia, is now delivered mainly from Norway through the Baltic Pipe, as well as from the United States via LNG terminals in Świnoujście and Gdańsk. Oil imports, previously dominated by Russia, have been rapidly diversified towards Kazakhstan, Saudi Arabia and the US. These shifts have strengthened energy security but also increased exposure to global price volatility.

Figure 30. Coal continues to be a dominant part of Poland's energy mix



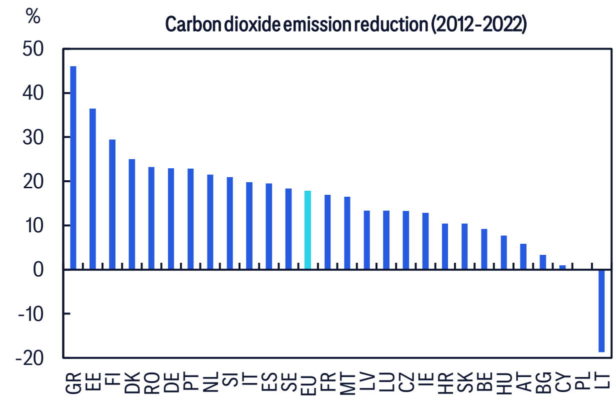
Source: Eurostat, Citi Handlowy

Figure 31. Energy generated from renewable sources has grown in recent years, but is still only half the EU average



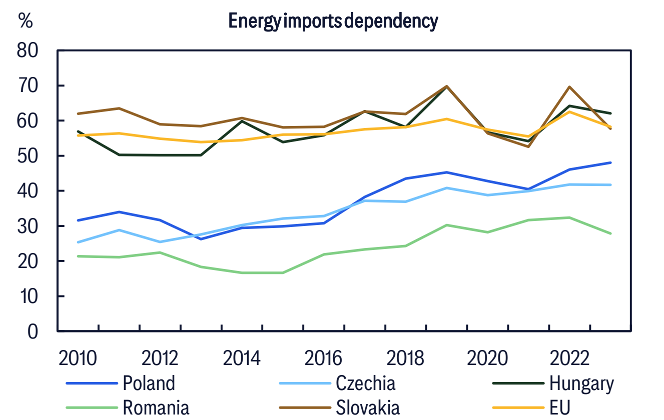
Source: Eurostat, Citi Handlowy

Figure 32. From 2012 to 2022, Poland's CO_2 emission held steady while many other EU countries saw major reductions



Source: Eurostat, Citi Handlowy

Figure 33. Poland's dependency on energy imports is still below the EU average, but is constantly rising



Source: Eurostat, Citi Handlowy

On the renewable side, Poland has experienced a remarkable boom in solar power. Data published by the International Renewable Agency shows that installed photovoltaic capacity surged from just 0.3 GW in 2014 to around 16 GW in 2023, largely driven by small-scale household solar installations supported by subsidies. Wind energy, which already accounts for almost 15% of electricity generation (Figure 30), is expected to expand strongly through offshore projects in the Baltic Sea. According to the Polish government, 5.9 GW of offshore wind capacity is expected to be installed in Poland by 2030, providing electricity for around 8 million households annually, significantly reshaping power mix. Nuclear power is also part of the long-term strategy. In March 2025, former president Duda signed an agreement confirming that Poland's first nuclear power plant will be developed, with construction scheduled to start in the coming years.

Beyond the energy sector, Poland faces pressing environmental concerns, with air quality among the most polluted in Europe. According to the European Environmental Agency, Polish cities consistently rank among the region's most polluted. The cause is largely due to high coal dependence, household boilers burning fossil fuels and old vehicles producing exhaust fumes. As far as water management is concerned, the country has low per capita water resources, placing it among only a few EU countries experiencing "water stress", as defined by the UN. Waste management was previously also a problematic area, but has since seen substantial improvement.

Despite these challenges, Poland has access to substantial EU funds earmarked for the green transition. Within the framework of the Recovery and Resilience Facility (RRF), Poland is committed to deploying EUR 27.9 billion for climate-related projects. These investments, which must be implemented by August 2026, include increasing renewable energy production and efficiency, developing sustainable transport, as well as improving air quality. Additional support comes from the EU's Just Transition Fund, directed specifically at coal regions to support their green transition by building more resilient economy with a wider range of industries, thereby generating employment. If effectively implemented, these resources could accelerate the transformation of Poland's energy system, reduce environmental pressures, and align the country more closely with the EU's 2050 climate neutrality target.

EU membership

Poland entered the European Union (EU) on May 1, 2004. Integration with the EU has had profound implications for both economic and institutional changes in the country. Opening of borders and elimination of import duties led to a boost in trade flows and thus faster economic growth. EU membership required also changes in law and in key institutions. According to some estimates, without EU entry Poland's GDP could be by one third lower.

One of important consequences of EU entry was that Poland started to receive funds from the EU budget that can be used to finance infrastructure investment or support certain sectors. Financial allocations are usually set for seven-year periods and in years 2021-2027 Poland is to receive in total approximately EUR 133bn (in current prices):

- **Cohesion policy funds -** EUR 75.5bn from multiannual financial framework (MFF). This money can be spent to strengthen the economic, social and territorial cohesion of the EU. In particular it can be used to finance infrastructure investment within a country, thus making it better connected with other parts of the EU.

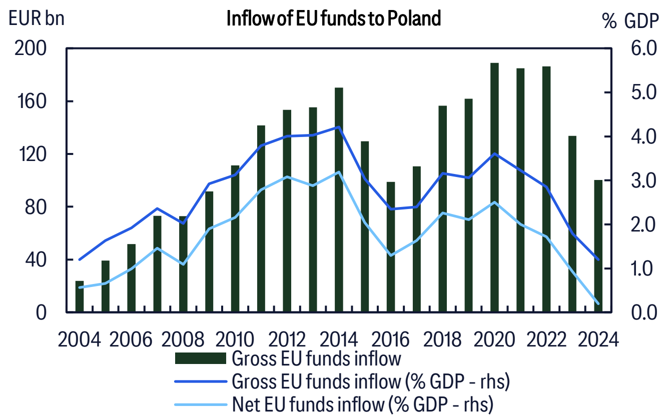
- **Agriculture policy -** EUR 21.7bn of funds from the seven-year MFF that can be spent to support the agricultural sector and farmers. Taking into account that agriculture plays a bigger role in Poland than (on average) in other EU countries, this source of funds is relatively large.

- **Recovery and Resilience Facility (RRF) –** This is a post-pandemic recovery fund that focuses on digital and green transformation and aims to facilitate a recovery after the 2020 recession. The total amount that Poland wants to use from the RRF is EUR 59.8bn (in current prices), out of which EUR 25.3bn will be in grants and 34.5bn in loans (the size of the loan part of RRF can be increased).

It is worth adding that Poland has consistently been the largest net beneficiary of EU funds since its accession. Between 2004 and 2024, the country received total of EUR 261bn from the EU budget, while contributing EUR 85.8bn. Looking ahead, the new EU budget for 2028-2034 again positions Poland as the main recipient, with allocations projected to exceed EUR 120bn, underlining its central role in the Union's convergence policy.

