

NBP rate hikes coming to an end

TOP MACRO THEME(S):

- **Two more hikes and over? (p. 2):** As inflation is nearing a peak and the economic growth outlook is getting grimmer (to be confirmed in fresh NBP projection), the MPC is likely to end the tightening cycle soon. We assume two more rate hikes of 50bps each in July and September, taking the the NBP reference rate to 7.00%.

WHAT ELSE CAUGHT OUR EYE:

- **Manufacturing PMI for June plummeted to 44.4** (from 48.5 in May) suggesting that recession in manufacturing sector has already begun.
- **CPI inflation hit 15.6% y/y** (up from 13.9% y/y in May) while core inflation increased to 9.1-9.2% y/y (on our estimates, from 8.5% y/y in May). Waning core inflation momentum as well as a potential deep economic slowdown support a more cautious approach to monetary policy tightening in Poland.
- **The state budget sported a surplus of PLN 12.1bn after May as a result of a significant increase in tax revenues.** That said, 2022 fiscal result will depend on the shape of the amendment to the budget act planned for holiday period.
- **Current account balance** has been revised down, hitting -2.7% of GDP in 1q22 (12-month rolling, vs. 2.2% of GDP previously), while C/A balance for 2021 was -0.7% of GDP (vs -0.6% of GDP previously). Data indicate that external imbalance at start of 2022 was bigger than we have previously thought and that C/A balance will dive below 3.0% of GDP in 2022 (on our forecasts).
- The European Commission representatives suggested that concessions made by Poland so far are not sufficient to trigger the Domestic Recovery Fund payments.

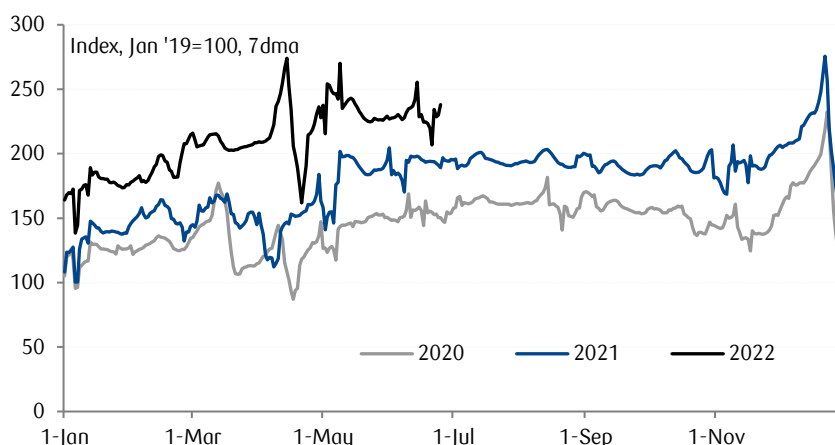
THE WEEK AHEAD:

- Except for the MPC meeting with fresh NBP projections (see top theme section), we will also get **minutes of the MPC meeting in June**, but it should be a non-event in our opinion given a package of new information (data and new projections) the Council has been provided with since early June.

NUMBER OF THE WEEK:

- 5 – US Army 5th Corps permanent HQ to be established in Poland.

PKO customers card payments by value



Source: PKO Bank Polski.

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	2021	2022 _†
Real GDP (%)	5.9	4.9
Industrial output (%)	15.4	12.9
Unemployment rate [#] (%)	5.4	4.7
CPI inflation ^{**} (%)	5.1	13.1
Core inflation ^{**} (%)	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 ^{##} (%)	1.75	7.00
EURPLN ^{†##}	4.60	4.55

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.

Two more hikes and over?

- As inflation is nearing a peak and the economic growth outlook is getting grimmer (to be confirmed in fresh NBP projection), the MPC is likely to end the tightening cycle soon. We assume two more rate hikes of 50bps each in July and September, taking the the NBP reference rate to 7.00%.

We assume that the MPC is approaching the end of the interest rate hike cycle. The Council still wants to react to the rise in current inflation in order to anchor inflation expectations and therefore we predict an increase in NBP rates by 100bp in 3q22 (reference rate to 7.00%), in two moves of 50bp each in July and September. The balance of risk for such a scenario is asymmetrical towards a greater number and scale of hikes due to strong current inflationary pressures (inflation peak may peak higher and later) and the possible pressure on the zloty related to a significant tightening of the Fed's monetary policy.

