

Inflation peak not as scary as feared

TOP MACRO THEME(S):

- **Third consecutive positive CPI surprise (p. 2):** CPI inflation in January rose to 17.2% y/y from 16.6% y/y in December. This is the third in a row CPI result that turned out to be better than expected.

WHAT ELSE CAUGHT OUR EYE:

- **CAB balance in December was negative (EUR 2.5bn), after a surplus in November (EUR 0.3bn).** However, the 12m rolling deficit narrowed to 3.1% from 3.4% GDP. We expect the CAB balance to improve further in the course of 2023 due to improving terms-of-trade and strong exports performance.
- **GDP growth in 4q22 slowed down to 2.0% y/y from 3.6% y/y in 3q22.** The biggest surprise was the q/q sa reading: -2.4%, lower than expected. **The sa data implies** that since 1q22 GDP has declined by 3.7%. There are, however, unusually large discrepancies between the sa and nsa data, as well as between deflators (last year prices vs 2015 base prices).
- According to **the new European Commission's forecasts**, Poland's GDP growth in 2023 will slow down to 0.4% (previous forecast: 0.7%). In 2024 the compounded GDP growth since 4q19 (pre-Covid level) should reach 11.5% (the sixth strongest result in the EU). HICP inflation forecast for 2023 was reduced (to 11.7% from 13.8%), but still is the second highest in the EU.
- **President A.Duda announced he would send the Supreme Court bill** (one of the RRF key milestones) to the Constitutional Court for adjudication. This will delay the awaited PL-EU agreement on the RRF by at least several months.
- **According to the CJEU's Advocate General opinion on CHF mortgage loans, Polish banks will not be able to claim remuneration for the capital in contracts which are deemed invalid.** The opinion is not binding. The final ruling is expected in June/July at the earliest.

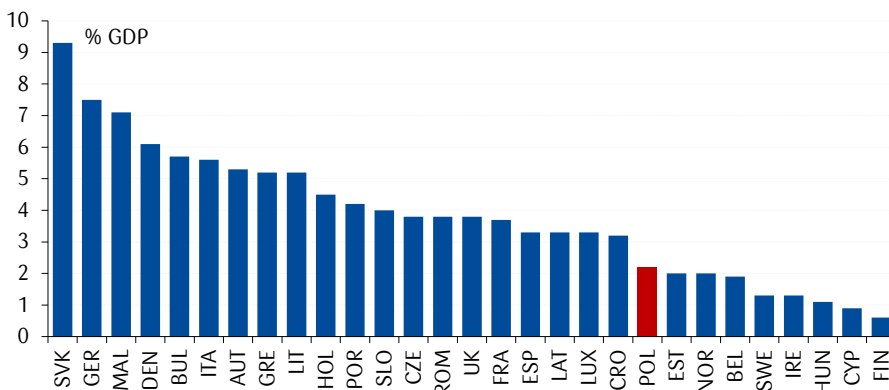
THE WEEK AHEAD:

- **The bunch of monthly indicators from Poland's economy** should (again) show slowdown and disinflation (details in calendar). However, we see a chance for better results than in December due to warm weather and positive working day effect (y/y).

NUMBER OF THE WEEK:

- **-5.0** - (Jan'23) the biggest drop (% y/y) of power consumption (excluding pandemic period) since 2013 due to warm weather.

CHART OF THE WEEK: Government fiscal measures concerning energy crisis*



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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	4.58

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.

Third consecutive positive CPI surprise

- CPI inflation in January rose to 17.2% y/y from 16.6% y/y in December. This is the third in a row CPI result, that is better than expected.
- The surprise stems from a surprisingly limited increase of energy prices – despite higher VAT rates and regulatory price increases.
- The CPI will reach its peak in February (data will be published in March), followed by rapid disinflation to a one digit number at the end of 2023.

CPI inflation in January rose to 17.2% y/y from 16.6% y/y in December – weaker than feared (cons.: 17.8% y/y) and below our forecast (18.7% y/y). This is the third consecutive result, which is better than expected. In January prices rose by 2.4% m/m, primarily due to higher energy prices (10.4% m/m). The data is preliminary, as it is based on unchanged weights and will be revised in March (most likely upwards, by 0.2-0.4pp based on our estimate).

Food prices rose by 1.9% m/m, stronger than the seasonal pattern, but weaker than in January 2022, signaling the continuation of the gradual normalization of trends in food prices – mainly due to declines on the global market. The annual dynamic declined for the second consecutive month (20.7% y/y vs. 21.5% y/y in December). The scale of food disinflation will be, however, tempered by cost increases in food processing (energy, wages).

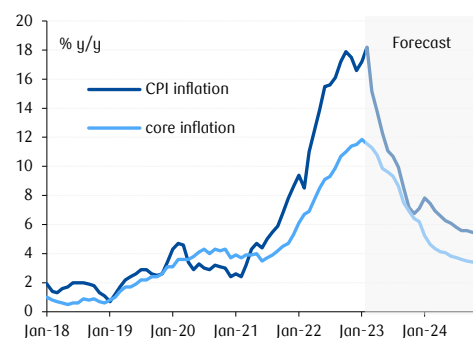
Fuel prices remained unchanged m/m, despite the return of higher VAT rates and excise tax increases. Stabilization was possible due to decrease of wholesale fuel prices by PKN Orlen. At the same time, due to the low base effect, the annual growth rate accelerated to 18.7% y/y from 13.5% y/y in December. We expect, based on futures contracts, that in the absence of further shocks, fuels will be a negative contributor to inflation later in the year (lowering it by about 2pp, similar scale to the proinflationary impact in 2022).

