

Please note that the next issue of Poland Macro Weekly will be published on Friday, 18th November.

Monetary policy dilemmas (again)

TOP MACRO THEME(S):

- **Monetary policy dilemmas (again) (p. 2):** According to our estimates, the new NBP projection will show slightly lower GDP and CPI growth paths, but CPI would be heavily assumption-dependent. We expect the MPC to refrain from hiking rates the next week, but given the latest news on CPI and PMI and a rising stagflationary dilemma, we admit, it's a very close call.

WHAT ELSE CAUGHT OUR EYE:

- **CPI inflation in October rose to 17.9% y/y from 17.2% y/y in September.** This time the reading was in line with expectations (PKO: 17.8%, cons: 17.9%). Inflation was pushed up by food prices and core inflation, while energy inflation moderated a bit. CPI might stabilize in the next two months, but it will likely increase again at the beginning of 2023 on statistical effects (VAT cuts in Jan. and Feb. 2022) and new energy tariffs. However, in the second half of 2023, we expect inflation to decline as adverse shocks fade away, and stagnating demand makes it difficult to raise prices.
- **Manufacturing PMI fell to 42.0 pts in October from 43.0 pts. in September,** reflecting a decline in new orders. The output sub-index remained below the neutral threshold for the sixth consecutive month and the pace of decline deepened. The survey suggests that the significant decoupling between the PMI and the current production readings may be partly due to the launch of new greenfield investments in Poland.
- According to media reports, the government may decide **not to (fully) extend the Anti-Inflation Shield into 2023**, in such a way so that fiscal revenues could be higher, but prices not.
- **Moody's** has not revised Poland's rating (A2 with stable outlook), but it has downgraded outlook for the local banking sector to negative.

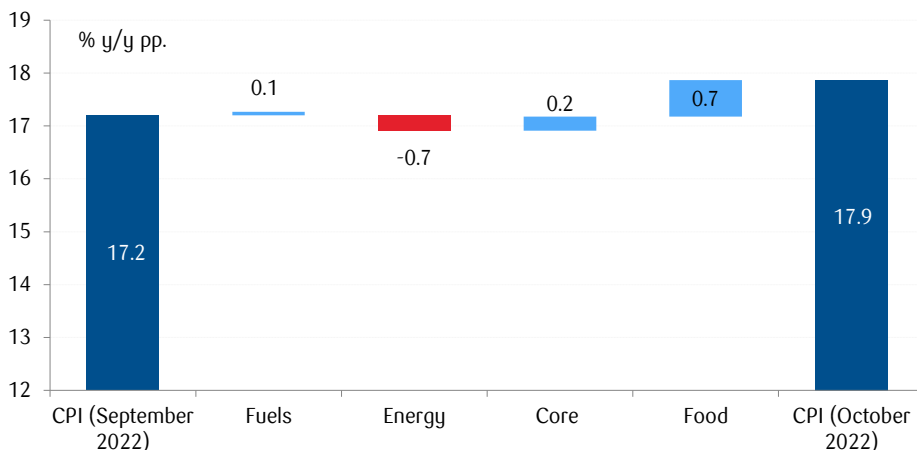
THE WEEKS AHEAD:

- **We will get a dose of local macro data.** GDP growth in 3q22 slowed down further (PKO: 3.3% y/y). **Final CPI figures for October** will most likely confirm the flash reading – 17.9% for the headline, and 11.1% for the key core measure. **CAB after Sep** could have reached -4.0% of GDP (12M rolling sum).

NUMBER OF THE WEEK:

- **5.8%** – annual GDP growth rate in 2q22 (vs 8.6% in 1q22, both figures revised).

Chart of the week – CPI decomposition



Source: NBP 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

Anna Wojtyniak
Economist
anna.wojtyniak@pkobp.pl

	2021	2022 _†
Real GDP (%)	6.8	4.3
Industrial output (%)	15.6	10.4
Unemployment rate [#] (%)	5.4	4.9
CPI inflation ^{**} (%)	5.1	13.4
Core inflation ^{**} (%)	4.1	8.8
Money supply M3 (%)	8.9	5.8
C/A balance (% GDP)	-1.4	-4.4
Fiscal balance (% GDP)*	-1.9	-2.2
Public debt (% GDP)*	53.8	50.8
NBP reference rate ^{##} (%)	1.75	6.75
EURPLN ^{###}	4.60	4.80

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. ^under revision.

Monetary policy dilemmas (again)

- According to our estimates, the new NBP projection will show lower GDP and CPI growth paths within the next few quarters, but CPI would be heavily assumption-dependent. We expect the MPC to refrain from hiking rates the next week, but given the latest news on CPI and PMI and a rising stagflationary dilemma, we admit, it's a very close call.

At a meeting the next week, the MPC will discuss fresh NBP projection for GDP and CPI. According to our estimates, the new projection will show a lower path of GDP growth in 2023. As far as the CPI inflation is concerned, we see some space for a downward revision, but it is highly assumption-dependent. Indeed, CPI final results will heavily rely on the assumptions about the length and size of fiscal measures (incl. anti-inflationary shields) to curb energy prices for households and enterprises next year.

