

## No fireworks at the start of 2q

### TOP MACRO THEME(S):

- **No fireworks at the start of 2q (p.2):** April macroeconomic data point to rather weak economic conditions at the start of 2q23, though consumer outlook has improved somewhat.
- **CEE gradually looks out for rate cuts (p.4):** The outlook for further easing of price pressures in the region is favourable, with a perspective of monetary policy normalization looming on the horizon.

### WHAT ELSE CAUGHT OUR EYE:

- **Investment outlays of large companies (50+ empl.) in 1q23 surprised on the upside with a growth of 7.2% y/y (against 5.9% y/y in 2022).** Good investment performance was broad-based and supports our view that investment in the whole economy will continue to grow modestly in 2023.
- **Money supply growth (M3) increased by 6.7% y/y vs 6.5% y/y in March,** accompanied by a significant monthly increase of cash in circulation, most likely due to PIT refunds. Overall credit growth (y/y) was negative for the first time since Apr.21 due falling volume of both consumer and mortgage loans.
- NBP estimates that **fiscal package** announced by the ruling party, which would start in 2024, would cost approx. 0.7% of GDP. It is expected to add 0.1pp and 0.3pp to inflation in 2024 and 2025 respectively and 0.3pp and 0.2pp to GDP. Cost of the package proposed by the opposition is estimated at 2.4% of GDP.

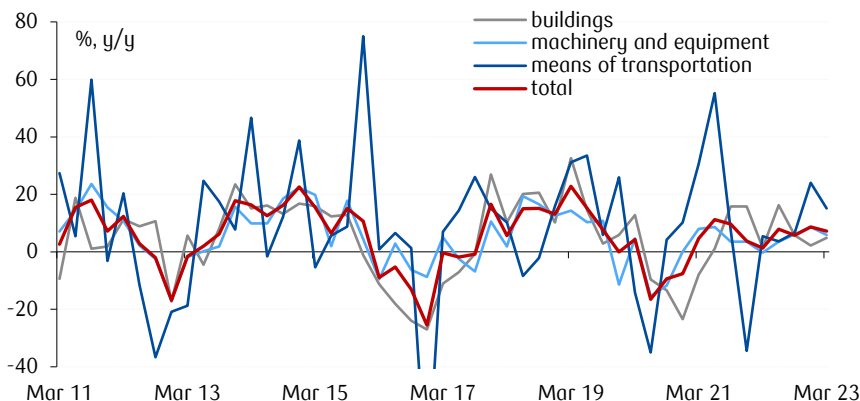
### THE WEEK AHEAD:

- Our estimates point that **CPI in May will decline by app. 1pp.**
- **The 2<sup>nd</sup> estimate of GDP growth in 1q23** will include data on its structure which may shed more light on a surprisingly minor fall in GDP (-0.2% y/y). We still expect private consumption to be the main drag on growth.
- **Manufacturing PMI** shall reflect a further deterioration of economic conditions in the industry, though a 2<sup>nd</sup> in row monthly decline of input costs and final prices would be much welcomed from the inflation perspective.

### NUMBER OF THE WEEK:

- **+11.1% y/y** –growth rate of the number of foreigners insured in the Social Insurance Institution as of April.

### CHART OF THE WEEK: Investment outlays of large enterprises (50+)



Source: GUS, PKO Bank Polski.

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	2022	2023
Real GDP (%)	5.1	0.1
Industrial output (%)	10.5	2.2
Unemployment rate <sup>#</sup> (%)	5.2	5.4
CPI inflation <sup>**</sup> (%)	14.4	12.5
Core inflation <sup>**</sup> (%)	9.1	10.5
Money supply M3 (%)	5.6	5.6
C/A balance (% GDP)	-3.0	-0.3
Fiscal balance (% GDP)*	-3.7	-5.4
Public debt (% GDP)*	49.1	49.9
NBP reference rate <sup>##</sup> (%)	6.75	6.50
EURPLN <sup>###</sup>	4.69	4.53

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

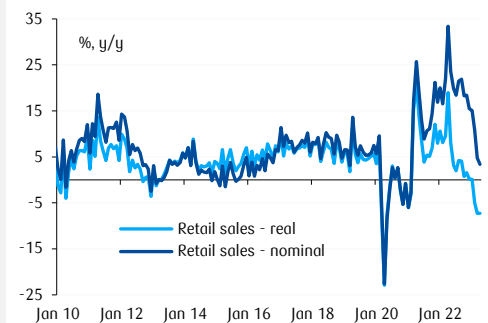
## No fireworks at the start of 2q

- The worst may be behind the consumer segment as the fall in retail sales stabilised in April at -7.3% y/y. A small uptick against March (+1.1% m/m sa) implies that consumer spending has stopped declining. Despite that, consumer sentiment keeps on improving, including with regard to inflation outlook.
- The decline of industrial production was more profound in April (-6.2% y/y against -3.0% in March), under a strong influence of calendar effects. Export-oriented sectors remain the bright stars of the industry, although they experience some slowdown in the production growth. Construction output rebounded by 1.2% y/y against a fall of 1.5% in March, boosted by statistical base effect. This does not alter the overall picture that the activity in the construction sector remains weak while its perspectives gloomy.
- Labour market is heading towards balance. As expected, average wage growth in the enterprise sector continued to slow down to 12.1% y/y in April against 12.6% in March. Average employment growth in the sector stood at 0.4% y/y. The m/m change was slightly better than the pre-pandemic seasonal pattern, mitigating concerns about an increase in unemployment.

Retail sales fell by 7.3% y/y, the same as in March, accompanied by a small uptick against the previous month (1.1% sa). Weaker consumer demand was observed among all published categories, with the exception of clothing and footwear. Consumer segment remains under a negative impact of falling real incomes and the lack of net inflow of refugees from Ukraine. Meanwhile, consumer sentiment continues to improve, including with regard to conducting major purchases, which stands as a positive sign that the consumer recession might have passed the bottom and spending is likely to stabilize, although at levels much lower than a year ago. Polish consumers have also become less pessimistic about the inflation outlook.

