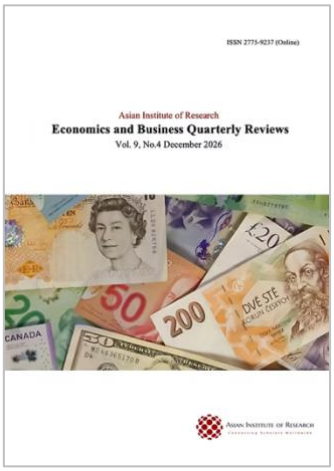


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The Current State of the Polish Economy and Politics in 2026: Foreign Direct Investment and Institutional Normalization as Future Drivers

Richard J. Hunter[1], Hector R. Lozada[2]

[1] Adjunct Professor of Legal Studies, University of Tusla
[2] Associate Professor of Marketing, Director, Institute for International Business, Seton Hall University

Abstract
Poland's development agenda in 2026 brings together three demanding priorities: sustaining economic expansion, financing national security, and rebuilding institutional cooperation. This article assesses the country's economic and political conditions, with particular attention to foreign direct investment and institutional normalization as potential foundations for future development. Through a descriptive review of macroeconomic indicators, investment trends, and political developments, it examines growth, employment, public finances, foreign trade, and the changing role of foreign capital. Private consumption, European Union funding, and defense expenditure support economic activity, while persistent deficits, rising public debt, demographic pressures, and increasing labor costs complicate the longer-term outlook. The political assessment traces the consequences of divided executive authority, disputes over judicial reform, and efforts to repair relations with European institutions. Considered together, these developments reveal the competing demands placed on public resources and policymaking capacity. The article concludes that Poland's next stage of development will require closer coordination of investment policy, fiscal adjustment, and institutional reform. Its central challenge is to reconcile ambitious economic and security commitments with the financial and political capacity to implement them.

Keywords: Poland, Political Economy, Foreign Direct Investment, Institutional Normalization, European Union Funding, Fiscal Sustainability, Defense Expenditure, Political Polarization

Part I: Economic Indicators

1. Overview of the Polish Economy

Poland in 2026 is a high-growth, high-investment economy - one of the fastest-growing and strongest economies in the European Union (EU), ranking as the 21st largest economy in the world. Poland is the largest economy in Central Europe, with 2026 GDP approximating €923 billion ($1.13 trillion USD), based on the latest data from Eurostat (see Trading Economics, 2026) and the *International Monetary Fund World Economic Outlook* (International Monetary Fund (IMF), 2026).

Poland's GDP places it just behind Switzerland and ahead of Ireland, Belgium, Sweden, Israel, and Argentina and is now classified as a "high income" country. GDP growth expected to be approximately 3.5%, reflecting moderate inflation, an exceptionally strong labor market, a defense-driven industrial expansion, and large-scale European

Union funded investment (OECD, 2026; Statista, 2026). Service-sector confidence remains high, with only slight declines compared to 2022.

However, at the same time, several "red flags" appear on the horizon, including serious fiscal imbalances, an ongoing demographic decline and low birth rate (Gromada, 2025), rising public debt, and competitiveness pressures (see Onoszko, 2023) that threaten future progress.

2. Macroeconomic Performance

The European Commission (2026) forecasts growth in 2026 at approximately 3.5% (European Commission, 2026) and the European Bank for Reconstruction and Development [an international financial institution founded in 1991 to help build market-driven economies following the collapse of communism in Eastern Europe] projects growth in the area of 3.7% (Mirbabaeva, 2026). Both figures compare well in consideration of expected average European Union growth of 1.3%.

Economic growth is driven by three major factors: private consumption, which is still resilient despite slower wage growth; investment, especially from the infusion of EU cohesion funds and disbursements from the Recovery and Resilience Facility (RRF) (Busse, Caselli, & Fatiou, 2026); and expanded defense spending, which represents the highest share of GDP in NATO, standing at 4.8% (Erstes, 2025). Nominal compensation growth is projected to continue "cooling" toward roughly 6% over the one-to-three years as inflation and minimum wage increases ease.

The European Commission (2026) pegs inflation at 3.6%, driven by energy price increases caused by continuing Middle East instability. The 3.6% figure falls within the target range of the NPB (Narodowy Bank Polski, Poland's Central Bank, located in Warsaw) (National Bank of Poland, 2026).

Poland's labor market remains one of the "tightest" in Europe. Unemployment stands at approximately 3% (2025–2026), among the lowest in the EU (URES, 2025). The employment rate for individuals ages 20 to 64 is 78.8%. As a result, labor shortages persist, which are only partially offset by immigration. It is interesting to note that the "total number of foreign workers climbed to about 1.29 million at the end of 2025" (ETIAS, 2026) – mostly from Ukraine. These workers have largely been absorbed in the Polish labor market.

