POLAND : MACRO OUTLOOK

Impressive growth and large deficits to continue

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Economy Poland - Analyses and Forecasts | Erste Group Bank AG
September 11, 2025

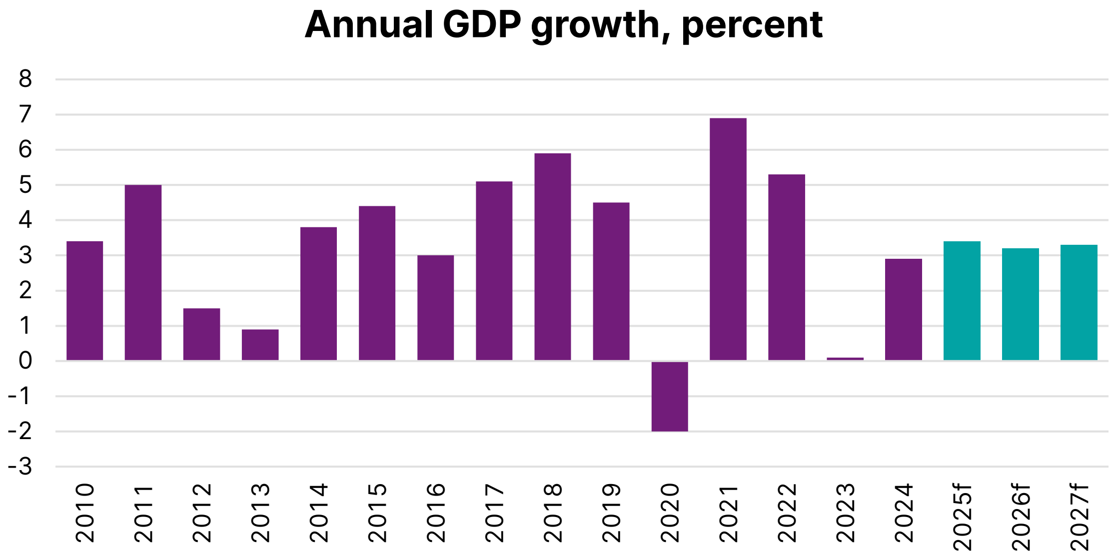
Spot Rates as of: September 11, 2025
Note: Information on past performance is not a reliable indicator for future performance.
Forecasts are not a reliable indicator for future performance.

Expected development in a nutshell

Poland's economic outlook is positive, with growth outperforming the majority of EU economies. The country's GDP grew by 3.4% y/y in the second quarter of 2025, driven predominantly by robust domestic consumption. Looking ahead, growth may accelerate further in the coming quarters, supported by resilient household spending and a pickup of fixed investment activity. In 2026, the pace of expansion is expected to remain broadly stable, with investment activity funded by the last disbursements of the Recovery and Resilience Facility. Inflation has been moderating, with the headline figure at 2.8% in August. The inflation trajectory is expected to remain at around 3%, with upward pressure coming from services and some relief from the prices of goods. The National Bank of Poland implemented monetary easing in the magnitude of 1 percentage point this year, with the last 25 basis points cut delivered in September. Further rate cuts are possible, with the terminal rate expected to be around 3.75% at the end of the next year. The foreign exchange market has remained stable, with the EUR/PLN exchange rate fluctuating within a narrow range. Our baseline forecast sees continued exchange rate stability through year-end, followed by a slight depreciation in the following year due to a mixture of political uncertainty and monetary easing.

On the fiscal front, Poland's deficit is projected to remain elevated, with the Ministry of Finance increasing the deficit forecast to 6.9% of GDP for 2025. The bond market reacted moderately to the 2026 draft budget, which projects 6.5% deficit next year, with the 10-year yield settling around 5.4%. Financing needs for 2026 are significantly higher, but they are inflated by the RRF loan drawdown and a decrease of financing needs for this year. Nonetheless, we have raised our 10-year yield forecast path by about 20 basis points due to the fiscal pressures. Political frictions between the government and the newly elected president limits the scope for fiscal consolidation due to possible obstruction of key legislation. Brisk growth of debt has been mentioned by Fitch as one of the reasons for change of the outlook to negative, as the debt-to-GDP ratio is projected to rise sharply, from 52% in 2024 to near or above 70% by 2027.

GDP growth



With the release of economic performance data for the first half of the year, it is clear that Poland is on track to outperform most EU economies. In the second quarter, the country recorded an annual GDP growth of 3.4% (3.0% in seasonally adjusted terms and chain-linked volumes), positioning it as the fifth fastest-growing economy within the Union. This performance stands out even more when compared to the CEE region, where growth forecasts for 2025 have largely been revised downward. In contrast, Poland's outlook has improved, with our forecast for 2025 now revised upward by 0.2 percentage points to 3.4%. Looking ahead, growth may accelerate further in the coming quarters, supported by robust domestic consumption. In 2026, the pace of expansion is expected to remain broadly stable, with a pickup of investment activity funded by the last disbursements of the Recovery and Resilience Facility. The external environment may pose challenges, but the monetary easing implemented this year will gradually feed through into the real economy, providing additional support to growth.

