

Decision time

TOP MACRO THEME(S):

- **Elections and what's next (p.2)** – This Sunday parliamentary elections will take place in Poland. We describe a potentially long process of forming a new government. Looking at opinion polls it is too close to call a winner. It may be necessary to form a coalition, extending the entire process.

WHAT ELSE CAUGHT OUR EYE:

- **Detailed CPI figures for September confirmed that the headline inflation rate dropped to 8.2% y/y.** In monthly terms prices fell by 0.4%. We estimate that core inflation declined to 8.4-8.5% y/y from 10.0% y/y in August with the first monthly drop in prices of core items since May 2020. Lower core inflation reflects dissipating second round effects and limited ability of firms to pass higher costs to final prices. In addition, disinflation in core components was boosted by implementation of free medicines for elderly and children, warm September (delayed entry to stores of autumn collections) and lower than a year ago increase in prices in education. We predict that CPI inflation in October will fall below 7% and remain close to this level until 2024.
- **CAB in August was worse than expected** – deficit amounted to EUR 202m against EUR 62m deficit in July (a downward revision). For the first time since the beginning of 2021, there was a decline in exports expressed in EUR, by 2.2% y/y. At the same time, imports decreased by 12.3% y/y, which is a consequence of reversing cost shock. As a result, August was the eighth consecutive month with a surplus in trade of goods. On a 12-month rolling basis, CAB after August improved to +0.3% of GDP. **Despite some disappointment in data for August, we expect that the improvement in the CAB will continue towards +1% of GDP at the end of 2023.**

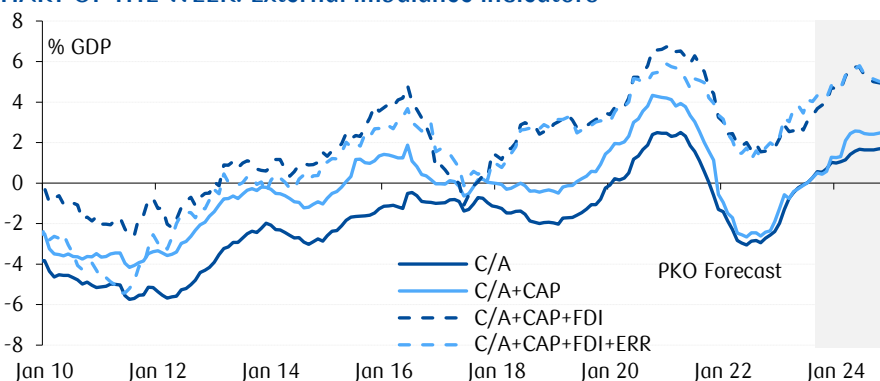
THE WEEK AHEAD:

- **The key focus of attention this week will be results of parliamentary election, which should be confirmed by the mid of the week. Besides, we will get a whole bunch of local macro data for September, incl.: core inflation (Mon.), industrial production and wages (Wed.) as well as retail sales (Fri.), which should confirm that disinflation continues, supporting consumer recovery.**

NUMBER OF THE WEEK:

- **6.4%** – share of foreigners among employees in the national economy as of April 2023.

CHART OF THE WEEK: External imbalance indicators



Source: NBP, GUS, PKO Bank Polski

Chief Economist

Piotr Bujak
piotr.bujak@pkobp.pl
+48 693 333 127

Macro Research Team

 @PKO_Research

Marta Petka-Zagajewska
Head of Macro Research
marta.petka-zagajewska@pkobp.pl
tel. +48 691 335 426

Urszula Krynska
Senior Economist
urszula.krynska@pkobp.pl

Kamil Pastor
Economist
kamil.pastor@pkobp.pl

Agnieszka Pierzak
Economist
agnieszka.pierzak@pkobp.pl

Anna Wojtyniak
Economist
anna.wojtyniak@pkobp.pl

	2022	2023
Real GDP (%)	5.3	0.5
Industrial output (%)	10.5	-1.1
Unemployment rate# (%)	5.2	5.2
CPI inflation** (%)	14.4	11.5
Core inflation** (%)	9.1	10.3
Money supply M3 (%)	5.4	6.5
C/A balance (% GDP)	-2.4	1.0
Fiscal balance (% GDP)*	-3.7	-5.5
Public debt (% GDP)*	49.1	50.9
NBP reference rate### (%)	6.75	5.50
EURPLN###	4.69	4.59

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

Elections and what's next?

- Next Sunday, October 15th, parliamentary elections will take place in Poland. Results that are too close to call suggest that the process of forming a government may extend beyond the first stage provided for in the legislation. No single party will be able to form a government, so building a coalition will be crucial to gain parliamentary majority.
- We briefly summarized what this process may look like according to the legislation and provided some likely scenarios for the weeks following the elections.

On the 15th October Polish citizens will elect 460 members of the Sejm (lower house of the Parliament) and 100 members of Senate (upper house of the Parliament). In [Poland Macro Weekly](#) from a few weeks ago we have already provided some brief information on the elections, which we further develop in this issue, with a focus on the process of forming a new government.

In case of the Sejm elections, an electoral system of proportional representation applies and winning seats depends on exceeding the electoral threshold – which equals for 5% for a single party electoral committee and 8% for a coalition committee (measured on a nationwide scale). Seats are divided between electoral committees that gained the highest support and allocated according to the D'Hondt method. There are 41 Sejm constituencies and 100 single-member Senate constituencies. Majority system applies to Senate elections, meaning that each constituency will select only one winner.

The process of forming a new government (summarized on the diagram on p. 4) is specified in the [Constitution of Poland](#) (in particular art. 154, art. 155). In general, **the first sitting of the Sejm and Senate shall be summoned by the President of the Republic of Poland to be held within 30 days following the elections**. Within **14 days** of this sitting, the President nominates the Prime Minister, who – within the next **14 days** – has to submit a programme of activity of the Council of Members together with a motion requiring a vote of confidence by the Sejm (voting with the requirement of absolute majority).

