

27 May 2026 | 4 pages

Poland Economics View

Poland Monthly Economic Outlook

OUR TAKE

Inflation is likely to exceed the 3.5% YoY level before mid-year and may rise above 4% before year-end. The above-target inflation is likely to prompt a hawkish stance from the central bank. Economic activity remains robust, though we note that the Q1 GDP miss may lead to slightly lower full year growth.

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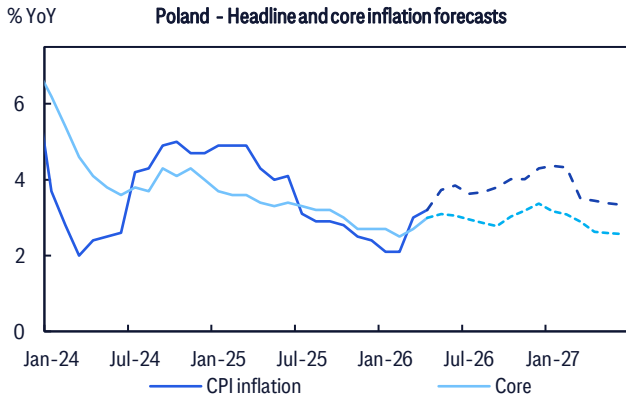
Headline inflation in Poland already moved higher from 2.1% YoY in January to 3.2% in April and we expect the upwards trend to be maintained in the near future. Although the rise in CPI is mostly related to higher fuel prices, we note that core inflation momentum picked-up significantly to 3.6% 3MMA SAAR. So far the ability of retailers to pass price shocks to final consumers has been limited, but we see risks that this mechanism may gain traction if the Middle East conflict drags on. The prolonged blockade of the Strait of Hormuz poses upwards risks to inflationary scenario and we expect that the Polish government is likely to extend fuel tax cuts at least until the year end, trying to minimize the impact on households. We expect that inflation will move above 3.5% YoY (upper band of allowed fluctuations around the 2.5% target) already in May and increase above 4% before the end of this year.

The Monetary Policy Council kept rates on hold in May and we expect the hawkish bias to be maintained, though rate-setters are hesitant to rush to hikes. The policymakers seem to view the current energy shock as less disruptive for the Polish economy as compared to 2022. The authorities, however, see risks related to prolonged disruptions in oil supply and monitor the data on ongoing basis to determine whether any actions are necessary. At the latest press conference Governor Glapinski suggested that above-target inflation combined with projections indicating such levels to persist may justify monetary policy tightening. Our inflation scenario assumes headline CPI to peak somewhere in Q1 2027, followed by gradual decrease closer to 3% by the end of 2027. Our baseline scenario assumes that MPC will keep rates unchanged in 2026. Nevertheless, risks to this scenario are skewed to the upside. Should the Strait of Hormuz blockade persist, the likelihood of a monetary policy response will increase further, potentially leading the MPC to raise rates. In such a scenario, we would expect at least two 25-basis-point hikes this year.

GDP growth slowed in Q1 2026 to 3.4% YoY vs. 4.1% in Q4 2025, though we attribute it to cold winter at the beginning of the year. The low temperature in January and February (as compared to last couple of years) weighed negatively on activity, especially in the construction sector. We believe that conflict in the Middle East has had so far little effect on economic activity in Poland. The GDP miss in 1Q26 (vs. consensus of 3.7% YoY) is unlikely to weigh heavily on the full year growth. We see risks that the surprise could shave off roughly 0.2-0.3pp from the growth, but the annual growth can still remain around the 3.5% trend.

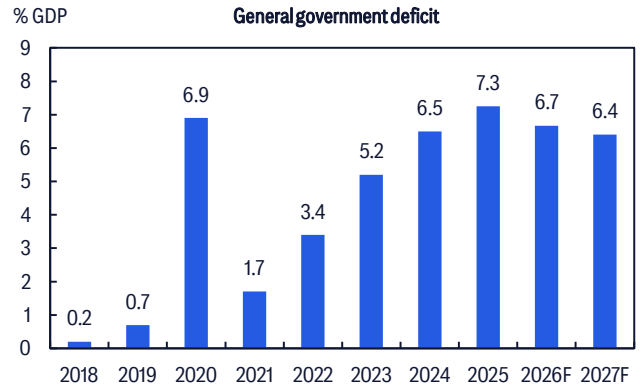
Poland stands out among EU members as a country with the largest planned fiscal deficit for 2026. The Ministry of Finance now forecasts the general government deficit at 6.8% of GDP for 2026, a slight decrease from 7.3% in 2025. We anticipate that material fiscal tightening is unlikely in the near term as government has limited ability to increase taxes, given the high probability of a veto from the president. Furthermore, with parliamentary elections approaching in 2027, significant spending cuts or comprehensive fiscal reforms are likely to be postponed until at least 2028. Consequently, any deficit reduction is expected to stem from freezing tax brackets and minor increases in excise duties, cumulatively contributing approximately 0.4% of GDP annually.

Figure 1. Rise in core inflation is likely to be contained as compared to headline CPI



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Source: Citi Handlowy Estimates, Statistics Poland

Figure 2. Material fiscal tightening is unlikely in the near term



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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	1,132	1,179
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	-8.9	-17.3	-22.2
% of GDP	-0.3	2.4	-1.3	-2.2	1.5	0.3	-0.9	-1.5	-1.9
Trade balance	-4.9	7.9	-9.1	-23.2	5.1	-6.7	-15.2	-24.8	-28.9
FDI, net	13.7	14.8	27.3	29.3	23.3	10.6	11.5	13.0	13.0
External debt	355.8	378.1	367.0	375.2	432.1	461.4	544.2	590.3	635.3
Short-term debt	57.0	61.3	62.4	66.6	74.9	82.1	78.8	83.0	88.0
International reserves	128.4	154.2	166.0	166.7	193.8	223.1	271.1	288.8	301.2
Public Finances, % of GDP									
Consolidated government balance	-0.7	-6.9	-1.7	-3.4	-5.2	-6.5	-7.3	-6.7	-6.4
Consolidated gov primary balance	0.6	-5.6	-0.6	-1.8	-3.1	-4.3	-4.8	-3.9	-3.6
Public debt	42.8	47.1	43.2	39.0	38.9	44.1	49.1	52.4	56.0
External public debt	21.8	22.3	17.4	17.1	17.5	17.9	24.0	25.1	27.1
Prices									
CPI, %yoy, eop	3.4	2.4	8.6	16.6	6.2	4.7	2.4	4.3	3.0
CPI, %yoy, avg	2.3	3.4	5.1	14.3	11.5	3.6	3.6	3.4	3.4
PLN/EUR, eop	4.25	4.56	4.59	4.69	4.34	4.28	4.22	4.25	4.27
PLN/EUR, avg	4.30	4.44	4.57	4.68	4.54	4.31	4.24	4.26	4.26
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	5.40	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	4.1	3.4	4.1	3.9	3.6	3.1	3.0	2.8	2.7
CPI, %yoy, avg	2.6	2.4	3.6	3.7	4.1	4.1	3.4	3.1	3.0
PLN/EUR, eop	4.22	4.29	4.24	4.24	4.25	4.25	4.26	4.26	4.27
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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