

Successful 2021 behind us, challenging 2022 ahead

Top macro theme(s):

- **Generous payouts for Christmas (p.2):** The average wage grew in December by 11.2% y/y, the strongest since 2008. Wage pressure is accelerating.
- **Industry ended 2021 on a high note (p. 3):** Industrial output growth rate accelerated in December, on energy and automotive production, to 16.7% y/y, while construction output underperformed due to cold weather.

What else caught our eye:

- **Core inflation excl. food and energy hit 5.3% y/y in December with all other measures of core inflation going up** (to 5.3-8.5% y/y from 4.7-7.5% y/y in Nov). Our supercore inflation measure (at 5.2% y/y in Dec.) keeps indicating broad-based inflationary pressures in the economy.
- **PPI inflation continued an upward trend in December** (14.2% y/y, up from 13.6% y/y in Nov.), but (our) core PPI measure suggests that without a new commodity price upsurge, consumer goods inflation should stabilize in 1h22.
- **Consumer sentiment dived in January and was the weakest since Nov20** on a negative evaluation of household situation. **Business confidence indicators for January** also showed a weaker sentiment at the start of 2022, most likely due to Omikron fears and accelerating cost side pressure.
- **E.Lon** advocated that the MPC should **reconsider leaving rates unchanged** at the next (and his last) meeting in February. We don't think the majority of the MPC will follow.
- The Sejm's Public Finance Committee has given a green light to **W.Janczyk** and **E.Ostrowska** to be appointed to the MPC by the Sejm on Wednesday.

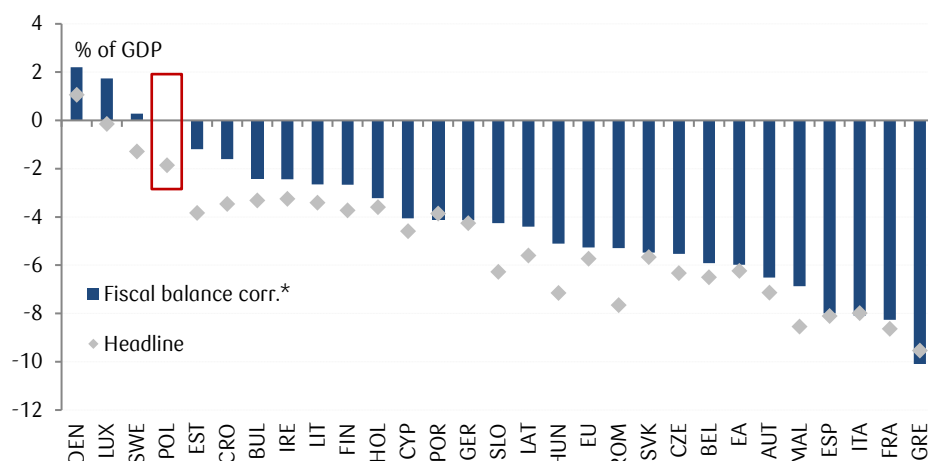
The week ahead:

- **Retail sales** in December was most likely unfazed by inflation shots, expanding at a double-digit rate (PKOe: 10.7% y/y).
- **Monetary stats for December** should reveal a gradual switch of focus in loans: from household to corporate sector.
- **Unemployment rate in Dec.** most likely stood at 5.4% despite usual seasonal weakness at this time of year.

Number of the week:

- **-1.9% of GDP – fiscal (ESA) result for Poland after 3q21** (4-quarter rolling), the 4th lowest in the EU (see chart of the week).

Chart of the week: Fiscal (ESA) balance after 3q21



Source: Eurostat, PKO Bank Polski. *correction for public investments exceeding the consumption of fixed capital.

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	2021 _t	2022 _t
Real GDP (%)	5.5	4.1
Industrial output (%)	14.9	8.2
Unemployment rate# (%)	5.4	4.8
CPI inflation** (%)	5.1	7.1
Core inflation** (%)	4.1	5.5
Money supply M3 (%)	10.3	4.3
C/A balance (% GDP)	-0.7	0.5
Fiscal balance (% GDP)*	-2.5	-2.1
Public debt (% GDP)*	56.5	53.7
NBP reference rate## (%)	1.75	3.50
EURPLN†##	4.60	4.45

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

Generous payouts for Christmas

- Labour market data for December shows that the wage pressure is accelerating and is as high as before the GFC, while pandemic again impacts negatively employment in the enterprise sector.

Labour market data for December shows that the wage pressure is accelerating while pandemic again impacts negatively employment in the enterprise sector.

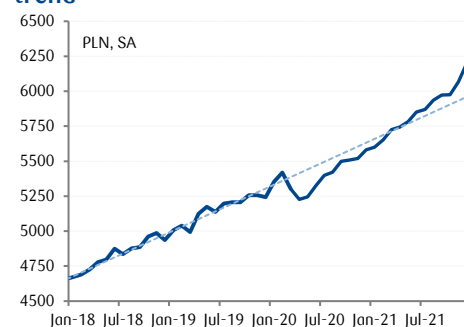
The average wage in the enterprise sector in December increased by 11.2% y/y (to app. EUR 1440), stronger than expected (PKOe: 9.9% y/y; cons.:9.1% y/y). This is the strongest y/y growth since 2008. According to the Statistical Office the average wage in December was additionally boosted by extra payments (bonuses, Christmas-benefits). These factors push up the average wage every year in December and in our view do not fully explain the upward surprise, as the m/m growth (10.3%) was also much stronger than the traditional seasonal pattern (see chart). According to the Statistical Office payments of retirement benefits and remuneration for overtime work pushed up the average wage as well. The latter element may reflect rising difficulties faced up by employers to fill in vacancies. Additionally, companies might have been forced to extend working hours in response to increased absenteeism by the pandemic (on average over 500k people were on quarantines in December). In December, the trend in wages might have been also disturbed (in plus) by the possible acceleration of bonus payments in industries with relatively high average wage (shift from 2022 to 2021 due to tax changes which reduce the tax burden for low-earners and increase it for the top earners in 2022).

The wage growth trend (in seasonally adjusted terms) deviates more and more strongly (in plus) from the already strong upward trend observed before the pandemic (see chart). In our opinion, this mainly reflects the growing mismatch between the strong demand for labour and limited supply. The elevated CPI inflation (8.6% y/y in December, in our view 7.1% on average in 2022) may additionally increase wage pressure in 2022, but in our opinion the pass-through from high inflation to even higher wages should be weakened by a relatively low mobility of employees in Poland. According to the LFS data only a marginal share of employees (and lower than before the pandemic) is looking for a better paid job. **In our view wages will keep on growing by close to 10% y/y in 2022.** In January the data might however surprise again (in both sides) i.a. due to tax changes, new sampling and higher minimum wage (it rises by 7.5% y/y to app. EUR 665).

