26 September 2025 | 4 pages

Poland Economics View

Poland Monthly Economic Outlook

OUR TAKE

Inflation is expected to fluctuate around 3% in the near term, but it will likely fall further in 2026. The central bank will probably continue its rate-cutting cycle, but only gradually, as large fiscal deficit limits room for monetary easing.

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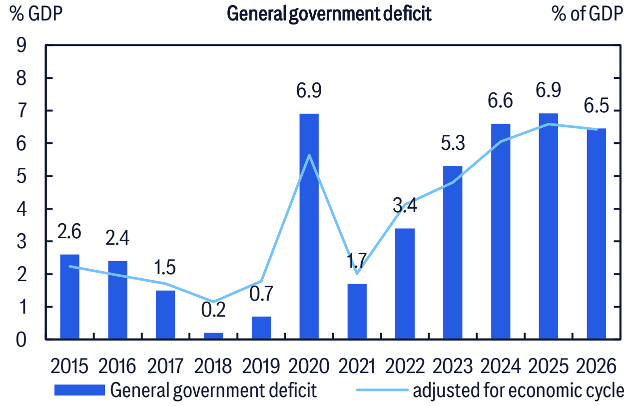
The key event in Poland last month was publication of the budget draft for 2026, which showed significantly higher fiscal deficit path than previously assumed. According to the Finance Ministry, the general government gap can reach 6.9% of GDP in 2025 and 6.5% in 2026. The budget implies also that public debt according to Eurostat methodology can reach nearly 67% of GDP next year, significantly exceeding the Maastricht debt threshold. The government has not published any fiscal tightening plan yet, and given the political constraints, we think such a plan would be very difficult to deliver. As we have been signaling repeatedly since presidential elections in June, the government's attempts to increase taxes face potential presidential veto, while the prospect of parliamentary elections in 2026 reduces chances of any unpopular tightening measures.

The deteriorating fiscal outlook has already triggered some reaction from rating agencies and more hawkish comments from the central bank. In September, both Fitch and Moody's decided to keep Poland's ratings unchanged but lowered rating outlooks to Negative from Stable. Rating agencies emphasized that in absence of measures that would stop the rise in debt, burden ratings could be lowered. Taking into account our fiscal scenarios and the existing political constraints, we believe downgrades in the coming quarters are a likely scenario. Spring rating reviews may be the first opportunity for such actions, but, in our opinion, agencies may want to wait for the 2027 budget draft, which will be published by September 2026. This would mean that in the absence of noticeable fiscal measures (spending cuts or tax increases), downgrades could take place at the end of next year.

One reason rating agencies have been reluctant to act so far is the strength of Polish economic growth and its diversified structure that ensures resilience to external shocks. It is also confirmed by recent data releases, as GDP expanded by 3.4% YoY in 2Q and is likely to rise by around 3.5% in full 2025. The growth is supported by improving consumer confidence, strong real wage growth, and large inflow of EU funds. This should allow the economy to maintain a growth rate of approximately 3.5% in 2026.

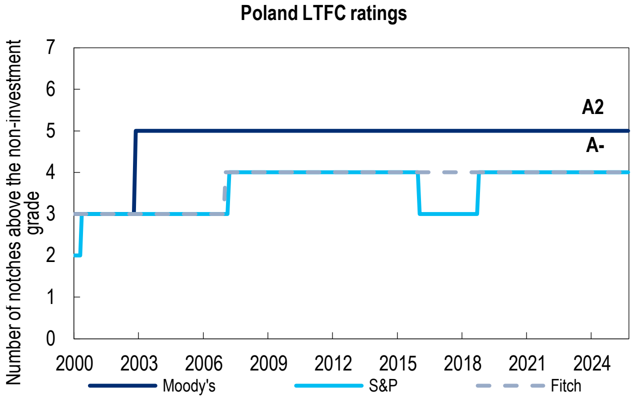
In September, the Monetary Policy Council cut the policy rate by 25bps to 4.75%. This means the easing cycle that began in May has already brought cumulative cuts of 100bps. The central bank acknowledged the significant decline in inflation as the key factor allowing for rate cuts. Our inflation forecast trajectory shows CPI hovering around 3% – ie, inside the central bank's target range – in the next 3-4 months. In our view, this leaves space for at least one more rate cut by 25bps this year, followed by up to three cuts next year. In the base case, we expect the key policy rate to fall to around 3.75% by mid-2026. Several policymakers have voiced concerns over the high fiscal deficit in Poland and emphasized inflation risks that they pose. This explains why most MPC members see the terminal rate in Poland significantly higher than ~3.5% priced in by markets.

