

Please note that the next issue of Poland Macro Weekly will be published on Friday, June 16.

Exports shine, disinflation continues

TOP MACRO THEME(S):

- **Exports shine against all odds (p.2):** GDP in 1q23 declined by 0.3% y/y after a rise of 2.3% y/y in 4q22. Breakdown of the growth showed a more profound fall in consumption, continued investment growth and a deeply negative inventory contribution offset by strong net exports.
- **Disinflation is holding on tight (p.3):** CPI inflation in May fell to 13.0% y/y from 14.7% y/y in April and was the lowest since April 2022 and 5.4pp lower than its peak in February.

WHAT ELSE CAUGHT OUR EYE:

- **PMI unexpectedly rose to 47.0 from 46.6 in April** due to decelerating fall in output and new orders. More importantly, May reading showed **the largest ever easing of input and final goods price pressure** which was supported by falling prices of commodities and PLN appreciation.
- **In 2022 an average household saw an increase of disposable income per capita of 11.4% (to approx. 500 EUR) accompanied by increase in expenses of 15.2% (to approx. 270 EUR).** In real terms a fall of income was more profound (-2.6%) than an increase in expenses (0.7%) resulting in implied saving rate falling to 34.4% from 36.6% in 2021.

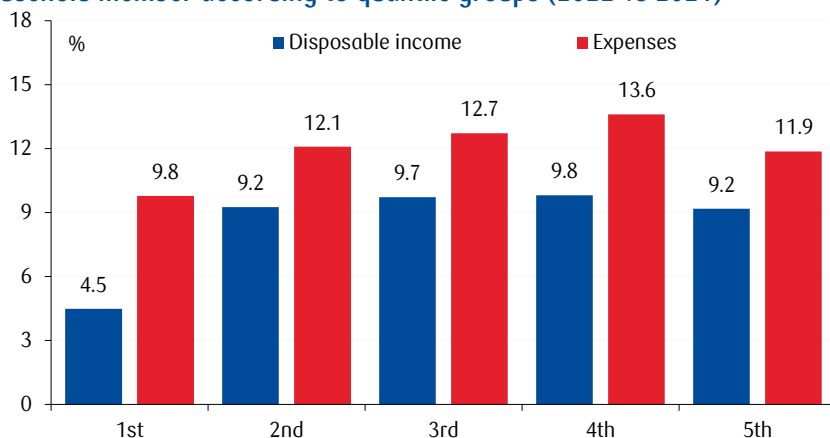
THE WEEK AHEAD:

- **We expect that the Polish MPC will leave interest rates unchanged at its meeting on Tuesday**, amid a monthly stabilisation of prices recorded in May and broad-based disinflationary signals. Expectations regarding interest rate cuts in 4q23 have been amplified by recent comments by the NBP Governor and a few other MPC members.

NUMBER OF THE WEEK:

- **16.6%** - increase in the minimum wage proposed by the government to come into effect in January 2024; as of now the minimum wage stands at 3490 PLN and will increase to 3600 PLN in July 2023.

CHART OF THE WEEK: Change in disposable income and expenses per 1 household member according to quantile groups (2022 vs 2021)



Source: GUS, PKO Bank Polski.

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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	12.5 [^]
Core inflation ^{**} (%)	9.1	10.5 [^]
Money supply M3 (%)	5.6	5.6
C/A balance (% GDP)	-3.0	-0.3
Fiscal balance (% GDP) [*]	-3.7	-5.4
Public debt (% GDP) [*]	49.1	49.9
NBP reference rate ^{##} (%)	6.75	6.50
EURPLN ^{###}	4.69	4.53

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

Exports shine against all odds

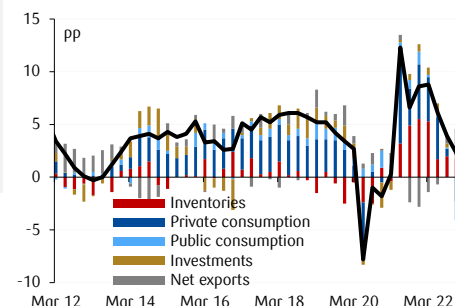
- In 1q23 real GDP declined by 0.3% y/y against an increase of 2.3% y/y in 4q22 and a flash estimate of -0.2% y/y. GDP growth structure was in line with our expectations – it showed a further fall in private consumption, by 2.0% y/y, investment growing further, by 5.5% y/y, and a strongly negative contribution of inventories (-4.1pp) offset by very good performance of net exports, with 4.3pp contribution to GDP growth.

In 1q23 real GDP declined by 0.3% y/y against an increase of 2.3% y/y in 4q22 and a flash estimate of -0.2% y/y. Seasonally-adjusted data in 2015 prices (as preferred by Eurostat) showed a stabilisation of output against a 0.6% y/y increase in 4q22. GDP growth structure corresponded with our expectations, showing a more profound fall in consumption, further investment growth and a deeply negative inventory contribution offset by strong net exports. In accordance with flash estimate, seasonally-adjusted GDP grew by 3.8% in q/q terms against a fall of 2.3% in 4q22. We reiterate our view from previous [Macro Weekly](#) that high volatility of GDP dynamics in q/q terms makes us rather cautious about interpreting this data. In particular accounting for a very volatile value added path in accommodation and food services.

