Article | 21 May 2026 POLAND

Energy shock lifts Polish inflation, but weak demand curbs broader pressure

Polish inflation is expected to continue rising in response to the energy shock, but weak demand is likely to prevent a broad-based, self-sustaining price surge. Wage growth is slowing, employment is declining, and output in industry and construction remains subdued. The National Bank of Poland may stick to a wait-and-see approach for a while

Supply-side shock drives inflation higher

The energy shock following the outbreak of conflict between the US, Israel and Iran has pushed oil prices above US$100/bbl and fuelled a surge in petrol prices, lifting headline inflation in Poland above 3% YoY in April.

As the blockade of the Strait of Hormuz persists, the shock is intensifying, raising the risk of a more prolonged and broad-based energy shock. Producer prices (PPI) rose by 1.9% YoY in April, up from 1.2% YoY in March (revised significantly up from -0.8% YoY), marking an exit from a 2.5-year period of deflation. Still, we expect the inflation episode to be much milder than in 2021-23, given different domestic demand conditions.

Labour market is cooling

Wage growth continues to slow and employment is declining. In April, average wages in the enterprise sector rose by 5.4% YoY, down from 8.6% YoY in December and double-digit growth in 2022-24. Average paid employment fell by 0.9% YoY last month and is set to record a third consecutive year of decline, as limited labour supply meets weaker labour demand.

Wage pressures are easing, and disposable income growth has slowed, which is likely to dampen consumer demand despite substantial savings accumulated in 2024-25. Elevated uncertainty and higher petrol prices are also likely to make households more cautious. As a result, producers may face a demand constraint limiting their ability to pass higher energy and transport costs onto their goods and services prices.

Activity growth in industry and construction moderate

Following weak activity in January and February – when severe weather (heavy frosts and snowfall) weighed on output – March brought a rebound as firms caught up and restocked. Even so, industrial output growth slowed to 3.1% YoY in April, from a downwardly revised 7.5% YoY in March. The sector is facing mounting pressure from Chinese competition, alongside new uncertainty stemming from the Middle East conflict and potentially higher energy costs.

Construction output rose by 4.5% YoY last month as National Recovery Fund (NRF) projects gained momentum. Monthly grant payments to final beneficiaries doubled this year (PLN3.8bn on average YTD) from PLN1.9bn last year. This bodes well for infrastructure construction, but also the other two broad categories (buildings and specialised work) surprised on the positive side in April.

Central bank may stick to wait-and-see policy stance for now

As long as the inflation upswing remains largely supply-driven, the Monetary Policy Council (MPC) is likely to maintain a wait-and-see stance while assessing second-round effects and inflation expectations. With demand growth subdued and wage growth slowing sharply, the risk of a broad-based price surge appears contained, though policymakers should remain vigilant.

Our baseline assumes CPI inflation will return to levels consistent with the National Bank of Poland (NBP) target (2.5% ±1pp) in 2Q27. The July NBP staff projections should provide greater clarity on medium-term risks and may open discussion on potential monetary tightening in the second half of the year. We expect policy rates to remain unchanged this year (main rate at 3.75%), with the MPC maintaining a rather hawkish rhetoric and readiness to act if needed.

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