

Let the disinflation begin

TOP MACRO THEME(S):

- **Slow start of disinflation (p.2):** CPI inflation in March declined to 16.2% y/y from 18.4% y/y in February, above expectations. Although inflation embarked on a downward journey, rising core measure brings to mind that its return to inflation target will be a long and bumpy road.

WHAT ELSE CAUGHT OUR EYE:

- **Moody's agency kept Poland's credit rating at A2 with a stable outlook.** It also judged that risks for the rating are balanced despite an exposure to geopolitical risk, based on strong fundamentals and low indebtedness. Meanwhile, S&P kept GDP growth forecast for 2023 at 0.9% and increased that for 2024 by 0.2pp to 3.4%. It also predicts that the MPC will keep interest rates at the current level throughout 2023, with a cumulative reduction of 150bp in 2024.
- **Retail trade sector sees a very slow growth of insufficient demand as a barrier limiting activity.** It seems that enterprises have not yet fully experienced negative consequences of rising prices on demand, which enables them to implement further increases. However, falling expectations with regard to prices point to consumers' tolerance of price increases reaching its limit.

THE WEEK AHEAD:

- **The highlight of the week will be the MPC meeting on Wednesday.** We expect the MPC to maintain the status quo as inflation has already embarked on the disinflationary path accompanied by solid momentum of core inflation, which prevents NBP from strong declarations on the timing of interest rate cuts. Decision could be enriched by hindsight on the impact of recent banking sector turbulence on the domestic monetary policy scenarios. **PMI in manufacturing** will be of secondary importance, though it will most likely point to deterioration of conditions in the industrial sector.

NUMBER OF THE WEEK:

- **2249.79 PLN** – average monthly disposable income in 2022 (approx. 480 EUR), 9.1% higher than in 2021

CHART OF THE WEEK: External debt and international investment position



Source: NBP, Statistics Poland, PKO Bank Polski.

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	2022	2023
Real GDP (%)	4.9	0.1
Industrial output (%)	10.5	2.2
Unemployment rate# (%)	5.2	5.4
CPI inflation** (%)	14.4	12.3
Core inflation** (%)	9.1	9.8
Money supply M3 (%)	5.6	5.6
C/A balance (% GDP)	-3.0	-0.6
Fiscal balance (% GDP)*	-3.0	-5.4
Public debt (% GDP)*	50.4	51.0
NBP reference rate### (%)	6.75	6.25
EURPLN###	4.69	4.62

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

Slow start of disinflation

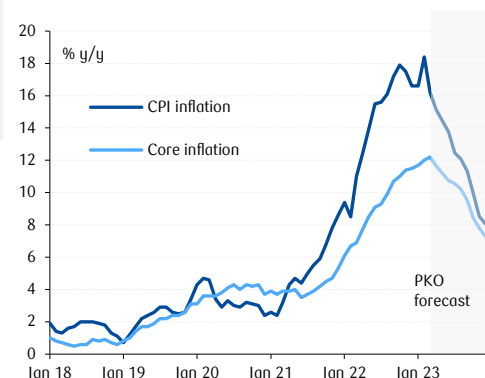
- CPI inflation in March declined to 16.2% y/y from 18.4% y/y in February. Flash estimate by Statistics Poland was above expectations (PKOe: 15.6%, cons: 15.8%) with major surprise coming from core inflation and food prices. Expected disinflation process is getting started rather slowly.

Inflation in March was dragged down by fuel prices, whose price growth slowed down to 0.2% y/y from 30.8% y/y, as a result of statistical base effect (increase by a record high 28.1% m/m in March 2022), and as a consequence of a monthly decline of prices at petrol stations by 1.8%. Energy price growth decelerated to 26.0% y/y from 31.1% y/y in February, supported by base effects and most likely further fall in prices of solid fuels. Somewhat surprisingly prices of food increased by 2.3% m/m, again significantly above the seasonal pattern and at a highest rate for March since mid-1990s. Even in the previous year price growth (according to previous weights) grew more slowly, by 2.2% m/m. Global tendencies (FAO) and domestic ones (agricultural product prices, PPI in food production) point to a systematic decline and significant disinflation in this category, which is being slowed down by high prices of fruits and vegetables.

We estimate that core inflation in March continued to rise to around 12.2-12.3% y/y against 12% in February. Its monthly momentum stayed strong (exceeded 1% m/m both in terms of raw and seasonally adjusted data), which points to certain stickiness of inflationary processes in the economy. Major share of elevated inflation is accounted for by second-round effects of cost shocks, which should fade away amid weak consumer demand. We stick to our view from the latest Macro Flash: [“Disinflationary pivot”](#), that the main source of concern constitutes core inflation, in particular on the part of the service sector, where rising prices reflect price pressure generated by labour costs and, to some extent, valorization mechanism (e.g. in healthcare and education).

