

The Coming Spring Poland

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Executive Summary (macro)

More than two years since the start of the full-scale Russian invasion of Ukraine and roughly a year since the turmoil in the banking sectors in the USA and Europe, the vision of a so-called hard landing in the global economy has not only not materialised, but is still being postponed into some indefinite future. This does not mean that everything is alright, because, for example, the economic situation in Germany still stands out strongly in a negative light. Nevertheless, there are more and more signs that the global industry has put the worst behind it ([p.11](#)).

We maintain our GDP growth forecast for Poland for this year at around 3%, believing that moderate growth in consumption and investment and the reversal of the inventory cycle will be able to offset the continued weakness in external demand. Consumer spending ([p.12](#)) will be supported by solid growth in real household incomes while investment ([p.14](#)) will be underpinned by, among other things, the implementation of infrastructure projects including those financed by EU funds, the unblocking of which has already been confirmed by the European Commission. The stream of EU funds flowing into Poland may turn out to be even greater than we estimated until recently ([p.17](#)), provided that the government manages, in line with the latest suggestions, to accelerate applications for payments of further tranches.

The economy is entering a new phase of recovery with very low unemployment ([p.24](#)), which on the one hand means that wage pressure will not soon be forgotten, and on the other hand should prompt companies to invest more in automating production and bringing their technologies up to date.

The inflation scenario for this year has changed slightly since our December report, but not as to the trajectory, just the scale of fluctuations ([p.21](#)). We continue to assume a decline in the CPI inflation rate until March, when it will reach 2.5% y/y or even a bit less (the slight downward shift of the lowest point is mainly the result of lower-than-expected food prices). Later in the year, the inflation rate will start to rebound upwards due to the reversal of base effects and the withdrawal of the so-called "anti-inflation shields". The government has not made decisions on energy prices yet, but, influenced by recent statements of policymakers, we are reducing the scale of the anticipated increases in energy prices in the second half of the year, as a result of which our forecast for the end of this year moves from almost 7% to just above 5% y/y. The outlook for core inflation, however, has not materially changed - we continue to expect it to be anchored for several quarters in the range of 4.5-5.0% y/y under the influence of high growth of unit labour costs.

The MPC is keeping interest rates unchanged and this situation may continue until the end of this year in our view ([p.26](#)). Communication from the MPC has been difficult to follow recently: one member suggested the possibility of quantitative tightening (QT) in January and bond buying by the NBP a month later, the NBP president in February suggested there was no majority in favour of a cut until the end of the year, in March he was unable make predictions reaching beyond June. In theory, all doors remain open, but in our view, the most likely scenario is that the status quo will be maintained, especially if the Sejm initiates the procedure related to the motion (in preparation) to put charges against the NBP president in the Tribunal of State, which we believe will further stiffen the monetary policy.

The fiscal outlook remains largely unchanged for the time being: we continue to estimate that the public finance deficit this year may be close to last year's and will probably exceed 5% of GDP ([p.29](#)). On the one hand, the government would probably prefer to avoid amending this year's budget (inter alia due to a possible presidential veto), but on the other hand, some of the assumed sizes of budget revenues will be difficult to meet in our view, and on the expenditure side, proposals are being considered which may generate costs of several tens of billions of zlotys in total. The good news in this situation is the high coverage of 2024 borrowing needs (which, according to the Ministry of Finance, has already reached 50%).



Executive Summary (markets)

FX market

For some time now the EURPLN remained in a narrow trading range after the post-election appreciation momentum had faded. In mid-March, the exchange rate pierced through 4.30 downwards, and we think the zloty has a chance to strengthen against the euro towards 4.20. The inflow of EU funds and foreign currency from foreign bond issuance into the accounts of the Ministry of Finance should work in favour of the strengthening. We assume that the Finance Ministry will prefer to exchange a larger portion of foreign currency funds into zlotys at the NBP to avoid pushing it into excessive appreciation. A supportive factor for the Polish currency is also likely to be the hawkish tone of the MPC and the much later timing of the resumption of interest rate cuts here than the start of monetary policy easing in the eurozone. In the second half of the year, an increase in international market volatility related to the US elections is likely, which may favour a temporary weakening of the zloty. In the longer term, support for the zloty, in our view, will come from a weaker dollar and potentially greater purchases of PLN bonds by foreign investors ([p. 39](#))

Interest rate market

The beginning of 2024 was marked by a reduction in market expectations for interest rate cuts. As a result, FRA rates rose especially at longer tenors, swap curve increased and flattened. In addition, there was a marked decline in credit spreads for government bonds despite the accumulation of issuance from the Finance Ministry in 1Q, which in turn led to a slight steepening of the bond curve and a drop in short-term yields. We think there is potential for a slight steepening of the swap curve in the short term in the face of a marked decline in inflation, but the transitory nature of this phenomenon and the relatively hawkish tone of the MPC will lead to periodic fluctuations in the slope of the curve. A longer trend of steepening will not begin until the end of the year with the probable approach of the moment of rate cuts, which we believe has receded to about mid-2025. In principle, however, we anticipate a gradual decline in swap rates and bond yields by the end of the year. We see the potential for a corrective rise in credit spreads in the short term, and it is possible that this could also occur in the second half of the year around the US elections. However, the scale of appetite for Polish debt suggests that credit spreads will remain relatively low. In the next quarters we expect a gradual decline of bond yields ([p.32](#)).



2024: Forecasts and main risks

Indicator	Our view in December 2023	Our view in March 2024
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.	Unchanged
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.	Unchanged
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.	Unchanged
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.	Similar inflation trajectory, although recent signals from the government suggest that the scale of the increase in energy prices from July may be smaller than we assumed in December, resulting in year-end CPI inflation unlikely to exceed 6% y/y. Nevertheless, we continue to forecast core inflation for the year in the range of 4.5-5.0%.
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.	The change in the central bank's reaction function seems to be even greater than we thought, and we therefore do not expect interest rate cuts until at least the end of this year.
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.	Unchanged
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 beginning of the year brought an upward adjustment in rates. It is possible that the drop in inflation will temporarily lower market rates and lead to a temporary steepening of the curve, but a longer steepening trend will not begin until the end of the year as the rate cut approaches. Market rates may descend gradually.
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.	Unchanged

Economic growth

1



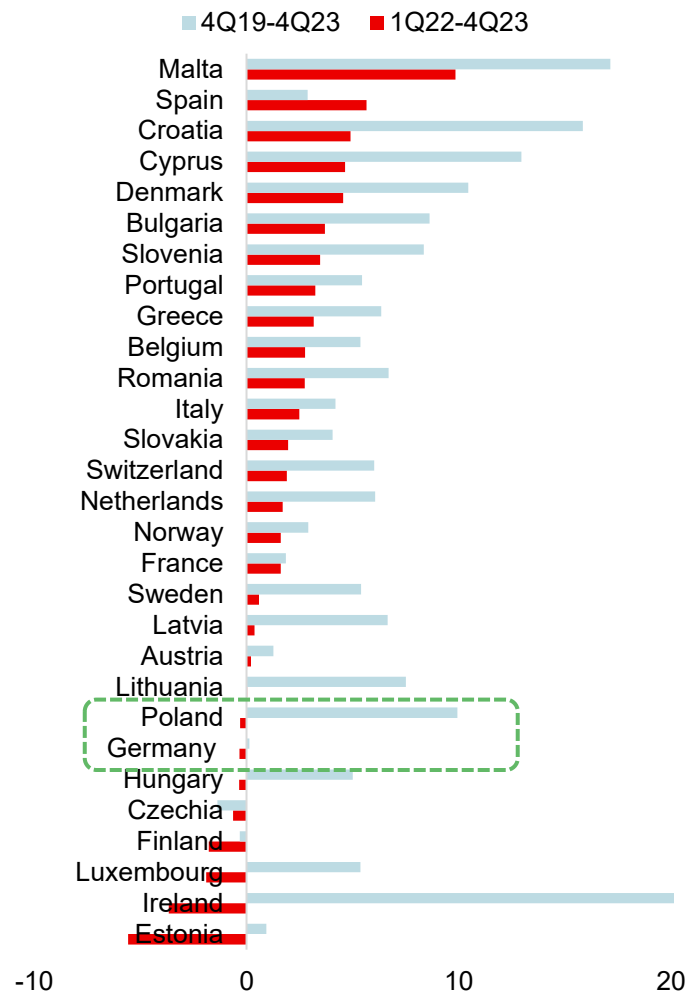
GDP rebound in 2023 was disappointing

According to preliminary data, the Polish economy grew by 0.2% in 2023, which, excluding the pandemic year of 2020, is the weakest result at least since the mid-1990s.

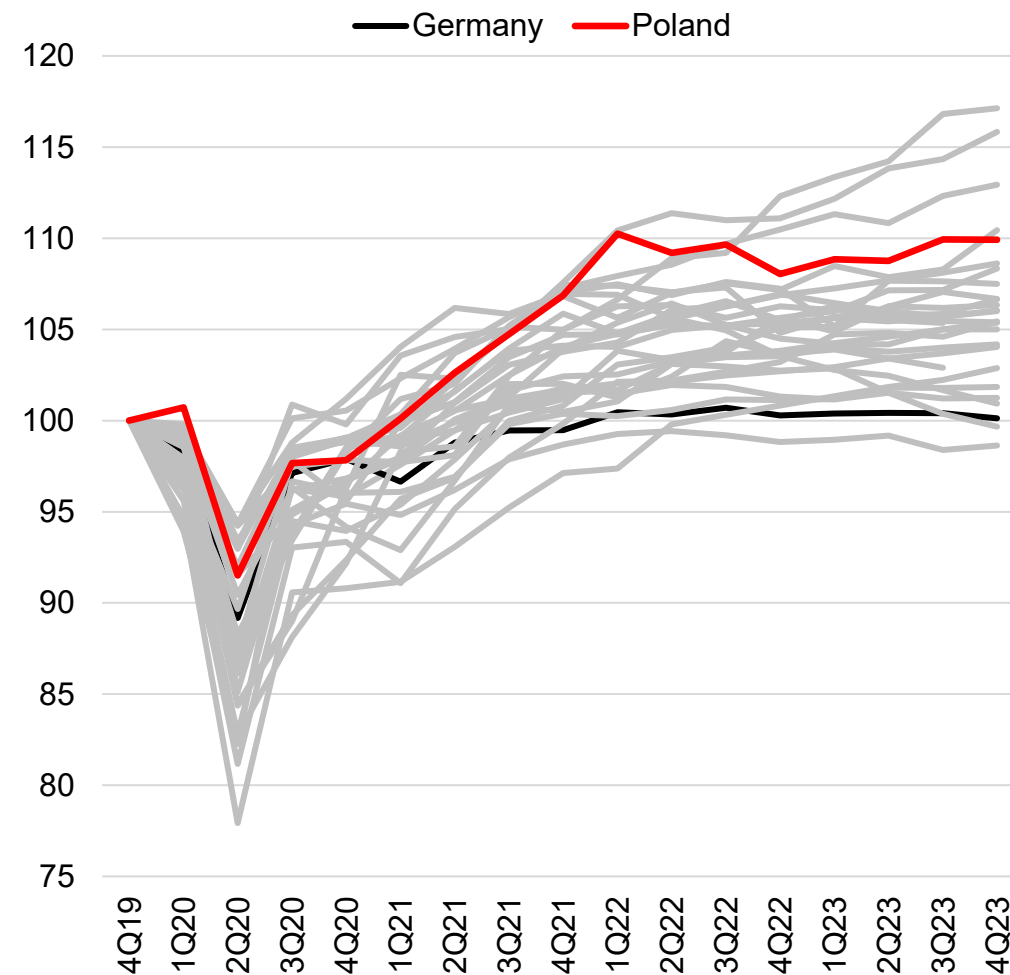
In the course of the year, economic activity gradually recovered from the slump, but so sluggishly that at the end of 2023 it was still slightly below the early 2022 level, which marked the peak of the economic recovery after the Covid-19 pandemic. In this comparison, the Polish economy performed similarly to Germany - in both countries, the seasonally adjusted GDP level in 4Q23 was 0.2% below the 1Q22 level.

It is worth bearing in mind, however, that preliminary growth figures can be subject to significant revisions over time - such was the case, for example, with GDP growth in 2022, which was ultimately revised upwards by 0.4pp (from 4.9% to 5.3%).

GDP change, constant prices (s.a.), %



EU countries: GDP change, constant prices (s.a.), 4Q19=100



Source: Eurostat, Santander

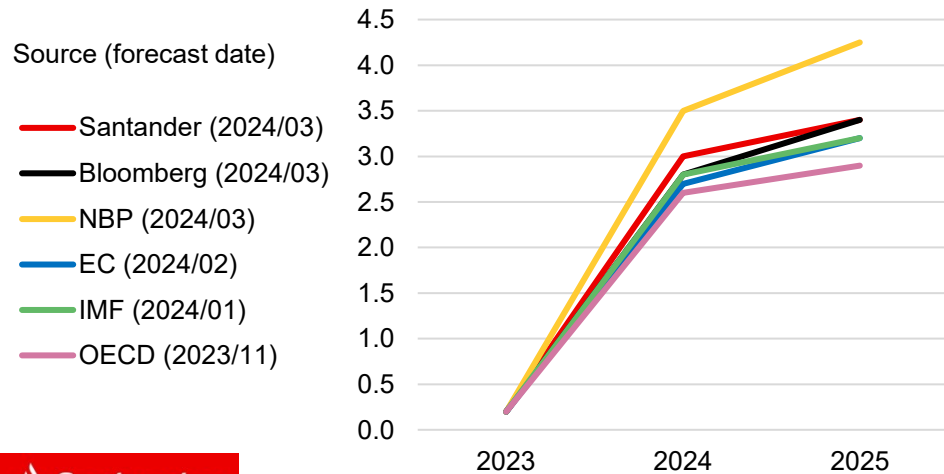


... but we are still betting on economic acceleration

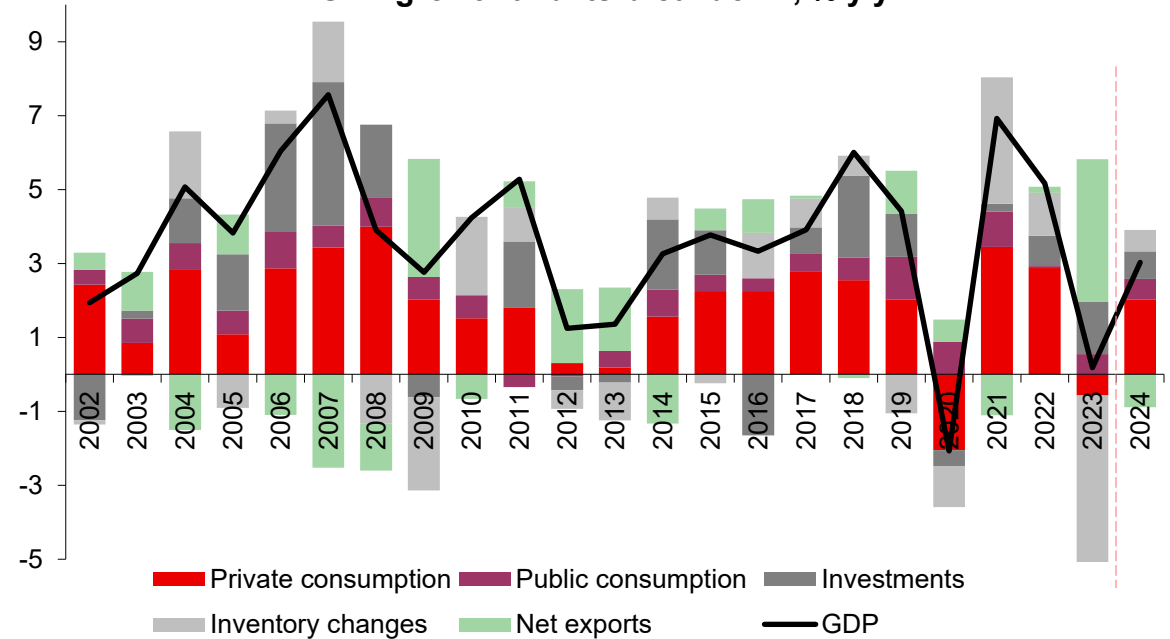
We invariably anticipate a gradual recovery in the economic growth in the coming quarters, driven primarily by improvement in domestic demand: rising household spending growth, continued growth (albeit slower than before) in investment, increasingly supported over time by EU-financed projects after the unfreezing of funds, and a gradual reversal of the inventory reduction cycle. We do not count on a significant improvement in export growth in the coming quarters due to the continued stagnation in the euro area, particularly in the German economy. The mix of prolonged weakness in external demand and the recovery in domestic demand should lead to a moderate deterioration in the foreign trade balance, which will slightly reduce GDP growth.

The economic recovery trend should continue into 2025, provided that the anticipated rebound from the bottom in the euro area takes place in the meantime. The acceleration in GDP growth should be strongly supported by the increasing use of EU funds from the Recovery and Resilience Facility and the current financial framework, delayed from the original schedules due to the previous government's rule of law issues.

GDP growth forecasts, %



GDP growth and its breakdown, % y/y



Source: GUS, Santander



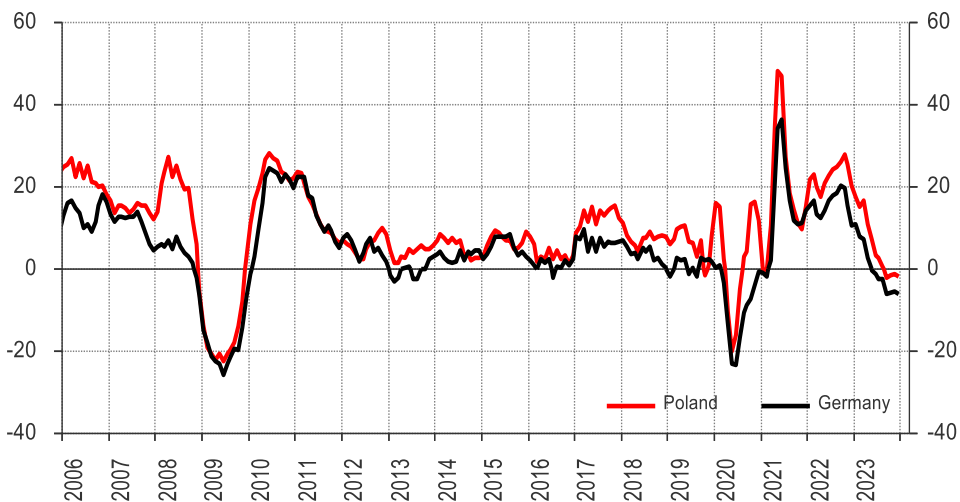
This is not a good time for exporters

The weakness of the Western European economy, and in particular the German economy, which is the main recipient of Polish exports, is reflected in the performance of Polish companies, especially in manufacturing. In addition to the weakness of demand, both producers focused on the domestic market and exporters are additionally disadvantaged by the deterioration of price competitiveness conditions resulting, inter alia, from the strengthening of the zloty and higher energy prices than in the West of Europe.

In our opinion, this should not hinder the recovery of the domestic economy this year, as the weakness of external demand will be offset by a rebound in domestic consumption. Signs of this process can already be seen in the NBP's surveys of the situation of companies: a fall in foreign sales accompanied by a rebound in domestic sales, the first ever period of higher capacity utilisation in the non-exporting sector than in the exporting sector.

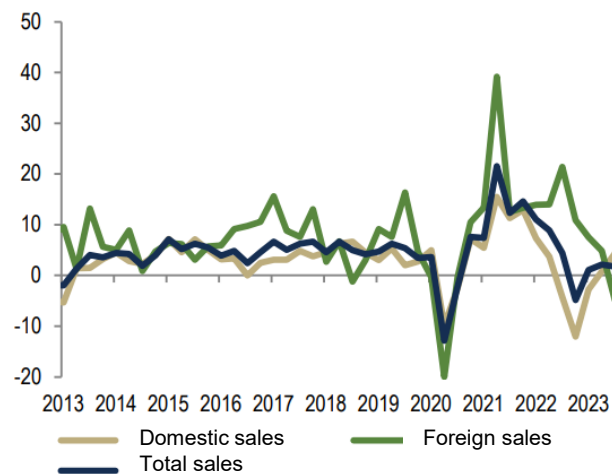
In the longer term, without a recovery in the German economy, it will be difficult for Poland to permanently return to a path of rapid economic growth. Should the negative trends in the euro area persist, the troubles of exporters and the manufacturing sector may gradually spill over to other parts of the economy, including through the labour market channel and consumer sentiment. The good news is that such a scenario is not expected, and there have been more and more signs of a rebound on the global economy (although German industry is still lagging behind).

Export growth: Poland vs Germany, % y/y, 3-month moving average



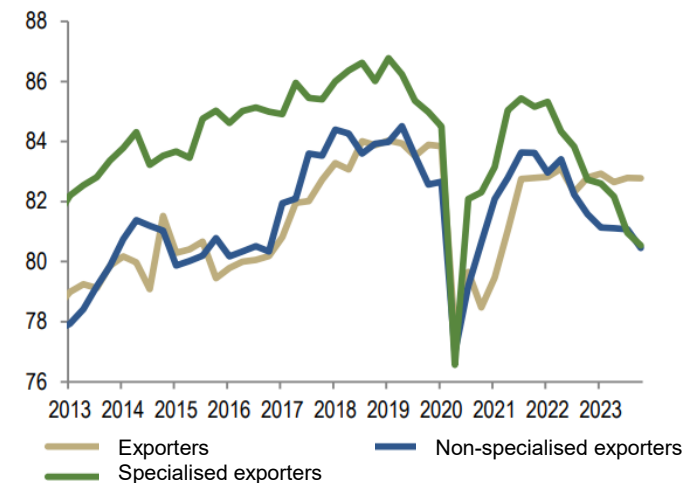
Source: LSEG Datastream, Santander

Real (PPI-deflated) sales revenues, % y/y



Source: NBP Quick Monitoring

Capacity utilisation, %, s.a.



Source: NBP Quick Monitoring

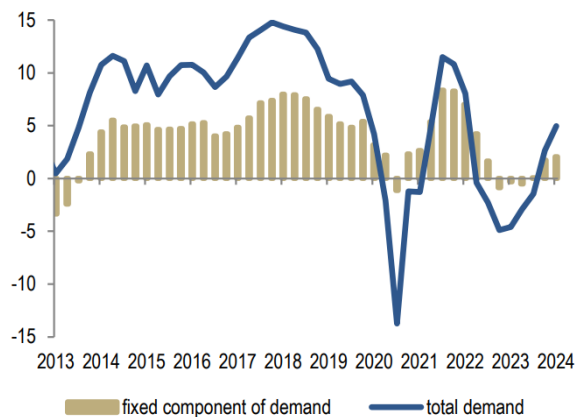


Companies see recovery on the horizon

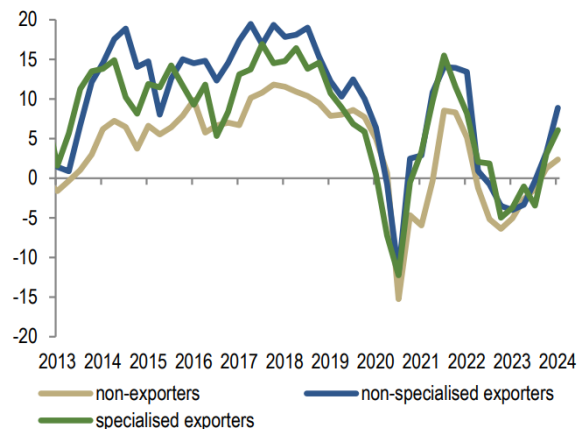
The results of business sentiment surveys are consistent with the recovery in economic growth that we forecast.

Indices of the current situation assessment clearly show greater improvement among companies operating mainly in the domestic market than among exporters. When it comes to assessment of the prospects for future demand, a greater degree of optimism is shown by entrepreneurs operating in foreign markets, who apparently already sense an imminent change in the trend of global industry. This change is also increasingly evident in global economic sentiment surveys (see [p.11](#)).

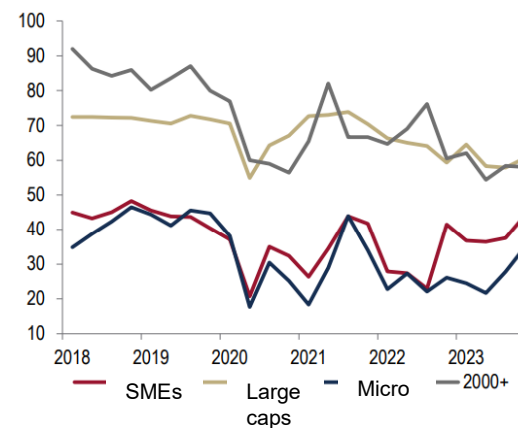
Indicator of quarterly demand forecasts, percentage points. s.a.



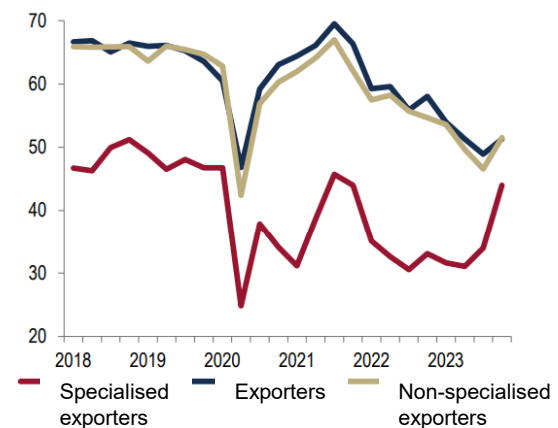
Indicator of quarterly demand forecasts by export exposure, percentage points. s.a.



