

## The end of the tightening cycle

### TOP MACRO THEME(S):

- **Stronger zloty = lower rates? (p. 2):** The MPC keeps interest rates stable, but first cuts are already looming on the horizon, as the tightening has been officially concluded. The fx channel might be essential in pushing CPI inflation down, the newest estimates show.

### WHAT ELSE CAUGHT OUR EYE:

- **PMI manufacturing indicator decreased significantly in June – to 45.1 pts from 47.0 pts in May.** Details of the report indicate a rapid fall of new orders (especially from Germany), what results in adjustments on the production side – companies reduced production level, buying activity and were mainly processing unfilled orders. Decreasing inventories and shortening of delivery times are further evidences of a weak demand. The key finding of the June data was the **continued sharp decline of input and output prices**, confirming that disinflationary processes in manufacturing are intensifying.
- **Unemployment rate in June fell to 5.0% from 5.1% in May (according to MinLab estimate), equalling the historic low record (5.0% in October 2019).** The results are in line with our forecast and the seasonal pattern. The labour market is resilient to weak economic conditions – this will support the rebound, but might make it more challenging for inflation to return to the target.
- **The value of announced foreign direct investment (FDI) in Poland in 2022 decreased to \$17.8 bn (-0.4% y/y).** Poland managed to maintain its high position among FDI recipients in Europe, but a deterioration in the position of the CEE region in relation to the southern EU countries (eq. Spain, Italy) and the UK is noticeable.

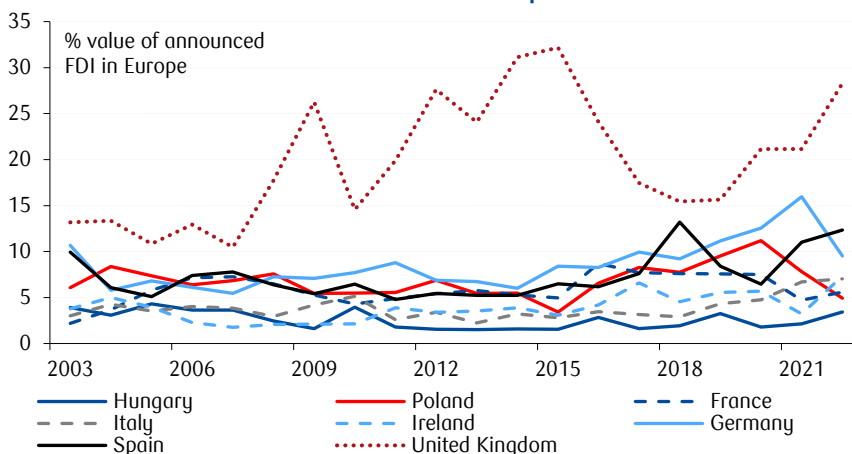
### THE WEEK AHEAD:

- **May BoP report should still show CAB surplus, however, smaller than in previous months.** That does not change our view – Polish external position is improving due to terms-of-trade normalisation, reversal of inventories cycle as well as strong exports.
- **Final CPI data for June should confirm fast disinflation (11.5% y/y according to flash estimate from 13.0% y/y in May).**

### NUMBER OF THE WEEK:

- **785 ths** – number of registered unemployed in Jun'23, the lowest since Aug'90.

### CHART OF THE WEEK: Announced FDI in Europe



Source: UNCTAD, 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

Anna Wojtyniak  
Economist  
anna.wojtyniak@pkobp.pl

	2022	2023
Real GDP (%)	5.1	0.7
Industrial output (%)	10.5	-0.1
Unemployment rate# (%)	5.2	5.2
CPI inflation** (%)	14.4	12.0
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	4.50

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

## Stronger zloty = lower rates?

- The MPC keeps interest rates stable, but the pivot towards a gradual loosening cycle is looming on the horizon. The tightening cycle has been officially concluded.
- The new inflation projection confirms that the NBP inflation target should be reached in 2025, within the current monetary policy horizon.
- The recent research assessing the monetary policy pass-through underlines the strength of fx rate, which seems to gain strength in the periods of elevated inflation.

The MPC has decided to keep interest unchanged at its meeting in June, in line with our forecast and market expectations, and for the 10<sup>th</sup> month in a row. The reference rate remains at its peak in the current tightening cycle (6.75%) since September 2022, which is a relatively long time compared to historical cycles. At the press conference the NBP Governor A.Glapinski informed, that the MPC has decided to officially end the tightening cycle, which – under normal circumstances is a first step towards interest rate cuts.

