

Please note that the next issue of Poland Macro Weekly will be published on Friday, June 24.

A bitter pill of interest rate hikes

TOP MACRO THEME(S):

- **A bitter pill of interest rate hikes (p. 2):** Monetary Policy Council raised the NBP interest rates by 75bps. The reference rate now stands at 6.0% and is the highest since October 2008.

WHAT ELSE CAUGHT OUR EYE:

- **The registered unemployment rate in May declined to 5.1% from 5.2% in April, on MinLab flash estimate.** The number of unemployed declined by 26 thousand in a month, slightly below the seasonal pattern for May, suggesting strong labour supply constraints. We believe that the unemployment rate figure could have (once again) underestimated the number of Ukrainian refugees working in Poland (more than 200 thousand since the beginning of the war) so the final May reading could be lower.
- **The government proposed to raise the minimum wage to PLN 3,383 from Jan 2023, and PLN 3,450 from July 2023 (two phase-hike is required by the law in the environment of high inflation) from PLN 3,010 in 2022.** The regulation will affect 2.74 million employees, on government estimates. The minimum wage is expected to grow by 14.6% and we estimate it to be equal to 52% of the average wage in 2h2023.

THE FORTNIGHT AHEAD:

- **In the two weeks ahead we will see the whole set of macroeconomic figures for May and April (see economic calendar on page 3 for more details).** We expect IP and construction data for May to be relatively good as calendar effects are masking lower inflow of orders. Labour market in May has likely remained red-hot with enterprise wages growing by almost 15% y/y. Retail sales has been supported by the spending of refugees despite unfavourable statistical effects. April has likely shown yet another monthly CA deficit.
- **May CPI will most likely be confirmed at or above the flash reading of 13.9%.** Core inflation probably went up to 8.5% y/y.

NUMBER OF THE WEEK:

- **4+4** – the number of months when clients will be entitled to a moratorium on mortgage payments in 2022 and 2023 respectively, as assumed in the bill that has just been passed by the lower house of parliament.

Vacancies in the national economy



Source: GUS, PKO Bank Polski.

Chief Economist

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

Macro Research Team

[@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	5.8
CPI inflation ^{**} (%)	5.1	12.8
Core inflation ^{**} (%)	4.1	8.0
Money supply M3 (%)	8.9	5.6
C/A balance (% GDP)	-0.6	-2.3
Fiscal balance (% GDP)*	-1.9	-2.8
Public debt (% GDP)*	53.8	49.9
NBP reference rate ^{##} (%)	1.75	6.50
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.

A bitter pill of interest rate hikes

- The Monetary Policy Council raised the NBP interest rates by 75bps. The reference rate now stands at 6.0% and is the highest since October 2008.
- During the traditional press conference A.Glapinski stroke some dovish tones. He admitted that we are closer to the end than to the beginning of the “very long and drastic” tightening cycle.
- We expect the MPC to hike rates by 50bps in July and to conclude the cycle at 6.5%-7%. The further rate path will of course depend on the incoming inflation data as the growth slowdown does not seem to be of concern for the MPC.

The Monetary Policy Council raised the NBP interest rates by 75bps. The reference rate now stands at 6.0% and is the highest since October 2008. For the first time since February the MPC decision was in line with market expectations, and it was the second 75bps hike in a row.

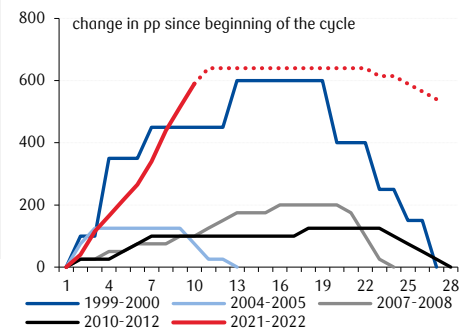
The post-meeting statement once again did not provide any new information from what we already know. The ninth consecutive interest rate hike was prompted by rising inflation, which in May, however, met market expectations for the first time since January. As in previous months, the rate hike was motivated by the need to anchor inflation expectations. According to the communiqué, in the coming quarters one should expect the “relatively” favourable economic conditions to persist, which might be a suggestion of a tad slower economic growth ahead.

During the traditional press conference A.Glapinski stroke some dovish tones. He declined to name the terminal rate level and did not say how long the current cycle might last. He admitted, however that we are closer to the end than to the beginning of the “very long and drastic” cycle. The governor recalled however that a bitter pill of interest rates is necessary to curb medium-term inflation. In his opinion the NBP could start cutting rates in 4q23, if it sees that inflation is in a downward trend. The Governor reaffirmed the MPC’s commitment to keep hiking rates as long as the CPI inflation keeps growing. At the same time he added, that the current NBP forecasts assume that inflation will stop growing in the summer and is likely to go down thereafter.