Index of current situation assessment selected sections of the economy balance, percentage points



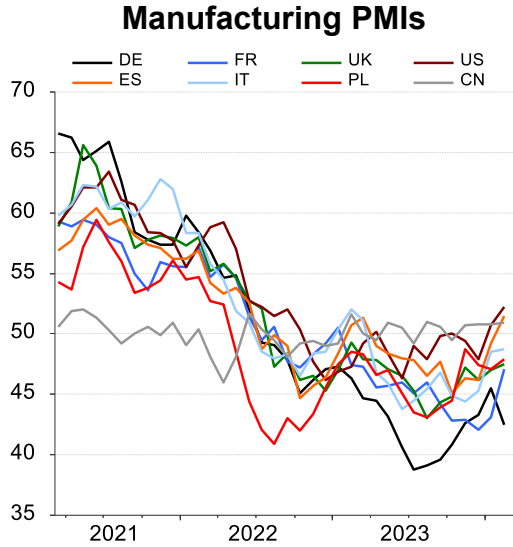
Index of current situation assessment by export exposure, balance, percentage points



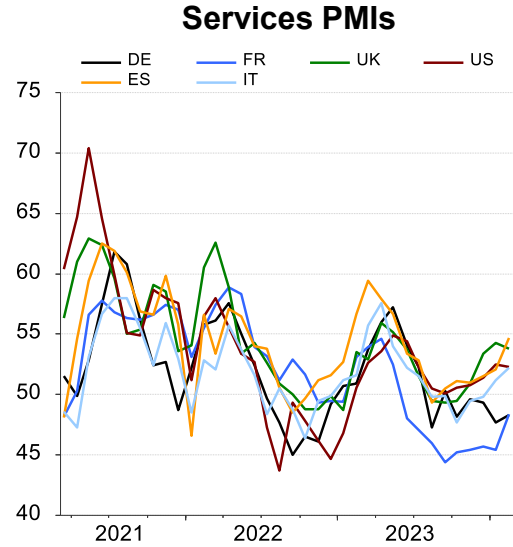
Source: NBP Quick Monitoring



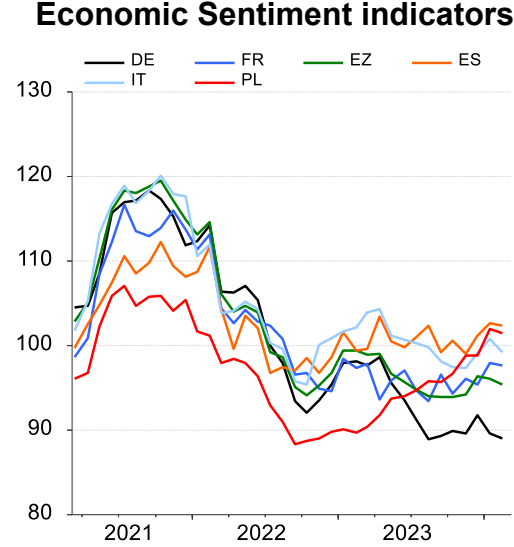
Further signals of sentiment improving abroad



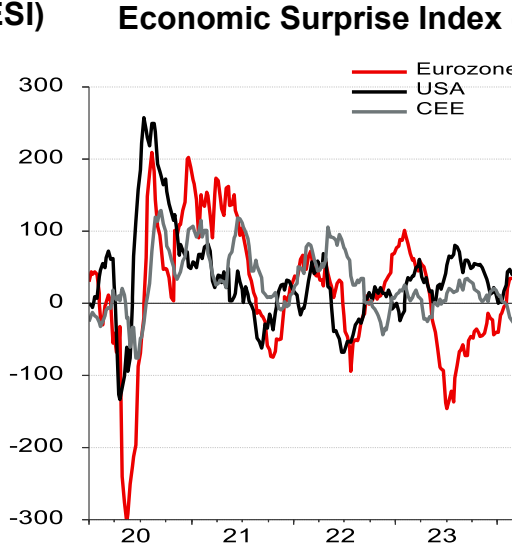
Source: LSEG Datastream, Santander



Source: LSEG Datastream, Santander



Source: LSEG Datastream, Santander



Source: LSEG Datastream, Santander



Source: LSEG Datastream, Santander Bank Polska



Data compiled March 2024 using PMI data updated to February 2024. PMI (Purchasing Managers' Index) 50 = no change on prior month. Source: S&P Global PMI with J.P. Morgan, S&P Global Market Intelligence. © 2024 S&P Global.





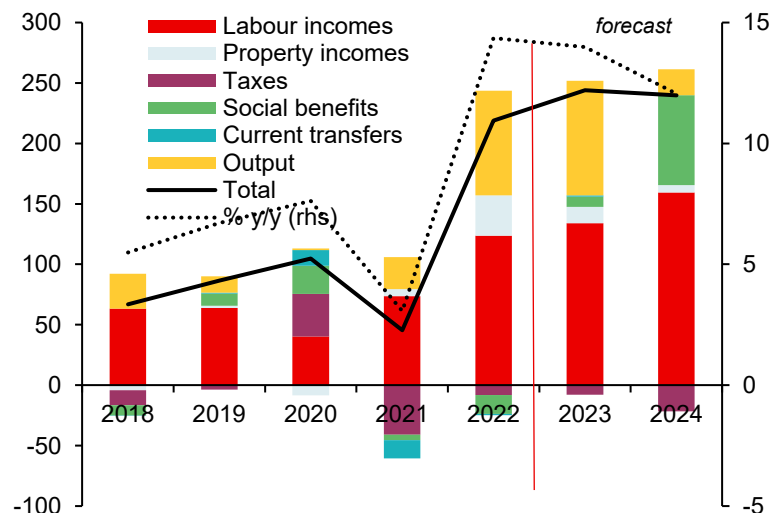
Consumption: recovery continues (1/2)

Consumer demand weakened towards the end of 2023: private consumption stalled instead of gaining momentum (-0.1% y/y in 4Q) and revised retail sales data showed in 2H23 stagnation rather than a progressive recovery. In our view, this is a temporary weakness related to consumers coming out of a period of high inflation. As such, it does not undermine our forecast that **private consumption will be the main driver of economic growth in 2024. We assume that private consumption will grow by 3.6% this year and will already reach 2.5% y/y in 1Q24.**

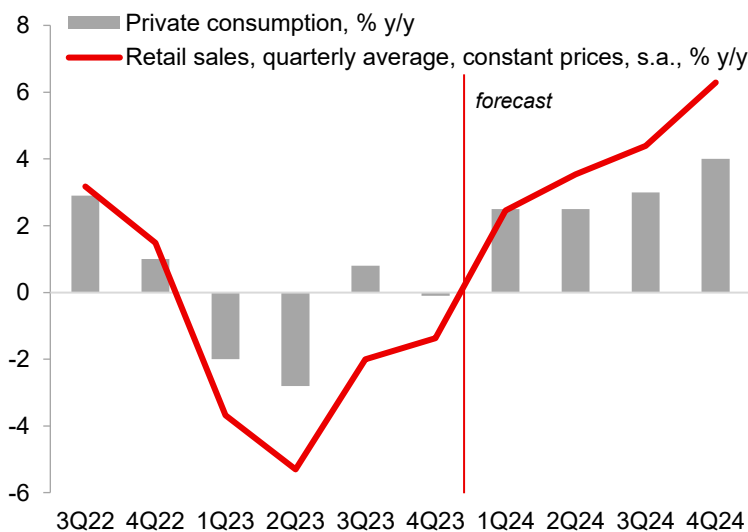
In an initial reaction to the improvement in real incomes, consumers seem to have generally remained cautious in their spending and started to rebuild savings where possible. The savings rate (measured as the ratio of four-quarter moving sums of savings and incomes) fell below zero in 2022 and early 2023 before starting to rebound. We assume that in 1Q24 it already rose close to the 2006-2019 average (4.8%) and at the end of the year it will reach 6.8%, which is close to the upper bound of the range of fluctuations observed in the decade before the pandemic.

With our assumptions on real disposable income growth, there is **enough room for both a rebound in consumption and a return of the savings rate even much above its average pre-pandemic level.**

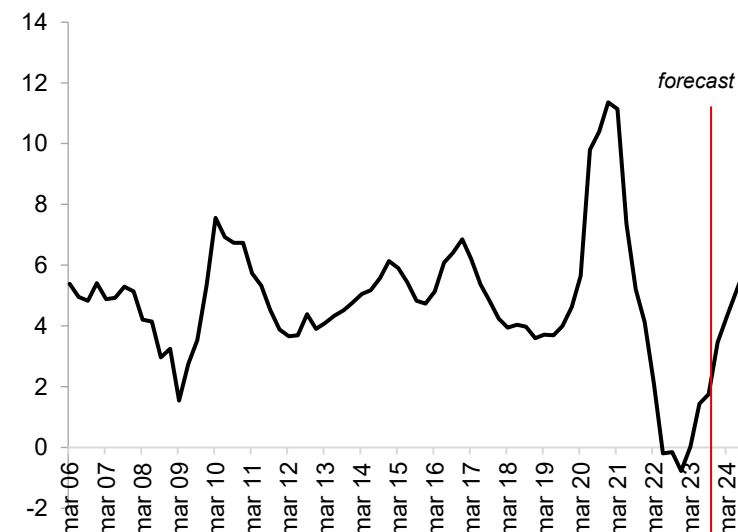
Breakdown of disposable income growth, PLNbn



Private consumption and retail sales



Savings rate, %





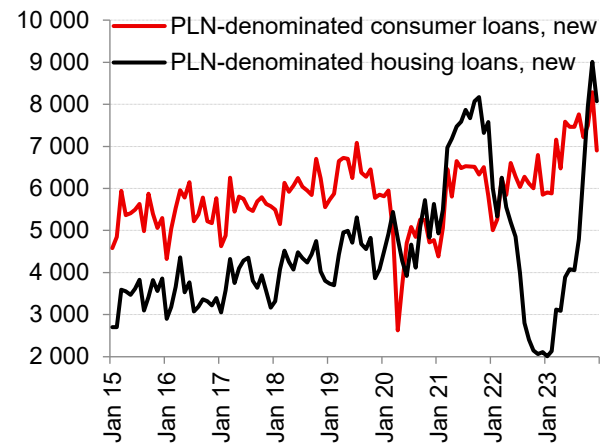
Consumption: recovery continues (2/2)

It is not only the larger-than-before share of income directed to savings suggests to us that the weakness in consumption in 4Q should be considered temporary. **The lack of consumption growth was at odds with both an improved income situation**, including a rise in real wages, **and consistently improving consumer sentiment** in terms of, among other things, their assessment of their own financial situation and their willingness to undertake large expenditures. Similarly, it is difficult to reconcile the weakness in consumption at the end of the year with the **progressive rebound in consumer credit**, let alone with the **clearly rising growth of VAT revenues** (only the December result was surprisingly weak, but this turned out to be the effect of accelerated tax refunds).

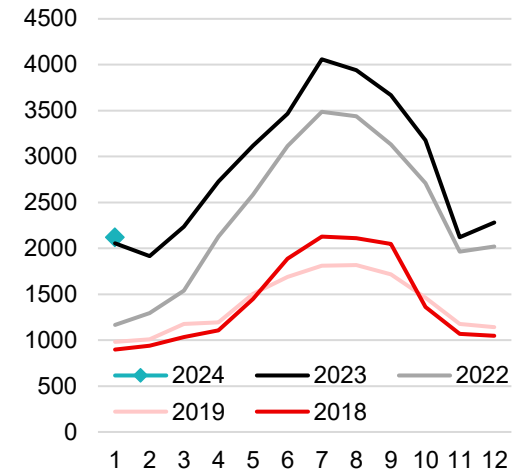
Increased travel abroad may have been partly responsible for the divergence between the weak private consumption and rebounding real household incomes. In many countries, including Poland, 2023 was marked by a return of tourism to pre-pandemic levels. Travel abroad was stimulated by, among other things, a strong zloty. However, the scale of this phenomenon can, in our view, explain only a small part of the disappointment in 4Q consumption results, as can the possible **reduction in current spending by those applying for the 2% Safe Credit** in the final stretch of the programme.

It cannot be ruled out that the puzzling weakness in consumption in 4Q will simply be corrected upwards over time - such situations have happened before, and this time they may be justified, among other things, by the shift in consumer spending observed in many countries from tangible goods to 'experiences', i.e. services, which statistical offices find much more difficult to measure correctly.

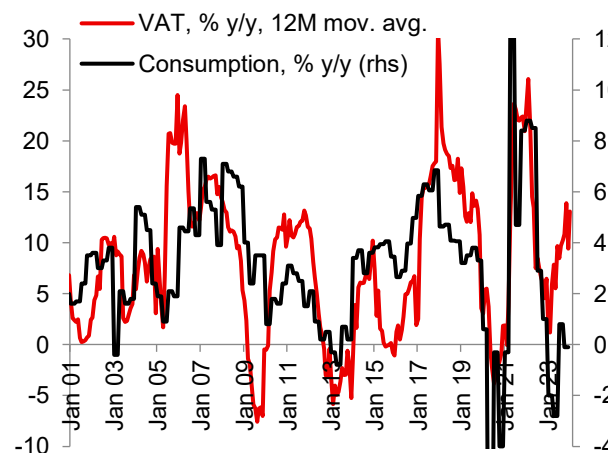
Monthly sales of credit, PLNmn



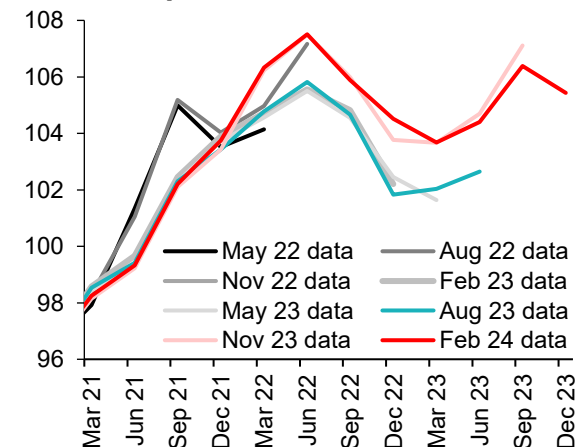
Passenger air transport, by month, in thousand persons



Consumption vs. VAT revenues



Consecutive revisions of private consumption data, s.a., 4Q19=100





Investment: we are expecting a slowdown in 2024

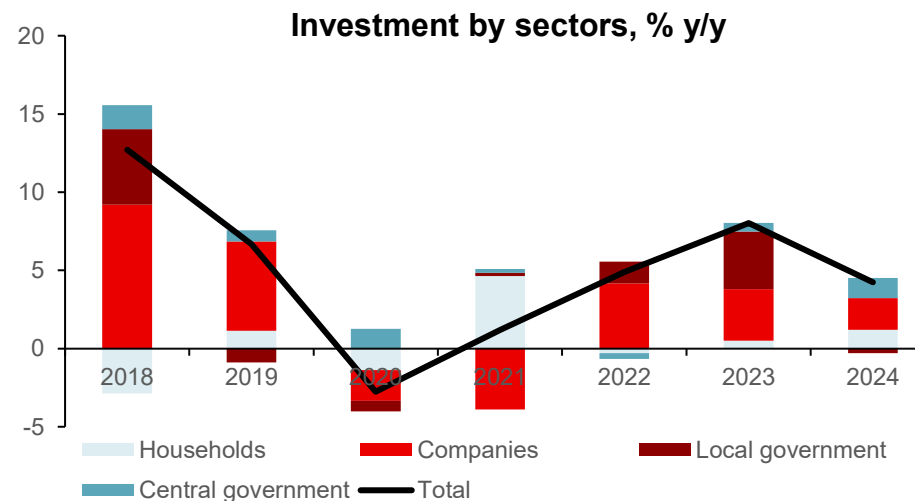
We maintain our December 2023 forecast that investment will slow down in 2024 to around 4% from 8% in 2023. The unblocking of EU funds will, in our view, allow for an uptick in capital expenditure growth in 2025.

Local governments will be – sector-wise – the main culprit behind the slowdown, as we believe that the pre-election investment boom will be losing steam. Outlays in this sector will also not be helped by the slow acceleration of the EU framework, although note that this did not prevent a high growth rate in 2023. For 2024, we expect a slight decline in investment in this sector in real terms.

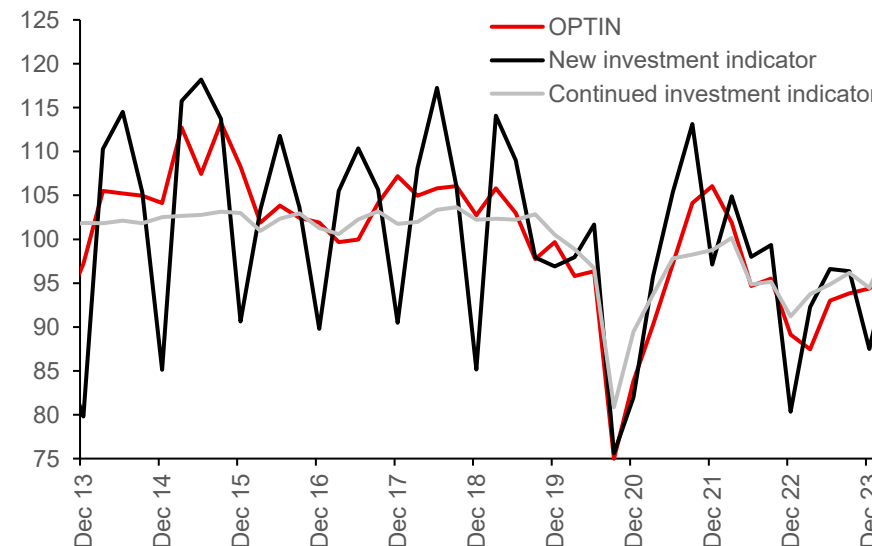
Investment in the central sector will improve, mainly due to an increase in military spending and the investment plans of the road agency (GDDKiA) and the railroad agency (PLK). We assume that the central government sector will record an increase in outlays of around 10% in real terms.

In the household sector, we expect a recovery in 2H24 with the launch of the new version of the 2% Safe Credit programme. The first half of the year may be quieter. We expect growth of 6% in real terms.

In the corporate sector, we expect a gradual improvement in investment optimism, with the rebound of the economy and wider access to EU funds. Currently, however, company optimism indicators remain low and tend to indicate that new projects are held back. We assume non-financial corporate investment growth of around 4% y/y in real terms in 2024.



NBP investment optimism indicators, average = 100



Source: GUS, NBP, Eurostat, Santander



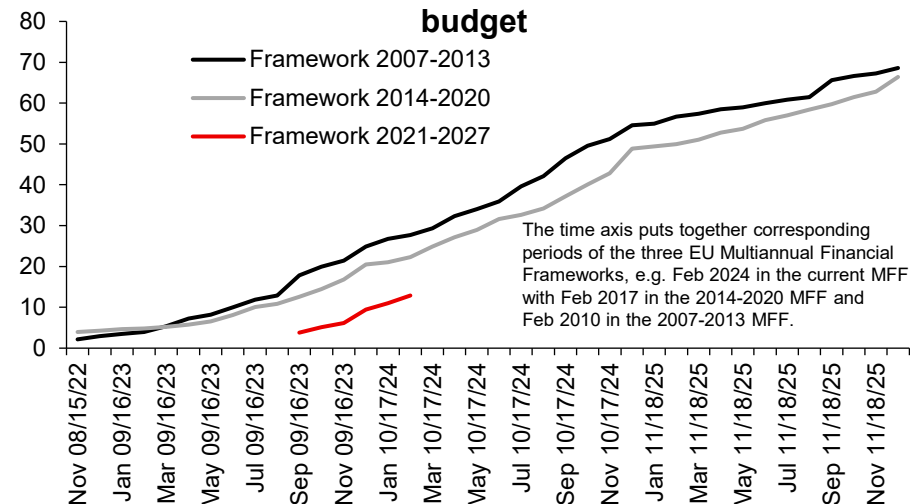
Investment: slow start of the new framework

The unblocking of EU funds for Poland by the European Commission allows for more optimism regarding investment outlays in Poland. However, notice that EU funding involves a lengthy procedure - the mere unblocking of funds is not everything, potential beneficiaries have to first apply for funding and then have to sign a contract.

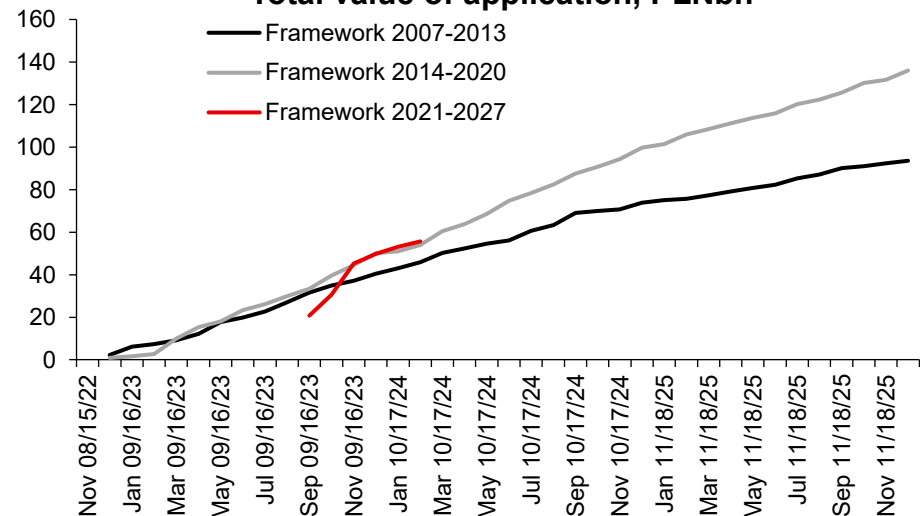
As at the end of February 2024, the value of **signed contracts for EU funding amounted to approximately 13% of the funds allocated to Poland, clearly below the figures obtained in the corresponding period of previous frameworks** (22% in the 2014-2020 framework and 28% in the 2007-2013 framework). The low number of signed contracts suggests that the impact of EU funds on investment in 2024 may be small.

In recent months, **there has been a marked acceleration in the pace of applications for EU funding**, with the total value of applications in 3 months (November-January) reaching almost PLN100bn, a record high. This is a sign that the number of contracts is also likely to jump soon, which can partially make up for the delay as compared to the previous two financial frameworks. This supports our expectations for a more pronounced increase in the volume of EU-financed investments in 2025.

Value of signed contracts for EU financing as % of budget



Total value of application, PLNbn



Source: MFIPR, Santander



Investment: RRP

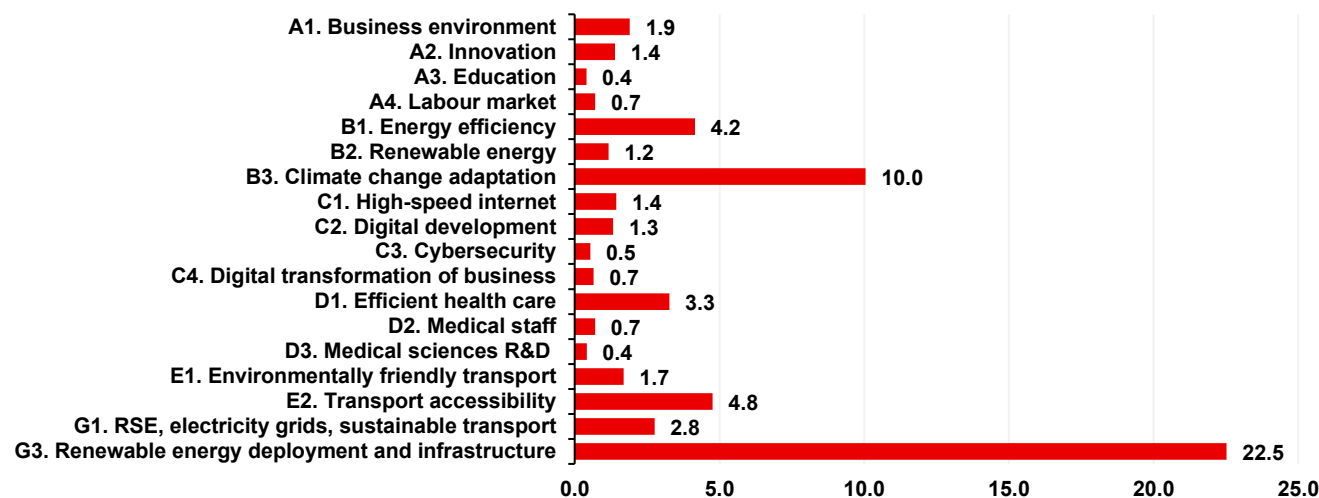
Further support to investment will be provided by up to EUR59.8bn of EU funds from the Polish Recovery and Resilience Plan, which became unblocked near the end of February. A significant share of these funds is directed at investments related to green transition, for example renewable energy sources or efficient use of energy. According to the information provided by the European Commission, 46.6% of the Polish RRP's funds (EUR27.86bn) should support climate change objectives.

Apart from that, the RRP's funds will contribute to digital transition (according to the EC, 21.3% of the funds, or EUR7.38bn, will support this goal), modernisation of the health care system (nearly EUR4.4bn) as well as support of the agricultural sector and the agri-food supply chain (c. EUR1.4bn).

Still, due to significant delay in the implementation of the Polish RRP, it is likely that not all of the funds allocated to Poland will be used.

