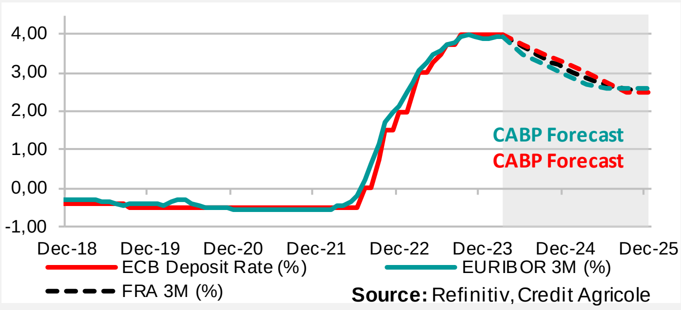
20 years of Poland in the EU – when will Poland catch up with the wealthier countries of Europe?

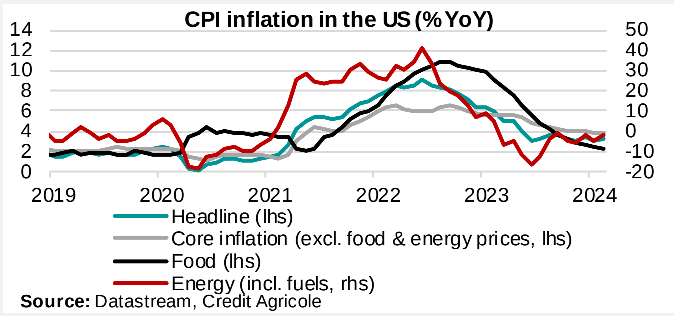
This week

- **This week's most important event is the ECB meeting scheduled for Thursday.** We expect the ECB to maintain interest rates at their current levels. Thus, the policy rate will remain at 4.50%, and the deposit rate at 4.00%. During the press conference, attention will likely be drawn to the approaching commencement of the monetary policy easing cycle. We believe that Ch. Lagarde will indirectly suggest June as the timing for the first interest rate cut, aligning with her previous statements (see MACROmap of 11/03/2024). The suggestion for a June rate cut will also be supported by the release of the latest ECB macroeconomic projection, signalling favourable prospects for inflation in the medium term. Thus, we stand by our scenario that the interest rate cut cycle in the Eurozone will commence in June, with an expected cumulative reduction of 75bp throughout 2024. We anticipate that the ECB press conference will trigger increased volatility in the markets.



- **Wednesday will see the publication of the Minutes from the March FOMC meeting.** A key element of the Minutes will be information concerning the varying expectations among individual Fed members regarding the trajectory of the monetary policy in the coming months. The statement released following the last meeting indicated that FOMC members did not expect a rate cut to be appropriate until they gain greater confidence that inflation is moving towards the inflation target. Last week, J. Powell reiterated his view presented during the conference after the March meeting, stating that Fed members consider it appropriate to initiate the monetary policy easing cycle "at some point this year". However, he refrained from discussing a specific timing for the first interest rate cut. Consequently, the FOMC Minutes are unlikely to provide substantial new information that would significantly alter our monetary policy scenario for the US. We anticipate a 25bp interest rate cut by the Federal Reserve in July and another 25bp reduction in November. Nevertheless, we believe there is some risk of an earlier commencement of the monetary policy easing cycle in the US. We believe that the publication of the Minutes data will be neutral for the financial markets.

- **Important data from the US is set to be released this week.** We anticipate that headline inflation increased to 3.4% YoY in March from 3.2% in February, driven by rising energy prices and a slight decline in core inflation (from 3.8% to 3.6%). The flash University of Michigan Consumer Sentiment Index is expected to indicate a marginal decline in household sentiment in March (79.0 pts vs. 79.4 pts in February), primarily due to ongoing increases in fuel prices. In our opinion, this week's US data releases will be neutral for the financial markets.



