

# POLAND

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## SOLID GROWTH DESPITE FISCAL CONSOLIDATION

Poland is expected to join the group of the world's 20 largest economies by 2025. Its GDP in nominal terms is expected to exceed USD 1 trillion this year. The country could also see its GDP per capita (in volume and PPP terms) surpass that of Japan, according to IMF forecasts. The Polish economy continues to outperform in the region. In 2025 and 2026, investment and consumption will be the key drivers of growth. Inflation has returned to the official target range since July, thus providing greater flexibility for monetary policy. On the other hand, fiscal room for manoeuvre is more limited, even if consolidation will be gradual.

### SOLID GROWTH DRIVEN BY DOMESTIC DEMAND

In the first half of the year, real GDP growth stood at 3.4% y/y, after 3.0% in H2 2024. It was mainly driven by private and public consumption and inventory adjustments. Investment growth, on the other hand, was disappointing in the residential and construction sectors. But investment in transport equipment and machinery held up fairly well.

Economic growth will remain solid for the year as a whole, with already a carry-over effect of 2.8% in Q2 2025. Household consumption will be the main driver, due to gains in purchasing power from wages and the rebound in credit. However, it could slow down as a result of a savings rate that remains high, reflecting a certain degree of caution among households. The slight deterioration in consumer confidence and the rise in unemployment are also pointing in this direction.

Growth will also be supported by public investment, through European funds, whereby a large proportion remains to be disbursed between now and the end of 2026. Of the EUR 59.8 billion (8% of GDP in 2023) allocated to Poland under the Resilience and Recovery Plan, 65% of the funds are awaiting transfer. The disbursement of funds by the EU is conditional on the progress of reforms. However, the Polish authorities have committed to implementing them. As for external demand, it has remained sluggish for several quarters and no significant improvement is expected in the short term given the modest growth forecast for Germany (Poland's main trading partner) in 2026.

The Polish economy is expected to be among the best performers in the region over the next two years, with growth close to its medium-term potential of 3.4%, according to our estimates. Uninterrupted GDP growth since 1992 (with the exception of 2020) has enabled a spectacular catch-up that should see the country rise to become one of the world's 20 largest economies in terms of nominal GDP this year (Chart 1). The country could also see its GDP per capita (in volume and PPP terms) surpass that of Japan, according to IMF's forecasts.

### DECLINING INFLATION AND MONETARY EASING

Inflation has fallen since the beginning of the year, reaching 3.1% YoY in July and 2.9% in August and September. Inflation has now returned to the Central Bank's target of 2.5% ( $\pm 1$  point), helped by the fall in household gas bills since July (around 10%). The appreciation of the zloty against both the dollar and the euro and slower wage growth have also contributed to the slowdown. Inflation could reach an average of 3.7% for the year as a whole and 2.8% in 2026, after 3.8% in 2024. Poland's inflation rate would be among the lowest in the region.

On monetary policy, the Central Bank resumed its easing cycle in May 2025, ending a long monetary pause that had been in place since November 2023. The key interest rate was lowered to 5.25% (-50 basis points). There were four subsequent reductions of 25 bp each. The easing cycle is expected to continue in the short term, given the improved inflation outlook. The key interest rate is expected to be lowered to 4.25% at the end of 2025 and 3.50% at the end of 2026.

#### FORECASTS

|                                      | 2022  | 2023  | 2024  | 2025e | 2026e |
|--------------------------------------|-------|-------|-------|-------|-------|
| Real GDP growth, %                   | 5.5   | 0.1   | 2.9   | 3.5   | 3.5   |
| Inflation, CPI, year average, %      | 14.4  | 11.4  | 3.8   | 3.7   | 2.8   |
| Gen. Gov. balance / GDP, %           | -3.4  | -5.3  | -6.6  | -6.9  | -6.5  |
| Gen. Gov. debt / GDP, %              | 48.8  | 49.5  | 55.3  | 58.4  | 61.4  |
| Current account balance / GDP, %     | -2.3  | 1.8   | -0.0  | -0.6  | -0.9  |
| External debt / GDP, %               | 53.3  | 49.4  | 52.0  | 46.8  | 44.5  |
| Forex reserves, EUR bn               | 156.5 | 175.4 | 214.2 | 226.0 | 231.0 |
| Forex reserves, in months of imports | 5.2   | 6.1   | 7.3   | 7.4   | 7.3   |

TABLE 1

e: ESTIMATES & FORECASTS  
SOURCE: BNP PARIBAS ECONOMIC RESEARCH

#### WORLD RANKING BY NOMINAL GDP IN USD AND GDP PER CAPITA

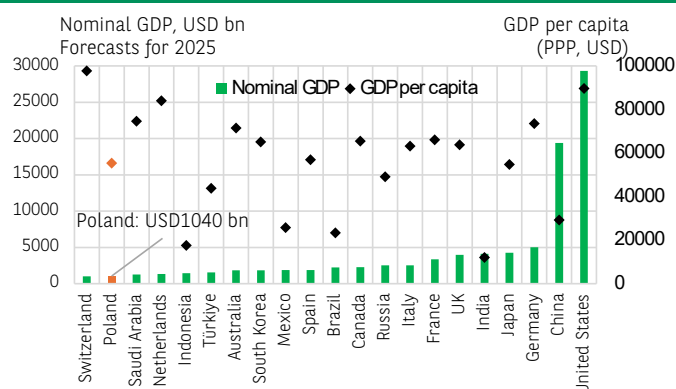


CHART 1

SOURCE: IMF WEO OCTOBER 2025, BNP PARIBAS

### EXPORTS AND CAPITAL FLOWS REMAIN RESILIENT DESPITE TARIFF UNCERTAINTY

The increase in US tariffs since last April suggested that even Poland would be indirectly affected, given its trade links with Germany. However, Polish exports fared well in the first half of the year, rising 1.6% y/y overall and 1.7% y/y to Germany, Poland's main trading partner (27% of total exports). This resilience is also observed in other countries in the region.