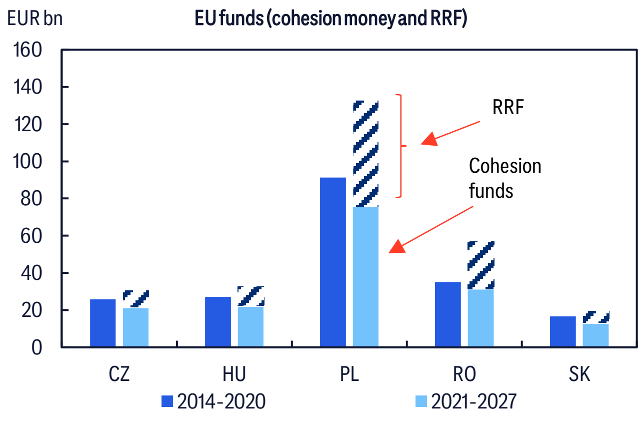
One of factors that needs to be taken into account is that Poland's access to EU funds remained constrained due to concerns overrule of law and judicial independence, which led the European Commission in 2021 to suspend disbursements under the Recovery and Resilience Facility. This situation changed after the parliamentary elections of October 2023, when a new government initiated reforms aimed at restoring judicial independence and rebuilding institutional trust. In December 2023 the European Commission announced the decision to unblock Poland's access to recovery funds, signalling renewed confidence in the country's commitment to EU values. The move marked a turning point in EU-Poland relations and opened the way for Poland to again benefit fully from one of the Union's key financial instruments.

Figure 34. Since joining the EU, the inflows of EU funds have averaged 1.8% of GDP in net terms



Source: MF, Eurostat, Citi Handlowy

Figure 35. Thanks to the post-pandemic recovery facility (RRF), the EU funds available for 2021-2027 exceed those of the previous Multiannual Financial Framework



Source: European Commission, Citi Handlowy

Euro adoption prospects

As a member of the European Union, Poland is formally obliged to adopt the euro, but there is no official deadline for this to happen. The euro entry is not on the government's agenda anymore and there are no preparatory processes underway.

Before euro entry Poland would need to meet macroeconomic convergence criteria, which put limit on inflation, general government debt, deficit, long term interest rates and require participation in exchange rate stabilization mechanism of ERM2. Since Poland has not applied for ERM2 participation – and in our view the authorities do not seem to have such an intention in the near future – the euro area membership is still years away.

An even bigger obstacle for euro entry is that Poland would need to fulfil legal conditions and thus would need to amend constitution. For a constitutional amendment, the pro-euro coalition would need to have at least 2/3 majority in the lower house of the parliament (Sejm). This seems very difficult at this stage and building of such a strong coalition in the future may be a difficult task, in our view.

Taking into account the above arguments we think the probability of Poland adopting the common currency in the foreseeable future is very low. At the moment we do not even have a forecast when this could possibly happen, as we think euro adoption is unlikely to take place in a horizon that would matter for financial market participants.

Fiscal policy

Fiscal rules

Polish as well as EU law include limits on the level of public debt and fiscal deficits. This is likely to have a meaningful impact on the dynamics of fiscal policy in the coming years.

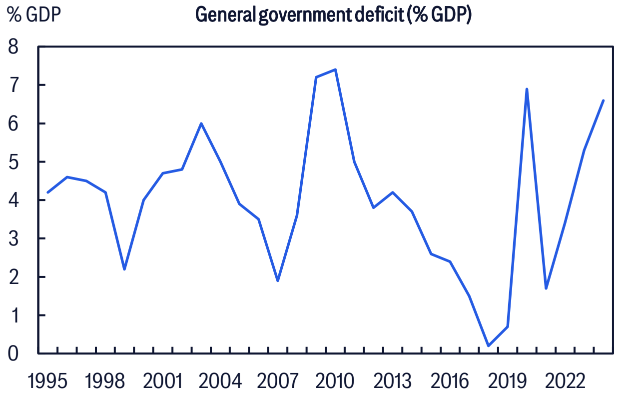
Public debt thresholds. Poland's constitution states that public debt (calculated according to the domestic methodology) cannot exceed 60% of GDP, while the Public Finance Act defines certain actions to be taken by the government if 55% and 60% thresholds are exceeded. This public debt rule has important implications for the conduct of fiscal policy and suggests that authorities may be forced to adjust policy so that to avoid breaching 55% of GDP (alternatively, the government may change the definition of the public debt by excluding some off-budget funds from the definition of the debt). If the debt was to exceed the 55% threshold level, the authorities would be forced by existing fiscal rules to balance the budget within two years.

Expenditure rule. In 2013 the stabilizing expenditure rule (SER) was adopted and it has come to force with the 2015 budget. The rule's aim is to safeguard the stability of the public finances by maintaining the general government balance at the sustainable level. This aim is achieved by ensuring that spending growth does not exceed long term nominal GDP growth (with some adjustments depending on how high fiscal deficit or debt are).

Local government rule. Starting from 2011, local governments are obliged to balance the current budget. This allows municipalities to continue investment projects but puts limits on their ability to increase current spending.

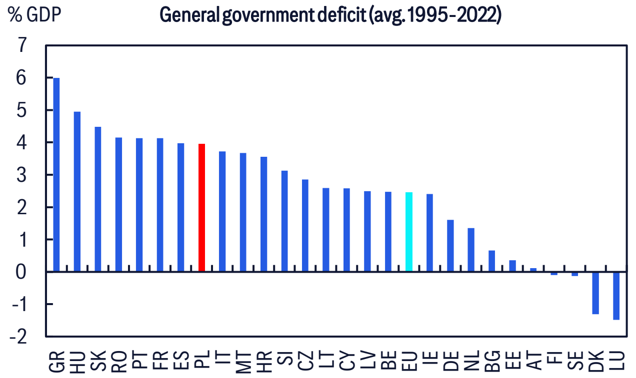
European fiscal limits. Under EU regulations, member states are obliged to keep the general government deficit below 3% of GDP and public debt below 60% of GDP. If the deficit threshold is breached, the European Commission can launch Excessive Deficit Procedure (EDP), which involves corrective steps and may ultimately lead to sanctions. Poland has been subject to the Excessive Deficit Procedure (EDP) three times: in 2004–2008, 2009–2015, and again in 2024. The general government deficit exceeded 3% of GDP in 2020-2024 (except for 2021), but during 2020-2023 the EU's general escape clause suspended the application of the deficit rule and prevented the opening of EDP.

Figure 36. Government deficit is on an upward path again



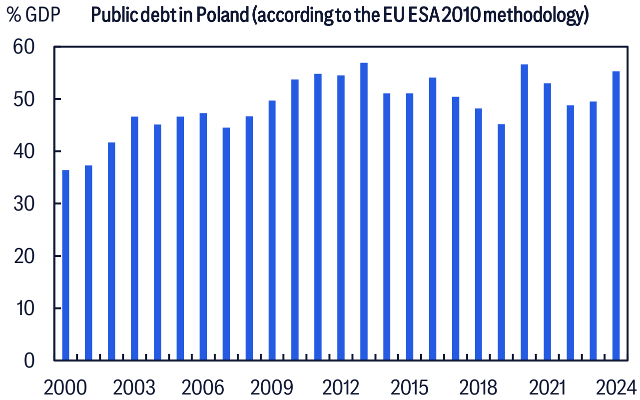
Source: Eurostat, Citi Handlowy

Figure 37. Historically Poland used to run high deficits but introduction of fiscal rules helped to improve fiscal balances



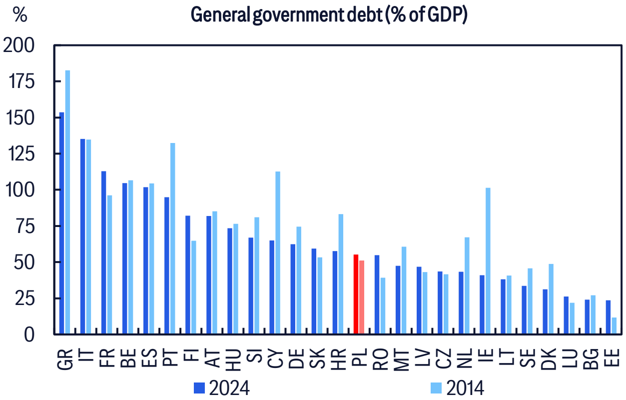
Source: Eurostat, Citi Handlowy

Figure 38. Fiscal rules help to keep the public debt at a relatively low level



Source: GUS, Citi Handlowy

Figure 39. Poland's general government debt remains relatively low as compared to other EU economies



Source: Eurostat, Citi Handlowy

Budget approval process

Works on a new budget act usually start in late spring and the government submits the Budget Draft as well as the debt Management Strategy to the Parliament by the end of September. The Parliament can modify expenditure and revenue plans but is not allowed to change the deficit limit as compared to what was initially proposed by the government. The Parliament has four months to finish works on the budget and send the document to the President. If this deadline is breached, the President has a right to dissolve the Parliament and thus call new elections.

