

1q24 inflation supports cuts in most of the CEE

TOP MACRO THEME(S):

- **All quiet on the inflationary front in the CEE (p. 2)** – the disinflation continued in the CEE region throughout 1q24. Our interest rate forecast for regional central banks remains intact by the data.

WHAT ELSE CAUGHT OUR EYE:

- **NBP's Deputy Governor, M.Kightley**, said that the current interest rate level is appropriate and it is hard to see interest rate cuts this year. Management Board of the NBP decided that within 2024 and 2025 it will increase gold reserves to 20% of total reserves compared to 12.6% as of March.
- According to the **World Bank**, GDP growth in Poland should accelerate to 3% in 2024 (upward revision of 0.4pp against the previous forecast) and to 3.4% in 2025, mainly on the back of strong consumption, lower inflation and increasing wages. In 2024 inflation should equal approx. 5% on average and return to the inflation target in the medium term.
- In Feb., the **CAB surplus** surprised negatively by shrinking to EUR 465 million from the upwardly revised EUR 1,742 million in Jan. On a 12m basis, the surplus shrank to 1.4% of GDP from 1.5% of GDP after Jan., nevertheless was the highest among CEE countries. The period of rapid CAB improvement has ended, and the surplus can be expected to slowly shrink over the next year.
- Polish government has adopted the "Active parent" program. The draft law provides for three types of benefits, including subsidies for care of children aged 12-15 months in the amount of PLN 1,500 for parents, who are professionally active. The net effect of all the proposed actions is a deterioration of the result of the public finance sector by a total of PLN 20 bn in the perspective of 10 years.

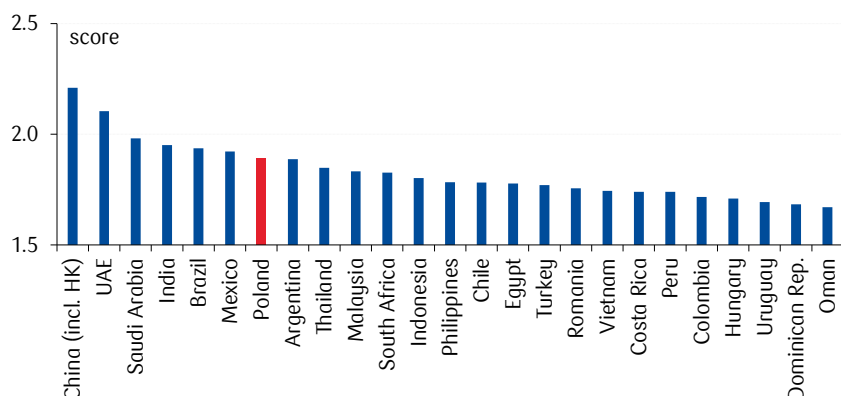
THE WEEK AHEAD:

- The details of the March **CPI inflation** will provide more insight into the causes of the lower than expected reading (1.9% y/y acc. to flash estimate), followed by the publication of **core inflation** the next day (which we estimate at 4.7%). **Consumer confidence** will be the first monthly indicator enabling us to assess (most likely improving) economic conditions in April.

NUMBER OF THE WEEK:

- **30%** – current investment allocation of RRF funds in Poland

CHART OF THE WEEK: 2024 FDI Confidence Index (emerging markets)



Source: 2024 Kearney Foreign Direct Investment Confidence Index, PKO Bank Polski.

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	2023	2024
Real GDP (%)	0.2	3.7
Industrial output (%)	-1.5	4.9
Unemployment rate [#] (%)	5.1	4.9
CPI inflation ^{**} (%)	11.6	3.5
Core inflation ^{**} (%)	10.2	5.0
Money supply M3 (%)	8.5	6.5
C/A balance (% GDP)	1.6	1.4
Fiscal balance (% GDP) [*]	-5.1	-5.5
Public debt (% GDP) [*]	49.6	52.7
NBP reference rate ^{###} (%)	5.75	5.50
EURPLN ^{###}	4.35	4.32

Source: GUS, NBP, MinFin, [‡]PKO BP Market Strategy team forecasts; ^{*}ESA2010, ^{**}period averages; [#]registered unemployment rate at year-end; ^{##}at year-end, [^]under revision.

All quiet on the inflationary front in the CEE

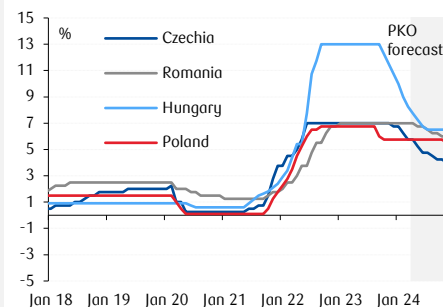
- Disinflation in the CEE region continued throughout 1q24, with a favorable surprise recorded in Poland at the end of the period and some minor “inflationary disappointments” in the rest of the CEE, which did not violate our expectations regarding the ongoing disinflation.
- Polish CPI inflation surprisingly fell just below 2% in March (more on that in the previous [Macro Weekly](#)), Czech inflation stabilized at the inflation target, while in Hungary and in Romania it fell in March to 3.6% and 6.6%, respectively.
- Our interest rate forecast remains intact by the data – we still expect the CNB and the MNB to continue with rate cuts, although the pace of monetary policy easing will gradually decelerate, while the NBR is expected to start cutting rates in May. Polish central bank remains conservative and currently sees no arguments for reducing rates, although one cut at the end of 2024 is still in the game.

