02 September 2025

Economic Comment

2026 budget: testing the debt limits

The draft budget for 2026 assumes continuation of Poland's accommodative fiscal policy, with a general government (GG) deficit of 6.5% of GDP, compared to 6.9% of GDP this year. Budget execution in 2025 is expected to be significantly worse than planned for the fourth consecutive year, despite continued high GDP growth at current prices of around 7%, which will be difficult to replicate in subsequent years. We assess the risk of a fiscal deficit underperformance in 2026 as lower than in the case of the two previous draft budgets, partly due to more realistic macroeconomic assumptions and revenue growth plans. The risk to budget revenues is primarily related to a possible presidential veto on the planned tax increases, but even in the "maximum version" this would generate a shortfall of around PLN10bn, or approx. 0.2% of GDP. Public debt in ESA definition is expected to rise to 66.8% of GDP in 2026, and according to the national definition (PDP), to 53.8% of GDP. This trajectory means a high risk that PDP debt will exceed the 55% threshold in 2027, which would necessitate sharp budget adjustments after 2028.

The sharp increase in planned borrowing needs (up to PLN422bn) is largely due to the assumed utilisation of the loan part of the RRF funds. The net supply of domestic Treasury securities is expected to be nominally lower than this year, but under comparable conditions – after adjusting for the redemption of PFR and BGK bonds in 2025 and maturing Treasury securities in the NBP portfolio – it increases by approx. PLN18bn. Gross supply will also be higher due to high maturities. The draft budget for 2026, along with the estimated realisation in 2025, once again places Poland on a fiscal trajectory that is worse than previously expected. In our opinion, this will not trigger a harsh reaction from the European Commission, which in its assessment focuses primarily on the spending path (which does not exceed agreed targets). The greater uncertainty is the reaction of the rating agencies. In our opinion, the risk of a deterioration in the rating outlook in subsequent updates has increased, although a downgrade still seems very unlikely to us as long as rapid GDP growth continues.

The government has adopted a draft budget act for 2026, with a budget deficit of PLN272bn (equivalent to approx. 6.5% of the GDP forecast by the Ministry of Finance for next year), compared to the expected realisation of the 2025 budget of PLN288bn (approx. 7.4% of this year's expected GDP). The draft indicates that the Ministry of Finance does not anticipate the need to amend this year's budget act, despite an expected revenue shortfall of approx. PLN30bn. However, **the government's estimate of the general government deficit for this year has significantly deteriorated – to 6.9% of GDP, from 6.3% projected in mid-2025 and 5.5% of GDP planned in this year's budget act.** 2025 will be the fourth consecutive year when the actual public finance balance will be significantly worse than planned. **In 2026, the public sector deficit as a percentage of GDP is expected to decline to 6.5%**, although its nominal value will remain similar to this year's (approx. PLN270bn). This will mean the third consecutive year of a fiscal deficit significantly above 6% of GDP and a rapid increase in debt, despite improving economic conditions and a high GDP growth rate at current prices of around 7%.

Main budget parameters

	2024 realisation	2025 budget act	2025 expected realisation	2026 draft
Revenues (PLNmn)	623 240	632 848	603 404	647 200
Expenditure (PLNmn)	834 243	921 618	892 173 *	918 940
Balance (PLNmn)	**-211 003**	**-288 770**	**-288 770**	**-271 740**
GG balance (% GDP)	**-6,6%**	**-5,5%**	**-6,9%**	**-6,5%**
GG debt (% GDP)	**55,3%**	**59,8%**	**60,4%**	**66,8%**
PDP debt (% GDP)	**44,3%**	**47,9%**	**48,9%**	**53,8%**

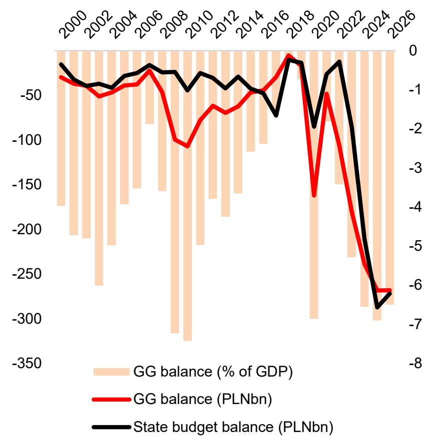
Source: Ministry of Finance, the amount from 2025 budget act adjusted to the expected revenue and deficit performance

Macroeconomic forecasts for 2026

	Budget	Bloomberg	Santander
GDP level, PLN bn	4160.2	-	4113.6
GDP growth, %	3.5	3.3	3.7
Consumption, %	3.3	3.3	3.3
CPI inflation, %	3.0	2.9	2.9
Employment, %	0.0	-	0.3
Unemployment, %	5.0	5.3	5.4
Wages, %	6.4	-	7.8

