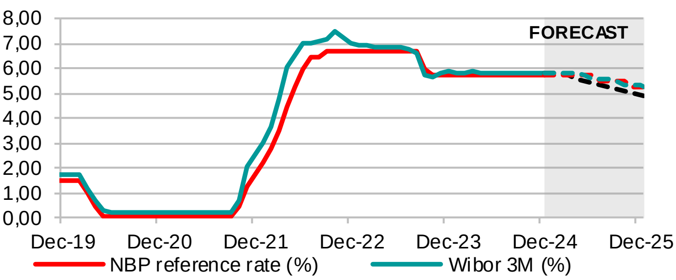
EU funds to stimulate public investment in 2025

This week

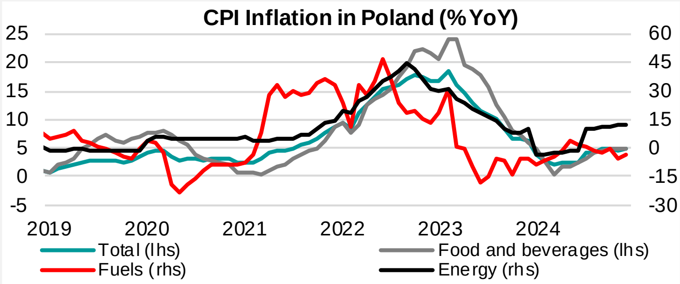
- **The most important event this week will be the Monetary Policy Council's meeting planned for Thursday.** We expect the MPC to keep the interest rates unchanged, which means that the NBP reference rate will stay at 5.75%. Our expectation of the MPC keeping the status quo in the monetary policy is underpinned by comments made by the NBP Governor at his press conference following the MPC meeting in December to the effect that the MPC could go ahead with the first rate cut only in 2026, which indicates that his earlier words saying that the rate cut cycle would likely begin as soon as in Q2 2025 no longer apply. We do not expect the press release after the meeting to change much compared to the one published in December. A decision to keep the interest rates unchanged this week would be in line with market consensus, and thus it should be neutral for the PLN and yields on Polish bonds. The NBP Governor's usual press conference will probably be held this week, so it will shed more light on Poland's monetary policy prospects. We believe that the conference may add to volatility in PLN exchange rates and yields on Polish bonds.



Source: Reuters, Credit Agricole

- **Some important data from the US will be released this week.** We believe that the CPI inflation went up from 2.7% YoY in November to 2.9% in December, while core inflation will print at 3.3% for the fourth month running. Consequently, the data will show that the inflationary pressures in the US still persist. The main factor driving the headline inflation up was a stronger growth in the prices of energy. We expect the nominal retail sales to have grown by 0.4% MoM in December comparing to a 0.7% growth in November. We forecast the industrial production growth to have accelerated from -0.1% in November to 0.1% in December, which will be consistent with the decline in employment seen in the industrial manufacturing sector in December (see below). We expect the data on housing starts (1,325k in December vs. 1,289k in November) and building permits (1,475k vs. 1,493k) to show that the activity in the US housing market is still subdued. In our opinion, this week's inflation data from the US will be neutral for financial markets.

- **Final inflation data for Poland will be released on Wednesday.** We expect the December inflation data to mirror the flash estimate published by the GUS, so the inflation will print at 4.8% YoY vs. 4.7% in November. Preliminary data shows that headline inflation was driven up primarily by a stronger growth in the prices of fuels. In our opinion, the final data will be neutral for the PLN and the yields on Polish bonds.



Source: GUS, Credit Agricole

- **China's foreign trade figures were released this morning.** Trade balance increased from USD 97.4bn in November to USD 104.8bn in December, with imports growth accelerating from -3.9% YoY in November to 1.0% in December, driven by purchases of strategic raw materials amidst the falling prices. Exports, in turn, went up from 6.7% YoY in November to 10.7% in December, driven up primarily by US companies filing their orders sooner than usually in an attempt to buy goods before the tariffs on Chinese exports are raised as announced by D. Trump's administration. More significant data from China are to be expected on Friday. We expect the

Chinese GDP to have grown from 4.6% YoY in Q3 to 5.0% in Q4 (2.0% QoQ vs. 0.9% in Q3). Consequently, we predict that the Chinese GDP growth all over 2024 will stand at 4.9% YoY vs. 5.2% in 2023. In our view, industrial production growth accelerated from 5.4% YoY in November to 5.5% in December due to positive calendar effects, a good situation in the industry, and the continuation of strong growth in exports. We expect the growth rate for investments in urban areas in December to have stood at 3.3% YoY (no change vs. November). Retail sales, in turn, accelerated from 3.0% YoY in November to 3.6% in December, with the steps taken by the Chinese government to boost domestic demand having a positive impact on sales growth, too. We believe that data from China will be neutral for financial markets.