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In Poland, export growth in H1 2025 is close to the average for 2023/2024. Among the best-performing sectors are "foodstuffs", "chemicals", "capital goods and transport equipment excluding motor vehicles" and "miscellaneous manufactured goods", which account for 82% of Polish exports (*Chart 2*). The categories "mineral fuels and lubricants" and "vegetable and animal oils" have declined the most, but their share of exports is marginal.

Poland also maintains its position as an attractive destination for foreign investment. The amount of FDI flows observed in 2022 and 2023 was exceptional and has since normalised. In the first seven months of this year, net FDI flows reached levels almost equivalent to those in 2024 (EUR 9.1 billion compared to EUR 9.6 billion in 2024). Net portfolio flows (EUR 7.8 billion from January to July; compared to EUR 10.1 billion in 2024), which are more volatile in nature, do not appear to be disrupted. In the short term, the positive spread between Polish and German government bond yields suggests a positive outlook for incoming bond flows. Similarly, the ongoing reorganisation of productive activities (nearshoring) suggests that FDI will remain dynamic in the region.

## LIMITED FISCAL ROOM FOR MANOEUVRE

Public finances have deteriorated significantly as a result of the numerous shocks suffered by the Polish economy since 2020. Increased military spending and generous social spending have widened the budget deficit over the last five years and pushed up the level of public debt. The latter is now close to the 60% of GDP threshold. The interest burden has increased significantly and is penalising other areas of expenditure. Interest accounted for 2.2% of GDP in 2024, up 1.1 point compared to 2021. By comparison, this ratio is slightly higher than the EU average (1.9%).

There is limited room for manoeuvre in terms of fiscal policy. The government is faced with a complex balancing act. On the one hand, it has made a commitment to the EU to consolidate its public finances, as the country was placed under an excessive deficit procedure in 2024 for failing to comply with budgetary rules (the authorities have opted for a four-year deadline). On the other hand, the Tusk administration faces opposition from President Nawrocki over its budget for next year. The difficult political cohabitation has been ongoing since 2023 (last May's presidential elections did not change the situation) and the government does not have a 60% majority in parliament to bypass presidential vetoes. Consolidation measures perceived as too restrictive for households could be vetoed and block the budgetary process.

Given this limited room for manoeuvre, the budgetary adjustment process will be gradual in the short term, and fiscal policy will remain growth-friendly in 2025 and 2026. For 2025, the government anticipates a high budget deficit of 6.9% of GDP, which is more pronounced than in 2024. The budget balance is expected to be among the highest in Central Europe this year, after Romania.

The draft budget for 2026, pending approval by Parliament, provides for only a minimal reduction in the budget deficit. In 2026, expenditure will remain more or less at the same level as in 2025. The government expects a 7.3% increase in revenue without resorting to income tax or VAT rate increases. It is banking on growth and is considering raising the tax rate for banks (to 30% from the current 19%), which would bring in PLN 11.3 billion (0.3% of GDP) over the next two years.

## POLAND: EXPORTS BY SECTOR

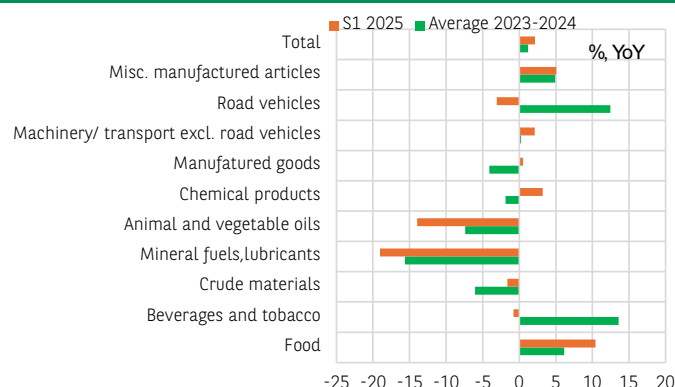


CHART 2

SOURCE: EUROSTAT, BNP PARIBAS

On the expenditure side, social security and health care continue to account for a significant proportion of the budget (around 27% and 25% of expenditure respectively). Health care spending is set to increase by 11.8% next year, following a 16.1% increase planned for 2025. By comparison, defence spending (around 22% of total expenditure; 4.8% of GDP) is expected to increase by 7% in 2026.

Meanwhile, vulnerability to external financing conditions is limited. Although borrowing requirements are significant (around 14.1% of GDP in 2025), they can be easily financed on the domestic market. Poland has already financed around 90% of its requirements for this year. Recently, debt issuance on international bond markets has been aimed at reducing financing costs. However, foreign exchange risk remains limited thanks to the prudential rules in force, which include, among other things, a requirement to limit the share of foreign currency-denominated debt to 25% of outstanding debt. In August 2025, the share of foreign currency debt was 21% (mainly in euros).

Interest rate risks are moderate. Borrowing rates on the domestic and eurozone bond markets are higher than in the second half of 2019, but the 5-year government bond yield has been stable at around 5% since 2023. Most of the debt (both in local and foreign currencies) is contracted at fixed-rate (around 70% of the debt in July 2025), but the average maturity of the total debt is relatively short, at 5.8 years.

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