When signed by the President, the Budget Act becomes binding, and the government is not allowed to exceed the central budget deficit during the fiscal year. If for some reasons the deficit needs to be increased above the limit, the government is required to go through a formal process of amending the Bill in the parliament, which can be time consuming and costly in political terms. For this reason budget amendments are relatively rare in Poland and Budget Acts are usually prepared in a way that leaves some safety buffer in case the economic growth and revenues disappoint. For example, between 2010 and 2019 the actually realized spending was on average by 2.4% lower than planned. In most years spending significantly accelerates only in final months of the year when it is clear how big the fiscal space is.

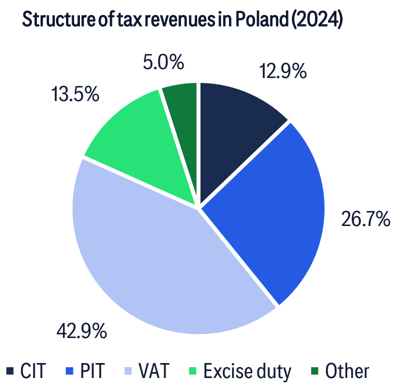
Tax policy

On the revenue side, fiscal policy in Poland relies strongly on indirect taxation. The Value Added Tax (VAT) is by far the most important source of government revenue, accounting for more than 40% of total tax receipts (Figure 40). Other significant components include personal income tax (PIT), corporate income tax (CIT), and the excise duties.

In recent years, several reforms have reshaped the personal income tax system. The so called "Polish Deal" reform introduced in 2022 raised the tax-free allowance and changed the rules of health contributions, reducing the effective tax burden on lower-income groups while increasing complexity for higher earners and the self-employed. These reforms, alongside rising expenditures, have had a notable impact on the fiscal balance.

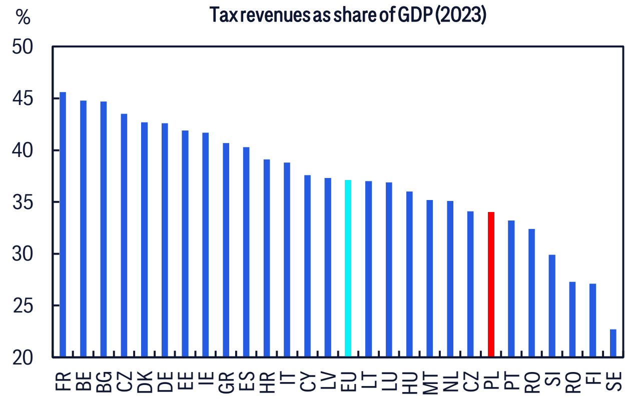
Compared to the EU average, Poland's overall tax-to-GDP ratio remains relatively low (Figure 41). The tax structure is also more heavily weighted toward consumption taxes, while revenue from property and capital taxation plays a smaller role than in many Western European countries. This composition has implications for the stability of revenues, as indirect taxes tend to be more sensitive to cyclical fluctuations in household demand and inflation.

Figure 40. In Poland, indirect taxation plays a larger role than direct taxes



Source: MF, Citi Handlowy

Figure 41. With EU average at 40%, Poland's tax-to-GDP ratio stands at 34%

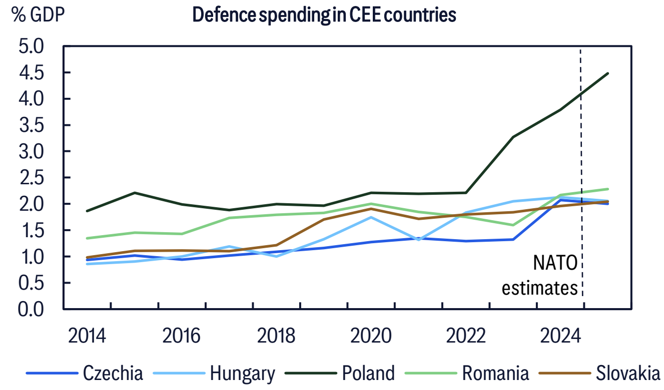


Source: Eurostat, Citi Handlowy

Defence spending

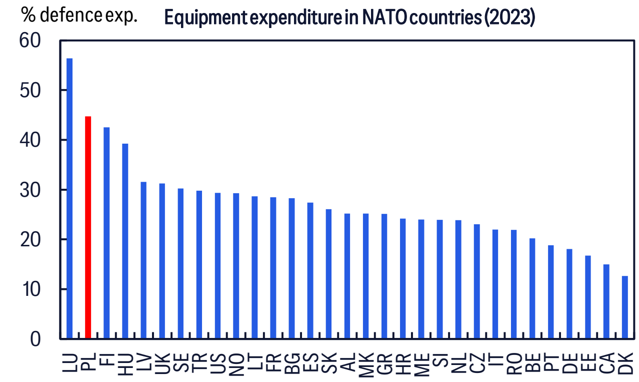
Poland has emerged as NATO's top defence spender relative to GDP, with allocations estimated at around 4.7% of GDP in 2025, up from 4.2% in 2024, and 2.2% in 2022, and far above the Alliance's current 2% benchmark. This surge reflects the country's accelerated military modernization programme and its strategic positioning as the security anchor of Central and Eastern Europe. The sharp increase in defence spending in recent years has been driven by Russia-Ukraine war, and is expected to remain at historically high levels over the medium term.

Figure 42. In 2022 Poland saw a sharp increase in defence expenditure



Source: NATO, Citi Handlowy

Figure 43. Poland's share of equipment expenditure is approximately 65% higher than the NATO average



Source: NATO, Citi Handlowy

At the same time, NATO allies have recently agreed on a more ambitious long-term objective of moving towards 5% of GDP in defence expenditure by 2035, with a strong emphasis on direct military capabilities and emerging technologies. In this context, Poland's already elevated spending places it ahead of the curve. While this trajectory highlights the country's commitment to regional security, it also raises longer-term questions about fiscal sustainability and trade-offs with other policy priorities.

Monetary policy

Monetary policy framework

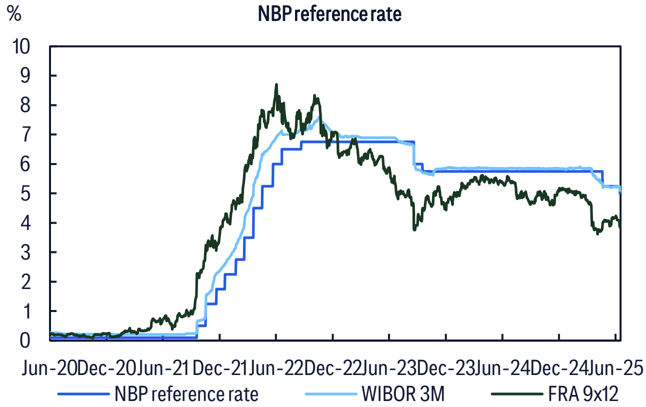
According to Polish law '*the basic objective of the activity of the NBP shall be to maintain price stability, while supporting the economic policy of the Government, insofar as this does not constrain the pursuit of the basic objective of the NBP*' (The Act on the National Bank of Poland, 29 August 1997).

