Poland Macro Weekly

Macro Research

14 April 2023

Bank Polski | Centrum Analiz

Polish MPC still in a pause mode

TOP MACRO THEME(S):

- **Inflation embarks on a sluggish path downward (p.2):** CPI inflation in March dropped to 16.1% y/y from 18.4% y/y in February. The decline derived from statistical base effect and normalization of energy and fuel prices.

WHAT ELSE CAUGHT OUR EYE:

- **MPC left interest rates unchanged for the seventh consecutive month (NBP policy rate: 6.75%).** The rate hike cycle remains paused and MPC is ready to relaunch it if necessary. However, the NBP Governor A.Glapinski assessed that if the scenario outlined in the NBP projection materializes, there will be no further rate increases and a rate cut will only be possible if rapid return of inflation to the target is certain. We expect two rate cuts (25bp each) in 2h23.
- **PMI manufacturing index marginally decreased in March to 48.3 from 48.5 in February**, mainly on weaker performance of new orders and production. The delivery times have not shortened (as in the euro area), so the scope of decline was smaller. Firms' expectations were the best since the war.
- **Fiscal deficit (ESA) in 2022 amounted to 3.4% of GDP.** "Anti-inflationary shields" were the biggest burden both on the revenue (VAT rates cut) and expenditure side (energy compensations, migrants and military expenditures). Due to high nominal growth the debt/GDP ratio decreased in 2022 to 49.1% from 53.6% in 2021. 2023 will be marked by expenditures indexation (e.g. pensions) and revenue slowdown (nominal growth slowdown, PIT decreases, zero VAT on basic food items). We expect deficit in 2023 to increase to 5.4% of GDP. Central budget run a deficit in Jan-Feb of PLN 0.1 bn vs PLN 11.2 bn surplus in Jan-Feb 2022.
- **February CAB surprised with 2.6 bln EUR surplus after upwardly revised January reading (2.1 bln EUR).** It is an effect of a record trade surplus – strong exports fuelled by earlier FDI inflows, a decline of imports and improvement of terms-of-trade. **We expect further improvement of CAB balance, consistently with our medium term forecast.**

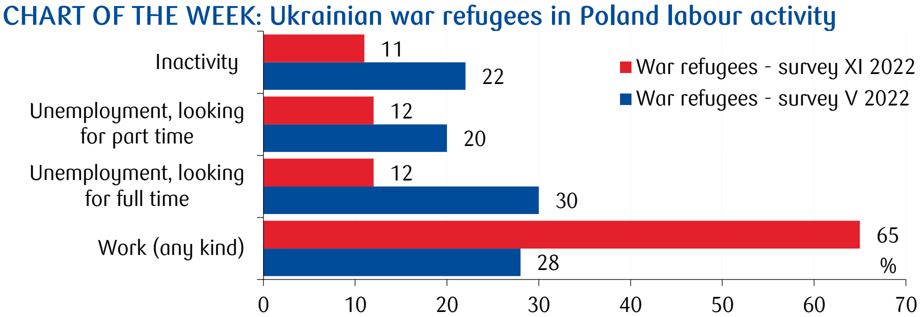
THE WEEK AHEAD:

- **Next week will begin with March core inflation data** – we expect it to inch up further to 12.2% y/y (from 12.0% y/y in Feb). **Corporate labour market data should indicate a strong wage pressure** (due to lagged effects of January minimum wage hike and adjustments of wage grids) and a more pronounced **slowdown of employment** (limitation of new recruitment, not layoffs).

NUMBER OF THE WEEK:

- **2.24 bln EUR** – the record high trade surplus in February 2023

CHART OF THE WEEK: Ukrainian war refugees in Poland labour activity



Source: NBP, 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
Real GDP (%)	4.9	0.1
Industrial output (%)	10.5	2.2
Unemployment rate# (%)	5.2	5.4
CPI inflation** (%)	14.4	12.7
Core inflation** (%)	9.1	9.9
Money supply M3 (%)	5.6	5.6
C/A balance (% GDP)	-3.0	-0.6
Fiscal balance (% GDP)*	-3.4	-5.4
Public debt (% GDP)*	49,1	49.9
NBP reference rate## (%)	6.75	6.25
EURPLN‡##	4.69	4.59

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

Inflation embarks on a sluggish path downward

- **CPI inflation in March dropped to 16.1% y/y from 18.4% y/y in February. The decline derived from the statistical base effect and normalization of energy and fuel prices.**
- **Food inflation is still high, at 24.0% y/y, and its momentum is strong. However, we expect food disinflation to begin soon due to global (and local) declines in prices of agricultural commodities.**
- **The core inflation is still rising with its momentum (% m/m sa) standing close to 1.0% since May 2022. Amid a consumer recession core prices should soon start to normalize.**
- **A gradual fall in CPI inflation also takes place in the CEE region, although HICP core inflation trends diverge. Central banks finished hiking cycles, but are ready to resume tightening if necessary.**

CPI inflation in March embarked on a sluggish downward path, falling to 16.1% y/y (the flash estimate was 16.2% y/y) from 18.4% y/y in February. The start of disinflation in 2023 is mainly due to the normalization of energy prices and the effects of last year's high statistical base, with continued strong pressure from prices in core categories and food.

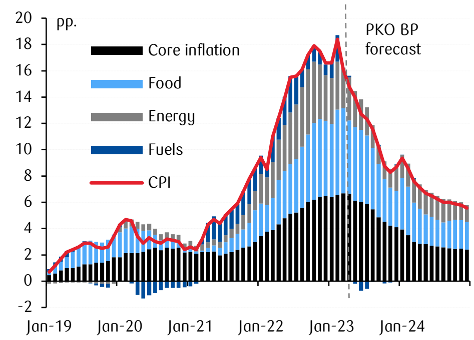
Food and non-alcoholic beverage prices increased in March by 24.0% y/y, the same as in February. On a monthly basis, the rate of price growth accelerated to 2.2% m/m from 1.8% m/m in February, significantly above the seasonal pattern. Contributing to this were stronger than usually at this time price increases of vegetables (expensive imports) and meat (especially pork). Later this year, we expect food disinflation, driven by falling global agricultural commodity prices. However, the scale of disinflation may be limited by rising costs (esp. energy and labor) and the profit margin policies of retail and wholesale companies.

