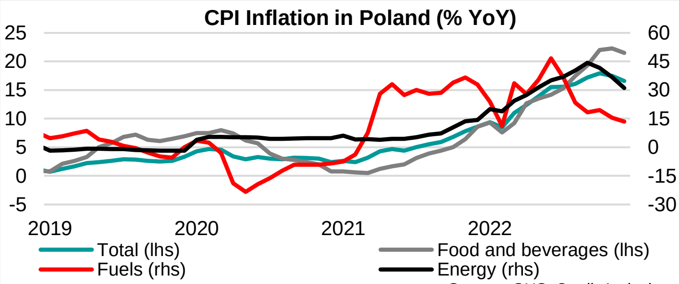
V-shaped recovery in construction

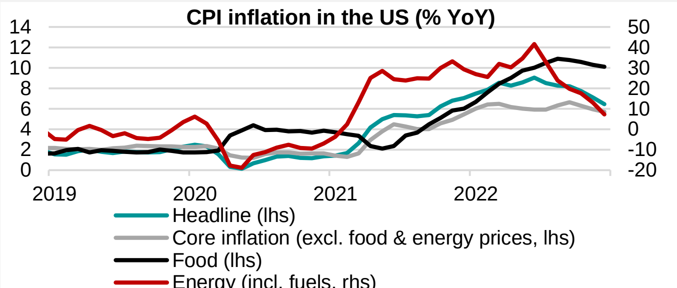
This week

- **The most important event this week will be the publication of Poland's January inflation figures, planned for Wednesday. We expect inflation to have risen from 16.6% YoY in December to 17.8% YoY in January.** At the same time, the uncertainty surrounding our forecast is greater than usual, and therefore the forecast carries an upside risk. Inflation was driven up by a stronger growth in the prices of energy (due to the combined effect of discontinuation of the Anti-Inflation Shield programme and launching of the new price-stabilising instruments) and fuels (due to the last year's low base effect). Our forecast is above the market consensus (17.6%), and if it materialises, the materialisation will be conducive to slight PLN appreciation and an increase in the yields on Polish bonds.



Source: GUS, Credit Agricole

- **Some important data from the US will be released this week.** We expect the headline inflation to have fallen from 6.5% YoY in December to 6.3% in January, driven down by a drop in core inflation (5.5% vs. 5.7%). We expect the industrial production growth rate to have increased from -0.7% MoM in December to 0.5% MoM in January, which will be consistent with the increase in the employment rate for the manufacturing sector, which was seen in January. We expect the nominal retail sales to have increased by 1.8% MoM in January vs. -1.1% in December due to better sales in the automotive industry. We expect the data on the number of housing starts (1,355k in January vs. 1,382k in December) and building permits (1,349k vs 1,337k) to be indicative of a continuing decrease in the activity in the US property market. We believe that the overall impact of US economy data on financial markets will be limited.



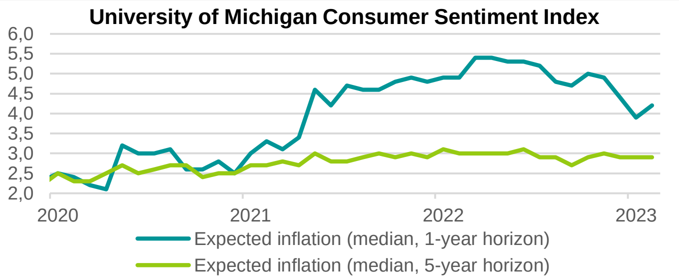
Source: Datastream, Credit Agricole

- **Data on Poland's balance of payments for December 2022 will be published today.** We expect the current account balance deficit to have increased to EUR 1,799m vs. EUR 422m in November 2022 in consequence of a lower balance on trade in the first place. We expect the exports growth rate to have dropped from 20.3% YoY in November to 13.5% in December, and the imports growth rate to have fallen from 17.7% YoY to 13.0%. The drop in both rates in December was driven by an unfavourable difference in the number of business days. In our opinion, the balance of payments figures will be neutral for the PLN and yields on Polish bonds.
- **On Tuesday, we will see a preliminary estimate of Poland's GDP for Q4 2022.** Based on GUS data on GDP for 2022 published two weeks ago (see MACROpulse of 30/01/2023), we are estimating that GDP shrank to 2.4% YoY in Q4 vs. a 5.3% increase in Q3 last year. Lower contributions of consumption and change in inventories drove the economic growth down. The publication of GDP data should not meet with significant market reactions.
- **The publication of an update of Poland's long-term debt rating by Standard & Poor's is scheduled for Friday.** In September 2022, S&P affirmed Poland's long-term credit rating of A- with a stable outlook. In its report the agency noted that the war in Ukraine and the related stagflation shock had a serious impact on the Polish economy. However, the agency also noted that Poland's competitive and diversified economy as well as low debt and sound public finances

