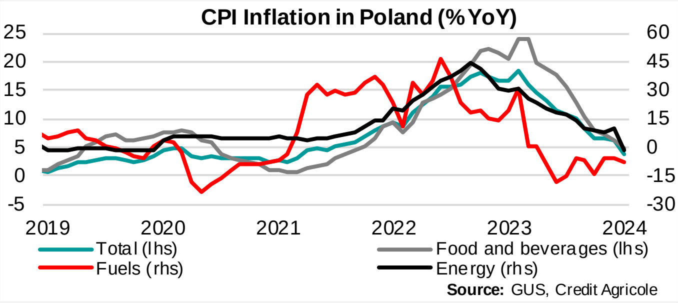
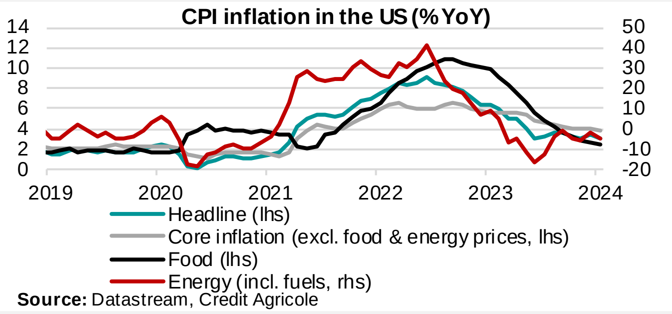
This week

- **The key event this week will be the release of Poland's inflation figures for February, scheduled for Friday.** New inflation basket weights and revised inflation figures for January will also be released. We expect YoY price growth to have slowed to 3.1% from 3.9% in January. The decline in headline inflation is mainly accounted for by last year high base effects, especially as regards food prices and core inflation. Our forecast is below market consensus (3.2%), thus its materialization would be slightly negative for the PLN and yields on Polish bonds.



- **Some important data from the US will be released this week.** We expect headline inflation to have remained flat between January and February, standing at 3.1% YoY, driven by a fall in core inflation (from 3.9% to 3.7%) amid bigger rises in energy prices. We expect nominal retail sales to have grown by 0.7% MoM in February compared with a drop of 0.8% in January due to a rise in fuel prices and higher sales volumes in the automotive industry. We expect growth in industrial production to have picked up to 0.1% MoM in February from -0.1% in January. Manufacturing indices continue to signal limited potential for growth in manufacturing activity (the ISM has been below the 50-point mark for 16 months). We expect the preliminary reading of the University of Michigan index to show a slight deterioration in household sentiment in March (75.0 pts vs. 76.9 pts in February). In our opinion, this week's US data releases will be neutral for financial markets.

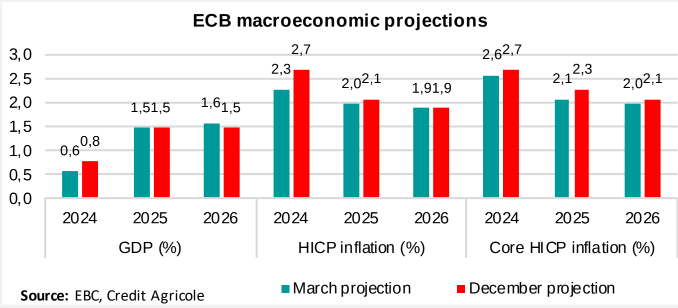


- **Data on Poland's balance of payments for January will be released on Friday.** We expect the current account balance to have increased to EUR 3,084M from EUR -24M in December, with the increase accounted for primarily by higher trade and EU transfers balances. We forecast that growth in exports picked up from -6.0% YoY in December to 1.9% in January, while decline in imports decelerated from -11.3%. YoY to -0.2%. Both the export growth and the import decline figures are affected by favourable calendar effects. In our opinion, the balance of payments figures will be neutral for the PLN and yields on Polish bonds.