In 1q23 conditions in the consumer sector worsened as private consumption fell by 2.0% y/y against -1.1% y/y in 4q22. Demand for goods remained weak as reflected by a third in a row decline of value added in retail and maintenance (by 4.4% y/y). Services seem to be in a better condition – value added in accommodation and food service increased by 2.9% y/y. In line with incoming retail sales data we assume that in 2q23 consumption growth will bottom out and its revival in 2h23 will be supported by further disinflation.

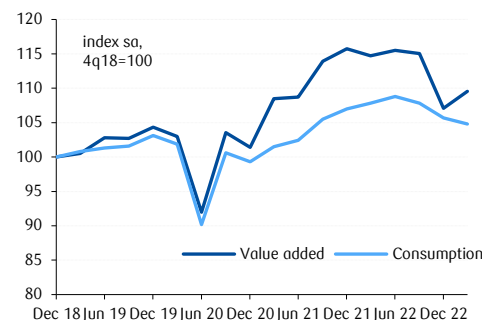
Investment performed well yet another quarter, growing slightly faster than we expected (by 5.5% y/y). Data from the enterprise sector imply a strong growth in corporate investment among all types of business ownership. Such developments amid a deterioration of economic conditions suggest that some of the investment growth may reflect outlays on energy transition forced by increasing energy prices. Meanwhile, inventory cycle reversed as expected resulting in this component's most negative (-4.1pp) contribution to GDP since 1q09. It was offset by export growth of 3.2% y/y despite unfavorable external environment including a technical recession in Germany. Net exports shall remain an important boost to national economic output which we expect to grow by 0.1% in 2023.

GDP growth structure



Source: GUS, PKO Bank Polski.

Consumption vs value added in retail and maintenance



Source: GUS, PKO Bank Polski.

Industrial output and exports



Source: GUS, PKO Bank Polski.

Disinflation is holding on tight

- CPI inflation in May fell to 13.0% y/y from 14.7% y/y in April and was the lowest since April 2022 and 5.4pp lower than its peak in February. Overall price level was unchanged against the previous month, meaning that prices have stabilised for the first time in 14 months.
- The main driver of disinflation were prices of fuel, which in monthly terms declined for a third month in a row (-4.8% m/m). Energy prices declined slightly (-0,5% m/m). Food prices increase was somewhat higher than the seasonal pattern (0.6% m/m), but lower than a year ago.
- In our view, core inflation declined to 11.4% y/y. We expect CPI inflation to decline below 10% in 4q23 which may prompt a cautious interest rate cut before the end of 2023.

Decline in CPI inflation recorded in May was stronger than anticipated – according to a flash estimate it stood at 13.0% y/y against 14.7% y/y in April. Inflation reading was the lowest since April 2022 and 5.4 pp lower than its peak in February this year. More importantly prices did not change on a monthly basis meaning that for the first time in 14 months the overall price level has stabilised.

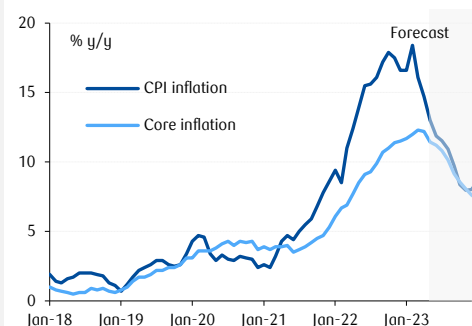
Fuel was the main driver of disinflation as prices in this category fell for a third month in a row, with the price dynamics decelerating further to -4.8% m/m and to -9.5% yoy. In comparison, fuel prices grew by 30.8% y/y in February as inflation reached its peak. Lower fuel prices reflect normalisation of crude oil prices (which were 32% lower y/y in May) and an appreciation of zloty exchange rate (by 5% against USD). Even in the scenario of stabilisation in fuel prices, their y/y growth is going to decline leading to further fall in CPI.

Energy prices declined slightly, by 0.5% m/m, which in our view was a consequence of falling prices of solid fuels, amid further increase in prices of heat energy. Since in 2022 electricity, gas and other fuels had been rising rapidly (beginning in March), this category also has a significant contribution to the disinflation in y/y terms (in May prices in this category grew by 20.4% y/y against 31.1% y/y in February).

Food prices increased by 0.6% m/m, still somewhat stronger than the seasonal pattern, but significantly less rapidly than in the corresponding period in the previous year. Food y/y price dynamic decelerated to 18.9% y/y from 24.0% at this year's peak and we expect this trend to continue. Our view is supported by price changes of staple agricultural products both in the global and domestic market. In the following months, the main upside risk will come from weather changes which determine among others fruit and vegetable prices.

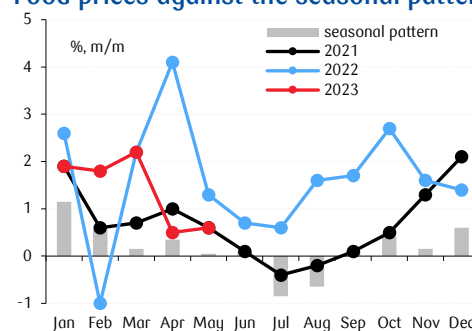
We expect core inflation (excluding food and energy) in May to decline to 11.4%. We estimate that in m/m terms its price growth stood at 0.3% and was the lowest since mid-2021. Despite the fact that strong deceleration of its momentum in May might reflect one-time correction in prices of transport services, the data can still be interpreted as a sign of a gradual spill-over of disinflationary processes on core components of inflation basket. This reinforces our forecast of inflation falling below 10% in 4q23 and may amplify voices from the MPC pointing to rising likelihood of cautious interest rate cut before the end of the year.

