

## Will Poland escape a technical recession?

### TOP MACRO THEME(S):

- **So far so good (p. 2):** Data from major sectors of the economy indicate that in August the activity was growing for the second month in a row, after a sharp correction in 2q22, which resulted in a GDP decline by 2.1% q/q.

### WHAT ELSE CAUGHT OUR EYE:

- **M3 money supply growth accelerated to 7.4% y/y in August** from 6.2% y/y in July. Among narrow measures of money, trends from the previous month continued: a decline in M1 money supply deepened both in nominal (-3.7% y/y) and real terms (to -18.7% y/y), while nominal M2 money supply growth accelerated slightly. Lending to households continued to decelerate, while corporate lending has notably accelerated (primarily revolving loans, but also investment loans to a lesser extent).
- **According to the final results of the 2021 Census, Poland's population in 2021 was 38.036m, down by 1.2% (0.475m) in the 2011 Census.** According to the new data, 15.228m dwellings were located in Poland, up by 12.8% from the 2011 Census.
- **The government is preparing a draft aid bill for energy-intensive industries.** The value of the program would be over PLN 5bn in 2022, PLN 8.2bn in 2023 and PLN 4.1bn in 2024. The support is to be allocated to companies whose business continuity is at risk, and is to serve primarily to ensure liquidity. The aid bill will cover, according to our estimates, about 2% of manufacturing entities, which generate app. 17% of the sector's revenue and 21% of its net profit (6% and 8%, respectively, among all enterprises with more than 9 employees). **The government is also working on protective measures for households – natural gas consumers – similar as the plan for electricity prices presented last week.** It is considered to either limit the scale of tariff increases or to freeze tariffs up to a certain level of consumption.

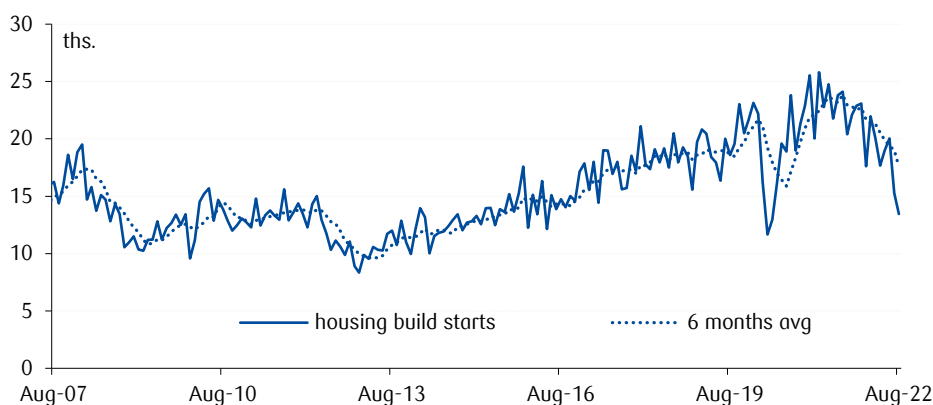
### THE WEEK AHEAD:

- **Flash CPI inflation for September likely rose in July,** mainly on food and energy prices.
- **CEE central banks' meetings are approaching** – we assume that CNB will maintain interest rates (7%) while MNB will hike again (100bps to 12.75%).

### NUMBER OF THE WEEK:

- **4.8%** – registered unemployment rate in August: fresh all-time low.

### Chart of the week – housing build starts (sa)



Source: GUS, PKO Bank Polski.

### Chief Economist

Piotr Bujak  
piotr.bujak@pkobp.pl  
tel. +48 22 521 80 84

### 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  
tel. +48 22 521 51 32

Kamil Pastor  
Economist  
kamil.pastor@pkobp.pl  
tel. +48 22 521 81 08

Michał Rot  
Economist  
michal.rot@pkobp.pl  
tel. +48 22 580 34 22

	2021	2022 <sub>t</sub>
Real GDP (%)	5.9	4.5
Industrial output (%)	15.6	9.4
Unemployment rate <sup>#</sup> (%)	5.4	4.9
CPI inflation <sup>**</sup> (%)	5.1	13.9
Core inflation <sup>**</sup> (%)	4.1	8.5
Money supply M3 (%)	8.9	5.8
C/A balance (% GDP)	-0.7	-4.5
Fiscal balance (% GDP)*	-1.9	-2.8
Public debt (% GDP)*	53.8	50.8
NBP reference rate <sup>##</sup> (%)	1.75	7.00
EURPLN <sup>†##</sup>	4.60	4.66

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.

## So far so good

- Data from major sectors of the economy indicate that in August the activity was growing for the second month in a row, after a sharp correction in 2q22, which resulted in a GDP decline by 2.1% q/q.
- Demand in the economy is surprisingly strong, but anecdotal evidence suggests that companies are selling off inventories. It might imply that the solid monthly data might not protect the economy from further economic growth slowdown.