Due to the persisting and strong growth in commodity prices (including oil) and food prices, we do not rule out that the inflation peak may shift from June-July to the second half of the year. This would suggest that either the MPC should consider whether it is ready to continue the cycle of rate hikes after the holiday break in August (which will deepen the negative impact of the rate hikes on the weakening economic activity), or revise its communication policy. So far the NBP Governor hinted that a negative inflation scenario would rather translate into a longer cycle of hikes.

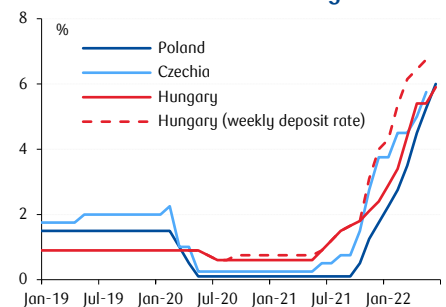
We expect the MPC to hike rates by 50bps in July and to conclude the cycle at 6.5%-7%. The further rate path will of course depend on the incoming inflation data and on the results of July projections (as hinted by A.Glapinski during the press conference). The risk to this scenario is definitely skewed towards more hikes and a higher terminal rate.

The current tightening cycle (with dotted PKO forecast) vs. previous ones



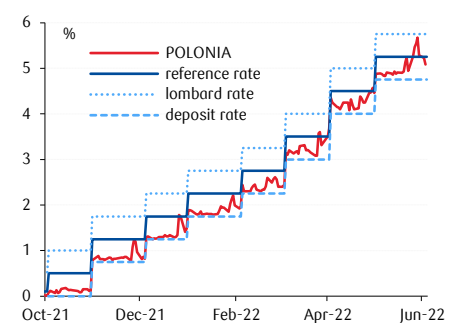
Source: NBP, PKO Bank Polski.

Interest rates in the CEE region



Source: Macrobond, PKO Bank Polski.

POLONIA and NBP rates corridor



Source: Macrobond, PKO Bank Polski.

Biweekly economic calendar

Indicator	Time (UK)	Unit	Previous	Consensus*	PKO BP	Comment
Monday, 13 June						
POL: Current account balance (Apr)	13:00	EUR bn	-2.972	-2.330	-1.946	Expensive commodities kept pushing import up, while export was affected by worse business climate abroad.
POL: Exports (Apr)	13:00	% y/y	16.2	5.7	5.8	
POL: Imports (Apr)	13:00	% y/y	34.3	22.3	20.7	
Tuesday, 14 June						
GER: ZEW Economic Sentiment (Jun)	10:00	pts.	-34.3	--	--	--
Wednesday, 15 June						
POL: CPI inflation (May, final)	9:00	% y/y	12.4	13.9	13.9	Higher energy and core prices pushed May inflation up.
EUR: Industrial production (Apr)	10:00	% y/y	-0.8	--	--	--
USA: Retail sales (May)	13:30	% m/m	0.9	0.2	--	--
USA: Fed meeting	19:00	%	1	1.5	1.5	--
Thursday, 16 June						
SWI: SNB meeting	8:30	%	-0.75	--	--	--
UK: BoE meeting	12:00	%	1	--	--	--
Friday, 17 June						
EUR: HICP inflation (May, final)	10:00	% y/y	7.4	8.1	--	--
EUR: Core inflation (May, final)	10:00	% y/y	3.5	3.8	--	--
POL: Core inflation (May)	13:00	% y/y	7.7	8.1	8.5	Core prices keep growing reflecting second round effects of higher costs of food and energy.
USA: Industrial production (May)	14:15	% m/m	1.1	0.4	--	--
JAP: BoJ meeting	--	%	-0.10	--	--	--
Tuesday, 21 June						
POL: Wages (May)	9:00	% y/y	14.1	14.7	14.9	Red-hot labour market persists.
POL: Employment (May)	9:00	% y/y	2.8	2.6	2.6	
POL: Industrial production (May)	9:00	% y/y	13	15.2	16.9	Working-days effect supports IP dynamics masking lower inflow of orders.
POL: PPI inflation (May)	9:00	% y/y	23.3	24.7	24.7	
Wednesday, 22 June						
POL: Construction output (May)	9:00	% y/y	9.3	8.7	12.1	Calendar effects supported construction output despite downbeat perspectives. Spending by refugees makes up for unfavourable statistical effects.
POL: Retail sales (May)	9:00	% y/y	19	8.8	12.7	
CZE: Central bank meeting	13:30	%	5.75	--	--	--
Thursday, 23 June						
EUR: Manufacturing PMI (Jun, flash)	9:00	pts.	54.6	--	--	--
POL: Consumer Confidence (Jun)	9:00	pts.	-38.4	-39.0	--	Elevated inflation keeps spoiling consumers' mood in June.
NOR: Norges Bank meeting	9:00	%	0.75	--	--	--
POL: Money Supply M3 (May)	13:00	% y/y	8.2	8.1	8.2	M3 growth has likely stabilised.
USA: Manufacturing PMI (Jun, flash)	14:45	pts.	57	--	--	--
Friday, 24 June						
POL: Unemployment Rate (May)	9:00	%	5.2	5.1	5.0	We see space for a downward revision vs. MinLab estimate of 5.1%
GER: Ifo Business Climate Index (Jun)	9:00	pts.	93,0	--	--	--

