Poland Macro Weekly

Macro Research

3 February 2023

Bank Polski | Centrum Analiz

Growth less inflation-prone

TOP MACRO THEME(S):

- **Towards a less inflationary GDP structure (p. 2):** The preliminary full-year data implies that the GDP slowdown in 4q22 wasn't as severe as we have expected, although consumer demand recession has been confirmed. GDP growth structure evolves towards a less inflationary one.
- **Enterprise sector condition insights (p. 3):** Enterprises get more optimistic towards future and less pessimistic towards the severity of energy crisis.

WHAT ELSE CAUGHT OUR EYE:

- **Manufacturing PMI in January increased to 47.6 pts** (45.6 pts in Dec.), reaching the highest level since May 2022. The rapid rebound suggests that the biggest fears have passed and the current contraction episode (PMI< 50 pts) may be one of the shortest in the history of this indicator for Poland.
- **CNB held the key interest rate at 7.0%.** According to new forecasts, CPI inflation should slow down to 2% as early as 1h24 and recession should be milder. The *ex ante* real interest rate has thus become positive for the first time in years, similarly Poland will be heading in the same direction.
- **F.B.Salazar** (Fitch) assessed that due to external and internal challenges, the balance of risks to Poland's rating is tilted slightly downward. In a more difficult environment the stable outlook can be assessed as favourable.

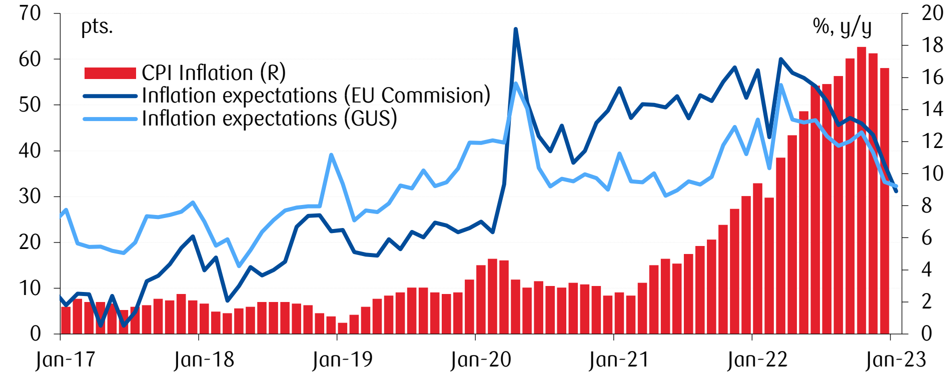
THE WEEK AHEAD:

- **Due to basket weight changes flash CPI for January will be released only in mid-February.** The range of forecasts is unusually wide (16.1-20.5%). The reading will heavily depend on yet unknown decision of GUS on how to deal with electricity price hikes, which will impact only part of energy consumption. Should they be fully recognized in Jan., we would expect CPI at 18.7%. Should GUS recognize higher prices later in the year, in line with growing consumption, the January print will be lower, at around 18.0%.
- **The MPC, deprived of the new inflation data, will leave monetary policy unchanged next week.** Both the post-meeting statement and minutes from the meeting in Jan. will be a non-event. It's the NBP's Governor presser that will shed more light on the MPC view on a (conditional) monetary easing. This may happen in late-2023/early-2024, in line with current market expectations.

NUMBER OF THE WEEK:

- **4%** – the share of GDP Poland wants to allocate on military in 2023 (increase from 3% of GDP in the budget bill).

CHART OF THE WEEK: Decline of inflation expectations of consumers



Source: Macrobond, GUS, 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 (%)	10.2	-2.0
Unemployment rate# (%)	5.2	5.4
CPI inflation** (%)	14.4	13.2
Core inflation** (%)	9.1	8.9
Money supply M3 (%)	5.4	4.5
C/A balance (% GDP)	-3.6	-2.6
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.

Towards a less inflationary GDP structure

- **The preliminary full-year data implies that the GDP slowdown wasn't as severe as we have expected, although consumer demand recession has been confirmed. That said, investments and - most likely - exports surprised to the upside indicating that GDP growth structure evolves towards a less inflationary one.**

According to the preliminary estimate, Poland's economy expanded by 4.9% in 2022 (vs 6.8% in 2021), **exceeding both our** (4.5%) **and consensus** (4.6%) **expectations.** It is however worth to mention, that this results fits precisely into the market consensus formulated at the beginning of 2022, before the war outbreak (see chart). Domestic demand expanded by a healthy 5.5% (vs. 8.4% in 2021) while net exports contribution remained negative (-0.4pp in 2022 vs. -1.0pp in 2021).

The slowdown in domestic demand has been largely driven by a declining activity in the consumer sector.

- Consumption demand grew by 2.1% (vs. 5.9% in 2021) while private consumption growth rate was reduced to 3.0% (vs. 6.3% in 2021), adding 1.7pp to GDP growth in 2022 (vs. 3.5pp in 2021);
- Investment demand growth expanded faster, but still at an only moderate pace at most (4.6% in 2022 vs. 2.1% in 2021), adding 0.8pp to GDP growth in 2022 (vs. 0.4pp in 2021);
- The contribution of inventories to GDP growth barely changed (2.9pp in 2022 vs. 3.0pp in 2021).

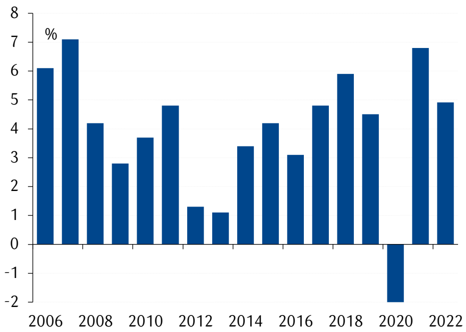
As a result, domestic final sales (domestic demand ex. inventories) growth rate declined to 2.6% in 2022 (vs. 5.2% in 2021).

