

All quiet on the monetary policy front

TOP MACRO THEME(S):

- **All quiet on the monetary policy front (p. 2):** The Monetary Policy Council left NBP interest rates unchanged for the third month in a row (the reference rate at 6.75%). The incoming data confirm it is an optimal choice.

WHAT ELSE CAUGHT OUR EYE:

- **Registered unemployment rate stood flat at 5.1% in November** (in line with expectations), on tentative estimates. Seasonally adjusted rate has stabilized for the last three months. The labour market usually reacts to economic slowdown with a delay, thus the lack of unemployment growth so far does not mean that it will not occur. However, we maintain our view that in the current cycle, the unemployment rate will increase only to a small extent, and the adjustment to lower activity in the economy will take place mainly via lower real wages. Those who lost their jobs would take up vacant posts (which are still plentiful) for lower wages than before, and wage demands are likely to be limited due to increased unemployment fears.
- S.Szynkowski vel Sek, Poland's European affairs minister told Bloomberg that **the government will 'quickly' push through legislation to meet the European Commission's demands on judicial independence**, if it gets guarantees from Brussels to secure the release of EUR 34.5bn in post-pandemic aid. Meanwhile, the rift between Hungary and the Commission over measures to address anti-corruption concerns has intensified.

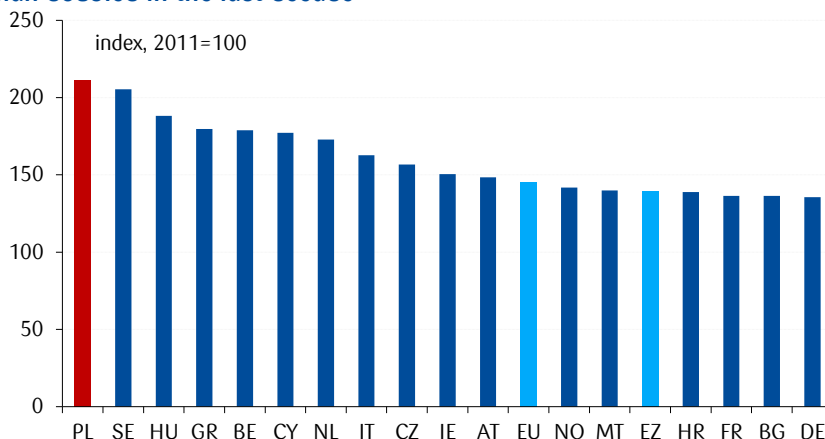
THE WEEK AHEAD:

- We expect that the **CA deficit** in October was much lower than in September, but a 12M rolling sum has likely increased to 3.9% of GDP.
- Final data will most likely confirm, that **CPI inflation declined to 17.4% y/y in November**, on energy prices, with core inflation growing to 11.2-11.3% y/y.

NUMBER OF THE WEEK:

- 13.6k – the number of mortgage loans applications in November (-63% y/y).

Chart of the week –the number of researchers working in Poland has more than doubled in the last decade



Source: Eurostat, PKO Bank Polski.

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	2021	2022 [†]
Real GDP (%)	6.8	4.5
Industrial output (%)	15.6	9.9
Unemployment rate [#] (%)	5.8	5.2
CPI inflation ^{**} (%)	5.1	14.3
Core inflation ^{**} (%)	4.1	9.0
Money supply M3 (%)	8.9	5.8
C/A balance (% GDP)	-1.4	-3.8
Fiscal balance (% GDP)*	-1.8	-2.1
Public debt (% GDP)*	53.8	50.7
NBP reference rate ^{##} (%)	1.75	6.75
EURPLN ^{###}	4.60	4.76

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

All quiet on the monetary policy front

- The Monetary Policy Council left NBP interest rates unchanged (the reference rate at 6.75%). NBP governor A.Glapinski admitted that rates were left unchanged, for the third time in a row, as there was no change to the MPC assessment of economic developments. The incoming data confirm it is an optimal choice.
- We stick to our view that the MPC has already ended the monetary tightening cycle and might start cutting rates in 2023.

The Monetary Policy Council left interest rates unchanged for the third month in a row (the reference rate at 6.75%). The Council believes that the cycle of 11 interest rate hikes in Poland, combined with monetary tightening conducted by major central banks, sufficiently suppresses inflation. As a result, a ‘pause in the interest rate hike cycle’ has been extended.

According to the [press release](#) from the meeting, similarly to the previous months, the MPC sees signs of lower inflationary pressures abroad and progressing slowdown of economic growth in Poland. Recent media statements of MPC members show that for most of them the current level of interest rates is optimal, in the light of the available data. They believe that the current level of rates will bring inflation towards the target while limiting the risk of overshooting and loss of economic stability.

