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POLICY PAPER

THE POLISH ECONOMIC MIRACLE

Lessons to be Learnt

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Publication Credits

Publisher
Friedrich Naumann Foundation for Freedom
Central Europe
Jugoslávská 620/29
12000 Prague, Czech Republic

/freiheit.org/central-europe-and-baltic-states
/fnf.europe
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In Cooperation with
Civil Development Forum (FOR)

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Date
October 2026

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Summary

- Poland entered transition in 1990 with inflation at 585.5%, external debt equivalent to nearly 70% of GDP, and GDP per capita at 37% of the OECD average. In 2025, real GDP stood at 350% of its 1990 level, representing real growth of 250%.

- The data do not support claims of industrial collapse – a common accusation made by popu-lists. Industrial output excluding construction was 3.92 times its 1989 level in 2025, manu-facturing output was 5.79 times its 1989 level, and real manufacturing gross value added was 3.90 times its 1995 level in 2025.

- Foreign-controlled firms generated 29.5% of value added in the market business sector in 2023 and employed 20.3% of its workforce; domestic firms therefore accounted for most value added and employment. Exports of goods and services were equivalent to nearly half of GDP in 2025, while domestic value added accounted for 66.4% of gross exports in 2022.

- Poland's experience is not a programme that Germany can copy directly, as it was, and still is a market economy. It nevertheless demonstrates the general importance of competition, openness, private ownership, sound public finances and the rule of law.

1. Introduction

Poland's post-1989 transition is one of world's most important examples that transition from socialism to capitalistic market economy is possible and can be successful. It was not a miracle in the sense of an inexplicable event. It resulted from abandoning a dysfunctional socialist system, introducing market mechanisms, opening the economy and introducing the rule of law.

Let me first distinguish facts from the myths.

The claim that Polish industry collapsed after 1989 as a result of privatisation is pretty common in the Polish public debate. The transformation of the economic system is portrayed as the closure of well-functioning, profitable enterprises. The disappearance of familiar Polish brands is equated with a reduction in production overall. This reflects the influence of propaganda from socialist Poland (then known as the Polish People's Republic): large, theoretically modern state-owned industrial combines were supposed to ensure high labour productivity and full employment.

The claim that opening the economy turned Poland into a "foreign-owned country", a market for foreign goods and an assembly plant for Western companies, also recurs regularly. Both accounts form part of the same narrative. If industry had supposedly collapsed — contrary to the facts — something must have taken its place. The convenient explanation is that the country was "sold off": foreign enterprises were said to have taken over Polish firms, flooded the market with their goods, and turned what remained of domestic production into an assembly operation performing the simplest tasks.

This politically resonant slogan combines three separate allegations: foreign interests control the Polish economy; Poles mainly buy other countries' goods while selling little abroad themselves; and Polish production amounts to low-margin assembly of foreign components. Each allegation can be tested against available data. Eurostat measures the structure of corporate control by reporting the share of foreign-controlled enterprises and their contribution to value added (inward FATS). A foreign-controlled firm is an entity whose ultimate control is exercised by a resident of another country.[1] The scale of capital involvement can be assessed using the stock of foreign direct investment (FDI). The economy's position in global value chains can be assessed using the OECD's Trade in Value Added (TiVA) indicators, which sepa-rate gross exports into domestic and foreign value added, and indirectly through the complexity of exports.

It should be made clear at the outset that the presence of foreign capital, the import of components, or the sale of foreign goods on the domestic market is neither anomalous nor inherently harmful. These are normal features of any open market economy. Indeed, competition between countries for foreign investment is entirely natural. Those who advance the "foreign-owned country" thesis reveal a fundamental contradiction: on the one hand, they complain that ownership is supposedly not in Polish hands; on the other, at the very same time, they attack political opponents when Western companies withdraw investment from Poland.

But what was Poland's starting point? Why could some enterprises not survive competition? What happened to industrial output, exports and value added? Who actually controls Polish enterprises? Finally, what lessons can be learnt from Poland's experience after 1990.

2. The socialist legacy and the starting point

By the late 1980s, the economic situation in the Polish People's Republic was dramatic, even when comparing to other socialist countries. Cumulative GDP growth between 1979 and 1989 was just 1.1%, while the Polish state had external debt of approximately USD 46 billion, equivalent to about 70% of GDP at the time. Moreover, more than 25% of those in employment worked in agriculture.[2] Today the figure is approximately 6.2% of those in employment.[3]

Data for 1990 best illustrate the legacy of the Polish People's Republic. Inflation stood at 585.5%. GDP per capita at purchasing power parity was USD 6,200, or 37% of the OECD average. Total GDP was USD 66 billion, while external debt stood at USD 46 billion, equivalent to 69.7% of GDP.[4]

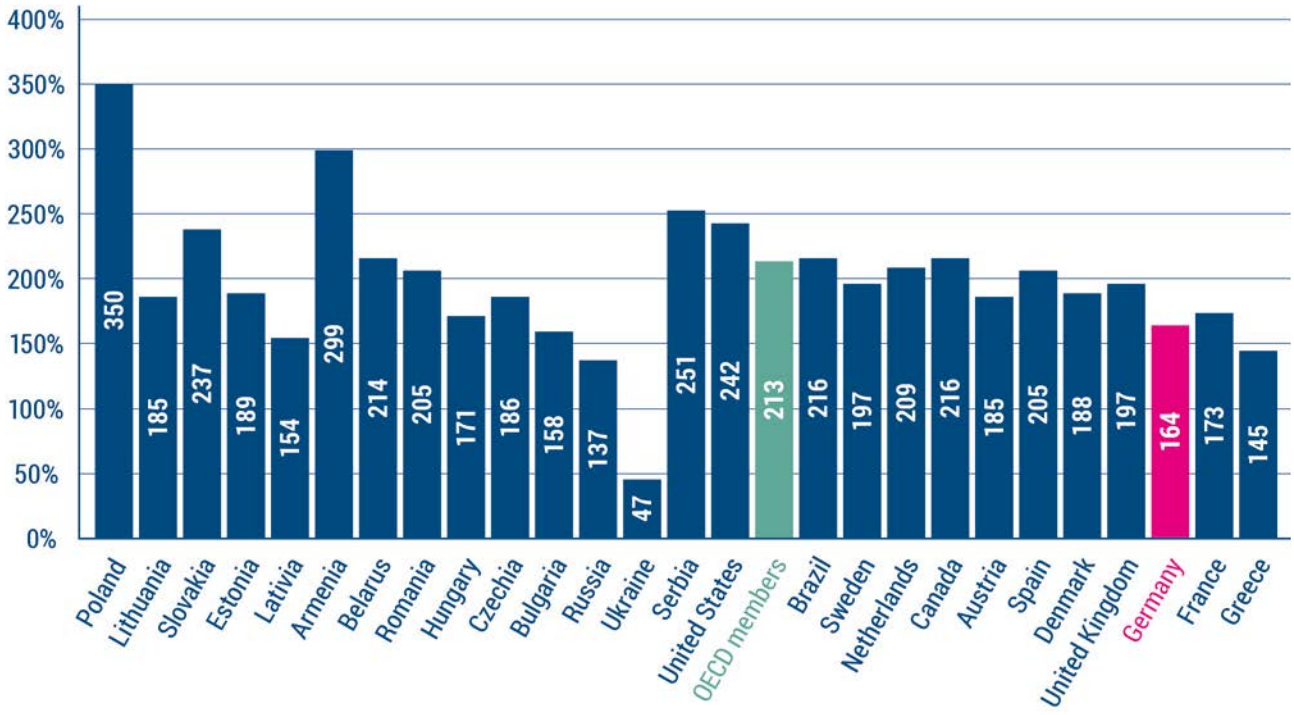
In 1990, Poland's GDP per capita at purchasing power parity was lower than that of every European country except Belarus, Albania and Romania. It was also below that of Algeria, Brazil, Gabon, Iran, Mexico, Suriname, Türkiye, Uruguay and Venezuela, among others.[5]

By 2021, Poland had overtaken the countries listed above, as well as Hungary, Portugal, Greece, Latvia, Slovakia, Bulgaria, Argentina, Croatia, Estonia, Ukraine and Russia.[6]

The rapid reforms introduced in 1989–1991 subsequently enabled the fastest GDP growth among all post-socialist countries. The fall in GDP and the crisis that Poland experienced at the beginning of the 1990s — the so-called transition recession — were neither deeper nor longer than in other countries of the Eastern bloc. Poland was the first post-socialist country whose economy began to grow. In 1992, it became the first post-socialist country to record GDP growth after the economic and political transformation. Average real economic growth was 3.56% in 1990–2004, 4.21% in 1992–2014, and 3.65% in 2014–2025.[7] This also illustrates, that the largest contributor to economic growth was abandonment of state-dominated economy rather than EU-funds, as Poland joined the EU in 2004. The so-called "Balcerowicz Plan" is sometimes criticised for its high "social costs". This is a classic example of confusing effect with cause. The crisis was not caused by the introduction of market reforms; the reforms were a response to a crisis caused by the dysfunctional socialist system.

