Poland Macro Weekly

Macro Research

10 March 2023

Bank Polski | Centrum Analiz

Spring is coming after all

TOP MACRO THEME(S):

- **Better projection, but no pivot (p.2)** As expected, the MPC left NBP interest rates unchanged. However, despite a downward revision of inflation projection, it has not started to herald rate cuts.

WHAT ELSE CAUGHT OUR EYE:

- **Budget deficit in 2022 was PLN 12.4bn, way lower than planned PLN 29.9bn.** Revenues were supported by high inflation, solid company profits and strong wage bill growth, which increased VAT, CIT and PIT revenues by 6.8% y/y, 33.9% y/y and 7.5% y/y, respectively. In January 2023 central budget had a surplus of PLN 11.2bn, around half smaller than a year earlier. This is broadly in line with our prediction that overall fiscal gap in Poland in relation to GDP will widen from around 3.0% GDP in 2022 to 6.0% GDP this year due to costs related to the mitigation of energy crisis, higher defence spending and a reduction of effective tax rates as part of the Polish Deal.
- **Registered unemployment rate in February stabilized at 5.5%, 0.4pp lower than a year ago.**
- **Official reserve assets in February increased by EUR 3.8bn to EUR 158.2bn, and were close to 25% GDP**, mainly as a result of an increase in value of highly credible government and corporate securities.

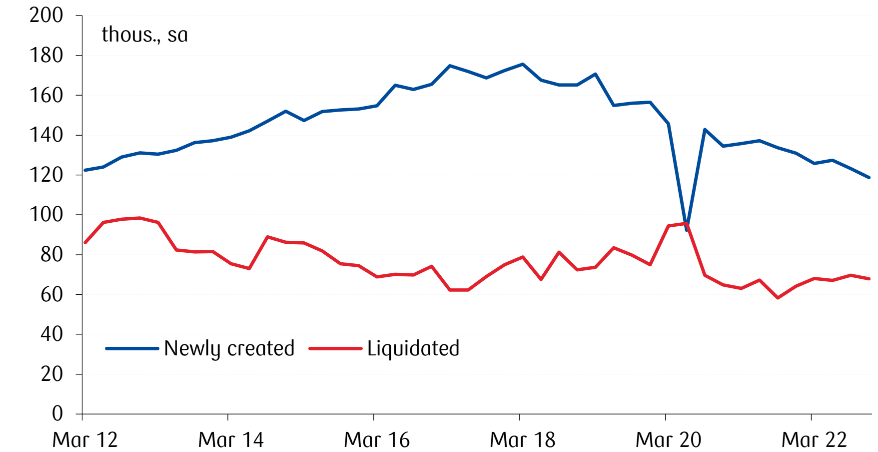
THE WEEK AHEAD:

- **The key local event this week will be CPI inflation for February and revised data for January based on updated weights in the consumption basket.** February will mark the peak of CPI inflation in this cycle. Preliminary data for January showed a surprisingly low m/m growth in electricity, gas and other fuels – it will be interesting to see whether it is confirmed or revised. **Core inflation** measures for January and February will be revealed on day after CPI figures. Here the question is whether an upward trend is broken eventually.
- **Balance of payments data for January** should show an improvement of the current account balance supported by normalisation of the terms of trade and resilient export performance.

NUMBER OF THE WEEK:

- **14.6% – the scale of decline of vacant places in the economy in 4q22 compared to a year earlier**

CHART OF THE WEEK: Newly created and liquidated jobs



Source: Statistics Poland. PKO Bank Polski.

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	2022	2023†
Real GDP (%)	4.9	0.1
Industrial output (%)	10.4	3.9
Unemployment rate# (%)	5.2	5.4
CPI inflation** (%)	14.3	11.9
Core inflation** (%)	9.0	9.7
Money supply M3 (%)	5.4	6.4
C/A balance (% GDP)	-3.1	-2.2
Fiscal balance (% GDP)*	-3.0	-6.0
Public debt (% GDP)*	51.5	53.6
NBP reference rate## (%)	6.75	6.25
EURPLN‡##	4.69	4.62

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.

Better projection, but no pivot

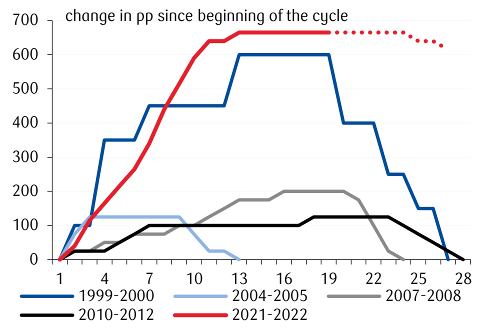
- **As expected the MPC kept interest rates unchanged, including the reference rate at 6.75%, for the sixth consecutive month.**
- **Inflation projection was revised down for a first time since 2020, in particular the NBP expects CPI inflation in 2023 at 11.9% against 13.1% in November projection. GDP growth should also be slightly better.**
- **This gives NBP a strong argument to maintain the wait-and-see approach, but not a sufficient one to announce the termination of interest rate hikes.**
- **NBP remains formally on pause in hike cycle, but in our view practically is over. The next move probably will be downward. The NBP Governor is leaning towards rate declines in 4q23.**

On its March decision-making meeting, the MPC kept interest rates unchanged, which came as no surprise. NBP Governor A.Glapinski said that there is still no formal end to the rate hike cycle and the Council remains in wait-and-see mode, leaving the door open for possible further increases. This time more attention was drawn to an updated inflation and GDP projection, according to which inflation in 2023 will stand at 11.9% (against 13.1% in November), at 5.7% in 2024 (vs. 5.9%) and at 3.5% in 2025 (unchanged compared to November). Inflation projection path was subject to a downward revision for the first time since 2020. At the same time, economic outlook looks slightly better than in November. GDP is expected to grow by 0.9% in 2023 (against 0.7% expected previously), by 2.1% in 2024 (against 2.0%) and by 3.2% in 2025 (against 3.1%).

