ERSTE Group

POLAND : MACRO OUTLOOK

Impact of the new president not yet clear

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Economy Poland - Analyses and Forecasts | Erste Group Bank AG
June 23, 2025

Spot Rates as of: June 23, 2025

Expected development in a nutshell

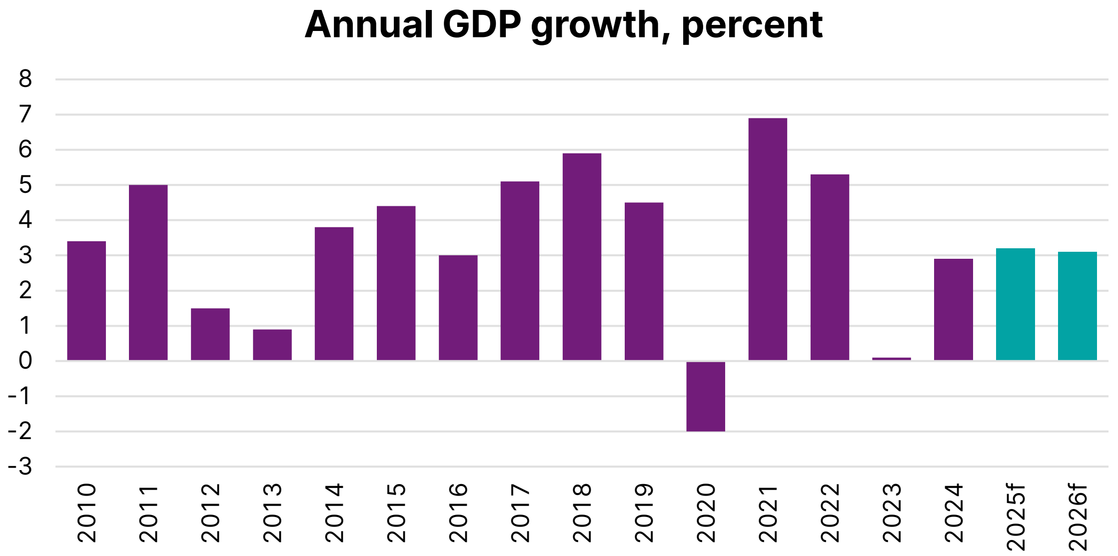
The macroeconomic outlook for Poland in 2025 is generally positive, with the economy beginning the year with a GDP growth of 3.2% y/y in Q1, slightly exceeding our expectations. Domestic demand expanded by 4.6% y/y in the first quarter of 2025, with private consumption rising by 2.5% y/y and investment activity rebounding strongly. Household consumption and investments are expected to be the primary growth drivers, while government spending will play a limited role, and net exports are anticipated to subtract from GDP. The growth forecast for 2025 has been revised upward to 3.2%, with the 2026 projection remaining at 3.1%.

Inflation in Poland has been consistently below 4% in recent months, with a slight uptick expected in June due to rising fuel prices. The overall trend remains downward, with average annual inflation predicted to be 3.6% in 2025 and 2.6% in 2026. However, there is a risk of inflation rebounding if oil prices remain high. Monetary policy remains uncertain following recent rate cuts, with further cuts anticipated in the third quarter, but inflationary pressures may lead to their postponement. Poland's 10-year government bond yield has recently increased to around 5.6%, with a long-term outlook suggesting a gradual decline to potentially test the 5% threshold by the first half of next year.

The EUR/PLN exchange rate has shown a moderate reaction to the presidential elections, with a slight depreciation below the 4.3 threshold. Further short-term depreciation is possible due to global uncertainty, but restrictive monetary policy could act as a counterbalance. The government is expected to exceed its deficit target in 2025, with a forecasted deficit of 6.2% of GDP, reducing to 5.0% in 2026. Karol Nawrocki won the recent presidential election with 51% of the vote, narrowly defeating Trzaskowski, an ally of Prime Minister Donald Tusk. This victory complicates Tusk's efforts to consolidate power and advance reforms. The leading coalition party, Civic Coalition, maintains stable support above 30%, while the main opposition party PiS has stabilized around 30%. Smaller parties have experienced significant shifts, with the Third Way coalition seeing a sharp decline in support and the right-wing Confederation party gaining momentum.

Source: Eurostat, Refinitiv, Erste Group Research

GDP growth



Poland's economy began 2025 on a positive note, with first-quarter GDP growth reaching 3.2% y/y on a non-seasonally adjusted basis. This outcome slightly exceeded our expectations, although it is a modest deceleration from the 3.4% y/y recorded in Q4 2024. The economy expanded by 3.7% y/y and 0.7q/q on a seasonally adjusted basis, showing a sustained momentum despite mixed data from the retail and industrial sectors. We anticipate a further slow improvement of the economic conditions. Our outlook for 2025 remains unchanged in terms of growth drivers, with household consumption and investments expected to be the primary contributors. Government spending is likely to play a more limited role, while net exports will have a negative influence on growth. In light of recent releases, we have revised our 2025 GDP growth forecast upward to 3.2% from 3.1%, while maintaining our 2026 projection at 3.1%.

Source: Eurostat, Refinitiv, Erste Group Research

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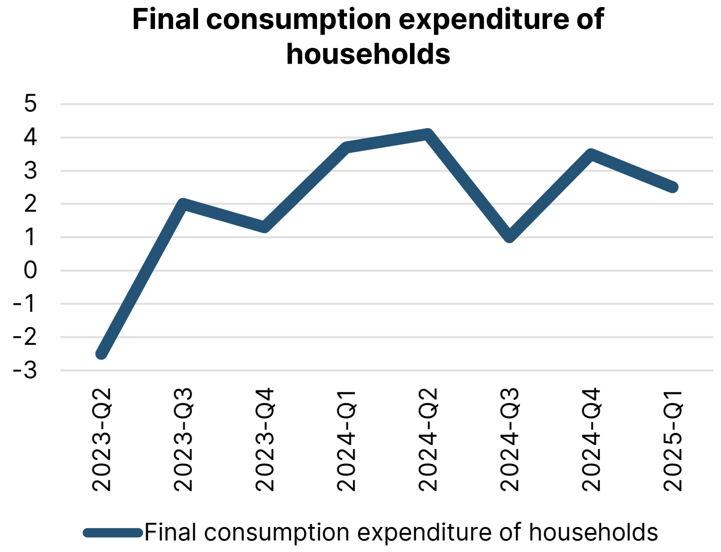
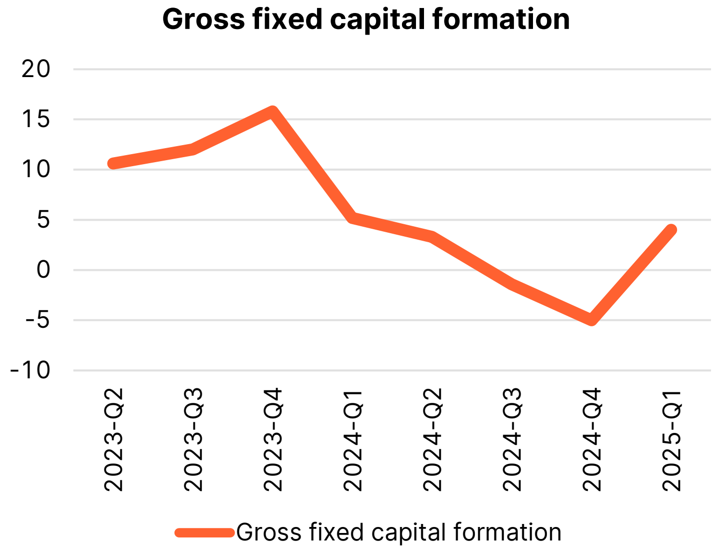
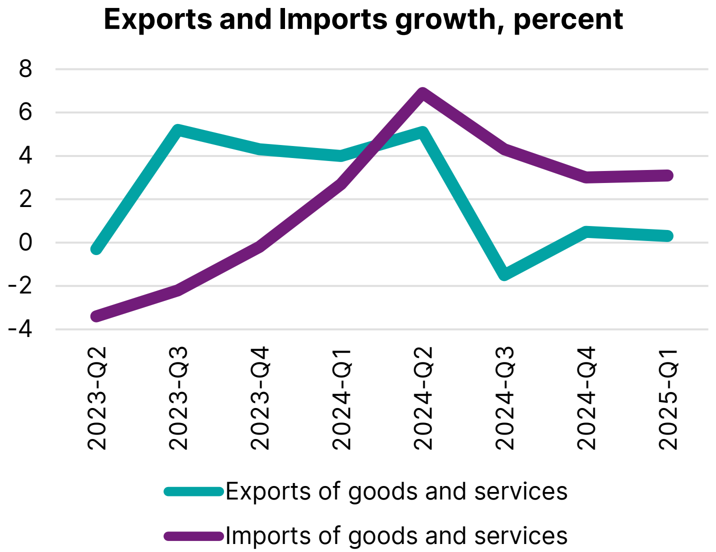
GDP structure

