Poland Macro Weekly

Macro Research

8 September 2023

Bank Polski | Centrum Analiz

Let the cycle begin!

TOP MACRO THEME(S):

- **Let the cycle begin! (p.2)** – The Polish MPC surprised with a large 75bps interest rate cut. In our view NBP rate cuts will be continued, but the overall size of rates reduction will be smaller than the market currently prices in.

WHAT ELSE CAUGHT OUR EYE:

- **According to the Polish Bureau of Credit Information (BIK), the demand for mortgage loans in August increased by almost 300% y/y.** The surge is mainly driven by the subsidized lending program which started in July. The sharp cut of the NBP rates will now likely boost the demand outside the subsidized lending program as well.
- **Acc. to the MinLab estimate the registered unemployment rate in August remained at the historical low of 5.0%,** as in June and July, in line with our and consensus view.
- Commenting on the budget draft for 2024 (see PMW from Aug.25th) Moody's stated, that the expected rise of public debt to 54% of GDP is credit negative. The agency expects that fiscal deficit will start to decline in 2025. It also stresses the traditionally conservative fiscal policy approach in Poland and the government's awareness to keep spending under control.
- The share of FX-denominated public debt (22% compared to the target set as below 25%) supports **the flexibility in financing the borrowing needs** – said M.Rzeczkowska, the Min. of Finance.

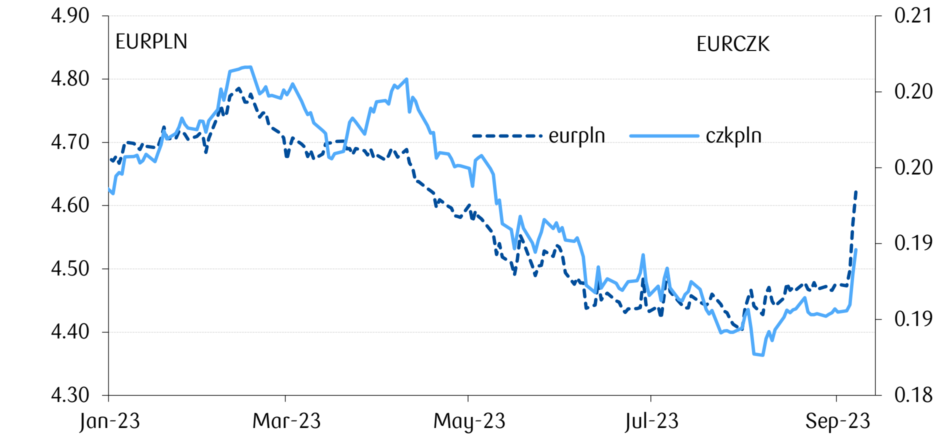
THE WEEK AHEAD:

- **The detailed data on CPI inflation for August will likely confirm the flash reading at 10.1% y/y.** The focus of attention will be core inflation, which may have fallen to below 10% y/y on tentative estimates.
- **There should be nothing new in the CAB data for July** – Poland's external balance looks impressive, with a monthly CAB surplus above EUR 1bn and approaching +1% of GDP (on 12-month rolling basis) at the end of 2023.

NUMBER OF THE WEEK:

- **1.6%** – the daily change of EURPLN in the reaction to the NBP interest rates cut, the strongest move since the Russian aggression on Ukraine.

CHART OF THE WEEK: PLN under pressure after MPC decision



Source: NBP, PKO Bank Polski

Chief Economist

Piotr Bujak
piotr.bujak@pkobp.pl
+48 693 333 127

Macro Research Team

@PKO_Research

Marta Petka-Zagajewska
Senior Economist
marta.petka-zagajewska@pkobp.pl
tel. +48 691 335 426

Urszula Krynska
Economist
urszula.krynska@pkobp.pl

Kamil Pastor
Economist
kamil.pastor@pkobp.pl

Agnieszka Pierzak
Economist
agnieszka.pierzak@pkobp.pl

Anna Wojtyniak
Economist
anna.wojtyniak@pkobp.pl

	2022	2023
Real GDP (%)	5.1	0.7
Industrial output (%)	10.5	-0.9
Unemployment rate# (%)	5.2	5.2
CPI inflation** (%)	14.4	11.9
Core inflation** (%)	9.1	10.5
Money supply M3 (%)	5.6	7.2
C/A balance (% GDP)	-3.0	1.0
Fiscal balance (% GDP)*	-3.7	-4.8
Public debt (% GDP)*	49.1	49.2
NBP reference rate## (%)	6.75	5.50
EURPLN‡##	4.69	4.46^

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

Let the cycle begin!

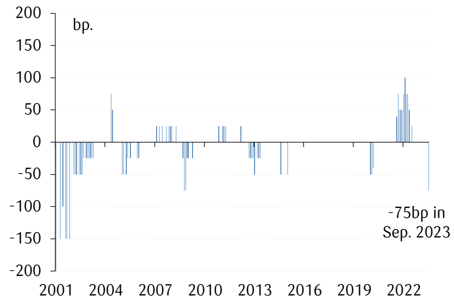
- **The NBP surprised with a strong, 75bps interest rate cut exceeding market and consensus expectations of a 25bps move. A 75bps cut is not common – the last time it happened was during the GFC.**
- **According to the after-meeting statement the move, defined as an "adjustment", was triggered by weaker-than-expected demand pressure and declining inflation expectations, in the context of time lags in the monetary policy transmission.**
- **The after-meeting statement of the Governor clarifies that the non-standard 75bps cut implements "overdue" actions and constitutes a response to increasing risks to GDP growth and a more favourable CPI outlook.**
- **In our view MPC will continue with interest rate cuts, but the cycle will be smaller than the market currently assumes. We expect two 25bps cuts this year, and additional cuts totaling 100bps in 2024.**

The MPC cut NBP rates by 75 bps, including the reference rate to 6.00%. The scale of the cut exceeded the boldest forecasts (the consensus, like us, assumed a move by 25bps). The cut was made 12 months after the final hike in the strongest monetary policy tightening cycle in history. The MPC's move is a big surprise both in the context of historical monetary policy cycles, and in the context of recent MPC representatives' comments. A 75bps cut is not common - the last time it happened was during the GFC, in Dec. 2008 and Jan. 2009. The MPC members' comments have revealed some uncertainty as to whether the easing cycle would start already in September, while the MPC Governor A.Glapinski announced in July that the interest rate cuts cycle would be slow and cautious.

