

## Turning point?

### TOP MACRO THEME(S):

- **Technical recession and disinflation (p. 2):** New NBP projection shows a significant deterioration in GDP growth outlook for 2023-2024, which implies CPI inflation returns to the target range in 2024, following double-digit consumer prices growth in 2022-2023.

### WHAT ELSE CAUGHT OUR EYE:

- **One million foreigners have been paying social security contributions in the social security system (ZUS, excl. farmers) at the end of June.** 729 thousand of them were Ukrainians, up by 88 thousand since February. According to the labour ministry data, since the outbreak of the war, employers have hired 307 thousand Ukrainian citizens on the basis of simplified procedures. This number should be treated as the upper band of the employment size, and covers all sectors (incl. agriculture). The employment rate of Ukrainian refugees might have already reached 48% (!). **The current forced migration from Ukraine has more to do with mobility/circular migration than with a typical refugee flow.**
- **After months of negative surprises, the BoP for May turned out to be better than expected,** with the C/A deficit at EUR 1.9bn vs. EUR 3.5bn in April. The observed improvement in trade imbalance was due to the suspension of gas supplies from Russia, the fall in prices of imported oil and a strong increase in exports to Ukraine (mainly fuel and used cars). The 12m deficit in relation to GDP widened to 3.9% from 3.5% after April. However, the gap is easily financed by the capital account transactions and FDI inflows.
- **CPI in June was revised down to 15.5% y/y from 15.6% in flash reading (vs. 13.9% in May).** Energy prices grew slower than initially estimated, and food prices slightly faster. Structure of inflation rise did not change - the largest contributions came from fuels (+0.7pp) and energy (+0.4pp). Core inflation rose to 9.1-9.2% y/y with monthly rise of 0.6-0.7%, the least since Dec. 2021, indicating that underlying inflationary pressures are losing momentum.

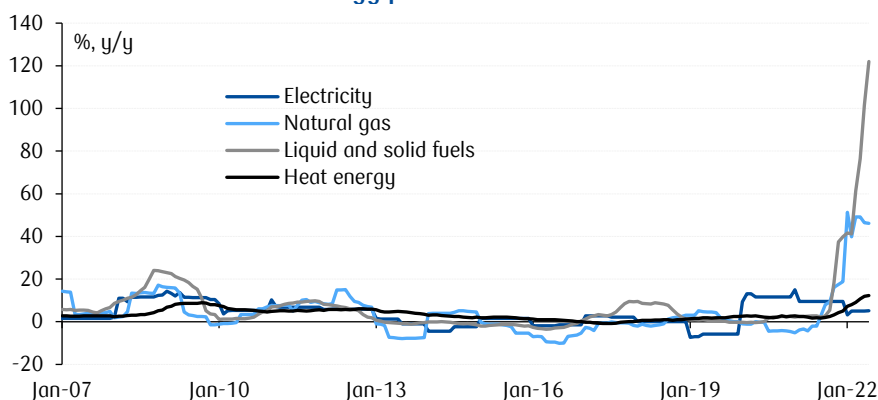
### THE WEEK AHEAD:

- **Economic activity indicators for June** may show signs of further slowdown, especially in the consumer sector. **Labour market data for June** should show that average wage growth is not catching up with inflation.

### NUMBER OF THE WEEK:

- **1 billion PLN** – value of taxes and contributions paid by non-residents working in Poland in 1q22, the highest value on record.

### Chart of the week – Retail energy prices



Source: GUS, PKO Bank Polski.

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	2021	2022 <sub>†</sub>
Real GDP (%)	5.9	4.9
Industrial output (%)	15.4	12.9
Unemployment rate <sup>#</sup> (%)	5.4	4.7
CPI inflation <sup>**</sup> (%)	5.1	13.1
Core inflation <sup>**</sup> (%)	4.1	8.2
Money supply M3 (%)	8.9	5.6
C/A balance (% GDP)	-0.7	-3.5
Fiscal balance (% GDP)*	-1.9	-2.8
Public debt (% GDP)*	53.8	50.4
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.

## NBP projection: technical recession and disinflation

- The fresh NBP projection for GDP and inflation is close to our baseline scenario. The new projection brought a significant increase in the expected inflation path for 2022-2023 but also grim GDP outlook for 2023-2024, leading to strong disinflation in 2024.
- The projection and comments from the Polish central bank support our view on NBP interest rates: we are very close to the end of the cycle.

The fresh NBP projection for inflation and GDP is close to our baseline scenario. The NBP, like us, sees the technical recession ahead, the culmination of which is expected to take place at the beginning of 2023. This is primarily the effect of reducing inventories, which were accumulated at a record pace in recent quarters. The current inflation is most likely close to its peak and will soon start to decline gradually, depending on the duration of anti-inflationary shields. Their expiration in 2022 could move the inflationary peak to the start of 2023.

The new projection, which takes into account the information released until June 22<sup>nd</sup> (cut-off date for the projection assumptions), brought a further significant increase in the expected path of inflation vs the previous projection from March. According to it, inflation (the quarterly average) will peak in 1q23 (18.8%) and then decline, but remain at a double-digit level up to 3q23. It is worth noting here that the inflation path in the baseline scenario includes the technical assumption of the so-called 'current legal status', i.e. the expiry of the anti-inflationary shields at the end of October 2022. Due to the increase in VAT rates, inflation in the baseline scenario rises until 1q23. However, this 'technical' peak is an effect of administrative changes, not inflationary processes, and as such should be ignored by the MPC. Inflation, cleared of such effects, reaches its peak this summer, as the NBP governor said earlier at his press conference. At the end of the projection horizon, in 4q24, inflation returns below the upper end of allowed fluctuations around the target. The shield expiry assumption is one of the two main differences between our forecast and the NBP path. The second significant difference is the path of core inflation, which according to the NBP will show some more 'persistent' pressures.