3. Fiscal Position and Public Debt

Poland's fiscal imbalance is the economy's most serious structural challenge. The 2026 deficit is forecast to be 6.5% of GDP (European Commission 2026), caused by high "social protection" (social safety net) spending (with sickness/health care, disability, old age, survivors, family/children, unemployment, housing, and social exclusion, with old-age pensions dominating spending); massive defense procurement; and slower progress on "fiscal consolidation," the process of reducing a government's budget deficit and stabilizing or lowering public debt through a combination of spending cuts, tax increases, or a combination of both. Necessary actions have been difficult to implement due to political gridlock described later in this study. Poland has been under the EU Excessive Deficit Procedure (EDP) since 2024 and must reduce its deficit below 3% by 2028 (European Council, 2026), which may prove difficult in the current political climate.

The EU Excessive Deficit Procedure (EDP) is the formal corrective mechanism utilized by the European Union to ensure that a Member State keeps their budget deficits and public debt within agreed limits (Deconinck, 2024). The EDP is part of the "corrective arm" of the Stability and Growth Pact (SGP), legally grounded in Article 126 of the Treaty on the Functioning of the European Union (TFEU).

The EDP is triggered when a country's deficit exceeds 3% of GDP or its debt exceeds 60% of GDP without declining at a satisfactory pace. Once triggered, the EU issues a recommendation, sets a deadline, and monitors compliance. Persistent non-compliance can lead to sanctions for euro-area members, including the suspension of EU funding.

Another factor in Poland's fiscal position is cash *pre-financing* of military investments, referring to the "up-front" disbursement of EU SAFE defense loan funds that Poland receives *before* actual procurement contracts are executed or equipment is delivered (Wachowiak, 2025). It is a mechanism within the Security Action for Europe (SAFE) program (Ibu, 2025) that accelerates Poland's ability to begin military modernization by providing an early cash flow. SAFE is the European Union's €150 billion defense-investment loan ($170 billion in USD) instrument which was created in 2025 in order to help Member States to rapidly expand defense capabilities through long maturity EU-financed loans. Cash pre-financing is the initial tranche of EU-financed defense loans paid out to Poland—amounting to 15% of its total €43.7 billion SAFE allocation ($47.5 billion in USD)—which will allow the Polish government to start priority defense investments immediately, without waiting for later reimbursement or staged payments.

Poland received €6.6 billion ($7.4 billion USD) in May 2026 as pre-financing. Pre-financing will enable faster contracting for weapons systems, ammunition, air-defense assets, and modernization programs. These funds are intended to strengthen Poland's defense posture amid heightened regional threats caused by the current situation in Ukraine and continued threats relating to deteriorating Russian-Polish relations (Kaleta, 2026). Prefinancing will allow for the immediate implementation of Poland's SAFE investment plan once national legislative approvals are completed.

Pre-financing, however, is not a grant and Poland must repay the loans at some point in the future with interest (Mularczyk, 2026). SAFE is financed by EU borrowing on financial markets (Glowacki, 2026) through the issuance of EU bonds.

3.1. Public Debt

Poland's 2025 debt stood at 59.7% of GDP (see Misztal, 2026). Projections that 2026 debt will be 64.5% of GDP or approximately €440–€450 billion ($470–$490 billion USD), depending on the exchange rate. Projected 2027 debt is 68.3% of GDP, caused by persistent deficits and further increases in defense spending (Reuters, 2026).

4. Drivers of Growth

Several drivers of growth are identifiable in the Polish economy.

4.1. EU-Funded Investment

Poland is the largest recipient of EU cohesion funds of any EU Member States. EU cohesion funds are the European Union's main investment instruments for reducing economic, social, and territorial disparities between regions and Member States and can be accessed by EU Member States with gross national income below 90% of the EU-27 average. EU cohesion funds finance infrastructure investments, human capital development, environmental projects, and regional economic transformation (see Kesner-Skreb, 2010; Heijman & Koch, 2011). Cohesion funds are part of the EU's broader cohesion policy, which accounts for roughly one-third of the entire EU budget. 2026 EU funds allocated amounted to €43 billion ($48.7 billion USD) and are designed to promote economic convergence, sustainable development, trans-European transport, and technical assistance.

Poland receives cohesion funding under the 2021–2027 Multiannual Financial Framework (MFF) (Rangel de Mesquita, 2018; Kolek, 2018). Monies flow continuously through multi-year operational programs. EU cohesion policy operates on seven-year cycles, not on the basis of annual budgets. Poland's cohesion envelope for 2021–2027 is €76 billion ($86.1 billion USD), in current prices. The European Commission publishes annual payment executions under its cohesion policy. For 2026, the Commission's budget execution tables show that Poland will receive approximately €7.5–€8.0 billion ($8.51 USD to $9.01 USD) in cohesion-policy payments, including reimbursements for completed projects, interim payments for ongoing projects, and advance payments for new projects under 2021–2027 approved programs. Funds received by Poland are intended to support motorways and rail modernization, energy grid upgrades, further broadband expansion, and future industrial park development.

Poland's industrial park development has been concentrated in ten major regional clusters—Warsaw, Łódź, Poznań, Wrocław, Upper Silesia, Kraków, Tri-City, Szczecin, Lublin, and Rzeszów—supported by fourteen Special Economic Zones (SEZs) (STIP Compass, 2026) and Polish Investment Zone (PIZ) incentives (Invest in Poland, 2020). The fastest-growing segments are logistics parks, automotive and electric vehicle (EV) manufacturing, semiconductor packaging, and defense-industrial facilities.