**Industrial output** in August increased (in constant prices) by 10.9% y/y against 7.1% y/y (revised) in July. Seasonally adjusted production accelerated to 11.2% y/y from 10.2% in July. In August alone output increased by 0.7% (m/m, sa), marking the second consecutive monthly growth and confirming reversal of the sharp output slowdown seen in 2q22. The data shows that domestic manufacturing sector is less and less dependent on the economic situation in Germany. So far we have seen a declining correlation between Poland and Germany mainly in boom periods, now it seems to appear also in the downturn phase. The production of capital goods is still growing strongly. Automotive industry was conducive to 1pp increase of the acceleration of annual IP output growth, as the sector is catching the breath after a period of disruptions in supply chains. Production of durable consumer goods fell by 1.4% y/y in August, confirming that the energy shock significantly reduces the purchasing power and spending propensity of consumers. The official industrial data contrasts with the negative signals from economic surveys. A good reading does not change our expectations that the pace of production growth will be slowing down. The availability and the price of energy carriers remain the key risks for the sector.

**Construction output** in August increased more than expected, by 6.1% y/y, up from 4.2% y/y in July. The positive surprise was caused by building construction segment (+25.7% y / y), as civil engineering and specialised works recorded slight drops. The housing market indicators suggest however that a cooling-off period is coming - the number of building permits and commenced projects has collapsed in the last two months. This is the aftermath of higher interest rates, expensive materials and the worsening of consumer sentiment.

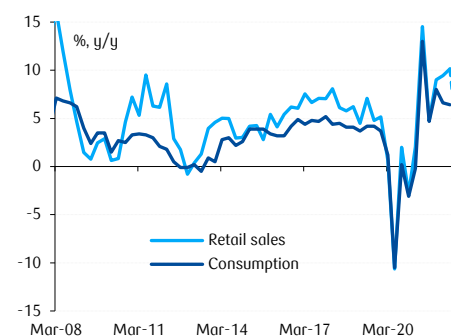
**Retail sales** in August increased in real terms by 4.2% y/y against 2.0% y/y in July. The August data confirms what has already been known about the condition of consumers. In y/y terms only the sales of basic items are growing, while other categories, including consumer durables, have dropped. Such a sales structure indicates that it is the influx of refugees from Ukraine that ensures the increase in trade volumes, while the average domestic consumer is most likely limiting expenses due to declining real purchasing power of income and high uncertainty. This is confirmed by the results of the consumer sentiment survey for September. Although the current indicator slightly increased, it remained near historical lows, and expectations have deteriorated. The assessments of the future unemployment level and the future financial condition of the household deteriorated particularly strongly (drops by 7.8 and 2.0 points, respectively), which is in line with media reports on employment restructuring in some enterprises. In the study, the percentage of households planning to cut spending has increased - there are already slightly more of them than immediately after the pandemic hit in 2020.

### Economic activity in monthly data



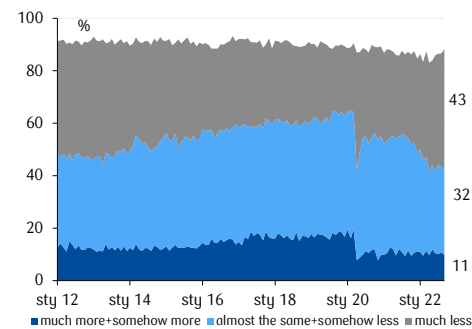
Source: GUS, PKO Bank Polski.

### Retail sales and consumption



Source: GUS, PKO Bank Polski.

### Households' planned spending vs. previous 12 months



Source: GUS, PKO Bank Polski.

## Weekly economic calendar

Indicator	Time (UK)	Unit	Previous	Consensus*	PKO BP	Comment
<b>Monday, 26 September</b>						
GER: Ifo Business Climate Index (Sep)	9:00	pts.	88.5	86.0	--	--
<b>Tuesday, 27 September</b>						
EUR: M3 money supply (Aug)	9:00	% y/y	5.5	5.6	--	--
HUN: MNB meeting (Sep)	13:00	%	11.75	12.75	12.75	--
USA: Durable goods orders (Aug, flash)	13:30	% m/m	-0.1	0.0	--	--
USA: S&P CoreLogic CS 20-City (Jul)	14:00	% y/y	18.65	--	--	--
USA: Consumer confidence (Sep)	15:00	pts.	103.2	104.0	--	--
USA: New home sales (Aug)	15:00	ths.	511	500	--	--
GER: Retail sales (Aug)	9:20	% y/y	-5.5	-5.0	--	--
<b>Wednesday, 28 September</b>						
USA: Trade Balance (Aug)	13:30	bn USD	-90.2	--	--	--
<b>Thursday, 29 September</b>						
EUR: Economic Sentiment Indicator (Sep)	10:00	pts.	97.6	96.0	--	--
EUR: Consumer Confidence (Sep, final)	10:00	pts.	--	--	--	--
GER: CPI inflation (Sep, flash)	13:00	% y/y	7.9	8.9	--	--
GER: HICP inflation (Sep, flash)	13:00	% y/y	8.8	9.7	--	--
CZ: Central bank meeting (Sep)	13:30	%	7.0	7.0	7.0	--
USA: Initial Jobless Claims (Sep)	13:30	ths.	213	--	--	--
USA: GDP growth (2q)	13:30	%q/q saar	-1.6	-0.6	--	--
USA: Personal consumption (2q)	13:30	%q/q saar	1.8	1.5	--	--
<b>Friday, 30 September</b>						
CHN: Manufacturing PMI (Sep)	2:45	pts.	49.5	50.2	--	--
GER: Unemployment Rate (Sep)	8:55	%	5.5	5.5	--	--
POL: CPI inflation (Sep, flash)	9:00	% y/y	16.1	16.5	16.3	Our nowcast suggests that CPI is still rising, mainly due to food and energy carriers.
EUR: CPI inflation (Sep)	10:00	% y/y	9.1	9.7	--	
EUR: Core inflation (Sep, flash)	10:00	% y/y	4.3	4.9	--	--
USA: Personal Income (Aug)	13:30	% m/m	0.2	0.3	--	--
USA: Personal spending (Aug)	13:30	% m/m	0.1	0.2	--	--
USA: PCE Deflator (Aug)	13:30	% y/y	6.3	6.0	--	--
USA: Core PCE inflation (Aug)	13:30	% y/y	4.6	4.8	--	--
USA: University of Michigan sentiment (Sep, final)	15:00	pts.	59.5	59.5	--	--

