

A soft patch

TOP MACRO THEME(S):

- **A soft patch (p. 2):** New NBP projection falls close to our baseline scenario for GDP and CPI. It seems that the inflation path doesn't have a downside bias anymore, thus the potential future update of inflation outlook will likely not trigger an adjustment in interest rates. The projection supports our baseline for interest rates (the end of the tightening cycle).

WHAT ELSE CAUGHT OUR EYE:

- **CPI inflation in October was 17.9% y/y** (vs 17.2% y/y in Sep) on final data, while **core inflation rose to 11.0% y/y** (vs 10.7% y/y in Sep) indicating that upward trend in underlying inflation has not been broken yet.
- **GDP growth in 3q22 slowed down to 3.5% y/y** (from 5.8% y/y in 2q22) probably mostly on the unwinding inventories cycle. We estimate that both private consumption and investment demand moderated in 3q22 (PKOe: 1.6% y/y and 4.2% y/y, respectively). Detailed data will be revealed on Nov 30.
- C/A deficit in September was smaller-than-expected EUR 1.6bn, **improving C/A-to-GDP ratio by 0.1pp to 3.7%**, for the first time since early 2021.

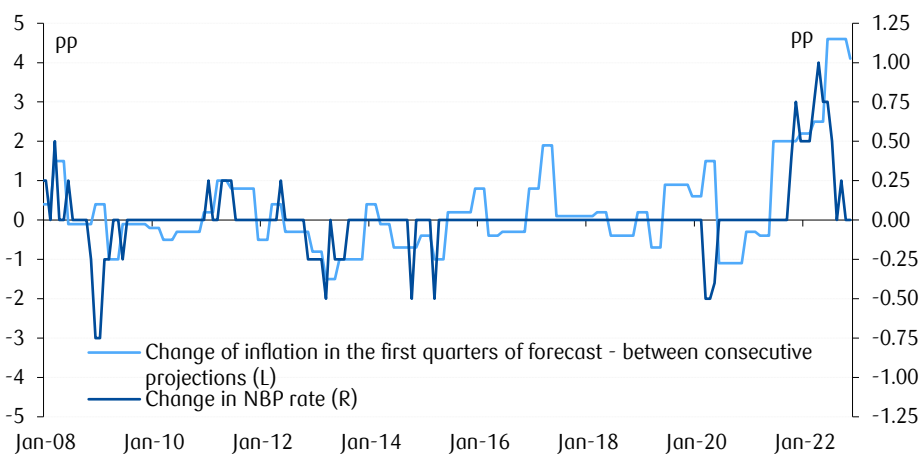
THE WEEK AHEAD:

- **A bunch of local monthly data for October** will show whether relatively strong performance (resilience) of the Polish economy seen in 3q22 is continued at the beginning of 4q22. We expect no major disruption to earlier trends (please see our estimates/forecasts in the calendar on page 6). Particular focus may be on industrial output, which likely held up well thanks to revival in automotive sector (supply chains getting back to normal).

NUMBER OF THE WEEK:

- **7%** – yield on 10-year POLGBs dived below 7% on Tuesday, down by 218bps from a local peak on Oct 21.

Chart of the week – Change in the first forecasted quarter for CPI inflation in two consecutive Inflation Reports



Source: NBP, PKO Bank Polski.

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	2021	2022 [†]
Real GDP (%)	6.8	4.3
Industrial output (%)	15.6	10.3
Unemployment rate [#] (%)	5.4	5.2
CPI inflation ^{**} (%)	5.1	14.4
Core inflation ^{**} (%)	4.1	9.0
Money supply M3 (%)	8.9	5.8
C/A balance (% GDP)	-1.4	-4.2
Fiscal balance (% GDP)*	-1.9	-2.1
Public debt (% GDP)*	53.8	50.7
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.

Soft patch

- **New NBP projection falls close to our baseline scenario for GDP and CPI. It seems that the inflation path in the projection doesn't have a downside bias anymore, thus the future update of inflation outlook will likely not trigger an adjustment in interest rates. The projection supports our baseline for NBP interest rates (the tightening cycle has ended).**

The November NBP projection for inflation falls close to our baseline scenario. In case of GDP growth, the NBP - like us - sees a soft slowdown as the most likely scenario. According to the projection, the slowdown in economic growth will be shallower than we assume, but more prolonged in time. This difference is primarily the effect of diverging assumptions regarding investment developments, especially in 2023, as well as consumption, which - acc. to the NBP remains 'hibernated' throughout the entire projection horizon. In the case of GDP the projection starting point - 3q22 falls slightly below the fresh StatOffice flash data release.

The new projection - taking into account information available until Oct 21 and planned legal changes regarding fiscal programs on mitigating energy price spike known as of Nov 7 - **brought only a slight increase in the expected inflation path** as compared to the projection from July. Core inflation is more persistent in the NBP scenario than we forecast. This means that - together with projected increase in unemployment rate and negative output gap - it should reflect a combined effect of stronger inertia, higher wage growth and import prices. The latter, together with staff statements about the expiration of price effects in foreign trade, suggests that, at least in the short term, the potential for zloty appreciation assumed in the projection is limited.

What surprised us a bit was stronger than we expected long-term wage growth rate assumed in the projection, which contrasts with the NBP's forecast of rising unemployment rate, declining corporate investment and staff statements that the conditions for creating a price-wage spiral are limited (as a result of, among others, the minor role of trade unions and a stronger connection of wage increases with the economic situation of the company, with lower impact of wage demands). Anyway, the first forecasted quarter of wages growth rate in the projection falls short of incoming data (see margin table). It suggests that wage growth rate could be closer to our than the NBP estimates.

Private consumption in the projection is growing significantly slower than we predict practically throughout the forecast horizon, except for the beginning of 2023, when we do not rule out a temporary decline in consumption demand. Our assessment of investments is also different than in the NBP baseline scenario. **The NBP expects the post-Covid investment demand to fade away, and we do quite the opposite.** In our opinion, from 2h23 a cyclical revival of corporate investments will begin, which will be additionally supported by structural factors, including inflow of foreign direct investment. Thanks to this, in our view, the structure of GDP growth, despite higher consumption, will be less inflationary.

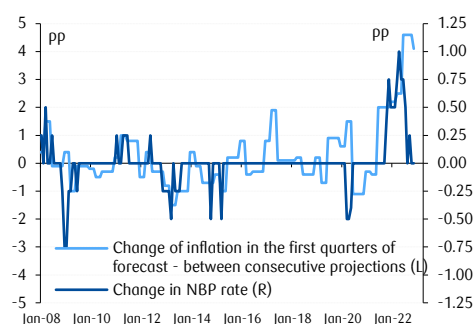
The November inflation projection supports our baseline scenario for NBP interest rates. We stick to our assessment that, with the current assumptions regarding the development of commodity and oil prices, the cycle of interest rate hikes has ended. If our guess regarding the exchange rate in the projection is correct, the appreciation of PLN will also support our interest rate scenario. Fading inflation shock also means that potential current inflation 'surprises' should no longer be a reason to adjust the path of interest rates (see margin chart; for reaction of monetary policy to changes in GDP and inflation projection expectations in various time horizons see appendix on pages 4 and 5).

