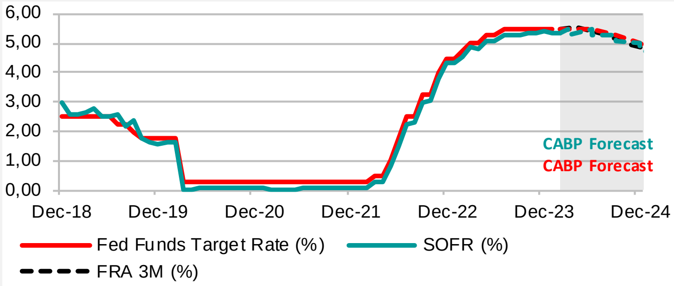
VAT on food up, average annual inflation unchanged

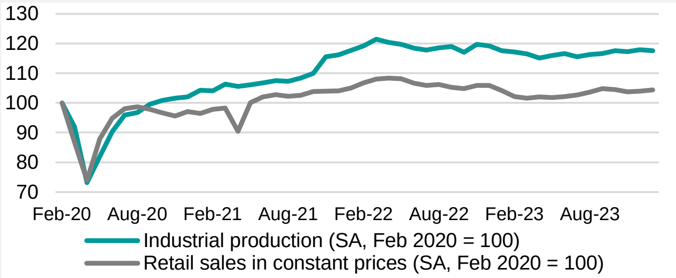
This week

- **The key event this week will be an FOMC meeting, scheduled for Wednesday.** We expect the Fed to keep interest rates unchanged, with the federal funds target range at [5.25%, 5.50%]. Such a decision would be in line with recent comments from FOMC members and with the market consensus. Much more important than the Fed's decision itself will be information in the press release about the timing of the start of a monetary easing cycle and the total magnitude of rate cuts this year. More information will be provided by the FOMC members' upcoming macroeconomic projections. We expect the projections to include three rate cuts in 2024 totalling 75bp, similarly to December's projections. However, we recognize that there is a significant risk that the scale of monetary policy easing this year will be revised down to 50bp. At the same time, we believe that inflation and unemployment projections will be revised up slightly, and the economic growth estimate will be revised down. In our opinion, the conference after the FOMC meeting will add to volatility in financial markets.



Source: Refinitiv, Credit Agricole

- **Another important event will be the release of Poland's industrial production figures for February on Wednesday.** We forecast that growth in industrial production picked up to 4.0% YoY from 1.6% in January. Faster industrial production growth is accounted for by favourable calendar effects and an improvement in manufacturing signalled in GUS business surveys. Our industrial production growth forecast is above market consensus (2.6%), and thus its materialization would be slightly positive for the PLN and yields on Polish bonds.



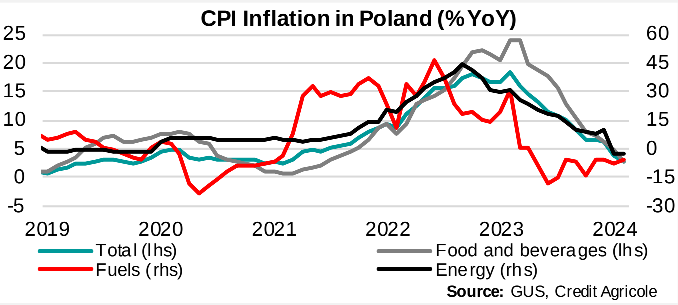
Source: GUS, Credit Agricole

- **Poland's retail sales figures will be released on Thursday.** We expect retail sales growth in constant prices to have picked up to 5.8% YoY in February from 3.0% in January, driven by an improvement in consumer confidence and last year low base effects. Our real retail sales growth forecast is above consensus (5.1%), thus its materialization would be slightly positive for the PLN and yields on Polish bonds.
- **Thursday will see the release of business survey results for the key Eurozone economies.** The market expects a rise in the Eurozone's composite PMI to 49.7 pts in March from 49.2 pts in February. Thus, March would be the third month in a row with the PMI on the rise, however, the index still remains below the 50-point mark, signalling continuing recession trends in the Eurozone. Investors also expect a rise in Germany's manufacturing PMI, to 43.3 pts in March from 42.5 pts in February, which would be a correction after a sharp drop in the index (3.0 pts) in February. We believe that the release of Eurozone business survey results will be neutral for financial markets.
- **Data on the US real estate market will be released this week.** We expect data on new building permits (1,485k in February vs. 1,489k in January), housing starts (1,411k vs. 1,331k) and existing home sales (3.96M vs. 4.00M) to show a slight slowdown in the US housing market. We believe

that the releases of US data will be overshadowed by the FOMC meeting, and will be neutral for financial markets.

