POLAND | MACRO OUTLOOK

Recovery and strong zloty in 2024

Indications of rebound already visible
NBP turns hawkish
Yields to slowly move down
Zloty to remain strong next year

Economy (%)	2023e	2024e	2025e
GDP (real, y/y)	0.4	2.7	3.2
Unempl. Rate	5.2	5.0	5.0
CPI (y/y)	11.6	5.3	3.7
Retail Sales (y/y)	-5.0	4.0	3.0
Ind. Prod. (y/y)	-2.0	2.5	4.0
Public Debt/GDP	50.0	53.0	55.0

Source: Erste Group Research

Market	Spot	24Q1	24Q2	24Q3
EUR/PLN	4.33	4.35	4.30	4.30
USD/PLN	4.01	3.95	3.87	3.74
Target Rate (%)	5.75	5.75	5.75	5.75
3M Rate (%)	5.85	5.70	5.50	5.40
2Y Bond (%)*	5.06	5.30	5.20	5.20
5Y Bond (%)*	5.04	5.30	5.20	5.20
10Y Bond (%)*	5.30	5.50	5.30	5.10

Source: FactSet, Erste Group Research

Rating	Current	Outlook
Moodys	A2	stable
S&P	A-	stable
Fitch	A-	stable

Source: Erste Group Research

General	2023
Population mn	38.2
GDP/Capita EUR	20,122

Source: Erste Group Research

Spot Rates as of:
12th Dec. 2023

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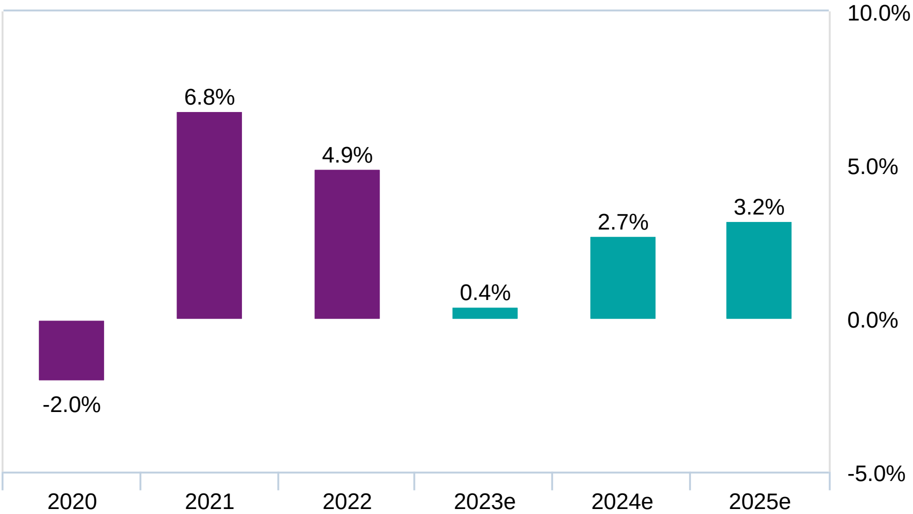
Note:
**Information on past performance is not a reliable indicator for future performance. Forecasts are not a reliable indicator for future performance.*

After another interesting quarter, we can already see the first signs of a rebound in the Polish economy. The high-frequency indicators have been surprising to the upside, while 3Q GDP data showed annual growth for the first time this year. The anticipation for the next year is a rebound pushed by consumption, which could be pro-inflationary. Therefore, inflation will not be declining at such a fast pace as in previous months, and we see it stabilize at around 5% next year. However, only the new government's next steps will bring more clarity, not only on the inflation path, but also on the NBP's decisions in 2024.

As the NBP turned hawkish in autumn, the FX rate sharply appreciated, with no indications that this will be reversed soon. Moreover, the EUR 5bn in pre-financing from the RePowerEU chapter, paired with the normalization of relations with the EU, support the zloty even further. The financing needs are covered for this year, with approx. 20% of pre-financing to be done by the end of 2023. Next year, the need to borrow will be slightly higher than in this year, depending on the pace of fiscal consolidation.