Starting point of the NBP projection: 3q22 assumptions vs actual numbers

% , y/y	Period	NBP Nov'22	Actual*
CPI inflation	3q	16.3	16.3
GDP growth rate	3q	3.0	3.5
Wages	2q	12.2	14.6
WIBOR 3M (%)	3q	7.08	7.08

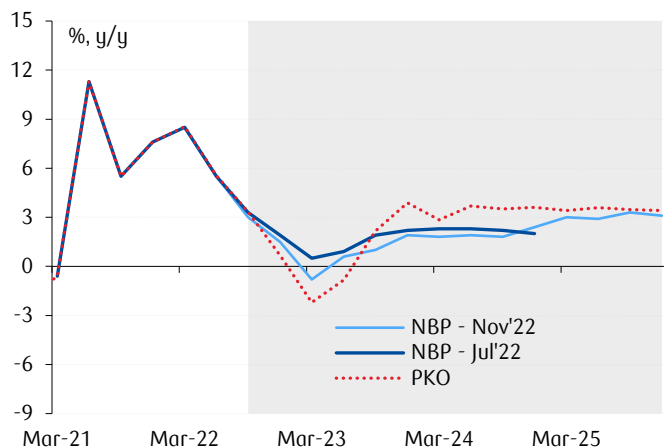
Source: NBP, GUS, PKO Bank Polski.

Change in the first forecasted quarter for CPI inflation in the two consecutive Inflation Reports

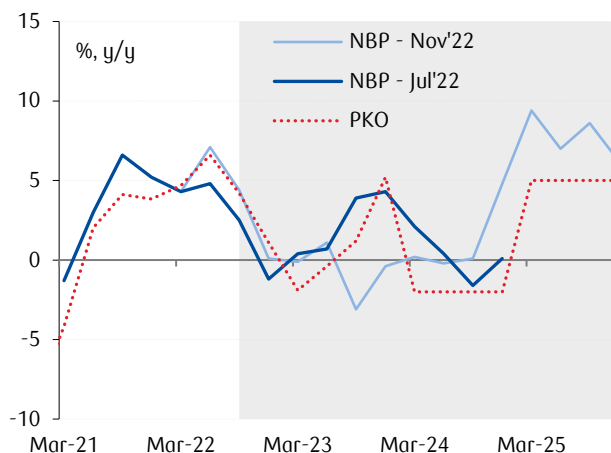


Source: NBP, PKO Bank Polski. Change in interest rates between consecutive MPC meetings.

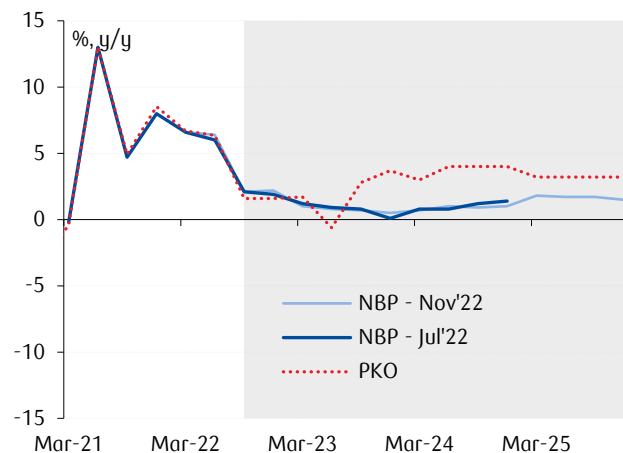
**Key projection results vs PKO estimates:
Overall GDP**



