

Is it the end or just a pause?

TOP MACRO THEME(S):

- **Is it the end or just a pause? (p. 2):** The Polish MPC left NBP rates unchanged, but contrary to the CNB and MNB has not declared the end of the cycle.

WHAT ELSE CAUGHT OUR EYE:

- **Manufacturing PMI rebounded to 43.0pts in September** from 40.9pts in August, as production and new orders declined at a slower pace. Despite the unexpected rise in the overall PMI index, the details are not very positive and encouraging, with further deep declines in production and orders amid increasing cost pressure and weakening demand for labour.
- **Revised GDP data showed much larger economic growth in 2021** (6.8% vs 5.9% reported earlier) **and shallower recession during the pandemic in 2020**. The revised data for 2021 included stronger growth of public and private consumption and higher exports while investments growth proved to be weaker than earlier estimated (2.1%, -1.7pp). At the same time, investments in 2018-2020 were notably higher than previously reported. The revision of nominal GDP was minor (less than 0.2%), so it does not affect key macro ratios like fiscal deficit or public debt to GDP.
- **According to revised balance of payments data the CA deficit after July was 3.5% of GDP** (vs. 4% reported previously). At the same time, the 2021 deficit was revised up to 1.4% of GDP from 0.7%. The revision covered the two main elements: transactions of non-resident VAT payers in Poland were excluded from trade in goods and a new approach to EU transfers was adopted. As a result, the trade gap has widened, while the secondary income balance has improved. These changes reduced size of the errors and omissions balance.

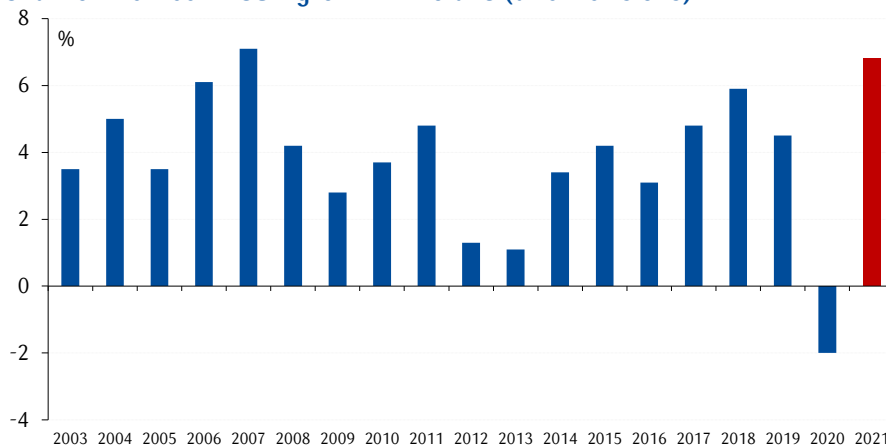
THE WEEK AHEAD:

- In **final CPI figures for September** the key focus of attention will be on reasons behind surprisingly strong rise in core inflation (to 10.6-10.7% y/y).
- **Balance of payments for August** will reveal monthly data (not known yet after large revisions to quarterly numbers described above) and give a hint what is the current scale of CAB deterioration.

NUMBER OF THE WEEK:

- **0** – number of vacant places in the Monetary Policy Council after Sejm approved Iwona Duda and Gabriela Maslowska as new MPC members.

Chart of the week – GDP growth in Poland (after revisions)



Source: GUS, PKO Bank Polski.

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	2021	2022 [†]
Real GDP (%)	6.8	4.3 [^]
Industrial output (%)	15.6	9.4
Unemployment rate [#] (%)	5.4	4.9
CPI inflation ^{**} (%)	5.1	14.1
Core inflation ^{**} (%)	4.1	8.5
Money supply M3 (%)	8.9	5.6
C/A balance (% GDP)	-1.4	-4.7 [^]
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

Is it the end or just a pause?

- The Monetary Policy Council left NBP interest rates unchanged, with the reference rate at 6.75%.
- The NBP has not yet joined the CNB and MNB, which have explicitly declared the end of the rate hikes cycle. However, it is likely (and it seems to be desired by majority of rate setters in Poland) that the 25bps hike in September would turn out to be the last move in the cycle.

The Monetary Policy Council (MPC) left NBP interest rates unchanged, with the reference rate at 6.75%. Most analysts, including us, expected a hike by 25bps. What is important, the MPC has not declared the end of the tightening cycle, which in just 12 months has driven rates up by 665bps. The MPC has declared that its future decisions will be data dependent.

Recent comments from NBP governor and many other MPC members suggested that we are approaching the end of rate hikes cycle in Poland. However, the release of flash CPI figures for September, which showed much higher than expected inflation, raised expectations for a rate hike in October. NBP governor admitted that the MPC was also surprised by the latest CPI reading. However, the headline inflation rate follows the path in the July NBP projection (see chart), which in our view was likely a crucial argument in favour of pausing the cycle.

