

### It's normalisation time

#### Top macro theme(s):

- **It's normalisation time (p. 2):** The MPC surprised the market and decided to raise NBP rates, forcing us to update our interest rate prediction.

#### What else caught our eye:

- According to the MinLab estimate, **the registered unemployment rate declined to 5.6% in September**, indicative of the steepest monthly decline in the number of unemployed for this month since 2014. It is yet another sign that the labour market is robust after the pandemic.
- **The Polish Constitutional Tribunal has declared the primacy of the Polish Constitution over EU laws**, denying the European top court (CJEU) the right to interfere with the Polish judicial system. The verdict might (again) delay the approval process of the Polish Recovery Plan.
- **New daily confirmed Covid-19 cases exceeded 2k this week** and are the highest since May. Acc. to the health minister, despite rising new cases, the number of hospitalisations is much lower than a year ago and confirms that vaccinations (51% of population received at least 1 jab) protect the public health system from getting overwhelmed. Thus, the government does not plan any new restrictions and rules out school closures.
- **High volatility on the local FX market continues.** After a tough previous week, EURPLN strengthened in reaction to higher NBP rates (to 4.55 compared to 4.64 a week before) but then dovish comments of the NBP Governor and the verdict of the Polish Constitutional Tribunal pushed the rate up again, above 4.60.

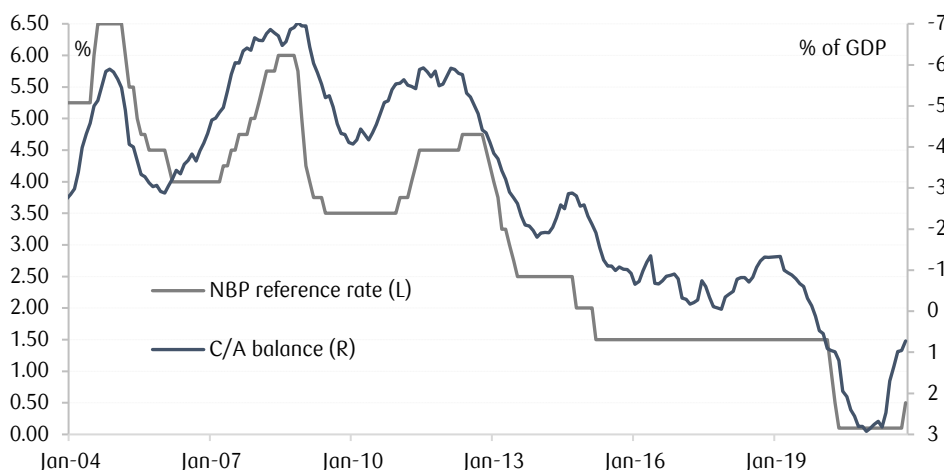
#### The week ahead:

- **Final CPI inflation data for September** (5.8% acc. to the flash release) will confirm that the price pressure is broad-based with rise in core inflation.
- We expect the **current account deficit in August** (PKOe: EUR -1.18bn) was accompanied by exports under pressure of supply shortages and imports boosted by rising energy commodity prices in August. Shrinking 12-month C/A surplus leaves less space for accommodative monetary policy in Poland (see chart of the week).

#### Number of the week:

- **2.00%** - NBP reference rate in mid-2022 acc. to market expectations.

#### Chart of the week: NBP reference rate vs. C/A balance



Source: NBP, GUS, PKO Bank Polski.

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	2020	2021 <sub>†</sub>
Real GDP (%)	-2.7	5.4
Industrial output (%)	-1.0	14.2
Unemployment rate <sup>#</sup> (%)	6.2	5.8
CPI inflation <sup>**</sup> (%)	3.4	4.7
Core inflation <sup>**</sup> (%)	3.9	3.9
Money supply M3 (%)	16.4	9.0
C/A balance (% GDP)	3.5	0.3
Fiscal balance (% GDP)*	-7.0	-1.7
Public debt (% GDP)*	57.5	56.9
NBP reference rate <sup>##</sup> (%)	0.10	0.50
EURPLN <sup>†##</sup>	4.61	4.48 <sup>*#</sup>

Source: GUS, NBP, MinFin, <sup>†</sup>PKO BP Macro Research team forecasts; <sup>‡</sup>PKO BP Market Strategy team forecasts, under revision; \*ESA2010, \*\*period averages; <sup>#</sup>registered unemployment rate at year-end; <sup>##</sup>at year-end. \*#under revision.

## It's normalisation time

- The MPC surprised the market last Wednesday and decided to raise NBP interest rates. The reference rate rose by 40bp, to 0.50%. Governor A.Glapinski said at the presser that the rate hike was aimed at curbing inflation over the medium-term.
- As the MPC has likely entered the *wait-and-see* mode we do not expect it to rush in with next hikes. That said, we expect that after a short brake the MPC will return to gradual rate hikes, with the cycle being short in time and moderate in scale, driving the key policy rate at 1.25% at the end of 2022.
- As the underlying inflationary trends will, in our view, come back to MPC's comfortable zone as early as in 2024, the Council will pursue rate stabilisation from 2023 on.

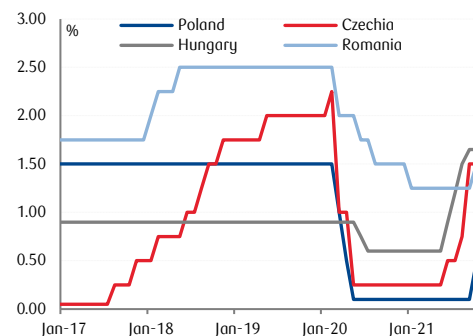
**The MPC surprised the market on Wednesday and decided to increase interest rates. The reference rate rose by 40bp, to 0.50%.** The after-meeting statement gives no clear suggestion as to whether the hike is a one-off signal move (as postulated by some MPC members) or if it marks a beginning of a tightening cycle (we wrote more about the decision in our Macro Flash "[We have a hike, at last!](#)").

**Governor A.Glapinski said at the presser on Thursday that the rate hike was aimed at curbing inflation over the medium-term.** He declined to comment whether the interest rate hike is a *one-off* or a start of the cycle suggesting that all scenarios are possible. He assessed that the MPC is now in a *wait-and-see* mode for 'longer term' and reminded that FX interventions are still in the NBP's toolkit. A.Glapinski stated that the QE program run by the NBP is actually over as the interest of market participants in it has been marginal, just as the volumes purchased by NBP in August and September (PLN 1.05 bn and PLN 1.83 respectively, compared to PLN 5.6 bn as a monthly average for January-July). Despite this declaration the NBP has not canceled the next auction scheduled on October 13<sup>th</sup>.

