MACROscope

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Against the trends

Poland: 2024 Outlook

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Santander

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Executive Summary (macro)

For several quarters, global economic activity has remained subdued and, in our view, will not fundamentally improve in 2024. We are still not expecting a hard landing of the major economies, but in a high interest rate environment it is also difficult to hope for a strong recovery. We see the early signs signalling that the global manufacturing may be soon turning the corner, aided by decongesting supply chains, cheaper energy and raw materials, lower transport costs, rising consumer purchasing power, and the reversal of the inventory cycle. We share the currently prevailing view that Germany and the euro will experience only a slight improvement in GDP growth, while the US will undergo a moderate slowdown.

The difficult international environment will be a challenge for Polish exporters, who will at the same time struggle to maintain price competitiveness, being confronted with the strengthening zloty, rapidly rising labour costs and relatively expensive energy. However, this should not prevent the domestic economy from accelerating to around 3%. The main driver of the economy will be domestic demand, supported by a solid recovery in consumption, further (albeit slightly slower) investment growth and the end of the sharp reduction of excess inventories. The expected post-election changes to economic policy (rises for the public sector workers and teachers, unlocking the RRF, extending the protective measures related to energy and fuel prices) shift the balance of demand-side risks towards a faster recovery, and would prompt us to raise our GDP forecast, were it not for the economic risks abroad. We continue to believe that the Polish economy should be a beneficiary of the global reconstruction of supply chains, which should result in a solid inflow of foreign investment, stabilising economic growth in the coming years.

The economy's return to growth is supporting sustained demand for workers, record low unemployment and high wage growth. The structural labour shortage and regulatory changes (another strong rise of the minimum wage, solid rises in the public sector) will keep wage growth at double-digits.

In such environment, further disinflation will become increasingly difficult. Until recently, we had assumed that inflation would stabilise near 6-7% in 2024, but the extension of the anti-inflationary shields will temporarily lower this forecast by 3 percentage points and allow CPI to fall to around 3% y/y by the end of 1Q24. The expiration of the shields will push the inflation rate back towards 6-7% in 2H24 and delay its return to the target, which should be reflected in the next NBP projections.

The Monetary Policy Council, which in September and October boldly cut interest rates by a total of 100 bps on the claims that high inflation was beaten, has clearly lost the enthusiasm for easing after the parliamentary elections, quoting uncertainty about the new government's policies as the reason. We assume that in the new reality, the central bank will be much more focused on inflation risks than before, and therefore the temporary drop in the CPI will not be an argument to resume the cycle of cuts. The central bank's policy may be further stiffened by the conflict with the government, which is underpinned by the declarations to hold the NBP governor accountable for past actions. We assume that the reference rate will remain unchanged until the end of 3Q24, and will be cut twice by 25 bps only at the end of the year.

National politics is unlikely to be quiet and calm, with the new coalition government facing a number of challenges, the first of which will be unblocking the EU funds and passing the budget for 2024. The latter will be a challenge not only because of the size of the deficit (which will increase due to additional spending, not included in the draft from late August) but also due to the pace of work set by constitutional deadlines. All of this will have to be done, while trying to get along with the president and institutional officials stemming from the opposing political camp, and while running an almost non-stop election campaign - with local elections in April, European elections in June and the campaign before the presidential ones likely beginning in autumn. These conditions mean that, in our view, fiscal consolidation should not be expected to take place in the coming year, and the balance of public finances in 2024 will likely be closer to this year’s level (over 5% of GDP).

In general, our expectations for the Polish economy in 2024 go against global trends: GDP growth is about to accelerate despite stagnation in the euro zone, CPI inflation will rebound in 2Q24 despite disinflation abroad, NBP's monetary policy rhetoric will remain more hawkish than that of the Fed and the ECB through most of the year.

Executive Summary (markets)

FX market

We expect a strong zloty in the coming year. It will be favoured by the late resumption of rate cuts by the NBP, which we assume only at the end of 2024, the weakening of the dollar towards 1.15 per euro, larger inflows of EU funds than we assumed before the elections. The constraint for a significant and sustained appreciation of the zloty will be the export break-even rate, which according to the latest NBP survey, is near 4.25. The inflows of EU funds will be so large that, in order to avoid excessive appreciation, the Ministry of Finance could decide to redirect a larger portion of the funds to the NBP. Geopolitical risks will not disappear from the radar, and may in fact become relevant again.

The war in Ukraine has no longer been a forefront topic for the past year, but who knows if it will not return as one of the important risks, especially if the West were to lose its resolve to support the Ukrainian army. The US presidential election in the autumn of 2024 will be an important event in this regard. In the background, the development of the Middle East conflict and possible US-China tensions are difficult to predict. A potential risk factor for the zloty would be a significant change in the Bank of Japan's policy, or early interest rate cuts by the NBP.

Interest rate market

The end of 2023 was marked by declines in long-term yields domestically and in the core markets, which may have been helped by the expectation of an imminent interest rate cut cycle. The first weeks of the year may see an upward correction in market rates on the back of a unwinding of the large scale of the recent appreciation. However, a further decline in inflation by March-April could shift the curve downwards again, particularly at the short end. Later in the year, we expect a gradual decline in rates with a steepening of the curve in anticipation of the start of an easing cycle. Over the course of the year, the steepening of the curve and higher long-term yields may be supported by a high budget deficit and an increase in borrowing needs, as well as stronger GDP growth and inflation, which in our scenario is well above consensus.

2023 Forecasts in rear view mirror

Indicator	Our view in December 2022	Outcome
GDP	In our view, 1Q2023 will be the trough of the mini-recession, and then the economy will gradually rebound. A weak starting point (opposite to the 2022 situation) will weigh on the average annual growth rate, which we forecast to be close to zero.	The cycle's trough was indeed passed at the beginning of the year and was slightly more shallow than we assumed a year ago. The annual average GDP growth in 2023 will likely be marginally zero, but the second half of the year is marked by recovering activity, mainly in the domestic demand.
GDP breakdown	Consumption will be the most resilient component of demand, but will also slow markedly. Investment will fall, as will exports and imports, affected by the global recession, but the contribution of net exports to GDP will be positive, as in 2022. The contribution of inventories to GDP will be clearly negative.	Contrary to our expectations, investments were characterised by the greatest resilience, while consumer demand dimmed in the first half of the year more than we had thought. The positive contribution of net exports and the negative of inventories was in line with our forecast.
Labour market	The economic downturn and the worsening corporate performance will translate into a decline in demand for employees. However, the scale of redundancies and the increase in unemployment should be moderate. Wage dynamics will be similar on to 2022 average. A stronger deceleration will be prevented by an jump in the minimum wage by c20% in total.	Layoffs in industry were more than compensated for in other sectors (services, the public sector), preventing unemployment from rising. Nominal wages rose even slightly more than in 2022.
Inflation	After peaking in February (slightly above 20% y/y), inflation should slide later in the year, but we do not expect a drop below 10% until 2024. Core inflation to remain in a similar disinflationary trend and to decline to around 6% by the end of 2023.	The February peak of inflation was lower (18.4% y/y) and the following disinflation faster than expected, which resulted from strong zloty, fast normalisation of commodity prices, firms' reductions of excess inventories (even at the cost of lower mark-ups), and the pre-election actions of the government and state-owned companies.
Monetary policy	The MPC accepts a postponed return of inflation to target and no longer intends to raise interest rates. However, our scenario implies that there are no conditions to start rate cuts, at least until the end of 2023.	The MPC surprised before the elections by delivering in total 100 bps of cuts at the policy meetings in September and October, and announcing that inflation had been defeated. After the elections, the mood for cuts was gone, even though CPI kept declining.
Fiscal policy	The draft budget assumes an increase in the fiscal deficit to 4.5% of GDP but we estimated the actual one will be slightly higher (over 5%) due to new spending related to the energy crisis.	In line with the scenario. GG deficit will likely exceed 5% of GDP in 2023.
Fixed income market	We expect the downward trend in domestic bond yields to continue, supported by disinflationary processes in Poland and abroad - even if this process was to be much slower domestically. A temporary increase in yields is possible in the first months of next year.	The decline in yields was stronger than we had expected, despite rising yields abroad for the better part of the year. Strengthening of domestic debt was supported by quick disinflation, strong expectations of cuts by the NBP, and, in the last quarter, the positive response of investors to the outcome of the elections.
FX market	The first months of 2023 may be difficult for the zloty (the recession trough), but we assume that in the later part of the year the domestic market liquidity situation and the gradual improvement in global investment sentiment will have a dominant impact on the zloty, leading to its gradual appreciation.	The appreciation of the zloty was faster and more pronounced that we had expected, and was later interrupted by the sudden rate cut by the NBP in September. In response to the outcome of the elections, EURPLN returned to the levels observed before the beginning of the Covid-19 pandemic.

2024: Forecasts and main risks

Indicator	Our view (in a nutshell)	Main risks
GDP	Another year of weak economic conditions abroad. Despite the unfavourable international environment, we expect stable GDP growth of around 3% y/y, driven by domestic demand. Our forecast is still above consensus, which, however, started to move upwards after the parliamentary elections. We would also consider raising our forecast if it were not for the weakness of the German economy.	The post-election change in economic policy (wage rises in the public sector and for teachers, unlocking the RRF, extension of protective measures on energy and fuel prices) shifts the balance of risks towards faster growth. The biggest risk on the negative side appears to be the economic weakness in the euro area. Geopolitical scenarios (Ukraine, Middle East, Taiwan) remain difficult to predict.
GDP breakdown	Weakness in the euro area and the strong zloty will make for a difficult year for exporters. Balance of trade will worsen as imports rebound with domestic demand. Consumption will be the main driver of the recovery, and investments will remain in an upward trend, although advancing slower than recently. Reversal of the inventory cycle should support industry but hinder disinflation.	The chances of unlocking EU funds have, in our view, increased strongly, but if unlocking them proves more difficult, investments could be negatively affected. On the other side, we see the chances of higher investment inflows due to the change in political alignment. A recovery in consumption could be hindered by an escalation of geopolitical risks.
Labour market	The economic rebound suggests that demand for workers will not slow down. Unemployment will remain at the record low. Because of the increase of the minimum wage by another 20% and solid increases in the public sector average wage growth in the economy will remain in double digits.	Falling margins may prompt some companies to restructure their workforce. A possible deepening of the recession in European industry could eventually start to spill over to other sectors.
Inflation	Disinflation will slow down, but CPI may still fall at the beginning of the year due to the extension of frozen electricity prices and zero VAT on food. In the second half of the year, we expect inflation to return to 6-7%. External environment is favourable for disinflation of commodity prices, but prices of services remain stubborn. Inflation's return to the target is not moving any closer.	Downside risks: weakness of the global economy and further declines in commodity prices, strengthening of the zloty. Upside risks: stronger-than-expected recovery in demand, secondary effects of strong consumption and exceptionally strong labour market, new wave of increases in the prices of commodities, energy and food.
Monetary policy	After the elections, the central bank became far more focused on inflation than on GDP growth and unemployment. Rates will remain unchanged until 4Q24, with two rate cuts, 25 bps each, possible at the end of the year.	Rapid interest rate cuts abroad and further appreciation of the zloty would increase the likelihood of the NBP returning to cuts. On the hand, an escalation of the conflict between the government and the NBP could stiffen monetary policy.
Fiscal policy	Negligible chance of accelerated fiscal consolidation after the change of the government, due to the electoral calendar and the previous government's additional spending, among other factors. Fiscal policy will support GDP recovery, but will not tame inflationary pressures.	The push to accelerate fiscal consolidation could come from a negative financial market reaction to the announcement of an increase in the deficit. Faster-than-expected nominal GDP growth could support revenues.
Fixed income market	An upward adjustment in market rates, especially short-term swap rates and bonds, may take place at the beginning of the year, thanks to distant rate cuts and large issues. However, the size of adjustment may be reduced by low inflation. Later in the year, we expect a gradual decline in rates as the curve steepens.	The main risk factors are a much higher budget deficit and an increase in borrowing needs, as well as stronger GDP growth and inflation, which is still well above consensus in our scenario.
FX market	In the coming year, we expect a strong and relatively stable zloty, which may be supported by late rate cuts, weaker dollar and higher inflows of EU funds. The threshold exchange rate for profitable exports will constraint the appreciation.	An intensification of geopolitical risks in the region, a significant change in the policy of the Bank of Japan, and sooner interest rate cuts by the NBP could hurt the zloty.

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Economic growth

1

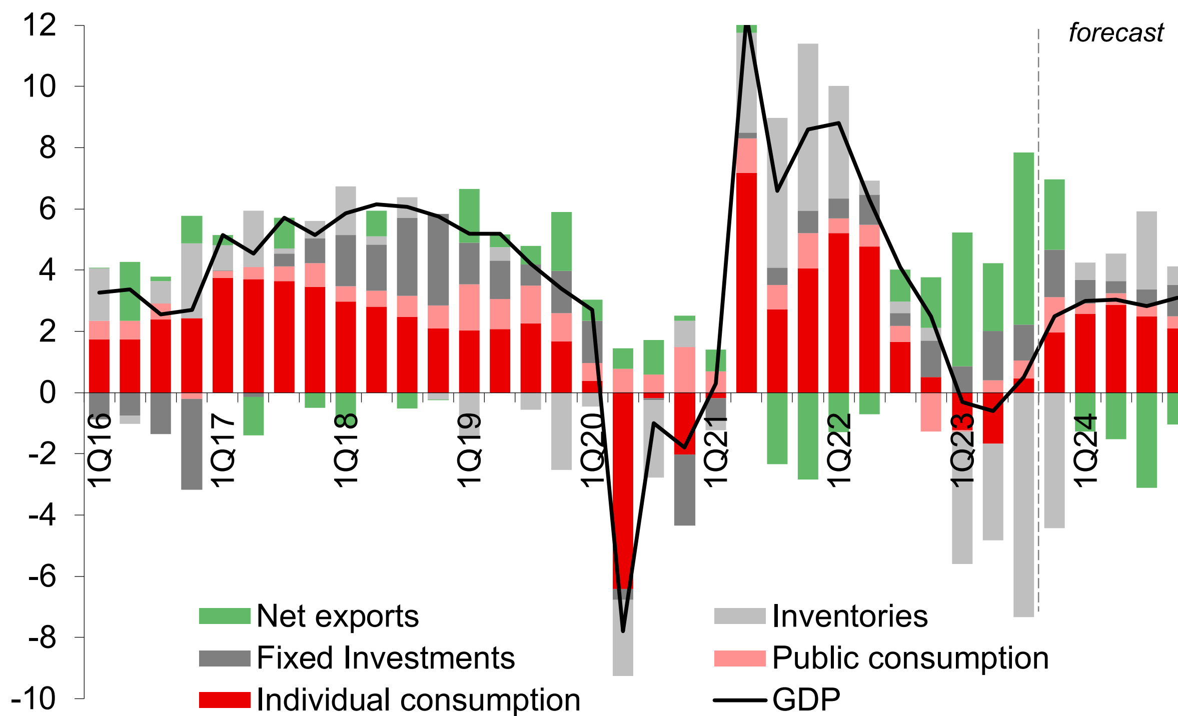
The Polish economy passed the cycle’s trough (1/2)

The Polish economy passed another turning point in the business cycle and, after a few quarters of slowdown caused by the Russian invasion on Ukraine and by the energy crisis, entered a new period of growth, roughly in line with the scenario we have been forecasting for over a year.

When exactly was this turning point achieved, remains up for discussion, as different indicators suggest slightly different answers.

The annual GDP growth rate recorded the local minimum of -0.6% y/y in the second quarter of 2023 – using this measure, the downturn was slightly more shallow and stretched in time than we anticipated a year ago.

However, it has to be underlined that under distortionary shocks and frequent changes in the trend, annual growth rates are not the best indicators of turning points, as they are susceptible to the so-called statistical base effects.



Source: GUS, Santander

The Polish economy passed the cycle's trough (2/2)

Theoretically, seasonally adjusted quarterly GDP data should perform better under these circumstances. These, however, need to be treated with caution, as they have shown exceptional volatility over the past quarters and have been subject to significant revisions that have considerably changed the trend picture.

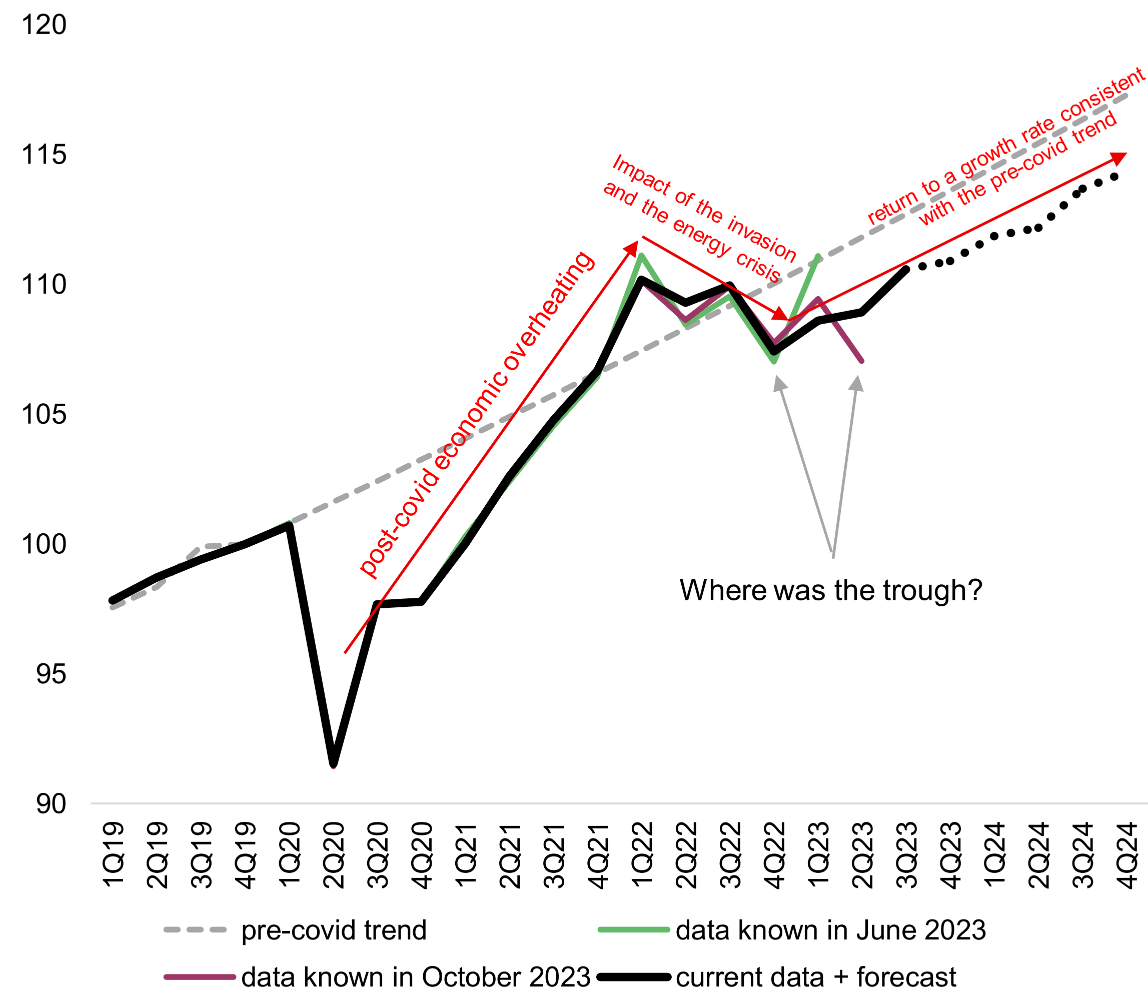
The statistical office seems to have had difficulty in correctly identifying the changes in seasonality that have followed the disturbances of the last three years. However, it seems that with subsequent revisions the data are getting closer and closer to the actual trends in the economy.

The currently available seasonally adjusted GDP data indicate that, in principle, from the beginning of 2023, economic activity in Poland has already started to grow at a rate more or less consistent with the pre-pandemic trend (c. 3% per year).

We assume that this trend will be maintained and, as a result, once the high base effects subside, the annual GDP growth should also converge to 3% in the subsequent quarters.

The acceleration of growth despite the unfavourable international environment (in particular the weakness of the euro area's economies) will be possible thanks to an increase in domestic demand.

Consumption will play a key role, investments will increase (although slower than this year), and the sharp reduction in inventories will come to an end. This scenario should be supported by the actions of the new government: rapid unblocking of funds from the RRF, wage increases in the public sector, a better business climate favourable for domestic and foreign investments, and in the background, global reshoring from which Poland should stand to benefit.



Source: GUS, Santander

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… but components of demand are in diverging phases

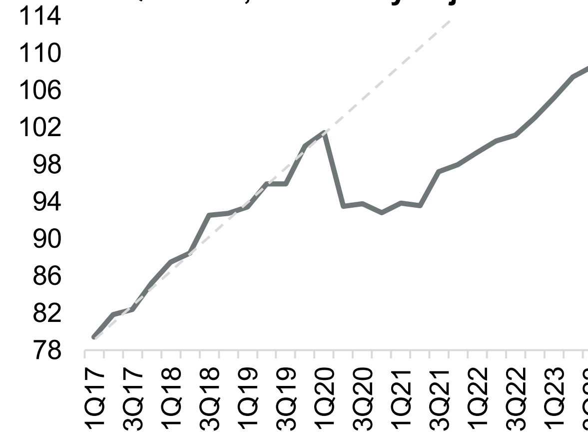
The different components of demand are in completely different phases of the cycle.

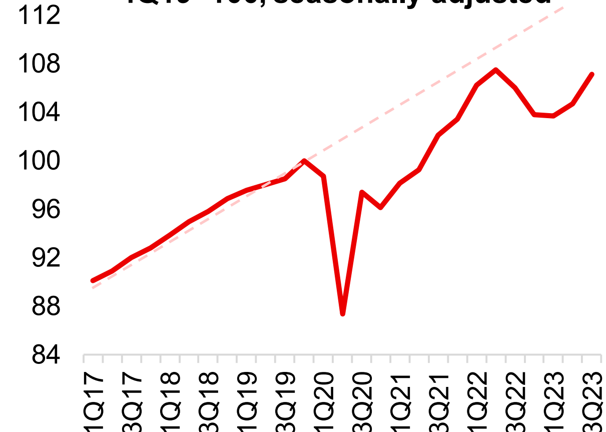
Investments have been in a strong post-pandemic expansion phase for two years. In our view, their upward trend will continue in the coming quarters, although at a slightly slower pace (details: p.19).

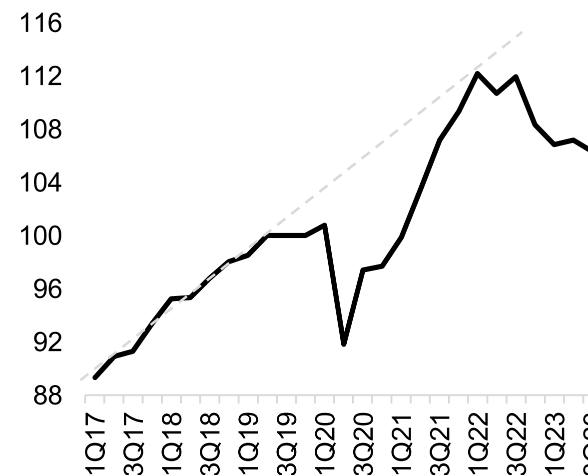
Consumption, after a strong bump in the second half of 2022, has only started to rebound in the middle of the year. Next year, it is consumer demand that we believe will be the main driver of the economy's recovery (p.17), supported by the exceptional resilience of the labour market (p.34), real income growth, and credit recovery (p.32).

Despite the increase in consumption and investment, total domestic demand is still clearly declining, possibly due to the accelerated reduction of inventories (accumulated excessively during the 2021-22 recovery phase). We estimate that the inventory correction phase may be coming to an end (p.12), implying on the one hand a better outlook for GDP and industry (as current demand will be met using new production), and on the other a less favourable environment for further disinflation.

In addition to inventories, foreign trade turnover has recently slumped sharply, which is easily attributed to weakness in foreign and domestic demand, and net exports have improved markedly, supporting GDP growth. However, the magnitude of the decline in imports at constant prices is staggering, comparable to the collapse in the middle of the Covid-19 crisis, and in our view may be related to a misestimated deflator (which may be corrected in future revisions of the data). In the coming quarters, we expect a renewed deterioration of the foreign exchange balance - exports will remain under pressure due to the weakness of the European economy, while imports should rebound as consumption and investments increase (p.27).







Source: GUS, Santander

Turning point in inventories ahead?

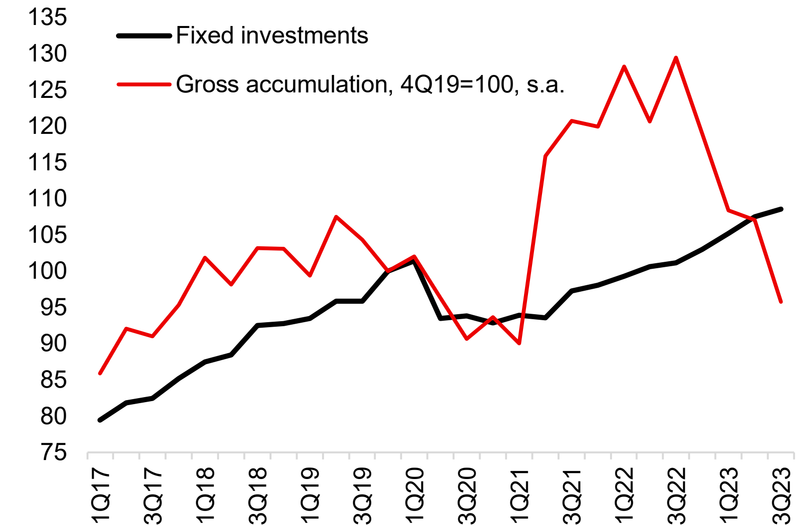
The period from 2021 to 2022 saw a massive accumulation of inventories, driven by a strong recovery in demand after the pandemic, widespread expectations that the positive trend would continue for longer, and concerns about possible recurrent disruptions to supply chains.

Shortly after, demand for goods dimmed (partially shifting to services), supply channels were cleared and companies realised that maintaining high inventories in a high interest rate environment was very costly. In early 2023, a phase of hasty inventory correction began, with two important consequences: first, a collapse in industry - emptying warehouses meant less demand for new production; second, accelerated disinflation – in order to get rid of excess goods, companies were willing to accept lower margins and prices.

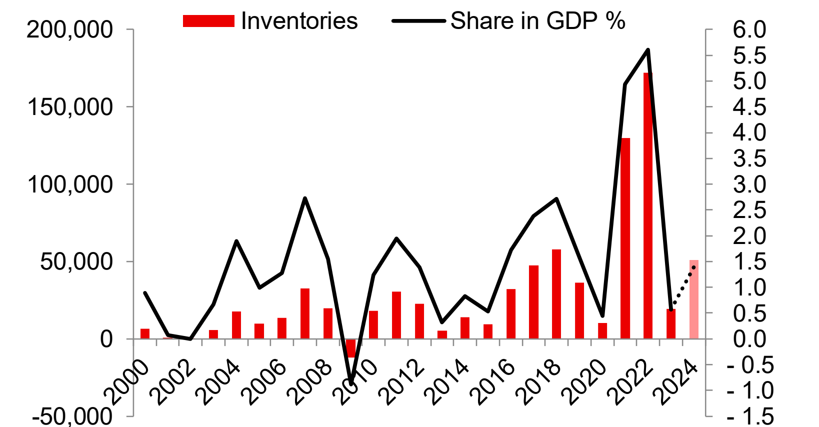
We see reason to believe that the cycle of rapid inventory reductions is coming to an end. Gross accumulation (which includes gross investment and working capital growth) returned in 3Q below pre-pandemic levels (index in constant prices, seasonally adjusted). As investment rose by almost 10% during this period, this suggests that real stock levels have already more than corrected the entire post-pandemic increase. The nominal level of inventories as a share of GDP has also returned near its multi-year average after the third quarter, and is likely to fall well below this level (to 0.6%) by the end of the year.

Signals of a reversal in the inventory cycle appear also in PMI surveys.

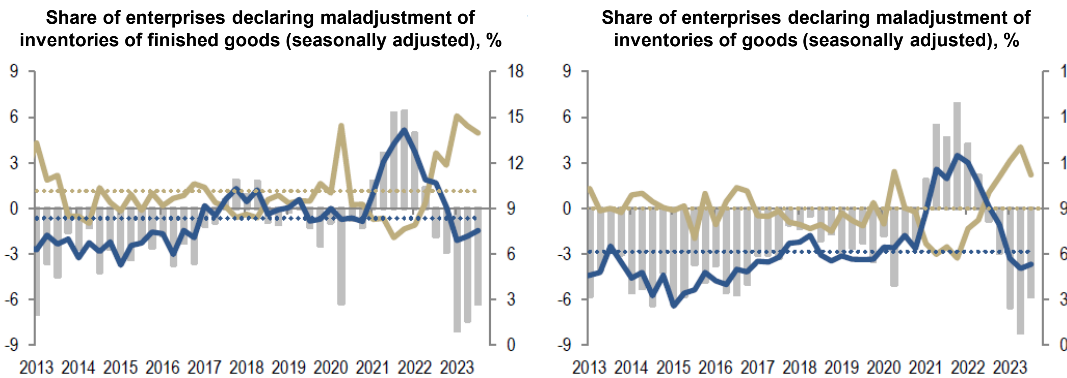
In contrast, the results of the NBP's Quick Monitoring suggest that most companies still rate inventories as excessive.



Source: GUS, Santander



Source: GUS, Santander



Source: NBP Quick Monitoring, Santander

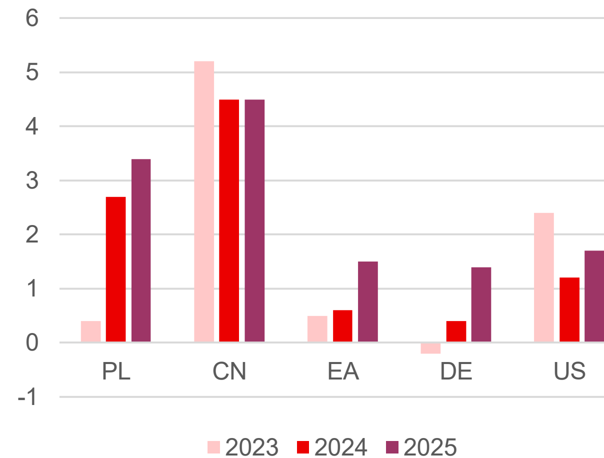
The global economy is stagnant…

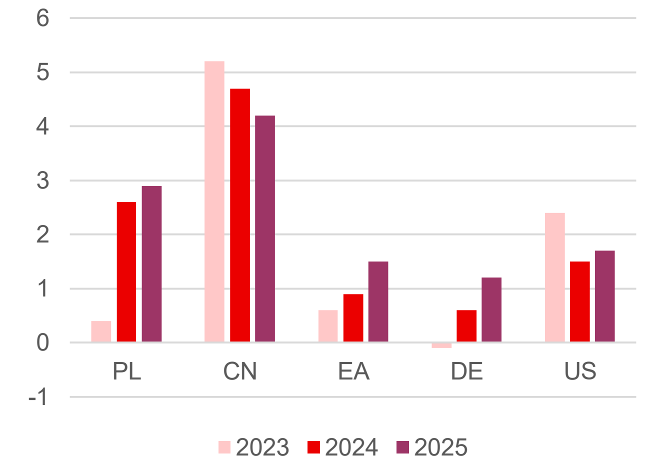
The outlook for the global economy remains cloudy. While we do not expect the recessionary trends to exacerbate in 2024, we are also not counting on a meaningful recovery, particularly in the euro zone, which is struggling with a structural reduction in industrial competitiveness after it gave up cheap Russian energy resources.

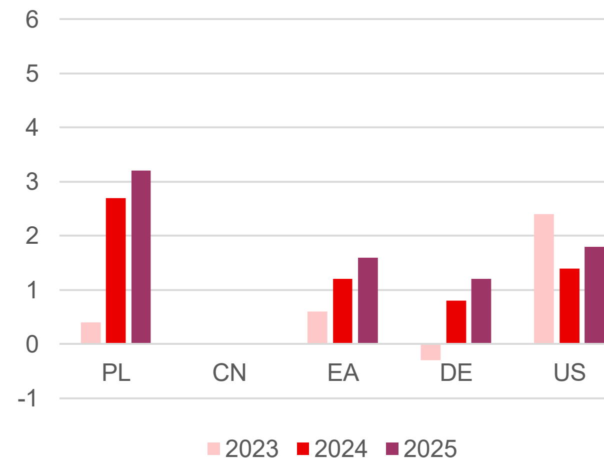
That said, we share the currently prevailing view that 2024 should see a gentle acceleration of economic growth in Europe and a moderate slowdown (but not a recession) in the US.

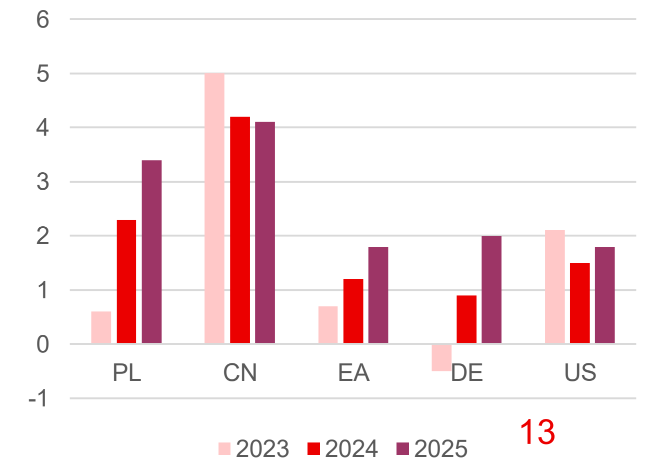
The modest magnitude of the rebounds in the German and euro area's GDPs means that 2024 will continue to be a challenging year for Polish exporters.

