

## Fiscal glass: half full or half empty?

### TOP MACRO THEME(S):

- **Fiscal glass: half full or half empty? (p.2):** A prolonged fiscal expansion means that Poland's debt sustainability position deteriorated compared to EU peers. The deterioration of Poland's mid-term debt sustainability position is based on potential output estimate, which – in our view – is at least debatable. Nevertheless, we agree with the EC's assessment, that the tightening of financial conditions (which in Poland is one of the most pronounced in the EU) will require some fiscal tightening next year.

### WHAT ELSE CAUGHT OUR EYE:

- Growth in **average wage in the enterprise sector** slowed down to 12.6% y/y in March vs 13.6% y/y in Feb., driven mainly by the transport and construction sectors. Meanwhile, employment declined by 9.2 thous. m/m. In seasonal terms, higher scale of employment reduction was only recorded in March 2009 (GFC) and March 2020 (Covid-19).
- An aggregated (by PKO) **business sentiment indicator** based on GUS sentiment survey inched up in April again, amid promising details, incl. an improvement of sentiment index in retail trade (a figure above a multiyear average for the first time since Nov-21, see chart of the week).

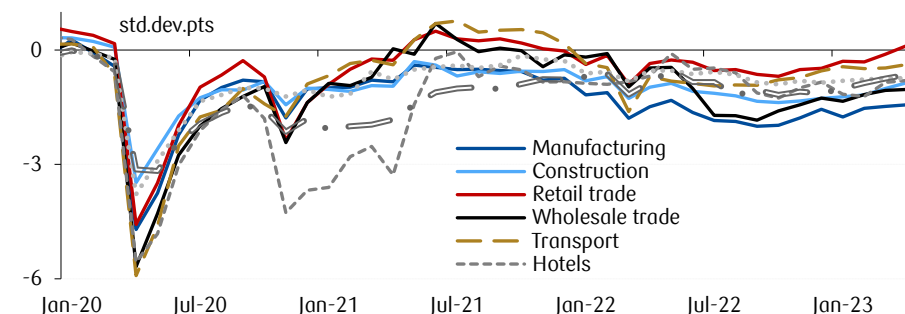
### THE WEEK AHEAD:

- The data for March from the linchpin branches (industry, construction and retail trade) will arrive on Monday – the numbers are big this time (see calendar) as they will point to **Poland flirting with a recession in 1q23**, which is likely to have a lowering impact on 2023 GDP growth bets in the consensus (again).
- On the inflation front, while the underlying price trends outside of energy remain hot, **strong disinflation of energy prices continued** and will be the feature story for March PPI inflation print (Mon.). Moderate food prices will drag down flash CPI figure for April (Fri.). Both **inflation measures most likely dived in y/y terms**, but still stay at double-digit levels.
- **M3 money supply** for March will shed more light on the impact of US banking sector turmoil on local deposits/loans and cash in circulation – we think it will be muted, the local macro story has been shaping them for some time (consumer recession and rising propensity to save, among others).
- Statistics Poland will likely confirm **unemployment rate** for March (5.4%, as expected).

### NUMBER OF THE WEEK:

- **5.1%** – GDP growth in 2022, after revision (vs. 4.9% estimated previously).

### CHART OF THE WEEK: Business sentiment index



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	2022	2023
Real GDP (%)	5.1	0.1
Industrial output (%)	10.5	2.2
Unemployment rate# (%)	5.2	5.4
CPI inflation** (%)	14.4	12.7
Core inflation** (%)	9.1	9.9
Money supply M3 (%)	5.6	5.6
C/A balance (% GDP)	-3.0	-0.6
Fiscal balance (% GDP)*	-3.7	-5.4
Public debt (% GDP)*	49.1	49.9
NBP reference rate### (%)	6.75	6.50
EURPLN###	4.69	4.59

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

## Fiscal glass: half full or half empty?

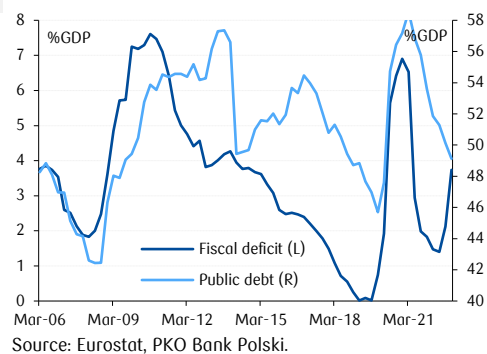
- A prolonged fiscal expansion means that Poland's debt sustainability position deteriorated compared to EU peers. The deterioration of Poland's mid-term debt sustainability position is based on potential output estimate, which – in our view – is at least debatable. Nevertheless, we agree with the EC's assessment, that the tightening of financial conditions (which in Poland is one of the most pronounced in the EU) will require some fiscal tightening next year.

Poland's fiscal deficit (in ESA terms) reached 3.7% of GDP in 2022, as per official Eurostat release (up from 1.8% of GDP in 2021, see margin chart). As we have noted in our previous [Poland Macro Weekly](#), rising fiscal deficit reflected mainly higher energy bills, which were paid from the state coffers. The "Anti-inflationary shields" were mainly a substantial burden on the revenue side (VAT rates cut) and to some extent on the expenditure side (energy bills' compensations). War related spending also mattered (migrants and military expenditures). High nominal GDP growth rate allowed the debt/GDP ratio to decline in 2022 to 49.1% from 53.6% in 2021, despite the deficit exceeding the 3% of GDP mark. Excluding outlays on new infrastructure (see margin chart), Poland's fiscal position among the EU countries remains favorable, as outlays on new infrastructure hit 2.0% of GDP in 2022 and were the second largest among the EU countries.

