

## Bumpy road ahead

### TOP MACRO THEME(S):

- **January data turned out bittersweet (p.2)** as they showed a y/y decline in retail sales for the first time in almost two years. Industrial production most likely passed the peak of the cycle, while construction output was supported by relatively warm winter and positive calendar effects. Some signs of cool-down came from data on employment in the enterprise sector.
- **One year after the outbreak of war in Ukraine we take a look back (p.4)** at its consequences for the Polish economy.

### WHAT ELSE CAUGHT OUR EYE:

- **Money (M3) supply growth accelerated to 6.9% y/y from 5.4% y/y in December**, accompanied by a significant fall in cash in circulation (though typical for the beginning of the year) and a solid growth in deposits. Meanwhile, decline in households lending eased somewhat.
- **Unemployment rate stabilised at 2.9% in 4q22** according to LFS data. Employment rate set a new historic maximum, while activity rate reached 58.2%, coming back to the record level achieved in 3q21. Registered unemployment rate in January increased to 5.5% from 5.2% in December, slightly more than the seasonal pattern would suggest.
- **Procurement prices of average agricultural products declined by 6.7% m/m, for the first time since July 2021.** Yearly growth remains high at 34.5%, but its quick deceleration will translate into disinflation in the CPI.

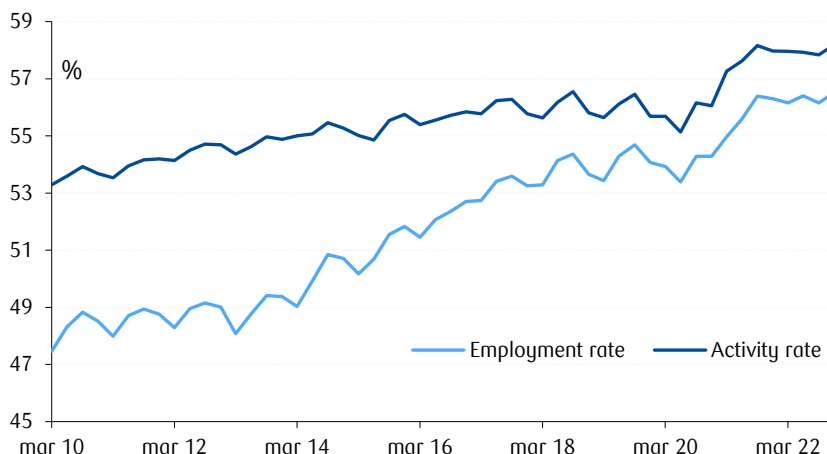
### THE WEEK AHEAD:

- **Detailed estimate of GDP in 4q22 will most likely show a fall in consumption and a minor increase in investment**, which could have already been concluded from the yearly figure. Preliminary estimate showed GDP growth slowing to 2.0% y/y, with big discrepancies between sa and nsa reading.
- **PMI has likely inched up in February** pointing that the worst of the industrial recession is probably behind us.
- **As in the past, flash estimate of inflation in February is not going to be published.** For the February figure we need to wait until mid-March.

### NUMBER OF THE WEEK:

- **56,8%** – employment rate in 4q22, which reached a new record value

### CHART OF THE WEEK: Employment and activity rate according to LFS



Source: Statistics Poland. PKO Bank Polski.

### Chief Economist

Piotr Bujak  
piotr.bujak@pkobp.pl  
+48 693 333 127

### Macro Research Team

[@PKO\\_Research](#)

Marta Petka-Zagajewska  
Senior Economist  
marta.petka-zagajewska@pkobp.pl  
tel. +48 22 521 67 97

Urszula Krynska  
Economist  
urszula.krynska@pkobp.pl

Kamil Pastor  
Economist  
kamil.pastor@pkobp.pl

Michal Rot  
Economist  
michal.rot@pkobp.pl

Anna Wojtyniak  
Economist  
anna.wojtyniak@pkobp.pl

	2022	2023 <sub>†</sub>
Real GDP (%)	4.9	0.1
Industrial output (%)	10.4	3.9
Unemployment rate <sup>#</sup> (%)	5.2	5.4
CPI inflation <sup>**</sup> (%)	14.3	11.9
Core inflation <sup>**</sup> (%)	9.0	9.7
Money supply M3 (%)	5.4	6.4
C/A balance (% GDP)	-3.1	-2.2
Fiscal balance (% GDP) <sup>*</sup>	-2.6	-6.0
Public debt (% GDP) <sup>*</sup>	51.5	53.6
NBP reference rate <sup>##</sup> (%)	6.75	6.25
EURPLN <sup>###</sup>	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.

## Bad news is good news (at least for inflation)

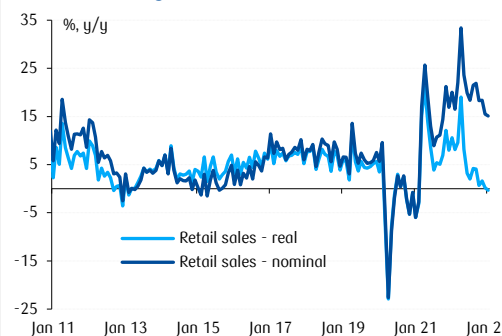
- Lean months ahead of Polish consumers as retail sales fell by 0.3% y/y in January and most likely embarked on a negative growth path. At the same time consumers' sentiment continues to improve as fears of negative consequences of energy crisis dissipate.
- Industrial production has already passed the peak of the cycle and slowed down significantly to 0.3% from 5.6% (sa), dragged down by energy-intensive sectors. Construction output was boosted by relatively warm weather and calendar effects, though buildings construction was weak.
- Further signs of labour market cool-down came with the data on employment showing a relatively minor (23 thous.) increase against December. Data are rather disappointing taking into account the annual revision of the reporting sample (enterprises with 9+ employees) conducted by Statistics Poland, which in previous years usually boosted January employment figures. Wage growth jumped to 13.5% accompanied by nearly 16% increase of minimum wage.

