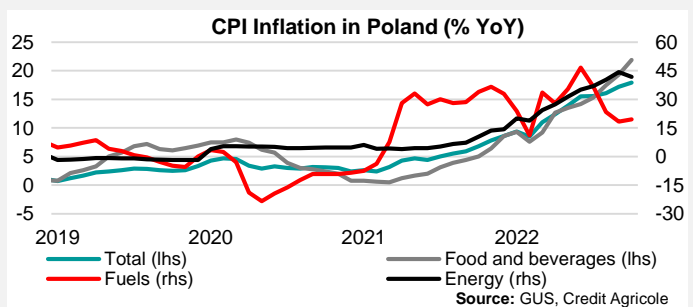
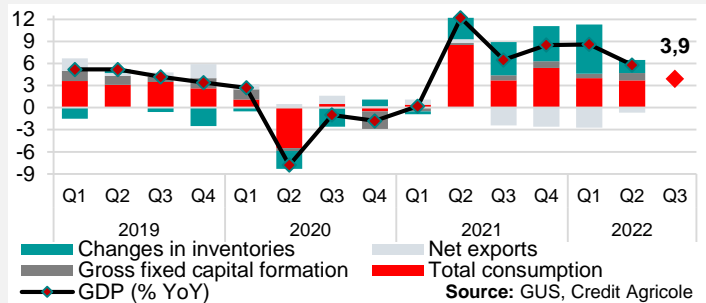


This week

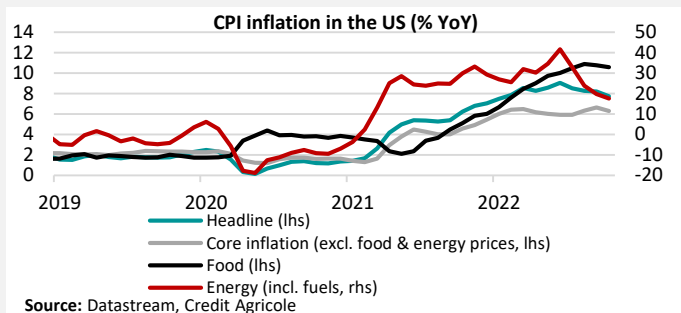
- The key event this week will be the release of Poland's flash GDP estimate for Q3, scheduled for Tuesday.** We expect to see a slowdown in GDP growth to 3.9% YoY from 5.8% in Q2. The main driver of the slowdown in GDP growth between Q2 and Q3 was consumption (result of weaker demand for durable goods, high inflation, and a deterioration of household sentiment). Our forecast is above market consensus (3.4%), and thus its materialization would be positive for the PLN and the yields on Polish bonds.
- Some important data from the US will be released this week.** We expect nominal retail sales to have grown by 1.0% MoM vs. its flat level seen in September. The rise in growth was driven by higher sales in the automotive industry. We expect industrial production growth to have dropped to 0.1% MoM in October from 0.4% in September, in line with business survey results. We expect data on housing starts (1425k in October vs. 1439k in September), new building permits (1500k vs. 1564k) and existing home sales (4.40m vs. 4.71m) to show a further slowdown in the US housing market. We believe that the impact of the US housing market figures on the PLN and yields on Polish bonds will be limited.
- Tuesday will see the release of significant data from China.** We forecast a slowdown in industrial production to 5.0% YoY in October from 6.3% in September, and a drop in retail sales growth to 0.2% YoY from 2.5% in September. Thus, we expect the data to confirm that China's economy continues to be adversely affected by administrative restrictions introduced to prevent COVID-19 from spreading. We expect urban investment growth to have picked up to 6.5% YoY in October from 5.9% in September as a result of stimulus measures taken by China's government. We believe that data from China will be neutral for the PLN and yields on Polish bonds.
- Data on Poland's balance of payments for September will be released today.** We expect the current account deficit to have shrunk to EUR 3362m from EUR 3967m in August, driven primarily by a higher balance of trade in goods. We forecast that growth in exports slowed from 24.8% YoY in August to 22.5% in September, while growth in imports dropped from 28.2% YoY to 26.7%, in line with the industrial production slowdown seen in September. In our opinion, the balance of payments figures will be neutral for the PLN and yields on Polish bonds.
- Tuesday will see the release of Poland's final inflation figures for October.** We expect a YoY price growth of 17.9%, in line with the flash estimate, vs. 17.2% in September. The rise in inflation was driven by higher contributions from the prices of food and fuels, and core inflation. Of particular interest will be to see which categories account for a further rise in core inflation, from 10.7% YoY in September to 11.1% (our estimate) in October. We believe that the release of inflation figures will be neutral for the PLN and yields on Polish bonds.



