Economy and Financial Markets

20 December 2024 | 9 pages

Poland Economics View

Higher growth and (eventually) lower inflation

OUR TAKE

We expect GDP to accelerate in 2025 to 3.5-4%, reflecting stronger inflow of EU funds and higher investment. Inflation is likely to rise in the near term but starting from April we expect it to fall sharply and we see CPI around 3.5% by the end of 2025. The central bank remains cautious but improvement in inflation outlook and rate cuts by other central banks should eventually open room for policy easing in Poland. We expect the NBP to cut rates by 100bps in full 2025.

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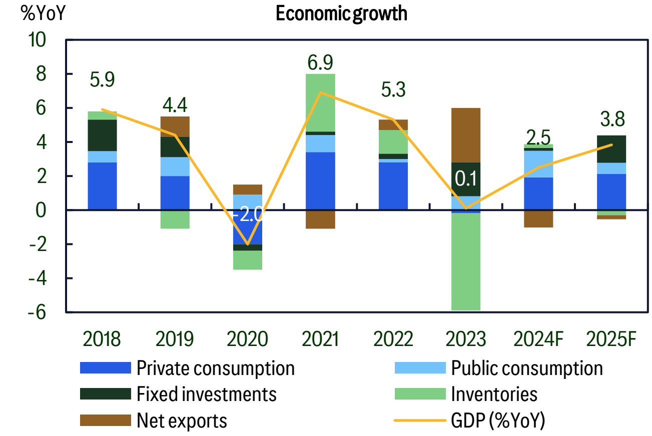
Outlook 2025

Growth set to accelerate

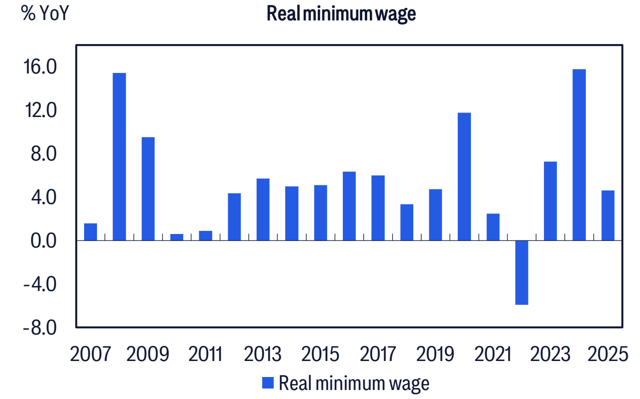
For the Polish economy, the passing year 2024 was both good and disappointing. Despite the weakness in the euro area, economic growth in Poland has been on a path to reach ~2.5% this year. Given an unfavourable external environment, that seems a relatively good result, once again confirming that the diversified structure of the Polish economy protects it from adverse shocks. On the other hand, growth turned out to be lower than expected at the beginning of the year. The main source of the negative surprise was private consumption. Although consumer spending has grown by healthy 3% so far this year, that growth rate seems underwhelming to us, especially when compared to ~7% rise in real wages.

Figure 1. Poland's growth is expected to have reached at least 2.5% in 2024 and accelerate in 2025



Source: Statistics Poland, Citi Handlowy Forecasts

Figure 2. This year consumption has underwhelmed despite double digit increase in real minimum wage

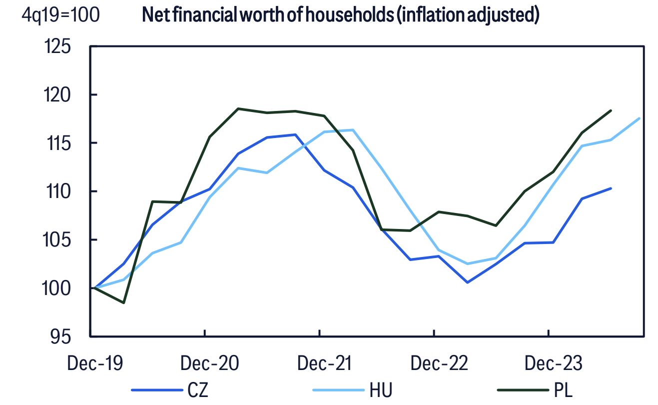


Source: Citi Handlowy, Ministry of Labour, Statistics Poland

The economy is entering 2025 with only moderate growth, but we expect it to accelerate markedly in the coming quarters. In our opinion, GDP may expand by about 3.8% in full 2025. As far as consumption is concerned, we expect some improvement as compared to the dynamics observed in recent quarters, but in our view it is hard to expect a dramatic shift. On the positive side, households have already virtually rebuilt their financial assets to pre-pandemic levels (even after adjusting for the impact of inflation – Figure 3), which should leave some room for acceleration in consumer spending. Also, real wages are expected to grow at a fast pace, though probably significantly less than in 2024. What really dampens our optimism when it comes to consumption is the fact that consumer confidence remains relatively muted (Figure 4), showing little sign of a significant acceleration.

