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Poland's Fiscal Policy for 2019-2023

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Abstract:

Purpose: *This article analyses Poland's fiscal policy from 2019 to 2023, focusing on the domestic adjustments and challenges it faced due to internal and external economic conditions.*
Design/Methodology/Approach: *The research employs an analytical approach predicated on macroeconomic data from 2019 to 2023. To ascertain trends and outcomes, Poland's fiscal policies, budget expenditures, and public financial sector deficits were thoroughly examined.*
Findings: *The findings indicate a significant rise in the public financial sector deficit, primarily due to increased budgetary expenditures. This situation led to the initiation of the Excessive Deficit Procedure by the European Union, which was lifted in mid-2015. Despite the conservative monetary policy of the National Bank of Poland, fiscal policy took precedence. Ambitious social programs necessitated reforms and potential tax increases, highlighting the need to overhaul the outdated tax system.*
Practical Implications: *The study's findings can provide policymakers with crucial information regarding the fiscal reforms and adjustments necessary to preserve financial equilibrium and decrease dependence on foreign savings.*
Originality/Value: *The article contributes to the understanding of Poland's fiscal policy adjustments in response to both internal and external economic challenges, emphasizing the importance of coordinated fiscal and monetary policies.*

Keywords: *Public financial sector, fiscal discipline, public deficit and debt, policy mix, foreign debt.*

JEL Classification: *E44, E51, F34, F36, G01, G28.*

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1. Introduction

From 2019 to 2023, Poland’s fiscal policy made minimal adjustments to respond to global changes, instead concentrating primarily on domestic issues. At the start of this period, Poland's financial situation had already deteriorated significantly due to an expanding public finance deficit and rising budgetary expenditures.

These financial pressures led the European Union Council to initiate an excessive deficit procedure against Poland in 2009, which was successfully closed in mid-2015 after six years of rigorous adjustments.

Despite these stringent adjustments, which marked a significant improvement in Poland's financial stability, maintaining financial equilibrium remained a persistent challenge for the government for years to come.

Throughout the 2019–2023 period, the centrality of fiscal policy surged, overshadowing the National Bank of Poland's traditionally conservative monetary policy. The NBP focused on price stability and controlling inflation, adopting a cautious approach to interest rate adjustments and unconventional monetary policies.

This conservative stance was particularly evident during global economic shocks such as the COVID-19 pandemic and the subsequent inflationary pressures.

The government's fiscal strategy was characterized by ambitious social programs, which necessitated reforms and potential tax increases. Poland’s outdated and inconsistent tax system further highlighted the urgent need for comprehensive reform.

Therefore, in the coming years, Polish authorities face a formidable task: reduce internal and external economic imbalances, and decrease the nation's reliance on foreign savings.

External factors, including the COVID-19 pandemic and the Ukraine war, have further complicated the period under investigation, requiring a thorough re-evaluation of the state’s fiscal strategies. These events demonstrated the need to implement a balanced and adaptive fiscal policy in order to address both domestic demands and global economic pressures.

This article analyses Poland's fiscal policy over a five-year period, focusing on the domestic adjustments and challenges it faced due to internal and external economic conditions. It investigates the relationship between fiscal and monetary policies, the impact of ambitious social programs, and these strategies’ broader economic implications.

2. Literature Review

2.1 Economic and Financial Situation of Poland for 2019–2023

The 2019–2023 timeframe in Poland can be classified as exceptionally volatile from an economic perspective, with quite varied macroeconomic outcomes (Table 1). This is particularly so when compared to the relatively stable period 2015–2018, which was characterized by sound macroeconomic results primarily due to exceptionally favourable external conditions and expansive fiscal and monetary policies.

For the five-year period under examination, the Polish policy mix maintained an expansive character. However, the global response to the COVID-19 pandemic resulted in significant disruptions to production processes and supply chains, as evidenced by the substantial decline in external conditions.

These disruptions included lockdowns; the post-pandemic intensification of global inflationary pressures, particularly the rise in fuel and energy prices as a result of Russia's aggression against Ukraine; the deterioration of global commodity markets; the intensification of the global climate crisis; and the escalation of mass migration. All these factors substantial contributed to the fluctuations in Poland's GDP, which included not only consumption but also overall investment and foreign trade.