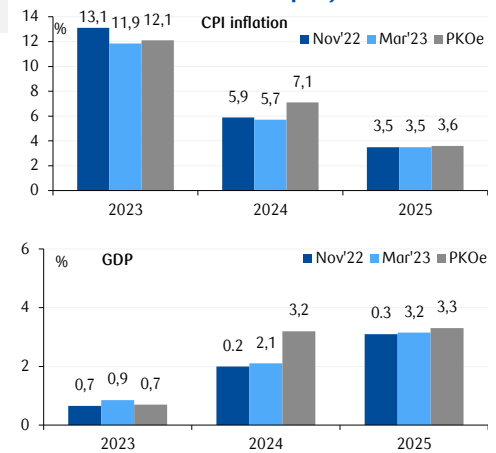
As the very decision of the MPC at this meeting did not raise any major doubts, the main indications of the new inflation projection were the focus of interest. First of all, the new projection confirms the indication from the March report that CPI inflation will return to the range of acceptable deviations from the inflation target (2.5% +/- 1pp) in 2025, which means that it will reach the target within the period of the current monetary policy transmission lag. Compared to the previous projection (published early March with cut of date at the end of February) the current one shows slightly lower CPI inflation in 2024 (5.3% vs 5.7%) and slightly stronger GDP growth next year (2.4% vs 2.1%). Both GDP and CPI forecasts at the short (2023) and long (2025) end of the projection horizon have remained roughly unchanged. The full Inflation Report will be published and presented at the press conference next Monday (10<sup>th</sup> July). In our view the new projection might overestimate the strength of disinflation in 2024 and underestimate the potential for GDP rebound in 2024 (see margin charts).

The [press release](#) has barely changed compared to June, apart from the projection. The MPC noted the stabilization of prices in June, a decrease in the inflation rate and another drop in the core inflation. It was also stated that the strong decline in PPI inflation (to 3.1% y/y in May compared to over 25% y/y in 3q22) is a prove that external supply shocks are waning. Combined with weaker economic conditions it will be conducive to a further decline in the CPI inflation in the coming quarters.

According to the MPC the strong monetary policy tightening undertaken by the NBP is already leading to a decline in inflation towards the inflation target. In previous months this statement was less categorical – the MPC was assessing that the monetary policy tightening will be leading to a decline in inflation. Nevertheless, MPC still accepts the fact, that given the strength and persistence of the earlier shocks, which remain beyond the impact of domestic monetary policy, the return of inflation to the target will be gradual.

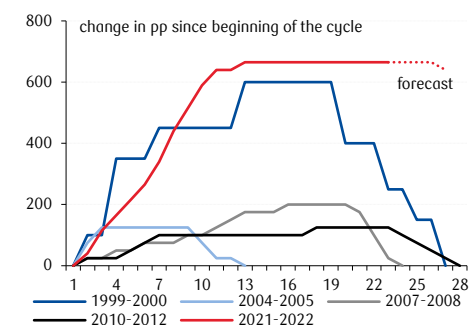
As previously the MPC stated that the decrease in inflation would be faster if supported by an appreciation of the zloty exchange rate, which in the

### NBP inflation and GDP projection



Source: NBP, PKO Bank Polski.

### The current and historical tightening cycles



Source: NBP, PKO Bank Polski.

Council's assessment, would be consistent with the fundamentals of the Polish economy. This statement has been repeated by the MPC every month since April 2022. Compared to its peak in October 2022 the EURPLN rate has declined by 6% (from around 4.70 towards 4.45 currently) and USDPLN by around 18% (from around 5.00 towards 4.05-4.10 currently). The statement shows that the MPC sees (fundamental) space for further PLN appreciation and that it would be welcomed.

**Recently published report on monetary policy pass-through in Poland (available in Polish [here](#)) confirms that fx rate has a major impact on CPI inflation.** According to the estimates on average an appreciation of the nominal effective exchange rate by 1% results in a decline of consumer prices by 0.09%. According to the report however, **the strength of the fx channel increases in the periods of elevated inflation and might reach 0.15% or even 0.20% in the case of HICP.** The fx rate is also the major channel of the monetary policy pass-through to inflation. According to the report a 100bp rise in the 3mWibor leads to PLN appreciation by app. 0.8-1.2%, reduces the GDP growth rate by max. 0.3% (with a 2-4 quarters delay) and reduces the CPI inflation by max. 0.3% (with a 6 quarters delay), while half of the estimated CPI decline is driven by the exchange rate.

**The MPC declares that its next decisions will be determined by the incoming data. In our view the news/data-flow will be conducive to a gradual shift towards a less restrictive approach.** CPI inflation might turn single-digit in September, PPI inflation might turn negative, economic conditions will remain relatively weak (GDP decline in 2q and only a minor growth in 3q). During the press conference the NBP Governor A.Glapinski reiterated that in his opinion **a cautious cycle of interest rate cuts (with moves by 25bp) might start if current inflation declines below 10% and if forecasts show with a high degree of certainty that the CPI inflation should keep on falling and reach the NBP target.** These two preconditions might be fulfilled in October already. Therefore, we still expect that a gradual cycle of interest rates cuts will begin before the end of the year, most likely in November (our base scenario so far) or even in October.