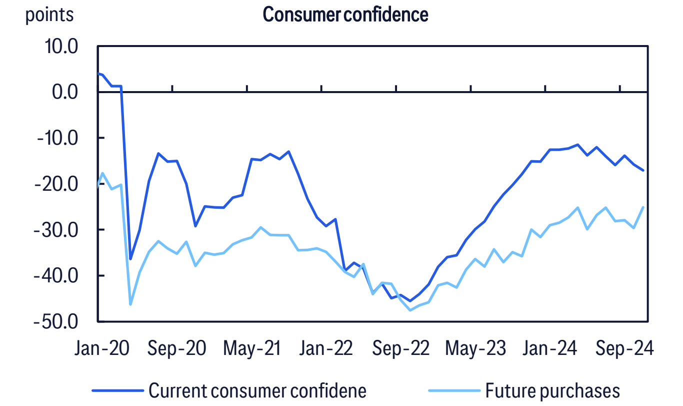
This time the boost to growth can come from investment. The inflow of EU funds is gaining momentum and in our view it makes sense to assume that next year Poland will receive around €25 billion from the EU (Figure 5). The inflow of funds is likely to overlap with a surge in investment demand, related among others to the ongoing green transformation. Overall, we expect around 8% growth in investment next year (in real terms), with risks clearly tilted towards higher results. This means that fixed investment alone will likely contribute around 1.5 pp to GDP growth in 2025, well above its nearly zero contribution in 2024.

Figure 3. Net financial assets of households are already well above pre-pandemic and pre-war levels



Source: Citi Handlowy Estimates, Eurostat

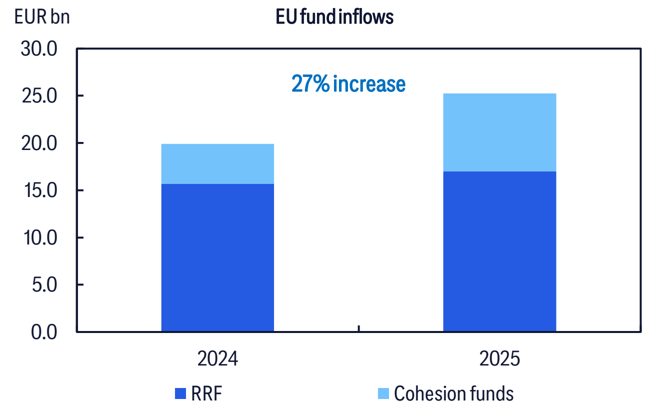
Figure 4. Higher real wages have not been enough to maintain improvement in consumer confidence



Source: Statistics Poland, Citi Handlowy

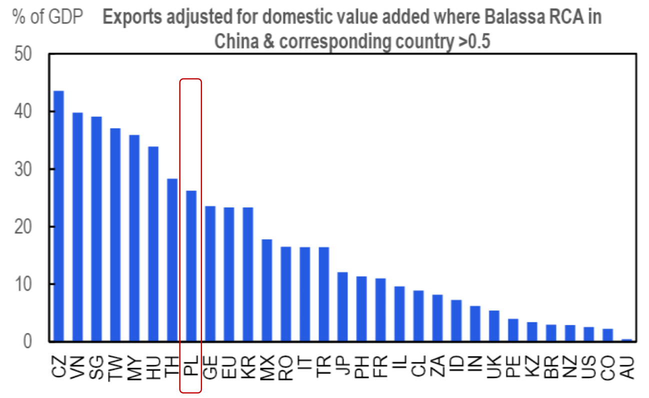
The external environment, including trade policies of the new US administration, remains an important source of uncertainty. The introduction of US tariffs on Chinese and European goods may have far-reaching repercussions. Citi economists estimate tariffs could lower the euro area GDP growth by about 0.3 percentage points. Using usual semi-elasticities, such a shock might deduct approximately 0.1 pp from Poland's GDP growth. However, a much more serious risk is associated with secondary effects, such as the fact that in the scenario of intensified trade wars, Chinese goods could be redirected to the European market or to third markets, where they would compete with Polish products. It seems a relatively high value of Polish exports is exposed to competition from Chinese products (Figure 6). In addition to the negative impact on growth, such competition could prove to be a significant contributor to falling core inflation in 2025.