While we regularly emphasised in our research that macroeconomic fundamentals suggest a need for monetary policy tightening and that there is a wide uncertainty surrounding the future interest rate path in Poland, **the 40bp interest rate hike in October was not our base scenario. Thus the move forced us to update our expectations.** Before we move to that, however, we have to - again - emphasise the key aspects of **a still high forecast uncertainty**, which - apart from macroeconomic trends - is mainly driven by:

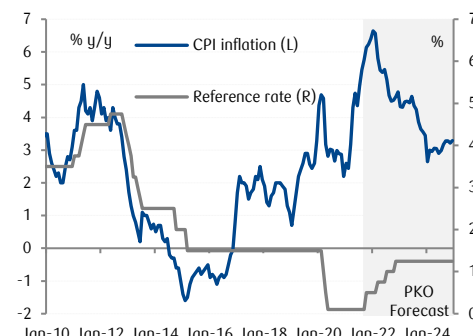
- (1) **Pandemic** - the 4<sup>th</sup> wave of Covid-19 in Poland is gathering strength. According to MinHealth estimates it might peak in November/December, even at 40k new daily cases. While the government excludes the scenario of costly restrictions, pandemic might again weaken the growth perspective and freeze any attempts to further normalise monetary policy. As only 50% of the Polish population is vaccinated, pandemic trends in 2022 are also a big question mark.
- (2) **New MPC** -the current MPC ends its term in 2022 and this December it will meet for the last time in the current personal composition. Out of 10 persons (9 ordinary members + NBP Governor) at least 8 will change (we assume that A.Glapiński will be reappointed in June). For the time being there are even no clear candidates for new MPC members. Between January and May 2022 every MPC decision meeting will be held in a different MPC personal composition. This means that it is extremely difficult to predict the balance of power between doves and hawks in 1h22. The new MPC members will be nominated by the Sejm (3), Senate (3) and President (2). Up to 6 members will be thus chosen by the governing coalition, up to 3 by

### Interest rates in CEE



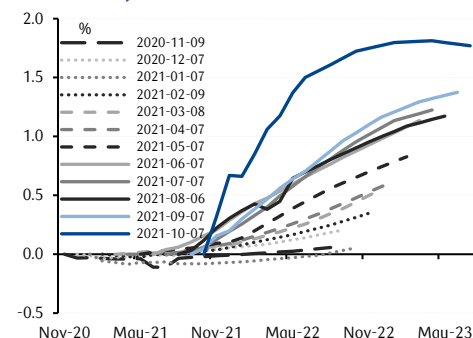
Source: Macrobond, PKO Bank Polski.

### CPI inflation vs. interest rates in Poland



Source: NBP, GUS, PKO Bank Polski.

### Interest rates expectations (FRA contracts) in Poland



Source: Datastream, PKO Bank Polski.

the opposition (which has a thin majority in Senate). Considering the comments from PM M.Morawiecki last Wednesday, urging the central bankers to adjust their loose stance to fight inflation, the assumption that we should have 5 doves and 3 hawks in the new Council is definitely an oversimplification, which should not be taken as a base-case scenario.

**Our new base-case scenario assumes no more interest rate hikes this year, and three additional moves by 25bp each in 2022, leaving the key NBP rate at 1.25% at the end of 2022.** In our view the MPC has likely entered a *wait-and-see* mode and we do not expect it to rush in with next hikes, especially given the unexpected scale of this week's move. That said, we see the current MPC waiting out the two remaining 2021 meetings, looking for some clues on the impact of the hike on the lending market and general economy, as well as on the uncertain course of the next pandemic wave. **In our base-case scenario the MPC will return to interest rate hikes in March 2022.** In January and February 4 new members will join the Council and we see the beginning of 2022 as a technical transition period with no changes to the monetary policy parameters.

**In an alternative scenario,** the MPC meeting in November 2021 might be the next turning point, as the new inflation projection (probably still higher than the previous one, especially in 2022) might again encourage the MPC to a more aggressive tightening (especially if the pandemic situation does not worsen as it did in 2020). As a result, **in the short term perspective we see the risk balance to our base scenario as skewed to the upside (earlier continuation of the tightening cycle).** In the longer run the balance is rather neutral, as there are both many potential inflationary factors (which might push rates higher), and many potential GDP growth obstacles (incl. conflict with the EU resulting in no EU fund inflows, supply constraints, pandemic), which might limit the scale of tightening.

**On the fundamental side interest rate hikes will be supported by a stubbornly high inflation,** both headline and core, which we expect to remain above 4.0% y/y and 3.5% y/y (respectively) until the end of 2022 and beyond. That said, we anticipate the coming, 2022's inflation projections to show the headline CPI slowing down towards the NBP's broader target as early as in late 2023, due to decelerating GDP growth (on EU financing cycle). This perspective should in our view eventually tame any further interest rate hikes after 2022.

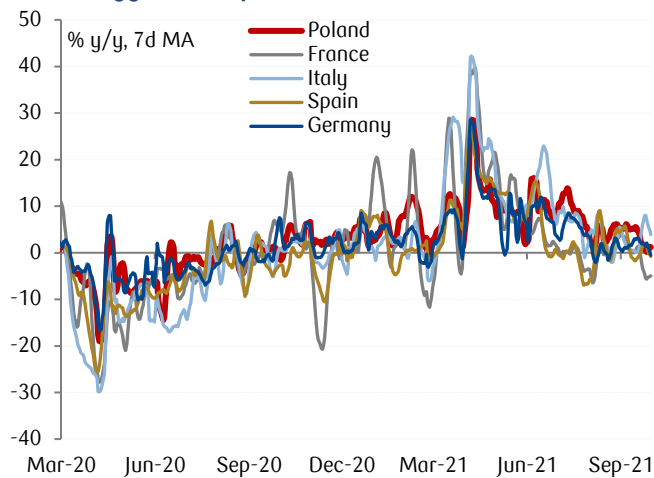
It should be underlined that we do not expect this magnitude of hikes to dampen the core inflation, which will be still impacted by increasing wages (a structural factor related to the aging of the Polish society). Nonetheless, as some demand-pull factors will likely settle down (incl. first and foremost the prices of home furnishings), **we expect the underlying inflationary trends to come back to MPC's comfortable zone, allowing it to pursue rate stabilisation from 2023 on.**

#### Terms of the current MPC members & NBP Governor

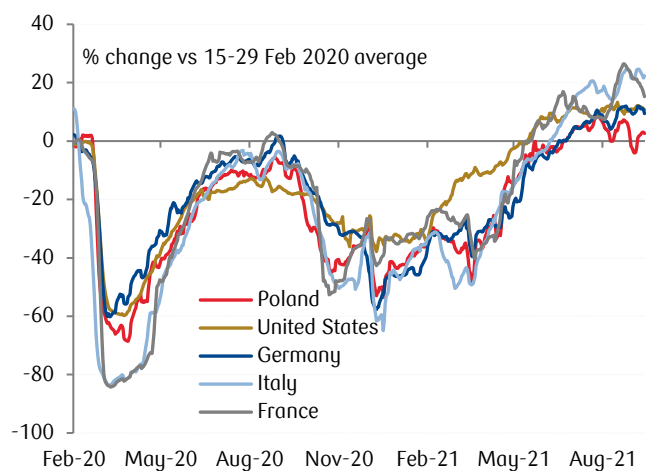
<u>Senate</u>	→	Jerzy Kropiwnicki	→ 2 Jan. 2022	xxx?
<u>Senate</u>	→	Eugeniusz Gatnar	→ 12 Jan. 2022	xxx?
<u>Sejm</u>	→	Grażyna Ancyparowicz	→ 29 Jan. 2022	xxx?
<u>Sejm</u>	→	Eryk Łon	→ 29 Jan. 2022	xxx?
<u>President</u>	→	Kamil Zubelewicz	→ 16 Feb. 2022	xxx?
<u>President</u>	→	Łukasz Hardt	→ 16 Feb. 2022	xxx?
<u>Sejm</u>	→	Jerzy Żyżyński	→ 17 Mar. 2022	xxx?
<u>Sejm / President</u>	→	Adam Glapiński	→ 20 Jun. 2022	xxx?
<u>Senate</u>	→	Rafał Sura	→ 15 Nov. 2022	xxx?
<u>President</u>	→	Cezary Kochalski	→ 20 Dec. 2025	xxx?