Forecasts of GDP growth in 2023-2025 for selected economies



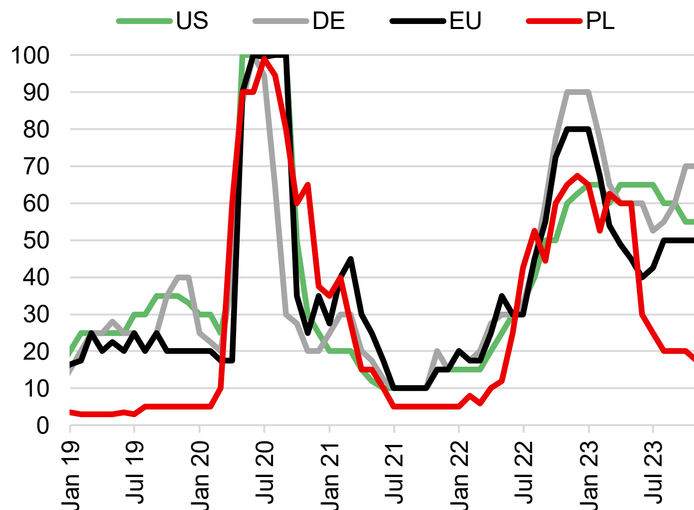






Source: Bloomberg, EC, IMF, OECD, Santander

Probability of a recession in the next 12 months according to Bloomberg

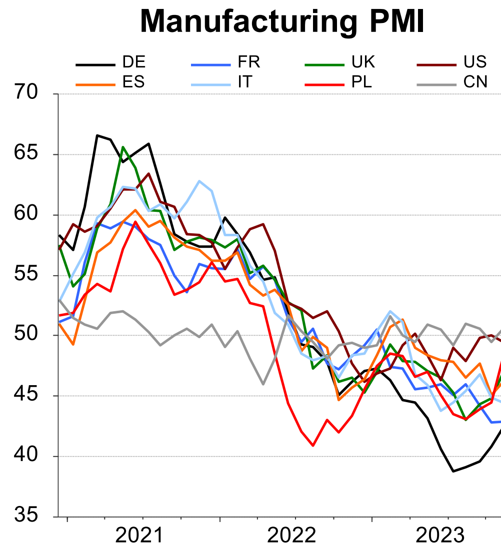


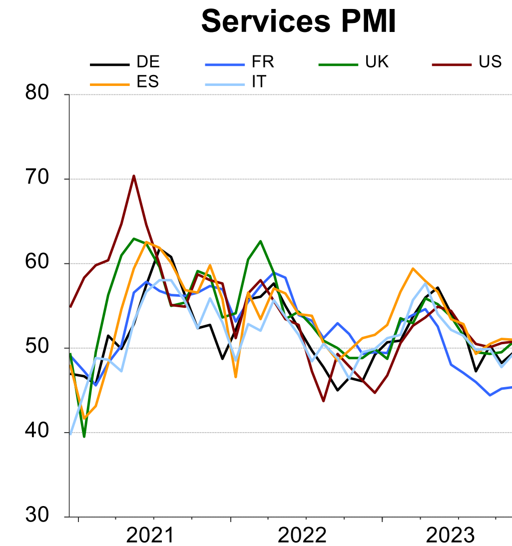
Source: Bloomberg, Santander

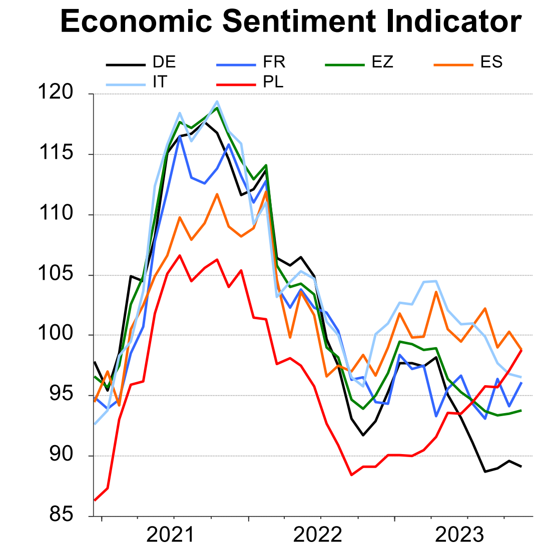
… though there is some hope

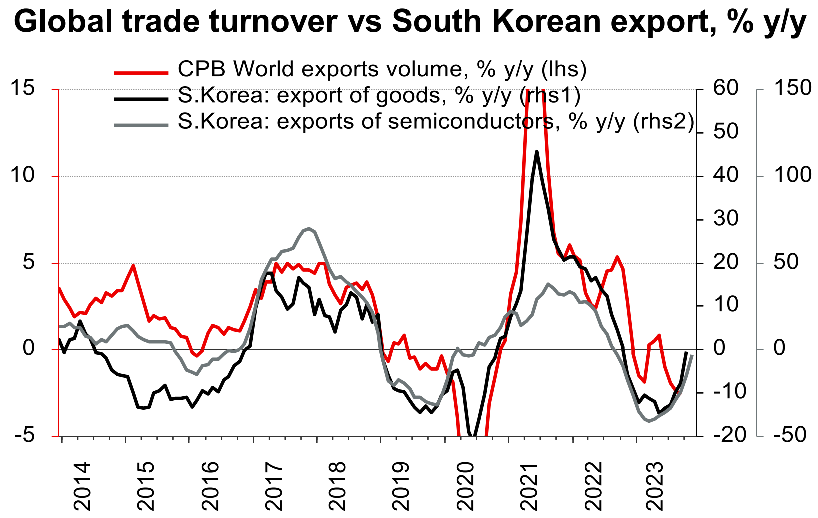
Lately, we have observed an increased number of signals that the global economy may soon reach a turning point. They include:

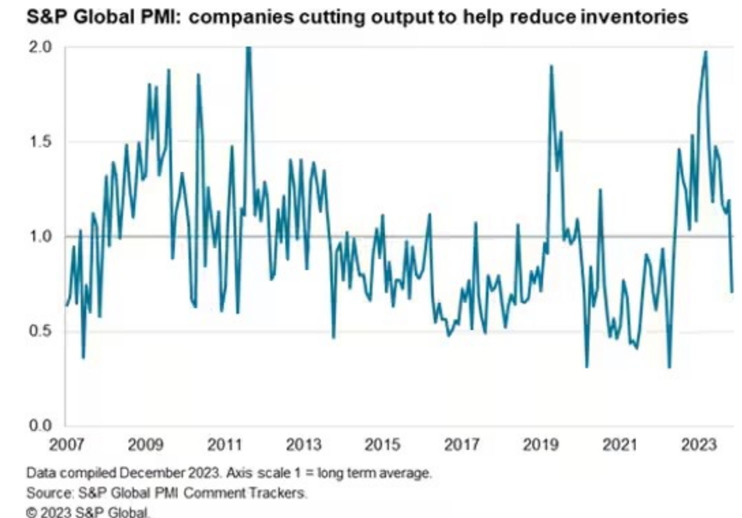
- Korean exports, including semiconductors, (which are often taken as a pre-emptive signal for global industry and trade) have started to bounce back.
- Improvement in the global PMI index, rebound (from low levels) in manufacturing indices for Germany, UK, China, Singapore.
- Signals of improvement in foreign orders in the PMI survey for Poland.
- Increases in the prices of industrial metals.
- Slight rebound in services PMIs.
- Significant drop in the percentage of firms stating in the global PMI Survey that they are cutting production to further reduce inventories, which may herald a reversal of the global inventory cycle.









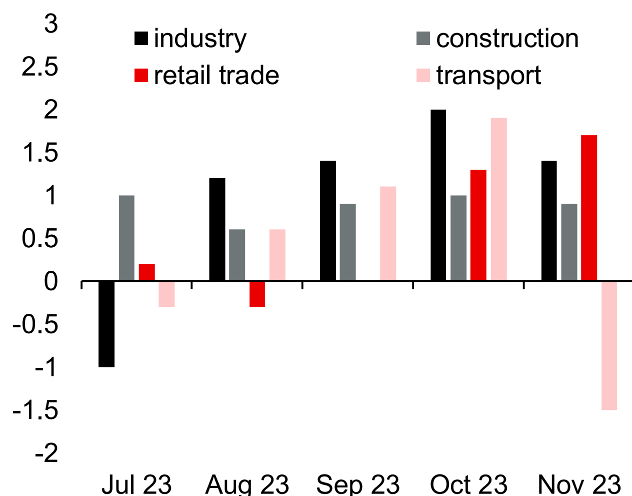


Domestic sentiment continues improving

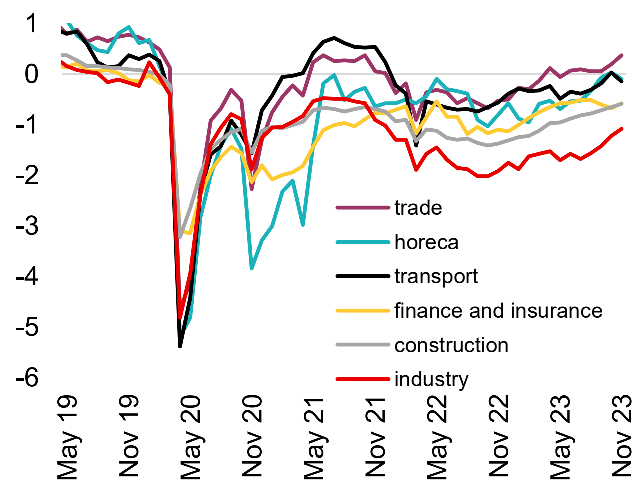
Although most sector business climate indicators remain below multi-year averages and below pre-pandemic levels, the improvement in sentiment already looks systematic, which is particularly evident in industry and construction. The retail sector was the first to reach its historical average, already in the middle of the year, and after three months of stabilisation it has started to move upwards again, fitting into our scenario of an awakening of consumer demand.

A solid rebound was also recorded by the Polish manufacturing PMI, which had previously started to settle into a gentle downward trend against alternative measures of sentiment. The Polish PMI is trying to escape the path of a slow recovery from the stagflationary hole (2014) to that of a dynamic demand-driven rebound (2009).

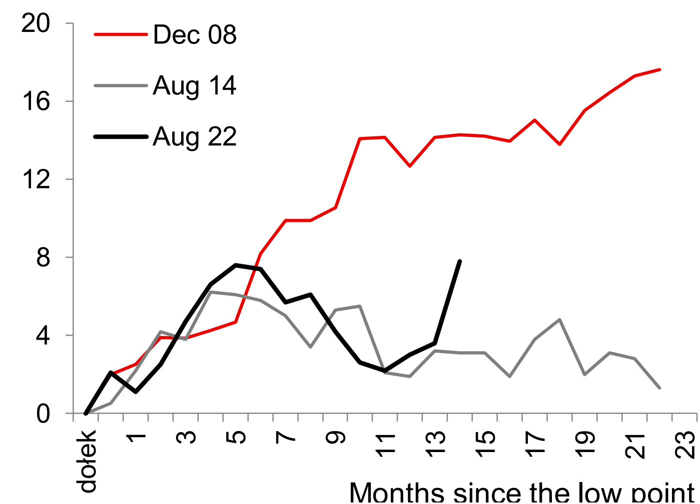
With that in mind, it seems justified to expect further recovery in hard economic data, even if the rate of improvement in sentiment itself is relatively low (lower than in 2010, 2014 or 2017) and the indicators describing it have high volatility (like the PMI). We attribute this caution of entrepreneurs to the lack of a clear signs that the economies of Poland's main trading partners are recovering.



Source: GUS, Santander



Source: GUS, Santander



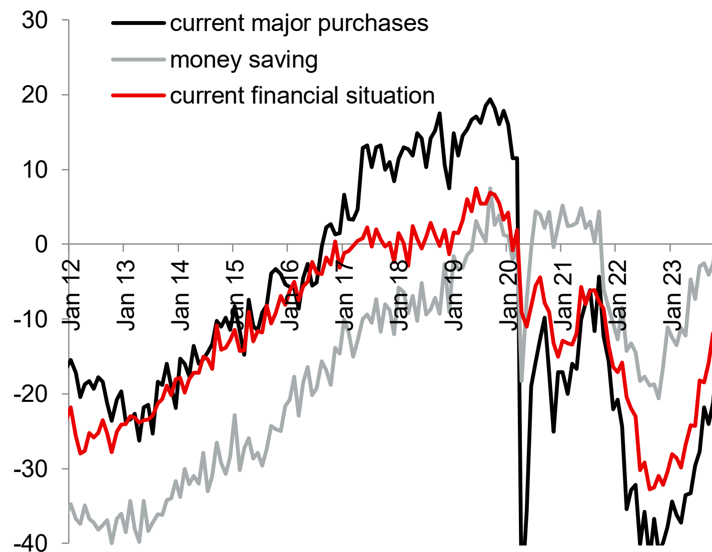
Source: S&P Global, Santander

Consumer sentiment: time for greater spending

Indicators of consumers' current situation and expectations are already above their historical averages. The improvement in sentiment has been taking place over the past 13 months and at a faster pace than during the economic recovery which followed the 2013-2015 slump. Notably, sentiment has improved faster in terms of appetite for large spending than in terms of people's assessment of their own financial situation and ability to save. Historically, **such relationships between the components of the Consumer Sentiment Survey (e.g. in 2017) bode well for private consumption**. The emergence of this pattern suggests that private consumption should accelerate in the near future. In light of this premise, we think that consumption may accelerate.

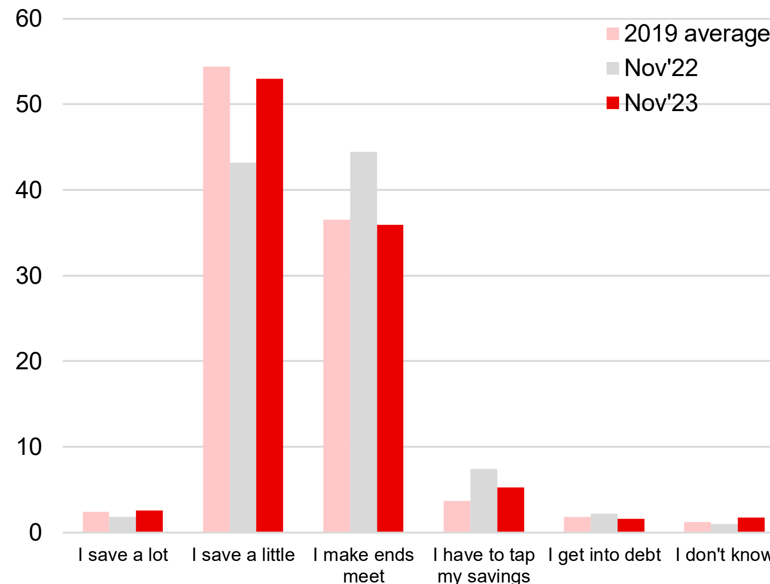
Moreover, consumers' sentiment with regard to managing the household budget has returned to normal, which is also important for the prospect of faster consumption growth. The structure of responses to the question about financial situation is no longer different from the one from the robust pre-pandemic period. This is a big change from a year ago, when far fewer people said that they regularly had surpluses available, for example, for discretionary spending - and this was conducive to postponing some consumer demand for financially safer times.

Selected consumer sentiment indicators



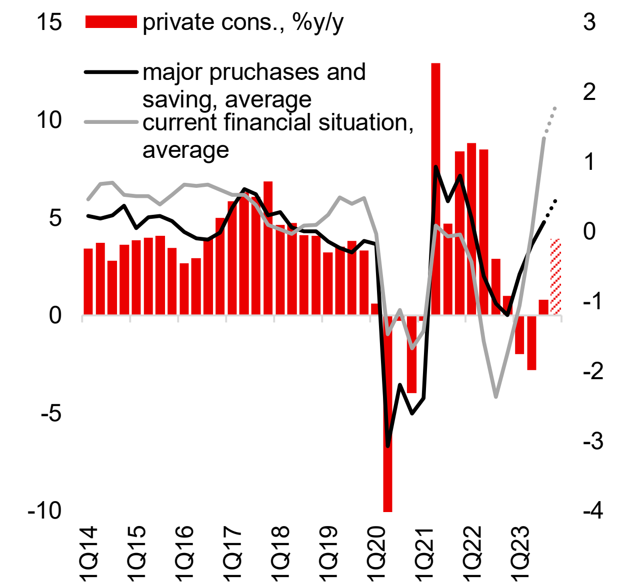
Source: Eurostat, GUS, Santander

Consumer sentiment: descriptive assessment of own financial situation



Source: GUS, Santander

Private consumption and variables based on consumer sentiment indicators



Source: GUS, Santander

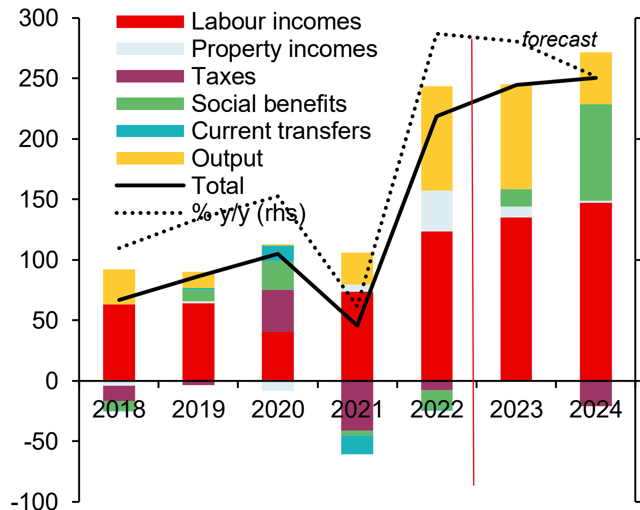
Consumption: continued upswing

The 3Q23 GDP data and a revision of earlier information indicate that we were right to assume a progressive rebound in private consumption in 2023.

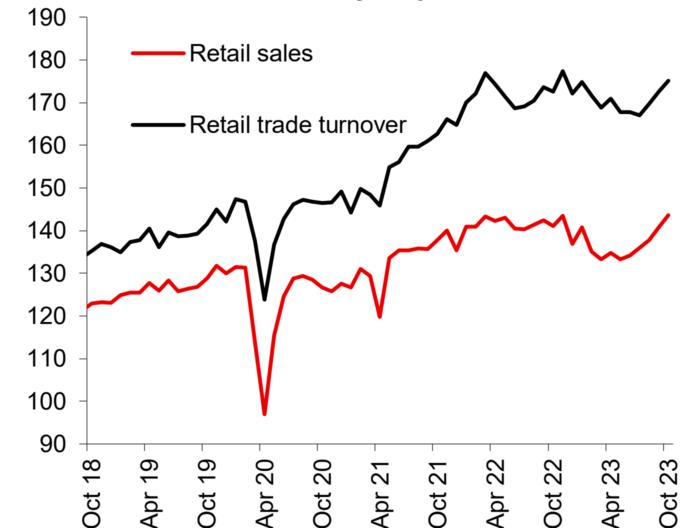
Average private consumption growth this year is likely to be close to zero, while in 2024 we already expect growth of around 4.5%. We base this assumption on:

- A solid increase in disposable income, by around PLN250bn in nominal terms. Out of this, PLN25bn comes from the increase in the 500+ benefit to PLN800, PLN45bn from the valorisation of social benefits at around 11.5%, PLN15bn from additional salary increases for the public sector, PLN9bn from the new social benefit encouraging mothers to return to work.
- An increase in the savings rate from -0.8% in 2022 to 1.7% in 2023 and 3.4% in 2024.
- A fall in inflation from c12% in 2023 to c5% in 2024.

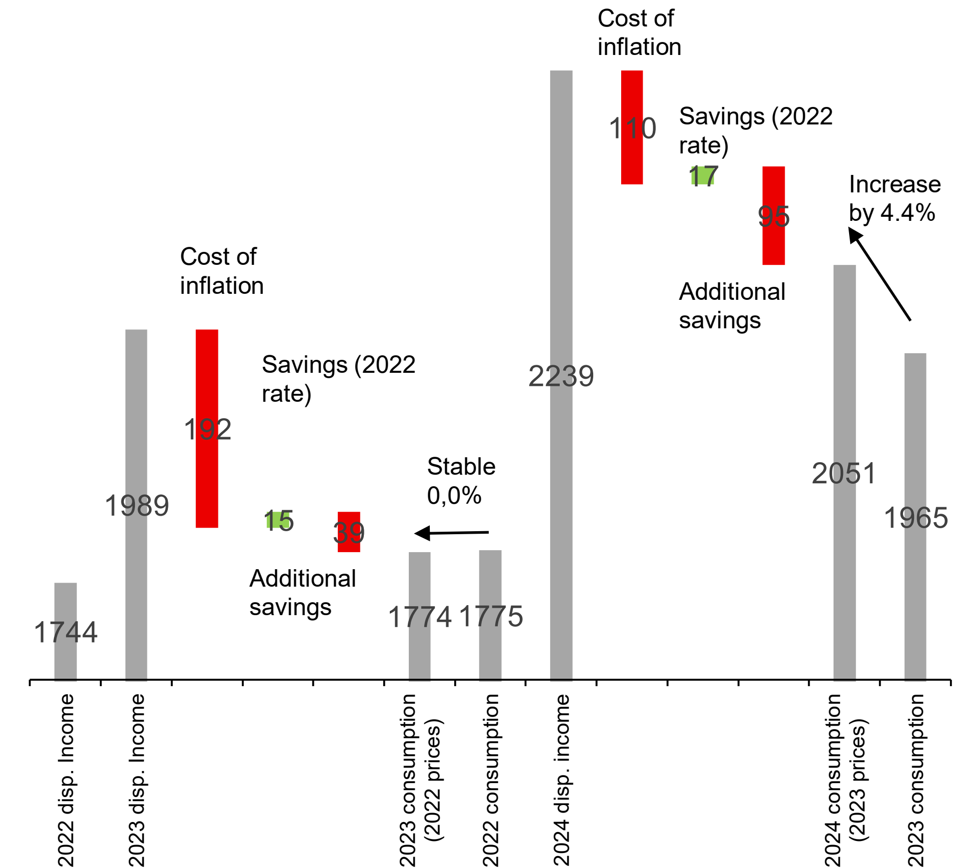
Breakdown of disposable incomes, y/y PLNbn



Retail sales and retail trade turnover, volume, seasonally adjusted



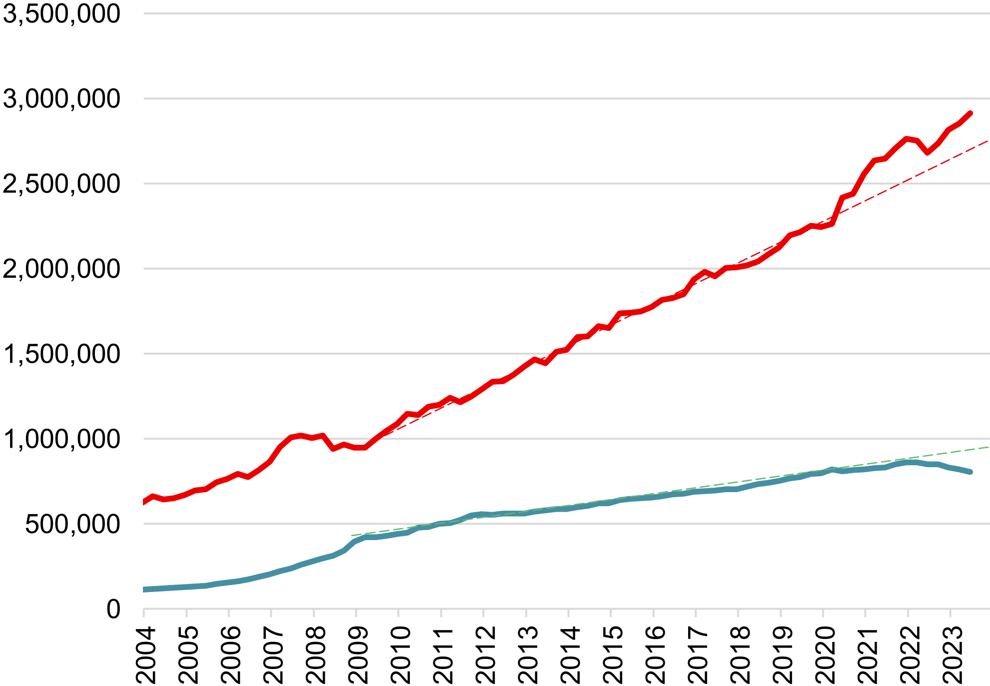
Disposable income vs consumption

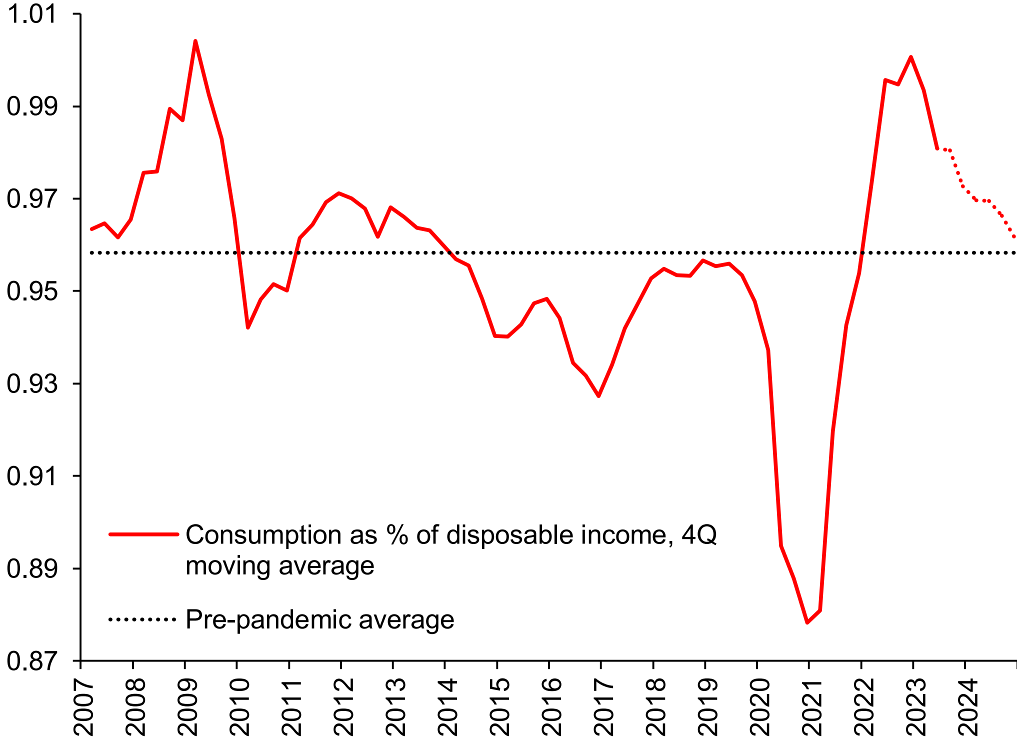


Source: GUS, Eurostat, Santander

Excess savings are plentiful and growing

Looking into hard data on consumption and disposable income shows that roughly after the beginning of 2022 the relation of spending to income became unusually high, but is gradually returning to its average. On the side of households' financial assets this development took the form of a movement towards the multi-year trend from 2022. However, not only was the trend not reached, but also it does not seem like the convergence to the trend was continued in 2023. Instead, asset growth is running at an above-average pace, which is consistent with our scenario of awakening consumer activity. The reason for this is that the rebound in consumption, which we expect, should be based on strong income, not on excessive of spending.





Santander

Source: GUS, Eurostat, Santander

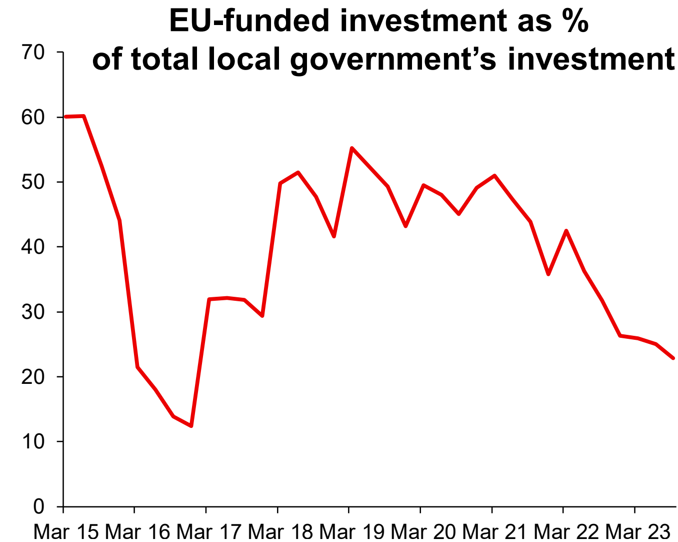
Investment: local governments' fading star…

In 2023, local governments were the shining star of investment - in the first three quarters of the year, they accounted for around 30% of total investment growth, with their share in total volume slightly above 10%. 2023 is to set a record, with the nominal investment value in local governments likely to approach PLN90bn.

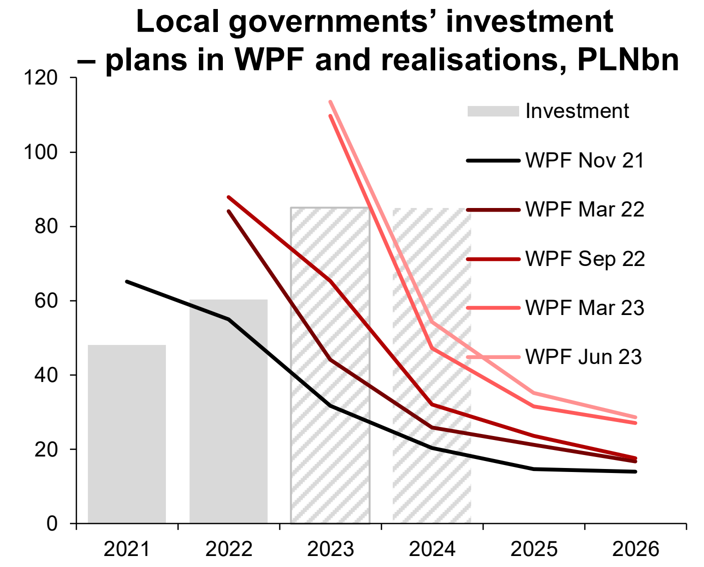
In our December 2022 MACROscope, we were sceptical about local government outlays in 2023, mainly due to the depletion of EU funds from 2014-2020 framework and the sector's moderate investment plans outlined in the September 2022 Multiannual Financial Plan (WPF). Meanwhile, investment forecasts were revised sharply upwards in the next edition of the WPF (March 2023), and local governments performed well despite the low inflow of EU funds - the share of EU funding in investments fell to around 20% from 40-50% in previous years. In our view, the strong performance was primarily the aftermath of the election cycle and the concentration of spending on road construction.

As investment in 2023 was concentrated on roads, and infrastructure investment has quite a high inertia, we assume that 2024 will also be nominally high. After the local elections (in April 2024), however, investment enthusiasm may diminish, so we believe that in nominal volumes next year will close similarly to 2023, **which in real terms means stagnation or a slight decline**. EU-funded investment may again account for a relatively low share of outlays, although the potential unlocking of the Recovery Funds may support spending at the end of the year.

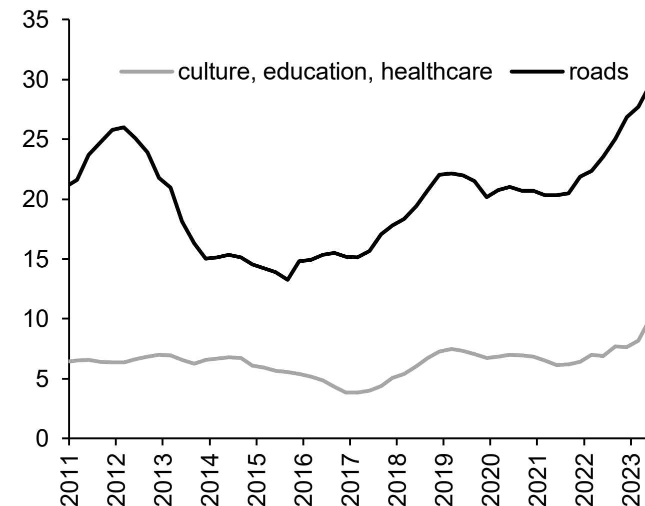
However, we have usually based our local government investment forecasts on the November version of the WPF. This year it has not yet been published and the latest version is from June. The June version is much less reliable, so our knowledge of local governments' plans is less than usual and uncertainty about the forecast is thus greater.