If the vote of confidence is not obtained and the Council of Ministers is not appointed, the **second stage** of the process begins. **The Sejm has 14 days to choose the Prime Minister** and the members of the Council of Ministers as proposed by him (voting with the requirement of absolute majority). The President should appoint and accept the oaths of the Council of Members so chosen.

If this does not elect the government, then as the **third stage** the initiative is passed back on to the President, who within **14 days** should appoint a Prime Minister and, on his application, the Council of Ministers. Within **14 days** following the appointment of the Council of Ministers by the President, the Sejm should hold a vote of confidence thereto, but this time only a simple majority is required (in the presence of at least half of the statutory number of Deputies). If the vote of confidence was not granted to the Council of the Ministers, the President should shorten the term of office of the Sejm and order elections to be held again (within 45 days).

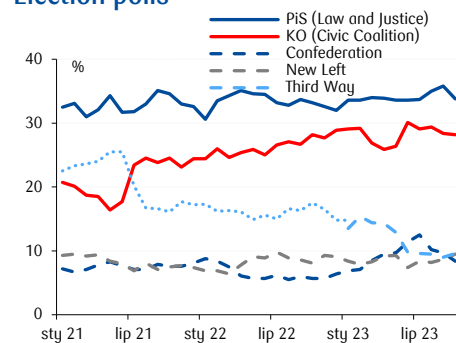
Taking into consideration the elections date and assuming a maximum use of time provided for in the Constitution, the first sitting of the Sejm may be

Days after elections when the Council of Ministers obtained vote of confidence

Date of elections	2022
21 Oct. 2007	34
9 Oct. 2011	41
25 Oct 2015	24
13 Oct. 2019	37

Source: Wikipedia, PKO Bank Polski

Election polls*



Source: ewybory, Macrobond, PKO Bank Polski, *dotted line for Third Way denotes sum of PSL and Poland 2050 support

convened as late as on the **14th of November**, which implies that the new Prime Minister could be appointed by the President by the **28th November**. It is worth emphasizing that formation of the government does not have to be entrusted to a person from the winning party. Should the opposition obtain the highest share of votes, the President, A.Duda, may still designate Law and Justice party to form a government. The President underlined in recent comments that it was a usual practice to give a chance to form a government to the winning party.

Until **12th December** the appointed Prime Minister must obtain the vote of confidence (voting with the requirement of absolute majority). If this does not happen, then until **26th December** the Sejm has to appoint the Prime Minister. If any party would be able to build a coalition having 231 seats in the Sejm, it is very likely that the new Prime Minister and the Council of Ministers will be appointed at this point.

However, in case when none of the blocks in the parliament has a majority, until the **9th of January**, the President will again nominate the Prime Minister (most likely from the Law and Justice Party). At this point, voting in the presence of at least half of statutory number of Deputies (in contrast to absolute majority) means that abstentions do not count as votes against, but instead lower the number of votes needed to win a majority. Such a variant may buy additional time to gain supporters in the Sejm (Law and Justice would most likely look for Confederation) or to convince some MPs to abstain from voting. If this works out the new government will create a minority government. Otherwise the President shall shorten the term office of the Sejm and order new elections to be held. These need to take place within 45 days after the dissolution of Parliament. Early elections may also be held when the Sejm fails to approve the budget act within 4 months of its submission (we write more about it below).

Implications for the adoption of the budget act

The right to introduce legislation concerning a budget belongs to the Council of Ministers. The Council of Ministers shall submit a draft budget to the Sejm no later than 3 months before the commencement of the new fiscal year, which in practice usually takes place in September. This year the government has submitted the draft to the Sejm on September, 29th. The President needs to be presented with approved budget act within 4 months from its submission to the Sejm and has 7 days for its signature.

According to the Constitution, if, after 4 months from the day of submission of the budget draft to the Sejm, it has not been adopted or presented to the President for signature, the President may, within the following of 14 days, order the shortening of the Sejm's term of office.

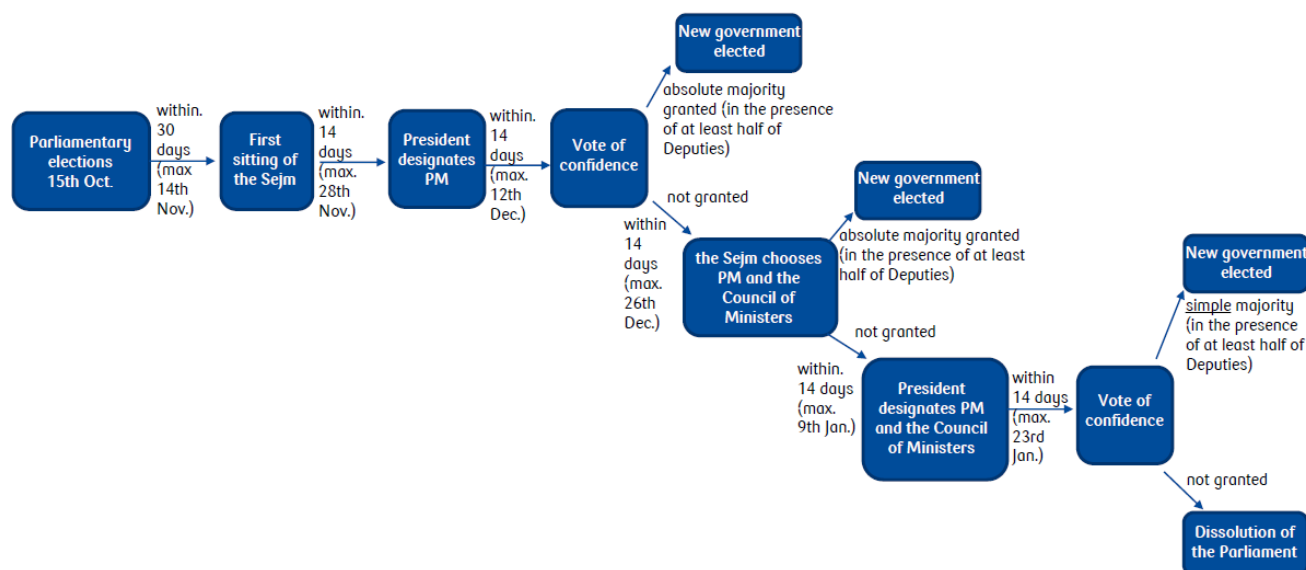
In theory, the principle of discontinuation may suggest that the new Parliament cannot work on drafts which were introduced by the previous Sejm and have not yet been approved. In practice, however, it is rather unlikely that in the event of oppositions' victory in the elections, a new budget draft would be proposed, bearing in mind deadlines specified in the Constitution, exceeding which could result in the dissolution of Parliament. In case the budget is not approved before the new year starts, the draft applies.