Retail sales in January fell by 0.3% y/y (against an increase of 0.2% y/y in December). Data showed a profound fall in consumer demand, as lower sales were recorded for most of the categories, including food (-1.7% y/y). Consumer recession, which in our opinion started somewhat earlier, has been covered up by a boost from spending by Ukrainian refugees. However, with this effect fading out (in y/y terms), negative growth is likely to continue in the following months. Meanwhile, consumer sentiment improved somewhat with inflation expectations decreasing further, while a year ahead perspective on savings deteriorated due to falling real incomes.

Industrial production increased by 2.6% y/y against 1.0% y/y in December supported by positive calendar effects. Nevertheless, seasonally and calendar adjusted growth stood at only 0.3% y/y against 5.6% y/y in December. Automotive sector remained the bright star of the manufacturing sector, accompanied by pharmaceuticals as well as electric industry, with activity in the latter one supported by electrical system repairs conducted in Ukraine. Significant drop in output was recorded among energy-intensive sectors, with the exception of manufacture of basic metals. This could be due to a substitution effect, as producers import expensive base metals. Industrial orders rebounded (by 15.4% y/y) after the fall in December, however, longer-term trend points to a decelerating inflow of new orders signaling that the peak of this industrial cycle is long gone. Meanwhile PPI inflation declined for a fifth consecutive month to 18.5% y/y from 20.5% in December, with highest price growth recorded in the energy sector. Historically, PPI disinflation translated into a fall in CPI with a several-month lag.

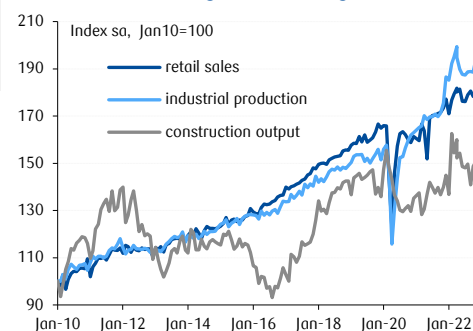
Construction and assembly production growth rebounded to 2.4% y/y after a fall by 0.8% in December. Construction output was boosted by relatively warm winter enabling external works, which was reflected in civil engineering (15% y/y). Picture becomes gloomy if construction of buildings is taken into account (-10,3% y/y), frozen by constrained inflow of mortgage lending.

### Retail sales growth



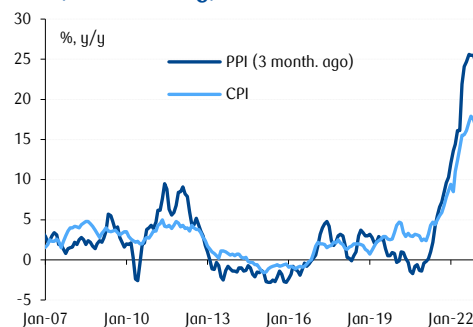
Source: Macrobond, PKO Bank Polski.

### Economic activity in monthly data



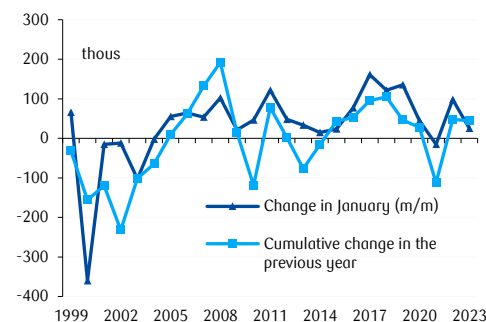
Source: Macrobond, PKO Bank Polski.

### PPI (3-month lag) and CPI inflation



Source: Macrobond, PKO Bank Polski.

### Change in employment in the corporate sector

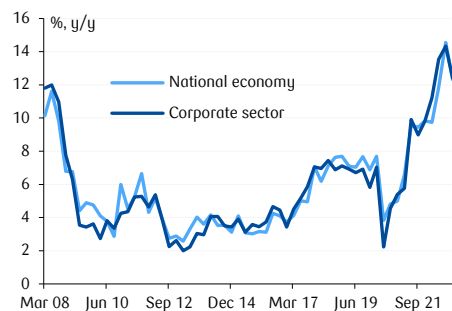


Source: Macrobond, PKO Bank Polski.

Frosty winds reached the labour market, where employment in the enterprise sector increased by 1.1% y/y and by only 23 thous. m/m. Data was a source of disappointment taking into account the annual revision of the reporting sample (enterprises with 9+ employees) conducted by Statistics Poland, which in previous years usually boosted January employment figures. Meanwhile, average wage in the enterprise sector grew by 13.5% y/y (against 10.3% y/y in December), partially boosted by an approx. 16% increase in the minimum wage, however, in real terms wages continue to decline.

Overall data is in line with our outlook, as we expect a further slowdown of economic activity. While investment activity shall remain relatively resilient, consumer recession is likely to persist over the next several quarters amid falling real incomes of households, fading of “pandemic” savings and statistical base effects stemming from the inflow of Ukrainian refugees since 1q/2q22. Weaker consumer demand, together with gradually falling inflation abroad and statistical base effects will support the disinflation in Poland, most likely to around 10% by the end of 2023. In this context deterioration of economic conditions is not that bad after all and was rather expected taking into account the scale of monetary tightening.

### Wages in the national economy and the enterprise sector



Source: Macrobond, PKO Bank Polski.

