

## Costly recovery

### Top macro theme(s):

- **Costly recovery (p. 2):** We have updated our macroeconomic scenario for Poland in 2021-2022, with GDP growth at 5.4% and 5.1% and CPI inflation at 4.7% and 5.5%, respectively. We see three rate hikes in 2022 (by 25bps each) in March, July and November, with a risk tilted towards more front-loaded policy normalization.

### What else caught our eye:

- **CPI inflation for September** has been revised up to 5.9% y/y (vs 5.8% in flash reading). Broad-based price pressure has been confirmed with core inflation heading north to 4.2-4.3% y/y on our estimates.
- **CAB was in deficit for the fourth month in a row in August (EUR -1.8bn)** with exports dampened by supply shortages (e.g. automotive suffering from semiconductors shortage) and imports boosted by rising energy prices. 12-month CA surplus declined to 0.9% of GDP, the lowest since Jan-20.

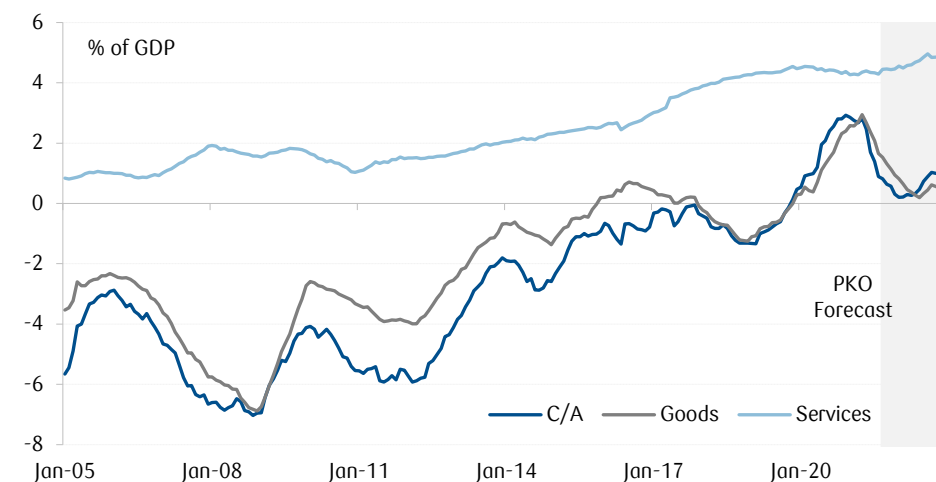
### The week ahead:

- As the third week of a month brings its usual data deluge for Poland, it may be best to look first into the **economic activity indicators for September** (industrial and construction output as well as retail sales). The numbers will be the final gauge on the pace of GDP growth in 3q21 and a test how much bottlenecks on the supply side may hurt economic growth in the final quarter of the year. Please see our forecasts in the calendar.
- **Labour market data for September** (employment and wages in corporate sector) may help to evaluate whether a wage-price spiral is looming at a distant horizon or just around the corner. **Consumer confidence indicator for October** will show whether price hikes and virus resurgence news hit sentiment.
- **Monetary statistics for September** should show that M3 money supply growth likely stabilized and lending activity revives only moderately.

### Number of the week:

- **2.73%** - yield on POLGBs 10Y on Tuesday intraday trading, the highest since May 2019.

### Chart of the week: Current account and trade 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	14.1
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	4.56

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.

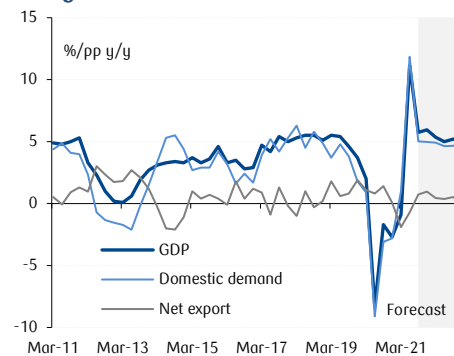
## Costly recovery

- Even despite some deterioration in the global outlook (due to supply-side concerns and cost pressures) we stick to our GDP growth forecasts for Poland (5.4% in 2021 and 5.1% in 2022), with risk tilted to the downside.
- Increasingly tight labour market will push wage pressure further, raising risk of second-round effects.
- Inflation will accelerate towards 7% in early 2022 and in annual average terms will not decline versus 2021.
- MPC decided to react to deteriorating inflation outlook with a surprising move by 40bps in October. However, it seems that monetary policy normalisation will proceed only gradually, leaving real rate deep into the negative territory for a long time.
- Deterioration of the CAB and potential pressure on PLN depreciation narrow space for ultra-loose monetary policy.
- Fiscally 'efficient' structure of nominal GDP growth will boost state coffers and allow to limit the deficit and debt to GDP ratios further.

We stick to our GDP growth forecasts in Poland: 5.4% in 2021 and 5.1% in 2022 (forecasts take into account the New Polish Deal and the Domestic Recovery Plan - KPO, a part of the NextGenerationEU). Private consumption will remain the main driving force behind the economic growth. Rising real wages and the redistribution of income under the Polish Deal (running from households from higher to those from lower income quantiles, with the lowest propensity to save) will give a boost to consumption further. It will also compensate for inflation growth limiting the purchasing power of the population. We also maintain our assessment that the revival of investments will be moderate as private investments will be limited by scarcity of some investment goods (e.g. means of transport). In 2022, along with the start of the KPO, we expect the intensification of public investments. The third growth engine - exports - should benefit from: (1) weak zloty, (2) FDI inflows and (3) implementation of the fiscal package in the EU, stimulating demand on Poland's key market. Supply chains disruptions in trade with China have also made Eurozone companies to redirect some of their orders to the CEE, with Poland being one of its beneficiaries (order books nearshoring). We also see a domestic policy mix - after an expansive 2021 (delayed effects of fiscal transfers from 2020 and a drop in real interest rate) - will be close to neutral in 2022.

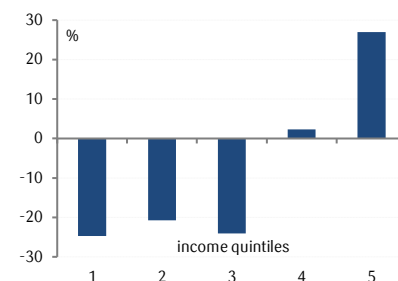
Labor market should follow the recovery path with unmet demand for workers pushing wage pressure further. Rising inflation should also add to wage growth as it enforces wage indexing movements (e.g. additional wage hikes in the public sector in 2021). As a result, we expect wage growth running over 8% in 2022. In this context, a minimum wage increase planned next year (by 7.5% to PLN 3010) will probably translate into a decrease in the minimum to average wage ratio. Demography will also be at play, with diminishing labour supply. It means that

### GDP growth rate



Source: GUS, PKO Bank Polski.

### Households savings rate by income groups



Source: PKO Bank Polski.

### Supercore CPI\* for Poland



Source: GUS, PKO Bank Polski. \*CPI excl. administered, other energy, fuel, food and non-alcoholic beverages prices.

### Poland: key macroeconomic indicators

	1q21	2q21	3q21	4q21	1q22	2q22	3q22	4q22	2020	2021	2022
Real GDP (% y/y)	-0.9	11.1	5.7	5.9	5.3	5.0	5.2	5.0	-2.7	5.4	5.1
LFS unemployment rate (%)	4.0	3.4	3.5	3.3	3.5	3.1	3.2	3.0	3.1	3.3	3.0
CPI inflation (% y/y, period avg.)	2.7	4.5	5.4	6.3	6.5	5.7	5.0	4.8	3.3	4.7	5.5
Core inflation (% y/y, period avg.)	3.8	3.8	3.9	4.0	4.0	4.1	4.1	4.4	3.9	3.9	4.1
Current account balance (% of GDP)	2.7	1.7	0.8	0.3	0.3	0.5	1.0	0.9	2.9	0.3	0.9
Fiscal balance (% of GDP)‡*	-6.5	-2.4	-1.9	-1.7	-0.9	-1.4	-1.7	-1.3	-7.0	-1.7	-1.3
Public debt (% of GDP)‡*	59.1	57.5	57.2	56.9	55.3	54.7	54.2	54.3	57.5	56.9	54.3
NBP reference rate (%)	0.10	0.10	0.10	0.50	0.75	0.75	1.00	1.25	0.10	0.50	1.25

Source: GUS, NBP, Eurostat, PKO Bank Polski, ‡ESA2010, \*4q rolling. \*\*LFS labour market data - break in series in 1q21 due to change in methodology.

without either automation of work or fresh migration inflows the shortage of employees will become more and more severe.

