

## MPC changes nothing

### TOP MACRO THEME(S):

- **MPC changes nothing (p.2):** The Polish MPC kept interest rates on hold. According to NBP governor there was no discussion about the end of the cycle, all the more about rate cuts.

### WHAT ELSE CAUGHT OUR EYE:

- **Manufacturing PMI in April declined to 46.6 from 48.5 in March as the sector's condition was the weakest in 2023.** Weakness was evident across all major subindices. Prices paid for inputs fell for the first time in 7 years, and the fall was broadly matched by a decline in output charges.
- **Registered unemployment rate in April fell to 5.3% from 5.4%, on a MinLab estimate.** Lower demand for labour has so far reduced the number of vacancies and, to a small extent, employment, without unemployment rise.
- **The NBP Quick Monitoring survey (available [here](#) in Polish) shows that the stance of enterprises has been deteriorating for the 5th quarter in a row.** Revenues fell in q/q terms (to a greater extent from domestic sales), while cost growth slowed down. Inventory cycle has been gradually reversing. Investments were growing, but probably mainly those forced by the energy transformation. Labour market has been cooling down - wage pressure eased slightly. Companies found it harder to pass on higher costs to final prices.
- **It was announced that on June 15 the Court of Justice of the European Union will issue a judgment** in the case concerning remuneration for the use of capital after the cancellation of the CHF loan agreement.

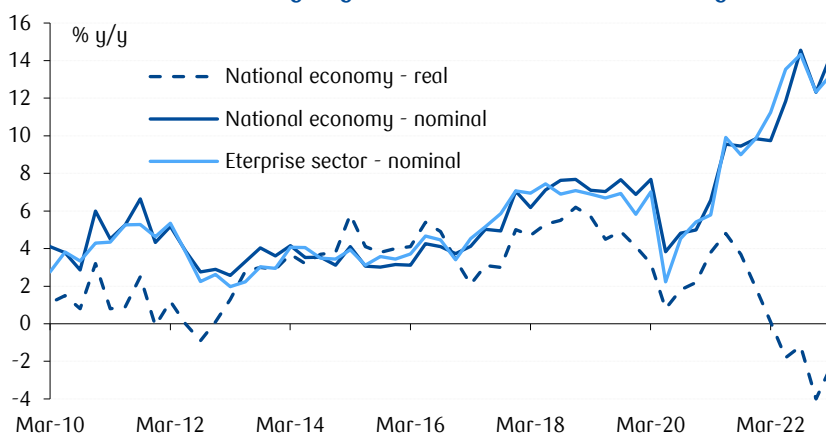
### THE WEEK AHEAD:

- **Final CPI for April** will likely confirm a large inflation drop caused by energy and food prices. Core inflation has likely inched down, eventually.
- **The rapid CAB improvement was continued in March** as export kept growing while import fell. 12-month rolling CAB has likely improved to -1% of GDP.
- **Flash GDP figures for 1q23 will likely show a decline in y/y terms (PKOe: -0.6%)** amid consumption slump and unwinding of inventories, while net exports has likely had positive contribution to GDP growth rate.

### NUMBER OF THE WEEK:

- **PLN 726bn** – cost of investment outlays on new energy sources in Poland needed by 2040, on government estimates.

### CHART OF THE WEEK: Wage dynamics in the national economy



Source: GUS, PKO Bank Polski.

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	2022	2023
Real GDP (%)	5.1	0.1
Industrial output (%)	10.5	2.2
Unemployment rate# (%)	5.2	5.4
CPI inflation** (%)	14.4	12.6
Core inflation** (%)	9.1	9.9
Money supply M3 (%)	5.6	5.6
C/A balance (% GDP)	-3.0	-0.6
Fiscal balance (% GDP)*	-3.7	-5.4
Public debt (% GDP)*	49.1	49.9
NBP reference rate## (%)	6.75	6.50
EURPLN###	4.69	4.59

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

## The MPC changes nothing

- The MPC kept interest rates on hold.
- NBP governor said there was no discussion about the end of the cycle, all the more about rate cuts.

The Monetary Policy Council, as expected, left interest rates unchanged (reference rate: 6.75%) at its latest meeting on May 10. Rates have been kept at their current level since September 2022.

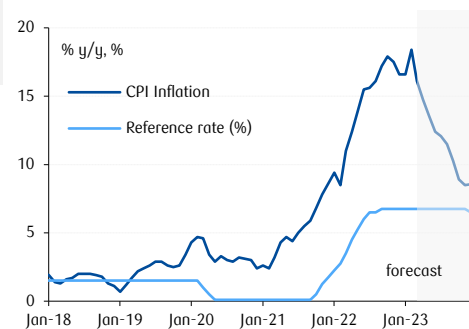
The [post-meeting statement](#) did not bring any significant changes vs. the NBP's message in April. The Council expects a global disinflation and a gradual decline in inflation in Poland towards the target. Both the developments in the external environment (weakening global economic conditions and falling commodity prices), as well as domestic factors, including weaker consumption and lower credit growth, are expected to push inflation down. The MPC reaffirmed that it will take all necessary actions to ensure inflation's return to the target, including FX interventions, and emphasized that stronger zloty would support faster disinflation.