will help mitigate the dangers connected with the war. In its baseline scenario S&P assumed that the Polish government will finally reach an agreement with the European Commission, and the National Recovery Plan will be launched, but this will probably only happen towards the end of 2023. S&P think that increasing Poland's rating would be possible if Poland stayed on the quick economic growth path after the impacts of the war in Ukraine faded and if the situation with public finances turned out to be better than the agency had forecasted. On the other hand, the rating could be lowered if the negative impact of the war in Ukraine was stronger and longer-lasting than expected, which would cause a strong economic slowdown in the medium term. Furthermore, the rating could also be lowered if the transfers of EU funds were reduced in the wake of tensions between Poland and the EU. None of those factors has materialized since the last rating review, so we expect S&P to affirm Poland's rating and outlook. S&P's decision will be announced after the European markets close, so we cannot expect any reaction of the FX market or the debt market to the decision before next week.

Last week

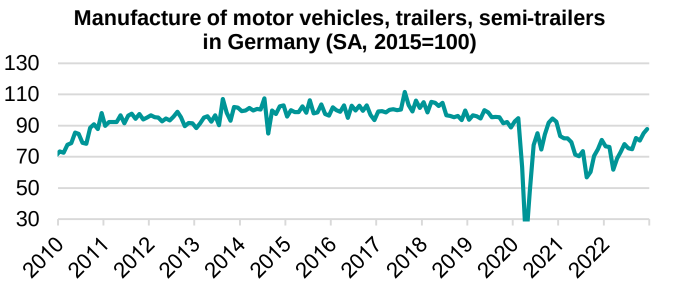
- **Last week, the Monetary Policy Council took a decision to keep interest rates unchanged (with the NBP reference rate standing at 6.75%).** The Council's decision was consistent with market consensus and our forecast. Statements made by the NBP Governor and some of the MPC members, which suggested that they were reluctant to tighten the monetary policy despite high, persistent inflation, indicated that the rates were highly likely to remain unchanged. The absence of significant changes between the January and February press releases, and the forecast maintained in the current release, which assumes that inflation will keep on growing without any reaction from the point of view of the monetary policy indicate that high inflation is still of secondary importance to the Council, and that preventing the economic growth from slowing down too much in the quarters to come remains the main objective of the monetary policy. Although the Council has not formally closed the monetary policy hiking cycle, we are of the opinion that the Council is unlikely to go back to raising the interest rates again in the months to come (see MACROpulse of 08/02/2023). Our opinion is supported by the NBP Governor's statements made at the press conference last week, which said that the MPC began the hiking cycle at a right time, continued it in a right manner, and also closed it when the time was right. The NBP Governor also noted during his speech that it is too early at the moment to talk about interest rate reductions with inflation remaining at a high level. In his opinion, it will be possible to discuss it if the inflation begins to fall. We forecast that the NBP interest rates will not change until the end of 2023, even though we expect inflation to rise temporarily to 18.8% YoY in February, which will be followed by a quick decline to approx. 7.1% in December.
- **The preliminary University of Michigan index increased to 66.4 pts in February from 64.9 pts in January, running above market expectations (65.0 pts).** The index was driven up by a higher 'current situation' sub-index, while the 'expectations' sub-index went up. The median for inflation expected within the time horizon of up to one year published alongside the University of Michigan index has also increased (from 3.9% YoY in January to 4.2% in February), which suggests that US households' inflation expectations remain on an elevated level. Last week's results of consumer sentiment survey combined with markedly-better-than-expected US labour market data published two weeks ago (see MACROmap of 06/02/2023) carry