The annual growth rate of energy prices is gradually declining, mainly due to base effects - in March it was 26.0% y/y compared to 31.1% y/y in February. Over the month, prices fell by 0.6%, and March was the fifth consecutive month of cheaper solid fuels (mainly coal, down by 4.4% m/m in March) and gas (-0.4% m/m).

Fuel price dropped by 1.8% m/m, and on an annualized basis were only 0.2% y/y more expensive, compared to 30.8% y/y in February. Such a large change is resulting from the high base effect (a jump in prices in March 2022 due to the outbreak of war in Ukraine).

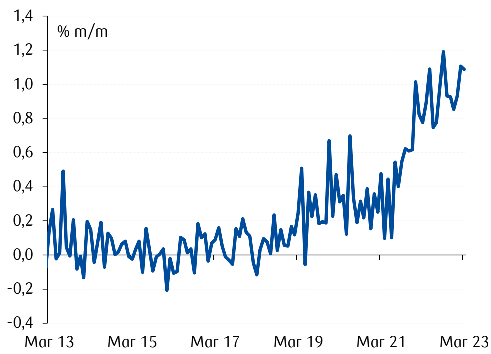
Core inflation continues to rise (probably to 12.2% y/y in March from 12.0% y/y in February). We estimate that its momentum (% m/m after seasonal adjustment) has been hovering around 1% since May 2022. In March, the prices of clothing and footwear (5% m/m) and furnishings and household maintenance grew particularly strongly (1.4% m/m). Prices in communications grew slightly weaker than in February (1.7% m/m). A positive exception (with regard to disinflationary tendencies) came from prices in restaurants and hotels, where falling demand is limiting price increases. We assume that the ongoing consumer recession will cause other base categories to join restaurants and services in the coming months. However, we see a risk of elevated core inflation until the end of 1h23.

CPI structure



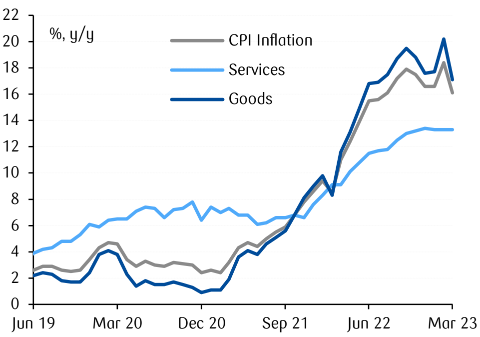
Source: Statistics Poland, NBP, PKO Bank Polski.

Core inflation momentum (sa)



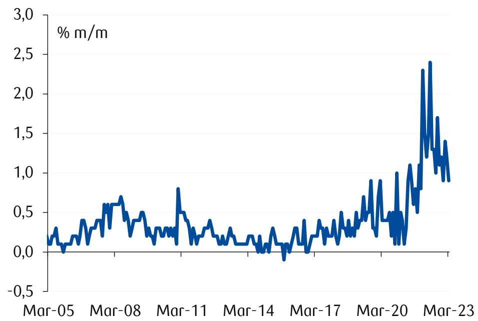
Source: Statistics Poland, NBP, PKO Bank Polski.

Goods and services inflation



Source: Statistics Poland, PKO Bank Polski.

HoReCa monthly price change



Source: Statistics Poland, PKO Bank Polski.

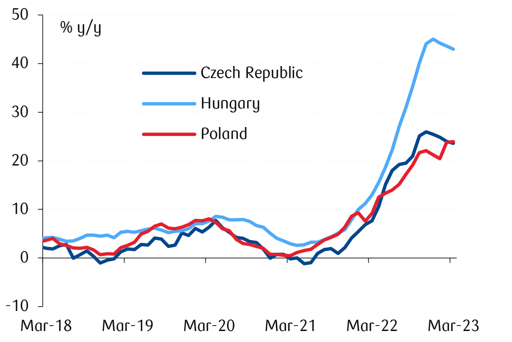
By the end of 2023, CPI inflation should reach single-digit levels (around 9% y/y), supported by statistical factors, normalization of energy and fuel prices, and food disinflation. Later in the year, core inflation will join them. **A return of inflation to the target, however, seems hardly likely until 2025.** If the scenario outlined in the NBP projection materializes, there will be no further interest rate hikes (although officially the hiking cycle has only been suspended), and rate cuts will be possible, according to the NBP Governor A.Glapinski, only if a rapid decline of inflation to the inflation target is certain. **We continue to expect two NBP rate cuts (25bp each) in 2h23.**

A gradual fall of the CPI inflation also takes place in the rest of the CEE region, though the picture is quite heterogeneous. Since the beginning of the year, **CPI inflation in the Czech Republic** fell by 2.5pp to 15.0% y/y, while **in Hungary it only fell by 0.5pp to 25.2% y/y** and continues to be the highest in the region. **In Romania, March CPI inflation stood at 14.5% y/y**, approx. 2pp lower than its peak in November 2022. Disinflation is mainly driven by statistical base effects, in particular on energy, with persistently strong momentum of the core measure. It is only the Czech Republic, where core inflation has already started to decline due to the most pronounced downturn in consumer consumption and the weakening of foreign industrial producer price inflation. Core CPI disinflation in Czech Republic is mainly the effect of reversal of tendencies in owner occupied housing costs, whose growth slowed down. This category is not present in the CPI basket of the remaining countries. **Food inflation among CEE countries remains high**, slightly exceeding 20% in y/y terms, with the exception of Hungary where it stands above 45%, though disinflation in this category gradually gains momentum in the Czech Republic as well as in the former one.