The Council remains in the data-driven mode - further decisions will depend on the incoming data. The ones that have been released since the meeting in April have probably only strengthened the MPC's belief that no further hikes are needed - activity in the economy, mainly consumer demand, is constantly weakening, the first symptoms of labour market cooling have appeared and inflation has entered a downward trend. The MPC seems not to be concerned by the elevated core inflation, and does not perceive it as a signal of ineffective (or still too loose) monetary policy. According to governor Glapinski core inflation is close to its peak and will also be declining in the near future. He stressed that core inflation is inertial and has historically operated with a lag to the headline CPI developments.

Market developments in recent weeks, including a significant PLN appreciation, especially against the USD, has improved inflation outlook. According to the available estimates, 10% appreciation of the PLN would lower CPI inflation by app. 1pp, and this pass-through occurs relatively quickly (as opposed to the slow transition of an interest rate impulse). Thus, a permanent strengthening of the zloty would shift the path of inflation downwards as compared to the latest NBP projection, adding to the list of arguments that the cycle of hikes, still not officially closed, has already been completed. During a presser A.Glapinski stressed the recent 'good streak' of the PLN driven by strong fundamentals and said that should this trend continue, the CPI might be by app. 1pp lower than currently assumed.

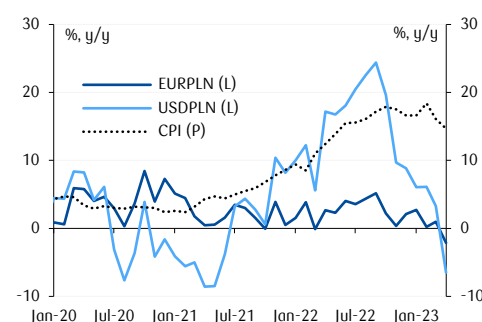
Contrary to the unchanged post-meeting statement, recent comments from some MPC members suggested that views held within the Council might be changing, opening some room for interest rate cuts before the end of the year. However, the MPC stays cautious, probably in order to maintain the strength of the PLN. During his traditional presser, Governor A.Glapinski admitted, that there was no discussion about the end of the cycle, all the more about rate cuts, as this discussion is currently premature. He said, however that 'in his dreams' he sees such a possibility this year. We expect that the MPC could start trimming rates in November.

### CPI inflation and the reference rate



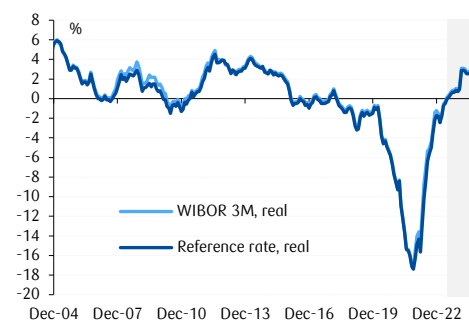
Source: GUS, NBP, PKO Bank Polski.

### CPI and FX rates developments



Source: GUS, Macrobond, PKO Bank Polski.

### Ex ante real rate\*



Source: GUS, PKO Bank Polski. \*deflated by the year Ahead inflation on PKO forecast

## Weekly economic calendar

Indicator	Time (UK)	Unit	Previous	Consensus*	PKO BP	Comment
<b>Monday, 15 May</b>						
POL: CPI inflation (Apr, final)	9:00	% y/y	16.1	14.7	14.7	Final data will likely confirm a solid inflation drop caused by energy and food prices.
EUR: Industrial production (Mar)	10:00	% y/y	2.0	1.8	--	--
POL: Current account balance (Mar)	13:00	bn EUR	2.586	2.411	1.600	The rapid CAB improvement is under way as exports keep growing and imports decline.
POL: Exports (Mar)	13:00	% y/y	10.1	11.8	14.3	
POL: Imports (Mar)	13:00	% y/y	-5.4	-11.2	-4.6	
<b>Tuesday, 16 May</b>						
POL: GDP growth (1q)	9:00	% y/y	2.3	-0.8	-0.6	The GDP decline was caused by weak consumption and the unwinding of inventories, while net exports had positive contribution to GDP growth rate.
GER: ZEW Economic Sentiment (May)	10:00	pts.	4.1	-5.0	--	--
EUR: GDP growth (1q)	10:00	% y/y	1.8	1.3	--	--
POL: Core inflation (Apr)	13:00	% y/y	12.3	12.2	12.1	Core inflation has probably declined in April, while its momentum remained elevated.
USA: Retail sales (Apr)	13:30	% m/m	-1	0.7	--	--
USA: Retail sales excl. autos (Apr)	13:30	% m/m	-0.8	0.4	--	--
USA: Industrial production (Apr)	14:15	% m/m	0.4	0.0	--	--
<b>Wednesday, 17 May</b>						
EUR: HICP inflation (Apr, final)	10:00	% y/y	6.9	7.0	--	--
EUR: Core inflation (Apr, final)	10:00	% y/y	5.7	5.6	--	--
USA: Housing starts (Apr)	13:30	million	1.42	1.398	--	--
USA: Building Permits (Apr)	13:30	million	1.413	1.43	--	--
<b>Thursday, 18 May</b>						
USA: Initial Jobless Claims (May)	13:30	thous	264	--	--	--
USA: Existing home sales (Apr)	15:00	million	4.44	4.25	--	--
<b>Friday, 19 May</b>						
GER: PPI inflation (Apr)	7:00	% y/y	7.5	--	--	--