Figure 5. EU fund inflow is expected to pick up significantly, contributing to faster investment growth



Source: Citi Handlowy, European Commission, PAP

Figure 6. Poland remains one of countries with large exposure to competitions from Chinese manufacturers

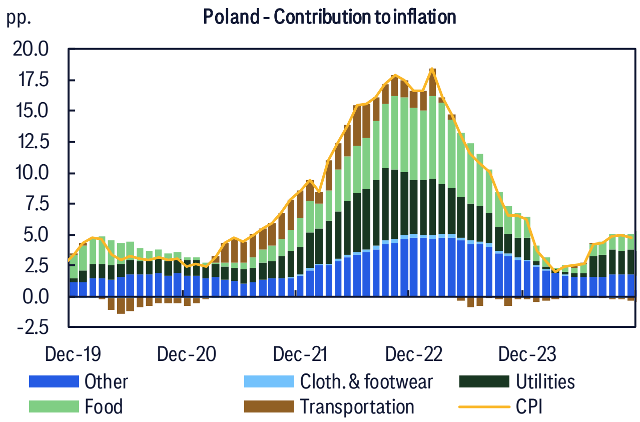


Source: UN Comtrade, Citi Handlowy

A year of falling inflation

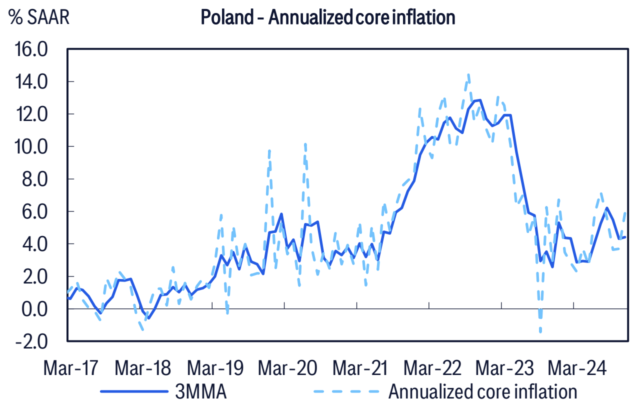
The inflation is still in an upward trend and the peak is likely to come around March 2025. By that time the CPI can exceed 5%, driven by changes in regulated prices, including an increase in excise duties on tobacco and alcohol. However, starting from April we expect a gradual decline in CPI, which would be supported by statistical factors – the base effect related to VAT increases on food and a partial deregulation of energy prices in April and July 2024 respectively. The resulting base effect will push CPI towards lower levels and at the end of the year the inflation may approach the upper limit of acceptable deviations around the MPC target (i.e. near 3.5%).

Figure 7. Inflation rebounded towards 5% in 2H24



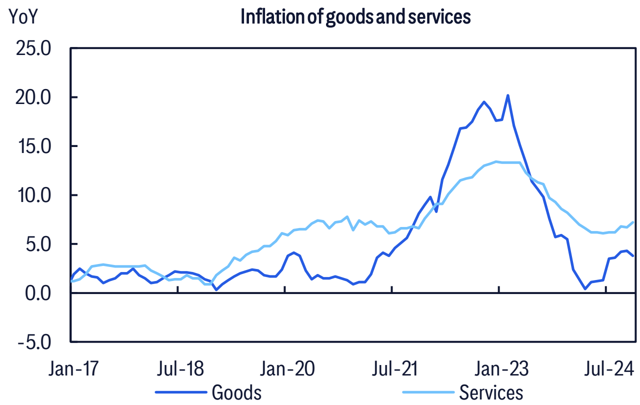
Source: Statistics Poland, Citi Handlowy Estimates