Last week

▮ **The MPC decided last week to keep the interest rates unchanged (with the NBP reference rate standing at 6.75%).** We had expected a rate hike of 25bp and our forecast was in line with market consensus (see MACROmap of 07/11/2022). The MPC once again declared that their further decisions would depend on incoming information regarding perspectives for inflation and economic activity, including the impact of the Russian military aggression against Ukraine on the Polish economy. This may be interpreted as a suggestion that the MPC's decision made last week should not be seen as the end of the monetary policy tightening cycle. However, a clear message from the MPC that inflation will remain high in the short-term (which is new information compared to the press release from a month ago), combined with the decision made at last week's meeting to keep the rates unchanged, shows that inflation is of secondary importance to the MPC, and that the primary objective of monetary policy is to prevent a deep slowdown in economic growth in the coming quarters. The NBP also released its latest economic projections. The medium-term inflation path projection was revised substantially upward from the projection presented in July. The projection shows a two-digit annual average rate of inflation in 2023, a rate well above the MPC's inflation target in 2024 (2.5%), and inflation falling back to its target in 2025. It is worth noting here that the projection is most probably based on the assumption that the so-called Inflation Shield will start being phased out from the beginning of 2023, which drives the forecast annual average inflation up. At the same time, the projection shows that GDP growth in 2023 will be close to zero, and that it will start gradually picking up in subsequent years. In the context of the NBP's projections, the MPC's decision to keep interest rates unchanged suggests that the MPC is now focused on economic growth prospects rather than on the medium-term inflation outlook (see MACROPulse of 10/11/2022). Thus, the decision makes the scenario that this is the end of the interest rate hike cycle much more likely, despite the fact that there is no such declaration in the press release. At the same time, at the press conference on Thursday, the NBP Governor A. Głapiński implied that if inflation ran in line with the NBP's November projection, no further rate hikes should be expected. He also noted that bringing inflation down to its target too fast could translate into a sharp slowdown in economic activity and a marked rise in unemployment. In consequence, we see a significant downside risk to our scenario that expects the target reference rate of 7.25%.

▮ **US CPI inflation fell to 7.7% YoY in October from 8.2% in September, running above market expectations (8.0%).** The drop in inflation was driven by slower rises in energy and food prices, and lower core inflation, which fell to 6.3% YoY in October from 6.6% in September, to a level well below market expectations



(6.5%). In consequence, the data weakened some investors' expectations of further sharp Fed rate hikes, and thus resulted in a weakening of the USD against the EUR and a fall in yields on US bonds. A preliminary reading of the University of Michigan index was also released last week; the index dropped to 54.7 pts in November from 59.9 pts in October, running below market expectations (58.9 pts). The fall in the index is accounted for by drops in its components both for the assessment of the current situation and for expectations. At the same time, median expected inflation over one-year horizon, released together with the preliminary reading of the University of Michigan index, rose to 5.1% YoY in November from 5.0% in October, which shows that inflation expectations in the US economy keep on rising. The US inflation figures support our scenario that expects the Fed to slow down monetary policy tightening and to raise interest rates

by 50bp in December and by 25bp in February, and thus to end the interest rate hike cycle with the target range for federal funds of [4.50%; 4.75%].

Will armament spending accelerate economic growth in Poland?

As the war in Ukraine continues, there has been a lot of public interest recently in information on the development of public expenditure on national defence. The analysis below is an attempt to summarise the planned state expenditure earmarked for the technical modernisation of the Polish Armed Forces in 2022-2035, and to assess its impact on the development of Poland's economic outlook.

What makes it difficult to prepare an analysis of the aforementioned expenditure is lack of publicly available structured information from the Ministry of National Defence, which would allow a precise summary of the planned expenditure on technical modernisation of the Armed Forces. In the analysis we have prepared, we have used official documents such as budget acts, budget decisions of the Minister of National Defence defining the implementation of the Ministry's budget and information on the results of the Supreme Audit Office's audit of the implementation of the state budget in part 29 - national defence. In addition, we used information published by the Ministry of National Defence, the Armaments Agency, industry portals and publishing houses.