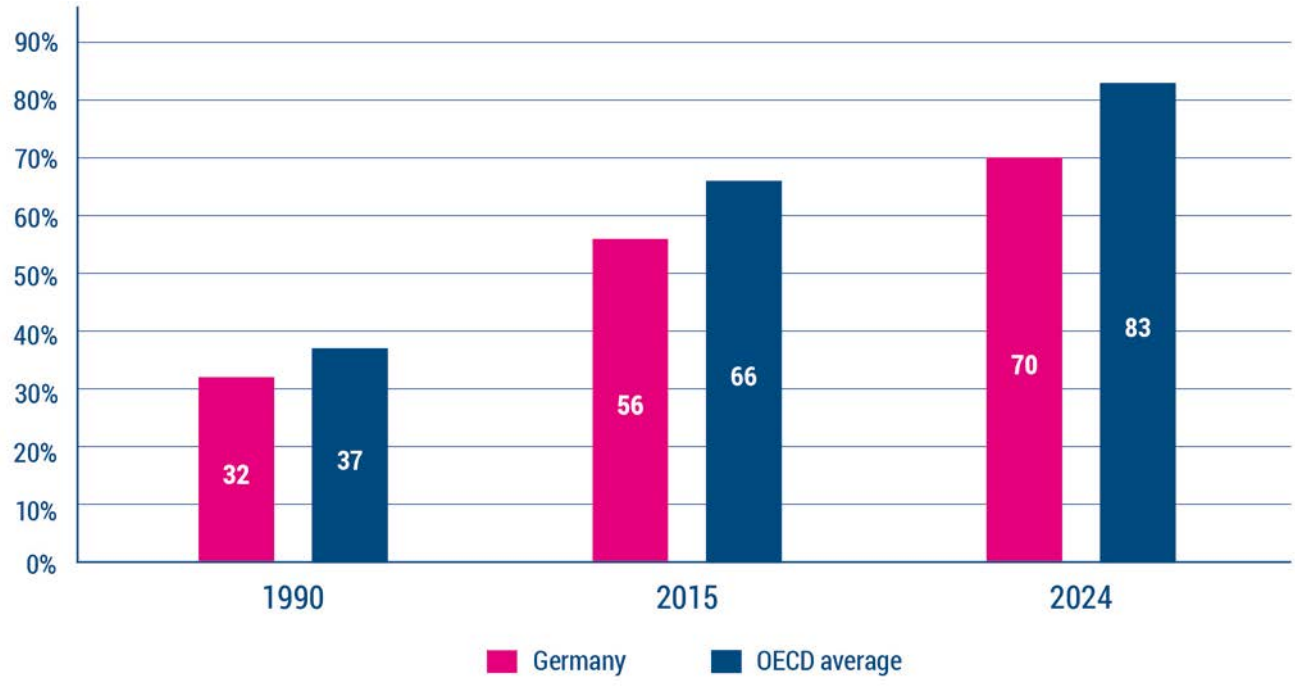
That response succeeded: inflation was quickly brought under control and the economy soon returned to growth. In 2025, Poland's real GDP was 3.50 times its 1990 level.[8] Some of what is described as "cost" of reforms was just the disclosure of losses and the real state of economy.

Figure 1 | Real GDP in 2025 (1989 or the earliest available year = 100%; real volume)



Source: World Bank (constant 2015 USD; real growth)

Figure 2 | Poland's GDP per capita at purchasing power parity as a percentage of the levels in Germany and the OECD



Source: OECD.

3. Reforms and industrial restructuring

In 1989, many state-owned enterprises and the products they made were dramatically out-dated. Attention must also be paid to the distorted production structure of state-dominated economy. The centrally planned economy produced goods without regard to cost, demand or international competition. The types of goods produced did not correspond to market needs, and the planned economy was unable to respond to the population's actual needs. The abandonment of socialism after 1989 immediately revealed that, when given a choice, people did not in fact love, formerly considered iconic, domestic cars, washing machines or TVs.

Polish industry needed investment and transfer of knowledge, which could be provided — and successfully was — through privatisation, and inflow of investments including the foreign one.

Heavy industry and machine manufacturing were not the only sectors to experience difficul-ties. Łódź and its textile industry are often cited as the leading example of the elimination of an entire branch of industry during the transition. In light industry, the problems described above were compounded by its orientation towards eastern markets. The collapse of the USSR and the CMEA (the Council for Mutual Economic Assistance) left many Polish plants without buyers for their goods. The same situation was observed in all former socialist countries. Capitalist Finland, which was economically linked to the USSR, experienced the similar temporary collapse in industrial output and GDP growth. OECD data show that real industrial output excluding construction fell in Finland by 8.7% in 1991, before rising by 0.9% in 1992 and 5.1% in 1993. According to Statistics Finland real GDP fell by 5.9% in 1991, 3.3% in 1992 and 0.8% in 1993 — a cumulative decline of 9.7% from 1990 to 1993.[9] The Bank of Finland notes that the Soviet Union absorbed 15% of Finnish goods exports in 1989.[10] The production structure of every country trading with the Council for Mutual Economic Assistance had to change in the face of major geopolitical shifts.

The only way to maintain every existing line of production would have been to subsidise it. This is precisely what happened throughout the 1970s and 1980s. Instead of individual firms going bankrupt, the entire Polish economy incurred a heavy foreign debt in the late 1980s. Keeping that system in place would merely have prolonged the economic collapse.

The reviews of the literature on economic transition in Central and Eastern Europe show that, on average, selling state-owned enterprises to a large foreign investor led to better performance than leaving a company under state control or privatising it to domestic owners.[11] Moreover, average gross pay in firms with foreign capital is approximately one third higher than in domestic firms.[12]

It is worth noting the global structural changes in industry that have taken place worldwide since the 1960s. Sectors such as consumer electronics, shipbuilding and textiles also declined in Western countries as production moved to Asia. Many iconic Western enterprises lost out to competitors from Japan, China and, more recently, South Korea.

4. Industry did not collapse

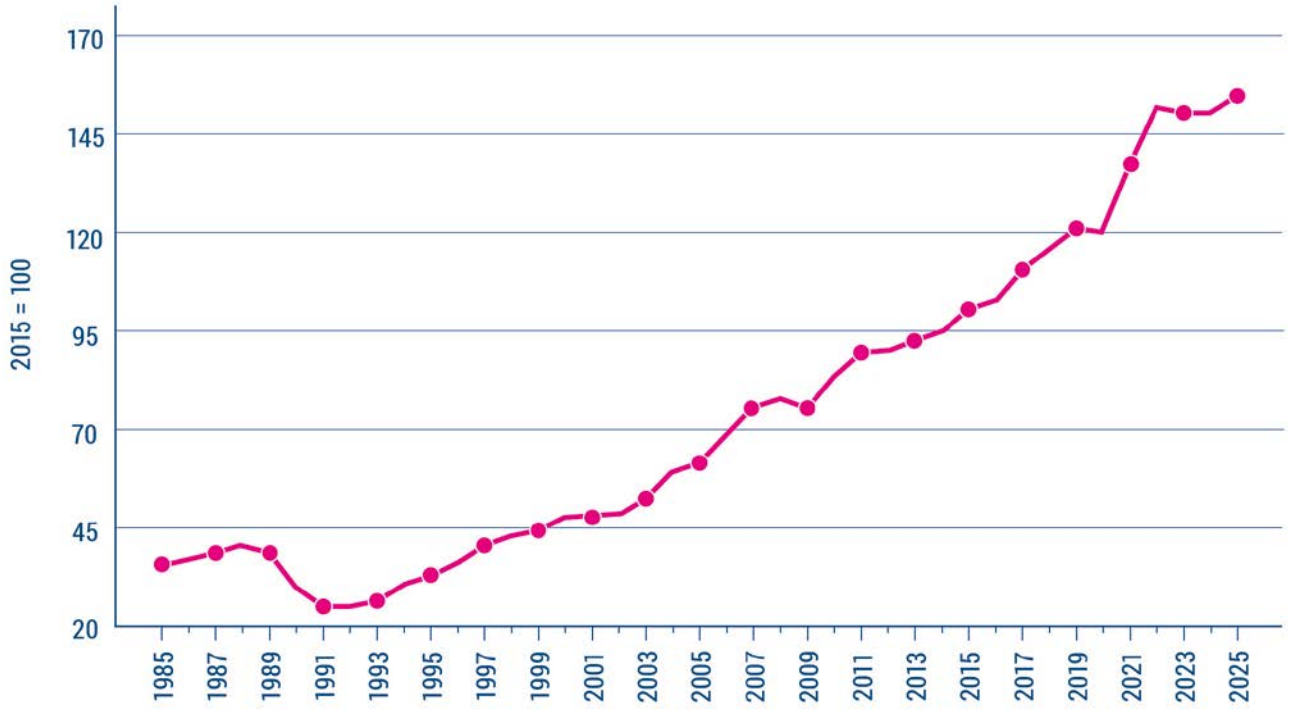
Despite the difficulties described above, and contrary to the narrative of industrial decline, the Polish industry did not suffer a lasting regression. Over the past 35 years in real-volume terms, industrial output excluding construction reached 3.92 times its 1989 level in 2025, while manufacturing output reached 5.79 times its 1989 level.[13] Real manufacturing gross value added was 3.90 times its 1995 level. Supporters of the collapse thesis conflate two different phenomena: the failure of some permanently unprofitable state enterprises and the condition of the industrial sector and economy as a whole.

