

## Happy 2023!

### TOP MACRO THEME(S):

- **It's just a temporary power outage:** 2023 will surely be another interesting year. We have prepared a year-ahead presentation covering top economic themes for this year. Please see it here: [Poland Macro Outlook 2023](#)

### WHAT ELSE CAUGHT OUR EYE:

- **MPC kept interest rates on hold in January, for the fourth straight month (reference rate: 6.75%).** NBP governor stated that no further rate hikes reflected the economic downturn and signs of a weakening in cost pressures. At the same time, he reiterated that the rate hikes cycle has not been ended yet. In our opinion, the current pause will turn into the end of the monetary tightening cycle, and then, in late 2023, into interest rate cuts.
- **CPI inflation declined sharply in December, to 16.6% y/y from 17.5% y/y, the lowest since August.** In m/m terms prices rose by 0.1%, the least since June 2021 (excl. Feb.22 due to VAT cuts). Energy, with prices down by 3.4% m/m, mainly thanks to lower heating coal prices, was the main contributor to the decline in CPI inflation (y/y). Food prices rose by 1.4% m/m - stronger than implied by the seasonal pattern, but weaker than before. Core inflation keeps growing but its momentum is slowing down. We expect that CPI inflation will rise to 19-20% y/y in January and February and then enter a downward trend, which will bring it below 10% y/y at the end of 2023.
- Poland's lower house of parliament passed an amendment to the judiciary system law introducing changes that would allow for **unblocking EU recovery fund payouts for Poland.**
- **Current account deficit after November fell to 3.5% from 3.7% of GDP, as exports growth surpassed imports growth for the first time since May 2021.**
- **Manufacturing PMI in December increased for the second month in a row, to 45.6pts from 43.4pts in November, significantly above forecasts.**

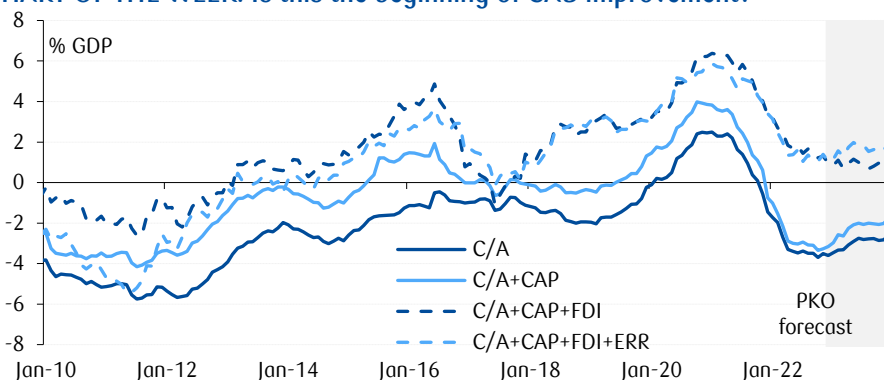
### THE WEEK AHEAD:

- Consumer sector data this week should confirm that the confidence is low, but has stopped deteriorating. December labour market data has been affected by flu outbreak (lower employment in FTE terms due to sick leaves), while wage growth at the end of the year reflects bonus payment shifts in mining.

### NUMBER OF THE WEEK:

- **2.3% of GDP** – general government deficit after 3q22 (4q rolling), which means an upward risk to our whole-year estimate (1.7% of GDP).

### CHART OF THE WEEK: Is this the beginning of CAB improvement?



Source: NBP, PKO Bank Polski.

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	2022	2023 <sub>†</sub>
Real GDP (%)	4.5	0.1
Industrial output (%)	9.9	-2.0
Unemployment rate <sup>#</sup> (%)	5.2	5.4
CPI inflation <sup>**</sup> (%)	14.4	13.2
Core inflation <sup>**</sup> (%)	9.0	8.7
Money supply M3 (%)	6.3	4.5
C/A balance (% GDP)	-3.6	-2.6
Fiscal balance (% GDP) <sup>*</sup>	-1.7	-5.1
Public debt (% GDP) <sup>*</sup>	50.8	52.7
NBP reference rate <sup>##</sup> (%)	6.75	6.25
EURPLN <sup>###</sup>	4.69	4.58