## Macro monitoring with alternative data

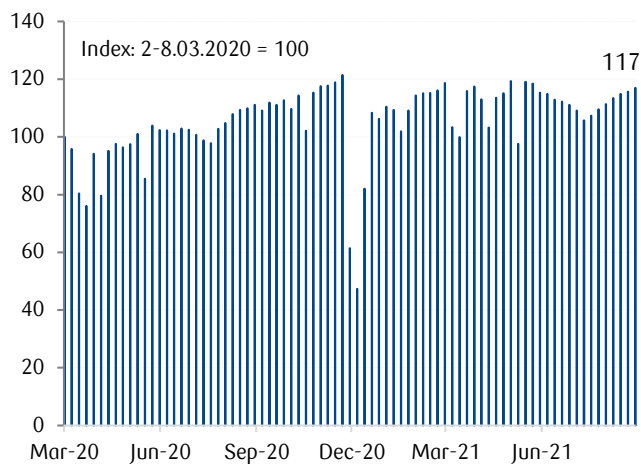
Electric energy consumption (total)



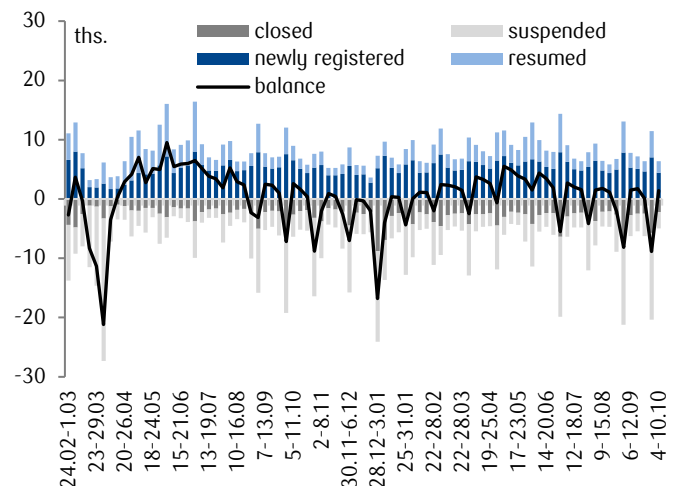
Mobility\*



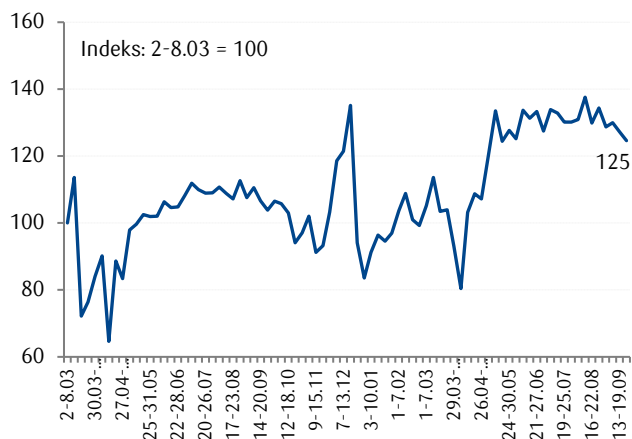
Heavy truck traffic^^



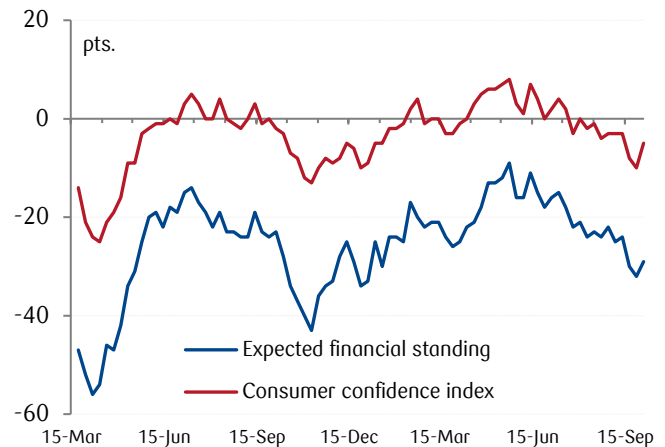
Economic activity status (acc. to CEiDG\*\*)



Consumption based on PKO BP card payments



Weekly consumer confidence survey



Source: PSE, Apple, Google, GDDKIA, CEiDG, Kantar, PKO Bank Polski, \*weighted with market share of iOS and Android, no new google data available, 7DMA, \*\*Central Registration and Information on Business. ^^Last plot Sept. 26<sup>th</sup>, due to change in tolling system, latest data have not been available so far.

## Weekly economic calendar

Indicator	Time (UK)	Unit	Previous	Consensus*	PKO BP	Comment
<b>Monday, 11 October</b>						
CZE: CPI inflation (Sep)	8:00	% y/y	4.1	4.5	--	--
<b>Tuesday, 12 October</b>						
GER: ZEW Economic Sentiment (Oct)	10:00	pts.	26.5	20.1	--	--
USA: JOLTS Report (Aug)	15:00	mn	10.9	--	--	--
<b>Wednesday, 13 October</b>						
GER: CPI inflation (Sep, final)	7:00	% y/y	4.1	4.1	--	--
EUR: Industrial production (Aug)	10:00	% y/y	7.7	4.7	--	--
USA: CPI inflation (Sep)	13:30	% y/y	5.3	5.3	--	--
USA: Core inflation (Sep)	13:30	% y/y	4.0	4.1	--	--
USA: Minutes Fed (Sep)	19:00	--	--	--	--	--
<b>Thursday, 14 October</b>						
CHN: CPI inflation (Sep)	2:30	% y/y	0.8	0.9	--	--
CHN: PPI inflation (Sep)	2:30	% y/y	9.56	10.6	--	--
POL: Current account balance (Aug)	13:00	EUR bn	-1827	-1171	-1190	Current account for August reflects rising income of foreign investors, shortages weighing on exports and rising energy goods prices pumping up imports.
POL: Exports (Aug)	13:00	% y/y	12.5	18.9	18.0	
POL: Imports (Aug)	13:00	% y/y	20.6	28.7	29.0	
USA: Initial Jobless Claims	13:30	thous.	326	--	--	--
USA: PPI inflation (Sep)	13:30	% y/y	8.3	8.8	--	--
<b>Friday, 15 October</b>						
POL: CPI inflation (Sep, fin.)	9:00	% y/y	5.5	5.8	5.8	Details of CPI inflation will confirm a broad-based price pressure.
USA: Retail sales (Sep)	13:30	% m/m	0.7	-0.3	--	
USA: University of Mich. sentiment (Oct, flash)	15:00	pts.	72.8	73.5	--	--

Source: GUS, NBP, Parkiet, PAP, Bloomberg, Reuters, PKO Bank Polski. Parkiet for Poland, Bloomberg, Reuters for others.

