

## Awaiting the end of rate hikes

### TOP MACRO THEME(S):

- **The end of monetary tightening is near (p. 2):** The MPC raised NBP rates by 25bps, the key policy rate to 6.75%. It was the smallest hike in the current tightening cycle, the most aggressive in over 20 years.

### WHAT ELSE CAUGHT OUR EYE:

- **The Senate has appointed prof. J.Tyrowicz as an MPC member.** She is a professor of economics at University of Warsaw, covering mostly labour economics, and has previously (2007-2017) worked at NBP's Economic Institute. J.Tyrowicz in her first statement asserted that lowering inflation is the priority for her term. She thinks that Polish economy is overstimulated and there is a need to find reasonable policy mix. In our assessment J.Tyrowicz will be rather hawkish, but as she noted, high inflation "makes ornithological discussions baseless" (more in Monetary Policy Monitor).
- **Unemployment rate in August stood at 4.9% for the third month in a row (according to MinLab estimates).** The seasonal adjusted rate did not change either (5.0%). Migrants are systematically becoming more important part of Polish labour market. At the end of July, there were 1,024 mln foreigners paying social security contributions (6.3% of all insured), from which 756 ths were Ukrainians. MinLab data point at ca 450 ths. hires among Ukrainian war refugees (~60% of working age population).
- **P.Borys (CEO of PFR - state investment fund) said that the scale of PFR-prefinanced projects performed under NGEU (Recovery and Resilience Plan) will amount to ca. PLN 6-7 bln in 2022 and PLN 20 bln in 2023.** In the case of the absence of the EU funds, the programme is to be financed from the repayments of Covid-19 aid to businesses.

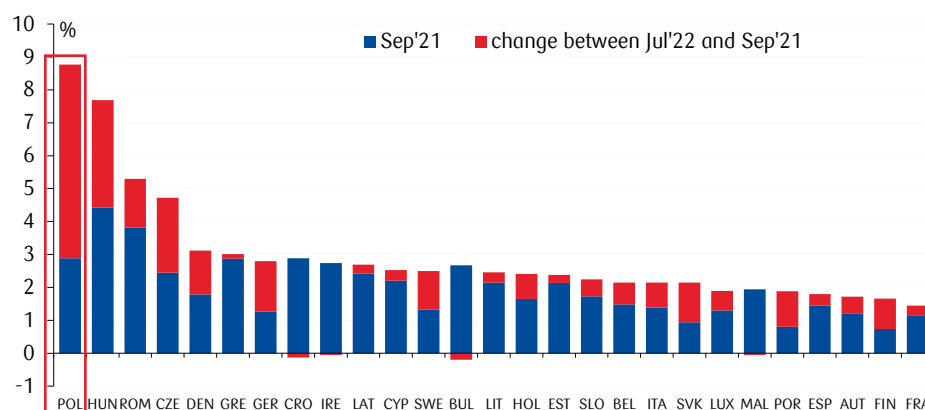
### THE WEEK AHEAD:

- **Current account balance** could once again show some improvement due to deceleration of imports, boosted previously by the build-up of inventories. **Final CPI data** for August should confirm the flash result (16.1% y/y vs 15.6% y/y in July). **The core CPI inflation** has probably accelerated to nearly 10% y/y after two months of falling momentum (% m/m sa).

### NUMBER OF THE WEEK:

- **72.9% y/y** - the decline of demand for property loans to households according to Credit Information Bureau, the strongest in the data history (2007).

### Chart of the week - Interest rates on new housing loans



Source: ECB, PKO Bank Polski.

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	2021	2022 <sub>†</sub>
Real GDP (%)	5.9	4.5
Industrial output (%)	15.6	9.4
Unemployment rate <sup>#</sup> (%)	5.4	4.9
CPI inflation <sup>**</sup> (%)	5.1	13.8
Core inflation <sup>**</sup> (%)	4.1	8.5
Money supply M3 (%)	8.9	5.8
C/A balance (% GDP)	-0.7	-4.5
Fiscal balance (% GDP)*	-1.9	-2.8
Public debt (% GDP)*	53.8	50.8
NBP reference rate <sup>##</sup> (%)	1.75	7.00
EURPLN <sup>†##</sup>	4.60	4.66

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.

## The end of monetary tightening is near

- The MPC raised reference rate by 25bp, to 6.75. It was the smallest hike in the current tightening cycle, the most aggressive in over 20 years.
- The end of monetary tightening is near – NBP Governor announced that during October meeting MPC will consider “no change” or a “25bp” hike.
- Rate hikes (665bp) delivered so far have exerted a strong impact on the economy – dumped demand for housing loans and were one of the factors contributing to lower propensity to spend.

The Monetary Policy Council raised NBP interest rates by 25bp (cons. and PKOe: 25bp), including the reference rate to 6.75%. This is the smallest hike in the current cycle, which came in line with earlier suggestions from some MPC members, that the monetary tightening cycle is gradually coming to its end.

In the [statement](#) accompanying the decision, very similar to that in July, the MPC reiterated the announcement that its further decisions would depend on the incoming data on the inflation outlook and economic activity. The MPC noted the deterioration in the global economy and indicated that domestic economic growth would also weaken in the coming quarters.