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	"Poland's average annual inflation in 2023 "will not be much lower" than in 2022" (24.04.2023, Gazeta Wyborcza, PAP)
L. Kotecki	4.8	"Current rates, in line with the NBP projection, do not guarantee returning to the inflation target (...) From the point of view of the monetary policy realization, they are still inadequate." (25.04.2023, PAP)
P. Litwiniuk	3.7	"If inflation falls faster than demonstrated in the projection, I will be probably saying that there is a justification for maintaining the [PAP: current] parameters of the monetary policy," (22.03.2023, gazeta.pl, PAP)
H. Wnorowski	2.7	<b>"The first symbolic digit we are heading to is inflation below 10%, as that is moderate inflation. (...) I am deeply convinced that this will happen in Q3 this year. (...) A light at the end of the tunnel appears that will allow us to more boldly talk about interest rate cuts and that is a very good information for all the borrowers in our country."</b> (1.05.2023, PR Lublin, PAP)
A. Glapinski	2.4	"We have not completed the cycle of interest rate hikes, we are prepared for any situation. (...) If everything goes on as we predict, then (...) there will be no increases, and at some point there will be a rate cut. When will there be a cut? We will monitor the economy from month to month. A reduction may come when it is absolutely certain that inflation is falling quickly to the target. At the moment, it's too early to say that inflation is falling rapidly, because this slide off the "plateau" has just begun." (6.04.2023, NBP press conf., PAP, PKO transl.)
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	"Considerations about interest rate cuts are in my opinion premature (...) The weakening of global economic conditions will lead to lowering of economic growth rate in Poland, while monetary policy tightening by major central banks will limit inflation, both globally and in Poland (...) However, it is not the moment to formulate expectations as to whether the next MPC move should be a hike or a cut of interest rates." (20.01.2023, PAP)"
G. Maslowska	2.1	<b>"We are counting on inflation going down to single digits near end-year, and perhaps even already in early autumn. (...) Inflation has been systematically falling since December, so it seems it is a lasting tendency."</b> (1.05.2023, TVP Lublin, PAP)
I. Dabrowski	1.9	<b>"As inflation is falling faster than we had assumed, it will most likely reach a single-digit level already after summer holidays, as it basically fell by some 4 pps in two months. So I think that already after the summer holidays the council will very seriously mull cutting interest rates. (...) With the fast disinflation trend seen in the past couple of months, discussing interest rate hikes makes no sense. The scenario of inflation hitting 7% at end-years seems even pessimistic."</b> (1.05.2023, Polsat News, 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.

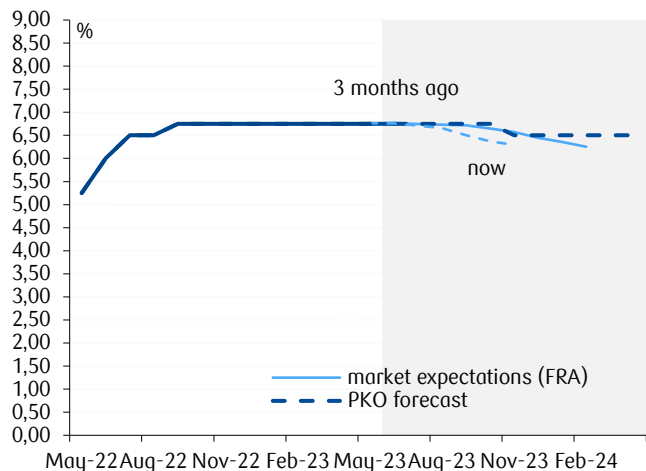
### Interest rates – PKO BP forecasts vs. market expectations

		1M	2M	3M	4M	5M	6M	7M	8M	9M
Date	11-May	11-Jun	11-Jul	11-Aug	11-Sep	11-Oct	11-Nov	11-Dec	11-Jan	11-Feb
WIBOR 3M/FRA†	6.90	6.87	6.85	6.82	6.72	6.60	6.48	6.35	6.21	6.10
implied change (b. p.)		-0.03	-0.06	-0.09	-0.18	-0.30	-0.43	-0.55	-0.69	-0.80
MPC Meeting	10-May	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	6.75	6.50	6.50	6.50	6.25
market pricing^		6.72	6.70	6.67	6.57	6.45	6.33	6.30	6.21	6.10