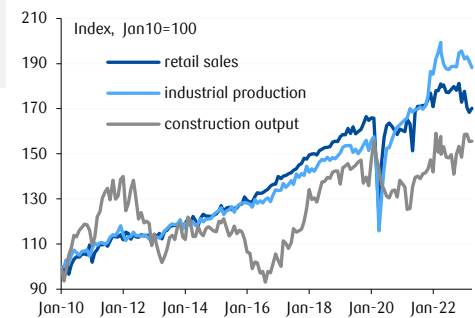
Industrial production in April fell by 6.4% y/y against a fall by 3.0% y/y in March. Lower output was recorded among a wide range of branches (25 out of 34) due to unfavorable calendar effects. Accounting for this factor, seasonally adjusted industrial production also declined by 3.4% y/y and 1.6% m/m, being dragged down by weak consumer demand and reversing inventory cycle. Industrial production declined despite a noticeable rebound in production of coke and refined petroleum product (based on our estimates since data on this category is not published due to statistical secret). Export-oriented branches, in particular the automotive sector, continued to increase their output, supported by the easing of value chain disruptions, though experiencing a slowdown in activity growth. On a more positive note, PPI inflation declined further to 6.8% y/y from 10.3% in March. Broad-based nature of this fall implies similar tendencies in consumer prices. **Construction output rebounded by 1.2% y/y against a fall of 1.5% in March, boosted by statistical base effects.** This does not alter the overall picture that the activity in the construction sector remains weak, especially with regard to the construction of buildings, while declining number of building permits amid high interest rates make perspectives for this sector rather gloomy.

### Retail sales growth



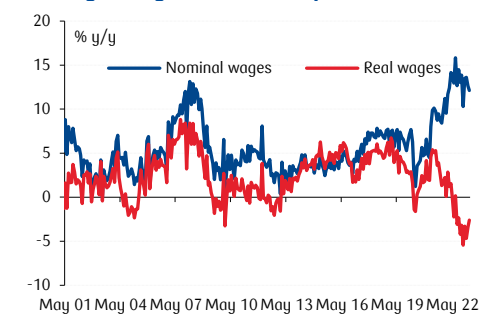
Source: GUS, PKO Bank Polski.

### Monthly data on economic activity



Source: GUS, PKO Bank Polski.

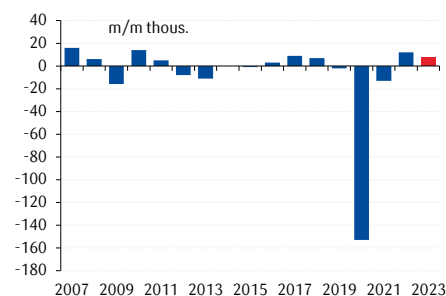
### Average wages in the corporate sector



Source: GUS, PKO Bank Polski.

In the labour market the average wage growth in the enterprise sector slowed down to 12.1% y/y against 12.6% y/y in March and 13/3% y/y on average in 1q23. The strongest wage pressure is observed in the transport sector which faces labour shortages as well as in culture and entertainment, most likely boosted by higher minimum wage. In line with the weak economic conditions in the construction sector, wages growth slowdown was most profound in this part of the economy. Variable components of compensation played a smaller part in the overall average wage growth in April. It was mainly due to seasonality, yet we maintain our view that their diminishing role is likely to support the deceleration of wages growth. Meanwhile, the **average employment growth in the sector stood at 0.4% y/y**, with the m/m change being slightly higher than the pre-pandemic seasonal pattern, which mitigates concerns about an increase in unemployment. Favourable outlook – from the point of view of employees – is also supported by a significant share of enterprises reporting problem of labour shortages.

### Change in corporate employment in April



Source: GUS, PKO Bank Polski.

## CEE gradually looks out for rate cuts

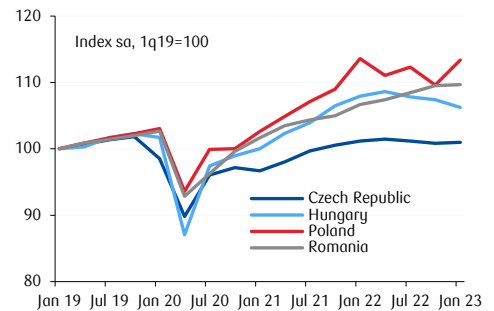
- 1q23 saw a further deterioration of economic conditions in the CEE region, in particular with regard to consumption, although Romania remained resilient with this regard.
- First months of 2023 brought a fall in inflation in all the economies, though disinflation has been strongly embedded in base effects on fuel and food prices, with core measures still having a strong momentum. Nevertheless, outlook for further easing of price pressures is favourable, with a perspective of monetary policy normalization looming on the horizon.

1q23 saw a further deterioration of economic conditions in the CEE region. Both Czech and Polish economies contracted by 0.2% y/y. Poland's surprisingly good start of the year in q/q terms (+3.9%) should be interpreted with caution amid relatively bumpy seasonally adjusted GPD path. Private consumption has most likely been the main drag on economic growth, with investment growing modestly and good net export performance. Meanwhile, only marginal q/q GDP growth in the Czech Republic has interrupted the technical recession, however, consumption fell for the sixth consecutive quarter. Hungary contracted by 1.1% y/y, with industry being the main contributor to the decrease in economic performance. In contrast, Romanian economy grew by 2.3% y/y. Consumer segment remains resilient in Romania especially on the services side, hence consumption has been the main driver of GDP growth, followed by investment. The main drag on growth stems from the industry, which has not yet returned to pre-pandemic levels.