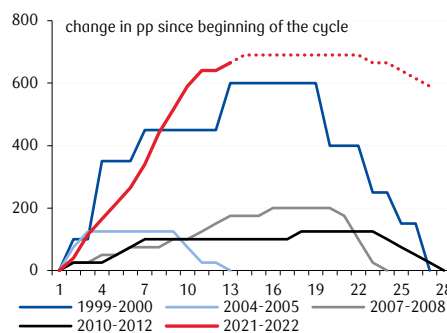
Much more details were given during the press conference by NBP Governor A.Glapinski. The hike of only 25bp was due to the slower growth of inflation (than in 1h22) and the fact that the inflationary processes have likely reached a turning point during the summer, combined with signals of a sharp slowdown in Polish and global economy. According to A.Glapinski, however, Poland remains far from a crisis mode, and current economic conditions are still good.

Since the beginning of the current cycle of rate hikes, which began in October 2021, the reference rate has already been raised by 665bp in total - **the strongest and fastest in Poland's modern economic history**. Incoming data show high impact of higher interest rates on households' demand for credit (**new sales of housing loans in July were 49% lower y/y, and consumer loans were 8% lower y/y**), as well as on the propensity to spend (real retail sales has slowed in recent months to 2-3% y/y, growing at a rate similar to the scale of population growth triggered by the influx of migrants). The deceleration in demand is accompanied by a further pick-up in inflation, although it is proceeding at a slower pace than in the first half of the year. At the same time, the sharp increases in the prices of energy carriers, which have taken place in recent weeks both on the domestic and European markets, clearly demonstrate the magnitude of the pro-inflationary risks that may drive the inflation path up again in the near term. In this context, a further rise in inflation in an environment of weaker demand should no longer be interpreted by the MPC as a signal of the need to further cool the economy, but more as a reflection of the scale of the energy shock, which is boosting inflation but dampening economic growth. In such an environment, further strong interest rate hikes would, in our view, be ineffective from the point of view of inflation and would significantly exacerbate the economic cost resulting from the energy crisis and the war.

The fear of a stagflationary scenario will, in our view, prompt the MPC to end the cycle of rate hikes (target rate at 6.75-7%). As the NBP Governor A.Glapinski suggested at the press conference, the MPC is not closing the door to a possible end to the cycle already in September. The scenario outlined by A.Glapinski for the October meeting assumes a choice between no change in rates or a 25bp hike. A 25bp move would be likely if CPI inflation for September surprises upward (due to second-round effects, update of price lists in education, health and communication services), due to further weakening of the zloty or due to the labour market getting even more hot than it is now.

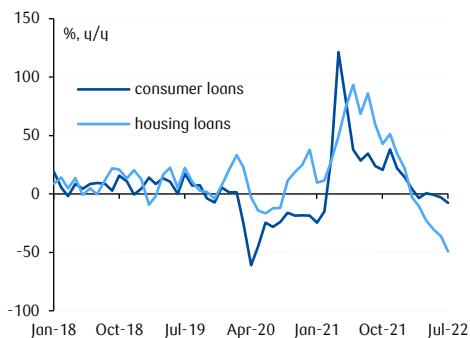
When it comes to long-term outlook, President A.Glapinski reiterated that, as inflation falls to single digits by the end of 2023, there will be space for rate cuts.

### NBP reference rate hikes cycles in Polish modern history



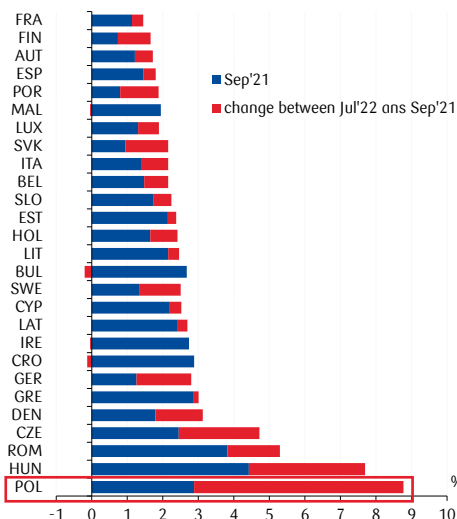
Source: NBP, PKO Bank Polski.

### New sales of loans for households



Source: NBP, PKO Bank Polski.

### Interest rates on new housing loans



Source: ECB, PKO Bank Polski.