Source: GUS, Santander



Source: GUS, Finance Ministry, Santander



Source: GUS, Santander

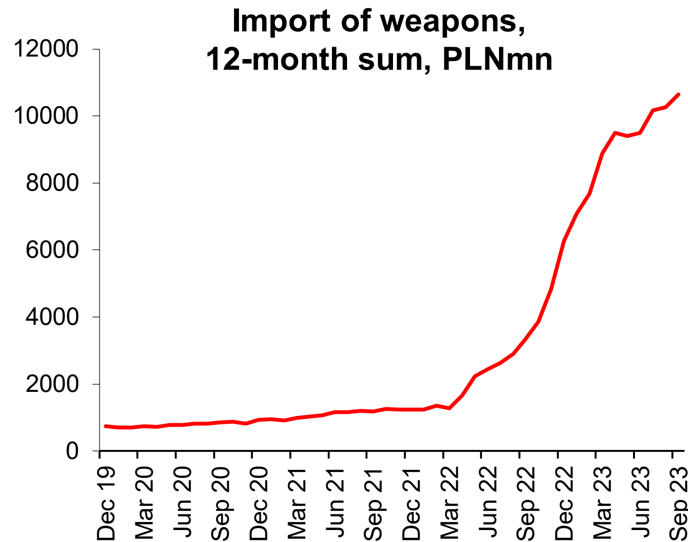
Santander

Investment: … and shining in the central sector?

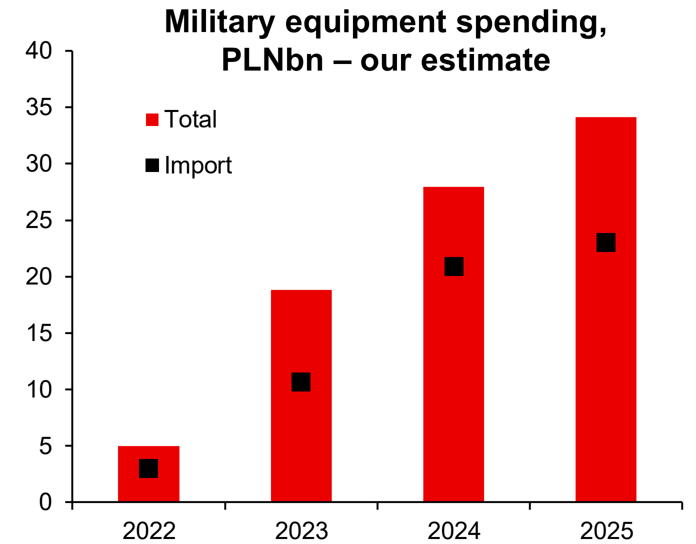
In 1H2023, real growth in the central public sector investment was close to zero, despite a marked acceleration in military spending. This was due to weak growth in infrastructure investments, particularly railways, which rely heavily on EU funding.

The plans of the General Directorate for National Roads and Motorways (GDDKiA) and the Polish Railways (PLK) assume a clear increase in road and rail investments in 2024, accompanied by a further increase in military outlays, which is, however, likely to be slower than in 2023. **Based on these, we assume that the government sector will record an increase in outlays of around 10% in real terms**.

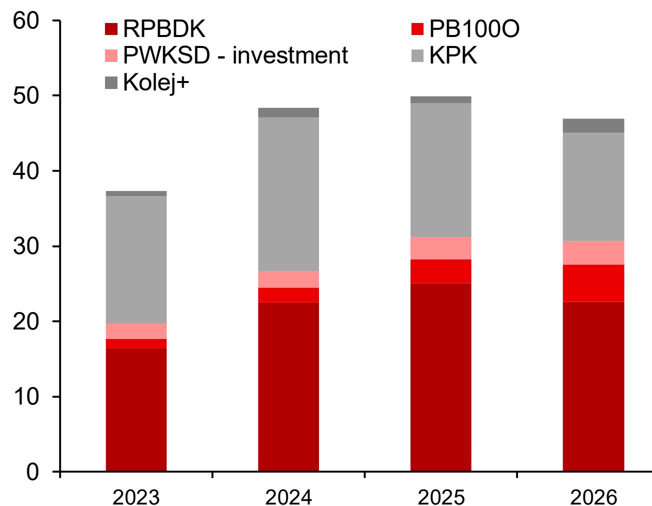
However, the risk to this forecast is skewed downwards - firstly due to the weak inflow of EU funds and the delay in unlocking the Recovery Fund. In our view, without the inflow of EU funds, it will be difficult to accelerate railway investments in the first place. Secondly, it cannot be ruled out that the new government will want to rationalise arms spending somewhat. Uncertainty also surrounds the plans for CPK (new airport).



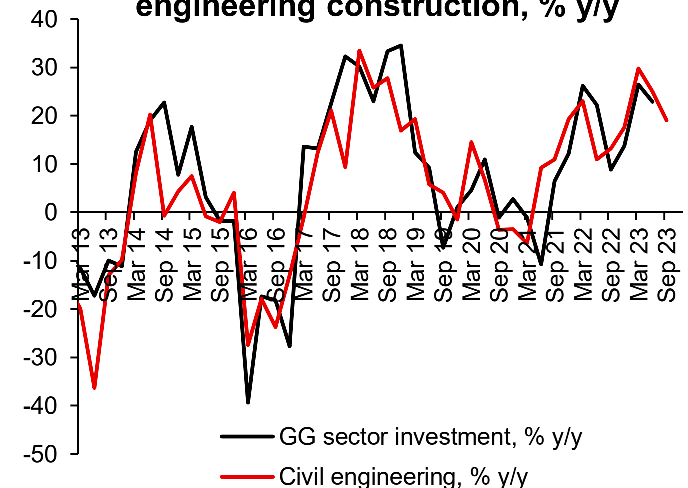
Source: GUS, Santander



Source: media, Santander



Source: GUS, Budimex, Santander



Source: GUS, Santander

RPDBK – Rządowy Program Budowy Dróg Krajowych (Government Programme of Road COnstruction
PB100O – Program Budowy 100 Obwodnic (Programme of 100 Ring Roads)
PWKSD – Program Wzmocnienia Krajowej Sieci Drogowej (Road Improvement Programme)
KPK – Krajowy Program Kolejowy (National Rail Plan)
Kolej+ - Program Kolej+ (Kolej+ Programme)

Santander

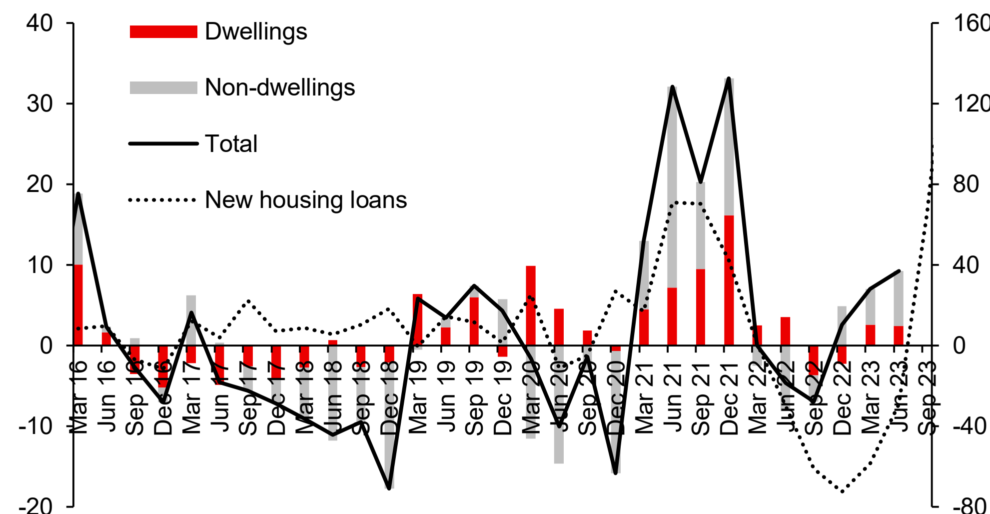
Investment: revival in households

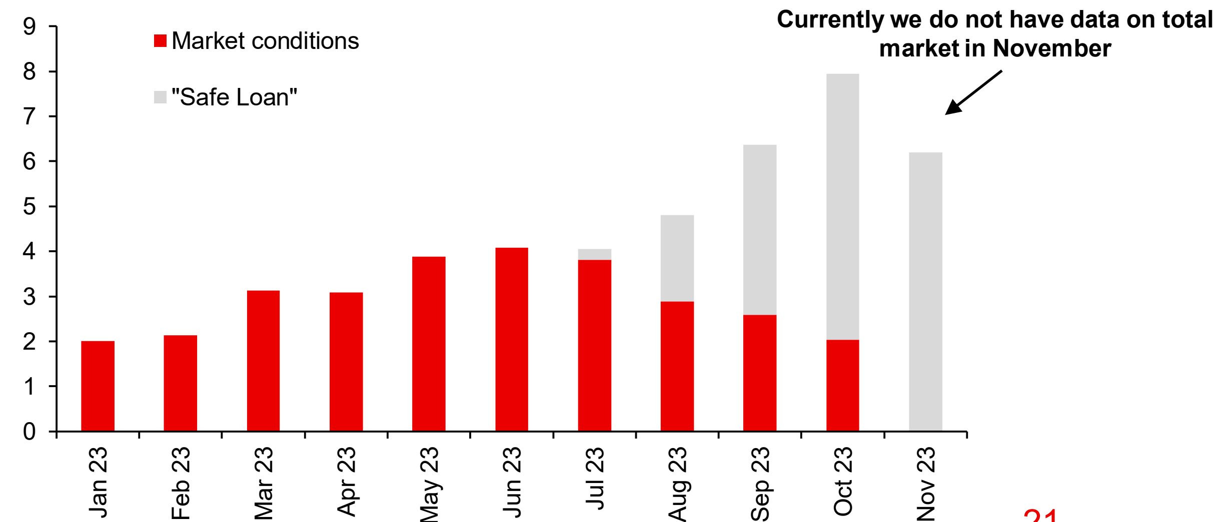
After a good start to 2023, we estimate that household investment will further accelerate in the second half of this year. **In 2024, we assume growth similar to 2023, of around 7% in real terms**.

Household investment rebounded markedly in 1H2023. A revival in housing demand played a role in this movement, also evident in demand for housing loans. However, the residual component of household investment also surprised to the upside. We guess that, as in the case of businesses, this may have been related to expenditure on energy efficiency.

In 2H2023, the recovery in the housing market was gaining momentum, which we believe will translate into an acceleration in household investment. We believe that housing demand will also remain strong in 2024. Demand will be supported by a good labour market situation and a clear increase in real incomes, with a downward trend in market rates. Property prices should also grow at a solid pace, at least until new supply enters the market, which we believe, however, will take some time to materialise.

One risk factor is the fate of the „Safe Loan" programme. We believe that it has had a pronounced effect on reviving demand and accelerating purchases, although it has partially replaced demand for market-rate credit. Provided the current pace of loan signings continues, we believe that the programme's budget for 2023-2024 will be exhausted within a few weeks. Some slowdown in the credit market momentum is therefore possible from 1Q24 onwards. However, we think that it is very probable the „Safe Loan" programme budget will be increased.





Source: GUS, NBP, ZBP Santander

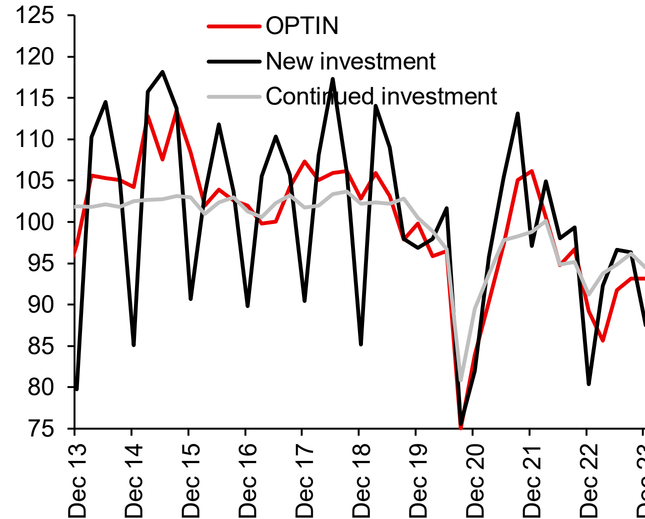
Investment: 2024 in companies can be weaker

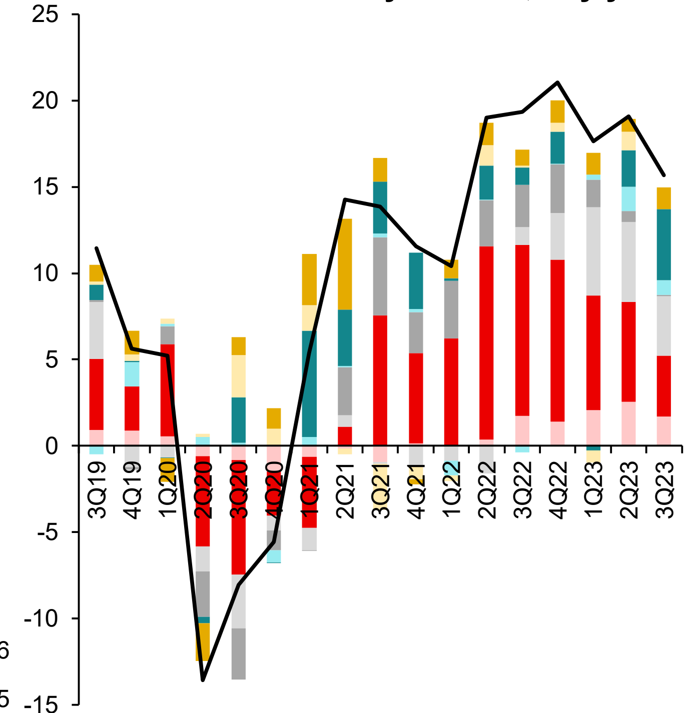
In 2023, corporate investment was pretty strong, with capital expenditure in large companies (employing 50+) up 11.5% y/y in real terms in 1-3Q23 (17.4% y/y in nominal terms), and overall corporate investment up 17.9% y/y in nominal terms in 1H23. The breakdown of investment in large companies indicates that much of the growth was generated by the energy sector, which we believe was related to the transition. Meanwhile, investment in manufacturing slowed.

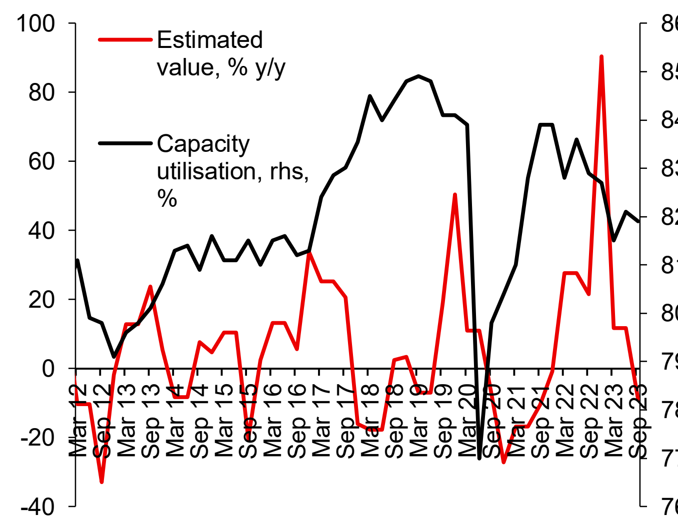
In our view, the investment outlook is currently improving together with good corporate performance (which has deteriorated slightly but is still historically high) and a good economic outlook. This is reflected in the improvement of investment indicators, e.g. OPTIN compiled by the NBP.

However, the low absorption of EU funds at the turn of the two financial frameworks and the decline in the estimated value of started investment suggest that the momentum will not be strong, especially in view of the rather low capacity utilisation rate in the economy. On top of this, investment in 2023 was mainly based on outlays for machinery and transport equipment, and this type of investment has a much lower inertia than infrastructure.

We assume an increase in non-financial corporate investment of around 5% y/y in real terms in 2024.







Source: GUS, NBP, Santander

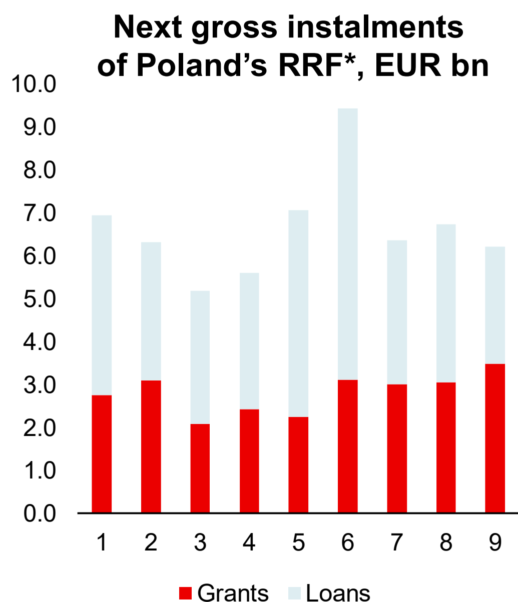
RRF: short on time for a full implementation

The Recovery and Resilience Facility, along with its REPowerEU chapter, can provide Poland with EUR59.8bn of funding, including EUR25.3bn of grants and EUR34.5bn of loans. However, payments from the Facility cannot be made until Poland fulfils the ”super milestones” for a reform strengthening the independence and impartiality of courts, and a reform to remedy the situation of judges affected by the decisions of the Disciplinary Chamber of the Supreme Court.

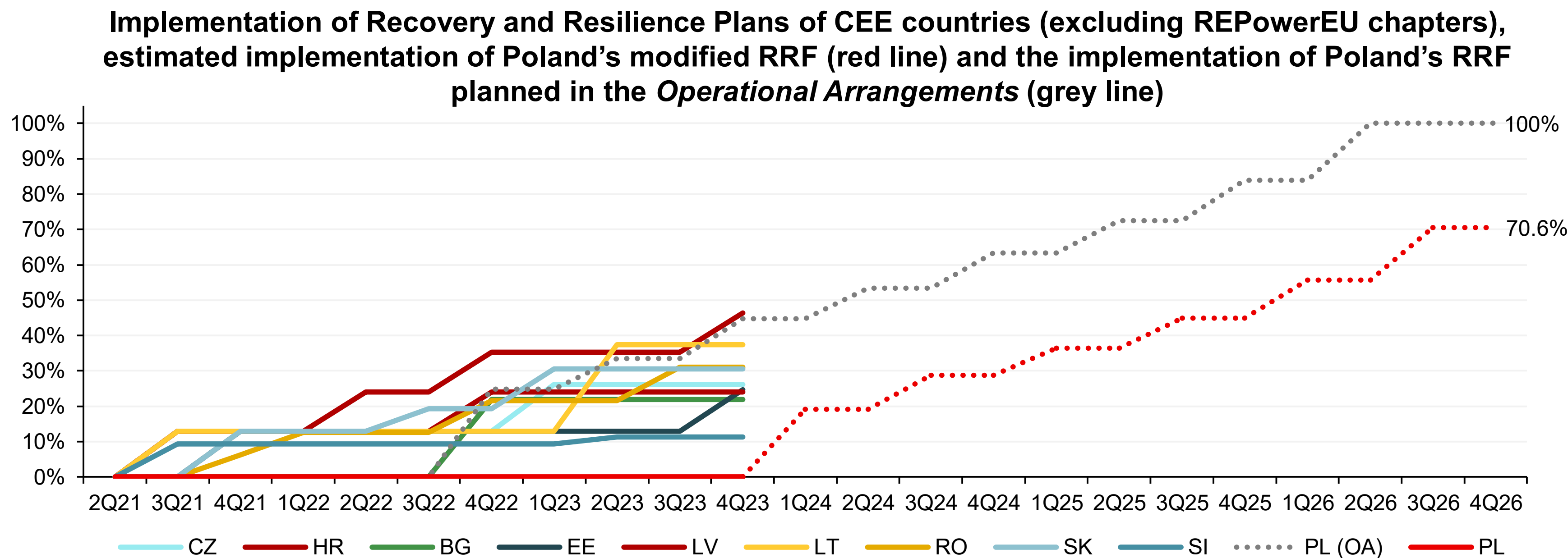
Even after assuming that the new government will manage to fulfil these requirements, it is far from certain whether Poland will be able to fully implement her allocation. Payment requests can be made only twice yearly, and transfers will be made only up to 31st of December 2026. Moreover, payment requests are accepted only if required milestones are met, meaning that payments to Poland will depend on her progress with investment projects and reforms.

Because funds will be made available to Poland in 9 instalments, paying out EUR5.06bn of pre-financing from REPowerEU followed by two net instalments (i.e. corrected for pre-financing) yearly would approximately allow to implement 70.6% of the allocation. Alternatively, assuming that the first two instalments will be made available together (as was planned in Poland's *Operational Arrangements* of December 2022), the estimated implementation would increase to 80.3%. Still, the new government's first payment request was made for the first instalment only, which decreases the likelihood of achieving such a rate of implementation. **Therefore, we see significant risk that the funds from the Polish RRF will not be fully implemented.**

Next gross instalments of Poland's RRF*, EUR bn



Implementation of Recovery and Resilience Plans of CEE countries (excluding REPowerEU chapters), estimated implementation of Poland's modified RRF (red line) and the implementation of Poland's RRF planned in the *Operational Arrangements* (grey line)



*According to the Annex to the Council Implementing Decision of 17 June 2022.

Source: EC, Santander

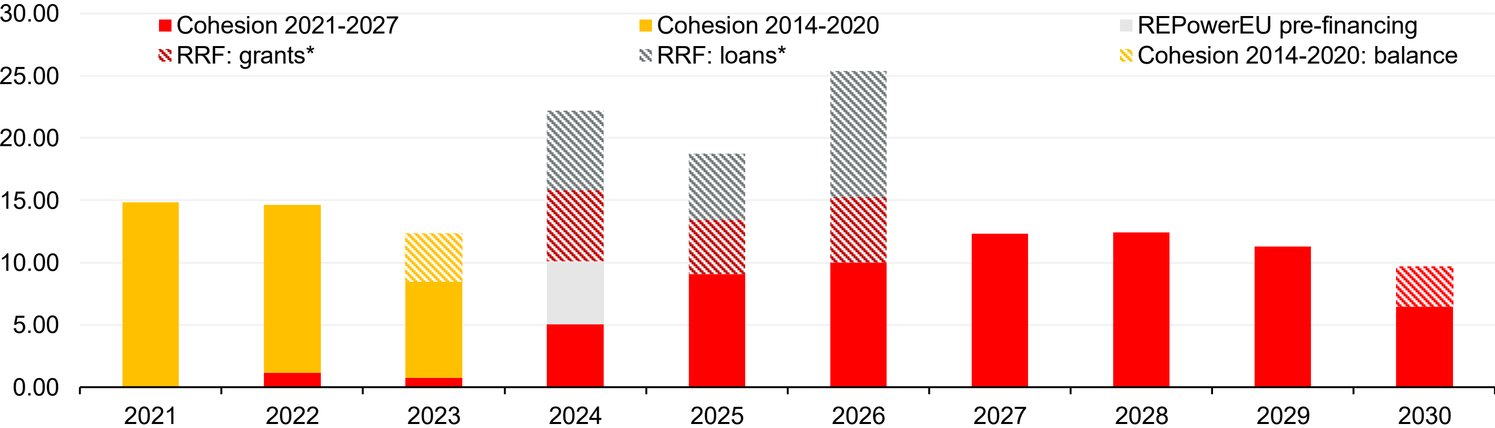
EU Funds: the road ahead

Unblocking the Cohesion 2021-2027 funds should be relatively straightforward, as in contrast to RRF, it does not require conducting specific reforms, but only more general „compliance with *the Charter of Fundamental Rights of the European Union*".

Under the new Cohesion Policy, Poland can be provided with EUR76bn of funding, of which EUR1.9bn has already been received in the form of pre-financing, payment of which is independent of meeting the enabling conditions. Moreover, according to the Ministry of Funds and Regional Policy, up to 30 November PLN20.85bn (c. EUR5bn) of funds from the new Cohesion Policy were contracted for co-financing (Poland may pay out funds to beneficiaries, but until the conditions are fulfilled, the payments will not be refunded).

Assuming that the new government will unlock funds from both the RRF and the Cohesion Policy at the beginning of 2024, and that the implementation of the Cohesion Policy over the next years will progress the same way that the implementation of the previous one did (i.e. each year the received percentage of total allocation will be equal to the percentage received in the corresponding year of the previous Cohesion Policy), the path of inflows of EU funds to Poland could have a similar shape to the one presented in the graph below.

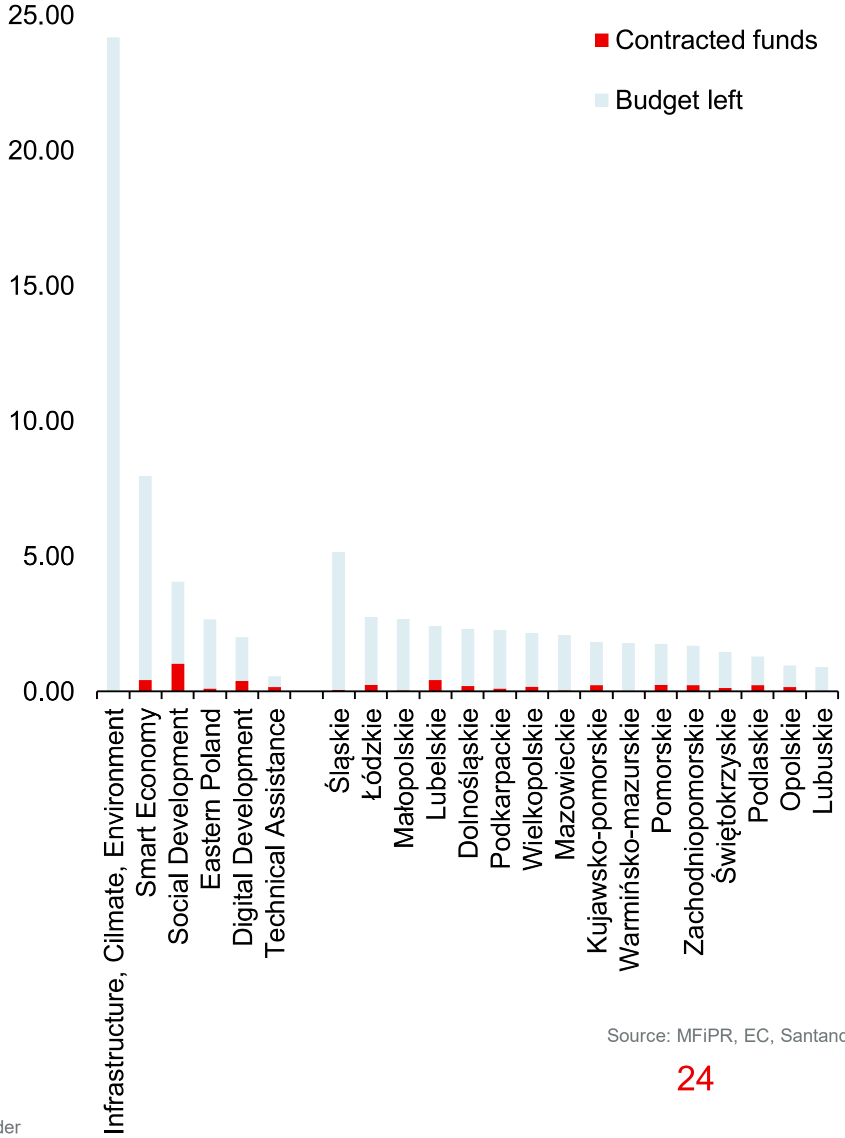
Estimated inflow of EU funds over the next years, EUR bn



*Net values, i.e. after deducting 1/9 of REPowerEU pre-financing from each instalment

Source: EC, Santander

Implementation of national and regional programmes, Cohesion 2021-2027, EUR bn



Source: MFiPR, EC, Santander

C/A: We are expecting a weaker balance

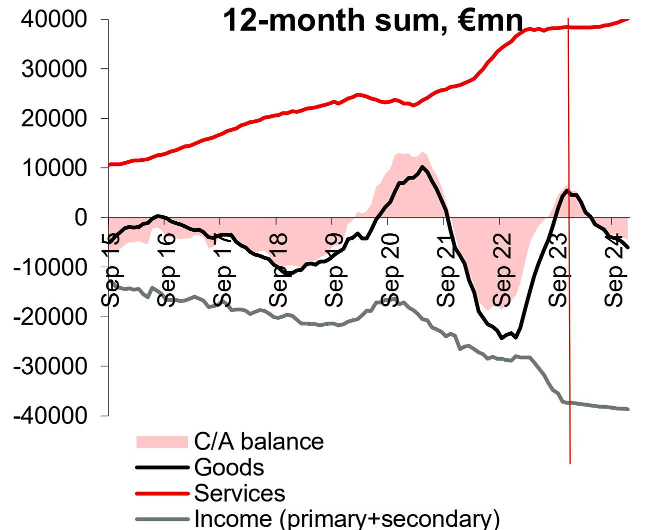
Since the end of 2022, a clear and rapid improvement in the current account balance occurred. In our view, **this balance will deteriorate from +0.8% of GDP in 2023 to -0.5% of GDP in 2024**. Weaker goods balance is expected to be the main factor behind deterioration of the overall balance. We present our assumptions for the various components of the current account balance on the following pages. Let us note that the balance of errors and omissions is very high in historical comparison. This, in our view, suggests the potential for upward revisions to the historical current account balance data (e.g. exports up or imports down).

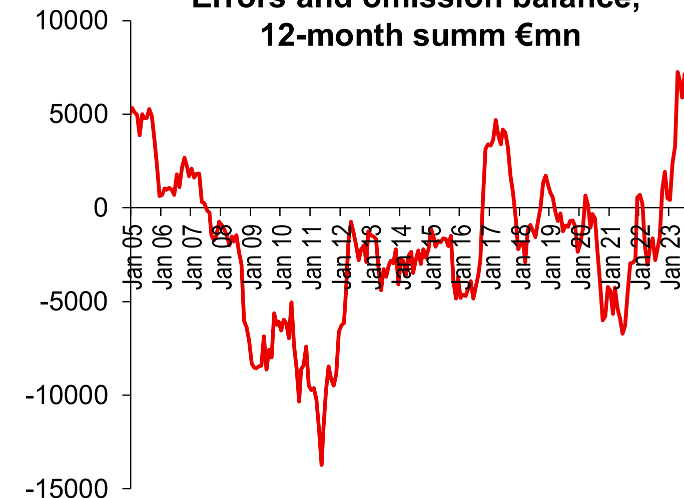
In our view, the services balance will improve slightly after a robust improvement in 2022 and stabilisation in 2023. Initially, the upward move in the current account balance was driven by these services, which registered a marked improvement in the balance from 2021 onwards. The workhorses of this improvement were transport, international travel and other business services. In 2023, the improvement in services came to a halt and all three sectors.

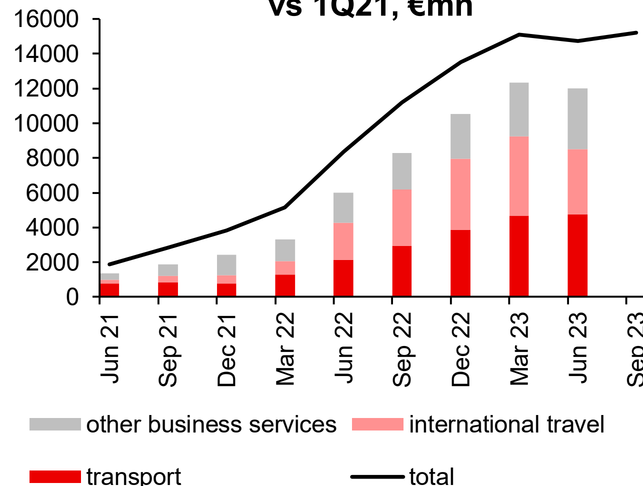
The improvement in the foreign travel balance was, in our view, mainly due to the normalisation of the situation after the Covid restrictions and, in our opinion, this balance will not improve in the coming quarters and may even deteriorate slightly.

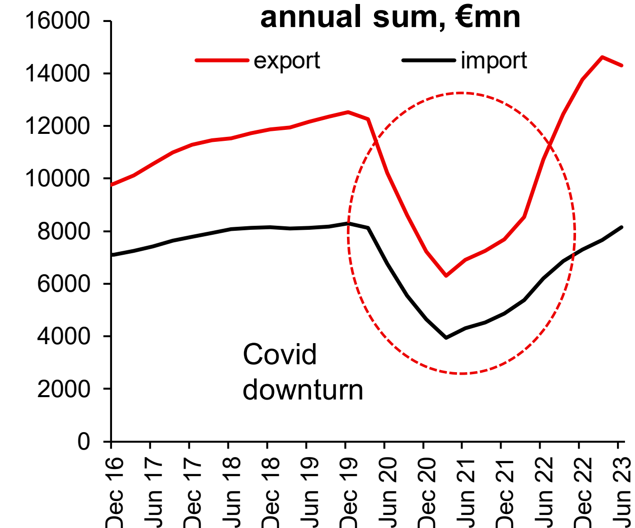
Transport has suffered from the slowdown in Europe. We believe that the situation in the industry will not improve by the end of this year and only next year offers a chance for some expansion, provided there is a rebound in the euro zone. Situation in other business services is similar, in our view.

We expect that the balance of services may deteriorate slightly by the end of this year. There will be an improvement in 2024, but less dynamic than in 2022.









