

100 pb, month by month?

TOP MACRO THEME(S):

- **Another 100bps (p.2):** We believe the MPC will deliver another 100bps at its meeting on May 5. Another spike in April, strong current trend in economic activity (GDP growth of ca. 10% y/y in 1q22), no signs of a deterioration in labour market conditions and more expansionary fiscal policy all encourage central bankers to continue rate hikes at accelerated pace.

WHAT ELSE CAUGHT OUR EYE:

- **Russia halted gas supplies to Poland.** As indicated in our previous [weekly](#), thanks additional supply (mainly LNG), relatively high inventories and high transmission capacity the Polish economy could deal without the Russian gas already in 2022.
- **CPI inflation in April surprised to the upside (again) and went up to 12.3% y/y** from 11% in March. Soaring food prices were the main driver of the inflation rise. Estimated core inflation increased as well, to 7.5-7.6% y/y from 6.8%. The CPI inflation is likely to keep growing until summer months and to reach ca. 13% y/y.
- **State budget recorded PLN 270m deficit after March** vs. a PLN 11.3bn surplus after Feb. Revenues were hampered by regulatory changes – in March alone VAT revenues were down by 16.8% y/y on lower rates on food, fuels and fertilizers, while PIT revenues declined by 70.6% y/y on the revised rules regarding the share of local governments in this revenues. Higher war related outlays, as well as the costs of anti-inflationary shields were the main drivers of expenditure growth. For now, we do not see a significant risk to the planned annual gap of PLN 30bn.
- **M3 money supply rose 7.9% y/y in March vs. 8% y/y in Feb.** The amount of cash in circulation rose for the second month in a row, but compared to the pandemic episode of strong growth (March-April 2020), the rise was PLN 12bn lower. The real M1 growth rate has entered the negative territory in 1q22, which usually signalled a significant downward correction in GDP growth rate. Total loans growth (FX adj) accelerated to 5.8% y/y from 4.9% y/y in February, while deposits growth (FX adj) slowed to 7.2% y/y from 8.9% y/y.
- **Registered unemployment went down to 5.4% in March** from 5.5% in April, in line with earlier estimates. According to government's estimates, around 100k of refugees has already taken up jobs in Poland based on the simplified procedures.

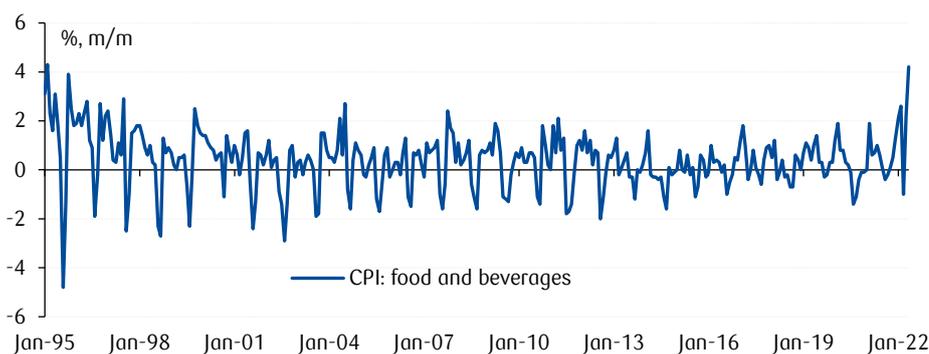
THE WEEK AHEAD:

- **Poland's manufacturing PMI** has likely regained some strength in April, following similar patterns in German Ifo and GUS business climate indicator.

NUMBER OF THE WEEK:

- **4.2% m/m** – monthly rise in food prices in Poland, the strongest since Jan 1995.

Monthly change in food prices



Source: GUS, PKO Bank Polski.