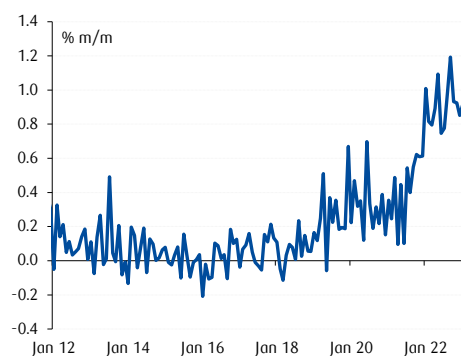
In March inflation embarked on a downward journey, however, rising core measure brings to mind that its return to inflation target will be a long and bumpy road. March data do not alter our view on the outlook for monetary policy – interest rates in the following months will remain stable, though the MPC may restrain from announcing interest rate cuts until it sees a disinflation in core categories.

CPI and core inflation



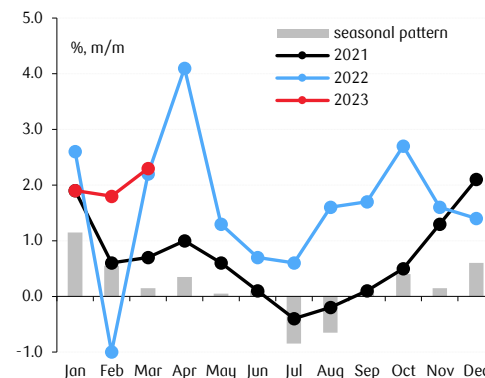
Source: Statistics Poland, NBP, PKO Bank Polski.

Core inflation momentum (sa)



Source: Statistics Poland, NBP, PKO Bank Polski.

Changes in food prices against seasonal pattern



Source: Statistics Poland, PKO Bank Polski.

Weekly economic calendar

Indicator	Time (UK)	Unit	Previous	Consensus*	PKO BP	Comment
Monday, 3 April						
CHN: Manufacturing PMI (Mar)	2:45	pts.	51.6	51.4	--	--
POL: Manufacturing PMI (Mar)	8:00	pts.	48.5	47.8	47.6	PMI will reflect deteriorating outlook for industrial production.
GER: Manufacturing PMI (Mar, final)	8:55	pts.	46.3	44.4	--	--
EUR: Manufacturing PMI (Mar, final)	9:00	pts.	48.5	47.1	--	--
USA: Manufacturing PMI (Mar, final)	14:45	pts.	47.3	49.3	--	--
USA: ISM Manufacturing (Mar)	15:00	pts.	47.7	47.5	--	--
Tuesday, 4 April						
GER: Exports (Feb)	7:00	% m/m	2.1	--	--	--
GER: Imports (Feb)	7:00	% m/m	-3.4	--	--	--
EUR: PPI inflation (Feb)	10:00	% y/y	15.0	13.5	--	--
USA: Factory orders (Feb)	15:00	% m/m	-1.6	-0.5	--	--
USA: JOLTS Report (Feb)	15:00	thous.	10.824	--	--	--
USA: Durable goods orders (Feb, final)	15:00	% m/m	-5.0	-1.0	--	--
Wednesday, 5 April						
GER: Factory orders (Feb)	7:00	% m/m	1.0	0.7	--	--
GER: Factory orders (Feb)	7:00	% y/y	-10.9	--	--	--
GER: Services PMI (Mar, final)	8:55	pts.	50.9	53.9	--	--
EUR: Services PMI (Mar, final)	9:00	pts.	52.7	55.6	--	--
USA: ADP National Employment (Mar)	13:15	thous.	242	205	--	--
USA: Trade balance (Feb)	13:30	bn USD	-68.3	-68.5	--	--
POL: NBP base rate	--	%	6.75	6.75	6.75	The MPC will maintain the status quo, as inflation has passed its peak, while core measure stays strong.
Thursday, 6 April						
GER: Industrial production (Feb)	7:00	% m/m	3.5	0.5	--	--
GER: Industrial output (Feb)	7:00	% y/y	-1.6	--	--	--
USA: Initial Jobless Claims (Apr)	13:30	thous.	198	--	--	--
Friday, 7 April						
USA: Non-Farm Payrolls (Mar)	13:30	thous.	311	240	--	--
USA: Unemployment Rate (Mar)	13:30	%	3.6	3.6	--	--
USA: Average Earnings (Mar)	13:30	% y/y	4.6	4.3	--	--
POL: MPC Minutes (Mar)	14:00	--	--	--	--	Rearview mirror on the discussion about the latest inflation and GDP projection.