- **Data on employment and average wages in Poland's business sector for February will be released on Wednesday.** We forecast that growth in employment did not change between January and February, standing at -0.2% YoY. At the same time, average wage growth dropped to 11.2% YoY in February from 12.8% in January due to last year high base effects. We believe that the release of data on employment and wages in the business sector will be neutral for the PLN and the debt market.
- **The release of an update on Poland's long-term debt rating by Moody's is scheduled for Friday.** Last year, Moody's affirmed Poland's A2 rating with a stable outlook twice (in March and September) without releasing a formal, detailed report. We do not expect Moody's to change Poland's rating or outlook this week, and we expect the press release following Moody's decision to be quite optimistic. We expect the press release to note, among other things, Poland's strong economic fundamentals and a positive impact of the unlocking of EU funds on Poland's GDP growth outlook and credit rating. Moody's decision will be announced after the European markets close, so we cannot expect any reaction to the decision from the FX market or the debt market before next week.
- **Significant data from China has been released today.** Some data are better than expected, namely urban investment data (4.2% in January-February this year vs. 3.0% in December, with expectations at 3.2%), retail sales figures (5.5% vs. 7.4%, with expectations at 5.2%), industrial production figures (7.0% vs. 6.8%, with expectations at 5.0%). It is worth noting that growth in investment and production picked up despite last year high base effects and an unfavourable difference in the number of working days. The data shows a recovery in manufacturing and in infrastructure construction, supported by government measures. However, continued weak consumer spending and a continued downturn in the real estate market give rise to concern. We believe that the government will be monitoring the situation in China's economy in the coming months and will probably continue its stimulus measures as needed. Today's data does not change our forecast, which expects China's GDP growth to drop to 4.4% YoY in 2024 from 5.2% in 2023.

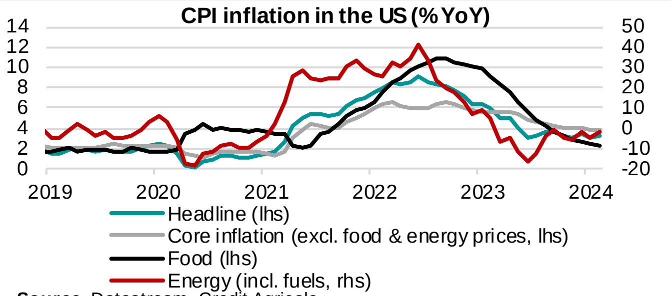
Last week



- **Poland's CPI inflation fell to 2.8% YoY in February from 3.7% in January (downward revision from 3.9%), running below market consensus (3.2%) and our forecast (3.1%).** For the first time since March 2021, inflation fell, though temporarily only, below the upper band for deviations from the NBP's inflation target (3.5% YoY). The fall in inflation was driven by slower price growth in the 'food and non-alcoholic beverages' category and lower core inflation, which according to our estimates fell to 5.3% YoY in February from 6.2% in January, partially offset by a slower decline in fuel and energy prices. We estimate that MoM core inflation did not change between January and February, standing at 0.5% and running above the seasonal pattern (ca. 0.1% in February). We believe this is a sign of continuing elevated inflationary pressures in the Polish economy. We expect MoM core inflation to fall in the coming months, however, we expect it remain above the seasonal pattern. GUS also published revised weights in the consumer basket, which reflect the breakdown of household spending in 2023. The changes largely reflect the impact of high inflation on consumers' purchasing decisions (see MACROpulse of 15/03/2024). Due to a lower starting point and last week's decision of the government to restore 5% VAT on basic food products beginning on 1 April, we have revised our inflation scenario (see below).