Source: NBP, Santander

C/A: possible improvement in income balance

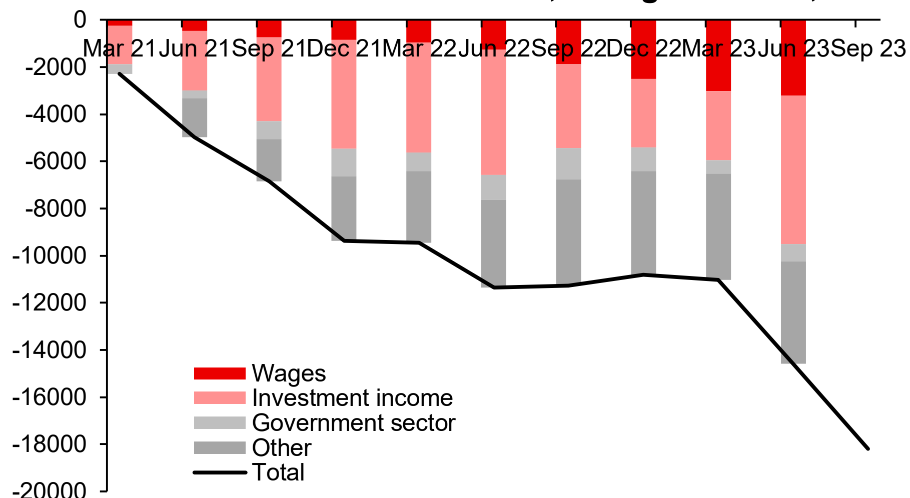
The income balance, after stabilising in 2022, has started to deteriorate in recent months, mainly due to higher income of foreign direct investment entities in Poland. **In our view, this balance will not deteriorate as quickly as it has recently, and may even improve somewhat.**

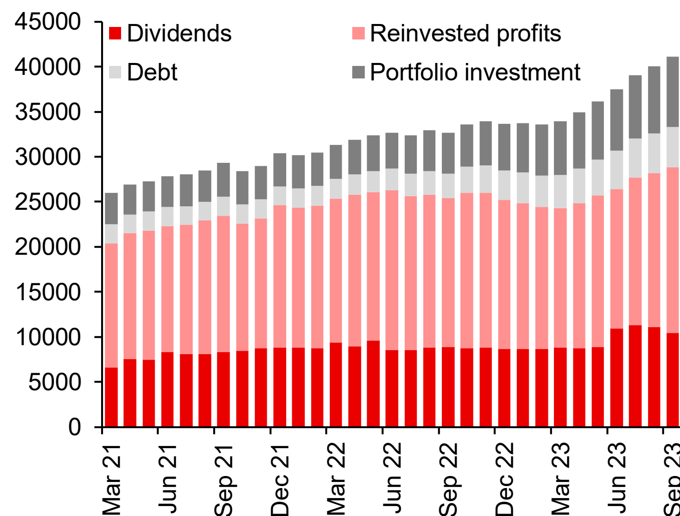
We believe that the decline in the balance of investment income is temporary - we expect a slight deterioration in the performance of Poland's domestic corporate sector in the coming quarters, after record good performance in recent periods. Lower interest rates will be conducive to lower incomes on debt instruments.

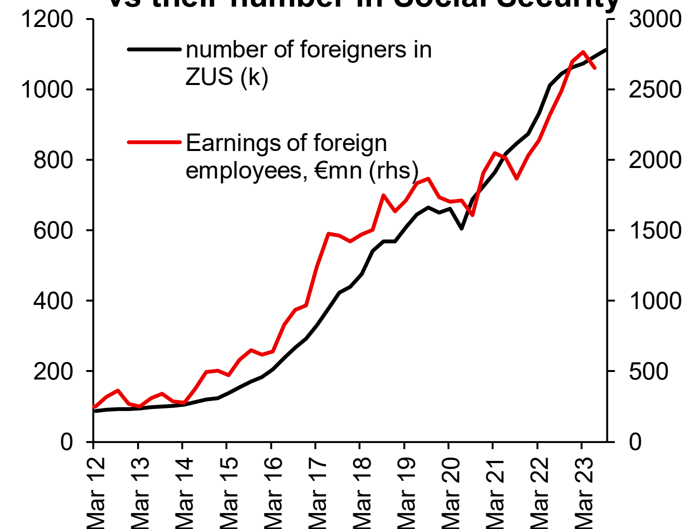
As for the wage balance, we expect a slow deterioration, with high nominal wage growth in the country accompanied by an outflow of Ukrainian citizens, which will moderate the pace of decline.

The government sector balance depends mainly on the net inflow of EU funds. While we expect that unblocking of Recovery Fund can results in higher inflows to Poland, these will be mostly visible on the capital account. Current account can be under pressure due to slow start of 2021-2027 financing framework.

The behaviour of the 'other' component, however, is subject to greater uncertainty, while providing an important contribution to total income balance.







Source: Eurostat, GUS, ZUS, NBP, Santander

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C/A: goods balance to deteriorate

The improvement in the goods balance has been the most significant factor behind the improvement in the overall current account balance in recent months.

It was evident in several commodity categories, in particular:

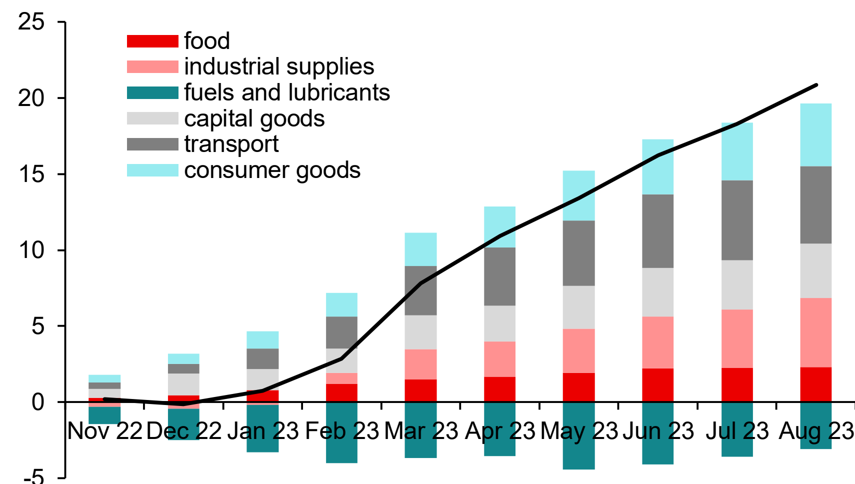
1) **transport equipment**, where the unblocking of supply chains in the automotive industry allowed exports to increase while domestic demand and imports increased as well. We believe that this sector no longer has much room to improve as quickly as in recent months.

2) **industrial raw materials**, where there has primarily been a decline in the value of gas imports, due to lower gas prices and usage. However, the industrial downturn has affected many categories, with metal imports also falling strongly. We believe that this balance could worsen as the industrial boom improves, natural gas prices stabilise and in the face of a potentially colder winter this year.

3) **consumer and capital goods**, which were driven by weak domestic demand, with exports of these products rising slightly. Exports of capital goods were largely driven by sales of electric batteries, which we believe should be linked to a rebound in the automotive industry. We assume that the rebound in domestic demand will worsen the balances for these products, particularly for consumer goods. Poland is also going to import more military equipment.

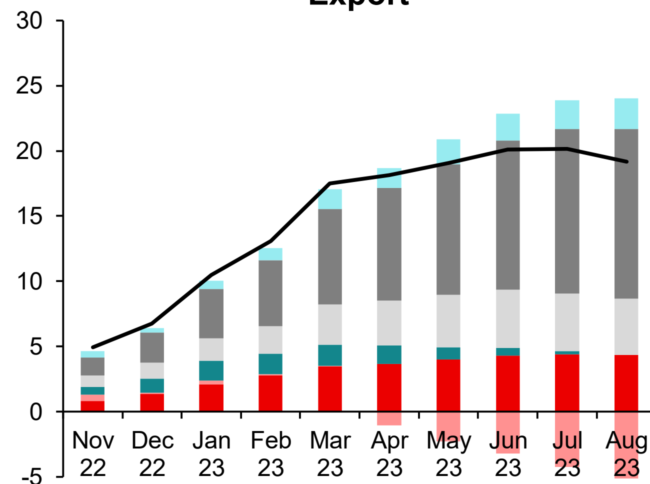
4) **fuel imports** – in late 2022 Poland imported extensive amount of coal on fears of shortage after resignation from Russian coal. This is now being corrected.

Change in 12-month goods balance vs October 2022, €bn

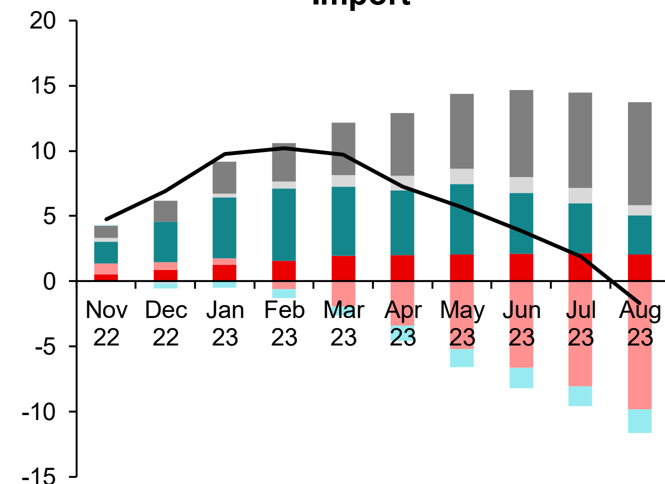


Change in 12-month balance vs October 2022, €bn

Export



Import



Source: Eurostat, Santander

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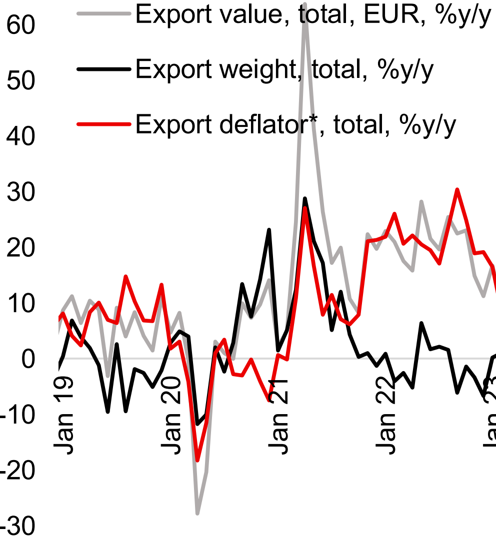
Export: waiting for Europe's comeback

The growth rate of exports measured by the weight of cargo has remained just below zero y/y since 2022. In contrast, the growth rate of the value of exports in EUR has fallen from more than 20% below zero during the year as a result of the stagnating export prices. This stagnation in exports is explained by **the weakness of demand from Europe, especially for intermediate goods - an improvement in this area is key to achieving export volume growth in 2024**. On the plus side, there were higher food shipments in 2023, probably taking advantage of Ukraine's troubles in exporting its products, which will be difficult to repeat given the base effect.

Assuming a gentle recovery in demand from the EU (the usual expansion of Polish goods in EU markets may be difficult in this cycle, see page 30 on competitiveness) and an end to the weakness in durable goods, whose domestic production has already been rebounding recently, we come out with an export forecast for 2024 of a slight increase in € of less than 10% (by value), equivalent to 4% in PLN.

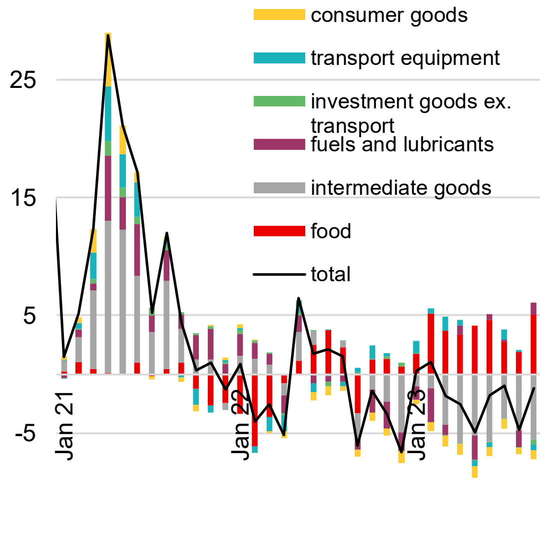
Despite a certain desynchronisation with the German economy, expressed in the behaviour of industrial economic indicators, Poland remains strongly linked to the European economic cycle (p.29) and without a rebound in the EU (which receives 75% of domestic supplies), we do not believe it will achieve significant export growth next year.

Polish exports by value and weight



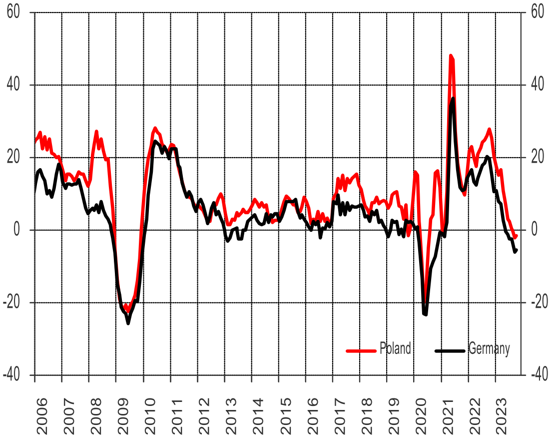
Source: Eurostat, GUS, Santander

Breakdown of Polish export growth by BEC categories, export weight

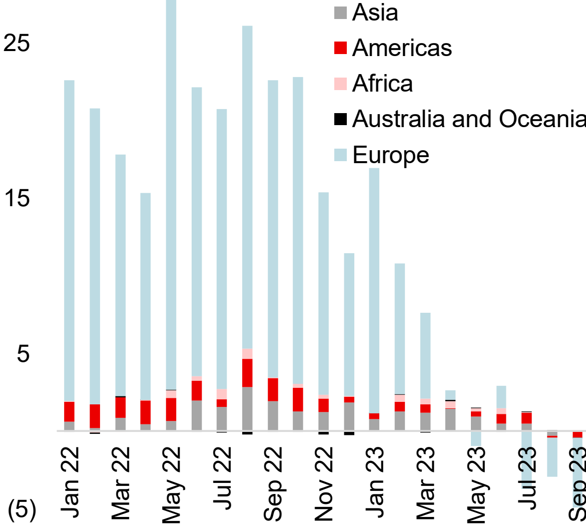


Source: GUS, Santander

Export, Poland and Germany % y/y, 3M moving average



Breakdown of Polish export growth by continents, % y/y in €



Source: GUS, Santander

Dependence of Polish economy on Germany still high

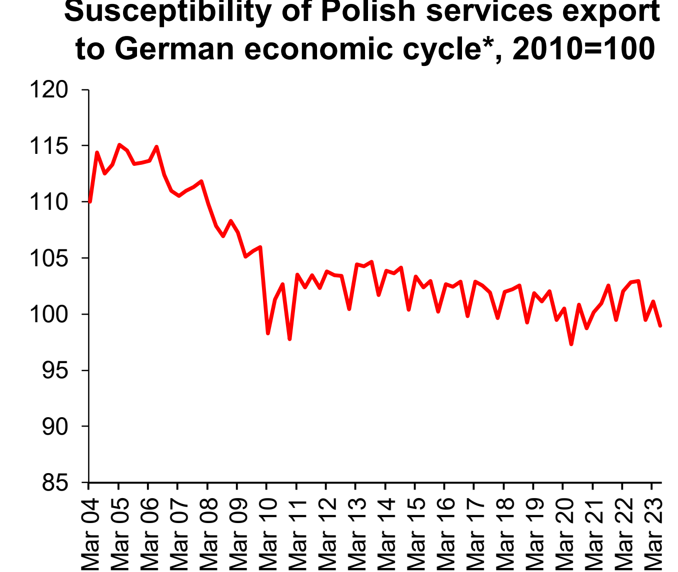
We estimate that in recent years the breakdown of Polish exports to Germany has changed towards greater resilience to economic fluctuations. At the same time, however, the increase in export volumes has been large enough that the **vulnerability of the Polish economy to the German economic cycle has increased rather than decreased**.

Between 2010 and 2021, the share of exports to Germany in Polish GDP increased significantly: to 14.4% from 8.8% in the case of goods and to 1.2% from 0.7% in the case of services - in both cases the increase in this measure was similar at around 60%.

In the case of merchandise exports, however, the breakdown has changed in recent years with an increase in the share of goods that are less susceptible to economic fluctuations, e.g. food, non-durable and semi-durable consumer goods. The share of goods that are more susceptible to economic fluctuations, e.g. industrial raw materials and durable consumer goods, has thus decreased.

We estimate that the susceptibility of Polish goods exports to the economic situation in Germany increased between 2001 and 2009, after which it began to decline. However, the decline was only about 5%, far too little to offset the increase in the value of German exports to national GDP.

In the case of services exports, the change from 2010 was insignificant.



Source: GUS, Eurostat, Santander

*Average R-squares from econometric models in which the dependent variable was exports to Germany according to the BEC breakdown and the independent variable was the value of the demand gap in Germany. R-squares were weighted by the shares of particular good types in exports to Germany. In the case of services, the breakdown indicated in the NBP quarterly data was used, as well as the shares of exports of particular types of services in total exports.

Three disruptions to the competitiveness of industry

Usually, when Europe prepared for an economic recovery, Polish industry used to dynamically rebound, winning at the same time additional market shares abroad thanks to substitution effect and weakened zloty. It used to hold especially well for the production of durable goods.

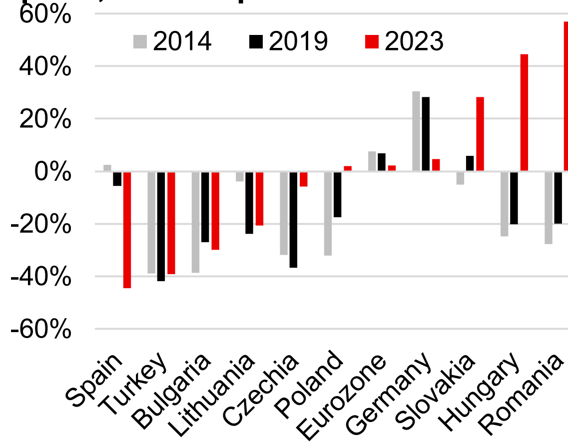
This time, **atypically, we are entering the recovery phase with a strong zloty**, while the currencies of our competitors (e.g. China, Turkey) lately depreciated.

Moreover, **Energy costs rose so fast in Poland, that they are no longer below the Union-wide average**. However, this development affected also other CEE economies, and in general is one of the factors which are hindering growth in Europe as a whole.

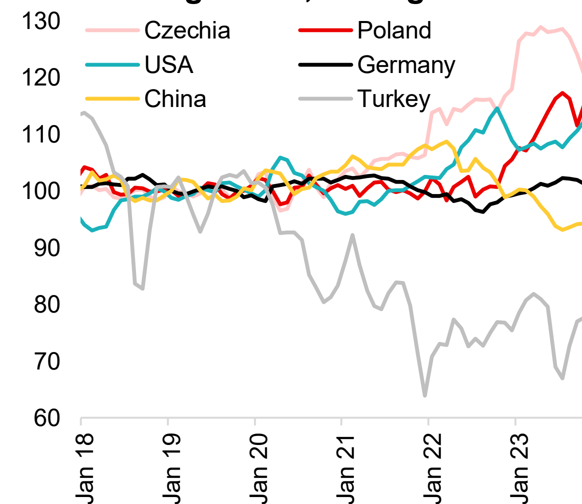
Domestic wages were also rising fast over the recent years, in particular the minimum wage, which is important for competitiveness of labour-intensive sectors and those whose business models hinges on low labour costs.

Does this mean that this time we will gain less on the European recovery? Firstly, **our competitors within the EU are relatively weak** (we base this view on, e.g., the ESI surveys). Secondly, reshoring reduces the significance of the aforementioned factors undermining Polish competitiveness (as it narrows the list of developed countries' potential suppliers). However, it is clearly not able to eliminate their impact.

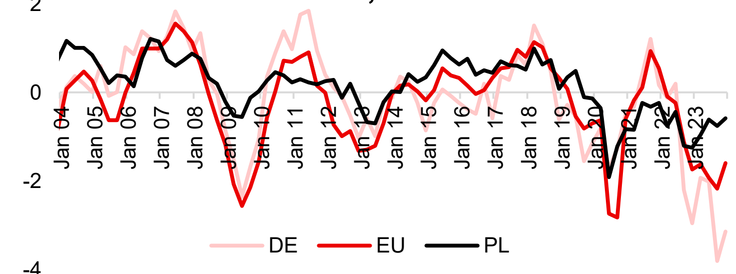
Deviation from average EU electricity price, consumption bracket: 2-20 GWh



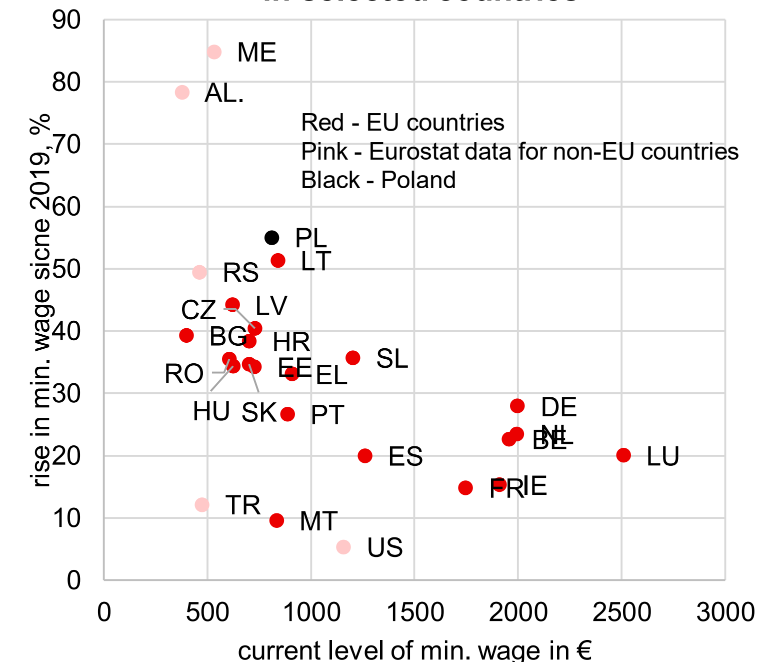
Real effective exchange rates according to BIS, average 2019=100



ESI, indicators of competitive position: intra-EU, standardised



Level and growth of the minimum wage in selected countries



Source: Eurostat, BIS, Santander

Source: Eurostat, KE, Santander

Minor consequences of changes in competitiveness

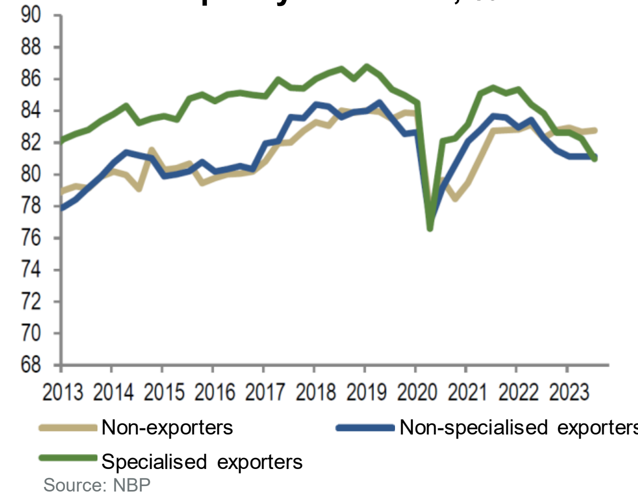
The unfavourable pattern of factors affecting the competitiveness of Polish exports does not necessarily have to significantly impact the real performance of the economy.

Industries exposed to foreign demand have come to terms with a reduction in margins, **which is one way of shoring up price competitiveness**. It also seems to us that the **relatively large investments of 2022-2023 may have been undertaken to act against rapidly rising costs** (such as labour and energy), which should also support a recovery in competitiveness.

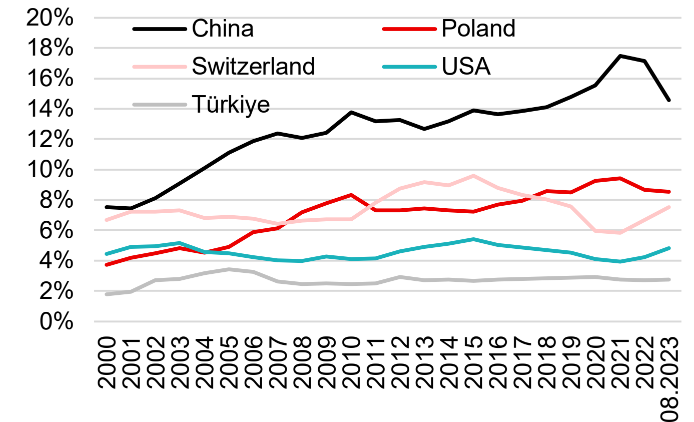
Worryingly, the capacity utilisation of exporters has fallen below that for non-exporters (according to the NBP's Quick Monitoring), which is unusual. We also note that last year Polish producers of consumer durables supplied a smaller share of the euro area market than a year or two earlier (a decline in Poland's share of euro area imports, by value).

On the other hand, for the time being, **the PMI index for Poland shows an exceptionally strong annual rebound**, similar to China and Turkey. On top of that, the production of individual household appliances reached its lowest point in July-August (after a clear negative trend in the first half of the year) and is already rebounding.

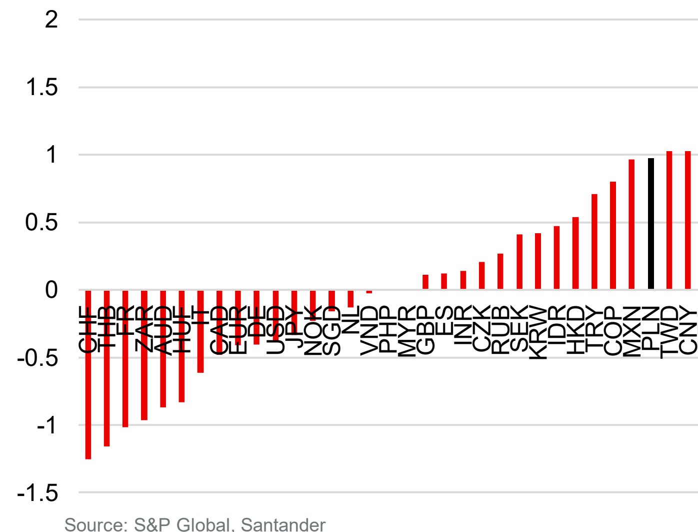
All in all, it has to be taken into account that the performance of the export sectors may be modest, but we are thinking in terms of moderate growth rather than stagnation, loss of market share or large drops in production. This approach gives room for positive surprises from industry.



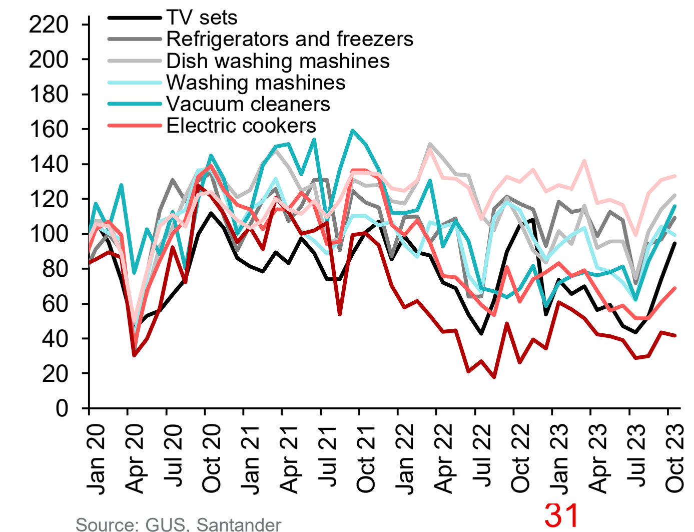
Source: NBP



Source: Eurostat, Santander



Source: S&P Global, Santander



Source: GUS, Santander

Santander

Pronounced recovery in loans

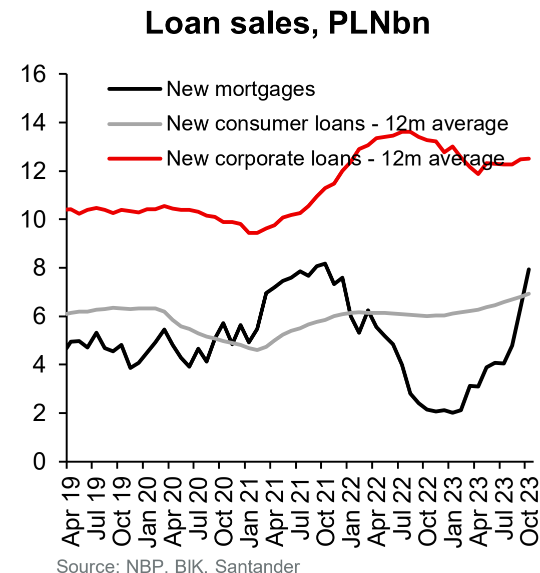
In line with our forecasts, credit sales are improving and the momentum coming from the „Safe Loan" programme proved very strong. We expect credit demand to remain strong in 2024 as well.

In September's MACROscope, we pointed to the credit market recovery gaining strength, especially in the mortgage market, and house prices returning to an upward price trend. Our expectations proved to be correct. October's mortgage market data showed sales of around PLN8billion, just slightly below the 2021 peak. We assume that November could be even stronger. The recovery in the market, although already visible since the beginning of the year, has been boosted by the 2% loan, as we indicate on page 21. According to the NBP figures, 3Q23 has already saw a jump in housing prices.

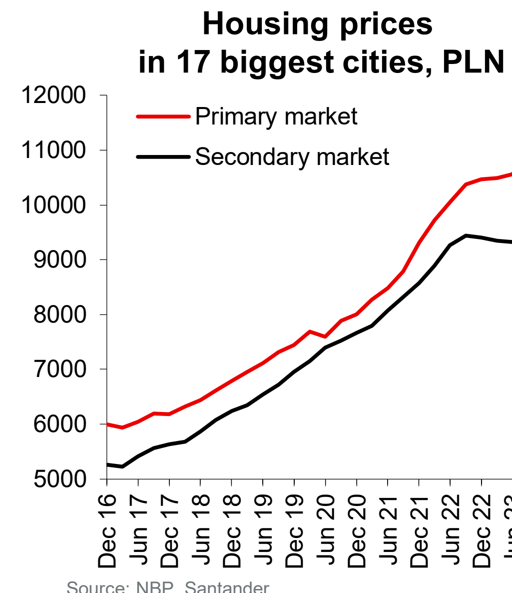
We assume that the strong pressure on prices will hold until „Safe Loan" programme is not depleted. Thereafter, it may ease somewhat, with a likely weakening of demand (or rather - normalisation) and an increase in supply, already evident in the higher number of building permits and construction starts.

The recovery also continued in the consumer credit market, where average monthly sales in the last 12 months reached a record PLN6.9bn. We believe that the recovery in consumer demand will support further acceleration in this credit category. Corporate credit demand also remains fairly strong, albeit below the highs of 2022, when companies needed increased financing due to the strong rise in commodity prices. We expect further improvement in demand from companies in the coming months.

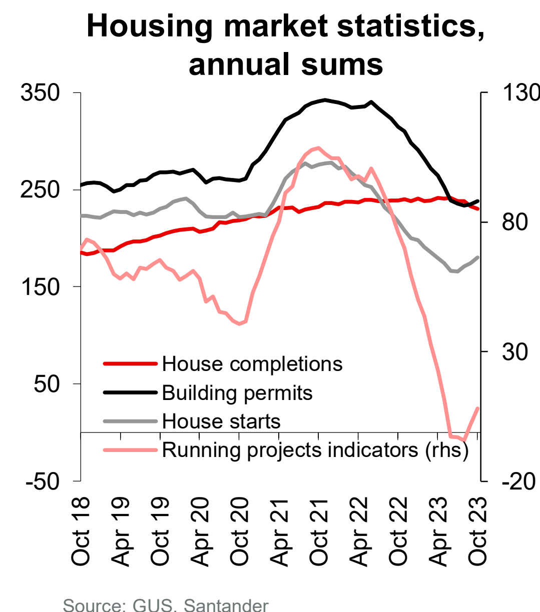
Despite data roughly in line with our forecasts, we have revised our loan growth forecast for the end of 2023 to slightly above zero - this is a result of the strengthening of the zloty and a faster reduction in the CHF mortgage portfolio. In 2024, we already expect solid loan volume growth, approaching 10% by the end of the year. Deposit growth, on the other hand, should remain in the vicinity of 10% in the coming quarters, mainly due to expansionary fiscal policy.