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	"The inflation projection is prepared under an assumption of no change in interest rates, i.e. in the horizon of 2025, it assumes that the main NBP rate will remain at the level of 6.75%. Despite this assumption, inflation does not return to the central bank's target of 2.5% in this period. I believe that we are in real danger of returning to interest rate hikes, because inflation will stay at an elevated level and stabilize there" (30.03.2023, 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	"Disinflation of core inflation should accelerate. In several months core inflation should fall at the same speed as the CPI" (10.03.2023, PAP)
A. Glapinski	2.4	"NBP expects brisk return of inflation to the target. This year it will reach a single-digit figure, by the end of 2023 it will be slightly above 7%. (...) NBP leaves the door open for interest rate hikes. We will begin to cut interest rates, only when there will be certainty that inflation is falling towards the inflation target. (...) In February there will be a peak of inflation at around 18.5% (...) Threats to CPI remain, therefore we do not conclude the tightening cycle. MPC will not tolerate disruptions in the disinflation process. I hope that in the last quarter of 2023 interest rate cuts will be possible." (9.03.2023, NBP press conf., 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	"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.

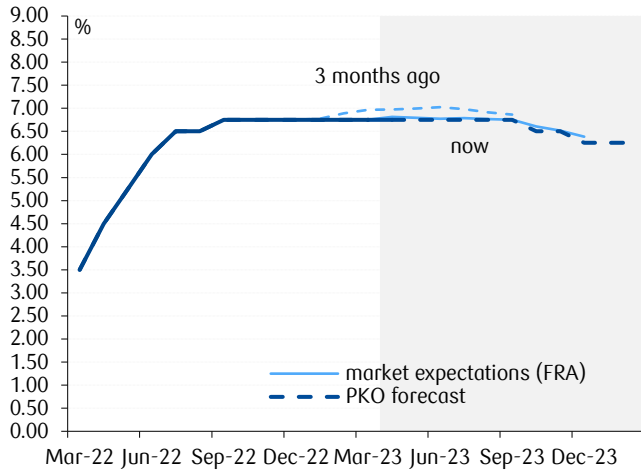
Interest rates – PKO BP forecasts vs. market expectations

		1M	2M	3M	4M	5M	6M	7M	8M	9M
Date	30-Mar	30-Apr	30-May	30-Jun	30-Jul	30-Aug	30-Sep	30-Oct	30-Nov	30-Dec
WIBOR 3M/FRA†	6.90	6.91	6.89	6.86	6.79	6.72	6.66	6.51	6.37	6.24
implied change (b. p.)		0.01	-0.01	-0.04	-0.11	-0.18	-0.25	-0.39	-0.53	-0.67
MPC Meeting	8-Mar	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	6.75	6.75	6.50	6.50	6.25
market pricing^		6.76	6.74	6.71	6.64	6.57	6.51	6.46	6.37	6.24

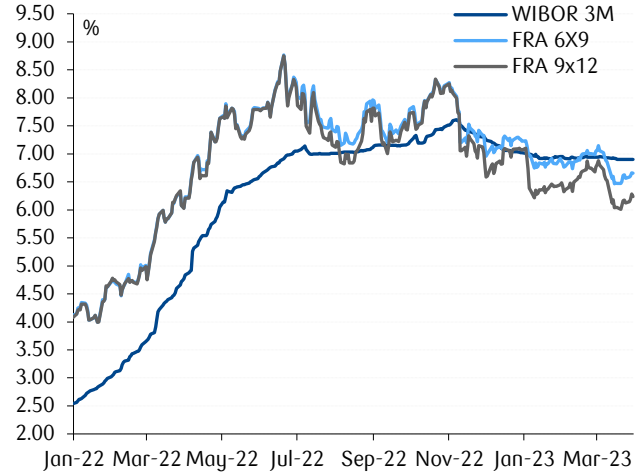
WIBOR 3M from the last fixing, FRA transactions based on WIBOR 3M for subsequent periods, †in basis points, *PKO BP forecast of the NBP reference rate.