The after-meeting statement indicates that the cut was triggered by weaker-than-expected demand pressure, which, according to the MPC, will contribute to a faster return of inflation to the NBP target. Additionally, in the statement, the MPC underlined that inflation expectations have decreased significantly, which contributes to an increase in the restrictiveness of monetary policy. The MPC has also pointed to time lags in the monetary policy transmission to the economy and **defined its move as an "adjustment" to the interest rates level**, which initially (and wrongly) suggested that the 75bps cut might be a frontloading (and will be followed by at least a few wait-and-see meetings) and not a start of a rapid loosening cycle. Compared to the pre-meeting market expectations the move has consumed all cuts priced-in by the FRA market up to the end of 2023.

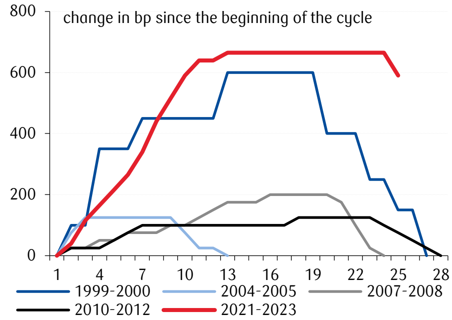
During the presser, NBP Governor explained that the 75bps cut was a reaction to faster-than-expected decline in inflation combined with a stronger-than-expected deterioration of the economic situation, both locally and abroad. **The non-standard size of the cut implements "overdue" actions** from the previous 3 months, which the MPC did not take due to its conservative approach and the desire to get 100% certainty that CPI inflation declines below 10% y/y. A.Glapinski emphasized that prices have not been rising for the last 5 months and that in an elevated inflation environment current price changes hold greater significance than y/y moves. According to the Governor, CPI inflation should slow down in September to app. 8.5% y/y (from 10.1% in

NBP rate changes



Source: NBP, PKO Bank Polski

Monetary policy cycles



Source: NBP, PKO Bank Polski

August on flash estimate), then in October to app. 7.4% y/y and finally it should reach 6-7% y/y at the end of 2023. These predictions rank 0.5-1pp below our current forecast.

The head of NBP emphasized the sharp decline in CPI inflation that had occurred since February (it has decreased by almost half, from 18.4%) in the environment of stable nominal interest rates. As a result, **real interest rates rose sharply and monetary policy tightened.** The 75bp cut is aimed at stopping this process.

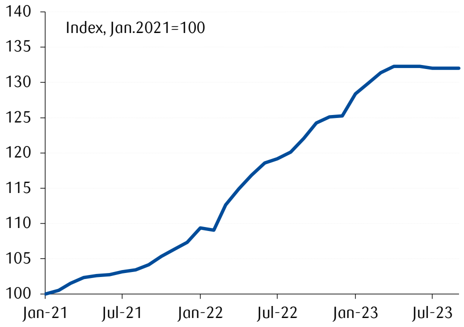
An important place in A.Glapinski's speech was taken by the situation in the global and domestic real economy, including a deeper than anticipated slowdown in China and a recessionary environment in Germany, which, in the Governor's opinion, has inhibited domestic exports –the key engine of GDP growth so far. A less favourable external environment worsens the prospects for the domestic economy, might push GDP growth below the currently expected level of 0.6% in 2023 and acts disinflationary.

A.Glapinski declared that the MPC is currently adopting an approach consistent with the approach of the Fed and ECB – **the NBP will not predefine further movements, making them fully dependent on the incoming data.** However, he announced that a further decline in inflation towards 5% y/y (which in our view is a base case for the next 6 months) would result in additional interest rate cuts.

Poland has taken the lead as a pioneer in implementing interest rate cuts within the region. While in Hungary and in Czechia cuts in base rates seems very likely before the end of 2023, the scale of moves will likely be more "traditional". This put stress on the zloty, which weakened significantly after the MPC decision and after the presser, both against majors, as against HUF and CZK. In this context it is worth noting that the MPC still perceives PLN appreciation as supportive for a faster disinflation and declares that the NBP may use currency interventions. A.Glapinski said that it is obvious that interest rate cuts weaken the currency. This statement indicates that the NBP accepts (some) weakening of the zloty in response to the actions taken.

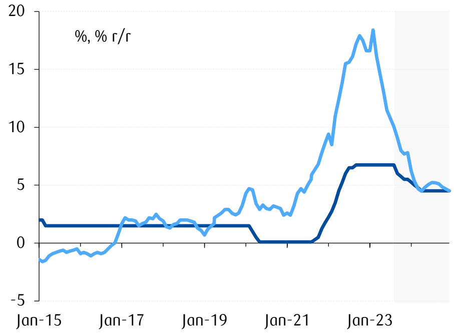
The MPC's decision and the Governor's comments show that the reaction function of the NBP has moved towards focusing on increased risks to economic growth even to larger extent than we have assumed, which forces us to revise our interest rates scenario. Given the expected continuation of the disinflationary trend we now think the MPC will continue cutting rates, although at a slower pace. **We expect 2 additional 25bp cuts this year, to 5,50%, in October (the last MPC meeting before elections) and November (meeting with a new inflation report, most likely extending the forecast range to 2026). We still forecast that this will be followed by successive 100bp cuts in 2025, to 4.50%.** This scenario will be supported by expected finalization of tightening cycles in the US and in the eurozone and by potential start of interest rate cuts in the region (Czechia, Hungary with the base rate). In our belief, a prolonged depreciation of the Polish zloty constitutes the key risk for the above-mentioned scenario (especially in the short-term). Our expectations are less aggressive than the current market estimates – the FRA market prices in around 100bp additional cuts this year an sees the NBP rate at around 4.00% at the end of 2024.