Regardless of the result, autumn is likely to be a hot period in Polish politics. With recent polls too close to call, it is quite likely that the process of forming a new government may extend beyond the first stage provided for in the legislation. On the one hand, victory of current ruling party and its ability to

relatively quickly form a coalition if necessary, will reduce uncertainty regarding the continuation of power and an economic policy already outlined. On the other, a potential takeover of power by the current opposition would significantly increase the probability for an agreement with the European Union, and inflow of EU funds (from the Next Generation EU especially). As of now we see no major risk to the fiscal scenario stemming from the budget draft, which we expect to be largely valid irrespective of who wins the elections. However, some amendments to the budget act may take place throughout 2024.

Along with the budget, there are several fiscal issues which will need to be addressed relatively quickly by the new government. First, whether reduced (0%) VAT rate on food items will be extended to 2024 and for how long (our CPI forecast assumes 0% VAT for the whole 2024). Second, should the energy shields stay in place, which include frozen gas prices, limiting the increase in heating prices, as well as freezing electricity bills up to a specified consumption limit. At this moment there is a noticeable gap between retail and market prices of electricity and gas and the pace of their convergence is highly uncertain and dependent upon regulations introduced by the new government. Third, current government has already announced an extension of so-called mortgage loan holidays (temporary suspension of loan instalments) to 2024, subject to relatively high (but yet unknown) income threshold covering most borrowers. Proposals of other parties in these areas are not yet known.

Government formation scheme



Weekly economic calendar

Indicator	Time (UK)	Unit	Previous	Consensus*	PKO BP	Comment
Monday, 16 October						
EUR: Trade balance (Aug)	10:00	bn	2.9	--	--	--
POL: Core inflation (Sep)	13:00	% y/y	10.0	8.6	8.5	Stronger disinflation was boosted by several one-off factors.
Tuesday, 17 October						
GER: ZEW Economic Sentiment (Oct)	10:00	pts.	-11.4	-11.3	--	--
USA: Retail sales (Sep)	13:30	% m/m	0.6	0.3	--	--
USA: Retail sales excl. autos (Sep)	13:30	% m/m	0.6	0.2	--	--
USA: Industrial production (Sep)	14:15	% m/m	0.4	-0.1	--	--
Wednesday, 18 October						
CHN: GDP growth (3q)	3:00	% y/y	6.3	4.5	--	--
POL: Consumer Confidence (Oct)	9:00	pts.	-20.3	-18.6	-18.7	Consumer confidence continues to improve on the back of rising real wages.
EUR: HICP inflation (Sep, final)	10:00	% y/y	5.2	4.3	--	--
EUR: Core inflation (Sep, final)	10:00	% y/y	5.3	4.5	--	--
USA: Building Permits (Sep)	13:30	thous.	1,543	1,450	--	--
USA: Housing starts (Sep)	13:30	thous.	1,283	1,408	--	--
Thursday, 19 October						
POL: PPI inflation (Sep)	9:00	% y/y	-2.8	-2.8	-3.0	--
POL: Industrial production (Sep)	9:00	% y/y	-2.0	-3.2	-3.6	The decline in industrial production will deepen, partly due to negative calendar effects.
POL: Wages (Sep)	9:00	% y/y	11.9	10.9	10.5	Wages growth should continue to slow-down, but upside risks remain with regard to early payments of Christmas bonuses. Labour demand remains subdued.
POL: Employment (Sep)	9:00	% y/y	0.0	0.0	0.0	--
USA: Initial Jobless Claims (Oct)	13:30	thous.	209	--	--	--
USA: Existing home sales (Sep)	15:00	m	4,04	3,89	--	--
Friday, 20 October						
GER: PPI inflation (Sep)	7:00	% y/y	-12.6	-14.2	--	--
POL: Retail sales (Sep)	9:00	% y/y	-2.7	-1.7	-2.0	Sales dynamics follows the path of real wage growth.

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	"We know from subsequent NBP projections that the rate of 6.75 did not bring inflation to the target. My votes published so far show that, in my opinion, at least 7.75 is necessary to bring inflation to the target in a time horizon in which we will not completely destroy the credibility of the NBP." (19.09.2023, Kultura Liberalna, PAP)
L. Kotecki	3.9	"For the central bank, the most important thing is the inflation target, and inflation today is four times higher than this target, so there is no room for any support for economic policy by the central bank at the moment." (19.09.2023, PAP)
P. Litwiniuk	3.5	"I can already say how I see this decision. It is premature. (...) Inflation remains entrenched, it's still far from the target." (11.09.2023, TVN24, PAP).
H. Wnorowski	2.1	"The lesson from the exchange rate response may suggest that gradual monetary policy action is now more needed." (20.09.2023, Bloomberg, PAP)
C. Kochalski	2.1	"In the light of the current data and information, a room for potential discussion of [rate] cuts may appear in some time, as we have already ended the hikes cycle. The very calendar indicates it could be after the summer vacation at the earliest. (...) We're still before a potential discussion on rate cuts, which sooner or later needs to happen." (13.07.2023, Interia.pl via Bloomberg).
I. Duda	2.0	"In my opinion, if the conditions are favourable, i.e. if we see a rapid drop in inflation, if it is a long-term downward trend, the MPC will have arguments to carefully discuss interest rate cuts, perhaps even after vacation. Of course, I must make a caveat here (...) everything depends on the incoming data and information" (17.07.2023, Business Insider, PAP, PKO transl.)
A. Glapinski	1.8	"In terms of our decisions, we made the first significant cut by 75 bps, that's how we backtracked those three cuts when we didn't know that the forecast was going to be like that in the next five quarters and we consummated it. We couldn't do this earlier because there was uncertainty whether inflation would slow down so much in the coming quarters and years. Generally, we are supporters of making smooth, gradual changes that do not disturb the well-being of consumers, banks and enterprises, we prefer a series of smaller actions rather than sudden ones, although sometimes adjustments need to be made." (5.10.2023, PAP, PKO transl.)
W. Janczyk	1.7	"In my opinion there is no need to change the target for inflation, while reaching the inflation of 2.5% +/- 1 ppt is possible at the turn of 2024/2025." (13.09.2023, PAP).
G. Maslowska	1.6	"It seems that the trend of lowering rates will be maintained, but it is currently impossible to say whether it will be in 25 bps steps or more. (...) According to NBP forecast inflation in October will equal 6.7-7%, at the end of the year it may fluctuate upwards to just over 7%. (...) Available data suggest that GDP in 3q23 grew by 0.1% y/y, while in 2024 GDP growth will certainly exceed 2%" (6.10.2023, PAP)
I. Dabrowski	1.5	"(...) I think that there is a high probability that interest rates will remain at their current level until the end of September. (...) Although if we saw a rapid decline of the index by another 5p. in the summer months, and we would find ourselves at clearly single-digit inflation levels, I cannot rule out that this will happen in September." (26.06.2023, PAP)