## Weekly economic calendar

Indicator	Time (UK)	Unit	Previous	Consensus*	PKO BP	Comment
<b>Monday, 10 July</b>						
CHN: CPI inflation (Jun)	2:30	% y/y	0.2	0.2	--	--
CHN: PPI inflation (Jun)	2:30	% y/y	-4.6	-5.0	--	--
EUR: Sentix Index (Jul)	9:30	pct.	-17.0	--	--	--
<b>Tuesday, 11 July</b>						
GER: CPI inflation (Jun, final)	7:00	% y/y	6.1	6.4	--	--
GER: HICP inflation (Jun, final)	7:00	% y/y	6.3	6.8	--	--
GER: ZEW Economic Sentiment (Jul)	10:00	pct.	-8.5	--	--	--
<b>Wednesday, 12 July</b>						
USA: CPI inflation (Jun)	13:30	% y/y	4.0	3.1	--	--
USA: Core inflation (Jun)	13:30	% y/y	5.3	5.0	--	--
<b>Thursday, 13 July</b>						
CZ: CPI inflation (Jun)	8:00	% y/y	11.1	--	--	--
EUR: Industrial production (May)	10:00	% y/y	0.2	--	--	--
USA: PPI inflation (Jun)	13:30	% y/y	1.1	0.4	--	--
USA: Initial Jobless Claims (Jul)	13:30	tys.	248	--	--	--
<b>Friday, 14 July</b>						
POL: CPI inflation (Jun, final)	9:00	% y/y	13.0	11.5	11.5	Final data should confirm rapid disinflation.
EUR: Trade balance (May)	10:00	bln EUR	-7.1	--	--	--
POL: Current account balance (May)	13:00	mIn EUR	359	560	235	We expect yet another current account surplus, however slightly smaller than in previous months.
POL: Exports (May)	13:00	% y/y	2.4	2.3	-0.6	The decline of export y/y dynamics below 0 should be just temporal.
POL: Imports (May)	13:00	% y/y	-8.8	-5.6	-6.1	Import is under strong impact of reversing inventory cycle and normalising <i>terms-of-trade</i> (Poland is energy net importer).
USA: University of Michigan sentiment (Jul, flash)	15:00	pct.	64.4	65.8	--	--

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	<b>"The MPC has decided that we are ending the cycle of rate hikes. Officially, we were in the tightening cycle, we were ready all the time to raise rates, now we are putting this weapon aside. No one expects something like this to happen anytime soon (...) Of course, if something happens, in the emergency mode, we can take that action, but we are no longer in that mode"</b> (7.07.2023, 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	"The process of disinflation will continue and perhaps in the last quarter of this year interest rate cuts will be possible, which will relieve indebted borrowers and support economic growth. However, this will be possible only when we will be sure that inflation has been brought under control and is falling towards the NBP's inflation target" (29.06.2023, PAP)
I. Dabrowski	1.9	"(...) I think that there is a high probability that interest rates will remain at their current level until the end of September. If the MPC was to consider a motion to cut interest rates, it would rather happen in October (...) 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. I cannot say whether there will be cuts, but maybe at least the council will focus on this topic and hold a discussion" (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.

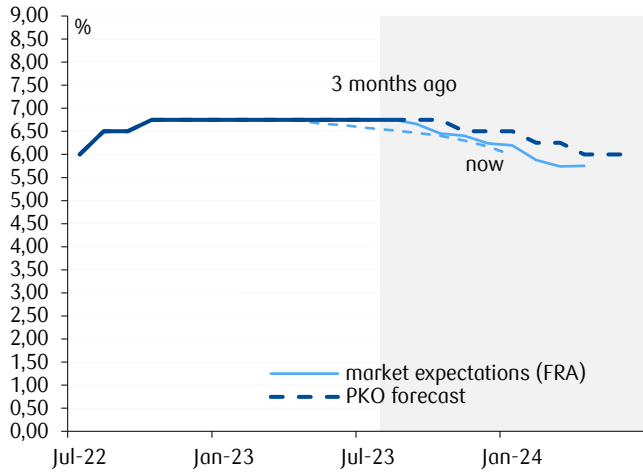
### Interest rates – PKO BP forecasts vs. market expectations

Date	PKO BP forecasts vs. market expectations									
	6-Jul	6-Aug	6-Sep	6-Oct	6-Nov	6-Dec	6-Jan	6-Feb	6-Mar	6-Apr
WIBOR 3M/FRA†	6,90	6,86	6,77	6,54	6,41	6,19	6,10	5,78	5,59	5,61
implied change (b. p.)		-0,04	-0,14	-0,37	-0,50	-0,71	-0,80	-1,12	-1,31	-1,30
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	6,50	6,50	6,50	6,25	6,25	6,00
market pricing^		6,71	6,62	6,39	6,26	6,04	5,95	5,73	5,59	5,61

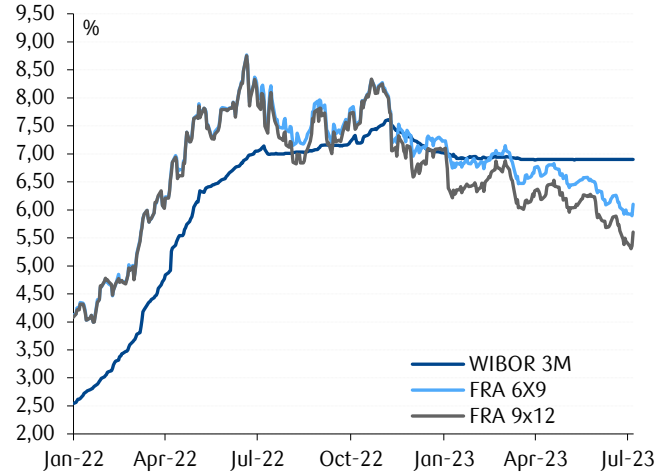
WIBOR 3M from the last fixing, FRA transactions based on WIBOR 3M for subsequent periods, †in basis points, \*PKO BP forecast of the NBP reference rate.