The claim that industry collapsed should be tested at no fewer than five levels: industrial output, manufacturing value added, employment, productivity, and international competitiveness as measured by exports. The fate of individual plants, even very large and symbolic ones, is not representative of the economy as a whole. The claim that the entire sector is drawn from several conspicuous bankruptcies, while thousands of new enterprises and rising output at plants created under market-economy conditions are ignored.

It should be added that a shift in the structure of employment between industry, services and agriculture was not inherently negative phenomena. As incomes and productivity rise, the share of services in the economy generally grows, while industry can produce more with fewer or a similar number of employees. For this reason, a fall in industry's share of employment must always be interpreted alongside data on output and productivity.

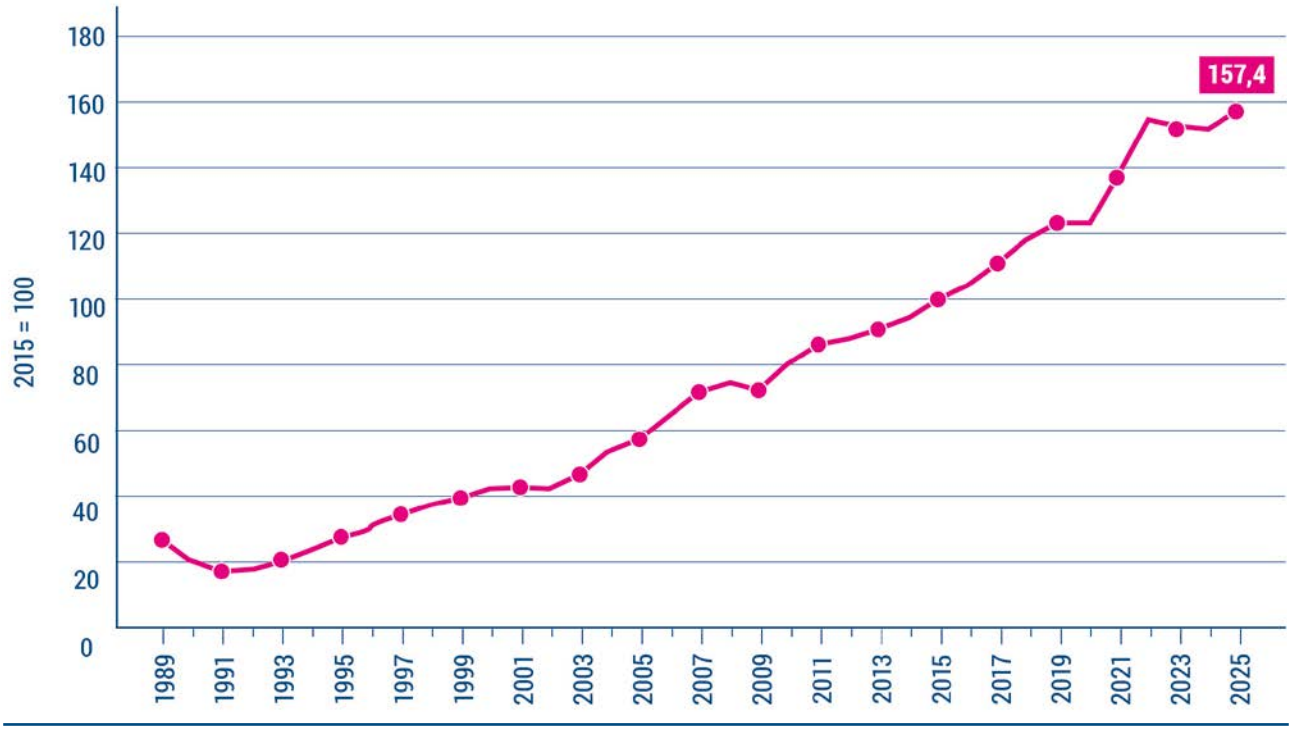
Poland did not undergo deindustrialisation. According to OECD data, industrial output in Poland excluding construction was 3.92 times its 1989 level in 2025, while manufacturing out-put was 5.79 times its 1989 level.[14] International comparisons confirm this picture. In 2019, manufacturing accounted for 18.9% of value added in Poland, compared with 16.6% across the European Union, while industry accounted for 20.5% of employment, compared with 14.5% in the EU.[15] This means that, after three decades of transition, by European standards Poland has a comparatively well-developed industrial sector. It is equally important to note that industry's share of the Polish economy declined by 1,6% from 2000 to 2025, while on average it declined by 3,6% in EU countries.[16]

Figure 3 | Industrial output in Poland excluding construction (2015 = 100; real annual volume index)



Source: OECD STES (real production-volume index).

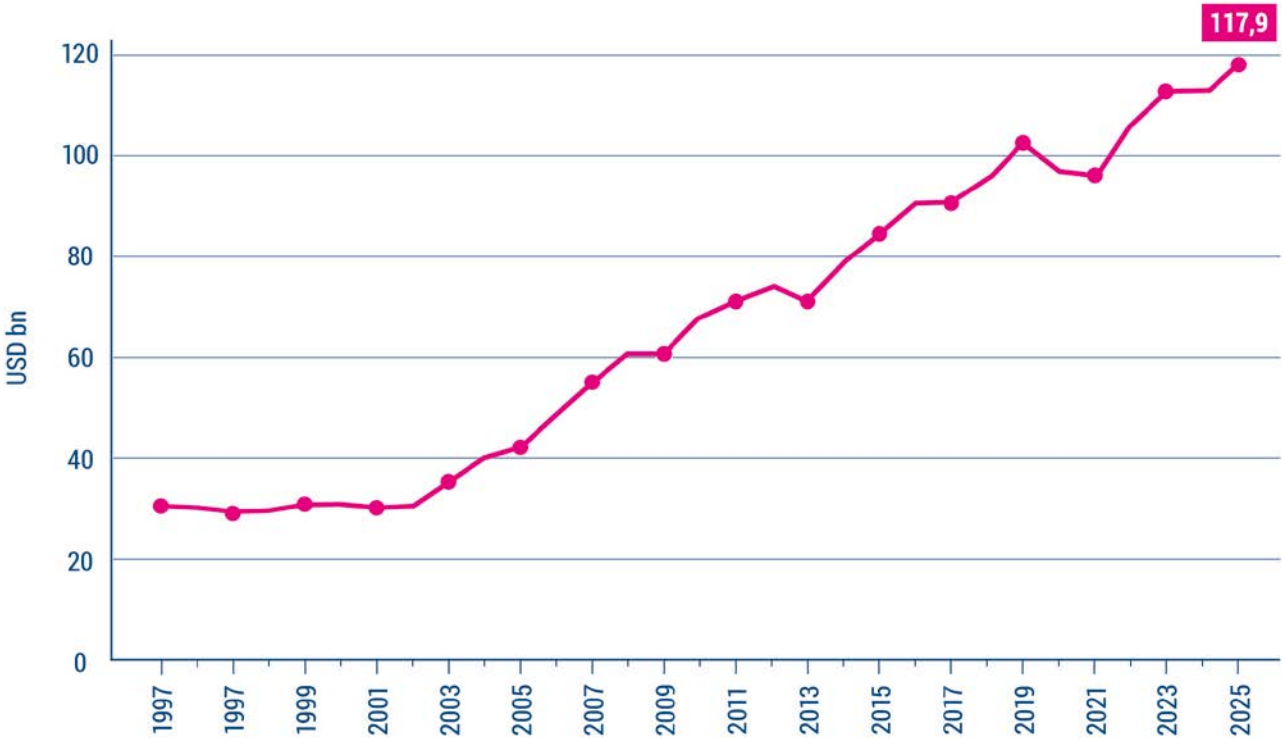
Figure 4 | Manufacturing output in Poland (2015 = 100; real annual volume index)



Source: OECD STES (real production-volume index).

