

Snap | 21 July 2025

POLAND

Polish rate cuts set to continue despite strong wage growth

June's wage growth surprised to the upside, and readings from both industry and construction brought few signs of any further acceleration for economic growth. Wage increases were mainly due to one-off payments in the mining and energy sectors, and shouldn't prevent further rate cuts over the coming quarters as inflation sees a substantial moderation



We don't think that hot wage dynamics in Poland are likely to frighten rate setters away from further cuts

Wage growth still uncomfortably high, but on one-offs

In June, the average wage in Poland's enterprise sector jumped up by 9.0% year-on-year, beating both our expectations (8.3%) and market consensus (8.6%), and rising from May (8.4%). However, a deeper dive into the headline reading reveals that stronger wage dynamics were mainly due to additional payments (bonuses, overtime payments) and concentrated in mining (21.4% YoY) and energy supply (15.2% YoY). Double-digit wage growth was also maintained in several services sectors (e.g., transport and storage).

Wage dynamics remain elevated due to the limited availability of labour and shortages of qualified workers in many sectors. This hampers disinflation in labour-intensive services (service prices were up by 6.3% YoY in June) and a decline in core inflation (up by 3.4%YoY in June vs. 3.3% in May). Still, overall wage pressure moderated compared to previous years of high inflation and sharp hikes in the minimum wage.

Employment declined by 0.8% YoY in June, the same annual rate as we saw in May. We attribute these declines mainly to supply-side factors. In an environment characterised by a falling working-age population, retirees are often not replaced by new workers and sometimes continue working part-time. At the same time, businesses tend to automate their production processes amid a scarcity of labour. Immigrants continue to enter the country, but the net migration is not as favourable as in 2022-23 when Poland experienced a wave of refugees from Ukraine.

Industry still facing headwinds from weak external demand

There was no breakthrough in the June industrial report. Output fell 0.1% YoY, softer than our forecast of +1.0% YoY and market consensus of 1.6% growth. Activity in the manufacturing sector remains subdued, and swings in annual readings of monthly industrial output data are mainly due to statistical effects and differences in the number of working days. June this year had the same number of working days as June 2024, and the reading reflects stagnant activity. Negative signals from June manufacturing PMI were confirmed, and a motionless German economy is not helping either.

Another obstacle is the uncertainty stemming from the US trade policy outlook and potentially more difficult access to the American market for European producers of manufacturing goods after the introduction of higher tariffs proposed by US President Donald Trump.

Producers' prices (PPI) deflation deepened to -1.8% YoY from -1.5% YoY in May. Data on industrial output and PPI also bolsters the argument for further monetary policy easing.

Construction up in June, but still in the doldrums

In line with our expectations, construction output posted a positive reading in June, rising by 2.2% YoY (ING: +1.6%; consensus: -1.2%) on the back of a very low reference base from June last year. Still, dwelling construction remains under pressure amid an oversupply of flats and with a price correction underway.

The government refrained from introducing another stimulus programme, given that the previous one (mortgage subsidies) boosted prices and made housing availability even more difficult for some potential buyers. Activity in civil engineering remains subdued amid delays in the implementation of the Recovery and Resilience Fund (RRF); Poland's funds were locked for roughly two years due to the rule of law conflict between Warsaw and Brussels.

In the second quarter of the year, construction output fell by some 1.6% YoY following an increase of 0.8% YoY in the previous quarter. Data on both housing starts and dwellings completed don't suggest any signs of a turnaround soon – although the rising value of newly granted mortgages and interest rate cuts (past and expected) are providing some reason for optimism over the medium term. Still, construction overall proved a drag on Polish economic activity throughout the second quarter.

Interest rate cuts to be continued

Even though some policymakers point to wage dynamics as an important factor for the monetary policy outlook, we do not think that the high June reading will prevent further rate cuts by the National Bank of Poland (NBP). The data flow from the real economy is mixed, high wage growth is not broad-based, and the general outlook for CPI inflation is positive.

We expect headline inflation to moderate below 3% YoY in July and stabilise around 2.5-3.0% YoY in the months ahead. The Monetary Policy Council (MPC) therefore has a lot of room for rate cuts to avoid a spike in real rates. We assume that in September, the MPC may even cut rates by as much as 50bp, followed by a 25bp cut in November.

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