

External position rapidly improving

TOP MACRO THEME(S):

- **Back to current account surplus soon (p.2):** In our new scenario we see a solid CAB surplus in relation to GDP at 0.8% in 2023. Next year we expect a further improvement.

WHAT ELSE CAUGHT OUR EYE:

- **The MPC kept interest rates unchanged for the ninth time in a row (reference rate: 6.75%).** NBP governor said that if CPI inflation declines to the single digits and it is certain that it will fall in the coming quarters, then there will be a possibility of a rate cut. He believes a single-digit inflation is possible already in September (we also think it is very likely). This supports our view that the first rate cut will take place in 4q23 (most likely in November, along with publication of another NBP projection).
- **The EU Court of Justice stated that the EU law does not preclude consumers from seeking compensation from the bank, which would go beyond the reimbursement of monthly instalments paid,** in the event of the annulment of a mortgage loan agreement. By contrast, the law precludes the bank from relying on similar claims against consumers. Poland's financial regulator said the ruling was negative for the banking sector and the economy, although it considers banks to be well-capitalized and able to absorb additional costs. The NBP outlined that legal settlements are the most attractive and rational alternative to a costly and lengthy legal path.
- **CPI inflation in May was confirmed at 13.0% y/y vs 14.7% y/y in April.** Core inflation (excl. food and energy) declined to 11.5% from 12.2% a month before.
- **The government approved the amendment to 2023 budget that pushed the deficit up by PLN 24bn to PLN 92bn (2.7% of GDP).** Apart from signalling the fiscal stance deterioration, this may be part of the fiscal consolidation (lower extra-budgetary funds). Our forecast of general government deficit to GDP ratio at 5.4% in 2023 vs. 3.7% in 2022 remains intact.

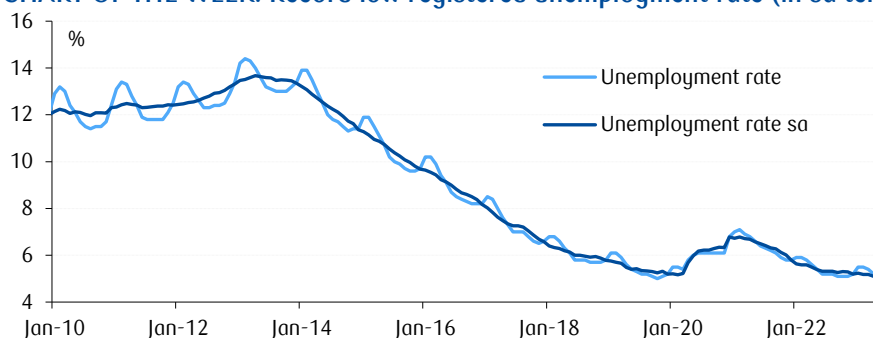
THE WEEK AHEAD:

- Monthly data for May (see calendar for more details) will likely confirm that the activity kept falling amid weak, but not worsening, domestic demand. The labour market remained solid, as the return of real wage growth is under way.

NUMBER OF THE WEEK:

- **PLN 40 bn/PLN 50 bn** – the scale of additional provisions made by banks for the legal risk of FX housing loans estimated by the NBP, depending on a predominance of settlements/court proceedings.

CHART OF THE WEEK: Record low registered unemployment rate (in sa terms)



Source: GUS, 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 22 521 67 97

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	12.2
Core inflation ^{**} (%)	9.1	10.4
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	49.9
NBP reference rate ^{##} (%)	6.75	6.50
EURPLN ^{###}	4.69	4.53

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

Towards a full year CAB surplus

- For several months, the rapid improvement of terms-of-trade, caused by a drop in the prices of imported raw materials, has contributed to a sharp improvement in the CAB balance.
- In our new scenario, based on the most likely economic and price developments, we see a solid CAB surplus of 0.8% of GDP in 2023. Next year we forecast a further improvement, to a surplus of 1.0% of GDP.

In April, the current account recorded a fourth consecutive surplus. It amounted to EUR 359 million (PKO: EUR 717 million, cons: EUR 1.537 billion) against EUR 1.634 billion in March. For several months, the rapid improvement of terms-of-trade, caused by a drop in the prices of imported raw materials, has contributed to a sharp improvement in the CAB balance.

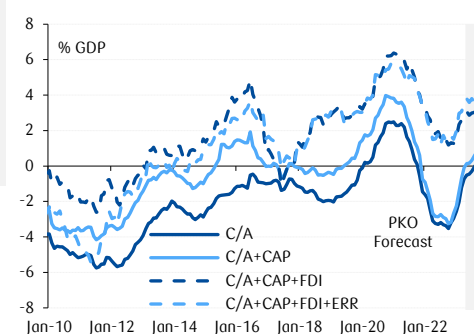
In April goods export increased by 2.4% y/y vs. 15.5% y/y in March. Weaker dynamics was related to the negative calendar effect, visible earlier in the production data. The NBP noted that the increase in exports was achieved basically only in the automotive industry, which benefits from unlocking global value-added chains. Imports decreased by 8.8% y/y after a 3.0% y/y decline in March, which was mainly due to a sharp, nominal fall in energy commodity prices (gas prices fell by 67% y/y in April and crude oil by 16% y/y). We expect the dynamics of imports of goods to be much lower than the dynamics of exports, which will support further improvement of CAB in 2023.