- **On Friday, figures on foreign trade in China will be published.** We forecast that the Chinese trade surplus decreased to USD 68.8bn in March from USD 125.2bn in February. We expect exports growth to have declined to -2.0% YoY in March from 2.3% in the January-February period (due to a high base effect), while imports growth to have decreased to 1.0% from 3.5%. The publication will be crucial in verifying the positive trends indicated last week by the March

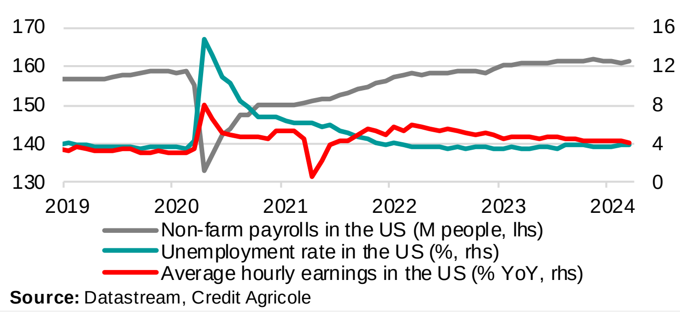
PMIs for Chinese manufacturing (see MACROmap of 02/04/2024). We believe that the release of data from the Chinese economy will be neutral for the financial markets.

- **Data on the Polish balance of payments for February will be released on Friday.** We expect the current account surplus to have contracted to EUR 221m, down from EUR 1,179m in January, primarily on the back of lower trade and EU transfers balances. We forecast that the growth in exports expanded from -4.3% YoY in January to 2.9% in February, while the pace of imports growth accelerated from -3.5% YoY to 2.1%. Both exports and imports values were affected by favourable calendar effects. In our opinion, the data on the balance of payments will be neutral for the PLN exchange rate and yields on Polish bonds.
- **Today, vital data from the German economy was published.** Industrial production expanded by 2.1% MoM in February, up from 1.3% in January, exceeding market expectations of 0.3%. This acceleration was primarily driven by heightened growth in manufacturing and construction, offsetting a slight decline in energy production. Particularly noteworthy is the continued rebound in energy-intensive sectors, which saw a robust 4.2% increase in February, potentially suggesting a waning influence of the energy price shock on activity in the German industrial sector. Last week also saw the release of data on manufacturing orders, with the monthly growth rate increasing to 0.2% MoM in February compared to -11.4% in January, falling well below market expectations (0.6%). It bears mentioning that the sharp decline in monthly orders in January was mainly attributable to high base effects from the previous month in the "other transport equipment," "electrical equipment," and "fabricated metal products excluding machinery and equipment" categories (see MACROmap of 11/03/2024). Domestic orders saw an uptick, while export orders experienced a downturn, particularly from other Eurozone countries. However, orders from non-Eurozone nations marked their second consecutive monthly increase, aligning with PMI survey results for Polish manufacturing, with some respondents pointing to improving sales prospects to non-EU markets (see MACROmap of 02/04/2024). Furthermore, today's report on German foreign trade revealed a stagnant trade surplus between February and January at EUR 21.4bn, below market forecasts of EUR 25.5bn. Notably, exports experienced a significant dip (-2.0% MoM vs. a growth of 6.3% in January) and a slight decrease in the pace of imports growth (3.2% compared to 3.3%), with both readings exceeding market expectations of -0.5% and -0.9%, respectively. It is worth noting that the decline in German exports was primarily due to lower sales to EU markets, consistent with the assessment above that domestic demand in the EU, particularly in the Eurozone, remains weak. The data pose a downside risk to our forecast, according to which the quarterly GDP growth rate in Germany will climb to 0.0% in Q1 compared to -0.3% in Q4. At the same time, we believe that today's data will be neutral for financial markets.