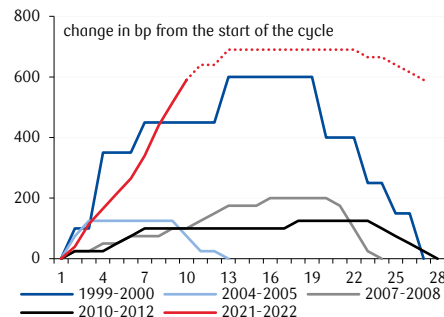
However, we see a number of arguments for taking a more cautious approach. Firstly, the scale of the tightening of monetary policy to date has been drastic and will contribute to a significant cooling of the economic situation (recession from 3q22 to 1q23), which is already clearly visible in the credit and housing markets, but also more and more in consumer behaviour. In our opinion, the Monetary Policy Council may take into account that the current cycle of increases will be more costly for growth than it results from the previous estimates of the central bank (according to the NBP research, an increase in WIBOR3M by 1pp after 3-5 quarters reduces GDP growth by 0.2-0.4pp and inflation by 0.2-0.3pp). A quick and large scale of increases may imply a non-linear impact (each subsequent rate hike weakens growth more and more). In particular, the response of the demand of households that use mortgages much more than a decade ago (mortgage loans to GDP ratio increased from 7% in 2010 to 16% in 2021) may be stronger than in model estimates.

Secondly, monetary conditions in Poland will continue to tighten even without further increases in NBP rates, due to indexation of loan agreements (lagged effect of previous hikes), tightening of lending policy due to Polish FSA recommendations and rate hikes by the SNB and ECB (over 20% of mortgages in Poland are still in foreign currency, mostly CHF).

Thirdly, after the 'green light' for the Domestic Recovery Plan, the zloty behaves more like the Czech koruna and not the Hungarian forint, which means that the risk premium required by the aggressive Fed policy can be limited. The announced change in CNB policy led by the new ultra-dovish governor (A.Michl) will be a test for the option of ending the NBP rate hikes cycle.

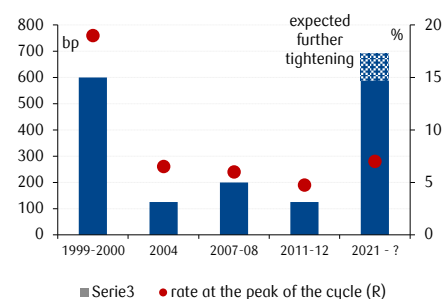
Finally, the fresh NBP projections may indicate, on our (gu)estimates, that the inflation will converge in mid-term towards the NBP target at 2.5% and/or incoming slowdown will weigh on labour market. Indeed, previous projection from March has already showed that CPI inflation at end-2024 will be a tad higher than NBP's permissible volatility band around the inflation target (i.e. 2.5% +/-1pp). The short-run part of CPI inflation path will definitely be moved higher (see margin chart) due to a large inflation surprise already in the first quarter of March projection, but this doesn't mean that the longer-end will follow. Given that long-term assumptions on esp. commodity prices have been made on commodity futures this should definitely be 'disinflationary'. Additionally, we think GDP growth projection will barely change in 2022 (or move slightly higher) but will be downgraded in 2023. This should translate via NBP model's mechanisms into a poorer outcome of labour market. This is a concern to many MPC members, incl. NBP governor who often repeats a 20%+ unemployment rate at start of 2000s blaming a drastic 1999-2000 monetary tightening (see margin charts) for that situation.

Tightening cycles in Poland



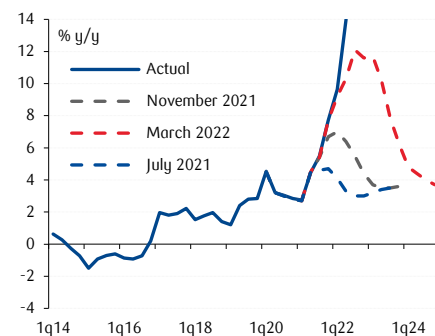
Source: NBP, PKO Bank Polski.

Tightening cycles in Poland



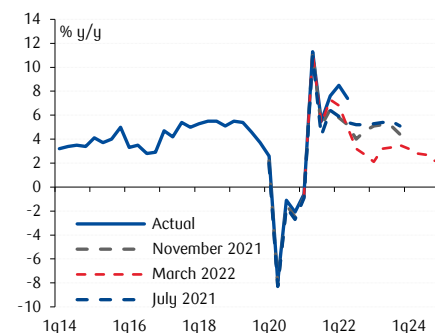
Source: NBP, PKO Bank Polski.

CPI inflation – NBP projections vs. actual



Source: GUS, NBP, PKO Bank Polski.

GDP growth – NBP projections vs. actual



Source: GUS, NBP, PKO Bank Polski.

