

## It's payback time

### TOP MACRO THEME(S):

- **It's payback time (p. 2):** In 2q22 GDP grew by 5.3% y/y, but on quarterly basis it dropped by 2.3% (seas.adj.), which was the third largest drop since 1995. The high pace of inventories build-up, which has started in 2q21, most likely abruptly slowed in 2q22 marking the beginning of the normalization period. As we have already warned in early June, the high GDP growth in early 2022 was partly 'borrowed' from the future what means it's payback time now.

### WHAT ELSE CAUGHT OUR EYE:

- **Industrial output halted monthly declines in July** and rose for the first time in 3 months (by 0.5% m/m seas.adj.), boosted by exports of investment goods. **PPI inflation in July marked a turning point** declining a tad (24.9% y/y vs 25.6% y/y in June).
- **Corporate wages rose in July by 15.9% y/y** (vs. 13% y/y in June). After a two-month break wages once again rose faster than inflation. **An elevated growth rate reflected one-offs (bonuses in mining)**. In manufacturing, trade and construction wages grew notably lower than inflation, suggesting that the still strong labour market will no longer support consumption.
- **Core inflation in July inched up to 9.3% y/y** from 9.1% y/y in June, but its momentum has weakened and the upper bound of all core inflation measures calculated by the Polish central bank stood flat.

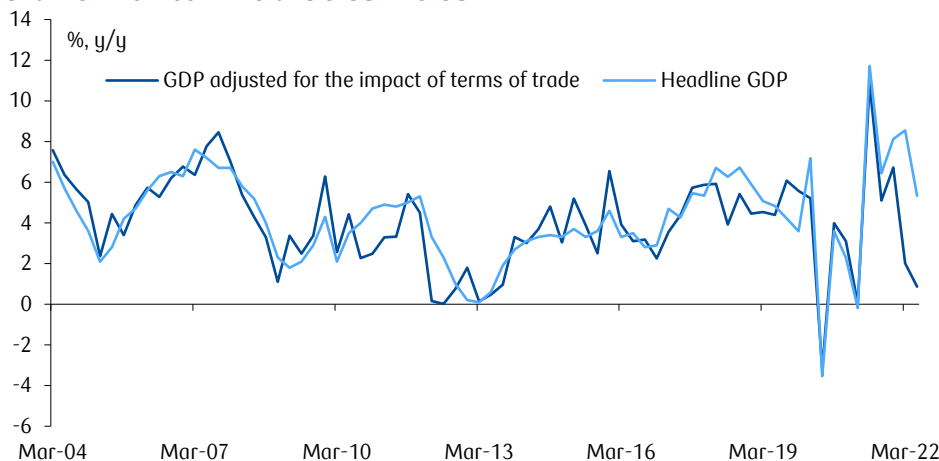
### THE WEEK AHEAD:

- **Retail sales and lending statistics for July** will be the most interesting data prints next week as they **should reveal weakness of consumers squeezed by inflation**. We think lending growth in consumer and mortgage segment could have stalled in July while real retail sales growth rate barely stood in the black (PKOe: 1.1% y/y). **Construction output** growth in July likely moderated further (PKOe: 5.6% y/y) along with a drop in fixed investments and weakening housing market. Labour market, lagging the cycle swings, held up well in July with **unemployment rate** most likely bottoming out at the record low.
- **Minutes of the MPC meeting in July** may reveal more clues on rate-setters' attitude towards incoming recession.

### NUMBER OF THE WEEK:

- **34.7** – PLN bn state budget surplus after July.

### Chart of the week – Poland's GDP vs GDI\*



Source: GUS, Eurostat, PKO Bank Polski. \*2q22 – based on our estimates of GDP structure.

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	2021	2022 <sub>†</sub>
Real GDP (%)	5.9	4.9
Industrial output (%)	15.4	11.0
Unemployment rate <sup>#</sup> (%)	5.4	4.9
CPI inflation <sup>**</sup> (%)	5.1	13.3
Core inflation <sup>**</sup> (%)	4.1	8.3
Money supply M3 (%)	8.9	5.8
C/A balance (% GDP)	-0.7	-4.5
Fiscal balance (% GDP)*	-1.9	-2.8
Public debt (% GDP)*	53.8	50.8
NBP reference rate <sup>##</sup> (%)	1.75	7.00
EURPLN <sup>†##</sup>	4.60	4.62

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.

## It's payback time

- In 2q22 GDP grew by 5.3% y/y, but on a quarterly (and seasonally adj.) basis it dropped by 2.3%, which was the third largest drop since 1995.
- The high pace of inventories build-up, which has started in 2q21, most likely abruptly slowed in 2q22 marking the beginning of the normalization period.
- As we have warned in early June, the high GDP growth in 4q21-1q22 was partly 'borrowed' from the future and now it's payback time.
- A significant economic growth slowdown supports our scenario for interest rates in Poland – we still assume that the MPC will finalize the policy tightening cycle in September with a rate hike of 25-50bps at most.

The most striking element of GDP figures for 2q22 was the third largest ever quarterly decline in the seasonally adjusted GDP level (after the pandemic outbreak and 4q96), by 2.3% q/q vs. a strong rise of 2.5% q/q in 1q22. This has dragged the annual GDP growth rate down from 8.5% in 1q22 to a disappointing 5.3% in 2q22. As we have warned a few months ago (see Poland Macro Weekly '[Growth borrowed from the future](#)', Jun 3, 2022), the record large contribution from the build-up of inventories, equal to 7.7pp in 1q22, was not sustainable.