A selection of investments from the Polish RRP	Cost, EUR m
Support to the national energy system – investments in the sectors of the Polish economy directly bearing the costs of the energy transition (G3.1.4.)	17 069
Green transformation of cities (B3.4.1.)	8 879
Zero and low-emission collective transport – buses, trams, railways (E1.1.2. - E2.2.2. & G1.3.2.)	6 097
Offshore wind farms (G3.1.5. & B2.2.3.)	5 151
Replacement of heat sources and improvement of energy efficiency in residential buildings and schools (B1.1.2. & B1.1.3.)	3 490
Development and modernisation of the infrastructure of highly specialised care centres (D1.1.1.)	2 119
RES installations, construction of transmission and distribution networks, energy storage systems (G1.1.2., G1.1.3., G1.2.3., G1.2.4., G3.3.1.)	1 996
Access to high-capacity broadband infrastructure in white spots (C1.1.1.)	1 431
Building resilience of the agri-food, fishery and aquaculture supply chain, as well as enhancing the competitiveness and resilience of the agri-food and fisheries sector (A1.4.1.)	1 382
Supporting the digital transformation of businesses through the use of cloud computing (C4.1.1.)	650
Construction of natural gas infrastructure to ensure energy security (G3.2.1.)	631
Support for childcare facilities for children up to three years of age (A4.2.1.)	610
Water and wastewater investments in rural areas (B3.1.1. & B3.3.1.)	493
Investment in the development of research capacities (A2.4.1.)	490
Investments supporting robotisation and digitalisation in enterprises (A2.1.1.)	450
Supporting the resilience of SMEs and microenterprises in the sectors most affected by the COVID-19 pandemic (A1.2.1.)	320
Energy efficiency and RES in companies(B1.2.1.)	300

Costs of the Polish RRP's specific objectives, EUR bn



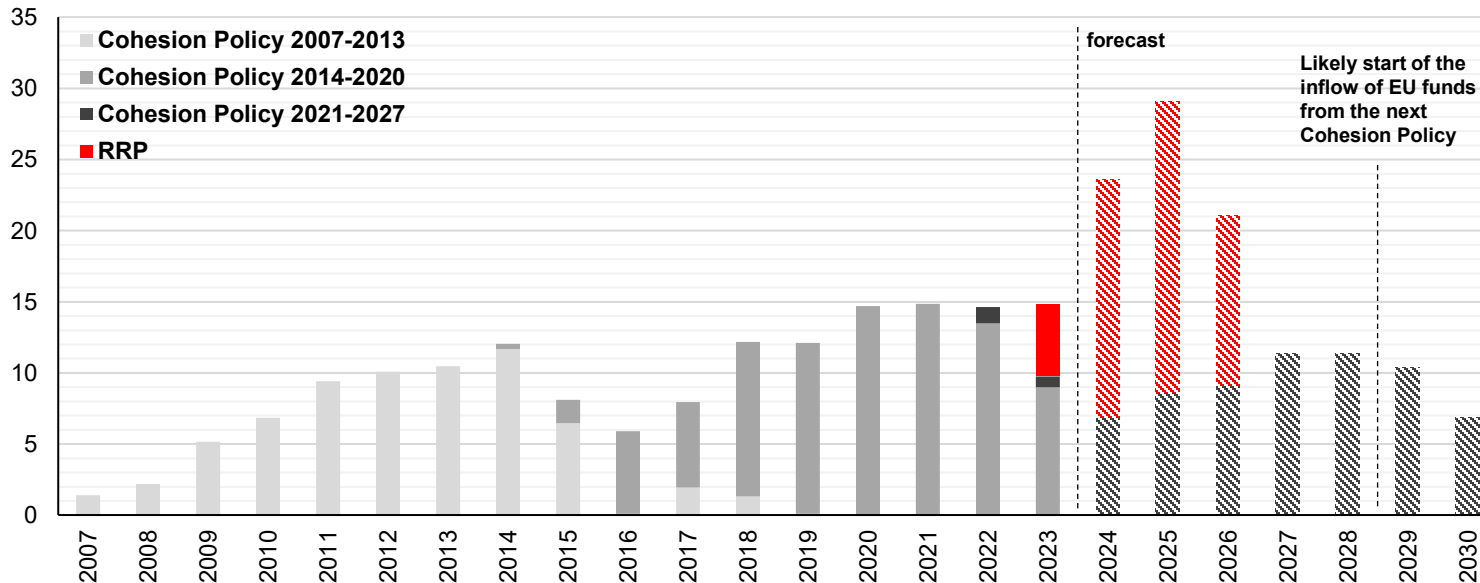


EU funds inflow

If the Ministry of Funds and Regional Policy will stick to the schedule while making the payment requests, then **based on the currently available pieces of information it can be estimated that in 2024 Poland should receive over EUR16bn from the first three instalments of the RRP** (the first payment request was made in December, the request for payment of the next two instalments are to be made in the middle of the year). In 2025, transfers from the RRP may reach as much as EUR20bn, assuming that the Ministry will send – in line with its earlier statements - a request for payment of the fourth and fifth instalment in December, as well as an additional request for at least one instalment in 2025.

It must be stressed, however, that **this forecast has been prepared using the currently available instalment amounts, which will most likely undergo downward revisions due to the audit promised by the Ministry.** As a result, the actual inflow of EU funds is bound to be lower than the forecast suggests, but the size of the difference between the two will remain hard to estimate until the details of the revision are released.

Transfers of EU funds to Poland, EUR bn



Source, European Commission, Santander

Implementation of the milestones and targets of the 2nd and 3rd instalment of the RRP; in green, milestones and targets implemented by 26.02.2024 and preliminarily accepted by the EC

Second Instalment (non-repayable support)

A13G (A1.3.1.) B4G (B1.1.)	A49G (A3.1.1.)	A51G (A4.1.)	A53G (A4.1.)	A65G (A4.4.)	A67G (A4.5.)
C3G (C1.1.)	C9G (C2.1.)	C10G (C2.1.)	C16G (C2.1.3.)	C21G (C3.1.)	
D1G (D1.1.)	D2G (D1.1.)	D3G (D1.1.)	D4G (D1.1.)	D9G (D1.1.1.)	D25G (D2.1.)
D27G (D2.1.)	D32G (D3.1.)	D33G (D3.1.)	D34G (D3.1.1.)		
E1G (E1.1.)	E9G (E1.1.1.)	E15G (E2.1.)	F4G (F3.1.)		

Second Instalment (loan support)

A1L (A2.5.)	A2L (A2.5.1.)			
B2L (B1.2.1.)	B14L (B3.2.)	B34L (B2.2.)	B36L (B2.2.)	B40L (B2.2.)
C8L (C2.2.)	C9L (C2.2.1.)			
D2L (D1.2.)				
E5L (E2.3.)				

Third Instalment (non-repayable support)

A12G (A1.3.)	A33G (A2.3.)	A57G (A4.2.)
B2G (B1.1.)		
C2G (C1.1.)		
D7G (D1.1.)	D10G (D1.1.1.)	
E2G (E1.1.)		

Third Instalment (loan support)

B32L (B2.2.)	B37L (B2.2.)	Notes: The reference codes of reforms or investments, which are linked to specific milestones or targets, are provided in brackets. Full names of the reforms and investments as well as their costs can be found on the next two slides. Source: Ministry of Funds and Regional Policy, Santander
C10L (C2.2.1.)		
D3L (D1.2.1.)	D6L (D3.2.)	



Reforms and investments of the Polish RRP: part I

Reform		Linked investments	Cost, EUR m	Reform	Linked investments	Cost, EUR m
A. Resilience and competitiveness of the economy	A1.1. Reform of the fiscal framework				B1.1.1. Investment in heat sources in district heating systems	300
	A1.2. Further reducing regulatory and administrative burden	A1.2.1. Investments for enterprises in products, services and competences of employees and staff related to the diversification of activities	320	B1.1. Clean Air and energy efficiency	B1.1.2. Replacement of heat sources and improvement of energy efficiency in residential buildings	3 200
	A1.3. Land-use planning reform	A1.3.1. Implementation of the land-use planning reform	200		B1.1.3. Thermal modernization of schools	290
	A1.4. Reform to improve the competitiveness and protection of producers/consumers in the agricultural sector	A1.4.1. Investments to diversify and shorten the supply chain of agricultural and food products and build the resilience of entities in the chain	1 382	B1.2 Facilitating the energy saving obligation for energy companies	B1.1.4. Strengthening the energy efficiency of local social activity facilities	67
	A2.1. Accelerating robotisation and digitalisation and innovation processes	A2.1.1. Investments supporting robotisation and digitalisation in enterprises	450		B1.2.1 Energy efficiency and RES in companies – investments with the highest greenhouse gas reduction potential	300
	A2.2. Creating the conditions for the transition to a circular economy model	A2.2.1. Investments in the deployment of environmental technologies and innovation, including those related to circular economy	162	B2.1. Improving the conditions for the development of hydrogen technologies and other decarbonised gases	B2.1.1. Investment in hydrogen, hydrogen manufacturing, storage and transport	800
	A2.3. Providing the institutional and legal basis for the development of the unmanned aerial vehicles (UAVs)	A2.3.1. Development and equipment of competence centres (specialist training centres, implementation support centres, observatories) and unmanned vehicle industry management infrastructure, as an ecosystem of innovation	40	B2.2. Improving the conditions for the development of renewable energy sources	B2.2.3 Construction of offshore terminal infrastructure	366
	A2.4. Strengthening cooperation mechanisms between science and industry	A2.4.1. Investment in the development of research capacities	490	B2.3. Support for investment in offshore wind farms		
	A2.5. Strengthening the potential of the cultural sector and cultural industries for economic development	A2.5.1. A programme to support the activities of entities in the cultural and creative industries to stimulate their development	95	B2.4. Legal framework for the development of energy storage facilities		
	A2.6. Reform - Development of the national system of monitoring services, products, analytical tools, services and accompanying infrastructure using satellite data	A2.6.1. Investment - Development of the national system of monitoring services, products, analytical tools, services and accompanying infrastructure using satellite data	150	B3.1. Support of sustainable water and wastewater management in rural areas	B3.1.1. Investments in sustainable water and wastewater management in rural areas	204
	A3.1. Workforce for the modern economy: improving the matching of skills and qualifications with labour market requirements due to the introduction of new technologies in the economy and the green and digital transformation	A3.1.1. Investments in modern vocational training, higher education and lifelong learning	400	B3.2. Support for environmental restoration and protection against hazardous substances	B3.2.1. Investments in risk neutralisation and the restoration of large-scale brownfield sites and the Baltic Sea	93
	A4.1. Effective institutions for the labour market	A4.1.1. Investment in support of labour market institution reform	52	B3.3. Support for the sustainable management of water resources in agriculture and rural areas	B3.3.1. Investments in increasing the potential of sustainable water management in rural areas	289
	A4.2. Reform to improve the labour market situation of parents by increasing access to high-quality childcare for children up to the age of three	A4.2.1. Support for childcare facilities for children up to three years of age (nurseries, children's clubs) under Maluch+	610	B3.4. Enabling framework for green transition investments in urban areas	B3.4.1. Investments in a green transformation of cities	8 879
	A4.3. Implementation of the legal framework for the development of the social economy	A4.3.1. Investment support programmes making it possible, in particular, to develop activities, increase participation in the provision of social services, improve the quality of reintegration into social economy entities	45	B3.5 Reform of housing construction for people with low and average incomes, taking into account the higher energy efficiency of buildings	B3.5.1 Investment in energy-efficient housing for low- and average-income households	582
A4.4. Making forms of employment more flexible and introducing remote work			Total cost		15 370	
A4.5. Extend careers and promote working beyond the statutory retirement age			C1.1. Facilitating the development of network infrastructure to ensure universal access to high-speed internet	C1.1.1. Ensuring access to very high-speed internet in white spots	1 431	
A4.6 Increase labour market participation of certain groups by developing long-term care			C1.2 Increasing the level of accessibility and use of modern wired and wireless communication for social and economic needs			
A4.7. Limit the segmentation of the labour market			C. Digital transformation	C2.1.1 Public e-services, IT solutions improving the functioning of administrations and economic sectors	100	
Total cost				4 395	C2.1. Scaling up digital applications in the public sphere, the economy and society	550
				C2.1.2. Level playing field for schools with mobile multimedia devices – investments related to the fulfilment of minimum equipment standards	184	
				C2.1.3. E-competences	494	
			C2.2. Reform the foundations of digitalisation of the education system	C2.2.1 Equipping schools/institutions with adequate ICT devices and infrastructure to improve the overall performance of education system	532	
			C3.1. Enhancing the cybersecurity of information systems, strengthening the data processing infrastructure and optimising the infrastructure of the law enforcement services	C3.1.1. Cybersecurity – CyberPL, infrastructure of data processing and optimization of the infrastructure of law enforcement services	650	
				C4.1.1. Supporting the digital transformation of businesses through the use of cloud computing		
			Total cost		3 940	



Reforms and investments of the Polish RRP: part II

D. Effectiveness, accessibility and quality of the health system			F. Improving the quality of institutions and the conditions for the implementation of the RRP		
Reform	Linked investments	Cost, EUR m	Reform	Linked investments	Cost, EUR m
D1.1. Improving the effectiveness, accessibility and quality of health services	D1.1.1. Development and modernisation of the infrastructure of highly specialised care centres and other healthcare providers	2 119	F1.1. Reform strengthening the independence and impartiality of courts		
	D1.1.2. Accelerating the digital transformation of health by further developing digital health services	1 000	F1.2. Reform to remedy the situation of judges affected by the decisions of the Disciplinary Chamber of the Supreme Court in disciplinary cases and judicial immunity cases		
D1.2. Increasing the efficiency, availability and quality of long-term care services of healthcare providers at district level	D1.2.1. Development of long-term care by modernisation of medical entities' infrastructure at district level	150	F2.1. Improving the process of law-making		
D2.1. Creating the right conditions for an increase in the number of medical staff	D2.1.1. Investments related to the modernisation and retrofitting of teaching facilities with a view to increasing admission limits for medical studies	700	F3.1. Improving the conditions for the implementation of the RRP		
D3.1. Increasing the efficiency and quality of the healthcare system by supporting Polish research and development potential in the field of medical sciences and health sciences	D3.1.1. Comprehensive development of research in the field of medical sciences and health sciences	273	Total cost		
D3.2. Creation of favourable conditions for the development of the medicines and medical devices sector	D3.2.1. Developing the potential of the medicines and medical devices sector – investments linked to the production of API in Poland	140	N/A		
Total cost		4 381	G1.1.1. Encouraging the development of local energy communities		
E1.1. Increase in the use of environmentally friendly transport	E1.1.1. Support for a low-carbon economy	1 114	G1.1.2. Renewable energy sources' installations implemented by energy communities, including a scaled-up part	189	
	E1.1.2. Zero and low-emission collective transport (buses)	377	G1.1.3. Energy storage systems (non-repayable support)	200	
E1.2. Increase the share of zero and low-emission transport, prevent and reduce the negative impact of transport on the environment	E1.2.1 Zero-emission public transport in cities (trams)	200	G1.1.4 Support to institutions implementing REPowerEU reforms and investments	41	
E2.1 Enhance the competitiveness of the railways sector	E2.1.1 Railways lines	2 390	G1.2.1. Regulatory solutions for accelerated integration of renewables into distribution grids		
	E2.1.2. Railways passenger rolling stock	1 160	G1.2.2. Removing barriers to the integration of renewable energy sources into electricity networks		
E2.2. Enhance transport safety	E2.1.3. Intermodal projects	175	G1.2.3. Development of transmission networks, smart electricity infrastructure, including a scaled-up part	600	
	E2.2.1. Transport safety investments	700	G1.2.4. Construction or modernisation of electricity distribution networks in rural areas to enable the connection of new renewable energy sources	972	
E2.3 Enhance transport accessibility, security and digital solutions	E2.2.2. Digitalisation of transport	341	G1.3.1. Supporting sustainable transport		
			G1.3.2. Zero-emission collective transport (buses)	754	
Total cost		6 457	G3.1.1. Streamlining the permitting for renewable energy sources		
			G3.1.2. Skills for the green transition		
			G3.1.3. Boosting energy efficiency and accelerating phase out of fossil fuels in home heating		
			G3.1.4. Support to the national energy system (Energy Support Fund)	17 069	
			G3.1.5. Construction of offshore wind farms (Offshore Wind Energy Fund)	4 785	
			G3.2.1. Construction of natural gas infrastructure to ensure energy security	631	
			G3.3.1 Energy storage systems (repayable support)	35	
Total cost		6 457	Total cost		
			25 276		



Housing market: time for a breather?

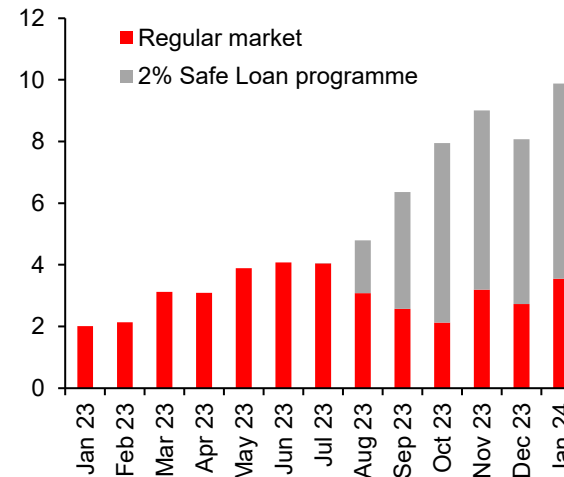
In January, a new record was set for mortgage sales at PLN9.9bn. More than 60% of the new loans were originated under the „2% Safe Credit” programme. However, as the budget for this programme has already been exhausted, we expect a marked slowdown in the mortgage market in the coming months - down to PLN4-5bn per month before the new market demand support programme comes into force.

Higher demand for loans translates into higher demand in the residential market. In Poland's six largest cities, the total number of flats sold exceeded 50k in 2023 against c35k in 2022. The surge in demand has triggered a jump in prices, which advanced by 7% in the secondary market and 9% in the primary market in just two quarters.

Since mid-2023, a progressive recovery of supply in the housing market has been evident. The GUS data covering the entire economy shows an increase in the number of building permits and construction starts with the number of dwellings completed still weakening. The six largest cities are already seeing an increase in the number of flats coming on offer.

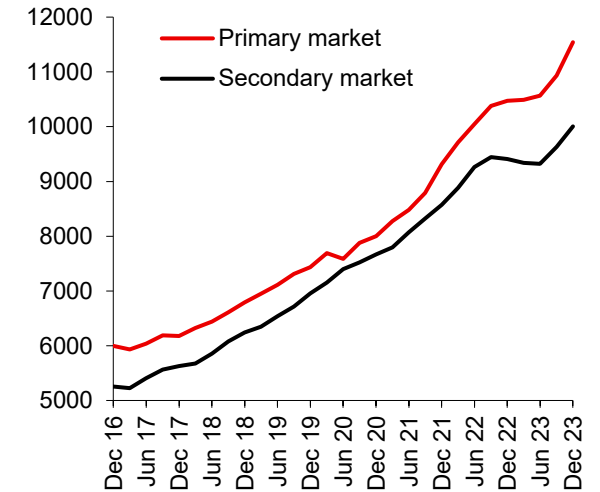
We expect demand in the housing market to subside somewhat in the coming months, which should also limit the upward price momentum, especially as supply recovers. The entry into force of the new demand support programme could mean that the market will become dynamic again.

New housing loans, PLNbn



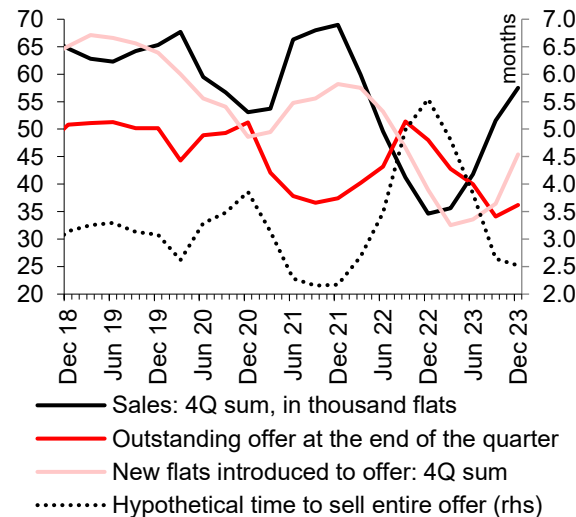
Source: NBP, SARFIN, Santander

Housing prices in 17 biggest cities, PLN per m2



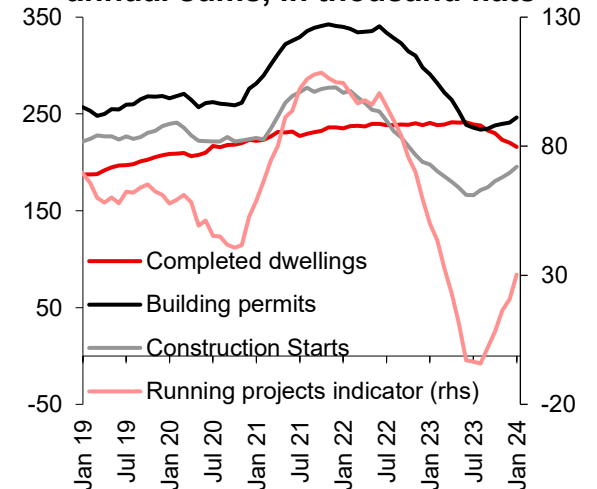
Source: NBP, Santander

Housing market in 6 biggest cities



Source: JLL, Santander

Housing market statistics, annual sums, in thousand flats



Source: NBP, Santander



Inflation: downward revision

Core inflation peaked in March 2023 and has been declining since then. According to our estimates, this decline was mainly due to the waning effects of the energy shock, while the component depending on other factors stabilised at elevated levels after an initial decline.

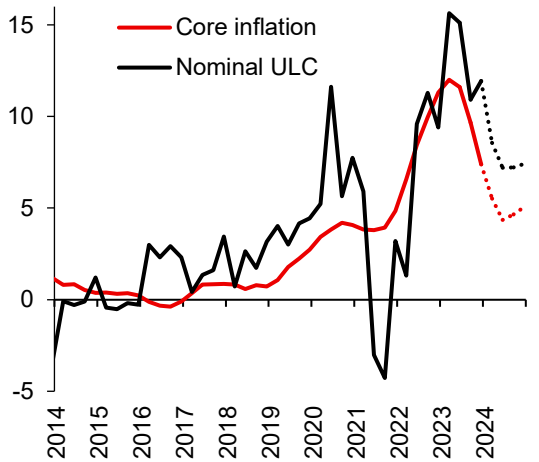
We expect core inflation to fall further to around 4% y/y in mid-2024, when companies will increasingly feel the impact of strong increases in unit labour costs. We believe that this will prevent a further decline in core inflation and may even lead to some increase in inflation. **At the end of the year, we expect core inflation at 5%.**

The lower run of food prices at the beginning of 2024 and the further reduction in global food price indices (FAO, CRB) have led us to lower our forecast for their prices later in the year. We maintain our expectation of a normalisation of VAT rates at the beginning of April. Consequently, we expect an average **increase in food prices of around 4.0% y/y** or around 1.5% y/y assuming stable VAT rates until the end of the year.

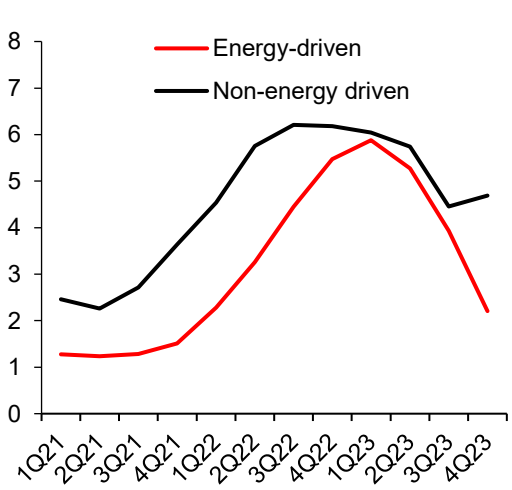
The current regulations indicate a strong increase in electricity and gas bills in July (55% and 40% respectively). In December's MACROscope we set out our assumption that price rises would be capped at 30% and 20% respectively, and now, following statements from the **Minister for Climate and Environment suggesting a 15% increase, we are revising our assumptions down to this figure.**

Due to the lower assumptions on energy prices and the lower run-up in food prices at the beginning of the year, we are lowering our CPI inflation forecast to 4.1% from 4.9% on average in 2024 and to 5.3% from 6.7% at the end of the year.