Last week

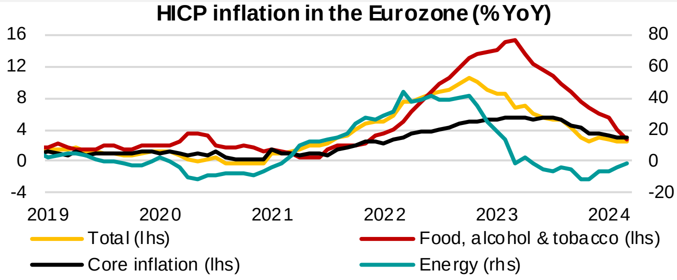
- **The Monetary Policy Council decided to maintain the NBP reference rate at 5.75%.** The MPC's decision was consistent with our forecast and the market consensus. According to its press release, the Council believes the anticipated trend of inflation nearing the Council's target of 2.5% in the coming months will only be temporary, aligning with the assessment made the previous month. On Friday, the customary press conference was held, during which the NBP Governor A. Glapiński made it clear that there were currently no reasons to discuss changes in interest rates. He emphasized the uncertainty surrounding the inflation trajectory in the upcoming months due to the gradual phasing out of protective measures, alongside the sharp increase in real wages, which may have an inflationary impact. The tone of the post-meeting press release, as well as NBP Governor A. Glapiński's remarks, are in line with our scenario of interest rate stability at the current level until H2 2025 (see MACROpulse from 05/04/2024).

- **Last week, some vital data regarding the US economy was published.** Non-farm payrolls grew by 303k in March compared with an increase of 270k in February (downward revision from 275k), running well above market expectations (200k). The most substantial expansion in employment was recorded in education and health services (+88.0k), the government sector (+71.0k) and leisure and hospitality (+49.0k). However, a slight decline in employment was seen in the utilities sector (-0.4k). In March, the unemployment rate contracted to 3.8% from 3.9% in February, running above market expectations (3.9%). Thus, it remains below the natural unemployment rate, estimated by the Fed at 4.0%. Meanwhile, the labour force participation rate increased to 62.7% in March from 62.5% in February, although it still remains below pre-pandemic levels (63.3%). The growth rate of hourly wages decreased to 4.1% YoY in March from 4.3% in February, reaching its lowest level since March 2020. In our assessment, this indicates weakening wage pressures in the US economy. The publication of significantly higher-than-expected figures, signalling a sustained strong labour market in the US, led to a strengthening of the USD against the EUR. Last week also brought the release of business climate surveys. The ISM index pointed to a slight deterioration of sentiment in the services sector, decreasing to 51.4 pts in March from 52.6 pts in February, falling below market expectations (52.7 pts). The drop in the index resulted from lower contributions from 2 out of its 4 components (new orders and supplier delivery times), with higher contributions from business activity and employment having the opposite effect. Noteworthy in the data is the increasingly slower growth in prices of intermediate goods (the lowest growth rate since March 2020), which may indicate weakening price pressures in the US services sector. We forecast that the annualized GDP growth rate in the US will decrease to 1.5% in Q1, compared with 3.4% in Q4. Additionally, according to our scenario, GDP in the US will increase by 1.8% in 2024 compared to a growth of 2.5% in 2023.



Source: Datastream, Credit Agricole

- **According to the flash estimate, inflation in the Eurozone fell to 2.4% YoY in March, down from 2.6% in February, a reading well below the market consensus (2.6%) and our forecast (2.5%)** Contributing to this decline were lower food price growth (2.7% YoY in March vs. 3.9% in February) and a decrease in core inflation (2.9% compared to 3.1%), with the higher growth rate of energy prices (-1.8% compared to -3.7%) having the opposite effect. Particularly noteworthy in the data is the persistent high inflationary pressure on service prices with weakening pressure on goods prices. We expect the coming months to bring a further gradual decrease in core inflation. However, this decline will be very slow, with core inflation expected to only reach around 2% by Q2 2025.

