

Consumers under pressure

TOP MACRO THEME(S):

- **No happy ending (of 2022) in the CEE region (p.2)** Despite solid growth in 2022, GDP data for 4q22 confirmed further deterioration of economic conditions in CEE economies, driven by falling consumer demand. Inflation has likely passed its peak and disinflation should gather momentum in 2h23.

WHAT ELSE CAUGHT OUR EYE:

- **Manufacturing PMI in February increased for a fourth consecutive month, to 48.5 pts** from 47.5 pts in January, on the back of improvement in output and new orders indicators. Non-replacement of job leavers led to further fall in employment. For the first time in three years delivery times decreased, adding steam to deceleration of price pressure index, which is already reflected in falling PPI inflation.
- **Detailed data confirmed a slowdown of GDP growth in 4q22, to 2.0% y/y** from 3.6% in 3q22. Private consumption decreased by 1.5% y/y, for the first time since the pandemic, meaning that consumer recession has already began. On a more positive note, investment growth accelerated to 4.9% y/y from 2.0% in 3q22. We still expect negative GDP growth rate in 1q23.
- **February saw another increase (to 41.9%) of enterprises reporting insufficient demand as a barrier for development.** Despite being relatively low in historical perspective, amplification of this barrier is noticeable in furniture sector and those dependent on demand from the construction sector (e.g. metal and mineral production). Together with reported lower price expectations of enterprises, it is a strong disinflationary factor.
- **In January state budget recorded a surplus of PLN 11.2bn.** In the corresponding period of 2022 the surplus was nearly twice as high.

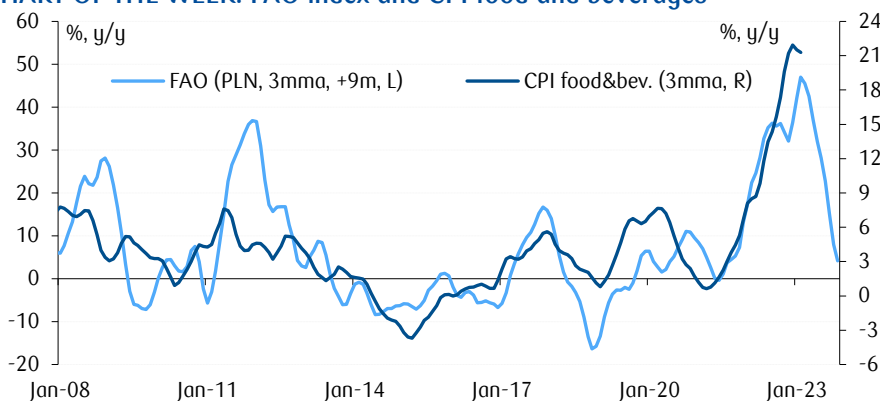
THE WEEK AHEAD:

- **MPC meeting on Wednesday** will be the key event next week, which should be all the more interesting as a new Inflation and GDP projection will be published. We do not expect any changes in interest rates, but we will be looking for some hints on possible rate cuts in light of the updated inflation path. Apart from this, domestic macroeconomic calendar is rather empty.

NUMBER OF THE WEEK:

- **308.6 thous.** – record high number of repaid housing loans in 2022 in comparison to around 100 thous. in previous years

CHART OF THE WEEK: FAO index and CPI food and beverages



Source: Statistics Poland. 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	11.9
Core inflation ^{**} (%)	9.0	9.7
Money supply M3 (%)	5.4	6.4
C/A balance (% GDP)	-3.1	-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	4.62

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.

No happy ending (of 2022) in the CEE region

- The GDP data for 4q22 confirmed further deterioration of economic conditions in the CEE region, driven by falling consumer demand especially in the Czech Republic, but also in Hungary and Poland, with Romanian economy staying relatively resilient. In 2023 GDP growth will slow down further, to a negative level in Czech Republic, while Polish and Hungarian economies should expand modestly. GDP growth in Romania will outpace its regional peers subject to significant inflow of EU funding.
- Inflation has most likely passed its peaked and disinflation should gather momentum in 2h23. By the end of the year inflation will fall to single digit levels, but remain above inflation targets in all of the CEE region.

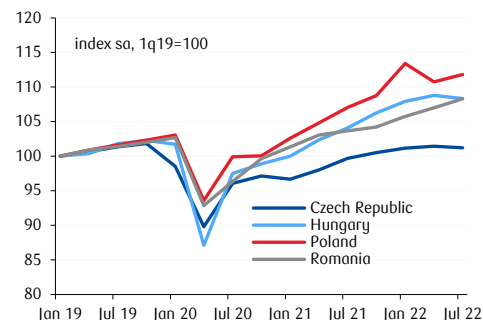
In 2022 the CEE region recorded a solid growth of 4.9% in Poland, 4.8% in Romania and 4.6% in Hungary, while in the Czech Republic GDP grew only by 2.5%. Despite relatively good overall results, 4q22 data shows that the final months of 2022 have been rather disappointing.

4q22 showed a quarterly decline in GDP in almost all of the CEE economies. Czech Republic and Hungary saw GDP declining for a second consecutive quarter, by 0.3% q/q and 0.4% respectively, meeting the definition of a technical recession. Poland's GDP declined by 2.4% q/q after a 1.0% growth in 3q22, however a faltering GDP path (q/q sa) observed since the pandemic may signal some imperfections in the seasonal adjustment framework, so should be interpreted with caution. Romania recorded a GDP growth by 1.1% q/q and since the outbreak of the pandemic (2q20) have not seen any decline in GDP in q/q terms.

The activity in the Czech economy is only marginally above the pre-pandemic level, with noticeably lower private consumption accompanied by manufacturing output at a more or less unchanged level. The most significant fall in consumption among the CEE region – despite a similar scale of monetary tightening as e.g. in Poland – stems from the fact that wages growth lagged behind inflation dynamics, leading to a more pronounced fall in real incomes. One of the reasons for the lack of adequate adjustment of wages to inflation could lie in the manufacturing sector, where conditions deteriorated significantly as a consequence of supply chain disruptions, in particular in the automotive sector that is of high importance for the Czech economy. Since manufacturing sector accounts for nearly one fifth of employment (more than in the rest of the CEE), only a marginal rebound of activity against the pre-pandemic level has weakened the potential for wage increases.