CPI inflation – stable prices for 5 months



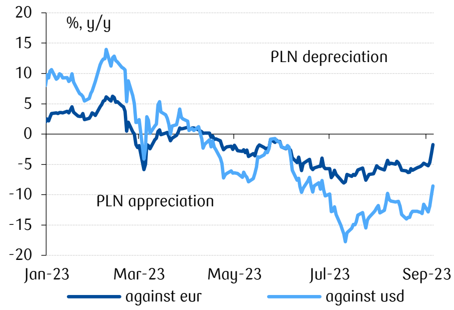
Source: Statistics Poland, PKO Bank Polski

CPI inflation and NBP key rate - forecast



Source: NBP, PKO Bank Polski

PLN appreciation / depreciation against EUR and USD



Source: Macrobond, PKO Bank Polski

Weekly economic calendar

Indicator	Time (UK)	Unit	Previous	Consensus*	PKO BP	Comment
Monday, 11 September						
CZ: CPI inflation (Aug)	8:00	% y/y	8.8	8.5	--	--
Tuesday, 12 September						
GER: ZEW Economic Sentiment (Sep)	10:00	pct.	-12.3	-15,1	--	--
Wednesday, 13 September						
EUR: Industrial production (Jul)	10:00	% y/y	-1.2	-0,7	--	--
POL: Current account balance (Jul)	**13:00**	**bln EUR**	**2.431**	**1.215**	**1.442**	**Poland's external balance is still improving. Declining imports (due to both lower prices and weaker internal demand) keep the trading balance in the surplus.**
POL: Exports (Jul)	**13:00**	% y/y	**1.7**	**1.3**	**1,7**	
POL: Imports (Jul)	**13:00**	% y/y	**-5.8**	**-6.7**	**-6,5**	
USA: CPI inflation (Aug)	13:30	% y/y	3.2	3.6	--	--
USA: Core inflation (Aug)	13:30	% y/y	4.7	4.3	--	--
Thursday, 14 September						
EUR: ECB Refinancing Rate (Sep)	13:15	%	4.25	4.25	4.25	--
EUR: EBC deposit rate (Sep)	13:15	%	3.75	3.75	3.75	--
USA: Initial Jobless Claims (Sep)	13:30	thous.	216	--	--	--
USA: Retail sales (Aug)	13:30	% m/m	0.7	0.1	--	--
USA: Retail sales excl. autos (Aug)	13:30	% m/m	1.0	0.4	--	--
USA: PPI inflation (Aug)	13:30	% y/y	0.8	1,5	--	--
Friday, 15 September						
POL: CPI inflation (Aug, final)	**9:00**	% y/y	**10.8**	**10.1**	**10.1**	**Acc. to the flash estimate the CPI decline was driven not only by cheaper food and energy, but also by weakening core inflation.**
EUR: Trade balance (Jul)	10:00	bln EUR	12.5	--	--	--
USA: Industrial production (Aug)	14:15	% m/m	1.0	0.1	--	--
USA: University of Michigan sentiment (Sep, flash)	15:00	pct.	69.5	69.8	--	--

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	**"We have no reasons to believe inflation in Poland is under control. What is more inflations does not seem to be under control even in countries with lower inflation, at the lower phase of economic cycle and with inflation expectation anchored to respective inflation targets." (8.09.2023, PAP)**
L. Kotecki	3.9	**"That decision may become a huge problem for the MPC and the credibility of monetary policy in the future. Regardless of the facts, a cut of 75 bps is unfortunately being interpreted as a part of election campaign. (...) The worst what could happen is for the society to come to the conclusion that NBP is pursuing different goals than price stability and the value of the zloty." (8.09.2023, PAP)**
P. Litwiniuk	3.5	"ECB and Fed rates are rising. The latest economic thought on combating inflation, in particular in the conditions of persistent core inflation, does not encourage to ease the parameters of monetary policy in the situation in which the Polish economy finds itself now. Especially as it is to some extent mitigated by the mechanisms of fiscal policy - I am talking about shields, credit holidays, legislation on, for example, cheap loans. (...) Today, the most cautious attitude is wait&see, i.e. to wait and see what September and October will bring." (8.08.2023, PAP).
H. Wnorowski	2.1	**"What we saw at the last MPC sitting reassured my belief that disinflation trend is a lasting occurrence and what is more its pace will accelerate in coming months. (...) In some time, we will return to disinflation of over 1 ppt ... or maybe even 2 pps." (8.09.2023, PAP)**
C. Kochalski	2.1	"In the light of the current data and information, a room for potential discussion of [rate] cuts may appear in some time, as we have already ended the hikes cycle. The very calendar indicates it could be after the summer vacation at the earliest. (...) We're still before a potential discussion on rate cuts, which sooner or later needs to happen." (13.07.2023, Interia.pl via Bloomberg).
I. Duda	2.0	"In my opinion, if the conditions are favourable, i.e. if we see a rapid drop in inflation, if it is a long-term downward trend, the MPC will have arguments to carefully discuss interest rate cuts, perhaps even after vacation. Of course, I must make a caveat here (...) everything depends on the incoming data and information" (17.07.2023, Business Insider, PAP, PKO transl.)
A. Glapinski	1.8	**"Inflation is likely to be slightly above 8.5% for September. (...) The conditions I spoke of have been met - single digit inflation and a projection that unambiguously states that inflation will decline in the next quarters. We have just left the territory of high inflation and entered the level of mild inflation below 10 percent and (hopefully) we will be heading towards the creeping inflation of 5 percent or less. A 75-bps cut is a deep adjustment, and further down the road we will be acting according to our assessment of the situation." (7.09.2023, NBPtv, Bloomberg, PAP)**
W. Janczyk	1.7	"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).
G. Maslowska	1.6	**"For us, the most important information will come from the NBP projection in November, although I do not rule out that even before projection ... there might be different moves concerning interest rates. (...) I cannot declare further interest rate cuts, but I obviously believe that those cannot be ruled out." (8.09.2023, PAP)**
I. Dabrowski	1.5	"(...) I think that there is a high probability that interest rates will remain at their current level until the end of September. (...) Although if we saw a rapid decline of the index by another 5p. in the summer months, and we would find ourselves at clearly single-digit inflation levels, I cannot rule out that this will happen in September." (26.06.2023, 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.