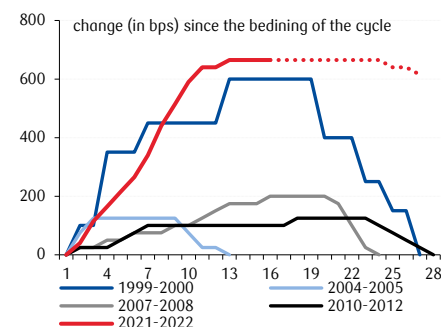
We argued last week that the recent macro prints from Poland (GDP and CPI) and core markets suggest that the disinflation is just around the corner. In this light the wait and see stance adopted by the Polish MPC seems to be the most optimal choice. Governor Glapinski stressed during his presser on Thursday that the situation around the world is slowly heading towards disinflation and that the pace of economic growth is falling. In his opinion the domestic inflation is still very high, but it will also decline. The MPC anticipates that in January and February inflation will rise again, due to changes in regulated prices, but afterwards it will swiftly go down to around 6-9% at the end of 2023.

NBP governor admitted that rates has been left unchanged for the third time in a row as there was no change in the MPC assessment of economic developments. The Monetary Policy Council maintains a ‘pause’ in the cycle of interest rate hikes, but - if necessary - might resume hikes. Governor said that the Council has not discussed ending the cycle of interest rate hikes - the formal decision about it could be taken after the publication of the new NBP projections in March.

NBP governor mentioned that financial markets and some economists predict interest rate cuts in Poland in 2h23, but stressed that he is not (yet) announcing such a move. Indeed the financial markets are now pricing in no more hikes and first cuts in 2023 (see margin chart 2). Moreover, Poland-based economists surveyed by the Polish Press Agency are no longer expecting rate hikes in 2023 (see margin chart 3) and the local consensus has converged to our view that the tightening cycle will be concluded at 6.75%.

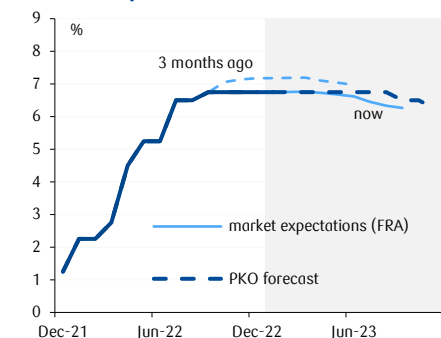
We stick to our view that the MPC has already ended the monetary tightening cycle. We expect that as the economic slowdown continues and inflation starts declining in the second half of 2023, the MPC will eagerly start cutting interest rates. This forecast is of course under the assumption of no further inflationary shocks in the economy.

1. Current interest rate hike vs. previous cycles



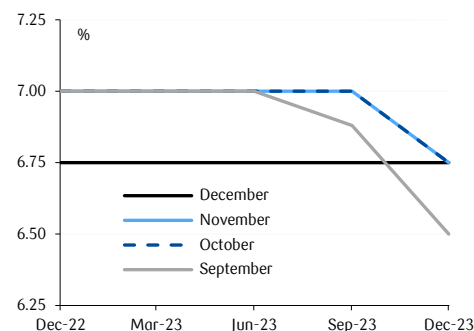
Source: NBP, PKO Bank Polski, PKO BP forecast showed by the dotted line.

2. NBP policy rate: PKO BP forecast vs. market expectations



Source: GUS, PKO Bank Polski.

3. Polish Press Agency's consensus for reference rate



Source: PAP, PKO Bank Polski.

Weekly economic calendar

Indicator	Time (UK)	Unit	Previous	Consensus*	PKO BP	Comment
Monday, 12 December						
CZE: CPI inflation (Nov)	8:00	% y/y	15.1	15.7	--	--
Tuesday, 13 December						
GER: CPI inflation (Nov, final)	7:00	% y/y	10.4	10.0	--	--
GER: HICP inflation (Nov, final)	7:00	% y/y	11.6	11.3	--	--
GER: ZEW Economic Sentiment (Dec)	10:00	pts.	-36.7	-27.0	--	--
USA: CPI inflation (Nov)	13:30	% y/y	7.7	7.3	--	--
USA: Core inflation (Nov)	13:30	% y/y	6.3	6.1	--	--
Wednesday, 14 December						
EUR: Industrial production (Oct)	10:00	% y/y	4.9	--	--	--
POL: Current account balance (Oct)	13:00	EUR mln	-1561	-920	-796	We expect that the CA deficit in October was much lower than in November, but a 12-m rolling sum has likely increased to 3.9% of GDP.
POL: Exports (Oct)	13:00	% y/y	25.5	22.5	19.7	
POL: Imports (Oct)	13:00	% y/y	28.9	22.7	19.2	
USA: Fed meeting	19:00	%	4.00	4.50	4.50	--
Thursday, 15 December						
SWI: SNB meeting	8:30	%	0.5	1.00	1.00	Final data will most likely confirm, that CPI inflation declined to 17.4% in November, on energy prices, with core inflation growing.
POL: CPI inflation (Nov, final)	9:00	% y/y	17.9	17.4	17.4	
NOR: Norges Bank meeting	9:00	%	2.50	2.75	2.75	--
UK: BoE meeting	12:00	%	3.00	3.50	3.50	--
EUR: ECB Refinancing Rate	13:15	%	2.00	2.50	2.50	--
EUR: EBC deposit rate	13:15	%	1.50	2.00	2.00	--
USA: Retail sales (Nov)	13:30	% m/m	1.3	0.0	--	--
USA: Retail sales excl. autos (Nov)	13:30	% m/m	1.3	0.3	--	--
USA: Initial Jobless Claims	13:30	thous.	230	--	--	--
USA: Industrial production (Nov)	14:15	% m/m	-0.1	0.2	--	--
Friday, 16 December						
GER: Manufacturing PMI (Dec, flash)	8:30	pts.	46.2	46.2	--	--
GER: Services PMI (Dec, flash)	8:30	pts.	46.1	46.3	--	--
EUR: Manufacturing PMI (Dec, flash)	9:00	pts.	47.1	47.1	--	--
EUR: Services PMI (Dec, flash)	9:00	pts.	48.5	48.4	--	--
EUR: HICP inflation (Nov, final)	10:00	% y/y	10.6	10.0	--	--
EUR: Core inflation (Nov, final)	10:00	% y/y	5.0	5.0	--	--
POL: Core inflation (Nov)	13:00	% y/y	11.0	11.3	11.2	--
USA: Manufacturing PMI (Dec, flash)	14:45	pts.	47.7	48.0	--	--