*the higher the indicator the more hawkish views. The positioning has been made based positively on PAP survey conducted among economists at banks in Poland (scale 1-5). ^Quotes in bold have been modified in this issue of Poland Macro Weekly.

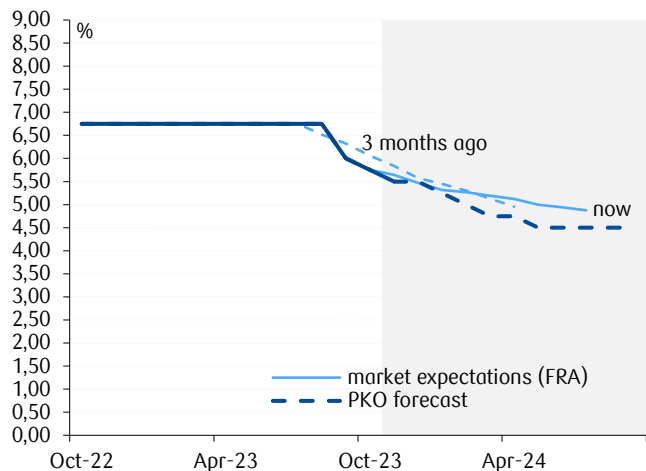
Interest rates – PKO BP forecasts vs. market expectations

		1M	2M	3M	4M	5M	6M	7M	8M	9M
Date	12-Oct	12-Nov	12-Dec	12-Jan	12-Feb	12-Mar	12-Apr	12-May	12-Jun	12-Jul
WIBOR 3M/FRA†	5.70	5.54	5.37	5.20	5.07	4.94	4.83	4.70	4.59	4.53
implied change (b. p.)		-0.16	-0.33	-0.51	-0.63	-0.76	-0.88	-1.00	-1.11	-1.18
PKO BP forecast*	5.75	5.50	5.50	5.25	5.00	4.75	4.75	4.50	4.50	4.50
market pricing^		5.59	5.42	5.25	5.22	5.14	5.08	4.95	4.84	4.78
MPC Meeting	4-Oct	8-Nov	6-Dec	-	-	-	-	-	-	-

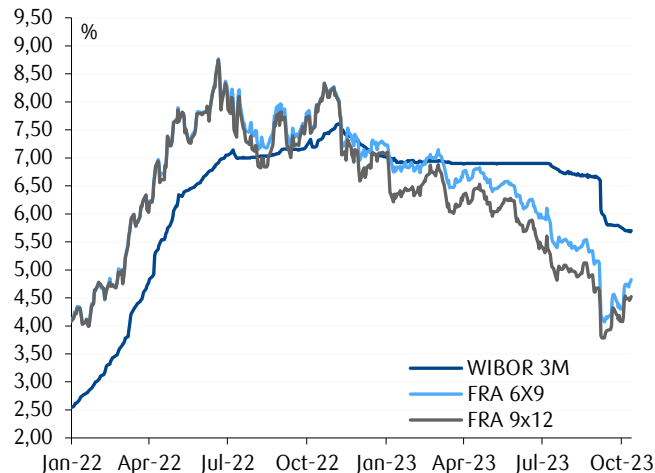
WIBOR 3M from the last fixing, FRA transactions based on WIBOR 3M for subsequent periods, †in basis points, *PKO BP forecast of the NBP reference rate.

Poland macro chartbook

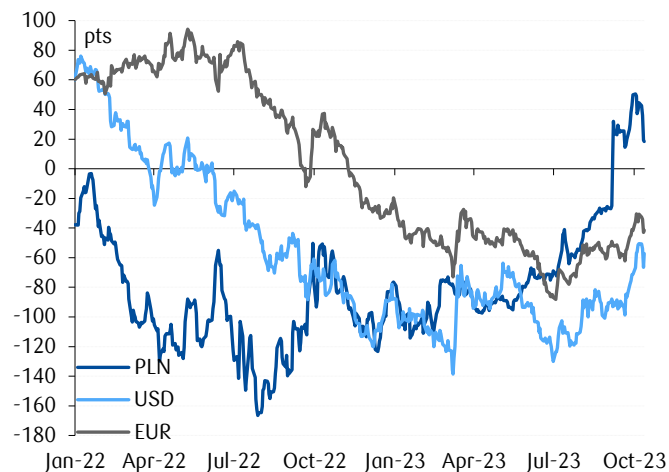
NBP policy rate: PKO BP forecast vs. market expectations