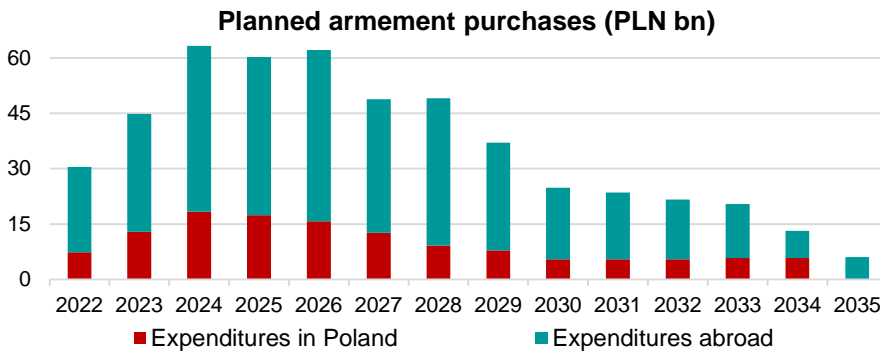
In our analysis of expenditure, we have taken into account only those modernisation programmes for which contracts have been concluded or the intention to conclude them has been signalled. We have omitted a number of programmes that are important from the point of view of technical modernisation of the Armed Forces, but the Ministry of National Defence does not take a position regarding their implementation (e.g. the 'Płomykówka' programme - complex reconnaissance aircraft, the 'Karkonosze' programme - Multi-Role Tanker Transport (MRTT) aircraft). In the analysis, we have also omitted contracts worth less than PLN 100m, of which the Ministry of National Defence concludes many, while the fact of their conclusion is not made public. For the purposes of the expenditure forecasts in subsequent years, we have assumed that, if information on the payment schedule or information on payments already made is not available, the forecast assumes a proportional distribution of expenditure over the years, taking into account the declared term of the contract. Thus, the amounts we present in the analysis may not accurately reflect the actual planned expenditure incurred in individual years, but represent an attempt, carried out to the best of our knowledge, to estimate the scale of expenditure related to the declared technical modernisation of the Armed Forces in the medium term.

In the table below, we have presented the time profile of expenditure on technical modernisation of the Polish Armed Forces by programme. Some of the contracts analysed contained order amounts in USD. We converted these values into PLN using our USDPLN exchange rate forecast, assuming a gradual appreciation of the PLN against the USD. It should be noted here that despite the significant total USD amount of orders, they will not generate downward pressure on the PLN exchange rate. This is because we are of the opinion that the government will exchange the PLN for the USD needed for these transactions at the NBP rather than on the foreign exchange market.

Will armament spending accelerate economic growth in Poland?