While we do not know the detailed breakdown of GDP in 2q22 (it will be revealed on August 31), we believe that contribution of inventories to GDP growth markedly declined in 2q22. It is noteworthy that to have a negative contribution of inventories to GDP growth, it is sufficient to have a smaller increase than in the reference period. Our anecdotal evidence from the corporate sector as well as some business sentiment indicators (incl. PMI) suggest that the inventory cycle has passed a tipping point. That said, we don't claim that inventory/output or supply chain management model has drastically changed or returned from *just-in-case* back to *just-in-time*. We think the *just-in-case* model will stay with us, given persistent strains in global supply chains.

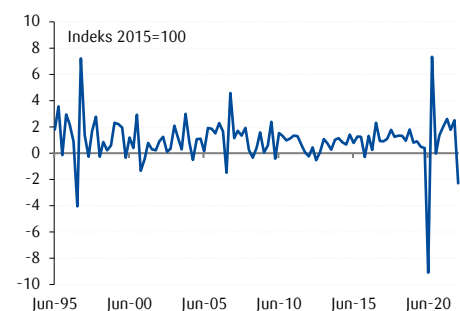
Last but not least, it is also likely that companies adjust the level of inventories to weakening demand. Indeed, the domestic final sales (domestic demand excl. inventories) has already moderated in 1q22 (5.0% y/y vs. 7.4% y/y in 4q21). We think it inched down further in 2q22 (PKOe: 4.6% y/y). It was consumption that helped to support domestic sales in 2q22, both private (PKOe: 7.0% y/y) and public (PKOe: 3.0% y/y). We bet that investments declined in real terms in 2q22 (PKOe: -2.0% y/y). Foreign demand remained sluggish – exports (goods and services) grew by a low single-digit number in 2q22, according to our estimates based on the monthly balance of payments data. Falling import-intensive activity helped to cushion total GDP to some extent – imports growth rate most likely fell below zero in 2q22 (again our estimates based on balance of payments data), that would make a contribution of net exports to GDP growth slightly positive.

We predict that destocking will deepen and the annual GDP growth rate will keep declining in the remainder of the year. In our baseline scenario we assume that it will be in the red in 1q23, what will mark a bottom of the inventory cycle – by then the 'GDP loan' will be paid back in full.

A negative supply shock resulting from skyrocketing imported energy prices resulted in a considerable terms-of-trade losses for national income. Indeed, real gross domestic income (GDI\*) growth rate – i.e. GDP adjusted for terms-of-trade gains/losses – is considerably lower than real GDP growth rate: 0.5% y/y in 2q22 (vs 5.3% y/y in case of GDP, see margin chart). Plummeting GDI and possibly faltering underlying growth trend strengthen the case for exit from policy tightening at the MPC meeting in September and a shift to loosening bias by the MPC in 2023. Our baseline for NBP interest rates remains intact: a 25-50bps hike in Sept. at most will finalize the cycle.

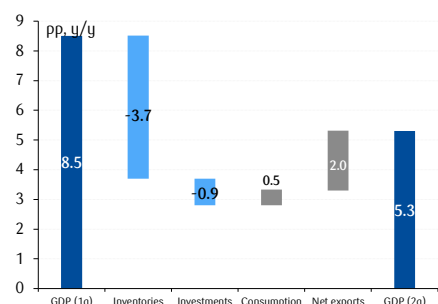
\*more on the GDI and its methodology, see our Poland Macro Weekly: '[Inflated deflator understates economic growth?](#)', Apr 8, 2016.

### Quarterly GDP growth rate



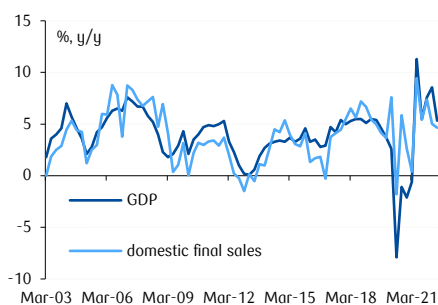
Source: GUS, PKO Bank Polski.

### Inventories behind slowdown in 2q22\*



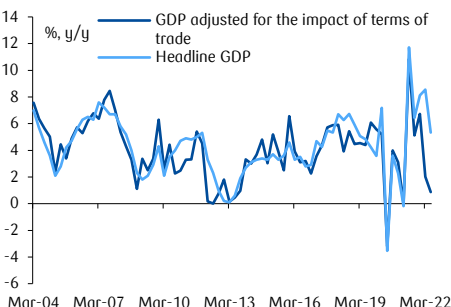
Source: GUS, PKO Bank Polski. \*on our estimates.

### GDP vs domestic final sales



Source: GUS, PKO Bank Polski.

### GDP vs GDI\*



Source: GUS, Eurostat, PKO Bank Polski. \*2q22 – based on our estimates of GDP structure.

