

Inflation vs recession dilemma

TOP MACRO THEME(S):

- **The MPC hiked rates by 50 pb (p. 2):** Facing elevated inflation and most likely incoming recession, the Monetary Policy Council, in line with our expectations, raised interest rates “only” by 50 bp. A cautious approach adopted by the MPC, in our opinion, increases the probability that the tightening cycle might be concluded in September by delivering one more hike by 50 bp.

WHAT ELSE CAUGHT OUR EYE:

- Head of Energy Regulator (URE) informed that energy utilities have filed for central heating price hikes for households (2.4% share in inflation basket) of 50-300%. In his view however, on average prices will rise “only” dozens-fold.
- **Minutes** from the MPC meeting in June were a non-event.
- **Voting details** from the MPC meeting in April revealed that P.Litwiniuk was a naysayer to the 100 bp rate hike.
- **Unemployment rate** in June declined to 4.9% (PKO and cons.:5.0%) on early MinLab estimates.
- According to the Credit Information Bureau (BIK) data, **the demand for mortgages has fallen to the lowest level at least since January 2007**, i.e. from the moment when BIK started to collect the data. In June alone, the number of applications decreased by 59.7% y/y and by 18.1% m/m. The weaker demand is mainly the result of interest rate hikes and deteriorating consumer sentiment.

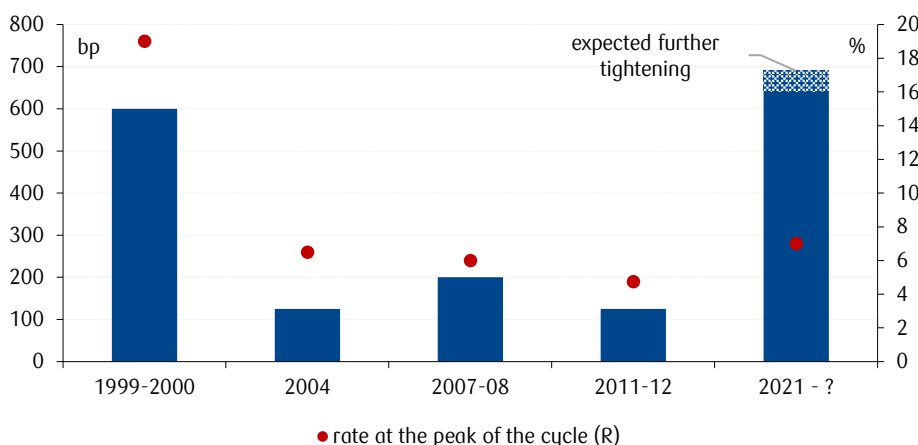
THE WEEK AHEAD:

- **CPI inflation** has most likely peaked in June (15.6% y/y in flash estimate), but will stay elevated in the holiday season before it starts to decline gradually. Energy and food prices remain the key upside risk for our baseline.
- **Current account balance** in May most likely deteriorated further signalling a downside risk to our full-year forecast (-3.5% of GDP). Energy commodity prices still weigh on Poland’s external balance.

NUMBER OF THE WEEK:

- **12%** – the basic PIT tax rate as of July 1st (down from 17%); the tax rate cut should be supportive to consumption ahead.

Tightening cycles in Poland



Source: NBP, PKO Bank Polski.

Chief Economist

Piotr Bujak
piotr.bujak@pkobp.pl
tel. +48 22 521 80 84

Macro Research Team

[@PKO_Research](https://twitter.com/PKO_Research)

Marta Petka-Zagajewska
Senior Economist
marta.petka-zagajewska@pkobp.pl
tel. +48 22 521 67 97

Urszula Krynska
Economist
urszula.krynska@pkobp.pl
tel. +48 22 521 51 32

Kamil Pastor
Economist
kamil.pastor@pkobp.pl
tel. +48 22 521 81 08

Michal Rot
Economist
michal.rot@pkobp.pl
tel. +48 22 580 34 22

	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	4.62

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.

The MPC hiked by 50 pb

- Facing elevated inflation and - most likely - incoming recession, the Monetary Policy Council, in line with our expectations, raised interest rates by 50 bp.
- A cautious approach adopted by the MPC, in our opinion, increases the probability that the tightening cycle might be concluded in September, by delivering one more hike by 50 bp.

The Monetary Policy Council raised the NBP interest rates by 50bp (cons.: +75bp, PKOe: +50bp) and brought the reference rate to 6.50%. The tenth consecutive rate hike makes the cycle the longest (by number of hikes) and largest (by the scale of hikes) in the history (see margin chart). The latest NBP move is 'conservative' if we take into account market expectations, smaller than the previous four hikes delivered by the NBP and smaller than the latest hikes in the Czech Republic, Hungary and Romania.