Data released this week indicate that in **Czechia** inflation “surprised to the downside”, stabilizing at 2%, while market expectations pointed to inflation falling slightly below the inflation target. Nevertheless, inflation in March was by 0.9pp lower than the CNB’s winter forecast, due to stronger than previously expected disinflation in administered prices. Core inflation declined to 2.7% y/y (from 3.3% y/y in February), while monetary policy-relevant inflation stood at 1.9% y/y. Inflation momentum also slowed down, to 0.1% m/m from 0.3% m/m, although it was boosted by an increase in transport prices, in particular an increase in motorway toll sticker (53.3% m/m). Services inflation remains elevated though and accelerated to 5.4% y/y from 5.2% y/y in February, showing that the main source of disinflation (in y/y terms) comes from falling prices of food. In particular prices in some service categories (e.g. health, recreation and culture) behaved less favorable in March than a long-term historical pattern would imply. Nevertheless, the CNB noted that the (New Year) repricing effects in 1q24 were weaker than assumed.

Hungary headline CPI inflation eased slightly, to 3.6% y/y from 3.7% y/y in February, while in monthly terms, the price level rose by 0.8%, the highest reading in the last 12 months. The minor reduction in the inflation rate (y/y) was driven by the slowdown in food price inflation (amid favorable base effects) and the decline in prices of electricity, gas and other fuels. However, services inflation, despite a slight decline, remains elevated (9.9% y/y in March vs 10.0% y/y in February), with significant monthly increases in prices of e.g. telephone and internet services. Hungarian core inflation fell to 4.4% y/y in March from 5.1% y/y in February. In **Romania**, CPI inflation slowed to 6.6% y/y in March from 7.2% y/y in February, and the decline was stronger than expected. Similar to Hungary, the decline in headline inflation was driven by a reduction in food price inflation, as well as by a decline in electricity, gas and heat prices. Inflation in services also remains elevated, at 10.2% y/y. Romanian core inflation fell to 7.3% y/y in March from 7.8% in February.

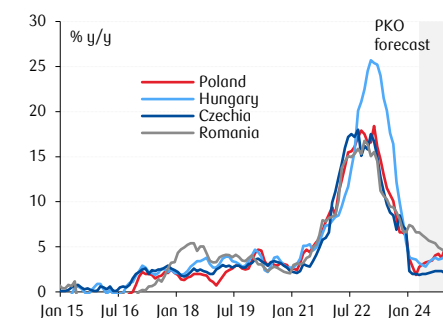
In the following months we expect Czech CPI inflation to hover around 2%. Inflation outlook remains favorable, although robust price growth in services is likely to make the **CNB** wary, therefore we expect it to continue with (relatively cautious) 50bp cuts in 2h24, followed by smaller (25bp) moves in

Nominal interest rates



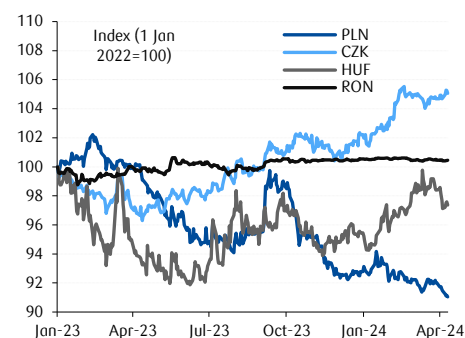
Source: Macrobond, PKO Bank Polski

CPI inflation



Source: Macrobond, PKO Bank Polski

Exchange rates against the EUR



Source: Datastream, PKO Bank Polski

2h24. Minutes from the **MNB**'s March meeting indicate that the monetary policy will enter a new phase in April and the pace of interest rate cuts will slow down, consistent with our forecast of 50bp cuts throughout 2q24 vs. 75bp in March. As disinflation shall decelerate later on, we see limited room for cuts in 2h24 (around 50bp in total). As of now, recent burying of the hatchet between the Economy Minister, M.Nagy, and the MNB's Governor, G.Matolcsy, should contribute towards disinflation by reducing perception of country's risk, which should support forint. In Romania, interest rates have remained unchanged, including the monetary policy rate at 7.0%, since January 2023. Given the global shift towards looser monetary policy and the likely further decline in inflation, we expect the **NBR** to begin cutting rates in the middle of the year. Reference rate in Poland has remained at 5.75% since October, while the **NBP** maintains that there are no arguments for rate cuts at the moment, with inflation likely to accelerate later in 2024. In our view, stabilization of interest rates is the most likely scenario for the coming months. Nevertheless, we still think that with a more favourable inflation outlook, a rate cut at the end of this year could be possible.

