

6 December 2024 | 4 pages

Poland Economics View

Poland Monthly Economic Outlook

OUR TAKE

We expect that economy will continue to improve next year, with GDP growth slightly above the potential. After a brief increase the inflation is likely to decline towards the upper band of the central bank's target, allowing for rate cuts in 2025. Fiscal story is less promising, as Poland plans to materially lower its deficit-to-GDP ratio only from 2026 onwards.

Piotr Kalisz, CFA

+48-22-692-9633

piotr.kalisz@citi.com

Arkadiusz Trzciolek

+48-22-657-7750

arkadiusz.trzciolek@citi.com

Aleksandra Siuzdak

aleksandra.siuzdak@citi.com

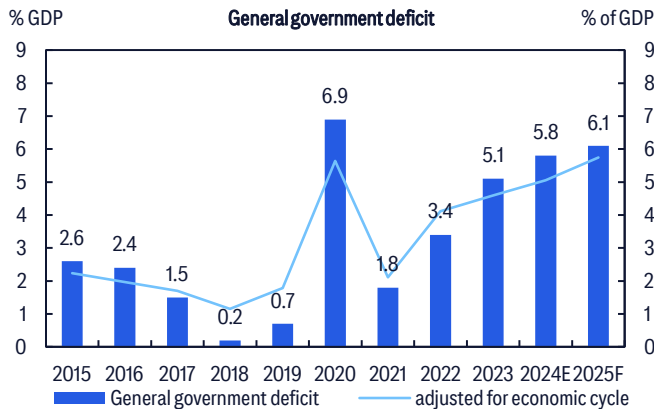
We expect the real GDP in Poland to increase in 2025 by 3.8% YoY. The private consumption, which led the economic growth since early 2024, proved disappointing in the second half of the year. Nevertheless, we expect that robust real wage growth (averaging close to 4% in full year) will drive increases in disposable income towards consumption, as households have already rebuilt their savings towards pre-pandemic levels. In our view, the investment pick up will likely push GDP growth above the potential (which we estimate somewhere in the range of 3%-3.5%). The cycle of EU budget funds flow should be already mature in 2025 and additionally, the delayed transfers coming from EU's RRF should also be allocated towards investment projects. The main source of risk to our forecast comes from the impact of US tariffs (and retaliation actions from other countries) on global trade and GDP growth. Although Poland's trade exposure to the US is not large, the indirect impact on demand coming from EU peers may be more pronounced.

Despite the strong nominal GDP growth, we do not see an improvement in fiscal profile. We expect fiscal deficit to increase to 6.1% of GDP (vs. 5.8% estimated in 2024), whereas government Budget and Structural Plan called for a slight improvement to 5.5%. In our view, projects that the government has already announced combined with the presidential election and still large military purchases are unlikely to translate into budget consolidation. A stronger fiscal effort is possible from 2026 onwards, though the credibility of these plans will be possible to assess only in 2H25, once details of 2026 budget will be announced.

Inflation is likely to fall towards 3.5% (the upper band of inflation target) by the end of next year. Although, we see inflation rising briefly back above 5% YoY in early 2025, our path for next year assumes a decline after the peak in 1Q25. The government has already presented a project of extending energy price caps which should lower the inflation by approx. 1pp as compared to counterfactuals. Core inflation seems to be more sticky, likely resulting from still strong nominal wage growth (we see it in high single-digit territory) that is visible especially in the services categories. Nevertheless, in our forecasts the inflation excluding food, energy and fuel prices may decline by up to 0.5pp as compared to end-of-2024.

