

A moment of relief for the MPC

Top macro theme(s):

- **A moment of relief for the MPC (p.2):** CPI inflation surprised to the downside in January, giving some relief for the MPC. However, core inflation surpassed 6% showing that the underlying inflationary pressure is still mounting, thus supporting our baseline scenario with NBP rate at 4.25% by mid-2022.

What else caught our eye:

- **GDP growth accelerated to 7.3% y/y in 4q21** (vs 5.3% in 3q) and **industrial output skyrocketed in January (19.2% y/y)** with energy production surging by 51.6% y/y, both shifting risks for 2022 GDP forecast to the upside.
- **Labour market remains tight.** Employment in the corporate sector grew by 2.3% y/y in January while wage growth slowed to 9.5% y/y suggesting that 11.2% in December was a one-off driven by adjustments to the Polish Deal.
- **CJEU, as expected, dismissed actions brought by Poland and Hungary against the Rule-of-Law Conditionality to safeguard the EU budget.** The verdict does not change the current state of the relations between the EU and Poland, but may, paradoxically, lead to a decision of the EuCo to approve Poland's Domestic Recovery Plan (KPO) and then have it under control of the newly adopted conditionality mechanism.

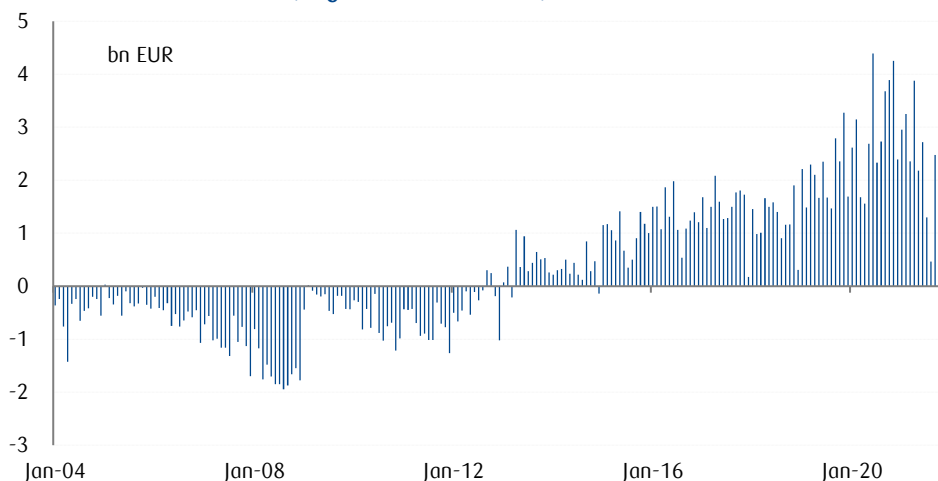
The week ahead:

- **Retail sales likely accelerated in January, mostly on calendar effects,** but the trend remains strong, showing that consumption demand is still solid despite a deterioration in consumer sentiment due to elevated inflation.
- **Construction grew only modestly in January,** awaiting the commencement of public spending funded from the NextGenEU.
- **Registered unemployment rate rose to 5.6% in January, in line with seasonal pattern.** The labour market remains extremely tight.
- **M3 money supply growth decelerated further in January.** The banking sector data will show further acceleration of corporate loans driven by working capital loans funding the purchases of inventories.
- **Fitch will likely affirm Poland's rating,** but it may point at possible negative implications of a halt of the EU funds inflows.

Number of the week:

- **-3957mn EUR – the highest monthly CA deficit since 1999,** due to increasing prices of energy commodities, as well as industrial supplies pushing up nominal imports, as well as a new (plastic) tax paid to the EU.

Chart of the week: Trade (in goods and services) balance in Poland



Source: NBP, PKO Bank Polski.

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	2021 _†	2022 _†
Real GDP (%)	5.7	4.1
Industrial output (%)	15.4	10.6
Unemployment rate [#] (%)	5.4	4.8
CPI inflation ^{**} (%)	5.1	7.2
Core inflation ^{**} (%)	4.1	6.1
Money supply M3 (%)	8.9	5.6
C/A balance (% GDP)	-0.9	0.3
Fiscal balance (% GDP)*	-2.4	-1.7
Public debt (% GDP)*	56.3	53.2
NBP reference rate ^{###} (%)	1.75	4.25
EURPLN ^{†##}	4.60	4.45

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

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- CPI inflation surprised to the downside in January, ending a 6 month long streak of constant upward surprises. That said, the introduction of the Anti-inflation Shield 1.0 has prevented headline inflation from crossing 10% threshold, giving some (temporary in our view) relief for the MPC that will not speed up the pace of rate hikes.
- Nonetheless, the core inflation might have surpassed 6% showing that the underlying inflationary pressure is still mounting, thus supporting our base-case scenario of the continuation of rate hikes up to 4.25%.

CPI reached 9.2% y/y in January (vs. 8.6% in December) in flash estimate. Monthly dynamics (1.9%) was the highest in 24 years. That said, we have reached a local (and most likely an annual – given the likely extension of the Anti-Inflationary Shield after July) peak. Inflation will start to recede from February on (to app. 7%) due to the introduction of Anti-inflation Shield 2.0 heading towards 6% in mid-2022.

Prices of food and beverages rose by 2.6% m/m (the fastest growth in January since at least 26 years, and in any month since June 2004). In our view it was due to increasing energy prices that impacted the prices of fresh food from greenhouses, as well as processed food, incl. bread, dairy, and oils. Another significant contribution came from the prices of meat, particularly poultry. Weaker crops from the previous year continuously weighted on the prices on the wholesale market.

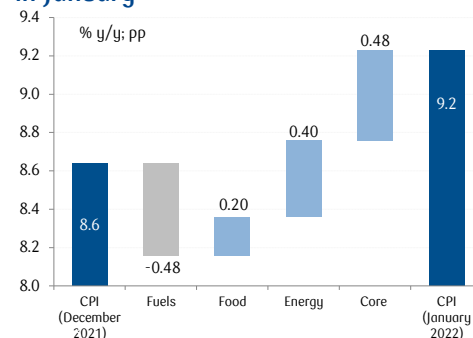
Energy prices surged by 8.0% m/m (we expected a visibly higher prints here), mostly due to new tariffs announced by the regulator in December. Growth in this category might have been reduced by decreasing prices of heating. In the medium term we expect inflation to remain upbeat, due to the mechanisms introduced by the government leading to the spread of Autumn/Winter price increases over several quarters/years.