## Poland macro chartbook

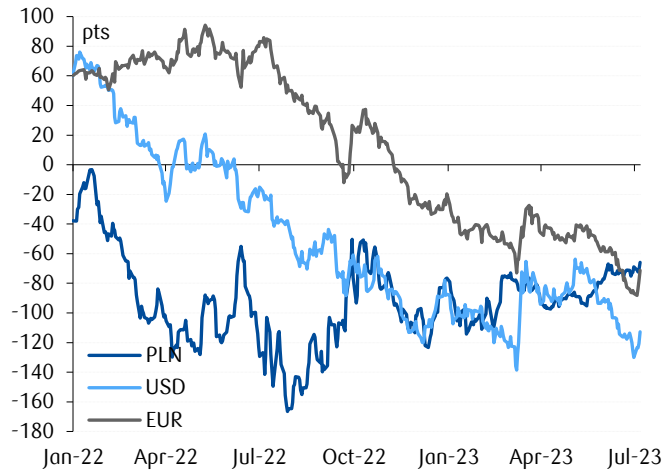
NBP policy rate: PKO BP forecast vs. market expectations



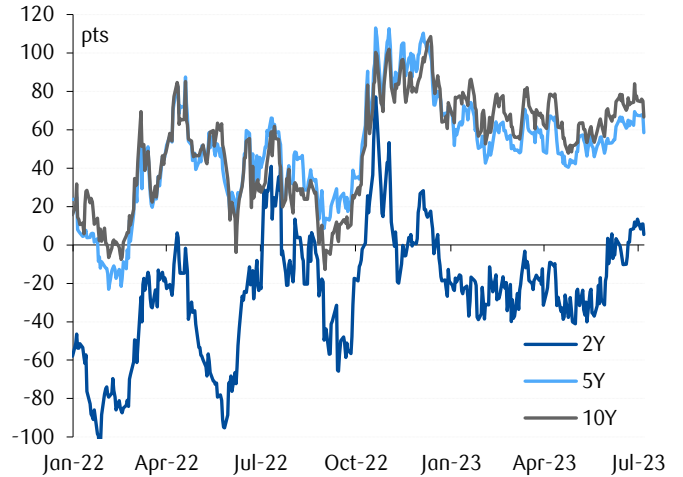
Short-term PLN interest rates



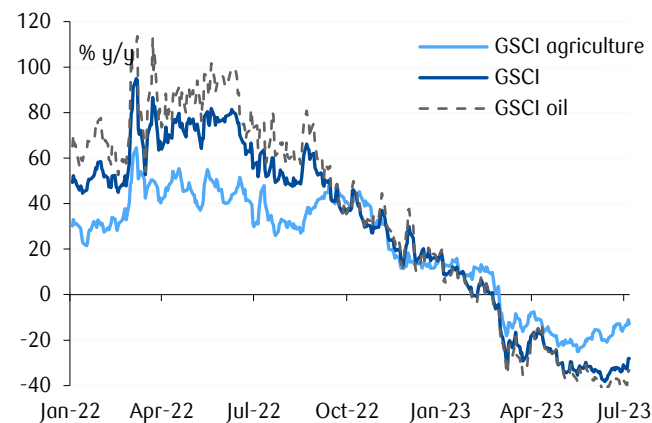
Slope of the swap curve (spread 10Y-2Y)\*



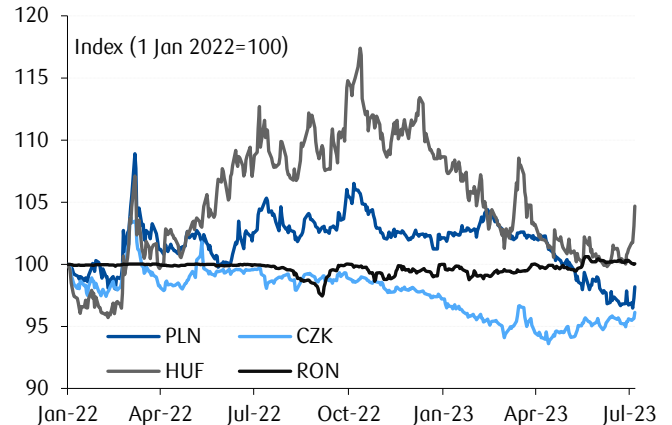
PLN asset swap spread



Global commodity prices (in PLN)

