Poland Macro Weekly

Macro Research

10 February 2023

Bank Polski | Centrum Analiz

Nothing to see here

TOP MACRO THEME(S):

- **Nothing to see here (p. 2):** The MPC, deprived of the new inflation data, left interest rates unchanged.
- **Polish-German industrial tandem still in the game (p. 3):** Our observations from Poland Macro Weekly "Less reliant on Germany?" (May 12th 2022) are still valid. Although trade and industrial ties between Poland and Germany loosened in 2022, Polish-German industrial tandem is still in the game.

WHAT ELSE CAUGHT OUR EYE:

- **Unemployment rate in January went up to 5.5% from 5.2% in December**. Total number of registered unemployed increased by 46 thousand in January alone, not much more than in previous years. An increase is seasonal and in line with our labour market scenario - there is a slight cyclical deterioration, but we do not expect a significant increase in unemployment.
- According to the **survey of senior loan officers** in 4q22, banks tightened the criteria for granting all types of loans and recorded a decrease in demand. In the case of consumer loans expectations for 1q23 remain pessimistic (lending policy will be stricter, demand will decline). For mortgage loans we may however be approaching a turning point - both expected demand and credit criteria are expected to turn positive. The demand for mortgage loans could be boosted the recent FSA decision, to cut the minimum buffer for potential rate hikes to 250bp (from 500bp) for fixed-rate mortgages and to place it between 250-500bp for floating rate mortgage loans.

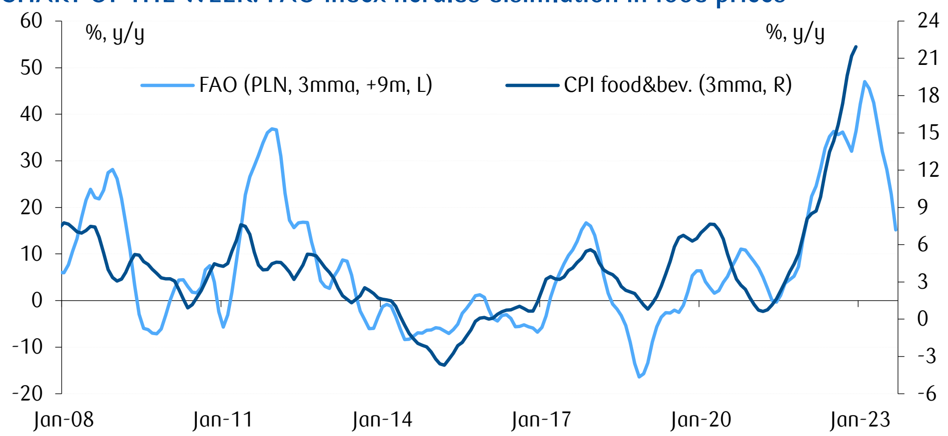
THE WEEK AHEAD:

- Despite higher monthly reading, the **12m CA deficit to GDP ratio has likely declined in December to 3.2%**. Exports keep growing faster than imports.
- **The range of January CPI forecasts is very wide** (16.1-20.5%, PKO: 18.7%). The reading will heavily depend on yet unknown decision of GUS on how to deal with electricity price hikes, which will impact only part of energy consumption.
- **The GDP slowdown to 2.2% in 4q22** has probably been driven by weaker consumer demand, with relatively immune investment.

NUMBER OF THE WEEK:

- **-2.1%**– the decline in the real average wage in the total economy in 2022.

CHART OF THE WEEK: FAO index heralds disinflation in food prices



Source: Macrobond, GUS, PKO Bank Polski.

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	2022	2023†
Real GDP (%)	4.9	0.1
Industrial output (%)	10.4	3.9
Unemployment rate# (%)	5.2	5.4
CPI inflation** (%)	14.3	12.9
Core inflation** (%)	9.0	8.7
Money supply M3 (%)	5.4	6.4
C/A balance (% GDP)	-3.2	-2.2
Fiscal balance (% GDP)*	-2.6	-6.0
Public debt (% GDP)*	51.5	53.6
NBP reference rate## (%)	6.75	6.25
EURPLN‡##	4.69	4.58

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.

Nothing to see here

- **The MPC, deprived of the new inflation data, left interest rates unchanged.**
- **We still believe that already in September the Council may see room for interest rate cuts. It will be possible, among others, thanks to the increase in the real interest rate (deflated with the year-ahead inflation), which will most likely become positive at the turn of 1q/2q 2023.**

The Monetary Policy Council, as expected, left interest rates unchanged (reference rate: 6.75%). After a record-breaking cycle of interest rate hikes, a period of stabilization has started and it has been going on for 5 months now. The NBP remains in the data driven-mode and is waiting for the negative cost shock to pass and for the full effects of the previous hikes to emerge. This approach has been confirmed by the Governor A.Glapinski during his monthly press conferences. Other central banks in the region adopted a similar stance. We stick to our view that the hike cycle is over and some cautious rate cuts may start in 2h23.

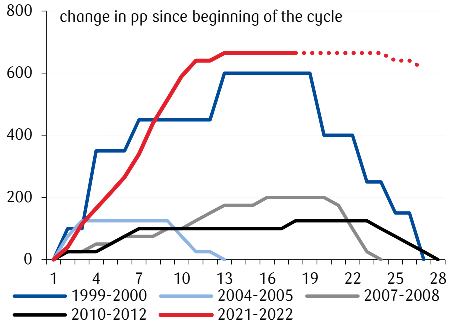
The post meeting statement does not differ much in tone from the January one. Some editorial changes suggest, in our opinion, that developments in the economy are in line with earlier Council's expectations. The previously expected deterioration in the global economy has already occurred and is working towards lowering inflation in Poland. The MPC also believes that the exogenous shocks boosting inflation have already passed. The statement gives slightly more emphasis, vs. the January one, to the impact of inflation-reducing factors. It draws attention to the decline in wage dynamics in December and outlines the decline in PPI inflation, which will affect consumer prices.

The February meeting was not a surprise to anyone, taking into account the scarce new information that has been released since January. The MPC might review the current policy during its meeting in March, equipped with the preliminary inflation data for January and the new inflation projection. In our opinion, however, they should not disturb the MPC's peace of mind– an increase in inflation at the beginning of the year is widely expected, and the projection should show the upcoming process of disinflation. Governor A.Glapinski personally believes that inflation could fall to 6% at the end of 2023.