CPI and core inflation with PKO's forecast



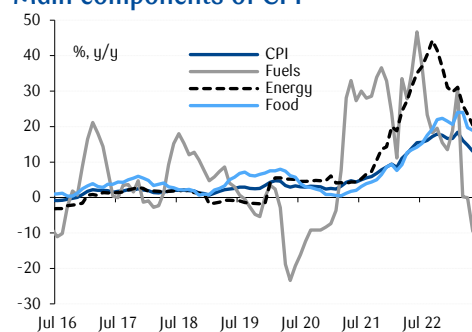
Source: Eurostat, PKO Bank Polski.

Food prices against the seasonal pattern



Source: GUS, PKO Bank Polski

Main components of CPI



Source: GUS, PKO Bank Polski.

Weekly economic calendar

Indicator	Time (UK)	Unit	Previous	Consensus*	PKO BP	Comment
Monday, 5 June						
GER: Exports (Apr)	7:00	% m/m	-5.2	--	--	--
GER: Imports (Apr)	7:00	% m/m	-6.4	--	--	--
GER: Services PMI (May, final)	8:55	pts.	56.0	57.8	--	--
EUR: Services PMI (May, final)	9:00	pts.	56.2	55.9	--	--
EUR: Sentix Index (Jun)	9:30	pts.	-13.1	--	--	--
EUR: PPI inflation (Apr)	10:00	% y/y	5.9	--	--	--
USA: Factory orders (Apr)	15:00	% m/m	0.9	0.8	--	--
USA: Durable goods orders (Apr, final)	15:00	% y/y	3.3	1.1	--	--
Tuesday, 6 June						
GER: Factory orders (Apr)	7:00	% m/m	-10.7	--	--	--
GER: Factory orders (Apr)	7:00	% y/y	-11	--	--	--
EUR: Retail sales (Apr)	10:00	% y/y	-3.8	--	--	--
POL: NBP base rate (Jun)	--	%	6.75	6.75	6.75	We expect no change in the policy rate. We will look for some hints on potential rate cuts in the future - according to recent suggestions from some MPC members.
Wednesday, 7 June						
GER: Industrial production (Apr)	7:00	% m/m	-3.4	--	--	--
GER: Industrial output (Apr)	7:00	% m/m	1.8	--	--	--
USA: Trade balance (Apr)	13:30	bn USD	-64.2	-75.1	--	--
Thursday, 8 June						
HUN: CPI inflation (May)	7:30	% y/y	24	--	--	--
EUR: GDP growth (1q)	10:00	% y/y	1.8	1.3	--	--
EUR: Employment (1q)	10:00	% y/y	1.5	1.7	--	--
USA: Initial Jobless Claims (Jun)	13:30	thous.	232	--	--	--
Friday, 9 June						
CHN: CPI inflation (May)	2:30	% y/y	0.1	0.2	--	--
CHN: PPI inflation (May)	2:30	% y/y	-3.6	-4.3	--	--

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	"It is temporary (PLN appreciation), it is related to the difference in interest rates and expectations as to the further behaviour of interest rates for major world currencies. This is very beneficial from a short-term perspective, because it strengthens the reduction in the rate of price growth. However, in the long-term perspective, I do not suspect (...) that the long-term difference in inflation rates between us and global economies will not translate into the price of the zloty" (18.05.2023, Tok FM, PAP)
L. Kotecki	4.8	"According to March projection, with an assumption of unchanged interest rates, (...) inflation will not reach the target until the end of 2025. Hence if we would like to lower interest rates, it would not reach the target even more. With this regard, I do not think there is room for such a move, especially in the next few months." (29.05.2023, TOK FM, PAP, PKO transl.)
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	"I will not draw the prospect of interest rate cuts precisely as long as inflation remains in double digits. Undoubtedly, the outlook of the first rate cut appears on the horizon, and I personally believe that it extends beyond 7 months of this year. It is not caused by doubts about the path of inflation and the sustainability of the trend of falling inflation, as I am convinced of it". (31.05.2023, ISB news)
A. Glapinski	2.4	"After a very strong tightening of the monetary policy, we stopped the cycle of hikes. (...) With regard to further decisions, everything will depend on inflation and the economic conditions. I hope that the process of disinflation will continue and interest rate cuts will be possible very soon, still in the fourth quarter (...) It will only be possible when we will be sure that inflation is falling towards the inflation target." (26.05.2023, TV Republika, 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	"Good data may indeed encourage discussion on interest rate cuts, however, for the MPC to decide about the interest rate cut, the entire Council must see that the downward trend is permanent and that inflation is indeed quickly approaching the target. These are the conditions necessary to make such a decision" (31.05.2023, Biznes24, PAP, PKO transl.)"
G. Maslowska	2.1	"Anticipated and probable further decrease in inflationary pressure opens the way to more and more intense discussion about the need to reduce interest rates. Generally speaking, I think that the likelihood of starting the phase of interest rate cuts in Poland this year is getting higher. (...) Thanks to this [appreciation of zloty], the moment when the "first reduction" will take place will probably occur earlier than if the zloty exchange rate had been weakening over the last few months." (29.05.2023, Radio Maryja, PKO transl.)
I. Dabrowski	1.9	"If current [inflationary] processes remain, there may be space for interest cuts at the end of the year" (30.05.2023, TVP Info, 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.