2023 will be another year of fiscal expansion with the fiscal deficit growing to 5.4% of GDP, according our estimates (with the risk of higher deficit). Indeed, 2023 will be marked by expenditures indexation (e.g. pensions) and revenue slowdown (nominal growth slowdown, PIT decreases, zero VAT on basic food items). It is noteworthy, that declining inflation will not boost government revenues. Given that a nominal GDP growth rate (a proxy of tax base) will be significantly reduced from a double-digit level in 2022 to approx. 8% rate in 4q23, it is likely that the government's fiscal projection (a deficit of 3.7% of GDP in 2023 as per Multiyear Fiscal Plan from April22) will require a significant update this year (an update usually takes place in April each year).

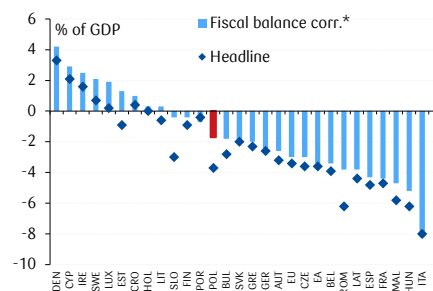
A prolonged fiscal expansion in 2023 means that Poland's debt sustainability position deteriorated compared to EU peers (as per fresh Debt Sustainability Monitor 2022 by the European Commission). The mid-term outlook for most EU countries deteriorated mainly due to (1) a downward revision of the potential growth outlook and (2) a substantial tightening of financial conditions, which in case of Poland (as well as Hungary and Estonia) was particularly strong. That said, it is noteworthy that the assumptions regarding the potential output were based on the fresh Eurostat demographic projections on population growth, which underestimate Ukrainian migrants and refugees working in Poland. This has led to an underestimation of the working age population in a 10-year-period horizon by at least 1 million, or 4-5% of total population (see chart). A very high

Poland - fiscal deficit and debt (ESA)



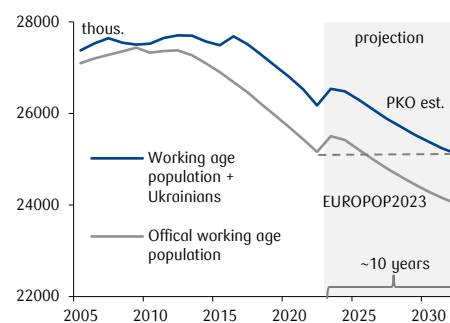
Source: Eurostat, PKO Bank Polski.

Fiscal balance (ESA)



Source: Eurostat, PKO Bank Polski. \*corrected for public investment on new assets.

Working age population projections



Source: Eurostat, PKO Bank Polski.

participation rate of Ukrainians (see Chart of the Week in the previous Poland Macro Weekly) suggests that the deterioration of Poland’s mid-term debt sustainability position, which is based on a lower potential output estimate, is at least debatable (not to say exaggerated).

**On the other hand, we agree with the EC’s assessment, that a tightening of financial conditions, which in Poland is one of the most pronounced in the EU, will require an adjustment of a fiscal stance next year.** We think that fiscal policy will “calm down” after the election season (parliamentary and local govt. election will take place in Autumn 2023 and Spring 2024, respectively). Facing revenue shortfalls in 2023 as well as many new challenges (including military spending), fiscal expansion will not go further after the election season, in our opinion. This will probably be accomplished by a combination of: (1) revenue improving measures (incl. tax hikes) and (2) reduction of public investment in the interim period between old and new EU budgets, (3) no new discretionary consumption spending.

**Overall medium-term risk classifications of the EU countries in the 2021 Fiscal Stability Report and 2022 Debt Sustainability Monitor exercises**

		2022 DSM		
		low	medium	high
2021 FSR	low	DK, EE, IE, LV, LT, LU, SE	PL	
	medium	BG	CZ, DE, CY, NL, AT, FI	HU
	high		MT, RO, SI	BE, EL, ES, FR, HR, IT, PT, SK

Source: European Commission, PKO Bank Polski.