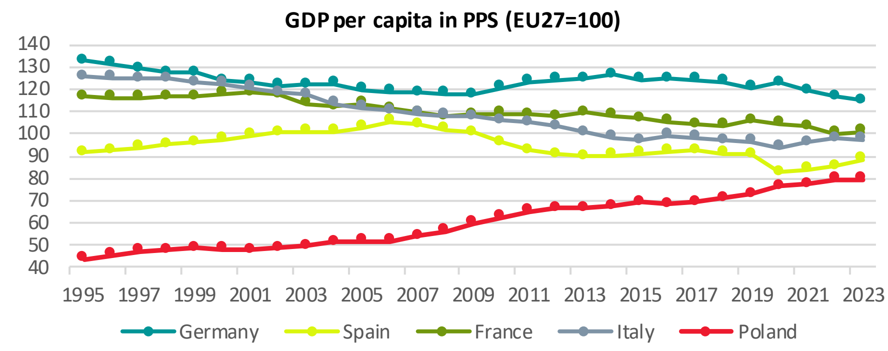


Source: Datastream, Credit Agricole

- **We revised our inflation forecast for 2024-2025.** The flash inflation reading for March (1.9% YoY, see MACROmap of 02/04/2024) turned out to be lower than our expectations, leading to a downward adjustment of the inflation trajectory for the entire year 2024. Additionally, prompted by statements made by major retailers (including Biedronka and Lidl) regarding maintaining the prices of many food products at March levels, i.e., before the 5% VAT rate on food was reintroduced, we revised down our food price trajectory for 2024. We believe that in April, approximately 40% of food retailers chose to keep prices at pre-VAT reinstatement levels, while the remaining 60% of the market passed on the hike to consumers entirely. At the same time, we assume that retailers who maintained prices unchanged from before the VAT increase will begin to factor it into their prices as early as May. Therefore, we expect the tax to be fully reflected in retail prices from April to May. We incorporated this impact profile of the 5% VAT rate reinstatement on food into our scenario, assuming a further decrease in the food price growth rate due to the decline in global agricultural commodity prices and the increased pressure from retailers on suppliers, driven by intensified price competition among stores recently. In this scenario, we forecast that the growth rate of food and non-alcoholic beverages prices will decrease to 3.1% in 2024 (from 3.7% before the revision) compared to 15.4% in 2023, to increase to 3.7% in 2025 (from 3.5%). Considering the current futures contract prices for energy in the coming year, we believe that the scale of tariff hikes for gas, electricity, and district heating at the beginning of 2025 will be lower than previously assumed. In summary, we project that inflation will reach 3.3% YoY in 2024 (down from 3.5% before the revision), and will stand at 3.6% in 2025 (previously 4.0%).

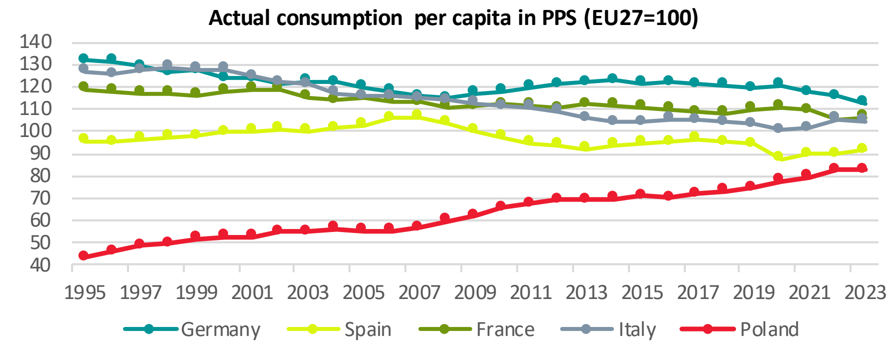
20 years of Poland in the EU – when will Poland catch up with the wealthier countries of Europe?