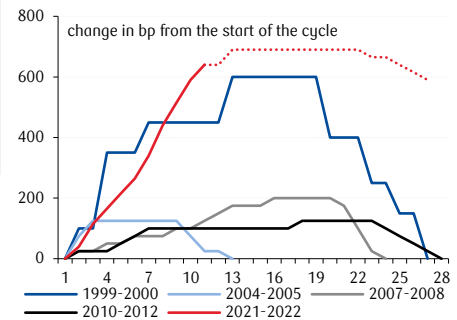
The [post-meeting statement](#) was very akin to those from previous months. It was emphasized that raising interest rates along with the fading impact of price shocks will gradually curb inflation. The MPC indicated that although the economic situation has been favorable so far, the momentum of economic activity is slowing down. The MPC also emphasized that the appreciation of the zloty would be conducive to lowering inflation and recalled that the NBP may use currency interventions.

Governor A.Glapinski reiterated at his presser that the MPC is near ending the rate-rise cycle. The MPC will continue to tighten monetary policy until inflation peaks. According to the fresh inflation projections, CPI inflation in Poland may peak this summer.

The key results the NBP's July projection have also been published. As compared to the March projection, the NBP expects higher inflation in 2022 (14.3%) and 2023 (12.5%), but slightly lower in 2024 (4.1%, see margin charts). According to the projection, economic growth in 2022 will amount to 4.7% (mainly due to a strong 1q22), but the forecast for 2023 has been significantly lowered to, 1.3%. The GDP projection for 2024 was also lowered (2.3%). Taking into account the quarterly arithmetic of GDP growth, this means that most likely the NBP, just like us, expects a technical recession in 2h22 and a negative annual GDP growth in 1q23. The details of the projection will be released on Tuesday. They will most likely also reveal that inflation will be accompanied by economic slowdown, the scale of which may have a negative impact on the labor market. Conditions in the labor market are important for the MPC, including the Governor of the NBP. Many times he has drawn attention to the situation from the beginning of the century, when the unemployment rate soared over 20%, after a drastic tightening of monetary policy in 1999-2000.

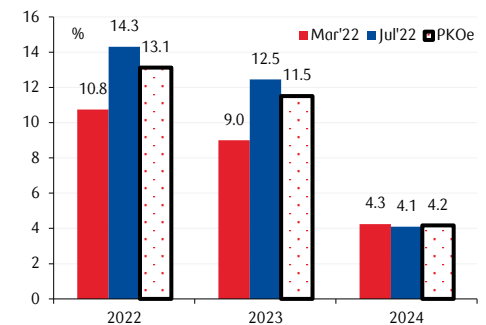
In our opinion, the MPC made a prudent decision in the environment of deteriorating outlook for the global economy and high market volatility. A move by "only" 50bp is in our opinion the optimal compromise in the clench between Scylla of the (probably) coming recession and Charybdis of risking a permanent breakaway from the inflation target and excessive zloty depreciation. It leaves the MPC more space to continue the tightening in the autumn (if needed) without a massive negative impact on already weakening GDP growth. In our baseline scenario, we expect one more rate hike, by 50bp, at the next meeting in September (there is no decision-making meeting in August), which would mean that the cycle will be concluded at 7.00% (for the policy rate). The space/necessity for further increases will be limited by the deepening global and domestic slowdown/recession, which will be of a disinflationary nature.

Tightening cycles in Poland



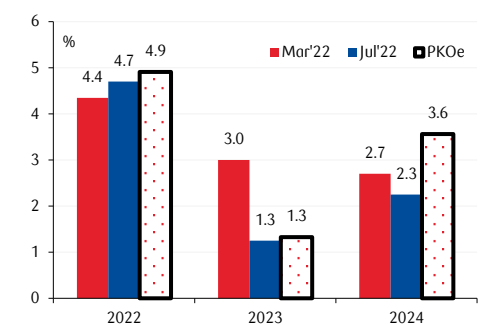
Source: NBP, PKO Bank Polski.

CPI inflation – NBP projections vs. PKO estimates



Source: NBP, PKO Bank Polski.

GDP growth – NBP projections vs. PKO estimates



Source: NBP, PKO Bank Polski.

