Opinion of the Chief Economist of ZPP - summary of 2022 and prospects for 2023

The year 2022 could be called interesting, in the sense in which the Chinese use the curse "may you live in interesting times". The beginning of the year brought concerns about inflation (although even pessimists predicted a peak in consumer inflation of approximately 10% year-on-year). It was supposed to be influenced by the rising prices of energy raw materials and the rebound in the Polish and global economies after the pandemic. This rebound started in 2021, but many forecasts, especially those from 2021, indicated its continuation in the following months. This, in turn, was expected to affect prices.

Even before the aggression against Ukraine, Russia began to apply a policy of a limited supply of energy resources to Europe. This was possible due to the dependence of European countries on Russian gas (supplied via pipelines, which meant that there were not many stimuli to change the supplier; in fact, Europe's dependence on Russian gas has been deepening, not weakening, as a result of German policy in recent decades), oil (flowing through the Przyjaźń oil pipeline - again, there is no cheaper and easier form of import, hence Central European countries, in particular, were dependent on Russian supplies) and its distillates (especially diesel oil was imported to Europe in significant quantities). The beginning of the year also brought the last significant wave of COVID, during which the government still tried to apply restrictions limiting mobility.

At the same time, hopes for the sustainability of a post-COVID economic rebound in the conditions of logistical issues (due to COVID, or rather anti-COVID policies) made us think with concern about the length of the aforementioned inflation impulse. It was supposed to be caused primarily by excessive demand in relation to the production capacity of companies struggling with rising costs and supply disruptions. Optimists; however, expected another year of stable economic growth and a slowdown in inflation after the expiry of the pandemic state aid.

The Winter Olympics in Beijing, which took place in February, were supposed to be a symbol of the success of China's "zero COVID" policy and the effectiveness and agility of Chinese foreign policy. The Olympics venues were often closed to spectators, who were few in number anyway - foreigners had virtually no chance to enter China for health and hygiene reasons. Despite this, the following months showed that the Chinese pandemic was an even greater failure than the European one. Subsequent lockdowns slowed down the recovery of the economy, and the end of the year brought a relaxation of that policy (probably due to the economic situation and growing internal unrest) and a rapidly growing wave of the pandemic. Its scale is difficult to assess due to the censorship of information by the Chinese authorities. China's efforts to organise the Olympics in times of peace were only partially successful - it may have postponed the date of Russia's invasion of Ukraine - but only by 2 or 3 weeks ... The year of the Chinese Olympics will not be remembered as a year of peace, at least in the West. However, China and its policy must be remembered because, as it turned out at the end of the year, the Chinese accidentally threw a life belt to Europe in the middle of an energy crisis.

And this crisis began at the turn of February and March, when, as a result of Russia's invasion on Ukraine, the EU launched a policy of sanctions limiting imports of energy resources. A similar policy of limiting exports by Russia became an offset to the above. Later on, the size of future supplies was affected by the explosion of the Nord Stream gas pipeline: since it was temporarily closed anyway, its impact was negligible; however, it called into question the possibility of a rapid return to a business-as-usual policy with Russia. The concerns about supplying Europe with energy resources, which are crucial especially in winter (when RES efficiency is often negligible), led to an increase in the prices of natural gas and oil on regional and global markets. This, in turn, translated into an increase in the prices of fuel and energy - one of the two drivers of inflation, which turned out to be much higher than anyone had expected, not only in Poland but almost everywhere in Europe and, more broadly, in the world. Europe's energy problems; however, were largely resolved thanks to the supplies of liquefied natural gas. At the end of the year, it turned out that the increase in those supplies was made possible mainly by the collapse in demand in China. There were two reasons for that collapse - the aforementioned policy of shutting down the economy and, to some extent, the increase in supplies from Russia (which was trying to find buyers for its hydrocarbons). In 2022, the driver of inflation was also the fiscal policy of the previous years. Thee successive measures to support citizens and businesses resulted in an increase in debt in European countries and also in excessive money issuance.

The increase in energy prices in Europe affected the condition of some manufacturing industries, especially energy-intensive ones, e.g., BASF moved most of its chemical production from Europe to the USA. It also affected the situation of households, which had to and still have to face a sharp increase in energy and fuel prices. On top of that, rising prices fueled inflation and, consequently, consumer prices in Europe are 15-25% higher than two years ago.

The following months brought an increase in tension in Ukraine: the Russian offensive, which collapsed, Ukraine's counter-offensive in the autumn, and finally, the new tactics of Russian attacks on civilian critical infrastructure facilities. It was not until late autumn that the situation stabilised. It is worth mentioning that the assistance of NATO countries played a key role in terms of Ukraine's combat capability and ability to wage the war against Russia. Poland remained one of the leaders of that assistance throughout the year.

The war also triggered a massive wave of emigration from Ukraine, which I have already written about. Approximately 1.5 million new emigrants from Ukraine stayed in Poland, either for a shorter or longer period of time. Some of them decided to bind their fate to the Republic for a while, taking up work here, setting up businesses and sending their children to school. This is almost 1 million people who still remain in Poland, have valid PESELs, and will potentially rejuvenate the population and replenish the labour force.

At the same time, after the summer price rallies, fuel and energy prices stabilised. With storage facilities full and supplies secured, prices began to fall back to the pre-war levels towards the end of the year. The falling prices further fueled growing fears of a recession, possibly global in scope. Especially since strained supply chains, risks related to the uncertainty associated with the course of the conflict and the carelessness of economic policies during the COVID period are also conducive to that.

Inflation triggered a response from other central banks; therefore, a cycle of solid increases in interest rates, not seen for a long time, was noticeable both globally and in Poland this year - the time of zero cost of capital is over, at least for now. This, in turn, began to translate into the cost of servicing debts, private ones - such as housing loans in Poland - and public ones. In the autumn, the increase in UK bond yields (meaning a drop in market valuation) threatened the stability of the market and the UK pension system so much that it prompted a multi-billion dollar liquidity intervention by the Bank of England. During the same period, the Polish government refrained from issuing PLN bonds due to the compensation expected by the market for borrowing capital. It was replaced by issuing dollar-denominated debt - much cheaper but exposed to currency market turbulence.

And those turbulences were serious. On the main EUR-USD currency pair, annual volatility reached several dozen per cent. EUR fell 20% against USD in the period from January to September, and then strengthened by 10%. The volatility of peripheral currencies, such as PLN, was even greater. This volatility, as many times before, protected Polish exporters but, at the same time, had a negative impact on energy prices and the situation of not only importers but also foreign currency borrowers.

At the end of the year, the situation in the world and in Poland became stable. However, the last 12 months led to a deterioration of the situation of Polish entrepreneurs (inflation, the wage-price spiral and especially rising energy prices played a key role here) and even more serious problems for consumers. For the first time in a very long time, real wages fell due to inflation, while the cost of living skyrocketed. The reduction in consumption (also evident through the fall in lending) is more and more painfully felt by entrepreneurs. One can only hope that the worst is over, although this is not certain.

With regard to Polish politics, which is worth mentioning at the end, the most important issue in the field of economy, apart from disputes over inflation and interest rates, was the matter of the National Recovery Plan - the EU funds allocated for the post-COVID recovery of the economy, the transfer of which the European Commission made conditional on the Polish government achieving a number of milestones.

The year 2022 was so interesting that it remains only to wish that the upcoming 11 months of 2023 will be at least as peaceful as January.

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