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Poland Economics View

Poland Monthly Economic Outlook

OUR TAKE

Economic growth at the end of 2024 proved robust and further improvement is likely in 2025 as investments accelerate. Inflation at the beginning of the year surprised to the upside and the MPC may hesitate to cut rates in the first half of the year, but the cycle is still likely to begin this year.

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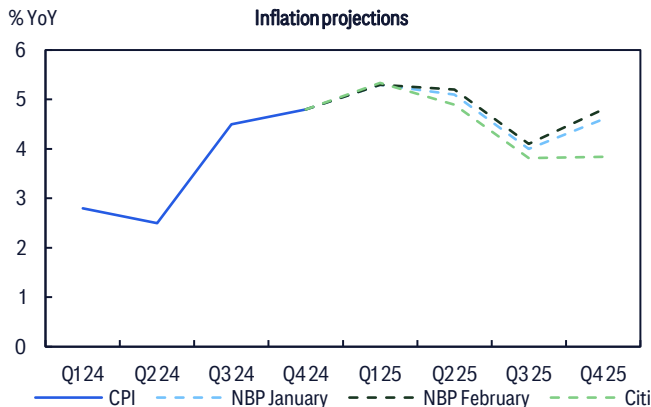
Poland's GDP increased by 2.9% in full 2024 thanks to robust end of the year as 4Q24 growth amounted to 3.2% YoY. We expect this strong performance to continue this year and we see 1Q25 GDP increasing by 3.3% YoY, whereas in the full year we look for 3.8% growth. Private consumption, in our view, will continue to grow by close to 3% YoY, while a rebound in investments should be more pronounced than in 2024. We expect that flow of the EU funds throughout the year should allow for strong pickup in fixed investments. Wage growth seems to still hold strong, however, the minimum wage increase of 8.5% in January this year is much smaller than at the beginning of 2024 (17.8%). Real wage growth is likely to slow down somewhat, and we expect that at the beginning of the year it will hover around 2%-3% YoY.

Headline inflation in January increased to 5.3% YoY from 4.7% in December. The uptick in inflation was expected due to a hike in excise duties, but higher food and energy prices also contributed to the upwards move. The January print should be subject to revision due to update of the inflation basket and we note that in the last five years the headline inflation was on average revised lower by 0.14pp. Nevertheless, throughout the 1Q25 we see inflation slightly above 5% and a significant downwards move is likely in 2H25 when we expect that CPI will move to approx. 4% YoY. Core inflation is still quite sticky, but we expect it will move closer to 3.5%, which is the upper band of NBP fluctuations around the 2.5% target.

The rhetoric coming from the Monetary Policy Council is still hawkish as there seems to be no majority for rate cuts yet. Conditions for rate cuts as suggested by the NBP's Governor are: 1) falling inflation and 2) projections for lack of inflation rebound. The rate-setters see inflation risks in the near term, especially for energy prices which are set to be further unfrozen in 2H25. We believe that the rise in inflation that NBP fears in 4Q25 is unlikely to materialize given the current market energy prices. We expect that there will be room for rate cuts in the second half of the year and we see the first move likely coming in July.

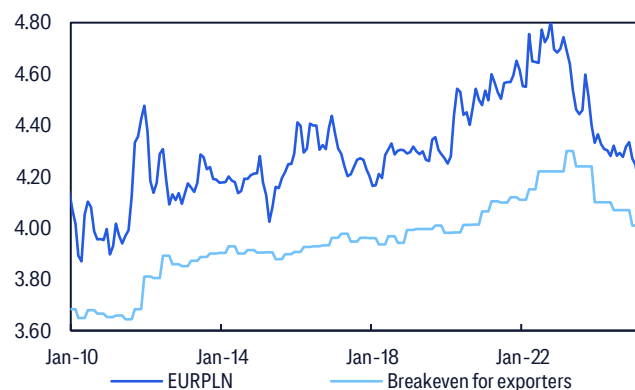
Strength of the zloty may be among factors that will lead the monetary authorities to consider rate cuts. Although the NBP does not see recent PLN strength as a problem, anecdotal evidence suggests that exports may be thwarted by strong local currency. The Zloty has enjoyed a strong performance since the beginning of the year as it strengthened by ~3% vs. the euro. The Zloty also outperformed Czech koruna and Hungarian forint, which we attribute not only to somewhat hawkish MPC stance in Poland, but also to market perception of possible end of conflict in Ukraine. Although Poland may benefit from increased reconstruction activity in Ukraine we believe investors may be overly optimistic about the size and macroeconomic impact of those contracts. If involvement in reconstruction projects is proportional to assistance provided, the Poland's allocation would be less than 0.5% of GDP annually.