It is worth noting that the outbreak of the war in Ukraine caused structural changes in Polish exports throughout 2022 both in terms of types of goods sold abroad as well as destination of foreign sales. In particular, the importance of Russia as a trade partner has been marginalized to the benefit of Ukraine, the ninth most important trading partner. Indirect causes of war such as rapid increase in raw material prices also contributed to changes, by boosting nominal growth of electricity export which next to fuel had the biggest contribution to export growth, especially in case of the Czech Republic. Meanwhile, easing value chain disruptions amid increasing electromobility translated into higher sales of batteries, in particular to the United States.

The 12-month trade deficit to GDP ratio stood at 1.7% after April, down from 2.2% after March. Looking at the detailed trade data we see, that the improvement in 12-month deficit was achieved mainly due to destocking, already seen in 1q23 GDP data. The deficit in intermediate goods category has returned to "normal" levels, while the improvement in the trade of mineral fuels has so far been negligible.

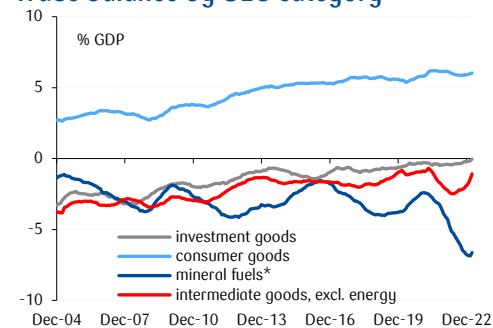
Elsewhere a solid surplus in services (5.7% of GDP) was maintained, while the primary income deficit fell to 4.3% of GDP (from 4.4% of GDP after March). At the same time, the positive FDI balance decreased to 2.9% of GDP from 3.3% of GDP after March, largely reflecting lower reinvested profits. In the financial account, we can see the echoes of two issues of USD Treasury bonds - on the one hand, portfolio investment by non-residents has increased, and on the other hand, the highest increase in foreign exchange reserves since the pandemic (+EUR 7.3 billion) was observed.

The main measures of external balance



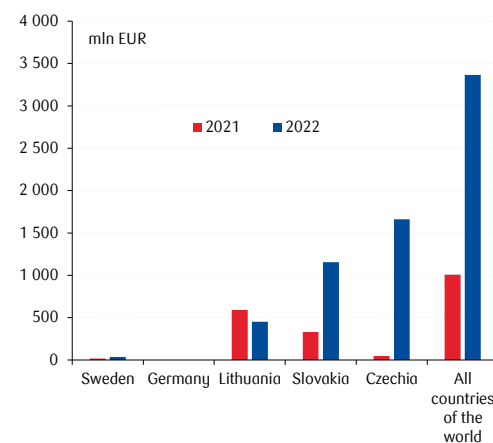
Source: NBP, GUS, PKO Bank Polski.

Trade balance by BEC category



Source: Eurostat, GUS, PKO Bank Polski. *including PKO estimate of classified trade in fuels.

Electricity export

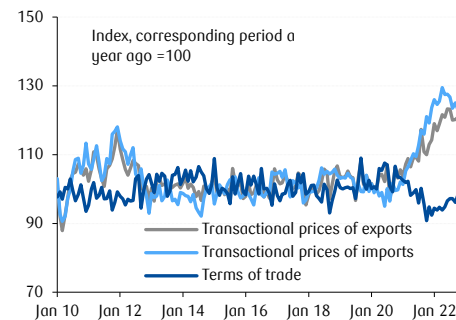


Source: Eurostat, PKO Bank Polski.

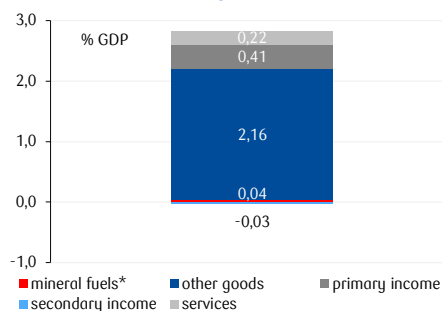
After April, the 12-month current account deficit stood at 0.7% of GDP, versus a peak of 3.5% of GDP after October. We see that this improvement was caused mainly by the reduction of trade deficit in the non-energy goods, and, to much lesser extent, by higher surplus in services and lower primary income deficit (see margin chart). The combined current and capital account balance is close to balance (-0.1% of GDP), which shows that Poland does not need external financing.

In our new scenario, based on the most likely economic and price developments, we see a solid CAB surplus of 0.8% of GDP in 2023. Next year we forecast a further improvement, to a surplus of 1.0% of GDP. As the negative terms-of-trade shock is fading away the solid economic fundamentals are at play. Polish economy is still attracting foreign investment thanks to intensified nearshoring/friendshoring. This is creating new production capacities in export industries, supporting future exports performance. The significant role of Poland as an intermediary between Ukraine and the rest of the world also has a positive effect on exports. Finally, the price competitiveness of exports is maintained despite the recent PLN appreciation.