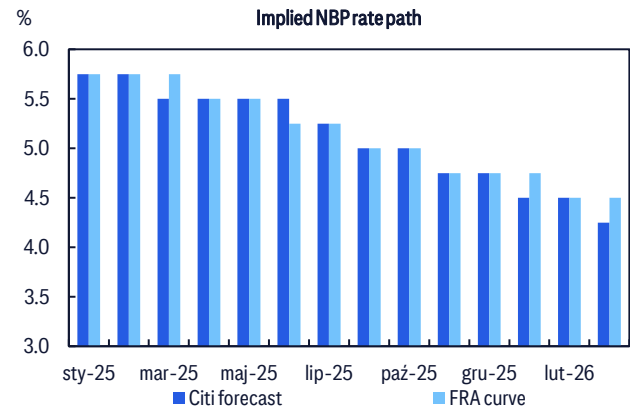
We expect that rate cuts will be resumed in 2025. In baseline scenario we assume that the Monetary Policy Council will cut rates by 25bps in March, ending a long pause in monetary policy easing (last cut was delivered in October 2023). We expect a total of 100 bps of easing in 2025. Nevertheless, risks are skewed towards delaying the rate further into 2025. The rate-setters are conditioning the start of the easing cycle on the inflation outlook. Policymakers believe that government bill that will extend energy prices caps until the end of September may result in an upwards move in inflation in 4Q25 and move away from the target. In that scenario, MPC may delay the start of the rate cutting by a couple of months and then it will be forced to cut much faster in 2026 when the impact of high real rates is likely to be reinforced by the planned fiscal tightening (1% of GDP). From macroeconomic point of view we expect the case for rate cuts in Poland is likely to grow over time. The core inflation momentum has recently dropped below 4%, while weak economic activity suggests this trend may gradually continue in the coming months.

Figure 1. Despite the strong nominal GDP growth, we do not see an improvement in fiscal profile



Source: Citi Handlowy Forecasts, Ministry of Finance

Figure 2. We expect 100 bps worth of easing in 2025, similar to prevailing market pricing



Source: Citi Handlowy Forecasts, Refinitiv

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	909	978	1,077
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	2.5	3.8	3.4
Private consumption growth % yoy	4.4	3.5	-3.6	6.2	5.0	-0.3	3.0	3.5	2.9
Real investment growth % yoy	13.8	0.5	-7.5	19.4	7.7	-16.5	2.0	7.0	5.7
Real export growth, % yoy	6.8	5.3	-1.1	12.3	7.4	3.7	1.2	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	-1.6	-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	-2.5	-1.5
% 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	207.4	223.7	-
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	14.3	-
Prices									
CPI, %yoy, eop	1.1	3.4	2.4	8.6	16.6	6.2	4.8	3.6	2.7
CPI, %yoy, avg	1.6	2.3	3.4	5.1	14.3	11.5	3.6	4.4	3.1
PLN/EUR, eop	4.29	4.25	4.56	4.59	4.69	4.34	4.30	4.32	4.33
PLN/EUR, avg	4.26	4.30	4.44	4.57	4.68	4.54	4.30	4.32	4.33
Policy Interest Rate, % eop	1.50	1.50	0.10	1.75	6.75	5.75	5.75	4.75	3.75
Long-term yield, % eop	2.81	2.07	1.25	3.71	6.88	5.25	5.40	4.90	4.80
Nominal wages, % yoy	7.1	6.5	4.7	8.8	13.0	11.9	11.0	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	2.4	3.3	3.2	4.4	4.3	4.0	3.5	3.2	2.9
CPI, %yoy, avg	4.8	5.3	4.8	3.7	3.7	3.5	3.3	2.9	2.8
PLN/EUR, eop	4.30	4.31	4.31	4.32	4.32	4.32	4.33	4.33	4.33
Policy interest rate, % eop	5.75	5.50	5.50	5.00	4.75	4.25	4.00	3.75	3.75

Source: Citi Handlowy Forecasts, National Sources

Chief Economist Office

Piotr Kalisz, CFA

Chief Economist
+48 (22) 692-9633
piotr.kalisz@citi.com

Arkadiusz Trzciotek, CFA

Senior Economist
+48 (22) 657-7750
arkadiusz.trzciotek@citi.com

Aleksandra Siuzdak

Intern
aleksandra.siuzdak@citi.com

Citi Handlowy

Senatorska 16, 00-923 Warszawa, Polska

This material was prepared by the employees of Bank Handlowy w Warszawie S.A. Any data, information, comments, hypotheses have been developed for information purposes only and constitute neither an offer nor enticement to execute any transactions with the Bank.