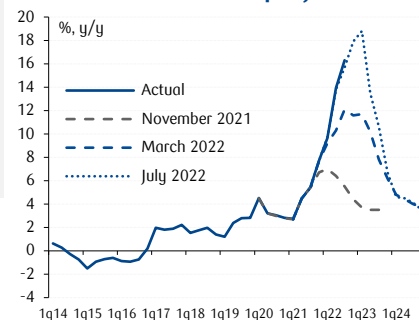
In the [statement](#), the MPC said that significant tightening of the NBP's monetary policy to date and the expected slowdown in economic activity would brought inflation back towards the target. At the same time, the Council acknowledged that due to the scale and persistence of the current exogenous shocks, the return to the NBP inflation target will be very gradual. This means, in our opinion, that **if the economic situation develops in line with current projections/forecasts, the Council will not return to hikes**. As in previous months, the Council emphasized that the decrease in inflation would also be supported by the appreciation of zloty, which, in the Council's assessment, would be consistent with the fundamentals of the Polish economy.

Due to high uncertainty and elevated financial markets volatility, the Council remains in a data-driven mode. **The NBP has not joined the CNB and MNB, which have declared the end of the rate hikes cycle. However, it is likely (and it even seems to be desired by majority of rate setters in Poland) that the 25bps hike in September would turn out to be the last one in the cycle.**

During the press conference, NBP governor listed four reasons behind the decision to halt interest rate hikes: (1) the Council's actions to date have significantly reduced demand for loans, especially in retail segment; (2) energy shocks and tensions in supply networks are gradually fading away. (3) monetary policy transition takes time and the MPC is not guided by current data, but by the medium-term outlook; (4) major central banks (Fed, ECB) have finally started to tighten monetary policy. Governor Glapinski explained that the pause could last until at least November, when a new NBP projection will allow the MPC to assess the most probable future inflation path. However, he added that the inflation outlook for 2024 has somewhat worsened, and the case for interest rates cuts in 2023 is weaker. Still, Glapiński hopes that the MPC could start trimming rates in late 2023.

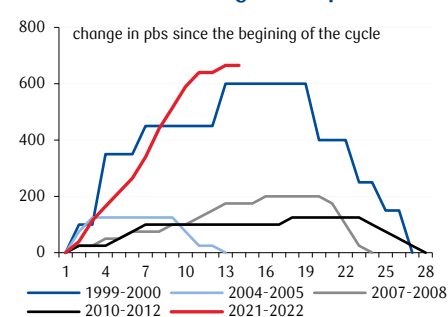
We can already see the first effects of the radical monetary tightening implemented so far, although the full transmission of the impulse has not yet materialized. We observe, among others, a sharp drop in household demand for loans, we see a slowdown in consumption, and fears related to the price-wage spiral have not materialized much. It is also worth to underline that in the environment of anti-crisis measures, the fiscal policy seems to be a more effective anti-inflationary tool than further rate hikes.

CPI inflation vs. NBP projections



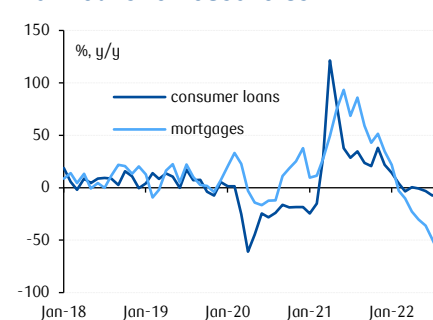
Source: GUS, NBP, PKO Bank Polski.

Current rate hike cycle vs. previous ones



Source: NBP, PKO Bank Polski.

New loans to households



Source: NBP, PKO Bank Polski.

Weekly economic calendar

Indicator	Time (UK)	Unit	Previous	Consensus*	PKO BP	Comment
Monday, 10 October						
EUR: Sentix Index (Oct)	9:30	pts	-31.8	--	--	--
Tuesday, 11 October						
CZ: CPI inflation (Sep)	8:00	% y/y	17.2	--	--	--
HUN: CPI inflation (Sep)	8:00	% y/y	15.6	--	--	--
Wednesday, 12 October						
EUR: Industrial production (Aug)	10:00	% y/y	-2.4	--	--	--
USA: PPI inflation (Sep)	13:30	% y/y	8.7	8.4	--	--
USA: Minutes Fed (Sep)	19:00	--	--	--	--	--
Thursday, 13 October						
GER: CPI inflation (Sep, final)	7:00	% y/y	7.9	10	--	--
GER: HICP inflation (Sep, final)	7:00	% y/y	8.8	10.9	--	--
USA: CPI inflation (Sep)	13:30	% y/y	8.3	8.1	--	--
USA: Core inflation (Sep)	13:30	% y/y	6.3	6.5	--	--
USA: Initial Jobless Claims (Oct)	13:30	k	219	--	--	--
Friday, 14 October						
CHN: PPI inflation (Sep)	2:30	% y/y	2.3	1.1	--	--
CHN: CPI inflation (Sep)	2:30	% y/y	2.5	2.8	--	--
POL: CPI inflation (Sep, final)	9:00	% y/y	16.1	17.2	17.2	A substantial increase in the CPI has been caused by broad-based inflationary pressures.
POL: Current account balance (Aug)	13:00	EURm	-1735	-1493	-1333	There has been a substantial revision of the CAB data since the consensus forecast has been prepared. The revised CA data show a lower deficit while the trade gap has widened.
POL: Exports (Aug)	13:00	% y/y	23	17	17.3	
POL: Imports (Aug)	13:00	% y/y	22.6	19.4	19.2	
USA: Retail sales (Sep)	13:30	% m/m	0.3	0.2	--	--
USA: Retail sales excl. autos (Sep)	13:30	% m/m	-0.3	-0.1	--	--
USA: University of Michigan sentiment (Oct, flash)	15:00	pts	58.6	58.8	--	--