- **Poland's current account balance rose to EUR 1,179M in January from EUR -24M in December, running below market expectations (EUR 1,450M) and our forecast (EUR 3,084M).** The increase in the current account balance was due to a higher trade balance (EUR 1,842M higher than in December). In contrast, lower balances of services and primary and secondary income (EUR 119M, EUR 123M and EUR 397 lower than in December, respectively) had an opposite effect. At the same time, January saw slower drop in exports (-4.3% YoY in January vs. -6.0% in December) and in imports (-3.5% vs. -11.3%). Favourable calendar effects pushed foreign trade turnover growth rate up in January. According to the NBP press release, the decline in exports was broad-based and, as in the previous month, was recorded in all its main categories. In the case of consumer goods, the NBP's release highlighted a deepening decline in foreign sales of transport equipment, helped by lower exports of electric batteries. The release also notes that an important factor influencing the decline in the value of imports was the reduction in fuel prices. At the same time, attention was drawn to a further decline in imports of industrial supplies and capital goods, which can be linked to a weakening of demand for goods produced in Poland. Last week's data represents a downside risk to our forecast, which expects the cumulative current account balance for the last four quarters as a percentage of GDP to rise to 1.8% in Q1 2024 from 1.6% in Q4 2023.

- **Important data from the US was released last week.** CPI inflation in February increased to 3.2% YoY, up from 3.1% in January and above consensus (3.1%). The higher growth rate of energy prices had an upward effect on inflation. On the other hand, declining food price growth rate had the opposite effect, with core inflation falling to 3.8% (the consensus forecast was for core inflation to fall to 3.7%). Noteworthy is the continued strong increase in core inflation on a monthly basis (0.4% MoM in January and February). This is mainly due to rising prices of services, with February seeing the first monthly increase in commodity prices since May 2023. Data on industrial production was also released last week. It showed that its monthly growth rate increased from -0.5% in January to 0.1 in February (downward revision from -0.1%), standing above the market consensus (0.0%). Higher manufacturing and construction output growth rate contributed to its increase, while the opposite impact was due to lower output growth in utilities. However, it is worth noting that the decline in production in the latter category was largely due to the cessation of the effect of the cold winter. Capacity utilisation was unchanged in February compared to January at 78.3%, thus remaining at its lowest level since September 2021, indicating continued low activity in US manufacturing. Last week we also learnt retail sales data, whose monthly nominal growth rate increased in February to -0.6% MoM compared to -1.1% in January (downward revision from -0.8%), which was slightly below market expectations (0.8%). Excluding cars, retail sales grew by 0.3% in February vs. 0.8% in January. The reduction in the growth rate of sales excluding cars was influenced by a reduction in the growth in the categories 'furniture', 'electronics' and 'shopping malls'. In the coming quarters, we expect a further gradual weakening of consumer demand. A deterioration in sentiment in manufacturing was indicated by the regional NY Empire State index (-20.9 pts in March compared to -2.4 pts in February). However, it is worth remembering that this index is characterised by high volatility, hence the March results should be approached with caution. On the other hand, the preliminary University of Michigan index declined to 76.5 pts in March from 76.9 pts in February, running slightly below market expectations (76.9 pts). The



Source: Datastream, Credit Agricole

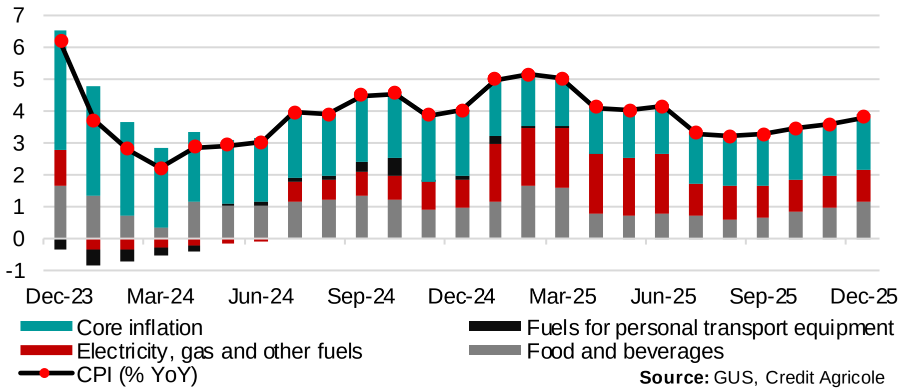
decline in the index was due to a decrease in its component for expectations, while the assessment of current situation component remained unchanged. The median expected inflation over one-year horizon, released together with the University of Michigan index, remained unchanged in March vs. February at 3.0%, which shows that inflation expectations of US households continue to be elevated. We are forecasting that the annualized growth rate of US GDP will fall to 1.3% in Q1 2024 from 3.2% in Q4 2023.