Source: Datastream, Credit Agricole

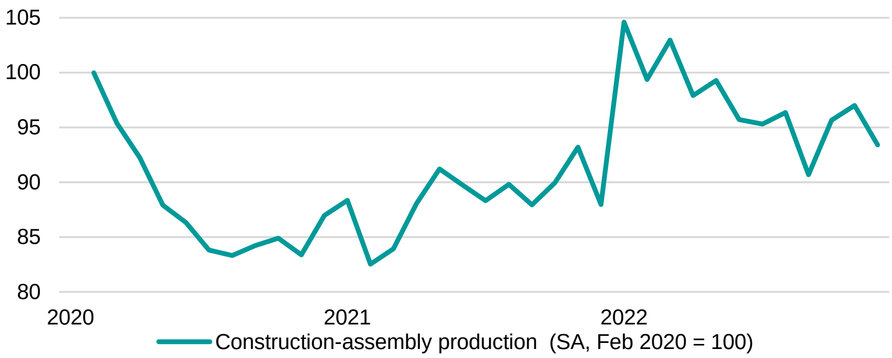
an upside risk to our forecast, in which annual economic growth in the US is to slow down to 0.4% in Q1 2023 vs. 2.9% in Q4 2022.

Monthly industrial production growth in Germany decelerated to -3.1% in December from 0.4% in November, running markedly below market expectations (-0.6%). The deceleration resulted from a slower production growth in all main segments: manufacturing, energy and construction. However, the automotive industry saw a further production growth. Given the last week's data on orders in the manufacturing sector (see MACROmap of 06/02/2023) and PMI indices published in January (see MACROmap of 30/01/2023), we expect to see a gradual upturn in the German industry in the months to come.



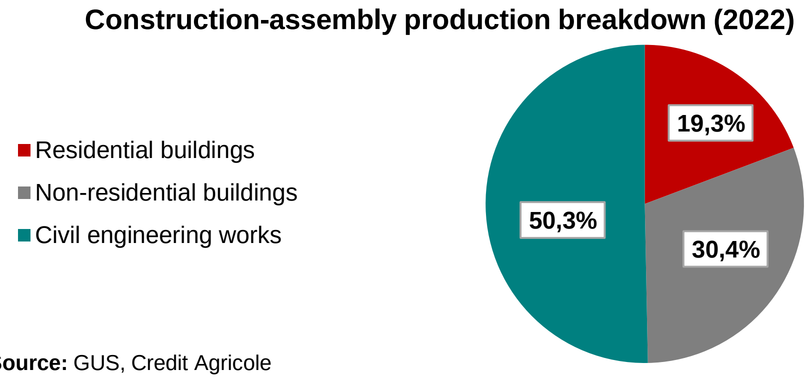
Source: Datastream, Credit Agricole

V-shaped recovery in construction



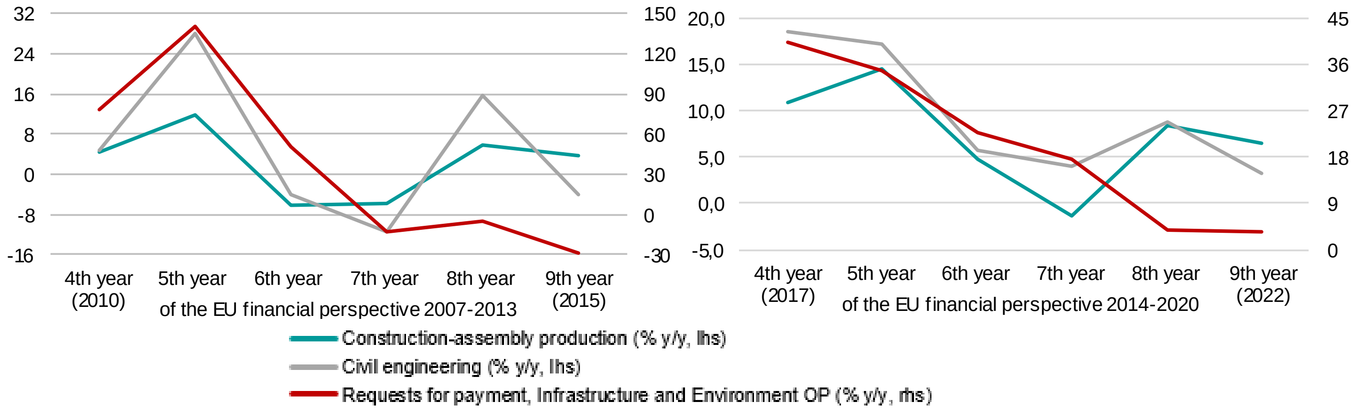
Source: Datastream, Credit Agricole

Seasonally adjusted level of construction and assembly production was on a downward trend in 2022. Between January and December 2022 it fell by 10.7%. As a result, in December last year it was still 6.6% lower compared to the level from before the outbreak of the COVID-19 pandemic (i.e. February 2020). Below, we analyse the outlook for construction and assembly production in a longer time horizon.



