Republic of Poland

REPORT ON ACTION TAKEN BY POLAND UNDER THE EXCESSIVE DEFICIT PROCEDURE

Warsaw, October 2026

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Introduction

Since July 2024, Poland has been subject to an excessive deficit procedure (EDP)[1], based on a decision of the EU Council. On 21 January 2025, the EU Council adopted a recommendation addressed to Poland under the excessive deficit procedure[2], according to which, in order to bring an end to the situation of an excessive deficit, it is necessary to respect the growth rate of net expenditure presented in *Medium-term fiscal-structural plan for the years 2025-2028*[3] (hereinafter *"the Plan")*, adopted by the government in October 2024.

At the same time, the Council required Poland to report on a six-monthly basis, starting on 30 April 2025 and until the excessive deficit has been corrected, on progress made in the implementation of the EU Council recommendation. In the spring, reporting takes place as part of *Annual Progress Report on the implementation of the "Medium-term fiscal-structural plan for 2025-2028"* and in autumn in *Report on action taken by Poland under the excessive deficit procedure* (hereinafter *"the EDP report"*).

In line with the European Commission's guidelines, *the EDP report* focuses on the situation in the current year and on measures planned for 2027.

[1] *EU Council decision on the existence of an excessive deficit in Poland*
[2] *EU Council recommendation with a view to bringing an end to the situation of an excessive deficit in Poland*
[3] *Medium-term fiscal-structural plan for the years 2025-2028*

1. Net expenditure path 2024-2027

The EU Council recommendation with a view to bringing an end to the situation of an excessive deficit in Poland

In line with *the EU Council recommendation* of 21 January 2025, it is necessary to respect the growth rate of net expenditure as outlined in the *Plan, adopted by the government in October 2024*, in order to bring an end to the excessive deficit situation.

Table 1. Net expenditure path in the EU Council recommendation to bring an end to the excessive deficit situation in Poland

Years		2025	2026	2027	2028
Growth rate (%)	annual	6.3	4.4	4.0	3.5
	cumulative*	19.6	24.9	29.9	34.4

* cumulative growth rate is calculated by reference to the base year 2023.

Source: the EU Council recommendation with a view on bringing an end to the situation of an excessive deficit in Poland.

Net expenditure is the general government expenditure less: 1) debt service costs, 2) the level of measures implemented and planned by the government to permanently increase the revenue level of the sector in a given year (so-called discretionary revenue measures), 3) expenditure on EU programmes fully financed by revenues from EU funds, 4) national expenditure on co-financing EU-funded programmes, 5) cyclical expenditure on unemployment and 6) one-off and temporary expenditure, having an incidental and non-permanent impact on the general government's expenditure (so-called one-offs).

National *escape clause* (NEC)

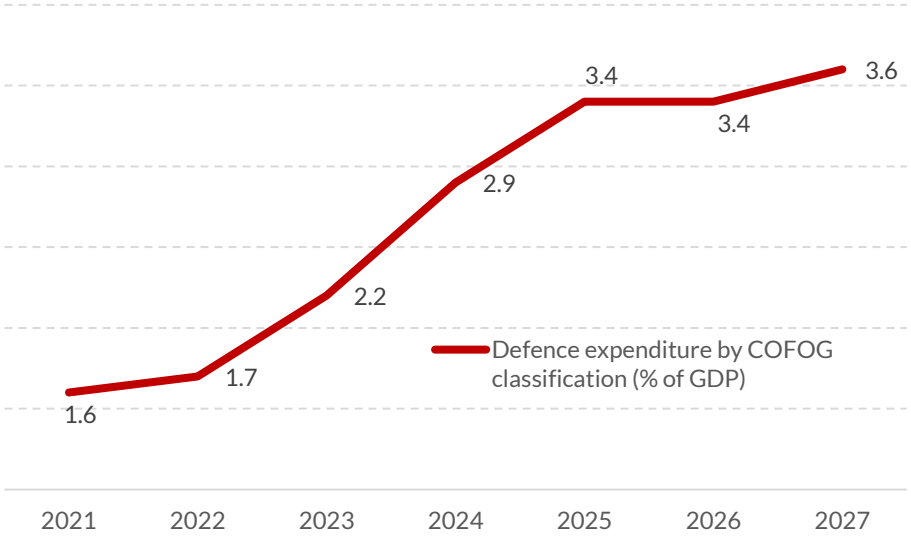
In July 2025, the Council of the EU activated the national escape clause (NEC) for Poland for the years 2025-2028[4], which allows to deviate from the expenditure path recommended by the Council of the EU up to the increase in defence expenditure compared to the situation before the war in Ukraine (i.e. in 2021), but not more than 1.5% of GDP per year.