Source: Eurostat, Refinitiv, Erste Group Research

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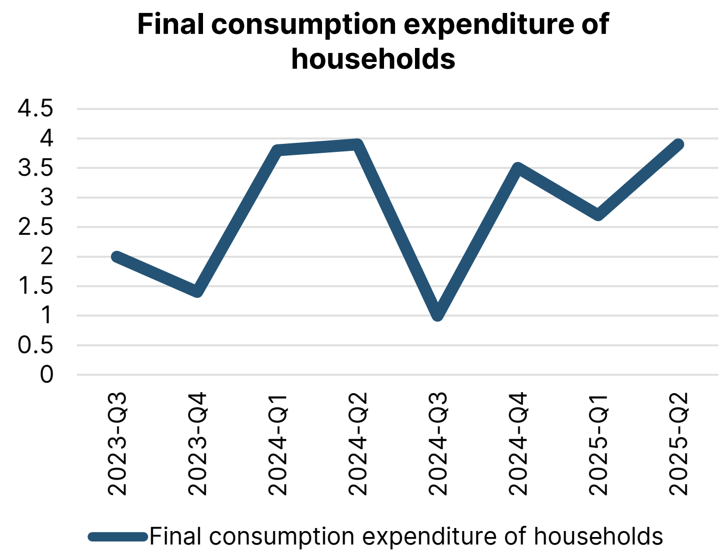
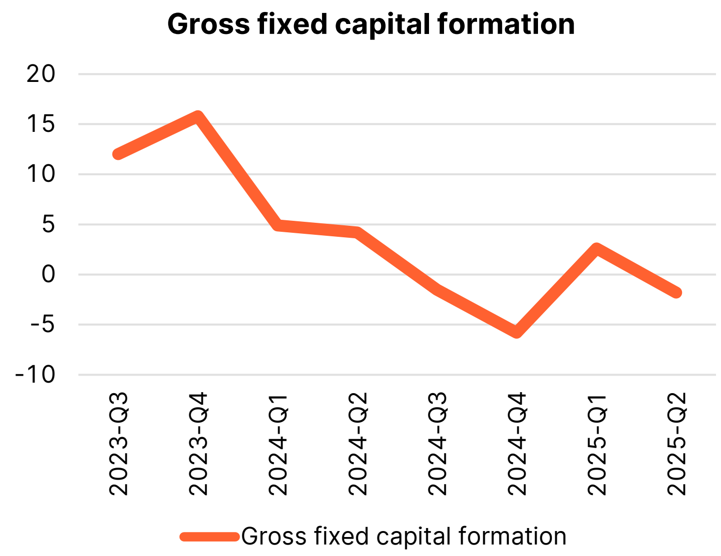
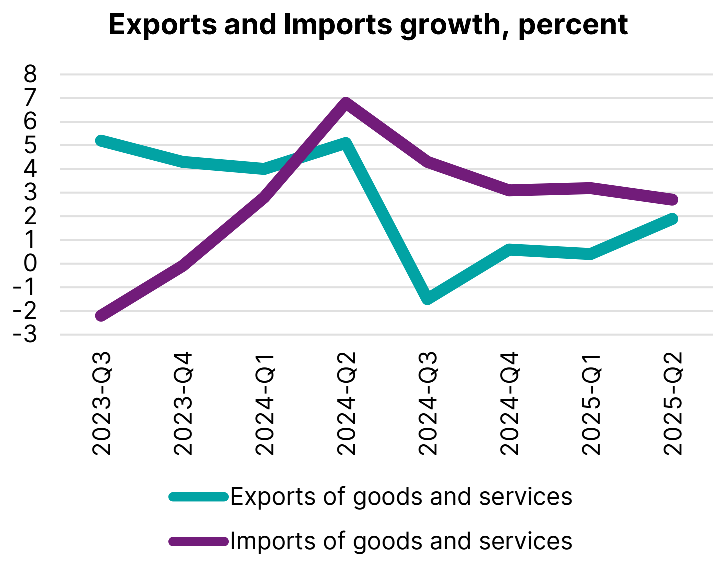
GDP structure



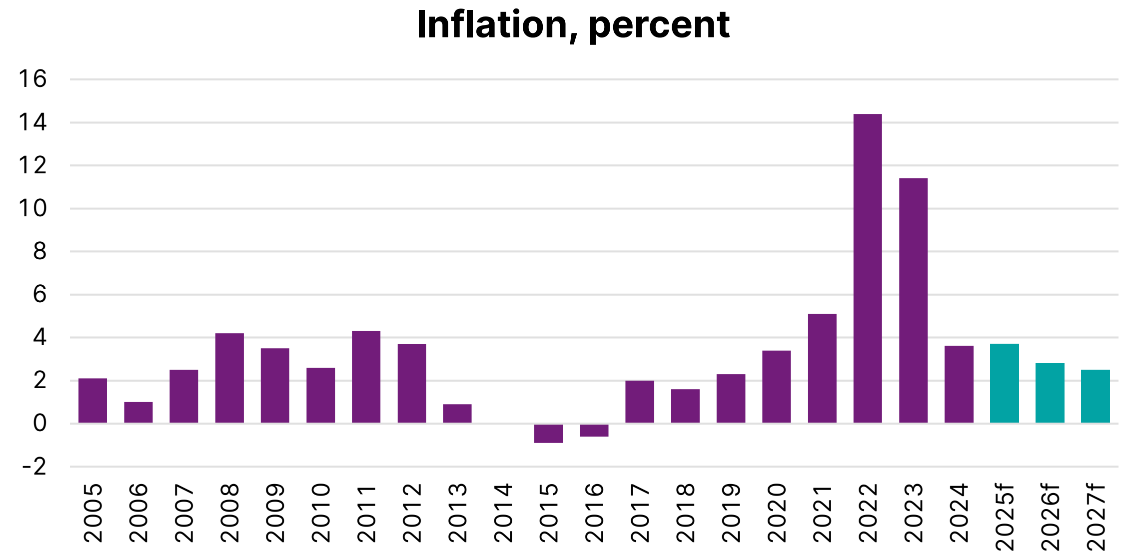


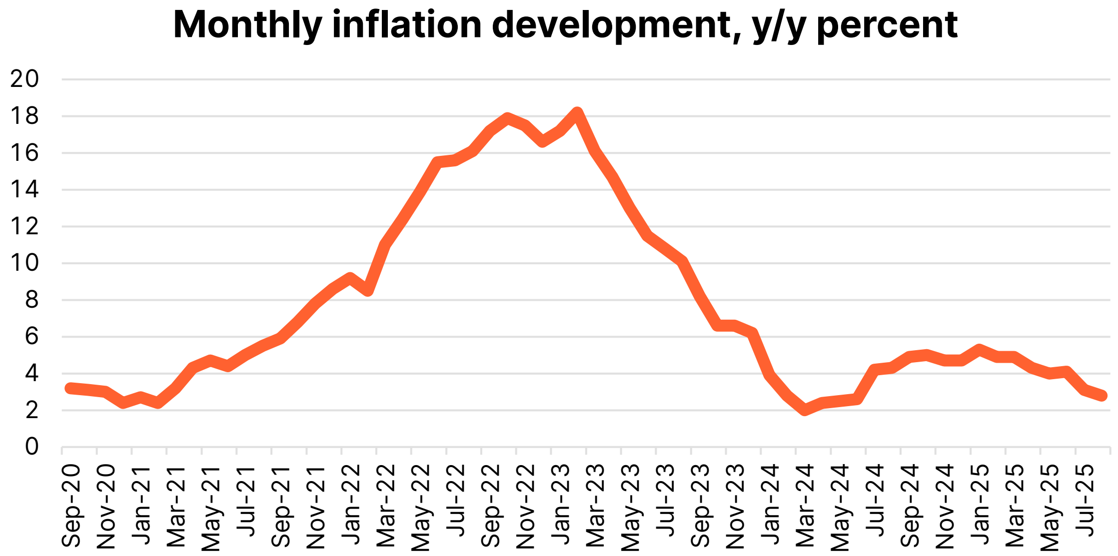


Despite robust economic growth in the second quarter, the underlying composition of this expansion was unexpectedly uneven. Household consumption outperformed expectations, rising by 4.4% y/y (3.9% seasonally and chain-linked adjusted), indicating resilient domestic demand. In contrast, fixed investment activity fell short of projections. Although we had anticipated slightly slower investment growth relative to consensus—primarily due to the high base effect from 2024—the observed decline of -1.0% (-1.8% seasonally and chain-linked adjusted) was more pronounced than expected. This contraction in investment is likely to be temporary, and we expect a recovery in the coming quarters. On the other hand, inventory accumulation contributed positively to growth, adding 1 percentage point, which helped offset the weakness in fixed investment and resulted in a total investment contribution of 0.8 percentage points to GDP growth. Meanwhile, the external environment appears to be gradually improving. The pace of import growth is decelerating, which is helping to moderate the negative contribution from net exports, providing further support to GDP.