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	"We probably had an underestimation - by analysts, by decision-makers - of what could happen in the economy. And it actually happened, inflation is way too high. Moreover, in my opinion, it has escaped us. In the sense that it spilled over all the goods and services it could. It is not just that only gasoline or food prices grow. At the moment, everything is getting more expensive, the prices of over 90 percent of goods are growing faster than allowed by the inflation target or deviation from the target, i.e. faster than 3.5% (...) Unfortunately, this inflation is very high and probably still slightly growing. We have the so-called real negative interest rates, which means that raising interest rates should probably continue for some time. Of course, I do not want to say by what steps (...) but it seems that comparing the main interest rate at 5.25 percent at the moment with inflation over 12%, looks like there is still room for some more hikes." (16.05.2022, RMF FM)
H. Wnorowski	4.2	"For a long time, we have been facing a very expansionary fiscal policy. (...) Bigger money supply always has a pro-inflation effect [and] as a result the central bank has practically no choice but to tighten monetary policy." (1.06.2022, TVP Bialystok; PAP)
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. 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.

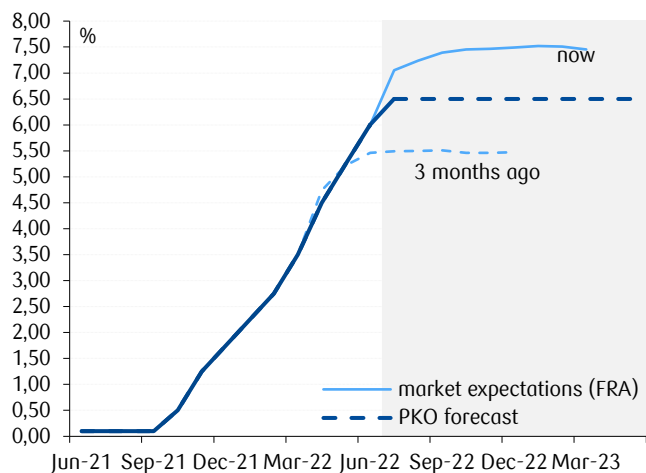
Interest rates – PKO BP forecasts vs. market expectations

		1M	2M	3M	4M	5M	6M	7M	8M	9M
Date	9-Jun	9-Jul	9-Aug	9-Sep	9-Oct	9-Nov	9-Dec	9-Jan	9-Feb	9-Mar
WIBOR 3M/FRA†	6.76	7.26	7.44	7.60	7.65	7.67	7.69	7.72	7.71	7.66
implied change (b. p.)		0.50	1.08	1.64	2.09	2.11	2.13	2.16	2.15	2.10
MPC Meeting	8-Jun	7-Jul	-	7-Sep	5-Oct	9-Nov	7-Dec	-	-	-
PKO BP forecast*	6.00	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50
market pricing*		6.50	7.08	7.64	8.09	8.11	8.13	8.16	8.15	8.10

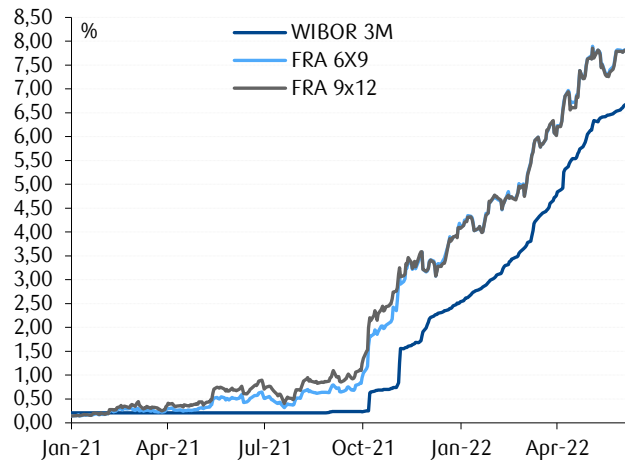
†WIBOR 3M from the last fixing, FRA transactions based on WIBOR 3M for subsequent periods, ‡in basis points, *PKO BP forecast of the NBP reference rate.