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

## Weekly economic calendar

Indicator	Time (UK)	Unit	Previous	Consensus*	PKO BP	Comment
<b>Monday, 16 January</b>						
POL: Core inflation (Dec)	13:00	% y/y	11.4	11.5	11.5	Core inflation keeps growing, but its momentum is finally slowing down.
<b>Tuesday, 17 January</b>						
CHN: GDP growth (4q)	2:00	% y/y	3.9	1.7	--	--
GER: CPI inflation (Dec, final)	7:00	% y/y	10.0	8.6	--	--
GER: HICP inflation (Dec, final)	7:00	% y/y	11.3	9.6	--	--
GER: ZEW Economic Sentiment (Jan)	10:00	pts.	-23.3	-15.5	--	--
<b>Wednesday, 18 January</b>						
EUR: HICP inflation (Dec, final)	10:00	% y/y	9.2	9.2	--	--
EUR: Core inflation (Dec, final)	10:00	% y/y	5.2	5.2	--	--
USA: Retail sales (Dec)	13:30	% m/m	-0.6	-0.8	--	--
USA: Retail sales excl. autos (Dec)	13:30	% m/m	-0.2	-0.4	--	--
USA: PPI inflation (Dec)	13:30	% y/y	7.4	6.9	--	--
USA: Industrial production (Dec)	14:15	% m/m	-0.2	0	--	--
JP: BoJ meeting (Jan)	--	%	-0.1	-0.1	--	--
<b>Thursday, 19 January</b>						
NO: Norges Bank meeting (Jan)	9:00	%	2.75	--	--	--
POL: Consumer Confidence (Jan)	9:00	pts.	-41.9	-40.7	-40.5	Consumer confidence has recently stabilized at historically low levels.
USA: Building Permits (Dec)	13:30	thous.	1351	1380	--	--
USA: Housing starts (Dec)	13:30	thous.	1427	1390	--	--
USA: Initial Jobless Claims (Jan)	13:30	thous.	205	211	--	--
<b>Friday, 20 January</b>						
GER: PPI inflation (Dec)	7:00	% y/y	28.2	20.7	--	--
POL: Wages (Dec)	9:00	% y/y	13.9	12.6	12.5	Wages has been recently heavily affected by shift of bonuses paid in mining industry.
POL: Employment (Dec)	9:00	% y/y	2.3	2.3	2.2	Employment (FTEs) has likely been negatively affected by sick leaves due to flu epidemic.
USA: Existing home sales (Dec)	15:00	mm.	4.09	3.97	--	--

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	<b>"We certainly cannot say today that the rate hike cycle has come to an end, as it would be way too early. (...) If the economy, as I expect, is coping very well with the recession or deep slowdown throughout the globe, in the EU - if Poland copes with that well, it means inflation and upward price pressure may hold and perhaps further decisions are needed. (...) Those need not be [about] rates. I re-float the idea of savings bonds issued by the NBP."</b> (10.01.2023, PAP)
P. Litwiniuk	3.7	"In the environment where borrowers have a cushion in the form of credit holidays, which will last throughout 2023, it would be advisable, in my opinion, to tighten monetary policy more. Additional rate hikes would make the return path to the inflation target steeper. In my opinion, tolerating higher inflation generates higher costs than possible minor labour market perturbations that could result from interest rate hikes." (15.12.2022, Parkiet, PAP)
H. Wnorowski	2.7	<b>"If that inflation impulse [inflation exceeding 20% y/y in Q1] proves rather significant ... if that happens then a return to 1-2 rate hikes would be possible. (...) I think that rather small ones; rather small as large ones are not needed. It's too early to speculate,"</b> he added. <b>We have to wait for January readings."</b> (13.01.2023, Biznes24, PAP).
A. Glapinski	2.4	<b>"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."</b> (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, Biznes 24, 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	"In the current situation, in the light of available data and forecasts, particularly NBP's inflation projection, the rates level is optimal." (30.11.2022, PAP)
G. Maslowska	2.1	<b>"The cycle of interest rate hikes has not been formally ended and therefore one cannot exclude that rates could be hiked at some point this year but currently I believe it is little likely. (...) One can visibly see that to-date rate hikes have made a very strong impact on lending situation and it does not seem it [lending] had to be curbed further."</b> (13.01.2023, PAP)
I. Dabrowski	1.9	<b>"In my opinion, at the turn of the year room may appear for interest rate cuts, it's highly likely. (...) There are still a few unknowns."</b> (12.01.2023, 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.