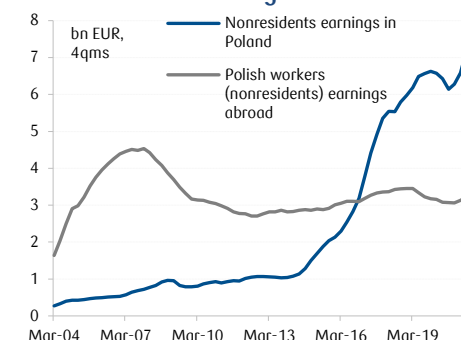
**Inflation is heading north:** in October it will exceed 6% and will peak above 6.5% in Jan/Feb 2022 due to: (1) rising electricity and heating prices - we assume an increase by over 10%, (2) further gas and fuel price increases, (3) increase in excise duty on alcohol and tobacco products as of Jan22, (4) rising food prices - not only due to higher agri commodities prices, but also growing costs of processed food production. Inflation will start falling from March 2022 on, to the local minimum just above 4.5% y/y in 3q22. Core inflation will stay elevated due to a combination of rising labour costs, strong consumer demand as well as relatively weak zloty.

**Current account balance will return to an upward trend based on structural factors.** In the near future, however, the deterioration of the C/A balance will continue and the C/A surplus will be limited by (1) higher commodity prices and an acceleration of import-intensive investments, adding to imports of goods and (2) inflows of workforce, associated with the expansion of the IT industry, which will increase the remuneration of non-residents and their transfers abroad. At the turn of 2021/2022 these factors will push CAB near the neutral level. At the same time, we expect an uninterrupted expansion of exports and further inflow of foreign investments (nearshoring). A significant influx of EU funds with the start of the NGEU program, as well as the nominal GDP growth by approx. 10% by a number of coming quarters will allow to reduce foreign debt to GDP ratio even below 50% already in 2022. This positive trend is a very important factor as far as the Poland's rating is concerned.

In light of our Previous Poland Macro Weekly ([It's normalisation time](#)) we forecast the Monetary Policy Council will wait a few months before it starts to continue to normalize monetary policy. **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 the previous 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 rates hikes in March 2022 (with some of its members already replaced).

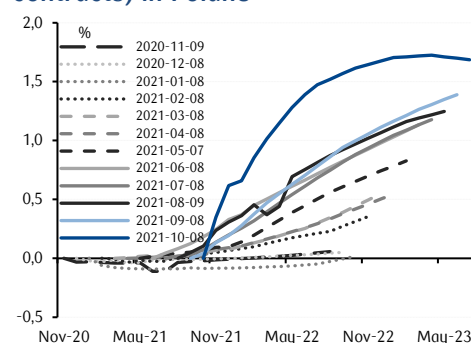
**The rapid improvement of fiscal parameters in 2021 and 2022 will continue.** The amendment of the state budget for 2021 brings an increase in expenditure in the last quarter of this year, but at the same time limits the all-year budget deficit from pre-planned PLN 82.3 bn to PLN 40.4 bn. In our opinion, even a reduced deficit plan gives a space for a positive surprise. We also estimate that the local government sector will end 2021 with a small surplus and see a potential for surplus also in the social security balance, which is in a very good shape due to solid labour market. All in all we forecast that the fiscal deficit (ESA) in 2021 will amount to 1.7% of GDP, but the range of our estimates is very wide (from -0.3% of GDP to -3.7% of GDP) due to uncertainty surrounding the anti-pandemic measures' needs in autumn. The Polish Deal will result in some public income losses (the Deal will be partially a redistribution of income and partially a deficit-driven fiscal stimulus), but a "fiscally efficient" growth structure will further reduce the fiscal deficit (to 1.3% GDP in 2022). Public debt to GDP ratio will be gradually reduced, from 56.9% at the end of 2021 to 54.3% at the end of 2022.

### Non-residents earnings



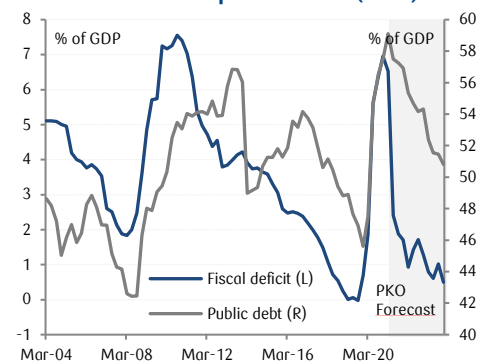
Source: NBP, GUS, PKO Bank Polski.

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



Source: Datastream, PKO Bank Polski.

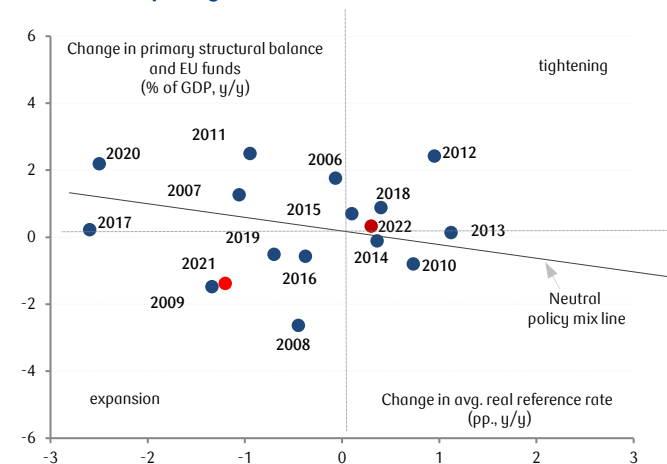
### Fiscal deficit and public debt (ESA)



Source: Eurostat, PKO Bank Polski.

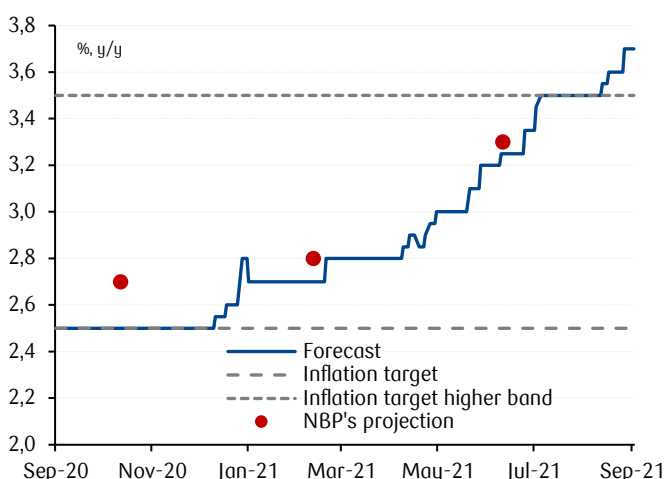
## Charts in focus:

### 1. Domestic policy mix



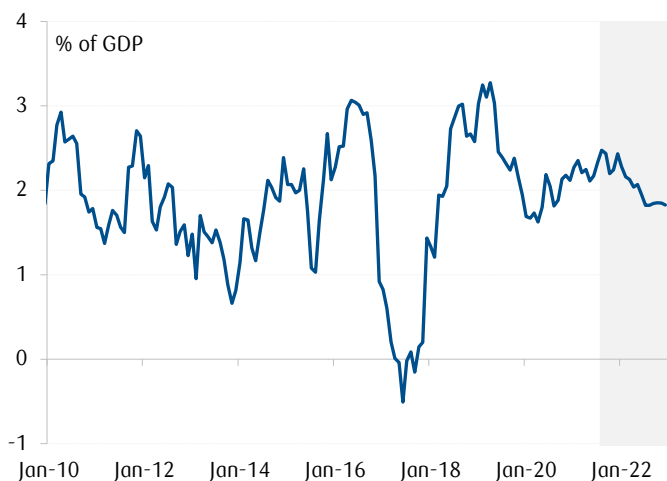
Source: GUS, NBP, Eurostat, PKO Bank Polski.