Weekly economic calendar

Indicator	Time (UK)	Unit	Previous	Consensus*	PKO BP	Comment
Tuesday, 12 July						
POL: Inflation report	8:00	--	--	--	--	The details of projection will shed more light on the NBP's view of incoming stagflation.
GER: ZEW Economic Sentiment (Jul)	10:00	pts.	-28.0	-37.5	--	
Wednesday, 13 July						
GER: CPI inflation (Jun, final)	7:00	% y/y	7.6	--7.9	--	--
GER: HICP inflation (Jun, final)	7:00	% y/y	8.2	--8.7	--	--
CZE: CPI inflation (Jun)	8:00	% y/y	16.0	15.4	--	--
EUR: Industrial production (May)	10:00	% y/y	-2.0	--	--	--
USA: CPI inflation (Jun)	13:30	% y/y	8.6	8.8	--	--
USA: Core inflation (Jun)	13:30	% y/y	6.0	5.9	--	--
Thursday, 14 July						
POL: Current account balance (May)	13:00	EUR bn	-3924	-3500	-3173	High energy prices weigh on current account balance.
POL: Exports (May)	13:00	% y/y	6.7	18.2	14.2	
POL: Imports (May)	13:00	% y/y	22.6	34.2	30.5	
USA: PPI inflation (Jun)	13:30	% y/y	10.8	10.9	--	--
USA: Initial Jobless Claims	13:30	thous.	235	--	--	--
Friday, 15 July						
CHN: GDP growth (2q)	3:00	% y/y	4.8	1.0	--	--
POL: CPI inflation (Jun, final)	9:00	% y/y	13.9	15.6	15.6	CPI figures for June indicate that price shocks fade unless new energy supply issues emerge.
EUR: Trade balance (May)	10:00	EUR bn	-32.4	--	--	
USA: Retail sales (Jun)	13:30	% m/m	-0.3	0.9	--	--
USA: Industrial production (Jun)	14:15	% m/m	0.1	0.2	--	--
USA: University of Michigan sentiment (Jul, flash)	15:00	pts.	50.0	58.0	--	--

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^
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 approaching the end of the tightening cycle in the monetary policy, but we have not necessarily achieved it yet, (...) The [PAP: inflation] report suggests that inflation peak will perhaps, most likely be during summer holidays, in the summer (...) And from that peak we will slowly go downwards. (...) If inflation stabilizes in the summer, will [PAP: start to] fall, we will not do that [PAP: hike rates]." (8.07.2022, 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. Dqbrowski	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.

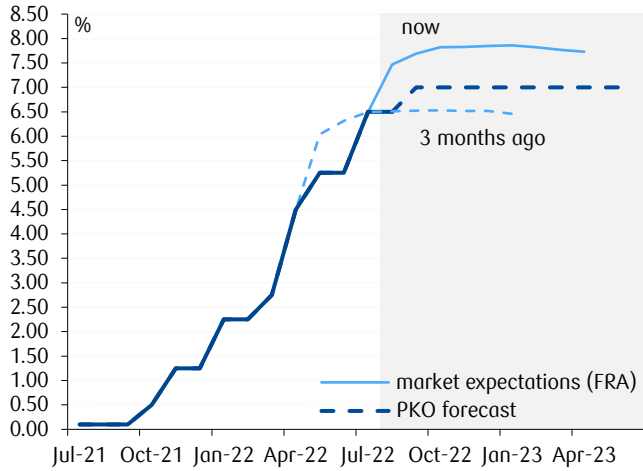
Interest rates – PKO BP forecasts vs. market expectations

	1M	2M	3M	4M	5M	6M	7M	8M	9M	
Date	7-Jul	7-Aug	7-Sep	7-Oct	7-Nov	7-Dec	7-Jan	7-Feb	7-Mar	7-Apr
WIBOR 3M/FRA†	7.14	7.67	7.89	8.02	8.03	8.05	8.06	8.02	7.97	7.93
implied change (b. p.)		0.53	1.15	1.68	2.09	2.11	2.12	2.08	2.03	1.99
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*		7.03	7.65	8.18	8.59	8.61	8.62	8.58	8.53	8.49

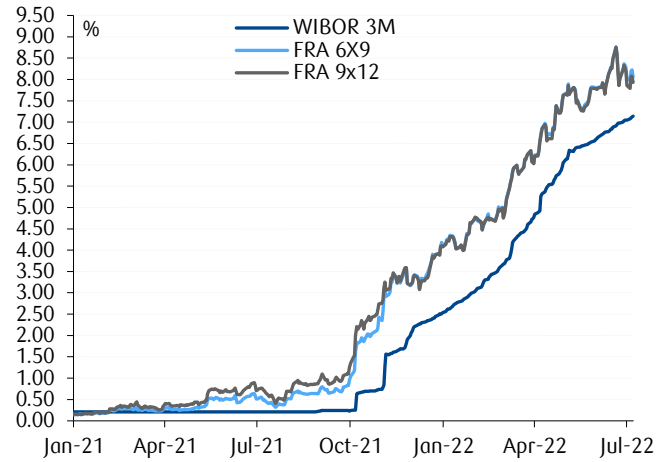
†WIBOR 3M from the last fixing, FRA transactions based on WIBOR 3M for subsequent periods, ‡in basis points, *PKO BP forecast of the NBP reference rate.