## Weekly economic calendar

Indicator	Time (UK)	Unit	Previous	Consensus*	PKO BP	Comment
<b>Monday, 22 August</b>						
POL: Construction output (Jul)	9:00	% y/y	5.9	6.1	5.6	Moderate construction growth rate will reflect housing market slowdown.
POL: Retail sales (Jul)	9:00	% y/y	3.2	2.3	1.1	Elevated inflation as well as falling consumer loans began to weigh on sales.
<b>Tuesday, 23 August</b>						
GER: Manufacturing PMI (Aug, flash)	8:30	pts.	49.3	--	--	--
EUR: Manufacturing PMI (Aug, flash)	9:00	pts.	49.8	--	--	--
POL: Money Supply M3 (Jul)	13:00	% y/y	6.5	5.7	5.4	Consumer lending business has been decimated by interest rate hikes thus leading to money supply slowdown.
USA: Manufacturing PMI (Aug, flash)	14:45	pts.	52.2	--	--	--
EUR: Consumer Confidence (Aug, flash)	15:00	pts.	-27.0	--	--	--
USA: New home sales (Jul)	15:00	--	--	--	--	--
<b>Wednesday, 24 August</b>						
POL: Unemployment Rate (Jul)	9:00	%	4.9	4.8	4.8	A lagged-in-the-cycle labour market held up well.
USA: Durable goods orders (Jul, flash)	13:30	% m/m	2.0	0.6	--	--
<b>Thursday, 25 August</b>						
GER: Ifo Business Climate Index (Aug)	9:00	pts.	88.6	--	--	--
EUR: ECB minutes (Jul)	12:30	--	--	--	--	--
POL: MPC minutes (Jul)	13:00	--	--	--	--	MPC minutes could reveal how much attention will the MPC draw to incoming slowdown (and technical recession).
USA: Initial Jobless Claims (Aug)	13:30	--	--	--	--	--
USA: GDP growth (2q)	13:30	%q/q saar	-0.9	-0.9	--	--
<b>Friday, 26 August</b>						
EUR: M3 money supply (Jul)	9:00	% y/y	5.7	--	--	--
USA: Personal Income (Jul)	13:30	% m/m	0.6	0.6	--	--
USA: Personal spending (Jul)	13:30	% m/m	1.1	0.5	--	--
USA: Core PCE inflation (Jul)	13:30	% y/y	4.8	--	--	--
USA: University of Michigan sentiment (Aug, final)	15:00	pts.	55.1	--	--	--

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^
L. Kotecki	4.8	"I voted for a 100bp hike (PKO: eventually the MPC raised by 75bp) in May, because I am in favor of raising rates faster. I think we should act much faster, but shorter. It is better not to stretch out the increases over time. It would send a much stronger signal that fighting inflation is a priority. Perhaps we could have finished the cycle already in May." (5.08.2022, TVN24, PAP, PKO transl.)
H. Wnorowski	4.2	" <b>Most likely the August reading will be close to the July one, maybe 0.1-0.2 ppt higher or lower, while in the months after [PAP: the summer] holidays, especially in September, I expect a significant decline of inflation growth rate in our country (...)</b> But there could be a return to increases in January, largely due to the expected hikes in regulated prices (...). This is when the inflation peak will likely appear. (...) I expect monetary tightening cycle to end soon, with the September decision hinged on August macro data." (16.08.2022, Biznes24, PAP)
A. Glapinski	3.4	"We currently assume that during the holidays the inflationary pressure will stabilize and will start to subside in the following quarters (...) We hope that CPI inflation will follow and start to gradually decline. However, it [PAP: inflation] can be impacted by many factors and, as we know, times are turbulent. (...) we will likely reach single-digit inflation probably only at the end of 2023, (...) [PAP: If the government decided to maintain the anti-inflation shield to the end of 2023, in Q4'23] inflation should decline visibly, possibly even to a level only slightly exceeding the upper end of the NBP target range of 3.5% (17.08.2022, Gazeta Polska, PAP)
I. Dąbrowski	3.1	"In my opinion, if there will be another rate hike, it will be rather small - on a comparable scale to the last one (50bp - ed.) or even lower. If the decision depended solely on me, I would not raise rates at all anymore, or at most once by 25 bps." (19.07.2022, PAP)
C. Kochalski	3.1	"The room for rate hikes is in July, possibly also in September. (...) 50-75 bps are the very likely ranges of the pace of change of interest rates. (...) We expect inflation peak to take place in Q3." (10.06.2022, PAP).
P. Litwiniuk	2.9	" <b>In my opinion, two factors are of essence (...)</b> The first one is the continuously growing - maybe not significantly, but still - core inflation. The other factor is the budget policy. (...) These two factors constitute two basic premises, though not the only ones, [PAP: for] formulating a view as to the necessity of further monetary policy tightening" (17.08.2022, biznes24, PAP)
W. Janczyk	2.4	"The coming months, I hope, will bring no particular reasons to continue the interest rate hike cycle, although the impact of energy prices in the upcoming autumn-winter season on the economy and consumers is hard to predict right now. (...) "The council will act adequately to situation in our economy. In my opinion, it will strive to keep the lowest possible interest rate levels [while] targeting a realistic return to the inflation target." (21.07.2022, PAP).
(Vacant places (3))	--	--

\*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.

