

POLAND | MACRO OUTLOOK

# Growth momentum continues while inflation jumps

Investments surprise to upside  
Governor reconsiders hawkish position  
Larger deficits in '24 and '25  
Stable zloty for time being

Economy (%)	2024e	2025e	2026e
GDP (real, y/y)	3.2	3.7	3.1
Unempl. Rate	5.1	5.0	5.0
CPI (y/y)	3.8	3.7	2.5
Retail Sales (y/y)	5.5	4.0	3.0
Ind. Prod. (y/y)	2.2	3.5	4.0
Public Debt/GDP	54.0	58.0	62.0

Source: Erste Group Research

Market	Spot	24Q4	25Q1	25Q2
EUR/PLN	4.28	4.25	4.30	4.30
USD/PLN	3.89	3.70	3.71	3.71
Target Rate (%)	5.75	5.75	5.75	5.50
3M Rate (%)	5.85	5.85	5.80	5.60
2Y Bond (%)*	4.60	4.80	4.80	4.60
5Y Bond (%)*	4.92	5.10	4.90	4.60
10Y Bond (%)*	5.14	5.30	5.20	5.00

Source: FactSet, Erste Group Research

Rating	Current	Outlook
Moodys	A2	stable
S&P	A-	stable
Fitch	A-	stable

Source: Erste Group Research

General	2024
Population mn	37.5
GDP/Capita EUR	22,787

Source: Erste Group Research

Spot Rates as of:  
11th Sep. 2024

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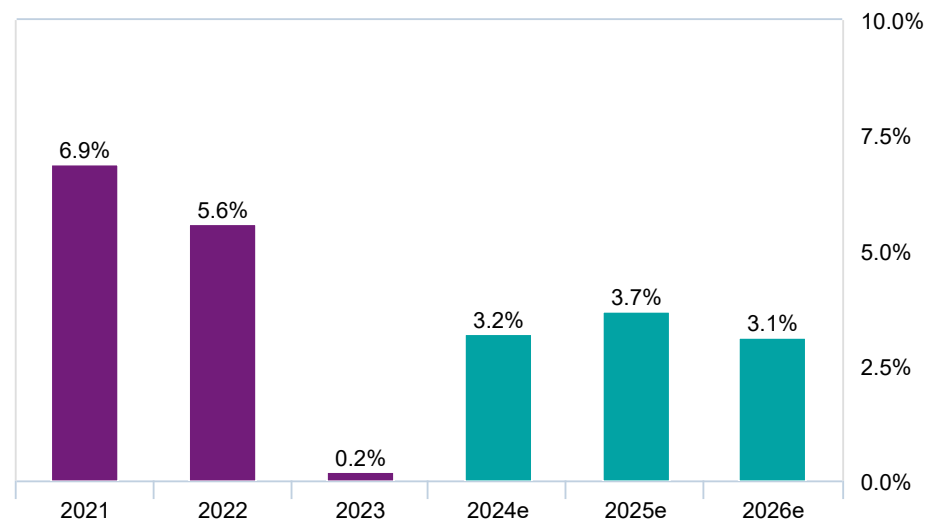
Note:

\*Information on past performance is not a reliable indicator for future performance. Forecasts are not a reliable indicator for future performance.

The Polish economy continues its robust recovery, achieving a 3.2% growth rate in the second quarter. This growth was primarily driven by private and public consumption, with investments also exceeding expectations. Despite the pro-inflationary nature of this growth structure, inflation surged due to the deregulation of energy prices for households. Consumer prices rose above 4% in July, with an anticipated start of the return to the target only by mid-2025. The budget draft for 2025, which projects a deficit of 5.5% indicates that the pace of government consumption will not decelerate in the near future.

The response of the monetary policymakers has been rather moderate. In recent months, the NBP governor made several hawkish claims but changed the tone during the last press conference. Currently, we anticipate the first key rate reduction to occur around the middle of next year. It appears that the market shares a similar view, as the dovish turnaround from the governor did not unsettle the FX market. We expect the EURPLN rate to remain stable in the medium term. On the political front, both major parties are preparing for the presidential election, scheduled for May 2025.