Armement purchases planned until the end of 2035																		
Item	Name of program	Description	Expenditure timetable (PLN bn)															
			up to 2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	Total
1	Wisla I	Medium-range air defence (MRAD) systems	14,3	2,3	2,4	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	18,9	
2	Maia Narew	Two short-range air defence (SHORAD) fire units	0,0	0,8	0,8	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	1,5	
3	Narew	Short-range air defence (SHORAD) systems, contract not executed	0,0	0,0	0,0	10,0	10,0	10,0	10,0	10,0	10,0	0,0	0,0	0,0	0,0	0,0	60,0	
4	Piorun	Man-portable air defence systems (MANPADS); very-short-range air defence (VSHORAD))	0,8	0,9	0,9	0,9	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	3,5	
5	Bystra radar	Redeployable radars	0,3	0,1	0,1	0,1	0,1	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,6	
6	Pilica	Very short range air defence system (VSHORAD)	0,4	0,2	0,2	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,8	
7	Pilica+	Very short range air defence system (VSHORAD); framework contract	0,0	0,0	0,0	3,5	3,5	3,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	10,0	
8	Harpia, F-35A	F-35A Lightning II multi-role aircraft	7,0	1,1	1,2	1,0	1,0	0,9	0,9	1,8	1,7	1,0	0,0	0,0	0,0	0,0	18,8	
9	FA-50 PL	Fighter aircraft	0,0	1,8	1,4	2,9	1,5	1,5	1,4	1,4	0,0	0,0	0,0	0,0	0,0	0,0	13,1	
10	S-70i Black Hawk	Combat utility helicopters	0,1	0,2	0,2	0,2	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,7	
11	AW-149	Multi-role helicopters	0,0	1,0	1,0	1,0	1,0	1,0	1,0	1,3	0,0	0,0	0,0	0,0	0,0	0,0	8,3	
12	AW-101	Maritime helicopters	1,2	0,5	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	1,7	
13	Wisla II	Medium-range air defence (MRAD) systems	0,0	0,0	7,1	6,9	6,5	6,3	6,1	6,0	0,0	0,0	0,0	0,0	0,0	0,0	42,8	
14	Kruk	Attack helicopters	0,0	0,0	0,0	5,7	5,3	5,2	5,1	5,0	4,9	4,8	4,7	4,7	4,6	0,0	57,5	
15	BSP Zefir	Lease of MQ-9A Reaper remotely piloted aircraft (RPA) for ISR (intelligence, surveillance, and reconnaissance) purposes	0,0	0,2	0,2	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,3	
16	BSP Mini	FlyEye unmanned aerial systems	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,1	
17	BSP-U Gladius	Unmanned search and strike systems	0,0	0,7	0,7	0,6	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	2,0	
18	Warmate	Loitering munitions	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,1	
19	BSP Oriik	Unmanned aerial systems	0,4	0,1	0,1	0,2	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,8	
20	M-346 Master	Advanced training aircraft	2,5	0,5	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	3,0	
21	BSP Wizjer	Unmanned aerial systems	0,0	0,0	0,0	0,1	0,1	0,1	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,2	
22	BSP Bayraktar TB2	Unmanned aerial systems	0,0	0,4	0,4	0,4	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	1,2	
23	NBWP Borsuk	Infantry fighting vehicle	0,0	0,0	5,0	5,0	5,0	5,0	5,0	5,0	5,0	5,0	5,0	5,0	5,0	0,0	60,0	
24	Ottokar-Brzoza	Wheeled tank destroyer	0,0	0,0	1,0	1,0	1,0	1,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	4,0	
25	M1A2 SEPv3 Abrams	Tank	0,0	6,8	3,8	3,3	2,7	3,5	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	21,3	
26	M1A1SA Abrams	Tank – financed with US Foreign Military Financing funds	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	
27	Leopard 2PL Modernization	Tank	1,0	0,2	0,2	0,8	0,8	0,3	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	3,3	
28	T-72 Modernization	Tank	1,0	0,2	0,2	0,2	0,2	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	1,8	
29	K2	Tank	0,0	3,6	3,8	3,3	3,7	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	15,2	
30	Regina	Squadron-level fire module with Krab self-propelled howitzers	2,4	0,8	0,8	0,7	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	4,7	
31	Regina	Squadron-level fire module with Krab self-propelled howitzers	0,0	0,0	0,0	0,0	1,6	1,0	1,2	0,0	0,0	0,0	0,0	0,0	0,0	0,0	3,8	
32	K9	Self-propelled howitzer	0,0	1,8	2,4	2,0	1,9	1,9	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	10,7	
33	KMO Rak (AWA, AWRU)	Artillery ammunition vehicle, Artillery armament repair vehicle	0,0	0,2	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,2	
34	KMO Rak (AWR)	Artillery reconnaissance vehicle	0,0	0,0	0,0	0,6	0,4	0,6	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	1,6	
35	K239 Chumnoo	Multiple launch rocket system	0,0	0,0	4,7	4,1	3,8	3,7	3,6	4,0	0,0	0,0	0,0	0,0	0,0	0,0	26,2	
36	Himars	Multiple launch rocket system	1,2	0,5	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	1,8	
37	APDR	Artillery rangefinder and reconnaissance devices	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,1	
38	ZSSW-30	Remote-controlled tower system	0,0	0,3	0,3	0,3	0,3	0,3	0,2	0,0	0,0	0,0	0,0	0,0	0,0	0,0	1,7	
39	Orkan	Upgrade of missile boats	0,0	0,2	0,1	0,1	0,1	0,1	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,6	
40	Kormoran II	Minerhunters	1,5	0,6	0,5	0,5	0,5	0,5	0,5	0,0	0,0	0,0	0,0	0,0	0,0	0,0	4,6	
41	Miecznik	Frigates	0,0	0,0	0,0	0,5	0,5	1,0	1,0	1,0	1,0	1,0	1,0	2,0	2,0	0,0	12,0	
42	MRAP Cougar	Mine resistant ambush protected vehicles	0,0	0,1	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,1	
43	MSBS Grot	Modular firearm system	0,0	0,2	0,1	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,3	
44	ALC-T	ICT data transmission apparatus	0,0	0,0	0,2	0,2	0,2	0,2	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,9	
46	Command centres	IBCS command centres	0,0	0,0	0,0	0,3	0,3	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,5	
47	Jelcz	Jelcz 442.32 and Jelcz 662D.43 vehicles	0,0	0,0	0,7	0,7	0,7	0,7	0,7	0,0	0,0	0,0	0,0	0,0	0,0	0,0	3,5	
48	Optoelectronics	Binoculars and sights	0,0	0,1	0,1	0,1	0,1	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,3	
49	MMSD	Mobile command post modules	0,0	0,2	0,1	0,1	0,1	0,1	0,1	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,7	
50	M-72 grenade launchers	M-72 grenade launchers	0,0	0,1	0,1	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,2	
51	207P and 207M minesweepers	Overhauls of minesweepers	0,0	0,1	0,1	0,1	0,1	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,2	
52	PFM Motorized Floating Bridges	PFM motorized floating bridges	0,0	0,3	0,3	0,3	0,3	0,3	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	1,5	
53	Delfin	Radio-electronic reconnaissance ship	0,0	0,0	0,7	0,7	0,7	0,7	0,7	0,0	0,0	0,0	0,0	0,0	0,0	0,0	3,5	
54	Himars	Multiple launch rocket system	0,0	0,0	0,0	2,0	1,9	1,9	1,8	1,8	1,7	1,7	1,7	0,0	0,0	0,0	16,6	
55	K9 PL	Self-propelled howitzer	0,0	0,0	0,0	0,0	0,0	0,0	0,0	2,8	2,8	2,7	2,7	2,7	2,6	0,0	19,2	
56	K2 PL	Tank	0,0	0,0	0,0	0,0	0,0	7,0	6,9	6,8	6,6	6,5	6,4	6,3	6,2	6,1	76,6	
57	Orka	Submarine	0,0	0,0	0,0	0,0	1,5	1,5	1,5	2,0	2,0	2,0	2,0	2,0	0,0	0,0	14,0	
58	Kleszcz	Armoured reconnaissance vehicle	0,0	0,0	1,0	1,0	1,0	1,0	1,0	1,0	0,0	0,0	0,0	0,0	0,0	0,0	6,0	
59	AS-21 Redback	Infantry fighting vehicle	0,0	0,0	2,4	2,0	1,9	1,9	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	8,8	
60	C4ISR	Command, control, communications, computers, intelligence, surveillance and reconnaissance (C4ISR) solutions	0,0	1,3	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	1,3	
61	Obserwator	Imagery and satellite intelligence	0,0	1,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	1,0	
62	Symulacyjny i trenazery	Simulators and training devices	0,0	0,6	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,6	
63	CYBER.MIL 2.0	Cyber security program	0,0	0,3	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,3	
64	Rosomak	Rosomak wheeled armoured vehicles	0,0	0,2	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,2	
Total			33,9	30,4	44,8	63,3	60,2	48,8	49,1	37,1	24,8	23,5	21,6	20,4	13,1	6,0	539,3	
of which expenditure spent in Poland			8,5	7,4	12,9	18,4	17,4	15,7	12,6	9,2	7,9	5,4	5,4	5,4	5,8	5,8	0,0	137,7
of which expenditure spent in Poland as a % of total expenditure			25%	24%	29%	29%	29%	25%	26%	19%	21%	22%	23%	25%	28%	44%	0%	26%