## Weekly economic calendar

Indicator	Time (UK)	Unit	Previous	Consensus*	PKO BP	Comment
<b>Monday, 12 September</b>						
CZ: CPI inflation (Aug)	8:00	% y/y	17.5	17.6	--	--
<b>Tuesday, 13 September</b>						
GER: CPI inflation (Aug, final)	7:00	% y/y	7.9	7.9	--	--
GER: HICP inflation (Aug, final)	7:00	% y/y	8.8	8.5	--	--
GER: ZEW Economic Sentiment (Sep)	10:00	pts.	-55.3	-53.8	--	--
POL: Current account balance (Jul)	13:00	mln EUR	-1468	-1850	-1220	CAB deficit should shrink once again due to slowdown of import growth. Exports growth rate should deteriorate only marginally. The reversal of inventories cycle would be reflected in slowdown of imports growth rate.
POL: Exports (Jul)	13:00	% y/y	25.8	23.1	22.1	
POL: Imports (Jul)	13:00	% y/y	31.5	24.9	23.7	
USA: CPI inflation (Aug)	13:30	% y/y	8.5	8.1	--	--
USA: Core inflation (Aug)	13:30	% y/y	5.9	6.1	--	--
<b>Wednesday, 14 September</b>						
EUR: Industrial production (Jul)	10:00	% y/y	2.4	0.8	--	--
USA: PPI inflation (Aug)	13:30	% y/y	9.8	10.4	--	--
<b>Thursday, 15 September</b>						
POL: CPI inflation (Aug, final)	9:00	% y/y	15.6	16.1	16.1	We do not expect revision in final CPI results for August.
EUR: Trade balance (Jul)	10:00	bn EUR	-24.6	-20.0	--	--
USA: Initial Jobless Claims (Sep)	13:30	ths.	222	--	--	--
USA: Retail sales (Aug)	13:30	% m/m	0	0	--	--
USA: Retail sales excl. autos (Aug)	13:30	% m/m	0.4	0	--	--
USA: Industrial production (Aug)	14:15	% m/m	0.6	0.2	--	--
<b>Friday, 16 September</b>						
EUR: HICP inflation (Aug, final)	10:00	% y/y	8.9	9.1	--	--
EUR: Core inflation (Aug, final)	10:00	% y/y	4.0	4.3	--	--
POL: Core inflation (Aug)	13:00	% y/y	9.3	9.5	9.9	We estimate that the core inflation momentum has started to accelerate again (~ 0.8% m/m after two months of deceleration) indicating yearly dynamic in August came close to 10% y/y.
USA: University of Michigan sentiment (Sep, flash)	15:00	pts.	58.2	59.6	--	--

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	"However, it should certainly be assumed that there is still, in September or October, room for an interest rate hike. The increase does not necessarily have to be very high, but the Council should send a reminder that the level of inflation after the summer is not acceptable to the MPC. Especially since the zloty has weakened sharply. (...) In my opinion, there is still no way to definitively end the cycle. (...) Rate hikes on the one hand, but on the other hand it's probably worthwhile - because here the room for maneuver may be getting smaller and smaller in terms of interest rates, we can't cause a disaster for borrowers and institutions - to consider the idea of anti-inflationary bonds issued by the NBP.." (1.09.2022, PAP, 31.08.2022 TVN24, PAP)
H. Wnorowski	4.2	"This Wednesday we have a decision-making meeting. We can rule out a rate cut, and a small hike or holding rates are equally likely. At the moment, however, it can be said that we are slowly approaching the end of this uphill road, but when we start to cut interest rates depends on a number of factors.." (31.08.2022, TVP Białystok, Kurier Poranny, PAP)
A. Glapinski	3.4	<b>"The summer holiday period is probably the turning point in our inflation, that highest inflation point. This is the plateau, it may be a little higher or lower, but essentially this is the high ceiling from which inflation will gradually decline. (...) As we go down with inflation, there is room to lower interest rates. (...) We have not formally completed the cycle of increases. Our next decisions will depend on incoming data. (...) What about interest rates in October? Either no change in the level of rates, or an increase of 25 bps. - This is what the Council will be considering. (8.09.2022, NBP press conference, PAP)</b>
I. Dąbrowski	3.1	"In my opinion, if there will be another rate hike, it will be rather small - on a comparable scale to the last one (50bp - ed.) or even lower. If the decision depended solely on me, I would not raise rates at all anymore, or at most once by 25 bps." (19.07.2022, PAP)
C. Kochalski	3.1	"I still see space for possible further interest rate hikes, although on a smaller scale than before. I expect inflation to decline next year. I see greater uncertainty with regard to economic growth, more specifically, as to the extent of the economic slowdown. This leads me to conclude that the prospect of rate cuts in 2023 cannot be ruled out." (1.09.2022, PAP).
P. Litwiniuk	2.9	"I think this (PKO: 25bp hike) is the baseline scenario, it can develop towards a higher hike in September, if confirmed by incoming data up to September 7 (PKO: MPC meeting date)." (1.09.2022, TVN24, PAP)
W. Janczyk	2.4	"The coming months, I hope, will bring no particular reasons to continue the interest rate hike cycle, although the impact of energy prices in the upcoming autumn-winter season on the economy and consumers is hard to predict right now. (...) "The council will act adequately to situation in our economy. In my opinion, it will strive to keep the lowest possible interest rate levels [while] targeting a realistic return to the inflation target." (21.07.2022, PAP).
J. Tyrowicz	--	<b>Given the economic situation in Poland and the world, it seems that the list of monetary policy priorities is very short and includes two things - lowering the inflation rate and improving the central bank's communications. (...) The fundamental reason why we have high inflation is because demand exceeds supply. In order for the CPI to go down demand must go down. These materials (PKO: NBP analyses), this is something without which it is difficult to assess the economic situation on an ongoing basis. (...) This also relates to the fact that the NBP has a prioritized and sometimes unique access to data on the economy. (...) Without access to this data, I dare not form judgments about monetary policy. (6.09.2022, Hearing before the Senate Committee on Budget and Public Finance, PAP)</b>
(Vacant places (2))	--	--

\*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.