Energy prices are the biggest surprise and the key source of our forecast error, as they increased “only” by 10.4% m/m and 34.0% y/y. The return of higher VAT rates (0->23% for gas, 5->23% for electricity and heat) and electricity price hikes (the cumulative effect of electricity price hikes should have already been fully included by Statistics Poland from January) should have, according to us, driven up energy prices by app. 20% m/m. The ongoing declines in the solid fuels market (by 5-10% m/m on our estimate), do not fully explain such a limited scale of price increases in the entire category. The detailed data on energy prices will be published mid-March.

Core inflation rose to around 11.8% y/y, according to our estimates, from 11.6% y/y in December. Its momentum (% m/m, sa) is accelerating steadily (~13% y/y annualized). The effect of the New Year's price lists updates (especially in services, including education) was likely the key driver pushing up core inflation. We assume that in the following months, as a consequence of declining real incomes and consumer recession, core prices will moderate. February-March period will be crucial to examine if the trend is reversing.

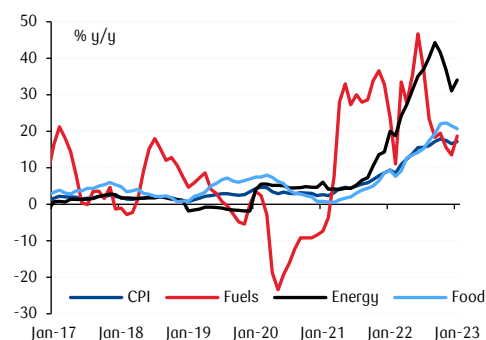
The peak in inflation should be reached in February (app. 18.5-19% y/y, below previous estimates of around 20%). From March onwards, due to the base effect, imported disinflation and the deceleration of core price increases, CPI inflation should decline to a single-digit level by the end of 2023.

CPI and core inflation



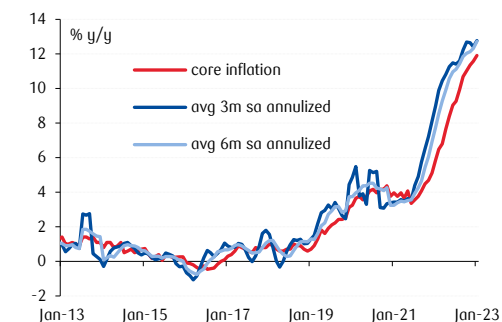
Source: Macrobond, PKO Bank Polski.

Dynamics of the CPI main components



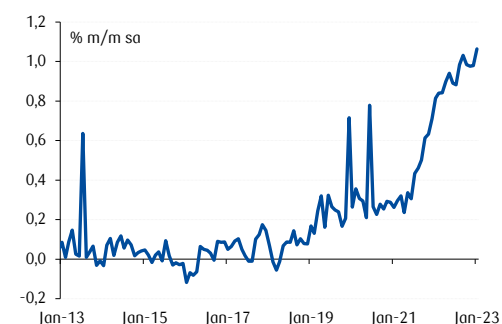
Source: Macrobond, PKO Bank Polski.

Core inflation



Source: Macrobond, PKO Bank Polski.

Core inflation momentum



Source: Macrobond, PKO Bank Polski.

Weekly economic calendar

Indicator	Time (UK)	Unit	Previous	Consensus*	PKO BP	Comment
Monday, 20 February						
POL: PPI inflation (Jan)	9:00	% y/y	20.4	18.5	18.0	PPI disinflation will continue due to commodity price declines. More working days and capital goods "miniboom" will boost IP. Higher minimum wage will only slightly increase wage dynamics. New year employment level adjustment increases the uncertainty of forecast.
POL: Industrial production (Jan)	9:00	% y/y	1.0	4.0	3.7	
POL: Wages (Jan)	9:00	% y/y	10.3	12.7	12.4	
POL: Employment (Jan)	9:00	% y/y	2.2	1.8	1.9	
EUR: Consumer Confidence (Feb, flash)	15:00	pts.	-20.9	-19	--	--
Tuesday, 21 February						
GER: Manufacturing PMI (Feb, flash)	8:30	pts.	47.3	48	--	--
GER: Services PMI (Feb, flash)	8:30	pts.	50.7	51.0	--	--
EUR: Manufacturing PMI (Feb, flash)	9:00	pts.	48.8	49.3	--	--
EUR: Services PMI (Feb, flash)	9:00	pts.	50.8	51.1	--	--
POL: Construction output (Jan)	9:00	% y/y	-0.8	-3.8	-0.8	Warm weather will limit the scale of deceleration of January activity in construction.
POL: Retail sales (Jan)	9:00	% y/y	0.2	0.3	1.0	We expect that retail sales dynamics remains above 0% y/y but its momentum is weak.
GER: ZEW Economic Sentiment (Feb)	10:00	pts.	16.9	19	--	--
USA: Manufacturing PMI (Feb, flash)	14:45	pts.	46.9	47	--	--
USA: Existing home sales (Jan)	15:00	mln	4.02	4.11	--	--
Wednesday, 22 February						
GER: CPI inflation (Jan, final)	7:00	% y/y	8.6	8.7	--	--
GER: HICP inflation (Jan, final)	7:00	% y/y	9.6	9.2	--	--
GER: Ifo Business Climate Index (Feb)	9:00	pts.	90.2	91	--	--
POL: Consumer Confidence (Feb)	9:00	pts.	-38.1	-37.5	--	Consumer confidence should once again increase due to declining fears of energy crisis and of unemployment.
POL: Money Supply M3 (Jan)	13:00	% y/y	5.4	5.9	5.6	Monetary processes still indicate that the economy is slowing down.
USA: Minutes Fed (Feb)	19:00	--	--	--	--	--
Thursday, 23 February						
POL: Unemployment Rate (Jan)	9:00	5,2	5.2	5.5	5.5	According to MinLab's estimate unemployment rate increased to 5.5% - slightly higher than seasonal pattern
EUR: HICP inflation (Jan, final)	10:00	% y/y	9.2	8.6	--	--
EUR: Core inflation (Jan, final)	10:00	% y/y	5.2	5.2	--	--
USA: GDP growth (4q)	13:30	%q/q saar	2.9	2.9	--	--
USA: Personal consumption (4q)	13:30	%q/q saar	2.1	--	--	--
USA: Initial Jobless Claims (Feb)	13:30	ths.	194	--	--	--
Friday, 24 February						
GER: GDP growth (4q)	7:00	% y/y	0.5	0.5	--	--
USA: Personal Income (Jan)	13:30	% m/m	0.2	1.0	--	--
USA: Personal spending (Jan)	13:30	% m/m	-0.2	1.0	--	--
USA: PCE Deflator (Jan)	13:30	% y/y	5.0	4.9	--	--
USA: Core PCE inflation (Jan)	13:30	% y/y	4.4	4.3	--	--
USA: New home sales (Jan)	15:00	mln	616	620	--	--
USA: University of Michigan sentiment (Feb, final)	15:00	pts.	66.4	66.4	--	--