The rapid disinflation expected in 2023 will reflect calmer commodity markets, supported by the effects of previous rate hikes. Based on NBP estimates, the earlier hikes will reduce inflation by as much as 3.5 pp in total, and the cumulative effect will exceed 3 pp already in mid-2023. The decline in core inflation will be enabled by the consumer recession that has already started in 4q22 - in our opinion, the consumption might be falling in y/y terms for 4 consecutive quarters.

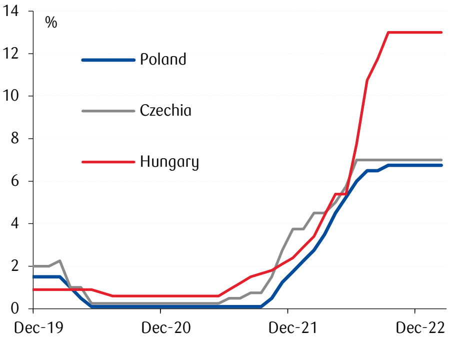
We still believe that already in September the Council may see room for the first interest rate cuts. It will be possible, among others, thanks to the increase in the real interest rate (deflated with the year-ahead inflation), which will most likely turn positive at the turn of 1q/2q 2023. Moreover, this rate will continue to increase during the year - even assuming interest rate cuts expected by us, the financial conditions in the economy would get more tight.

Current rate hikes vs. previous ones



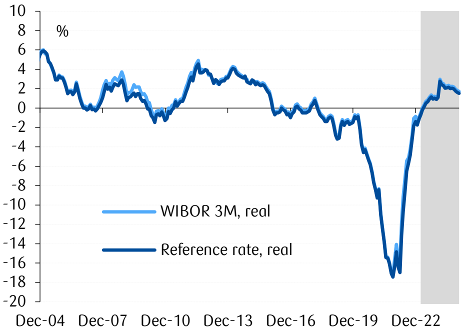
Source: NBP, PKO Bank Polski.

Interest rates in the CEE region



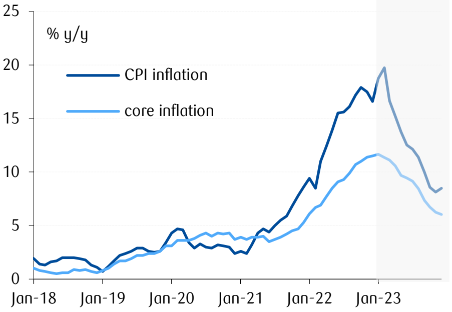
Source: Macrobond, PKO Bank Polski.

Real interest rates*



Source: NBP, PKO Bank Polski. *deflated with the year-ahead inflation, on PKO forecasts

CPI is expected to fall sharply in 2h23



Source: GUS, NBP, PKO Bank Polski.

Polish-German industrial tandem still in the game

- **Our observations from Poland Macro Weekly "Less reliant on Germany?" (May 12th 2022) are still valid. Trade and industrial ties between Poland and Germany loosened in 2022. That said, Polish-German industrial tandem is still in the game.**

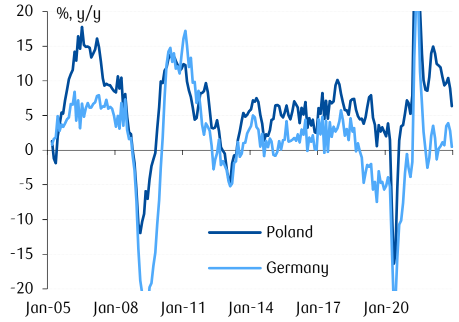
Poland's industry finished 2022 on a high note - its output grew by 10.2% in 2022 as a whole. It is noteworthy that German industry, closely tied to its Polish counterpart in the global production chains, recorded an output growth by 0.6% in the same period. Manufacturing in Poland was recording double-digit growth rates for most of the year, while German manufacturing expansion has practically stalled. (see margin chart). As we have already mentioned in our Poland Macro Weekly: "Less reliant on Germany?" from May 2022 divergent trends of industry in Poland and Germany can be attributed to: (1) Germany's greater dependence on the Chinese credit cycle (greater role of capital goods production in Germany), (2) different course of structural changes in the automotive industry, and (3) intensification of nearshoring. These factors were also in play in the rest of 2022.

The links between German industry and China are clearly visible throughout 2022 – the zero-covid policy pursued by the Chinese authorities was reflected in Germany via lower demand for capital goods. Indeed, it was declining (in annual terms) for most of the year (see margin chart). The zero-covid turnaround in China and the opening of the economy changed the situation dramatically, bringing a strong improvement in the underlying trend for German production of capital goods at the end of the year. It has become stronger than the respective trend for Polish output of intermediate goods (through which we are largely integrated into the global economy). A slight improvement in the Chinese credit impulse in 2h22 suggests that German manufacturing will receive some positive impulse for growth also in 1h23. On the other hand, Poland may not benefit from the Chinese opening.

The gap in the level of automotive production ("automotive wedge") in the two economies has stopped widening. 2022 was a year of relative stability in the German automotive industry. This may be related to the lower availability of parts throughout the year - a clear revival of production was visible only at the end of 2022. This applies to the industry both in Poland and Germany (see margin chart). It is possible that the interruption in the inflow of foreign direct investment to Poland during the pandemic results in a period of slightly weaker "structural" growth of automotive production in Poland. In 2q20-4q20, Poland recorded a strong but temporary reduction in investment demand of foreign-owned corporations. Typically, the lag between this type of investment and the operational readiness of new production lines is about 8 quarters. This means, a change in 2023 is possible – this time in favour of the automotive industry in Poland – as strong investment demand in this group of corporations after the pandemic suggests.