Terms of trade



Sources of CAB improvement since Oct'22



Weekly economic calendar

Indicator	Time (UK)	Unit	Previous	Consensus*	PKO BP	Comment
Tuesday, 20 June						
GER: PPI inflation (May)	7:00	% y/y	4.1	--	--	--
HUN: MNB meeting (Jun)	13:00	%	13.0	13.0	--	--
USA: Building Permits (May)	13:30	thous.	1,416	1,435	--	--
USA: Housing starts (May)	13:30	thous.	1,401	1,400	--	--
Wednesday, 21 June						
POL: PPI inflation (May)	9:00	% y/y	6.8	4.6	4.6	Industrial disinflation continues, while output keeps falling, amid weak domestic demand.
POL: Industrial production (May)	9:00	% y/y	-6.4	-3.0	-2.1	
POL: Wages (May)	9:00	% y/y	12.1	12.6	12.5	Solid nominal wage dynamics mean that, with falling inflation, real wages are set to start growing soon.
POL: Employment (May)	9:00	% y/y	0.4	0.4	0.4	
CZ: Central bank meeting (Jun)	13:30	%	7.0	7.0	--	--
Thursday, 22 June						
SWI: SNB meeting (Jun)	8:30	%	1.50	1.75	--	--
NO: Norges Bank meeting (Jun)	9:00	%	3.25	--	--	--
POL: Consumer Confidence (Jun)	9:00	pts.	-29.9	--	--	Construction has likely fell on high statistical base effect. The decline in retail sales has likely reached the bottom.
POL: Construction output (May)	9:00	% y/y	1.2	1.5	-0.5	
POL: Retail sales (May)	9:00	% y/y	-7.3	-5.7	-7.0	
UK: BoE meeting (Jun)	12:00	%	4.50	4.75	--	--
USA: Current account balance (1q)	13:30	bn USD	-206.8	-218.2	--	--
USA: Initial Jobless Claims (Jun)	13:30	thous.	262	--	--	--
USA: Existing home sales (May)	15:00	million	4.28	4.25	--	--
EUR: Consumer Confidence (Jun, flash)	15:00	pts.	-17.4	--	--	--
Friday, 23 June						
GER: Manufacturing PMI (Jun, flash)	8:30	pts.	43.2	43	--	--
GER: Services PMI (Jun, flash)	8:30	pts.	57.2	56.6	--	--
EUR: Manufacturing PMI (Jun, flash)	9:00	pts.	44.8	--	--	--
EUR: Services PMI (Jun, flash)	9:00	pts.	55.1	--	--	--
POL: Money Supply M3 (May)	13:00	% y/y	6.7	7.1	7.2	M3 money supply likely rebounded somewhat in May.
USA: Manufacturing PMI (Jun, flash)	14:45	pts.	48.4	48.5	--	--

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. (...)e ach 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	" We have not ended the tightening cycle, in case of unfavorable events we are ready for a hike. (...) If we are certain that in the coming quarters inflation will fall, then opportunity will open to cut rates, " (7.06.2023, 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	"Anticipated and probable further decrease in inflationary pressure opens the way to more and more intense discussion about the need to reduce interest rates. Generally speaking, I think that the likelihood of starting the phase of interest rate cuts in Poland this year is getting higher. (...) Thanks to this [appreciation of zloty], the moment when the "first reduction" will take place will probably occur earlier than if the zloty exchange rate had been weakening over the last few months." (29.05.2023, Radio Maryja, PKO transl.)
I. Dabrowski	1.9	"If current [inflationary] processes remain, there may be space for interest cuts at the end of the year" (30.05.2023, TVP Info, 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.

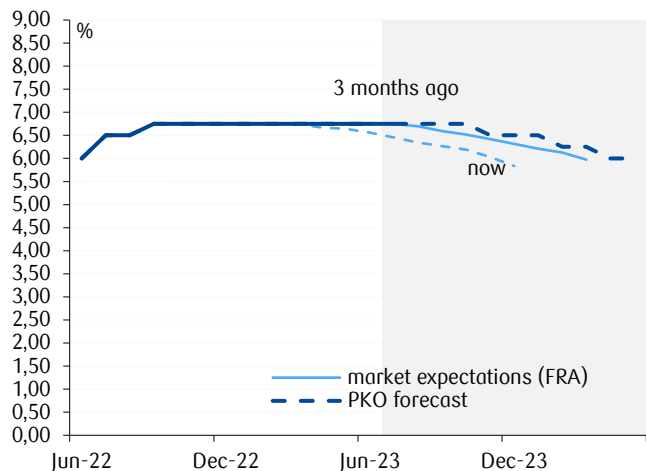
Interest rates – PKO BP forecasts vs. market expectations