Poland macro chartbook

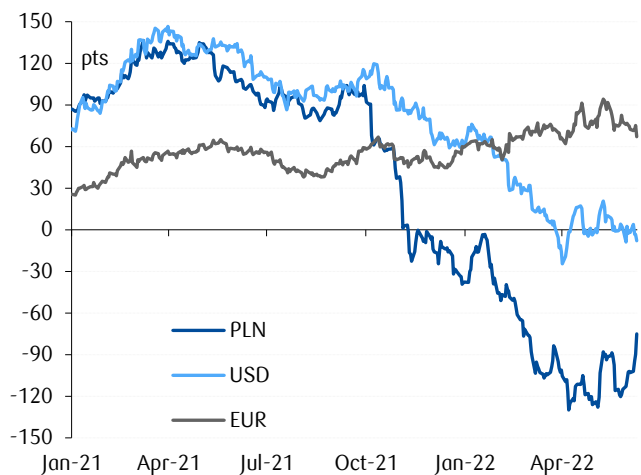
NBP policy rate: PKO BP forecast vs. market expectations



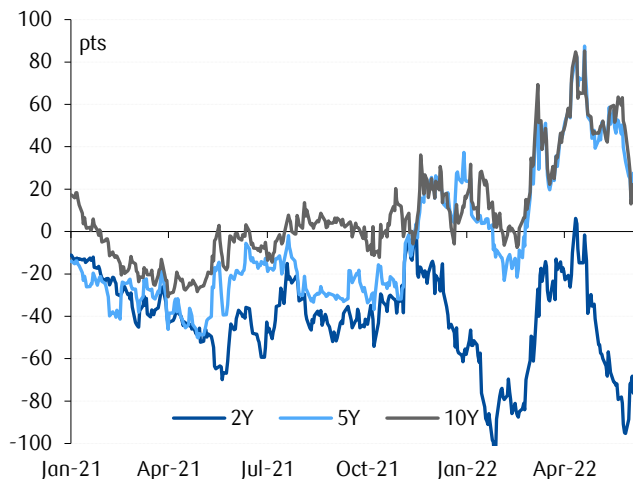
Short-term PLN interest rates



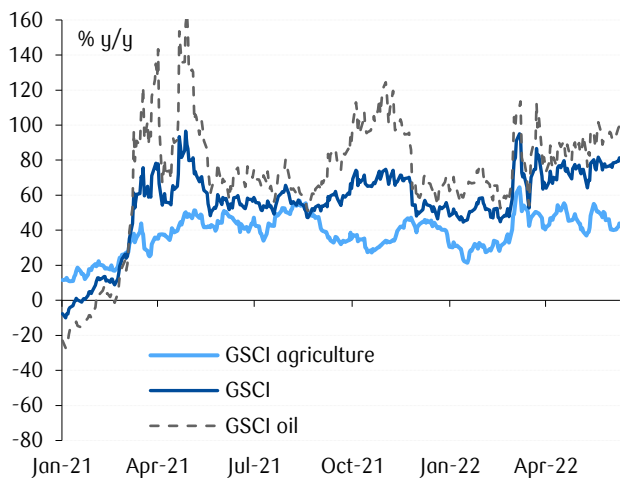
Slope of the swap curve (spread 10Y-2Y)*



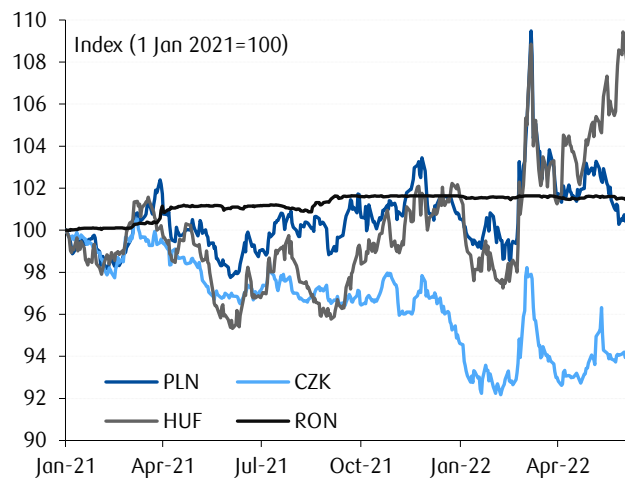
PLN asset swap spread



Global commodity prices (in PLN)

