

# Maturing cycle

## Poland

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# Executive Summary (macro)

Recent positive data from the domestic economy have sparked a wave of optimism about the prospects for economic growth in Poland. For us, this optimism is nothing new. We wrote about the fact that the coming years would be marked by strong investment growth and that 2026 would be better than 2025 in terms of GDP growth before it became trendy. At the same time, it is worth bearing in mind that these will not be easy years, free from uncertainty, and that the acceleration in domestic growth will be moderate rather than spectacular. In our opinion, the increasingly popular slogan 'GDP at four plus' will materialise more likely in the form of nominal GDP level exceeding PLN 4 trillion, rather than in the form of average real GDP growth for the entire year above 4% (although this may not be far off).

The global environment will remain difficult. We do see some signs of improvement in global industry and a chance for a recovery in the German economy, which is most important for Poland and should offer domestic exporters some tailwind, but the structural shift towards greater global protectionism, geopolitical tensions and demographic challenges will make it difficult to return to the scale of expansion seen in previous decades. The competitiveness of domestic producers will continue to be undermined on three fronts simultaneously: a strong real exchange rate, relatively high energy prices and relatively rapidly rising labour costs.

One of the key uncertainties concerns the future of the Russia-Ukraine war. We see no clear answer on whether a truce will be reached in 2026 and on what terms. Should it happen, we would see an additional disinflationary impulse in the short term (stronger zloty, cheaper oil, gas and food), while in the longer run, a pro-growth and pro-inflationary impulse (additional investment momentum, greater tensions in the labour market).

The investment recovery will probably be the number one domestic issue, and it will be supported by a combination of four factors: (1) companies' efforts to increase productivity in the face of demographic challenges, reinforced by lower interest rates, (2) the investment cycle related to the cohesion funds, related to the EU's multi-year financial framework for 2021-2027, (3) projects under the National Recovery Plan with very tight deadlines, expiring in 2026, (4) the need to further strengthen defence through investments in equipment, systems and infrastructure.

The current stage of GDP growth recovery has proceeded without a significant increase in the number of people in employment. However, we assume that, as was the case more than a decade ago, this phenomenon of 'jobless recovery' cannot last too long and that in 2026 the number of jobs will begin to rise slightly. As a result, further slowing of wage growth also has limited potential. We assume that wage growth will slow to around 6% y/y, as a result of which unit labour cost growth will approach 2%.

Real growth in household income is likely to be much more modest than in previous years. Maintaining consumption on a moderate growth path will still be possible and, in our opinion, likely, but it will require drawing on previously accumulated savings and credit.

The pace of disinflation in the past year was significantly higher than we had anticipated, mainly due to three factors: the strengthening of the zloty, particularly against the dollar, falling commodity prices and the growing scale of imports of cheaper consumer goods from Asia. These factors, plus the slowdown in wage growth, will continue to support disinflation in the near term, resulting in CPI growth approaching 2% y/y in the first half of 2026. In the subsequent quarters, however, we see a risk of acceleration in price growth, towards 3%, due to, among other things, the expiring exchange rate effect, the effects of previous interest rate cuts and the economic recovery.

The decline in inflation at the beginning of the year is likely to prompt the Monetary Policy Council to resume interest rate cuts. We assume that the reference rate will stop at 3.5%, in line with the suggestions of central bank representatives. Larger cuts would be possible if CPI falls below 2% and/or there are signs of an economic slowdown.

Fiscal policy will remain expansionary, with the deficit likely to exceed 6% of GDP and debt rapidly approaching statutory and constitutional limits. Despite accelerating economic growth, we do not expect significant fiscal consolidation before the parliamentary elections scheduled for 2027. With positive sentiment prevailing in financial markets, this may happen without significant market repercussions, but sensitivity to any shocks has definitely increased.



# Executive Summary (markets)

## FX market

Talks on a peace plan for Ukraine are back in the headlines, which we believe is one of the main reasons for the narrowing of risk premiums in Central and Eastern Europe in recent weeks. We continue to believe that a credible signal of a possible truce or ceasefire between Russia and Ukraine would cause a significant appreciation of the zloty. However, we remain cautious about this scenario in the near future.

We assume that the Polish currency will remain fairly stable in the coming months, although we have slightly lowered our EUR/PLN target to 4.25, adjusting it to market changes in recent weeks. In our view, the positive impact of the resilience of domestic economic growth and the approaching end of the NBP's interest rate cuts will be offset by continuing geopolitical uncertainty, a gradually growing current account imbalance and expansionary fiscal policy (with the highest general government deficit in the entire EU in 2026).

## FI market

Polish bonds have been bucking global trends this year, recording significant declines in yields despite the deterioration in the country's fiscal trajectory for the coming years and the decision by two rating agencies to lower the rating outlook to negative.

We see opportunities for further strengthening of domestic debt in a scenario of a truce in Ukraine, which would remove the geopolitical risk premium from all assets in the region, and/or significant Fed interest rate cuts, which would generate global risk appetite. Without these factors, it seems that the potential for a decline in yields at the long end of the curve has already been largely exhausted, given the trends in the core markets. We still see room for a decline in short-term yields and a further steepening of the curve in response to further NBP rate cuts.



# 2025: Our forecasts vs. reality

Indicator	Our forecasts in December 2024	Reality
GDP	We expect that the pace of economic growth will remain at above 3%, despite unfavourable external environment, still supported first and foremost by relative resilience of domestic demand.	Forecast accurate. Subsequent quarters brought a gradual acceleration in GDP growth, which is very likely to reach 3.5–3.6% for the whole year, almost exactly as we assumed. Domestic demand was the main driver of growth.
GDP breakdown	Over time, investments will take over as the main driver of economic growth, though their rebound seems delayed. Consumption growth will reach c. 3%, similarly to the current year, supported by increase in real wages. Contribution of inventories will be positive, and that of net exports – negative.	We were right about the direction, although the delay in the investment recovery turned out to be greater than we expected, which was temporarily offset by a stronger contribution from consumption.
Labour market	The rebound of investments should moderately increase demand for labour, keeping unemployment near its all-time low. The pace of wage growth will decline but will remain positive in real terms.	Forecast accurate, although only in 2H did employment start to rise slightly. Unemployment remained very low, while wage growth slowed at year-end to around 7% y/y, despite a stronger-than-expected 1H.
Inflation	CPI inflation will increase up to March, when it will reach its peak of c.5.7% y/y. Inflation will decrease a bit in 2Q25 and more strongly from July and should finish the year slightly below 4%. Core inflation will remain above 4% until mid-year. Later, it will trend downwards.	Big miss. Inflation was clearly lower than we had assumed, due to a strong zloty, low commodity prices, an influx of cheap goods from China, and a sharper-than-expected slowdown in service prices towards year-end.
Monetary policy	We expect the NBP will begin lowering interest rates in July 2025 and that the total size of the cuts in 2025 will equal 100-125 bps. By July, it should become clear that the risk of a strong increase in CPI inflation at the end of the year is low, and that the moment of inflation returning to the target is drawing closer, not further away, which should deprive the NBP Governor and the most hawkish MPC members surrounding him of arguments for keeping the rates high.	Faster disinflation meant that interest rate cuts started earlier, already in May, and their total scale was greater than we had assumed, amounting to 175bp. The NBP Governor abandoned the distinctly hawkish stance presented in the previous year and, according to him, the MPC was exceptionally aligned on the direction of monetary policy in recent months.
Fiscal policy	Another year of public finance deficit near 6% of GDP and of growing public debt, which will near 60% of GDP (in the EU's definition). Fiscal consolidation will be postponed until after the presidential elections.	Forecast accurate. The year will most likely end with a fiscal deficit above 6% of GDP and public debt approaching 60% of GDP. There is still no prospect of fiscal consolidation before the next parliamentary elections.
Fixed income market	We anticipate higher swap rates and yields in 1Q (especially at the short end of the curve), as market expectations for the start of NBP rate cuts become more realistic and due to high supply of debt. Later in the year, we should see declines in market rates and yields as well as a steepening of the curves.	Despite faster NBP rate cuts, bond yields moved down less than we had assumed, especially at the long end of the curve, which was probably due to the deterioration in the fiscal trajectory and rating outlook downgrades by Fitch and Moody's, as well as trends in core debt markets.
FX market	The EURPLN exchange rate should remain fairly stable in the range of 4.30-4.40, on the one hand supported by the unhurried approach of the NBP to lowering interest rates, and on the other, by negative pressure of firms' low competitiveness, deteriorating balance of payments, and declining real rates.	The zloty indeed proved very stable, but at stronger levels: the average EURPLN exchange rate was slightly below 4.25. In our view, this was due to, among other factors, a weaker-than-expected US dollar and investors' renewed hopes for an end of the war or a truce in Ukraine.



# 2026: Our forecasts and main risks

Indicator	Summary of our forecasts	Main risks
GDP	GDP growth has a chance to accelerate slightly, approaching 4% y/y in some quarters, supported by a moderate improvement in the external environment. The market consensus, which until recently assumed weaker growth in 2026 than in 2025, has started to shift towards our expectations.	Asymmetric downside risks: a smaller scale of recovery in the German economy, deterioration in global conditions in the event of geopolitical escalation and/or an AI bubble burst, households maintaining a strong propensity to save, further delays in spending RRF funds and resulting loss of some grants, outflow of Ukrainian migrants deepening the labour shortage.
GDP breakdown	The culmination of the long-awaited investment recovery will be driven by a race against time to spend funds from the RRF. Consumption will continue to grow at a moderate pace, adding a solid 2pp to GDP growth. Exports may accelerate thanks to a moderate improvement in Germany demand, but the impact of the trade balance on GDP will remain negative. Inventories will still have a positive contribution to GDP.	A potential truce in Ukraine could further strengthen investment but weaken consumption (due to the outflow of some refugees). This risk is not symmetrical: in the event of conflict escalation, we would see weaker investment and also weaker consumption (due to reinforced propensity to save).
Labour market	Double-digit growth in investment outlays will require an increase in labour input. Wage growth may slow a little further, partly due to much smaller increases in the minimum wage and in the public sector than in previous years, but the scope for deceleration does not seem significant.	On the one hand, the risk of prolonged stagnation in the labour market and stronger wage slowdown if there is no recovery in Europe; on the other hand, possible renewed wage tensions if there is a partial outflow of Ukrainian citizens.
Inflation	Much faster-than-expected disinflation in 2025 has pushed our inflation forecasts for the following year lower: for much of the year, CPI and core inflation will likely remain below 2.5%, helped by a still strong zloty, low commodity prices and the growth of unit labour costs consistent with the inflation target.	In our view, a Russia-Ukraine truce would support deeper disinflation in the short run (stronger PLN, cheaper commodities), creating inflation risks in the medium term (demand recovery, deepened labour shortages).
Monetary policy	We still believe that in a world of greater economic fragmentation, structurally higher defence spending and looser fiscal policy, real interest rates should remain positive. A drop in inflation below 2.5% will create room for a few more cautious cuts in the reference rate – down to 3.5%.	We can imagine the reference rate falling below 3.5% if inflation continues to decline faster than forecast.
Fiscal policy	We do not expect fiscal consolidation before the next parliamentary elections scheduled for 2027. The fiscal deficit will likely remain above 6% of GDP, and debt will stay on an upward path.	The biggest risk to the fiscal path is the pace of economic growth. A slowdown in GDP growth would push the deficit and debt to even higher levels, bringing closer the scenario of a rating downgrade.
Fixed income market	Without a truce in Ukraine and/or significant Fed rate cuts, further declines in long-end yields will be difficult. We still see room for further yield curve steepening in response to additional NBP rate cuts.	There is a chance of further declines in rates and yields in the event of a truce in Ukraine and/or bold Fed rate cuts. The greatest risk of debt market destabilisation would arise if the domestic economy slowed.
FX market	We assume the zloty will remain fairly stable, oscillating around 4.25 per euro.	The evolution of the war in Ukraine and tension in relations with Russia seems to be the key factor that could push PLN out of its sideways trend.



# Economic growth



1



# Global economy: themes of the year

## Key economic themes in 2025:

- **Protectionism, trade wars, deglobalisation** – Donald Trump's presidency set new directions in global trade policy, including increased tariffs; the growing importance of industrial policy and ensuring security of supply. Contrary to fears, this did not lead to deglobalisation (world trade turnover continues to grow), but it did significantly disrupt the flow of goods between countries, increasing overall economic and business uncertainty;
- **Dedollarisation** – US policy did not trigger a mass retreat from the dollar, but it did provide an impetus for greater diversification of reserves and financial transactions, which contributed to the weakening of the US currency; this, in turn, had a positive impact on emerging market currencies and helped with disinflation;
- **Disinflation and interest rate cuts** – most economies experienced disinflation, aided in part by falling energy prices, and the so-called “last mile” problem proved less burdensome than feared; the impact of tariff increases on US inflation also proved less severe than estimated (so far); this allowed central banks to ease monetary policy (at varying rates) and financial markets to remain optimistic for most of the year;
- **Geopolitics** – despite periodic tensions, markets discounted growing chances of conflicts being resolved, including in the Middle East and Ukraine; a side effect of this was, among other things, a downward trend in oil and gas prices, which helped to reduce inflation;
- **AI** – huge expectations regarding the potential benefits of new technologies, pumping up stock market valuations and a hyper-cycle of investment spending, mainly in the US.

## Key economic issues in 2026:

- **Geopolitics** – will remain in the spotlight, including the competition and tensions in US-China relations and uncertainty about developments in the Middle East and Ukraine;
- **Russia-Ukraine conflict** – previous attempts at talks to end the conflict or achieve a ceasefire have been unsuccessful, but pressure from the US and/or the difficult internal situation in Ukraine may bring closer an agreement with potentially significant implications for commodity markets, exchange rates and financial assets in the region, investment sentiment and migration flows;
- **AI** – concerns about the valuations of tech companies in the US are among the main risks to sentiment on global equity markets; a deeper correction could spread to other asset classes;
- **Elections** – March: local elections in five German states, a test of support for the governing coalition, with the risk of strong results for extremist parties; April: parliamentary elections in Hungary with a growing likelihood of Viktor Orbán's party defeat; November: the midterm elections in the US, the prospect of which should limit the Trump administration's inclination to take overly controversial actions and increase the chances of de-escalation, e.g. in trade policy;
- **Replacement of the Fed chair** – J. Powell's term ends in mid-May; markets expect that his successor, appointed by D. Trump, will likely seek to significantly ease monetary policy in the US, which would support the continued weakness of the dollar and thus strengthen EM currencies and boost optimism on stock and bond markets.



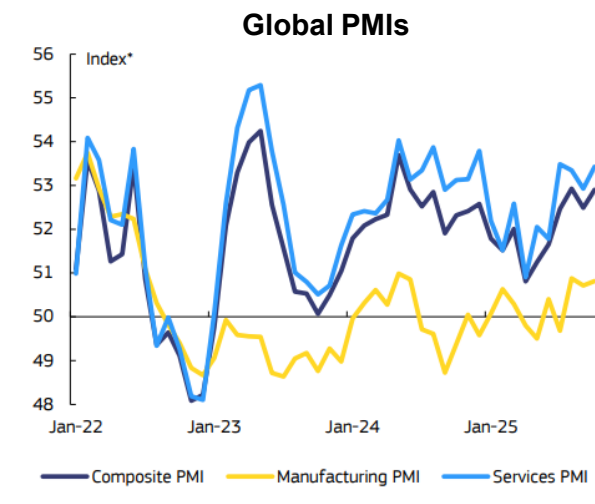
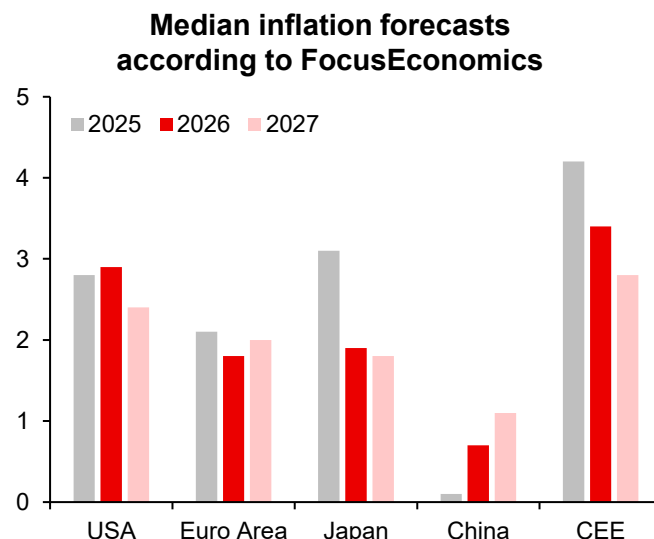
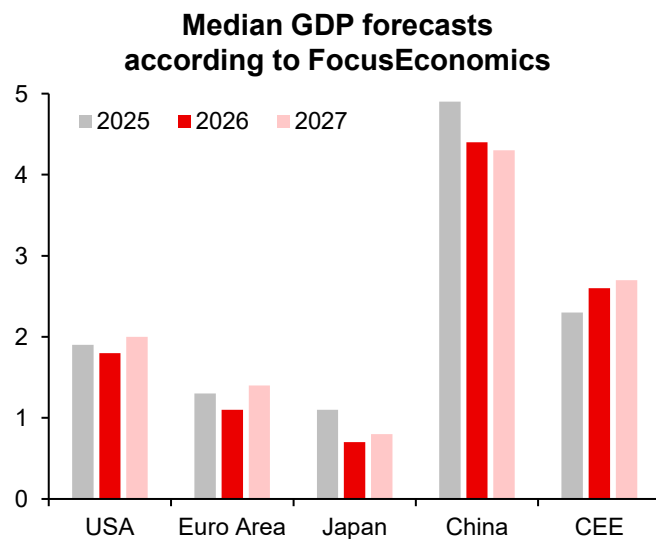


# Global economy: no clear breakthrough?

**The international environment in 2026 will remain quite challenging.** The expansion of global trade will continue to be hampered by global uncertainty, increased protectionism and a focus on domestic industrial policies, although the prospect of midterm elections in the US, in our view, offers some chance of de-escalation in US trade policy (the first signs of which have already appeared in recent weeks).

The pace of global economic growth will likely be similar to this year's, at around 3%, although unevenly distributed across countries and regions. We expect a slight recovery in those euro area countries with which Poland has the closest economic ties, partly as the effects of fiscal stimulus and increased spending on defence and infrastructure begin to materialise. There are widespread expectations of further GDP recovery in the CEE region.

Most forecasts assume inflation worldwide will stabilise at relatively low levels or continue to decline moderately. In Europe, concerns about persistent inflation are easing as wage growth slows. Greater uncertainty surrounds the US, partly due to the potential emergence of inflationary effects from higher tariffs and a possible increase in the scale of fiscal and monetary stimulus.



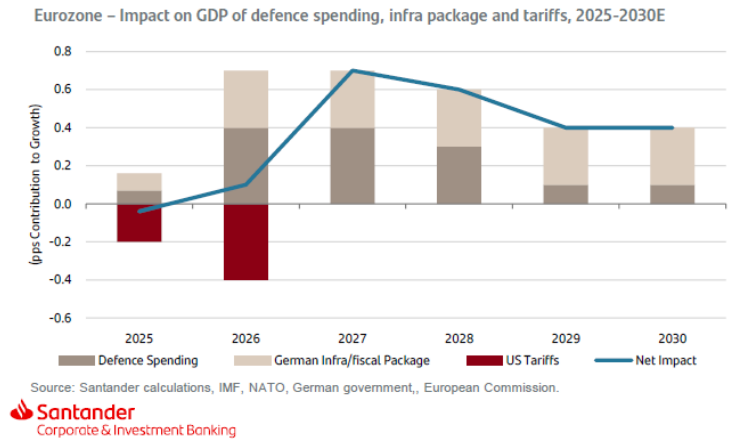
\*Index values above 50 mean expansion.

Source: S&P Global.

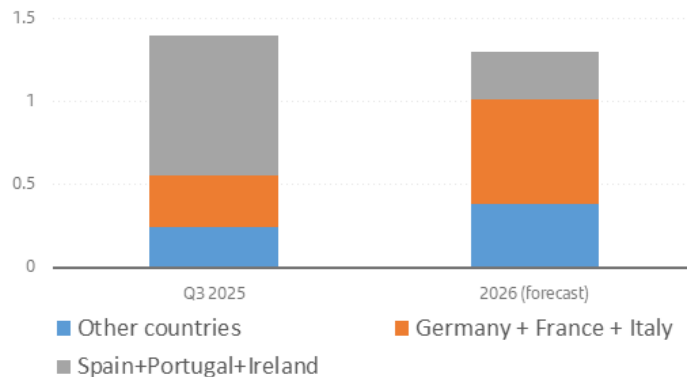
# Europe: effects of the fiscal-military impulse

We expect a moderate acceleration of the German economy in 2026. On the one hand, European industry and trade will only feel the full negative impact of increased US tariffs in the coming quarters. At the same time, however, the effects of the shift in German fiscal and spending policy at the beginning of this year – a departure from the strategy of maintaining zero fiscal deficits and a significant increase in spending on defence and infrastructure – should become increasingly apparent over time. We estimate that this could translate into a growth impulse of 0.7 percentage points per annum, outweighing the negative effects of US customs policy.

While GDP growth across the eurozone in 2026 may be slightly below this year's level, we expect it to be distributed differently geographically, with a much larger share coming from countries with which Poland has closer economic ties, particularly Germany, which should be good news for Polish exporters and manufacturers.

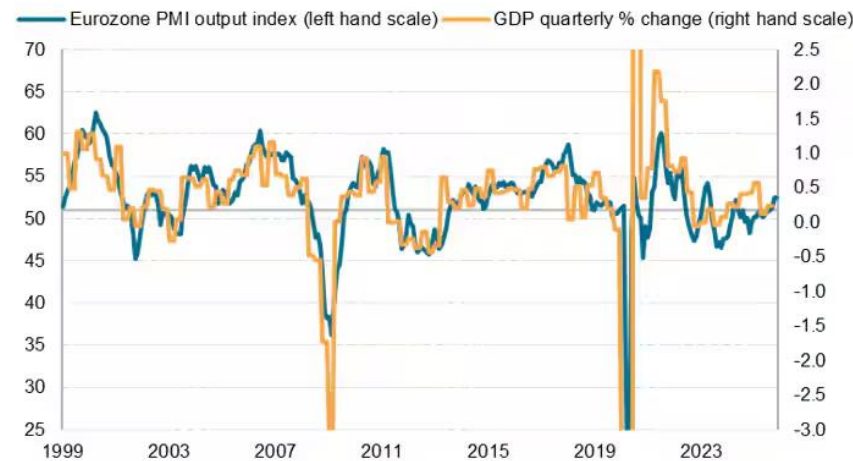


GDP growth in the euro zone:  
change of leaders



Source: Santander

Euro zone: PMI index vs GDP growth



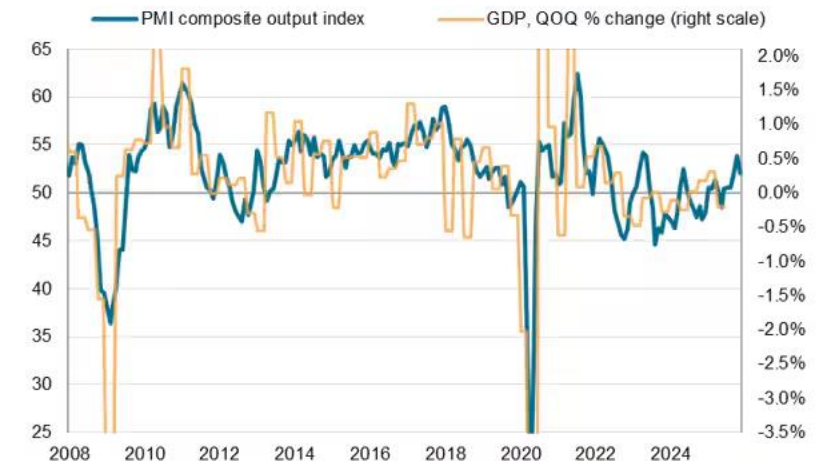
Data compiled Nov. 21, 2025.

PMI (Purchasing Managers' Index) based on 50 = no change on prior month, covers goods and services.

Sources: S&P Global PMI with HCOB, Eurostat via S&P Global Market Intelligence.

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Germany: PMI index vs GDP growth



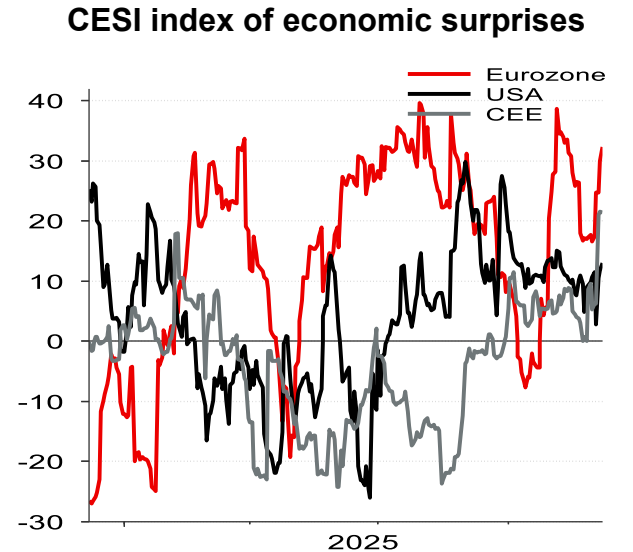
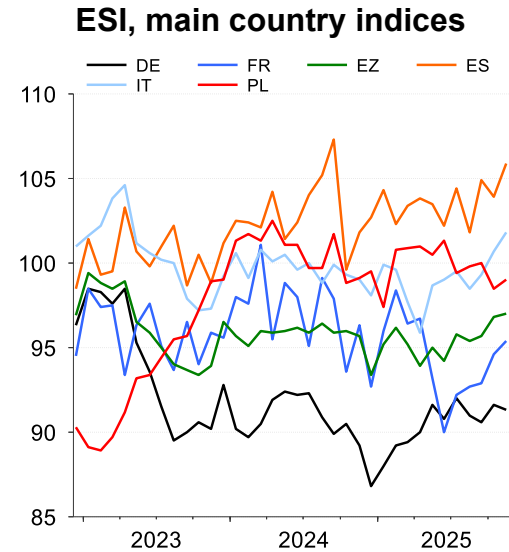
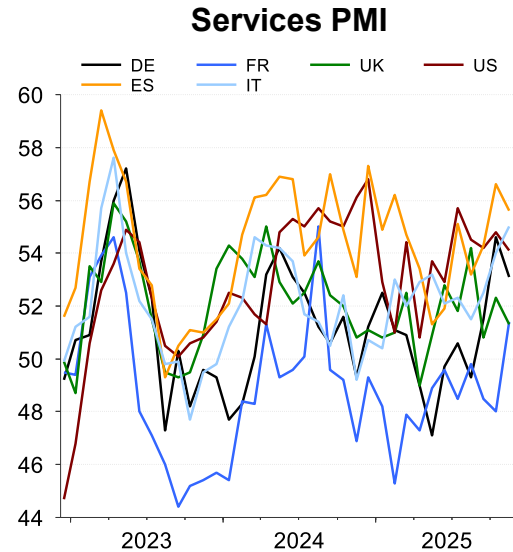
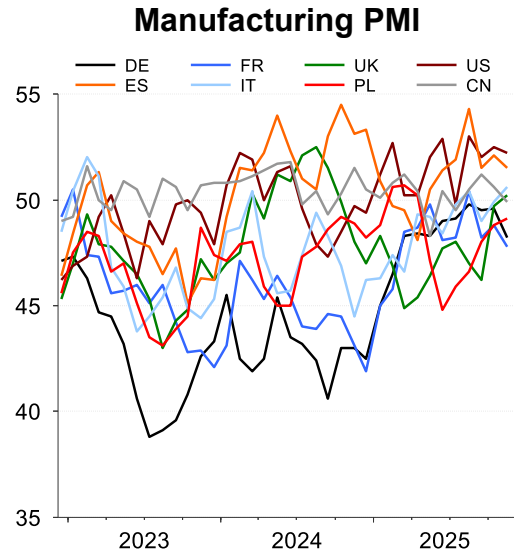
Data compiled Nov. 21, 2025.

PMI (Purchasing Managers' Index) value of 50 = no change on prior month.

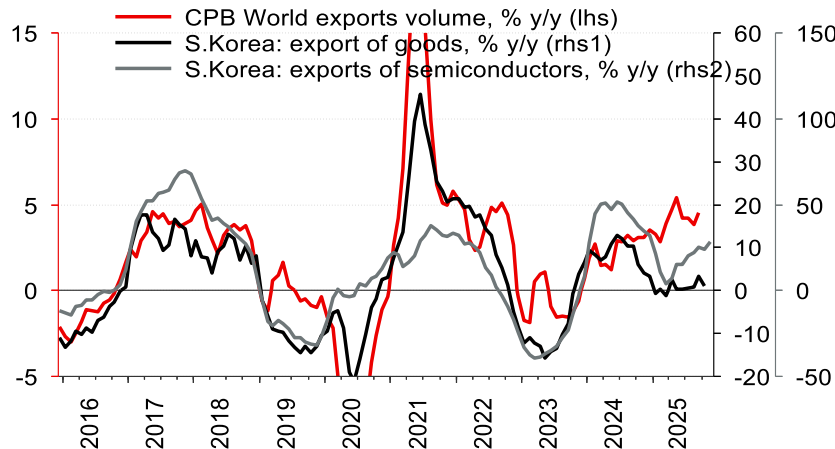
Sources: S&P Global PMI with HCOB, FSO via S&P Market Intelligence.

