Republic
of Poland

MEDIUM-TERM FISCAL-STRUCTURAL PLAN FOR THE YEARS 2025-2028

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The Polish Government presents for the first time the '**Medium-term fiscal-structural plan'** (hereinafter: Plan) defined by the reformed economic governance framework of the European Union this year. The Plan**, which is the fiscal strategy for 2025-2028**, is part of the **Polish financial recovery programme announced in the White Paper of Public Finances**[1]. The Plan focuses on **presenting a path to reduce the general government deficit and debt, while taking care to preserve growth and public investment**. At the same time, the scale and pace of fiscal consolidation is fully in line with all the requirements set out in the EU legislation[2] (hereafter: MTP Regulation) and European Commission guidelines[3].

The government's objective is to put the government debt on a declining path to below 60 % of GDP, and to reduce the nominal deficit to below 3% of GDP. The government's path for the reduction **of the nominal deficit will make it possible to put an end, within 4 years, to the excessive deficit, exit the** *Excessive Deficit Procedure* **(EDP) and bring the government debt below 60% of GDP**. Poland is currently confronted with rising interest expenditure as a consequence of the increase in debt. It results, on the one hand, from the effects of mitigating the economic and social consequences of the crisis caused by the pandemic, as well as the necessary safety nets linked to the increased inflation caused by Russia's invasion of Ukraine. On the other hand, from the high, highest among the EU and NATO countries, defence spending.

The development of a credible and growth-friendly consolidation strategy, by defining, in accordance with the MTP Regulation, the maximum expenditure path for the years covered by the Plan, required justified deviations from the expenditure path proposed by the European Commission (the so-called 'reference trajectory') which are permitted under the above-mentioned EU legislation. One of the main topics of the dialogue with the Commission since June was the divergences in the scale and pace of consolidation. Finally, the **average fiscal effort presented in the Plan** – improving the primary structural balance by **0.82% of GDP per year - is in line with the reference trajectory recommended by the European Commission**. However, unlike the linear consolidation path proposed by the Commission, the **Plan envisages using the possibility provided for in the EU legislation to spread the deficit reduction unevenly over the period covered by the Plan**. As a result, next year, consistent with the draft budget act for 2025, the primary structural deficit is projected to be reduced by 0.25% of GDP, followed by a correspondingly higher effort in the next 3 years of the Plan (on average just above 1% of GDP in 2026-2028). The scale of the required adjustment will be similar to the average effort made by Poland in previous EDPs.

Over the entire period of the Plan, pursuing fiscal consolidation while keeping public investment at historically high levels, including **national defence spending, will be an important challenge** in the context of the geopolitical situation**. While making a disproportionate contribution (taking into account our country's prosperity) to building Community security and preserving the integrity of the EU's borders, Poland will face a greater need to reduce its deficit.**

The Plan **also provides an overview of selected reforms and investments to deliver on the EU's common priorities**. They take into account the recommendations made by the Council of the EU to Poland during the European Semester. Reform and investment proposals were discussed with socio-economic partners, NGOs and other stakeholders in September.

[1] State of Polish Public Finances 2016-2023. White Paper.
[2] Regulation (EU) 2024/1263 of the European Parliament and of the Council on the effective coordination of economic policies and on multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97.
[3] The European Commission's guidelines of 21 June on information requirements for medium-term fiscal-structural plans.

INTRODUCTION

Following the interruption caused by the COVID-19 pandemic, the EU rules on the budgetary policies of the Member States of the European Union, which require that the headline general government deficits are no higher than 3% of GDP and that government debt is not higher than 60 % of GDP, are again in place since 2024. In view of the excessive deficit identified by the EU Council in July this year[4], Poland will receive recommendations from the Council of the EU in the coming months on the deadline and how to put an end to it.

At the same time, under EU rules in force since April, Member States should submit every 4 years to the Council of the EU and the European Commission and publish medium-term fiscal-structural plans. Most countries, including Poland, agreed with the European Commission to submit this document by 15 October.

The Plan has been drawn up on the basis of EU legislation[5] and the European Commission's guidelines[6]. It uses the draft budget act for 2025 and the information available until 30 September (unless otherwise stated). The Council of Ministers adopted the Plan on 8 October.

The most important element of the Plan is the expenditure path until 2028, which should ensure that the general government deficit and debt comply with EU rules in the medium term. EU legislation[7] (hereinafter: the EDP Regulation) allows, unlike before 2024, to spread the correction of the excessive deficit over a period of 4 to 7 years. The government's objective is to put debt on a gradual reduction path (target below 60% of GDP) and reduce the headline deficit to below 3 % of GDP in 2028, restoring confidence in fiscal policy. The need to pursue high defence spending while reducing the excessive deficit while preserving economic growth and public investment will be an important challenge throughout the Plan.

The projections and simulations of the government debt developments presented in Chapters I to II (the budgetary part of the Plan) confirm that, once the excessive deficit has been brought to an end and on a no-policy-change basis, the government debt will gradually decline to below 60% of GDP.

If the Plan's expenditure path is positively assessed by the European Commission, it will be recommended to Poland by the Council of the EU in the excessive deficit procedure and become binding on further draft budget acts.

Chapter III (the structural part of the Plan) provides an overview of selected reforms and investments to address common EU priorities. They take into account the recommendations made by the Council of the EU to Poland during the European Semester. The reforms and investments presented in the Plan are consistent and complementary with cohesion policy funds and the National Recovery and Resilience Plan (NRRP).

The MTP Regulation (Article 36 point1 letter c) does not require public consultation in the run-up to the preparation of the first national medium-term fiscal-structural plans. The time pressure accompanying the preparation of the first Polish Plan meant that its draft could not be subject to this consultation. There was also no discussion in Parliament. However, reform and investment proposals were discussed, in September 2024, with the social partners and civil society representatives participating in the work of the European Semester Group. Before submitting the second and next national medium-term fiscal-structural plans to the EU institutions, the Government will be required to consult the social partners, regional authorities, civil society

[4] The Council Decision 2024/2133 of 26 July 2024 on the existence of an excessive deficit in Poland.
[5] As footnote 2.
[6] Cf. footnote 3
[7] The Council Regulation 2024/1264 of 29 April 2024 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure (hereinafter referred to as the EDP Regulation).

organisations and other relevant national stakeholders, in accordance with the national legal framework.

Unlike the budget act, the Plan is not one-year but multi-annual. Its implementation will take place through the implementation of relevant actions in any subsequent budget law until 2028. Once the Council of the EU has endorsed the medium-term expenditure path, each year an annual progress report will be published by 30 April. It will present, inter alia, progress in the implementation of the expenditure path set by the Council in its recommendation and update on measures to support compliance with the path, in particular those contained in the budget act. The report will also include information on Poland's implementation of the EU country-specific recommendations and common EU priorities. The report could include important new policy initiatives, in particular in the area of reforms and investment. The first report will be published in April 2025.

I. NET EXPENDITURE PATH 2025-2028

Net expenditure path as the main tool for budgetary surveillance in the EU

According to the MTP Regulation, the medium-term fiscal-structural plan includes a net expenditure path as well as underlying macroeconomic assumptions and planned fiscal-structural measures to demonstrate compliance with EU fiscal rules. The net expenditure path is the most important element of the plan and determines the growth rate of the general government expenditure over the plan horizon. It is assessed by the European Commission and the final expenditure path is approved by the ECOFIN Council.

Box 1. Net expenditure and reference trajectory in the new EU legislation

Net expenditure is general government expenditure less:

— debt service costs,

— the level of measures implemented by the government and impacted in the year in question, which have a lasting increase in the level of the general government revenue (so-called discretionary revenue measures),

— expenditure on programmes of the Union fully matched by revenue from Union funds,

— national expenditure on co-financing of programmes funded by the Union,

— cyclical expenditure on unemployment, and

— one-off and temporary expenditure (having an incidental and non-permanent impact on the general government expenditure, so-called one-off expenditure).

The net expenditure path presented in the medium-term fiscal-structural plans is developed after receiving the so-called expenditure reference trajectory, which the European Commission transmits to each Member State with general government debt above 60% of GDP or a nominal deficit above 3% of GDP. The reference trajectory shall include an adjustment period of 4 years (and its possible extension by up to 3 years). It is risk-based and country-specific, ensuring that:

(a) until the end of the adjustment period, assuming no further government action, the projected debt ratio is brought to a downward path or is likely to remain on a prudent path below 60% of GDP over the medium term (i.e. within 10 years after the end of the plan);

(b) the projected deficit will be brought below 3% of GDP over the adjustment period and kept below it over the medium term (i.e. 10 years after the end of the plan), assuming no further government action;

(c) the deficit or debt reduction effort (other fiscal effort) over the plan period is, as a rule, linear;

(c) where applicable, consistency with the expenditure adjustment path recommended by the Council of the EU to countries subject to an excessive deficit procedure has been maintained.

The net expenditure path over the years of the plan is determined by the *debt sustainability analysis* (hereinafter: DSA) as described in the latest edition of the *Debt Sustainability Monitor*[8]. The European Commission's debt sustainability analysis model determines the fiscal effort in terms of the primary structural balance (i.e. the impact of the cycle and the cost of debt service

[8] Debt Sustainability Monitor 2023, Institutional Paper 271, March 2024, Brussels.

are subtracted), which translates into a binding growth rate of net primary expenditure according to the formula below:

$$\textbf{Nominal net primary expenditure growth}_t = \textbf{potential GDP growth}_t + \textbf{GDP deflator}_t - \frac{\textbf{change in structural primary balance}_t}{\textbf{share of primary expenditure in GDP}_{2024}}$$

Source: Ministry of Finance.

The annual surveillance of EU countries' public finances will be based solely on an assessment of compliance with the net expenditure path recommended by the Council of the EU. To this end, Member States will report to the European Commission by the end of April each year, inter alia, on their progress in meeting the pace of expenditure growth recommended by the Council of the EU in the previous year. The European Commission will record in the control account observed deviations (up and down) from the path recommended by the ECOFIN Council in the subsequent years of the plan. The level of these deviations will be taken into account by the European Commission and ECOFIN when taking actions and decisions in the surveillance of the country's budgetary situation.

Net expenditure path in the Plan

The net expenditure path in the Plan was developed after an analysis of the reference expenditure trajectory, which the European Commission forwarded to Poland on 21 June. The European Commission has based the reference trajectory on its May 2024 forecast and data available until April this year.

The net expenditure path in the Plan was prepared on the basis of macroeconomic assumptions, which were the subject of discussions between the Ministry of Finance and the European Commission in the so-called technical dialogue. The intention of the Ministry of Finance was to maintain consistency between the first year of the Plan and the draft budget act for 2025 and to use as many assumptions as possible from the Ministry of Finance's official forecasts over the 2025-2028 horizon reflecting national specificities. As the Plan was drawn up on the basis of information available until 30 September, the starting point for fiscal positions and other macroeconomic variables has changed from the European Commission's assumptions.

The net expenditure path outlined in the Plan ensures that the general government deficit is reduced below 3% of GDP and that debt is kept at a prudent level in the medium term, which is in line with the draft recommendation for Poland proposed by the European Commission in June[9]. The assumed average fiscal effort – improving the primary structural balance by 0.82% of GDP per year – is in line with the European Commission's recommendation in the reference trajectory, but is differently spread over time. The increase in net expenditure in 2025 is in line with the assumptions of the draft budget act for 2025 (which is below what would be implied by the formula in Box 1, while the average rate of net expenditure growth in the Plan, i.e. over the period 2025-2028, corresponds to the recommended 4.5% from the European Commission's reference trajectory).

[9] Draft Council Recommendation for Poland published by the European Commission on 19.6.2024

When drawing up their plans, countries may use their own assumptions, in particular forecasts of macroeconomic indicators, and deviate from the objective of linear deficit reduction. In accordance with Article 13 letter c of the MTP Regulation, the economic arguments explaining this difference are set out below.

Table 1. Net expenditure paths

Commitments		2024	2025	2026	2027	2028
Net nationally financed primary expenditure	(growth rate)	12.5	6.3	4.4	4.0	3.5
	(cumulative growth rate)	12.5	19.6	24.9	29.9	34.4

Source: Ministry of Finance.

The Plan's fiscal effort, i.e. an annual average improvement in the primary structural balance of 0.82% of GDP, ensures a reduction in the nominal deficit from the projected 5.5% of GDP in 2025 to 2.9% of GDP in 2028. The reduction of the excessive deficit will lead to a primary structural surplus of 0.4% of GDP in 2028.

After increasing from 2.3% of GDP to 2.6% of GDP in 2025, interest expenditure will stabilise between 2.5% and 2.6% of GDP in the following years of the Plan. The cyclical element of the budget will increase over the Plan horizon from 0.3% of GDP to 0.8% of GDP due to the impact of the deficit reduction on GDP growth through the multiplier effect.

This scenario ensures deficit reduction below 3% and debt sustainability in the medium term.

Table 2. Main variables

% of GDP	2023	2024	2025	2026	2027	2028
Net lending/borrowing	-5.1	-5.7	-5.5	-4.5	-3.7	-2.9
Structural balance	-4.5	-5.1	-5.2	-4.1	-3.1	-2.1
Structural primary balance	-2.5	-2.9	-2.6	-1.5	-0.5	0.4
Gross debt	49.6	54.6	58.4	60.9	61.3	61.2
Change in gross debt	0.4	5.0	3.8	2.5	0.4	-0.1

Source: Ministry of Finance.

I.1. Macroeconomic assumptions

Macroeconomic scenario

The macroeconomic scenario for 2024-2025 presented in the Plan is consistent with that of the draft budget act for 2025. For the period 2026-2028, the technical assumptions necessary to ensure the consistency of the estimates of the Ministry of Finance and the European Commission's reference trajectory have been introduced, which are further discussed later in the Plan.

Last year, the Polish economy experienced a slowdown in economic growth and GDP grew by 0.2% in real terms. This year and the next year, a strong economic recovery is expected and GDP is expected to grow by 3.1% and 3.9% respectively in 2024 and 2025. The prospects of the Polish economy, like most EU countries, are subject to uncertainty as regards both the impact and possible escalation of the war in Ukraine, the evolution of energy prices and, as a result, inflation and the situation in Poland's main export markets, including Germany in particular.

Given the need, on the one hand, to use in the DSA simulations estimates of potential output consistent with those resulting from the EUCAM methodology and, on the other hand, to

maintain consistency between potential and real output levels, it is technically assumed that GDP growth is close to that of the European Commission's forecast for the period 2026-2028. In this scenario, due to the low baseline for GDP growth and the multiplier effects of fiscal consolidation, GDP growth slows down to 1.2% in 2028.

The largest component of aggregate demand is private consumption, which is expected to grow markedly by 4.2% in 2024. As the economic situation improves and wages rise, increases in public sector wages, the adjustment of the '500+' benefit to PLN 800, increases in the minimum wage and other fiscal policy instruments applied, households' disposable income is growing markedly, which translates into both an increase in consumption and an increase in savings. Public consumption will also increase markedly by 7.0% in 2024, driven by an increase in public sector compensation of employees and an increase in health spending. The increase in defence spending, the implementation of projects from the RRP and other key public investments will contribute to the increase in total investment. On the other hand, persistent geopolitical uncertainty and the effect of positive real interest rates (high cost of capital) hamper private investment growth this year. As a result, total investment will increase by 0.4% in 2024. As EU economies remain weak, exports will grow by 2.5% in 2024. Import dynamics, determined by changes in domestic demand and exports, will increase by 4.0%. As a result, the contribution of net exports to GDP growth in 2024 will be -0.7 percentage points.

Consumer goods and services price dynamics will stand at 3.7% in 2024, compared to 10.9% in 2023. After markedly declining inflation in the first half of this year, inflation is expected to increase in the second half of the year, driven by the partial unfreezing of energy prices for households. Based on the published communications of the Energy Regulatory Office, presented scenario takes into account an increase in the price of electricity for final customers by around 25% and gas prices by around 20%. As the change takes place in the middle of the year, the impact on inflation on an annual basis is spread over two years, i.e. around 0.6 percentage points in 2024 and 2025, without taking into account any further increases in tariffs in 2025. Consumer inflation will amount to 5.0% on average in the following year. In addition to the statistical base effect, the main factors contributing to the rise in annual average inflation will be further increases in regulated energy prices. In 2025, the scenario assumes a 15% increase in regulated tariffs for consumers, with an impact on inflation in 2025 of 1.1 percentage points. However, uncertainty about energy price projections remains high and depends on potential economic policy measures.

Similar to consumer inflation, the GDP deflator will decline to 3.6% in 2024 and 5.0% in 2025. Among the components of the GDP deflator, gross fixed capital formation will see lower dynamics this year (due to falling import prices and low output price dynamics), while the public consumption deflator will reach higher levels. The presented scenario is similar to the latest projection of the National Bank of Poland (July 2024). In the reference trajectory, which was based on the European Commission's May forecast, GDP deflators for Poland for 2024-2025 were 4.5% and 4.2% respectively, reaching a cumulative two-year value close to the scenario presented. The transfer between years is due to the inclusion of the most recent historical data on the evolution of inflationary processes in the first half of 2024 and more knowledge about the assumptions. Between 2026 and 2028, the GDP deflator converges linearly to the European Commission's reference trajectory, i.e. 4% in 2028.

Unemployment in Poland remains historically low and there is no indication to changes in this trend. The LFS unemployment rate will decrease to 2.7% on average in 2024, compared to 2.8% on average in 2023. While the number of employed people will decrease by 0.2%, this will mainly be due to a decline in labour supply due to demographic reasons (ageing of the population and negative net migration). Labour costs per person employed in 2024 will increase markedly by 10.5%. In the following years of the Plan, the labour costs per employee will be in the range of 5.6-6.7%.

For exchange rates, a technical assumption was made to stabilise exchange rates in the third and fourth quarters of the current year at EUR/PLN 4.29 and USD/PLN 3.95 (average exchange rates for two weeks from 22/07/2024 to 02/08/2024). Oil prices were adopted on the basis of futures contracts from July 2024. The European Union and global growth assumptions are in line with the European Commission's Spring Forecast from May this year.

The assumptions of the macroeconomic scenario for interest rates are discussed later in the chapter.

Fiscal multipliers

The fiscal multipliers set for the Plan were obtained by simulation of two scenarios using the macroeconomic NEMPF model.

The NEMPF model[10] is a macro-econometric hybrid model of the Polish economy, whose long-term properties are in line with the indications of theoretical models, and the short-term properties (particularly relevant in the context of one-year fiscal multipliers) of the model are estimated on the basis of empirical data and error correction mechanisms, mirroring the historical relationships between macro-fiscal variables. Thus, the estimated short-term multipliers reflect the historical dependencies of the main macroeconomic categories (between macro-fiscal variables) typical of the Polish economy. The NEMPF model is based on quarterly data and consists of 267 equations, with a specific feature of an extensive fiscal sector with a full disaggregation of the expenditure and income sides, allowing multipliers to be set for each fiscal variable. For the estimation of model equations, quarterly time series from the first quarter of 1995 or the first available observation for a given variable has been used. The end of the estimation sample is the fourth quarter of 2022.