Source: MF, Bloomberg, Santander

Central budget and General Government balance



Source: MF, Eurostat, Santander

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Public debt according to the EU definition (GG) is expected to increase to 66.8% of GDP in 2026, from 60.4% of GDP this year. According to current Ministry of Finance estimates, the 60% of GDP threshold resulting from EU fiscal criteria would be exceeded this year (which was not anticipated in the 2025 Budget Act). Debt according to the national methodology (PDP) is shown rising to 53.8% of GDP from 48.9% of GDP in 2025. The difference between the debt in both definitions, according to Ministry of Finance estimates, is expected to reach approx. PLN448bn this year and rise to approx. PLN540bn (i.e., 13% of GDP) next year, an increase of PLN92bn. This means that debt will continue to be pushed into funds not covered by the national definition of debt, which is subject to statutory and constitutional prudential thresholds. The Armed Forces Support Fund (FWSZ) alone is projected to generate PLN73.7bn in debt financing revenues in 2026. The COVID-19 Prevention Fund plans to raise PLN18.5bn next year from bond issues, while none of its outstanding bonds will mature. Meanwhile, the National Road Fund's debt is expected to be PLN3.7bn higher by the end of 2026 than at the end of this year.

The large increase in the GG debt, coupled with a simultaneous reduction in the GG deficit, may seem peculiar. It should be noted that loans granted under the RRF fund significantly increase the debt level, by 2.8% of GDP in 2026 alone. As in the previous year, the different accounting methods for the GG balance (accrual basis) and public debt (cash basis) are crucial in recording Poland's significant defence spending. The difference is expected to be significant next year: **military equipment expenditures included in the debt are expected to reach PLN109bn (2.6% of GDP), while military equipment deliveries, which burden the GG balance, will amount to approx. PLN43bn (1.0% of GDP).**

With such a high PDP debt forecast for 2026 (53.8%), **the likelihood of exceeding in 2027 the 55% of GDP prudential threshold set out in the Public Finance Act increases.** Recall that 2027 will be a parliamentary election year, which, in our opinion, will limit the scope for further fiscal consolidation. According to the Act, the next budget prepared after a breach of the threshold has to meet, among other, the following conditions: it cannot show a deficit at all (meaning, under current conditions, that exceeding the threshold would trigger a requirement to find budget savings worth nearly PLN300bn) or must ensure a reduction in the debt-to-GDP ratio, public sector wages must be frozen, and retirement and disability pensions may be indexed by no more than the inflation rate. The threshold exceedance is determined based on the debt level at the end of the year, officially reported in the spring of the following year. Therefore, an exceedance in year T (for example, 2027), reported in year T+1 (2028), will impose constraints only on the budget structure for year T+2 (2029). Before this happens, public debt may already be significantly closer to the constitutional limit of 60% of GDP.

Forecasts of GG balance and public debt acc. to various documents and institutions (% GDP)

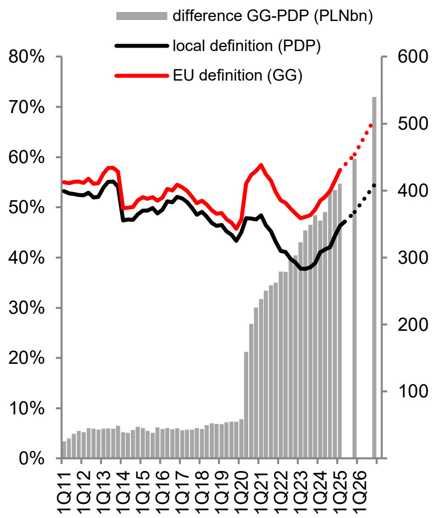
	GG balance		Public debt	
	2025	2026	2025	2026
Budget draft 2026	**-6.9**	**-6.5**	**60.4**	**66.8**
Medium-term budgetary and structural plan 2025-2028, Sep 2024	-5.5	-4.5	58.4	60.9
Report on the implementation of the medium-term plan, Apr 2025	-6.3	-	57.8	-
European Commission, May2025	-6.4	-6.1	58.0	65.3
Fitch, Mar 2025	-5.9	-5.0	58.7	61.6
S&P, Jun 2025	-6.1	-5.1	-	-
Moody's, Mar 2025	-5.8	-	57.0	-
Bloomberg median, Aug 25	-6.4	-5.9	-	-

Source: MF, EC, Bloomberg, rating agencies

The draft budget for 2026, along with the estimated implementation in 2025, once again shifts Poland onto a fiscal trajectory worse than previously expected. It seems reasonable to ask whether this situation will be met with negative assessments from external institutions.

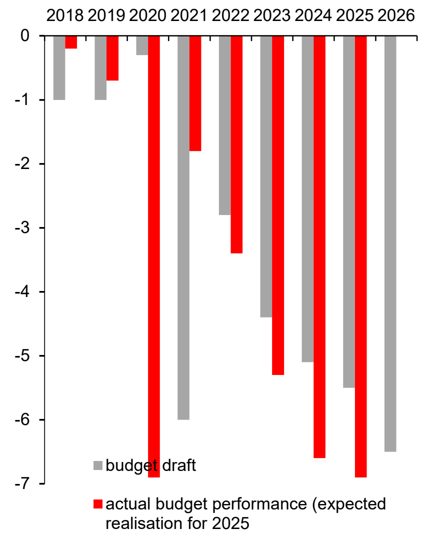
In our opinion, this will not trigger a harsh reaction from the European Commission, which focuses primarily on the spending path, not the deficit level. According to the draft, the rate of net spending growth, crucial to the EU's current system for maintaining fiscal discipline, will not exceed the target set in the medium-term budgetary and structural plan agreed with the European Commission. Consequently, the draft budget should not draw criticism from the European

Public debt according to domestic methodology (PDP) and EU's general government (GG), as % of GDP



Source: Finance Ministry, Santander

GG balance shown in budget drafts vs. actual budget performance (% GDP)



For 2025, MF's expected budget realisation was used instead of actual performance
Source: Finance Ministry, EC, Santander

Commission, despite the projected deficit being very far from the 3% threshold. Poland has committed to eliminating its excessive deficit by 2028, which now appears unfeasible. However, adherence to the net spending path is paramount to this goal.