### 2. Evolution of CPI inflation in 2022 forecasts\*



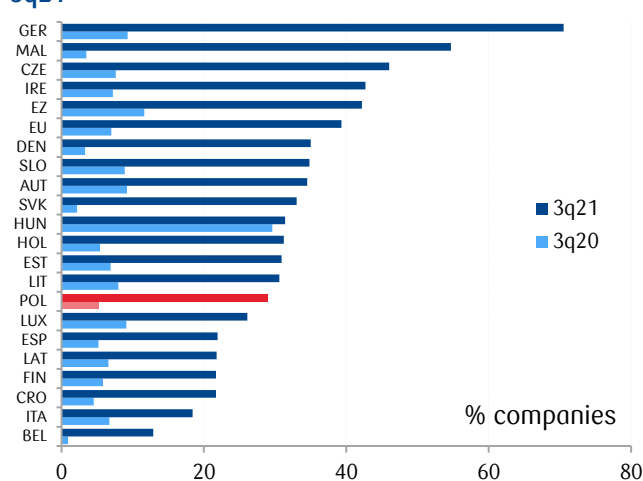
Source: NBP, Bloomberg, PKO Bank Polski.

### 3. Net foreign direct investments



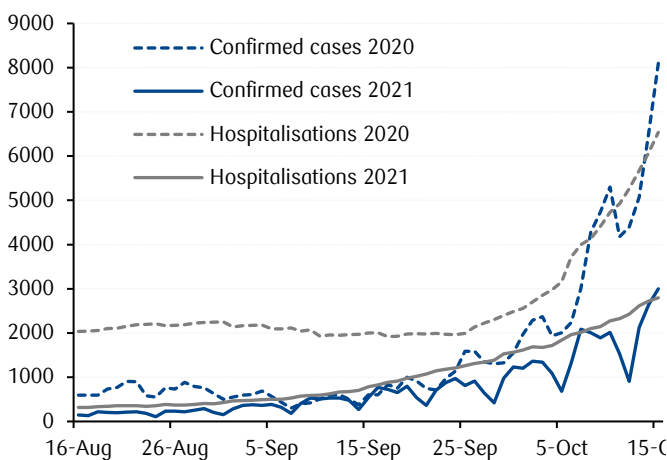
Source: NBP, GUS, PKO Bank Polski.

### 4. Semi-finished products shortage – reductions in output in 3q21



Source: Refinitiv Datastream, PKO Bank Polski.

### 5. New Covid-19 cases and hospitalisations



Source: MinHealth, PKO Bank Polski.

### 6. Sovereign bonds' yields



Source: Refinitiv Datastream, PKO Bank Polski.

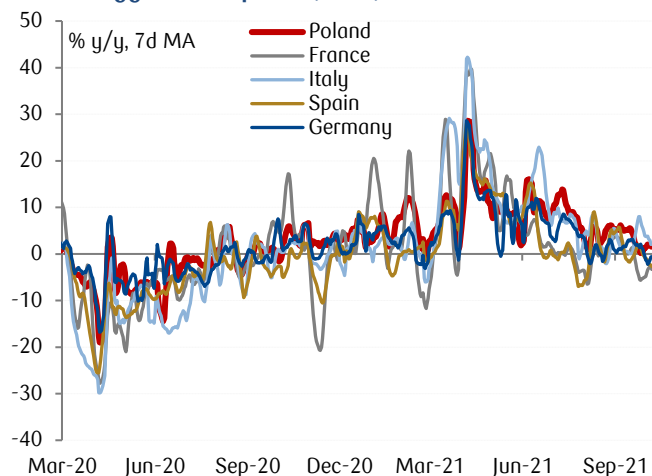
## PKO macroeconomic forecasts

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Real economy</b>										
GDP growth (% y/y)	1.4	3.3	3.8	3.1	4.8	5.4	4.7	-2.7	5.4	5.1
Domestic demand (% y/y)	-0.6	4.8	3.3	2.3	4.9	5.6	3.6	-3.7	6.0	5.1
Individual consumption (% y/y)	0.3	2.6	3.0	3.9	4.8	4.3	4.0	-3.0	5.7	4.7
Investments (% y/y)	-1.1	10.0	6.1	-8.2	4.0	9.4	6.1	-9.6	3.8	7.2
Domestic final sales (pp.)*	0.3	4.2	3.5	1.0	4.1	5.2	4.6	-2.9	4.8	4.8
Inventories (pp.)	-0.9	0.6	-0.2	1.3	0.8	0.4	-1.0	-0.8	1.2	0.3
Net exports (pp.)	1.3	-1.4	0.6	0.8	0.3	0.0	1.3	0.8	-0.2	0.3
Potential output (% y/y)	3.3	3.3	3.4	3.4	3.5	3.6	3.6	3.6	3.7	3.8
Nominal GDP (PLN bn)	1647	1720	1745	1861	1989	2122	2293	2324	2552	2747
<b>Labour market</b>										
LFS population 15+ (% y/y)	0.0	-0.2	0.0	-0.9	-0.4	-0.5	-0.5	0.0	-1.5	-0.4
LFS employment (% y/y)	-0.1	1.9	1.4	0.7	1.4	0.4	-0.1	-0.1	0.7	0.0
Participation rate (%)	55.9	56.2	56.2	56.2	56.4	56.3	56.2	56.1	57.5	57.5
LFS unemployment rate (%)	9.8	8.1	6.9	5.5	4.5	3.8	2.9	3.1	3.3	3.0
Registered unemployment rate (%)	13.4	11.4	9.7	8.2	6.6	5.8	5.2	6.2	5.8	4.8
Wages - national economy (% y/y)	3.7	3.5	3.3	3.8	5.3	7.2	7.2	5.3	7.9	8.5
Labour productivity (% y/y)	1.5	1.4	2.3	2.3	3.4	5.0	4.9	-2.6	4.8	5.2
ULC (% y/y)	1.9	2.2	1.0	1.5	1.8	2.1	2.1	8.2	3.1	3.1
<b>Prices</b>										
CPI inflation (% y/y)	0.9	0.0	-0.9	-0.6	2.0	1.7	2.3	3.3	4.7	5.5
Food prices contrib. (pp.)	0.5	-0.2	-0.4	0.2	1.0	0.6	1.2	1.3	0.8	1.2
Energy and fuel prices contrib. (pp.)	-0.3	-0.2	-0.7	-0.7	0.5	0.6	-0.1	-0.2	1.7	2.0
Core inflation contrib. (pp.)	0.7	0.4	0.2	-0.1	0.4	0.4	1.2	2.2	2.2	2.3
Core inflation (% y/y)	1.2	0.6	0.3	-0.2	0.7	0.7	1.9	3.9	3.9	4.1
GDP deflator (% y/y)	0.0	0.7	1.3	0.3	1.9	1.2	3.2	4.2	5.4	4.0
<b>Monetary statistics</b>										
M3 money supply (PLN bn)	978.9	1059.0	1155.0	1265.7	1324.4	1446.1	1565.6	1822.7	1986.7	2097.9
M3 money supply (% y/y)	6.2	8.2	9.1	9.6	4.6	9.2	8.3	16.4	9.0	5.6
M3 money supply, real (% y/y)	5.5	9.2	9.6	8.8	2.5	8.1	5.0	14.2	2.6	0.7
Loans, total (PLN bn)	942.9	1007.1	1077.3	1130.0	1172.3	1259.5	1323.4	1333.8	1392.7	1474.4
Loans, total (% y/y)	3.8	6.8	7.0	4.9	3.7	7.4	5.1	0.8	4.4	5.9
Deposits, total (PLN bn)	889.5	972.3	1045.7	1144.6	1194.6	1299.9	1406.6	1602.2	1818.1	1893.6
Deposits, total (% y/y)	5.7	9.3	7.5	9.5	4.4	8.8	8.2	13.9	13.5	4.2
<b>Balance of payments</b>										
Current account balance (% of GDP)	-1.8	-2.6	-0.9	-0.8	-0.3	-1.3	0.5	2.9	0.3	0.9
Merchandise trade balance (% of GDP)	-0.7	-1.4	0.2	0.5	-0.1	-1.2	0.3	2.4	0.9	0.4
FDI (% of GDP)	0.8	2.4	2.1	0.9	1.4	2.6	1.9	2.1	2.4	1.8
External debt (% of GDP)	70.3	73.1	71.7	76.3	67.0	64.2	58.8	60.7	54.8	49.9
<b>Fiscal policy</b>										
Fiscal balance (% of GDP, ESA2010)	-4.2	-3.6	-2.6	-2.4	-1.5	-0.2	-0.7	-7.0	-1.7	-1.3
Primary balance (% of GDP, ESA2010)	-1.7	-1.7	-0.8	-0.7	0.1	1.2	0.7	-5.7	-0.6	-0.3
Primary struct. balance (% of GDP)	-1.2	-1.1	-0.5	-0.2	0.1	0.5	-0.5	-4.3	0.2	0.0
Public debt (% of GDP, ESA2010)	56.0	50.7	51.3	54.2	50.6	48.8	45.6	57.5	56.9	54.3
<b>Monetary policy</b>										
NBP reference rate (%)	2.50	2.00	1.50	1.50	1.50	1.50	1.50	0.10	0.50	1.25
Real reference rate (CPI defl., %)	1.80	3.00	2.00	0.70	-0.60	0.40	-1.78	-2.10	-5.94	-3.70
Real reference rate (core infl. defl., %)	1.50	1.50	1.30	1.50	0.60	0.90	-1.60	-3.60	-3.61	-3.12
Lombard rate (%)	4.00	3.00	2.50	2.50	2.50	2.50	2.50	0.50	1.00	2.00