Poland macro chartbook

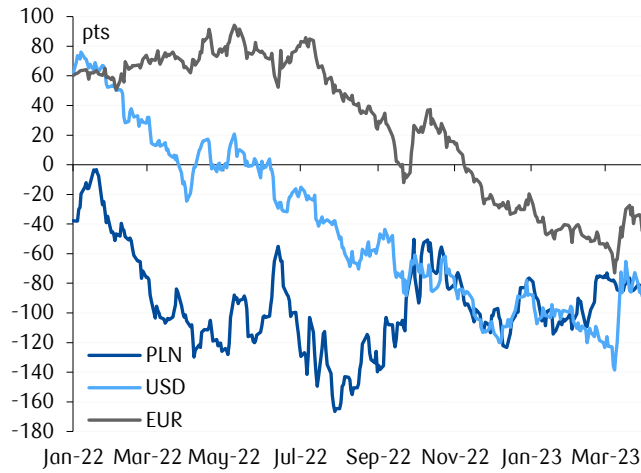
NBP policy rate: PKO BP forecast vs. market expectations



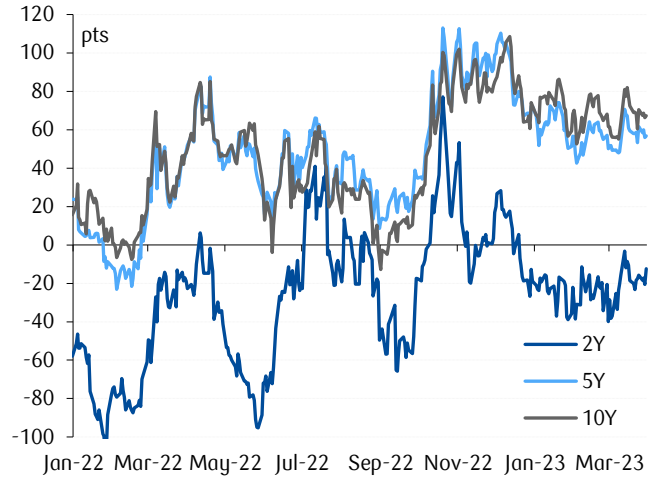
Short-term PLN interest rates



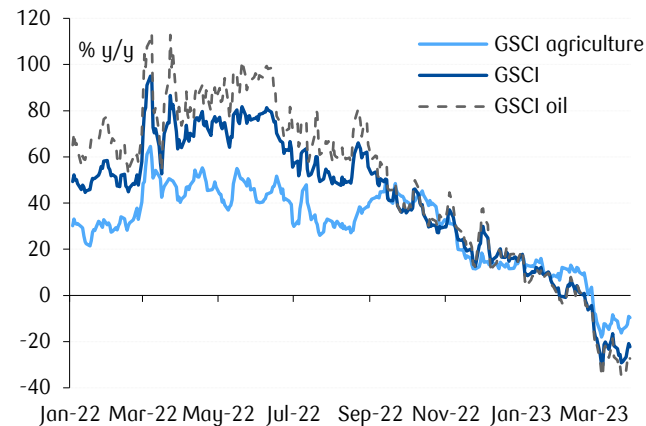
Slope of the swap curve (spread 10Y-2Y)*



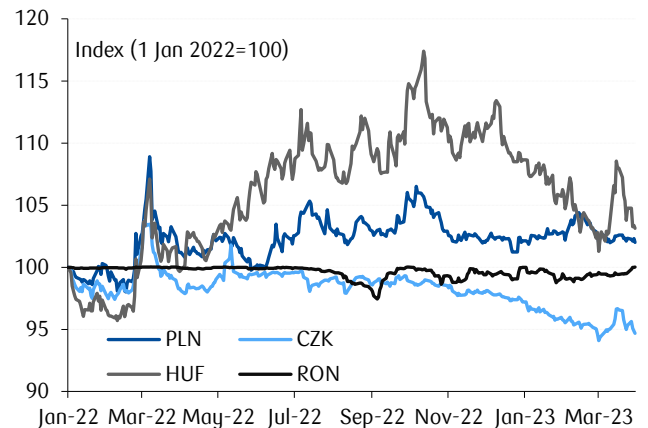
PLN asset swap spread



Global commodity prices (in PLN)