Simulation analyses show that the fiscal multipliers in the Polish economy are lower than the 0.75 technically assumed by the European Commission in the DSA simulations for all EU countries. This is not surprising. Economic literature is dominated by studies showing that the values of fiscal multipliers vary across countries. Favero et al. (2011)[11] indicate that in the panel studies to estimate the value of a single common multiplier for all countries considered, they implicitly assume that countries are similar in terms of tax rules, their compliance, the way in which financial markets operate in relation to public debt, social programmes and labour market flexibility, which is an excessive simplification.

The main differences between the Polish economy and other EU countries, which may determine the different values of fiscal multipliers, can be identified at several levels. First, fiscal policy is more effective with the binding zero lower bound for interest rates Christiano et al. (2011)[12]. Interest rates in Poland are higher than in most other EU countries, so multipliers may be lower. Secondly, the value of the multipliers is also influenced by the exchange rate regime – countries with fixed exchange rates (like the euro area) have higher fiscal multipliers than countries with floating exchange rates, such as Poland (e.g. Sheremirov and Spirovska 2022[13]). Third, the use of the country's trade volumes with the US in regressions (Carnot and de Castro 2015)[14] may not

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[10] New Econometric Model of Public Finance.

[11] Favero, C., Giavazzi, F., Perego, J. (2011). *Country heterogeneity and International Evidence on the Effects of Fiscal Policy*. Working Paper No 17272, National Bureau of Economic Research.

[12] Christiano, L., Eichenbaum, M., & Rebelo, S. (2011). *When is the government spending multiplier large?* Journal of Political Economy, 119(1), 78-121.

[13] Sheremirov, V., & Spirovska, S. (2022). *Fiscal multipliers in advanced and developing countries: Evidence from military spending*. Journal of Public Economics, 208, 104631.

[14] Carnot, N., & De Castro, F. (2015). *The discretionary fiscal effort: an assessment of fiscal policy and its output effect*. Hacienda Pública Española, (215), 63.

well reflect Poland's international links due to the low share of the US in Poland's total imports and exports (much lower than in other EU countries).

A detailed overview of the empirical studies of multipliers in Chapter 12 of the *Post-crisis fiscal policy* book, edited by C. Cottarelli, P. Gerson and A. Senhadji (2014)[15], shows that the values of the multipliers vary greatly and depend on many factors. Multipliers in good times are lower than in bad times and revenue multipliers are generally lower than expenditure multipliers. In particular, the multiplier of indirect taxes in the compiled empirical studies oscillates between 0.1-0.3. The multiplier for direct taxes is of a similar magnitude.

For studies for the Polish economy, the most recent comprehensive results are included in Haug, Jędrzejowicz and Sznajderska (2019)[16]. The results, estimated on the sample from 1998 to 2013, indicate that the short-term multiplier for government expenditure is 0.70 and the tax multiplier is close to zero. The authors also stress that their expenditure multiplier is higher than the ones estimated in previous studies for Poland because the impact of fiscal and monetary policy developments is taken into account in the study together. In an older OECD study (2009)[17], where a standardised methodology for calculating fiscal multipliers was applied, in the case of Poland, fiscal multipliers were relatively small compared to other countries. The reference values for fiscal multipliers for government consumption were estimated at 0.4-0.5 and for public investment at 0.8-1.0. By contrast, the multipliers for tax cuts were lower, ranging from 0.2-0.3 for income taxes and 0.1-0.2 for indirect taxes. In another study, Krajewski and Piłat (2024)[18] estimated the expenditure multipliers of Polish voivodships at 0.17-0.55. The fiscal multipliers obtained from the NEMPF model are therefore in line with those obtained in other empirical studies on the Polish economy.

The effective consolidation multipliers used in the Plan were calculated using the following assumptions. The first (baseline) scenario is the one which, for 2025, takes into account the deficit-reducing measures included in the draft budget act for 2025 and assumes no fiscal policy change for 2026-2028. 2025 in both scenarios remains in line with the scenario presented in the draft budget act 2025, as the measures for 2025, and in particular the consolidation structure, are already established. In the second scenario, the consolidation scenario, changes on the revenue and expenditure side between 2026 and 2028 were introduced into the NEMPF model as a disturbance to the different fiscal variables of the assumed consolidation, and the model (i.e. the whole macro-fiscal system) was subsequently resolved again.

Table 3. Calculation of fiscal multipliers used in the Plan

		2026	2027	2028
1	Real GDP growth rate – baseline scenario without fiscal consolidation	3.845	3.570	3.291
2	Real GDP growth rate – consolidation scenario (draft budget act 2025)	3.468	3.082	2.763
3	Difference (1-2)	0.377	0.488	0.528
4	Annual change in the structural primary balance (% of GDP)	0.840	0.980	1.000
5	Fiscal multiplier (3:4)	0.449	0.498	0.528

* – estimates of the structural primary result come from the draft budget act for 2025. The Plan uses the same fiscal multipliers due to the assumed unchanged composition of the consolidation. The changes to the original structural result are due to the technical assumptions described in Chapter II in the DSA simulations.

Source: Ministry of Finance.

[15] Cottarelli, C., Gerson, P., & Senhadji, A. (eds.). (2014). *Post-crisis fiscal policy*. MIT Press.
[16] Haug, A. A., Jędrzejowicz, T., & Sznajderska, A. (2019). *Monetary and fiscal policy transmission in Poland*. Economic Modelling, 79, 15-27.
[17] OECD (2009). The effectiveness and scope of fiscal stimulus. OECD Economic Outlook, 105-150.
[18] Krajewski, P., & Piłat, K. (2024). Regional heterogeneity of government expenditure multipliers in Poland. Regional Barometer of Analysis and Forecasts, 20(1), 7-16.

Table 4. Composition of consolidation (% of GDP)

	Income side	2026	2027	2028
1a.	VAT	0.04	0.00	-0.01
1b.	Excise duties	0.14	0.13	0.08
1c.	PIT	0.24	0.24	0.24
1d.	CIT	–	0.05	0.00
	Expenditure side	**2026**	**2027**	**2028**
2a.	Social security benefits	0.10	0.10	0.10
2b.	Public consumption (intermediate consumption of the general government)	0.20	0.20	0.20
2c.	Other current expenditure	0.12	0.12	0.10
	Other effects			
3.	Dynamic effects, interactions between variables*	–	0.14	0.29
	TOTAL**	0.84	0.98	1.00

*The NEMPF model is dynamic, so changes in fiscal policy in a given year translate into GDP developments in subsequent years and the effects of deficit reduction are further overlapping.

** – cf. footnote below Table 3.

Source: Ministry of Finance.

The differences in the two GDP growth paths and the annual change in the structural primary balance stemming from the adopted deficit reduction formula allow for an annual fiscal multiplier for 2026-2028. The results of these simulations are presented in Table 3 and the consolidation form assumed in the consolidation scenario is presented in Table 4.

Deficit reduction on the expenditure side is imposed by the working of the stabilising expenditure rule (SER, cf. Box 2), which sets the maximum cap level of planned expenditure of the entities and bodies concerned. However, it does not define its structure. Therefore, the consolidation structure presented in Table 4 concerns transactions that do not require discretionary legislative action, i.e. changes to existing legislation. The level of aggregation of the transactions presented is determined by the specification of the equations of the model used. A more detailed disaggregation of the categories of expenditure presented in Table 4 will be possible when the draft budget acts are drawn up for the following years, i.e. in the budgetary process.

The scenario takes into account the indicative revenue-side measures in 2026-2028, presented in Table 9 and discussed later in Chapter I.2. At the same time, in line with the Government's priorities, it is not envisaged to reduce public investment (an essential element of the country's development strategy) and social transfers in kind (the category mainly includes health services, for which an increase in public funding is guaranteed by the relevant Act), with the highest values of multipliers.

Table 5. Fiscal multipliers

Components of the revenue and expenditure of the general government	One-year fiscal multiplier in real terms
Total revenue	**-0.471**
of which:	
VAT	-0.504
Excise duties	-0.260
PIT	-0.705
CIT*	0.023
Social contributions	-0.418
Total Expenditure	**0.788**
of which:	
investments	1.493
intermediate consumption	1.381
salaries	1.394
social transfers in kind	1.869
social security benefits	0.503
social assistance benefits	0.474
grants and subsidies	0.639

* The variable affects GDP with a one-year delay, in the second year the multiplier is -0.261.

Source: Ministry of Finance.

The planned deficit reduction concerns to a large extent the revenue side, and in particular indirect taxes, which have lower fiscal multipliers than those on the expenditure side (cf. previously cited Cottarelli literature review, 2014 or Haug et al., 2019). Table 5 shows the values of one-year fiscal multipliers, understood as the annual change in real GDP relative to the unit change of individual fiscal aggregates, for the main components of the general government revenue and expenditure as estimated in the NEMPF model. For example, the estimates of the multipliers for excise duty and VAT in the NEMPF model are -0.260 and -0.504 respectively. The increase in indirect taxes, in line with the structure of the model, leads to an increase in the GDP deflator, which then affects other price variables (including core inflation). The increase in consumer prices is accompanied by a moderate increase in labour costs, which ultimately translates into a fall in real wages. The fall in real wages triggers negative spill-over effects on household incomes and individual consumption. However, the scale of this effect in the short term is clearly limited, especially in the case of an increase in excise duty, which affects most of the goods with low (short-term) price elasticity of consumption.

It should be borne in mind that the fiscal multipliers obtained in the simulations (Table 3) cannot be replicated as a weighted average of the multipliers of the different categories of expenditure and revenue presented in Table 4 due to the interaction between the variables in the NEMPF model and its dynamic nature.

1. The design of the NEMPF model replicates feedback loops (simultaneous) between the main macroeconomic categories. The scenario analysis presented above is therefore carried out taking into account the presence in the Polish economy of (i) the consumption multiplier, (ii) the fiscal multiplier, (iii) the output-investment accelerator, (iv) the wage-price spiral (inflation loop) and (v) the pass-through effect linking domestic prices to foreign prices and (vi) the interdependence between the current account balance and the real exchange rate. The design of the model and thus the simulation results obtained take into account the simultaneity of the above six mechanisms. This feature of the NEMPF model provides the highest achievable

estimate of fiscal multipliers. At the same time, the NEMPF model has a superior level of detail of the description of the general government in comparison to the vast majority of mainstream macro-models constructed for other economies.

2. The values of the structural parameters determining the ownership of feedback loops (i)-(vi) take into account the differences between long-term and short-term economic processes. The long-term model structure takes into account the dominant role of supply mechanisms. In a shorter period, the ownership of the model is co-determined by demand-side mechanisms, which may deviate from their long-term trajectories. The objective nature of the results obtained using the NEMPF model is determined by the fact that the values of the long-term parameters are set at the levels implied by the theoretical models.

3. Estimates of short-term parameters and parameters measuring the speed of short-term adjustment of macroeconomic variables to their long-term equilibrium paths were obtained using co-integration analysis methods. The stochastic equations of the NEMPF model present the most likely structure of short-term relationships while ensuring that the structure is consistent with the predictions of theoretical models. In addition, the short-term equations best replicate the dynamic dependencies (time delays) observed in the Polish economy. This property of the model allows a detailed analysis of the time lag between fiscal policy developments and their macroeconomic impact.

Potential product

The estimates of the potential output of the Ministry of Finance are based on the common methodology of the European Union (EUCAM), with adjustments to ensure consistency with the NEMPF model. The production function approach is used, i.e. potential GDP is calculated on the basis of the trends of the different components. Trends are calculated on the basis of the macroeconomic and demographic forecasts of the Ministry of Finance. The output gap is closed 3 years after the forecast horizon (in line with the EUCAM).

Article 36 point 1 letter f of the MTP Regulation sets out the possibility of deviations from the use of potential output estimates from the EUCAM methodology in the macroeconomic scenario prepared for the Plan. These cases should be economically justified and broadly in line with the estimates with the EUCAM (i.e. the European Commission's estimates from the spring forecast, hereinafter SF2024) in terms of the cumulative growth over the projection horizon. Article 36 point 1 letter f also requires that in case of deviation from the assumptions communicated to the Member State in the reference trajectory, the estimates of potential output should be more stable than those of the European Commission.

Direct inclusion of potential output from SF2024 in the Ministry of Finance forecast was not possible due to the large difference in estimates over the Plan and the DSA projection (T+14) horizons. The estimates from the EUCAM do not reflect the specificity of the Polish economy (a catching country that has experienced a huge influx of migrants in recent years). This problem has been repeatedly raised in various EU fora. At the meeting of the Potential Output Working Group (POWG) in September 2024, it was established that temporary shocks such as the COVID-19 pandemic, the energy shock and the significant influx of refugees from Ukraine to many EU countries could disrupt the proper functioning of the EUCAM methodology. The issue of the impact of migration on productivity was added to the work agenda of the working group for the coming months, as confirmed by the Economic Policy Committee (EPC), but this issue remained unresolved at the time of the submission of the Plan. Therefore, for the purposes of the Plan, projections of potential output based on estimates of the Ministry of Finance in the short term have been prepared in order to be consistent with the draft budget act for 2025, ensuring that they are consistent with the European Commission's estimates in the longer term.

The estimates of potential output up to 2025 come from the above-mentioned baseline scenario of no fiscal consolidation from 2026 onwards. In the following years, there is a gradual shift from the Ministry of Finance's estimates to the European Commission's estimates (2/3 of the difference between the previous year's estimates every year). In 2033 (T+10, the last year of the EUCAM forecast), the estimates will be equal and potential GDP dynamics in the following years are the same as those of the European Commission. This approach ensures that the path of potential GDP dynamics is maximally smooth, while adequately reflecting the characteristics of the Polish economy in 2024-2025.

Potential GDP growth is between 3.2% and 3.3% per year by 2025. Potential output dynamics in 2025 are higher than in the reference trajectory, due to the projected economic acceleration next year and the planned keeping of public investment expenditure at record highs. In 2023 and 2024, the main drivers of potential growth are capital and total factor productivity (TFP) in roughly equal proportions. The contribution of the labour factor is close to zero due to the persistence of a very good labour market situation with negative demographic developments at the same time. However, taking into account the latest update of the EUROPOP2023 demographic projection (in particular, migration balances, which currently assume significantly lower outflows from Poland in 2025-2033), the projected number of people of working age and consequently labour supply is increasing, meaning that the labour contribution and potential GDP may be currently underestimated. In the following years, potential output growth will decelerate markedly (to 1.6% in 2028), which is a technical assumption necessary to ensure consistency with the European Commission's estimates.

Both in the last two years and throughout the Plan horizon, real GDP will be below potential GDP (output gap in 2024 -1.2%). In 2025, the output gap will narrow to -0.7% (including due to the projected acceleration of economic growth), but it will increase markedly from next year due to a much higher degree of fiscal consolidation. The output gap closes in 3 years after the completion of the adjustment (2029-2031), as envisaged by the DSA.

Interest rates

The forecast of interest rates over the Plan horizon deviates from the DSA assumptions underpinning the reference trajectory of June this year, due to changed market conditions and a disinflationary environment. The European Commission's assumptions for interest rates for 2024 and 2025 are based on the WIBOR3M and the 10-year bond forward rates of April. The forecast for the following years consists of a linear convergence to the quotations of the corresponding interest rates for year T+10 (2033). This effectively means that the short-term rate remains at 5.2% between 2025 and 2033 and the long-term rate at 5.9%. In addition, the forecast of the interest expenditure in the reference trajectory does not reflect the specificities of the Polish debt structure, in particular other instruments with lower yields than 10-year bonds, nor the cost of servicing the foreign debt, which is less interest-bearing.

The assumptions in the Plan for the short-term interest rate for 2024-2025 are very close to the quotations of these rates from the Commission's reference trajectory. The differences in assumptions between the Ministry of Finance and the European Commission for the remaining years in the Plan are due to the use of a different method and sources to approximate market expectations. The Ministry of Finance uses more up-to-date information based on market expectations from the Refinitiv survey of end-July 2024 on the reference rate which assumes a decrease of the NBP reference rate to 4% in 2026. For the period 2026-2028, a conservative assumption has been made that interest rates will remain at the level of 2026.

The European Commission's assumptions for the long-term interest rate for the period 2024-2025 are not consistent with its current expected execution for 2024 and with market expectations of a fall in the NBP reference rate next year. The European Commission assumes

that 10-year bond yields will increase from 5.7% in 2024 to 5.9% in 2025 and remain at this level until 2033, despite market expectations on the easing of monetary policy and the disinflation process and the planned fiscal consolidation contributing towards lower risk premiums.

According to Eurostat data, the average yield of 10-year bonds until August was 5.5%[19] and market expectations estimated on the basis of the September forward rates for the remaining months of the year indicate yield of 5.3%. Hence, the Plan assumes a more realistic level of 5.4% in 2024. In the following years, the long-term interest rate is assumed to decline in line with the historical difference between short and long rates (cf. Table 17 in the appendix).

Given the lower liquidity in the market for interest rate swaps for Polish 10-year and longer government bonds, it is not reasonable to extrapolate their value from 2025 to 2033 in the forecasting of interest expenditure. The rate used to approximate market expectations in 10 years for 10-year yields (10Y10Y) is an implied rate based on interest rate swaps (IRS), i.e. calculated on the basis of longer 20Y instruments and the current rate of 10Y. This means that the rate contains a significant component of the premium, as it results from the 20Y IRS rate, which is used to hedge long-term interest rate risks. It is therefore systematically biased and interpreting it as a market-based expectation of the future yield of 10Y bonds is not appropriate and may lead to erroneous conclusions, in particular in the case of the DSA, this leads to overestimated projected interest expenditure.

I.2. Budgetary projections

Updated deficit forecast for 2024-2025

The Plan's general government deficit forecast for 2024-2025 is in line with the projection for the draft budget act for 2025. According to it, the general government deficit in 2024 would be 5.7% of GDP, 0.6 percentage points more than in 2023. The deficit is projected to decrease to 5.5% of GDP in 2025.

The increase in the projected deficit in 2024 compared to 2023 is due to the expenditure side (a higher increase in expenditure as a share of GDP than revenue). In 2024, two expenditure categories increased significantly as a share of GDP: social expenditure (social benefits other than social transfers in kind) and compensation of employees.