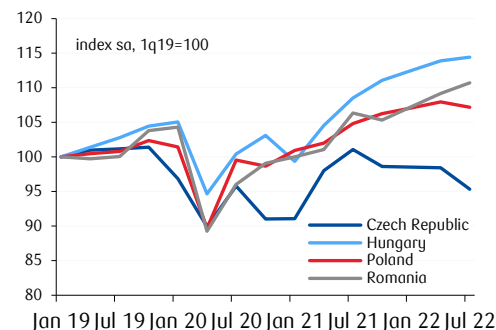
Consumer recession did not bypass Poland, where consumer consumption in 4q22 fell by 1.5% y/y and it was the first decline since the pandemic. In January a fall in retail sales was recorded for most of the categories, including food. As a result of deteriorating real incomes, consumer demand most likely had already weakened in 2h22, however, it was glossed over by additional demand from Ukrainian refugees. Nevertheless, the positive effect of this factor on y/y dynamics is going to fade away in the following months, or might even turn negative in the form of a negative statistical base effect.

Gross domestic product



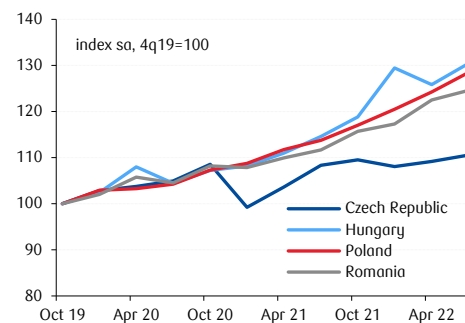
Source: Eurostat, PKO Bank Polski.

Private consumption



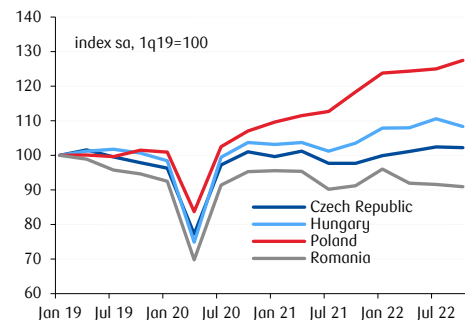
Source: Eurostat, PKO Bank Polski.

Labour cost



Source: Eurostat, PKO Bank Polski.

Manufacturing output



Source: Eurostat, PKO Bank Polski.

The performance of the Hungarian economy remained under a negative influence of a significant drop in output in the agricultural sector (estimated at 28% in 2022), due to a severe drought and low precipitation. This is also the main reason, why Hungary experiences the highest food inflation in the EU. This, together with abolishment of price cap on fuels, has led to a profound decrease in retail sales at the end of 2022.

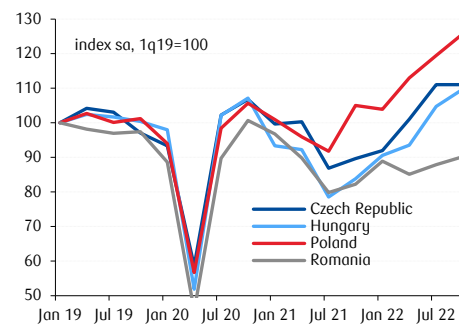
The activity in Romania is still being dragged down by industrial sector, while the main driver of growth constitutes the service sector (especially information and communication), as well as the construction sector. In contrast to the rest of the CEE, consumer spending growth remains positive, though is expected to continue slowing down.

Despite a gradual fading of the effects of the energy crisis shock, it will again leave its mark on economic growth this year. The CNB expects GDP to fall by 0.3% in 2023, while Czech economy shall remain below its potential until mid-2024. MNB sees GDP growth slowing down to 0.5-1.5% in 2023, due to decreasing domestic demand, though it should regain momentum in the second half of the year. Available forecasts point to positive GDP result in Poland, though hovering around modest 0.5%, with NBP forecast at 0.7% and ours at just 0.1%. According to NBR's projection positive output gap is expected to close and turn into slightly negative territory in the end of 2024.

Inflation in the CEE region continues to be elevated, driven mainly by energy prices, however, it seems that all of the economies have embarked on a disinflationary path. Inflation in Czech Republic in January stood at 17.5% y/y and was lower than the peak forecast by the central bank. In Hungary, inflation increased to 25.7% y/y, with a significant rise in prices of fuel (35.9% y/y) caused by the abolition of cap on prices which was in force since November 2021, and the highest in the EU growth in food prices (44.0% y/y) due to a significant fall in supply of agricultural products. Poland's inflation in January accelerated to 17.2%, well below market expectations, though its m/m growth remains relatively strong. Meanwhile in Romania inflation decreased to 15.1% y/y and its path is already lower than previously expected.

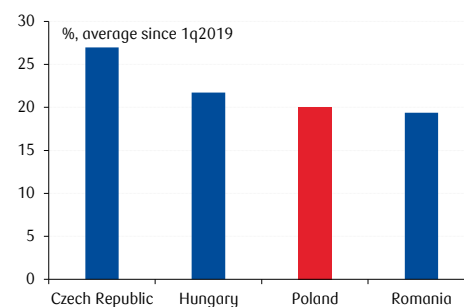
Inflation has most likely passed its peak in the region as suggested by the central banks' forecasts. In the following months disinflation will be supported not only by statistical base effects on energy and food prices, but also by disinflation abroad and by consumer recession. Nevertheless, recent inflationary surprises from eurozone may suggest, that disinflationary path may be flatter (weaker) than previously judged. CNB expects inflation to drop to single digits in 2h2023 and return close to a 2% target in the 1h2024. In Hungary the decrease of price growth in 1h23 will be gradual but since mid-2023 it should gather momentum, with inflation returning to the tolerance band in 2024. Inflation outlook improved significantly in Romania, with the current forecast showing a return of inflation to single-digit number as early as in 3q23, although supported by the new energy price capping scheme. Most recently the Governor of the NBP signaled that inflation in 1q23 will most likely be lower than assumed in November projection (19.6% y/y) and it should reach around 8% in the final quarter of 2023 – we fully share this opinion. In this circumstances all of the CEE central banks have most likely terminated interest rate increases, while interest rate cuts may already take place by the end of 2023.