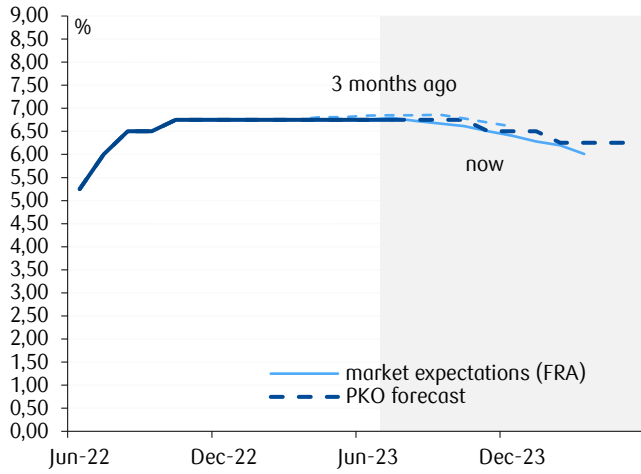
Interest rates – PKO BP forecasts vs. market expectations

		1M	2M	3M	4M	5M	6M	7M	8M	9M
Date	1-Jun	1-Jul	1-Aug	1-Sep	1-Oct	1-Nov	1-Dec	1-Jan	1-Feb	1-Mar
WIBOR 3M/FRA†	6,90	6,89	6,83	6,75	6,62	6,46	6,31	6,18	6,05	5,86
implied change (b. p.)		-0,01	-0,08	-0,15	-0,29	-0,45	-0,60	-0,72	-0,85	-1,04
MPC Meeting	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	6,50	6,50	6,50	6,25	6,25
market pricing^		6,74	6,68	6,60	6,47	6,31	6,16	6,13	6,05	5,86

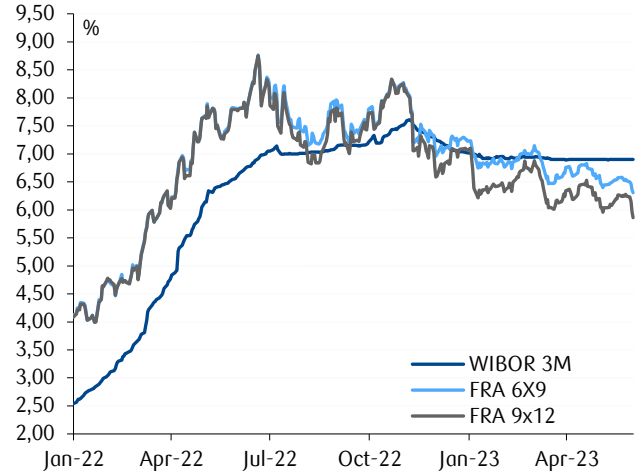
WIBOR 3M from the last fixing, FRA transactions based on WIBOR 3M for subsequent periods, †in basis points, *PKO BP forecast of the NBP reference rate.

Poland macro chartbook

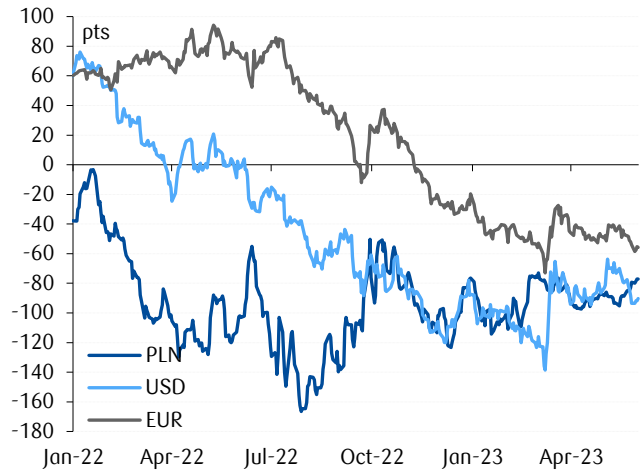
NBP policy rate: PKO BP forecast vs. market expectations



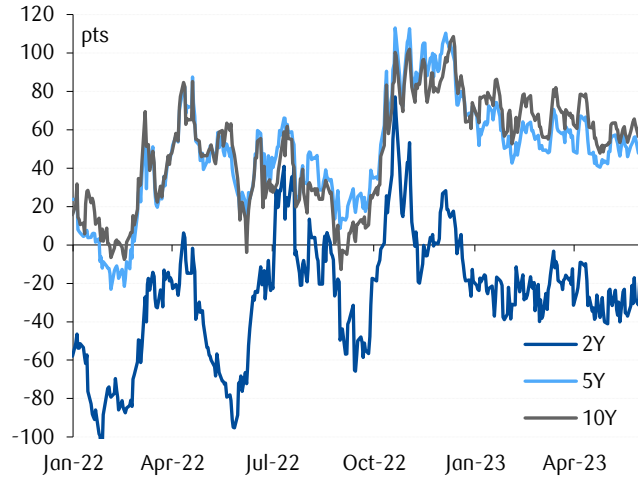
Short-term PLN interest rates



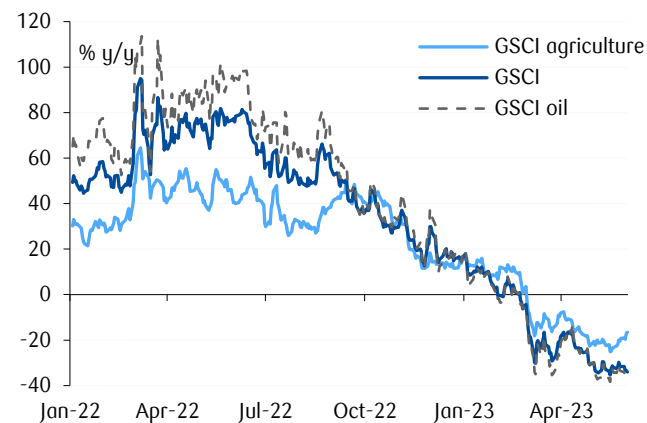
Slope of the swap curve (spread 10Y-2Y)*