## Selected economic indicators and forecasts

	Jul-21	Aug-21	Sep-21	1q21	2q21	3q21	4q21	2020	2021	2022
<b>Economic activity</b>										
Real GDP (% y/y)	x	x	x	-0.9	11.1	5.7	5.9	-2.7	5.4	5.1
Domestic demand (% y/y)	x	x	x	1.0	12.8	5.3	5.3	-3.7	6.0	5.1
Private consumption (% y/y)	x	x	x	0.2	13.3	3.6	6.8	-3.0	5.7	4.7
Gross fixed capital formation (% y/y)	x	x	x	1.3	5.0	3.0	5.0	-9.6	3.8	7.2
Inventories (pp)	x	x	x	0.3	2.9	1.8	-0.1	-0.2	1.3	0.8
Net exports (pp)	x	x	x	-1.9	-0.7	0.7	1.0	0.6	0.8	0.3
Industrial output (% y/y)	9.8	13.3	9.5	7.5	29.7	10.9	7.9	-1.0	14.2	6.3
Construction output (% y/y)	3.3	10.2	8.0	-12.5	1.8	6.3	3.0	-2.7	0.7	5.8
Retail sales (real, % y/y)	3.9	5.4	5.0	1.2	14.4	4.8	9.0	-2.7	8.3	6.1
Nominal GDP (PLN bn)	x	x	x	585.2	618.0	635.6	713.3	2324	2552	2747
<b>Labour market</b>										
Registered unemployment rate‡(%)	5.8	5.8	5.7	6.4	5.9	5.7	5.8	6.2	5.8	4.8
Employment in enterprises (% y/y)	1.8	0.9	0.6	-1.7	2.1	1.3	1.0	-1.2	0.7	1.3
Wages in enterprises (% y/y)	8.7	9.5	8.5	7.4	9.5	9.0	8.5	4.8	8.6	8.4
<b>Prices^</b>										
CPI inflation (% y/y)	5.0	5.5	5.8	2.7	4.5	5.4	6.3	3.3	4.7	5.3
Core inflation (% y/y)	3.7	3.9	4.1	3.8	3.8	3.9	4.0	3.9	3.9	3.9
15% trimmed mean (% y/y)	3.6	4.1	x	2.6	3.2	x	x	3.9	x	x
PPI inflation (% y/y)	8.5	9.5	10.2	2.4	6.4	9.4	11.5	-0.5	7.4	6.1
<b>Monetary aggregates‡</b>										
Money supply, M3 (PLN bn)	1883.9	1889.1	1909	1862.5	1876.0	1908.5	1986	1822.7	1985.8	2097.3
Money supply, M3 (% y/y)	8.2	9.1	8.3	14.4	7.4	8.3	9.0	16.4	9.0	5.6
Real money supply, M3 (% y/y)	3.1	3.5	2.4	11.3	2.8	2.8	2.5	12.7	4.1	0.3
Loans, total (PLN bn)	1360.9	1365.4	1379.8	1344.0	1349.2	1379.8	1391.8	1333.8	1391.8	1474.4
Loans, total (% y/y)	2.3	2.6	3.1	-1.7	0.6	3.1	4.4	0.8	4.4	5.9
Deposits, total (PLN bn)	1754.3	1774.0	1820.2	1670.0	1724.8	1820.2	1817.0	1602.2	1817.0	1893.6
Deposits, total (% y/y)	8.9	9.8	11.9	12.4	6.6	11.9	13.4	13.9	13.4	4.2
<b>Balance of payments</b>										
Current account balance (% GDP)	1.3	1.0	1.0	2.7	1.7	1.0	0.3	2.9	0.3	0.9
Trade balance (%GDP)	2.1	1.8	1.7	2.7	2.4	1.7	0.9	2.4	0.9	0.4
FDI (% GDP)	2.3	2.5	2.5	2.2	2.2	2.5	2.4	2.1	2.4	1.8
<b>Fiscal policy</b>										
Fiscal balance (% GDP)	x	x	x	x	x	x	x	-7.0	-1.7	-1.3
Public debt (% GDP)	x	x	x	x	x	x	x	57.5	56.9	54.3
<b>Monetary policy‡</b>										
NBP reference rate (%)	0.10	0.10	0.10	0.10	0.10	0.10	0.50	0.10	0.50	1.25
NBP lombard rate (%)	0.50	0.50	0.50	0.50	0.50	0.50	1.00	0.50	1.00	2.00
NBP deposit rate (%)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.50
WIBOR 3M <sup>x</sup> (%)	0.21	0.23	0.23	0.21	0.21	0.23	0.65	0.21	0.65	1.40
Real WIBOR 3M <sup>x</sup> (%) <sup>#</sup>	-4.76	-5.23	-5.54	-2.53	-4.26	-5.16	-5.61	-3.06	-4.06	-3.89
<b>Exchange rates*‡</b>										
EUR-PLN	4.57	4.50	4.50	4.66	4.52	4.50	4.48**	4.61	4.48**	4.44**
USD-PLN	3.84	3.78	3.78	3.97	3.80	3.78	3.73**	3.75	3.73**	3.70**
CHF-PLN	4.24	4.09	4.09	4.21	4.12	4.09	4.04**	4.25	4.04**	3.96**
EUR-USD	1.19	1.19	1.19	1.17	1.19	1.19	1.20**	1.23	1.20**	1.20**

Source: GUS, NBP, PKO Bank Polski.

<sup>x</sup>PKO BP Market Strategy team forecasts,<sup>^</sup>period averages for quarterly and yearly data,<sup>#</sup>deflated with current CPI inflation,<sup>‡</sup>period end values,<sup>\*\*</sup>under revision.

## Monetary policy monitor

MPC Members	Hawk-o-meter*	Recent policy indicative comments^
E. Gatnar	4.8	"I propose, and I am not the only one ... to start a delicate process of [monetary] policy normalization (...). Let's talk about a 15 bp rate hike" (20.09.2021, PAP)
K. Zubelewicz	4.5	"A rate increase is necessary to stop inflation, though it's probably here to stay for longer. (...) If asset purchases or interest-rate cuts were emergency measures, they should all be abandoned by now." (21.07.2021, Bloomberg)
L. Hardt	4.3	"Amid lastingly and significantly elevated inflation, coupled with strong economic growth, but with the pandemic context in mind, the monetary policy in Poland is in urgent need of cautious normalization (a signal interest rate hike by 15 bps)" (01.10.2021, PAP, Twitter)
J. Kropiwnicki	2.8	"A rate hike in the coming months can't be ruled out because both the NBP president and some MPC members say their decision will depend on the November projection (...) Such prospective hike should be "small, delicate" and wouldn't have to be preceded by withdrawal from the NBP's ongoing asset purchase program. " (16.09.2021, Biznes24.tv, PAP).
J. Zyzynski	2.6	"Until the end of the year, there will rather be no interest rate changes in Poland (...) we have to see how the fourth pandemic wave develops." (31.08.2021, PAP)
R. Sura	2.5	"Monetary policy is on the right track. We are supporting the recovery after the pandemic recession, and we're making sure that the recovery is permanent (...) The most significant forecasting tool will November's projection of inflation and GDP. If this document shows that inflation in 2022 and 2023 will continuously exceed 3.5% and will be caused by demand-side factors, which can be influenced by the MPC through interest rates, then I will advocate tighter monetary policy." (22.06.2020, PAP / Bloomberg).
G. Ancyparowicz	2.4	<b>"Poland will gradually return to normalcy in monetary policy" (04.10.2021, PAP)</b>
C. Kochalski	2.0	"In my opinion, that moment [PAP: for considering monetary policy tightening] has not come yet (...) The pace of inflation returning to the target must be set prudently, in the context of occurring shocks as well as uncertainty as to pandemic developments (...) It is of key importance that the pace of inflation's return to the target does not thwart the revival in the Polish economy." (23.09.2021, PAP).
A. Glapinski	1.7	<b>"In yesterday's statement - not by accident - the phrase that it's the beginning of a tightening is missing, but there is also no mention that [PAP: the 40 bp rate hike] is a one-off (...) Further decisions will depend on the shape of future inflation and business sentiment (...)" (07.10.2021, PAP)</b>
E. Lon	1.0	"It is very important for me, for example, not to support the solutions that could lead to a radical strengthening of the zloty, which could result from the MPC taking quick actions consisting of several strong interest rate hikes" (16.09.2021, wGospodarce.pl, Bloomberg)

