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Economic Comment

Rebound in construction and housing

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In September, Polish construction output rose 0.2% y/y against market expectations of a decline by 2.3% y/y and our -1.5% y/y forecast, which proves the one-off nature of the August unexpected collapse (-6.9% y/y). Housing market data is also significantly better than in August. The number of apartments completed reached 19.1k, the best result this year and +22.1% y/y. Poland faces a major increase of investment effort related to the EU funds inflow and the realisation of Recovery and Resilience Plan. This should translate to higher activity in construction, but not necessarily in the nearest future.

Data from the public finance sector indicated an increase in the deficit to 7.0% of GDP in 2Q25 from 6.8% of GDP in 1Q25. In our opinion, this means a growing risk that the deficit will exceed 7% of GDP at the end of the year (compared to 6.9% of GDP in the budget act).

Construction output recovered from the August collapse

In September, Polish construction output rose 0.2% y/y against market expectations of a decline by 2.3% y/y and our -1.5% y/y forecast. The working day differences helped the sector to recover, but the strong September reading also proves the one-off nature of the August unexpected collapse (-6.9% y/y vs +0.4% y/y median forecast).

In fact, in terms of unadjusted m/m growth the September reading deviated positively by almost 10 pp from the usual seasonal pattern, while in August the deviation was around -9 pp. The seasonally adjusted m/m growth recorded by GUS was +2.6% in September.

The largest rebound in output was seen in specialised works (+10.7% y/y vs -0.3% y/y previously) and in civil engineering (-3.0% y/y, up from -12.8% y/y). The growth in construction of buildings remained similarly negative (-3.8% y/y, while the August print was -4.1% y/y).

Poland faces a major increase of investment effort related to the EU funds inflow and the realisation of Recovery and Resilience Plan. This should translate to higher activity in construction. However, the business sentiment indicators in the sector so far have not been signalling an imminent rise in construction growth, so we stick to an assumption about only a marginally positive y/y prints in the remaining months of the year.

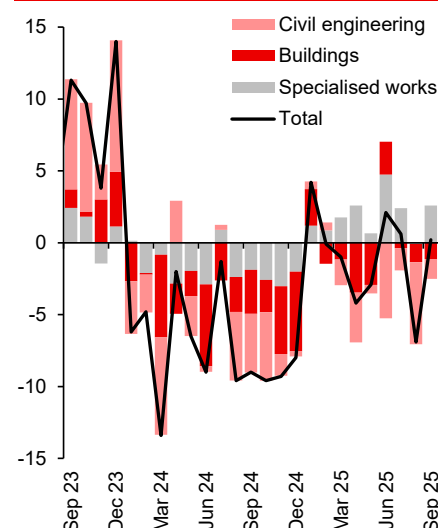
Housing market rebounded too

September's housing market data is significantly better than a month ago. The number of apartments completed reached 19.1k, the best result this year and 22.1% more than in September last year. The number of building permits issued and housing starts increased only slightly, by 1.5% and 1.6% y/y, respectively, representing a solid rebound after the steep year-on-year declines in August. In terms of 12-month sums, the housing market's performance remained largely unchanged and remains relatively weak compared to historical data, with only a slight upward move in the number of apartments completed. Our estimated number of new housing projects in progress has declined again, suggesting a slowdown rather than acceleration in the market. Given the increased demand pressure from mortgage loans, this could contribute to housing price increases in the coming quarters.

Public finance deficit continues to grow

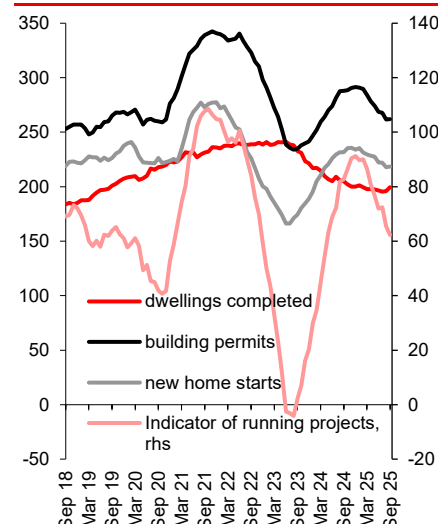
The public finance deficit for 2024 was revised to 6.5% of GDP from 6.6%, and for 2023 to 5.2% of GDP from 5.3% of GDP. The public debt estimate for 2024 was lowered to 55.1% of

Construction and assembly output, growth structure, % y/y



Source: GUS, Santander

Housing market in Poland, 12m moving sums, in thousands



Source: GUS, Santander

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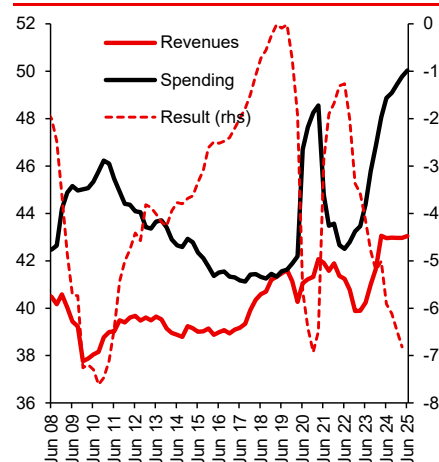
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GDP from 55.3% of GDP. At the end of 2Q, the debt stood at 58.1% of GDP, compared to 57.3% of GDP in 1Q25.

Quarterly data showed an increase in the deficit over four quarters, reaching 7.0% of GDP after 2Q25, from 6.8% of GDP after 1Q. In 2Q alone, public finance revenues increased by 7.3% y/y, compared to 6.0% y/y in 1Q, and expenditures by 8.6% y/y, compared to 10.2% y/y in 1Q. Recent quarters have seen an increase in the expenditure-to-GDP ratio, while the revenue-to-GDP ratio has stabilised. The increase in spending is primarily driven by social benefits (an increase of 10.5% y/y in 2Q) and wages (8.8% y/y). Investment spending fell by 7.1% y/y, and since local government data showed a 4.6% y/y increase in investment in this sector, this means that central government spending fell by approximately 15% y/y, making it the sector responsible for the decline in investment across the economy in 2Q.

Sector spending in 2Q exceeded 50% (over four quarters), while at the local low point in 2Q 2022, it amounted to 42.5% of GDP. The largest contributors to growth over these three years were social benefits (2.3% of GDP), wages (1.7% of GDP), interest (1.3% of GDP), and investments (0.9% of GDP). In our opinion, the published data indicate a growing risk that the deficit will exceed 7% of GDP at the end of the year (compared to 6.9% of GDP in the budget act).

General government revenues, spending and result as % of GDP (4 quarter sum)



Source: GUS, Eurostat, Santander

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