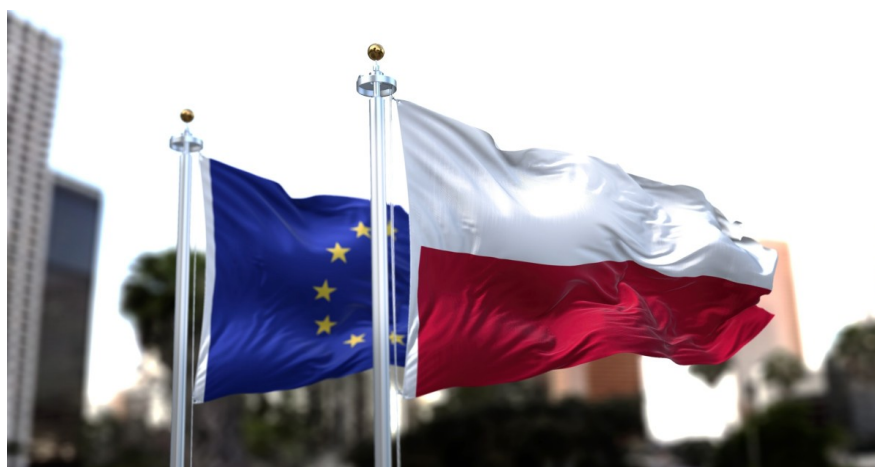


Net inflows of EU funds for Poland should be significant in 2024

While inflows of EU funds should be significant this year, potentially up to 2.7% of GDP in 2024, its impact on GDP, particularly investment, is likely to be delayed till 2025 and 2026. However, the EU funds should help to facilitate Poland meeting its high public borrowing needs and managing budget liquidity



Inflows of EU funds to Poland should be significant this year and could reach 2.7% of GDP

Last Friday, Ursula von der Leyen, Chairwoman of the European Commission (EC), announced the unlocking of recovery and cohesion funds to Poland of €137 billion. We estimate total net flows this year of up to 2.7% of GDP, up from around 1.6% of GDP in 2023. Full absorption of the funds will be a challenge.

EU grants and preferential loans to Poland

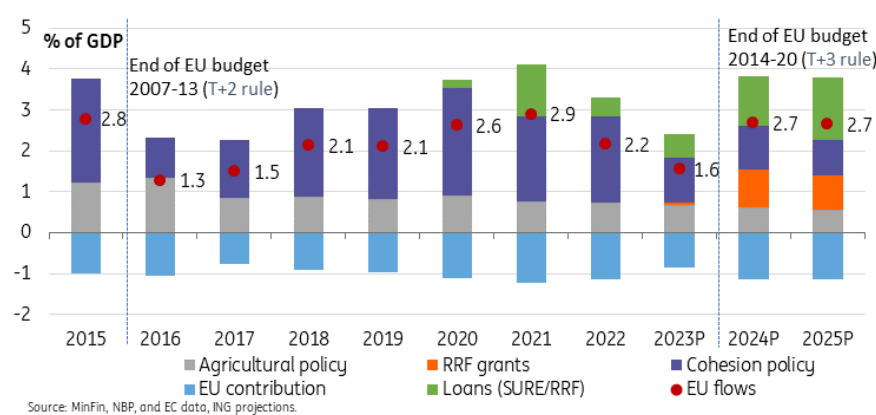
On 23 February, EC Chairwoman Ursula von der Leyen visited Warsaw. At the press conference with PM Donald Tusk, she announced that in the following week, the EC will formally decide to release €137bn of EU funds from cohesion policy (CP) funds and the National Recovery and Resilience Plan (NRRP). Of the announced amount of €137bn, the NRRP (grants and loans) account for almost €60bn, while the remaining €77bn is grant funding from the traditional cohesion policy.

The positive scenario in terms of unblocking EU funds for Poland after the October 2023 general elections is coming true (see our [Think article](#)). Fortunately, the risk of a sudden stop in the inflow

of EU funds this year and its implications for growth and public investment has largely been averted.

