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Poland Economics View

NBP and Potential Financing of Defense Spending

OUR TAKE

The central bank head and the president explored the possibility of the NBP contributing to the nation's defense budget, presenting it as an interest-free alternative to the European Union's SAFE funding. Specific operational details of this initiative remain largely undefined, but we believe the proposal might include realizing gains on gold reserves and transferring the profit to the general government sector. Nevertheless, the government appears set on utilizing the SAFE instrument, raising questions about the conditions for central bank involvement.

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Central bank governor Adam Glapinski discussed with President Nawrocki the potential involvement of the NBP in financing Poland's defense spending ([PAP](#), 4th March). According to the president, funds from the central bank could provide an alternative to the European Union's SAFE instrument.

Although the central bank governor and the president did not provide operational details, they outlined several guiding principles:

- Funds would be made available without interest, and the total amount would be equivalent to that allocated under SAFE, i.e. approximately PLN 185bn.
- The NBP governor ruled out a direct transfer of foreign exchange reserves (*"We cannot use any part of the reserves (...) in the sense that part of the reserves will be transferred, because it is against the law"*).
- The central bank is not considering bond purchases along the lines of the QE programs used during the pandemic (*"Nor can this be a repeat of the mechanism by which we supported the Polish state during COVID"*).
- The NBP governor suggested that new funding could come from the central bank's profit (*"We transfer most of the profit, 95 percent, to the government. It is used for a specific purpose. In this case, we expect it to be used to strengthen Polish defence"*).

What can be expected?

In our view, Governor Glapiński's comments clearly hint at the intention to use the central bank's profit to finance defense spending. The key obstacle is that in recent years the central bank has been running substantial losses, driven by high interest rates (costs of open market operations) and the strengthening of the zloty (unrealized losses on FX reserves which — under Polish law — reduce reported NBP profit). Although in our view recent interest rate cuts should lower OMO-related costs, this is unlikely to be sufficient to generate a significant distributable profit in the near term.

In our view one potential way for the central bank to generate sizeable profit would be through the sale of gold reserves, thereby converting unrealized valuation gains into realized gains. At the end of 2024, the NBP held nearly 450 tonnes of gold, with unrealized gains of around PLN 60bn. In 2025, the central bank added a further 102 tonnes to its reserves, while gold prices nearly doubled. Selling part of the gold stock could therefore generate profits, but such an operation would be highly dependent on market conditions and could raise credibility and reserve-management concerns.

It remains unclear whether the central bank's readiness to provide financing for defense spending is contingent on the government stepping back from the SAFE instrument. Based on initial comments from government officials ([PAP](#), 4th March), it appears that the government intends to maintain access to SAFE, treating it as the fastest and most straightforward funding channel for defense outlays.

In terms of market implications, large dividend payments from the central bank would result in a significant increase in banking sector liquidity (up by PLN 185bn from the current level of around 350bn), translating into easing of monetary conditions. However, in our view this effect would be comparable to counterfactuals - the impact of the use of SAFE instrument or any EU fund inflows. The main difference would be that the dividend from the central bank would not lead to the rise in the general government debt.

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