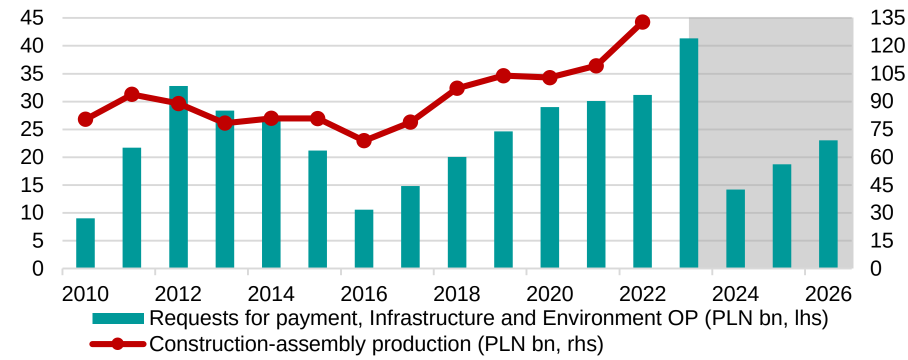
Source: GUS, Credit Agricole

The activity within the "civil engineering works" category is key from the perspective of the medium-term outlook for construction. This is because it accounts for approximately half of construction and assembly production (see chart). One of the main determinants of the growth of construction and assembly production, in particular that in the civil engineering works segment, is the rate of EU funds absorption. This is because these funds constitute a large part of the financing of infrastructure investments. Of the individual operational programmes, the largest share of funds for construction projects is allocated under the Infrastructure and Environment programme. During the implementation of the EU's 2007-2013 financial perspective, in 2010-2015, the growth rate of the value of requests for payment under this operational programme showed a high correlation with the growth rate of construction and assembly production (49%) and production in the civil engineering segment (67%). A similar situation can be also observed during the 2014-2020 financial perspective. In 2017-2022, the above correlations amounted to 45% and 80% respectively (see charts below).



Source: Portal Funduszy Europejskich, GUS, Credit Agricole

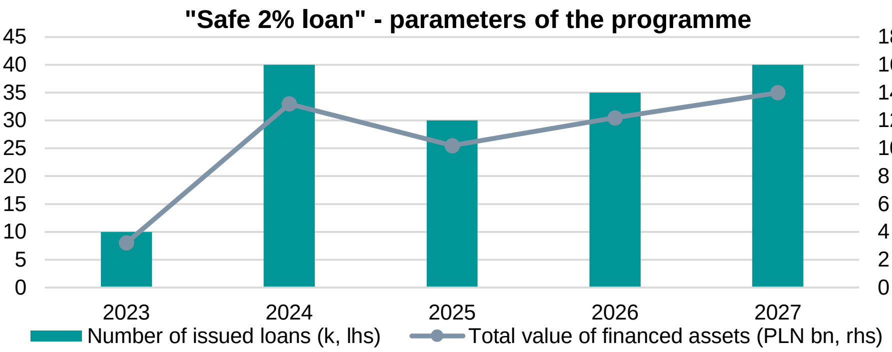
It can be noted that the profile of the use of EU funds (the rate of requests for payment) under the Infrastructure and Environment Operational Programme was similar for both EU budgets. EU funds boosted construction and assembly production to the greatest extent in the fourth-fifth year of the perspective. Due to preparations for EURO 2012, the profile of the use of funds under the 2007-2013 perspective was steeper (considerably higher growth in the fourth-fifth year of the perspective, YoY decline in the seventh-eighth year) than during the 2014-2020 perspective.



