**FUND LAUNCHED**
**2005**

**FUNDS UNDER MANAGEMENT**
**£517.6**
**MILLION**

**NET ASSET VALUE PER SHARE**
**441.3%**
**SINCE INCEPTION***

UTILICO Emerging Markets Trust plc

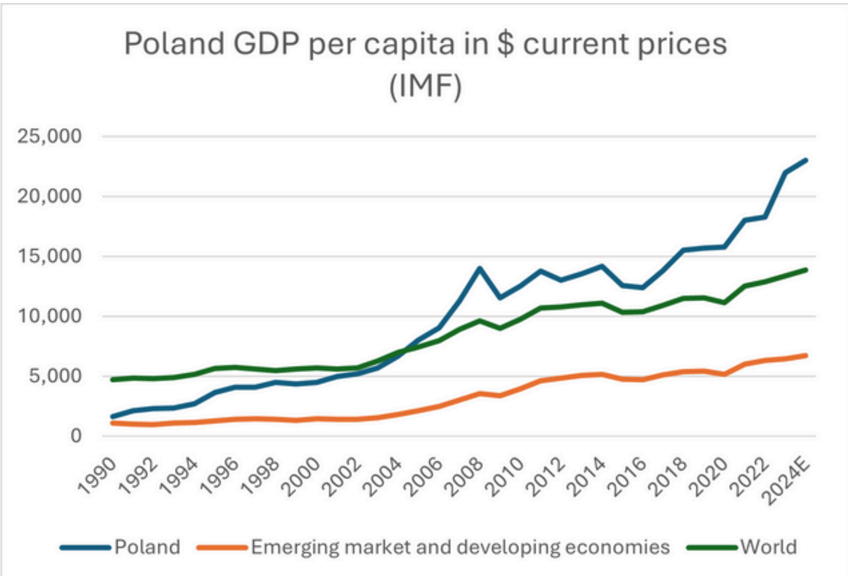
# Poland - The Economic Tiger of CEE

June 2024

Poland is a textbook example of how to escape the middle-income trap. In the last 24 years the Polish economy has grown at an average of 3.6% per annum, nearly twice the pace of global advanced economies over the same period and reached "high-income" classification by the World Bank in 2009 – just 19 years after the fall of communism.[1] It has done so with impressive consistency, registering growth in all but one of those years (2020), and reaching €744bn last year – the 6th largest in the EU.

There are many reasons for the country's success, including its reintegration into the European economic space since 1990 and the successful political reforms of its institutions. This has led to an explosive growth of exports, large amounts of FDI and, critically, Poland has been the largest net recipient of EU funds which has boosted the country's infrastructure. Since joining the EU in 2004, Poland has received €232bn, while contributing €77bn over the period.[2]

According to Erste, Poland's adjusted GDP per capita is +40.7% higher thanks to EU-specific factors (free trade, EU funds, reforms) out of a total growth of +103% since 2004.[3] Earlier this year, the European Commission approved the release of up to €137bn for Poland by the year 2027 as part of the EU budget framework and the EU national recovery plan.[4]




Source: IMF[1]

