

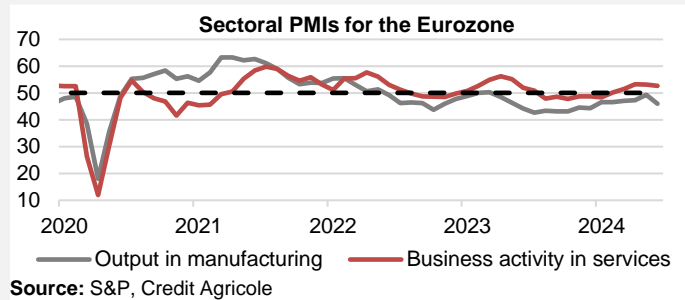



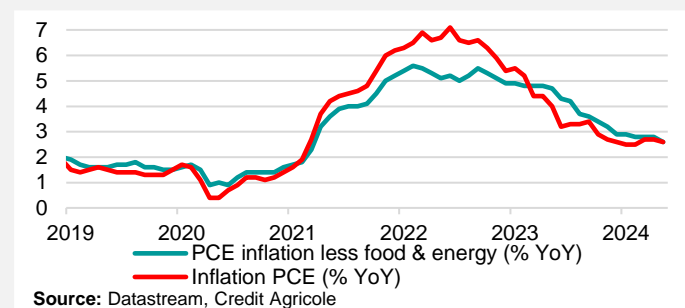
This week

 **Today will see the release of Poland's retail sales data.** We expect retail sales growth in constant prices to have picked up to 5.7% YoY in June from 5.4% in May, which will confirm a gradual recovery in consumer demand in Poland. Our forecast is close to the market consensus of 5.8%, and thus its materialization will be neutral for the PLN and yields on Polish bonds.

 **Preliminary business survey results (PMI) for the key Eurozone economies will be released in Wednesday.** The market expects a slight drop in the Eurozone's composite PMI, to 50.8 pts in July from 50.9 pts in June. Despite the forecasted decline, July is expected to be the fifth month in a row with the PMI above the 50-point mark that separates growth from contraction. Business survey results are expected to confirm that the diverging trends in services (gradual recovery) and manufacturing (lasting decline) continue. In the case of Germany's manufacturing PMI, the market expects a slight rise to 44.5 pts in July from 43.5 pts in June. The Ifo index, reflecting the sentiment of German businesses in the manufacturing, construction, trade, and services sectors, will also be released this week, on Thursday. The consensus expects the index to have risen to 89.0 pts in July from 88.6 pts in June. We believe that the release of the Eurozone's, including Germany's, business survey results will be neutral for financial markets.

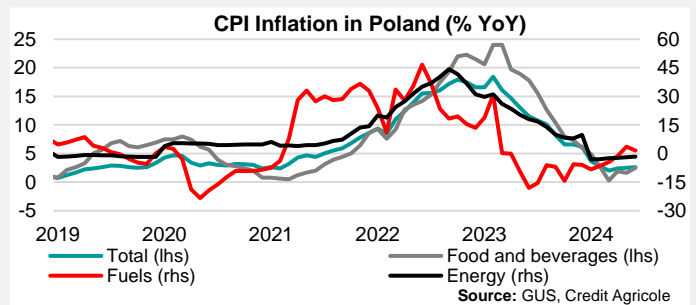


 **Important data from the US will be released this week.** We expect headline PCE inflation to have dropped to 2.4% YoY in June from 2.6% in May, and core inflation to 2.5% YoY from 2.6%. The first estimate of US Q2 GDP will be released on Thursday. We expect annualized US GDP growth to have picked up to 1.8% in Q2 from 1.4% in Q1. We believe that the acceleration in GDP growth between Q1 and Q2 is accounted for by higher contributions from investment and inventories, partially offset by lower contributions from private consumption, government spending, and net exports. Thursday will also see the release of preliminary data on durable goods orders in the US. We expect durable goods orders to have dropped by 1.5% MoM in June compared with a rise of 0.1% in May, with the drop driven mainly by lower aircraft orders. We believe that data on new home sales (635k in June vs. 619k in May) and existing home sales (3.95M vs. 4.11M) will confirm our scenario, which expects a slowdown in the US housing market, driven, among other things, by high interest rates on mortgage loans. Business survey results will also be released this week. We expect the final University of Michigan index (66.0 pts in July vs. 68.2 pts in June and the flash reading of 66.0) to confirm a drop in household sentiment driven by continuing elevated inflation. Our PCE inflation forecasts are below market expectations, thus their materialization may result in a slight appreciation of the PLN and lower yields on Polish bonds.



Last week

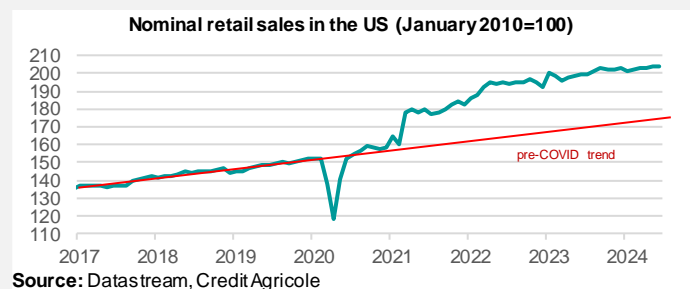
- The European Central Bank met last week.** The ECB decided to keep interest rates unchanged, in line with our expectations and market consensus. Thus, the ECB's main interest rate is 4.25% and the deposit rate is 3.75%. The ECB's press release continues to include a declaration that policy rates will be set at sufficiently restrictive levels for as long as necessary to curb inflationary pressures, and further decisions regarding interest rates will be based on assessments of the inflation outlook in light of the incoming economic and financial data, the dynamics of core inflation, and the strength of monetary policy transmission. At the press conference after the meeting, the ECB President Ch. Lagarde implied that a rate cut in September remains an open issue, and the decision will depend on September macroeconomic projections. Last week's decision of the ECB and Ch. Lagarde's comments are in line with our scenario, which expects the ECB to go ahead with two more rate cuts this year of 25bp each (in September and December).
- CPI inflation in Poland rose to 2.6% YoY in June from 2.5% in May, running in line with the flash estimate by GUS.** The rise in inflation was driven by higher price growth in the 'food and non-alcoholic beverages' and 'energy' categories, partially offset by lower price rises in 'fuels' and by lower core inflation, which fell to 3.6% YoY in June from 3.8% in May. Month-on-month, core prices rose by 0.2%, which is still slightly above the seasonal pattern. In our opinion, this shows that inflationary pressures in Poland's economy continue. We maintain our forecast, which expects inflation to rise markedly in the coming months, with the rise to be driven mainly by higher growth in energy and food prices. We expect rises in electricity and gas prices of ca. 20% MoM to drive inflation up to 4.4 YoY in July.
- The Polish current account balance decreased in May to EUR -63m compared to EUR -13M in April (upward revision from EUR -241M), coming below market expectations (EUR 187M) and above our forecast (EUR -769M).** The decrease in the current account balance was mainly due to a decrease in balances on goods and secondary income (EUR 737M and EUR 177M lower than in April, respectively), while the opposite effect was due to higher services and primary income balances (EUR 150M and EUR 714M higher than in April, respectively). At the same time, a decrease in the growth rate of exports (-7.6% YoY vs. 6.5% in April) and imports (-2.4% vs. 7.0%) was recorded in May, which was supported by an unfavourable difference in the number of working days. According to the NBP statement, the decline in exports was widespread and was recorded in all the main commodity categories, with a particularly noteworthy deepening decrease in sales in the automotive sector (including electric batteries, car parts, passenger cars and trucks). In turn, the scale of the decline in imports was mitigated by stabilising energy commodity prices. Last week's data signal an upward risk to our forecast that the cumulative current account balance for the last four quarters in relation to GDP declined to 1.0% in Q2, compared to 1.2% in Q1.
- Industrial production in Poland increased by 0.3% YoY in June, compared to a decline of 1.6% in May, clearly above market expectations (-1.3%) and our forecast (-2.5%).** Seasonally adjusted industrial production increased by 1.3% MoM in June. The increase in annual industrial production growth was broad-based and was recorded in the three main industrial segments, i.e. export industries, construction-related industries and other categories (see MACROPulse of 18/07/2024). The data reveals a continued clear marked decline in production in export



