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Poland Economics View

Poland Monthly Economic Outlook

OUR TAKE

We expect inflation to rise sharply in the coming months, possibly exceeding 4% later this year. However, the risk of second-round effects is now much smaller than in 2022. Taking this into account, we expect the NBP to keep its policy rates on hold throughout 2026.

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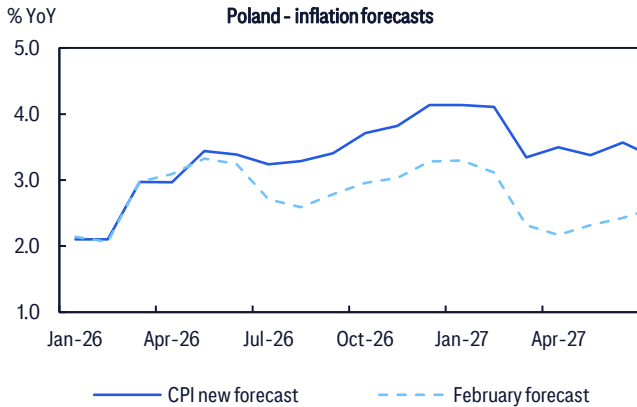
The war in the Middle East has significantly reshaped our inflation forecasts. Prior to the escalation of the conflict, our projections for 2026 assumed an increase in inflation, but also expected it to remain below the 3% threshold. Our revised forecast indicates that the CPI could exceed 4% by year-end. This upward revision is primarily driven by an initial surge in fuel prices, which is then expected to be compounded by a strengthening in food prices. Already in March the consumer inflation rose from 2.1% to 3% YoY. In response to the commodity price shock the government reduced fuel taxes which should help soften the inflationary blow, by lowering the *level* of average fuel prices in April. However, future fuel price *changes* will depend on the geopolitical situation anyway and on the extent of potential destruction of the energy infrastructure in the Middle East. Taking this into account we anticipate that fuel prices in December could still be higher than those observed in February. Although Poland has successfully diversified its energy supplies since the beginning of the conflict in Ukraine in 2022, Middle Eastern suppliers still play a role in oil imports (Saudi Arabia) and in liquefied natural gas supplies (Qatar), leaving some vulnerability to regional instability.

We believe second-round inflationary effects will be contained, largely due to a significantly different economic starting point compared to 2022. Specifically, wage growth is currently standing at approximately 6%, considerably lower than the nearly 10% level recorded before the energy price surge in 2022. Furthermore, the pricing power of Polish retailers appears to have weakened, implying reduced capacity to implement significant price adjustments without negatively impacting consumer demand and overall sales volumes. For these reasons, we anticipate that the rise in core inflation, which excludes volatile food and energy components, could be substantially smaller than the projected increase in headline CPI. This suggests that price pressures are more concentrated in specific sectors rather than being broadly diffused throughout the economy.

Regarding the growth outlook, we believe the impact of the war in the Middle East on Poland's GDP will be relatively limited. This month, we made only a modest downward revision to our 2026 GDP growth forecast, adjusting it by 0.1 pp to 3.9%. The primary rationale is that this year's growth should be predominantly driven by investment projects financed with European Union funds. Since fluctuations in oil prices do not directly affect the availability or allocation of these funds, this should provide a degree of insulation to Poland's growth.

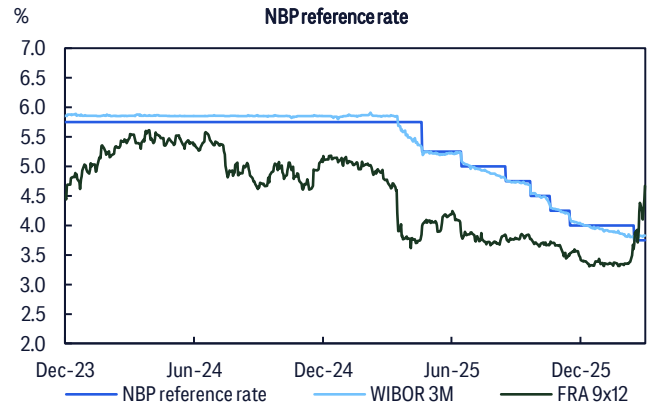
In our assessment, the monetary easing cycle has now concluded. In March, the Monetary Policy Council lowered the reference rate by 25bps to 3.75%, consistent with its earlier guidance. However, MPC members suggested that any further rate reductions are off the table as long as geopolitical tensions persist. Given our current fuel price scenario and the broader geopolitical landscape, we do not believe it is reasonable to expect additional monetary easing in the foreseeable future. Interest rates in Poland have already been reduced by a cumulative 200 bps and are now broadly in line with the neutral rate. Taking into account the elevated inflation outlook, we believe a motion to further lower the policy rate would be difficult to justify on economic grounds. While there is likely no intention among a majority of MPC members to hike rates at present, we believe an increase in rates from the current position is more likely than further cuts, especially given the prevailing inflation projections and the fact that rates are already at neutral levels.