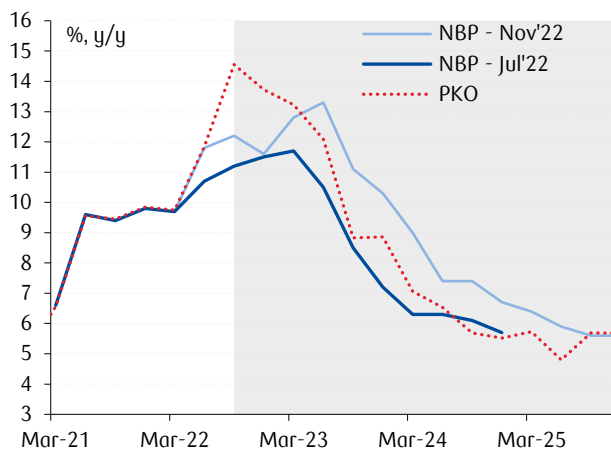
Fixed investments



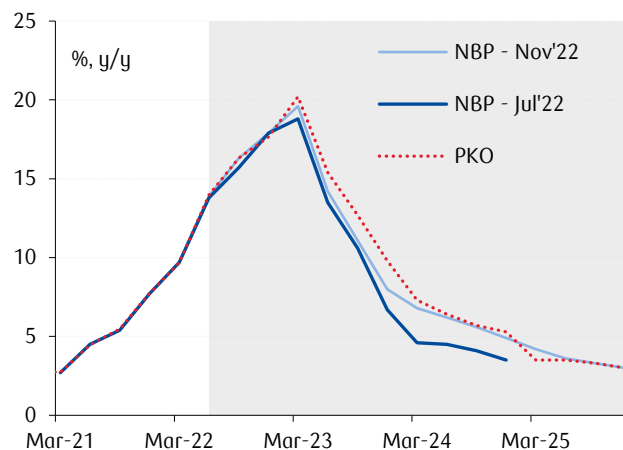
Private consumption



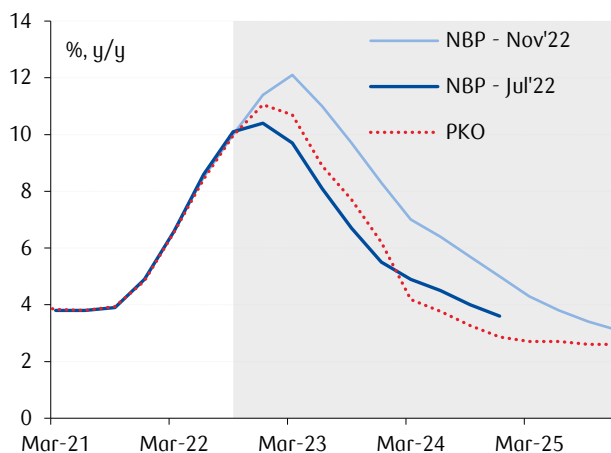
Wages



CPI inflation



Core inflation

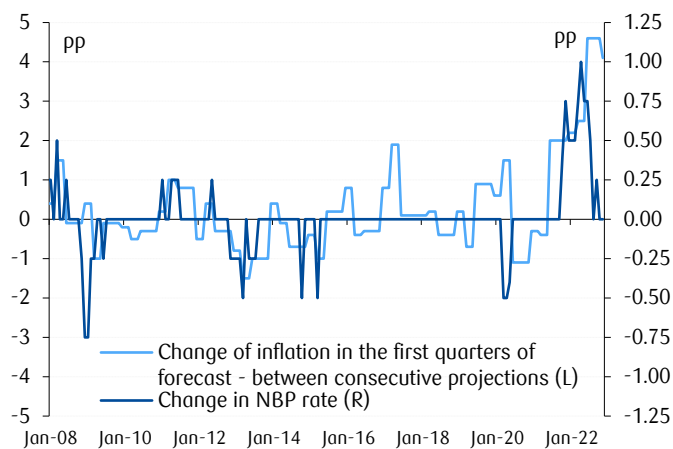
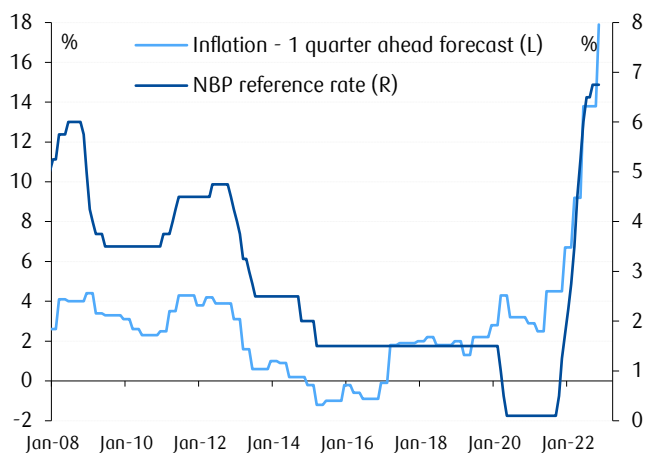


Source: NBP, PKO Bank Polski.

Appendix: Reaction of monetary policy to changes in inflation and GDP projection expectations in various time horizons:

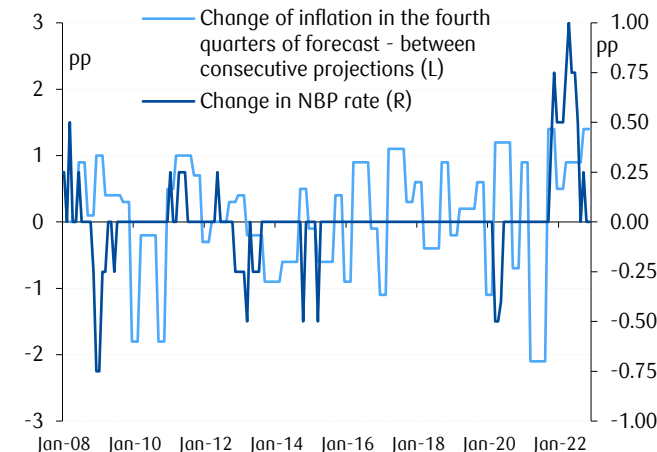
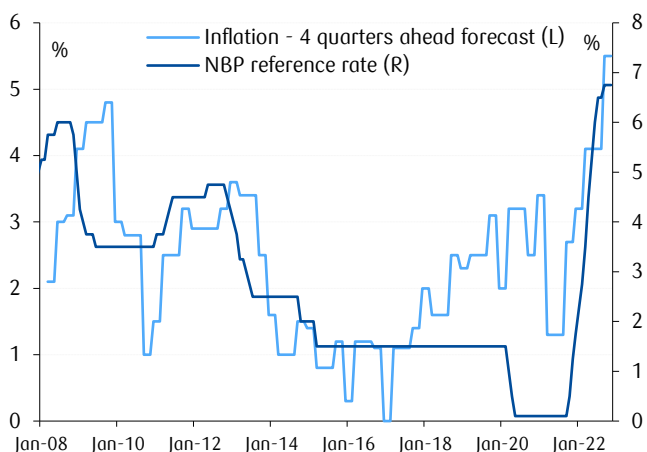
Inflation in the first forecasted quarter

Change of inflation forecast in the first forecasted quarter - between consecutive projections



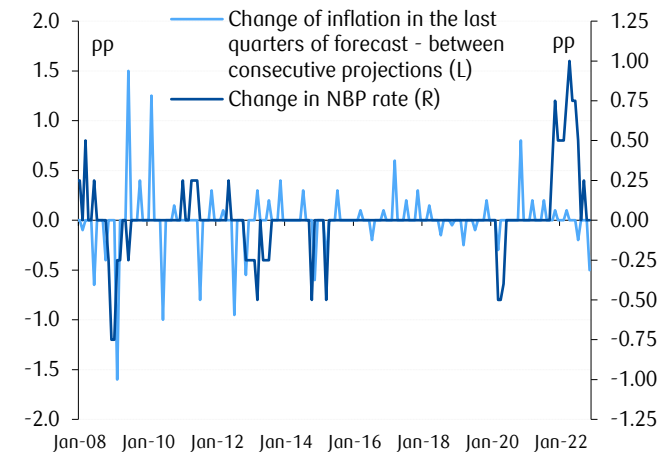
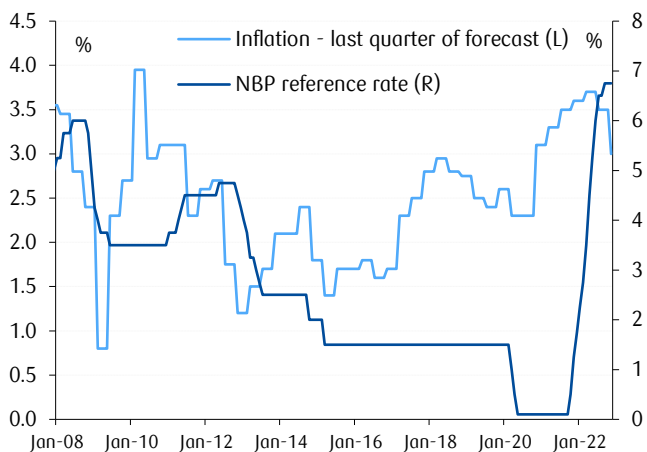
Inflation in the fourth quarter of a projection

Change of inflation forecast in the fourth forecasted quarter - between consecutive projections



Inflation in the final quarter of a projection

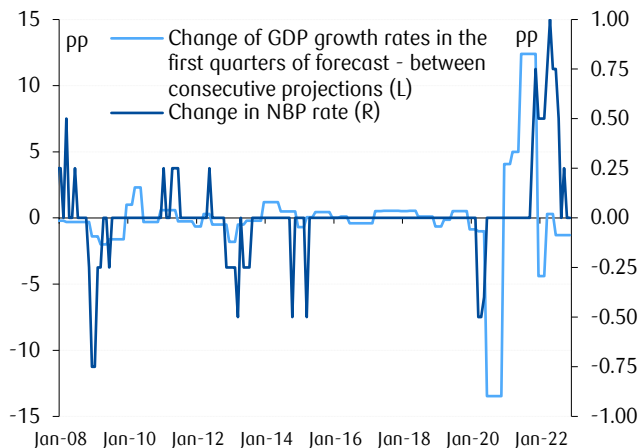
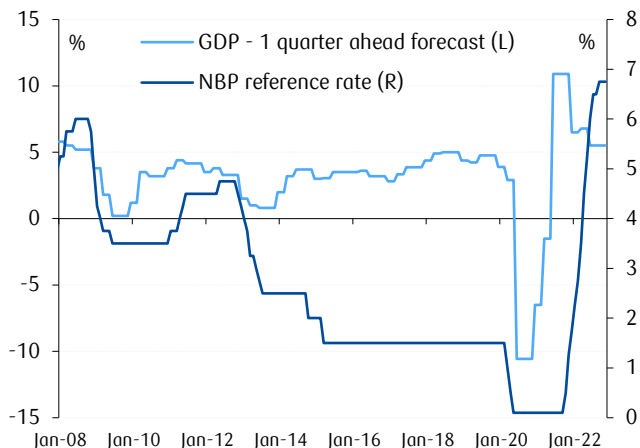
Change of inflation forecast in the final forecasted quarter - between consecutive projections



Source: NBP, PKO Bank Polski.