Source: Portal Funduszy Europejskich, GUS, Credit Agricole

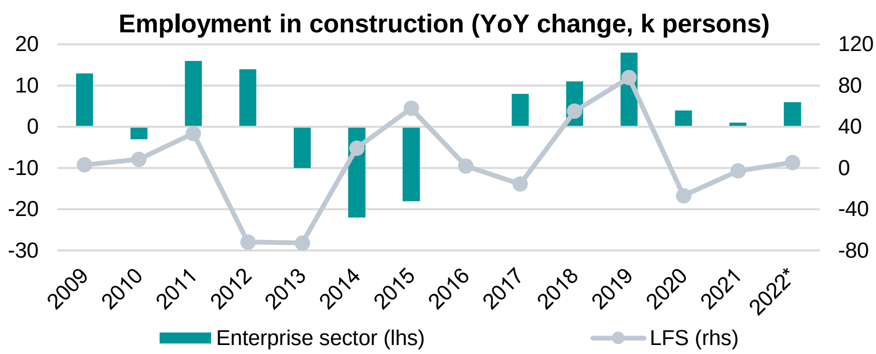
Based on the experience related to absorbing funds under both financial perspectives, we have estimated the expected use of EU funds in the coming years. We analyse only the use of funds under the European Funds for Infrastructure, Climate, Environment Programme (a continuation of the Infrastructure and Environment Programmes in previous perspectives), i.e. only a part of the total EU budget, as this programme is of key importance for the construction industry. We are of the opinion that the absorption of funds under the European Funds for Infrastructure, Climate, Environment Programme during the 2021-2027 financial perspective will follow a similar course to that of the 2014-2020 perspective. It is noteworthy that in 2016 we experienced a downturn in the absorption of EU funds, which contributed to a considerable decline in construction and assembly production (see chart). Funding from the 2007-2013 perspective could be used up to and including 2015, while the implementation of projects from the 2014-2020 perspective was still very limited in 2016. In our view, we will face a similar situation (a significant reduction in the absorption of EU funds and a slowdown in the growth of construction and assembly production) in 2024. This is because the possibility of clearing funds under the current perspective ends in 2023, and the absorption of funds under the 2021-2027 perspective will still be limited. Moreover, projects implemented by local government units before the local elections scheduled for the following year will be a factor driving up investment activity in 2023. Thus, we expect 2024 to be a year of slowdown in construction activity. The slowdown in 2024 will be partly mitigated by the execution of public road investments. According to the National Roads Construction Programme, the peak of the pace of investment execution in this area will fall in 2024. However, it should be remembered that the aforementioned EU funds are an important source of funding for road investments.

Taking into account the profile of the use of EU funds outlined above, we are of the opinion that their absorption will mostly boost the construction and assembly production in 2023 and 2025. In 2023, there will be an overlap of funding streams from the two EU perspectives (2014-2020 and 2021-2027), while production growth in 2025 will be supported by the effects of the low base of 2024. In 2025, additional support for construction and assembly production will be provided by the implementation of projects under the National Reconstruction Plan (KPO), which is a separate source of funding in relation to the seven-year EU perspective. It is difficult to clearly predict the time profile of the expenditure of these funds under the KPO, which will be used mainly for construction projects. Nevertheless, projects financed under the KPO must, in accordance with the regulations in force, be completed by August 2026. In our view, delays in the launch of the KPO will result in the cumulative implementation of investment projects towards the end of the plan, i.e. in 2025 and 2026.



Source: Ministry of Economic Development and Technology, Credit Agricole

Residential construction will be a factor that will limit the decline in construction production in 2024 due to reduced activity within the "civil engineering" category. The government is currently working on a project to subsidise mortgage loans for the first home (the so-called "Safe 2% loan"). In a nutshell, the borrower will repay a fixed-rate mortgage loan of approximately 2% and the state will cover the rest of the interest payment. According to the assumptions set out in the impact assessments for this project, the programme will deliver 40k applications in 2024, which will serve financing property purchases in the amount of PLN 13.2bn. For comparison, this corresponds to approximately 15% of the value of mortgage loans granted in 2021. It is worth noting that subsidised loans can also be used to refinance existing commitments, and thus the values mentioned above do not fully represent the increased demand for housing. Nevertheless, the impact of the programme on residential construction activity in 2024 and beyond will be material.