## Weekly economic calendar

Indicator	Time (UK)	Unit	Previous	Consensus*	PKO BP	Comment
<b>Monday, 24 April</b>						
POL: Industrial output (Mar)	9:00	% y/y	-1.2	-1.9	-1.5	Falling industrial output reflects unwinding inventory build-up as well as lower energy output. Construction works suffered from cold spell in early March. Sales dropped without incremental effects of rising population (refugees) and under inflation burden. Disinflation continued on energy prices.
POL: Construction output (Mar)	9:00	% y/y	6.6	0.9	-2.0	
POL: Retail sales (Mar)	9:00	% y/y	-5.0	-5.7	-8.9	
POL: PPI inflation (Mar)	9:00	% y/y	18.4	11.2	12.0	
GER: Ifo index (Apr)	9:00	pts	93.3	93.4	--	
<b>Tuesday, 25 April</b>						
HUN: MNB meeting	13:00	%	13.00	13.00	13.00	--
POL: M3 money supply (Mar)	13:00	% y/y	7.4	7.1	7.4	No fireworks here – money aggregates confirm recession in the consumer segment.
USA Case Shiller house price index (Feb)	14:00	% y/y	2.5	--	--	
USA: New home sales (Mar)	15:00	thous.	640	635	--	--
USA: Conf.Board consumer confidence (Apr)	15:00	pts.	104.2	104.2	--	--
<b>Wednesday, 26 April</b>						
SWE: Riskbank policy rate	8:30	%	3.00	--	--	--
POL: Unemployment rate (Mar)	9:00	%	5.5	5.4	5.4	StatOffice will confirm early MinLab estimate.
USA: Durable goods orders (Mar)	13:30	% m/m	-1.0	0.9	--	
<b>Thursday, 27 April</b>						
EUR: ESI confidence index (Apr)	10:00	pts	99.3	99.9	--	--
EUR: Consumer confidence (Apr)	10:00	pts	-17.5	-19.2	--	--
USA: GDP growth (1q)	13:30	% q/q saar	2.6	2.0	--	--
USA: Private consumption (1q)	13:30	% q/q saar	1.0	--	--	--
USA: Core PCE (1q)	13:30	% q/q saar	4.4	4.2	--	--
USA: Initial jobless claims	13:30	thous.	245	--	--	--
<b>Friday, 28 April</b>						
JAP: BoJ meeting	--	%	-0.10	-0.10	-0.10	--
GER: GDP growth (1q, flash)	7:00	% y/y	0.3	0.8	--	--
POL: CPI inflation (Apr, flash)	9:00	% y/y	16.1	14.8	--	Headline disinflation continued but amid sticky core inflation.
EUR: GDP growth (1q, flash)	10:00	% y/y	1.8	1.3	--	
GER: CPI inflation (Apr, flash)	13:00	% y/y	7.4	7.2	--	--
USA: Core PCE price index (Mar)	13:30	% y/y	4.6	4.8	--	--
USA: Personal Income (Mar)	13:30	% m/m	0.3	0.2	--	--
USA: Personal Spending (Mar)	13:30	% m/m	0.2	-0.1	--	--
USA: UniMich consumer sentiment (Apr, fin.)	15:00	pts	62.0	63.5	--	--

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	"Market valuations of derivative instruments indeed indicate a rate cut in Poland later this year, but in my opinion it has more to do with the profitability of current transactions than with the assessment of market participants that such a cut is substantively justified. (...) I would be very cautious in interpreting current valuations as indication of further MPC decisions" (29.03.2023, PAP)
L. Kotecki	4.8	"Since the economic situation is very weak, I think that for the time being we should limit ourselves to a small increase of a quarter of a percentage point (...) Even from a communication standpoint, a small increase would be very useful. It would show that the Council is still determined, isn't giving up, and will fight for low inflation" (12.04.2023, Bloomberg)
P. Litwiniuk	3.7	"If inflation falls faster than demonstrated in the projection, I will be probably saying that there is a justification for maintaining the [PAP: current] parameters of the monetary policy," (22.03.2023, gazeta.pl, PAP)
H. Wnorowski	2.7	"In my opinion, today there are no fundamental reasons for rising core inflation and such high CPI inflation. As a member of the MPC, I will say that at the moment there are no indications to make those waiting for cheaper money happy. The reality is dynamic. A month ago things were better in terms of the prospects for interest rate cuts." (7.04.2023, Biznes24, PAP)
A. Glapinski	2.4	"We have not completed the cycle of interest rate hikes, we are prepared for any situation. (...) If everything goes on as we predict, then (...) there will be no increases, and at some point there will be a rate cut. When will there be a cut? We will monitor the economy from month to month. A reduction may come when it is absolutely certain that inflation is falling quickly to the target. At the moment, it's too early to say that inflation is falling rapidly, because this slide off the "plateau" has just begun." (6.04.2023, NBP press conf., PAP, PKO transl.)
C. Kochalski	2.4	"In light of the current projection and incoming data and forecasts, the topic of interest-rate cuts was simply not taken up or discussed by anyone. There were no grounds (to do that) in relation to the ongoing economic and inflationary processes." (14.04.2023, Bloomberg).
W. Janczyk	2.0	"The current rates level seems adequate given the information we have today. (...) " in my opinion, in the course of the last few weeks, there has come no information that would prompt resumption of rate hikes in December. Currently, no premises can be seen that would prompt such steps." (2.12.2022, PAP).
I. Duda	2.3	"Considerations about interest rate cuts are in my opinion premature (...) The weakening of global economic conditions will lead to lowering of economic growth rate in Poland, while monetary policy tightening by major central banks will limit inflation, both globally and in Poland (...) However, it is not the moment to formulate expectations as to whether the next MPC move should be a hike or a cut of interest rates." (20.01.2023, PAP)"
G. Maslowska	2.1	"One should wait with an answer to the question about a possibility of interest rate cuts at least until the moment when inflation falls to a single-digit level, which should take place in early autumn, and when we are sure that its declining trend is lasting" (20.02.2023, PAP)
I. Dabrowski	1.9	"I do not know what the Council will do, because it is a collegiate body, but - in my opinion - there will be no hasty reduction of interest rates. We will be watching the changing economic situation very carefully and we cannot afford to cut interest rates too quickly. However, in the horizon of the next projection, I think that we will see the possibility of lowering interest rates, but it is difficult to say when it could happen" (28.03.2023, PAP)