Weekly economic calendar

Indicator	Time (UK)	Unit	Previous	Consensus*	PKO BP	Comment
Monday, 4 July						
GER: Exports (May)	7:00	% m/m	4.4	-0.4	--	--
GER: Imports (May)	7:00	% m/m	3.1	1.8	--	--
EUR: Sentix Index (Jul)	9:30	pts.	-15.8	-19.5	--	--
Tuesday, 5 July						
GER: Services PMI (Jun, final)	8:55	pts.	55.0	52.4	--	--
EUR: Services PMI (Jun, final)	9:00	pts.	56.1	52.8	--	--
USA: Factory orders (May)	15:00	% m/m	0.3	0.5	--	--
USA: Durable goods orders (May, final)	15:00	% m/m	0.4	0.7	--	--
Wednesday, 6 July						
GER: Factory orders (May)	7:00	% y/y	-6.2	--	--	--
EUR: Retail sales (May)	10:00	% y/y	3.9	--	--	--
USA: JOLTS Report (May)	15:00	--	--	--	--	--
USA: Minutes Fed (Jun)	19:00	--	--	--	--	--
Thursday, 7 July						
GER: Industrial output (May)	7:00	% y/y	-2.2	--	--	--
EUR: ECB minutes (Jun)	12:30	--	--	--	--	--
USA: ADP National Employment (Jun)	13:15	thous.	128	200	--	--
USA: Initial Jobless Claims	13:30	thous.	231	230	--	--
POL: NBP base rate (Jul)	--	%	6.00	6.50	6.50	We think the cycle is approaching its final phase (target rate at 7.00%).
Friday, 8 July						
HUN: CPI inflation (Jun)	8:00	% y/y	10.7	--	--	--
POL: MPC minutes (Jun)	13:00	--	--	--	--	A non-event given a new set of information the MPC has been provided with since early June.
USA: Non-Farm Payrolls (Jun)	13:30	thous.	390	290	--	--
USA: Unemployment Rate (Jun)	13:30	%	3.6	3.6	--	--
USA: Average Earnings (Jun)	13:30	% y/y	5.2	5.1	--	--

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 in July the interest rate hike should measure at least 100 bps (...) you cannot combat 14% or 16% inflation with interest rates at 6%." (28.06.2022, PAP)
H. Wnorowski	4.2	"Today, there is no other option, as long as subsequent inflation readings are ever higher the direction of interest rates policy remains clear cut," Wnorowski said. "What remains as our responsibility and our decision is the scale of the hikes." (30.06.2022, PAP, TV Trwam)
A. Glapinski	3.4	"We are certainly closer to the end than to the beginning of the cycle. (...) Assuming that no unexpected events take place, towards the end of 2023 the option could open to cut interest rates. (...) What if inflation peak shifts to the autumn? Then the rate hike cycle will last longer." (9.06.2022, NBP)
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. Dąbrowski	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.

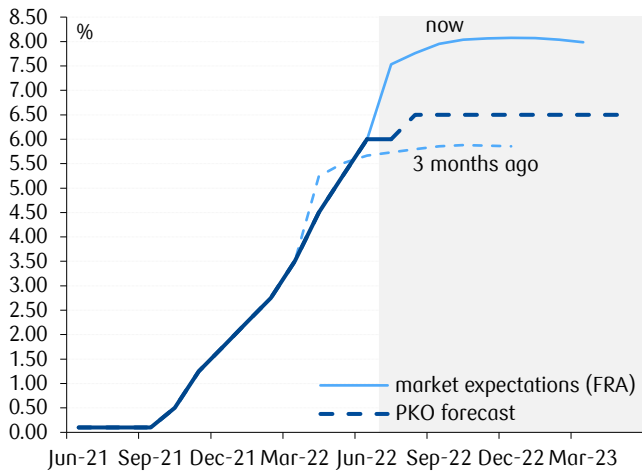
Interest rates – PKO BP forecasts vs. market expectations

		1M	2M	3M	4M	5M	6M	7M	8M	9M
Date	30-Jun	30-Jul	30-Aug	30-Sep	30-Oct	30-Nov	30-Dec	30-Jan	28-Feb	28-Mar
WIBOR 3M/FRA†	7.05	7.74	7.96	8.15	8.24	8.27	8.28	8.27	8.24	8.19
implied change (b. p.)		0.69	1.31	1.90	2.39	2.42	2.43	2.42	2.39	2.34
MPC Meeting	7-Jul	-	7-Sep	5-Oct	9-Nov	7-Dec	-	-	-	-
PKO BP forecast*	6.00	6.00	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50
market pricing*		6.69	7.31	7.90	8.39	8.42	8.43	8.42	8.39	8.34

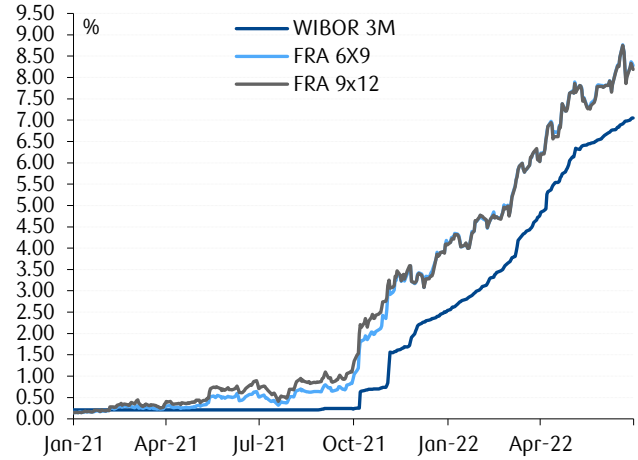
†WIBOR 3M from the last fixing, FRA transactions based on WIBOR 3M for subsequent periods, ‡in basis points, *PKO BP forecast of the NBP reference rate.