Real manufacturing gross value added was 3.90 times as high in 2025 as in 1995. This contradicts the popular claim that Poland is merely a cheap “assembly plant” for Western firms, processing and earning less than when “recognised” Polish brands predominated.

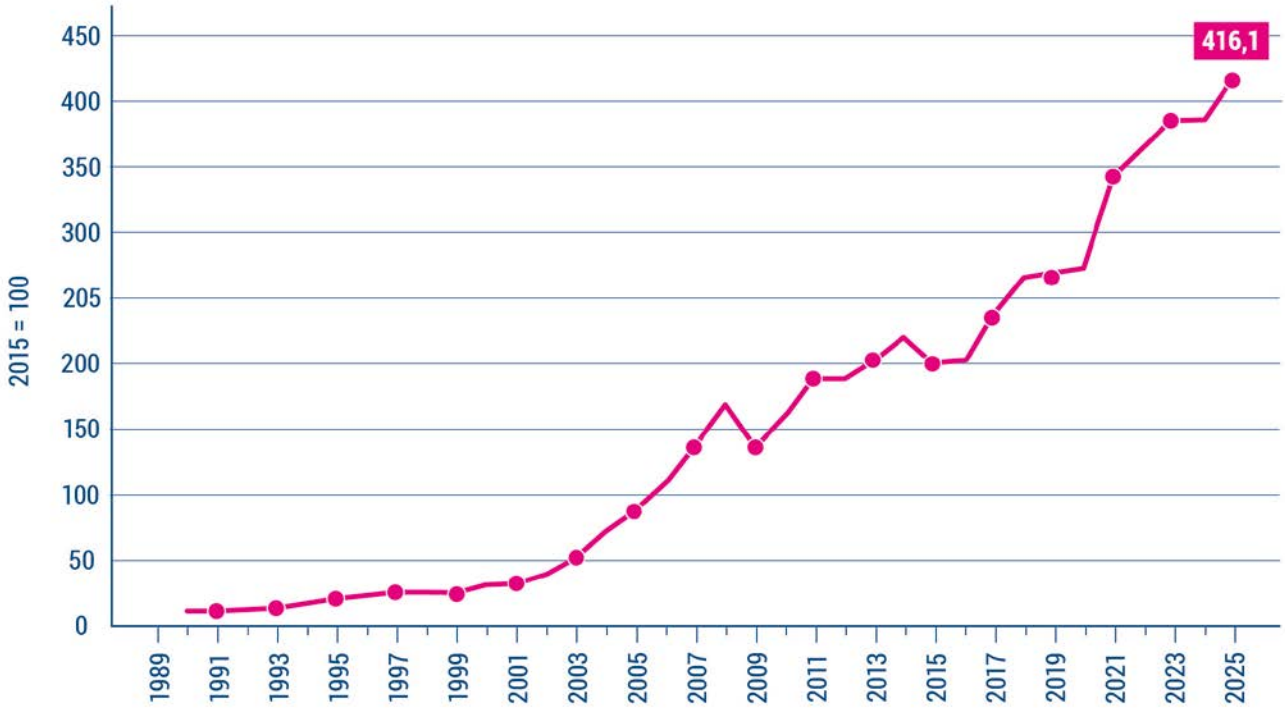
Figure 5 | Manufacturing gross value added (constant 2015 USD billion; real)



Source: World Bank WDI (constant 2015 USD; real)

Export data show the same pattern. Goods exports as a share of Polish GDP rose from 26.31% in 1990 to 52.18% in 2024. Poland’s share of world trade increased from 0.4% in 1990 to 2.2% in 2018.[17] Over the same period, Germany’s share fell from 11.1% to 7.4%. An economy whose industry had “collapsed” would not double the share of goods exports in GDP.

Figure 6 | Polish exports of goods (USD billion)



Source: World Bank.

Privatisation did not lead to Poland's de-industrialisation. All data show precisely the opposite phenomenon.

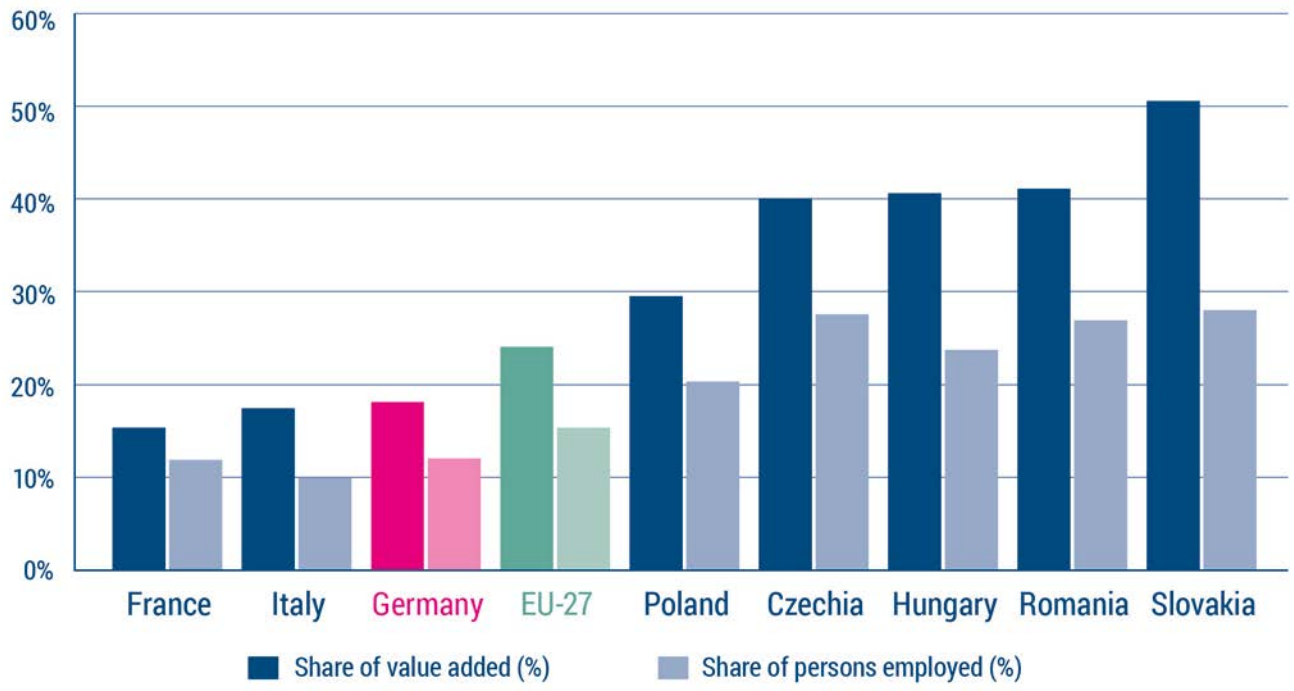
After 45 years of a dysfunctional socialist economy, privatisation and opening of the economy enabled rapid industrial development and convergence with Western countries. Industrial output, the value it generated, exports and living standards all increased several-fold following privatisation. The disappearance of some enterprises does not reflect the overall sit-uation in industry and the economy. The same phenomenon occurs in advanced Western economies. The main export destinations, production structure, plant sizes and labour productivity changed.

5. A “foreign-owned country”? Control and foreign direct investment

The measure closest to the “foreign-owned country” slogan is the share of the economy accounted for by foreign-controlled enterprises. According to Eurostat, in 2023 foreign-controlled firms represented just 0.25% of enterprises in Poland, generated 29.5% of value added and employed 20.3% of the workforce.[18] They are therefore, on average, considerably larger and more productive than domestic firms — unsurprisingly, since global giants, including hi-tech industries, operate on the Polish market. At the same time, domestic firms account for approximately 70.5% of value added and 79.7% of jobs in the business sector. A country in which domestic firms employ almost 80% of the workforce is not “foreign-owned” in any meaningful sense of the term.