Source: Eurostat, Refinitiv, Erste Group Research

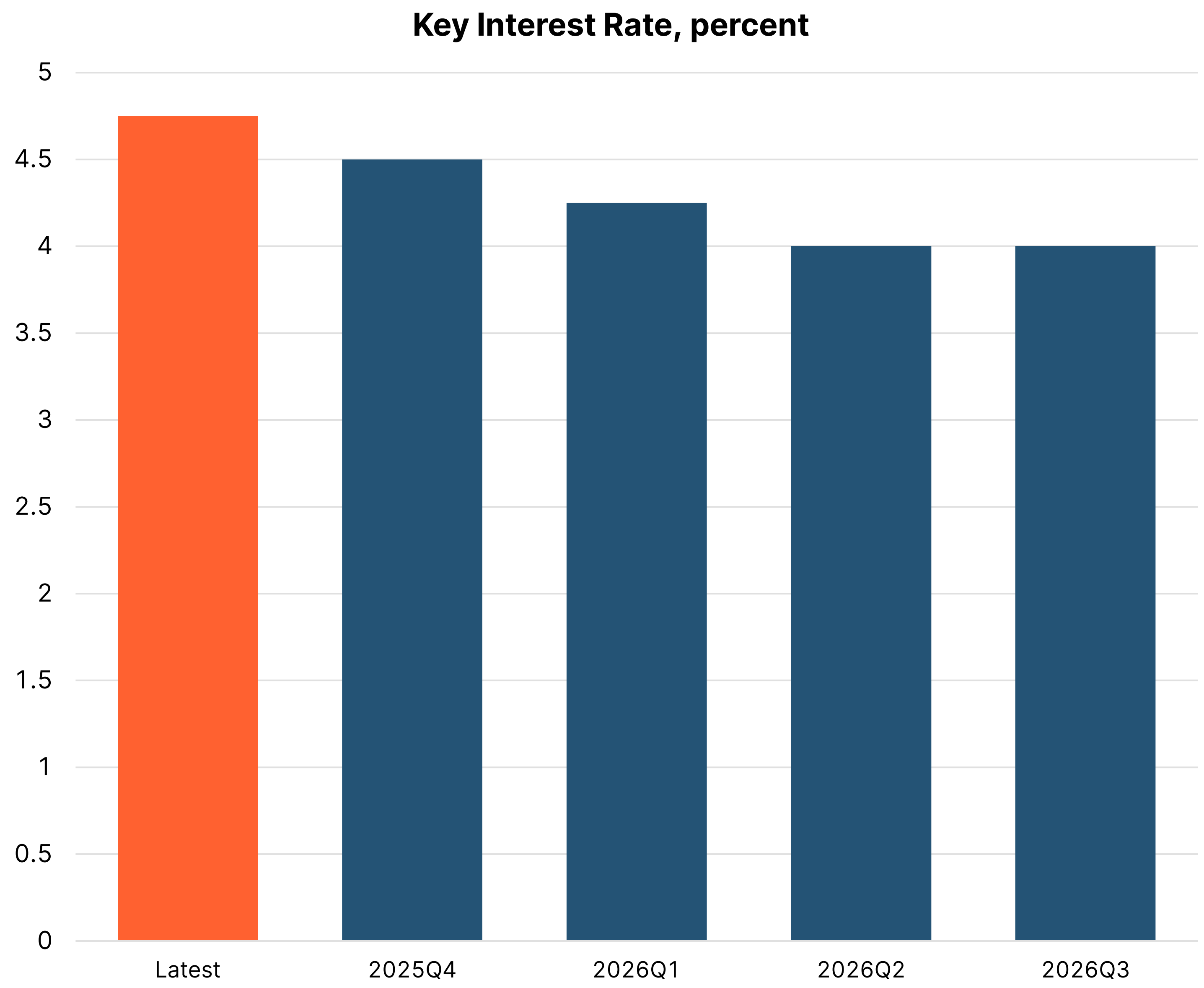
Inflation development





After twelve months, the base effect from the partial deregulation of energy prices in July last year finally vanished. Although the headline inflation figure for July came in at 3.1%, slightly above our forecast, August's flash estimate aligned with our initial expectations at 2.8%. Looking ahead, we anticipate the inflation trajectory to remain slightly below 3%, driven by continued upward pressure from services prices, which are currently increasing at a robust pace of 6.2% y/y. In contrast, annual inflation for goods declined to below 2% in July, largely due to the aforementioned base effects. Core inflation has remained relatively stable since April, fluctuating within a narrow range of 3.3% to 3.4%. While wage growth is moderating gradually, we expect wage-related pressures on services inflation to ease further over time. The primary risks to the inflation outlook stem from external factors and rising household consumption. Although fiscal policy has been cited as a potential inflationary driver, we consider its impact to be relatively limited. Over the medium term, we expect inflation to gradually converge toward the central bank's target, with upside risks remaining more prominent in our assessment.

Monetary policy



Following the September's 25 bp interest rate cut to 4.75%, NBP Governor Adam Glapinski stated there is a "cautious desire" for further cuts but emphasized significant inflationary risks. According to him, key risks include loose fiscal policy, which he described as "wasteful“, high wage growth, and recovering consumption.

The Governor indicated that an extension of the energy price freeze would be a very important element supporting another rate cut, possibly as early as October. However, he stressed that the MPC is not announcing any specific rate path and will make decisions based on incoming data to avoid having to reverse course with future hikes.

In our view, one more 25bp rate cut is possible still this year, with further reductions in 2026. The terminal rate should be around 3.75%.