The average employment in the industrial sector in December amounted to 6.362 mn and was higher by 0.5% y/y, but still by 34.4ths lower than in December 2019, before the pandemic. Compared to the previous month, employment declined by 2.1ths. This is a slightly weaker result than the seasonal pattern and may reflect the continued negative impact of the pandemic on the labour market (quarantines). As the Omikron driven wave has just started this negative impact might intensify in January.

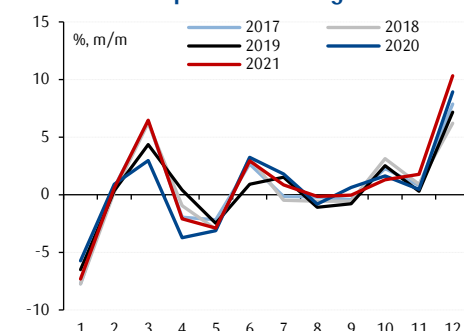
The wage bill increased in December by 11.8% y/y and by 3.0% y/y in real terms. Despite elevated inflation, the financial situation of households continues to improve. This supports our optimistic view on the 4q21 private consumption result (PKOe: 8.1% y/y).

Wages compared to the pre-pandemic trend



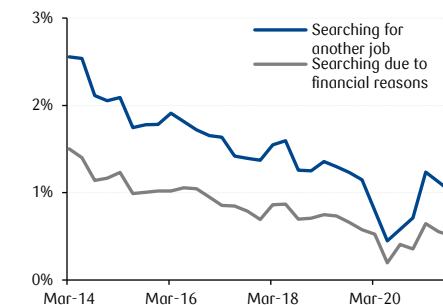
Source: GUS, PKO Bank Polski.

The seasonal pattern in wages



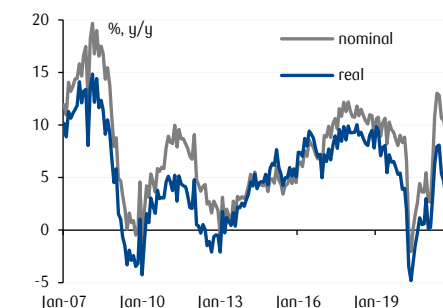
Source: GUS, PKO Bank Polski.

Share of employees searching for another job



Source: GUS, PKO Bank Polski.

The wage bill



Source: GUS, PKO Bank Polski.

Industry ended 2021 on a high note

- Industrial output growth rate accelerated on energy and automotive production to 16.7% y/y, while construction output underperformed on cold weather.

Industrial production in December expanded by 16.7% y/y (!), clearly exceeding expectations for the second month in a row (PKOe: 14.8% y/y; cons: 13.0% y/y, vs. an increase by 15.2% y/y in November). The growth rate of output in manufacturing hit 13.9% y/y (vs. 13.0% y/y in November), confirming that the very strong post-pandemic upward trend continued despite the headwinds from the global economy.

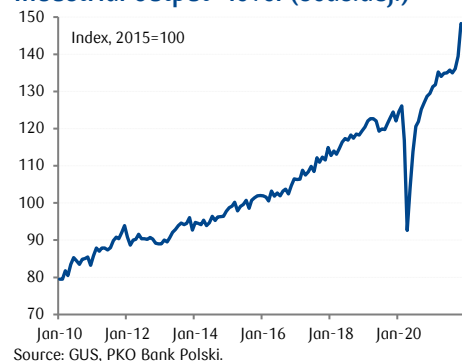
Output growth rate hit 13.7% y/y on seasonally adj. terms, which means that the production level is almost 17% higher than before the pandemic (see margin chart).

Production increased in 31 out of 34 industrial branches. Metal products, chemicals, food and automotive industries had the highest contribution to the total growth rate. Automotive recorded a double-digit increase (12.5% y/y), signaling a reversal of negative trends in global production chains. Output in the energy sector increased significantly again (by 54.2% y/y), contributing, together with the automotive industry, to a further increase in production growth rate in December (see margin chart). The data also confirms that domestic manufacturing withstood a slowdown in German industry pretty unfazed.

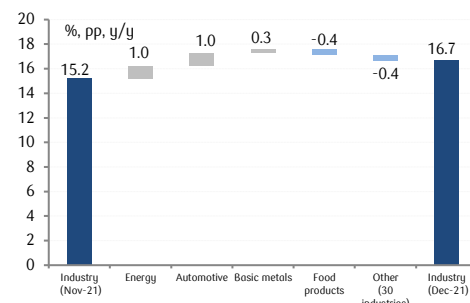
Construction output increased by 3.1% y/y in December (vs. 12.7% y/y in November) - in our opinion, weather conditions (the first snow cover in December since many years) had a strong impact on the activity in this sector.

All in all, the data from the labour market as well as the real economy are neutral for the MPC stance and are in line with our scenario of further monetary policy tightening. **We do not think that the MPC will decide to postpone another rate hike in February due to the fifth wave of the pandemic, which has just started. In our opinion, the rate hikes cycle will continue.**

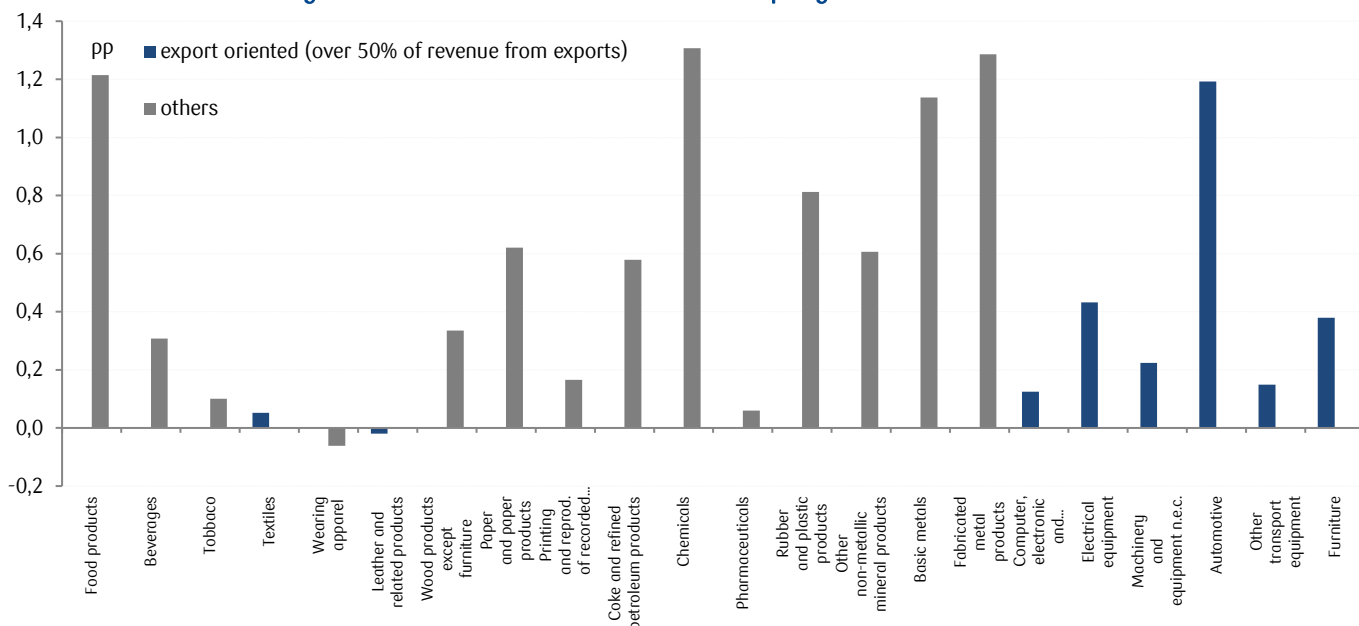
Industrial output –level (seas.adj.)