Chief Economist

Piotr Bujak
piotr.bujak@pkobp.pl
tel. +48 22 521 80 84

Macro Research Team

[@PKO_Research](#)

Marta Petka-Zagajewska
Senior Economist
marta.petka-zagajewska@pkobp.pl
tel. +48 22 521 67 97

Urszula Krynska
Economist
urszula.krynska@pkobp.pl
tel. +48 22 521 51 32

Kamil Pastor
Economist
kamil.pastor@pkobp.pl
tel. +48 22 521 81 08

Michal Rot
Economist
michal.rot@pkobp.pl
tel. +48 22 580 34 22

	2021	2022 _†
Real GDP (%)	5.9	3.3 [^]
Industrial output (%)	15.4	10.0
Unemployment rate [#] (%)	5.4	6.2
CPI inflation ^{**} (%)	5.1	10.4 [^]
Core inflation ^{**} (%)	4.1	7.7
Money supply M3 (%)	8.9	5.6
C/A balance (% GDP)	-0.6	-1.3
Fiscal balance (% GDP)*	-1.9	-2.8
Public debt (% GDP)*	53.8	52.7
NBP reference rate ^{##} (%)	1.75	6.50
EURPLN ^{†##}	4.60	4.55

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

Another 100bps in May and higher terminal rate

- We believe the MPC will deliver another 100bps at its meeting on May 5.
- It seems that the Polish monetary authority has decided to chase the current inflation (another spike in April).
- Strong current trend in economic activity (GDP growth of ca. 10% y/y in 1q22), no signs of deterioration in labour market conditions and more expansionary fiscal policy also encourage central bankers to continue rate hikes at an accelerated pace.
- Terminal rate shifts upwards and could be equal to at least 6.5-7.0% by July.

The latest MPC meeting in early April brought a big hawkish surprise. Polish central bankers delivered a surprisingly large interest rate hike of 100bps (median of survey expectations was 50bps with no one betting on 100bps). What is more, NBP governor stressed in one of the first sentences at the post-meeting press conference that it was not a frontloading. He sounded generally clearly hawkish and said that room for NBP rate hikes is larger than indicated earlier.

What could happen at the meeting in May? The answer to this question depends largely on recent data as it seems that Polish monetary authorities have decided to chase current inflation as long as labour market conditions and real economy stay strong. Meanwhile, the fresh bunch of local macro indicators leaves little doubts. Let's take a look at the numbers released since the previous MPC meeting: 1) another inflation spike in March (both core and CPI; the latter again way above consensus), 2) surprisingly strong labour market statistics for March (unexpected wage growth acceleration), 3) still super-strong trend seen in key monthly economic activity indicators (industrial output, construction output, retail sales – all the figures for March surprised to the upside, even despite concerns about adverse impact of the war). On top of that, we have no indication of a turnaround in fiscal policy. Recently, there has also been pressure on the PLN depreciation related to Russia's decision to cut natural gas deliveries to Poland. There is also a scent of potential destabilisation of local political scene (tensions within the ruling coalition). All in all, there is a vast set of reasons to continue rate hikes at an accelerated pace, at least in the next few months, before inflation stabilizes and real economy softens.

We expect that the MPC will deliver another 100bps at the meeting on May 5. Accompanying message from the Polish central bank (post-meeting statement on Thursday and NBP governor press conference on Friday at 15.00 CET) is likely to be similar as in April: there is still room (potentially even larger) for further rate hikes. One cannot exclude that the NBP will also flag some other actions aimed at improving efficiency of interest rate policy and tightening monetary conditions. For instance, another hike in required reserve ratio may be considered. Some MPC members may also suggest that the NBP could issue retail bonds to absorb liquidity and raise deposit rates.

What next? We are still quite far away from the end of the cycle. We assume that the MPC will continue rate hikes until July (100bps in May and then at least 100-150bps altogether at meetings in June and July) with **terminal rate equal to at least 6.50-7.00%**. Later on, Polish central bankers may adopt a wait-and-see approach, which would turn into the end of the cycle, if inflation starts descending (as currently indicated by forecasts) while both global and domestic economy get weaker.