Fuel prices fell significantly in January (4.4% m/m), as the effects of the Anti-inflation Shield 1.0 have finally been reflected in the data. February brought yet another nosedive of prices due to VAT tax rate reduction (from 23% to 8%) introduced by the government (as part of the Anti-inflation Shield 2.0). Prices of fuels have been increasing since early February, though, due to rising prices of oil.

Core inflation has (acc. to our estimates) surged to 6.1% y/y in January from 5.3% in December. The start of the year has brought adjustments to the price lists in a broad range of sectors with services at the forefront. We expect core inflation to accelerate further, given that the prices of goods are yet to increase on second round effects from energy shock. That said, we expect that despite the broader public will be cooled down by somewhat lower headline prints, the concern of the MPC will mount, as the underlying inflation remains well on the run. The upward trend of underlying inflation has been visible since 2016, and it will be hard to break it avoiding aggressive rate hikes. That said, we expect the hikes to continue, with reference rate reaching 4.25% before mid-2022.

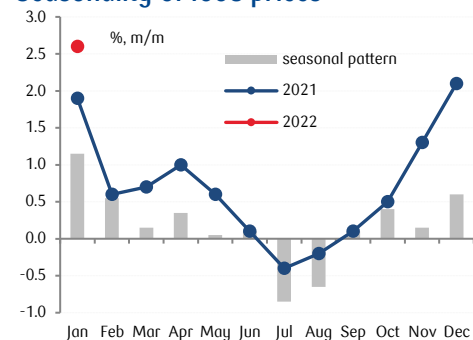
The likelihood of this scenario has, however, somewhat decreased after the lower headline print, but it remains our base-case given: 1) upbeat core inflation, 2) robust economic performance at the start of the year, 3) underperforming PLN, 4) interest rates differential with the CEE region, as well as developed economies, and last but not least 5) incoming upward revisions to the CPI path following the annual adjustment to the CPI basket weights (a phenomenon similar to what we have already witnessed in the Eurozone, where the flash HICP reading surprised to the upside, in part due to new, higher weights of fuels and energy).

Decomposition of CPI inflation change in January



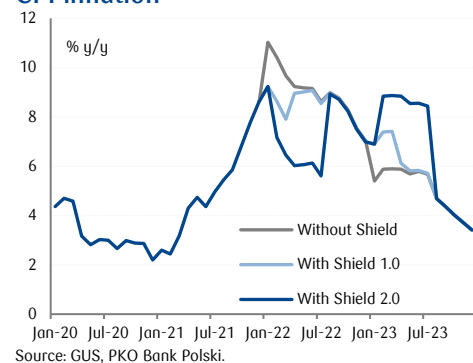
Source: GUS, PKO Bank Polski.

Seasonality of food prices



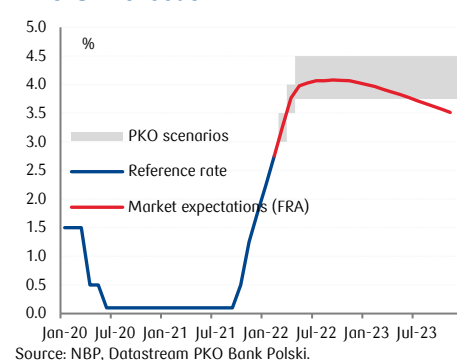
Source: GUS, PKO Bank Polski.

The impact of Anti-inflation Shields on CPI inflation



Source: GUS, PKO Bank Polski.

Reference rate in Poland. Market expectations (on FRA contracts) vs PKO BP forecast



Source: NBP, Datastream PKO Bank Polski.

Weekly economic calendar

Indicator	Time (UK)	Unit	Previous	Consensus*	PKO BP	Comment
Monday, 21 February						
GER: PPI inflation (Jan)	7:00	% y/y	24.2	--	--	--
GER: Manufacturing PMI (Feb, flash)	8:30	pts.	59.8	60.5	--	--
GER: Services PMI (Feb, flash)	8:30	pts.	52.2	54.0	--	--
EUR: Manufacturing PMI (Feb, flash)	9:00	pts.	58.7	--	--	--
EUR: Services PMI (Feb, flash)	9:00	pts.	51.1	--	--	--
POL: Construction output (Jan)	9:00	% y/y	3.1	4.6	4.0	Construction grew only modestly in January awaiting the commencement of public spending funded from the NextGenEU.
POL: Retail sales (Jan)	9:00	% y/y	8.0	9.9	10.5	Retail sales likely accelerated in January, mostly on calendar effects. The trend remains solid despite deterioration in consumer sentiment caused by elevated inflation.
Tuesday, 22 February						
GER: Ifo Business Climate Index (Feb)	9:00	pts.	95.7	97.5	--	--
POL: Money Supply M3 (Jan)	13:00	% y/y	8.9	8.7	8.4	The banking sector data will show further acceleration of corporate loans driven by working capital loans funding the purchases of inventories.
HUN: MNB meeting (Feb)	13:00	%	2.90	3.40	3.40	--
USA: S&P CoreLogic CS 20-City (Dec)	14:00	% y/y	18.29	--	--	--
USA: Manufacturing PMI (Feb, flash)	14:45	pts.	55.5	--	--	--
USA: Consumer confidence (Feb)	15:00	pts.	113.8	110	--	--
Wednesday, 23 February						
POL: Consumer Confidence (Feb)	9:00	pts.	-29.2	--	--	Unemployment rate increased to 5.6% in January, in line with seasonal pattern. The labour market remains exceptionally tight. Consumers do not fear the unemployment but the impact of increasing inflation on their wallets.
POL: Unemployment Rate (Jan)	9:00	%	5.4	5.6	5.6	
EUR: HICP inflation (Jan, final)	10:00	% y/y	5.0	5.1	--	--
EUR: Core inflation (Jan, final)	10:00	% y/y	2.3	2.6	--	--
Thursday, 24 February						
USA: Initial Jobless Claims (Feb)	13:30	thous.	248	--	--	--
USA: GDP growth (4q)	13:30	% q/q saar	6.9	6.9	--	--
USA: Personal consumption (4q)	13:30	% q/q saar	3.3	--	--	--
USA: New home sales (Jan)	15:00	thous.	811	805	--	--
Friday, 25 February						
GER: GDP growth (4q)	7:00	% y/y	1.4	1.4	--	--
EUR: M3 money supply (Jan)	9:00	% y/y	6.9	--	--	--
EUR: Economic Sentiment Indicator (Feb)	10:00	112.7 pts.	112.7	--	--	--
USA: Personal Income (Jan)	13:30	% m/m	0.3	-0.3	--	--
USA: Durable goods orders (Jan, flash)	13:30	% m/m	-0.7	0.6	--	--
USA: Personal spending (Jan)	13:30	% m/m	-0.6	0.8	--	--
USA: PCE Deflator (Jan)	13:30	% y/y	5.8	--	--	--
USA: Core PCE inflation (Jan)	13:30	% y/y	4.9	5.2	--	--
USA: University of Michigan sentiment (Feb, final)	15:00	pts.	61.7	61.7	--	--