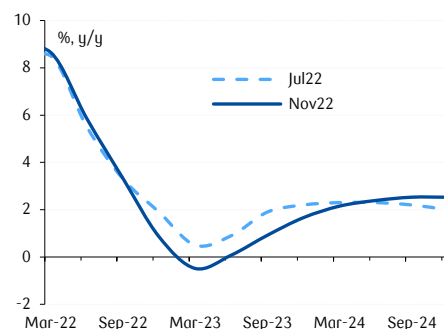
A potential downward revision of the GDP path will, in our opinion, concern mainly the short-term horizon and will reflect to a large extent a faster rewind of massive inventories build-up in late 2021/early 2022 (see margin chart). It is also likely that a slightly weaker private consumption growth rate will be assumed in the exercise. Despite higher nominal (and also real wages, depending on CPI inflation), higher interest rates may weigh on consumers spending.

Given high uncertainty on administered prices and final shape of fiscal measures we think the NBP will prepare a bunch of scenarios for CPI inflation (same as in July). It is noteworthy that the previous NBP baseline didn't take into account neither a longer period of anti-inflationary shield nor additional measures to curb energy prices next year. The possible downward revision of the baseline inflation projection in 2023, if proven, would mainly mirror NBP's staff assumptions on exogenous factors such as food and energy prices. Given that futures market shows some signs of normalization of energy and agricultural commodity prices, especially in the long run, we think it will be reflected in energy and food price assumptions in the projection. Additionally, energy and food prices (especially in 2023) may reflect a mix of administered measures and VAT and excise tax rate adjustments. This may also push the headline CPI even to the NBP target in 2024. Our tentative guess (see margin chart) of the NBP's baseline incorporates all announced fiscal measures including those that will replace anti-inflationary shield (frozen energy prices).

Given a heavy-weight assumptions on administered prices, core inflation gains on importance as a demand-driven measure of inflationary pressure. We think core inflation in the short term should be higher than it was foreseen in July on higher than previously expected wages growth rate, second round of energy price shock as well as to some extent PLN weakness. The third factor may be at play as a break-even FX rate for imports has already reached its limits and there is no more mark-up to absorb higher costs for importers. Dampening demand should be manifested in lower core inflation starting from end-2023 (see margin chart).

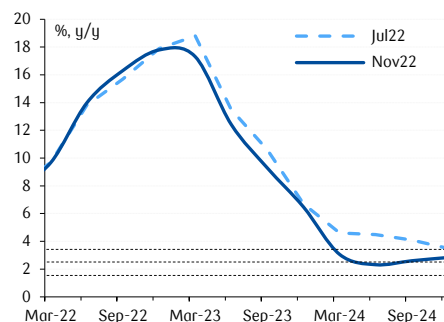
If our expectations as to the shape of the new projection are confirmed (it will also depend, among others, on the 'strength' of the so-called expert corrections), it may place the data-driven MPC (with a focus on short-term developments) on a bit harder decision-making position – a stagflationary dilemma has risen recently. Indeed, the surprisingly high fresh inflationary data have arrived since the July inflation projection. They have been accompanied by weakening real economy activity (construction, retail sales). Recent manufacturing PMI prints also point at contraction. July's projection assumptions on the near-term developments also deviate from actual performance that way (i.e. inflation surprised to the upside). All in all, it might mean that a new round of interest rate hikes (as expected by the market) is not as straight forward as it would seem. Growth concerns and some improvement in medium-term inflation outlook

GDP growth rate projection



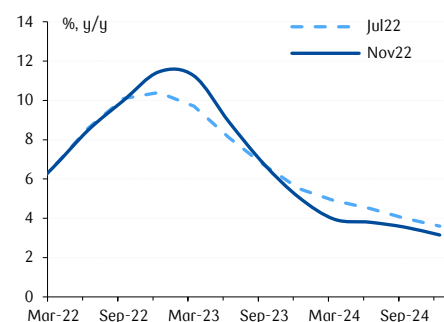
Source: NBP, PKO Bank Polski. November22 – PKO estimate.

Tentative (heavily assumption-dependent) CPI inflation projection



Source: NBP, PKO Bank Polski. November22 – PKO estimate.

Core inflation projection



Source: NBP, PKO Bank Polski. November22 – PKO estimate.

Key near-term assumptions from July vs actuals

% y/y	Period	NBP Jul'22	Actual*
CPI inflation	3q	15.7	16.3
GDP growth rate	3q	3.3	3.3
Wages	2q	10.7	11.8
WIBOR 3M (%)	3q	6.20	7.08

Source: NBP, GUS, PKO Bank Polski. *GDP – PKO nowcast.

(despite recent upward surprises for the current inflation rate) support our baseline scenario that the tightening cycle is over.

We believe that the MPC will focus on inflation prospects for 2024 and longer out. While it is unlikely that the Council will make a full 'pivot' and switch off data dependent mode, the shape of the new projection may convince majority of Polish rate-setters that policy tightening delivered so far has been sufficient, or even more than enough. Wording may (and in our view – should) remain cautious (with talk of possible hikes, if needed in case of major change in inflation outlook or turmoil in markets), but the main message is likely to be the same as the previous month: **the rate hikes cycle in Poland has ended.**