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	"In my opinion, lack of interest rates hike [PAP: in November] was a big mistake, for which (...) millions of Poles will pay, paying more in shops and covering higher cost of living each day amid lack of pay rises that would be proportionate to price rise" (15.11.2022, wyborcza.pl, PAP)
L. Kotecki	4.8	"In the nearest future, it seems that there is still room [PAP: for action] on the side of the monetary policy, unfortunately, as the situation is very serious." "The inflation is by far the biggest problem in Poland." (16.11.2022, PAP)
P. Litwiniuk	3.7	"There is still room for some monetary policy tightening to make real interest rates less negative, which would impact expectations of consumers and producers when it comes to inflation level" (21.11.2022, TOK FM, PAP)
H. Wnorowski	2.7	"In my opinion, it cannot be unequivocally declared that this is the end of interest rate hikes. However, I think it may be the end of this cycle, given the favourable circumstances and a high probability that the scenario from the November projection will come true. (...) Our break proves that we do not want decisions on further hikes which would perhaps speed up the pace of reaching the target but result in costs that are too high." (29.11.2022, Reuters)
A. Glapinski	2.4	"The cycle is still suspended, we are not saying it's the end. (...) If inflation rises, we will hike rates. (...) The Council has not discussed ending the cycle. The March projection will tell us a lot. If the projection will show falling inflation, the council will discuss whether to put an end to the hiking cycle." (8.12.2022, NBP press conference, PAP)
C. Kochalski	2.4	"In my opinion, if we were to raise interest rates further, we would add many disinflationary impulses. So we would increase the likelihood of the economic downturn. Of course, through this channel we would be able to lower the price dynamics faster. But since I see inflation in the projection horizon, I am willing to accept this rate of return a little longer." (28.11.2022, interia.pl).
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	"In the current situation, in the light of available data and forecasts, particularly NBP's inflation projection, the rates level is optimal." (30.11.2022, PAP)
G. Maslowska	2.1	"I believe there is a chance for the interest rates to be able to settle at the current level for many months (...) Should it happen indeed, it would give the MPC members the comfort of observing the effects of to-date hikes, which influence various types of economic processes with a several months' time shift." (17.11.2022, radiomaryja.pl, PAP)
I. Dabrowski	1.9	"The markets are right to assume that we might see the first rate cuts as soon as next year. (...) Our interest rates are well calibrated to bring down the headline and core inflation. (...) We will fight inflation, but not at the cost of a dramatic fall in GDP. Crazy rate hikes won't do anything and could be counterproductive, hitting growth hard." (28.10.2022, Bloomberg)

*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.

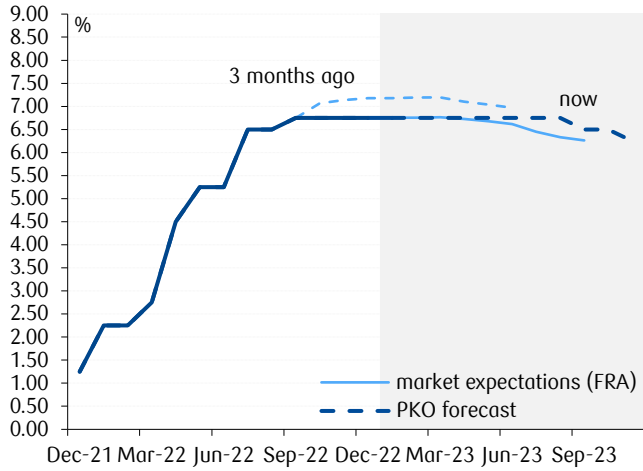
Interest rates – PKO BP forecasts vs. market expectations