Manufacturing of motor vehicles and transport equipment



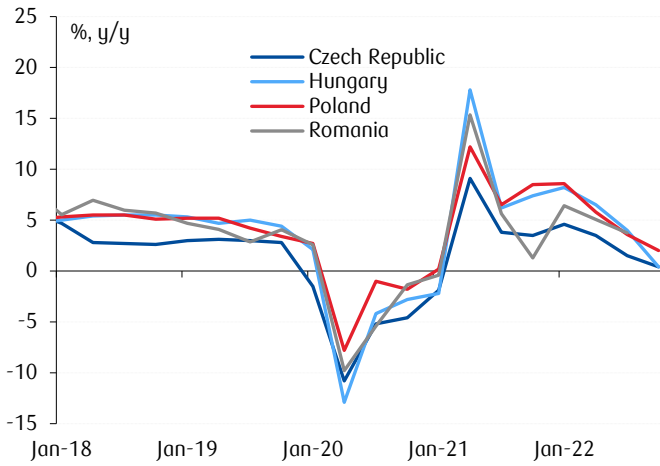
Source: Eurostat, PKO Bank Polski.

Employment in manufacturing sector as a share of total employment

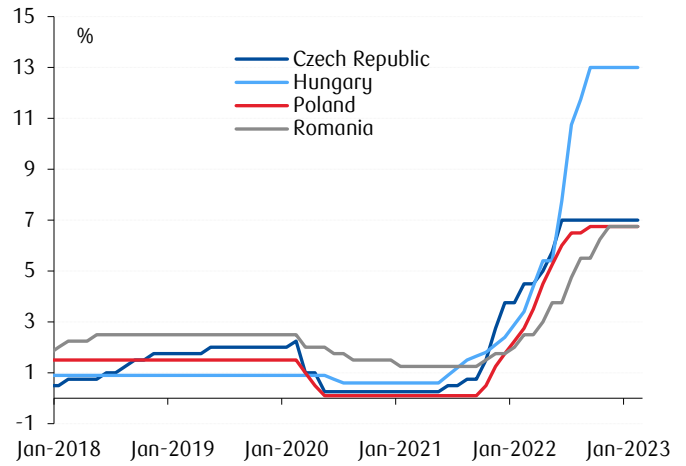


Source: Eurostat, PKO Bank Polski.*employment in age cohort 15-64

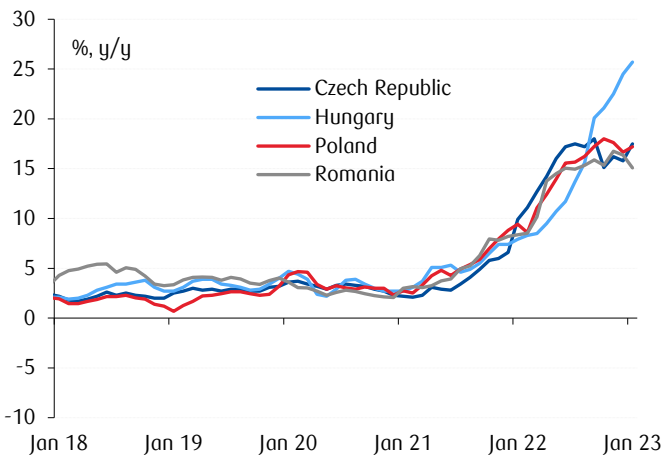
Real GDP growth



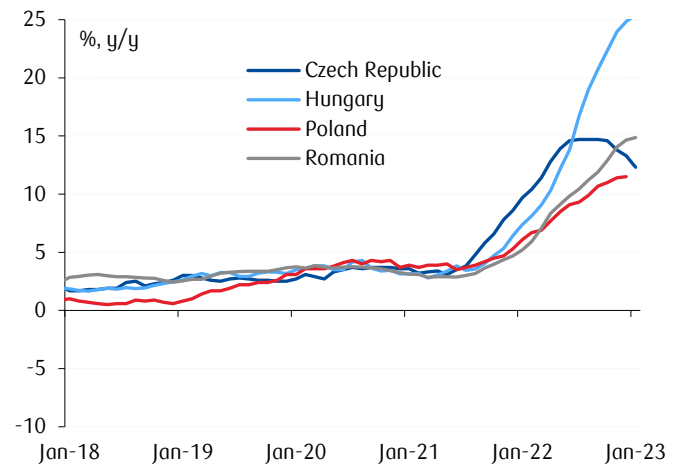
Interest rates



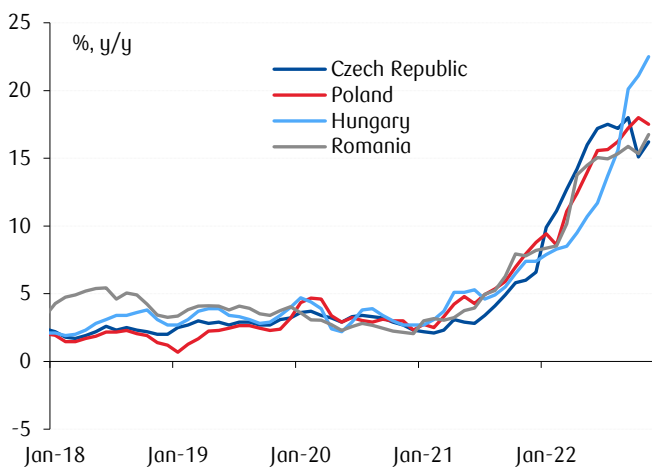
Inflation (CPI)



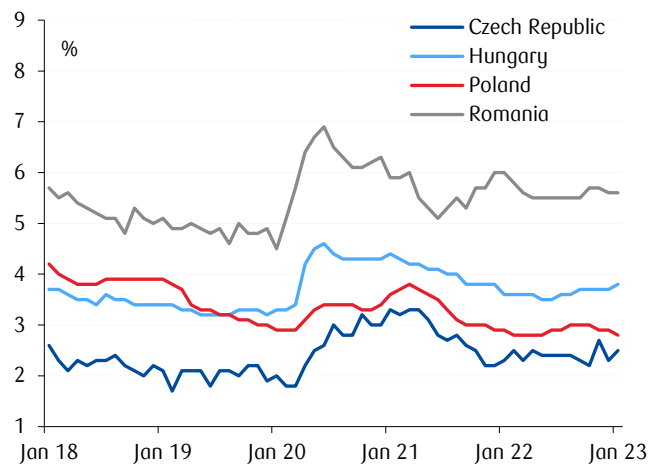
Core inflation



Price growth of food and non-alcoholic beverages



Harmonized unemployment rate



Source: Macrobond, PKO Bank Polski.