Weekly economic calendar

Indicator	Time (UK)	Unit	Previous	Consensus*	PKO BP	Comment
Monday, 15 April						
POL: CPI inflation (Mar. final)	9:00	% y/y	2.8	1.9	1.9	The final reading should not affect the relatively restrictive stance of the MPC.
EUR: Industrial production (Feb.)	10:00	% y/y	-6.7	--	--	--
USA: Retail sales (Mar.)	13:30	% m/m	0.6	0.4	--	--
USA: Retail sales excl. autos (Mar.)	13:30	% m/m	0.3	0.5	--	--
Tuesday, 16 April						
CHN: GDP growth (1q)	3:00	% y/y	5.2	5	--	--
GER: ZEW Economic Sentiment (Apr.)	10:00	pts.	31.7	--	--	--
EUR: Trade balance (Feb.)	10:00	bn	28.1	--	--	--
POL: Core inflation (Mar.)	13:00	% y/y	5.4	4.6	4.7	Core inflation momentum has likely remained strong and inconsistent with the CPI target.
USA: Building Permits (Mar.)	13:30	m	1,518	1,51	--	--
USA: Housing starts (Mar.)	13:30	m	1,521	1,48	--	--
USA: Industrial production (Mar.)	14:15	% m/m	0.1	0.4	--	--
Wednesday, 17 April						
RO: Industrial Sales (Feb.)	7:00	% y/y	1.9	--	--	--
EUR: HICP inflation (Mar. final)	10:00	% y/y	2.6	2.4	--	--
EUR: Core inflation (Mar. final)	10:00	% y/y	3.1	2.9	--	--
Thursday, 18 April						
POL: Consumer Confidence (Apr.)	9:00	pts.	-12.3	--	-11.8	Robust wage growth (also in real terms) continues to be the main driver of improving consumer sentiment.
USA: Initial Jobless Claims (Apr.)	13:30	--	--	--	--	--
USA: Existing home sales (Mar.)	15:00	m	4,38	4,09	--	--
Friday, 19 April						
GER: PPI inflation (Mar.)	7:00	% y/y	-4.1	--	--	--

Source: GUS, NBP, Parkiet, PAP, Bloomberg, Reuters, PKO Bank Polski. Parkiet for Poland, Bloomberg, Reuters for others.

Monetary policy monitor

MPC Members	Hawk-o-meter*	Recent policy indicative comments^
J. Tyrowicz	5.0	"The key to stabilizing inflation in this episode was, is and will be the labor market. In the new NBP projection, unemployment in comparable horizons is lower by almost 1 percentage point (compared to the previous projection), and nominal wages are higher by 3.4 percentage points for 2024 and almost 1 percentage point for 2025. According to the projection for 2026 (extended horizon) the average growth rate of nominal wages is to amount to 6.7%, which is not consistent with achieving the inflation target." (13.03.2024, PAP, LinkedIn)
P. Litwiniuk	3.9	"It was a premature and excessive loosening of monetary policy. (...) I think that, from the documents we know, it does not appear that a reduction is justified at this point. Every subsequent month brings risks in the other direction - I am talking about risks arising from fiscal policy." (9.02.2024, Bloomberg)
L. Kotecki	3.5	"There may be a chance for the first rate cut at the end of 2024, but this is not my base scenario, I would prefer to decide on a rate cut at the beginning of 2025" (12.04.2024 PAP, BIZNES24)
A. Glapinski	3.4	"There is no question of a reduction of interest rates, there is no reason to discuss an increase either, the situation is currently under control. We will see how inflation will develop in the coming months." (5.04.2024, PAP)
I. Dabrowski	3.1	"The March inflation reading was slightly surprising to me, but unfortunately it did not change my thinking about the path of inflation and rates. At this point, no change in interest rates this year is the most likely scenario." (11.04.2024, PAP, Bloomberg)
C. Kochalski	2.9	"If the unlikely scenario of a discussion of interest rate cuts at the end of this year doesn't materialize, it could come with the March 2025 inflation projection." (15.03.2024, Bloomberg, ISB News).
I. Duda	2.9	"In 2025 we may consider the level of interest rate cuts, although I do not rule out that the discussion itself could take place at the end of this year" (27.03.2024, ISB News, Rzeczpospolita, PKO transl.)
G. Maslowska	2.9	"If no circumstances occur again, or any external or internal processes occur that are currently unpredictable, I think that in 2h25 or at the beginning of 2026 we will be able to think about rate cuts. Of course, all this is provided that the trends outlined in the March projection continue, because according to the projection, inflation will fall to the target only in 2026." (27.03.2024, PAP)
W. Janczyk	2.7	"Today, without a clear message and declaration from the government on this issue [CPI-shields], and without determining the impact of the Green Deal policy on energy and food prices, it is difficult to responsibly draw a scenario for a rapid reduction in NBP interest rates. (...) In the third quarter of this year, sufficient indications for a rate review may emerge. (...) I would like cuts in 2024 to be a minimum of 100 bps." (18.03.2024, PAP).
H. Wnorowski	2.6	"I will repeat myself, I said it two months ago, I can imagine circumstances that could occur during this year that could prompt us to discuss reductions, and maybe even make some first decision." (8.04.2024, PAP, BIZNES24)

*the higher the indicator the more hawkish views. The positioning has been made based positively on PAP survey conducted among economists at banks in Poland (scale 1-5). ^Quotes in bold have been modified in this issue of Poland Macro Weekly.