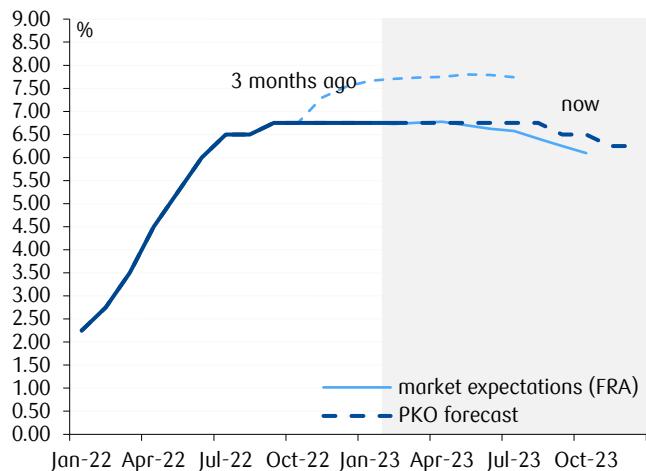
### Interest rates – PKO BP forecasts vs. market expectations

		1M	2M	3M	4M	5M	6M	7M	8M	9M
Date	12-Jan	12-Feb	12-Mar	12-Apr	12-May	12-Jun	12-Jul	12-Aug	12-Sep	12-Oct
WIBOR 3M/FRA†	6.95	6.93	6.95	6.98	6.90	6.83	6.78	6.61	6.45	6.30
implied change (b. p.)		-0.02	0.00	0.02	-0.05	-0.12	-0.18	-0.34	-0.50	-0.66
MPC Meeting	4-Jan	8-Feb	8-Mar	5-Apr	10-May	6-Jun	6-Jul	-	6-Sep	4-Oct
PKO BP forecast*	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.50	6.50
market pricing^		6.78	6.80	6.85	6.85	6.83	6.83	6.66	6.55	6.50

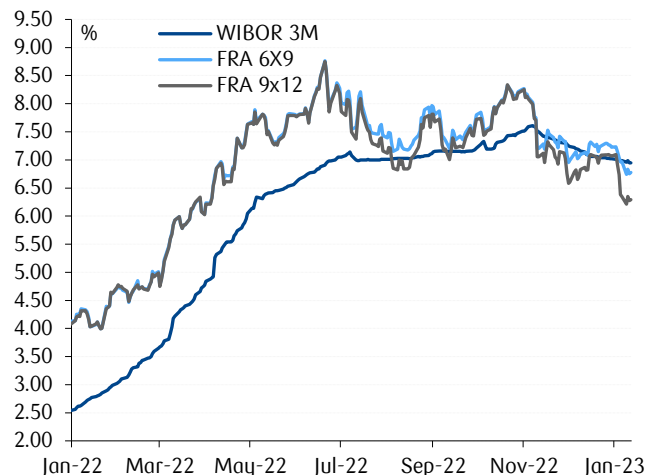
†WIBOR 3M from the last fixing, FRA transactions based on WIBOR 3M for subsequent periods, ‡in basis points, \*PKO BP forecast of the NBP reference rate.

## Poland macro chartbook

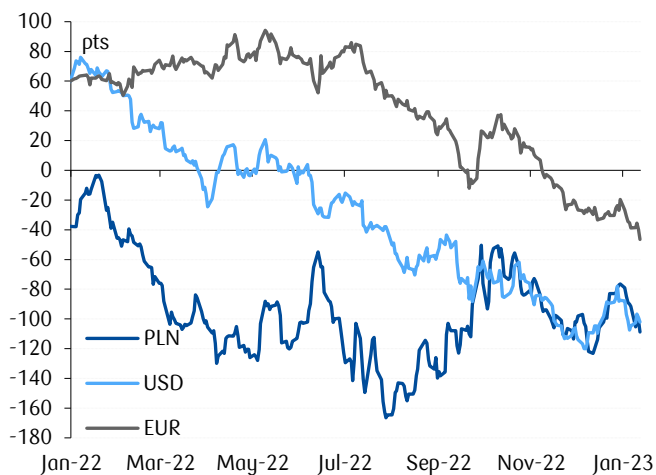
NBP policy rate: PKO BP forecast vs. market expectations