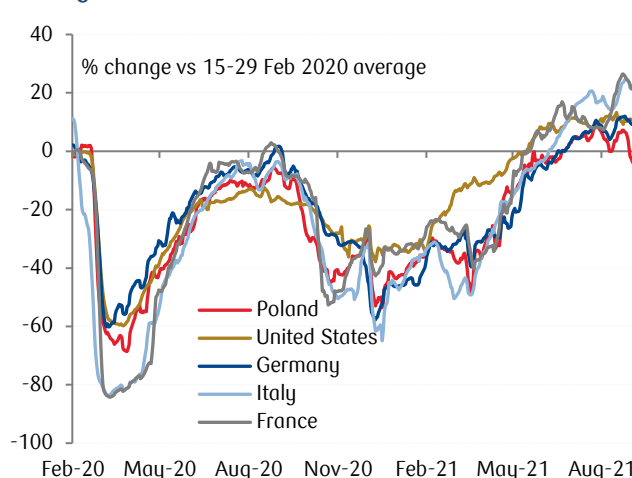
Source: GUS, NBP, MF, PKO Bank Polski. \*domestic demand excluding inventories.

## Macro monitoring with alternative data

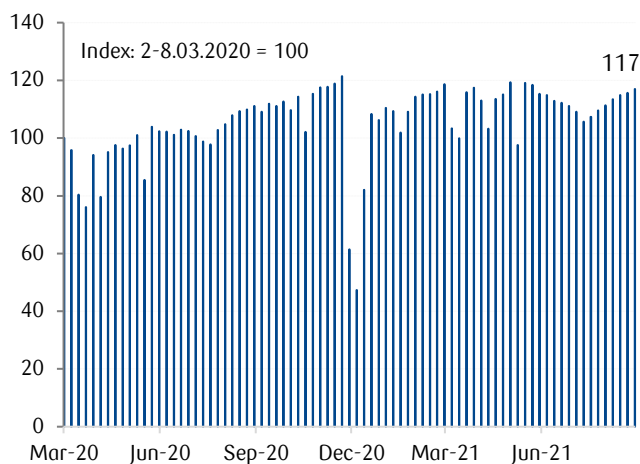
Electric energy consumption (total)



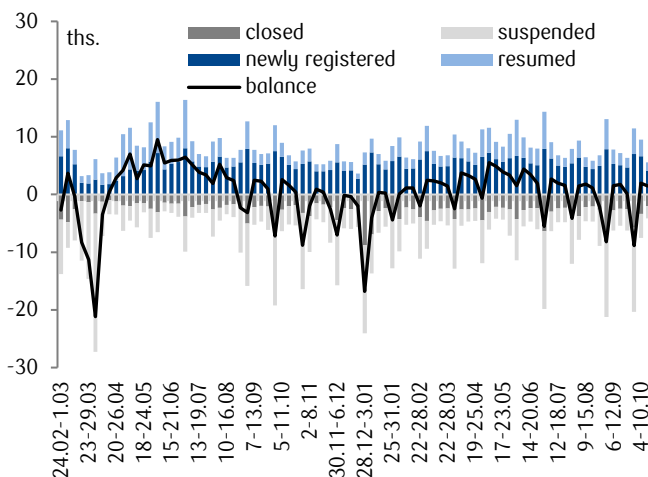
Mobility\*



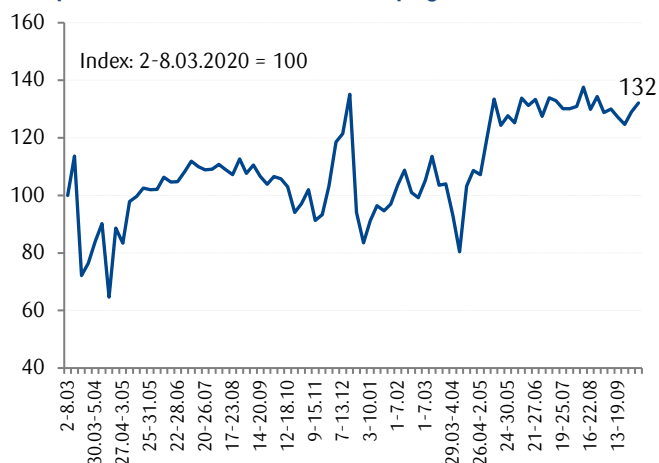
Heavy truck traffic^^



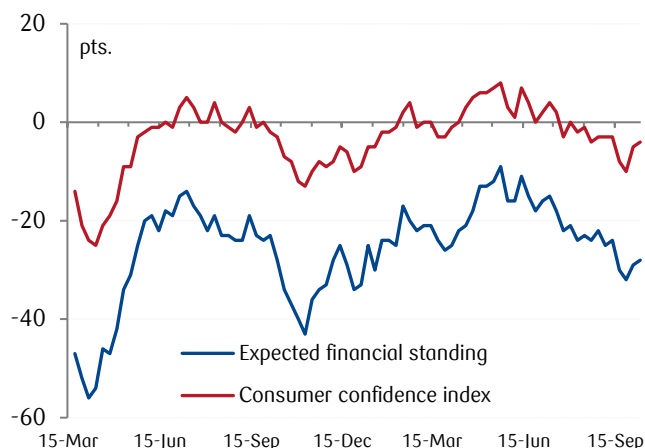
Economic activity status (acc. to CEIDG\*\*)