Stronger underlying inflationary pressure in NBP projection is most likely the result of assumptions about the labor market that differ from ours. According to the NBP, wage growth (in the whole economy) will keep on rising up to 1q23 (reaching 11.7% y/y), despite some slowdown in activity and despite unemployment turning to the upward trend in 4q22. Thus, the NBP scenario assumes an increase in the unemployment rate throughout the projection horizon, amid declining wage growth (from mid-2023 wages in the projections are weaker than we assume). Conversely, we see a weaker wage pressure in the short term, and with the unemployment rate setting new lows. Later on, we expect a slightly stronger wage increase in 2h23 and 2024. This means, combined with a lower inflation path, that private consumption in our baseline scenario is stronger than the NBP sees it. On the other hand, we assume that the investment correction has already started in 2q22 and will last until 1q23. GDP stabilizes around 2% in the projection, which suggests that the NBP also sees a slower growth in the economy's potential (most likely due to demographic changes).

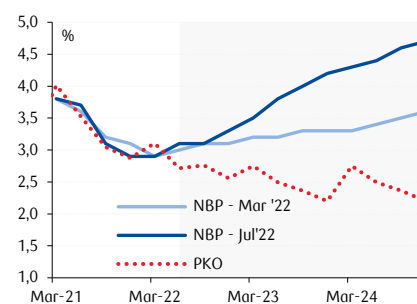
The July projection and comments from the NBP representatives support our interest rate scenario. We reiterate our assessment that a one more, cautious interest rates hike (50bp) is possible in September, and then the cycle will likely end. The prices of energy commodities seem to be the biggest unknown at present, which sets the tone for the macroeconomic results of the economy and may deviate significantly from the assumptions adopted today (both we and the NBP assume that the energy shock will gradually fade away).

### NBP inflation scenarios

%	2022	2023	2024
Jul'22 projection	14.2	12.3	4.1
Anti-inflationary shield expiry:			
at end-22	13.6	13.0	4.1
at end-23	13.6	9.0	7.9
at end-24	13.6	9.0	4.1

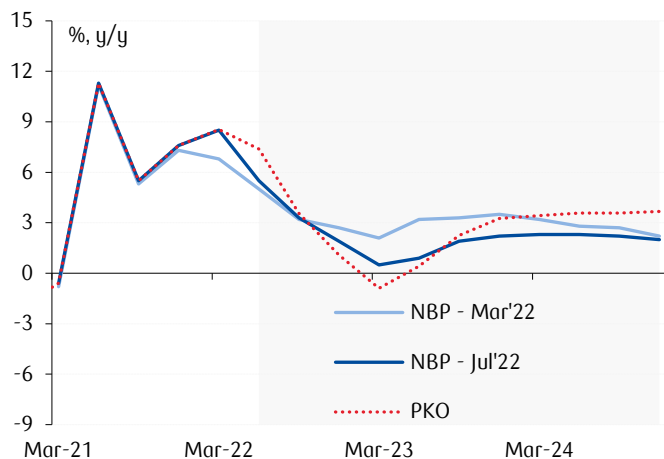
Source: NBP.

### Unemployment rate (LFS)

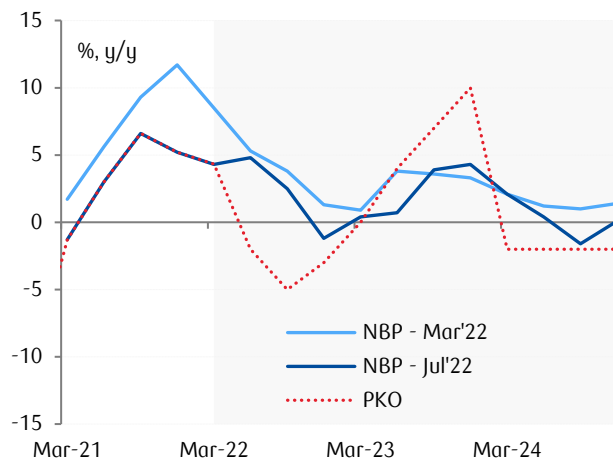


Source: NBP, PKO Bank Polski.