Weekly economic calendar

Indicator	Time (UK)	Unit	Previous	Consensus*	PKO BP	Comment
Monday, 6 March						
EUR: Sentix Index (Mar)	9:30	pts.	-8	-7.5	--	--
EUR: Retail sales (Jan)	10:00	% y/y	-2.8	-1.5	--	--
USA: Factory orders (Jan)	15:00	% m/m	1.8	-1.5	--	--
USA: Durable goods orders (Jan, final)	15:00	% m/m	5.1	-4.1	--	--
Tuesday, 7 March						
GER: Factory orders (Jan)	7:00	% m/m	3.2	-0.4	--	--
GER: Factory orders (Jan)	7:00	% y/y	-10.1	--	--	--
USA: Consumer credit (Jan)	20:00	bn USD	11.565	22.5	--	--
Wednesday, 8 March						
GER: Retail sales (Jan)	7:00	% y/y	-6.6	-5.2	--	--
GER: Industrial production (Jan)	7:00	% m/m	-3.1	1.5	--	--
GER: Industrial output (Jan)	7:00	% y/y	-3.9	--	--	--
HUN: CPI inflation (Feb)	7:30	% y/y	25.7	25.4	--	--
EUR: GDP growth (4q)	10:00	% y/y	2.3	1.9	--	--
USA: ADP National Employment (Feb)	10:00	thous.	106k	200k	--	--
USA: Trade balance (Jan)	13:15	bn USD	-67.4	-69	--	--
USA: JOLTS Report (Jan)	13:30	mln	11.012	--	--	--
POL: NBP base rate	15:00	%	6.75	6.75	6.75	The Council will keep interest rates unchained. Improving CPI perspectives show there is no need for further hikes. On the other hand, inflation is too high to discuss cuts.
Thursday, 9 March						
CHN: CPI inflation (Feb)	1:30	% y/y	2.1	1.9	--	--
CHN: PPI inflation (Feb)	1:30	% y/y	-0.8	-1.3	--	--
USA: Initial Jobless Claims	13:30	thous.	190	--	--	--
Friday, 10 March						
GER: CPI inflation (Feb, final)	7:00	% y/y	8.7	8.7	--	--
GER: HICP inflation (Feb, final)	7:00	% y/y	9.2	9.3	--	--
CZ: CPI inflation (Feb)	8:00	% y/y	17.5	16.5	--	--
USA: Average Earnings (Feb)	13:30	% y/y	4.4	4.8	--	--
USA: Non-Farm Payrolls (Feb)	13:30	thous.	517	215	--	--
USA: Unemployment Rate (Feb)	13:30	%	3.4	3.4	--	--
JP: BoJ meeting	--	%	-0.1	-0.1	--	--

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	"I find it harmful to discuss interest rate cuts by the end of 2023 (...) as it reduces the effectiveness of monetary policy. (...) I do not think that current interest rate level is sufficient for bringing price growth (...) to 2.5% in a horizon, which wouldn't pose a threat to credibility of monetary policy. There is no guarantee that we are heading to inflation target and any global disruption may blow us away from this path (28.02.2023, PAP, PKO transl.)
L. Kotecki	4.8	"(...) Overall macroeconomic policy (...) should focus on one priority, which is bringing inflation back to the target or close to it. It is going to be very, very difficult. Decrease from 18% to 12% may be easy, however, from 12% to 5, 4 or 3% may be a lengthy process, lasting several years, if nothing in the macroeconomic policy changes." (2.03.2023, Interia Biznes)
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	"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" (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.

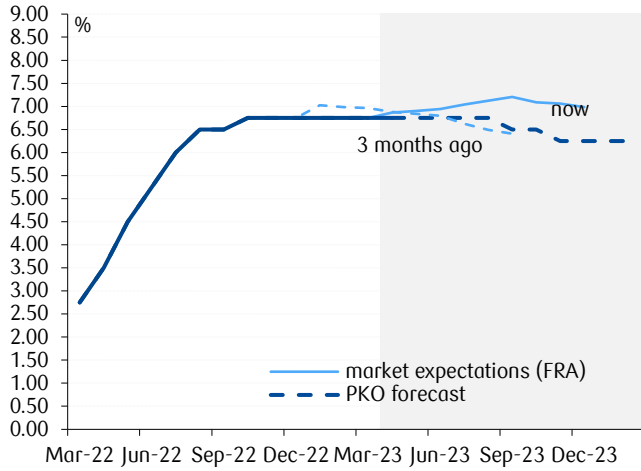
Interest rates – PKO BP forecasts vs. market expectations

		1M	2M	3M	4M	5M	6M	7M	8M	9M
Date	2-Mar	2-Apr	2-May	2-Jun	2-Jul	2-Aug	2-Sep	2-Oct	2-Nov	2-Dec
WIBOR 3M/FRA†	6.94	7.01	7.04	7.06	7.08	7.11	7.15	7.03	6.95	6.88
implied change (b. p.)		0.07	0.10	0.12	0.14	0.17	0.20	0.09	0.01	-0.07
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	6.50	6.50	6.25	6.25
market pricing^		6.82	6.85	6.87	6.89	6.92	6.96	6.94	6.91	6.84

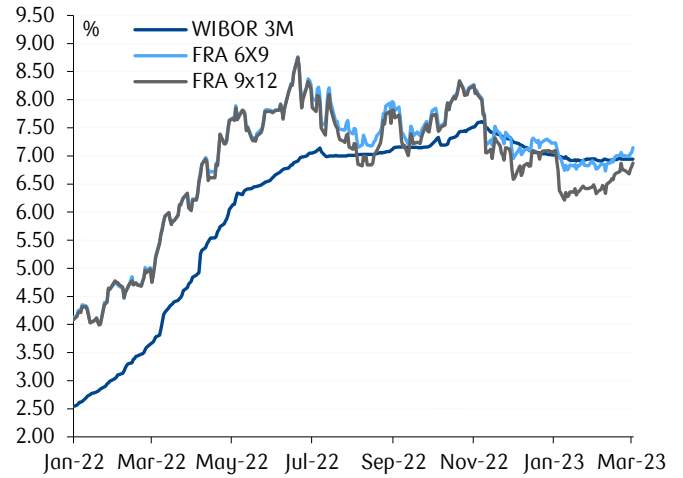
†WIBOR 3M from the last fixing, FRA transactions based on WIBOR 3M for subsequent periods, ‡in basis points, *PKO BP forecast of the NBP reference rate.