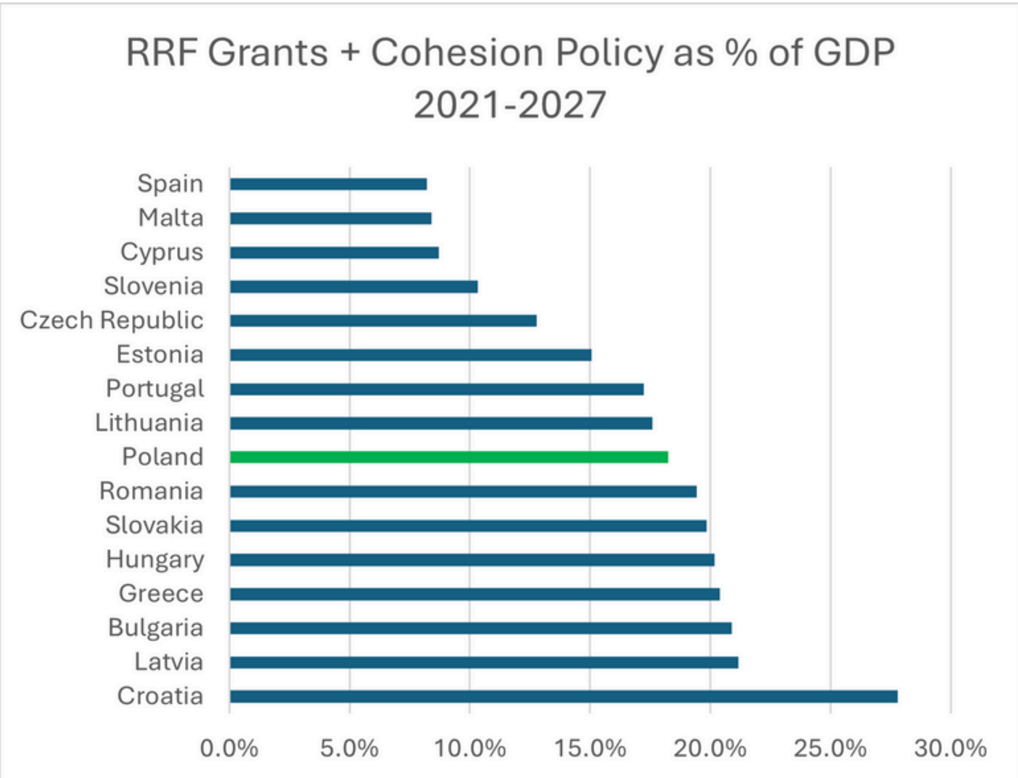
**New government, a restart**

Poland's ability to harness this opportunity relies on repairing its relationship with the EU. In December 2023, Donald Tusk's centrist Civic Platform coalition formed a majority coalition in the country's legislative chamber, the Sejm, marking a turning point. The previous government led by the "Law and Justice" party had strained relations with the EU after it implemented reforms in the judiciary in 2019 that clashed with the EU's view on judicial independence. This was followed by the suspension of EU funds to the country. Since the start of this year, the new government has begun to dismantle the controversial laws and in turn the EU has begun to disburse large parts of the Recovery and Resilience Facility (RRF) and Cohesion Policy funds.

**The 2 trillion-euro question**

The EU's budget for 2021-2027 is the largest on record, totalling over €2 trillion. It includes the regular multiannual financial framework with €1.22bn and a separate €807bn of Next Generation EU program. Poland is once again a prime beneficiary of this with a total allocation of €137bn, of which €59.8bn is the RRF funds. Of those €25.3bn are grants and €34.5bn are low-cost loans and are intended to support the country's economic recovery from the crises caused by the COVID pandemic and Russia's invasion of Ukraine. The budget allocates 47% for energy transition, 22% to social reforms and 21% to digital transformation.[5] Since the start of the year Poland has received €6.3bn from a total €23bn it expects to receive this year in RRF funds alone.

**Early April 2024 CPC Official Probalistic ENSO Forecasts**




Source: EU funds country allocation 2021-2027 [6]