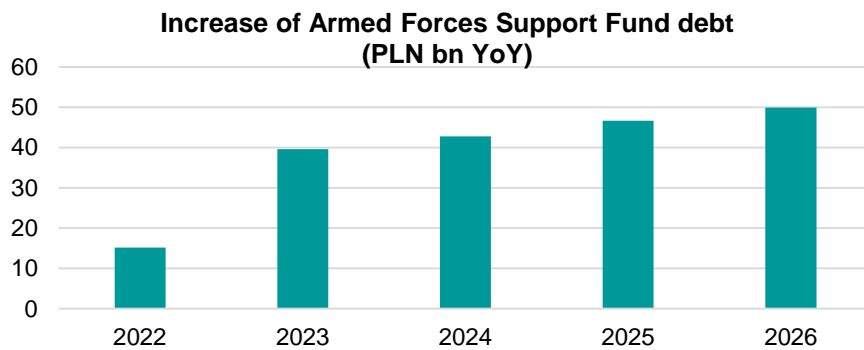
Source: own study based on the Polish Armed Forces Technical Modernization Plan for the years 2013-2022, 2017-2026 and 2021-2035, status on 28th October 2022



Source: own calculations

the remaining majority of orders will be imported. This means that the positive impact of increased state spending on the technical modernisation of the Armed Forces on economic growth in Poland will be much smaller than its total nominal amount would suggest (see the chart and the last three rows in the table).

The expected value of orders to be processed in Poland is concentrated in the years 2023-2027 and amounts to several billion PLN in each year. From 2028 onwards, it is less than PLN 10bn per year. We estimate that these expenditures will amount to 0.2% of GDP in 2022 and 0.4% of GDP in 2023. They will therefore act as a stabilising factor for economic growth amid the strong slowdown we expect in 2023. We estimate that in 2024 the value of expenditure will increase to 0.5% of GDP which will support the economic growth again. In the following years, the aforementioned expenditure will cease to be a factor boosting GDP growth in Poland.



Source: The Public Finance Sector Debt Management Strategy (2023-2026)

the Armed Forces Support Fund (AFSF) will increase by PLN 194.2bn between 2021 and 2026. According to our estimates, expenditure on technical modernisation of the Armed Forces in this period will amount to PLN 260.9bn. This means that around PLN 67bn will have to be financed from other sources (e.g. from the central budget) or the AFSF debt will be higher than the government's forecast. The increase in the general government sector's borrowing needs (related, inter alia, to the increase in military spending) and the resulting increase in the supply of debt will push the yields of bonds issued by public sector entities up. We discussed this issue in the MACROmap of 12/09/2022.

According to our estimates, the total amount of realised and planned expenditure in the horizon to 2035 amounts to PLN 539.3bn (approx. 20% of the GDP). When assessing the impact of this expenditure on Poland's economic situation, one should note that only about ¼ of it will be realised in Poland (i.e. PLN 137.7bn, about 5% of GDP), and

The planned increase in expenditure on technical modernisation of the Armed Forces will have the effect of increasing the so-called borrowing needs, or in simple terms, the funds required to finance the general government budget. According to the Public Finance Sector Debt Management Strategy 2023-2026, the debt of