		1M	2M	3M	4M	5M	6M	7M	8M	9M
Date	8-Dec	8-Jan	8-Feb	8-Mar	8-Apr	8-May	8-Jun	8-Jul	8-Aug	8-Sep
WIBOR 3M/FRA†	7.18	7.18	7.18	7.20	7.16	7.11	7.05	6.88	6.76	6.70
implied change (b. p.)		0.00	0.00	0.02	-0.02	-0.07	-0.14	-0.30	-0.42	-0.48
MPC Meeting	7-Dec	4-Jan	8-Feb	8-Mar	5-Apr	10-May	6-Jun	6-Jul	-	6-Sep
PKO BP forecast*	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.50
market pricing*		6.75	6.75	6.77	6.73	6.68	6.62	6.45	6.33	6.27

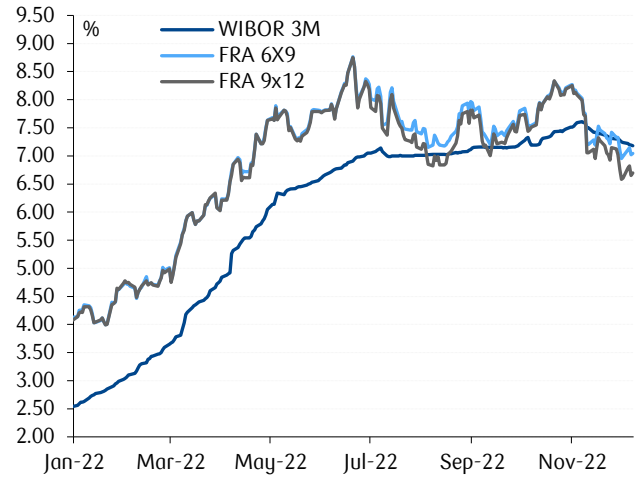
†WIBOR 3M from the last fixing, FRA transactions based on WIBOR 3M for subsequent periods, ‡in basis points, *PKO BP forecast of the NBP reference rate.

Poland macro chartbook

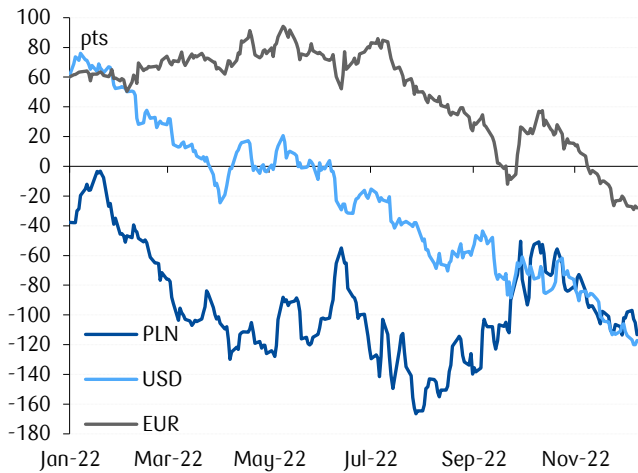
NBP policy rate: PKO BP forecast vs. market expectations



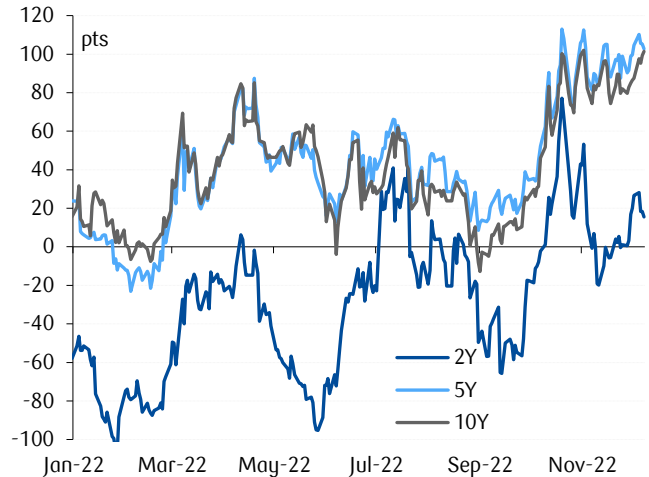
Short-term PLN interest rates



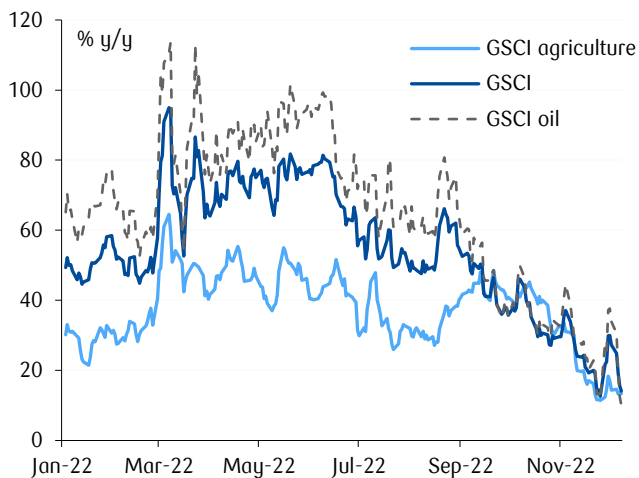
Slope of the swap curve (spread 10Y-2Y)*