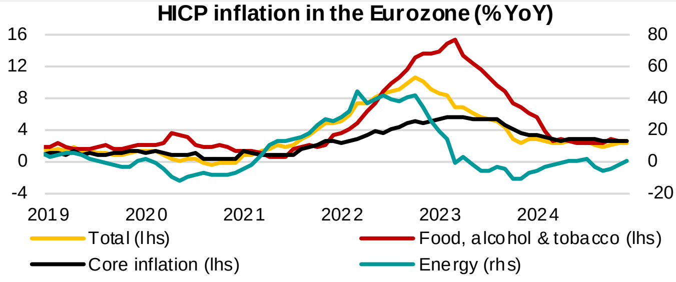
- **Data on Poland's balance of payments will also be published today.** We forecast a deficit of EUR 33m on the current account in November, comparing to an EUR 1,064m surplus in October. We believe that both exports and imports growth slowed between October and November, largely due to unfavourable calendar effects, from 1.5% YoY to -3.3% and from 6.6% to 1.7%, respectively. In our opinion, the data on the balance of payments will be neutral for the PLN and the yield on Polish bonds.

Last week

- **Minutes from the December FOMC meeting were published last week.** In accordance with the transcript from the discussion, FOMC members believe that the Fed is "at or near a point" at which it will be appropriate to slow the pace of the monetary policy. It is worth noting that the same expression has been used by the Fed Chairman during his press conference held after December's meeting (see MACROmap of 23/12/2024). In accordance with the Minutes, most FOMC members are of the opinion that the Fed should take a careful approach in considering adjustments to the stance of monetary policy, which is significantly less restrictive now than before. FOMC members also noted that the likelihood of inflation needing more time than previously assumed to return to the inflation target had increased due to higher-than-expected readings on inflation as well as the pro-inflationary impact of changes in the trade and immigration policy announced by D. Trump's administration. Such a conclusion is consistent with the economic projection of FOMC members published in December, which implies interest rate cuts of 50bp for 2025, as opposed to the September projection, which predicted cuts totalling 100bp (see MACROmap of 23/12/2024). The Minutes underpin our scenario, in which the Federal Reserve will cut interest rates by a total of 50bp in 2025 (in March and June, each time by 25bp).
- **Some significant data on US economy was released this week.** Non-farm payrolls rose by 256k in December vs. 212k in November (downward revision from 227k), printing markedly ahead of market expectations (160k) and our forecast (145k). The largest gains in employment were seen in education and health services (+80.0k), retail trade (+43.4k) and leisure and hospitality (+43.0k). A decline, in turn, was seen in manufacturing (-13.0k), wholesale trade (-3.5k) and mining and forestry (-3.0k). Unemployment fell from 4.2% in November to 4.1% in December, printing below the market expectations, which were consistent with our forecast (4.2%). Thus, the unemployment rate in the US printed slightly below the natural rate of unemployment, which is estimated by the Fed to be 4.2%. The labour force participation rate in December stood at 62.5% (no change vs. November), still below the pre-Covid levels (63.3%). Hourly wage growth slowed from 4.0% YoY in November to 3.9% in December. In our opinion, it suggests that wage pressures in the US economy are easing slowly, though they still remain elevated. The ISM services index went up from 52.1 pts in November to 54.1 pts in December, performing ahead of market expectations (53.4 pts) and our forecast (53.5 pts). What pushed the index up was stronger contributions of 3 out of its 4 components (delivery times, business activity and new orders), while a lower contribution of employment had the opposite effect. The preliminary University of Michigan Index, which fell from 74.0 pts in December to 73.2 pts in January, printing

below the market consensus that was consistent with our forecast (74.0 pts), was also released last week. The index was driven down by a decline in the expectations component, though an opposite impact came with stronger sub-index figures for the current situation assessment. The median for the expected inflation over a one-year horizon, released together with the University of Michigan index, rose to 3.3% in January from 2.8% in December, which shows that US households' inflation expectations remain elevated. We expect the annualised US GDP growth to have slowed to 2.3% in Q4 compared to 3.1% in Q3, and grown by 2.8% in 2024 vs. 2.9% in 2023.