Industrial park development in Poland has accelerated sharply since 2020, driven by nearshoring, EU cohesion funding, SAFE related defense industrial expansion, and Poland's role as Central Europe's largest logistics hub (Revenue Base, 2026).

4.1.1. Industrial Facilities Geared Toward Defense

Poland's defense industrial facilities cluster around five major sectors: armored vehicles, artillery and munitions, aerospace, electronics and communications, and shipbuilding organized under PGZ (Polska Grupa Zbrojeniowa — the Polish Armaments Group), Poland's state-owned defense conglomerate is one of the major arms producers in Europe. The Group comprises over 50 companies and holds shares in 32 additional companies active in defense, shipbuilding, and "new technologies" industries (PGZ, 2026).

The largest enterprises are:

- Huta Stalowa Wola - Poland's main producer of artillery systems, armored vehicles, and military engineering equipment. It is a core subsidiary of Polska Grupa Zbrojeniowa (PGZ);
- Mesko - Poland's premier producer of missiles, rockets, and ammunition, headquartered in Skarżysko-Kamienna, known internationally for the Piorun MANPADS, one of the most effective short range air defense weapons currently deployed in Ukraine;
- WZL - referring to several Wojskowe Zakłady Lotnicze (Military Aviation Works) plants within PGZ, specializing in aircraft repair, modernization, and life extension of aircraft for Poland's Air Force;
- PIT-RADWA - Poland's leading producer of radar equipment, command-and-control systems, and air-defense electronics; and
- Stocznia PGZ - referring to PGZ's naval shipbuilding cluster, including PGZ Stocznia Wojenna (Gdynia), Stocznia Remontowa Nauta (Gdynia), and other PGZ aligned shipyards.

4.2. Defense Spending (Partington, 2026)

NATO does not mandate a uniform percentage of GDP required to be spent on defense, as each member sets its own defense budget. The alliance tracks these figures annually, and most recent 2026 data show wide variation, though most members now meet or exceed the 2% guideline under intense pressure applied by the Trump administration (Marshall, Shiffman, Stewart, Pamuk, Ilie, & Waldersee, 2026). European NATO members, plus Canada. collectively spend about 2.53% of GDP on core defense. [By way of contrast, the United States spends 3.1% to 3.4% of its GDP on defense, amounting to more than $954 billion in 2025, which does not include recent expenditures on the war with Iran.] "At the 2025 NATO Summit in The Hague, NATO allies agreed to a new goal of 5% of GDP by 2035, consisting of 3.5% of GDP for core defense requirements, and up to 1.5% of GDP for broader defense and security-related spending" (NATO, 2026).

Poland's defense buildup is unprecedented in Europe. Badohal, Rugamer, and Kahn (2026) write: "This year, Poland is expected to spend around €53 billion ($61.45 billion) on core defence expenditures, the fourth-highest in the EU behind France, Italy and Germany, according to NATO data, up from €44 billion in 2025 and equal to around 4.7% of gross domestic product." (Appendix I contains defense spending estimates for all NATO members.) Investments include air defense systems, heavy armor, and domestic production of military equipment. Defense procurement not only reflects threats to Poland posed by the Russian-Ukraine conflict but also stimulates domestic manufacturing and supply chains.

4.3. Domestic Consumption

Despite slower wage growth, consumption remains strong due to high employment, rising real wages (although moderating), and consumer confidence holding steady, with household consumption in 2025 at 57.93% of GDP, an increase from 57.38% in 2024 (Global Economy, 2026).

5. Competitiveness: Poland's Imports and Exports

Poland's trade balance is of some concern (Trading Economics, 2026). Net exports continue to make a negative contribution to GDP. Imports remain strong due to domestic demand. Poland's current account deficit is –1.2% of GDP (2026). Unit labor costs are continuing to rise, which places pressure on Poland's export competitiveness. Based on data from Eurostat (2026) average gross monthly salary is approximately PLN 8,700 to PLN 8,900 (roughly €2,000–€2,100 or $2,350 USD). Poland is no longer the source of "cheap labor." However, Eurostat (2026) notes: "The average wage and labor costs in Poland are significantly lower than in Western and Northern EU members, though they rank above the lowest-cost markets in Central and Eastern Europe (such as Bulgaria and Romania)."

5.1. Exports

According to the WTO, despite rising labor costs, Poland has gained export market share relative to advanced economies. Poland's share of world exports has steadily increased over the past two decades from approximately 0.8% in the early 2000s and now stands about 1.5% of total global merchandise exports, based on the most recent internationally reported data. This places Poland roughly 20th–22nd among the world's exporting nations. The United Nations Conference on Trade and Development (UNCTAD) and World Bank trade datasets similarly place Poland between 1.4% and 1.6% of total global merchandise exports, depending on the year and methodology (UNCTAD, 2026).

