

Is Poland crisis resilient?

TOP MACRO THEME(S):

- **How shock-resilient is the Polish economy? (p. 2):** We have analyzed Poland's position in a number of areas viewed as measures of market stability. The country's fundamentals look relatively solid.

WHAT ELSE CAUGHT OUR EYE:

- **The registered unemployment rate in September** stood at 5.1% (vs. 5.2% in August). The agricultural census of 2020 resulted in an upward revision of the unemployment rate for the last 2 years, by app. 0.5pp. The estimated number of people working in agriculture was cut by half, starting from the end of 2020, to approx. 1 million. The data, however, most likely does not include Ukrainians working in this sector. The changes have not effected the number of unemployed, nor did they affect an assessment of the labour market dynamics. The unemployment rate has been in a strong downward trend since 2021, reflecting rapid GDP growth.
- **New factory orders in September** jumped 44.1% y/y, with export orders up 43.8% y/y. The acceleration vs. 31.5% in Aug. is likely a result of smoother supply chains in the automotive industry and high demand on investment goods (speed-up in energy efficiency improvement). This could mitigate the effects of general economic downturn on the sector, at least for some time.
- **M3 money supply in September** increased by 7.7% y/y. Among narrower money measures the negative trends continued: decline in M1 money supply deepened both in nominal (-5.6% y/y vs. -3.8% y/y in August) and in real terms (to -21.9% y/y vs. -18.7% y/y in August). The data indicate that the upcoming slowdown in economic activity will mainly affect the consumer sector: outstanding volume of total housing loans in September fell in y/y terms for the first time on record, while the y/y growth rate of personal term deposits was the highest ever.

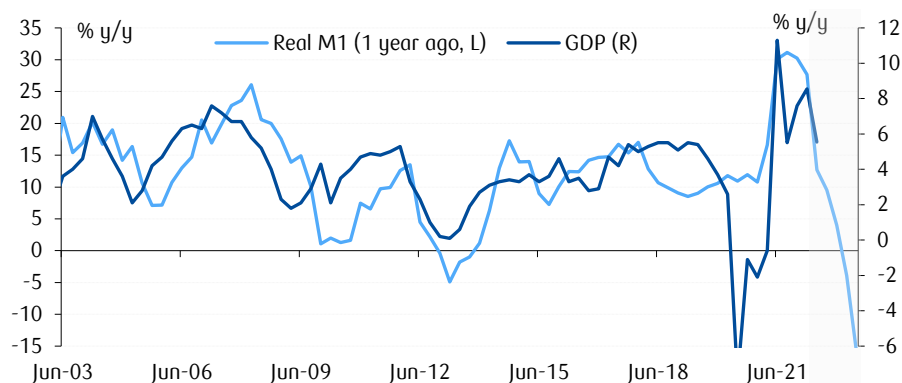
THE WEEK AHEAD:

- **CPI inflation in October** has likely accelerated further on higher food prices and more expensive fuel and energy.
- **Manufacturing PMI for October** has probably remained under negative pressure from the energy crisis and worse business climate abroad.
- **Today Moody's** may update Polish rating (now: A2 stable).

NUMBER OF THE WEEK:

- **118bps** – The decline of intraday 10Y yield since the previous week's high.

Chart of the week – Real M1 heralds economic downturn



Source: NBP GUS, PKO Bank Polski.

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| | 2021 | 2022 _† |
|--------------------------------------|------|-------------------|
| Real GDP (%) | 6.8 | 4.3 |
| Industrial output (%) | 15.6 | 10.4 |
| Unemployment rate [#] (%) | 5.4 | 4.9 |
| CPI inflation ^{**} (%) | 5.1 | 14.1 |
| Core inflation ^{**} (%) | 4.1 | 8.8 |
| Money supply M3 (%) | 8.9 | 5.8 |
| C/A balance (% GDP) | -1.4 | -4.4 |
| Fiscal balance (% GDP)* | -1.9 | -2.2 |
| Public debt (% GDP)* | 53.8 | 50.8 |
| NBP reference rate ^{##} (%) | 1.75 | 6.75 |
| EURPLN ^{###} | 4.60 | 4.80 |

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

How shock-resilient is the Polish economy?

- We have analyzed Poland's position in a number of areas viewed as measures of macroeconomic and financial stability, focusing on relative changes over 2021-2022 (Poland vs the rest of Europe – EU, UK, Norway and Switzerland).
- Poland's position looks solid. In the coming months, credible monetary and fiscal policies will be key to minimize risks stemming from tighter financial conditions globally (until the Fed pivots eventually).

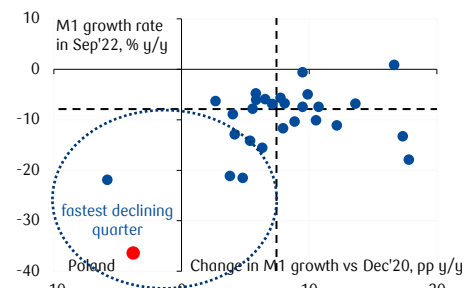
The external investment environment is now strongly unfavourable, thus increasing the risk of various types of crises. Historically, factors that increased the vulnerability of emerging economies to a crisis were 1) monetary tightening by the Fed, 2) reduction of dollar liquidity, 3) increase in risk aversion, 4) global slowdown/recession, 5) deglobalisation. We are currently dealing with all of the above factors. This is why we have decided to check how vulnerable might Poland be to any kinds of market crises.

According to 'Leading Indicators of Currency Crises', by Kaminsky, Lizondo, Reinhart (1998), the best strategy to define the vulnerability to a crisis is to analyse a set of indicators from multiple areas, including i.a. current account, FX rates, loans growth and debt ratios. Following this advice we have analysed Poland's position in a number of areas viewed as measures of macro and financial stability, focusing on relative changes over 2021-2022 (Poland vs the rest of Europe – EU, UK, Norway and Switzerland). The results are presented on margin charts and on the following page.