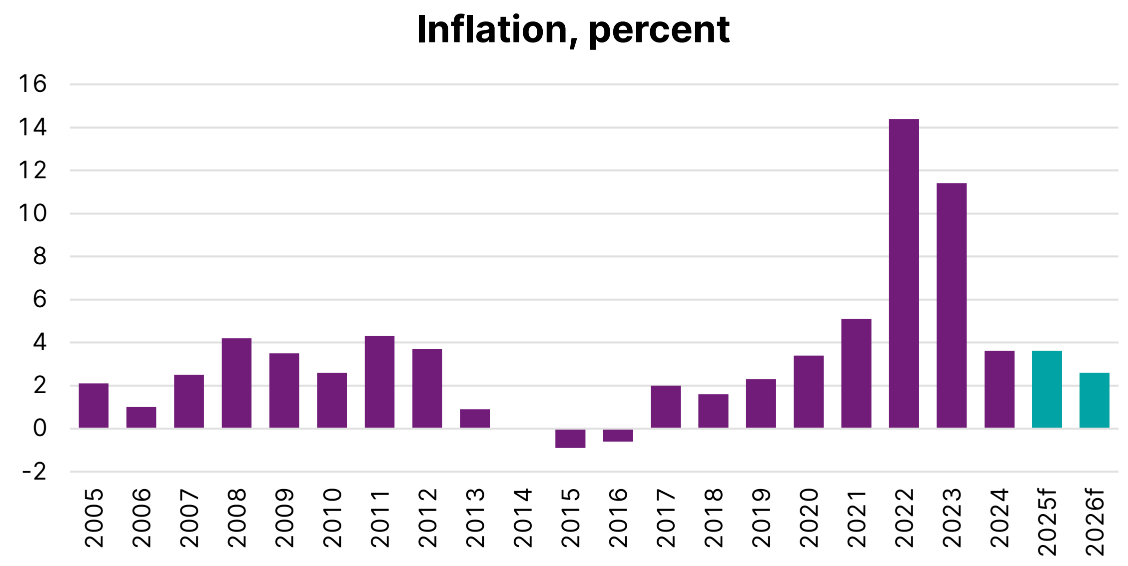


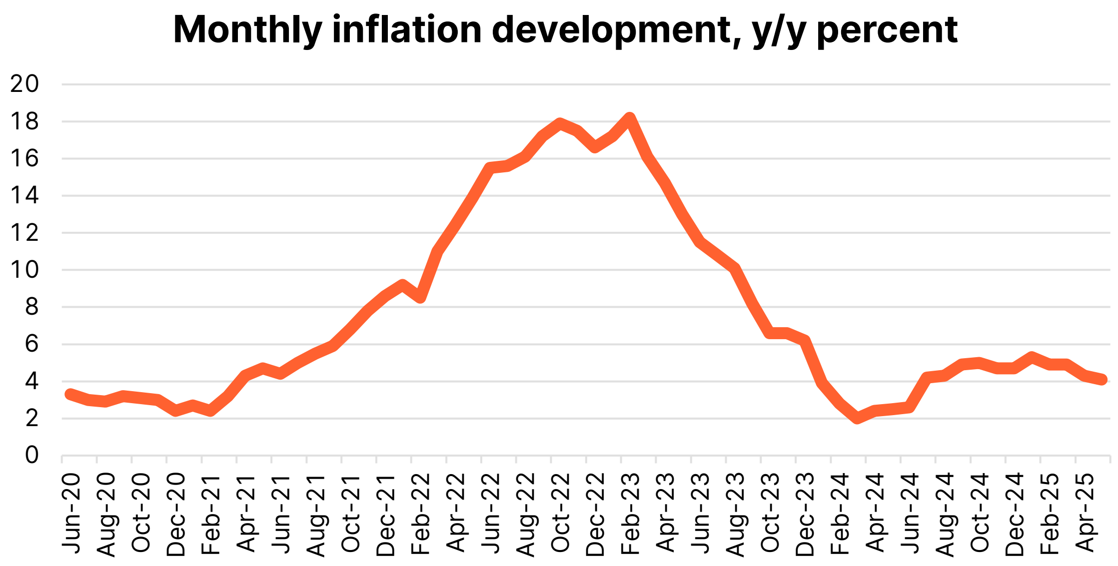




In the first quarter of 2025, domestic demand in Poland expanded by 4.6% y/y, decelerating compared to the final quarter of 2024. Private consumption rose by 2.5% y/y, down from 3.5% in Q4, while investment activity rebounded strongly, accelerating to 6.3% y/y following a contraction of -6.9% in the previous quarter. As opposed to the robust contribution from domestic demand—adding 4.3 percentage points to GDP growth—net exports detracted 1.1 percentage points from the overall Q1 2025 GDP figure. Real wage growth continues to support consumer spending, despite somewhat volatile retail sales data. Moreover, consumer sentiment has shown a gradual improvement since the beginning of the year. PMI readings remained in expansionary territory from February through April, before dropping below the 50-point threshold to 47.1 in May. Investment activity is benefiting from an increasing inflow of EU funds, and we anticipate further increases of capital formation throughout the year.