\*the higher the indicator the more hawkish views. Due to the fact that the new MPC has not voted yet on interest rates changes, 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

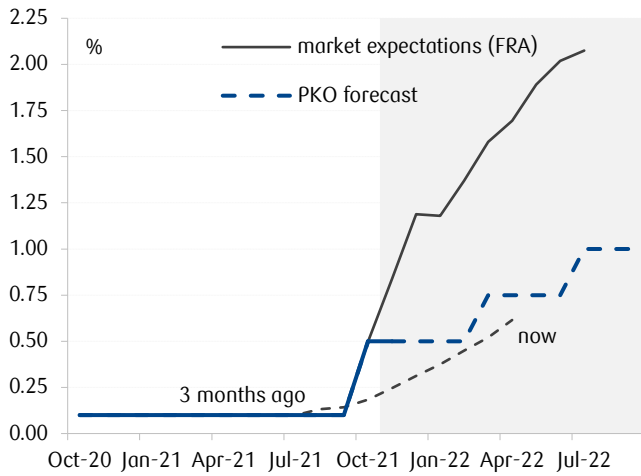
		1M	2M	3M	4M	5M	6M	7M	8M	9M
Date	7-Oct	7-Nov	7-Dec	7-Jan	7-Feb	7-Mar	7-Apr	7-May	7-Jun	7-Jul
WIBOR 3M/FRA†	0.63	0.97	1.32	1.31	1.50	1.71	1.83	2.02	2.15	2.21
implied change (b. p.)		0.34	0.69	0.68	0.87	1.08	1.20	1.39	1.52	1.58
MPC Meeting	6-Oct	3-Nov	8-Dec	-	-	-	-	-	-	-
PKO BP forecast*	0.50	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00
market pricing*		0.84	1.19	1.18	1.37	1.58	1.70	1.89	2.02	2.08

†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.

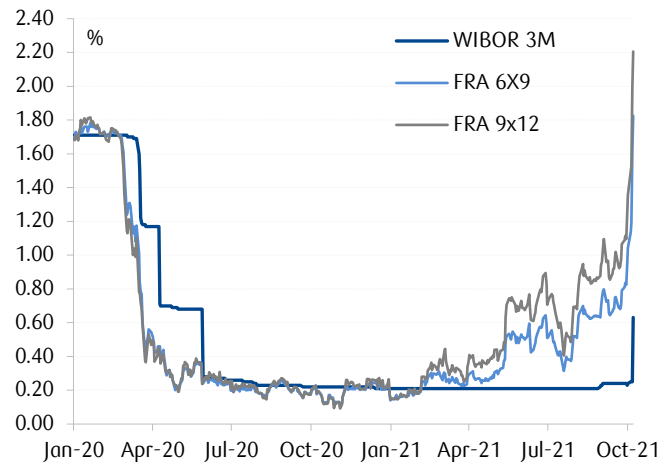


## Poland macro chartbook

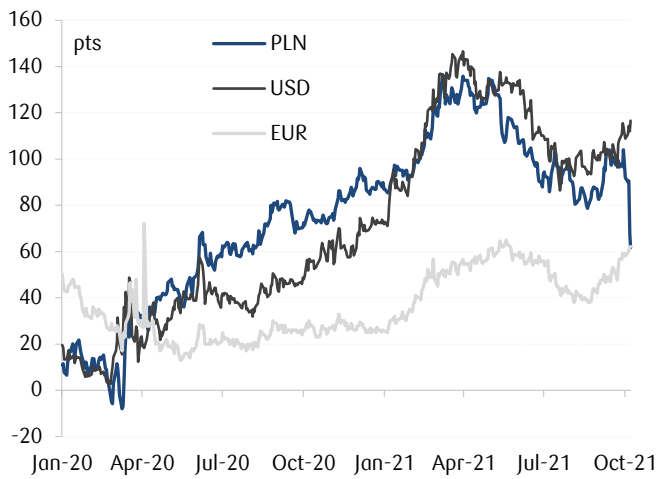
NBP policy rate: PKO BP forecast vs. market expectations



Short-term PLN interest rates



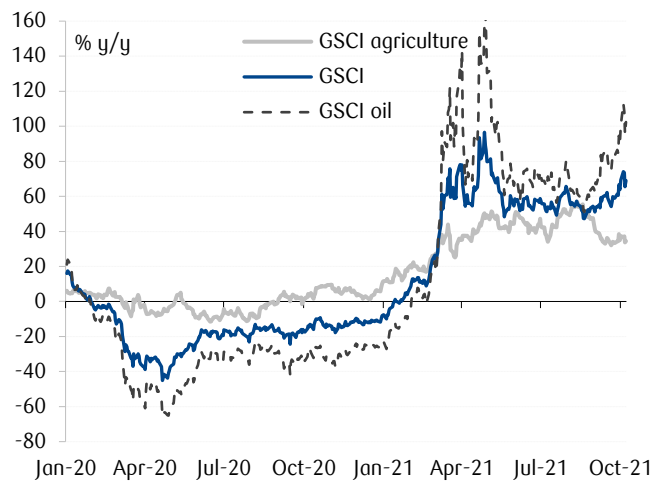
Slope of the swap curve (spread 10Y-2Y)\*



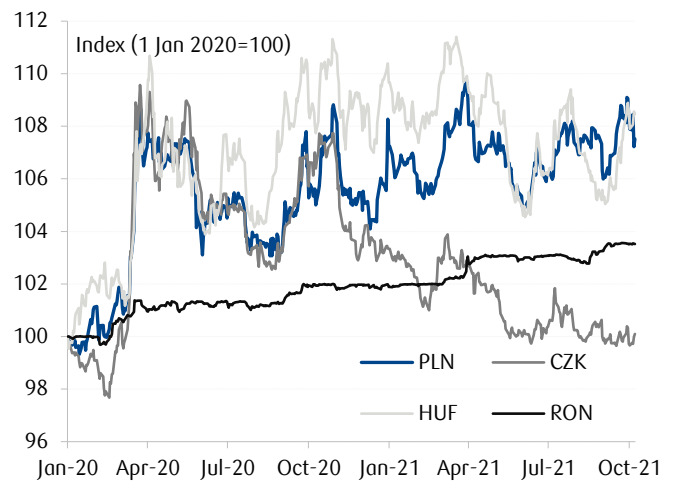
PLN asset swap spread



Global commodity prices (in PLN)