GDP (real,y/y)



Source: Erste Group Research

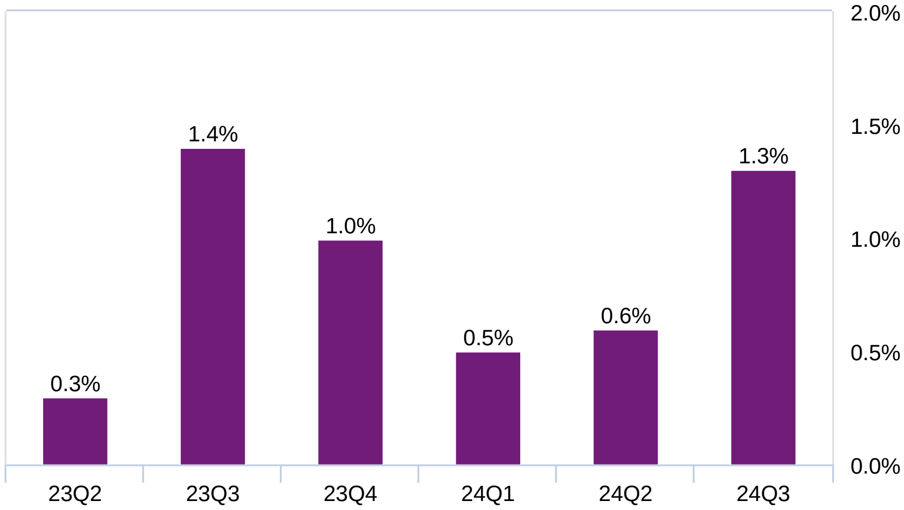
GDP

Indications of rebound already visible

The third quarter presented a contrasting picture compared to the first half of the year, suggesting that the lowest point was reached in 2Q. The growth rate for this quarter was recorded at +0.4% y/y, with consumption seeing a rebound of +0.8% y/y. However, the two primary factors influencing this year’s performance are inventories, which are projected to deduct approx. 4.5pp from growth, and the trade balance, which is expected to contribute an additional 3.7pp. Investments continue to exhibit robust growth, due to the urgency to utilize the remaining EU funds from the previous funding period before the year-end. Due to the positive factors, we have revised our 2023 forecast upwards by 0.2pp to 0.4%.

Next year, we anticipate a significant recovery in consumption, driven by robust wage dynamics and the overall growth of disposable incomes. High-frequency indicators already suggest this trend, as retail sales have exceeded expectations recently. The gap in EU funding between two funding periods will be mitigated by the inflow of the RRP funds, which are expected to be released soon. Poland has already been promised EUR 5bn as pre-financing, which should be utilized next year. Furthermore, the negative impact of inventories on GDP should diminish, while net exports will also moderate. We project a growth rate of 2.7% for 2024, and 3.2% for the subsequent year.

GDP (real, s.a., q/q)



Source: Erste Group Research

Annual	2021	2022	2023e	2024e	2025e
GDP real	6.8%	4.9%	0.4%	2.7%	3.2%
CPI (y/y)	5.1%	14.3%	11.6%	5.3%	3.7%
Private Consumption	6.3%	3.0%	-0.8%	3.5%	3.0%