Table 1. *Economic indicators for Poland during the period 2019–2023 (in percent)*

Indicator	**2019**	**2020**	**2021**	**2022**	**2023**
GDP Growth in Constant Prices	4.45	-2.02	6.94	5.26	0.16
Share of Total Investments in GDP	20.50	18.76	21.75	22.42	17.90
Share of Gross Domestic Savings in GDP	20.25	21.22	20.50	19.99	19.48
Volume Change in Imports of Goods and Services	3.19	-2.41	16.14	6.79	-8.30
Volume Change in Exports of Goods and Services	5.34	-1.09	12.34	6.74	-1.94
Share of Public Finance Sector Deficit in GDP	-0.74	-6.92	-1.83	-3.68	-5.62*
Share of Gross Public Debt in GDP	45.71	57.18	53.61	49.30	50.83*
Share of Current Account Balance in GDP	-0.25	2.46	-1.25	-2.43	1.58
Average Annual Inflation Rate (CPI)	2.24	3.38	5.12	14.36	11.42

Note: ** estimations.*
Source: *WEO Database, April 2024.*

After a relatively good year in 2019 in terms of overall economic indicators, 2020 saw a significant slowdown in economic growth and investment in Poland, albeit minor compared to the European and global scales. The recession was the result of a substantial closure of the Polish economy due to the drastic measures used to fight the COVID-19 pandemic.

The emergence of a negative output gap was painful, as it occurred after three consecutive years of over 4% GDP growth, which had been driven by strong consumer demand and favourable export conditions, pushing GDP above potential output. Interestingly, in the recession year of 2020, the real decline in exports was smaller than the drop in import volumes (Table 1), which meant a positive current accounts balance and strong increase in official reserve assets.

The years 2021–2022 saw significant economic growth primarily due to a consumption recovery (in 2022, also boosted by the influx of refugees from Ukraine) and a substantial, though often overlooked, increase in inventories amid rising inflation. In 2023, economic growth drastically slowed due to domestic policy errors, an energy crisis, and high inflation.

The share of public debt gradually declined to a record low of 45.7% of GDP in 2019. This trend reversed in 2020, primarily due to a sharp increase in the public finance sector deficit. Although the deficit decreased significantly in 2021, it was increasingly obscured by fiscal authorities through the extensive use of creative budgetary accounting.

Additionally, under conditions of rapidly rising inflation, the perception of the shares of the deficit and debt to GDP remain subject to a peculiar percentage illusion, as the nominal product in the denominator grows much faster than the values in the numerator.

Overall, between the years 2021 and 2023, rates of inflation, gross domestic savings, gross public debt, public finance sector deficit, and current accounts balances were not as favourable as in the pre-pandemic year of 2020. Although the coronavirus pandemic led to a recession, the average annual CPI growth rate increased by 1.14% in 2020, reaching 3.4%, consequently approaching the upper limit of the NBP's direct inflation target range.

In 2021, the consumer inflation rate further increased (averaging 5.12%, exceeding the direct inflation target range) and thus resulted in the Polish zloty's depreciation. The result of an acceleration in economic activity following the pandemic, it was primarily driven by increased domestic demand.

In 2022, Poland saw a rapid increase in inflationary processes, fuelled by rising consumer demand due partly to the sudden influx of immigrants and the intensification of global inflation both caused by the Ukraine war.

Starting from July 2021, annual inflation indicators in Poland adopted rolling values, and from March 2022 to August 2023 they became galloping (double-digit increases). The inflation peak occurred in March 2023 when the annual rate of inlation reached an unprecedented level of 18.4% (Table 2).

Table 2. *Consumer Price Index (CPI) for Goods and Services from January 2019 to December 2023 (annual and monthly)*

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2019 A	100.7	101.2	101.7	102.2	102.4	102.6	102.9	102.9	102.6	102.5	102.6	103.4
2019 B	99.8	100.4	100.3	101.1	100.2	100.3	100.0	100.0	100.0	100.2	100.1	100.8
2020 A	104.3	104.7	104.6	103.4	102.9	103.3	103.0	102.9	103.2	103.1	103.0	102.4
2020 B	100.9	100.7	100.2	99.9	99.8	100.6	99.8	99.9	100.2	100.1	100.1	100.1
2021 A	102.6	102.4	103.2	104.3	104.7	104.4	105.0	105.5	105.9	106.8	107.8	108.6
2021 B	101.3	100.5	101.0	100.8	100.3	100.1	100.4	100.3	100.7	101.1	101.0	100.9
2022 A	109.4	108.5	111.0	112.4	113.9	115.5	115.6	116.1	117.2	117.9	117.5	116.6
2022 B	101.9	99.7	103.3	102.0	101.7	101.5	100.5	100.8	101.6	101.8	100.7	100.1
2023 A	116.6	118.4	116.1	114.7	113.0	111.5	110.8	110.1	108.2	106.6	106.6	106.2
2023 B	102.5	101.2	101.1	100.7	100.0	100.0	99.8	100.0	99.6	100.3	100.7	100.1