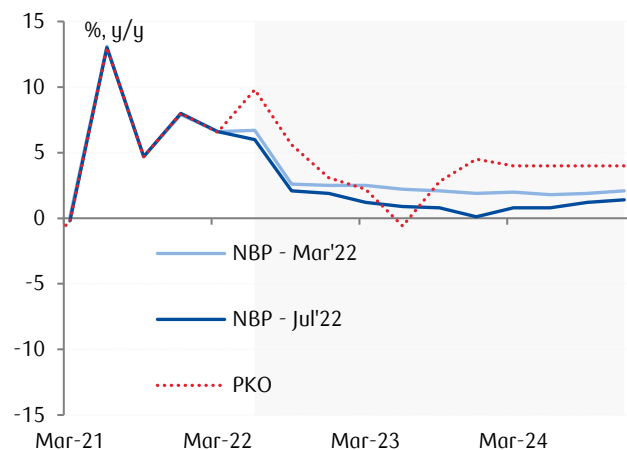
### 1. GDP



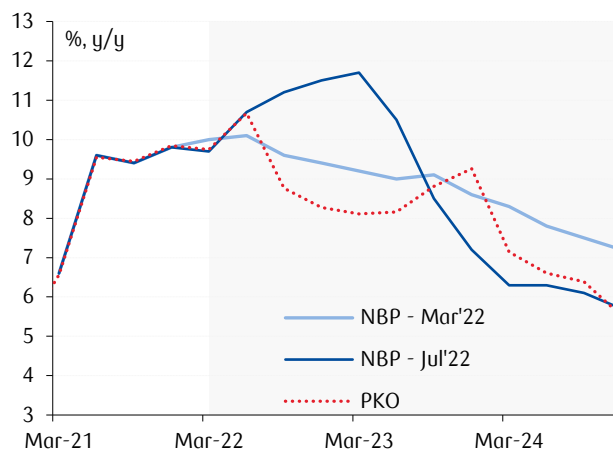
### 2. Investments



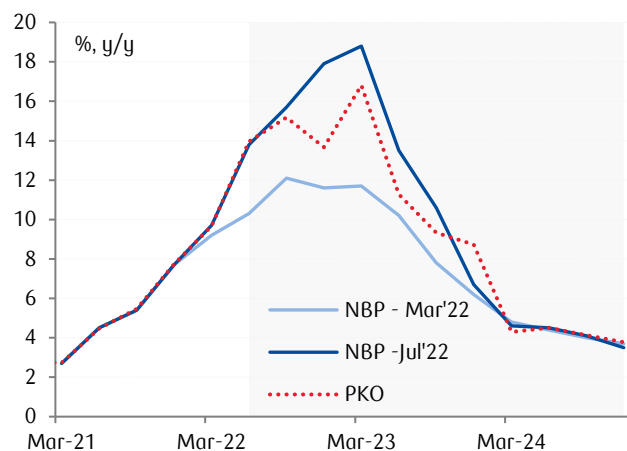
### 3. Private consumption



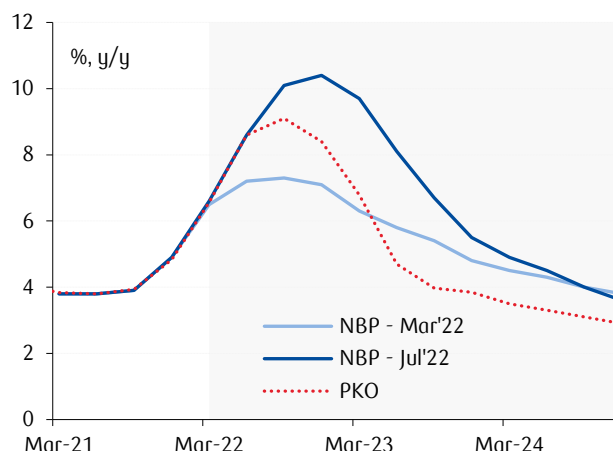
### 4. Wages



### 5. CPI inflation



### 6. Core inflation



Source: NBP, PKO Bank Polski.

## Weekly economic calendar

Indicator	Time (UK)	Unit	Previous	Consensus*	PKO BP	Comment
<b>Monday, 18 July</b>						
POL: Core inflation (Jun)	13:00	% y/y	8.5	9.4	9.3	Core inflation has likely reached a new high, as higher energy costs are sinking through the CPI basket.
<b>Tuesday, 19 July</b>						
EUR: HICP inflation (Jun, final)	10:00	% y/y	8.1	8.6	--	--
EUR: Core inflation (Jun, final)	10:00	% y/y	3.7	3.7	--	--
USA: Housing starts (Jun)	13:30	thous.	1,549	1,586	--	--
USA: Building Permits (Jun)	13:30	thous.	1,695	1,690	--	--
<b>Wednesday, 20 July</b>						
GER: PPI inflation (Jun)	7:00	% y/y	33.6	33.5	--	--
POL: Consumer Confidence (Jul)	9:00	pts.	-43.8	--	--	Consumers are probably seeing little reasons for optimism this July.
POL: Wages (Jun)	9:00	% y/y	13.5	13.3	13.3	Labour market remains tight, but the enterprise sector wage growth is not catching up with inflation.
POL: Employment (Jun)	9:00	% y/y	2.4	2.2	2.2	
POL: Industrial production (Jun)	9:00	% y/y	15	12	11.2	Business climate indicators suggest that the industrial boom seen in the previous months is coming to an end, but the PPI has likely accelerated further.
POL: PPI inflation (Jun)	9:00	% y/y	24.7	24.9	25.5	
USA: Existing home sales (Jun)	15:00	thous.	5,410	5,400	--	--
EUR: Consumer Confidence (Jul, flash)	15:00	pts.	-23.6	-25.0	--	--
<b>Thursday, 21 July</b>						
POL: Construction output (Jun)	9:00	% y/y	13	10.9	12.4	Construction growth is slowing down. We see some slowdown in real retail sales growth as high inflation is hindering real income growth and on high statistical base.
POL: Retail sales (Jun)	9:00	% y/y	8.2	5.9	2.1	
EUR: ECB Refinancing Rate (Jul)	13:15	%	0	0.25	0.25	--
EUR: EBC deposit rate (Jul)	13:15	%	-0.50	-0.25	-0.25	--
USA: Initial Jobless Claims (Jul)	13:30	thous.	244	--	--	--
JP: BoJ meeting (Jul)	--	%	-0.10	-0.10	0.10	--
<b>Friday, 22 July</b>						
GER: Manufacturing PMI (Jul, flash)	8:30	pts.	52	50.6	--	--
GER: Services PMI (Jul, flash)	8:30	pts.	52.4	51.3	--	--
EUR: Manufacturing PMI (Jul, flash)	9:00	pts.	52.1	51.2	--	--
EUR: Services PMI (Jul, flash)	9:00	pts.	53	52.0	--	--
POL: Money Supply M3 (Jun)	13:00	% y/y	7.6	7.7	8.3	We see M3 growth acceleration in June.
USA: Manufacturing PMI (Jul, flash)	14:45	pts.	52.7	53.5	--	--