The NEC allows Member States to flexibly finance urgent strategic investments, while providing the necessary space to conduct spending reviews and plan their sources of funding beyond 2029. In addition, the flexibility granted under the NEC may also cover government expenditure after 2028 that results from defence equipment purchase contracts signed between 2025 and 2028 up to an unused limit of 1.5% of GDP per year over that period.

The graph below shows the size of Polish defence spending according to COFOG[5]. Compared to 2021, Poland's security spending doubled, making Poland one of the leaders in defence spending (in relation to GDP) among NATO countries[6].

[4] *EU Council recommendation allowing Poland to deviate from the maximum growth rates of net expenditure as set by the Council under Regulation (EU) 2024/1263*
[5] Defence expenditure (in cash terms) planned in the draft 2027 Budget Act will amount to 4.5% of GDP.
[6] Cf. North Atlantic Treaty Organisation - Press release: *Defence Investment of NATO Countries (2014-2026)*.

Chart 1. Defence expenditure in Poland by COFOG (% of GDP)



Source: Ministry of Finance

EU budgetary surveillance

Despite the activation of the national escape clause, the EU budgetary surveillance remains operational and rules are in place. The European Commission monitors the implementation of the recommended path twice a year (spring and autumn in the years 2025-2029) on the basis of outturn data. This year, the Commission assessed compliance with the recommended expenditure path in 2025, both on an annual and cumulative basis (2024-2025)[7]. By contrast, a binding evaluation of 2026 will take place in spring 2027 and this year's Commission's assessment will be only preliminary.

The 2024 reform of the economic governance framework introduced a medium-term approach in fiscal surveillance, which no longer focuses on a specific year for the correction of the excessive deficit, but aims to ensure that the general government deficit is brought and maintained below 3% of GDP in the medium term. Therefore, the Commission does not assess the general government deficit in 2025-2028. **Compliance with the net expenditure growth rate recommended by the EU Council is key. If the deficit in Poland will remain above 3% of GDP in the year of the correction of the excessive deficit (2028**, in line with the EU Council recommendation to bring the excessive deficit to an end), despite the fact that the country has taken effective action to reduce it, **the Commission will recommend the EU Council to adopt a revised recommendation extending the deadline for the correction of the excessive deficit[8].**

Implementation of the recommendation of the EU Council

Over 2024-2027, also due to increased defence spending, the growth rate of net government expenditure in annual (except 2026) and cumulative terms is projected to be above the rate recommended by the Council. As a result, the cumulative deviation will amount to 1.1% of GDP in 2027, i.e. lower than the deviation allowed under the NEC - 1.5% of GDP. At the same time, **taking into account the flexibility granted under the national escape clause, consistency with**

[7] Cf. *EC Spring Package – June 2026*
[8] Cf. *Guidelines on the implementation of the Stability and Growth Pact (Code of Conduct), adopted* by the EU Council in December 2025.

the EU Council recommendation will be ensured - no deviation from the recommended cumulative growth rate of expenditure in 2024-2027.