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	"First of all, the narrative that we already have the end of the increases has been retracted, this was said in July. That is no longer the case now in September. Rather, Governor Glapinski talked about some kind of pause. I think it will be so, that we will have some kind of pause." (23.09.2022, WNP, PAP)
H. Wnorowski	4.2	"With the current state of knowledge, the main interest rate should not rise above 7 percent. I see no reason why it should be higher. But a caveat is needed here: this is an assessment with the current state of knowledge." (19.09.2022, Parkiet)
A. Glapinski	3.4	"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)
I. Dabrowski	3.1	"Relax. It is not speculative capital that makes decisions only the independent Monetary Policy Council. No attacks on the zloty will change that. Personally, I like to act under pressure; I also believe in exporters." (29.09.2022, Twitter)
C. Kochalski	3.1	"The space for further rate hikes has decreased significantly, and the probability of the end of the hike cycle has increased. After the MPC's September decision, the probability of no change in rates in October increased." (12.09.2022, Reuters).
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).
I. Duda	--	"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)
J. Tyrowicz	--	"There is no doubt that rates need to be raised. Whether they need to be raised at the next meeting is a completely different question, but there is no doubt that rates need to be raised, that they are far too low. If we (think) that the NBP's target reference rate should be higher, raising at 25 bps simply does not make sense. (...) We are talking about raising the interest rate by 2-3, potentially 4 bps at the maximum, for today, with today's data, after assessing how effective previous increases have been." (23.09.2022, Subiektywnie o finansach, PAP)
G. Maslowska	--	--

*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.

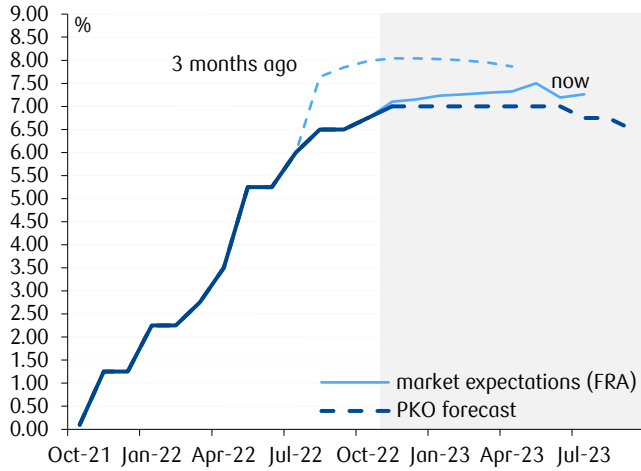
Interest rates – PKO BP forecasts vs. market expectations

	1M	2M	3M	4M	5M	6M	7M	8M	9M	
Date	6-Oct	6-Nov	6-Dec	6-Jan	6-Feb	6-Mar	6-Apr	6-May	6-Jun	6-Jul
WIBOR 3M/FRA†	7.25	7.31	7.35	7.44	7.46	7.50	7.53	7.70	7.39	7.46
implied change (b. p.)		0.05	0.10	0.19	0.21	0.25	0.28	0.45	0.14	0.21
MPC Meeting	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	6.75
market pricing*		6.81	6.85	6.94	6.96	7.00	7.03	7.20	6.89	6.96

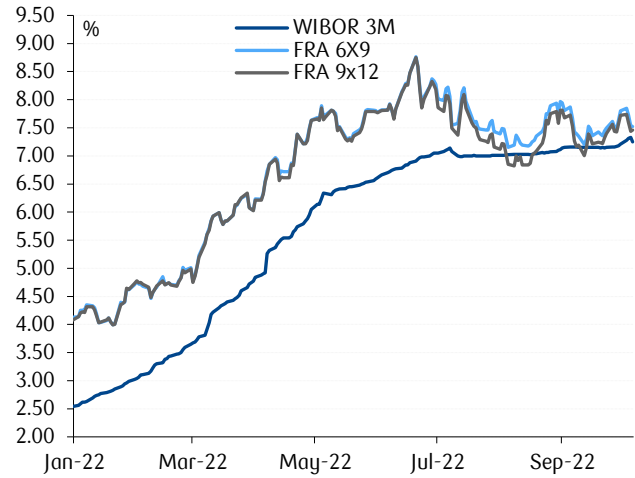
†WIBOR 3M from the last fixing, FRA transactions based on WIBOR 3M for subsequent periods, ‡in basis points, *PKO BP forecast of the NBP reference rate.