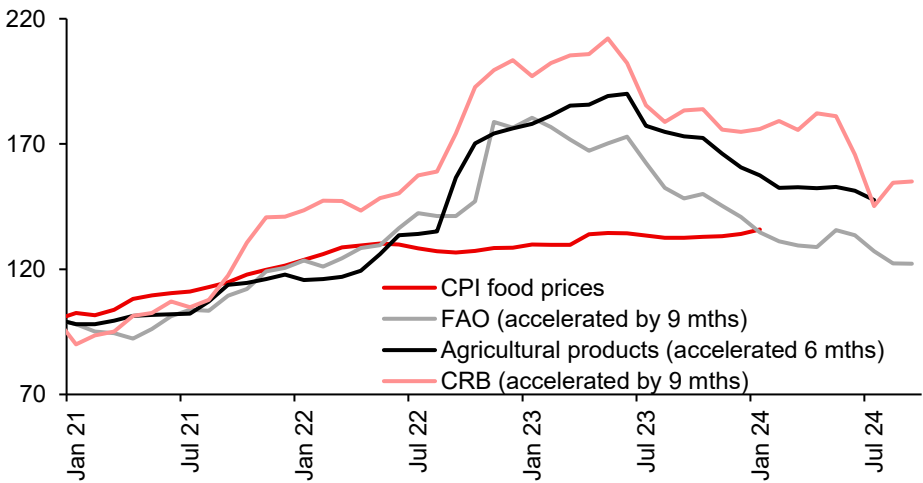
Core inflation vs. unit labour costs, % y/y



Core inflation - breakdown, % y/y



Food prices, December 2020 = 100



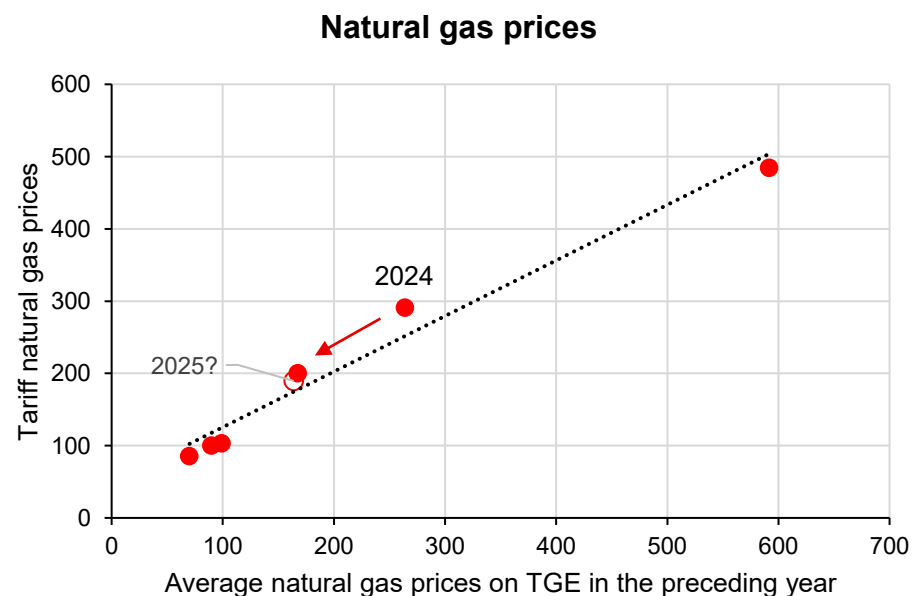
Source: GUS, Eurostat, Bloomberg, FAO, Santander



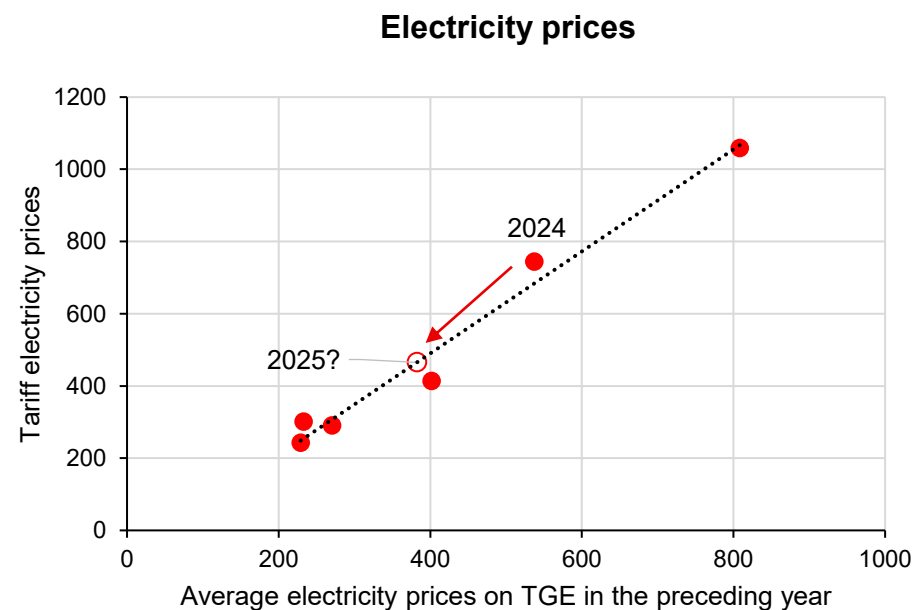
What about energy prices in 2025?

The fall in wholesale electricity and natural gas prices suggests the potential for further reductions in household tariffs for 2025. We now assume that this effect will subtract 0.3 percentage points from the CPI in 2025.

Tariff prices depend largely on the cost of energy commodities purchased by the tariff companies, and this depends on the wholesale prices of these commodities. Based on the data for the first two months of the year, we see the potential for a decrease in tariff electricity prices to around PLN 460/MWh and gas prices to around PLN 190/MWh. The impact of these changes on the CPI will depend on the starting point, i.e. energy prices after the government's decision on shielding. Under our current assumptions of a 15% increase in electricity and gas prices in July 2024, gas prices would fall by around 12% in 2025 and electricity prices would be roughly stable. Such a change would subtract 0.3 percentage points from the CPI in 2025.



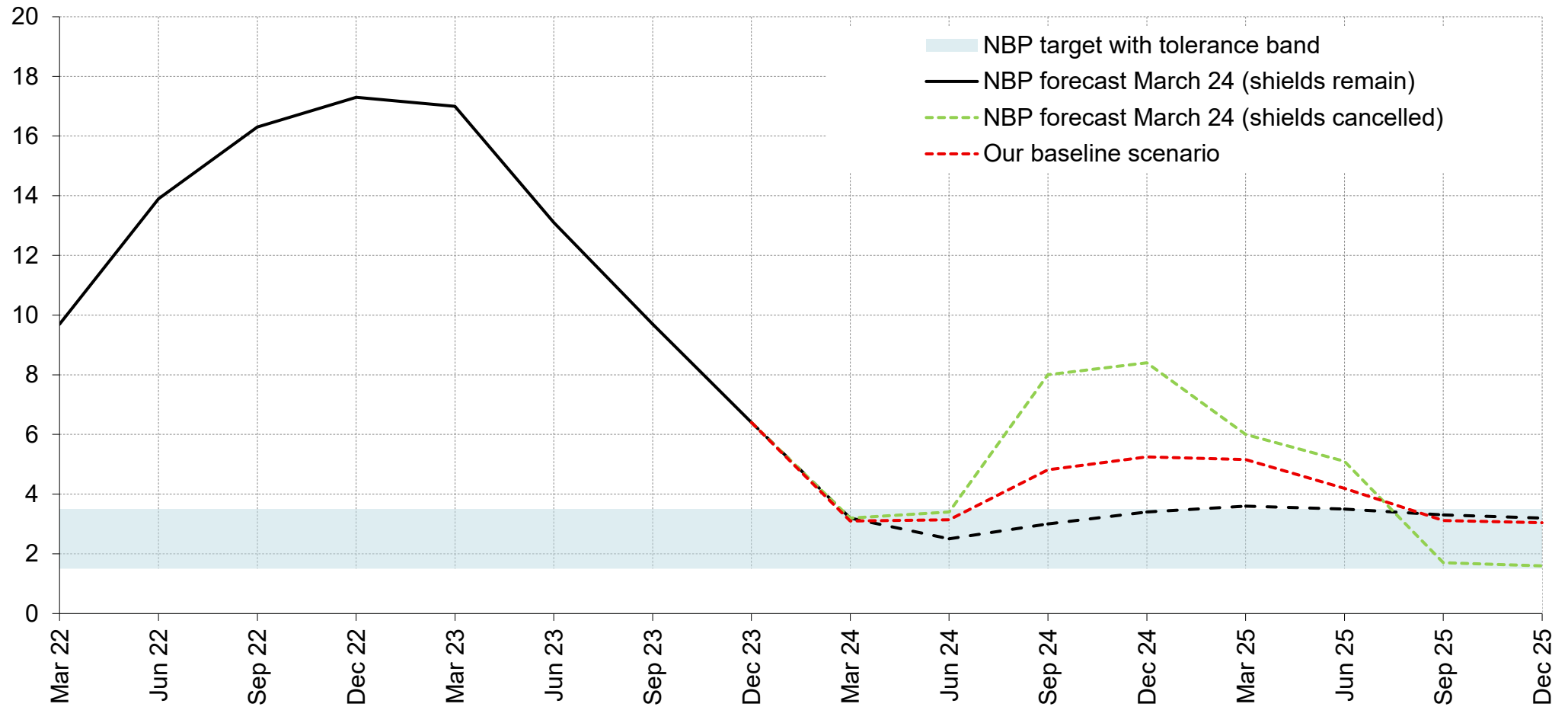
Source: TGE, URE, Santander





Inflation vs „anti-inflation shield”

Inflation forecasts – we and NBP, % y/y



Source: GUS, NBP, Santander



Employment tops, unemployment stays flat

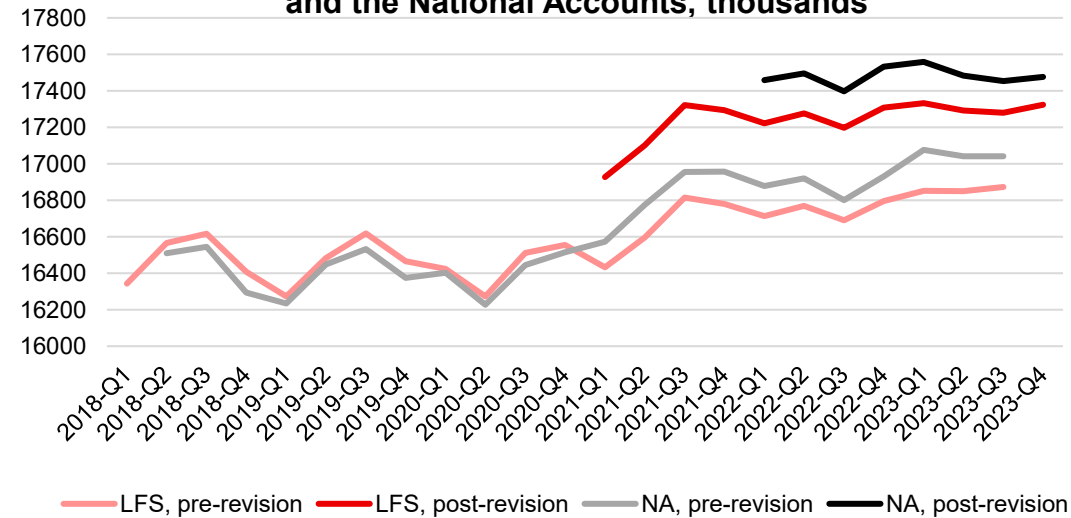
The data on the situation in the labour market have recently undergone a significant revision as the results of the 2021 Census have been taken into account. It appears that the stock of available labour is smaller than could have been estimated so far - after the revision, the number of workers has increased by around half a million. The labour force participation rate and the employment rate have increased as well.

On the other hand, the trends of the last few quarters now look somewhat less optimistic than before the review – instead of moderately increase over the last year, the number of employed stagnated, albeit close to record high levels.

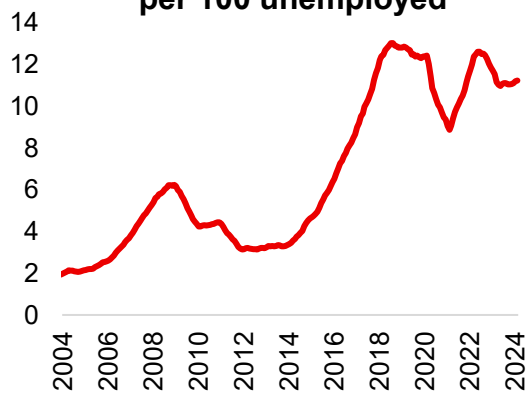
Still, January unemployment data have shown another decline in its seasonally adjusted rate (to 2.9%), meaning that Poland has beaten Czechia in this regard.

In practice, this means that the economy is entering another recovery cycle in 'full employment' mode and with no spare labour reserves: the stock of unemployed is 2-3 times smaller than at a similar point in the previous business cycles (according to the LFS now <0.5 million, in 2016 over 1 million, in 2010 around 1.6 million).

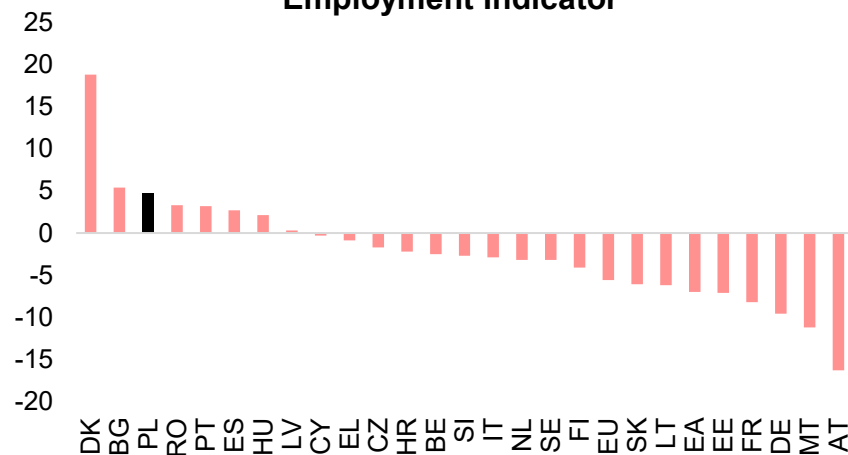
Number of employed according to the LFS and the National Accounts, thousands



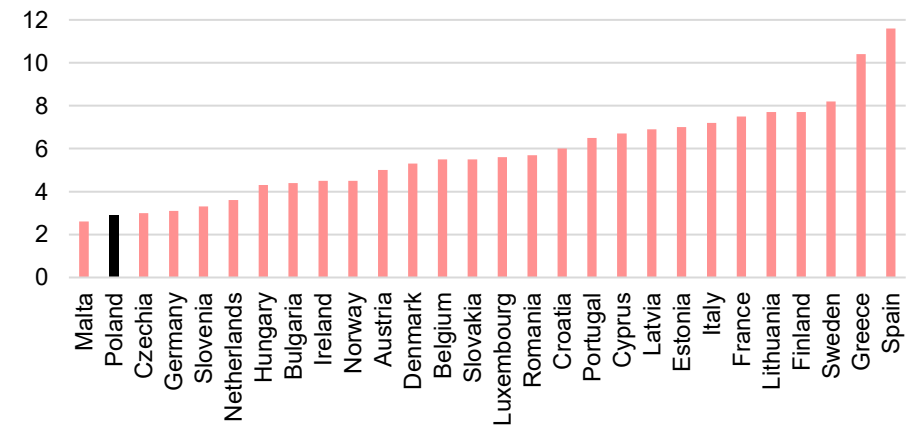
Number of job offers per 100 unemployed



Annual change in the Expected Employment Indicator



LFS unemployment rate (January 2024), s.a., %





Employment still on the rise, fuelling wage pressures

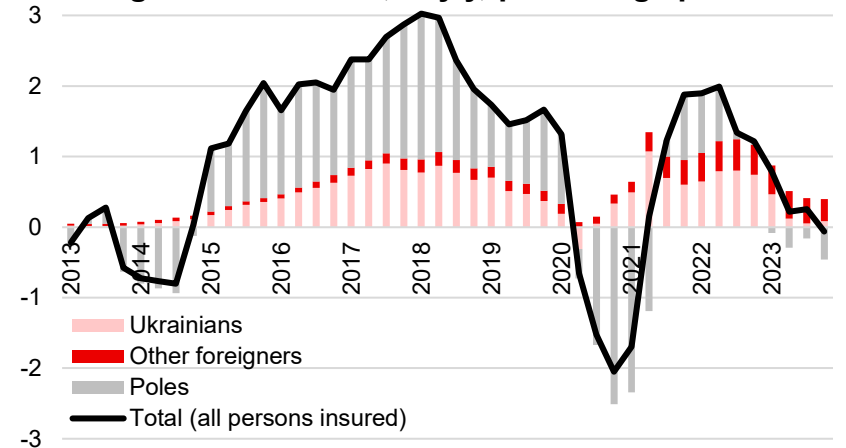
Labour demand has been reviving over the course of last year and – as the Economic Sentiment Indicators suggest - in some sectors (services, construction) is already stronger than in mid-2021. Improvements in the Expected Employment Indicator in the ESI survey occurred only in some EU countries, including Poland, which suggests that labour demand is strong in Poland compared to other European economies.

The decline in the number of job offers per one registered unemployed stopped last spring at still historically high levels. Therefore, even at the bottom of the cycle, the labour market remains tight.

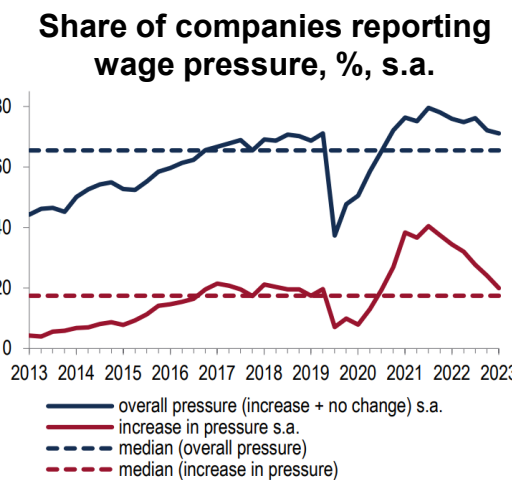
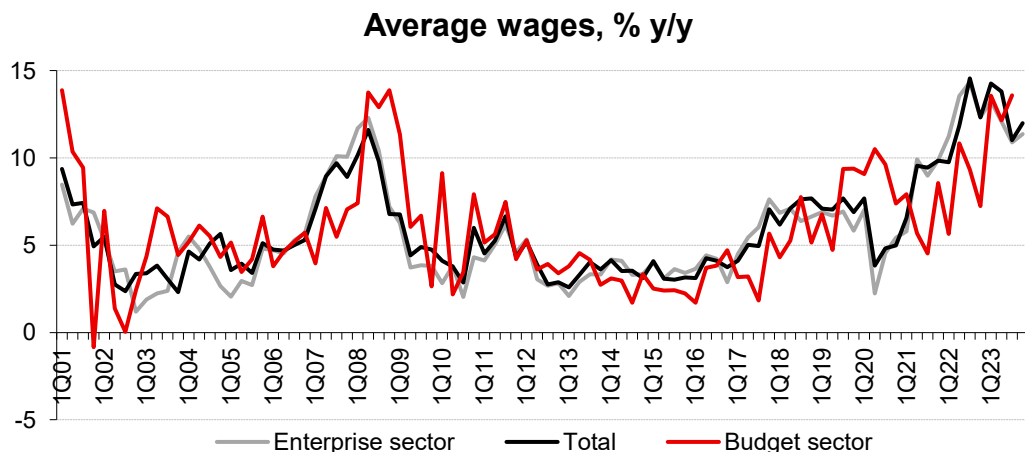
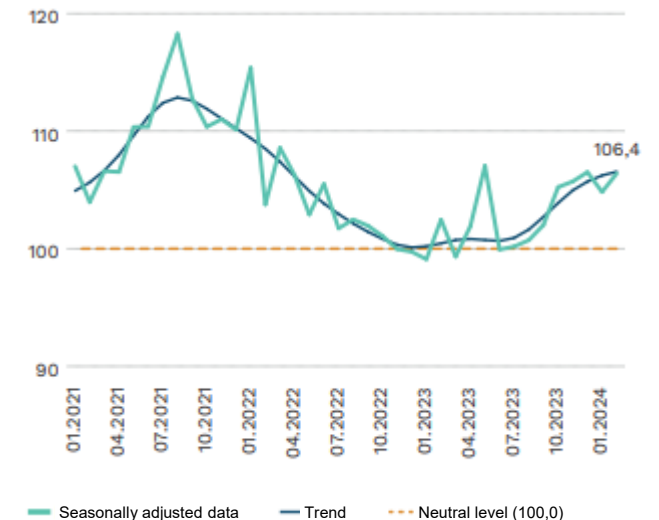
On a few occasions in the past, it has been the case that labour supply problems of the Polish economy have been solved by imports of labour. However, the relatively small net inflow of foreigners into the Polish labour market (according to the Social Insurance Institution's data) means that the chance that they will significantly ease wage pressures is becoming smaller and smaller, especially as the annual declines in the number of Poles registered with the Social Insurance Institution have intensified over the course of 2023.

In such labour market conditions, it is difficult to expect anything other than continued wage pressures. This is confirmed by the NBP's Quick Monitoring survey: the share of firms experiencing wage pressures is still above the 2018-2019 levels and the number of reports of pressure building up is similar to that from 2018-2019. We therefore maintain the view that wage growth will remain in double digits this year.

People registered in Polish social security system, growth structure, % y/y, percentage points



PIE-MIK indicator of planned changes to the level of employment





Monetary policy: interest rates on hold until year-end?

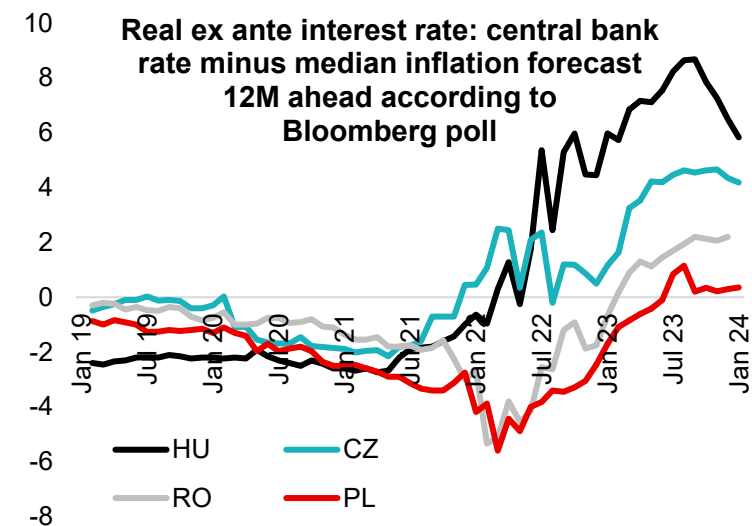
The MPC has kept interest rates unchanged since last November and we read from its announcements a clear intention not to rush into further monetary easing. **In our view, NBP rates will remain at the current level at least until the end of this year.** In March, the NBP President declined to comment on possible decisions in the second half of the year, but a month earlier he had quite clearly implied a probable lack of majority for rate cuts this year.

The Polish central bank's stance goes against communication from other central banks in the CEE region. Nevertheless, the NBP does not now have to compete with them in terms of the pace of policy easing for several reasons. Firstly, the scale of rate hikes in Poland was smaller and stopped earlier than, for example, in the Czech Republic and Hungary. Secondly, the NBP has already adjusted rates by a total of -100bp in September and October. Thirdly, the local economic outlook argues for more persistence in inflation and a later (sustained) arrival at the target. Fourthly, a smaller scale of fiscal consolidation is expected for Poland. In addition, the current degree of monetary policy restrictiveness in Poland can hardly be considered high in our view, if it does not prevent the economy from entering a new phase of acceleration (which, according to the latest NBP forecasts, is expected to push GDP growth in 2025 clearly above potential).

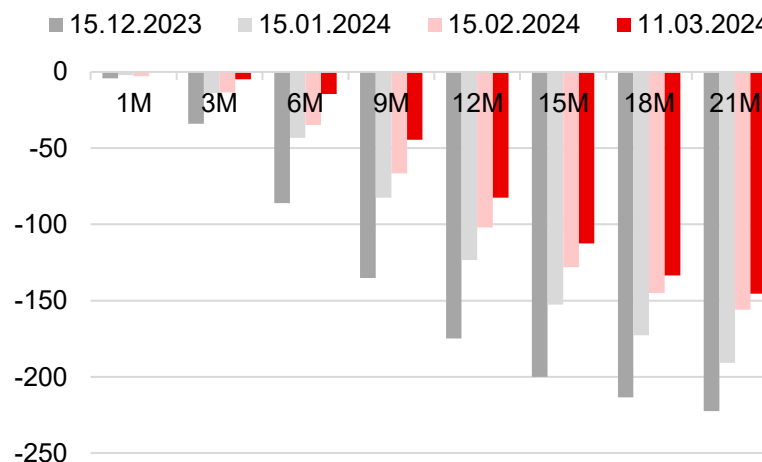
In theory, the MPC has left all options open to itself, but in practice we read this to mean that it will be inclined to keep rates at the current level regardless of the government's decisions on the anti-inflation shields - in the scenario of their quicker removal, the argument will be the clear increase in CPI in the short term, in the scenario of full shield extension, more expansionary fiscal policy resulting in greater inflation persistence in the medium term.

According to the MPC, the lack of haste in easing policy is also to be justified by concerns about other uncertainties for inflation: accelerating economic growth, rising shipping costs, a possible rebound in global energy and food prices.

In our view, the MPC's policy in the coming months may be additionally stiffened by the ruling coalition MPs' announcement that they would initiate a procedure in the Sejm to put the NBP president before the State Tribunal. In turn, the abandonment of this procedure would, in our opinion, increase the chances of rate cuts starting in the second half of the year.