## It's been a year already

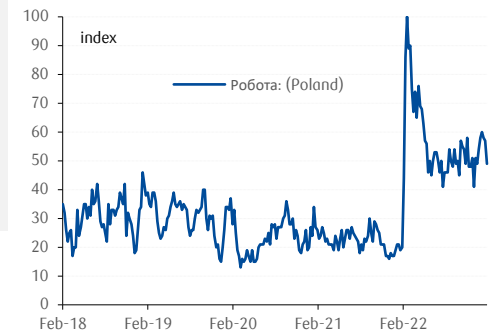
- A year after the outbreak of war in Ukraine, we attempt to assess its impact on the Polish economy, with regard to three most prominent dimensions: (1) an unprecedented influx of war refugees, (2) a cost shock, and (3) higher uncertainty.
- In 2022, GDP increased by 4.9%, and the final result was close to the consensus from the beginning of the year - despite a sharp deterioration of forecasts immediately after the invasion, and later on in the autumn on the back of energy crisis fears.

(1) Soon after the war outbreak, over 100,000 persons crossed the Polish-Ukrainian border on a daily basis, and the number of refugees staying in Poland have quickly exceeded 1 million (about half of them being children). Simplified procedures made it possible for people of working age to quickly take up employment - the number of jobs taken by Ukrainian refugees has already exceeded 900,000. It is estimated that the activity rate among refugees has reached 50-60%, which makes this wave of migration more similar to labour migration rather than standard refugee flows. Ukrainian workers have been reducing shortages on the domestic labour market since at least 2014. Google Trends data suggests that the number of Ukrainian speakers looking for work in Poland has doubled since the outbreak of war. The jump in Poland's population by 3-4% was a solid demand impulse, particularly noticeable in the sales of basic products (food, clothing, cosmetics), which covered up the recession in the "domestic consumer sector". We estimate that the increases in retail sales in real terms, which were recorded in the second half of 2022 were achieved thanks to refugees' spending only.

(2) Commodity prices in the global markets soared soon after Russia's attack on Ukraine. Price increases were spurred by breaks in supplies (food from Ukraine), concerns about availability (industrial metals), deliberate actions by Russia (natural gas in Europe) and the gradual elimination of supplies from Russia in the case of energy resources. According to FAO, world food prices in April were almost 18% higher than in January, oil and steel prices increased temporarily by as much as 30% in the first days after the invasion. The impact of the cost shock on CPI inflation was amplified by the PLN depreciation. The cost shock has gradually spilled over to other categories of the inflation basket. In March 2022, fuel prices rose by a record 28.1% m/m, and coal prices by 14.2% m/m. In April, food prices increased by an impressive 4.1% m/m. Soaring prices had a negative impact on the purchasing power of the consumers' income (real wages in the enterprise sector have been falling in y/y terms since August). However, they did not hamper the competitiveness of the economy - the growth of PPI inflation in Poland was less significant than, for example, in Germany. The cost shock caused a rapid deterioration of terms-of-trade and an increase in the current account deficit, but it was smaller than in other countries of our region.

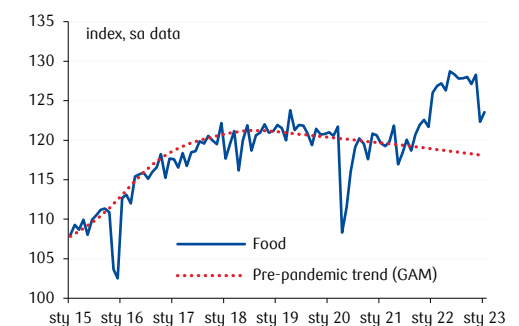
(3) The shock of Russia's attack on Ukraine caused irrational, but short-lived, consumer reactions - e.g. hectic fuel purchases at petrol stations and an increase in the amount of cash in circulation by PLN 34 billion within two months. The more lasting effect of the war is noticeable in consumer sentiment, with rising inflation also having a significant negative impact. Uncertainty related to the war and the ongoing economic slowdown

### Google searches for "job" in Ukrainian



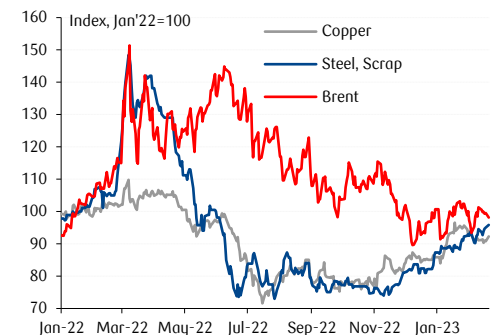
Source: Google Trends, PKO Bank Polski.

### Retail sales of food (in real terms)



Source: Macrobond, PKO Bank Polski.

### Prices of selected commodities (in PLN)



Source: Macrobond, PKO Bank Polski.

### Consensus GDP forecasts for 2022



Source: Bloomberg, PKO Bank Polski.

hampered investment plans of companies, as reflected in the strong deterioration of the OPTIN index published by the NBP.

In 2022, GDP increased by 4.9%, and the final result was close to the consensus from the beginning of the year - despite a sharp downward revisions of forecasts immediately after the invasion, and later on in the autumn based on energy crisis fears. Performance of the domestic economy was supported by the ongoing process of nearshoring and friendshoring, which supported exports, as well as by the refugees' consumption.