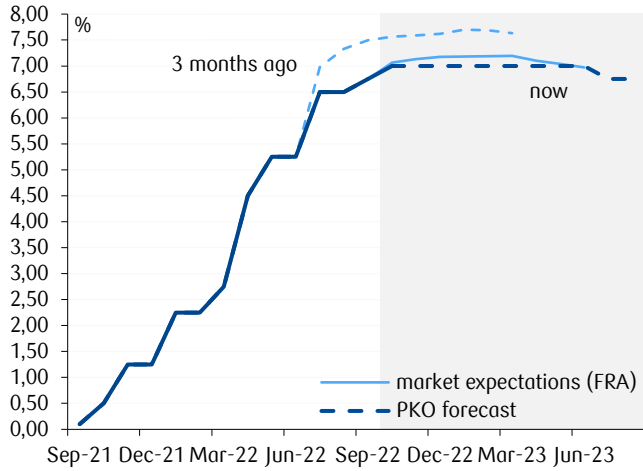
### Interest rates – PKO BP forecasts vs. market expectations

Date	8-Sep	8-Oct	8-Nov	8-Dec	8-Jan	8-Feb	8-Mar	8-Apr	8-May	8-Jun
WIBOR 3M/FRA†	7.16	7.27	7.34	7.38	7.38	7.39	7.40	7.30	7.24	7.17
implied change (b. p.)		0.11	0.18	0.22	0.22	0.23	0.23	0.14	0.08	0.01
MPC Meeting	-	7-Sep	5-Oct	9-Nov	7-Dec	-	-	-	-	-
PKO BP forecast*	6.75	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00
market pricing*		6.86	6.93	6.97	6.97	6.98	6.99	6.89	6.83	6.76

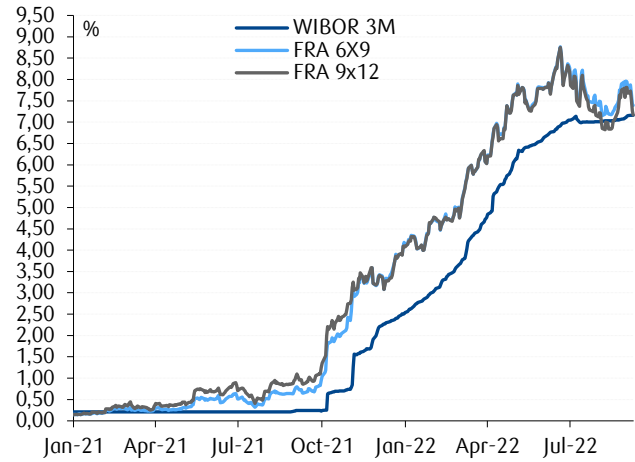
†WIBOR 3M from the last fixing, FRA transactions based on WIBOR 3M for subsequent periods, ‡in basis points, \*PKO BP forecast of the NBP reference rate.

## Poland macro chartbook

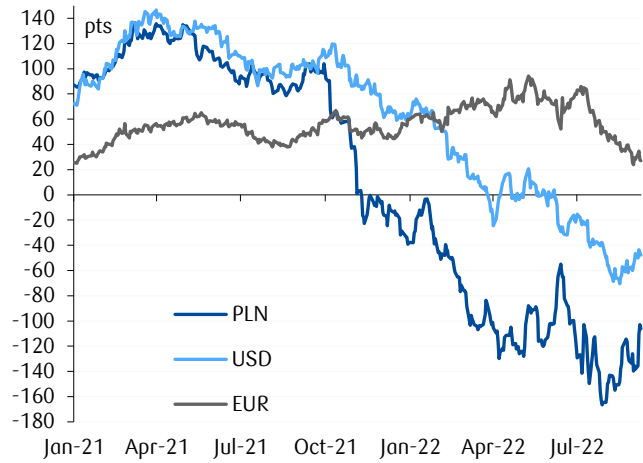
NBP policy rate: PKO BP forecast vs. market expectations



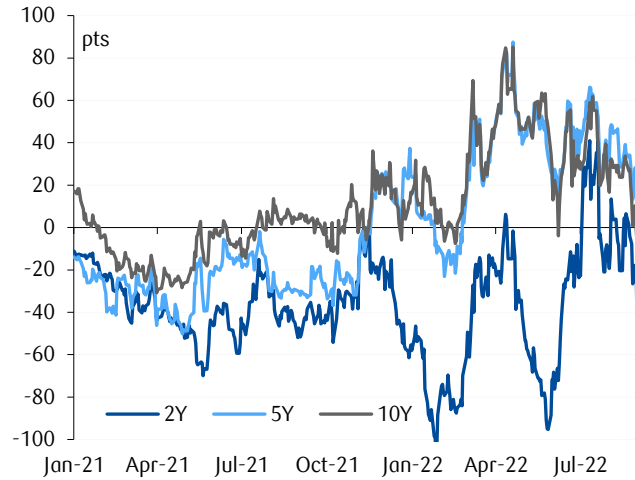
Short-term PLN interest rates



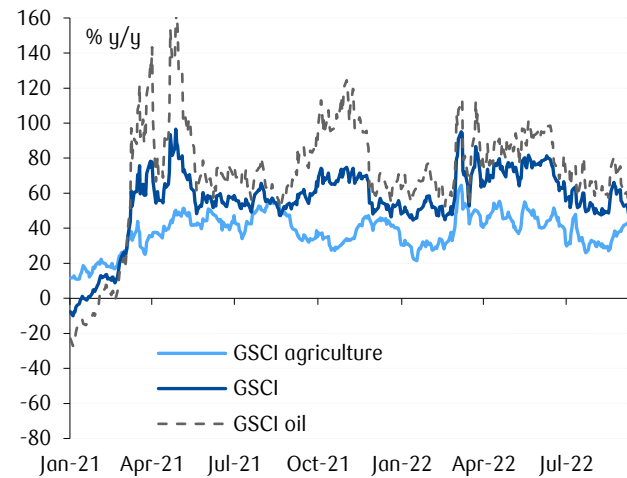
Slope of the swap curve (spread 10Y-2Y)\*