In the press release, the MPC put a little more emphasis on domestic factors contributing to disinflation, including a fall in consumption amid significant decrease in credit growth. It also pointed to decreasing employment in the private sector. So far the MPC underlined its goal to mitigate the risks of inflation anchoring at an elevated level. This time, however, it announced that its aim is to ensure a return of inflation to the target, which could suggest that in NBP's view risks threatening disinflation eased somewhat.

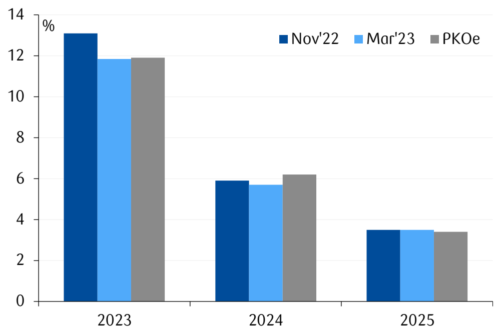
As we already assumed, downward revision of inflation path reflects lower starting point (expected inflation peak declined from nearly 20% y/y to around 18.7% y/y) and better energy market situation. However, the revisions covered mainly 2023 with marginally changes in 2024 and 2025. **The CPI peak has already passed in 4q22 (17.3% y/y) with 17.2% y/y in 1q23. The disinflation in 2023 should be fast (~10pp) to 7.6% y/y in 4q24.** The subsequent disinflationary process should be slower and prone to risk of core inflation stubbornness. The return to CPI target range (1.5-3.5% y/y) should occur earliest in 2h25. **NBP assumes that core inflation will peak in 1q23 (11.8% y/y) and slow to 8.4% y/y in 4q23 and 5.0% y/y in 4q24.** The persistence of core inflation will derive from still high wage pressure. Our forecast assumes lower wage path and consequently faster core inflation decline (see graph). The difference probably derives from the view on labour market outlook – NBP assumes 1.5-2pp rise of unemployment rate, we expect stabilization of unemployment due to structural issues (demographic processes, lack of workforce) and hence stronger reaction of wages.

Historic interest rate cycles



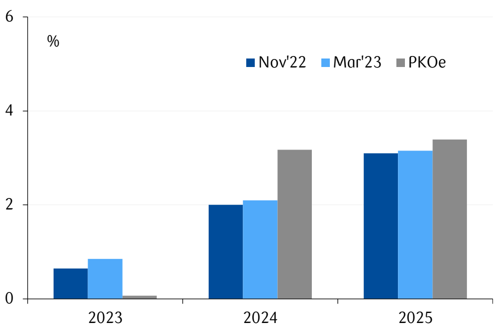
Source: NBP, PKO Bank Polski. Dashed line stands for PKO forecast

Inflation projection



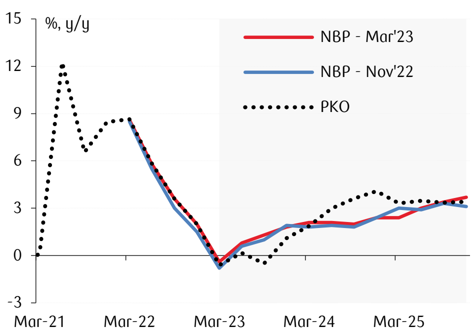
Source: NBP, PKO Bank Polski.

GDP projection



Source: NBP, PKO Bank Polski.

NBP GDP projections vs PKO forecast



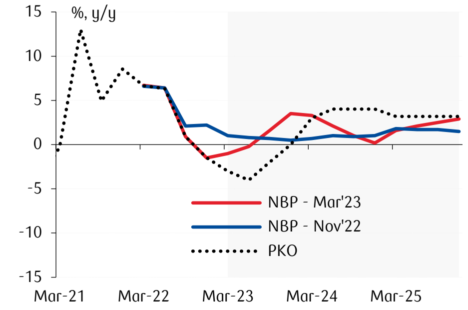
Source: NBP, PKO Bank Polski.

NBP expects "soft landing" – GDP growth in 2023 will amount to 0.9% (PKOe: 0.1%). Yearly growth rate should be negative only in 1q23 and since 2q23 the economy may revive. **NBP expects mild consumer recession** – the private consumption should bottom out in 1q22 (-1.0% y/y) and immediately after will revive. **We expect deeper consumer recession** (see graph), what is also explaining our lower wage and core inflation path. NBP economists suggested the downward risks for consumption. We share the NBP's assessment of the investment outlook - 2023 will be a year of weakness (the effect of a decline in real estate investment and cooling private investment), while from 2024 investment activity will accelerate, with the return of housing demand, an increase in energy and automation-related expenditures, and an inflow of FDI. The NBP has postponed the inflow of EU funds, while assuming (as we do) that in 2023 investments from the National Recovery Plan will be partially prefinanced by domestic funds. NBP projection supports less inflation-prone economic growth. The risk towards GDP are downward balanced, whereas risk towards inflation are balanced.