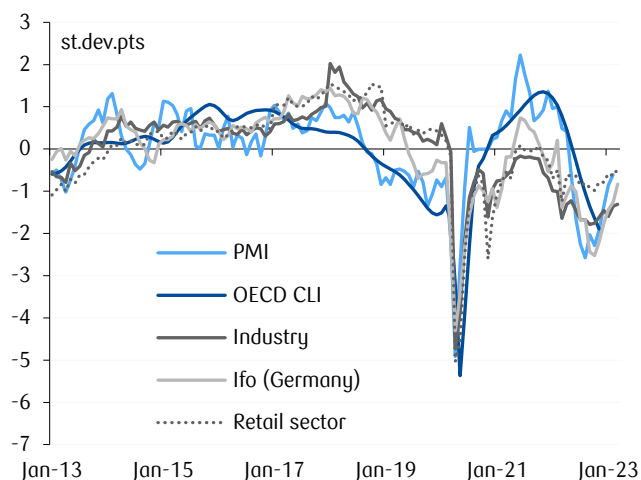


Selected CEE exchange rates against the EUR

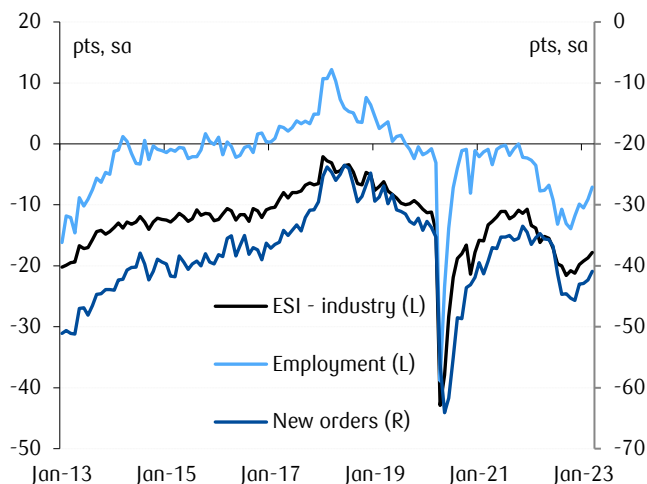


Source: Datastream, NBP, PKO Bank Polski. *for PLN, and EUR 6M, for USD 3M.

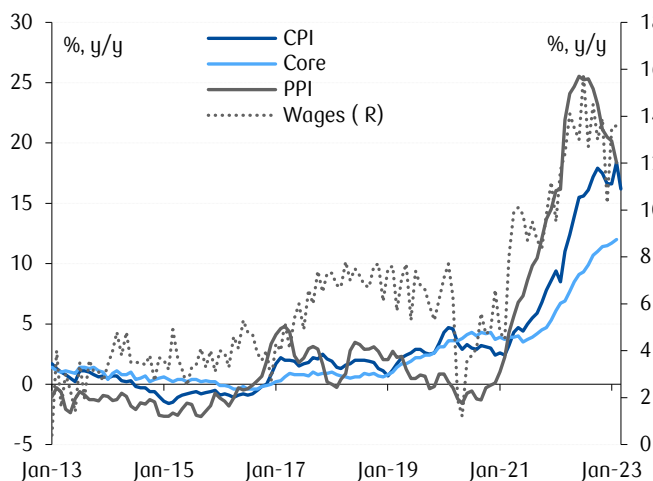
Economic sentiment indicators



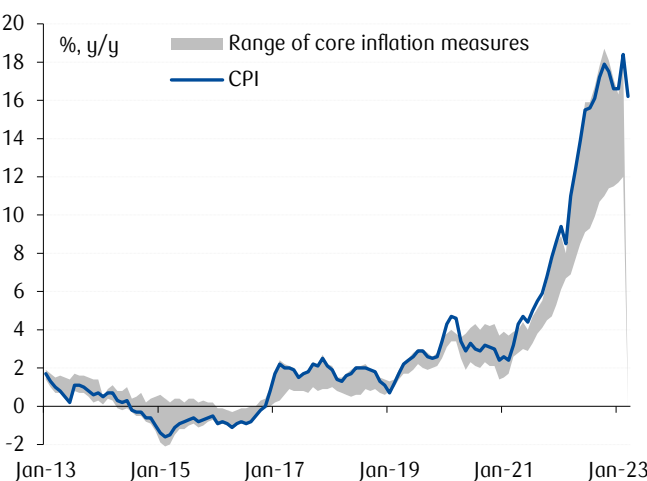
Poland ESI for industry and its components