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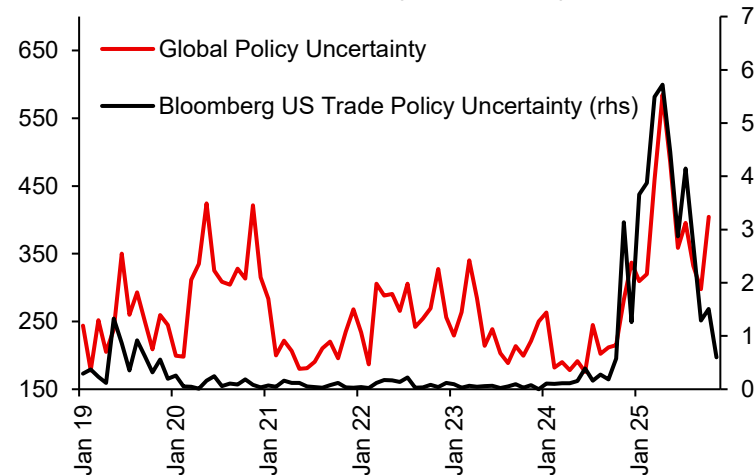
# Subtle signs of global economic outlook improvement



### Global trade turnover and S.Korea export, % y/y



### Indices of policy uncertainty



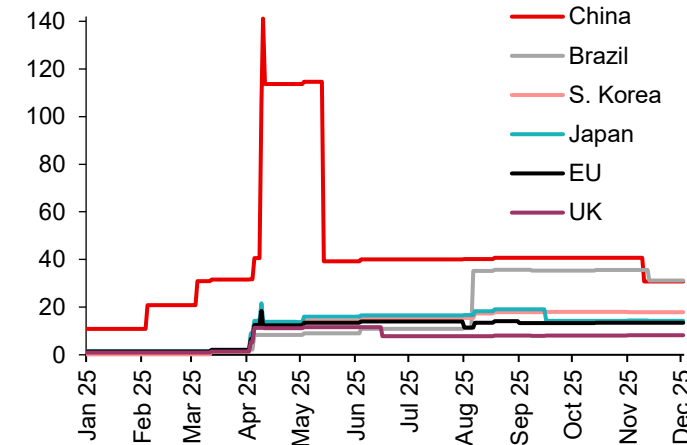
# Trade wars and trade trends

The trade war unleashed by the D. Trump administration raised effective tariffs on imports to the US to varying degrees. The global average – which also corresponds to the rate for the EU and India – stands at 13.42% compared with 2.02% just before the “liberation day” (the imposition of additional tariffs on all countries at the beginning of April, defined by the US as “reciprocal tariffs”) and 1.38% at the start of 2025.

During the year, tariffs on goods from China reached the highest levels and, even after several rounds of negotiations, remain among the highest. However, if we look at production and export volumes, China appears to be the main beneficiary of the tectonic shock that the US inflicted on global trade. The clear breakout of Chinese exports above trend, alongside stagnant imports, actually began earlier – right after the Covid-19 pandemic – which seems to undermine recent predictions regarding re-shoring and deglobalisation.

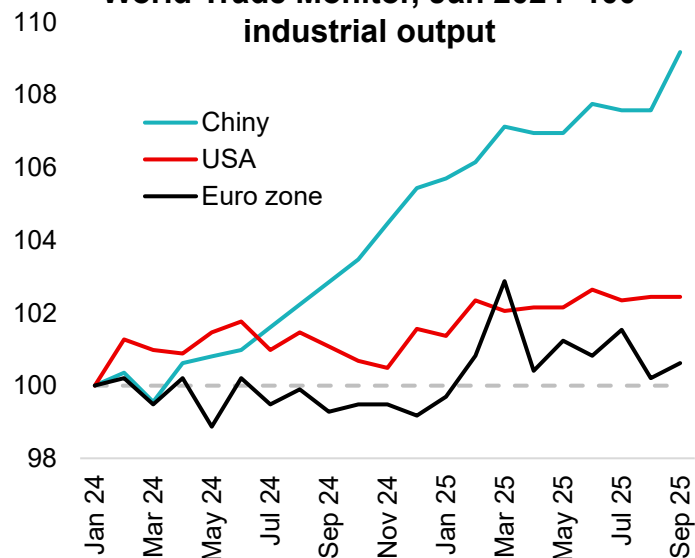
The enthusiasm of the Trump administration for further disruption of the tariff structure has waned, and we assume that 2026 will be a year of crystallisation of a new global trade flow network under these new conditions.

Effective US tariffs on particular countries

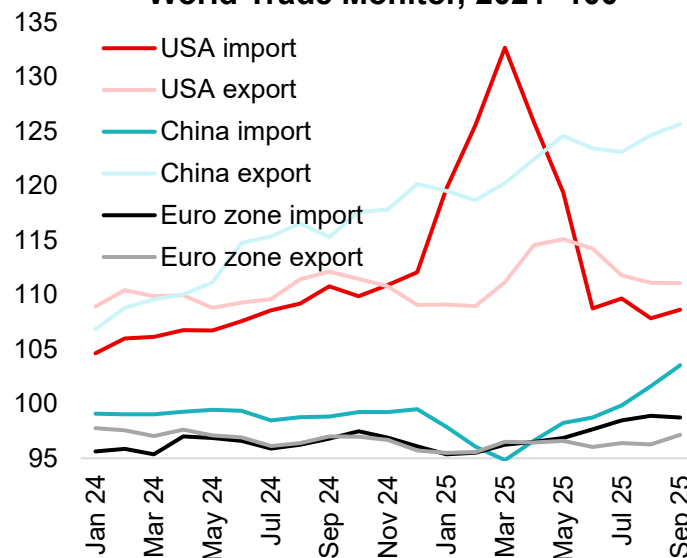


Source: Bloomberg, Santander

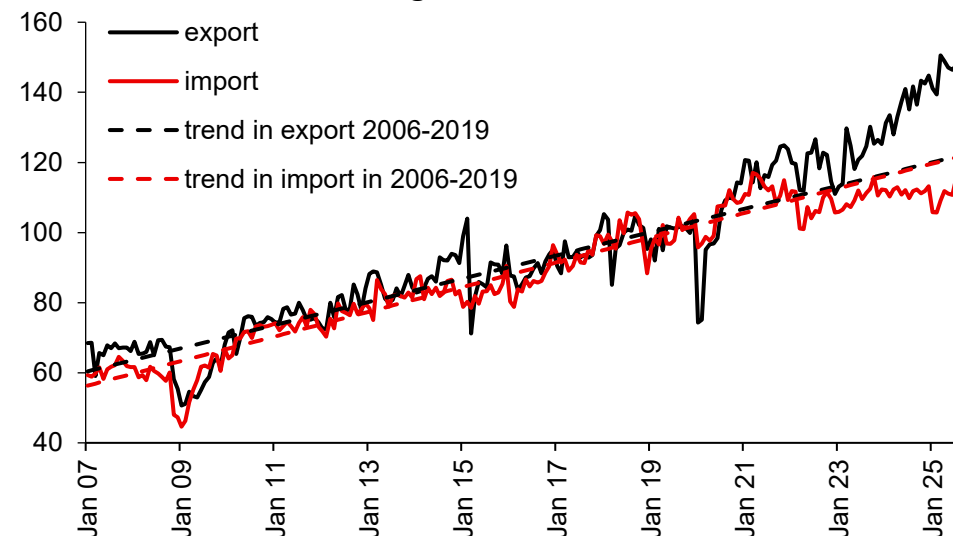
World Trade Monitor, Jan 2024=100  
industrial output



World Trade Monitor, 2021=100



World Trade Monitor, volumes of Chinese  
foreign trade, 2019=100



# War in Ukraine: what next?

Talks on ending/suspending the Russia-Ukraine war have entered a new phase. Experience from previous months does not, in our view, indicate Russia's interest in quickly winding down the conflict, but the odds of a ceasefire in 2026, as priced by betting markets, have risen again (although they remain clearly below the level seen in August, just before the Trump-Putin meeting in Alaska).

We would summarise the key possible effects of a potential Russia-Ukraine truce as follows:

- A clear reduction in risk premia in CEE asset prices: stronger zloty, bonds, equities.
- Declines in energy and agricultural commodity prices, in anticipation of supply returning from the East.
- Improved investment and consumer sentiment in the CEE region, and reconstruction of Ukraine.

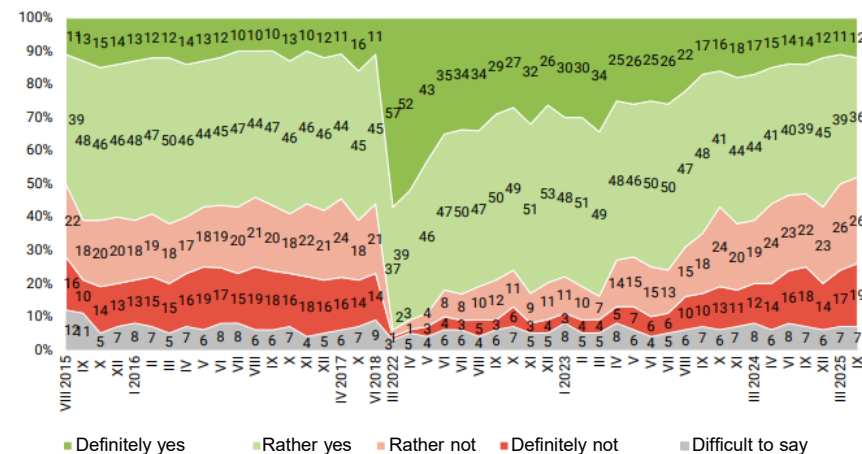
The first two factors would strengthen disinflation in the short term, while the third would mean rising demand, wage and inflationary pressures, especially if accompanied by an outflow of migrants.

The impact of a truce on migration flows is, in our view, uncertain. [As we wrote in the March report](#), flows will likely be two-way. Research shows a gradual decline in the share of Ukrainians planning to return home, but at the same time anti-Ukrainian sentiment in Poland is rising rapidly, which does not encourage migrants to come to our country or stay longer.

Data on the number of people from Ukraine under temporary protection show a steady increase in their population in Western European countries, while in Poland, after a long period of stability, October–November saw the first clear decline in a long time (around –40k people), possibly linked to changes in regulations on aid and access to benefits.

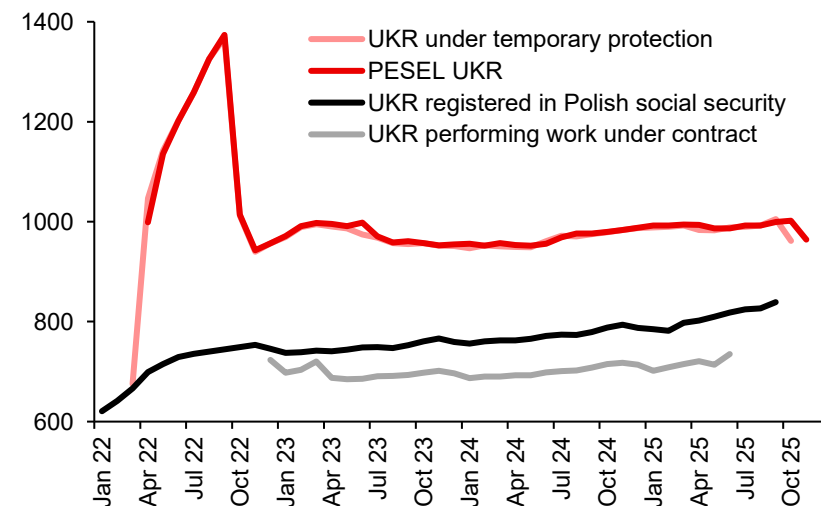
An outflow of Ukrainian citizens would mean, on the one hand, a drop in domestic consumption, but at the same time a deepening shortage of workers in sectors such as retail, transport, catering, processing and construction.

## CBOS: In your opinion, should Poland accept Ukrainian refugees from conflict zones?



Source: CBOS

## Number of Ukrainians in Poland and Polish labour market according to available data sources, thousands



Source: Eurostat, PESEL, GUS, ZUS, Santander

# Poland: GDP growth heading towards 4%

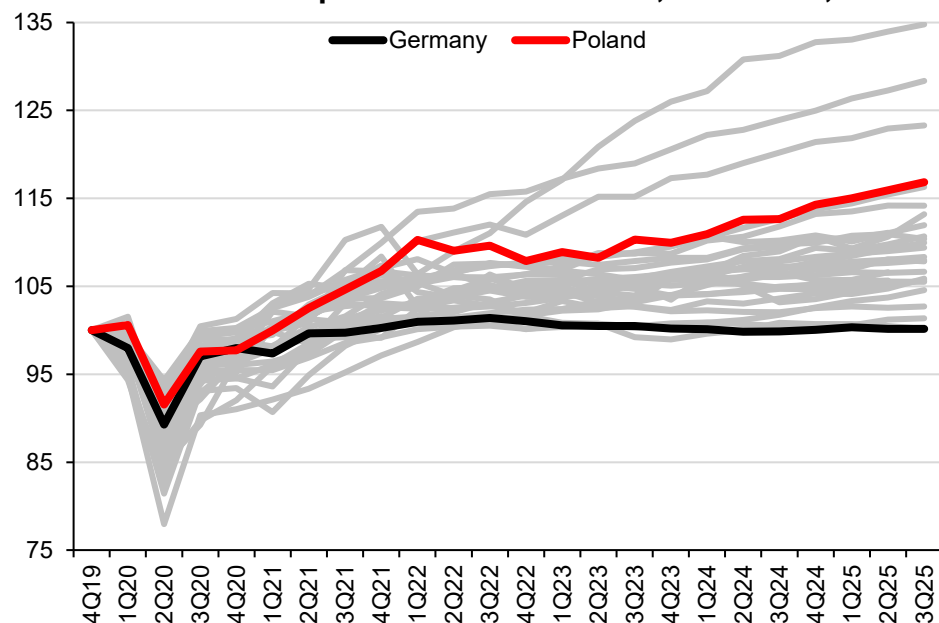


Poland remains among the leaders in economic growth, both in the short and long term. In 3Q25, GDP grew by 3.8% y/y, and in our opinion, **the growth rate will approach 4% in the coming quarters**. We wrote that 2026 would be better than 2025 in terms of economic growth before it became a consensus view - as early as [the middle of this year](#). However, we still believe that the improvement will be modest, and the risks to the forecast are skewed downwards rather than upwards.

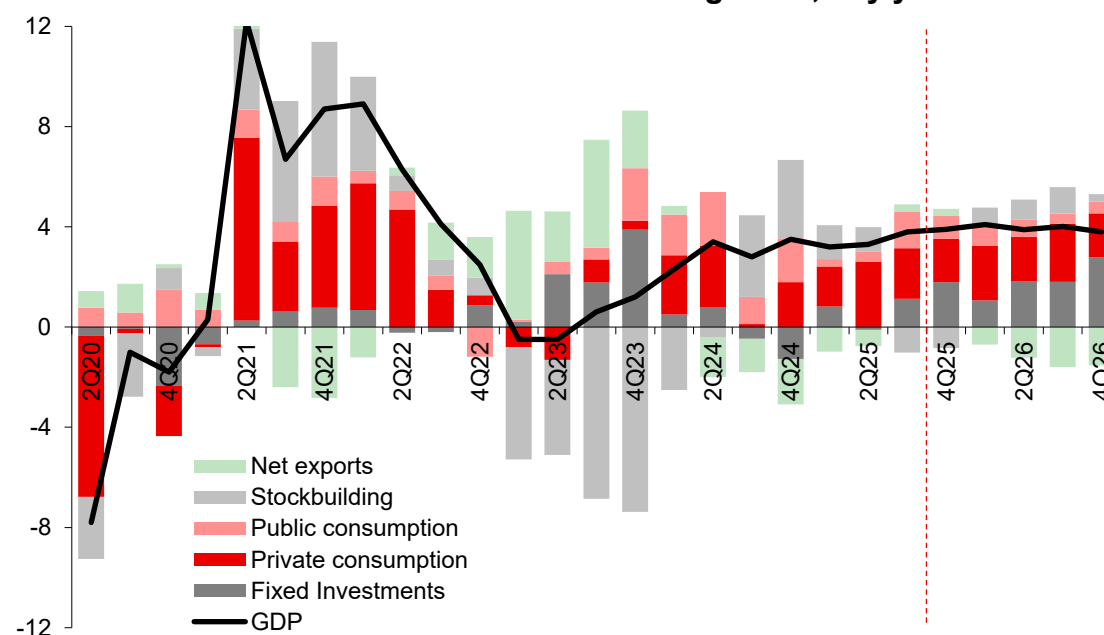
The acceleration in growth will be driven by the long-awaited revival in investment, which we believe will grow at a double-digit rate. Private consumption should remain strong, although it is likely to grow slightly slower than in 2025, mainly due to weaker income growth. The tight fiscal situation will also contribute to a slowdown in public consumption, and the continued strong domestic economy, combined with the weak state of the European economy, will keep net exports' contribution to overall growth negative.

Growth above potential (estimated by the NBP at around 3%) may lead to imbalances in the economy, including increased inflationary pressure. However, we do not expect this to happen in 2026.

GDP in fixed prices in EU countries, 4Q19=100, sa



Breakdown of Poland's GDP growth, % y/y





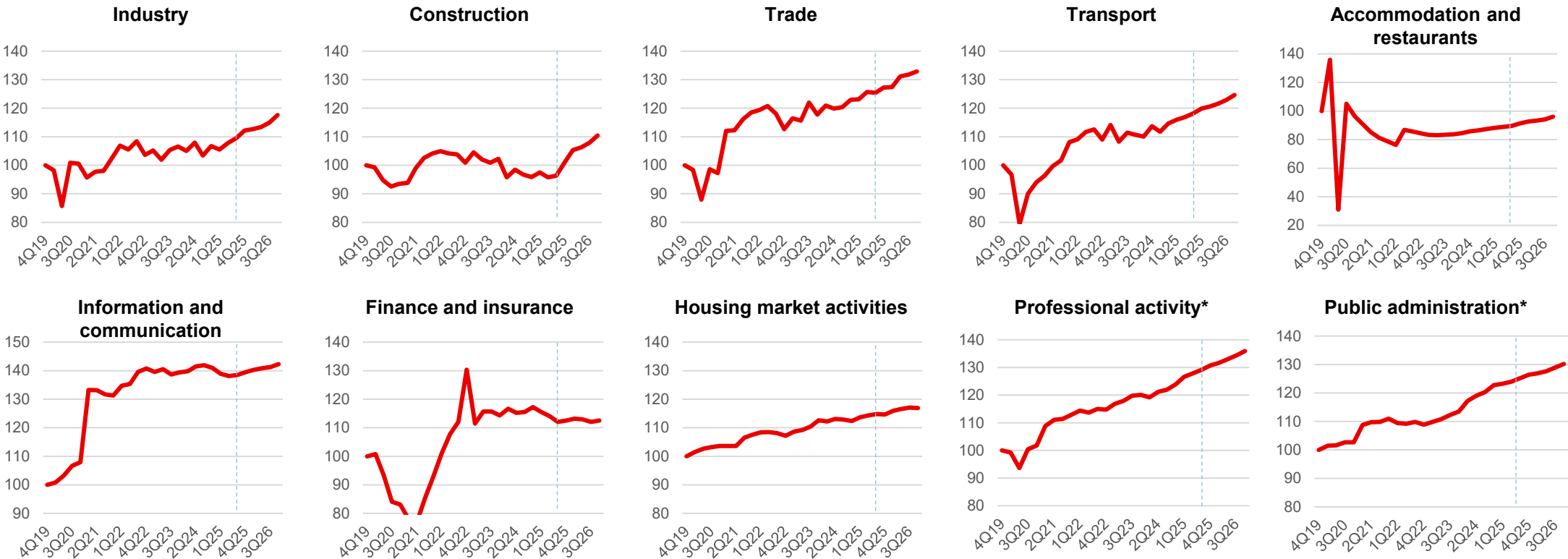


# Recovery in almost all sectors

Most of the main sectors of the economy have already entered a phase of recovery (the service sectors, which have been growing for some time, have recently been joined by industry, despite the continuing economic downturn in Europe) or (as in the case of construction, for example) are on the verge of doing so. The current improvement in activity is therefore not generated by a narrow area of the economy, but appears to be broad-based.

We predict that the coming quarters will see a continuation of positive trends, supported by a moderate improvement in external demand linked to the acceleration of the German economy, as well as the culmination of the investment cycle, driven by the use of funds from the National Recovery Plan.

Value added by sector, 4Q19=100, s.a.



\* Professional, scientific and technical activities; and support service activities  
\*\* Public administration and defence; compulsory social security; education; human health and social work activities



# Investment: the beginning of a new cycle

After the disappointing decline to -0.7% y/y in 2Q, the pace of domestic investment growth rebounded in 3Q to 7.1% y/y. We interpret this as a signal that **the Polish economy has entered a path of investment revival**. Nevertheless, as in 1Q, the scale of the rebound was most likely distorted by defence spending, which makes it difficult to accurately assess the current state of the emerging investment cycle.

The new investment cycle seemed to have started already in 1Q25, when the investment growth rate recorded an unexpectedly strong rebound from -5.1% to 6.4% y/y. However, the acceleration proved short-lived, as its main source was most likely defence investments by the central sector. **The rebound in 3Q, similar to that in 1Q, was mainly driven by increased outlays in the category “machinery and equipment, weapons systems”**, suggesting that the rise in investment in 3Q also partly reflected higher defence spending. Nevertheless, we do not believe that the 3Q rebound was solely due to defence expenditure, as alternative data indicate that 3Q also saw increased investment activity by enterprises and local government units ([p. 17](#)).

Growing investments by businesses and municipalities are supported by the increasing use of EU funds, with the implementation of the 2021–2027 financial framework proceeding in line with our expectations, and the disbursement of Recovery and Resilience Facility grants finally seeming to be gaining momentum ([p. 18](#)).

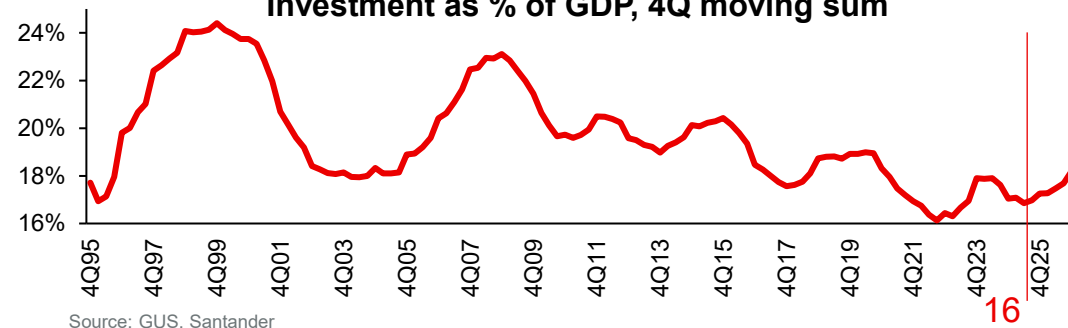
**We expect that the increasing use of EU funds, as well as a solid economic situation and lower interest rates encouraging companies to step up activity, should lead in the coming quarters to further, accelerating investment growth.** According to our estimates, it should reach around 8.0% y/y in 4Q25 and 11.1% in 2026.

The observed and expected rise in investment should also break the downward trend in the share of investment in GDP.

Investment growth structure, % y/y



Investment as % of GDP, 4Q moving sum





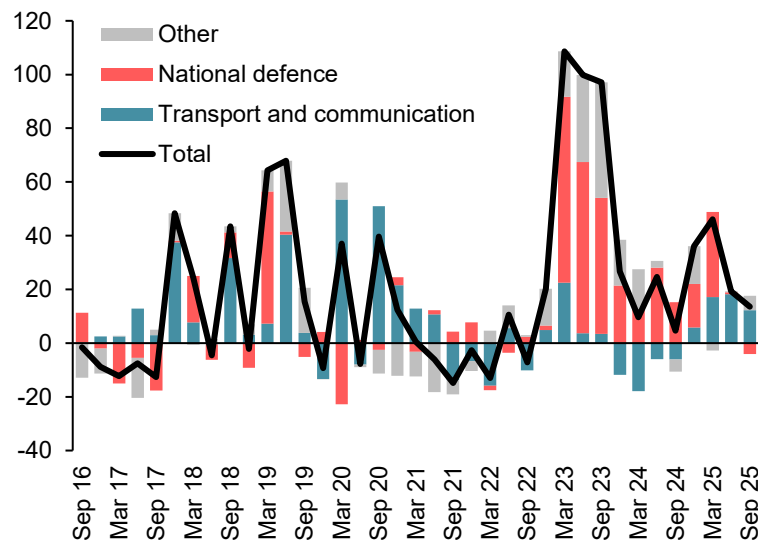
# Investment: the beginning of a new cycle

The rebound in investment in 3Q, similar to the surge in 1Q, was likely driven to a significant extent by defence spending. Nevertheless, available data indicate that it also reflected structural factors, primarily greater investment activity by enterprises and local government units.

This view is supported by data on the financial results of non-financial enterprises in 3Q, which showed that their investment outlays increased in 3Q by 2.2% y/y, after a rise of 1.4% y/y in 2Q. The acceleration in overall investment spending occurred alongside sustained very strong growth in sectors classified by us as dependent on EU funding, highlighting the leading role of EU funds in the emerging investment cycle.

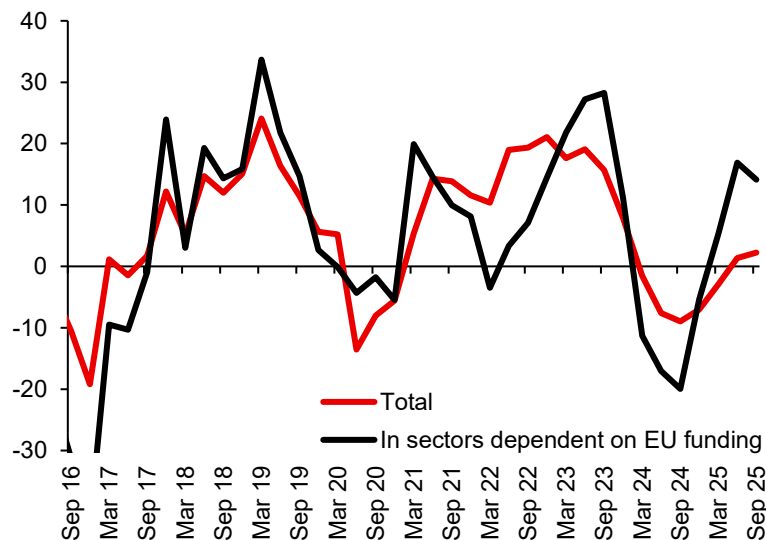
The growth rate of investment spending by local government units rebounded from 4.6% y/y in 2Q to 10.5% y/y in 3Q. Here too, EU funds played a significant role, as evidenced by the increase in capital expenditure financed with EU resources from PLN1.8bn in 3Q24 and PLN3.0bn in 2Q25 to PLN4.6bn, i.e., by over 100% y/y for the third consecutive quarter.

Investment expenditures of central government units, nominal, % y/y



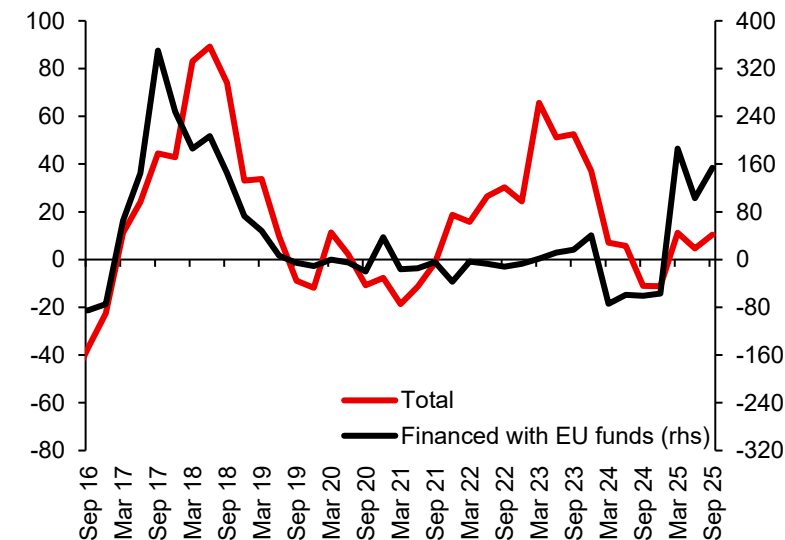
Source: MF, Santander

Investment expenditures of large enterprises, nominal, % y/y



Source: GUS, Santander

Investment expenditures of local government units, nominal, % y/y



Source: MF, Santander



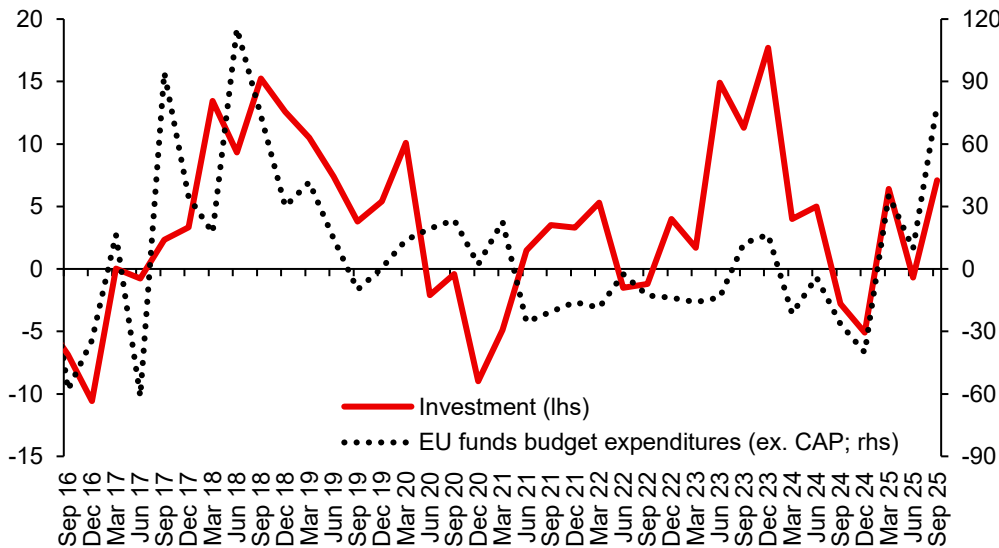
# Investment: the leading role of EU funds

**The use of EU funds is increasingly accelerating.** In January-October 2025, i.e., the period covered by currently available data, expenditure from the European funds budget, excluding Common Agricultural Policy, amounted to around PLN46bn, which was about 49% higher than in the corresponding period of 2024. The increase in the use of EU funds results not only from the implementation of the 2021–2027 financial perspective proceeding in line with our expectations, but also from the disbursement of RRF grants, which appears to be gaining momentum.