Source: Erste Group Research

Inflation

Inflation outlook uncertain

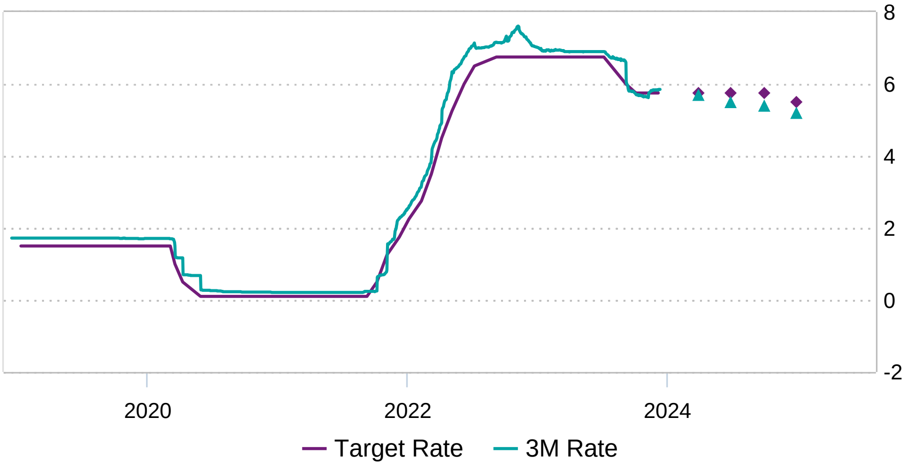
The flash estimate for November's CPI inflation was reported at 6.5%, close to October's figure of 6.6%. The significant decreases of inflation in September (-1.9pp) and October (-1.7pp) were supported by a favorable base effect and low prices of transportation fuels, which was now reversed. The inflation trajectory for the next year remains rather uncertain, largely dependent on the policy decisions of the incoming government. Key considerations include the potential continuation of the 0% VAT on certain food products, price caps on energy prices and other anti-inflationary measures. We expect inflation to circulate around 5% throughout next year.

Monetary Policy

NBP turns hawkish

After a sharp cut of the target rate in September by 75bp, a more moderate reduction of 25bp followed in October. These two cuts were the last for the foreseeable future, as the governor and other members of the MPC are changing their rhetoric to be more hawkish. With the inflation outlook uncertain, we see the pause in the easing cycle to be at least 2-3 quarters long. The crucial inflation developments will come in 1Q and 2Q next year, when we will have more clarity on whether the price pressures have eased for good. Real interest rates (both ex-post and ex-ante) will go over zero next year, which will be encouraging for foreign investments.

Short Term Yields



Source: FactSet, Erste Group Research

Market (%)	Spot	24Q1	24Q2	24Q3	24Q4
Target Rate	5.75	5.75	5.75	5.75	5.50
3M Rate	5.85	5.70	5.50	5.40	5.20

Source: FactSet, Erste Group Research

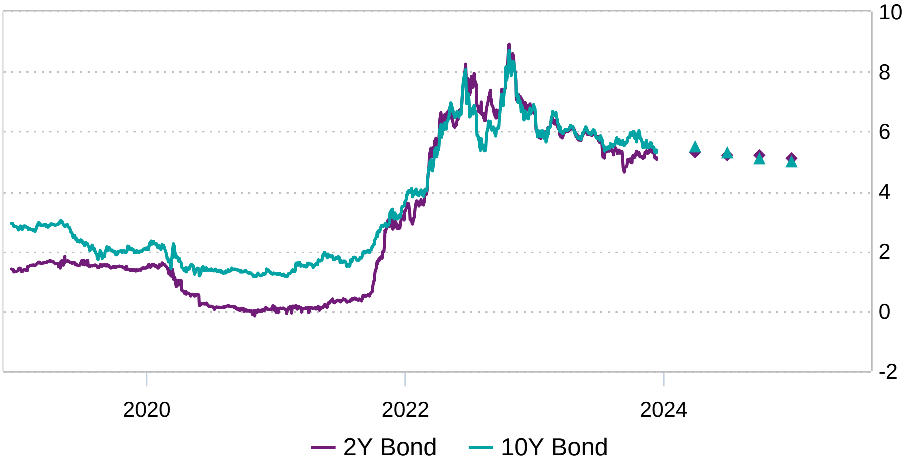
Bond Yields

Yields to slowly move down

Polish gross financing needs were completed already in October, with the aim to pre-finance as much as 20% of the next year's expected needs. The borrowing requirements next year will be higher than in 2023, with risks of increasing even more, as the pace of fiscal consolidation might be slower, due to upcoming local, European and presidential elections. Next year will see large redemptions of both foreign and domestic debt in January, followed by significant items between March and May.

The 10Y yield went down by around 50 basis points in the last week of October; since then, it has moved in the band between 5.5% and 5.75%. The long end of the yield curve is influenced by several factors, which move in opposite directions. On one hand, the anticipation of slower fiscal consolidation pushes the yield upwards; on the other hand, inflation expectations in the medium term have decreased, as the NBP vows to keep rates higher for longer. We see the 10Y yield moving closer to 5% in the next year, potentially even lower.