The increase in social expenditure is linked, inter alia, to an increase in the amount of the child-raising allowance provided for in the Act on State Aid for Raising Children from PLN 500 to PLN 800 and to securing funds for the financing of a new programme to support the reconciliation of the role of parent and employee 'Active Family', i.e., financial support for women returning to the labour market after the birth of a child. In addition, the pension adjustment rate in 2024 was significantly higher than the nominal GDP momentum due to the inflation-based adjustment mechanism from the previous year. The increase in compensation of employees is due to an increase in salaries in the public sector (a 20% increase in the salaries of employees in the state budget, 30% in the salaries of local and government education teachers and pre-school teachers, academics, and 33% in the case of novice teachers).

Since 2024, the EU's budgetary rules have been reintroduced after several years of interruption caused by the pandemic and prolonged by Russia's attack on Ukraine. As a result, the European Commission published a report on 19 June, which analyses compliance with the EU reference values for the government deficit and debt in the Member States in 2023. Based on that analysis, it was considered appropriate to open an excessive deficit procedure for Belgium, France, Hungary, Italy, Malta, Poland and Slovakia.

[19] EMU convergence criterion series – monthly data

In July 2024, the Council of the EU confirmed the existence of excessive deficits in these countries. At the end of November, the European Commission will publish draft Council recommendations to bring an end to the situation of an excessive deficit. In preparing its recommendations, the Commission will take into account the assessments of the plans that it will receive by 15 October. Such a calendar will ensure consistency between the EU recommendations on the deadline for bringing the excessive deficit to an end (in principle the correction of the excessive deficit within a 4-year horizon) and the expenditure path over the adjustment period (4-7 years) covered by the medium-term plan.

The government's objective is to put an end to the excessive deficit, i.e., to bring it below 3% of GDP in 2028. The implementation of the net expenditure path for 2025-2028 (Table 1) will allow this target to be met. The government deficit reduction path over the 4-year horizon will allow for a faster (than 7-year adjustment period) bringing the general government debt below 60% of GDP. Indeed, the strong policy response to the COVID-19 pandemic has proven to be effective in mitigating the economic and social consequences of the crisis caused by the pandemic but has led to a significant increase in debt in Poland. Interest expenditure are already relatively high compared to other countries despite the good economic situation and are forecast to increase. In this context, the EU legislation underlines the importance of a gradual, realistic, sustained, and growth-friendly reduction of deficit and debt to prudent levels, while ensuring room for manoeuvre for countercyclical policies[20].

The need for high defence spending, including defence investment, while reducing the excessive deficit will be an important challenge throughout the Plan. However, the planned gradual deficit reduction in Poland, in line with EU rules, will not jeopardise public investment. Their average relative to GDP will remain higher in 2025-2028 than before the Plan and significantly higher than the EU average, which is an important part of the economic development strategy, and securing their financing is one of the government's main objectives in the Plan's horizon.

The level of the general government investment will be shaped primarily by programmes for the modernisation of the armed forces, but also through the implementation of multi-annual government programmes in the area of road and rail infrastructure, financed, inter alia, by the EU's Multiannual Financial Framework 2021-2027 and the EU Recovery and Resilience Facility, as well as new programmes, including the 'Polish Nuclear Energy Programme'.

Taking into account changes in EU rules to spread fiscal adjustment over several years, the general government deficit is planned to be reduced to 5.5% of GDP in 2025, i.e., by 0.2 percentage points compared to 2024. Starting the deficit reduction in 2025 will be supported by:

- maintaining the PIT thresholds and the tax-free amount with nominal increases in wages and pensions: 0.3% of GDP;
- implementation of excise duty rates (25 % for cigarettes and 38 % for tobacco and other products): 0.1% of GDP;
- reinstating the standard VAT rate on food (5 %): 0.1% of GDP;
- limiting protective government measures to mitigate the impact of high energy prices;
- monitoring of freight concrete transport in order to reduce VAT fraud in construction: 0.03% of GDP;
- keeping non-insurance benefits unchanged as a share of GDP despite the introduction of new programmes, including: 'Active Parent' (0.1% of GDP);

[20] Cf. Recital 5 of the MTP Regulation.

- maintaining the nominal value of the child-raising benefit (Family 800 Plus programme) and family benefits at a constant level.

Non-linear path for the reduction of excessive deficit

Article 36 point 1letter e of the MTP Regulation provides that, for the first plan, projects supported by loans under the Recovery and Resilience Facility, as well as national co-financing of EU-funded programmes in the period 2025-2026, shall be taken into account when a country requests an exception to the steady pace of fiscal effort, provided that such an exception does not jeopardise the sustainability of public finances in the medium term. This Regulation does not make the possibility of a non-linear path of fiscal effort conditional on specific volumes of loans under the Recovery and Resilience Facility or on the amount of national co-financing of EU-funded programmes. Poland complies with the requirements of Article 36 point 1 letter e of the MTP Regulation and intends to use a flexible, non-linear distribution of the reduction of the fiscal effort over the period covered by the Plan.

By contrast, the EDP Regulation provides in recital 15 that the so-called corrective net expenditure path recommended in the excessive deficit procedure is, in principle, as recommended by the Council of the EU after examination of the medium-term fiscal-structural plan, but taking into account the need to ensure a minimum structural adjustment of 0.5 percentage point of GDP (in case of breach of the deficit criterion). At the same time, the Regulation requires that relevant factors – in Poland's case, the increase in defence investment directly affecting the general government deficit – are taken into account by the Council of the EU in its recommendations on the timing and pace of the correction of the excessive deficit. The excessive deficit procedure therefore also does not rule out the possibility of a non-linear path of fiscal effort.

The recommendations of the Council of the EU on the deadline and pace for bringing the excessive deficit to an end are expected in the following weeks. However, the existence of an excessive deficit in Poland[21] and the need to reduce it over a 4-7 year horizon have been taken into account in the reference trajectory communicated to Poland by the European Commission on 21 June. At that time, the Commission presented two deficit reduction options (cf. the appendix) – over the 4-year adjustment period, i.e. over 2025-2028, the required fiscal effort was 0.82% of GDP on average, compared to 0.54% of GDP in 7 years. The Plan's average fiscal effort is in line with the 4-year reference trajectory proposed by the Commission. The following information supports the request for a non-linear fiscal effort and, consequently, the correction of the excessive deficit.

Loans from the National Recovery and Resilience Plan

In Poland, projects financed with loans from the Recovery and Resilience Facility (RRF) will be implemented by the general government and the private sector. Projects carried out by the private sector predominately linked to the support of the national energy system and the construction of offshore wind farms. General government projects mainly concern the local government sub-sector and are primarily related to investments for the green transition of cities.

According to the EU methodology (ESA2010 rules), the expenditure financed by RRF loans have a negative impact on the general government balance (as no revenue is to be recorded). The impact on the deficit occurs when the expenditure is incurred. The impact of the RRF loans on the general government balance and debt is not symmetrical over time, due to, inter alia, the nature of the projects being implemented or the exchange rate differences.

[21] Cf. European Commission report of 19 June.

Table 6. Expenditure financed by loans from the Recovery and Resilience Facility

	2024	2025	2026
PLN bn	**38.7**	**49.9**	**63.9**
of which:			
— general government	13.0	20.7	12.2
— private sector	25.7	29.2	51.7
as a % of GDP	**1.1**	**1.3**	**1.5**
of which:			
— general government	0.4	0.5	0.3
— private sector	0.7	0.7	1.2
change y/y in % of GDP	**1.06**	**0.19**	**0.25**
of which:			
— general government	0.36	0.16	-0.23
— private sector	0.71	0.03	0.48

Source: Ministry of Finance based on the source data from the Ministry of Funds and Regional Policy.

National co-financing of EU funds

The level of national expenditure for the co-financing of the EU-funded programmes should be based on data implemented and validated by Eurostat and be anchored in the relevant Member State's agreements with the EU institutions. Work is ongoing on the implementation of the rules for the collection and reporting of this data. Until the completion of this process, Member States may use their own estimates of the level of this category of expenditure in their plans. In Poland, according to the Ministry of Finance, the level of mandatory co-financing of the EU funds for 2025 will increase to 0.4% of GDP.

Table 7. National co-financing of EU funds

	2023	2024	2025
PLN bn	12.88	11.92	14.35
change in y/y in billion PLN		*-0.96*	*2.43*
as a % of GDP	0.378	0.327	0.361
change in y/y in % of GDP		*-0.050*	*0.034*

Source: Ministry of Finance.

Impact of the non-linear deficit reduction path on debt sustainability

Focusing the deficit reduction beyond 2025 will not jeopardise fiscal sustainability in the medium term. The baseline scenario presented in the Plan envisages a one-year deviation from the annual deficit improvement benchmark (0.5% of GDP) of the EDP Regulation. The magnitude of this deviation is due to the expected increase in defence investment in 2025 compared to the previous year. It will be fully compensated in the following year. Also over the period 2027-2028, the fiscal effort will be higher than the 0.5% of GDP benchmark.

The headline deficit will be reduced to below 3% of GDP in 2028 and the general government debt will be brought on a declining path in the same year. In 2030, assuming no further adjustment action, the general government debt will fall below 60% of GDP. This scenario is consistent with the draft budget act for 2025 and the 'Public Finance Sector Debt Management Strategy 2025-2028' adopted by the government on 28 September.

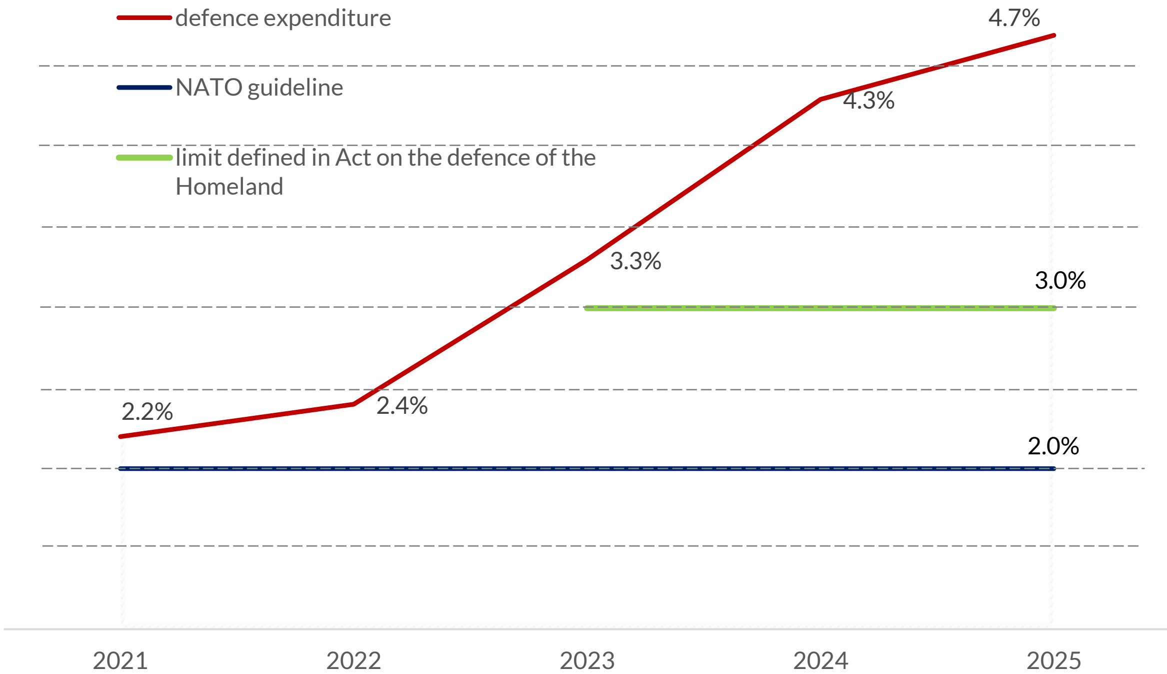
Over the years of EU membership, Poland has kept the general government debt well below 60% of GDP despite the crises (global financial crisis, pandemic, Russian aggression against

Ukraine) that have affected the economy. The currently projected increase in the debt to just above 60% of GDP is due to increased spending on national defence. Experience from the years when Poland was subject to the excessive deficit procedure shows that Poland has been able to put an end to the excessive deficit by a fiscal effort of more than 1% of GDP per year (e.g. by 1.2% of GDP on average in 2011-2015).

Impact of defence expenditure on the pace of the excessive deficit reduction

Build-up of defence capabilities is one of the four common priorities of the EU identified in the MTP Regulation. Therefore, Poland's significant defence investments should also be seen from a European perspective. Poland's defence spending, the highest in relation to GDP among the EU and NATO countries, serve the broader objective of strengthening Europe's security. As an expression of international solidarity, they should, in accordance with Article 2(6) of the EDP Regulation, be taken into account by the EU institutions in the following steps of the excessive deficit procedure. Poland invests in the public good of ensuring the integrity of the EU's borders, but at the same time it has to bear the burden of this expenditure in the form of a worsening fiscal position. Without investment in the EU security, the general government deficit and debt in Poland would be drastically lower.

Graph 1. National defence expenditure in Poland (% of GDP)

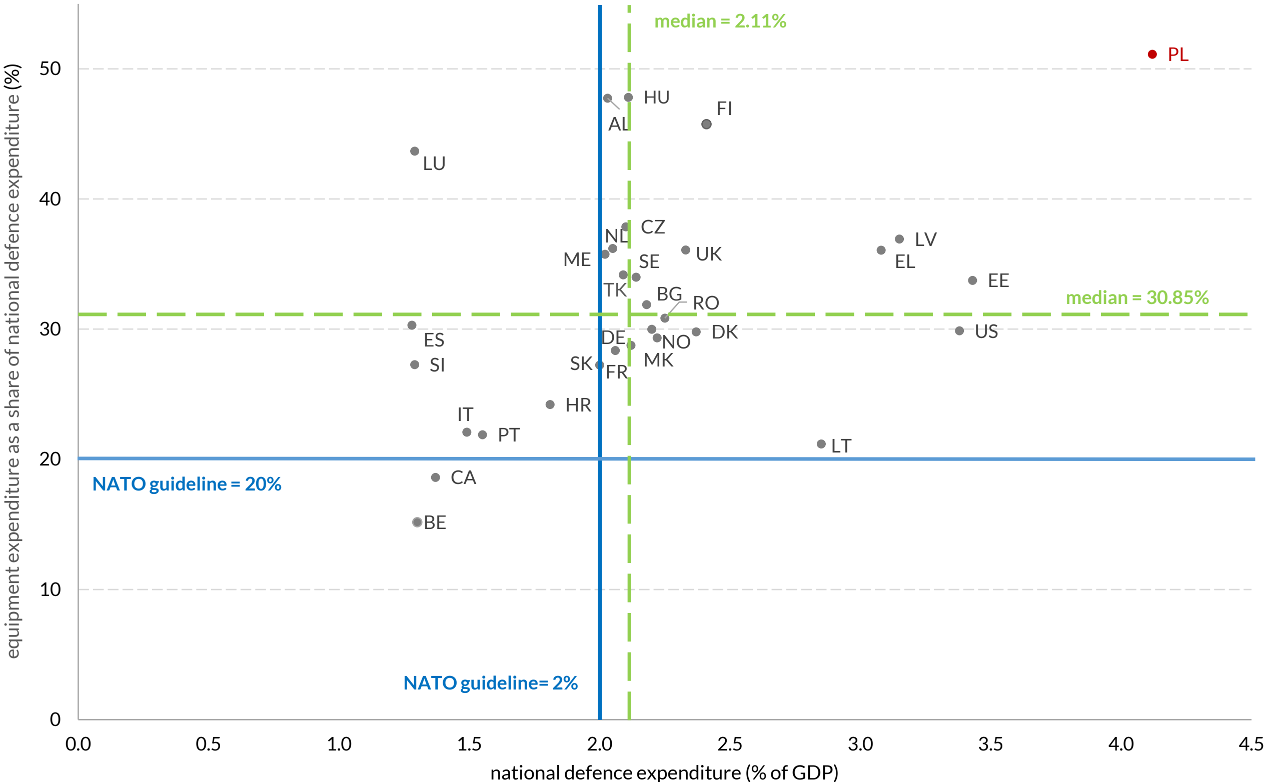


Source: Ministry of Finance.

In Poland, as of 2023, national budget expenditure of not less than 3% of GDP has been allocated annually to finance defence needs. In addition, the modernisation of the armed forces is supported by the Armed Forces Support Fund established on the basis of the Act of 11 March 2022 on the defence of the Homeland. According to the EU's ESA 2010 methodology, defence investment is expected to amount to 0.7% of GDP and 0.9% of GDP in 2024 and 2025, respectively, representing an increase in investment by 0.39% of GDP and 0.64% of GDP, respectively, compared to the period before Russia's aggression against Ukraine (2021). Without increasing defence investment by 0.25% of GDP in 2025, the projected improvement in the headline deficit in 2025 would be 0.5% of GDP.

As defence investment increases, total defence spending increases to 2.6% of GDP in 2024 and 2.8% of GDP in 2025. This represents an increase of 0.9% of GDP and 1.1% of GDP, respectively, compared to 2021. Defence expenditure in the following years over the Plan horizon (e.g. supply of military equipment, salaries of soldiers) will be based on the statutory limits (not less than 3% of GDP) and significantly higher than before the Russian Federation's aggression against Ukraine.

Graph 2. National defence expenditure (% of GDP) and equipment expenditure as a share of national defence expenditure in NATO countries in 2024.

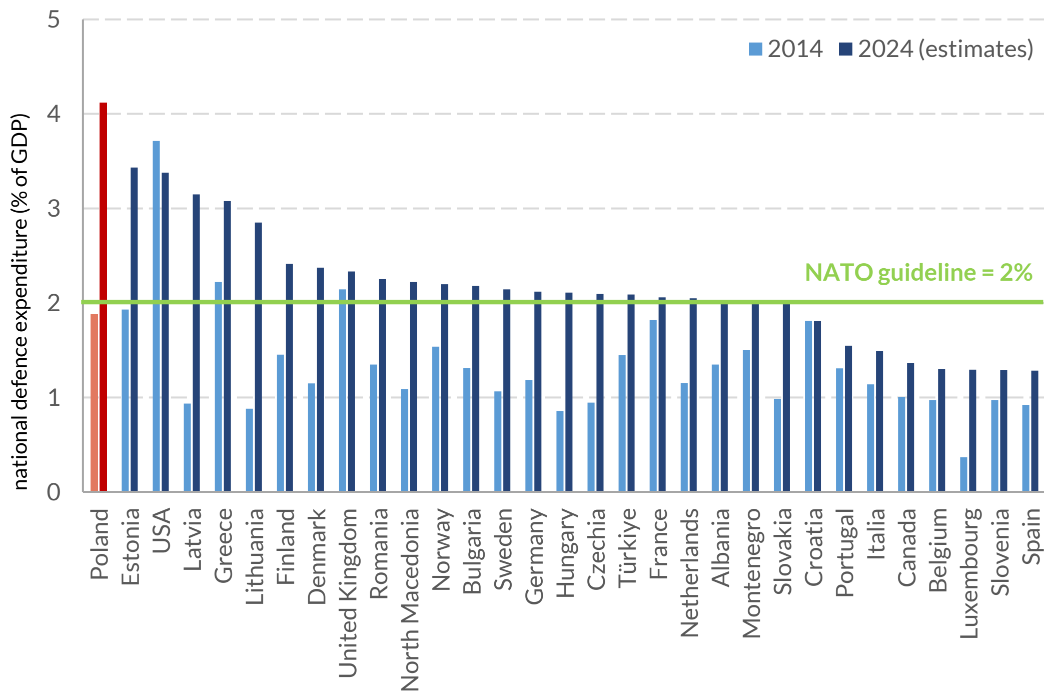


Source: North Atlantic Treaty Organization – Press release: *Defence Expenditure of NATO Countries (2014-2024).*

Defence expenditure in the so-called "cash" approach used in the Polish budget act is the highest in NATO. However, it is worth stressing that not all defence expenditure in cash terms is reflected in the general government balance. Indeed, general government balance calculated according to the EU's ESA 2010 methodology is affected by the delivery of military equipment, and not by the payment itself for that supply (the transaction is recorded only at the time of delivery of the equipment). For the time being, defence expenditure affects the general government balance to a significantly lower extent than the cash budget balance (in which it is recorded when it is incurred).