Weekly economic calendar

Indicator	Time (UK)	Unit	Previous	Consensus*	PKO BP	Comment
Monday, 7 November						
GER: Industrial production (Sep)	7:00	% m/m	-0.8	--	--	--
GER: Industrial output (Sep)	7:00	% y/y	2.1	--	--	--
EUR: Sentix Index (Nov)	9:30	pts.	-38.3	--	--	--
Tuesday, 8 November						
EUR: Retail sales (Sep)	10:00	% y/y	-2	--	--	--
Wednesday, 9 November						
CHN: PPI inflation (Oct)	1:30	% y/y	0.9	-1.6	--	--
CHN: CPI inflation (Oct)	1:30	% y/y	2.8	2.4	--	--
HUN: CPI inflation (Oct)	8:00	% y/y	20.1	--	--	--
POL: NBP base rate	--	%	6.75	7.00	6.75	We don't expect rate hike but it's a close call.
Thursday, 10 November						
CZE: CPI inflation (Oct)	8:00	% y/y	18	--	--	--
POL: MPC minutes (Oct)	13:00	--	--	--	--	Minutes may shed more light on growth vs inflation concern in the MPC's reaction function.
USA: CPI inflation (Oct)	13:30	% y/y	8.2	8.1	--	--
USA: Core inflation (Oct)	13:30	% y/y	6.6	6.6	--	--
Friday, 11 November						
GER: CPI inflation (Oct, final)	7:00	% y/y	10.4	--	--	--
GER: HICP inflation (Oct, final)	7:00	% y/y	11.6	--	--	--
USA: University of Michigan sentiment (Nov, flash)	15:00	pts.	59.9	60.0	--	--
Monday, 14 November						
EUR: Industrial production (Sep)	10:00	% y/y	2.5	--	--	--
POL: Current account balance (Sep)	13:00	EUR bln	-3.967	-2.829	-2.560	Exports rebounded on automotive output improvement (easing bottlenecks) while elevated imports growth rate is still under commodity price impact.
POL: Exports (Sep)	13:00	% y/y	24.8	22.2	22.6	
POL: Imports (Sep)	13:00	% y/y	28.2	25.2	24.9	
Tuesday, 15 November						
POL: GDP growth (3q)	9:00	% y/y	5.8	3.0	3.3	Slowdown continued on a rewind of inventory cycle.
POL: CPI inflation (Oct, final)	9:00	% y/y	17.2	17.9	17.9	Flash CPI was close to expectations so the potential for surprise is low.
GER: ZEW Economic Sentiment (Nov)	10:00	pts.	-59.2	--	--	--
EUR: GDP growth (3q)	10:00	% y/y	2.1	--	--	--
USA: PPI inflation (Oct)	13:30	% y/y	8.5	--	--	--
Wednesday, 16 November						
POL: Core inflation (Oct)	13:00	% y/y	10.7	11.0	11.1	Second round effects of energy prices shock keep pricelists updated.
USA: Retail sales (Oct)	13:30	% m/m	0.0	--	--	--
USA: Retail sales excl. autos (Oct)	13:30	% m/m	0.1	--	--	--
USA: Industrial production (Oct)	14:15	% m/m	0.4	--	--	--
Thursday, 17 November						
EUR: HICP inflation (Oct, final)	10:00	% y/y	9.9	10.7	--	--
EUR: Core inflation (Oct, final)	10:00	% y/y	4.8	5.0	--	--

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^
J. Tyrowicz	5.0	" Inflation expectations are outrageously high and ... real interest rate is as low as in the period before the first interest rate hike. That in practice means that borrowers are shouldering higher costs but there are no desired effects. (...) The MPC has to regain credibility and really fight inflation [hike interest rates above expected inflation]. " (24.10.2022, Parkiet, PAP)
L. Kotecki	4.8	" "I fear that, to the end of next year, it [inflation] will stay at double-digits. (...) Poland should brace itself for three, or potentially four years of elevated inflation, as the situation is becoming more dangerous from month to month." (27.10.2022, Gazeta Wyborcza, PAP)
P. Litwiniuk	3.7	"As long as core inflation is rising, as long as the situation on the labor market is good, as long as the Polish economy and its participants continue to surprise with their activity, one has to take actions aimed at monetary tightening (...) Whether this should take place via interest rate hikes or via using other tools which are at the disposal of the [PAP: NBP] management board and not of the MPC is only a concern in the future" (10.10.2022, TOK FM, PAP)
H. Wnorowski	2.7	"The Monetary Policy Council and the National Bank of Poland are counting on the inflation peak being just around the corner, and that we are most certainly very close to it, and that it should only be better." (10.10.2022, PAP, local TV station)
A. Glapinski	2.4	"It's not the formal end of the hiking cycle, it's a halt to the cycle.. (...) If we see in the projection that domestic inflation drivers are developing, that would be a reason, a strong indication to increase interest rates, to continue the tightening cycle. (...) I said last time rates would be stopped at some point and that in the middle of the [next] year inflation would start declining and that in the last quarter [of 2023] or sooner there would be room to cut rates. What happened now, the new data somewhat weaken this expectation but I still stick to it. I hope that the first rate cut will be possible towards the end of next year." (6.10.2022, NBP press conference, PAP)
C. Kochalski	2.4	"Poland has little if any room to hike interest rates. It seems there isn't a lot of room because if we look at the so-called output gap, it is closing." (19.10.2022, TVN24, PAP).
W. Janczyk	2.0	"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).
I. Duda	2.3	"One should tread very cautiously around potential further interest rates hikes, as we should also take care about maintaining an appropriate growth level and prevent unemployment from increasing." (5.10.2022, PAP)
G. Maslowska	2.1	" The challenge ahead of the Polish monetary policy is particularly difficult. (The MPC) has to bring inflation down gradually, while at the same time making sure our economy does not fall into recession. (...) I am aware of the inflation target existence and we have to strive at reaching it but the real costs of reaching it are also important. " (24.10.2022, Radio Maryja, PAP)
I. Dabrowski	1.9	" In a certain pessimistic scenario it [inflation exceeding 20%] is obviously possible, but under assumption that nothing changes - there are no perturbations similar to Covid or the aggression on Ukraine - it [inflation] should stabilize. It need not be exactly that [target] range, but we should approach the neighborhood of that target in 2024". (26.10.2022, Super Express, 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.