Poland macro chartbook

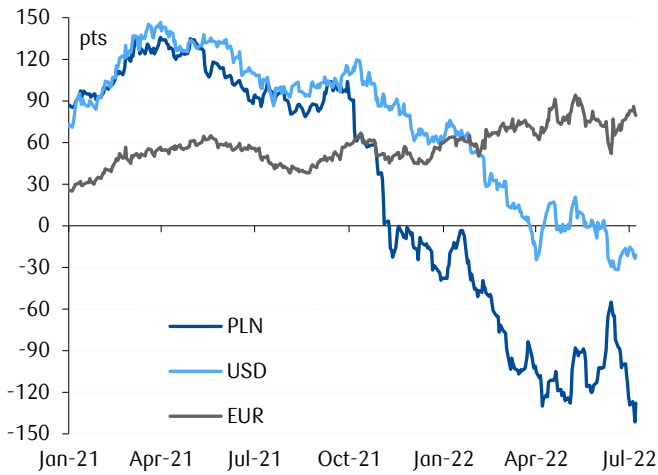
NBP policy rate: PKO BP forecast vs. market expectations



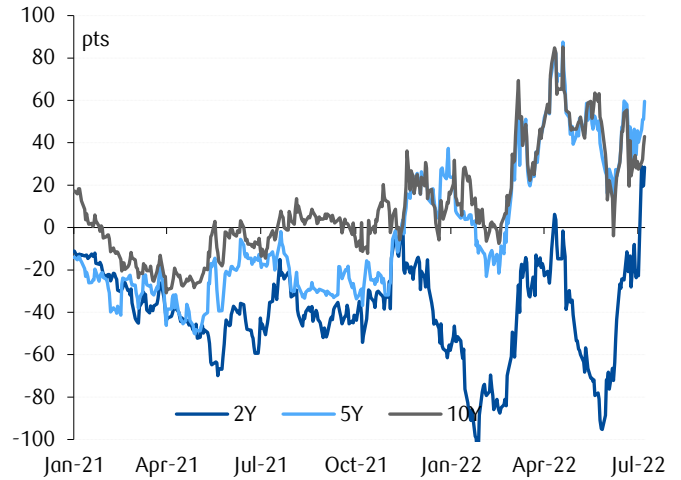
Short-term PLN interest rates



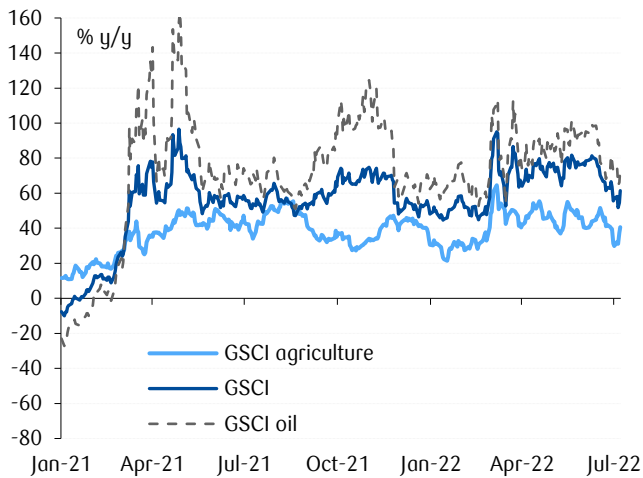
Slope of the swap curve (spread 10Y-2Y)*



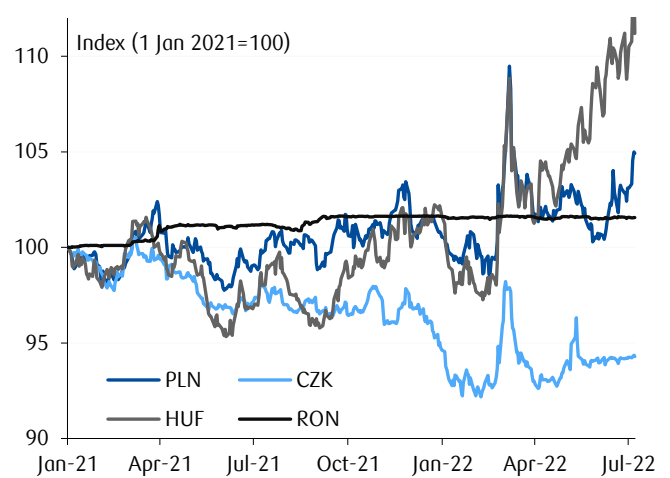
PLN asset swap spread



Global commodity prices (in PLN)