The greater uncertainty is the reaction of rating agencies. **In our view, the risk of a downgrade in the rating outlook has increased with subsequent updates**, although a downgrade still seems very unlikely to us as long as rapid GDP growth continues.

Macroeconomic assumptions – return of the cautious, uncontroversial approach

The macroeconomic assumptions presented in the draft budget bill are identical to those contained in the document from the end of July updating these assumptions. It is worth noting that the changes to the preliminary version of the assumptions published in April went towards levels indicated by the market consensus and, at the same time, towards greater budgetary caution. In general, therefore, the Ministry of Finance cannot be accused of trying to patch up the budget by exaggerating the optimism inherent in the macroeconomic assumptions (which, among other things, form the basis for tax revenue estimates). The Ministry of Finance has maintained its GDP growth forecast for next year at 3.5%, which is slightly above the median of forecasts collected by Bloomberg (both in April and currently at 3.3%), but below our forecast of 3.7%. According to the draft budget, nominal GDP is expected to grow by 6.6% next year and 7.1% this year. Our forecasts do not differ enough to signal a risk that the actual economic performance will be much different from what the Ministry of Finance expects.

The forecast for next year's inflation has been lowered: instead of the relatively high forecast of 3.8% from April (the consensus at that time was 3.2%), a forecast of 3.0% was ultimately used. In the meantime, the consensus has shifted to 2.9%, which is also what we currently expect the 2026 average to be. The Ministry of Finance's inflation forecast assumes that the electricity price cap for households will be extended only to 4Q25. In our opinion, this assumption does not raise any doubts, and the decision not to maintain the price cap in 2026 should not, in our view, cause a significant increase in bills paid by households next year. The intention to abandon the electricity price freeze in 2026 is also evidenced by the zero costs planned for next year in the special fund (Fundusz Wypłaty Różnicy Ceny) covering the losses of utility companies due to the price cap.

The assumptions concerning the labour market can also be considered safe enough. The wage growth in the National Economy in 2026, assumed at 6.4%, is almost in line with the July NBP projection (6.3%) and significantly lower than the growth rate the MF used in the preliminary version of the budget assumptions (7.6%). In real terms, the government's wage growth forecast has been revised downwards from 3.8% to 3.4%. In the case of the unemployment rate, it seems that the MF did not take into account in its estimates the regulatory changes that have 'artificially' (i.e. independently of the economic situation) raised it by approx. 0.4pp in recent months. The Ministry of Finance's forecast remained close to 5%, while ours and the market forecasts have moved higher in the meantime.

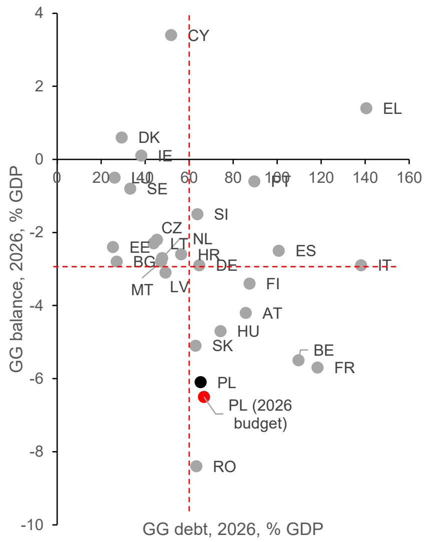
The assumptions regarding the Monetary Policy Council's actions also seem uncontroversial – the average reference rate assumed for next year (3.94%) falls between our forecast (4.06%) and market expectations (3.88%).

Budget revenues: the president's vetoes as the main risk factor

Budget revenues in 2026 are projected at PLN647.2bn, or 7.2% more than the planned execution in 2025. **In our opinion, the government's revenue growth forecasts are consistent with macroeconomic assumptions**, although we find the outlook for CIT revenues somewhat overly optimistic and would cut them by c. PLN5bn. The budget also includes revenues from the planned increase in excise duty on alcohol and CIT for banks, totalling approximately PLN8.5bn. President Karol Nawrocki has suggested that he will veto the bills introducing these tax increases, so this is a risk factor for budget revenues. In addition, the President announced a veto on the bill raising the sugar tax. This does not constitute budget revenue, but rather revenue of the National Health Fund (NFZ). The absence of the sugar tax hike will therefore potentially increase subsidy to the NFZ (i.e. a budget expenditure) by PLN1.3bn.