Table 2. Forecast of net expenditure path for 2024-2027

		2024	2025	2026	2027
Recommendation of the Council of the EU					
1a. Net expenditure (annual growth rate)		12.5	6.3	4.4	4.0
2a. Net expenditure (cumulative growth rate)		12.5	19.6	24.9	29.9
Execution / forecast					
1b. Net expenditure (annual growth rate)		13.4	8.6	3.7	4.6
2b. Net expenditure (cumulative growth rate)		13.4	23.1	27.7	33.6
Recording of the control account					
1c. Annual deviations	*PLN billion*	12.5	38.5	-12.1	11.6
	% of GDP	0.3	1.0	-0.3	0.3
2c. Cumulative deviations	*PLN billion*		50.9	38.8	50.4
	% of GDP		1.3	0.9	1.1
National escape clause					
1d. Maximum flexibility of NEC	*% of GDP*		1.5	1.5	1.5
2d. Unused flexibility	*% of GDP*		0.2	0.6	0.4

Source: Ministry of Finance, the EU Council recommendation with a view to bringing an end to the situation of an excessive deficit in Poland.

2. Determinants of fiscal policy in 2025-2026

The fiscal situation in Poland in 2025-2026 is the result of the government's decision to make the necessary, significant investments in increasing Poland's defence capabilities, in line with the recommendations of the EU Council[9], as well as the consequence of economic trends affecting the persistence of the general government deficit at the level of approx. 7% of GDP. In addition to lower-than-expected inflation affecting tax revenues, rising debt servicing costs are a factor on the expenditure side. At the same time, the government complies the net expenditure path recommended by the EU Council within the excessive deficit procedure, making use of the flexibility granted by the EU Council, as described in detail above.

Inflation fell faster than expected in 2025, which, combined with a high household savings rate, contributed to lower-than-projected tax revenues. The 2025 Budget Act (UB2025) projected average consumer inflation of 5% in 2025 and nominal private consumption growth of 9.6% (with assumed real growth of 4.3%). The actual average annual inflation (CPI), however, was 3.6%, this difference being largely institutional in nature (the forecast was based on the legislation then in force on the energy price freeze and did not account for its subsequent extension to the end of 2025). Likewise, the GDP deflator came in below assumptions, which lowered nominal GDP growth relative to the forecast (projection 9.1%, actual 6.6%). As in 2024, deflation in industrial producer prices contributed to the slowdown in consumer inflation.

[9] Cf. *EU Council Recommendations on the economic, social, employment, structural and budgetary policies of Poland - July 2026*

Private consumption increased nominally by 7.7%, i.e. almost 2 percentage points below the forecast from UB2025. The lower-than-projected growth in private consumption was due, inter alia, to lower-than-projected growth in disposable income and the persistently high household saving rate (also due to persistently relatively high interest rates).

The macroeconomic forecast for 2026 adopted in the 2026 Budget Act (UB2026) assumed average annual CPI inflation of 3%, and GDP deflator growth at the same level. The projected increase in private consumption was 6.4% in nominal terms and 3.3% in real terms. The latest forecast for the current year included in the draft 2027 Budget Act (PUB2027) projects average annual inflation in 2026 at the same level as in UB2026, but private consumption growth has been revised down to 3.0% in real terms and 5.9% in nominal terms. This is largely due to a higher household savings rate than expected a year ago. Nominal and real disposable incomes of households grew at a similar pace, while the propensity to save remained elevated.

While disinflation was faster than expected in 2025, it is projected to slow markedly in 2026. This is due to a significant increase in the global energy commodity prices after the outbreak of the armed conflict between the US and Iran. Fuel prices are stabilised by the Lower Fuel Price (CPN) relief program, which is estimated to reduce VAT and excise revenue (during the period of validity of the program between March 31 and August 31 this year) by more than PLN 5 billion.

In PUB2027, the forecast for GDP deflator growth in 2026 was revised down to 2.5% (from 3% assumed in UB2026), due to the situation in Poland's external environment: weaker foreign demand translates into a lower export deflator, which resulted in a lower growth rate of the GDP deflator. As a result, the nominal GDP growth forecast for 2026 was reduced from 6.6% assumed in UB2026 to 6.2% in PUB2027.