Poland macro chartbook

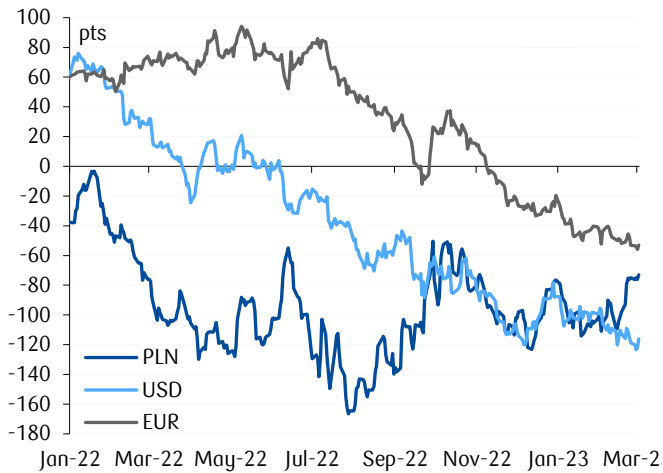
NBP policy rate: PKO BP forecast vs. market expectations



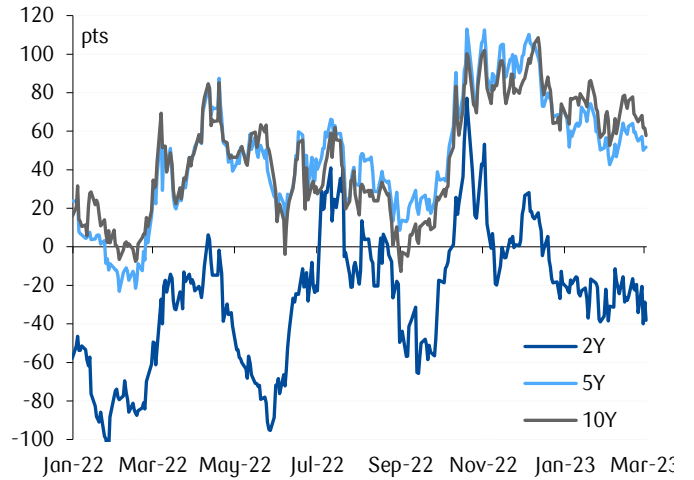
Short-term PLN interest rates



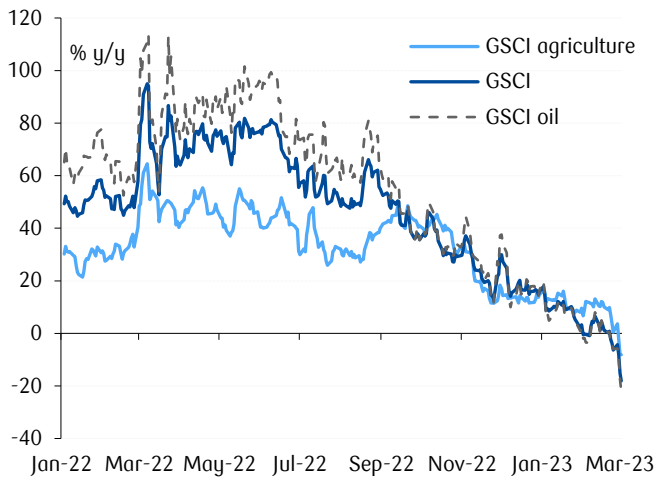
Slope of the swap curve (spread 10Y-2Y)*



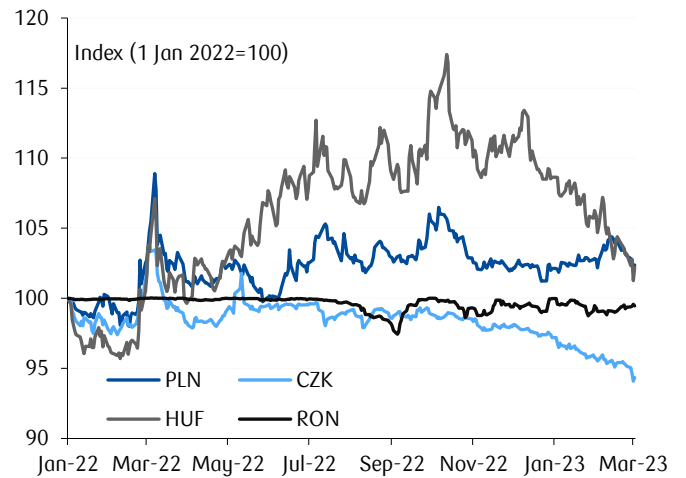
PLN asset swap spread



Global commodity prices (in PLN)