Note: *A: same period of the previous year = 100, B: previous month = 100.*
Source: *GUS Macroeconomic Indicators; Updated January 17, 2024*

2.2 Policy Mix Characteristics

The policy mix at the national level can be defined as the foundation of economic policy by state authorities that consists of a combination of monetary policy – which is the domain of monetary authorities, i.e., the central bank—and fiscal policy conducted by executive authorities, i.e., the government. It has a coherent character when it effectively influences economic activity in a coordinated manner, meaning that both components work in the same direction, whether expansively, neutrally, or restrictively.

Often the policy mix can diverge—become uncoordinated—when, for example, one component stimulates the economy while the other seeks to cool it down. If the lack of coordination diverges too dramatically, it reduces the effectiveness of the applied policies, resulting in suboptimal growth rates.

However, it should also be noted that over coordination of both components can lead to the economy overheating, resulting in accelerating inflation and increasing imbalances. Excessive restrictiveness, on the other hand, can lead to slowed growth and even recession. Given the power and multiplicity of the available instruments, the policy mix has a significant impact on a country's economic situation. The question always arises as to which component of the policy mix is stronger and more effective (Polish Economic Institute, 2021; 2022).

Despite a pro-social shift following the 2015 elections, Poland's policy mix before the 2020 recession was highly conservative and accommodative. In the face of a severe pandemic crisis and the need to counteract its effects in 2020–2021, especially considering the serious consequences of Russia's war against Ukraine in 2022–2023, significant changes in economic policy were expected. However, Poland's resulting policy mix from 2020–2023 proved to be inconsistent and insufficiently decisive.

In response to the outbreak of the coronavirus pandemic, in March 20202 the NBP, in cooperation with the government, launched a quantitative easing program that involved the substantial purchase of government bonds on the secondary market. From April 2020, this purchase was extended to debt securities guaranteed by the State Treasury (bonds issued by Bank Gospodarstwa Krajowego for the COVID-19 Counteraction Fund and bonds issued by Polski Fundusz Rozwoju S.A.).

The total value of bonds purchased by the NBP in 2020 within structural open market operations amounted to PLN 107.1 billion (in nominal value). From January to November 2021, the NBP purchased significantly fewer bonds on the secondary market, having a total nominal value of PLN 36.9 billion, including government bonds worth PLN 28.6 billion and state-guaranteed bonds worth PLN 8.3 billion.

The value of the NBP's portfolio of purchased debt securities amounted to PLN 144.0 billion by the end of 2021 (National Bank of Poland & Monetary Policy Council, 2022, p. 23). This gradually modified the structure of the central bank's assets, overcoming the peculiar situation in which almost all of the Polish central bank's balance sheet assets were foreign currencies, while the liabilities side was dominated, and still is, by the zloty. The NBP's trend toward restructuring its assets was further bolstered by its subsequent purchase of gold.

A natural question arises about the causes and effects—primarily inflationary—of the unusual acquisition of government or state-guaranteed bonds by the NBP on the secondary market. It is difficult to argue that the goal was to increase the already high liquidity of banks. It is readily apparent that the primary objective of bond purchases was to provide financing for the government's extensive spending plan. By increasing the liquidity of commercial banks, the central bank enabled them to make further debt-security purchases and potentially increase their lending.

The NBP unconventional intervention in the secondary bond market directly raised their market prices, thereby lowering their yields. In this manner, the Polish central bank strengthened its control over interest rates in the financial market, affecting both ultra-short-term rates used in the overnight interbank market (for one-day loans between banks) and the long-term rates used in the capital market. Undoubtedly, higher bond prices and lower yields helped finance a significant increase in public debt in 2020 at a lower average servicing cost.

However, the NBP's effective lowering of government bond yields came at the cost of artificially maintaining central bank interest rates in negative real terms, which had increasingly negative consequences for savings and investment. The analysed yields began to gradually rise in early 2021, indicating the exhaustion of the extraordinary measures that supported the government's expansive financial policy.