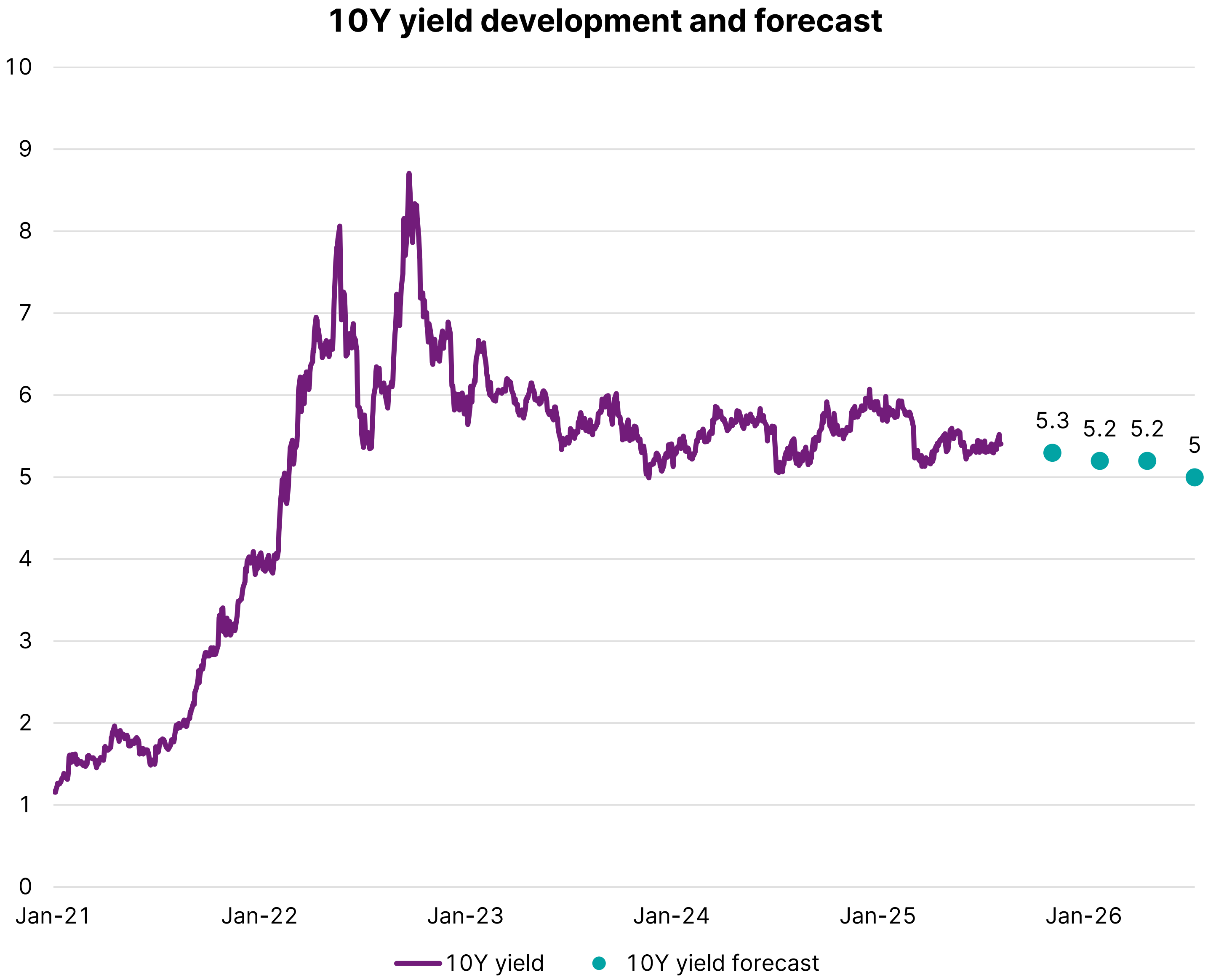
Source: Eurostat, Refinitiv, Erste Group Research

Yields and spreads

The bond market reacted only moderately to the release of the 2026 draft budget. After an initial 10bp rise, the 10-year yield settled around 5.4%. Similarly, Fitch's change of Poland's outlook to negative had little impact, suggesting that investors remain confident in the Treasury's ability to meet its financing requirements.

Financing needs for 2026 are significantly higher at PLN 423bn versus PLN 301bn projected for 2025. However, the Treasury initially estimated PLN 367bn for the current year. Moreover, when excluding loans from the EU recovery fund, the financing needs remain broadly unchanged at about PLN 300bn.

Despite the muted market response, we have raised our 10-year yield forecast up by about 20bp, as persistent fiscal uncertainty is likely to keep upward pressure on yields.



Source: Eurostat, Refinitiv, Erste Group Research
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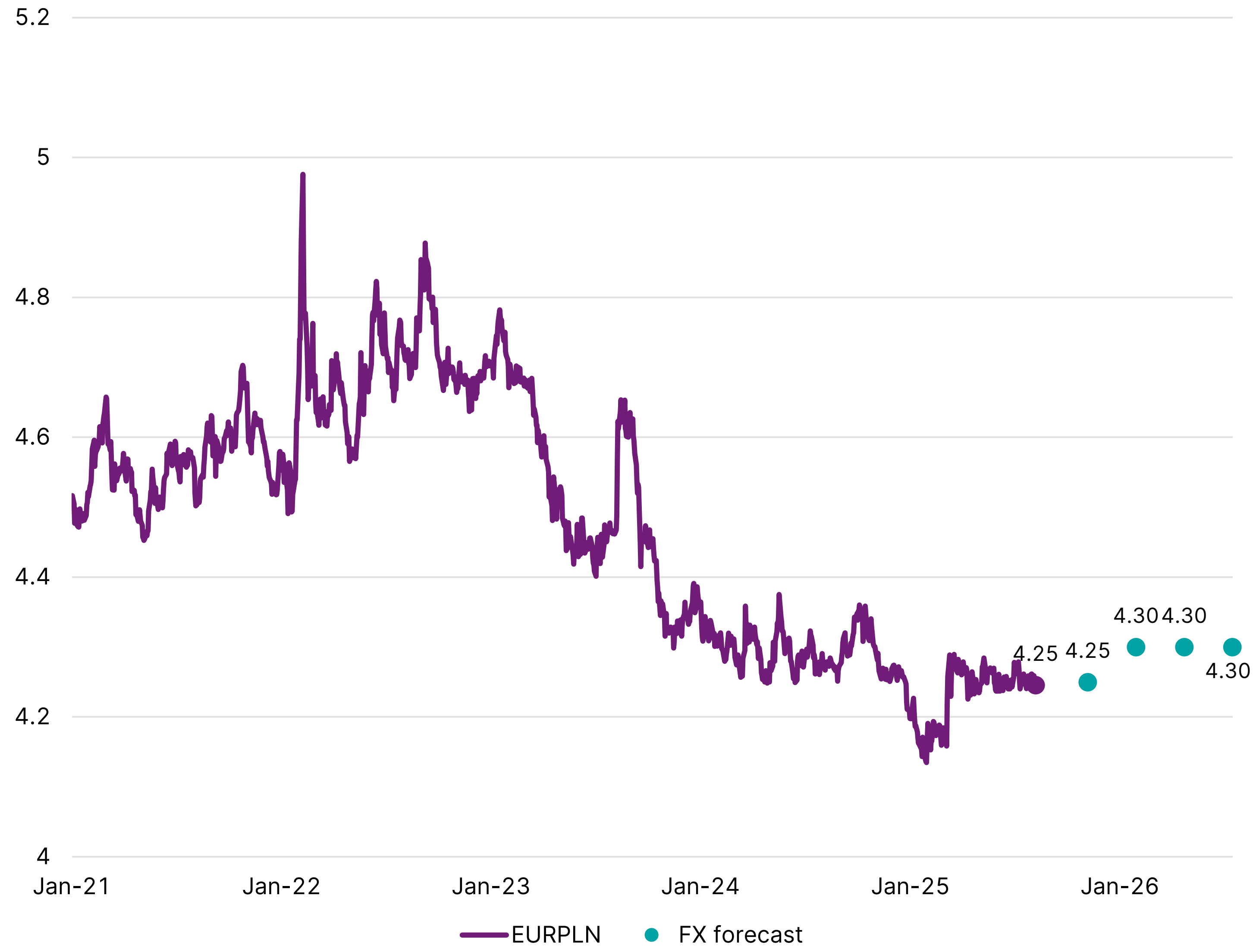
FX Market

