

A soft landing scenario

TOP MACRO THEME(S):

- A soft-landing scenario – we summarize our mid-term (2023-24) forecasts report in which we have revised upwards GDP growth, current account balance and wages and confirmed our expectations for strong disinflation in 2023 and the beginning of interest rates cuts before the year-end.

WHAT ELSE CAUGHT OUR EYE:

- Monthly data for May confirmed that economic activity in Poland kept falling in y/y terms but at a slower rate than in April. Industrial output declined by 3.2% y/y vs. -6.4% y/y a month before. Output decline was observed among majority of branches, with the most notable decline in intermediate goods, while export-oriented sectors kept growing. The period of the deepest declines in the industry is probably over. Construction and assembly output decreased by 0.7% y/y in May after a slight increase in April. High interest rates still weaken the building construction segment (-12.2% y/y), while civil engineering remains relatively immune to the slowdown, taking advantage of the final year of the EU financing perspective (+9.1% y/y).
- Real retail sales in May fell by 6.8% y/y. The real decline in sales eased from -7.3% y/y in April, at the same time the dynamics of nominal sales deteriorated (to +1.8% y/y from +3.4% y/y). A decline in deflator supported real sales results. According to our estimates, the deflator has turned single digit in May, for the first time since February 2020.
- The average wage in the enterprise sector in May increased by 12.2% y/y. The growth rate was slightly higher than in April (12.1% y/y), but weaker than expected. In real terms, wages declined again, however the turning point is approaching (in our view real wages might turn positive in September). This will likely boost consumer spending in 2h23.

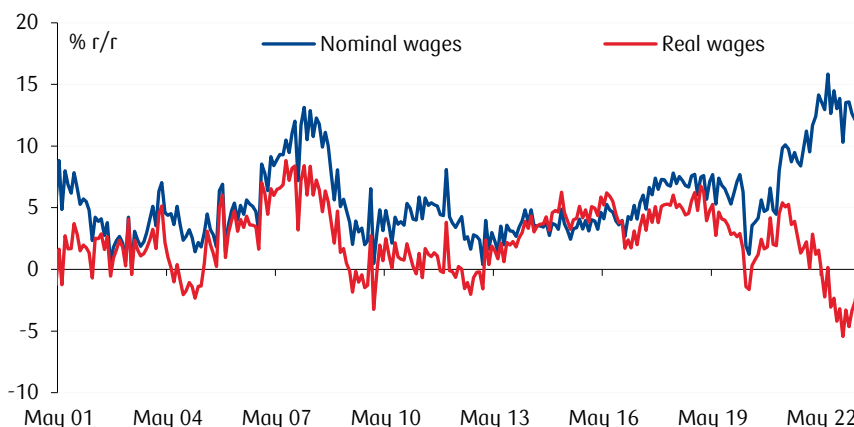
THE WEEK AHEAD:

- Registered unemployment in May probably inched down to 5.1% from 5.2%.
- In June a strong CPI disinflation has likely continued, at a pace close to what we have seen in May.

NUMBER OF THE WEEK:

- -1.7% – for the first time since October 2020 producer prices in manufacturing declined in y/y terms

CHART OF THE WEEK: Nominal and real wage growth in the enterprise sector



Source: GUS, PKO Bank Polski.

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	2022	2023
Real GDP (%)	5.1	0.7
Industrial output (%)	10.5	-0.1
Unemployment rate# (%)	5.2	5.2
CPI inflation** (%)	14.4	12.1
Core inflation** (%)	9.1	10.6
Money supply M3 (%)	5.6	6.0
C/A balance (% GDP)	-3.0	0.8
Fiscal balance (% GDP)*	-3.7	-5.4
Public debt (% GDP)*	49.1	49.1
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.

A soft landing scenario (a summary of our mid-term forecasts[^])

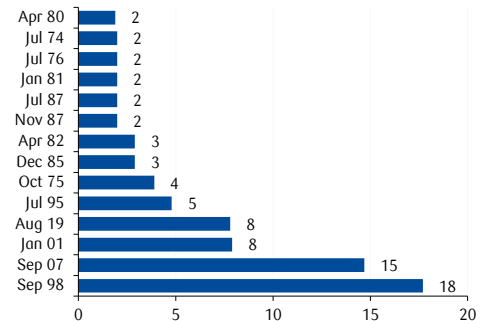
- Global economy experiences a soft landing amid progressing disinflation. The key global central banks are in the mid of finalizing hiking cycles, although they distance themselves from rapid interest rate cuts. Sluggish recovery in China, whose central bank has already cut interest rate, may be a forerunner of a global easing cycle in 2024.
- Polish economy has also landed softly, with a fall in consumption taking a u-turn accompanied by highly resilient investment and exports. The positive investment surprise stands behind our upward revision of GDP growth in 2023, from 0.1% to 0.7%. In 2024 Polish economy should grow close to its potential. Domestic labour market remains relatively strong. Disinflation is undeniable – we expect that by the end of 2023 CPI inflation will fall by 10pp from its peak in February, close to around 8% in December and somewhere between 5 and 6% by the end of 2024. External balance should improve further until we see current account surpluses both in 2023 and 2024.
- On the policy front, MPC is more eager to mention interest rate cut before the end of 2023, which we find highly likely followed by further cuts throughout 2024 and 2025 towards 3.5–4.0%. Fiscal position has deteriorated but poses no threat to financial stability.