In our opinion Poland's position looks solid:

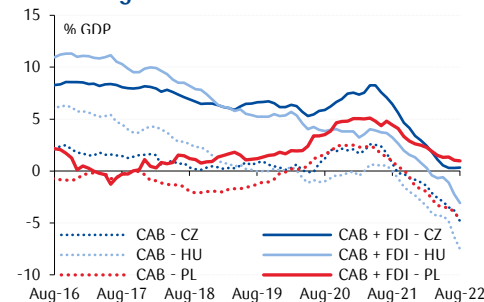
- **Foreign debt to GDP in Poland is one of the lowest in the whole sample**, providing a good buffer against any sudden FX changes;
- **Poland stands out with its relatively favourable and strongly improving fiscal position.** Over the past four quarters, a decline in the level of public debt (ESA) to GDP recorded in Poland (by 5.5pp) was deeper than the median decline in the analysed group (4.0pp). The deficit is slightly better than the median, but since 4q20 it has been improving faster than in peer countries, even despite increased spending associated with being a frontline state (help for refugees and military expenses);
- **FX changes so far have been modest.** The effective nominal exchange rate (NEER, trading partner-weighted exchange rate) in Poland weakened by 4.3% in 2021, and by another 4.1% from December 2021 to September 2022. The real effective exchange rate, however, weakened only by 1% in 2021, while in 2022 YtD it has strengthened, by 0.9% (stronger than the median in the whole group);
- **A strong decline in households loans.** Normally it might suggest an occurrence of *boom and bust cycle*. However, in case of Poland there was no *boom*. In 2000-2021 households loans were growing at a moderate pace, by app. 5% y/y. Additionally the indebtedness of Polish households is significantly below the average for Poland's peers. Freezing credit market, along with significantly declining M1 money supply (one of the deepest declines in the group), is rather a proof that monetary tightening is being successfully transmitted to the economy which should finally result in pushing inflation down. And this will improve the economic stability and reduce the risk of any crisis.

M1 growth vs M1 growth change between Sep'22-Dec'20*



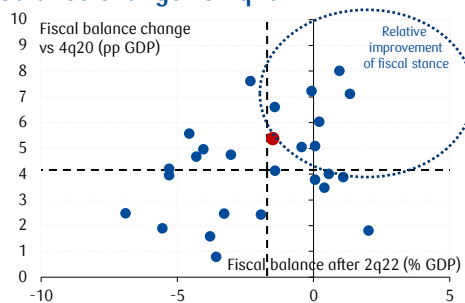
Source: ECB, Eurostat, national data sources, PKO Bank Polski. * dotted lines represent medians; data for EU, Norway, UK, Switzerland.

CAB balance adjusted by net FDI inflow in CEE region



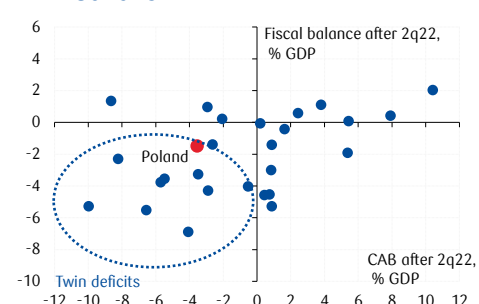
Source: Macrobond, PKO Bank Polski.

Fiscal balance (ESA) after 2q22 vs fiscal balance change vs 4q20*



Source: Eurostat, PKO Bank Polski. *4q rolling sum of fiscal balance / 4q rolling sum of GDP; dotted lines represent medians; data for EU, Switzerland.

Twin deficits*



Source: Macrobond, PKO Bank Polski, *data for UE, Switzerland

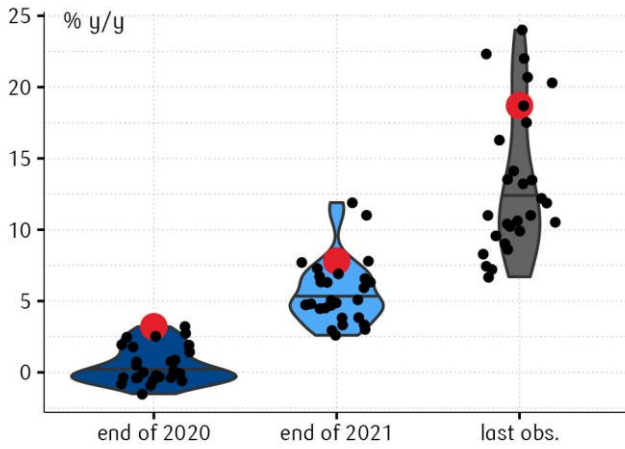
Among potential weak points we find:

- **Relatively high level of FX denominated households debt.** This is however an old story in Poland, coming mainly from the FX mortgage loans, that for many years are not granted anymore and which portfolio is in a strong downward trend;
- **A rapid deterioration on the current account.** This is a common trend among net importers of energy, where soaring prices have pushed the trade balances deep into the red. As we wrote in [Macro Weekly: Are inventories swinging the CAB?](#), the deterioration of the current account in Poland is not structural. Additionally, the deficit is more than offset by systematic FDI inflows (contrary to Hungary and Romania);
- **Rising yields.** Again a global trend, resulting from high inflation and rising local and global interest rates. In case of Poland yields have risen more strongly than on average among peers. Only in Hungary and Romania the spreads towards 10Y Bund have widened more than in Poland. However, taking into account a relatively low public debt level, strong nominal GDP growth and low starting point of the public debt servicing costs (see chart) Poland again looks relatively immune to the negative consequences of this trend;
- **(Stubbornly) high inflation.** Inflationary processes across Europe are skyrocketing due to the consequences of the energy crisis. On the onset of energy price spike, inflation in Poland was higher than among peers, it also remains higher than the sample average. With strongly negative real growth of household incomes and drastic decline in credit flow and money supply – as it is the case for Poland – the risk of inflation getting out of control and triggering a strong FX depreciation is limited.

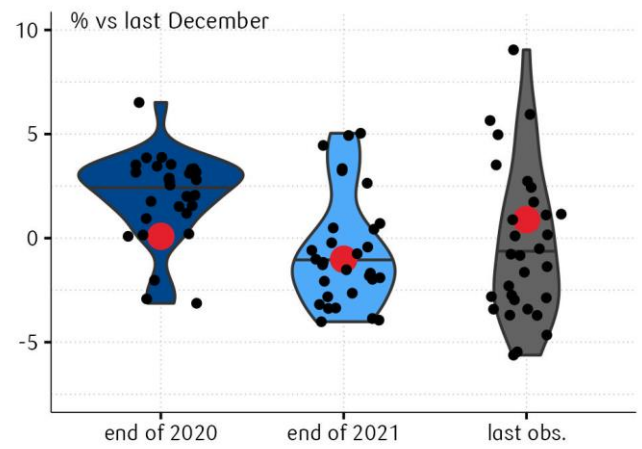
An overview of various indicators presented above suggest that in the face of piling challenges in the global economy and possible turbulences in the global financial market, the starting position of Poland's economy is solid. However, strong fundamentals do not guarantee the resilience of economies in the face of a crisis if they are not accompanied by appropriate economic policies, with an equal share of both monetary and fiscal measures.