Last week

- **At its meeting last week, the Monetary Policy Council decided to keep interest rates unchanged (with the NBP reference rate standing at 5.75%).** The MPC's decision was in line with our forecast and market consensus. In its press release, the MPC noted again that a fall in inflation expected over the coming months will be temporary only as the shielding measures affecting food and energy prices will be discontinued. The NBP also released its March economic projections. The inflation path has been revised down markedly, although it is based on the assumption that the shielding measures will be continued until the end of the horizon of the projection, which we believe makes the projection much less useful in forecasting monetary policy decisions. At the same time, the projected GDP growth path over 2024-2025 has been revised up markedly compared with the November projection (see MACROpulse of 06/03/2024). Last week also saw the NBP Governor A. Glapiński's usual press conference. He said that the MPC keeps the interest rates unchanged despite the fall in inflation because inflation is expected to rise in H2 of this year the shielding measures will be discontinued. He once again stressed substantial regulatory uncertainty and presented an inflation scenario for the coming quarters, alternative to the March projection, expecting that the shielding measures will start to be gradually discontinued in July this year (such expectation is in line with our inflation scenario). The press release issued after the MPC meeting and the NBP's March inflation projections are in line with our forecast, which expects interest rates to remain flat until mid-2025.

- **The European Central Bank met last week and decided to keep interest rates unchanged.** Thus, the ECB's main interest rate is 4.50% and the deposit rate is 4.00%. The ECB's decision was in line with our expectations and with consensus. The press release issued after the meeting continues to include a comment that although most measures of underlying inflation have eased further, domestic price pressures remain high, in part owing to strong growth in wages. The press release also 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 underlying inflation, and the strength of monetary policy transmission. After the meeting, the ECB's March projections were also released. Both the inflation path and the GDP growth forecast for 2024 were revised up slightly (see the chart). During the conference after the meeting, the ECB President Ch. Lagarde noted that no discussion about interest rates cuts had started yet, and the Governing Council had only begun discussing the dialling back of their restrictive stance. She also noted that the ECB would have a little more data on inflation outlook in April, and a lot more of that in June, which we believe may suggest the first rate cut will take place in June. As regards the pace of future rate cuts, the ECB President said that the rate cutting cycle would take a while. Ch. Lagarde's comments represent a downside risk to our scenario, which expects the ECB to start cutting rates in the Eurozone in September 2024 and rate cuts totalling 75bp in 2024 (25bp at each meeting in 2024 starting from the September one). We accept the possibility of an alternative scenario where the ECB will start cutting rates earlier with the pace of the cuts slower than in our baseline scenario,



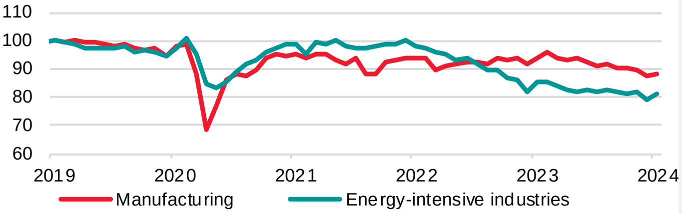
Source: EBC, Credit Agricole

- **Last week, the Fed Chairman J. Powell presented the Fed's semi-annual monetary policy report to the Congress.** His speech was in line with the recent rhetoric of the FOMC and did not provide any significant new information concerning US monetary policy outlook (see MACROmap of 26/03/2024). J. Powell emphasized that although the Fed will most likely start cutting rates later this year, before taking such a decision FOMC members want to be sure that inflation is nearing the Fed's target (2%). We maintain our scenario, which expects the Fed to cut rates by 25bp in Q3 and by another 25bp in Q4 this year. However, we acknowledge the risk that a monetary policy easing cycle will start earlier.
- **Some significant data on the US economy was released last week.** Non-farm payrolls rose by 275k in February vs. 229k in December (downward revision from 353k), running markedly above market expectations (200k). The strongest increases in employment were seen in education and health services (+85.0k), leisure and hospitality (+58k) and the government sector (+52.0k). In contrast, there was a decline in employment in manufacturing (-4.0k) and wholesale trade (-1.2k). The unemployment rate rose to 3.9% in February from 3.7% in January, running above

