

18 February 2025

Eyeopener

Budget deficit in 2024 lower than planned

Today, German ZEW index, first meeting of US and Russian officials on Ukraine
 Estimate of central budget balance in 2024 at -PLN210.9bn
 Small changes in financial markets amid US holiday

Today, the only economic release is the February print of the ZEW index of economic sentiment in Germany. Apart from that, according to media reports, a meeting between US and Russian officials on ending the war in Ukraine is to take place in Saudi Arabia. The Ukrainian President stated yesterday that since Ukraine had not been invited, it would not recognise the results of the meeting.

The Ministry of Finance reported that the central budget balance in 2024 was -PLN210.9bn. In December alone, the deficit amounted to PLN69.1bn, above the PLN42.9bn in December 2023 and PLN30.7bn in December 2022, yet slightly below the deficits of over PLN70bn in Decembers of 2021 and 2020. The strong increase in the deficit resulted from a 31.2% y/y increase in expenditures (including a 29.8% y/y increase in subsidies to the Social Security Fund, in part due to payments from the 'Active Parent' programme, and a 39.8% y/y increase in general subsidies to local governments), while revenues rose by only 2.0% y/y. The small increase in revenue was caused, among other things, by PIT income, which was lower than the year before and whose increased share went directly to local governments. However, the negative impact of PIT on the overall result in December was mitigated by a solid increase in VAT revenues, by more than 30% y/y according to our estimates. The liquidity cushion remained above PLN100bn at the end of the year. Revenues for the entire 2024 were PLN2.6bn lower than assumed in the budget act amendment (and PLN59bn below the pre-amendment plan). In turn, the level of expenditures was PLN32.0bn lower than planned (the amendment did not change the amount of spending), of which PLN4bn was accounted for by lower-than-planned subsidies to FUS. As a result, the deficit was lower than the planned PLN240.3bn by PLN29.4bn, i.e. by 0.8% of GDP.

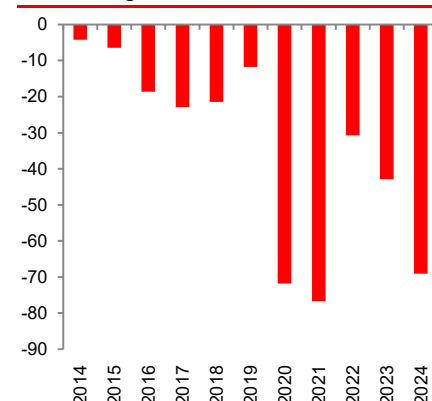
The Ministry of Finance also reported a preliminary budget balance for January 2025, which reached -PLN3.2bn. Previous years usually started with a surplus, but this resulted from tax refunds being brought forward to the end of the year before. This time, it does not look as if a similar action has taken place, resulting in budget revenues being 23.0% weaker y/y. Expenditure was 5.8% higher y/y in January, influenced e.g. by the increased transfer of subventions to local government units in the previous year, making their growth rate in January this year -54.7% y/y.

Microsoft will invest USD700m, or PLN2.8bn, in data centres, cloud, and artificial intelligence in Poland, PM Donald Tusk announced at a press conference yesterday. Microsoft vice-president Brad Smith added that the investment would run until 2026 and that it would be used primarily to strengthen cyber security, in collaboration with the Polish armed forces.

In the absence of major economic releases and due to a holiday in the US, the EURPLN has barely moved and ended yesterday's session at Friday's closing level, slightly below 4.16. Minor changes also occurred in the EURCZK exchange rate, which, however, unlike EURPLN, rose slightly, by a bit below 0.2%. Slightly greater volatility was evident in the case of EURHUF, which ended the session c. 0.2% below Friday's close. The weekend brought news of the US intending to complete the negotiations of peace in Ukraine by Easter. This, in our view, may be enough for investors to remain positive towards the zloty in the near term, despite the fact that the US side does not intend to include European countries in the negotiations. If solid arrangements are worked out in the coming weeks, i.e. arrangements signalling that the end of the armed conflict is approaching, the Polish zloty may strengthen even further.

Polish bond yields increased by 2-5 bps, more strongly at the long end of the curve. German bond yields rose on a similar scale. Domestic IRS rates increased by 3-5 bps and FRA rates by 0-7 bps, also more strongly at the long end of the curve. One reason that may be weakening the European debt market is the prospect of more fiscal expansion, due to the heralded exclusion of defence spending from EU debt and deficit limits. The MoF announced it will offer a total of PLN6-10bn worth of securities at Thursday's auction, against the range of PLN5-10bn for this auction given in the monthly supply plan released at the end of January. Moreover, according to the supply plan, treasury bills of PLN2-4bn are to be offered on Friday.