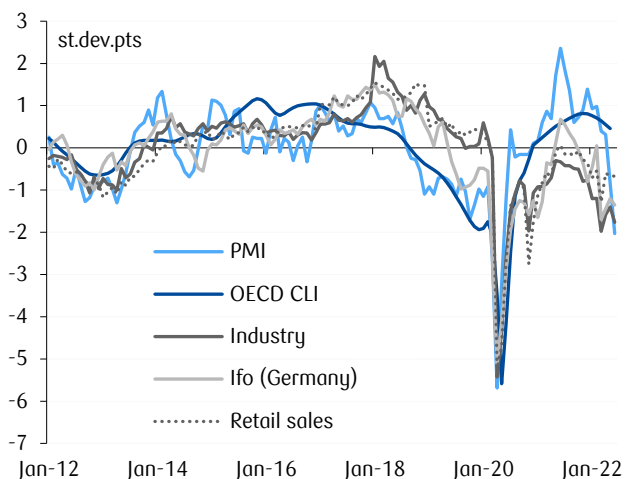


Selected CEE exchange rates against the EUR

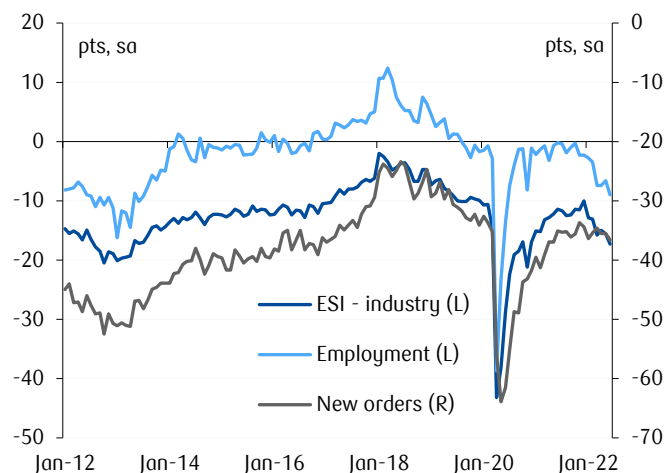


Source: Datastream, NBP, PKO Bank Polski. *for PLN, and EUR 6M, for USD 3M.

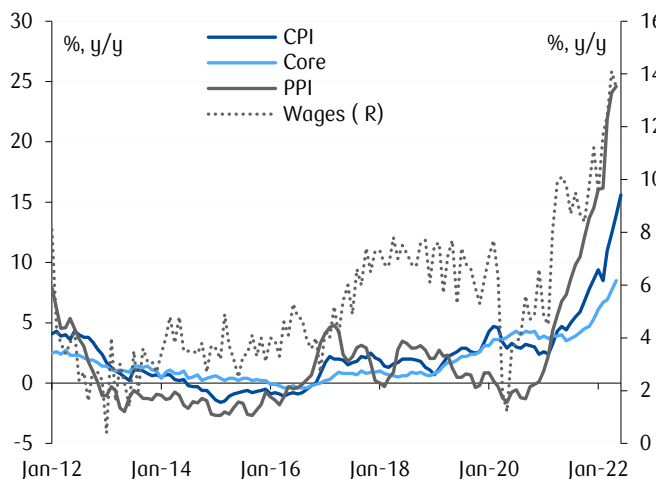
Economic sentiment indicators



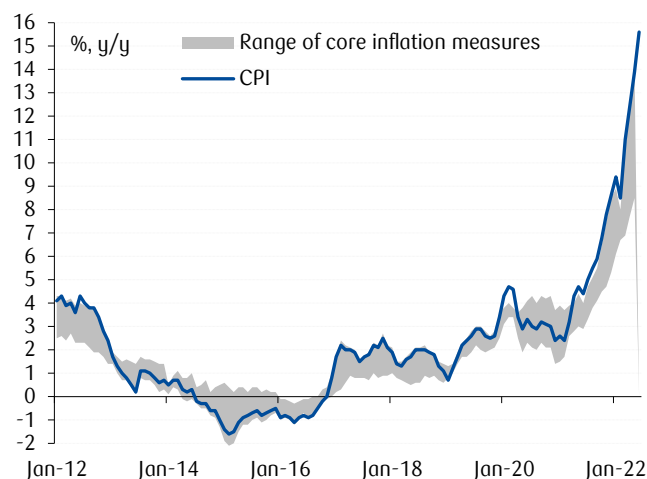
Poland ESI for industry and its components