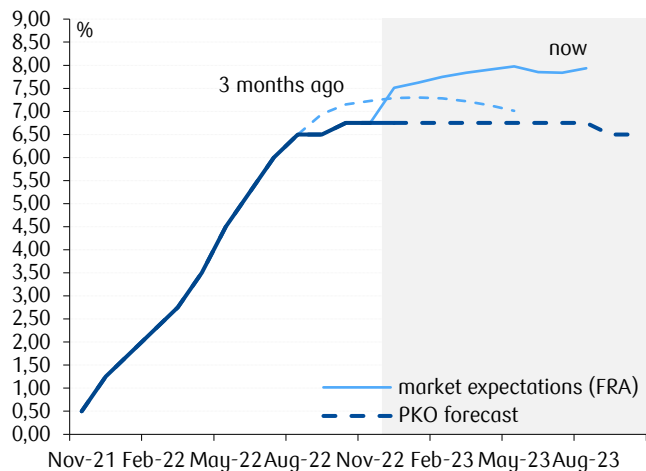
Interest rates – PKO BP forecasts vs. market expectations

	3-Nov	3-Dec	3-Jan	3-Feb	3-Mar	3-Apr	3-May	3-Jun	3-Jul	3-Aug
Date										
WIBOR 3M/FRA†	7.56	7.71	7.82	7.95	8.04	8.11	8.18	8.05	8.04	8.14
implied change (b. p.)		0.15	0.26	0.39	0.48	0.55	0.62	0.49	0.48	0.58
MPC Meeting	9-Nov	7-Dec	-	-	-	-	-	-	-	-
PKO BP forecast*	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.75	6.75
market pricing*		6.90	7.01	7.14	7.23	7.30	7.37	7.24	7.23	7.33

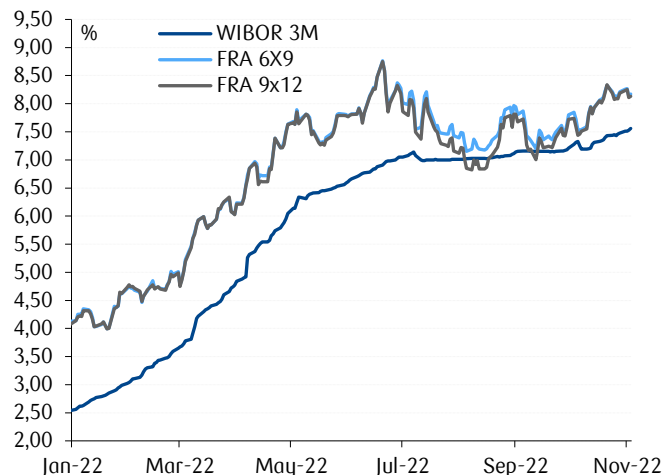
†WIBOR 3M from the last fixing, FRA transactions based on WIBOR 3M for subsequent periods, ‡in basis points, *PKO BP forecast of the NBP reference rate.

Poland macro chartbook

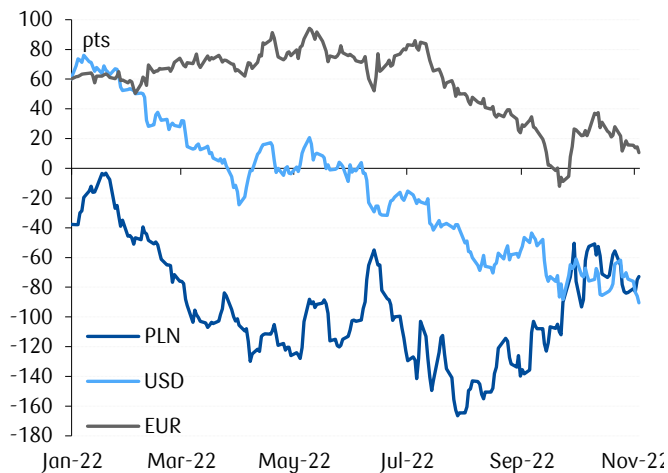
NBP policy rate: PKO BP forecast vs. market expectations