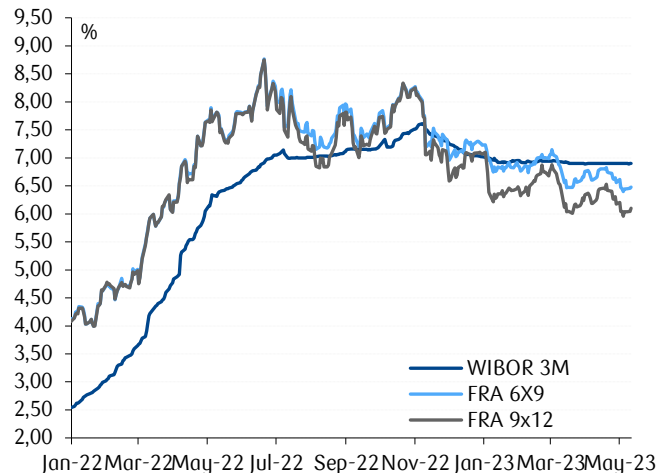
WIBOR 3M from the last fixing, FRA transactions based on WIBOR 3M for subsequent periods, †in basis points, \*PKO BP forecast of the NBP reference rate.

## Poland macro chartbook

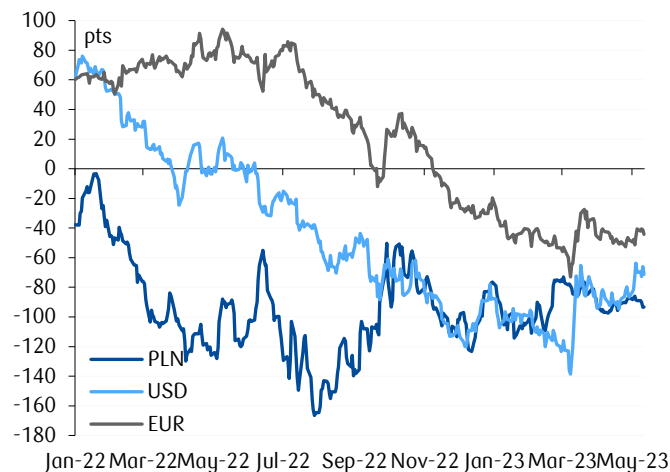
NBP policy rate: PKO BP forecast vs. market expectations



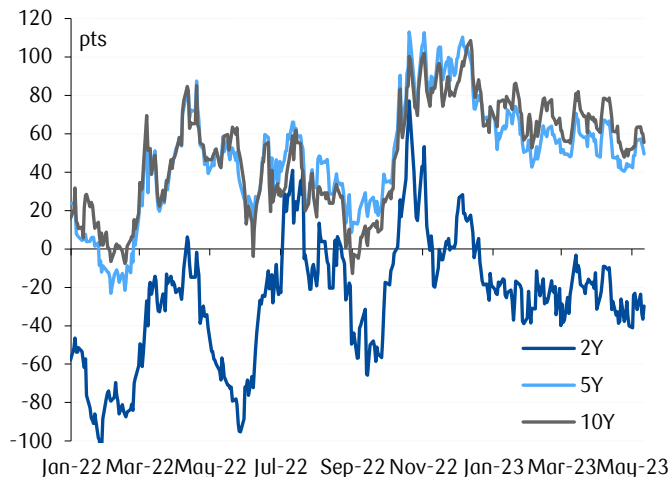
Short-term PLN interest rates



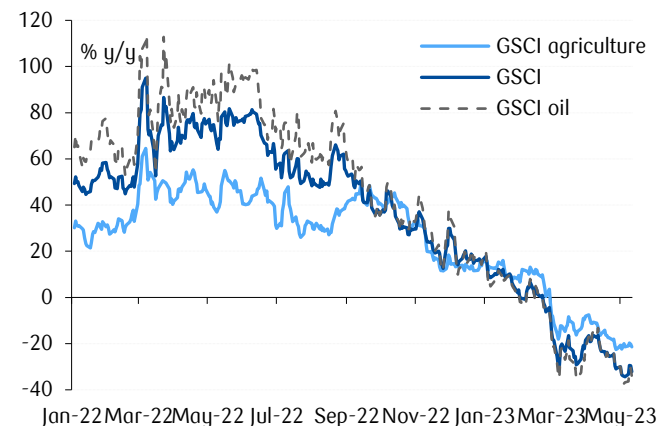
Slope of the swap curve (spread 10Y-2Y)\*



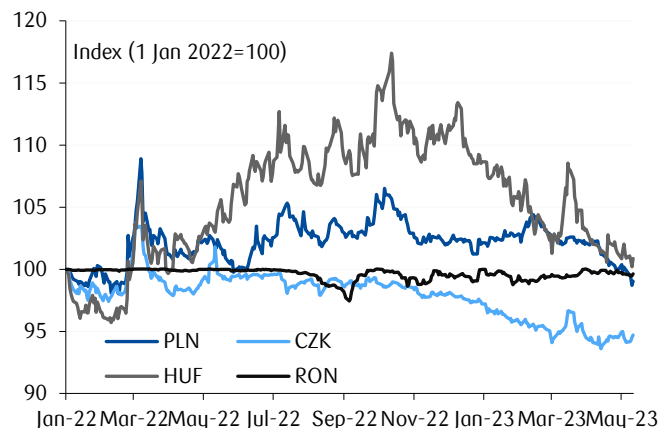
PLN asset swap spread



Global commodity prices (in PLN)