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

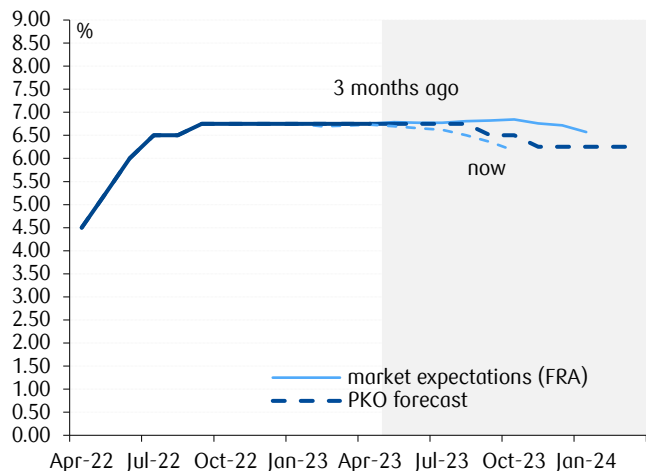
### Interest rates – PKO BP forecasts vs. market expectations

		1M	2M	3M	4M	5M	6M	7M	8M	9M
Date	20-Apr	20-May	20-Jun	20-Jul	20-Aug	20-Sep	20-Oct	20-Nov	20-Dec	20-Jan
WIBOR 3M/FRA†	6.90	6.89	6.88	6.86	6.81	6.77	6.75	6.66	6.57	6.42
implied change (b. p.)		-0.02	-0.03	-0.04	-0.09	-0.13	-0.16	-0.24	-0.33	-0.48
MPC Meeting	5-Apr	10-May	6-Jun	6-Jul	-	6-Sep	4-Oct	8-Nov	6-Dec	-
PKO BP forecast*	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.50	6.50	6.50
market pricing^		6.74	6.73	6.71	6.66	6.62	6.60	6.61	6.57	6.42

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

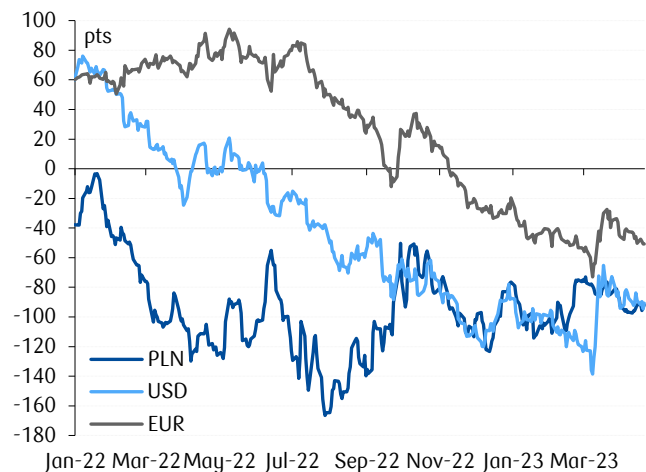
NBP policy rate: PKO BP forecast vs. market expectations



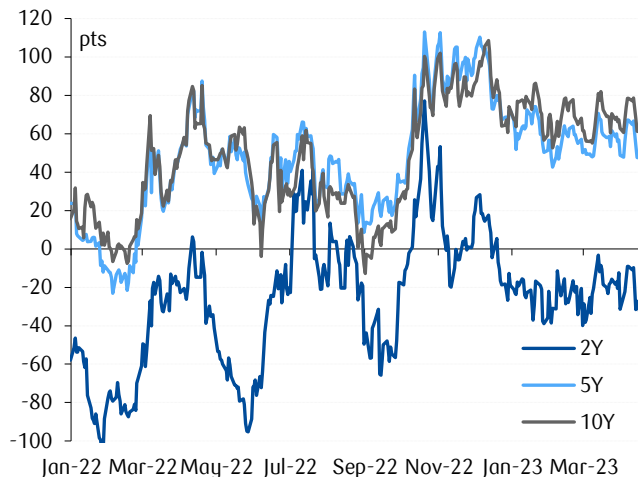
Short-term PLN interest rates



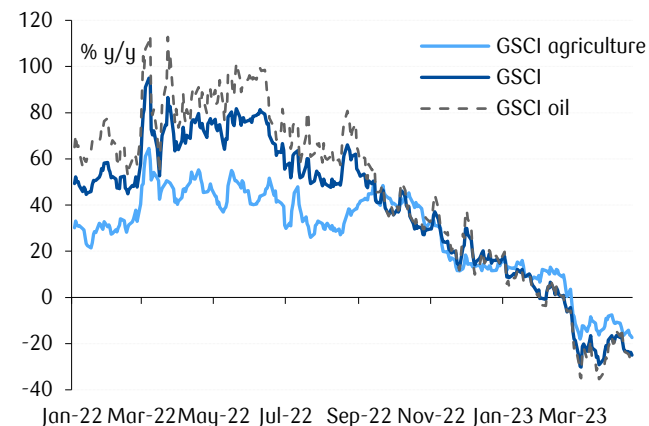
Slope of the swap curve (spread 10Y-2Y)\*