Latest NBP projection gives NBP a strong argument to maintain the wait-and-see approach. Such an attitude was emphasized by the governor of the NBP, A.Glapinski, during the press conference, as he reiterated that the MPC does not conclude the tightening cycle nor is there a decision about the timing of potential interest rate cuts. MPC needs to have the possibility to act if the disinflation process comes to a halt and factors that could lead to such a situation include a very generous fiscal policy. In the governor's opinion, inflation will reach single-digit level in August/September and be close to 7% by the end of the year. He doesn't see the risk of core inflation stabilizing at an elevated level as it should closely follow CPI inflation. A.Glapinski personally is leaning towards rate declines in 4q23.

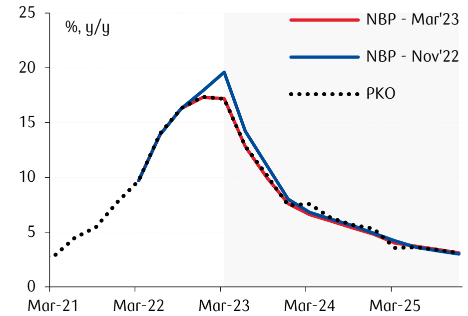
Updated inflation path, which is in line with our forecast, supports our view, that the tightening cycle is in fact over. Nevertheless, high uncertainty regarding January and February inflation figures, labour market adjustments and external environment, in particular further monetary policy tightening by the most prominent central banks may prevent the MPC from an official termination of interest rate hikes for some time.

NBP private consumption projections vs PKO forecast



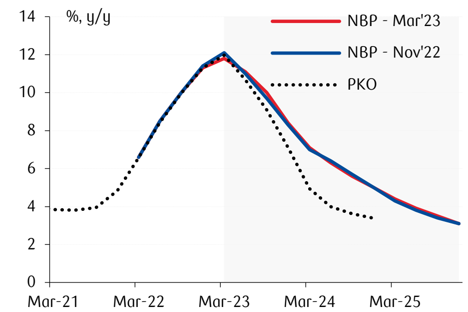
Source: NBP, PKO Bank Polski.

NBP CPI inflation projections vs PKO forecast



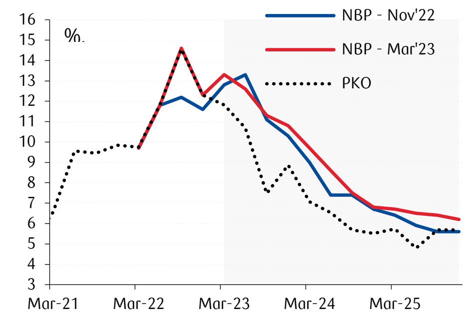
Source: NBP, PKO Bank Polski

NBP core inflation projections vs PKO forecast



Source: NBP, PKO Bank Polski.

NBP wages projections vs PKO forecast



Source: NBP, PKO Bank Polski.

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Weekly economic calendar

Indicator	Time (UK)	Unit	Previous	Consensus*	PKO BP	Comment
Monday, 6 March						
EUR: Sentix Index (Mar)	9:30	pts.	-8	-7.5	--	--
EUR: Retail sales (Jan)	10:00	% y/y	-2.8	-1.5	--	--
USA: Factory orders (Jan)	15:00	% m/m	1.8	-1.5	--	--
USA: Durable goods orders (Jan, final)	15:00	% m/m	5.1	-4.1	--	--
Tuesday, 14 March						
USA: CPI inflation (Feb)	12:30	% y/y	6.4	6.0	--	--
USA: Core inflation (Feb)	12:30	% y/y	5.6	5.5	--	--
Wednesday, 15 March						
POL: CPI inflation (Feb)	**9:00**	**% y/y**	**17.2**	**18.7**	**18.7**	**February CPI, based on the updated inflation basket, will show the peak of inflation in this cycle**
EUR: Industrial production (Jan)	10:00	% y/y	-1.7	0.4	--	--
USA: PPI inflation (Feb)	12:30	% y/y	6.0	5.4	--	--
USA: Retail sales (Feb)	12:30	% m/m	3.0	0.2	--	--
USA: Retail sales excl. autos (Feb)	12:30	% m/m	2.3	-0.1	--	--
Thursday, 16 March						
USA: Initial Jobless Claims ()	12:30	thous.	211	--	--	--
USA: Housing starts (Feb)	12:30	thous.	1309	1310	--	--
USA: Building Permits (Feb)	12:30	thous.	1339	1350	--	--
POL: Current account balance (Jan)	**13:00**	**EUR bn**	**-2.526**	**-0.723**	**-1.119**	**CA balance is at its turning point. We expect it to improve substantially in 2023, based on improved terms of trade and resilient exports.**
POL: Exports (Jan)	**13:00**	**% y/y**	**11.5**	**12.9**	**13.9**	
POL: Imports (Jan)	**13:00**	**% y/y**	**12.1**	**14.7**	**12.3**	
POL: Core inflation (Feb)	**13:00**	**% y/y**	**11.9**	**11.9**	**11.9**	**Core inflation seems to be more sticky than CPI, but it is expected to peak soon.**
EUR: ECB Refinancing Rate ()	13:15	%	3.0	3.5	3.5	--
EUR: EBC deposit rate ()	13:15	%	2.5	3.0	3.0	--
Friday, 17 March						
EUR: HICP inflation (Feb, final)	10:00	% y/y	8.6	8.5	--	--
EUR: Core inflation (Feb, final)	10:00	% y/y	5.3	5.6	--	--
USA: Industrial production (Feb)	13:15	% m/m	0.0	0.5	--	--
USA: University of Michigan sentiment (Mar, flash)	14:00	pts.	67.0	67.3	--	--