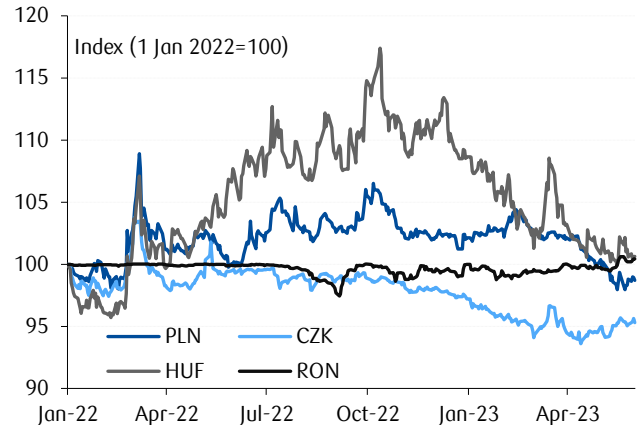
PLN asset swap spread



Global commodity prices (in PLN)

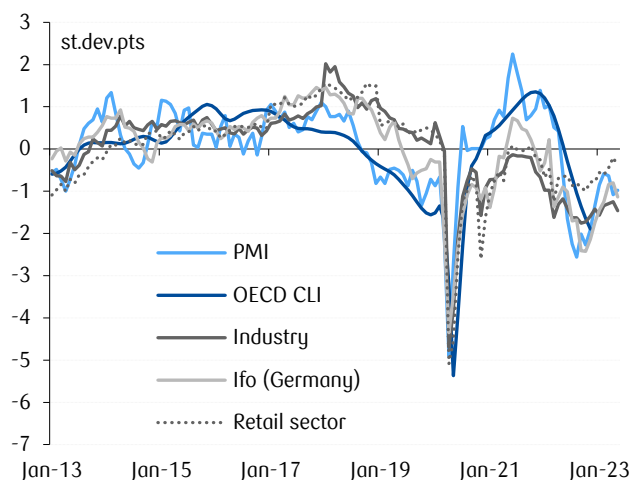


Selected CEE exchange rates against the EUR

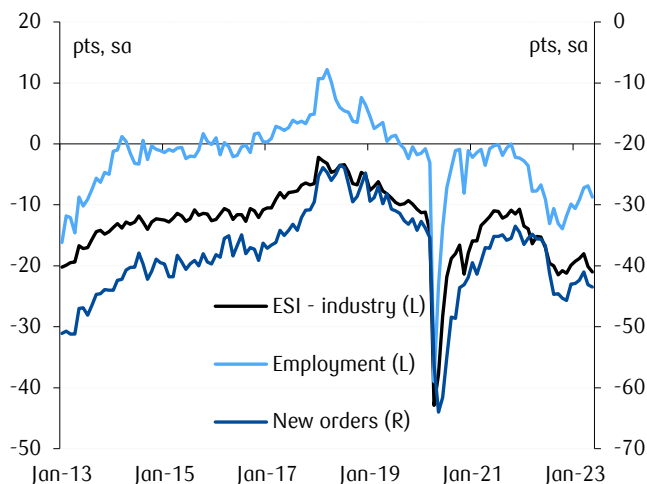


Source: Datastream, NBP, PKO Bank Polski. *for PLN, and EUR 6M, for USD 3M.