Central budget balance in December, PLNbn



Source: Finance Ministry, Santander

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FX market

Today's opening			
EURPLN	4.1579	CZKPLN	0.1671
USDPLN	3.9729	HUFPLN*	1.0253
EURUSD	1.0466	RONPLN	0.8359
CHFPLN	4.4073	NOKPLN	0.3562
GBPPLN	4.9905	DKKPLN	0.5646
USDCNY	7.2786	SEKPLN	0.3701

*for 100HUF

Last session in the FX market					17/02/2025
	min	max	open	close	fixing
EURPLN	4.1558	4.1688	4.1606	4.1560	4.1635
USDPLN	3.9602	3.9796	3.9667	3.9650	3.9749
EURUSD	1.0466	1.0495	1.0489	1.0478	

Interest rate market

17/02/2025

T-bonds on the interbank market**

Benchmark (term)	%	Change (bps)
PS1026 (2L)	5.26	-4
DS1029 (5L)	5.61	5
DS1034 (10L)	5.85	6

IRS on the interbank market**

Term	PL		US		EZ	
	%	Change (bps)	%	Change (bps)	%	Change (bps)
1L	5.67	3	4.49	-1	2.23	-1
2L	5.20	4	4.38	0	2.27	0
3L	4.98	5	4.34	0	2.28	0
4L	4.91	5	4.32	-2	2.31	1
5L	4.92	6	4.31	0	2.33	1
8L	4.99	5	4.33	2	2.39	2
10L	5.07	6	4.36	0	2.43	1

WIBOR rates

Term	%	Change (bps)
O/N	5.68	-2
T/N	5.79	1
SW	5.83	0
1M	5.80	5
3M	5.87	0
6M	5.82	0
1Y	5.62	0

FRA rates on the interbank market**

Term	%	Change (bps)
1x4	5.86	0
3x6	5.79	0
6x9	5.45	1
9x12	5.04	3
3x9	5.74	0
6x12	5.40	2

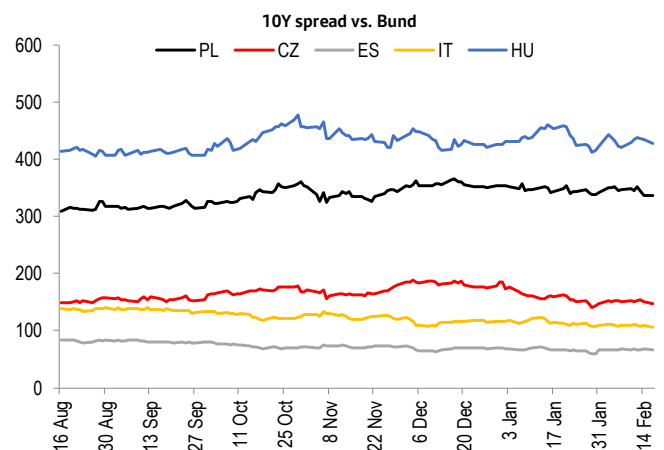
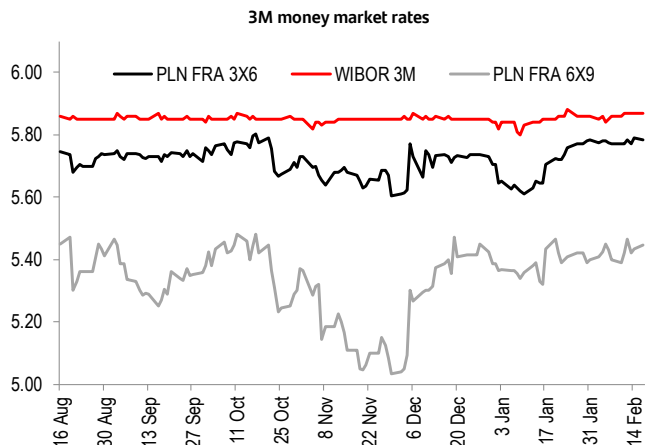
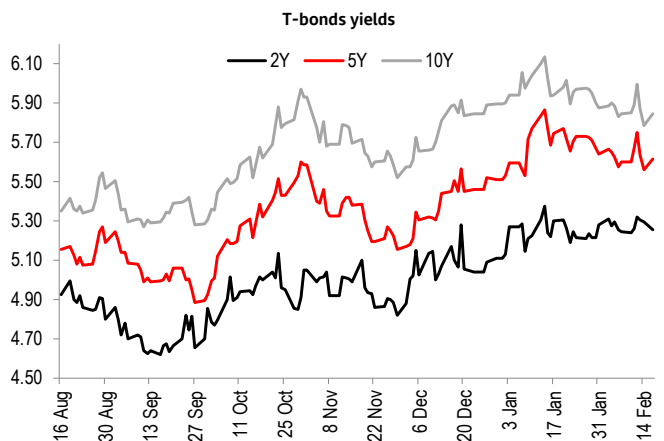
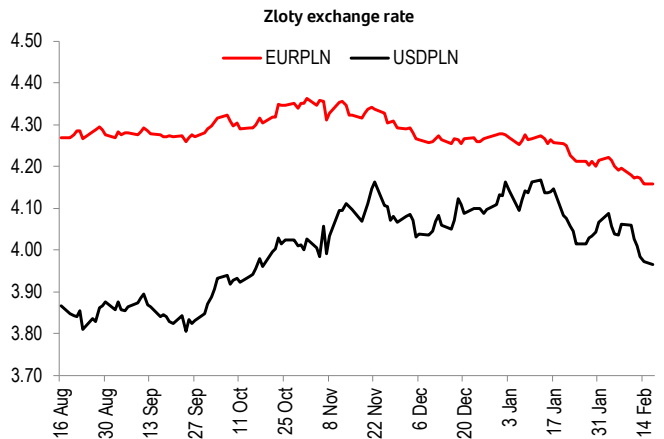
CDS rates and 10Y yield spread vs. German Bund