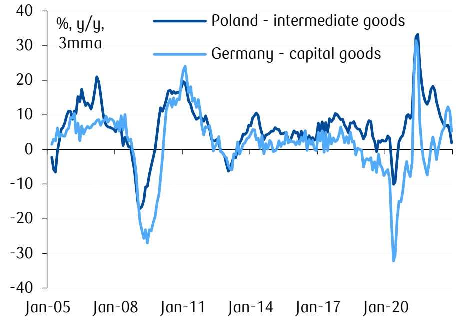
Recent anecdotal evidence on nearshoring/friendshoring/reshoring suggests that the Poland-Germany tandem may be a significant beneficiary of capital inflows in the next few years. These two countries in Europe are the most common potential choices of foreign investors to locate their investments. This may make the business cycles of both economies more

Manufacturing output



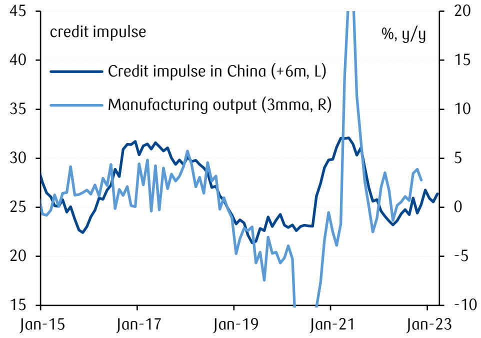
Source: Eurostat, PKO Bank Polski.

Intermediate goods (Poland) vs capital goods output (Germany)



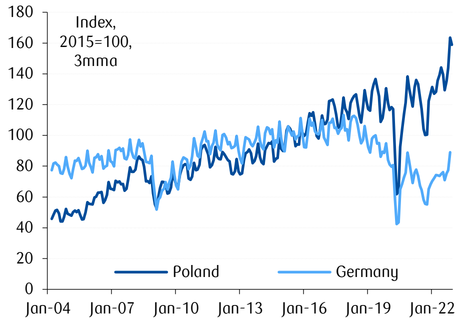
Source: Macrobond, PKO Bank Polski.

Credit impulse (China) vs manufacturing (Germany)



Source: Macrobond, Eurostat, PKO Bank Polski.

Automotive output level – Poland vs Germany



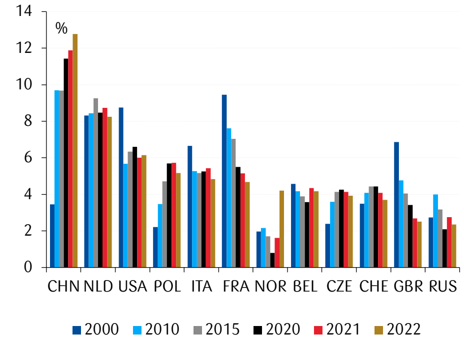
Source: Eurostat, PKO Bank Polski.

correlated with each other, while less correlated, thanks to the inflow of capital, with the global business cycle.

Last, but not least, the recent data from Germany on exports in 2022 confirmed the loosening of trade relations between Poland and Germany. In 2022, Poland was the fourth largest supplier of imports to Germany (after China, the Netherlands and the USA). Although domestic exporters maintained their strong position from 2021 and 2020, **the share of Polish goods in Germany's supplies decreased for the first time since 2005.** This reflects a hunt for new markets by Polish exporters - the share of Germany in Polish exports in Jan-Nov 2022 decreased to 27.8% from 28.8% a year earlier. On the other hand, the decrease in Poland's share partially results from rising commodity prices, which increased the nominal value of commodity imports to Germany from other countries.

All in all, despite a divergent trends, industries in both countries still benefit from their mutual interlinkages. Polish-German industrial tandem is still in the game.

Share of trading partners in German imports



Source: Macrobond, PKO Bank Polski.

Weekly economic calendar

Indicator	Time (UK)	Unit	Previous	Consensus*	PKO BP	Comment
Monday, 13 February						
POL: Current account balance (Dec)	**13:00**	**EUR mn**	**-422**	**-1555**	**-1988**	**Despite higher monthly reading, the 12m CA deficit to GDP ratio has likely declined to 3.2% after December. Exports keep growing faster than imports, as adverse terms of trade shock fades away.**
POL: Exports (Dec)	**13:00**	**% y/y**	**20.3**	**17.5**	**16.8**	
POL: Imports (Dec)	**13:00**	**% y/y**	**17.7**	**13.7**	**12.7**	
Tuesday, 14 February						
POL: GDP growth (4q)	**9:00**	**% y/y**	**3.6**	**2.2**	**2.2**	**The GDP slowdown in 4q22 has probably been driven by weaker consumer demand, with relatively immune investment.**
EUR: GDP growth (4q)	10:00	% y/y	1.9	--	--	--
EUR: Employment (4q)	10:00	% y/y	1.8	--	--	--
USA: CPI inflation (Jan)	13:30	% y/y	6.5	6.2	--	--
USA: Core inflation (Jan)	13:30	% y/y	5.7	5.5	--	--
Wednesday, 15 February						
POL: CPI inflation (Jan)	**9:00**	**% y/y**	**16.6**	**17.6**	**18.7**	**The reading will heavily depend on yet unknown decision of GUS on how to deal with electricity price hikes, which will impact only part of energy consumption.**
EUR: Industrial production (Dec)	10:00	% y/y	2.0	--	--	--
EUR: Trade balance (Dec)	10:00	EUR bn	-15.2	--	--	--
USA: Retail sales (Jan)	13:30	% m/m	-1.1	2.0	--	--
USA: Retail sales excl. autos (Jan)	13:30	% m/m	-1.1	0.7	--	--
USA: Industrial production (Jan)	14:15	% m/m	-0.7	0.7	--	--
Thursday, 16 February						
USA: Building Permits (Jan)	13:30	thous.	1.33	1.35	--	--
USA: Housing starts (Jan)	13:30	mn	1.382	1.363	--	--
USA: Initial Jobless Claims	13:30	thous.	196	--	--	--
USA: PPI inflation (Jan)	13:30	% y/y	6.2	5.5	--	--