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, 18 October</b>						
CHN: GDP growth (3q)	3:00	% y/y	7.9	5.2	--	--
POL: Core inflation (Sep)	13:00	% y/y	3.9	4.2-4.3	4.2-4.3	Core inflation will hover around 4%-ish level for a longer period of time.
USA: Industrial production (Sep)	14:15	% m/m	0.4	0.2	--	--
<b>Tuesday, 19 October</b>						
POL: Wages (Sep)	9:00	% y/y	9.5	8.6	8.5	Data paint a picture of solid labour market with surge in hiring and wages.
POL: Employment (Sep)	9:00	% y/y	0.9	0.6	0.6	
HUN: MNB meeting (Oct)	13:00	%	1.65	--	1.75	--
USA: Housing starts (Sep)	13:30	thous.	1615	1630	--	--
<b>Wednesday, 20 October</b>						
POL: PPI inflation (Sep)	9:00	% y/y	9.5	10.0	10.2	Persistent supply chain disruptions and elevated commodity prices squeeze production costs higher. High frequency data signal some room for improvement in sentiment after energy price hikes news smashed it in mid-September.
POL: Consumer Confidence (Oct)	9:00	pts.	-13.0	--	--	Factories in Poland still ramp up output, but the pace of growth keeps slowing.
POL: Industrial production (Sep)	9:00	% y/y	13.2	8.2	9.5	
EUR: HICP inflation (Sep, final)	10:00	% y/y	3.0	3.4	--	--
EUR: Core inflation (Sep, final)	10:00	% y/y	1.6	1.9	--	--
<b>Thursday, 21 October</b>						
POL: Construction output (Sep)	9:00	% y/y	10.2	8.3	8.0	Surge in construction in 3q21 should give a considerable boost to GDP growth.
POL: Retail sales (Sep)	9:00	% y/y	5.4	5.1	5.0	Inflation has swallowed a large chunk of consumer spending expanding at a two-digit rate.
USA: Initial Jobless Claims	13:30	thous.	293	--	--	--
USA: Existing home sales (Sep)	15:00	mn	5.88	6.0	--	--
EUR: Consumer Confidence (Oct)	15:00	pts.	-4.0	-5.3	--	--
<b>Friday, 22 October</b>						
GER: Manufacturing PMI (Oct, flash)	8:30	pts.	58.4	56.9	--	--
EUR: Manufacturing PMI (Oct, flash)	9:00	pts.	58.6	57.5	--	--
POL: Money Supply M3 (Sep)	13:00	% y/y	9.1	8.6	8.6	While money supply has been growing at a steady pace, lending still lagged behind.
USA: Manufacturing PMI (Oct, flash)	14:45	pts.	60.7	--	--	--

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	-0.8	1.2	0.3
Net exports (pp)	x	x	x	-1.9	-0.7	0.7	1.0	0.8	-0.2	0.3
Industrial output (% y/y)	9.5	13.2	9.5	7.8	30.2	10.7	7.9	-1.0	14.1	6.4
Construction output (% y/y)	3.3	10.2	8.0	-12.5	1.8	7.2	3.0	-2.7	-0.1	5.8
Retail sales (real, % y/y)	3.9	5.4	5.0	1.2	14.4	4.8	8.7	-2.7	7.3	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	4.6	8.6	8.4
<b>Prices^</b>										
CPI inflation (% y/y)	5.0	5.5	5.9	2.7	4.5	5.4	6.3	3.3	4.7	5.5
Core inflation (% y/y)	3.7	3.9	4.2	3.8	3.8	3.9	4.0	3.9	3.9	4.1
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	11.6	-0.5	7.4	6.3
<b>Monetary aggregates‡</b>										
Money supply, M3 (PLN bn)	1883.6	1902.8	1908.5	1862.5	1876.0	1913.7	1985.78	1822.7	1986.7	2097.9
Money supply, M3 (% y/y)	8.2	9.1	8.6	14.4	7.4	8.6	9.0	16.4	9.0	5.6
Real money supply, M3 (% y/y)	3.1	3.5	2.7	11.3	2.8	3.0	2.5	12.7	4.1	0.1
Loans, total (PLN bn)	1360.9	1365.4	1379.8	1344.0	1349.2	1379.8	1392.7	1333.8	1392.7	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	1813.3	1670.0	1724.8	1813.3	1818.1	1602.2	1818.1	1893.6
Deposits, total (% y/y)	8.9	9.8	11.4	12.4	6.6	11.4	13.5	13.9	13.5	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	1.7	1.5	2.7	2.4	1.5	1.0	2.4	0.9	0.4
FDI (% GDP)	2.4	2.5	2.5	2.2	2.2	2.5	2.5	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	-5.62	-3.06	-4.06	-4.09
<b>Exchange rates*‡</b>										
EUR-PLN	4.57	4.54	4.62	4.66	4.52	4.62	4.56	4.61	4.56	4.44
USD-PLN	3.84	3.84	3.95	3.97	3.80	3.95	3.97	3.75	3.97	3.86
CHF-PLN	4.24	4.20	4.26	4.21	4.12	4.26	4.18	4.25	4.18	3.96
EUR-USD	1.19	1.18	1.17	1.17	1.19	1.17	1.15	1.23	1.15	1.15

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	"For me, it is the start of monetary policy normalization (...) The hike was meant to show that interest rates can be moved, that the level of "0.1% or even the current 0.5% isn't here for eternity (...)," (08.10.2021, PAP, Biznes24.tv)
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	"It is the start of the road to normalcy (...) [PAP: which] I see as the [PAP: main] rate at 1.5%, that is [PAP: the level] from before the crisis". (11.10.2021, PAP, Parkiet)
J. Kropiwnicki	2.8	"We hiked rates by 40 bps exactly in order not to have any further expectations for hikes for now after a considerable move, higher than expected. (...)All MPC members supported the motion for hiking the interest rate and the mandatory reserve rate" (11.10.2021, 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	"The October hike should not be treated as a beginning of a rate hike cycle, although nothing can be ruled out (...) I hope, although I cannot say it with full certainty, that at least to the end of my term in February 2022 we will not need to make any further moves and the current monetary policy parameters will be maintained." (14.10.2021, PAP)
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	"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)
E. Lon	1.0	"It's possible (...) that in the frame of the monetary policy tightening one interest rate hike will suffice and next hikes won't be necessary, (...) Everything is possible in this respect and, personally, I would not exclude anything." (11.10.2021, RadioMaryja.pl, PAP)

\*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

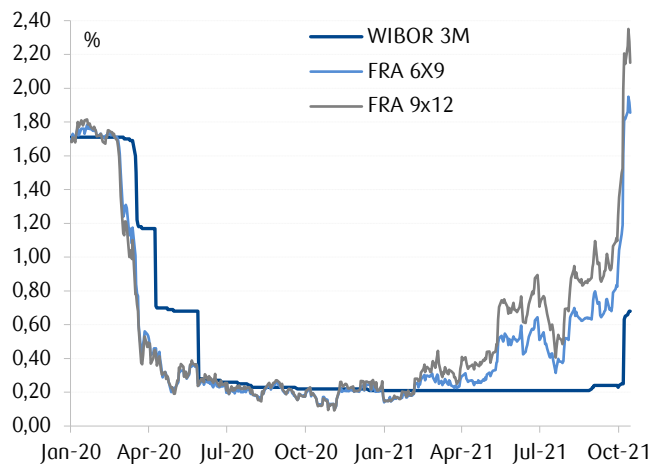
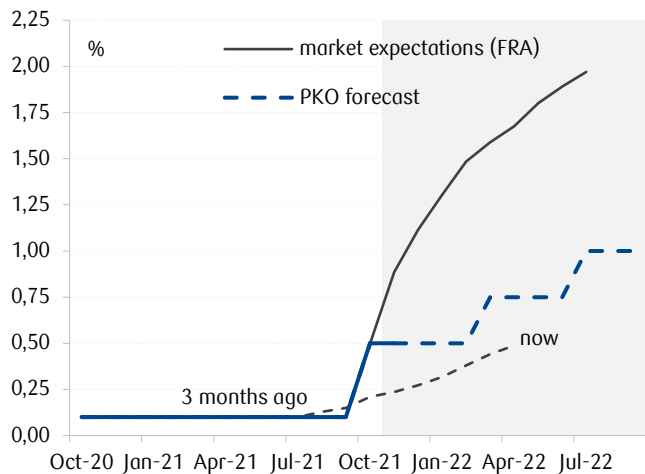
		1M	2M	3M	4M	5M	6M	7M	8M	9M
Date	14-Oct	14-Nov	14-Dec	14-Jan	14-Feb	14-Mar	14-Apr	14-May	14-Jun	14-Jul
WIBOR 3M/FRA†	0.68	1.07	1.30	1.49	1.67	1.77	1.86	1.98	2.07	2.15
implied change (b. p.)		0.39	0.62	0.81	0.99	1.09	1.18	1.30	1.39	1.47
MPC Meeting	6-Oct	3-Nov	8-Dec	-	-	-	-	-	-	-
PKO BP forecast*	0.50	0.50	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00
market pricing*		0.89	1.12	1.31	1.49	1.59	1.68	1.80	1.89	1.97