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 believe that the new central bank projection seriously scared the MPC. It clearly shows the stagflation scenario, which from the Council's perspective is the worst thing that can be. (...) However the mandate of the NBP pays more attention to inflation than to economic growth.," (12.07.2022, Bloomberg)
H. Wnorowski	4.2	"I myself was in favor of a 50 bp rate hike [in July]. This was caused by signals concerning the economic conditions. These conditions are good, but signals of a slowdown in various sectors appear. We were driven by concern, and at the same time fears of excessive cooling down [of the economy]. (...) The scale of [interest rate] changes is open, I would subscribe to NBP governor Adam Glapinski's recent opinion that the MPC is closer to the end of the rate hikes cycle" (13.07.2022, TV Trwam, PAP)
A. Glapinski	3.4	"If the projection materializes and, as we see it today, it might be said that this fast ending of the monetary policy tightening cycle will be possible. (...) What is more, in 2023, with the GDP growth rate declining fast, interest rate cuts will be possible." (14.07.2022, PAP)
R. Sura	3.4	"We should adjust the scale of hikes to inflowing data on inflation and business sentiment, as well as to forecasts. Hence, the Council does not set the target interest rate level or the time frame for tightening. It would be difficult even without the additional uncertainty tied to the war in Ukraine." (24.05.2022, PAP).
I. Dqbrovski	3.1	"Poland is not expected to suffer stagflation within a year." (23.05.2022, 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	"I am a proponent of monetary policy tightening, but not [PAP: of one conducted] in a sudden manner (...) I believe that rate hikes should take place at a pace allowing stakeholders from the banking sector, including borrowers, to adapt to this phenomenon." (16.05.2022, TVN24, PAP)
W. Janczyk	2.4	"I could assume a more cautious approach to monetary policy at the next meetings (...) Unpredictability is hitting its zenith during these weeks (...)That's exactly why I'm seeing some space for being less bold in monetary tightening. The situation's changing though almost every hour, and we need to stay on alert to act accordingly" (18.03.2022, Bloomberg).
(Vacant places)	--	--

\*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.

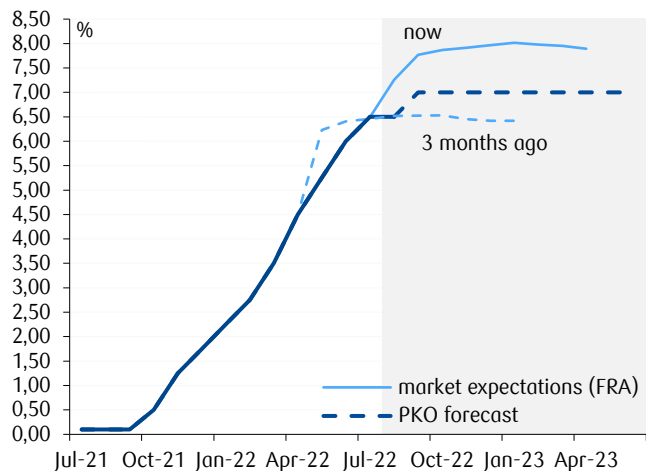
### Interest rates – PKO BP forecasts vs. market expectations

		1M	2M	3M	4M	5M	6M	7M	8M	9M
Date	14-Jul	14-Aug	14-Sep	14-Oct	14-Nov	14-Dec	14-Jan	14-Feb	14-Mar	14-Apr
WIBOR 3M/FRA†	7.00	7.46	7.97	8.07	8.11	8.16	8.22	8.18	8.15	8.10
implied change (b. p.)		0.46	0.97	1.07	1.11	1.16	1.22	1.18	1.15	1.10
MPC Meeting	7-Jul	-	7-Sep	5-Oct	9-Nov	7-Dec	-	-	-	-
PKO BP forecast*	6.50	6.50	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00
market pricing*		6.96	7.47	7.57	7.61	7.66	7.72	7.68	7.65	7.60

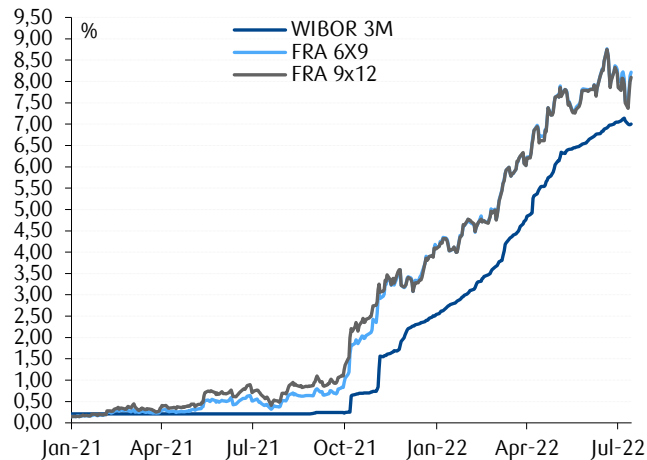
†WIBOR 3M from the last fixing, FRA transactions based on WIBOR 3M for subsequent periods, ‡in basis points, \*PKO BP forecast of the NBP reference rate.

## Poland macro chartbook

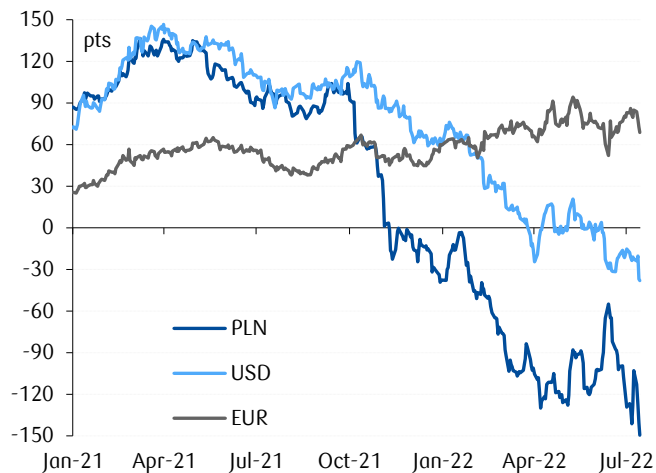
NBP policy rate: PKO BP forecast vs. market expectations