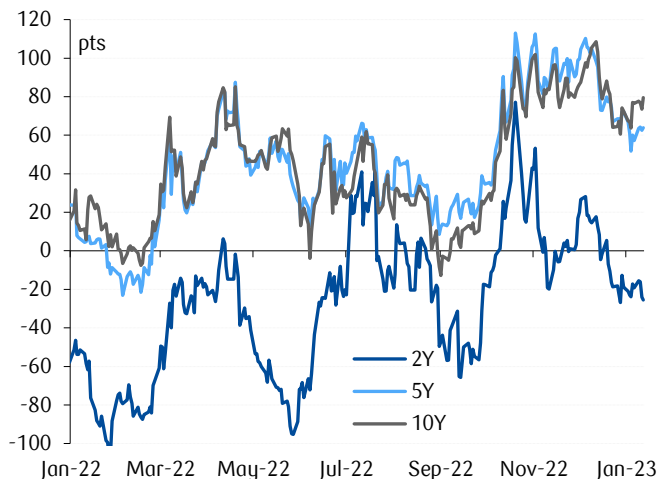
Short-term PLN interest rates



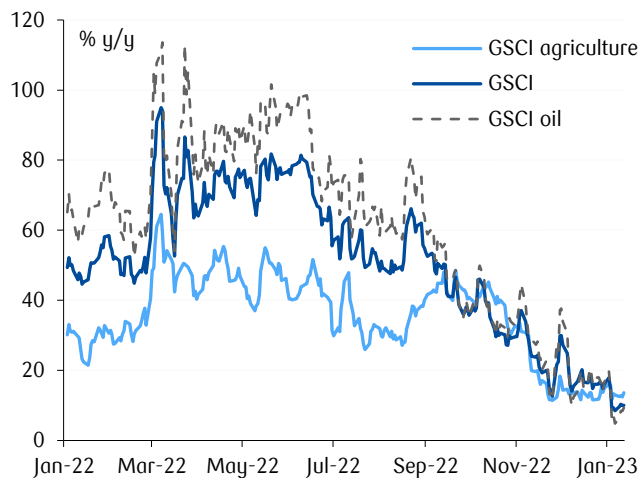
Slope of the swap curve (spread 10Y-2Y)\*



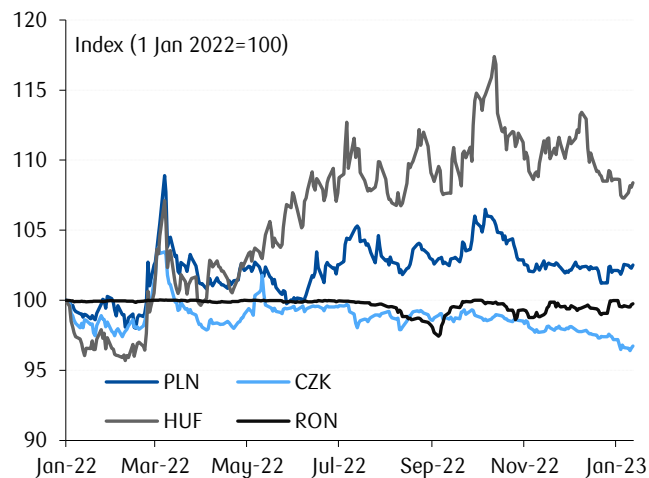
PLN asset swap spread



Global commodity prices (in PLN)

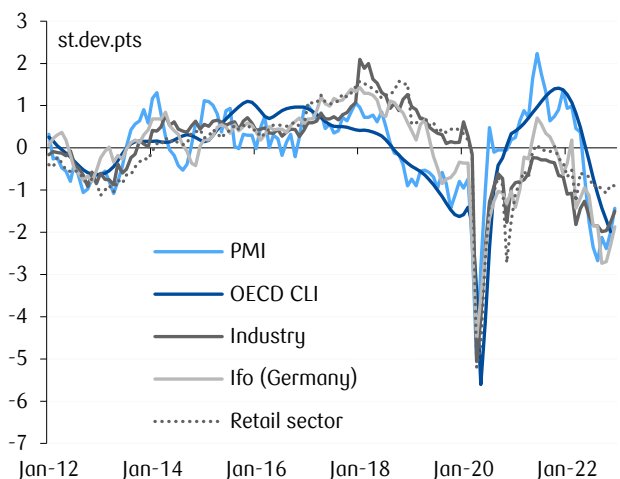


Selected CEE exchange rates against the EUR

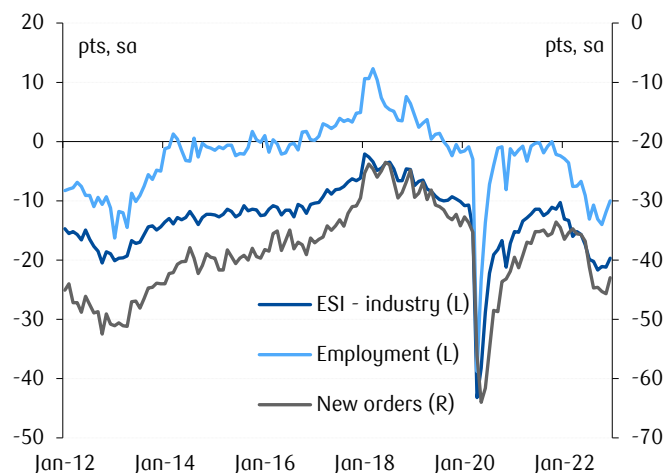


Source: Datastream, NBP, PKO Bank Polski. \*for PLN, and EUR 6M, for USD 3M.