May will mark 20 years of Poland's membership of the EU. This encourages an assessment of how the Polish economy has changed over the past two decades. For this reason, in the following MACROmaps we will analyse selected elements of economic activity in the context of Poland's membership in the EU. In this topic of the week, we look at how Poland's convergence to the wealthier EU economies has progressed over the past 20 years and what its prospects look like in the next decade.



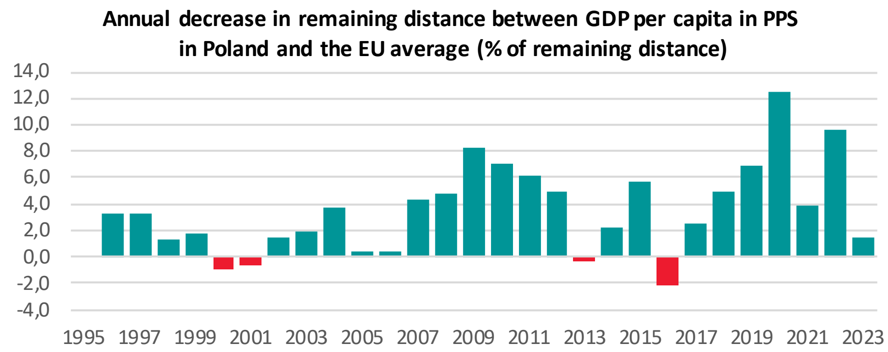
Source: Eurostat, Credit Agricole

In 2004, Poland's GDP at purchasing power parity per capita was 51.5% of the EU average, which was the 3rd lowest in the entire EU at that time (only Lithuania's and Latvia's GDPs per capita were lower at 50.3% and 47.4% respectively). In the following years, dynamic growth of the Polish economy was observed, which was conducive to narrowing the gap with wealthier EU countries. As a result, in 2016, Poland overtook Greece in terms of GDP per capita, in 2018 – Slovakia, in 2020 – Portugal (with Portugal overtaking Poland again in 2023) and Hungary, reaching 79.7% of the EU average in 2023.



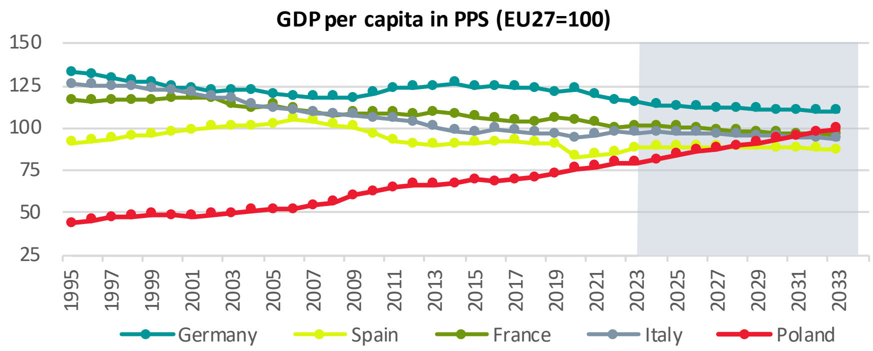
Source: Eurostat, Credit Agricole

It is worth noting that the degree of convergence with respect to private consumption in Poland is higher than the degree of convergence with respect to GDP. This has also been facilitated by the characteristics of economic growth in Poland in recent decades, which has been largely consumption-based. As a result, real private consumption per capita at purchasing power parity in Poland currently stands at 82.7% of the EU average, compared to 56.4% in 2004. In our opinion, the higher degree of convergence of private consumption than that of the GDP reflects the consumption aspirations of the Polish society and the process of convergence of the consumption pattern to that observed in Western Europe. The relatively high consumption aspirations of the Polish society are also reflected in the relatively low household savings rate. What supports this assessment is data showing that the average household savings rate in Poland over the last five years was 4.3%, compared to an EU average of 13.1%, 20.6% in Germany, 17.7% in France, 12.4% in Italy and 11.7% in Spain.