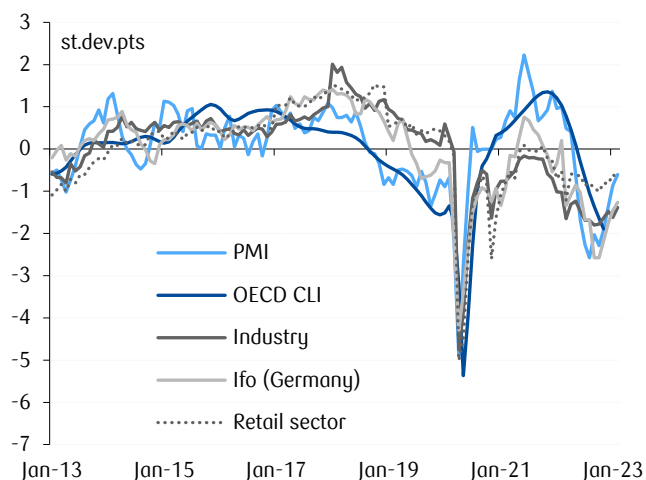


Selected CEE exchange rates against the EUR

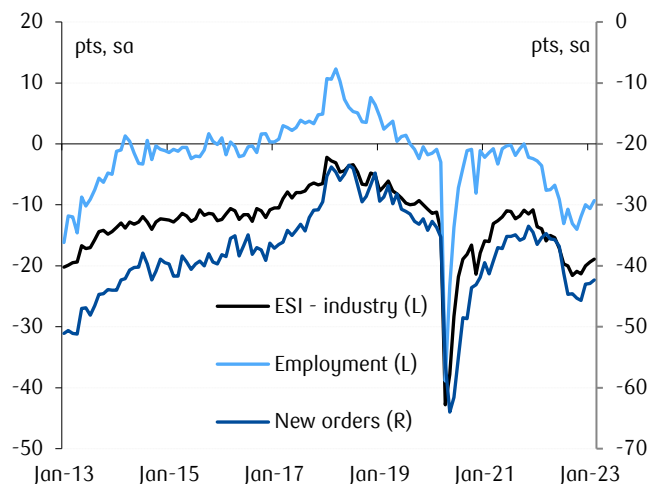


Source: Datastream, NBP, PKO Bank Polski. *for PLN, and EUR 6M, for USD 3M.

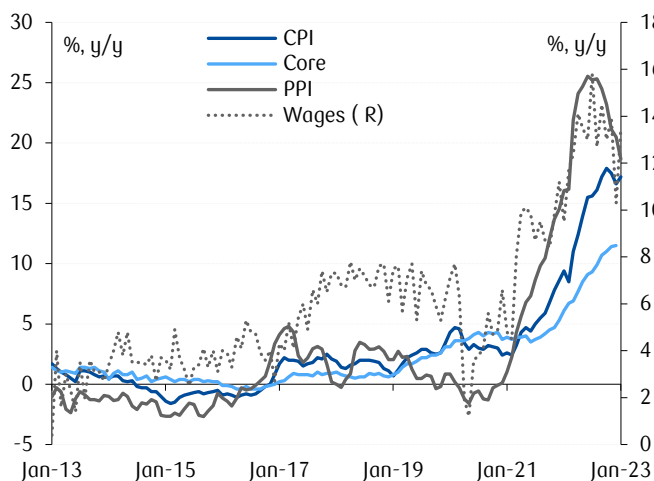
Economic sentiment indicators



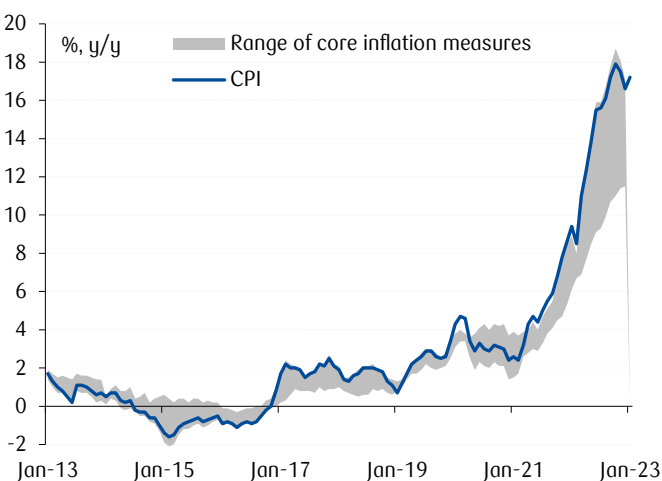
Poland ESI for industry and its components



