

17 May 2024 | 4 pages

## Poland Economics View

### FX conversion mostly at the NBP

#### OUR TAKE

*New data on Finance Ministry activity suggests the authorities did not try to prop up the zloty in 2023, as vast majority of FX was exchanged at the central bank. Moreover our estimates show that also this year, despite large EU fund inflows, the Ministry tried to refrain from FX conversions, thus minimizing the impact on the FX market. Looking ahead, dividend plans of WSE-listed companies suggest significant payments to non-residents in the near term.*

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**Piotr Kalisz, CFA**

+48-22-692-9633

piotr.kalisz@citi.com

**Arkadiusz Trzciolek**

+48-22-657-7750

arkadiusz.trzciolek@citi.com

**Zuzanna Mroczka**zuzanna.mroczka@citi.com

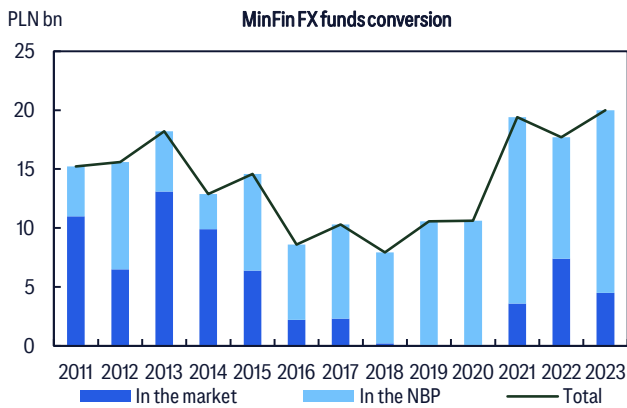
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## No intention to prop up the currency

Poland’s Finance Ministry has almost full flexibility to convert foreign currencies either in the market or at the central bank. Choosing between the two options allows the government to smooth fluctuations in the FX market in periods of significant volatility. Between 2016 and 2021 the Ministry preferred to exchange most of FX funds at the National Bank of Poland (Figure 1), thus limiting the direct impact on the Polish zloty. That approach changed somewhat in 2022 when ‘only’ 58% of FX was channeled through the NBP vs. the 2016-2021 average of 89%. The remaining 42%, which amounted to EUR 7.4bn, was converted directly in the market, providing support to the local currency.

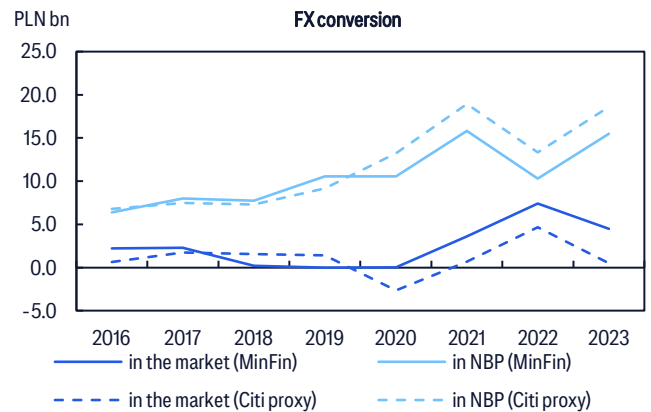
The most recent [data](#) (published on 15<sup>th</sup> May) suggests that in 2023 the Ministry dealt mostly with the central bank. The NBP absorbed 78% of the whole conversion volume and only 22% (or EUR 4.5bn) was done directly in the market. We interpret it as a sign that already in 2023 the Finance Ministry was reluctant to take actions that would significantly appreciate the zloty.

**Figure 1. The Ministry of Finance exchanged 78% of foreign currencies at the central bank in 2023**



Source: Citi Handlowy Estimates, Ministry of Finance

**Figure 2. Our model correctly estimated direction in flows but has understated the extent of FX conversion covered in the market**

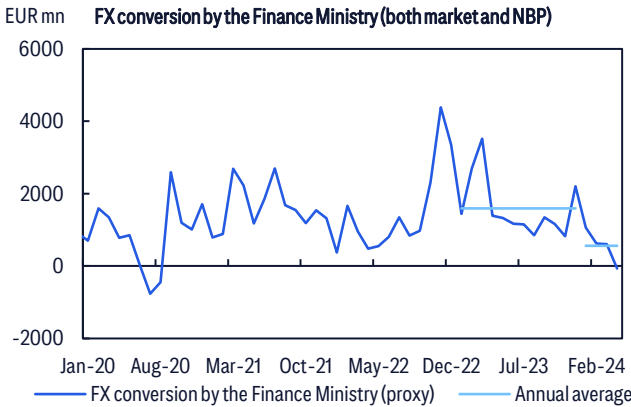


Source: Citi Handlowy Estimates, Ministry of Finance

FX funds converted by the Finance Ministry come from foreign currency inflows (EU funds, FX debt issuances), adjusted for FX outflows (debt principal repayment and coupon servicing). We follow monthly FX activity of the Ministry by analyzing changes in the Ministry’s FX account. The published annual data confirms that our proxy indicator tracks relatively well this activity (our estimate of total FX conversion: EUR 19.1bn vs. official data of EUR 20bn). Our model somewhat understated the extent of transactions covered directly in the market, but correctly pointed to the decline vs. the amount that was converted in 2022 (Figure 2). Based on these tools we can also gain some understanding of what the Finance Ministry was doing in terms of FX conversion in the more recent period.