industries, where the outlook remains unfavourable (see MACROmap of 01/07/2024 and 08/07/2024). What is also noteworthy is the increase in activity in construction-related industries, reflecting the gradual recovery of activity in this sector. In Q2 as a whole, industrial production increased by 2.2% YoY on average, compared with an increase of 0.2% in Q1, which supports our forecast that economic growth will trend upwards in the coming quarters.

➤ **Employment growth in the business sector in Poland increased to -0.4% in June, compared to -0.5% in May, in line with the consensus and above our forecast (-0.5%).** Compared to May, employment decreased by 3.2k people in February. The decrease in employment was attributable mainly to the “manufacturing” category, where the restructuring processes observed in recent months continue (see MACROPulse of 18/07/2024). The growth of wages in the corporate sector decreased in June to 11.0% YoY against 11.4% in May, below the market consensus (11.5%) and our forecast (11.2%). The several per cent increase in nominal wages was wide-ranging and was recorded in most of the categories reported by GUS. In real terms, after adjusting for price changes, wages in companies increased by 8.2% YoY in June, compared with an increase of 8.7% in May. As a consequence, real wage fund growth declined slightly in June (to 7.8% YoY against 8.2% in May). For Q2 as a whole, real wage fund growth slowed down to 8.1% YoY vs. 9.2% in Q1. This, however, does not change our scenario of an acceleration in annual consumption growth in Q2 (5.1% YoY vs. 4.6% in Q1).

➤ **Last week brought important data from the US economy.** Monthly US industrial production growth decelerated to 0.6% in June, compared to 0.9% in May, above market expectations (0.3%). Its decline was due to lower production growth in industrial manufacturing, while the opposite impact was due to



higher production growth in mining and utilities provision. Utilisation of manufacturing capacity increased to 78.8% in June, compared to 78.3% in May, remaining moderately high by historical levels. Last week, data on retail sales was also released, with the monthly nominal growth rate falling to 0.0% MoM in June against 0.3% in May (upward revision from 0.1%), coming in below market expectations (0.2%). Excluding cars, retail sales increased by 0.4% in June, compared to an increase of 0.1% in May (upward revision from -0.1%). The data is therefore consistent with our scenario of a gradual slowdown in US consumption. An increase in activity in the US property market was indicated by data on building permits (1446k in June vs. 1399k in May - above the market consensus of 1395k) and the number of housing starts (1353k vs. 1314k, with expectations of 1300k). Meanwhile, mixed signals from US manufacturing were provided by the regional indices: Philadelphia Fed (13.9 pts in July vs. 1.3 pts in June) and NY Empire State (-6.6 pts vs. -6.0 pts). Last week's data is therefore consistent with our scenario of a slight increase in activity in the US economy in Q2.

 **Will armament spending accelerate economic growth in Poland?***

In November 2022, we analysed the planned state expenditure earmarked for the technical modernization of the Polish Armed Forces in 2022-2035, and assessed the impact of the expenditure on GDP growth (see MACROmap of 14/11/2022). In the light of new information that has been released since then, we have decided to refresh our analysis of the topic.

The main difficulty of analysing military expenditure lies in a limited access to data. Therefore, the analysis we have carried out below is our assessment of what we estimate will be spent on arms. To assess the expenditure, we have once again used information contained in both official documents such as budget acts, budget decisions of the Minister of National Defence, reports from the Supreme Audit Office's audits of the implementation of the state budget or press releases published by the Ministry of National Defence and the Armaments Agency and articles published by leading industry journals and portals such as *Nowa Technika Wojskowa* or *Dziennik Zbrojny*.

Many new programs have been announced since our last analysis, and they will significantly increase the expenditure on arms in the years to come. This is reflected in the table featuring the planned military purchases, which currently contains more than twice as many items as the one we prepared in November 2022. We have taken into consideration the planned programs once again, including those that are going through preliminary market consultations right now. We have concluded that those programs are likely to result in the execution of contracts (this applies, for example, to Daglezja-G bridgelayers tanks, the hydrographic vessel or the new Heavy Infantry Fighting Vehicles). At the same time, we have once again omitted many smaller contracts worth less than PLN 100m, which do not have to be notified to general public or are concluded by various organisational units reporting to the Ministry of National Defence.

Since in most cases only the total value of a given project is known, but not the amounts of advance payments or payment deadlines, we have assumed that the expenses in programs for which no detailed information has been provided will be distributed proportionately over the years, taking into account the declared term of the contract. Thus, the amounts we have presented in this analysis may not accurately reflect the actual expenditure, but they represent an attempt, carried out to the best of our knowledge, to estimate the scale of expenditure related to the declared technical modernization of the Polish Armed Forces in the medium term. Once again, our analysis also ignores the component of personnel costs, the cost of construction and maintenance of fixed and field infrastructure or running costs, which account for more than 60% of the Ministry of Defence's budget each year.