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	"In November, the Council decided to leave rates unchanged, guided by the optimistic projection, in which the decrease in the inflation rate results from completely exogenous factors: a rapid and permanent decrease in energy prices and an equally permanent and rapid strengthening of the zloty. If these assumptions fail, the projection will be revised upwards and, in order to maintain cohesion, the MPC will have to leave interest rates at today's level longer than the majority of MPC members assume today." (23.12.2022, rp.pl, PKO transl.)
L. Kotecki	4.8	"(…) I would still see some room for slight interest rate hikes this year but they will likely not take place," Kotecki said. "Most of the Council will slightly overrate the decline of headline inflation." (25.01.2023, gazeta.pl, PAP)
P. Litwiniuk	3.7	"Making announcements by the government spokesperson already in January 2023 about possible extension of credit vacation to 2024 against the current assumptions of the monetary policy, when one has no grounds to expect changes of its parameters, for instance when it comes to reducing interest rates, are unnecessary and could lead to formulating too far reaching conclusions and business decisions." (26.01.2023, PAP)
H. Wnorowski	2.7	**"Personally I do not see the space for interest rate cuts. What is more I do not even see the space for discussing them. I would like to emphasize that (…) I am very happy with the declining trend of inflation that we have seen in the past 3 months. We all expect a retreat from this path in February, but after that the declining tendency will remain. (…) Present level of interest rates is most appropriate in terms of inflation entering a decreasing path towards the inflation target." (10.02.2023, PAP)**
A. Glapinski	2.4	**"Our position as the NBP is that it is too early to talk about interest rate cuts. We have not even formally closed the rate hike cycle, but as we announced, we will not do it until the end of February. (…) We leave the door open to raise interest rates, but we assume that if everything stays according to the scenario in the projection, at some point there will be room for cuts. When it will be, it's hard for me to say (…) I personally expect inflation to reach 6% in December. This is still elevated inflation, above our target, but hardly noticeable from the point of view of economic psychology."(9.02.2023, NBP press conference, PAP, PKO transl.)**
C. Kochalski	2.4	"In the light of the current data the level is adequate. The MPC has not been raising rates since September as we have many cues indicating the impact of previously passed hikes They have already started to work. They lowered inflation by 0.5 pps this year, in 2023 it will be 3 pps." (13.12.2022, Biznes24, PAP).
W. Janczyk	2.0	"The current rates level seems adequate given the information we have today. (…) " in my opinion, in the course of the last few weeks, there has come no information that would prompt resumption of rate hikes in December. Currently, no premises can be seen that would prompt such steps." (2.12.2022, PAP).
I. Duda	2.3	"Considerations about interest rate cuts are in my opinion premature (…) The weakening of global economic conditions will lead to lowering of economic growth rate in Poland, while monetary policy tightening by major central banks will limit inflation, both globally and in Poland (…) However, it is not the moment to formulate expectations as to whether the next MPC move should be a hike or a cut of interest rates." (20.01.2023, PAP)"
G. Maslowska	2.1	"In my opinion, room for an interest rate cut stands a chance of appearing in 2024, or possibly near end-2023" (26.01.2023, radiomaryja.pl, PAP)
I. Dabrowski	1.9	"A strong slowdown in inflation seems to be ahead of us. Therefore, single-digit inflation at the end of the year is very likely(…)" (20.01.2023, TVP Info, PAP, PKO transl.)

*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.

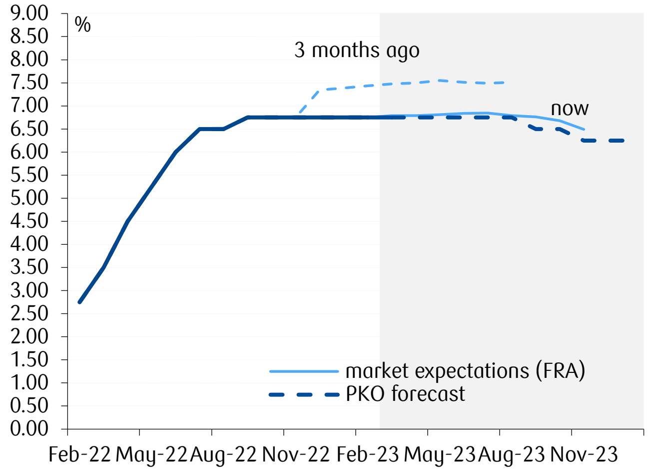
Interest rates – PKO BP forecasts vs. market expectations

		1M	2M	3M	4M	5M	6M	7M	8M	9M
Date	9-Feb	9-Mar	9-Apr	9-May	9-Jun	9-Jul	9-Aug	9-Sep	9-Oct	9-Nov
WIBOR 3M/FRA†	6.94	6.93	6.93	6.93	6.88	6.84	6.73	6.70	6.57	6.33
implied change (b. p.)		-0.01	-0.01	-0.01	-0.06	-0.11	-0.21	-0.24	-0.37	-0.61
MPC Meeting	8-Feb	8-Mar	5-Apr	10-May	6-Jun	6-Jul	-	6-Sep	4-Oct	8-Nov
PKO BP forecast*	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.50	6.50	6.25
market pricing^		6.79	6.79	6.81	6.84	6.85	6.79	6.76	6.68	6.54

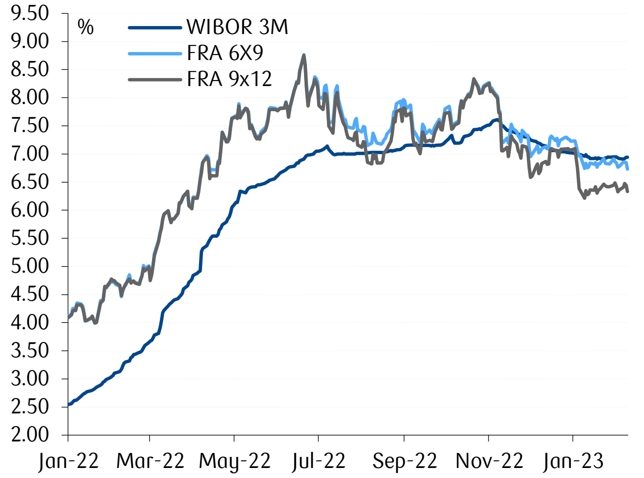
†WIBOR 3M from the last fixing, FRA transactions based on WIBOR 3M for subsequent periods, ‡in basis points, *PKO BP forecast of the NBP reference rate.