Change in growth rate between Nov. and Dec.



Contribution of manufacturing industries to the headline industrial output growth rate in December



Weekly economic calendar

Indicator	Time (UK)	Unit	Previous	Consensus*	PKO BP	Comment
Monday, 24 January						
GER: Manufacturing PMI (Jan, flash)	8:30	pts.	57.4	57.2	--	--
EUR: Manufacturing PMI (Jan, flash)	9:00	pts.	58.0	57.8	--	--
POL: Retail sales (Dec)	9:00	% y/y	12.1	9.4	10.7	Retail sales in real terms was most likely unfazed by inflation shots.
USA: Manufacturing PMI (Jan, flash)	14:45	pts.	57.7	57.0	--	--
Tuesday, 25 January						
GER: Ifo Business Climate Index (Jan)	9:00	pts.	94.7	94.0	--	--
HUN: MNB meeting	13:00	%	2.40	2.70	2.70	--
USA: S&P CoreLogic CS 20-City (Nov)	14:00	% y/y	18.4	--	--	--
USA: Consumer confidence (Jan)	15:00	pts.	115.8	111.9	--	--
Wednesday, 26 January						
POL: Unemployment Rate (Dec)	9:00	%	5.4	5.4	5.4	Without inching up at the start of the winter season, unemployment rate confirms red-hot labour market. Monetary stats should confirm more activity on corporate lending ahead.
POL: Money Supply M3 (Dec)	13:00	% y/y	10.1	10.0	10.3	
USA: New home sales (Dec)	15:00	thous.	744	750	--	--
USA: Fed meeting (Jan)	19:00	%	0.00-0.25	0.00-0.25	0.00-0.25	--
Thursday, 27 January						
USA: Initial Jobless Claims	13:30	thous.	286	--	--	--
USA: Durable goods orders (Dec, flash)	13:30	% m/m	2.6	-0.4	--	--
USA: GDP growth (4q)	13:30	%q/q saar	2.3	5.7	--	--
Friday, 28 January						
GER: GDP growth (4q)	9:00	% y/y	2.5	1.8	--	--
EUR: M3 money supply (Dec)	9:00	% y/y	7.3	6.9	--	--
EUR: Economic Sentiment Indicator (Jan)	10:00	pts.	115.3	114.0	--	--
EUR: Consumer Confidence (Jan, fin.)	10:00	pts.	-8.4	-8.5	--	--
USA: Personal Income (Dec)	13:30	% m/m	0.4	0.5	--	--
USA: Personal spending (Dec)	13:30	% m/m	0.6	-0.5	--	--
USA: Core PCE inflation (Dec)	13:30	% y/y	4.7	4.8	--	--
USA: University of Michigan sentiment (Jan, final)	15:00	pts.	70.6	68.8	--	--

Source: GUS, NBP, Parkiet, PAP, Bloomberg, Reuters, PKO Bank Polski. Parkiet for Poland, Bloomberg, Reuters for others.

