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Poland Economics View

Poland Monthly Economic Outlook

OUR TAKE

Tightening of fiscal policy seems less likely following the presidential election result. The National Bank of Poland is expected to cut rates further in the following months, albeit the pace might prove slower than initially expected and the terminal rate may be set higher than previous forecasts assumed.

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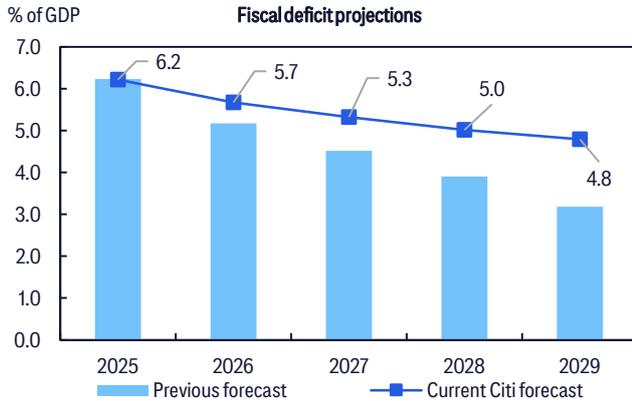
We expect Polish GDP growth in 2025 to be close to 4%. Our [2025 full-year forecast](#) stands now at 3.7% (small downward adjustments vs. last month's expectations), as we think that robust private consumption and improved investment activity could lead to ongoing improvement from 3.2% YoY growth recorded in 1Q25. We have recently upgraded our next year forecast to 3.7% (from 3.2%) as we believe accommodative fiscal policy in Poland could positively affect demand, whereas EU fund flows appear set to support investments. Risks to our scenario are linked to global impact of US trade tariffs as well as relations with the EU. Nevertheless, we do not expect the European Commission to block EU funds even if the government could not deliver the judiciary reform.

We do not expect material fiscal tightening in the near term. The fiscal deficit last year amounted to 6.6% of GDP, and we see it declining only slightly in 2025E to 6.2%. In our view, the government's plan to narrow the deficit to below 3% of GDP by the end of 2028 may be unattainable. The newly elected president has signaled opposition to any tax hikes, which may limit the possibility to increased budget revenues. On the other hand, the ruling coalition may not be planning significant spending cuts given the prospect of 2027 parliamentary elections in sight. Taking this into account, we expect no additional fiscal efforts beyond what were already approved (small changes in excise duties and freezing of tax brackets). We believe these can at best lead to reduction of the deficit by 0.3%-0.4% of GDP annually, vs. implied government's target of 1% of GDP per year.

Inflation declined to 4% YoY in May and seems set to decline further in 2H25E. We assume that already in July headline inflation could fall towards the +/-1pp. tolerance band around the 2.5% target and move below 3% by year-end. Momentum in core inflation declined substantially over the course of the past couple of months and we estimate it is now consistent with the central bank's target. On top of that, in July the base effect of last year's energy prices hike should kick in, which would be further amplified by lower gas tariff, according to the Energy Regulator Office's announcement. Nevertheless, we recently lifted our inflation path for the second part of the year slightly, given the rise in oil prices.

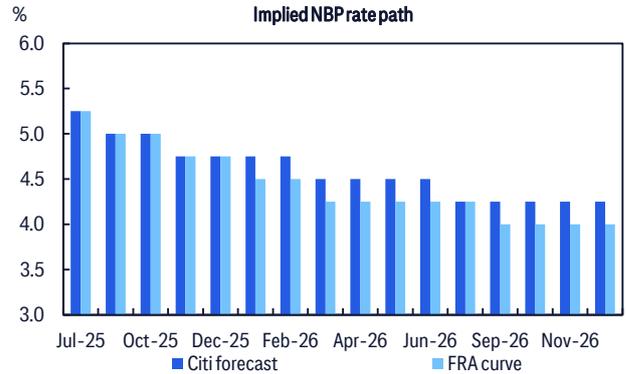
Inflation trajectory leaves space for rate cuts but comments from NBP officials suggest the central bank likely prefers to err on the side of caution. Despite the favourable inflation outlook, the rate setters seem to be focusing on medium-term risks. Local risk factors are mostly linked to a loose fiscal stance as well as only a gradual decline in inflation expectations given still strong labour market. Globally, the uncertain impact of trade tariffs as well as volatility in commodity prices may act as deterrents for too hasty rate cuts. We now expect that after a 50bps adjustment in May, the MPC will shift to 25bps steps and would resume the cycle in Sep. We also expect that terminal rate would be set above 4% while the FRA curve pricing is implying reference rate at the end of 2026 at ~3.75%.