The preliminary full-year data implies that GDP growth slowdown in 4q22 wasn't as severe as we have expected (2.0-2.3% y/y vs. 3.6% y/y in 3q22). That said, **private consumption dived in 4q22, in line with our assumptions** (a decline by 1.5-1.9% y/y vs. 0.9% y/y growth in 3q), and fixed investment surprised to the upside reviving to +5.1-5.3% y/y in 4q (vs. 2.0% y/y in 3q). The contribution of inventories slightly declined (1.2-1.5pp in 4q vs. 2.2pp in 3q), but it's not an inventory cycle reversal yet. Last but not least, net exports contribution to GDP growth barely changed (0.6pp both in 3q and 4q22).

The GDP slowdown in 4q22 has beeen driven by weaker consumer demand. With relatively immune investment confronting the consumer sector that has already entered recession, the structure of economic growth is becoming less and less inflationary. Additionally, the change of stock management model from just-in-time to just-in-case has settled in enterprises in Poland for good. At the same time, we expect a positive surprise on the side of export-oriented industries in 4q22 (among others, an increase in production in the automotive industry, reflecting the decreasing supply constraints).

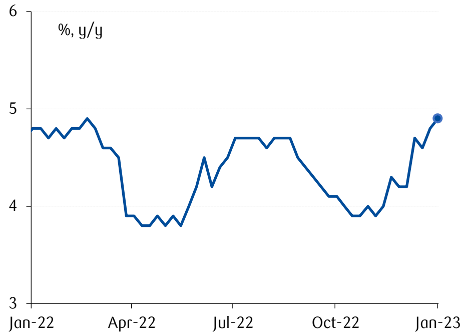
Looking at the preliminary 2022 results we see some upside risks to our 2023 GDP forecast (0.1%). Surprisingly strong investment and external demand have become the key drivers of economic growth. This is probably the effect of structural factors (incl. energy transition needs, arms 'race' as well as FDI inflows) that effectively neutralize the cyclical slowdown spreading over the global economy.

GDP growth rate



Source: GUS, PKO Bank Polski.

2022 GDP consensus evolution (and the preliminary result)



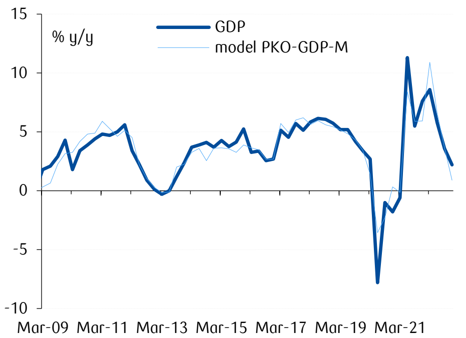
Source: Bloomberg, PKO Bank Polski.

Key indicators of economic growth in 4q22*

	1q	2q	3q	4q min	4q mean	4q max
GDP (%, y/y)	8.6	5.8	3.6	2.0	2.2	2.3
Domestic demand (%, y/y)	12.0	6.9	3.1	1.2	1.4	1.6
Private consumption (%, y/y)	6.7	6.4	0.9	-1.9	-1.7	-1.5
Investment (%, y/y)	4.7	6.6	2.0	5.1	5.2	5.3
Inventories (pp, y/y)	6.7	1.8	2.2	1.2	1.4	1.5
Net exports (pp, y/y)	-2.7	-0.7	0.6	0.6	0.8	1.0

Source: GUS, PKO Bank Polski. *4q22 growth range implied by full-year data assuming no revision to 1-3q.

GDP monthly proxy [PKO-GDP-M]



Source: GUS, PKO Bank Polski.

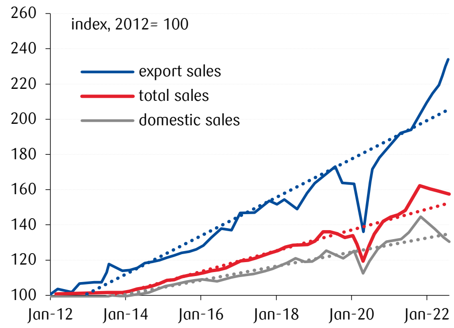
Insights into condition of the enterprise sector

- **In 4q22 the enterprise sector was more optimistic about the future and less pessimistic about the severity of energy crisis.**
- **Export sales neutralise the slowdown of domestic demand. Despite high cost pressure, domestic exporters claim that their competitiveness has improved.**
- **Companies still prefer to hoard labour; reduction of vacancies is the most visible sign of slowdown in the labour market. Wage pressure eases, but the scale of wage increases planned for 1q23 is one of the highest ever.**
- **Energy is the only cost category which keeps accelerating. Still, surging energy costs pose a significant threat only to energy-intensive industries.**
- **Enterprise sector is reluctant to invest. High investment costs and concerns about demand are the key barriers. Energy security and efficiency are the key targets of investment activity.**

According to the corporate sector analysis ("Szybki Monitoring", available only in Polish) conducted by the NBP, in 4q22 quarterly forecasts of future demand were brighter, however stayed on a low level. Companies were less pessimistic about the economic slowdown and the severity of energy crisis.