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^
L. Kotecki	4.8	"It seems to me that it is too early to stop the cycle. (...) Rates should be at a higher level. Core inflation is at 10 percent, so we have an answer as to what level rates should be at. The rate increases are too small." (12.09.2022, PAP, 14.09.2022 Gazeta.pl, TVN24, PAP)
H. Wnorowski	4.2	<b>"With the current state of knowledge, the main interest rate should not rise above 7 percent. I see no reason why it should be higher. But a caveat is needed here: this is an assessment with the current state of knowledge."</b> (19.09.2022, Parkiet)
A. Glapinski	3.4	"The summer holiday period is probably the turning point in our inflation, that highest inflation point. This is the plateau, it may be a little higher or lower, but essentially this is the high ceiling from which inflation will gradually decline. (...) As we go down with inflation, there is room to lower interest rates. (...) We have not formally completed the cycle of increases. Our next decisions will depend on incoming data. (...) What about interest rates in October? Either no change in the level of rates, or an increase of 25 bps. - This is what the Council will be considering. (8.09.2022, NBP press conference, PAP)
I. Dąbrowski	3.1	"In my opinion, if there will be another rate hike, it will be rather small - on a comparable scale to the last one (50bp - ed.) or even lower. If the decision depended solely on me, I would not raise rates at all anymore, or at most once by 25 bps." (19.07.2022, PAP)
C. Kochalski	3.1	"The space for further rate hikes has decreased significantly, and the probability of the end of the hike cycle has increased. After the MPC's September decision, the probability of no change in rates in October increased." (12.09.2022, Reuters).
P. Litwiniuk	2.9	"I think this (PKO: 25bp hike) is the baseline scenario, it can develop towards a higher hike in September, if confirmed by incoming data up to September 7 (PKO: MPC meeting date)." (1.09.2022, TVN24, PAP)
W. Janczyk	2.4	"The coming months, I hope, will bring no particular reasons to continue the interest rate hike cycle, although the impact of energy prices in the upcoming autumn-winter season on the economy and consumers is hard to predict right now. (...) "The council will act adequately to situation in our economy. In my opinion, it will strive to keep the lowest possible interest rate levels [while] targeting a realistic return to the inflation target." (21.07.2022, PAP).
J. Tyrowicz	--	<b>"With today's monetary policy, the Council will certainly not bring inflation down to target in 2022, nor in 2023. The chance that it will bring it down to target in 2024 is also minimal. Without changes in monetary policy, there is no way to shorten this very unpleasant period for households, when prices rise faster than they should. (...) Without improved coordination of monetary and fiscal policy on the part of the government, it will not be possible to realistically bring inflation down to the target in the shorter term."</b> (Money.pl, PAP, 21.09.2022)
(Vacant places (2))	--	--

\*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.

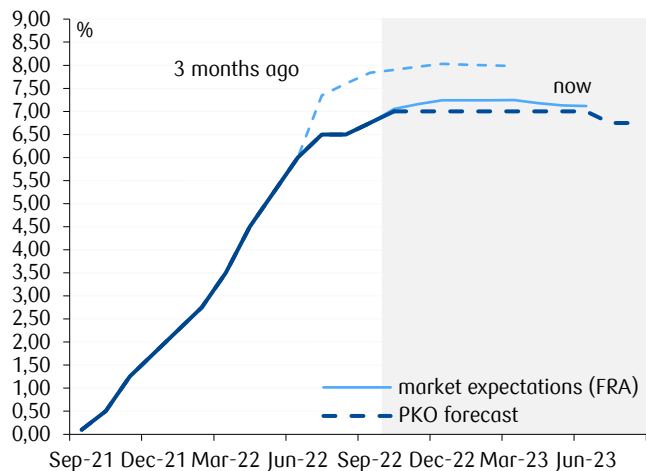
### Interest rates – PKO BP forecasts vs. market expectations