Global economy has been passing the bottom of the cycle in a “soft landing” mode. Global disinflation has been accelerating while the key global central banks are finalizing hiking cycles. On the both sides of the Atlantic central banks distance themselves from the perspective of rapid interest rate cuts, however, looking backwards shifts in the monetary policy were usually swift. Tight labour market, particularly in Europe, becomes a normality. Its inflationary nature may be contained diminished by investment, but this has been discouraged by high interest rates. Post-pandemic recovery in China is sluggish, while interest rate cuts by the PboC may constitute a prelude to a global decline in interest rates in 2024.

The domestic economy has also landed “softly”. GDP in 1q23 declined by 0.3% y/y after a 2.3% growth in 4q22. The strong downward trend in private consumption (-2.0% y/y in 1q23) seems to be flattening, as reflected by retail sales data, which supports our expectations of a noticeable rebound at the turn of 2024. Consumption recovery will be enabled by falling inflation, growth in wages in real terms and record low unemployment. A positive surprise came from investment, whose resilience stands behind our upward revision of economic activity growth in 2023 (from 0.1% to 0.7%). Stable increase in investment outlays (5,5% in 1q23) was broad-based, recorded among all sectors of ownership. This, together with typically resilient exports and recovering consumption presage solid and close to potential GDP growth in 2024 (estimated by us at 3.2%).

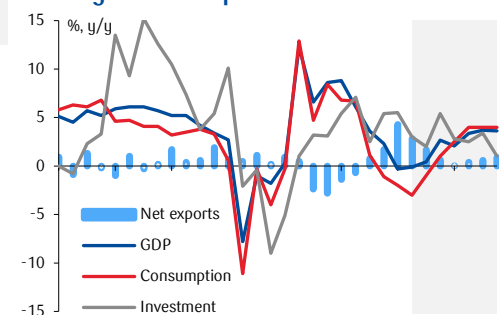
Domestic labour market meets our expectations by remaining relatively strong. Impact of the deterioration of economic conditions is reflected in falling number of vacancies and weaker than expected deceleration in wage growth. Real economy has been passing the bottom, which points to recovery in labour demand and limits space for unemployment rate increase (we see registered unemployment rate at 5.2% in both 2023 and 2024). The second in

How many months elapsed between the last interest rate hike and the first US rate cut since 1971*?



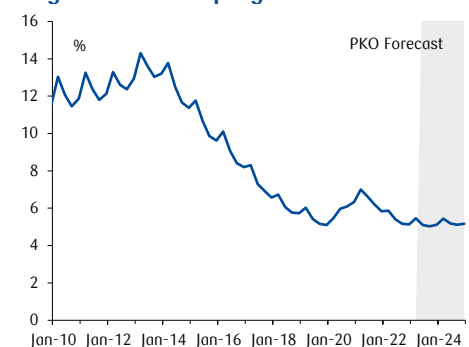
Source: Macrobond, PKO Bank Polski. *dates denote the timing of the rate cut, periods when the cut occurred in the month following the increase (in the 1970s-80s) are omitted.

The key GDP components



Source: GUS, PKO Bank Polski.

Registered unemployment rate



Source: GUS, PKO Bank Polski.

[^] The full report (in Polish) is available [here](#).

a row increase in minimum wage by around 20% (as recently announced by the government for 2024) reduces the probability that growth in wages in the whole economy will turn single-digit, we see it marginally below 10% in 2024. Wage pressure and labour shortages are becoming hallmarks of the domestic economy.

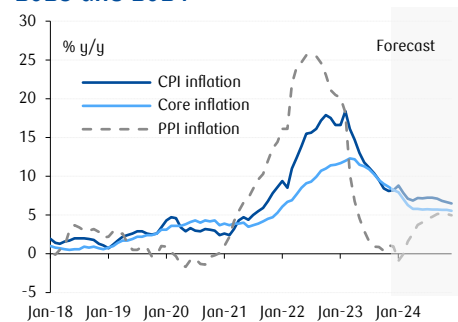
Disinflation becomes a fact, reflected in its solid scale – we should see CPI inflation declining by 10pp from its peak in February to around 8% by the end of 2023. Higher uncertainty relates to base components of the inflation basket. We now see core inflation at the end of 2023 1.5pp higher than we assumed in 1q23, at 8.2%. Reduction in profit margins is small, while rebound of consumption demand is on the horizon. In 2024 the disinflation trend will weaken due to economic recovery and strong labour market, which will add fuel to fundamental price pressures. We expect the CPI inflation somewhere between 5 and 6% in December 2024.

The impressive improvement in external balance continues. Reversal of inventory cycle was sufficient for trade balance becoming positive again. Effects of normalization in prices of raw materials have just begun to emerge, implying that further dynamic improvement in external balance is on the way, with current account balance increasing to 0.8% GDP and 1.0% GDP in 2023 and 2024 respectively, from -3.0% in 2022. The recently announced investment by Intel in a microchip testing site near Wroclaw (4.6 bn USD) clearly shows that nearshoring and friendshoring are not empty slogans.

The MPC is more eager to mention interest rate cut before the end of 2023, which is a part of our base scenario. We see the first interest rate cut as most likely taking place in November this year, accompanied by NBP new inflation and GDP projection. Further cautious cuts will take place throughout 2024 and 2025 towards 3.5-4,0%.