		1M	2M	3M	4M	5M	6M	7M	8M	9M
Date	15-Jun	15-Jul	15-Aug	15-Sep	15-Oct	15-Nov	15-Dec	15-Jan	15-Feb	15-Mar
WIBOR 3M/FRA†	6,90	6,85	6,80	6,67	6,52	6,37	6,22	6,11	5,98	5,83
implied change (b. p.)		-0,05	-0,10	-0,23	-0,38	-0,53	-0,69	-0,79	-0,92	-1,08
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	6,75	6,50	6,50	6,50	6,25	6,25
market pricing^		6,70	6,65	6,52	6,37	6,22	6,07	6,06	5,98	5,83

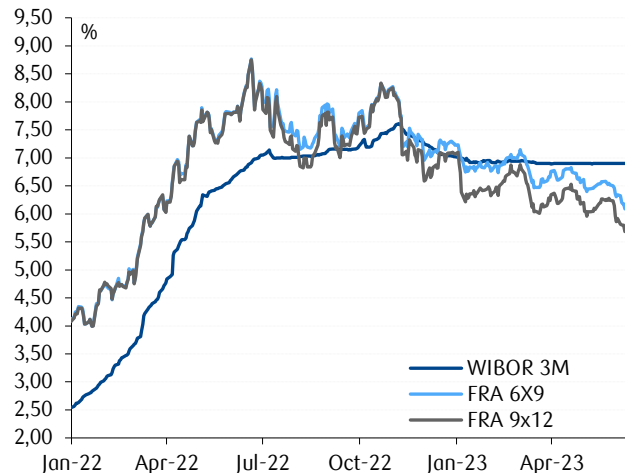
WIBOR 3M from the last fixing, FRA transactions based on WIBOR 3M for subsequent periods, †in basis points, *PKO BP forecast of the NBP reference rate.

Poland macro chartbook

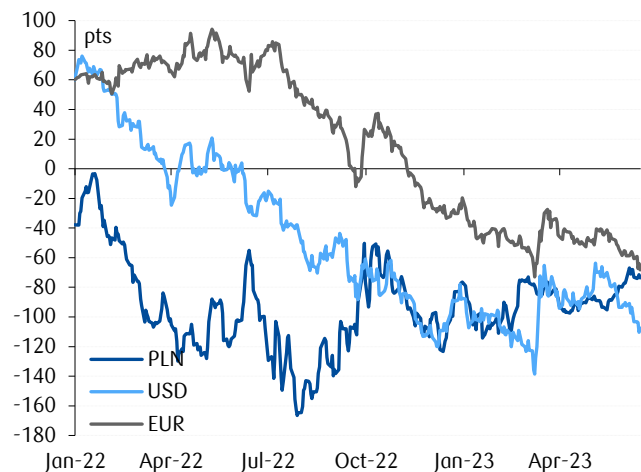
NBP policy rate: PKO BP forecast vs. market expectations



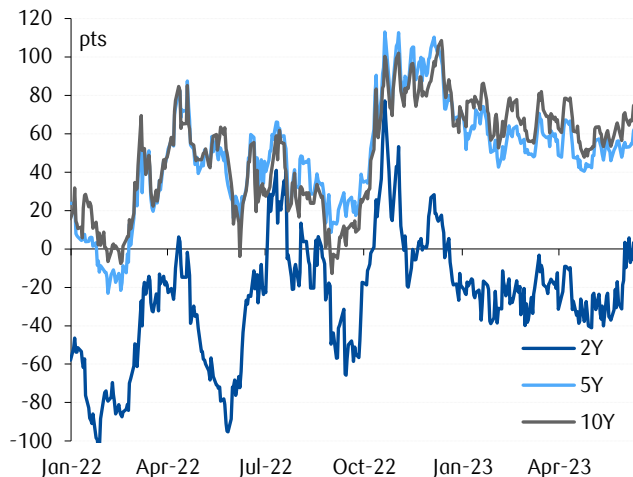
Short-term PLN interest rates



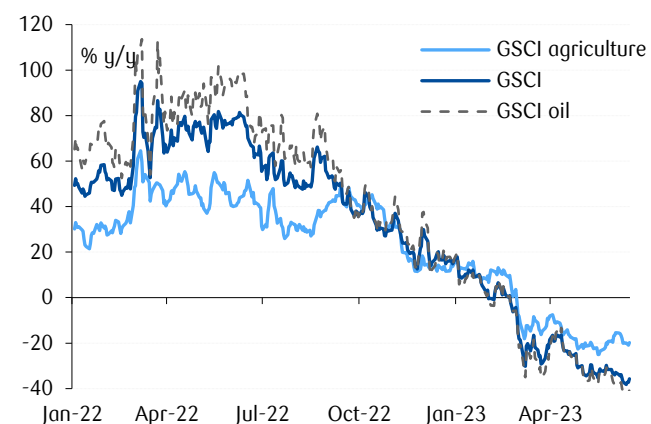
Slope of the swap curve (spread 10Y-2Y)*