Figure 8. Core inflation momentum is fluctuating around 4%+



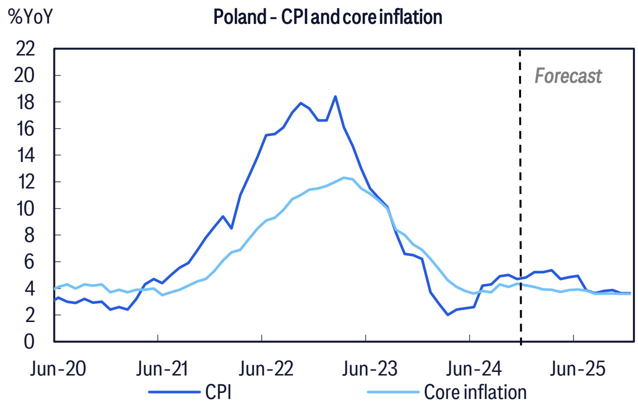
Source: Citi Handlowy Estimates, NBP

Figure 9. Service prices inflation remains significantly higher than goods inflation



Source: Statistics Poland, Citi Handlowy

Figure 10. Despite currently elevated level the CPI is expected to fall towards 3.5% by the end off next eyar



Source: Statistics Poland, NBP, Citi Handlowy Forecasts

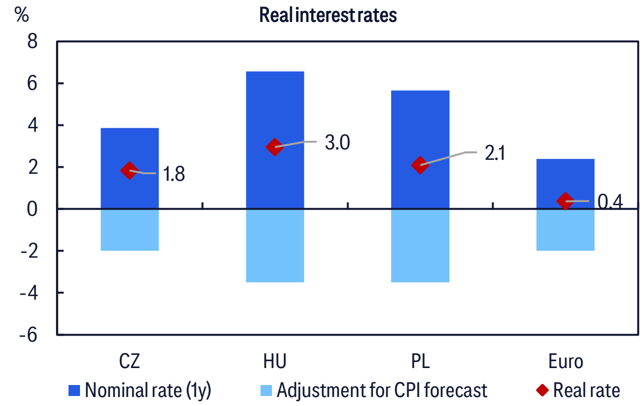
We expect the disinflation to be driven also by other, more fundamental factors. First, the anti-inflationary impact coming from significantly positive real rates is likely to accumulate over time, eventually pushing CPI lower. High real rates may be one of factors explaining why consumption has undershot forecasts in recent quarters. Second, smaller increases (as compared to 2024) in the minimum wage as well as in public sector wages will contribute to a slowdown in wage pressure in the services sector over time. This will gradually reduce one of important CPI drivers that has kept core inflation elevated. Third, we also expect less price pressure on goods, driven by rising exports from China. Finally, our house view assumes significant drop in oil prices in 2025, which may be at least partly driven by policies of the new US administration.

All in all this means that by the ed of 2025 the inflation may be hovering around 3.5% and in 2026 will likely return to the central bank's target. As in previous years a potentially important source of uncertainty is related to possible changes in energy tariffs for households. Central bank's forecasts suggest that the government will cancel last energy price caps and as a result of this decision new higher tariffs could push CPI significantly higher after September 2025. However, we do not share this pessimism. With lower market prices for gas and oil the removal of remaining 'inflation shields' would likely have negligible impact on households' energy bills. More importantly, we think the government will be very careful and if the removal of shields was to lead to higher inflation, the decision could be postponed once again.

MPC sounds hawkish but is likely to cut in 2025

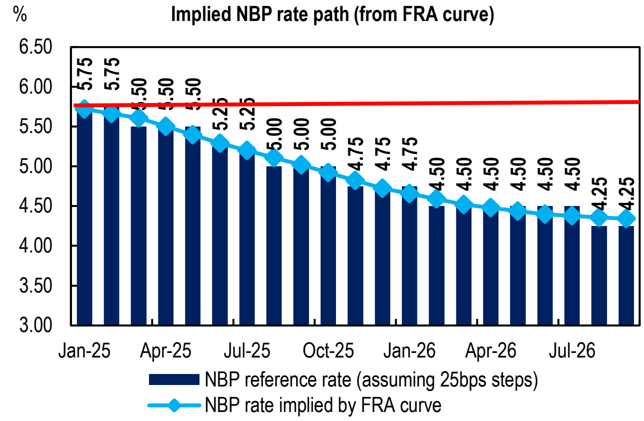
Over the past twelve months, monetary policy has put emphasis on stability. Interest rates remained at 5.75% throughout the year, unchanged from the pre-election cuts in 2023. During the year, central bank representatives repeatedly signaled there was no need for immediate policy easing, but that rate cuts could resume in the first or second quarter of 2025. However, that narrative was abandoned in December, when the NBP Governor said that the moment of the first cuts could be postponed beyond 2025. The shift in rhetoric left many market participants confused, creating a lot of uncertainty regarding the timing of future policy decisions.