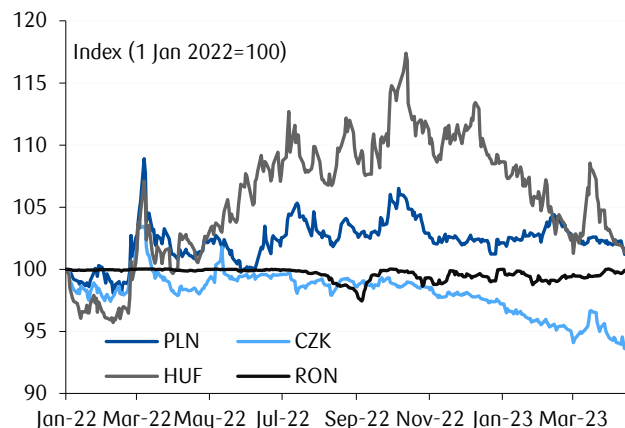
PLN asset swap spread



Global commodity prices (in PLN)

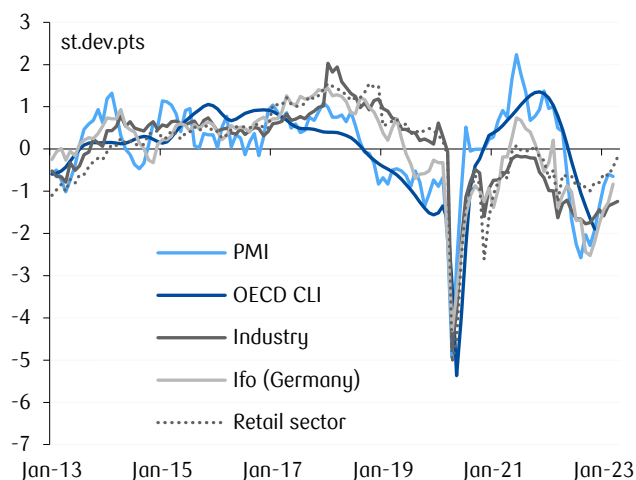


Selected CEE exchange rates against the EUR

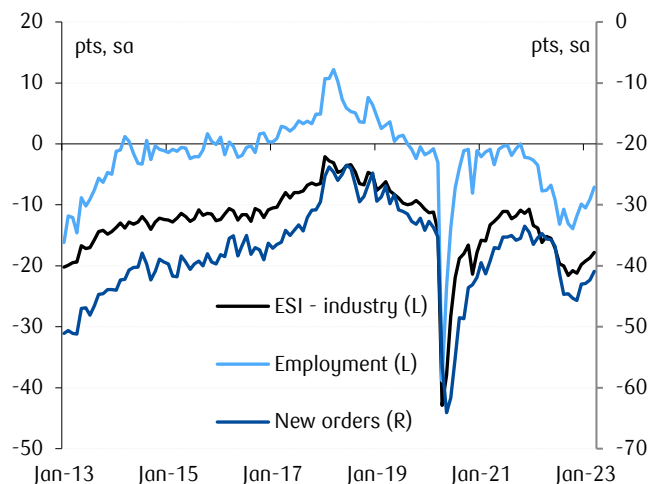


Source: Datastream, NBP, PKO Bank Polski. \*for PLN, and EUR 6M, for USD 3M.

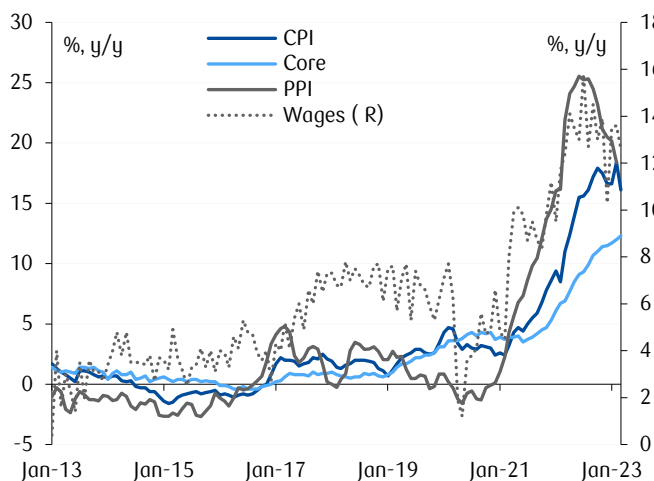
Economic sentiment indicators



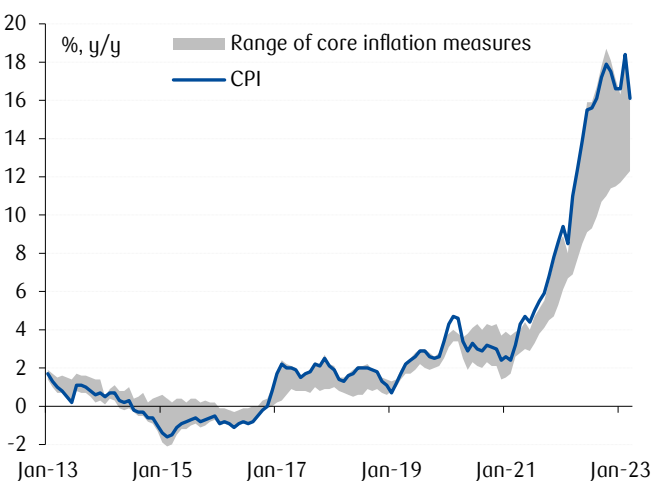
Poland ESI for industry and its components