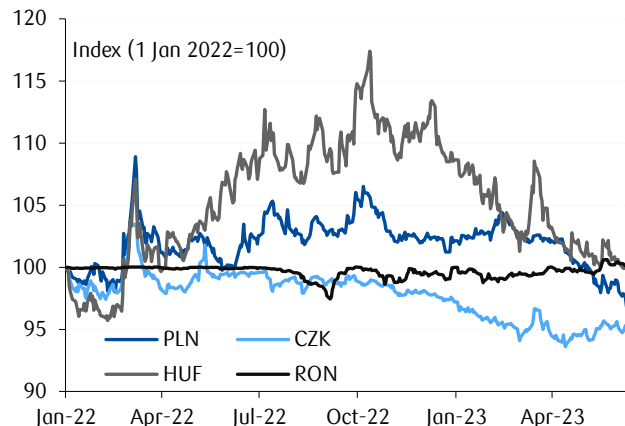
PLN asset swap spread



Global commodity prices (in PLN)

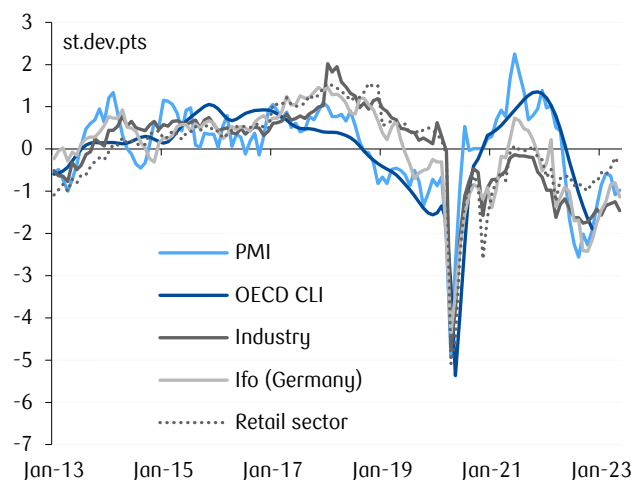


Selected CEE exchange rates against the EUR

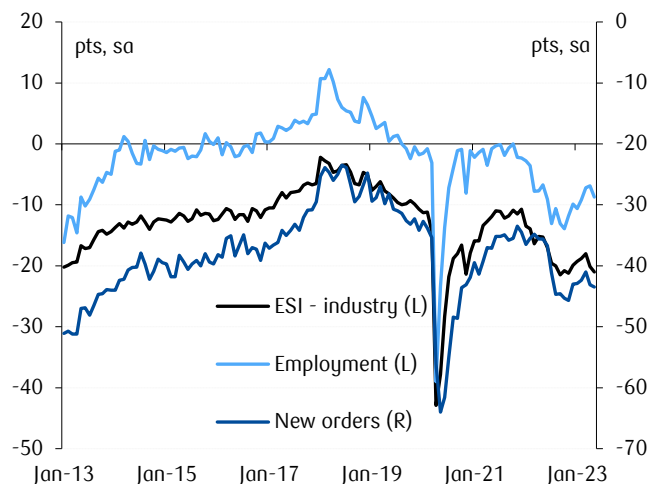


Source: Datastream, NBP, PKO Bank Polski. *for PLN, and EUR 6M, for USD 3M.

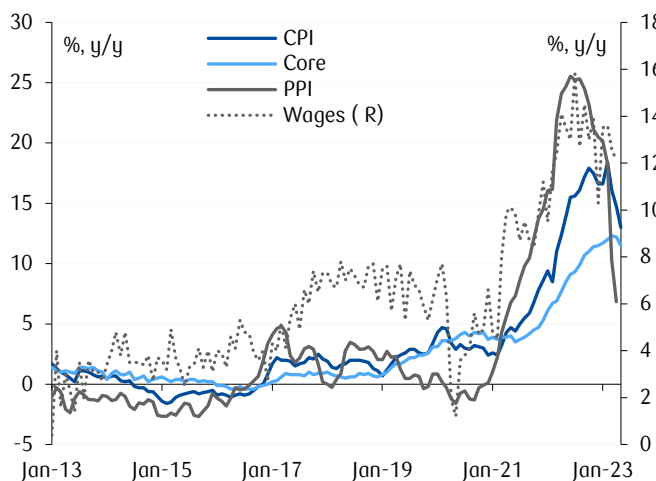
Economic sentiment indicators



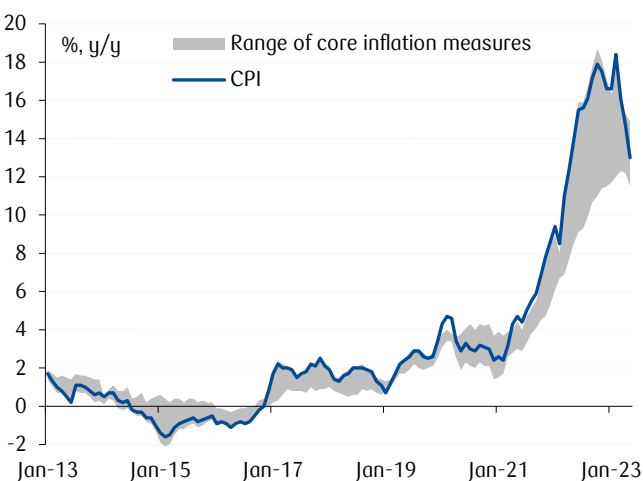
Poland ESI for industry and its components