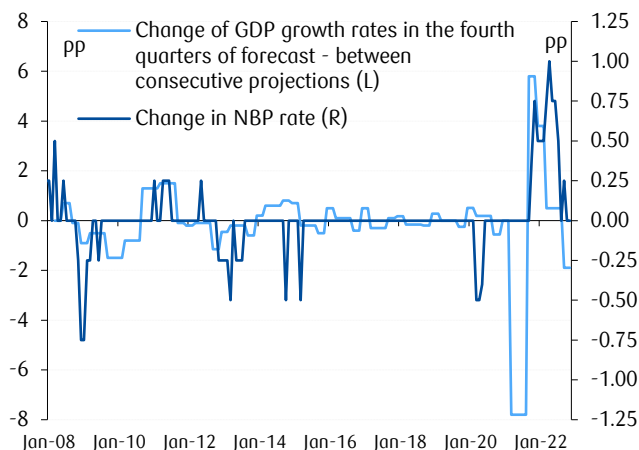
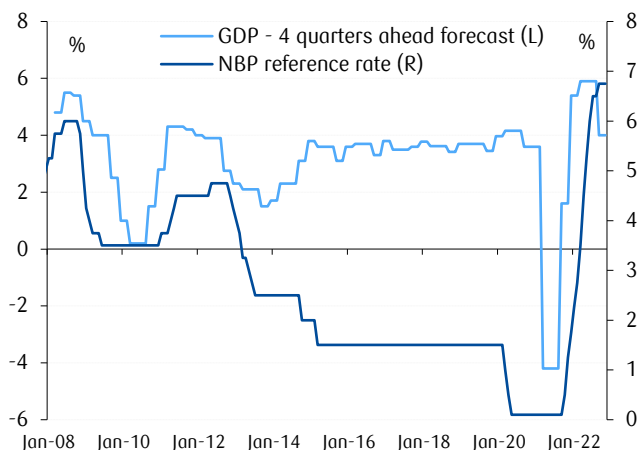
GDP in the first forecasted quarter

Change of GDP forecast in the first forecasted quarter – between consecutive projections



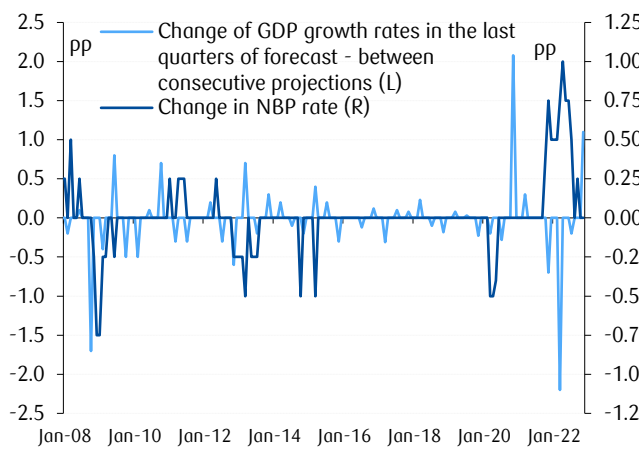
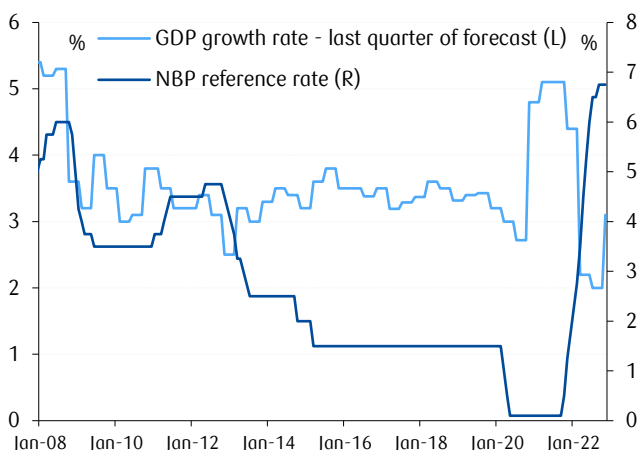
GDP in the fourth quarter of a projection

Change of GDP forecast in the fourth forecasted quarter – between consecutive projections



GDP in the final quarter of a projection

Change of GDP forecast in the final forecasted quarter – between consecutive projections



Source: NBP, PKO Bank Polski.

Weekly economic calendar

Indicator	Time (UK)	Unit	Previous	Consensus*	PKO BP	Comment
Monday, 21 November						
GER: PPI inflation (Oct)	7:00	% y/y	45.8	--	--	--
Tuesday, 22 November						
POL: Wages (Oct)	9:00	% y/y	14.5	14.2	13.8	Underlying trend barely changed amid high volatility (due to bonus payments). Despite anecdotal evidence on faltering labour demand, aggregate employment figures held up well. Industry got a booster shot from rebounding automotive. Producer prices start to suggest a disinflation ahead.
POL: Employment (Oct)	9:00	% y/y	2.3	2.2	2.2	
POL: Industrial production (Oct)	9:00	% y/y	9.8	8.1	7.5	
POL: PPI inflation (Oct)	9:00	% y/y	24.6	23.5	23.1	
HUN: MNB meeting	13:00	%	13.0	13.0	13.0	
Wednesday, 23 November						
GER: Manufacturing PMI (Nov, flash)	8:30	pts.	45.1	--	--	--
GER: Services PMI (Nov, flash)	8:30	pts.	46.5	--	--	--
EUR: Manufacturing PMI (Nov, flash)	9:00	pts.	46.4	--	--	--
EUR: Services PMI (Nov, flash)	9:00	pts.	48.6	--	--	--
POL: Construction output (Oct)	9:00	% y/y	0.3	0.9	1.8	Rising interest rates and dry EU funds tap start to weigh on construction. Refugees consumption keeps sales afloat.
POL: Retail sales (Oct)	9:00	% y/y	4.1	3.2	3.7	
USA: Durable goods orders (Oct, flash)	13:30	% m/m	0.4	0.3	--	--
USA: Initial Jobless Claims	13:30	thous.	--	--	--	--
USA: Manufacturing PMI (Nov, flash)	14:45	pts.	50.4	50.0	--	--
USA: University of Michigan sentiment (Nov, final)	15:00	pts.	54.7	55.3	--	--
USA: Minutes Fed	19:00	--	--	--	--	--
Thursday, 24 November						
SWE: Riksbank meeting	8:30	%	1.75	2.50	2.25	--
POL: Consumer Confidence (Nov)	9:00	pts.	-45.5	--	--	A significant improvement of sentiment is unlikely due to incoming "expensive" winter heating season.
GER: Ifo Business Climate Index (Nov)	9:00	pts.	84.3	--	--	
POL: Money Supply M3 (Oct)	13:00	% y/y	7.7	7.5	7.5	Lending to corporates may have slowed down on the back of declining demand for working capital loans.
Friday, 25 November						
GER: GDP growth (3q)	7:00	% y/y	1.1	--	--	--
POL: Unemployment Rate (Oct)	9:00	%	5.1	5.1	5.1	Despite anecdotal evidence on lay-offs, u-rate barely changed.