Disinflationary trends continue in all the economies of the region, embedded to a great extent in base effects on fuel and food prices. Since January, HICP inflation in Czech Republic declined by nearly 5pp to 14.3% y/y, with inflation in Poland falling to 14.0% and being approx. 3pp lower than its peak. Meanwhile, inflation in Hungary remains well above 20%, with a minor decrease in recent months. Inflation in Romania equalled 10.4% in April. Core inflation momentum remains strong within the CEE, with the exception of Czech Republic, which saw its noticeable decline to 11.4% y/y in April, a level that is close to that recorded in Poland (11.3 y/y). First signs of easing of core price pressures are on the horizon, supported by weaker consumer demand as well as favourable exchange rate developments.

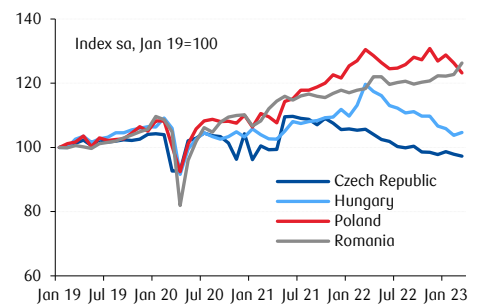
Hungarian central bank was the first one to take steps towards the normalization of monetary policy. Since March it reduced the upper corridor of interest rates twice, by 550bp to 19.5%. It also reduced interest rate on optional reserves and fx swaps by 100bp. Although the CNB has not officially terminated the hiking cycle, further interest rate increases are highly unlikely. At the same time there is a broad agreement among its Board members that interest rate cuts are not on the horizon either, although CNB's forecast assumes a gradual decline of interest rates throughout 2023. Meanwhile, the Governor of the NBP expressed hopes for first cuts in interest rates by the end of the year, subject to smooth continuation of disinflationary processes. NBR has in fact already slightly eased monetary policy by allowing for higher liquidity, which has effectively pushed market rates down, towards the deposit rate of 6%.

### Gross domestic product



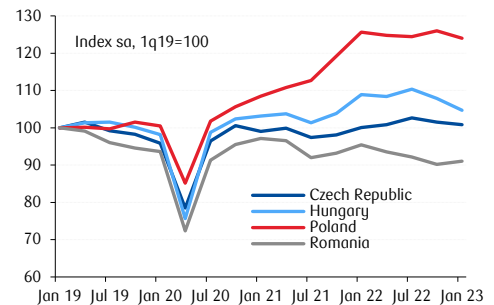
Source: Eurostat, PKO Bank Polski.

### Retail sales



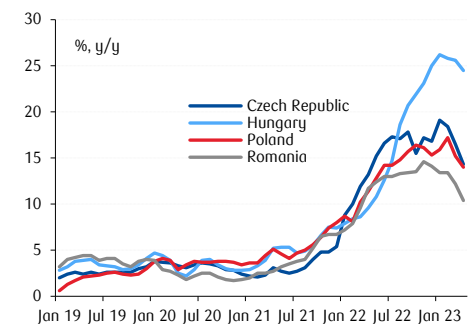
Source: Eurostat, PKO Bank Polski.

### Industrial production



Source: Eurostat, PKO Bank Polski.

### HICP inflation



Source: Eurostat, PKO Bank Polski.

## Weekly economic calendar

Indicator	Time (UK)	Unit	Previous	Consensus*	PKO BP	Comment
<b>Tuesday, 30 May</b>						
EUR: M3 money supply (Apr)	9:00	% y/y	2.5	2.1	--	--
EUR: Consumer Confidence (May, final)	10:00	pts.	-17.5	-17.4	--	--
EUR: Economic Sentiment Indicator (May)	10:00	pts.	99.3	99.0	--	--
USA: S&P CoreLogic CS 20-City (Mar)	14:00	% y/y	0.36	--	--	--
USA: Consumer confidence (May)	15:00	pts.	101.3	99.9	--	--
<b>Wednesday, 31 May</b>						
GER: Unemployment Rate (May)	8:55	%	5.6	5.6	--	--
<b>POL: CPI inflation (May, flash)</b>	<b>9:00</b>	<b>% y/y</b>	<b>14.7</b>	<b>13.4</b>	--	<b>We expect the CPI inflation to decline by app. 1pp. The 2<sup>nd</sup> estimate should confirm a relative good result, with private consumption having the most negative contribution.</b>
<b>POL: GDP growth (1q)</b>	<b>9:00</b>	<b>% y/y</b>	<b>2.3</b>	<b>-0.2</b>	<b>-0.2</b>	
GER: CPI inflation (May, flash)	13:00	% y/y	7.2	6.5	--	
GER: HICP inflation (May, flash)	13:00	% y/y	7.6	6.9	--	--
USA: JOLTS Report (Apr)	15:00	million	9,59	--	--	--
<b>Thursday, 1 June</b>						
CHN: Manufacturing PMI (May)	2:45	pts.	49.5	49.5	--	--
<b>POL: Manufacturing PMI (May)</b>	<b>8:00</b>	<b>pts.</b>	<b>46.6</b>	<b>45.9</b>	--	<b>Further deterioration of economic conditions in the sector, but also easing of price and cost pressures.</b>
GER: Manufacturing PMI (May, final)	8:55	pts.	44.5	42.9	--	
EUR: Manufacturing PMI (May, final)	9:00	pts.	45.8	44.6	--	--
EUR: HICP inflation (May)	10:00	% y/y	7.0	6.4	--	--
EUR: Core inflation (May, flash)	10:00	% y/y	5.6	5.5	--	--
EUR: ECB accounts	12:30	--	--	--	--	--
USA: ADP National Employment (May)	13:15	thous.	296	160	--	--
USA: Initial Jobless Claims (May)	13:30	thous.	229	--	--	--
USA: Manufacturing PMI (May, final)	14:45	pts.	50.2	48.5	--	--
USA: ISM Manufacturing (May)	15:00	pts.	47.1	47.1	--	--
<b>Friday, 2 June</b>						
USA: Non-Farm Payrolls (May)	13:30	thous.	253	180	--	--
USA: Unemployment Rate (May)	13:30	%	3.4	3.5	--	--
USA: Average Earnings (May)	13:30	% y/y	4.4	4.3	--	--