Exports are driven by integration into EU supply chains, strong automotive, machinery, electronics, furniture sectors, and rapid growth in services exports in IT and business services.

Poland's main exports are motor vehicles and automotive parts, machinery, electronics, furniture, and chemical products, with automotive and industrial goods dominating the country's export profile (Workman, 2026). In the aggregate, exports by percentages in 2025 include:

- Machinery & mechanical appliances — 14% of exports; $56.3 billion;
- Electrical & electronic equipment — 11%; $46.36 billion;
- Vehicles (non-rail) — 10%; $42.91 billion;
- Furniture & prefabricated buildings — 4.5%; $18.61 billion;
- Plastics — 4.6%; $18.75 billion;
- Iron & steel articles — 3.09%; $12.36 billion;
- Meat & edible meat offal — 2.82%; $11.13 billion; and
- Pharmaceuticals — 2.02%; $8.08 billion.

A closer look at the main Polish export categories will reveal the following:

- Motor vehicle parts — €1.68 billion ($1.91 billion USD) in March 2026, consistently Poland's largest single export category;
- Computers — €1.17 billion ($1.32 billion USD);
- Seats — €619 million ($700.72 million USD), tied to Poland's strong furniture and automotive interior industries.
- Delivery trucks — €616 million ($687 million USD); and
- Gas turbines — €587 million ($664.39 million USD), reflecting Poland's role in specialized industrial machinery.

According to Tendata (2026), Poland's top export destinations (in billions) are:

- Germany — €9.28 billion ($10.5 billion USD); ~26–28% of all Polish exports;
- Czechia — €2.15 billion ($2.226 billion USD);
- France — €2.09 billion ($2.37 billion USD);
- Netherlands — €1.69 billion ($1.91 billion USD); and
- United Kingdom — €1.63 billion ($1.84 billion USD).

5.2. Main Import Categories (OEC, 2026)

Imports continue to play a significant role in the Polish economy. Main import categories include:

- Automobiles — Poland's single largest import category, valued at €1.82 billion ($2.06 billion USD);
- Refined petroleum — €1.38 billion ($1.56 billion USD), driven by energy demand and refining needs;
- Motor vehicle parts — €1.01 billion ($1.14 billion USD), reflecting Poland's large automotive manufacturing sector;
- Crude petroleum — €946 million ($1.07 billion USD), essential for domestic refining; and
- Small shipments — €789 million ($896.1 million USD), covering miscellaneous low-value consignments.

In aggregate terms, additional "high-volume" import categories include:

- Electrical machinery & equipment — 23.9% of Poland's total imports in 2026;
- Machinery & mechanical appliances — 23.6%;
- Vehicles (non-rail) — 18.9%;
- Mineral fuels & oils — 15.1%;
- Plastics — 9.8%; and
- Pharmaceuticals — 7.9%.

Main import partners (March 2026) include:

- Germany — €8.9 billion ($10.07 billion USD);
- China — €3.57 billion ($4.05 billion USD), rapidly rising, especially in electronics and vehicles;
- Netherlands — €2.38 billion ($2.70 billion USD);
- Italy — €1.6 billion ($1.81 billion USD); and
- France — €1.48 billion ($1.674 billion USD).

In summary, the structure of Poland's trade in both exports and imports indicates a country that has:

- Shifted from a "post-communist" economy that transitioned from a one-party communist government and a state-planned economy (1945-1989) to a completely different political and economic system (Hunter, Ryan, & Hrechak, 1994; Hunter & Ryan, 2011);
- Evolved into a major European Union manufacturing hub, with strong fundamentals, robust labor markets, and massive EU and defense-driven demand;
- Built export competitiveness in vehicles, machinery, electronics, and furniture;
- Shown deep integration with Germany, which remains Poland's largest partner for both imports and exports; and
- Maintained import dependence on energy and high-value industrial components.

Part II – Foreign Direct Investment

6. Foreign Direct Investment in Poland

It may be said that "It is difficult to create capitalism where there are neither capitalists nor capital" (quoted in Hunter & Ryan, 2004), emphasizing the challenges in establishing a capitalist economy in an economy that lacks both the necessary capital (wealth and resources) and capitalists (individuals who own, control, or manage the means of production). As a result, many nations undergoing an economic transition inevitably turned to attracting *foreign capital* and *foreign expertise* into their economies as a solution to this dilemma. Poland was no exception. Gorynia, Nowak, and Wolniak (2011, p. 132) noted that "Foreign direct investment (FDI) played a pivotal role in the transformation of post-communist economies of Central and Eastern Europe (CEE)." In the process, Poland became one of the most attractive destinations for foreign direct investment in Europe. The Polish government made it a top policy priority to expand the domestic economy by "supporting high-tech investments, increasing productivity and foreign trade, and supporting entrepreneurship, scientific research, and innovation through the use of domestic and EU funding" (U.S. Department of State, 2019). According to a study conducted by the Polish Investment and Trade Agency (PAIH) in 2019, because of the positive investment climate fostered in Poland, as many as 94 per cent of foreign investors indicated that they would re-invest in Poland (reported by Rodl & Partner, 2020). CTP Insights (2024) adds that this provides significant proof of their trust in the Polish economy,

As an active form of investment in Poland, FDI has taken the form of merger-and-acquisition activity with an existing company or entity (often referred to as a "brownfield" investment), where the purchaser acquires an ongoing business operation—often one formerly owned by the state. In addition, FDI also took the form of creating an entirely new investment—literally from the "ground up" (often referred to as a "greenfield" investment) (Jaworek, Karaszewski, & Szalucka, 2018; Chen, 2020a; Chen, 2020b).