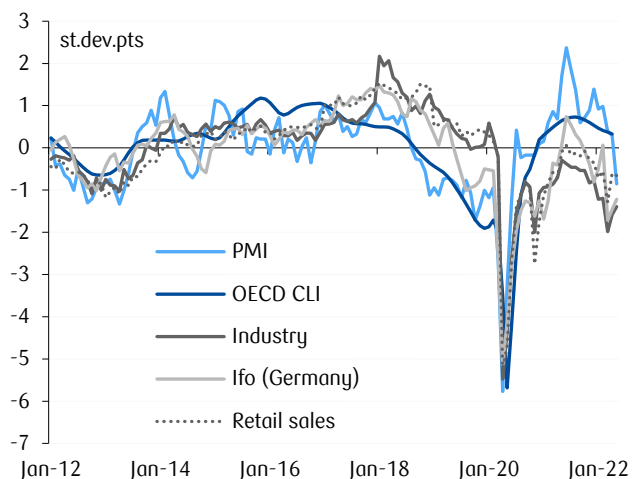


Selected CEE exchange rates against the EUR

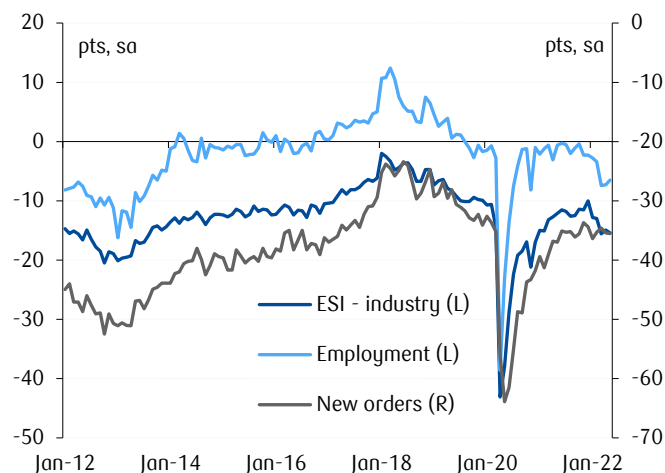


Source: Datastream, NBP, PKO Bank Polski. *for PLN, and EUR 6M, for USD 3M.

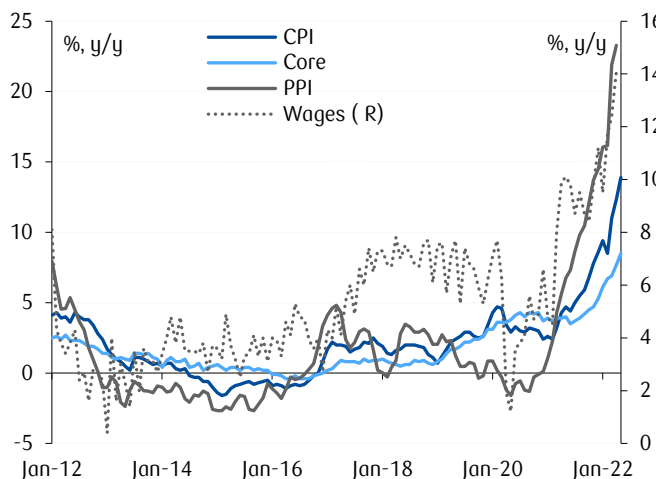
Economic sentiment indicators



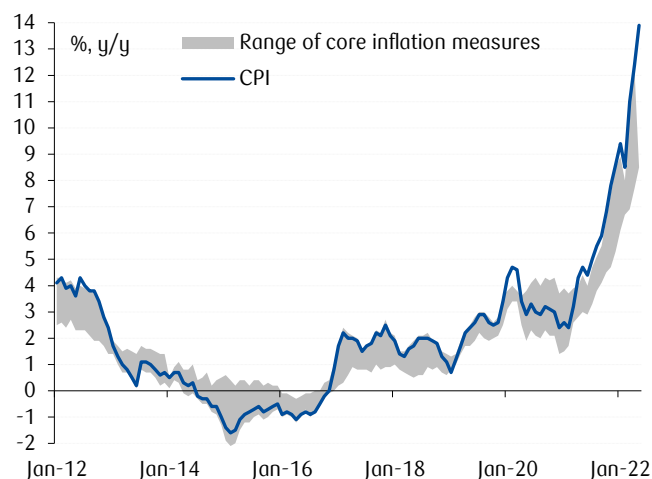
Poland ESI for industry and its components