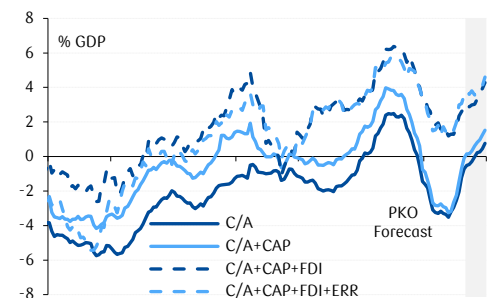
Fiscal position has deteriorated reflecting negative effects of inflation and geopolitical situation. Nevertheless, falling bond yields prove that financial stability is under no threat. Announced fiscal consolidation is going to increase the central budget deficit. Our assumptions regarding the overall public sector remain unchanged (-5.4% in 2023, -4.6% in 2024). As for now “election promises” are balanced by slightly better perspectives for tax base and costs related to combating the energy crisis (frozen energy bills for households). Debt servicing cost is likely to increase from approx. 1% GDP in 2022 to 2-3% GDP in the following years. In addition to that, since 2023 we expect military spending at 0.5-1.0% GDP with its peak in 2025-2026. In the projection horizon relation of public debt to GDP shall remain below 50%.

The main inflation indicators – forecast for 2023 and 2024



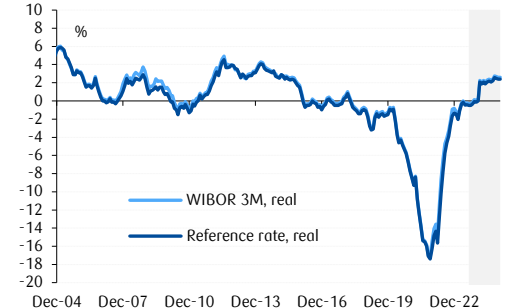
Source: GUS, PKO Bank Polski.

The main measures of external balance



Source: NBP, GUS, PKO Bank Polski.

Real interest rate*



Source: GUS, NBP, PKO Bank Polski. * Rate deflated by inflation " in one year" based on historical data or projected PKO BP inflation.

Main macroeconomic indicators

	1q23	2q23	3q23	4q23	1q24	2q24	3q24	4q24	2022	2023	2024
GDP growth (% y/y)	-0.3	-0.1	0.4	2.7	2.1	3.4	3.7	3.6	5.1	0.7	3.2
LFS unemployment rate (%)	2.9	2.9	3.2	3.3	3.0	3.0	3.4	3.4	2.9	3.1	3.2
CPI inflation (% y/y, period average)	17.0	13.2	10.3	8.2	7.9	7.1	7.2	6.7	14.4	12.1	7.2
Core inflation (% y/y, period average)	12.0	11.7	10.2	8.6	7.1	5.8	5.7	5.6	9.1	10.6	6.1
Current account (% GDP)	-1.2	-0.5	0.2	0.8	0.9	1.0	1.0	1.0	-3.0	0.8	1.0
Fiscal balance (% GDP)*	-4.7	-5.0	-5.5	-5.4	-5.3	-5.0	-4.8	-4.2	-3.7	-5.4	-4.2
Public debt (% GDP)*	48.1	47.5	47.6	49.1	49.0	48.3	48.2	49.0	49.1	49.1	49.0
NBP reference rate (%)	6.75	6.75	6.75	6.50	6.25	6.00	5.75	5.00	6.75	6.50	5.00

Source: GUS, NBP, Ministry of Finance, PKO Bank Polski, †ESA2010, *quarterly data are quotient of four-quarter rolling sum.

Weekly economic calendar

Indicator	Time (UK)	Unit	Previous	Consensus*	PKO BP	Comment
Monday, 26 June						
GER: Ifo Business Climate Index (Jun)	9:00	pts.	91.7	90.0	--	--
POL: Unemployment Rate (May)	9:00	%	5.2	5.1	--	--
Tuesday, 27 June						
USA: Durable goods orders (May, flash)	13:30	% m/m	1.1	-0.9	--	--
USA: S&P CoreLogic CS 20-City (Apr)	14:00	% y/y	-1.15	--	--	--
USA: New home sales (May)	15:00	thous.	683	657	--	--
USA: Consumer confidence (Jun)	15:00	pts.	102.3	104	--	--
Wednesday, 28 June						
EUR: M3 money supply (May)	9:00	% y/y	1.9	1.5	--	--
USA: Trade Balance (May)	13:30	bn USD	-96.8	-92.0	--	--
Thursday, 29 June						
SE: Riksbank meeting (Jun)	8:30	%	3.5	3.75	--	--
EUR: Consumer Confidence (Jun, final)	10:00	pts.	-16.1	--	--	--
EUR: Economic Sentiment Indicator (Jun)	10:00	pts.	96.5	96.0	--	--
GER: CPI inflation (Jun, flash)	13:00	% y/y	6.1	6.3	--	--
GER: HICP inflation (Jun, flash)	13:00	% y/y	6.3	6.7	--	--
USA: GDP growth (1q)	13:30	% q/q saar	1.3	1.5	--	--
USA: Personal consumption (1q)	13:30	% q/q saar	3.8	--	--	--
USA: Initial Jobless Claims (Jun)	13:30	thous.	264	--	--	--
Friday, 30 June						
GER: Unemployment Rate (Jun)	8:55	%	5.6	5.6	--	--
POL: CPI inflation (Jun, flash)	9:00	% y/y	13.0	11.7	~12	In June strong CPI disinflation has likely continued, at a pace close to what we have seen in May.
EUR: HICP inflation (Jun)	10:00	% y/y	6.1	5.5	--	--
EUR: Core inflation (Jun, flash)	10:00	% y/y	5.3	5.3	--	--
USA: Personal Income (May)	13:30	% m/m	0.4	0.4	--	--
USA: Personal spending (May)	13:30	% m/m	0.8	0.2	--	--
USA: PCE Deflator (May)	13:30	% y/y	4.4	3.8	--	--