We see a sizable rise of EU money flowing to Poland. We estimate that the total net inflow of EU funds to Poland (all grants and loans minus the contribution to the EU budget) this year will amount to about 2.7% of GDP versus 1.6% of GDP in 2023. This increase in year-on-year terms partly results from lower-than-expected absorption of cohesion funds in November-December 2023. The combined inflow of CP funds in the last two months of 2023 amounted to merely €1.0bn, while in the last two months of 2022 they reached €5.8bn. According to the latest official reports of mid-February, there still around €5bn left in the 'old' cohesion policy budget 2014-20. We expect that these funds will still be disbursed this year, given that they were fully contracted.

Projected net flows of EU funds to Poland in 2024-25 (as % of GDP)

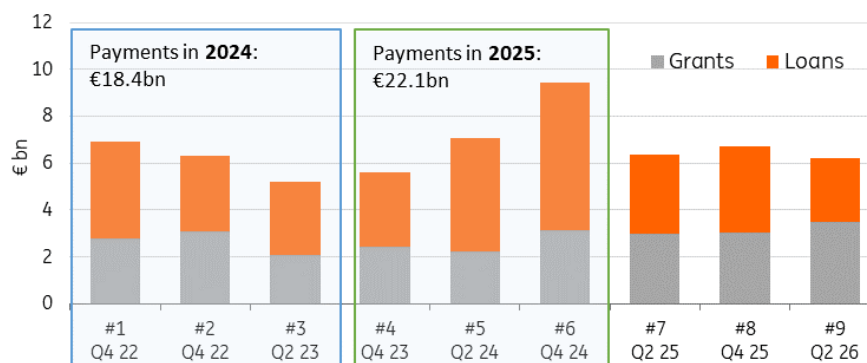


Timeline

Following Poland's first payment request from the NRRP from mid-December, the first regular disbursement from this source of €6.9bn, including €2.8bn of grants and €4.2bn of preferential loans, is expected in April. Already in very late of December Poland received the first advance payment of €5bn from Re-Power-EU chapter. The country is to submit the second motion for payment of €11.5bn in June, including €5.2bn of grants and €6.3bn of loans. This request will cover the combined second and third tranches from the original NRRP schedule, and is to be disbursed in the autumn.

As for the inflow of the 'new' cohesion policy funds from the 2021-27 EU budget, we expect these funds to 'roll out' gradually during the year and amount to about €4bn in the whole year.

Projected payment schedule from Poland's NRRP in 2024-26 (€bn)



Source: ING based on EC report, November 2023. RRF installments (initial payments' start in Q4 2022)

Financial and economic impact

While financial flows related to the use of NRRP will be significant this year, its impact on GDP, particularly investment, will be rather limited. We expect increased investment activity on this account in 2025 and 2026. However, the EU funds should be paid to the central budget and before it is sent to the final beneficiaries it may serve as a liquidity buffer. So effectively they should facilitate meeting high public borrowing needs and managing budget liquidity, thus providing significant support for government T-bonds and the zloty exchange rate this year.

Once EU funds are formally unblocked, the main challenge will remain their effective absorption given the short deadline for the use of NRRP funds. Based on current EU-wide regulations, these funds must be contracted by end-2026. The extension of the deadline cannot be ruled out, however, given that the EC and Member States are all interested in RRF's success story. According to the last week's [mid-term evaluation](#) of the RRF, to date €225bn in RRF funds has been disbursed to all Member States, of which €67bn in pre-financing, out of the €723bn instrument, established in February 2021.

Pending NRRP renegotiation

Poland's initial NRRP was submitted to Brussels in May 2021, and therefore many of its milestones need to be updated or revised. The Ministry of Funds and Regional Policy plans a rapid renegotiation of the Plan in the coming months, to be completed before the submission of the second request for payment in June. The negotiations are to involve updating the current milestones (there are currently 55 milestones for policy reforms and 56 for investments), and harmonising the Plan with the current government's programme.

Authors

Leszek Kasek

Senior Economist, Poland

leszek.kasek@ing.pl

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.