On the other hand, defence expenditure on a cash basis already contributes to an increase in the government debt. Indeed, according to the ESA 2010 methodology, it is recorded in the government debt at the time when it is incurred (without any link to the delivery date). The rise of the debt since 2023 and its increase over the medium term has been the effect of prepayments for military equipment, which will be delivered in the following years.

Graph 3. National defence expenditure in NATO countries (% of GDP)



Source: North Atlantic Treaty Organization – Press release: *Defence Expenditure of NATO Countries (2014-2024).*

Steps towards the correction of the excessive deficit by 2028

The reduction of the excessive deficit over the period 2025-2028 will include discretionary revenue measures and expenditure restraints due to operation of the stabilising expenditure rule. The MTP Regulation does not require all measures leading to deficit reduction to be presented in the Plan. Depending on the evolution of the deficit, these will be implemented in subsequent years, presented in subsequent budgetary laws and annual progress reports.

Table 8 provides an estimate of revenue activities for 2023-2024. In the following years, the impact of the actions already implemented and presented in this table is expected to be as follows:

- item 3 – additional revenue (0.07% of GDP) in 2025,
- item 4 – additional revenue between 2025 and 2027 (0.06% of GDP each year),
- item 6 – additional revenue in 2025 – 2028 (0.25% of GDP in 2025 and 0.24% of GDP thereafter),
- item 7 – additional revenue (0.01% of GDP) in 2025,
- item 11 – income gap (0.39% of GDP) in 2025 – consequence of no energy revenues from 2024.

Table 8. Estimated impact of discretionary income measures

	Title/description of the action	One off action	Expenditure /revenue	Subsector	ESA code	2023 % of GDP	2024 % of GDP
1.	'VAT anti-inflation shield' implemented in 2022	No	Income		D.2	1.09	
2.	'VAT anti-inflation shield' implemented in 2023	No	Income		D.2	-0.31	0.29
3.	Temporary reduction of VAT rates in 2024	No	Income		D.2		-0.08
4.	Excise Road Map 2022-2027	No	Income		D.2	0.07	0.06
5.	'Anti-inflation shield' in excise duty implemented in 2023	No	Income		D.2	0.10	
6.	Maintaining the parameters of the tax scale in the PIT	No	Income		D.5	0.34	0.38
7.	Solidarity Contribution	No	Income		D.61	0.05	-0.05
8.	"Polish Deal"	No	Income		different categories	0.08	-0.04
9.	"Low Taxes"	No	Income		D.5	-0.60	0.24
10.	Energy revenues 2023 (energy and gas write-off)	No	Income		D.2	0.87	-0.81
11.	Energy revenues 2024 (energy and gas write-off)	No	Income		D.2		0.42
12.	Social contribution holidays	No	Income		D.61		-0.04
	TOTAL					**1.67**	**0.37**

Source: Ministry of Finance.

Table 9 shows the first measures to support deficit reduction during the Plan period. Some of the actions stem from the legislation already in force:

- keeping the tax thresholds in the PIT unchanged in the following years – the effects of maintaining the parameters of the PIT tax scale were estimated on the basis of the results of the PIT microsimulation model, taking into account the growth rate of average wages in the national economy projected in the draft budget act for 2025,
- entry into force of the minimum income tax[22], the effects of which will become apparent in 2025, the minimum CIT was introduced to combat tax avoidance by those Polish taxpayers who, despite having a long-term activity and showing significant revenues, both show tax losses or disproportionately low taxable revenues. As a result, the taxpayers of the minimum CIT are those who are loss-making or have a very low profitability rate. The tax rate is 10%. The taxable amount is determined, at the choice of the taxpayer, either at 1.5% of revenue and certain passive costs (i.e. costs of debt financing and intangible services) or 3% of revenue,
- actions in the area of excise duty – these include increases in line with the so-called Road Map introduced in 2022[23] and additional measures in view of its planned update[24]. The increase mechanism covered, with a view to 2027, excise goods which are ingredients,

[22] Act of 29 October 2021 amending the Personal Income Tax Act, the Corporate Income Tax Act and certain other acts (Journal Of Laws 2021, item 2105) and the Act of 7 October 2022 amending the Corporate Income Tax Act and certain other acts (Journal of Laws 2022, item 2180).
[23] Act of 29 October 2021 amending the Excise Duty Act and certain other acts (Journal Of Laws, item 2313).
[24] Government bill amending the excise duty act.

i.e. ethyl alcohol, beer, wine, fermented beverages (excluding cider and perry), intermediate products, cigarettes, smoking tobacco and novel products. In 2025, this regulation will cover:

- a 5% increase in excise duties on ethyl alcohol, beer, wine, fermented beverages (excluding cider and perry with a capacity of up to 5%) and intermediate products,
- a minimum excise duty on cigarettes of 105% of the total amount of excise duty charged on a price equal to the weighted average retail selling price of cigarettes,
- a minimum excise duty on smoking tobacco of 100% of the total amount of excise duty charged on a price equal to the weighted average retail selling price of smoking tobacco,
- from 1 January 2025 to 28 February 2025, maintaining excise rates on tobacco and novel products at the level of 2024 rates.

Revenue in 2025 will also be affected by amendments to the excise duty act, including an update (from 1 March 2025) of the road map introduced in 2022 for tobacco products:

- increase the proportion of the excise duty on cigarettes by 25% compared to the rate in force in 2024,
- increase the proportion of the excise duty on smoking tobacco by 38% compared to the rate in force in 2024,
- increase the part of the amount of excise duty on novel goods by 50% compared to the rate applicable in 2024.

In addition, as of 1 March 2025, the excise duty rate on e-cigarette liquid will be increased by 75% compared to the 2024 rate and new products will be subject to excise duty: nicotine sachets and other nicotine products.

As of 2025, the SENT regime[25] for freight of concrete will also apply, thus reducing VAT fraud in the construction sector. The list of work of the Council of Ministers also provides for work on the draft act on equalisation taxation of the constituent entities of international and national groups (GloBE)[26].

Table 9. Indicative revenue and expenditure measures foreseen in the Plan

	Title/description of the action	Impact on revenue or expenditure	Planned completion date
1.	Introduction of an obligation to issue e-invoices (KSeF system)	income	2026
2.	Inclusion in the Electronic Transport Supervision System (SENT) of the transport of ready-to-roll concrete	income	2025
3.	Indexation of excise duty rates (Update of the Road Excise Map)	income	2025-2028
4.	Minimum income tax	income	2025
5.	Maintaining the parameters of the tax scale in the PIT	income	2025-2028
6.	Introduction of a global tax system (GloBE)	income	2027

Source: Ministry of Finance.

[25] Draft act amending the act on the monitoring system for road and rail freight transport and trade in heating fuels and certain other acts.
[26] Draft law on top-up taxation of entities forming part of international and domestic groups.

The reduction of the excessive deficit will be supported by a stabilising expenditure rule. According to the public finance act, if Poland is subject to EU Council Recommendations on excessive deficit, the amount of expenditure foreseen in the budget act must be in line with these recommendations.

Box 2. Correction mechanism of the stabilising expenditure rule (SER)

The SER expenditure for the next year is calculated on the basis of the formula contained in the public finance act (Article 112aa (1)):

$$WYD_n = WYD^*_{n-1} \cdot E_n \ DEF_n \ \cdot WPKB_n + K_n + E_n(\Delta DD_n)$$

in which the symbol K_n refers to the magnitude of the SER expenditure correction specified in the explanatory memorandum to the draft budget law for year n submitted to the Sejm.

The amount of the SER expenditure correction K_n pursuant to Article 112aa(4) of the public finance act is in principle 0, but if the European Commission's forecast is:

a) the general government deficit for Poland exceeds the reference value (3% of GDP), in the year n-1 or n;

or

b) the general government debt for Poland exceeds the reference value (60% of GDP), in the year n-1 or n

—the adjustment of SER expenditure K_n has to be not higher than the fiscal adjustment supporting the expenditure target set in the medium-term fiscal-structural plan referred to in the MTP Regulation and the respect of the reference values set out in Article 126 (2) of the Treaty on the Functioning of the European Union as specified in Article 1 of Protocol (No 12) on the excessive deficit procedure annexed to the Treaty on European Union and to the Treaty on the Functioning of the European Union, calculated by the formula:

$$DF_n = -0{,}5\% * E_n(PKB_n^{CB})$$

where the meaning of the symbols is as follows:

DF_n — fiscal adjustment in year *n*

$E_n(PKB_n^{CB})$ — gross domestic product at current prices in year *n* as projected in the explanatory memorandum for the draft budget act for year *n* submitted to the Sejm

n – year for which the amount of SER expenditure is calculated

In the event that the Council of the EU approves the net expenditure path referred to in the MTP Regulation, the amount of the SER expenditure correction K_n has to correspond to the fiscal effort in line with the net expenditure path approved by the Council of the EU referred to in that Regulation (Article 112ab (1) the public finance act).

The amount of the correction of SER expenditure K_n may be different from the one set out above, if this is due to recommendations made by the Council of the EU under Article 121 (2) or (4) or Article 126 (7) of the Treaty on the Functioning of the EU (Article 112ab (2) the public finance act).

Amount of the SER expenditure correction for the budget year 2025, in accordance with Article 39(2) of the Act of 28 June 2024 amending the public finance act (Journal Of Laws, item 1089), is 0.

Exclusion of the application of the provisions on the stabilising expenditure rule:

The provisions of the stabilising expenditure rule do not apply in the case of:

- the introduction of martial law,

- the introduction of a state of emergency on the entire territory of the Republic of Poland,
- the introduction of a state of natural disaster on the entire territory of the Republic of Poland,
- the declaration of a state of epidemic in the entire territory of the Republic of Poland,
- there has been a significant economic slowdown.

A significant economic slowdown is understood as a situation where, as projected in the explanatory memorandum:

(1) the draft of budget act for the year for which the amount of SER expenditure referred to in Article 112aa(1) of the public finance act is calculated submitted to the Sejm, or

(2) a draft act amending the budget act for the year for which the amount of SER expenditure referred to in Article 112aa(1)of the public finance act is calculated submitted to the Sejm

— the annual growth rate of gross domestic product at constant prices is more than two percentage points lower than the indicator of medium-term growth of gross domestic product at constant prices WPKB* set out in the explanatory memorandum to the draft budget act for the last year for which the amount of SER expenditure was determined in the draft budget act.

*the indicator of medium-term dynamics of gross domestic product at constant prices is the eight-year geometric average of real annual GDP dynamics. For the year for which the amount of SER expenditure is calculated and the year preceding that year the values of budget forecasts are assumed.. For the remaining years, this figure results from the announcement by the President of the Statistics Poland. If the period covered by this indicator includes a year in which the application of the stabilising expenditure rule was suspended, or a year under a return clause after the temporary suspension of the application of the stabilising expenditure rule, calculating this indicator, the annual dynamics of the value of gross domestic product at constant prices in the year of suspension of the application of the stabilising expenditure rule and in the years of the return clause to the standard SER formula shall be replaced by an indicator of the medium-term dynamics of the value of gross domestic product at constant prices set out in the draft budget act for the last year in which the conditions for suspending the application of the stabilising expenditure rule have not been met, submitted to the Sejm.

Source: Ministry of Finance.

Table 10. Budgetary outlook

			2023	2023	2024	2025	2026	2027	2028
	Revenue	ESA Code	bn PLN	% GDP	% GDP	% GDP	% GDP	% GDP	% GDP
1	Taxes on production and imports	D.2	482.3	14.1	15.3				
2	Current taxes on income, wealth, etc	D.5	252.9	7.4	7.9				
3	Social contributions	D.61	485.8	14.2	15.3				
4	Other current revenue	(P.11+P.12+P.131) + D.39 + D.4 + D.7	163.5	4.8	4.4				
5	Capital taxes	D.91	0.6	0.0	0.0				
6	Other capital revenue	D.92+D.99	35.2	1.0	0.9				
7	Total revenue (= 1+2+3+4+5+6)	TR	1420.3	41.6	43.8				
8	Of which: Transfers from the EU (**accrued revenue, not cash**)	D.7EU+D.9EU	50.8	1.5	1.4				
9	Total revenue other than transfers from the EU (= 7-8)		1369.5	40.2	42.4				
10	p.m. Revenue measures (increments, excluding EU funded measures)		55.3	1.6	0.4				
11	p.m. One-off revenue included in the projections (levels, excluding EU funded measures)		0.0	0.0	0.0				
	Expenditure	ESA Code	bn PLN	% GDP	% GDP	% GDP	% GDP	% GDP	% GDP
12	Compensation of employees	D.1	344.7	10.1	11.2				
13	Intermediate consumption	P.2	219.8	6.4	6.4				
14	Interest expenditure	D.41	71.4	2.1	2.3	2.6	2.5	2.6	2.6
15	Social benefits other than social transfers in kind	D.62	532.6	15.6	17.0				
16	Social transfers in kind via market producers	D.632	69.4	2.0	2.2				
17	Subsidies	D.3	70.4	2.1	1.4				
18	Other current expenditure	D.29 + (D.4-D.41) + D.5 + D.7 + D.8	69.2	2.0	2.5				
19	Gross fixed capital formation	P.51	169.6	5.0	5.0				
20	*Of which: Nationally financed public investment*		*130.8*	*3.8*	*4.1*	*3.9*	*4.3*	*4.7*	*4.1*
21	Capital transfers	D.9	48.1	1.4	1.6				
22	Other capital expenditure	P.52+P.53+NP	-1.0	0.0	0.0				
23	Total expenditure (= 12+13+14+15+16+17+18+19+21+22)	TE	1594.1	46.7	49.5				
24	Of which: Expenditure funded by transfers from the EU (= 8)	D.7EU+D.9EU	50.8	1.5	1.4				
25	Nationally financed expenditure (23-24)		1543.3	45.3	48.1				
26	p.m. National co-financing of programmes funded by the Union		12.9	0.4	0.3				
27	p.m. Cyclical component of unemployment benefits		0.2	0.0	0.0				
28	p.m. One-off expenditure included in the projections (levels, excluding EU funded measures)		0.0	0.0	0.0				
29	Net nationally financed primary expenditure (before revenue measures) (= 25-26-27-28-14)		1458.9	42.8	45.5				
	Net nationally financed primary expenditure				growth rate	growth rate	growth rate	growth rate	growth rate
30	Net nationally financed primary expenditure growth	MTP Table 1a, line 1			12.5	6.3	4.4	4.0	3.5
	Balances	ESA Code	bn PLN	% GDP	% GDP	% GDP	% GDP	% GDP	% GDP
31	Net lending/borrowing (= 7-23)	B.9	-173.8	-5.1	-5.7	-5.5	-4.5	-3.7	-2.9
32	Primary balance (= 31+14)	B.9+D.41p	-102.5	-3.0	-3.4	-2.9	-2.0	-1.2	-0.4
	Cyclical adjustment			% GDP	% GDP	% GDP	% GDP	% GDP	% GDP
33	Structural balance			-4.5	-5.1	-5.2	-4.1	-3.1	-2.1
34	Structural primary balance			-2.5	-2.9	-2.6	-1.5	-0.5	0.4
	Debt		bn PLN	% GDP	% GDP	% GDP	% GDP	% GDP	% GDP
35	Gross debt		1691.1	49.6	54.6	58.4	60.9	61.3	61.2
36	Change in gross debt		178.4	0.4	5.0	3.8	2.5	0.4	-0.1
37	Contributions to changes in gross debt								
38	Primary balance (= minus 32)			3.0	3.4	2.9	2.0	1.2	0.4
39	Snowball effect			-2.7	-0.9	-2.0	-1.0	-0.8	-0.5
40	*Interest expenditure (= 14)*			*2.1*	*2.3*	*2.6*	*2.5*	*2.6*	*2.6*
41	*Growth*			*-0.1*	*-1.4*	*-1.9*	*-1.0*	*-0.8*	*-0.7*
42	*Inflation*			*-4.8*	*-1.7*	*-2.6*	*-2.6*	*-2.5*	*-2.3*
43	Stock-flow adjustment (= 36-38-39)			0.1	2.4	2.9	1.6	0.0	0.0
				%	%	%	%	%	%
44	p.m. Implicit interest rate on debt (= 14 / DEBT(t-1))			4.7	4.9	5.2	4.6	4.5	4.4

Note: estimate of cyclical unemployment expenditure in item 27 is based on expenditure code D.62 and code D.63 included in COFOG function code 10.5. It covers only social protection expenses in the form of a cash benefit and a benefit in kind paid to households.

Source: Ministry of Finance.

Risks to the budgetary forecast

The actual time profile of the supply of military equipment – defence investment expenditure (cf. above) is always subject to a risk factor compared to forecasts, usually due to difficulties in meeting the supplier's deadlines. A possible delay in the delivery of military equipment would result in a smaller nominal deficit (also a decrease in the rate of net expenditure growth and an improvement in the primary structural balance).

On September 16, for 30 days, the government introduced a state of natural disaster in three provinces in connection with flooding in southwestern Poland. At this stage, it is not possible to determine with sufficient precision the damage caused by the flood and thus the government's recovery expenditure. By the end of this year, reserve funds are expected to be redeployed.

In addition, on 19 September, the Minister of Finance issued a regulation extending certain time limits provided for in tax legislation in connection with the flooding in September 2024. It allows entrepreneurs to defer the payment of advance payments for PIT, CIT, VAT, and other tax payments (inheritance tax and gift tax, tax on civil-law transactions) until 2025 for the period from August to December 2024 (advance payments for August would have to be paid by the end of September). It covers only those taxpayers who have suffered from the floods and are established in the area affected by the flood, and entrepreneurs carry out their economic activity there.