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	"For many months now the Council has been keeping rates at an unchanged level, a level I consider too low. (...) each current discussion about rate cuts currently harms the credibility of the monetary policy in Poland. Such talks also reduce efficiency of MPC actions, with 3M WIBOR now lower by ca. 0.8 pps than after the last rate hike. Let's not take this path because otherwise fight against inflation will take longer and will bear higher social costs" (12.06.2023, Parkiet, PAP)
L. Kotecki	4.8	"If signals of weaker economic growth are confirmed in the July projection, it may change my outlook on interest rates. I won't be advocating a rate hike then. (...) However, I still believe that it is too early to talk about any interest rate cut. at the current level of inflation. (8.06.2023, PAP, PKO transl.)
P. Litwiniuk	3.7	"The government has to date declared a budget policy neutral for inflationary processes but it is changing. (...) The question is what will change and how many more ideas will be presented in the frame of the election campaign - this could have a negative impact on inflationary processes." (15.06.2023, TOK FM, 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	"We have not ended the tightening cycle, in case of unfavorable events we are ready for a hike. (...) If we are certain that in the coming quarters inflation will fall, then opportunity will open to cut rates," (7.06.2023, NBPtv, PAP)
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.

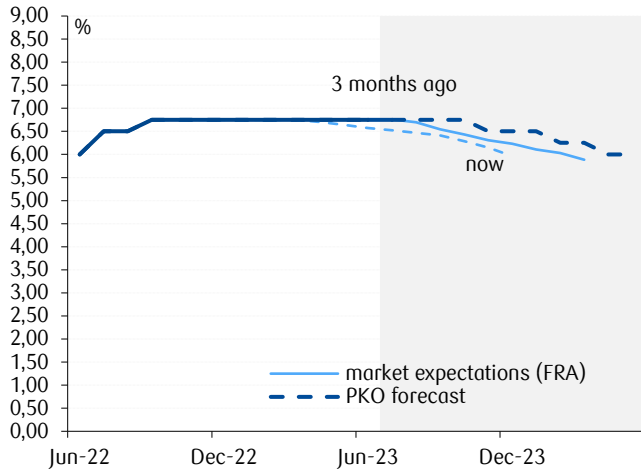
Interest rates – PKO BP forecasts vs. market expectations

		1M	2M	3M	4M	5M	6M	7M	8M	9M
Date	22-Jun	22-Jul	22-Aug	22-Sep	22-Oct	22-Nov	22-Dec	22-Jan	22-Feb	22-Mar
WIBOR 3M/FRA†	6,90	6,86	6,80	6,63	6,44	6,26	6,14	6,01	5,88	5,74
implied change (b. p.)		-0,04	-0,10	-0,28	-0,47	-0,64	-0,77	-0,89	-1,02	-1,17
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^		6,71	6,65	6,48	6,29	6,11	5,99	5,96	5,88	5,74

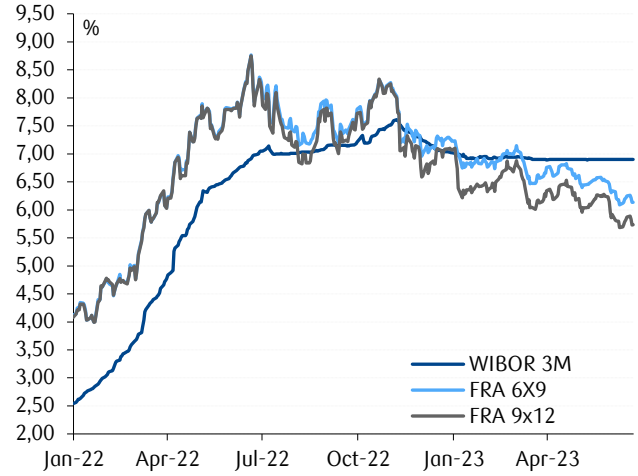
WIBOR 3M from the last fixing, FRA transactions based on WIBOR 3M for subsequent periods, †in basis points, *PKO BP forecast of the NBP reference rate.

Poland macro chartbook

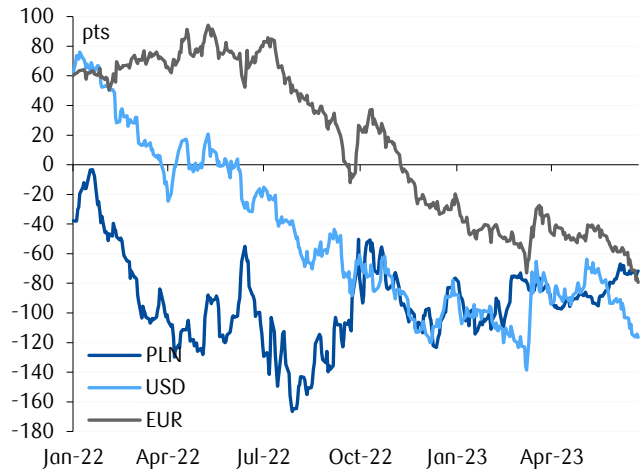
NBP policy rate: PKO BP forecast vs. market expectations