Inflation development

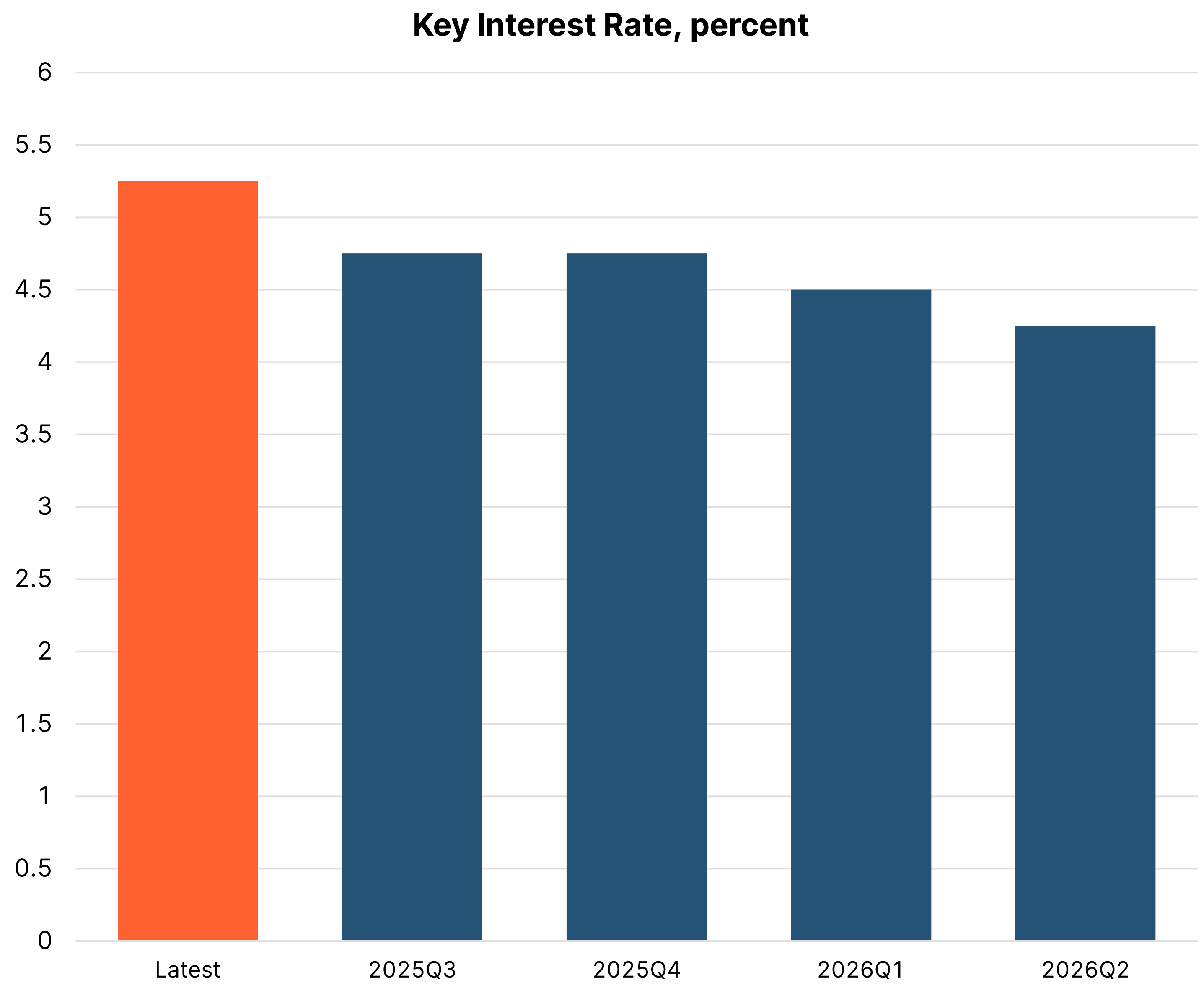




The period of elevated inflation above 4% is nearing its end. In recent months, headline inflation has consistently surprised to the downside, maintaining a downward trajectory. In May, the annual inflation rate stood at 4%, and while a slight uptick is anticipated in June due to rising fuel prices, the broader trend remains favorable. The recent surge in oil prices, nearly 25% since the beginning of the month, has been driven by escalating geopolitical tensions in the Middle East. As the resolution of the Israel-Iran conflict remains uncertain, the risk that elevated oil prices could persist and extend beyond fuel costs is rising. However, a significant disinflationary factor is expected in July, as the base effect from the July 2024 consumer energy price hike drops out of the annual comparison. This will lower the headline inflation rate, potentially bringing it within the NBP tolerance band and possibly below 3%. Nonetheless, should oil prices remain elevated for an extended period, inflation could rebound from around 3% in July to approximately 3.5% in the third quarter. This scenario is not currently reflected in our baseline projections. Under our central forecast, we expect average annual inflation to reach 3.6% in 2025, declining to 2.6% in 2026. In a more adverse scenario involving sustained high oil prices, inflation could end up at 3.9% in 2025 and 3.0% in 2026.

Source: Eurostat, Refinitiv, Erste Group Research

Monetary policy



Following the dovish pivot in April and a subsequent 50 basis point rate cut in May, monetary policy in Poland remains uncertain. The outcome of the presidential elections has further shuffled the cards, as potential presidential obstructions of the government are making the MPC more cautious.

At the same time, inflation continues to moderate and may approach the NBP's target range as early as the third quarter. However, the MPC has recently acknowledged rising global risks, which could justify a more cautious approach and delay further easing.

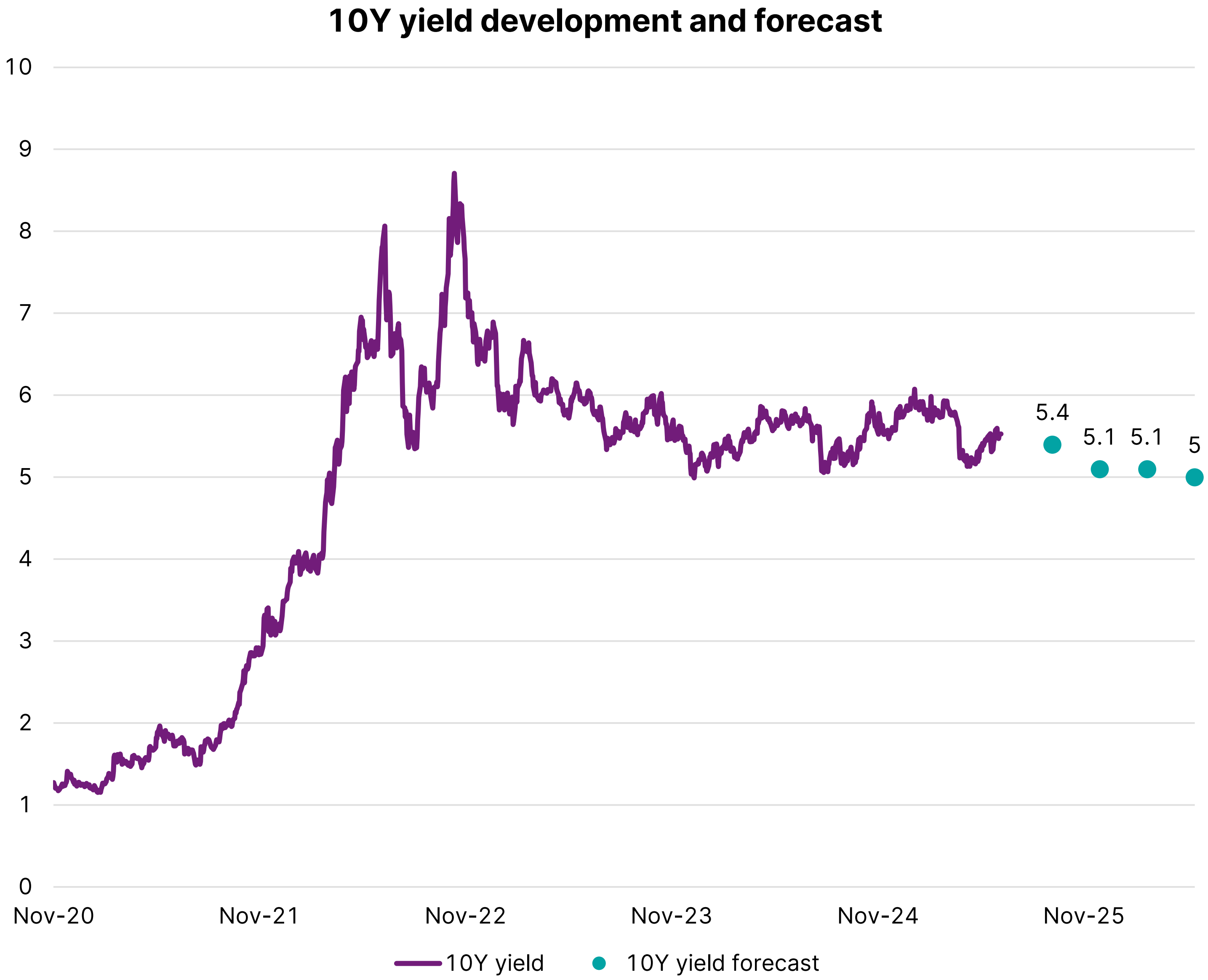
Under our baseline scenario, we anticipate an additional 50bps of rate cuts in the third quarter, most likely in September. However, should inflationary pressures re-emerge due to sustained increases in oil prices, rate cuts may be postponed or suspended altogether for the remainder of the year.