- **In accordance with the flash estimate, Eurozone inflation rose to 2.4% YoY in December, up from 2.2% in November, aligning with our forecast and the market consensus.** Inflation was driven up by stronger growth in energy prices (0.1% YoY in December vs. -2.0% in November). Food price growth remained stable at 2.7% YoY between November and December, with core inflation also holding steady at 2.7%. The data also highlight the persistently high growth rate of service prices and a markedly lower growth rate of goods prices. We expect core inflation to decline gradually in the coming months. However, the process will be very slow, with core inflation reaching approx. 2% only in Q4 2025. This inflation trajectory is consistent with our scenario, in which the ECB will continue its monetary easing cycle, introducing 25bp cuts at each upcoming meeting until they reach the target level (2.25% for the deposit rate) in April 2025.



Source: Datastream, Credit Agricole

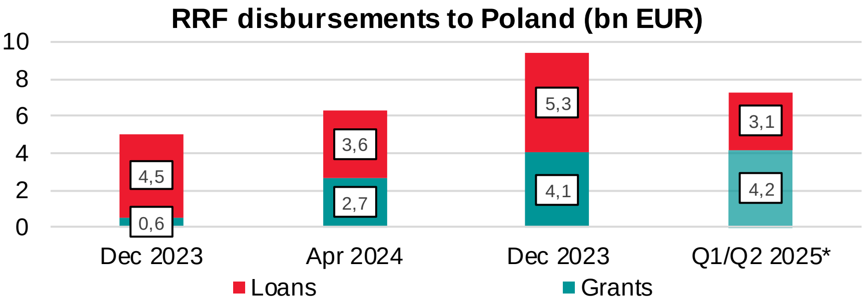
- **Important data on the German economy was published last week.** Monthly industrial production rose by 1.5% MoM in November, following a 0.4% decline in October (upward revision from -1.0%), significantly exceeding market expectations of 0.5%. Industrial production growth was recorded across all its main divisions: manufacturing, construction and energy. The strongest increases were observed in "manufacture of coke and refined petroleum products" (16.3% MoM), "manufacture of other transport equipment" (11.4%) and "manufacture of wearing apparel" (11.0%). Production volumes in energy-intensive branches also expanded in November (by 1.1% MoM), however, despite the uptick they remain approx. 17% below the levels reported just before the outbreak of the war in Ukraine. The growth in energy-intensive industries was driven by growth in 4 of 5 of its branches (metal, coke and oil processing plants, glass and paper production), with the decline in the chemical sectors having the opposite effect. Last week also saw the release of data on manufacturing orders, with the monthly growth rate dropping to -5.4% in November, from -1.5% in October, thus falling significantly below market expectations of 0.0%. The decline in new orders was primarily driven by reduced export orders, with a growth in domestic orders partially offsetting the drop. The reduction in export orders was due to lower demand from both Eurozone and non-Eurozone countries. In terms of sectors, the sharpest declines in new orders were recorded in "other transport equipment" (however, it is important to note that orders in this category tend to be highly volatile) and "basic pharmaceutical products and pharmaceutical preparations", In this context, it is also worth noting that excluding large orders, the growth rate of new orders showed a slight increase of 0.2% MoM in November, the same as in October. We maintain our forecast that quarterly GDP growth in Germany slowed

Source: Datastream, Credit Agricole

from 0.1% in Q3 to -0.1% in Q4, and that over 2024 German GDP contracted by 0.2% vs. a 0.3% drop in 2023.