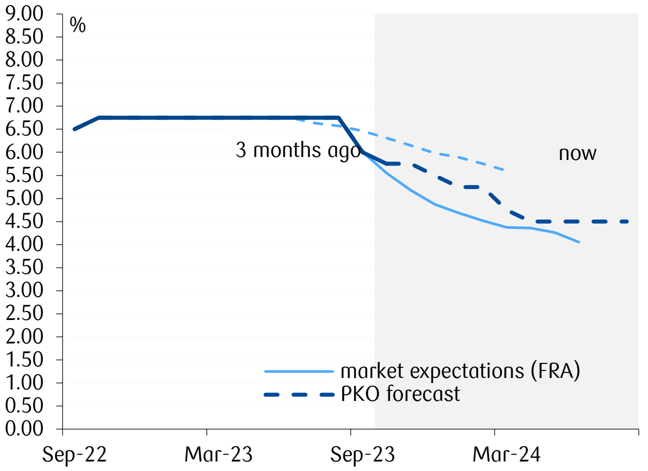
Interest rates – PKO BP forecasts vs. market expectations

		1M	2M	3M	4M	5M	6M	7M	8M	9M
Date	7-Sep	7-Oct	7-Nov	7-Dec	7-Jan	7-Feb	7-Mar	7-Apr	7-May	7-Jun
WIBOR 3M/FRA†	6.07	5.57	5.20	4.88	4.61	4.39	4.20	4.18	4.03	3.83
implied change (b. p.)		-0.51	-0.88	-1.20	-1.47	-1.69	-1.88	-1.89	-2.04	-2.25
MPC Meeting	-	6-Sep	4-Oct	8-Nov	6-Dec	-	-	-	-	-
PKO BP forecast*	6.00	5.75	5.75	5.50	5.25	5.25	4.75	4.50	4.50	4.50
market pricing^		5.50	5.13	4.81	4.64	4.47	4.33	4.31	4.16	3.96

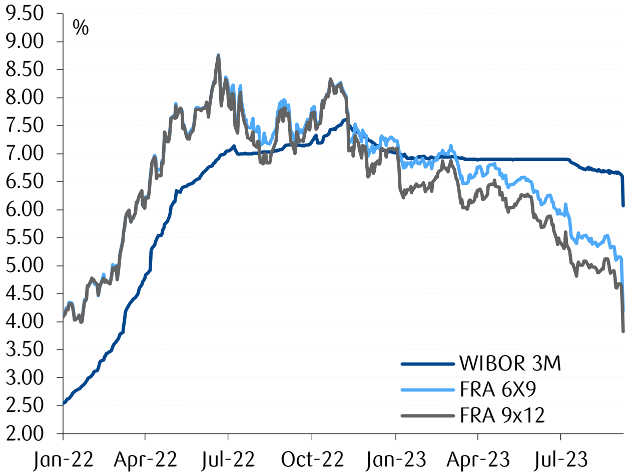
WIBOR 3M from the last fixing, FRA transactions based on WIBOR 3M for subsequent periods, ‡in basis points, *PKO BP forecast of the NBP reference rate.

Poland macro chartbook

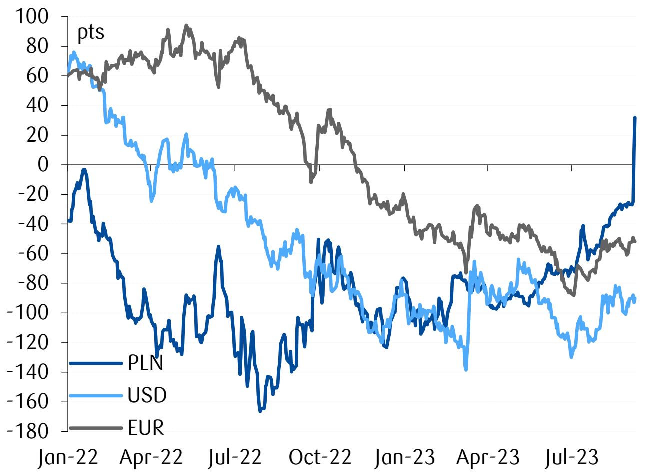
NBP policy rate: PKO BP forecast vs. market expectations