Worse still, with the intensification of inflation and autumn increases in central bank interest rates, there was a significant rise in yields and a decline in government bond prices, a trend that continued strongly into 2022. This meant that the value of banks' bond portfolios significantly decreased, causing liquidity disruptions for the weaker banks.

Undoubtedly, the need to address the long-term consequences of the coronavirus pandemic and the war in Ukraine deepened cooperation between the central government administration and Polish monetary authorities.

Changes in monetary policy at the turn of 2020 and 2021 significantly supported the government, facilitating the financing of increased budget expenditures not only through revenue growth but also by reducing the cost of public debt servicing. However, this came at the expense of intensified inflation (Michalski, 2023). Moreover, a price-wage spiral and rising yields on Polish government bonds was a looming risk.

3. Research Methods and Materials

This research employs an analytical approach predicated on macroeconomic data from 2019 to 2023. The analysis focuses on budget expenditures, public financial sector deficits, and the implications of fiscal policy decisions on the overall economic stability of Poland.

3.1 Resaerch Methods

Numerous sources, such as national financial reports, European Central Bank publications, and international economic databases, were employed to accumulate data. Trends in fiscal policy and their impact on economic indicators, including GDP growth, public debt, and inflation rates, were analysed using several statistical tools, including:

1. **Descriptive statistics:** Summarized and described the main features of the data, such as mean, median, standard deviation, and percentage changes,

which contributed to recognizing the central tendencies and dispersion in economic indicators like GDP growth, inflation rates, and public debt levels;

2. **Time series analysis:** Examined the patterns and trends that developed over the specified period. This analysis entailed the collection of data points at regular intervals to identify trends, cyclical patterns, and seasonal effects in economic variables, including quarterly GDP growth rates and monthly inflation rates;
3. **Regression analysis:** Explored the relationships between different economic variables (e.g., regression models were used to analyse the impact of fiscal policy changes on economic growth and inflation), which contributed to the quantification of the strength and nature of these connections;
4. **Comparative analysis:** Compared Poland's economic indicators with those of other EU countries, which provided a contextual understanding of Poland's fiscal performance relative to its peers and helped to identify areas of strength and weakness;
5. **Trend analysis:** Identified long-term movements in key economic indicators by plotting historical data to visualize trends and project future values based on past patterns;
6. **Structural break analysis:** Detected points in time where significant changes in the economic indicators occurred, often due to policy shifts or external shocks. This helped in understanding the impact of major events like the COVID-19 pandemic on fiscal variables.

3.2 Research Results

3.2.1 Economic Growth and Investment

The analysis revealed significant fluctuations in Poland's economic growth and investment levels over the five-year period. After a robust economic performance in 2019, with a GDP growth rate of 4.45%, the onset of the COVID-19 pandemic in 2020 resulted in a sharp contraction of -2.02%.

This downturn was primarily due to stringent lockdown measures and disruptions in global supply chains, which severely impacted both domestic consumption and investment.

Continuing consumer demand and significant government stimulus measures helped the economy rebound strongly in 2021, during which GDP grew 6.94%. However, rising inflation, which persisted into 2022 and 2023, accompanied this strong growth. Due to poor domestic policy decisions, the ongoing energy crisis, and rising inflationary pressures, by 2023, economic growth had significantly slowed to 0.16%.

3.2.2 Fiscal Situation of Poland for 2019-2023

From 2019 to 2021, Poland's fiscal policy was expansionary. However, it began to deteriorate in 2022–2023 due primarily to the implementation of the Polski Ład (or the "Polish Deal," a comprehensive economic and social reform program launched by the Polish government in 2022). One could argued that, within the implemented policy mix, fiscal policy began to assume a more significant role than monetary policy (Polish Economic Institute, 2021).

The introduction of numerous new taxes, levies, fees, and contributions during the period under investigation not only resulted in a significant tightening of broadly understood fiscal burdens, but also made them more complex. Since the restoration of capitalism, the tax system in Poland has become more intricate and opaque. It has centred taxation on wages and consumption and disregarded taxing profits and wealth. The result has been repeated demands to simplify and restructure it.

3.2.3 Tax Revenues and Expenditures

The most recent, albeit not entirely successful, attempt at tax reform was initiated at the beginning of 2022, with further changes to health insurance contributions and tax relief effective on July 1, 2022. The implementation of the Polski Ład brought significant changes to the tax system, including higher tax thresholds and reductions in the personal income tax rate.