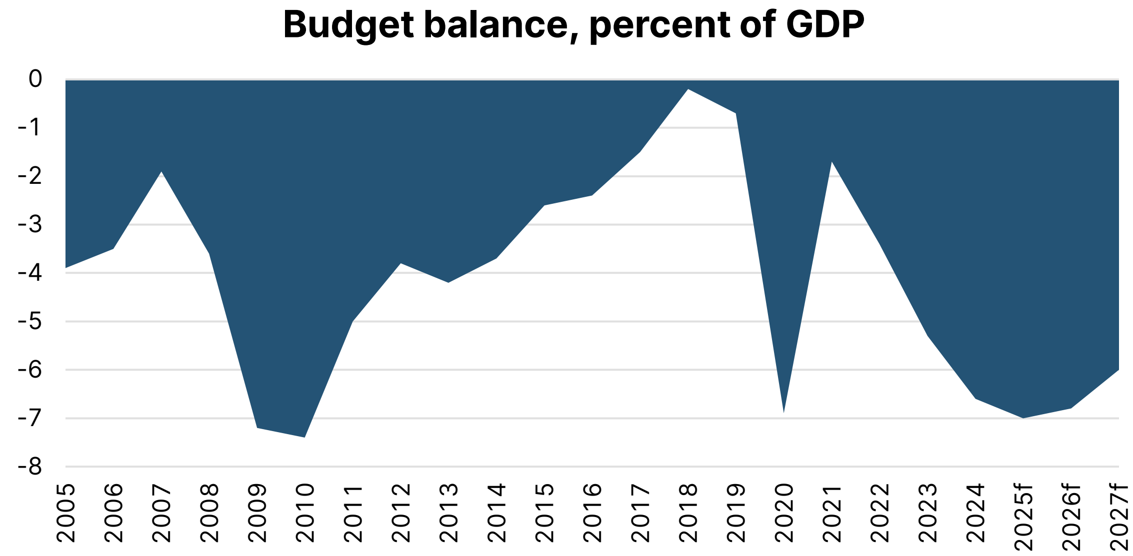
FX market development and forecast

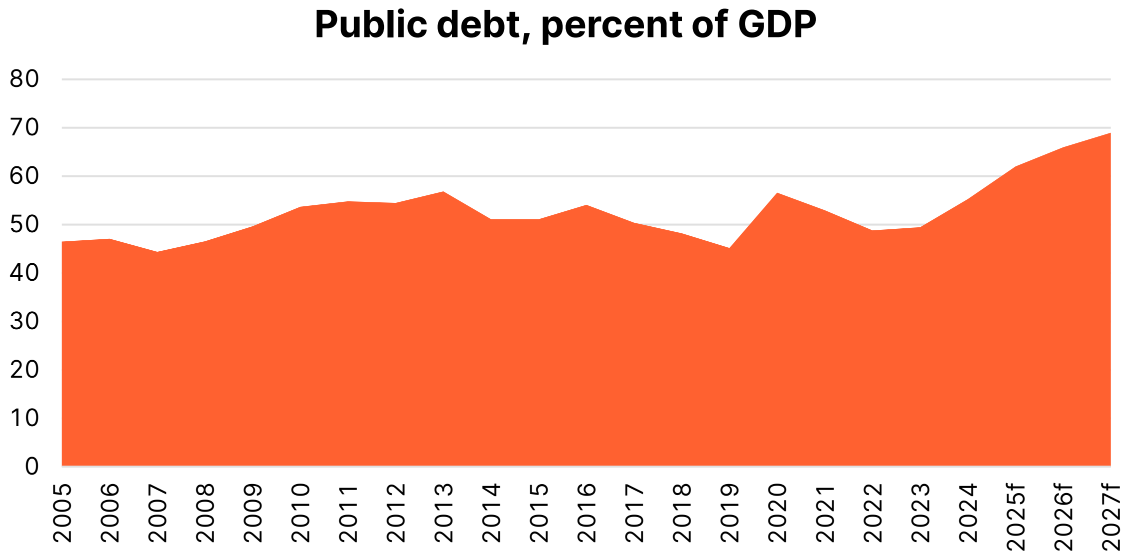


The foreign exchange market remained impressively stable over the past quarter, with the EUR/PLN exchange rate fluctuating within a narrow range of 4.23 to 4.28. Even the outcome of the presidential election had limited impact on the currency, aside from a brief and modest depreciation.

Our baseline forecast sees continued exchange rate stability through year-end, followed by a slight depreciation in the following year. Our outlook is primarily driven by the expected monetary easing next year, which will decrease the interest rate differential between Poland and the Eurozone, as well as potential nervousness of the market ahead of 2027 general elections.

Fiscal Situation





According to the draft budget act for 2026, the Polish Ministry of Finance now projects this year's fiscal deficit at 6.9% of GDP, up from 6.3% estimated before the summer and 5.5% assumed in the original budget act. For 2026, the deficit is expected to remain elevated at 6.5% of GDP. In light of these revisions, we have adjusted our own budget balance forecasts downward, anticipating a deficit of 7.0% in 2025, 6.8% in 2026, and 6.0% in 2027. The primary divergence between our projections and those of the Ministry stems from differing GDP growth assumptions, as the government expects economic expansion of 3.5% next year. No meaningful fiscal consolidation is also expected in 2027, with general elections skewing risks to the downside. The persistently high deficit is driven not only by defense spending but also by rising healthcare costs, social transfers, and public sector wages. On the revenue side, the outlook remains constrained, as the newly elected president has pledged to veto any tax increases. Consequently, the debt-to-GDP ratio is projected to rise sharply - from 52% in 2024 to near or above 70% by 2027.