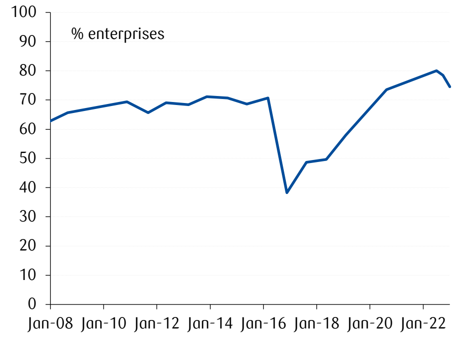
1. **Resilience of exporters**. Data for 3q22 showed a record high share of exports in sales. Forecasts formulated by exporters are generally more optimistic than in the case of domestic-oriented sellers, despite expected slowdown/recession among the major Poland's trading partners. In spite of surging costs, the international competitiveness of domestic companies has improved in almost all industries, partly due to the favorable exchange rate development. Foreign demand is the key driver of the expected strong improvement in demand in 2024 and 2025.
2. **Labour hoarding**. Reduction in vacancies is the key sign of the economic slowdown in the labour market - in 4q22 the percentage of companies with vacancies fell to 41% and was lower than the long-term average. Enterprises plan to continue to "hoard labour," assuming that the slowdown will be only short-lived. Deeper employment cuts could occur only in the event of a prolonged slowdown/recession.
3. **Wage pressure decline**. In the opinion of surveyed companies, wage pressure eases, although it is still relatively strong. **Wages are the slowest-growing cost item**. Nevertheless, **the share of companies planning wage increases in 1q23 rose slightly** (to 48.2% sa from 46.2%), and the scale of planned wage increases surged (the average to 8.8%) mirroring the increase of minimum wage from January 2023 (by 15.9% y/y) and some adjustment of wages to inflation. It is however noteworthy, that simple indexation of wages to inflation is rare (declared by 3.4% of companies). The survey fits well into our baseline scenario of only minor rise in unemployment and slowly declining, but still double-digit, wage growth.
4. **Energy costs are painful, but bearable**. In 3q22 all cost components (except for energy) grew at a slower rate than in previous quarters. **Energy price dynamics reached historic highs** (90.2% y/y), pushing up the share of energy in operating costs to 2.75% (still below the historic high of 3.2%). The share of energy costs varies among companies (see chart), just as the impact of energy on profitability. In case of 50% of enterprises higher energy prices have reduced the profitability by not more than 0.13pp. Only for 20% of enterprises the profitability loss was bigger than 1pp.

Index of real (PPI deflated) sales revenues (seasonal adjusted)



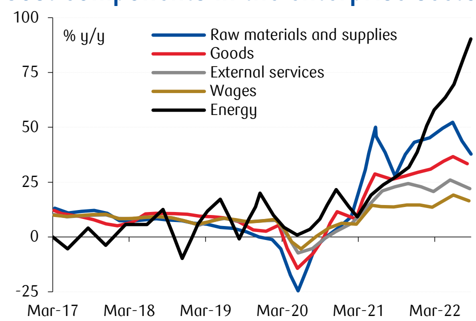
Source: NBP, PKO Bank Polski.

Share of companies experiencing wage pressure



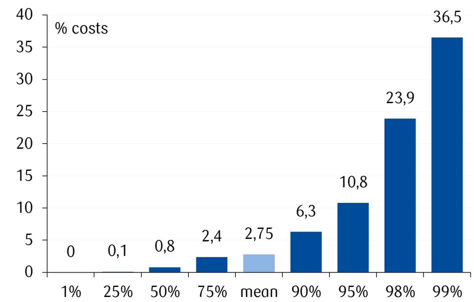
Source: NBP, PKO Bank Polski.

Cost components in the enterprise sector



Source: GUS, PKO Bank Polski.

Selected parameters of the distribution of the share of energy costs in enterprise sector in 3q22



Source: GUS, PKO Bank Polski.

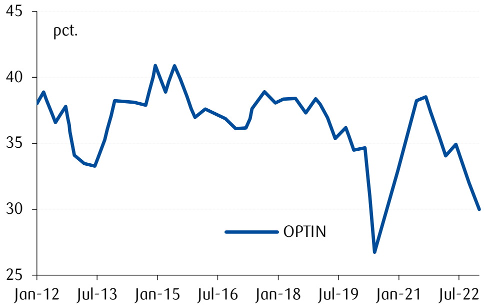
In the reaction to the energy shock enterprises have changed their key mid-term targets. N**ow the new most important goal is to increase the energy security, energy efficiency and (more broadly) cost efficiency.** Pure expansion into new markets is of a secondary importance. However, so far the energy shock has barely changed the functioning of companies - only 42% of companies are changing or planning to change the structure of the energy mix, and only 27% of companies have a policy for managing the use of energy carriers (of which only 7% are implementing the policy on a long-term basis).

5. **Darker investment picture**. Surveyed **companies show little interest in new investment projects** and in the continuation of investments already underway (11% of companies discontinue investment projects, a higher share was recorded only during pandemic and GFC). **According to the NBP, investment activity is expected to weaken in 1q23**, and companies' investment optimism, as measured by the OPTIN index, has been weakening for 5 quarters. According to surveyed enterprises, the obstacles towards investment activity are intensifying, they cover mainly high investment costs, concerns about falling demand and high external financing costs.

In conclusion, the abovementioned observations confirm our current macro-calls:

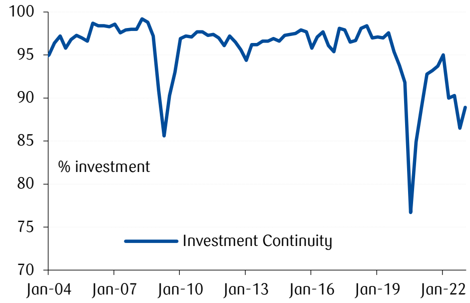
1. **Export, once again, will be the economic "super star".** It will mitigate the domestic demand slowdown, despite stagnation among Poland's biggest trade partners (Eurozone). A considerable boost will come from the steady inflow of FDIs, as well as from *friendshoring/nearshoring.*
2. **Current slowdown will only marginally affect the employment** and unemployment (due to labour hoarding and negative demographic processes). The largest part of the cyclical adjustment will occur by lowering wage dynamics.
3. **Investment demand in the coming quarters will be severely subdued**, and any positive surprises may come primarily from increased public investment (mainly by armaments). The enterprise sector will be reluctant to invest, with the exception of energy efficiency and security projects, which will be important for maintaining competitiveness.