## Weekly economic calendar

Indicator	Time (UK)	Unit	Previous	Consensus*	PKO BP	Comment
<b>Monday, 27 February</b>						
EUR: M3 money supply (Jan)	9:00	% y/y	4.1	4.0	--	--
EUR: Consumer Confidence (Feb, final)	10:00	pts.	-20.9	-19.0	--	--
EUR: Economic Sentiment Indicator (Feb)	10:00	pts.	99.9	101	--	--
USA: Durable goods orders (Jan, flash)	13:30	% m/m	5.6	-3.9	--	--
GER: Retail sales (Jan)	2:20	% y/y	-6.6	-5.2	--	--
<b>Tuesday, 28 February</b>						
POL: GDP growth (4q)	9:00	% y/y	3.6	2.0	2.0	Second estimate of GDP growth in 4q22 will confirm what we already know based on yearly data: 4q saw a fall in consumption and a minor uptick in investment.
HUN: MNB meeting (Feb)	13:00	%	13.0	13.0	13.0	--
USA: Trade Balance (Jan)	13:30	bln USD	-89.7	--	--	--
USA: S&P CoreLogic CS 20-City (Dec)	14:00	% y/y	6.8	6.8	--	--
USA: Consumer confidence (Feb)	15:00	pts.	107.1	108.4	--	--
<b>Wednesday, 1 March</b>						
CHN: Manufacturing PMI (Feb)	1:45	pts.	49.2	51.3	--	--
POL: Manufacturing PMI (Feb)	8:00	pts.	47.5	46.5	48.0	The worst of the industrial recession is probably behind us.
GER: Unemployment Rate (Feb)	8:55	%	5.5	5.5	--	--
GER: Manufacturing PMI (Feb, final)	8:55	pts.	47.3	46.5	--	--
EUR: Manufacturing PMI (Feb, final)	9:00	pts.	48.8	48.5	--	--
GER: CPI inflation (Feb, flash)	13:00	% y/y	8.7	8.6	--	--
GER: HICP inflation (Feb, flash)	13:00	% y/y	9.2	9.0	--	--
USA: Manufacturing PMI (Feb, final)	14:45	pts.	46.9	47.8	--	--
USA: ISM Manufacturing (Feb)	15:00	pts.	47.4	47.8	--	--
<b>Thursday, 2 March</b>						
EUR: HICP inflation (Feb)	10:00	% y/y	8.6	8.1	--	--
EUR: Core inflation (Feb, flash)	10:00	% y/y	5.3	5.3	--	--
USA: Initial Jobless Claims (Feb)	13:30	thous.	192	192	--	--
<b>Friday, 3 March</b>						
GER: Exports (Jan)	7:00	% m/m	-6.3	2.0	--	--
GER: Imports (Jan)	7:00	% m/m	-6.1	--	--	--
GER: Services PMI (Feb, final)	8:55	pts.	50.7	51.3	--	--

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	"PPI: 18.5% y/y and 0.8% m/m. (...) What is the annualized PPI stemming from monthly data? 10+ (...) Wage growth in the enterprise sector at 13.5% (...) is far from consistent with the inflation target." (20.02.2023, 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	" <b>There is no reason for discussion on interest rate cuts as of today. Inflation remains high and returning to the target is a distant perspective. Our official standpoint is that we have not ended the tightening cycle. There will come the time when the MPC will be ready to announce the termination of interest rate increases. We are waiting for the March projection and inflation data. (...) It doesn't seem that monetary tightening by prominent central banks and higher expectations regarding their target level of interest rates could have an impact on MPC's decision</b> " (23.02.2023, 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	"Most likely it is only late 2023/early 2024 that conditions could be met for consideration of rate cuts. One such condition is, in my view, a significant reduction in core inflation" (15.02.2023, 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.

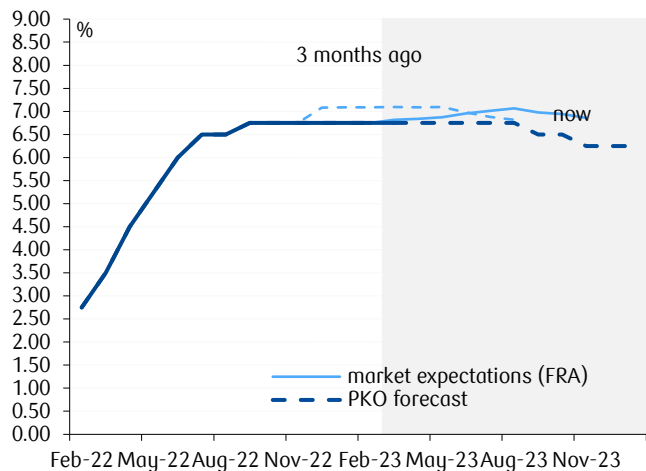
### Interest rates – PKO BP forecasts vs. market expectations

	1M	2M	3M	4M	5M	6M	7M	8M	9M	
Date	23-Feb	23-Mar	23-Apr	23-May	23-Jun	23-Jul	23-Aug	23-Sep	23-Oct	23-Nov
WIBOR 3M/FRA†	6.94	6.96	6.98	7.00	7.00	7.00	7.01	6.92	6.83	6.75
implied change (b. p.)		0.02	0.04	0.05	0.06	0.06	0.06	-0.02	-0.11	-0.19
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^		6.77	6.79	6.81	6.81	6.81	6.82	6.83	6.79	6.71

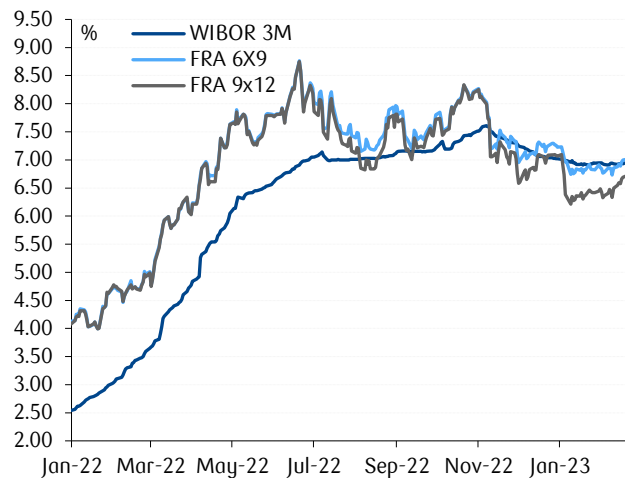
†WIBOR 3M from the last fixing, FRA transactions based on WIBOR 3M for subsequent periods, ‡in basis points, \*PKO BP forecast of the NBP reference rate.