Source: GUS, NBP, Parkiet, PAP, Bloomberg, Reuters, PKO Bank Polski. Parkiet for Poland, Bloomberg, Reuters for others.

Selected economic indicators and forecasts

	Nov-21	Dec-21	Jan-22	3q21	4q21	1q22	2q22	2020	2021	2022
Economic activity										
Real GDP (% y/y)	x	x	x	5.3	7.3	6.1	3.6	-2.5	5.7	4.1
Domestic demand (% y/y)	x	x	x	8.6	11.3	9.4	5.0	-3.7	8.2	5.3
Private consumption (% y/y)	x	x	x	4.7	8.2	5.0	3.0	-3.0	6.2	3.8
Gross fixed capital formation (% y/y)	x	x	x	9.3	11.9	8.4	6.9	-9.6	8.0	6.8
Inventories (pp)	x	x	x	3.7	4.2	3.8	1.5	1.3	0.8	0.4
Net exports (pp)	x	x	x	-2.7	-3.3	-2.7	-1.1	0.8	0.3	0.0
Industrial output (% y/y)	14.8	16.7	19.2	10.3	12.9	12.7	10.9	-1.0	15.4	10.6
Construction output (% y/y)	12.7	3.1	4.0	5.8	6.3	3.5	4.1	-2.7	1.6	8.1
Retail sales (real, % y/y)	12.1	8.0	10.5	4.8	8.8	10.3	10.6	-2.7	7.6	8.8
Nominal GDP (PLN bn)	x	x	x	647.5	749.6	660.4	677.8	2327	2601	2859
Labour market										
Registered unemployment rate‡(%)	5.4	5.4	5.6	5.6	5.4	5.5	4.9	6.3	5.4	4.8
Employment in enterprises (% y/y)	0.7	0.5	2.3	1.1	0.6	1.6	1.4	-1.2	0.5	1.4
Wages in enterprises (% y/y)	9.8	11.2	9.5	9.0	9.8	10.1	11.7	4.8	8.8	10.4
Prices[^]										
CPI inflation (% y/y)	7.8	8.6	9.2	5.4	7.7	7.6	6.1	3.3	5.1	7.2
Core inflation (% y/y)	4.7	5.3	6.1	3.9	4.8	6.0	6.1	3.9	4.1	6.1
15% trimmed mean (% y/y)	5.5	6.4	x	4.1	5.7	x	x	3.9	4.1	x
PPI inflation (% y/y)	13.7	14.4	14.8	9.5	13.1	12.9	10.2	-0.5	7.8	9.2
Monetary aggregates‡										
Money supply, M3 (PLN bn)	1971.9	1985.0	1973.0	1914.2	1985.0	1998.2	2025	1822.7	1985.0	2096.6
Money supply, M3 (% y/y)	10.1	8.9	8.4	8.6	8.9	7.3	7.9	16.4	8.9	5.6
Real money supply, M3 (% y/y)	2.2	0.2	-0.8	3.0	1.1	-0.3	1.7	12.7	3.6	-1.5
Loans, total (PLN bn)	1403.9	1403.5	x	1376.4	1403.5	1414.6	1438.7	1333.8	1403.5	1474.2
Loans, total (% y/y)	4.9	5.2	x	2.9	5.2	5.3	6.6	0.8	5.2	5.0
Deposits, total (PLN bn)	1836.1	1780.1	x	1798.2	1780.1	1838.0	1869.0	1602.2	1780.1	1878.3
Deposits, total (% y/y)	12.0	11.1	x	10.5	11.1	10.1	8.4	13.9	11.1	5.5
Balance of payments										
Current account balance (% GDP)	-0.1	-0.9	-1.0	0.7	-0.9	-0.9	-0.7	2.9	-0.9	0.3
Trade balance (%GDP)	0.5	-0.1	-0.2	1.4	-0.1	-0.5	-0.8	2.4	-0.1	-0.1
FDI (% GDP)	2.5	2.7	2.5	2.9	2.7	2.4	2.1	2.1	2.7	1.8
Fiscal policy										
Fiscal balance (% GDP)	x	x	x	x	x	x	x	-7.1	-2.4	-1.7
Public debt (% GDP)	x	x	x	x	x	x	x	57.4	56.3	53.2
Monetary policy‡										
NBP reference rate (%)	1.25	1.75	2.25	0.10	1.75	3.25	4.25	0.10	1.75	4.25
NBP lombard rate (%)	1.75	2.25	2.75	0.50	2.25	3.75	4.75	0.50	2.25	4.75
NBP deposit rate (%)	0.75	1.25	1.75	0.00	1.25	2.75	3.75	0.00	1.25	3.75
WIBOR 3M ^x (%)	2.06	2.54	3.02	0.23	2.54	3.80	4.45	0.21	2.54	4.45
Real WIBOR 3M ^x (%) [#]	-5.72	-6.11	-6.23	-5.19	-5.20	-3.81	-1.62	-3.06	-2.54	-2.80
Exchange rates^{x,‡}										
EUR-PLN	4.68	4.60	4.60	4.62	4.60	4.55	4.53	4.61	4.60	4.45
USD-PLN	4.12	4.06	4.11	3.95	4.06	4.06	4.04	3.75	4.06	3.94
CHF-PLN	4.49	4.45	4.42	4.26	4.45	4.33	4.23	4.25	4.38	4.08
EUR-USD	1.14	1.13	1.12	1.17	1.13	1.12	1.12	1.23	1.14	1.14

Source: GUS, NBP, PKO Bank Polski.