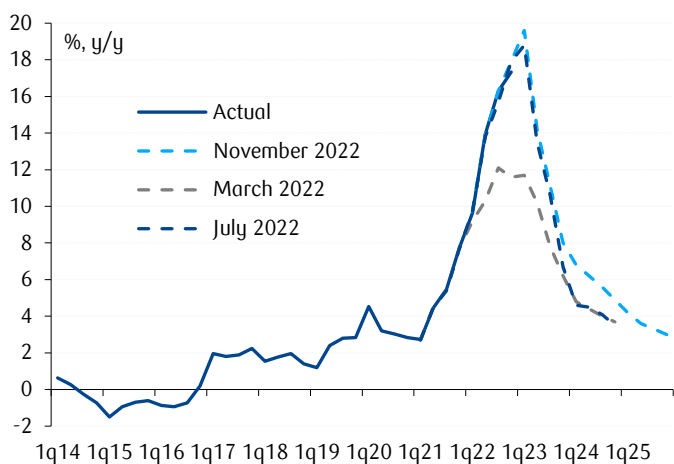
Broad inflation measures



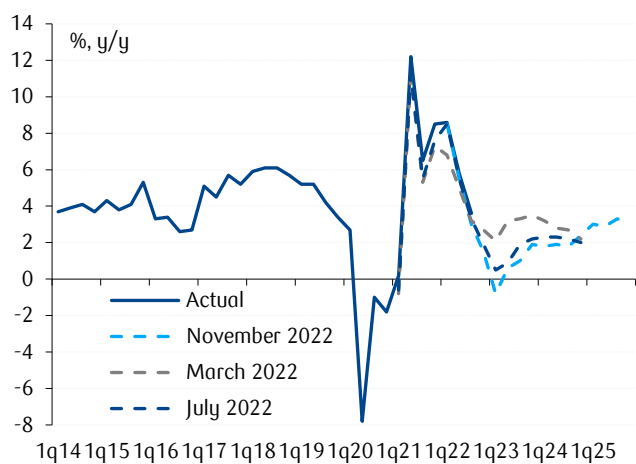
CPI and core inflation measures



CPI inflation - NBP projections vs. actual

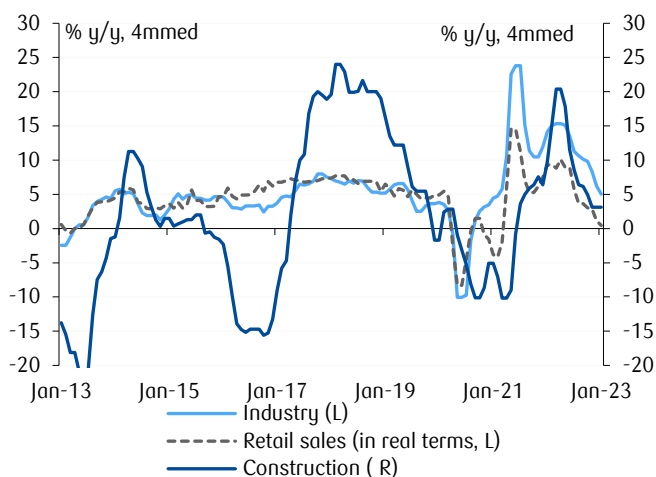


Real GDP growth - NBP projections vs. actual

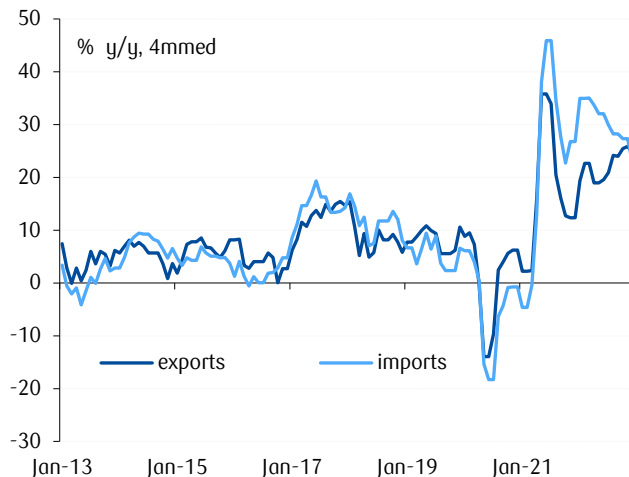


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

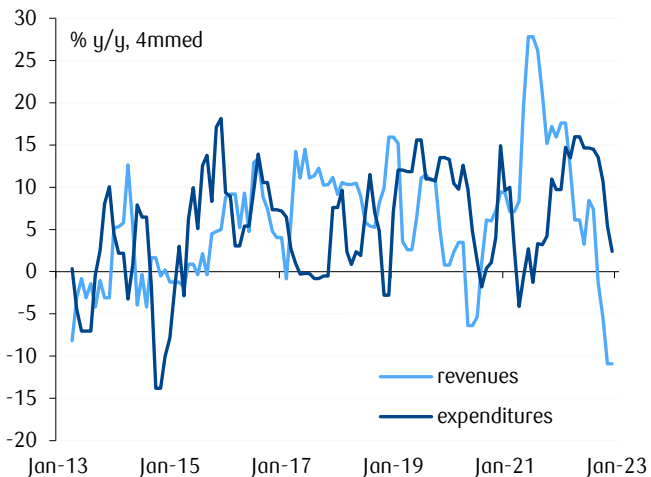
Economic activity indicators



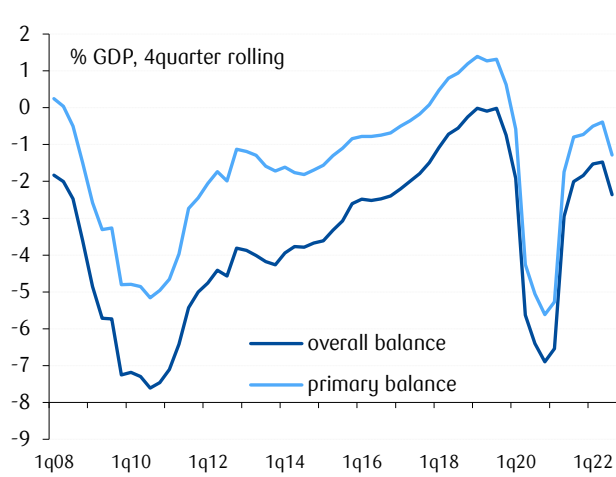
Merchandise trade (in EUR terms)



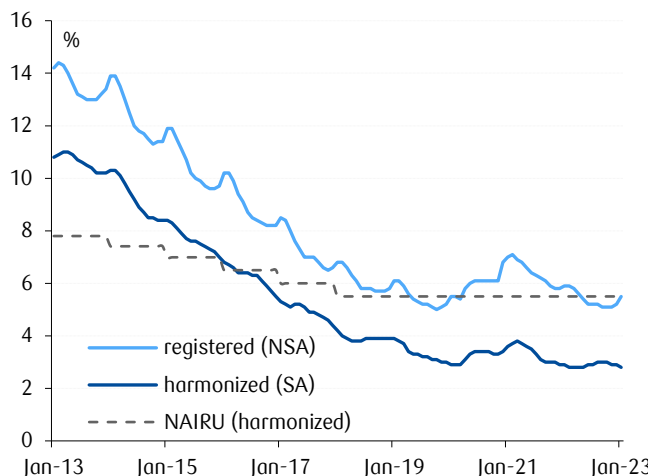
Central government revenues and expenditures*



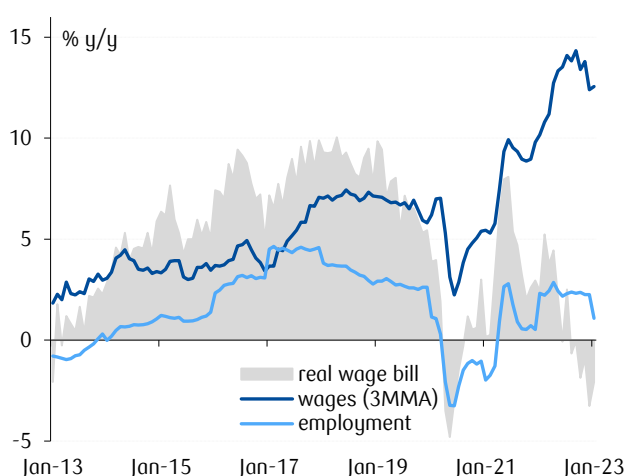
General government balance (ESA2010)



