

Polish investment recovers and wage pressures ease

Early 2025 data confirms our view of a rebound in fixed investment and an improving mid-term inflation forecast. Construction output growth turned positive after 12 straight declines, indicating that a recovery in investment is underway. Wage growth slowed, which could help to reduce core inflation and allow for potential rate cuts in the second half



Construction output growth turned positive in Poland after 12 straight declines

January data from industry, construction, and the labour market fits into our baseline scenario, which assumes an ongoing economic recovery in 2025 due to a rebound in fixed investment, stable consumption growth, and an improving mid-term inflation outlook. Construction output jumped by 4.3% year-on-year in January after 12 months of annual declines, with strengthening signals of a long-awaited improvement in investment activity. We believe that projects financed from the Recovery and Resilience Fund as well as EU cohesion funds will help to achieve a 9.5% increase in total fixed investment in 2025 vs. 1.3% growth in 2024.

Wages rose by 9.2% YoY, posting single-digit growth for the second month in a row. This will translate into a slower improvement in real disposable income in 2025 vs. 2024 but is unlikely to

jeopardise consumption growth as households rebuilt savings last year and may utilise them to finance 2025 spending (consumption smoothing). We expect household consumption growth in 2025 to continue to expand at a rate similar to that seen last year i.e. around 3%. At the same time, easing wage pressures should reduce cost pressures, especially in the services sector, allowing for a gradual decline in core inflation over the medium term. The improving inflation outlook means the National Bank of Poland may start its monetary easing cycle this year.

Industrial output fell 1.0% YoY, confirming that manufacturing remains generally stagnant at the beginning of 2025 amid poor external demand. Polish manufacturing is tracking the stagnant developments seen in the industrial data in the Czech Republic and Germany. Fortunately, Poland, can still outperform the rest of the EU due to rising domestic demand. The rebound in production will come albeit delayed compared to the previous business cycles and tied to the revival of investment. Given the poor performance of the German economy, we expect the foreign trade balance to deteriorate further. The contribution of net exports to 2025 growth will be more negative than in 2024 when it amounted to one percentage point. In the past, the export sector drove the economic recovery. This time, it will depend on domestic demand.

Summing up, the economic recovery continues as investment activity is gaining ground and consumption should continue to expand while moderating wage pressure improves the mid-term inflation outlook. We see 3.2% GDP growth in 2025 and expect the NBP to start its monetary easing cycle in 3Q25. Our monetary scenario for this year assumes a 50bp cut in September, followed by 25bp cuts in both October and November. At the end of this year, we see the main policy rate at 4.75% vs. 5.75% currently. This economic cycle will be different to previous recoveries in Poland, mainly driven by domestic demand rather than improving net exports as was the case in the past.

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