market expectations (3.7%). Despite the increase reported in February, it still remains below the natural rate of unemployment, estimated by the Fed at 4.0%. In contrast, the labour force participation rate was unchanged in February compared to January at 62.5%. At the same time, hourly wage growth slowed in February to 4.3% YoY vs. 4.4% in January, indicating weakening wage pressures in the US economy. However, the hourly wage growth rate data should be approached with caution due to the disruption caused by the harsh winter in recent months. The publication of significantly higher-than-expected data (despite a significant downward revision of the January data) led to a strengthening of the USD against the EUR. Last week also saw the release of business sentiment survey results. The ISM index showed a deterioration in services: the index fell to 52.6 pts in February from 53.4 pts in January, running below market expectations (53.0 pts). What pushed the index down was lower contributions of 2 out of its 4 components (employment and delivery times), while higher contribution of business activity and new orders components had the opposite effect. Noteworthy in the data is the decline in the index for final goods prices, which may indicate weakening price pressures in the US services sector. We expect the YoY US GDP growth rate to go down from 3.2% in Q4 to 1.3% in Q1. At the same time, according to our scenario, GDP in the US in 2024 will grow by 1.6%, compared to 2.5% growth in 2023.

- **Some important data on German economy was released last week.** Monthly industrial production growth increased to 1.0% MoM in January from -2.0% in December, running above market expectations (0.6%). Industrial production growth was boosted by its higher growth rates in manufacturing and construction, while production growth in energy declined. Noteworthy is the slight rebound in production in energy-intensive industries, which reached the lowest level at least since January 1991 (the longest time series at our disposal) a month earlier. This was primarily due to higher production in the 'chemicals and chemical products' category (+4.7% MoM). Last week we also saw data on orders in manufacturing, which decreased in January to -11.3% MoM from 12.0% in December, running clearly below market expectations (6.0%). The strong MoM drop in orders in January was mainly due to the effects of a high base the month before in the categories 'other transport equipment', 'electrical equipment' and 'fabricated metal products excluding machinery and equipment'. A reduction in orders was recorded for both domestic and export orders, due to lower orders from the rest of the Eurozone. Last week we also learnt about German foreign trade data, the balance of which increased to EUR 27.5bn in January, compared to EUR 22.2bn in December, above market expectations (EUR 21.5bn). At the same time, there were increases in the growth rate of exports (6.3% MoM in January vs. -4.6% in December) and imports (3.6% vs. -6.7%), both of which were above market expectations (1.5% and 1.8% respectively). However, it is worth noting that the higher trade growth rate in January was largely due to the effects of a low base the month before and, in our view, does not imply an improvement in the outlook for German foreign trade. The data carries a downside risk to our forecast, in which the quarterly GDP growth rate in Germany is to go up from -0.3% in Q4 to -0.1% in Q1.

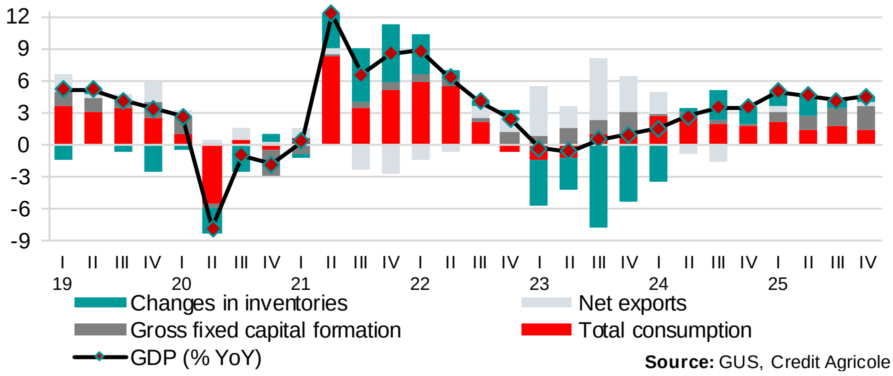
Production in manufacturing and energy-intensive industry branches in Germany (2019.01 = 100, SA)



