

Weekly Economic Update

Will the new projection change the MPC's stance?

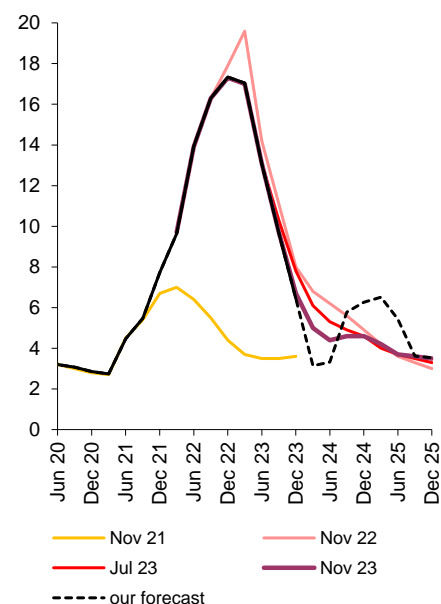
Economy next week

- The coming week's highlight will be the **Wednesday's MPC decision and the NBP president's speech a day later**. Adam Glapiński and some Council members have long announced that the March meeting will be extremely important, as by then "everything will be clear" regarding the inflation outlook. For the time being, however, the government's key decisions on the future of the anti-inflationary shields are still not known, so the new NBP projection, the results of which will be presented to the MPC, is being prepared in an environment of similar uncertainty as the previous one.
- **In our view, the MPC will keep interest rates unchanged and maintain the approach similar to that of recent months**: despite the lowering of short-term inflation forecasts, a recovery in price growth is expected in the later part of the year, which, against the backdrop of an accelerating economy, a tight labour market and a fairly expansionary monetary policy, does not warrant further interest rate cuts. The results of the new NBP projection are likely to show a better GDP growth outlook than previously, with CPI inflation lower in the short term but above the previous path in 2025. For the first time, the projection will include 2026 which may allow to show inflation moving closer to the target towards the end of the projection horizon.
- As recently suggested by the finance minister, **on Tuesday the government may decide what to do next with zero VAT on food at its meeting and perhaps the NBP analysts will have enough time to provide the Council with a last-minute estimate of the impact of this change on the projection**. A decision on energy prices seems less likely this week. In our opinion, the most likely scenario is the expiry of the reduced VAT rate at the end of March. In our opinion, such a decision is supported by, on the one hand, the lack of large fiscal space (especially if the government would like to introduce some measures to mitigate the impact of the energy price hike from July), on the other hand, the downward trend in food prices and the current price war between retail chain stores, which reduce concerns about the impact of the VAT hike on consumers, and on the third hand, the lack of clear pressure of political support polls on the ruling coalition ahead of the upcoming local and European elections. The November NBP projection assumed a continuation of the reduced VAT rate until the end of the forecast horizon and an increase in energy prices of around 5% in 2024 and 2025.
- The Sejm sitting (Wednesday-Friday) may feature several topics that will again raise the temperature of political disputes, including amendments to the law on the National Council of Judiciary (KRS), discussion about problems arising from the activities of the Constitutional Tribunal, **government information on possible criminal charges against former PM Morawiecki** (causing an irretrievable loss of an advance payment from the RRF). Last week, the head of the Public Finance Committee also announced the submission of a parliamentary motion to hold NBP President Adam Glapiński constitutionally accountable, but we do not know whether this will happen at the next meeting.
- Abroad, among others, services PMI indices, industrial orders data in the US and Europe, Chinese foreign trade and, at the end of the week, key US employment data. This week also includes the so-called Super Tuesday, a day when as many as 15 US states will hold presidential primaries.
- **ECB meeting on Wednesday** - rates are likely to remain unchanged, but the results of new economic projections could be key for the market. A possible lowering of inflation and GDP forecasts could reinforce expectations of rate cuts in the coming months. In turn, **Fed chair J.Powell will deliver his semi-annual monetary policy report to Congress**, in which he may signal no rush to ease policy. Also on Wednesday, the Bank of Canada decision - expected to be no change.