An international comparison further weakens the claim that Poland’s economy is subject to an exceptional degree of foreign control. In 2023, the share of value added generated by foreign-controlled firms was higher in Czechia (40.2%), Hungary (40.6%) and Romania (41.2%), while it reached half of value added in Slovakia (50.3%). In Ireland — a country emblematic of development based on foreign investment — it was as high as 71.3%. Over recent decades, Ireland has been a model of convergence with the living standards of the rich-est Western countries, leaving, for example, United Kingdom far behind. The EU average was 24.0%, while the figures for large Western economies were 18.2% in Germany, 17.4% in Italy and 15.4% in France.[19] Poland lies between the economies of the older EU member states and the rest of the region — precisely where one would expect to find a capital-scarce converging economy that has simultaneously built a strong domestic business sector.

Figure 7 | Foreign-controlled enterprises: share of value added and employment, 2023 (%)



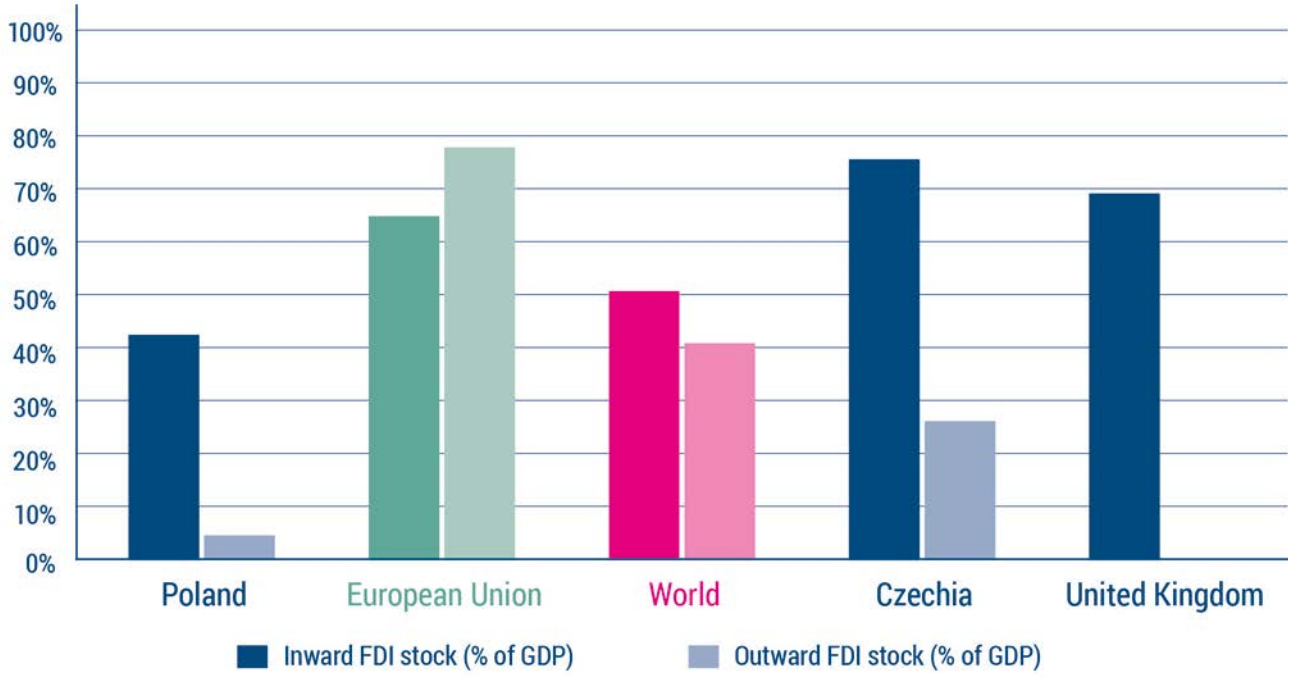
Source: own calculations based on Eurostat, inward FATS.[20]

Domestic data complete the picture. According to Statistics Poland (GUS), 26,700 enterprises with foreign capital operated in Poland in 2024 — 1.1% of all 2.4 million non-financial enterprises.[21] They employed approximately 2.2 million people.[22] Foreign capital is concentrated in large entities. Among firms employing at least 250 people, enterprises with foreign capital account for 45.1%.[23] This is typical and results from the presence of large multinational entities, such as technology companies and automotive production plants.

According to the *World Investment Report 2026*, the stock of inward foreign direct investment in Poland at the end of 2025 amounted to USD 419.5 billion, or 42.8% of GDP. This was below the averages for the EU (65.1%) and the world (51.2%), as well as the figures for Czechia (75.7%) and the United Kingdom (69.5%). Poland's outward FDI stock was equivalent to 4.7% of GDP, compared with 26.3% in Czechia, 78.2% in the EU and 40.9% worldwide.[24] The value of announced greenfield projects in Poland rose from USD 14.9 billion in 2024 to USD 16.3 billion in 2025, an increase of 9.2%.

The problem, therefore, is not a high level of foreign investment in Poland, but the dramatically low level of Polish investment abroad. This shows that despite rapid development over the past 35 years, Poland still lacks capital, and that the Polish economy would therefore benefit particularly strongly from increased foreign investment. World Bank points to a relatively limited domestic savings: in 2025 gross savings amounted to 17.1% of GDP in Poland, compared with 24.0% in the EU, 27.7% in Czechia, 26.4% in Germany, 24.3% in Spain, 23.4% in Italy and 21.5% in France.[25]

Figure 8 | Inward and outward FDI stock as a percentage of GDP, 2025



Source: own calculations based on UNCTAD, World Investment Report 2026.[26]

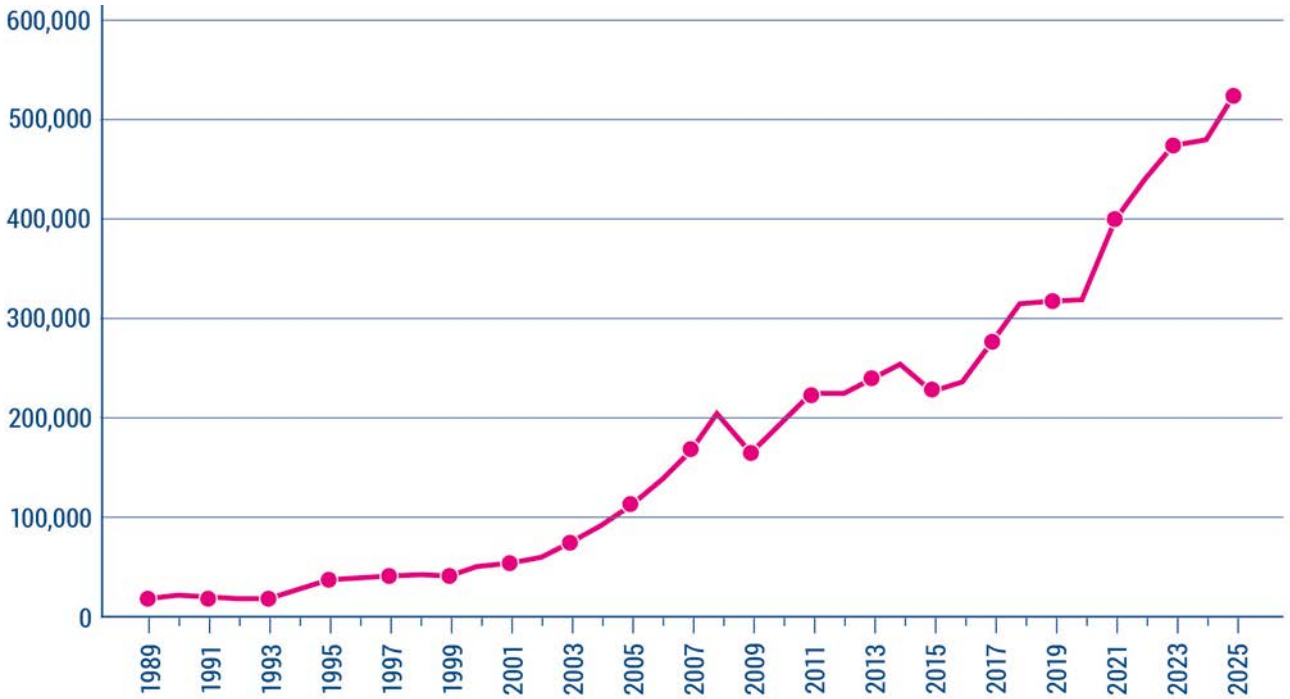
The banking sector provides a telling example. For years, politicians cited the sector as an example of an industry "taken over" by foreign interests. Yet at the end of 2024, foreign capital controlled 42.7% of banking-sector assets. The state accounted for about 48%, and private Polish capital for only 9.4%.[27] This is an evidence that the state has preserved the dominant role in the banking sector. The increase in domestic ownership does not reflect the expansion of private banks, but is the result of nationalisation. The state's share of the banking sector in Poland is exceptionally high by international standards.[28]