Selected economic indicators and forecasts

	Oct-21	Nov-21	Dec-21	3q21	4q21	1q22	2q22	2020	2021	2022
Economic activity										
Real GDP (% y/y)	x	x	x	5.3	6.5	6.1	3.6	-2.5	5.5	4.1
Domestic demand (% y/y)	x	x	x	8.6	10.5	9.4	5.0	-3.7	8.0	5.2
Private consumption (% y/y)	x	x	x	4.7	8.1	5.0	3.0	-3.0	6.2	3.8
Gross fixed capital formation (% y/y)	x	x	x	9.3	15.5	8.4	6.9	-9.6	9.3	6.8
Inventories (pp)	x	x	x	3.7	2.1	3.8	1.5	-0.8	2.1	1.1
Net exports (pp)	x	x	x	-2.7	-3.3	-2.7	-1.1	0.8	-1.9	-0.9
Industrial output (% y/y)	7.6	15.2	16.7	10.3	13.2	7.9	6.6	-1.0	14.9	8.2
Construction output (% y/y)	4.1	12.7	3.7	5.8	6.8	3.5	4.1	-2.7	3.2	8.1
Retail sales (real, % y/y)	6.9	12.1	10.7	4.8	10.3	10.3	10.6	-2.7	7.9	8.8
Nominal GDP (PLN bn)	x	x	x	647.5	744.4	660.4	677.8	2327	2596	2852
Labour market										
Registered unemployment rate‡(%)	5.5	5.4	5.4	5.6	5.4	5.5	4.9	6.3	5.4	4.8
Employment in enterprises (% y/y)	0.5	0.7	0.5	1.1	0.6	1.6	1.4	-1.2	0.3	1.4
Wages in enterprises (% y/y)	8.4	9.8	11.2	9.0	9.8	8.8	10.4	4.8	8.8	9.2
Prices[^]										
CPI inflation (% y/y)	6.8	7.8	8.6	5.4	7.7	7.4	5.9	3.3	5.1	7.1
Core inflation (% y/y)	4.5	4.7	5.3	3.9	4.8	5.3	5.5	3.9	4.1	5.5
15% trimmed mean (% y/y)	5.1	5.5	6.4	4.1	5.7	x	x	3.9	3.9	x
PPI inflation (% y/y)	12.0	13.6	14.2	9.5	13.3	11.4	8.9	-0.5	7.9	7.5
Monetary aggregates‡										
Money supply, M3 (PLN bn)	1917.7	1934.8	2010.4	1914.2	2010.4	1999.0	2025.3	1822.7	2010.4	2097.3
Money supply, M3 (% y/y)	8.5	8.0	10.3	8.6	10.3	7.3	8.0	16.4	10.3	4.3
Real money supply, M3 (% y/y)	1.6	0.3	1.5	3.0	2.4	-0.1	1.9	12.7	5.0	-2.6
Loans, total (PLN bn)	1391.9	1403.9	1402.7	1376.4	1402.7	1409.7	1428.5	1333.8	1402.7	1462.2
Loans, total (% y/y)	3.4	4.9	5.2	2.9	5.2	4.9	5.9	0.8	5.2	4.2
Deposits, total (PLN bn)	1800.5	1836.1	1799.8	1798.2	1799.8	1822.7	1857.4	1602.2	1799.8	1873.8
Deposits, total (% y/y)	10.3	12.0	12.3	10.5	12.3	9.1	7.7	13.9	12.3	4.1
Balance of payments										
Current account balance (% GDP)	0.2	-0.3	-0.7	0.7	-0.7	-0.6	-0.3	2.9	-0.7	0.5
Trade balance (%GDP)	0.9	0.4	0.1	1.4	0.1	-0.4	-0.6	2.4	0.1	0.2
FDI (% GDP)	2.5	2.7	2.8	2.9	2.8	2.5	2.3	2.1	2.8	1.8
Fiscal policy										
Fiscal balance (% GDP)	x	x	x	x	x	x	x	-7.1	-2.5	-2.1
Public debt (% GDP)	x	x	x	x	x	x	x	57.4	56.5	53.7
Monetary policy‡										
NBP reference rate (%)	0.50	1.25	1.75	0.10	1.75	3.50	3.50	0.10	1.75	3.50
NBP lombard rate (%)	1.00	1.75	2.25	0.50	2.25	4.00	4.00	0.50	2.25	4.00
NBP deposit rate (%)	0.00	0.75	1.25	0.00	1.25	3.00	3.00	0.00	1.25	3.00
WIBOR 3M ^x (%)	0.74	2.06	2.54	0.23	2.54	3.70	3.70	0.21	2.54	3.70
Real WIBOR 3M ^x (%) [#]	-6.08	-5.72	-6.11	-5.19	-5.20	-3.75	-2.25	-3.06	-2.54	-3.51
Exchange rates^{x,‡}										
EUR-PLN	4.62	4.68	4.60	4.62	4.60	4.55	4.53	4.61	4.60	4.45
USD-PLN	3.97	4.12	4.06	3.95	4.06	4.06	4.04	3.75	4.06	3.94
CHF-PLN	4.35	4.49	4.45	4.26	4.45	4.33	4.23	4.25	4.45	4.08
EUR-USD	1.16	1.14	1.13	1.17	1.13	1.12	1.12	1.23	1.14	1.13

Source: GUS, NBP, PKO Bank Polski.

^xPKO BP Market Strategy team forecasts.[^]period averages for quarterly and yearly data.[#]deflated with current CPI inflation.[‡]period end values.

Monetary policy monitor

MPC Members	Hawk-o-meter*	Recent policy indicative comments^
K. Zubelewicz	4.9	"The main rate at 1.75% is now decidedly too low" (20.12.2021, Interia.pl, PAP)
L. Hardt	4.3	"We, as the NBP, have to cut that and limit the risk of that [wage-price] spiral occurring" (20.12.2021, wPolsce.pl, PAP).
R. Sura	2.7	"The November flash inflation estimate shows that the interest rate hike path implemented by the MPC was necessary (...) That reading only amplifies our bias towards tightening monetary policy - in the light of the latest data, a rate hike in December is necessary." (30.11.2021, Reuters, PAP).
G. Ancyparowicz	2.6	"I have not imagined and cannot imagine such increases of prices of energy, gas, apartment maintenance, coupled with a deterioration of financial situation of all the persons who are doing a bit better in life (...) Currently we have such a situation that I fear that in a moment it could unfortunately get out of control" (07.01.2022, Biznes24, PAP)
J. Zyzynski	2.4	"The Polish rate council might have to hike rates by 75 bps again if inflation rises above the level forecast in the latest NBP projection" (08.11.2021, Bloomberg)
C. Kochalski	2.2	"If we assume an optimistic scenario, meaning that omicron won't be devastating for the economy and we reconfirm that the economy became immune, then considering a 50bps rate increase in February would be justified" (21.01.2022, Interia, Bloomberg).
A. Glapinski	1.8	"Taking into account the current situation, I would advocate one more rate hike (...) I will advocate 50 bps." (05.01.2022, NBPTv)
E. Lon	1.3	"Poland's MPC should perhaps consider holding rates at the February policy sitting" (17.01.2022, wgospodarce.pl, PAP)
L. Kotecki	--	"... one can say that interest rates will likely rise by 50 bps in February. If NBP chief presents such a stance, there is likely already a majority in the Council to carry out such a hike.. (...) I believe in June we could even see double-digit inflation, unless more actions we don't know about are introduced and provided they will be in force longer. If I am right, one rate hike by 50 bps may unfortunately not be enough." (10.01.2022, 300gospodarka.pl, PAP)
P. Litwiniuk	--	"If I were to choose at the Monetary Policy Council [PAP:sitting] today, I would rather manifest the intention to slightly hike interest rates, while I would not be immune to argumentation which could result from materials, macroeconomic models, to using other instruments which could improve the FX situation and the FX situation could in the end result in lowering inflation" (04.01.2022, PAP)

*the higher the indicator the more hawkish views. Due to the fact that the new MPC has not voted yet on interest rates changes, 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.

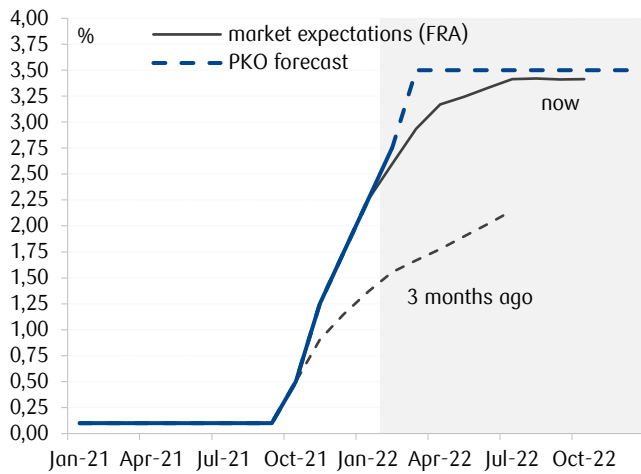
Interest rates – PKO BP forecasts vs. market expectations