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

Monetary policy monitor

MPC Members	Hawk-o-meter*	Recent policy indicative comments^
J. Tyrowicz	5.0	"In November, the Council decided to leave rates unchanged, guided by the optimistic projection, in which the decrease in the inflation rate results from completely exogenous factors: a rapid and permanent decrease in energy prices and an equally permanent and rapid strengthening of the zloty. If these assumptions fail, the projection will be revised upwards and, in order to maintain cohesion, the MPC will have to leave interest rates at today's level longer than the majority of MPC members assume today." (23.12.2022, rp.pl, PKO transl.)
L. Kotecki	4.8	"(...) I would still see some room for slight interest rate hikes this year but they will likely not take place," Kotecki said. "Most of the Council will slightly overrate the decline of headline inflation." (25.01.2023, gazeta.pl, PAP)
P. Litwiniuk	3.7	"Making announcements by the government spokesperson already in January 2023 about possible extension of credit vacation to 2024 against the current assumptions of the monetary policy, when one has no grounds to expect changes of its parameters, for instance when it comes to reducing interest rates, are unnecessary and could lead to formulating too far reaching conclusions and business decisions." (26.01.2023, PAP)
H. Wnorowski	2.7	"Personally I do not see the space for interest rate cuts. What is more I do not even see the space for discussing them. I would like to emphasize that (...) I am very happy with the declining trend of inflation that we have seen in the past 3 months. We all expect a retreat from this path in February, but after that the declining tendency will remain. (...) Present level of interest rates is most appropriate in terms of inflation entering a decreasing path towards the inflation target." (10.02.2023, PAP)
A. Glapinski	2.4	"Our position as the NBP is that it is too early to talk about interest rate cuts. We have not even formally closed the rate hike cycle, but as we announced, we will not do it until the end of February. (...) We leave the door open to raise interest rates, but we assume that if everything stays according to the scenario in the projection, at some point there will be room for cuts. When it will be, it's hard for me to say (...) I personally expect inflation to reach 6% in December. This is still elevated inflation, above our target, but hardly noticeable from the point of view of economic psychology." (9.02.2023, NBP press conference, PAP, PKO transl.)
C. Kochalski	2.4	"In the light of the current data the level is adequate. The MPC has not been raising rates since September as we have many cues indicating the impact of previously passed hikes They have already started to work. They lowered inflation by 0.5 pps this year, in 2023 it will be 3 pps." (13.12.2022, Biznes24, PAP).
W. Janczyk	2.0	"The current rates level seems adequate given the information we have today. (...) " in my opinion, in the course of the last few weeks, there has come no information that would prompt resumption of rate hikes in December. Currently, no premises can be seen that would prompt such steps." (2.12.2022, PAP).
I. Duda	2.3	"Considerations about interest rate cuts are in my opinion premature (...) The weakening of global economic conditions will lead to lowering of economic growth rate in Poland, while monetary policy tightening by major central banks will limit inflation, both globally and in Poland (...) However, it is not the moment to formulate expectations as to whether the next MPC move should be a hike or a cut of interest rates." (20.01.2023, PAP)"
G. Maslowska	2.1	"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.