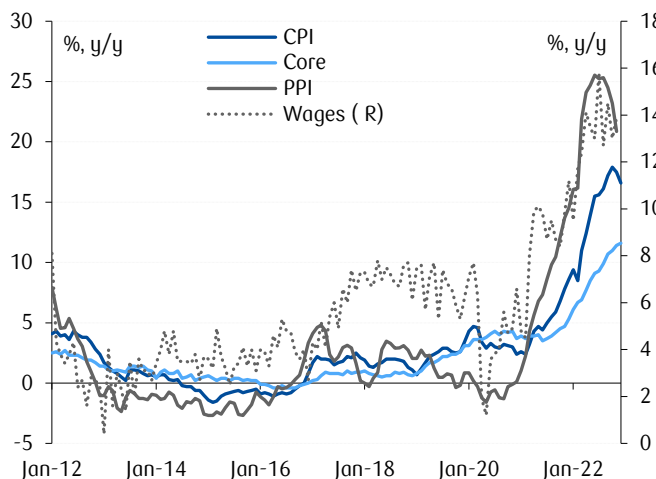
Economic sentiment indicators



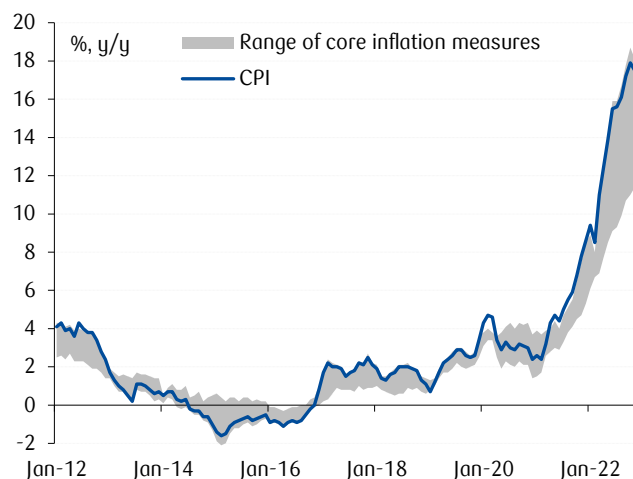
Poland ESI for industry and its components