As regards PIT, the regulation concerns the deferral of the payment of tax advances not only to business owners but also to their employees. Deferral of payment does not amount to an exemption, meaning that in 2024 it will have a negative effect on budget revenue, but advance payments for taxes will be paid by the deadline for submission of the annual tax return for PIT and CIT and until January 2025 for VAT.

In turn, the Social Insurance Institution announced that entrepreneurs could postpone the payment of contributions for the period August-December 2024 until 15 September 2025 without any outstanding interest, at which time they had to sign a statement that they had suffered from flooding. In the case of large material losses, it is possible to exempt all persons engaged in an economic activity from paying contributions if the payment of contributions would lead to the closure of that activity.

The cash loss of revenue due to the postponement of payment deadlines for these tax advances and social contributions is estimated at 0.1% of GDP in 2024. According to the EU methodology (ESA 2010), this action is neutral for the general government balance.

Over the next years, the EU Solidarity Fund will provide a major contribution to the reconstruction of flooding areas. The official request for support will be submitted after a detailed assessment of the severity of the damage. In addition, up to EUR 5 billion of the EU cohesion policy funds will be redirected to the recovery and atypical resilience of these areas. These measures will be neutral for the general government balance.

II. GENERAL GOVERNMENT DEBT

The projected government debt-to- GDP ratio for 2025-2028 is consistent with the fiscal adjustment path and compliance with the Plan's net expenditure path. The government debt-to-GDP ratio is projected to reach 54.6% in 2024 and 58.4% in 2025. Subsequently due to the implementation of high defence spending (cf. Chapter I), it will increase to 61.3% in 2027 and decline to 61.2% in 2028, which is consistent with the 'Public Finance Sector Debt Management Strategy 2025-2028'. The 60% debt-to-GDP reference value will be exceeded in 2026.
The general government debt will be put on a declining path as of 2028 and, in the absence of further fiscal policy developments, will be below 60% of GDP in 2030.

Table 11. The government debt forecast until 2028

	2023 % of GDP	2024 % of GDP	2025 % of GDP	2026 % of GDP	2027 % of GDP	2028 % of GDP
Gross debt	49.6	54.6	58.4	60.9	61.3	61.2
Change in gross debt	0.4	5,0	3.8	2.5	0.4	-0.1
Contributions to changes in gross debt						
Primary balance	-3.0	-3.4	-2.9	-2.0	-1.2	-0.4
Snowball effect	-2.7	-0.9	-2.0	-1.0	-0.8	-0.5
Interest expenditure	2.1	2.3	2.6	2.5	2.6	2.6
Effect of GDP growth	-0.1	-1.4	-1.9	-1.0	-0.8	-0.7
Inflation effect	-4.8	-1.7	-2.6	-2.6	-2.5	-2.3
Stock-flow adjustments	0.1	2.4	2.9	1.6	0,0	0.0
	%	%	%	%	%	%
p.m. implied interest rate on debt	4.7	4.9	5.2	4.6	4.5	4.4

Source: Ministry of Finance.

Average interest expenditure and composition of debt

The interest expenditure in the Plan is in line with the estimates presented in the 'Public Finance Sector Debt Management Strategy 2025-2028'. The main reasons why the debt service cost estimates in the Plan differ from those set by the European Commission in the reference trajectory are described below (the differences in the assumptions for interest rate developments are described in Chapter I).

The composition of debt assumed by the Commission in the reference trajectory does not take into account the share of floating-rate long-term debt or debt in foreign currencies. According to the latest European Central Bank Convergence Report 2024[27], the share of debt based on floating-rate in Poland reached 21.7% of total government debt over the period 2019-2023 on average. This is relevant for the calculation of the interest expenditure and thus for the debt sustainability analysis, as the cost of financing variable interest rates debt is more sensitive to changing interest rates and thus the total interest expenditure adjusts faster to falling interest rates.

The calculation of the average interest rate of debt in the reference trajectory also does not take into account data on the cost of debt in foreign currencies, which accounted for 24.5% in 2019-2023[28] and which is characterised by a lower cost of financing (cf. 'Public Finance Sector

[27] Convergence Report, European Central Bank, June 2024, Table 5.4.2.
[28] As above.

Debt Management Strategy 2025-2028'). In addition, estimates of the implied interest rate in the reference trajectory do not take into account the fact that the average maturity of the Polish debt is around 5 years[29] ,which further lowers the average cost of financing the debt in a declining interest rate environment.

Table 12. Breakdown of debt structure

	2018	2019	2020	2021	2022	2023	2024Q1
Short-term*	1.0%	1.1%	1.8%	1.2%	1.8%	1.6%	1.6%
Long-term	99.0%	98.9%	98.2%	98.8%	98.2%	98.4%	98.4%
	2018	2019	2020	2021	2022	2023	2024Q1
Short-term and floating percentages**	21.0%	23.2%	19.2%	19.9%	21.3%	23.4%	22.8%
Long-term	79.0%	76.8%	80.8%	80.1%	78.7%	76.6%	77.2%

*maturity up to one year

** - contains the State Treasury debt based on a floating rate (consolidated in the general government debt).

Source: Ministry of Finance.

Stock-flow adjustments (SFA)

The significant factor contributing to changes in general government debt is stock-flow adjustments (SFA), which explains the difference between the change in the general government debt and the general government deficit/surplus.. Indeed, the change in the stock of debt reflects not only the *de facto* financing of the deficit, but also the financing of the acquisition of financial assets which do not appear in the deficit figures (e.g. loans, liquidities accumulated by government units) and other factors stemming from the different accounting (accrual) method used to compile the general government accounts

For 2025, the SFA, i.e. the difference between the change in the general government debt and the general government balance presented in the explanatory memorandum to the draft budget act for 2025 and in the Plan, is projected to amount to 2.9% of GDP. It is mainly due to the methodological difference resulting from the registration of EU funds (the principle of neutrality for the general government balance), from the registration of military expenditure (expenditure recorded at the time of delivery of military equipment) and from the loans, including projects from the RRF loans. In view of the temporary nature and the importance of the impact on the general government debt, projects from the loan part of the RRP were included in the SFA also for 2026. In the following years, this factor will not be relevant, so "0" was adopted, in line with the DSA assumptions European Commission's. At the same time, these assumptions are consistent with the 'Public Finance Sector Debt Management Strategy 2025-2028'.

Table 13. Impact of the Recovery and Resilience Facility loans on the government debt

	2024	2025	2026
PLN bn	18.0	59.0	65.9
as a % of GDP	0.5	1.5	1.6

Source: Ministry of Funds and Regional Policy.

[29] As above.

Ensuring debt sustainability in the medium term

The Debt Sustainability Analysis (DSA) assesses whether a given fiscal consolidation path, under given assumptions on macro-fiscal variables, meets the criteria for not exceeding the deficit and debt reference values in the medium term (i.e. 10 years after the plan horizon – for a 4-year plan this means up to 2038).

The macroeconomic assumptions over the Plan horizon have been revised to ensure consistency between the Plan and the budget act for 2025, taking into account national specificities and current projections over the 2025-2028 horizon. This is in line with the provisions offered by Article 13(c) of the Regulation on MTP in the context of the deviation from the reference trajectory, provided that economic arguments are presented in the Plan explaining the differences with the European Commission's assumptions, as described in Chapter I. In the medium-term horizon, assumptions on macroeconomic variables come from the European Commission's reference trajectory. The assumptions of the DSA throughout the projection period are set out in the appendix in Table 18.

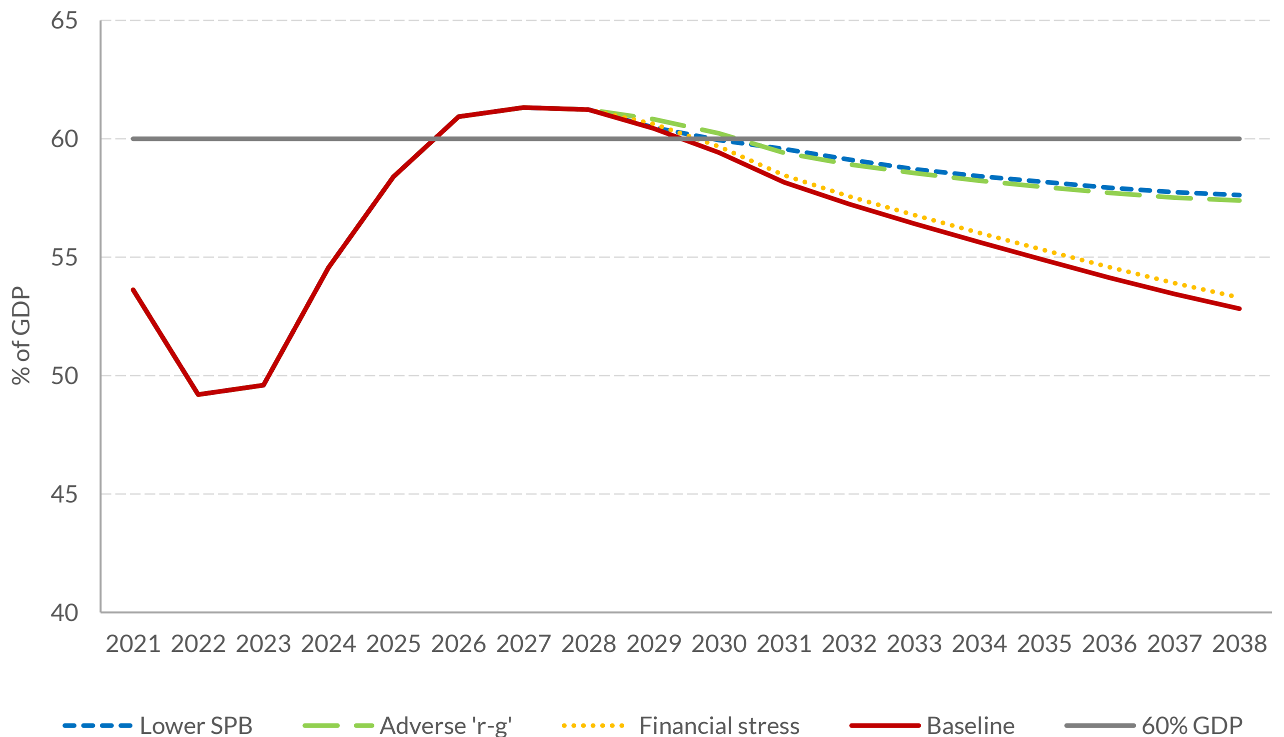
The consolidation path presented in the Plan ensures that, in the absence of further fiscal effort beyond the Plan horizon, Poland's binding DSA criteria to keep the deficit below 3 % of GDP and to reduce the debt-to-GDP ratio below 60 % in the baseline and in three alternative scenarios are met:

(1) a one-year increase of 1 percentage point in the short and long-term interest rates,

(2) a permanent decline in the ratio of real growth to interest rates ('r-g' differential) by 1 percentage point;

(3) persistent deterioration of the structural primary balance (SPB) by 0.5 percentage point.

Graph 4. General government debt path in the consolidation scenario and in the counterfactual scenarios



Source: Ministry of Finance.

In the DSA simulation, with the fiscal consolidation path presented in the Plan, the debt-to-GDP ratio will fall below the reference value of 60% of GDP in 2030 and it is highly likely to remain below 60% of GDP in the medium term. According to the DSA projection, the debt-to-GDP path will be below 60% of GDP in both the fiscal consolidation baseline scenario and the counterfactual (stress-tests) scenarios (see Figure 5). The downward trend in the debt-to-GDP ratio is ensured by: (1) primary surplus 0.4 percentage points of GDP; (2) the beneficial snowball effect, which, although decreasing, persists throughout the projection horizon.

General government deficit in the medium term

In the medium-term DSA projection (until 2038), the headline deficit remains below the 3% of GDP reference value. In line with the DSA methodology, this projection assumes no further fiscal action beyond 2028, which translates into a technical assumption of maintaining a stable level of the structural primary balance compared to the 2028 level over the projection horizon, except for the impact of ageing costs and property income. The impact of the increase in the cost of ageing, according to the European Commission's recent Ageing Report, is negligible in 2038. Nor does the impact of changes in property income have a significant impact on the deficit or debt-to-GDP ratio, as their level over the whole projection is relatively stable according to the European Commission's assumptions from the reference trajectory. The deficit is also affected by interest expenditure, which on the basis of the medium-term assumptions of the reference trajectory increase to 2.8% of GDP in 2033 and then decline to 2.6% of GDP in 2038. The impact of the cyclical component expires three years after the plan horizon, so that it will have been zero since 2031. These assumptions result in a decrease in the deficit from 2.9% in 2028 to 2% of GDP in the last projection year (cf. Table 18 in the appendix).

Implicit and contingent liabilities

Guarantees granted by the State Treasury constitute the predominant share of contingent liabilities . The increase in contingent liabilities in recent years has mainly resulted from issuing guarantees related to tackling the effects of COVID-19 (PLN 283.2 billion of contingent liabilities at the end of the first half of 2024), as well as from investments in the country's defence (PLN 103.0 billion of contingent liabilities).

Table 14. Contingent liabilities from guarantees

	2024	2025	2026	2027	2028
Contingent liabilities from guarantees provided by:					
(a) the public finance sector					
PLN billion	793.5	939.5	1 013.7	1 117.5	1 249.9
as a share of GDP	21.5	23.6	23.8	24.9	26.4
(b) State Treasury					
PLN billion	769.4	913.5	986.0	1088.2	1219.0
as a share of GDP	20.8	22.9	23.2	24.2	25.7
of which for general government entities					
PLN billion	755.3	901.3	973.9	1076.3	1207.2
as a share of GDP	20.5	22.6	22.9	24.0	25.5

Source: Ministry of Finance.

The largest amounts of the State Treasury's contingent liabilities (according to data as of 30 June 2024) were due to:

- guarantees granted for Bank Gospodarstwa Krajowego: PLN 439.0 billion, of which:
  - for the support of the COVID-19 Fund: PLN 223.6 billion,
  - for the support of the Armed Forces Support Fund: PLN 103.0 billion,
  - for the support of the National Road Fund: PLN 88.9 billion,
  - for the support of the Aid Fund – Ukraine: PLN 23.4 billion,
  - other guarantees (National Housing Fund, infrastructure): PLN 0.1 billion,
- guarantees granted for Polski Fundusz Rozwoju S.A. for the implementation of government programmes under the PFR Financial Shield in connection with combating the effects of COVID-19: PLN 59.6 billion,
- guarantees granted for PKP Polskie Linie Kolejowe S.A.: PLN 19.8 billion,
- guarantees of payment from the National Road Fund to Gdańsk Transport Company S.A.: PLN 5.1 billion,
- guarantees of payment from the National Road Fund to Autostrada Wielkopolska II S.A.: PLN 4.5 billion,
- the guarantee granted for Węglokoks S.A.: PLN 2.7 billion,
- guarantees granted for PKP Intercity S.A.: PLN 2.2 billion.

In particular, further provision of new guarantees for the financing of the Armed Forces Support Fund is foreseen. It will also be important to support with guarantees possible financing for the energy transition. With the continuation of infrastructure investment programmes (including financing of the National Road Fund and railway sector investments), these new factors mean that contingent liabilities from guarantees provided by the State Treasury are expected to increase significantly in coming years.

At the same time, it is not predicted that there will be need to provide guarantees related to possible actions that may be taken in the event of a deterioration in the functioning conditions of the Polish financial system. So far, there has been no need to provide these guarantees to an important extent.

The existing portfolio does not pose significant risks in terms of State Treasury guarantees. At the end of 2023 and the first half of 2024, ca. 95% of the contingent liabilities from guarantees and sureties issued by the State Treasury belonged to the low-risk group. In particular, the design of the financing of COVID-19-related guarantees minimises the risk of calling those guarantees. With regard to the new projected guarantees, the possible financing of the above-mentioned funds or the expected situation of entities does not, at present, result in a significant increase in the forecasted payment of guarantees.

III. REFORMS AND INVESTMENTS

The structural part of the Plan contains the main measures (reforms and investments) to be implemented by 2028. This set does not constitute a comprehensive list of the reform portfolio and investments that Poland intends to undertake in the coming years. These measures were presented against the background of the EU Council's recommendations to Poland (so-called: CSR) issued annually during the European Semester. The Plan mainly addresses the 2024 recommendations, which will only be formally adopted by the Council of the EU in October, but their content is *de facto* already known.

In addition, these actions contribute to the common economic priorities of the EU as set out in Article 13 of the MTP Regulation:

- a just green and digital transition, including the climate objectives set out in Regulation (EU) 2021/1119 of the European Parliament and of the Council of 30 June 2021 establishing the framework for achieving climate neutrality and amending Regulations (EC) No 401/2009 and (EU) 2018/1999 ('European Climate Law') (hereinafter referred to as Regulation (EU) 2021/1119);
- social and economic resilience, including the European Pillar of Social Rights;
- energy security.

Table 15 summarises each reform and investment, which is then described in more detail. The relevant parts of the 2024 recommendations, the EU's common priorities or, where possible, the relevant provisions of the RRP or the Partnership Agreement 2021-2027 (PA) have been assigned to the measures.

The area of **economic competitiveness** includes the reform of industrial property rights and measures to facilitate the participation of small and medium-sized enterprises in public procurement. **Labour market** measures will include reforms and investments in supporting labour market institutions, as well as measures to develop long-term care. In the area of **digitalisation of the economy**, the focus was on investments supporting the digitalisation of firms. In the area of **green economy**, water management, both legislative and investment-related, e.g. in water and sanitation infrastructure in rural areas, will be mainly addressed.

In the field of **energy**, actions will address energy infrastructure, wind energy and hydrogen technology. This is the most extensive part of the summary, due to significant challenges for Poland, also identified in the EU Council Recommendations, and the need to implement the RePowerEU chapter of the RRP.

The Plan does not include the table recommended by the European Commission with the reforms and investments underpinning the extension of the adjustment period, as it is only required for countries requesting an extension of the adjustment period.

Table 15. Reforms and investments in 2025-2028 against the 2024 country-specific recommendations and common EU priorities

	Reforms and investments	RRP/Partnership Agreement	Country-specific recommendations to Poland	Common priorities
	Competitiveness of the economy			
1.	**Increasing innovation and competitiveness of the economy – draft act – Industrial Property Law — PORP/MEDT[30]** Creating a comprehensive, transparent and modern regulation for the protection of industrial property, in particular by simplifying and shortening the procedures for obtaining and maintaining the protection of industrial property rights, by providing incentives for comprehensive protection of innovative solutions and by creating a protection strategy for entrepreneurs to build a competitive advantage in the market.			Priority 1: A fair green and digital transition, including the climate objectives set out in Regulation (EU) 2021/1119. Priority 2: Social and economic resilience, including the European Pillar of Social Rights.
2.	**Expanding access to public procurement for the small and medium-sized enterprises sector – MEDT** The current legal framework ensures that small and medium-sized enterprises (SMEs) are supported in the tendering process (e.g. through pre-financing or partial payments by the contracting authority). The next step is to provide substantive support to SMEs in the form of a national training programme on practical aspects of tendering for public contracts. As part of the online platform pzp.gov.pl, a dedicated SME module has been developed to facilitate cooperation among economic operators for the performance of public contracts. Work is ongoing to put in place a certification mechanism for contractors to confirm their capabilities and resources. This		CSR 3, part 2: Foster competition in public procurement processes, making these more efficient and less cumbersome, especially for SMEs	Priority 1: A fair green and digital transition, including the climate objectives set out in Regulation (EU) 2021/1119.