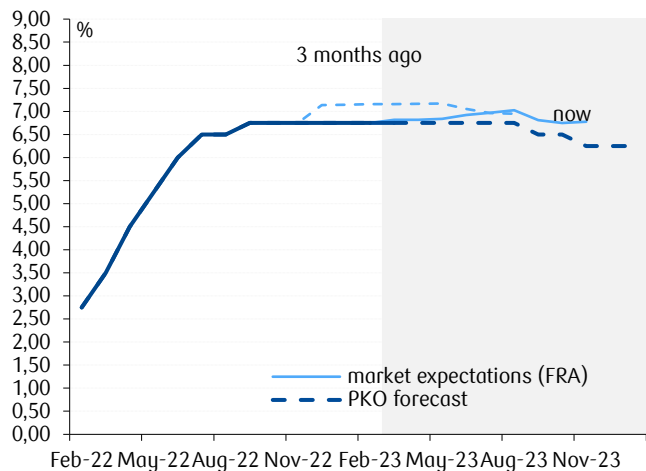
Interest rates – PKO BP forecasts vs. market expectations

		1M	2M	3M	4M	5M	6M	7M	8M	9M
Date	16-Feb	16-Mar	16-Apr	16-May	16-Jun	16-Jul	16-Aug	16-Sep	16-Oct	16-Nov
WIBOR 3M/FRA†	6,94	6,96	6,96	6,96	6,96	6,96	6,97	6,75	6,64	6,67
implied change (b. p.)		0,02	0,01	0,01	0,02	0,02	0,02	-0,19	-0,30	-0,28
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	6,77	6,77	6,77	6,77	6,78	6,66	6,60	6,63

†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

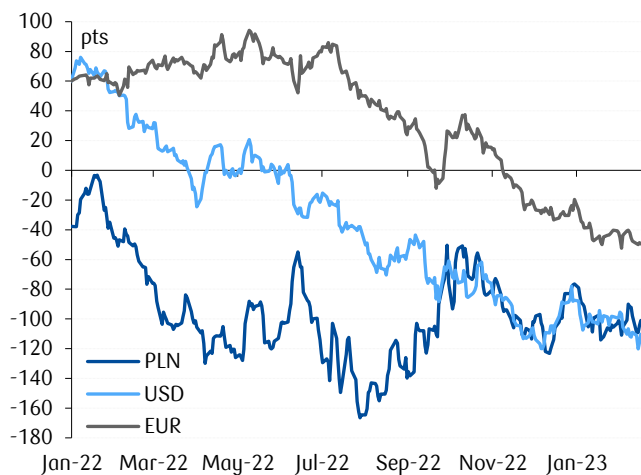
NBP policy rate: PKO BP forecast vs. market expectations



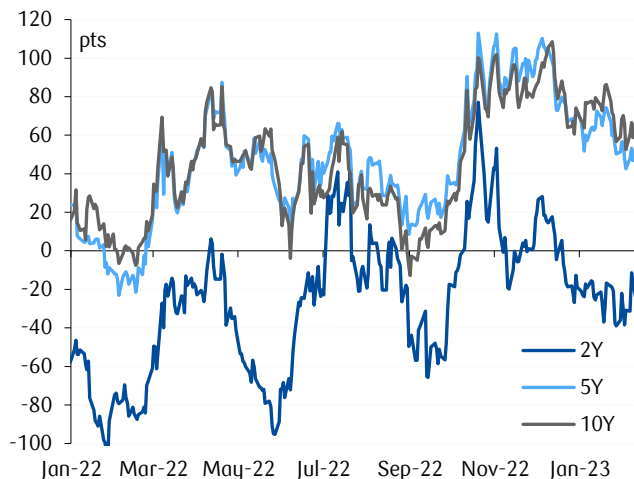
Short-term PLN interest rates



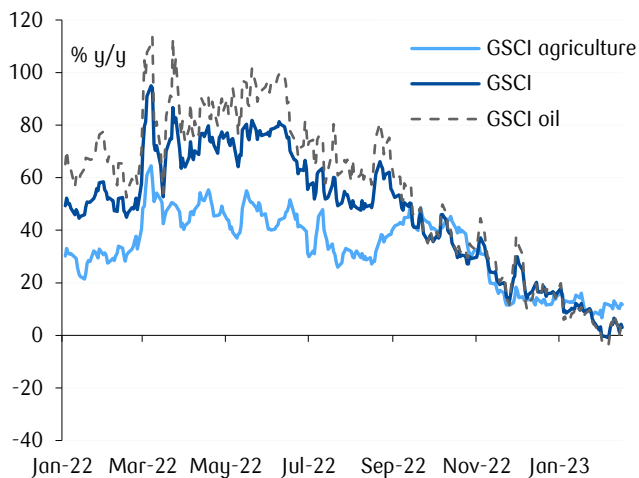
Slope of the swap curve (spread 10Y-2Y)*



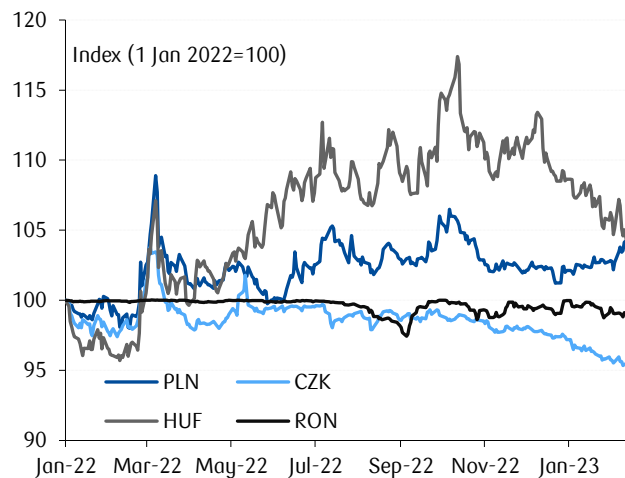
PLN asset swap spread



Global commodity prices (in PLN)