6. The role of imports in the Polish economy

Many participants in the public debate claim that the Polish economy dominated by imports and neglect the role of exports. Meanwhile Poland's exports of goods and services increased from USD 16.1 billion in 1989 to USD 521.44 billion — equivalent to 49.95% of GDP — in 2025.[29]

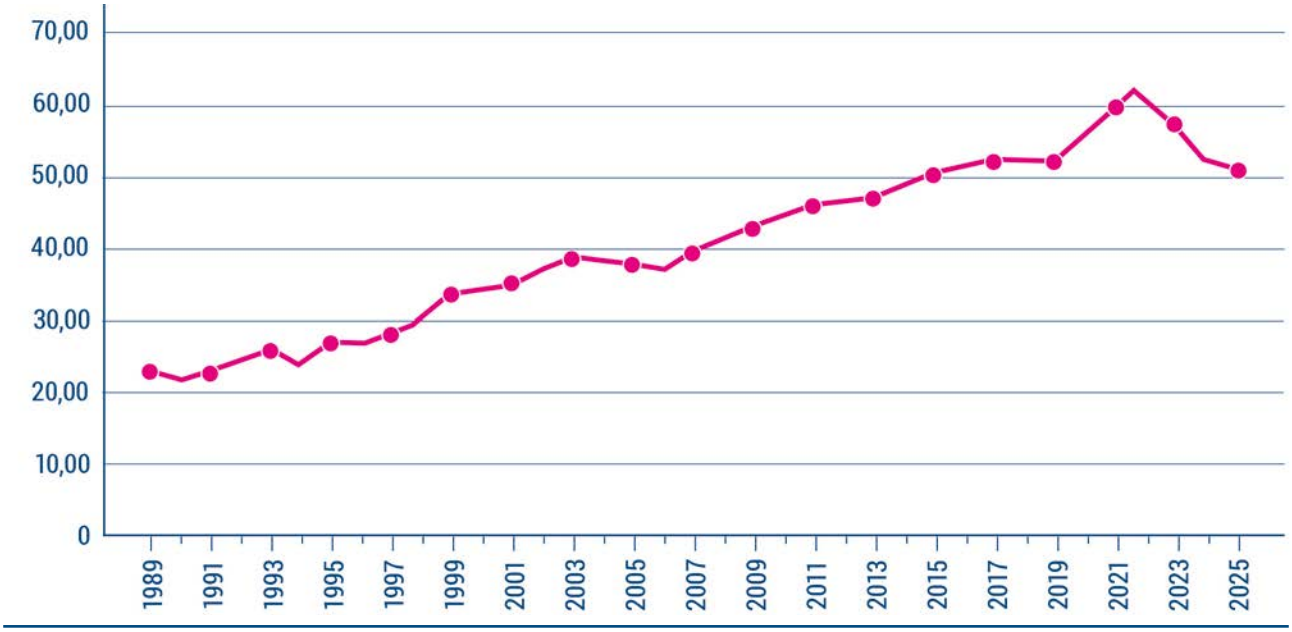
According to the WTO, Poland was the world's 22nd-largest exporter of goods in 2024, with exports worth USD 380 billion and accounting for 1.6% of global exports, and the 21st-largest exporter of services, worth USD 117 billion and accounting for 1.3% of world exports.[30]

Figure 9 | Poland's exports of goods and services, 1989–2025 (USD billion, current prices, nominal)



Source: own calculations based on the World Bank, WDI.[31]

Figure 10 | Poland's exports of goods and services as a percentage of GDP, 1995–2025 (current-price)



Source: own calculations based on the World Bank, WDI.[32]

The balance of trade with Germany is particularly telling. Since 2012, Poland has continuously recorded a surplus in goods trade with Germany.[33]

According to Statistics Poland, in 2024 Poland's goods exports to Germany amounted to PLN 409.2 billion, while imports measured by country of origin were PLN 290.0 billion, giving Poland a surplus of PLN 119.2 billion.[34]

Poland's foreign trade deficit is concentrated primarily in trade with Asian countries — above all China. Imports do not consist solely of finished goods. China is the source from which firms — including those that subsequently export finished goods to Western markets — im-port a large share of intermediate goods and raw materials.

The current account completes the picture. At the beginning of the transition and during the period of increased foreign investment before 2008, Poland — like every converging economy importing capital — recorded current-account deficits, which reached 6.7% of GDP in 2008. Since the middle of the last decade, the balance has fluctuated around equilibrium.[35]

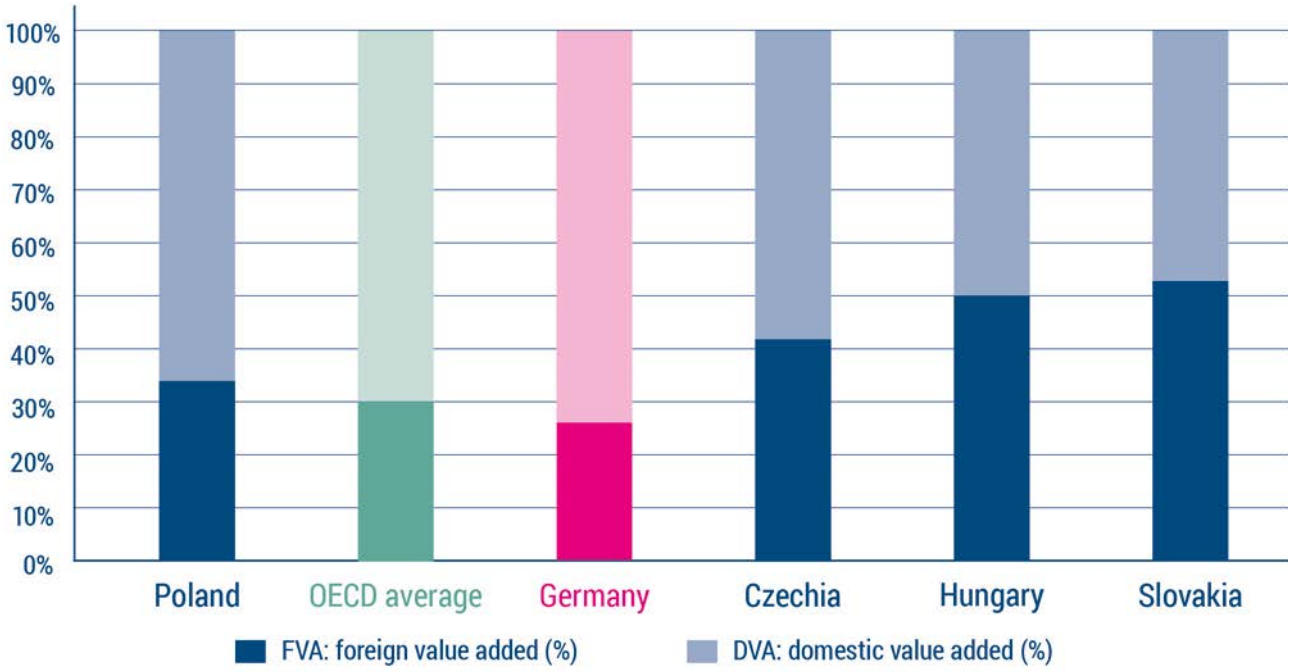
Data on what drives Polish production also undermine the claim that the country is a passive market for foreign goods. According to the latest edition of the OECD's TiVA report, foreign final demand generated 38.8% of domestic value added produced by the Polish economy in 2022, compared with an OECD average of 34.6%.[36] Almost 40% of domestic output was des-tined for other countries. For Polish enterprises, foreign markets are crucial outlets — not the other way around.

The agri-food sector provides a telling example. In 2024, Polish food exports reached EUR 53.5 billion, while imports were EUR 35.6 billion. The surplus was approximately EUR 17.9 billion, and three quarters of sales went to the EU market[37] — the same EU that, according to warnings before accession, was supposed to cause the collapse of Polish agriculture.

Is Poland a foreign assembly plant? The term "foreign assembly plant" is meant to describe a country that performs the final assembly of foreign components, with low value added and without its own capabilities while the final processing, or even simply placing a producer's label on, goods manufactured elsewhere — in Poland, for example — and then charging a high mark-up for minimal work. Data shows that this does not occur on a broad scale in Poland.