[30] The full names of the authorities responsible for the action are given in Chapter III.1.

	will simplify the public procurement awarding process and increase predictability for economic operators.			
	Labour market			
3.	**(a) Reform and investment in support of labour market institution reform – MFLSP** The reform aims to change the way public employment services (PES) operate and strengthen active labour market policies, improve the recruitment of foreign workers, implement new provisions on electronic contracts and explore ways to increase the use of collective agreements and a single employment contract. The reform is implemented mainly through the entry into force of the new Act on the labour market and employment services (UC29) and the development of new standards for the functioning of the PES in Poland (*management performance framework*), which will be included in the envisaged provisions of the draft UC29 Act, the 3-year PES Development Plan. The reform is being implemented within the framework of the RRP. Part of the milestone for this reform is also the entry into force of provisions complementary to the above-mentioned UC29 Act as regards the access of third-country nationals to the Polish labour market. The reform supports the investment in the RRP, which aims to increase the capacity of public employment services to support the functioning of the labour market by implementing measures on the digitalisation of services and tools used by public employment services and training for public employment services and to carry out an information campaign on the new services offered by the PES, including their future users.	RRP A.4.1: *Effective institutions for the labour market* RRP A4.1.1: *Investment in support of labour market institution reform.*		Priority 2: Social and economic resilience, including the European Pillar of Social Rights.

	(b) Increase labour market participation through the development of long-term care – MH/MFLSP/CHPRRP (Minister for Senior Policy) Increase the labour market participation rate of specific groups, in particular women, through the development of the long-term care system in Poland. To this end, a strategic review of the long-term care system has been carried out, which will be followed by systemic solutions. The following actions will also be implemented: * review public spending to assess the effectiveness of public funding of long-term care; * adopt a document proposing solutions to improve the quality of long-term care in social and healthcare systems.	RRP A4.6: *Increase the labour market participation of certain groups by developing of long-term care.* UP 2021-2027: 1.4. A more social Europe (CP4) *Area: health care, including health long-term care* *Area: labour market, human resources* *Area: inclusion and social inclusion*	CSR 3, part 1: Take steps to increase labour market participation of disadvantaged groups, including by improving quality of and access to formal home- and community-based long-term care.	
	Digitalisation of the economy			
4.	**Universal access to high-speed internet – MD** Eliminating areas of digital exclusion, known as 'NGA white spots' (*NGA), by ensuring universal access to very high-* speed internet.	RRP C1.1.1: *Ensuring very high-speed internet access in white spots.* UP 2021-2027: 1.1. Objective 'A more competitive and smarter Europe by promoting innovative and smart economic transformation' (CP1) *Area: strengthening digital connectivity.*	CSR 3, part 3: Support private investments by fostering digitisation of companies.	Priority 1: A fair green and digital transition, including the climate objectives set out in Regulation (EU) 2021/1119.
5.	**Robotisation and digitalisation of businesses – MSA** Support for projects involving the deployment of innovative solutions geared towards the digital transition.	RRP A2.1.1: *Investments in the area of robotisation and digitalisation in enterprises.* UP 2021-2027:	CSR 3, part 3: Support private investments by	Priority 1: A fair green and digital transition, including the climate objectives set

	The investment will cover the digitalisation of business processes, supporting the transition to Industry 4.0 with a particular focus on robotisation and operational technologies. The investment will support the use of cloud technologies and artificial intelligence in the integration and management of production and business processes; deployment of smart production lines, construction of smart factories; deploy modern digital technologies that support the transition towards reducing environmental emissions (in particular greenhouse gases) and reducing the use of natural resources and reducing the environmental impact of production and business processes.	1.1.A more competitive and smarter Europe by promoting innovative and smart economic transformation *Area: strengthening the capacity of enterprises and public administrations for a modern economy*	fostering digitisation of companies.	out in Regulation (EU) 2021/1119.
6.	**Digital transformation of businesses through the use of cloud computing – MD** Implement private investments and improve access to finance for the digital transformation of Polish companies and ensure their strategic autonomy. Support will be granted to digital transformation projects where at least 30% of the total eligible costs are related to cloud infrastructure and cloud services.	RRP C4.1.1: *Supporting the digital transformation of businesses through the use of cloud computing technologies.*	CSR 3, part 3: Support private investments by fostering digitisation of companies. .	Priority 1: A fair green and digital transition, including the climate objectives set out in Regulation (EU) 2021/1119.
	Green economy/sustainability			
7.	**Green transition in urban areas** **Draft act amending the Environmental Protection act and certain other acts (UC33) – MCE** Support cities' capacity to prioritise, plan, implement and finance investment projects to mitigate and adapt to climate change in line with the European Green Deal. Increase the share of green areas and green-blue infrastructure in cities, including retention functions.	RRP B3.4: *Investments for a comprehensive green transition of cities.* UP 2021-2027: 1.2 A greener, low-carbon Europe *Area: climate change adaptation and disaster risk prevention, support for resilience and ecosystem-based approaches*	CSR 4, part 1: Take measures to accelerate the phase-out of fossil fuels in the district heating sector by shifting to renewable energy. CSR4.Part 2: Improve policies related to the protection and	Priority 1: A fair green and digital transition, including the climate objectives set out in Regulation (EU) 2021/1119.

			sustainable use of water resources to ensure the long-term sustainability of sectors that rely on ecosystem services.	
8.	**More sustainable use of water resources in rural areas – MARD** Investments in the construction and modernisation of water and sewage infrastructure, construction of individual wastewater treatment systems in rural areas and support for sustainable water management and combating the effects of drought in agriculture.	*Support under the RRP (B3.3.1) and the Strategic Plan for the Common Agricultural Policy 2023-2027*	CSR 4, part 2: Improve policies related to the protection and sustainable use of water resources to ensure the long-term sustainability of sectors that rely on ecosystem services.	Priority 1: A fair green and digital transition, including the climate objectives set out in Regulation (EU) 2021/1119. Priority 2: Social and economic resilience, including the European Pillar of Social Rights.
9.	**Implementation of Directive 2020/2184 of the European Parliament and of the Council of 16 December 2020 on the quality of water intended for human consumption – MI** The task includes the adoption of an Act amending the act on Collective Water Supply and Collective Wastewater Disposal and certain other acts and Regulations issued pursuant to the act.		CSR 4, part 2: Improve policies related to the protection and sustainable use of water resources to ensure the long-term sustainability of sectors that rely on ecosystem services.	Priority 2: Social and economic resilience, including the European Pillar of Social Rights.
	Energy infrastructure/security			
10.	**(a) Wind energy reform:** Offshore wind energy will be developed on the basis of the Act on the Promotion of Electricity Production in Offshore Wind Farms. The reform introduces detailed requirements, including	RRP G3.1.5: *Construction of offshore wind farms (Offshore Wind Fund) – repayable support*	CSR 4, part1: Take measures to accelerate the phase-out of fossil fuels in the	Priority 1: A fair green and digital transition, including the climate objectives set

	construction, for elements of offshore power plants to ensure the safety and reliability of the offshore plant assembly. **(b) Construction of offshore wind farms (Offshore Wind Fund) – MSA** Support the construction of offshore wind farms with the necessary infrastructure by granting loans from the Maritime Wind Energy Fund set up for this purpose. Support will be granted to projects for the construction of offshore wind farms complexes in the exclusive economic zone of Poland with a minimum total capacity of 3 GW, generated by at least 2 projects.		district heating sector by shifting to renewable energy.	out in Regulation (EU) 2021/1119. Priority 3: Energy security.
11.	**Energy storage systems – MCE** Ensure the continuity of electricity supply to customers and increase the efficiency of the use of renewable energy sources (RES) by investing in technologies that facilitate electricity balancing in the electricity system. **Timetable:** — Modernisation of the pumped storage facility – 2nd quarter 2026	RRP G1.1.3: *Energy storage systems – non-repayable support* RRP G3.3.1: *Energy storage systems – repayable support*	CSR 4, part 1: Take measures to accelerate the phase-out of fossil fuels in the district heating sector by shifting to renewable energy.	Priority 1: A fair green and digital transition, including the climate objectives set out in Regulation (EU) 2021/1119. Priority 3: Energy security.
12.	**Development of hydrogen technologies** **(a) Investments in hydrogen technologies, hydrogen production, storage and transport – MCE** Create a Polish hydrogen economy and increase the use of renewable and low-carbon hydrogen. **(b) Improving conditions for the development of hydrogen technologies and other decarbonised gases – MCE** The development of a market for renewable and low-carbon hydrogen and other alternative fuels. Create a regulatory framework for the functioning of hydrogen as an alternative fuel	RRP B2.1.1: *Investments in hydrogen technologies, hydrogen production, storage and transport – non-repayable support* RRP B2.1: *Investment in hydrogen, hydrogen manufacturing, storage and transport*	CSR 4, part1: Take measures to accelerate the phase-out of fossil fuels in the district heating sector by shifting to renewable energy.	Priority 1: A fair green and digital transition, including the climate objectives set out in Regulation (EU) 2021/1119. Priority 3: Energy security.

	in transport by introducing provisions for the construction, safe operation and modernisation of hydrogen stations, as well as the authorities responsible for the entry into service of hydrogen stations and their necessary technical control, establishing a system to monitor and control the quality of hydrogen fuels used for the propulsion of vehicles.			
13.	**Energy infrastructure;** **(a) Development of transmission networks, smart electricity infrastructure – MCE** Extension, modernisation and digitalisation of transmission networks in a number of regions, including the extension of connections between the northern and southern parts of the country to facilitate the integration of renewable energy sources into the electricity system. The investment involves the extension of 400 kV (320 km) and 220 kV (50 km) transmission lines together with the construction or modernisation of the relevant stations (5 units). The investment will also introduce a new Central Energy Market Information System (CSIRE) **(b) Construction or modernisation of electricity distribution networks in rural areas to connect new RES – MCE** Support the construction, modernisation and digitalisation of electricity distribution networks in rural areas to enable the connection of new RES in these areas. The investment includes the construction or modernisation of 880 km of distribution networks, including the necessary stations, and the integration of smart grid functions. **(c) Energy infrastructure (measure 2.3 Feniks) – MCE** The aim of the action is to develop smart electricity systems. Support will be given to the construction, extension or modernisation of power lines at all voltage levels, power stations	RRP G1.2.3: Transmission grid development, smart electricity infrastructure, including scaled-up investments – non-repayable support. RRP G1.2.4: *Construction or modernisation of electricity distribution networks in rural areas to enable the connection of new renewable energy sources – non-repayable support* UP 2021-2027: Policy objective 2: A greener, low-carbon Europe	CSR 4, part1: Take measures to accelerate the phase-out of fossil fuels in the district heating sector by shifting to renewable energy.	Priority 1: A fair green and digital transition, including the climate objectives set out in Regulation (EU) 2021/1119. Priority 3: Energy security.

	and projects containing both of the above-mentioned components. Supported projects must promote the integration of RES into the network. Energy storage projects contributing to the integration of RES energy may also be supported. **<u>(d) Measure FEPW.02.01 Energy distribution – MCE</u>** Support will be provided for the development of smart grids (distribution systems) in order to increase the possibility of RES connection, the development of zero-emission transport and the sustainability of energy supply to consumers.	Specific objective 2.3 "Developing smart energy systems and grids and energy storage systems outside the trans-European energy network (TEN-E)" Area: support for energy infrastructure, including energy storage and smart grids <u>UP 2021-2027:</u> Policy objective 2: A greener, low-carbon Europe Specific objective 2.3 "Developing smart energy systems and grids and energy storage systems outside the trans-European energy network (TEN-E)"		
14.	**<u>Support to sectors of the Polish economy that directly bear the costs of the energy transition – MCE</u>** The objective of the investment is to support households, private sector, public and non-public sector investment projects in energy efficiency and the construction of renewable energy sources in the form of repayable investment projects. The Energy Support Fund is worth EUR 16.3 billion. The Facility provides direct loans to final beneficiaries to finance green investment projects. The loans are granted directly by Bank Gospodarstwa Krajowego (BGK). Support will be provided	<u>NOP G3.1.4 *Support to the national energy system (Energy Support Fund).*</u>	<u>CSR 4, part1:</u> Take measures to accelerate the phase-out of fossil fuels in the district heating sector by shifting to renewable energy.	<u>Priority 1:</u> A fair green and digital transition, including the climate objectives set out in Regulation (EU) 2021/1119. <u>Priority 3:</u> Energy security.

	for, inter alia: the construction and modernisation of electricity, heating and gas networks (for decarbonised gases) and the construction of renewable energy sources. In accordance with the rules set out in Annex VI to the Recovery and Resilience Facility Regulation (OJ L 57, 18.2.2021, p. 17-75 as amended) at least 56% of this funding will contribute to climate objectives.			

III.1. Detailed description of reforms and investments from Table 15

Area: Competitiveness of the economy

1. ***Increasing innovation and competitiveness of the economy – draft act – Industrial Property Law (Patent Office of the Republic of Poland/Ministry of Economic Development and Technology)***

The aim of the reform is to create a comprehensive, transparent and modern regulation for the protection of industrial property, in particular by simplifying and shortening the procedures for obtaining and maintaining the protection of industrial property rights, by providing incentives for comprehensive protection of innovative solutions and by creating a protection strategy for entrepreneurs to build a competitive advantage in the market.

The legislative work is planned to be completed by the end of 2025.

2. ***Expanding access to public procurement for the SME sector (Ministry of Economic Development and Technology)***

One of the main objectives of this action is to increase competitiveness in the public procurement market by increasing the involvement of SMEs in this market. The current legal framework ensures that SMEs are supported in the tendering process (e.g. by introducing pre-financing or partial payments by the contracting authority). The next step is to provide substantive support to SMEs in the form of a national training programme on practical aspects of tendering for public contracts. As part of the online platform pzp.gov.pl, a dedicated SME module has been developed to facilitate cooperation between economic operators for the performance of public contracts. Work is ongoing to put in place a certification mechanism for contractors to confirm their capabilities and resources. This will simplify the public procurement awarding process and increase predictability for economic operators.

The certification legislative process will be completed by Q1 2025 at the latest. The platform will be made available to users in the first half of 2025.

Area: Labour market

3.
   a) ***Reform and investments supporting the reform of labour market institutions (Ministry of Family, Labour and Social Policy)***

The reform will be implemented through the entry into force of the Labour Market and Employment Services Act and the development and implementation of new standards for the functioning of public employment services (PES), as well as through the entry into force of a complementary block of legislation on access of third-country nationals to the Polish labour market (this is part of the RRP milestone for this reform). The reform will introduce changes to the public employment services' actions, as the current working model of employment offices requires a decisive transition to take into account the new needs of employers and workers and changes in the labour market.

The functioning of the labour offices will be shifted from mitigating the effects of unemployment to proactive measures aimed at activation, developing competences and skills for PES clients and effective cooperation with employers. The reform will be based on the implementation of new working methods, operating standards and coordination of public employment services on the basis of the adopted new regulations (the provisions of the draft UC29 Act make it compulsory to

draw up and implement 3-year Public Employment Service Development Plans, which will include the above-mentioned standards).

The reform will be supported by an investment from RRP funds. The investment proposes to digitise the services and tools used by the PES, to train their staff and to launch an information campaign on the new services offered by the PES.

The legislative changes will enter into force in 2025. The investment will be implemented in accordance with the timetable for the implementation of the RRP.

b) ***Increasing labour market participation through the development of long-term care (Ministry of Health/Ministry of Family, Labour and Social Policy/Chancellery of the Prime Minister – Minister responsible for senior policy)***

The objective of the measure is to increase the labour market participation of specific groups, in particular women, through the development of the long-term care system in Poland. As a first step, a strategic review of the long-term care system was carried out. The recommendations of the report and the results of the public spending review to assess the effectiveness of public funding of long-term care will underpin systemic change. This will result in a proposal for legislative changes and the adoption of a document proposing solutions to improve the quality of long-term care in social and healthcare systems.

The finalisation of the spending review and the adoption of a document proposing solutions to improve the quality of long-term care is scheduled for 2025.

Area: Digitalisation of the economy

4. ***Universal access to high-speed internet (Ministry of Digitalisation)***

The investment will increase the number of households covered by the fixed broadband network, with a particular focus on areas where there is currently no high-capacity broadband infrastructure (i.e. above the minimum standard of 100 Mbps). The activities will cover a coverage allowing access to modern services in the areas with the lowest population density, which are the most unprofitable for commercial investment and require public support. In their case, the market would not ensure the desired infrastructure development.

By eliminating the lack of access to very high-speed internet services in digital exclusion areas (white spots), the investment will provide access to modern fixed-line electronic communication services, which play a key role in responding to the crisis, enabling remote teaching and remote work, healthcare, personal communication and entertainment.

The investment will also support actions related to the modernisation of local computer networks (LANs) in schools and the provision of access to very high-speed internet.

The investment will be implemented in accordance with the timetable for implementation of the RRP.

5. ***Robotisation and digitalisation of enterprises (Ministry of State Assets)***

The objective of this investment is to support projects involving the deployment of innovative solutions geared towards the digital transition. The projects implemented will relate to robotisation, artificial intelligence or digitalisation of processes, technologies, products or services.

The investment will focus on the digitalisation of business processes, supporting the transition to Industry 4.0 with a focus on robotisation and operational technologies. The investment will also support: the use of cloud technologies and artificial intelligence in the integration and management of production and business processes; deployment of smart production lines, construction of smart factories. Investments will also include the deployment of modern digital technologies, supporting the transition towards reducing environmental emissions (in particular greenhouse gases) and reducing the use of natural resources and reducing the environmental impact of production and business processes.

The investment shall aim at ensuring an adequate level of digitalisation and robotisation of large enterprises to enable their productivity to increase, improve working conditions and safety, and accelerate the transition to Industry 4.0.

The investment will be implemented in accordance with the timetable for implementation of the RRP.

6. *Digital transformation of businesses through the use of cloud computing technology (Ministry of Digitalisation)*

The objective of the investment is to support the digital transformation of enterprises, including activities in the area of cloud technologies to stimulate innovation and increase the operational efficiency of Polish companies. The ability to use cloud computing services will reduce the impact of cyber-attacks experienced by digital service providers, which will have a positive impact on the quality and security of the services provided.