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	"I find it harmful to discuss interest rate cuts by the end of 2023 (...) as it reduces the effectiveness of monetary policy. (...) I do not think that current interest rate level is sufficient for bringing price growth (...) to 2.5% in a horizon, which wouldn't pose a threat to credibility of monetary policy. There is no guarantee that we are heading to target and any global disruption may blow us away from this path (28.02.2023, PAP, PKO transl.)
L. Kotecki	4.8	"(...) Overall macroeconomic policy (...) should focus on one priority, which is bringing inflation back to the target or close to it. It is going to be very, very difficult. Decrease from 18% to 12% may be easy, however, from 12% to 5, 4 or 3% may be a lengthy process, lasting several years, if nothing in the macroeconomic policy changes." (2.03.2023, Interia Biznes)
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	"There is no reason for discussion on interest rate cuts as of today. Inflation remains high and returning to the target is a distant perspective. Our official standpoint is that we have not ended the tightening cycle. There will come the time when the MPC will be ready to announce the termination of interest rate increases. We are waiting for the March projection and inflation data. (...) It doesn't seem that monetary tightening by prominent central banks and higher expectations regarding their target level of interest rates could have an impact on MPC's decision" (23.02.2023, 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 by 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	"Most likely it is only late 2023/early 2024 that conditions could be met for consideration of rate cuts. One such condition is, in my view, a significant reduction in core inflation" (15.02.2023, 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.

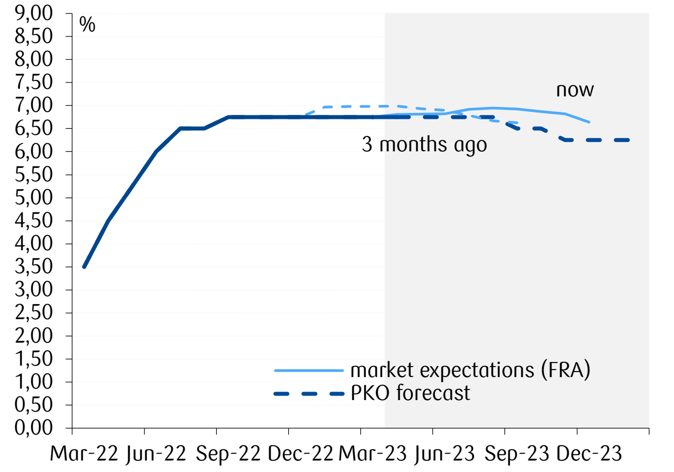
Interest rates – PKO BP forecasts vs. market expectations

		1M	2M	3M	4M	5M	6M	7M	8M	9M
Date	9-Mar	9-Apr	9-May	9-Jun	9-Jul	9-Aug	9-Sep	9-Oct	9-Nov	9-Dec
WIBOR 3M/FRA†	6.93	6.94	6.95	6.94	6.95	6.93	6.86	6.80	6.70	6.53
implied change (b. p.)		0.01	0.02	0.00	0.02	0.00	-0.07	-0.13	-0.23	-0.40
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	6.50	6.50	6.25	6.25
market pricing^		6.76	6.77	6.76	6.77	6.75	6.68	6.72	6.67	6.50

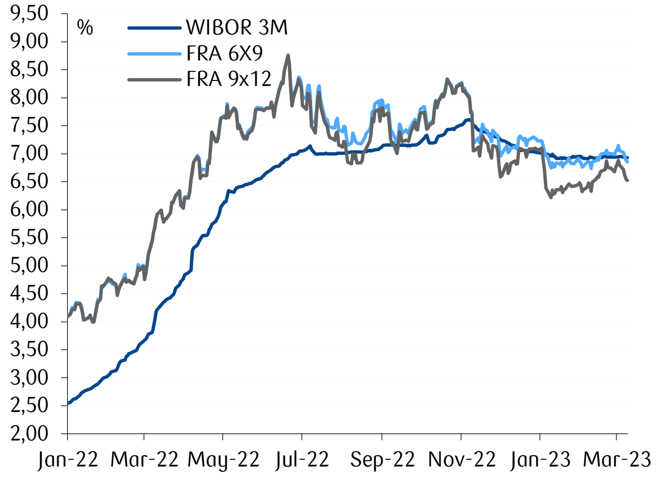
WIBOR 3M from the last fixing, FRA transactions based on WIBOR 3M for subsequent periods, ‡in basis points, *PKO BP forecast of the NBP reference rate.

Poland macro chartbook

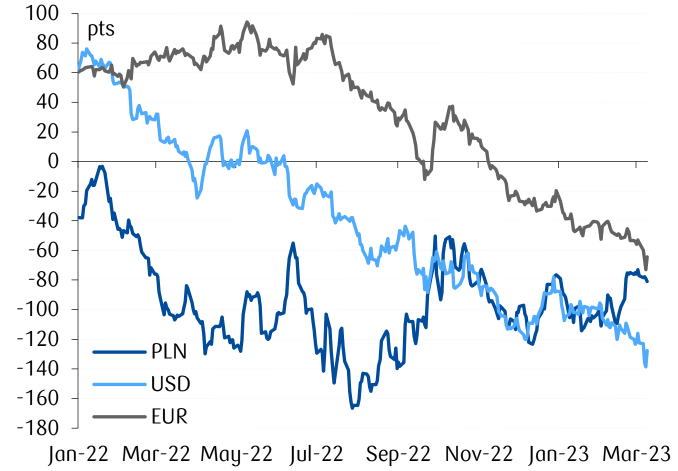
NBP policy rate: PKO BP forecast vs. market expectations