Figure 1. The surge in oil prices has pushed the inflation path significantly higher



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Source: Citi Handlowy Estimates, Statistics Poland

Figure 2. FRA market is pricing in rate hikes in the coming months



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Source: Citi Handlowy Estimates, National Bank of Poland, Bloomberg

Figure 3. Poland Economic Indicators

	2019	2020	2021	2022	2023	2024	2025	2026F	2027F
Activity									
Nominal GDP, USD bn	596	600	690	697	813	918	1,038	1,121	1,175
Population, mn	38.4	38.1	37.9	37.8	37.6	37.5	37.4	37.4	37.4
Real GDP, yoy avg	4.4	-2.0	6.9	5.3	0.2	3.0	3.6	3.9	2.9
Private consumption growth % yoy	3.5	-3.6	6.2	5.0	-0.3	2.9	3.7	3.7	3.5
Real investment growth % yoy	0.5	-7.5	19.4	7.7	-16.6	4.7	4.8	6.7	4.9
Real export growth, % yoy	5.3	-1.1	12.3	7.4	3.7	2.0	4.5	6.0	4.4
Real import growth, % yoy	3.2	-2.4	16.3	6.8	-1.5	4.5	5.6	7.0	6.3
Net export contribution to growth	1.7	0.8	-1.9	0.8	4.1	-1.7	-0.5	-0.4	-1.2
Unemployment, % of labour force	5.2	6.8	5.8	5.2	5.1	5.1	5.7	5.8	5.7
External (US\$bn)									
Current account	-1.6	14.4	-9.2	-15.7	12.5	2.8	-7.1	-15.0	-19.9
% of GDP	-0.3	2.4	-1.3	-2.2	1.5	0.3	-0.7	-1.3	-1.7
Trade balance	-4.9	7.9	-9.1	-23.2	5.1	-6.7	-14.9	-23.9	-28.2
FDI, net	13.7	14.8	27.3	29.3	23.3	10.6	13.0	13.0	13.0
External debt	355.8	378.1	367.0	375.2	432.1	461.4	541.4	604.1	628.7
Short-term debt	57.0	61.3	62.4	66.6	74.9	82.1	91.4	99.1	108.7
International reserves	128.4	154.2	166.0	166.7	193.8	223.1	278.8	289.2	308.8
Public Finances, % of GDP									
Consolidated government balance	-0.7	-6.9	-1.7	-3.4	-5.2	-6.5	-6.7	-6.1	-5.9
Consolidated gov primary balance	0.6	-5.6	-0.6	-1.8	-3.1	-4.3	-4.2	-3.3	-3.0
Public debt	42.8	47.1	43.2	39.0	38.9	44.3	48.7	51.2	54.3
External public debt	21.8	22.3	17.4	17.1	17.5	17.9	13.5	12.5	11.9
Prices									
CPI, %yoy, eop	3.4	2.4	8.6	16.6	6.2	4.7	2.4	4.1	3.2
CPI, %yoy, avg	2.3	3.4	5.1	14.3	11.5	3.6	3.6	3.2	3.5
PLN/EUR, eop	4.25	4.56	4.59	4.69	4.34	4.28	4.22	4.33	4.31
PLN/EUR, avg	4.30	4.44	4.57	4.68	4.54	4.31	4.24	4.31	4.31
Policy Interest Rate, % eop	1.50	0.10	1.75	6.75	5.75	5.75	4.00	3.75	3.75
Long-term yield, % eop	2.07	1.25	3.71	6.88	5.25	5.89	5.18	5.30	4.90
Nominal wages, % yoy	6.5	4.7	8.8	13.0	11.9	11.0	8.1	6.3	5.7
Quarterly Economic Indicators									
	2025 Q4	2026 Q1	2026 Q2F	2026 Q3F	2026 Q4F	2027 Q1F	2027 Q2F	2027 Q3F	2027 Q4F
GDP, % yoy	4.0	4.0	3.9	3.9	3.6	3.1	3.0	2.8	2.7
CPI, %yoy, avg	2.6	2.4	3.3	3.3	3.9	3.9	3.5	3.3	3.3
PLN/EUR, eop	4.22	4.28	4.31	4.32	4.33	4.32	4.32	4.31	4.31
Policy interest rate, % eop	4.00	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75

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Source: Citi Handlowy Forecasts, National Sources

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