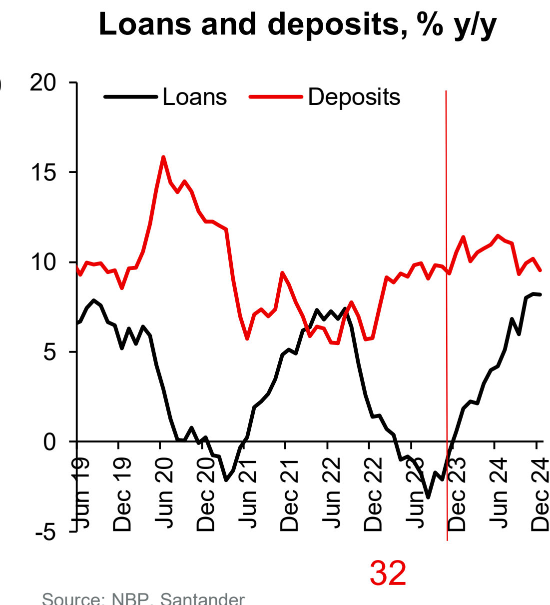
Source: NBP, BIK, Santander



Source: NBP, Santander



Source: GUS, Santander



Source: NBP, Santander

Santander

Labour market

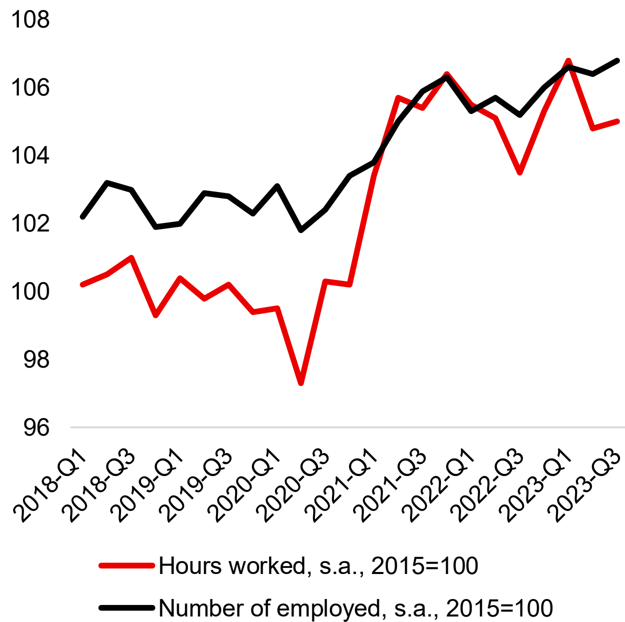
2

The number of jobs is still rising…

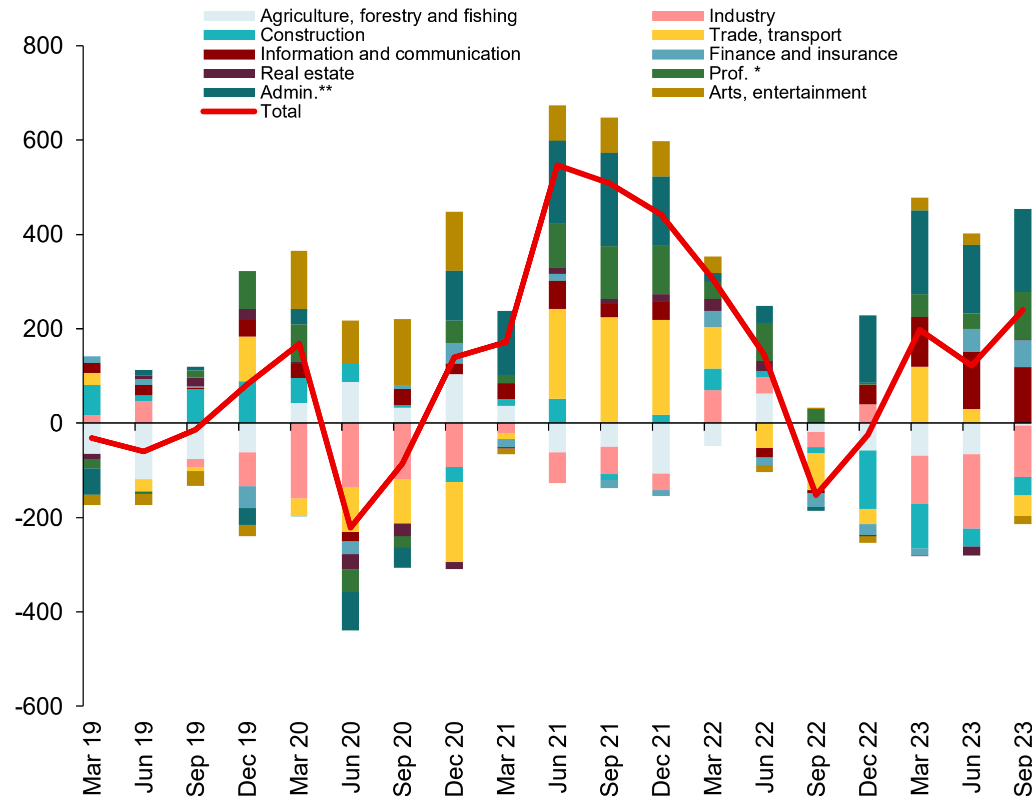
Average employment in the corporate sector has been gradually declining since the beginning of the year. In spite of this, the number of jobs in the overall economy is not only refusing to fall, but actually has slightly increased, as indicated by both the National Accounts (NA) employment figures and the LFS survey data.

This discrepancy is explained by several factors: (1) although layoffs are taking place in industry, the number of jobs in the public administration and the financial sector, both of which lay outside of the corporate sector, is increasing, (2) the number of self-employed is rising, (3) the decline in average employment in the corporate sector partly reflects reductions in working time rather than job cuts.

Number of employed and hours worked, 2015=100, s.a.



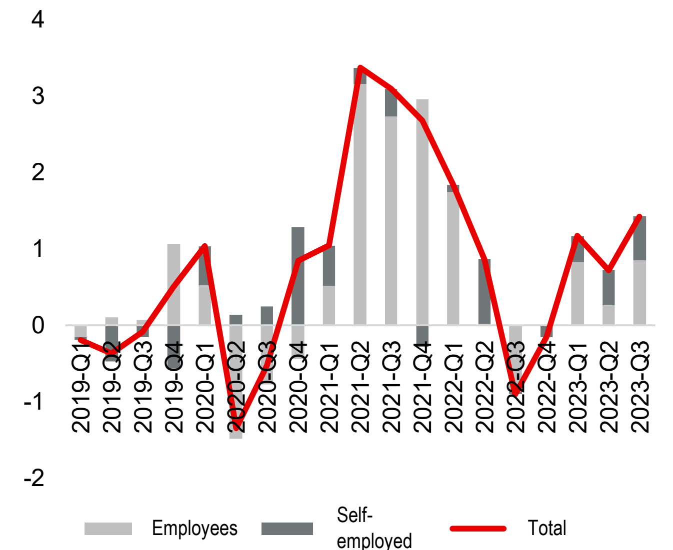
Change in overall employment, thousands, y/y



* Professional, scientific and technical activities; administration and support activities

** Public administration and defence; compulsory social security; education; health care and social work assistance

Change in overall employment, % y/y



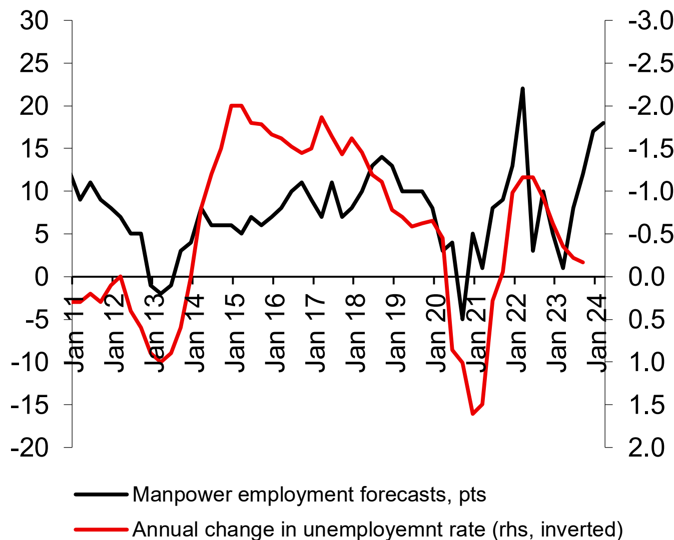
Source: Eurostat, Santander

... and should continue rising

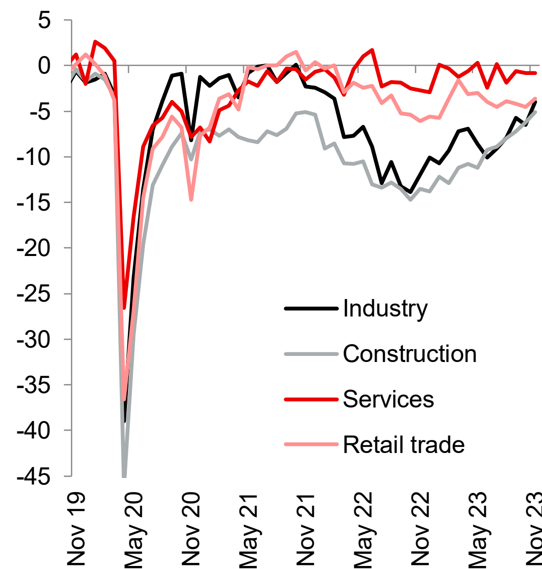
However, the labour market's outlook is not unequivocally rosy. The reduction of employment in manufacturing is quite advanced and within the last 1.5 years has already affected c. 250k people. Layoffs are also evident in transport (which is heavily dependent on industry's performance) and construction. Downward pressure on margins may still lead to further employment restructuring in some sectors and companies. There are also signs that companies are planning mass layoffs.

In our view, however, the economic recovery will mean that the demand for employees across the economy should increase rather than decrease. Therefore, we expect that moderately positive trends will continue in the year ahead. This is supported by the percentage of companies reporting unfilled jobs, which remains above the long-term average, and by the improvement in companies' employment forecasts in business surveys. On the other hand, the scale of the recovery in GDP growth will not require a significant increase in the number of working people, given the productivity reserves, so employment growth is likely to be only slightly above zero.

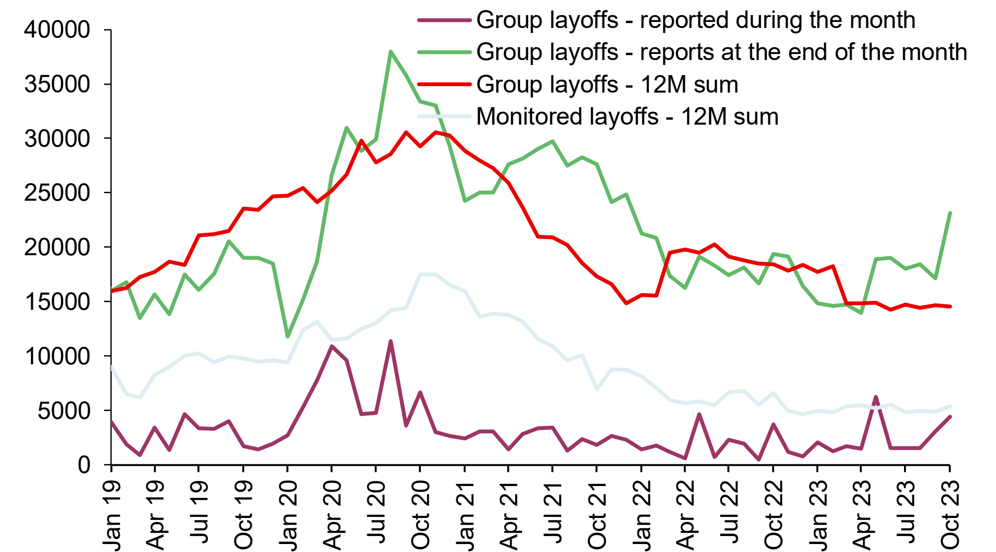
Manpower employment forecasts vs. unemployment rate



GUS employment forecasts



Number of group layoffs



Santander

Source: Eurostat, GUS, Santander

Source: GUS, Santander

Source: Ministry of Family and Social Policy, Santander

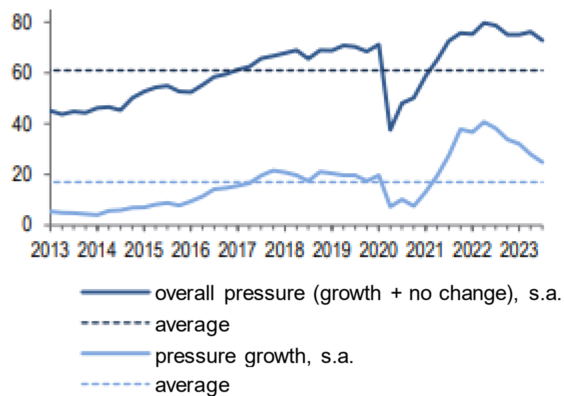
Wage growth will remain high

Wages continue to grow at a double-digit rate and we expect this to continue in 2024, supported by structural labour shortage, continued demand for workers, and decelerating inflow of economic migrants, as well as by regulatory measures, most notably the increase in the minimum wage to PLN4.3k, which will make 2024 the second year in a row with c. 20% increase in the minimum wage.

According to estimates of the Ministry of Labour and Social Policy, the increase in the minimum wage will affect as many as 3.6 million people, i.e. more than a quarter of all the employees in the entire economy. If the new government additionally fulfils its promises of 20% wage increases for public sector employees and 30% for teachers, it can be estimated that a wage increase of at least 20% will affect at least 1/3 of the overall working population. Under these conditions, it seems unlikely that average wage growth will slow below 10% y/y in 2024.

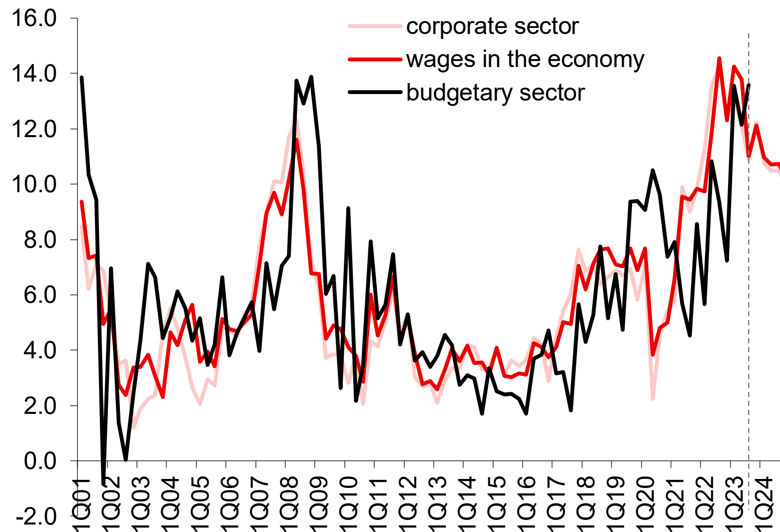
At the same time, the high rate of indexation of social benefits (pensions and disability allowances will rise again by a dozen or so percent in March), and transfers (the 500+ child benefit raised to PLN800) will continue. High household incomes will support consumption, but at the same time make it difficult to further reduce inflationary pressures.

Share of firms reporting wage pressures, %, s.a.



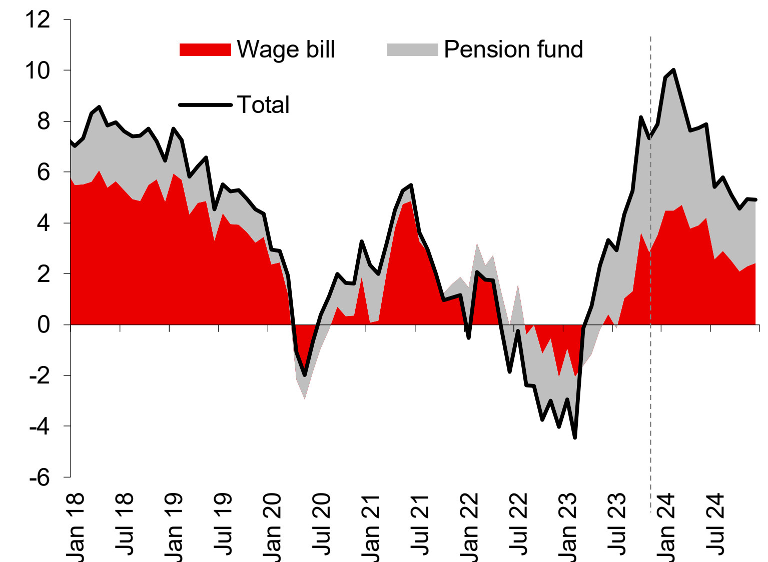
Source: NBP Quick Monitoring

Wage growth, %y/y



Source: GUS, Santander

Main categories of personal income, contribution to real growth at constant prices, %y/y



Source: GUS, Santander

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Inflation

3

Much depends on regulatory decisions

In 2024, we expect CPI inflation to fall to c.3% y/y in March and then rebound to c.7% y/y by the end of the year. The inflation trajectory will be to a large extent determined by administrative decisions on food and energy prices. In the baseline scenario, we assume a continuation of the zero VAT rate on food until the end of March and a freeze of energy prices until the end of June.

We present detailed assumptions for food and energy prices and administrative solutions on pages 43-44.

For core inflation, we assume a decline to around 5% y/y and for it to remain around this level throughout 2H24.

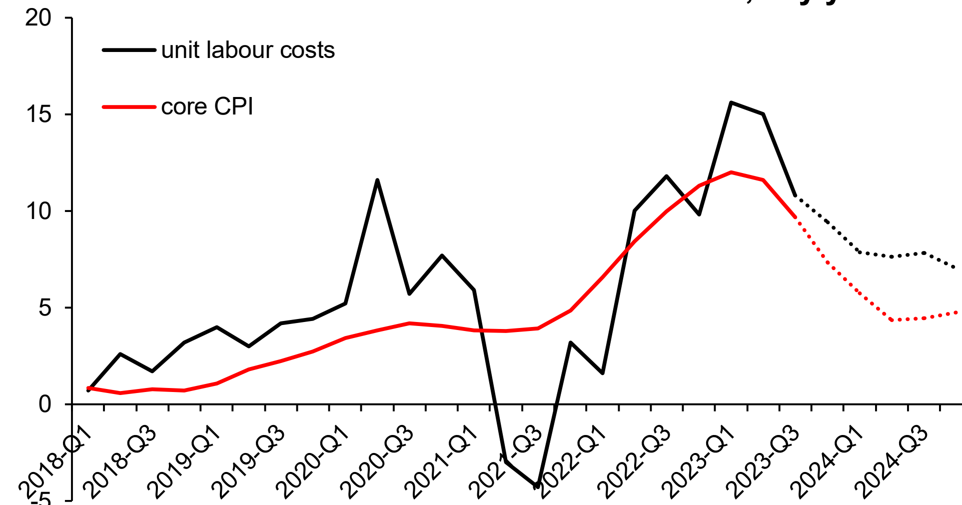
In general, we expect inflationary pressure to remain relatively high in 2024, but significantly lower than in 2022 and early 2023.

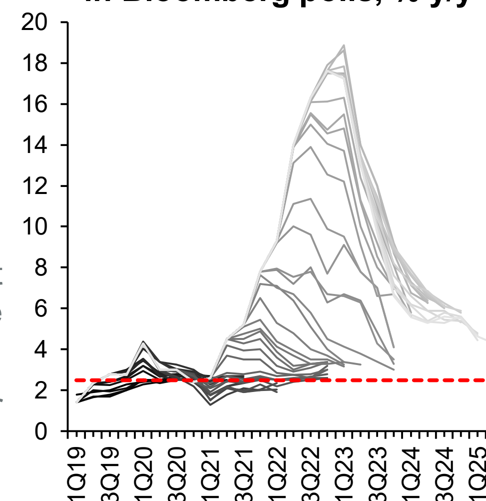
The decline in inflationary pressure relative to recent years is supported by:

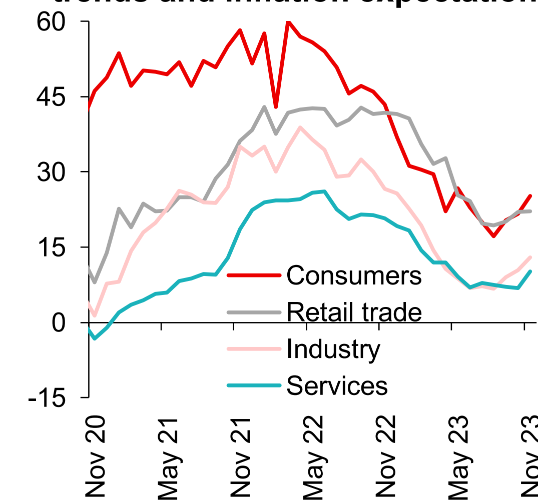
- The fading of shocks related to Russian aggression against Ukraine, normalisation of commodity prices
- The strengthening of the zloty
- Higher interest rates, weaker economic growth and global price pressures

Factors that might keep inflationary pressure higher than usual:

- Recovery of the domestic economy, especially consumption
- High growth of households' incomes (wages, social benefits) and high growth of unit labour costs - with double-digit growth of wages and productivity growth of c. 3% y/y, the growth of the ULC is c. 6-7% y/y.
- The anchoring of inflation expectations at high levels, greater consumer tolerance for price increases







Source: Bloomberg, Eurostat, NBP, Santander

Santander

Inflation path and „anti-inflation shield"

Inflation forecasts under different assumptions about the expiry of anti-inflation shield components, % y/y

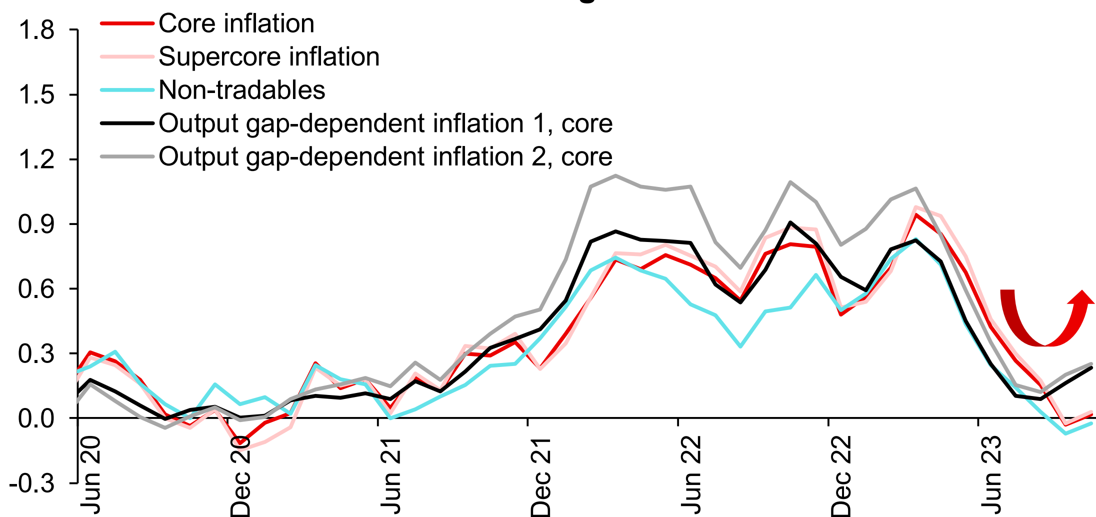
Source: GUS, Santander

Inflation pressure: has it been really stifled?

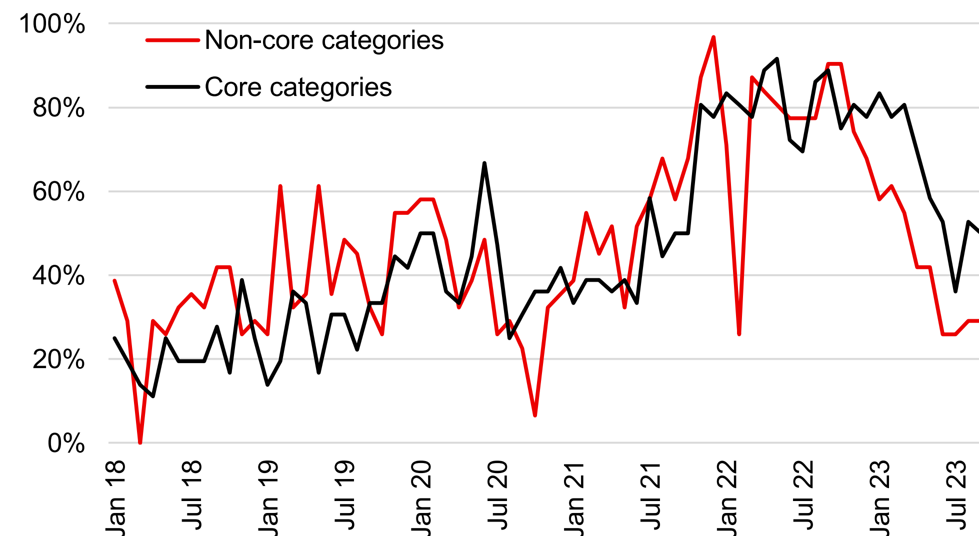
The rapid decline in annual CPI growth during 2023 was largely due to base effects. Regulatory and administrative measures directly affecting prices included in the CPI (energy, VAT on food) also had a large impact. Nevertheless, the data indicate that also for the underlying components of inflation, the price momentum declined dramatically in 2H23. Should this situation persist, the annual inflation rate should continue to decline significantly in the following quarters.

However, **two measures of inflationary pressure focusing on the domestic demand-sensitive components of CPI, after a stabilisation in August, have started to rebound since September.** We also noted that in the detailed CPI data, after a series of declines, the number of categories with prices rising at a faster rate than the normal seasonal pattern has recently started to go up again.

Our macroeconomic scenario based on the strong rebound in consumption suggests that inflationary pressure may show up again in 2024, although its scale may be inferior to the previous years, and this will mean that the closer we get to the inflation target, the harder it will be for disinflation to progress.



Source: Eurostat, GUS, Santander



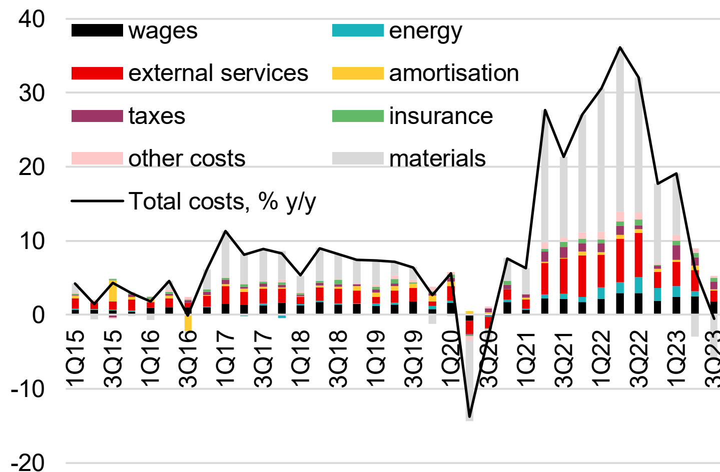
Source: GUS, Santander

Company results: is cost pressure over?

Costs in companies employing 50+ persons fell by 0.5% y/y in 3Q23 (the first decline since 2Q20). This is a consequence of the high base (in 3Q22, costs grew by more than 30% y/y). The deceleration in total cost growth is mainly due to declining material costs, by 12.6% y/y (-6.2% y/y in 2Q) and the zeroing out of the increase in energy prices, (a very high base at play, +93% y/y a year earlier). Continued negative PPI inflation in Europe and low or mildly negative one in Asia suggest that **we will not see upward pressure on CPI from production costs in Poland in the near term. However, we have concerns that there will not be significant downward pressure either**.

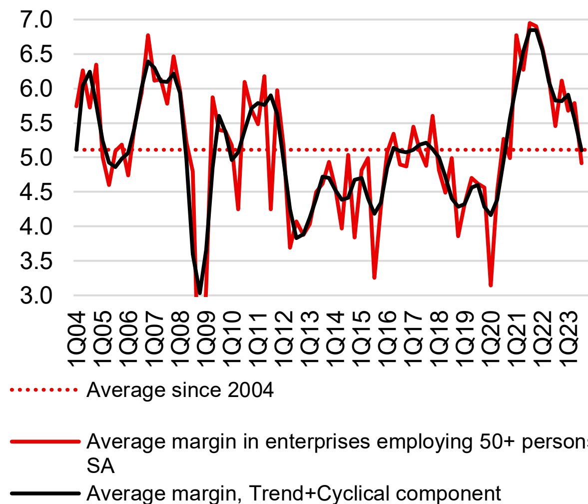
Other costs (apart from materials and energy) continued to increase at a rate of more than 5% y/y, similar to 2017-2019, with labour costs up 13.6% y/y and taxes rising the fastest, by 21.4% y/y. Moreover, usually when a new business cycle kicked in, this allowed companies to pass on cost increases to customers and even led to an increase in average margins. This relationship was disrupted in 2014-2015 by deflationary trauma - the reduced tolerance of consumers for price rises after a period of price falls. This time around, we may see the opposite - **a relatively easy return of expectations for price rises, and thus a greater tolerance for them**. However, the negative effect of the tight labour market should also continue to put downside pressure on margins in the coming quarters - in 2018-2019, strong wage pressure distorted the relationship between margins and GDP growth. On page 42, we show that the behaviour of average total margins can mask processes taking place in the economy: on the one hand, the struggle of export sectors to keep market shares at the expense of margins, and on the other hand, the prevailing conditions for increasing margins among consumer demand-oriented sectors.

Company costs ex materials are still growing by >5% y/y, higher than before the pandemic



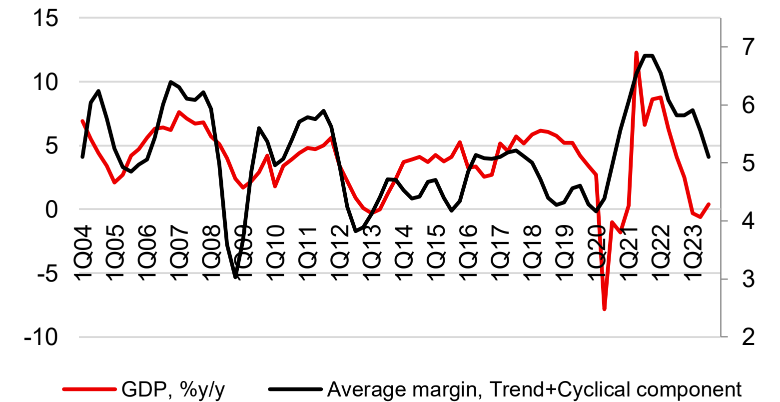
Source: Eurostat, GUS, Santander

Average margin in large and medium companies, %



Source: GUS, Santander

Economic rebound supports higher margins although the relation was stronger until 2013, later distorted by deflationary trauma and tight labour market



Source: GUS, Santander

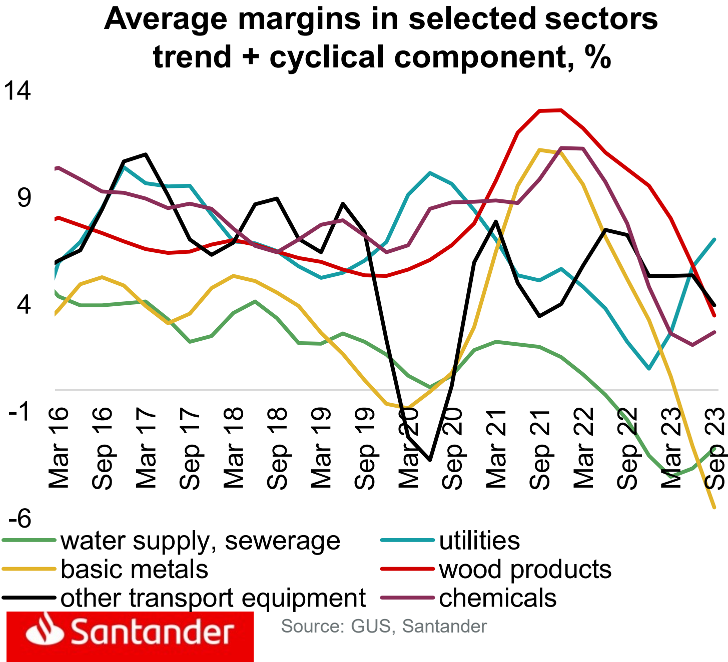
Santander

Margins: (only) consumer sectors are doing fine

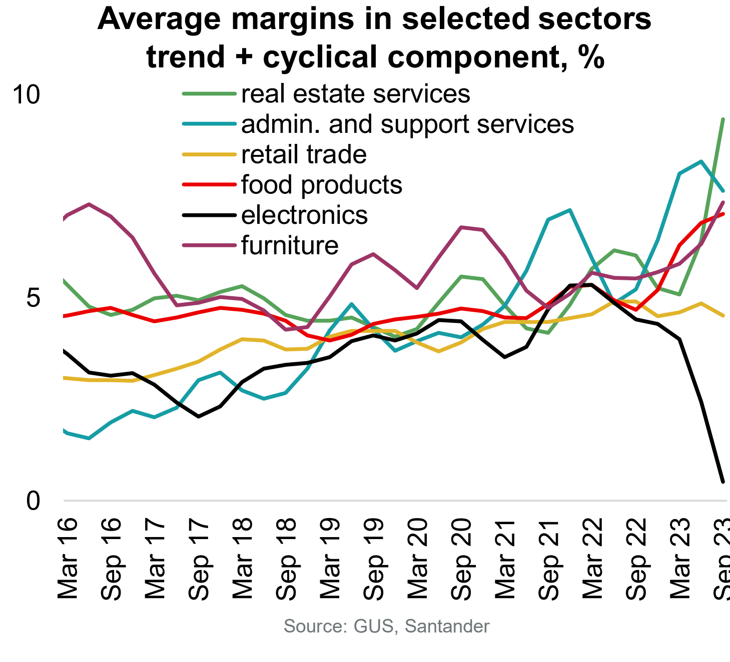
We detected diverging trends in average margins by sector. In B2B-oriented sectors (although not all of them) margins are clearly declining, as is PPI inflation. We see this as another sign of a general weakening of competitiveness, which needs to be mitigated by a reduction in margins. At the same time, in the ESI survey, for several months sectors such as retail, industry and services have been reporting more frequently plans to raise their own prices. In contrast, **margins in consumer-oriented sectors have in most cases not fallen significantly and often even increased recently**. In our view, this has to do with consumers' continued tolerance for price increases - recently, consumer inflation expectations have even started to rise despite no rebound in current inflation. Even with weakened demand (consumption and retail sales struggling to return above zero y/y still in mid-2023), companies supplying consumers did not have to cut margins.