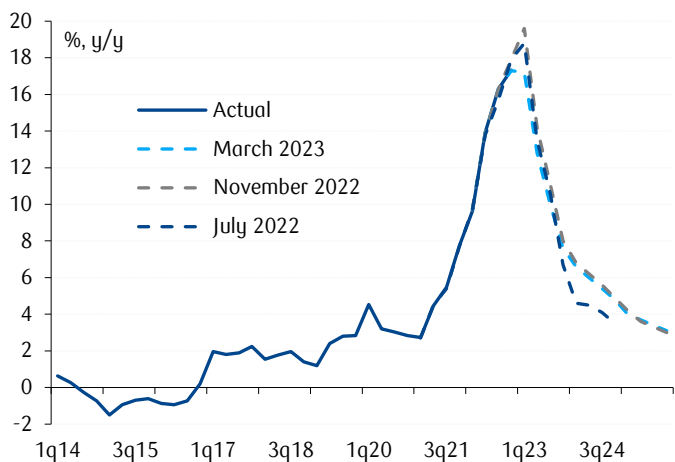
Broad inflation measures



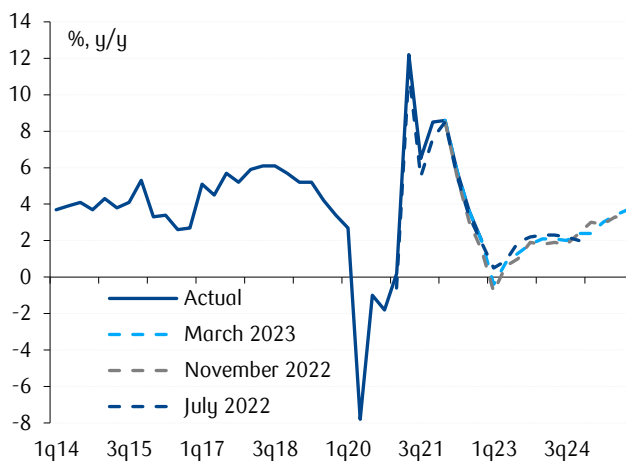
CPI and core inflation measures



CPI inflation - NBP projections vs. actual

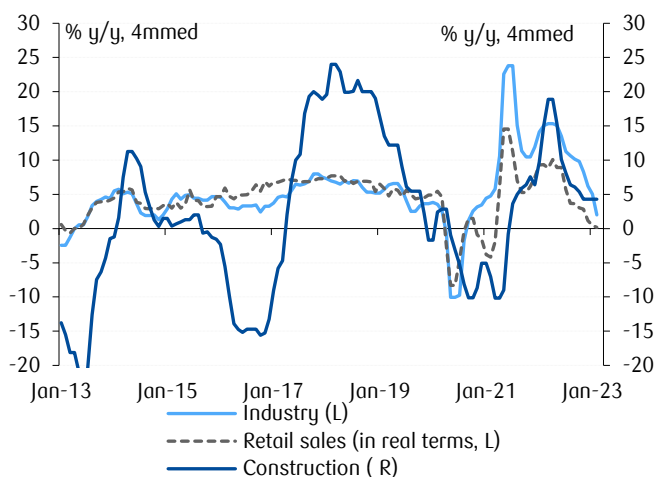


Real GDP growth - NBP projections vs. actual

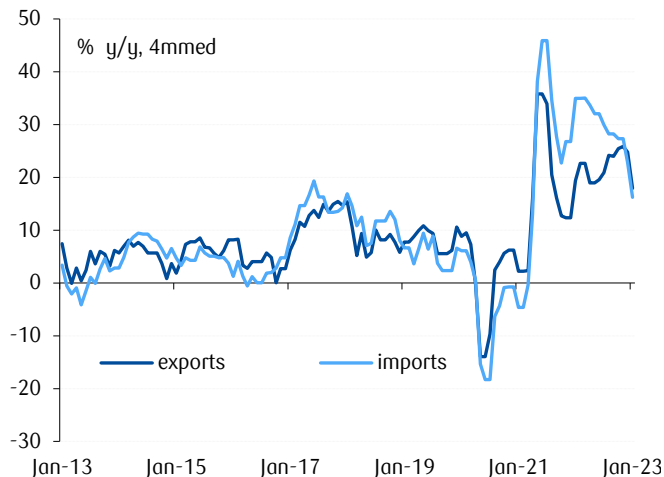