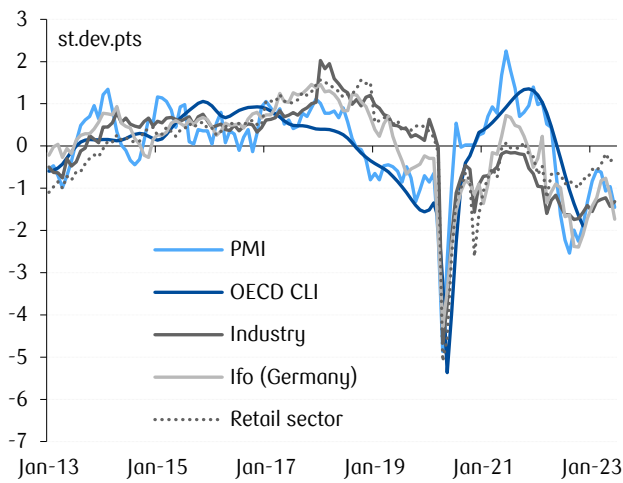


Selected CEE exchange rates against the EUR

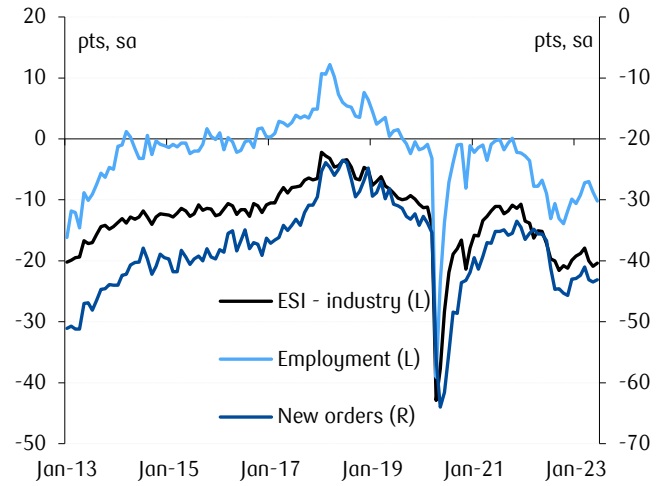


Source: Datastream, NBP, PKO Bank Polski. \*for PLN, and EUR 6M, for USD 3M.

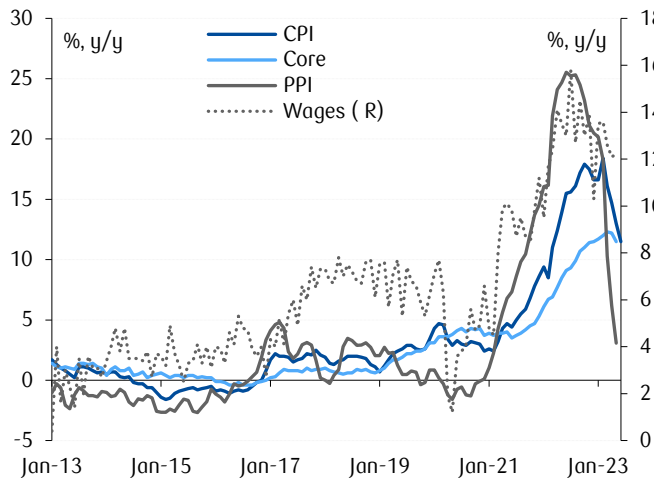
### Economic sentiment indicators



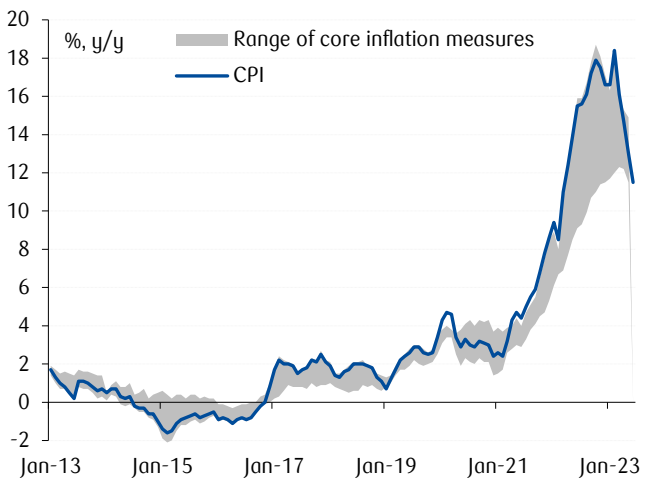
### Poland ESI for industry and its components