Source: Destatis, Credit Agricole

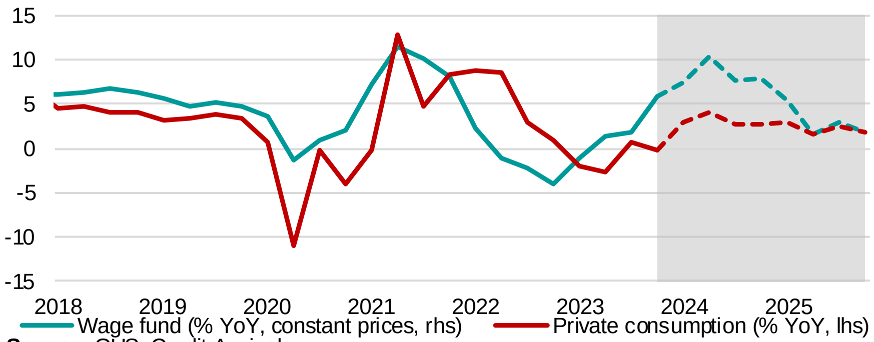
- **China's trade balance widened in January-February to USD 125.2bn vs. USD 75.3bn in December, against market expectations of USD 107.0bn.** Exports growth rate accelerated to 7.1% YoY vs. 2.3% and imports growth rate to 3.5% vs. 0.2%, running markedly above market expectations (2.5% and 2.0% respectively). Noteworthy in the data is the geographic reorientation of Chinese exports, with high foreign sales growth observed for Russia and Latin American and African countries, while sales to the US, Japan and the EU remain at reduced levels. Similar trends are observed for the geographic distribution of imports, where a decline in purchases from the US, Japan and the EU is visible. In our view, the changes in the distribution of China's foreign trade are most likely the result of administrative restrictions in the aforementioned countries on trade with China in high-tech goods. In the coming months, we expect a further recovery in China's foreign trade due to further signs of higher activity in global trade. However, one should bear in mind that making conclusions based on January-February data in China is hampered by the distorting effects of the Chinese New Year holiday. We forecast China's GDP growth rate to increase by 4.4% YoY in 2024 from 5.2% in 2023.

Forecasts for 2024-2025



Source: GUS, Credit Agricole

Below we present our macroeconomic scenario taking into account recent data on real economy, as well as the trends signalled by business surveys (see table on page 7). Our forecast for average annual growth rate in 2024 remians unchanged at 2.8% YoY. The trends we expected in the components of GDP this year have also remained largely unchanged since the previous forecasting round.