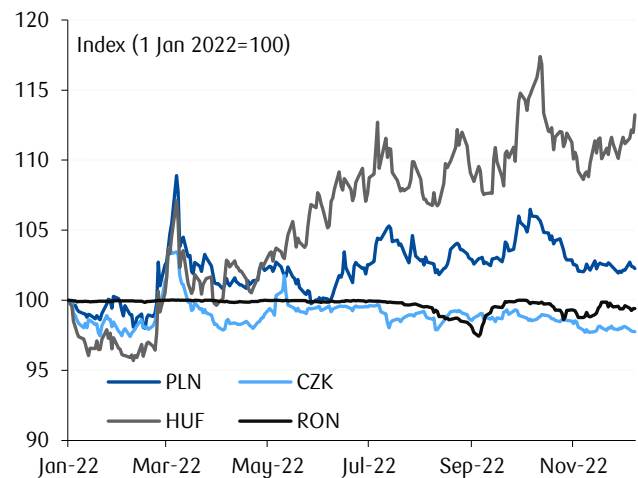
PLN asset swap spread



Global commodity prices (in PLN)

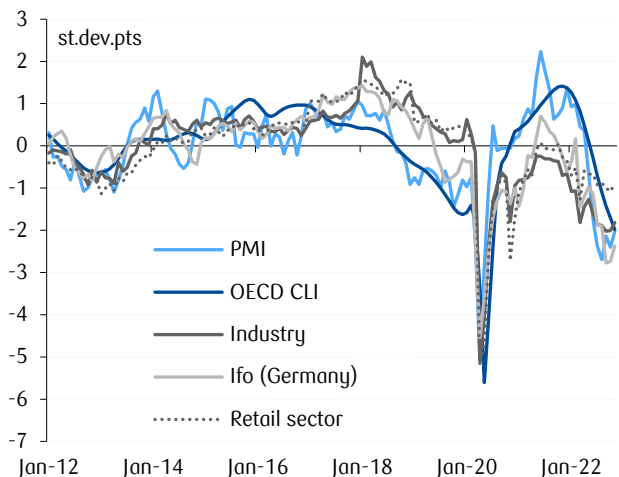


Selected CEE exchange rates against the EUR

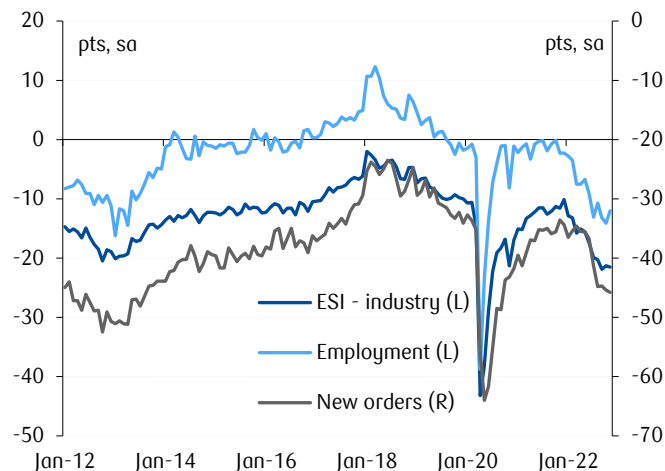


Source: Datastream, NBP, PKO Bank Polski. *for PLN, and EUR 6M, for USD 3M.

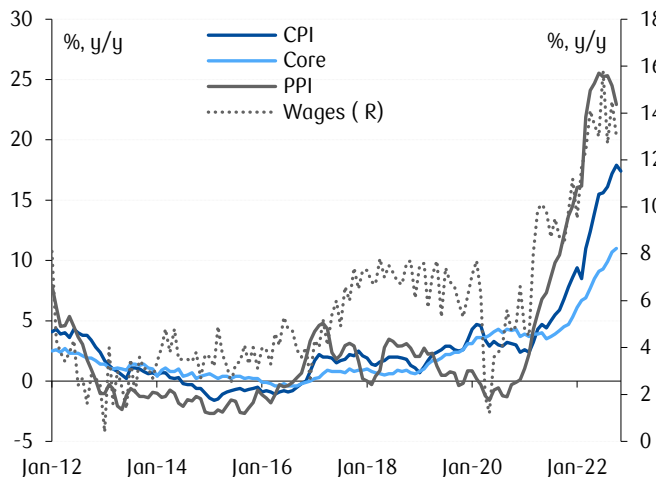
Economic sentiment indicators



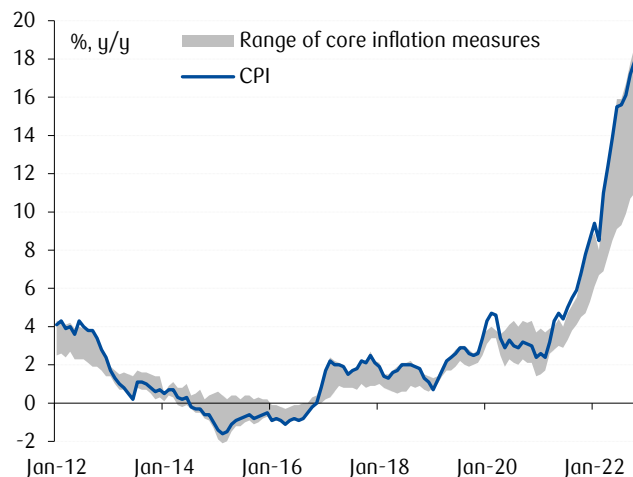
Poland ESI for industry and its components