## Poland macro chartbook

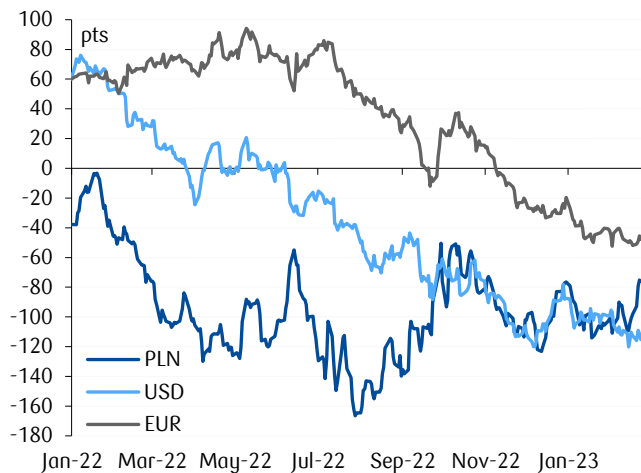
NBP policy rate: PKO BP forecast vs. market expectations



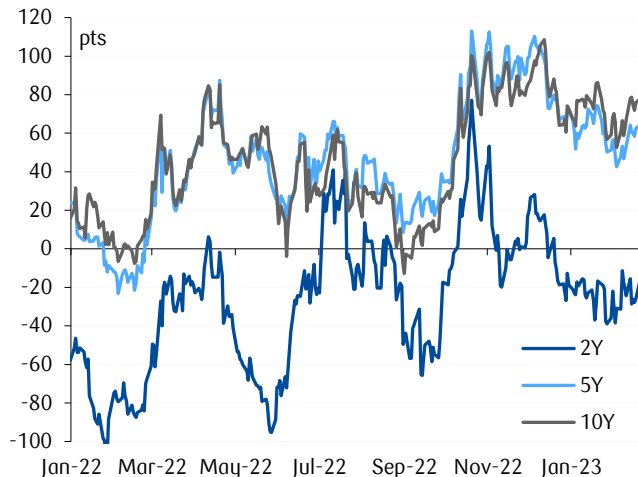
Short-term PLN interest rates



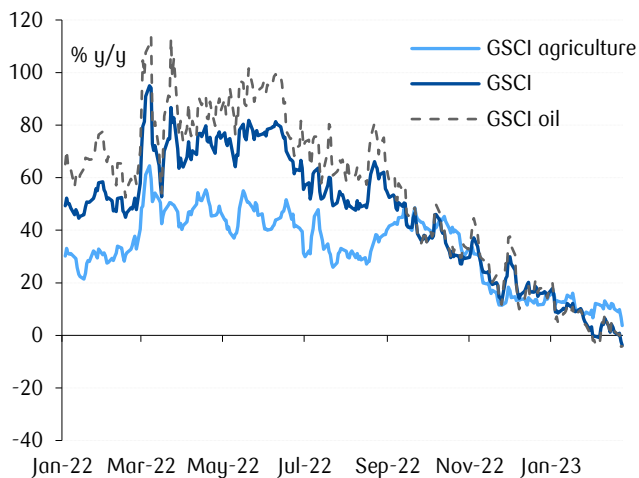
Slope of the swap curve (spread 10Y-2Y)\*



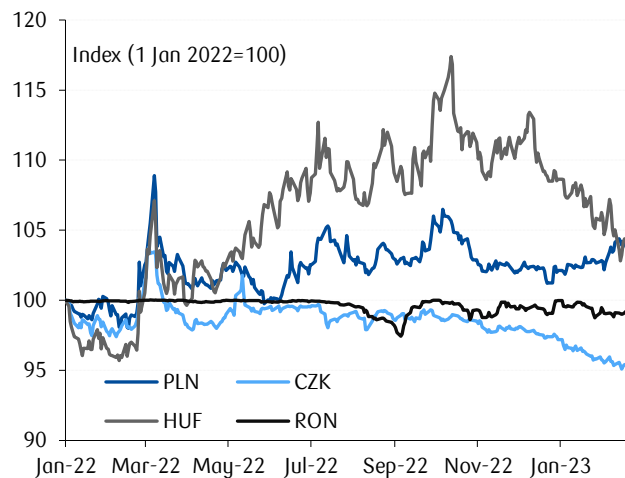
PLN asset swap spread



Global commodity prices (in PLN)



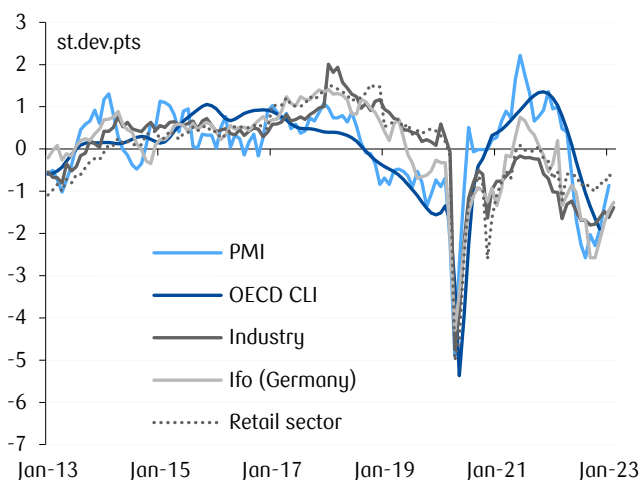
Selected CEE exchange rates against the EUR



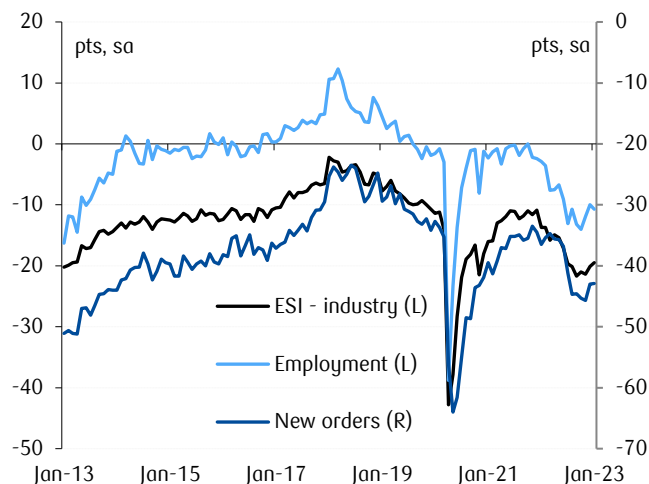
Source: Datastream, NBP, PKO Bank Polski. \*for PLN, and EUR 6M, for USD 3M.