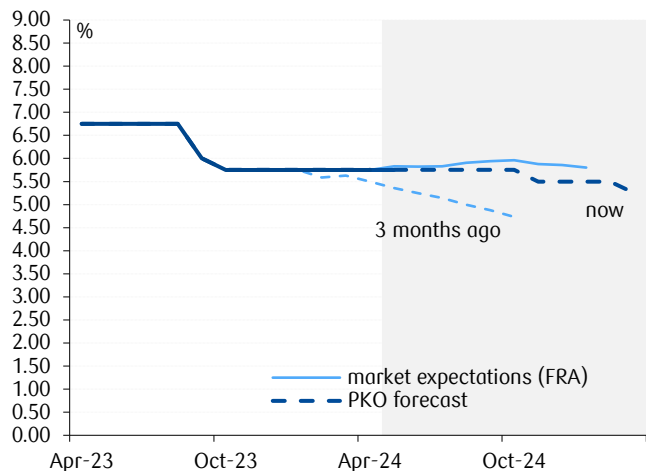
Interest rates – PKO BP forecasts vs. market expectations

		1M	2M	3M	4M	5M	6M	7M	8M	9M
Date	11-Apr	11-May	11-Jun	11-Jul	11-Aug	11-Sep	11-Oct	11-Nov	11-Dec	11-Jan
WIBOR 3M/FRA†	5.86	5.89	5.88	5.87	5.87	5.85	5.82	5.74	5.67	5.61
implied change (b. p.)		0.03	0.02	0.01	0.00	-0.01	-0.04	-0.12	-0.19	-0.25
PKO BP forecast*	5.75	5.75	5.75	5.75	5.75	5.75	5.75	5.50	5.50	5.50
market pricing^		5.78	5.77	5.76	5.86	5.84	5.81	5.73	5.66	5.60
MPC Meeting	4-Apr	9-May	5-Jun	3-Jul	-	4-Sep	2-Oct	5-Nov	4-Dec	-

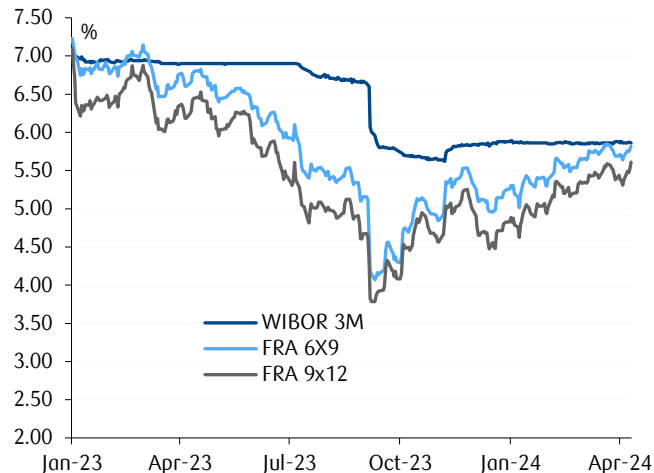
WIBOR 3M from the last fixing, FRA transactions based on WIBOR 3M for subsequent periods, †in basis points, *PKO BP forecast of the NBP reference rate.

Poland macro chartbook

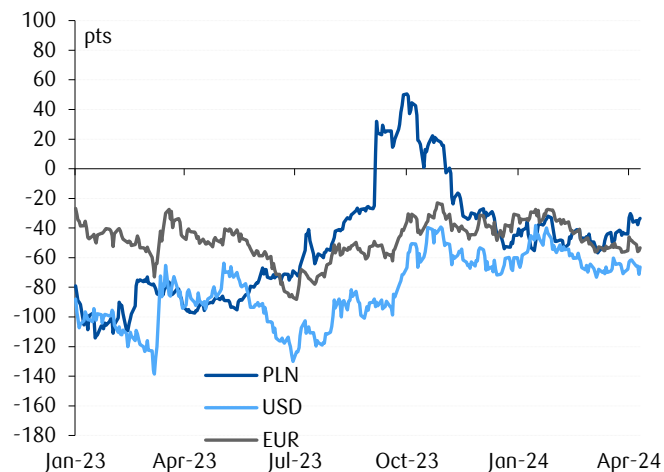
NBP policy rate: PKO BP forecast vs. market expectations



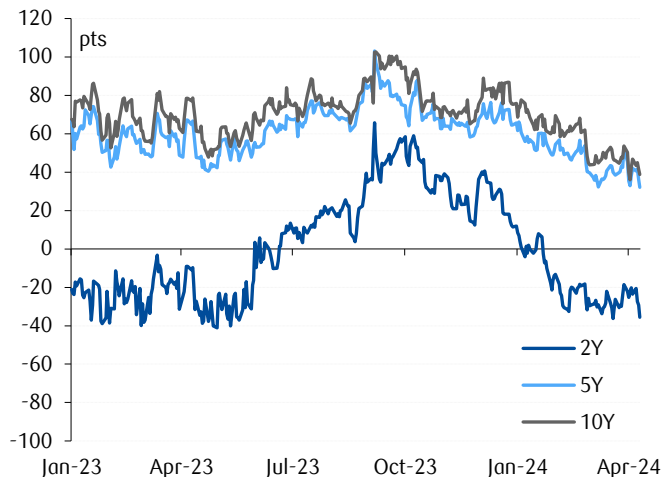
Short-term PLN interest rates



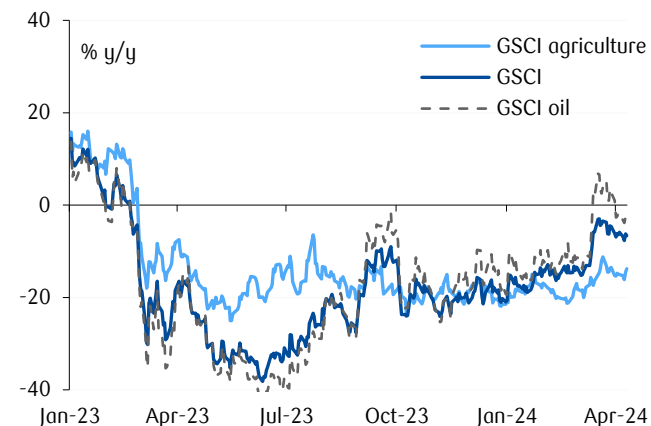
Slope of the swap curve (spread 10Y-2Y)*