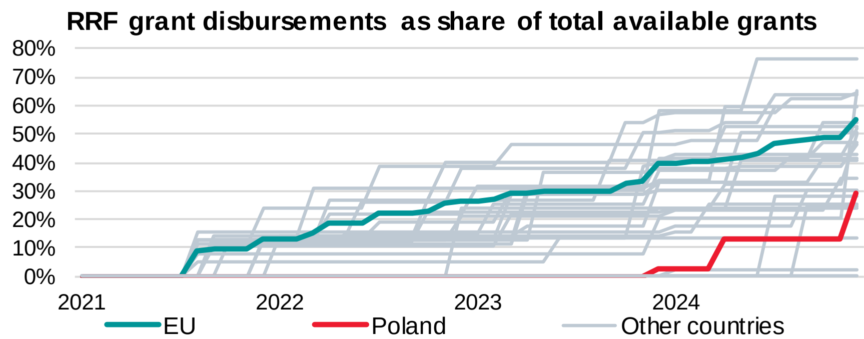
EU funds to stimulate public investment in 2025

The rate of absorption of EU funds under the National Recovery Plan (NRP) will be a significant driver of economic growth in the coming years. The funds available under the framework of the NRP consist of non-repayable grants and low-interest loans. It is worth noting that for non-repayable grants, the funds must be drawn before the end of August 2026, otherwise the funds will be forfeited. For loans, this deadline may be extended if the relevant co-financing agreements are signed before this date. This means that the timely absorption of NRP funds will be crucial to shaping the investment trajectory for 2025-2026.



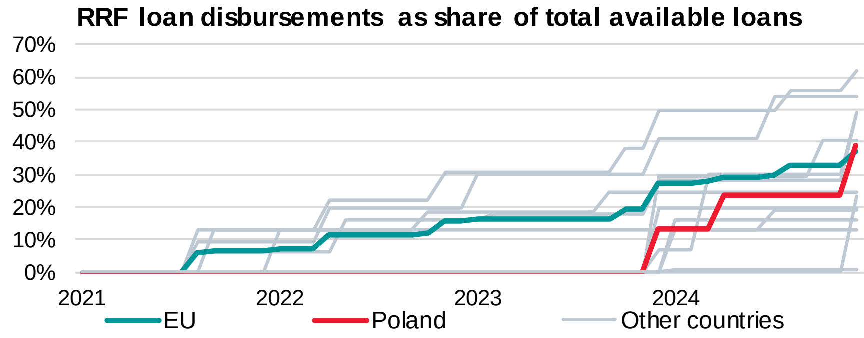
Source: European Commmission, Credit Agricole
*We expect that the requests submitted in december 2024 will be disbursed around March/April 2025

Due to an earlier ongoing dispute with the European Commission, Poland only started filing requests for payment from the Recovery and Resilience Facility (RRF the EU-level equivalent of the NRP) in December 2023, i.e. at the midpoint of the timeframe for utilizing the funds. Since then, Poland has received four tranches totaling EUR 20.7bn (see chart). In mid-December 2024, media reports emerged alleging that NRP payments have been halted by the European Commission due to Poland's failure to meet its commitments regarding subjecting civil-law employment contracts to social insurance contributions. However, this was later refuted by Minister K. Pełczyńska-Nałęcz. Consequently, we believe that in the coming months Poland will receive EUR 7.1bn under tranches IV and V requested on 27 December. As a result, nearly half of the available funds under the NRP (EUR 28.1bn out of EUR 59.8bn) will have been disbursed. According to the government declarations, requests for payment VIII and IX will only be submitted in Q4 2025, while the planned dates for the final two applications (VIII and IX) remain unknown.



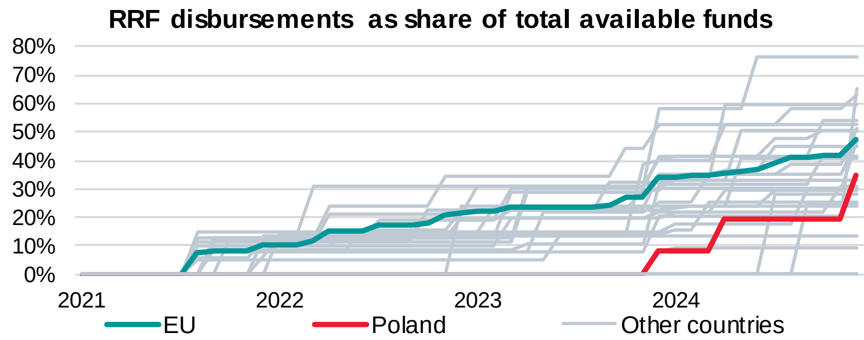
Source: European Commission, Credit Agricole

On a EU-wide scale, 55% of the grants available under the RRF have already been disbursed, with Poland lagging at 29%, ranking 20th among other EU countries. These figures do not account for payments expected in H1 2025, requested by Poland in late 2024, after which Poland could reach a utilization rate of 45% and 14th place within the EU.