Based on the unified inflation methodology (HICP, data to February), core inflation in Poland appears to be lower than in the region (excluding Romania). At the same time, the momentum (% m/m saar) of core inflation remains elevated with regionally varying trends. In Romania, where the intensity of fundamental price processes is the lowest, momentum continues to build up. In Poland, the momentum indicates that core inflation has stabilized at around 12% saar, while the Czech Republic is experiencing systematic deceleration, although from a higher level. Hungary stands out from the region. Price processes "exploded" in 2h22 with the unfreezing of energy and fuel prices, and are now gradually normalizing, although remain significantly higher than in the region.

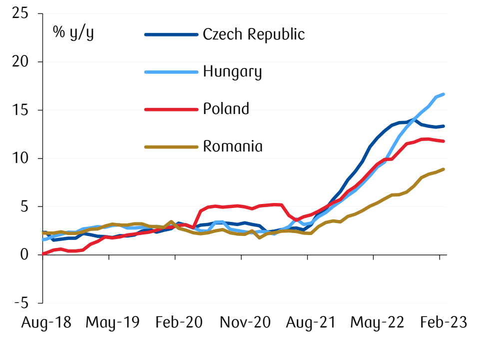
CNB expects inflation to reach single digit figures in 2h23 as domestic and foreign price pressures shall ease and it is forecasted to return close to the 2% target in early 2024 as profit margins of enterprises undergo a gradual correction. According to the MNB's forecast, CPI inflation will stand between 15.0-19.5% in 2023 and shall return close to the tolerance band of deviations from the target in 2024. Similarly to the CNB, MNB points to a limited space for further price increases by companies and the fading of external inflation pressure. In Romania inflation is expected to fall to 7% by the end of the year and to 4.2% by the end of 2024.

Food CPI inflation in CEE region



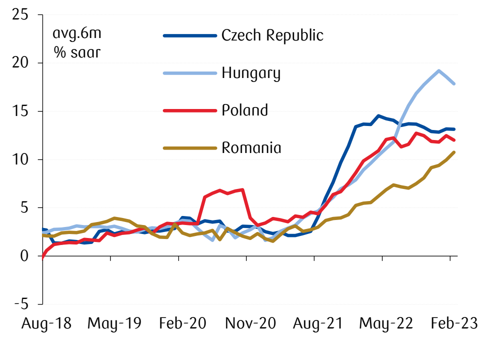
Source: Macrobond, PKO Bank Polski.

HICP core inflation yearly dynamics in CEE region



Source: Macrobond, PKO Bank Polski.

HICP core inflation momentum (annualized 6month avg % m/m) in CEE region



Source: Macrobond, PKO Bank Polski.

Weekly economic calendar

Indicator	Time (UK)	Unit	Previous	Consensus*	PKO BP	Comment
Monday, 17 April						
POL: Core inflation (Mar)	13:00	% y/y	12.0	12.2	12.2	The momentum (% m/m sa) of core inflation is still strong with no signals of deceleration, so the % y/y indicator will once again rise.
Tuesday, 18 April						
CHN: GDP growth (1q)	3:00	% y/y	2.9	3.8	--	--
GER: ZEW Economic Sentiment (Apr)	10:00	pts.	13.0	15.0	--	--
EUR: Trade balance (Feb)	10:00	bln EUR	-30.6	--	--	--
USA: Building Permits (Mar)	13:30	mln	1.550	1.455	--	--
USA: Housing starts (Mar)	13:30	mln	1.450	1.405	--	--
Wednesday, 19 April						
EUR: HICP inflation (Mar, final)	10:00	% y/y	8.5	6.9	--	--
EUR: Core inflation (Mar, final)	10:00	% y/y	5.6	5.7	--	--
Thursday, 20 April						
GER: PPI inflation (Mar)	7:00	% y/y	15.8	10.0	--	--
POL: Consumer Confidence (Apr)	9:00	pts.	-35.6	-34.0	-35,0	Consumer confidence should continue to rise due to milder than expected energy crisis and the beginning of disinflation.
USA: Initial Jobless Claims (Apr)	13:30	ths.	239	--	--	--
USA: Existing home sales (Mar)	15:00	mln	4.58	4.50	--	--
EUR: Consumer Confidence (Apr, flash)	15:00	pts.	-19.2	-18.0	--	--
Friday, 21 April						
GER: Manufacturing PMI (Apr, flash)	8:30	pts.	44.7	45.5	--	--
GER: Services PMI (Apr, flash)	8:30	pts.	53.7	53.2	--	--
EUR: Manufacturing PMI (Apr, flash)	9:00	pts.	47.3	48.0	--	--
EUR: Services PMI (Apr, flash)	9:00	pts.	55.0	54.5	--	--
POL: Wages (Mar)	9:00	% y/y	13.6	12.5	12.4	Wage dynamics should stay at 12+ % y/y due to minimum wage increase (~15.9% y/y since Jan'23), wage grids actualization in enterprises and still strong momentum.
POL: Employment (Mar)	9:00	% y/y	0.8	0.6	0.7	Employment slowdown is getting more noticeable. It is caused rather by the fall of new recruitments and non-renewal of temporary contracts, than by layoffs.
USA: Manufacturing PMI (Apr, flash)	14:45	pts.	49.2	49.2	--	--