Poland macro chartbook

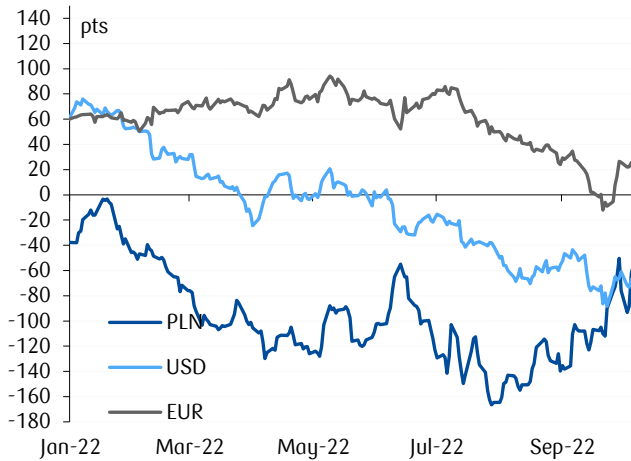
NBP policy rate: PKO BP forecast vs. market expectations



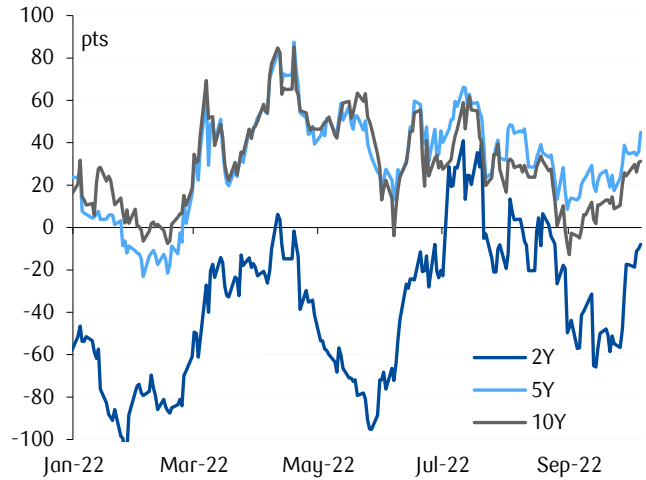
Short-term PLN interest rates



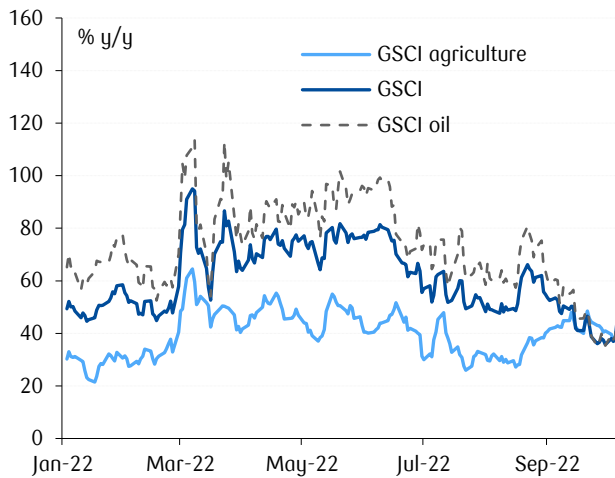
Slope of the swap curve (spread 10Y-2Y)*



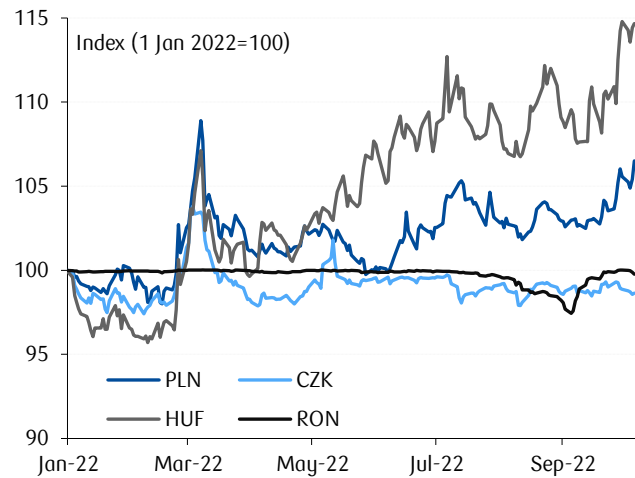
PLN asset swap spread



Global commodity prices (in PLN)

