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Poland Economics View

Poland Monthly Economic Outlook

OUR TAKE

Inflation is expected to head towards the 2.5% target in the coming months, which should allow for further gradual monetary policy easing. The timing of rate cuts will be dependent on trends in the labour market as well as pace of economic recovery. The fiscal policy remains loose, which is viewed as pro-inflationary by the central bank.

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We estimate that GDP growth in 3Q25 picked up to 3.8% YoY from 3.3% in 2Q25. The batch of monthly data points towards strong private consumption, whereas industrial output recovered at the end of Q3. We believe that given the monthly data risks are skewed slightly to the upside as compared to our forecast. We note, however, that in the last couple of quarters net exports contributed negatively to the GDP growth and the most recent trade data do not suggest a significant turnaround before the year-end.

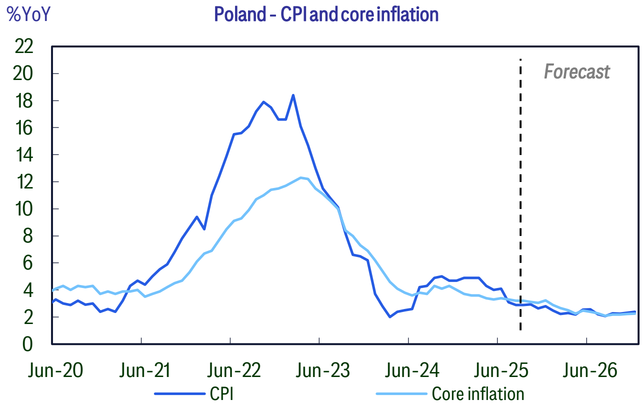
Strong economic performance is unlikely to deter the central bank from cutting rates, however it may affect the timing of the decisions. Despite some easing in wages growth since the beginning of 2025, the real wage growth remains at relatively high levels providing important support to consumer spending. We think that further deceleration in wage growth will be a gradual process, which will be supported by planned modest minimum wage increases in 2026.

We see the headline inflation remaining slightly below 3% YoY in the remainder of the year, before falling below the 2.5% target in early 2026. The central bank's staff will present its new macroeconomic projections in November, however during the October press conference Governor Glapinski presented a path that assumed an increase in October CPI to 3% YoY from 2.9% in September, and slightly above our own expectations. Inflation outlook, in our view, should not be a factor limiting the MPC's room for easing monetary policy in the near term, though we note that NBP's President suggested that in 2027 the impact of EU's ETS2 system could add as much as 2pp to annual CPI.

Following the interest rate cut in October, the MPC is going to consider whether the available data releases combined with the NBP's projections warrant further easing in 2025. We expect that given the extent of rate cuts this year (125 bps), the rate-setters may opt to pause in November to assess the impact of policy moves. The upcoming decision, however, is likely to be a close call and the FRA market is pricing in roughly 20 bps of easing. Regardless of the outcome of November meeting, we believe the NBP has room to act further, as we see the terminal rate at 3.75% around mid-2026 vs. 4.50% currently.

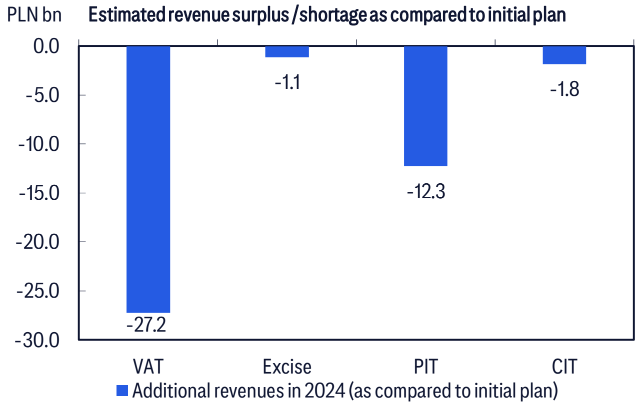
Among factors that could make the MPC hesitant to act too hastily is the fiscal situation. In the minutes of the September meeting the *"Council members assessed that the fiscal situation was a factor of considerable risk to future inflation growth, thus limiting the space for interest rate cuts"*. The general government deficit is expected to be close to 7% of GDP in 2025, according to updated government's assumptions. Although the budget draft for 2026 does not assume the 2025 deficit would exceed the annual plan, we think such a scenario is possible and a budget revision cannot be ruled out. The potential budget shortfall may come mostly from lower revenues, especially in the VAT and PIT collections. Any fiscal tightening before 2027 parliamentary election may prove difficult, as the government and the President are unlikely to reach an agreement on tax hikes.