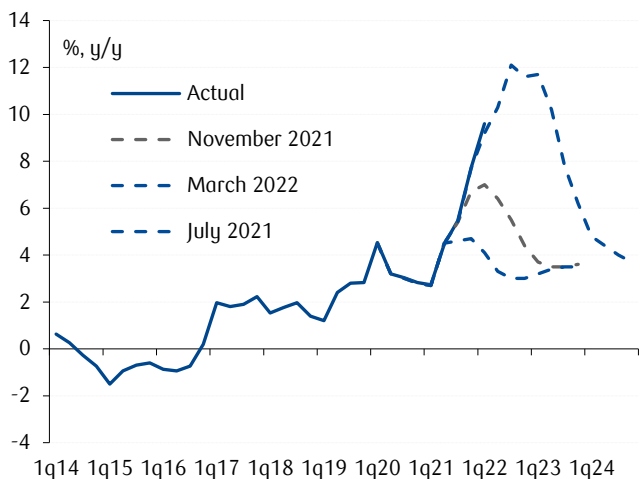
Broad inflation measures



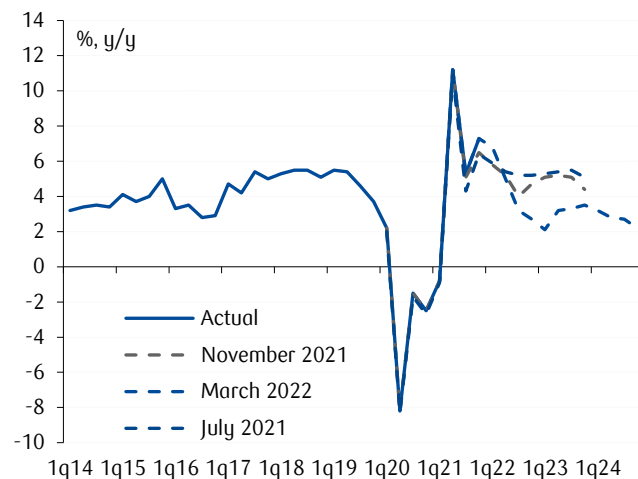
CPI and core inflation measures



CPI inflation – NBP projections vs. actual

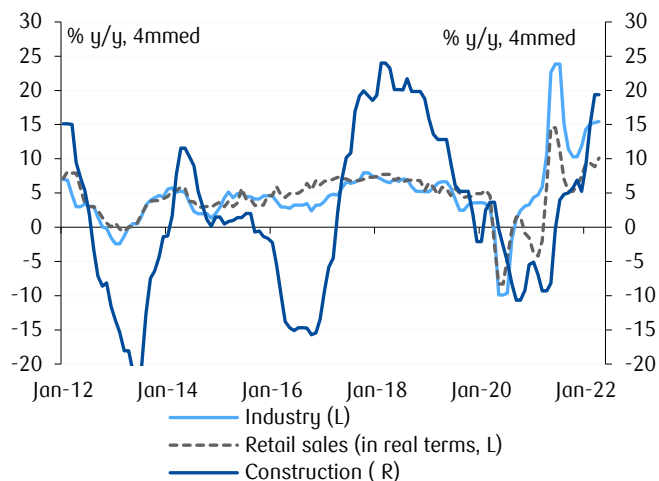


Real GDP growth – NBP projections vs. actual

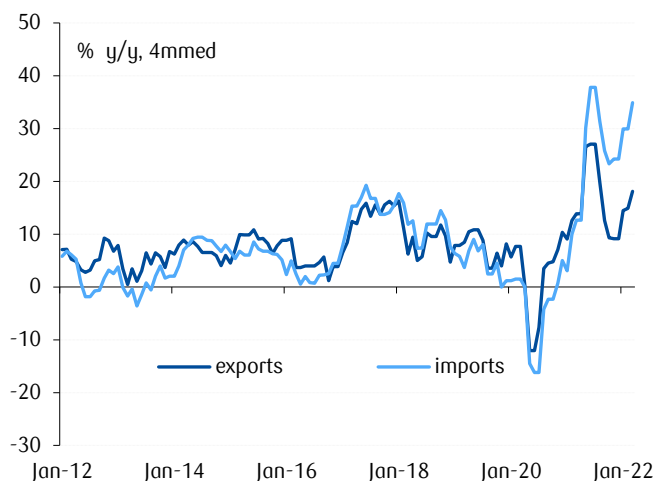


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

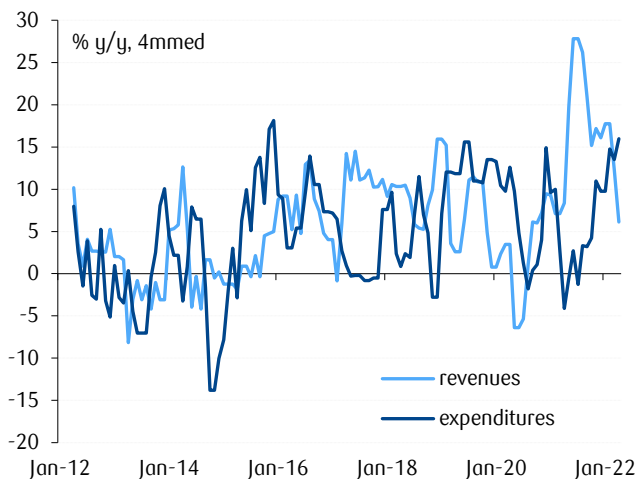
Economic activity indicators



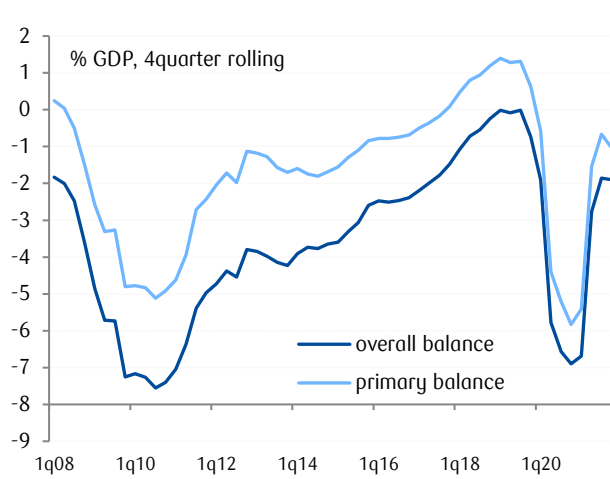