As a result of less favourable macroeconomic conditions of the tax base, the projected implementation of state budget revenue from VAT in 2026, which is the basis for the forecast for 2027, is lower than the forecast from UB2026 by approx. PLN 11.5 billion. The basis for the forecast when preparing the budget law for 2026 was the planned execution of revenues in 2025, which was higher by approx. PLN 3.4 billion compared to the actual execution in the previous year, which results in a reduction in the current planned execution in 2026 compared to the forecast included in the Budget Act for the current year.

The level of tax revenues in 2026 is also determined by the effects of systemic changes. VAT revenue in 2026 is negatively affected by the implementation of the CPN programme in the periods from 31 March to 30 June and from 17 August to 31 August 2026, i.e. the temporary reduction of the VAT rate from 23% to 8% for supplies, intra-Community acquisitions and imports of, among others, petrol, diesel fuels and biocomponents constituting pure fuels, meeting the quality requirements set out in separate provisions, intended for the propulsion of internal combustion engines. This solution was a response to the rising fuel prices after the outbreak of the conflict in the Middle East, and its functioning had a negative impact on the level of VAT revenues of the state budget in the amount of approx. PLN 3.4 billion.
The reintroduction of the CPN programme in October-December will reduce VAT revenue by a further approx. PLN 3.2 billion (the effect was included in the current forecast).

Another change negatively affecting the collection of VAT revenues in 2026 is the shortening of the basic VAT refund period from 60 days to 40 days introduced from 1 February 2026 (related to the introduction of the mandatory National e-Invoice System - KSeF). The estimated one-off negative effect of shifting the refund stream in 2026 on VAT revenue was estimated at around PLN -2.7 billion. In addition, the VAT exemption for purchases under the SAFE programme has a negative impact on the development of VAT revenues in 2026. According to the estimates of the Ministry of National Defence, the loss of state budget revenue was estimated for the above measure at approx. PLN 4.5 billion. It is also worth mentioning the negative effect on VAT revenue of the President's veto on the law adopted by Parliament,

which provides for the introduction of the SENT system in the concrete trade, aimed at sealing the VAT system. The Act provided for revenue of PLN 0.9 billion.

The current forecast for the implementation of the state budget revenues from excise duty in 2026, which is the basis for the forecast for 2027, is lower compared to the plan from the 2026 Budget Act by approx. PLN 8.8 billion. One of the reasons is that the 2026 forecast was based on a planned implementation approx. PLN 2.5 billion higher compared to the actual implementation in 2025. The forecast for UB2026 also takes into account the 15% increase in excise duty on alcohol products adopted by Parliament, which was vetoed by the President. The effect of this change was estimated at approx. PLN 1.5 billion of additional revenue in excise duty that has not been realised.

Another change negatively affecting the collection of excise duty revenue in 2026 was the CPN programme, under which excise duty rates on diesel fuel were reduced by 24% and on petrol by 19%, with an estimated effect of approx. PLN 1.8 billion zlotys. The reintroduction of the CPN programme in October-December this year will reduce excise revenue by a further approx. PLN 2.1 billion (the effect was included in the current forecast).

The state budget revenue from personal income tax (PIT) projected for 2026 in PUB2027 is also PLN 1.8 billion lower than planned in UB2026. This amount represents 5.6% of the planned revenues of the state budget from this tax and 0.8% of the planned total (state budget and local government units) revenues from PIT. The main reason for the reduction in the forecast of revenues from this category is the lower than expected revenue from advance tax payments based on the tax scale and the flat tax, resulting, among others things, from the reduction in nominal GDP growth forecast for this year. In the case of corporate income tax (CIT), the positive impact of the increase in the CIT rate for banks and the tax on certain financial institutions, which entered into force in 2026, should be noted.