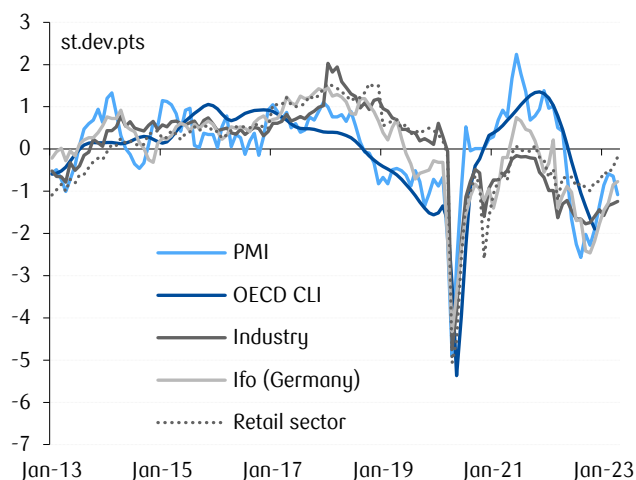


Selected CEE exchange rates against the EUR

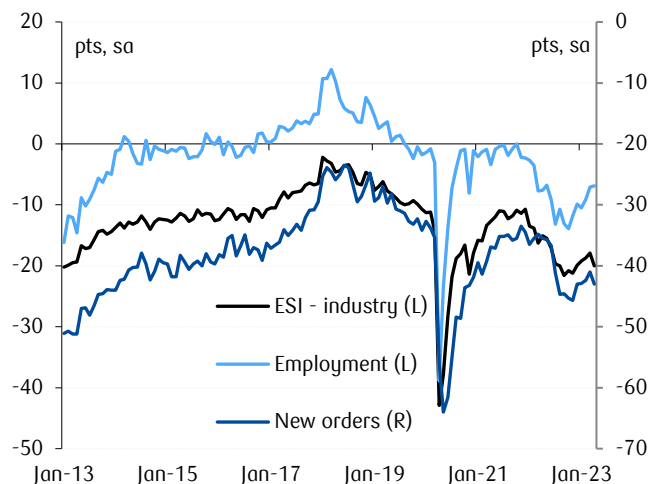


Source: Datastream, NBP, PKO Bank Polski. \*for PLN, and EUR 6M, for USD 3M.

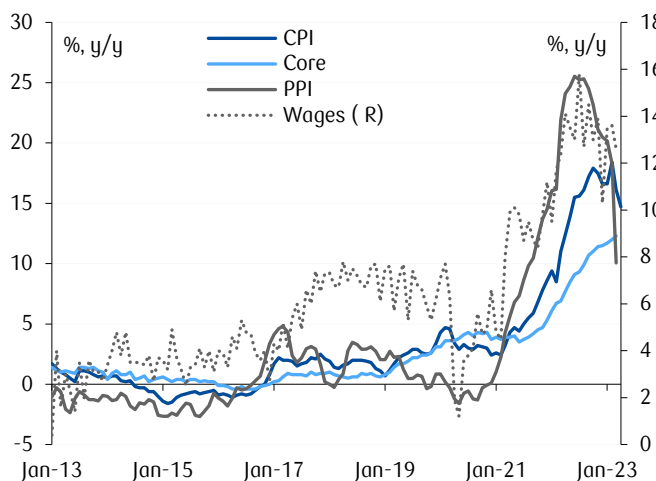
Economic sentiment indicators



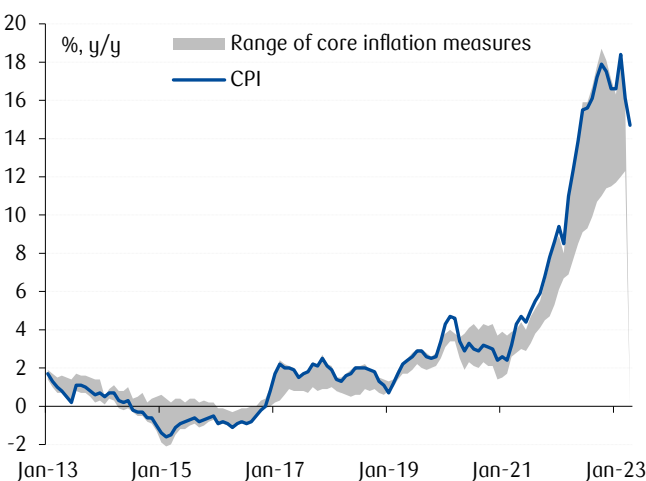
Poland ESI for industry and its components