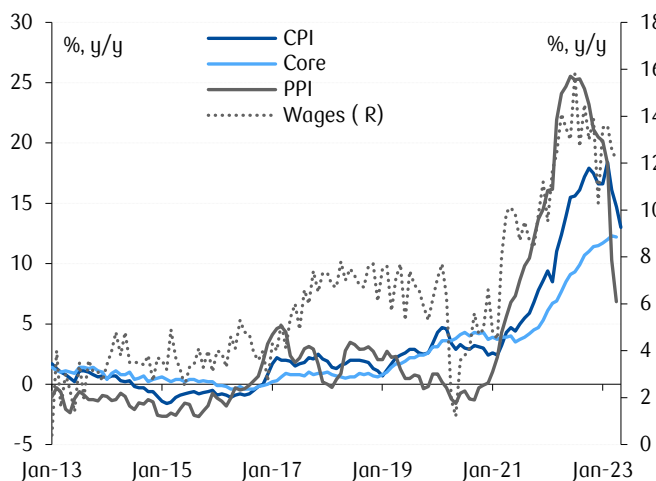
Economic sentiment indicators



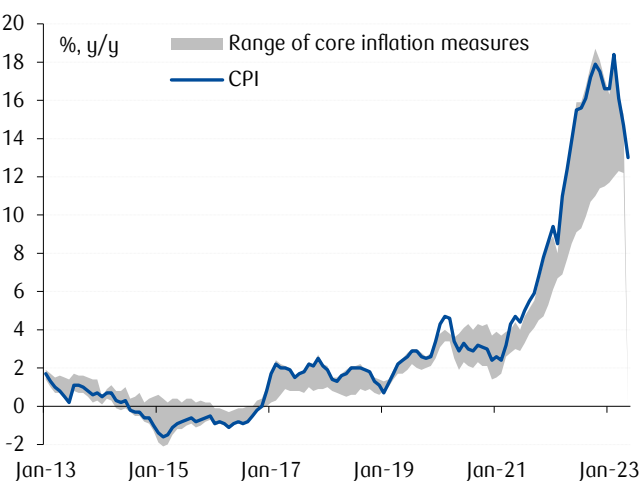
Poland ESI for industry and its components