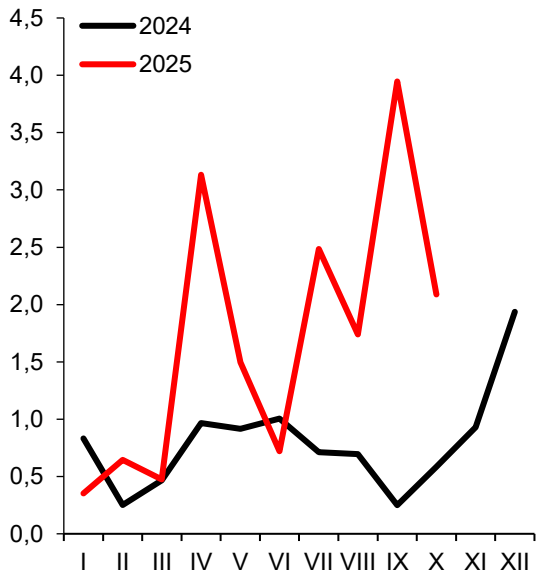
**Expenditure from financial framework funds totalled PLN28.2bn in the first ten months of the year and was about 23% higher than in the same period of 2024.** This suggests that total spending from financial framework funds will almost certainly exceed PLN30bn this year, in line with our previous forecasts.

**Although the implementation of the Polish Recovery and Resilience Plan has been slower than we expected at the beginning of the year, it seems to be picking up pace,** as indicated by the acceleration in the growth of RRF grant expenditure from -5% y/y in 1Q to 85% y/y in 2Q and 393% y/y in 3Q. Thanks to strong results in 3Q, especially in September, RRF grant expenditure has already reached PLN17.1bn this year and surpassed our forecast from the previous quarter. Based on the new data, we estimate that RRF grant expenditure will reach PLN20–25bn this year.

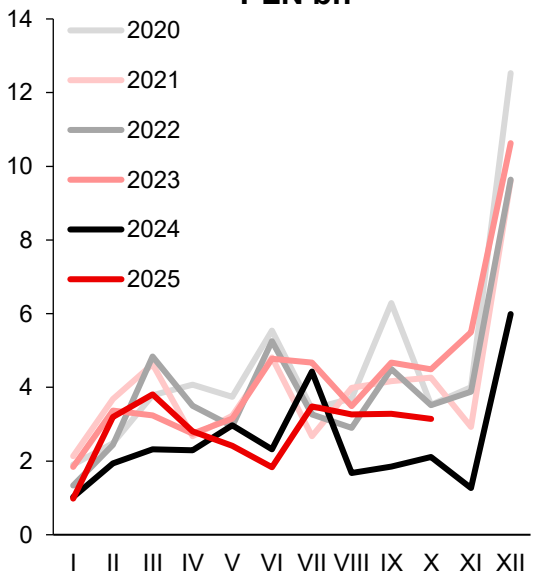
Growth in EU funds budget expenditures, % y/y



Monthly expenditures of RRF grants, PLN bn



Monthly expenditures of financial framework funds, PLN bn



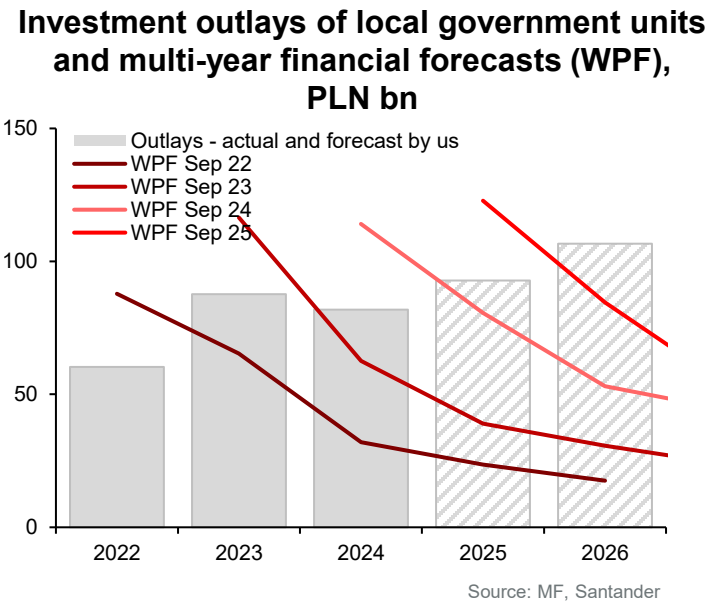
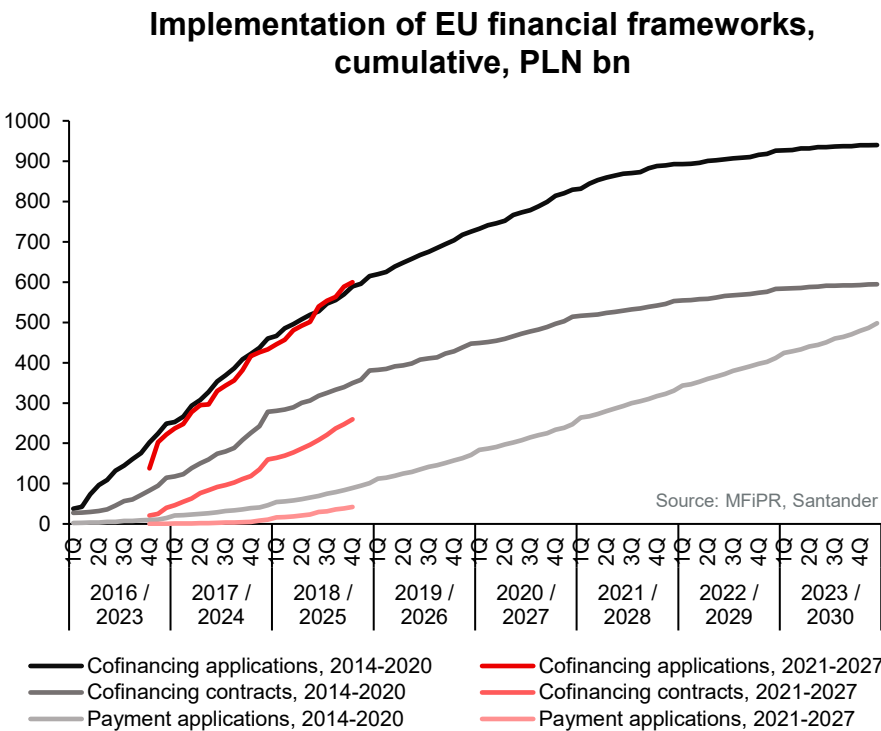
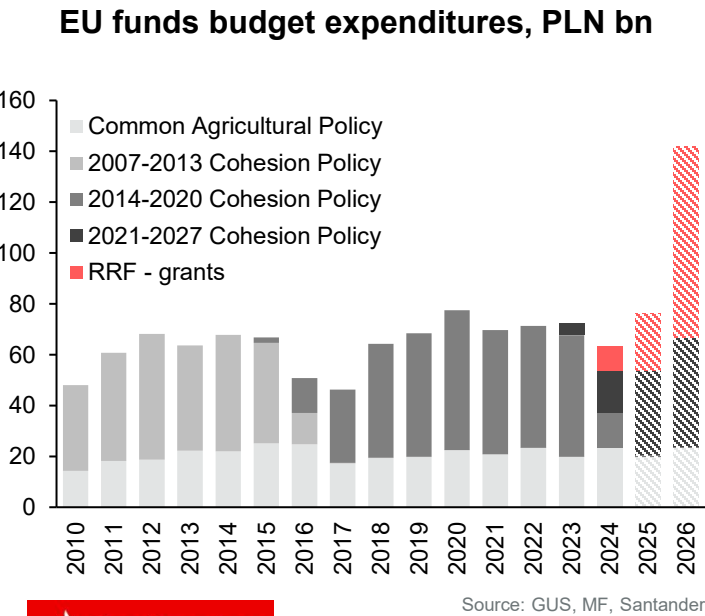


# Investment: the leading role of EU funds

**The peak impact of EU funds on investment activity should be expected in 2026.** We associate its strength primarily with a significant increase in RRF grant expenditure. Due to higher-than-assumed RRF grant spending in 3Q this year, which prompted us to raise our forecast for this year's execution to PLN20–25bn, we have accordingly revised our expected grant expenditure in 2026 to around PLN75bn. This adjustment merely reflects a shift in timing and does not indicate a change in our expectations regarding the overall utilisation of RRF funds. It should be emphasised that the ultimate degree of utilisation of these resources is subject to considerable uncertainty and represents one of the risk factors for our forecasts.

The second factor that will contribute to the acceleration of investment growth in 2026 will be further progress in implementing the 2021–2027 financial framework. We expect expenditure from financial framework funds to rise from around PLN34bn in 2025 to around PLN44bn, which will involve an acceleration in their growth rate from the approximately 12% y/y we expect this year to around 28% y/y.

In our view, the effects of the anticipated increase in EU fund spending are visible in the expected investment outlays of local government units presented in the latest multi-year financial forecast by the Ministry of Finance. The amounts planned for a given year increase with the publication of newer editions of forecasts, but a simple extrapolation of currently available plans suggests that the growth of local government investment spending should accelerate next year from around 13% to over 15%.



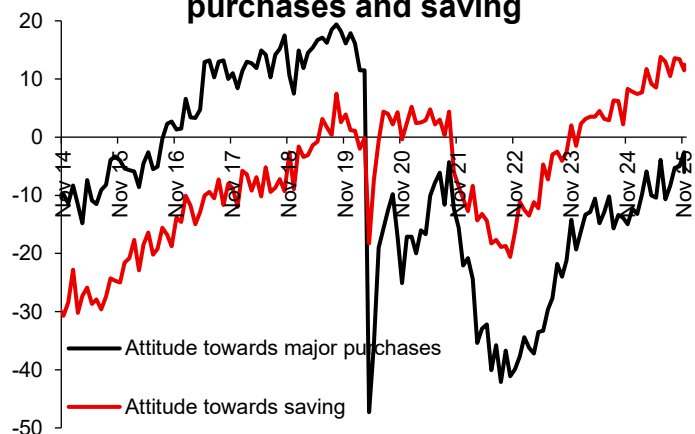
# Consumption of savings

We expect a marked slowdown in disposable income growth in 2026, to 2.0% in real terms from almost 6.0% in 2025. Lower wage growth will translate into weaker income from work, low inflation in 2025 will result in modest indexation of benefits, and no new benefits will be introduced. Falling interest rates will, in turn, lead to lower income from assets.

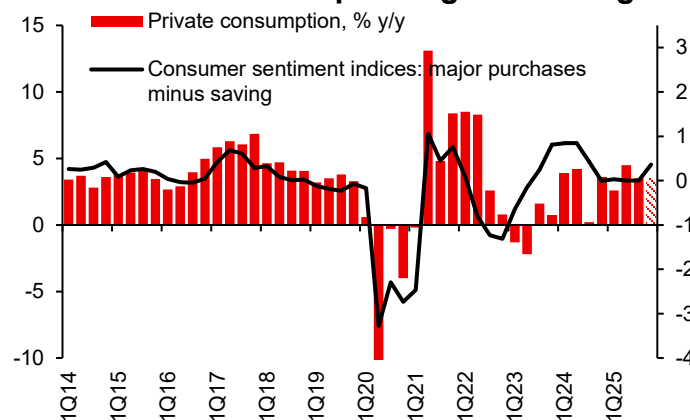
So far, solid data on private consumption, retail sales, consumer confidence indicators and credit demand point to potential for further moderate consumption growth. Maintaining growth at around 3% will require a reduction in the savings rate, but, in our view, this is likely, as the savings rate has climbed to historically high levels in recent quarters, leaving room for a decline. The adjustment may, however, be gradual – consumer sentiment surveys show an exceptionally strong pro-savings attitude (bearing in mind that Poland, with a household savings rate of 7.6% according to the EC estimate for this year, is well below the EU average of 15.2%), although accompanied by an equally strong inclination to make major purchases. Lower propensity to save will be supported by NBP rate cuts, which have reduced the interest on savings products.

However, with weaker income growth, consumption may be more sensitive to any potential deterioration in consumer confidence than in 2025.

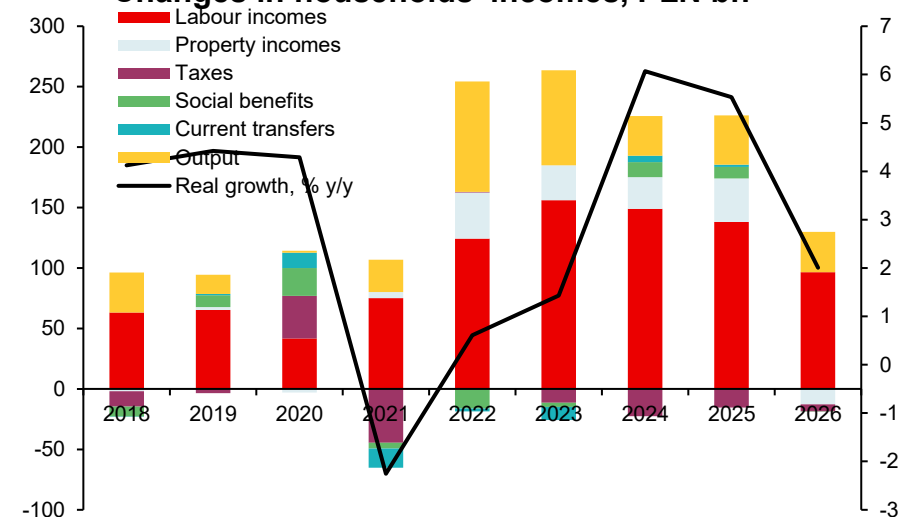
Consumer sentiment, attitudes towards major purchases and saving



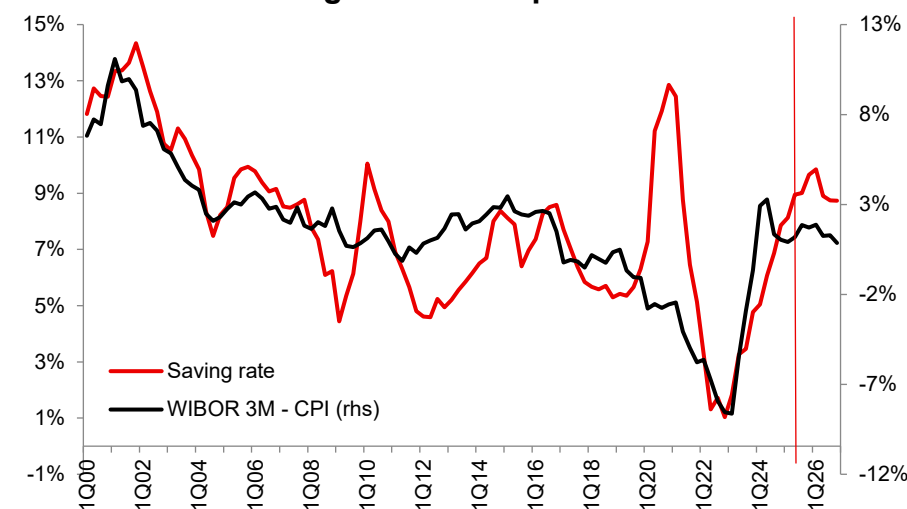
Private consumption and declared attitude towards spending and saving



Changes in households' incomes, PLN bn



Households' saving rate and ex-post real interest rate





# Further deterioration of current account

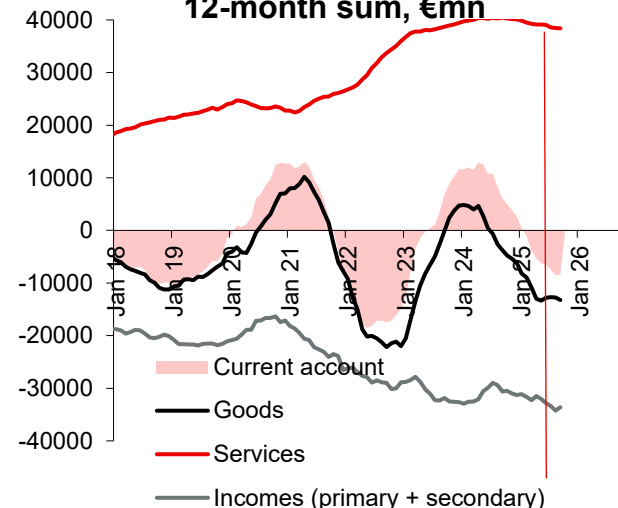
In 2025, the current account balance deteriorated from +0.3% of GDP to -1.2% of GDP, and in our opinion this process will continue, with the balance reaching -2.3% of GDP in 2026.

The deterioration in the balance in both 2025 and 2026 will be primarily due to the goods balance. We believe that the improvement in exports will be moderate, hampered by competition from Chinese goods on European markets. At the same time, fairly strong domestic demand is having a positive impact on import turnover.

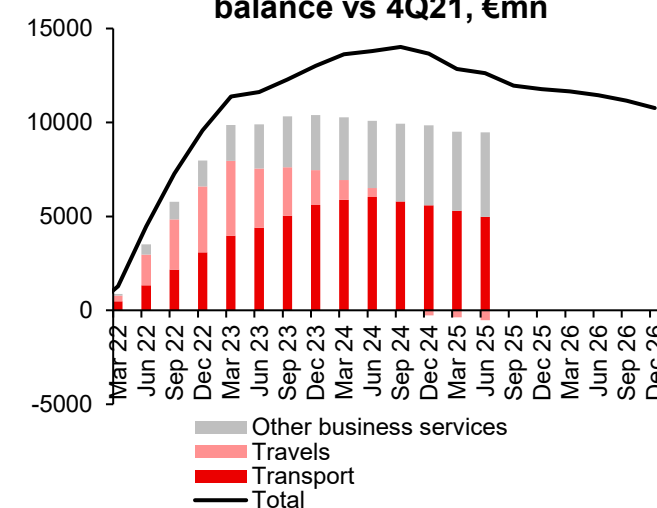
2025 witnessed a deterioration in the services balance, which had been improving continuously for years (except during the pandemic). In this case, too, we see a similar mechanism to that in trade in goods, although other factors are also at play – Poles' growing appetite for foreign travel and the negative impact of the weak European economy on exports of Polish transport services.

In terms of income, there is a visible improvement in the income of foreign investors in Poland, which is a result of high GDP growth in the country. The negative effect of this factor on the current account balance is mitigated by the improving balance of wages. This is the result of a slowdown in the arrival of immigrants to Poland and their reclassification as long-term employees. For several quarters, the balance of errors and omissions has remained deeply negative. Although higher values of this balance have been recorded, which have never been corrected, we believe that this value suggests that the current account deficit may actually be larger than the NBP data would suggest. This means a risk of data revision.

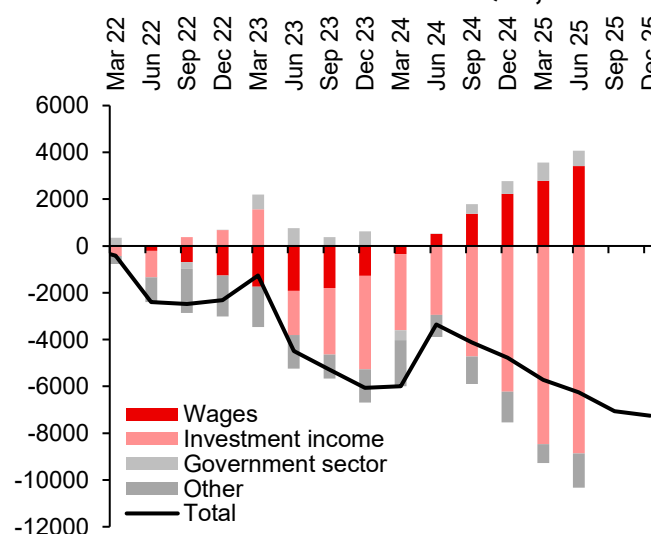
Current account balance and its elements,  
12-month sum, €mn



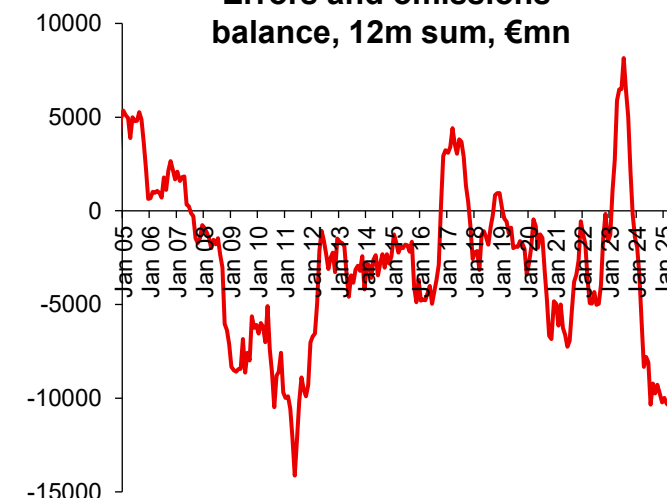
Change of annual service  
balance vs 4Q21, €mn



Change of annual  
income balance vs 4Q21, €mn



Errors and omissions  
balance, 12m sum, €mn



# Less domestic savings = higher external imbalance

The external imbalance in the economy is identical to the balance of net lending/borrowing of domestic institutional sectors, reflected in non-financial accounts.

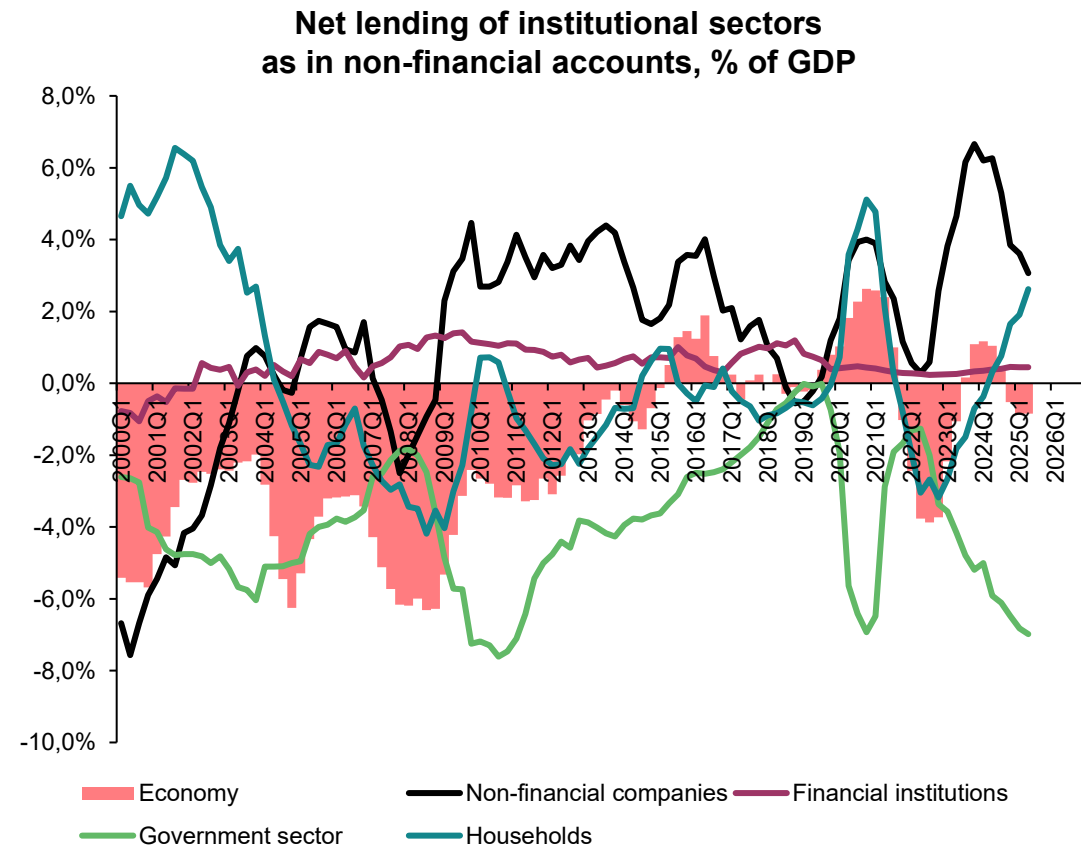
Over the last three years, the rapidly growing public sector deficit has been offset by substantial private sector surpluses, with the result that the external imbalance (reflected in the current account of the balance of payments) has remained close to zero. This situation has already begun to change and, in our view, will continue to evolve towards an increasing domestic savings deficit.

The balance of the non-financial corporate sector, which rose sharply in 2023 during the investment slump, has been gradually declining since mid-2024, and this trend should continue in view of the further recovery in the investment cycle that we anticipate.

In recent quarters, households have built up a high savings surplus, which is unusual for this sector and characteristic almost exclusively of periods of exceptional uncertainty. We assume that this trend will reverse as sentiment normalises and uncertainty declines, with the result that the balance of this sector will normalise towards structural borrowing.

The public sector deficit is likely to stabilise at around 6-7% of GDP in the absence of political space for spending cuts/tax increases, and the financial sector balance is likely to remain stable at slightly above zero.

**In total, this all adds up to a further deterioration of domestic institutional sectors' balance and rising external imbalance.**



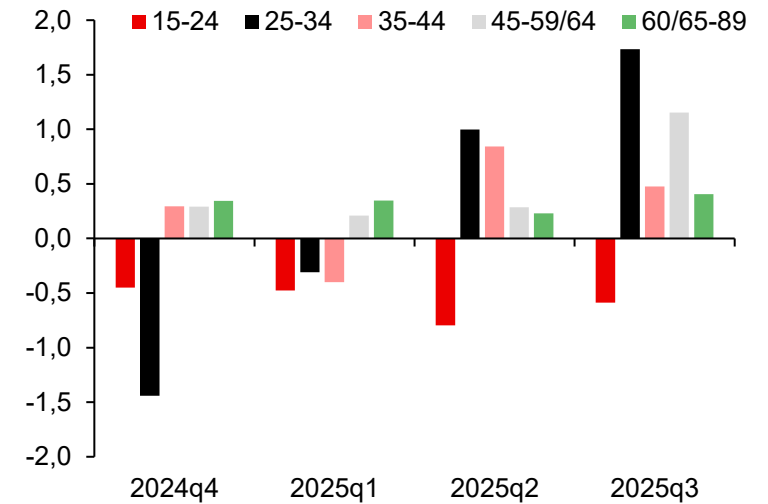
Source: Eurostat, Santander

# Record activity despite unfavourable demographics

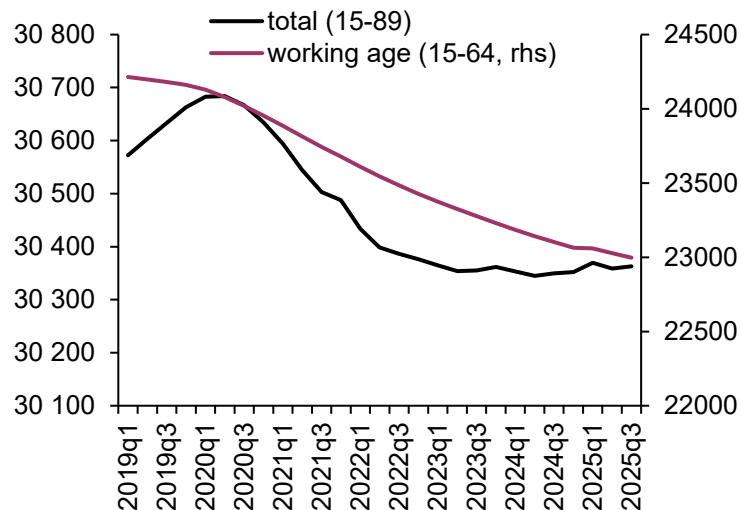
In the third quarter of 2025, the total population covered by the labour force survey (LFS), i.e., those aged 15-89, reached 30.363 million, 5k fewer than the previous quarter but 14k more than a year ago. This aggregate figure, however, masks the shifts taking place within individual age groups. The oldest age group, 45+, continued to grow (by nearly 180k in total y/y), although the youngest group, 15-24, also saw a slight rebound (+46k). The middle of the distribution, 25-44, was becoming increasingly smaller, with a total decline of 209k y/y. As a result, **the working-age population, 15-64, is continuing to decline, by approximately 105k y/y in 3Q.**

This trend is counterbalanced by the fact that the rate of economic activity is gradually increasing. For several years, this has been particularly visible in the population over 45 years old, while in 2025, labour force participation rates began to improve more significantly in younger groups, thanks to which **the total labour supply did not decline. On the contrary, in 3Q it recorded the highest level in the history of the LFS** – 17.923 million, representing 59.0% of the population covered by the study. Of working age (according to Eurostat, 15-64 years), 75.7% were active, 0.7 percentage points more y/y, which is already higher than the EU and eurozone average in 2024 (75.3%), although we are still quite far from the levels recorded in Iceland (88.6%), the Netherlands (85.5%), or even Germany (80.2%). Nevertheless, there is a chance that, at least in the 2026 horizon, demographic trends should not significantly harm the labour market.