## GDP (real,y/y)



Source: Erste Group Research

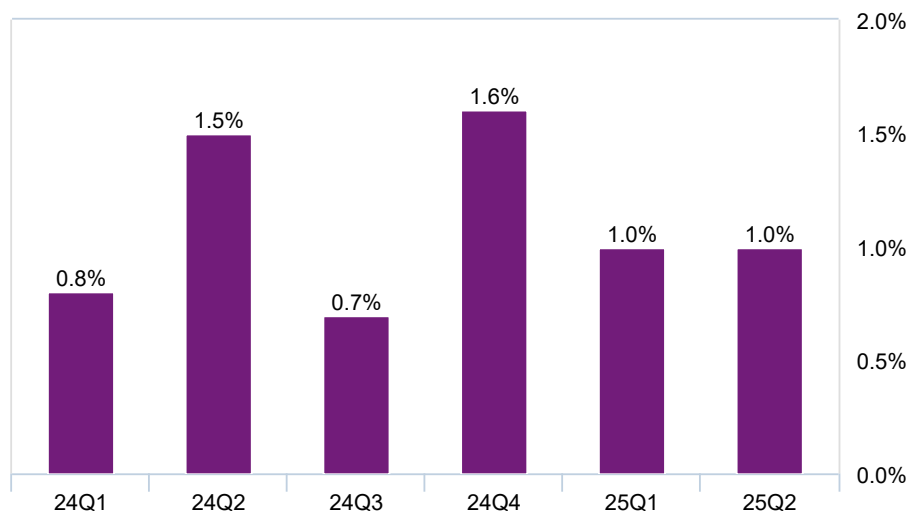
## GDP

### Investments surprise to upside

The annual growth for 2Q has been confirmed at 3.2% (previous year's prices) and 4% (constant prices of 2015), reflecting a robust quarterly momentum of 1.5% (2015 prices, seasonally-adjusted). Private consumption, anticipated to be the primary driver of economic growth in 2024, maintained its pace from the first quarter, expanding by 4.7% y/y. The public sector also significantly contributed to the 2Q GDP, with expenditure increasing by 10.7% y/y (compared to 10.9% in 1Q), adding 2 percentage points. Investments exceeded expectations, growing by 2.7% y/y, while inventories subtracted 1.1 percentage points. Lastly, net trade was negative, due to adverse external demand.

Our growth forecast for 2024 has been revised upward from 2.8% to 3.2%, primarily due to larger than expected public consumption and increased investment growth. Despite rather mixed data on retail sales and industry, consumption is expected to remain strong. Consumers appear to be shifting their spending more towards services, while the rebuilding of savings continues. We have kept the outlook for 2025 at 3.7%, with risks tilted to the upside. While consumption is anticipated to moderate, the RRF and Cohesion Funds, along with expansionary fiscal policy, will support investment activities.

### GDP (real, s.a., q/q)



Source: Erste Group Research

Annual	2022	2023	2024e	2025e	2026e
GDP real	5.6%	0.2%	3.2%	3.7%	3.1%
CPI (y/y)	14.4%	11.4%	3.8%	3.7%	2.5%
Private Consumption	5.4%	-1.0%	4.6%	3.2%	3.5%

Source: Erste Group Research

## Inflation

### Inflation jumped in July, slight increase still expected

Following the unfreezing of energy prices in July, annual inflation rose to 4.2%. While price growth remained stable in August, we anticipate a slight increase towards the end of the year. Inflation could reach approx. 5% in 1Q25, driven by a combination of unfavorable base effects and elevated price pressures from the services sector. Prices for services are likely to remain under upward pressure for the next few quarters, as wage growth continues to be strong. Additionally, the NBP has highlighted the risk of elevated inflation expectations becoming entrenched, due to higher energy prices. However, we consider this scenario to be a tail risk.

## Monetary Policy

### Governor reconsiders hawkish position

Despite the MPC's decision not to change the key interest rate anytime soon, there has been considerable discussion about potential steps in 2025. Most recently, during the press conference following September's MPC meeting, the governor signaled a softening of his stance. Initially, he mentioned a scenario of unchanged rates in 2025. However, after a more moderate inflation increase than expected and pushback from other MPC members, Glapinski now views mid-2025 as the most likely time to begin rate reductions. These statements align with our projections, as we anticipate the first cut occurring in 2Q, likely by 25 basis points.