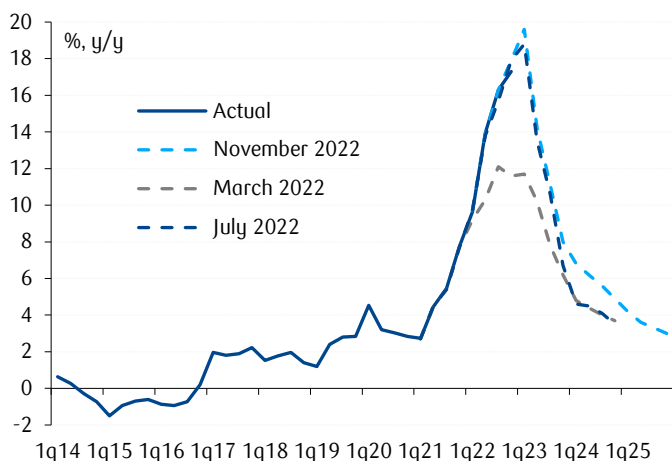
Broad inflation measures



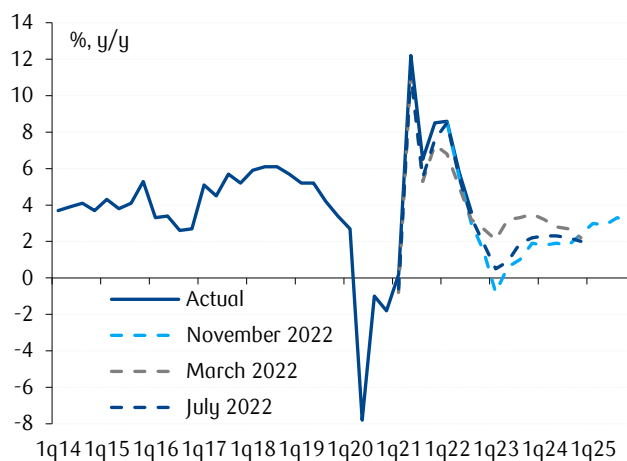
CPI and core inflation measures



CPI inflation – NBP projections vs. actual

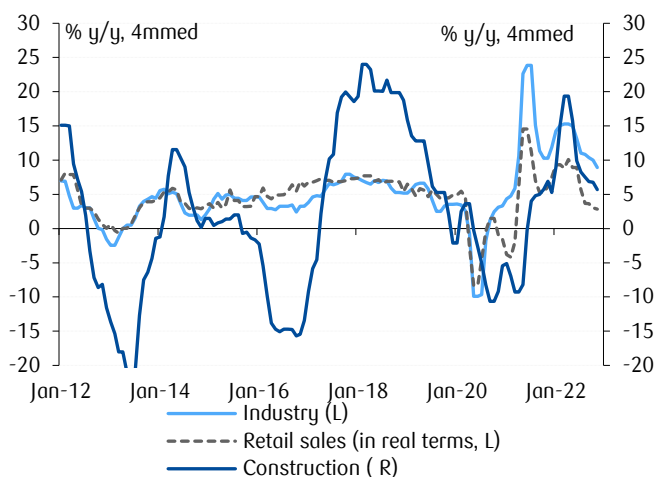


Real GDP growth – NBP projections vs. actual

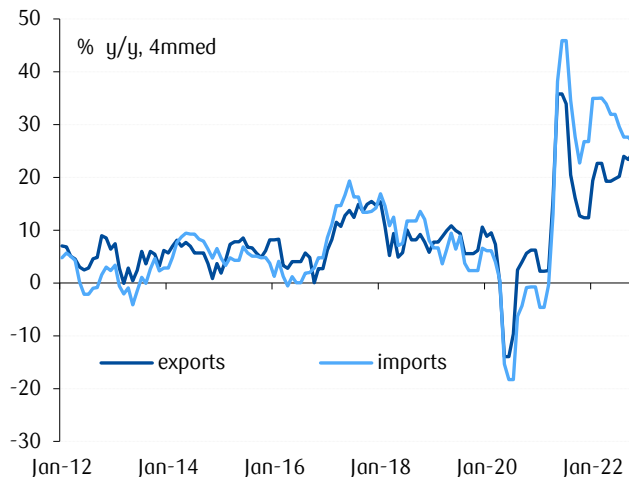


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

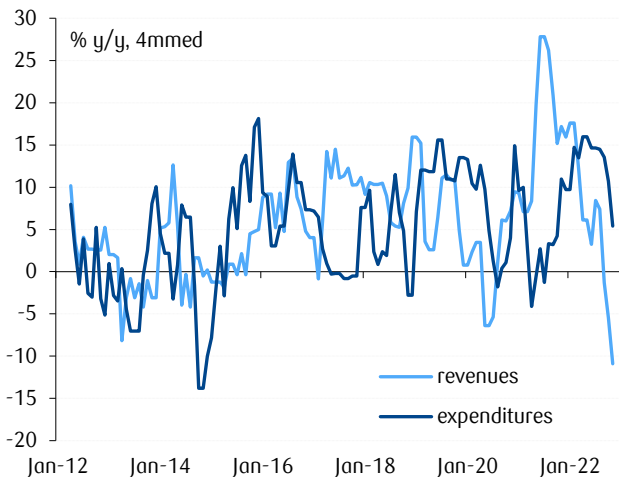
### Economic activity indicators



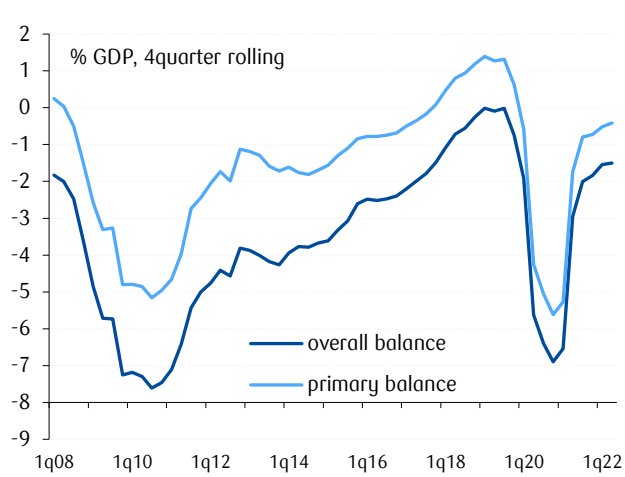
### Merchandise trade (in EUR terms)