Weekly economic calendar

Indicator	Time (UK)	Unit	Previous	Consensus*	PKO BP	Comment
Monday, 2 May						
POL: Manufacturing PMI (Apr)	8:00	pts.	52.7	51.4	53.0	Manufacturing PMI has likely regained some strength in April, following similar patterns in German Ifo and GUS business climate indicator.
GER: Manufacturing PMI (Apr, final)	8:55	pts.	56.9	54.1	--	--
EUR: Manufacturing PMI (Apr, final)	9:00	pts.	56.5	55.3	--	--
EUR: Economic Sentiment Indicator (Apr)	10:00	pts.	108.5	108	--	--
EUR: Consumer Confidence (Apr, final)	10:00	pts.	-16.9	--	--	--
USA: Manufacturing PMI (Apr, final)	14:45	pts.	58.8	59.7	--	--
USA: ISM Manufacturing (Apr)	15:00	pts.	57.1	57.7	--	--
GER: Retail sales (Mar)	4:30	% y/y	7.1	--	--	--
Tuesday, 3 May						
GER: Unemployment Rate (Apr)	8:55	%	5.0	5.0	--	--
EUR: PPI inflation (Mar)	10:00	% y/y	31.4	--	--	--
USA: Factory orders (Mar)	15:00	% m/m	-0.5	1.1	--	--
USA: JOLTS Report (Mar)	15:00		--	--	--	--
USA: Durable goods orders (Mar, final)	15:00	% m/m	0.8	--	--	--
Wednesday, 4 May						
GER: Trade Balance (Mar)	7:00		--	--	--	--
GER: Exports (Mar)	7:00	% m/m	6.4	--	--	--
GER: Imports (Mar)	7:00	% m/m	4.5	--	--	--
GER: Services PMI (Apr, final)	8:55	pts.	56.1	57.9	--	--
EUR: Services PMI (Apr, final)	9:00	pts.	55.6	57.7	--	--
EUR: Retail sales (Mar)	10:00	% y/y	5	--	--	--
USA: ADP National Employment (Apr)	13:15	thous.	455	400	--	--
USA: Trade balance (Mar)	13:30		--	--	--	--
USA: Fed meeting (May)	19:00	%	0.5	1	--	--
Thursday, 5 May						
GER: Factory orders (Mar)	7:00	% m/m	-2.2	-1.2	--	--
GER: Factory orders (Mar)	7:00	% y/y	2.9	-2.7	--	--
NO: Norges Bank meeting (May)	9:00	%	0,75	0,75	--	--
UK: BoE meeting (May)	12:00	%	0,75	1	--	--
CZ: Central bank meeting (May)	13:30	%	5	5,5	--	--
USA: Initial Jobless Claims (Apr)	13:30	thous.	180	--	--	--
POL: NBP base rate (May)	--	%	4.5	5.5	5.5	MPC will likely chase growing headline CPI inflation hiking interest rates by yet another 100bp.
Friday, 6 May						
GER: Industrial production (Mar)	7:00	% m/m	0.2	-1	--	--
GER: Industrial output (Mar)	7:00	% y/y	3.2	-0.5	--	--
USA: Non-Farm Payrolls (Apr)	13:30	thous.	431	400	--	--
USA: Unemployment Rate (Apr)	13:30	%	3,6	3,6	--	--
USA: Average Earnings (Apr)	13:30	% y/y	5.6	5.5	--	--