Country	CDS 5Y USD		10Y spread*	
	Level	Change (bps)	Level	Change (bps)
Poland	66	0	336	0
France	17	-1	68	-2
Hungary	119	0	428	-7
Spain	32	0	66	-2
Italy	23	-1	106	-3
Portugal	17	0	50	-3
Ireland	10	0	29	-1
Germany	8	0	-	-

* 10Y treasury bonds over 10Y Bunds

**Information shows bid levels on the interbank market at the end of the trading day

Source: LSEG, Datastream



Calendar of events and publications

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		ACTUAL VALUE	LAST VALUE*	
				MARKET	SANTANDER			
FRIDAY (14 February)								
10:00	PL	CPI	Jan	% y/y	5.0	5.1	5.3	4.7
11:00	EZ	GDP SA	4Q	% y/y	0.9	-	0.9	0.9
14:30	US	Retail Sales Advance	Jan	% m/m	-0.2	-	-0.9	0.7
15:15	US	Industrial Production	Jan	% m/m	0.3	-	0.5	1.0
MONDAY (17 February)								
No key data releases or economic events								
TUESDAY (18 February)								
11:00	DE	ZEW Survey Current Situation	Feb	pts	-89.4	-	-	-90.4
WEDNESDAY (19 February)								
14:30	US	Housing Starts	Jan	% m/m	-7.0	-	-	15.8
20:00	US	FOMC Meeting Minutes	Jan.25					
THURSDAY (20 February)								
10:00	PL	Employment in corporate sector	Jan	% y/y	-0.6	-0.6	-	-0.6
10:00	PL	Sold Industrial Output	Jan	% y/y	-1.0	-1.0	-	0.2
10:00	PL	Construction Output	Jan	% y/y	0.3	-2.7	-	-8.0
10:00	PL	PPI	Jan	% y/y	-0.4	-0.4	-	-2.6
10:00	PL	Average Gross Wages	Jan	% y/y	9.45	9.4	-	9.8
14:30	US	Initial Jobless Claims	Feb.25	k	216	-	-	213
FRIDAY (21 February)								
09:30	DE	Germany Manufacturing PMI	Feb	pts	45.5	-	-	45.0
09:30	DE	Markit Germany Services PMI	Feb	pts	52.5	-	-	52.5
10:00	EZ	Eurozone Manufacturing PMI	Feb	pts	47.0	-	-	46.6
10:00	EZ	Eurozone Services PMI	Feb	pts	51.5	-	-	51.3
16:00	US	Michigan index	Feb	pts	-	-	-	67.8
16:00	US	Existing Home Sales	Jan	% m/m	-2.1	-	-	2.2

Source: Santander Bank Polska. Bloomberg. Parkiet

* in the case of a revision the data is updated

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