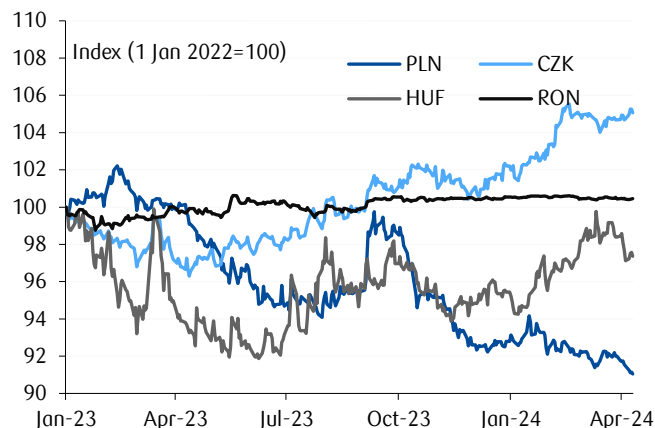
PLN asset swap spread



Global commodity prices (in PLN)

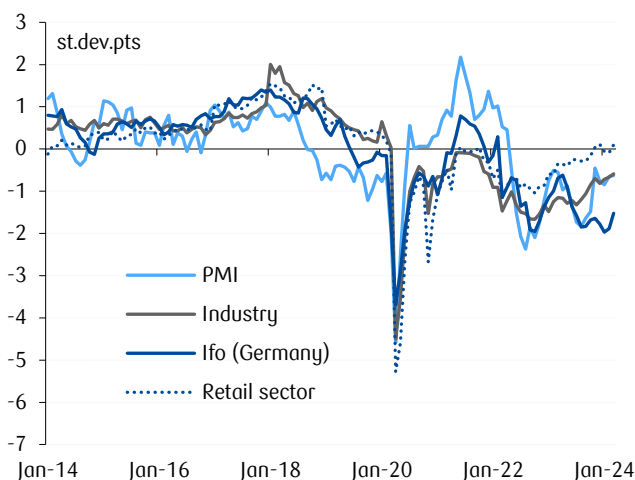


Selected CEE exchange rates against the EUR

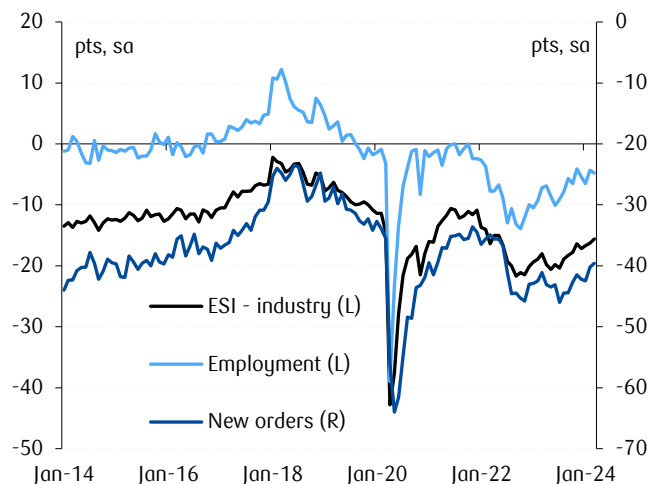


Source: Datastream, NBP, PKO Bank Polski. *for PLN, and EUR 6M, for USD 3M.

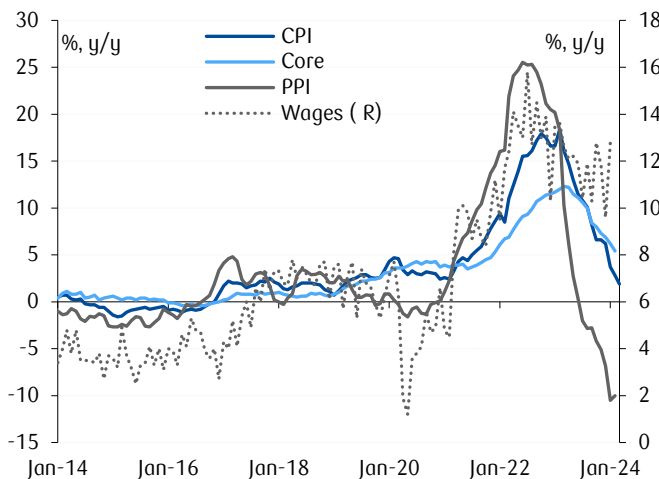
Economic sentiment indicators



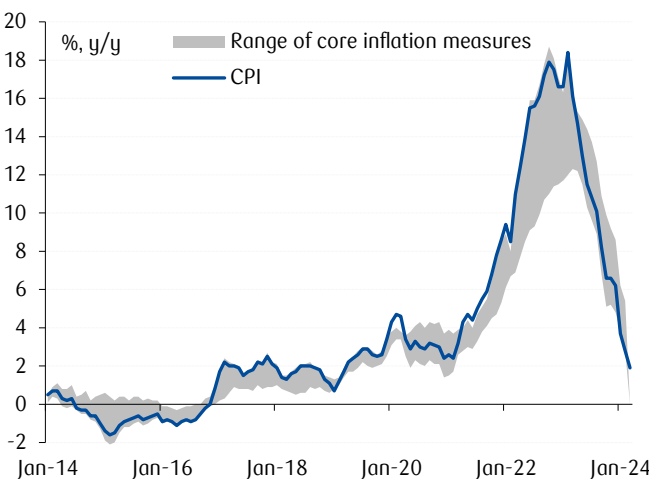
Poland ESI for industry and its components