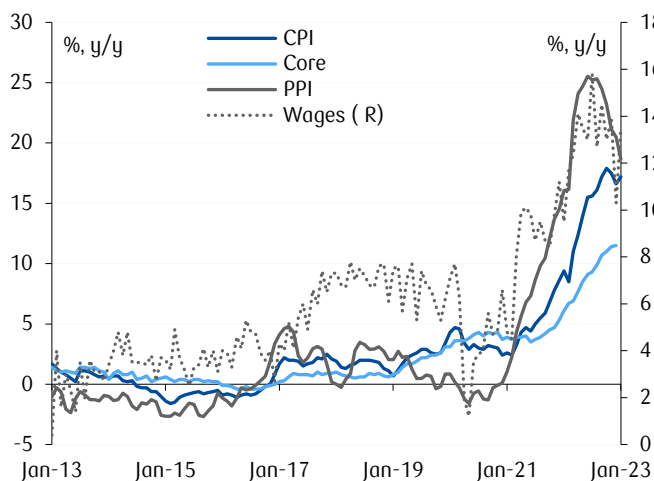
Economic sentiment indicators



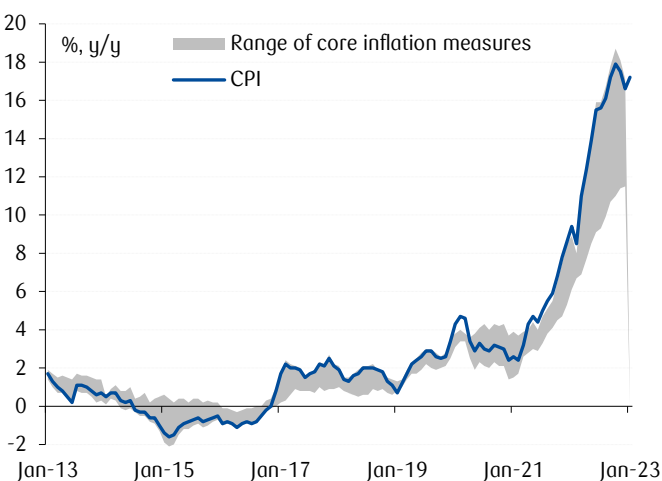
Poland ESI for industry and its components