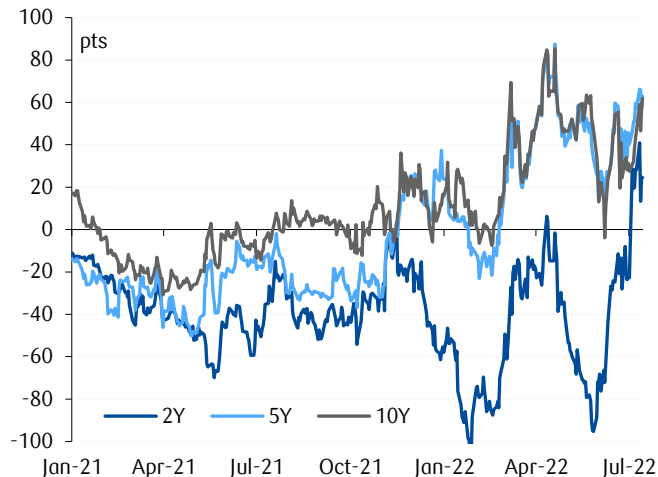
Short-term PLN interest rates



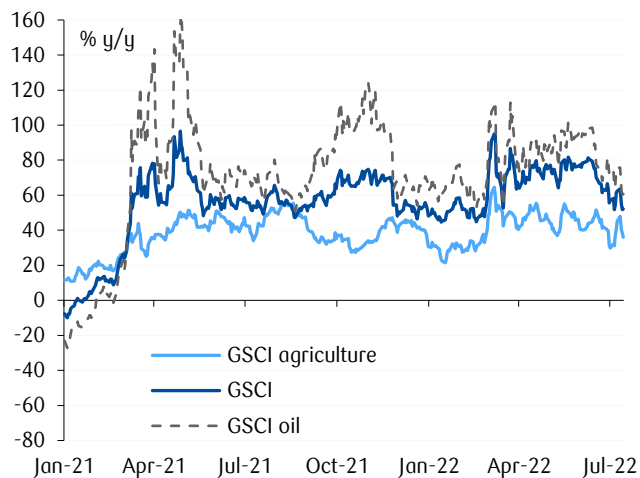
Slope of the swap curve (spread 10Y-2Y)\*



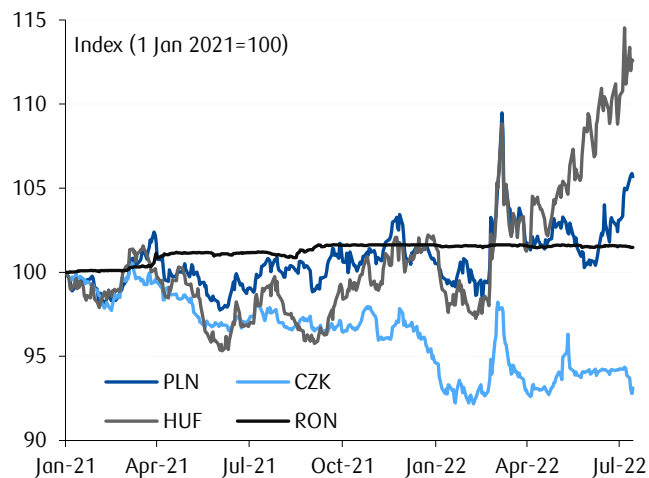
PLN asset swap spread



Global commodity prices (in PLN)

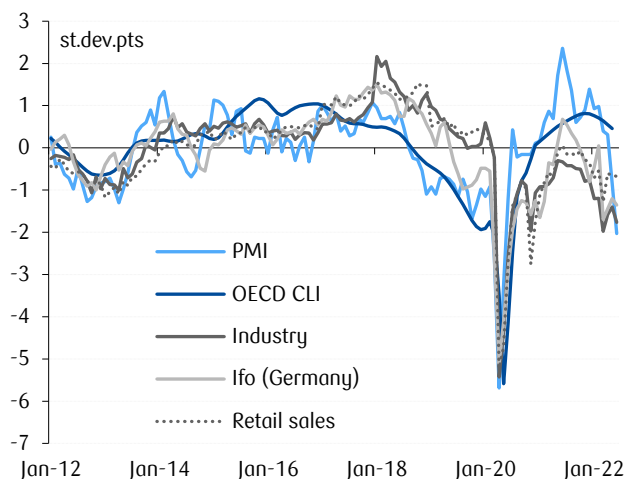


Selected CEE exchange rates against the EUR

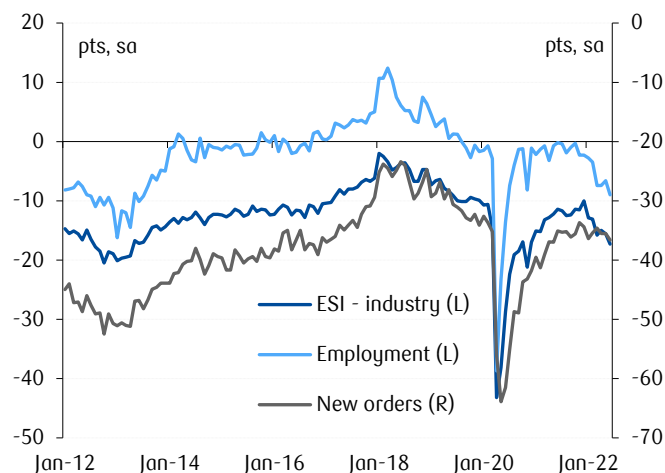


Source: Datastream, NBP, PKO Bank Polski. \*for PLN, and EUR 6M, for USD 3M.

