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Poland Economics

2026 budget draft – First take

OUR TAKE

The government is planning 2026 fiscal deficit at 6.5% of GDP. This plan implies deficit reduction as compared to 2025, but the forecast assumes the rise in excise taxes and CIT, despite the risk of them being vetoed by the president. In our view, the new budget draft underscores challenges faced by the Polish government, including the need to maintain high defense spending despite limited space to increase taxes. The budget draft does not change much in the inflation trajectory and still leaves some space for rate cuts, but we see the risk that the MPC may turn hawkish anyway and be tempted to spread easing over a longer time. Higher public debt path means also that now the focus will shift towards rating agencies that are expected to review Poland's rating in the next three months.

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The Finance Ministry has not published the full version of the 2026 budget and therefore, at this stage, it is impossible to provide a full analysis of all implications of the document.

What we know at this stage is the document assumes that the deficit will drop by 0.4 pp in 2026 to 6.5% of GDP. The scale of tightening between 2025 and 2026 is almost exactly in line with our forecasts, but the Ministry revised its 2025 deficit up and therefore the overall deficit path is significantly higher than expected (we assumed 5.7% of GDP for 2026 vs. the new plan of 6.5%).

- Finance Ministry continues to assume additional revenues from CIT on banks and from higher excise tax on alcohol. The fate of these taxes (especially excise duty) is highly uncertain because of the risk of president's veto. This means there is an upside risk to the deficit of around 0.2% of GDP.
- The budget includes 4.8% of GDP will be spent on defense (in cash terms), which is largely in line with our assumptions. In CEE countries PMI and ESI business surveys can be useful as coincident indicators. Probit models based on results of these surveys provide relatively good estimates of recession probability in a given month, but they can't provide insight regarding future recession risks.
- The document assumes a sharp rise in net borrowing needs from PLN 300bn in 2025 to PLN 422.9bn next year. However, this is largely due to loans from the European Union's RRF (thus limiting the market impact).
- The general government deficit (EU definition) will reach 66.8% of GDP, according to Finance Ministry's plan. This means the debt path is likely to be steeper than our already pessimistic forecasts assumed. At the same time, the public debt according to Polish methodology is planned at 53.8% of GDP, which is below, but uncomfortably close to the limit enshrined in the Polish Public Finance Act (exceeding that threshold would force sharp fiscal tightening in following years).

Monetary policy implications – Although the deficit is likely to be higher than previously expected, this will be largely due to higher starting point for the deficit. The scale of tightening planned for 2026 is actually in line with what we have had in our scenario since the June presidential elections. For this reason, the new budget should not change the inflation trajectory much in the coming quarters and therefore it still leaves space for monetary easing. However, since the presidential election, we have been of the opinion that the MPC might choose to be more cautious than it was widely believed by investors. It seems the new budget is consistent with that way of thinking. Our base case, which assumes the policy rate at 3.75% by mid-2026, now appears relatively optimistic and we see risks skewed to the upside (while FRA market is still pricing the policy rate at 3.5% twelve months from now).

As far as the short-term outlook is concerned, we are now less certain about the MPC decision next week. Our base case still assumes the MPC will cut rates by 25bps in September, but now we believe it is a very close call (previously, we thought the probability of such a move was ~80%).

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