The table below is an update of the table we presented in 2022, and takes into account the data that has been released since then. The time profile of expenditure on technical modernization of the Polish Armed Forces has been outlined in it once again. The expenditure is broken down by programs and, for bigger programs such as HOMAR or Wisła II, also by individual contracts, which makes it possible to assess the share of the domestic sector in the expenditure more precisely. For contracts in USD, GBP and EUR, we have converted their values into PLN using our exchange rate forecasts for those currencies, assuming the continuing, gradual appreciation of the PLN against the EUR and USD.

Will armament spending accelerate economic growth in Poland?

Armament purchases planned until the end of 2035																		
Item	Name of program	Description	Expenditure timetable (PLN bn)														Total	
			up to 2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034		2035
1	Wisła I	Medium-range air defence (MRAD) systems	14,3	2,2	2,1												18,6	
2	Command centres	IBCS command centres for Wisła I				0,3	0,3										0,5	
3	Wisła II - Patriot	PAC-3 MSE missiles						2,9	2,8	2,8	2,8	2,8	2,8	2,8			19,6	
4	Wisła II - M903	M903 launching stations for PAC-3 MSE						0,8	0,8	0,8	0,8	0,8	0,8	0,8			5,3	
5	Wisła II - GhostEye	GhostEye radars						2,4	2,4	2,4	2,3	2,3	2,3	2,3			16,5	
6	Mala Narew	Two short-range air defence (SHORAD) fire units		0,8	0,8												1,7	
7	Narew - CAMM-ER	CAMM-ER missiles							2,8	2,8	2,8	2,8	2,8	2,8	2,8	2,8	24,8	
8	Narew - i-Launcher	i-Launchers							3,2	3,2	3,2	3,2	3,2	3,2	3,2	3,2	29,2	
9	Narew - radars	Sajna radars							0,4	0,4	0,4	0,4	0,4	0,4	0,4	0,4	3,5	
10	Piłca	Very short range air defence system (VSHORAD)	0,4	0,2	0,2												0,8	
11	Piłca + Bystra radars	Redeployable radars						0,4	0,4	0,4							1,1	
12	Piłca + i-Launcher	i-Launchers + CAMM missiles						2,4	2,4	2,4	2,4	2,4					11,9	
13	Piłca + PSR-A	PSR-A batteries						0,6	0,6	0,6	0,6	0,6					3,0	
14	Piłca + Zenit-MP+	Automated command posts						0,1	0,1	0,1	0,1	0,1					0,7	
15	Piłca + Jelcz 8x8	Jelcz chassis for Zenit-MP+					0,1	0,1	0,1	0,1	0,1	0,1					0,6	
16	Piłca + Logistics	Contract for logistics and training packages and a laboratory					0,2	0,2	0,2	0,2	0,2	0,2					1,4	
17	Piorun	Man-portable air defence systems (MANPADS; very-short-range air defence (VSHORAD))	0,8	0,9	0,9	0,9											3,5	
18	Bystra Radar	Redeployable radars	0,3	0,1	0,1	0,1	0,1										0,6	
19	IBCS	Air Defence Integrated Battle Command System					1,6	1,5	1,4	1,4	1,4	1,4	1,4				11,5	
20	RWW P-18PL	RWW P-18PL early detection radar										0,4	0,4	0,4	0,4	0,4	0,4	3,1
21	PET-PCL	Passive location system (PET/PCL)										0,4	0,4	0,4	0,4	0,4	0,4	3,0
22	K239 Chumnoo	Multiple launch rocket system with ammunition				3,7	3,5	3,4	3,2	3,2							17,0	
23	K239 Chumnoo	Multiple launch rocket system with ammunition							1,8	1,8	1,8	1,8					7,2	
24	Himars	Multiple launch rocket system	1,2	0,5													1,7	
25	Himars	Multiple launch rocket system					6,2	6,0	5,7	5,6	5,6	5,6	5,5	5,5			45,6	
26	Chassis	Jelcz chassis for Homar vehicles				0,2	0,2										0,3	
27	Chassis	Jelcz chassis for Homar vehicles					0,4	0,4	0,4	0,4							1,5	
28	Chassis	Jelcz chassis for Homar vehicles										0,2	0,2	0,2	0,2		0,6	
29	NSM	Naval strike missile systems(surface-to-water)							1,1	1,1	1,1	1,1	1,1	1,1	1,1		8,0	
30	NSM	Jelcz chassis for naval strike missile systems					0,1	0,1	0,1	0,1	0,1	0,1					0,5	
31	Harpia	F-35A Lightning II multi-role aircraft	7,0	2,1	1,9	1,9	1,8	1,7	1,7	1,7	1,7	1,7					23,0	
32	FA-50 PL	FA-50 PL combat aircraft		1,8	2,3	2,2	2,1	2,0	2,0	2,0							14,5	