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	"It is temporary (PLN appreciation), it is related to the difference in interest rates and expectations as to the further behaviour of interest rates for major world currencies. This is very beneficial from a short-term perspective, because it strengthens the reduction in the rate of price growth. However, in the long-term perspective, I do not suspect (...) that the long-term difference in inflation rates between us and global economies will not translate into the price of the zloty" (18.05.2023, Tok FM, PAP)
L. Kotecki	4.8	"If it were the case [increased child subsidy], this would make reaching [inflation] target more distant and also makes rate cuts more distant. (...) If the current [inflation] projection, which does not include additional spending, indicates that we do not reach the target in 2025, we should not be hoping for cuts at least to end-2025. (...) Additional spending would boost inflation by ca. 2 pps." (18.05.2023, money.pl, PAP)
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	"...The falling consumption is a very good sign - it's one of the main sources of disinflation progress or solidification."(16.05.2023, Radio Maryja, PAP) "We have to remember that this will be time when inflation in Poland will not be some significant problem. But obviously such social benefit (raising child benefit by 300 PLN to 800 PLN) will be stimulating inflation." (16.05.2023, TVP Bialystok, PAP)
A. Glapinski	2.4	<b>"After a very strong tightening of the monetary policy, we stopped the cycle of hikes. (...) With regard to further decisions, everything will depend on inflation and the economic conditions. I hope that the process of disinflation will continue and interest rate cuts will be possible very soon, still in the fourth quarter (...) It will only be possible when we will be sure that inflation is falling towards the inflation target."</b> (26.05.2023, TV Republika, 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	"We are counting on inflation going down to single digits near end-year, and perhaps even already in early autumn. (...) Inflation has been systematically falling since December, so it seems it is a lasting tendency." (1.05.2023, TVP Lublin, PAP)
I. Dabrowski	1.9	<b>"At the end of the year, there may be room for interest rate cuts. (...) If inflation falls quickly, we will consider a decision to cut interest rates at the end of the year. (...) It will certainly not be a hasty decision. Data incoming after summer holidays will be crucial "</b> (25.05.2023, money.pl, 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.

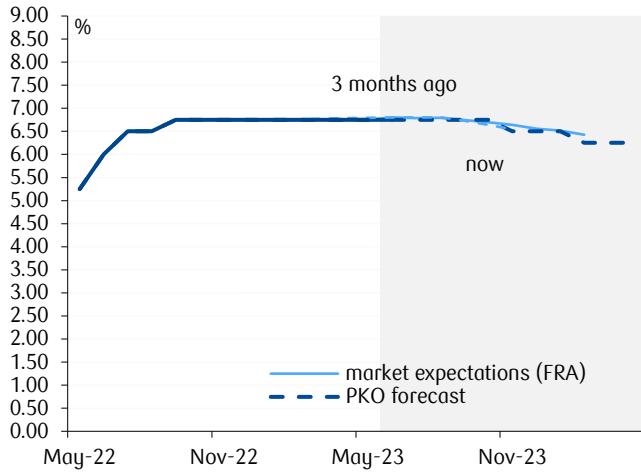
### Interest rates – PKO BP forecasts vs. market expectations

	1M	2M	3M	4M	5M	6M	7M	8M	9M	
Date	25-May	25-Jun	25-Jul	25-Aug	25-Sep	25-Oct	25-Nov	25-Dec	25-Jan	25-Feb
WIBOR 3M/FRA†	6.90	6.90	6.89	6.88	6.74	6.65	6.55	6.46	6.37	6.28
implied change (b. p.)		0.00	-0.01	-0.03	-0.16	-0.25	-0.36	-0.44	-0.53	-0.63
MPC Meeting		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	6.75	6.50	6.50	6.50	6.25
market pricing^		6.75	6.74	6.73	6.59	6.50	6.40	6.41	6.37	6.28

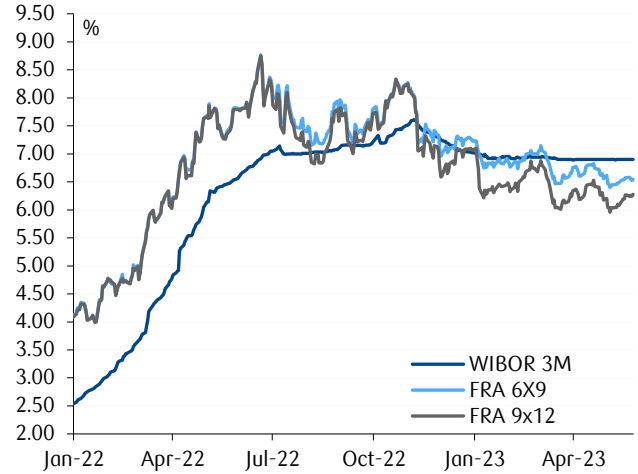
WIBOR 3M from the last fixing, FRA transactions based on WIBOR 3M for subsequent periods, †in basis points, \*PKO BP forecast of the NBP reference rate.