Poland (red dot) vs UE, UK, Switzerland and Norway*

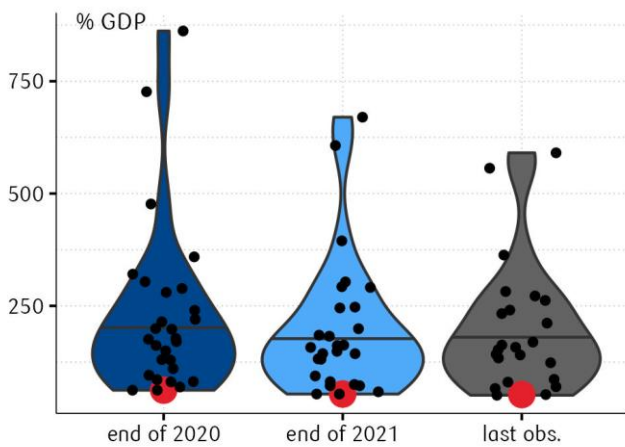
HICP inflation (constant tax rates)



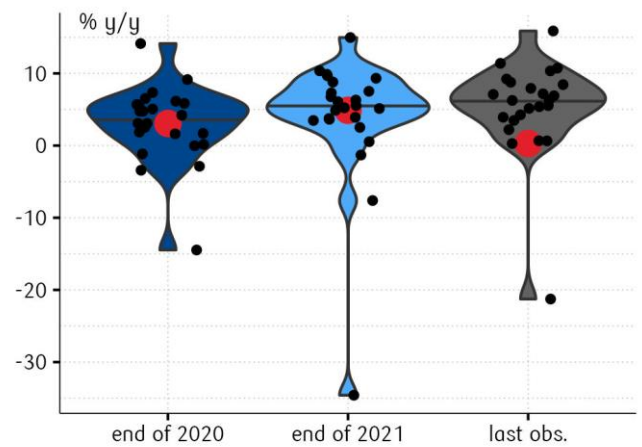
REER (% change vs December last year)



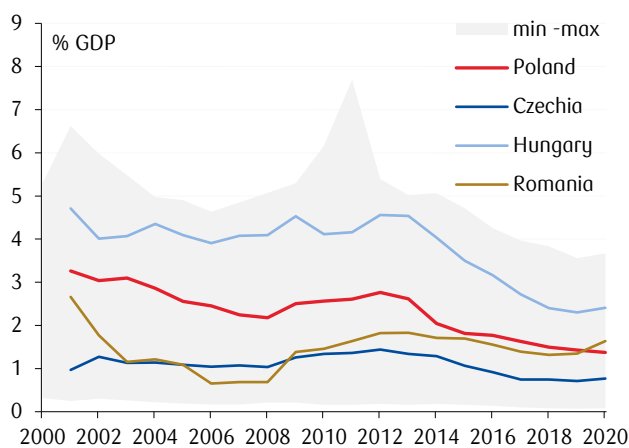
Foreign debt (% GDP)*



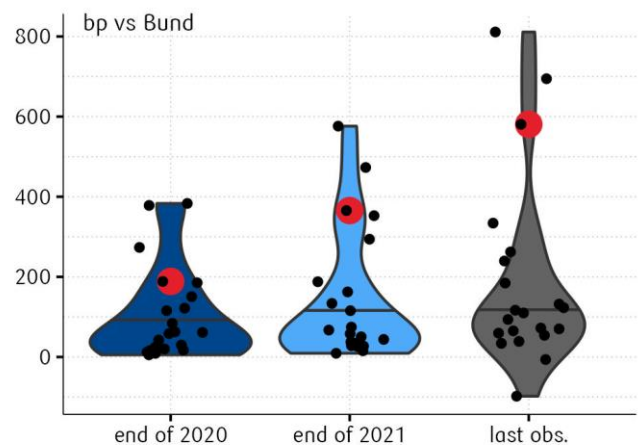
Credit to households change (% y/y)



Public debt service costs (acc. COFOG) in EU+UK



10Y bonds spread to Bund



Source: NBP, GUS, Macrobond, Bloomberg, ECB, BIS, Eurostat, PKO Bank Polski. *"last obs." means last available comparable data: Sep'22 for HICP, Sep'2 for REER, 1q22 for foreign debt, Sep'22 for credit to households, Oct'22 for bonds spread. *Gross External Debt Position (USD millions) according to comparable methodology by World Bank (Table C1).