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	"Market valuations of derivative instruments indeed indicate a rate cut in Poland later this year, but in my opinion it has more to do with the profitability of current transactions than with the assessment of market participants that such a cut is substantively justified. (...) I would be very cautious in interpreting current valuations as indication of further MPC decisions" (29.03.2023, PAP)
L. Kotecki	4.8	**"Since the economic situation is very weak, I think that for the time being we should limit ourselves to a small increase of a quarter of a percentage point (...) Even from a communication standpoint, a small increase would be very useful. It would show that the Council is still determined, isn't giving up, and will fight for low inflation" (12.04.2023, Bloomberg)**
P. Litwiniuk	3.7	"If inflation falls faster than demonstrated in the projection, I will be probably saying that there is a justification for maintaining the [PAP: current] parameters of the monetary policy," (22.03.2023, gazeta.pl, PAP)
H. Wnorowski	2.7	**"In my opinion, today there are no fundamental reasons for rising core inflation and such high CPI inflation. As a member of the MPC, I will say that at the moment there are no indications to make those waiting for cheaper money happy. The reality is dynamic. A month ago things were better in terms of the prospects for interest rate cuts." (7.04.2023, Biznes24, PAP)**
A. Glapinski	2.4	**"We have not completed the cycle of interest rate hikes, we are prepared for any situation. (...) If everything goes on as we predict, then (...) there will be no increases, and at some point there will be a rate cut. When will there be a cut? We will monitor the economy from month to month. A reduction may come when it is absolutely certain that inflation is falling quickly to the target. At the moment, it's too early to say that inflation is falling rapidly, because this slide off the "plateau" has just begun." (6.04.2023, NBP press conf., PAP, PKO transl.)**
C. Kochalski	2.4	**"In light of the current projection and incoming data and forecasts, the topic of interest-rate cuts was simply not taken up or discussed by anyone. There were no grounds (to do that) in relation to the ongoing economic and inflationary processes." (14.04.2023, Bloomberg).**
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	"One should wait with an answer to the question about a possibility of interest rate cuts at least until the moment when inflation falls to a single-digit level, which should take place in early autumn, and when we are sure that its declining trend is lasting" (20.02.2023, PAP)
I. Dabrowski	1.9	"I do not know what the Council will do, because it is a collegiate body, but - in my opinion - there will be no hasty reduction of interest rates. We will be watching the changing economic situation very carefully and we cannot afford to cut interest rates too quickly. However, in the horizon of the next projection, I think that we will see the possibility of lowering interest rates, but it is difficult to say when it could happen" (28.03.2023, PAP)

*the higher the indicator the more hawkish views. The positioning has been made based positively on PAP survey conducted among economists at banks in Poland (scale 1-5). ^**Quotes in bold** have been modified in this issue of Poland Macro Weekly.

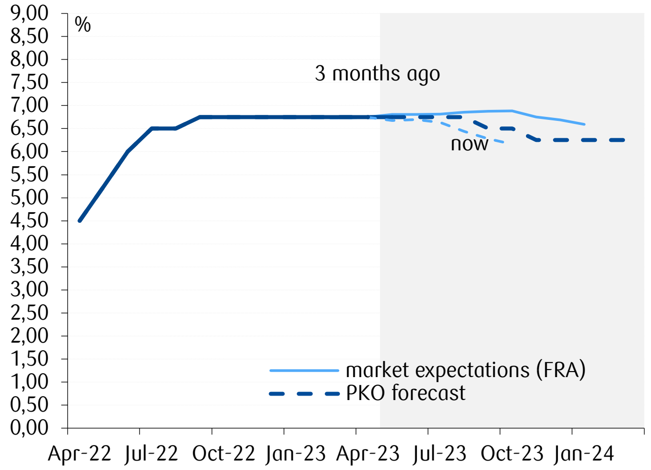
Interest rates – PKO BP forecasts vs. market expectations

		1M	2M	3M	4M	5M	6M	7M	8M	9M
Date	13-Apr	13-May	13-Jun	13-Jul	13-Aug	13-Sep	13-Oct	13-Nov	13-Dec	13-Jan
WIBOR 3M/FRA†	6.90	6.91	6.91	6.90	6.86	6.83	6.79	6.65	6.54	6.45
implied change (b. p.)		0.01	0.01	-0.01	-0.04	-0.07	-0.12	-0.25	-0.36	-0.46
MPC Meeting	5-Apr	10-May	6-Jun	6-Jul	-	6-Sep	4-Oct	8-Nov	6-Dec	-
PKO BP forecast*	6.75	6.75	6.75	6.75	6.75	6.50	6.50	6.25	6.25	6.25
market pricing^		6.76	6.76	6.75	6.71	6.68	6.64	6.60	6.54	6.45

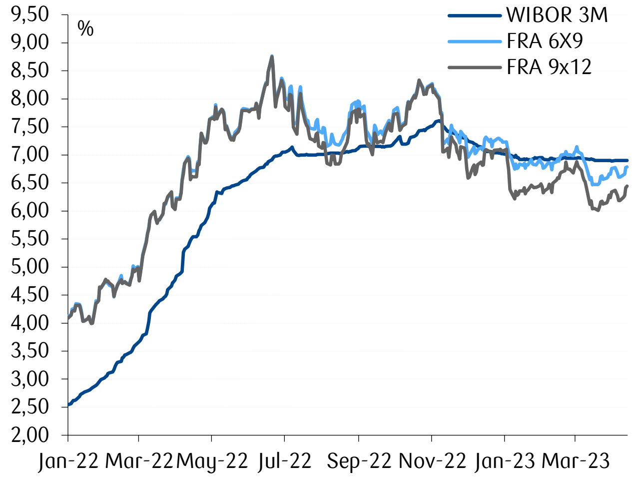
WIBOR 3M from the last fixing, FRA transactions based on WIBOR 3M for subsequent periods, ‡in basis points, *PKO BP forecast of the NBP reference rate.

