Polish investment activity remains subdued

The recession in Poland's construction sector worsened in October, indicating that investment activity remained subdued in early 4Q2024. For economic growth to accelerate, a rebound in fixed investment is needed in 2025, as consumption is expected to slow. We see downside risks to our 2025 growth forecast of 3.5%

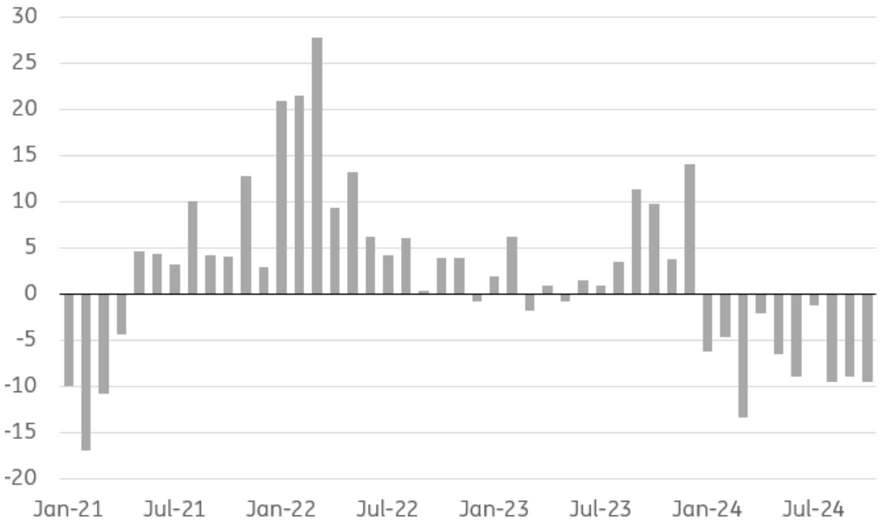
Decline in construction output deepened in October

Construction output fell by 9.6% year-on-year in October, following a decline of 9.0%YoY in September, confirming that the sector remains in a deep recession. The decline deepened in annual terms despite a more favourable calendar (working days) and weather conditions. Seasonally adjusted data points to a 2.7% month-on-month decline.

The deterioration is broad-based. Civil engineering fell by 10.2%YoY, dwellings construction declined by 7.9%YoY, and specialised works were 10.4%YoY down in October. The sharp decline in investment works (11.9%YoY) shows that investment activity in the Polish economy remains subdued, while restoration works performed better.

Construction still in recession

Construction output, %YoY



Source: GUS.

EU funds to support fixed investment in 2025

The first signs of a recovery in the construction sector are expected in 2025. We anticipate that by then, European funds, including structural funds contracted this year and funds directed towards construction under the National Recovery Plan (RRF), will start flowing into the economy more broadly. We estimate that final beneficiaries (all sectors of the economy) will receive some PLN15-20bn this year, but the amount should jump to at least PLN60bn next year. The structural funds absorption is also likely to accelerate.

In the housing market, we see stagnation, an oversupply of flats, and an increasing tendency among developers to lower prices after their significant rise in 2023 and early 2024. The budget has also seen many new expenditures, so the stimulus programme for the housing market has dropped from the agenda.

The expected interest rate cuts will help improve the condition of the construction sector, but in our opinion, they will be distant and rather limited in scale. We see the first cut in 2Q25 and a total rate reduction of 100bp in 2025. Poland is lagging in the fight against inflation, as shown by our and the National Bank of Poland's core inflation forecasts for 2025. The Russia-NATO tensions restrain investment decisions.

Investment and GDP outlook

Data from the construction sector indicates that investment activity continued to decline at the start of the fourth quarter. Potential arms deliveries are the only factor that might prevent a year-on-year drop in investments this quarter.

Economic recovery remains largely dependent on consumption growth, which slowed in the second half of 2024. Therefore, we have lowered our economic growth forecast for 2024 from 3.0% to 2.7%.

Next year, we expect an acceleration to 3.5%, but this will depend on a rebound in investments, as consumption growth will be slower than in 2024. Consequently, the risk distribution for next year's GDP growth forecast is asymmetrically skewed to the downside.

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