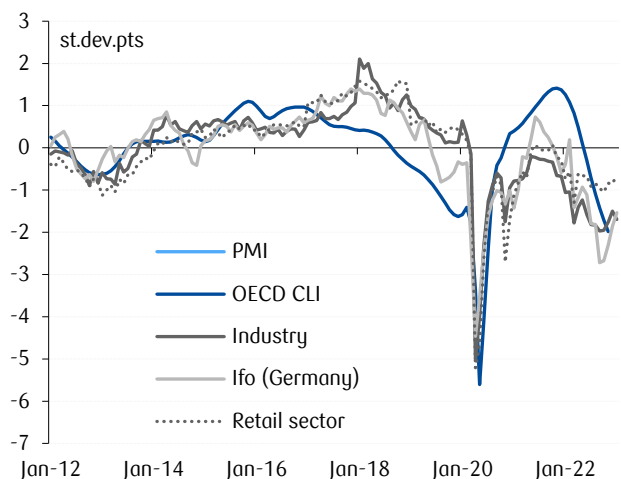


Selected CEE exchange rates against the EUR

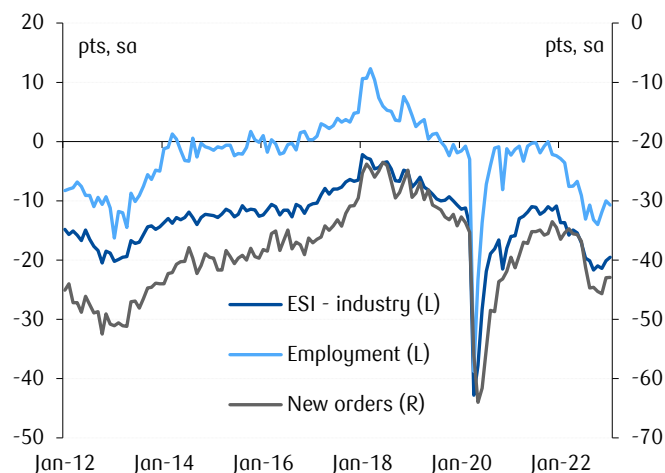


Source: Datastream, NBP, PKO Bank Polski. *for PLN, and EUR 6M, for USD 3M.

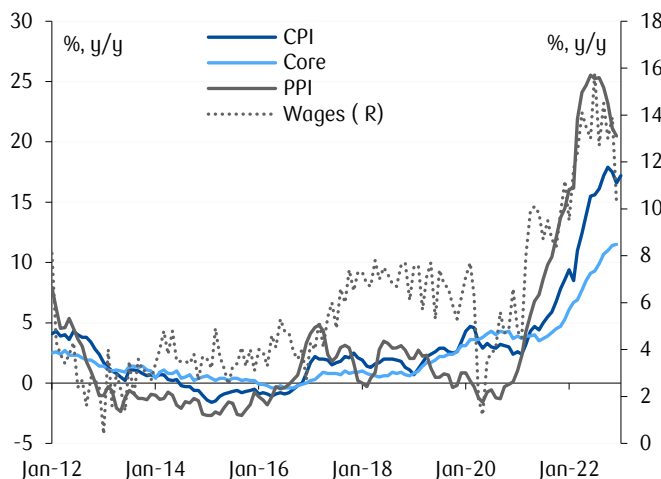
Economic sentiment indicators



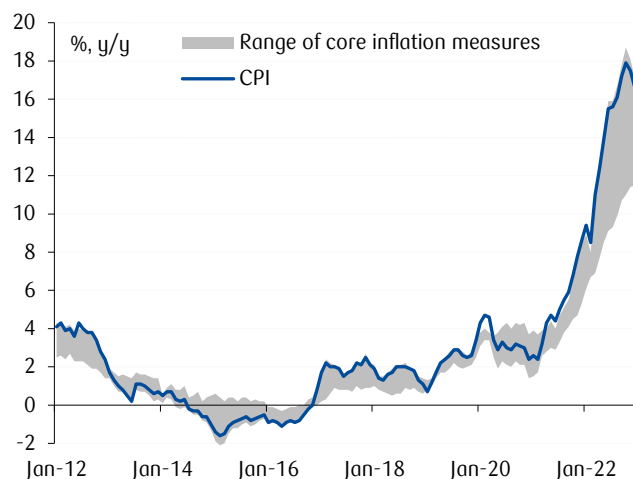
Poland ESI for industry and its components