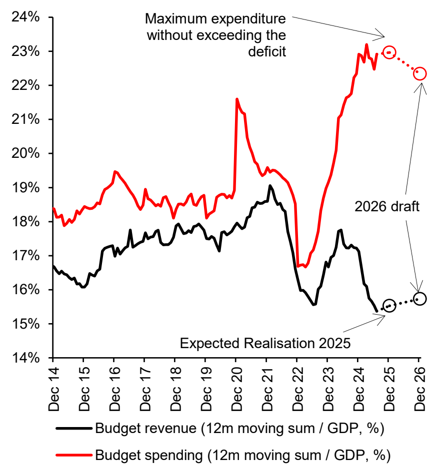
It is worth noting that **the Ministry of Finance has significantly revised its expectations regarding budget revenues in the current year**. The current forecast is PLN603.4bn, compared to PLN632.8bn in the budget act. The downward adjustment mainly concerned revenues from VAT (PLN24.5bn), CIT (PLN4.7bbn), PIT (PLN3.6bn) and excise duty (PLN3.1bn). In our opinion,

GG debt and balance according to EC forecasts and Poland's 2026 budget draft



Source: EC, Finance Ministry, Santander

Budget revenue and spending, 12M moving sum (% of GDP)



Source: Finance Ministry, Santander

the figures presented as the expected 2025 outcome are still slightly too optimistic. We assume that the actual figure will be PLN590-595bn.

VAT revenues in 2026 are projected at PLN341.5bn, which is 5% higher than the outcome expected by the Ministry of Finance in 2025 (PLN325bn). Although we still consider the expected outcome to be a few billion too optimistic (although there is no significant downside risk here), the increase in VAT revenue in 2026 is still quite modest compared to the nominal GDP growth of 6.6%. Therefore, the VAT revenue forecast looks realistic and even somewhat conservative.

Excise duty revenues are projected at PLN103.2bn, which is 8.7% more than the planned revenue for 2025 (PLN95bn). The increase in excise duty rates on alcohol and tobacco is expected to generate PLN8.3bn. Some of the provisions raising these excise duties have been in force for a long time (the so-called roadmap), but recently the government proposed a higher increase in excise duty on alcohol in 2026 (by 15% instead of 5%), which, according to our estimates, will be responsible for PLN2bn out of the PLN8.3bn of the assumed increase. This additional increase in excise duty on alcohol may be vetoed by the president. The change in excise duty revenue, adjusted for the effects of the increase in rates, is therefore slightly negative, which we consider to be a conservative estimate.

Budget revenues (PLN mn)

	2024 realisation (1)	2025 expected realisation (2)	2026 draft (3)	2026 change (3) - (2)
Total revenues	**623 240**	**603 404**	**647 200**	**43 796**
1. Tax revenues	**555 937**	**536 278**	**579 923**	**43 644**
VAT	287 683	325 000	341 500	16 500
Excise	90 315	95 000	103 253	8 253
Gambling tax	5 266	6 000	6 500	500
CIT	60 240	66 000	80 423	14 423
PIT	97 600	28 129	32 037	3 908
Mining tax	4 034	4 360	3 200	-1 160
Bank tax	6 441	7 130	7 590	460
Retail sales tax	4 357	4 660	4 958	298
2. Non-tax revenues	**64 935**	**63 257**	**63 643**	**386**
Dividends	5 430	6 380	9 297	2 917
Payment from NBP profit	6 816	7 599	8 733	1 134
Custom duties	0	0	0	0
Budgetary units revenues and other non-tax revenues	47 706	49 278	45 613	-3 665
Payments of local governments	4 982	0	0	0
3. Non-refundable funds from the EU and from other sources	**2 368**	**3 868**	**3 634**	**-234**

Source: Finance Ministry, Santander

Corporate Income Tax revenues are expected to increase by 21.9% to PLN80.4bn from PLN66.0bn. If we adjust it for the planned revenues from the CIT increase for banks worth PLN6.6bn, the annual increase falls to 11.8%. We believe this assumption to be overly optimistic: companies are unlikely to have much room to increase their profitability and profits amid moderate economic growth and low inflation. Furthermore, we also believe the expected realisation of 2025 to be overly optimistic. In our opinion, CIT revenues will not exceed PLN75bn next year.

Non-tax revenues are expected to increase by 0.6%, from PLN63.3bn to PLN63.6bn. The increase results from an improvement in projected dividend and customs duty revenues, accompanied by a decline in revenues of state budgetary entities. We have no objections to these assumptions. The budget draft assumes zero payment from the 2025 NBP profit.