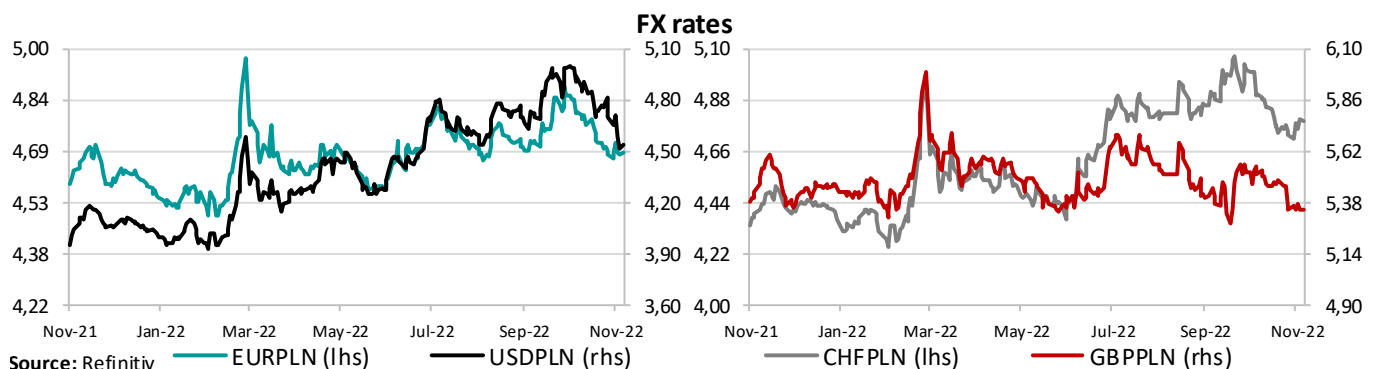
In our analysis, we have only included the costs of the individual programme purchases themselves. It can be assumed that the purchase cost is only about 33% of the Life Cost Cycle (LCC) of a piece of equipment in the Armed Forces. In the overall life cycle of the equipment (which can be assumed to be around 30 years), the costs of deployment, maintenance, upgrading and decommissioning must also be taken into account. In other words, for every one zloty spent on purchasing the programme, two zlotys are spent on its subsequent maintenance. In view of the above, with the total expenditure of PLN 539.3bn on equipment purchases as estimated above, one should assume that a further PLN 1095bn will be spent over the next 30 years on maintaining this equipment. Due to the difficulty of establishing precisely the distribution of these funds over individual years (particularly in the short term), we do not include them

in our analysis of the impact on economic growth rate. Furthermore, these funds will mostly be spent abroad, which neutralises their impact on GDP growth rate. However, one should bear in mind that, when averaged, they will represent around 1% of GDP per year over a 30-year horizon, which will have the additional effect of increasing borrowing needs and debt of the public finance sector. The above analysis also ignores the component of personnel costs, the cost of construction and maintenance of fixed and field infrastructure or running costs. These costs account for more than 60% of the Ministry of Defence's budget each year.

The time profile of spending on technical modernisation of the Armed Forces outlined in the above analysis poses a slight upside risk to our forecast for total investment in 2023 (1.1% YoY vs. 4.0% in 2022) and economic growth (1.2% YoY vs. 4.5% in 2022). One should mention, however, that the planned significant scale of increase in expenditure on the purchase and maintenance of armaments over the next decade will generate a very large increase in the government's overall financial needs. In an environment of rising general government debt and increasing difficulties in finding funding for borrowing needs, it is very likely that a scenario will materialise in which the current or future government (elected in the 2023 parliamentary election) will be forced to re-examine the Armed Forces' technical modernisation spending plan and make adjustments involving significant cuts. Such a scenario is particularly likely in the event of a possible lack of a rebound in economic growth in 2024. Thus, the positive impact of increased defence spending on GDP growth would be less than estimated above.



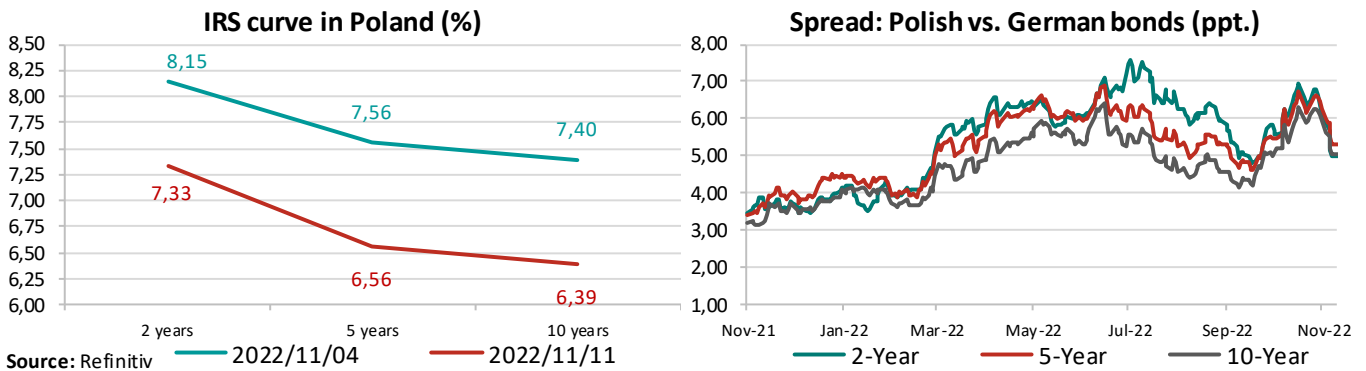
Domestic GDP data may strengthen the PLN