^xPKO BP Market Strategy team forecasts,[^]period averages for quarterly and yearly data,[#]deflated with current CPI inflation,[‡]period end values.

Monetary policy monitor

MPC Members	Hawk-o-meter*	Recent policy indicative comments^
K. Zubelewicz	4.9	"The main rate at 1.75% is now decidedly too low" (20.12.2021, Interia.pl, PAP)
L. Hardt	4.3	"We, as the NBP, have to cut that and limit the risk of that [wage-price] spiral occurring" (20.12.2021, wPolsce.pl, PAP).
R. Sura	2.7	"The November flash inflation estimate shows that the interest rate hike path implemented by the MPC was necessary (...) That reading only amplifies our bias towards tightening monetary policy - in the light of the latest data, a rate hike in December is necessary." (30.11.2021, Reuters, PAP).
J. Zyzynski	2.4	"The impact of interest rates on economic activity should always be approached with caution and attention. It must be remembered that the value of money is mainly determined by the condition of the economy, its dynamics and the stability of basic macroeconomic parameters. (...) Hasty tightening of monetary policy may break the balance that has allowed our economy to maintain a decent pace of growth and the relative stability of public finances" (in an article written with G.Ancyparowicz, 26.01.2022, PAP)
C. Kochalski	2.2	"If we assume an optimistic scenario, meaning that omicron won't be devastating for the economy and we reconfirm that the economy became immune, then considering a 50bps rate increase in February would be justified" (21.01.2022, Interia, Bloomberg).
A. Glapinski	1.8	"Our further decisions will still be directed at ensuring price stability in mid-term, while at the same time supporting sustainable economic growth (...) The unemployment rate is low and the number of job offers is growing (...) Because of that, we won't cause severe unemployment growth by raising NBP rates now, but we will rather prevent excessive growth of wage pressure" (17.02.2022, Super Express / PAP)
L. Kotecki	--	"Our monetary approach will have to be more aggressive than it would be if we were dealing with an appropriate mix of fiscal and monetary policy" (18.02.2022, Bloomberg)
P. Litwiniuk	--	"If I were to choose at the Monetary Policy Council [PAP:sitting] today, I would rather manifest the intention to slightly hike interest rates, while I would not be immune to argumentation which could result from materials, macroeconomic models, to using other instruments which could improve the FX situation and the FX situation could in the end result in lowering inflation" (04.01.2022, PAP)
W. Janczyk	--	At this moment we have no information on what impact on halting price growth the anti-inflation shield will have (...) that will be shown in February, March readings (...) That certainly is the factor that will decide whether the price growth process decelerates and perhaps there will be no need to hike interest rates (...) I will certainly not support going to some sort of extremes." (09.02.2022, PAP)
(Vacant place)	--	--

*the higher the indicator the more hawkish views. Due to the fact that the new MPC has not voted yet on interest rates changes, 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.

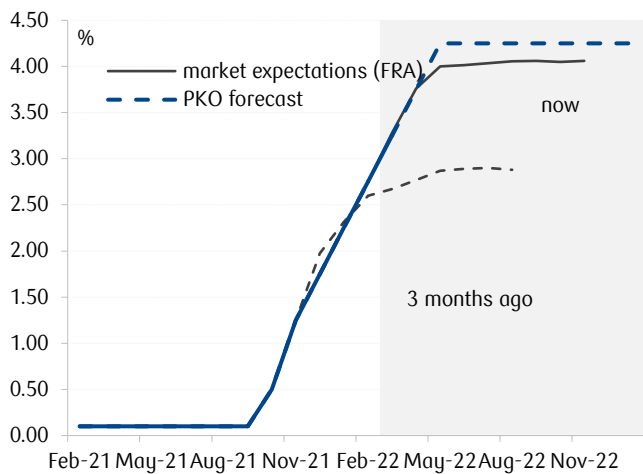
Interest rates – PKO BP forecasts vs. market expectations

		1M	2M	3M	4M	5M	6M	7M	8M	9M
Date	17-Feb	17-Mar	17-Apr	17-May	17-Jun	17-Jul	17-Aug	17-Sep	17-Oct	17-Nov
WIBOR 3M/FRA†	3.43	3.96	4.44	4.68	4.70	4.71	4.74	4.74	4.73	4.74
implied change (b. p.)		0.53	1.01	1.25	1.27	1.28	1.31	1.31	1.30	1.31
MPC Meeting	8-Feb	8-Mar	6-Apr	5-May	8-Jun	7-Jul	-	7-Sep	5-Oct	9-Nov
PKO BP forecast*	2.75	3.25	3.75	4.25	4.25	4.25	4.25	4.25	4.25	4.25
market pricing*		3.28	3.76	4.00	4.02	4.03	4.06	4.06	4.05	4.06

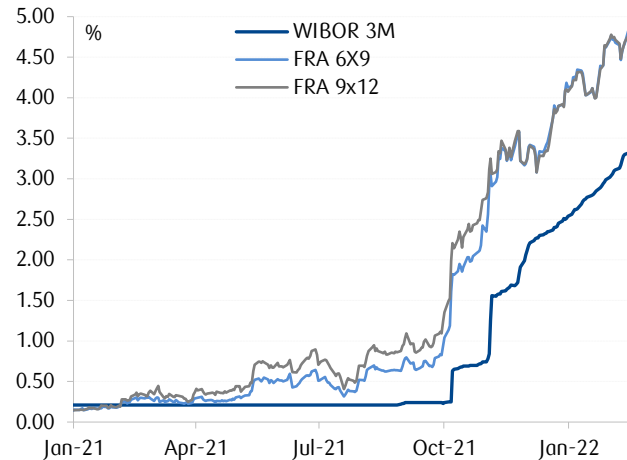
†WIBOR 3M from the last fixing, FRA transactions based on WIBOR 3M for subsequent periods, ‡in basis points, *PKO BP forecast of the NBP reference rate.