Figure 1. Inflation is likely to head towards 2.5% target in the near term



Source: Citi Research Forecasts, Statistics Poland

Figure 2. Budget revenues shortfall vs. the annual plan may require a 2025 budget revision



Source: Citi Research Estmates, Ministry of Finance

Figure 3. Poland Economic Indicators

	2018	2019	2020	2021	2022	2023	2024	2025F	2026F
Activity									
Nominal GDP, USD bn	590	596	600	690	697	813	915	1,057	1,075
Population, mn	38.4	38.4	38.1	37.9	37.8	37.6	37.5	37.4	37.4
Real GDP, yoy avg	5.9	4.4	-2	6.9	5.3	0.2	3	3.5	3.6
Private consumption growth % yoy	4.4	3.5	-3.6	6.2	5	-0.3	2.9	3.6	3.5
Real investment growth % yoy	13.8	0.5	-7.5	19.4	7.7	-16.6	4.7	5	5
Real export growth, % yoy	6.8	5.3	-1.1	12.3	7.4	3.7	2	3.8	5.8
Real import growth, % yoy	7.5	3.2	-2.4	16.3	6.8	-1.5	4.5	3.9	5.6
Net export contribution to growth	-0.1	1.7	0.8	-1.9	0.8	4.1	-1.7	0.2	0.6
Unemployment, % of labour force	5.8	5.2	6.8	5.8	5.2	5.1	5.1	5.4	5.3
External (US$bn)									
Current account	-11.7	-1.6	14.4	-9.2	-15.7	14.6	-0.3	-13.6	-24.4
% of GDP	-2	-0.3	2.4	-1.3	-2.2	1.8	0	-1.3	-2.3
Trade balance	-6.1	-4.9	7.9	-9.1	-23.2	5.1	-6.9	-19.2	-31
FDI, net	17.4	13.7	14.8	27.3	29.3	19.5	13.1	10	10
External debt	363.6	355.8	378.1	367	375.2	428.7	459.4	483.1	489.8
Short-term debt	51.5	57	61.3	62.4	66.6	74.5	81.9	88.1	94.8
International reserves	117	128.4	154.2	166	166.7	193.8	223.1	272.8	277.3
Public Finances, % of GDP									
Consolidated government balance	-0.2	-0.7	-6.9	-1.7	-3.4	-5.3	-6.6	-6.9	-6.5
Consolidated gov primary balance	1.2	0.6	-5.6	-0.7	-1.9	-3.2	-4.4	-4.3	-3.6
Public debt	45.8	42.8	47.1	43.2	39	38.9	44.3	48.9	53.8
External public debt	24.3	21.8	22.3	17.4	17.1	17.5	18	13.2	13
Prices									
CPI, %yoy, eop	1.1	3.4	2.4	8.6	16.6	6.2	4.7	2.8	2.4
CPI, %yoy, avg	1.6	2.3	3.4	5.1	14.3	11.5	3.6	3.7	2.3
PLN/EUR, eop	4.29	4.25	4.56	4.59	4.69	4.34	4.28	4.26	4.29
PLN/EUR, avg	4.26	4.3	4.44	4.57	4.68	4.54	4.31	4.24	4.29
Policy Interest Rate, % eop	1.5	1.5	0.1	1.75	6.75	5.75	5.75	4.5	3.75
Long-term yield, %, eop	2.81	2.07	1.25	3.71	6.88	5.25	5.89	5.3	4.7
Nominal wages, % yoy	7.1	6.5	4.7	8.8	13	11.9	11	8.2	5.7
Quarterly Economic Indicators									
	2024 Q4	2025 Q1	2025 Q2F	2025 Q3F	2025 Q4F	2026 Q1F	2026 Q2F	2026 Q3F	2026 Q4F
GDP, % yoy	3.5	3.2	3.3	3.8	3.4	3.6	3.8	3.5	3.3
CPI, %yoy, avg	4.8	4.9	4.1	3	2.8	2.3	2.4	2.2	2.3
PLN/EUR, eop	4.28	4.19	4.25	4.27	4.26	4.27	4.29	4.29	4.29
Policy interest rate, %, eop	5.75	5.75	5.25	4.75	4.5	4	4	3.75	3.75

Source: Citi Handlowy Forecasts, National Sources

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