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 my opinion, lack of interest rates hike [PAP: in November] was a big mistake, for which (...) millions of Poles will pay, paying more in shops and covering higher cost of living each day amid lack of pay rises that would be proportionate to price rise" (15.11.2022, wyborcza.pl, PAP)
L. Kotecki	4.8	"In the nearest future, it seems that there is still room [PAP: for action] on the side of the monetary policy, unfortunately, as the situation is very serious." "The inflation is by far the biggest problem in Poland." (16.11.2022, 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	"We can agree that this is a pause (...) There is a chance -- if that's the right word here -- that we can return to rate hikes. If scenarios presented in our projection were to materialize then it's possible that it's going to happen" (15.11.2022, Biznes24 TV, Bloomberg)
A. Glapinski	2.4	"We are not ending the tightening cycle (...) For now, the MPC is in the wait-and-see mode (...) As for any future loosening, discussion on timing seems premature." (10.11.2022, NBP press conference, PAP)
C. Kochalski	2.4	"We don't want to lead to excessive disinflationary processes as the rate hikes to date "are already taking effect" (16.11.2022, se.pl, Bloomberg).
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	"I believe there is a chance for the interest rates to be able to settle at the current level for many months (...) Should it happen indeed, it would give the MPC members the comfort of observing the effects of to-date hikes, which influence various types of economic processes with a several months' time shift." (17.11.2022, radiomaryja.pl, 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.

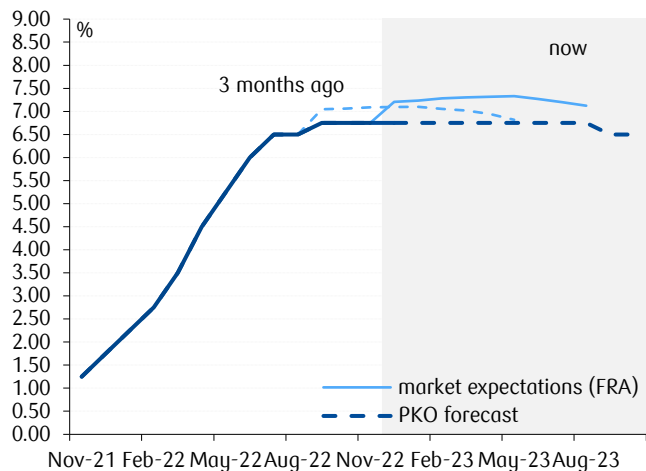
Interest rates – PKO BP forecasts vs. market expectations

		1M	2M	3M	4M	5M	6M	7M	8M	9M
Date	17-Nov	17-Dec	17-Jan	17-Feb	17-Mar	17-Apr	17-May	17-Jun	17-Jul	17-Aug
WIBOR 3M/FRA†	7.39	7.41	7.44	7.48	7.51	7.52	7.53	7.47	7.40	7.33
implied change (b. p.)		0.02	0.04	0.09	0.12	0.13	0.14	0.08	0.01	-0.06
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*		6.77	6.80	6.84	6.87	6.88	6.89	6.83	6.76	6.69

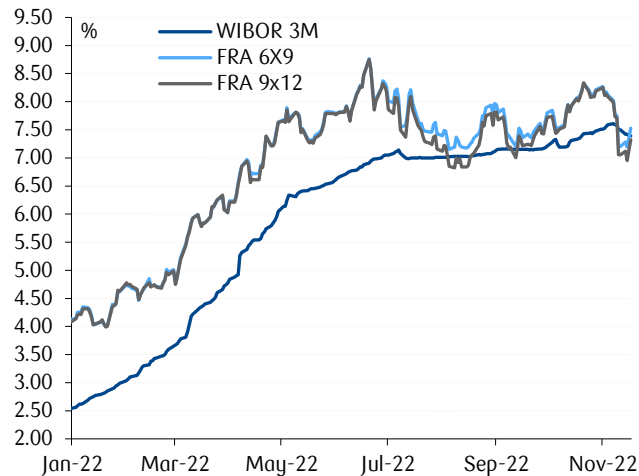
†WIBOR 3M from the last fixing, FRA transactions based on WIBOR 3M for subsequent periods, ‡in basis points, *PKO BP forecast of the NBP reference rate.

Poland macro chartbook

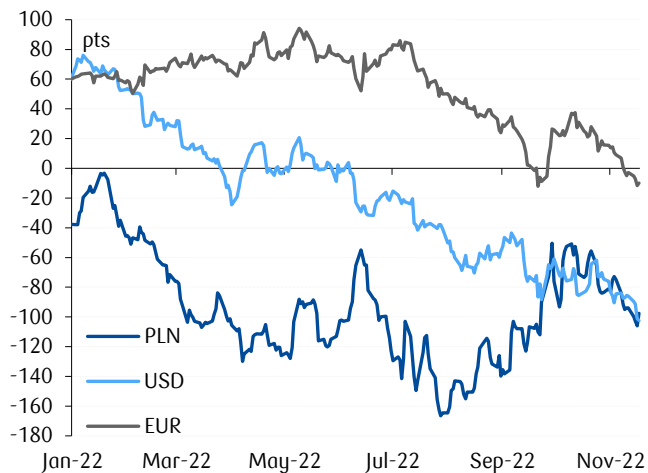
NBP policy rate: PKO BP forecast vs. market expectations