Source: Eurostat, Credit Agricole *negative values indicate an increase in distance

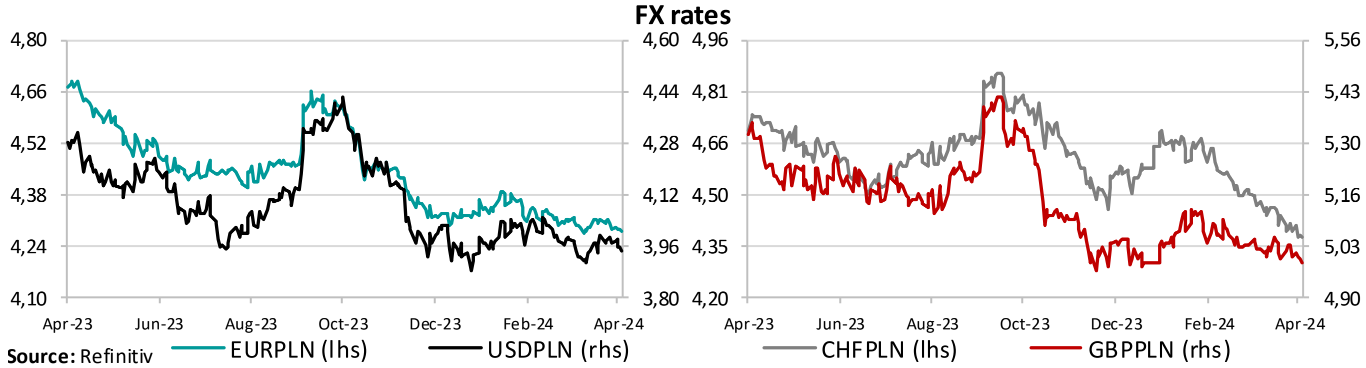
When analysing the rate of convergence of GDP per capita in Poland to the EU average, two trends are noteworthy. Firstly, we have yet to see a gradual decline in the rate of convergence as the gap with the EU average narrows, which, according to the assumptions of the neoclassical production function, could be due to declining marginal factor productivity. Secondly, Poland generally catches up fastest in periods of economic downturn in the EU. This is due to the fact that the Polish economy has been relatively resilient to shocks such as the global financial crisis, the EU debt crisis or the COVID-19 pandemic crisis. We understand this resilience not only as a smaller scale of decline in economic activity, but also as a relatively fast transition to the recovery phase compared to other economies.



Source: Eurostat, Credit Agricole

The question therefore arises as to when Poland will manage to reach the EU average. To answer this question, we used our long-term forecasts for the Polish economy, the Crédit Agricole Group's forecasts for the Eurozone countries and Eurostat's demographic projections. At the same time, our analysis assumed the same inflation trends in each country and no exchange rate changes. Although this is a rather large simplification, one should assume that even if there were differences in inflation levels, these would be offset by a corresponding adjustment of the exchange rate. We forecast that the next few years will bring a continuation of the convergence process, so that within the next decade, Poland's GDP at purchasing power parity per capita will reach the EU average (99.6% in 2033). This will be due to Poland's GDP growth rate, which is high compared to that of the EU, and unfavourable demographic trends (according to Eurostat projections, Poland's population will decrease by 4.3% to 36.8M people by 2033). At the same time, we expect that in the case of Poland, the negative impact of the decrease in labour supply on the potential GDP growth rate will be partly mitigated by the improvement in the quality of human capital and the technological shock in the area of artificial intelligence (see, inter alia, the MACROmap of 20/02/2023 and 19/02/2024). Therefore, we expect Poland to overtake Spain in the next four years. Moreover, in the early 2030s, Poland is likely to overtake Italy and France in terms of GDP per capita, reaching 90% of Germany's GDP per capita.