Poland macro chartbook

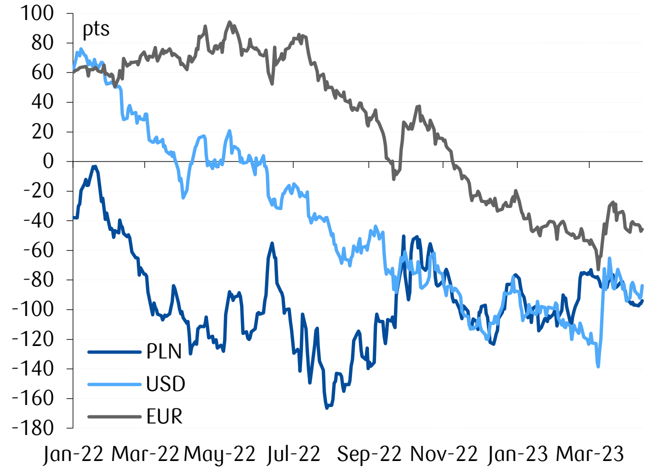
NBP policy rate: PKO BP forecast vs. market expectations



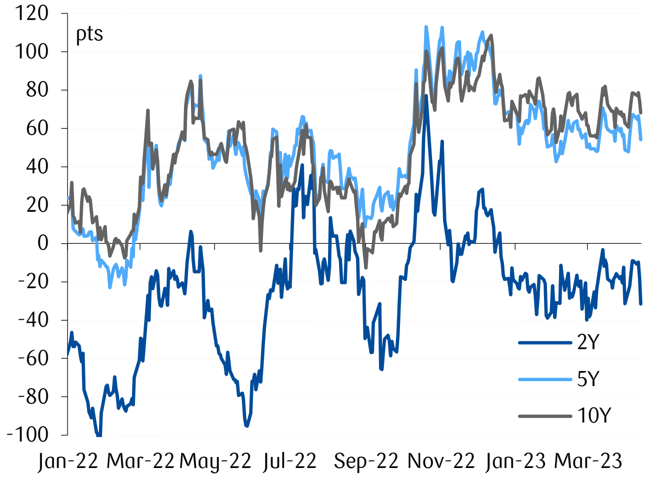
Short-term PLN interest rates



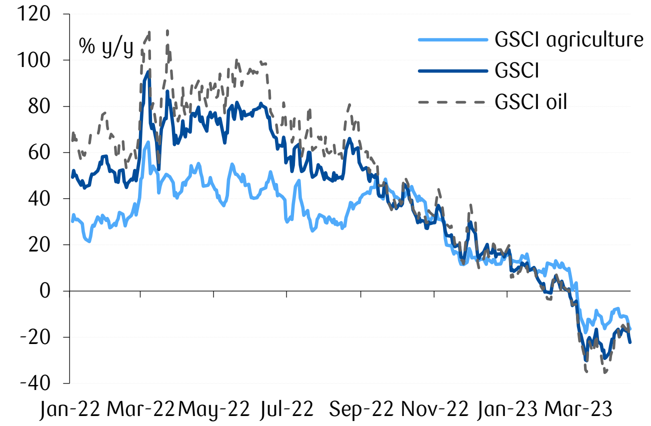
Slope of the swap curve (spread 10Y-2Y)*



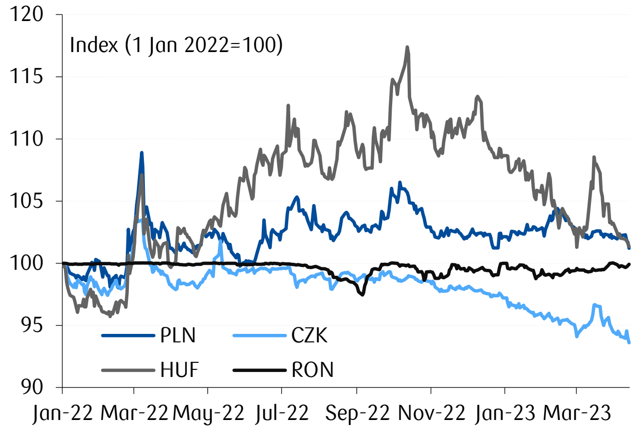
PLN asset swap spread



Global commodity prices (in PLN)

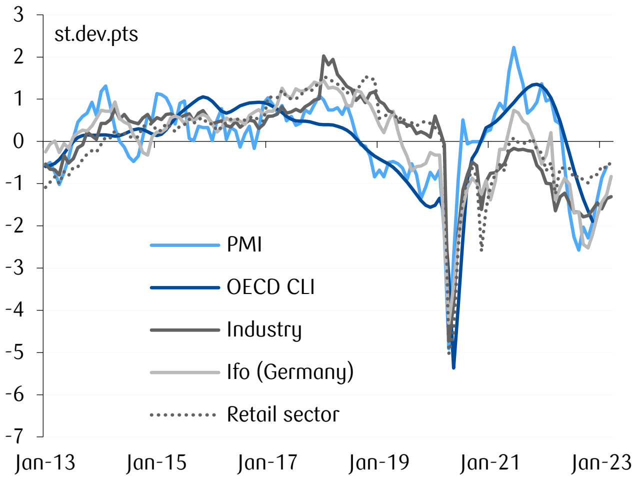


Selected CEE exchange rates against the EUR

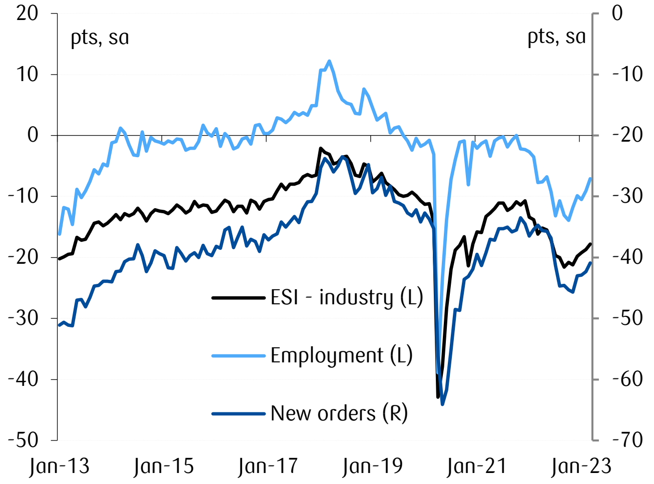


Source: Datastream, NBP, PKO Bank Polski. *for PLN, and EUR 6M, for USD 3M.