NBP interest rate changes in the coming months priced-in by the financial market on selected days





The NBP's projections: stronger GDP and core inflation

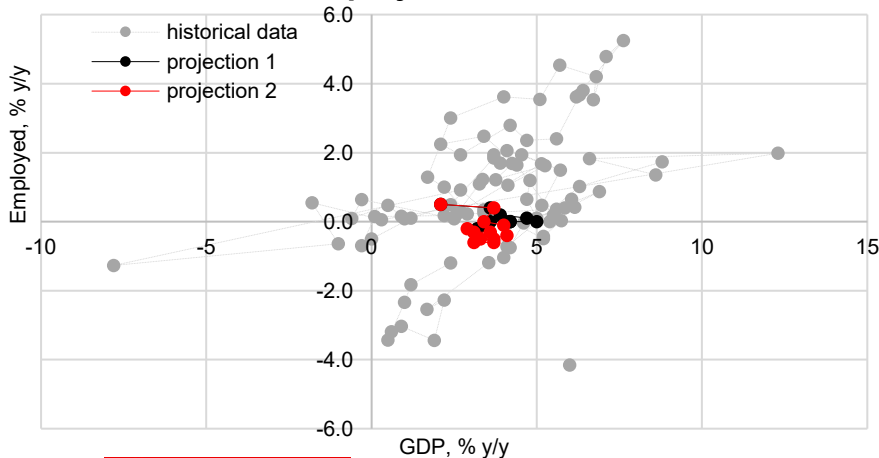
The NBP's March Inflation Report presented two scenarios for the development of the economic situation in Poland - one created under the assumption that the so-called 'anti-inflation shields' will be extended to the end of the projection horizon (i.e. to 4Q26), the other under the assumption that they will run out already in 2024.

In the first scenario, CPI inflation reaches the upper band of the inflation target in 2Q25 (ignoring a temporary drop near the target in March) and falls to 2.7% y/y in 4Q26. In the second, after rising to 8.4% y/y in 4Q24, inflation falls to 1.6% y/y in 4Q25 and reaches 2.4% y/y by the end of 2026. In both scenarios the path of inflation in 2025 was revised downwards relative to the November projection - the current scenarios assume that the average annual inflation rate in 2025 will equal 3.4% if the anti-inflation shields are maintained or 3.5% if they are extinguished, both below the 3.7% assumed in November.

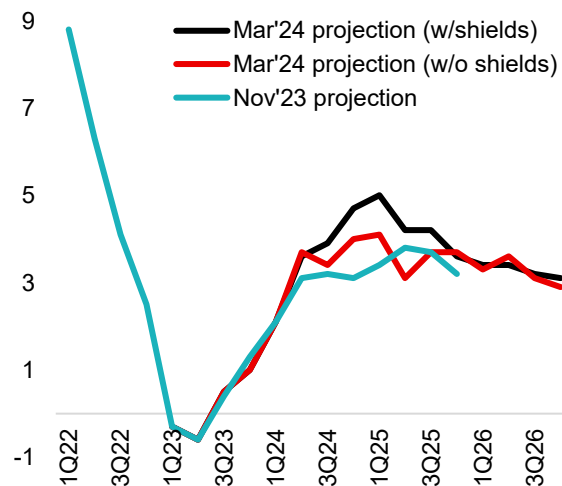
The simultaneous upward revision of the projected GDP path relative to the November projection (from 2.9% in 2024 and 3.5% in 2025 to, respectively, 3.5% and 4.2%) was caused by higher projected private consumption, driven by higher-than-expected increases for public sector employees on the one hand and increased social transfers on the other, as well as a faster expiration of cost pressures and larger inflows of EU transfers.

Despite the acceleration of economic growth above the potential rate (at c. 3.5%), the March projection assumes no change or even a slight decline in the number of employed, which looks like a strongly pro-inflationary scenario, yet does not significantly bump up the CPI path. Nevertheless, some more inflation persistence can be seen in both variants of the new projection, for example in the trajectory of core inflation, as the scenario with the anti-inflation shields extended into subsequent years is worse in this respect (as a variant with looser fiscal policy). We suspect that, in light of the projections, MPC members will stick to the 'wait and see' approach.

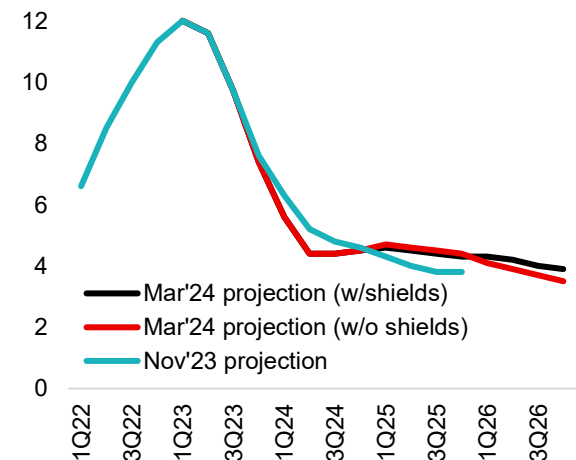
Relation of GDP growth to employment growth in the NBP's March projection and in historical data



GDP growth in the NBP's projections, % y/y



Core inflation in the NBP's projections, % y/y



Source: GUS, NBP, Santander

MPC changing views

According to analysts, the bias of most of the MPC members has clearly changed since last September towards a more "hawkish" stance.

Comments by I. Dąbrowski on the possible consideration of quantitative tightening (QT) have so far failed to find wider support in the Council, with the author himself proposing another round of QE after a month.

Ireneusz Dąbrowski, MPC member:

28 Dec (PAP): It seems that for the time being - with the market parameters unchanged - **there is little risk of interest rate hikes. Rather, it is a choice between maintaining and cutting.**

12 Jan (Bloomberg): If the government abandons the energy price freeze and zero VAT after H1 2024, then **rate hikes or the start of quantitative tightening could be a possibility to consider.**

12 Jan (Gazeta Bankowa): It may well be that when there is such high demand, **the NBP will have to consider shortening its position in covid bonds and sell some of these papers on the market to draw down the money surplus.** If there is a surge in prices, the NBP, I believe, will have to respond in some way.

17 Jan (Rzeczpospolita): Decisions will be taken at the turn of February/March. We will then see whether the fall in inflation is sustainable, whether inflation expectations are anchored. If not, **a move will have to be made**, in my opinion. (...) should the need to tighten monetary policy arise, **the Council will have two tools at its disposal: interest rate hikes and quantitative tightening (QT).**

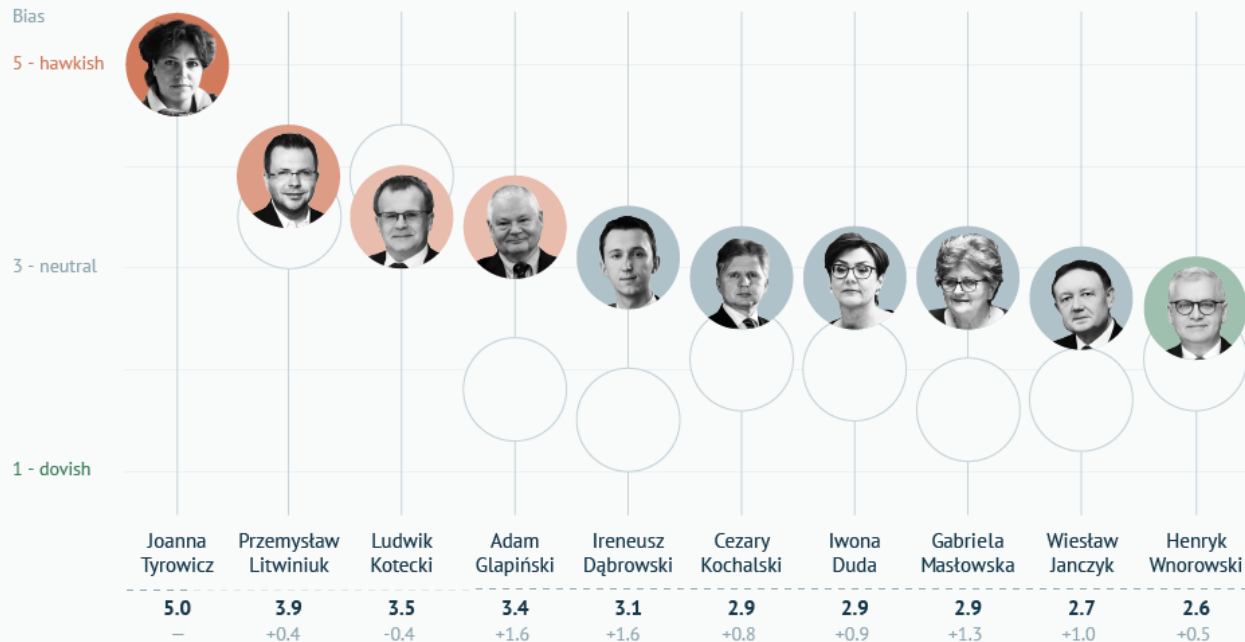
19 Feb (Rzeczpospolita): Communication and logistics hubs need to be built, including the CPK. (...) All these investments (and not current consumption) should be financed by the government, and **bonds issued for this purpose, bought by commercial banks, should be repurchased by the NBP.**

PAP Consensus Call: polish MPC hawks and doves

Individual Council Member Bias, as ranked in PAP consensus survey of sell-side economists

Consensus call based on a survey of 14 economists, as collected by PAP Business at 28th February - 1st March 2024.

● March 2024 Call
○ September 2023 Call



Source: PAP Business





Fiscal policy: risk of a higher deficit

We see a slight upside risk to the public finance (GG) deficit this year. In our view, planned VAT receipts will be partially made up for by higher PIT and premium income and dividends. We expect 5.5% of GDP against the government's assumption of 5.1% of GDP.

We believe that the government's plans to increase VAT receipts by almost 30% to PLN316bn in 2024 were unrealistic already when they were created. Since then, GDP growth and inflation forecasts have fallen slightly, putting an additional question mark over this. We estimate that **actual VAT revenues could be PLN25-30bn lower than budgeted.**

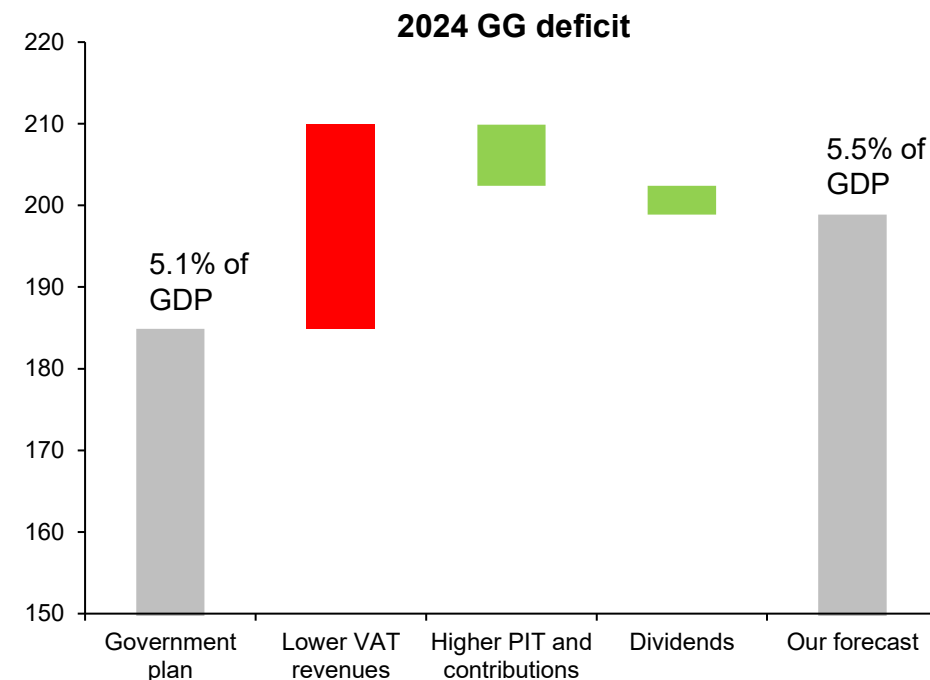
In December 2023, Ministry of Finance accelerated refunds of this tax, worth around PLN10bn, which will slightly reduce the shortfall in VAT receipts this year, but will not affect the sector's GG balance.

We expect household incomes to grow slightly stronger than assumed in the budget in 2024, allowing for slightly higher receipts from PIT and social and health insurance contributions. We assume that revenues could be around 1% higher than assumed, or by around PLN7.5bn.

Dividends may turn out to be better than the PLN2.5bn assumed in the budget. We currently estimate that it could be around PLN6bn.

It is almost certain that the NBP will not record a profit for 2023, which means that the assumed payment of PLN6bn to the budget will not happen after all. The media report a loss of around PLN21bn. However, the NBP's profit is not included in the revenues of the public finance sector in the Eurostat definition (GG).

The government is also thinking about introducing additional spending items - it has already decided to cut VAT for the beauty industry (at a cost of around PLN150mn), a new version of the '2% Safe Loan' programme is being considered, as well as changes in capital gains tax and healthcare contributions for entrepreneurs, a contribution moratoria for companies and measures related to energy prices. It is difficult to estimate the cost of these proposals at this point, but in the pessimistic variant they could reach several tens of billions zlotys.



Action	Our estimate of cost
„Safe Credit” programme – new version	up to PLN2bn
Changes in capital income tax	up to PLN10bn
Energy subsidies	up to PLN15bn – possible financing via energy sector
Return to old calculation of healthcare contribution for entrepreneurs	cPLN10bn
Social contribution moratoria for entrepreneurs	cPLN2bn

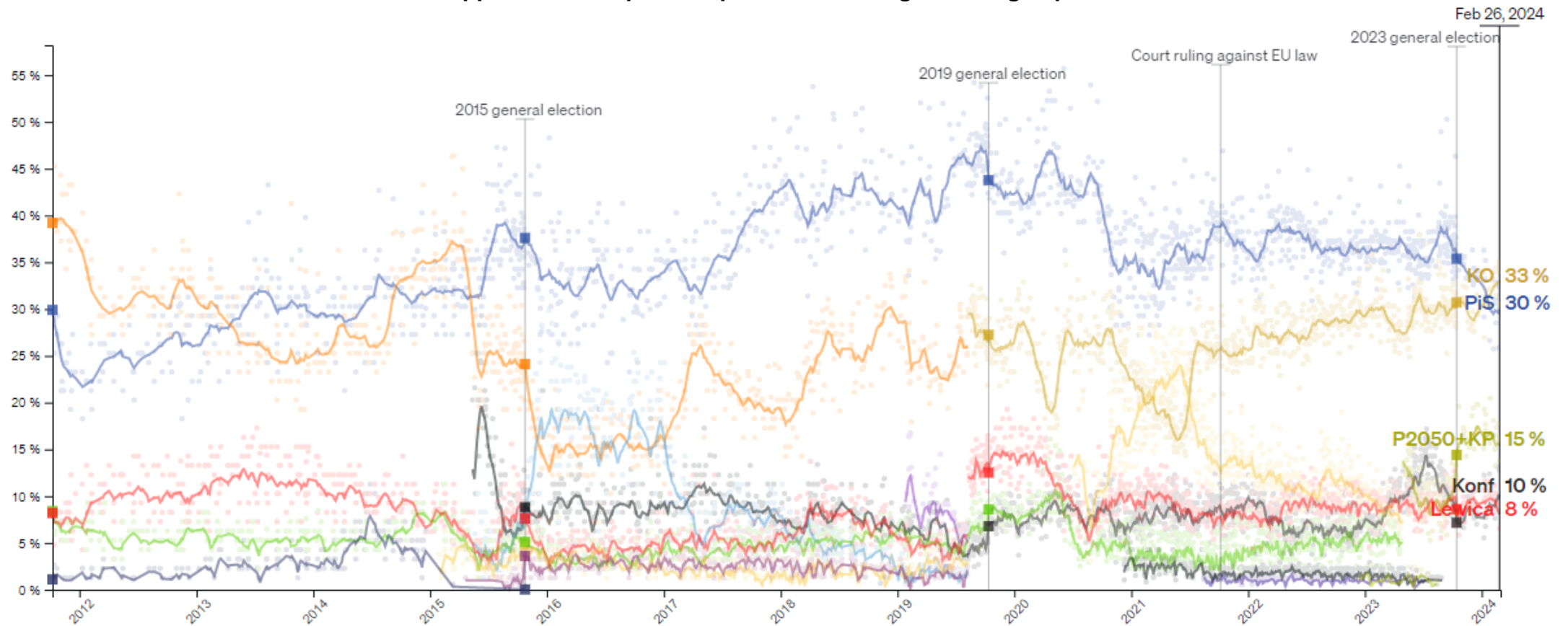


Polls positive for the ruling coalition

More elections lie ahead: local government elections in early April, European elections in early June, presidential elections in mid-2025.

Averaged poll results show a gradual decline in support for PiS and an increase in the performance of the parties that are forming the ruling coalition.

Support for main political parties according to averaged polls



Source: Politico.eu

Financial markets

A close-up photograph of a desk with financial documents. A silver pen lies diagonally across the papers. The documents feature various charts, including a line graph with a blue line and a bar chart with multi-colored bars. The background is blurred, showing more papers and a computer monitor.

2

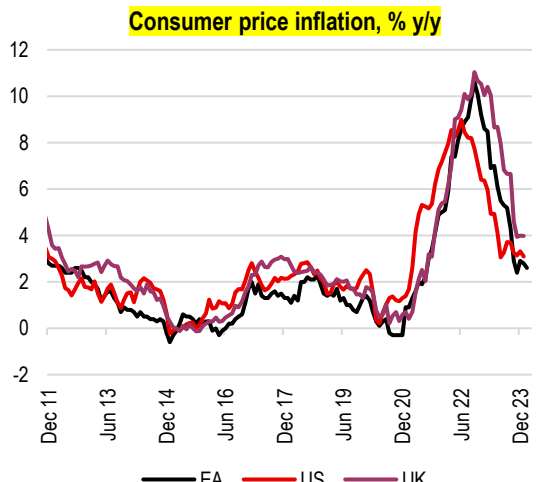
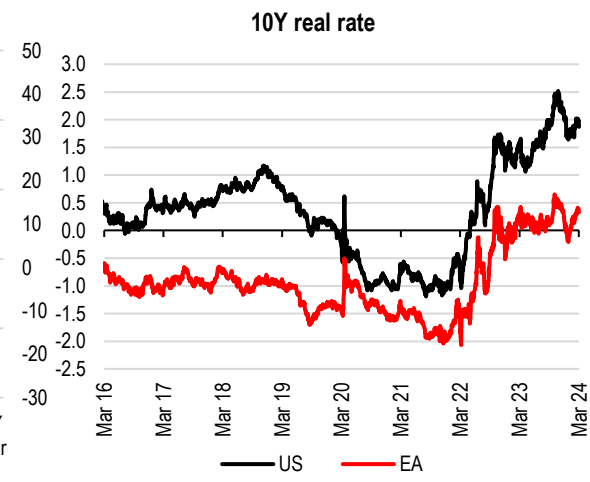
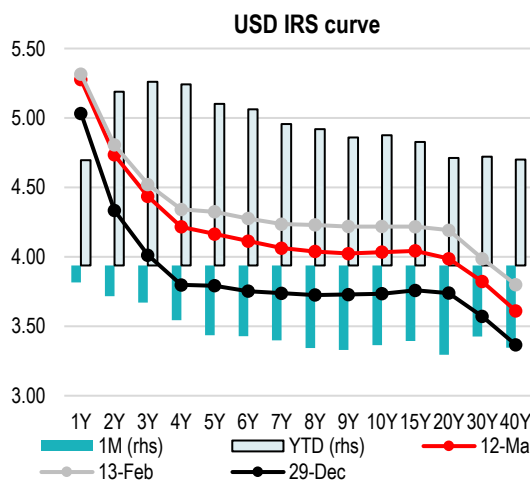
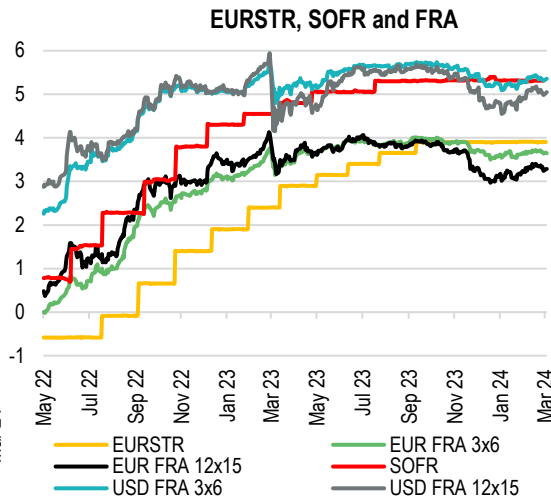
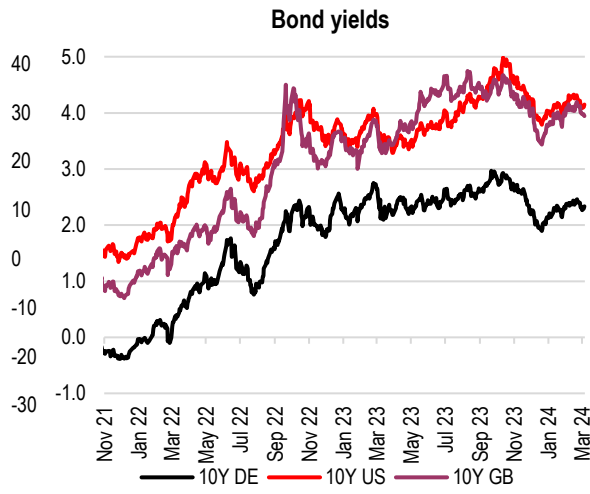
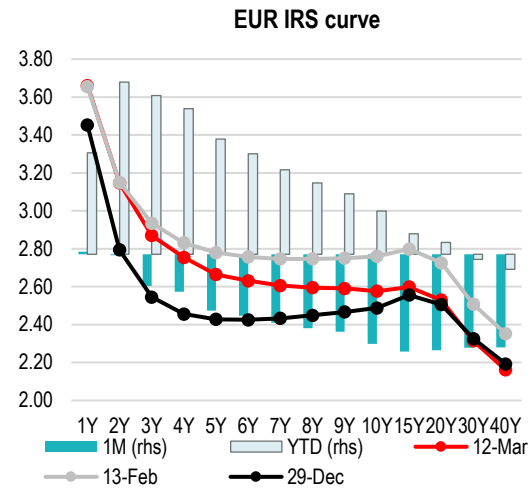
Fewer rate cuts expected from ECB and Fed



As we assumed, there was an upward adjustment of yields in the core markets in 1Q. However, the beginning of 2024 also stood in contrast to the main trends assumed for the current year: a gradual steepening of yield curves under the influence of falling inflation and interest rates. Despite falling inflation measures in Europe and the US, comments from central bankers were not very dovish for some time, leading to a flattening of the core curves with positive surprises in macro data (especially in the US).

The latest U.S. employment data was relatively weak with the U.S. unemployment rate rising, and the recent comments from J. Powell and C. Lagarde signalling the nearing rate cuts have begun to shift market expectations back towards slightly more cuts. The market is now assuming a June rate cut and about 4 rate cuts by the end of the year by the ECB and the Fed versus the 5-7 cuts expected at the end of last year. At the same time, long-term real rates have been rising.

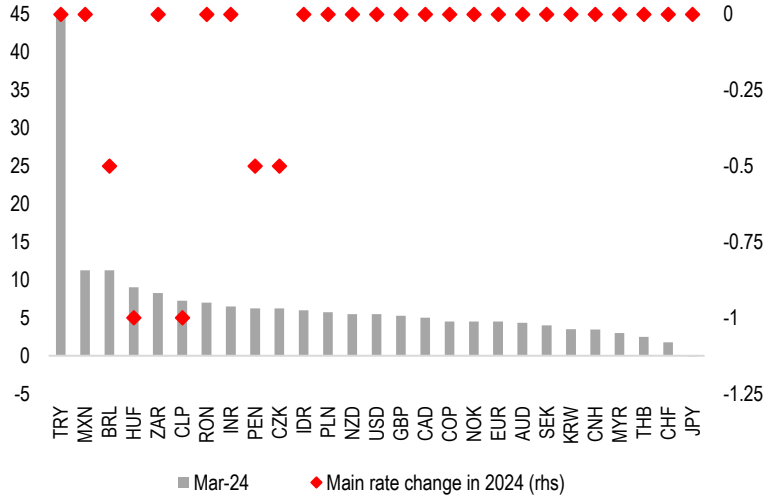
We are expecting 4 rate cuts in the US and 5 rate cuts in the euro zone this year.