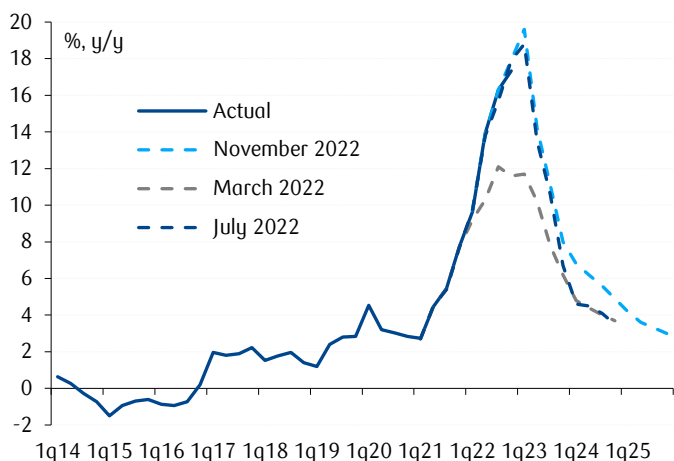
Broad inflation measures



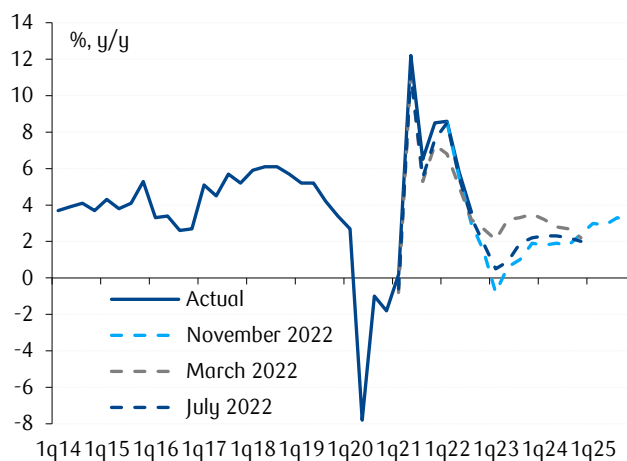
CPI and core inflation measures



CPI inflation – NBP projections vs. actual

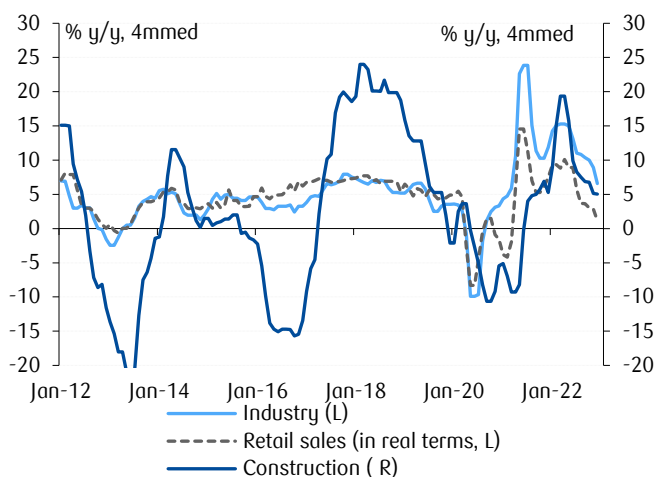


Real GDP growth – NBP projections vs. actual

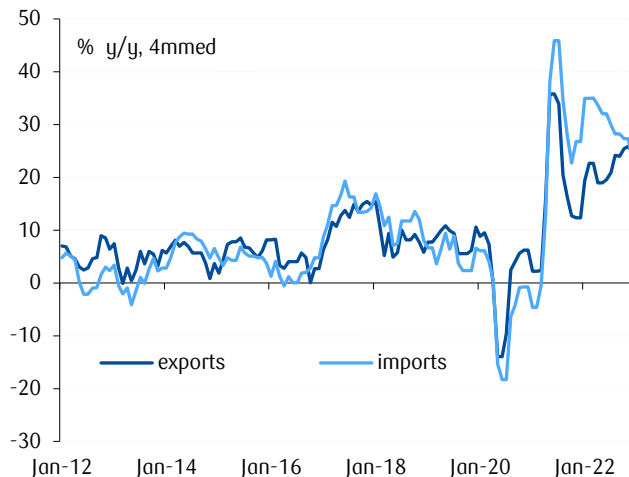


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

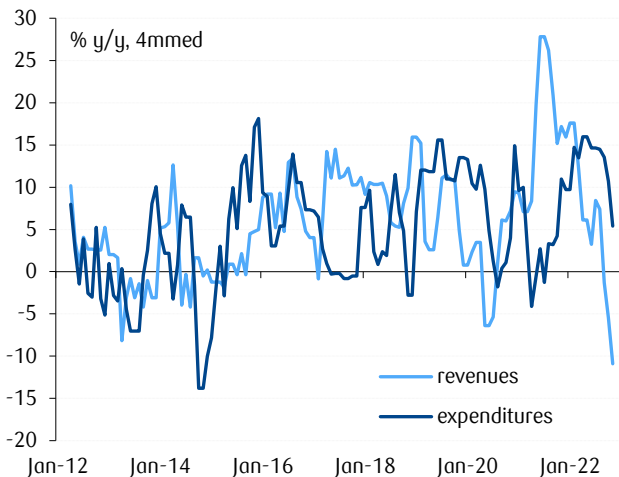
Economic activity indicators



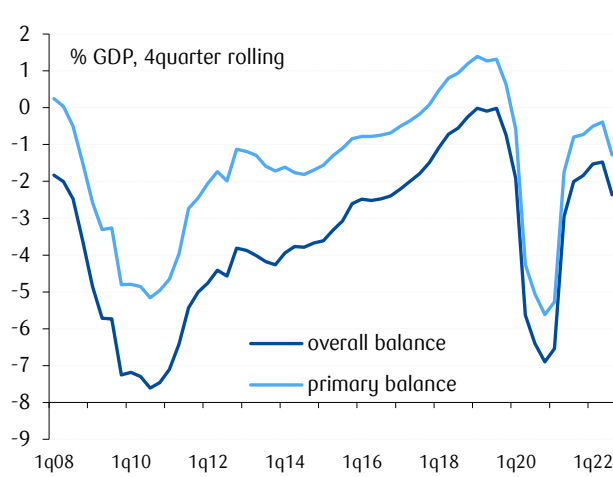
Merchandise trade (in EUR terms)



