Poland’s presidential election outcome and implications

We expect a limited weakening of the zloty and flattening of the yield curve, with lower odds of cuts and higher sovereign risk premium. The political polarisation lowers the chances of fiscal consolidation and may undermine companies' attempts to improve their competitiveness. The short-term economic growth prospects remain unchanged

Karol Nawrocki narrowly beat his rival in Poland's presidential election

Right-wing candidate Karol Nawrocki, supported by Law and Justice (PiS), won the second round of Poland's presidential election with 50.89% of the vote. The representative of the political centre, Rafał Trzaskowski from the ruling coalition, received 49.11% of the vote. Turnout was 71.63%, the highest in presidential elections since 1990, but lower than in the October 2023 parliamentary elections.

The initial reaction of PLN was muted. If anything, we see only limited further weakening of the zloty in response to the election results, as some investors had already built up short positions in PLN. Going forward, the zloty's exchange rate won't just depend on the election results, but also on the NBP bias and how the central bank's Monetary Policy Committee reacts to the latest data, reducing inflation risks. We assume a decline in expected rate cuts and an increase in yields at the short end of the curve, which should have a stabilising effect on the zloty.

The second important issue is that the election result reflects the high political polarisation of Polish society. This may lead to a rise in populist tendencies on both sides of the political spectrum. We expect the current coalition government to remain in place, but there is a risk that high fiscal imbalances and a lack of progress in reducing the excessive deficit will persist. Poland already has one of the highest fiscal deficits in the EU due to large defence outlays and a legacy of social spending. However, fiscal adjustment will be limited in the coming years.

We are not concerned about the sovereign credit rating because Poland, compared to its neighbours and other countries with similar ratings, has much better prospects for economic growth, a relatively sound fiscal sustainability position, and a balanced current account. However, the low chances of fiscal adjustment mean an extension of the country's credit risk premium and an increase in the asset swap spread (bond yields above IRS swaps), especially on the long end of the curve.

The third important factor is that the economic growth outlook for the next two to three years remains largely unchanged. Growth will be driven by consumption supported by savings and rising real incomes, as well as public investment financed from domestic and EU funds. We are more concerned about the outlook for longer-term economic growth. Further political polarisation may sustain the state of institutional uncertainty and undermine the willingness of Polish companies to invest. That may further hinder the necessary improvement of companies' competitive positions, which have deteriorated significantly in recent years.

Our research shows that the rise in labour costs (outpacing productivity) and energy prices, coupled with a significant intensification of international competition, especially from China, has worsened the competitive position of Polish companies. Polish businesses have been reluctant to invest, often because of unstable institutions and macroeconomic uncertainty. The intensification of internal political divisions may worsen that situation. But, going forward, Polish companies have to catch up with innovation, competitiveness, and international expansion.

Author

Rafal Benecki
Chief Economist, Poland
rafal.benecki@ing.pl