Weekly economic calendar

| Indicator | Time (UK) | Unit | Previous | Consensus* | PKO BP | Comment |
|--|-------------|-------------|-------------|-------------|-------------|--|
| Monday, 31 October | | | | | | |
| POL: CPI inflation (Oct, flash) | 9:00 | % y/y | 17.2 | 18.0 | 17.8 | CPI inflation has likely accelerated further in October on higher food prices and more expensive fuel and energy carriers. |
| EUR: HICP inflation (Oct) | 10:00 | % y/y | 9.9 | 9.8 | -- | -- |
| EUR: Core inflation (Oct, flash) | 10:00 | % y/y | 4.8 | 4.8 | -- | -- |
| EUR: GDP growth (3q) | 10:00 | % y/y | 4.1 | 1.8 | -- | -- |
| Tuesday, 1 November | | | | | | |
| CHN: Manufacturing PMI (Oct) | 1:45 | pts. | 48.1 | 48.8 | -- | -- |
| USA: Manufacturing PMI (Oct, final) | 13:45 | pts. | 52.0 | 49.9 | -- | -- |
| USA: JOLTS Report (Sep) | 14:00 | mln | 10.053 | 9.750 | -- | -- |
| USA: ISM Manufacturing (Oct) | 14:00 | pts. | 50.9 | 50.0 | -- | -- |
| Wednesday, 2 November | | | | | | |
| GER: Exports (Sep) | 7:00 | % m/m | 1.6 | -- | -- | -- |
| GER: Imports (Sep) | 7:00 | % m/m | 3.4 | -- | -- | -- |
| POL: Manufacturing PMI (Oct) | 8:00 | pts. | 43.0 | 42.5 | 43.4 | PMI has probably remained under negative pressure from the energy crises and worse business climate abroad. |
| GER: Unemployment Rate (Oct) | 8:55 | % | 5.5 | 5.6 | -- | -- |
| GER: Manufacturing PMI (Oct, final) | 8:55 | pts. | 47.8 | 45.7 | -- | -- |
| EUR: Manufacturing PMI (Oct, final) | 9:00 | pts. | 45.7 | 46.6 | -- | -- |
| USA: ADP National Employment (Oct) | 12:15 | thous. | 208 | 200 | -- | -- |
| USA: Fed meeting | 18:00 | % | 3.25 | 4.00 | 4.00 | -- |
| Thursday, 3 November | | | | | | |
| NOR: Norges Bank meeting | 9:00 | % | 2.25 | 2.25 | 2.25 | -- |
| UK: BoE meeting | 12:00 | % | 2.25 | 3.00 | 3.00 | -- |
| USA: Trade balance (Sep) | 12:30 | USD bn | -67.4 | -70.2 | -- | -- |
| USA: Initial Jobless Claims | 12:30 | thous. | 217 | -- | -- | -- |
| CZE: Central bank meeting | 13:30 | % | 7.00 | 7.00 | 7.00 | -- |
| USA: Factory orders (Sep) | 14:00 | % m/m | 0.0 | 0.4 | -- | -- |
| USA: Durable goods orders (Sep, final) | 14:00 | % m/m | 0.4 | -- | -- | -- |
| Friday, 4 November | | | | | | |
| GER: Factory orders (Sep) | 7:00 | % m/m | -2.4 | -1 | -- | -- |
| GER: Factory orders (Sep) | 7:00 | % y/y | -4.1 | -- | -- | -- |
| GER: Services PMI (Oct, final) | 8:55 | pts. | 45 | 44.9 | -- | -- |
| EUR: Services PMI (Oct, final) | 9:00 | pts. | 48.8 | 48.2 | -- | -- |
| EUR: PPI inflation (Sep) | 10:00 | % y/y | 43.3 | -- | -- | -- |
| USA: Non-Farm Payrolls (Oct) | 12:30 | thous. | 263 | 200 | -- | -- |
| USA: Unemployment Rate (Oct) | 12:30 | % | 3.5 | 3.6 | -- | -- |
| USA: Average Earnings (Oct) | 12:30 | % y/y | 5.0 | 4.6 | -- | -- |

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 | " Inflation expectations are outrageously high and ... real interest rate is as low as in the period before the first interest rate hike. That in practice means that borrowers are shouldering higher costs but there are no desired effects. (...) The MPC has to regain credibility and really fight inflation [hike interest rates above expected inflation]. " (24.10.2022, Parkiet, PAP) |
| L. Kotecki | 4.8 | " "I fear that, to the end of next year, it [inflation] will stay at double-digits. (...) Poland should brace itself for three, or potentially four years of elevated inflation, as the situation is becoming more dangerous from month to month." (27.10.2022, Gazeta Wyborcza, PAP) |
| P. Litwiniuk | 3.7 | "As long as core inflation is rising, as long as the situation on the labor market is good, as long as the Polish economy and its participants continue to surprise with their activity, one has to take actions aimed at monetary tightening (...) Whether this should take place via interest rate hikes or via using other tools which are at the disposal of the [PAP: NBP] management board and not of the MPC is only a concern in the future" (10.10.2022, TOK FM, PAP) |
| H. Wnorowski | 2.7 | "The Monetary Policy Council and the National Bank of Poland are counting on the inflation peak being just around the corner, and that we are most certainly very close to it, and that it should only be better." (10.10.2022, PAP, local TV station) |
| A. Glapinski | 2.4 | "It's not the formal end of the hiking cycle, it's a halt to the cycle.. (...) If we see in the projection that domestic inflation drivers are developing, that would be a reason, a strong indication to increase interest rates, to continue the tightening cycle. (...) I said last time rates would be stopped at some point and that in the middle of the [next] year inflation would start declining and that in the last quarter [of 2023] or sooner there would be room to cut rates. What happened now, the new data somewhat weaken this expectation but I still stick to it. I hope that the first rate cut will be possible towards the end of next year." (6.10.2022, NBP press conference, PAP) |
| C. Kochalski | 2.4 | "Poland has little if any room to hike interest rates. It seems there isn't a lot of room because if we look at the so-called output gap, it is closing." (19.10.2022, TVN24, PAP). |
| W. Janczyk | 2.0 | "The coming months, I hope, will bring no particular reasons to continue the interest rate hike cycle, although the impact of energy prices in the upcoming autumn-winter season on the economy and consumers is hard to predict right now. (...) "The council will act adequately to situation in our economy. In my opinion, it will strive to keep the lowest possible interest rate levels [while] targeting a realistic return to the inflation target." (21.07.2022, PAP). |
| I. Duda | 2.3 | "One should tread very cautiously around potential further interest rates hikes, as we should also take care about maintaining an appropriate growth level and prevent unemployment from increasing." (5.10.2022, PAP) |
| G. Maslowska | 2.1 | " The challenge ahead of the Polish monetary policy is particularly difficult. (The MPC) has to bring inflation down gradually, while at the same time making sure our economy does not fall into recession. (...) I am aware of the inflation target existence and we have to strive at reaching it but the real costs of reaching it are also important. " (24.10.2022, Radio Maryja, PAP) |
| I. Dabrowski | 1.9 | " In a certain pessimistic scenario it [inflation exceeding 20%] is obviously possible, but under assumption that nothing changes - there are no perturbations similar to Covid or the aggression on Ukraine - it [inflation] should stabilize. It need not be exactly that [target] range, but we should approach the neighborhood of that target in 2024". (26.10.2022, Super Express, PAP) |

*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.