		1M	2M	3M	4M	5M	6M	7M	8M	9M
Date	20-Jan	20-Feb	20-Mar	20-Apr	20-May	20-Jun	20-Jul	20-Aug	20-Sep	20-Oct
WIBOR 3M/FRA†	2.83	3.18	3.51	3.75	3.82	3.91	4.00	4.00	3.99	3.99
implied change (b. p.)		0.35	0.68	0.92	0.99	1.08	1.17	1.17	1.16	1.16
MPC Meeting	4-Jan	8-Feb	8-Mar	6-Apr	5-May	8-Jun	7-Jul	-	7-Sep	5-Oct
PKO BP forecast*	2.25	2.75	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50
market pricing*		2.60	2.93	3.17	3.24	3.33	3.42	3.42	3.41	3.41

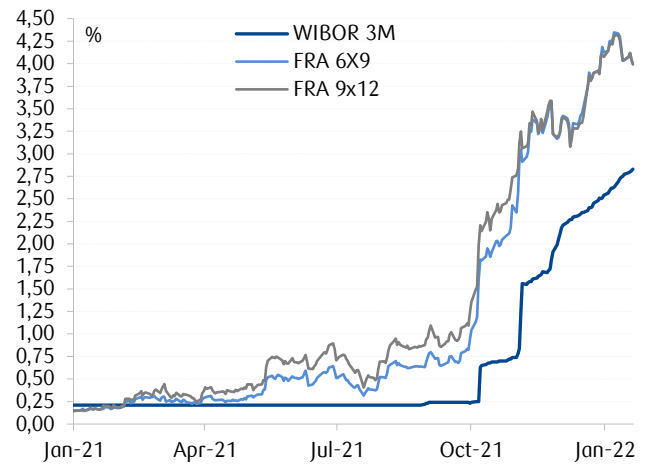
†WIBOR 3M from the last fixing, FRA transactions based on WIBOR 3M for subsequent periods, ‡in basis points, *PKO BP forecast of the NBP reference rate.

Poland macro chartbook

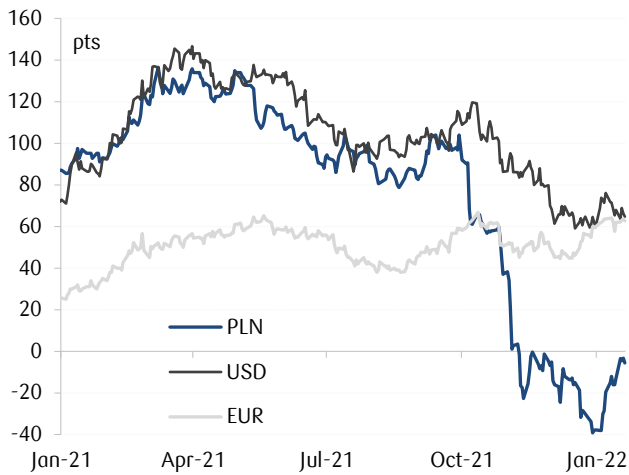
NBP policy rate: PKO BP forecast vs. market expectations



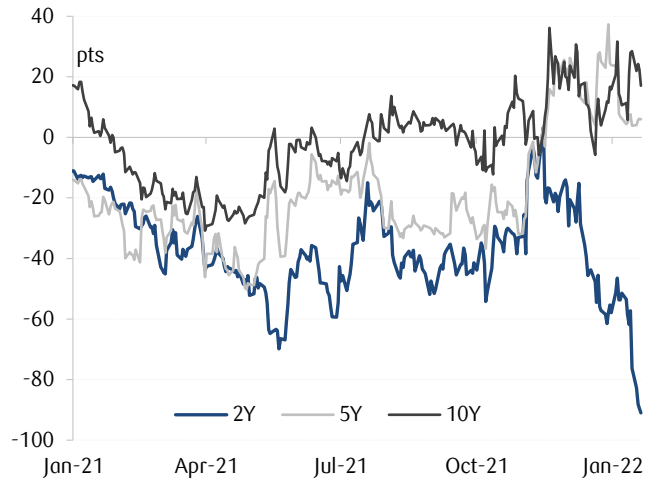
Short-term PLN interest rates



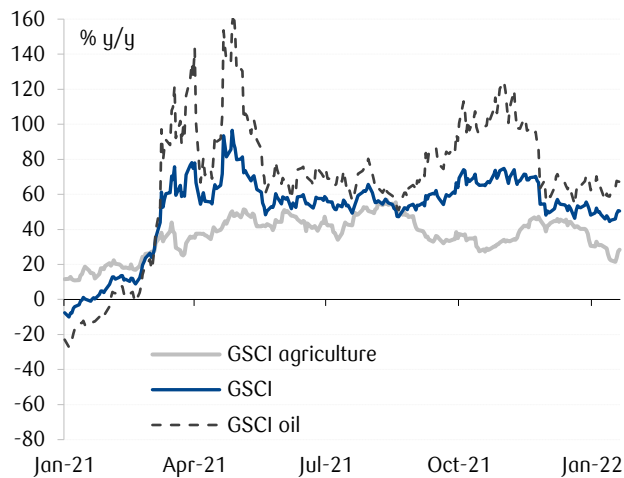
Slope of the swap curve (spread 10Y-2Y)*



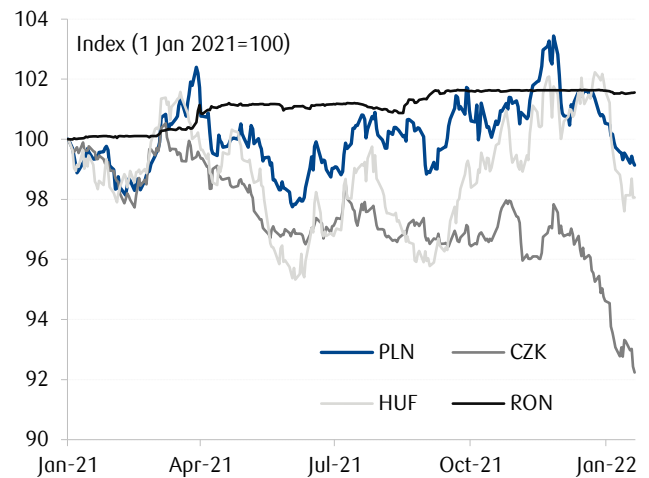
PLN asset swap spread



Global commodity prices (in PLN)