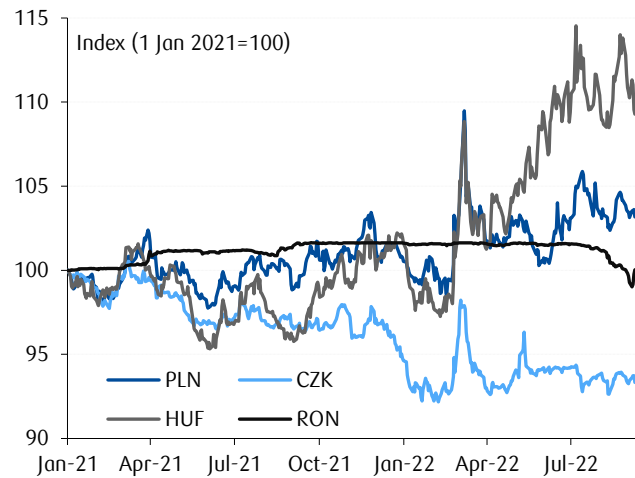
PLN asset swap spread



Global commodity prices (in PLN)

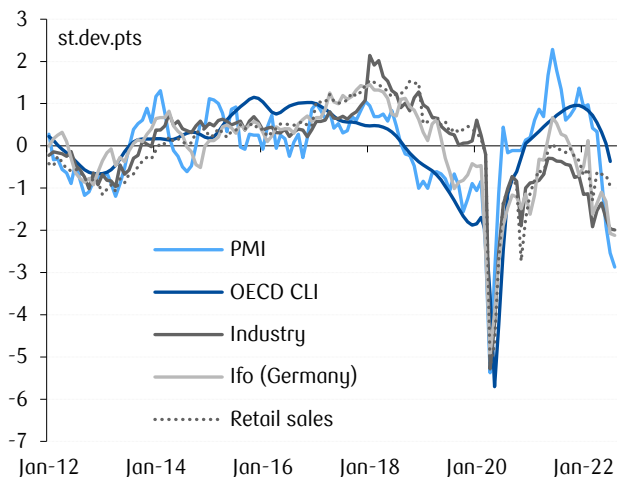


Selected CEE exchange rates against the EUR

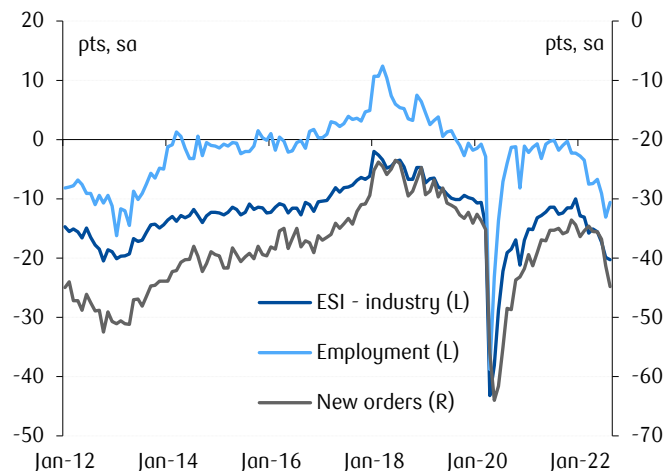


Source: Datastream, NBP, PKO Bank Polski. \*for PLN, and EUR 6M, for USD 3M.

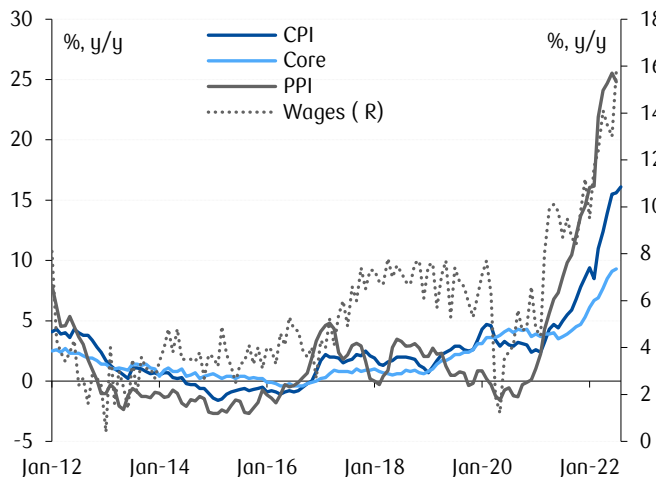
Economic sentiment indicators



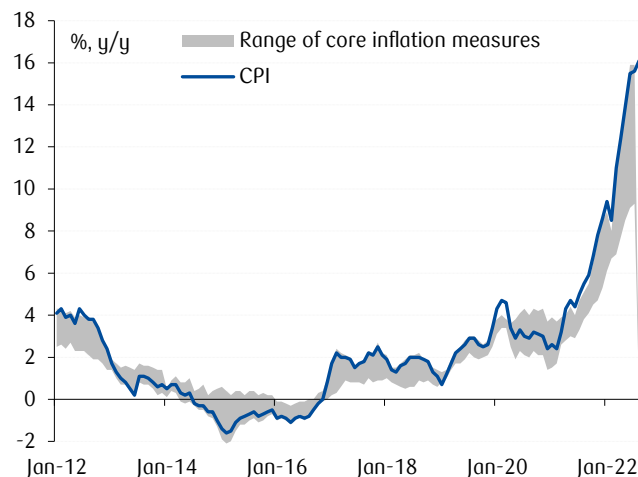
Poland ESI for industry and its components