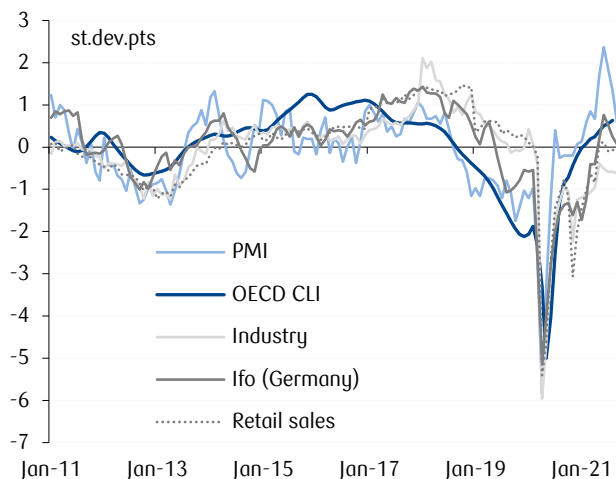
Selected CEE exchange rates against the EUR



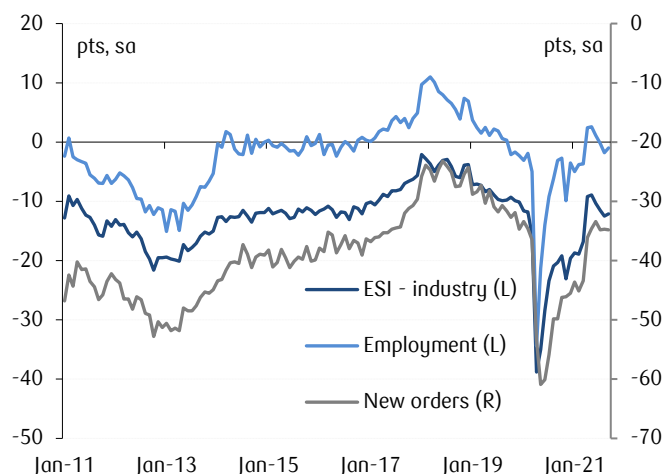
Source: Datastream, NBP, PKO Bank Polski. \*for PLN, and EUR 6M, for USD 3M.



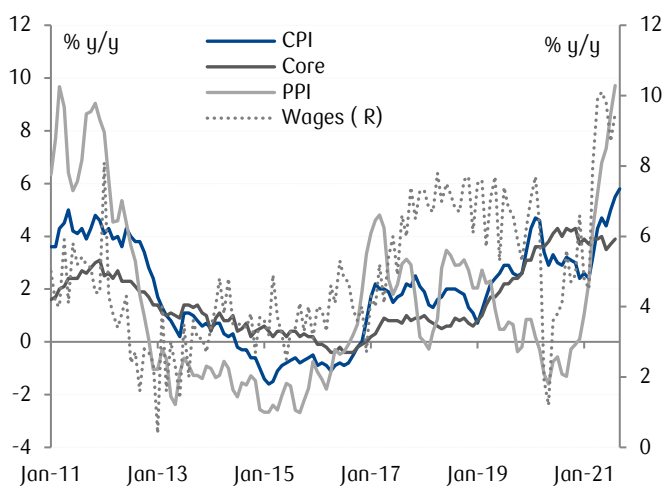
Economic sentiment indicators



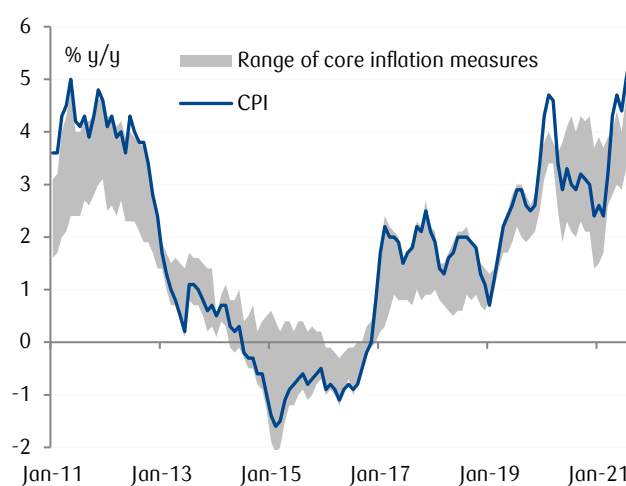
Poland ESI for industry and its components