Poland macro chartbook

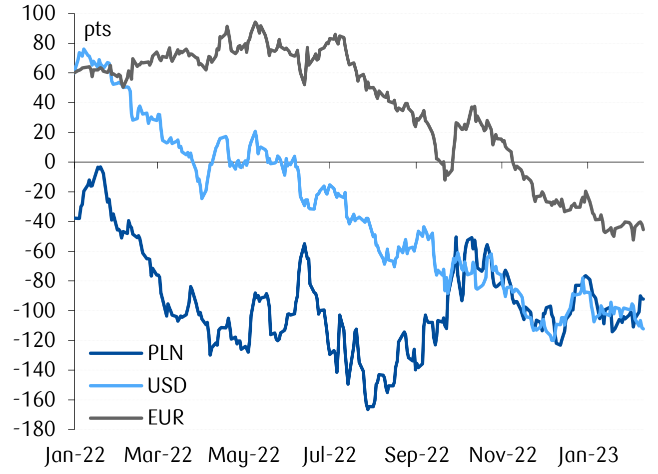
NBP policy rate: PKO BP forecast vs. market expectations



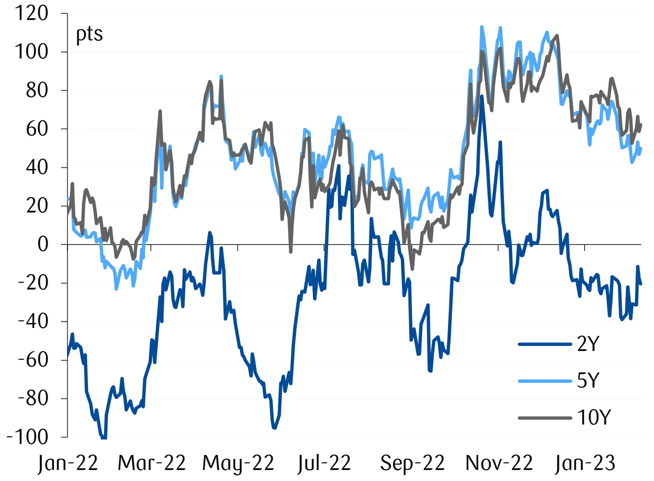
Short-term PLN interest rates



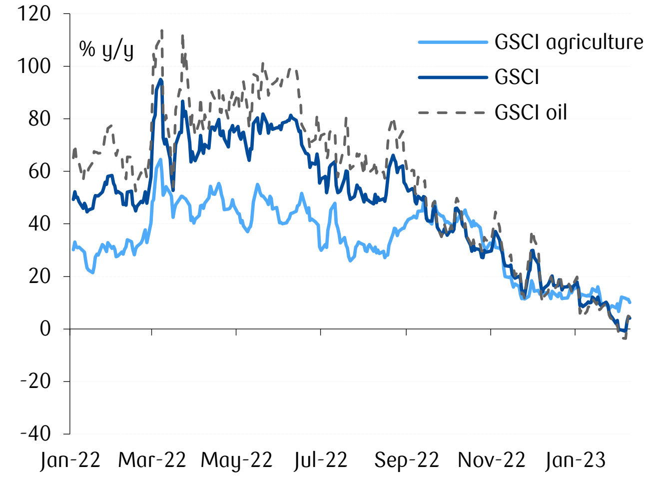
Slope of the swap curve (spread 10Y-2Y)*



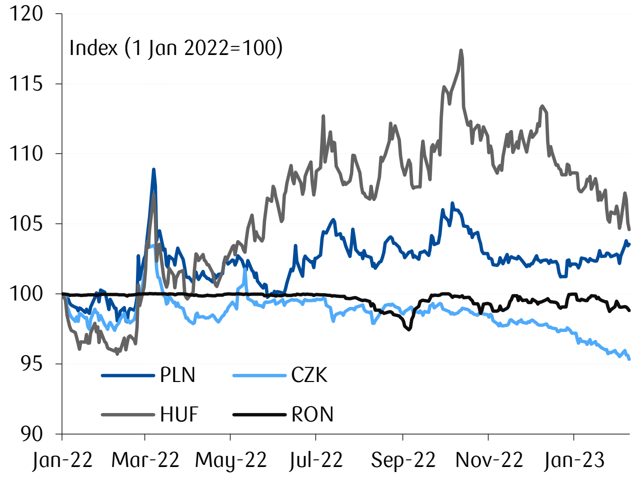
PLN asset swap spread



Global commodity prices (in PLN)

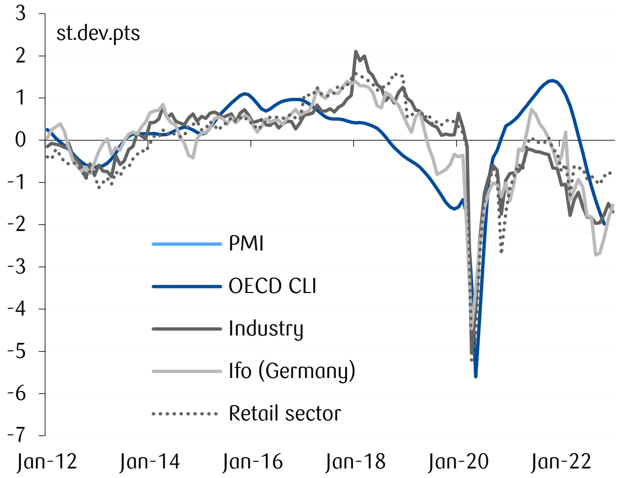


Selected CEE exchange rates against the EUR

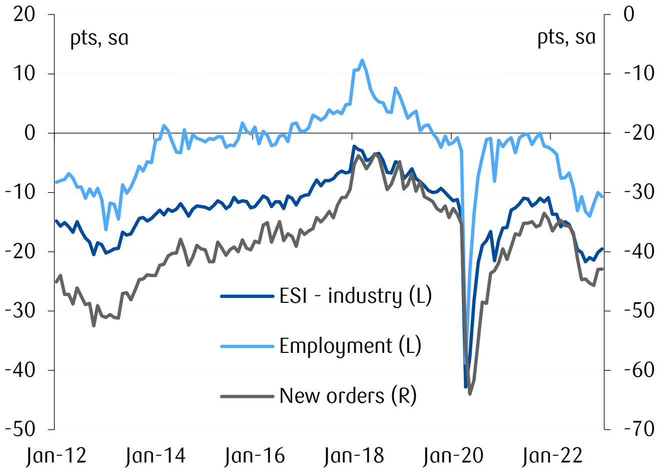


Source: Datastream, NBP, PKO Bank Polski. *for PLN, and EUR 6M, for USD 3M.