Markets next week

- Since the end of January, EURPLN has remained in a narrow range of 4.30-4.35, and in recent days even in 4.30-4.32, trying unsuccessfully to test the lower boundary despite theoretically favourable circumstances: the strengthening of the euro against the dollar, news of the unblocking of EU funds for Poland. From our conversations with institutional clients, it seems that the market is already firmly positioned, playing for the strengthening of the zloty, so **the risk for the exchange rate in the short term seems to be asymmetric upwards**: greater potential for an upward EURPLN correction in the case of any pretext (e.g. deterioration in global sentiment, a stronger dollar, or the MF's announcement that EU funds will not be exchanged on the market but at the NBP) than downwards in the case of supportive information (e.g. confirmation by the MPC that cuts this year are unlikely). In the perspective of a few months, we still do not rule out a descent of EURPLN towards 4.20.
- In the rates market, **a reiteration of a rather hawkish message from the MPC could push the short end of the curve upwards**. The effect could be a flattening of the curve, although the threat to this scenario is a possible correction in global risk appetite if J.Powell's statements (Wednesday-Thursday) lead to a clear weakening of expectations for rapid rate cuts by the Fed. In such a scenario, the long end of the curve could also record an upward correction.

CPI inflation according to NBP projections and our forecast, % y/y

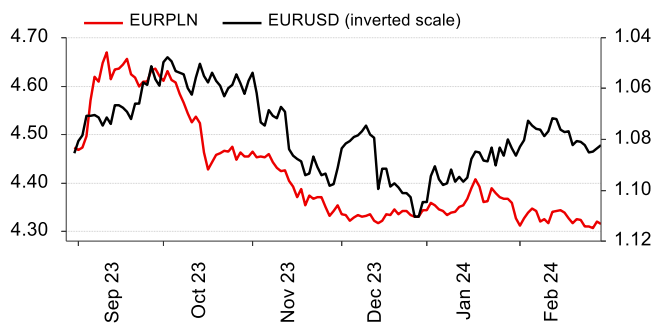


Source: NBP, GUS, Santander

Economic Analysis Department:

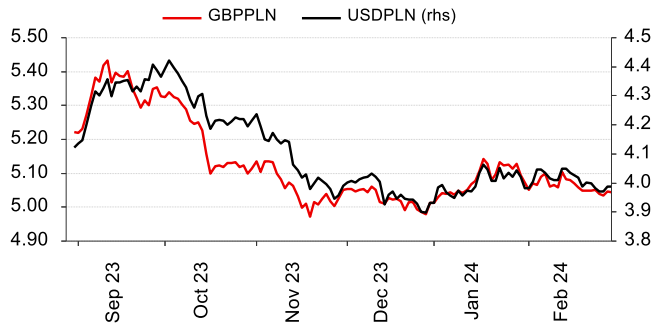
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EURPLN and EURUSD



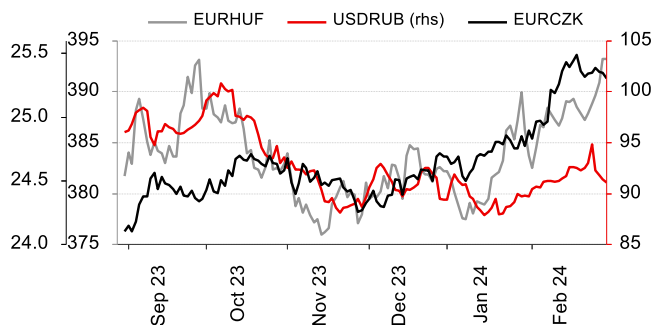
Source: LSEG Datastream, Santander

GBPPLN and USDPLN



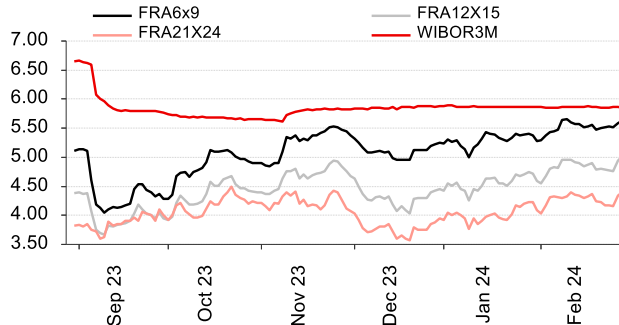
Source: LSEG Datastream, Santander Bank Polska

EURCZK, EURHUF and USDRUB



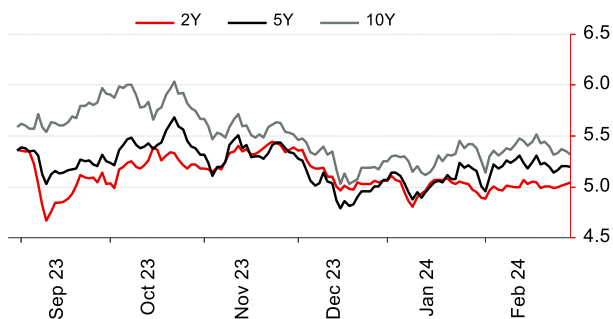
Source: LSEG Datastream, Santander Bank Polska