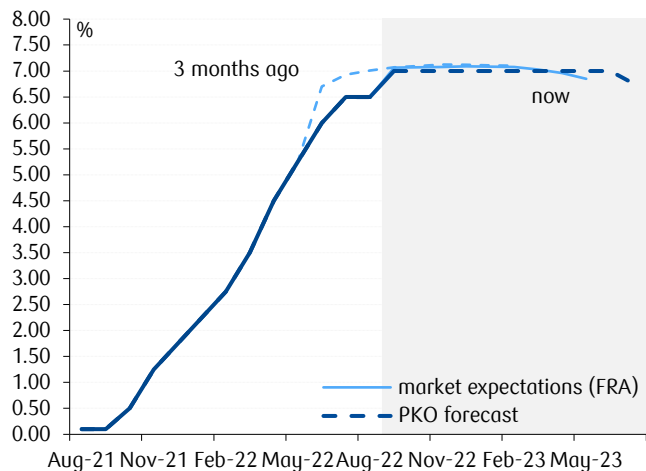
### Interest rates – PKO BP forecasts vs. market expectations

	1M	2M	3M	4M	5M	6M	7M	8M	9M	
Date	18-Aug	18-Sep	18-Oct	18-Nov	18-Dec	18-Jan	18-Feb	18-Mar	18-Apr	18-May
WIBOR 3M/FRA†	7.04	7.27	7.27	7.28	7.29	7.29	7.28	7.23	7.16	7.05
implied change (b. p.)		0.23	0.23	0.24	0.25	0.25	0.24	0.19	0.12	0.01
MPC Meeting	7-Jul	-	7-Sep	5-Oct	9-Nov	7-Dec	-	-	-	-
PKO BP forecast*	6.50	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00
market pricing*		7.07	7.07	7.08	7.09	7.09	7.08	7.03	6.96	6.85

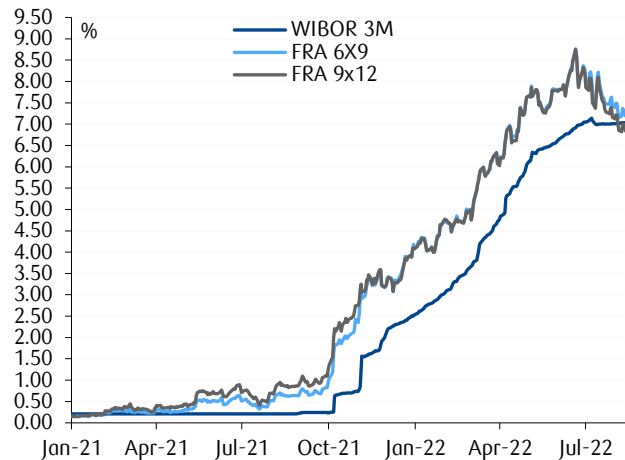
†WIBOR 3M from the last fixing, FRA transactions based on WIBOR 3M for subsequent periods, ‡in basis points, \*PKO BP forecast of the NBP reference rate.

## Poland macro chartbook

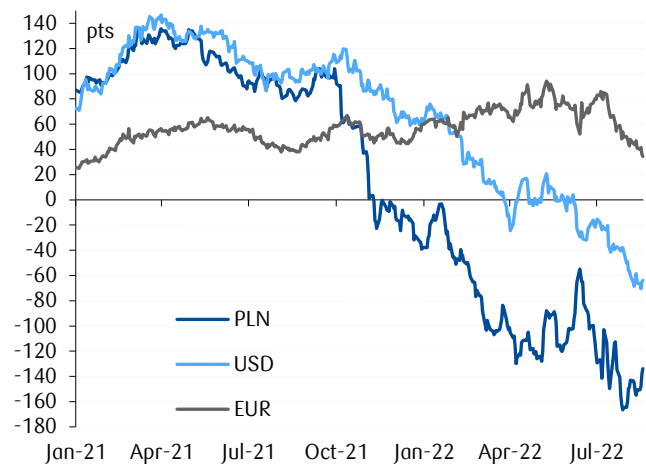
NBP policy rate: PKO BP forecast vs. market expectations



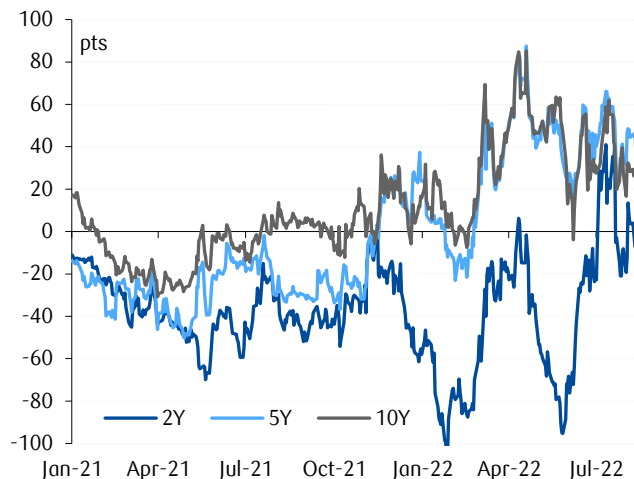
Short-term PLN interest rates



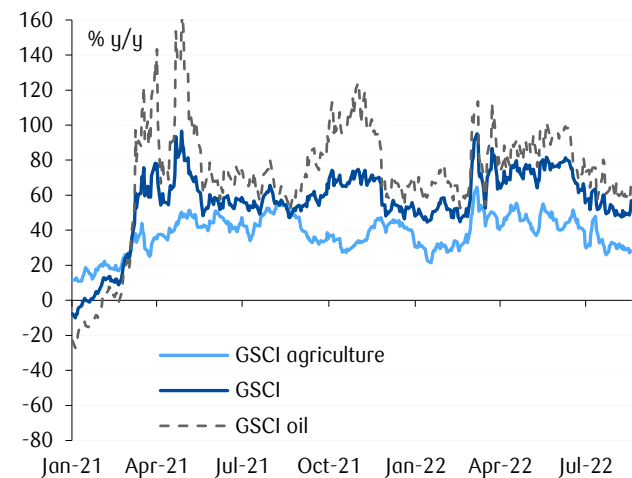
Slope of the swap curve (spread 10Y-2Y)\*