Figure 1. Fiscal deficit is expected to stay significantly above 4% in the foreseeable future



Source: Citi Handlowy Forecasts, Eurostat, European Commission

Figure 2. The FRA curve is still implying larger rate cuts than our forecasts



Source: Citi Handlowy Forecasts, Bloomberg

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	1,056	1,131
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	-2.0	6.9	5.3	0.1	2.9	3.7	3.7
Private consumption growth % yoy	4.4	3.5	-3.6	6.2	5.0	-0.3	3.1	3.6	3.5
Real investment growth % yoy	13.8	0.5	-7.5	19.4	7.7	-16.6	4.0	5.0	5.0
Real export growth, % yoy	6.8	5.3	-1.1	12.3	7.4	3.7	2.0	3.8	5.8
Real import growth, % yoy	7.5	3.2	-2.4	16.3	6.8	-1.5	4.2	3.9	5.6
Net export contribution to growth	-0.1	1.7	0.8	-1.9	0.8	4.1	-1.5	0.2	0.6
Unemployment, % of labour force	5.8	5.2	6.8	5.8	5.2	5.1	5.1	5.3	5.1
External (US\$bn)									
Current account	-13.4	-1.6	16.9	-10.1	-17.6	13.7	3.4	-2.6	-1.6
% of GDP	-2.3	-0.3	2.8	-1.5	-2.5	1.7	0.4	-0.2	-0.1
Trade balance	-6.1	-5.5	9.2	-10.4	-26.9	7.3	1.7	-2.1	-1.4
FDI, net	17.4	13.7	14.8	27.3	29.3	19.5	10.7	10.0	10.0
External debt	363.6	355.8	378.1	367.0	375.2	428.7	459.4	483.1	489.8
Short-term debt	51.5	57.0	61.3	62.4	66.6	74.5	81.9	88.1	94.8
International reserves	117.0	128.4	154.2	166.0	166.7	193.8	223.1	275.8	282.6
Public Finances, % of GDP									
Consolidated government balance	-0.2	-0.7	-6.9	-1.7	-3.4	-5.3	-6.6	-6.2	-5.7
Consolidated gov primary balance	1.2	0.6	-5.6	-0.7	-1.9	-3.2	-4.4	-3.6	-2.9
Public debt	45.8	42.8	47.1	43.2	39.0	38.9	44.3	47.4	50.7
External public debt	24.3	21.8	22.3	17.4	17.1	17.5	18.0	13.3	12.4
Prices									
CPI, %yoy, eop	1.1	3.4	2.4	8.6	16.6	6.2	4.7	2.9	2.2
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	4.24	4.29
PLN/EUR, avg	4.26	4.30	4.44	4.57	4.68	4.54	4.31	4.23	4.26
Policy Interest Rate, % eop	1.50	1.50	0.10	1.75	6.75	5.75	5.75	4.75	4.25
Long-term yield, % eop	2.81	2.07	1.25	3.71	6.88	5.25	5.89	5.10	4.60
Nominal wages, % yoy	7.1	6.5	4.7	8.8	13.0	11.9	11.0	7.9	6.1
Quarterly Economic Indicators									
	2024 Q4	2025 Q1	2025 Q2F	2025 Q3F	2025 Q4F	2026 Q1F	2026 Q2F	2026 Q3F	2026 Q4F
GDP, % yoy	3.4	3.2	3.5	4.3	3.8	4.1	3.6	3.5	3.4
CPI, %yoy, avg	4.8	4.9	4.1	3.0	2.9	2.4	2.5	2.1	2.2
PLN/EUR, eop	4.28	4.19	4.26	4.24	4.24	4.23	4.25	4.27	4.29
Policy interest rate, %, eop	5.75	5.75	5.25	5.00	4.75	4.50	4.50	4.25	4.25

Source: Citi Handlowy Forecasts, National Sources

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