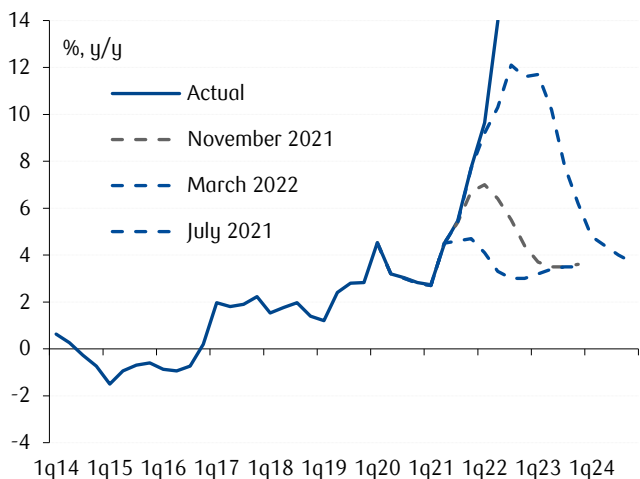
Broad inflation measures



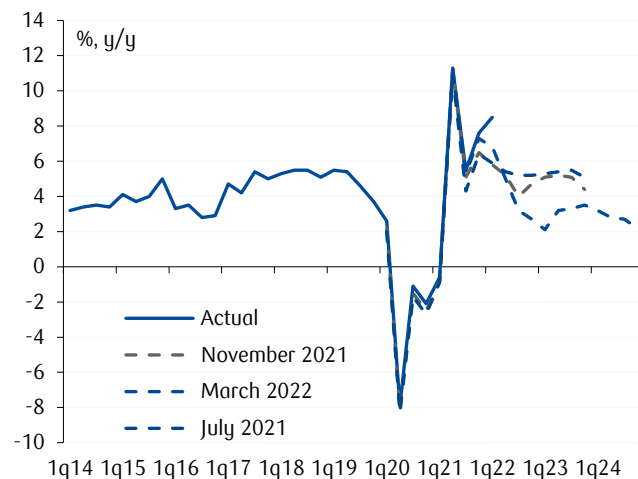
CPI and core inflation measures



CPI inflation – NBP projections vs. actual

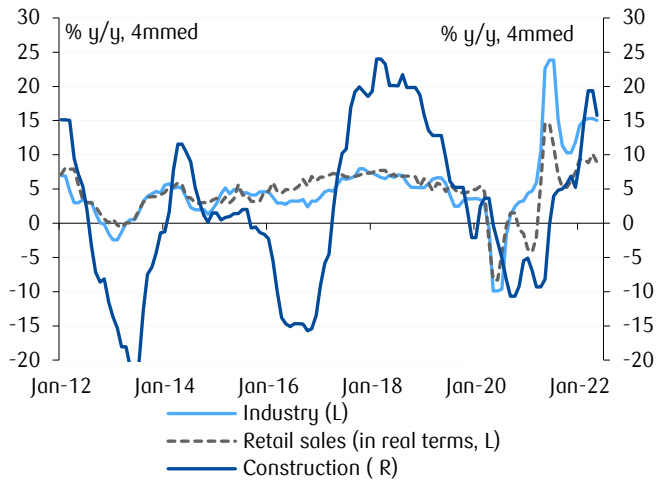


Real GDP growth – NBP projections vs. actual

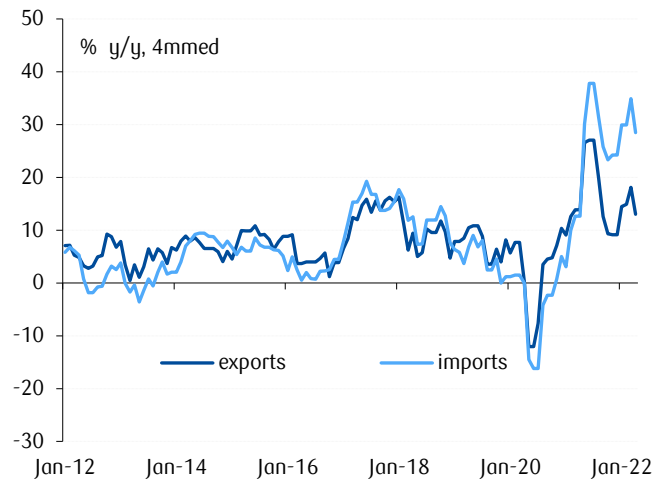


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

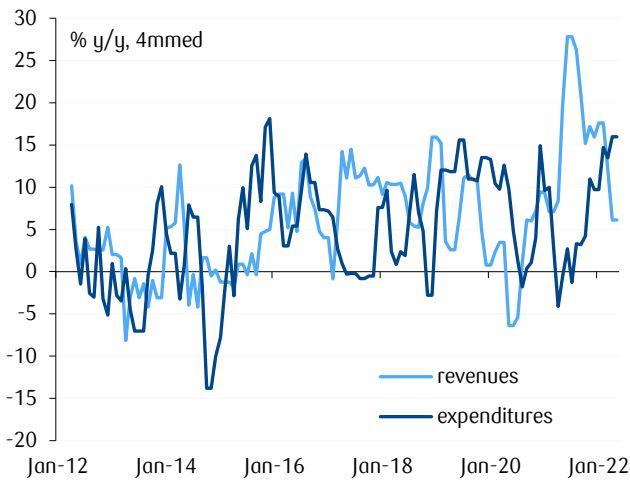
Economic activity indicators



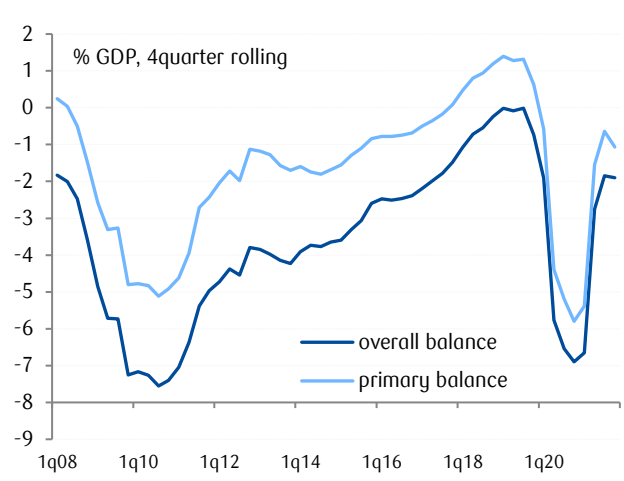