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

Selected economic indicators and forecasts

	Feb-22	Mar-22	Apr-22	1q22	2q22	3q22	4q22	2020	2021	2022
Economic activity										
Real GDP (% y/y)	x	x	x	10.0	2.4	2.6	2.7	-2.2	5.9	3.3*
Domestic demand (% y/y)	x	x	x	10.0*	2.3	1.8	2.2	-2.9	7.6	3.9*
Private consumption (% y/y)	x	x	x	5.0*	3.0	3.5	3.5	-3.0	6.1	3.8*
Gross fixed capital formation (% y/y)	x	x	x	7.5*	-10.0	-6.0	2.0	-4.9	3.8	-1.5*
Inventories (pp)	x	x	x	3.7*	0.7	0.0	-0.9	-1.2	2.4	1.1*
Net exports (pp)	x	x	x	0.7*	-0.1	0.5	0.2	0.6	-1.2	-0.5*
Industrial output (% y/y)	17.6	17.3	14.5	18.4	9.0	10.5	4.1	-1.2	15.4	10.0
Construction output (% y/y)	21.4	27.6	16.3	23.3	2.4	5.6	3.7	-2.7	1.6	7.5
Retail sales (real, % y/y)	8.1	9.6	15.5	9.4	8.1	5.8	6.1	-2.7	7.6	7.3
Nominal GDP (PLN bn)	x	x	x	709.5*	689.5	731.7	841.1	2339	2614	2972*
Labour market										
Registered unemployment rate‡(%)	5.5	5.4	5.3	5.4	5.1	5.5	6.2	6.3	5.4	6.2
Employment in enterprises (% y/y)	2.2	2.4	2.8	2.3	2.5	2.8	3.0	-1.2	0.3	2.6
Wages in enterprises (% y/y)	11.7	12.4	12.2	11.2	11.0	8.7	7.9	4.8	9.0	9.6
Prices[^]										
CPI inflation (% y/y)	8.5	11.0	12.3	9.6	12.5	12.2	10.2	3.3	5.1	11.1
Core inflation (% y/y)	6.7	6.9	7.4	6.6	7.8	8.0	7.4	3.9	4.1	7.4
15% trimmed mean (% y/y)	7.0	7.8	x	7.3	x	x	x	3.9	4.1	x
PPI inflation (% y/y)	16.1	20.0	21.9	17.4	21.2	19.5	16.5	-0.5	7.8	14.0
Monetary aggregates‡										
Money supply, M3 (PLN bn)	1984.2	2003.9	2005.1	2003.9	2024.6	2045.8	2097	1822.7	1985.0	2096.7
Money supply, M3 (% y/y)	8.1	7.6	8.4	7.6	7.9	6.9	5.6	16.4	8.9	5.6
Real money supply, M3 (% y/y)	-0.3	-3.0	-4.0	-1.8	-4.1	-4.8	-4.2	12.7	3.6	-5.0
Loans, total (PLN bn)	1420.6	1430.4	1430.4	1430.4	1437.9	1461.1	1476.2	1333.8	1403.5	1476.2
Loans, total (% y/y)	6.3	6.4	6.4	6.4	6.6	6.2	5.2	0.8	5.2	5.2
Deposits, total (PLN bn)	1803.8	1794.3	1794.3	1794.3	1834.4	1844.0	1854.6	1602.2	1780.1	1854.6
Deposits, total (% y/y)	9.7	7.4	7.4	7.4	6.3	2.5	4.2	13.9	11.1	4.2
Balance of payments										
Current account balance (% GDP)	-1.6	-1.6	-1.6	-1.6	-1.4	-1.5	-1.7	2.9	-0.6	-1.3
Trade balance (%GDP)	-1.0	-1.3	-1.3	-1.3	-1.4	-1.7	-2.1	2.4	-0.1	-2.1
FDI (% GDP)	3.6	3.5	3.3	3.5	3.2	2.5	2.1	2.1	3.6	2.1
Fiscal policy										
Fiscal balance (% GDP)	x	x	x	x	x	x	x	-6.9	-1.9	-2.8
Public debt (% GDP)	x	x	x	x	x	x	x	57.1	53.8	52.7
Monetary policy‡										
NBP reference rate (%)	2.75	3.50	4.50	3.50	6.00	6.50	6.50	0.10	1.75	6.50
NBP lombard rate (%)	3.25	4.00	5.00	4.00	6.50	6.50	6.50	0.50	2.25	6.50
NBP deposit rate (%)	2.25	3.00	4.00	3.00	5.50	5.50	5.50	0.00	1.25	5.50
WIBOR 3M ^x (%)	3.65	4.77	4.77	4.77	6.20	6.70	6.70	0.21	2.54	6.70
Real WIBOR 3M ^x (%) [#]	-4.82	-6.20	-6.77	-4.82	-5.40	-5.53	-3.52	-3.06	-2.60	-4.43
Exchange rates^{x,‡}										
EUR-PLN	4.69	4.55	4.67	4.55	4.53	4.50	4.45	4.61	4.60	4.55
USD-PLN	4.20	4.29	4.23	4.29	4.18	4.11	4.03	3.75	4.06	3.94
CHF-PLN	4.55	4.58	4.50	4.58	4.42	4.34	4.25	4.25	4.45	4.25
EUR-USD	1.12	1.06	1.07	1.06	1.08	1.09	1.10	1.23	1.14	1.13

Source: GUS, NBP, PKO Bank Polski.