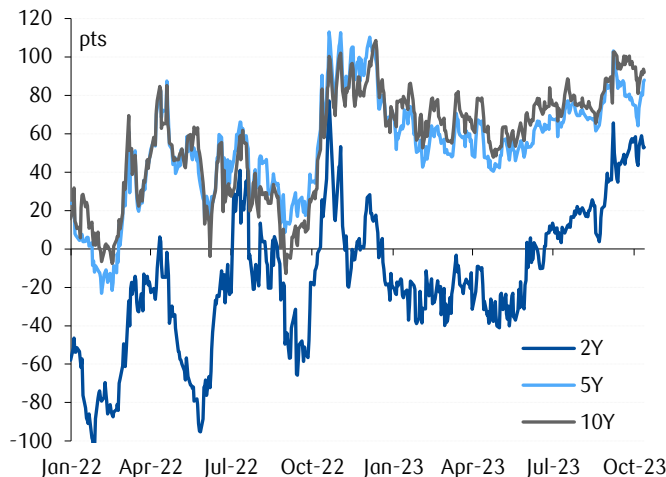
Short-term PLN interest rates



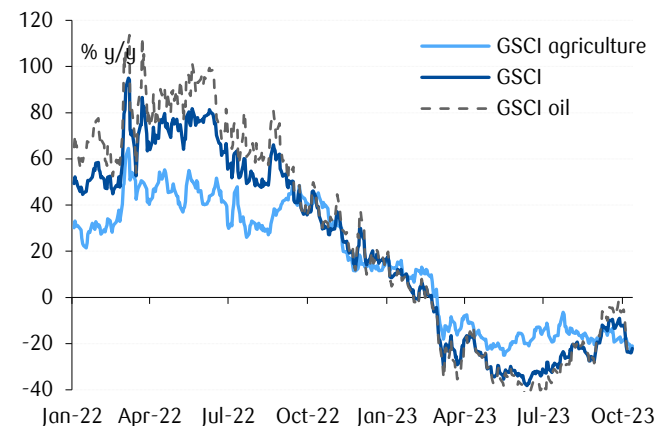
Slope of the swap curve (spread 10Y-2Y)*



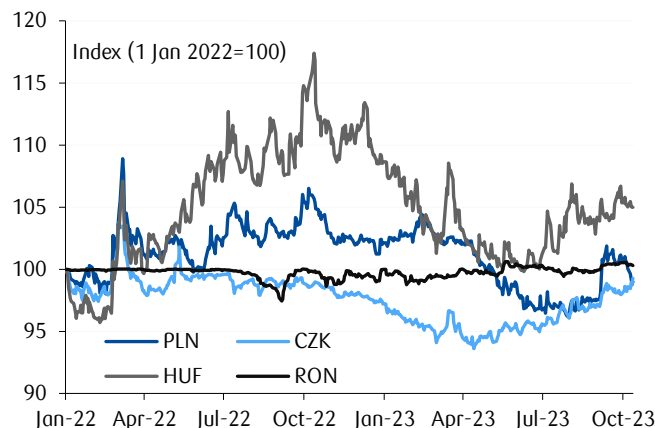
PLN asset swap spread



Global commodity prices (in PLN)

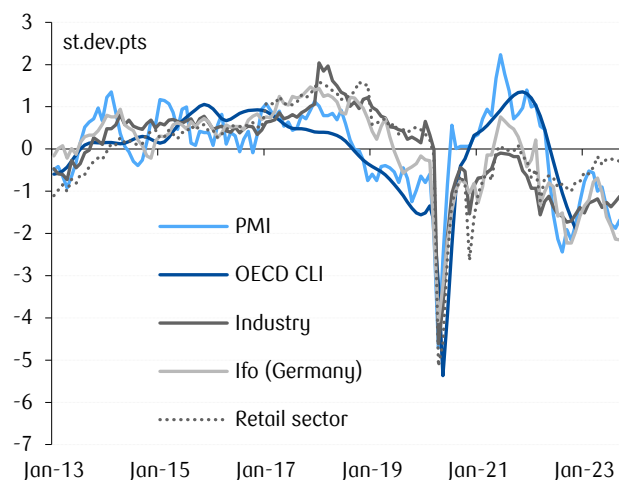


Selected CEE exchange rates against the EUR

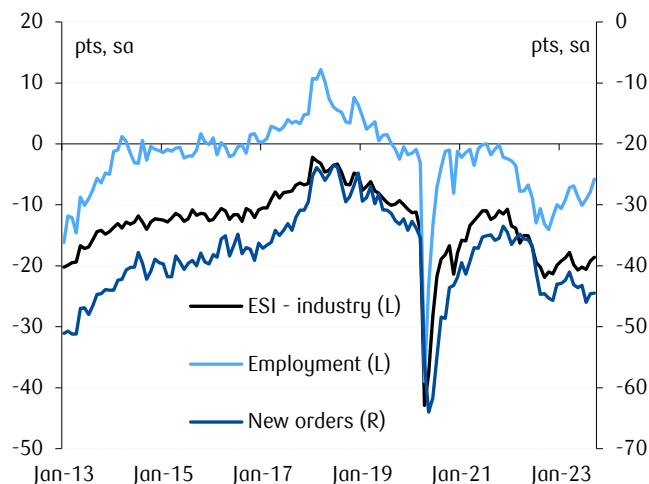


Source: Datastream, NBP, PKO Bank Polski. *for PLN, and EUR 6M, for USD 3M.