In addition to the adverse factors affecting the revenue side, the higher-than-expected expenditure, in particular that of the social security sub-sector, also had negative impact on the general government deficit in 2026 in comparison to the forecast included in the draft 2026 Budget Act. A particularly significant impact came from the change in the financial plan of the National Health Fund (NFZ) for 2026, which resulted in an increase of costs for tasks implemented by NFZ calculated according to the EU methodology (ESA 2010) by 0.2 percentage points of GDP. The largest contributor to this revision of the healthcare expenditure forecast was the increase in NFZ expenditure on financing hospital treatment.

3. EDP measures in 2027

Revenue measures

In 2027, the Government will continue to strengthen the general government revenue. **The total estimated impact of the significant discretionary revenue measures (DRMs) planned for 2027 amounts to around 1% of GDP (over PLN 40 billion) and will be the highest since Poland was placed under the excessive deficit procedure in 2024.** This effect consists of both the measures presented in Table 3, in particular the tax reform package proposed by the Government, as well as the revenue-side measure, which does not constitute DRMs and, as a result, is not included in the estimates of compliance with the net expenditure path, constituting a positive risk factor for the forecast of the net expenditure path presented in Table 2.

The Government's revenue measures, which were not presented in *the Report on the implementation of the Medium-Term Fiscal-Structural Plan 2025-2028* of April 2026, or were significantly changed compared to the version presented in that *Report*, are discussed below.

Table 3. Estimated impact of significant discretionary revenue measures (DRM) in 2026-2027 included in the draft 2027 Budget Act (y/y)

		2026 % of GDP	2027 % of GDP
I.	**VAT**	**-0.27**	**0.24**
1.	Revision of the SENT (Transport and Traffic Monitoring) System	0.001	0.03
2.	Increase in VAT on certain non-alcoholic beverages		0.03
3.	Package "Fuel Prices Lower"	-0.16	0.15
4.	VAT revenue shortfall due to SAFE	-0.11	0.03
II.	**EXCISE DUTY**	**0.05**	**0.27**
1.	Excise Road Map 2022-2027	0.06	0.06
2.	Indexation of excise duty rates - update of the Excise Road Map (tobacco products and substitutes)	0.09	0.08
3.	Indexation of excise duty rates - update of the Excise Road Map (alcoholic beverages)		0.04
4.	Package "Fuel Prices Lower"	-0.09	0.09
III.	**CIT**	0.16	0.18
1.	Increasing the CIT rate to 22% for large taxpayers and tax capital groups		0.15
2.	"Sectoral" CIT (entities engaged in licensed activities in the field of natural gas and oil)		0.07
3.	Increase in the CIT rate for banks	0.16	-0.04
IV.	**PIT**	0.28	0.18
1.	Reduction of the revenue limit for the lump sum		0.14
2.	Change of the tax scale in PIT from 2027		0.04
3.	Maintaining the parameters of the tax scale (effect until 2026)	0.28	
V.	**OTHERS**	0.15	0,12
1.	Tax on windfall profits	0.10	-0.06
2.	Digital tax		0.04
3.	Changes in the charge on foodstuffs (sugar charge)		0.03
4.	Introduction of a global minimum tax (GloBE)	0.01	0.04
5.	Fee for alcoholic beverages in small packages		0.03
6.	Change in the amount of pre-concession and concession fees for energy companies		0.08
7.	Decision of the President of the Energy Regulatory Office (write-offs to the Price Difference Payment Fund)	0.05	-0.04
	SUM	**0.38**	**0.98**

** The positive effect in 2027 means that the VAT gap due to the exemption of military purchases under SAFE from VAT in 2027 will be smaller than in 2026.*

Source: Ministry of Finance

I. VAT measures

In 2027, it is assumed that the **SENT system** will be implemented[10] aimed at sealing the tax system in the area of trade in concrete and increasing the VAT rate for non-alcoholic beverages containing at least 20% of fruit, vegetable or fruit and vegetable juice:

- non-alcoholic beverages, including non-alcoholic beer, of an alcoholic strength by volume exceeding 0.0 %,
- non-alcoholic beer of an alcoholic strength by volume of 0.0%,
- non-alcoholic beverages other than beer resulting from the de-alcoholisation process or the stopping of alcoholic fermentation, of an alcoholic strength by volume of 0.0 % (e.g. wine or cider),
- drinks with added caffeine or taurine from 5% to 23% (sold commercially) and from 8% to 23% (sold as part of a catering service)[11].