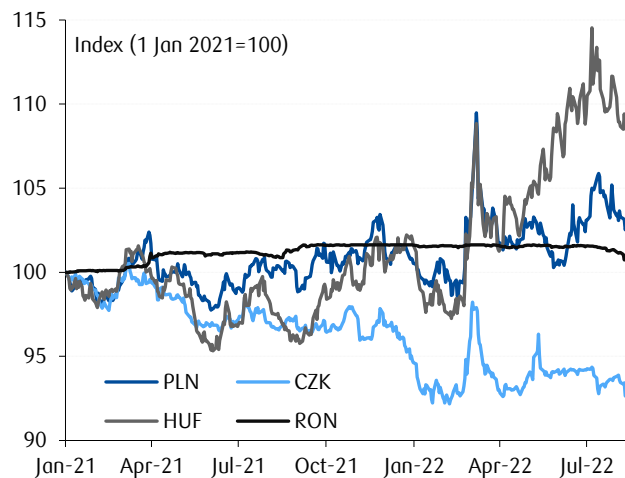
PLN asset swap spread



Global commodity prices (in PLN)

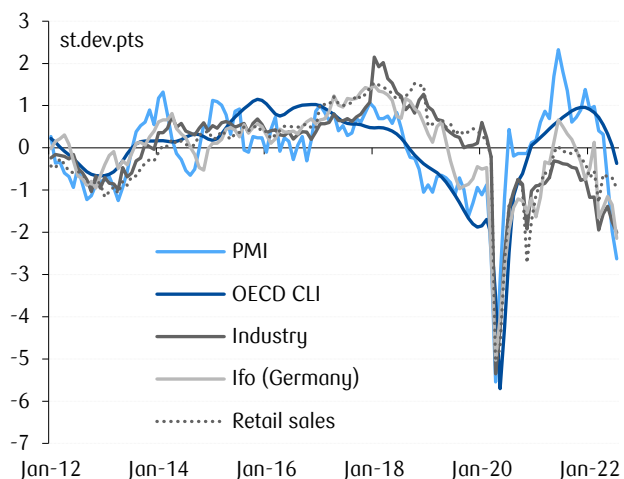


Selected CEE exchange rates against the EUR

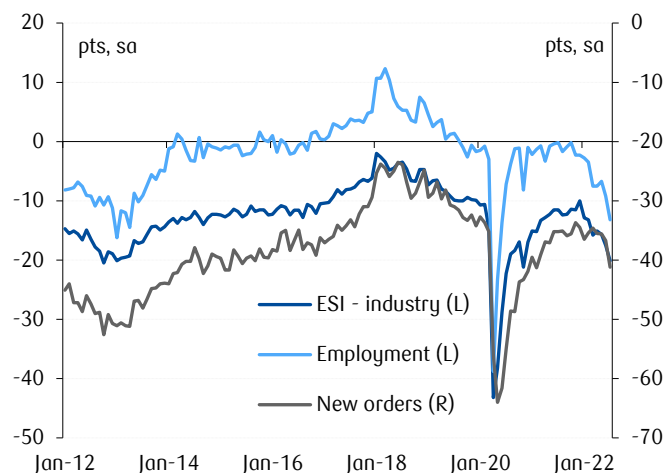


Source: Datastream, NBP, PKO Bank Polski. \*for PLN, and EUR 6M, for USD 3M.

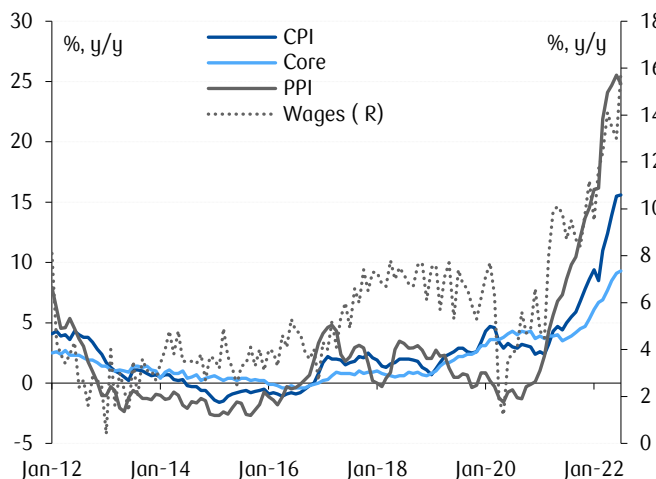
Economic sentiment indicators



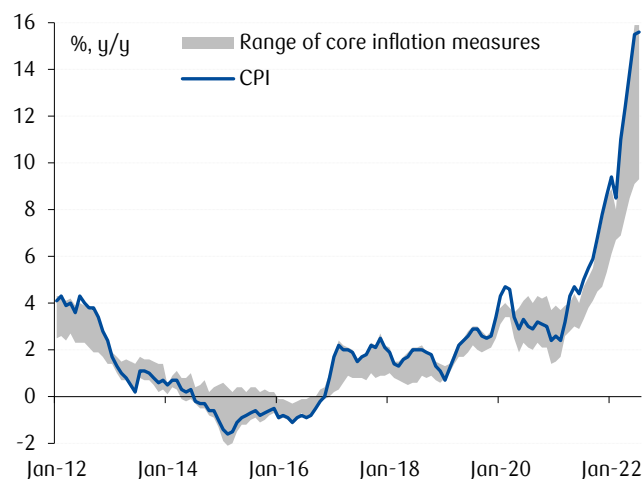
Poland ESI for industry and its components