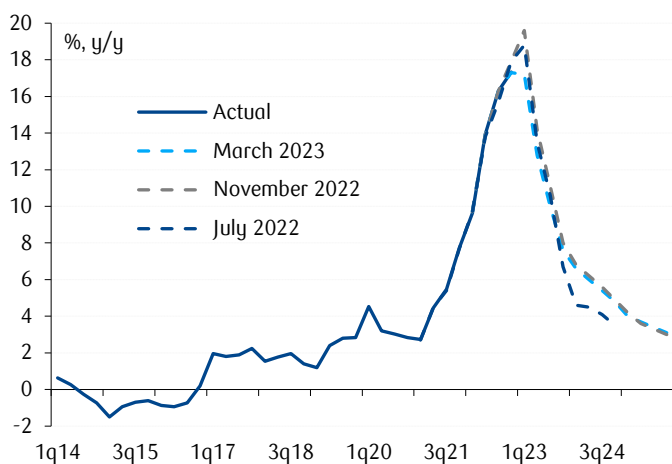
Broad inflation measures



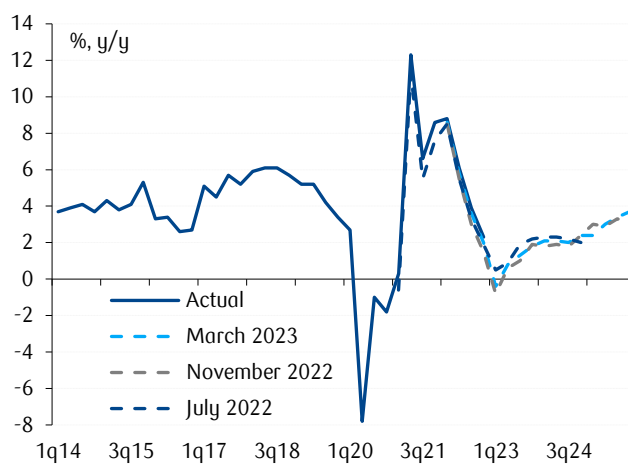
CPI and core inflation measures



CPI inflation - NBP projections vs. actual

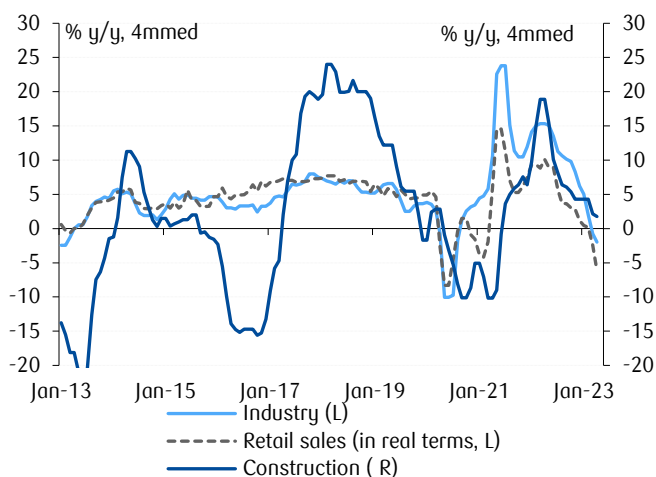


Real GDP growth - NBP projections vs. actual

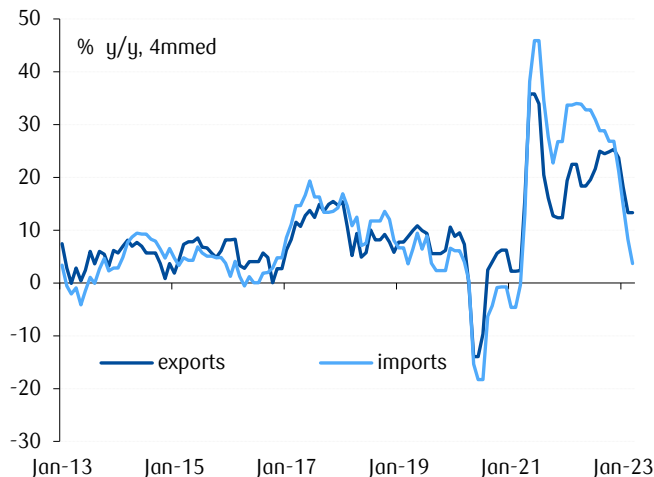


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

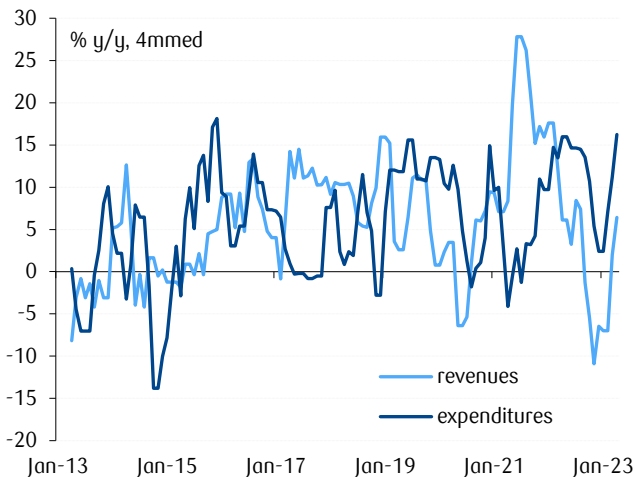
Economic activity indicators



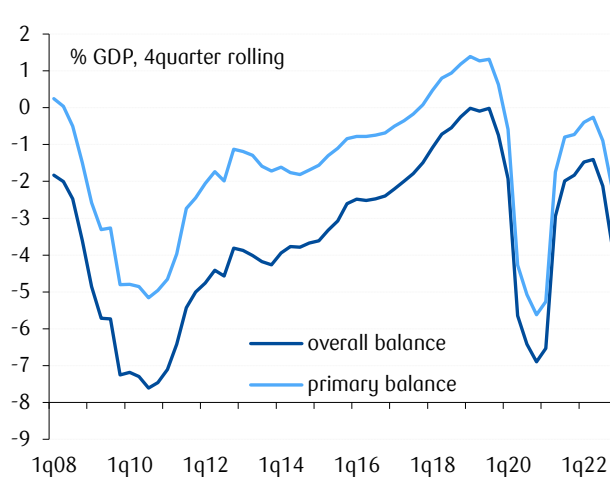
Merchandise trade (in EUR terms)



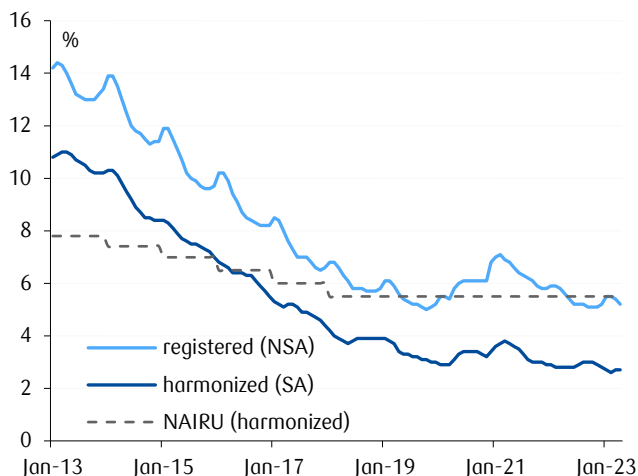
Central government revenues and expenditures*



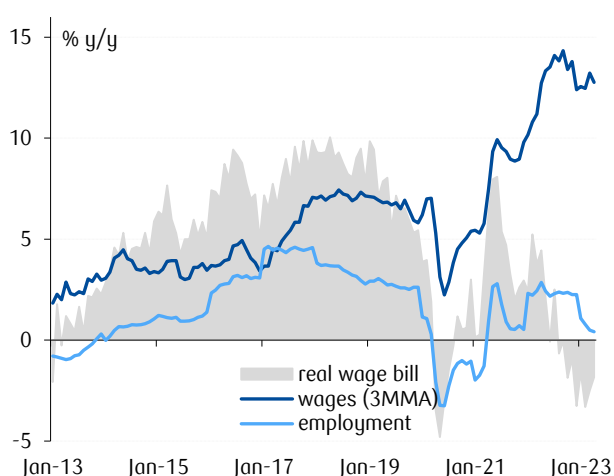
General government balance (ESA2010)



Unemployment rate

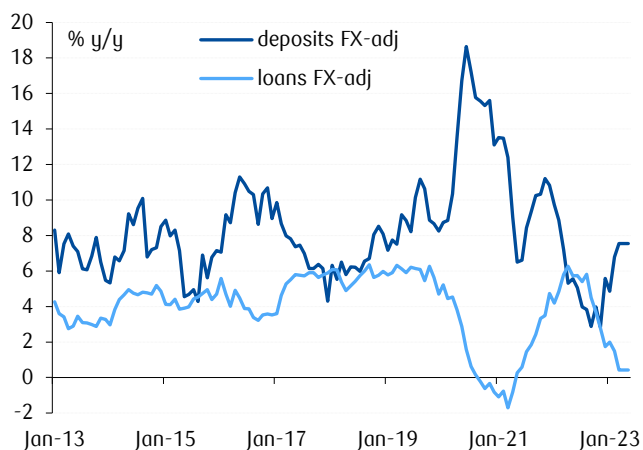


Employment and wages in the enterprise sector

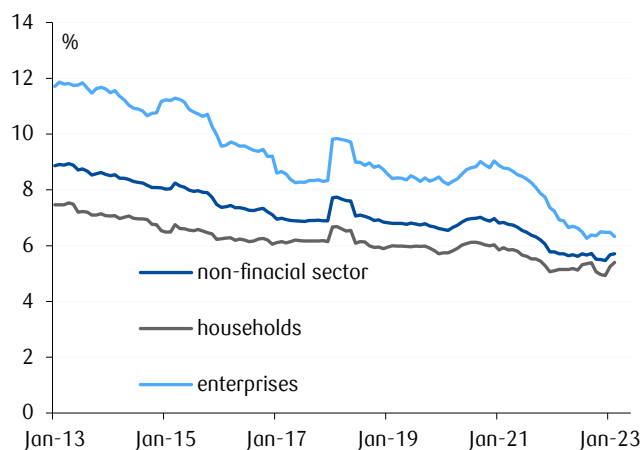


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. *break in series in 2010 due to methodological changes.