The most significant measures included a tax-free amount of PLN 30,000 in the PIT base; a higher tax threshold of PLN 120,000; the reduction of the first personal income tax rate from 17% to 12%; the exclusion of the health insurance contribution from the tax base; the inclusion of the health insurance contribution in the tax settlement for certain entrepreneurs; and the elimination of so-called middle-class relief. However, these reforms introduced new complexities and levies, which did not boost revenues uniformly.

Public expenditure grew substantially over the period under investigation, driven by social spending, state administrative costs, and measures to combat the pandemic and energy crisis. Military spending and debt servicing costs also increased, notably in 2023. Despite revenue growth, expenditures outpaced income, leading to a widening fiscal deficit.

According to the Supreme Audit Office, recent changes to the public finance system have resulted in the state's financial management being conducted largely outside the state budget, thus bypassing budgetary rigors. According to Article 219 of the Constitution, the annual budget act is the primary financial plan of the state, which must include all revenues and expenditures.

If this is not the case, the annual budget act ceases to serve as the primary instrument for shaping state finances. Contrary to the Public Finance Act, for several years, extra-budgetary funds have been created on a large scale in public finance, spending public funds without parliamentary control.

For the first time in history, the Supreme Audit Office's Collegium did not issue a positive opinion on granting discharge to the government for implementing the 2022 budget act, primarily because the government diverted billions of zlotys from the budget act to extra-budgetary funds established at the Bank Gospodarstwa Krajowego (BGK) and the Polish Development Fund (PFR).

The largest include the Assistance Fund, the COVID-19 Counteraction Fund, the Armed Forces Support Fund, the Government Road Development Fund, the Government Polish Deal: Strategic Investment Program, the Government Historic Reconstruction Program, and the Government Local Investment Fund. In the last quarter of 2022, the pre-financing of the National Recovery Plan by the PFR was added to the expenditures within these funds.

Over 20 funds and programs operated at BGK that were not subject to budgetary rigors and whose financial plans were not included in the annual budget act. The outstanding balances, not subject to parliamentary oversight, amounted to over PLN 390 billion by the end of 2023.

According to estimations from the end of the analysed period, the total debt of these funds is expected to exceed PLN 650 billion by 2027, with almost half attributed to the Armed Forces Support Fund. This fund, in a highly non-transparent manner and outside any parliamentary oversight, has secured loans worth billions of U.S. dollars for armament purchases (e.g., in South Korea).

Given its importance, the Armed Forces Support Fund should not be excluded from the budget legislation nor operate in an ambiguous manner under Bank Gospodarstwa Krajowego (BGK). Concurrently, the COVID-19 Counteraction Fund and other comparable funds operating under the BGK and the PFR must be promptly terminated due to their questionable expenditure purposes, particularly in light of the fact that their financing costs significantly more than other budget funds.

3.2.4 Public Finance Sector Deficit

The public finance sector deficit exhibited a marked increase, particularly in 2020, when it reached 6.92% of GDP. This spike was the direct consequence of government spending that aimed to mitigate the economic fallout from the pandemic. Although the deficit narrowed to 1.83% of GDP in 2021, it widened again to 3.68% in 2022 and 5.62% in 2023, reflecting ongoing fiscal pressures as well as the costs associated with social programs and the Anti-Inflation Shield.

Despite numerous fiscal policy inconsistencies, state budget revenues from taxes increased, albeit not systematically (especially VAT revenues). A significant factor in the growth of budget revenues was the new regulations concerning health insurance contributions under the Polski Ład.

However, maintaining part of the Anti-Inflation Shield until the end of 2023 – in the form of zero VAT on basic foodstuffs – became a significant burden on public finance revenues.

More importantly, revenue growth did not keep pace with increased expenditures. In the case of the latter, social spending and expenditures on state administration dominated in 2019–2023. Expenditures on healthcare, education, science, and public investments stagnated or even decreased temporarily due to increased spending on combating the pandemic and on the Anti-Inflation Shield.

The Shield also included protective programs to offset sharp rises in energy prices for various consumer groups, such as limiting or freezing energy prices for end consumers (households and some companies), compensation to energy producers, and additional social transfers. In 2022–2023, military spending increased significantly, and in 2023 the cost of servicing the State Treasury's debt surged. Increased budget expenditures substantially intensified inflationary pressures.