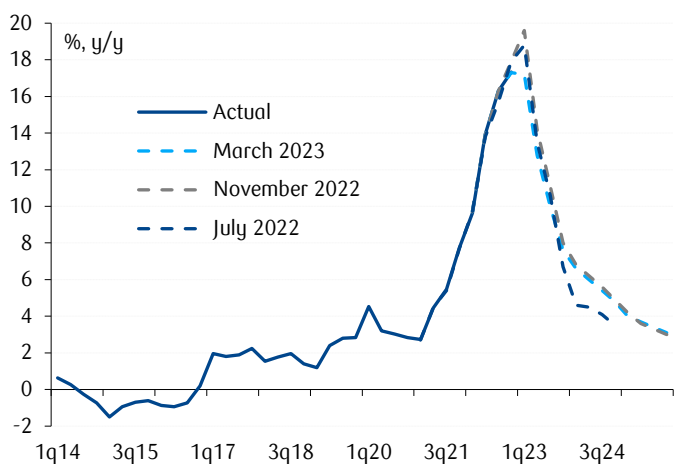
Broad inflation measures



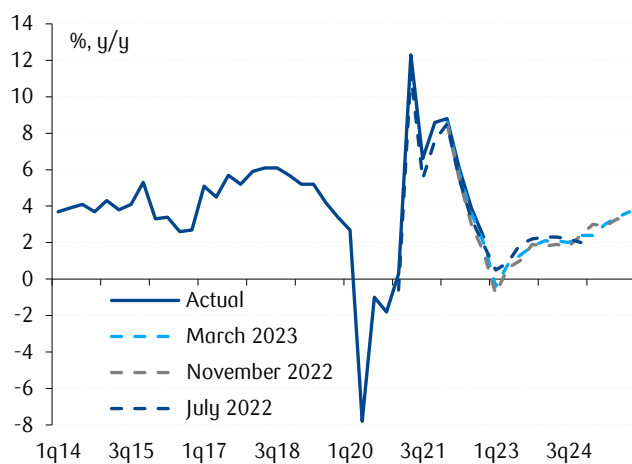
CPI and core inflation measures



CPI inflation - NBP projections vs. actual

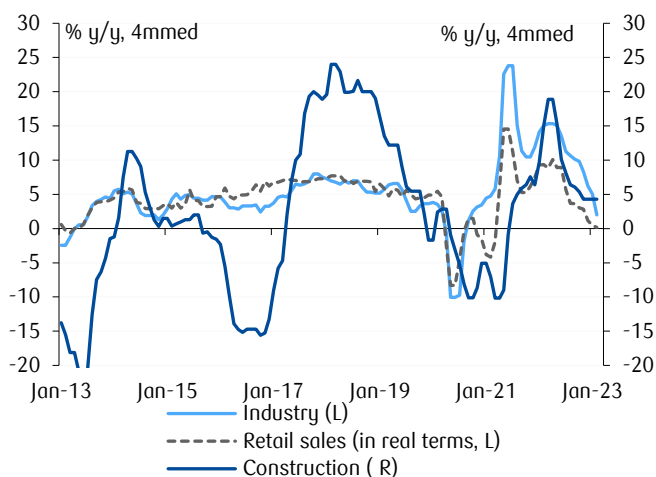


Real GDP growth - NBP projections vs. actual

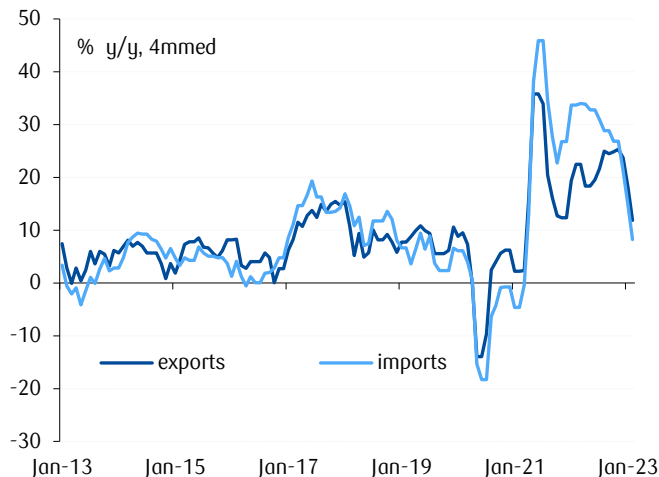


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

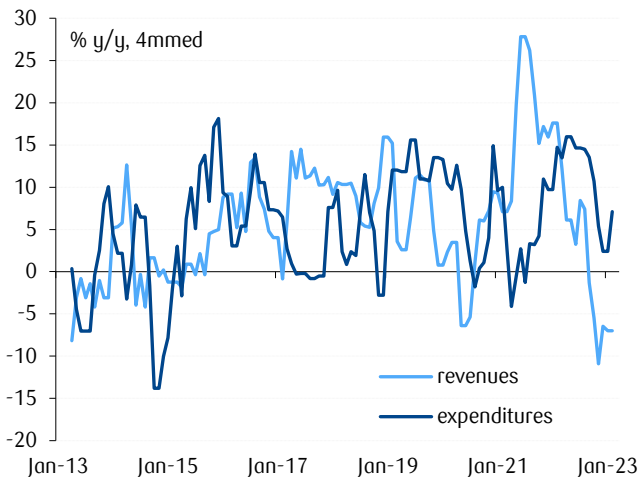
**Economic activity indicators**



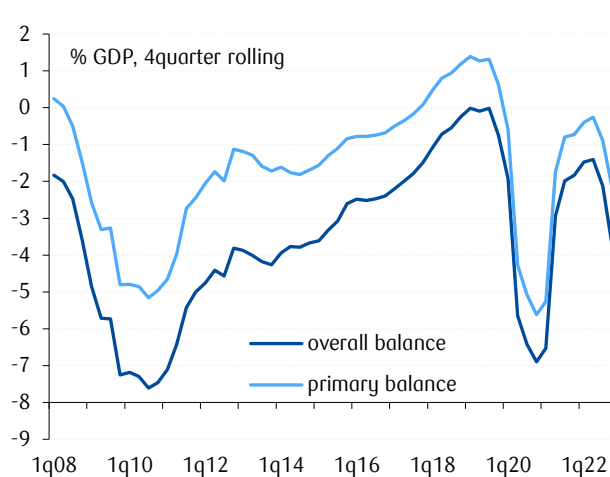