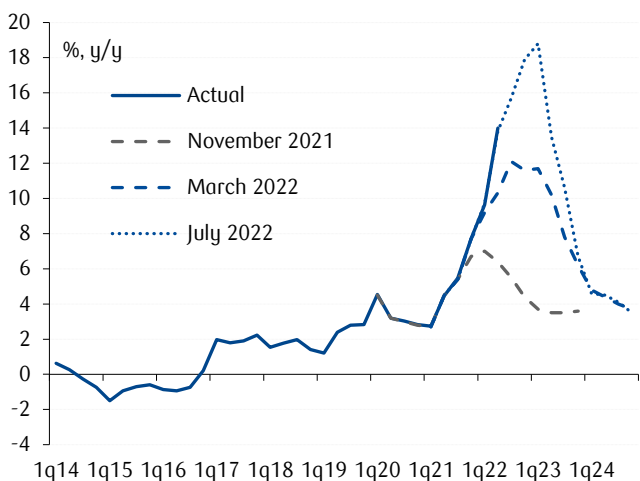
Broad inflation measures



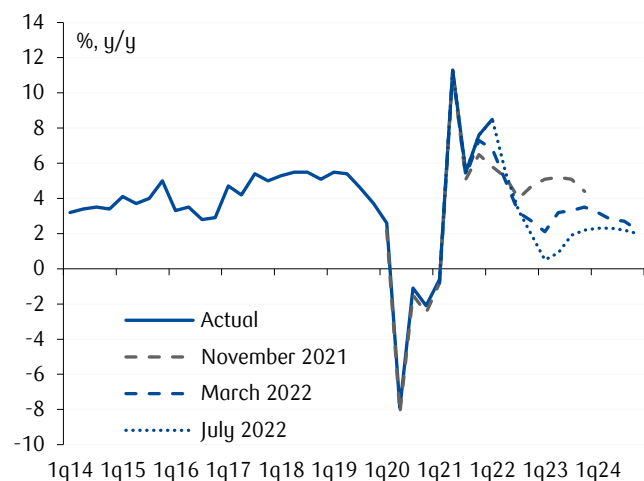
CPI and core inflation measures



CPI inflation – NBP projections vs. actual

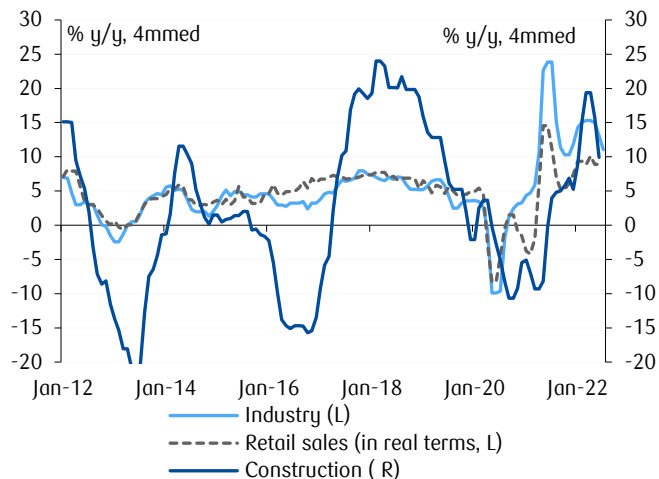


Real GDP growth – NBP projections vs. actual

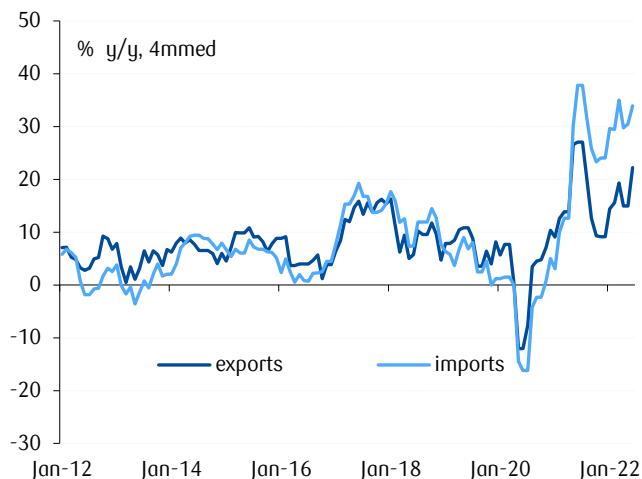


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

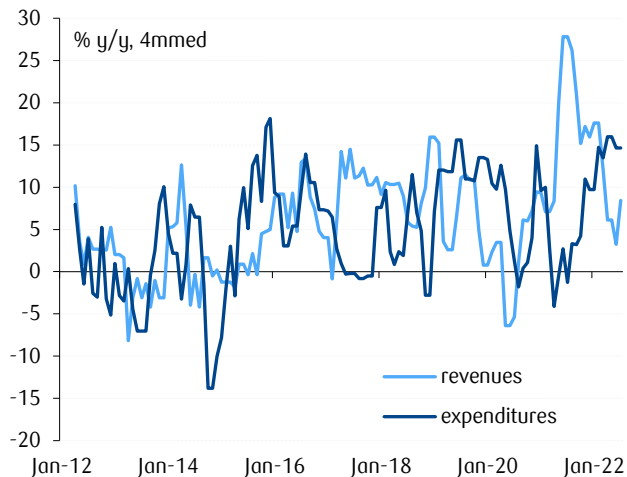
**Economic activity indicators**



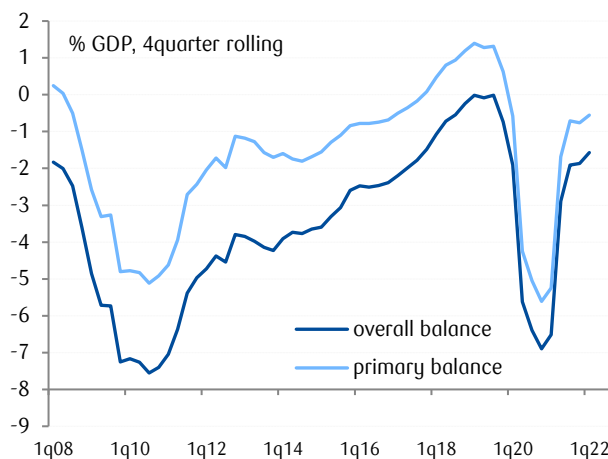