Merchandise trade (in EUR terms)



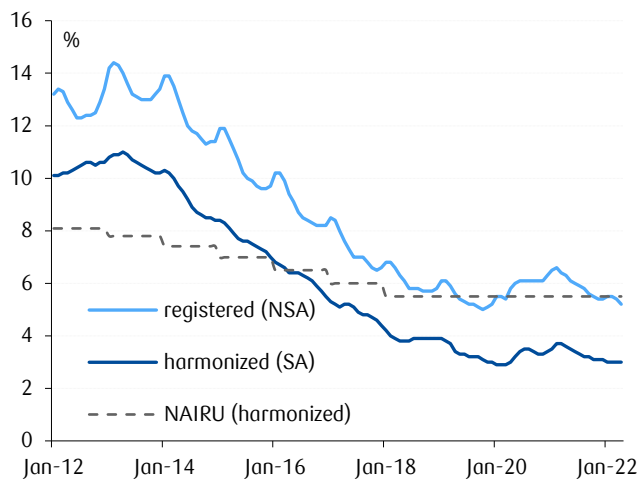
Central government revenues and expenditures*



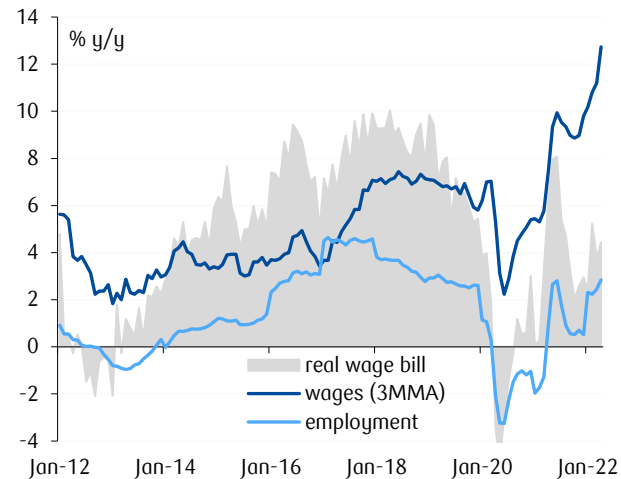
General government balance (ESA2010)



Unemployment rate

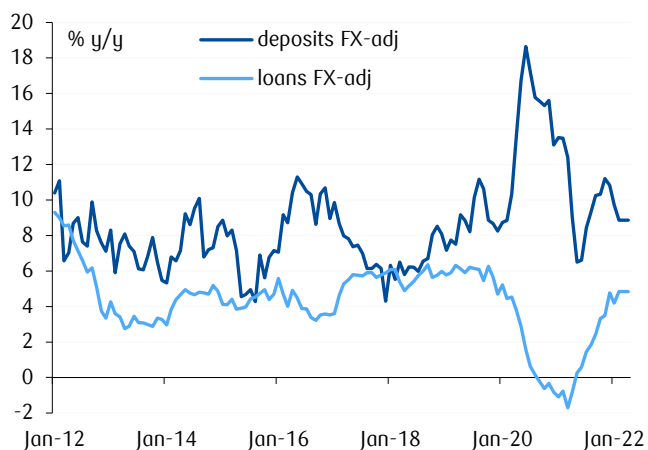


Employment and wages in the enterprise sector

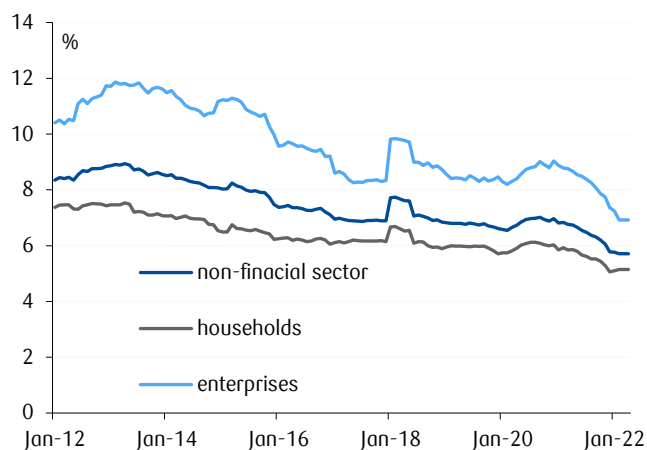


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. *break in series in 2010 due to methodological changes.