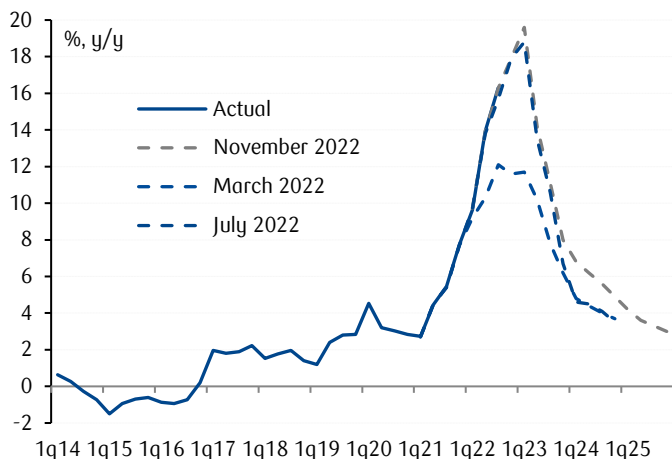
Broad inflation measures



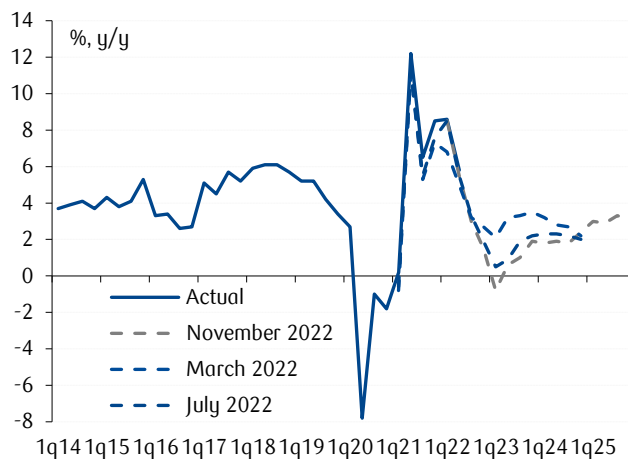
CPI and core inflation measures



CPI inflation – NBP projections vs. actual

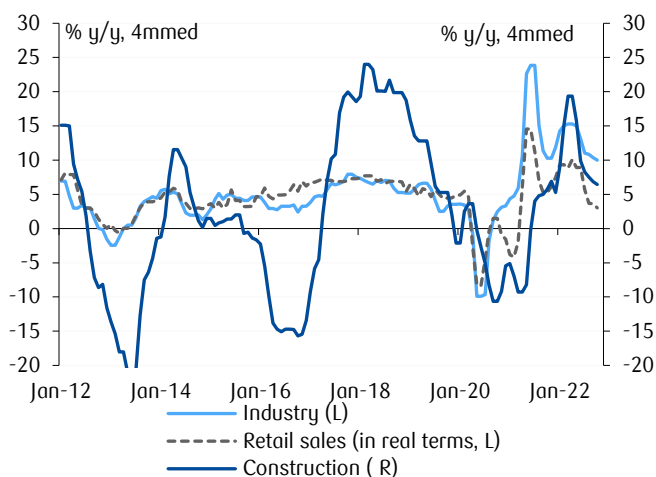


Real GDP growth – NBP projections vs. actual

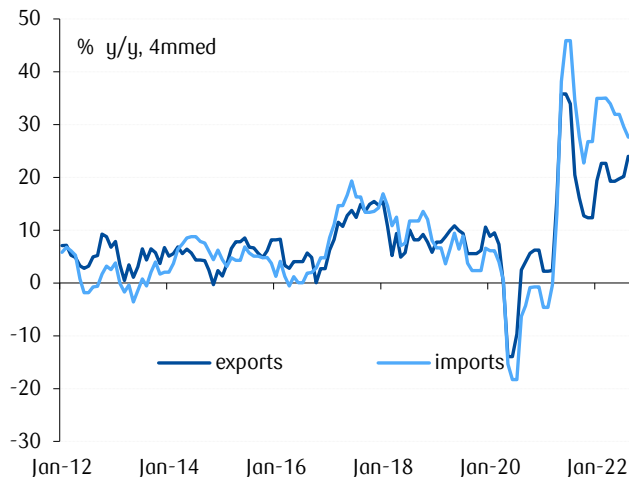