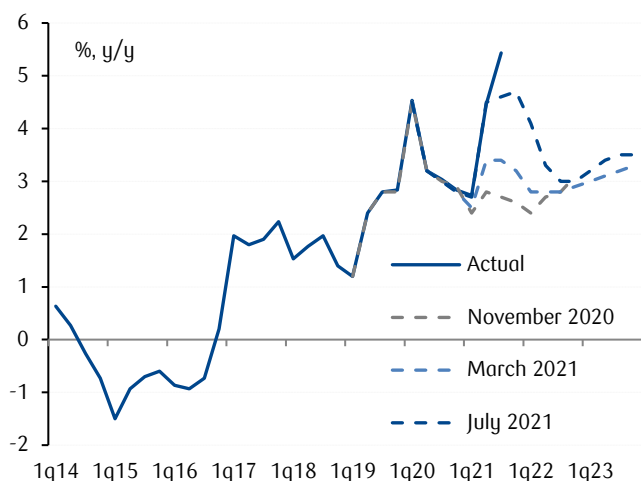
Broad inflation measures



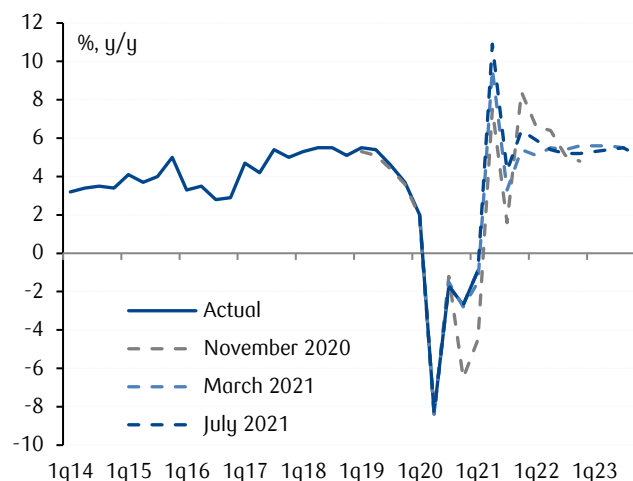
CPI and core inflation measures



CPI inflation - NBP projections vs. actual

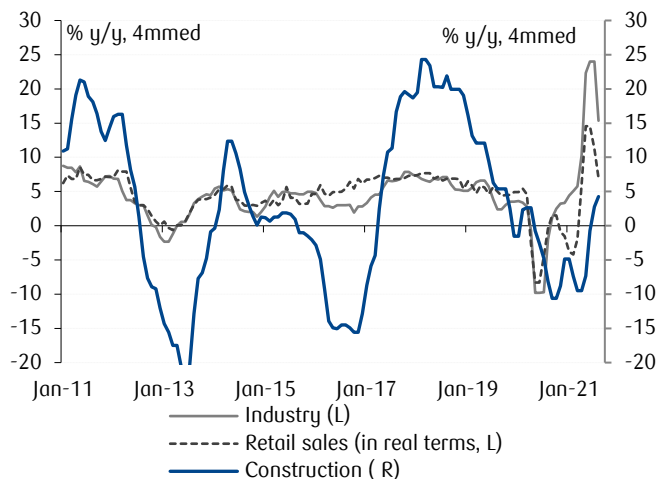


Real GDP growth - NBP projections vs. actual

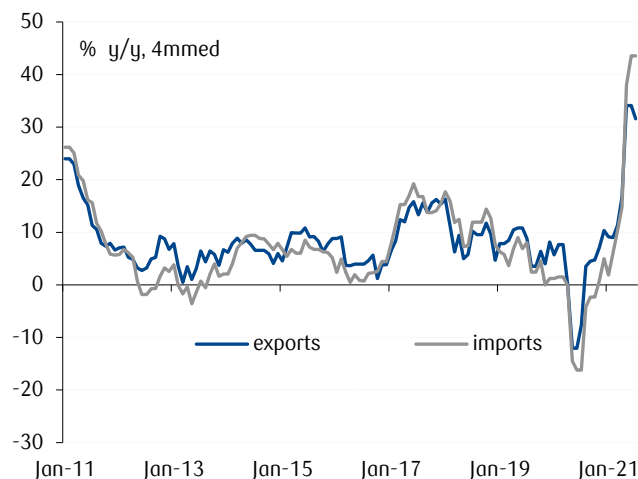


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

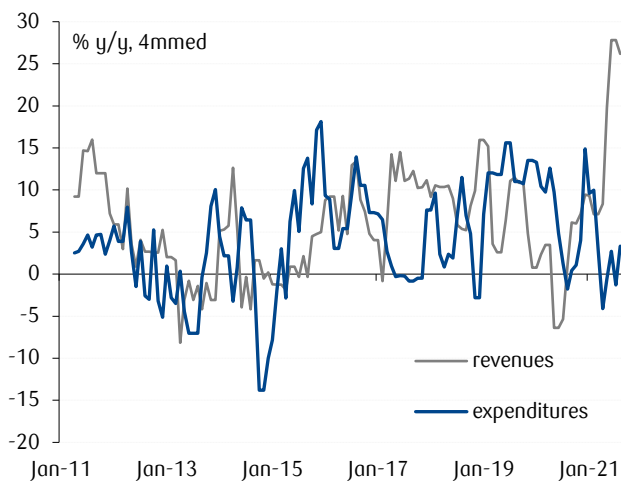
**Economic activity indicators**



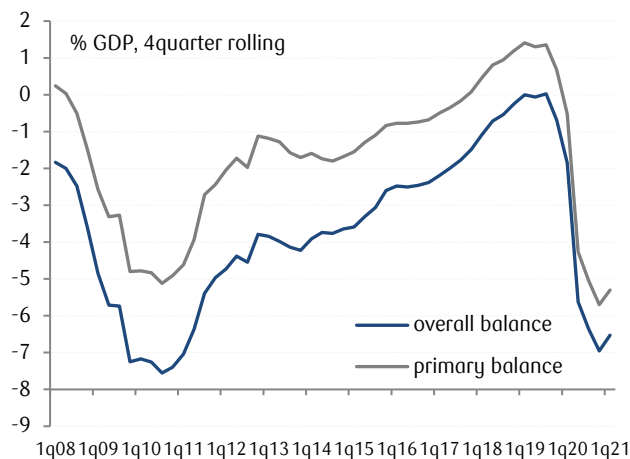
**Merchandise trade (in EUR terms)**



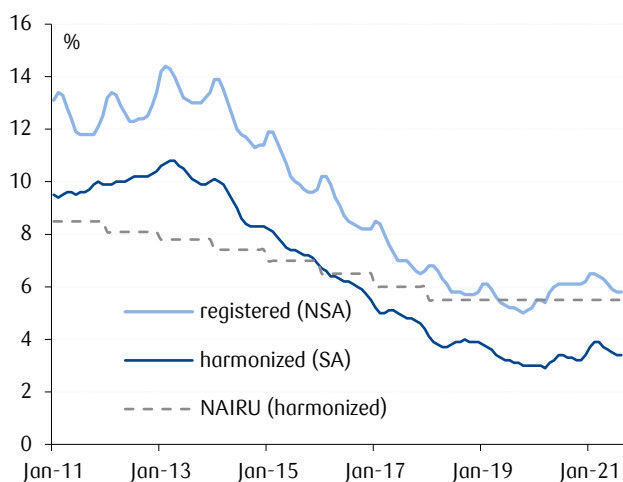
**Central government revenues and expenditures\***



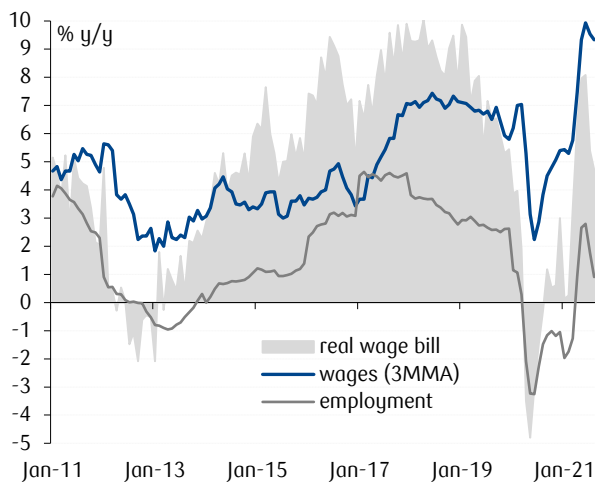
**General government balance (ESA2010)**



**Unemployment rate**

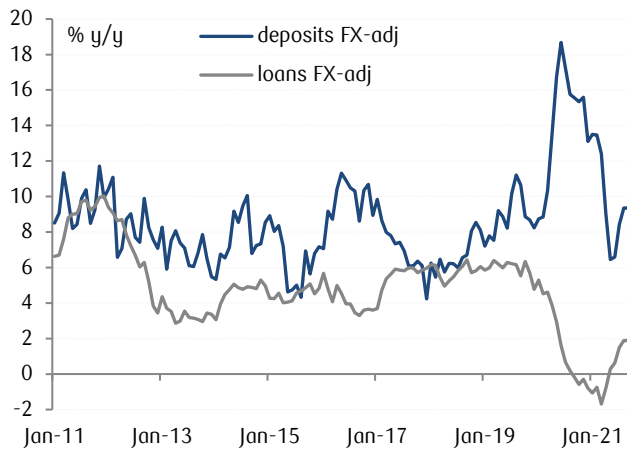


**Employment and wages in the enterprise sector**

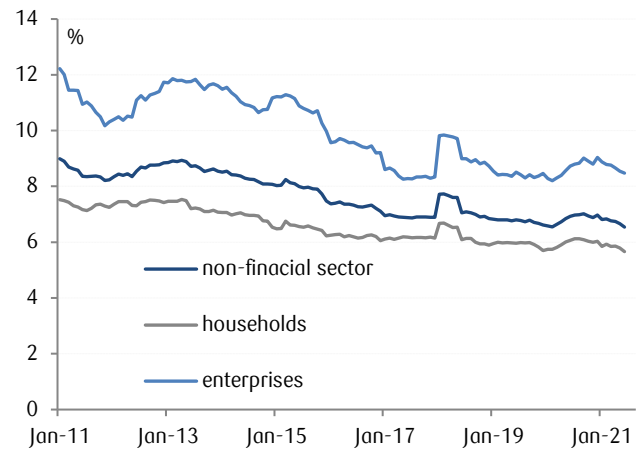


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. \*break in series in 2010 due to methodological changes.