6.1. The Foreign Direct Investment Landscape

Poland's foreign direct investment (FDI) landscape in 2026 is defined not only by strong structural fundamentals, a large domestic market composed of 37.6 million people, and deep integration into European supply chains — but also by a recent "cooling" of inflows after the post-Ukraine-war boom. Overall, Poland's FDI environment in 2026 is stable, strategically important, and structurally strong, even if inflows have moderated (Polish Investment & Trade Agency, 2026; International Investor, 2026).

Poland remains one of Central Europe's strongest FDI destinations, supported by its population, EU membership, and its strong manufacturing base (see Hunter & Lozada, 2023). The website *Successful Investing in Poland* (2026) cites several important advantages enjoyed by Poland:

- access to a large pool of qualified specialists;
- location within the European Union;
- well-developed transport, office, industrial and digital infrastructure;
- a strong industrial base;
- experience in handling international business processes;
- growing technological capabilities; and
- a relatively large domestic market.

As noted, FDI inflows have declined from the 2022 peak, when Poland received $41.78 billion in foreign direct investment, representing an 11.38% increase from 2021 (see Kulbacki, 2025). FDI reached about 5.1% of the country's GDP. FDI stabilized to approximately $15.83 billion to $17.60 billion in 2025, with 2026 continuing the pattern of strong investor presence, but with fewer new investment inflows. Rising labor costs, geopolitical uncertainty, and global tariff volatility are the main "headwinds" Poland is facing in attracting FDI.

According to the website *Statistics Poland* (2026) Poland's FDI stock is supported by 36,800 foreign-owned firms, operating in Poland with assets total $657 billion, amounting to $257 billion in foreign investment value. These firms employ one-third of Poland's enterprise-sector workforce and generate 68% of Poland's exports in goods.

The surge in FDI to a historic high in 2022 was driven by nearshoring (where a company moves its manufacturing, IT, or other operations to Poland instead of a distant overseas location) (BNP Paribas, 2024; Ovcharenko, 2026) and friend-shoring (where a business moves manufacturing and supply chain sourcing to Poland as a political and economic ally) (Harper, 2023; BNP Paribas, 2024), as firms were required to restructure supply chains after Russia's invasion of Ukraine.

Top investor countries include Germany, the United States, and France. Interestingly, the fasting-growing investor is Ukraine, with capital present in 20% of foreign firms, and with the number of Ukrainian firms tripling since 2019. Poland also has received significant investments from OECD countries (Cieslik, 2020).

6.2. Distribution of FDI

Poland is a European manufacturing hub for automotive components, electronics, industrial machinery, chemicals, defense production, business services, IT, and logistics, with Poland's location between Germany and Ukraine making Poland a major logistics corridor. Poland has also seen rapid growth in offshore wind, solar, and grid modernization. Rising defense spending is reshaping industrial investment patterns. Ambroziak (2004) also commented that

> "Inflow of foreign direct investment (FDI) to the food industry in Poland began in the 1970s with the entry of transnational corporations Coca-Cola and PepsiCo. Foreign capital began to flow to Poland on a large scale as early as the beginning of the 1990s. It was related to the change of the state system and the processes of economic transformation and privatization of food industry enterprises."

Poland's Polish Investment Zone (*Polska Strefa Inwestycji* or PSI) is the country's main FDI incentive framework. PSI performance has been especially strong in the period 2018–2026, with 4,032 "support decisions" issued. A support decision (*decyzja o wsparciu*) is an administrative document that grants companies a regional corporate income tax (CIT) or personal income tax (PIT) exemption for carrying out a new investment in Poland (Bielska, 2025; Andrejkovicova & Andrejovska, 2026). 332 new projects are scheduled in 2026, with PLN 12.4 billion ($3.2 billion USD) in declared capital expenditures (capex), whereby a company intends to buy, maintain, or improve major long-term physical or intangible assets. The project count is higher by 22% year-on-year from 2025. Industrial park development is accelerating, even as several older Special Economic Zone permits will expire at the end of 2026.

6.3. Why Investors Choose Poland

Poland has several strategic advantages which include a large domestic market enjoying European Union single-market access, strong logistics infrastructure (ports, airports, rail), a skilled engineering and IT workforce, competitive labor costs (although rising), corporate tax incentives offered in Investment Zones, research and development credits, and green-energy subsidies.
It is also important to note Poland's special advantage from possessing a skilled work force.