Merchandise trade (in EUR terms)



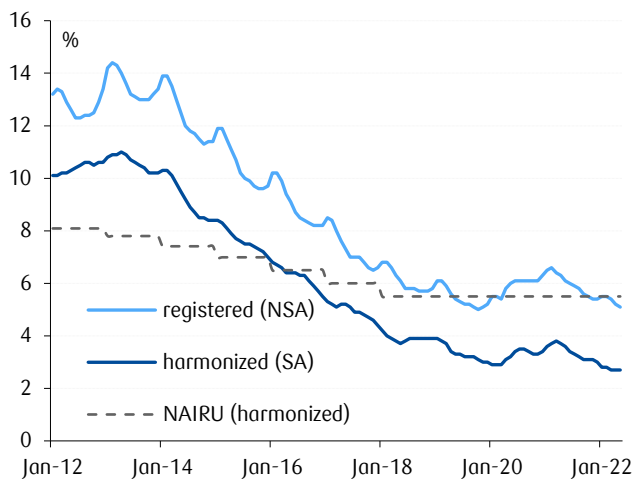
Central government revenues and expenditures*



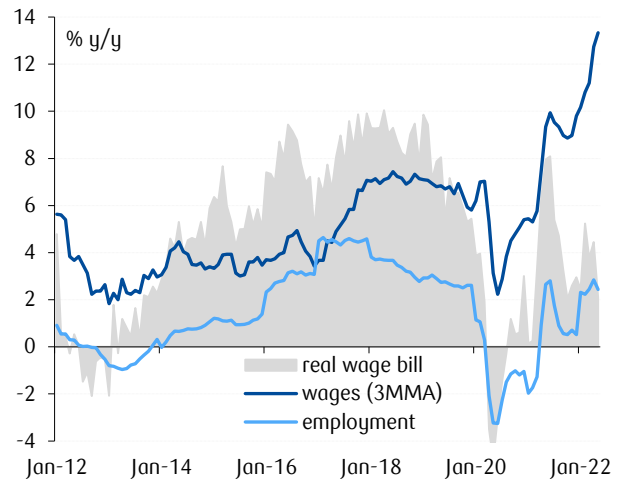
General government balance (ESA2010)



Unemployment rate

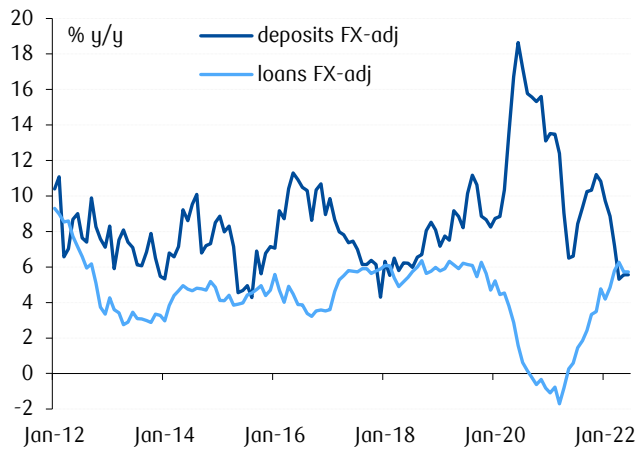


Employment and wages in the enterprise sector

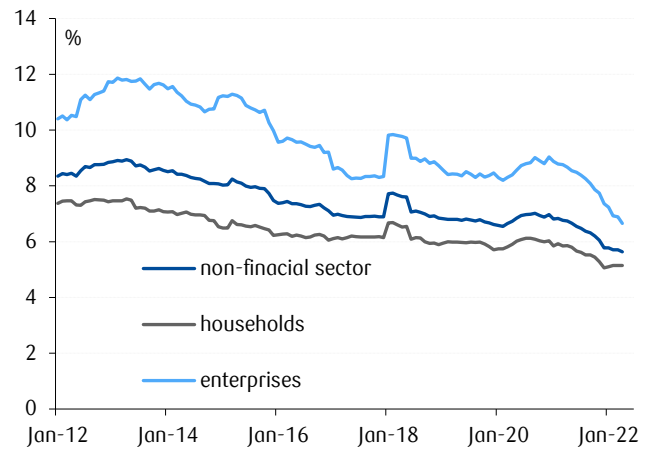


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. *break in series in 2010 due to methodological changes.