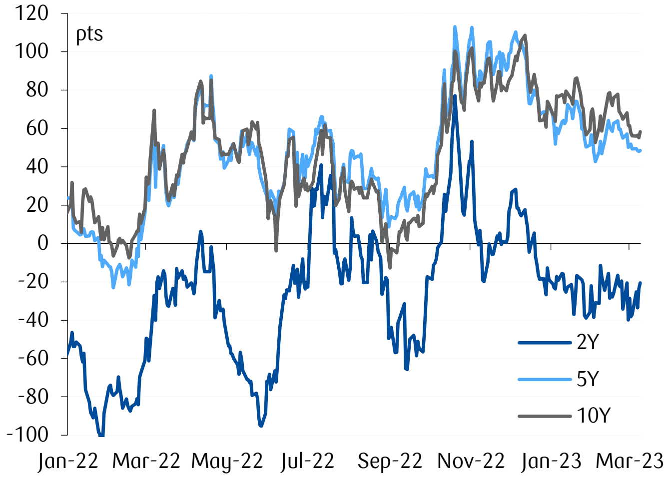
Short-term PLN interest rates



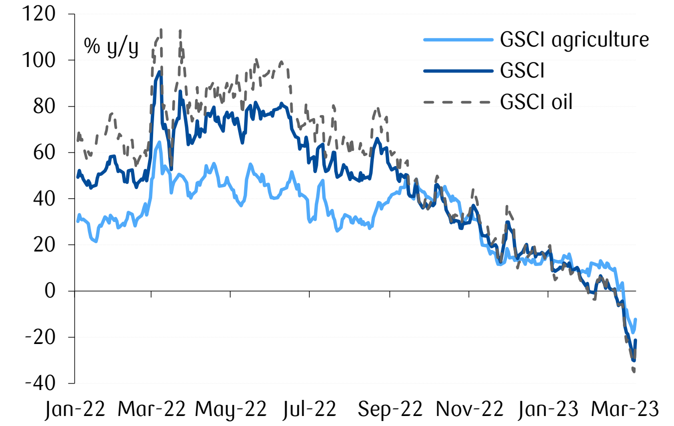
Slope of the swap curve (spread 10Y-2Y)*



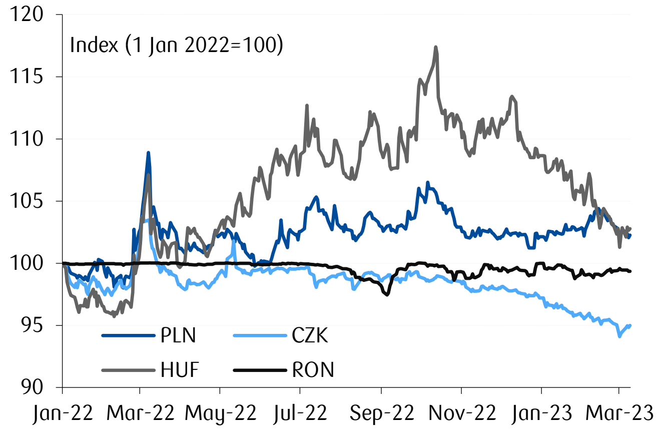
PLN asset swap spread



Global commodity prices (in PLN)

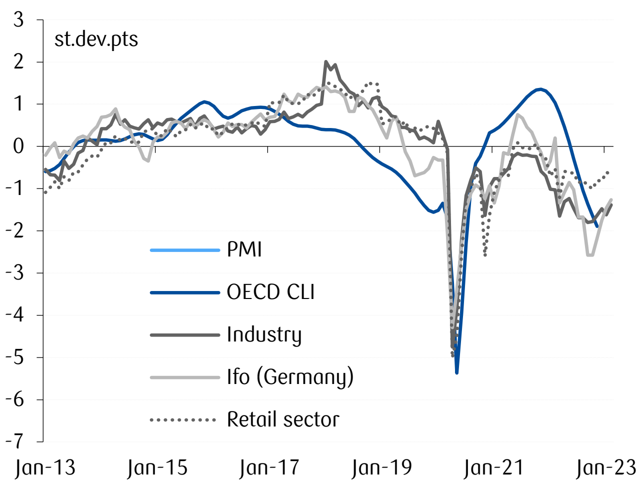


Selected CEE exchange rates against the EUR

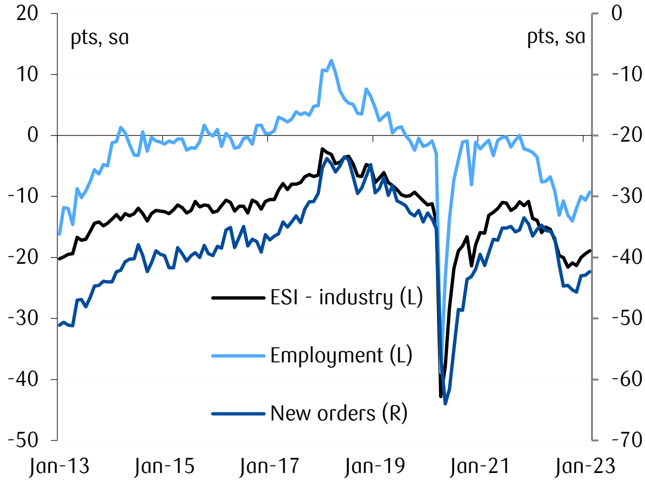


Source: Datastream, NBP, PKO Bank Polski. *for PLN, and EUR 6M, for USD 3M.