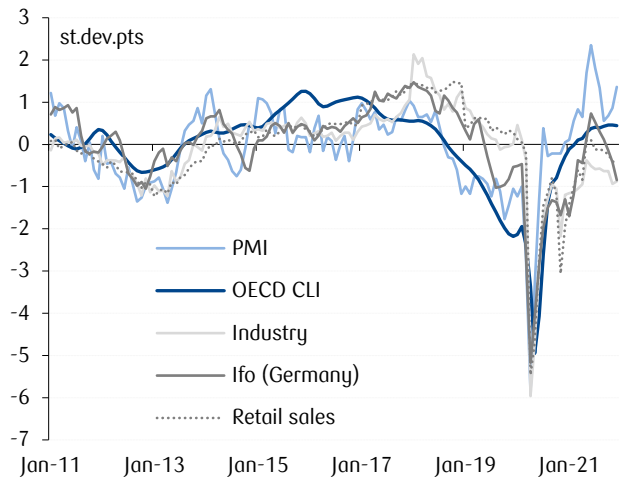


Selected CEE exchange rates against the EUR

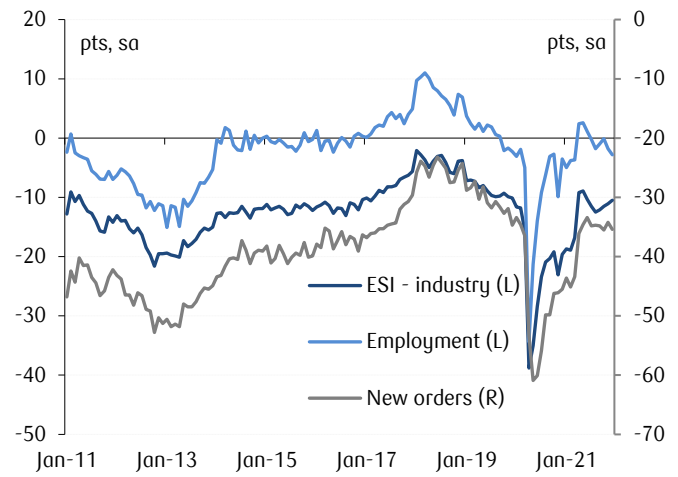


Source: Datastream, NBP, PKO Bank Polski. *for PLN, and EUR 6M, for USD 3M.

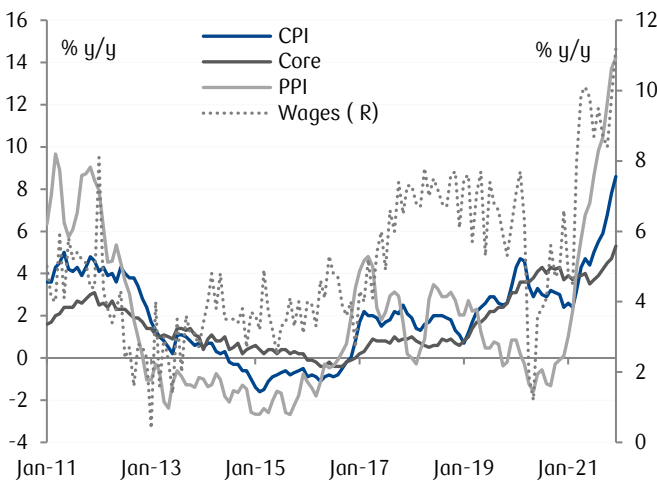
Economic sentiment indicators



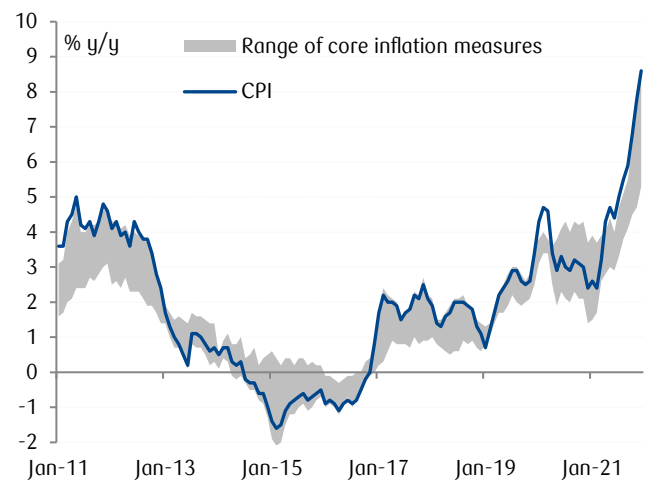
Poland ESI for industry and its components