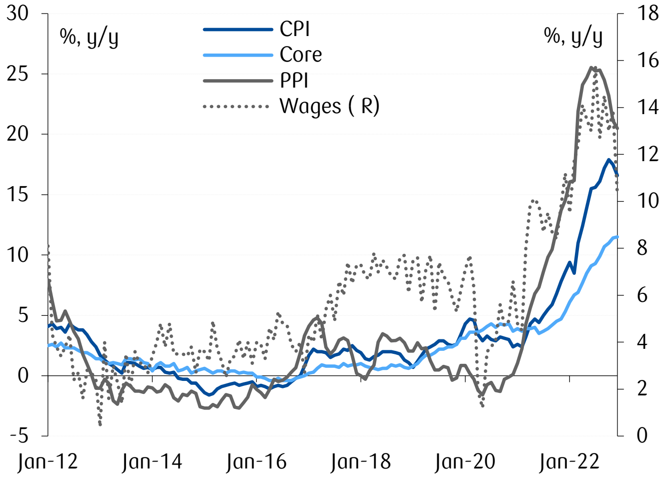
Economic sentiment indicators



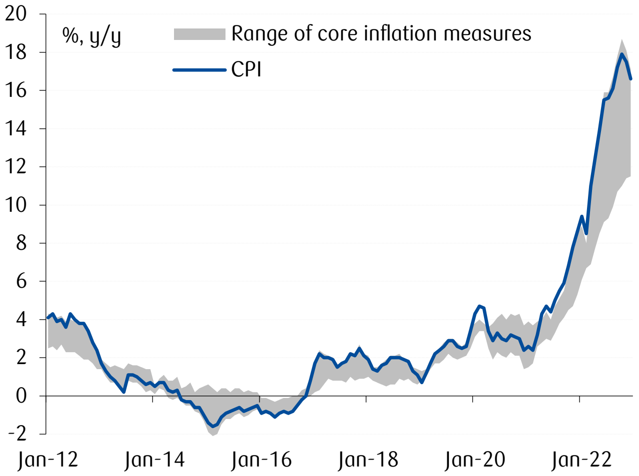
Poland ESI for industry and its components



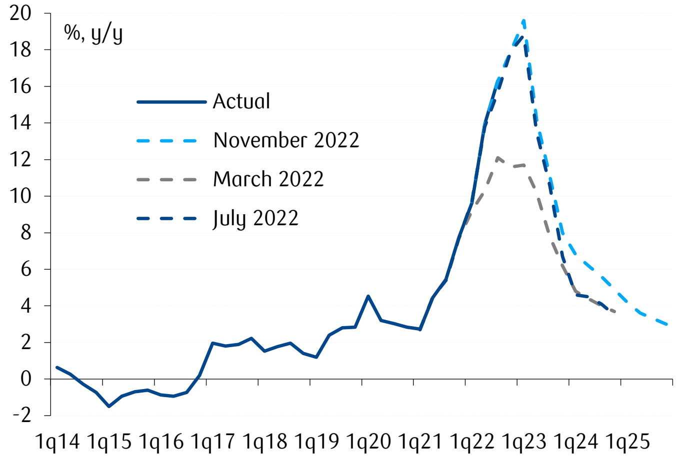
Broad inflation measures



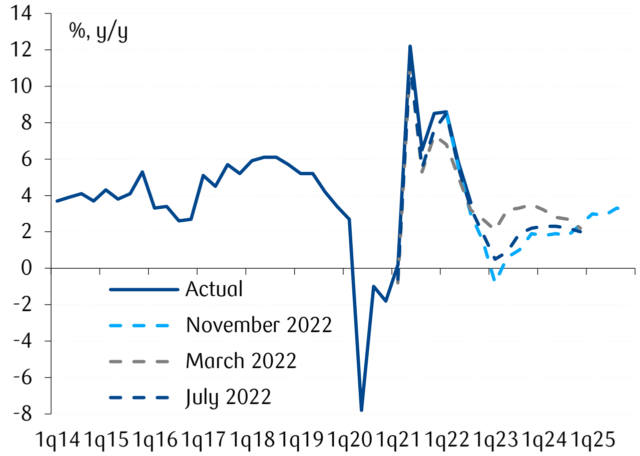
CPI and core inflation measures



CPI inflation – NBP projections vs. actual



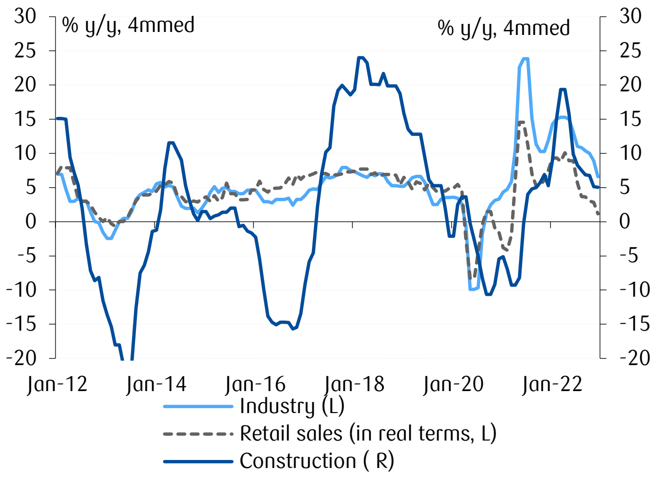
Real GDP growth – NBP projections vs. actual



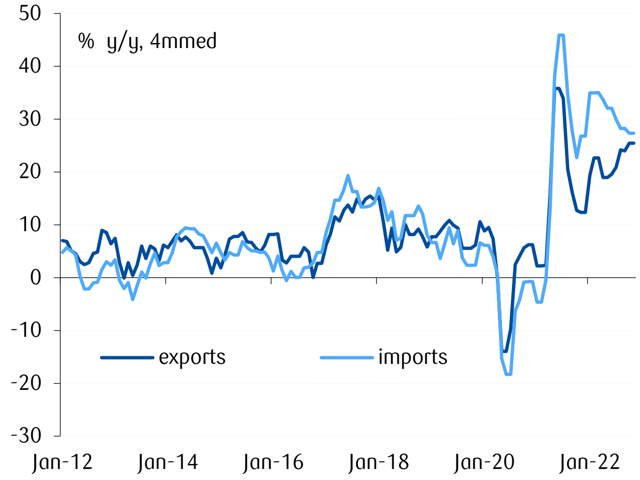
Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

