Poland’s economy off to a positive start in the second quarter

April data from industry and the labour market suggest an encouraging start to the second quarter in Poland. One data point does not make a trend though, but we see encouraging signs that the recovery has resumed. The data support our view of more rate cuts in 2025 and limited easing in 2026 when the odds of a boom in public investment are rising

Poland’s gradually decoupling from production stagnation in the region

Surprisingly, Poland’s industrial production is gradually breaking away from the stagnation in Germany and the CEE region. In April, industrial production increased by 1.2% year-on-year, exceeding consensus expectations assuming a minor decline of 0.4%, and following +2.4% growth in March. This is a positive signal, given the negative calendar effect (this year, holidays in April provided the option of additional days off) and the high base from last year.

Compared to CEE region, the recent data shows that Poland is gradually decoupling from industrial production stagnation in the CEE region and Germany. We see three drivers of industrial recovery. Sectors related to the upcoming public investment boom are growing, in the defence sectors (so far repair services) and various export sectors. The latter reflects a slight improvement in German industry, related to stockpiling before the anticipated imposition of high US tariffs. We are uncertain about the durability of the German industrial recovery later this year.

The economy is preparing for a public investment boom later in 2025 and 2026. The data show slow payments from the Recovery and Resilience Fund (RRF) of around PLN10bn, but a significant launch of ongoing tenders of above PLN90bn. This suggests large amounts of RRF grants to be absorbed before summer 2026. In the coming months, we believe domestic demand will continue to support the industrial recovery.

The positive boost is set to culminate in 2026, when Poland will experience a 'domestic' spending frenzy from the RRF, delivery of presidential election pledges and a stronger German industry, related to a relaxation of fiscal policy by Merz' cabinet.

A rebound in wage growth to a large extent driven by non-market sectors

There was a clear rebound in wage growth in April, but the downward trend should continue in the coming months. The growth of average wages in the enterprise sector accelerated to 9.3% YoY in April from 7.7% in March, and amounted to PLN9045 (nearly €2200), above our expectations (8.0%) and the market consensus (8.1%). Noteworthy is the high wage growth in the sectors in which market forces are 'at the back seat', i.e. power energy sector (19.0% YoY after a decrease of 2.3% in March) and in mining (+7.1% YoY vs. 4.8% in the previous month). Wages also grew in market sectors ie: manufacturing (9.0% YoY from 8.3% a month before) and the service sectors. We expect the downward trend in wage growth to continue in the coming months, although it should not be expected to be linear, and wage dynamics will decrease every month.

The monthly employment declines stopped, hopefully signalling a change in the negative trend

Average employment in the enterprise sector decreased by 0.8% YoY in April, slower than our and consensus view assuming a decline of 0.9%, as it occurred in March. Compared to March, the number of jobs increased by 3,000 to 6.447 million. Also in seasonally adjusted terms wages grew for the first time in many months. We expect that the intensification of investment activity should boost labour demand in the second half of the year, which may reverse the downward trend in employment.

The April data does not change the overall picture of the labour market. Wage pressure has decreased, and wages are growing at a single-digit rate, after dynamic double-digit increases in the previous three years. The unemployment rate remains close to record low levels despite the decline in employment. Among the barriers to development, companies point to high labour costs and a shortage of skilled workers. In conditions of lower margins, this should, on the one hand, limit the willingness to raise wages, and on the other, lead to competition for the best employees.

A stronger case for a pause in rate cuts in June, but the easing cycle should continue

From the perspective of monetary policy, lower wage pressure than in 2024 is good news and creates room for further declines in core inflation. However, the rebound in wages compared to 1Q25 increases uncertainty about the extent of further slowing wage growth. Also, the April data shows that the economy continues to gradually recover. We expect the Monetary Policy Council to further cut interest rates this year by another 75 basis points (to 4.50% by the end of 2025), otherwise the real ex-ante rate would grow and tighten monetary policy. But given the economy has resumed its recovery and with the rising odds that the public investments boom is set to culminate in 2026, we assume monetary easing mainly in 2025, but in smaller steps of 25bp rather than the initial rate cut of 50bp in May. We believe the National Bank of Poland will leave rates unchanged in June.

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