	1M	2M	3M	4M	5M	6M	7M	8M	9M	
Date	22-Sep	22-Oct	22-Nov	22-Dec	22-Jan	22-Feb	22-Mar	22-Apr	22-May	22-Jun
WIBOR 3M/FRA†	7.14	7.26	7.36	7.44	7.44	7.44	7.45	7.38	7.33	7.32
implied change (b. p.)		0.12	0.22	0.30	0.30	0.30	0.31	0.24	0.19	0.18
MPC Meeting	7-Sep	5-Oct	9-Nov	7-Dec	-	-	-	-	-	-
PKO BP forecast*	6.75	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00
market pricing*		6.87	6.97	7.05	7.05	7.05	7.06	6.99	6.94	6.93

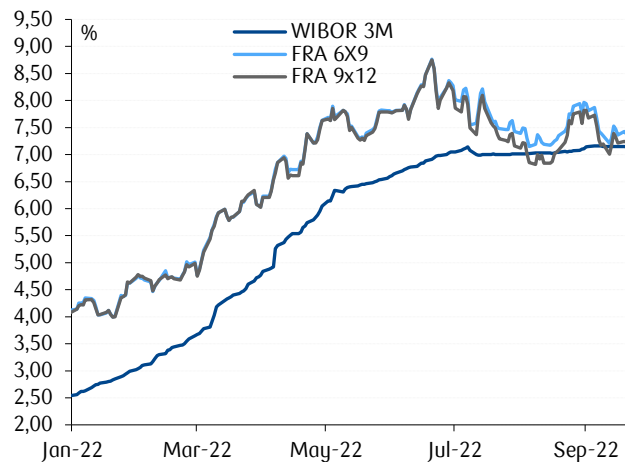
†WIBOR 3M from the last fixing, FRA transactions based on WIBOR 3M for subsequent periods, ‡in basis points, \*PKO BP forecast of the NBP reference rate.

## Poland macro chartbook

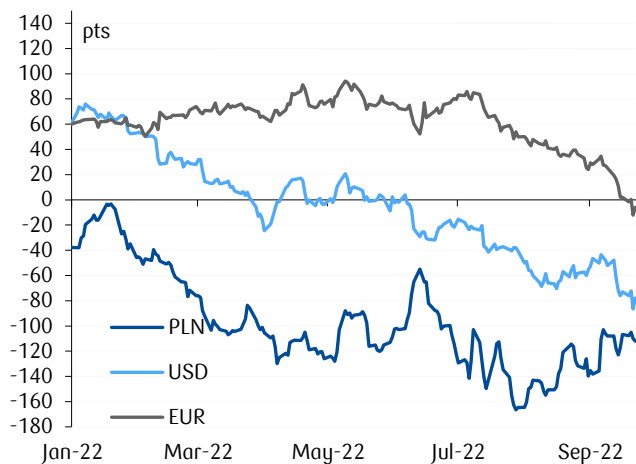
NBP policy rate: PKO BP forecast vs. market expectations



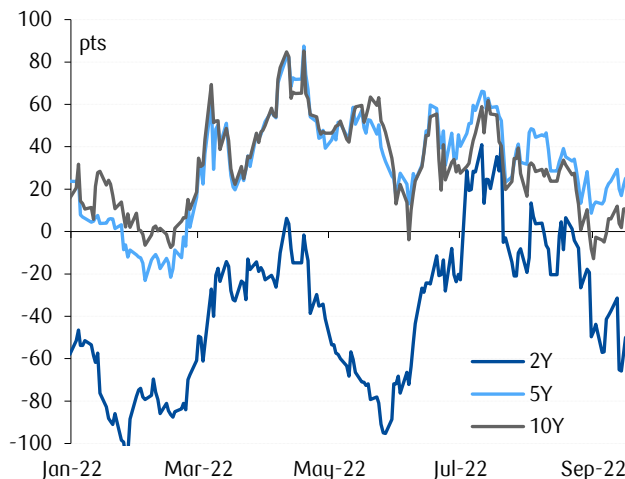
Short-term PLN interest rates



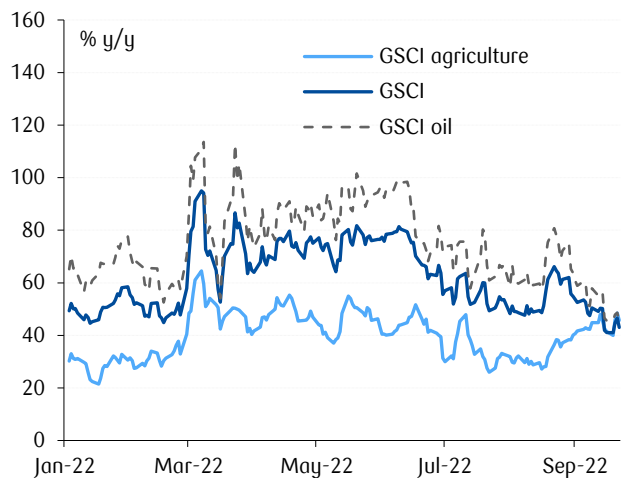
Slope of the swap curve (spread 10Y-2Y)\*