Source: Eurostat, Refinitiv, Erste Group Research
June 23, 2025

Yields and spreads

Local and global developments have recently driven Poland's 10-year government bond yield higher, rising from approximately 5.1% in April to around 5.6% at present. Despite this increase, yields remain within the 5–6% range, where they have fluctuated for the past two years. In the near term, heightened risk aversion coming from global geopolitical tensions may increase upward pressure on yields.

Looking ahead, our long-term outlook anticipates a gradual decline in the 10-year yield, potentially testing the 5% threshold during the first half of next year. However, risks to this trajectory are both global and domestic. In particular, concerns about strained cooperation between the newly elected president and the government could introduce further volatility into the local bond market and hold the yield higher.



Source: Eurostat, Refinitiv, Erste Group Research

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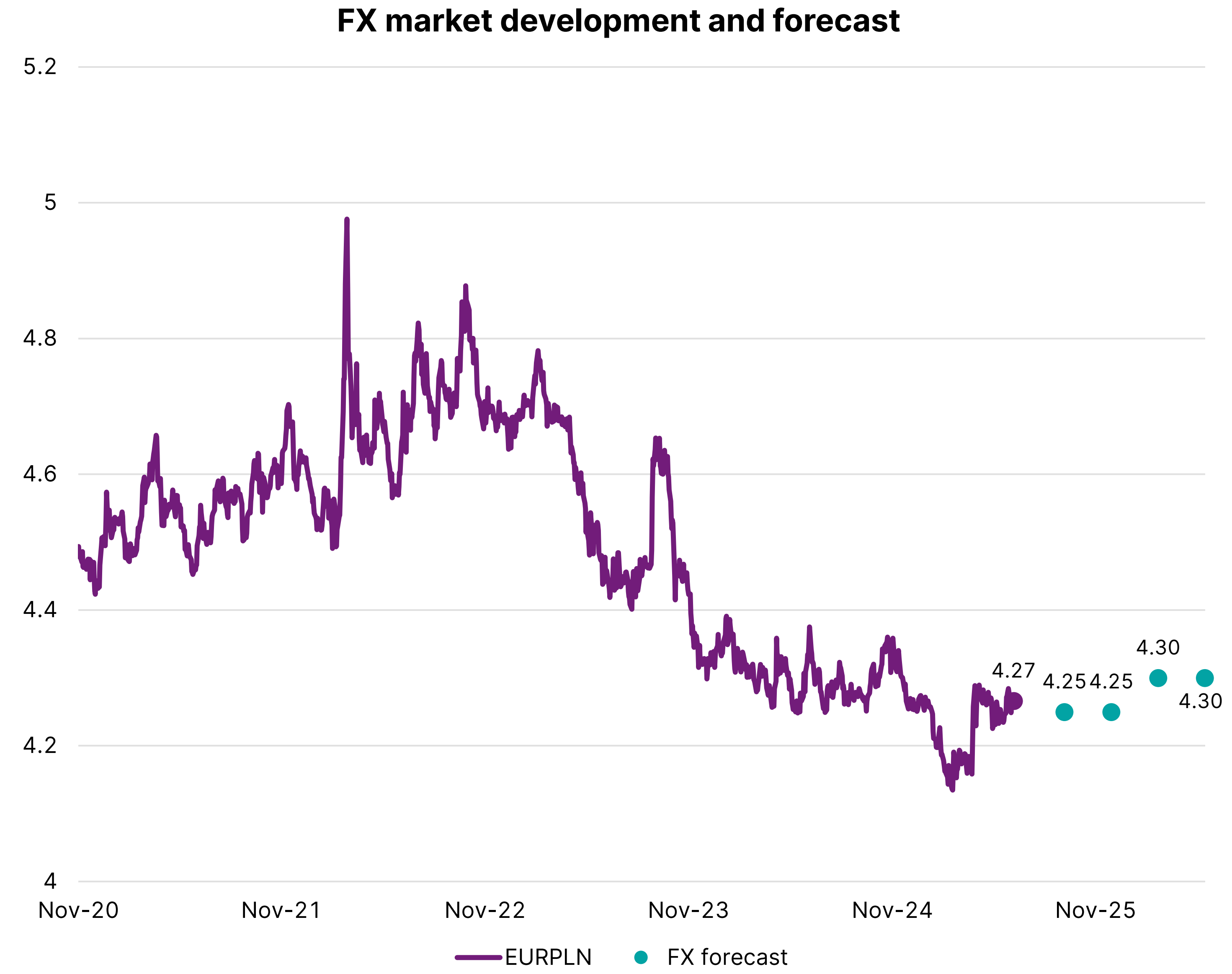
FX Market



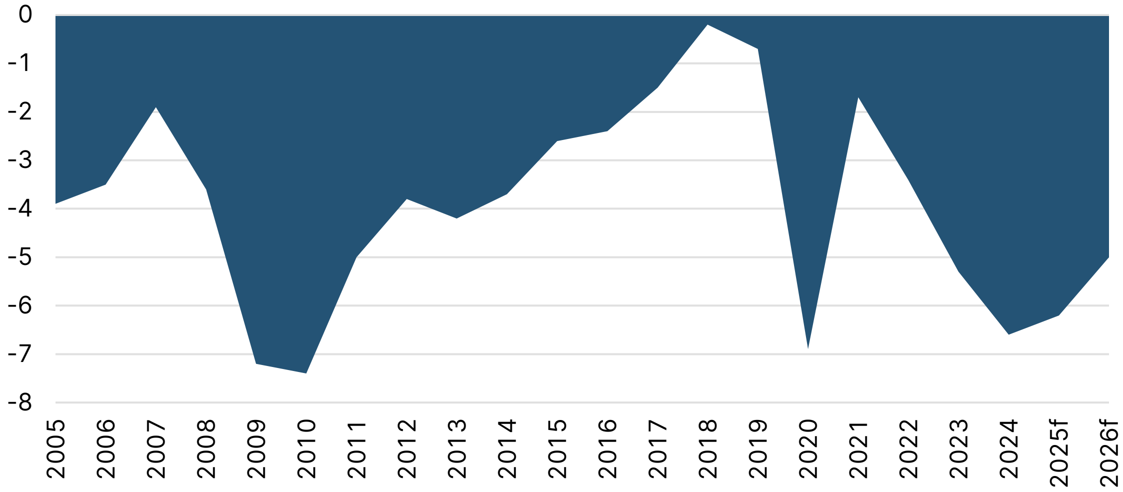
The EUR/PLN exchange rate reacted to the outcome of the presidential elections only moderately, with the zloty experiencing a slight depreciation that remained below the 4.3 threshold. These developments reinforce our view that the zloty is primarily influenced by monetary policy expectations, while political factors tend to put a secondary, albeit more structural, impact.

Given the elevated level of global uncertainty, further short-term depreciation of the zloty is possible. However, a more restrictive monetary policy would act as a counterbalancing force. Should tensions arise between the newly elected president and the government, we anticipate the EUR/PLN rate could exceed the 4.3 level in the medium term. Without such political disruptions, we continue to expect a modest depreciation in the first half of 2026, driven by the anticipated key interest rate path.