Budget expenditures in 2026 by sections (PLNmn)

	2025 Budget Act (1)	2026 Draft (2)	change (2) - (1)
Budget expenditures	**921 618**	**918 900**	***-2 718***
Agriculture and hunting	10 973	9 559	*-1414*
Forestry	8	6	*-2*
Fisheries	137	243	*106*
Mining	3 670	5 634	*1964*
Manufacturing	2 209	2 224	*15*
Trade	1 536	1 323	*-213*
Hotels/restaurants	61	71	*10*
Transport, Communication	24 878	21 817	*-3061*
Tourism	111	117	*6*
Housing	2 950	7 033	*4083*
Services	940	1 028	*88*
IT	287	298	*11*
Higher education	39 667	40 961	*1294*
Public administration	29 934	30 102	*168*
Offices of supreme state authorities, control and protection of law and the judiciary	4 719	5 112	*393*
Defence	109 613	109 235	*-378*
Social security	184 061	195 971	*11910*
National security and fire protection	31 407	30 918	*-489*
Justice	27 732	28 735	*1003*
Debt servicing	110 162	90 388	*-19774*
Various expenditures	173 732	162 744	*-10988*
Education	4 309	4 695	*386*
Health	40 453	54 237	*13784*
Social aid	5 930	6 912	*982*
Other tasks of social policy	5 337	2 213	*-3124*
Educational care	294	291	*-3*
Family	97 137	97 922	*785*
Communal services and environment protection	2 576	2 690	*114*
Culture and heritage protection	5 634	5 456	*-178*
Botanical and zoological gardens, areas and items of nature protection	228	232	*4*
Physical education	932	773	*-159*

Source: Finance Ministry, Santander

Spending: lower, but actually higher

Planned budget expenditure is 0.3% lower than that adopted in this year's budget act and amounts to PLN918.9bn. The Ministry of Finance's assumption that this year's budget will not be amended despite the downward revision of the revenue forecast means that actual expenditure in 2025 has to be lower than planned in the budget act by a similar amount as the revenue (almost PLN30bn). In relation to GDP, expenditure will fall to 22.1% from 22.9% in 2025 (assuming that expenditure is adjusted downwards in line with the Ministry of Finance's information that the assumed deficit will not be exceeded despite lower revenues). However, as this year's expenditure included PLN63.2bn intended for the redemption of PFR and BGK bonds (which will not be the case in 2026), the 'core' central budget expenditure will increase by 7%, which is slightly higher than the forecast nominal GDP growth (6.6%).

According to the breakdown of expenditure into main economic groups, the strongest growth is seen in the **current expenditure of budgetary units**, by PLN16.4bn and 9.6% (to PLN187.1bn from PLN170.1bn), including PLN8.4bn in 'miscellaneous settlements' (mainly due to an increase in the amount of targeted reserves, including PLN2.7bn in reserves for investments from RRF loans), PLN4.8bn in national defence, PLN1.4bn in justice and PLN1.2bn in healthcare.

Transfers to households are increasing by 2.1% to PLN162.4bn from PLN159.1bn. Spending on social benefits will be similar to that planned for the current year. Expenditure in section 855 ('family') will increase by PLN0.7bn, to PLN77.4bn from PLN76.6bn. In particular, PLN61.7bn has been allocated for expenditure on the 800+ benefit (compared to PLN62.8bn in 2025), PLN31.8 bn for the 13th and 14th pensions (compared to PLN31.5bn), and the estimated cost of the 'Active Parent' programme has been reduced from PLN8.4bn to PLN6.0bn.

The amount allocated for **grants and subsidies** will be over PLN35bn (i.e. 9.1%) lower than that planned for 2025 and amount to PLN350.1bn. The amount allocated to compulsory social insurance will be PLN10.0bn higher, and the amount allocated to healthcare will increase by PLN10.4bn. The decline in the entire category is due to lower amounts in the sections 'miscellaneous settlements' and 'public debt servicing'. The former falls to PLN85.1bn from PLN109.7bn. The nearly PLN24bn decrease in subsidies results from a reduction in contributions to the COVID-19 Fund (FPC). Similarly, there are no subsidies in debt servicing in 2026. These two elements show that in 2026, unlike in 2025, the government does not intend to use the central budget to repay PFR bonds and BGK bonds issued for the FPC (by the way, in 2026 no securities of this type are due to mature).

Budget expenditures by economic groups (PLNmn)

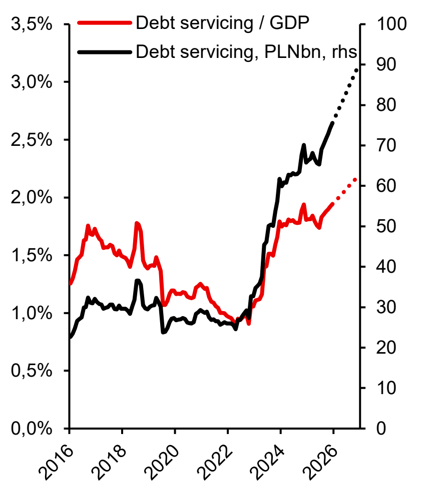
	2024 realisation (1)	2025 budget act (2)	2026 draft (3)	2026 change (3) - (2)
Budget expenditures	**834 243**	**921 618**	**918 900**	**-2 718**
Grants and subsidies	366 475	386 031	350 797	-35 234
Transfers to households	142 732	159 109	162 392	3 283
Current expenditure of budgetary units	144 619	170 634	187 060	16 426
Capital expenditure	71 896	79 034	72 029	-7 005
Debt servicing	65 791	75 500	90 000	14 500
Contribution to the EU	33 198	35 655	41 585	5 930
Co-financing of EU funds-based projects	9 531	15 655	15 077	-578

Source: Finance Ministry, Santander

Debt servicing cost is expected to increase by almost one-fifth, to PLN90.0bn from PLN75.5bn this year (+PLN14.5bn), i.e. to 2.2% of GDP from 1.9% of GDP. In nominal terms, debt costs are rising by 19.2% with an assumed nominal increase in debt of 17.3%, so it can be said that this item has been assumed with a slight surplus.