Indicator of future investment OPTIN (share of companies with positive investment activity assessment)



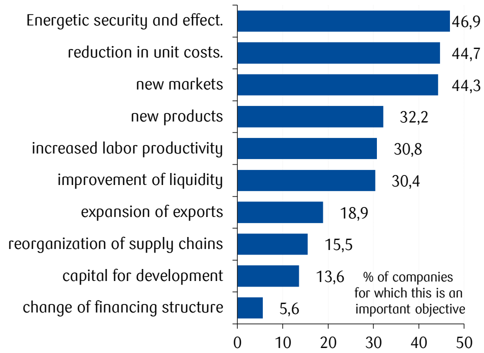
Source: NBP, PKO Bank Polski.

Share of enterprises continuing investment projects



Source: NBP, PKO Bank Polski.

Development targets in a 2-3 year horizon



Source: NBP, PKO Bank Polski.

Weekly economic calendar

Indicator	Time (UK)	Unit	Previous	Consensus*	PKO BP	Comment
Monday, 6 February						
GER: Factory orders (Dec)	7:00	% m/m	-5.3	--	--	--
EUR: Sentix Index (Feb)	9:30	pts.	-17.5	--	--	--
EUR: Retail sales (Dec)	10:00	% y/y	-2.8	--	--	--
Tuesday, 7 February						
GER: Industrial production (Dec)	7:00	% m/m	0.2	--	--	--
GER: Industrial output (Dec)	7:00	% y/y	-0.4	--	--	--
Wednesday, 8 February						
POL: NBP base rate	**--**	**%**	**6.75**	**6.75**	**6.75**	**The Council will refrain from any policy changes staying in a wait-and-see mode.**
Thursday, 9 February						
SWE: Riksbank meeting	8:30	%	2.50	--	2.75	--
ROM: NBR meeting	--	%	7.00	--	7.00	--
USA: Initial Jobless Claims	13:30	thous.	--	--	--	--
Friday, 10 February						
CHN: CPI inflation (Jan)	1:30	% y/y	1.8	--	--	--
HUN: CPI inflation (Jan)	7:30	% y/y	24.5	--	--	--
CZE: CPI inflation (Jan)	8:00	% y/y	15.8	--	--	--
POL: MPC minutes (Jan)	**13:00**	--	--	--	--	**Minutes from the meeting in January will be a non-event.**
USA: University of Michigan sentiment (Feb, flash)	15:00	pts.	64.9	65.5.	--	--

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^
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	**"I expect a very good reading [PAP: of CPI index in January], slightly higher than 16.6% [PAP: in December], but still it may be below 17%, and if it exceeds 17%, it will be only slightly (...) I am a bit concerned about February, as we had a different base - the first anti-inflation shield was introduced in February 2022." (31.01.2023, TVP Bialystok, PAP).**
A. Glapinski	2.4	"In my statement, I did not mention that we are not closing the cycle of increases. We are waiting for January and February. I repeat, it is difficult to predict exactly what will happen then - whether there will be a 20% increase in prices or good news again. (...) As soon as it is possible, interest rates will be lowered. Will it be possible at the end of the year? We will see. I still hope so - less than before, but I do." (5.01.2023, 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	"In my opinion, room for an interest rate cut stands a chance of appearing in 2024, or possibly near end-2023" (26.01.2023, 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.

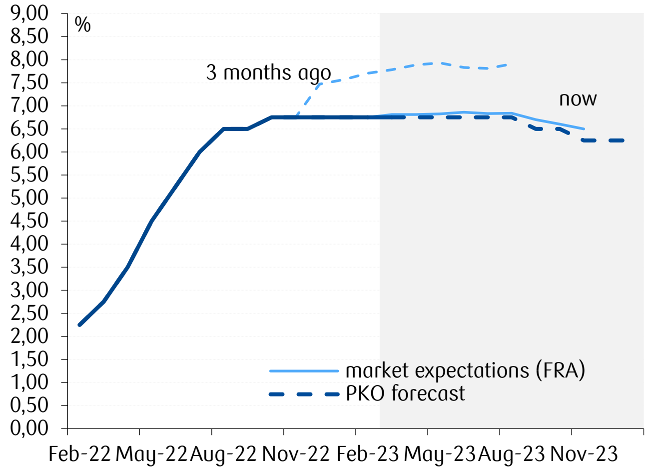
Interest rates – PKO BP forecasts vs. market expectations

		1M	2M	3M	4M	5M	6M	7M	8M	9M
Date	2-Feb	2-Mar	2-Apr	2-May	2-Jun	2-Jul	2-Aug	2-Sep	2-Oct	2-Nov
WIBOR 3M/FRA†	6,93	6,94	6,94	6,94	6,89	6,81	6,77	6,63	6,48	6,33
implied change (b. p.)		0,01	0,01	0,00	-0,04	-0,12	-0,17	-0,30	-0,45	-0,61
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^		6,81	6,81	6,83	6,86	6,83	6,84	6,70	6,60	6,55

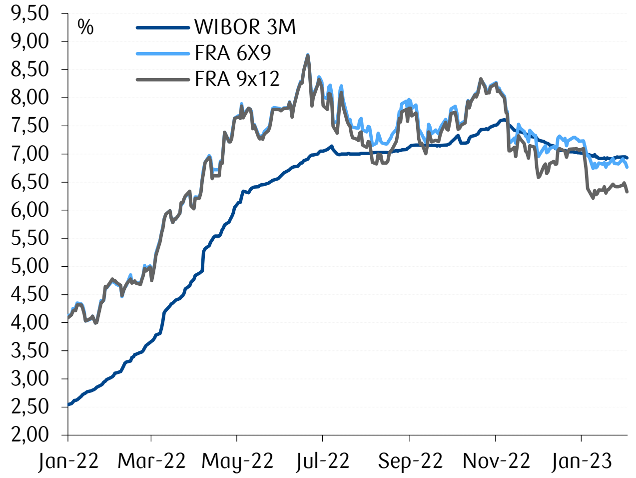
†WIBOR 3M from the last fixing, FRA transactions based on WIBOR 3M for subsequent periods, ‡in basis points, *PKO BP forecast of the NBP reference rate.