†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

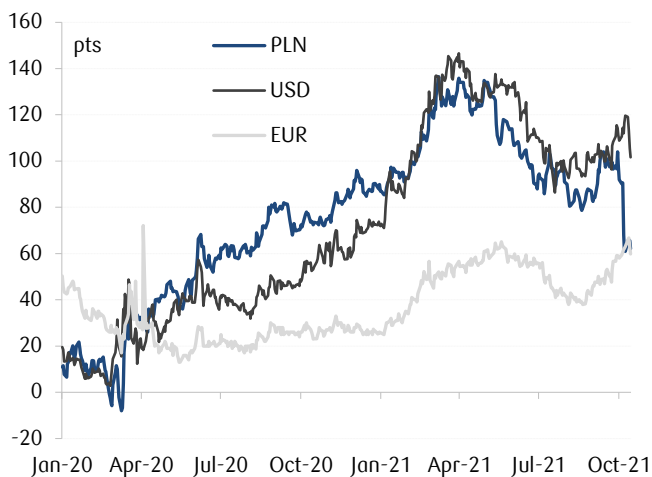
NBP policy rate: PKO BP forecast vs. market expectations

Short-term PLN interest rates



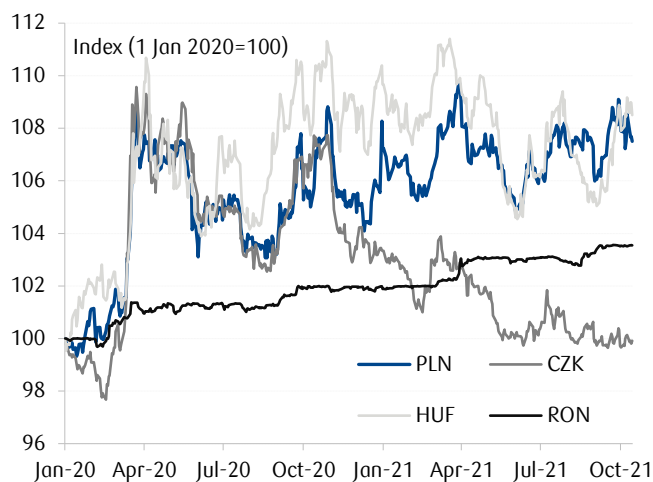
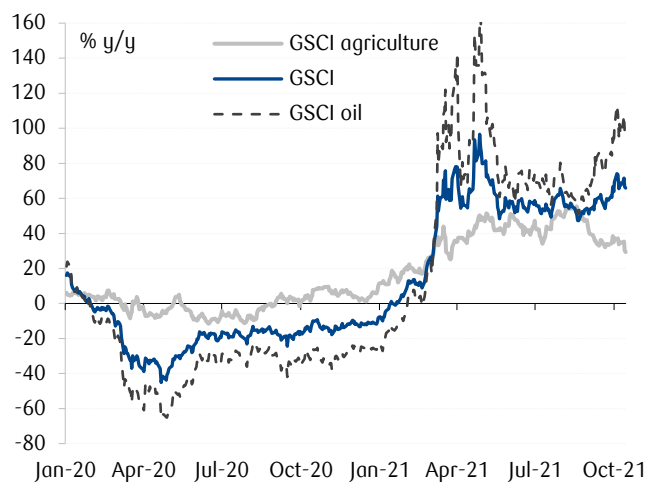
Slope of the swap curve (spread 10Y-2Y)\*

PLN asset swap spread



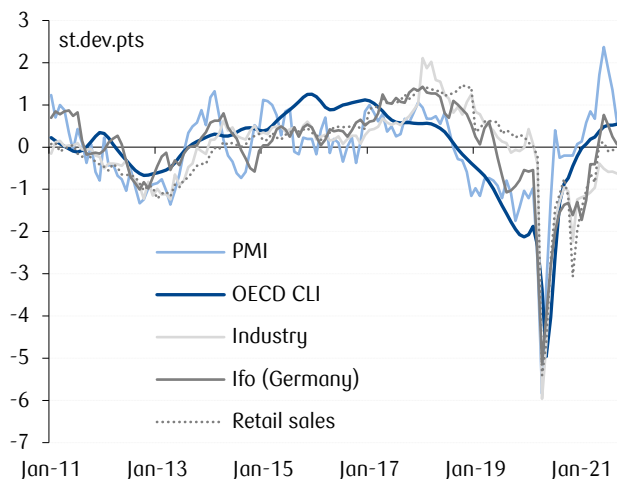
Global commodity prices (in PLN)

Selected CEE exchange rates against the EUR

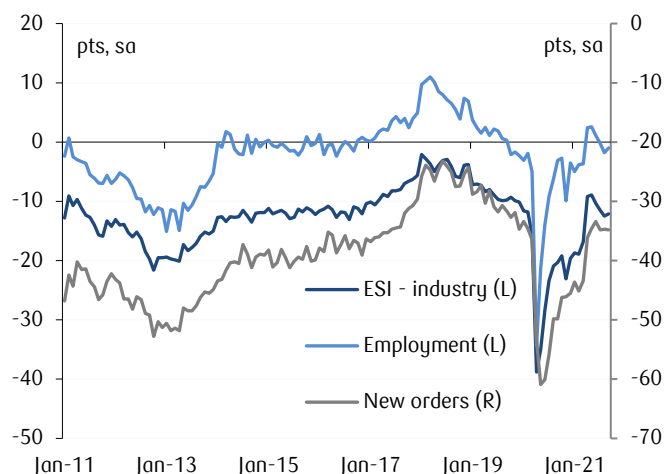


Source: Datastream, NBP, PKO Bank Polski. \*for PLN, and EUR 6M, for USD 3M.

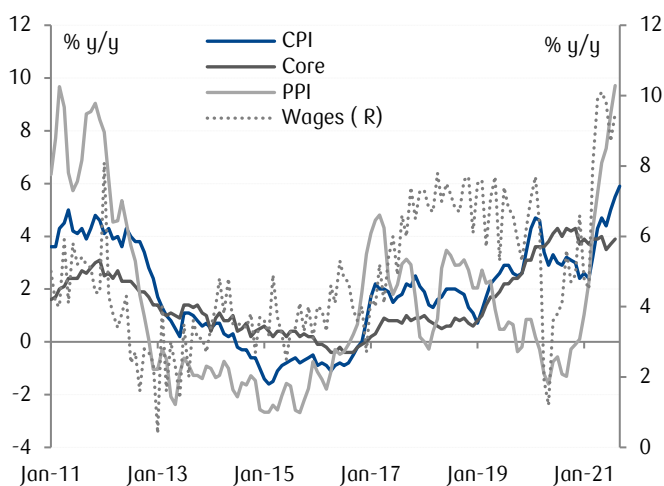
Economic sentiment indicators



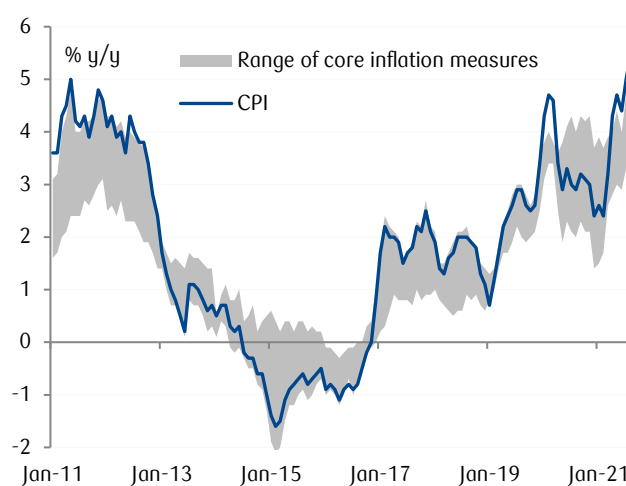
Poland ESI for industry and its components