Additional revenue from this is estimated at approx. PLN 1.3 billion.

VAT revenue is negatively affected by the design of **the SAFE** instrument, which exempts military purchases under SAFE from VAT. It is expected that the level of this loss in 2027 will be lower than in 2026 and will amount to PLN 3.3 billion in accrual terms (PLN 4.5 billion in cash terms).

On the other hand, VAT receipts in 2027 will be positively affected by the absence of one-off effects that reduce VAT revenue in 2026, i.e. the CPN programme and the shortening of the deadline for VAT refunds for taxable persons.

II. Excise duty measures

In 2027, the **rates for alcoholic beverages in excise duty will be increased**[12]**,** i.e. for beer, wine, fermented beverages and intermediate products by approx. 15%, and for cider and low-alcohol perry by approx. 26%. Additional revenues are estimated at PLN 1.8 billion, including excise duty and tax on goods and services, including approx. PLN 1.4 billion in excise duty. The project assumes the transfer in 2027 of the amount of PLN 1.4 billion, estimated as revenue from excise duty, in the form of general-purpose subsidy to the National Health Fund.

At the same time, in 2027, as in the case of VAT, the dynamics of excise duty revenues will be positively affected by the absence of the one-off effects of the CPN programme, which reduce excise revenues in 2026.

III. Measures in income taxes

A separate package of measures consists **of changes in personal income tax and corporate income tax,** announced in August this year. (*Draft Act amending the Personal Income Tax Act, the Corporate Income Tax Act and the Act on Lump-sum Income Tax on certain revenues earned by natural persons*[13]):

- The changes in PIT provide for raising the income threshold, to which the rate of 12% will be applied, from PLN 120.000 to PLN 130.000, while at the same time introducing the rate

[10] Electronic Transport Surveillance System - the state-owned IT system of the National Revenue Administration, which monitors the transport of 'sensitive goods' by road and rail (fuels, alcohol, dried tobacco, waste, clothing and footwear); a draft law amending the law on the system for monitoring the carriage of goods by road and rail and trade in heating fuels and certain other laws.

[11] *Government bill amending the act on the tax on goods and services*

[12] *Government bill amending the act on excise duty and the act on health care services financed from public funds*

[13] *Government bill amending the Personal Income Tax Act, the Corporate Income Tax Act and the Act on Lump-sum Income Tax on Certain Revenues Earned by Natural Persons*

of 24% for income from PLN 130.000 to PLN 150.000 and increasing the entry threshold to PLN 150,000 at the rate of 32%.

— The PIT also lowered the revenue limit conditioning the possibility of opting for flat-rate taxation on recorded revenues from EUR 2 million to EUR 250 thousand.

— The Corporate Income Tax provides for an increase from 19% to 22% of the basic rate for tax capital groups and taxpayers whose revenues in the previous year exceeded the equivalent of EUR 50 million, excluding banks and taxpayers holding an energy and gas concession, who are covered by other provisions increasing this tax.

— The package of changes in PIT and CIT complements the increase in the solidarity levy by 1 percentage point, i.e. from 4% to 5% of the basis for its assessment.

The net effect on an accrual basis of this measure, taken into account in the estimates of the net expenditure path, results from the above-mentioned changes and, at the same time, from the lack of changes in the other parameters of the system, and will amount to PLN 14.8 billion.

In the years 2027-2029, the so-called **sectoral CIT**[14] will apply, i.e. a periodic increase in the applicable CIT rate from 19% to 30% of the tax base as follows: 30% in 2027, 26% in 2028 and 23% in 2029 (return to 19% in 2030). This tax will apply to entities conducting licensed activities (the *Energy Law Act and the Geological and Mining Law Act)*, as well as non-concessional activities in the field of extraction of natural gas or crude oil, trade in gaseous fuel or natural gas with foreign countries, trade in crude oil, production of liquid fuels excluding so-called *blending*, trade in liquid fuels, distribution of electricity by the largest entities and transmission of electricity. Additional revenue from this is estimated at approx. PLN 3.1 billion a year.