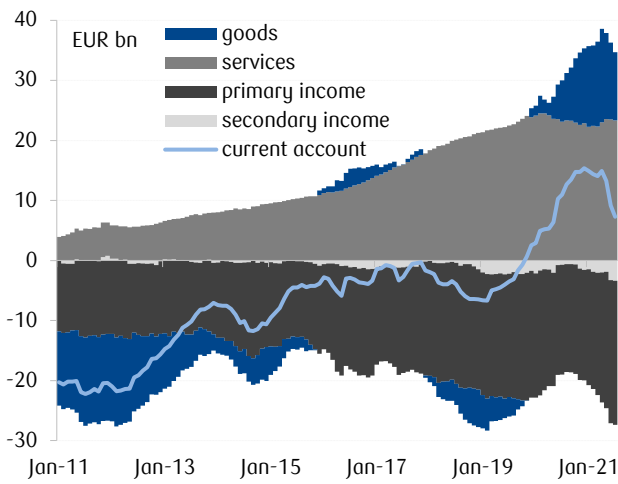
Loans and deposits



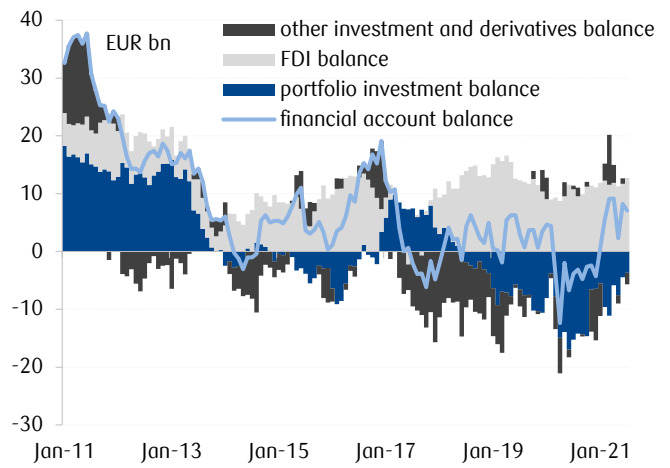
Non-performing loans (NPLs) - by sectors\*



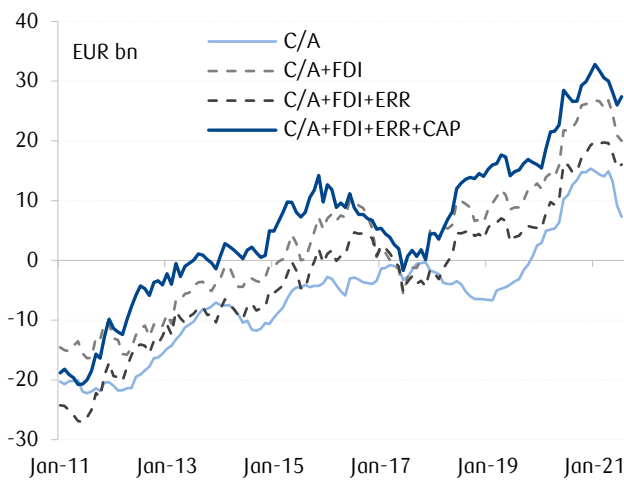
Current account balance



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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- [Cautious optimism despite a few cracks](#) (Sep 24, 2021)
- [Inflation talk heats up again](#) (Sep 17, 2021)
- [No dogmatic approach on inflation](#) (Sep 10, 2021)
- [Consumption-based recovery](#) (Sep 3, 2021)
- [Budget surplus ahead?](#) (Aug 27, 2021)
- [Maturing recovery](#) (Aug 20, 2021)
- [Double digit expansion](#) (Aug 13, 2021)
- [Economy on holidays](#) (Aug 6, 2021)
- [American style inflation, American style monetary policy](#) (Jul 30, 2021)
- [A double-digit rebound](#) (Jul 23, 2021)
- [Is the CPI inflation really on hold?](#) (Jul 16, 2021)
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## Poland's macro in a nutshell

	2020	2021	Comment
<b>Real economy</b>			
- real GDP (%)	-2.7	5.4	We stick to our 2021 GDP growth forecast to 5.4% and expect it will hit 5.1% in 2022, (including the effects of the Polish New Deal and the Domestic Recovery Plan). Private consumption will remain the main engine of economic growth boosted by wages and redistribution. Investments growth rate will stay moderate, while exports should benefit from weak PLN, further FDI inflows and the implementation of the fiscal package in the EU, stimulating demand in the key exports market.
<b>Prices</b>			
- CPI inflation (%)	3.4	4.7	There are still several months of inflation growth ahead of us. We forecast that in October CPI inflation will break the level of 6%, and in January it will peak at around 6.5%. The return of inflation to the target in the medium term will not be quick and easy. Inflation will start falling in 2q22. The local minimum will be recorded in 3q22, but it will be clearly above 4.0% y/y.
<b>Monetary aggregates</b>			
- M3 money supply (%)	16.4	9.0	With the rebound of the economic growth, we expect credit demand to increase gradually, fueling a moderate bank lending expansion. Smaller scale of asset purchases will result in a deceleration of money supply growth.
<b>External balance</b>			
- current account balance (% GDP)	3.5	0.3	Following the two-way pandemic turmoil, we anticipate that the current account balance will return to an upward trend based on structural factors. However, the deterioration of the balance will continue in the near future and at the turn of 2021/2022 CAB will land close to zero. In such a situation, it cannot be ruled out that a further intensification of temporary factors, i.e. an increase in the prices of raw materials and production components, as well as transport costs (freight) and the maintenance of a restriction in the influx of tourists, may temporarily provoke a deficit. At the same time, we expect the fast (double-digit) export growth will be maintained and assume further inflows of foreign investments (the nearshoring helps).
<b>Fiscal policy</b>			
- fiscal balance (% GDP)	-7.0	-1.7	We forecast that in 2021-2022 there will be a rapid improvement in basic fiscal parameters after a significant deterioration due to the pandemic shock in 2020. The 'fiscally efficient' structure of growth and the strong growth of tax bases will keep the fiscal deficit on a downward path. We predict that in 2022 it will decrease to 1.3% of GDP. Public debt in relation to GDP will also gradually decrease, to 56.9% at the end of 2021 and 54.3% at the end of 2022.
<b>Monetary policy</b>			
- NBP reference rate (%)	0.10	0.50	Following a surprising rate hike the MPC has likely entered the wait-and-see mode. We do not expect it to rush in with next hikes. That said, we expect that after a short brake the MPC will return to gradual rate hikes, with the cycle being short in time and moderate in scale, driving the key policy rate at 1.25% at the end of 2022.

Source: GUS, NBP, Eurostat, PKO Bank Polski.

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