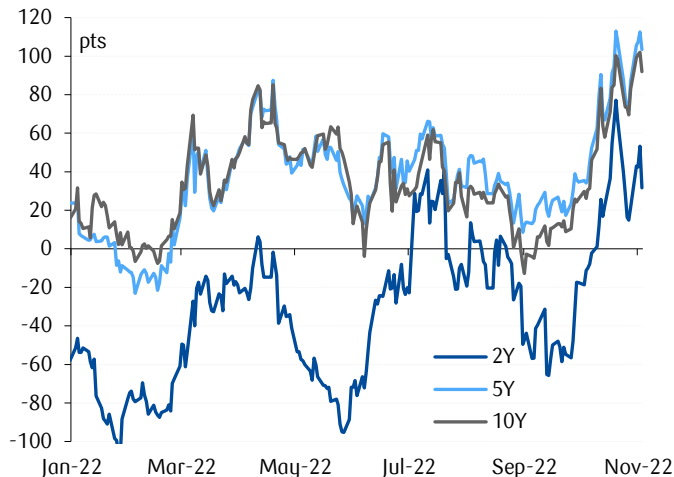
Short-term PLN interest rates



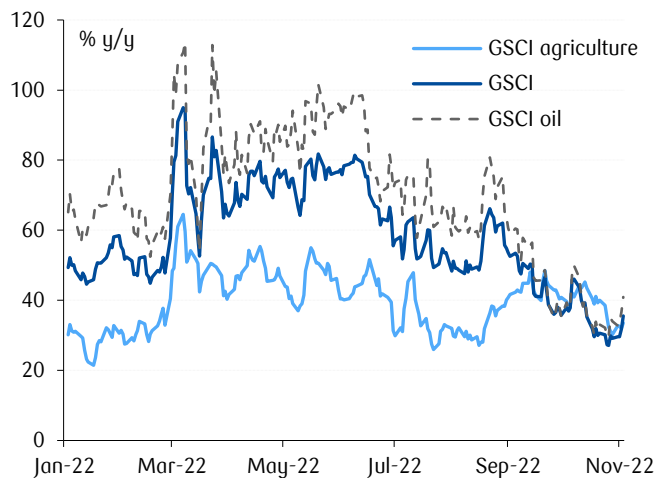
Slope of the swap curve (spread 10Y-2Y)*



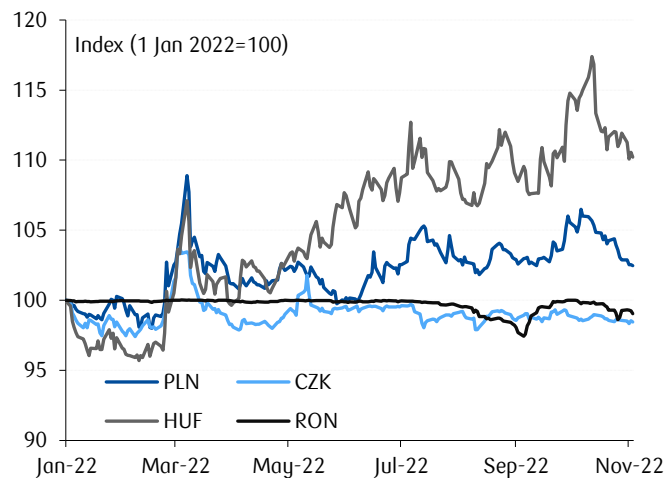
PLN asset swap spread



Global commodity prices (in PLN)

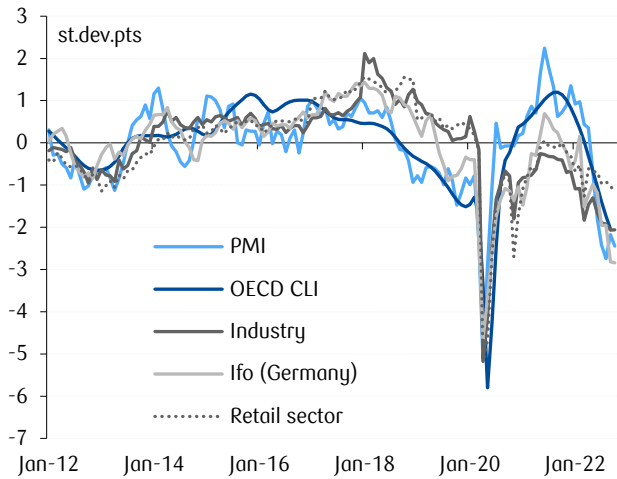


Selected CEE exchange rates against the EUR

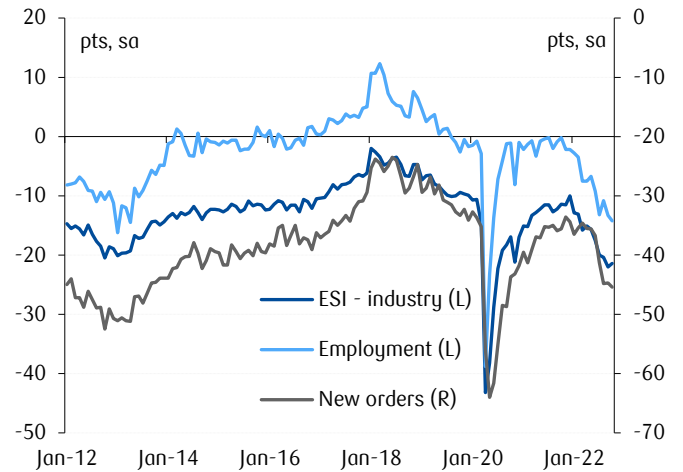


Source: Datastream, NBP, PKO Bank Polski. *for PLN, and EUR 6M, for USD 3M.