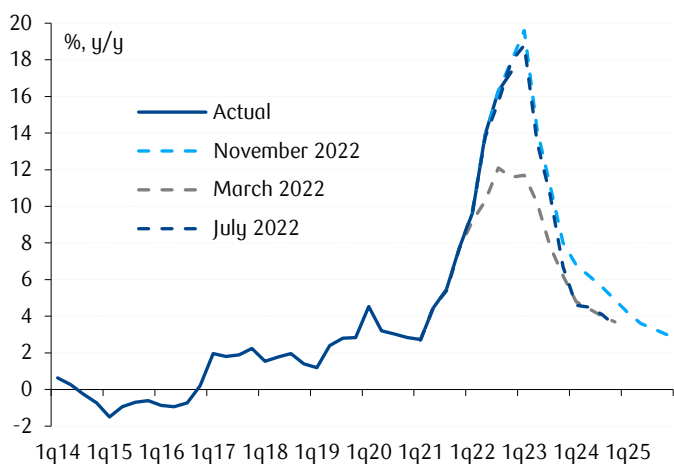
Broad inflation measures



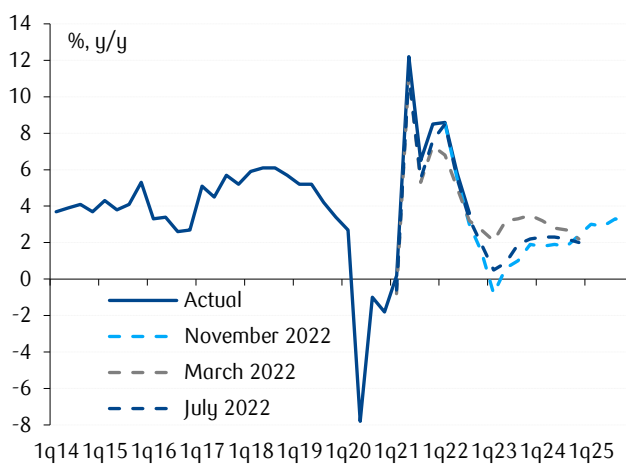
CPI and core inflation measures



CPI inflation - NBP projections vs. actual

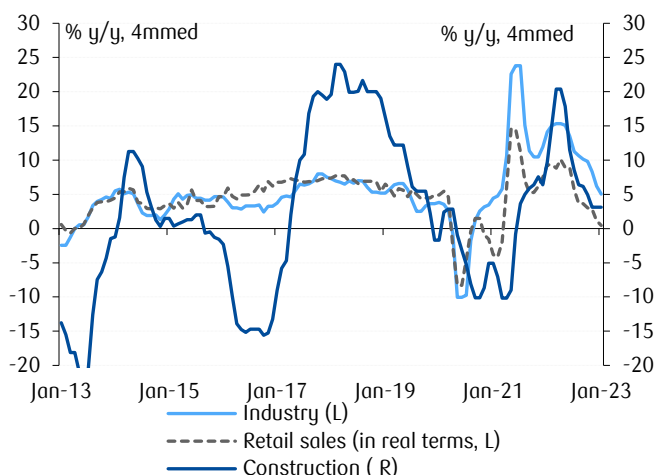


Real GDP growth - NBP projections vs. actual

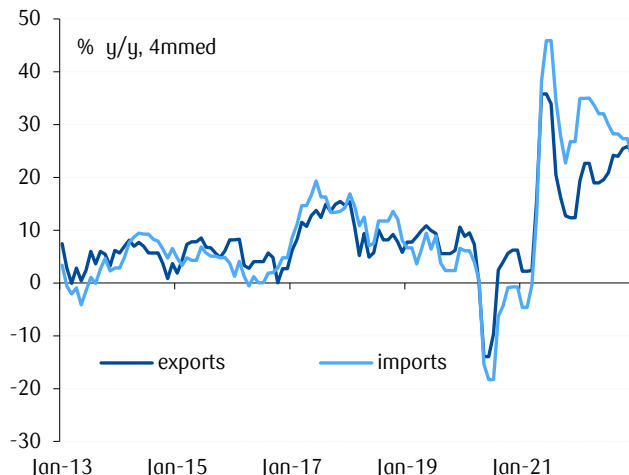


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

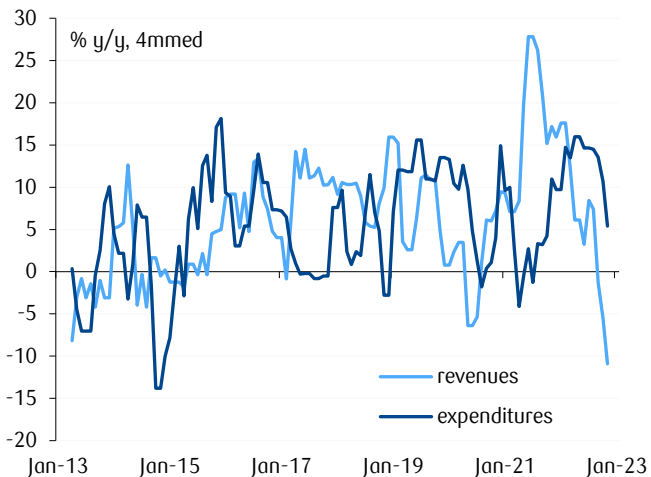
**Economic activity indicators**



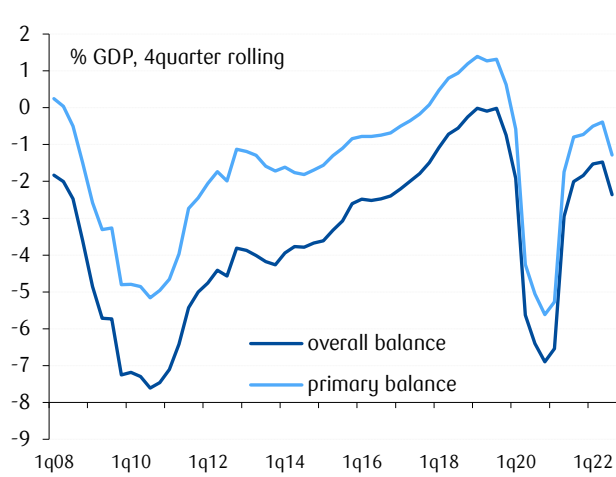
**Merchandise trade (in EUR terms)**



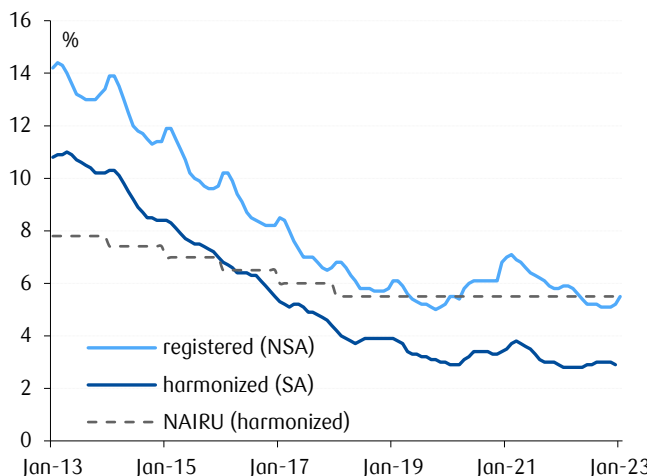
**Central government revenues and expenditures\***



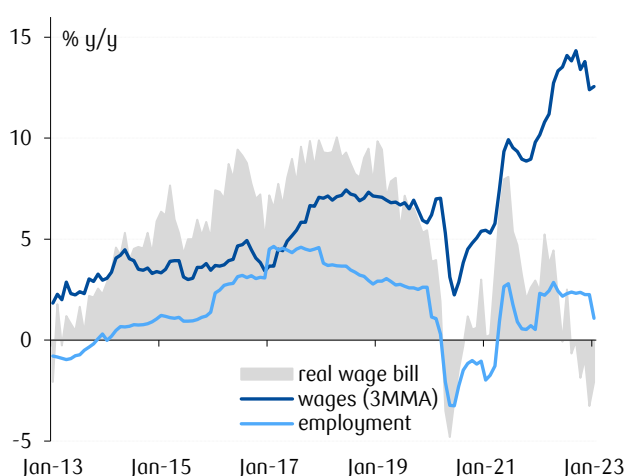
**General government balance (ESA2010)**