Source: European Commission, Credit Agricole

Only 13 countries have taken advantage of the loan portion of the RRF. In this regards, Poland has been performing better than in the case of grants as it has slightly exceeded the EU average allocation (39% vs. 37%). After accounting for upcoming payments requested by the Polish government in late 2024, this share would rise to 48%, placing Poland fifth in the EU.



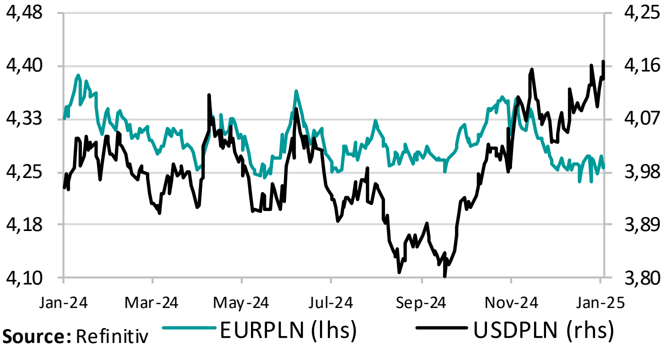
Source: European Commission, Credit Agricole

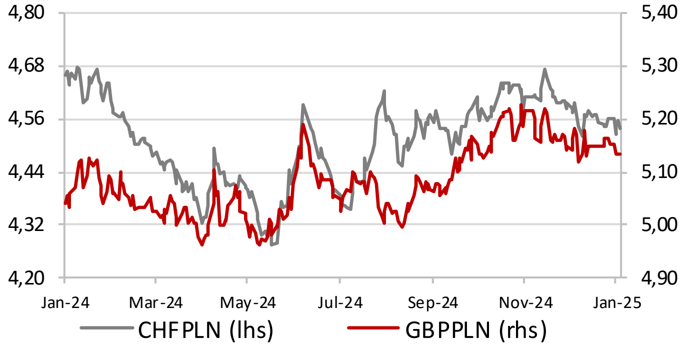
Poland has already received 35% of the entire pool of funds (grants + loans) available under the RRF, while the EU average stands at 47%. After accounting for payments scheduled for H1 2025, Poland's utilization rate would reach 47%. Considering the two-year delay in NRP fund absorption, Poland's current utilization of funds under the RRF is relatively good. It is currently difficult to clearly determine whether Poland will be able to fully utilise all the funds available under the framework of the NRP. We believe that the likelihood of Poland's success in this regard will be easier to predict more accurately in H2 2025. It stands to reason that the government will aim to achieve milestones promptly to quickly secure access to non-repayable funds as soon as possible, thus preventing their forfeiture. It also cannot be ruled out that the government will request an extension of the deadline for the utilisation of NRP funds, but it is difficult to predict whether this request will be granted. Nevertheless, the government remains optimistic about utilizing the funds and, according to Minister K. Pełczyńska-Nałęcz, PLN 90bn (2.5% of GDP) from the NRP will be invested in 2025. By 13 December 2024, over 630 thousand agreements for financing under the NRP have been concluded, with a total value of over PLN 41.8bn (1.2% of GDP), with only a portion of these being completed last year. Thus, we believe that the absorption of funds under the NRP will be a significant factor stimulating investment and GDP growth in 2025.

The key driver of economic growth acceleration that we expect to see in 2025 will be the recovery in public investments and the related boom in the construction sector. In 2024, demand in the construction industry was still strongly limited by lower absorption of EU funds. Based on the timeline of absorption of EU funds in 2014-2020, we expect the process to accelerate markedly in 2025, with its strong momentum carried over to 2026. We also assume that the recovery in public investments in 2025 will be driven further by the accumulation of investment projects carried out as part of the NRP (as they must be settled in 2026). Coupled with last year's low base effects, we expect a two-digit growth in public investments in real terms. Activity in the construction sector will be boosted by investments in infrastructure. Consequently, we maintain our annual average GDP growth acceleration forecast projecting an increase from 2.6% YoY in 2024 to 3.5% in 2025.