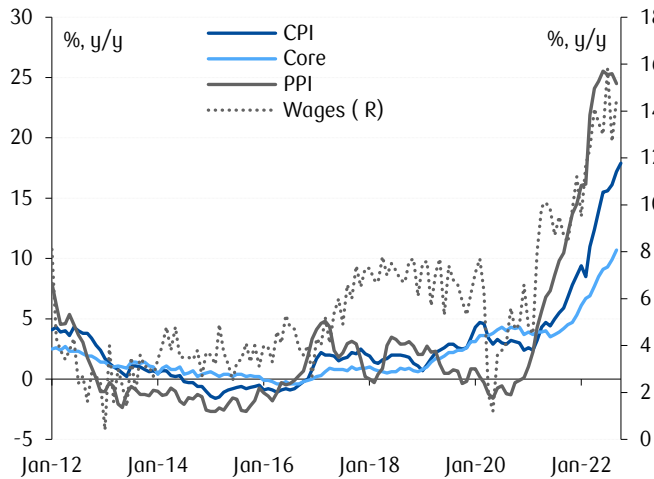
Economic sentiment indicators



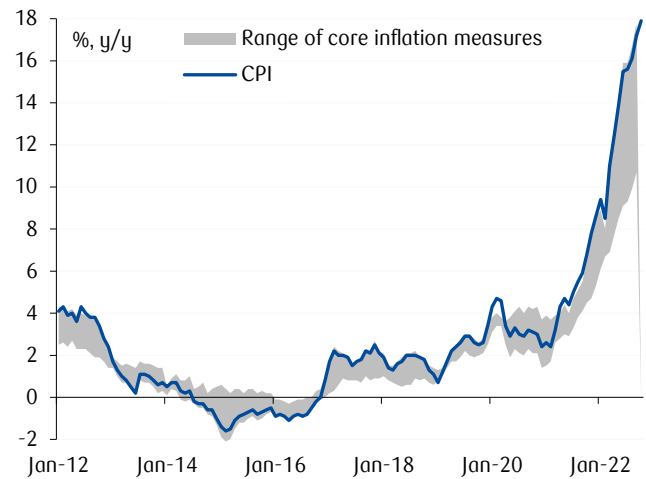
Poland ESI for industry and its components