> "A remarkable 92% of Polish citizens aged 25-64 have completed secondary education, placing Poland fifth among all the OECD countries. This figure is well above the OECD average of 78%. Additionally, Poland ranks fourth in Europe for the number of students enrolled in higher education, with almost 1.3 million students currently studying in the country" (CTP Insights, 2024).

At the same time, there are several potential negatives which may be seen as a "drag" on investments (see Remix News Staff, 2025). Hourly labor costs in Poland increased by 4.7% year-on-year in the second quarter of 2026. However, the 4.7% growth rate is a marked slowdown compared to 9.7% in 2025 and 7.2% in the first quarter of 2026. Growth in labor costs remains faster than the European Union average of 3.2% and the euro-area average of 3.1%. Labor cost growth hit a record high of 14.1% year-on-year in March 2024, driven by high inflation and aggressive minimum wage hikes.

Policy makers in Poland expect that FDI will remain a central engine of Poland's economic modernization and full convergence with Western Europe (see Gubanski & Gac, 2026).
Part III: Politics and Society in Poland in 2026

7. Overall Picture

Poland's political landscape in 2026 may been characterized by tensions between Polish institutions, fragmentation of political coalitions, and an ongoing struggle over the direction of democratic governance and the rule-of-law. The political environment reflects nearly two decades of "electoral combat" between major political factions.

7.1. Governmental Structure

Poland is a *parliamentary republic* consisting of a dual executive, with a Prime Minister who leads the government and holds most executive authority, and a President who holds veto power over legislation enacted in the parliament, appointment authority, and influence over foreign and security policy (see generally Hunter, 2020). Bukowski (2025) notes: "President Nawrocki [who defeated Rafal Trzaskowski, the Mayor of Warsaw, in 2025] has used his veto power "unusually assertively" — blocking legislation, military promotions, ambassadorial appointments, and judicial nominations — creating institutional gridlock in key policy areas."

The Sejm (Poland's lower house) and Senat (upper house) form the legislative branch. The Sejm's ability to override a presidential veto requires a three-fifths majority, which the governing coalition does not possess, creating structural gridlock. The judiciary operates under policies enacted between 2015 and 2023, that critics argued altered the country's legal system by increasing political control over the courts (Macy & Duncan, 2020-2021). These actions triggered a major rule-of-law crisis and a prolonged standoff with the European Union. Efforts to reverse or modify these actions have been politically contentious and legally complex.

7.2. Party System and Coalition Dynamics

Poland's party system is both pluralistic and polarized.
Law and Justice (*Prawo i Sprawiedliwość*, PiS) is as a national-conservative political party with strong support among rural and older voters and socially conservative constituencies (Folvarcny & Kopecek, 2020). PiS maintains strong ties to the Polish Roman Catholic Church (Eberts, 1998), which although still powerful, no longer commands the same loyalty it once exerted in Polish society and politics (Orlinski, 20223; Kamasa, 2024). Although no longer in the majority in the Sejm, PiS remains influential through its presence in state media structures, its appointees in the judiciary, support from local governments (especially in rural areas), and a strong and committed party organization. Jarosław Kaczyński, who co-founded the PiS in 2001, is the leader and chairman of PiS, serving as its chairman since 2003 (see Crowcroft, 2020). His brother Lech Kaczynski served as President of Poland from 2005 until his death on April 10, 2010 in a tragic plane crash (Hinsey, 2011) while commemorating the massacre of Polish soldiers in the Katyn Forest by the Soviet Union between April and May of 1940 (Cienciala, A., Lebedeva, N.S., & Materski (eds) (2007).

Civic Platform (*Platforma Obywatelska*, PO) is Poland's main centrist and pro-European political party. It was founded on January 24, 2001 by Donald Tusk, Andrzej Olechowski, and Maciej Płażyński. Civic Platform emerged from center-right and liberal factions associated with the former Solidarity Electoral Action, Freedom Union, and the Conservative People's Party.

Third Way (*Trzecia Droga*) is an electoral alliance formed in 2023 by Poland 2050 (*Polska 2050*), led by Szymon Hołownia and the Polish People's Party (PSL) (*Polskie Stronnictwo Ludowe*), led by Władysław Kosiniak-Kamysz. It sought to offer a moderate alternative to both PiS and Civic Platform (Gleichgewicht, 2023).

Civic Platform and Third Way were separate political forces competing for some of the same "centrist" voters. Before the 2023 parliamentary elections, they shared several broad policy goals, including support for Poland's

EU membership, pluralism in the media, and restoring rule-of-law institutions. Civic Platform and the Third Way cooperated closely in opposition to the former PiS government in the Sejm.

The Civic Coalition (*Koalicja Obywatelska*, KO) was created on 25 October 2025 from a merger of Civic Platform (PO), Modern (*Nowoczesna*) and Polish Initiative (*Inicjatywa Polska,* abbreviated as iPL).

After the 2023 parliamentary elections, Civic Coalition, Third Way, and The Left agreed to form a coalition government led by Donald Tusk who secured the office of Prime Minister.

The Third Way was dissolved in June 2025, when PSL decided to leave the electoral alliance. However, its constituent parties remained part of the broader governing camp that had been formed after the 2023 election.