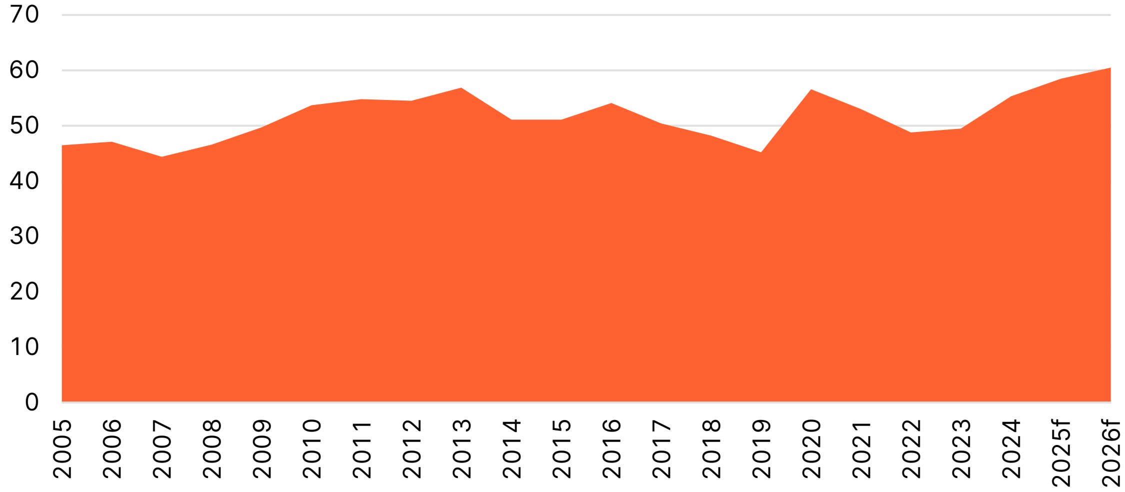
Source: Eurostat, Refinitiv, Erste Group Research

Fiscal Situation

Budget balance, percent of GDP



Public debt, percent of GDP



Despite Poland being subject to the Excessive Deficit Procedure (EDP), no significant fiscal consolidation efforts are expected in 2025. At first glance, the execution of the state budget may appear concerning: revenues for the January–May period declined by 14.6% y/y, while expenditures rose by 5.5% y/y. However, this decline in revenue is largely attributable to changes in local government financing legislation. When adjusted for these changes, revenues would have been approximately 10% higher y/y. VAT receipts were particularly strong, increasing by 13% y/y. Overall, we expect the government to exceed its stated deficit target of 5.5% of GDP, as outlined in the medium-term fiscal consolidation strategy. Our forecast anticipates an ESA deficit of -6.2% of GDP in 2025, followed by a moderate reduction to -5.0% in 2026. Some relief can come from the RRF, as the EC approved the revision of the Recovery plan. It assumes, among others, the creation of the Security and Defence Fund in the amount of PLN 25 billion. The funds of the fund will finance the construction of civil protection infrastructure, which will ease the burden on the budget.

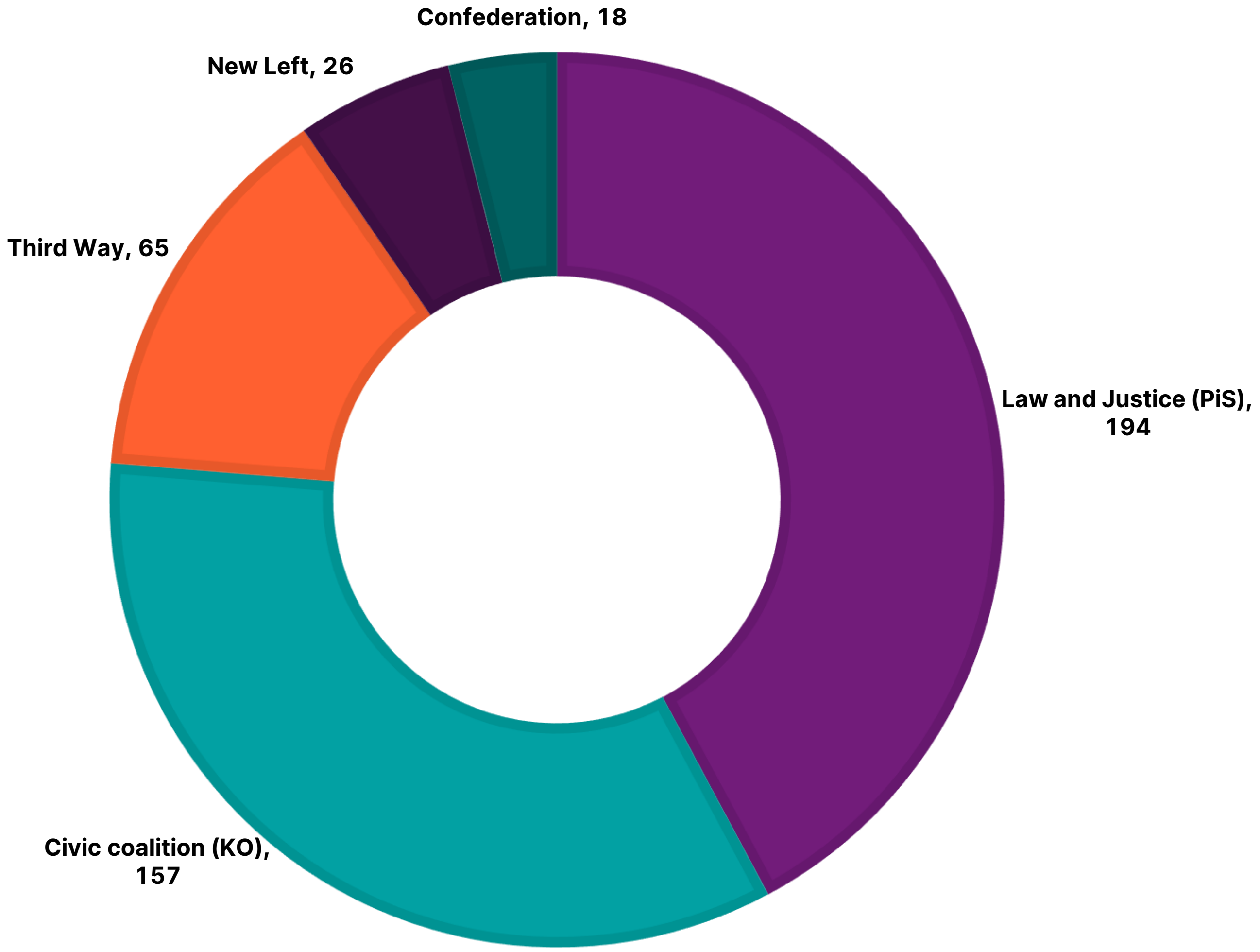
Source: Eurostat, Refinitiv, Erste Group Research

Political landscape

The dominant theme in Polish politics in recent months has been the presidential election. Karol Nawrocki, the candidate supported by the opposition Law and Justice party, secured 51% of the vote, narrowly defeating Rafal Trzaskowski, an ally of Prime Minister Donald Tusk, who received 49%. Nawrocki's victory complicates Tusk's efforts to consolidate power and advance more ambitious reforms, which would have benefited from alignment between the two sides.