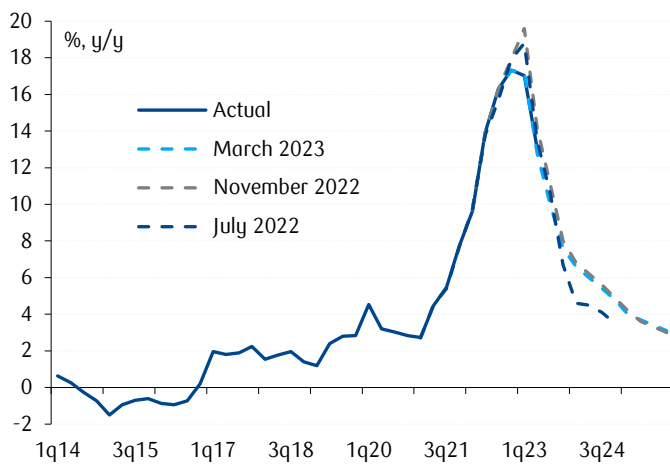
### Broad inflation measures



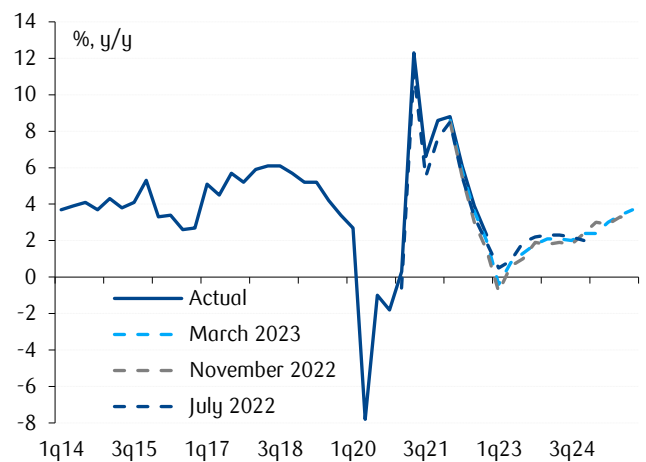
### CPI and core inflation measures



### CPI inflation - NBP projections vs. actual

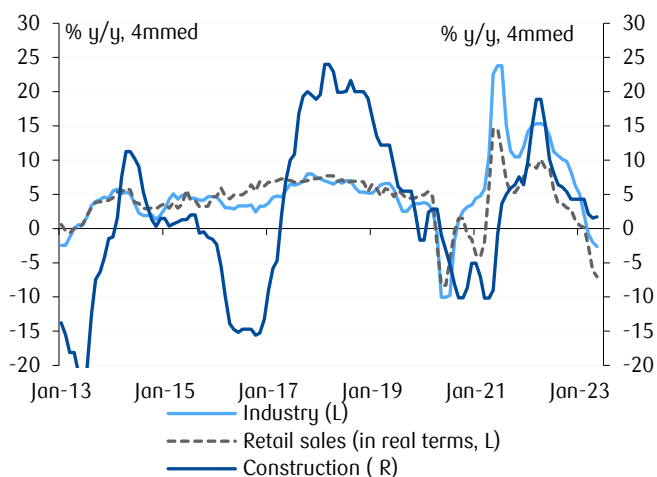


### Real GDP growth - NBP projections vs. actual

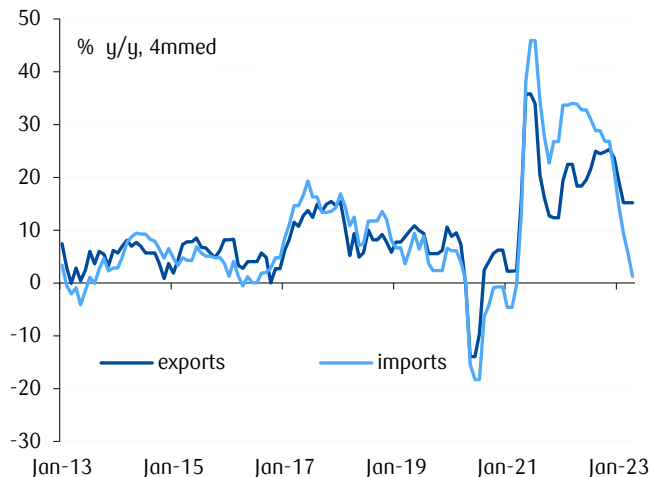


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

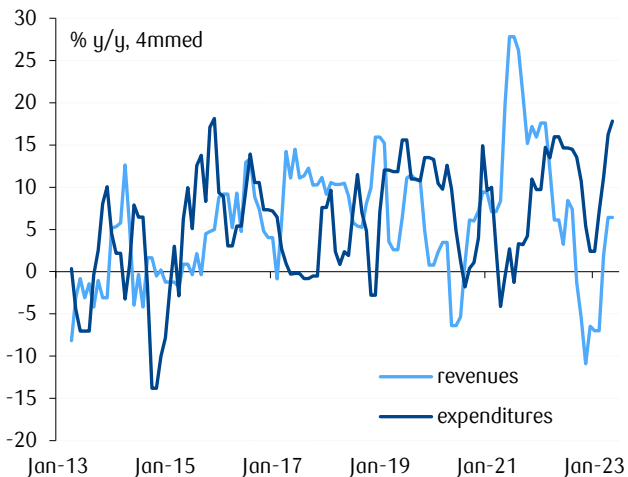
### Economic activity indicators



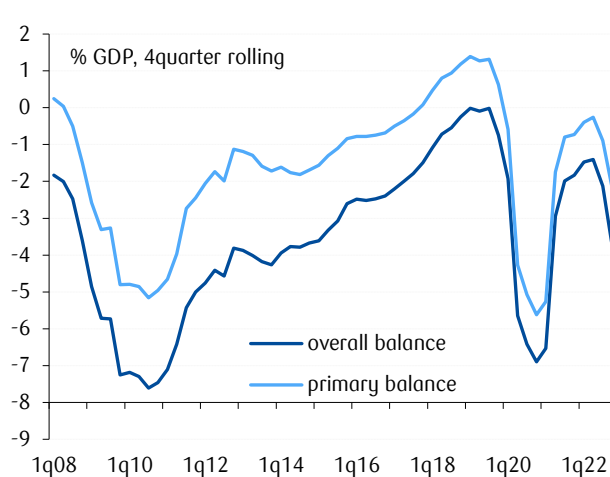
### Merchandise trade (in EUR terms)