Since this is the case, then in an environment of consumption revival these margins need not retreat despite the already reached historically high levels - and this implies further inflationary pressure. On top of this, the sectors responsible for some of the cost of living items for households (rubbish, water, electricity and gas supply) have recently seen an upward bend in margins which could mean pressure on the corresponding components of the CPI. In sectors linked to the mortgage loan rebound margins are either increasing (real estate services, furniture), or remain historically high despite some earlier declines (housing construction).

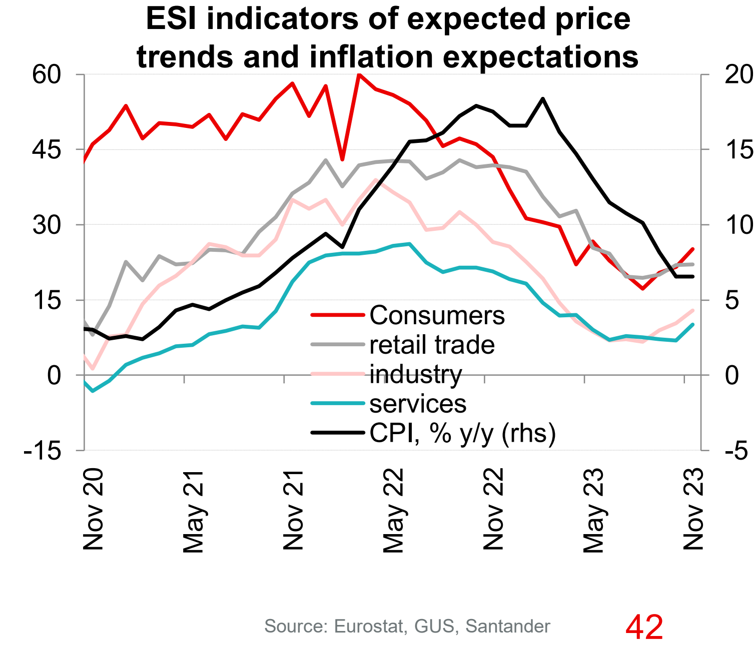
So **although overall margins have recently returned to their historical average (page 41), this is not a full-fledged signal of the end of inflationary pressure in the economy**.



Source: GUS, Santander



Source: GUS, Santander



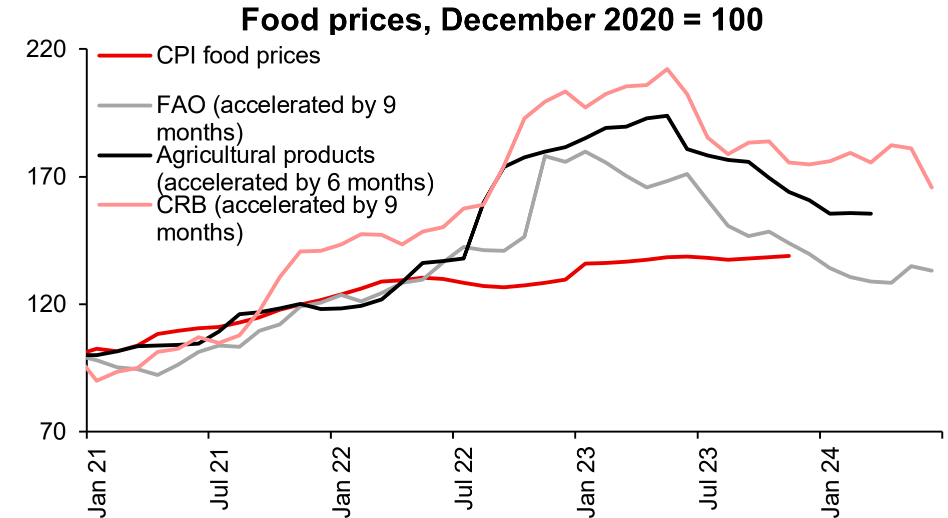
Source: Eurostat, GUS, Santander

Growth in food prices to stabilise

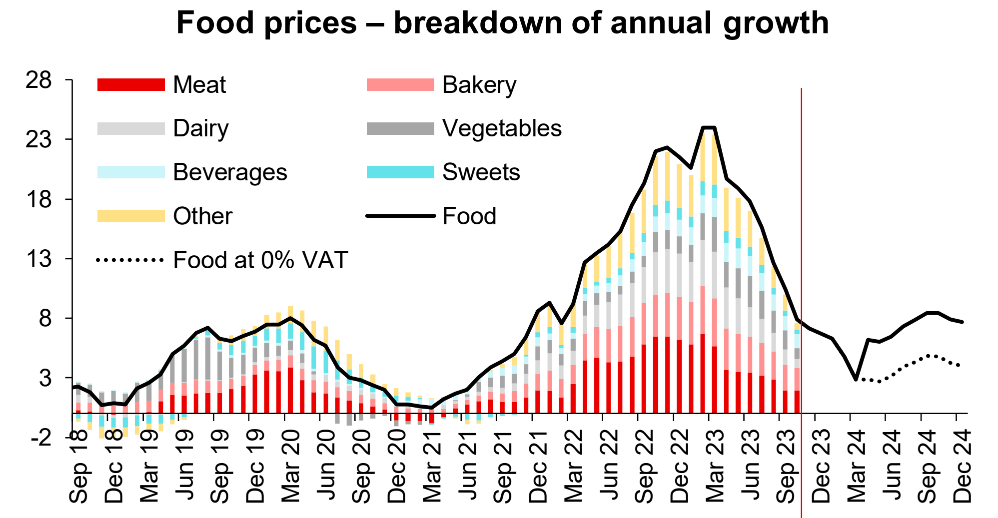
In 2023, food price growth was clearly declining as the shocks triggered by the Russian invasion of Ukraine were fading, particularly as feed and energy prices fell. Lower prices were also supported by the fact that other countries increased the scale of production of foodstuffs previously imported from Ukraine.

In our view, food price growth will stabilise at around 4% y/y in the coming months (assuming constant tax rates). Since - according to the Prime Minister's new decree - the normal 5% VAT rate on food will be restored only in April, **our average forecast for 2024 is slightly below 7% y/y.** We see support for our forecast in the behaviour of FAO and CRB indices as well as agricultural prices in Poland - their relationship with retail prices suggests a stabilisation of CPI food price growth in the subsequent quarters.

We believe that the downward price trends in the market for cereals and oils have come to an end. Fruits and vegetables will slightly increase in price due to the effects of the drought. However, the prices of dairy products and meat may continue to fall, as a result of the ongoing recovery in supply due to the still high profitability in these sectors. Later in the year, the recovery in prices will be supported by an improving global economic outlook.



Source: GUS, FAO, CRB, Santander



Source: GUS, Santander

Santander

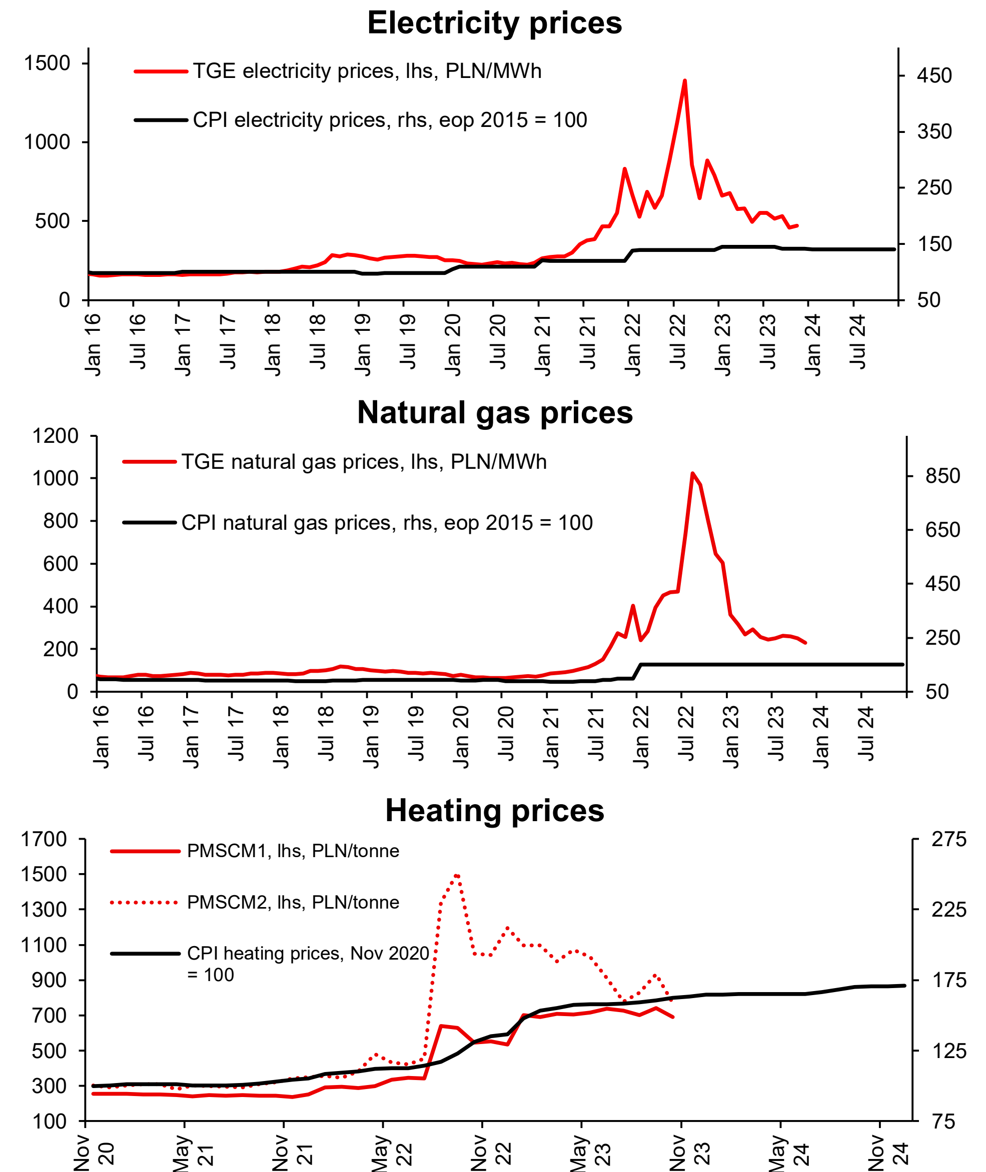
Energy prices frozen until July

We assume that energy prices will remain stable in 1H24, with household electricity bills increasing by 30% and gas bills by 20% in July. We have based our assumptions on the energy price freeze bill presented by coalition MPs. **This price change will add around 1.5 percentage points to the CPI in July.**

Our forecasts are lower than the price increases included in the new tariffs published by the energy regulator (URE) on 15 December. According to our estimates, they imply a 55% increase in electricity bills and a 45% increase in gas bills, which would add not 1.5 but more than 3 percentage points to inflation in July.

In our view, these increases are so strong that there is a growing risk of some form of mitigation of price increases in the second half of the year as well. We are therefore betting on a slightly lower increase, with the new URE tariff generating an upward risk to our forecast of around 1.5-2.0 percentage points.

In case of heating prices, we are expecting an only slight increase in prices after they are no longer frozen in July.



Source: GUS, TGE, Santander

Charts show changes of commodity prices on TGE (Polish commodity exchange) together with assumed value of total bill of a particular energy carrier for households (i.e. it includes also other charges, e.g. distribution, apart from the price of commodity); PSCMI1 – coal price for energy sector, PSCMI2 – coal price for heating sector

Economic policy

4

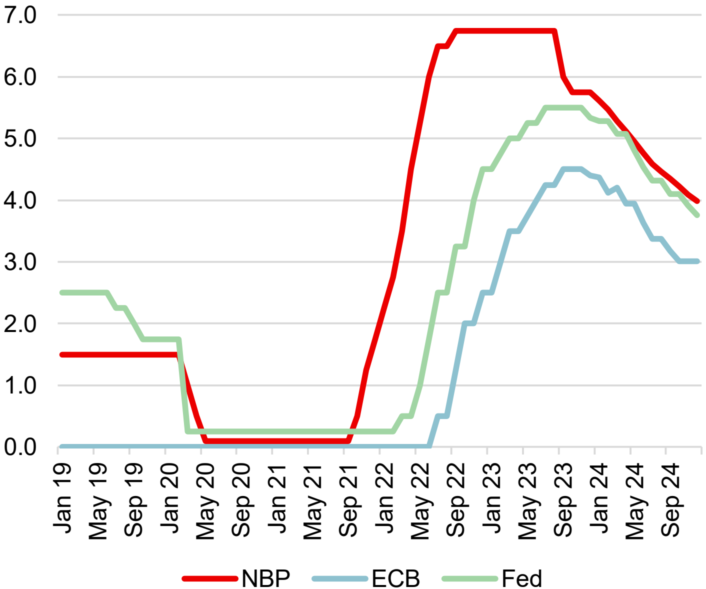
Monetary policy: extended pause?

The NBP's reaction function changed noticeably after the parliamentary elections and **it seems that the MPC will now be far more focused on bringing inflation back to the target** rather than on smoothing the business cycle.

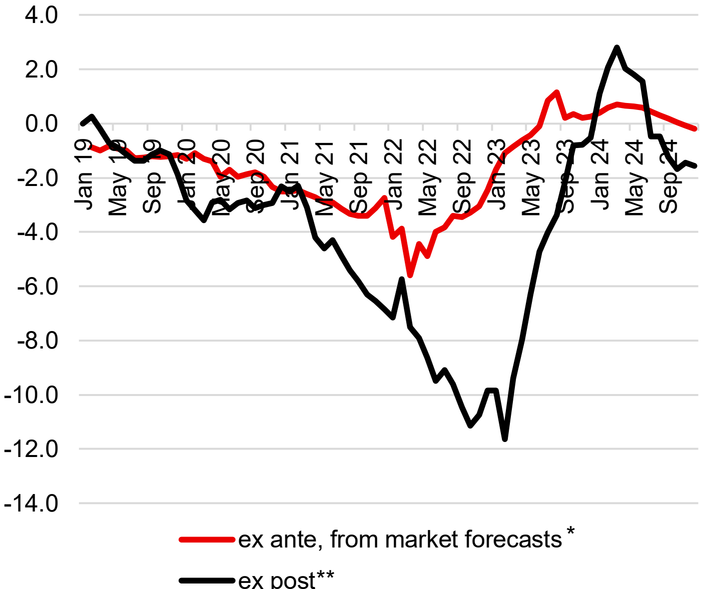
The central bank's November inflation projection did not move the expected return to the target any closer, and its next release in March will likely account for the temporary extension of the anti-inflationary shields, the policies announced by the new government (e.g. pay rises in the public sector, larger fiscal deficit), and perhaps also a better outlook for economic growth and the labour market. In effect, we expect that **the projected return to the target may be even slightly delayed**. Moreover, the horizon of the projection will be extended to include the whole 2026.

In our view, **the MPC will not hurry with further interest rate cuts, quoting the delay in the CPI's return to the target, economic recovery, and pro-inflationary policies of the new government**. Of course, the international context will also come into play. Should the main central banks decide to quickly cut rates, the NBP might follow suit. However, we think that the financial markets, both at home and abroad, are too optimistically pricing-in further cuts. In our view, **the NBP reference rate could remain unchanged at 5.75% until 4Q24, with two cuts, each of 25bp, possible at the end of the year, brining the main rate to 5.25%.**

Interest rates at main central banks, %



The NBP's real interest rate, %



* NBP rate (future months implied by the swap curve) adjusted for inflation predicted in 1Y horizon – based on median from Bloomberg survey

** NBP rate (future months implied by the swap curve) adjusted for actual observed inflation (future months according to Santander's CPI forecast)

Source: Bloomberg, GUS, Santander

The projection justifies keeping rates stable

In our view, the November NBP projection did not justify delivering further rate cuts. The same message also came from the July projection, but it did not prevent the autumn rate cuts. We came to this conclusion assuming that the Council's objective is to bring inflation down to 3.5% y/y in eight quarters (which is a little longer than the usual horizon of central banks). In turn, the output gap projection (downgraded from the July version over a timespan of up to one year) indicated a growing need for rate cuts. The unemployment gap no longer suggested the need for rate cuts.

The next inflation projection will already account for the known energy and food price policies adopted by the government. Since the November one assumed a full and indefinite extension of the anti-inflationary shields, it is reasonable to conclude that **in March the projection will be revised upwards**.

There is also a marked upward deviation of private consumption from the November projection: in 3Q, it grew by 0.8% y/y (NBP: -1.4% y/y) and in 4Q, according to us, by 3.9% y/y (NBP -0.7% y/y).

We have also noted that successive projections gradually decreased the NAWRU (equilibrium unemployment rate) estimates – this corresponds to assuming that persistently low unemployment at record lows exerts less and less upward pressure on inflation in the NBP model. At the same time, however, and to an even greater extent, the projection of the unemployment rate has been revised downwards, although it is still slightly rising. As a result, the unemployment gap is already expected to be at a neutral level from mid-2024 till the end of the projection. A further flattening of the unemployment path would put positive pressure on inflation in 2025 (and in 2026, which will be added in the March projection).

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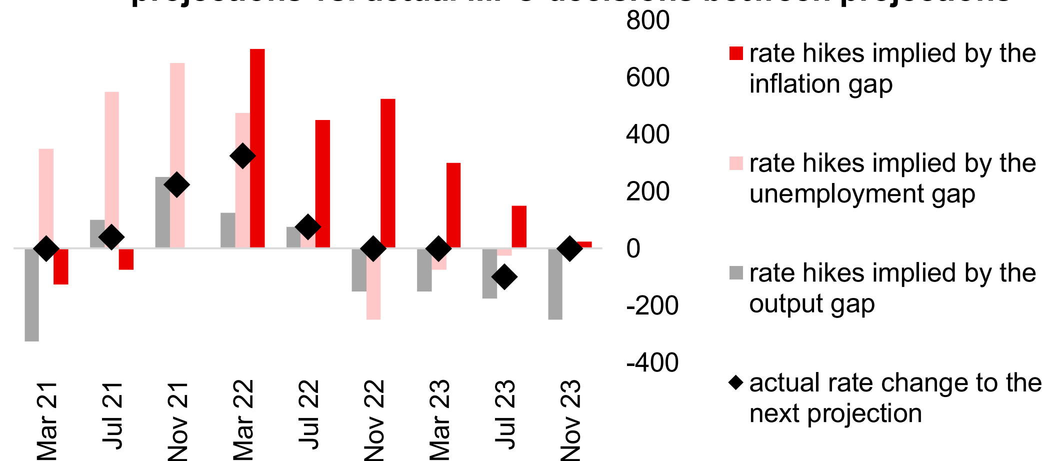
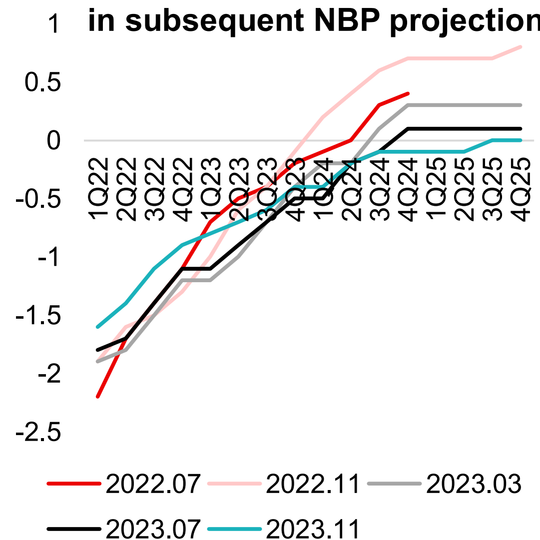
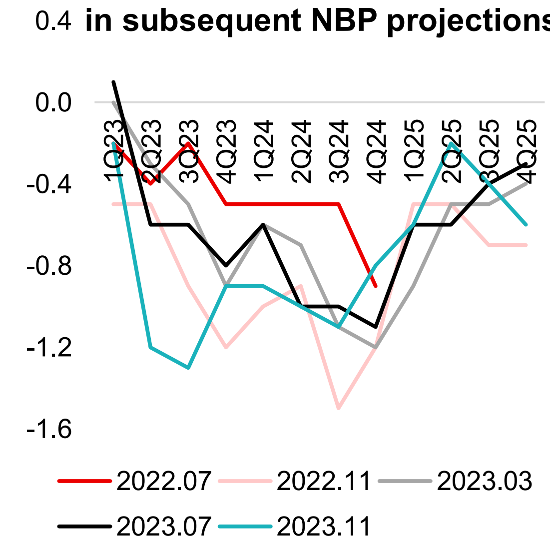
Changes in rates implied by deviations of inflation from the target, deviations of unemployment from the equilibrium rate and the output gap in successive NBP projections vs. actual MPC decisions between projections



Unemployment gap estimates in subsequent NBP projections



Output gap estimates in subsequent NBP projections



Source: NBP, Santander

Budget for 2024 under pressure of election campaign

Playing it by the book, the new government should begin its term by tidying up the public finances and making a few tough calls on cutting spending and rising taxes. However, the electoral calendar makes such a scenario unlikely. The time which will pass between the parliamentary elections and the next ones is record short: local elections will be held in April, the European ones in June, and the campaign before the presidential ones will likely begin in autumn. Moreover, the time it took to form a government was record long. All in all, the new government can ill afford to make unpopular choices.

The list of all the additional costs to the budget, stemming from the last-moment decisions made by the previous government and from the announcements of the new coalition, is long and in our view may sum up to as much as PLN40bn.

We think that the GG deficit planned for 2024 will rise above the value presented in the previous government's draft budget from September, though on a slightly smaller scale due to savings from the announced spending review (incl. the final decisions of the predecessors). We estimate the GG deficit at slightly above 5.0% rather than 4.5% of GDP.

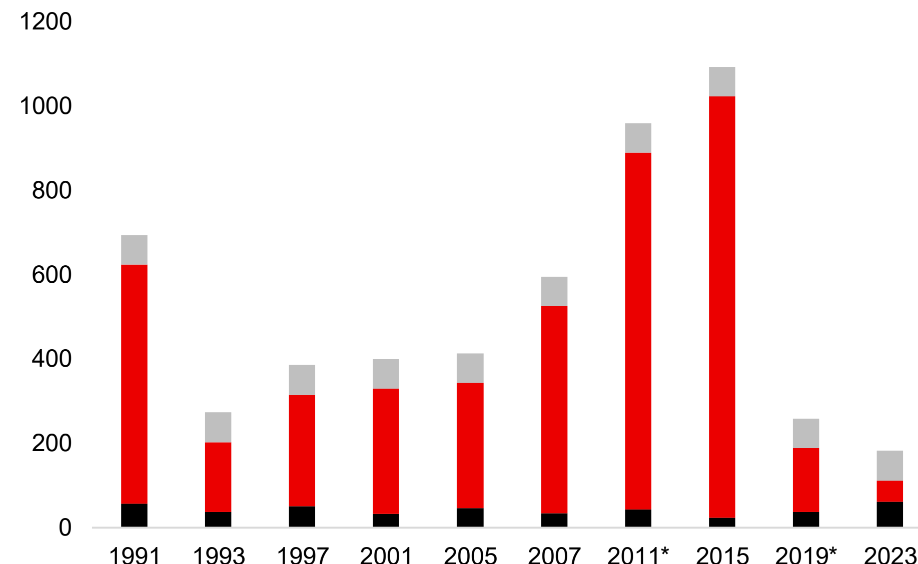
Costs 'inherited' from predecessors and not included in September's draft budget:

- Support for mining companies: PLN 7 bn
- Other expenses from the self-amendment of 12 December: PLN 6.7 bn
- Wage rises for judges, prosecutors: PLN 0.9 bn
- Additional spending on modernisation of hospital emergency departments: PLN 0.75 bn
- Payments to maize producers: PLN 0.5 bn
- No inflow from the previously planned NBP profit: PLN 6 bn
- Zero VAT on food till the end of March: PLN 2.75 bn

Costs of the policies announced by the new government:

- Fixing energy prices for six months: PLN 16.5 bn (with PLN 14.6 bn financed from a tax on Orlen)
- Wage rises for teachers and in the public sector: PLN 13-15 bn
- The 'granny' subsidy: probably almost budget-neutral, the cost of the benefit will be more or less covered by contributions and taxes on salaries of women returning to the labour market
- Second indexation of pensions when inflation exceeds 5%: exact assumptions not yet known

Interval (in days) between parliamentary elections and subsequent elections (presidential, local, EP or parliamentary)



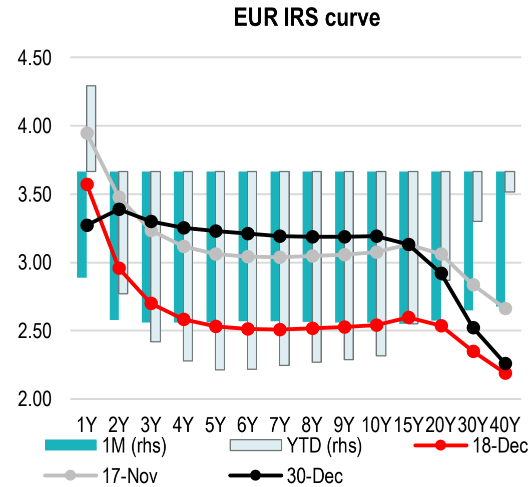
* without a change of power

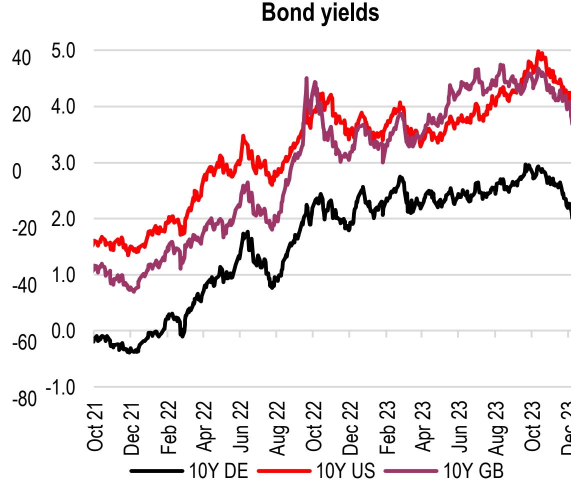
Source: PKW, Santander

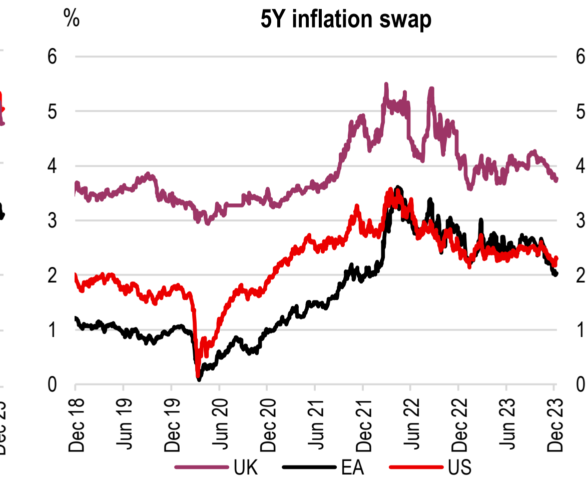
5

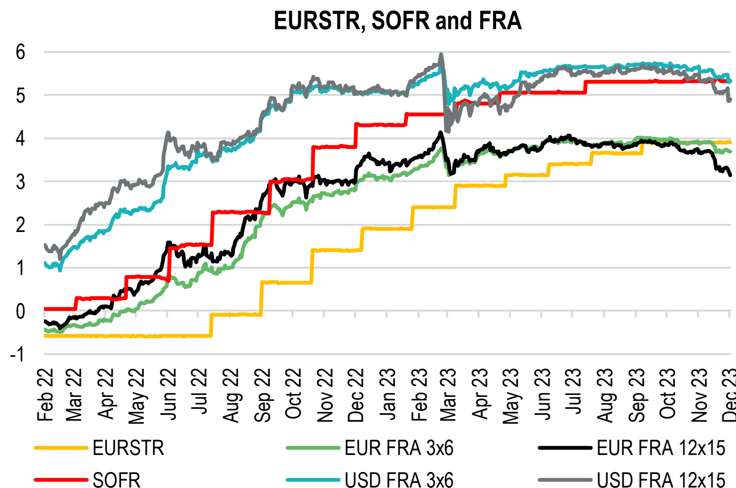
When interest rate cuts from the major central banks?

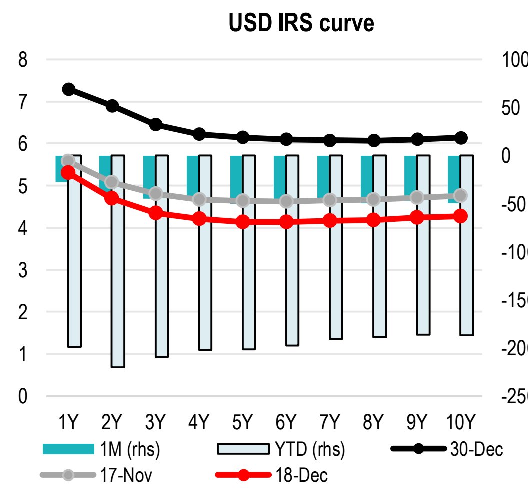
Bond yields decline in the core markets, commonly expected for 2023, did not materialise for the better part of the year. However, this move emerged towards the end of the year and could be the start of next year's trend. Inflation in the US and the euro area fell surprisingly sharply, to a level that led even the biggest hawks (I. Schnabel) to change their rhetoric to a softer one. Weak economic data and the dovish message from the Fed's December meeting have led to increased expectations of interest rate cuts in 2024. The market is now pricing in a very aggressive scenario of interest rate cuts, around 5x25bp in the US and 7x25bp in the euro area.

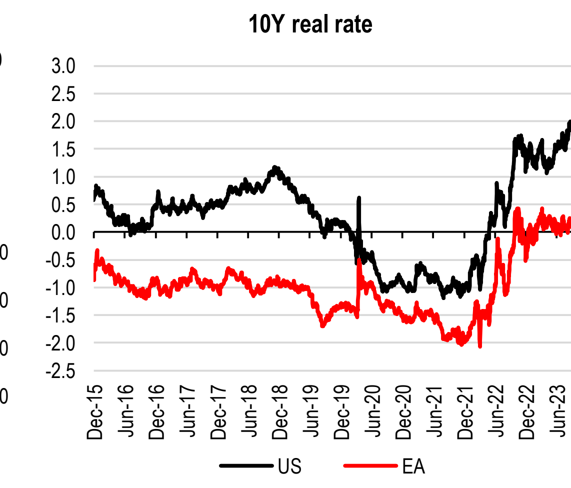


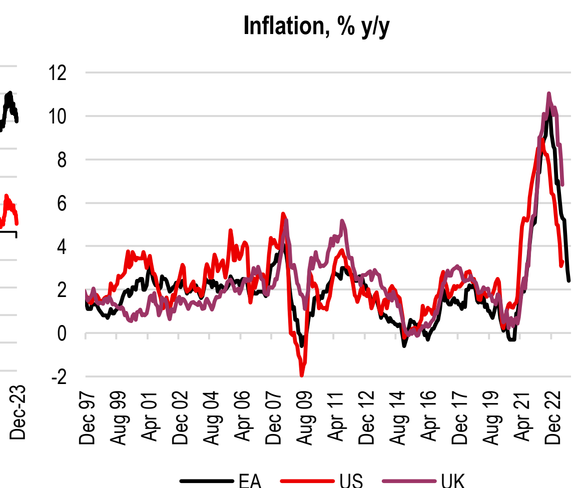












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Source: Refinitiv, Santander

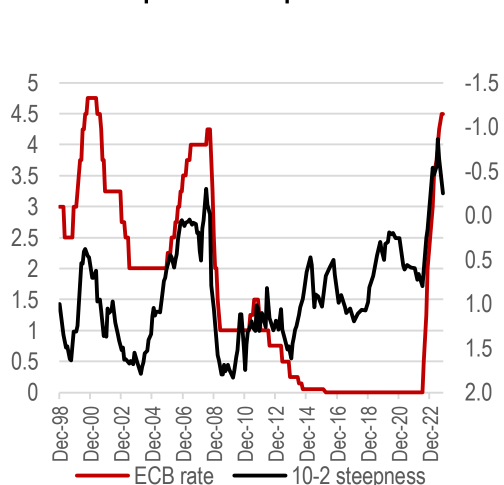
Not as fast as the market assumes

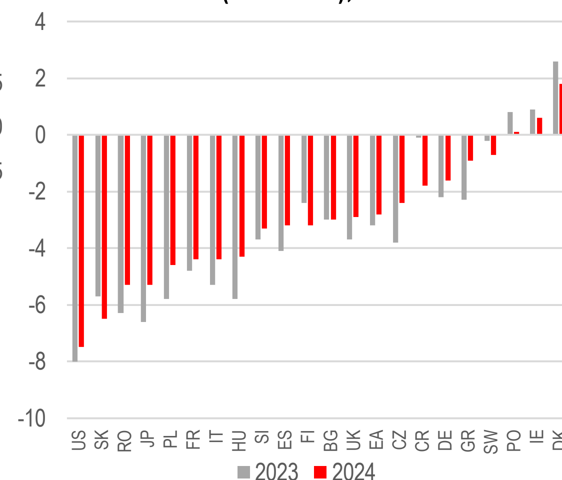
We assume that, despite economic stagnation in 1H24 and a subsequent slow recovery in the euro area, central banks will not be in as much of a hurry to cut rates as the market is pricing in, giving room for an upward adjustment of short-term market rates, particularly in the US.