IV. Measures in other taxes, levies or other public levies

In 2026, **a tax on extraordinary profits** was introduced[15], i.e. a tax on surplus revenues generated in 2026 in connection with the disposal of liquid fuels, which applies to entrepreneurs conducting, in the period from 1 March 2026 to 31 March 2027, on the territory of the Republic of Poland, independently or through another entity, activities in the production of liquid fuels, as well as entrepreneurs disposing, on the basis of a concession for the foreign trade in liquid fuels, of fuels derived from imports and intra-Community acquisitions. The basis for calculating that tax is the excess of the taxable person's revenue over the amount of revenue that would have been generated by that taxable person using the notional margin (hypothetical revenues). The reference margin is the historical margin of a given taxpayer from 2025, understood as the percentage share of profit from the sale of liquid fuels in revenue from their sale in that year (average sales margin, PMS), increased by 20%. Revenue from this tax in 2026 in accrual terms were estimated at PLN 4.0 billion in 2026 and PLN 1.2 billion in 2027.

A compensation tax on certain services (the so-called **digital tax)** is planned to be introduced in 2027[16]. This tax will apply to entities or consolidated groups generating over EUR 1 billion in global turnover and at least PLN 25 million in turnover in Poland, and the tax rate will be 3%. Revenues from services based on digital interfaces, in particular personalised advertising, online commercial intermediation and commercial trading of user data, will be taxed. The impact of this solution on the state budget revenue in 2027 was estimated at approx. PLN 1.7 billion.

[14] *Government Bill on support for energy-intensive businesses in connection with electricity costs*
[15] *Act of 18 September 2026 on the Tax on Extraordinary Profits Earned in the Period from March 2026 to March 2027 from the Sale of Liquid Fuels*
[16] *Government bill on the compensation tax on certain services*

From 2027, a **charge on food products** is to be tightened [17] [18] and increased (per litre of beverage):

- the fixed component, for a sugar content of 5 g or less per 100 ml of beverage, or for any amount of one or more sweeteners referred to in Regulation (EC) No 1333/2008: from PLN 0.50 to PLN 0.70,
- the variable component, for each gram of sugars above 5 g in 100 ml of beverage: from PLN 0.05 to PLN 0.10,
- the component for added caffeine or taurine: from PLN 0.10 to PLN 1.00,
- the maximum charge: from PLN 1.20 to PLN 1.80.

The estimated impact of these measures is approx. PLN 1.5 billion.

The general government revenues in 2027 will also be affected by the so-called **global minimum tax (GloBE)** system introduced in 2026[19]. This is a solution whereby the largest multinational and domestic companies will be subject to an annual verification of their compliance with the minimum effective level of taxation: 15%. If the effective level of income taxation for an international group in a particular jurisdiction is below 15% (the so-called effective rate of 15%), an appropriate top-up tax will be levied on that group. Additional income from this tax is estimated at PLN 1.9 billion.

The revenue of the general government will also be strengthened **by the introduction of a fee for the authorisation of the wholesale of alcoholic beverages and** for the authorisation of the sale of stocks of alcoholic beverages, in the part concerning the fee for prepacked alcoholic beverages with a nominal quantity of the beverage not exceeding 300 ml[20]. The estimated effect of this measure is PLN 1.2 billion.

Another factor positively affecting the revenue of the general government will be the change in the amount of **the pre-concession fee and the concession fee for energy companies**[21] with a total effect of PLN 3.6 billion from 2027.