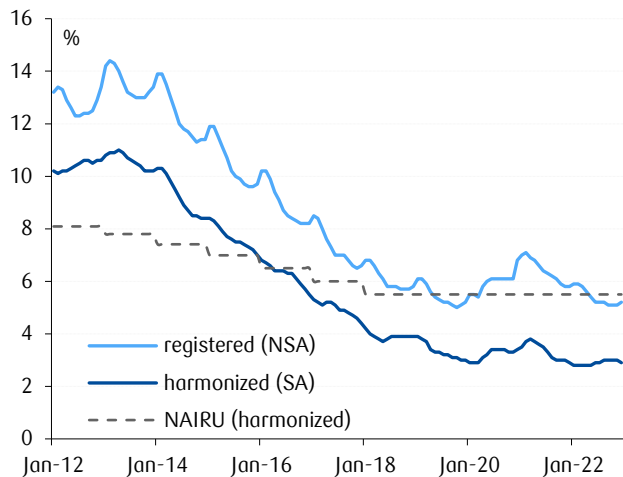
Central government revenues and expenditures*



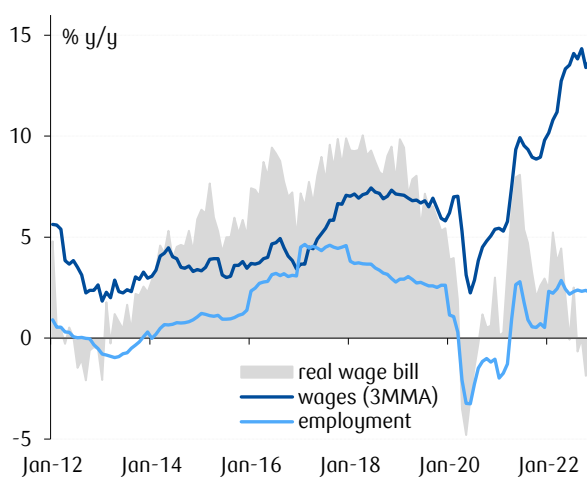
General government balance (ESA2010)



Unemployment rate

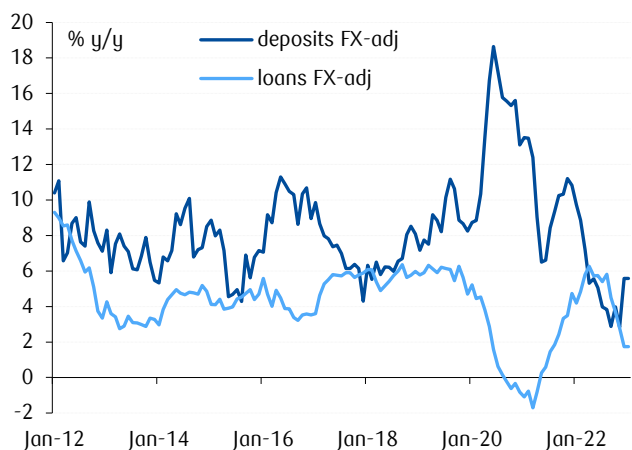


Employment and wages in the enterprise sector

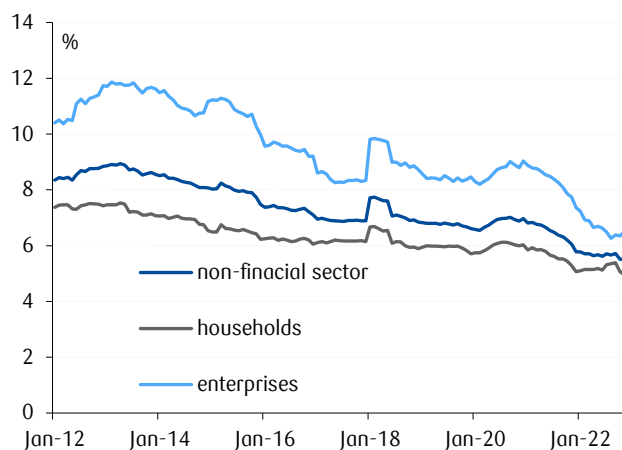


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. *break in series in 2010 due to methodological changes.