Capital expenditure is falling to PLN72.0bn from PLN79.0bn (-PLN7.0bn), including a PLN5.6bn reduction in capital expenditure under section 752 on national defence. In addition, expenditure in 'transport and communications' will fall by PLN2.1bn, and by PLN1.1bn in public defence. On the other hand, an increase in capital expenditure of over PLN3bn is expected in housing (from PLN1.2bn to PLN4.4bn).

Debt servicing costs, 12M moving sum



Source: Finance Ministry, Santander

National defence expenditure included in the central budget under section 752 remains virtually unchanged (PLN109.2bn compared to PLN109.6bn in 2025), with a projected increase in current expenditure of PLN4.8bn and a decrease in capital expenditure of PLN5.6bn. Total budget expenditure on national defence is expected to amount to PLN124.8bn (i.e. including social security costs, pensions, etc.) compared to PLN124.3bn in 2025. Together with the expenditure of the Armed Forces Support Fund, expenditure is expected to amount to PLN200.1 bn, compared to PLN186.6bn planned for 2025 (an increase of PLN13.5bn) and reach 4.8% of GDP, which is the same as planned for 2025.

Expenditure on the purchase of military equipment is expected to amount to PLN109.0bn, compared to PLN94.9bn planned for 2025, and equipment deliveries to PLN42.5bn, compared to PLN38.7bn in 2025. Total defence expenditure adjusted for expenditure on equipment to be delivered in another period, will amount to approximately PLN133.7bn, or 3.2% of GDP, which is 0.1 percentage point less than in the previous year. **Thus, defence spending slightly reduces the GG deficit compared to 2025.**

Total healthcare expenditure is expected to amount to PLN247.6bn, which will represent approximately 6.0% of the projected GDP in 2026, compared to 5.7% of GDP in 2025. Due to lower inflation, next year's indexation of pensions will cost PLN2.2bn less, i.e. PLN22.0bn (compared to PLN24.2bn this year). In addition, the draft budget envisages a slower wage growth for teachers and other public sector employees – from a 5% increase in the base amount planned for this year to 3% in 2026, which will cost approximately PLN6.7bn. Other government reforms: widow's pension and increased funeral allowance will cost PLN7bn and PLN1.2bn, respectively.

The European funds budget provides for revenues of PLN137.9bn (compared to PLN109.9bn in 2025), including PLN54.2bn under the 2021-2027 Financial Framework, PLN62.1bn under the Recovery Plan (RRF) in the grant part and PLN20.3bn under the Common Agricultural Policy. Expenditure is expected to amount to PLN174.1bn (compared to PLN137.9bn), including PLN81.1bn for the Recovery Plan, PLN43.0bn for the Framework, and PLN13.2bn for the CAP. The European funds budget deficit is planned at PLN36.2 bn. It is worth noting that in recent years, the actual balance of European funds has usually been significantly better than planned in the budget acts (in 2023-25, the difference was about PLN20bn). It is possible that next year will be similar.

Borrowing needs much greater, but issuance only slightly higher than in 2025

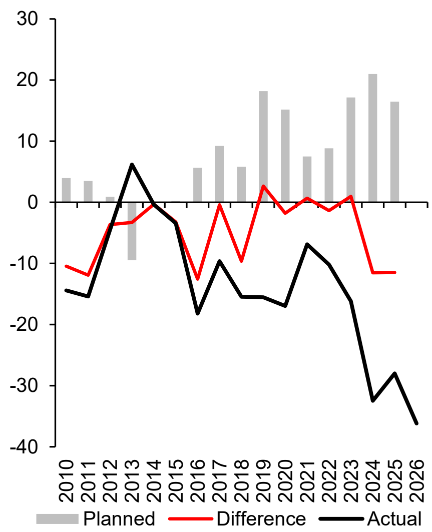
The draft budget for 2026 assumes that borrowing needs will achieve a new record-high level – they are planned to increase to **c. PLN423bn net** and **c. PLN690bn gross**, i.e. in both cases by c. 41% compared to their expected realisation in 2025, equal to, respectively, PLN301bn and PLN489bn.

Given the planned decrease in central budget deficit by c. PLN17bn compared to 2025, the **increase in 2026 net borrowing needs stems mainly from the assumption of greater activity related to EU funds**, which includes granting PLN111bn of RRF loans, an increase in the deficit of the EU funds budget by PLN25bn and an increase in the deficit resulting from EU funds management by PLN20bn.