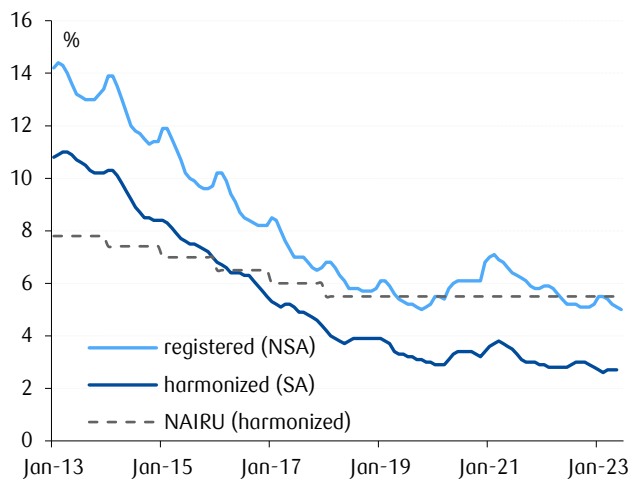
### Central government revenues and expenditures\*



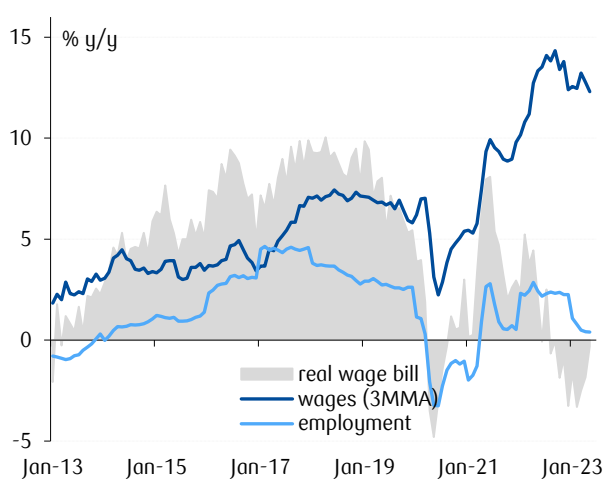
### General government balance (ESA2010)



### Unemployment rate



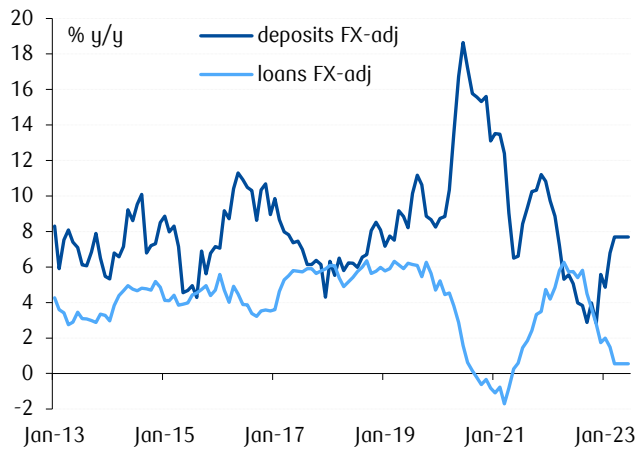
### Employment and wages in the enterprise sector



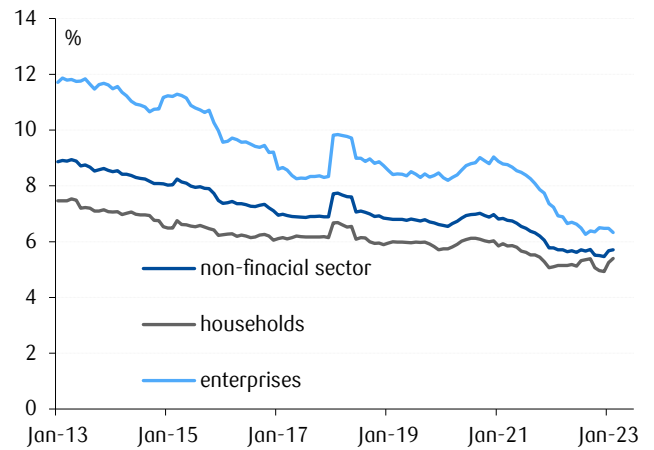
Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. \*break in series in 2010 due to methodological changes.