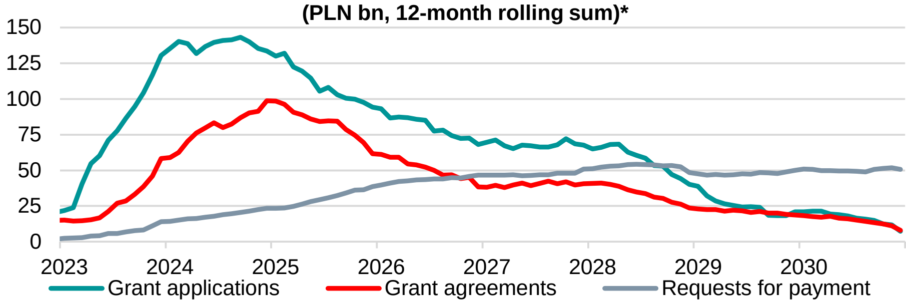


Source: GUS, Credit Agricole

We believe that the scale of the recovery in 2024 will remain moderate, in line with our earlier assumptions. The main driver of economic growth in 2024 will be consumption, which will be driven by rapid growth in real wages amid falling inflation. According to the available information, we estimate that the increases announced by the government for teachers and public sector employees will push the average annual growth rate of total salaries in the domestic economy up by more than 2 pp. We expect that the increases will be paid (with compensation for the previous months) from Q2 onwards and will significantly (by more than 1 pp) boost consumption growth. At the same time, we see a risk that consumers will use the period of falling inflation and high wage growth to rebuild savings at the expense of current consumption. A significant increase in the propensity to save would be a limiting factor for the recovery of private consumption in 2024. Our forecast also takes into account the negative impact of the still weak economic situation in Poland's external environment on Polish exports. The faster annualised consumption growth we expect will support the growth rate of domestic demand and imports, which, by reducing the contribution of net exports, will be a limiting factor for economic growth in subsequent quarters.

We have raised our forecast for GDP growth in 2025 from 3.5% YoY to 4.6%. The main driver of economic growth next year will be the boom we expect in total investment. Given the absorption cycle of EU funds (a pause between two seven-year financial perspectives), the growth rate of public gross fixed capital formation will decrease markedly in 2024. This decline, through low base effects, will provide strong

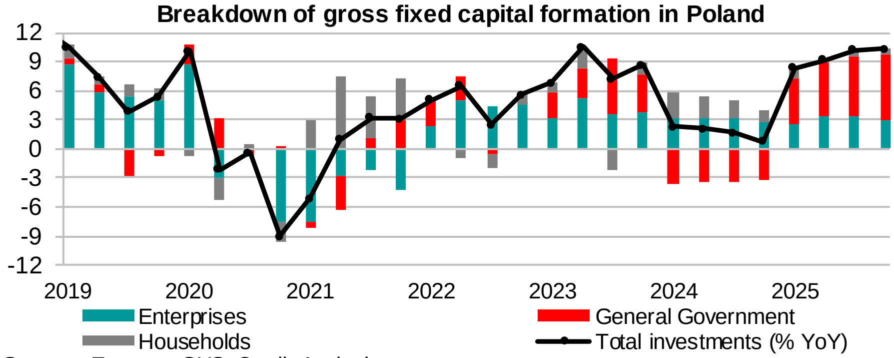
Absorption of EU funds within the 2014-2020 Programming Period (PLN bn, 12-month rolling sum)*



*excluding domestic part of financing, only EU funds; horizontal axis is shifted forward by 7 years
Source: Portal Funduszy Europejskich, GUS, Credit Agricole

support for the growth rate of public fixed capital formation in 2025. Some reference point in this respect is 2016 (i.e. the previous pause), when public investment fell by more than a quarter compared to 2015, and then increased by more than 20% YoY in 2017. Based on the time profile of the absorption of EU funds under the 2014-2020 perspective, we expect the use of EU funds to clearly accelerate in 2025 and remain high in 2026 (see requests for payment in the chart). We assume that the recovery of public investment in 2025 will be further supported by the accumulation of projects implemented under the NRP (due to the need to settle them in 2026). As a result, we expect public investment to increase in real terms by more than 25% YoY in 2025.