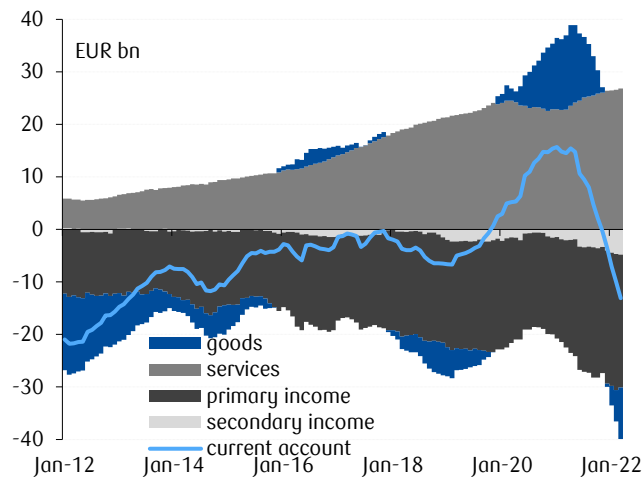
Loans and deposits



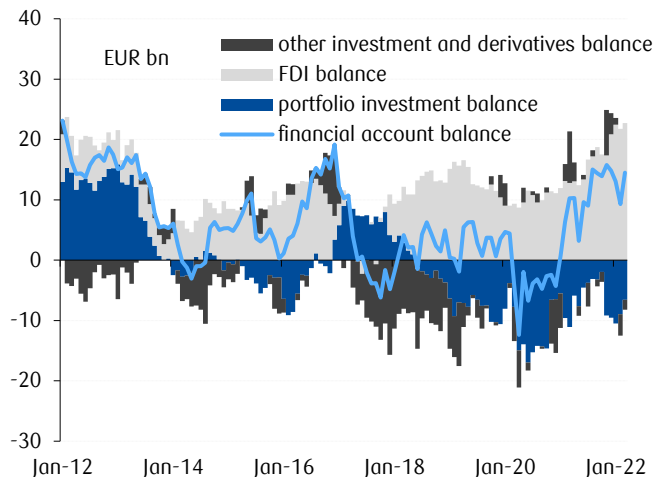
Non-performing loans (NPLs) - by sectors*



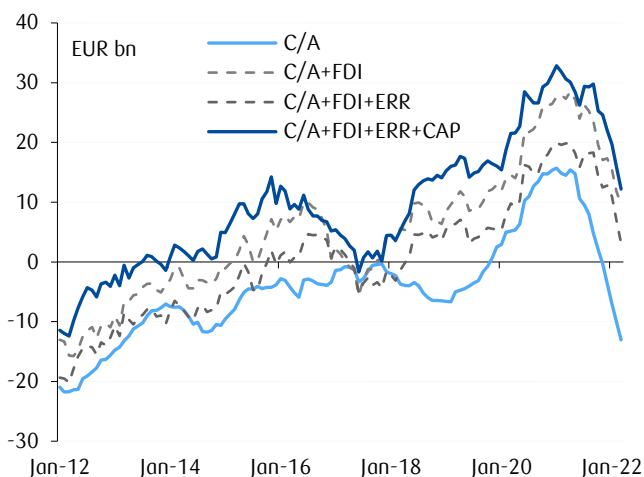
Current account balance



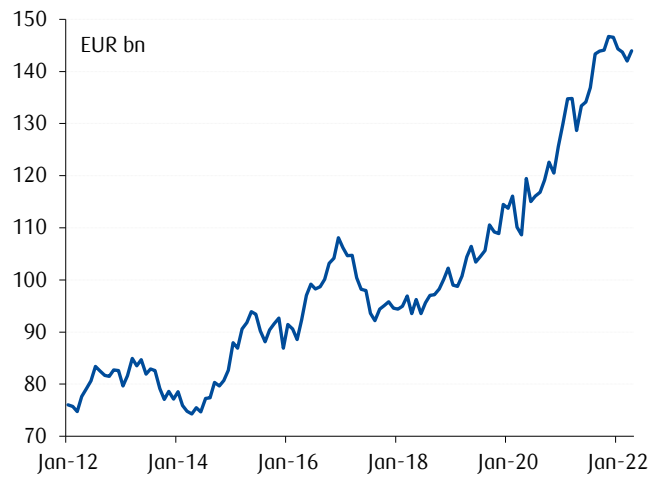
Financial account balance



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:

- [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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