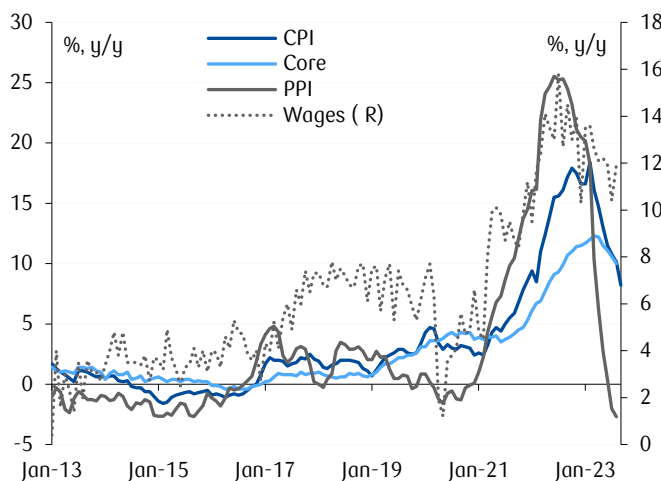
Economic sentiment indicators



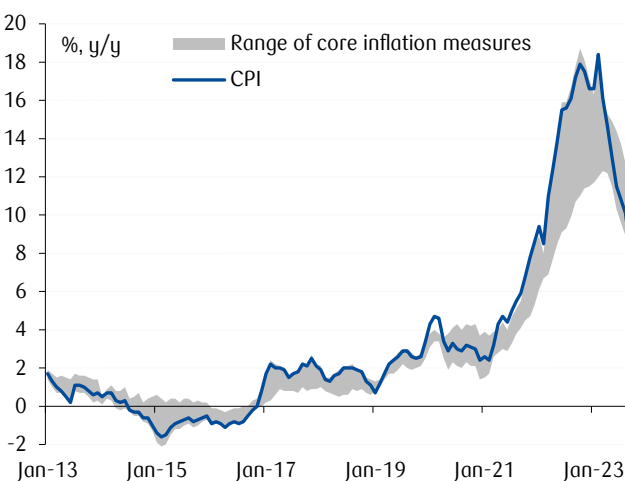
Poland ESI for industry and its components