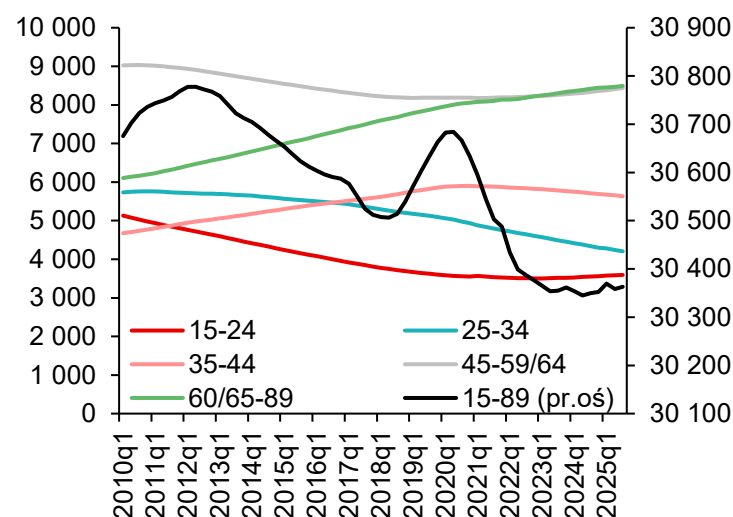
Economic activity rate by age group, percentage points y/y



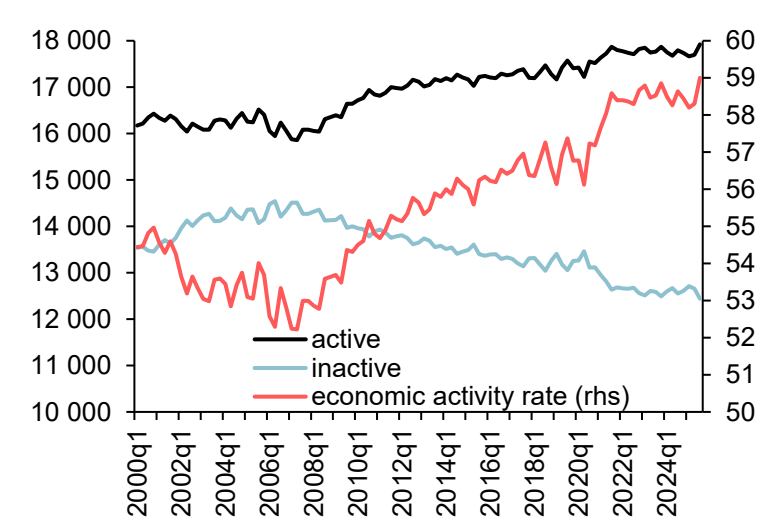
Population according to LFS, thousands



Population by age group, thousands



Economic activity vs. inactivity, thousands



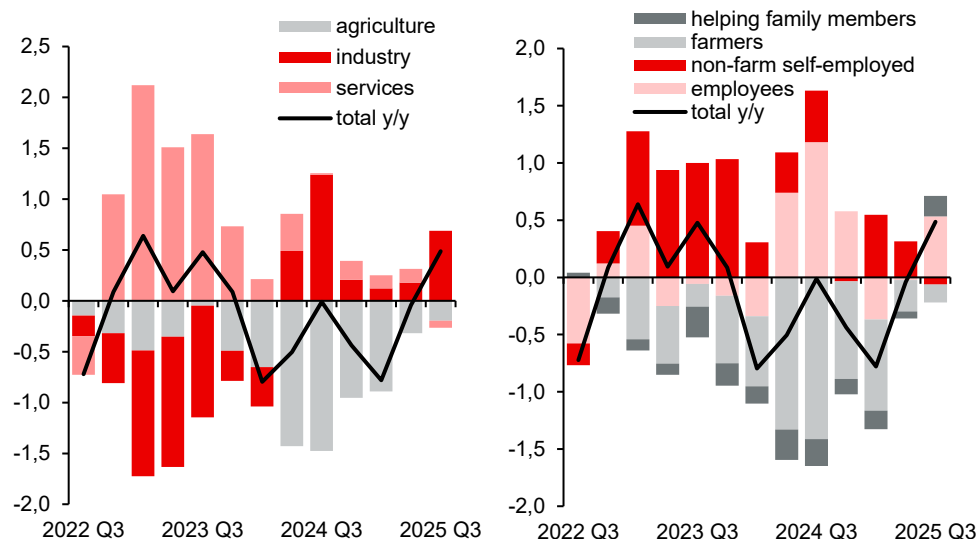


# Labour-code employment – time to rebound

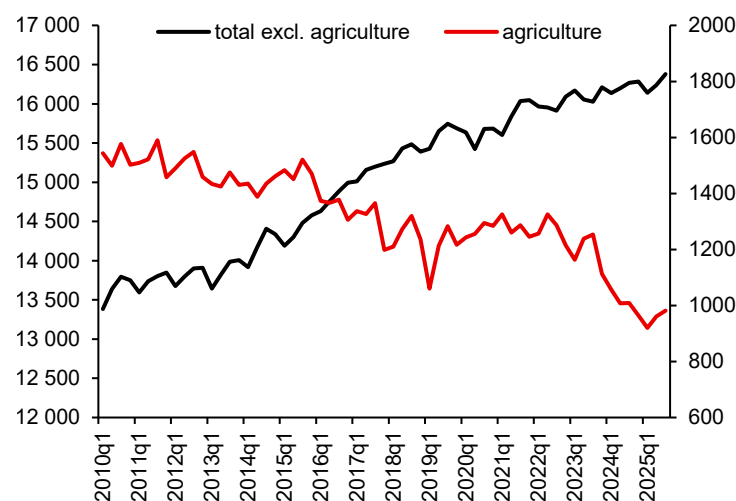
LFS data for 3Q indicated an increase in the number of employed persons by 0.5% y/y, after recording 0.0% y/y the previous quarter. This is **the first positive rate of growth in the number of employed persons since 4Q2023**. The improvement resulted from the phasing out of the decline in the number of private agriculture workers (-2.7% y/y) and the increase in the number of non-farm employees (0.7% y/y). In the industrial and construction sector, growth was 2.3% y/y, while the services sector saw a minimal decline of 0.1% y/y. The unemployment rate, according to LFS, increased from 2.8% to 3.1%, which, however, is likely primarily seasonal – we would not attribute this to a deterioration in the market situation, but rather to the increasing activity of the population described earlier.

In turn, data from reports from businesses and other entities employing at least 10 people indicated that average employment under **labour-code contracts shrank by 0.3% in the third quarter**, with a 0.1% y/y decline in the industrial and construction sector and a 0.4% y/y decline in the services sector. In the corporate sector itself, employment has been consistently declining since the beginning of the year, at a rate of 0.8-0.9% y/y. The last three months of data (August-October) showed increasingly smaller month-on-month declines, and we expect this trend to continue. **So far, declines in labour-code employment have been offset by increases in civil law contracts and self-employment**, which may have been partly a cost-optimisation strategy for companies in the face of rising energy costs on the one hand and labour costs (minimum wage) on the other. Greater flexibility required by employees, including a preference for remote work, may also have played a role. In the third quarter of the LFS, self-employment made a negative contribution to the number of employed, with employees being the main driver of growth. We believe **2026 should see a gradual recovery in labour-code contracts**, with smaller increases in other forms of employment.

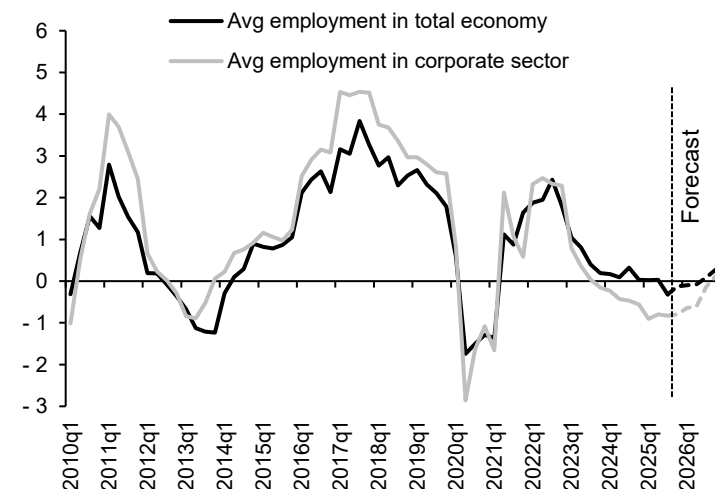
Employed according to BAEL – by sector and by form of work, % y/y



Employed according to LFS – in and out of agriculture, thousands



Average employment, % y/y



# Stagnant vacancies limits employment growth – we are waiting for a thaw



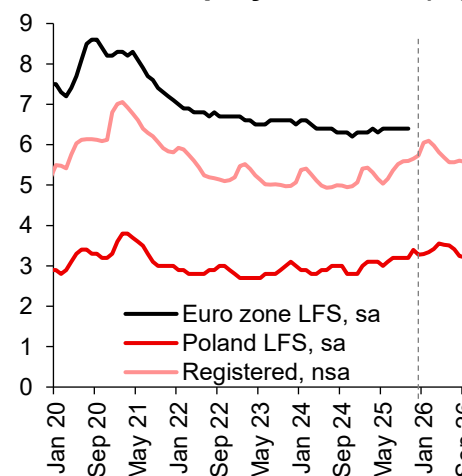
Since June 2025, when the reform of labour offices came into effect, statistics on the number of job offers in offices do not, in our opinion, provide reliable information about the state of the market. **The number of offers has declined drastically and remains 50-60% lower than a year ago.** Various indexes measuring the intensity of job offers online do not provide clear conclusions, but we conclude that the level of job vacancies in Poland has been stagnant for some time. Our monitoring of the pracuj.pl portal shows **an increase in the number of job offers for highly productive positions, but this cannot be said for vacancies for manual workers and low-skilled individuals**, for whom obtaining added value beyond the employer's costs may be a greater challenge.

According to a periodic CBOS survey, **the feeling that finding any job has been difficult has been growing among respondents** for a year. At the same time, the indication that a job tailored to one's preferences and qualifications is within reach is decreasing. All of this is reflected in the relatively low number of job vacancies, which may be due to a combination of factors: a sharp increase in labour costs, uncertainty surrounding running a business due to (geo)political risks, and a weaker global economic climate.

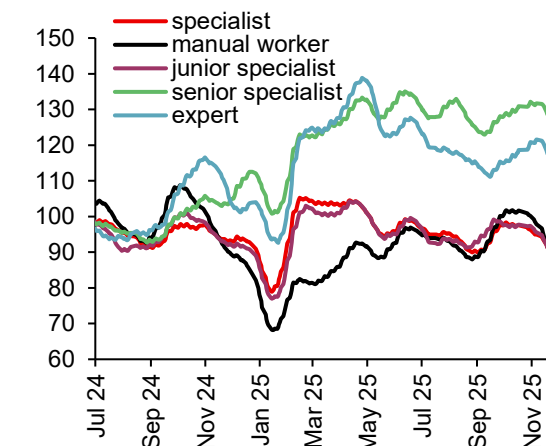
At the same time, unemployment remains at record lows. **Poland still has one of the lowest unemployment rates in the EU**, forcing employers to select from a pool of unemployed workers three times smaller than during the recovery period following the global financial crisis. In few EU countries is the ratio of available labour compared to previous economic cycles as unfavourable as in Poland. Companies continue to be supported by the influx of foreigners, with a renewed increase in the number of Ukrainians registered with the Social Insurance Institution (ZUS) in recent months.

At the current and expected GDP growth rate, the strength of the Polish economy should generate many more jobs. In previous economic cycles, labour market movements occurred with a significant delay following the economic recovery. By analogy, **we should expect a recovery in labour demand in 2026.** An additional opportunity is the relatively small minimum wage increase next year, which will keep the real minimum wage almost unchanged. The **increase in labour productivity accompanying the growing economy should lead to a rebound in job openings.**

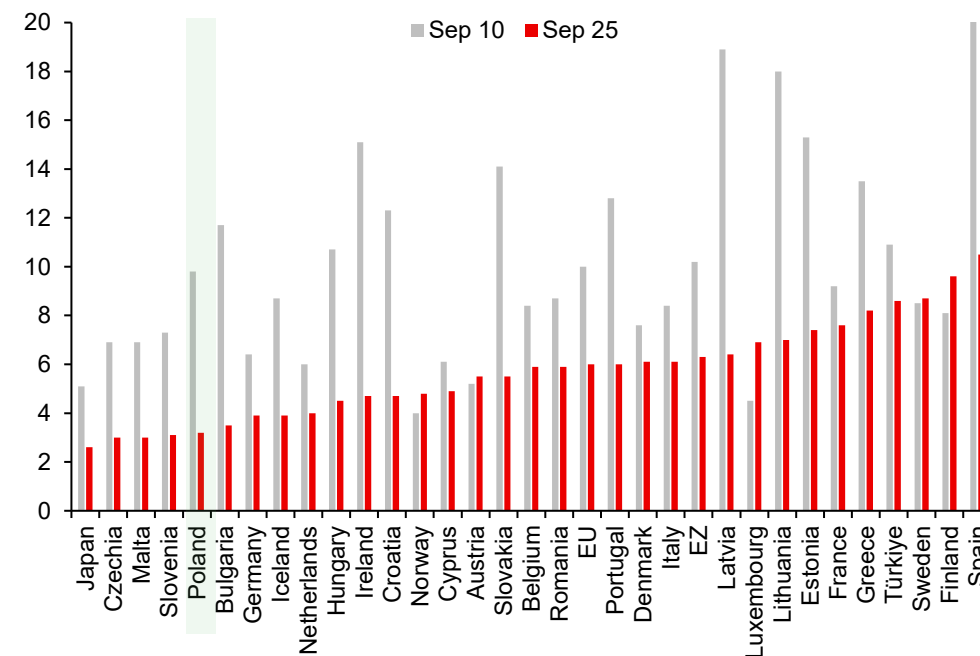
### Unemployment rate (%)



### Job offers at pracuj.pl, June '24=100, smoothed



### LFS unemployment rate now and 15 years ago, %







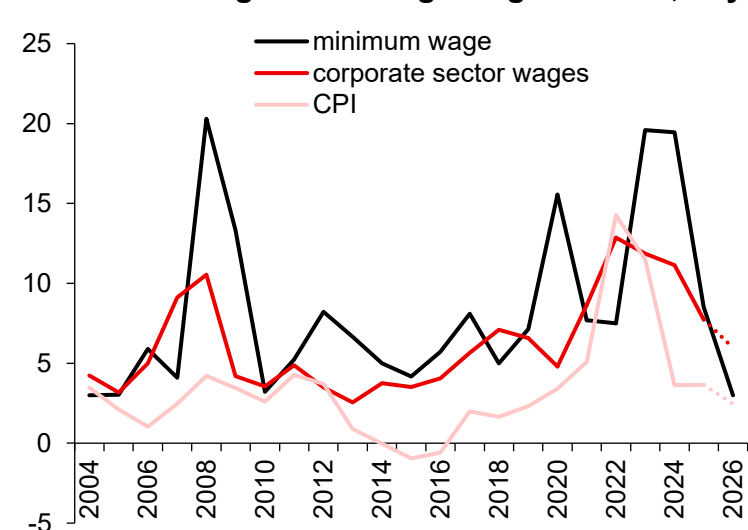
# Minimum wage slows, but the level remains high

Several consecutive years of sharp increases in the minimum wage (MW) have made it grow much more than the average wage in the economy, putting pressure on businesses facing cost challenges. The modest 3% MW rise from 1 January 2026 is welcomed by companies, yet it cannot be entirely dismissed as it comes from a very high base. GUS data on the structure of wages by occupation suggest that in years when the minimum wage grows more slowly than the overall market, the share of employees earning the lowest pay also declines. In other words, some workers receive raises that allow them to escape the group of lowest earners. This implies that, on average, the minimum wage will not generate wage pressure next year but rather act as a factor reducing overall wage growth.

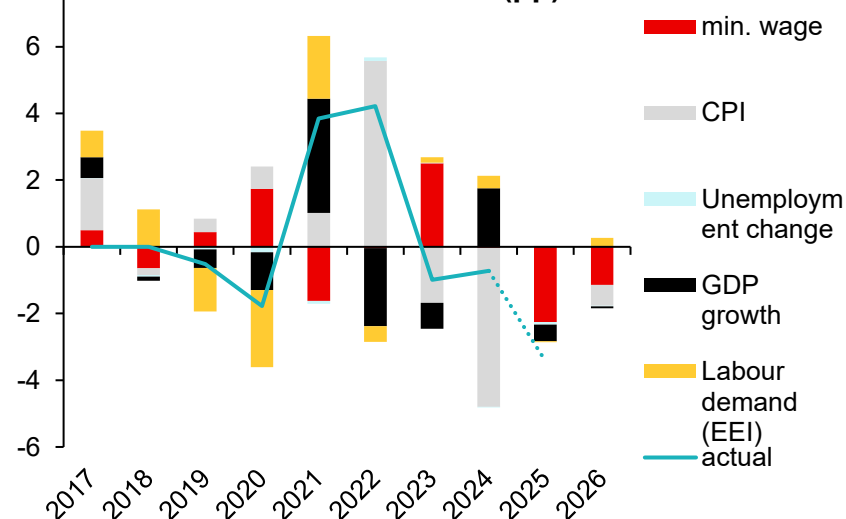
Our econometric model of the impact of the minimum wage on the behaviour of the average pay indicates that **in both 2025 and 2026, slower MW growth will be the main force restraining market wages**. According to the model, next year wage growth is expected to slow by 1.6pp (bringing it close to 6% y/y), of which 1.1pp will be attributable to the relatively slow rise in MW.

Apart from MW, the model can attribute changes in wage dynamics to changes in GDP growth, inflation, and demand-supply conditions in the labour market, described by two variables: the overall employment index (EEI) from the ESI survey and the deviation of the unemployment rate from its four-year average. The model performed quite well in predicting the scale of wage acceleration in 2021 and 2022, but it failed to capture the persistence of wage growth observed in 2024, expecting a much stronger effect from the marked decline in inflation.

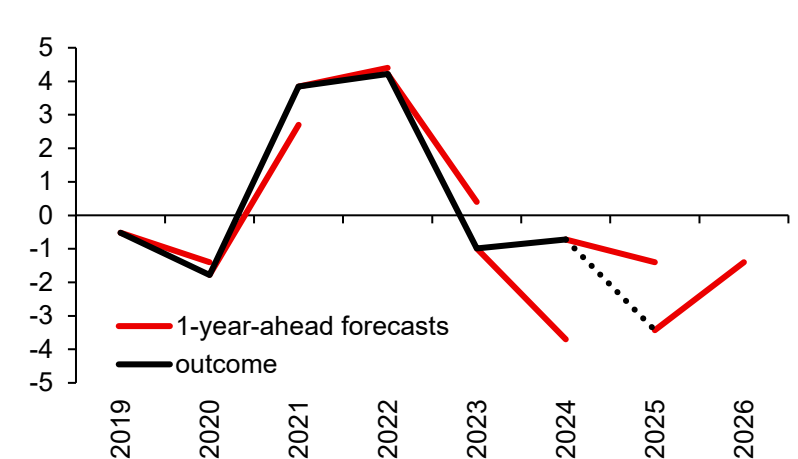
Minimum wage vs. average wage and CPI, % y/y



Breakdown of wage growth change by factors in the model (pp)



Wage growth change (pp), accuracy of model forecasts







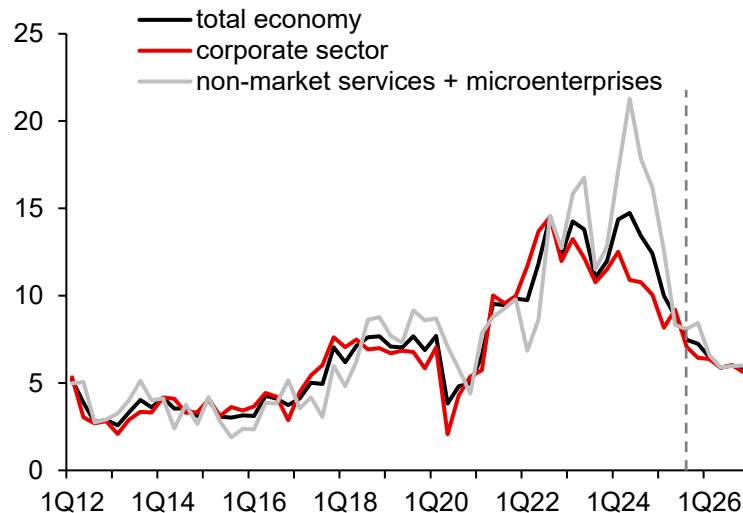
# Wages set to slow to around 6% y/y in 2026

The growth of the average wage in the national economy slowed in 3Q to 7.5% y/y from 8.8% y/y in 2Q. The result was lower than our forecast (7.9% y/y) and below the assumption in NBP's November projection (8.2% y/y). Economy-wide wage growth in the enterprise sector fell from 9.2% to 7.1% y/y, while in the remaining part of the economy (non-market services and microenterprises), according to our estimates, from 8.3% to 8.1%. **Sectoral data confirmed that almost the entire slowdown in overall growth this time was due to the enterprise sector alone.** In public administration, there was an acceleration from 6.2% to 9.3% y/y; in education, the growth rate remained at 6.9% y/y; and in healthcare, it declined but stayed very high: from 15.4% to 12.1% y/y. In seasonally adjusted terms, wages in 3Q rose by 1.9% q/q, similar to the previous quarter (1.8%). This is still quite a strong growth pace, and we expect gradual slowing in the coming periods.

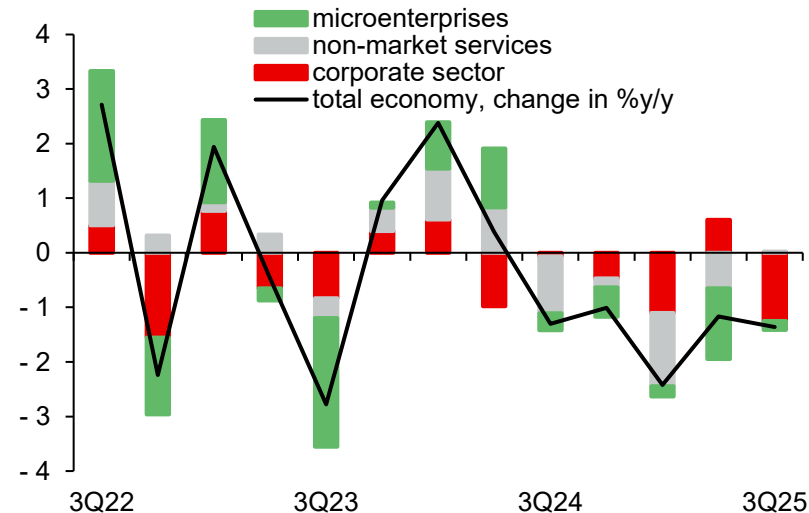
Lower inflation and the modest increase in the minimum wage will be the main factors reducing wage pressure compared to previous years. On the other hand, relatively strong economic growth and low unemployment – giving workers a strong negotiating position – will prevent an excessive decline in the pressure.

As a result, wage growth will gradually slow, also due to the high reference base from 2025. **By the end of 2026, annual economy-wide wage growth should be around 6%, in our view.** Given our GDP growth forecast, this will bring the growth of unit labour costs down to about 2% y/y by end-2026.

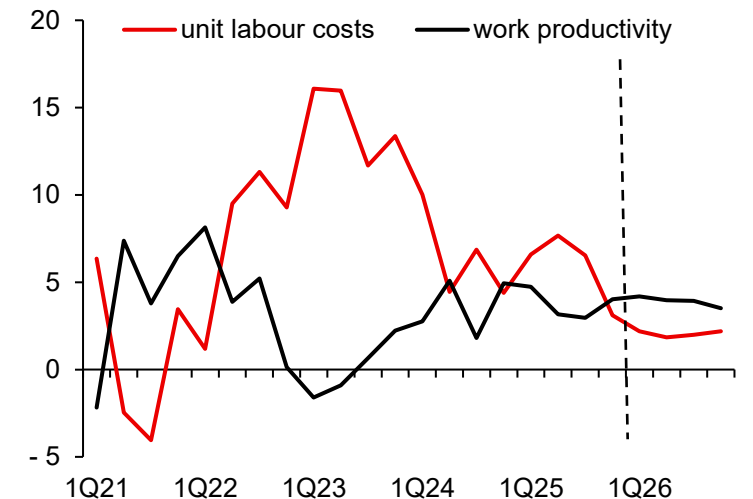
Wage growth, % y/y



Contributions to wage growth, pp, y/y



ULC and labour productivity, % y/y





# Markups at a turning point

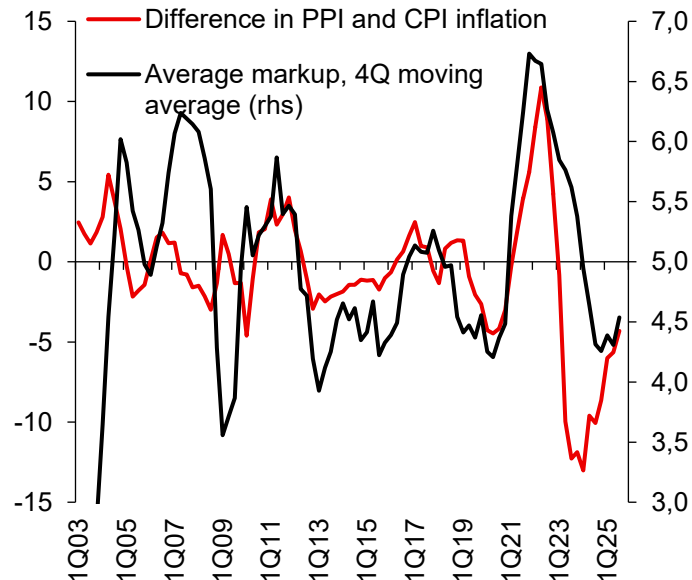
Based on markup behaviour in consumer-oriented sectors, it can be assumed that **households have already become more price-sensitive** and/or competition has intensified. The exceptions are clothing and electronics. **In retail trade, markups have stabilised at levels below those seen in 2018–2019.**

Some B2B sectors are already rebuilding markups (e.g., production of transport equipment, including cars, albeit at the expense of downside pressure on dealer markups), while in others market conditions do not allow this (paper, wood, electrical equipment – likely due to competitive imports).

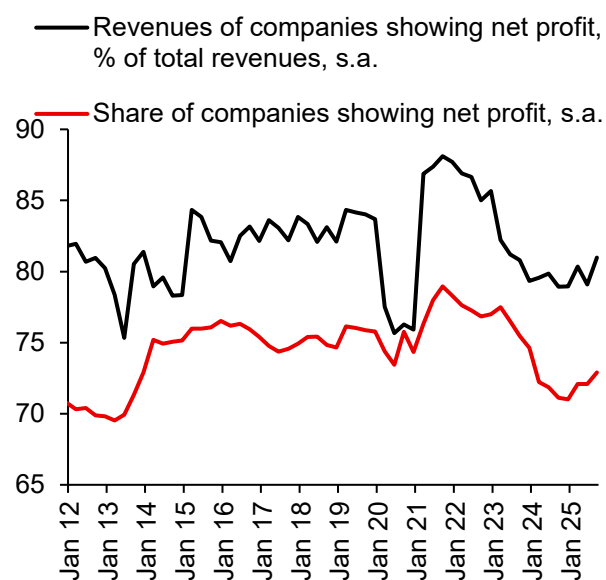
Recent PMI reports mention persistent demand weakness, creating downward pressure on markups. However, **at the economy-wide level, we can speak of the beginning of a markup rebound.** The process appears slow and, as such, should not generate price pressure in the coming quarters.

Nevertheless, the situation requires monitoring. The so-called “last mile” problem, which may occur at the final stage of bringing down high inflation, is linked to markup rebuilding under favourable demand conditions and customers’ habituation to price increases.

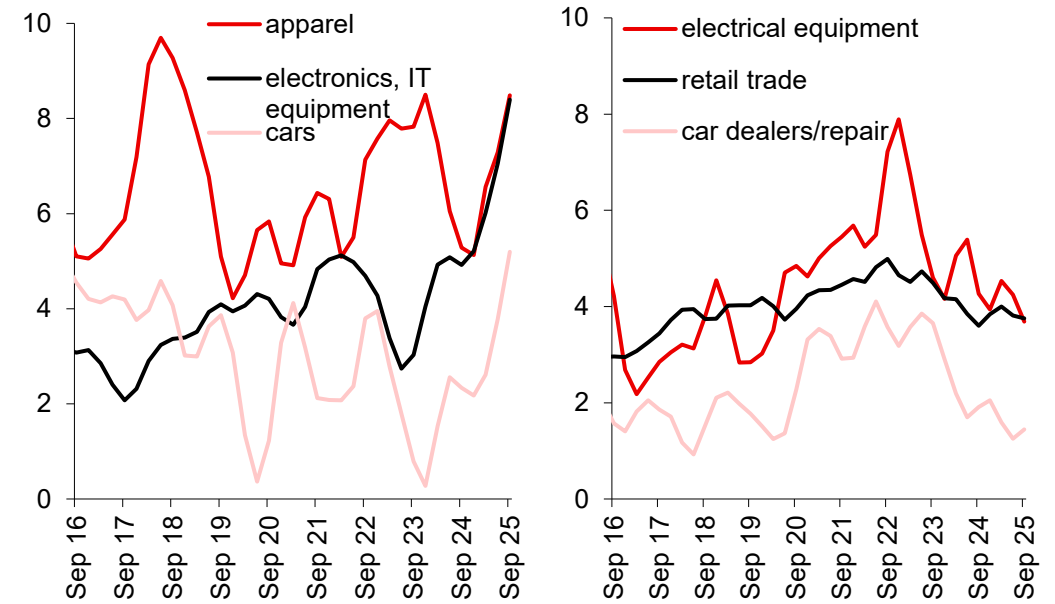
### Company markups and inflation behaviour



### Share of profitable companies, %



### Markups in selected sectors, trend plus cyclical component, %

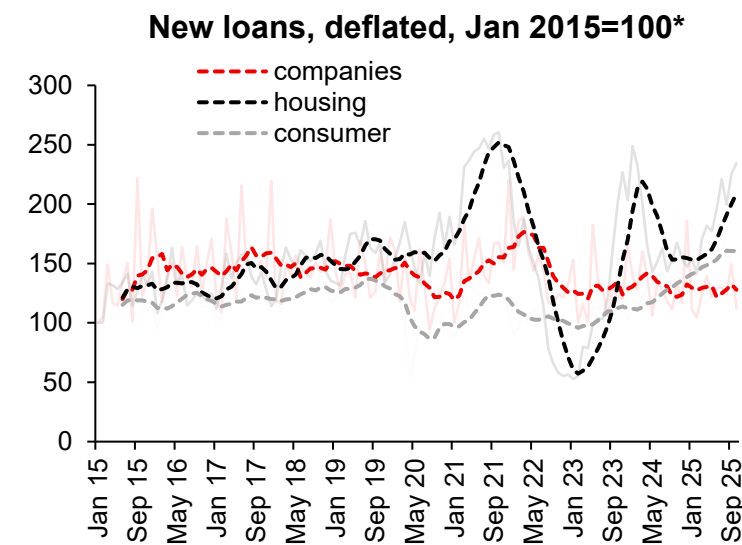
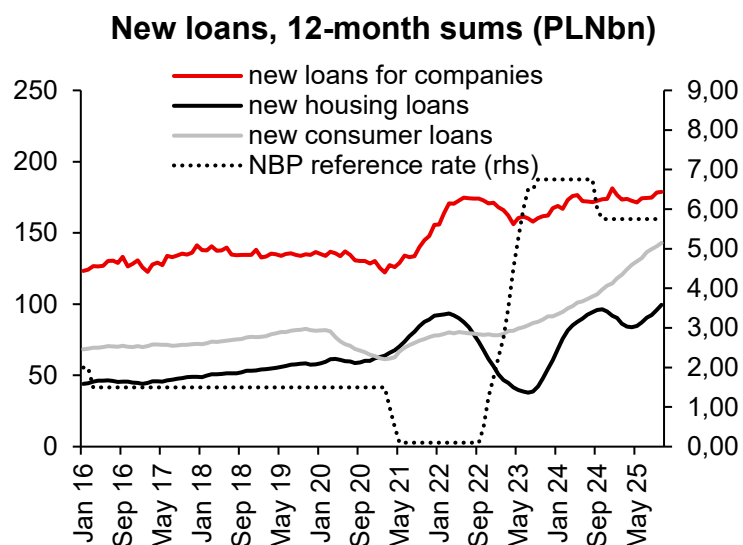
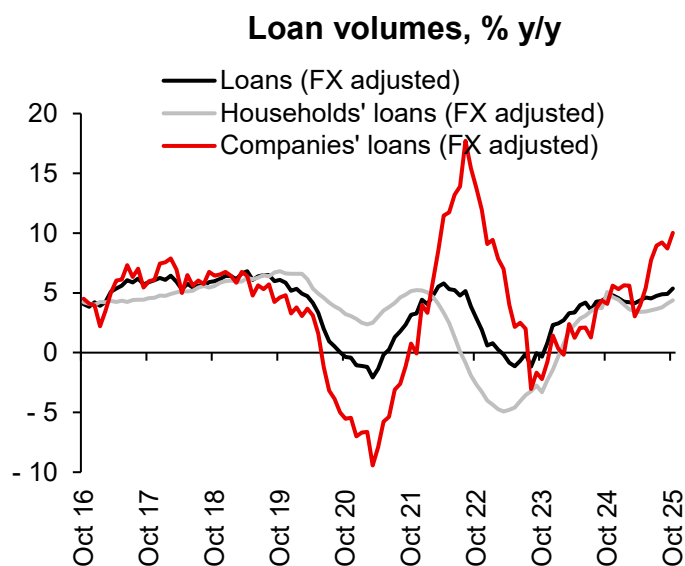


# (Consumers') loan recovery

The retail loan market (mortgages, consumer loans) has been experiencing a marked recovery for several quarters, supported by the favourable economic conditions and falling interest rates. **Sales of housing loans in October reached almost PLN 10.0 billion, and in 12-month terms amounted to PLN 92.6 billion**, i.e. the highest level in history, exceeding last year's maximum achieved under the 'Bezpieczny Kredyt 2%' (Safe 2% Loan) programme.