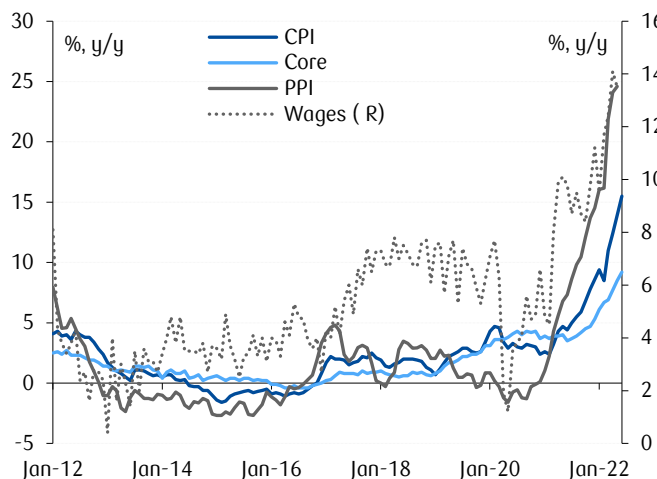
### Economic sentiment indicators



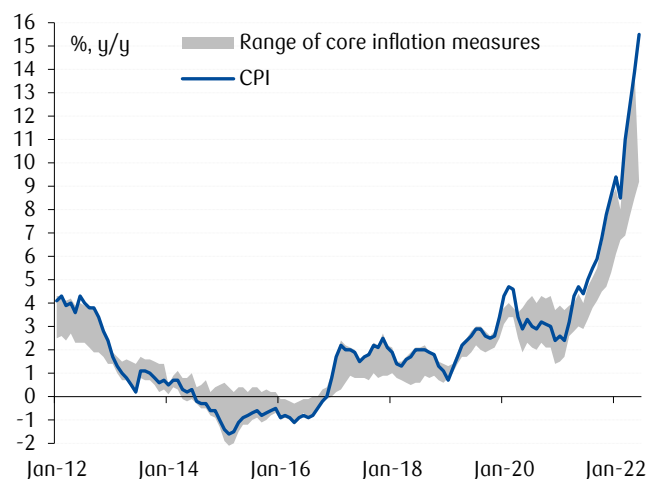
### Poland ESI for industry and its components



