

Poland Watch

Warsaw visit confirms positive outlook

Constructive EU funds, hawkish NBP, reasonable fiscal

Our Warsaw visit strengthens our positive view on Polish assets against the backdrop of the transfer of power to a PO-led government. We expect EU cohesion funds to be unblocked by January and green light for the recovery funds by 2Q. This implies total cohesion and RRP inflows of c.EUR24bn/c.2.8% of GDP next year (EUR5bn in cohesion funds, a EUR5bn REPowerEU advanced payment, and EUR14bn in other RRP financing).

Budget spending pressures are high, but we perceive a strong intention to keep the deficit below 5.5% of GDP, with VAT on food likely to be reversed to 5%, and a higher bank tax not on the agenda of the new liberal administration. We maintain our call that the NBP is done with cutting, especially given the real threat by the incoming government to bring Governor Glapinski to the State Tribunal (though left-wing politicians will proceed with caution).

We stay bullish PLN and selected Polish banks, and keep a paying bias on front-end rates.

See [EM Alpha: go long PLN/CZK](#), and [Polish Banks: rally hasn't dented our positive view](#).

Cohesion funds: likely unblocked by January

The trip confirms our belief that if there is a will, there is a way with EU funds, despite the likely obstruction from President Duda. The process to release cohesion funds should be relatively easy given no formal requirement to fulfil the horizontal enabling conditions as the Hungary's case. The EU is ready to progress as soon as the new government takes power. So we expect a decision to unfreeze cohesion funding by January at the latest. The total allocation is c.EUR106bn for 2021-27, of which EUR1bn has been used and was pre-funded by the government in 2023, and EUR4bn expected for 2024.

Recovery funds: green light from EU likely by 2Q

The RRP is more complicated, but Poland could get the green light from the EU before the bloc's parliamentary elections in June 2024, probably from late 1Q. We understand President Duda is open to negotiate with the new administration. But one proposal which looks most feasible to us is for Poland to renegotiate the RRP milestones and targets with the EU *after* President Duda vetoes the new government's judiciary bill – which is a milestone to be met in the current RRP. A bill could be submitted by mid-January, from which point Duda has three weeks to veto it, and then up to two more months to agree new milestones and targets with the EC. Poland could then submit payment requests for c.EUR8bn in grants and c.EUR6.4bn in loans under the RRP.

NBP hawkish turn warranted by macro and politics

Governor Glapinski's likely increasing concerns about the threat by some politicians to bring him before the State Tribunal has probably emboldened the NBP's hawkish turn.

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Abbreviations

PO: Civic Platform party
NBP: National Bank of Poland
RRP: Recovery and Resilience Plan
EC: European Commission

For a list of open trade recommendations and trade recommendations closed in the last 12 months, see [Global Emerging Markets Weekly: End-year rally - or end-year run? 10 November 2023](#)

MPC member Wnorowski's comments on Monday indeed confirm our view that the NBP is done with cutting. Wnorowski, who is close to Glapinski, said that "inflation in Poland hasn't lost anything from its persistence, so there is a strong case for a 'higher for longer' strategy for interest rates." With VAT on food likely reversing to 5% from 0%, the NBP projections for 2024, currently showing an average for 4.6%, will be higher by nearly 1pp. This further justifies the NBP's political motivation for no more easing.

High caution on budget helps ease financing pressures

The new government in our view intends to be cautious on the fiscal front, despite large spending pressures. We and the market have been afraid of a large budget deficit in 2024, as political parties will likely feel the need to follow through on their promises in view of two more elections in spring 2024. But we now feel that our 5.5% of GDP deficit forecast for the state government is more like the worst-case scenario. We think the new government will try to keep the deficit at around 5% of GDP. If confirmed, this would alleviate supply pressures next year.

The gross borrowing requirement of PLN440bn would be c.57% higher compared to 2023, vs 64% we previously pencilled in. The recent issuances of the Samurai and Eurobonds totalling c.EUR1.8bn, together with c.EUR4.5bn in REPowerEU advanced loan payments, have also helped pre-financing for 2024. Poland will likely start 2024 with nearly 20% of its gross borrowing requirement funded, or c.25% if we take into account the expected RRP loans disbursement next year.

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