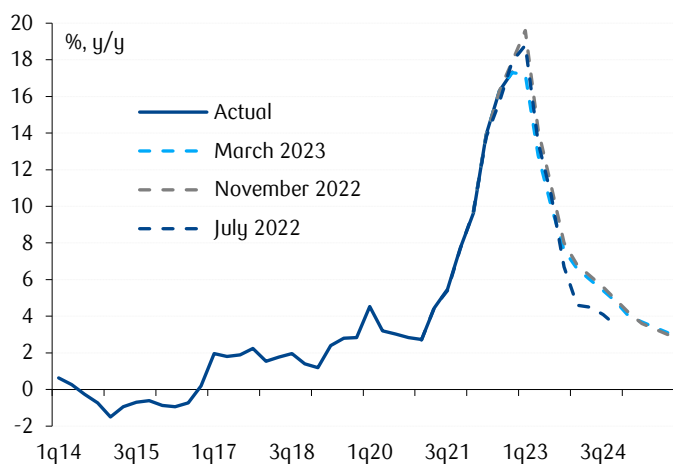
Broad inflation measures



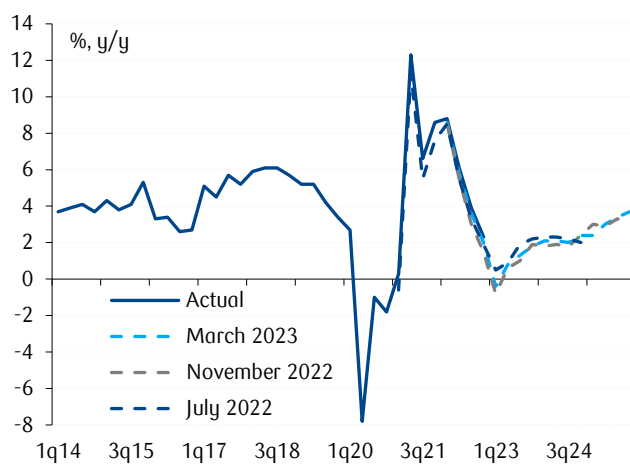
CPI and core inflation measures



CPI inflation - NBP projections vs. actual

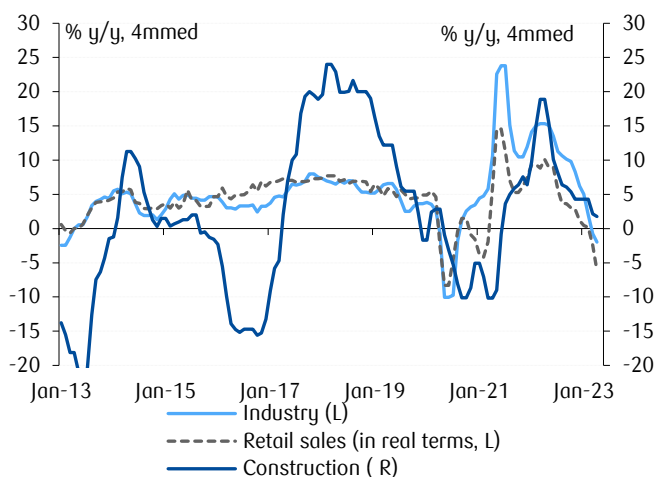


Real GDP growth - NBP projections vs. actual

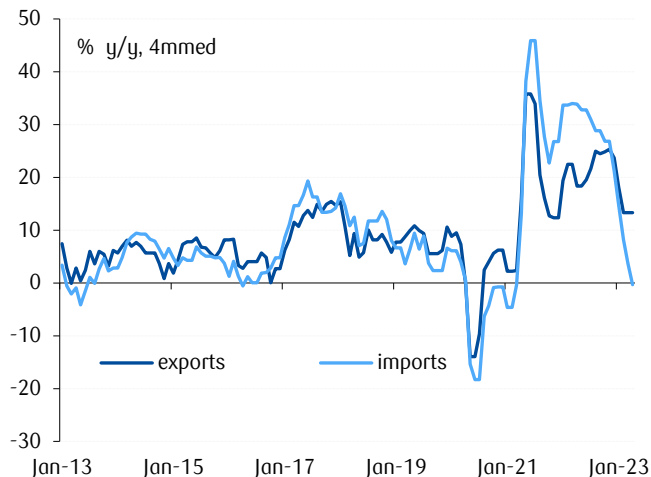


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

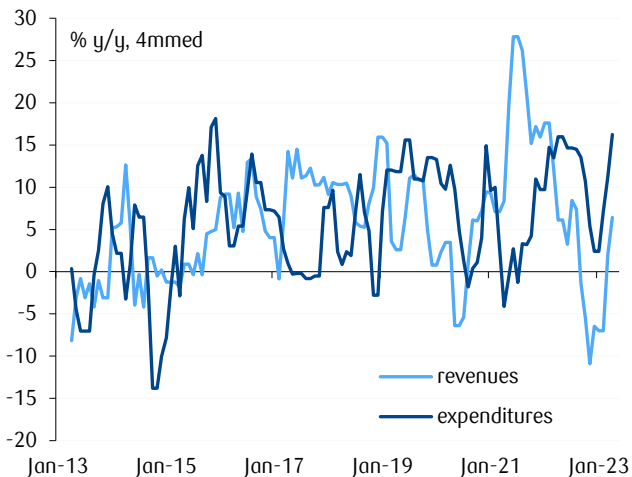
Economic activity indicators



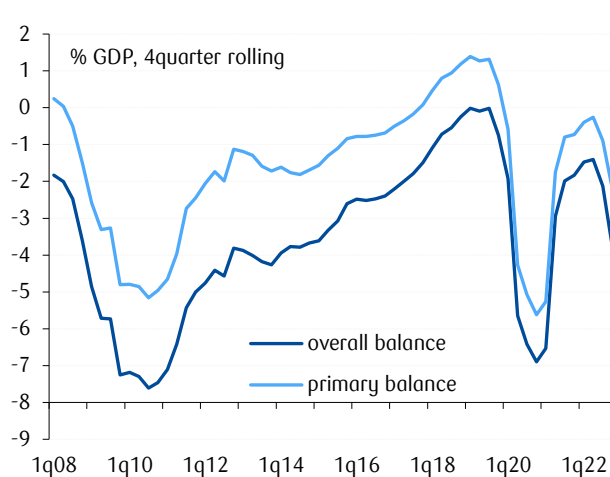