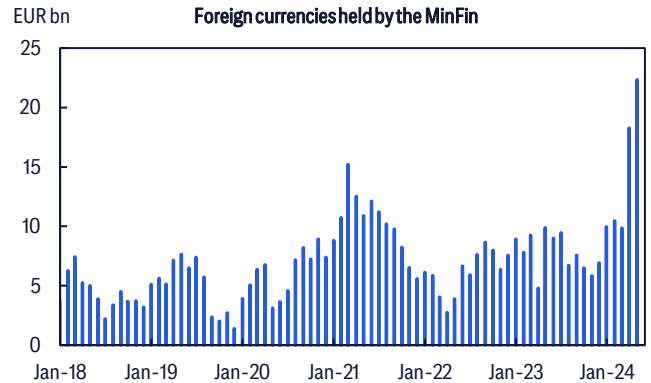
So far in 2024 the Ministry has not been very active in converting its FX funds. We estimate that from January to April the average monthly FX conversion stood at only one third of the 2023 average (EUR 550mn vs. EUR 1590mn). Consequently the FX budgetary account at the disposal of the Ministry swelled to record high of EUR 22.4bn (see Figures 3 and 4). This observation confirms that the Finance Ministry prefers to stay away from actions that might additionally boost the PLN.

**Figure 3. The Ministry of Finance has been relatively inactive in terms of FX conversion so far in 2024...**



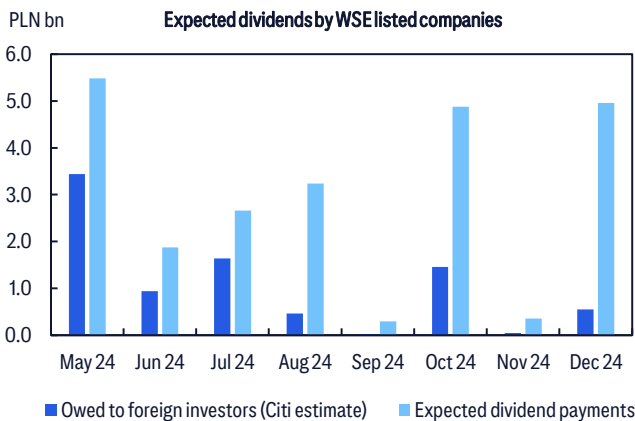
Source: Citi Handlowy, Ministry of Finance

**Figure 4. ...and its foreign currencies holdings swelled to record high**



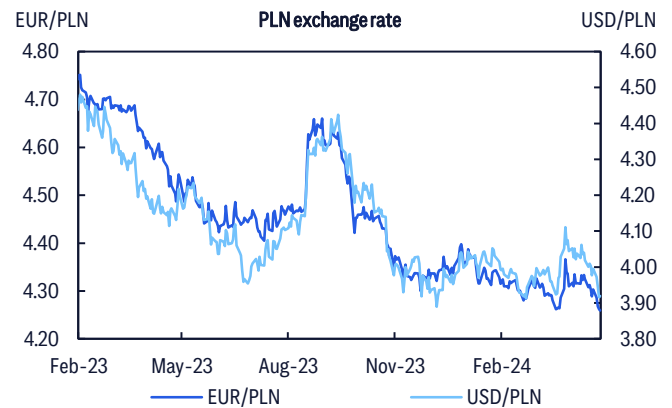
Source: Citi Handlowy, Ministry of Finance

**Figure 5. We expect significant dividend transfers to non-residents before the end of May**



Source: Citi Handlowy, Strefa Inwestorow, Refinitiv

**Figure 6. Large dividend payments can limit the room for near-term PLN appreciation**



Source: Citi Handlowy, Bloomberg

## Large dividend payments ahead

We analyzed the dividend plans of companies listed on Warsaw Stock Exchange and we find that the amount to be transferred by top 20 companies with highest (announced) dividends amounts to PLN 23.7bn by the end of the year. As foreign investors remain active on Polish equity market, the large chunk of this flow may be converted from zlotys to foreign currencies (euros or dollars in most of the cases). Based on the shareholders fillings we approximate that roughly 36% of dividends will be paid to foreign investors and out of the total PLN 8.5bn about PLN 3.4bn is set to be transferred to non-residents by the end of May (Figure 5). In our view the increased dividend outflow could be one of the factors limiting the room for PLN appreciation in the coming months.

## Chief Economist Office

### Piotr Kalisz, CFA

Chief Economist  
+48 (22) 692-9633  
[piotr.kalisz@citi.com](mailto:piotr.kalisz@citi.com)

### Arkadiusz Trzciółek, CFA

Senior Economist  
+48 (22) 657-7750  
[arkadiusz.trzciolok@citi.com](mailto:arkadiusz.trzciolok@citi.com)

### Zuzanna Mroczka

Intern  
[zuzanna.mroczka@citi.com](mailto:zuzanna.mroczka@citi.com)

## Citi Handlowy

Senatorska 16, 00-923 Warszawa, Polska

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