The NBP has pursued the direct inflation targeting strategy since 1999 and currently the ongoing inflation target is 2.5% for the headline CPI with +/-1% point band of permissible fluctuations. In order to meet the inflation target, the NBP adjusts the level of reference rate and by doing this it tries to affect money market rates as well as lending rates.

In response to the COVID-shock and lockdowns the National Bank of Poland launched its first ever Quantitative Easing programme in March 2020, purchasing treasury bonds and government-guaranteed debt instruments. These operations were aimed at improving liquidity in the banking sector, stabilizing the secondary market and strengthening monetary policy transmission. Unlike most other central banks, the NBP did not commit to any monthly size of purchases, nor did it announce any target level of purchases, but adjusted them flexibly in response to market sentiment. The programme also indirectly supported fiscal expansion during the pandemic.

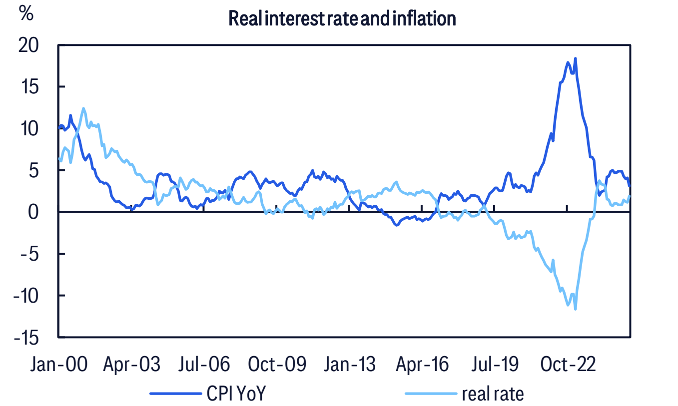
In subsequent years, monetary policy was dominated by a sharp tightening cycle. Between October 2021 and September 2022 the reference rate was raised from 0.1% to 6.75% in response to surging inflation, which peaked at nearly 18% in February 2023. With inflation declining, the NBP began an easing cycle in 2024, gradually lowering interest rates while aiming to anchor inflation expectations and bring CPI closer to the 2.5% target (Figure 44).

Figure 44. NBP rates surged in 2021-22 and are now being gradually lowered, though still remain at elevated levels



Source: Bloomberg, NBP, Citi Handlowy

Figure 45. Since January 2024, Poland's real rate is finally positive



Source: Eurostat, NBP, Citi Handlowy

Since 2004, when the current ongoing inflation target was set at 2.5%, the inflation rate was on average at 3.2%. The simple average hides the fact that in this period inflation fluctuated significantly, sometimes persistently deviating from the mid-point of the central bank's target. From 2000 to the end of 2024, the CPI stayed within the target band for only 34% of time.

How is the MPC appointed?

Monetary policy is conducted by the Monetary Policy Council (MPC). The MPC consists of ten members, including the NBP governor who is its chairman and who has a casting vote in case of a deadlock. The Council meets on regular monthly meetings when it takes decisions on interest rates and other key monetary policy parameters.

Nine members of the MPC (excluding NBP governor) are appointed for six-year terms that cannot be repeated, nor extended. The condition a candidate for MPC member needs to fulfil is 'to be a specialist in the field of finance'. Three members are appointed by the lower house of the parliament (Sejm), three members by the upper house (Senate) and three members by the President of Poland. Figure 34 shows a calendar of upcoming changes in the MPC line-up. The term of one out of ten members will end in 2025, and the others' terms end in 2028.

Historically among MPC members there were ex-central bankers, ex-finance ministry officials, politicians, academic economists or lawyers.

Figure 46. Calendar of changes in the Monetary Policy Council

	Nominated by:	End of term
Cezary Kochalski	President	20-Dec-25
Ludwik Kotecki	Upper House	25-Jan-28
Przemysław Litwiniuk	Upper House	25-Jan-28
Ireneusz Dąbrowski	President	20-Feb-28
Henryk Wnorowski	President	20-Feb-28
Wiesław Janczyk	Lower House	22-Feb-28
Adam Glapiński	Lower House	21-Jun-28
Joanna Tyrowicz	Upper House	6-Sep-28
Gabriela Masłowska	Lower House	6-Oct-28
Iwona Duda	Lower House	6-Oct-28

Source: NBP, PAP, Citi Handlowy

Monetary policy reaction function

There is no automaticity in how the NBP responds to inflation shocks. Official documents of the NBP (Monetary Policy Guidelines for 2025) clearly state that the MPC can flexibly adjust monetary policy instruments and can accept periods of CPI deviating from the target in order to avoid excessive costs of policy adjustment.

The MPC reaction function depends on who sits in the rate-setting Council and therefore it can change over time. Below we try to summarize the most important factors that play a role at the moment of writing:

- **Current inflation** - Historically Polish MPC tended to be more reactive than proactive. It usually responded to past inflation developments rather than to inflation forecasts.

- The MPC has **no official employment/GDP target.** However, over time the economic activity started to play a bigger role in policymaking and in our view its weight in the reaction function may be as high as inflation's weight.

- **ECB decisions** - Although Poland's economic cycle is correlated with Germany's, the MPC in Poland usually doesn't automatically follow interest rate decisions of the ECB.

- According to Monetary Policy guidelines, **financial stability and asset prices** are factors that are taken into account by the MPC. However, these factors have played little practical role in policymaking so far.

- **Currency** - Historically Polish central bankers tried to avoid any comments on FX market and although in December 2020 and March 2022 the NBP intervened in the FX market, in our view there seems to be no particular level that the central bank would like to defend.

FX interventions

Since April 2000, the zloty (PLN) has been a floating currency and for years the Polish central bank preferred to stay away from the FX market while most policymakers expressed the view that the exchange rate should be a reflection of market forces. This changed in 2011 when the central bank adopted a somewhat more active role in the market and intervened several times in order to limit currency volatility in a period of rising depreciation pressures due to intensification of the euro area crisis.

Figure 47. Calendar of changes in the Monetary Policy Council

Date	NBP activity in the FX market	EUR/PLN level (day before intervention)
9-Apr-10	Purchasing FX	3.8457
23-Sep-11	Selling FX	4.5171
30-Sep-11	Selling FX	4.4298
3-Oct-11	Selling FX	4.4205
23-Nov-11	Selling FX	4.4596
7-Jun-13	Selling FX	4.2976
18-Dec-20	Purchasing FX	4.4406
29-Dec-20	Purchasing FX	4.4975
30-Dec-20	Purchasing FX	4.5368
31-Dec-20	Purchasing FX	4.5848
01-Mar-22	Selling FX	4.7006
02-Mar-22	Selling FX	4.7542
04-Mar-22	Selling FX	4.8145

Source: NBP announcements, PAP, Citi Handlowy

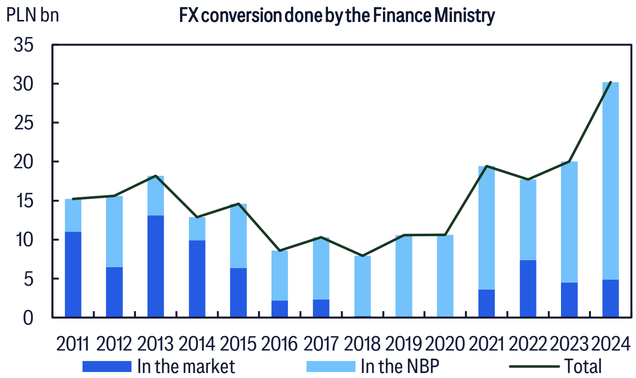
In March 2022 Poland's central bank again intervened in the foreign exchange market, this time to strengthen the zloty. The NBP informed that interventions were a response to the depreciation of the zloty observed immediately after the start of Russia-Ukraine war, which was not consistent with the fundamentals of the Polish economy nor the direction of the monetary policy. Since then, the NBP has not conducted further interventions, as the zloty was gradually recovering and, from 2024 onwards, has remained broadly steady.