Merchandise trade (in EUR terms)



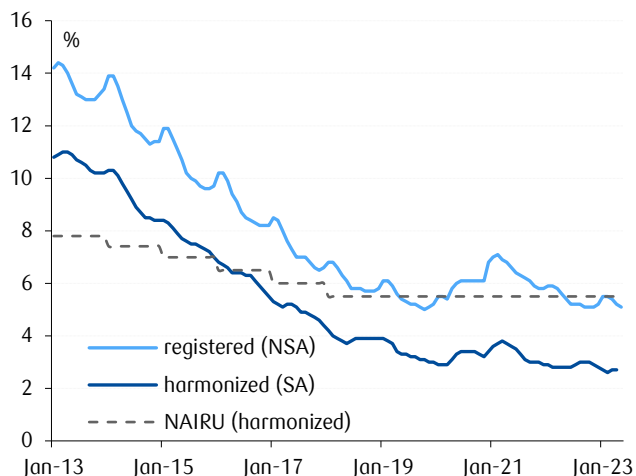
Central government revenues and expenditures*



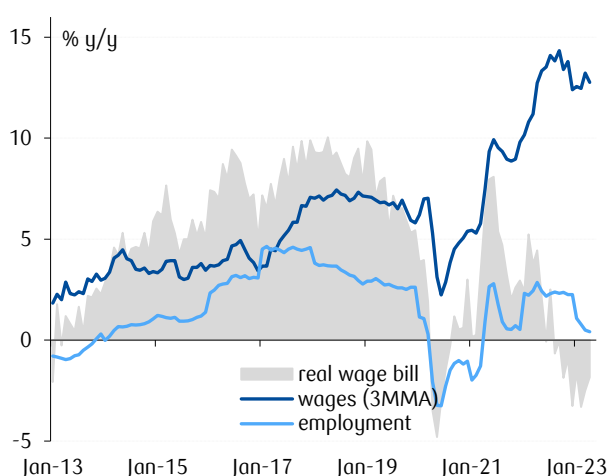
General government balance (ESA2010)



Unemployment rate

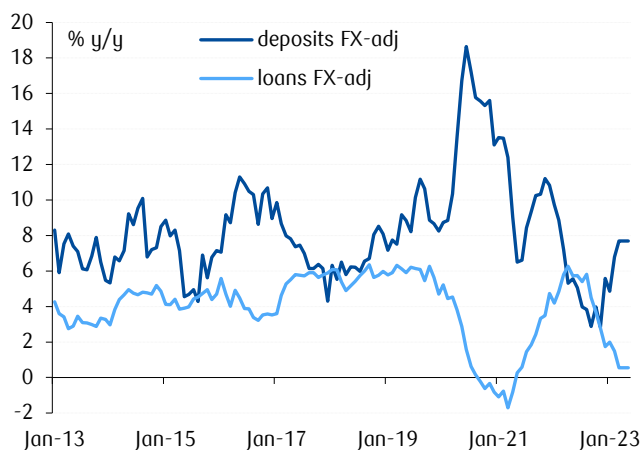


Employment and wages in the enterprise sector

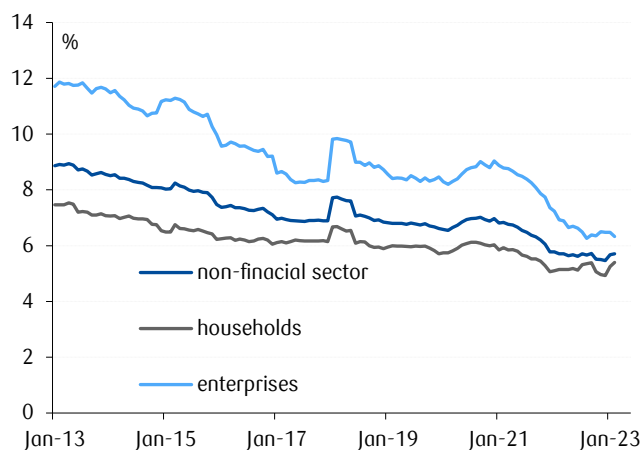


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. *break in series in 2010 due to methodological changes.