Poland macro chartbook

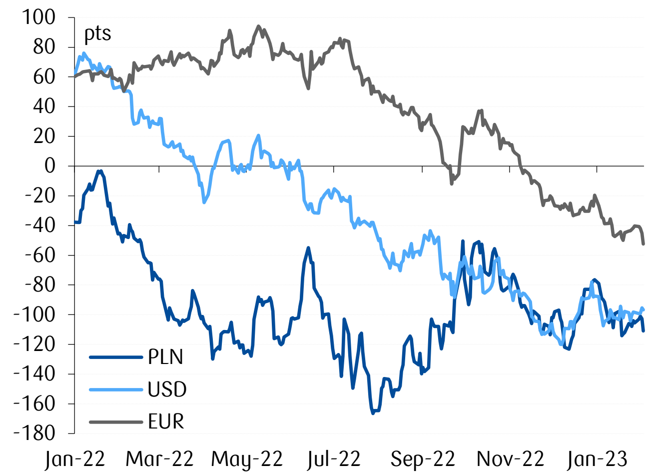
NBP policy rate: PKO BP forecast vs. market expectations



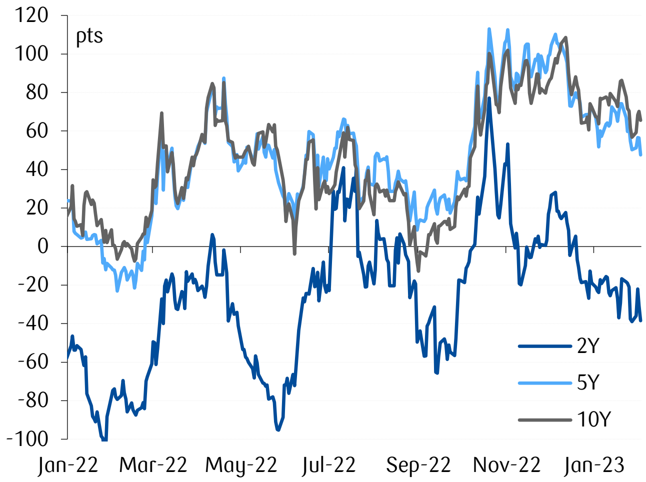
Short-term PLN interest rates



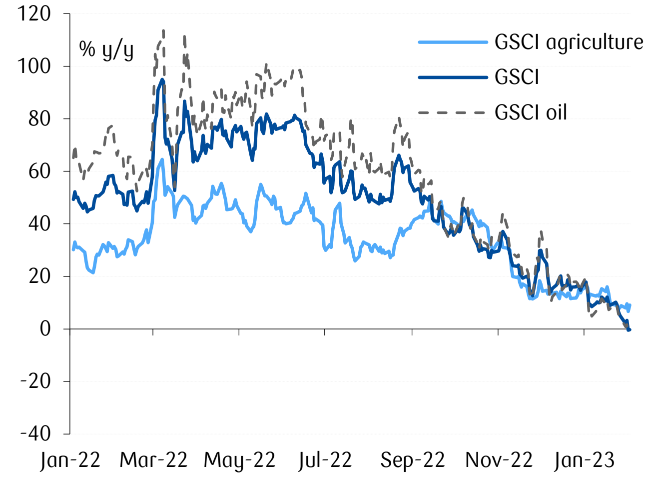
Slope of the swap curve (spread 10Y-2Y)*



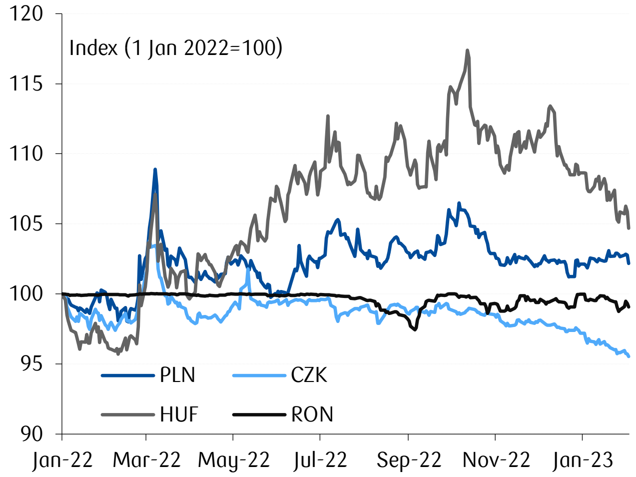
PLN asset swap spread



Global commodity prices (in PLN)

