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POLAND

Polish industry shows short-term weakness but strong momentum ahead

Industrial output in Poland disappointed in November after months of encouraging data. Construction remained flat, though the mix of output offers some reason for optimism. We remain confident that GDP growth will comfortably exceed 3% in 2025 and 2026

An ammunition factory in Skarzysko-Kamienna, Poland

Industrial production down in November

In November, industrial output fell by 1.1% YoY, disappointing investors who had expected growth of around 3%. Significant declines were recorded in the manufacture of electronics and electrical equipment, which in the past had been an important driver of output growth thanks to electric battery production. Some export-oriented manufacturing divisions performed relatively well: the manufacture of machinery and equipment surged by 12.0% YoY, while the manufacture of motor vehicles and trailers rose by 2.5% YoY.

Other sectors are facing serious challenges following a surge in wages (raising labour costs) and intensifying competition from Chinese products, with Poland's imports from China increasing by nearly 14% this year. Production in furniture manufacturing fell by 7.3% YoY, while textile manufacturing plummeted by 16.7% YoY. Both sectors also report employment declines this year, which appear to be structural rather than cyclical. The good news is that the manufacture of investment goods grew by 3.7% YoY in November.

Stagnant construction, but spending from EU funds ahead

Construction output rose by just 0.1% YoY in November, though some encouraging details emerged in its composition. Building construction recorded solid growth of 8.0% YoY, and specialised works surged by 18.9% YoY, while civil engineering activity fell sharply by 12.8% YoY. The improvement in residential construction can be attributed to interest rate cuts, which reduced mortgage costs. At the same time, rising household incomes have boosted borrowers' creditworthiness.

The weak performance in civil engineering suggests that projects financed through the Recovery and Resilience Facility (RRF) have yet to gain traction. However, given the disbursement timeline and approaching deadlines, we remain optimistic about the outlook for this segment in 2026. We estimate that by year-end, final beneficiaries of RRF funds will have received around PLN 35 billion, while more than PLN 70 billion will be spent in 2026 and early 2027. Roughly one-third of RRF allocations are current expenditure, while about two-thirds represent potential capital investment.

Moreover, a surge in absorption of even more capital-intensive cohesion funds is still ahead, as Poland has so far spent only around 10% of the €76bn granted under the 2021-27 financial perspective.

Mixed messages from the labour market

November's labour market report was mixed. On the one hand, wage growth surprised to the upside at 7.1% YoY (versus a consensus of 6.3%), while on the other, employment continued to decline (-0.8% YoY), despite a month-on-month increase in the number of jobs.

Wage growth was supported by bonuses in mining and a double-digit rise in transport and storage. Solid increases persisted in manufacturing (up 7.3% YoY compared with 8.0% in October), even though a more decisive cyclical recovery in the sector remains elusive. A gradual slowdown in wage growth is evident in services, which should help ease services inflation and, in turn, core inflation.

The bottom line

The current economic cycle differs slightly from previous ones. Today, modern services — such as software development, legal counselling, accounting, and other shared services — are driving growth, whereas manufacturing, which historically outpaced overall GDP growth, has become somewhat less dominant. In 2026, projects financed through the Recovery and

Resilience Facility (RRF) are expected to gain momentum, supporting a recovery in both manufacturing and construction.

We remain optimistic about the economic outlook, projecting GDP growth of 3.6% in 2025 and 3.7% in 2026. Moreover, growth should be more balanced next year, with buoyant investment accompanying still-solid consumption. Despite this, we expect lower CPI inflation as wage growth continues to moderate. Additionally, we see some downside risks for inflation: commodity prices and the US dollar could fall further, while a good harvest and crop stockpiles may translate into lower food price inflation. Therefore, we believe there is still room for further interest rate cuts, with the main policy rate potentially falling to 3.25%.

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