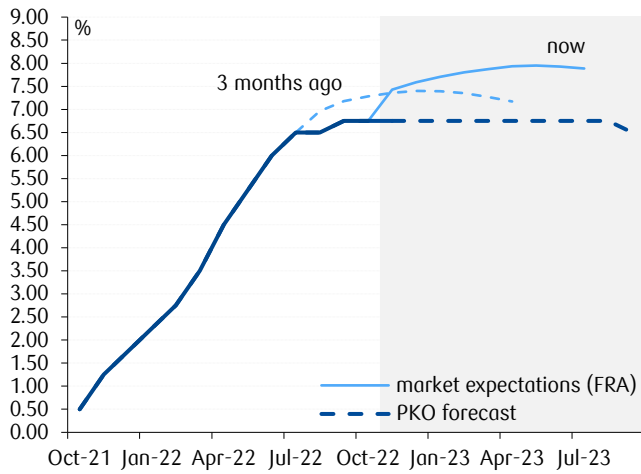
Interest rates – PKO BP forecasts vs. market expectations

| | | 1M | 2M | 3M | 4M | 5M | 6M | 7M | 8M | 9M |
|------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Date | 27-Oct | 27-Nov | 27-Dec | 27-Jan | 27-Feb | 27-Mar | 27-Apr | 27-May | 27-Jun | 27-Jul |
| WIBOR 3M/FRA† | 7.46 | 7.63 | 7.79 | 7.91 | 8.00 | 8.07 | 8.14 | 8.15 | 8.13 | 8.09 |
| implied change (b. p.) | | 0.17 | 0.33 | 0.45 | 0.54 | 0.61 | 0.68 | 0.69 | 0.67 | 0.63 |
| MPC Meeting | 5-Oct | 9-Nov | 7-Dec | - | - | - | - | - | - | - |
| PKO BP forecast* | 6.75 | 6.75 | 6.75 | 6.75 | 6.75 | 6.75 | 6.75 | 6.75 | 6.75 | 6.75 |
| market pricing* | | 6.92 | 7.08 | 7.20 | 7.29 | 7.36 | 7.43 | 7.44 | 7.42 | 7.38 |

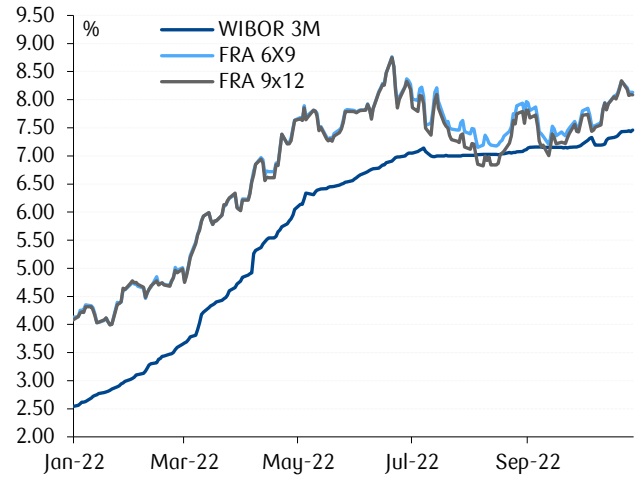
†WIBOR 3M from the last fixing, FRA transactions based on WIBOR 3M for subsequent periods, ‡in basis points, *PKO BP forecast of the NBP reference rate.

Poland macro chartbook

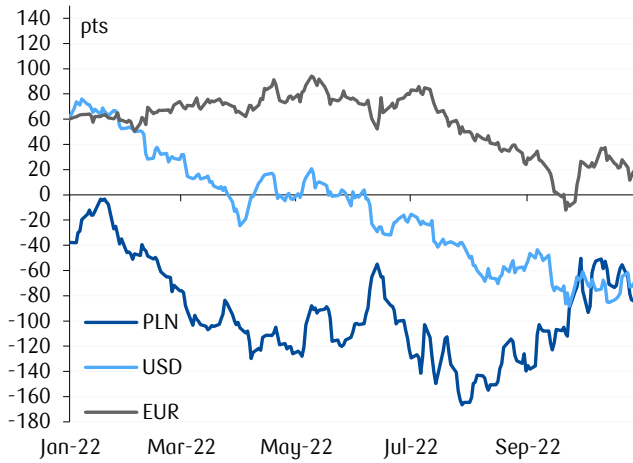
NBP policy rate: PKO BP forecast vs. market expectations



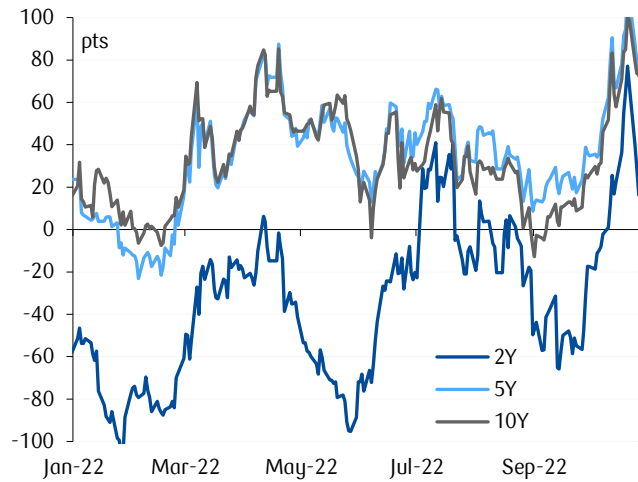
Short-term PLN interest rates



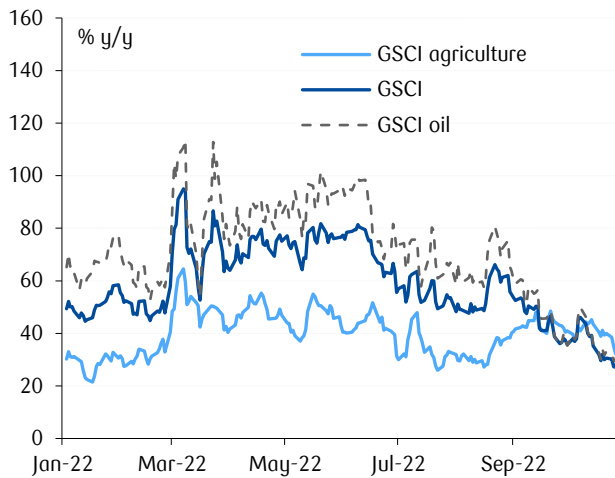
Slope of the swap curve (spread 10Y-2Y)*



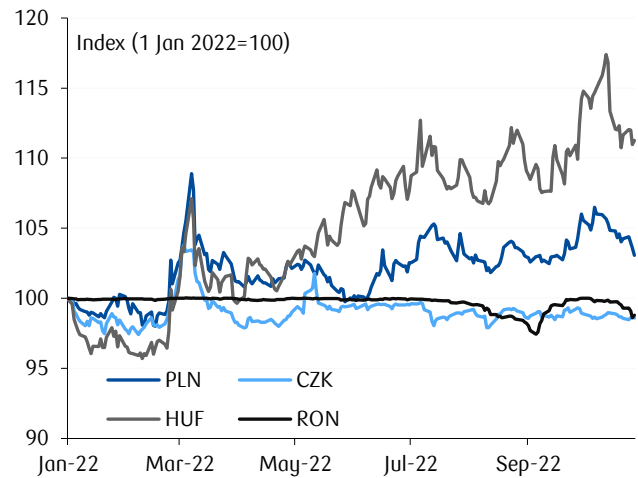
PLN asset swap spread



Global commodity prices (in PLN)