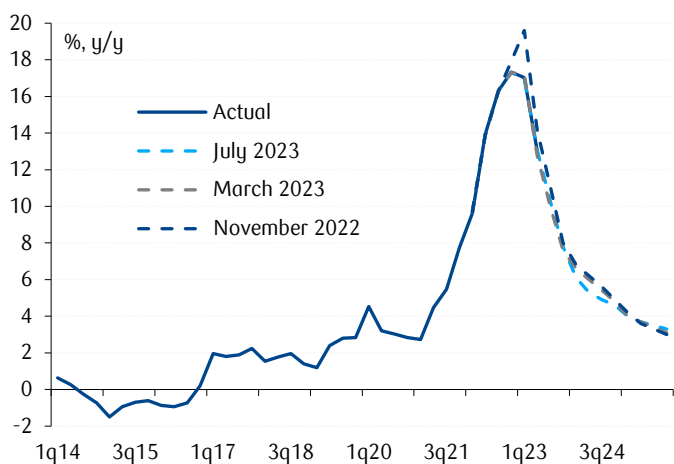
Broad inflation measures



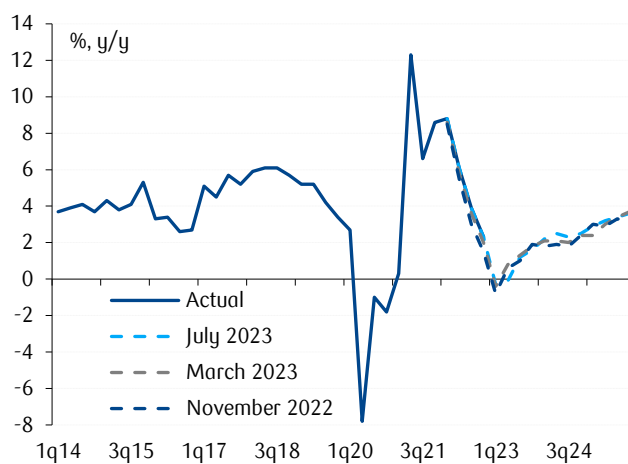
CPI and core inflation measures



CPI inflation - NBP projections vs. actual

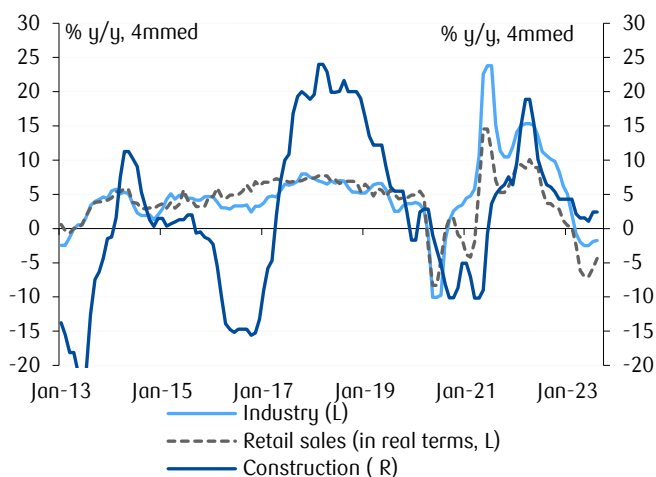


Real GDP growth - NBP projections vs. actual

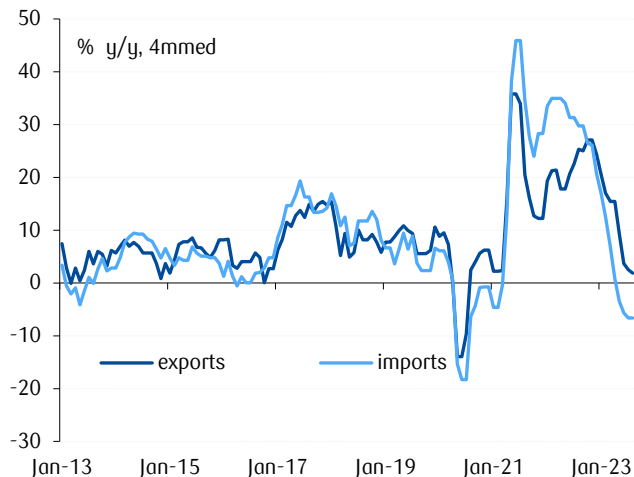


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

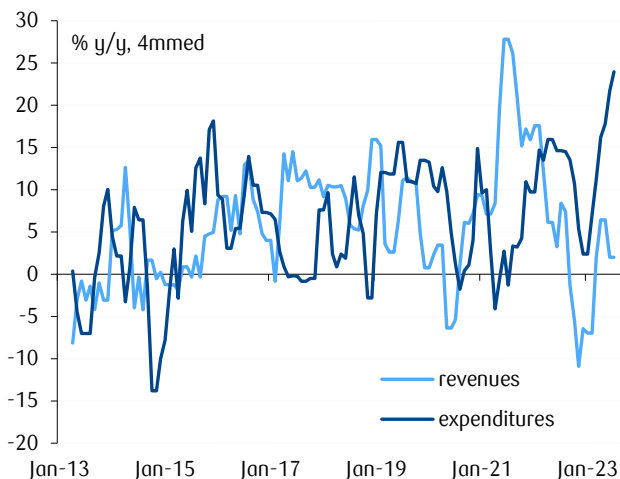
Economic activity indicators



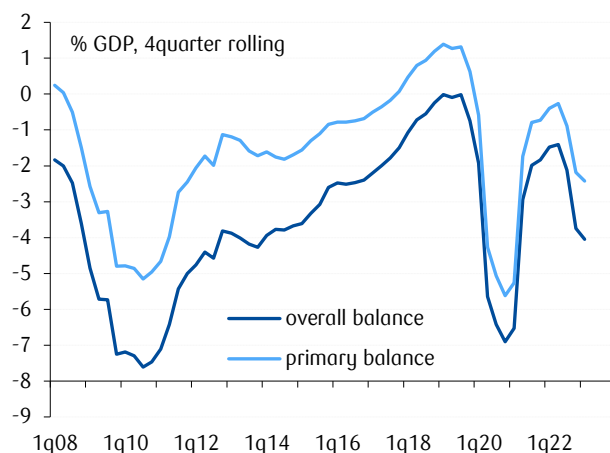
Merchandise trade (in EUR terms)



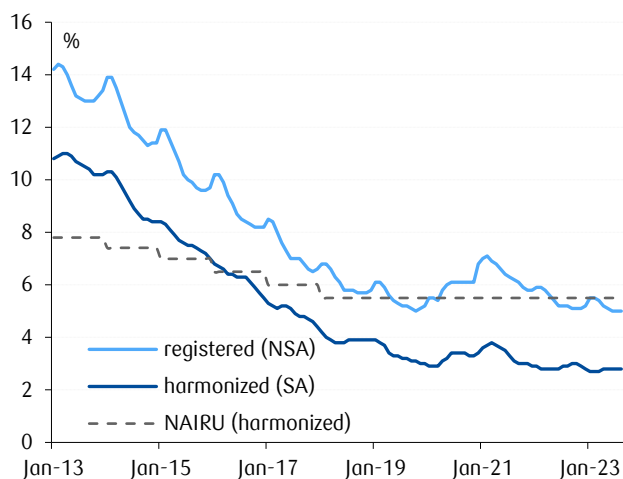
Central government revenues and expenditures*



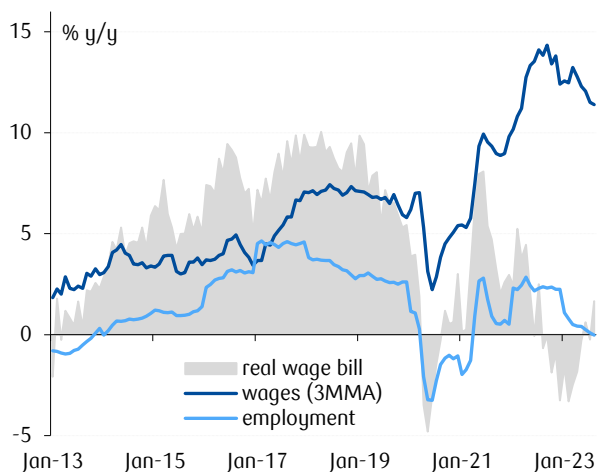
General government balance (ESA2010)



Unemployment rate

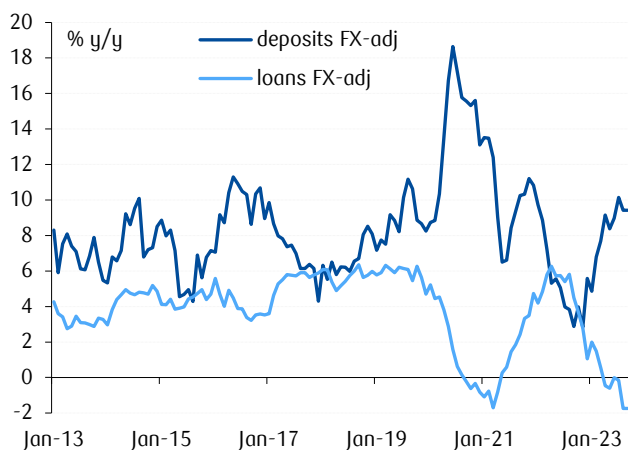


Employment and wages in the enterprise sector

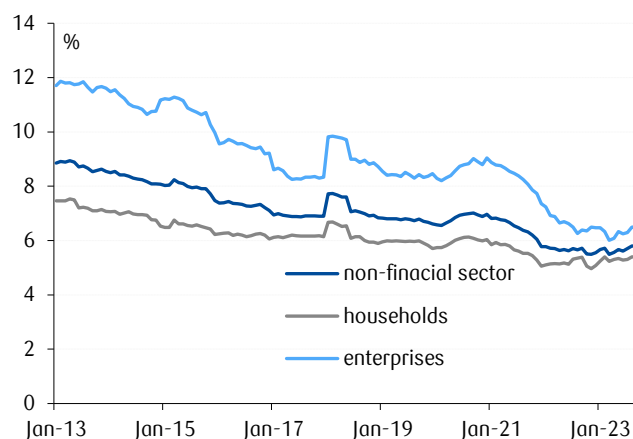


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. *break in series in 2010 due to methodological changes.