Poland macro chartbook

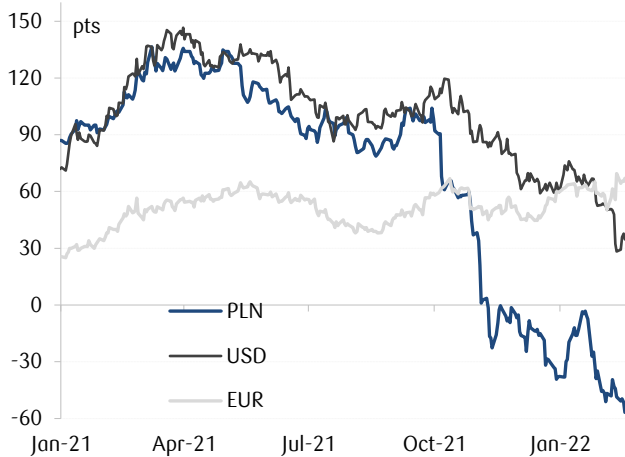
NBP policy rate: PKO BP forecast vs. market expectations



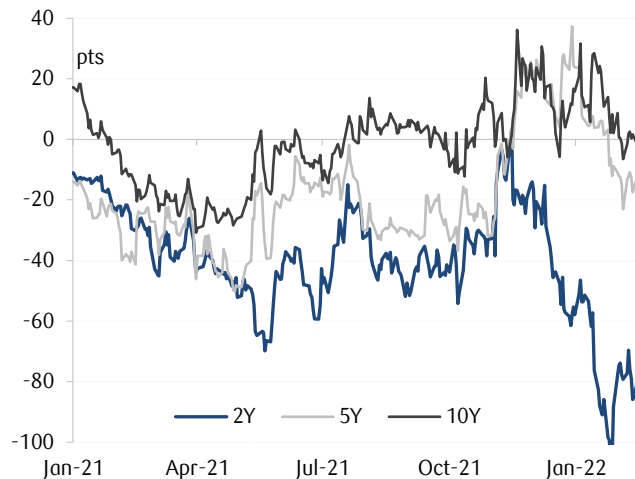
Short-term PLN interest rates



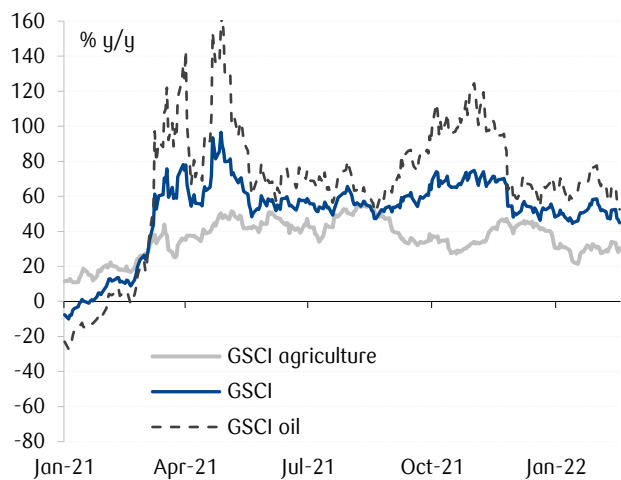
Slope of the swap curve (spread 10Y-2Y)*



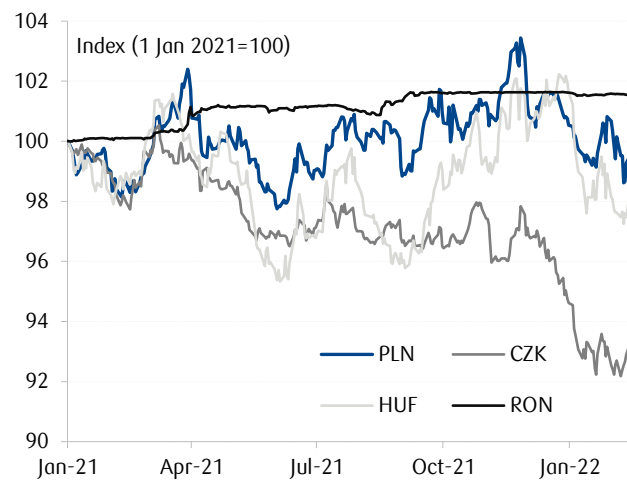
PLN asset swap spread



Global commodity prices (in PLN)

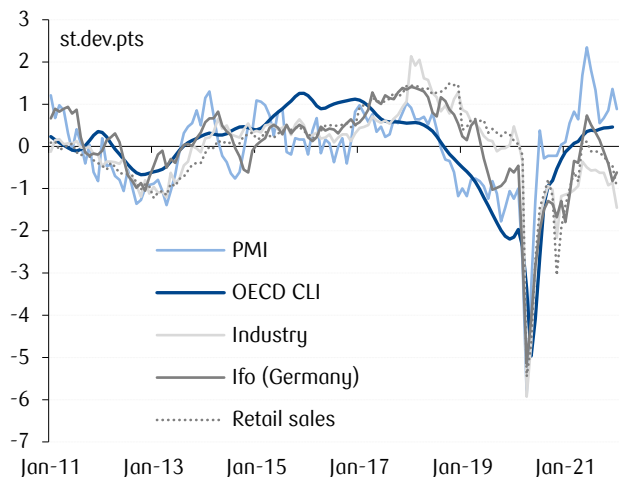


Selected CEE exchange rates against the EUR

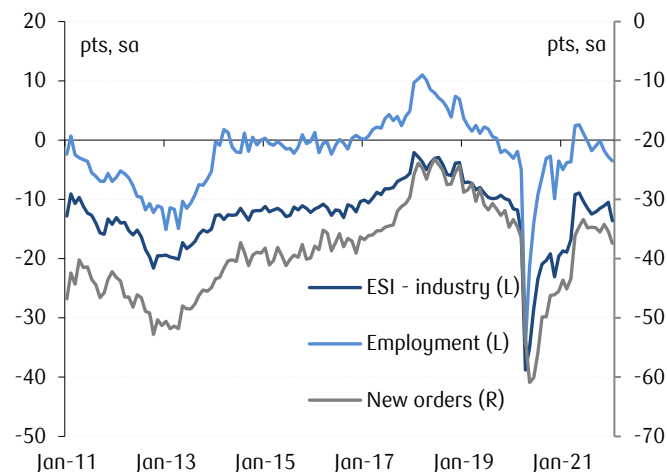


Source: Datastream, NBP, PKO Bank Polski. *for PLN, and EUR 6M, for USD 3M.