It is worth noting that the plan of borrowing needs for 2025 was based on similar assumptions. The budget act included plans for granting PLN60bn of loans, mainly from RRF funds, and an expectation that the deficit of the EU funds budget would reach PLN28bn. Current projections from the draft budget for 2026 indicate that the value of loans granted in 2025 will not exceed PLN10bn, and the EU budget deficit will amount to less than PLN12bn. As a result, this year's borrowing needs are expected to amount to c. PLN301bn, rather than the originally assumed PLN367bn. It cannot be ruled out that the 2026 borrowing needs will be revised in a similar manner. As the implementation of the Polish RRP is proceeding slower than expected, and the government has mentioned that it would first seek to allocate non-repayable funds, the actual amount of RRF loans granted in 2026 may turn out to be lower than the currently planned PLN111bn.

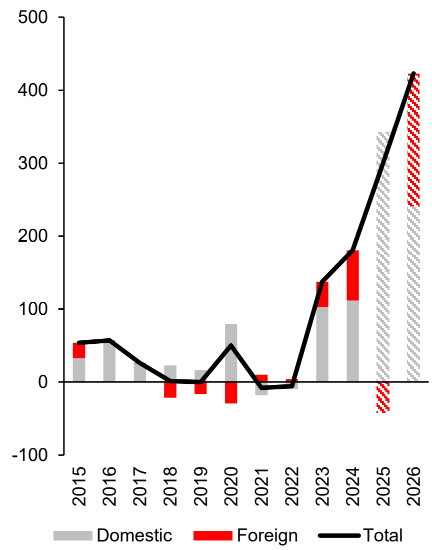
As the planned revenues in the draft budget for 2026 include inflows of repayable RRF funds in the amount of PLN51bn (reduced by c. PLN6bn due to the repayment of the SURE loan), as well as the use of funds accumulated in foreign currency accounts, exceeding inflows to the foreign currency account by over PLN110bn, **the record-high borrowing needs will not lead to an increase in the supply of treasury securities – at least nominally**. Net issuance of domestic

The European funds budget balances, PLNbn



Source: Finance Ministry, Santander

The financing of net borrowing needs, PLN bn



Source: Ministry of Finance, Santander

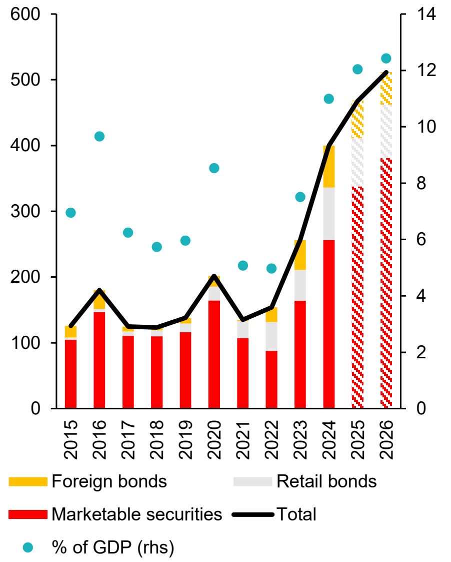
Bonds in the NBP balance sheet maturing in 2026, PLNbn

Series	Nominal value
DS0726	8.732
PS1026	2.848
Total	**11.580**

Source: NBP, Santander

treasury securities is expected to amount to less than PLN241bn, which is approximately PLN26bn less than their expected issuance in 2025. Nevertheless, it is worth noting that the 2025 issuance includes the redemption of PFR and BGK bonds, which increased the supply of treasury securities by over PLN60bn and in practice constituted a 'rollover' of public debt. In addition, in our opinion, the net issuance balance should be adjusted in the other direction by the value of maturing bonds held by the NBP (as the central bank does not plan to roll over these securities, so new demand will have to be found) – in 2026, this amounts to c. PLN12bn, compared to PLN27bn in 2025. **As a result, net issuance in 2026 'under comparable conditions', i.e. after adjustment for the redemption of PFR and BGK bonds and maturities in the NBP portfolio, will increase in 2026 by PLN18bn compared to the current year.**

Gross issuance of treasury securities, PLN bn



Source: Ministry of Finance, Santander

Borrowing needs and their financing (PLN mln)

	2025 budget act (1)	2025 expected realisation (2)	2026 draft (3)	2026 change (3) - (2)
State budget deficit	288 770	288 770	271 740	-17 030
EU funds deficit	27 985	11 515	36 205	24 690
Loans and advances granted	59 986	9 671	112 772	103 101
Pre-financing of tasks from the EU	-15	-130	160	290
Payments related to shares in international institutions	1 112	1 143	354	-789
Liquidity management	-10 516	-2 026	-10 573	-8 547
European funds management	-632	-8 280	12 243	20 523
Other	-26	-142	-28	114
Total (net borrowing needs)	**366 663**	**300 522**	**422 873**	**122 351**
Of which:				
1. Domestic financing	246 205	342 536	240 768	-101 769
1.1 Treasury securities	246 205	266 907	240 768	-26 139
1.2 Funds on budget accounts	-	75 630	-	-75 630
2. Foreign financing	120 458	-42 014	182 106	224 120
2.1 Treasury bonds	42 909	33 008	27 949	-5 059
2.2 Loans received	-2 888	-1 038	-1 617	-579
2.3 Loans from the EU	25 263	16 851	45 276	28 424
2.4 Flows related to foreign currency accounts	55 173	-90 836	110 498	201 334

Source: Finance Ministry, Santander

The planned net supply of treasury securities will include c. PLN223bn in marketable treasury securities, with c. PLN27bn in treasury bills, and c. PLN18bn in retail bonds. The net supply of retail bonds is thus expected to be nearly half of the amount planned for 2025, equal to PLN35bn. In gross terms, marketable treasury securities and retail bonds are to amount to PLN381bn and PLN81bn, respectively, i.e. c. PLN44bn and PLN8bn more than their expected realisation in 2025. This means that **the government plans to sell c. PLN32bn in marketable securities and less than PLN7bn in retail bonds on average per month**.