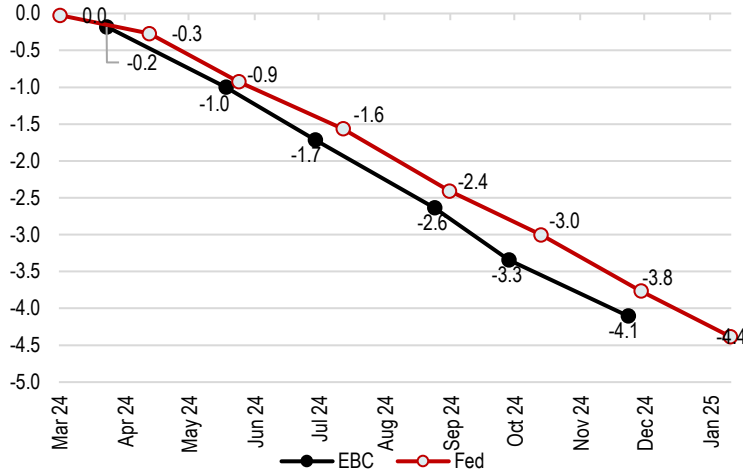
Higher oil prices and risk appetite



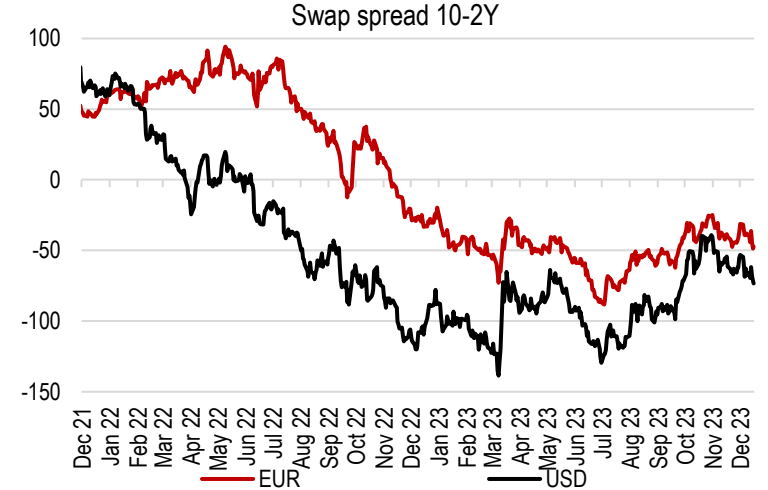
Main rates of central banks
(current level and YtD change)



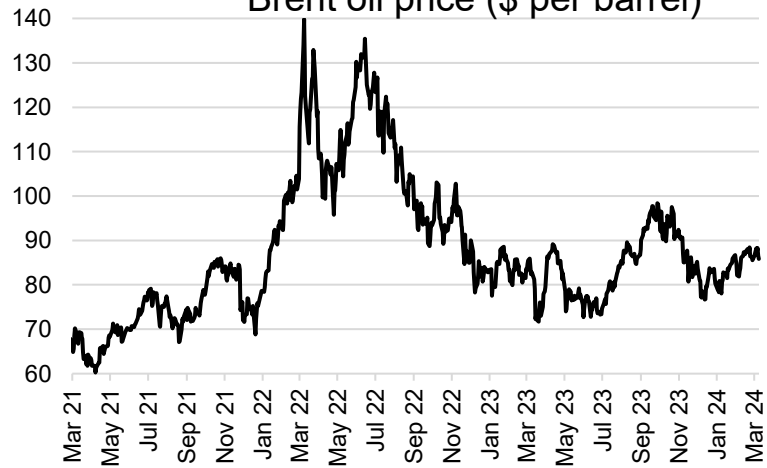
Scale of interest rate cuts in euro zone and US
(10-March-2024)



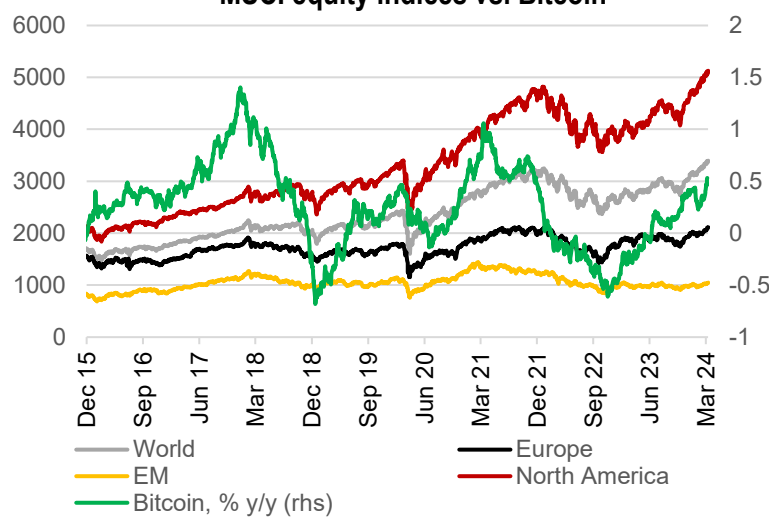
Swap curve steepness in euro and dollar



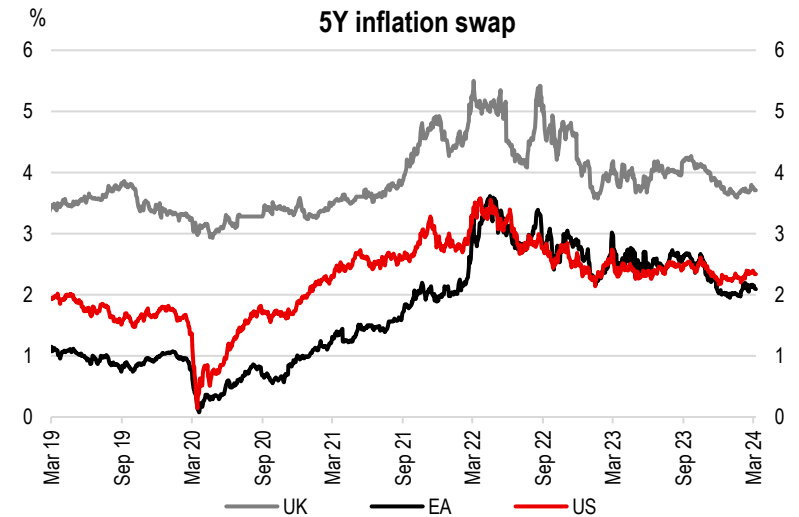
Brent oil price (\$ per barrel)



MSCI equity indices vs. Bitcoin



5Y inflation swap

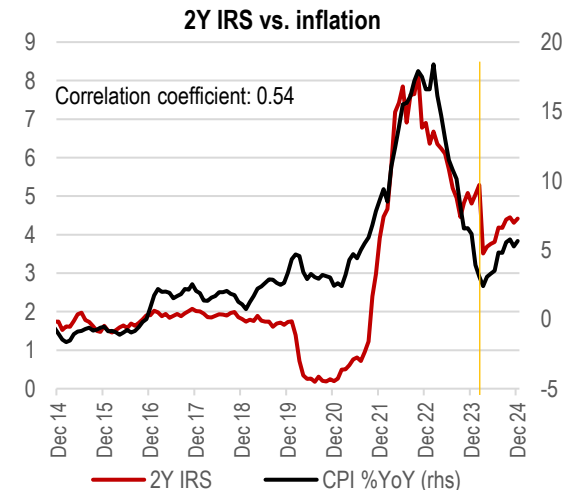
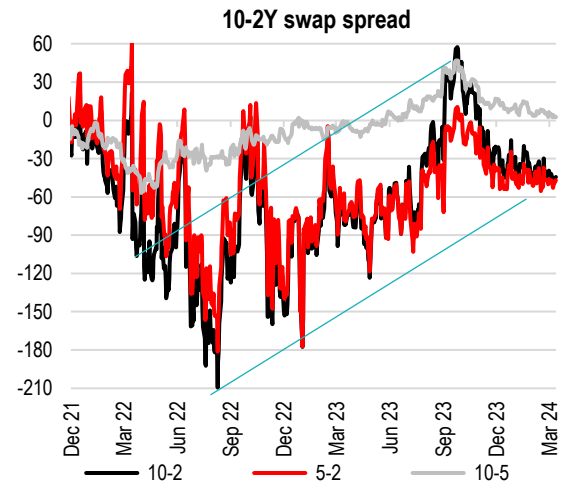
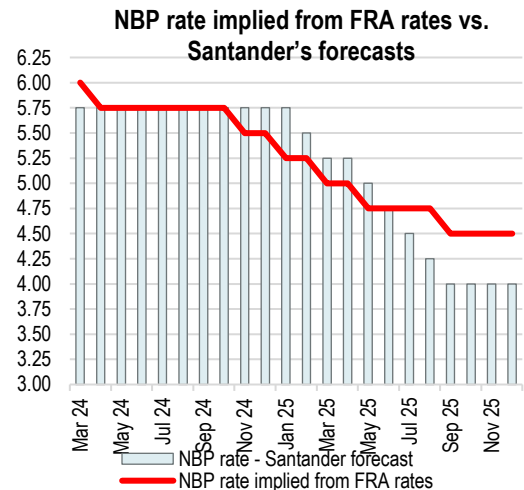
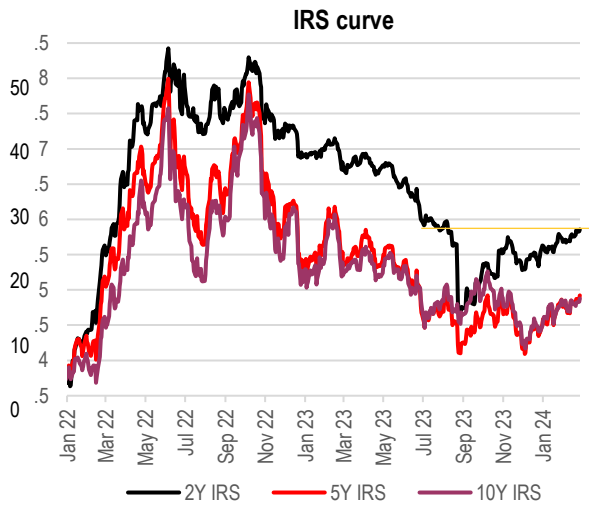
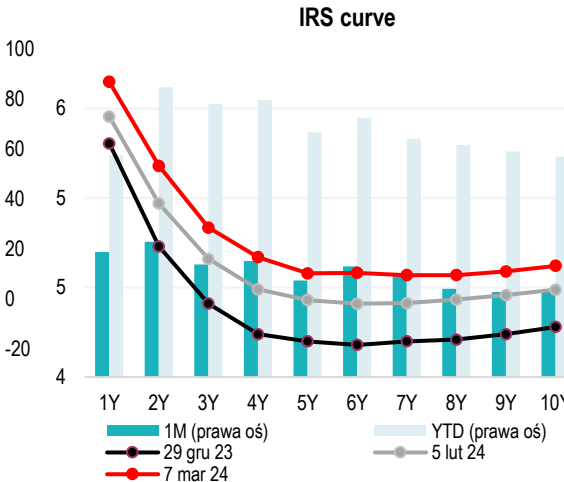
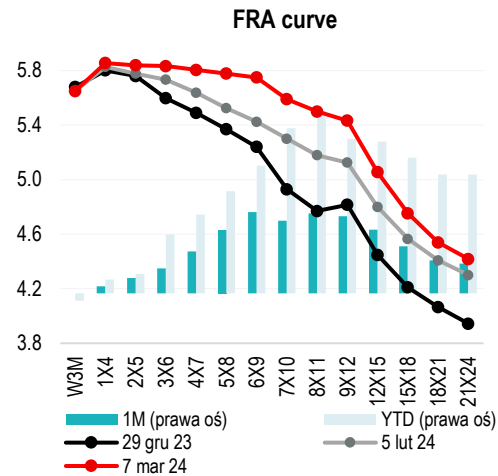


Swap curve flattening behind us?



We have indicated for a long time already that the market was overestimating the scale of rate cuts in Poland. The change in the MPC's reaction function after the elections and the correction of rates in the core markets favoured a reduction in the scale of priced rate cuts. This may have been supported by the ambiguous and hawkishly interpreted March NBP projection. As a result, the 2-10Y slope of the swap curve flattened slightly, including both the 2-5L and 5-10L sections.

Although FRAs are still pricing-in 1 rate cut this year, we think the market is currently better positioned for a decline in swap rates. This may be supported by inflation data, which, at least with the next two readings, has a potential for a downward surprise. This would also provide fuel for a temporary steepening of the curve. However, the formation of a longer steepening trend will most likely have to wait much longer than it seemed at the beginning of the year. It usually occurs as the timing of a rate cut approaches, and we have postponed that one until 3Q25. Once inflation jumps in April, it is possible that the curve will flatten again, and the slope could fluctuate for much of the year. The steepening could accelerate if further reductions in energy prices were implemented, e.g., at the beginning of FY25, and inflation fell faster to target or consumption surprises downward.



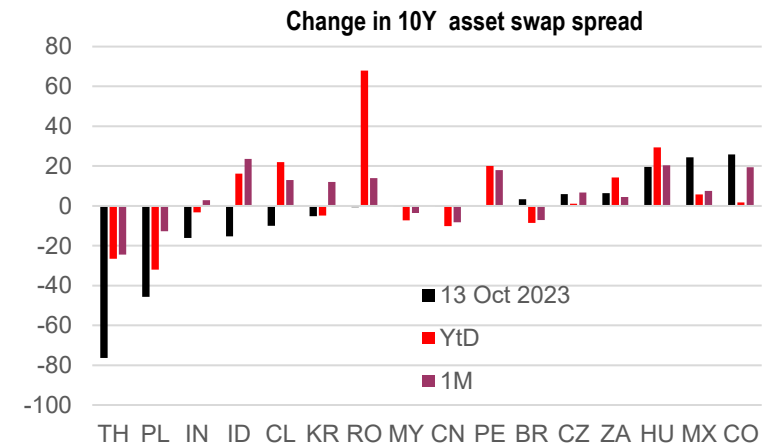
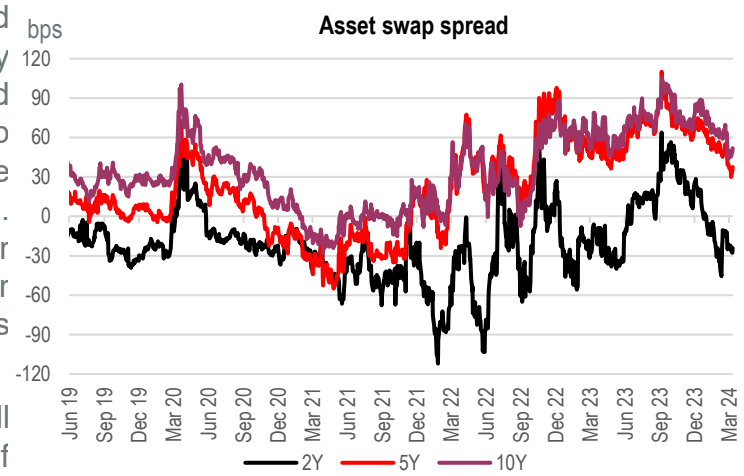
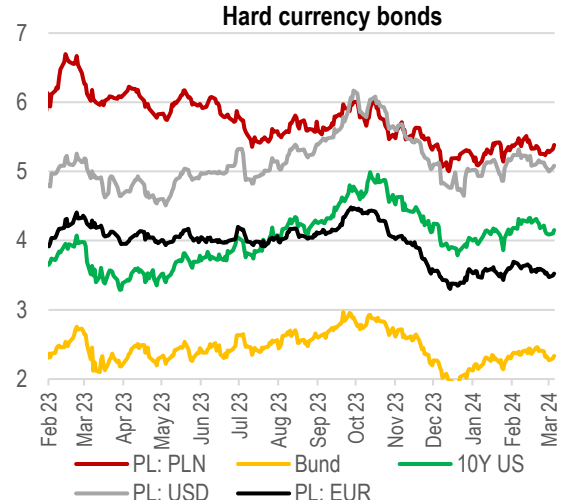
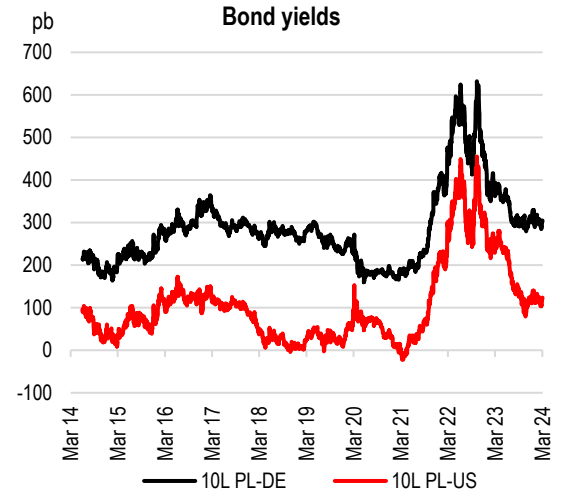
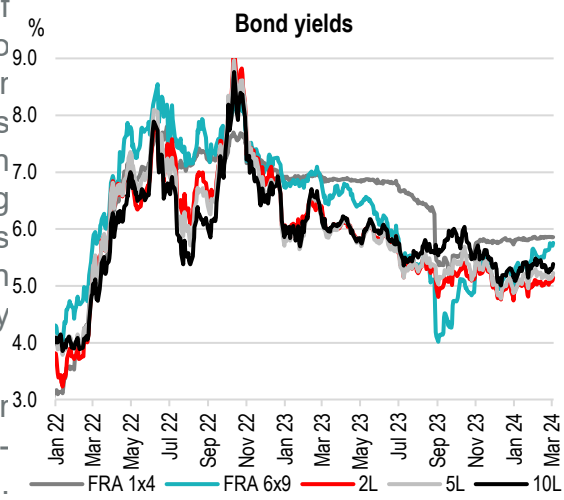


When asset swap spreads stop falling ?

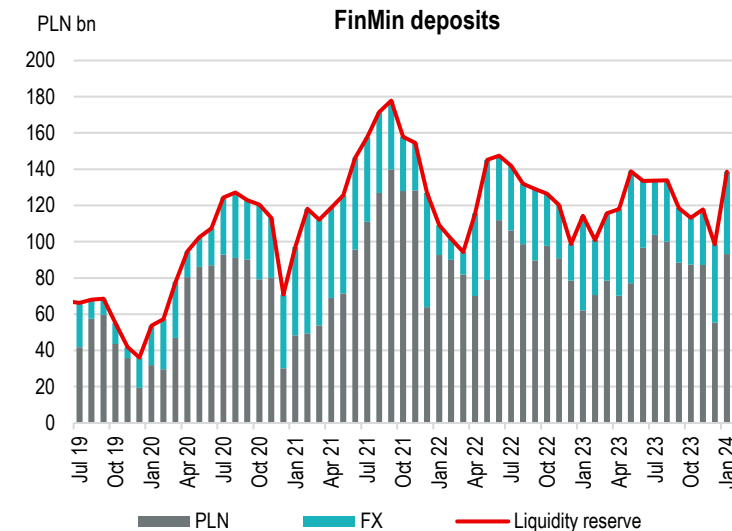
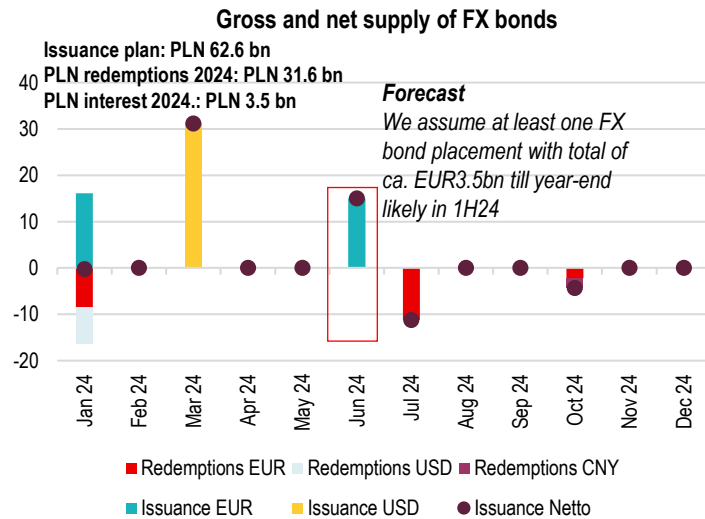
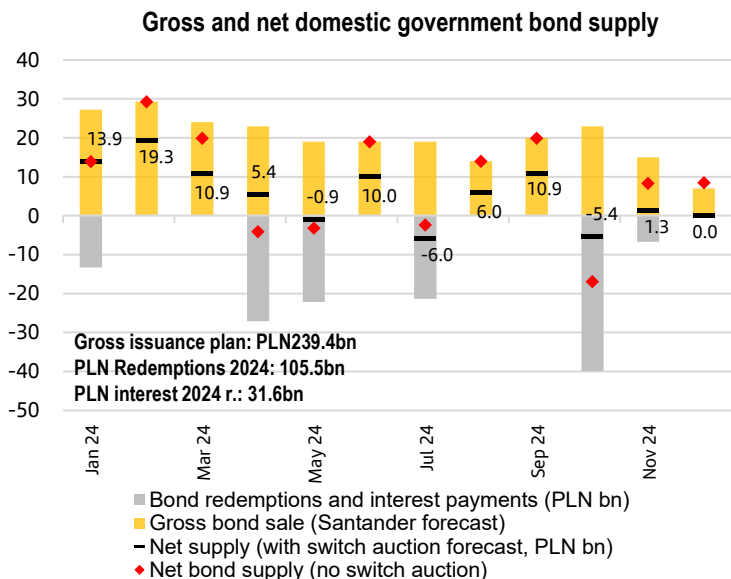
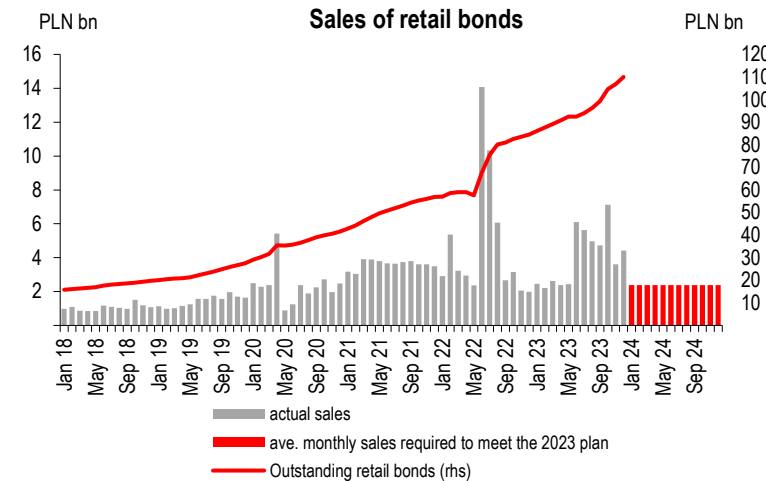
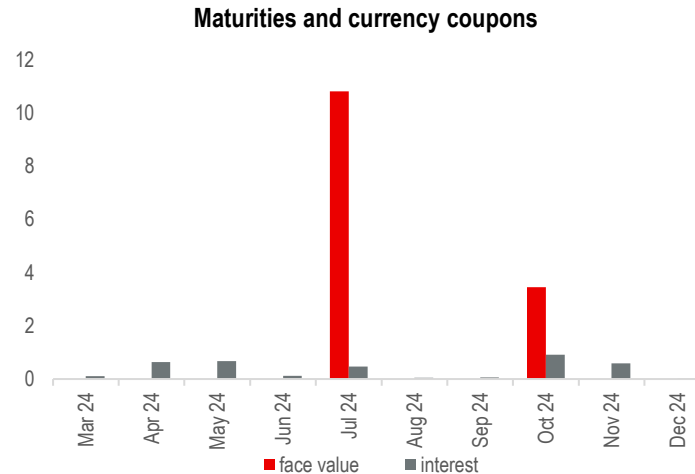
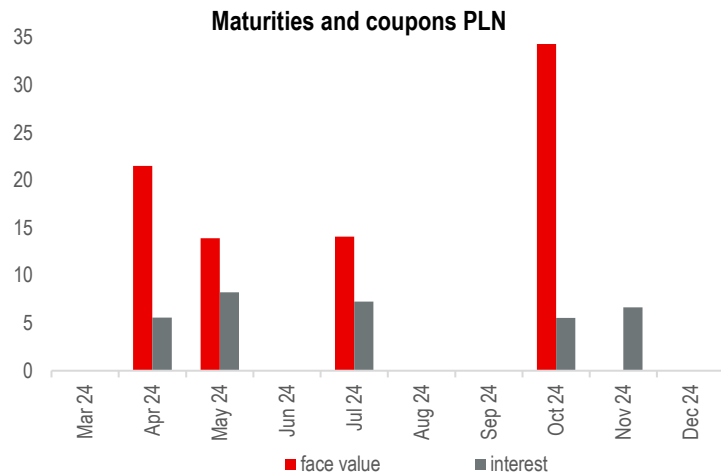
Contrary to the swap curve, the bond curve steepened due to the decline and steepening of the asset swap curve. This is likely partly due to banks' demand. The drop in spreads on the longer maturities is likely the result of post-election hopes for an improved economic outlook. The drop in long-term spreads was one of the largest among emerging economies. Roughly half of this movement has occurred in the past month, which may mean that foreign investors have finally increased their positions.

With credit spreads already below multi-year averages for 2-year and 10-year, we think the 5-year may behave slightly better in the near term. In March, the scale of net issuance is positive, which may eventually lead to some upward adjustment of spreads, which, despite high supply since the beginning of the year, has not realised before. We think a larger widening of asset swap spreads could occur later in the year given the possible deterioration in sentiment, provided e.g. by the US elections. Increased demand for domestic debt from foreign investors and lower issuance (the MF has already financed 50% of this year's plan) could keep spreads at low levels.

We assume that spreads to Bunds are likely to fall more clearly below 300bp only towards the end of the year.