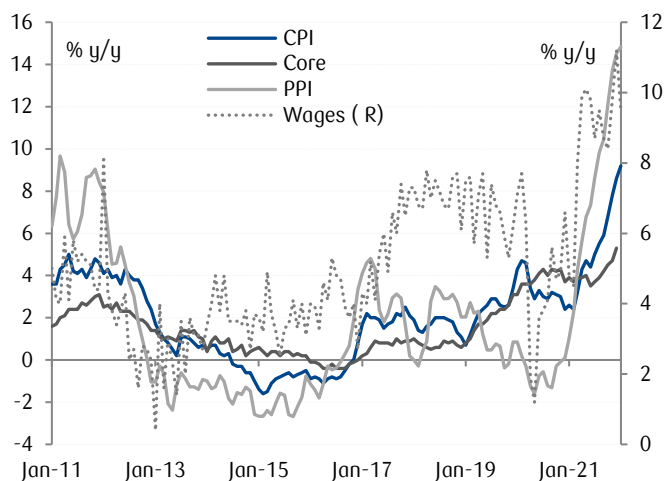
Economic sentiment indicators



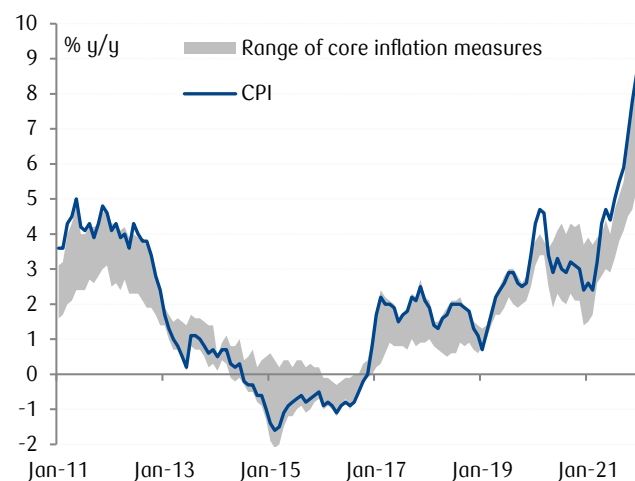
Poland ESI for industry and its components