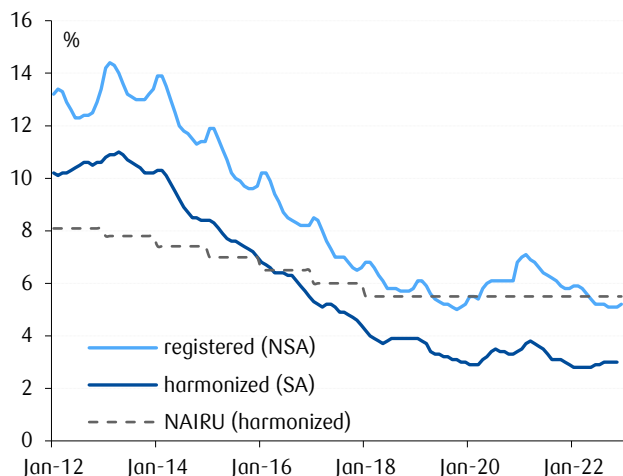
### Central government revenues and expenditures\*



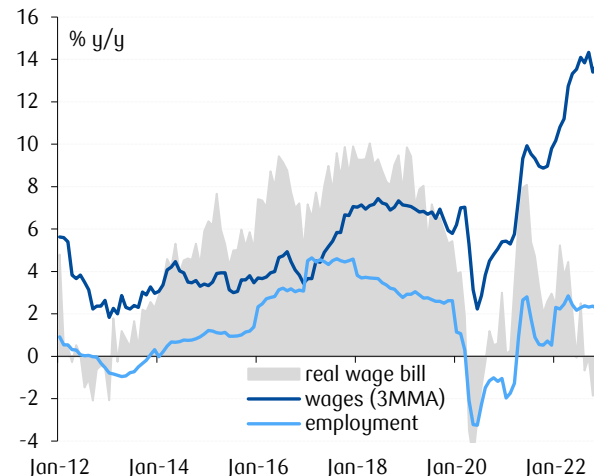
### General government balance (ESA2010)



### Unemployment rate

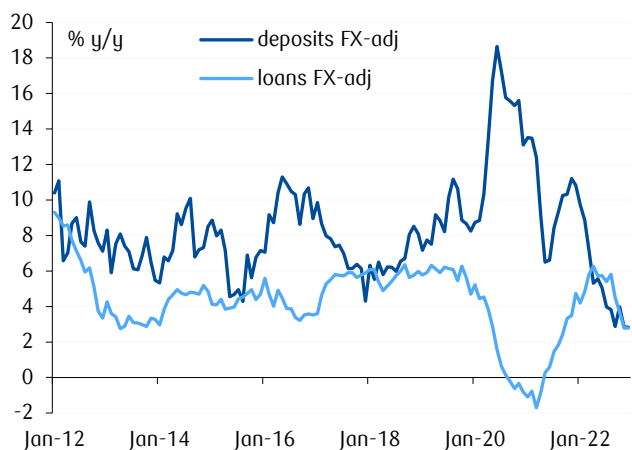


### Employment and wages in the enterprise sector

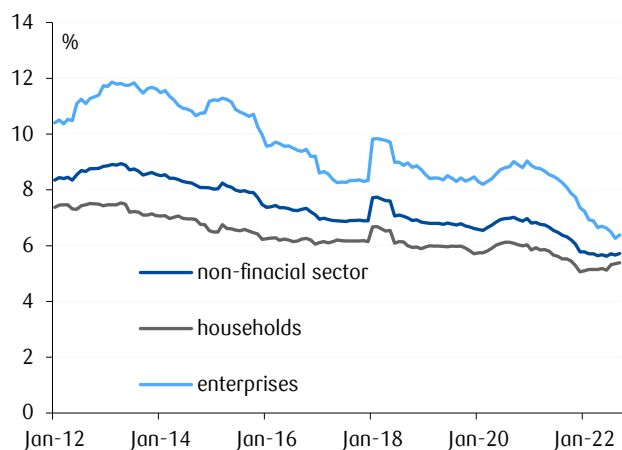


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. \*break in series in 2010 due to methodological changes.