Figure 1. Lack of inflation rebound in 4Q25 should support gradual monetary policy easing



Source: Citi Handlowy Forecasts, National Bank of Poland

Figure 2. Polish zloty is gradually becoming too strong from the perspective of local exporters



Source: Citi Handlowy Forecasts, Statistics Poland

Figure 3. Poland Economic Indicators

	2018	2019	2020	2021	2022	2023	2024	2025F	2026F
Activity									
Nominal GDP, USD bn	590	596	600	682	690	809	907	938	1,015
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	3.8	3.4
Private consumption growth % yoy	4.4	3.5	-3.6	6.2	5.0	-0.3	3.1	3.5	2.9
Real investment growth % yoy	13.8	0.5	-7.5	19.4	7.7	-16.5	4.8	7.0	5.7
Real export growth, % yoy	6.8	5.3	-1.1	12.3	7.4	3.7	1.0	4.3	5.8
Real import growth, % yoy	7.5	3.2	-2.4	16.3	6.8	-1.5	3.5	5.1	5.4
Net export contribution to growth	-0.2	1.6	0.8	-2.0	0.7	4.0	-1.8	-0.3	0.6
Unemployment, % of labour force	5.8	5.2	6.8	5.8	5.2	5.1	4.9	5.0	5.1
External (US\$bn)									
Current account	-13.4	-1.6	16.9	-10.1	-17.6	13.7	3.4	-2.4	-1.4
% of GDP	-2.3	-0.3	2.8	-1.5	-2.6	1.7	0.4	-0.3	-0.1
Trade balance	-6.1	-5.5	9.2	-10.4	-26.9	7.3	1.7	-2.2	-1.5
FDI, net	17.4	13.7	14.8	27.3	29.3	19.5	9.0	10.0	10.0
External debt	363.6	355.8	378.1	367.0	375.2	428.7	457.5	478.8	-
Short-term debt	51.5	57.0	61.3	62.4	66.6	74.5	79.5	83.8	-
International reserves	117.0	128.4	154.2	166.0	166.7	193.8	200.8	216.9	-
Public Finances, % of GDP									
Consolidated government balance	-0.2	-0.7	-6.9	-1.8	-3.5	-5.3	-5.8	-6.1	-4.9
Consolidated gov primary balance	1.2	0.6	-5.6	-0.7	-1.9	-3.0	-3.4	-3.4	-2.2
Public debt	46.3	43.3	47.6	43.7	39.3	38.9	43.3	47.6	50.6
External public debt	24.3	21.8	22.3	17.6	17.3	17.6	15.2	14.9	-
Prices									
CPI, %yoy, eop	1.1	3.4	2.4	8.6	16.6	6.2	4.7	4.0	2.7
CPI, %yoy, avg	1.6	2.3	3.4	5.1	14.3	11.5	3.6	4.5	3.1
PLN/EUR, eop	4.29	4.25	4.56	4.59	4.69	4.34	4.28	4.25	4.29
PLN/EUR, avg	4.26	4.30	4.44	4.57	4.68	4.54	4.31	4.23	4.28
Policy Interest Rate, % eop	1.50	1.50	0.10	1.75	6.75	5.75	5.75	5.00	4.00
Long-term yield, % eop	2.81	2.07	1.25	3.71	6.88	5.25	5.89	5.20	4.80
Nominal wages, % yoy	7.1	6.5	4.7	8.8	13.0	11.9	11.4	8.4	6.5
Quarterly Economic Indicators									
	2024 Q4	2025 Q1	2025 Q2F	2025 Q3F	2025 Q4F	2026 Q1F	2026 Q2F	2026 Q3F	2026 Q4F
GDP, % yoy	3.2	3.3	3.2	4.4	4.3	4.0	3.5	3.2	2.9
CPI, %yoy, avg	4.8	5.3	4.9	3.8	3.8	3.5	3.3	2.9	2.8
PLN/EUR, eop	4.28	4.20	4.22	4.24	4.25	4.26	4.27	4.28	4.29
Policy interest rate, %, eop	5.75	5.75	5.75	5.25	5.00	4.50	4.25	4.00	4.00

Source: Citi Handlowy Forecasts, National Sources

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