^{*}PKO BP Market Strategy team forecasts.[‡]period averages for quarterly and yearly data.[#]deflated with current CPI inflation.[‡]period end values.^{*}under revision.

Monetary policy monitor

MPC Members	Hawk-o-meter*	Recent policy indicative comments^
R. Sura	2.7	"The basic monetary policy canon is as follows: the looser government's fiscal policy amid high inflation, the more decisive the reaction of monetary authorities has to be (...) Hence our decisive interest rate hikes that have not ended, as some would like to suggest. (...) I personally believe that interest rates will be hiked at the scale and pace adequate for incoming macroeconomic data," (12.04.2022, wnp.pl, PAP).
C. Kochalski	2.2	" "I see room for rate hikes, also because economic conditions are good and the industry continues to grow at a fast pace. (...) At the same time, some caution is needed because we cannot predict how economies will react to the war in Ukraine longer term. (...) the current level of rates is safe, and what is more, room for hikes exists. (...) Economic slowdown amid forecast inflation still far away from the NBP target would not be a sufficient argument for me to stop the cycle." (27.04.2022, Parkiet).
A. Glapinski	1.8	"Late next year I hope that the situation will go down to the inflation target and we will start discussing rate cuts" (13.04.2022, PAP)
L. Kotecki	--	" PM's plan (for distressed borrowers) may lead to lowering effectiveness of mechanism of monetary transmission to the economy, mainly through replacing longer tenor WIBOR rates with an O/N rate. I also negatively assess the idea that credit vacation is offered unconditionally to all borrowers rather than just the needy ones. All that makes me ever more convinced that further rate hikes are necessary. " (25.04.2022, PAP)
P. Litwiniuk	--	"Based on Polish economic data, I hope we are already close to that space, [that] necessity concerning regulating the price of money coming from the banking sector. (...)the [only] thing certain today is that nothing is certain [and] there is no ceiling, at least it doesn't stem from any regulations" (20.04.2022, PAP)
W. Janczyk	--	"I could assume a more cautious approach to monetary policy at the next meetings (...) Unpredictability is hitting its zenith during these weeks (...)That's exactly why I'm seeing some space for being less bold in monetary tightening. The situation's changing though almost every hour, and we need to stay on alert to act accordingly" (18.03.2022, Bloomberg).
H. Wnorowski	--	"The markets must also take into account the possibility of interest rates reaching 7.5% (...) We are currently in a situation where we can't impose any limits on ourselves." (19.04.2022, businessinsider.pl; PAP)
I. Dąbrowski	--	--
(Vacant places)	--	--

*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.

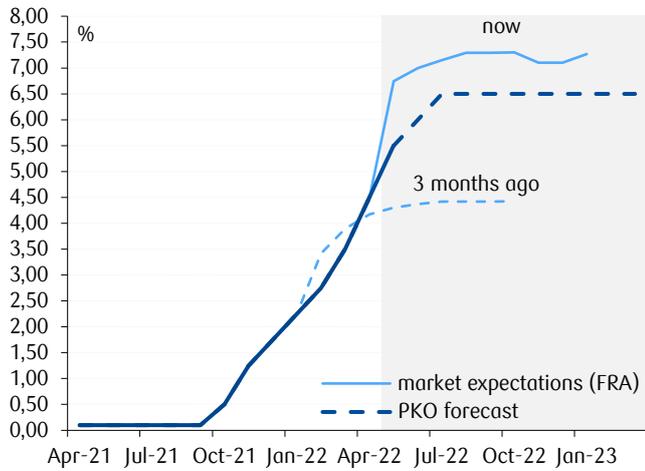
Interest rates – PKO BP forecasts vs. market expectations