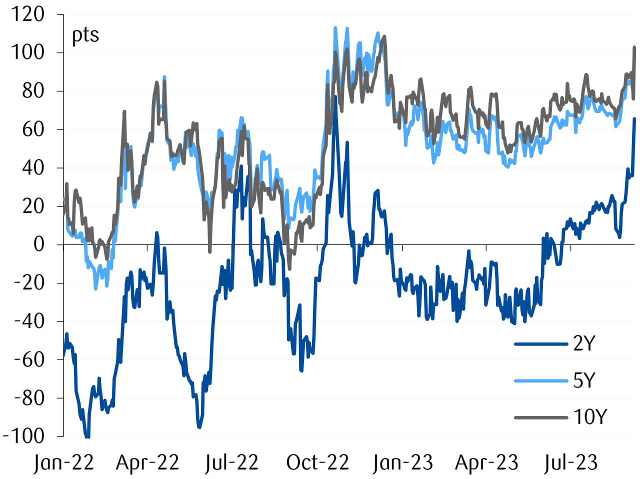
Short-term PLN interest rates



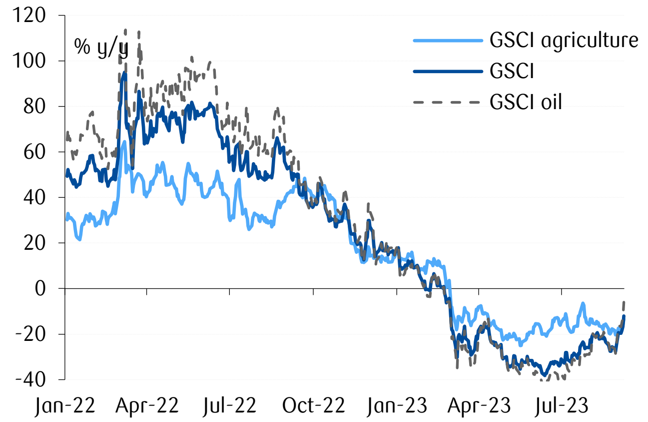
Slope of the swap curve (spread 10Y-2Y)*



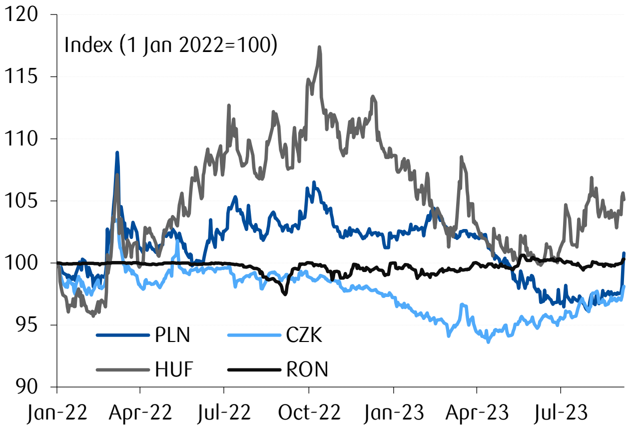
PLN asset swap spread



Global commodity prices (in PLN)

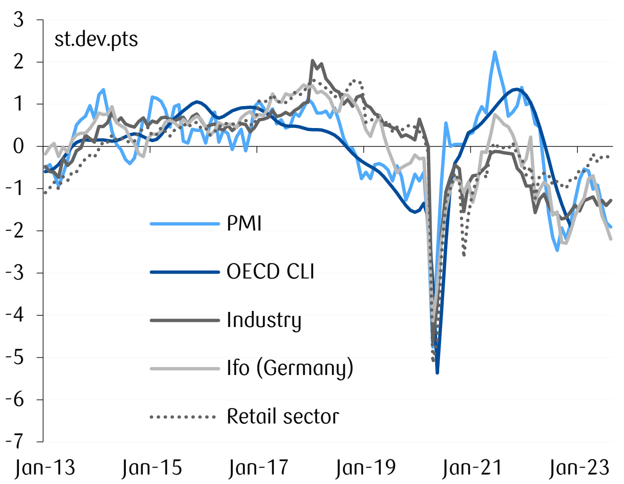


Selected CEE exchange rates against the EUR

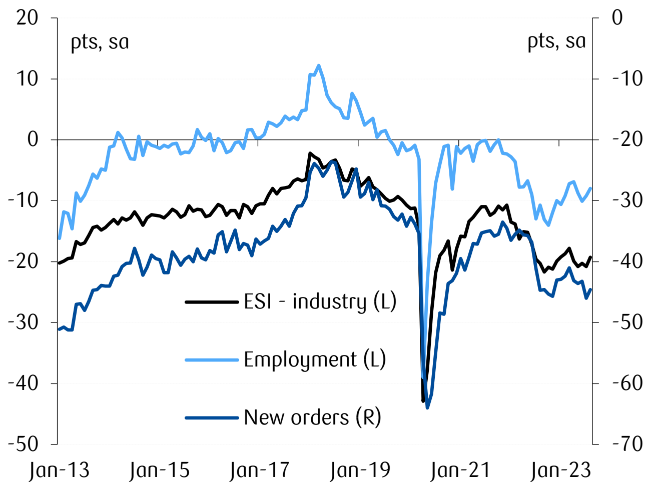


Source: Datastream, NBP, PKO Bank Polski. *for PLN, and EUR 6M, for USD 3M.