Poland macro chartbook

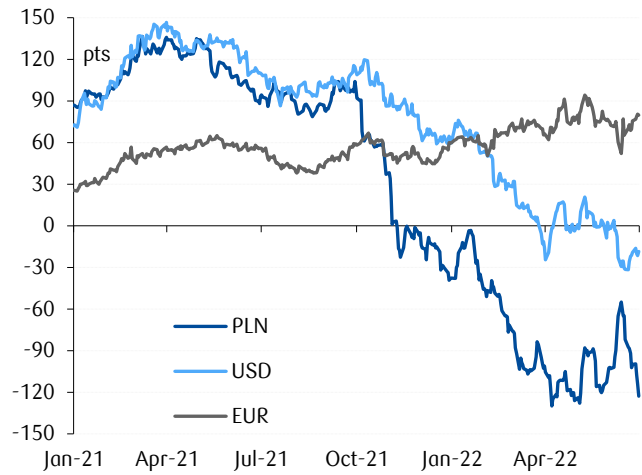
NBP policy rate: PKO BP forecast vs. market expectations



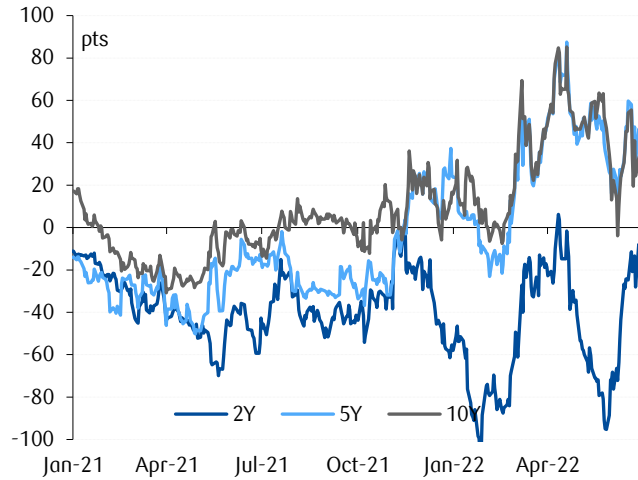
Short-term PLN interest rates



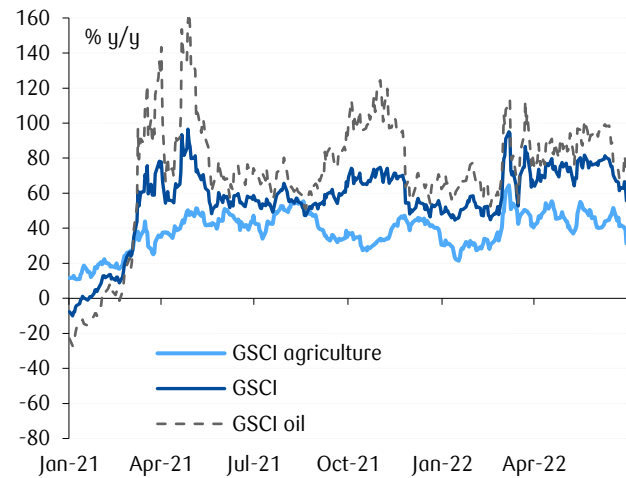
Slope of the swap curve (spread 10Y-2Y)*



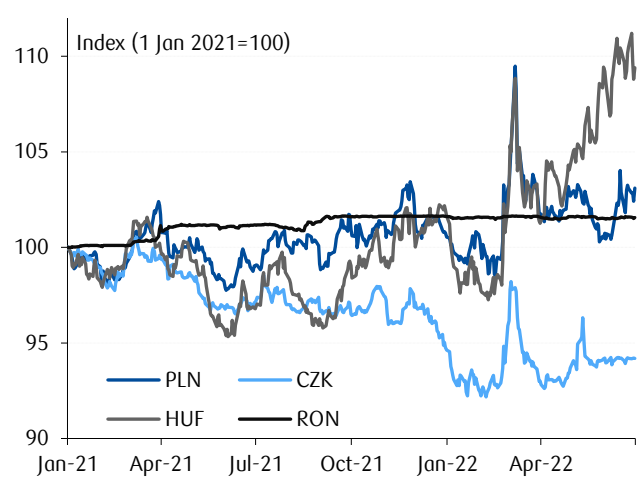
PLN asset swap spread



Global commodity prices (in PLN)