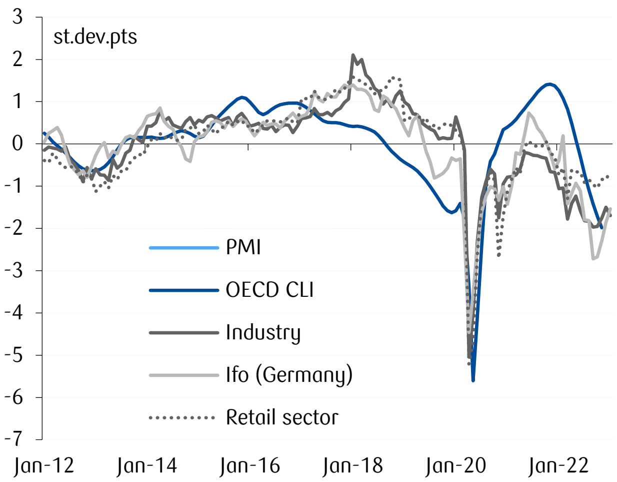


Selected CEE exchange rates against the EUR

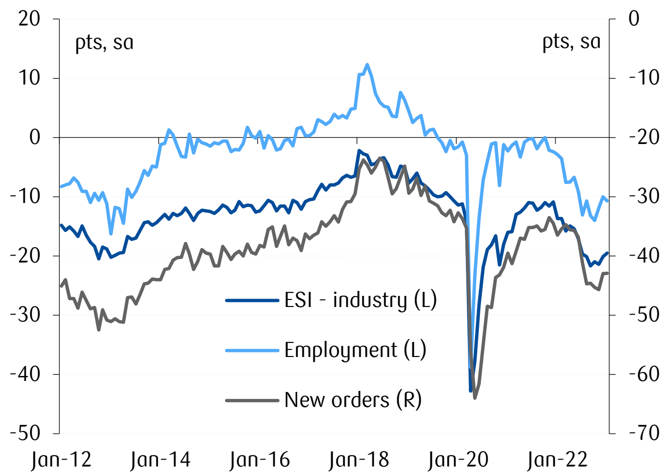


Source: Datastream, NBP, PKO Bank Polski. *for PLN, and EUR 6M, for USD 3M.

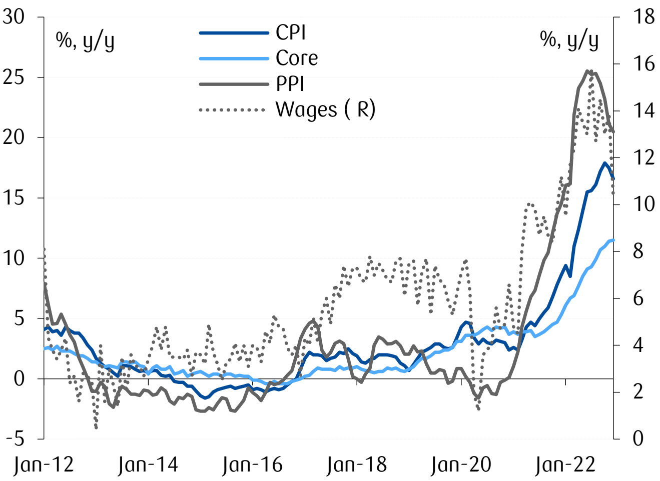
Economic sentiment indicators



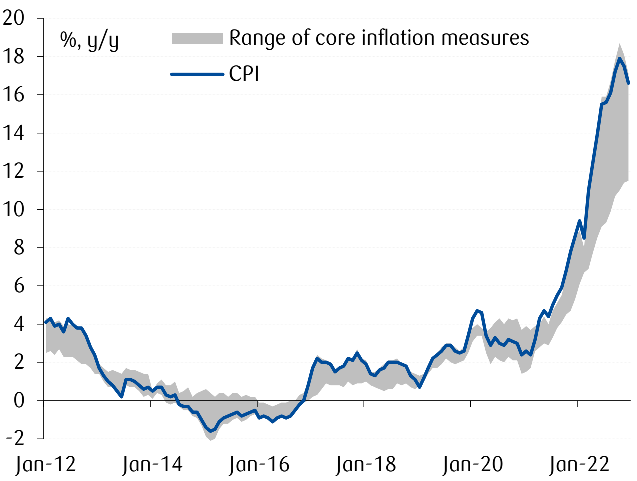
Poland ESI for industry and its components