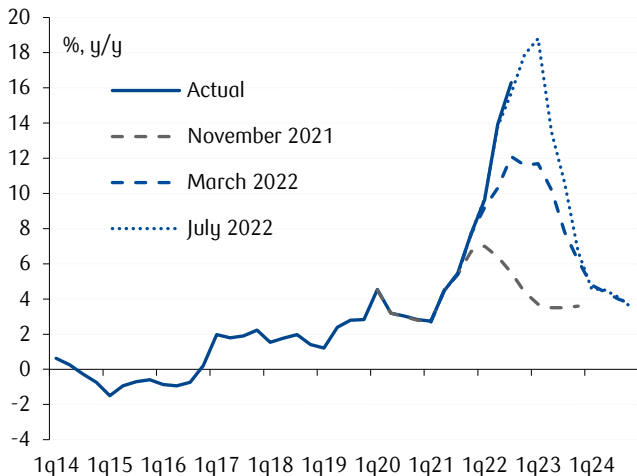
Broad inflation measures



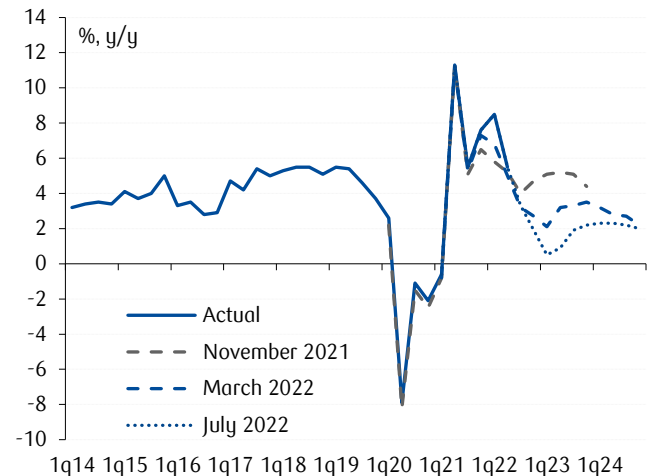
CPI and core inflation measures



CPI inflation – NBP projections vs. actual

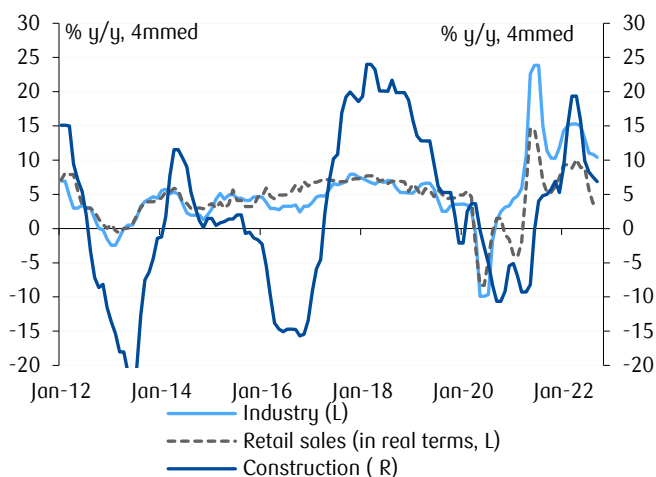


Real GDP growth – NBP projections vs. actual

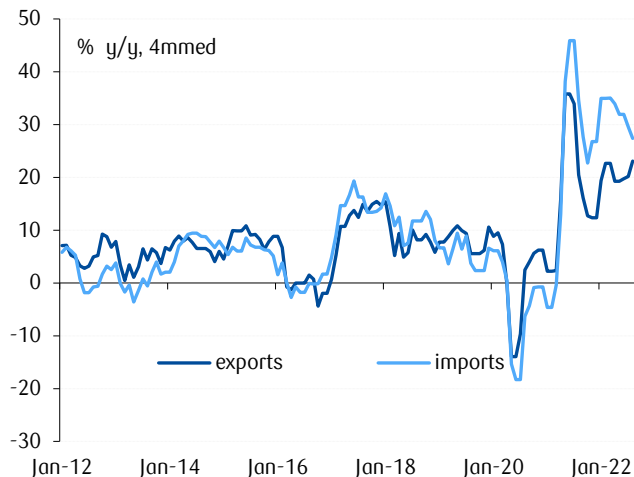


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

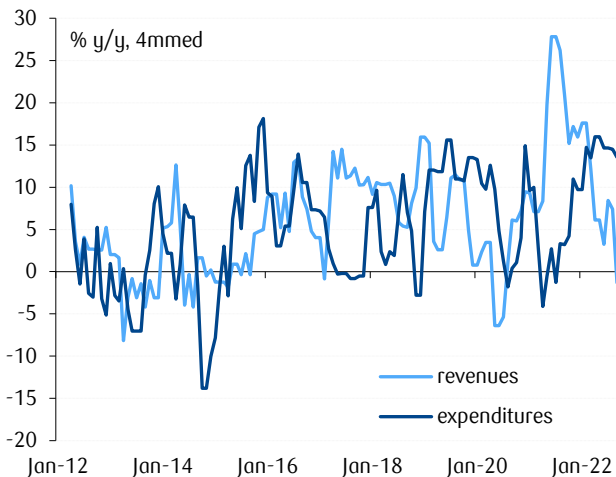
Economic activity indicators



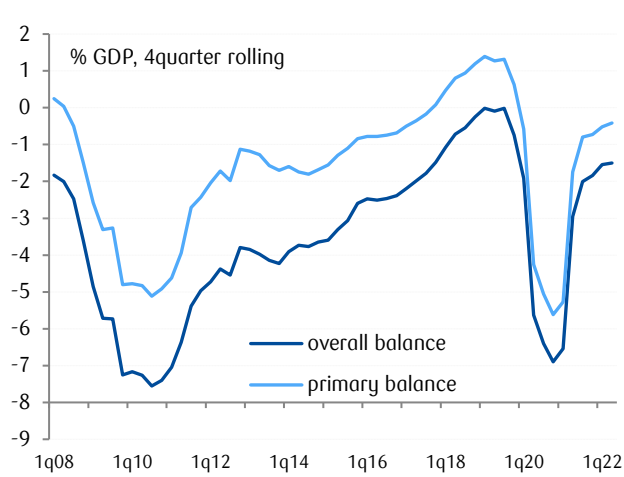
Merchandise trade (in EUR terms)



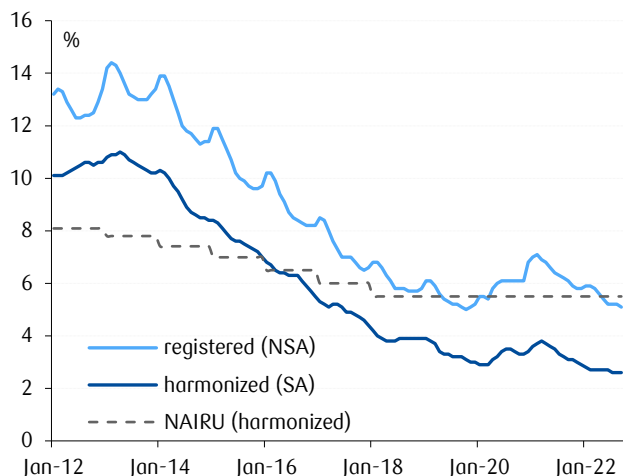
Central government revenues and expenditures*



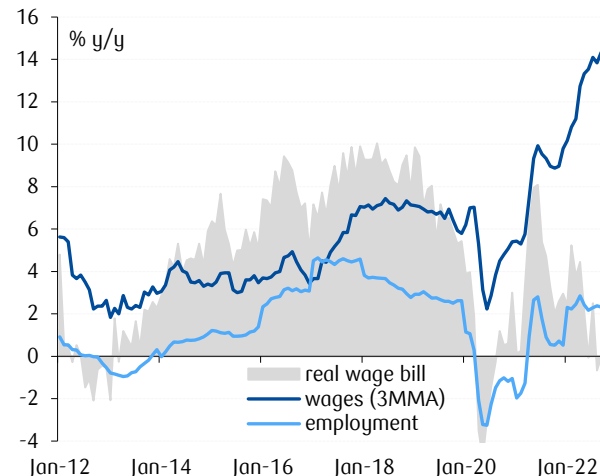
General government balance (ESA2010)



Unemployment rate

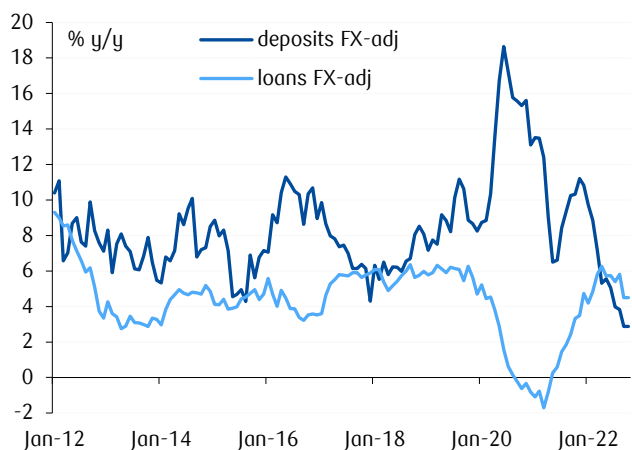


Employment and wages in the enterprise sector

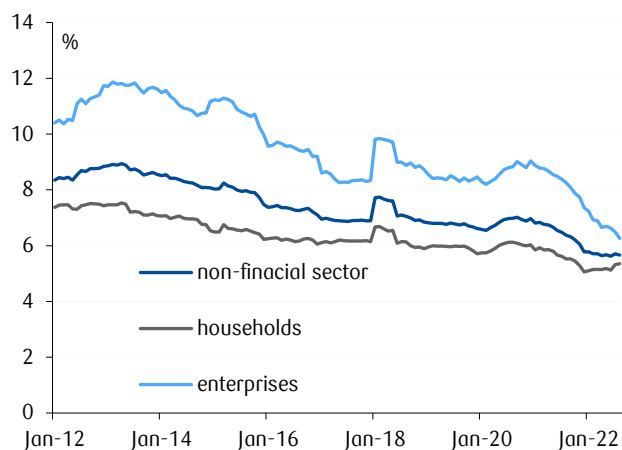


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. *break in series in 2010 due to methodological changes.