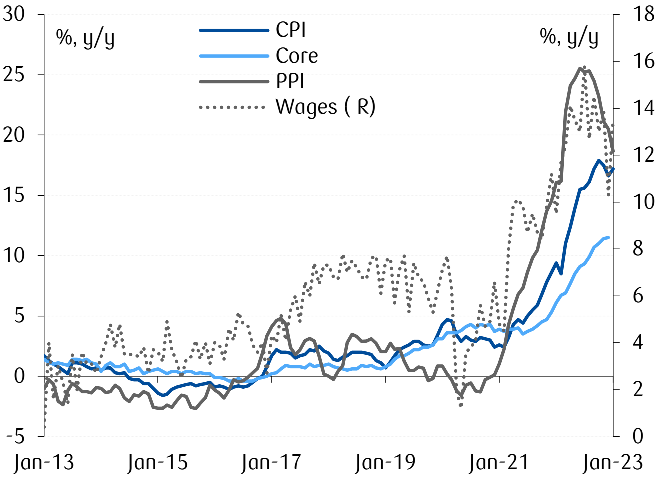
Economic sentiment indicators



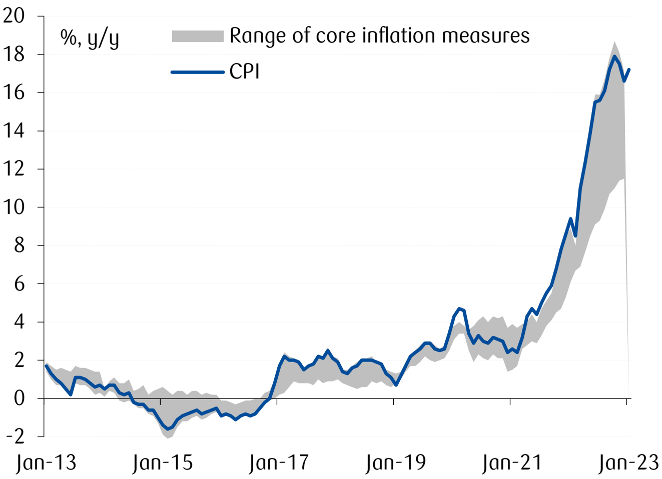
Poland ESI for industry and its components