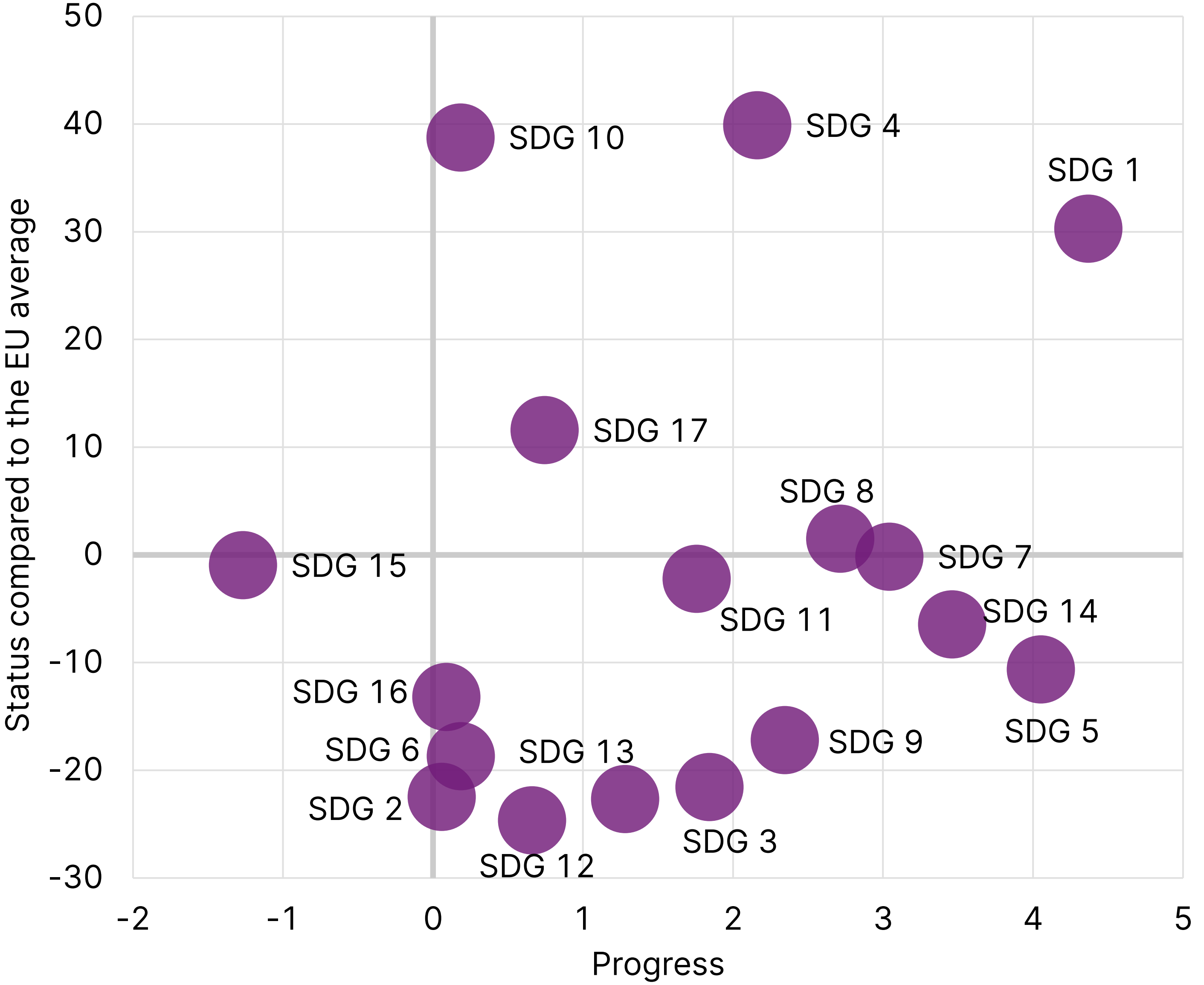
In response to the election outcome, Prime Minister Tusk called a vote of confidence for his government, which he won with a 243–210 majority. While this result provides a short-term boost, the government now faces the dual challenge of narrowing the fiscal deficit and maintaining public support ahead of the 2027 parliamentary elections. Passing consolidation budgets and meeting milestones under the RRF may become increasingly challenging, as the president holds veto power that the current coalition lacks the majority to override.

Parliamentary seats



Source: Eurostat, Refinitiv, Erste Group Research

All but one SDGs improve



The latest edition of the Sustainable Development Goals (SDGs) report by Eurostat has recently been released, showing that Poland has made progress across nearly all goals, with the exception of SDG 15 – "Life on Land." This particular goal monitors ecosystem health, land degradation, and biodiversity, where Poland continues to face challenges.

Conversely, the most significant progress was recorded in SDG 1 – "No Poverty." Compared to the EU average, Poland stands out particularly in social dimensions of the SDGs, including SDG 10 – "Reduced Inequalities," SDG 4 – "Quality Education," and the aforementioned SDG 1. Areas requiring further improvement are primarily environmental, such as SDG 12 – "Responsible Consumption and Production" and SDG 13 – "Climate Action."

Source: Eurostat, Refinitiv, Erste Group Research

A warning sign for Tusk

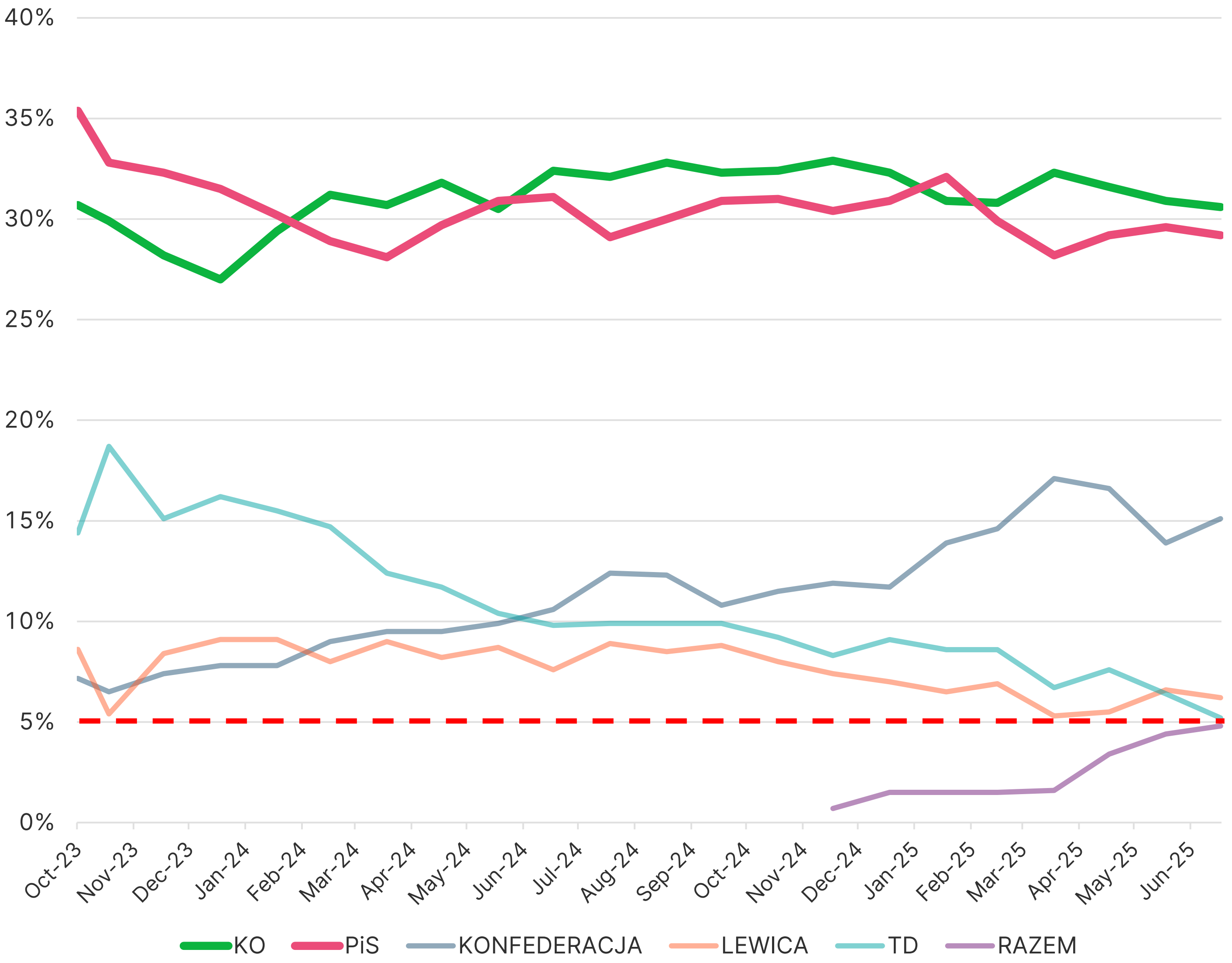
Despite the current coalition approaching only the midpoint of its term, the presidential election results served as a significant warning signal for Tusk's government. In this context, we look at the latest polling data in Poland and assess how current political developments compare to the outcomes of the previous parliamentary elections.