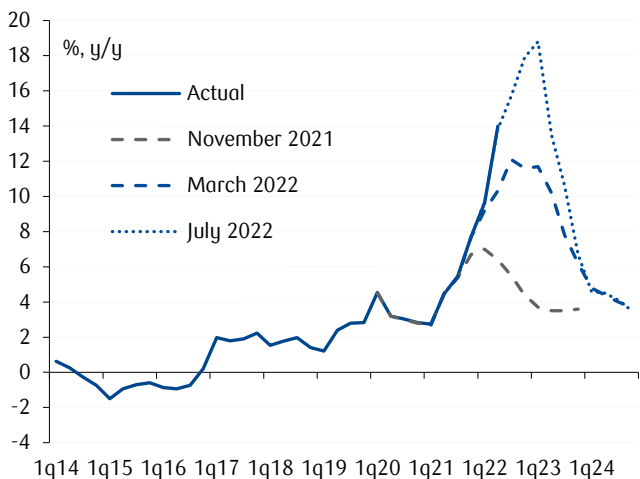
Broad inflation measures



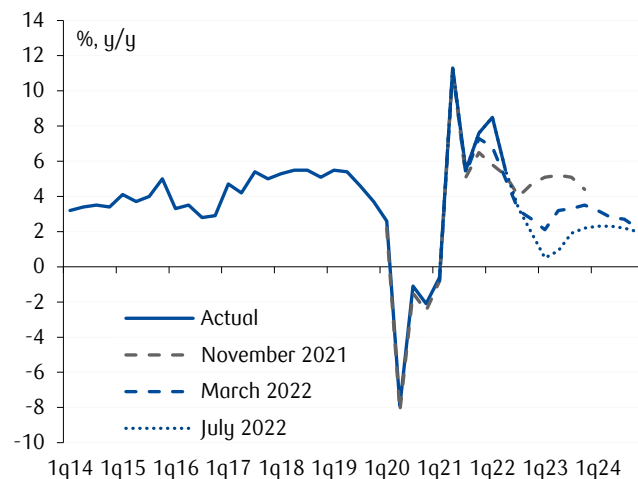
CPI and core inflation measures



CPI inflation – NBP projections vs. actual

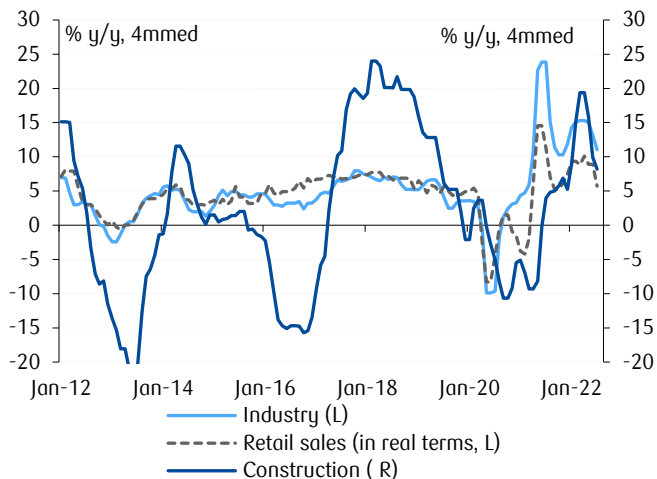


Real GDP growth – NBP projections vs. actual

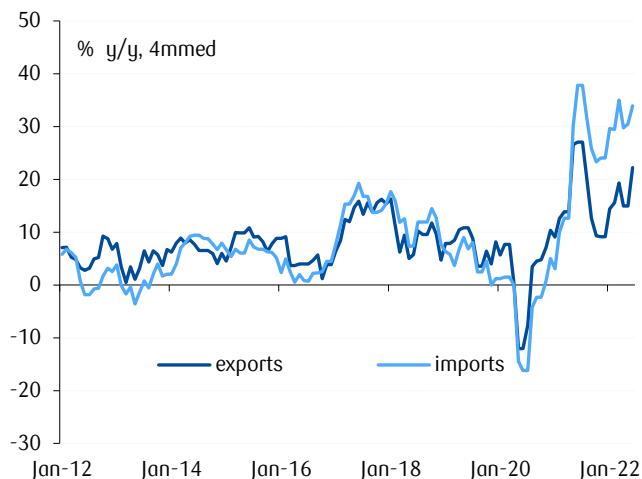


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

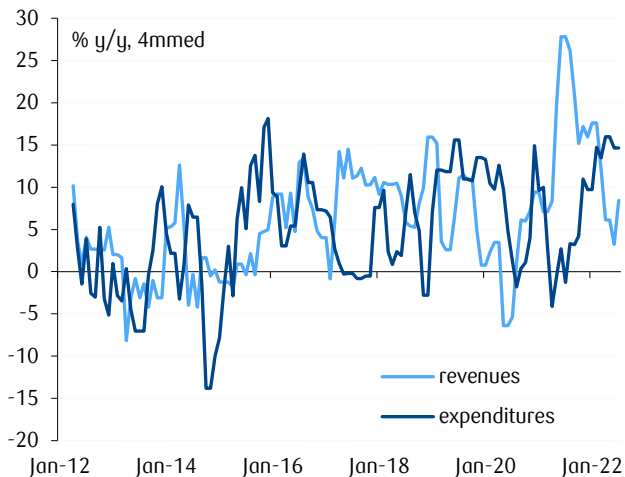
**Economic activity indicators**



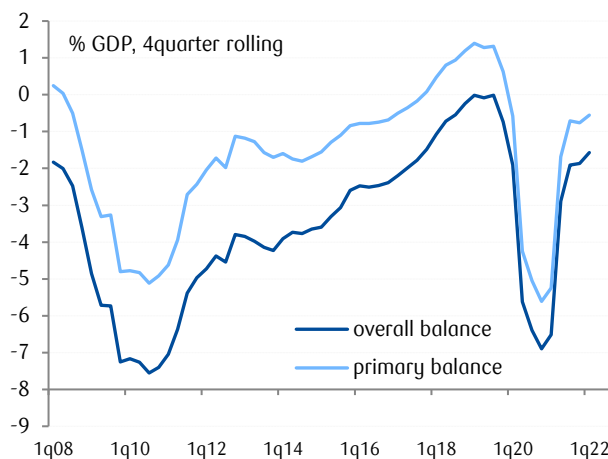