ECB meeting crucial for the PLN

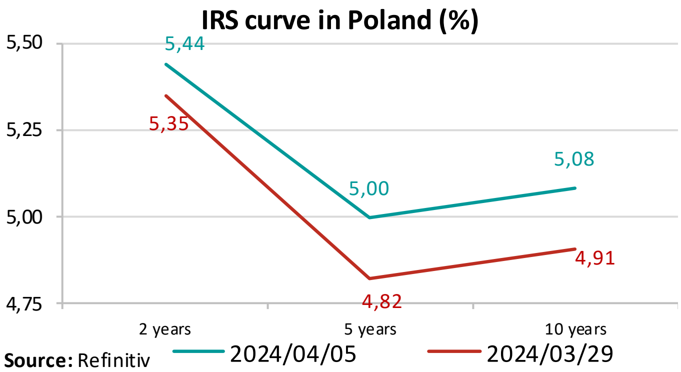


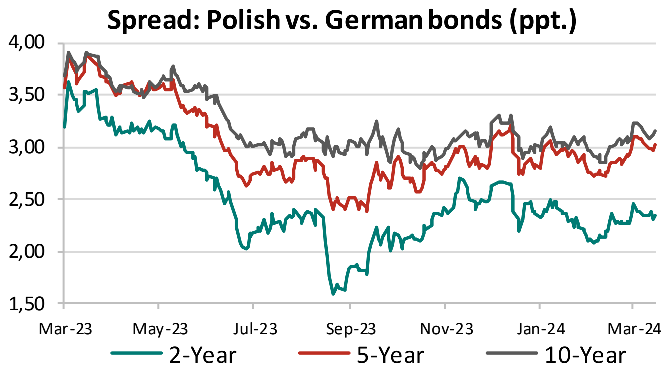
Source: Refinitiv

Last week, the EURPLN rate dropped to 4.2801 (the PLN strengthened by 0.1%). Last week, the EURPLN exchange rate was characterised by relatively low volatility and remained in a mild downward trend. In contrast, the EURUSD rose last week despite the publication of lower-than-expected preliminary Eurozone inflation data. Friday's release of US non-farm employment data led to a correction and strengthening of the USD against the EUR.

The data from the German economy published this morning are, in our view, neutral for the PLN exchange rate. This week we may see increased volatility in the PLN due to the ECB meeting. We believe that other data releases from the Polish and global economies scheduled for this week will be neutral for the PLN.

IRS rates rise following release of US employment data





Source: Refinitiv

Last week, 2-year IRS rates increased to 5.44 (up by 9bp), 5-year rates to 5.00 (up by 18bp) and 10-year ones to 5.08 (up by 17bp). At the beginning of last week, IRS rates rose following the core markets, which was a correction after their decline in the H2 of March. On Wednesday, IRS rates fell again, following the publication of lower-than-expected preliminary Eurozone inflation data, which reinforced expectations among some investors for interest rate cuts by the ECB. Friday's publication of higher-than-expected US non-farm employment data had the opposite effect.