**Weaning off its coal addiction**

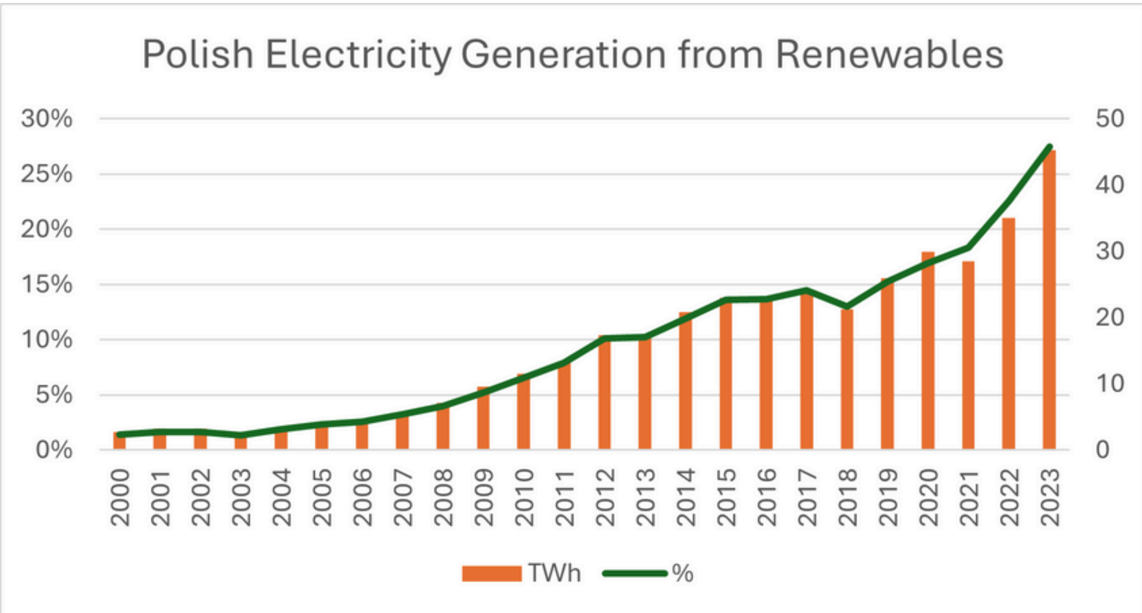
Poland is the most fossil-addicted country in the EU with 32GW of installed capacity in coal and gas-fired plants which in 2023 generated 73% of its electricity.[6] Poland is by far the largest coal producer in Europe with an output of 55mtpa of hard coal and 52mtpa of lignite, equivalent to 96% of Europe's total.[7] The sector employs 87,000 people[8] and the future of the sector continues to be a key political issue.

Because of its coal exposure, Poland's per capita power sector emissions are above the global average and the government, aligned with the EU's net zero objective, has a policy of energy diversification. The country's Energy Policy until 2040 (PEP2040) aims to keep increasing renewables within the energy mix, targeting significant offshore wind and solar expansion, with a gradual phase out of coal by 2049. More concretely, Poland aims for 53% renewable electricity by 2030 (vs. 27% in 2023).[9]

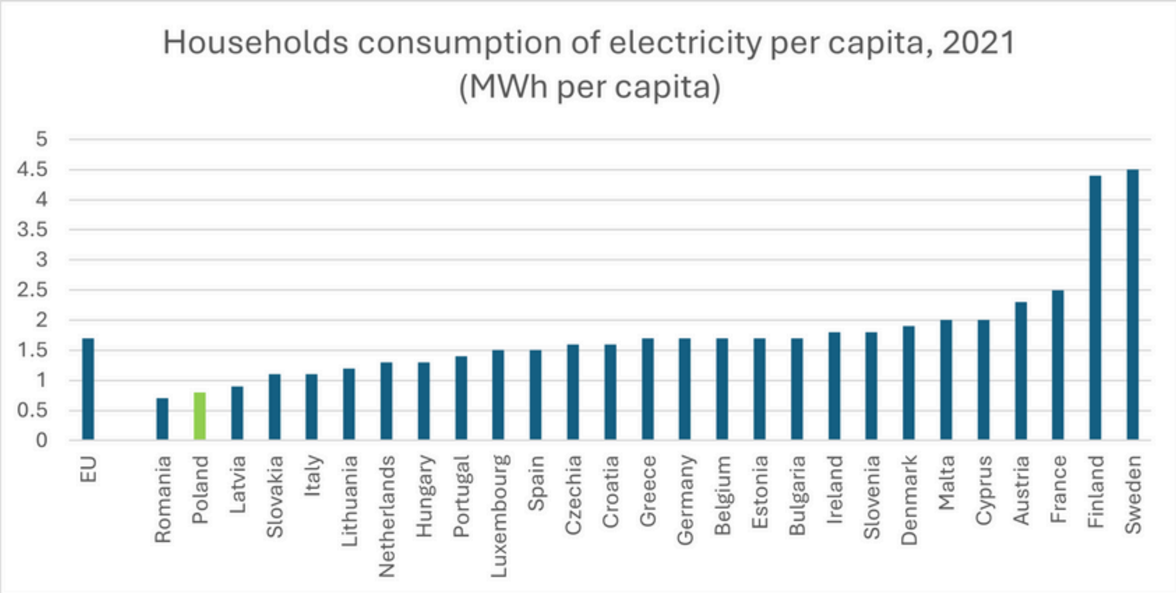
As part of that transition, the government is mulling a restructuring of the utilities sector, which is comprised of four state-dominated utilities (PGE, Tauron, ENEA and Energa). They all have substantial coal & lignite power capacities which are increasingly problematic given ever-rising EU carbon credit prices. The previous government was in the latter stages of planning a coal-power carve-out which would have seen those coal assets acquired by a newly formed state company called NABE (National Egency for Energy Security). The transfer would accelerate the companies' transition to green energy by improving their credit ratings and de-risking their portfolios. However, the new government of Civic Platform appears to have put those plans on pause for now.