Large bond issuance at the start of the year



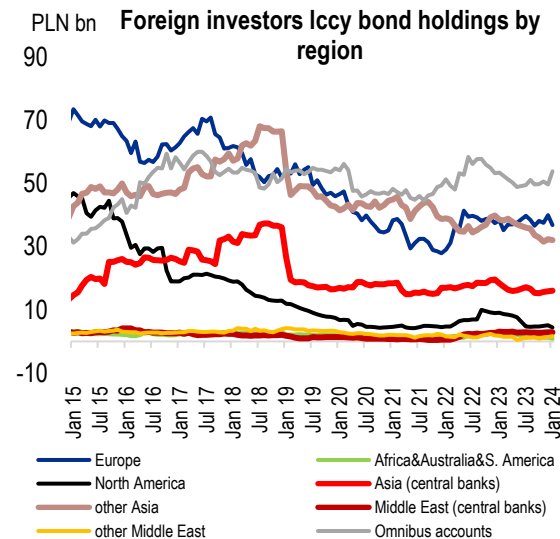
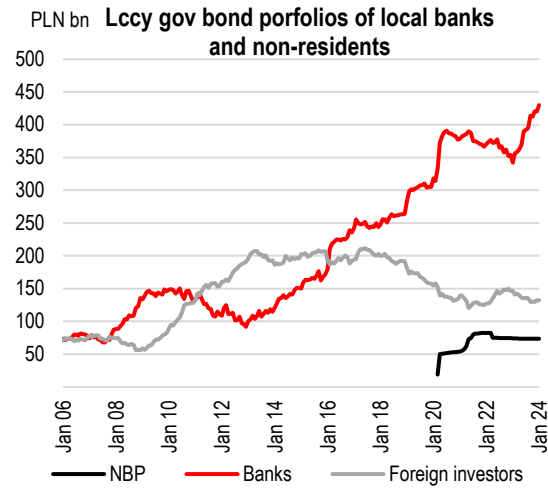
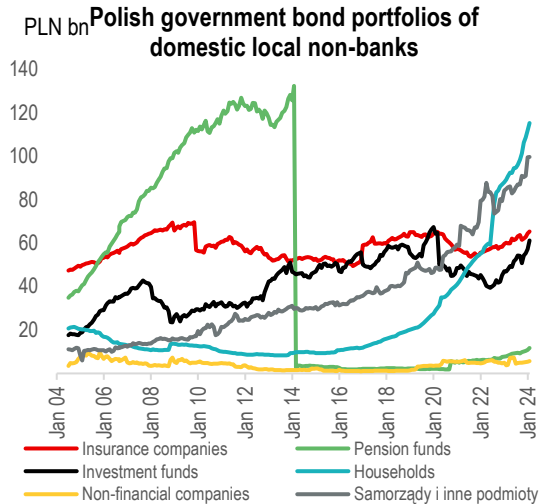
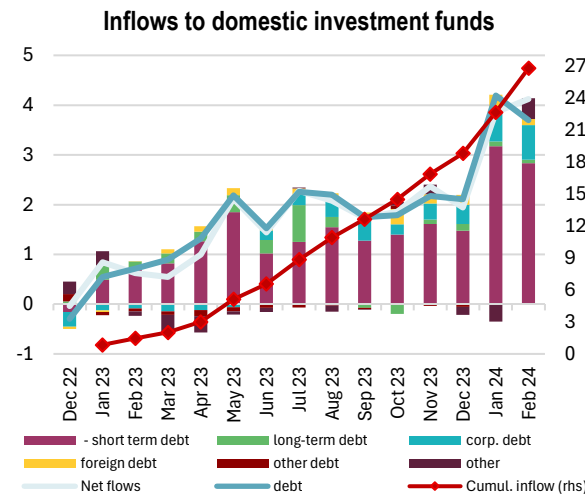


... meets high demand (from banks and mutual funds)

The beginning of the year, like most of last year, was marked by purchases of government bonds by the domestic banking sector. Banks increased their portfolios by a net of about PLN 9 billion in January. The other main buyer was domestic investment funds, which bought bonds for about PLN 2 billion. This would be consistent with a continuation and even acceleration of fund inflows in January. It is likely that domestic funds continue to maintain high exposure to foreign currency debt with a gradual decline in still positive basis swaps. Household purchases of retail bonds netted more than PLN 3 bn in January and about 6 bn for the previous 2 months, an aftermath of continued high yields.

We expect these trends to continue in the coming months. Although declines in NBP rates may come later than we had previously anticipated as may a more sustained steepening of the curves, we believe that banks will continue their bond purchases and will remain the main buyer in the domestic debt market. For debt funds, we maintain our forecast for inflows in 2024 at around PLN 10-12 bn with upside risk. For retail bonds, this year's net issuance plan of about PLN 7 bn may be exceeded.

Although investors are swapping short-term debt for long-term debt in their portfolios, we still don't see a significant increase in exposure in the data. Perhaps this will be increased later in the year by the trend of a weakening dollar and falling basis swap spread.

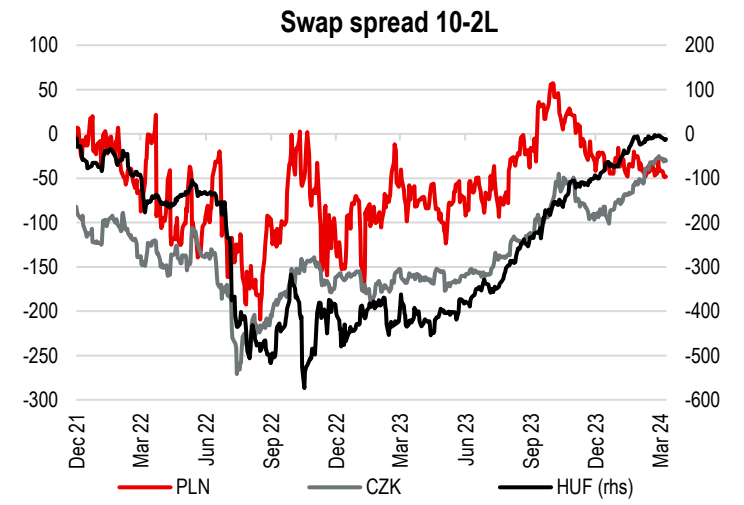
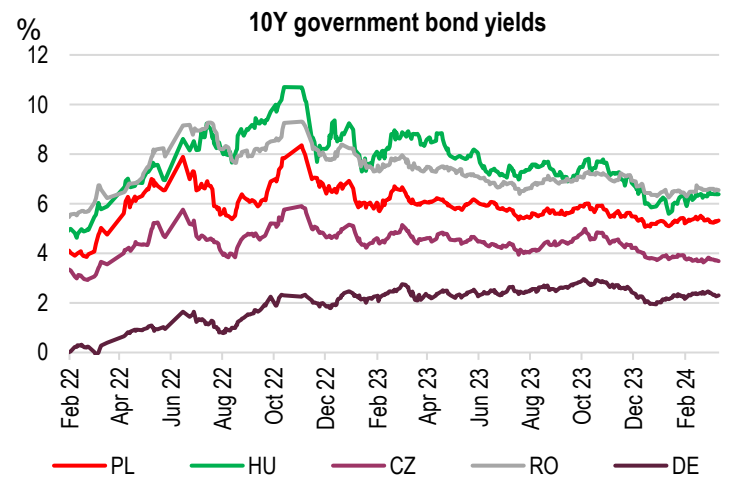
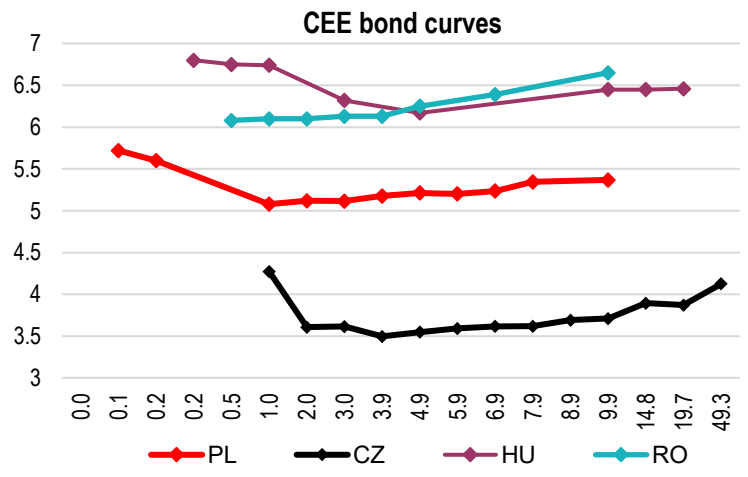
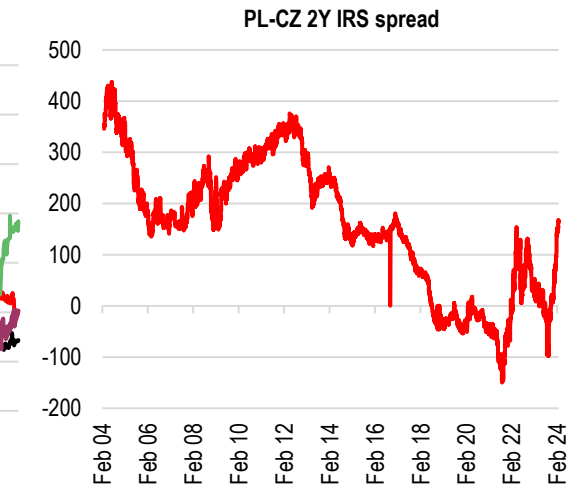
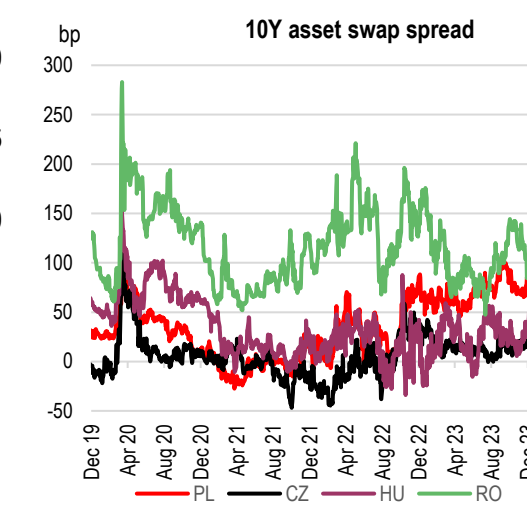
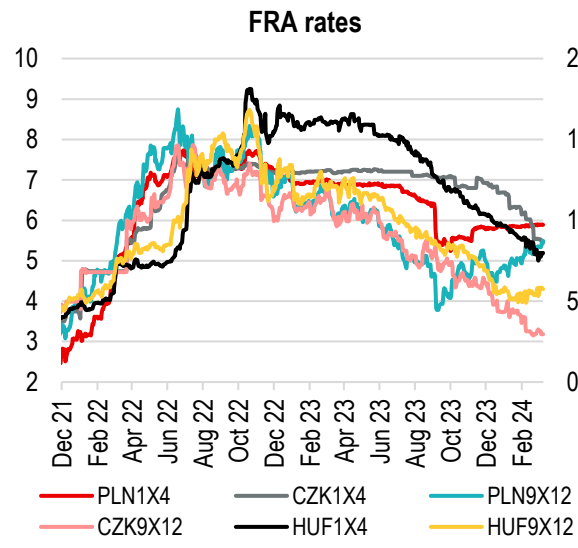


	Treasury securities net sale (Santander forecast for 2024)								
	Banks	NBP	Foreign investors	Mutual funds	Insurers	Household ds	Geberal government	Others	Total
2015	20.7	0.0	10.8	0.2	-0.7	1.4	0.8	-0.5	32.7
2016	64.0	0.0	-14.2	3.1	6.9	1.1	4.4	3.3	68.7
2017	8.4	0.0	10.2	6.9	0.8	4.2	2.4	2.8	35.6
2018	20.2	0.0	-11.3	-1.7	5.3	4.1	9.2	9.2	34.9
2019	40.9	0.0	-34.1	12.0	-0.8	7.4	-0.7	-45.3	-20.6
2020	71.9	53.6	-23.6	-18.8	-7.0	13.4	12.6	5.2	107.3
2021	-10.5	28.5	-9.2	-3.3	-1.6	14.4	20.3	-0.1	38.6
2022	-12.6	-7.8	21.6	1.8	3.9	32.8	4.7	2.0	46.5
2023	60.6	-0.7	-17.0	8.0	3.0	13.0	-14.0	10.0	62.9
I 2024	9.6	0.0	0.0	4.0	0.8	3.4	0.1	1.1	19.1
2024F	105.0	-4.5	10.0	10.8	5.0	14.5	5.0	3.0	148.8



Fast rate cuts support curve steepening in the region

In line with our assumptions, the region's swap curves gradually steepened since the beginning of the year (by about 50-70bp) and are now nearly flat, helped by faster-than-forecast rate cuts by the CNB, as well as the MNB. The sizable magnitude of the rate cut was made possible by a faster-than-forecast decline in inflation (including in February) and continued weak demand. The loss of momentum in core inflation gives room for further monetary easing especially in the Czech Republic. The market is already pricing in quite a few reductions, and some of the easing may come through the koruna, so in the short term there is potentially a chance for a slight decline in the Poland vs. Czech Republic 2-year swap rate spread. In the longer term, we assume further steepening of the HUF and CZK curves.



Expected weaker dollar and CEE FX

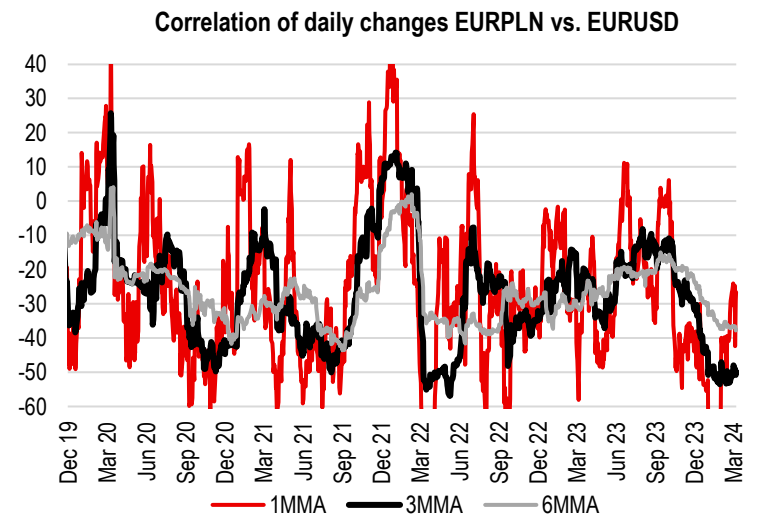
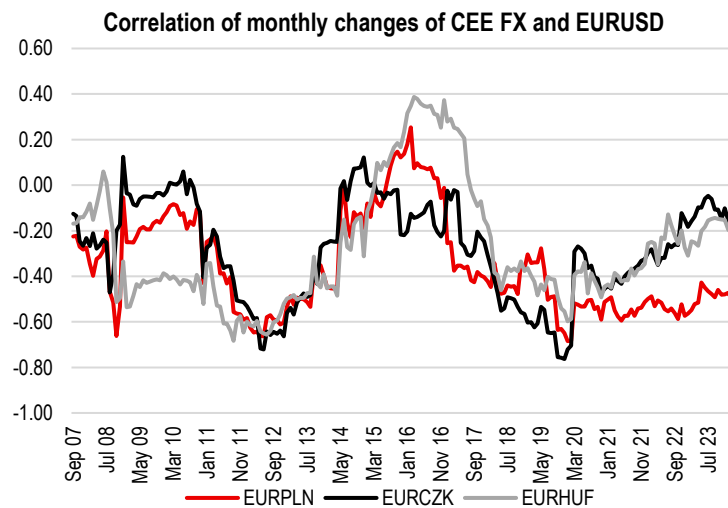
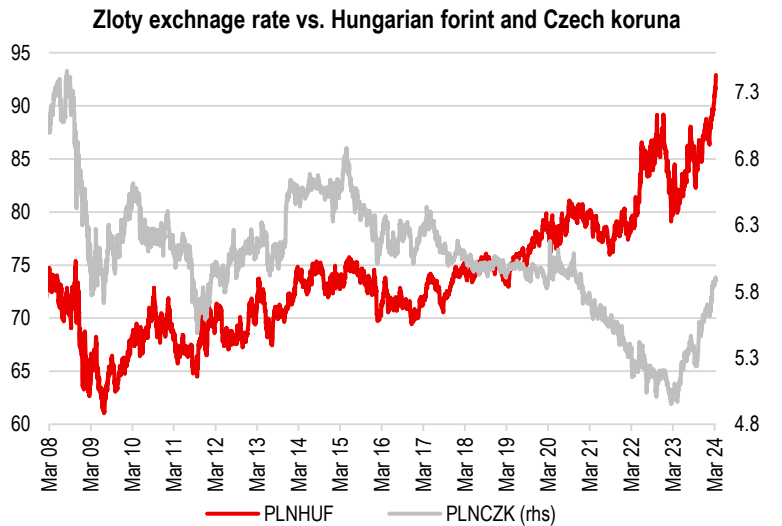
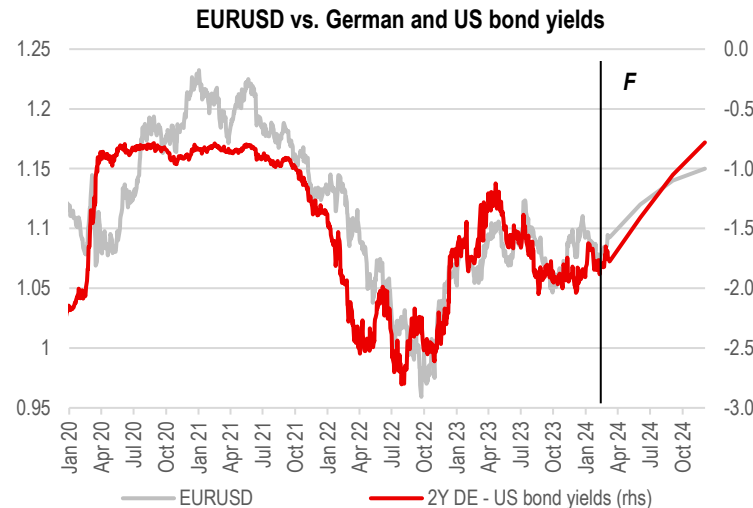


The dollar has been the worst performing currency of the developed economies in the last month and we assume that the trend of dollar weakening versus euro will continue.

A rising EURUSD may have a proportionally greater impact on the zloty than on the region's currencies. The higher correlation of EURUSD with EURPLN than the other currencies suggests that the latter are more influenced by local factors.

We assume further strengthening of the zloty against the Czech koruna and forint in the coming months. The CZK and HUF will be negatively affected by further rapid rate cuts. CNB models suggest that the koruna entered a band of slight undervaluation only at the beginning of the year. In contrast, the CNB's recent rate cuts have shown that the EURCZK is quite sensitive to cuts, which could mean a smaller cuts than the market is pricing in with a slightly weaker rate. The need for monetary easing is evidenced by continued weak demand and tight policy mix.

In Hungary, domestic demand is also weak and the central bank is choosing to ease monetary policy in the face of a faster-than-expected decline in inflation. Tensions between the government and the central bank and the European Union are also having a negative effect on the forint.



More FinMin's FX deposits, low volatility, hawkish MPC



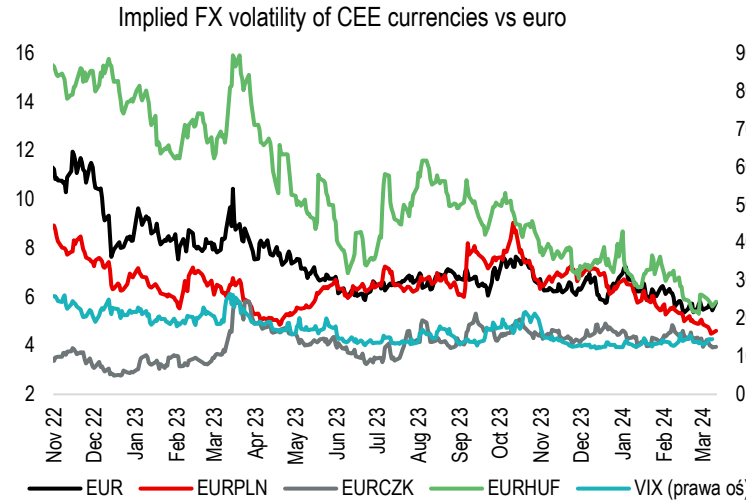
Since the beginning of the year, the zloty has been relatively stable and was one of the best-performing currencies against the euro and the dollar despite the decline in the EURUSD. This may have been fostered by reduced expectations of rate cuts and falling volatility. The zloty behaved better than other regional currencies. The post-election momentum faded, with the EURPLN rate slipping towards 4.30 and below following the approval of the EU measures, the hawkish MPC, and only permanently overcoming this level in mid-March.

We see slight room for zloty strengthening in the coming months. The EURPLN exchange rate may reach the level of 4.20 with downward risk.

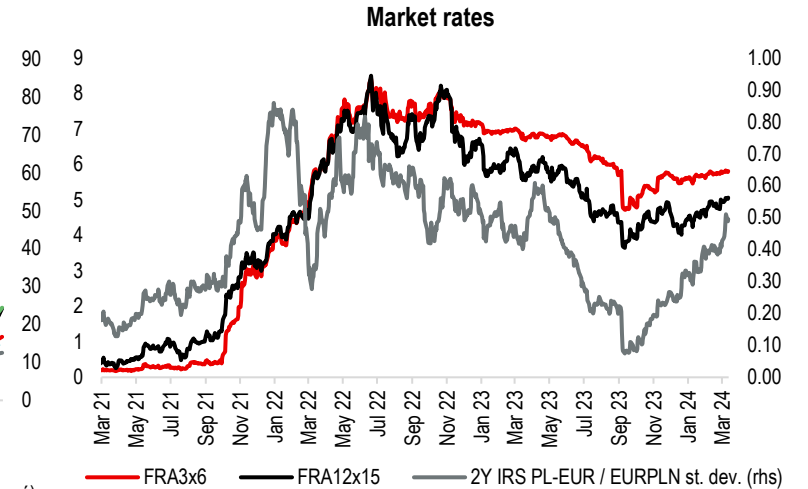
The zloty will be supported by the inflow of foreign currency into the accounts of the Ministry of Finance, which may exceed EUR20 bn this year (current deposits of about EUR10.5 bn, an inflow of EUR6.3 bn in early April from the EU and about EUR5 bn from remaining FX bond issues by the end of the year). Assuming that the limit for the FinMin to sell FX at the NBP is at least €20 bn, which was in effect in 2021, the Finance Ministry will still be forced to sell some FX on the market.

Late rate cuts (3Q25) with faster easing by the ECB and Fed should benefit the zloty.

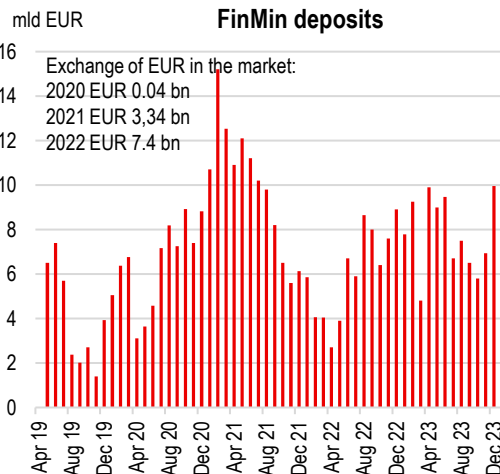
Low volatility favourable for the zloty



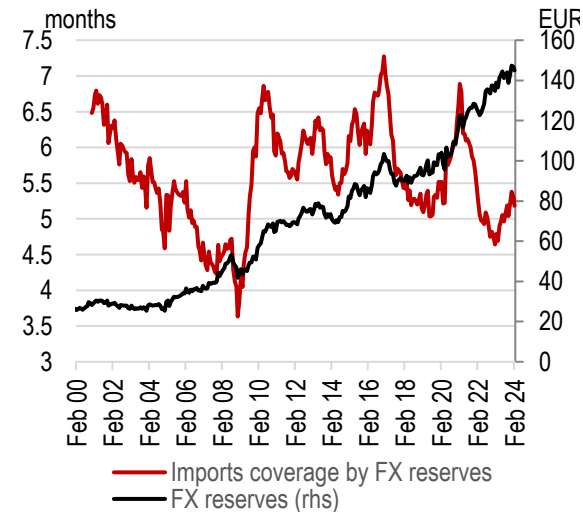
... as well as rebound in interest rate disparity



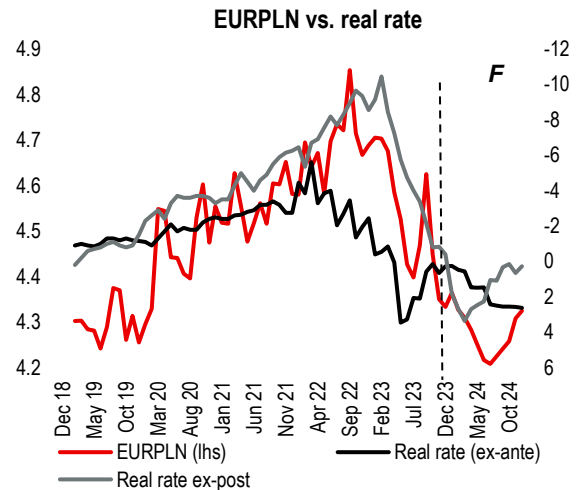
High FX deposits allow FinMin FX sale in the market



Market PLN rate close to exports break-even rate



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





Higher risks for PLN at year-end

The threshold exchange rate for exports has slipped toward 4.10 against the euro, suggesting that exporters are coping with a stronger zloty. This may also be due to increasingly cheaper imports of intermediate goods allowing maintaining competitiveness. Weak REER deflated by PPI confirms there is some room for zloty appreciation.