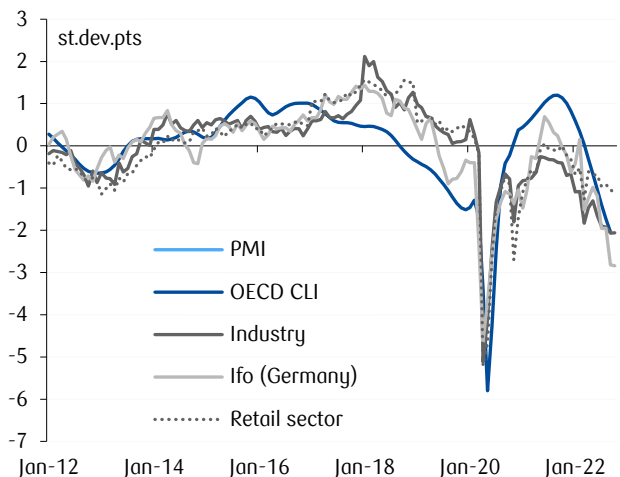


Selected CEE exchange rates against the EUR

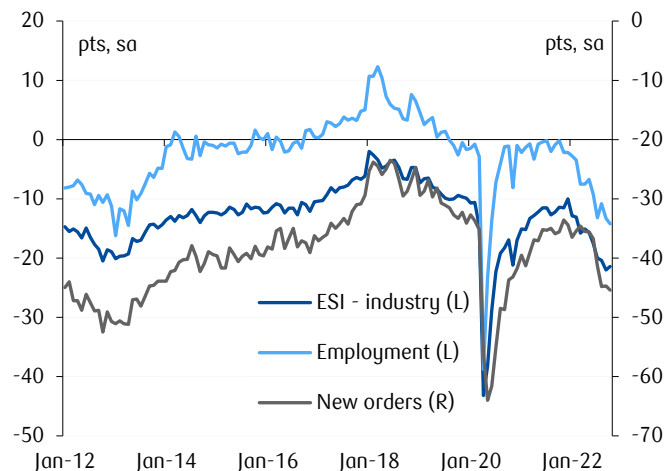


Source: Datastream, NBP, PKO Bank Polski. *for PLN, and EUR 6M, for USD 3M.

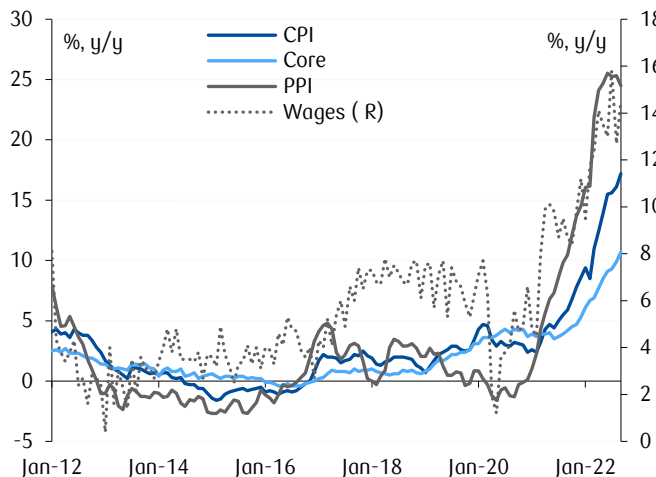
Economic sentiment indicators



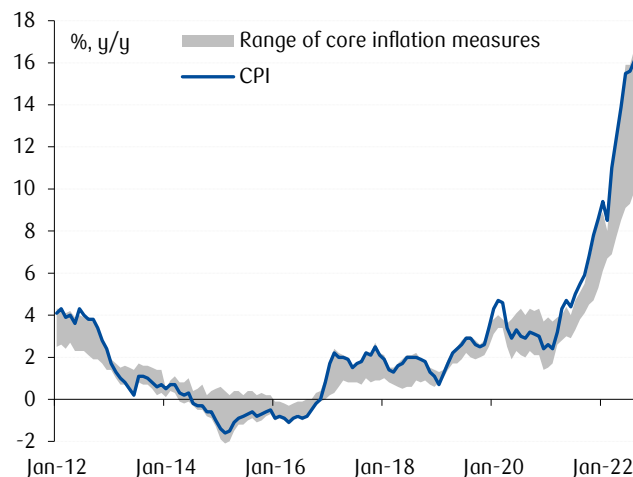
Poland ESI for industry and its components