## Poland macro chartbook

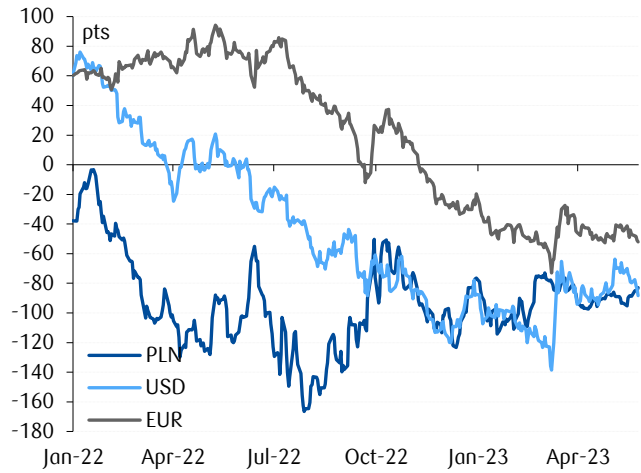
NBP policy rate: PKO BP forecast vs. market expectations



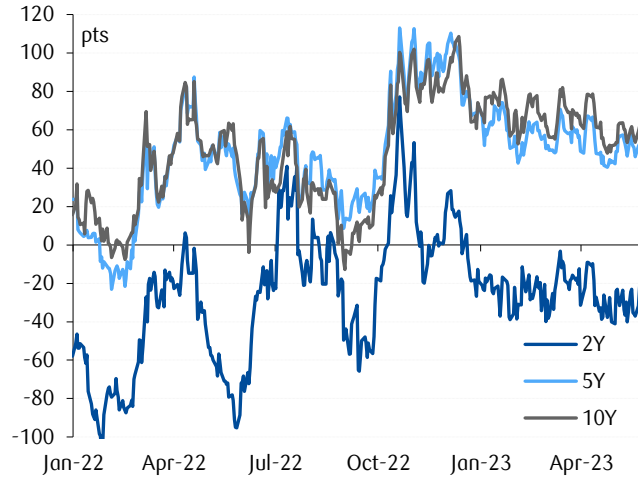
Short-term PLN interest rates



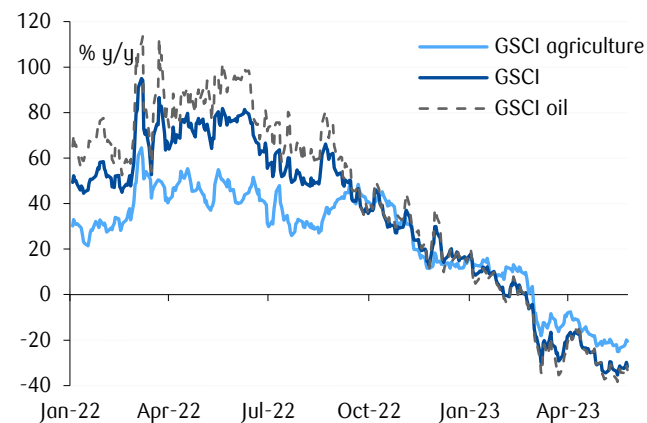
Slope of the swap curve (spread 10Y-2Y)\*



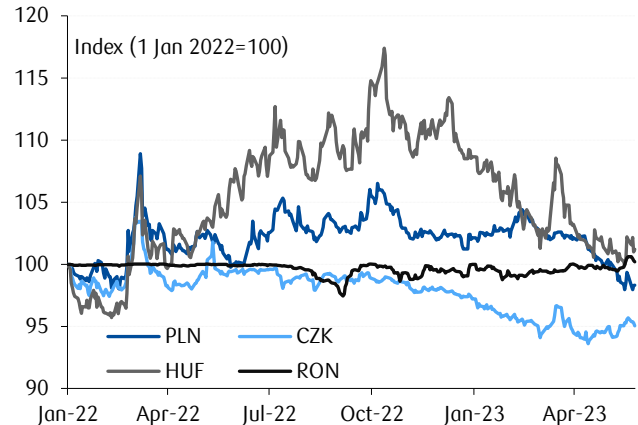
PLN asset swap spread



Global commodity prices (in PLN)

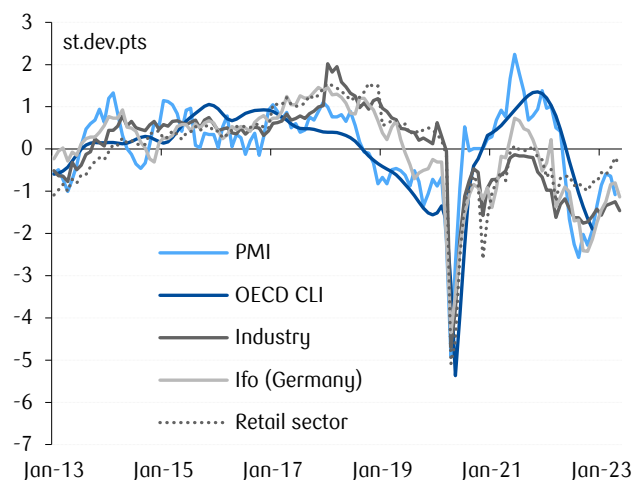


Selected CEE exchange rates against the EUR

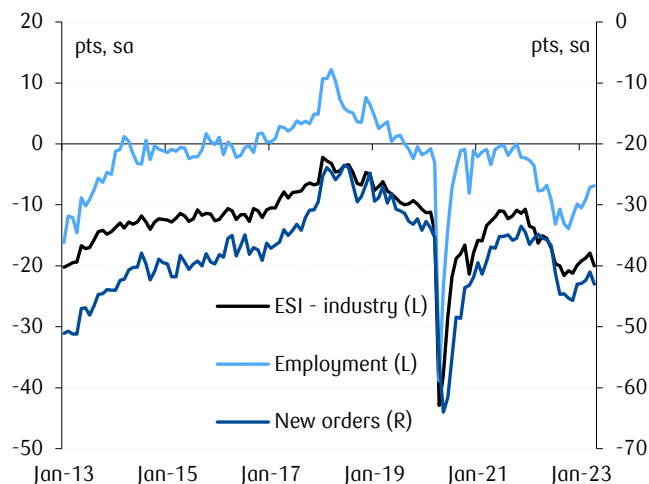


Source: Datastream, NBP, PKO Bank Polski. \*for PLN, and EUR 6M, for USD 3M.