On a number of occasions central bank officials claimed there was no particular FX rate the NBP would like to defend while the key goal of interventions was to decrease currency volatility, especially in periods when FX moves were large and were not caused by fundamental factors. Although decisions on interest rates are taken by the MPC, the FX interventions decisions are taken by senior management of the NBP. The central bank is not obliged to publish data on the size of interventions and therefore usually the NBP informs only that it conducted an FX operation on the market. Analysis of changes in the stock of FX reserves of the central bank is usually of limited use, unless interventions are particularly large. This is because the increase in FX reserves in previous years reflected mostly inflow of EU structural and cohesion funds to Poland, most of which were exchanged in the central bank.

Finance Ministry on the FX market

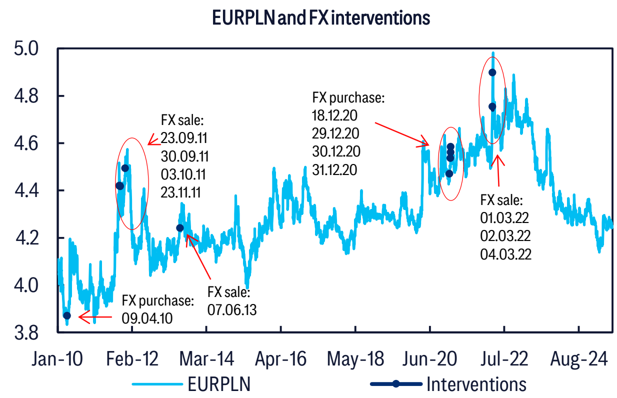
Since 2011, the Finance Ministry, which does not hold FX reserves, has been splitting EU fund conversions between the central bank (NBP), and the FX market, using state owned bank BGK as its agent. This shift meant that inflows into reserves were reduced, while varying share of funds started to be exchanged directly on the market. According to the Finance Ministry's annual statements and the NBP's Report on Monetary Policy Implementation, the market share fluctuated significantly. It peaked around 77% in 2014, averaged about 50% between 2011 and 2017, fell close to zero in 2017-2019, and later rose again, reaching nearly 42% in 2022. In 2024, about EUR 25.3bn was converted via the NBP and EUR 4.9bn directly on the market, which could have had a noticeable impact on market liquidity.

Figure 48. While NBP handles most FX conversions, there was a brief market dominance in 2011-2014



Source: MF, NBP, Citi Handlowy

Figure 49. FX interventions are relatively rare in Poland



Source: Reuters, Citi Handlowy

Key facts on Polish politics

Political structure

Poland is a republic with a President as a head of state and a Prime Minister as head of the government. The President is elected in general elections for a maximum of two five-year terms. The President's role is mostly representative but he/she has important constitutional powers, such as vetoing legislation (which can only be overridden by a 3/5 parliamentary majority), appointing judges, nominating the Prime Minister, and representing Poland in foreign affairs. The current president is Karol Nawrocki, elected in June 2025, who comes from a political grouping different from the ruling coalition. This has introduced a degree of political uncertainty, as potential frictions between the president and the government could shape the policy-making process.

Prime Minister (currently Donald Tusk) is the head of government and represents the multi-party coalition of centre-left forces that united after the October 2023 parliamentary elections. Following that vote, opposition groupings united to secure a majority in the Sejm and formed a cabinet. The Prime Minister is nominated by the President and must obtain a vote of confidence in the Sejm. The government coordinates the state administration, prepares the budget, conducts domestic and foreign policy, and proposes legislation that requires parliamentary approval.

The lower house of the parliament (Sejm) has 460 members that are elected for four-year terms in general elections. Parties enter the Sejm if they get more than 5% of votes (for coalitions the threshold is 8%). In the Polish electoral system, the method used to allocate seats in the Sejm is relatively more favourable for biggest parties. The upper house of parliament (Senat) consists of 100 members that are also elected for four-year term.

The next parliamentary elections are scheduled to take place no later than 11th November 2027.

Who is who and who thinks what in Polish politics?

Law and Justice (PiS) is a right wing and national conservative party which governed Poland from 2015 to 2023. At the European Union level, it is a member of the Eurosceptic European Conservatives and Reformists Party and domestically a member of United Right alliance.

The party stood behind controversial reforms of the judiciary system in Poland which triggered international criticism and led to a political dispute with European Commission. During its time in power, PiS embraced economic interventionism and after 2015 elections it gained popularity thanks to a generous programme of child benefits (the so-called 500+ programme, and later 800+), as well as lowering taxes for low-income households and introducing the “13th” and “14th” pension as permanent feature of the system. The party’s programme emphasized strong social spending, fighting corruption, and opposing quick euro adoption.

Although PiS lost power in the 2023 parliamentary elections, it remains the largest opposition force in parliament. The party continues to enjoy broad support in society, particularly in rural areas, smaller towns, and the eastern part of Poland. It also plays a significant role in shaping the political debate as the main challenger to the current government.

Civic Coalition (KO) is a centrist and pro-European political alliance that has been in power since winning the 2023 parliamentary elections. It governs in coalition with other parties but remains the leading force in the government. The alliance is led by Donald Tusk, who returned as prime minister following the elections. Since its formation in 2018, KO has positioned itself as the main pro-European alternative to Law and Justice (PiS). It is also linked to the European People’s Party (EPP) through its largest member, the Civic Platform.

As far as the foreign policy is concerned the Civic Coalition is in favour of Poland’s participation in the structures of the EU and in its view the EU membership, along with NATO membership, is the basic tool for realizing the interests of the state. Although the KO is considered as pro-EU, given the challenges faced by the euro area, the coalition’s leaders suggest Poland should not be in a hurry to adopt the common currency but reiterate a commitment to do it at some future point.

Polish People's Party (PSL) is an agrarian, centrist party, which is currently the third force in the Polish parliament and a member of the European People's Party. In the past PSL's economic programme included elimination of income tax on retirement benefits, higher minimum wage, investment in renewable energy sources. Since Poland joined EU, the party has supported strong European integration and expanding cooperation with the member states. Traditionally the party was mainly supported by farmers and rural voters, however, in recent years it has started to lose their support at the same time gaining voters in smaller cities. PSL joined forces with Poland 2050 party, but in June 2025 the party decided to leave the alliance and has since continued to run independently, while remaining part of the governing coalition.

Poland 2050 (Polska 2050) is a centrist party, established in 2021 as a result of social movement that was initiated by its leader Szymon Hołownia after he finished third in 2020 presidential election. Poland 2050 is considered a pro-European party and plans to promote closer cooperation with Germany and France (within so-called Weimer Triangle). Regarding its economic programme the party puts environmental issues as one of priorities and plans to achieve carbon neutrality by 2050. It also puts attention on fostering entrepreneurship, supporting Polish companies and Poland's participation in the global production chain. Ahead of 2023 election, Poland 2025 formed the Third Way coalition with the Polish People's Party (PSL), but in June 2025 PSL left the alliance, which effectively dissolved the joint project. Poland 2050 continues to operate independently while remaining part of the governing coalition.