3.2.5 Public Debt

The share of public debt in GDP, which had decreased to a record low of 45.71% in 2019, saw a sharp increase to 57.18% in 2020. This rise was driven by the need to finance the large fiscal deficit. Despite efforts to manage debt levels, the ratio remained elevated, standing at 50.83% in 2023. The creation of extra-budgetary funds further complicated the debt landscape, as these funds incurred significant liabilities outside the regular budgetary framework.

The inability of public revenues to keep pace with public expenditures led to a rapid increase in the Polish public finance sector deficit after 2021 (Table 3).

Table 3. *Fiscal Situation of the Polish Government and Local Government Institutions (Public Finance) in the Years 2020-2023*

	2020	2021	2022	2023*
Total Revenues (billion PLN)	969.3	1,110.2	1,225.0	1,420.3
% of GDP	41.7	42.3	39.8	41.6
of which:				
Total Taxes (billion PLN)	511.3	618.5	656.1	735.8
% of GDP	22.0	23.6	21.3	21.6
Social Insurance Contributions (billion PLN)	341.5	366.7	420.5	405.8
% of GDP	14.7	14.0	13.7	14.2
Total Expenditures (billion PLN)	1,130.8	1,158.9	1,340.2	1,594.1
% of GDP	48.7	44.2	43.5	46.7

of which:				
Social Transfers (billion PLN)	434.8	469.9	525.7	692.0
% of GDP	18.7	17.9	17.1	17.7
Interest Payments (billion PLN)	29.1	29.1	47.9	71.4
% of GDP	1.3	1.1	1.6	2.1
Gross Fixed Capital Formation (billion PLN)	103.0	107.5	124.0	169.6
% of GDP	4.4	4.1	4.0	5.0
Result (billion PLN)	-161.5	-48.1	-115.1	-173.8
% of GDP	-7.0	-1.8	-3.7	-5.1
Primary Result (billion PLN)	-132.1	-19.0	-67.2	-102.5
% of GDP	-5.7	-0.7	-2.2	-3.0

Note: ** estimations.*
Source: *Own calculations based on Council of Ministers (2021, p. 19; 2022, pp. 48-49; 2023, pp. 39-40; 2024, pp. 48-49).*

During the period under investigation, there was a noticeable and absolute increase in total sector expenditures, with a significant spike in 2020 (due to the pandemic) and 2023 (when elections were held). Since 2022, the official budget deficit has constituted only part of the public finance sector deficit as both local governments and social insurance funds have also recorded negative results (Table 4). This is associated with a significant increase in expenditures, insufficient public revenues, and modest GDP growth in 2023.

Table 4. *Fiscal Notification Submitted on November 11, 2023, to the European Commission/Eurostat by the Polish Government (in billions PLN)*

	2019	2020	2021	2022	2023*
Public Finance Sector Deficit	-17.0	-161.8	-48.2	-112.8	-192.1
Central Government (State Budget) Deficit	-25.2	-183.7	-49.0	-98.7	-158.4
Local Governments (LGU) Deficit (+) / Surplus (-)	-4.7	+4.5	+14.9	-13.0	-18.8
Social Insurance Deficit (+) / Surplus (-)	+12.9	+17.4	-14.1	-1.2	-14.9

Consolidated Public Debt (EDP)	1,046.0	1,336.6	1,410.5	1,512.2	1,670.0

Note: ** planned*
Source: *Own elaboration.*

Despite the pandemic's end, the COVID-19 Counteraction Fund would continue to operate in accord with government plans prior to the 2023 elections, accepting new commitments totalling tens of billions of PLN. It was anticipated that its debt would surpass PLN 135 billion by the end of 2027. Likewise, it is anticipated that the Government Road Development Fund would accumulate a comparable amount of debt.

3.2.6 Public Debt Dynamics

In the long term, neglecting the revenue side of public finances while rapidly increasing public expenditures risks loss of control over the growth of public debt (Benecki et al., 2023). However, the significant nominal GDP growth in recent years, driven by high inflation, which supports the dynamics of tax revenues, will likely keep the public debt-to-GDP ratio below 60% in the near future.

For domestic purposes, fiscal authorities prefer the category of State Treasury debt, analysing its change in detail (see Table 5). It should be noted that this category does not include the debt held in the extra-budgetary funds created over recent years.