**The value of new consumer loans is growing even faster**, reaching almost PLN 143 billion per year after an increase of 10.7% y/y. The total volume of these two types of loans is growing much more slowly, as their repayment rate is increasing in parallel, which is slowing down the growth rate. **The opposite is true for business loans**, which are seeing an impressive acceleration in loan volume, largely due to declining repayment rates, while new loans remain fairly stable for the time being.

Since 2022, high inflation and strong growth in housing prices have significantly inflated the nominal values of the market, which at first glance gives the impression that the credit market is much stronger than it was a few years ago. **After adjusting the data for inflation**, we see that corporate loan sales are lower than before the pandemic, consumer loans only exceeded 2019 levels in 2025, and housing loans are on track to reach historic highs, but in real terms they were much higher in 2021 than they are now. Incoming EU funds and the increases in investment confirmed by recent data are likely to support the growth of corporate lending, while lower interest rates and a slowdown in house price growth will support the growth of consumer and housing loans – at least until the boom in demand causes another rise in asking prices. Therefore, **we expect the total volume of corporate loans to grow by 7-8% in 2026, with a 6-7% increase in loans to individuals**. There is no sign of recovery in other loans, i.e. to farmers, sole traders and the institutional sector, which will slightly dampen the growth of the entire loan market.

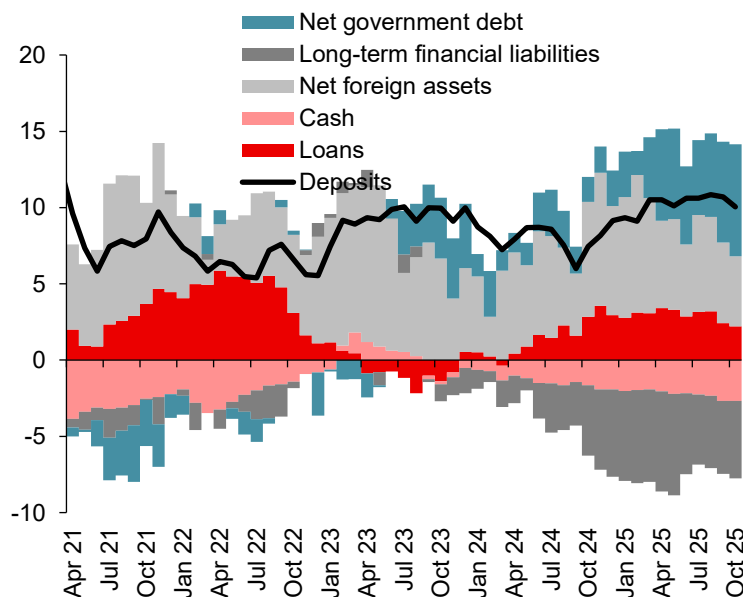


# Strong deposit growth

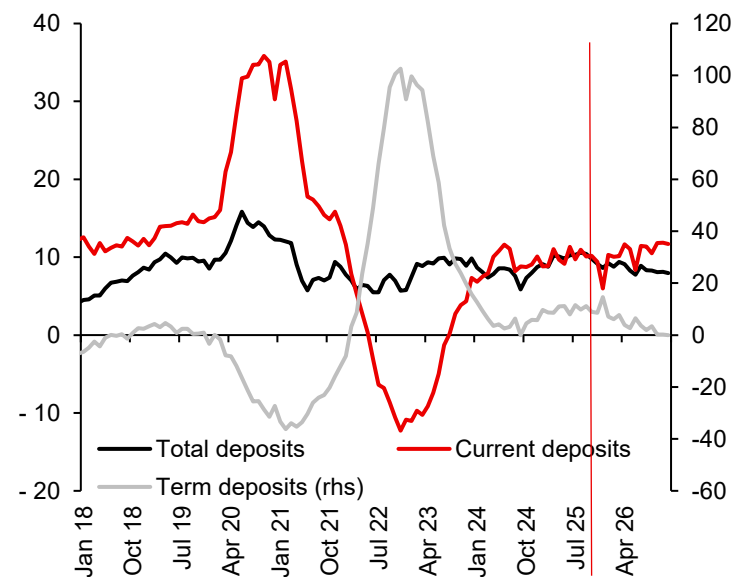
In 2025, the growth rate of deposits hovered around 10% y/y and was significantly faster than the growth of loans (5% y/y). This was mainly due to strong growth in net foreign assets in the banking system, which we associate with the inflow of EU funds and an increase in the NBP's reserve assets, as well as the purchase of government bonds by the banking sector, which in turn is a result of loose fiscal policy and high supply of government bonds. We assume that both of these factors will continue to affect the money supply in 2026, although the increase in the current account deficit may have a negative impact on the growth rate of net foreign assets. **Deposit volumes will therefore continue to grow faster than loans, although the difference in growth rates may narrow slightly and, in our opinion, deposits will grow by around 8% with loans growing by around 6%.**

The decline in interest rates, and thus the attractiveness of term deposits compared to current accounts, will, in our opinion, **contribute to a slowdown in the growth of term deposits compared to current accounts.**

Deposit growth, breakdown, % y/y



Deposits by type, % y/y

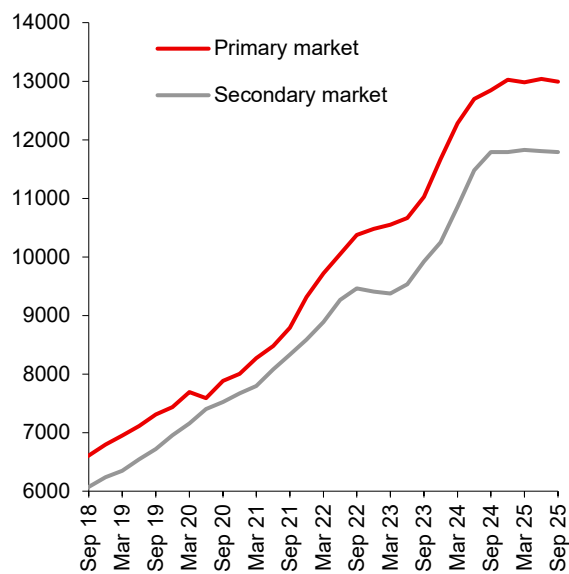




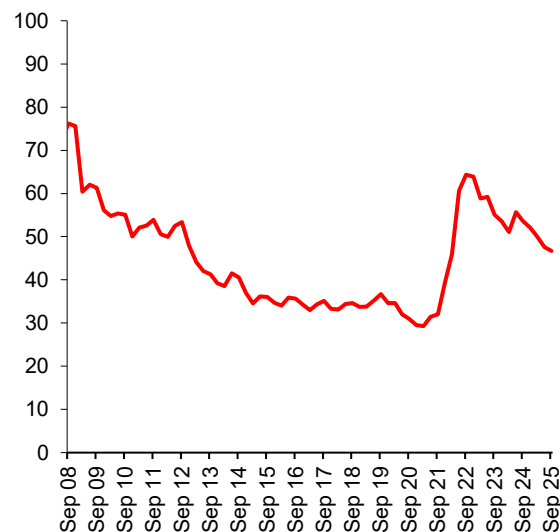
# Housing market: prices stable, demand rising

Despite the growing demand for mortgages, market prices have been stabilizing for about a year. According to NBP data, in 3Q2019, prices in Warsaw were even lower than a year earlier on the primary and secondary markets, as well as according to the hedonic index (which takes into account differences in apartment characteristics). With continued wage growth and falling interest rates, this indicates a significant increase in the affordability of apartments, which is one of the factors driving the increase in demand. Why hasn't this strengthening demand translated into an increase in apartment prices? In our opinion, this is due to two main factors: the amendment to the Development Act, which forced developers to publish prices, thus reducing information asymmetry in favour of consumers, and the continued significant supply surplus. In the six largest cities, the number of apartments on offer exceeded 60k, the highest since comparable data area available (2007). Despite the increase in sales, the average theoretical sell-out time exceeds six months, the longest since 2013. At the same time, developers have begun to significantly curtail new construction activity. **In a few quarters, demand may again outweigh supply and prices will start to rise.**

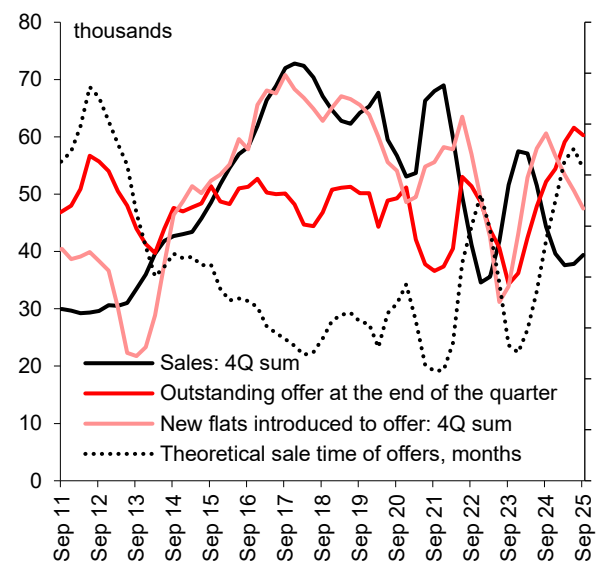
**Apartment prices in the 17 largest cities, PLN/m<sup>2</sup>**



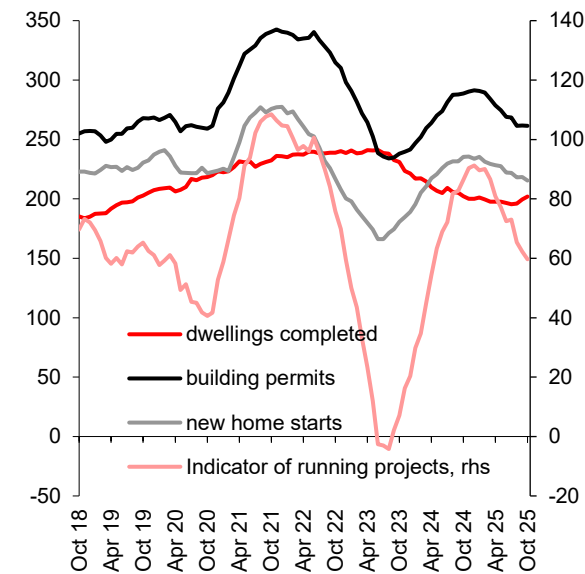
**Mortgage installment for a 60 m<sup>2</sup> apartment as a % of the average salary**



**Primary market in the 6 largest cities**



**Housing market activity, 12-month totals**





# Inflation: 2026 in line with the target

The pace of disinflation in 2025 was clearly stronger than we had assumed, driven by a range of factors, including a strong zloty exchange rate, particularly against the dollar, falling energy commodity prices, good domestic agricultural harvests translating into deceleration of food price growth, as well as imported deflation from China (see [p. 36](#)). In recent months, the slowdown in service prices also helped. As a result, 2025 will likely close with CPI inflation at 2.6%, whereas just a few months ago we expected it to be slightly above 3%.

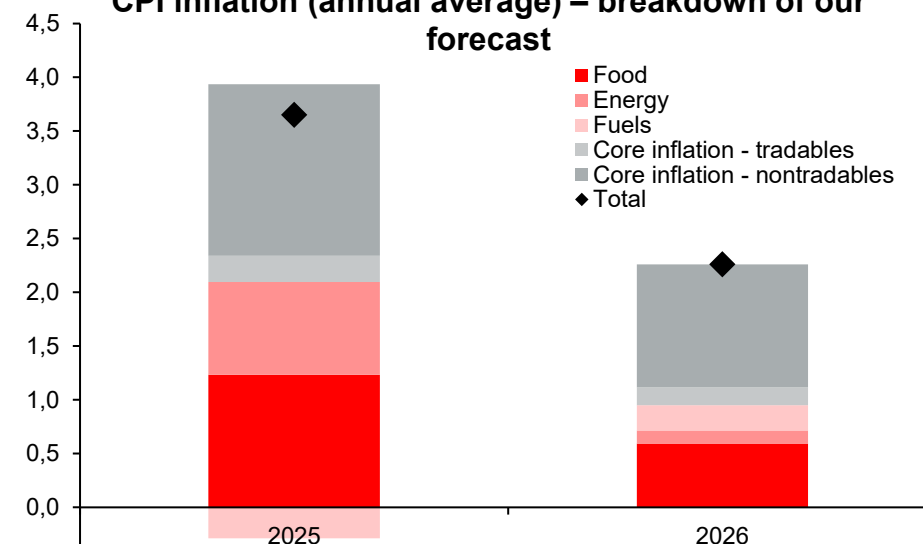
Most of these factors should continue to support disinflation in the coming months, leading us to expect that CPI inflation will fall below 2.5% y/y in 1H26. However, over time, factors less favourable to disinflation should come into play: economic recovery with a large scale of investment growth, rising demand for labour, the impact of already implemented interest rate cuts and accommodative fiscal policy. Global disinflationary pressure may weaken, among other things, due to rising prices of industrial metals and rare earth metals, semiconductors and memory chips (the effect of the AI boom), administrative measures to protect competitiveness and jobs in European industry (abolition of customs exemptions for small consignments, the CBAM carbon border tax). We also see a risk of dollar appreciation, which would weaken the disinflationary exchange rate channel.

We do not expect the government-proposed increases in excise rates on alcohol and tobacco or sugar and retail taxes to be introduced due to the likely presidential veto, but at the beginning of the year, increases in water and sewage charges, the reprographic fee and higher road tolls will come into effect.

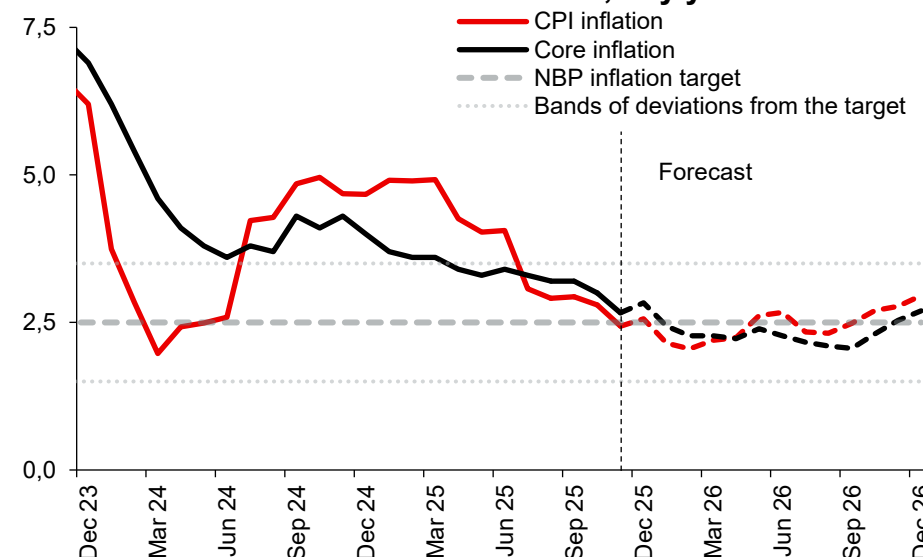
**We assume that next year CPI inflation will average 2.5%, with year-end at around 3%. In the first months of the year, inflation will likely be below target.**

The impact of changes in CPI basket weights on inflation is very difficult to estimate. The change in relative prices in 2025 suggests an increase in the share of services related to housing and education, and a decline in the share of spending on clothing and transport, which theoretically could raise CPI dynamics. However, in previous years, changes in relative prices were not good predictors of actual changes in the weighting system.

CPI inflation (annual average) – breakdown of our forecast



CPI and core inflation, % y/y





# Inflation: low pressure from food prices

In the [December 2024 edition of MACROscope](#), we assumed that food prices would rise by 5% this year, and we were not far off, as our current forecast (with only December unknown) stands at 4.8%. **In our view, food price growth in 2026 will be markedly lower, at around 2.0%, although it should be noted that climate change makes the risk asymmetrically tilted to the upside.**

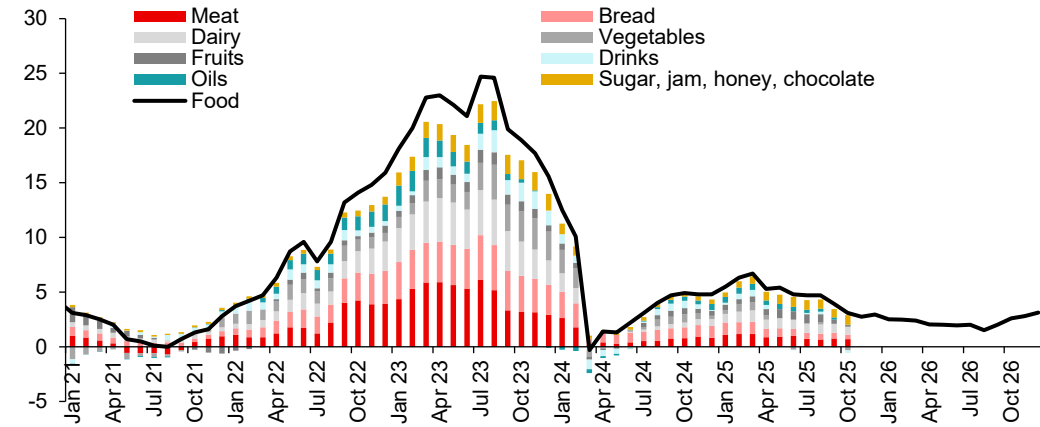
Forecasts for cereal harvests in the 2025/2026 season are solid, especially for maize in the US and Ukraine and wheat in the European Union. In our opinion, this means no clear potential for an increase in their global prices, which in turn will keep bread and feed prices under control. A similar situation applies to oilseeds, with strong growth in rapeseed harvests in the EU and Russia. This will lower the prices of oils and fats.

Recent increases in milk prices have led to higher supply, which will put downward pressure on dairy product prices. At the same time, demand is rising, but we believe the balance of these two forces will favour a slight decline in prices. Strong domestic harvests of vegetables and fruit this year mean their prices will remain low in the coming months, until September when the next harvest enters the market. The frequency of droughts in recent years suggests that the risk is asymmetrically tilted upwards.

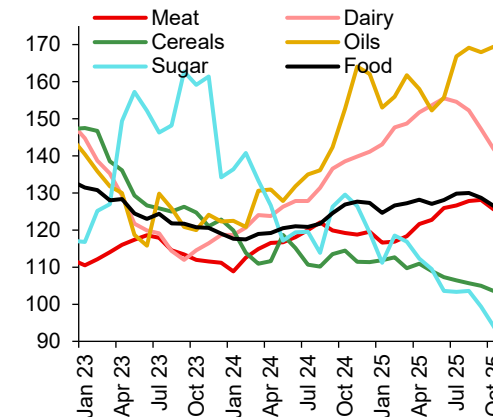
Meat prices, on the other hand, may climb. Demand is rising cyclically, especially for beef, while supply is constrained, among other things, by disease. A faster recovery in supply may occur in the case of poultry, which, combined with low feed prices, could favour a decline in poultry prices in the second half of the year. Similar factors should support falls in egg prices.

Similar conclusions can be drawn from leading price indicators. In the case of FAO global food price indices, a downward trend is already visible for dairy, cereals and sugar. Oil prices are stabilising at a high level, and only meat prices are rising. For domestic purchase prices of agricultural products and prices of sold production in food processing, a clear decline in annual dynamics is evident.

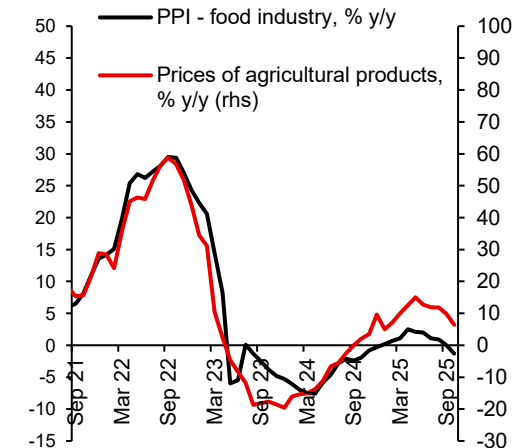
Food prices – annual growth structure



FAO global food price index



Domestic wholesale food prices





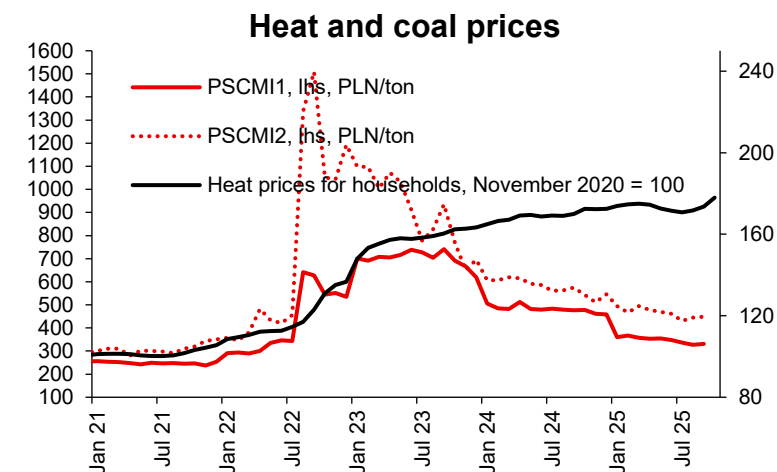
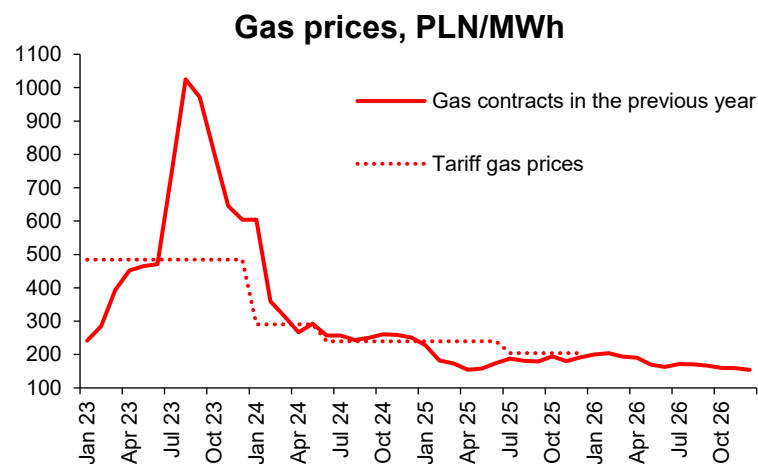
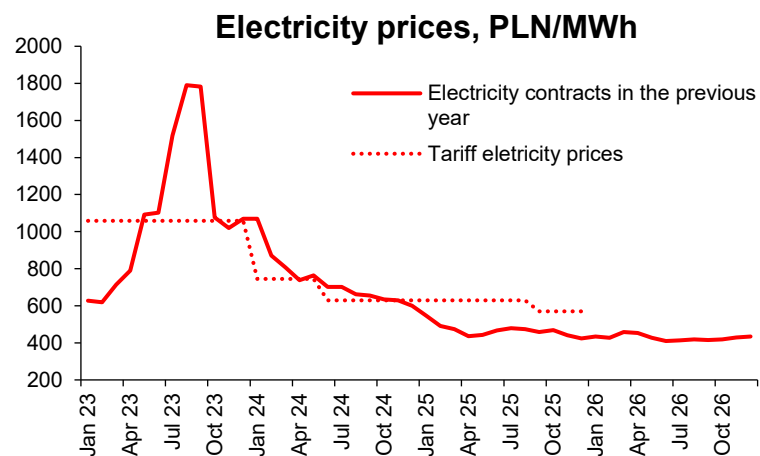
# Inflation: stabilisation in energy carriers

We assume that in 2026 prices of the main energy carriers will stabilise, with slight increases in some charges, and that energy carrier prices will be on average 2.9% higher (mainly due to the base effect) after a rise of 7.8% in 2025.

Since September 2025, a new electricity tariff of PLN570/MWh has been in force, reduced from the previous tariff of PLN630/MWh, while a maximum price of PLN500/MWh applies until the year-end. We assume that the tariff price effective from January 2026 will be close to PLN500/MWh. Our assumptions are based on falling wholesale prices, which averaged PLN430/MWh this year. Supporting this is the decision by e.on, which is not subject to tariff obligations – from the new year it will cut prices to PLN500/MWh. However, some charges (e.g., capacity, RES) are rising, which in our view will add about 4% to the average electricity bill and around 0.2pp to CPI inflation. If the tariff were maintained at PLN570/MWh, it would add another 7.5% to the average bill and 0.3pp to CPI inflation. We do not expect President Nawrocki's proposal (reducing VAT and other charges) to be implemented.

Similarly, we assume stabilisation of gas tariffs (PLN204/MWh), although wholesale prices have even fallen slightly – to PLN175/MWh from PLN182/MWh. However, the potential for decline is clearly smaller than in the case of electricity.

In recent months, the process of adjusting heat payments after the expiry of the shield covering this market segment has been underway. Since July, heat prices have risen by 4.3%, adding 0.1pp to inflation, and in our view this process has now ended. If this adjustment is excluded, falling coal prices used in power generation and heating plants suggest stabilisation or even declines in heat prices next year.



PSCMI1 – coal prices for the energy sector  
PSCMI2 – coal prices for the heating sector



# Electricity bill: breakdown

The electricity bill consists of many components, forming a complex system of variable, lump-sum and fixed elements. The cogeneration and transitional charges, which have recently been in the media spotlight, are in fact only a tiny fraction of the electricity bill. Against this backdrop, the increase in the capacity charge announced by the Energy Regulatory Office from 1 January 2026 by 50% is significant, although in an average household it will raise the bill by about PLN7, i.e., around 4%, gross – including VAT and excise duty, which for electricity amount to 23% and PLN0.005/kWh respectively.

Sale of energy			Distribution of energy				
	Method of calculation	Who sets it?		Method of calculation	Who sets it?	Approx. value (net)	
						Unit cost	Total/month*
Tariff, including:		Energy seller, but must be accepted by the Energy Regulatory Office	Quality fee	<ul style="list-style-type: none"><li>- Acc. to use, per kWh</li><li>- E.g. for expansion of energy grids</li></ul>	Distribution system operator, e.g. PGE Dystrybucja S.A., TAURON, Stoen, Energa-Operator S.A.	PLN0.0314	PLN4.71
Energy fee	<ul style="list-style-type: none"><li>- Acc. to use, per kWh</li><li>- Differing offers</li></ul>		Grid fee, variable	<ul style="list-style-type: none"><li>- Acc. to use, per kWh</li><li>- For covering losses of energy in distribution</li></ul>		PLN0.226	PLN33.90
Trading fee	<ul style="list-style-type: none"><li>- Optional; fixed, but may differ with billing period; independent of energy consumption</li><li>- Covers customer service costs</li></ul>		RES fee	<ul style="list-style-type: none"><li>- Acc. to use, per kWh</li><li>- For renewable energy sources</li></ul>	President of the Energy Regulatory Office	PLN0.0035	PLN0.53
			Cogeneration fee	<ul style="list-style-type: none"><li>- Acc. to use, per kWh</li><li>- Supports heat and power plants</li></ul>	The government (Regulation of the Minister)	PLN0.0030	PLN0.45
			Capacity fee	<ul style="list-style-type: none"><li>- PLN/month, several rates which depend on annual use of energy</li><li>- Covers the costs of power plant disposability</li></ul>	President of the Energy Regulatory Office	PLN2.86-16.01	PLN11.44
			Transitional fee	<ul style="list-style-type: none"><li>- PLN/month, several rates which depend on annual use of energy</li><li>- Compensation for early cancellation of contracts paid to Energy suppliers</li><li>- To expire in 2025</li></ul>	Act on cancellation of long-term contracts	PLN0.02-0.33	PLN0.33
			Grid fee, fixed	<ul style="list-style-type: none"><li>- PLN/month</li><li>- For grid access, maintenance of devices</li></ul>	Distribution System Operator	PLN10.95	PLN10.95
			Subscription fee	<ul style="list-style-type: none"><li>- PLN month</li><li>- For administrative actions</li></ul>		PLN0.48	PLN0.48

Maximum price applicable until 31.12.2025 (net)

Unit cost	Total per month*
PLN0.50	PLN75.00

gross (incl. VAT & excise duty)

Unit cost	Total per month*
PLN0.6212	PLN93.17



Total net bill in 2025: PLN138, including PLN63 distribution fees → PLN171 gross

\* for a household which consumes 1800 kWh per annum



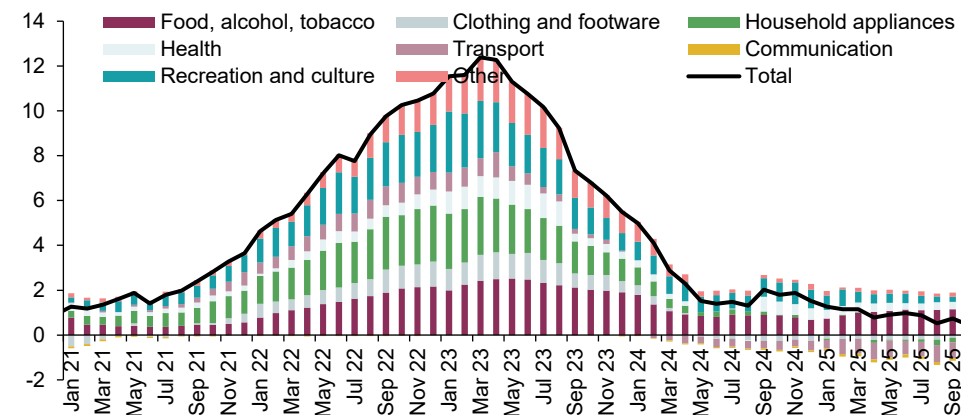
# Inflation: import of deflation from China (1)

One of the key factors behind the decline in inflation was the core part of the CPI basket subject to international trade. In October 2025, the price growth rate in this category stood at 0.5% y/y, the lowest since 2019. Price trends in transport (cars), household furnishings and communications (consumer electronics) were clearly below the long-term average.