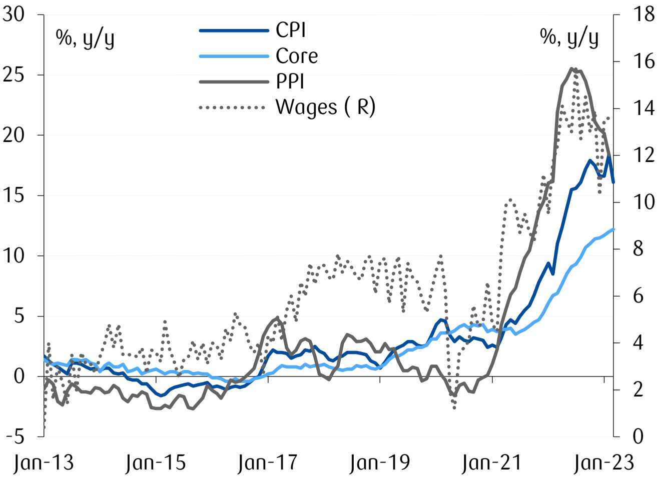
Economic sentiment indicators



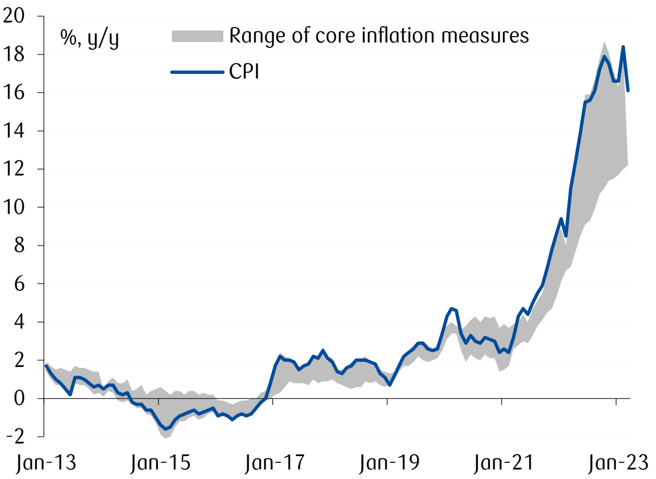
Poland ESI for industry and its components