		1M	2M	3M	4M	5M	6M	7M	8M	9M
Date	28-Apr	28-May	28-Jun	28-Jul	28-Aug	28-Sep	28-Oct	28-Nov	28-Dec	28-Jan
WIBOR 3M/FRA†	5.95	6.95	7.20	7.35	7.50	7.50	7.50	7.30	7.30	7.47
implied change (b. p.)		1.00	1.65	2.20	2.75	2.75	2.75	2.55	2.55	2.72
MPC Meeting	6-Apr	5-May	8-Jun	7-Jul	-	7-Sep	5-Oct	9-Nov	7-Dec	-
PKO BP forecast*	4.50	5.50	6.00	6.50	6.50	6.50	6.50	6.50	6.50	6.50
market pricing*		5.50	6.15	6.70	7.25	7.25	7.25	7.05	7.05	7.22

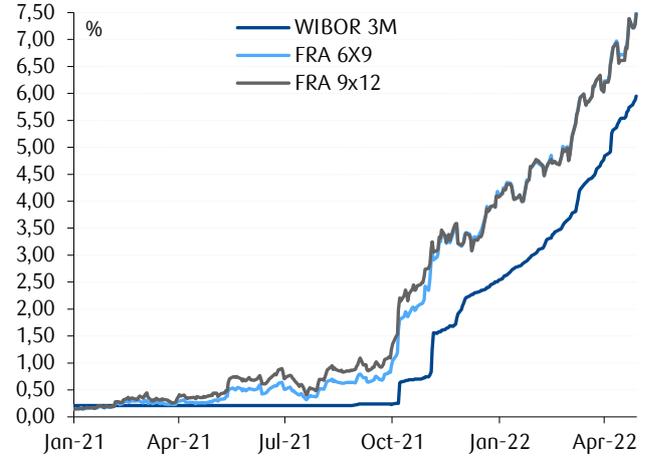
†WIBOR 3M from the last fixing, FRA transactions based on WIBOR 3M for subsequent periods, ‡in basis points, *PKO BP forecast of the NBP reference rate.

Poland macro chartbook

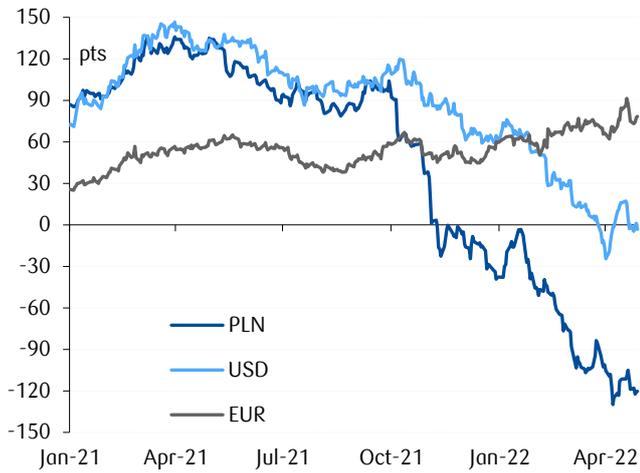
NBP policy rate: PKO BP forecast vs. market expectations



Short-term PLN interest rates



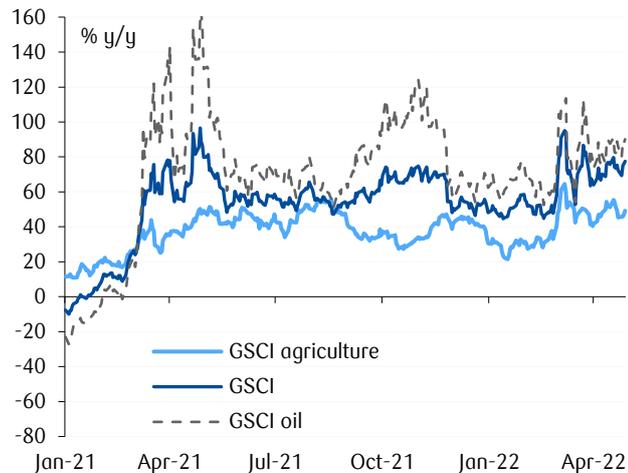
Slope of the swap curve (spread 10Y-2Y)*