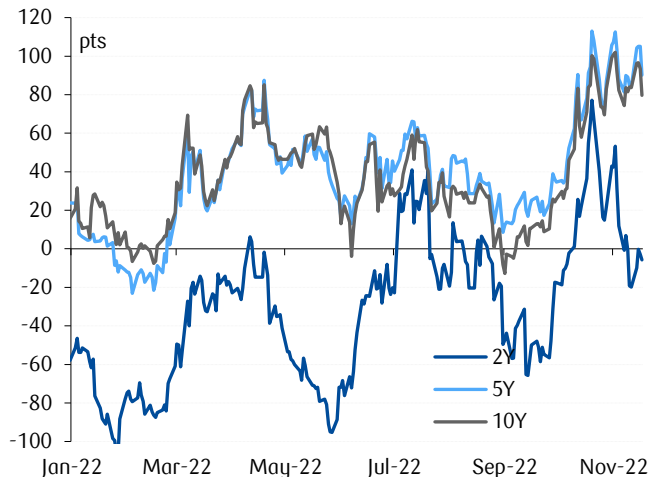
Short-term PLN interest rates



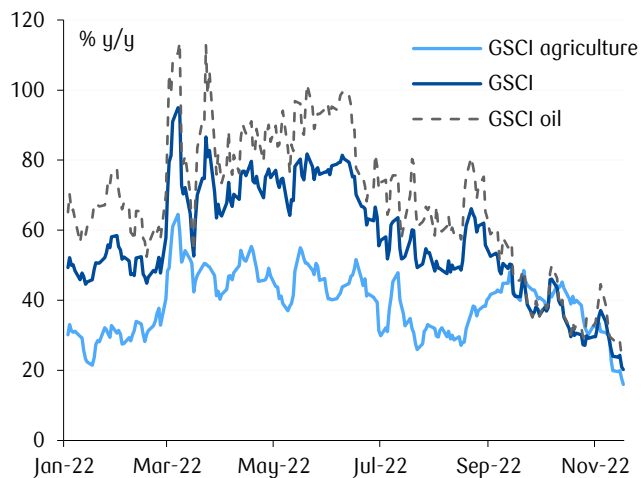
Slope of the swap curve (spread 10Y-2Y)*



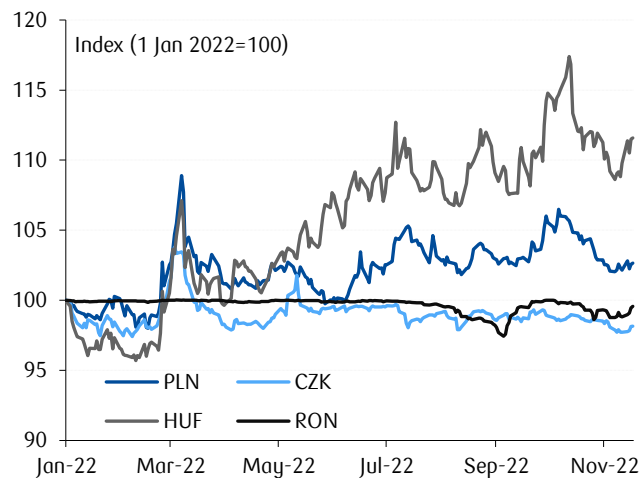
PLN asset swap spread



Global commodity prices (in PLN)

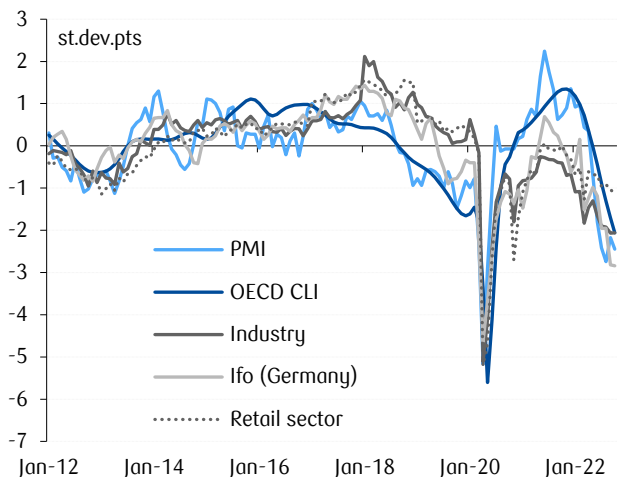


Selected CEE exchange rates against the EUR

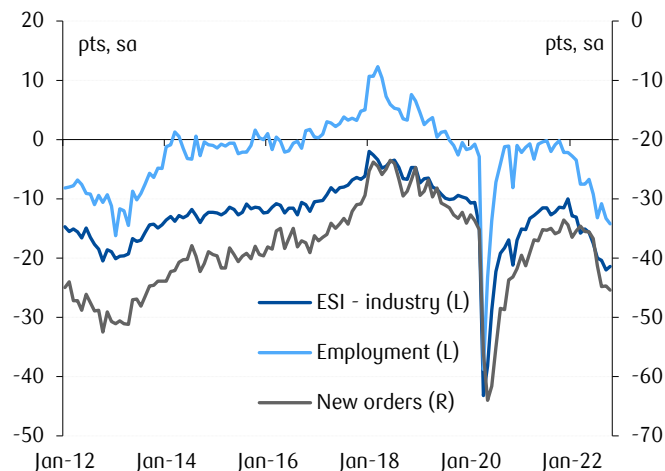


Source: Datastream, NBP, PKO Bank Polski. *for PLN, and EUR 6M, for USD 3M.

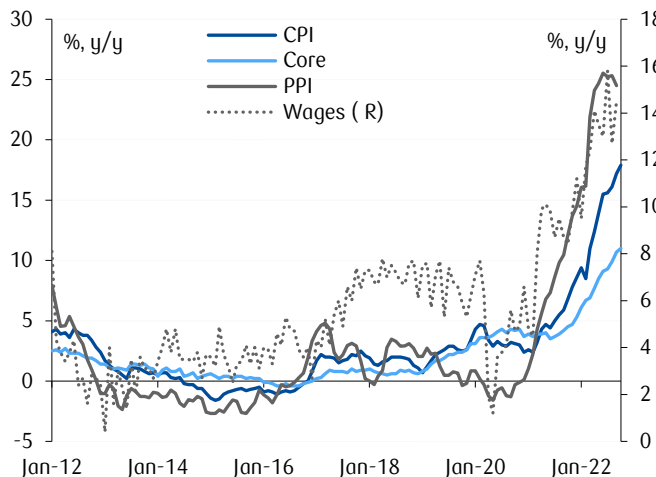
Economic sentiment indicators



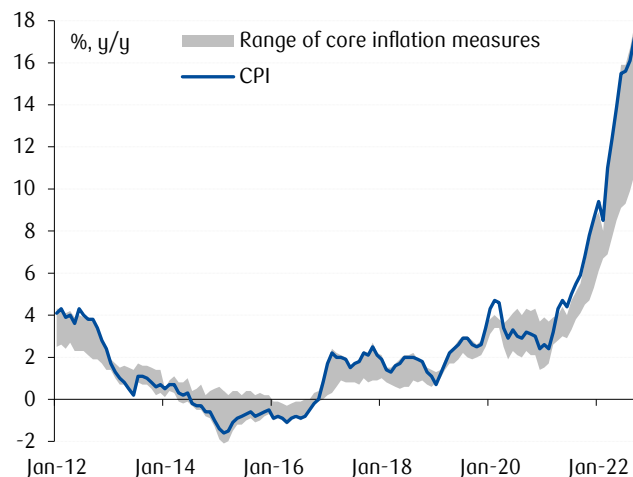
Poland ESI for industry and its components