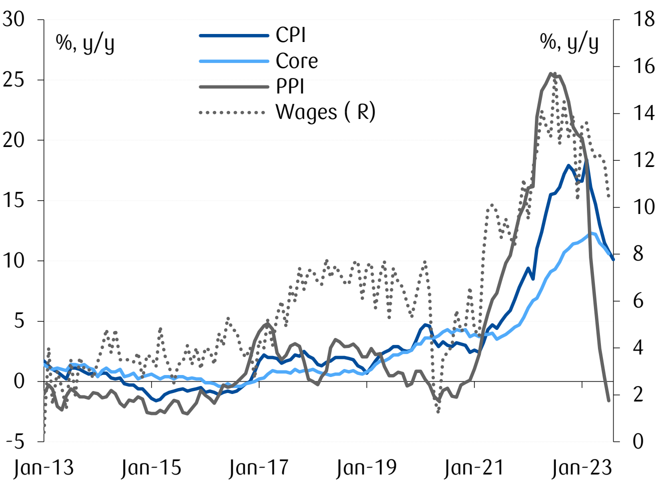
Economic sentiment indicators



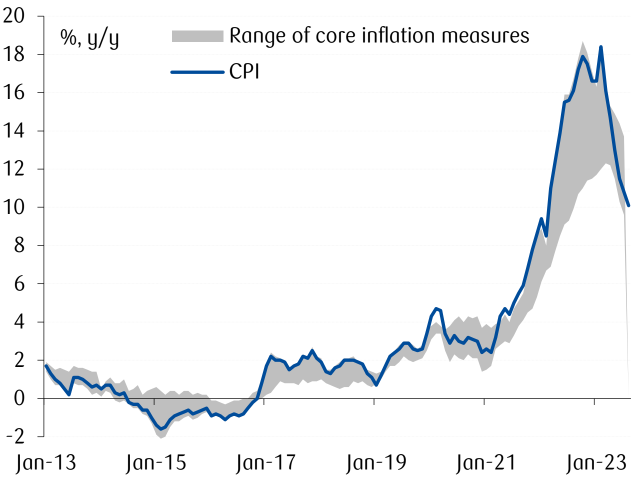
Poland ESI for industry and its components