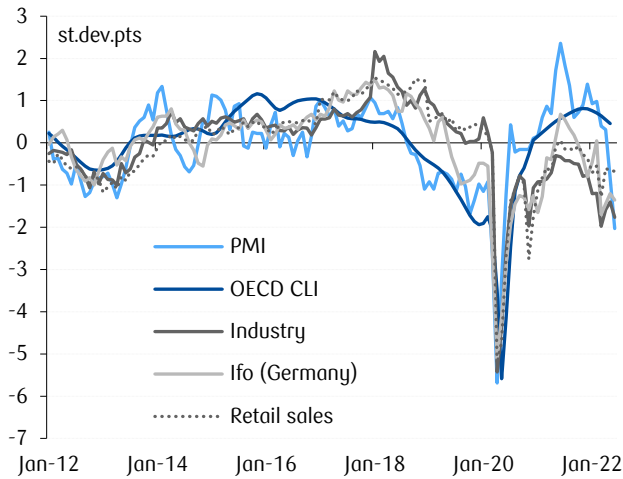


Selected CEE exchange rates against the EUR

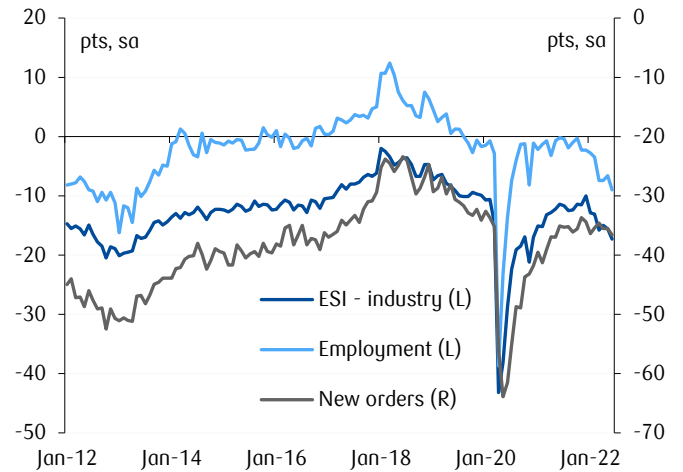


Source: Datastream, NBP, PKO Bank Polski. *for PLN, and EUR 6M, for USD 3M.

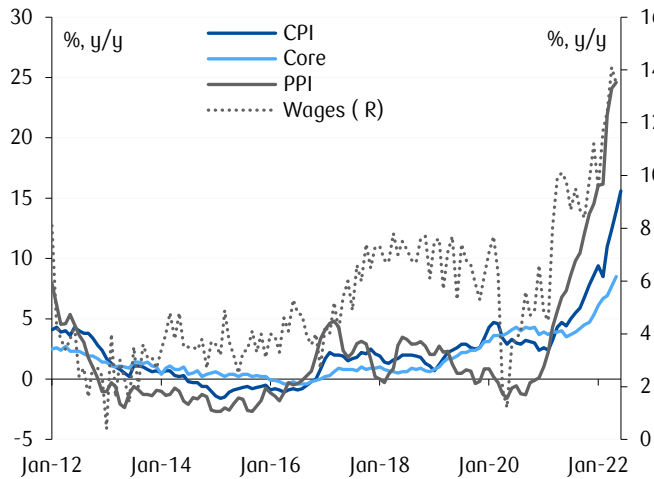
Economic sentiment indicators



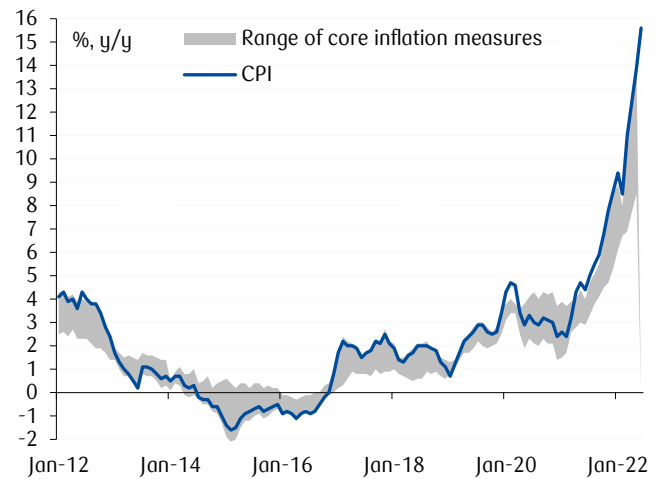
Poland ESI for industry and its components