Figure 11. Real rates remain relatively high, suggesting there is space for significant policy easing



Source: Bloomberg, Citi Handlowy Estimates

Figure 12. FRA curve is pricing in approximately 100bps of rate cuts in 2025, a scenario that is consistent with our own forecast



Source: Citi Handlowy Estimates, Bloomberg

Regardless of the current MPC stance, we think future rates decisions will be eventually driven by incoming data. Given the anticipated changes in global economic policies (new US tariffs, likely rate cuts by the ECB) and the trajectory of inflation in Poland (below NBP forecasts), we believe that rate cuts could still resume in 2025 rather than 2026. Such a view is consistent with likely rate cuts by other central banks and with growing threats to global growth and the prospect of fiscal tightening in Poland starting from 2026. When exactly the cycle of cuts could begin remains an open question, especially in the light of next year's presidential election. However, we would not rule out that the first cut might take place already in March or in the second quarter of 2025. In total, we expect rate cuts of 100 bps for the whole of next year, followed by another 100bps in 2026.

Figure 13. Poland – Selected annual macroeconomic forecasts

	2023	2024	2025	2026
GDP growth (%, YoY)	0.1	2.5	3.8	3.4
Private consumption (%, YoY)	-0.3	3.0	3.5	2.9
Fixed investment (%, YoY)	12.6	0.8	7.9	6.3
Unemployment rate LFS (%, eop)	3.1	2.9	2.7	2.6
Wage growth in enterprises (%, YoY)	11.9	11.0	8.4	6.5
Inflation (%, YoY, avg)	11.5	3.6	4.4	3.1
NBP reference rate (%, eop)	5.75	5.75	4.75	3.75
General government balance (% of GDP)	-5.3	-5.8	-6.1	-4.9
Current account (% of GDP)	1.7	0.4	-0.3	-0.1

Source: Citi Handlowy Forecasts, National Bank of Poland, Statistics Poland

Appendix

Figure 14 shows our base-case scenario and two alternative scenarios that we think provide a plausible range of outcomes.