In our view, this reflects recent changes in global trade – a fall in Chinese demand for European goods combined with an expansion of Chinese exports in the automotive and household appliance industries, as well as US tariffs that have altered global trade flows. Prices in Chinese industry remain in negative territory, while the zloty is relatively strong against the yuan, which in our opinion will continue to support the competitiveness of Chinese products on the Polish market.

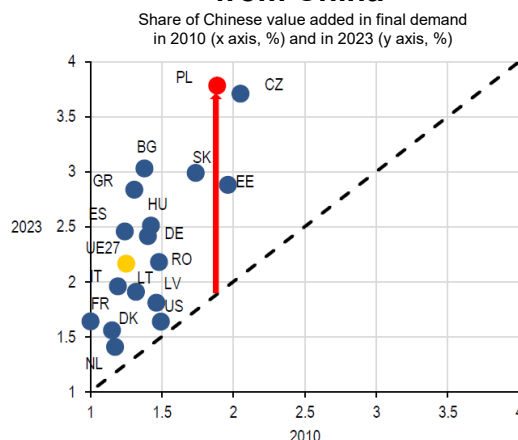
**However, we believe that the price dynamics of internationally traded goods will no longer decline and may even rebound slightly** due to a modest strengthening of the yuan, rising prices of industrial metals, semiconductors and memory chips, and the abolition of customs exemptions for small consignments.

Inflation – core categories traded internationally



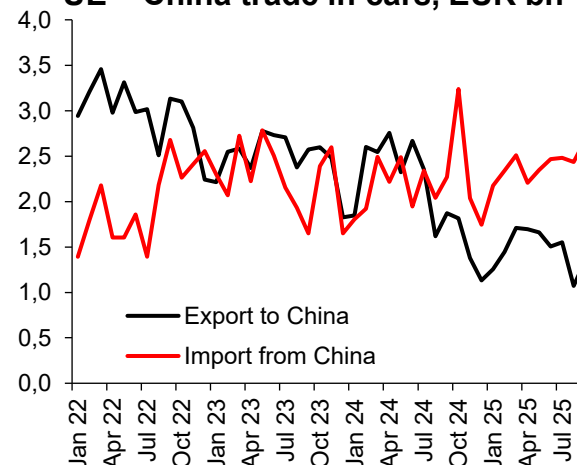
Source: GUS, Santander

Exposition of EU countries on goods from China



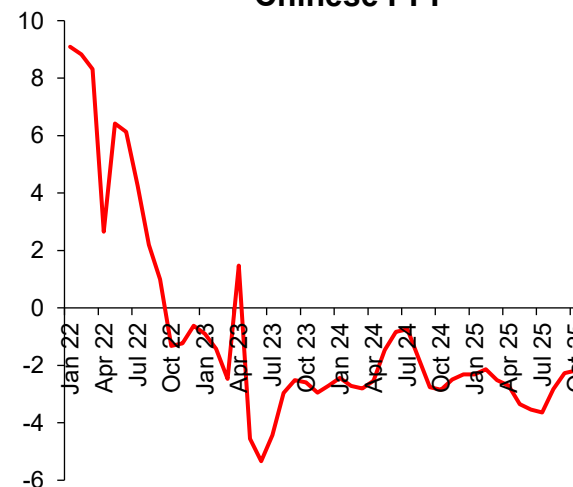
Source: NBP

UE – China trade in cars, EUR bn



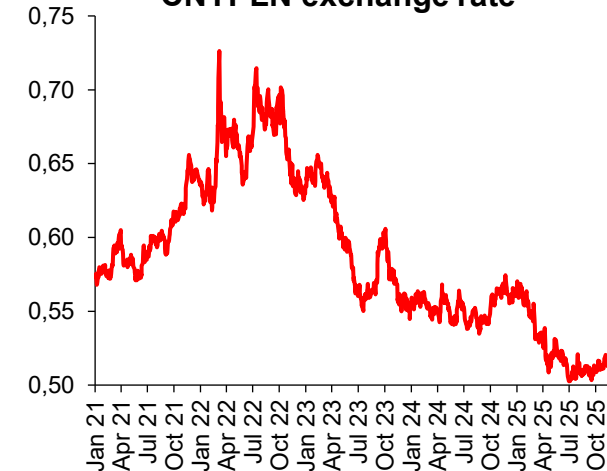
Source: Eurostat, Santander

Chinese PPI



Source: LSEG Datastream

CNYPLN exchange rate



Source: LSEG Datastream

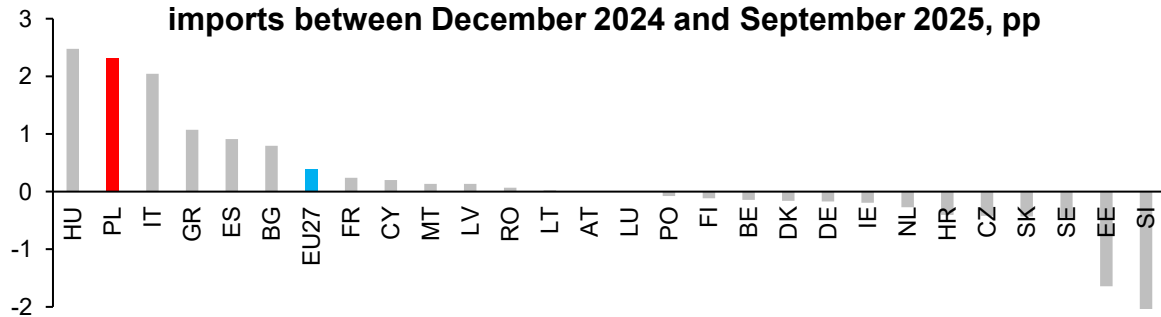
# Inflation: import of deflation from China (2)

The significant role of international trade prices in shaping domestic inflation in recent months is highlighted by Polish Statistical Office's data on Polish import prices. These show that around the beginning of 2025, the upward trend in import price dynamics, which had persisted since mid-2023, came to an end and began to decline again. Although the new downward trend is not as strong as that seen in 2022–2023, it clearly translates into inflation readings, particularly – as we have emphasised earlier – into core inflation figures.

Car prices appear to play a special role in the decline in import price dynamics, with their growth rate falling from a local peak of 2.9% y/y in December last year to 0.6% y/y in September, as well as prices of broadly defined electronics, whose growth rates have dropped by about 1pp since December. It is worth noting that these are the same categories of goods which, as we have pointed out, have influenced the decline in core inflation in recent months.

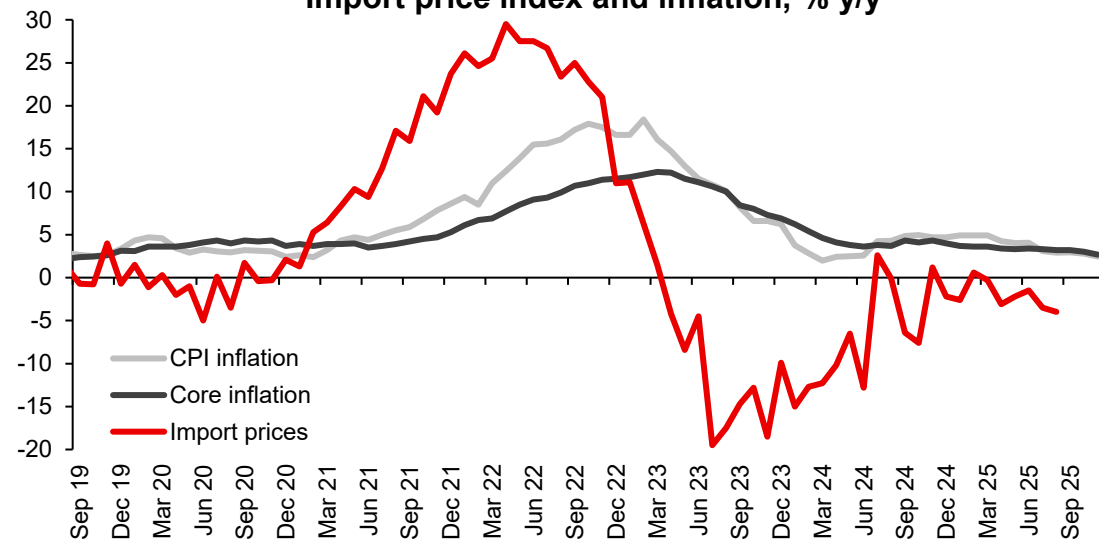
Given that electronics are largely imported from Asia and the share of cars imported from Asia in total imports in this category is starting to rise, the behaviour of import price indicators supports our view that the recent declines in domestic inflation are a derivative of changes in global trade.

**Change in the share of cars imported from China in overall car imports between December 2024 and September 2025, pp**

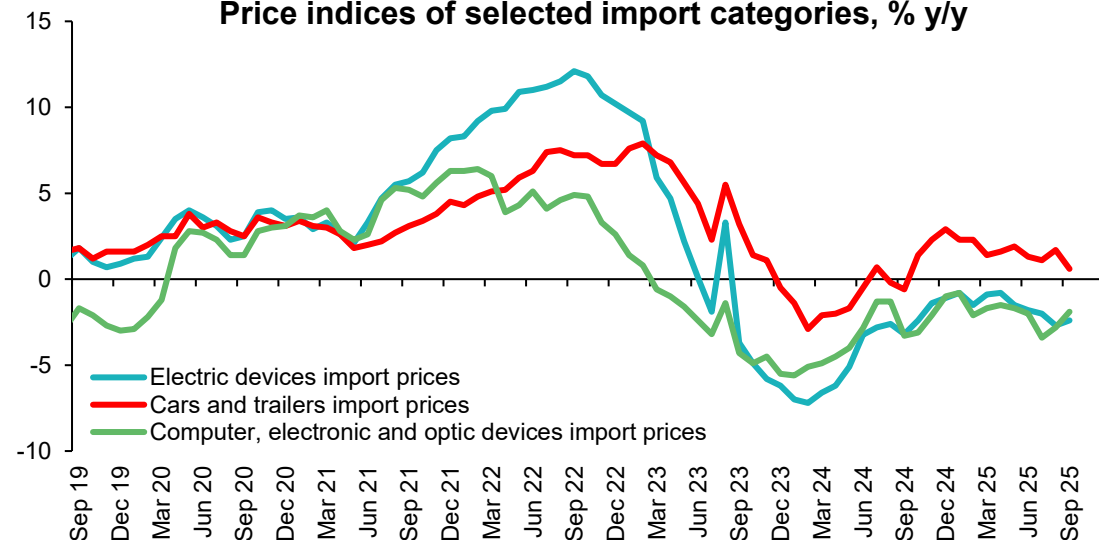


Source: Comext, Santander

**Import price index and inflation, % y/y**



**Price indices of selected import categories, % y/y**



Source: GUS, Santander



# Inflation: import of deflation from China (3)

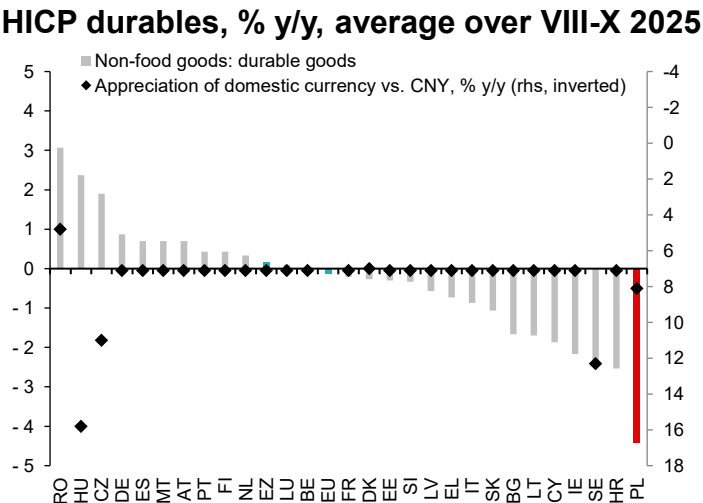
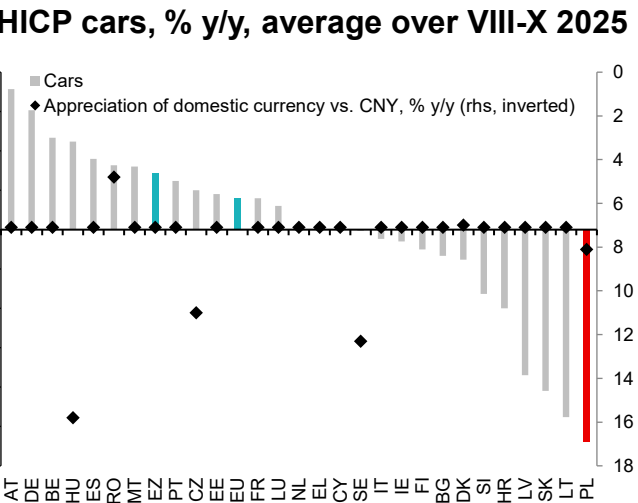
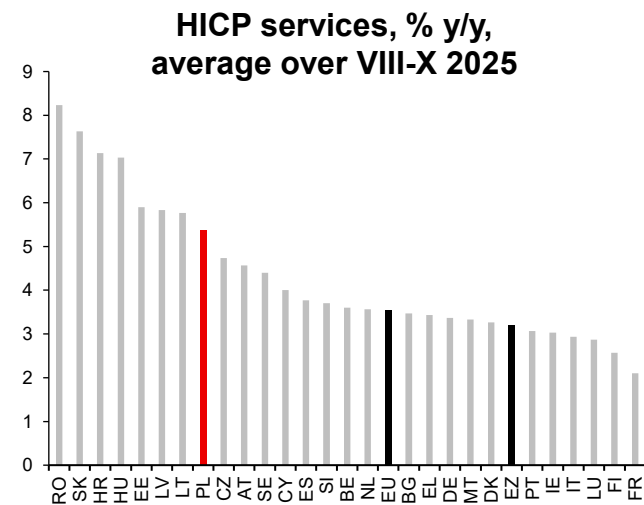
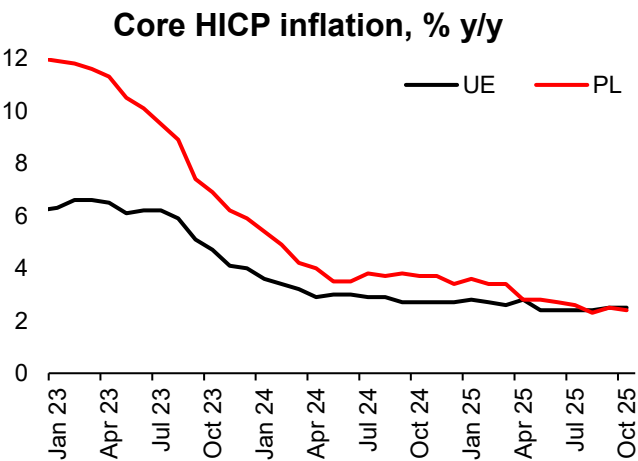
Polish core inflation measured by HICP (i.e., comparable across EU countries) has fallen below the EU average. This is an unusual sight, especially given Poland's much more dynamic economic growth than Europe, faster wage increases and the country's lag in terms of fiscal deficit size.

This happened despite above-average growth in service prices in Poland. Goods that stood out on the downside in terms of price changes compared with EU countries were concentrated in the transport and recreation and culture categories and belonged to the group of durable goods.

In particular, **Poland marked the EU minimum for inflation in car prices, phones and many items in the RTV, household appliance and IT segments.** It is telling that these are imported goods, which fits the narrative that Poland's surprisingly rapid disinflation is driven by a strong exchange rate, highly favourable to dollar-based importers, and a relatively large exposure to Chinese products compared with other EU countries.

However, it is hard to explain why the disinflationary effect of importing these goods was the strongest in the EU. The scale of zloty appreciation does not seem to be a good explanation.

HICP categories where Poland experienced strong price increases compared with EU countries include communication, medical and housing-related services as well as education. Prices in the “milk, cheese and eggs” category rose twice as much as the EU average, by 8% y/y.







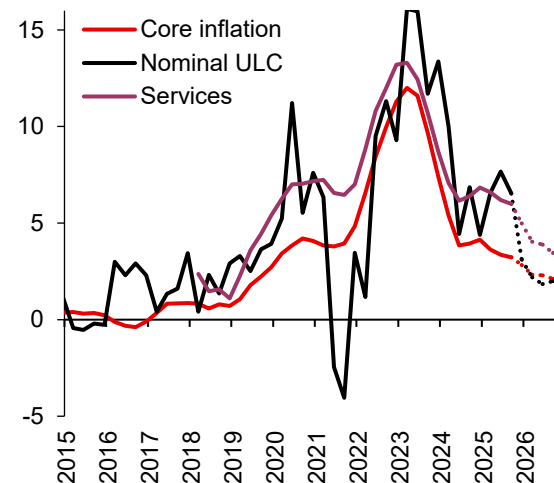
# Inflation: gradual deceleration in services prices

Service price inflation slowed from the beginning of 2023 to mid-2024 from 12% to 6%, after which it remained stuck for a long time. Only recently has it managed to fall below 6%. This persistence was associated with high wage growth in the sector – a characteristic of services is the high share of the wage bill in total costs. The slowdown in service-sector wages has intensified in recent months. A significant risk here is a potential outflow of migrants from Ukraine, who make up a substantial share of workers in accommodation and catering.

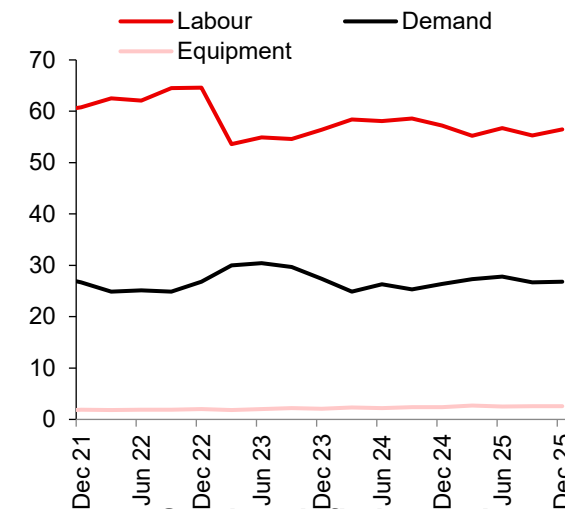
The persistence of the service price inflation was also supported by demand factors. After the pandemic, there was a heightened interest in consuming services. Real growth in service consumption was 4.2% in 2023 and 4.8% in 2024. In Q1 2025, demand intensified further (7.1% y/y). Q2 and Q3, however, saw much weaker growth of 2–3% y/y, so we do not expect demand to be an obstacle to further disinflation in service prices. We suspect that above-average price increases in this segment of consumption prompted households to reconsider their spending structure, especially as the share of spending on services returned to pre-pandemic levels in 2024 and continued to rise in 2025. Unlike in industry, survey data on barriers to activity in services do not show significant shifts towards either demand or supply factors, suggesting no clear price pressure. Moreover, when asked about prospects for their own price growth, service firms increasingly refrain from indicating increases – the future price index has recently fallen to its lowest level since early 2021.

**We expect service price inflation to decline to 4% in 2026 from 6% in 2025.**

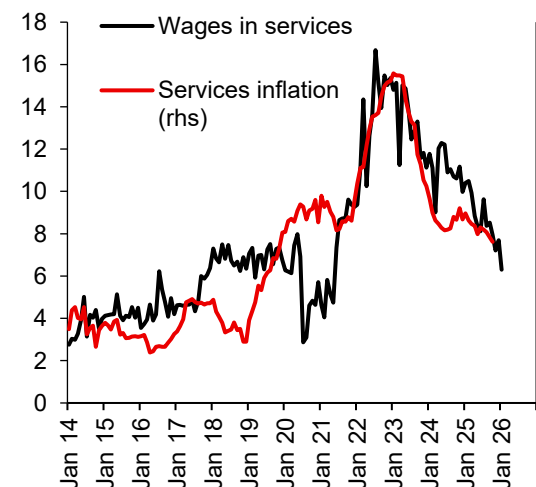
**Core and services inflation and unit labour costs, % y/y**



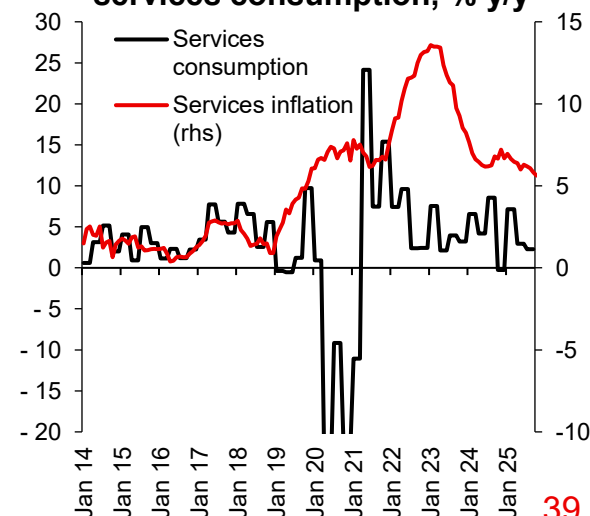
**ESI, Poland, services: barriers to demand and supply in business**



**Services inflation and wages in services, % y/y**



**Services inflation and services consumption, % y/y**



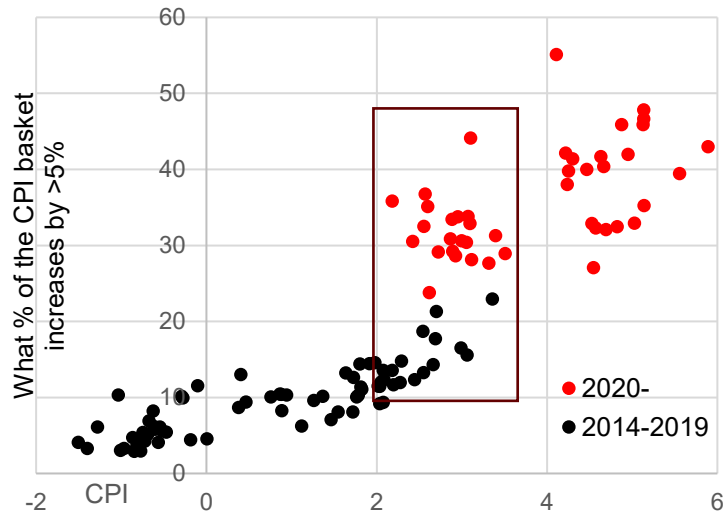
# Inflation: momentum weakens, but not everywhere

The same inflation rate can result from different price configurations within the CPI basket. We examined whether the changes behind the recent surprisingly sharp declines in inflation deviated from historical patterns.

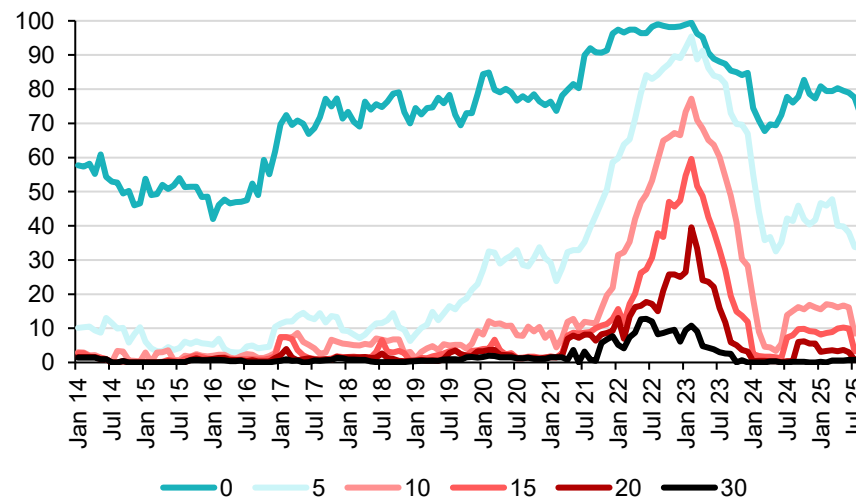
It turns out that a still above-average share of the basket shows price increases of more than 5% y/y, clearly larger than in previous periods when CPI was at target. This means that the slowdown in prices has been less widespread than usual; inflation was pulled down by disinflation concentrated in a smaller number of categories (in the July–September period, nearly one-fifth of the basket was falling at a pace of 2% y/y or faster), while **fairly large areas still exhibit markedly elevated price dynamics. We consider this a risk of CPI being pushed up if any of the strongly disinflationary factors weakens or disappeared** (for example, the exchange rate and oil prices could now act in this way).

**The area where inflation persistence remains is services**, and this factor will likely continue to slow disinflation. Although many measures of price momentum show a clear deceleration, services (and the very similar non-tradable core inflation) are still running at a pace inconsistent with the target.

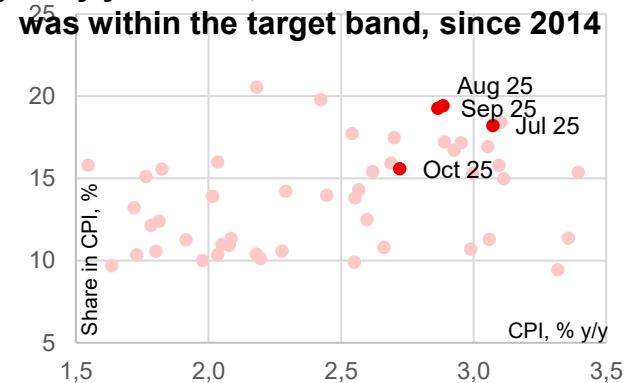
**Inflation and the share of categories whose prices increase by over 5% y/y**



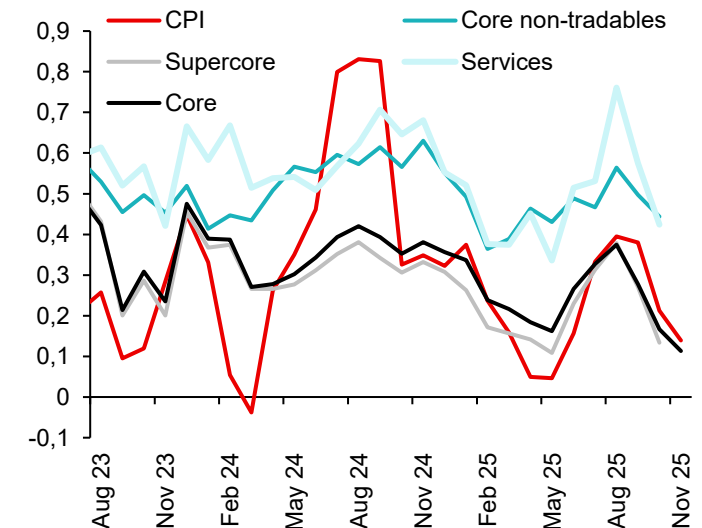
**What % of the CPI basket grows faster than ...% y/y**



**Share in CPI of categories with prices falling by 2% y/y or more, in months when inflation was within the target band, since 2014**



**Price momentum measures, % m/m s.a., 3M average**



# Economic Policy

2

# Monetary policy: adjustments to falling inflation



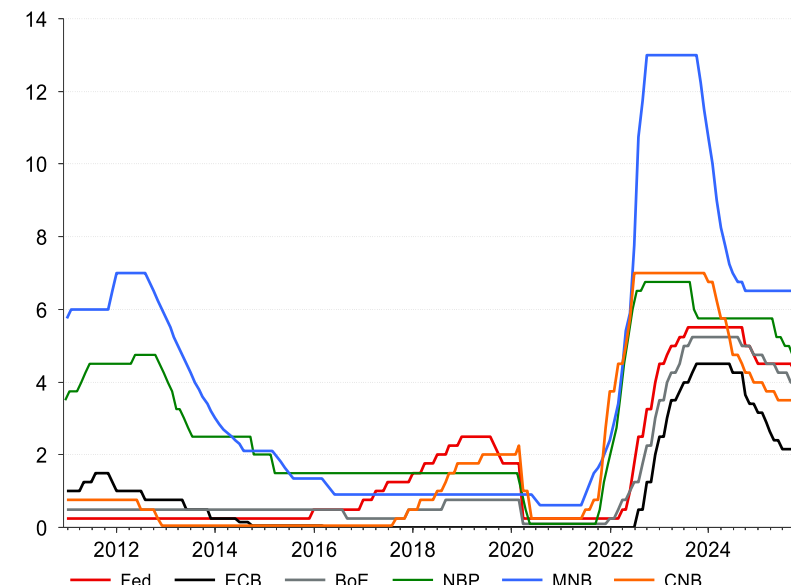
The Monetary Policy Council cut interest rates by a total of 175bp between May and December. Reductions occurred almost every month, although the central bank consistently emphasised that these were “adjustments”, not an “easing cycle”. We broadly agree with this view. While a year ago we complained about the difficulty of defining a coherent monetary policy reaction function, recent months have confirmed a simple pattern: faster-than-expected disinflation allowed for a gradual move to lower interest rate levels.