Generic Bond Yields (%)



Source: FactSet, Erste Group Research

Market	Spot	24Q1	24Q2	24Q3	24Q4
2Y Bond*	5.06	5.30	5.20	5.20	5.10
5Y Bond*	5.04	5.30	5.20	5.20	5.10
10Y Bond*	5.30	5.50	5.30	5.10	5.00

Source: FactSet, Erste Group Research

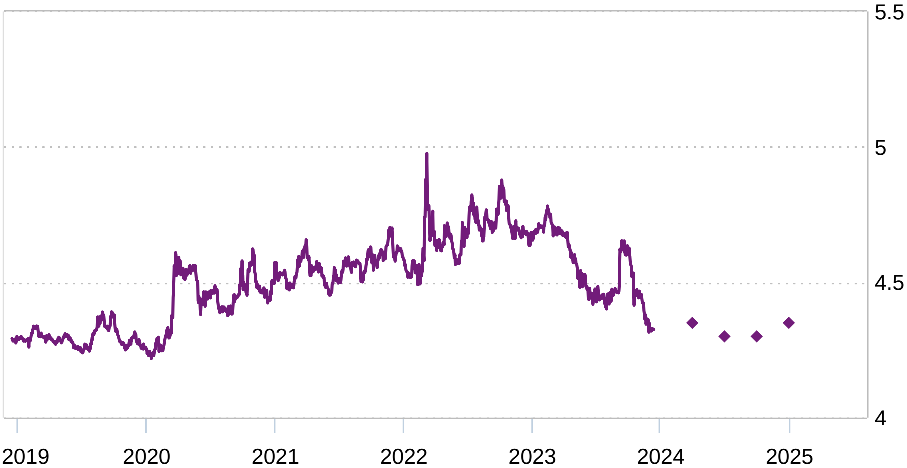
Polish Zloty

Zloty to remain strong next year

The Polish zloty has experienced a decline in its exchange rate by 6.5% over the past two months, reaching its strongest levels in three and a half years at 4.32. The FX rate is influenced by two main factors, the policy expectations of the NBP (and ECB) and the anticipated resolution of the frozen payments from the RPP. Regarding the latter, once the 'super milestones' are resolved, a significant inflow of euros occurs, leading to an appreciation of the zloty.

The primary factor behind the steep appreciation is the changed tone of the MPC in Poland, which turned more hawkish in recent months. As a result, the market expects the next rate cut only towards the end of the next year. Furthermore, the ECB could start its cutting cycle sooner than anticipated. Both assumptions play into the strengthening of the zloty, which we expect to oscillate around 4.3-4.35 per euro under the base case scenario. Nonetheless, the FX rate could see a lot of volatility, as the inflation outlook, and thus the NBP's actions, are still uncertain.

EUR/PLN



Source: FactSet, Erste Group Research

	Spot	24Q1	24Q2	24Q3	24Q4
EUR/PLN	4.33	4.35	4.30	4.30	4.35
vs. Spot		*0.5%*	*-0.7%*	*-0.7%*	*0.5%*
USD/PLN	4.01	3.95	3.87	3.74	3.78
vs. Spot		*-1.5%*	*-3.5%*	*-6.7%*	*-5.7%*