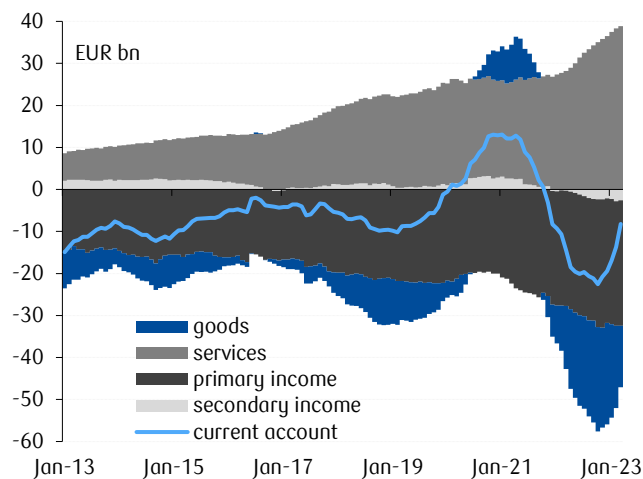
Loans and deposits



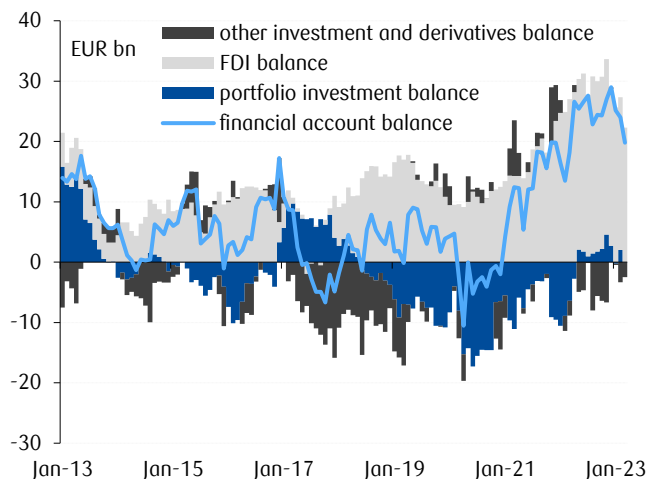
Non-performing loans (NPLs) - by sectors*



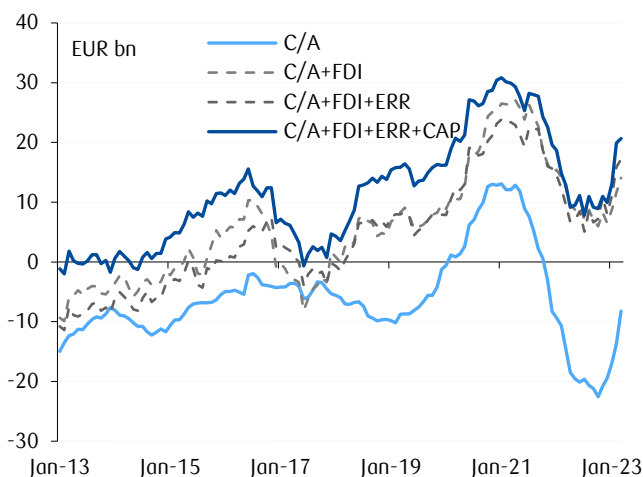
Current account balance



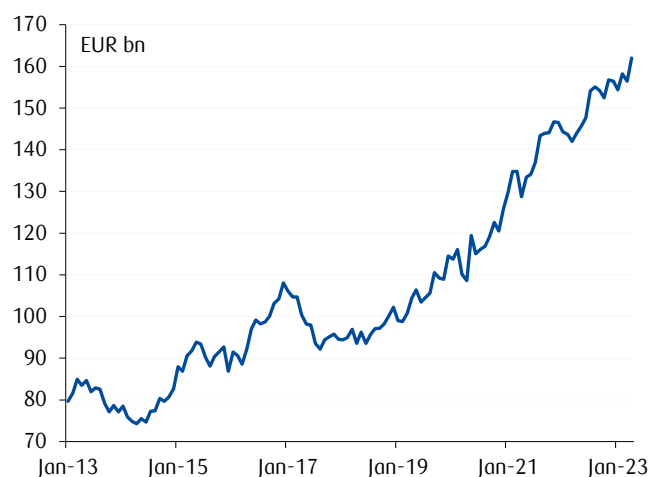
Financial account balance



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:

- [No fireworks at the start of 2q](#) (May 26, 2023)
- [A surprisingly smooth start into 2023](#) (May 19, 2023)
- [MPC changes nothing](#) (May 12, 2023)
- [CPI keeps falling down](#) (Apr 28, 2023)
- [Fiscal glass: half full or half empty?](#) (Apr 21, 2023)
- [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)

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