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

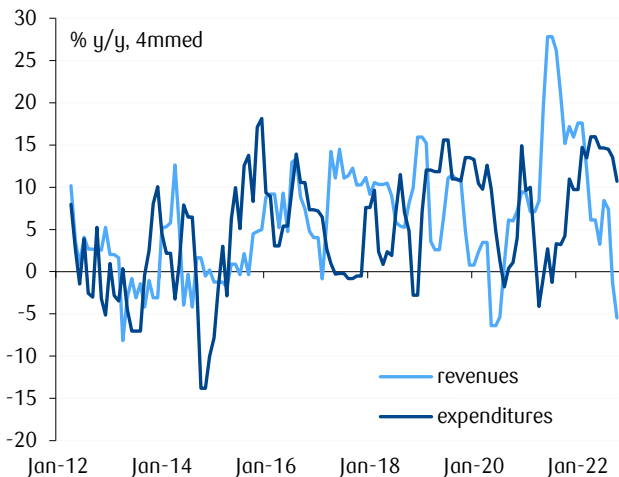
Economic activity indicators



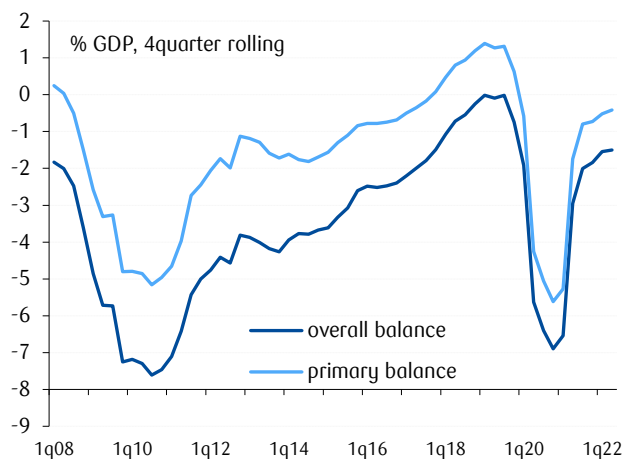
Merchandise trade (in EUR terms)



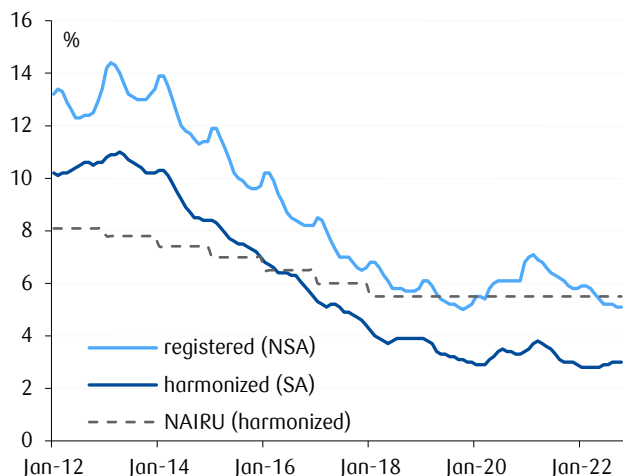
Central government revenues and expenditures*



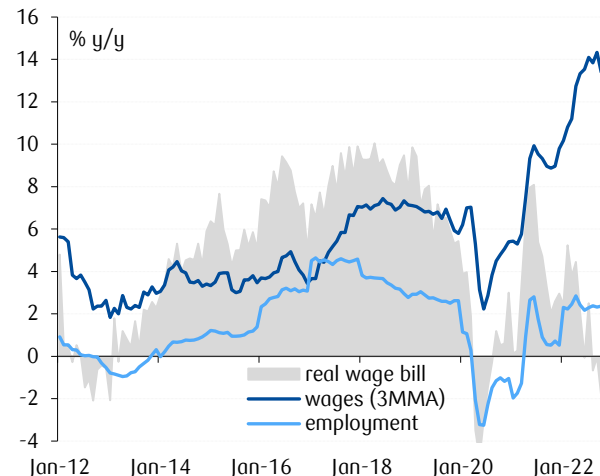
General government balance (ESA2010)