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

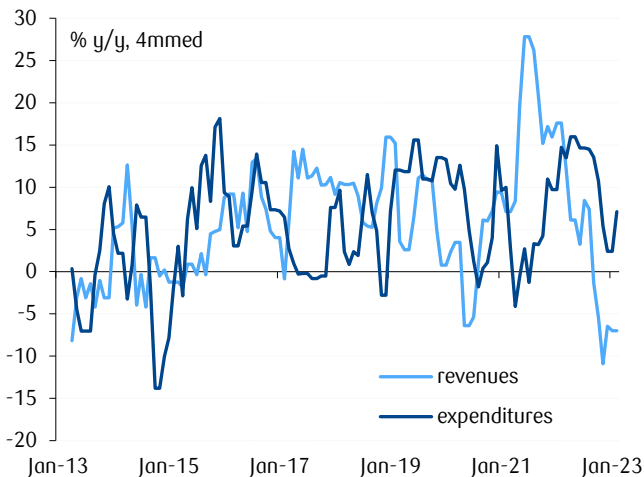
Economic activity indicators



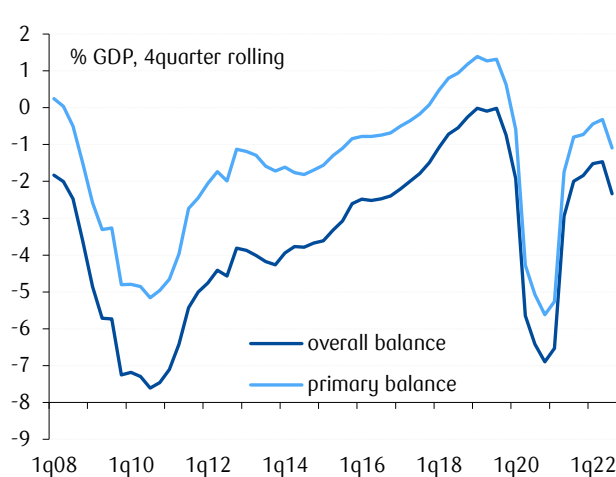
Merchandise trade (in EUR terms)



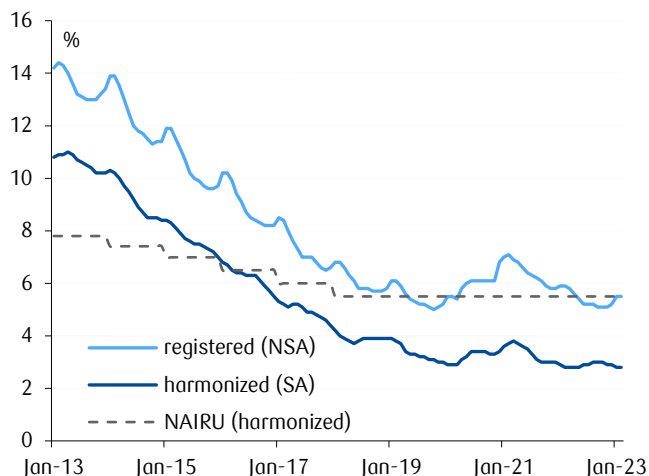
Central government revenues and expenditures*



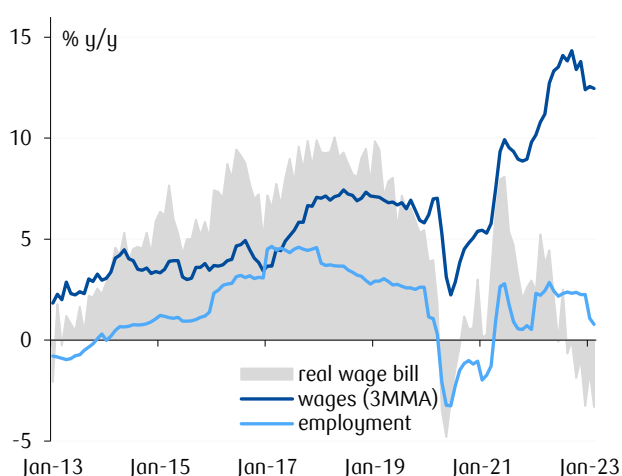
General government balance (ESA2010)