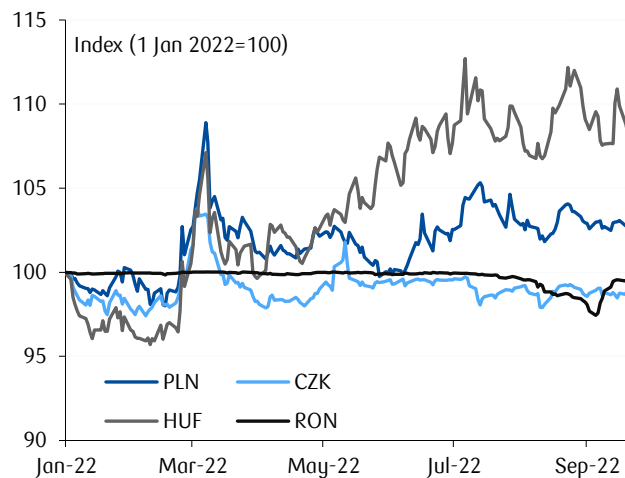
PLN asset swap spread



Global commodity prices (in PLN)

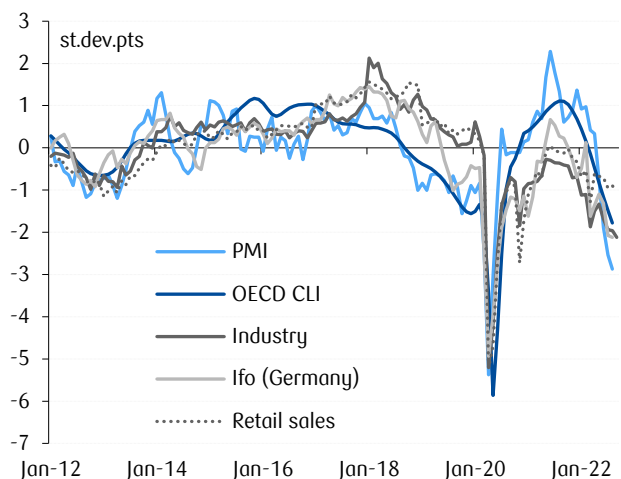


Selected CEE exchange rates against the EUR

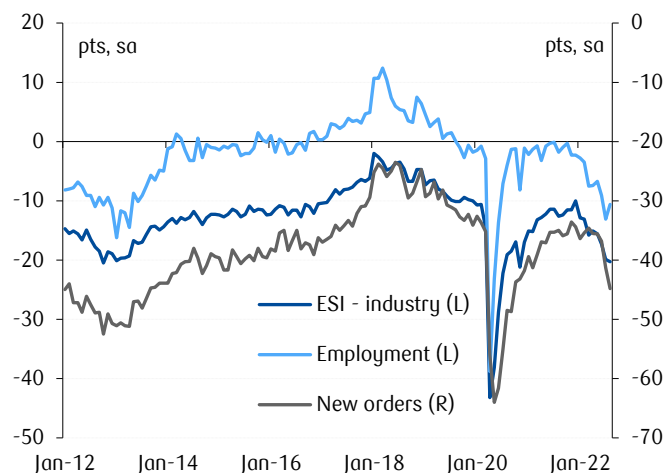


Source: Datastream, NBP, PKO Bank Polski. \*for PLN, and EUR 6M, for USD 3M.

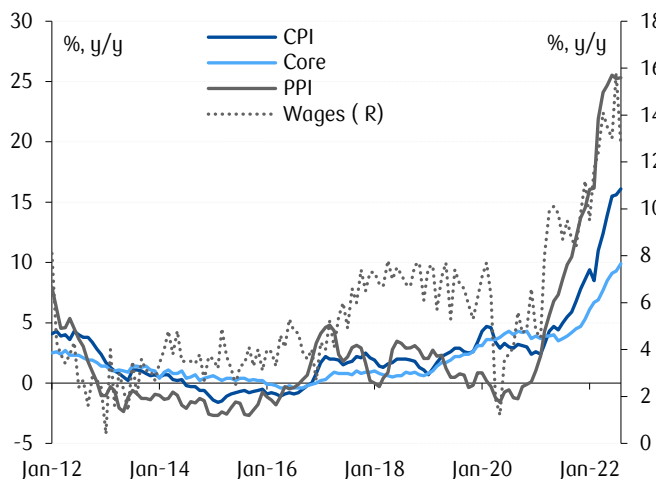
Economic sentiment indicators



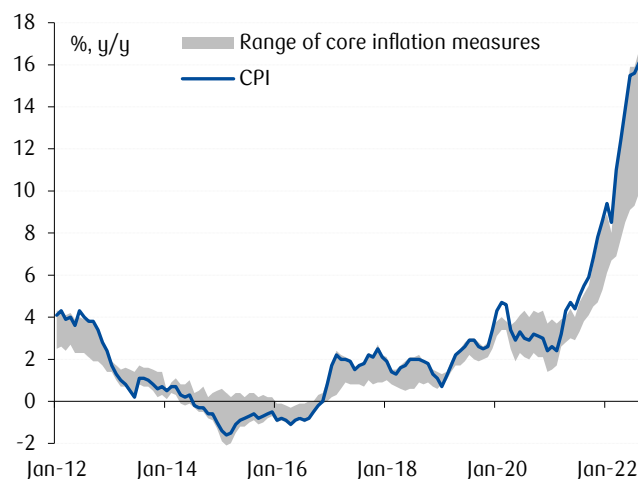
Poland ESI for industry and its components