This document has been issued for information purposes only and is not an offer in the meaning of Article 66 of the Civil Code. The terms and conditions presented in this document constitute a basis for negotiations only and may be amended. Binding terms and conditions shall be presented in the final draft agreement concerning a transaction and/or in a confirmation of transaction. They do not constitute any investment or financial analysis either, or any other recommendation of a general nature concerning transactions in financial instruments referred to in Article 69 clause 4 sub-clause 6 of the Act on Trading in Financial Instruments of 29 July 2005, or any 'information recommending or suggesting an investment strategy', or any 'investment recommendation' in the meaning of Regulation (EU) No. 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse. This material is not an investment research or a marketing communication within the meaning of article 36 of the Commission Delegated Regulation (EU) 2017/565 of 25 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council as regards organizational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive.

All presented information is based on sources commonly regarded as reliable. The Bank made its best efforts to prepare the presented information adequately, completely and duly, however the Bank does not guarantee the adequacy or completeness of the material, especially in case any information this document is based on is considered incomplete. Any terms and conditions presented in this document are only for discussion and may change. All hypotheses contained in this document constitute an assessment for the date of publication and may be subject to change without notice.

It is exclusively Client responsibility to make the final decision whether or not to enter into a transaction and for the final result of investment decision taken based on information contained in this material.

The information contained in this publication which refers to past listings or performance of investments in a given instrument, financial index or indicator does not constitute a guarantee that the listings or performance of investments in the same instrument, index or indicator will follow the same or even a comparable trend in the future.

All the hypotheses presented are based on certain hypothetical assumptions, in particular in relation to future events or market conditions. As such assumptions adopted may fail to materialize, actual quotations and results associated with investments in the financial instruments, indices or ratios presented, may divert considerably from the values presented.

The Bank or any other subsidiary of Citigroup Inc. may occur to be an issuer or creator for identical or similar to those described in this document financial instruments. The Bank (or any other subsidiary of Citigroup Inc., or its directors, officers or employees) may be involved or may make an investment in buying or selling the financial instruments described in this document. The Bank may conclude transactions which are opposite to transactions concluded by the Client and which may or may not affect negatively the market price of a financial instrument, interest rate, index, foreign exchange rate or any other underlying market parameter (hedging). The Bank has developed policies and measures for conflict of interest management.

The Bank does not act as an advisor or a broker in financial instruments described in this market comments. The Bank certifies that the information contained in the presented document accurately reflect his own hypotheses and that it has not received any remuneration from issuers or creators of instruments, either directly or indirectly.

The Bank has not developed this market commentary based on the individual situation of the customer and not evaluated its adequacy for a Client with regard to any financial instrument described in this market comments, even if the Bank was in a possession of information as to the adequacy of certain financial instruments, investment strategy, etc. The Bank reserves the right to discontinue the distribution of market comments to selected or all customers.

Copying and distributing this document, in part or in whole, is only authorized upon the prior written consent of the Bank, except where the disclosure of this document is mandatory in legal or administrative proceedings.

Bank Handlowy w Warszawie S.A. is supervised by the Polish Financial Supervision Authority (KNF).

Citi and Citi Handlowy are registered trademarks of Citigroup Inc., used under the license. Citigroup Inc. and its subsidiaries shall also hold the rights to certain trademarks used herein. Bank Handlowy w Warszawie S.A. with its registered office in Warsaw, at ul. Senatorska 16, 00-923 Warsaw, entered in the Register of Entrepreneurs of the National Court Register maintained by the District Court for the Capital City of Warsaw in Warsaw, 12th Commercial Division of the National Court Register, KRS 000 000 1538, Tax Identification Number NIP 526-030-02-91, with fully paid-up share capital amounting to PLN 522,638,400.