**The 10H rule**

Onshore wind power development in Poland was severely restricted by a 2016 law which stated that the minimum distance of wind turbines from residential buildings should be 10 times the height of the turbine. Poland is one of the least urbanised European countries (40% of people live outside the cities;)[10] so the rule has effectively excluded most of the land available. Effectively, the minimum distance imposed by local municipalities has been set at 700m. However, last year parliament passed an amendment which liberalised the 10H distance rule to permit development at up to 500m under certain conditions.[11] According to some estimates, this will increase the availability for land from 4-5% at 700m to about 7.08%, unlocking the potential for another 6GW (vs. 9.3GW operating today).[12] However, further liberalisation of the rule may be needed for the country's National Reconstruction Plan to be fully approved by the European Commission and free up all of the EU funds for this sector.



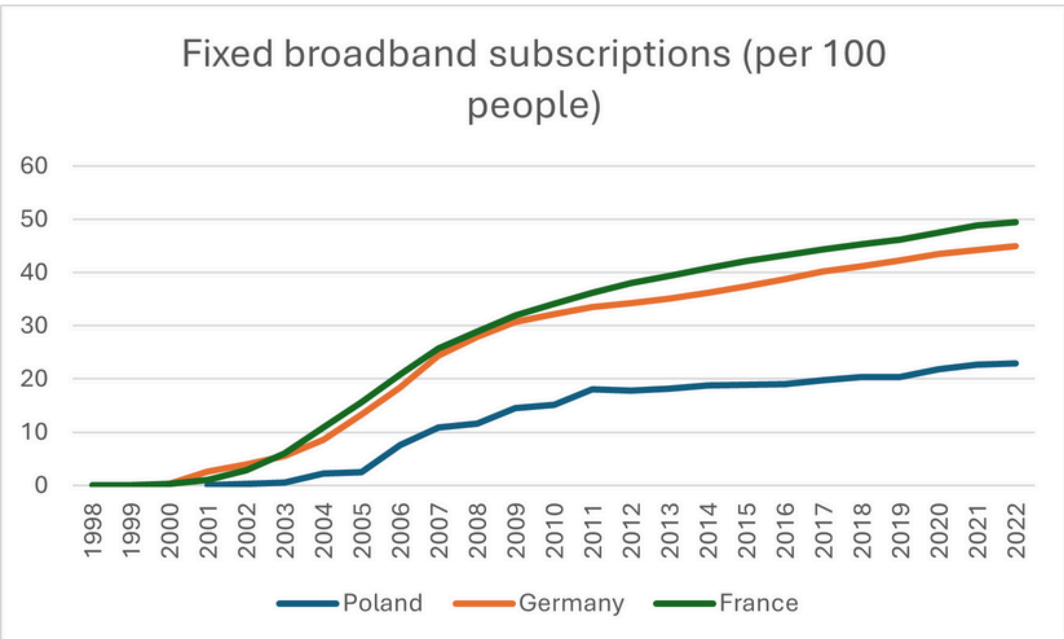

Source: Electricity generation from renewables [6]