PLN FRA and WIBOR3M



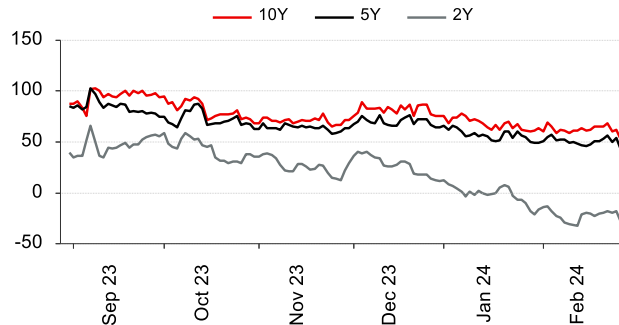
Source: LSEG Datastream, Santander Bank Polska

Polish bond yields



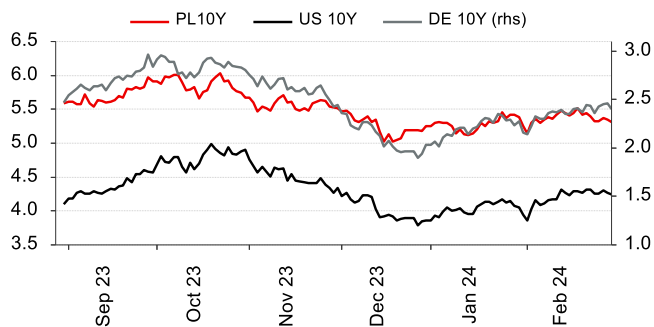
Source: LSEG Datastream, Santander Bank Polska

Asset swap spreads



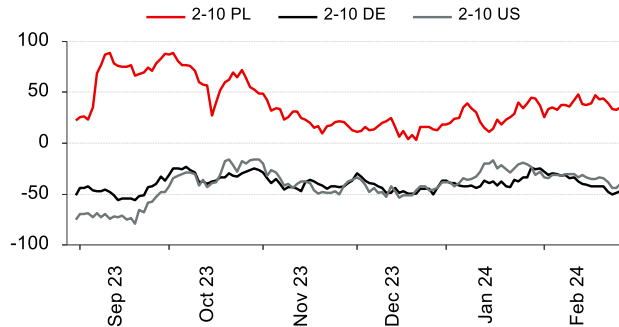
Source: LSEG Datastream, Santander Bank Polska

10Y bond yields



Source: LSEG Datastream, Santander

Steepness of yield curves



Source: LSEG Datastream, Santander Bank Polska

Economic Calendar

TIME CET	COUNTRY	INDICATOR	PERIOD	FORECAST		LAST VALUE	
				MARKET	SANTANDER		
MONDAY (4 March)							
No key events or releases							
TUESDAY (5 March)							
02:45	CN	Caixin China PMI Services	Feb	pts	52.9	-	52.7
08:30	HU	GDP	4Q	% y/y	0.0	-	-0.4
09:55	DE	Markit Germany Services PMI	Feb	pts	48.2	-	47.7
10:00	EZ	Eurozone Services PMI	Feb	pts	50.0	-	48.4
16:00	US	Durable Goods Orders	Jan	% m/m	-	-	-6.1
16:00	US	ISM services	Feb	pts	52.9	-	53.4
16:00	US	Factory Orders	Jan	% m/m	-3.0	-	0.2
WEDNESDAY (6 March)							
	PL	MPC decision		%	5.75	5.75	5.75
08:00	DE	Exports SA	Jan	% m/m	1.5	-	-4.2
08:30	HU	Industrial Production SA	Jan	% y/y	-3.3	-	-8.7
11:00	EZ	Retail Sales	Jan	% m/m	0.1	-	-1.1
14:15	US	ADP report	Feb	k	145	-	107
THURSDAY (7 March)							
08:00	DE	Factory Orders	Jan	% m/m	-6.5	-	8.9
14:15	EZ	ECB Main Refinancing Rate	Mar.24	%	4.50	-	4.50
14:30	US	Initial Jobless Claims		k	-	-	215
FRIDAY (8 March)							
08:00	DE	Industrial Production SA	Jan	% m/m	0.6	-	-1.6
08:30	HU	CPI	Feb	% y/y	4.0	-	3.8
11:00	EZ	GDP SA	4Q	% y/y	0.1	-	0.0
14:30	US	Change in Nonfarm Payrolls	Feb	k	190	-	353
14:30	US	Unemployment Rate	Feb	%	3.7	-	3.7

Source: Santander Bank Polska, Reuters, Parkiet, Bloomberg

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