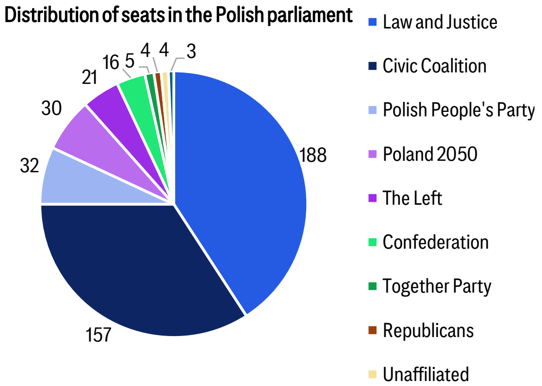
The Left (Lewica) is a left alliance in Poland, established ahead of the 2019 parliamentary elections. Its programme emphasizes a stronger role of the state in the economy, progressive taxation, higher minimum wage, investments in renewable energy, expanded public healthcare, and measures to promote gender equality as well as reproductive rights, such as liberalized abortion law. Initially composed of the New Left, Together Party, and smaller left-wing groups, the alliance experienced a split in the late 2024 when Together Party decided to leave the coalition and move into opposition.

Confederation (Konfederacja) is a far-right party with nationalist conservative, libertarian and eurosceptic views. It calls for "low and simple taxes", cutting VAT tax on energy, making social security contributions (ZUS) voluntary and wants to eliminate excise duty on petrol. In the 2025 presidential election, its leader Sławomir Mentzen came third in the first round with approximately 14.8% of the vote, marking the party's strongest performance to date and signalling a rising base of support.

Together Party (Razem) is a left-wing political party, founded in 2015. It positions itself as a progressive and social-democratic force, advocating for wealth redistribution, higher taxation of large corporations, stronger labour rights, and a generous welfare state. The party also supports liberal social policies, including gender equality, LGBT rights, secularism, and expanded public services such as healthcare and housing. Initially part of the Left alliance in parliament, Together Party decided in late 2024 to leave the coalition, forming its own independent parliamentary group while continuing to promote progressive policies.

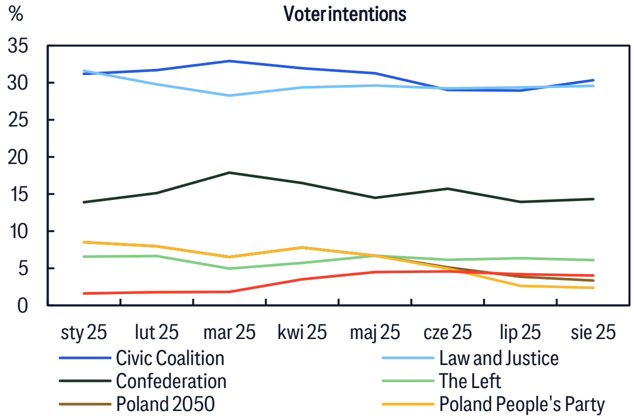
Confederation of the Polish Crown (Konfederacja Korony Polskiej) is a far-right political party in Poland, founded in 2019 by Grzegorz Braun. Initially part of the wider Confederation alliance, it was expelled in March 2025, following Braun's previous decision to run independently in the presidential election, against the bloc's official candidate. The party promotes a vision of Poland rooted in Catholic traditionalism and nationalism, calls for the symbolic enthronement of Christ as king of Poland, and strongly opposes abortion, LGBT rights, and European integration. Braun is also known for his criticism of NATO and Western institutions, combined with openly sympathetic statements towards Russia.

Figure 50. Parties present in the lower house of the parliament (Sejm) as of October 2025



Source: Sejm, Citi Handlowy

Figure 51. Trends in opinion polls



Source: ewybory.eu, Citi Handlowy

How the government is formed

The process of government formation in Poland can be long and split into several steps. The whole process begins with the first sitting of the new parliament that should take place no later than 30 days after elections. The President first nominates a new prime minister and then — within 14 days of the first sitting — appoints a PM and ministers. The head of the newly appointed government has another 14 days from his appointment to submit a programme of activity together with a motion requiring a vote of confidence. The Sejm (Lower House) shall pass such vote of confidence by an absolute majority of votes.

If unsuccessful, the second stage begins and the initiative is passed to the Parliament. The Lower House shall, within 14 days, choose a Prime Minister as well as members of the Council of Ministers, by an absolute majority of votes.

If this attempt also proves unsuccessful, the initiative returns to the President. Just like in the first stage, the President has 14 days to appoint a new Prime Minister. If within the next 14 days the Premier is unable to win a confidence vote (with an ordinary majority of votes), the President dissolves Parliament. All in all this means that the whole process to form a new government can take 1.5-2 months if the process is smooth or could take up to 3 months or more if the whole process is problematic.

Non-confidence votes

The Sejm can also pass a vote of no confidence for the Council of Ministers by the majority of votes. The motion has to be submitted by at least 46 Deputies and if passed the President shall accept the resignation and appoint a new Premier and Council of Ministers as chosen by the Sejm. Moreover, it can also pass a vote of no confidence for an individual minister. Such a motion needs to be submitted by at least 69 Deputies and if passed the President shall recall the minister.

The road to early elections

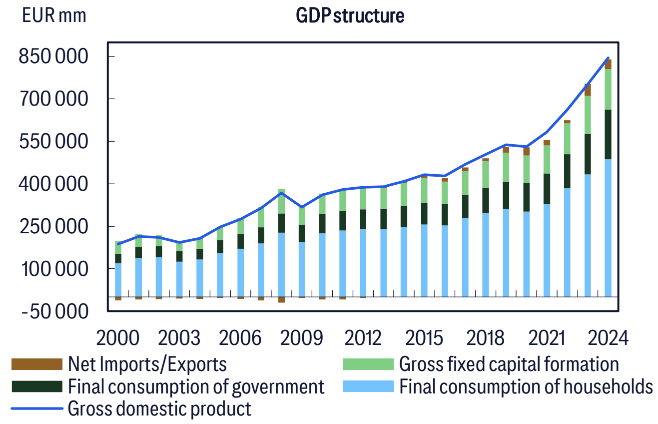
The Sejm may shorten its term by a resolution passed by a majority of at least two-thirds of the votes (i.e. 307 votes) of the statutory number of Deputies.

President may also order shortening of Sejm's term, after consultation with the Marshall of the Sejm and the Marshall of The Senate. However, he may do so only in certain instances specified in the Constitution. Currently there are two situations in which such a decision is allowed. Obligatory one, when as previously described, a vote of confidence in the "third step" of appointing a government is not obtained, and the optional one, in the case of a failure to approve the budget act within 4 months from the date of submitting its draft (usually the budget is submitted in September and the four months period ends by the end of January).

In such an event President shall simultaneously order elections to the Sejm and Senate, which have to take place within 45 days from the announcement of Parliament dissolution. Consequently, the first sitting of the newly elected Sejm shall be summoned no later than on the 15th day after the elections were held. Moreover, shortening of the term of office of the Sejm simultaneously means a shortening of the term of office of the Senate.