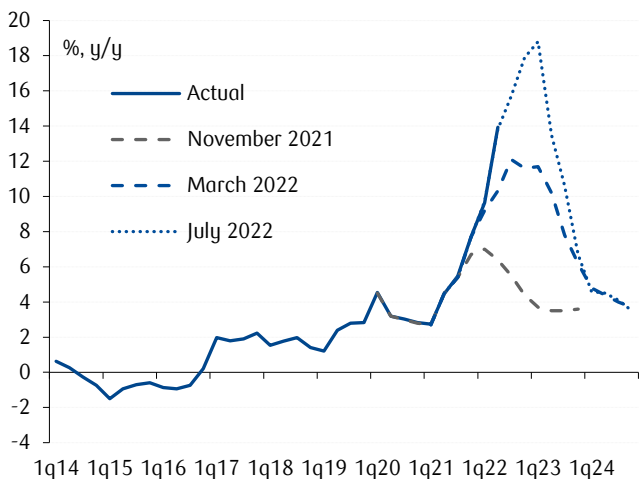
Broad inflation measures



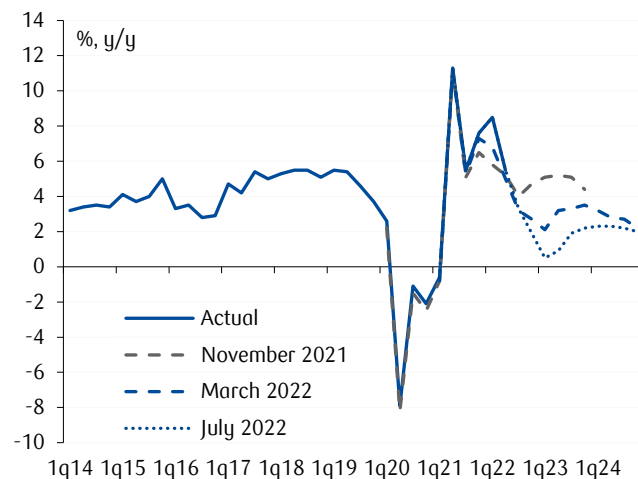
CPI and core inflation measures



CPI inflation – NBP projections vs. actual

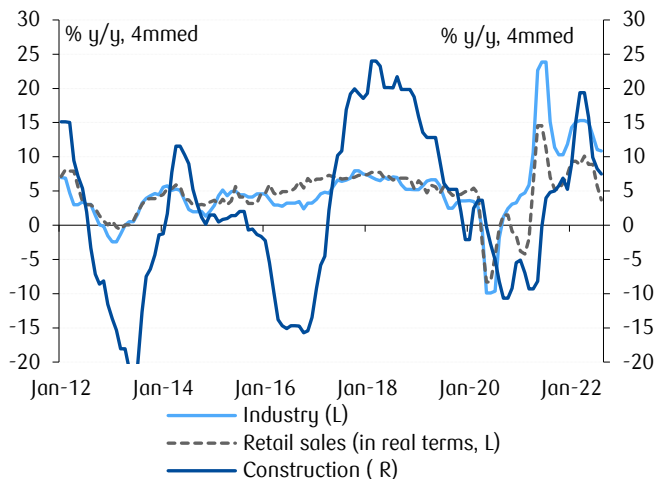


Real GDP growth – NBP projections vs. actual

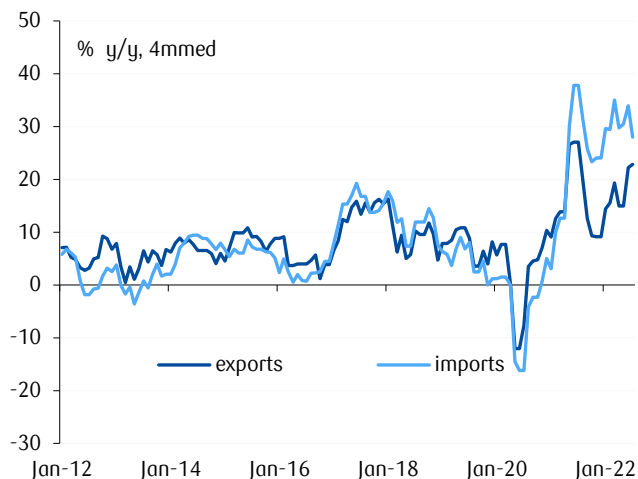


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