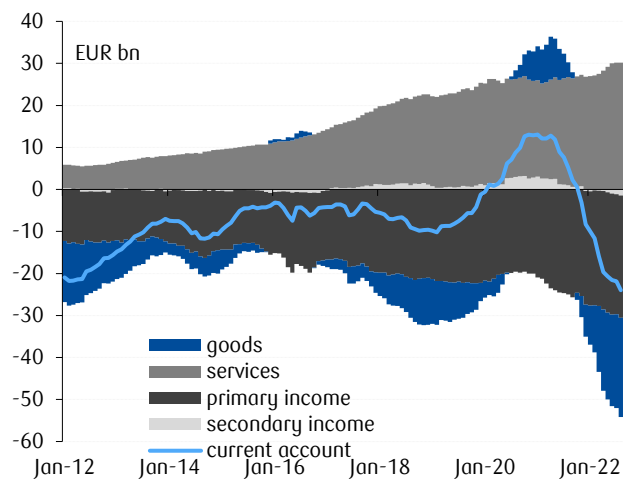
Loans and deposits



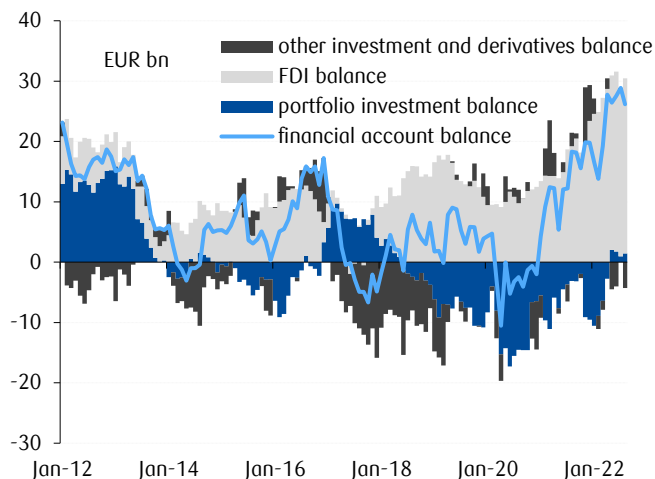
Non-performing loans (NPLs) - by sectors*



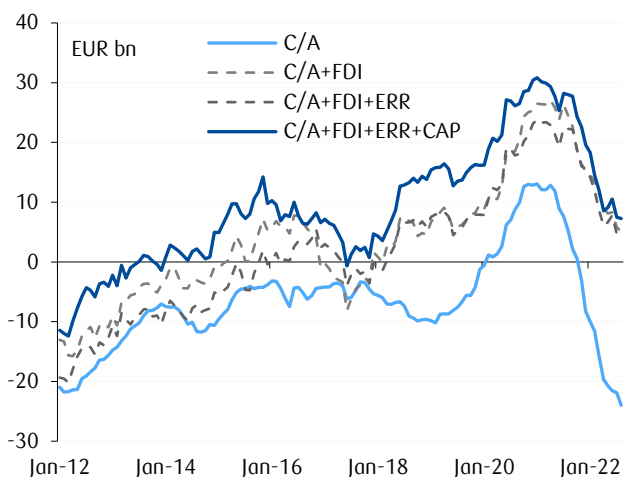
Current account balance



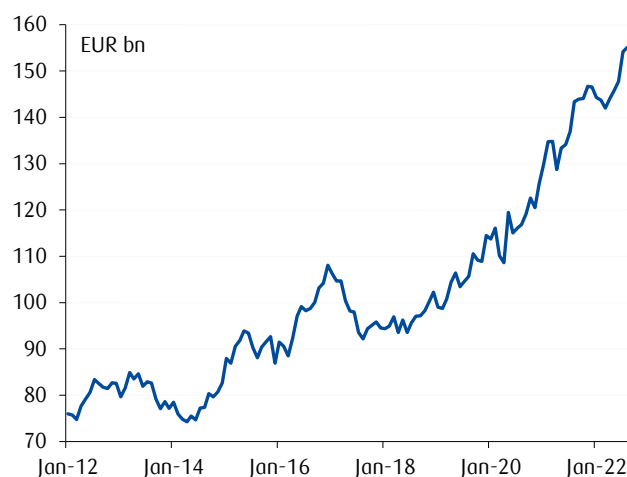
Financial account balance



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:

- [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)
- [Inflation sparked investments?](#) (Sep 2, 2022)
- [Costs jump, deals slow](#) (Aug 26, 2022)
- [It's payback time](#) (Aug 19, 2022)
- [Inflation seems to be losing steam](#) (Aug 12, 2022)
- [Prepare\(d\) for slowdown](#) (Aug 5, 2022)
- [Unemployment at the bottom and inflation plateau](#) (Jul 29, 2022)
- [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)
- [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)

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.