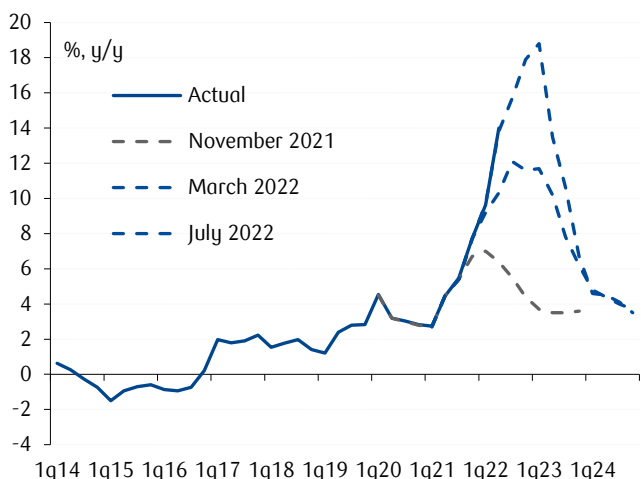
### Broad inflation measures



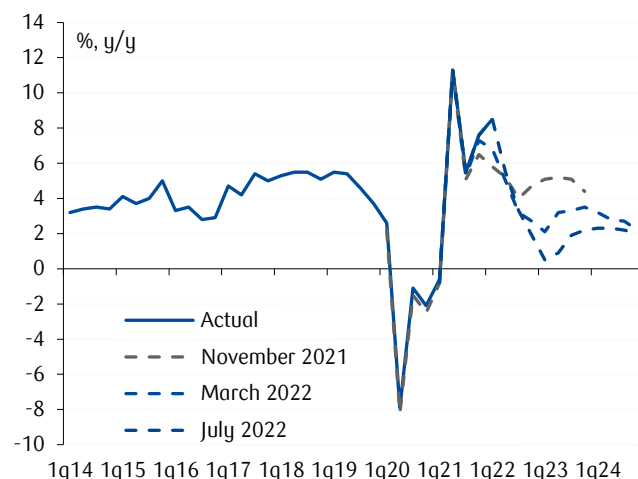
### CPI and core inflation measures



### CPI inflation – NBP projections vs. actual

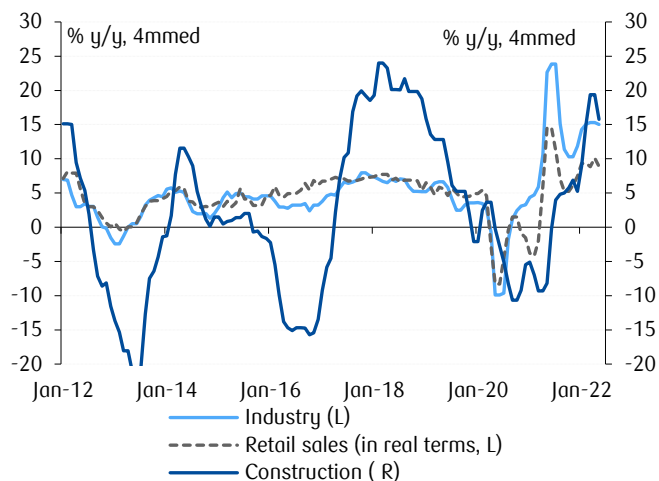


### Real GDP growth – NBP projections vs. actual

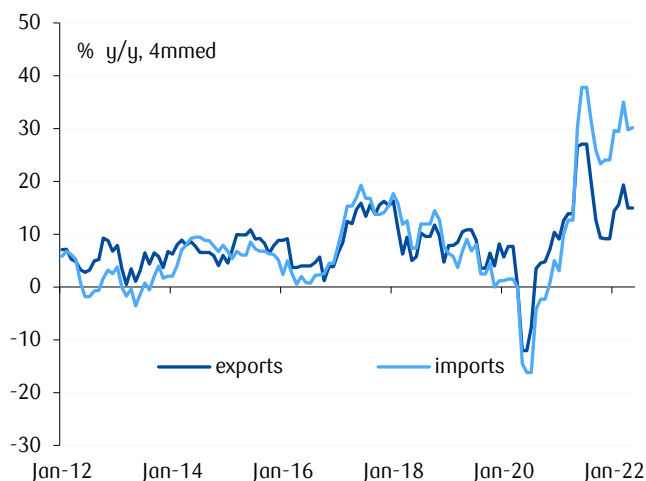


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

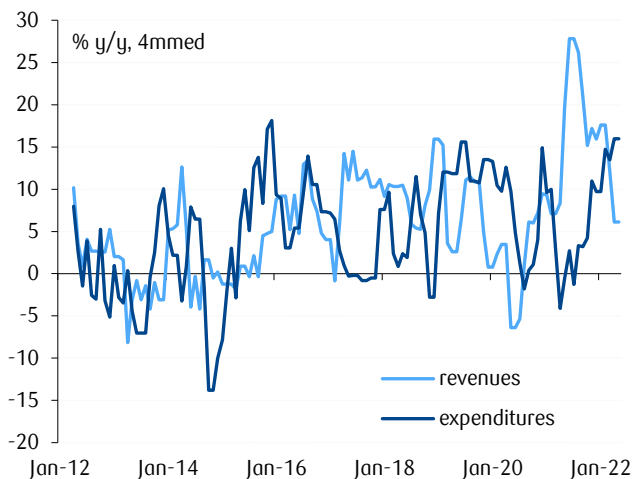
### Economic activity indicators



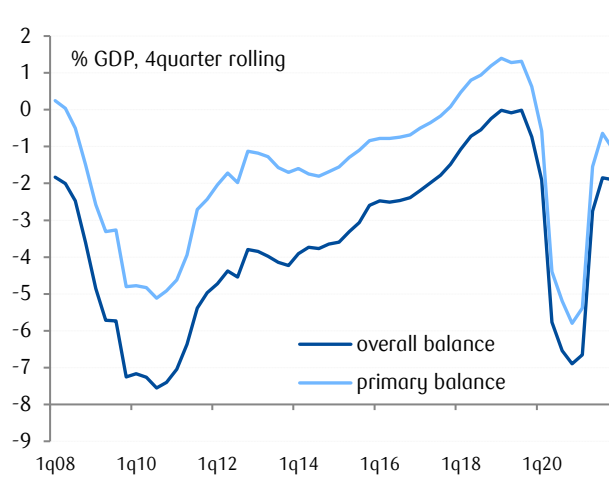
### Merchandise trade (in EUR terms)



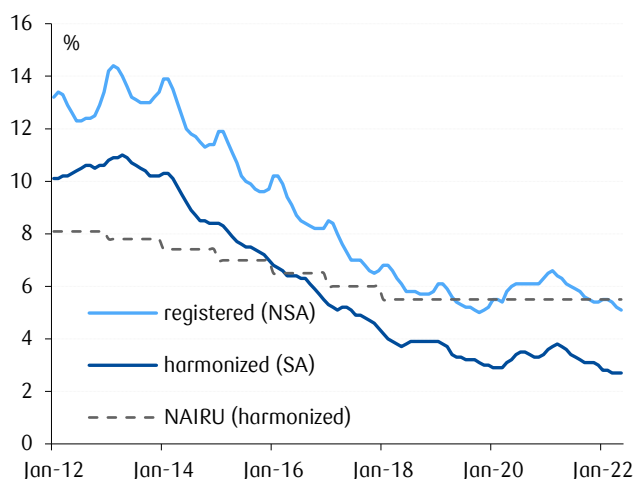
### Central government revenues and expenditures\*



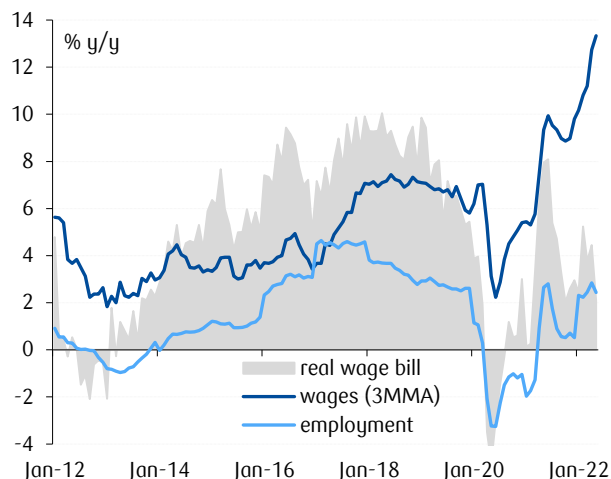
### General government balance (ESA2010)



### Unemployment rate



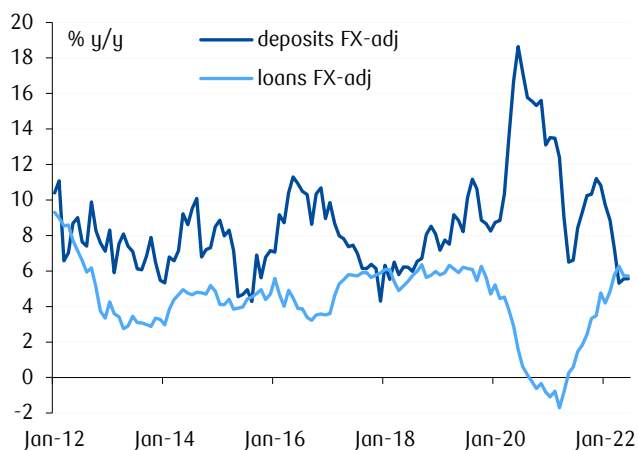
### Employment and wages in the enterprise sector



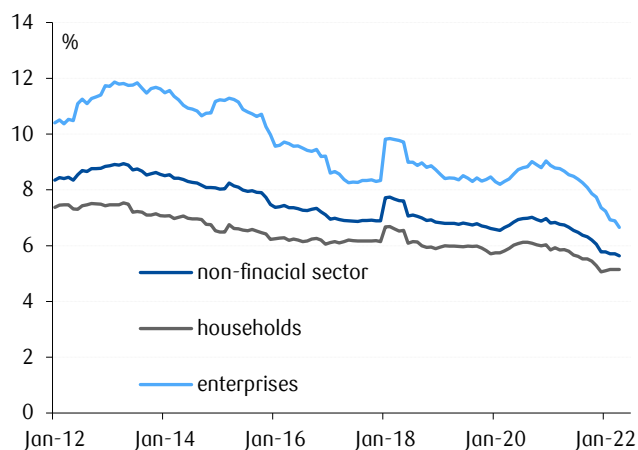
Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. \*break in series in 2010 due to methodological changes.