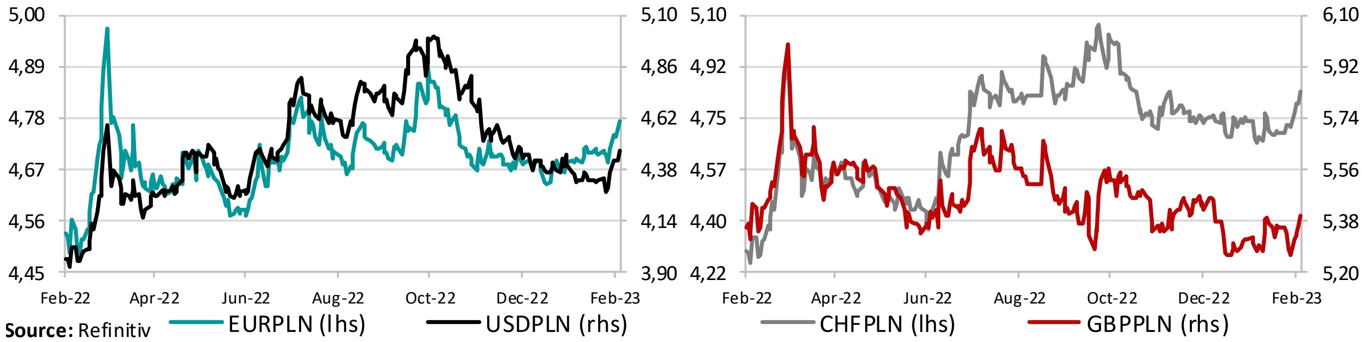


Source: GUS, Eurostat, Credit Agricole *Q3 for LFS

Activity in the construction industry is important from the perspective of the development of employment in that industry. According to the GUS data, employment in construction increased by 6k people in 2022 in the business sector and by 5.4k (Q3 2022 vs. Q3 2021) according to the BAEL. The trends outlined above regarding the expected development of construction activity (strong growth in 2023, a slowdown in 2024 and a recovery in 2025) provide a good rationale for no job cuts in the construction industry despite a significant decline in construction and assembly production in 2022. This is because they favour so-called "employment hoarding", i.e. a low readiness for employers to cut jobs, given the costs associated with having to hire new staff during a future economic recovery. Our expected increase in construction activity provides support for our “soft landing” scenario. Under this scenario, Polish GDP growth will decline significantly in 2023, but will remain positive (1.2% YoY vs. 4.9% in 2022).

Inflation data in Poland may strengthen the PLN

FX rates

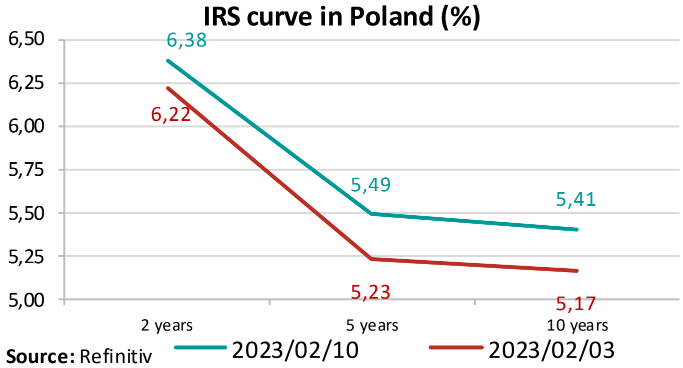


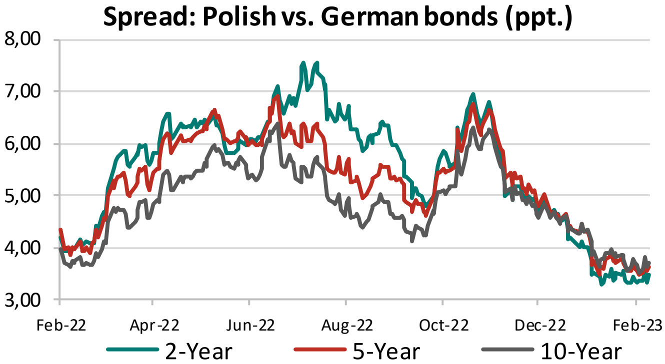
Source: Refinitiv

Last week, the EURPLN exchange rate rose to 4.7720 (weakening the PLN by 1.2%). The EURPLN exchange rate followed an upward trend last week. A similar trend was observed for the EURHUF exchange rate. In our view, the source of the weakening of the Polish currency was the outflow of capital from emerging markets associated with growing investor expectations for interest rate increases in the US, intensified by good data from the American economy and hawkish statements by Fed representatives. This assessment is supported by the further fall in the EURUSD exchange rate recorded last week. In our view, the weakening of the PLN against the euro was also influenced by an increase in risk aversion in the region related to the continuing Russian military offensive in eastern Ukraine.