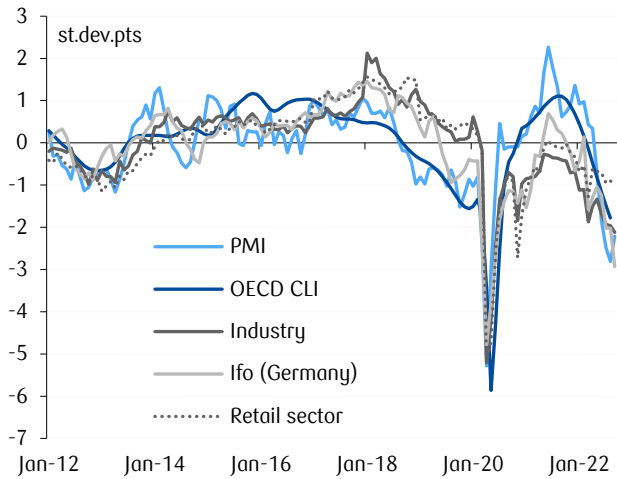


Selected CEE exchange rates against the EUR

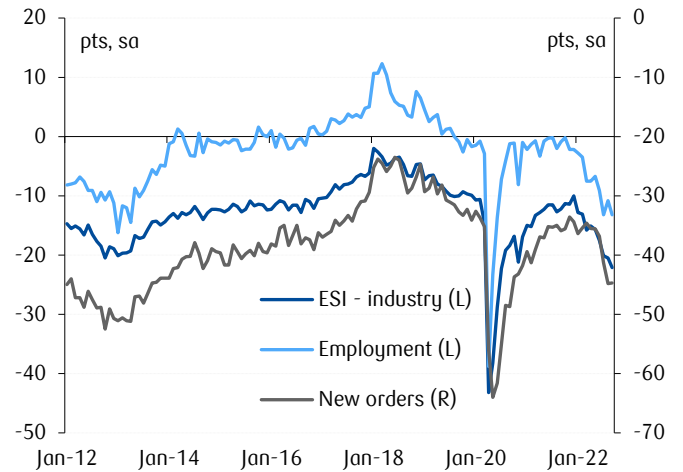


Source: Datastream, NBP, PKO Bank Polski. *for PLN, and EUR 6M, for USD 3M.

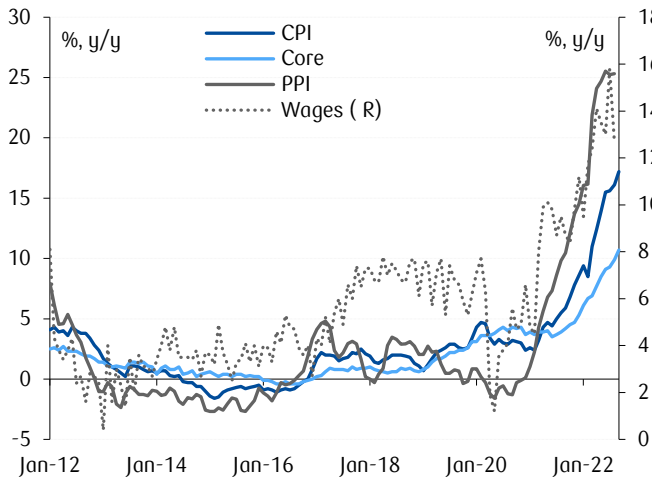
Economic sentiment indicators



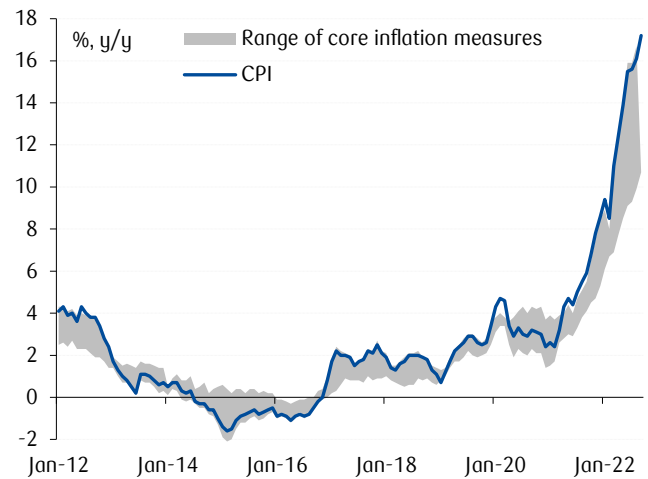
Poland ESI for industry and its components