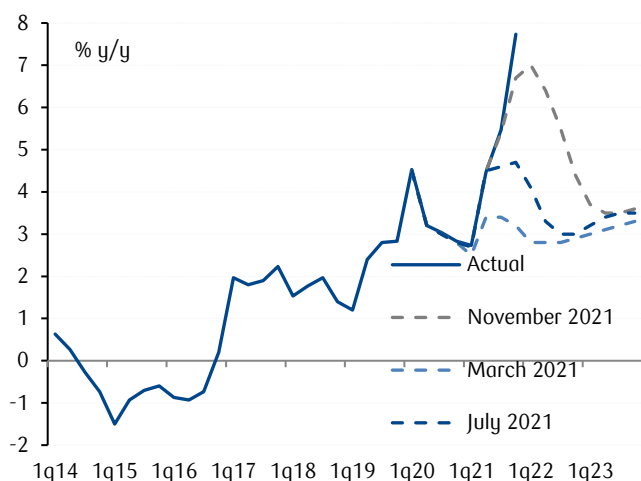
Broad inflation measures



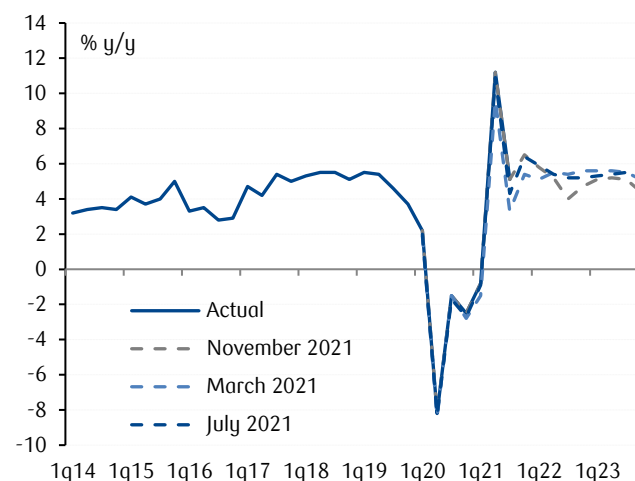
CPI and core inflation measures



CPI inflation - NBP projections vs. actual

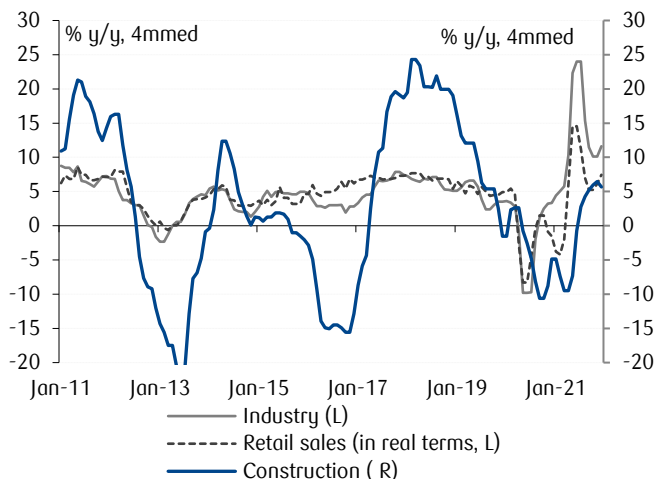


Real GDP growth - NBP projections vs. actual

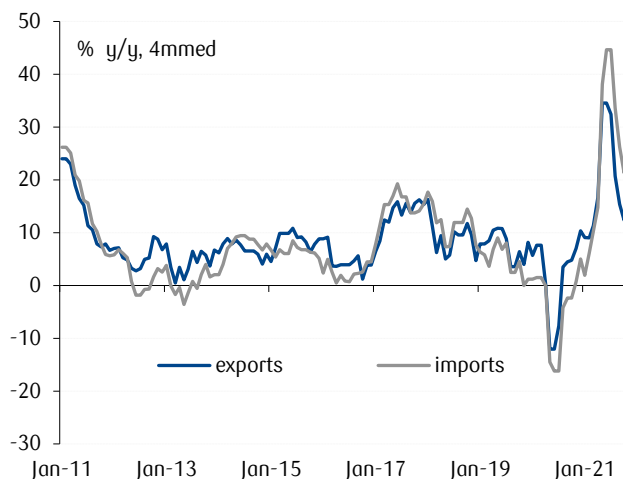


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

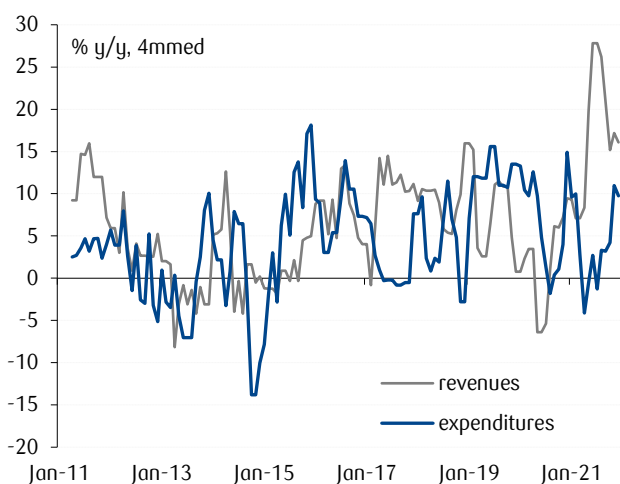
Economic activity indicators



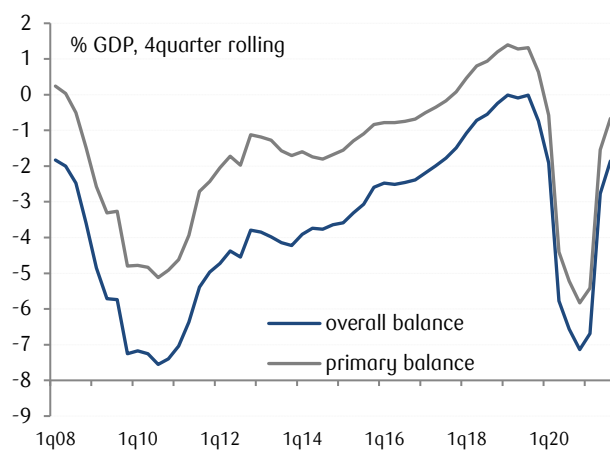
Merchandise trade (in EUR terms)



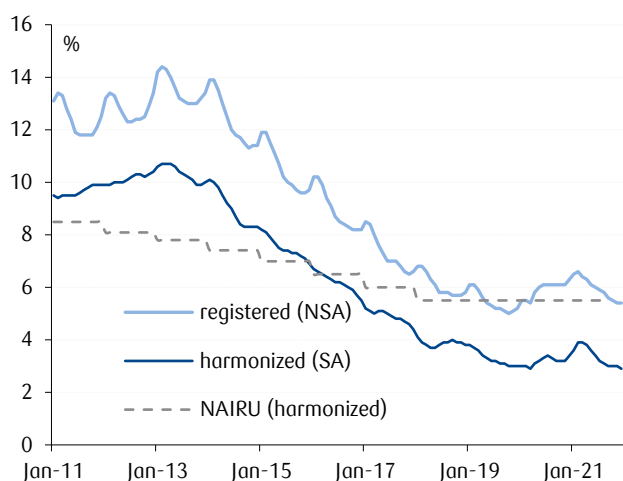
Central government revenues and expenditures*



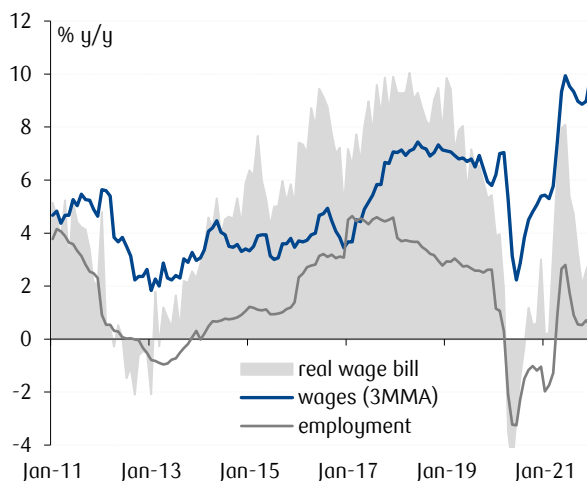
General government balance (ESA2010)



Unemployment rate

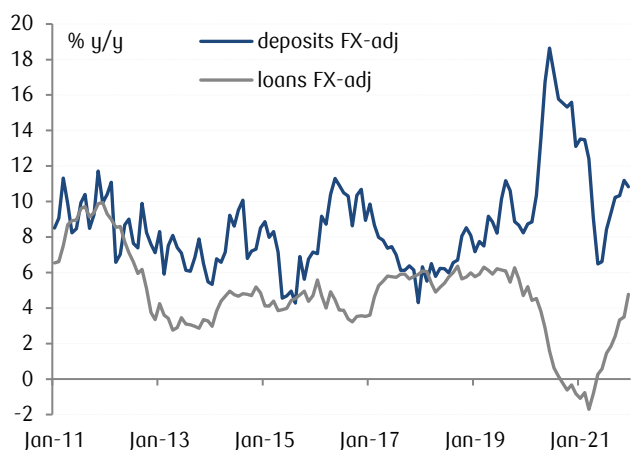


Employment and wages in the enterprise sector

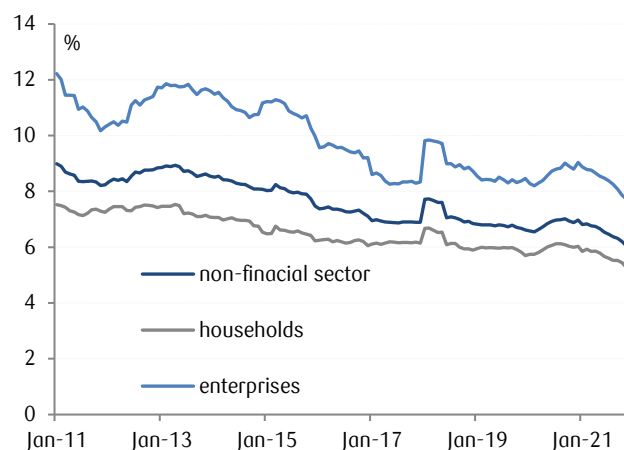


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. *break in series in 2010 due to methodological changes.