This week, the publication of inflation data in Poland scheduled for Wednesday will be key for the PLN. In the case of the materialisation of our forecast, which is higher than market expectations, it may be conducive to the appreciation of the PLN. Friday's update of the Polish rating by S&P will be announced after the close of European markets, hence its possible impact on the PLN exchange rate will not materialise until next week. We are of the opinion that the remaining publications from the Polish and global economies scheduled for this week will not have a significant impact on the exchange rate of the Polish currency. Information on the course of hostilities in Ukraine will remain an important determinant of the PLN exchange rate.

Domestic inflation data in the spotlight





Source: Refinitiv

Last week, 2-year IRS rates increased to 6.38 (up by 16bp), 5-year IRS rates increased to 5.49 (up by 26bp) and 10-year IRS rates increased to 5.41 (up by 24bp). Last week saw an increase in IRS rates following the core markets. The rise in yields in the core markets was supported by growing investor expectations of interest rate hikes in the US supported by good data incoming from the US economy and hawkish statements from Fed representatives.

This week, the focus will be on the publication of domestic inflation data scheduled for Wednesday, which may contribute to an increase in IRS rates. Other data from the Polish and global economies scheduled for this week will not, in our view, have a significant impact on the yield curve. Friday's update of the Polish rating by S&P will be announced after European markets close, hence its possible impact on IRS rates will not materialise until next week. Information on the course of hostilities in Ukraine will remain an important factor influencing the yield curve.

Forecasts of the monthly macroeconomic indicators

Main monthly macroeconomic indicators in Poland

Indicator	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23
NBP reference rate (%)	2,25	2,75	3,50	4,50	5,25	6,00	6,50	6,50	6,75	6,75	6,75	6,75	6,75	6,75
EURPLN*	4,58	4,69	4,64	4,67	4,58	4,70	4,73	4,72	4,85	4,71	4,67	4,69	4,71	**4,71**
USDPLN*	4,08	4,18	4,19	4,43	4,27	4,48	4,63	4,70	4,95	4,77	4,48	4,38	4,33	**4,41**
CHFPLN*	4,40	4,56	4,54	4,55	4,45	4,69	4,86	4,80	5,01	4,76	4,74	4,72	4,70	**4,76**
CPI inflation (% YoY)	9,4	8,5	11,0	12,4	13,9	15,5	15,6	16,1	17,2	17,9	17,5	16,6	**17,8**	
Core inflation (% YoY)	6,1	6,7	6,9	7,7	8,5	9,1	9,3	9,9	10,7	11,0	11,4	11,5	**11,4**	
Industrial production (% YoY)	18,0	17,3	15,4	12,3	14,9	10,4	7,1	10,9	9,8	6,6	4,4	1,0	**5,5**	
PPI inflation (% YoY)	16,1	16,1	21,9	24,1	24,7	25,6	25,5	25,5	24,6	23,1	21,1	20,4	**18,8**	
Retail sales (% YoY)	20,0	16,5	22,0	33,4	23,6	19,9	18,4	21,5	21,9	18,3	18,4	15,5	**16,2**	
Corporate sector wages (% YoY)	9,5	11,7	12,4	14,1	13,5	13,0	15,8	12,7	14,5	13,0	13,9	10,3	**12,5**	
Employment (% YoY)	2,3	2,2	2,4	2,8	2,4	2,2	2,3	2,4	2,3	2,4	2,3	2,2	**1,8**	
Unemployment rate* (%)	5,9	5,9	5,8	5,6	5,4	5,2	5,2	5,2	5,1	5,1	5,1	5,2	**5,4**	
Current account (M EUR)	-1091	-2032	-4206	-2834	-1078	-499	-1206	-2743	-1839	-597	-422	**-1799**		
Exports (% YoY EUR)	27,4	20,3	11,9	17,6	26,8	21,5	20,3	27,6	26,5	24,4	20,3	**13,5**		
Imports (% YoY EUR)	38,7	29,7	31,4	36,0	32,7	27,1	21,8	29,4	30,1	25,3	17,7	**13,0**		