Last week the EURPLN exchange rate stood at 4.6788 (no change from the level two weeks ago). In the first part of the week, the EURPLN exchange rate was in a mild upward trend in anticipation of the MPC decision. The decision itself had no significant impact on the PLN. On Thursday, the PLN strengthened considerably in response to the publication of significantly lower-than-expected US inflation data. For the same reason, the EURUSD exchange rate increased strongly, as expectations of further large Fed interest rate increases by some investors were reduced.

This week, the publication of Poland's flash GDP estimate scheduled for Tuesday will be crucial for the PLN. In our opinion, it may contribute to the strengthening of the Polish currency. We believe that other publications from the Polish and global economies planned for this week will not have a significant impact on the PLN. Information suggesting a possible change in the monetary policy stance of the Federal Reserve and the ECB, as well as information relating to the course of hostilities in Ukraine will remain an important factor determining the PLN exchange rate.

Domestic GDP data in the spotlight



Last week, 2-year IRS rates decreased to 7.33 (down by 82bp), 5-year rates to 6.56 (down by 100bp) and 10-year ones to 6.39 (down by 101bp). Last week saw a significant drop in IRS rates across the curve following the core markets. The reduction in yields in the core markets was due to the publication of markedly lower-than-expected US inflation data, which reduced expectations among some investors for further strong interest rate hikes by the Federal Reserve.

This week, domestic GDP data will be crucial for IRS rates as, if our forecast materialises, it could boost IRS rates. Other data releases from the Polish and global economies planned for this week will not have a significant impact on the IRS, in our opinion. Information suggesting a possible change in the monetary policy stance of the Federal Reserve and the ECB, as well as information relating to the course of hostilities in Ukraine will remain an important factor affecting the yield curve.

Forecasts of the monthly macroeconomic indicators

Main macroeconomic indicators in Poland												
Indicator	2022				2023				2021	2022	2023	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
Gross Domestic Product (% YoY)	8,6	5,8	3,9	0,5	-1,0	0,1	2,6	3,2	6,8	4,5	1,2	
Private consumption (% YoY)	6,7	6,4	0,8	0,5	0,2	0,4	0,5	0,5	6,3	3,5	0,4	
Gross fixed capital formation (% YoY)	4,7	6,6	6,1	0,6	-1,4	0,2	1,9	2,4	2,1	4,0	1,1	
Export - constant prices (% YoY)	4,2	5,2	4,5	3,3	1,6	0,5	2,9	4,5	12,5	4,3	2,3	
Import - constant prices (% YoY)	9,4	6,9	2,2	0,9	0,7	-1,5	4,7	6,5	16,1	4,5	2,4	
GDP growth contributions	Private consumption (pp)	4,0	3,6	0,5	0,2	0,1	0,2	0,3	0,2	3,5	1,9	0,2
	Investments (pp)	0,6	1,0	1,0	0,1	-0,2	0,0	0,3	0,5	0,4	0,7	0,2
	Net exports (pp)	-2,7	-0,7	1,3	1,4	0,6	1,3	-0,9	-1,0	-1,0	0,0	0,0
Current account (% of GDP)***	-2,7	-3,5	-3,9	-4,5	-4,3	-4,2	-4,6	-4,7	-1,4	-4,5	-4,7	
Unemployment rate (%)**	5,8	5,2	5,1	5,3	5,7	5,3	5,2	5,4	5,8	5,3	5,4	
Non-agricultural employment (% YoY)	2,3	0,6	2,0	2,2	2,2	1,2	0,7	0,3	1,8	1,8	1,1	
Wages in national economy (% YoY)	9,7	11,8	10,8	10,6	11,1	9,4	9,2	8,5	8,9	10,7	9,6	
CPI inflation (% YoY)*	9,6	13,9	16,3	18,3	16,6	11,8	8,7	4,6	5,1	14,5	10,4	
Wibor 3M (%)**	4,77	7,05	7,21	7,38	7,38	7,38	7,26	6,26	2,54	7,38	6,26	
NBP reference rate (%)**	3,50	6,00	6,75	7,25	7,25	7,25	7,25	6,50	1,75	7,25	6,50	
EURPLN**	4,64	4,70	4,85	4,90	4,90	4,85	4,70	4,65	4,58	4,90	4,65	
USDPLN**	4,19	4,48	4,95	5,05	4,95	4,80	4,48	4,35	4,03	5,05	4,35	