**Merchandise trade (in EUR terms)**



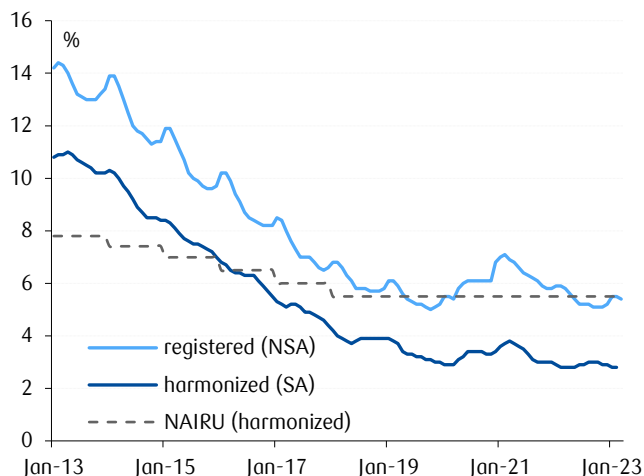
**Central government revenues and expenditures\***



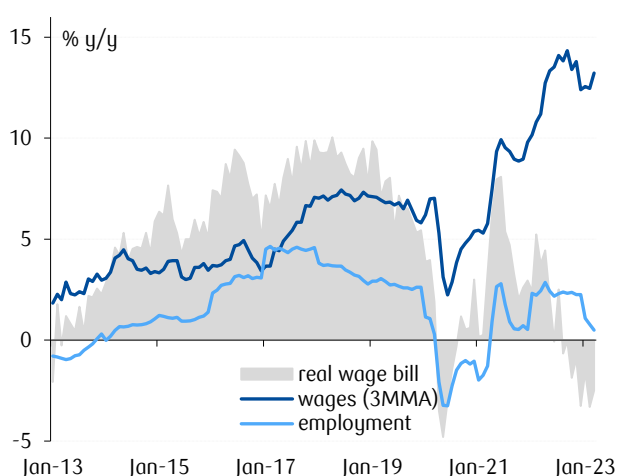
**General government balance (ESA2010)**



**Unemployment rate**



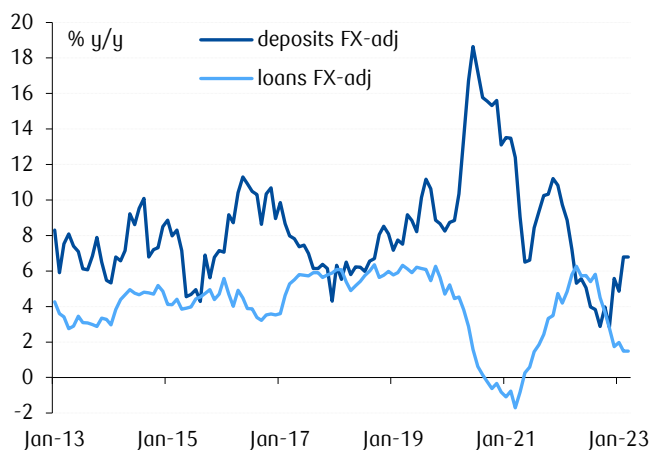
**Employment and wages in the enterprise sector**



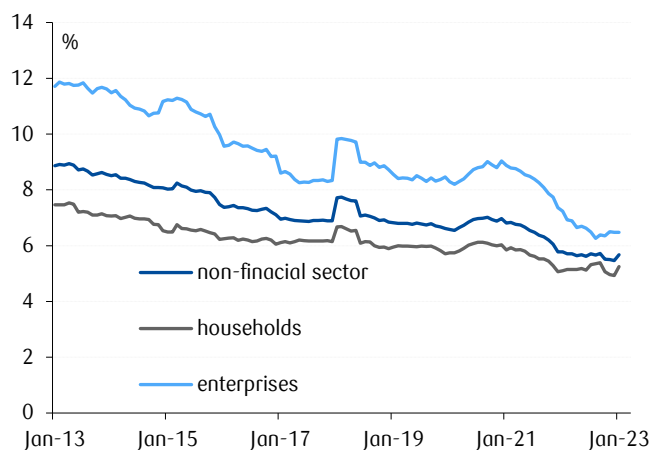
Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. \*break in series in 2010 due to methodological changes.