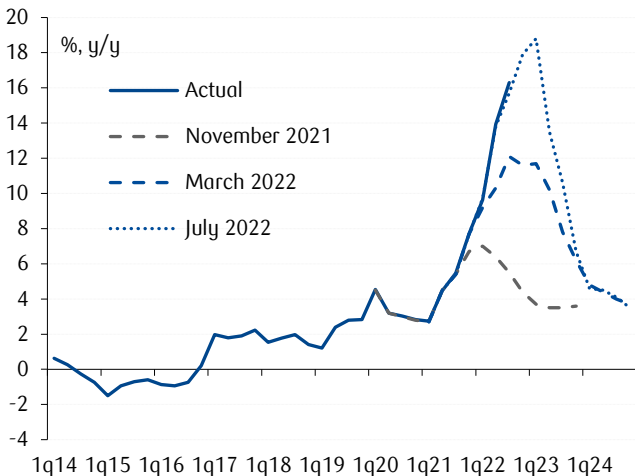
Broad inflation measures



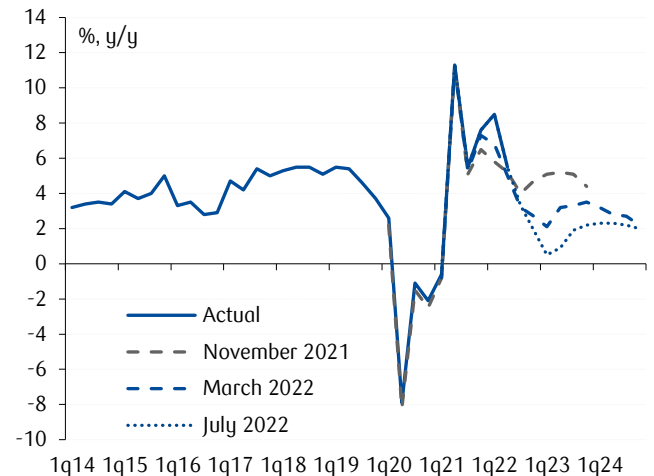
CPI and core inflation measures



CPI inflation – NBP projections vs. actual

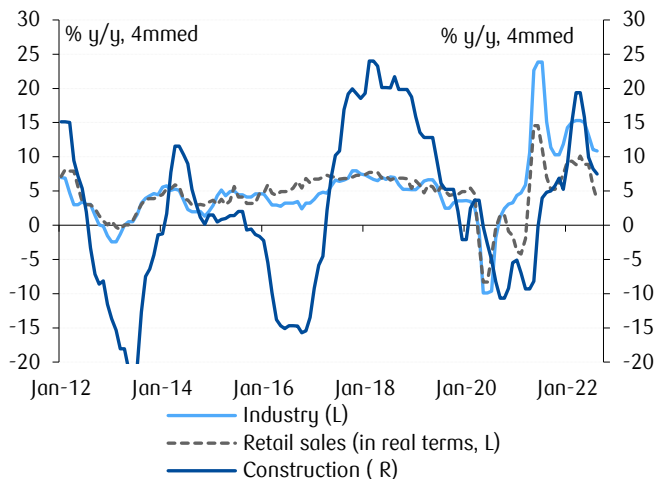


Real GDP growth – NBP projections vs. actual

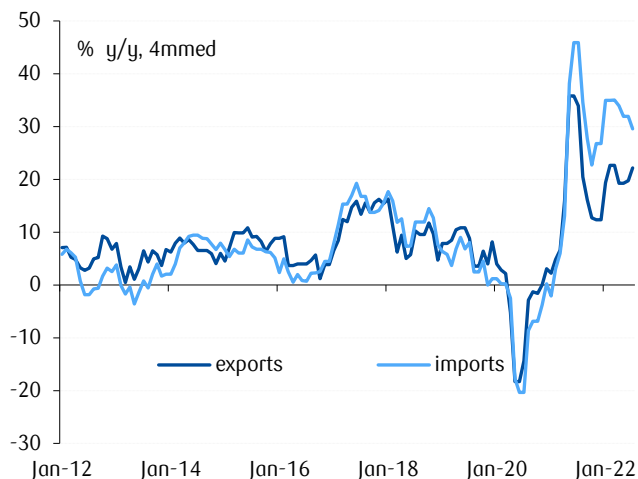


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

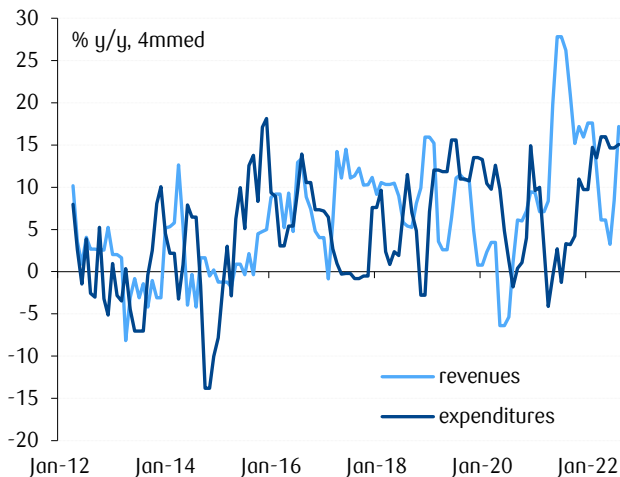
Economic activity indicators



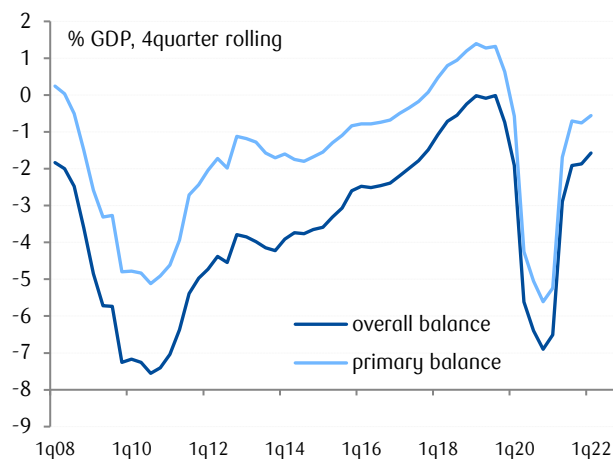