EURPLN rate hits lowest level since February 2020

FX rates





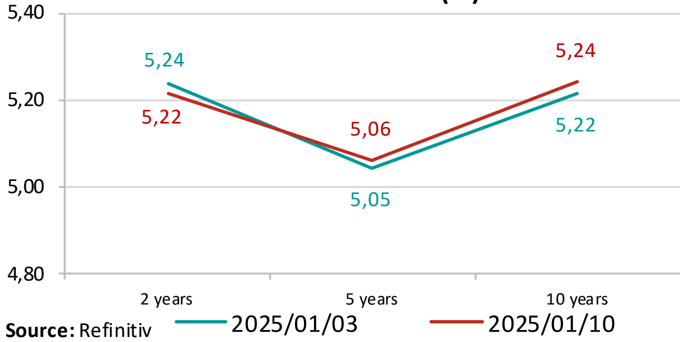
Source: Refinitiv

Last week, the EURPLN rate dropped to 4.2649 (strengthening of the PLN by 0.2%). Early last week, the EURPLN rate dipped below 4.25, reaching its lowest level since February 2020. Later in the week, the PLN depreciated slightly as some investors opted to realise their profits. At the beginning of the week, the EURUSD rate increased, supported by the release of higher-than-expected inflation data in Germany (see MACROmap of 06/01/2025). However, Tuesday's release of Eurozone inflation figures, which aligned with the market consensus, triggered a reversal of the trend. As a result, the USD rallied over the following days, recovering its early-week losses. The publication of higher-than-expected data regarding US non-farm payrolls led to an appreciation of the USD against the EUR.

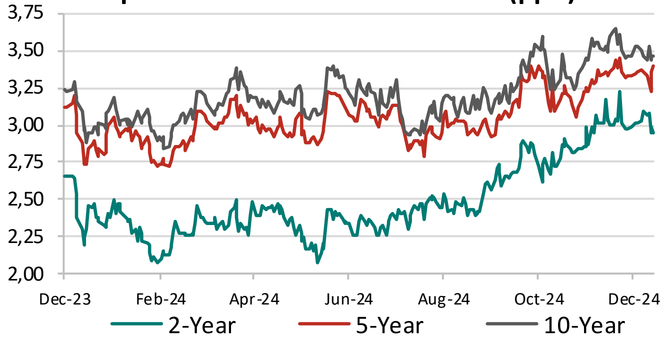
This week, the market spotlight will be on NBP Governor A. Glapiński's usual press conference. We believe it may add to the volatility of the PLN. Other data releases from the Polish and global economies will only have a limited impact on the PLN, in our opinion. Further developments in the Middle East and Ukraine will remain a key factor for the PLN. Should the tension grow stronger, this may drive the EURPLN rate up.

NBP Governor's press conference in the spotlight

IRS curve in Poland (%)



Spread: Polish vs. German bonds (ppt.)



Source: Refinitiv

Last week the 2-year IRS rates decreased to 5.22 (down by 2bp), 5-year rates increased to 5.06 (up by 1bp), while 10-year rates went up to 5.24 (up by 2bp). Last week, IRS rates exhibited relatively low volatility, attributable to lower investor activity due to Ephinany day, a bank holiday. At the same time, the profitability of bonds on core markets followed an upward trajectory, supported by expectations of a slower pace of monetary policy easing by the Fed.

This week, the market spotlight will be on NBP Governor A. Glapiński's usual press conference, which may add to the volatility of IRS rates. In our opinion, data releases from the Polish and global economies scheduled for this week will be neutral for IRS rates. However, further developments in the Middle East and Ukraine will remain a key factor for the curve. Should the tension grow stronger, this may drive the IRS rates up.