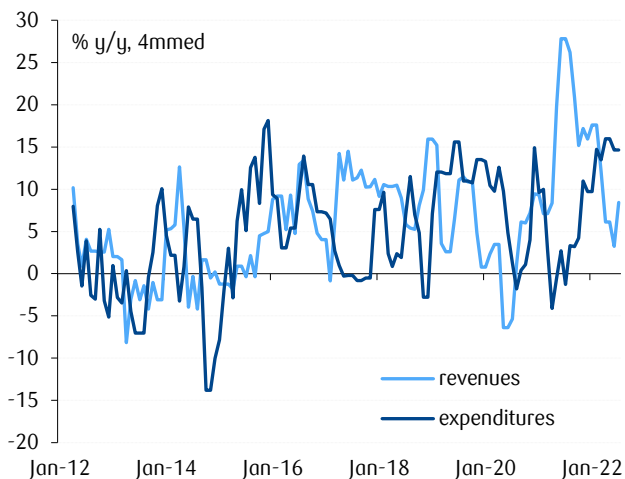
**Economic activity indicators**



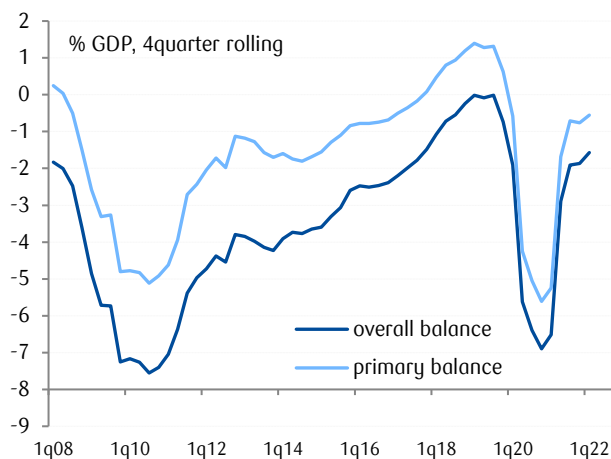
**Merchandise trade (in EUR terms)**



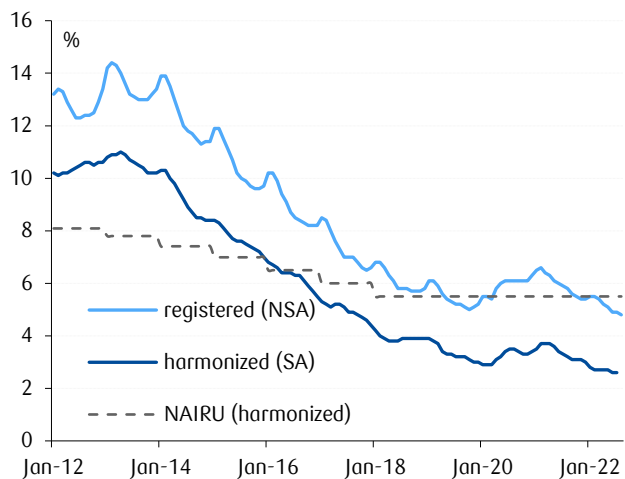
**Central government revenues and expenditures\***



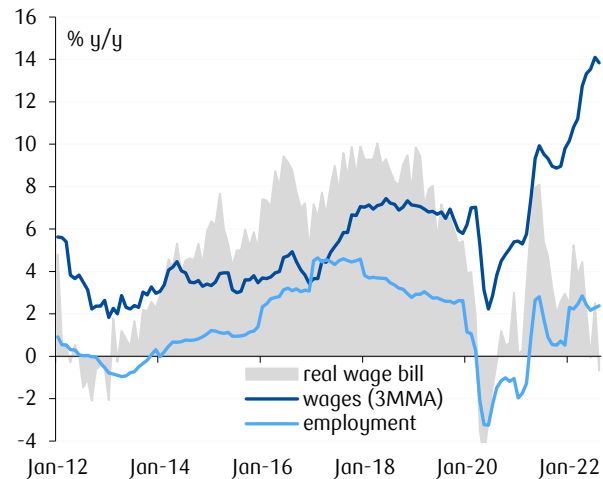
**General government balance (ESA2010)**