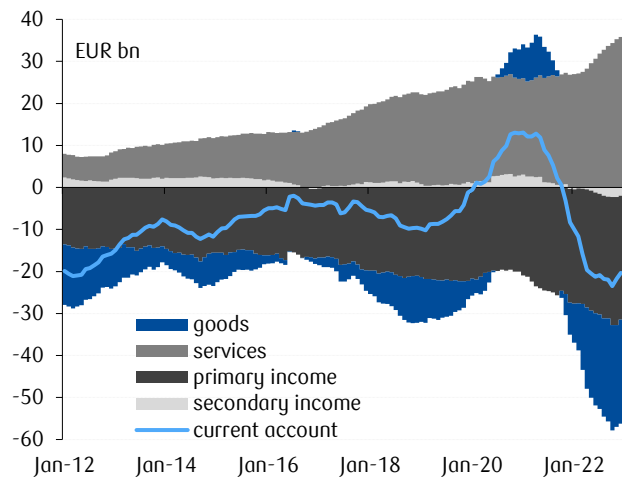
Loans and deposits



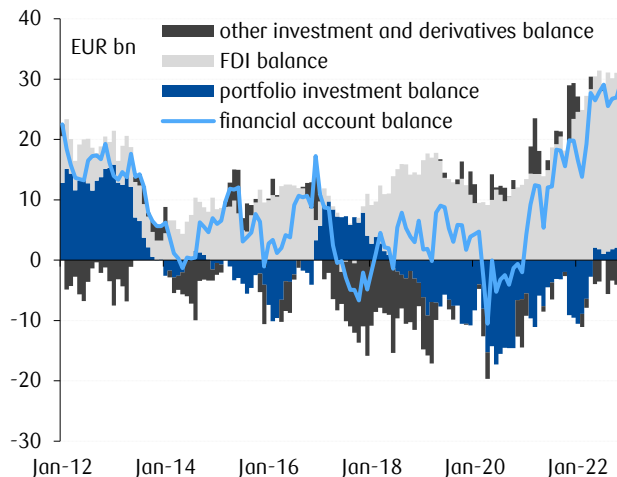
Non-performing loans (NPLs) - by sectors*



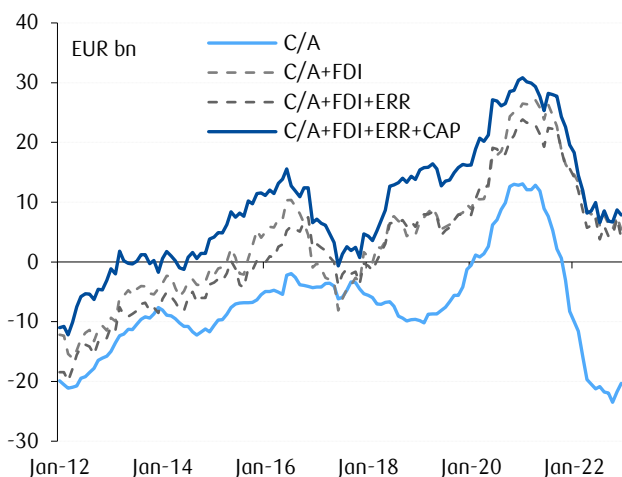
Current account balance



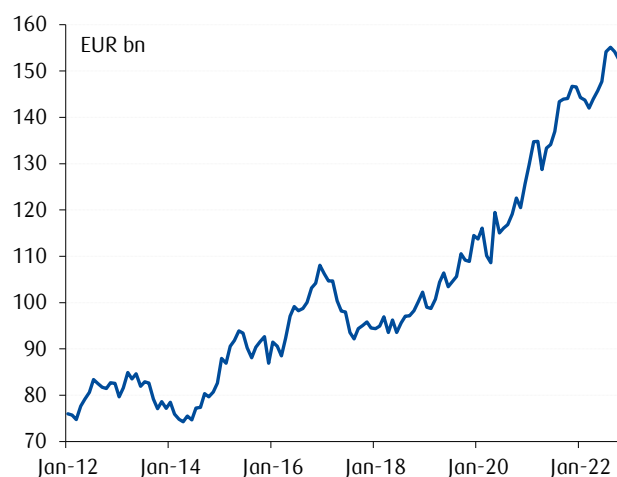
Financial account balance



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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- [Nothing to see here](#) (Feb 10, 2023)
- [Growth less inflation-prone](#) (Feb 3, 2023)
- [GDP growth in 4q22 heading south](#) (Jan 27, 2023)
- [This time is different, again](#) (Jan 20, 2023)
- [Happy 2023!](#) (Jan 13, 2023)
- [2023 in preview](#) (Dec 23, 2022)
- [Housing market: The worst is over](#) (Dec 16, 2022)
- [All quiet on the monetary policy front](#) (Dec 9, 2022)
- [Disinflation ahead](#) (Dec 2, 2022)
- [Corporate profits shrink](#) (Nov 25, 2022)
- [A soft patch](#) (Nov 18, 2022)
- [Monetary policy dilemmas \(again\)](#) (Nov 4, 2022)
- [Is Poland crisis resilient?](#) (Oct 28, 2022)
- [Not great, not terrible](#) (Oct 21, 2022)
- [Frozen: the housing market](#) (Oct 14, 2022)
- [Is it the end or just a pause?](#) (Oct 7, 2022)
- [Wartime interventionism](#) (Sep 30, 2022)
- [Will Poland escape a technical recession?](#) (Sep 23, 2022)
- [Energy prices frozen for this winter?](#) (Sep 16, 2022)
- [Awaiting the end of rate hikes](#) (Sep 9, 2022)
- [Inflation sparked investments?](#) (Sep 2, 2022)
- [Costs jump, deals slow](#) (Aug 26, 2022)
- [It's payback time](#) (Aug 19, 2022)
- [Inflation seems to be losing steam](#) (Aug 12, 2022)
- [Prepare\(d\) for slowdown](#) (Aug 5, 2022)
- [Unemployment at the bottom and inflation plateau](#) (Jul 29, 2022)
- [Slowdown just ahead](#) (Jul 22, 2022)
- [Turning point?](#) (Jul 15, 2022)
- [Inflation vs recession dilemma](#) (Jul 8, 2022)
- [NBP rate hikes coming to an end](#) (Jul 1, 2022)
- [Dry loan tap has frozen the market](#) (Jun 24, 2022)
- [A bitter pill of interest rate hikes](#) (Jun 10, 2022)

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