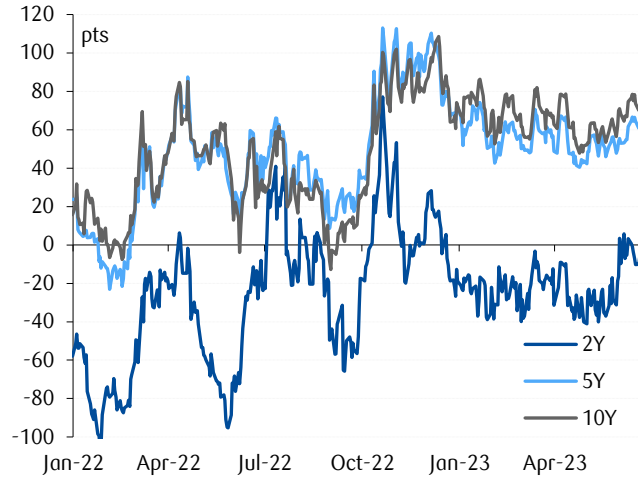
Short-term PLN interest rates



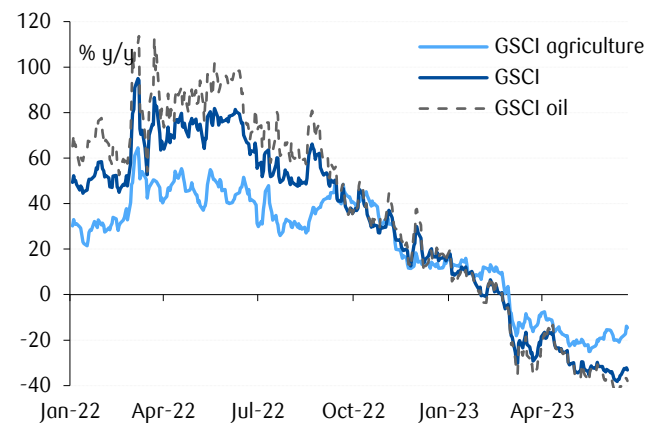
Slope of the swap curve (spread 10Y-2Y)*



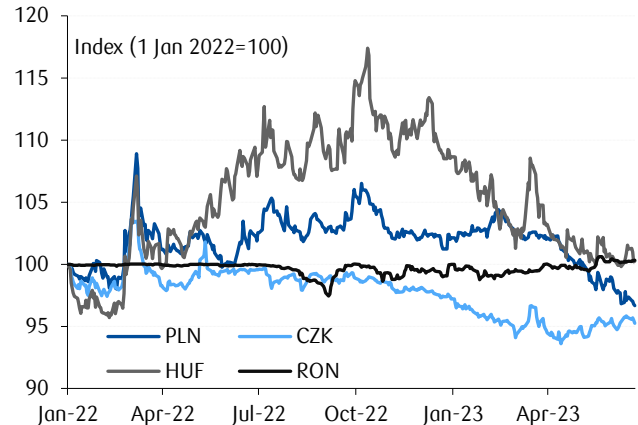
PLN asset swap spread



Global commodity prices (in PLN)

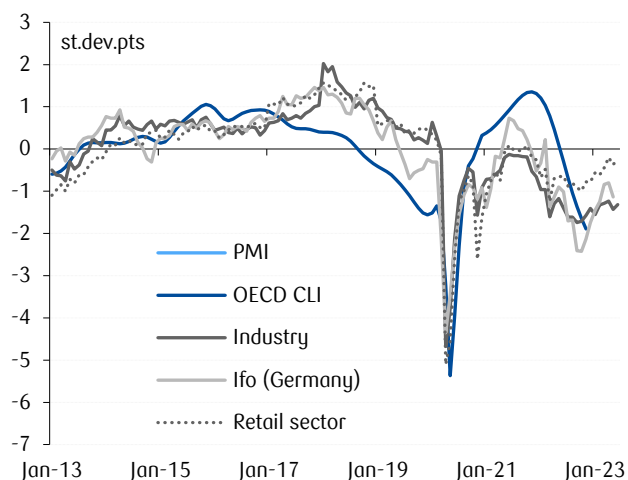


Selected CEE exchange rates against the EUR

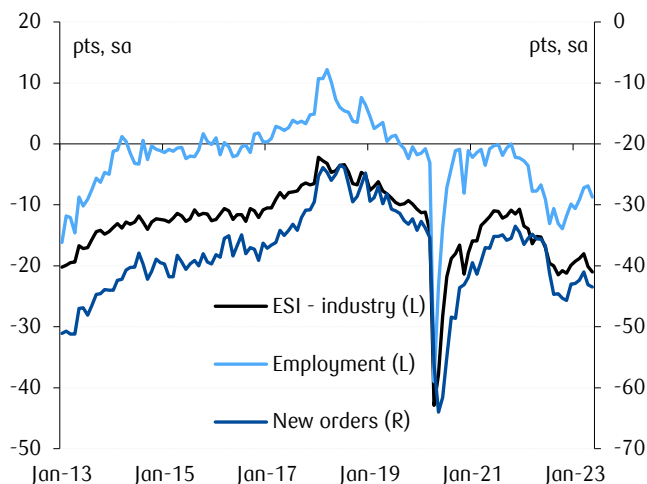


Source: Datastream, NBP, PKO Bank Polski. *for PLN, and EUR 6M, for USD 3M.