Risk factors

A positive risk factor for the presented forecast of the net expenditure path are the **modernisation measures of the National Revenue Administration (KAS)** planned for the years 2027-2029, which are not included in the discretionary revenue measures (DRM). These measures are aimed at increasing the efficiency of the administration and, as a result, at increasing budget revenue. They will consist mainly in increasing the efficiency of IT systems and expanding the KAS's analytical capabilities. Although, for methodological reasons, the projected revenue effects are not recognised as DRMs, they are a genuine positive risk factor, and their materialisation would benefit public finances.

However, an important negative risk factor is the possibility **the President of the Republic of Poland will veto** government bills that increase general government revenue. If the bills currently under consideration do not enter into force, it could become more difficult to comply not only with the net expenditure path, but even with the prudential procedures under the

[17] *Government bill amending the Public Health Act*

[18] By extending the charge to: 1) food supplements in packages larger than 200 ml; 2) all concentrates regardless of their form (currently only syrups are subject to the charge); 3) beverages containing at least 20% juice and up to 5 g of sugars that also contain sweeteners, caffeine or taurine.

[19] *Act of 6 November 2024 on Top-up Taxation of Constituent Entities of International and Domestic Groups.* The Act transposes into Polish law *the Council Directive (EU) 2022/2523 of 14 December 2022 on ensuring a global minimum level of taxation for multinational enterprise groups and large-scale domestic groups in the European Union.*

[20] *Government bill amending certain acts to ensure revenue for the National Health Fund*

[21] *Government bill amending the Energy Law*

Public Finance Act. This would require stronger fiscal adjustments in subsequent years, thus hampering economic growth.

Expenditure measures

In subsequent years, the expenditure side is determined by a set of national and EU fiscal rules, in particular compliance with the recommended net expenditure path under the excessive deficit procedure, taking into account the additional flexibility resulting from the activation of the national escape clause by the Council of the EU, including for Poland.

The Stabilising Expenditure Rule (SER), set out in Article 112aa(1) *of the Public Finance Act*, is the main factor determining the amount of the state budget expenditure limit (the SER covers approx. 90% of general government expenditure) and sets expenditure limits for the authorities and entities covered by the rule. The SER plays an executive role for the excessive deficit procedure through its correction mechanism. The correction mechanism incorporated into the SER formula corresponds to the adjustment consistent with the net expenditure path approved by the Council of the EU and takes into account the national escape clause (NEC). Therefore, the SER, through its correction mechanism taking into account the recommendation of the Council of the EU, ensures *ex ante* compliance of Polish fiscal policy with EU fiscal rules and Poland's Treaty obligations.

Depending on the evolution of the fiscal situation, economic growth and the actual impact of the measures already planned, appropriate measures to ensure compliance with the EDP recommendation will be presented in subsequent implementation reports *of the Medium-Term Fiscal-Structural Plan 2025-2028* and draft budget laws for the following years.

Summary

The 2024 EU economic governance reform introduced a medium-term approach in the EU fiscal surveillance. Respecting the growth rate of net expenditure recommended by the EU Council is crucial in the fiscal policy. The Commission no longer assesses the general government deficit.

Report on action taken by Poland under the excessive deficit procedure presents planned consolidation measures to ensure, despite increased defence spending, that Poland complies with the expenditure growth rate recommended by the EU Council. While the growth rate of net government expenditure in annual (except 2026) and cumulative terms will be higher than recommended by the Council, taking into account the flexibility granted under the national escape clause, consistency with the Council's recommendation will be ensured.

At the same time, it should be remembered that the current budgetary situation in Poland is, on the one hand, a consequence of trends in the economy, including a faster-than-expected decline in inflation, and, on the other hand, a structure of economic growth that is less favourable from the point of view of the process of collecting tax revenues, negatively affecting the level of main tax revenues. In addition, as a result of the international situation, including conflicts in the Middle East, the government must take protective measures to protect Polish society from too sharp increases in fuel prices.

An important risk factor for the presented EDP measures are possible vetoes by the President of Poland on government bills increasing budget revenues. The lack of entry into force of the draft laws proposed by the government could reduce general government revenue, thereby worsening the general government net expenditure path, the deficit path and the debt path.