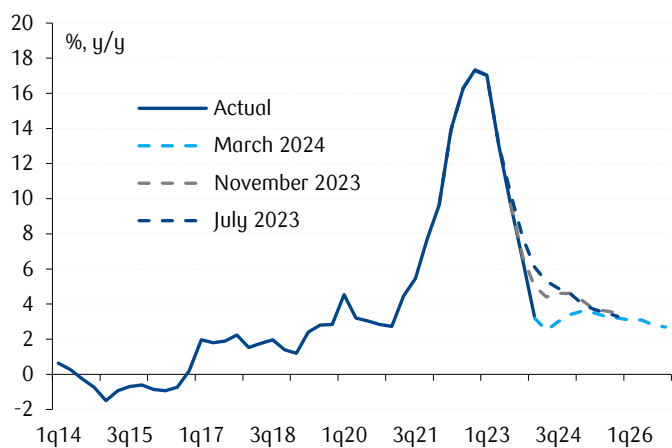
Broad inflation measures



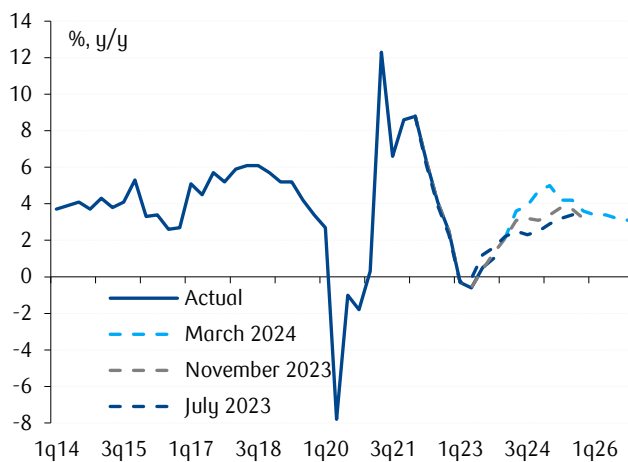
CPI and core inflation measures



CPI inflation - NBP projections vs. actual

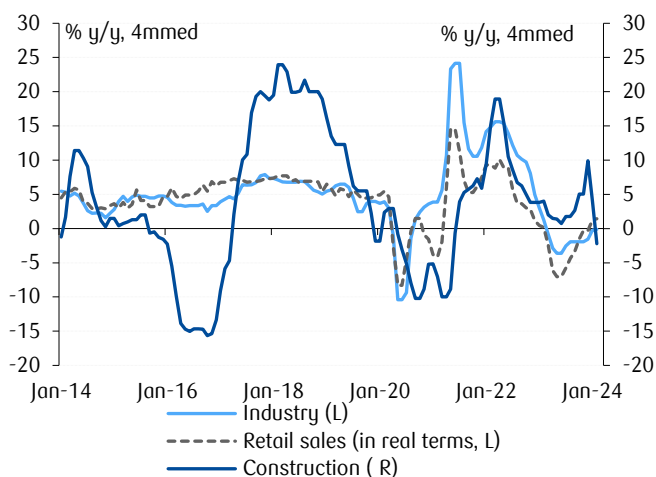


Real GDP growth - NBP projections vs. actual

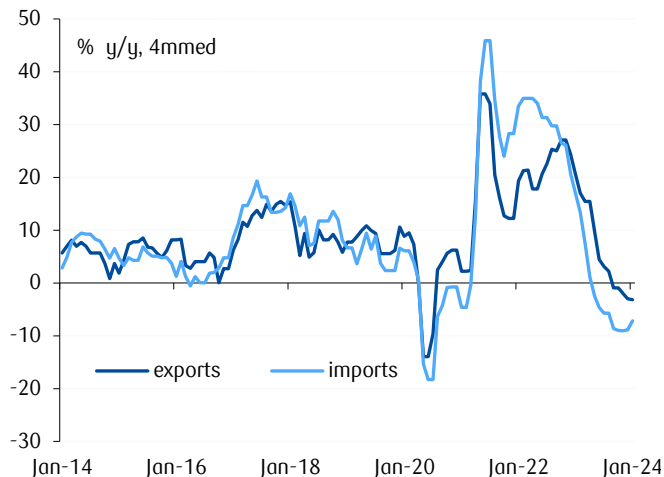


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

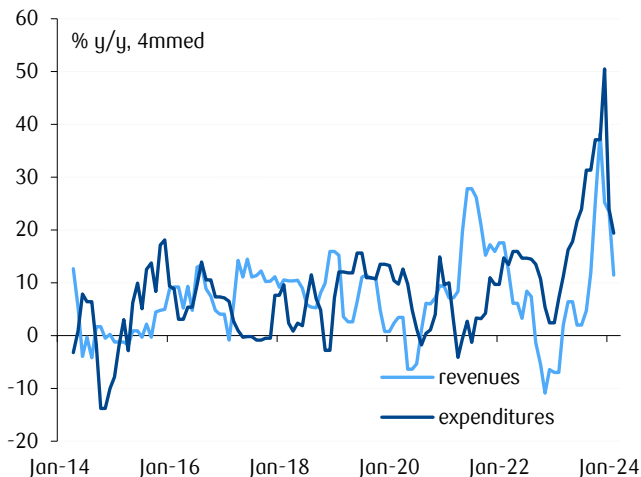
Economic activity indicators



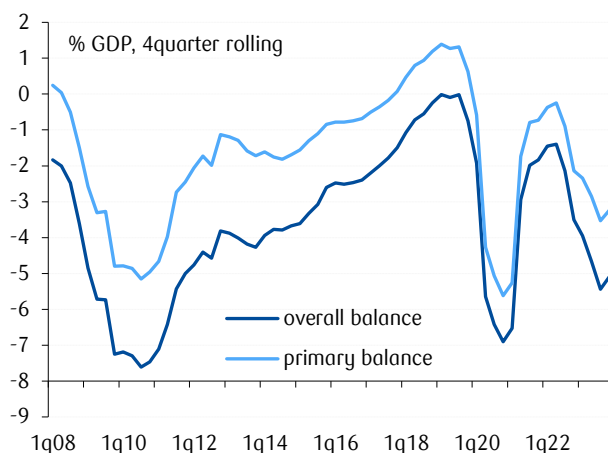