33	Sniper	Targeting pods for FA-50 PL aircrafts					0,1	0,1	0,1	0,1							0,5	
34	JASSM-ER	Air-to-surface cruise missiles						0,7	0,7	0,7	0,7	0,7					3,3	
35	AIM-120C-8 AMRAAM	Medium-range air-to-air missiles						0,8	0,8	0,8	0,8	0,7					3,8	
36	AIM-9X Sidewinder Block II	Short-range air-to-air missiles						0,1	0,1	0,1	0,1	0,1					0,5	
37	M-346 Master	Advanced training aircraft	2,5	0,5													3,0	
38	Saab 340 AEW	Early warning aircrafts					1,2										1,2	
39	AW-101	Maritime helicopters		0,5	1,2												1,7	
40	AW-149	AW-149 multi-role helicopters		0,8	2,4	1,0	0,9	0,8	0,8	0,8	0,8						8,3	
41	S-70i Black Hawk	Combat utility helicopters	0,1	0,2	0,2	0,2											0,7	
42	Hellfire	Guided missiles for helicopters			0,1	0,1	0,1	0,1	0,1	0,1	0,1	0,1					0,7	
43	Training helicopters	Training helicopters										0,9	0,9	0,9	0,9	0,9	0,9	7,3
44	Kruk	AH-64E Guardian (Apache) helicopters					3,7	3,7	3,6	6,1	6,0	6,0	6,0	5,9	5,9	5,9	52,9	
45	MMDOP	Mobile command post modules for airborne operations			0,0	0,0	0,0										0,1	
46	BSP Zefir	Lease of MQ-9A Reaper remotely piloted aircraft (RPA) for ISR (intelligence, surveillance, and reconnaissance) purposes		0,0	0,2	0,2											0,4	
47	BSP Mini	FlyEye unmanned aerial systems		0,0	0,0												0,1	
48	BSP-U Gladius	Unmanned search and strike systems		0,7	0,7	0,6											2,0	
49	Warmate	Loitering munitions		0,0	0,0												0,1	
50	BSP Oriik	Unmanned aerial systems	0,4	0,1	0,1	0,2											0,8	
51	BSP Wizjer	Unmanned aerial systems				0,1	0,1	0,1	0,0								0,2	
52	BSP FlyEye	Unmanned aerial systems				0,1											0,1	
53	BSP FlyEye	Unmanned aerial systems					0,3	0,3	0,3	0,3	0,3	0,3	0,3	0,3	0,3	0,3	3,2	
54	BSP Bayraktar TB2	Unmanned aerial systems		0,6	0,5	0,5											1,6	
55	M1A2 SEPv3 Abrams	Tank		6,7	4,4	4,2	4,1	4,5									23,9	
56	M1A1 FEP Abrams	Tank				3,6	3,5										7,1	
57	K2	Tank		4,6	4,4	4,2	4,0										17,1	
58	K2 PL	Tank							2,2	4,0	5,8	7,6	7,5	7,5	9,2	10,9	12,6	67,2
59	Leopard 2PL Modernization	2PL Leopard Modernization	1,0	0,2	0,2	0,8	0,8	0,3									3,3	
60	T-72 Modernization	T72 Modernization	1,0	0,2	0,2	0,2	0,2										1,8	
61	M1150 ABV	Assault Breach Vehicles						0,5	0,5	0,5	0,5	0,5	0,4				2,7	
62	Kroton-bis	Command vehicles					0,1	0,1									0,3	
63	Jak	Tank transportation systems				0,1	0,1	0,1	0,1								0,5	
64	BMS	SitaWare Frontline Battle Management System					0,1	0,1	0,1	0,1							0,4	
65	Radios	Tank radios			0,0	0,0											0,1	
66	Regina	Battalion-level fire module with Krab self-propelled howitzers	2,6			0,7	0,7	0,7									4,7	
67	Regina	Battalion-level fire module with Krab self-propelled howitzers				1,0	1,2	1,6									3,8	
68	Regina	Battalion-level fire module with Krab self-propelled howitzers							1,0	2,0	2,0	2,0	2,0	2,0	2,0	3,0	14,0	
69	KMO Rak	Company-level fire module		0,2	0,2	0,2											0,7	
70	KMO Rak (AWA, AWRU)	Artillery ammunition vehicle, Artillery armament repair vehicle		0,2													0,2	
71	KMO Rak (AWR)	Artillery reconnaissance vehicle				0,6	0,4	0,6									1,6	
72	K9	K9 self-propelled howitzer	1,8	2,1	2,0	1,9	1,9	2,0									11,7	
73	K9 PL	K9 self-propelled howitzer					1,2	1,9	2,6	2,5	3,6						11,7	
74	Artillery support vehicles	Support vehicles for self-propelled artillery battalions					0,3	0,3	0,3	0,3	0,3	0,3	0,3	0,3			2,0	
75	Baobab-k	Mine scattering vehicles		0,1	0,1	0,1	0,1	0,1	0,1								0,5	
76	Mine Cassettes	Mine cassette		0,1	0,1	0,1	0,1										0,6	
77	ADPR	Artillery rangefinder and reconnaissance devices		0,0	0,0	0,0	0,0	0,0	0,0								0,2	
78	Artillery ammunition	155 mm ammunition				1,8	1,8	1,8	1,8	1,8	1,8						11,0	