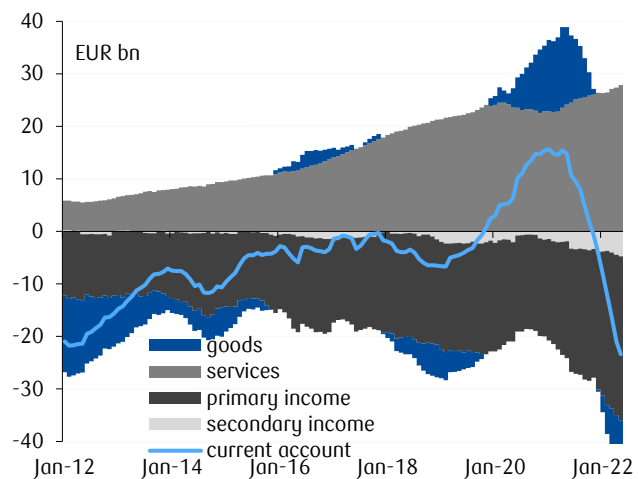
### Loans and deposits



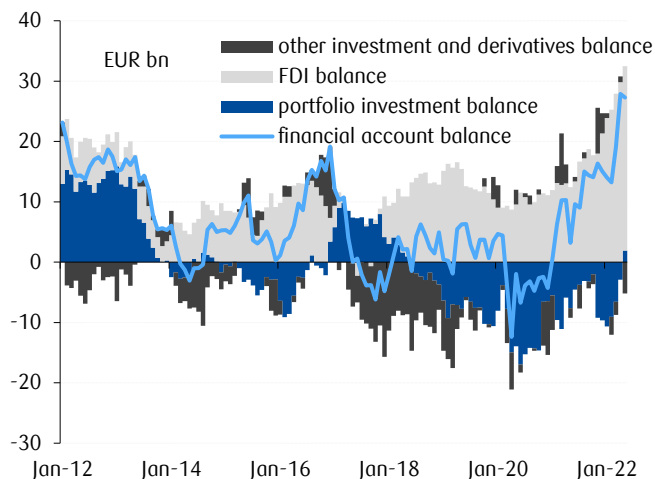
### Non-performing loans (NPLs) - by sectors\*



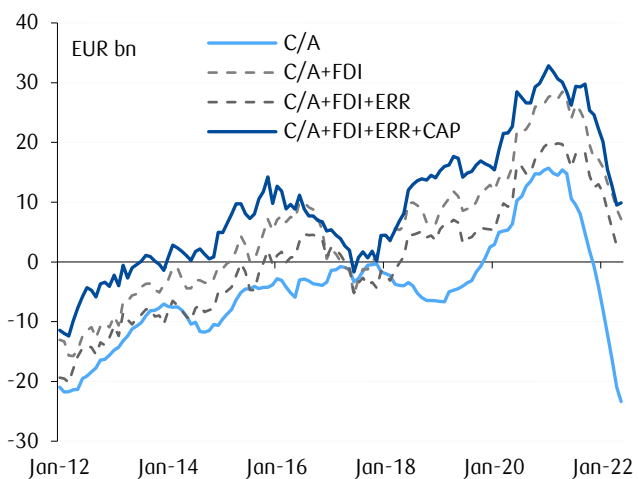
### Current account balance



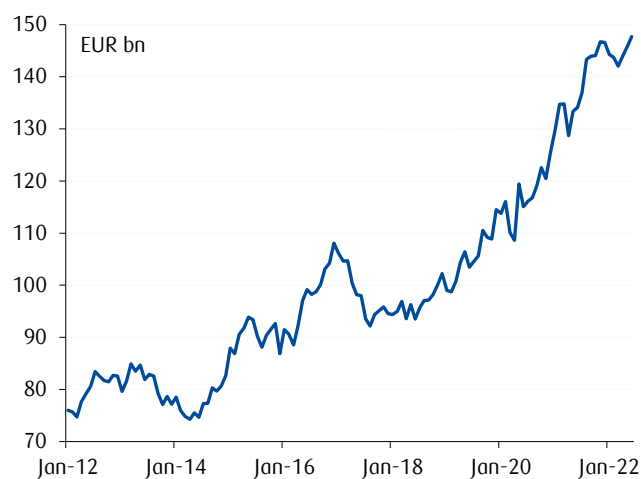
### Financial account balance



### 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 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)
- [GDP growth rate at 5%?](#) (May 20, 2022)
- [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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- [The calm before the storm](#) (Mar 18, 2022)
- [Hawkish governor in front of a hawkish MPC](#) (Mar 11, 2022)
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- [Russian invasion - repercussions for Poland](#) (Feb 25, 2022)
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- [NBP likes stronger PLN](#) (Feb 11, 2022)
- [Can we afford the Anti-Inflationary Shield?](#) (Feb 4, 2022)
- [GDP growth surged in 4q21 to end 2021 on a high note](#) (Jan 28, 2022)
- [Successful 2021 behind us, challenging 2022 ahead](#) (Jan 21, 2022)
- [Inflation's back, policy fights back](#) (Jan 14, 2022)
- [Housing market boom is getting over](#) (Dec 17, 2021)
- [It's not the last word on the matter](#) (Dec 10, 2021)
- [Monetary policy dilemmas](#) (Dec 3, 2021)
- [It's getting tricky](#) (Nov 26, 2021)
- [Macro picture is getting cloudy](#) (Nov 19, 2021)
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- [Inflation dilemma could reignite policy tightening](#) (Oct 29, 2021)

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