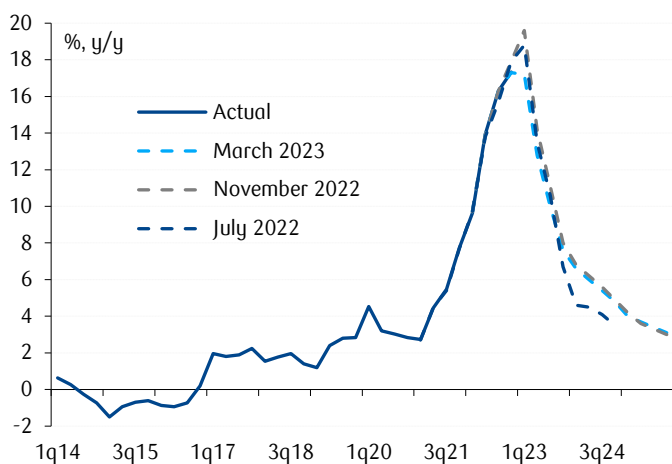
Broad inflation measures



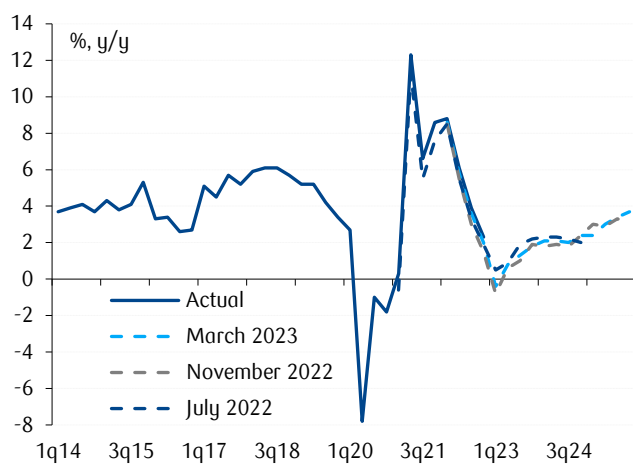
CPI and core inflation measures



CPI inflation - NBP projections vs. actual

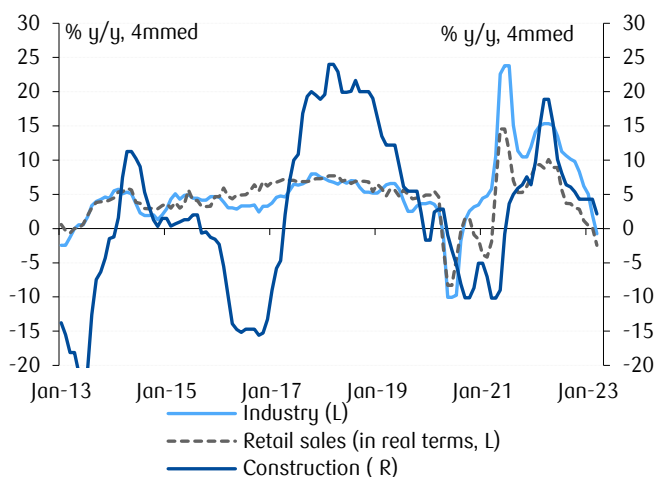


Real GDP growth - NBP projections vs. actual

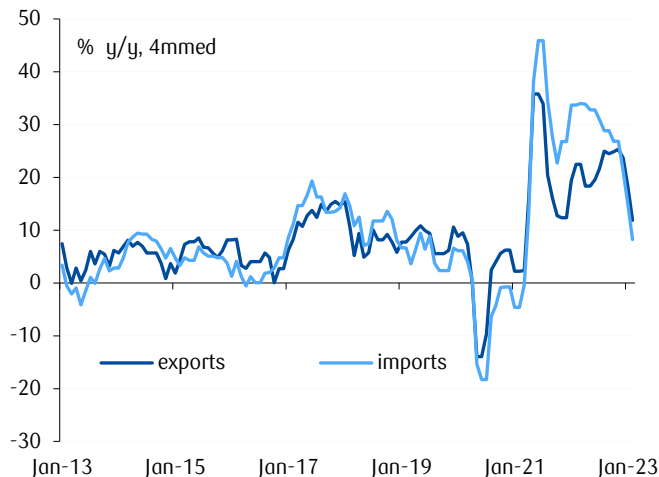


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

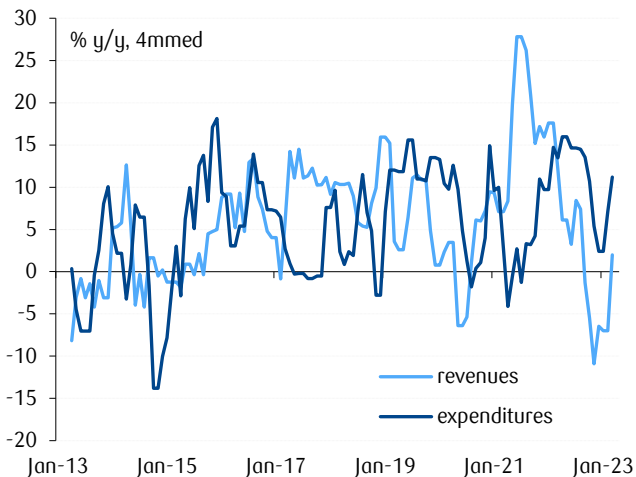
**Economic activity indicators**



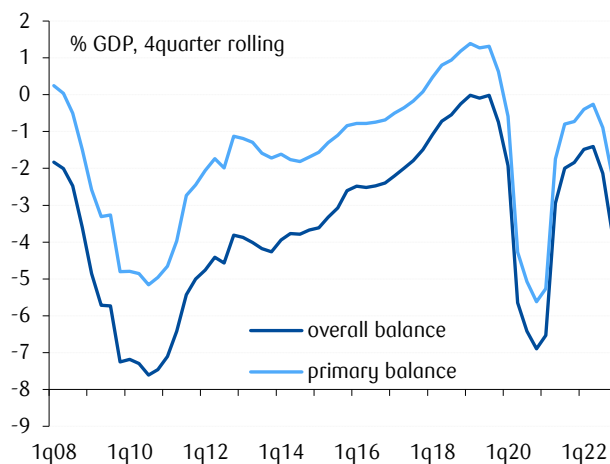