Breakdown of gross fixed capital formation in Poland

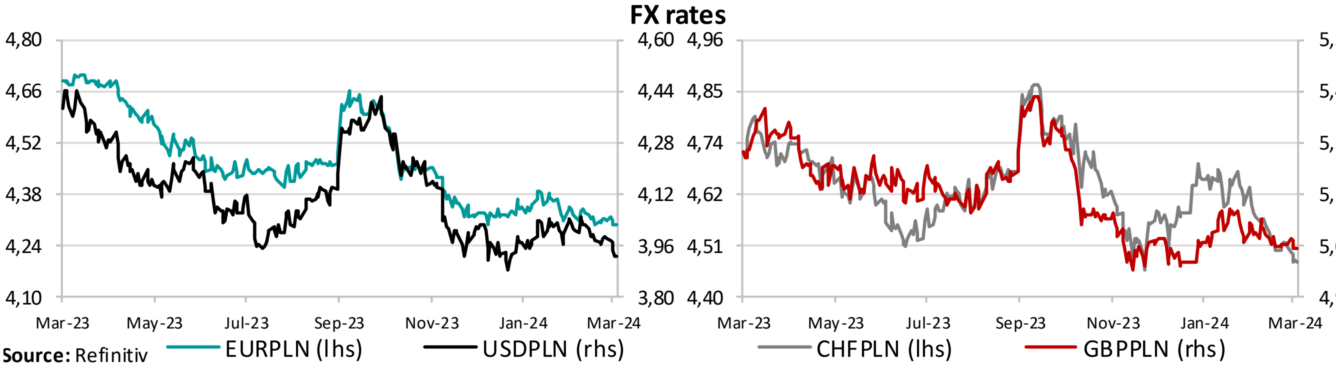


Source: Eurostat, GUS, Credit Agricole

We forecast that the other two segments of gross fixed capital formation (i.e. business and household investment) will also increase in 2025 compared to 2024. We continue to view the outlook for business investment quite optimistically. It will be supported by a recovery in economic growth and investments aimed at increasing productivity, as well as changes linked to the energy transition. In contrast, growth in household investment (mainly purchases of new dwellings in the primary market) will slow down markedly compared to 2024 due to the expiring positive impact of government support programmes for borrowers. In summary, the investment recovery in 2025 will be broad-based, although it will mainly be driven by a boom in public investment. We forecast that total gross fixed capital formation will increase by 9.7% YoY in 2025 compared to 1.5% in 2024.

In addition to investment, a higher contribution from net exports will support economic growth in 2025. We expect GDP growth in the Eurozone to clearly accelerate in 2025 relative to 2024. An improvement in the economic situation in Poland's main trading partners will be a factor that will boost exports. At the same time, the slowdown in consumption, which we forecast, will push the growth rate of imports down. The main factors holding back public consumption growth in 2025 will be the effects of the high base from a year ago related to pay rises for teachers and public sector employees and a renewed rise in inflation. We maintain our monetary policy scenario for 2024-2025 and our exchange rate forecasts. We expect the MPC to start the monetary easing cycle only in H2 2025 (see MACROpulse of 06/03/2024). The good economic situation and the stabilisation of interest rates will support the gradual appreciation of the PLN (see MACROmap of 04/03/2024). We expect EURPLN to fall further to 4.24 at the end of 2024 and 4.20 at the end of 2025.

Domestic inflation data may weaken the PLN



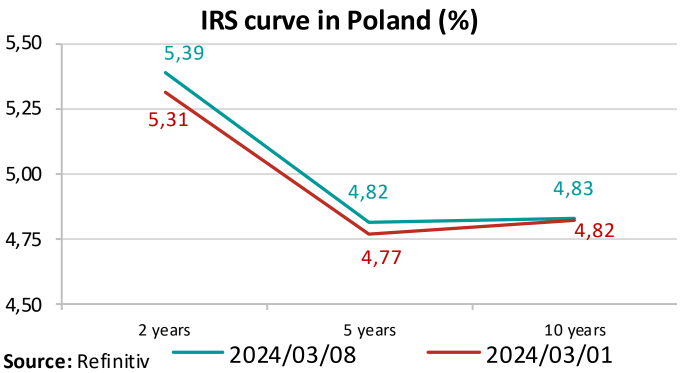
Source: Refinitiv

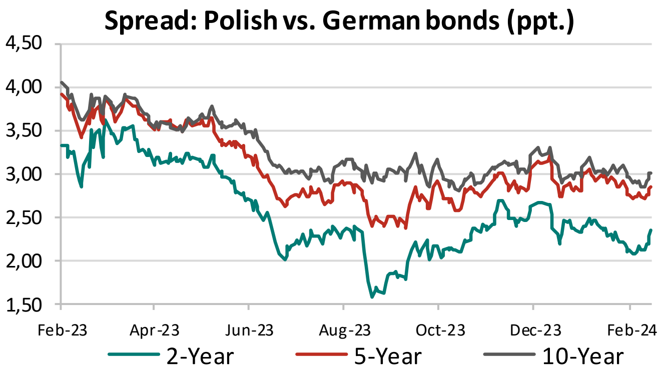
Last week, the EURPLN rate dropped to 4.2977 (the PLN strengthened by 0.3%). Last week, the EURPLN exchange rate was in a mild downtrend, which, in our view, was supported by increased demand for Polish assets related to the European Commission's unblocking of NRP funds for Poland, as well as the prospect of the MPC's interest rate stabilisation for a longer period of time in the context of probable monetary easing by other central banks (Fed, ECB, and banks in the region, e.g. MNB).