Will armament spending accelerate economic growth in Poland?

Armament purchases planned until the end of 2035																		
Item	Name of program	Description	Expenditure timetable (PLN bn)														Total	
			up to 2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034		2035
79	NBWP Borsuk	Infantry fighting vehicle				2,0	4,0	4,0	5,0	5,0	5,0	5,0	6,0	6,0	6,0	6,0	60,0	
80	ZSSW-30	Remote-controlled turret system				0,5	0,4	0,4	0,4								1,7	
81	Rosomak	Rosomak wheeled armoured vehicles		0,2		0,1	0,1										0,4	
82	Rosomak	Rosomak wheeled armoured vehicles						1,3	1,3								2,6	
83	Rosomak-L ZSSW-30	Rosomak wheeled armoured vehicles							2,9	2,9	2,9						8,6	
84	KTO Rosomak-WEM	Medical evacuation vehicle				0,2	0,2	0,2									0,5	
85	Kleszcz	Bóbr light armoured reconnaissance personnel carrier					0,5	0,5	0,5	0,5	0,5	0,5	0,5	0,5	0,5	0,5	6,0	
86	Heavy infantry fighting vehicles	Heavy infantry fighting vehicles (new design)											2,0	2,0	2,0	2,0	4,0	14,0
87	New wheeled armoured personnel carrier	Wheeled armoured personnel carrier (new design)											1,0	1,0	1,0	1,0	3,0	10,0
88	Legwan	Light reconnaissance vehicles				0,2	0,2	0,2	0,2	0,2	0,2	0,2					1,4	
89	MRAP Cougar	Mine resistant ambush protected vehicles		0,1													0,1	
90	Ottokar-Brzoza	Wheeled tank destroyer					1,0	1,0	1,0	1,0							4,0	
91	Orkan	Upgrade of missile ships		0,2	0,1	0,1	0,1	0,1									0,6	
92	Kormoran II	Minehunter ships	1,5	0,6	0,5	0,5	0,5	0,5	0,5								4,6	
93	Delfin	Radio-electronic reconnaissance ship			0,6	0,5	0,5	0,5	0,5								2,7	
94	207P and 207 M Minesweepers	Overhauls of minesweepers		0,1	0,1	0,1	0,1										0,2	
95	Miecznik	Frigates		1,4	1,4	1,4	1,4	1,4	1,4	1,4	1,0	1,0	1,0	1,0	1,0		14,8	
96	Radios	Rohde & Schwarz radios				0,0	0,0	0,0									0,0	
97	Hydrograf	Hydrographic vessel					0,1	0,2	0,2								0,5	
98	Orka	Submarines					1,5	1,5	1,5	1,5	2,0	2,0	2,0	2,0			14,0	
99	MSBS Grot	Modular firearm system		0,2	0,5	0,5	0,5	0,5									2,2	
100	VIS 100	Semi-automatic pistols			0,0	0,0	0,0	0,0									0,2	
101	UKM-2000P	Machine guns			0,0	0,0											0,1	
102	Ammunition	5.56mm, 7.62mm, 9mm ammunition			0,3	0,3	0,3	0,3									1,0	
103	Optoelectronics	Binoculars and sights		0,1	0,1	0,1	0,1										0,3	
104	Optoelectronics	Rangefinders, sights, telescopes		0,1	0,1	0,1	0,1										0,3	
105	Night-vision Devices	Night-vision devices				0,4	0,4	0,4	0,4								1,6	
106	M-72 grenade launchers	M-72 grenade launchers		0,1	0,1												0,2	
107	Helmets	2005 and HP-05 kevlar helmets			0,1	0,1	0,1										0,3	
108	Gryf	Gryf bullet-proof vests			0,1	0,1											0,2	
109	KKZ-01	KKZ-01 bullet-proof vests				0,2	0,2										0,5	
110	KWM-02	KWM-02 bullet-proof vests			0,1	0,1	0,1										0,2	
111	Javelins	Targeting modules and anti-tank missiles		0,1	0,1	0,1	0,1										0,5	
112	Spike-LR	Anti-tank guided missiles		0,1	0,1	0,1	0,1										0,4	
113	Carl-Gustaf	Carl-Gustaf M4 grenade launchers with ammunition			1,6	1,6	1,6	1,6									6,5	
114	Observer	Airbus satellites		0,5	0,5	0,5	0,5	0,5									2,5	
115	Barbara	Aerostat-based radars					1,5	1,4	1,4								4,3	
116	ALC-T	ICT data transmission apparatus			0,2	0,2	0,2	0,2									0,9	
117	C4ISR	Command, control, communications, computers, intelligence, surveillance and reconnaissance (C4ISR) solutions		0,5	1,3	1,3											3,0	
118	MMSD	Mobile command post modules		0,2	0,1	0,1	0,1	0,1	0,1								0,7	
119	Zawilec	Command vehicle					0,1										0,1	
120	Manpack radios	Infantry communication systems				0,4	0,4	0,4									1,2	
121	Flexnet UGS	Sensor system				0,1	0,1	0,1									0,2	
122	GPS	Military GPS receivers with encryption modules					0,1	0,1									0,2	
123	Jelcz	Jelcz 442.32 and Jelcz 662D.43 vehicles			0,7	0,7	0,7	0,7	0,7								3,5	
124	Jelcz	Self-loading systems for container transportation using Jelcz 862 vehicles				0,2	0,2	0,2	0,2								0,8	
125	PFM motorized floating bridges	PFM motorized floating bridges		0,3	0,3	0,3	0,3	0,6	0,3	0,3							2,7	
126	Simulators and training devices	Simulators and training devices		0,1	0,1	0,1	0,1										0,3	
127	CYBER.MIL 2.0	Cyber security program		0,3	0,3	0,3	0,3										1,0	
128	Berbers	Camouflage nets		0,1	0,1	0,1	0,1										0,2	
129	Kosodrzewina	Engineering equipment		0,0	0,0	0,0											0,1	
130	Daglezja-S	Bridgelayer trucks				0,2	0,2	0,2	0,2								0,8	
131	Daglezja-G	Bridgelayer tanks					0,4	0,4	0,4	0,4	0,4	0,4	0,4	0,4	0,4		3,0	
132	Ford Ranger	Pick-Up Trucks			0,0	0,0	0,0										0,1	
133	Volvo FM	Trucks			0,1												0,1	
134	Bushmaster II	Tracer ammunition by MESKO				0,0	0,0	0,0									0,1	
Total			33,0	28,9	40,8	53,0	53,3	68,0	73,0	63,3	64,0	54,1	51,5	43,9	38,4	40,8	40,4	746,4
of which expenditure spent in Poland			8,7	5,7	10,1	16,9	19,3	21,1	27,2	23,1	23,8	20,2	21,0	20,8	21,2	24,7	24,2	287,9
of which expenditure spent in Poland as a % of total expenditure			26%	20%	25%	32%	36%	31%	37%	36%	37%	37%	41%	47%	55%	61%	60%	39%

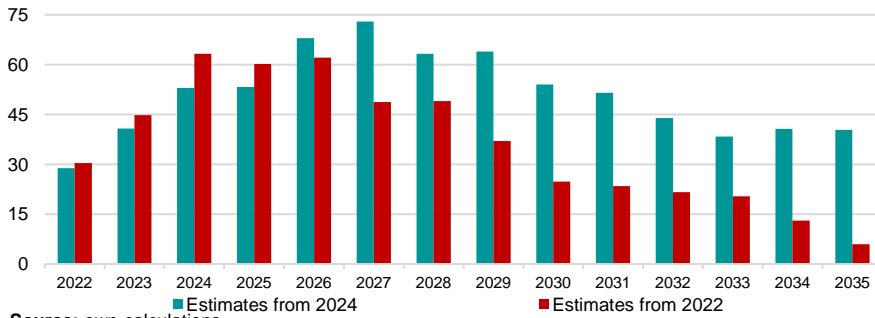
Source: own study based on the Polish Armed Forces Technical Modernization Plan for the years 2013-2022, 2017-2026 and 2021-2035, status on 10 July 2024

* Items with a value of less than 50m are presented as 0.0

**The items whose value is only estimated are highlighted in light red all over the timeline of expenditure

*** The program name and description are highlighted in light red where an item is uncertain to be purchased

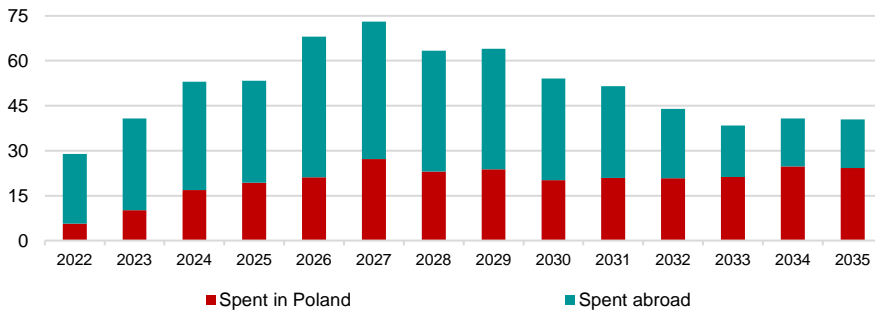
Planned armament expenditure (PLN bn)