Planned issuance of treasury securities in 2025-2026 (PLN mn)

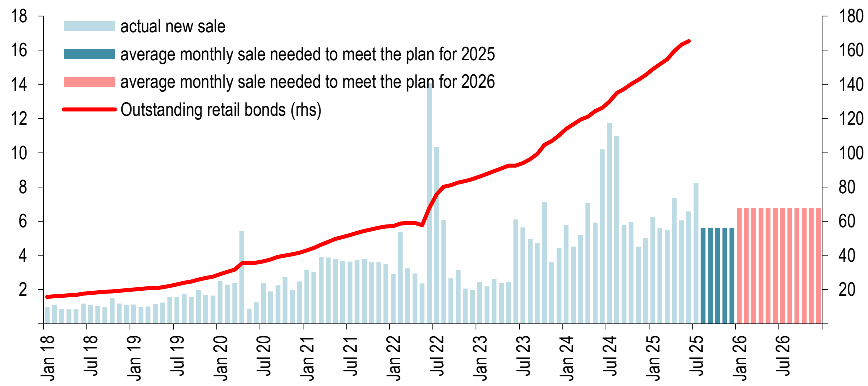
	Net issuance				Gross issuance			
	2025 budget (1)	2025 expected realisation (2)	2026 budget draft (3)	2026 change (3) - (2)	2025 budget (4)	2025 expected realisation (5)	2026 budget draft (6)	2026 change (6) - (5)
T-Bills	45 734	31 468	26 645	-4 823	45 734	31 468	58 113	26 645
Marketable bonds – fixed coupon	102 823	153 186	150 939	-2 248	182 228	232 578	236 443	3 865
Marketable bonds – floating coupon	48 613	39 813	36 510	-3 304	67 343	66 353	78 471	12 119

Marketable bonds – index-linked	11 825	7 452	8 468	1 017	11 825	7 452	8 468	1 017
Retail bonds	37 210	34 988	18 206	-16 781	73 864	73 666	81 238	7 572
DOMESTIC Treasuries - SUM	**246 205**	**266 907**	**240 768**	**-26 139**	**380 995**	**411 516**	**462 733**	**51 217**
FOREIGN Treasuries - SUM	**42 909**	**33 008**	**27 949**	**-5 059**	**66 313**	**56 181**	**48 606**	**-7 575**

Source: Ministry of Finance, Santander

The plan to issue retail bonds at the net level of PLN18.2bn and the gross level of c. PLN81.2bn means sales of approximately PLN1.5bn and PLN6.8bn per month on average, respectively. The projected scale of retail bond issuance seems realistic, provided that there is no radical decline in the (unusually) high propensity to save and the OKI programme does not redirect household surpluses towards higher-risk assets. For the retail bonds issuance plan to be feasible, it is also important to maintain the interest rate on these securities at a level that ensured their competitiveness with bank term deposits.

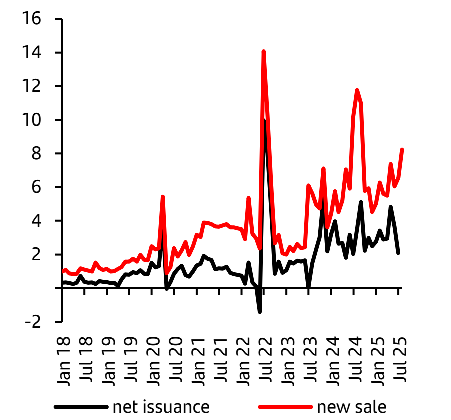
Retail bond sales (PLN bn)



Source: Finance Ministry, Santander

According to the assumptions of the draft budget, **issuance of bonds on foreign markets is to amount to PLN28bn net and PLN49bn gross**. Both amounts are lower than their expected realisation in 2025, equal to PLN33bn and PLN56bn, respectively, as well as lower than the original plan from the 2025 budget act, which assumed issuance at PLN43bn net and PLN66bn gross. This suggests that in 2026, we may see a further decline in the share of foreign debt in the national public debt – as at the end of 1Q25, its rate stood at 23.6%, which was the lowest result since 2007 (when it was 23.5%), and the second lowest in over 20 years.

Retail bond sales (PLN bn)



Source: Ministry of Finance, Santander

Additional information is available on request. Please contact Santander Bank Polska S.A. Financial Management Division. Economic Analysis Department. al. Jana Pawla II 17. 00-854 Warsaw. Poland. phone +48 22 534 18 87. email ekonomia@santander.pl. http://www.santander.pl.