**Merchandise trade (in EUR terms)**



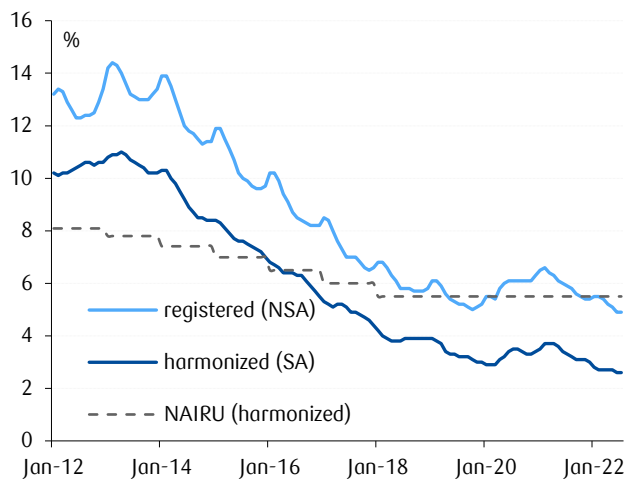
**Central government revenues and expenditures\***



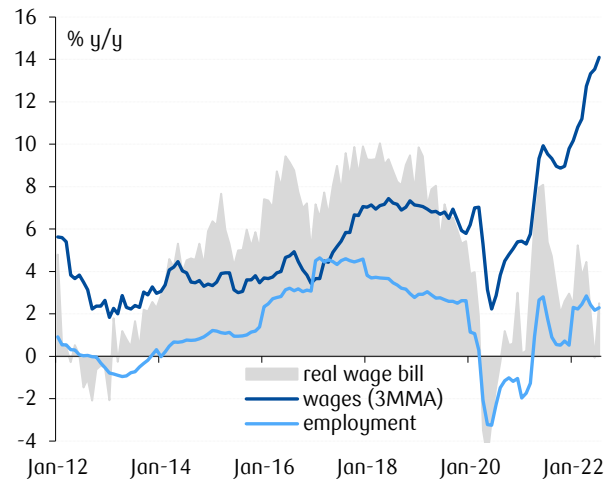
**General government balance (ESA2010)**



**Unemployment rate**

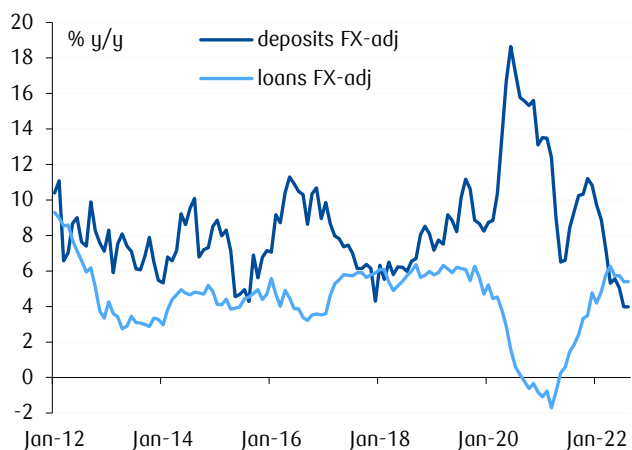


**Employment and wages in the enterprise sector**

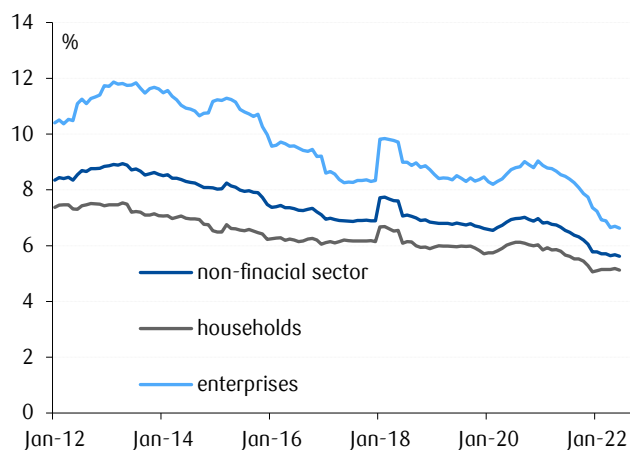


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. \*break in series in 2010 due to methodological changes.