The "Polish Left" (*Polska Lewica*) consists of a smaller but vocal coalition advocating social welfare expansion, a progressive cultural policy, and enhanced labor protections. Adam Novak, writing for the publication *Europe Solidare Sans Frontiers* (Europe in Solidarity Without Borders), noted: "The Polish left underwent a dramatic transformation from October 2024 to November 2025, fragmenting into competing factions over fundamental questions of political strategy."

Confederation Liberty and Independence (*Konfederacja Wolność i Niepodległość,* better known as *Konfederacja*) (Confederation) is a far-right, nationalist, and economic libertarian political alliance. Confederation promotes radical free-market capitalism and low taxes. Confederation is strongly Eurosceptic, critical of European Union bureaucracy, and is also wary of deep dependency on NATO (see Gera, 2023).

Confederation has also expressed critical views on the influx of Ukrainian refugees into Poland as potential "unfair competition" for Polish workers and has advocated for strict border controls and opposition to mass immigration. Confederation espouses socially conservative and "traditionalist" values, frequently criticizing "progressive" cultural trends from Western Europe. Confederation has seen growing support in Poland's younger voters, especially in its online presence (konfederacacja.pl).

7.3. Parliamentary Elections - 2023

The 2015–2023 period of rule by PiS was characterized by significant constitutional and judicial changes, prompting conflict with the European Union over standards relating to the "rule-of-law" (Speyer, 2026). Parliamentary elections, which took place on October 15, 2023, brought a shift in the "political landscape" to a coalition of pro-EU parties (Kaczynski & Dybka, 2024) and has led to a normalization of Poland's relationship with the EU and its political and economic institutions (see Watmough, 2023; Romaniuk, 2025). However, the presidency, held by Andrzej Duda until 2025, continued to thwart legislative initiatives through the exercise of the presidential veto.

Interestingly, the incumbent PiS government had obtained the greatest number of votes (35.4% of votes) in the 2023 parliamentary elections but was unable to secure a majority in the Sejm by entering into a coalition with other parties. Civic Platform (PO), along with centrist-liberal coalition parties - Third Way and The Left - obtained 53.7% of the votes (Civic Platform: 30.7%; Third Way: 14.4% and The Left: 8.6%). The three-party coalition garnered 248 seats out of a total of 460. The new government was officially sworn in office in December 2023, with Donald Tusk as Prime Minister.

An important result, however, was the absence of a super majority (60% of votes) in Parliament. As a result, parliamentary decisions were subject to then President Duda's potential veto.

7.4. Institutional Normalization

The new governing coalition has prioritized "100 policies" featuring judicial reform, reversing much of the legislation enacted by PiS relating to the judiciary, and supporting European Union integration and "institutional

normalization." At the same time. PiS maintained its strong influence through the office of the President, state media, and parts of the judiciary.

Poland's relationship with the EU has certainly improved since 2023. Lynes (2025) writes: "Now, as it takes the helm of the EU presidency for a second time, Poland stands as a transformed country, with its position firmly established at the heart of EU affairs." The European Commission has gradually released previously frozen cohesion funds. Poland remains a strong supporter of NATO and EU security initiatives, especially regarding Ukraine.

Judicial reform remains one of the most divisive issues. The governing coalition has sought to restore judicial independence, while PiS and its allies argue that reforms undermine prior changes which had increased accountability of the judiciary to the people (see Jaraczewski, 2025).

As an overview, Polish society in 2026 remains politically polarized. Key trends include:

- Urban–rural divide: Urban voters (especially in Warsaw and Krakow) lean toward centrist and liberal parties; rural voters remain loyal to PiS and PSL;
- Generational divide: Surprisingly, while younger voters supported Civic Platform in the 2023 parliamentary elections, polls indicate increasing support of Confederation; older voters generally support PiS and the PSL (see Bjork, 2025);
- Cultural debates: Issues such as reproductive rights, LGBTQ+ protections, and education policy remain highly contested and divisive in Polish society.

8. Policy Orientation

Poland's foreign policy in 2026 is characterized by strong support for Ukraine, as Poland remains one of Ukraine's most committed allies, providing military aid, humanitarian support (approximately $2.7 billion), diplomatic backing, as well as welcoming 1.7 million Ukrainian refugees into Poland.

Poland's defense spending and modernization efforts position it as a leading NATO actor in Central Europe. The governing coalition emphasizes deeper integration with the European Union, while PiS advocates a more sovereignty-focused approach.

Poland is widely regarded in Washington as one of America's closest allies in Europe. Poland has maintained close bilateral ties with the United States, with cooperation centered on defense, security, energy, and support for Ukraine (see Baranowski, 2024; U.S. Department of State, 2025).