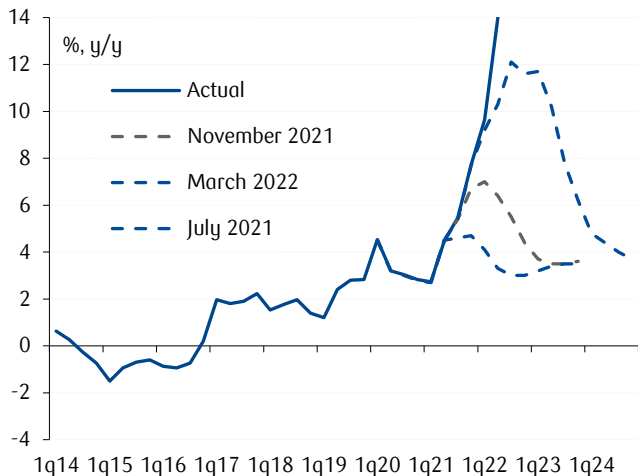
Broad inflation measures



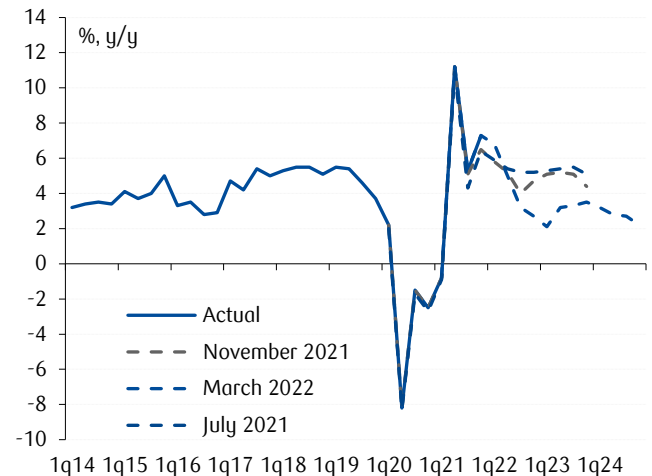
CPI and core inflation measures



CPI inflation – NBP projections vs. actual

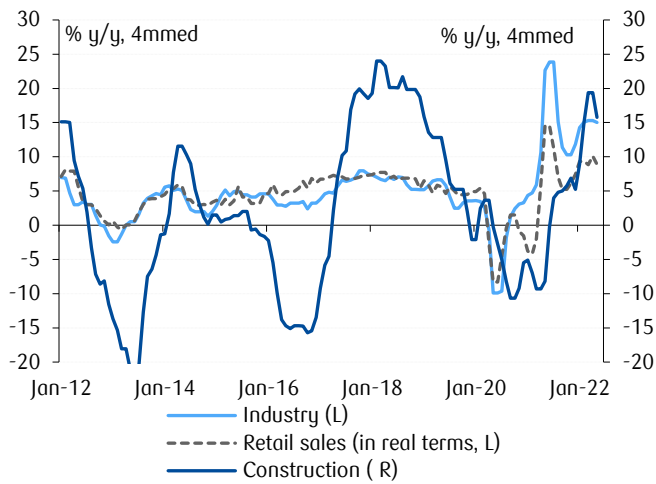


Real GDP growth – NBP projections vs. actual

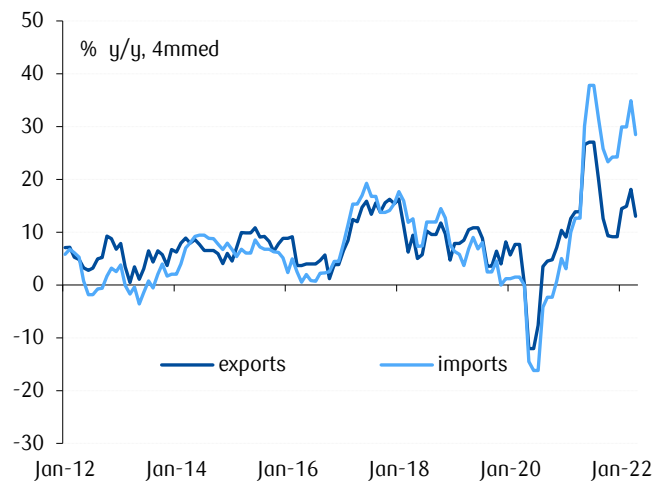


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

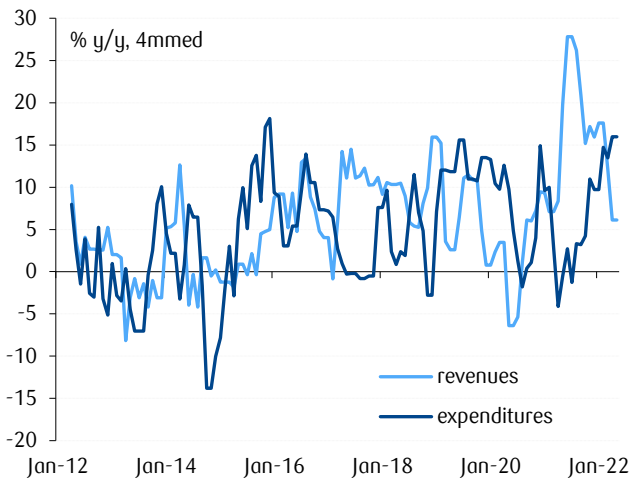
Economic activity indicators



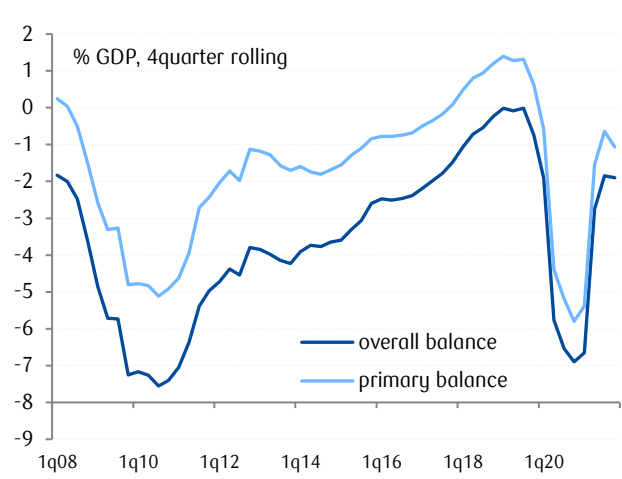
Merchandise trade (in EUR terms)