Merchandise trade (in EUR terms)



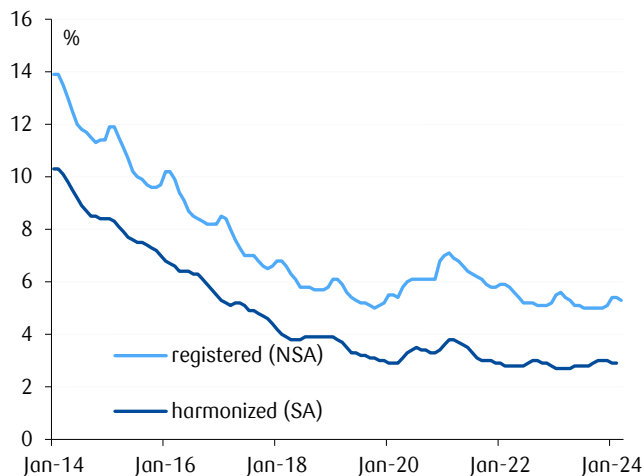
Central government revenues and expenditures*



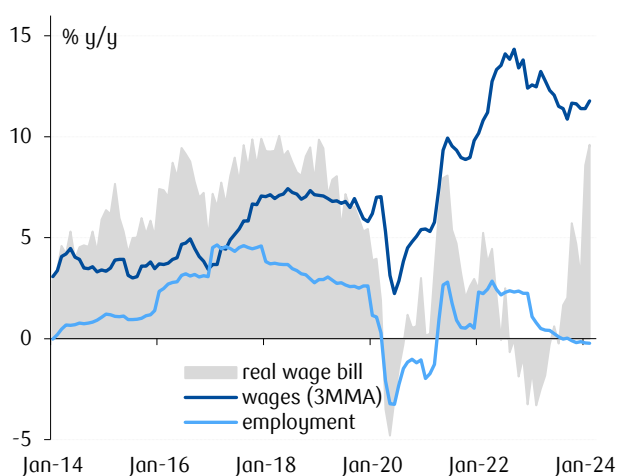
General government balance (ESA2010)



Unemployment rate

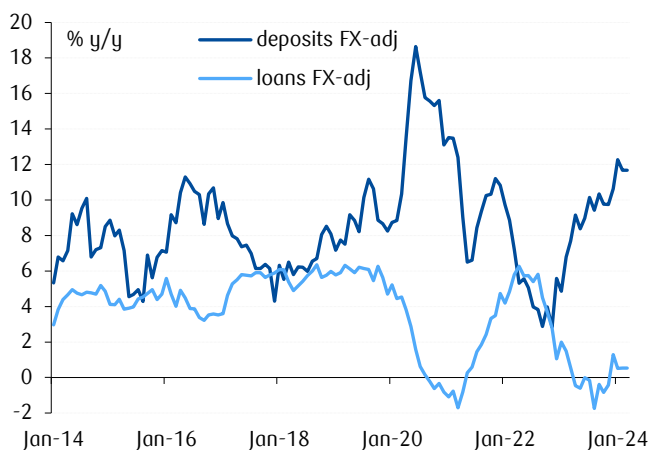


Employment and wages in the enterprise sector

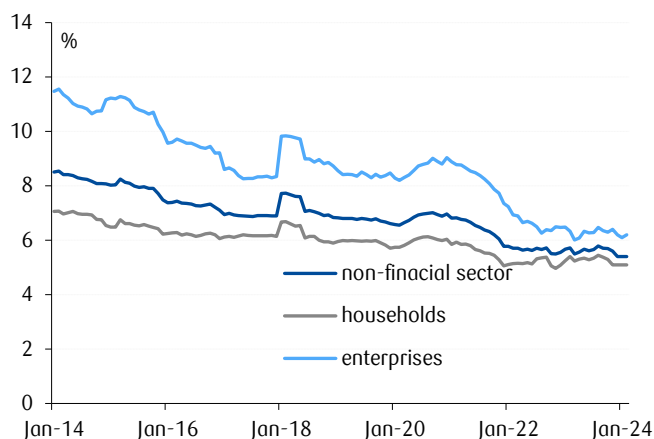


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. *break in series in 2010 due to methodological changes.