VAT on food up, average annual inflation unchanged

Recent incoming data has prompted us to revise our inflation scenario. Due to the government's decision announced last week to reinstate the 5% VAT rate on basic foodstuffs from 1 April on (we had assumed this would happen on 1 July – see MACROmap of 11/3/2024), and the lower starting point, we have revised our food price path. We currently believe that food and non-alcoholic beverage price growth rate will reach its local minimum of 3.0% YoY in Q1 2024. We forecast that the reinstatement of the 5% VAT rate on basic food products will raise price growth rate in this category by 4 pp, which is equivalent to a full pass-through of the tax to retail prices. Consequently, from Q2 onwards, we expect food price growth rate to increase again, remaining at elevated levels until Q1 2025. The impact of reintroducing a 5% VAT rate on food will be offset to some extent by the continuing fall in agricultural commodity prices. In April 2025, annual food price growth rate will decline markedly due to high base effects associated with the reinstatement of the VAT rate in 2024. In H2 2025, we expect a gradual increase in food and non-alcoholic beverage price growth rate due to the increase in global agricultural commodity prices we forecast as a result of a reduction in their supply due to the current low profitability of production. Consequently, for 2024 as a whole, food and non-alcoholic beverage price growth rate will increase to 3.7%, compared to 15.4% in 2023, and decrease to 3.5% in 2025. The main risk factor for our scenario is the course of agro-meteorological conditions among the world's major agricultural commodity exporters.

In line with our estimates, core inflation increased in January and February by around 0.5% on a monthly basis in each case, above the historical seasonal pattern. We believe that we will continue to see an upward deviation of monthly core inflation from the seasonal pattern in the months ahead. Thus, inflationary pressures will remain stronger in the short term than our earlier expectations. We assume that starting from May 2024, changes in core inflation will start to develop only slightly above its seasonal pattern. This will be due, inter alia, to the delayed economic recovery among Poland's main trading partners, as well as the recent strengthening of the PLN, reducing the prices of imported goods. As a result, in Q2 2025, core inflation will reach its local minimum at 2.9%. Later, we will see it rise again, supported by the progressive economic recovery we forecast in Poland and among Poland's main trading partners. As a result, we forecast that core inflation will average 4.1% (3.9% before revision) in 2024 and decrease to 3.0% (3.1%) in 2025.

We have slightly revised our fuel price path too. We now believe that their average annual growth rate will be 0.2% in 2024 (0.6% before the revision), and will fall to 0.0% (-0.4%) in 2025. The relative stabilisation of fuel prices will be compounded by an increase in global crude oil prices (to around USD 87/bbl by the end of 2024 and USD 90/bbl by the end of 2025) and the strengthening of the PLN against the USD in the medium term, which we forecast, acting in the opposite direction. We have also revised the path of energy prices to take into account their price freeze until the end of June 2024. In July, we expect a 15% MoM of electricity prices, while the increase in the price of heat energy will be spread over H2 2024. We believe that the other energy prices (gas and fuel) will also not change significantly once the shielding measures are lifted. For the purposes of our forecast, we assume that the energy prices will increase by 8% MoM on average from the beginning of 2025. As a result, we forecast price growth rate in this category to increase to 12.4% YoY in 2025 from 2.2% in 2024.