Poland hosts a significant U.S. military presence. Roughly 10,000 U.S. military personnel have been deployed in Poland on a rotational basis, and Poland and the United States cooperate closely under the Enhanced Defense Cooperation Agreement (EDCA) (Noryskiewicz, 2026). Recent activity has included continued development of military infrastructure for U.S. and NATO forces in Poland, including logistics and fuel facilities at Powidz (Lamar, 2025); ongoing discussions about expanding the long-term U.S. military footprint in Poland by establishing a permanent U.S. military base on Polish soil; and major purchases by Poland of U.S. military equipment, including F-35 fighters, Patriot air-defense systems, HIMARS rocket launchers, Abrams tanks, and Apache helicopters. Most recently, in September of 2026, the United States signed a $4 billion Foreign Military Financing (FMF) loan guarantee for Poland, bringing total U.S. financing support to nearly $20 billion (Martin, 2026).

Another major area of cooperation between the United States and Poland is energy security. The United States has supported Poland's efforts to reduce dependence on Russian energy supplies. The centerpiece is Poland's first nuclear power plant, which is being developed with U.S. companies Westinghouse and Bechtel (World Nuclear News, 2026).

Beyond defense and energy, the United States and Poland maintain regular bi-lateral strategic consultations. During the 16th *U.S.-Poland Strategic Dialogue* in April 2026, the two governments discussed defense industrial cooperation, economic growth, technology cooperation, and issues related to critical minerals supply chains. Mirage News (2026) noted:

> "The two sides deepened their exchange on regional security amid the ongoing Russia-Ukraine war and international efforts to bring a durable peace to Ukraine. The Dialogue built on deep bilateral cooperation between the United States and Poland and reaffirmed that the relationship is strong and growing."

The relationship between the United States and Poland is driven by shared concerns about Russian security threats, Poland's major investments in U.S. military systems, cooperation on Ukraine, and ambitious energy projects such as Poland's first nuclear power plant.

9. Economics and Politics Converge in Poland Today: Some Final Thoughts

The interface of politics and economics in Poland manifests itself through a combination of fiscal policy, relations with the European Union, electoral configurations, and defense spending initiatives.

A "key" factor, no doubt, is Poland's relationship with the EU. Following the enactment of reforms aimed at addressing "rule-of-law" concerns, the European Commission moved to unlock access to as much as €137 billion ($154 billion USD) in EU funding for Poland, providing for the support of infrastructure, energy, digitalization, and business investment (European Commission, 2024). The European Commission notes that since at least 2015 (Matsuura, 2015), EU-funded investments are an important driver of Poland's economic growth (Adalytica, 2026). Poland's political leadership has chosen to maintain substantial spending on social programs (including efforts to boost Poland's birth rate (Bokun, 2025)), defense, and public investment, which have at the same time contributed to Poland's large budget deficits and rising public debt (see Misztal, 2026). Poland's deficit rose from 6.4% of GDP in 2024 to 7.3% in 2025, while public debt is projected to increase as well.

At the same time, the continued political conflict between the Tusk government and President Nawrocki will remain as a source of policy uncertainty for the foreseeable future, potentially influencing business confidence, long-term planning, and investment decision-making.

The political environment has been greatly influenced by security concerns stemming from the Russian- Ukrainian war. Green (2026) comments on the relationship between Poland and Ukraine "… the two countries' proximity and shared interests into a strategic partnership capable of weathering geopolitical tumult and internal politics." Benefits in the Polish economy are derived from demand for manufacturing, infrastructure, and defense industries. At the same time, costs have increased government borrowing and pressure on public finances.

Despite the prognosis of sustained success, the European Commission has identified challenges involving competitiveness, labor costs, public finances, and productivity. Government policies on education, energy, taxation, labor markets, and innovation will heavily influence whether Poland can sustain its rapid growth over the next decade (see European Commission, 2026; NACM News, 2026).

By European standards, Poland's economy is strong, exhibiting robust growth, low unemployment, and substantial foreign and domestic investment. In many ways, Poland provides an interesting case study because its economy has continued to grow rapidly even while its politics have remained highly polarized. The key question for economists and observers of Polish politics is whether growth can be maintained if fiscal deficits and political tensions persist. Only time will tell!

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Appendix I: NATO Members' Defense Spending as % of GDP (2026)

Below is a structured list of the most recent estimates, drawn from NATO data and corroborated by Statista and Reuters:

- Lithuania — 5.33%
- Estonia — 5.10%
- Latvia — 4.92%
- Poland — 4.68%
- Greece — 3.65%
- Denmark — 3.49%
- Sweden — 3.22%
- United States — 3.17%
- Norway — 3.17%
- Türkiye — 2.85%
- Finland — 2.65%
- Germany — 2.69%
- Netherlands — 2.58%
- United Kingdom — 2.56%
- Romania — 2.43%
- France — 2.22%
- Bulgaria — 2.22%
- Montenegro — 2.17%
- Albania — 2.15% (up from 1.48% last year)
- Canada — ~2.13% (Statista)
- Italy — 2.1%
- Portugal — 2.1%
- Hungary — 2.09%
- North Macedonia — 2.09%
- Luxembourg — 2.03%
- Slovakia — 2.02%
- Czechia — 2.01% (projected)
- Belgium — 2%
- Spain — 2%
- Croatia — 1.86%
- Slovenia — 1.57% last year; planned to exceed 2% in 2026.
- Iceland — No armed forces; spends on civil security only.