**Merchandise trade (in EUR terms)**



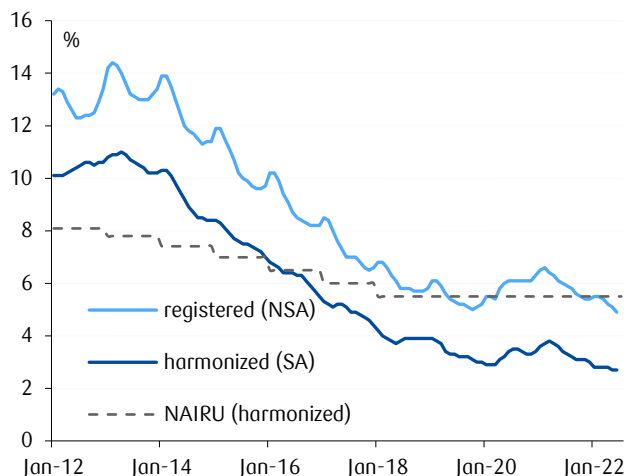
**Central government revenues and expenditures\***



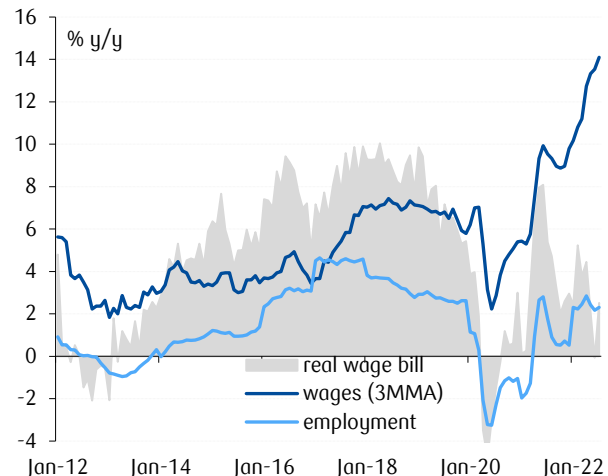
**General government balance (ESA2010)**



**Unemployment rate**

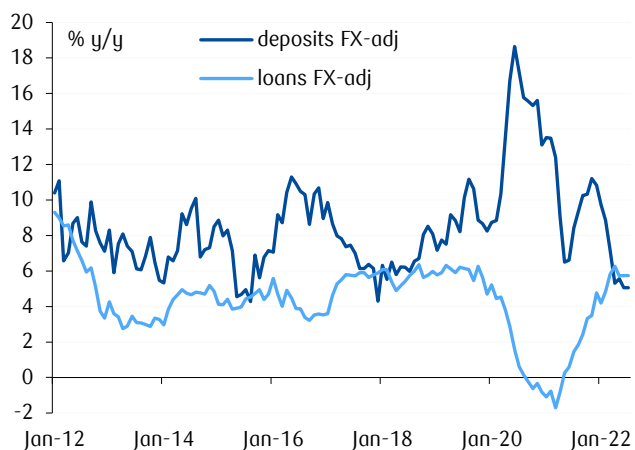


**Employment and wages in the enterprise sector**

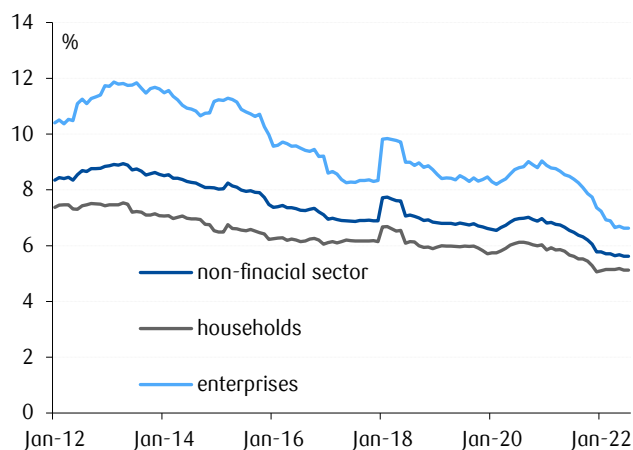


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. \*break in series in 2010 due to methodological changes.