The data from the German economy published this morning are, in our view, neutral for the curve. This week the EBC meeting scheduled for Thursday will be crucial for the IRS rates. We believe it could lead to increased volatility in 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	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	Apr-24
NBP reference rate (%)	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	5,75
EURPLN*	4,68	4,59	4,53	4,43	4,40	4,47	4,63	4,45	4,35	4,33	4,32	4,31	4,29	**4,28**
USDPLN*	4,31	4,16	4,23	4,06	4,00	4,12	4,37	4,21	4,00	3,93	4,00	3,99	3,97	**3,98**
CHFPLN*	4,71	4,66	4,64	4,52	4,59	4,66	4,78	4,62	4,56	4,64	4,64	4,52	4,40	**4,39**
CPI inflation (% YoY)	16,1	14,7	13,0	11,5	10,8	10,1	8,2	6,6	6,6	6,2	3,7	2,8	**1,9**	
Core inflation (% YoY)	12,3	12,2	11,5	11,1	10,6	10,0	8,4	8,0	7,3	6,9	6,2	5,4	**4,6**	
Industrial production (% YoY)	-3,7	-6,5	-3,3	-1,6	-2,7	-2,2	-3,3	2,0	-0,3	-3,5	3,0	3,3	**-3,0**	
PPI inflation (% YoY)	10,3	6,2	2,8	0,3	-2,1	-2,9	-2,7	-4,2	-5,1	-6,9	-10,6	-10,1	**-9,7**	
Retail sales (% YoY)	4,8	3,4	1,8	2,1	2,1	3,1	3,6	4,8	2,6	0,5	4,6	6,7	**7,3**	
Corporate sector wages (% YoY)	12,6	12,1	12,2	11,9	10,4	11,9	10,3	12,8	11,8	9,6	12,8	12,9	**11,9**	
Employment (% YoY)	0,5	0,4	0,4	0,2	0,1	0,0	0,0	-0,1	-0,2	-0,1	-0,2	-0,2	**0,0**	
Unemployment rate* (%)	5,4	5,3	5,1	5,1	5,0	5,0	5,0	5,0	5,0	5,1	5,4	5,4	**5,3**	
Current account (M EUR)	1372	-230	589	1272	157	556	1176	2119	1203	-24	1179	**221**		
Exports (% YoY EUR)	16,1	1,8	4,3	4,0	0,0	-2,3	-4,2	2,3	-1,9	-6,0	-4,3	**2,9**		
Imports (% YoY EUR)	3,3	-9,6	-5,0	-5,8	-7,4	-11,9	-14,7	-7,7	-7,8	-11,3	-3,5	**5,1**		

*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	4,3	3,1	2,9	3,4	1,9	2,8	2,2	-1,0	3,3	2,7
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	9,8
Export - constant prices (% YoY)		2,8	0,6	4,9	7,8	7,9	5,7	4,3	7,1	-1,9	4,0	6,6
Import - constant prices (% YoY)		-0,4	2,3	8,8	9,2	8,9	7,3	5,4	7,3	-8,3	4,9	7,6
GDP growth contributions	Private consumption (pp)	1,8	2,5	1,8	1,5	2,1	1,1	1,7	1,1	-0,6	1,9	1,5
	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	-0,3	0,2	-0,5	-0,4	0,2	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 (%)**		5,3	4,9	4,8	4,9	5,2	4,8	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	7,9	7,6	7,0	12,8	12,1	8,3
CPI Inflation (% YoY)*		2,8	2,7	3,9	3,9	4,5	3,8	3,0	3,3	11,6	3,3	3,6
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**		4,29	4,28	4,26	4,24	4,23	4,22	4,21	4,20	4,33	4,24	4,20
USDPLN**		3,97	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**
		Monday 04/08/2024				
8:00	Germany	Trade balance (bn EUR)	Feb	27,5		25,5
8:00	Germany	Industrial production (% MoM)	Feb	1,0		0,3
10:30	Eurozone	Sentix Index (pts)	Apr	-10,5		-8,5
		Wednesday 04/10/2024				
14:30	USA	CPI (% MoM)	Mar	0,4	0,3	0,3
14:30	USA	Core CPI (% MoM)	Mar	0,4	0,2	0,3
16:00	USA	Wholesale inventories (% MoM)	Feb	0,5		0,5
16:00	USA	Wholesale sales (% MoM)	Feb	-1,7		
20:00	USA	FOMC Minutes	Mar			
		Thursday 04/11/2024				
3:30	China	PPI (% YoY)	Mar	-2,7		
3:30	China	CPI (% YoY)	Mar	0,7		
14:15	Eurozone	EBC rate decision (%)	Apr	4,50	4,50	4,50
		Friday 04/12/2024				
14:00	**Poland**	**Current account (M EUR)**	**Jan**	**-24**	**221**	**1445**
16:00	USA	Initial U. of Michigan Sentiment Index (pts)	Apr	79,4	79,0	79,0
	China	Trade balance (bn USD)	Mar	125,2	68,8	

*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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