Source: own calculations

and contracts that have been announced or concluded since our last analysis on the one hand, and from the growing costs in the existing programs on the other hand. The biggest differences can be seen in the period between 2027 and 2035, with many new programs planned for those years. Additionally, some large programs have been delayed, and consequently, the related expenses were postponed until later, too. The forecasted share of the domestic industry in the performance of orders has also increased (39% vs. 26% in our previous analysis), which means that the positive impact of military spending on Poland’s GDP has become stronger. An increase in the Polish industry’s share in the expenditure is connected with the expected launching of such programs as new *Borsuk* Infantry Fighting Vehicles and Wheeled Armoured Personnel Carriers equipped with ZSSW-30 remote-controlled turret systems. However, whether or not the said trend will continue depends on whether the research and development expenditure will be increased, with the domestic industry’s ability to deliver solutions in a long run being contingent on it. The estimated value of orders to be processed in Poland in 2024-2035 is PLN 263.4bn (ca. 7% of 2024 GDP).

Planned armament spending (PLN bn)

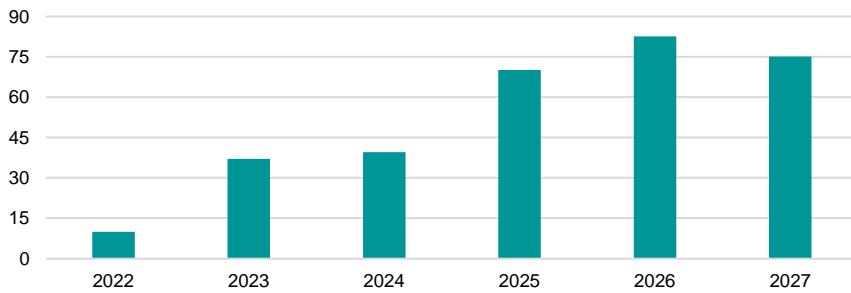


Source: own calculations

Poland in 2024-2029 should print at approx. 0.5%-0.6% of the GDP in each year. We do not think any cuts will be made to it given geopolitical tensions and political consensus regarding the expenditure. We expect the military spending to follow an upward trend until 2027, and then from 2028 onwards it might start decreasing when the repayment of the debt of the Armed Forces Support Fund (AFSF) begins. Armament spending will be further hampered by growing costs of maintenance of the military equipment that has already been purchased (see below) and growing personnel costs arising from the assumed uplift in the size of the armed forces. The technology used in the acquired equipment is more and more advanced, and therefore the costs of equipment maintenance will be much higher than those required to maintain the equipment possessed by the Polish armed forces so far.

According to our estimates, the total amount of realised and planned expenditure between 2022 and 2035 will be PLN 713.4bn (approx. 20% of the GDP in 2024), which represents a PLN 208.1bn growth comparing to the previous estimate for this time horizon (PLN 505.4bn, representing approx. 14% of the GDP for 2024). The increase results from a lot of new programs

We estimate that military spending in the coming years will markedly exceed the minimum requirement for asset-related expenditures arising from the National Defence Act (0.6% of the GDP, representing 20% of the 3%-of-GDP requirement for National Defence spending), reaching 1.6% of the GDP at its peak (2026-2027). At the same time, we forecast that military spending in

Increase of Armed Forces Support Fund debt (PLN bn YoY)


Source: The Public Finance Sector Debt Management Strategy (2024-2027)

The growing expenditure on technical modernization of the Polish armed forces will be largely financed with a debt. The strategy of the public finance sector debt management indicates that the growth in the debt of the Armed Forces Support Fund (AFSF) will markedly accelerate over the next 4 years. In accordance with the plans, in 2024-2027, the fund's debt is to increase by PLN 267.6bn, while the estimated expenditure for that period is

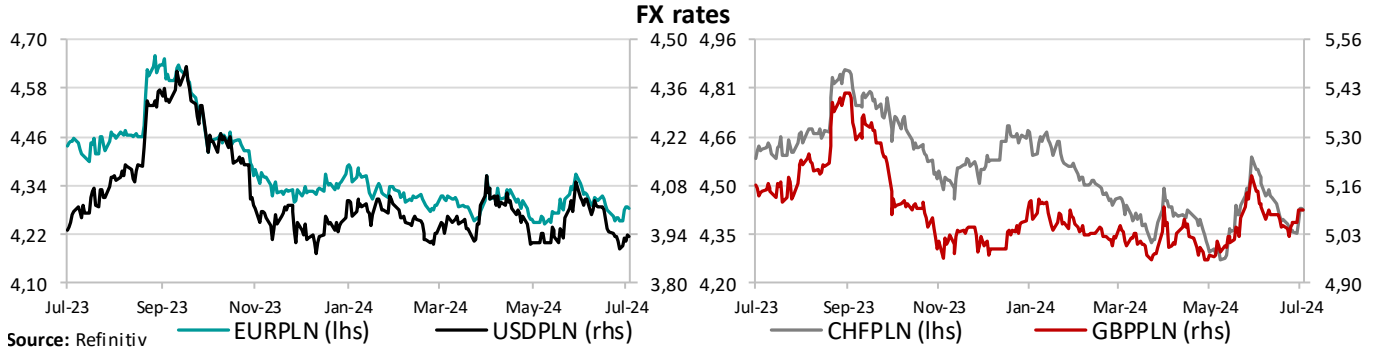
PLN 247.4bn. This means that the modernization of the Polish armed forces is actually planned to be financed using almost exclusively the debt issued as part of the AFSF (in 2027, the total level of the AFSF debt is to reach PLN 314.6bn). The fact that the amount of the planned AFSF debt is higher than the forecasted expenditure by over PLN 20bn may result from the fact that small contracts have not been taken into account and from the aggregation of interest that will be repaid in later years. If implemented, the plan will have a significant impact on the increase of the borrowing needs of the public finance sector and the related increase in debt supply, which will be positive for the yield of bonds issued by public sector units. However, it is worth noting that the amounts quoted above are VAT inclusive, which will partially mitigate the impact of the expenditure on the amount of the state budget.