The investment will incentivise private investment by improving access to finance for the digital transformation of Polish companies and ensuring their strategic autonomy. Support in the form of loans will be provided directly to private sector entities. Funding will be provided to cover the costs of cloud infrastructure and services.

In addition, the action includes the publication of a guide on the digital transformation of businesses and the conclusion of legally binding financing agreements with final beneficiaries.

The investment will be implemented in accordance with the timetable for implementation of the RRP.

Area: Green economy/sustainability

7. *Green transition in urban areas. Draft act amending the Environmental Protection Act and certain other acts (UC33) (Ministry of Climate and Environment)*

The objective of this action is to support cities in prioritising, planning, implementing and financing investment projects to mitigate and adapt to climate change, in line with the European Green Deal. Particular emphasis will be placed on increasing the share of green areas and green-blue infrastructure in cities, which will perform, inter alia, retention functions. The reform and the accompanying investments are primarily aimed at increasing the amount of green spaces in urban space. Legislative changes will ensure that sustainability aspects are taken into account in spatial planning processes and that stakeholders are consulted. Local and regional authorities will also receive adequate support for the prioritisation, planning and implementation of climate change mitigation and adaptation projects. These actions will be complemented by a dedicated financial instrument to support investments related to the green transition of urban areas.

The amendments to environmental law and certain other acts will enter into force in 2025.

8. ***More sustainable use of water resources in rural areas (Ministry of Agriculture and Rural Development)***

The objectives of this investment are firstly to increase access to water and sanitation infrastructure in areas with the greatest deficits and to improve the quality of life in rural areas through the development of such infrastructure. The investment also aims to strengthen the investment potential of rural areas. The second objective is to support rural areas in improving water management and efficient management of water resources. In this way, it is planned to increase the resilience of agriculture to drought, prevent floods on agricultural land and improve water efficiency by properly regulating water relations and reducing water run-off.

An additional objective is to increase water retention, provided that this need and the nature of the measures are duly justified. Climate-resilient and nature-based solutions will be a priority.

The investment will support measures related to the construction, expansion and modernisation of water supply and wastewater systems in rural areas, which will contribute to increasing the number of inhabitants using water and sewage infrastructure. The investment will also include the promotion of rational management of water resources and wastewater. It will be possible to co-finance infrastructure using digital solutions, such as the installation or replacement of water meters with remote reading devices, as well as the creation of information and communication systems for the water and sewage management. Alternative solutions to water and sewage infrastructure in rural areas, such as linking collective systems to septic tanks or individual water treatment stations, will also be considered.

Timetable of work: according to the arrangements of the implementation of the RRP. The entire selection process, together with the clearance of applications, will be completed in 2025.

9. ***Implementation of Directive 2020/2184 of the European Parliament and of the Council of 16 December 2020 on the quality of water intended for human consumption (Ministry of Infrastructure)***

The objective of the action is to transpose into Polish law the Directive on the quality of water intended for human consumption. This task includes the adoption of an Act amending the act on Collective Water Supply and Collective Wastewater Disposal and certain other Acts and Regulations issued pursuant to the act. The entry into force of the draft act will contribute to standardising the procedure for hygienic assessment of materials and articles in contact with water intended for human consumption, increasing the level of quality of service provision to customers by ensuring that the public has access to adequate, up-to-date information on water intended for human consumption, and improving the management of water quality and losses through the obligation to carry out risk assessment and risk management and to assess water losses.

The legislative work will be finalised in 2024 and the solutions will be implemented as of 2025.

Area: Energy infrastructure/security

10.

a) ***Offshore wind energy development (Ministry of Climate and Environment)***

Offshore wind energy will be developed on the basis of the Act on the Promotion of Electricity Production in Offshore Wind Farms. The reform introduces detailed requirements, including construction, for elements of offshore power plants to ensure the safety and reliability of the offshore plant complex.

The investment will be implemented in accordance with the timetable for implementation of the RRP.

b) *Construction of offshore wind farms (Offshore Wind Energy Fund) (Ministry of State Assets)*

This measure includes public investments in the Offshore Wind Fund to stimulate private investment and improve access to finance in the Polish offshore wind sector. The financing agreements between the Fund and the final beneficiaries will aim at achieving at least 3 GW of installed offshore wind capacity under at least two projects. The Fund will provide loans to both private and public sector actors in the sector.

The investment will be implemented in accordance with the timetable for implementation of the RRP.

11. Energy storage systems (Ministry of Climate and Environment)

The objective of the investment (RRP G1.1.3 and G3.3.1) is to ensure the continuity of electricity supply to customers and to increase the efficiency of the use of RES through investments in energy balancing technologies in the electricity system.

The investment will be implemented in accordance with the timetable for implementation of the RRP.

12. Development of hydrogen technologies

a) *Investments in hydrogen technologies, hydrogen production, storage and transport (Ministry of Climate and Environment)*

The objective of the investment is to develop the Polish hydrogen economy and increase the use of renewable and low-carbon hydrogen. The project will be part of an integrated strategy that prioritises renewable hydrogen and will consist of several phases.

The first phase will include investments in hydrogen refuelling stations, including hydrogen bunkering installations. While these facilities will be fit for all hydrogen sources, bunker grey hydrogen will be limited over time.

The second phase of the project will focus on the development, construction and deployment of innovative hydrogen-powered transport units. The investments are to cover the development, testing and demonstration of different types of transport units powered by hydrogen fuel cells. This is to support Poland's efforts to decarbonise mobility. This will include both the construction of new units and the retrofitting of existing ones, however this units cannot be used for the transport of fossil fuels.

In the third phase of the project, public investments will be implemented through a grant scheme, encouraging private investment and improving access to finance in the Polish renewable and low-carbon hydrogen production sector. Grant agreements will be concluded between the Facility and the final beneficiaries and will aim to achieve a total hydrogen production capacity of at least 315 MW.

The investment will be implemented in accordance with the timetable for implementation of the RRP.

b) *Improving conditions for the development of hydrogen technologies and other decarbonised gases (Ministry of Climate and Environment)*

The objective of the reform is to develop a market for renewable and low-carbon hydrogen and other alternative fuels. The reform consists of two key actions.

The first action focuses on creating a regulatory framework for the use of hydrogen as an alternative fuel in transport. It will introduce provisions for the construction, safe operation and upgrade of hydrogen stations and designate the authorities responsible for their entry into service and technical inspection. In addition, a system of monitoring and quality control of hydrogen used to drive vehicles will be established.

The second action aims at creating a hydrogen infrastructure project and developing hydrogen markets. This action will enable renewable and low-carbon hydrogen to be placed on the market, integrate its production with other energy markets and develop infrastructure to create predictable regulatory conditions for investors and promote the wide use of hydrogen. These reforms are in line with the 'Do No Significant Harm' Technical Guidance (2021/C 58/01) and ensure that the deployment of renewable hydrogen is not hampered compared to hydrogen from other sources. The main objective of the reform is to develop renewable hydrogen and hydrogen produced by electrolysers, as well as to promote low-carbon hydrogen in line with the EU Hydrogen Strategy.

The investment will be implemented in accordance with the timetable for implementation of the RRP.

13. Energy infrastructure;

a) Development of transmission networks, smart electricity infrastructure (Ministry of Climate and Environment)

The objective of the investment is to expand, modernise and digitalise transmission networks in several regions, including increased connections between the northern and southern parts of the country, in order to facilitate the integration of renewable energy sources into the electricity system.

The investment shall include:

- the extension of 400 kV and 220 kV transmission lines, including the construction or modernisation of the relevant stations;
- the implementation of the new Central Energy Market Information System (CSIRE), supported by an energy quality analyser system, which will contribute to the digitalisation of electricity infrastructure;
- development of three new or upgraded information and communication technology systems that will support data processing, system management and transmission network and data center operations.

The investment will be implemented in accordance with the timetable for implementation of the RRP.

b) Construction or modernisation of electricity distribution networks in rural areas to connect new RES sources (Ministry of Climate and Environment)

The objective of the investment is to support the construction, modernisation and digitalisation of electricity distribution networks in rural areas to enable the connection of new renewable energy sources in rural areas. The investment includes the construction or modernisation of 880 km of distribution networks, including the necessary stations, and the integration of smart grid functions. Priority will be given to projects for built or upgraded networks to be identified by the relevant institutions.

The investment will be implemented in accordance with the timetable for implementation of the RRP.

c) Energy infrastructure – measure 2.3 of FENiKS (Ministry of Climate and Environment)

The aim of the action is to develop smart electricity systems. Support will be given to the construction, extension or modernisation of power lines at all voltage levels, power stations and projects containing both of the above-mentioned components. Supported projects must promote the integration of RES into the network. Energy storage projects contributing to the integration of RES energy may also be supported.

The activities of the action will be completed in 2025.

d) Action FEPW.02.01 Distribution of energy (Ministry of Climate and Environment)

Support will be provided for the development of smart grids (distribution systems) in order to increase the possibility of RES connection, the development of zero-emission transport and the sustainability of energy supply to consumers.

This measure consists of allocating public funds to the creation of an Energy Support Fund aimed at encouraging private investment and improving access to finance for the sectors of the Polish economy which bear the direct costs of the energy transition. The Fund will offer loans to private sector entities, households and similar public sector entities. All investments supported by the Fund shall be in line with the REPowerEU objectives set out in Article 21c paragraph. 3 of Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility with the exception of point (a). The loans are granted directly by BGK.

The call activities will take place in 2025.

14. Support to Polish economic sectors that directly bear the costs of the energy transition (Ministry of Climate and Environment)

The objective of the investment is to provide repayable support to projects implemented by households, private sector, public and other organisations that focus on improving energy efficiency and building renewable energy sources. The Energy Support Fund has EUR 16.3 billion.

The Facility provides direct loans to final beneficiaries to finance green investment projects. The loans are granted directly by BGK. Support will be provided for, inter alia: the construction and modernisation of electricity, heating and gas networks (for decarbonised gases) and the construction of renewable energy sources.

The investment will be implemented in accordance with the timetable for implementation of the RRP.

III.2. Implementation of relevant country-specific recommendations

In 2024, Poland received four recommendations from the Council of the EU. These concern, inter alia:

- timely submission of the Plan to the EU institutions and containment of expenditure growth in 2025;

- continue the smooth implementation of the RRP, including measures under the REPowerEU chapter, and accelerate the implementation of cohesion policy programmes;
- take measures to increase the labour market participation of disadvantaged groups;
- further development of the renewable energy sector.

CSR 1

Poland shall submit the Plan no later than by 15 October 2024, as agreed with the European Commission. Detailed information on the net expenditure path and the deficit and debt projections are presented in Chapters I and II of the Plan.

CSR 2

The implementation of recommendation No. 2 is continuous and therefore no specific reform has been attributed to it in the Plan. As regards the smooth implementation of the RRP, on 16 July 2024 the European Commission issued an implementing decision approving the second revision of the Polish recovery plan. Calls have been launched so far (the selection of applications for support for projects has begun) under 46 investments for 87.7% of the RRP allocation, including 34 investments for 78.4% of the grant allocation and 12 investments for 96.2% of the loan part allocation. In September 2024, Poland submitted a second and third payment request to the European Commission.

In the area of smooth implementation of cohesion policy programmes by 15 September 2024, seven national and sixteen regional programmes for 2021-2027 include:

- 1871 calls were announced with a total budget of PLN 215.4 billion, which corresponds to approximately 66 % of the EU allocation;
- 38268 applications for co-financing were submitted for a total expenditure of PLN 317.4 billion, including the co-financing amount of PLN 246.3 billion, which corresponds to approximately 75% of the EU allocation;
- 7363 co-financing agreements for total PLN 99.4 billion were signed, including the EU contribution of PLN 78.4 billion, which corresponds to approximately. 24.4% of the EU allocation.

CSR 3

In the area of public procurement, legislative changes have been introduced in previous years, State Purchasing Policy has been developed, in the following years the actions resulting from this document will be implemented. Poland is also implementing training measures for SMEs and certification of contractors. In addition, measures are being taken to facilitate the participation of SMEs in public procurement. This project will provide real support to SMEs through the continuation of the nationwide training programme on practical aspects of applying for public procurement and online tools facilitating cooperation of contractors in the implementation of public procurement contracts.

Labour market policy measures will include a reform of labour market institutions together with relevant investments. The legal framework is being finalised. Their implementation, which will include, inter alia, the implementation of the investments provided for in the RRP, is planned in early 2025 (detailed in detail in item: 3a in Chapter III.1).

Selected activities:

- implementation of modernised IT systems increasing the capacity of all levels of public employment services (PES) to support the functioning of the labour market,
- taking measures to support the reform of labour market institutions to change the way the PES operates and strengthen active labour market policies. It also aims to improve recruitment procedures for third-country nationals, implement new provisions on electronic contracts and explore ways to increase the number of collective agreements and individual employment contracts.

Measures are also being taken to develop long-term care. These measures aim to increase the labour market participation of specific groups, in particular women, through the development of the long-term care system in Poland. As a first step, a spending review will be carried out, followed by a document proposing solutions to improve the quality of long-term care in social and healthcare systems.

Actions are planned in the area of digitalisation. The investments undertaken by Poland will include robotisation and digitalisation in enterprises and the development of cloud technologies. Efforts will continue to promote the roll-out of high-speed internet access. The areas of digital exclusion, the so-called 'NGA white spots', will be eliminated by providing universal access to very high-speed internet.

As part of the robotisation and digitalisation of businesses, the planned investment will include the digitalisation of business processes and supporting the transition towards Industry 4.0, with a particular focus on robotisation and operational technologies.

As part of the digital transformation of businesses, a cloud investment that implements private investments, improves access to finance for the digital transformation of Polish companies and provides them with strategic autonomy also deserves attention.

CSR 4

In the first part of CSR 4, Poland received a recommendation to take action to accelerate the phase-out of fossil fuels in the heating sector through the transition to renewable energy. Poland carries out this task as part of a wider set of measures in the area of infrastructure and energy security. To this end, Table 15 includes reforms and investments increasing the potential for renewable energy. These include creating the conditions for development of wind energy (especially offshore), development of hydrogen technologies, construction of energy storage systems and development of energy infrastructure (notably transmission grids at all voltage levels and construction or modernisation of electricity distribution networks in rural areas). This is accompanied by specific support for the Polish economic sectors directly bearing the costs of the energy transition in measures to improve energy efficiency and to build RES.

In the second part of CSR 4, Poland received a recommendation to improve policies in the area of conservation and sustainable use of water resources to ensure the long-term sustainability of sectors that depend on ecosystem services. This task is to be addressed by the revision of the Environmental Law announced in the Plan, which aims primarily to foster the green transition in urban areas by supporting the planning, implementation and financing of investment projects to mitigate and adapt to climate change. This also includes increasing the share of green areas and green-blue infrastructure in cities, performing, inter alia, retention functions, The next measure is a project for a more sustainable use of water resources in rural areas (water and sanitation infrastructure, wastewater treatment plants, sustainable water management). It will be complemented by the implementation of Directive 2020/2184 on the quality of drinking water.

III.3. Responding to the priorities of the European Union and linking to the National Recovery and Resilience Plan

Table 15 shows the key projects that respond to the challenges facing Poland and the European Union. In most cases, the implementation of these projects responds to national challenges, but is also in line with the EU's common priorities. Therefore, the Plan does not identify a separate group of actions for the implementation of common priorities, as they are, in principle, coherent and will be achieved by the same implementation measures.

In addition, some actions are comprehensive and can therefore be assigned to more than one common EU priority. This is the case for energy infrastructure actions that directly implement Common Priority 3 (Energy Security) but also contribute to Priority 1 (fair green and digital transition, including climate objectives).

Action for a more sustainable use of water resources in rural areas is, on the one hand, part of Priority 2 (social resilience, including the European Pillar of Social Rights), but also part of a just green transition (priority 1). Similarly, labour market measures (reform of labour market institutions, development of long-term care) are both a component of building social resilience and delivering on the just twin transition priority. Measures in the area of digitalisation, on the one hand, directly meet the demands of a just transition, but also contribute to building social resilience.

The content of the Plan is based on the approach used in previous years, stemming from the European Commission's expectations of monitoring the implementation of the RRP under the European Semester. For this reason, the Plan includes, inter alia, measures taken from the revised RRP adopted by the Council Implementing Decision of 16 July 2024.

The inclusion of selected measures from the RRP in the Plan is due to the integration of the economic recovery into the European Semester process in 2022 and the convergence of the conditions for the implementation of reforms and investments. As a rule, the Plan includes projects with milestones and targets with a deadline of 2028.

Measures responding to the challenges outlined in the Plan are financed, inter alia, through RRP measures, so because of the nature and requirements of the Plan, the NRRP instruments are predominant in the Plan.

The RRP mainly includes investments implementing reforms that aim to minimise the impact of the COVID-19 pandemic, increase the resilience of the economy and accelerate the energy and digital transitions.

III.4. Investment needs

The possibility of a precise assessment of investment needs up to 2028 is limited at this stage, inter alia due to the need to choose the methodology in this regard[31].

In addition, it should be noted that for some public policies (e.g. energy policy, health policy, social policy), Poland is currently reviewing financial reforms and projects, the implementation of which is warranted in a context of very dynamically changing internal and external circumstances. In the case of internal conditions, work is still ongoing in order to determine the

[31] In line *with the* Guidelines (cf. footnote 3), the methodology for identifying and quantifying investment needs under each of the common priorities will require further work.

directions of activities of individual ministries (e.g. on the timing of the transition in the energy sector or on the assessment of the educational reform undertaken in previous years).

As far as external conditions are concerned, this is an ongoing armed conflict along the eastern border of Poland and the EU and the EU's currently emerging strategic priorities. They are expected to result in new EU investment needs, which will translate into the investment needs of individual Member States.

Therefore, in the current situation, it is appropriate to programme relevant actions in the context of the 4 common EU priorities stemming from Article 13 of the MTP Regulation. The structural part of the Plan sets out the actions corresponding to the first 3 priorities:

- a just green and digital transition, including the climate targets set out in Regulation (EU) 2021/1119;
- social and economic resilience, including the European Pillar of Social Rights;
- energy security.

Implementation of the common EU priority regarding the build-up of defence capabilities is discussed in Chapter I.2 of the Plan.

As estimated in the September 2024 report by Mario Draghi "The future of European competitiveness"[32], in order to reverse the trend of weakening the EU's competitiveness, EUR 750-800 billion should be allocated every year for additional investments (ca. 4.4-4.7% EU GDP)[33]. The investment ratio (i.e. the share of fixed capital formation in GDP) for the EU as a whole has fluctuated slightly over the last 10 years, ranging from 19.5% to 22%. Achieving a 5 percentage point increase therefore seems to be a very ambitious target. In Poland, the rate was below the EU average at 17.8% in 2023.