Forecasts of the monthly macroeconomic indicators

Main monthly macroeconomic indicators in Poland

Indicator	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25
NBP reference rate (%)	5,75	5,75	5,75	5,75	5,75	5,75	5,75	5,75	5,75	5,75	5,75	5,75	5,75	**5,75**
EURPLN*	4,33	4,32	4,31	4,29	4,33	4,27	4,30	4,29	4,28	4,28	4,35	4,30	4,27	**4,30**
USDPLN*	3,93	4,00	3,99	3,97	4,06	3,94	4,02	3,96	3,87	3,85	4,00	4,06	4,13	**4,16**
CHFPLN*	4,64	4,64	4,52	4,40	4,41	4,36	4,47	4,50	4,56	4,54	4,64	4,60	4,54	**4,59**
CPI inflation (% YoY)	6,2	3,7	2,8	2,0	2,4	2,5	2,6	4,2	4,3	4,9	5,0	4,7	**4,8**	
Core inflation (% YoY)	6,9	6,2	5,4	4,6	4,1	3,8	3,6	3,8	3,7	4,3	4,1	4,3	**4,3**	
Industrial production (% YoY)	-3,5	3,0	3,2	-5,7	7,8	-1,6	0,0	5,3	-1,3	-0,5	4,7	-1,5	**3,0**	
PPI inflation (% YoY)	-6,9	-10,6	-10,0	-9,9	-8,5	-7,0	-5,8	-5,1	-5,5	-6,2	-5,1	-3,7	**-2,5**	
Retail sales (% YoY)	0,5	4,6	6,7	6,0	4,3	5,4	4,7	5,0	3,2	-2,2	2,3	3,4	**2,1**	
Corporate sector wages (% YoY)	9,6	12,8	12,9	12,0	11,3	11,4	11,0	10,6	11,1	10,3	10,2	10,5	**12,9**	
Employment (% YoY)	-0,1	-0,2	-0,2	-0,2	-0,4	-0,5	-0,4	-0,4	-0,5	-0,5	-0,5	-0,5	**-0,5**	
Unemployment rate* (%)	5,1	5,4	5,4	5,3	5,1	5,0	4,9	5,0	5,0	5,0	4,9	5,0	**5,1**	
Current account (M EUR)	-102	1575	1752	1239	658	-605	441	-649	-2494	-1133	1064	**-33**		
Exports (% YoY EUR)	-6,3	-3,1	2,0	-8,7	8,1	-5,4	-6,7	5,3	-2,7	1,0	1,5	**-3,3**		
Imports (% YoY EUR)	-9,3	-4,1	2,1	-7,2	5,6	0,9	1,4	9,8	5,5	5,7	6,6	**1,7**		

*end of period

Forecasts of the quarterly macroeconomic indicators

Main macroeconomic indicators in Poland

Indicator	2024				2025				2024	2025	2026
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Gross Domestic Product (% YoY)	2,1	3,2	2,7	**2,5**	**3,1**	**3,3**	**3,4**	**3,6**	**2,6**	**3,5**	**3,3**
Private consumption (% YoY)	4,4	4,6	0,3	**2,5**	**2,5**	**2,1**	**2,0**	**1,8**	**2,9**	**2,2**	**2,9**
Gross fixed capital formation (% YoY)	1,9	3,2	0,1	**-5,8**	**5,6**	**7,7**	**8,9**	**8,8**	**-1,2**	**8,1**	**7,3**
Export - constant prices (% YoY)	2,1	2,9	-0,7	**1,8**	**4,6**	**5,7**	**4,3**	**7,1**	**1,6**	**5,3**	**5,5**
Import - constant prices (% YoY)	2,3	5,7	1,9	**3,5**	**4,9**	**5,3**	**4,3**	**3,9**	**3,3**	**4,5**	**4,6**
GDP growth contributions: Private consumption (pp)	2,7	2,6	0,2	**1,3**	**1,5**	**1,2**	**1,2**	**0,9**	**1,7**	**1,3**	**1,7**
Investments (pp)	0,2	0,5	0,0	**-1,4**	**0,7**	**1,2**	**1,4**	**2,0**	**-0,2**	**1,4**	**1,2**
Net exports (pp)	0,0	-1,3	-1,5	**-0,7**	**0,1**	**0,5**	**0,1**	**1,8**	**-0,9**	**0,6**	**0,7**
Current account (% of GDP)***	1,6	1,3	0,5	**1,0**	**1,0**	**0,9**	**0,8**	**0,8**	**1,0**	**0,8**	**0,1**
Unemployment rate (%)**	5,3	4,9	5,0	**5,1**	**5,3**	**4,9**	**4,9**	**4,9**	**5,1**	**4,9**	**4,8**
Non-agricultural employment (% YoY)	-0,2	0,9	1,5	**0,5**	**-0,4**	**-0,5**	**-0,5**	**-0,5**	**0,7**	**-0,5**	**-0,5**
Wages in national economy (% YoY)	14,4	14,7	13,4	**12,8**	**10,1**	**8,3**	**7,1**	**6,5**	**13,8**	**8,0**	**6,0**
CPI Inflation (% YoY)*	2,8	2,5	4,5	**4,8**	**5,2**	**5,1**	**3,6**	**3,6**	**3,7**	**4,4**	**3,1**
Wibor 3M (%)**	5,88	5,85	5,85	5,84	**5,85**	**5,60**	**5,48**	**5,35**	**5,84**	**5,35**	**4,35**
NBP reference rate (%)**	5,75	5,75	5,75	5,75	**5,75**	**5,75**	**5,50**	**5,25**	**5,75**	**5,25**	**4,25**
EURPLN**	4,29	4,30	4,28	4,27	**4,40**	**4,35**	**4,30**	**4,25**	**4,27**	**4,25**	**4,21**
USDPLN**	3,97	4,02	3,85	4,13	**4,19**	**4,18**	**4,10**	**3,97**	**4,13**	**3,97**	**3,83**