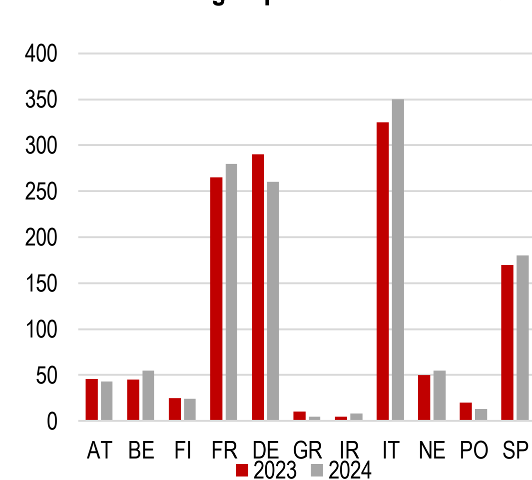
The first downward wave of long-term yields in the core markets is probably behind us. Typically, 10-year bonds in the US and Germany have fallen in the first weeks after the end of the rate hike cycle, by 70-150 bps versus around 70-80 bps today. So there is room for an upward rate correction at the long end as well.

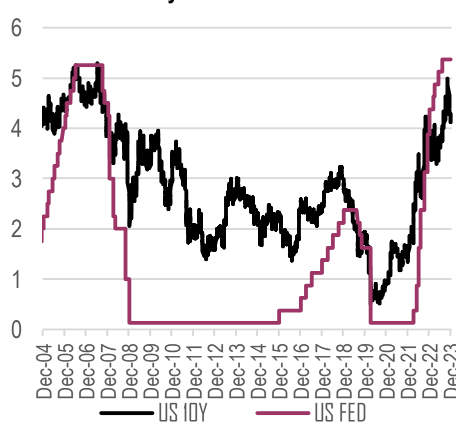
Thereafter, the market would probably return to falling yields with a gradual decline in inflation and rates, which, with low volatility (VIX), may favour lengthening duration and increasing exposure to both bonds and equities.

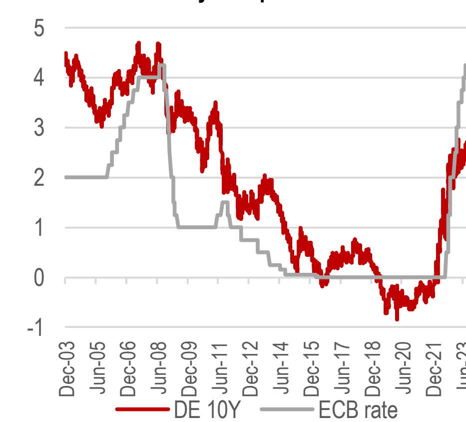
The ECB rate could fall to 2.5% in 2025 and rate cuts will lead to a steepening of the euro curve in the longer term. This will be encouraged by central bank balance sheet reductions, high fiscal deficits and issuance.

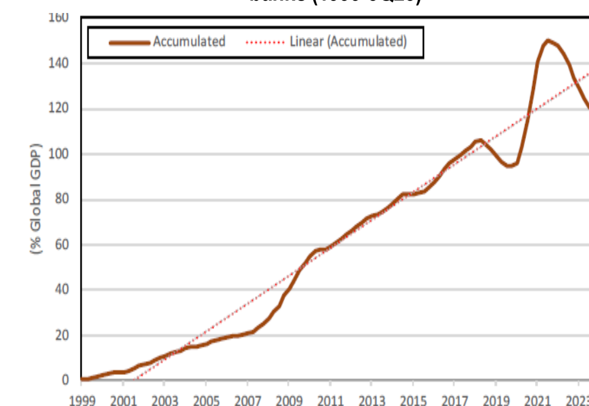












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Source: Refinitiv, EC, Santander

Emerging markets leading in rate cuts

In contrast to the core markets, the debt markets of the CEE region experienced a significant drop in yields (100 to 270 bp) in 2023.

Central banks of emerging economies were the first to start raising interest rates and then also the first to start a cycle of interest rate cuts (Brazil, Chile, Hungary).

In our region, Hungary stands out against this background, and it will, in our view, continue to cut rates at a fairly rapid pace as inflation falls. In Hungary, it is likely that rates will be cut to the greatest extent in a year: by more than 4 percentage points.

The Czech Republic, where economic growth has been disappointing for some time, is also likely to join the easing wave soon, but only a fall in inflation near the target will allow the conservative central bank to ease monetary policy. This will be possible with the support of a tighter fiscal policy and a relatively stable currency.

Further down the line, reductions may be initiated by Romania, and the NBP will probably return to monetary easing as the last one in the region.

Central bank rates – Santander forecast

	% level					change, QoQ pp				
	12/14/23	4Q23	1Q24	2Q24	3Q24	4Q23	1Q24	2Q24	3Q24	3Q24 vs. 3Q23
ECB depo rate	4.00	4.00	4.00	4.00	3.75	0.00	0.00	0.00	-0.25	-0.25
Fed rate	5.50	5.50	5.50	5.50	5.00	0.00	0.00	0.00	-0.50	-0.50
BoE rate	5.25	5.25	5.25	5.25	4.75	0.00	0.00	0.00	-0.50	-0.50
Poland	5.75	5.75	5.75	5.75	5.75	0	0	0	0	0
Czech R.	7.00	7.00	6.25	5.50	4.75	0.00	-0.75	-0.75	-0.75	-2.25
Hungary	11.50	10.75	8.75	7.75	6.50	-0.75	-2.00	-1.00	-1.25	-4.25
Brasil	12.25	11.75	10.75	9.75	9.50	-0.50	-1.00	-1.00	-0.25	-2.25
Mexico	11.25	11.25	11.00	10.75	10.50	0.00	-0.25	-0.25	-0.25	-0.75
Chile	9.00	8.25	7.25	6.50	6.00	-0.75	-1.00	-0.75	-0.50	-2.25
Mexico	13.25	13.00	12.25	11.00	9.00	-0.25	-0.75	-1.25	-2.00	-4.00
Argentina	133	140	150	85	60	7	10	-65	-25	-80
Peru	7.00	6.75	6.00	5.00	4.00	-0.25	-0.75	-1.00	-1.00	-2.75

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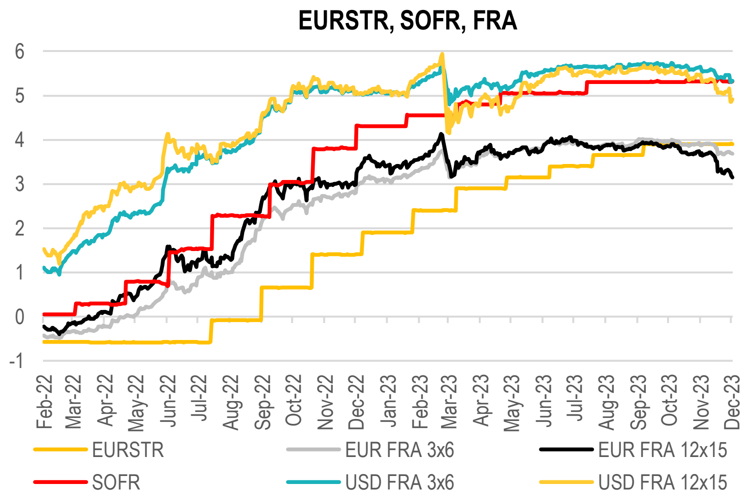
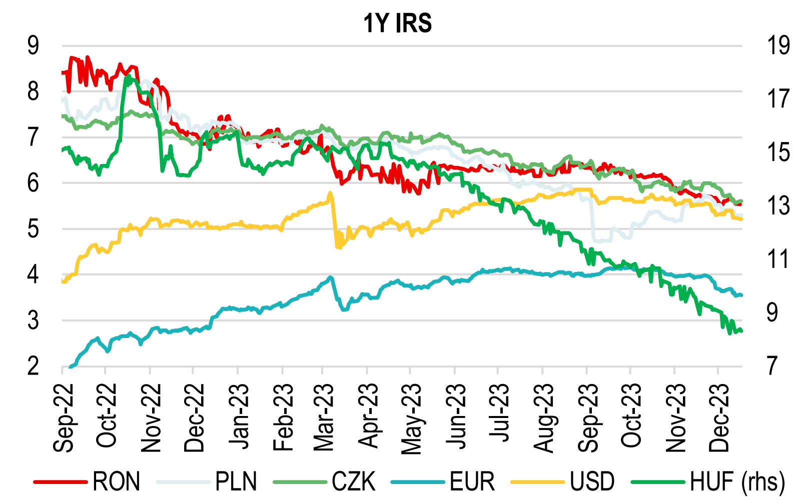
Source: Bloomberg, Refinitiv, Santander

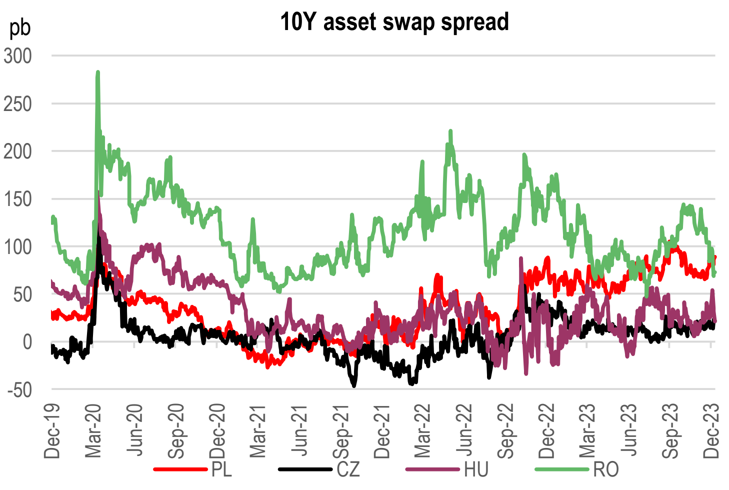
We expect yield curves to steepen in the region

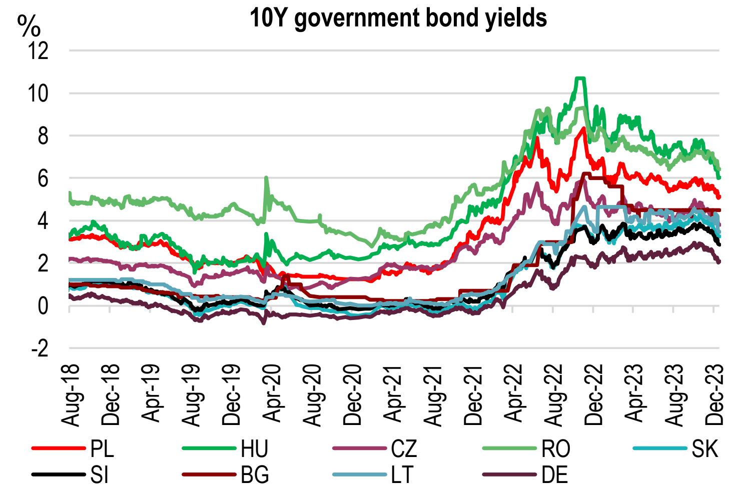
We expect this year's trend of a gradual steepening of swap curves in the region to continue in subsequent quarters as monetary easing continues.

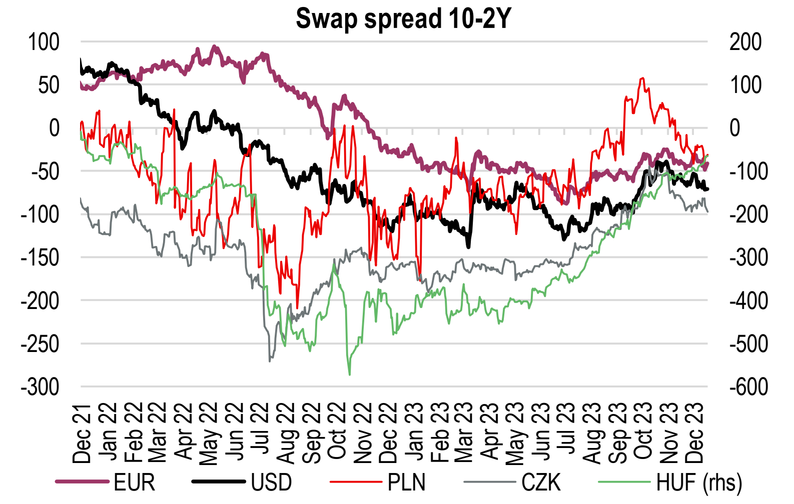
Asset swap credit spreads widened during the year for Poland and Hungary and fell slightly for the Czech Republic, although the peak in yields was recorded in September. We think that the trend of narrowing credit spreads during the year should prevail in 2024 as the economic recovery continues and foreign investors may become more interested in local currency debt in CEE. Long-term CE4 bond yields remain on a downward trend with a narrowing of spreads to Bunds.











Source: Bloomberg, Refinitiv, Santander

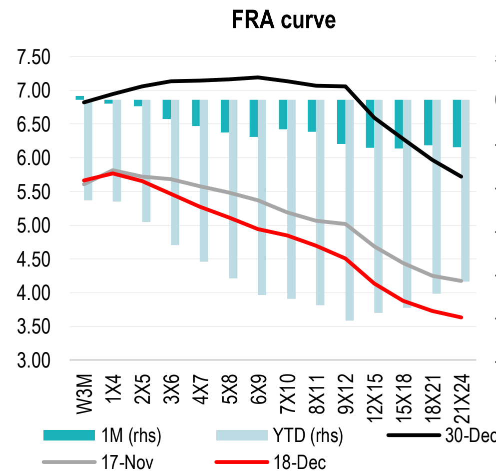
Exaggerated scale of interest rate cut expectations

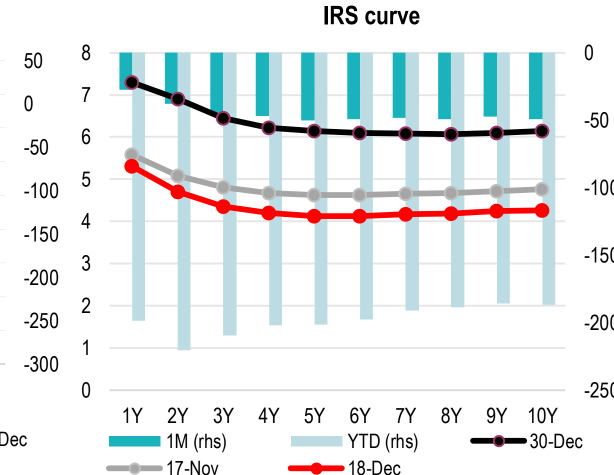
In the baseline scenario, we assume that the MPC will not cut interest rates for a long time, until 4Q024. At the same time, we assume that the March inflation projection will be higher than the November one and will provide justification for maintaining a not-so dovish rhetoric. These factors, in our view, could lead to upward corrections both in the FRA market and in short-term swaps and bonds.

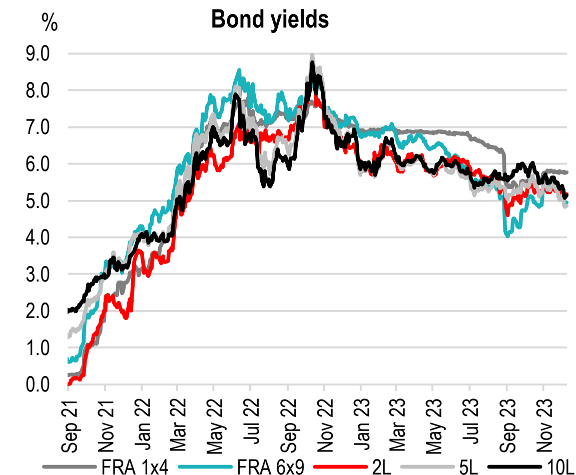
The NBP may pursue a relatively hawkish economic policy compared to other countries in the region, but also consistent with differences in disinflation rates and faster GDP growth.

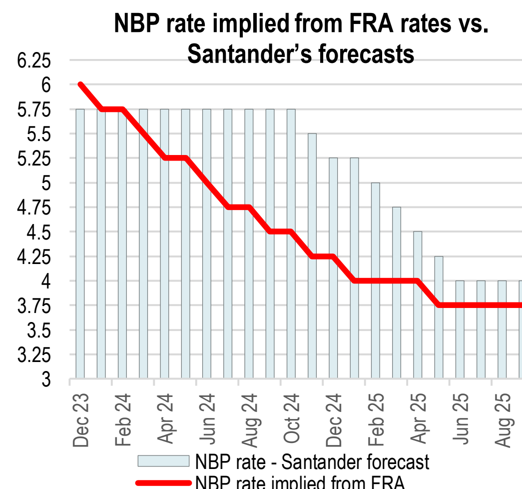
The end of the year is marked by a significant fall in yields. This may be also a result of both movement in the core markets and possible position-building ahead of the global cycle of rate cuts. Potentially, it could also be a result of increased interest in domestic debt by foreign investors after the elections due to the earlier possible underweighting of Poland in portfolios, which, however, was not yet recorded in the FinMin's investor structure data for October.

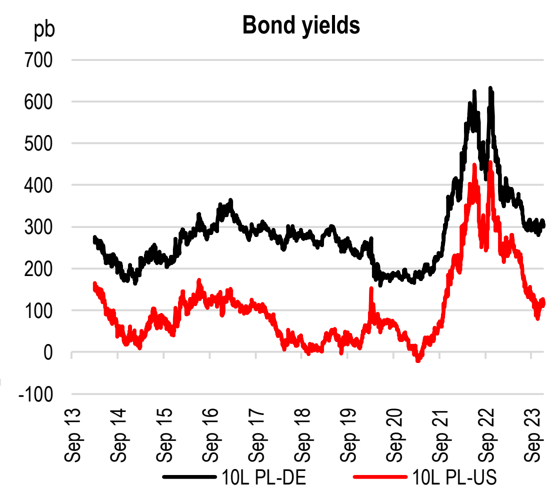
The spread to Bunds is around the long-term average of 300 bps and we think it will be difficult to significantly break this level over the coming year. Rate cuts in the euro area are likely to start earlier than in Poland and the scale of domestic debt issuance will be high.

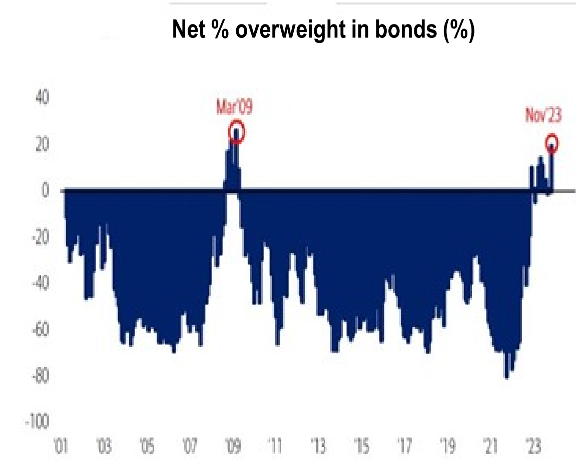












Source: Bank of America Global Fund Manager survey

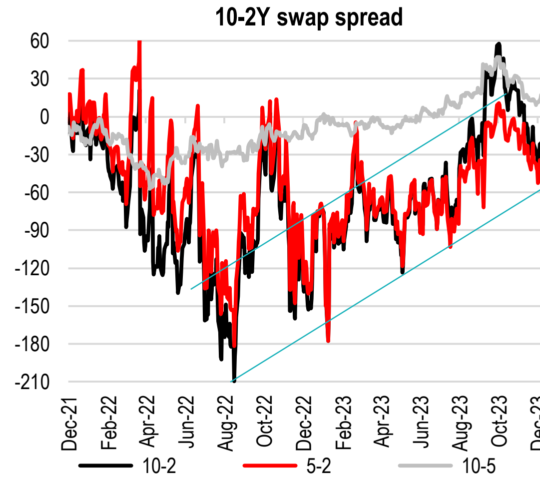
Source: Refinitiv, Santander

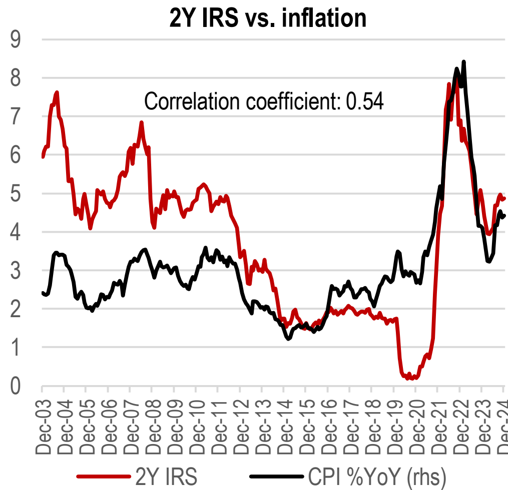
Yield curve steepening and slow credit improvement

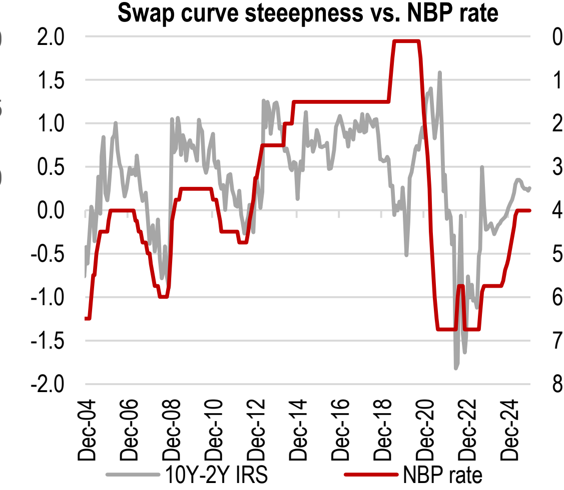
We think that over the horizon of the next quarters the swap curve has the potential to steepen further. This is currently indicated by the technical situation after a considerable flattening in recent weeks. This scenario is also supported by the lowered inflation forecast for 1H, especially for 1Q. In the longer term, the steepening will continue with the gradual decline in NBP rates.

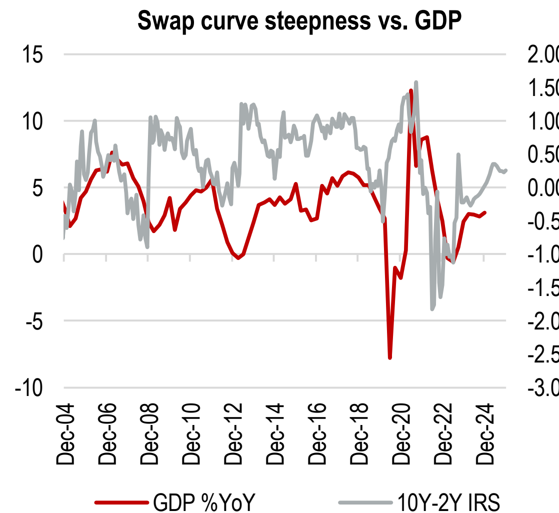
However, we also assume that the NBP's March projection has considerable potential to surprise on the hawkish side and may provide justification for keeping NBP rates unchanged for longer. In view of this, a temporary flattening of the curve on this event is possible.

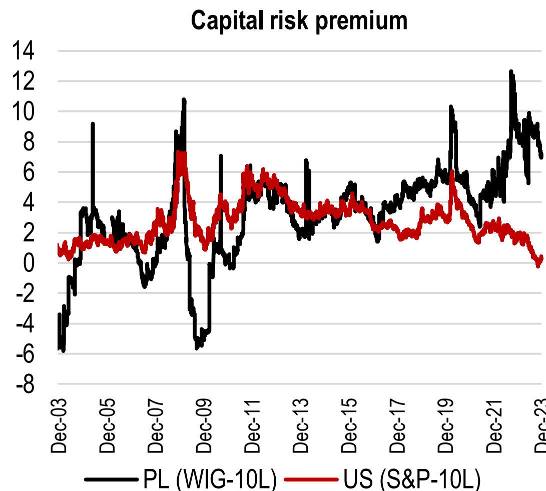
Credit spreads may be under upward pressure in the first months of the year on the back of significant gross issuance. Accelerating GDP and increased bond demand ahead of the expected rate cut cycle could potentially influence the narrowing of spreads later in the year. However, issuance will remain high throughout next year with still high maturities also in 2025. As a result, credit spreads will likely remain above the multi-year average. In addition, the domestic equity market remains relatively more attractive than bonds as evidenced by the equity market risk premium, which contrasts, for example, with the US market.

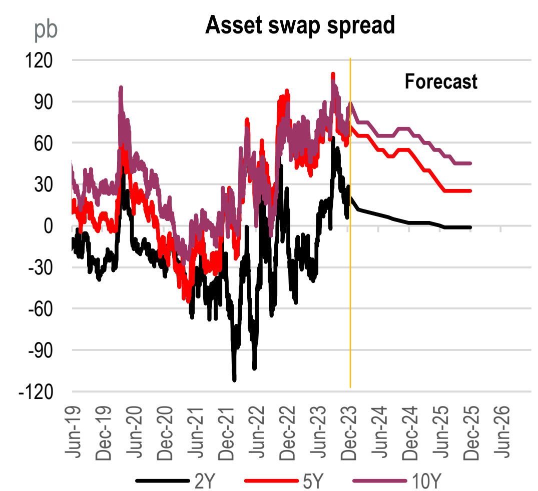






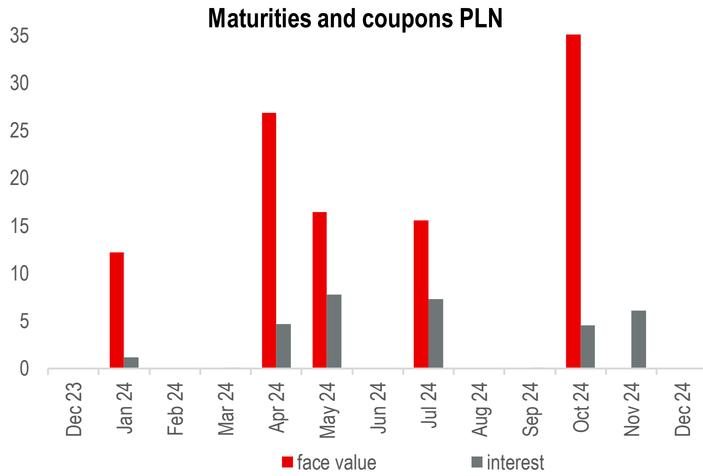


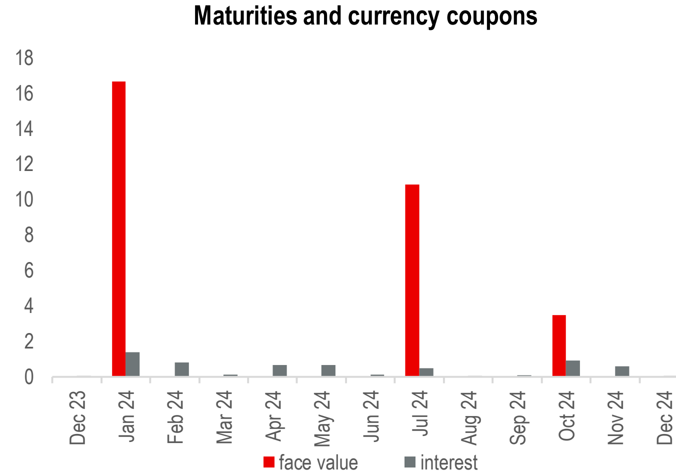


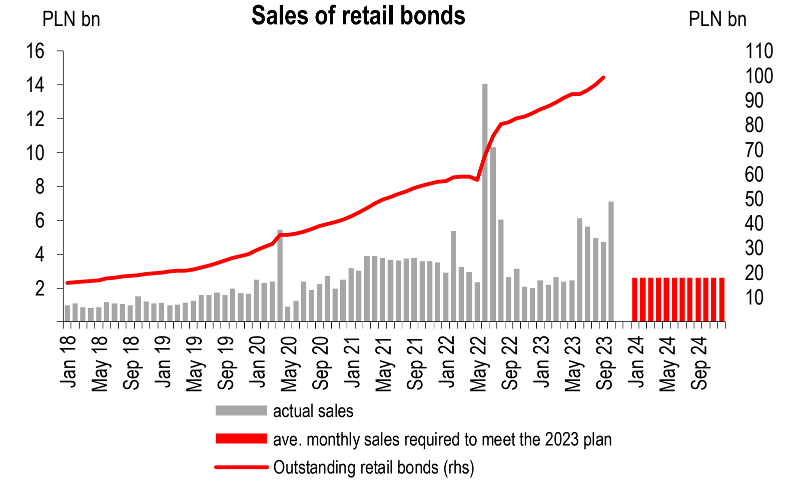


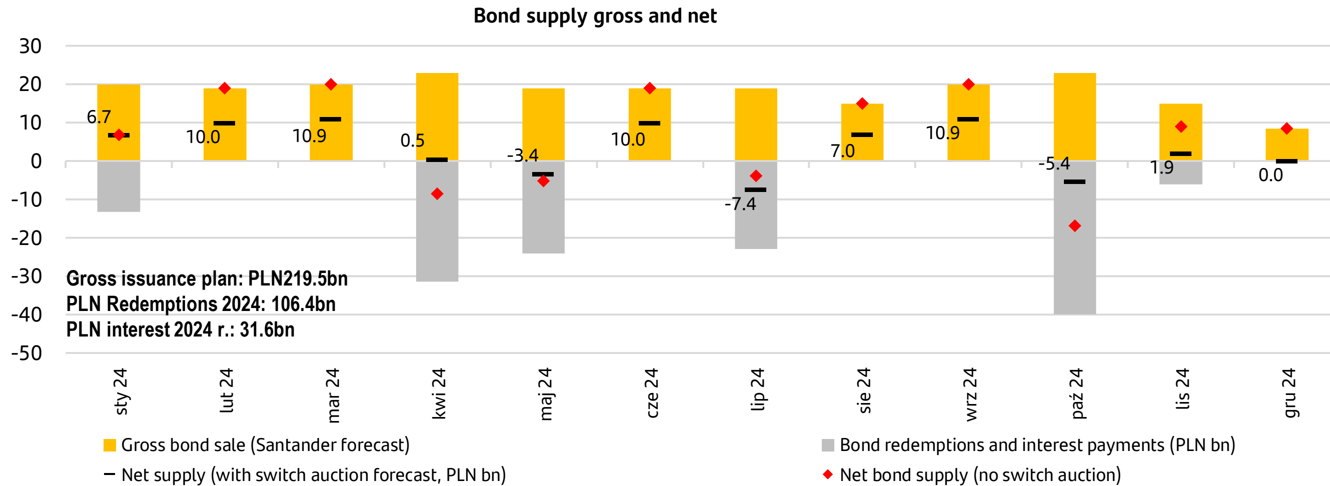
Source: Refinitiv, Santander

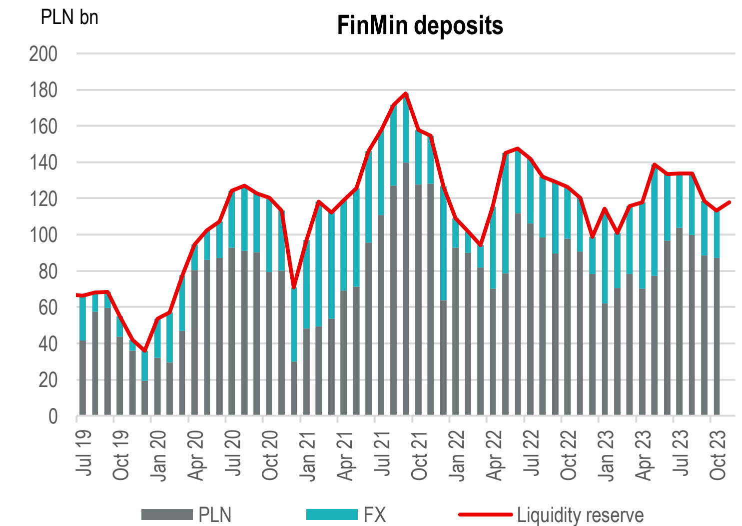
Large bond issuance











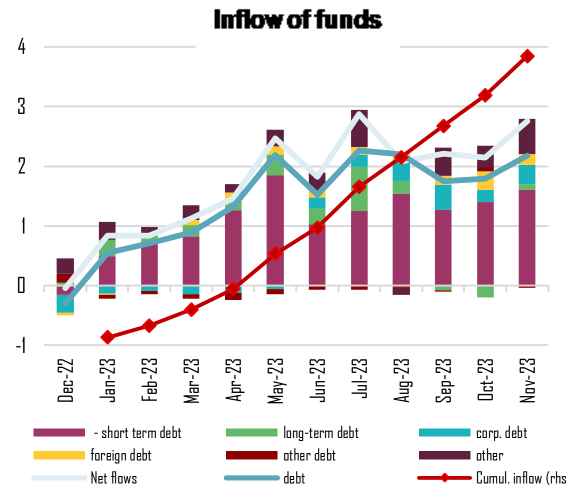
Banks remain key buyers

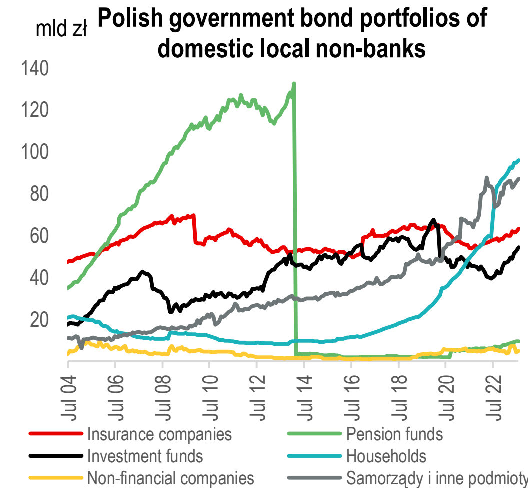
Somewhat unexpectedly, the exposure of domestic investment funds to domestic debt securities declined in 3Q, despite continuous inflows since the beginning of the year totalling around PLN20bn. This may be the effect of potentially increased exposure to foreign assets in view of the still relatively high although recently falling basis swap spread. Should it continue to fall, we assume greater purchases of domestic bonds by funds with a presumed inflow of around PLN10-12bn in 2024.