Bank Polski

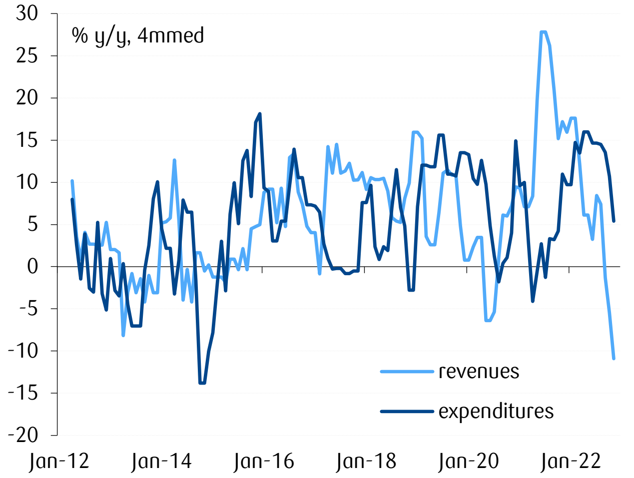
Economic activity indicators



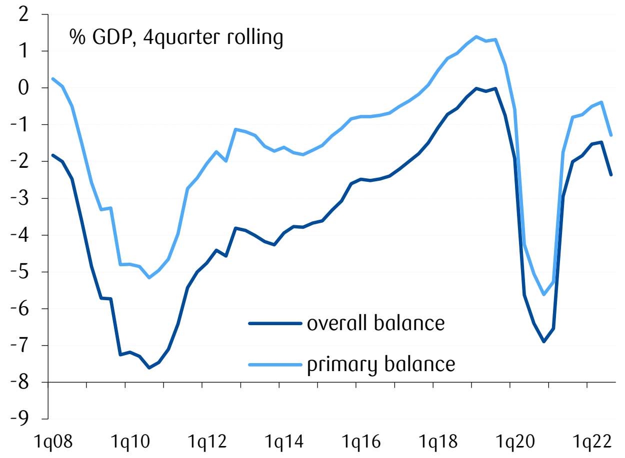
Merchandise trade (in EUR terms)



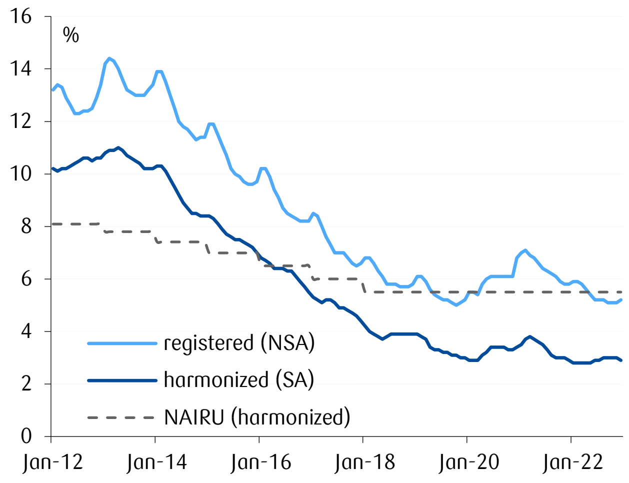
Central government revenues and expenditures*



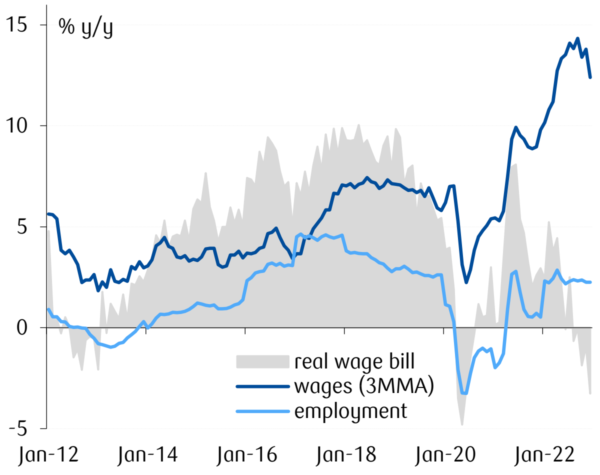
General government balance (ESA2010)



Unemployment rate

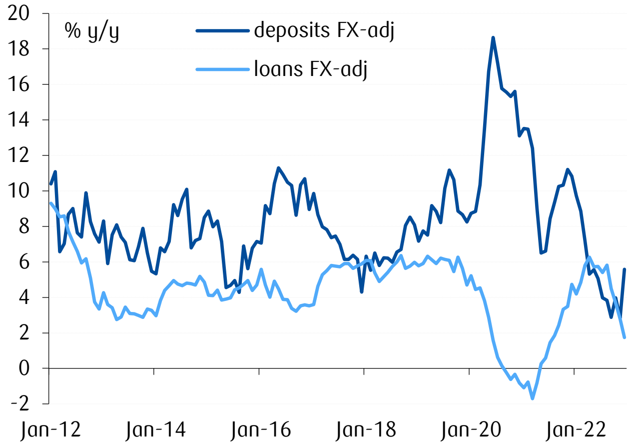


Employment and wages in the enterprise sector

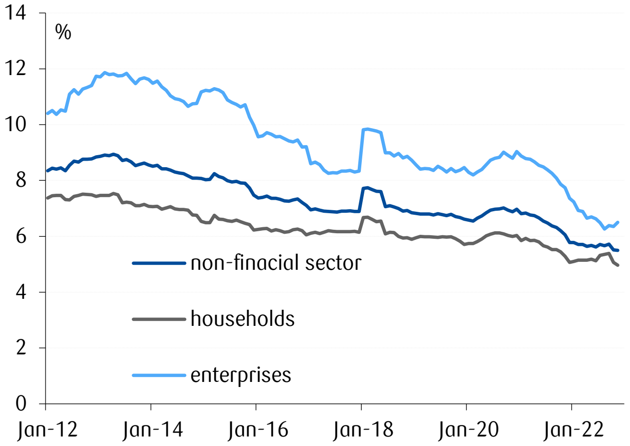


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. *break in series in 2010 due to methodological changes.