The EURUSD exchange rate, on the other hand, was in a clear uptrend, supported by growing expectations of interest rate cuts in the USA, further exacerbated by the publication of mixed (due to significant revisions) non-farm employment data in the US.

This week, the publication of preliminary inflation data in Poland will be important for the PLN. Our forecast is below the market consensus, hence its materialization may push the PLN down. We believe that other data releases from the Polish and global economies scheduled for this week will be neutral for the PLN.

Domestic inflation data in the spotlight





Source: Refinitiv

Last week, 2-year IRS rates increased to 5.39 (up by 8bp), 5-year rates to 4.82 (up by 5bp) and 10-year ones to 4.83 (up by 1bp). Last week saw an increase in IRS rates, particularly at the short end of the curve, which was supported by a reduction in expectations of interest rate cuts in Poland, partly due to the hawkish tone of NBP Governor A. Glapiński's statements. Currently, FRA contracts are no longer pricing in a full interest rate cut by 25bp by the end of 2024. At the same time, the core markets witnessed a decline in IRS rates, which was supported by dovish statements by the President of the ECB Ch. Lagarde. Consequently, last week we saw a higher spread between Polish and German bonds.

Forecasts for 2024-2025

This week, the key factor for rates will be the publication of domestic inflation data scheduled for Friday, which may have a downward effect on IRS rates. In our opinion, other data releases from the Polish and global economies scheduled for this week will be neutral for the IRS rates.

Forecasts of the monthly macroeconomic indicators

Main monthly macroeconomic indicators in Poland

Indicator	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24
NBP reference rate (%)	6,75	6,75	6,75	6,75	6,75	6,75	6,75	6,00	5,75	5,75	5,75	5,75	5,75	5,75
EURPLN*	4,70	4,68	4,59	4,53	4,43	4,40	4,47	4,63	4,45	4,35	4,33	4,32	4,31	4,30
USDPLN*	4,45	4,31	4,16	4,23	4,06	4,00	4,12	4,37	4,21	4,00	3,93	4,00	3,99	3,98
CHFPLN*	4,72	4,71	4,66	4,64	4,52	4,59	4,66	4,78	4,62	4,56	4,64	4,64	4,52	4,43
CPI inflation (% YoY)	18,4	16,1	14,7	13,0	11,5	10,8	10,1	8,2	6,6	6,6	6,2	3,9	3,1	
Core inflation (% YoY)	12,0	12,3	12,2	11,5	11,1	10,6	10,0	8,4	8,0	7,3	6,9	6,4	5,5	
Industrial production (% YoY)	-1,5	-3,7	-6,5	-3,3	-1,6	-2,7	-2,2	-3,3	2,0	-0,3	-3,5	1,6	4,0	
PPI inflation (% YoY)	18,2	10,3	6,2	2,8	0,3	-2,1	-2,9	-2,7	-4,2	-5,1	-6,9	-9,0	-8,8	
Retail sales (% YoY)	10,8	4,8	3,4	1,8	2,1	2,1	3,1	3,6	4,8	2,6	0,5	4,6	7,2	
Corporate sector wages (% YoY)	13,6	12,6	12,1	12,2	11,9	10,4	11,9	10,3	12,8	11,8	9,6	12,8	11,2	
Employment (% YoY)	0,8	0,5	0,4	0,4	0,2	0,1	0,0	0,0	-0,1	-0,2	-0,1	-0,2	-0,2	
Unemployment rate* (%)	5,6	5,4	5,3	5,1	5,1	5,0	5,0	5,0	5,0	5,0	5,1	5,4	5,5	
Current account (M EUR)	1467	1372	-230	589	1272	157	556	1176	2119	1203	-24	3084		
Exports (% YoY EUR)	14,8	16,1	1,8	4,3	4,0	0,0	-2,3	-4,2	2,3	-1,9	-6,0	1,9		
Imports (% YoY EUR)	-1,6	3,3	-9,6	-5,0	-5,8	-7,4	-11,9	-14,7	-7,7	-7,8	-11,3	-0,2		