**Merchandise trade (in EUR terms)**



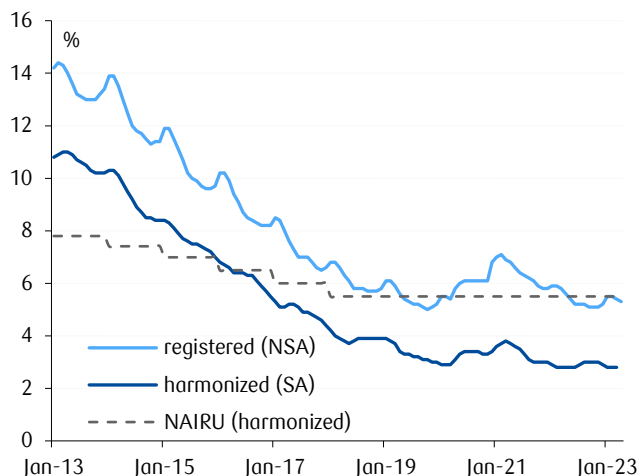
**Central government revenues and expenditures\***



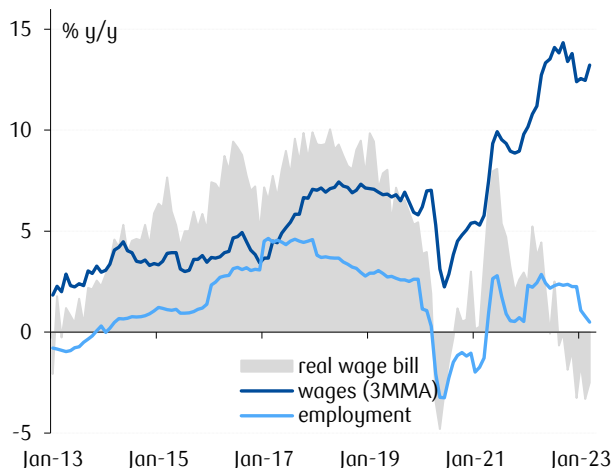
**General government balance (ESA2010)**



**Unemployment rate**

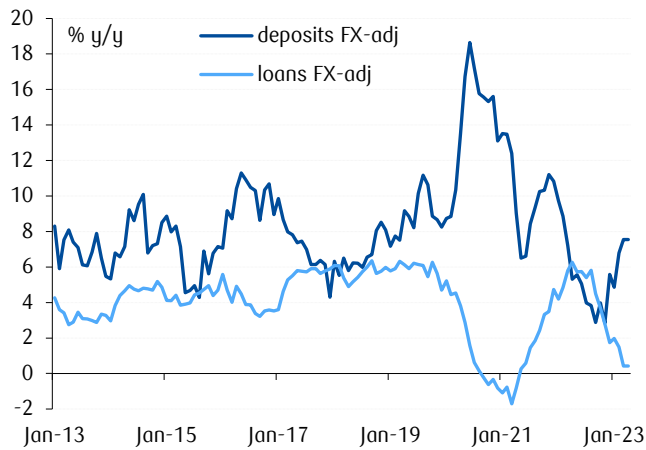


**Employment and wages in the enterprise sector**

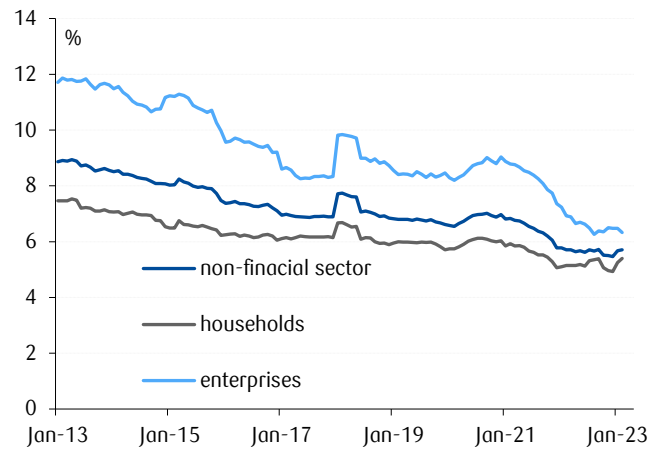


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. \*break in series in 2010 due to methodological changes.