Source: Household electricity consumption [13]

**Digital transformation**

Poland has a relatively mature telecommunications sector (particularly in mobile) but continues to fall behind Western Europe in terms of fibre broadband access, its 5G rollout and the state of digitisation of its government services. In fact, the country ranks 24th out of 27 EU member states, according to the 2022 Digital Economy and Society Index (DESI).[14] The biggest challenges noted are persistent gaps in human capital where only 43% of 16-74-year olds have basic digital skills vs. 54% in the EU and ICT specialists account for a slightly lower % of the workforce than the EU average. As of 2022, the number of Polish enterprises using cloud and engaging in electronic information sharing continued to fall behind the EU average at 3-19% estimated uptake. This compares to the EU's Digital Decade target that at least 90% of SMEs should have basic levels of digital intensity by 2030. Moreover, the country is still well behind the target to digitally provide 100% key public services for citizens and businesses by 2030. Hence about 21.3% (€7.5bn) of Poland's Recovery and Resilience Plan is earmarked for the country's digital transition. More concretely, the money is aimed at supporting the rollout of fast broadband and the 5G network, improving the digitisation rate of public services and raising the digital skills of students and the general workforce.

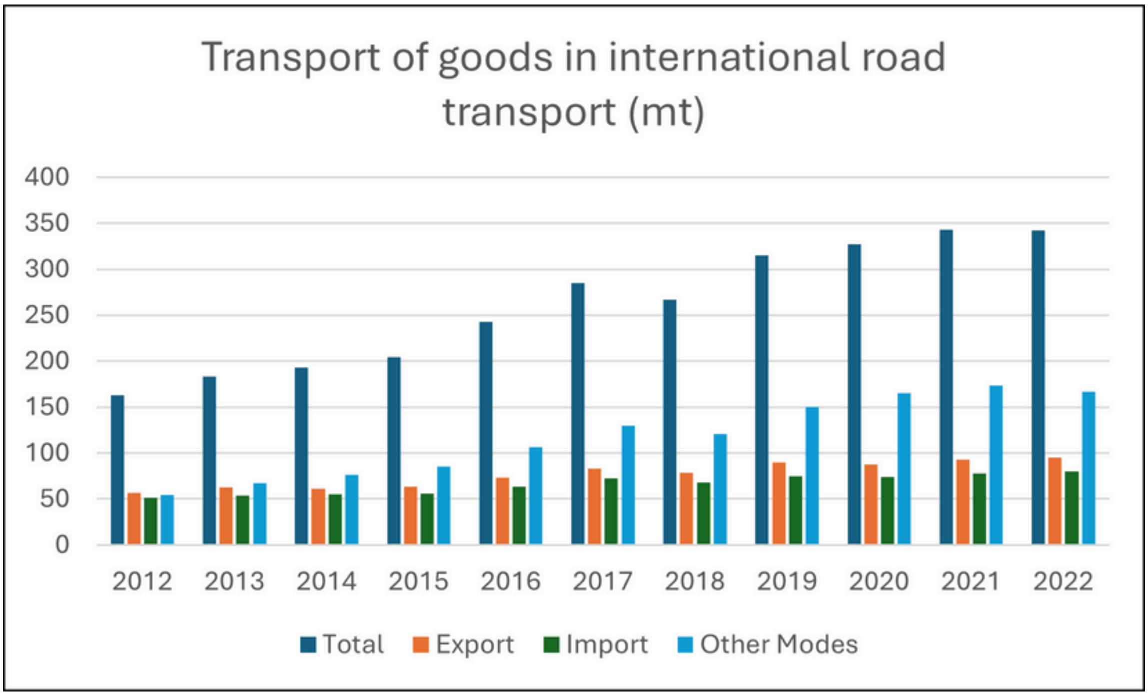



Source: Fixed broadband subscriptions[15]