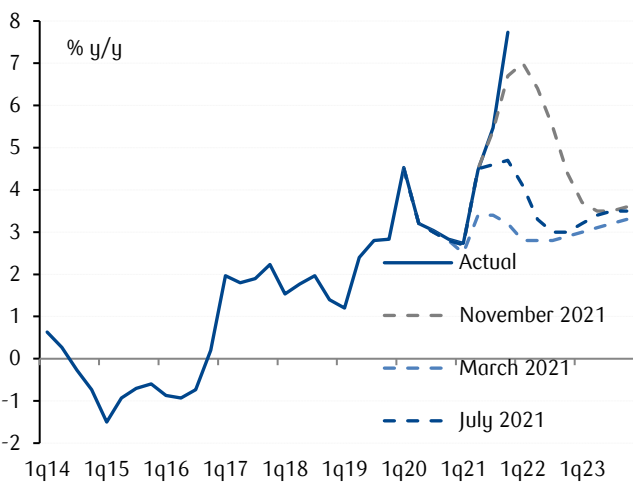
Broad inflation measures



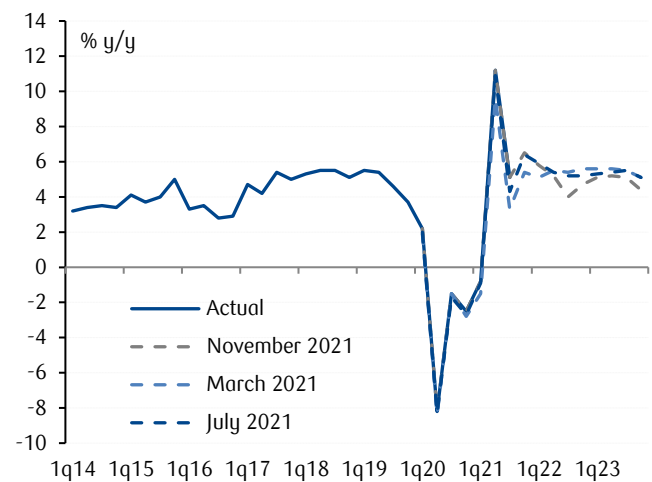
CPI and core inflation measures



CPI inflation - NBP projections vs. actual

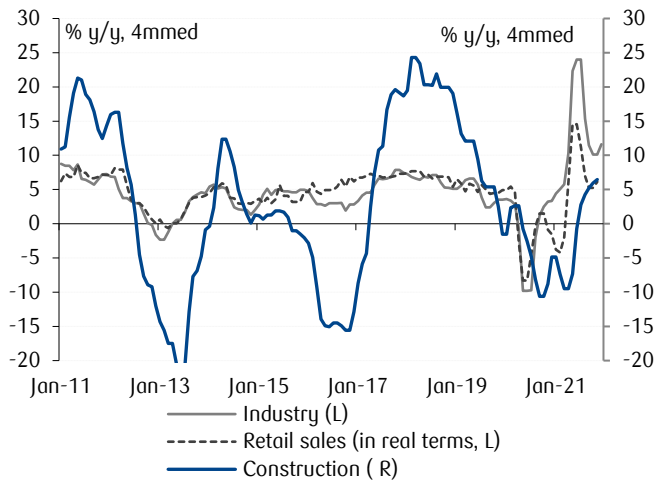


Real GDP growth - NBP projections vs. actual

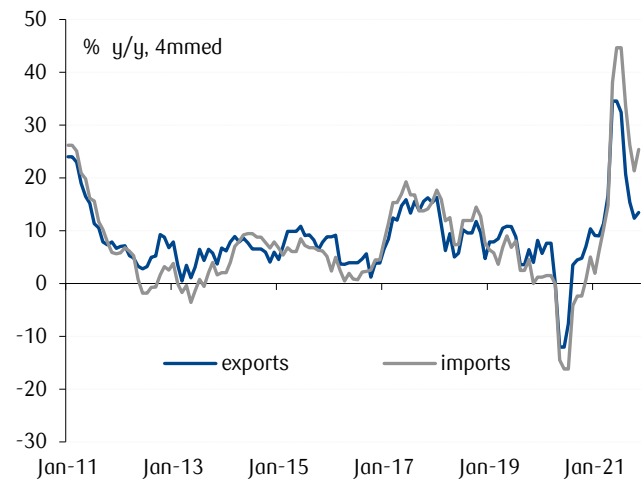


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

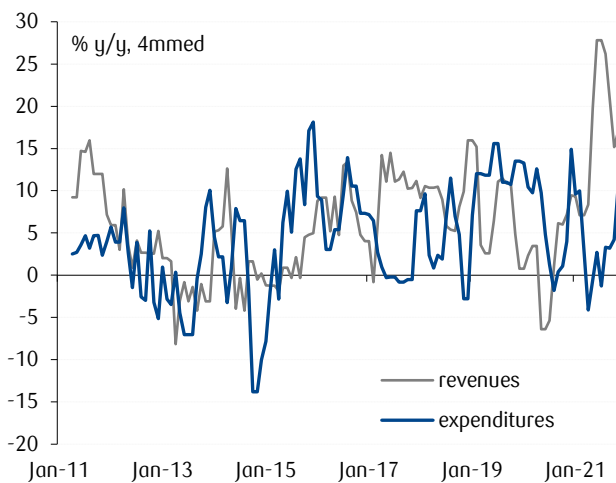
Economic activity indicators



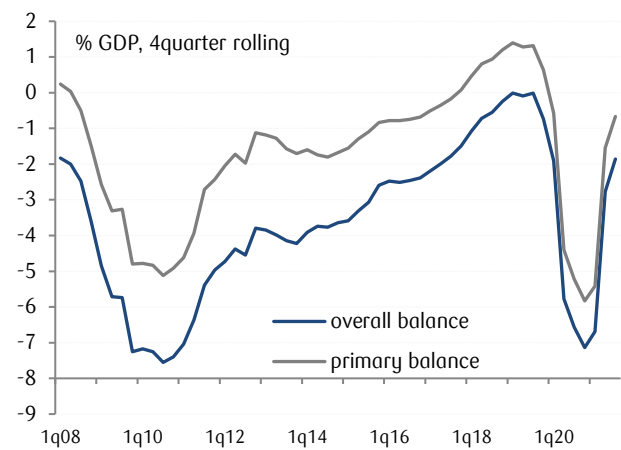
Merchandise trade (in EUR terms)



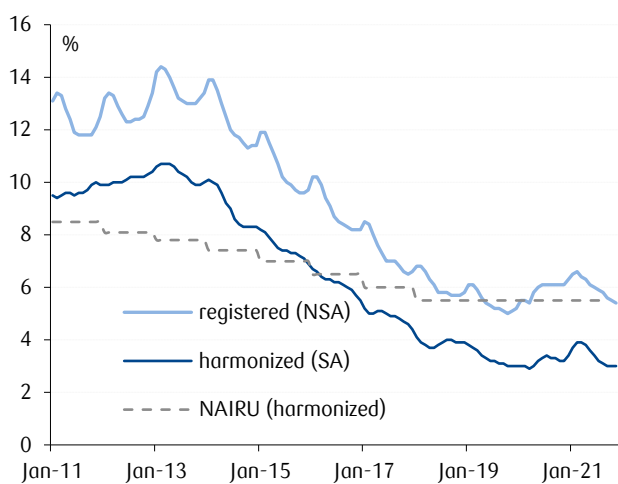
Central government revenues and expenditures*



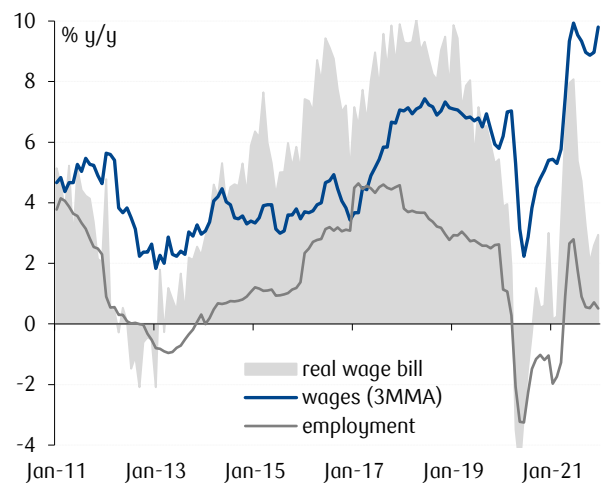
General government balance (ESA2010)