Merchandise trade (in EUR terms)



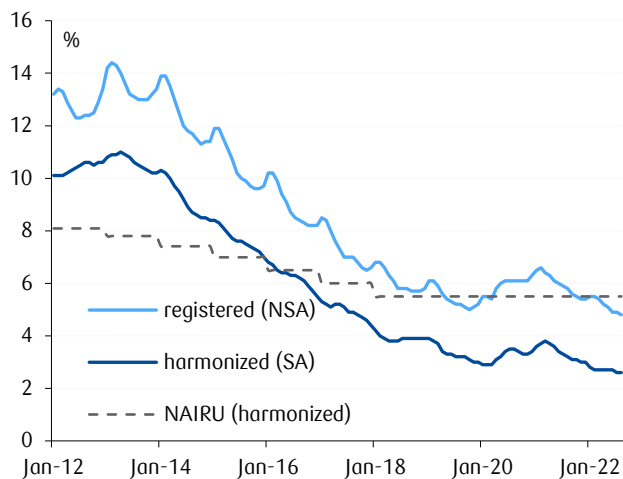
Central government revenues and expenditures*



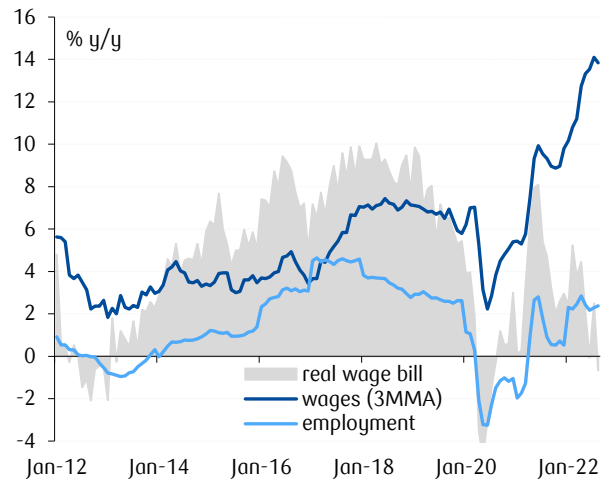
General government balance (ESA2010)



Unemployment rate

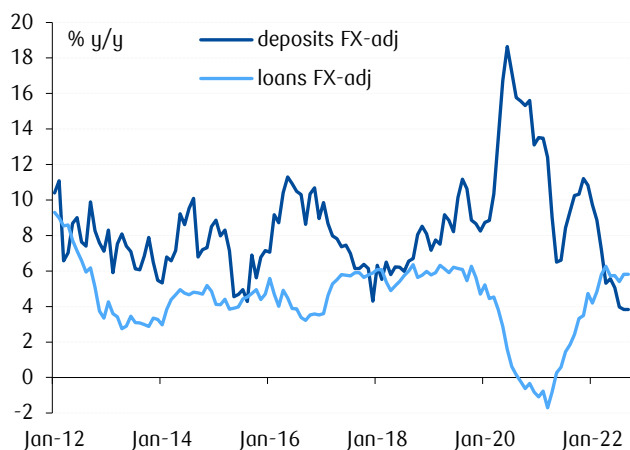


Employment and wages in the enterprise sector

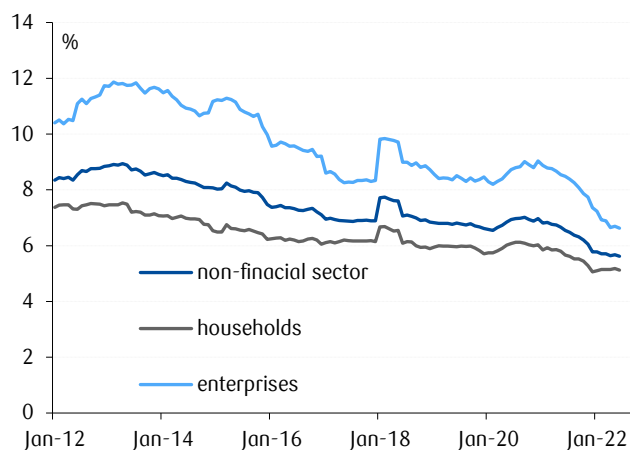


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. *break in series in 2010 due to methodological changes.