Figure 14. Poland – Selected macroeconomic forecasts under alternative scenarios

Base case	**4q24**	**1q25**	**2q25**	**3q25**	**4q25**	**1q26**	**2q26**	**3q26**	**4q26**	**1q27**	**2q27**	**3q27**	**4q27**
GDP growth YoY	2.7	3.3	3.2	4.4	4.3	4.0	3.5	3.2	2.9	3.0	3.1	3.2	3.3
Inflation YoY (average)	4.8	5.3	4.8	3.8	3.6	3.5	3.3	2.9	2.8	2.6	2.5	2.5	2.5
Average wage YoY (national economy)	10.7	9.2	8.1	7.1	6.5	6.0	5.7	5.5	5.3	5.1	5.0	4.9	4.9
Registered unemployment rate	4.9	5.4	5.2	5.2	5.0	5.4	5.1	5.1	5.1	5.4	5.0	5.1	5.1
Unemployment rate LFS	2.7	2.9	3.0	2.9	2.7	3.0	2.9	2.9	2.6	3.0	2.8	2.9	2.7
NBP reference rate (eop)	5.75	5.50	5.50	5.00	4.75	4.25	4.00	3.75	3.75	3.75	3.75	3.75	3.75
WIBOR 3M (eop)	5.86	5.69	5.52	5.10	4.77	4.35	4.02	3.94	3.94	3.94	3.94	3.94	3.94
WIG (eop)	82762	84431	86101	87770	89440	90746	92053	93359	94666	96073	97481	98889	100296
WIG20 (eop)	2320	2367	2414	2461	2507	2544	2581	2617	2654	2693	2733	2772	2812
Negative scenario	4q24	1q25	2q25	3q25	4q25	1q26	2q26	3q26	4q26	1q27	2q27	3q27	4q27
GDP growth YoY	2.1	2.1	1.4	1.9	2.1	2.1	2.0	2.0	1.9	2.2	2.6	3.0	3.2
Inflation YoY (average)	4.4	4.4	3.5	1.7	1.8	2.0	2.0	2.0	2.0	1.8	1.9	2.3	2.3
Average wage YoY (national economy)	10.2	8.3	6.7	5.2	4.9	4.3	4.3	4.2	4.3	4.3	4.4	4.6	4.6
Registered unemployment rate	5.0	5.5	5.5	5.6	5.5	6.0	5.9	6.0	6.0	6.4	6.0	6.0	6.1
Unemployment rate LFS	2.7	3.0	3.2	3.3	3.2	3.5	3.5	3.7	3.4	3.9	3.8	3.8	3.6
NBP reference rate (eop)	5.75	5.25	5.00	4.25	3.75	3.00	2.75	2.50	2.50	2.50	2.50	2.50	2.50
WIBOR 3M (eop)	5.86	5.44	5.02	4.35	3.77	3.10	2.77	2.69	2.69	2.69	2.69	2.69	2.69
WIG (eop)	79293	77591	75893	74204	75616	76720	77825	78930	80034	81224	82414	83604	84794
WIG20 (eop)	2220	2168	2117	2067	2106	2137	2168	2198	2229	2262	2296	2329	2362
Positive scenario	4q24	1q25	2q25	3q25	4q25	1q26	2q26	3q26	4q26	1q27	2q27	3q27	4q27
GDP growth YoY	3.3	4.5	5.0	6.8	6.4	5.8	5.1	4.5	3.9	3.8	3.6	3.4	3.4
Inflation YoY (average)	5.2	6.3	6.2	5.5	6.0	5.4	5.0	5.6	4.6	4.4	4.1	2.7	2.7
Average wage YoY (national economy)	11.1	10.2	9.5	9.3	8.5	8.1	7.5	6.7	6.3	5.8	5.5	5.2	5.2
Registered unemployment rate	4.9	5.2	5.0	4.8	4.4	4.7	4.4	4.3	4.2	4.5	4.1	4.0	4.1
Unemployment rate LFS	2.7	2.8	2.8	2.6	2.3	2.4	2.2	2.2	1.8	2.2	2.0	1.9	1.7
NBP reference rate (eop)	5.75	6.00	6.50	6.50	6.75	6.25	6.00	5.75	5.50	5.25	5.00	4.75	4.50
WIBOR 3M (eop)	5.86	6.19	6.52	6.60	6.77	6.35	6.02	5.94	5.69	5.44	5.19	4.94	4.69
WIG (eop)	86230	91560	97184	103116	105078	106613	108148	109683	111217	112871	114525	116179	117832
WIG20 (eop)	2421	2574	2736	2908	2963	3007	3050	3093	3136	3183	3230	3276	3323

Source: Citi Handlowy Forecasts, National Bank of Poland, Haver Analytics, Bloomberg

Figures 15 presents forecasts under our base case and also three illustrative "shock" scenarios.

- **Downside Scenario 1** is a stylized scenario assuming intensification of geopolitical risks leading to a renewed energy shock, resulting in a stagflationary outcome (significantly higher inflation and weak growth). In such a scenario the fiscal deficit widens as the government tries to support the economy by expanding measures shielding consumers from higher energy prices. Central bank responds with bold interest rate hikes. When inflation starts to moderate, the central bank gradually lowers its policy rates.

- **Downside Scenario 2** is a stylized scenario showing a possible reaction of the economy to large unfavourable external demand shock. In such a scenario the Polish economy enters a recession, unemployment rises and inflation falls even despite FX depreciation. The National Bank of Poland responds to these developments with significant rate cuts in order to shore up growth and stabilize inflation. In that scenario the deterioration of the fiscal position could result in rating downgrade and increased risk premium.

- **Scenario 3** is a stylized scenario assuming a climate shock. Unfavourable climate events (droughts, floods) lead to higher inflation, while the authorities shift towards more aggressive climate policies accelerating transition to green energy.