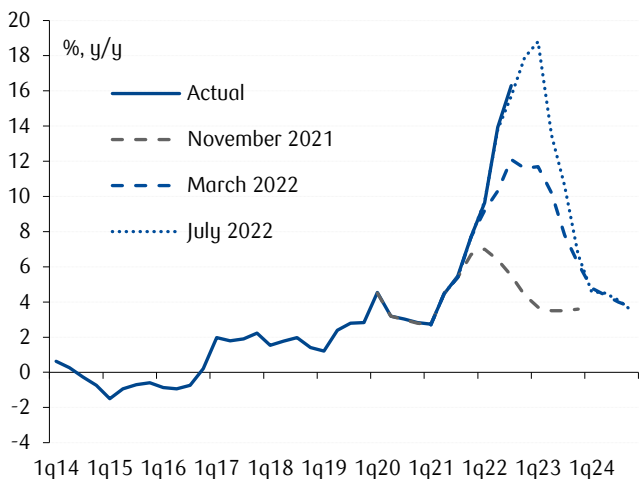
Broad inflation measures



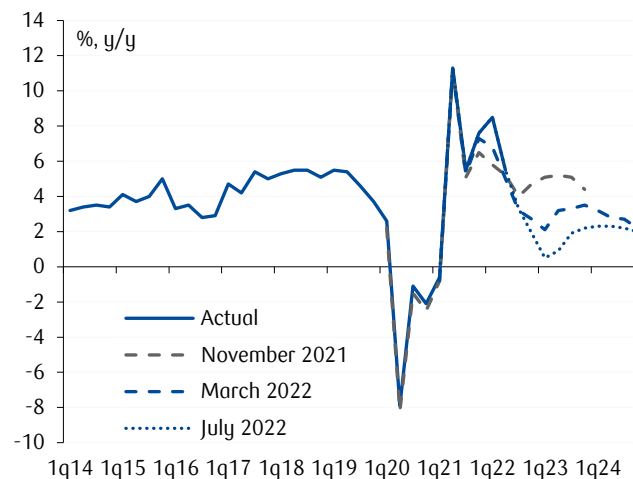
CPI and core inflation measures



CPI inflation – NBP projections vs. actual

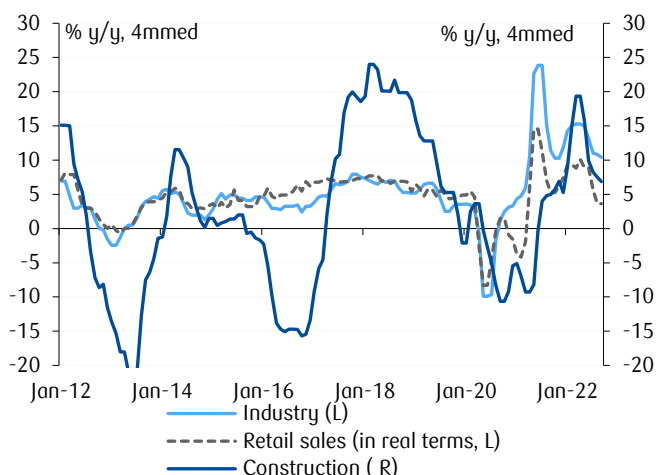


Real GDP growth – NBP projections vs. actual

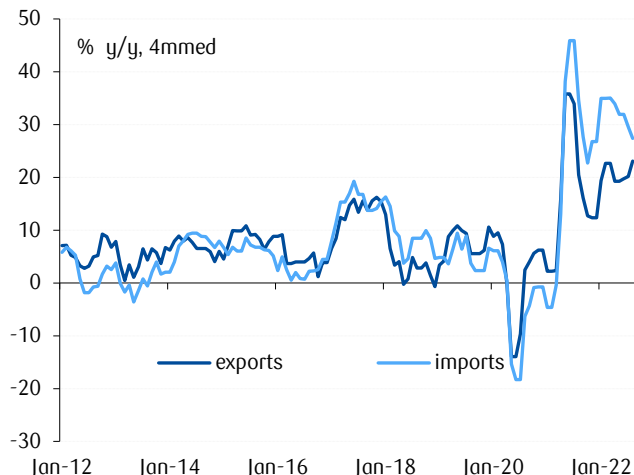


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

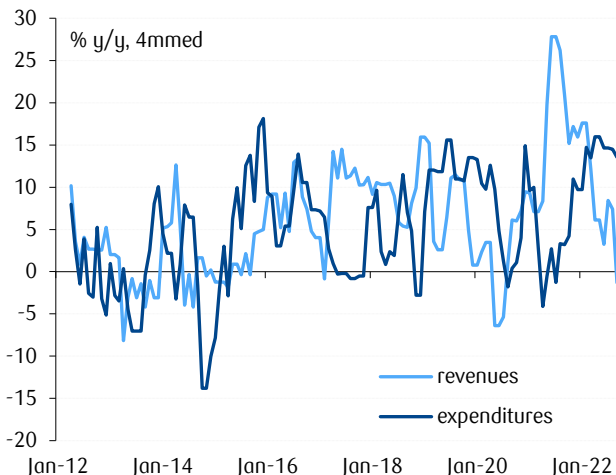
Economic activity indicators



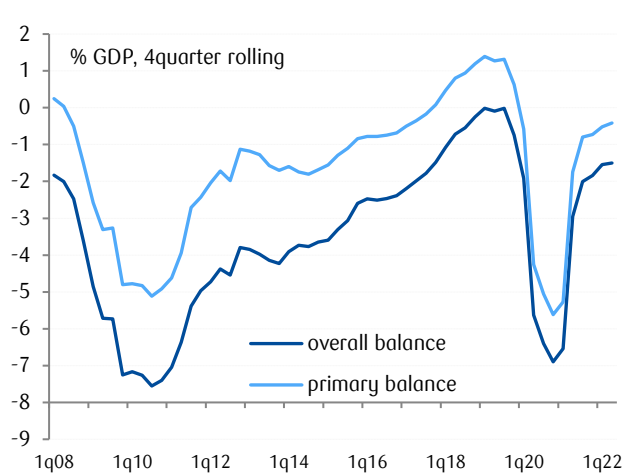
Merchandise trade (in EUR terms)



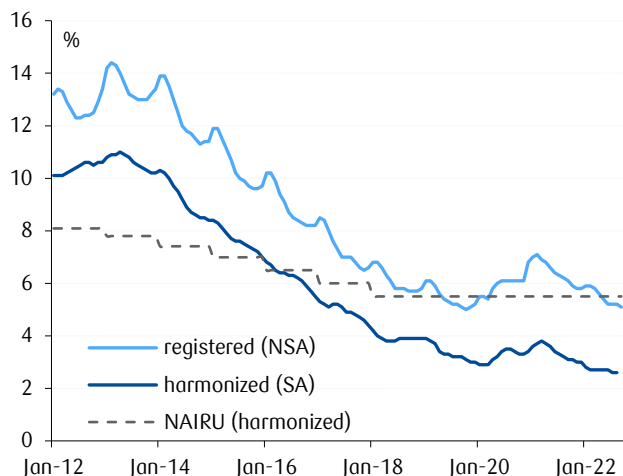
Central government revenues and expenditures*



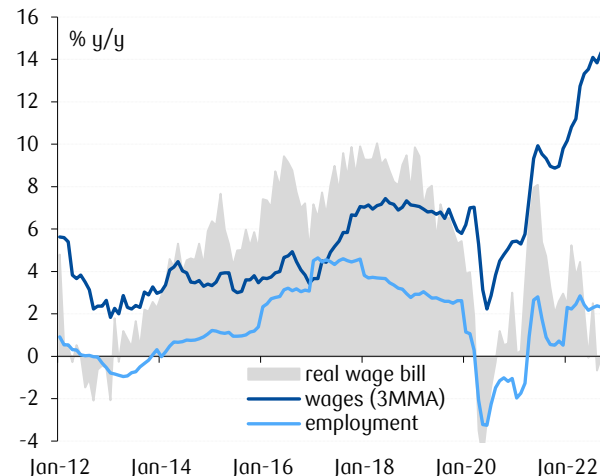
General government balance (ESA2010)