Source: Eurostat, Refinitiv, Erste Group Research

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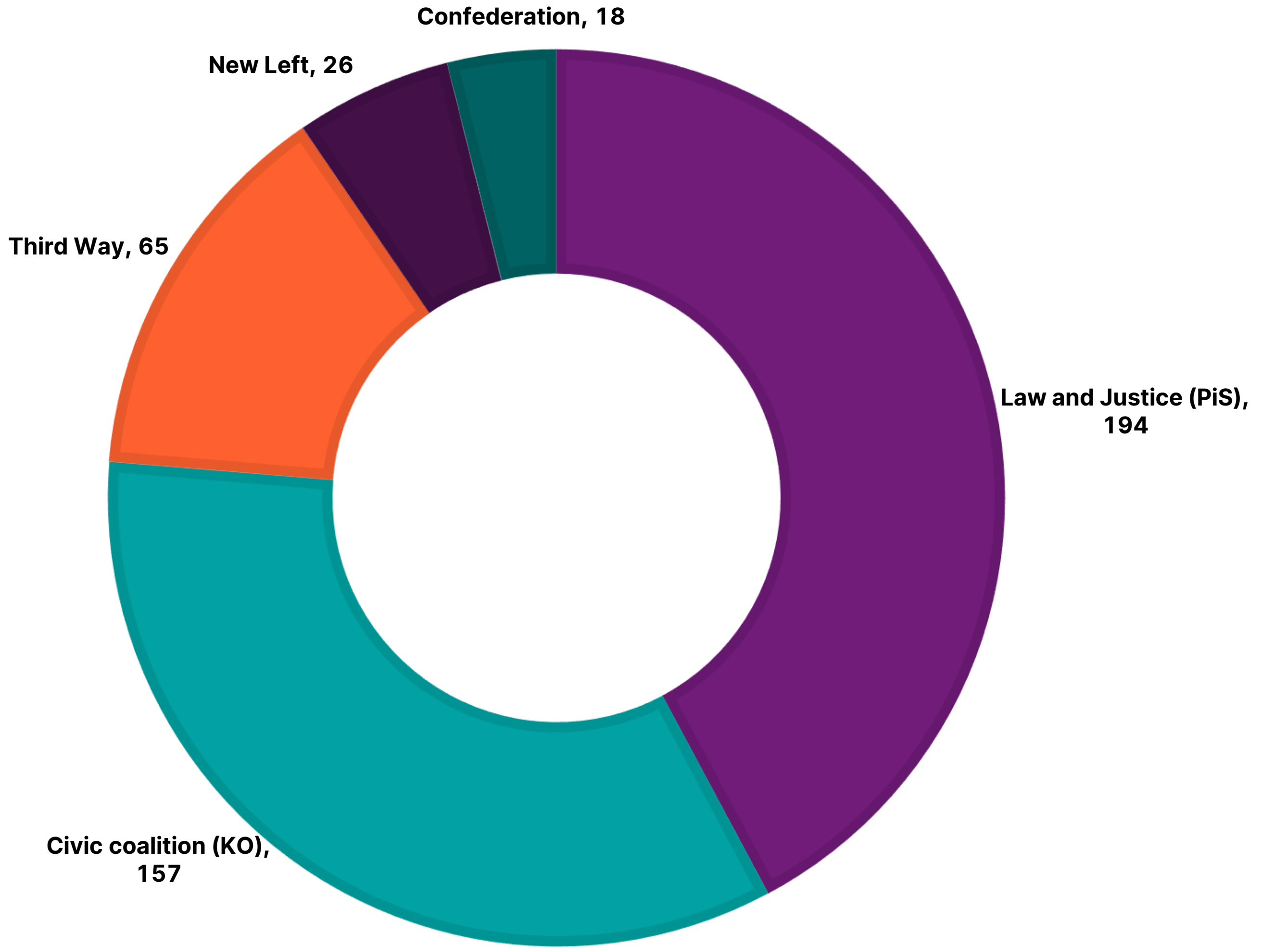
Political landscape

Fitch cited political frictions between the incumbent government and the newly elected president as one of the factors behind the recent downgrade in the outlook. One example could be the President's announcement of his intention to block tax increases while simultaneously proposing costly new initiatives. It remains unclear whether this stance applies to all taxes or only those directly impacting households.

Given these dynamics, a meaningful reduction in the fiscal deficit appears difficult before 2027, as increasing revenues substantially via taxes will be vetoed and expenditure-side consolidation could put the current government into a difficult position ahead of 2027 elections.

Parliamentary seats



Source: Eurostat, Refinitiv, Erste Group Research

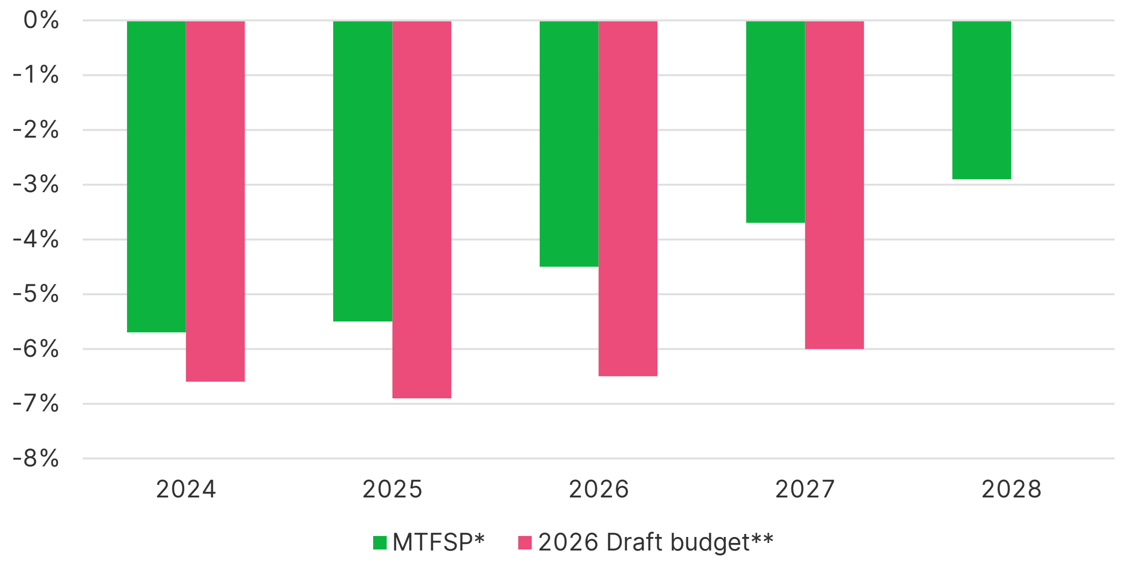
All but one SDGs improve

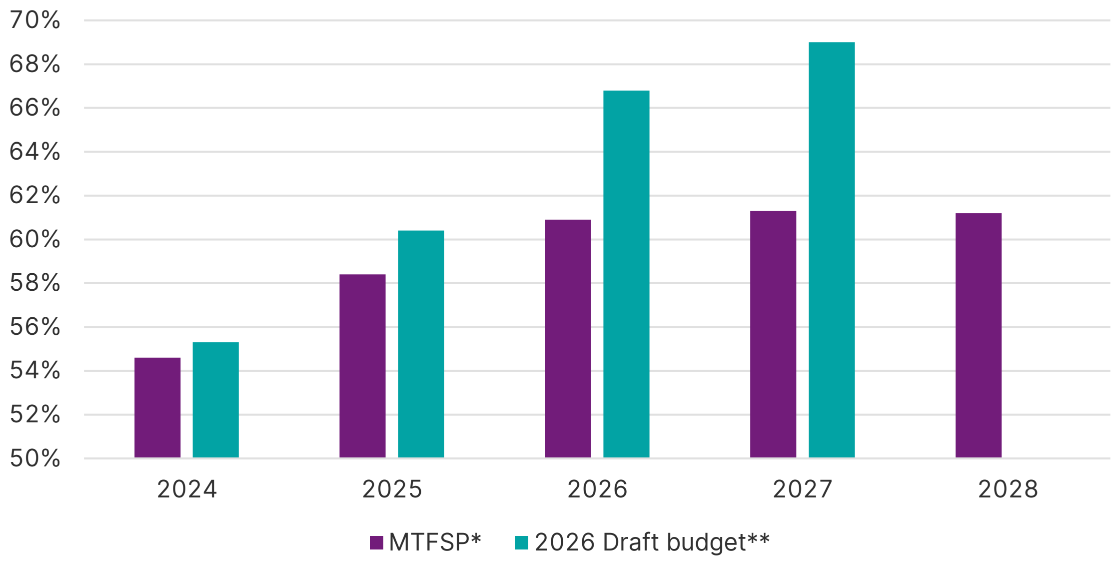
The latest edition of the Sustainable Development Goals (SDGs) report by Eurostat has recently been released, showing that Poland has made progress across nearly all goals, with the exception of SDG 15 – "Life on Land." This particular goal monitors ecosystem health, land degradation, and biodiversity,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