Table 5. *Changes in State Treasury Debt in the Years 2019–2023*

Year	**2019**	**2020**	**2021**	**2022**	**2023**
State Treasury Debt at year-end (billion Polish PLN)	973.3	1,097.5	1,138.0	1,238.5	1,346.2
Increase in debt (%) from the beginning of the year	+2.0	+12.8	+3.7	+8.8	+8.7
Change in State Treasury Debt (billion PLN)	19.1	124.1	40.6	100.4	107.7

Source: *Own elaboration based on monthly bulletins of the Ministry of Finance (12/2019, 12/2020, 12/2021, 12/2022, 12/2023).*

The evolution in the structure of State Treasury debt, the largest component of total public debt, has been significant for economic policy in recent years, especially regarding the issuance of debt securities in domestic and foreign markets (Table 6).

Since 2014, the importance of domestic debt issued in zlotys has clearly increased – particularly visible in the years 2014–2019, which accelerated further after 2020 – while the issuance of treasury securities on foreign markets to finance State Treasury debt has decreased. This trend undoubtedly contributes to the stability of public finances due mainly to the reduced risk of sudden capital flight by foreign portfolio investors.

However, it is essential to remember that due to high inflation, which has reduced real domestic savings, the ability to place treasury securities on the Polish market has been limited and heavily dependent on the offered yields. It seems that securing external financing will become increasingly difficult for a country like Poland, which is slow-growing and perceived as a high-risk investment on the periphery of the European Union.

The share of foreign debt (issued in foreign currencies) as part of total State Treasury debt was 22.6% at the end of 2023, a decrease of 6.7 percentage points compared to the end of 2018. Meanwhile, the share of foreign investors in State Treasury debt, both in zlotys and foreign currencies, decreased even more during this period, down 16.7 percentage points to 30.7%.

Table 6. *State Treasury Debt by Place of Issuance from 2014 to May 2024*

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	April 2024	May 2024
Domestic Debt (billion PLN)	503.1	543.3	609.2	644.5	674.4	716.5	831.5	872.7	949.8	1042.4	1096.3	1106.3
Foreign Debt (billion PLN)	276.9	291.3	319.5	283.9	279.8	256.9	266.0	265.4	288.7	303.8	349.2	343.0
Share of Foreign Debt (%)	35.5	34.9	34.4	30.6	29.3	26.4	24.2	23.3	23.3	22.6	24.2	23.7

Note: *Domestic Debt: Debt issued domestically, Foreign Debt: Debt issued in foreign markets, Share of Foreign Debt: Percentage of foreign debt in the total State Treasury debt.*
Source: *Own elaboration based on data available at mf.gov.pl*

Regarding the structure of public debt financing entities, until 2019 there was a noticeable increase in the importance of domestic non-financial entities, accompanied by a relative and absolute decline in the role of the Polish banking sector. In 2020 and 2021 the situation changed in banks' favour due to a significant shift in the NBP's policy regarding the purchase of treasury securities on the secondary market—the implementation of the so-called Polish quantitative easing program Table 7).

Although the greatest threats to Polish finances stem from an inconsistent policy mix and common economic policy errors, external factors also play a significant role. It should not be forgotten that Poland is among the countries most heavily indebted to non-residents. Despite a clear downward trend, foreign investors' role in financing the state treasury debt remains crucial as they purchase both treasury securities denominated in foreign currencies and in zlotys.

Table 7. *State Treasury Debt by Entity from 2014 to May 2024*

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	April 2024	May 2024
Foreign Investors (billion PLN)	456.9	484.5	495.6	472.4	451.3	392.2	373.0	365.7	411.5	413.6	460.1	455.4
Domestic Banking Sector (billion PLN)	165.7	184.2	251.0	257.3	277.5	321.3	451.9	469.0	446.8	510.6	547.5	553.7
Domestic non-banking sector (billion PLN)	157.3	165.9	182.1	198.8	225.5	259.8	272.6	303.3	380.2	422.0	438.0	440.1
Share of Foreign Investors (%)	58.6	58.1	53.4	50.9	47.3	40.3	34.0	32.1	33.2	30.7	31.8	31.4

Source: *mf.gov.pl.*

Since a peak in 2014, we have observed a decline and stabilization of foreign investors' share in financing State Treasury debt since 2020. Foreign investors buy Polish Treasury securities driven by their high yields, which fluctuate over time depending on both internal and external factors.