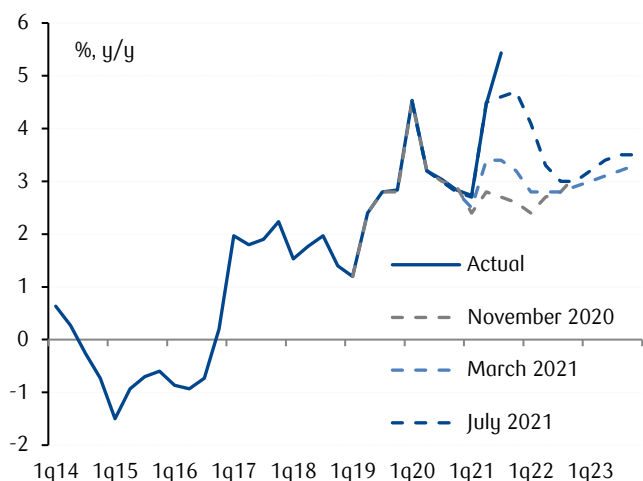
Broad inflation measures



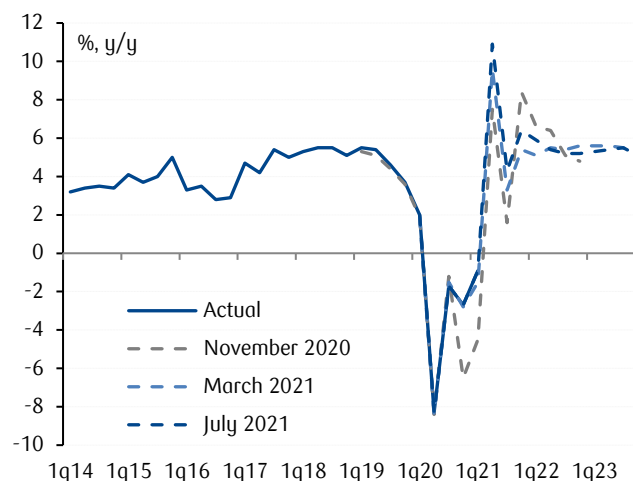
CPI and core inflation measures



CPI inflation - NBP projections vs. actual

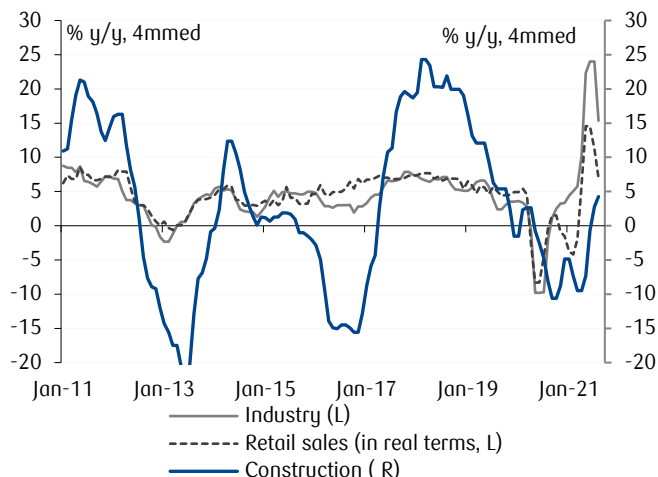


Real GDP growth - NBP projections vs. actual

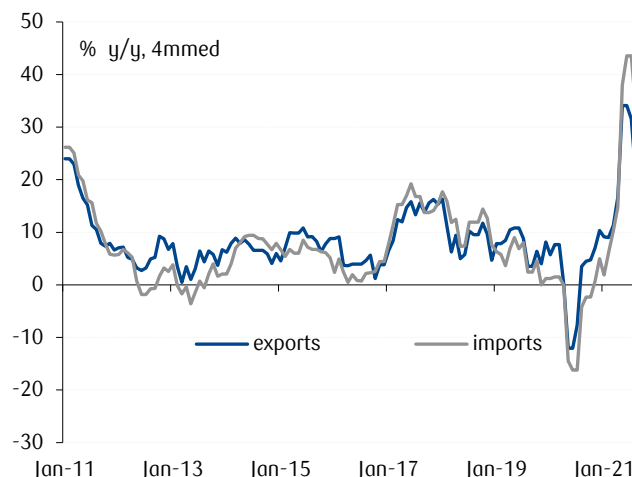


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

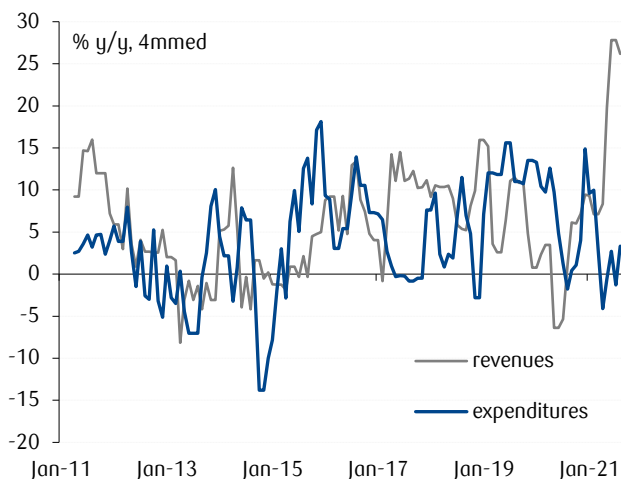
Economic activity indicators



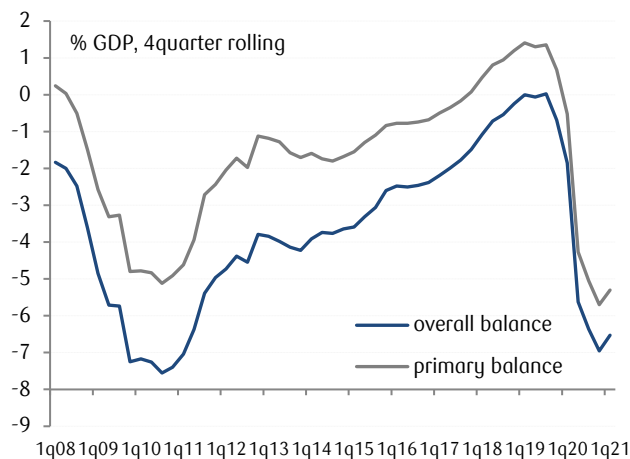
Merchandise trade (in EUR terms)



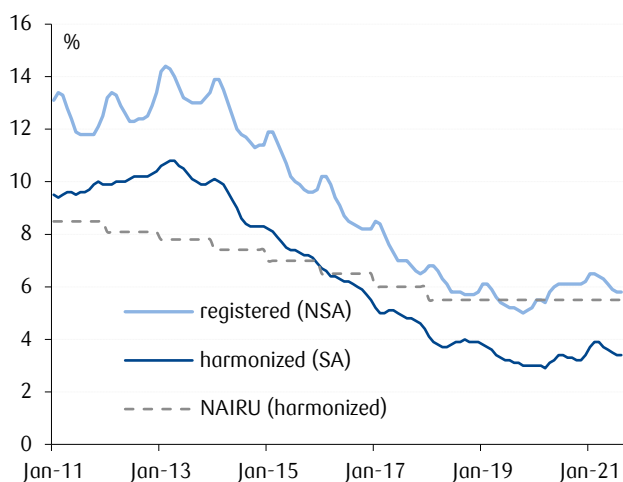
Central government revenues and expenditures\*