Unemployment rate

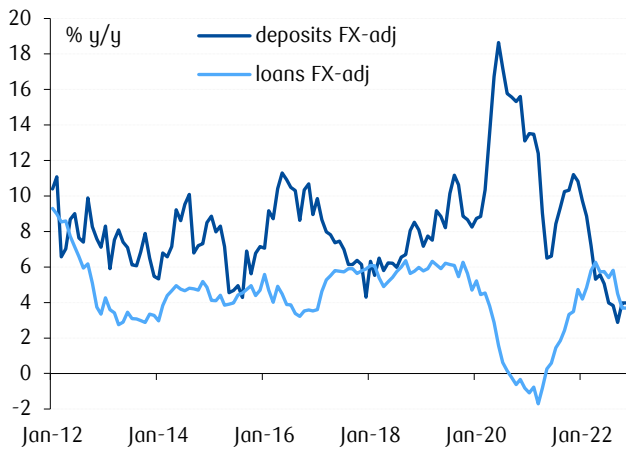


Employment and wages in the enterprise sector

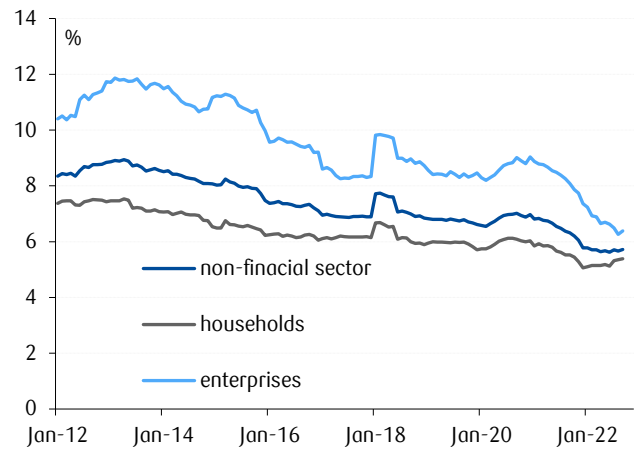


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. *break in series in 2010 due to methodological changes.

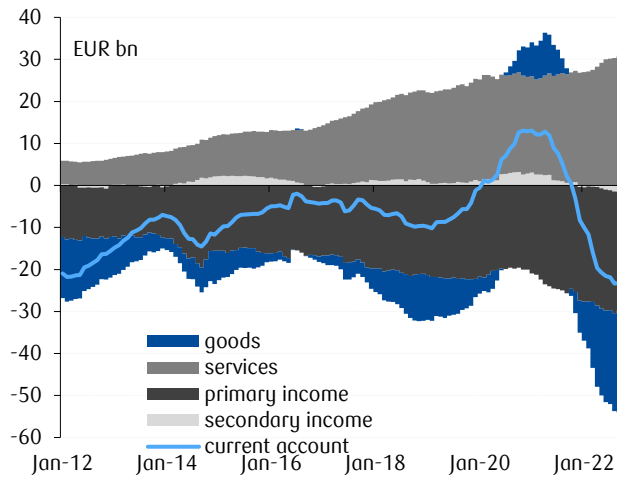
Loans and deposits



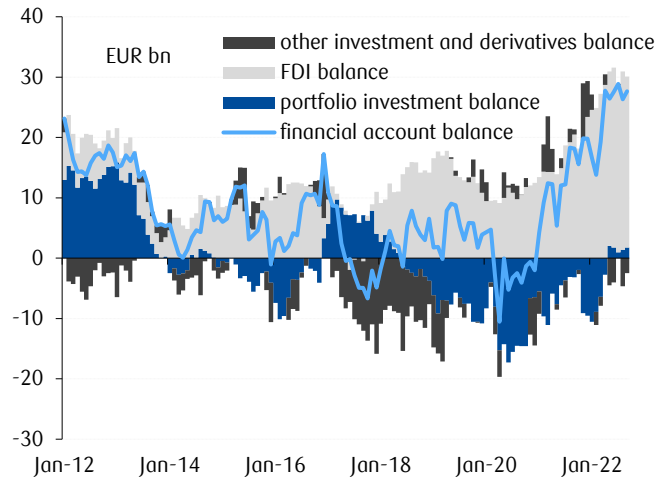
Non-performing loans (NPLs) - by sectors*



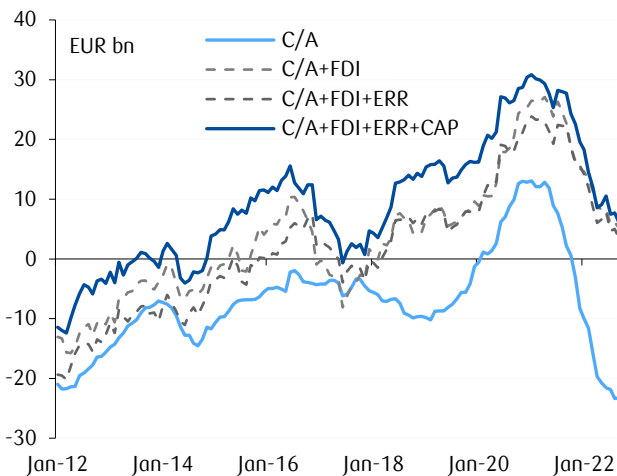
Current account balance



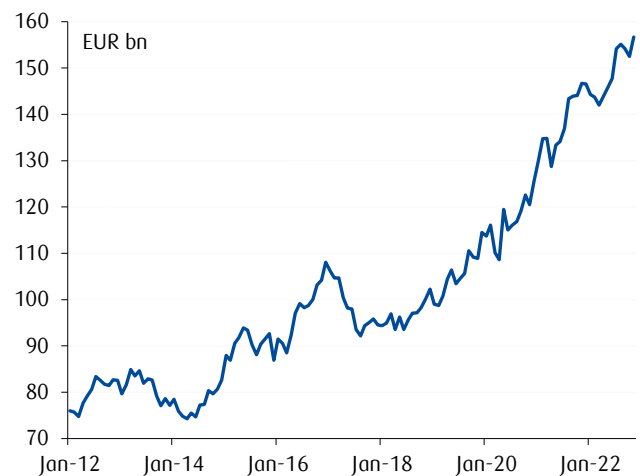
Financial account balance



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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