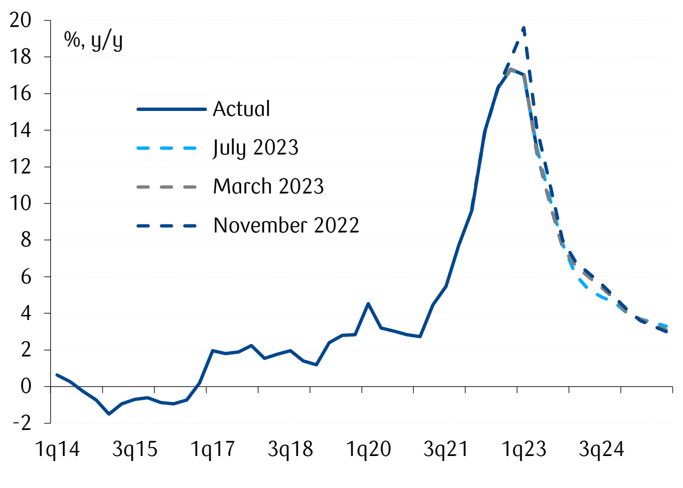
Broad inflation measures



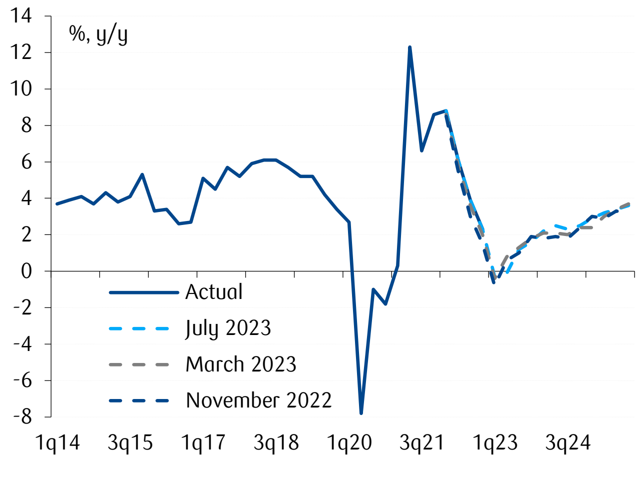
CPI and core inflation measures



CPI inflation – NBP projections vs. actual

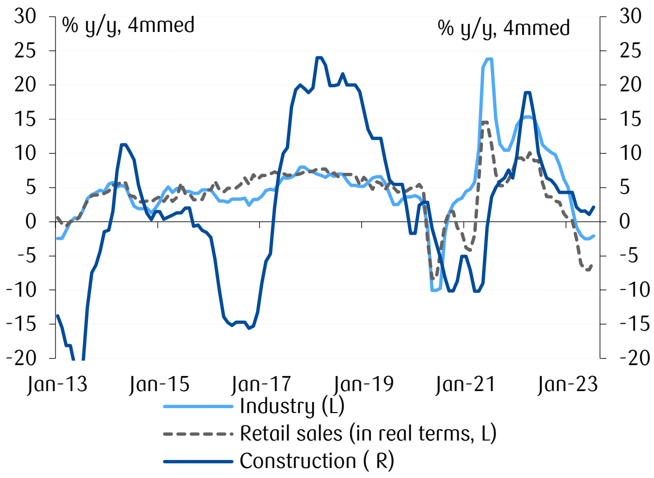


Real GDP growth – NBP projections vs. actual

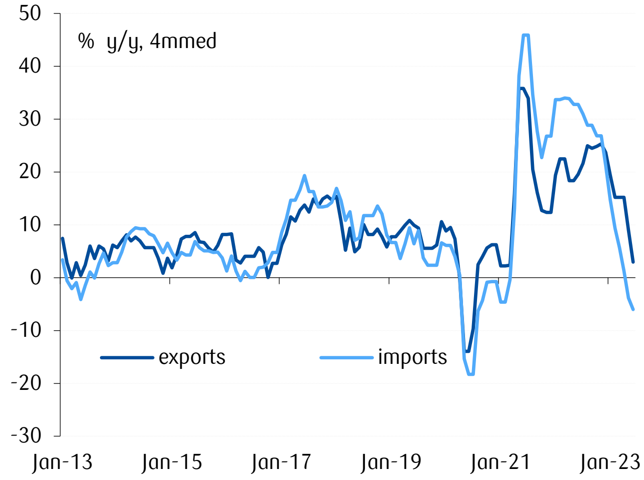


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

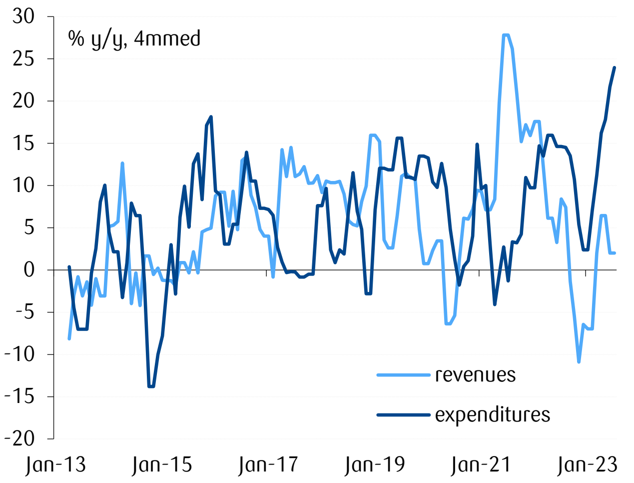
Economic activity indicators



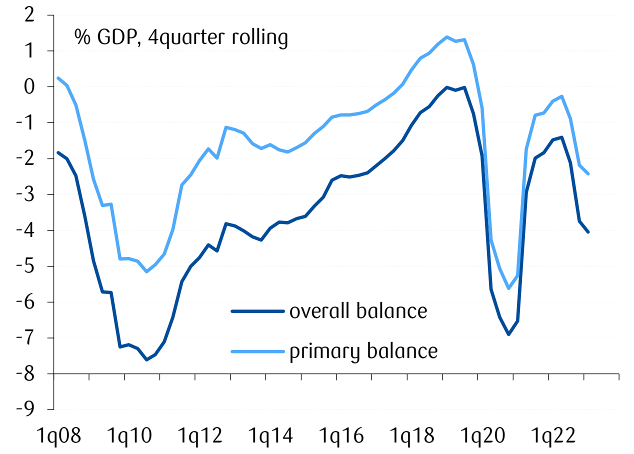
Merchandise trade (in EUR terms)



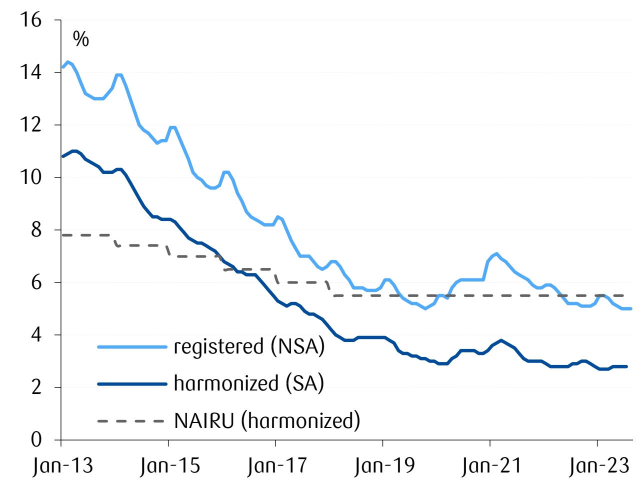
Central government revenues and expenditures*



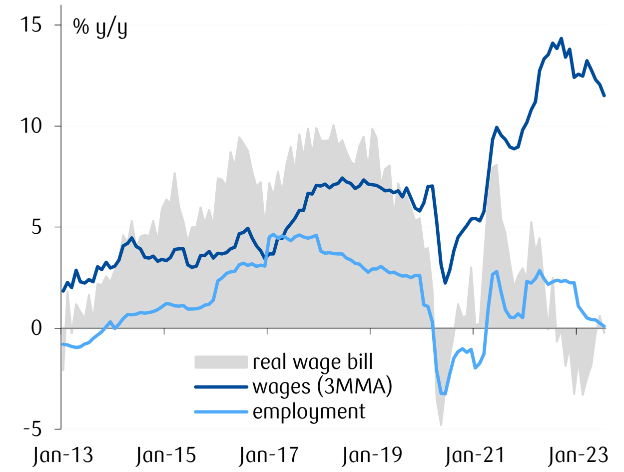
General government balance (ESA2010)



Unemployment rate

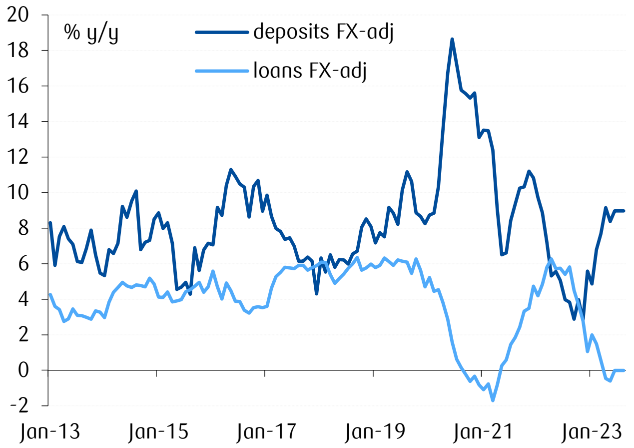


Employment and wages in the enterprise sector

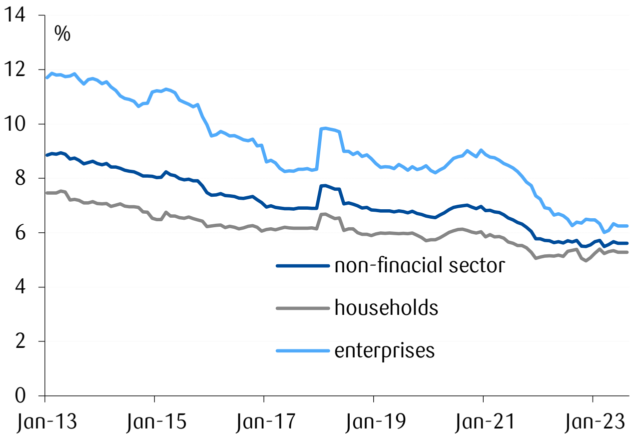


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. *break in series in 2010 due to methodological changes.