**Unemployment rate**

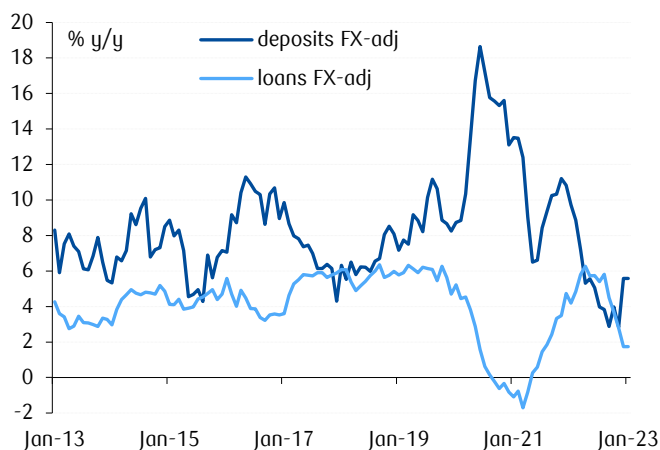


**Employment and wages in the enterprise sector**

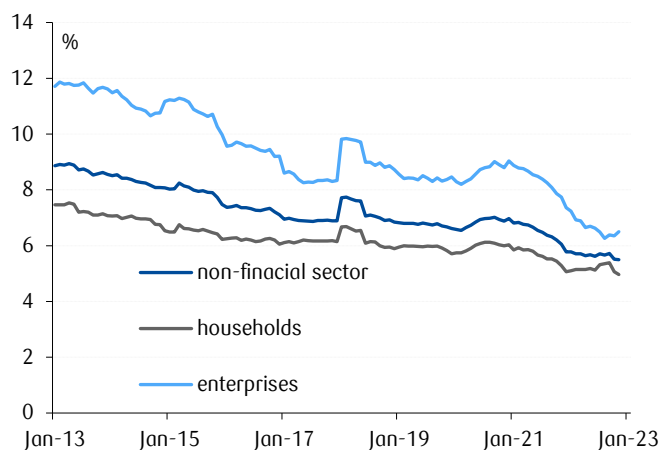


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. \*break in series in 2010 due to methodological changes.

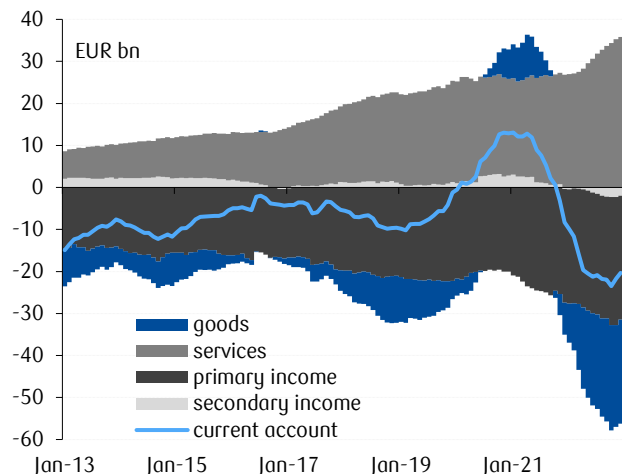
Loans and deposits



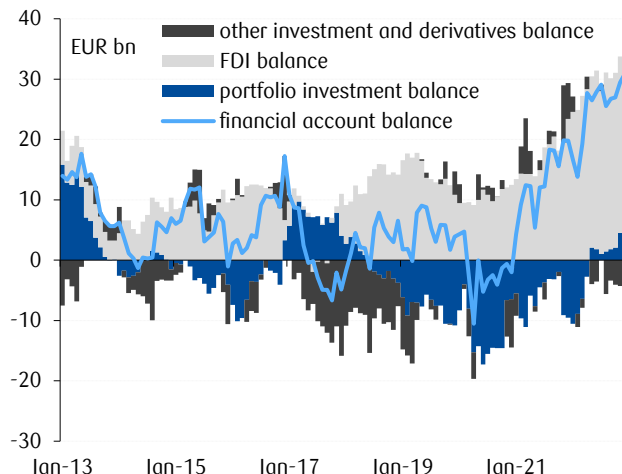
Non-performing loans (NPLs) - by sectors\*



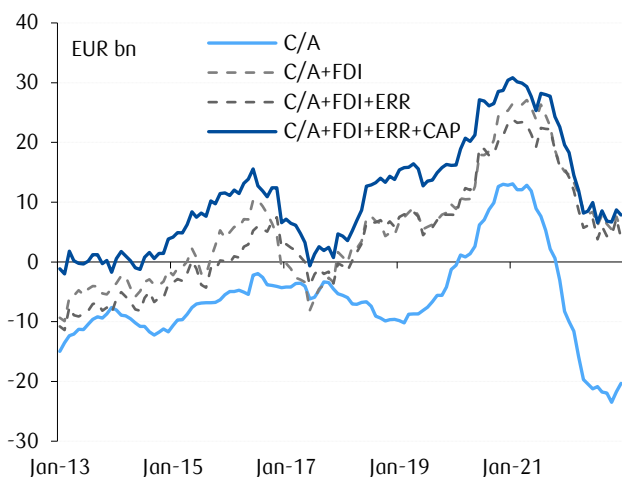
Current account balance



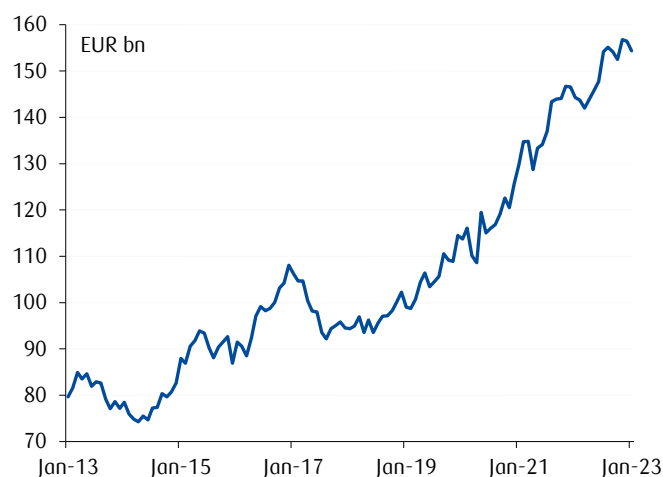
Financial account balance



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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