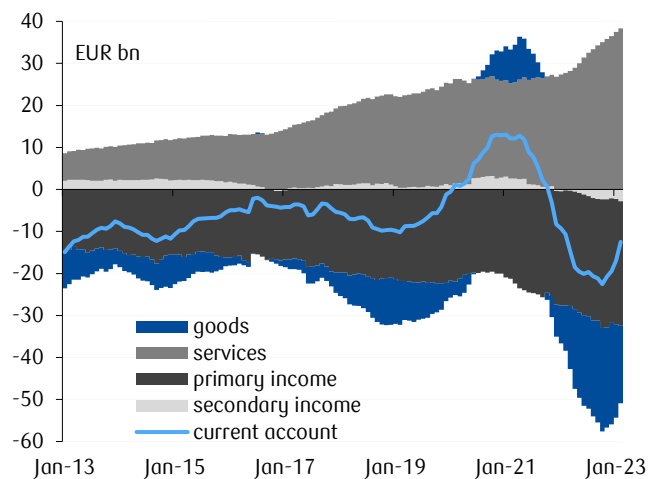
### Loans and deposits



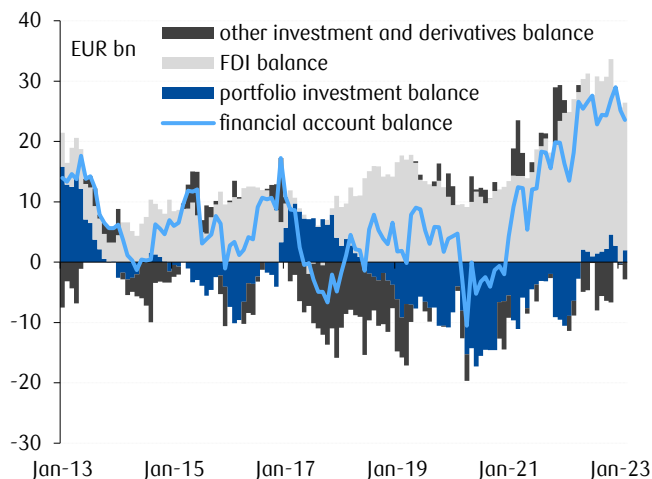
### Non-performing loans (NPLs) - by sectors\*



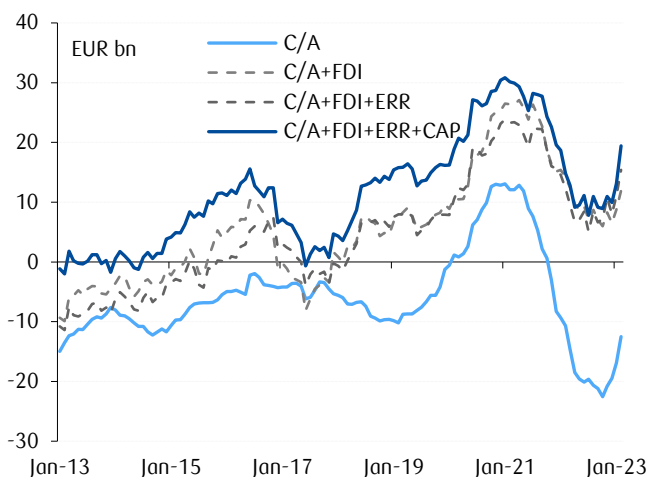
### Current account balance



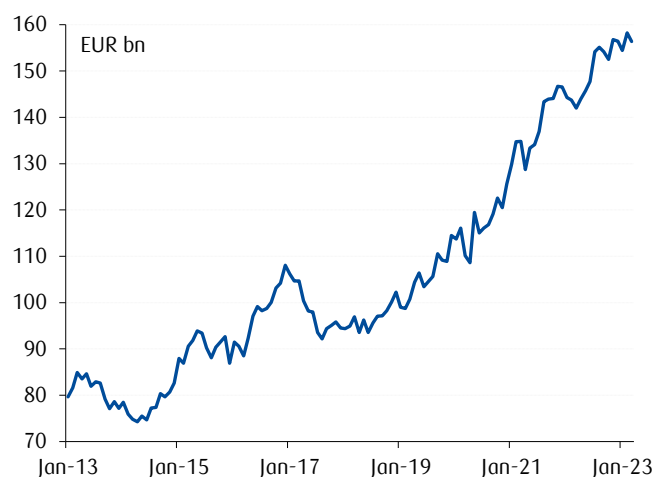
### Financial account balance



### 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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- [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)
- [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)

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