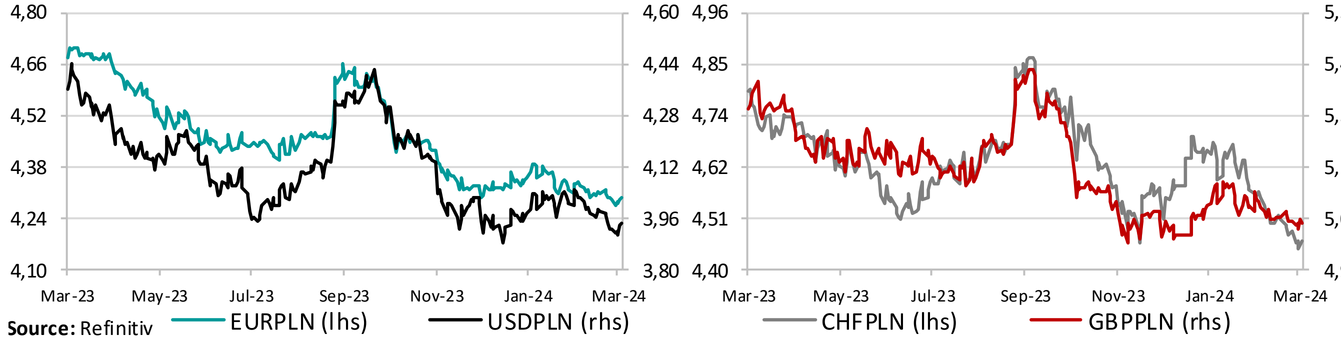


In summary, our scenario assumes that overall inflation will temporarily settle below the inflation target (2.5% YoY) in March 2024. Although we have revised the inflation month-by-month trajectory, its projected annual average levels for 2024-2025 remain unchanged. We expect average annual inflation to reach 3.5% YoY in 2024 and rise to 4.0% in 2025.

The revised inflation forecast is consistent with our scenario of interest rates stabilising at current levels until H2 2025. What supports this scenario are the NBP Governor's statements to date signalling a low probability of interest rate cuts in the coming quarters, as well as the government coalition representatives' announcement that they will file a motion to bring NBP Governor Adam Glapinski before the State Tribunal (TS) by the end of March. In addition, an important argument for not lowering interest rates will be the expected recovery in economic growth occurring against a background of rapid wage growth, which will be a pro-inflationary factor in the medium term.

EURPLN exchange rate at lowest level in 4 years

FX rates

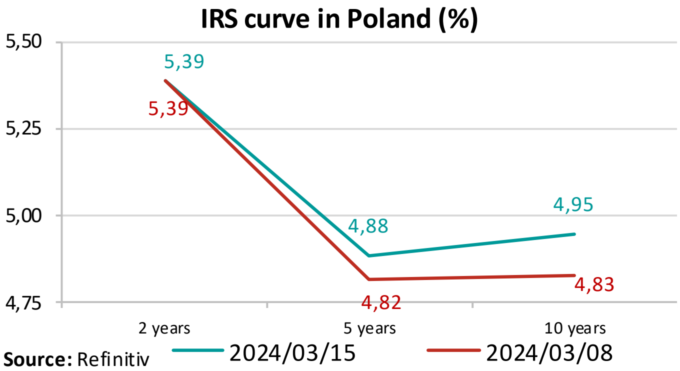


Last week, the EURPLN rate increased to 4.2983 (the PLN weakened by 0.2%). Monday saw a marked decline in the EURPLN exchange rate, continuing the trend observed two weeks ago (see MACROmap of 11/3/2021). As a result, it reached its lowest level in four years. The strengthening of the PLN is supported 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). Later in the week there was a correction, which can be explained by the realisation of profits by some investors.

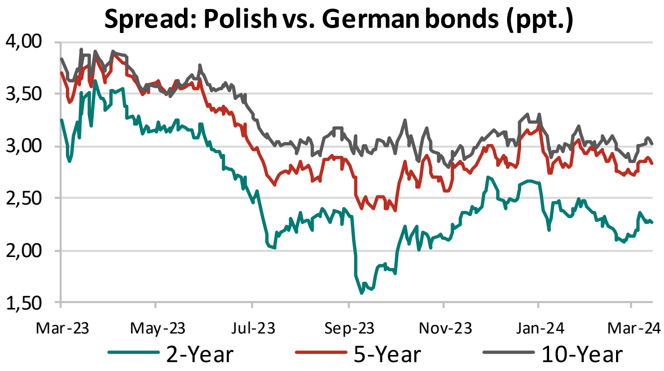
From the point of view of the EURUSD exchange rate, the most important event was Thursday's publication of higher-than-expected US inflation data, which led to a strengthening of the USD against the EUR.