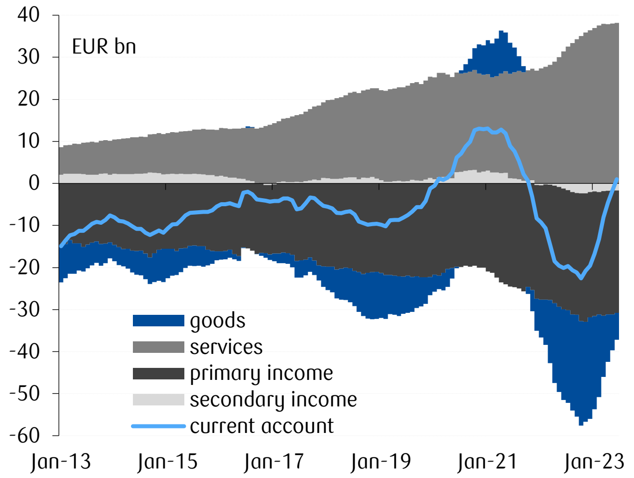
Loans and deposits



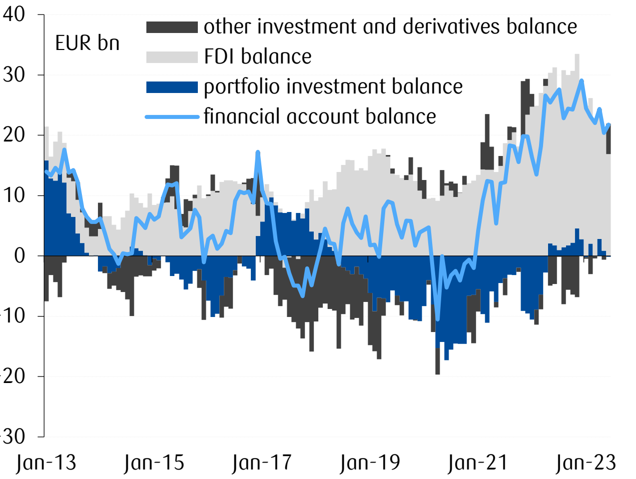
Non-performing loans (NPLs) – by sectors*



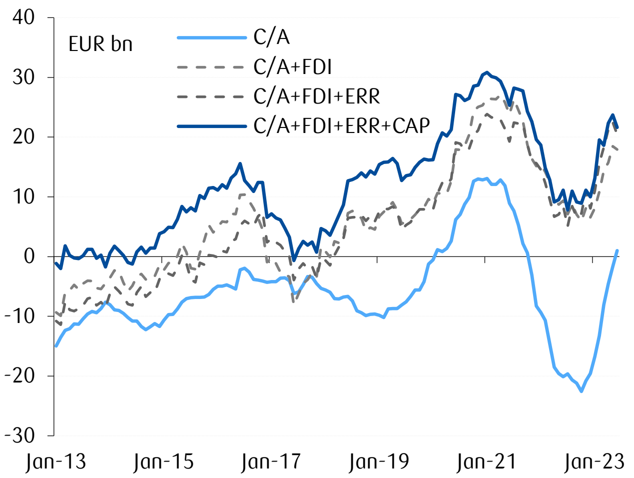
Current account balance



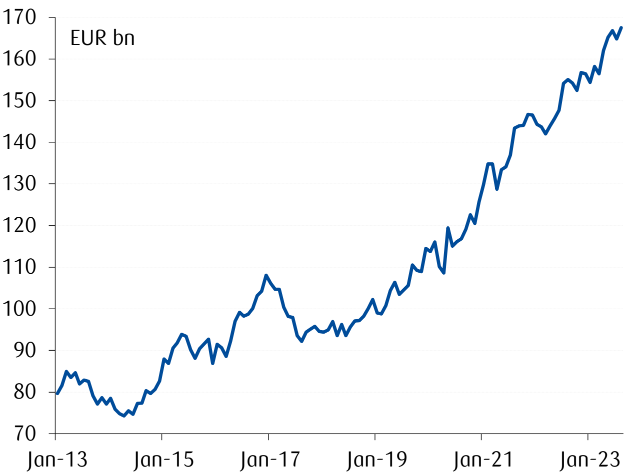
Financial account balance



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:

- Towards the interest rate cut in September (September 1, 2023)
- Slow start of 3q23 (August 25, 2023)
- It can only get better (August 18, 2023)
- Employees still call the shots (August 11, 2023)
- Summer sale (August 4, 2023)
- Poland's public finances are safe (July 28, 2023)
- Is the worst behind us? (July 21, 2023)
- Keep calm and don't expect too many cuts (July 14, 2023)
- The end of the tightening cycle (July 7, 2023)
- Expected interest rate cuts support the housing market (June 30, 2023)
- A soft landing scenario (June 23, 2023)
- External position rapidly improving (June 16, 2023)
- Exports shine, disinflation continues (June 2, 2023)
- 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)