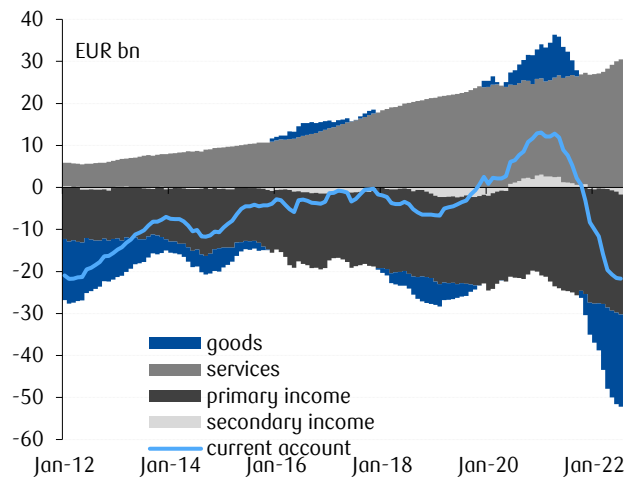
Loans and deposits



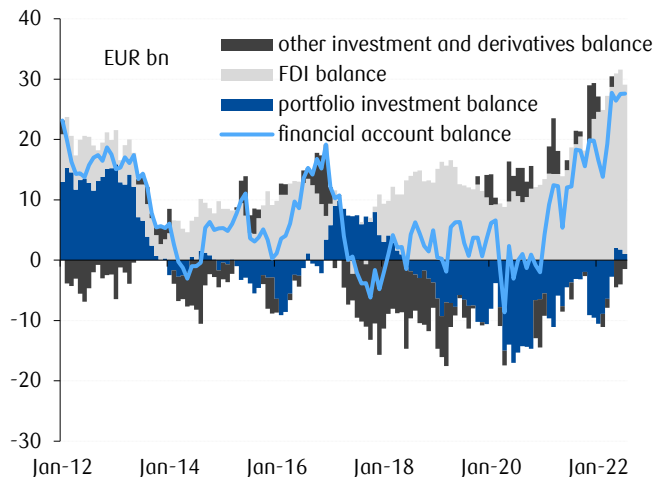
Non-performing loans (NPLs) - by sectors*



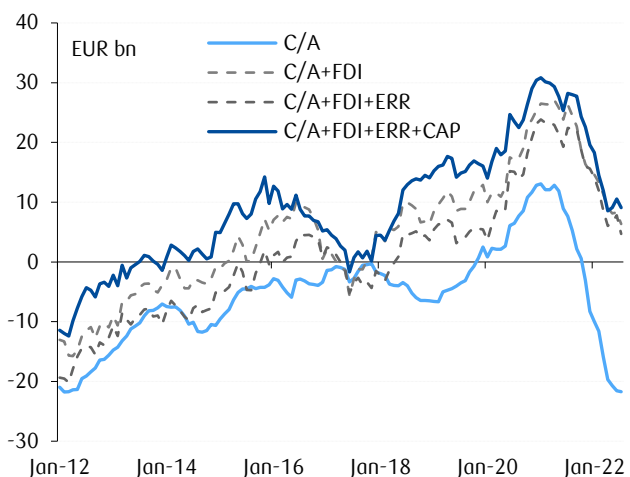
Current account balance



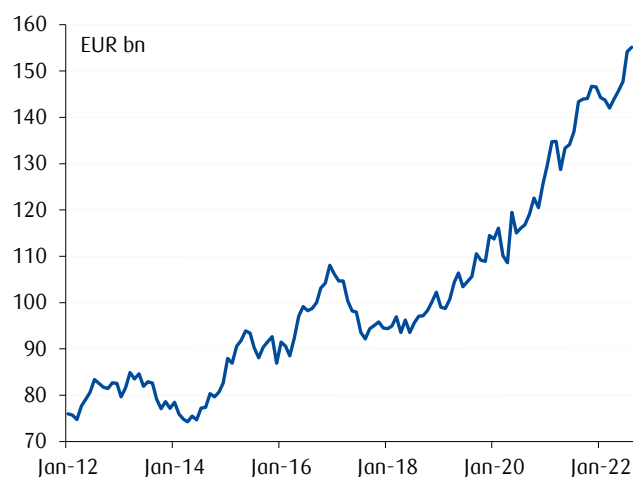
Financial account balance



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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- [Energy prices frozen for this winter?](#) (Sep 16, 2022)
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