In our analysis, we have once again included only the costs of individual program purchases themselves. It can be assumed that the purchase cost is only about 33% of the Life Cycle Cost (LCC) of a piece of equipment in the Armed Forces. Apart from the purchase itself, the LCC also comprises the costs of deployment, maintenance, upgrading and decommissioning. Assuming that the ratio between the cost of purchase and the life cycle cost is as shown above, the repayment of the cost is distributed proportionately over time, with the average life cycle of the equipment lasting 30 years, and taking into account the forecasted GDP growth, we can assess the scale of that expenditure. The average annual cost of maintenance of equipment purchased as part of the armed Polish Armed Forces technical modernization program should increment to PLN 49.8bn, representing 0.5%-0.7% of the Polish GDP from 2028 onwards. It is worth noting that Polish contractors' share in the expenditure mentioned above is likely to be significant, which might be conducive to economic activity acceleration. However, since it is not possible to precisely determine the profile of distribution of those funds over the years, we have not taken them into account in our analysis of impact on the economic growth. Another important factor is that it is not known how the expenditure will be divided between Poland and other countries, with the division largely depending on the offsets negotiated as part of the agreements for the transfer of the required technologies to Poland and the increase in the production and maintenance capacities of the domestic arms industry. A large share of that expenditure will still be borne by foreign suppliers, but we assume that there will be a constant pressure on increasing the share of the Polish arms sector in it.

Changes in the time profile of expenditure presented in the analysis above versus the expenditure presented in our 2022 analysis are mostly concentrated in the period between 2027 and 2035. The scale of changes in 2024 and 2025 is limited. Consequently, the positive impact of increased military expenditure on Poland's GDP would be stronger than that arising from our 2022 analysis, but such would be their impact on the Polish debt as well. The scale of the expenditure on armament purchase and maintenance is significant and growing, which will lead to an increase in the borrowing needs of the public finance sector in general over the next decade, and consequently it is highly likely that the ratio of the public finance sector's debt to GDP will grow beyond 60% after 2025.

* The authors would like to thank Credit Agricole Bank Polska S.A.'s Legal Counsel Norbert Skupiński for his contribution to this analysis.

Significant weakening of the PLN

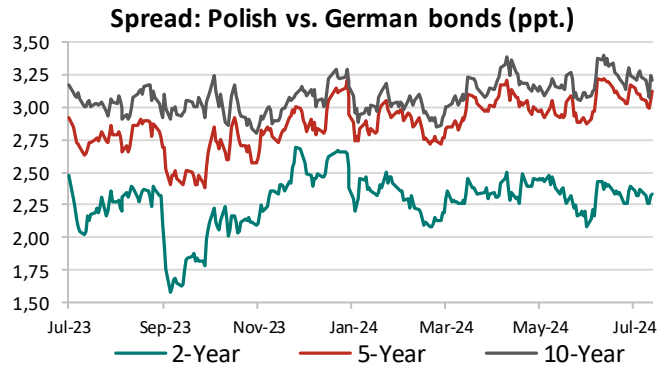
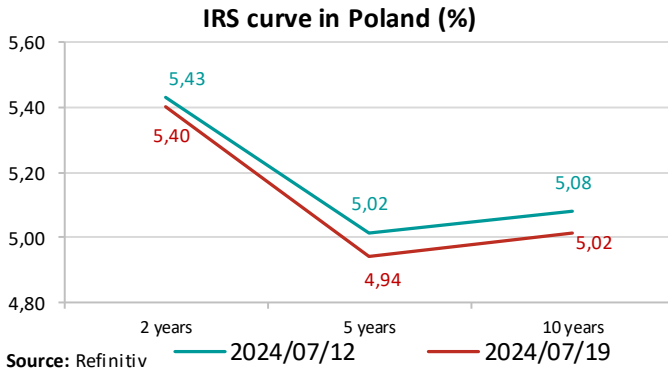


Last week, the EURPLN exchange rate rose to 4.2850 (weakening the zloty by 0.8%). Last week saw a significant increase in the EURPLN exchange rate after it had stood at around 4.25 for some time. In our view, this was due to the realization of gains by some investors. The weakening of the Polish currency was also fostered by the statement of the Minister of Finance, A. Domański, who said that a strong zloty does not help Polish exporters.

The first part of last week also saw a temporary increase in the EURUSD, supported by statements by FOMC members Ch. Waller (Fed Board of Governors member) and J. Williams (New York Fed), who independently hinted that the timing of the first interest rate cut was approaching. T. Barkin (Richmond Fed), on the other hand, pointed to the increasingly broad-based decline in inflation and expressed hope that it would continue. Thursday saw a correction and a weakening of the euro against the dollar.

The resignation of J. Biden as a presidential candidate announced on Sunday is, in our view, slightly positive for the EURUSD. This week, the publication of US inflation data scheduled for Friday will be key for the Polish currency. In the case of the materialization of our forecast, which is lower than the market consensus, the data may have an impact on the strengthening of the zloty. We expect that the remaining publications from the Polish and global economies scheduled for this week will be neutral for the PLN.

US inflation data in the spotlight



Last week, 2-year IRS rates declined to 5.42 (down by 3bp), 5-year rates to 4.94 (down by 8bp) and 10-year rates to 5.02 (down by 6bp). Last week saw a decrease in IRS rates across the curve in line with the core markets, continuing the trend of two weeks ago (see MACROmap of 22/07/2024). The reduction in yields in the core markets was due to an increase in expectations of interest rate cuts in the US and the Eurozone.

J. Biden's resignation as a presidential candidate, announced on Sunday, is in our view slightly negative for IRS rates. This week, the market's focus will be on the publication of US inflation data scheduled for Friday, which may be conducive to a decrease in IRS rates. We are of the opinion that the publications from the Polish and global economies scheduled for this week will be neutral for the curve.