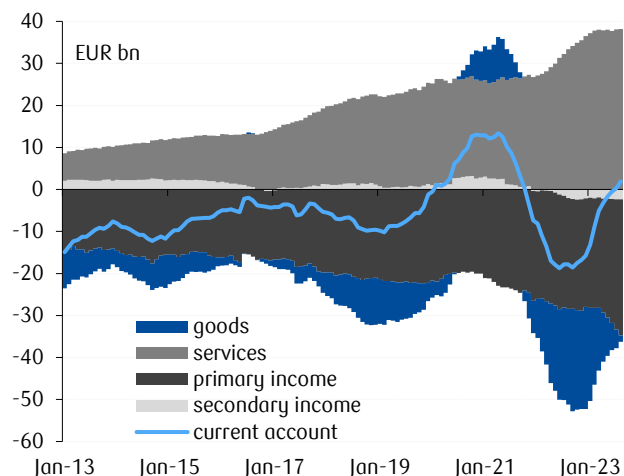
Loans and deposits



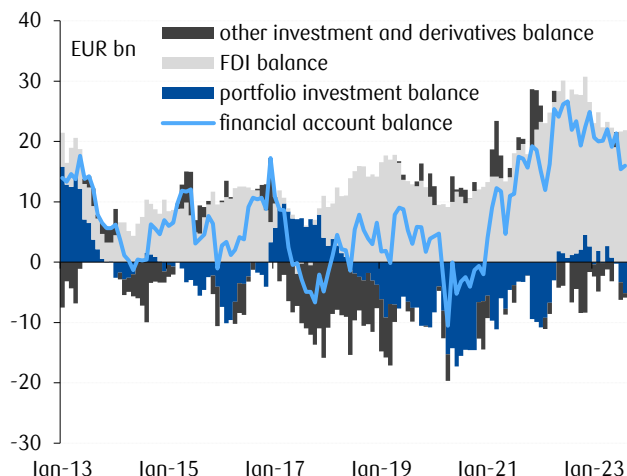
Non-performing loans (NPLs) - by sectors*



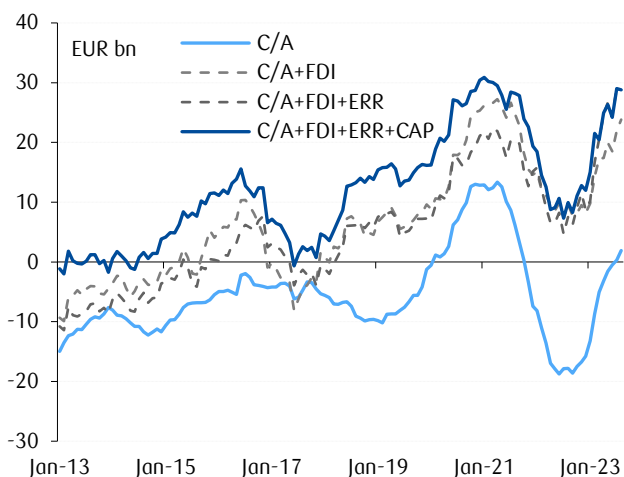
Current account balance



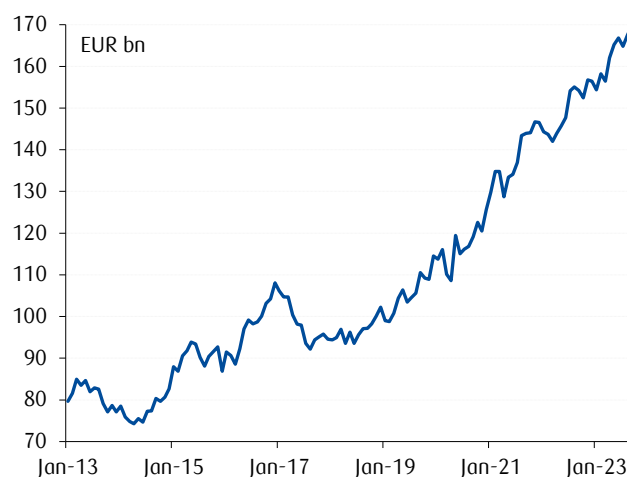
Financial account balance



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:

- [Consumer awakens](#) (October 6, 2023)
- [Down with the NBP rates](#) (September 29, 2023)
- [Dark clouds are drifting away](#) (September 22, 2023)
- [Approaching a single-digit inflation](#) (September 15, 2023)
- [Let the cycle begin!](#) (September 8, 2023)
- [Towards the interest rate cut in September](#) (September 1, 2023)
- [Slow start of 3q23](#) (August 25, 2023)
- [It can only get better](#) (August 18, 2023)
- [Employees still call the shots](#) (August 11, 2023)
- [Summer sale](#) (August 4, 2023)
- [Poland's public finances are safe](#) (July 28, 2023)
- [Is the worst behind us?](#) (July 21, 2023)
- [Keep calm and don't expect too many cuts](#) (July 14, 2023)
- [The end of the tightening cycle](#) (July 7, 2023)
- [Expected interest rate cuts support the housing market](#) (June 30, 2023)
- [A soft landing scenario](#) (June 23, 2023)
- [External position rapidly improving](#) (June 16, 2023)
- [Exports shine, disinflation continues](#) (June 2, 2023)
- [No fireworks at the start of 2q](#) (May 26, 2023)
- [A surprisingly smooth start into 2023](#) (May 19, 2023)
- [MPC changes nothing](#) (May 12, 2023)
- [CPI keeps falling down](#) (Apr 28, 2023)
- [Fiscal glass: half full or half empty?](#) (Apr 21, 2023)
- [Polish MPC still in a pause mode](#) (Apr 14, 2023)
- [Let the disinflation begin](#) (Mar 31, 2023)
- [Corporate profits dwindle, margins narrow](#) (Mar 24, 2023)
- [Inflation never ceases to surprise](#) (Mar 17, 2023)
- [Spring is coming after all](#) (Mar 10 2023)
- [Consumers under pressure](#) (Mar 3 2023)
- [Bumpy road ahead](#) (Feb 24 2023)
- [Inflation peak not as scary as feared](#) (Feb 17 2023)
- [Nothing to see here](#) (Feb 10, 2023)

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.