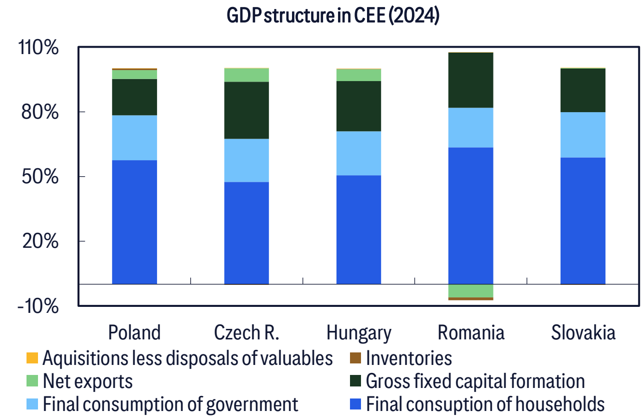
Appendix

Figure 52. GDP structure in Poland



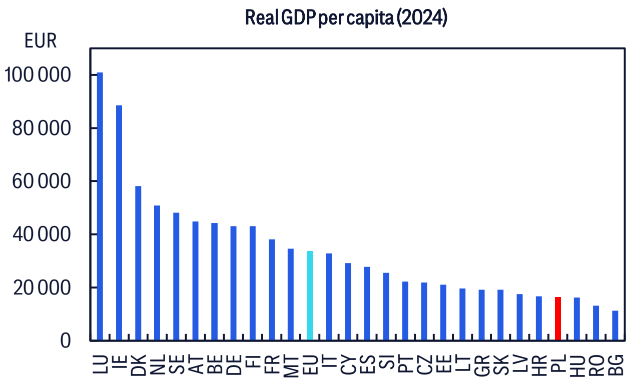
Source: Eurostat, Citi Handlowy

Figure 53. GDP structure in CEE



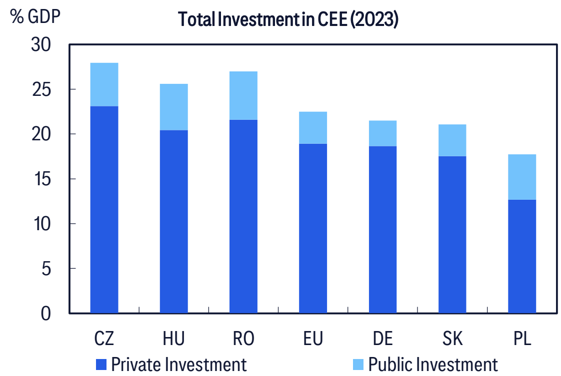
Source: Eurostat, Citi Handlowy

Figure 54. Despite Poland's robust GDP growth, its real GDP per capita is still one of the lowest among EU members