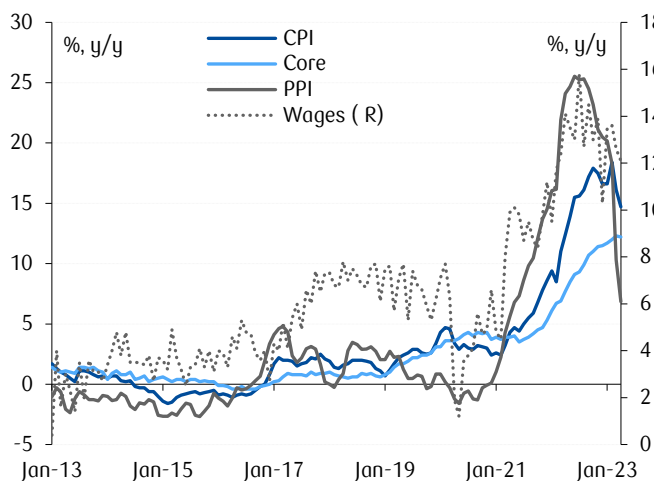
Economic sentiment indicators



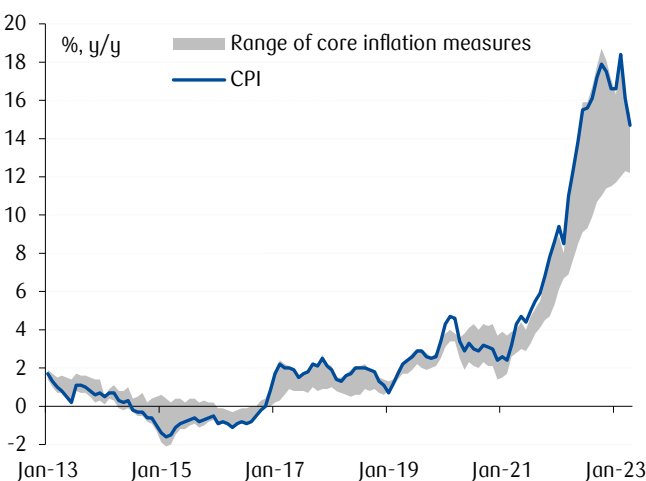
Poland ESI for industry and its components



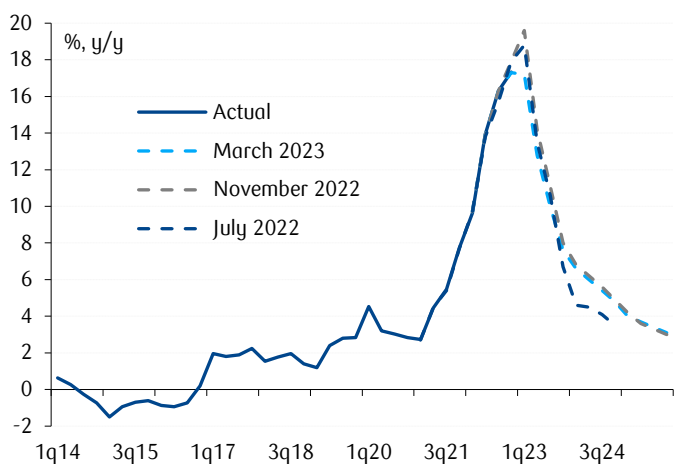
Broad inflation measures



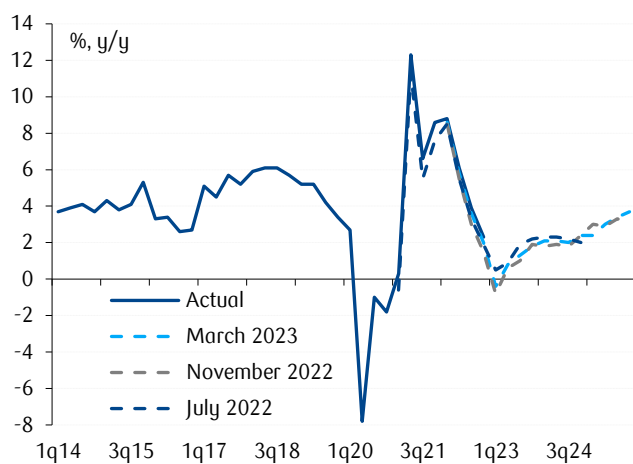
CPI and core inflation measures



CPI inflation - NBP projections vs. actual



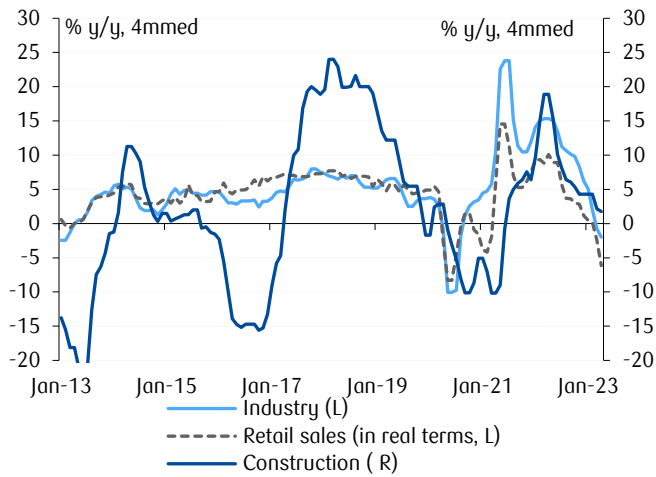
Real GDP growth - NBP projections vs. actual



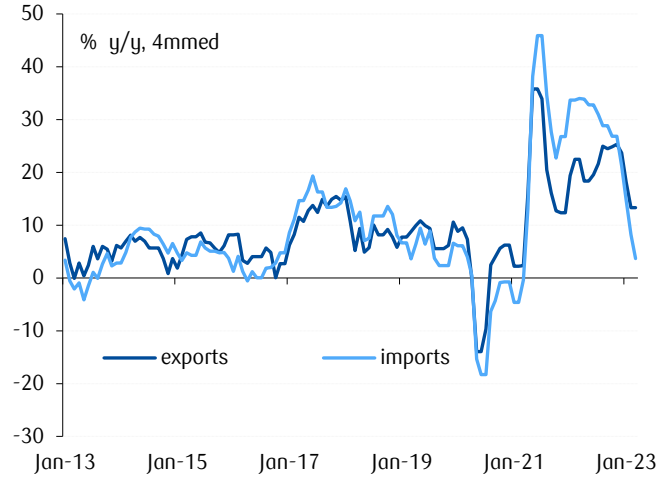
Source: Datastream, GUS, EC, NBP, PKO Bank Polski.