Unemployment rate

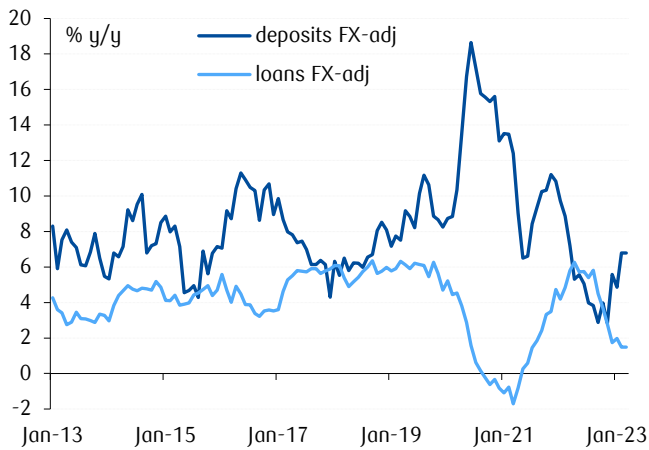


Employment and wages in the enterprise sector

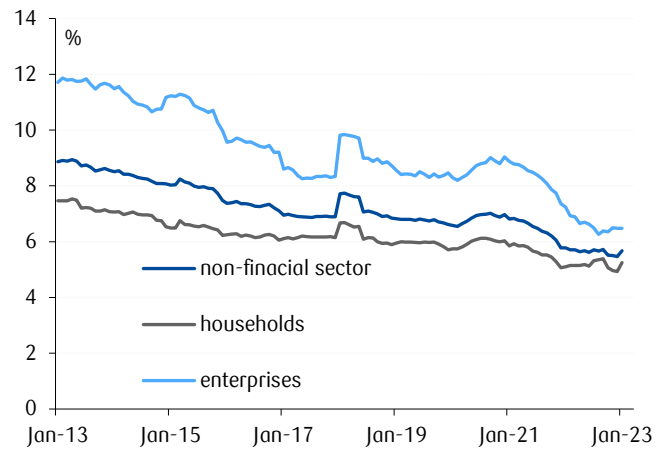


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. *break in series in 2010 due to methodological changes.

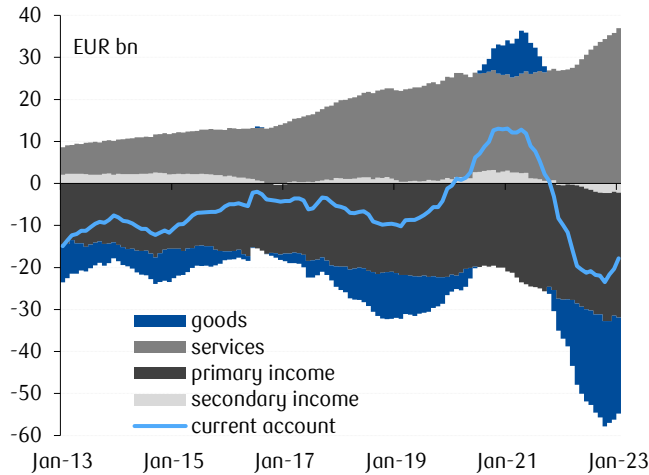
Loans and deposits



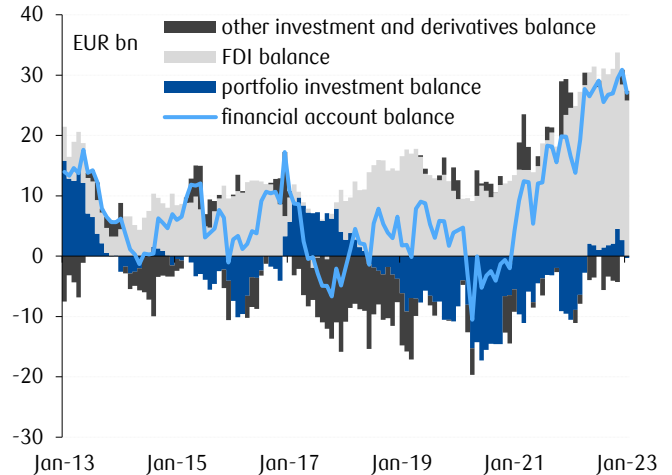
Non-performing loans (NPLs) - by sectors*



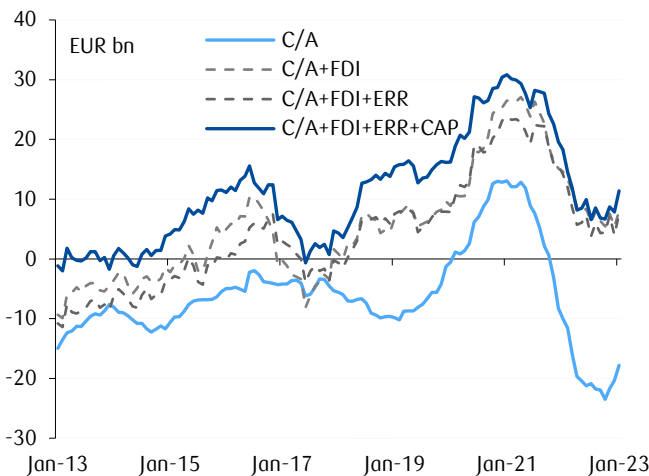
Current account balance



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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- [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)
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- [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)
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- [It's payback time](#) (Aug 19, 2022)
- [Inflation seems to be losing steam](#) (Aug 12, 2022)
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- [Unemployment at the bottom and inflation plateau](#) (Jul 29, 2022)

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