*end of period

Forecasts of the quarterly macroeconomic indicators

Main monthly macroeconomic indicators in Poland														
Indicator	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22
NBP reference rate (%)	0,50	1,25	1,75	2,25	2,75	3,50	4,50	5,25	6,00	6,50	6,50	6,75	6,75	6,75
EURPLN*	4,60	4,65	4,58	4,58	4,69	4,64	4,67	4,58	4,70	4,73	4,72	4,85	4,71	4,75
USDPLN*	3,98	4,10	4,03	4,08	4,18	4,19	4,43	4,27	4,48	4,63	4,70	4,95	4,77	4,85
CHFPLN*	4,35	4,47	4,42	4,40	4,56	4,54	4,55	4,45	4,69	4,86	4,80	5,01	4,76	4,82
CPI inflation (% YoY)	6,8	7,8	8,6	9,4	8,5	11,0	12,4	13,9	15,5	15,6	16,1	17,2	17,9	
Core inflation (% YoY)	4,5	4,7	5,3	6,1	6,7	6,9	7,7	8,5	9,1	9,3	9,9	10,7	11,1	
Industrial production (% YoY)	7,6	14,9	16,3	18,0	17,3	15,4	12,3	14,9	10,4	7,1	10,9	9,8	7,8	
PPI inflation (% YoY)	12,0	13,6	14,4	16,1	16,1	21,9	24,1	24,7	25,6	25,5	25,5	24,6	22,8	
Retail sales (% YoY)	14,4	21,2	16,9	20,0	16,5	22,0	33,4	23,6	19,9	18,4	21,5	21,9	19,0	
Corporate sector wages (% YoY)	8,4	9,8	11,2	9,5	11,7	12,4	14,1	13,5	13,0	15,8	12,7	14,5	14,2	
Employment (% YoY)	0,5	0,7	0,5	2,3	2,2	2,4	2,8	2,4	2,2	2,3	2,4	2,3	2,3	
Unemployment rate* (%)	5,9	5,8	5,8	5,9	5,9	5,8	5,6	5,4	5,2	5,2	5,2	5,1	5,0	
Current account (M EUR)	941	-1482	-3883	-1091	-2032	-4206	-2844	-1340	-541	-1887	-3967	-3362		
Exports (% YoY EUR)	6,2	13,7	25,0	27,4	20,3	11,9	18,2	26,9	21,3	19,0	24,8	22,5		
Imports (% YoY EUR)	22,0	31,2	39,6	38,7	29,7	31,4	36,4	32,5	26,6	20,6	28,2	26,7		

* quarterly average

** end of period

***cumulative for the last 4 quarters

Calendar

TIME	COUNTRY	INDICATOR	PERIOD	PREV. VALUE	FORECAST*	
					CA	CONSENSUS**
Monday 11/14/2022						
11:00	Eurozone	Industrial production (% MoM)	Sep	1,5		0,3
14:00	Poland	Current account (M EUR)	Sep	-3967	-3362	-3051
Tuesday 11/15/2022						
3:00	China	Industrial production (% YoY)	Oct	6,3	5,0	5,2
3:00	China	Retail sales (% YoY)	Oct	2,5	0,2	1,0
3:00	China	Urban investments (% YoY)	Oct	5,9	6,5	5,9
10:00	Poland	Flash GDP (% YoY)	Q3	5,5	3,9	3,4
10:00	Poland	CPI (% YoY)	Oct	17,9	17,9	17,9
11:00	Eurozone	Preliminary GDP (% QoQ)	Q3	0,2	0,2	0,2
11:00	Eurozone	GDP flash estimate (% YoY)	Q3	2,1	2,1	2,1
11:00	Germany	ZEW Economic Sentiment (pts)	Nov	-59,2		-50,0
14:30	USA	NY Fed Manufacturing Index (pts)	Nov	-9,1		-5,0
Wednesday 11/16/2022						
14:30	USA	Retail sales (% MoM)	Oct	0,0	1,0	0,9
15:15	USA	Industrial production (% MoM)	Oct	0,4	0,1	0,2
15:15	USA	Capacity utilization (%)	Oct	80,3		80,4
16:00	USA	Business inventories (% MoM)	Sep	0,8		0,5
Thursday 11/17/2022						
11:00	Eurozone	HICP (% YoY)	Oct	10,7	10,7	10,7
14:30	USA	Housing starts (k MoM)	Oct	1439	1425	1410
14:30	USA	Building permits (k)	Oct	1564	1500	1515
14:30	USA	Philadelphia Fed Index (pts)	Nov	-8,7		-8,0
Friday 11/18/2022						
16:00	USA	Existing home sales (M MoM)	Oct	4,71	4,40	4,39

*The forecasts of macroeconomic indicators for Poland were prepared by Credit Agricole Bank Polska S.A. The forecasts of foreign indicators were prepared by Crédit Agricole Corporate and Investment Bank

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