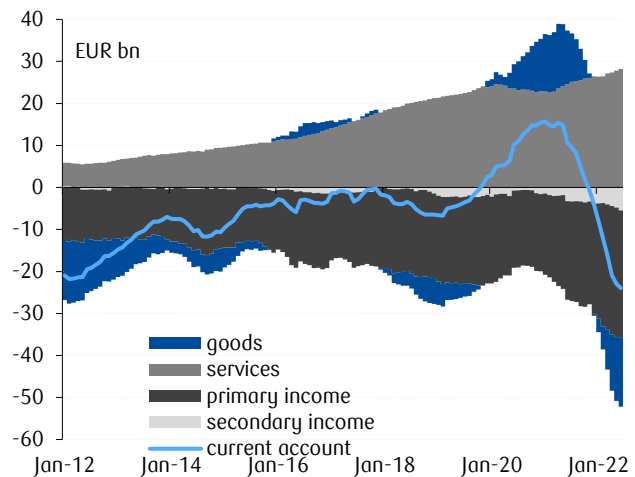
### Loans and deposits



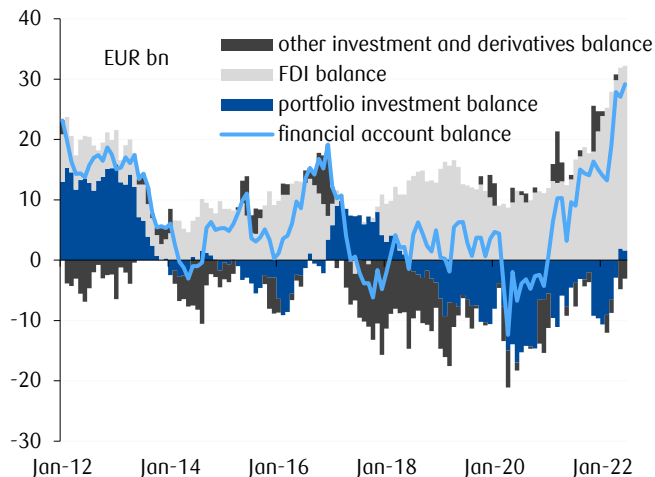
### Non-performing loans (NPLs) - by sectors\*



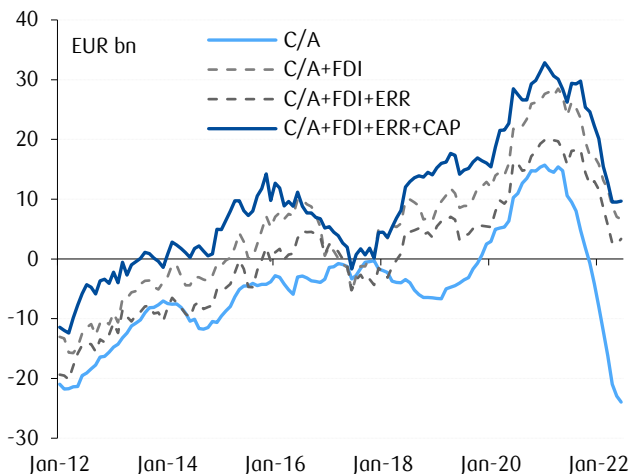
### Current account balance



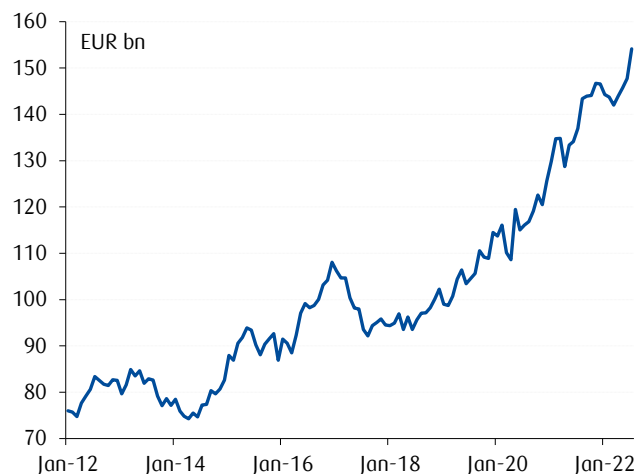
### Financial account balance



### 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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- [Inflation seems to be losing steam](#) (Aug 12, 2022)
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- [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)
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- [Less reliant on Germany?](#) (May 13, 2022)
- [MPC is slowing down](#) (May 6, 2022)
- [100bps month by month?](#) (Apr 29, 2022)
- [Nothing lasts forever](#) (Apr 22, 2022)
- [Deleveraging](#) (Apr 8, 2022)
- [The economic whirlwinds of war](#) (Apr 1, 2022)
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- [Inflation's back, policy fights back](#) (Jan 14, 2022)
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- [It's not the last word on the matter](#) (Dec 10, 2021)
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