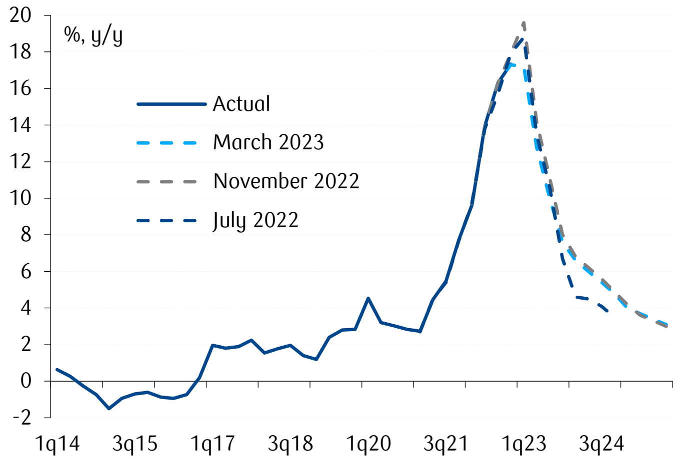
Broad inflation measures



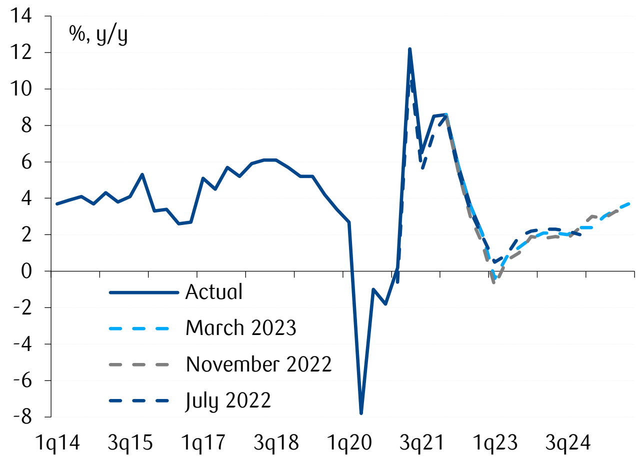
CPI and core inflation measures



CPI inflation – NBP projections vs. actual

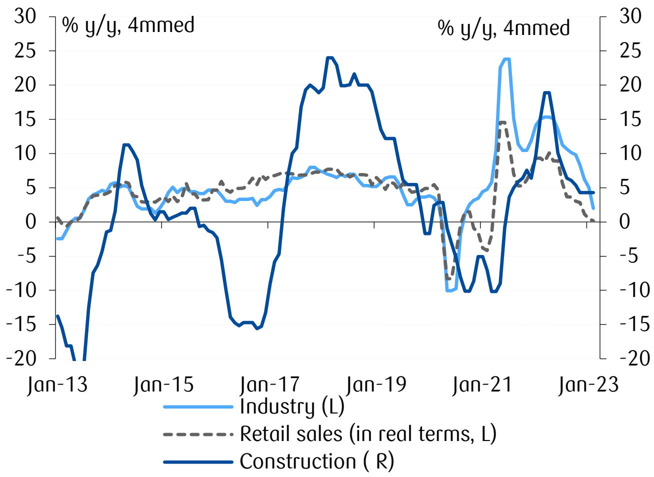


Real GDP growth – NBP projections vs. actual

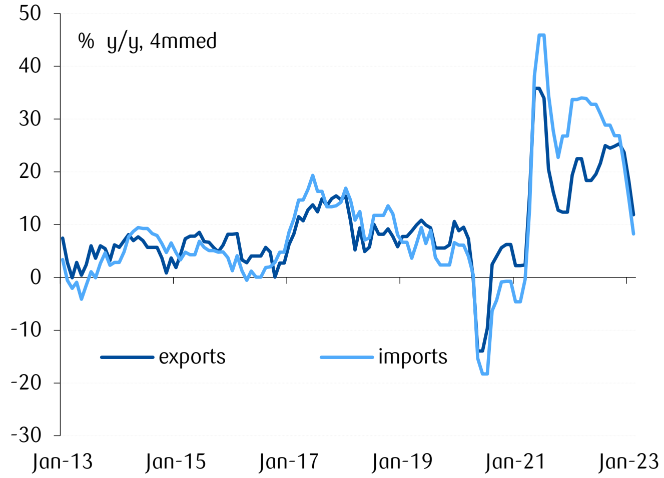


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

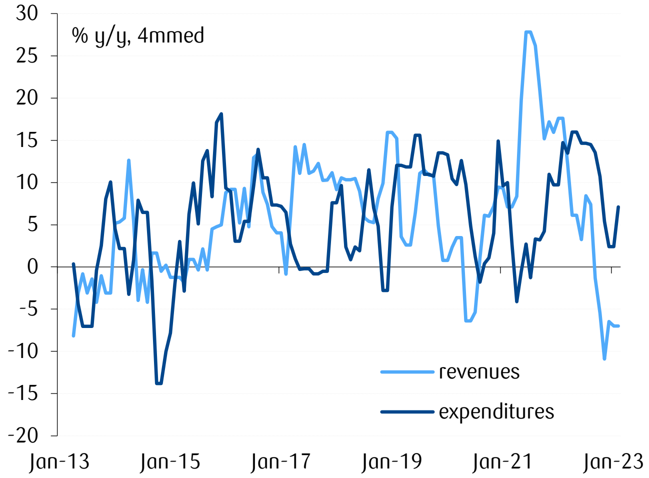
Economic activity indicators



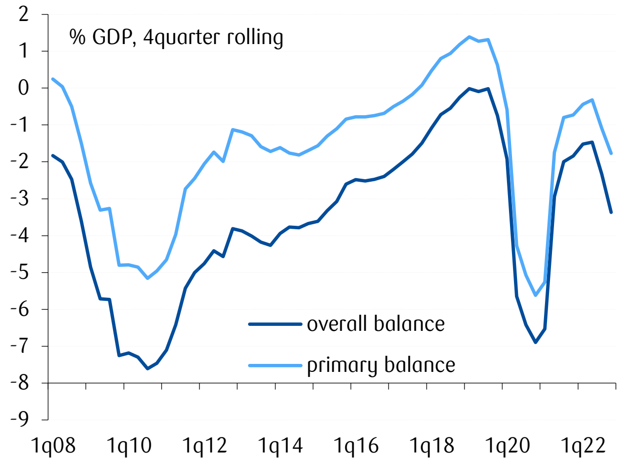
Merchandise trade (in EUR terms)



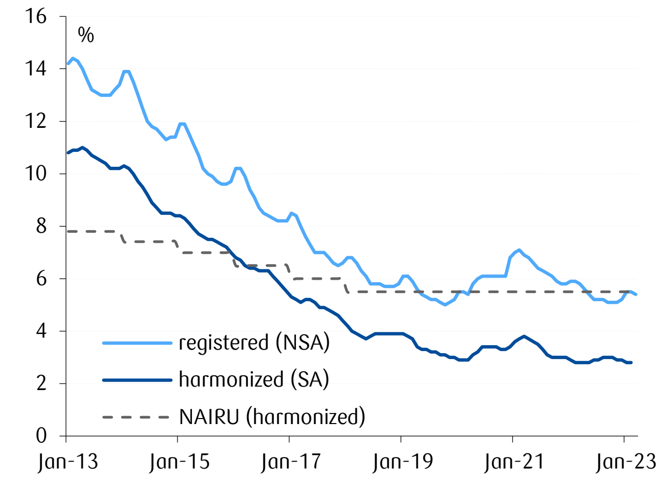
Central government revenues and expenditures*



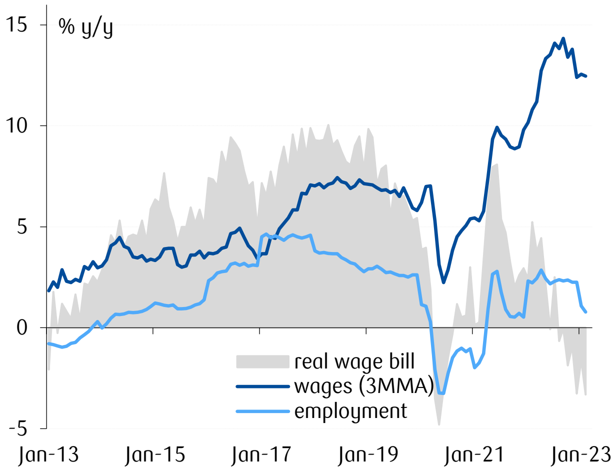
General government balance (ESA2010)