## Short Term Yields



Source: FactSet, Erste Group Research

Market (%)	Spot	24Q4	25Q1	25Q2	25Q3
Target Rate	5.75	5.75	5.75	5.50	5.25
3M Rate	5.85	5.85	5.80	5.60	5.30

Source: FactSet, Erste Group Research

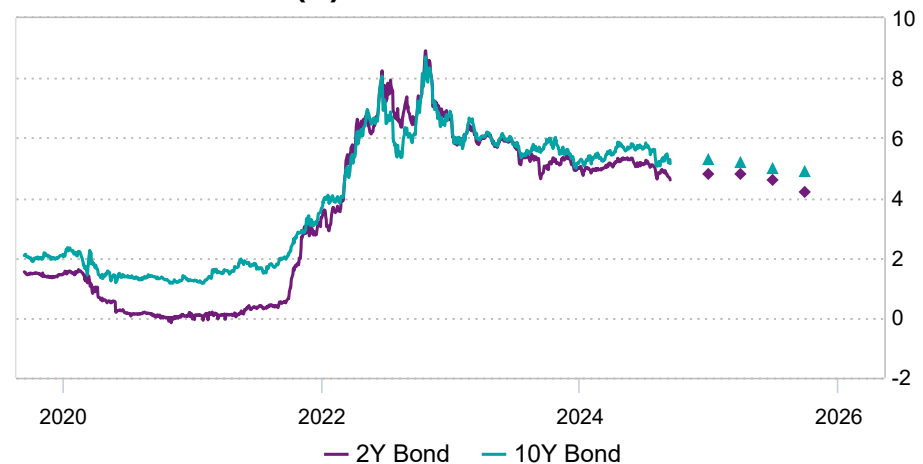
## Bond Yields

### Larger deficits in '24 and '25

The government has adopted a draft budget law for 2025, projecting a state budget deficit of PLN 289bn (7.3% of GDP), compared to the planned PLN 184bn in 2024. This increase is partly due to methodological changes, including the repayment of debt from the PFR and the Covid-19 Fund by the state budget, as well as the reform of municipal budgets. According to the minister, in comparable terms, the state deficit should be roughly similar to last year. The general government deficit (as per EU methodology) has been revised from -5.1% of GDP to -5.7% in 2024 and is estimated at -5.5% in 2025.

Despite Poland being placed under the EDP, large deficits persist, necessitating sharper consolidation from 2026 onwards. Most of the spending will be allocated to defense (4.7% of GDP), healthcare (approx. 6% of GDP), and other investments, such as the construction of the first Polish nuclear power plant. In the market, substantial volatility has been observed for the 10-year yield. Towards the end of July, yields sharply declined from 5.6% to 5.0%, in correlation with the US. However, the Polish 10-year yield recovered to 5.44% in August, but shortly after the budget announcement, it dropped back to 5.1%.

### Generic Bond Yields (%)



Source: FactSet, Erste Group Research

Market	Spot	24Q4	25Q1	25Q2	25Q3
2Y Bond*	4.60	4.80	4.80	4.60	4.20
5Y Bond*	4.92	5.10	4.90	4.60	4.30
10Y Bond*	5.14	5.30	5.20	5.00	4.90

Source: FactSet, Erste Group Research

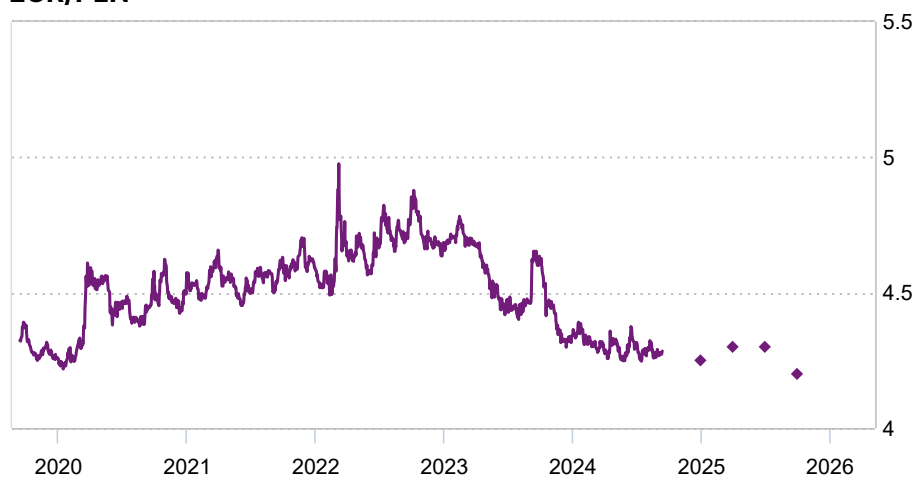
## Polish Zloty

### Stable zloty for time being

The range of fluctuations in the EUR/PLN exchange rate has narrowed in recent months to between 4.25 and 4.32. The zloty has maintained its low volatility, despite significant changes in external markets and the surprisingly high fiscal spending announced by the government. Additionally, the zloty has not reacted to the comments of the NBP governor, indicating that, despite Glapinski's strong hawkish stance during the summer, markets have anticipated monetary loosening in mid-2025.