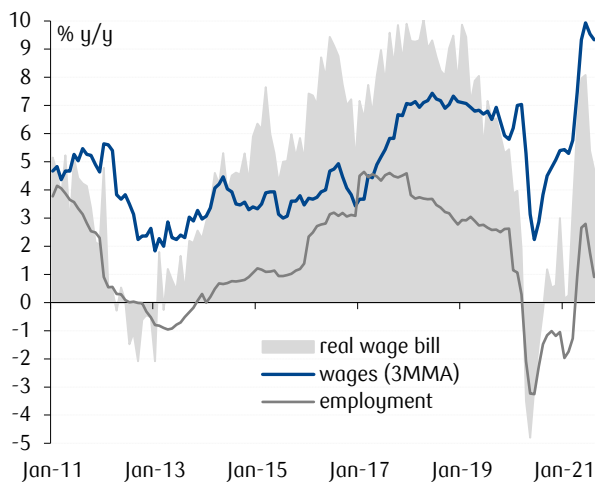
General government balance (ESA2010)



Unemployment rate

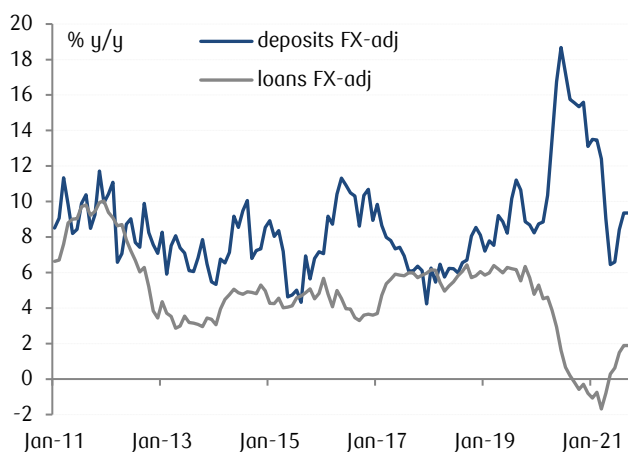


Employment and wages in the enterprise sector

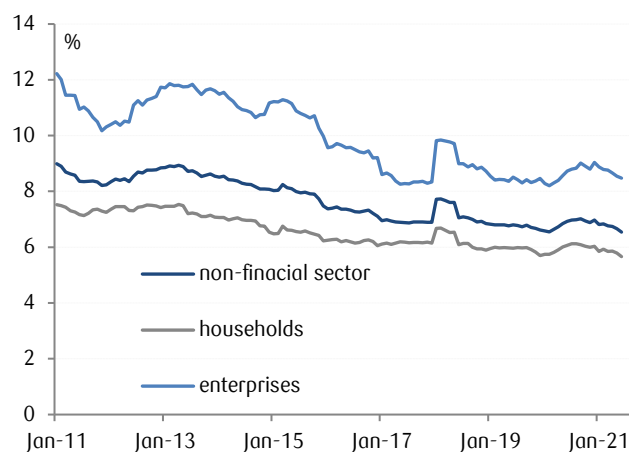


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. \*break in series in 2010 due to methodological changes.

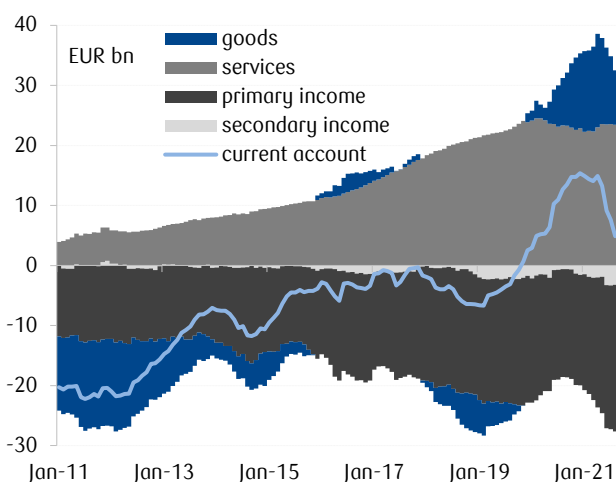
Loans and deposits



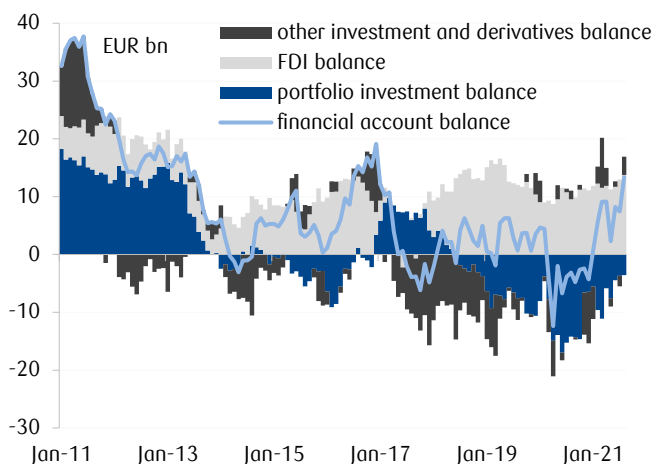
Non-performing loans (NPLs) - by sectors\*



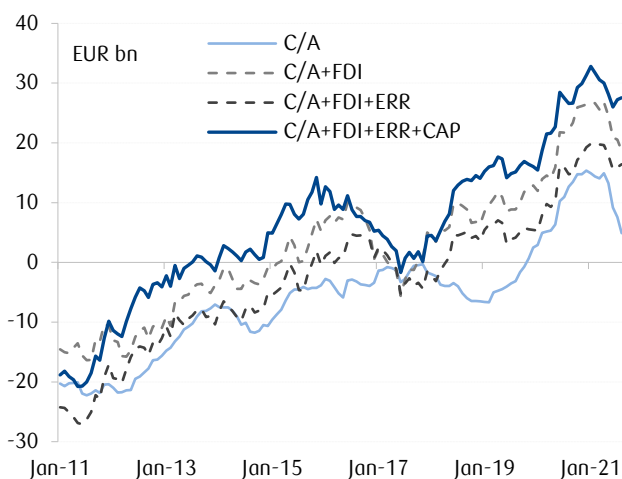
Current account balance



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:

- [It's normalisation time](#) (Oct 8, 2021)
- [Red-hot housing market, red-hot CPI inflation](#) (Oct 1, 2021)
- [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)
- [MPC on hold until late autumn](#) (Jul 9, 2021)
- [House price growth accelerates after pandemic slowdown](#) (Jul 2, 2021)
- [Straight to the hot summer](#) (Jun 25, 2021)
- [Back to pre-pandemic trends](#) (Jun 18, 2021)
- [MPC waits and doesn't see](#) (Jun 11, 2021)
- [Economy roars out of lockdown](#) (May 28, 2021)
- [The New \(Polish\) Deal](#) (May 21, 2021)
- [Fasten your seatbelts, please](#) (May 14, 2021)
- [Lift-off](#) (May 7, 2021)
- [To the moon!](#) (Apr 30, 2021)
- [What's the score?](#) (Apr 23, 2021)
- [Inflation rears its head yet again](#) (Apr 16, 2021)
- [Inside the NBP's comfort zone](#) (Apr 9, 2021)
- [Locked-down Easter](#) (Mar 26, 2021)
- [The third wave hits the economy](#) (Mar 19, 2021)
- [Choke points in focus](#) (Mar 12, 2021)
- [Blueprint for Recovery](#) (Mar 5, 2021)
- [This time is \(really\) different](#) (Feb 26, 2021)
- [Bottlenecks, winter and lockdowns](#) (Feb 19, 2021)
- [Green fiscal island](#) (Feb 12, 2021)
- [Spotlight: fiscal stance](#) (Feb 5, 2021)
- [2020 better than feared, bounce back ahead](#) (Jan 29, 2021)
- [Labour waves goodbye to difficult year](#) (Jan 22, 2021)
- [Housing frenzy exposes some perils of ultralow rates](#) (Jan 15, 2021)

## 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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