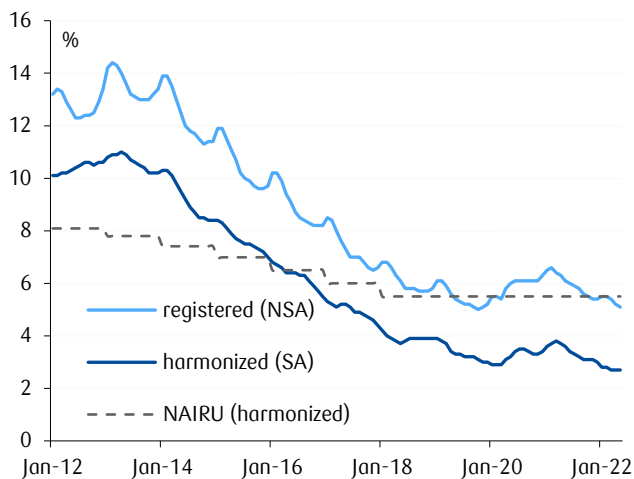
Central government revenues and expenditures*



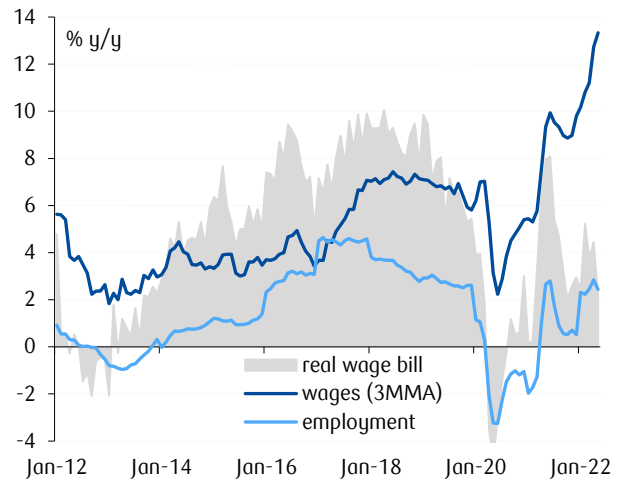
General government balance (ESA2010)



Unemployment rate

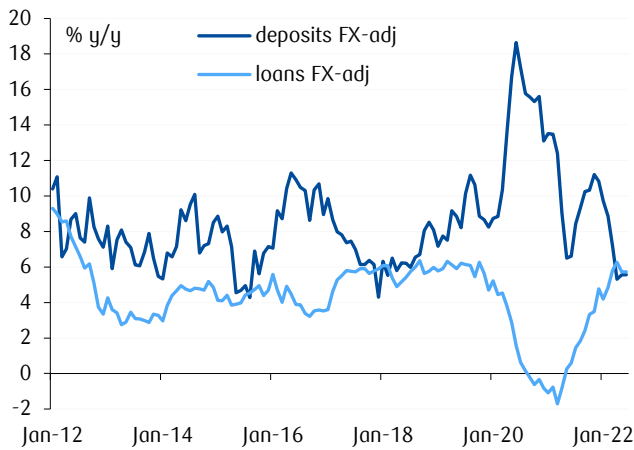


Employment and wages in the enterprise sector

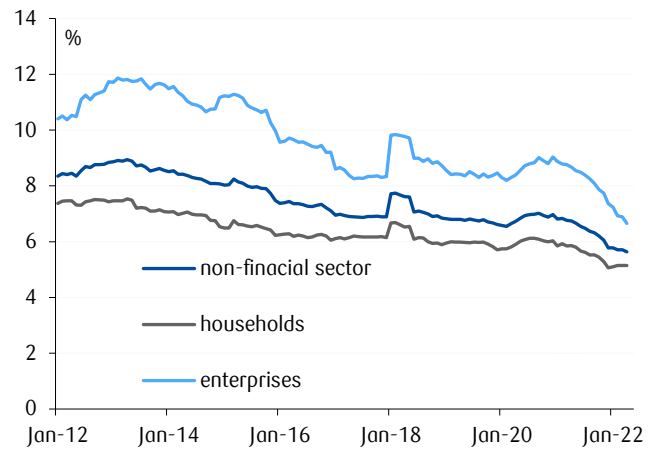


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. *break in series in 2010 due to methodological changes.