**Unemployment rate**

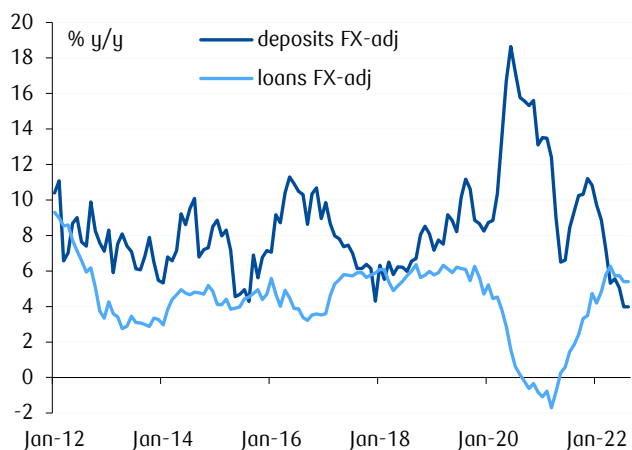


**Employment and wages in the enterprise sector**

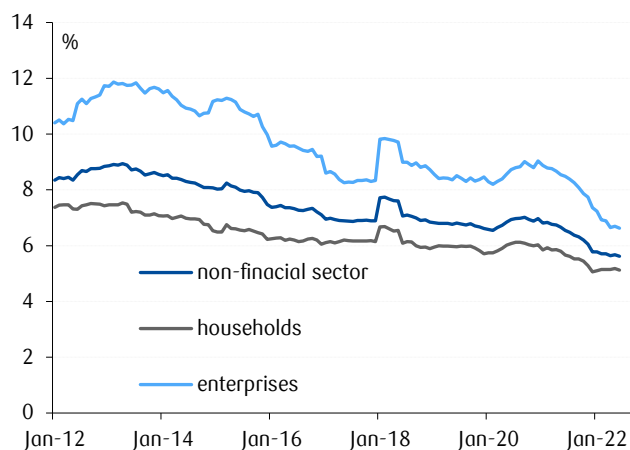


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. \*break in series in 2010 due to methodological changes.

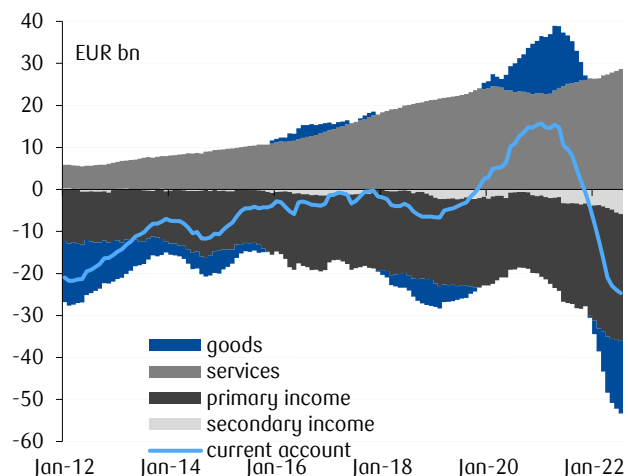
### Loans and deposits



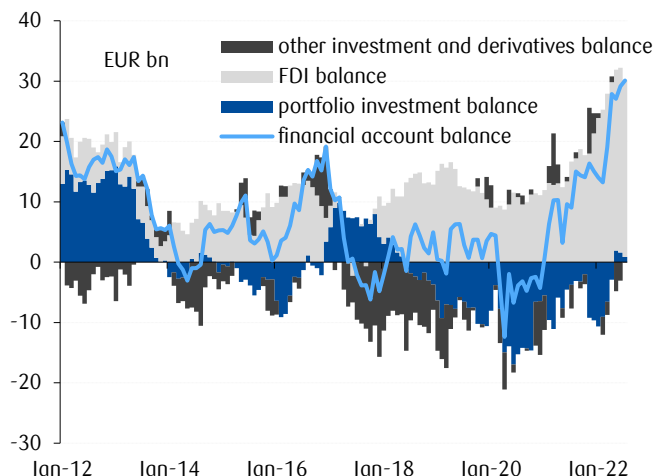
### Non-performing loans (NPLs) - by sectors\*



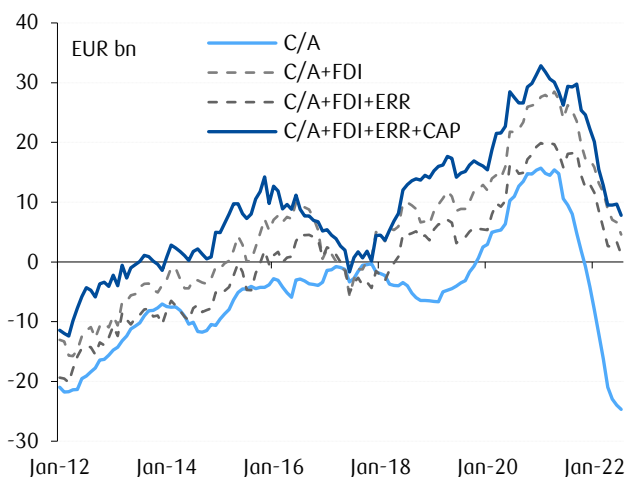
### Current account balance



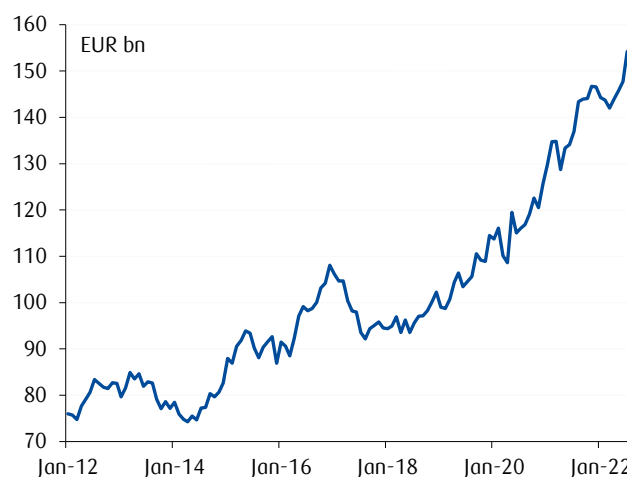
### Financial account balance



### 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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- [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)
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- [A moment of relief for the MPC](#) (Feb 18, 2022)
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