**Investments in transport infrastructure**

Poland continues to dedicate large budgets for developing its transport infrastructure. Many of the government's road, railway and inland waterway projects are at least part-financed by the EU. The Ministry of Infrastructure has a $65.5bn program for 2020-2030 to expand the TEN-T (Trans-European Transport Networks) network of road, railways, airports and water infra. In 2022 alone, 200 miles of new roads were finished and 770 miles are under construction.[16] This includes a $7bn project for the Polish part of the Via Carpatia international route scheduled to complete by 2026. Poland's 12,000 miles railway network is also seeing continues investment with most projects financed by the EU Program for Infrastructure and Environment, with over $10bn spent on its modernisation to date. In the 2021-2030 period, the Polish railway will receive $75 billion for development.

Poland is also planning a brand-new international airport – the Solidarity Transport Hub (CPK) which will have a 100 million passenger capacity. It is scheduled to launch in 2028 and will cost $9bn. Located in Central Poland, about 25 miles from Warsaw where the existing Chopin airport has no further room to expand. This will lead to additional connecting infrastructure including a new railway.

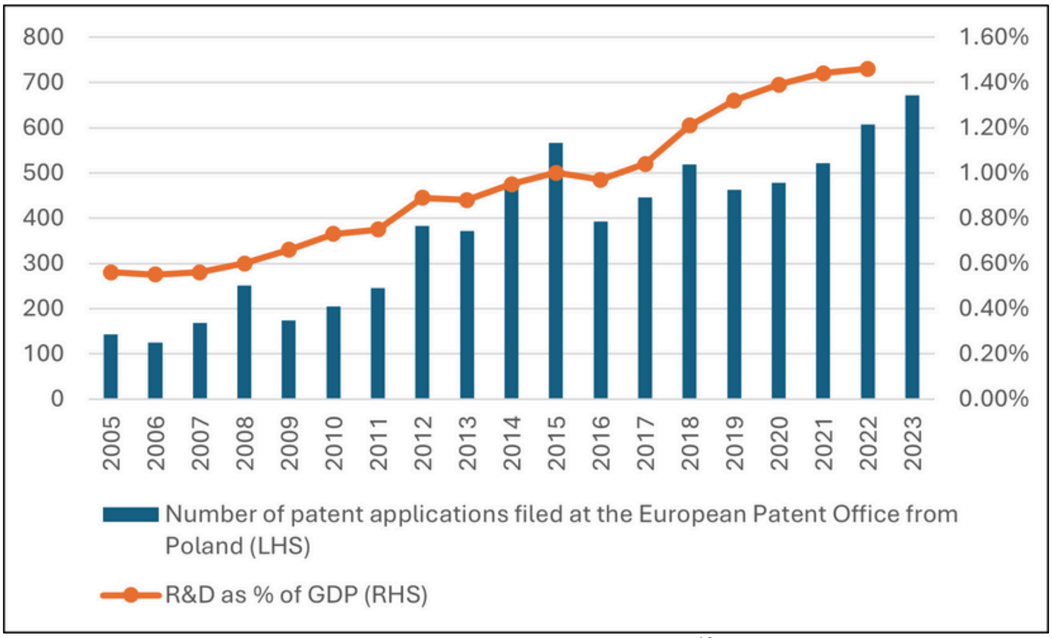



Source: Transport of goods in international road transport [17]

**Surge in innovation**

Poland ranks 38th among 132 economies in the Global Innovation Index (2022) with notable progress across a number of key metrics over the last 10 years [18]. Specifically, the country has been increasing its R&D expenditure as a % of GDP and is seeing an increase in high-tech exports, number of patents and intellectual property receipts. Nevertheless, the country still lags behind Western peers (though continuously improving) in areas such as venture capital investment, science and engineering graduates and university-industry collaboration. The EU's Horizon Europe is the Research and Innovation funding program until 2027 and has a budget of €95.5bn with a focus on research and innovation. The number of Polish candidates in the program has increased significantly in recent years with a mixture of universities, corporates and investment funds.