Forecasts of the monthly macroeconomic indicators

Main monthly macroeconomic indicators in Poland														
Indicator	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24
NBP reference rate (%)	6,75	6,75	6,75	6,00	5,75	5,75	5,75	5,75	5,75	5,75	5,75	5,75	5,75	5,75
EURPLN*	4,43	4,40	4,47	4,63	4,45	4,35	4,33	4,32	4,31	4,29	4,33	4,27	4,30	4,30
USDPLN*	4,06	4,00	4,12	4,37	4,21	4,00	3,93	4,00	3,99	3,97	4,06	3,94	4,02	4,03
CHFPLN*	4,52	4,59	4,66	4,78	4,62	4,56	4,64	4,64	4,52	4,40	4,41	4,36	4,47	4,47
CPI inflation (% YoY)	11,5	10,8	10,1	8,2	6,6	6,6	6,2	3,7	2,8	2,0	2,4	2,5	2,6	
Core inflation (% YoY)	11,1	10,6	10,0	8,4	8,0	7,3	6,9	6,2	5,4	4,6	4,1	3,8	3,6	
Industrial production (% YoY)	-1,6	-2,7	-2,2	-3,3	2,0	-0,3	-3,5	3,0	3,2	-5,7	7,8	-1,7	0,3	
PPI inflation (% YoY)	0,3	-2,1	-2,9	-2,7	-4,2	-5,1	-6,9	-10,6	-10,0	-9,9	-8,5	-7,0	-6,1	
Retail sales (% YoY)	2,1	2,1	3,1	3,6	4,8	2,6	0,5	4,6	6,7	6,0	4,3	5,4	5,7	
Corporate sector wages (% YoY)	11,9	10,4	11,9	10,3	12,8	11,8	9,6	12,8	12,9	12,0	11,3	11,4	11,0	
Employment (% YoY)	0,2	0,1	0,0	0,0	-0,1	-0,2	-0,1	-0,2	-0,2	-0,2	-0,4	-0,5	-0,4	
Unemployment rate* (%)	5,1	5,0	5,0	5,0	5,0	5,0	5,1	5,4	5,4	5,3	5,1	5,0	4,9	
Current account (M EUR)	4087	55	587	1184	2240	1196	165	1584	1722	1357	-13	-63		
Exports (% YoY EUR)	4,3	0,2	-2,1	-4,0	2,1	-2,0	-6,2	-3,3	1,8	-8,5	6,5	-7,6		
Imports (% YoY EUR)	-5,0	-6,4	-10,9	-13,8	-7,1	-7,2	-10,6	-4,6	1,7	-7,6	7,0	-2,4		

*end of period

Forecasts of the quarterly macroeconomic indicators

Main macroeconomic indicators in Poland												
Indicator	2024				2025				2023	2024	2025	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
Gross Domestic Product (% YoY)	2,0	2,5	3,3	3,5	4,2	4,4	4,6	4,8	0,2	2,8	4,6	
Private consumption (% YoY)	4,6	5,1	4,1	3,5	2,9	2,5	2,4	2,2	-1,0	4,3	2,6	
Gross fixed capital formation (% YoY)	-1,8	0,1	0,9	-0,4	8,7	9,4	10,5	11,7	13,1	-0,3	10,4	
Export - constant prices (% YoY)	0,5	1,0	3,5	6,5	7,3	5,7	4,3	7,1	3,4	2,8	6,3	
Import - constant prices (% YoY)	-0,1	2,3	9,1	9,2	8,9	7,3	5,4	7,3	-2,0	5,0	7,6	
GDP growth contributions	Private consumption (pp)	2,7	2,9	2,4	1,7	1,8	1,5	1,4	1,1	-0,5	2,4	1,5
	Investments (pp)	-0,2	0,0	0,1	-0,1	1,1	1,5	1,7	2,7	2,1	0,0	1,8
	Net exports (pp)	0,4	-0,6	-2,6	-1,0	-0,4	-0,4	-0,4	0,2	3,3	-1,0	-0,3
Current account (% of GDP)***	1,2	1,0	0,9	0,8	0,8	0,7	0,6	0,6	1,6	0,8	0,6	
Unemployment rate (%)**	5,3	4,9	4,8	4,9	5,2	4,8	4,7	4,8	5,1	4,9	4,8	
Non-agricultural employment (% YoY)	-0,2	-0,2	-0,2	-0,3	-0,4	-0,5	-0,5	-0,5	0,8	-0,2	-0,5	
Wages in national economy (% YoY)	14,4	15,5	14,8	15,0	10,1	8,3	7,1	6,5	12,8	14,9	8,0	
CPI Inflation (% YoY)*	2,8	2,5	4,6	5,1	5,5	5,1	3,5	3,4	11,6	3,8	4,4	
Wibor 3M (%)**	5,88	5,85	5,88	5,88	5,88	5,63	5,51	5,38	5,88	5,88	5,38	
NBP reference rate (%)**	5,75	5,75	5,75	5,75	5,75	5,75	5,50	5,25	5,75	5,75	5,25	
EURPLN**	4,29	4,30	4,26	4,24	4,23	4,22	4,21	4,20	4,33	4,24	4,20	
USDPLN**	3,97	4,02	4,02	4,04	3,95	3,87	3,83	3,75	3,93	4,04	3,75	

* quarterly average

** end of period

***cumulative for the last 4 quarters

Calendar

TIME	COUNTRY	INDICATOR	PERIOD	PREV. VALUE	FORECAST*	
					CA	CONSENSUS**
Monday 07/22/2024						
10:00	Poland	Retail sales - current prices(% YoY)	Jun	5,4	5,7	5,8
10:00	Poland	Retail sales - constant prices (% YoY)	Jun	5,0	5,2	5,3
14:00	Poland	M3 money supply (% YoY)	Jun	8,0	0,0	8,4
Tuesday 07/23/2024						
16:00	Eurozone	Consumer Confidence Index (pts)	Jul	-14,0		-13,2
16:00	USA	Existing home sales (M MoM)	Jun	4,11	3,95	4,00
16:00	USA	Richmond Fed Index	Jul	-10,0		
17:15	Poland	Registered unemployment rate (%)	Jun	5,0	4,9	4,9
Wednesday 07/24/2024						
9:30	Germany	Flash Manufacturing PMI (pts)	Jul	43,5		44,5
10:00	Eurozone	Flash Services PMI (pts)	Jul	52,8		53,0
10:00	Eurozone	Flash Manufacturing PMI (pts)	Jul	45,8		46,3
10:00	Eurozone	Flash Composite PMI (pts)	Jul	50,9		50,8
15:45	USA	Flash Manufacturing PMI (pts)	Jul	51,6		
16:00	USA	New home sales (k)	Jun	619	635	640
Thursday 07/25/2024						
10:00	Germany	Ifo business climate (pts)	Jul	88,6		89,0
10:00	Eurozone	M3 money supply (% MoM)	Jun	1,6		
14:30	USA	Preliminary estimate of GDP (% YoY)	Q2	1,4	1,8	1,8
14:30	USA	Durable goods orders (% MoM)	Jun	0,1	-1,5	0,3
Friday 07/26/2024						
14:30	USA	PCE Inflation (% YoY)	Jun	2,6	2,4	2,5
14:30	USA	PCE core inflation (% YoY)	Jun	2,6	2,5	2,6
14:30	USA	Real private consumption (% MoM)	Jun	0,3		
16:00	USA	Final U. of Michigan Sentiment Index (pts)	Jul	66,0	66,0	66,0

*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

** Refinitiv