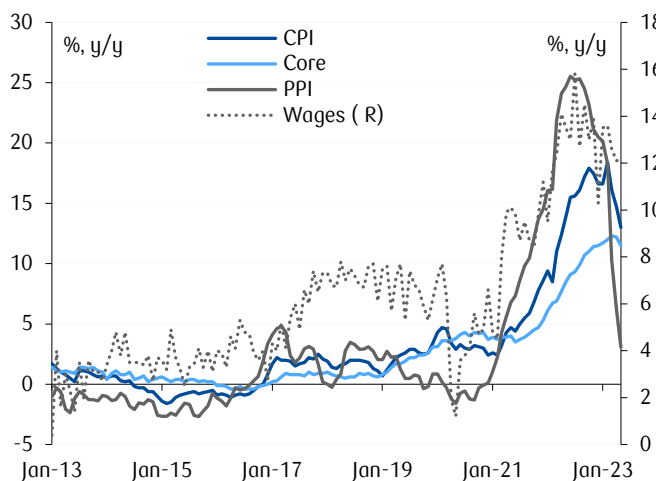
Economic sentiment indicators



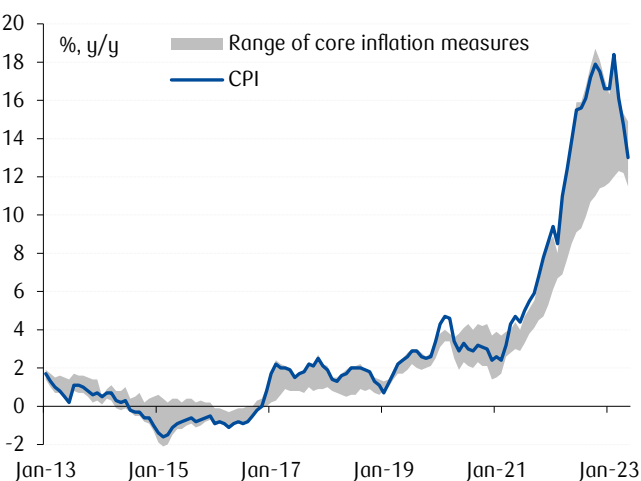
Poland ESI for industry and its components