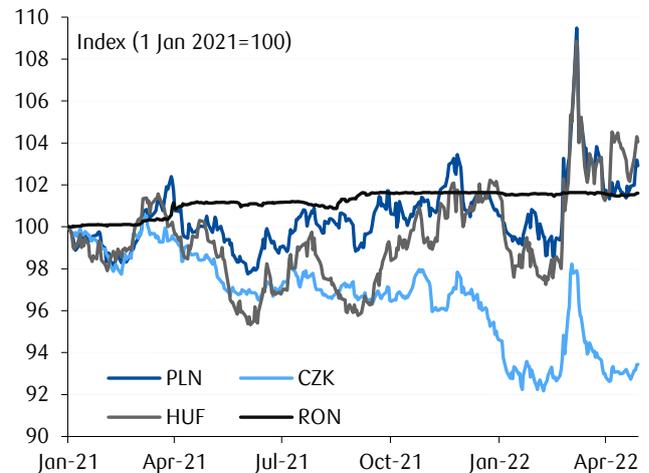
PLN asset swap spread



Global commodity prices (in PLN)

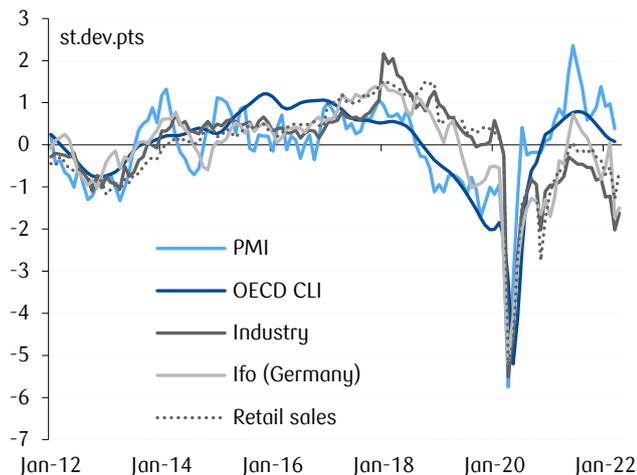


Selected CEE exchange rates against the EUR

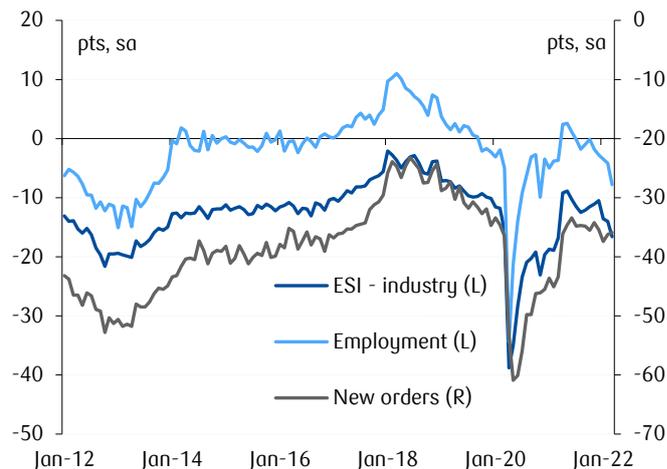


Source: Datastream, NBP, PKO Bank Polski. *for PLN, and EUR 6M, for USD 3M.