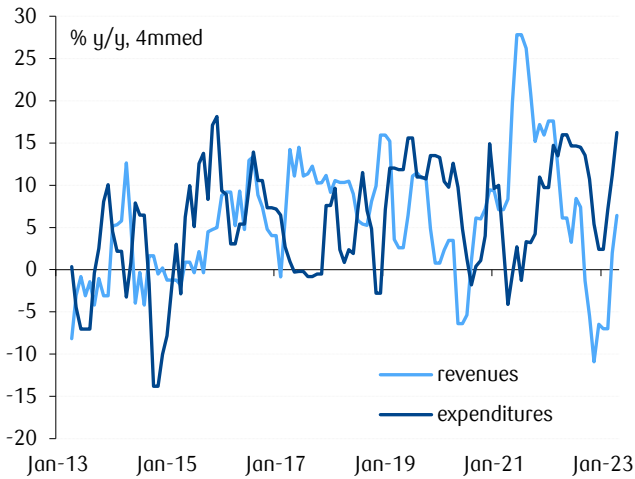
### Economic activity indicators



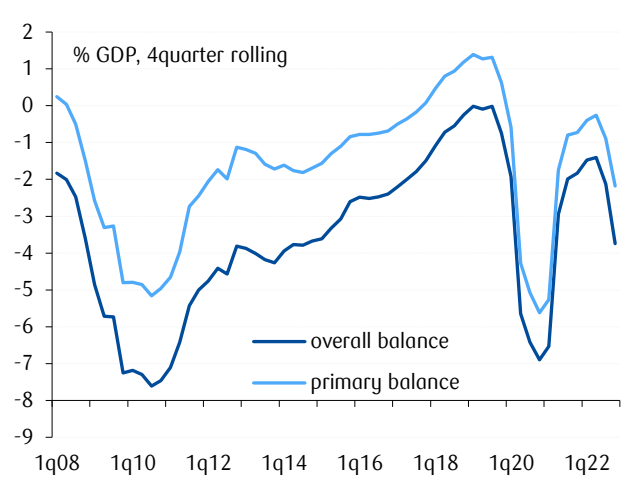
### Merchandise trade (in EUR terms)



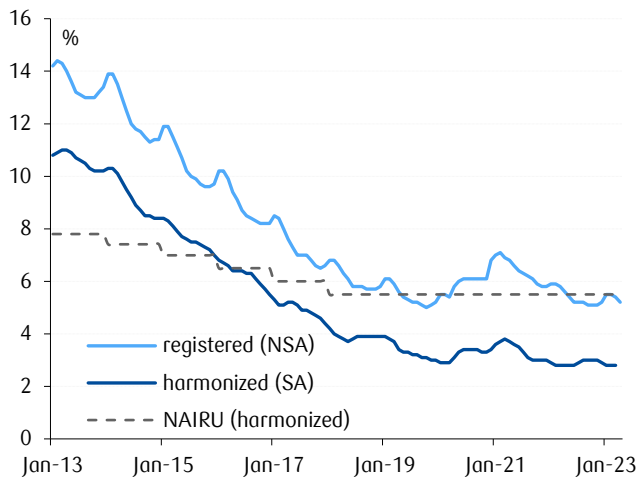
### Central government revenues and expenditures\*



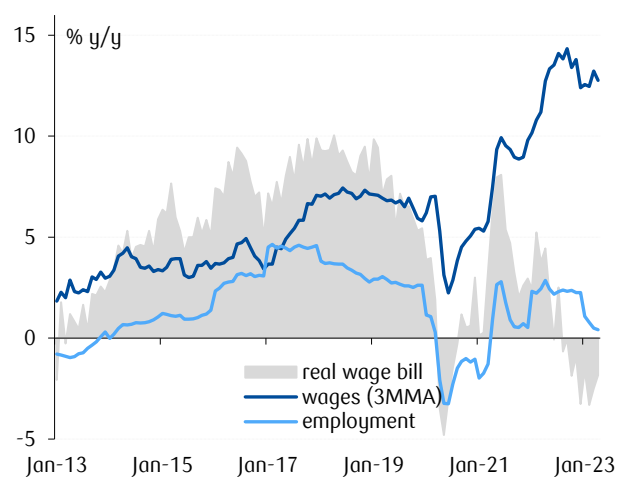
### General government balance (ESA2010)