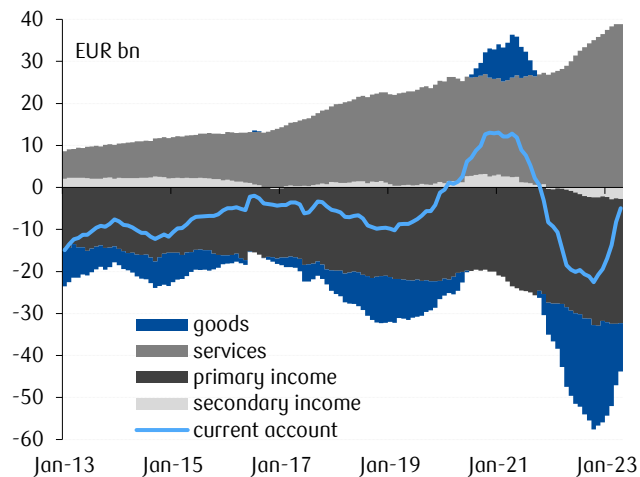
Loans and deposits



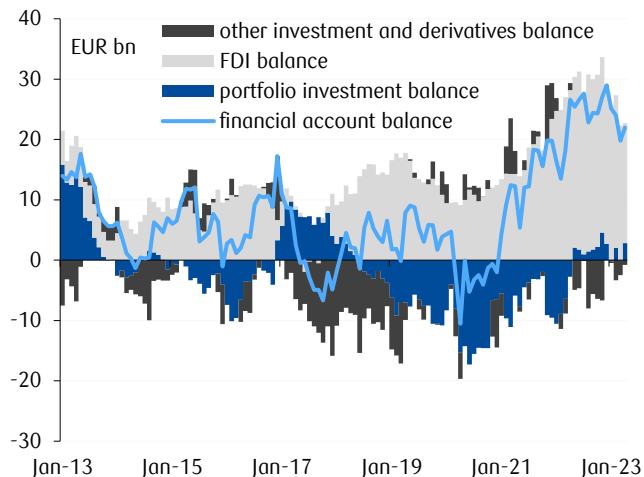
Non-performing loans (NPLs) - by sectors*



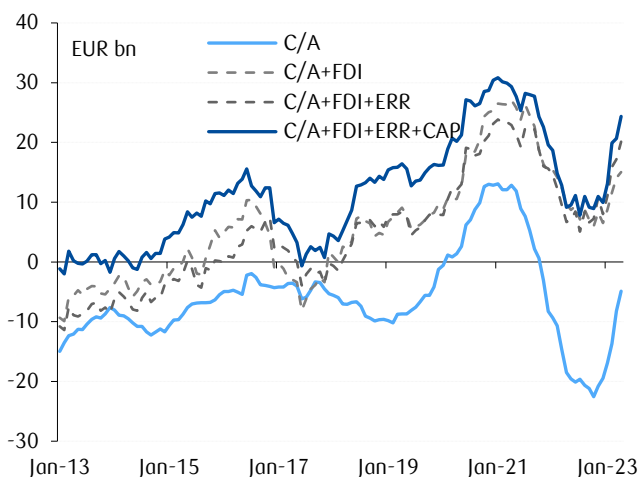
Current account balance



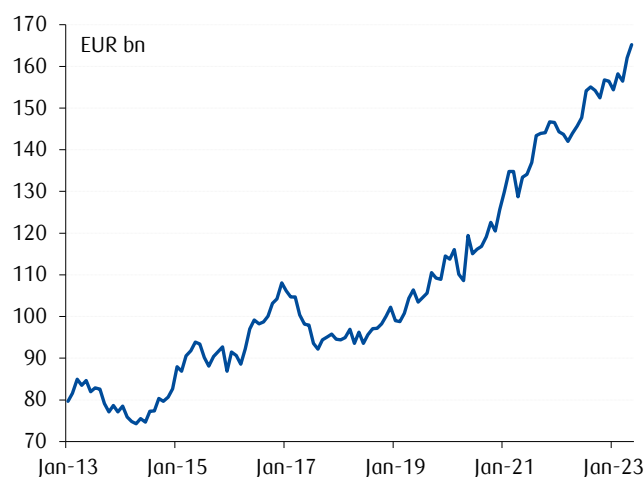
Financial account balance



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:

- [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)
- [Is it the end or just a pause?](#) (Oct 7, 2022)
- [Wartime interventionism](#) (Sep 30, 2022)
- [Will Poland escape a technical recession?](#) (Sep 23 , 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.