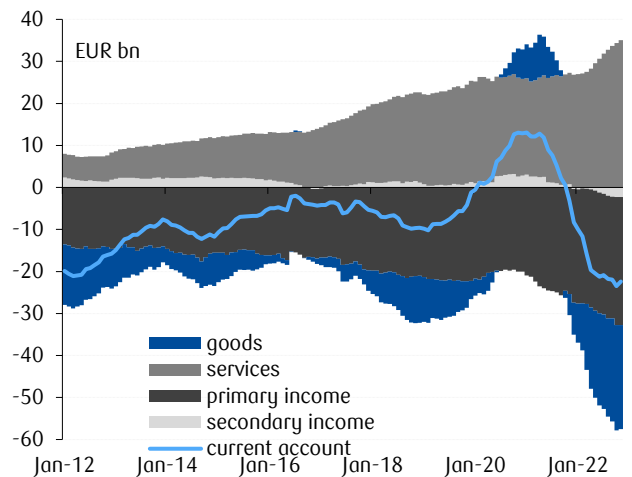
### Loans and deposits



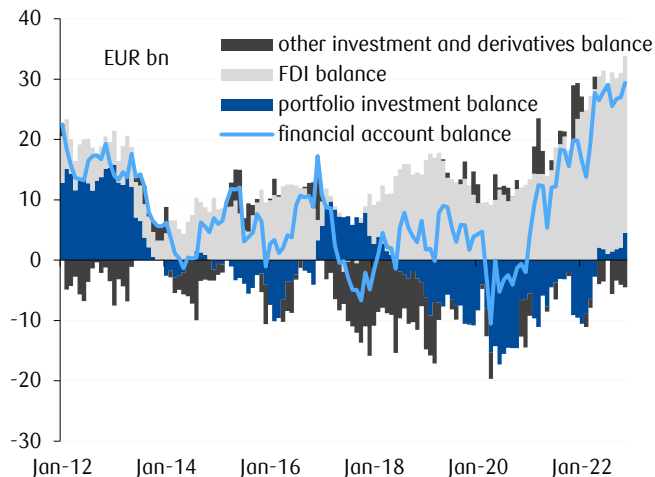
### Non-performing loans (NPLs) - by sectors\*



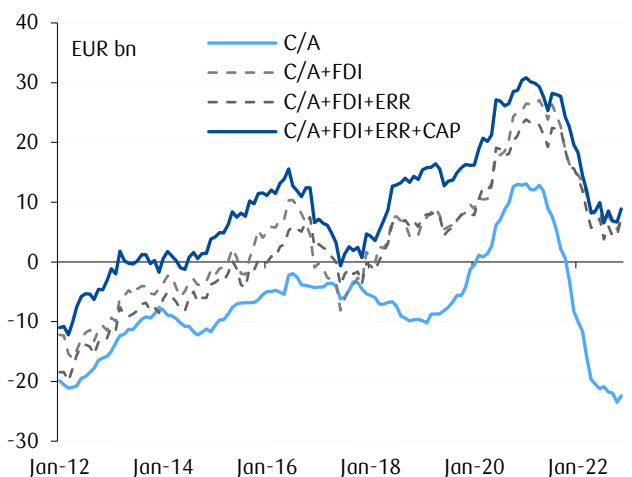
### Current account balance



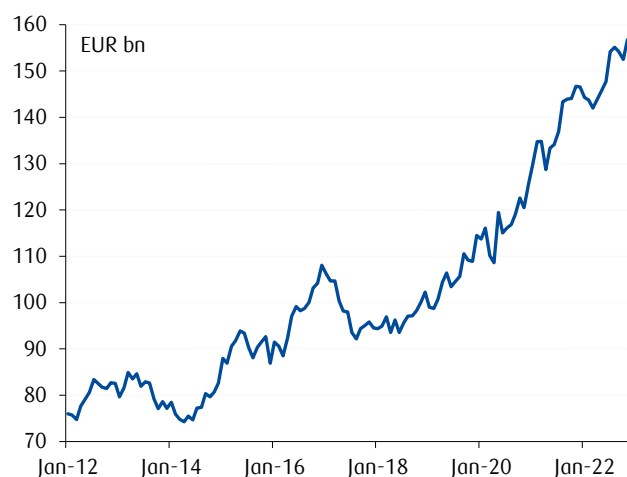
### Financial account balance



### External imbalance measures



### NBP FX reserves (in EUR terms)



Source: NBP, PKO Bank Polski. \*break in series in Jan2018 due to methodological changes.

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- [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)
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- [Energy prices frozen for this winter?](#) (Sep 16, 2022)
- [Awaiting the end of rate hikes](#) (Sep 9, 2022)
- [Inflation sparked investments?](#) (Sep 2, 2022)
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- [It's payback time](#) (Aug 19, 2022)
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- [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)
- [GDP growth rate at 5%?](#) (May 20, 2022)
- [Less reliant on Germany?](#) (May 13, 2022)
- [MPC is slowing down](#) (May 6, 2022)

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