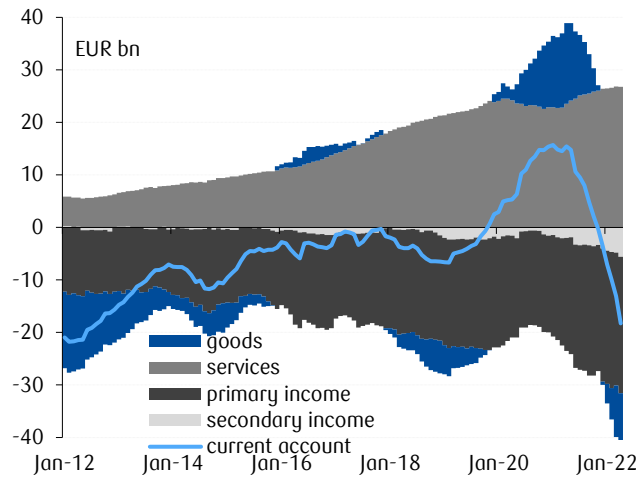
Loans and deposits



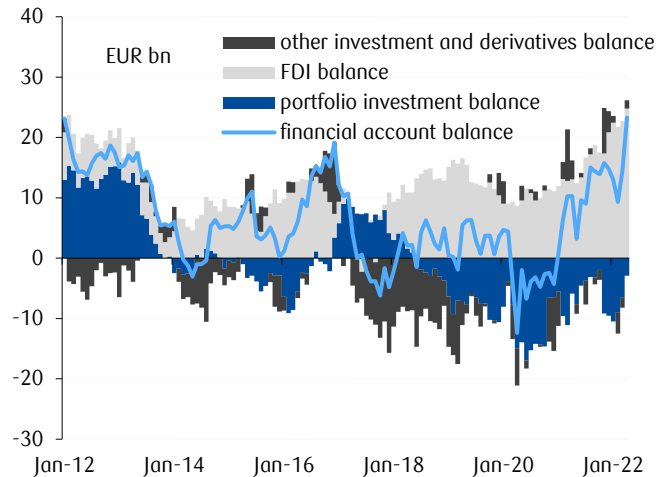
Non-performing loans (NPLs) - by sectors*



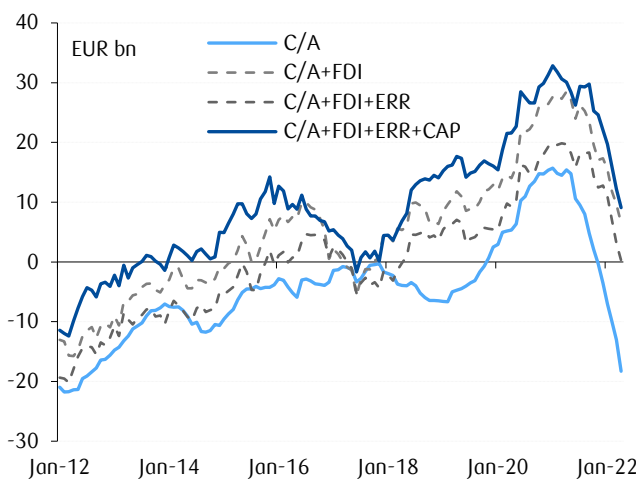
Current account balance



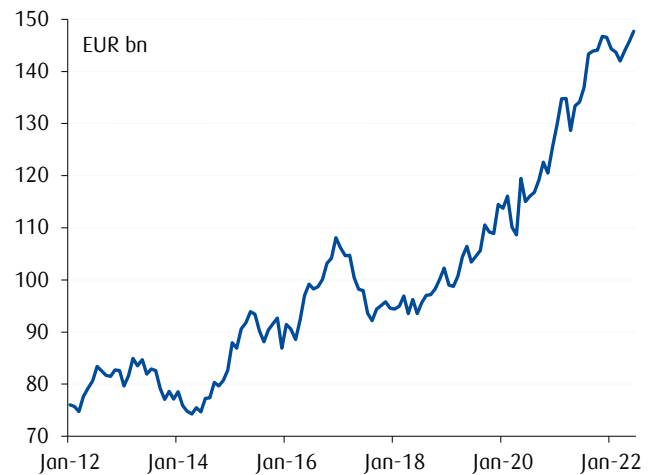
Financial account balance



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:

- [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)
- [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)

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.