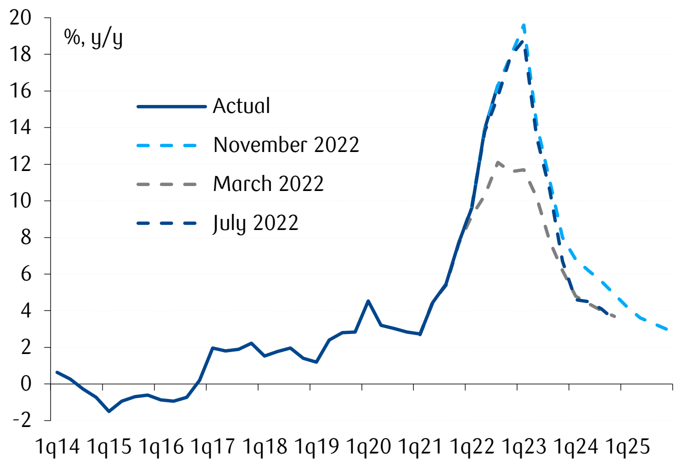
Broad inflation measures



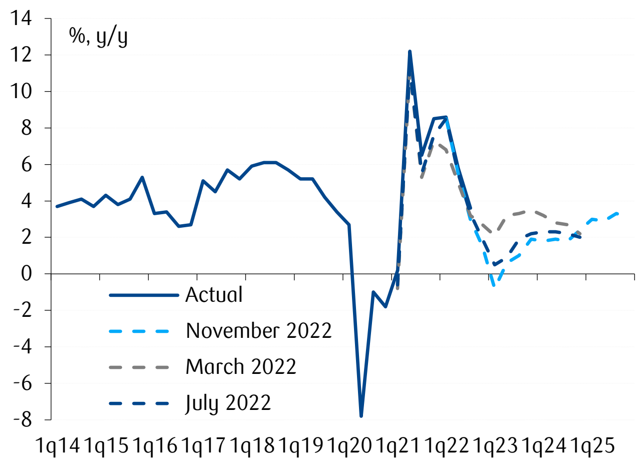
CPI and core inflation measures



CPI inflation – NBP projections vs. actual

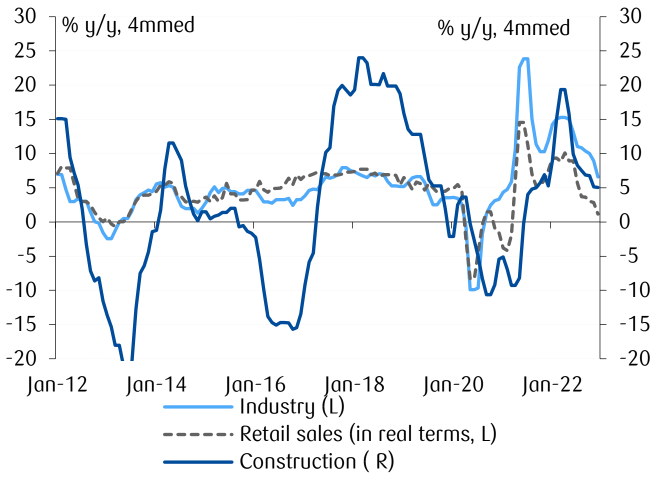


Real GDP growth – NBP projections vs. actual

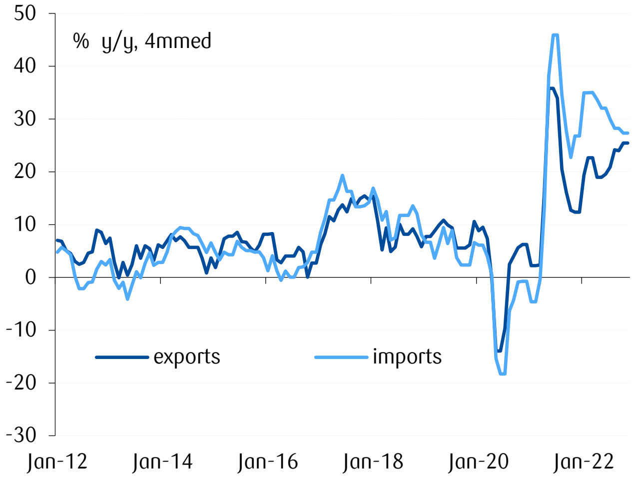


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

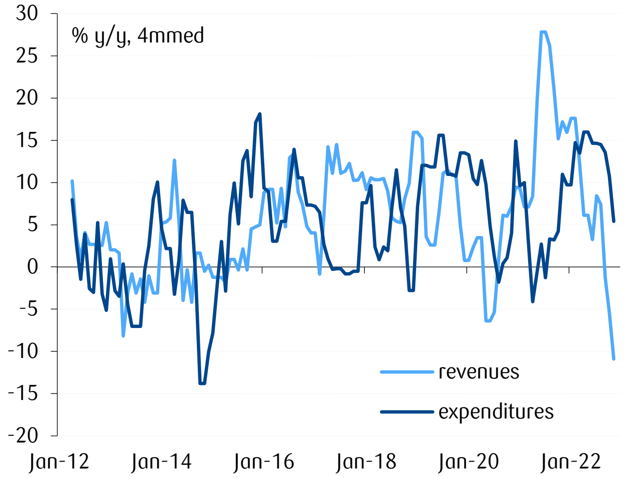
Economic activity indicators



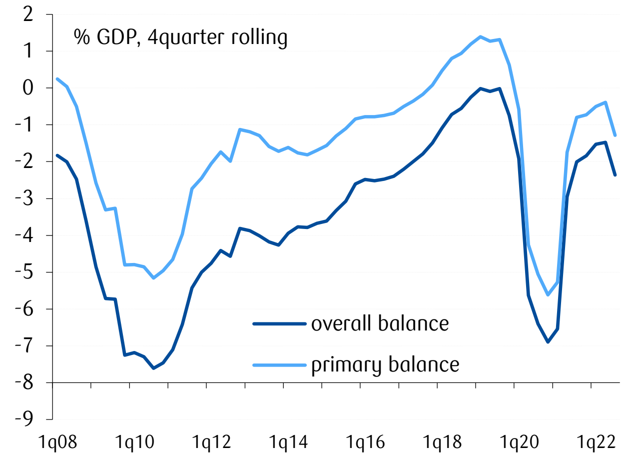
Merchandise trade (in EUR terms)



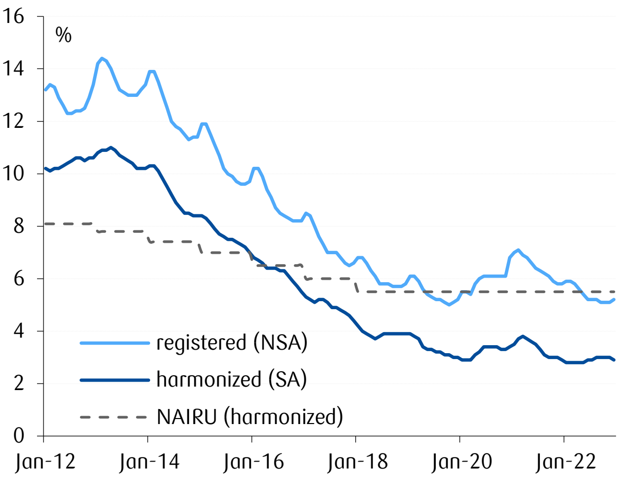
Central government revenues and expenditures*



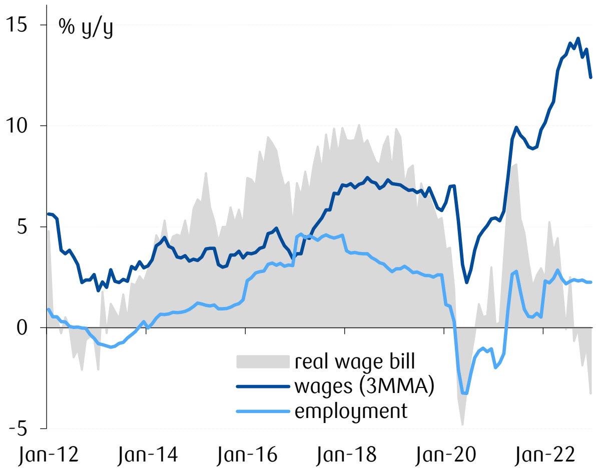
General government balance (ESA2010)