* quarterly average
** end of period
***cumulative for the last 4 quarters

Calendar

TIME	COUNTRY	INDICATOR	PERIOD	PREV. VALUE	FORECAST*	
					CA	CONSENSUS**
		Monday 01/13/2025				
14:00	**Poland**	**Current account (M EUR)**	**Nov**	**1064**	**-33**	**165**
	China	Trade balance (bn USD)	Dec	97,4	99,9	99,8
		Wednesday 01/15/2025				
10:00	Germany	Preliminary GDP (% YoY)	2024	-0,3	-0,2	-0,2
10:00	**Poland**	**CPI (% YoY)**	**Dec**	**4,7**	**4,8**	**4,8**
11:00	Eurozone	Industrial production (% MoM)	Nov	0,0		0,4
14:30	USA	CPI (% MoM)	Dec	0,3	0,4	0,3
14:30	USA	Core CPI (% MoM)	Dec	0,3	0,2	0,2
14:30	USA	NY Fed Manufacturing Index (pts)	Jan	0,2		5,0
		Thursday 01/16/2025				
14:00	**Poland**	**Core inflation (% YoY)**	**Dec**	**4,3**	**4,3**	**4,2**
14:30	USA	Retail sales (% MoM)	Dec	0,7	0,4	0,5
14:30	USA	Philadelphia Fed Index (pts)	Jan	-16,4		-4,0
16:00	USA	Business inventories (% MoM)	Nov	0,1		
	Poland	**NBP rate decision (%)**	**Jan**	**5,75**	**5,75**	**5,75**
		Friday 01/17/2025				
3:00	China	GDP (% YoY)	Q4	4,6	5,0	5,1
3:00	China	Retail sales (% YoY)	Dec	3,0	3,6	3,5
3:00	China	Urban investments (% YoY)	Dec	3,3	3,3	3,3
3:00	China	Industrial production (% YoY)	Dec	5,4	5,5	5,4
10:00	Eurozone	Current account (bn EUR)	Nov	25,8		
11:00	Eurozone	HICP (% YoY)	Dec	2,4	2,4	2,4
14:30	USA	Building permits (k)	Dec	1493	1475	1462
14:30	USA	Housing starts (k MoM)	Dec	1289	1325	1310
15:15	USA	Capacity utilization (%)	Dec	76,8		76,9
15:15	USA	Industrial production (% MoM)	Dec	-0,1	0,1	0,2

*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

MACRO MAP

Jakub BOROWSKI
Chief Economist
tel.: 600 457 021
jakub.borowski@credit-agricole.pl

Krystian JAWORSKI
Senior Economist
tel.: 512 191 822
krystian.jaworski@credit-agricole.pl

Jakub OLIPRA
Senior Economist
tel.: 518 003 696
jakub.olipra@credit-agricole.pl