### Unemployment rate

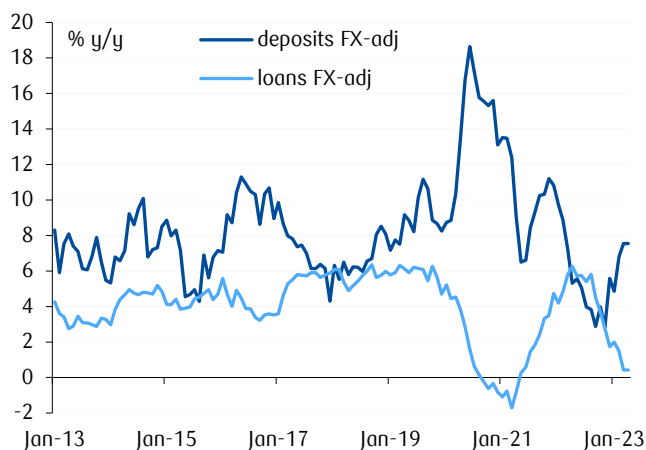


### Employment and wages in the enterprise sector

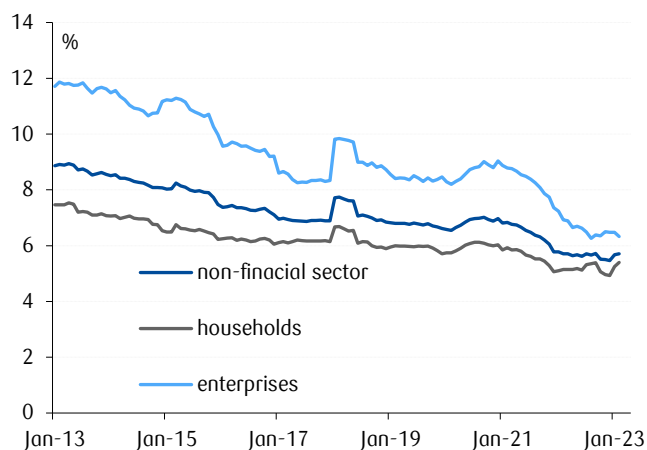


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. \*break in series in 2010 due to methodological changes.

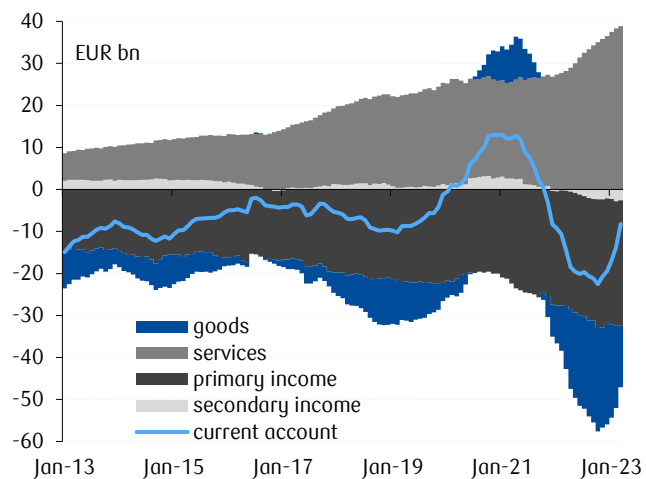
### Loans and deposits



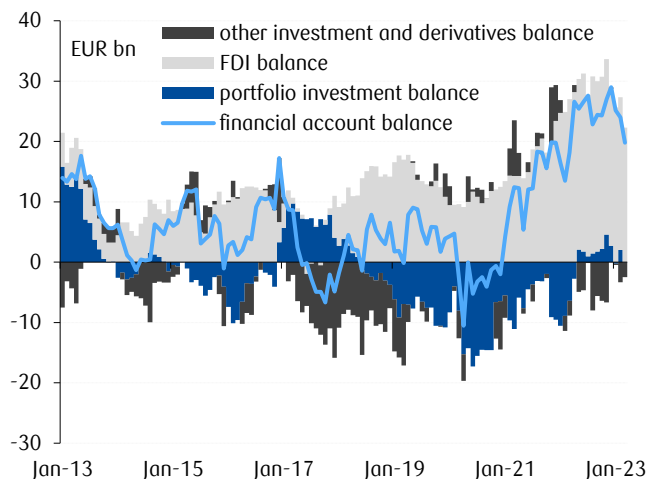
### Non-performing loans (NPLs) - by sectors\*



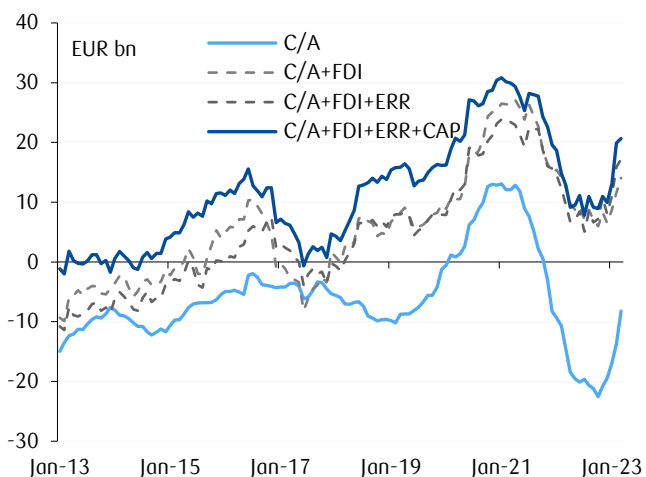
### Current account balance



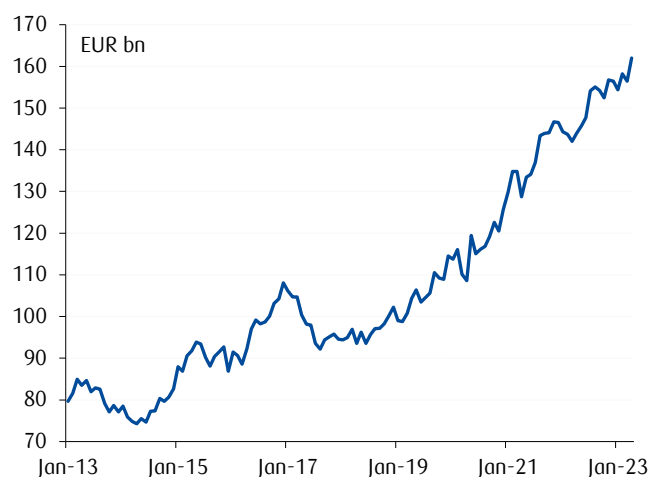
### Financial account balance



### 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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- [CPI keeps falling down](#) (Apr 28, 2023)
- [Fiscal glass: half full or half empty?](#) (Apr 21, 2023)
- [Polish MPC still in a pause mode](#) (Apr 14, 2023)
- [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)
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