According to the OECD's TiVA data, foreign value added accounted for 33.6% of Poland's gross exports in 2022, compared to 30.4% across the OECD, while domestic value added accounted for 66.4%. The share of foreign value added was higher in Czechia (41.5%), Hungary (49.7%) and Slovakia (52.6%), but lower in Germany (25.9%). In Poland's exports of motor vehicles, the share reached 51.0%.[38] Poland's share of foreign value added is close to the OECD average — considerably more favourable than in other post-socialist countries. 66.4% of the value of Polish exports is created domestically.[39]

Figure 11 | Domestic and foreign value added in gross exports, 2022 (%)

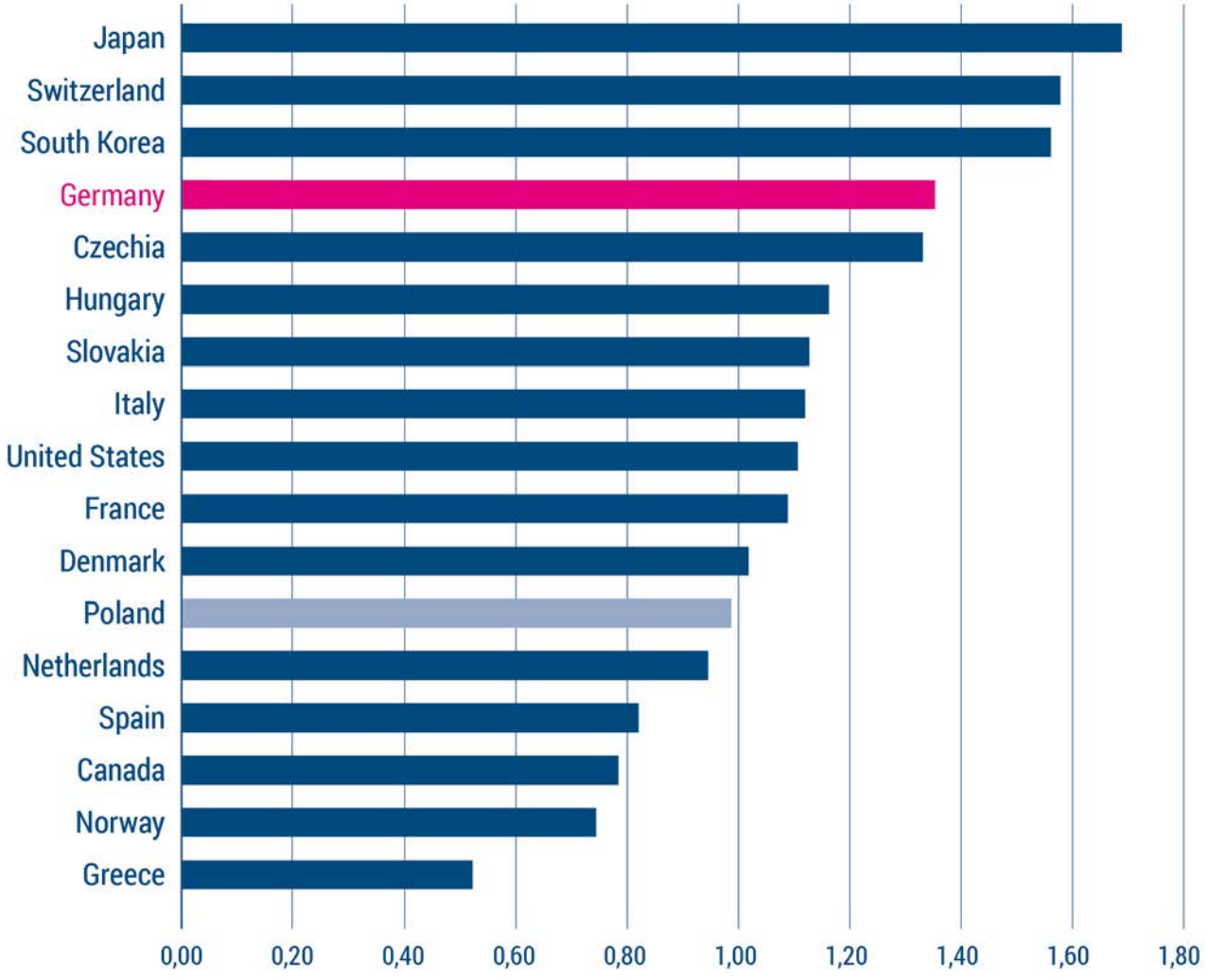


Source: own calculations based on OECD TiVA, 2025/2026 edition.[40]

An important measure is the complexity of Poland's exports — the Harvard University Economic Complexity Index, which measures the diversity and uniqueness of a country's export basket. In the 2024 Economic Complexity Index ranking, Poland scored 0.99 points and ranked 25th among 146 economies — behind Czechia (7th), Hungary (15th) and Slovakia (17th), but ahead of the Netherlands (26th), Spain (31st), Canada (35th), Norway (39th) and Greece (48th).[41]

The high positions of Central European countries contradict the claim that integration into Western value chains relegates an economy to performing the simplest tasks — the supposed role of an assembly plant. The ECI does not, however, directly measure domestic ownership of technology or firms' margins; it measures the diversity and uniqueness of the exports. Poland is therefore no longer, as it was before the transition, mainly an exporter of coal and grain.

Figure 12 | Economic Complexity Index, 2024 data (selected economies)



Source: own calculations based on Harvard Growth Lab, Atlas of Economic Complexity.

89% of household appliances produced in Poland are exported, with exports worth PLN 22.7 billion in 2025. Poland accounts for 31% of global exports of tumble dryers and 24% of dish-washers. It is the world's second-largest exporter of large household appliances after China.[42] Poland is also the world's second-largest exporter of furniture — exports amounted to EUR 12.9 billion in 2021[43] — the EU's largest exporter of electric buses, accounting for 46% of EU exports in 2020,[44] and Europe's largest producer of lithium-ion batteries, responsible for approximately 6% of global output.[45]

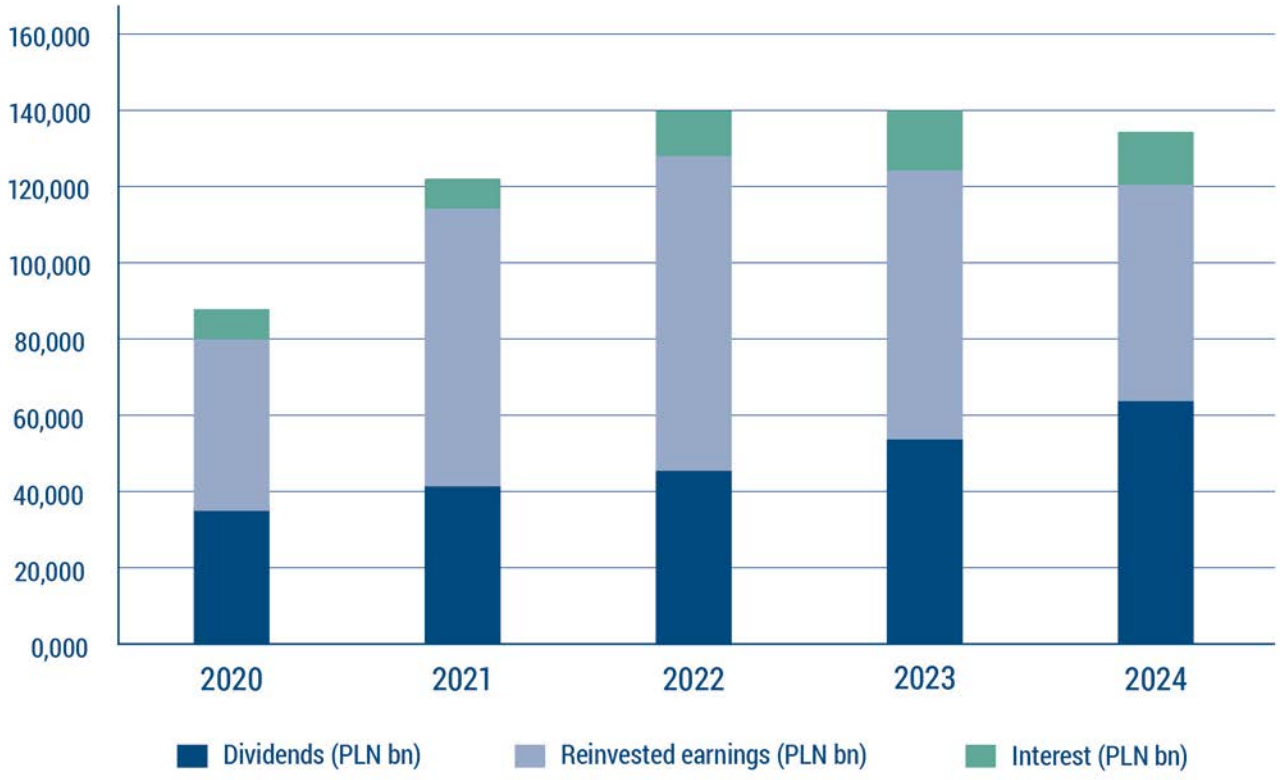
"Foreign assembly plants" do not export knowledge-intensive services either. According to ABSL, exports of knowledge-intensive business services were estimated at USD 48.4 billion in 2025, the sector as a whole accounted for 6.1% of GDP, and employment stood at approximately 0.5 million.[46]