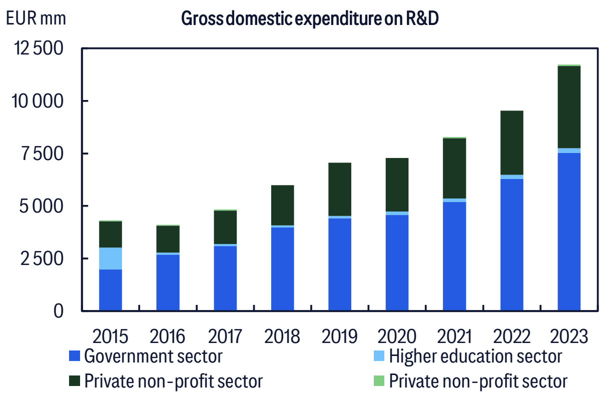
Source: Eurostat, Citi Handlowy

Figure 55. Total investment in CEE, EU and Germany



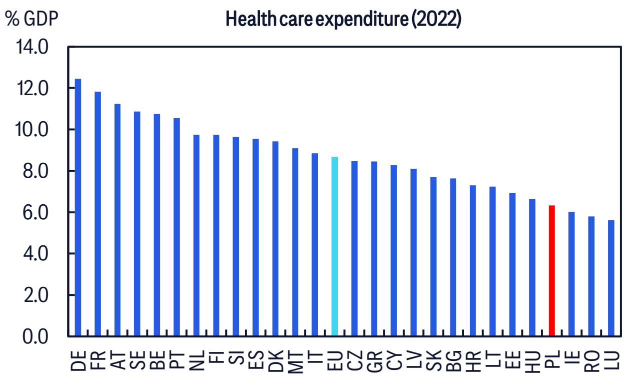
Source: Eurostat, Citi Handlowy

Figure 56. Expenditure on research and development in Poland



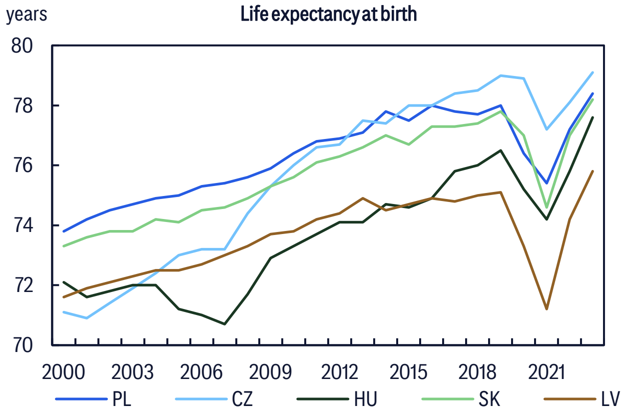
Source: Eurostat, Citi Handlowy

Figure 57. Health care expenditure in European Union



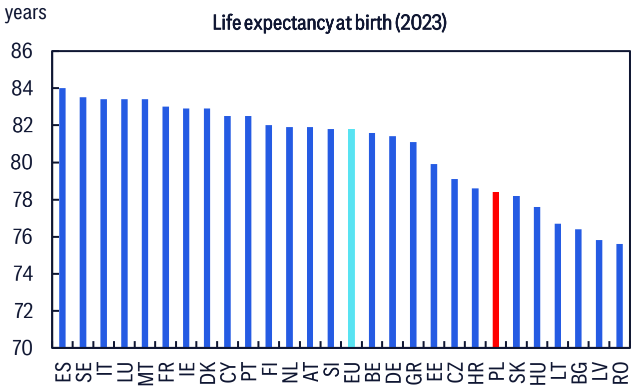
Source: Eurostat, Citi Handlowy

Figure 58. Change of life expectancy at birth in CEE countries



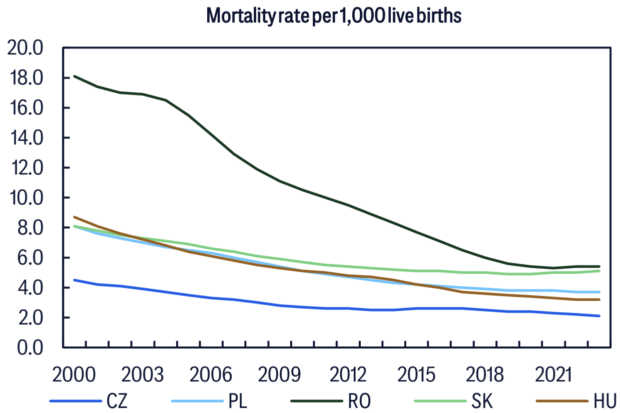
Source: Eurostat, Citi Handlowy

Figure 59. Life expectancy in EU countries



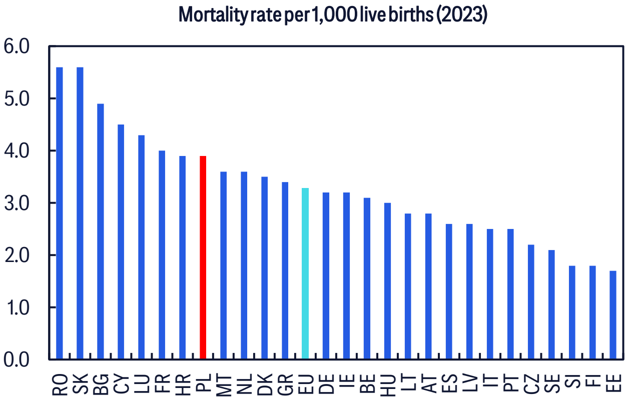
Source: Eurostat, Citi Handlowy

Figure 60. Mortality rate in CEE countries



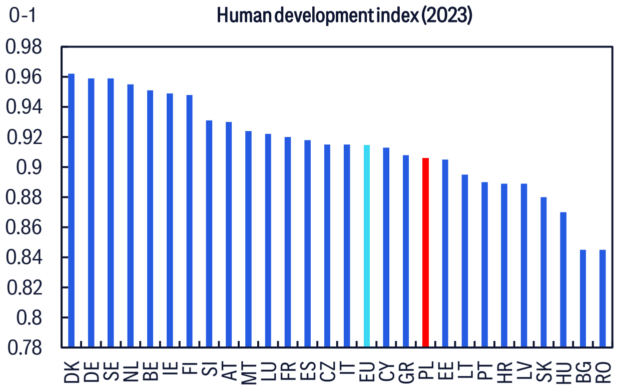
Source: Eurostat, Citi Handlowy

Figure 61. Mortality rate in EU countries



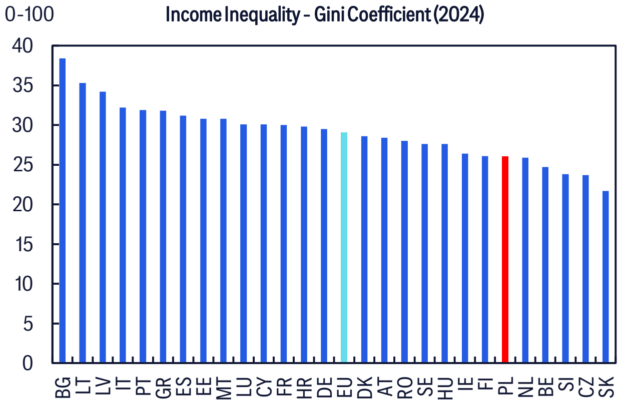
Source: Eurostat, Citi Handlowy

Figure 62. While Poland's HDI is over 0.9 (very high), it ranks behind most of its fellow EU members



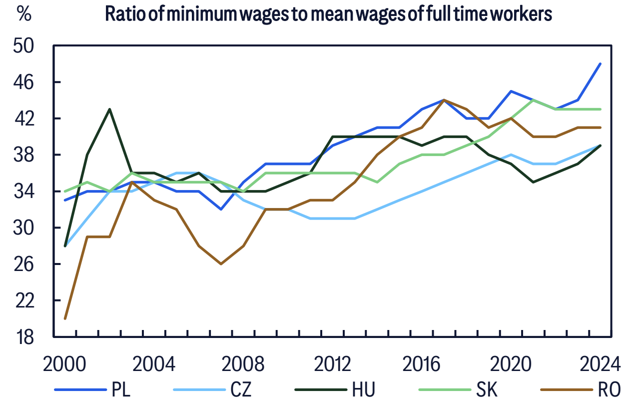
Source: ouworldindata.org, Citi Handlowy

Figure 63. Poland's income inequality is lower than the EU's average



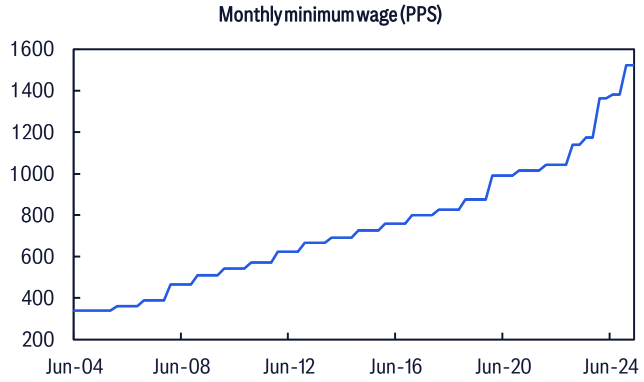
Source: Eurostat, Citi Handlowy

Figure 64. Poland's ratio of minimum wages to mean wages is on a stable upward trajectory



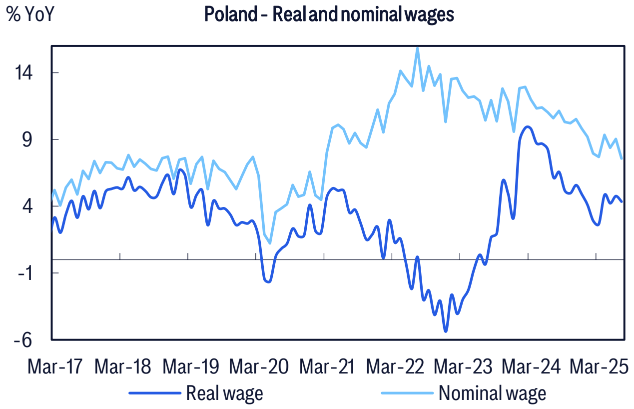
Source: World Bank, Citi Handlowy

Figure 65. Between 2020-2025, Poland's minimum wage increased by over 50% in PPS



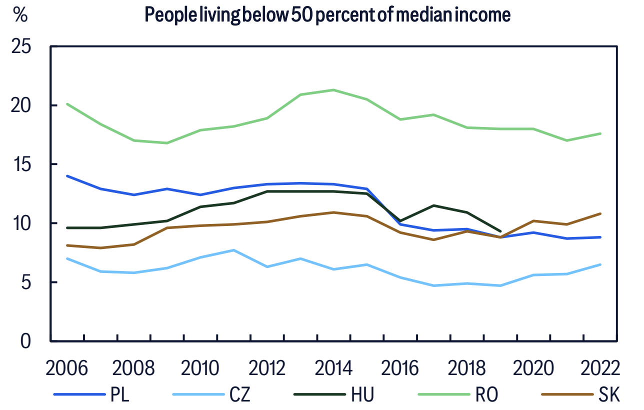
Source: Eurostat, Citi Handlowy

Figure 66. Except for the downturn during the COVID-19 crisis, Poland has experienced positive real wage growth



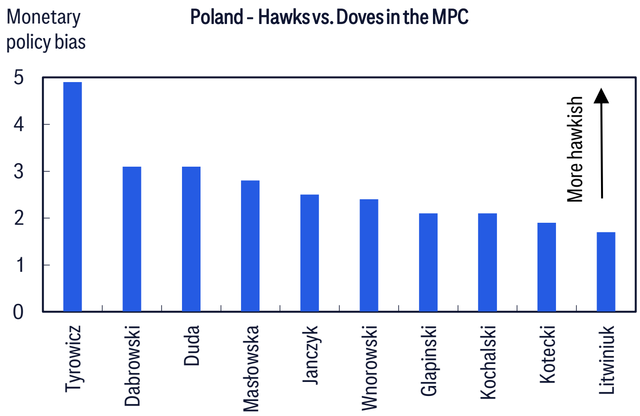
Source: GUS, Citi Handlowy

Figure 67. The proportion of Poles living in the relative poverty is slowly declining



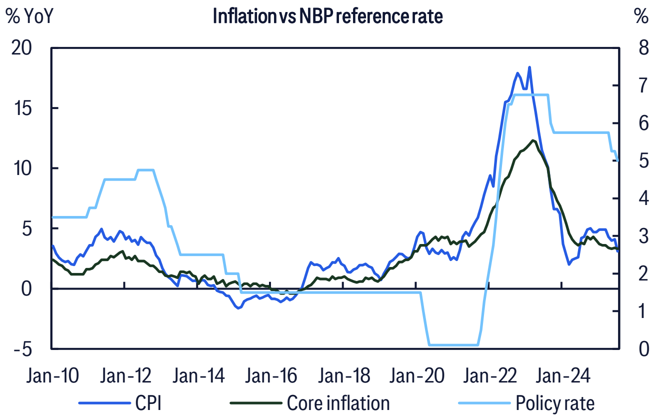
Source: World Bank, Citi Handlowy

Figure 68. Relative hawkishness of MPC members (based on PAP survey)



Source: PAP, Citi Handlowy

Figure 69. As of 2025, NBP rates remain elevated relative to the rate of inflation



Source: GUS, NBP, Citi Handlowy

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