We assume that in 2026 the MPC’s decision-making process will be similar – inflation behaviour will have a decisive impact on rate changes. Our forecasts indicate that in the first months of the year inflation will fall below 2.5% y/y, which will likely prompt the Council to make further adjustments. However, the room for cuts seems increasingly limited. In March, after news of Europe’s shift towards looser fiscal policy and higher defence spending, we raised the expected target level of the reference rate to 4.0%, but under the influence of faster-than-forecast disinflation at year-end **we return to our earlier assumption, i.e., that the MPC will stop cutting at 3.5%.**

Based on NBP research on the transmission mechanism, we estimate that the maximum effect of the cuts already made should materialise in 2027, lifting CPI by about 0.8pp. In the following year, inflation will likely be affected by the extension of the ETS2 system. Taking this into account, and given expected rapid economic growth and loose fiscal policy, we assume that the MPC will not be inclined to push the real interest rate clearly below 1%, nor significantly below CNB or Fed levels.

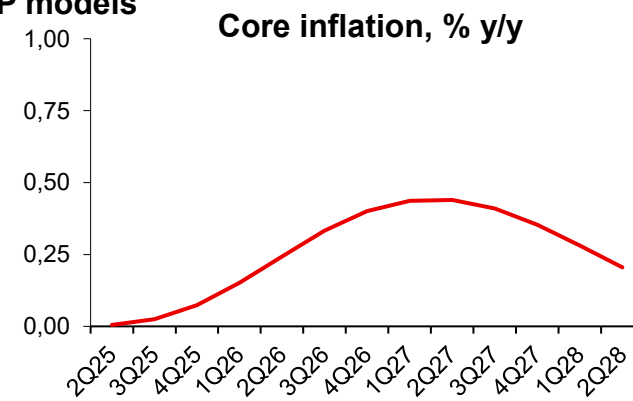
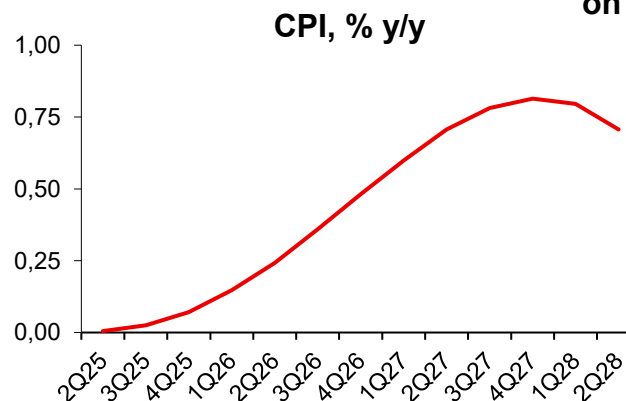
We assume that in January and February the MPC will opt for a pause, driven by the expected slight rebound in CPI in December and incomplete inflation data at the start of the year. In March, a new MPC projection will be released which – together with the January CPI reading – should allow for a 25bp cut. We expect the next adjustment in May, which over the past dozen or so years has been the most frequent month for changes in monetary policy.

Main policy rates of central banks, %



Source: LSEG Datastream

Inflation response to a reduction of the main policy rate to 4.00% from 5.75%, based on NBP models



Source: Santander calculations based on NBP research on monetary policy transmission mechanism



# NBP projection

Despite this year's rate cuts implied by the projection, the probability that inflation will remain below 3.5% over the horizon of the strongest monetary policy impact (6-8 quarters) stays relatively high and stable (60–65%). **This narrows the MPC's choice to either continuing rate cuts or ending them.**

On the other hand, the new projection has reversed the previously observed asymmetry in the probability of inflation moving outside the target band. In the November projection, in later periods, the probability of inflation overshooting above 3.5% outweighs the probability of it falling below 1.5%. In the previous two projections, it was the opposite. This calls for **caution when considering further cuts.**

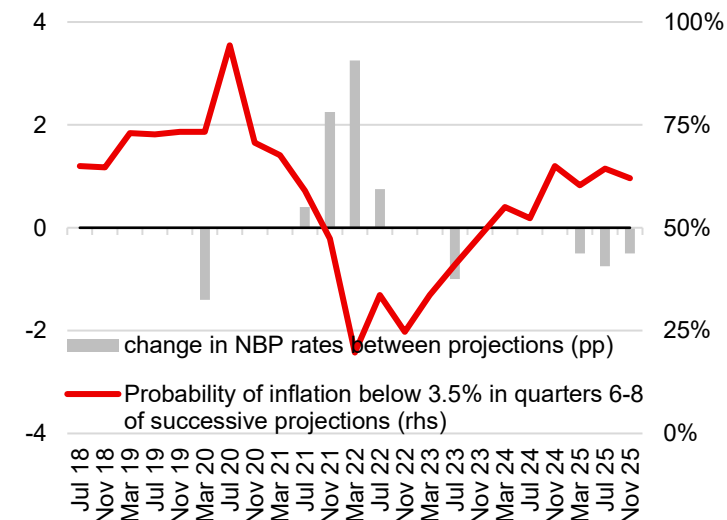
Any further MPC actions could now be motivated not by the projection itself, but by deviations of economic outcomes from the projection and regulatory decisions other than those assumed.

Differences already visible include: (1) downside surprise in wages in the National Economy for 3Q, 7.5% y/y instead of 8.2%, reinforced by a low October reading for enterprise sector wages (6.6% y/y, down from 7.5% versus market consensus of 7.2%); (2) employment up 0.5% y/y in 3Q instead of 0.0%; (3) GDP accelerating to 3.8% in 3Q instead of maintaining 3.3%, but with private consumption slowing to 3.5% y/y instead of 4.2% from 4.5% y/y in 2Q; (4) If we add our December forecast to October and November data, CPI inflation in 4Q may turn out 0.2pp lower than in the projection and core inflation 0.3pp lower.

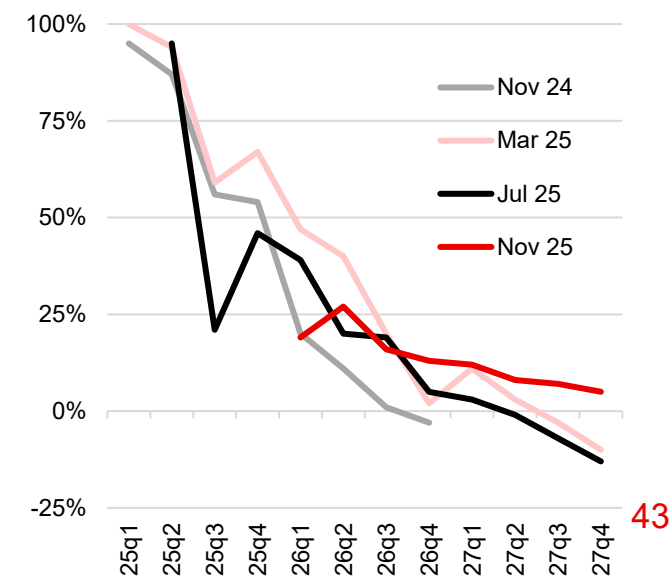
We assume that the CPI projection trajectory after adjustments for the November and December rate cuts, flat electricity prices in 2026 (it was assumed that the electricity tariff for 4Q25 would be kept in 2026, but the capacity fee hike was not included), and the GDP surprise (assuming it leads to a higher positive output gap in 2026 and near zero in 2027) would be slightly higher than the original one. However, if wage deceleration happened at a faster rate than expected by NBP and us, chances would increase for a quicker return to the inflation target and a deeper CPI drop below 2.5% in 2027.

Under these conditions, a signal of further room for rate cuts could only appear with the next projection update in March (a checkpoint to see whether we remain on track to the target or upside inflation risks materialise) or due to further surprising declines in current inflation – these may come in January and February readings, visible (after adjustment for CPI basket changes) in mid-March.

Probability of inflation below 3.5%, in quarters 6-8 of successive projections vs. the change in NBP rates between projections



NBP projections: difference between probabilities of inflation above 3.5% and below 1.5%

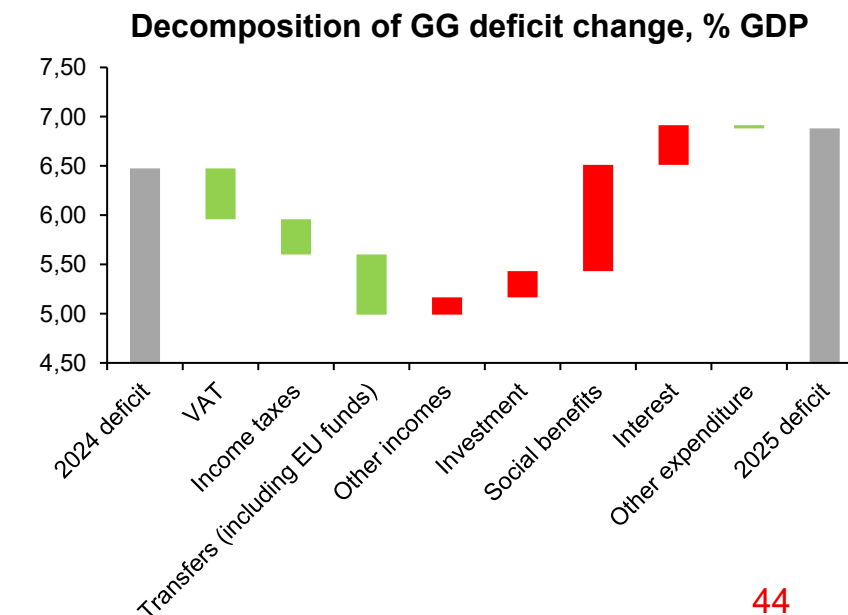
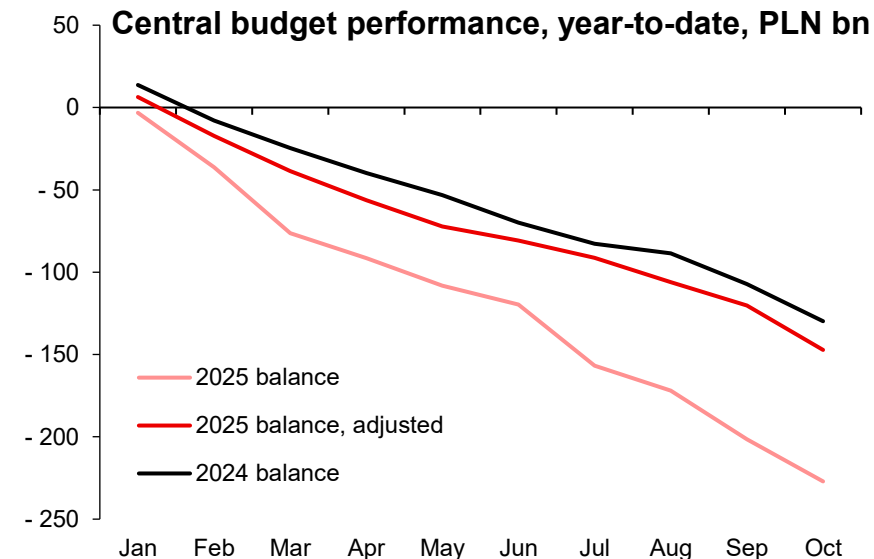
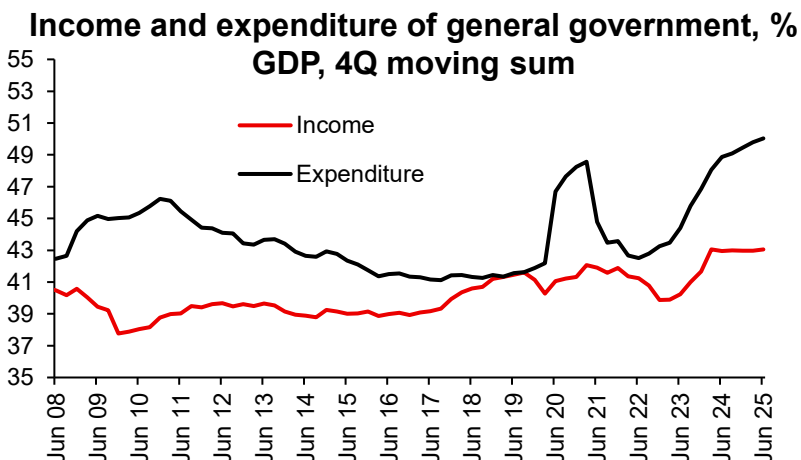


# 2025 deficit close to 7% of GDP...

After October, the budget deficit stood at PLN227bn (5.9% of annual GDP), and on a 12-month cumulative basis at PLN308bn (8.0% of GDP). As we anticipated earlier, the government did not decide to amend the budget act. This year's deficit therefore has to fit within the limit of PLN289bn (7.5% of GDP), which will likely require some effort from the Ministry of Finance.

Key factors increasing this year's central budget deficit were: the reform of the local government financing system (they now receive a larger share of CIT and PIT revenues) and the redemption of PFR and FPC bonds worth PLN59bn. These affect the size of the central budget deficit but not the deficit of the entire general government sector. Adjusted for these two factors, the central budget deficit after October, according to our estimates, amounted to PLN147bn (3.8% of projected full-year GDP) compared to PLN130bn (3.6% of GDP) in the same period last year, so the difference is not very large. The latest official data on the GG budget balance under the EU definition are available only for the first half of this year and showed a deficit of 2.3% of GDP versus 1.8% of GDP in 2024. Meanwhile, the combined deficit of the central budget and local governments adjusted for bond redemption, according to our calculations, stood at 2.6% of GDP after 3Q25 versus 2.4% of GDP in the same period of 2024.

The balance of the entire general government sector, according to the Finance Ministry plan, is to reach 6.9% of GDP this year (compared to 6.5% in 2024), and the above data suggest this forecast is credible.





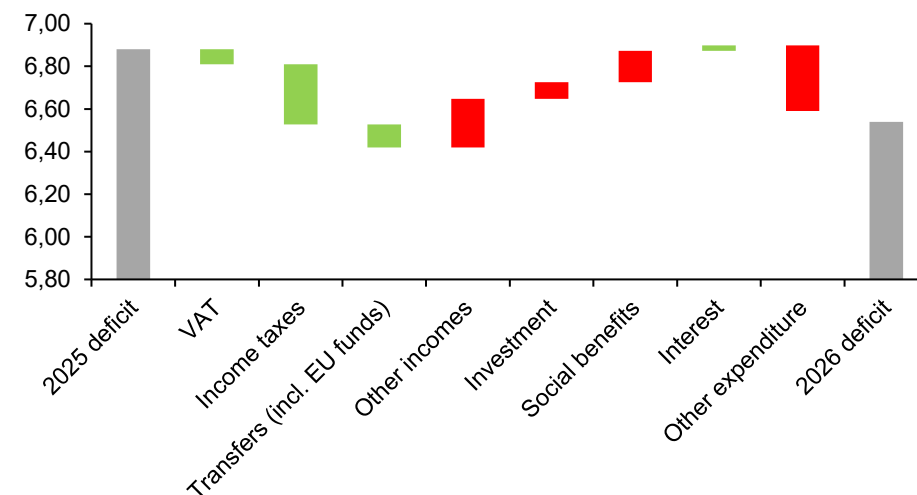
# Slightly lower deficit in 2026, but fragility grows

In 2026, we expect the public finance deficit to be in line with the budget act (6.5% of GDP). We consider the government's assumptions on macroeconomic variables and tax revenues to be realistic (inflation will likely be lower than assumed by the government, but real GDP growth higher). We saw the main risk for the budget in President Nawrocki's potential refusal to approve tax hikes, but the President has already signed the law raising CIT for the banking sector, which somewhat reduces this risk. If the changes to excise and sugar tax planned by the government do not get the President's approval, this will increase the deficit by around 0.15pp. On the other hand, a stronger-than-expected decline in interest rates offers a chance for lower debt servicing costs. According to the Ministry of Finance estimates, discretionary measures planned for 2026 reduce the deficit by a total of 0.8% of GDP, including the lack of PIT scale adjustment by 0.3% of GDP.

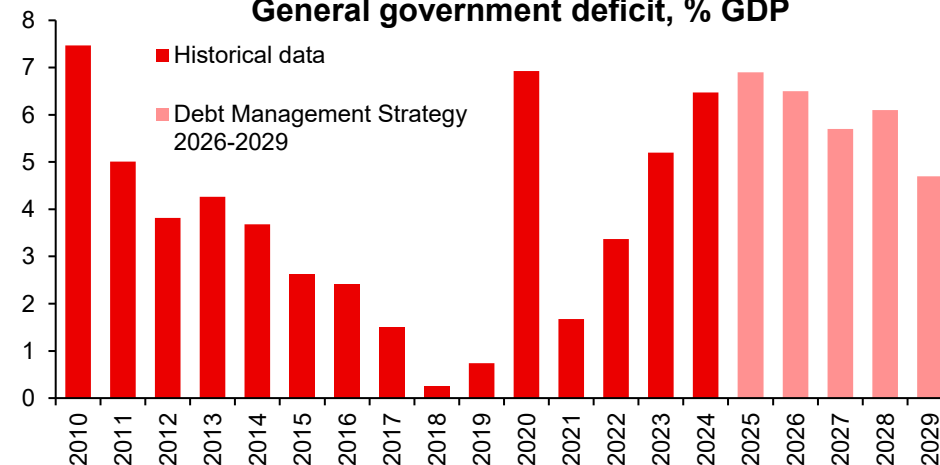
Due to the relatively high deficit, public finances will remain highly fragile to any unexpected slowdown in economic growth.

In its [Debt Management Strategy 2026–2029](#), the government assumed a decline in the deficit in 2027–2029 to 5.7%, 6.1% and 4.7% of GDP respectively. The Finance Minister claims that this path excludes additional consolidation measures, which will be undertaken, so according to the MoF the deficit could fall faster. In our view, the actual pace of deficit reduction will not be faster but slower than presented in the Strategy, particularly in 2027, an election year, when it will be hard to expect an increase in its scale.

Decomposition of GG deficit change, % GDP



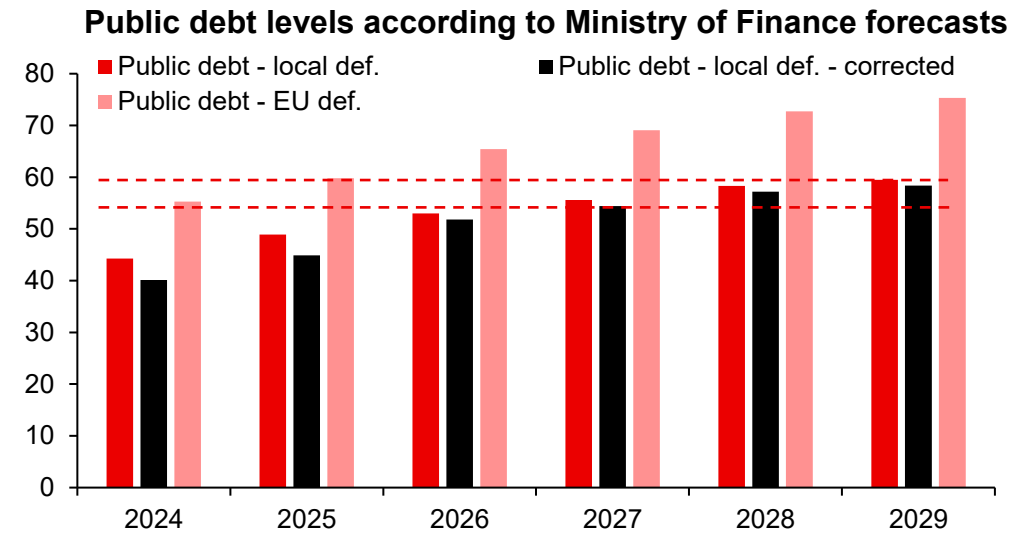
General government deficit, % GDP





# More and more debt, just under the limits

According to the forecasts presented in the strategy, public debt calculated under the national methodology (PDP) will **reach 55.6% of GDP in 2027**, thus exceeding the first safety threshold set in the Public Finance Act. However, to trigger the safety measures specified in the act, the 55% of GDP threshold must also be breached by the debt measure adjusted for exchange rate effects and spare funds earmarked for financing borrowing needs in the following year. According to the forecasts presented, this measure of debt will exceed 55% of GDP in 2028, meaning that safety measures will only be introduced in 2030. **Public debt under the EU definition rises throughout the forecast horizon from 55.3% of GDP in 2024 to 75.3% of GDP in 2029**, with **off-budget debt increasing from PLN401bn in 2024 to PLN773bn in 2029 (15.8% of GDP)**, mainly due to a sharp rise in the debt of the Armed Forces Support Fund, from PLN45bn to PLN326bn.



**The main parameters of Polish debt forecasted by the Ministry of Finance**

		2024	2025	2026	2027	2028	2029
%	average cost of servicing state treasury debt (interest)	4.05					
PLNbn	debt service cost (PLNbn)	66.5	75.5	90	105.6-107.1	115.9-117.5	128.9-130.8
%GDP	debt service cost (% GDP)	1.81	1.94	2.16	2.4	2.5	2.64
%GDP	General government debt service expenditure (accrual basis)	2.2	2.5	2.7	2.8	2.9	3.0
%GDP	State treasury debt	44.7	50.1	54.6	57.2	60.1	61.5
%GDP	Public debt – local definition (PDP)	44.3	48.9	53	55.6	58.3	59.5
%GDP	Public debt – local def. (PDP) FX corrected (statutory criterion)	40.1	44.9	51.8	54.4	57.2	58.4
%GDP	General government debt (EU def.)	55.3	59.8	65.4	69.1	72.7	75.3
PLNbn	State treasury debt	1629.3	1956.2	2271.1	2516.1	2788.1	2999.9
PLNbn	Public debt – local definition (PDP)	1611.6	1907.4	2206.9	2442.7	2703.5	2904.3
PLNbn	Public debt – local def. (PDP) FX corrected (statutory criterion)	1460.2	1751.1	2156.3	2391.4	2652.3	2852.8
PLNbn	General government debt (EU def.)	2012.7	2331.1	2720.2	3039.4	3372.9	3676.9

# Others have more debt, but do we want to catch up?

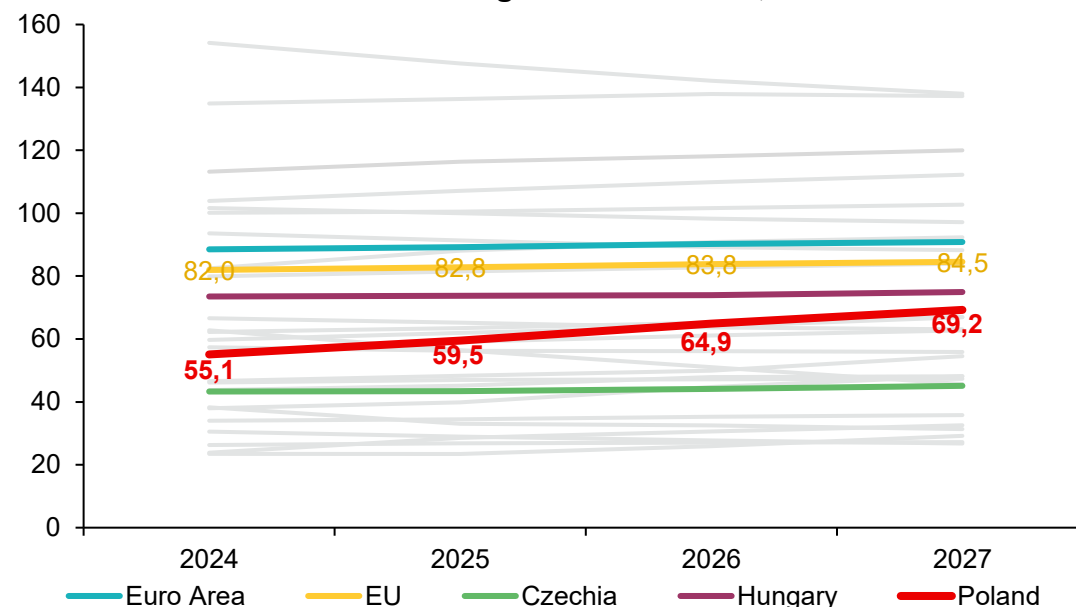


Compared with other European countries, Poland's debt is relatively low – a point eagerly emphasised by both the Finance Minister and the Prime Minister. However, **in terms of the pace of debt growth, Poland ranks No. 1**, driven by equally leading general government deficits. With the average GG balance in the EU at -3.4%, our less than -6% slightly overtakes Romania, previously the leader with deficits reaching over 9%. Over the next two years, Poland's projected debt will increase by almost 10pp, moving us up in the EU debt ranking from 16th place in 2024 to 11th in 2027.

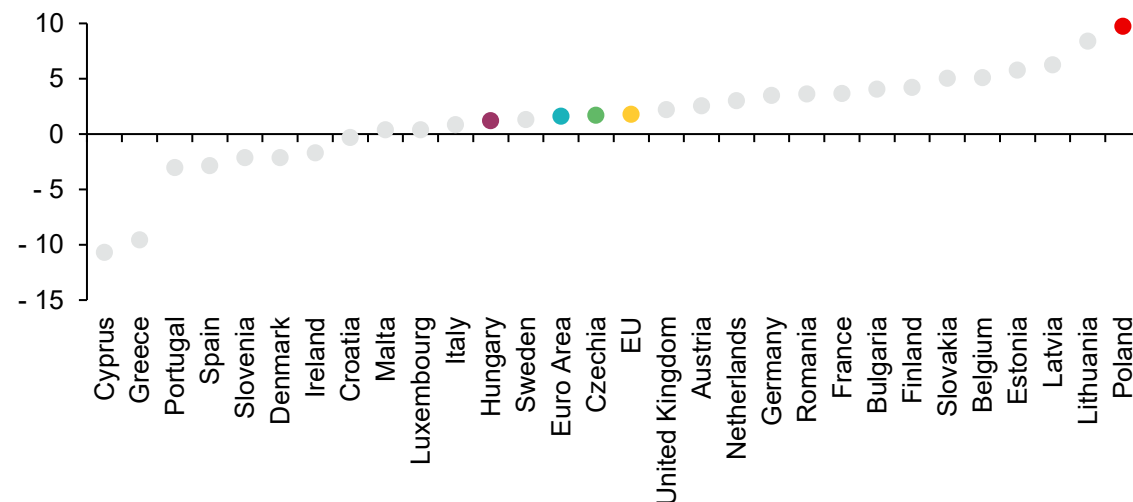
Countries we like to compare Poland to – Hungary and the Czech Republic – will have fairly stable debt levels, although Hungary's level is already much higher than the level Poland will only reach in a few years (~75% of GDP). The Czech Republic has debt of around 45% of GDP, similar to Poland's pre-pandemic level, and there is no sign of a major increase.

One consolation may be that in the European Commission forecasts **we lead in terms of GDP growth rate** (2nd place after Malta) **and low unemployment** (1st place, tied with the Czech Republic). However, it would be good if the economy's condition allowed the country to reduce its outstanding debt and create a safety buffer for unforeseen shocks, which unfortunately seem to be increasingly visible on the horizon. For now, from a fiscal perspective, Poland is heading in a direction where it has to rely on positive global developments.

GG debt according to EC forecasts, % of GDP



Projected change in GG debt in 2027 compared to 2025 (pp.)



# Financial markets

3



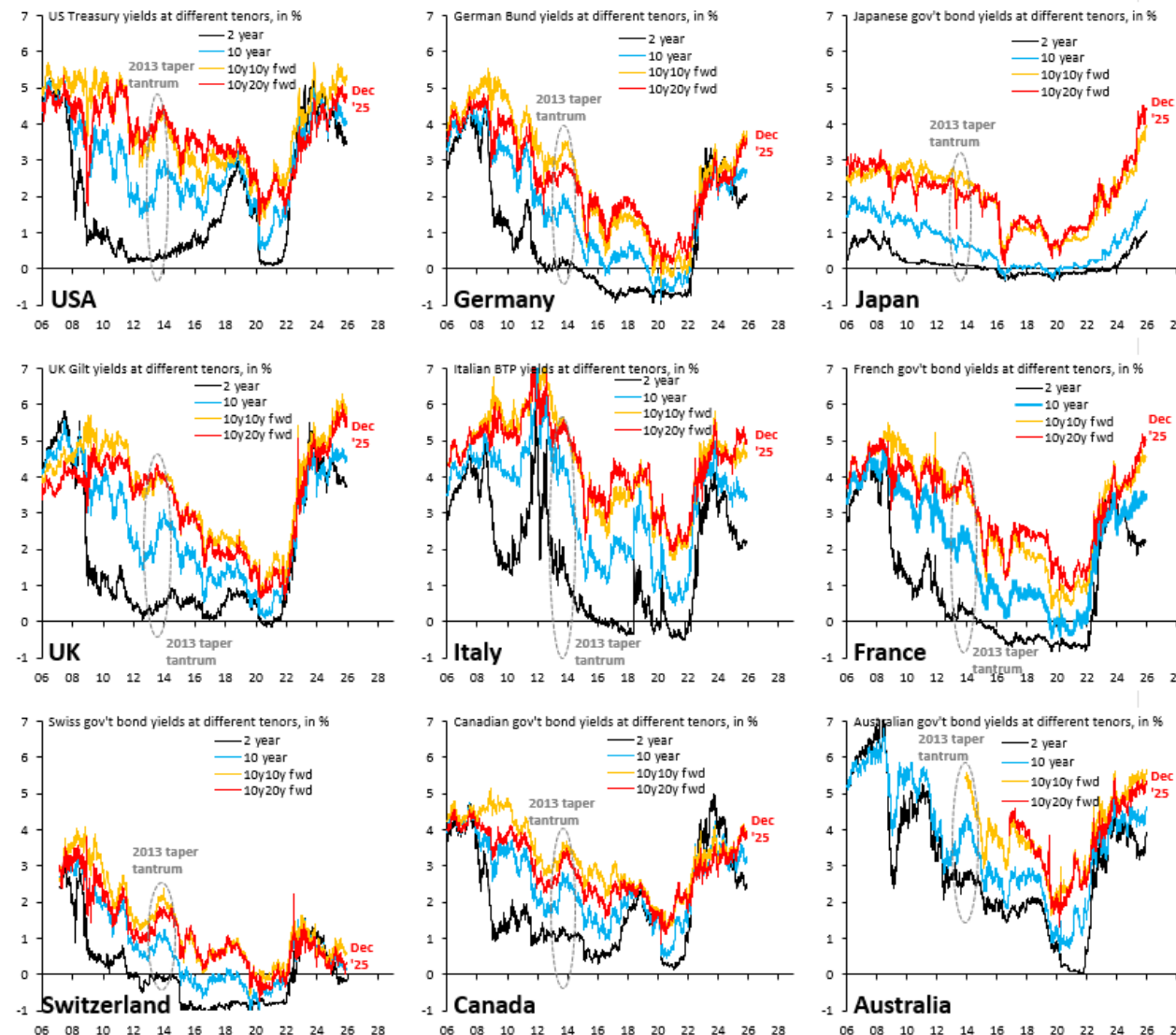
# Global debt markets: further steepening of curves

Since the beginning of this year, we have been noting a growing divergence between short- and long-term interest rates around the world. Despite the advanced global cycle of monetary policy easing, long-term yields in most developed countries are not falling significantly, and measures of forward yields are actually rising, which seems to reflect growing concerns about long-term fiscal stability.