This week, the publications of domestic data on industrial production (Wednesday) and retail sales (Thursday) will be important for the PLN as they may contribute to the strengthening of the Polish currency. The FOMC meeting scheduled for Wednesday, on the other hand, may increase volatility in the currency market. We believe that other data releases from the Polish and global economies scheduled for this week will be neutral for the PLN. Friday's update of Poland's rating by Moody's is likely to be announced after European markets close, thus its impact on the PLN will not materialise until next week.

Domestic data on production and retail sales in the spotlight



Source: Refinitiv



Last week the 2-year IRS rates remained unchanged at 5.39, 5-year rates increased to 4.88 (up by 6bp), and 10-year ones increased to 4.95 (up by 12pb). Last week saw an increase in IRS rates following the core markets, helped by lower expectations of interest rate cuts by major central banks. Thursday's release of higher-than-consensus US inflation data further contributed to weakening expectations of interest rate cuts. On Friday, IRS rates corrected and fell in response to the publication of lower-than-expected domestic inflation data.

This week the publication of domestic data on industrial production (Wednesday) and retail sales (Thursday) will be crucial for IRS rates. We believe that data can contribute to an increase in IRS rates. The FOMC meeting scheduled for Wednesday, on the other hand, may increase IRS rates volatility. In our opinion, other data releases from the Polish and global economies scheduled for this week will be neutral for the IRS rates. Friday's update of Poland's rating by Moody's is likely to be announced after European markets close, thus its impact on the IRS rates will not materialise until next week.

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	3,7	2,8	
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	**6,2**	**5,3**	
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	1179		
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	-4,3		
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	-3,5		

*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)*		2,9	2,9	4,1	4,1	5,0	4,1	3,3	3,6	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	FORECAST* CONSENSUS**
		Monday 03/18/2024				
3:00	China	Retail sales (% YoY)	Feb	7,4	5,5	5,2
3:00	China	Urban investments (% YoY)	Feb	3,0	3,2	3,2
3:00	China	Industrial production (% YoY)	Feb	6,8	4,5	5,0
14:00	**Poland**	**Core inflation (% YoY)**	**Feb**	**6,2**	**5,3**	**5,4**
		Tuesday 03/19/2024				
11:00	Germany	ZEW Economic Sentiment (pts)	Mar	19,9		20,1
13:30	USA	Building permits (k)	Feb	1489	1485	1500
13:30	USA	Housing starts (k MoM)	Feb	1331	1411	1447
		Wednesday 03/20/2024				
10:00	**Poland**	**PPI (% YoY)**	**Feb**	**-9,0**	**-8,8**	**-8,7**
10:00	**Poland**	**Corporate sector wages (% YoY)**	**Feb**	**12,8**	**11,2**	**11,5**
10:00	**Poland**	**Employment (% YoY)**	**Feb**	**-0,2**	**-0,2**	**-0,2**
10:00	**Poland**	**Industrial production (% YoY)**	**Feb**	**1,6**	**4,0**	**2,6**
19:00	USA	FOMC meeting (%)	Mar	5,50	5,50	5,50
		Thursday 03/21/2024				
9:30	Switzerland	SNB rate decision %)	Q1	1,75		
9:30	Germany	Flash Manufacturing PMI (pts)	Mar	42,5		43,3
10:00	**Poland**	**Retail sales - current prices(% YoY)**	**Feb**	**4,6**	**7,2**	**6,8**
10:00	**Poland**	**Retail sales - constant prices (% YoY)**	**Feb**	**3,0**	**5,8**	**5,1**
10:00	Eurozone	Flash Services PMI (pts)	Mar	50,2		50,5
10:00	Eurozone	Flash Manufacturing PMI (pts)	Mar	46,5		47,0
10:00	Eurozone	Flash Composite PMI (pts)	Mar	49,2		49,7
13:00	UK	BOE rate decision (%)	Mar	5,25		5,25
13:30	USA	Philadelphia Fed Index (pts)	Mar	5,2		-1,5
14:45	USA	Flash Manufacturing PMI (pts)	Mar	52,2		51,7
15:00	USA	Existing home sales (M MoM)	Feb	4,00	3,96	3,94
		Friday 03/22/2024				
10:00	Germany	Ifo business climate (pts)	Mar	85,5		85,9
14:00	**Poland**	**M3 money supply (% YoY)**	**Feb**	**7,7**	**7,1**	**7,1**

*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

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