Unemployment rate

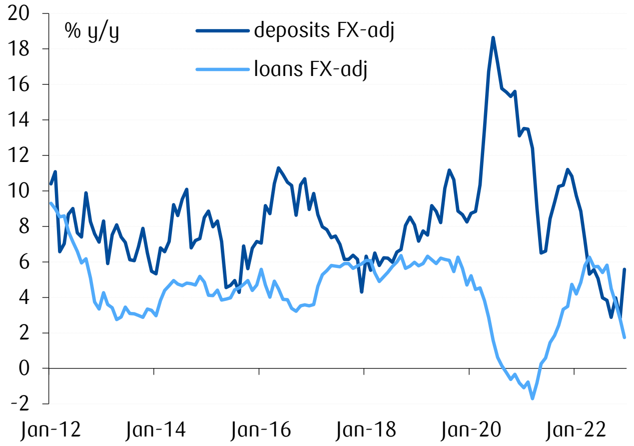


Employment and wages in the enterprise sector

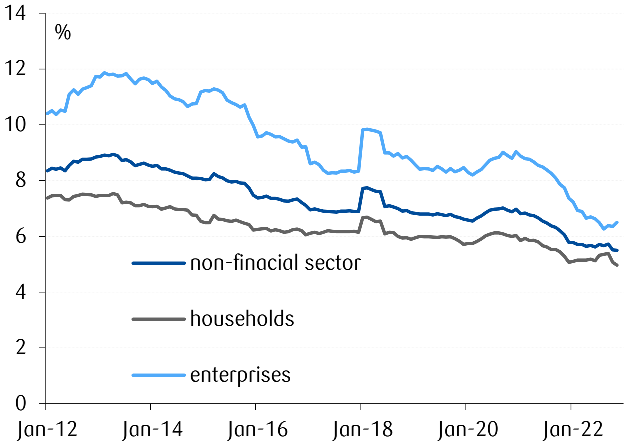


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. *break in series in 2010 due to methodological changes.

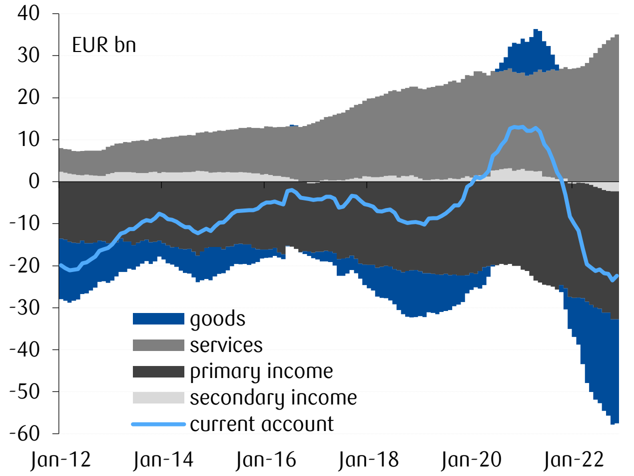
Loans and deposits



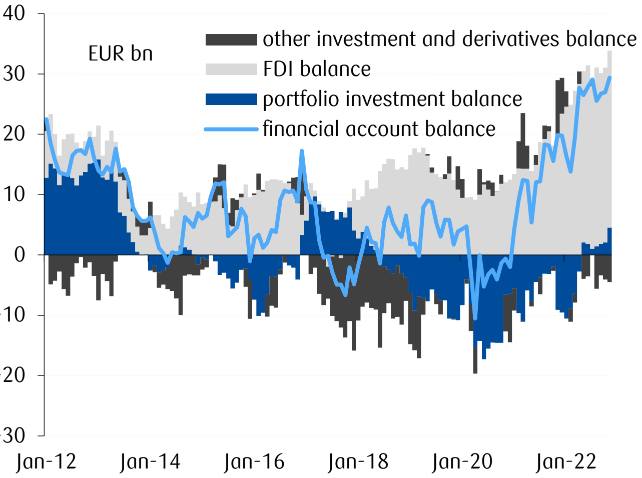
Non-performing loans (NPLs) – by sectors*



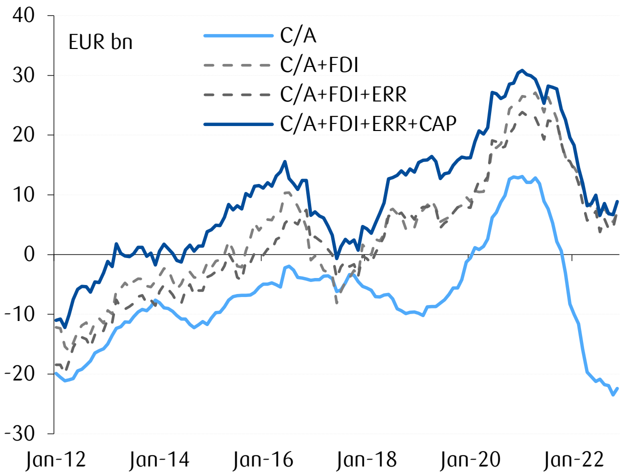
Current account balance



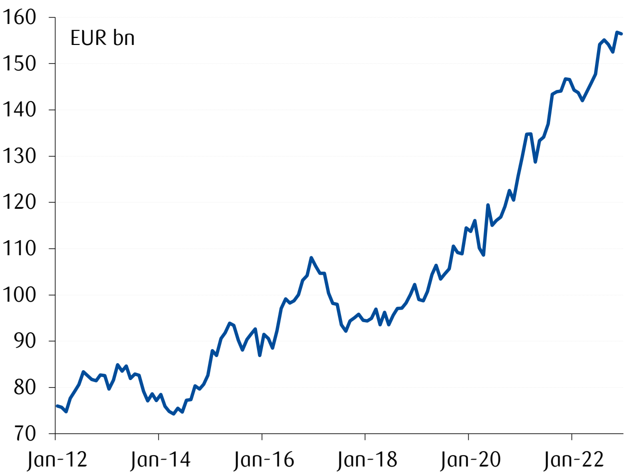
Financial account balance



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:

- 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)
- Growth borrowed from the future (Jun 3, 2022)
- Not all gold that glows (May 27, 2022)