Among the reasons for this situation are fiscal expansion and growing debt supplies, accompanied by concerns about political stability in some developed countries.

Recently, the Bank of Japan has also contributed to this trend. Contrary to the prevailing global trend, it is currently tightening its monetary policy, which reduces the attractiveness of carry trades and for Japanese investors (whose presence in many local markets is significant) reduces the relative attractiveness of investing in bonds denominated in currencies other than the yen.

**We assume that 2026 may bring no significant reversal of these trends, and that ongoing fiscal expansion in many countries and (geo)political uncertainty may even strengthen the risk premium in long-term bond valuations.**

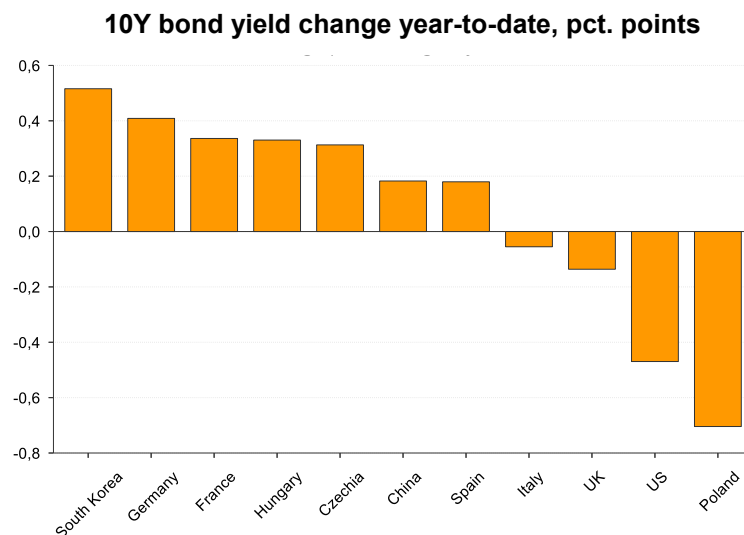


Source: Robin Brooks, <https://robinjbrooks.substack.com/p/the-global-debt-crisis-builds>

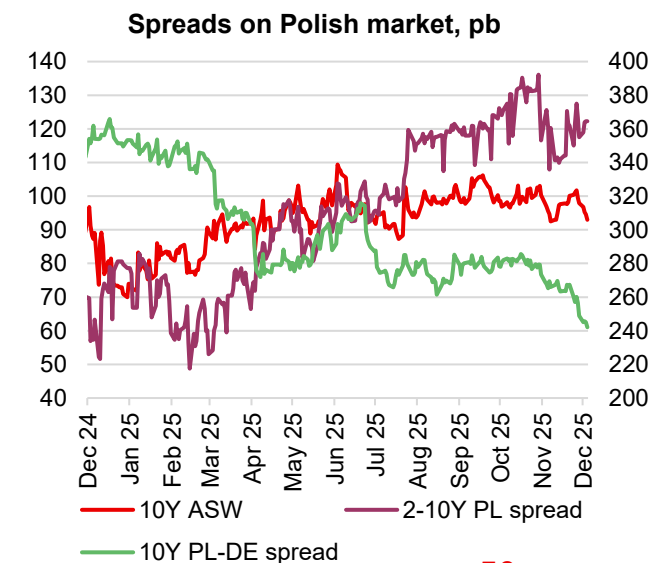
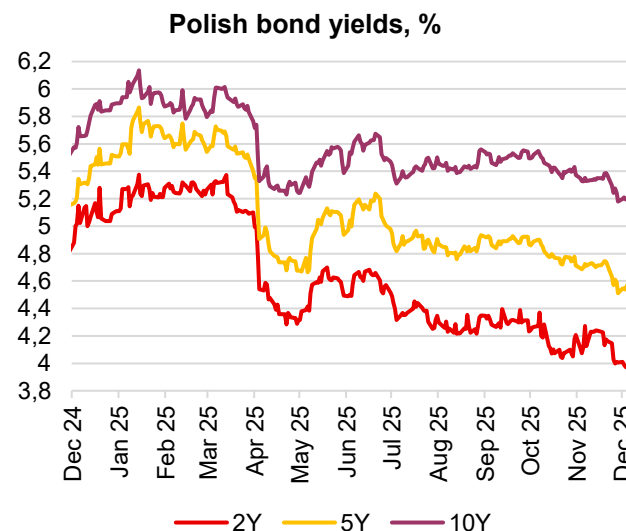
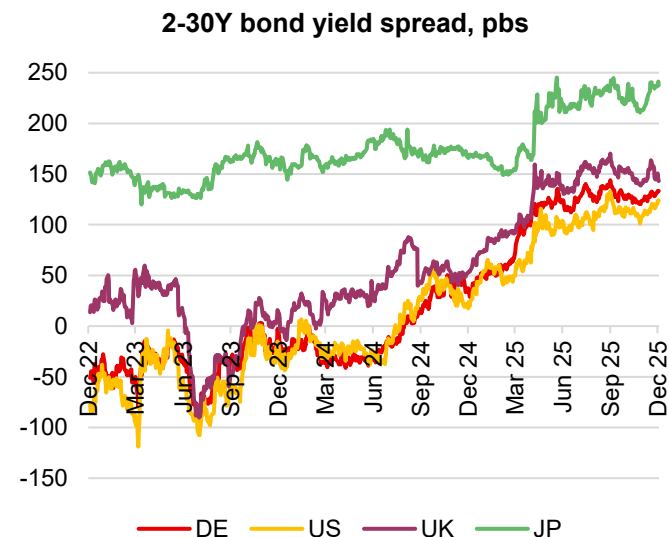
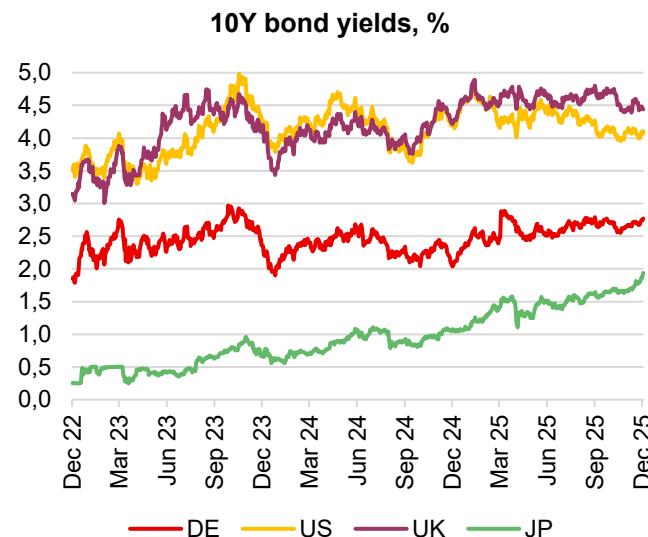
# Local debt market: as good as it gets

Polish bonds have clearly bucked global trends this year, recording significant declines in yields despite the deterioration in the fiscal trajectory forecast for the coming years and the decision by rating agencies to downgrade the rating outlook to negative.

We see opportunities for further strengthening of domestic debt in a scenario of a truce in Ukraine, which would remove the geopolitical risk premium from all assets in the region, and/or significant Fed interest rate cuts, which would generate global risk appetite. Without these factors, it seems that the potential for a decline in yields at the long end of the curve has already been largely exhausted, given the trends in the core markets. **We still see room for a decline in short-term yields and a further steepening of the curve in response to further NBP rate cuts (see [p. 51](#)).**



Source: LSEG Datastream



Source: LSEG Datastream, Santander



# Curve steepening: how much more?

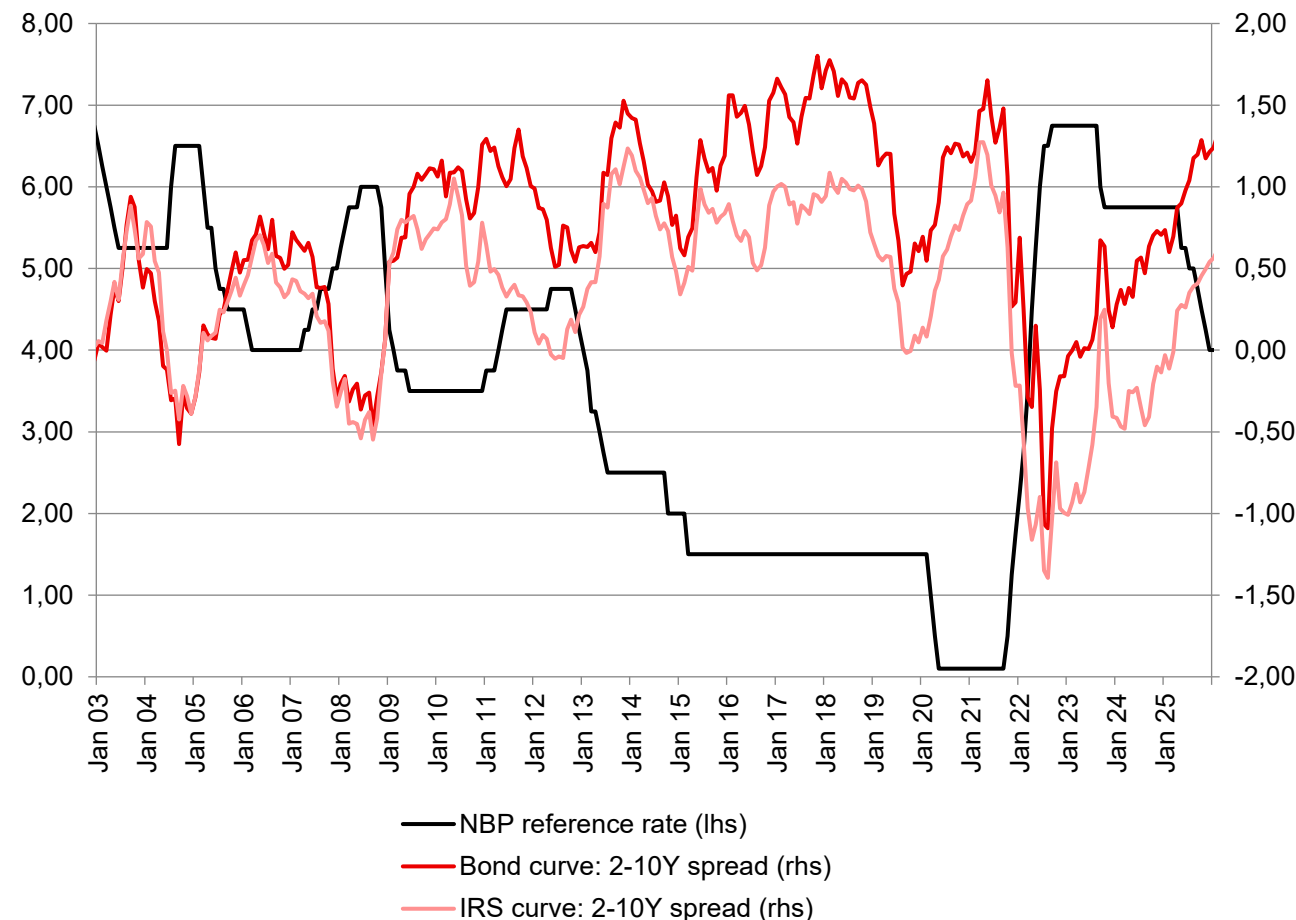
History shows that during cycles of monetary policy tightening, the yield curve flattens (the difference between long- and short-term interest rates/yields decreases), while during periods of central bank policy easing, the opposite process occurs, i.e. the curve steepens.

The change between the two phases usually occurs only when the market becomes fully convinced that the cycle of NBP rate cuts/hikes has ended and that subsequent central bank decisions will move in the opposite direction.

Currently, the prevailing view is that NBP interest rates have not yet reached their target level – the market is pricing in a decline to 3.5%, but there are also opinions that the scale of the cuts may be greater. We therefore assume that the steepening phase of the curve is not over, especially as the 2-10L slope is still lower than that observed in the years before the Covid-19 pandemic.

**Current concerns in global markets about long-term fiscal stability may mean that the steepening trend in the bond curve will be longer/stronger than in the case of the swap curve. We do not expect a reversal of the trend until the second half of 2026.**

NBP reference rate vs 2-10Y spread for bonds and IRS rates



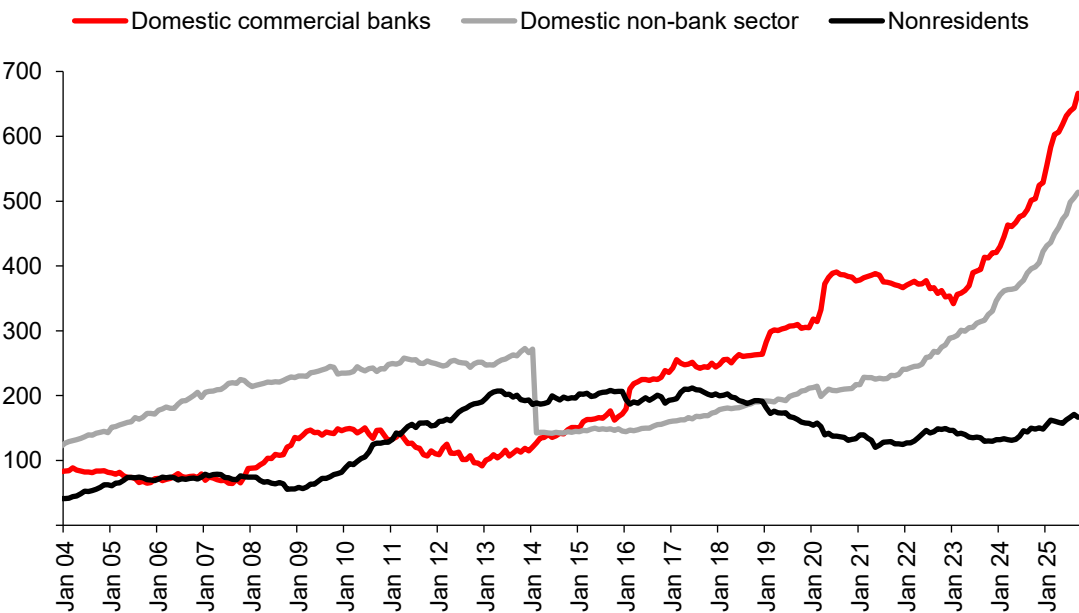


# Domestic investors dominated demand for bonds

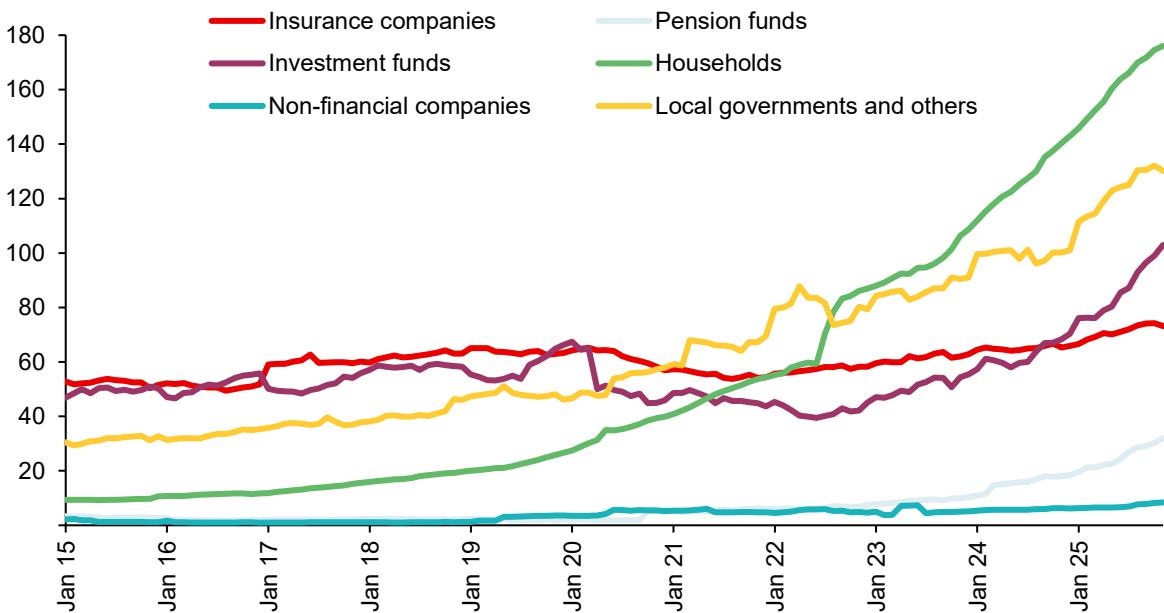
High debt issuance is increasingly absorbed by domestic entities. The share of non-residents in total government debt shrank to around 28% at the end of the third quarter, and their share in domestic marketable treasury securities to 12% – in both cases, these are the lowest levels in history.

Domestic commercial banks remain the most important buyers of domestic bonds, which is supported by the elevated excess liquidity in the banking sector, generated, among other things, by a steady inflow of foreign currency under the EU funds. Demand from domestic non-bank entities is also growing strongly. Retail bond purchases by households slowed down slightly, but the inflow of funds into investment funds accelerated, which translated into growing demand from this segment. We assume that similar trends will continue in the coming quarters, although the growth of household and investment fund portfolios may be more modest due to (a) our assumption of slower growth in household income and a decline in the savings rate, (b) the planned introduction of a new OKI product, which may redirect at least part of the private portfolio towards stock market assets.

Local treasury securities held by investor groups, PLN bn



Local treasury securities held by domestic non-bank sector, PLN bn



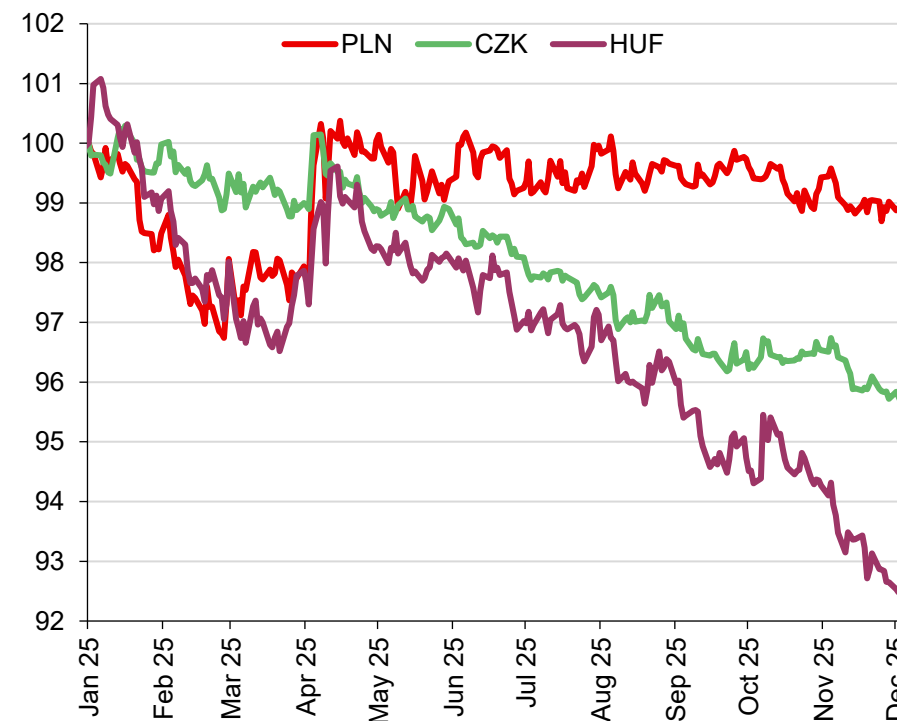
# PLN: a bit stronger, but still stable

Talks about the peace plan for Ukraine have once again made headlines, which we believe is one of the main reasons for the narrowing of risk premiums in the Central and Eastern European region in recent weeks.

According to Polymarket, the chances of a ceasefire between Russia and Ukraine by the end of 2026 rose to 55-57% at the turn of November and December, which is still well below the peak of 72% recorded just before the Trump-Putin meeting in Alaska in mid-August, but significantly above the level of the past few months. The EURPLN exchange rate has been muted for now, with the Polish currency still performing slightly worse than other CEE currencies. However, a slight shift from the sideways trend observed in previous months was visible, with the EURPLN rate attempting to break below the 4.22 level several times, unsuccessfully so far.

We continue to believe that a credible signal of a possible ceasefire or armistice between Russia and Ukraine in the near future would trigger a more significant appreciation of the zloty. However, we remain cautious about this prospect in the near future. Meanwhile, Poland has been experiencing repeated acts of sabotage against critical infrastructure (most recently, an attempt to damage railway tracks), which the government attributes to Russia. In our view, if such incidents persist, it would suggest that geopolitical risks in the region are increasing rather than decreasing, limiting the room for currency appreciation.

PLN, CZK and HUF exchange rates against EUR, 1/01/2025=100



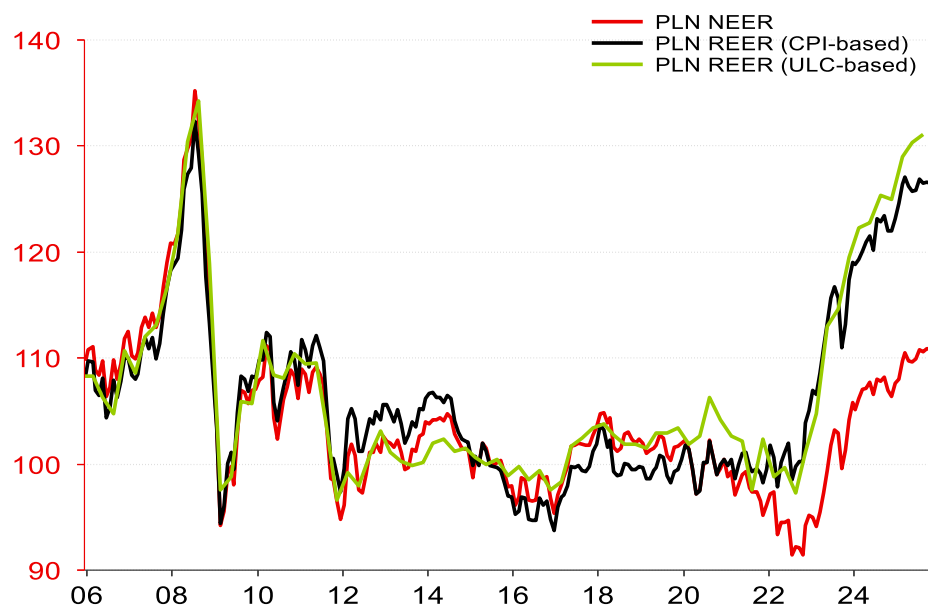
Source: LSEG Datastream, Santander



# PLN: we expect further stabilisation

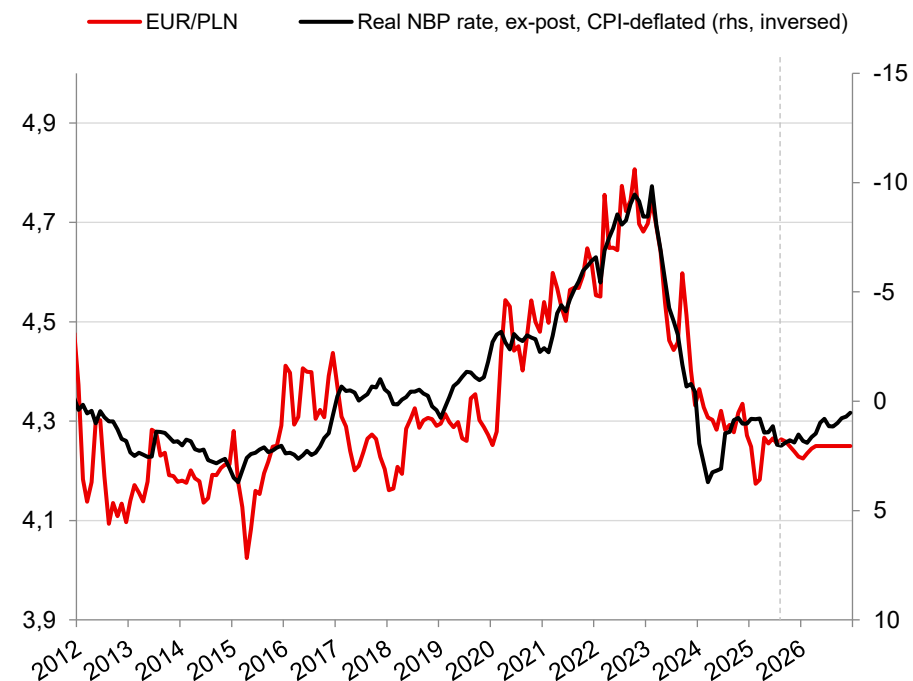
We continue to believe the Polish currency will remain fairly stable in the coming months, although we have slightly lowered our EURPLN target to 4.25, reflecting market developments in recent weeks. The positive impact of resilient domestic economic growth and the likely end of the NBP interest rate cuts will, in our view, be offset by persistent geopolitical uncertainty, a gradually widening current account imbalance, and expansionary fiscal policy (with the highest general government deficit in the EU in 2026).

Indices of nominal (NEER) and real (REER) effective PLN exchange rate



Source: LSEG Datastream, Santander

EURPLN vs real NBP interest rate



Source: LSEG Datastream, Santander

# Forecasts

6





# Economic Forecasts

		2023	2024	2025	2026	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	3Q26	4Q26
GDP	PLNbn	3 415.3	3 653.4	3 870.7	4 109.5	893.2	928.3	970.6	1 078.6	947.0	985.4	1 031.0	1 146.1
GDP	% y/y	0.2	3.0	3.6	3.9	3.2	3.3	3.8	3.9	4.1	3.9	4.0	3.8
Domestic demand	% y/y	-3.0	4.5	3.9	5.4	4.3	4.1	3.7	3.7	4.9	5.3	5.8	5.4
Private consumption	% y/y	-0.3	2.9	3.5	3.5	2.6	4.5	3.5	3.5	3.5	3.0	4.0	3.5
Fixed investment	% y/y	12.7	-0.9	5.6	11.1	6.4	-0.7	7.1	8.0	8.0	12.0	11.0	12.0
Industrial output	% y/y	-2.1	1.1	2.3	4.4	-0.1	1.6	3.9	3.9	6.0	5.1	3.2	3.2
Construction output	% y/y	4.8	-7.6	0.0	10.5	0.9	-1.4	-1.7	1.9	6.8	11.9	13.7	9.0
Retail sales (real terms)	% y/y	-3.6	3.2	3.8	2.5	1.1	4.6	4.5	4.8	0.8	2.4	3.9	2.5
Gross wages in national economy	% y/y	12.8	13.7	8.4	6.0	10.0	8.8	7.5	7.3	6.5	5.9	6.0	5.8
Employment in national economy	% y/y	0.6	0.2	-0.1	0.0	0.0	0.0	-0.3	-0.1	-0.1	-0.1	0.1	0.3
Unemployment rate *	%	5.1	5.1	5.7	5.7	5.3	5.2	5.6	5.7	6.0	5.6	5.6	5.7
Current account balance	EURmn	11 591	2 616	-10 677	-22 010	-1 057	-1 623	-4 935	-3 062	-2 804	-4 213	-7 979	-7 014
Current account balance	% GDP	1.5	0.3	-1.2	-2.3	-0.4	-0.7	-0.9	-1.2	-1.3	-1.6	-1.9	-2.3
General government balance (ESA 2010)	% GDP	-5.2	-6.5	-6.9	-6.5	-	-	-	-	-	-	-	-
CPI	% y/y	11.6	3.6	3.6	2.5	4.9	4.1	3.0	2.6	2.1	2.5	2.4	2.8
CPI *	% y/y	6.2	4.7	2.6	3.0	4.9	4.1	2.9	2.6	2.2	2.7	2.5	3.0
CPI excluding food and energy prices	% y/y	10.2	4.3	3.3	2.3	3.6	3.4	3.2	2.8	2.3	2.3	2.1	2.5

\* End of period; other variables – average in period  
All shaded areas represent Santander's estimates

Source: GUS, NBP, Santander





# Market Forecasts

		2023	2024	2025	2026	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	3Q26	4Q26
Reference rate *	%	5.75	5.75	4.00	3.50	5.75	5.25	4.75	4.00	3.75	3.50	3.50	3.50
WIBOR 3M	%	6.52	5.86	5.11	3.80	5.86	5.35	4.88	4.34	4.02	3.78	3.70	3.70
Yield on 2-year T-bonds	%	5.67	5.05	4.55	3.97	5.24	4.54	4.31	4.10	3.96	3.95	3.99	3.97
Yield on 5-year T-bonds	%	5.66	5.33	5.04	4.68	5.63	4.97	4.87	4.68	4.61	4.68	4.72	4.71
Yield on 10-year T-bonds	%	5.83	5.55	5.54	5.33	5.92	5.46	5.45	5.32	5.28	5.39	5.38	5.26
2-year IRS	%	5.63	5.22	4.33	3.75	5.13	4.24	4.09	3.85	3.73	3.75	3.76	3.76
5-year IRS	%	5.01	4.80	4.28	3.98	4.90	4.16	4.11	3.97	3.94	4.00	4.00	4.00
10-year IRS	%	5.10	4.90	4.60	4.41	5.08	4.50	4.47	4.35	4.36	4.48	4.45	4.35
EUR/PLN	PLN	4.54	4.31	4.24	4.25	4.20	4.26	4.26	4.24	4.24	4.25	4.25	4.25
USD/PLN	PLN	4.20	3.98	3.76	3.75	3.99	3.76	3.65	3.66	3.68	3.74	3.78	3.79
CHF/PLN	PLN	4.68	4.52	4.52	4.22	4.44	4.55	4.55	4.54	4.32	4.21	4.19	4.17
GBP/PLN	PLN	5.22	5.09	4.95	4.82	5.03	5.02	4.92	4.83	4.79	4.83	4.83	4.83

\* End of period; other variables – average in period  
All shaded areas represent Santander's estimates

Source: NBP, Bloomberg, Santander

This analysis is based on information available until **8.12.2025** has been prepared by:

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