Fiscal path diverges from last year’s plans

Fiscal trajectories diverge from the Medium-term Plan





The 2026 draft budget significantly worsens the projected paths for the budget balance and public debt relative to previous assumptions. We compare the Ministry's projections with those in last year's Medium-Term Fiscal Structural Plan (MTFSP), which now appears outdated as fiscal trajectories diverge sharply. For 2025, the downward deficit revision is driven mainly by weaker VAT and other tax revenues. In July, European Commission has allowed Poland to activate the national escape clause, permitting net expenditure growth above the MTFSP limit by up to 1.5% of GDP. However, the impact of the new budget draft on the net expenditure path remains unclear. Public debt is now expected to rise substantially, with a projected gap of around 10 percentage points by 2027 as opposed to the MTFSP. This increase reflects not only large accrual-based deficits but also significant loan drawdowns from the RRF and the immediate cash-based recognition of defense spending, which contrasts with the accrual treatment of deficits.

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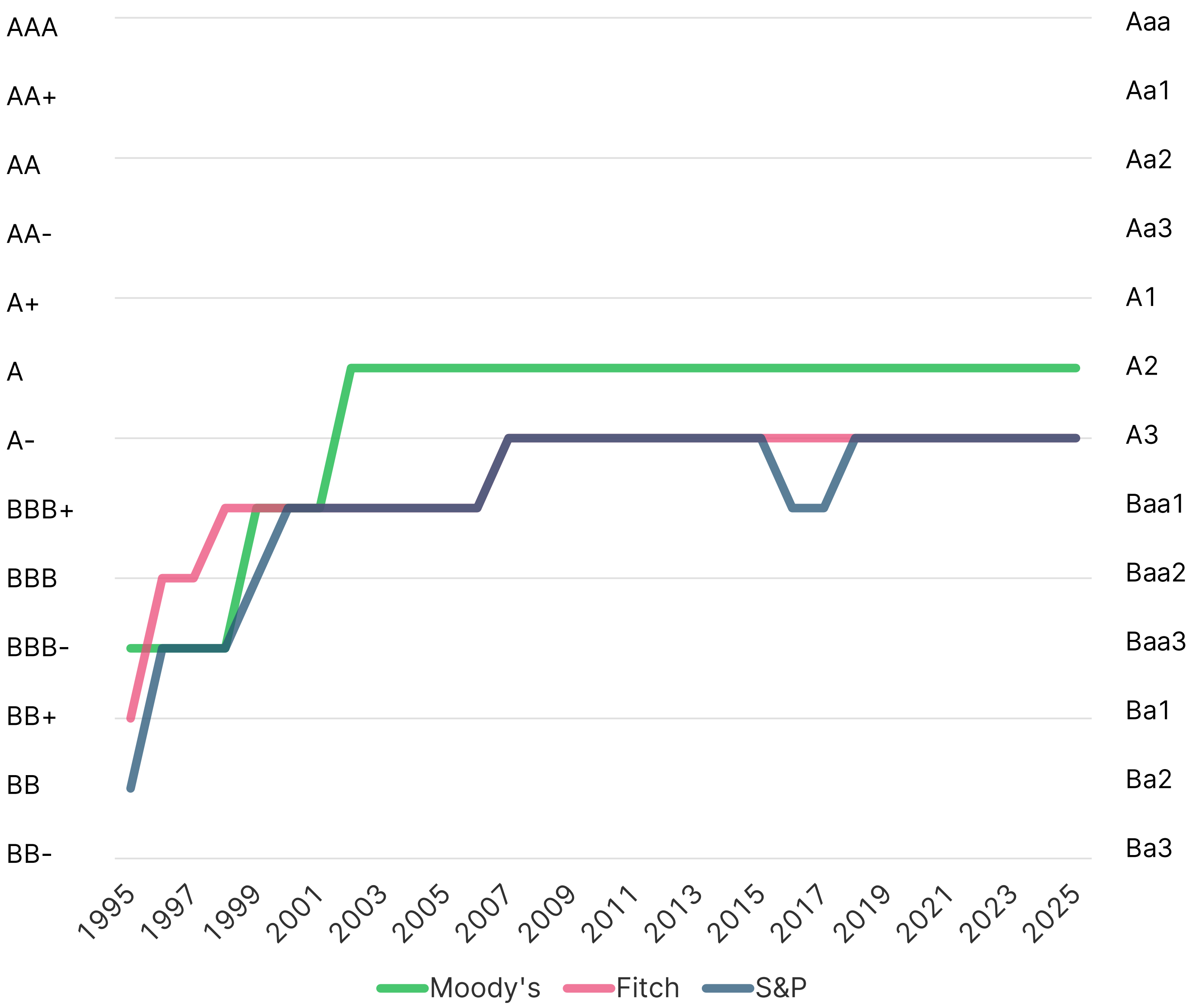
* Medium-Term Fiscal Structural Plan
**For 2027, Erste forecast was used

Source: Eurostat, Refinitiv, Erste Group Research

Ratings under threat

Following Fitch's revision of Poland's outlook to negative, there is a possibility that other rating agencies may adopt a similar stance. Poland's sovereign rating has remained largely stable over the years, with the exception of a temporary downgrade by S&P in 2016. However, without more credible and sustained efforts toward fiscal consolidation, a downgrade within the next two years cannot be ruled out.

One of the key revenue-generating measures proposed for 2026, potentially capable of overcoming a presidential veto, is the planned increase in the corporate income tax on banks. The current rate of 19% is set to rise to 30% in 2026, followed by a gradual reduction to 26% in 2027 and 23% thereafter. This measure is expected to generate approximately PLN 6.6 billion in additional revenue next year, with cumulative gains potentially reaching up to PLN 20 billion over the next decade.