Coalition's popularity shaken

Although the next parliamentary elections in Poland remain some time away (2027), the outcome of the recent presidential vote warrants a closer examination of the country's evolving political landscape. Since the last general election, the leading coalition party, Civic Coalition (KO), has maintained relatively stable support, consistently polling above 30%.

The main opposition party, Law and Justice (PiS), experienced a decline toward the end of 2023 but has since stabilized, also polling at approximately 30%. The most significant shifts, however, have occurred among the smaller, less popular parties.

Monthly poll average since general elections



Source: Eurostat, Refinitiv, Erste Group Research
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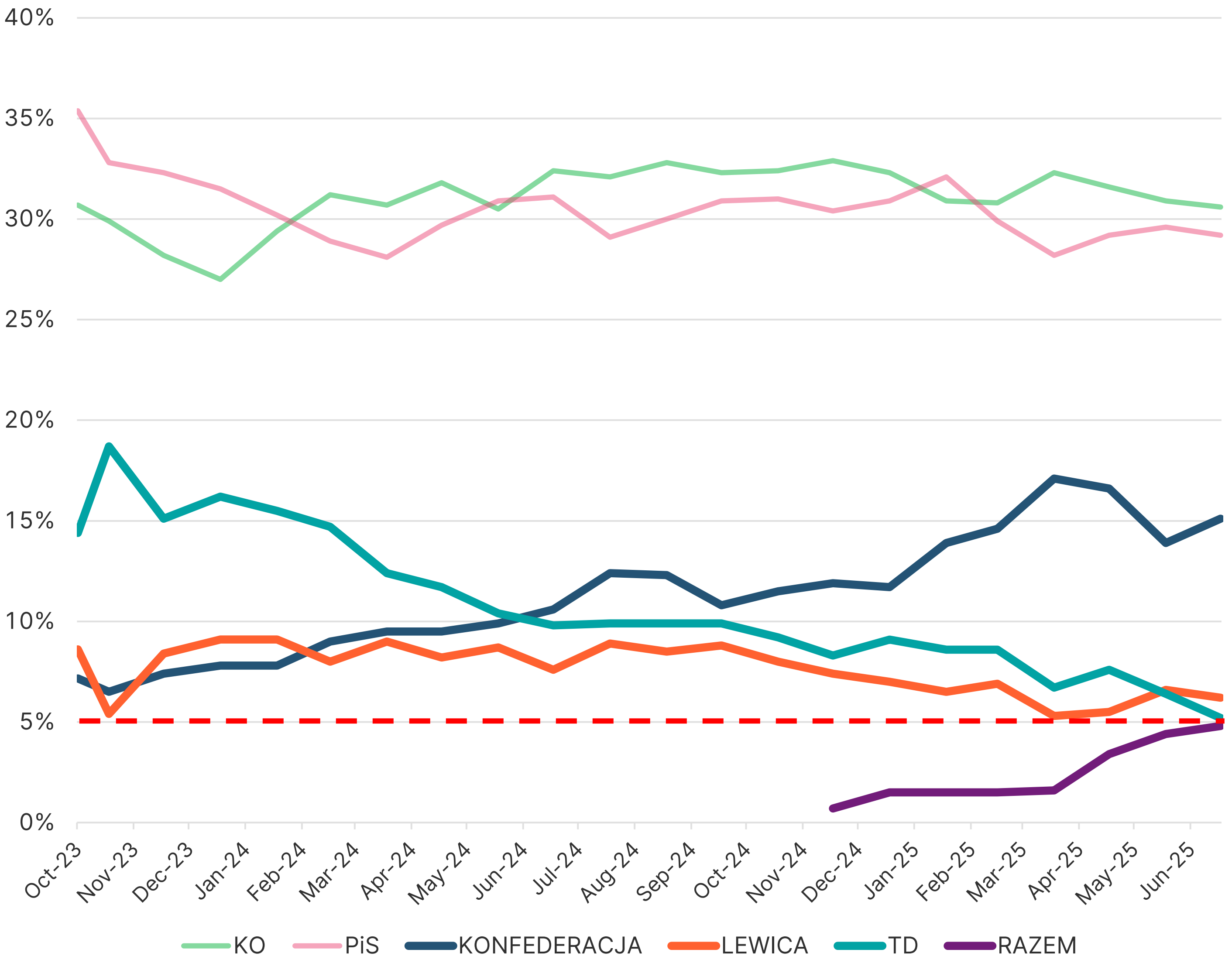
Coalition's popularity shaken

The Third Way (TD), a member of the current governing coalition, has seen a sharp decline in support and is now polling at just 5%. In contrast, the right-wing Confederation party has been gaining momentum and has emerged as the third most popular political force in the country at the moment.

Currently, three parties are hovering around the critical 5% threshold required for parliamentary representation: the aforementioned Third Way, the left-leaning party The Left (a coalition member), and the rising progressive party Razem. If the elections were held now and the results would mirror the polls, Poland would probably see a change of government with PiS and Confederation getting the majority.

Monthly poll average since general elections



Source: Eurostat, Refinitiv, Erste Group Research

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Poland: Forecasts

	2018	2019	2020	2021	2022	2023	2024f	2025f	2026f
Percent					**Annual average**				
Real GDP growth	5.9	4.5	-2	6.9	5.3	0.1	2.9	3.2	3.1
Private consumption growth	4.4	3.5	-3.6	6.2	5	-0.3	3.1	3.4	3.3
Fixed capital formation growth	12.6	6.2	-2.3	1.5	1.7	12.6	1.5	8.5	7.8
Inflation	1.6	2.3	3.4	5.1	14.4	11.4	3.6	3.6	2.6
Unemployment rate	5.8	5.2	6.8	5.8	5.2	5.1	5.1	5.2	5.1
Percent of GDP									
Budget balance	-0.2	-0.7	-6.9	-1.7	-3.4	-5.3	-6.6	-6.2	-5.0
Public debt	48.2	45.2	56.6	53.0	48.8	49.5	55.3	58.5	60.5
Current account balance	-2.0	-0.3	2.4	-1.3	-2.2	1.8	0.2	-0.8	-1.0
					End of year				
EURLCY	4.29	4.25	4.55	4.58	4.68	4.34	4.27	4.25	4.25
Central bank policy rate	1.50	1.50	0.10	1.75	6.75	5.75	5.75	4.75	3.50
3M interbank offer rate	1.72	1.71	0.21	2.54	7.02	5.88	5.84	4.60	3.60
2Y Yield	1.33	1.47	-0.04	3.33	6.66	5.00	5.17	4.50	4.00
5Y Yield	2.27	1.77	0.37	3.95	6.84	5.00	5.50	4.80	4.70
10Y Yield	2.83	2.05	1.25	3.67	6.85	5.22	5.87	5.10	5.00