The report identifies a number of specific investment needs that directly fit into the different EU priorities. For example, intervention in the area of energy prices is a key aspect of change. The report makes it clear that large differences in retail energy prices have directly resulted in a decline in the competitiveness of the European economy, which was well exploited by the US and China. Without appropriate action, this difference may continue to increase, which will certainly translate into further outflows of investors to North America or Asia. Well programmed actions will directly translate into the implementation of priorities, in this case the first and third ones.

The use of digital technologies is part of the first priority. In his report, Mr Draghi identified their level of use as a key factor in the differences between European and American competitiveness. To this end, the Polish Government has taken or will take, in the near future, a number of measures (both reforms and investments) to improve digital skills. Several of these measures, both in the areas of green transition and digitalisation, have already been programmed in the RRP. These include access to high-speed internet, enhancing digital skills, producing and storing renewable hydrogen, or building wind farms.

The implementation of the second priority on social and economic resilience stems, in part, from the actions carried out under the first and third priorities. Achieving greater economic independence involves "insurance costs" for Europe. Reducing dependencies in key areas where Europe is exposed will require significant investments and costs but can be reduced by economic

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[32] Mario Draghi, *Future of European Competitiveness*, September 2024.

[33] Most of the investment needs envisaged in the report relate to the climate transition, i.e. around. EUR 450 billion per year. In comparison, the reinforcement of defence capabilities is about EUR 50 billion, and investments in digital technologies and productivity gains through innovation are EUR 150 billion and EUR 100 billion, respectively, crucial for long-term competitiveness.

cooperation and maintaining production within the EU. One of these actions will be to ensure the security of the supply chains of key critical raw materials, including semiconductors.

The investment needs of EU countries, including Poland, will also depend on the effects of current EU and national programmes, as well as on the shape and scale of the next Multiannual Financial Framework.

Taking into account the measures under Objectives 1, 2 and 4 of the Partnership Agreement for 2021-2027 included in Table 15, the total allocation for Poland for these objectives amounts to EUR 51.4 billion. And within the framework of the RRP measures included in Table 15, the total amount allocated amounts to EUR 55.42 billion.

The Plan's horizon extends beyond the implementation period of the Recovery and Resilience Facility and, in principle, the current Multiannual Financial Framework. The implementation of the actions planned under these documents does not cover all investment needs related to the green and digital transitions, social and economic resilience and energy security. Activities related to decarbonising the economy, digitalisation and energy security will be supported in the next Multiannual Financial Framework and through investments financed from the state budget.

ANNEX

Table 16. Macroeconomic assumptions for the DSA

			2023	2023	2024	2025	2026	2027	2028
	GDP	ESA Code	bn PLN	growth rate	growth rate	growth rate	growth rate	growth rate	growth rate
1	Real GDP	B.1*g		0.2	3.1	3.9	1.7	1.4	1.2
2	GDP deflator			10.7	3.6	5.0	4.7	4.3	4.0
3	Nominal GDP	B.1*g	3 410.1	10.9	6.8	9.1	6.5	5.8	5.2
	Components of real GDP	ESA Code	bn PLN	growth rate	growth rate	growth rate	growth rate	growth rate	growth rate
4	Private consumption expenditure	P.3		-1.0	4.2	4.3	0.0	0.0	0.0
5	Government consumption expenditure	P.3		2.8	7.0	2.5	0.0	0.0	0.0
6	Gross fixed capital formation	P.51		13.1	0.4	6.4	0.0	0.0	0.0
7	Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53		0.3	0.3	0.5	0.0	0.0	0.0
8	Exports of goods and services	P.6		3.4	2.5	4.0	0.0	0.0	0.0
9	Imports of goods and services	P.7		-2.0	4.0	4.9	0.0	0.0	0.0
	Contribution to real GDP growth								
10	Final domestic demand			-3.1	3.7	4.1	0.0	0.0	0.0
11	Changes in inventories and net acquisition of value	P.52 + P.53		-5.2	0.0	0.0	0.0	0.0	0.0
12	External balance of goods and services	B.11		3.3	-0.7	-0.2	0.0	0.0	0.0
	Deflators and HICP			growth rate	growth rate	growth rate	growth rate	growth rate	growth rate
13	Private consumption deflator			10.8	3.7	5.1	0.0	0.0	0.0
14	p.m. HICP			10.9	3.7	5.0	0.0	0.0	0.0
15	Government consumption deflator			10.0	6.1	4.8	0.0	0.0	0.0
16	Investment deflator			6.0	2.7	3.7	0.0	0.0	0.0
17	Export price deflator (goods and services)			-1.4	-1.1	4.3	0.0	0.0	0.0
18	Import price deflator (goods and services)			-4.2	-0.9	4.3	0.0	0.0	0.0
	Labour market	ESA Code	level	growth rate	growth rate	growth rate	growth rate	growth rate	growth rate
19	Domestic employment (1000 persons, national accounts)		17 493	0.3	-0.2	-0.1	0.0	0.0	0.0
20	Average annual hours worked per person employed		2 019.5	-0.6	-0.1	-0.1	0.0	0.0	0.0
21	Real GDP per person employed			-0.2	3.3	4.0	0.0	0.0	0.0
22	Real GDP per hour worked			0.5	3.4	4.1	0.0	0.0	0.0
23	Compensation of employees (bn PLN)	D.1	1 325.6	13.1	10.2	6.4	0.0	0.0	0.0
24	Compensation per employee (= 23 / 19)		75.8	13.4	10.5	6.5	0.0	0.0	0.0
				%	%	%	%	%	%
25	Unemployment rate (%)			2.8	2.7	2.7	0.0	0.0	0.0
	Potential GDP and components			growth rate	growth rate	growth rate	growth rate	growth rate	growth rate
26	Potential GDP			3.3	3.2	3.3	2.0	1.7	1.6
	Contribution to potential growth								
27	Labour			0.1	0.0	0.0	0.0	0.0	0.0
28	Capital			1.7	1.6	1.6	0.0	0.0	0.0
29	Total factor productivity			1.5	1.6	1.7	0.0	0.0	0.0
				% pot. GDP	% pot. GDP	% pot. GDP	% pot. GDP	% pot. GDP	% pot. GDP
30	Output gap			-1.0	-1.2	-0.7	-0.9	-1.2	-1.6

Source: Ministry of Finance.

Table 17. External assumptions

			2023	2024	2025	2026	2027	2028
1	Short-term interest rate	(%, annual average)	6.53	5.85	5.16	4.10	4.10	4.10
2	Long-term interest rate	(%, annual average)	5.82	5.44	5.15	5.00	5.00	5.00
3	USD/EUR exchange rate	(annual average)	0.92	0.92	0.92	0.92	0.92	0.92
4	PLN/EUR exchange rate	(annual average)	0.22	0.23	0.23	0.23	0.23	0.23
5	World real GDP (excluding EU)	(growth rate)	3.6	3.5	3.6			
6	EU real GDP	(growth rate)	0.4	1.0	1.6			
7	World import volumes, excluding EU	(growth rate)	0.9	3.3	3.5			
8	Oil prices	(Brent, USD/barrel)	81.4	82.2	78.0	74.1	71.7	70.1

Source: Ministry of Finance.

Table 18. DSA – Debt and headline balance projections and key underlying assumptions (under the planned fiscal path)

			2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038
1	Gross debt	(% GDP)	49.6	54.6	58.4	60.9	61.3	61.2	60.4	59.4	58.2	57.2	56.4	55.6	54.9	54.1	53.4	52.8
2	General government balance	(% GDP)	-5.1	-5.7	-5.5	-4.5	-3.7	-2.9	-2.8	-2.5	-2.3	-2.3	-2.3	-2.2	-2.2	-2.1	-2.1	-2.0
3	Structural primary balance	(% GDP)	-2.5	-2.9	-2.6	-1.5	-0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
4	Cyclical component	(% GDP)	0.5	0.6	0.3	0.5	0.6	0.8	0.5	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
5	One-off measures	(% GDP)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.2	0.2
6	Interest expenditure	(% GDP)	2.1	2.3	2.6	2.5	2.6	2.6	2.6	2.7	2.7	2.7	2.8	2.7	2.7	2.7	2.7	2.6
7	Long-term interest rate	(%)	5.8	5.4	5.1	5.0	5.0	5.0	5.2	5.4	5.5	5.7	5.9	5.8	5.7	5.7	5.6	5.5
8	Short-term interest rate	(%)	6.5	5.9	5.2	4.1	4.1	4.1	4.3	4.6	4.8	5.0	5.2	5.1	4.9	4.8	4.6	4.5
9	Implicit average interest rate	(%)	4.7	4.9	5.2	4.6	4.5	4.4	4.5	4.7	4.8	5.0	5.1	5.1	5.2	5.2	5.2	5.2
10	Stock-flow adjustment	(% GDP)	0.1	2.4	2.9	1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
11	Potential GDP	(growth rate)	3.3	3.2	3.3	2.0	1.7	1.6	1.6	1.7	1.9	2.0	2.0	2.0	2.0	2.0	1.9	1.8
12	Real GDP	(growth rate)	0.2	3.1	3.9	1.7	1.4	1.2	2.2	2.3	2.4	2.0	2.0	2.0	2.0	2.0	1.9	1.8
13	GDP deflator	(growth rate)	10.7	3.6	5.0	4.7	4.3	4.0	3.9	3.8	3.8	3.7	3.6	3.6	3.5	3.5	3.4	3.3
14	Nominal GDP	(growth rate)	10.9	6.8	9.1	6.5	5.8	5.2	6.2	6.2	6.3	5.8	5.7	5.7	5.6	5.5	5.4	5.2

Table 19. DSA – Debt projections and key stressed variables, deterministic scenarios and stochastic simulations

	Financial stress scenario		2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038
1	Gross debt	(% GDP)	49.6	54.6	58.4	60.9	61.3	61.2	60.6	59.7	58.5	57.6	56.8	56.0	55.3	54.6	53.9	53.3
2	Long-term interest rate	(%)	5.8	5.4	5.1	5.0	5.0	5.0	6.2	5.4	5.5	5.7	5.9	5.8	5.7	5.7	5.6	5.5
3	Short-term interest rate	(%)	6.5	5.9	5.2	4.1	4.1	4.1	5.3	4.6	4.8	5.0	5.2	5.1	4.9	4.8	4.6	4.5
	Lower SPB scenario		**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**	**2037**	**2038**
4	Gross debt	(% GDP)	49.6	54.6	58.4	60.9	61.3	61.2	60.5	59.9	59.6	59.1	58.7	58.4	58.2	57.9	57.7	57.6
5	Structural primary balance	(% GDP)	-2.5	-2.9	-2.6	-1.5	-0.5	0.4	0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
	Adverse 'r-g' scenario		**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**	**2035**	**2036**	**2037**	**2038**
6	Gross debt	(% GDP)	49.6	54.6	58.4	60.9	61.3	61.2	60.8	60.2	59.4	58.9	58.6	58.2	58.0	57.7	57.5	57.4
7	Long-term interest rate	(%)	5.8	5.4	5.1	5.0	5.0	5.0	5.7	5.9	6.0	6.2	6.4	6.3	6.2	6.2	6.1	6.0
8	Short-term interest rate	(%)	6.5	5.9	5.2	4.1	4.1	4.1	4.8	5.1	5.3	5.5	5.7	5.6	5.4	5.3	5.1	5.0
9	Real GDP	(growth rate)	0.2	3.1	3.9	1.7	1.4	1.2	1.7	1.8	1.9	1.5	1.5	1.5	1.5	1.5	1.4	1.3
10	Potential GDP	(growth rate)	3.3	3.2	3.3	2.0	1.7	1.6	1.1	1.2	1.4	1.5	1.5	1.5	1.5	1.5	1.4	1.3
	Stochastic simulations																	
11	Probability of debt being below its value in T+4/7	(%)	71.5															

Table 20. DSA – Debt and headline balance projections and underlying assumptions (under 'no-fiscal-policy-change' baseline)

			2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038
1	Gross debt	(% GDP)	49.6	54.6	59.1	62.8	65.3	68.1	71.0	74.0	76.9	79.9	83.0	86.2	89.4	92.6	95.9	99.3
2	General government balance	(% GDP)	-5.1	-5.7	-6.0	-6.0	-6.2	-6.3	-6.6	-6.8	-7.0	-7.2	-7.4	-7.6	-7.8	-7.9	-8.0	-8.2
3	Structural primary balance	(% GDP)	-2.5	-2.9	-2.9	-2.9	-2.9	-2.9	-2.9	-2.9	-2.9	-2.9	-2.9	-2.9	-2.9	-2.9	-2.9	-2.9
4	Cyclical component	(% GDP)	0.52	0.59	0.3	0.2	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
5	Interest expenditure	(% GDP)	2.1	2.3	2.6	2.6	2.6	2.7	3.0	3.2	3.4	3.7	3.9	4.1	4.3	4.5	4.6	4.8
6	Long-term interest rate	(%)	5.8	5.4	5.1	5.0	5.0	5.0	5.2	5.4	5.5	5.7	5.9	5.8	5.7	5.7	5.6	5.5
7	Short-term interest rate	(%)	6.5	5.9	5.2	4.1	4.1	4.1	4.3	4.6	4.8	5.0	5.2	5.1	4.9	4.8	4.6	4.5
8	Implicit average interest rate	(%)	4.7	4.9	5.2	4.6	4.5	4.4	4.6	4.8	4.9	5.1	5.2	5.3	5.3	5.3	5.3	5.3
9	Potential GDP	(growth rate)	3.3	3.2	3.3	2.0	1.7	1.6	1.6	1.7	1.9	2.0	2.0	2.0	2.0	2.0	1.9	1.8
10	Real GDP	(growth rate)	0.2	3.1	3.9	2.2	1.9	1.7	1.7	1.8	1.9	2.0	2.0	2.0	2.0	2.0	1.9	1.8
11	GDP deflator	(growth rate)	10.7	3.6	5.0	4.7	4.3	4.0	3.9	3.8	3.8	3.7	3.6	3.6	3.5	3.5	3.4	3.3
12	Nominal GDP	(growth rate)	10.9	6.8	9.1	7.0	6.3	5.7	5.6	5.7	5.8	5.8	5.7	5.7	5.6	5.5	5.4	5.2
13	Fiscal multiplier	(%)				0.4	0.5	0.5										

Table 21. DSA – Debt projections and additional assumptions (under the planned fiscal path)

			2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038
1	Gross debt	(% GDP)	49.6	54.6	58.4	60.9	61.3	61.2	60.4	59.4	58.2	57.2	56.4	55.6	54.9	54.1	53.4	52.8
2	Rolled over long-term debt	(% GDP)	2.7	3.9	4.1	4.5	4.6	4.5	4.4	4.2	4.1	3.9	3.8	3.7	3.7	3.6	3.6	3.5
3	Rolled over short-term debt	(% GDP)	9.9	10.3	11.2	12.3	13.0	13.1	13.0	12.8	12.6	12.4	12.2	12.0	11.9	11.7	11.6	11.4
4	New long-term debt	(% GDP)	4.4	6.7	6.5	4.7	2.9	2.3	2.1	2.0	1.8	1.8	1.8	1.7	1.7	1.6	1.6	1.6
5	New short-term debt	(% GDP)	1.3	2.0	1.9	1.4	0.8	0.7	0.6	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5

Reference trajectory for Poland transmitted by the European Commission

- reference trajectory without extension

For a plan without extension (4 years) Poland	Average 2025-2028	2025	2026	2027	2028
Net expenditure growth (%)	4.5	5.3	4.6	4.2	3.9
Structural primary balance (% of GDP)	-0.6	-1.8	-1.0	-0.2	0.7
Annual change in the structural primary balance (pp. of GDP)	0.82	0.82	0.82	0.82	0.82
of which					
DSA-based criteria	*0.82*	*0.82*	*0.82*	*0.82*	*0.82*
Impact of the benchmark and safeguards	*0.00*	*0.00*	*0.00*	*0.00*	*0.00*

Note: The colour code for the annual change in SPB is as follows:
- Black normal: requirements complying with the DSA-based criteria;
- Red bold: the deficit benchmark as measured in terms of change in the structural primary balance is binding;
- Yellow background: the deficit benchmark as measured in terms of change in the structural balance is binding;
- Black bold: the debt sustainability safeguard is binding;
- Blue italics: the deficit resilience safeguard is binding.

- reference trajectory with extension

For a plan with extension (7 years) Poland	Average 2025-2028	Average 2025-2031	2025	2026	2027	2028	2029	2030	2031
Net expenditure growth (%)	5.1	4.8	6.0	5.3	4.9	4.4	4.3	4.4	4.6
Structural primary balance (% of GDP)	-1.3	-0.5	-2.1	-1.6	-1.1	-0.5	0.1	0.7	1.2
Annual change in the structural primary balance (pp. of GDP)	0.53	0.54	**0.50**	**0.50**	**0.50**	0.63	0.60	0.56	0.52
of which									
DSA-based criteria	*0.48*	*0.48*	*0.48*	*0.48*	*0.48*	*0.48*	*0.48*	*0.48*	*0.48*
Impact of the benchmark and safeguards	*0.05*	*0.06*	*0.02*	*0.02*	*0.02*	*0.15*	*0.12*	*0.08*	*0.04*

Note: The colour code for the annual change in SPB is as follows:
- Black normal: requirements complying with the DSA-based criteria;
- Red bold: the deficit benchmark as measured in terms of change in the structural primary balance is binding;
- Yellow background: the deficit benchmark as measured in terms of change in the structural balance is binding;
- Black bold: the debt sustainability safeguard is binding;
- Blue italics: the deficit resilience safeguard is binding.

- main fiscal, macroeconomic and financial variables

Budgetary variables: initial conditions	2023	2024
Government budget balance (% of GDP)	-5.1	-5.4
Government debt (% of GDP)	49.6	53.7
Net expenditure growth (%)	15.5	12.8
Structural primary balance (% of GDP)	-2.5	-2.6

Main assumptions for a plan without extension (4 years)	Assumption	Period
Change in the cost of ageing (pp. of GDP)	-0.3	2028-2038
Stock-flow adjustment (% of GDP)	0.2	2025-2038 average
Real GDP growth (%)	2.1	2025-2038 average
Inflation (change in the GDP deflator, %)	3.7	2025-2038 average
Nominal implicit interest rate (%)	5.4	2025-2038 average

Main assumptions for a plan with extension (7 years)	Assumption	Period
Change in the cost of ageing (pp. of GDP)	-0.3	2031-2041
Stock-flow adjustment (% of GDP)	0.2	2025-2041 average
Real GDP growth (%)	2.0	2025-2041 average
Inflation (change in the GDP deflator, %)	3.7	2025-2041 average
Nominal implicit interest rate (%)	5.5	2025-2041 average