7. Investors' income

The income that foreign investors generate in Poland is often cited as evidence that the economy has been taken over. In 2024, it amounted to PLN 135.19 billion, of which PLN 63.57 billion consisted of dividends, PLN 56.44 billion of reinvested earnings, and PLN 15.169 billion of interest.[47] The re-turn on capital is the normal compensation an investor receives for committing funds and bearing risk — just like the income generated by an individual in-vestor who buys shares in any company. An investor ties up money for a specified period, often for years, and may also lose it.

A substantial share of this income does not leave Poland. Between 2020 and 2022, reinvest-ed earnings exceeded dividends paid — in 2022, the respective figures were PLN 82.6 billion and PLN 45.6 bil-lion — while in 2024 reinvested earnings accounted for approximately 41.8% of total income.[48] Dividends paid to foreign inves-tors in 2017 were equivalent to approxi-mately 5% of the value of investment and were lower than reinvested earnings.[49]

Figure 13 | Income of foreign direct investors in Poland, 2020–2024 (PLN billion)



Source: own calculations based on NBP.[50]

An asymmetry in investment does exist — but not where proponents of "the colonisation" thesis claim it does. At the end of 2025, Poland's outward FDI stock was equivalent to 4.7% of GDP, compared to 26.3% in Czechia, 40.9% worldwide and 78.2% in the EU.[51] The income of Polish investors from abroad was PLN 11.4 billion in 2024, less than one tenth of the income earned by foreign investors in Poland.[52]

Polish firms still invest too little abroad. Only part of this problem can be attributed to uncertainty or Polish investors' lack of familiarity with other markets. The most important factor appears simply to be the persistent shortage of capital. Yet that capital will not be created by the protectionism proposed by some politicians or by chaebol-style conglomerates built through nationalisation under Law and Justice (PiS) governments. Low regulatory barriers, legal stability, reasonable taxes and protection of competition are what will allow Polish capital to accumulate.

8. Success cannot be taken for granted

Poland's continued convergence with richer economies may not be taken for granted.

Poland's investment rate in 2025 was the lowest among all post-socialist EU member states and the second-lowest in the European Union as a whole. Gross fixed capital formation was equivalent to 17,1% of GDP.[53]

Poland's most recent privatisation took place in 2015. The share of state-owned firms among a country's 100 largest companies by turnover and assets, places Poland among economies with a high level of state ownership. The state's controlling share is particularly large in the banking sector, as shown above.

The other problem lies in government deficit and debt, as well as the rising cost of servicing that debt. The spread between the yield on Polish and German ten-year government bonds is about 287 basis points, significantly higher than in the years before the pandemic.[54] The cost of debt is not an abstract accounting figure: it leaves less room for other expenditure and makes fiscal-policy errors more costly.

The European Commission's forecast of 17 November 2025 projected Polish GDP growth of 3.2% in 2025, 3.5% in 2026 and 2.8% in 2027. At the same time, the budget deficit was projected at 6.8%, 6.3% and 6.1% of GDP respectively, while public debt was projected to rise from 59.5% of GDP to 64.9% and 69.2%. Projected inflation was 3.4%, 2.9% and 3.7%; unemployment 3.1%, 3.1% and 3.0%; and the current-account balance −0.1%, −0.5% and −0.8% of GDP.[55]

Between 2017 and 2022, Poland recorded the largest fall in the Freedom House index among European countries. Czechia and Serbia also recorded declines, but markedly smaller ones. The index covers press freedom, civil liberties and political rights, among other areas. In the World Justice Project Rule of Law Index between 2015 and 2022, only Hungary recorded a larger decline; Russia, Belarus and Türkiye, among others, were also downgraded.[56]

9. Lessons to be learnt

Poland's experience is not a ready-made programme that can be transferred to Germany point by point. Germany is not in the position that Poland occupied in 1989 and is not emerg-ing from a socialist economy. Nevertheless, it is possible to identify mechanisms of general relevance: an accurate diagnosis of the problem; the importance of competition, openness and private ownership; the need for sound public finances; and the dependence of long-term growth on the quality of institutions.

The first lesson concerns the distinction between effects and causes. In Poland, the transition recession was often presented as an effect of reforms, even though the reforms responded to destabilisation and the dysfunction of the inherited system. The same error can occur elsewhere: unpopular corrective measures are blamed for problems that had emerged ear-lier and made change necessary in the first place. An honest debate should ask about the cost of inaction, rather than compare reform with an unrealistic scenario in which every benefit is preserved without incurring any cost.

The second lesson concerns the pace and coherence of reform. Poland was the first post-socialist country to return to growth and subsequently developed faster than other economies in the region. Rapid introduction of market mechanisms was crucial, rather than the long-term preservation of structures inherited from the previous system. When problems are interconnected, an isolated change may be blocked by barriers left in place elsewhere. Reform should therefore establish a credible direction, rather than amount to a series of exceptions protecting every existing structure.

The third lesson is to protect competition, not particular producers. State-owned factories did not disappear because consumers ceased to need cars, clothing or other goods. They disappeared or changed because their products, costs and sales destinations were not viable in the new environment. A policy that preserves businesses unable to attract customers transfers their costs to taxpayers and impedes the movement of labour and capital to more productive uses.

The fourth lesson concerns how the health of industry should be measured. Neither the number of major domestic brands nor employment in individual factories should be equated with the size of the sector as a whole. Output can grow even when employment falls if productivity rises. Industry's share of the economy can remain stable even as owners and product ranges change. Nostalgia is not an economic indicator.

The fifth lesson concerns openness. Starting from a position of capital scarcity and an out-dated production base, Poland attracted investment, integrated itself into

international value chains and expanded exports. Foreign-controlled firms did not dominate the entire economy, and their presence coexists with a domestic business sector that accounts for most value added and employment. Closing off an economy does not create domestic capital. It can, however, restrict investment, knowledge transfer, competitive pressure and access to markets.

The sixth lesson concerns the role of the state in economy. An effective state need not own ever more enterprises. Above all, it should establish stable rules, protect competition, property and contracts, and maintain reasonable taxes and low regulatory barriers. The Polish banking-sector example shows that an increase in the share of domestic capital may in prac-tice mean nationalisation, rather than the development of private firms. The answer to competitiveness challenges should not be to replace entrepreneurs' decisions with politi-cians' decisions.

The seventh lesson concerns public finances. A high cost of servicing debt and a large deficit constrain the capacity to respond to future crises. Sound public finances are not the opposite of growth, but one of the conditions for sustainable growth. If a state increases its obligations faster than its ability to finance them, some resources that could support private in-vestment and reduce burdens must instead be devoted to debt service.

The eighth lesson concerns the rule of law and freedom. Investment requires predictability, while entrepreneurship requires freedom to act within general rules. Institutional deterioration may not halt growth immediately, because an economy benefits from capital and capabilities accumulated earlier. Over the longer term, however, it undermines the foundations of investment. Economic freedom, competition, entrepreneurship, sound public finances and an effective but limited state are therefore not a loose catalogue of values. They form an interdependent system.

The most important lesson is therefore not to imitate Poland's policies of the early 1990s. Rather, it is about the willingness to challenge policies that fail to deliver results, even when they are supported by powerful interest groups and long-standing habits. Change is possible when diagnosis is grounded in data, the costs of inaction are visible, and policy creates room for entrepreneurship instead of attempting to replace it with state administration.

If one practical lesson for a mature economy is to be drawn from Poland's transition, it is the need to act before a crisis removes the freedom to choose. Poland reformed under conditions of extreme distress. Germany can undertake the necessary changes from a much stronger starting point.

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