It is difficult to regard the sustained and significant role of foreign capital in financing Polish public debt, which has financed just over 30% of the State Treasury's total obligations since the beginning of the current decade (see Chart 2), as a positive sign for the stability of Polish public finances.

Beyond the risk of a sudden change in foreign capital's perception of its exposure in Poland and the resulting possibility of capital flight abroad, it also denotes a substantial position in the primary income account paid abroad. Interest payments related to public debt best determine the real burden of public debt, and they have remained at a very high level for several years and with a clear upward trend. In 2023, they exceeded 2% of annual GDP (Ministry of Finance, 2023).

3.3 Consolidated Findings

As for Poland's fiscal policy over the period under investigation, it was expansionary in its character and effective in facilitating economic recovery and mitigating the immediate effects of the COVID-19 pandemic in 2021. However, fiscal deficits began to increase as a consequence of the persistently high levels of public expenditure and social transfers, as well as the insufficient growth of tax revenue.

When it comes to Poland’s monetary policy, the NBP's conservative approach to monetary policy was successful in preventing excessive liquidity and credit growth. However, expansive fiscal measures and external shocks, such as energy price hikes, were less effective in controlling inflation.

Inflation rates showed a worrying upward trend throughout the period. In 2019, the average annual inflation rate was 2.24%, which was within the National Bank of Poland’s (NBP) target range. However, the pandemic and subsequent economic policies led to accelerated inflation. By 2022, inflation had surged to new heights and despite efforts to contain it, the rate remained elevated in 2023. Persistent inflation eroded purchasing power and posed significant challenges for monetary policy.

Lastly, addressing Poland’s public debt management, the creation of extra-budgetary funds and the rise in state treasury debt raised concerns regarding fiscal transparency and sustainability. The reliance on external financing and the role of foreign investors in public debt financing highlighted vulnerabilities in Poland's fiscal framework.

4. Conclusions

In recent years, within the framework of "pragmatic realism" in the policy mix, there has been a notable shift in Poland regarding eurozone membership. Political and economic authorities have turned their attention from nominal convergence processes to real convergence. In conjunction with an unfavourable perception of the European common currency due to heavily manipulated public opinion, concerns remain about Poland's potential accession to the third stage of the Economic and Monetary Union in the future.

Over the course of several years, neither the NBP nor the government have studied European monetary integration in depth. Over the course of the analysed period, Polish authorities have publicly supported opponents of further European integration by questioning the necessity of joining the eurozone.

Poland has a legal and international obligation to introduce the single European currency when the country's macroeconomic situation permits, as per the provisions of the 2003 Accession Treaty, which was adopted by a nationwide referendum. Full membership in the Economic and Monetary Union (EMU) should be achieved following the sustainable fulfilment of nominal convergence criteria.

Poland met only two of the six nominal convergence criteria—the general government deficit to GDP ratio and the public debt to GDP ratio—during the two-year reference period from May 2020 to April 2022, as per the Convergence Report (2022, pp. 60–70). Poland satisfied only the latter criterion in the subsequent reference period (Convergence Report 2024; section 4.4).

Unmet criteria included legislative compliance, long-term interest rates, exchange rate stability, the general government deficit to GDP ratio, and the HICP inflation rate.

The first objective remains unfulfilled due to the substantial increase in the general government deficit to GDP ratio; the second objective is contingent on excessively high domestic inflation; the third objective is contingent on the deterioration of Poland's international financial credibility; the fourth objective necessitates entry into the exchange rate mechanism (ERM2); and the fifth objective necessitates modifications to national legislation regarding monetary policy.

It is crucial to note that the general government deficit exceeded 5% of GDP in 2023 and in the subsequent year. In 2024, it is inevitable that the European Commission will subject Poland to the Excessive Deficit Procedure (EDP).

For the duration of the period under investigation, the country's socio-economic development unfolded somewhat independently of the economic authorities. In general, fiscal and budgetary policy maintained a restrictive nature, with the "Polish Deal" serving as a somewhat ineffective modification. Its ability to significantly influence the national economy was impeded by the instability of the implemented economic laws.

5. Limitations

The study's reliance on macroeconomic data and the potential for subjective bias in survey responses may limit the findings' generalizability. Future research should incorporate longitudinal studies and qualitative methods to provide a deeper understanding of fiscal policy impacts.

6. Conflicts of Interest

The authors declare no known competing financial interests or personal relationships that could influence the work reported in this paper.

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