*end of period

Forecasts of the quarterly macroeconomic indicators

Main macroeconomic indicators in Poland

Indicator		2022				2023				2022	2023	2024
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Gross Domestic Product (% YoY)		8,6	5,8	3,6	2,4	-0,8	0,2	2,4	2,9	4,9	1,2	3,1
Private consumption (% YoY)		6,7	6,4	0,9	-1,5	-2,0	-1,0	0,5	2,0	3,0	-0,2	3,0
Gross fixed capital formation (% YoY)		4,7	6,6	2,0	5,1	-0,5	0,2	1,4	2,6	4,6	1,2	4,0
Export - constant prices (% YoY)		4,2	5,2	6,9	4,0	3,5	2,0	3,5	4,8	5,1	3,4	3,8
Import - constant prices (% YoY)		9,4	6,9	6,0	2,6	2,0	0,0	2,5	4,0	6,0	2,1	4,3
GDP growth contributions	Private consumption (pp)	4,0	3,6	0,5	-0,8	-1,2	-0,6	0,3	1,0	1,7	-0,1	1,7
	Investments (pp)	0,6	1,0	0,3	1,1	-0,1	0,0	0,2	0,6	0,8	0,2	0,7
	Net exports (pp)	-2,7	-0,7	0,6	0,8	0,9	1,3	0,6	0,5	-0,4	0,8	-0,2
Current account (% of GDP)***		-2,7	-3,5	-3,5	-4,0	-3,9	-3,8	-3,7	-3,6	-4,0	-3,6	-3,0
Unemployment rate (%)**		5,8	5,2	5,1	5,2	5,6	5,4	5,3	5,5	5,2	5,5	5,4
Non-agricultural employment (% YoY)		2,3	0,6	-0,9	-0,5	-0,5	-0,5	-0,5	-0,5	0,4	-0,5	0,1
Wages in national economy (% YoY)		9,7	11,8	14,6	12,3	14,0	12,8	11,4	9,9	12,1	12,0	7,5
CPI Inflation (% YoY)*		9,6	13,9	16,3	17,3	17,3	13,0	10,6	7,3	14,3	12,1	4,8
Wibor 3M (%)**		4,77	7,05	7,21	7,02	6,88	6,88	6,88	6,88	7,02	6,88	5,76
NBP reference rate (%)**		3,50	6,00	6,75	6,75	6,75	6,75	6,75	6,75	6,75	6,75	5,75
EURPLN**		4,64	4,70	4,85	4,69	4,78	4,73	4,70	4,65	4,69	4,65	4,50
USDPLN**		4,19	4,48	4,95	4,38	4,55	4,42	4,31	4,23	4,38	4,23	4,29

* quarterly average

** end of period

***cumulative for the last 4 quarters

Calendar

TIME	COUNTRY	INDICATOR	PERIOD	PREV. VALUE	FORECAST*	
					CA	CONSENSUS**
		Monday 02/13/2023				
14:00	**Poland**	**Current account (M EUR)**	**Dec**	**-549**	**-1799**	**-1541**
		Tuesday 02/14/2023				
10:00	**Poland**	**Flash GDP (% YoY)**	**Q4**	**3,6**	**2,4**	**2,2**
11:00	Eurozone	GDP flash estimate (% YoY)	Q4	1,9		1,9
11:00	Eurozone	Preliminary GDP (% QoQ)	Q4	0,1		0,1
14:30	USA	CPI (% MoM)	Jan	-0,1	0,5	0,4
14:30	USA	Core CPI (% MoM)	Jan	0,3	0,4	0,4
		Wednesday 02/15/2023				
10:00	**Poland**	**CPI (% YoY)**	**Jan**	**16,6**	**17,8**	**17,6**
11:00	Eurozone	Industrial production (% MoM)	Dec	1,0		-0,8
14:30	USA	NY Fed Manufacturing Index (pts)	Feb	-32,9		-20,0
14:30	USA	Retail sales (% MoM)	Jan	-1,1	1,8	1,5
15:15	USA	Capacity utilization (%)	Jan	78,8		79,1
15:15	USA	Industrial production (% MoM)	Jan	-0,7	0,5	0,5
16:00	USA	Business inventories (% MoM)	Dec	0,4		0,3
		Thursday 02/16/2023				
14:30	USA	Philadelphia Fed Index (pts)	Feb	-8,9		-6,7
14:30	USA	Building permits (k)	Jan	1337	1355	1350
14:30	USA	Housing starts (k MoM)	Jan	1382	1349	1361
14:30	USA	Initial jobless claims (k)	w/e	269		
		Friday 02/17/2023				
10:00	Eurozone	Current account (bn EUR)	Dec	13,6		

*The forecasts of macroeconomic indicators for Poland were prepared by Credit Agricole Bank Polska S.A. The forecasts of foreign indicators were prepared by Crédit Agricole Corporate and Investment Bank
** Refinitiv

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