Source: FactSet, Erste Group Research

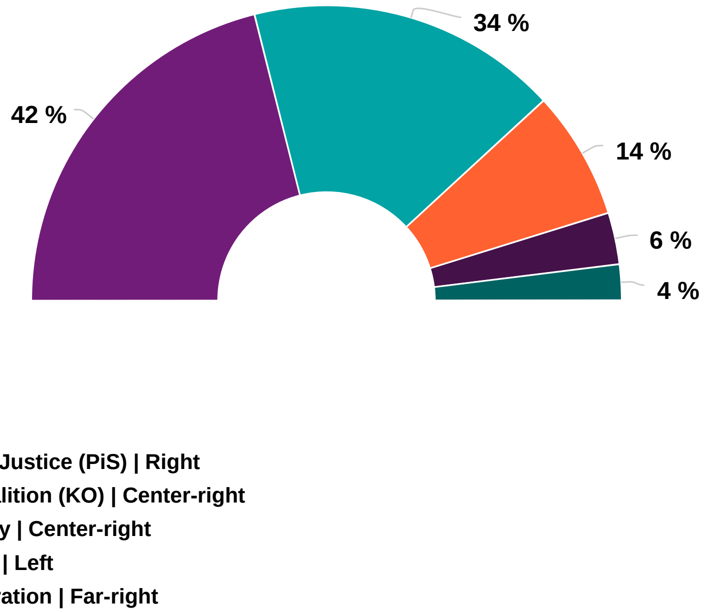
Politics

Opposition-led parliament to stabilize EU relationship

Although the party Law and Justice (PiS) won the parliamentary elections with 35.4%, forming a majority government failed, as they were allocated only 194 MPs out of 460. The new coalition of parties, which includes the Civic coalition, the Third Way and the New Left selected Tusk as their Prime Minister. They will shift Poland's direction towards the EU and improve the rule of law, which has led to almost EUR 60bn in RRP funds being frozen. The new coalition will be able to rely on 247 MPs in total.

There are several economic reforms planned by the winning parties, such as reinstating Sunday shopping, increasing the tax-free part of income and keeping the social program 800+. The new government is also expected to support the development of the capital market in Poland. The pro-market approach assumes that the stock market should become one of Poland's economic growth drivers by increasing the market's role in financing the economy. The future government will also push harder for clean energy transition, supported by inflows of EU funds.