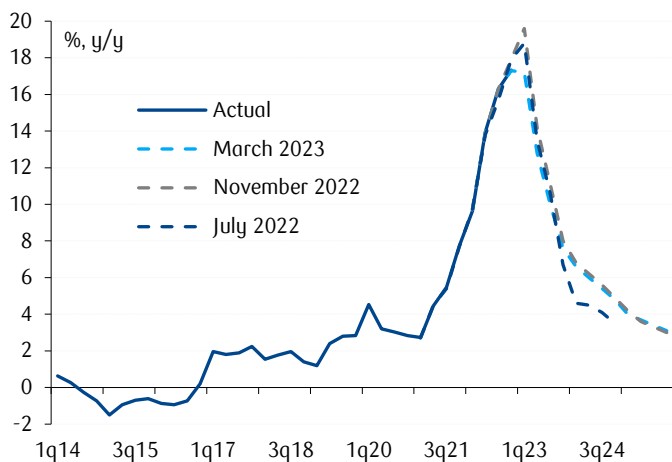
Broad inflation measures



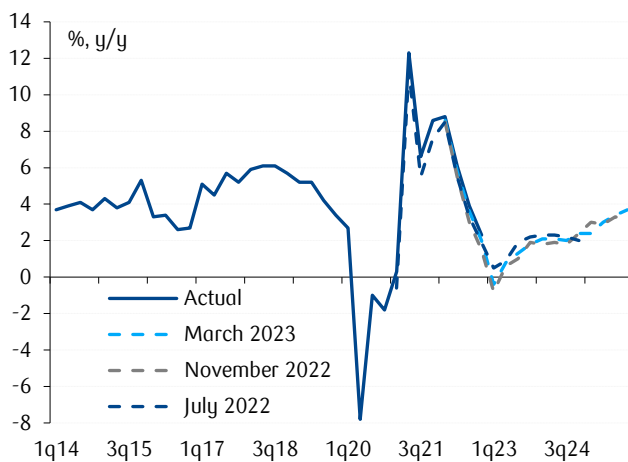
CPI and core inflation measures



CPI inflation - NBP projections vs. actual

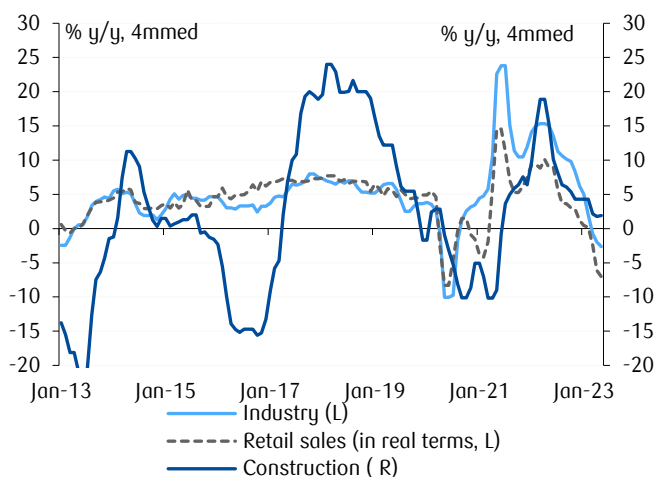


Real GDP growth - NBP projections vs. actual

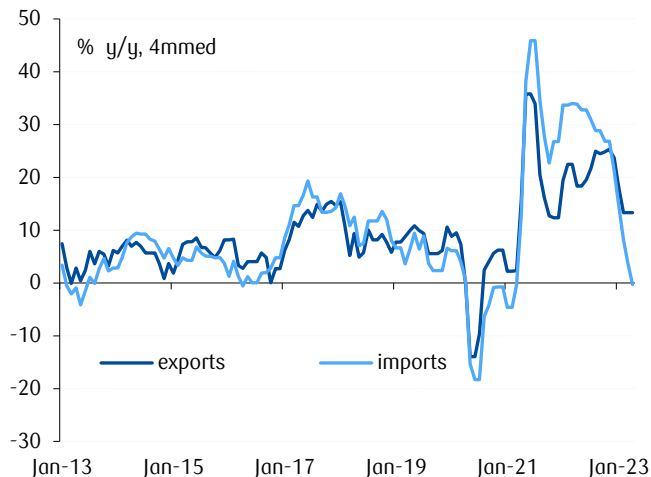


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

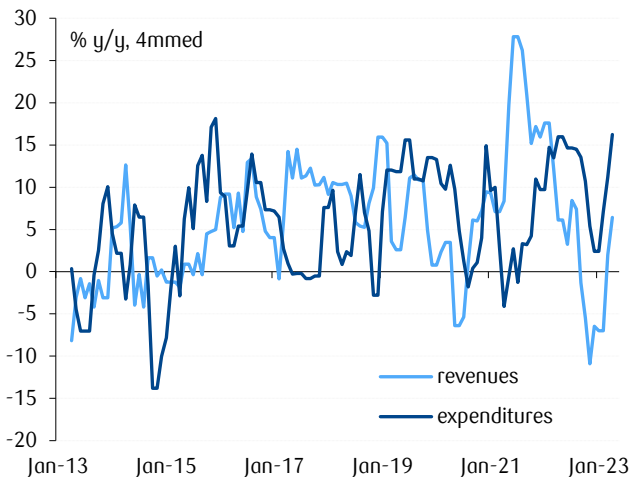
Economic activity indicators



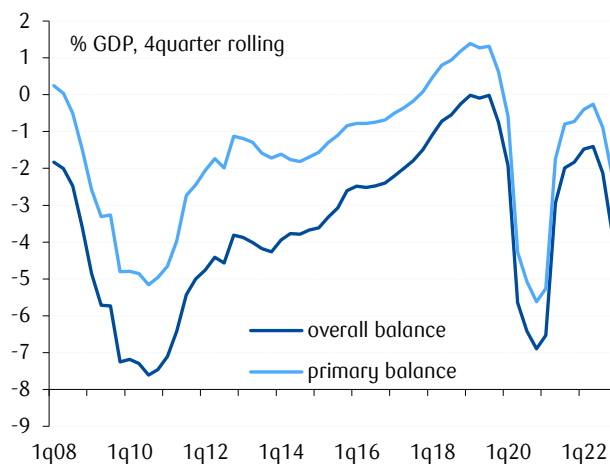
Merchandise trade (in EUR terms)



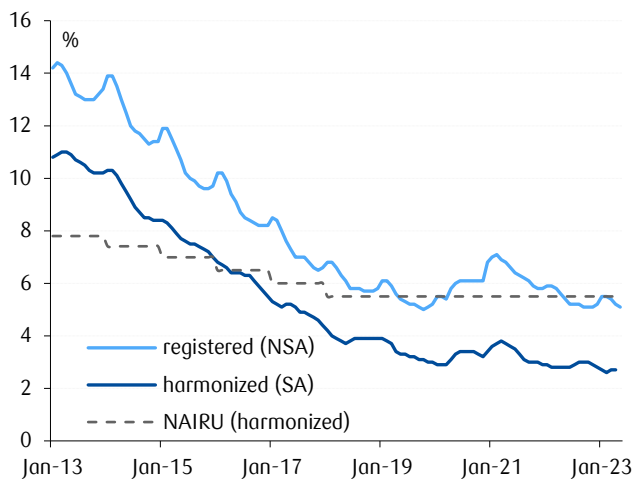
Central government revenues and expenditures*



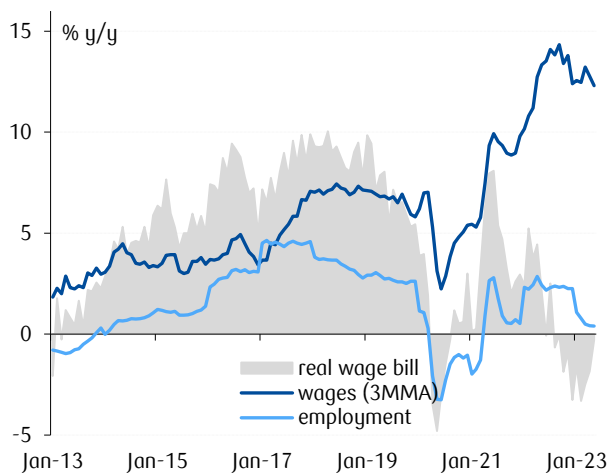
General government balance (ESA2010)