*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)		1,5	2,7	3,5	3,5	5,0	4,7	4,2	4,5	0,2	2,8	4,6
Private consumption (% YoY)		3,0	4,0	2,8	2,7	2,9	1,6	2,5	1,9	-1,0	3,1	2,2
Gross fixed capital formation (% YoY)		2,3	2,1	1,6	0,7	8,4	9,2	10,2	10,3	8,4	1,5	9,7
Export - constant prices (% YoY)		2,8	0,6	4,9	7,8	7,9	5,7	4,3	7,1	-1,9	4,0	6,3
Import - constant prices (% YoY)		-0,4	2,3	8,8	8,7	8,4	6,8	4,9	6,8	-8,3	4,8	6,7
GDP growth contributions	Private consumption (pp)	1,8	2,3	1,7	1,3	1,8	0,9	1,5	0,9	-0,6	1,8	1,2
	Investments (pp)	0,3	0,3	0,3	0,2	1,1	1,5	1,7	2,3	1,4	0,3	1,7
	Net exports (pp)	2,0	-0,9	-1,7	0,0	0,4	-0,2	-0,2	0,4	3,9	-0,2	0,1
Current account (% of GDP)***		1,8	2,1	1,7	1,6	1,3	1,1	1,0	1,1	1,6	1,6	1,1
Unemployment rate (%)**		5,4	4,9	4,8	4,9	5,2	4,7	4,7	4,8	5,1	4,9	4,8
Non-agricultural employment (% YoY)		0,4	0,0	0,0	-0,1	-0,3	-0,5	-0,5	-0,6	0,8	0,1	-0,5
Wages in national economy (% YoY)		10,5	13,0	12,3	12,5	10,7	6,9	6,6	6,0	12,8	12,1	7,5
CPI Inflation (% YoY)*		3,2	2,3	4,2	4,2	4,6	4,7	3,0	3,5	11,6	3,5	4,0
Wibor 3M (%)**		5,88	5,88	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**		4,30	4,28	4,26	4,24	4,23	4,22	4,21	4,20	4,33	4,24	4,20
USDPLN**		3,98	4,00	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**
		Tuesday 03/12/2024				
13:30	USA	CPI (% MoM)	Feb	0,3	0,4	0,4
13:30	USA	Core CPI (% MoM)	Feb	0,4	0,3	0,3
		Wednesday 03/13/2024				
11:00	Eurozone	Industrial production (% MoM)	Jan	2,6		-1,5
		Thursday 03/14/2024				
13:30	USA	Retail sales (% MoM)	Feb	-0,8	0,7	0,8
15:00	USA	Business inventories (% MoM)	Jan	0,4		0,2
		Friday 03/15/2024				
10:00	**Poland**	**CPI (% YoY)**	**Feb**	**3,9**	**3,1**	**3,2**
13:30	USA	NY Fed Manufacturing Index (pts)	Mar	-2,4		-7,0
14:00	**Poland**	**Current account (M EUR)**	**Jan**	**-24**	**3084**	**1446**
14:15	USA	Capacity utilization (%)	Feb	78,5		78,5
14:15	USA	Industrial production (% MoM)	Feb	-0,1	0,1	0,0
15:00	USA	Initial U. of Michigan Sentiment Index (pts)	Mar	76,9	75,0	76,9

*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

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