Unemployment rate

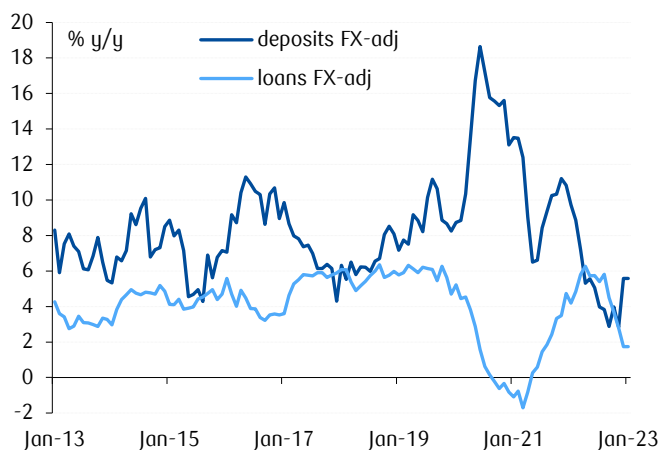


Employment and wages in the enterprise sector

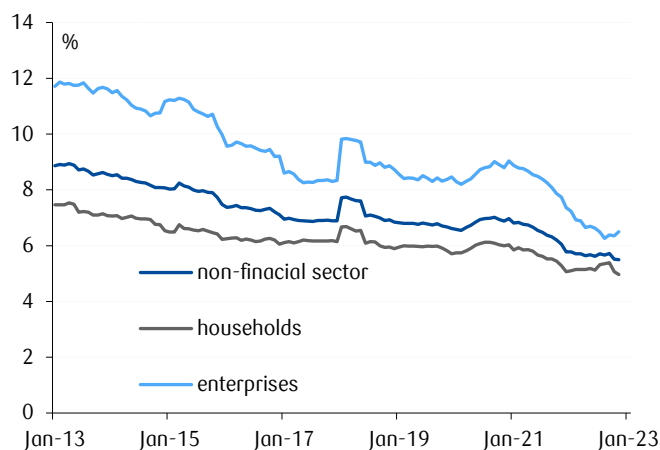


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. *break in series in 2010 due to methodological changes.

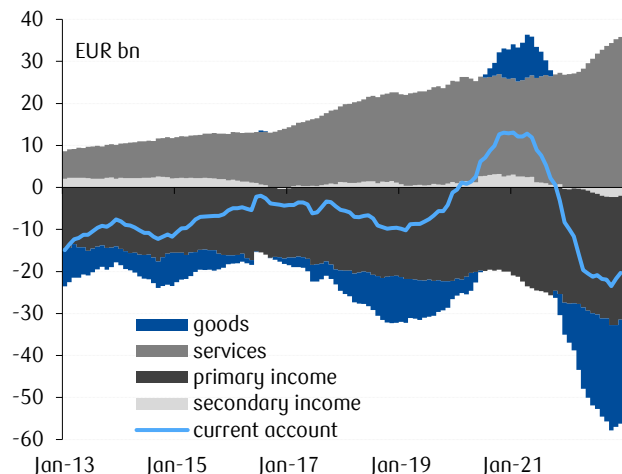
Loans and deposits



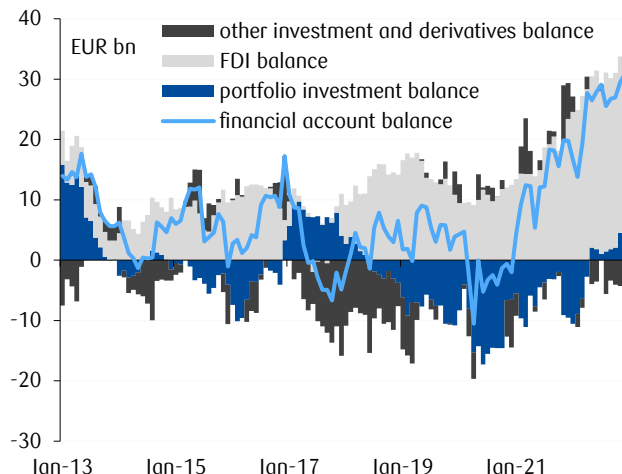
Non-performing loans (NPLs) - by sectors*



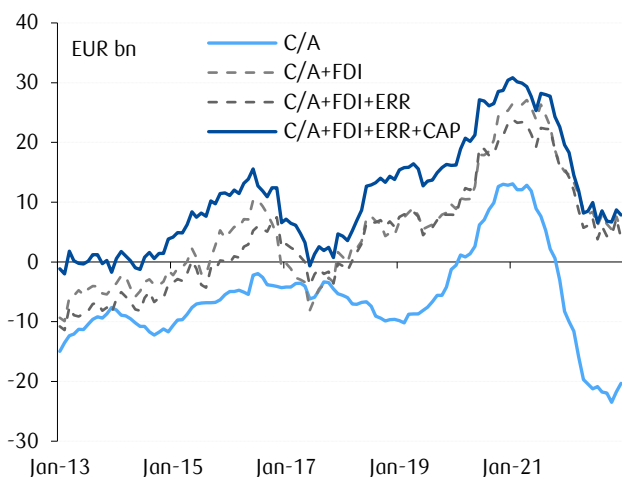
Current account balance



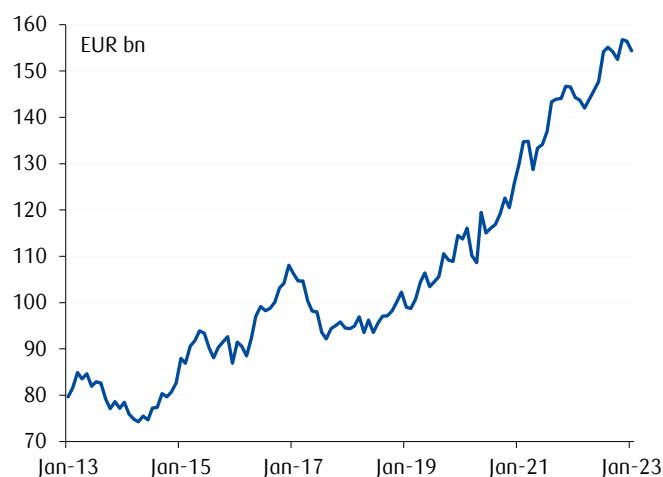
Financial account balance



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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