Unemployment rate

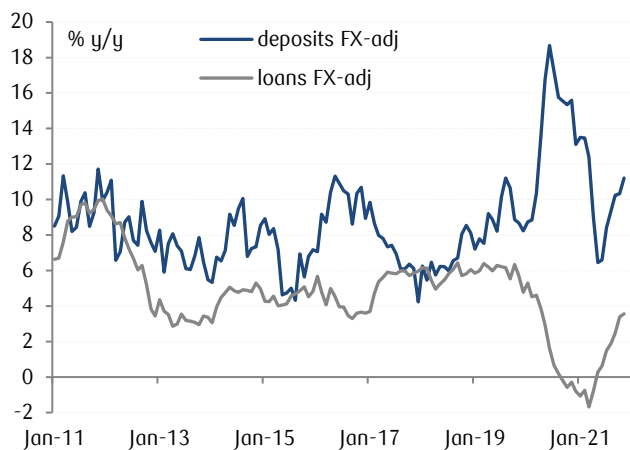


Employment and wages in the enterprise sector

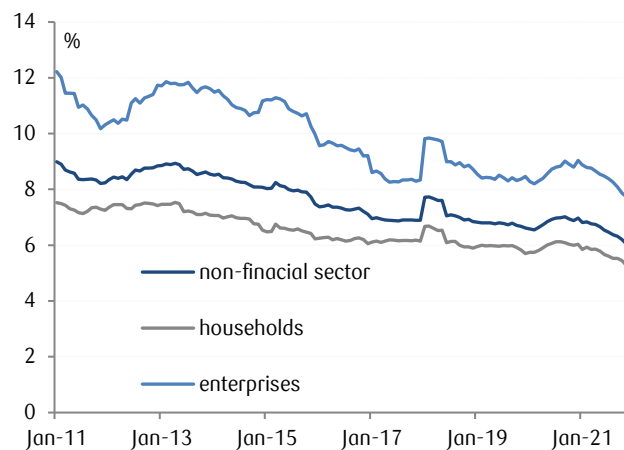


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. *break in series in 2010 due to methodological changes.

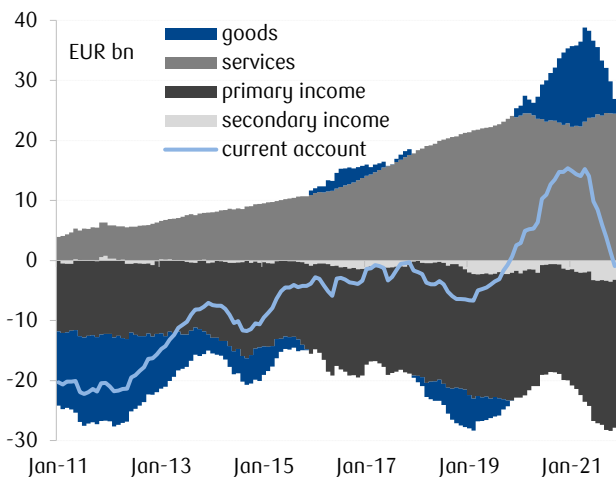
Loans and deposits



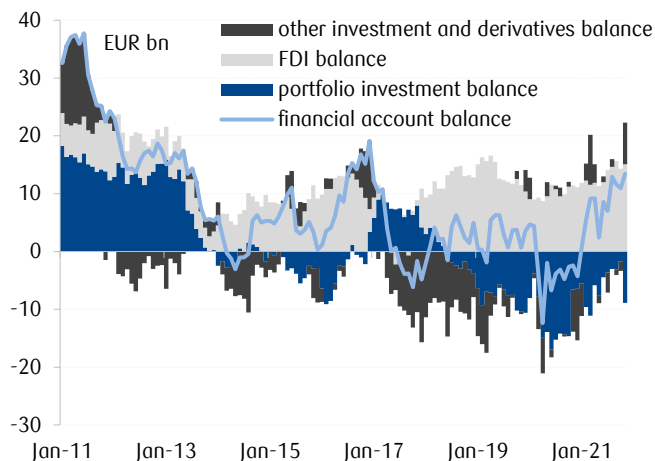
Non-performing loans (NPLs) - by sectors*



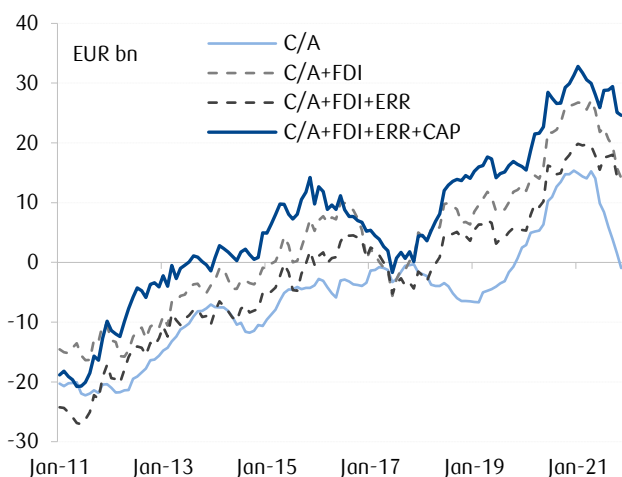
Current account balance



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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Poland's macro in a nutshell

	2021	2022	Comment
Real economy			
- real GDP (%)	5.5	4.1	We expect GDP growth rate will decrease to 4.1% in 2022. Energy shock and elevated inflation erodes real income of households and consumption. Global slowdown and the pandemic will be headwinds as well. Stockpiling of inventories will be an additional boost to GDP growth, but may start to reverse in the course of 2022.
Prices			
- CPI inflation (%)	5.1	7.1	The Anti-inflation Shield will partly protect households from the two-digit inflation. Importantly though, the Shield will prolong the period with elevated inflation well into 2023, as the cost pressure, as well as demand factors, are bound to push a demand-driven inflation further north.
Monetary aggregates			
- M3 money supply (%)	10.3	4.3	With the rebound of the economic growth, we expect credit demand to increase gradually, fueling a moderate bank lending expansion. Smaller scale of asset purchases will result in a deceleration of money supply growth.
External balance			
- current account balance (% GDP)	-0.7	0.5	The C/A is bound to further deteriorate in 1h22, due to the ongoing supply-side related problems of exporters, high prices of imported commodities, and continued revival of import-intensive investments. However, the underlying trend remains positive and we expect C/A to be in surplus again before the end of 2022.
Fiscal policy			
- fiscal balance (% GDP)	-2.5	-2.1	The post-pandemic recovery of the economy has been followed by a rapid improvement of fiscal accounts bringing Poland to the forefront in the EU. Given a high nominal GDP growth in 2022, fiscal policy will have large room for manoeuvre again, already used for Anti-inflation Shields. Despite a rosy aggregate fiscal picture, some tensions inside may appear, especially in the local governments sub-sector. The off-balance items are crucial for the overall fiscal policy stance too. If sustained in 2022, they will be a major spending valve.
Monetary policy			
- NBP reference rate (%)	1.75	3.50	The ongoing changes in the MPC composition reduce predictability of domestic monetary policy, but we do not expect a major shift in the reaction function of Poland's monetary authorities. With inflation likely around 7% and GDP growth above 4% in 2022-2023, we assume further rate hikes in the near term. We believe the tightening cycle will be frontloaded with the peak at 3.5% and balance of risks tilted towards even higher rates.

Source: GUS, NBP, Eurostat, PKO Bank Polski.

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