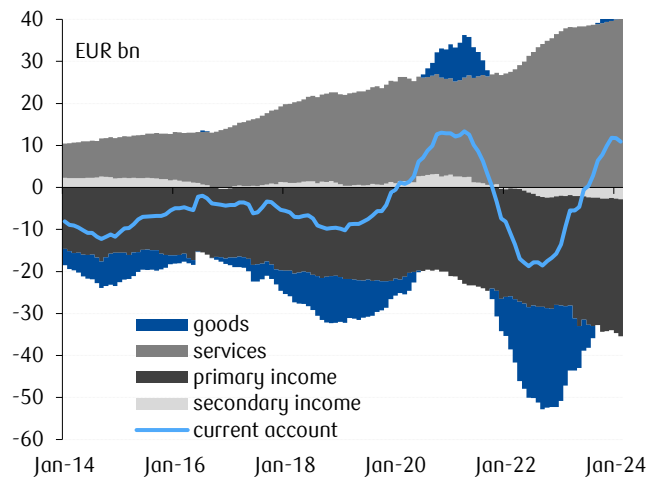
Loans and deposits



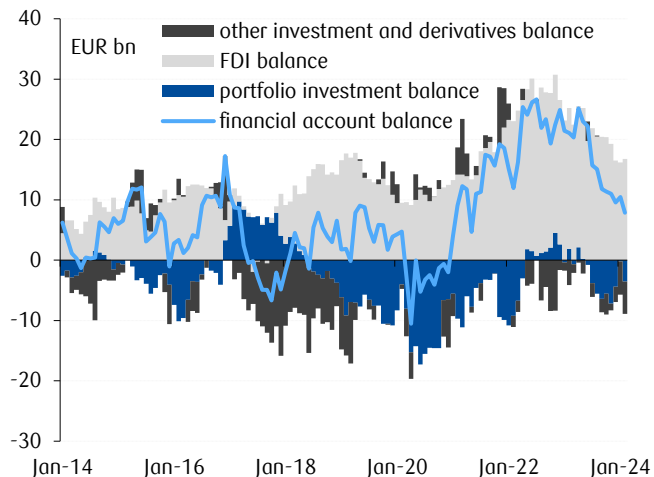
Non-performing loans (NPLs) - by sectors*



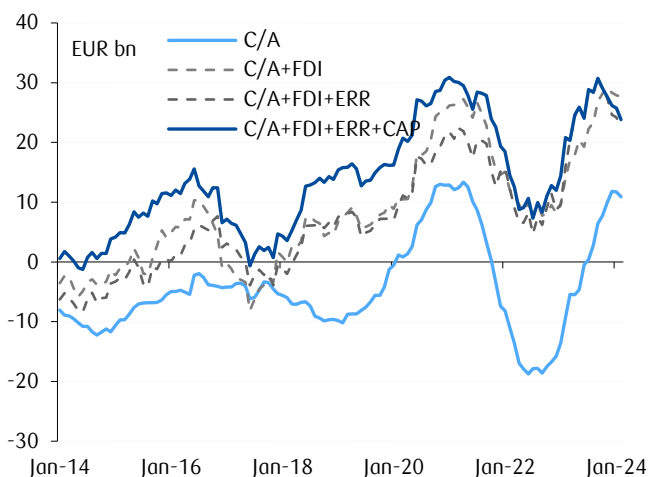
Current account balance



Financial account balance



External imbalance measures



NBP FX reserves (in EUR terms)



Source: NBP, PKO Bank Polski. *break in series in Jan2018 due to methodological changes.

Previous issues of PKO Macro Weekly:

- [Two opposing forces](#) (April 5, 2024)
- [Warm warmer](#) (March 22, 2024)
- [Inflation back on target, but not for long](#) (March 15, 2024)
- [Too much uncertainty to go down with the NBP rates](#) (March 8, 2024)
- [Inflation back in target will not impress the MPC](#) (March 1, 2024)
- [Getting closer to the EU funds](#) (February 23, 2024)
- [January inflation compensates for weak GDP](#) (February 16, 2024)
- [Uncertainty is a key](#) (February 9, 2024)
- [2023 failed to meet expectations](#) (February 2, 2024)
- [As good as it gets](#) (January 26, 2024)
- [The New Year optimism](#) (January 19, 2024)
- [Interest rates in the freezer](#) (January 12, 2024)
- [Inflation getting close to the target](#) (January 5, 2024)
- [New government and what's next?](#) (December 15, 2023)
- [Waiting for a new \(majority\) government](#) (December 8, 2023)
- [Consumer rises, inflation falls](#) (December 1, 2023)
- [Recovery at full steam](#) (November 24, 2023)
- [Growth is back](#) (November 17, 2023)
- [Higher for longer](#) (November 10, 2023)
- [Stay on these roads](#) (November 3, 2023)
- [Fiscal ghosts crawl out in the CEE](#) (October 27, 2023)
- [Signs of recovery](#) (October 20, 2023)
- [Decision time](#) (October 13, 2023)
- [Consumer awakens](#) (October 6, 2023)
- [Down with the NBP rates](#) (September 29, 2023)
- [Dark clouds are drifting away](#) (September 22, 2023)
- [Approaching a single-digit inflation](#) (September 15, 2023)
- [Let the cycle begin!](#) (September 8, 2023)
- [Towards the interest rate cut in September](#) (September 1, 2023)
- [Slow start of 3q23](#) (August 25, 2023)
- [It can only get better](#) (August 18, 2023)

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