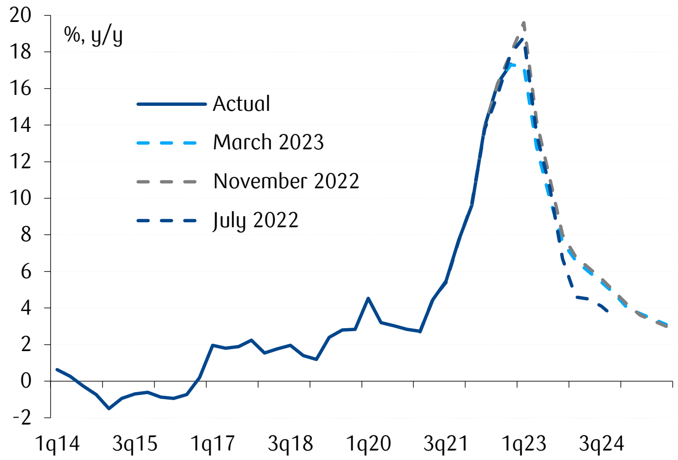
Broad inflation measures



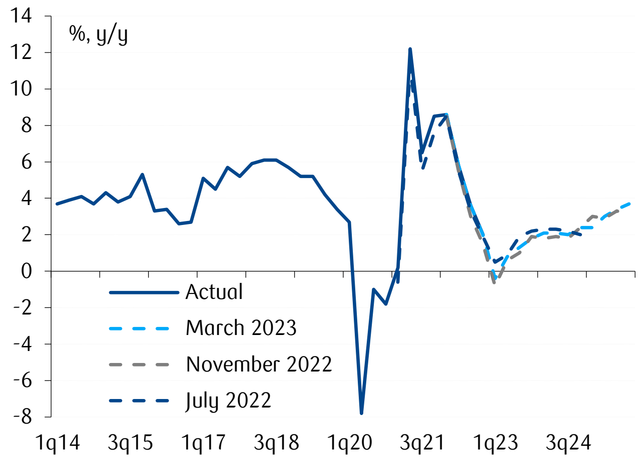
CPI and core inflation measures



CPI inflation – NBP projections vs. actual

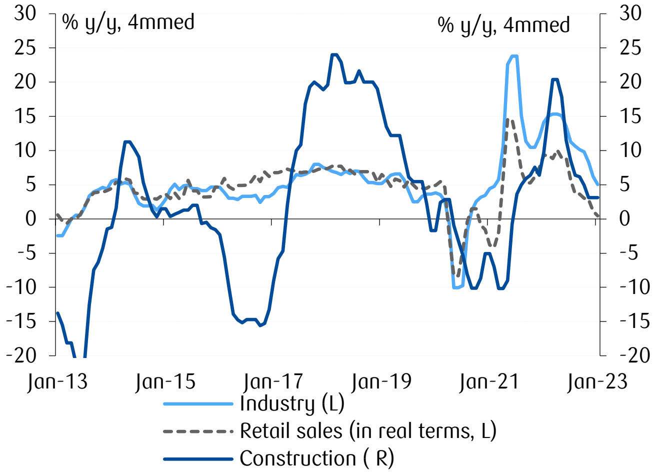


Real GDP growth – NBP projections vs. actual

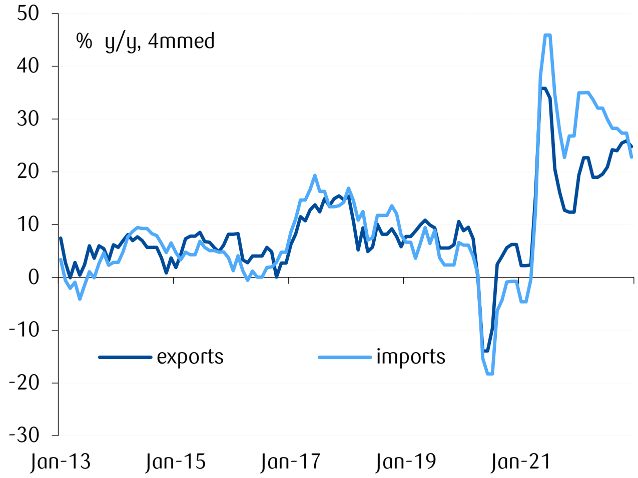


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

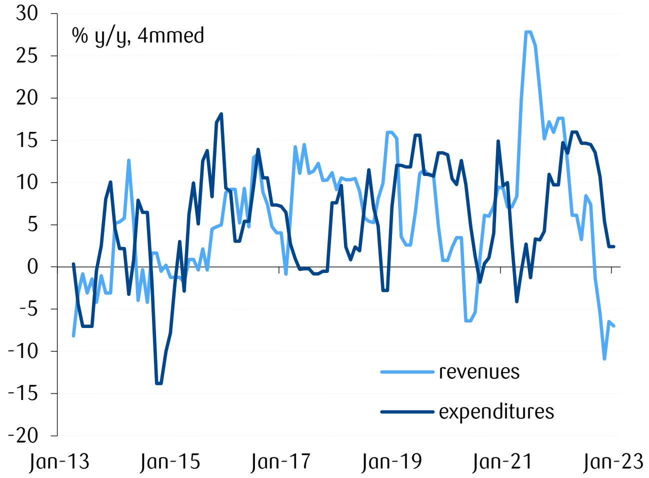
Economic activity indicators



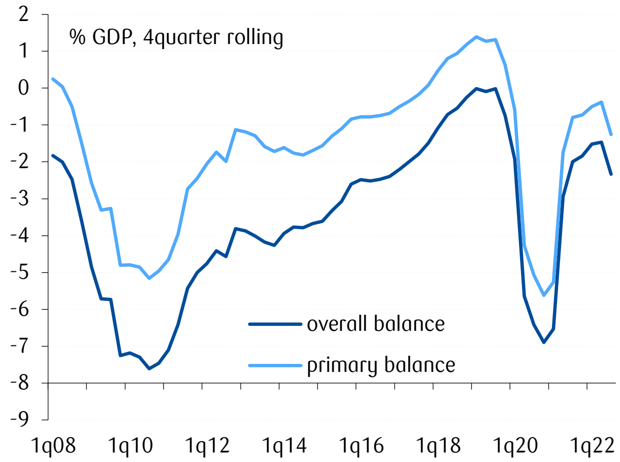
Merchandise trade (in EUR terms)



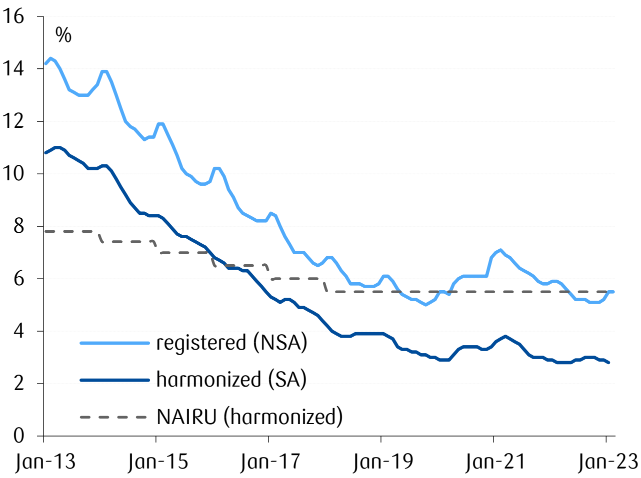
Central government revenues and expenditures*



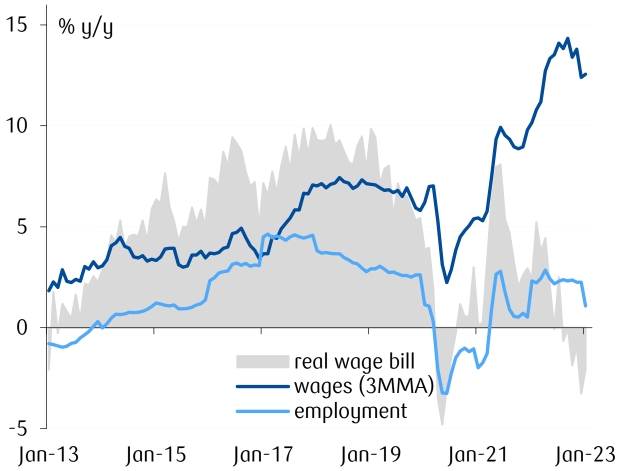
General government balance (ESA2010)