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Source: Eurostat, Refinitiv, Erste Group Research
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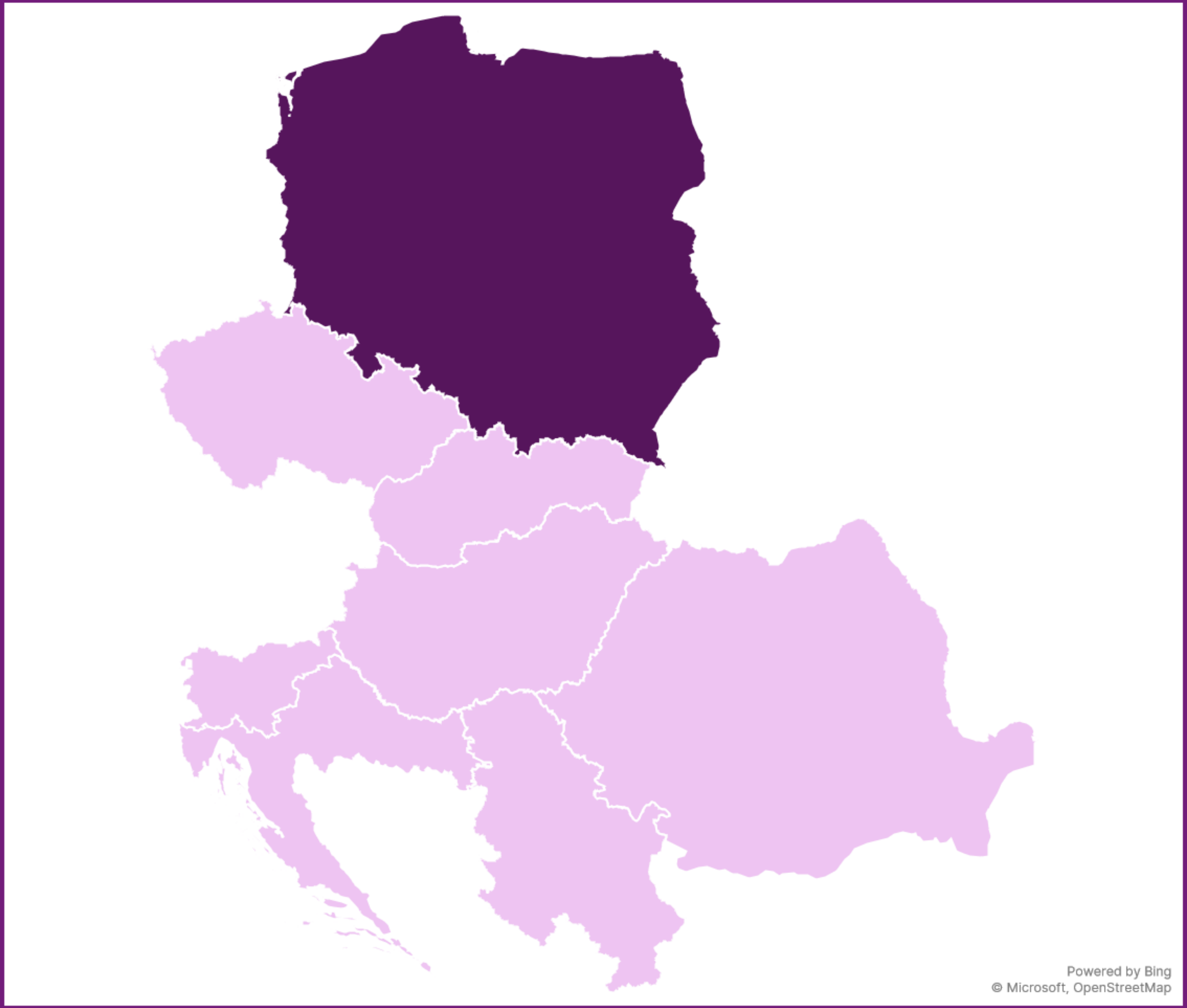
Poland: Country overview



Official EU language: Polish

Capital: Warsaw

Geographical size: 311 928 km2

Population: 36 620 970

GDP per capita (PPS): EUR 30 100, below the EU average

Currency: Polish Zloty PLN

Credit Ratings:

- **Moody's: A2, outlook stable**
- **S&P: A-, outlook stable**
- **Fitch: A-, outlook stable**

EU member state: since 1 May 2004

Schengen: member since 21 December 2007

Source: Eurostat, Refinitiv, Erste Group Research
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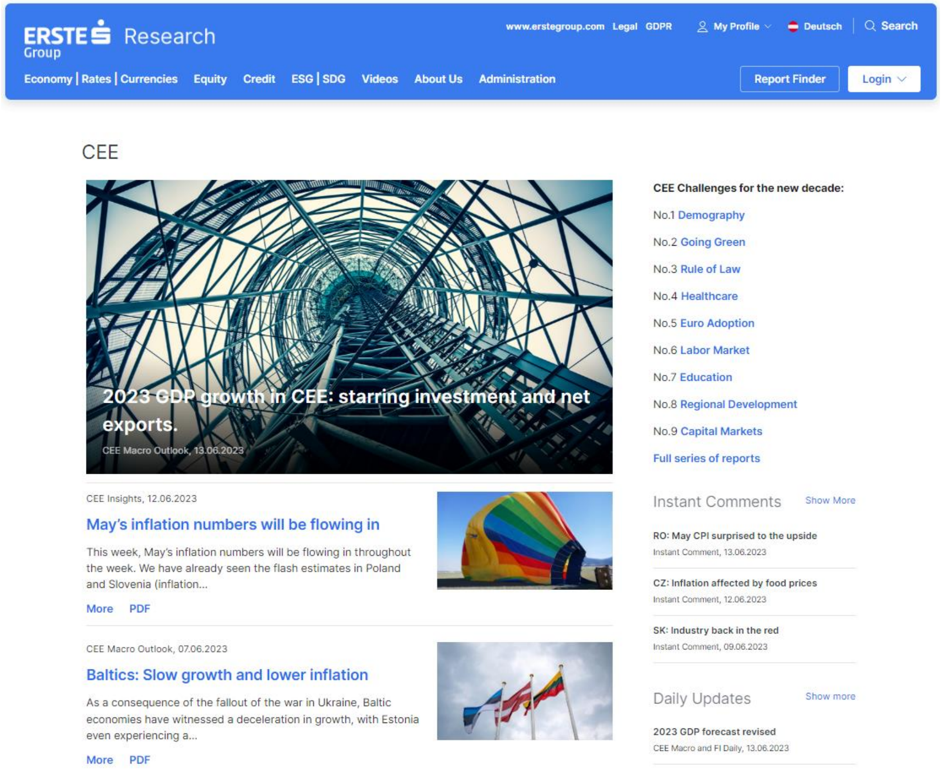

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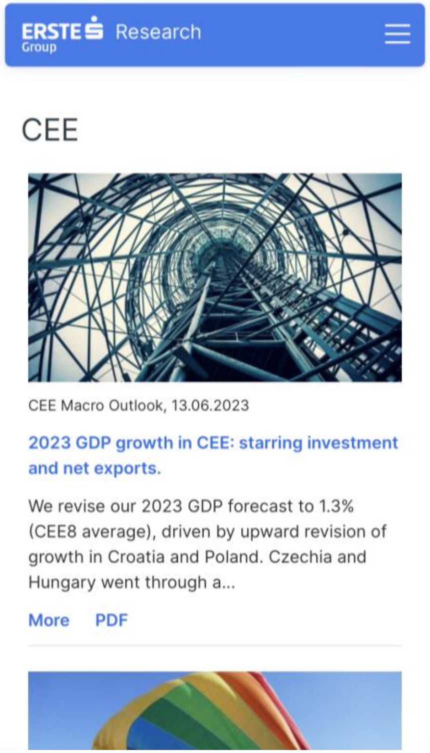

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