Parliament Seats



Source: Erste Group Research

Last Election:
2023, Q4

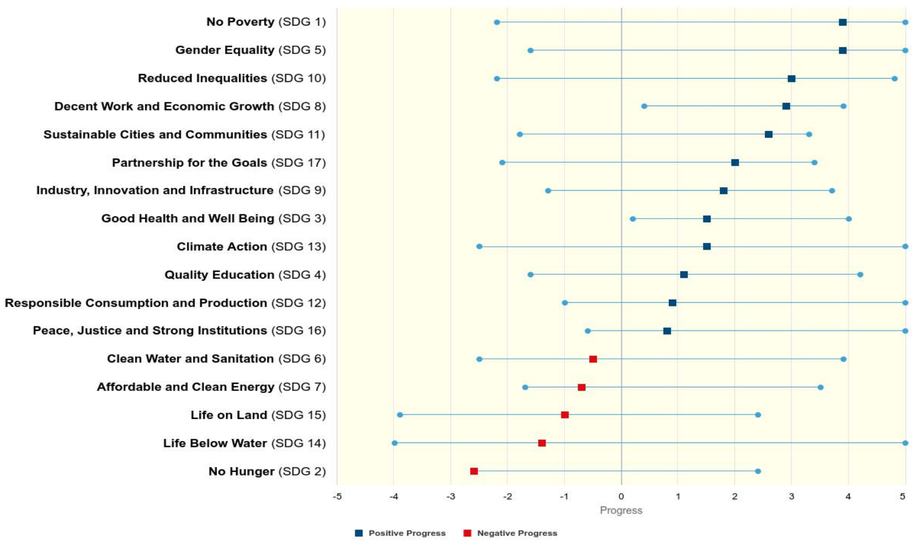
Next Election:
2027, Q4

Sustainable Development Goals

RePowerEU to make Poland greener

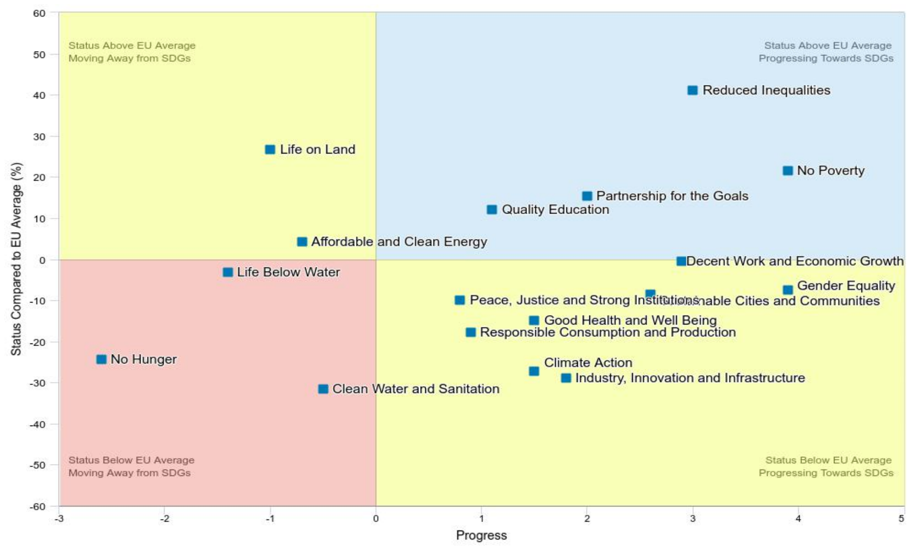
A publication from the European Comission on Sustainable development in the EU for 2023 revealed relatively mixed performance of Poland. 7 out of 17 SDGs are above the EU average, which is the 3rd best result in CEE after Croatia and Slovenia. However, when we look at the progress in the individual SDGs, 5 out of 17 marked negative development, which is the highest number in CEE alongside Romania. Related to SDGs, Poland has boosted their RRP massively by the RePowerEU chapter, which will accelerate the movement towards green sources of energy. The additional 25 billion Euros will be used for moving away from coal-based electricity production towards improved electricity transmission and distribution networks and offshore wind farms.

Progress Overview



Source: Erste Group Research

Progress Overview



Source: Erste Group Research

Forecasts

Annual	2017	2018	2019	2020	2021	2022	2023e	2024e	2025e
Real GDP growth	5.1	5.9	4.5	-2.0	6.8	4.9	0.4	2.7	3.2
Inflation (CPI, avg)	2.0	1.6	2.3	3.4	5.1	14.3	11.6	5.3	3.7
Unemployment rate (avg)	7.3	6.1	5.4	5.9	5.9	5.1	5.2	5.0	5.0
Retail sales growth	5.5	4.6	4.7	-3.7	5.8	6.0	-5.0	4.0	3.0
Industrial output growth	6.2	5.4	5.1	-1.9	14.4	10.7	-2.0	2.5	4.0
Private consumption growth	6.3	4.4	3.5	-3.6	6.3	3.0	-0.8	3.5	3.0
Fixed capital formation growth	1.6	12.6	6.2	-2.3	2.1	4.5	8.5	3.0	5.0
Percent of GDP									
Trade balance	-1.0	-2.3	-0.8	1.3	-1.3	-3.8	3.9	0.5	0.0
Current account balance	-1.1	-1.9	-0.2	2.5	-1.4	-3.3	0.8	0.0	-1.0
Budget balance	-1.5	-0.2	-0.7	-6.9	-1.8	-3.4	-5.4	-4.5	-3.5
Public debt	50.6	48.7	45.7	57.2	53.8	49.1	50.0	53.0	55.0
FX, money market									
USDLCY average	3.78	3.61	3.84	3.90	3.94	4.46	4.26	3.88	3.79
EURLCY average	4.26	4.26	4.29	4.44	4.59	4.68	4.47	4.35	4.40
EURLCY eop	4.17	4.29	4.25	4.56	4.59	4.68	4.35	4.35	4.40
(percent)									
CB policy rate (avg.)	1.50	1.50	1.50	0.50	0.50	5.40	6.30	5.60	4.50
3m interbank offer rate (avg.)	1.73	1.71	1.72	0.66	0.80	5.92	6.30	5.00	4.40
2Y Yield (average)*	1.86	1.57	1.56	0.47	1.10	6.23	5.50	5.10	4.00
5Y Yield (average)*	2.77	2.50	1.92	0.94	1.90	6.28	5.50	5.20	4.00
10Y Yield (average)*	3.43	3.21	2.33	1.51	2.25	6.00	5.80	5.20	4.30

Source: Erste Group Research

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