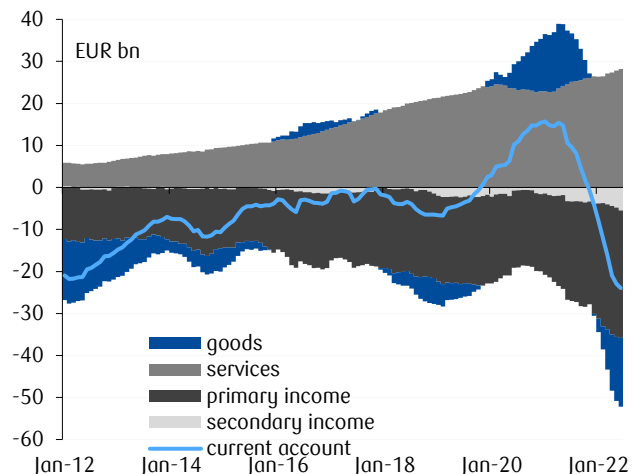
### Loans and deposits



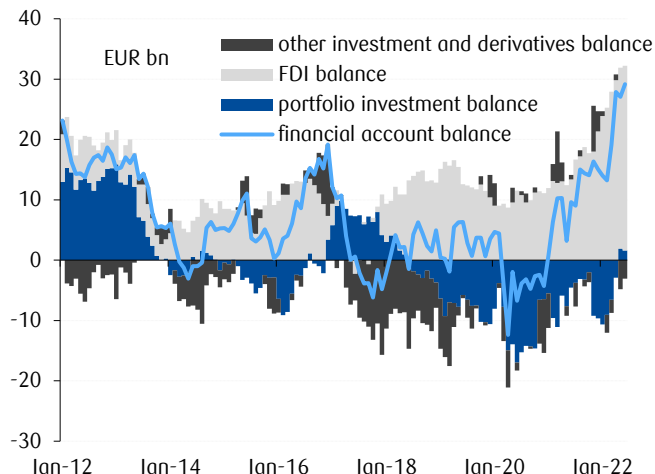
### Non-performing loans (NPLs) - by sectors\*



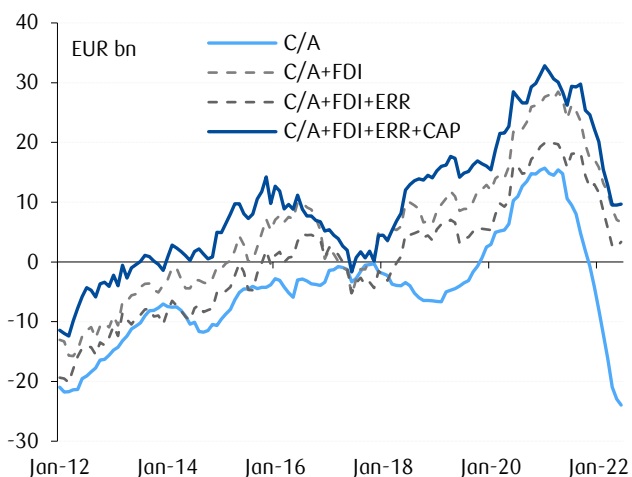
### Current account balance



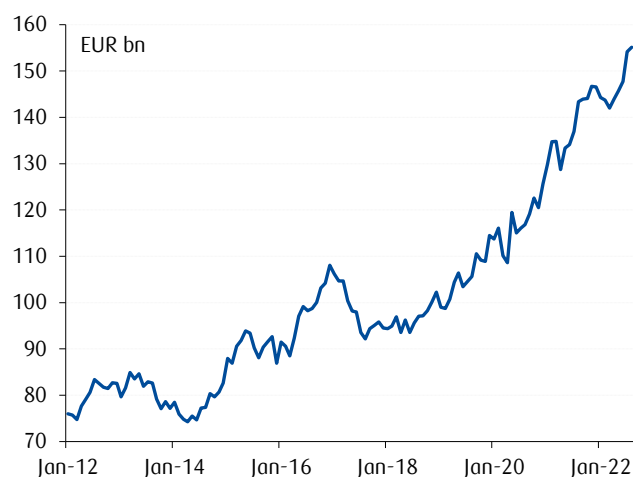
### Financial account balance



### 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 seems to be losing steam](#) (Aug 12, 2022)
- [Prepare\(d\) for slowdown](#) (Aug 5, 2022)
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- [Slowdown just ahead](#) (Jul 22, 2022)
- [Turning point?](#) (Jul 15, 2022)
- [Inflation vs recession dilemma](#) (Jul 8, 2022)
- [NBP rate hikes coming to an end](#) (Jul 1, 2022)
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