Figure 15. Poland – Base case and shock scenarios

	Base Case				Downside scenario 1 Low probability		Downside scenario 2 Very low probability			Scenario 3 Climate shock		
	2024E	2025F	2026F	2027F	2025F	2026F	2025F	2026F	2027F	2025F	2026F	2027F
Macro Indicators												
Real GDP Growth (%)	2.5	3.8	3.4	3.1	1.2	0.8	-0.1	-1.0	2.2	3.5	2.5	2.1
Private consumption % YoY	3.0	3.5	2.9	2.9	0.8	0.5	0.6	1.0	2.6	3.2	2.3	1.9
Consumer Prices (% chg; period avg)	3.6	4.4	3.1	2.5	9.2	11.7	3.9	1.6	1.7	5.0	4.4	2.9
Consumer Prices (% chg; end-period)	4.8	3.6	2.7	2.5	13.9	7.3	2.5	1.1	2.4	5.0	3.4	2.7
Key Policy Interest Rate (%,avg) [NBP reference rate]	5.75	5.29	4.00	4.25	7.21	8.75	4.50	1.54	1.92	5.54	4.88	4.25
Key Policy Interest Rate (%,eop) [NBP reference rate]	5.75	4.75	3.75	3.75	9.00	7.50	2.25	1.50	2.25	5.50	4.25	4.25
Lombard rate EOP %	6.25	5.25	4.25	4.25	9.50	8.00	2.75	2.00	2.75	6.00	4.75	4.75
Equity Market Index (level, eop) [WIG20]	2320	2507	2654	2812	1783	2009	1642	1456	1640	2482	2627	2784
Equity Market Index (level, eop) [WIG]	82763	89441	94667	100298	63607	71674	58577	51922	58507	88547	93721	99295
Unemployment Rate (%, EoP)	4.9	5.0	5.1	5.1	5.9	6.5	6.2	8.0	7.1	5.0	5.2	5.3
Nominal Wages in the economy (% YoY) growth rate %	11.0	8.4	6.5	5.5	9.0	10.4	7.1	4.0	3.5	8.6	7.2	5.5
Housing Price Index [NBP hedonic price index for 10 biggest cities, % YoY]	10.0	3.5	2.5	2.5	-3.0	1.0	-3.0	0.5	1.5	3.0	2.0	2.0
Fiscal Indicators												
Fiscal Balance / GDP (%)	-5.8	-6.1	-4.9	-4.2	-7.4	-7.4	-8.0	-9.1	-8.2	-6.3	-5.3	-4.4
General government debt / GDP (%)	54.8	59.7	62.5	63.2	61.5	63.5	67.4	76.3	79.0	60.0	63.0	64.1
Financial market variables												
WIBOR ON (avg)	5.23	5.28	4.00	3.75	7.20	8.75	4.49	1.54	1.92	5.53	4.88	4.25
WIBOR 1M (avg)	5.84	5.37	4.10	3.88	7.47	8.80	4.46	1.66	2.08	5.66	4.95	4.38
WIBOR 3M (avg)	5.86	5.38	4.13	3.94	7.67	8.76	4.35	1.71	2.17	5.71	4.96	4.44
WIBOR 6M (avg)	5.85	5.27	4.11	3.99	7.83	8.44	3.91	1.78	2.30	5.73	4.88	4.49
WIBOR 12M (avg)	5.79	4.97	4.10	4.04	8.03	7.70	3.15	1.91	2.43	5.62	4.75	4.54
Yields of 2-year bonds (avg)	5.03	4.53	4.00	3.80	7.10	7.20	3.18	2.56	2.99	5.16	4.84	4.67
Yields of 3-year bonds (avg)	5.09	4.65	4.10	3.90	6.86	6.98	3.43	2.88	3.20	5.16	4.88	4.74
Yields of 5-year bonds (avg)	5.32	4.96	4.66	4.46	6.86	6.96	3.98	3.45	3.73	5.40	5.17	5.05
Yields of 10-year bonds (avg)	5.54	5.10	4.86	4.80	6.80	6.86	4.49	3.89	4.09	5.58	5.33	5.24
FX PLN/USD (avg)	3.99	4.14	4.08	4.01	4.76	4.55	5.40	6.19	5.80	4.47	4.44	4.37
FX PLN/EUR (avg)	4.30	4.31	4.33	4.33	5.03	4.81	5.48	6.19	5.80	4.36	4.37	4.38
FX PLN/CHF (avg)	4.52	4.71	4.65	4.54	5.38	5.15	5.86	6.62	6.20	4.66	4.67	4.67
Yields of 2-year swap (avg)	5.20	4.63	4.10	3.90	7.05	7.25	2.88	2.16	2.79	5.16	4.84	4.67
Yields of 3-year swap (avg)	4.93	4.62	4.20	4.00	6.46	6.78	2.83	2.08	2.70	5.03	4.88	4.74
Yields of 5-year swap (avg)	4.79	4.49	4.37	4.21	6.06	6.36	2.98	2.25	2.93	4.83	4.78	4.70
Yields of 10-year swap (avg)	4.89	4.53	4.53	4[redacted]50	5.80	6.11	2.49	2.09	2.89	4.90	4.90	4.84

Source: Citi Handlowy Forecasts

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