Monitoring Poland: Floods pose limited threat to economic recovery

The weakness in external demand presents a greater threat to Poland's economic recovery than the recent flood in the south, which was limited in scope and unlikely to have a significant macroeconomic impact

Drone footage of Czechowice Dziedzice, a town in Poland which was flooded in September 2024

At a glance: the Polish economy

We expect GDP growth to ease below 3% year-on-year again in the third quarter of the year. In the fourth quarter, activity may be supported by post-flood reconstruction.

August's monthly data pointed to increased headwinds to economic recovery in the third quarter, particularly from poor external demand. Preliminary manufacturing PMIs from EU countries also show no signs of improvement in September. We have therefore revised our third quarter GDP forecast to 2.8%YoY from 3.1%YoY. While we still anticipate 3% economic growth for the year, the downside risks have increased again.

We do not expect any serious negative impacts from the recent flood in the south of Poland on economic activity at the macro level. It was a relatively small part of the country that suffered and no major significant producers were impacted. If anything, the reconstruction and rebuilding of lost wealth may actually slightly boost economic growth in the fourth quarter and in 2025.

Upward pressure on inflation from destroyed crops and lost inventories is also unlikely to be substantial. The flood may marginally delay fiscal tightening as public support will be needed for areas. Authorities intend to devote PLN23bn (around 0.6% of GDP) to aid (including EU funds) and provide some tax reliefs.

FX and money markets

Following an initial positive response to the Fed rate cut and China's stimulus package, the €/PLN exchange rate returned to range trading. We expect the currency to remain range-bound until another wave of risk-on sentiment is seen in December 2024.

With further rapid easing by the Fed and ECB on the horizon, overall emerging market sentiment should stay at least mildly positive. The National Bank of Poland (NBP) is likely to lag behind other central banks in implementing rate cuts, which should support the PLN.

Domestic debt and rates

The recent behaviour of the zloty suggests that the overall positive effect of China's stimulus package on Polish assets has already waned. With significant maturities of Polish government bonds (POLGBs) ahead of us, we don't expect a major repricing of the expected higher POLGBs supply as MinFin's offer should meet funds from maturing bonds.

Larger purchases, especially from foreign investors, remain uncertain given the large borrowing needs in 2025, but expected overall inflows to EM bonds may help.

The Monetary Policy Council (MPC) is unlikely to shift the market's expectations of a relatively aggressive easing path by the NBP anytime soon, so we do not foresee significant changes at the short end of the yield curve soon.

Quarterly forecasts

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	1Q24	2Q24F	3Q24F	4Q24F	1Q25F	2Q25F	3Q25F	4Q25F
Real GDP (%YoY)	2.0	3.2	2.8	3.7	3.2	3.5	3.5	3.8
CPI (eop, % YoY)	2.0	2.6	4.8	4.7	6.0	5.3	3.9	3.1
Central bank key rate (eop, %)	5.75	5.75	5.75	5.75	5.75	5.50	5.00	4.75
3m interest rate (eop, %)	5.88	5.85	5.85	5.90	5.87	5.53	5.12	4.95
10yr yield (eop, %)	5.43	5.74	5.40	5.67	6.01	6.08	5.91	5.96
€/PLN	4.30	4.31	4.28	4.26	4.29	4.32	4.33	4.34
US$/PLN	3.99	4.03	3.84	3.91	3.91	3.93	3.94	3.95

Source: Macrobond, ING estimates

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