Unemployment rate

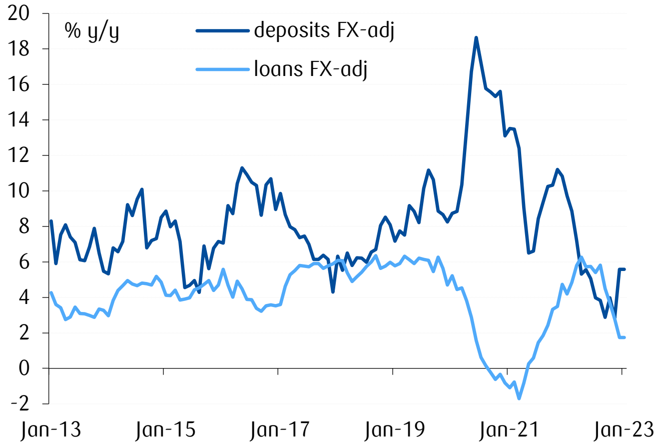


Employment and wages in the enterprise sector

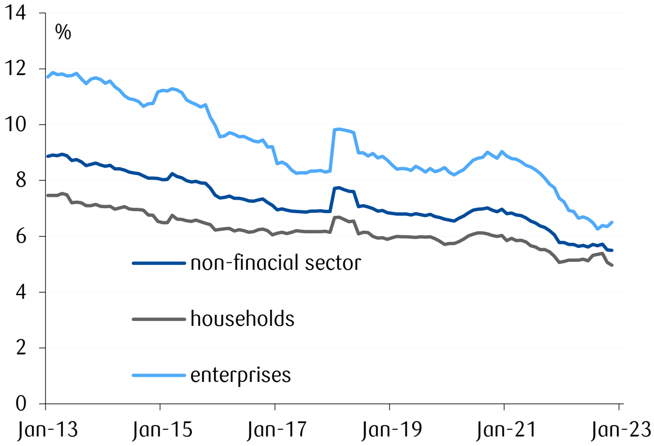


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. *break in series in 2010 due to methodological changes.

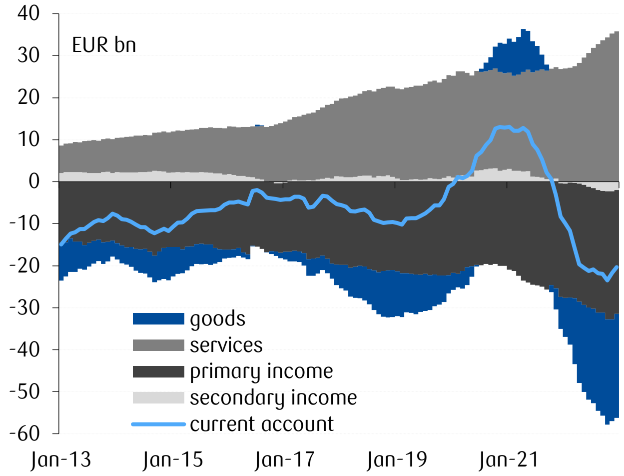
Loans and deposits



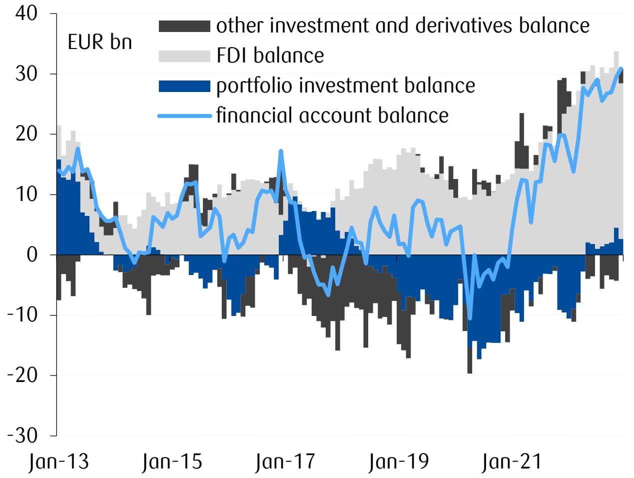
Non-performing loans (NPLs) – by sectors*



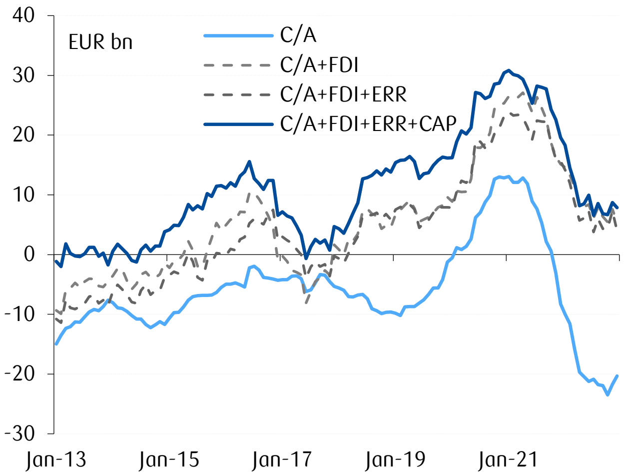
Current account balance



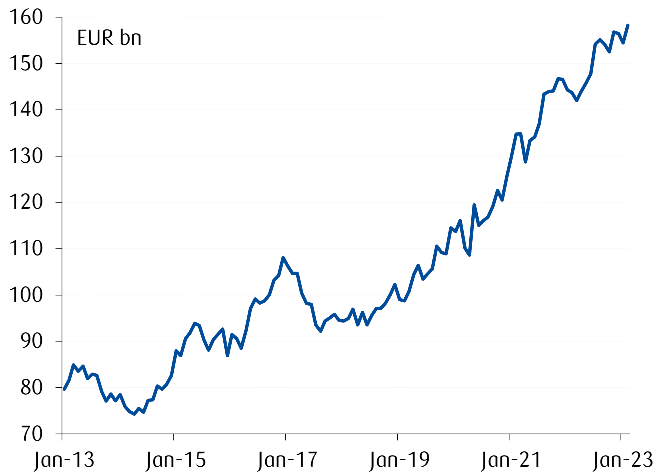
Financial account balance



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:

- 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)
- 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)