**Patents application at European Patent office and R&D spend**

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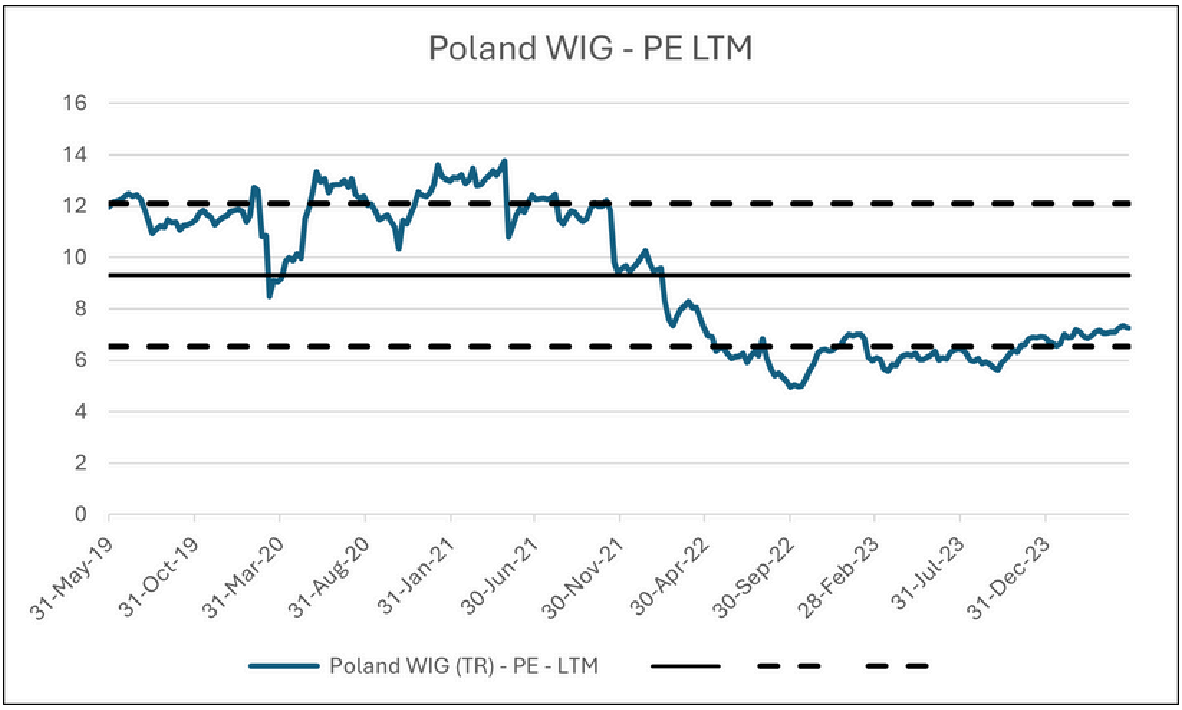
Source: Patents application at European Patent office and R&D spend [19]

**Opportunities for Investors**

Polish equities are currently trading at near 5-year low valuations, whilst the economic and earnings outlook is more positive compared to 2023. We believe that falling inflation and interest rates and the exceptional GDP outlook will be a medium-term driver for higher stock valuations. This makes Poland one of the most attractive emerging markets today with a relatively high and growing number of listed companies.




Source: Valuation of Polish equities index [20]

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Utilico Emerging Markets (UEM) has consistently maintained an overweight position in Polish equities which currently account for 4% of our NAV (vs. 0.99% in the MSCI Emerging Markets Index). These have been a positive contributor to UEM's performance in recent years. Going forward, UEM will continue its strategy of identifying and investing in equities that capture the key structural megatrends of the Polish economy.

**George Velikov**
15 June, 2024

Source Data: ICM Limited


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*Total return is calculated based on undiluted Net Asset Value, plus dividends reinvested and adjusted for the exercise of warrants and subscription shares




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