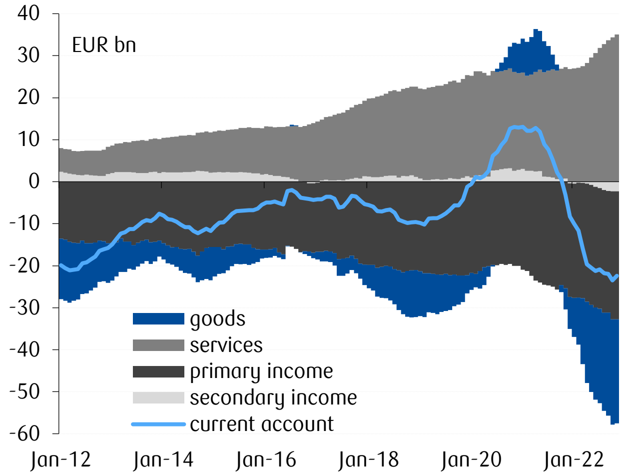
Loans and deposits



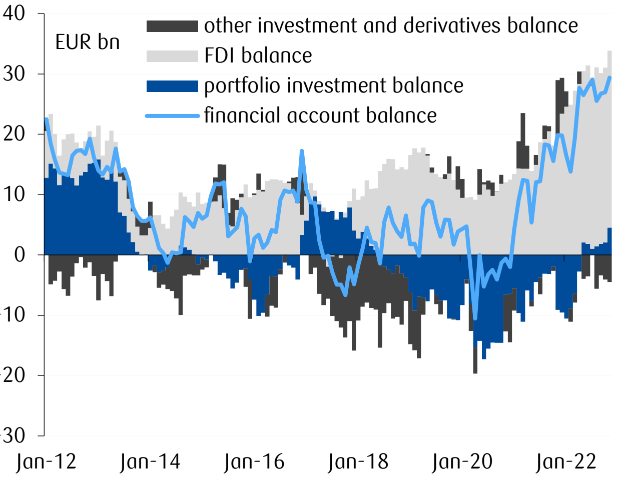
Non-performing loans (NPLs) – by sectors*



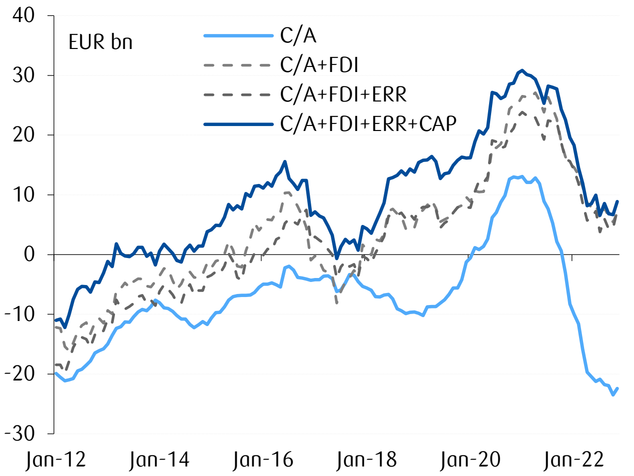
Current account balance



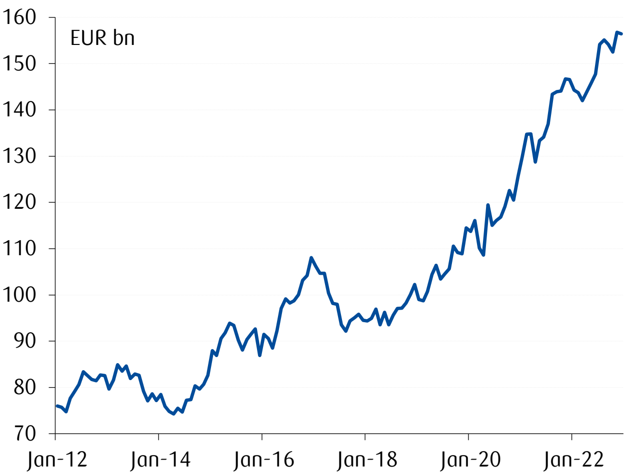
Financial account balance



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:

- Growth less inflation-prone (Feb 3, 2023)
- GDP growth in 4q22 heading south (Jan 27, 2023)
- This time is different, again (Jan 20, 2023)
- Happy 2023! (Jan 13, 2023)
- 2023 in preview (Dec 23, 2022)
- Housing market: The worst is over (Dec 16, 2022)
- All quiet on the monetary policy front (Dec 9, 2022)
- Disinflation ahead (Dec 2, 2022)
- Corporate profits shrink (Nov 25, 2022)
- A soft patch (Nov 18, 2022)
- Monetary policy dilemmas (again) (Nov 4, 2022)
- Is Poland crisis resilient? (Oct 28, 2022)
- Not great, not terrible (Oct 21, 2022)
- Frozen: the housing market (Oct 14, 2022)
- Is it the end or just a pause? (Oct 7, 2022)
- Wartime interventionism (Sep 30, 2022)
- Will Poland escape a technical recession? (Sep 23 , 2022)
- Energy prices frozen for this winter? (Sep 16 , 2022)
- Awaiting the end of rate hikes (Sep 9, 2022)
- Inflation sparked investments? (Sep 2, 2022)
- Costs jump, deals slow (Aug 26, 2022)
- It's payback time (Aug 19, 2022)
- Inflation seems to be losing steam (Aug 12, 2022)
- Prepare(d) for slowdown (Aug 5, 2022)
- Unemployment at the bottom and inflation plateau (Jul 29, 2022)
- Slowdown just ahead (Jul 22, 2022)
- Turning point? (Jul 15, 2022)
- Inflation vs recession dilemma (Jul 8, 2022)
- NBP rate hikes coming to an end (Jul 1, 2022)
- Dry loan tap has frozen the market (Jun 24, 2022)
- A bitter pill of interest rate hikes (Jun 10, 2022)
- Growth borrowed from the future (Jun 3, 2022)

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