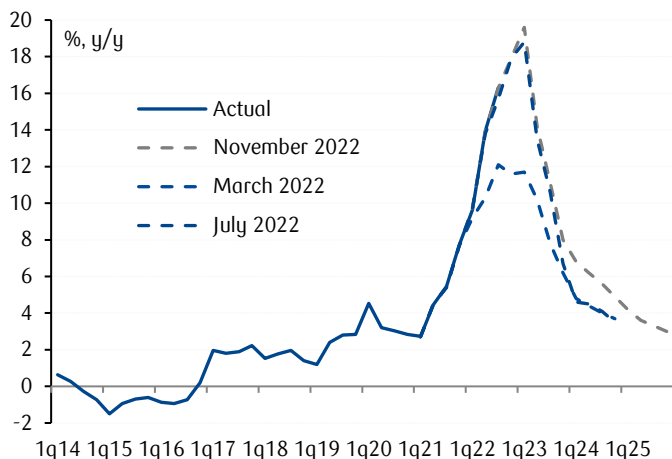
Broad inflation measures



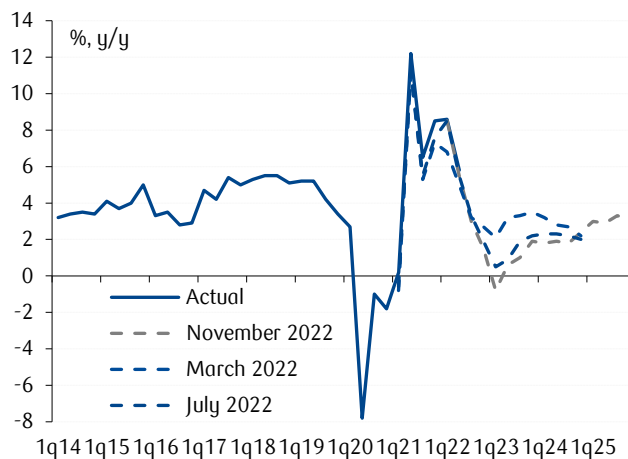
CPI and core inflation measures



CPI inflation – NBP projections vs. actual

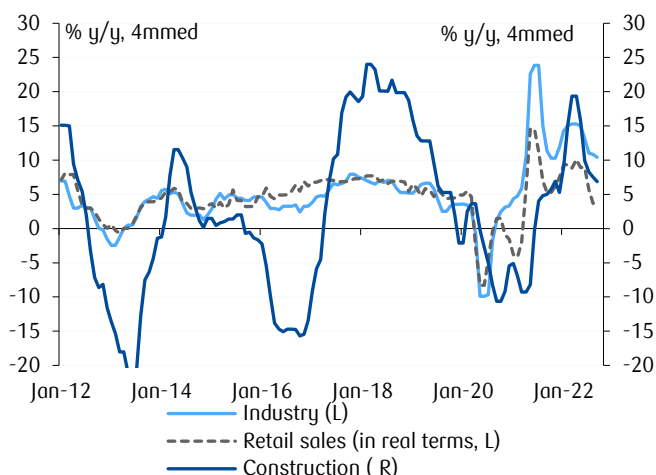


Real GDP growth – NBP projections vs. actual

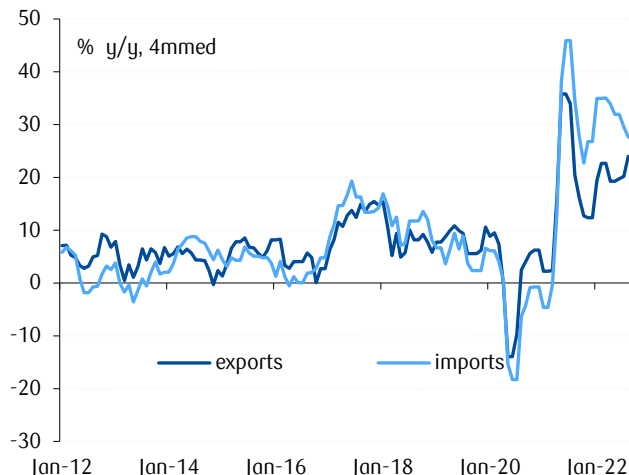


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

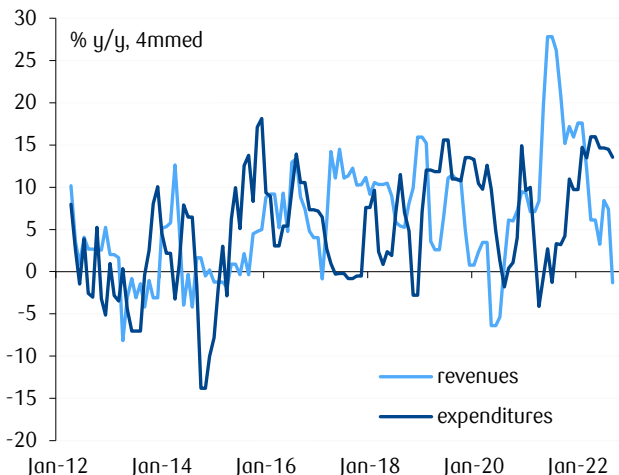
Economic activity indicators



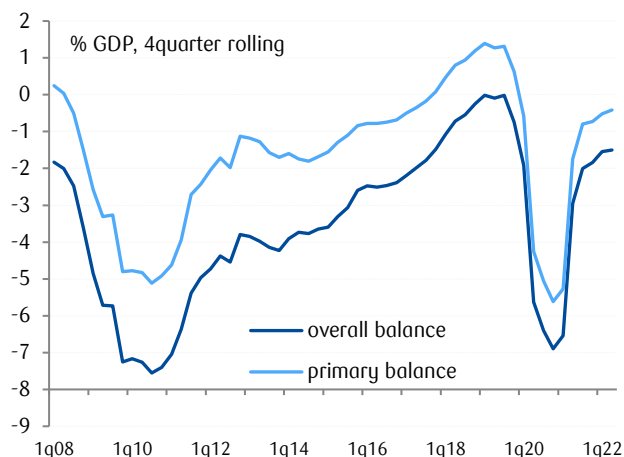
Merchandise trade (in EUR terms)



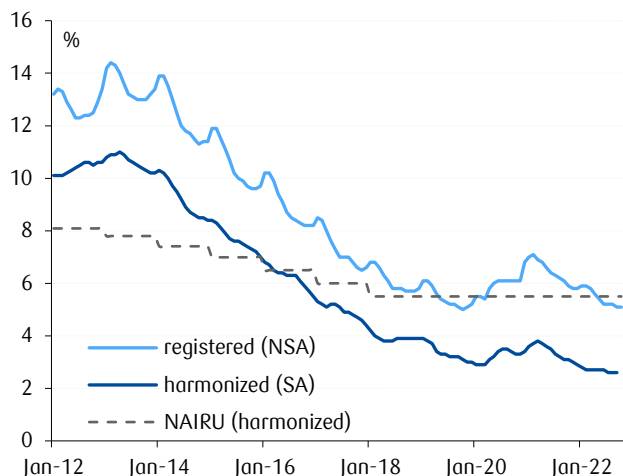
Central government revenues and expenditures*