Unemployment rate

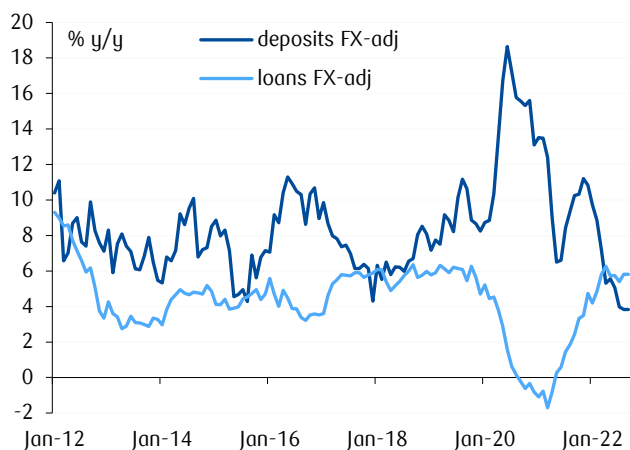


Employment and wages in the enterprise sector

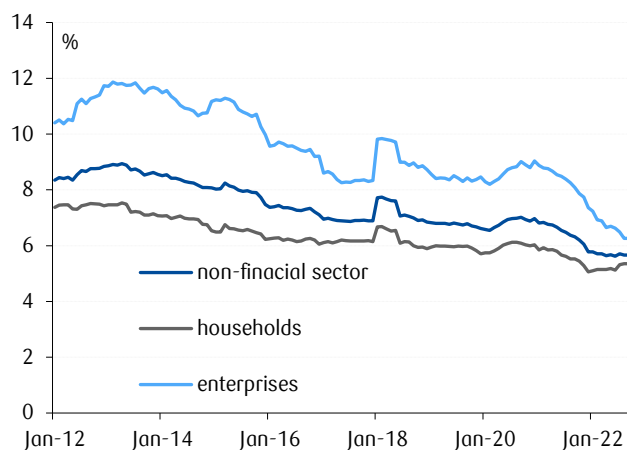


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. *break in series in 2010 due to methodological changes.

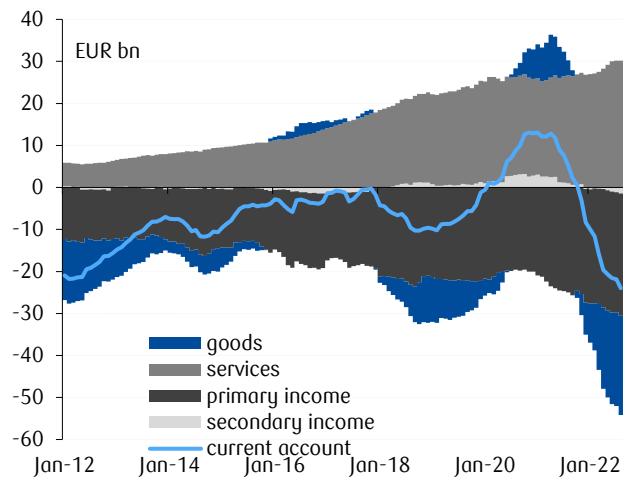
Loans and deposits



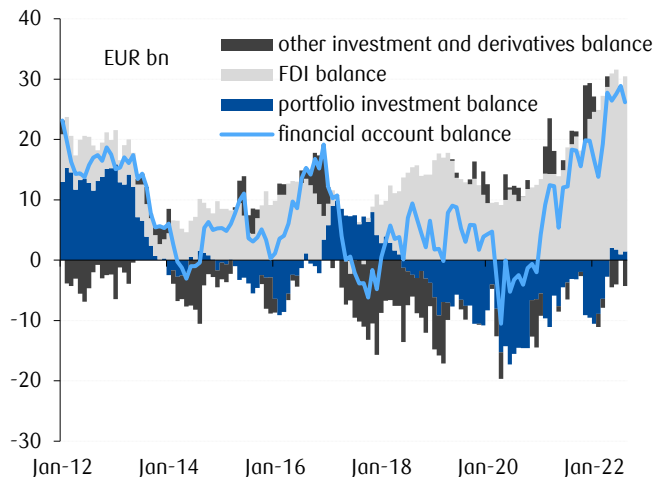
Non-performing loans (NPLs) - by sectors*



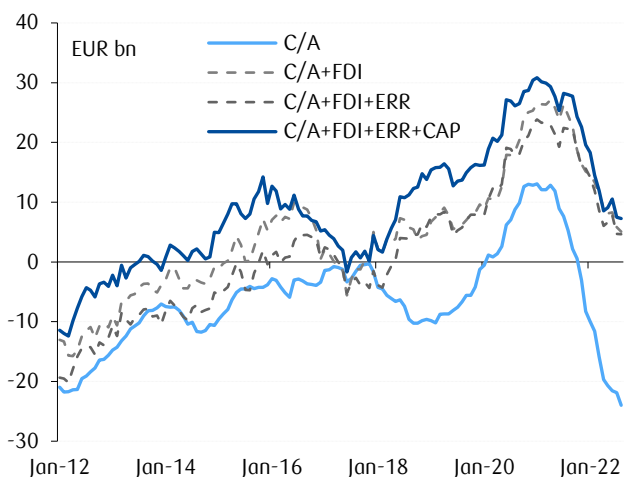
Current account balance



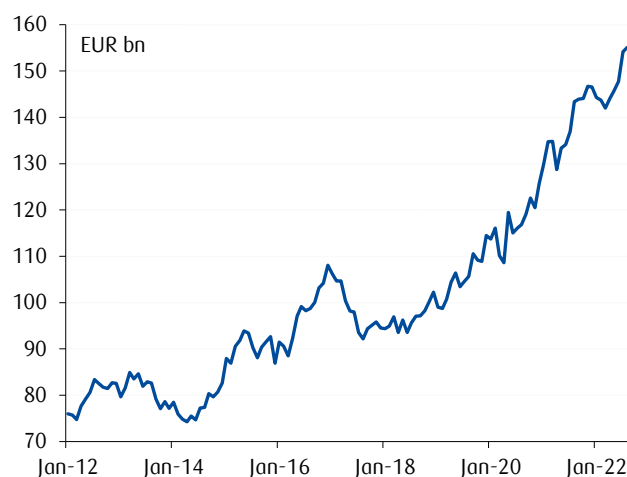
Financial account balance



External imbalance measures



NBP FX reserves (in EUR terms)



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

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