Figure 1. Fiscal deficit trajectory is significantly higher than previously expected



Source: Eurostat, Citi Handlowy Forecasts

Figure 2. Rating agencies have kept Poland's rating unchanged but lowered outlook to negative



Source: Bloomberg

Figure 3. Poland Economic Indicators

	2018	2019	2020	2021	2022	2023	2024	2025F	2026F
Activity									
Nominal GDP, USD bn	590	596	600	690	697	813	915	1066	1115
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	3.5	3.6
Private consumption growth % yoy	4.4	3.5	-3.6	6.2	5.0	-0.3	3.1	3.6	3.5
Real investment growth % yoy	13.8	0.5	-7.5	19.4	7.7	-16.6	4.0	5.0	5.0
Real export growth, % yoy	6.8	5.3	-1.1	12.3	7.4	3.7	2.0	3.8	5.8
Real import growth, % yoy	7.5	3.2	-2.4	16.3	6.8	-1.5	4.2	3.9	5.6
Net export contribution to growth	-0.1	1.7	0.8	-1.9	0.8	4.1	-1.5	0.2	0.6
Unemployment, % of labour force	5.8	5.2	6.8	5.8	5.2	5.1	5.1	5.4	5.3
External (US$bn)									
Current account	-11.7	-1.6	14.4	-9.2	-15.7	14.6	-0.3	-13.7	-25.1
% of GDP	-2.0	-0.3	2.4	-1.3	-2.2	1.8	0.0	-1.3	-2.3
Trade balance	-6.1	-4.9	7.9	-9.1	-23.2	5.1	-6.9	-19.3	-31.9
FDI, net	17.4	13.7	14.8	27.3	29.3	19.5	13.1	10.0	10.0
External debt	363.6	355.8	378.1	367.0	375.2	428.7	459.4	483.1	489.8
Short-term debt	51.5	57.0	61.3	62.4	66.6	74.5	81.9	88.1	94.8
International reserves	117.0	128.4	154.2	166.0	166.7	193.8	223.1	275.2	282.1
Public Finances, % of GDP									
Consolidated government balance	-0.2	-0.7	-6.9	-1.7	-3.4	-5.3	-6.6	-6.9	-6.5
Consolidated gov primary balance	1.2	0.6	-5.6	-0.7	-1.9	-3.2	-4.4	-4.3	-3.6
Public debt	45.8	42.8	47.1	43.2	39.0	38.9	44.3	48.9	53.8
External public debt	24.3	21.8	22.3	17.4	17.1	17.5	18.0	13.1	12.6
Prices									
CPI, %yoy, eop	1.1	3.4	2.4	8.6	16.6	6.2	4.7	2.9	2.4
CPI, %yoy, avg	1.6	2.3	3.4	5.1	14.3	11.5	3.6	3.7	2.4
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	4.24	4.29
Policy Interest Rate, % eop	1.50	1.50	0.10	1.75	6.75	5.75	5.75	4.50	3.75
Long-term yield, %, eop	2.81	2.07	1.25	3.71	6.88	5.25	5.89	5.30	4.70
Nominal wages, % yoy	7.1	6.5	4.7	8.8	13.0	11.9	11.0	8.2	5.7
Quarterly Economic Indicators									
	2024 Q4	2025 Q1	2025 Q2F	2025 Q3F	2025 Q4F	2026 Q1F	2026 Q2F	2026 Q3F	2026 Q4F
GDP, % yoy	3.4	3.2	3.4	3.8	3.4	3.6	3.8	3.5	3.3
CPI, %yoy, avg	4.8	4.9	4.1	3.0	2.9	2.4	2.6	2.2	2.3
PLN/EUR, eop	4.28	4.19	4.25	4.26	4.25	4.27	4.29	4.29	4.29
Policy interest rate, %, eop	5.75	5.75	5.25	4.75	4.50	4.00	4.00	3.75	3.75

Source: Citi Handlowy Forecasts, National Sources

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