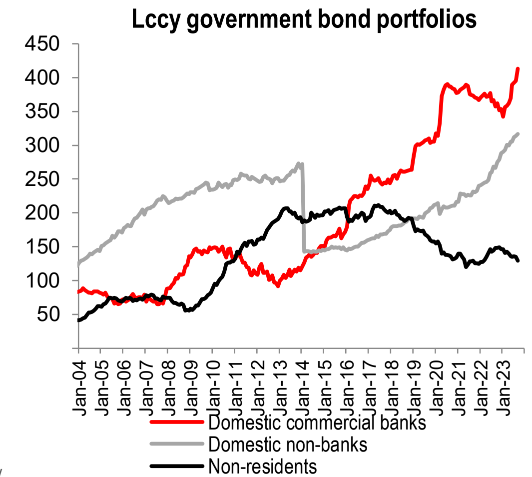
After retail investors' purchases already exceeded the annual issuance plan this year in October, we assume that the MF's plan of around PLN7bn net for 2024 can also be beaten.

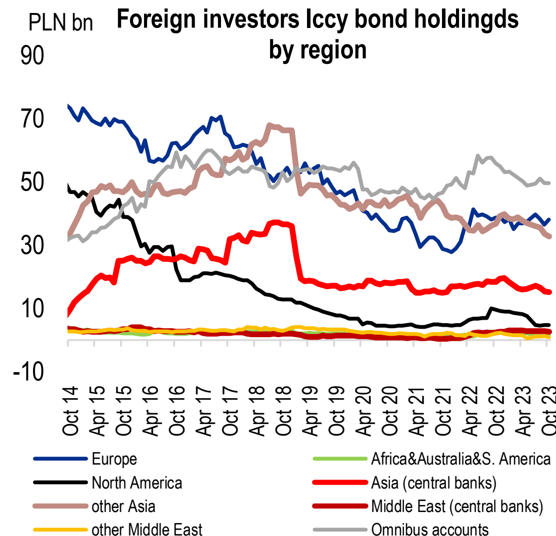
Domestic banks are likely to remain the main buyers of domestic debt. We estimate banks will buy net ~PLN 100bn of bonds and T-Bills, and this may be supported by the steepening of the curve.

After many years of falling exposure to the domestic debt market by foreign investors (with the exception of 2022), their role in financing domestic debt may increase again. The recovery in demand should be supported by the global rate cut cycle, the prospect of a weakening dollar and a change in government, while high issuance, fairly attractive USD and EUR Poland's foreign bond yields, or the addition of India to global bond indices, may be discouraging. The attractiveness of domestic debt to foreign investors could also increase with a further decline in basis swap spreads.







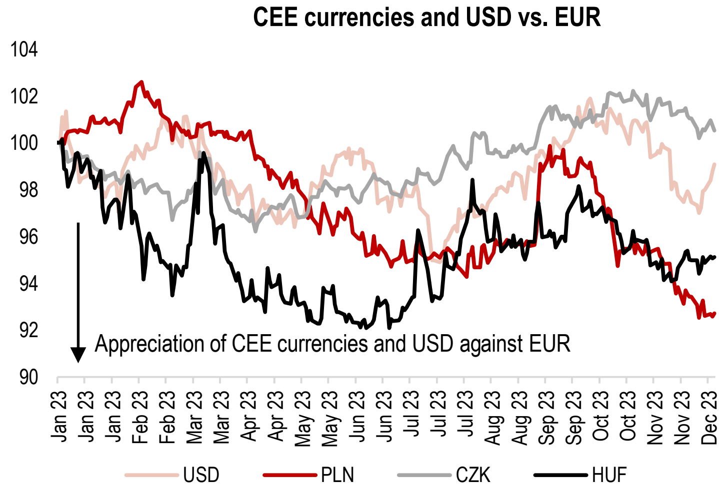


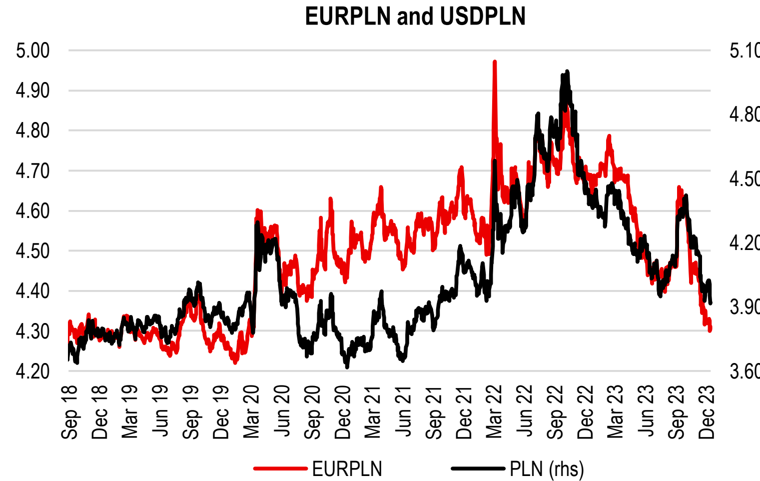
Treasury securities net sale (Santander forecast for 2023-24)

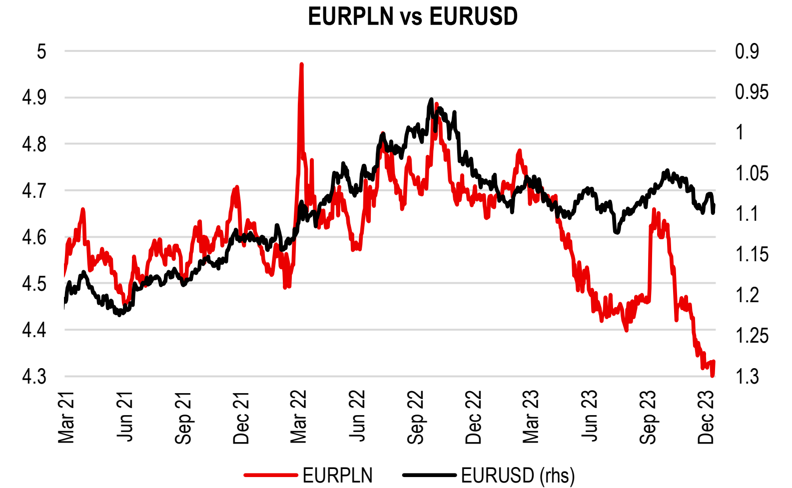
	Banks	NBP	Foreign investors	Mutual funds	Insurance	Individuals	General government	Other	Total	Total (marketable gov. securities)
2015	20.7	0.0	10.8	0.2	-0.7	1.4	0.8	-0.5	32.7	31.3
2016	64.0	0.0	-14.2	3.1	6.9	1.1	4.4	3.3	68.7	67.6
2017	8.4	0.0	10.2	6.9	0.8	4.2	2.4	2.8	35.6	31.4
2018	20.2	0.0	-11.3	-1.7	5.3	4.1	9.2	9.2	34.9	30.9
2019	40.9	0.0	-34.1	12.0	-0.8	7.4	-0.7	-45.3	-20.6	-28.1
2020	66.9	58.5	-23.6	-18.8	-7.0	13.4	12.6	5.2	107.3	94.0
2021	-10.4	28.4	-9.2	-3.3	-1.6	14.4	20.3	-0.1	38.6	24.2
2022	-11.7	-8.7	21.6	1.8	3.9	32.8	4.7	2.0	46.5	13.6
I-X'23	59.6	-2.0	-16.1	7.2	2.4	18.3	-1.6	10.0	77.9	59.6
2023F	70	-2.0	-16.1	10	4	26.3	-1.6	12.2	102.9	76.5
2024F	100.0	-4.5	20.0	15.0	3.0	15.0	6.0	6.0	160.5	145.5

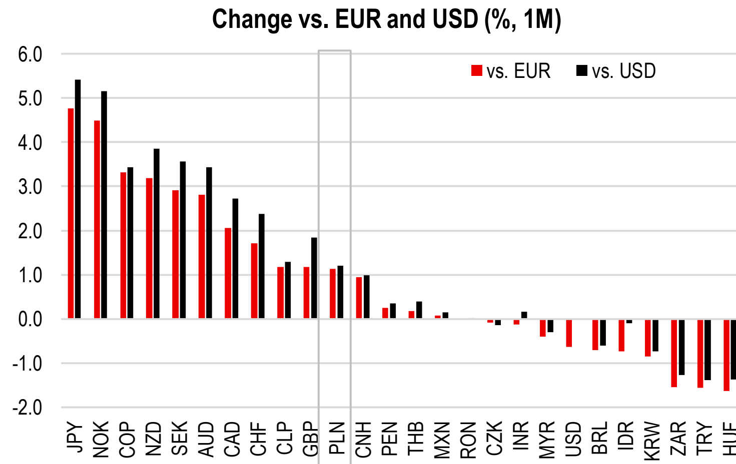
Source: Ministry of Finance, Santander

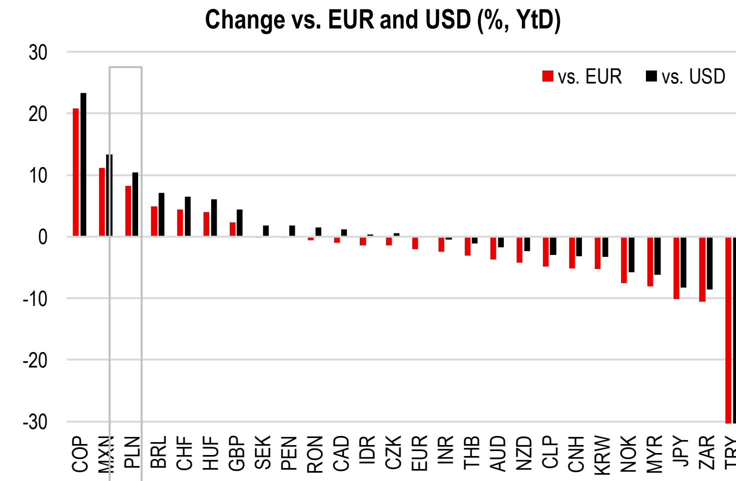
Strong zloty at the year-end

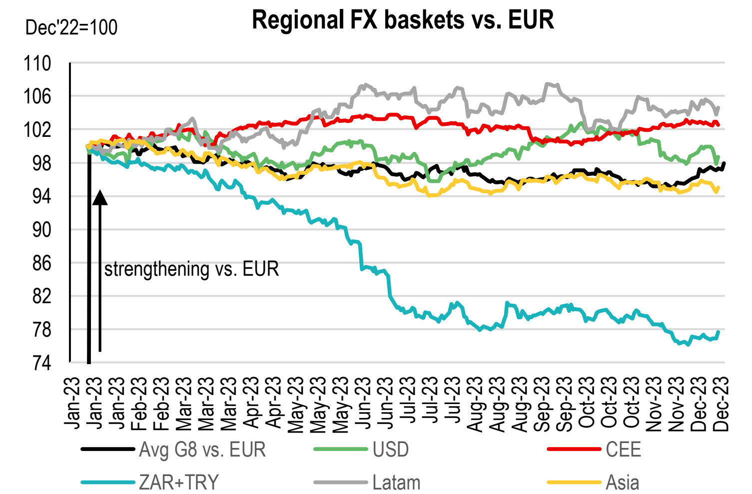












Santander

Source: Refinitiv, Santander

… after the elections amid more hawkish MPC

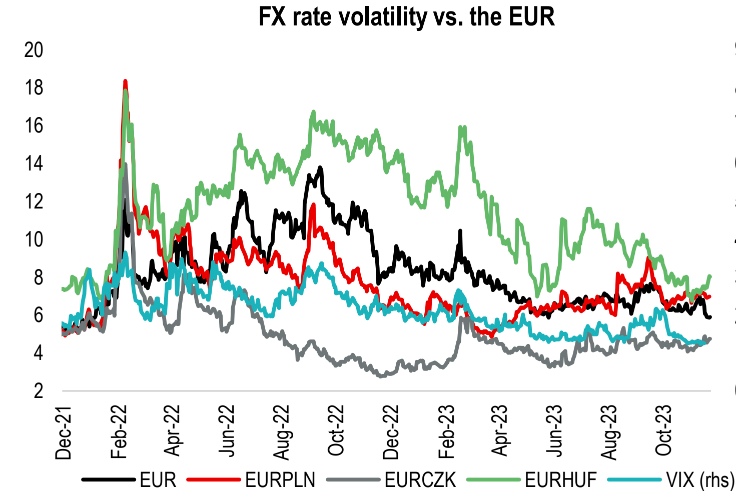
In recent weeks, the zloty has been one of the best performing currencies of the emerging economies. For a while the strengthening of the zloty against the euro was supported by the weakening of the dollar, but even its subsequent unwinding did not harm the zloty.

The zloty was favourably impacted primarily by the election result, which increased market expectations for an inflow of EU funds, but also for lower impact on state-owned companies or a better fiscal outlook, leading to increased exposure of foreign investors to domestic equities and improving prospects for reducing the likely underweight in domestic debt.

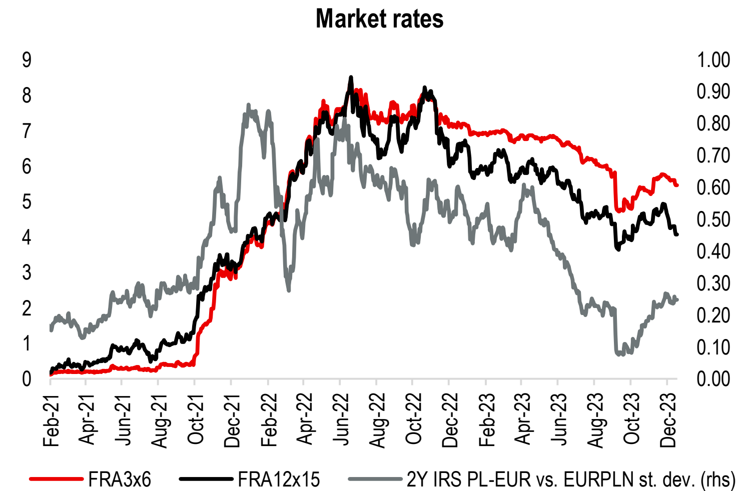
We think the zloty will remain relatively strong in 2024. We forecast an average EURPLN exchange rate below 4.30, with volatility likely to increase periodically under the influence of political and geopolitical tensions.

The factors that favoured the zloty at the end of 2023 will, in our view, remain valid in the following year with few exceptions. Support for the domestic currency will come from a likely higher inflow of EU funds, higher economic activity, a more hawkish stance of the NBP than the market is currently pricing in, a weaker dollar and potentially higher purchases of PLN bonds by foreign investors.

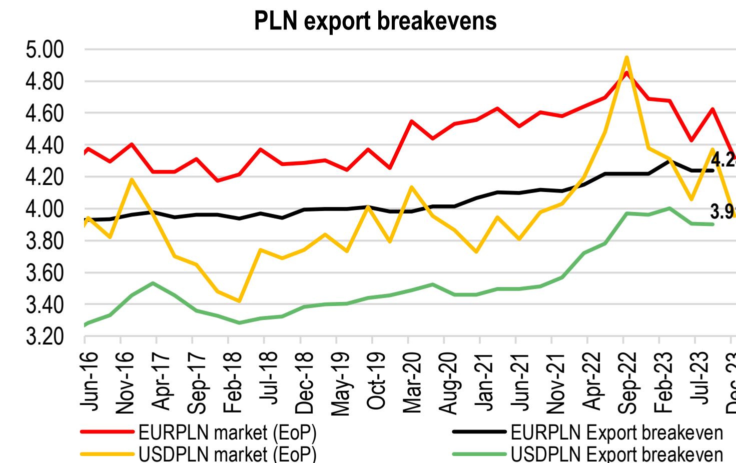
Low volatility favourable for the zloty



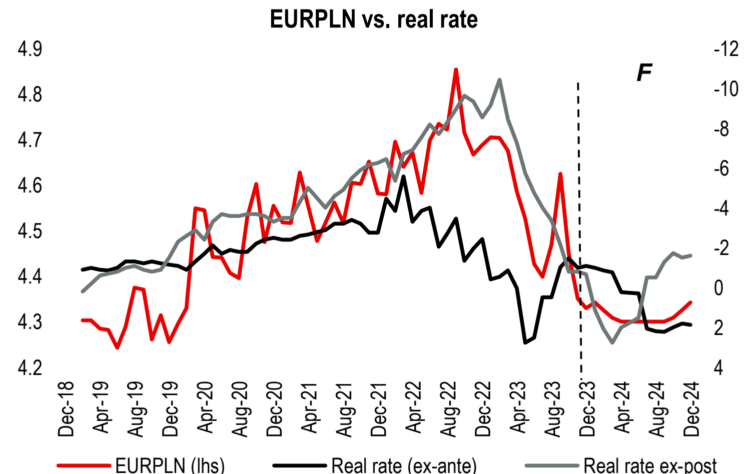
… as well as rebound in interest rate disparity



Market PLN rate close to exports break-even rate



Ex-post and ex-ante real rates give mixed signals



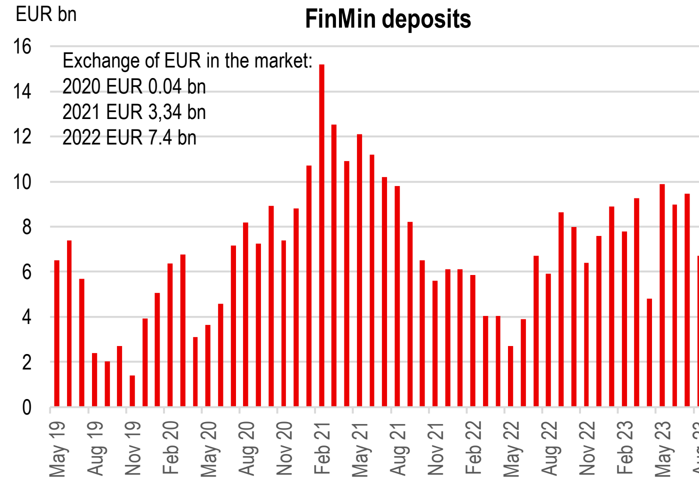
More EU funds, but pre-election sentiment will fall

Following the change of power, we assume a larger inflow of EU funds than just a few months ago by up to around EUR10-20bn. A larger inflow of EU funds means, on the one hand, better sentiment around Poland, but also realistically higher foreign currency deposits of the Ministry of Finance, which could be used for sales on the market. Foreign currency deposits will also be augmented by foreign currency bond issues (EUR 6.9bn net planned in the budget). With this scale of foreign exchange inflows next year, should the scale of appreciation be excessive from the point of view of economic growth prospects, the Ministry of Finance could again increase its foreign exchange sales at the NBP, which would favour an increase in foreign exchange reserves and improve imports coverage.

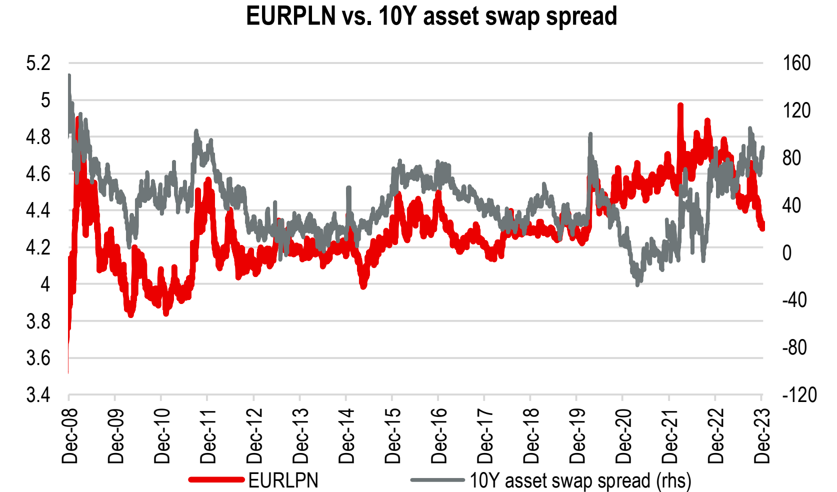
We also assume that the post-election euphoria may subside, limiting demand for domestic debt or equities, if it turns out that debt issuance is actually high and the government uses state-owned companies' financial resources intensively to meet financing needs, especially as these may be higher than previously planned.

The zloty has strengthened relatively more than credit spreads have narrowed, but we expect more of a delayed decline in spreads than a much weaker zloty.

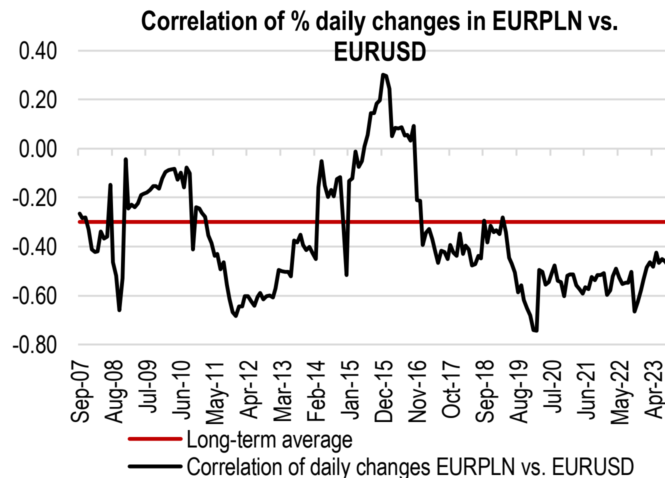
High FX deposits allow FinMin FX sale in the market



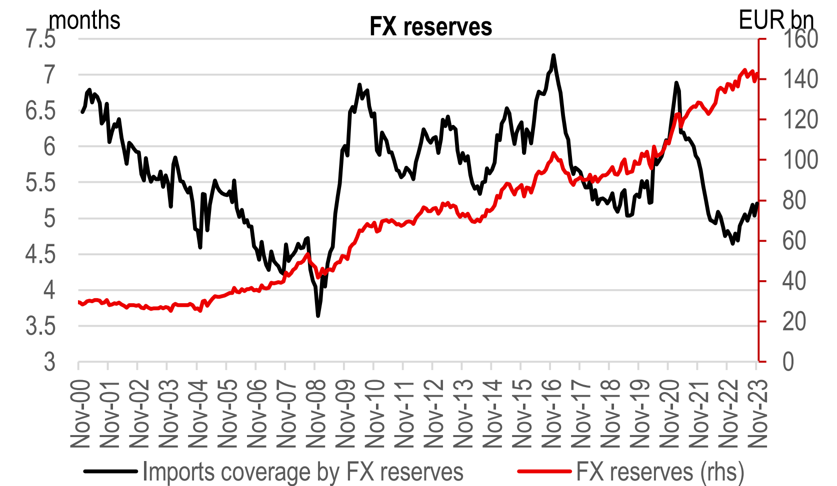
We presume slow decline in asset swap spread



Dollar weakening vs. the euro PLN positive



FinMin return to FX sale in the NBP would mean improvement in imports coverage



Santander

Source: Refinitiv, MF, NBP, Santander

Geopolitical risk and strong yen

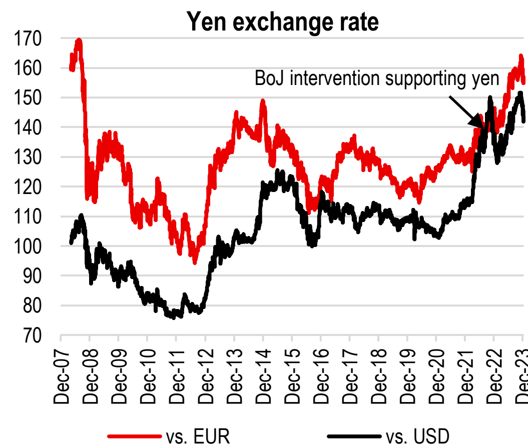
The zloty could be negatively affected by a deterioration in the current account balance next year due to high consumption and weak exports, which is yet to come.

Carry trade positions based on interest rate disparity in an environment of rate cuts in developing countries and potential rate hikes in Japan could act negatively on the zloty. However, it may be that Japan's propensity to raise rates will not be high in the face of high government debt, and that rate cuts in Poland will come late.

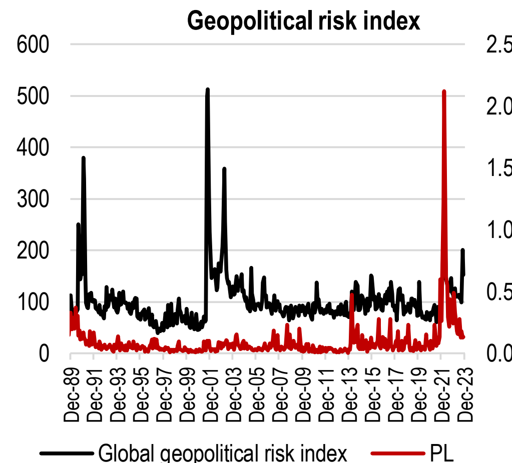
Geopolitical risks could increase with an unresolved war in Ukraine, and the current market valuation of this risk factor is relatively low in our view. In this context, the US presidential election will be important, especially as D. Trump, who is high in opinion polls, has favoured less US involvement abroad and wants a quick end to the war, and support for funding the war has fallen in the US. With a win by D. Trump in 2016, the dollar strengthened and US market rates rose.

A strong zloty means a negative NBP financial result due to exchange rate changes (according to our estimates, FX loss on reserves could amount to as much as PLN20-30bn). This means no payment to the budget planned at PLN6bn, but also no need to recapitalise the NBP.

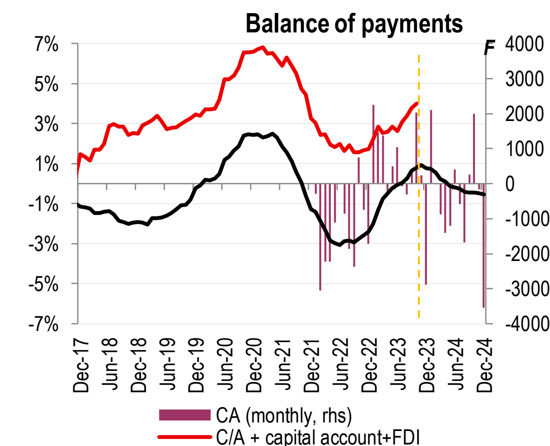
BoJ may not hike rates fast



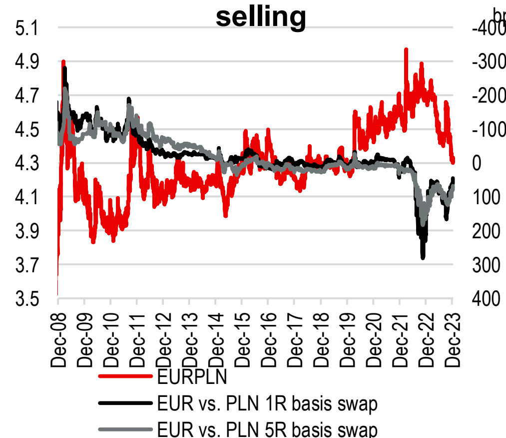
Geopolitical risk for the region may yet increase



We expect weaker current account balance ahead



Basis swaps remain high, their drop may encourage foreign inflows to bonds but also allow for easier PLN selling



NBP will record loss amid zloty appreciation and will not deliver PLN6bn to the central budget

	USD	AUD	CAD	NZD	EUR	GBP	NOK	Sum
Share in FX reserves	41%	8%	10%	3%	20%	12%	6%	100%
FX reserves based on avg NBP FX rates (PLN bn, EoP 2022)	223	44	53	15	105	63	29	531
Avg NBP FX rate (EoP 2022).	4.40	2.99	3.25	2.79	4.69	5.30	0.45	
NBP FX reserves based on avg purchase FX rate (PLN bn)	204	43	53	15	103	63	27	509
Avg purchase rate of NBP FX reserves	**4.03**	2.97	3.25	2.81	**4.62**	5.29	0.42	
Current FX rate (13 Sep)	4.01	2.63	2.95	2.45	4.32	5.02	0.37	
FX change (%) (current FX rate vs. FX reserves purchase FX ra	-0.4	-11.4	-9.1	-12.9	-6.5	-5.0	-12.2	
Contribution to NBP FX P&L YtD (current rate) PLN bn	-0.8	-5.0	-4.8	-1.9	-6.8	-3.2	-3.6	-26.0

Santander

Source: Refinitiv, NBP, Santander estimates and forecasts

Forecasts

6

Economic Forecasts

		2021	2022	2023E	2024E	1Q23	2Q23	3Q23	4Q23E	1Q24E	2Q24E	3Q24E	4Q24E
GDP	PLNbn	2 631.3	3 067.5	3 396.9	3 662.4	799.9	816.7	845.4	934.9	835.2	865.2	936.7	1 025.3
GDP	% y/y	6.9	5.3	0.6	3.0	-0.3	-0.6	0.5	2.5	3.0	3.0	2.8	3.1
Domestic demand	% y/y	8.5	5.2	-3.0	5.0	-4.8	-2.9	-5.2	0.2	4.6	4.9	6.3	4.3
Private consumption	% y/y	6.2	5.2	0.0	4.4	-2.0	-2.8	0.8	3.9	4.3	5.0	4.2	4.0
Fixed investment	% y/y	1.2	4.9	7.8	3.9	6.8	10.5	7.2	7.0	6.0	2.5	3.0	4.5
Industrial output	% y/y	14.5	10.4	-1.6	4.7	-0.9	-3.3	-2.5	0.4	1.3	5.6	6.7	5.3
Construction output	% y/y	1.6	7.6	4.2	5.9	1.9	0.6	5.4	7.4	-1.2	5.8	9.2	7.2
Retail sales (real terms)	% y/y	7.4	5.5	-2.9	3.7	-5.3	-6.8	-2.6	2.7	4.8	3.0	3.0	4.0
Gross wages in national economy	% y/y	8.9	12.1	12.8	10.7	14.3	13.8	11.0	12.1	11.0	10.7	10.7	10.2
Employment in national economy	% y/y	0.6	2.0	0.5	0.3	1.0	0.8	0.4	-0.2	0.2	0.1	0.3	0.5
Unemployment rate *	%	5.8	5.2	5.1	4.9	5.4	5.0	5.0	5.1	5.3	4.9	4.8	4.9
Current account balance	EURmn	-7 398	-15 716	5 707	-4 681	5 089	1 181	33	-596	1 212	-2 189	-2 002	-1 702
Current account balance	% GDP	-1.3	-2.4	0.8	-0.5	-0.7	-0.1	0.6	0.8	0.2	-0.2	-0.4	-0.5
General government balance (ESA 2010)	% GDP	-1.8	-3.8	-5.3	-5.1	-	-	-	-	-	-	-	-
CPI	% y/y	5.1	14.3	11.6	5.5	17.0	13.1	9.7	6.5	3.9	4.1	6.7	7.2
CPI *	% y/y	8.6	16.6	6.5	7.1	16.1	11.5	8.2	6.5	3.1	4.4	7.2	7.1
CPI excluding food and energy prices	% y/y	4.1	9.1	10.2	5.0	12.0	11.6	9.7	7.3	5.8	4.5	4.6	4.9

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

Source: GUS, NBP, Santander

Santander

Market Forecasts

		2021	2022	2023E	2024E	1Q23	2Q23	3Q23	4Q23E	1Q24E	2Q24E	3Q24E	4Q24E
Reference rate *	%	1.75	6.75	5.75	5.25	6.75	6.75	6.00	5.75	5.75	5.75	5.75	5.25
WIBOR 3M	%	0.54	6.02	6.52	5.72	6.93	6.90	6.50	5.76	5.85	5.84	5.75	5.42
Yield on 2-year T-bonds	%	0.79	6.35	5.67	4.61	6.16	6.00	5.31	5.23	4.80	4.70	4.62	4.34
Yield on 5-year T-bonds	%	1.39	6.36	5.67	4.96	6.11	5.92	5.34	5.31	5.05	5.08	4.95	4.78
Yield on 10-year T-bonds	%	1.97	6.10	5.84	5.00	6.16	5.99	5.63	5.58	5.13	5.08	4.98	4.83
2-year IRS	%	1.19	6.62	5.65	4.54	6.39	6.18	5.05	4.99	4.64	4.60	4.58	4.33
5-year IRS	%	1.69	5.92	5.03	4.27	5.53	5.37	4.59	4.62	4.28	4.39	4.32	4.08
10-year IRS	%	2.01	5.68	5.11	4.31	5.47	5.34	4.80	4.82	4.38	4.38	4.33	4.15
EUR/PLN	PLN	4.57	4.69	4.54	4.29	4.71	4.55	4.50	4.41	4.28	4.25	4.28	4.35
USD/PLN	PLN	3.86	4.46	4.20	3.82	4.39	4.18	4.13	4.10	3.90	3.82	3.78	3.80
CHF/PLN	PLN	4.22	4.67	4.67	4.12	4.75	4.65	4.68	4.59	4.28	4.11	4.05	4.07
GBP/PLN	PLN	5.31	5.50	5.22	4.80	5.33	5.23	5.23	5.08	4.86	4.75	4.75	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 **18.12.2023** has been prepared by:

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