Unemployment rate

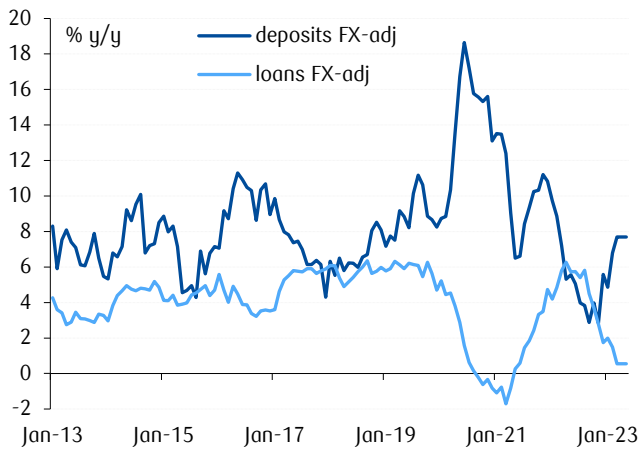


Employment and wages in the enterprise sector

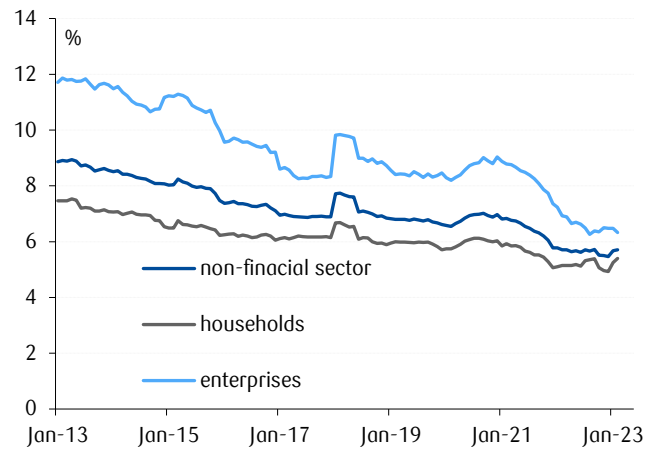


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. *break in series in 2010 due to methodological changes.

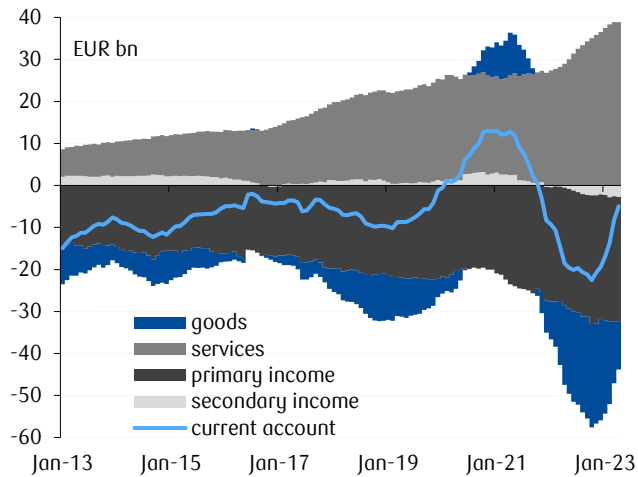
Loans and deposits



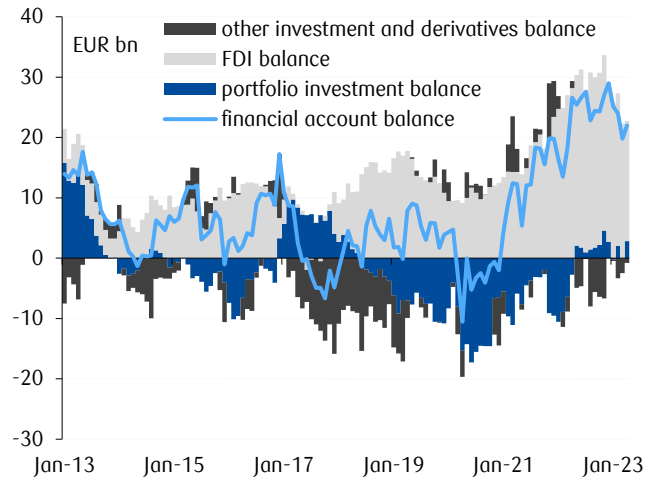
Non-performing loans (NPLs) - by sectors*



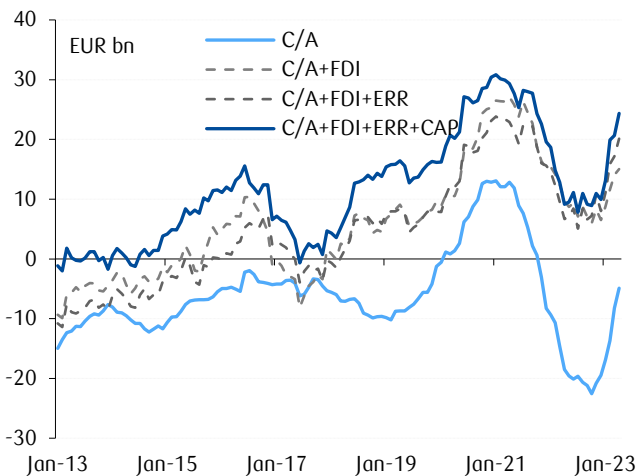
Current account balance



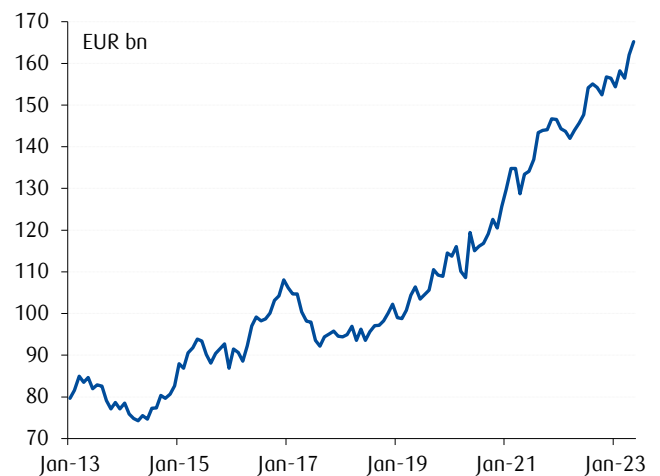
Financial account balance



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:

- [External position rapidly improving](#) (June 16, 2023)
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- [Inflation never ceases to surprise](#) (Mar 17, 2023)
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- [Consumers under pressure](#) (Mar 3 2023)
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- [Is Poland crisis resilient?](#) (Oct 28, 2022)
- [Not great, not terrible](#) (Oct 21, 2022)
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