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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	3.4	3.2
Private consumption growth	4.4	3.5	-3.6	6.2	5	-0.3	3.1	4.1	4.2
Fixed capital formation growth	12.6	6.2	-2.3	1.5	1.7	12.6	1.5	5	8
Inflation	1.6	2.3	3.4	5.1	14.4	11.4	3.6	3.7	2.8
Unemployment rate	5.8	5.2	6.8	5.8	5.2	5.1	5.1	5.3	5.2
Percent of GDP									
Budget balance	-0.2	-0.7	-6.9	-1.7	-3.4	-5.3	-6.6	-7.0	-6.8
Public debt	48.2	45.2	56.6	53.0	48.8	49.5	55.3	62.0	66.0
Current account balance	-2.0	-0.3	2.4	-1.3	-2.2	1.8	0.0	-0.5	-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	4.50	3.75
3M interbank offer rate	1.72	1.71	0.21	2.54	7.02	5.88	5.84	4.60	3.90
2Y Yield	1.33	1.47	-0.04	3.33	6.66	5.00	5.17	4.20	3.90
5Y Yield	2.27	1.77	0.37	3.95	6.84	5.00	5.50	4.80	4.40
10Y Yield	2.83	2.05	1.25	3.67	6.85	5.22	5.87	5.30	4.80

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

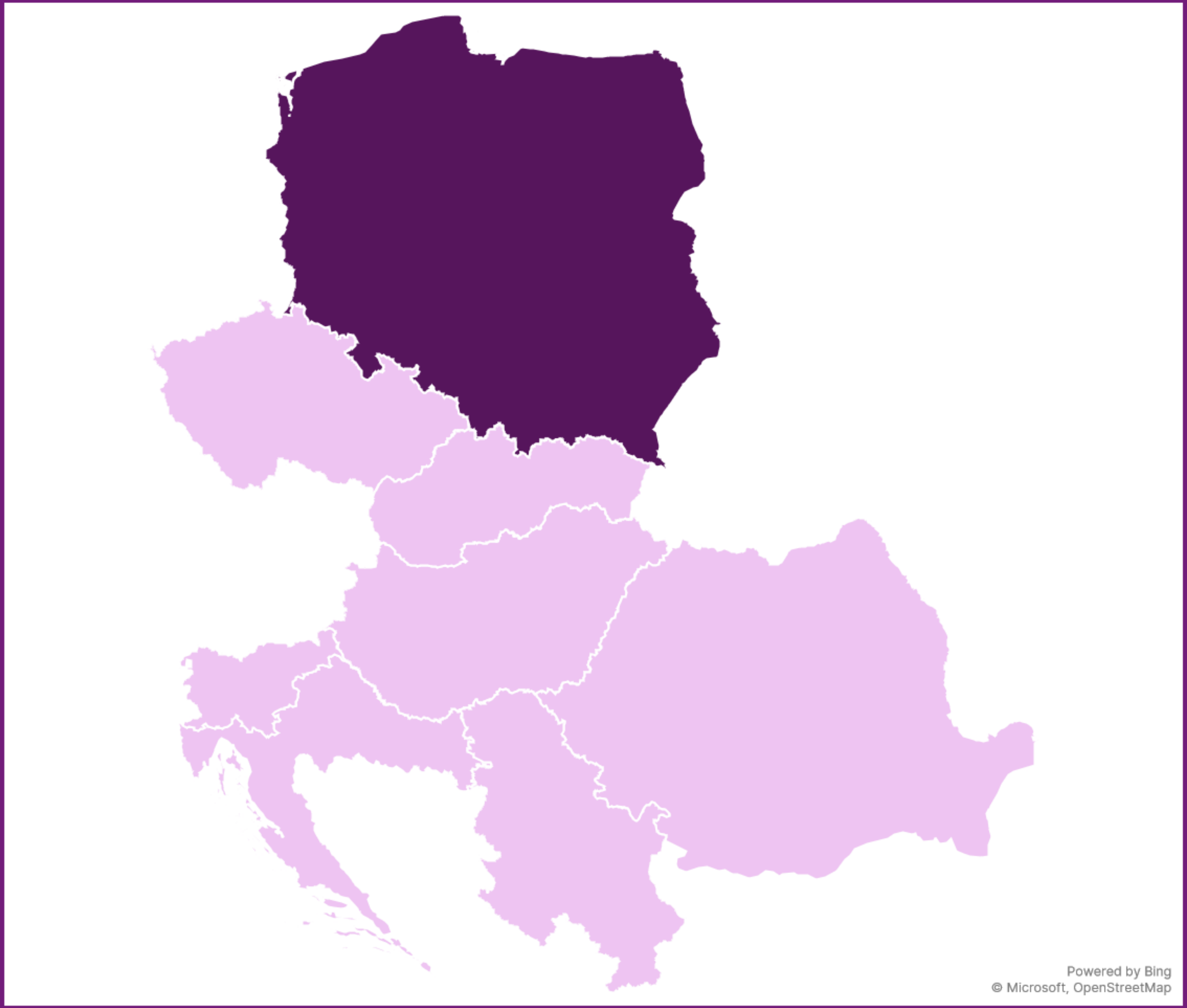
Currency: Polish Zloty PLN

Credit Ratings:

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

EU member state: since 1 May 2004

Schengen: member since 21 December 2007



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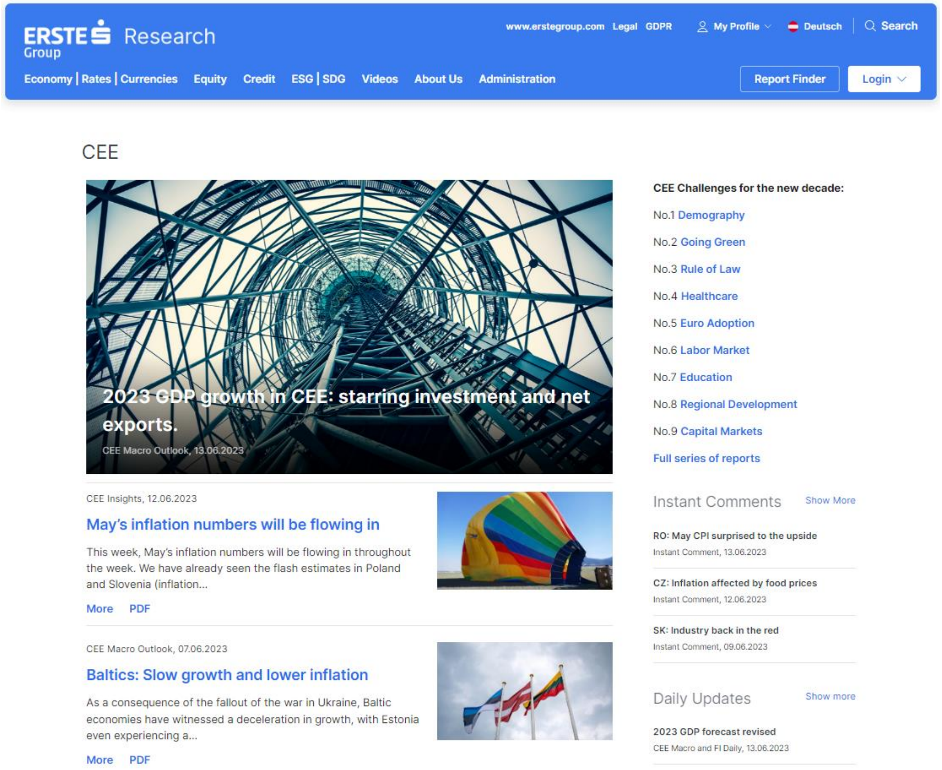

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