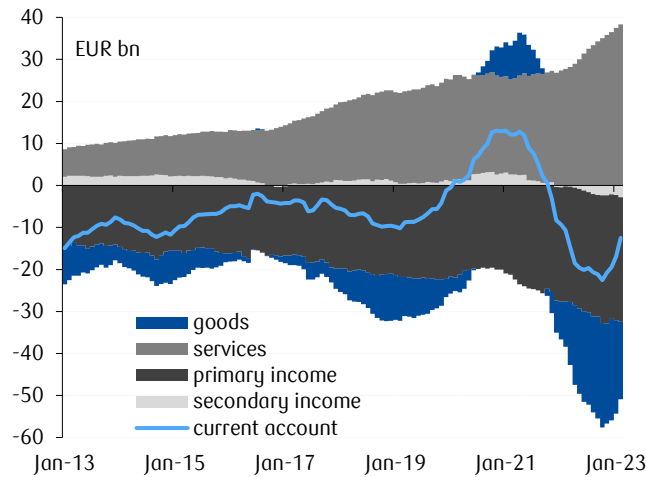
### Loans and deposits



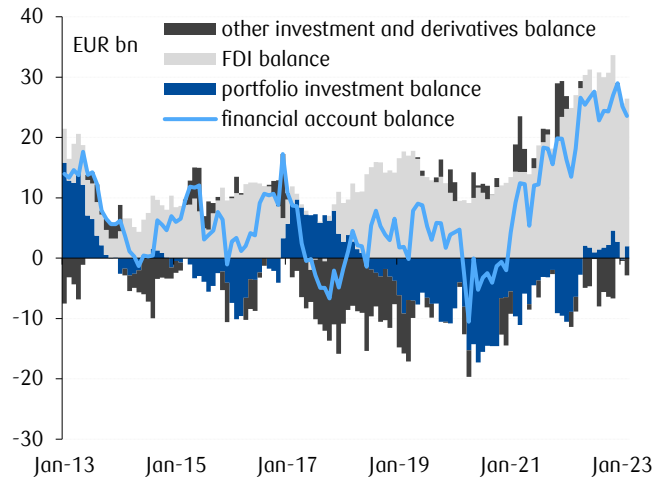
### Non-performing loans (NPLs) - by sectors\*



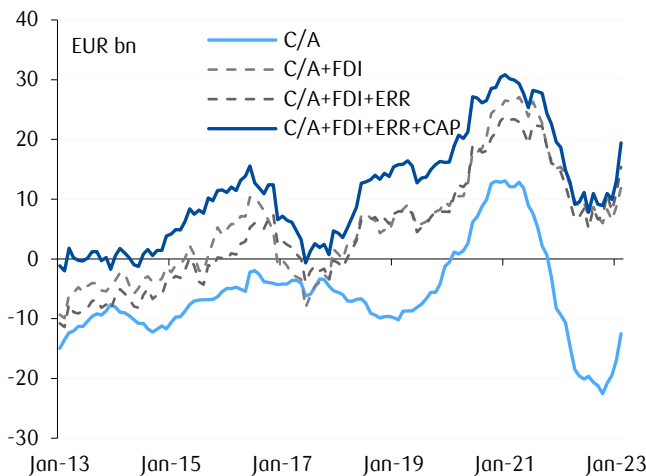
### Current account balance



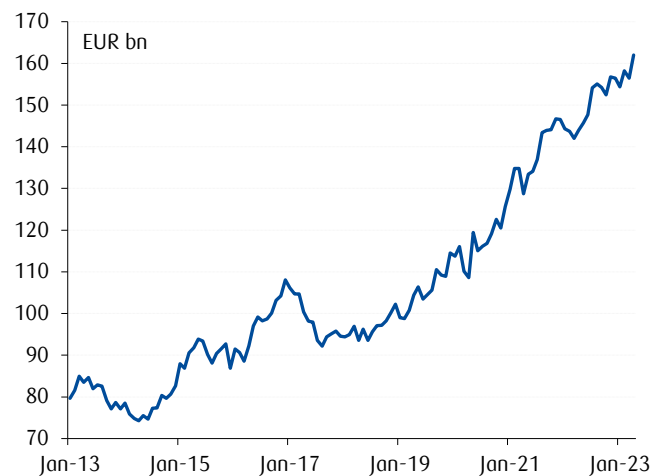
### Financial account balance



### External imbalance measures



### NBP FX reserves (in EUR terms)



Source: NBP, PKO Bank Polski. \*break in series in Jan2018 due to methodological changes.



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- [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)
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- [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)
- [Energy prices frozen for this winter?](#) (Sep 16 , 2022)
- [Awaiting the end of rate hikes](#) (Sep 9, 2022)
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- [Costs jump, deals slow](#) (Aug 26, 2022)

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