Our outlook for the zloty remains status quo in the medium term. Some weakness could arise if the NBP decides to lower interest rates sooner, but the strength of the Polish economy should bolster the currency again. External factors that could influence the zloty include unexpected moves by the ECB or the FED, as well as the US elections.

### EUR/PLN



Source: FactSet, Erste Group Research

	Spot	24Q4	25Q1	25Q2	25Q3
EUR/PLN	4.28	4.25	4.30	4.30	4.20
vs. Spot		-0.7%	0.5%	0.5%	-1.9%
USD/PLN	3.89	3.70	3.71	3.71	3.62
vs. Spot		-4.9%	-4.6%	-4.6%	-6.9%

Source: FactSet, Erste Group Research

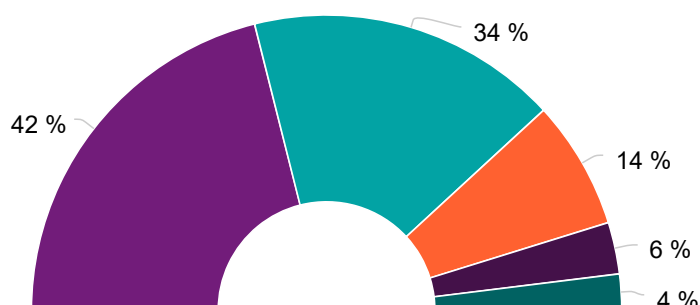
## Politics

### Civic coalition in tight lead

Shortly after the publication of the last edition of Macro Outlook, the EU elections took place. Civic coalition (KO) won by a tight margin, reaching 37%. Second place belonged to Law and Justice (PiS), which received 36.1% of the votes. These two major parties were followed by Confederation (12%), Third Way (6.9%) and Left Coalition (6.3%). Since then, the order in the opinion polls has not moved significantly. As of September, the surveys are led by KO (~33%), closely followed by PiS (31%). The remaining three parties are polling at around 10%.

The upcoming presidential elections are scheduled for May 2025. Incumbent President Andrzej Duda is ineligible for re-election, having already served two terms. The two main parties have yet to announce their candidates. However, it is anticipated that KO will nominate Rafal Trzaskowski, the current mayor of Warsaw, who lost the previous election to Duda. On the other hand, PiS has not yet clarified its candidate selection. It is expected that the final nominations will be announced by the end of the year.

### Parliament Seats



- Law and Justice (PiS) | Right
- Civic coalition (KO) | Center-right
- Third Way | Center-right
- New Left | Left
- Confederation | Far-right