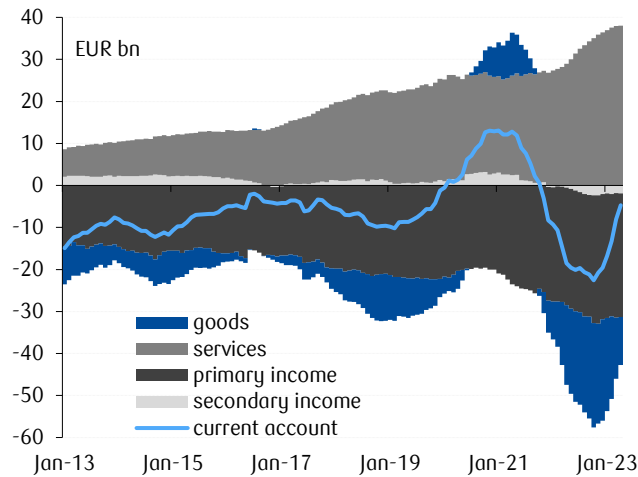
### Loans and deposits



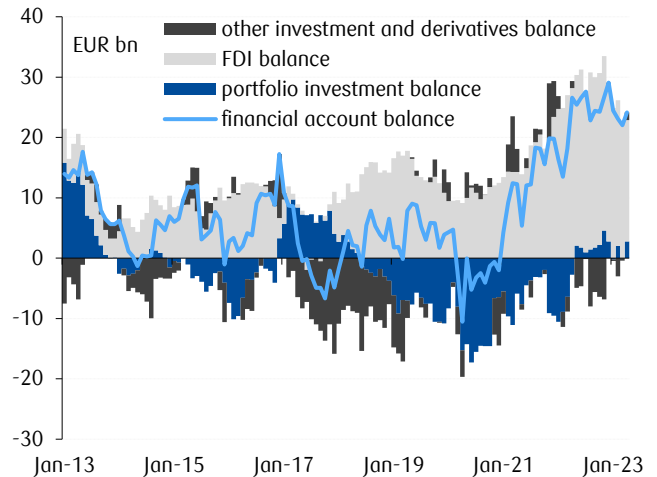
### Non-performing loans (NPLs) - by sectors\*



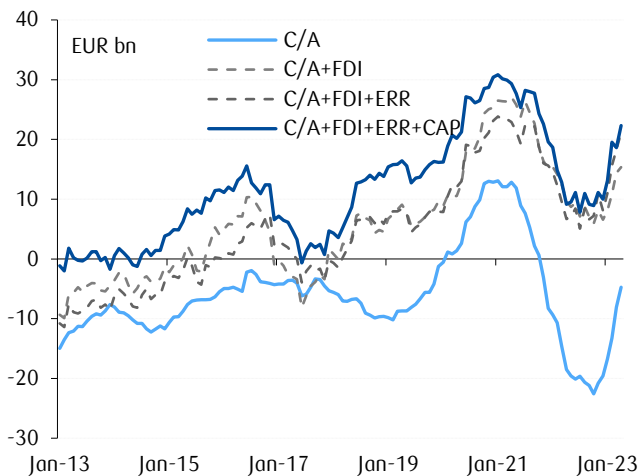
### Current account balance



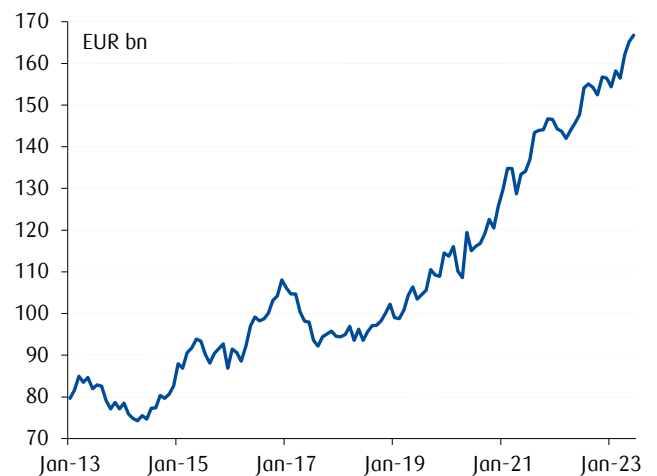
### Financial account balance



### 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:

- [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)
- [Housing market: The worst is over](#) (Dec 16, 2022)
- [All quiet on the monetary policy front](#) (Dec 9, 2022)
- [Disinflation ahead](#) (Dec 2, 2022)
- [Corporate profits shrink](#) (Nov 25, 2022)
- [A soft patch](#) (Nov 18, 2022)
- [Monetary policy dilemmas \(again\)](#) (Nov 4, 2022)
- [Is Poland crisis resilient?](#) (Oct 28, 2022)
- [Not great, not terrible](#) (Oct 21, 2022)
- [Frozen: the housing market](#) (Oct 14, 2022)

The above information has been prepared for informational purposes only and is provided to PKO BP SA Group clients. It is not an offer (as understood under the Civil Law of 23rd April 1964) to buy or sell or the solicitation of an offer to buy or sell any financial instrument and does not constitute the provision of investment, legal or tax advice. It is also not intended to provide a sufficient basis on which to make an investment decision. The above information has been obtained from or based upon sources believed to be reliable, but PKO BP SA Group does not warrant its completeness or accuracy. PKO Bank Polski Group strongly recommends that clients independently evaluate particular investments and accepts no liability for the financial effect of its clients' investment decisions.

The above information is prepared and/or communicated by Powszechna Kasa Oszczędności Bank Polski S.A., registered in the District Court for the Capital City of Warsaw, 13th Commercial Division of the National Court Register under KRS number 0000026438, Tax Identification Number (NIP): 525-000-77-38, REGON: 016298263, share capital 1,250,000,000 PLN.