Unemployment rate

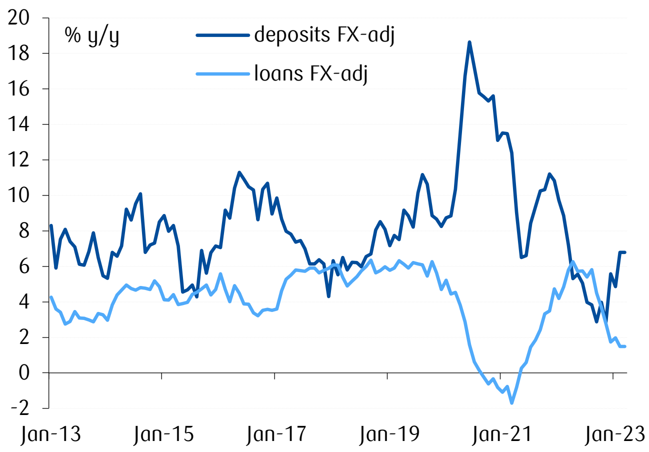


Employment and wages in the enterprise sector

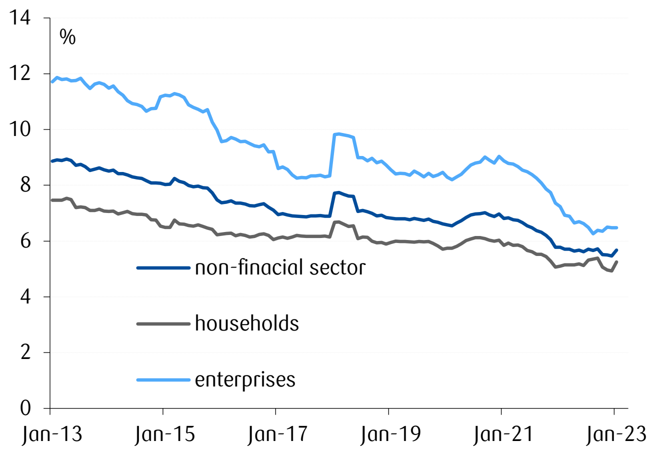


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. *break in series in 2010 due to methodological changes.

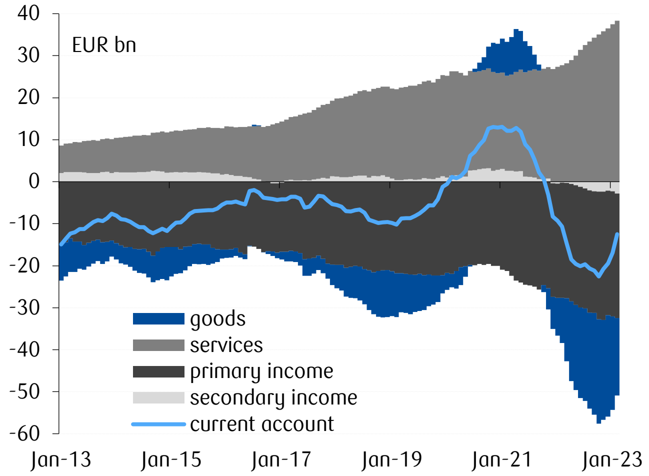
Loans and deposits



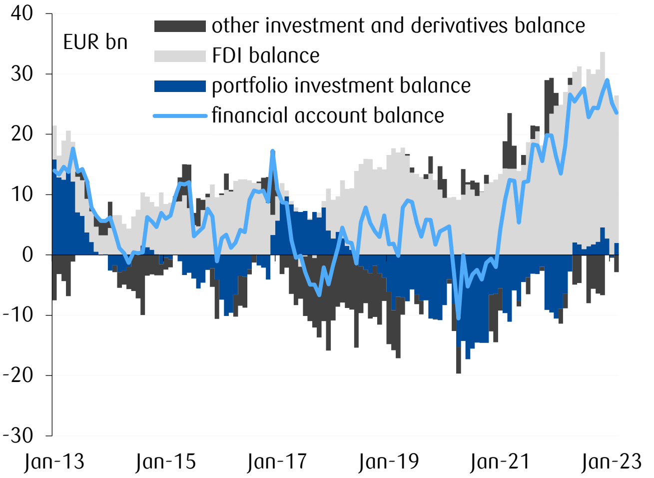
Non-performing loans (NPLs) – by sectors*



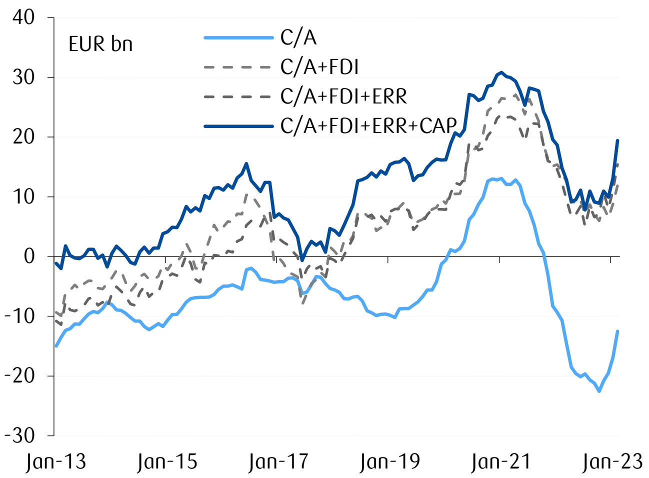
Current account balance



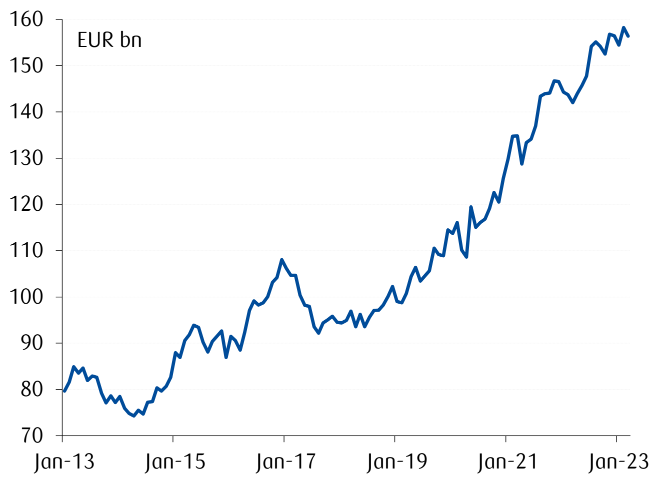
Financial account balance



External imbalance measures



NBP FX reserves (in EUR terms)



Source: NBP, PKO Bank Polski. *break in series in Jan2018 due to methodological changes.

Previous issues of PKO Macro Weekly:

- Let the disinflation begin (Mar 31, 2023)
- Corporate profits dwindle, margins narrow (Mar 24, 2023)
- Inflation never ceases to surprise (Mar 17, 2023)
- Spring is coming after all (Mar 10 2023)
- Consumers under pressure (Mar 3 2023)
- Bumpy road ahead (Feb 24 2023)
- Inflation peak not as scary as feared (Feb 17 2023)
- 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)