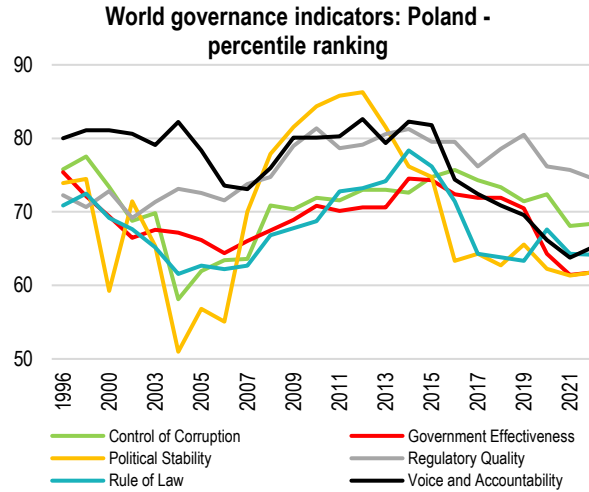
The potential initiation of legal action against the NBP governor may temporarily increase volatility. However, we assume that in the long term, Poland's institutional quality indicators will improve, which will benefit domestic assets.

We maintain the scenario of a temporary weakening of the zloty in the second half of the year due to the deterioration in current trading and the US elections. The outcome of the US election could potentially mean higher global volatility but also geopolitical risks for the region, in our view.

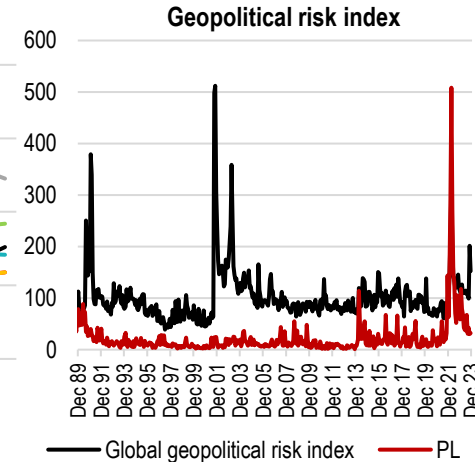
Lower foreign currency issuance by banks under MREL requirements versus 2023, increased purchases of foreign currency bonds by domestic investment funds with improved access to liquidity at the BGK could lead to a decline in basis swap rates, which could facilitate cheaper borrowing and selling of the zloty.

In the longer term, support for the zloty will come from a weaker dollar and potentially higher foreign purchases of zloty bonds.

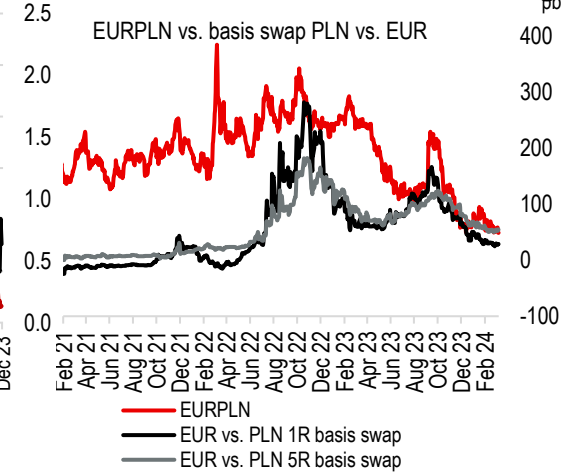
We expect improvement in Poland's institutional quality



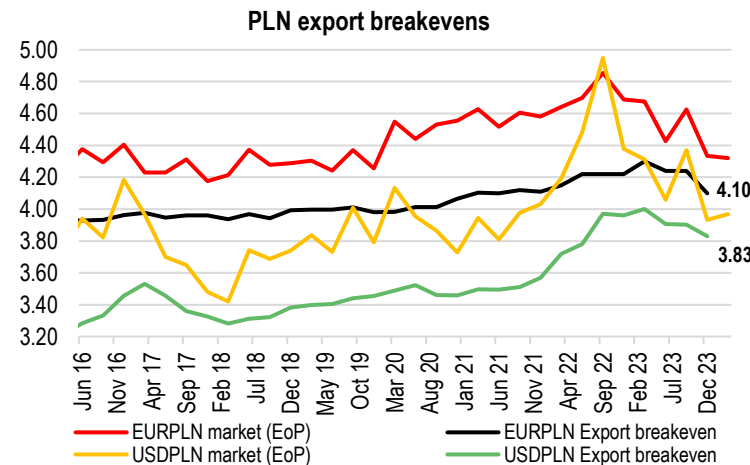
Geopolitical risk for the region may yet increase



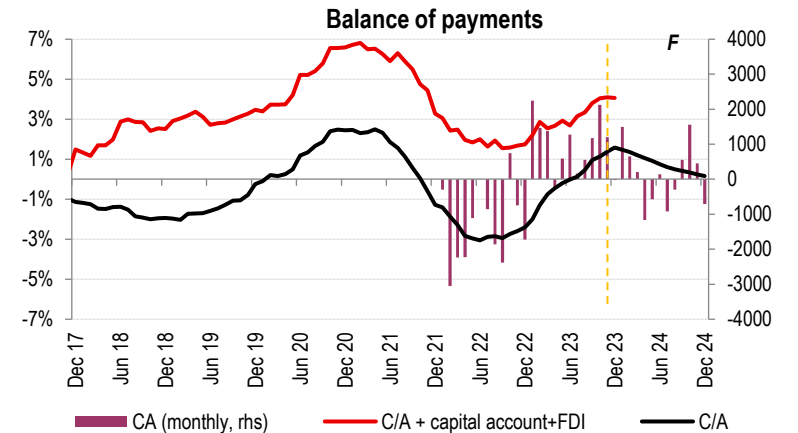
Further drop may in basis swaps may encourage foreign inflows to bonds but also allow for easier PLN selling



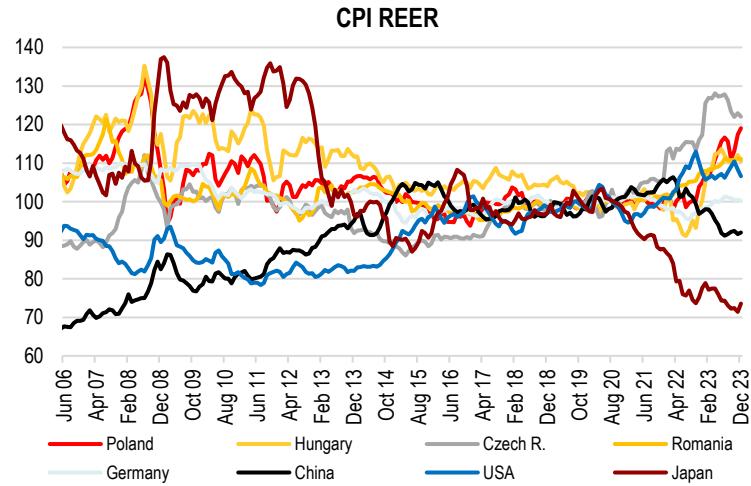
Falling exports break-even rate gives some room for zloty appreciation



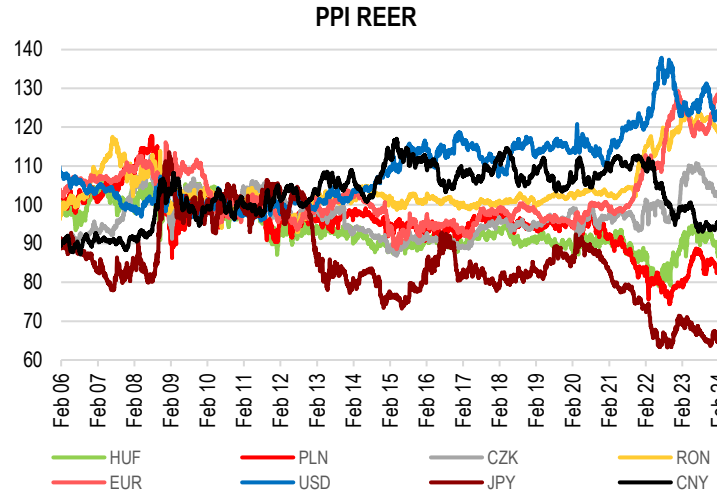
We expect weaker current account balance ahead



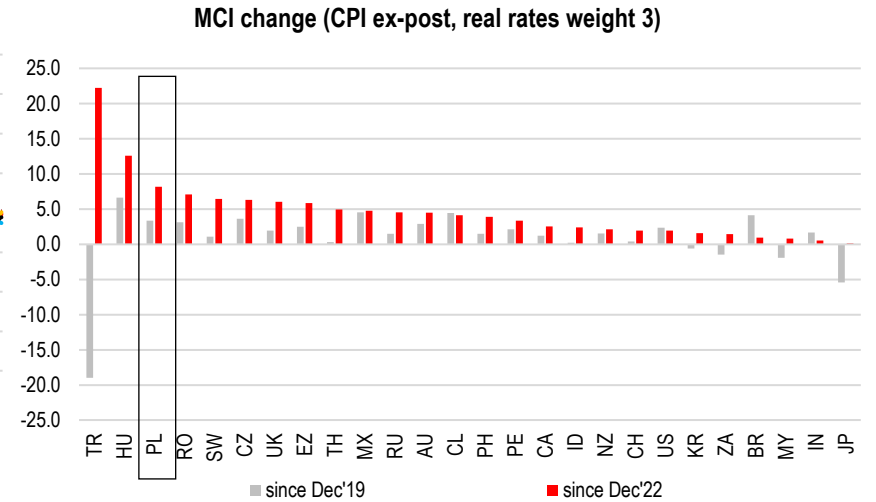
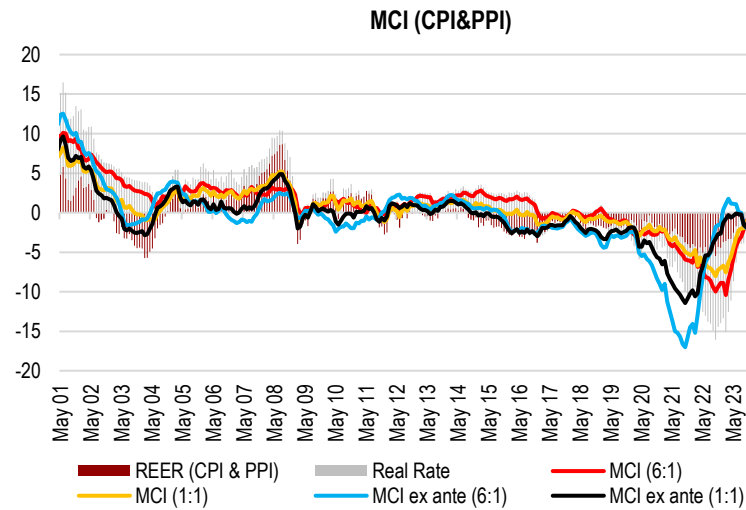
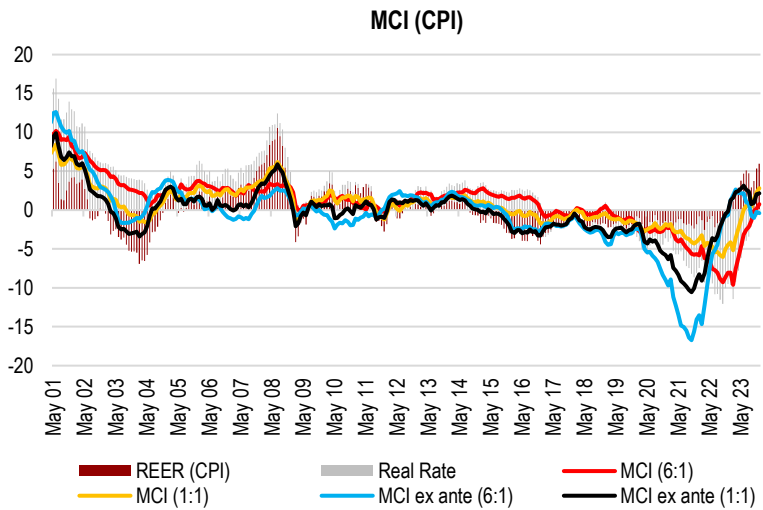
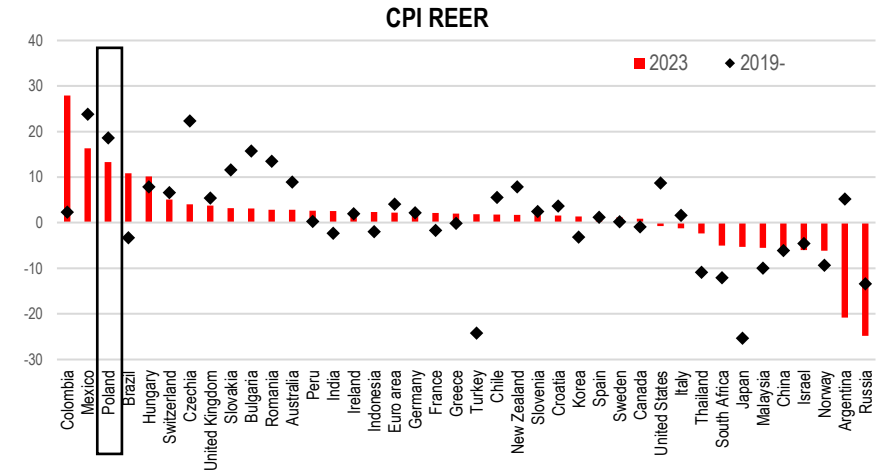
REER and MCI indices



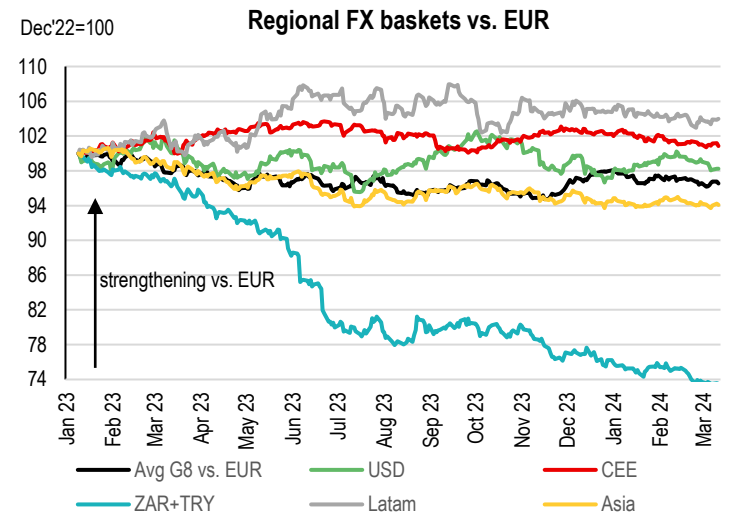
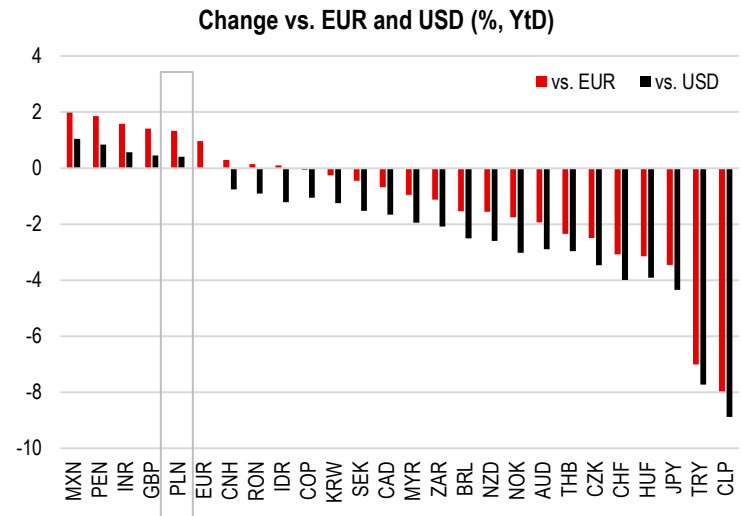
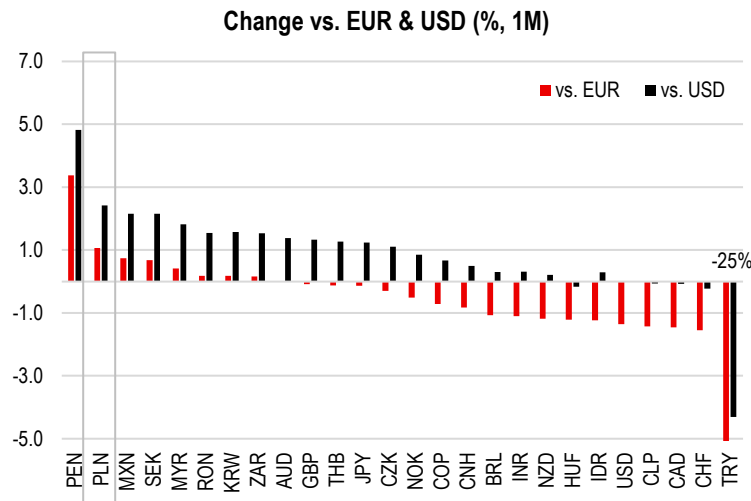
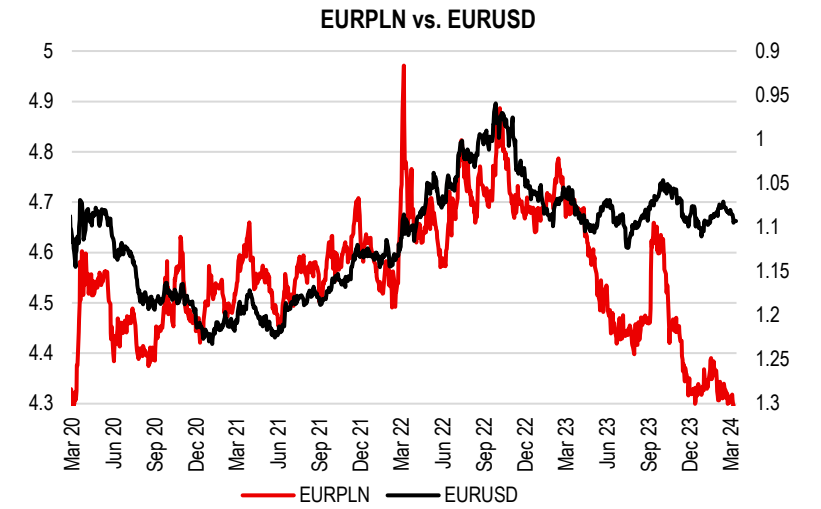
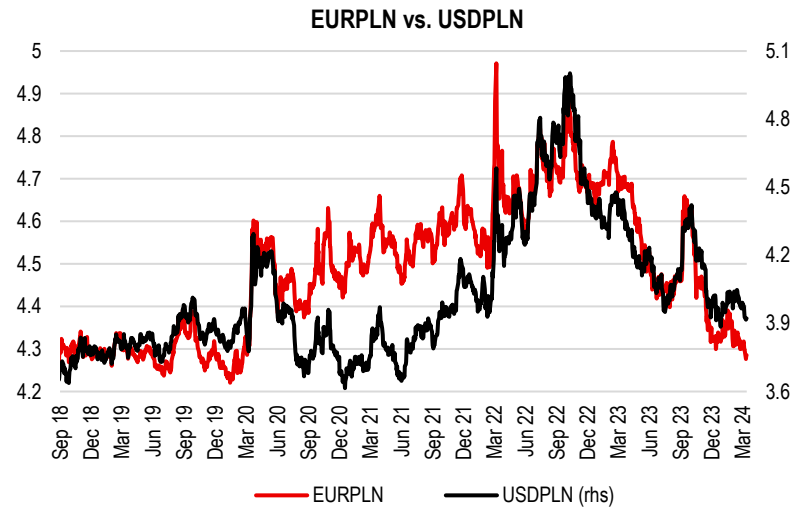
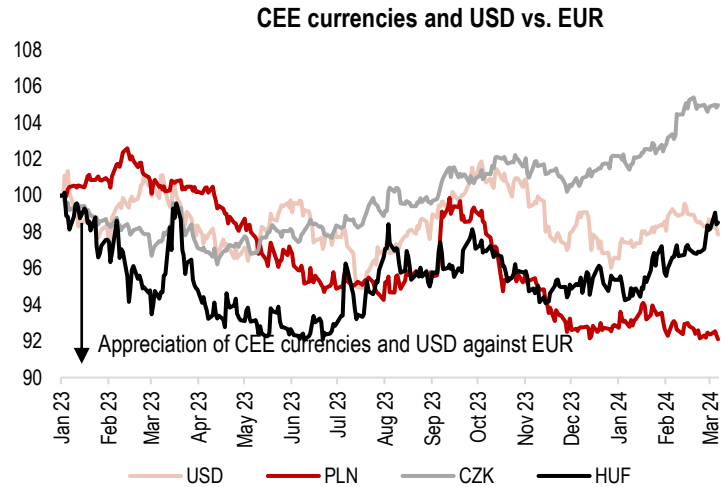
Source: BIS, Santander



Source: JP Morgan, Santander



Market monitor



Forecasts

3



Economic Forecasts

		2021	2022	2023	2024E	1Q23	2Q23	3Q23	4Q23	1Q24E	2Q24E	3Q24E	4Q24E
GDP	PLNbn	2631.3	3067.5	3396.3	3593.3	799.9	816.7	845.4	934.2	817.5	843.6	912.1	1020.0
GDP	% y/y	6.9	5.3	0.2	3.0	-0.3	-0.6	0.5	1.0	2.1	3.1	3.3	3.6
Domestic demand	% y/y	8.5	5.2	-3.7	4.2	-4.8	-2.9	-5.2	-2.3	1.5	2.6	5.6	6.5
Private consumption	% y/y	6.2	5.2	-1.0	3.6	-2.0	-2.8	0.8	-0.1	2.8	3.3	3.2	5.1
Fixed investment	% y/y	1.2	4.9	8.4	4.2	6.8	10.5	7.2	8.7	6.0	3.5	4.0	4.0
Industrial output	% y/y	14.4	10.4	-2.1	3.0	-1.4	-3.8	-2.7	-0.6	0.3	3.9	4.0	3.7
Construction output	% y/y	1.6	7.7	4.8	7.3	1.8	0.6	5.4	9.5	-1.0	8.3	11.8	7.7
Retail sales (real terms)	% y/y	7.4	5.5	-3.6	4.7	-5.3	-6.8	-2.6	0.1	4.2	3.6	4.2	6.5
Gross wages in national economy	% y/y	8.9	12.1	12.8	12.1	14.3	13.8	11.0	12.0	12.2	12.0	11.9	12.1
Employment in national economy	% y/y	0.6	2.0	0.5	-0.2	1.0	0.8	0.4	-0.2	-0.2	-0.4	-0.1	0.0
Unemployment rate *	%	5.8	5.2	5.1	4.9	5.4	5.0	5.0	5.1	5.3	4.9	4.9	4.9
Current account balance	EURmn	-7398	-15716	11889	1374	5089	1600	1902	3298	2346	-1603	-670	1301
Current account balance	% GDP	-1.3	-2.4	1.6	0.2	-0.7	0.0	1.0	1.6	1.2	0.8	0.4	0.2
General government balance (ESA 2010)	% GDP	-1.8	-3.8	-5.3	-5.5	-	-	-	-	-	-	-	-
CPI	% y/y	5.1	14.3	11.6	4.1	17.0	13.1	9.7	6.4	3.1	3.1	4.8	5.2
CPI *	% y/y	8.6	16.6	6.2	5.3	16.1	11.5	8.2	6.2	2.3	3.3	5.3	5.3
CPI excluding food and energy prices	% y/y	4.1	9.1	10.2	4.8	12.0	11.6	9.7	7.4	5.5	4.3	4.5	4.9



Market Forecasts

		2021	2022	2023	2024E	1Q23	2Q23	3Q23	4Q23	1Q24E	2Q24E	3Q24E	4Q24E
Reference rate *	%	1.75	6.75	5.75	5.75	6.75	6.75	6	5.75	5.75	5.75	5.75	5.75
WIBOR 3M	%	0.54	6.02	6.52	5.85	6.93	6.90	6.50	5.77	5.86	5.85	5.85	5.85
Yield on 2-year T-bonds	%	0.79	6.35	5.67	4.94	6.16	6.00	5.31	5.22	5.04	5.07	4.93	4.74
Yield on 5-year T-bonds	%	1.39	6.36	5.66	4.98	6.11	5.92	5.34	5.26	5.16	5.07	4.92	4.79
Yield on 10-year T-bonds	%	1.97	6.10	5.83	5.14	6.16	5.99	5.63	5.56	5.34	5.19	5.04	4.98
2-year IRS	%	3.93	6.92	4.95	4.70	6.39	6.18	5.05	4.90	5.20	5.27	5.12	4.89
5-year IRS	%	3.74	6.16	4.42	4.20	5.53	5.37	4.59	4.57	4.67	4.69	4.53	4.34
10-year IRS	%	3.54	6.15	4.50	4.15	5.47	5.34	4.80	4.78	4.75	4.64	4.48	4.35
EUR/PLN	PLN	4.57	4.69	4.54	4.28	4.71	4.55	4.50	4.42	4.33	4.25	4.23	4.30
USD/PLN	PLN	3.86	4.46	4.20	3.82	4.39	4.18	4.13	4.10	3.98	3.82	3.74	3.75
CHF/PLN	PLN	4.22	4.67	4.68	4.26	4.75	4.65	4.68	4.63	4.56	4.23	4.12	4.13
GBP/PLN	PLN	5.31	5.50	5.22	4.82	5.33	5.23	5.23	5.09	5.04	4.78	4.69	4.77

* 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 **12.03.2024** has been prepared by:

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#3 BEST OVERALL FORECASTER - POLAND



#2 BEST OVERALL FORECASTER - POLAND



#1 BEST OVERALL FORECASTER - POLAND



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