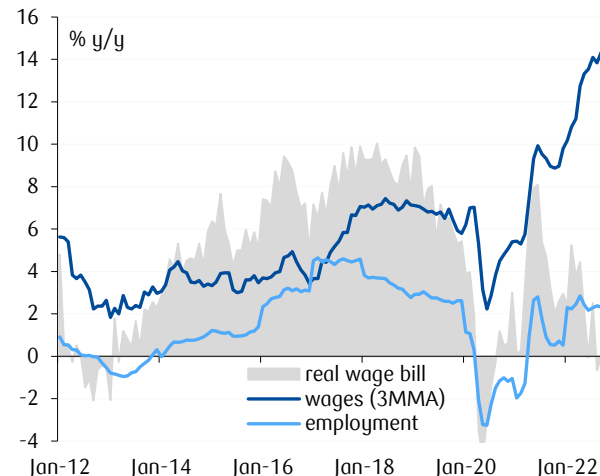
General government balance (ESA2010)



Unemployment rate

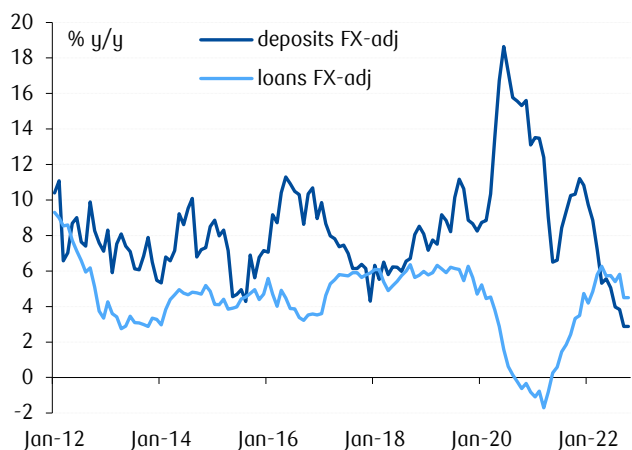


Employment and wages in the enterprise sector

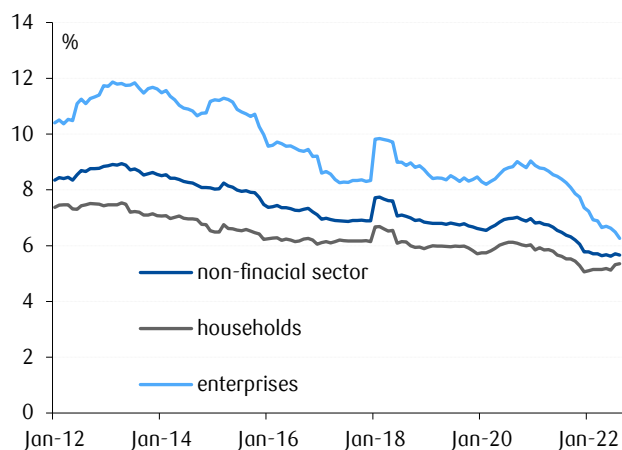


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. *break in series in 2010 due to methodological changes.

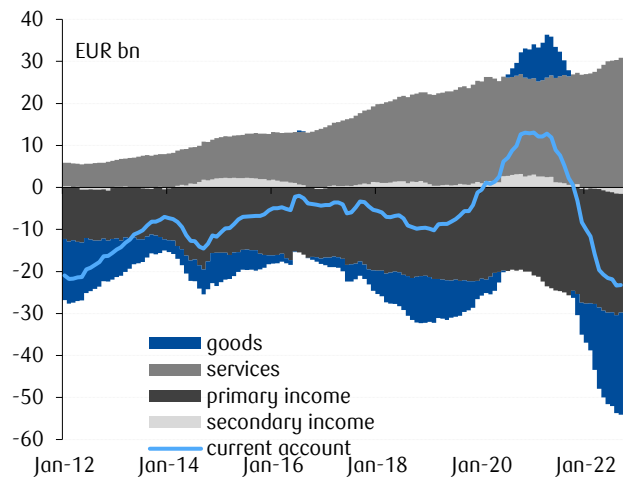
Loans and deposits



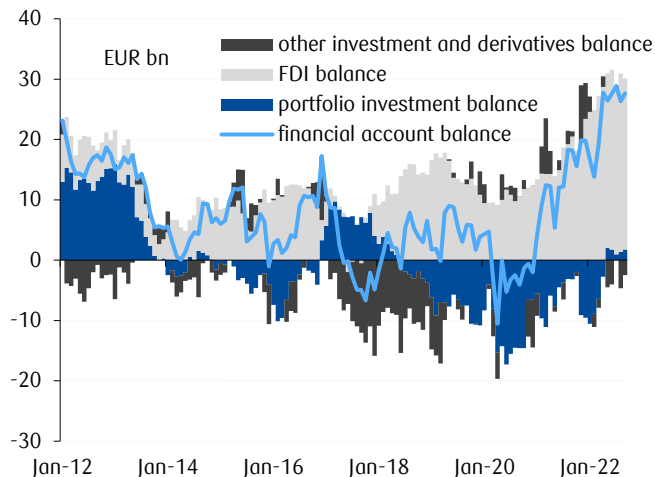
Non-performing loans (NPLs) - by sectors*



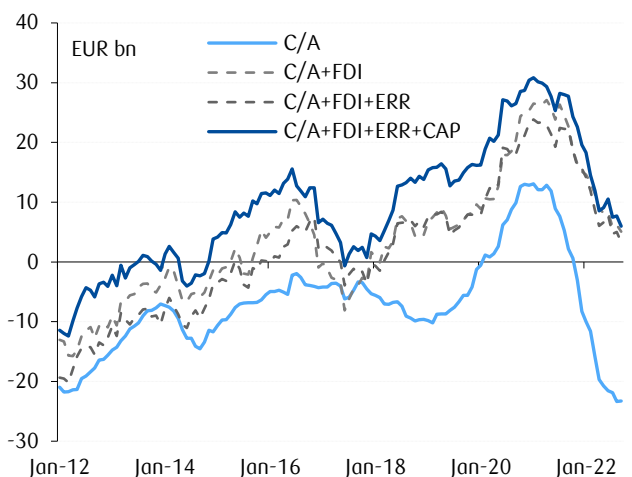
Current account balance



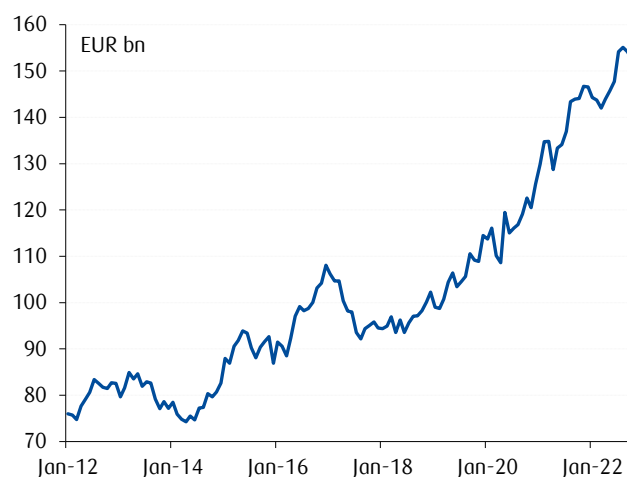
Financial account balance



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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