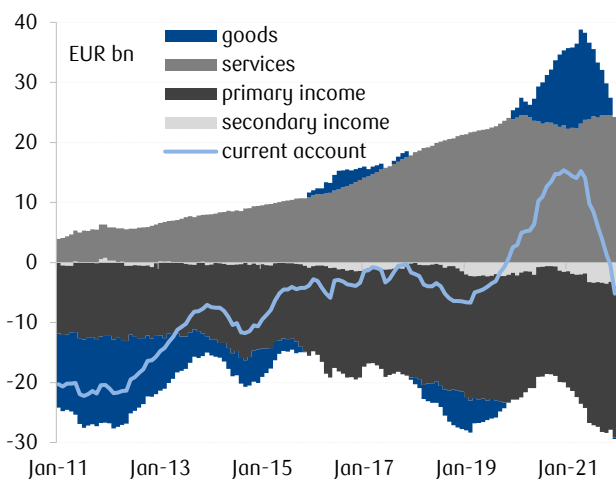
Loans and deposits



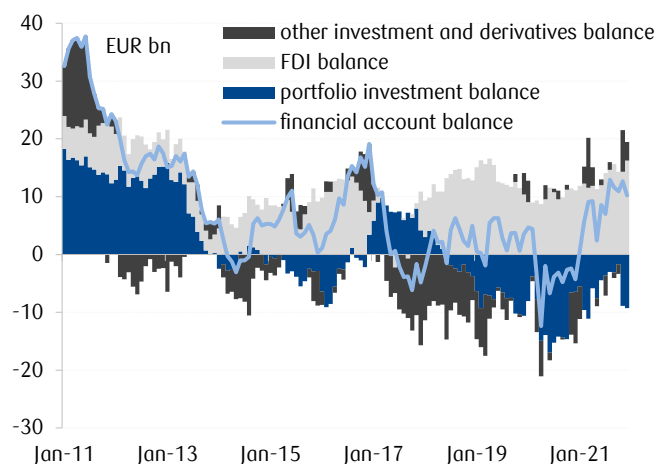
Non-performing loans (NPLs) - by sectors*



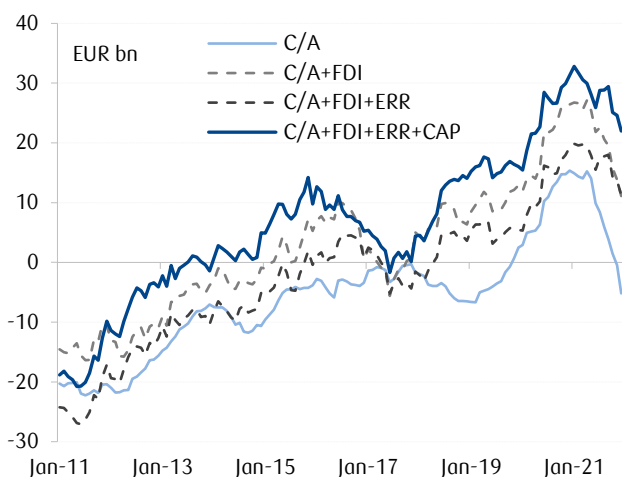
Current account balance



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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Poland's macro in a nutshell

	2021	2022	Comment
Real economy			
- real GDP (%)	5.7	4.1	We expect GDP growth rate will decrease to 4.1% in 2022. Energy shock and elevated inflation erodes real income of households and consumption. Global slowdown and the pandemic will be headwinds as well. Stockpiling of inventories will be an additional boost to GDP growth, but may start to reverse in the course of 2022.
Prices			
- CPI inflation (%)	5.1	7.2	The Anti-inflation Shield will partly protect households from the two-digit inflation. Importantly though, the Shield will prolong the period with elevated inflation well into 2023, as the cost pressure, as well as demand factors, are bound to push a demand-driven inflation further north.
Monetary aggregates			
- M3 money supply (%)	8.9	5.6	With the rebound of the economic growth, we expect credit demand to increase gradually, fueling a moderate bank lending expansion. Smaller scale of asset purchases will result in a deceleration of money supply growth.
External balance			
- current account balance (% GDP)	-0.9	0.3	The C/A is bound to further deteriorate in 1h22, due to the ongoing supply-side related problems of exporters, high prices of imported commodities, and continued revival of import-intensive investments. However, the underlying trend remains positive and we expect C/A to be in surplus again before the end of 2022.
Fiscal policy			
- fiscal balance (% GDP)	-2.4	-1.7	The post-pandemic recovery of the economy has been followed by a rapid improvement of fiscal accounts bringing Poland to the forefront in the EU. Given a high nominal GDP growth in 2022, fiscal policy will have large room for manoeuvre again, already used for Anti-inflation Shields. Despite a rosy aggregate fiscal picture, some tensions inside may appear, especially in the local governments sub-sector. The off-balance items are crucial for the overall fiscal policy stance too. If sustained in 2022, they will be a major spending valve.
Monetary policy			
- NBP reference rate (%)	1.75	4.25	The ongoing changes in the MPC composition reduce predictability of domestic monetary policy, but we do not expect a major shift in the reaction function of Poland's monetary authorities. With inflation likely around 7% and GDP growth above 4% in 2022-2023, we assume further rate hikes in the near term. We believe the tightening cycle will be frontloaded with the peak at 3.5% and balance of risks tilted towards even higher rates.

Source: GUS, NBP, Eurostat, PKO Bank Polski.

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