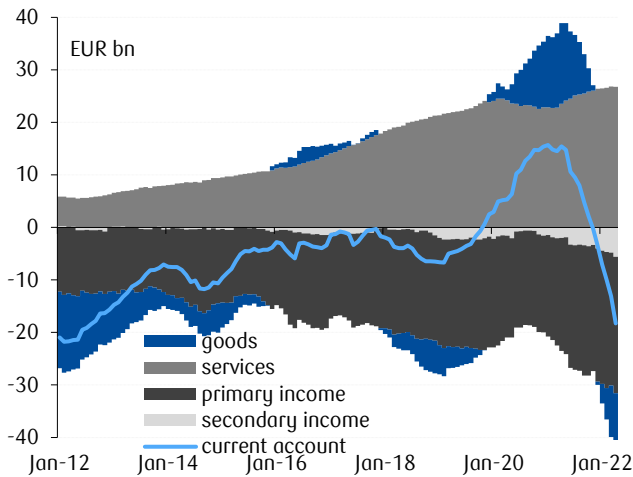
Loans and deposits



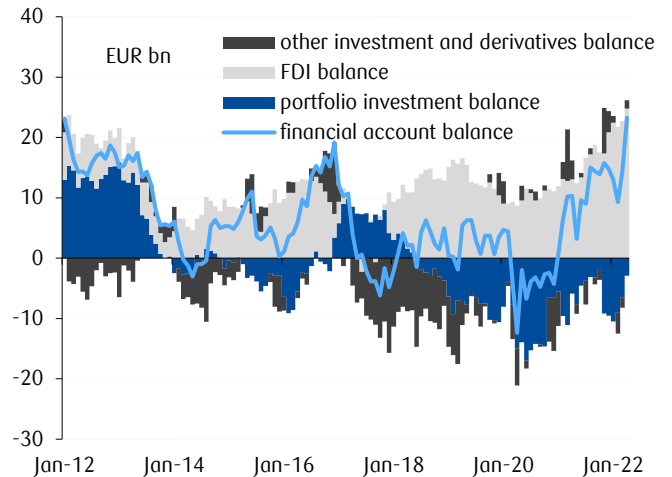
Non-performing loans (NPLs) - by sectors*



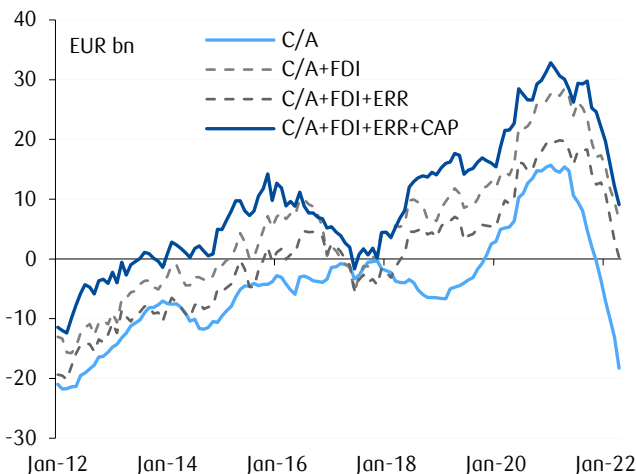
Current account balance



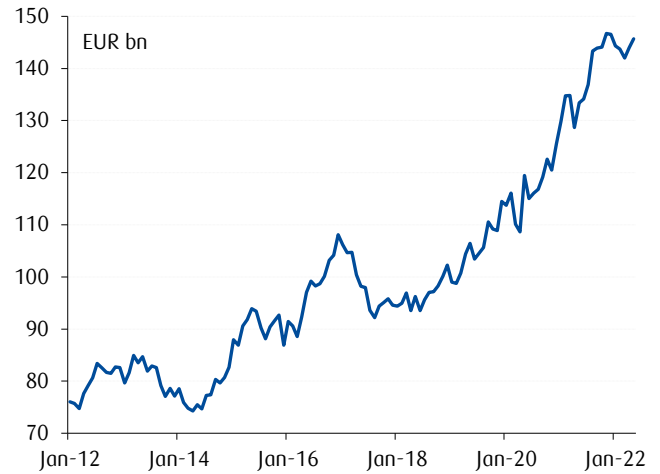
Financial account balance



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:

- [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)
- [Housing sales in gloom, rental market in bloom](#) (Mar 25, 2022)
- [The calm before the storm](#) (Mar 18, 2022)
- [Hawkish governor in front of a hawkish MPC](#) (Mar 11, 2022)
- [#StandWithUkraine](#) (Mar 04, 2022)
- [Russian invasion - repercussions for Poland](#) (Feb 25, 2022)
- [A moment of relief for the MPC](#) (Feb 18, 2022)
- [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)
- [Normalisation](#) (Nov 12, 2021)
- [Can households afford NBP rate hikes?](#) (Nov 5, 2021)
- [Inflation dilemma could reignite policy tightening](#) (Oct 29, 2021)
- [Missing parts](#) (Oct 22, 2021)
- [Costly recovery](#) (Oct 15, 2021)

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