Source: Erste Group Research

**Last Election:**  
2023, Q4

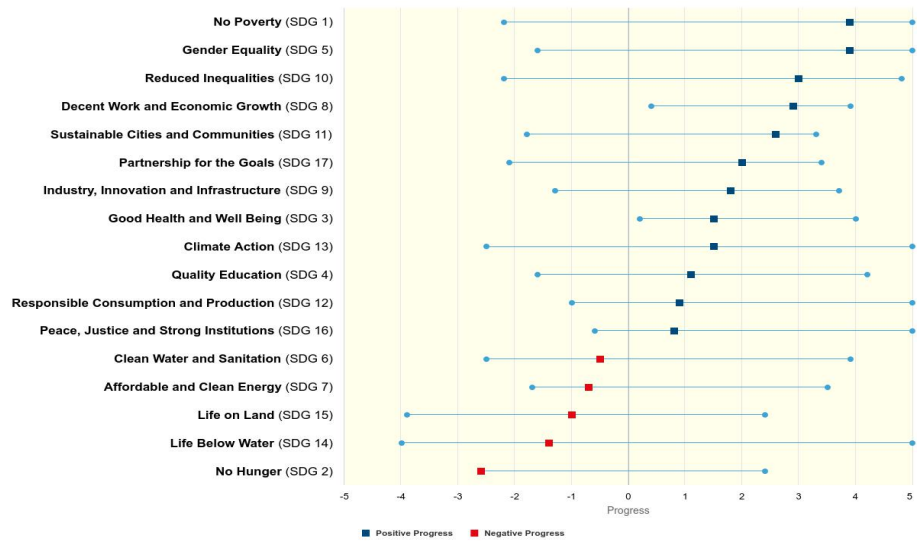
**Next Election:**  
2027, Q4

## Sustainable Development Goals

### Plans for the first nuclear power plant underway

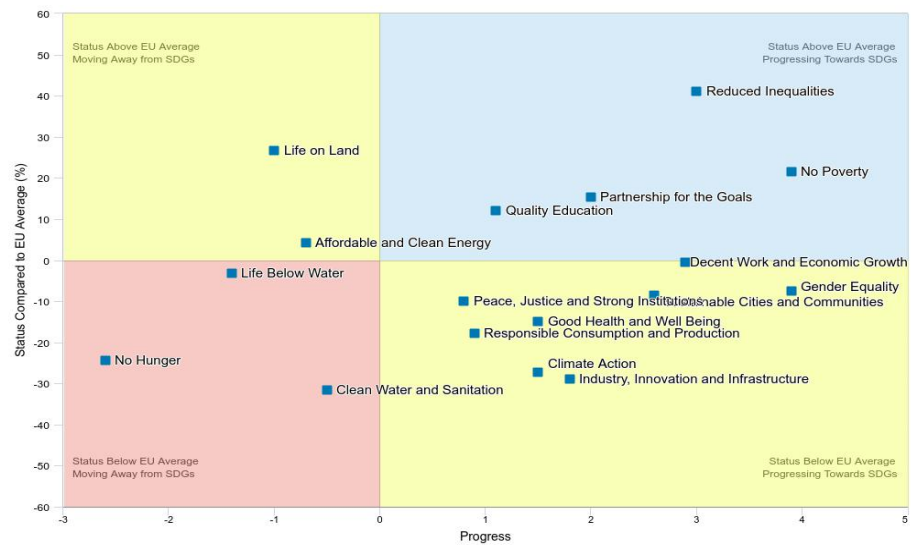
The green transition in Poland will be significantly supported by the RRP and RepowerEU initiatives. To date, Poland has received the initial payment from both grants and loans, with applications for the second and third payments to be submitted by September 13th. Additionally, plans for the first nuclear power plant are beginning to materialize. The first tranche of 4.6 billion zloty is scheduled to be spent in 2025, with a total budget of 60 billion zloty allocated between 2025 and 2030. The commencement of electricity production is planned for 2033.

### Progress Overview



Source: Erste Group Research

### Progress Overview



Source: Erste Group Research

## Forecasts

Annual	2018	2019	2020	2021	2022	2023	2024e	2025e	2026e
Real GDP growth	5.9	4.5	-2.0	6.9	5.6	0.2	3.2	3.7	3.1
Inflation (CPI, avg)	1.6	2.3	3.4	5.1	14.4	11.4	3.8	3.7	2.5
Unemployment rate (avg)	5.8	5.2	6.8	5.8	5.2	5.1	5.1	5.0	5.0
Retail sales growth	4.6	4.7	-3.7	5.8	6.0	-3.1	5.5	4.0	3.0
Industrial output growth	5.4	5.1	-1.9	14.4	10.7	-1.8	2.2	3.5	4.0
Private consumption growth	4.4	3.5	-3.6	6.2	5.4	-1.0	4.6	3.2	3.5
Fixed capital formation growth	12.6	6.2	-2.3	1.2	2.7	13.1	1.5	7.0	5.0
Percent of GDP									
Trade balance	-2.3	-0.8	1.3	-1.3	-3.7	0.8	-0.0	-1.3	-2.1
Current account balance	-1.9	-0.2	2.4	-1.3	-2.4	1.6	1.0	-1.0	-1.0
Budget balance	-0.3	-0.7	-6.9	-1.8	-3.7	-5.6	-5.7	-5.8	-4.5
Public debt	48.7	45.7	57.2	53.6	49.2	49.6	54.0	58.0	62.0
FX, money market									
USDLCY average	3.61	3.84	3.90	3.94	4.46	4.20	3.79	3.71	3.71
EURLCY average	4.26	4.30	4.44	4.56	4.68	4.54	4.27	4.25	4.25
EURLCY eop	4.29	4.25	4.55	4.58	4.68	4.34	4.25	4.20	4.20
(percent)									
CB policy rate (avg.)	1.50	1.50	0.50	0.35	5.30	6.45	5.75	5.40	4.20
3m interbank offer rate (avg.)	1.71	1.72	0.66	0.55	6.04	6.53	5.85	5.50	4.30
2Y Yield (average)*	1.56	1.52	0.51	0.81	6.28	5.60	5.00	4.50	3.40
5Y Yield (average)*	2.49	1.97	0.96	1.48	6.33	5.63	5.25	4.60	3.80
10Y Yield (average)*	3.20	2.40	1.51	1.97	6.07	5.81	5.40	5.00	4.50

Source: Erste Group Research



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