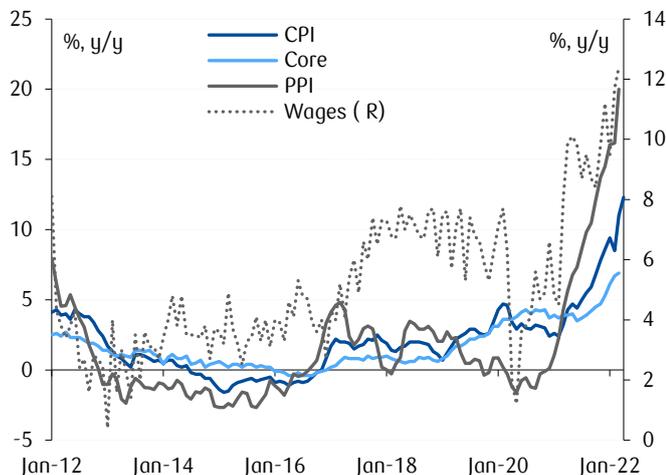
Economic sentiment indicators



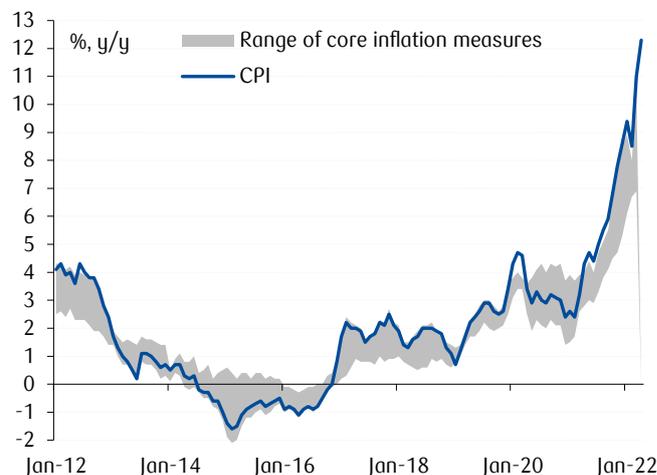
Poland ESI for industry and its components



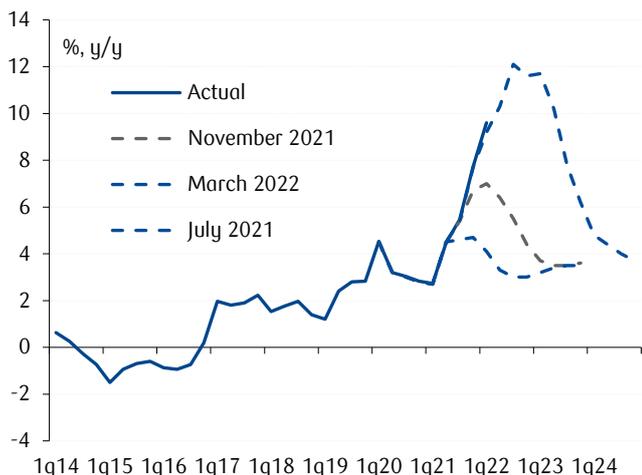
Broad inflation measures



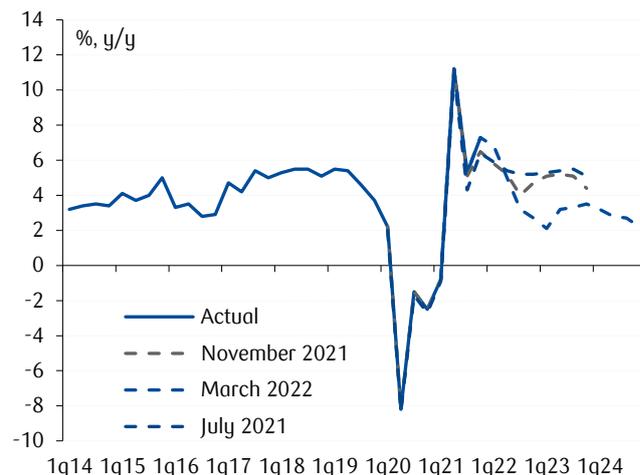
CPI and core inflation measures



CPI inflation – NBP projections vs. actual

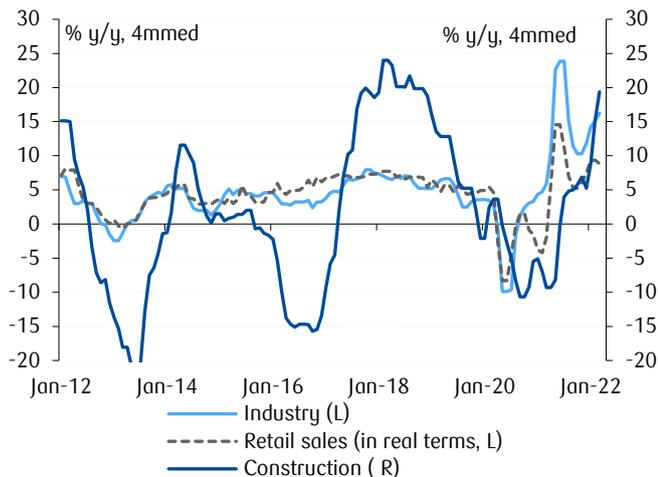


Real GDP growth – NBP projections vs. actual

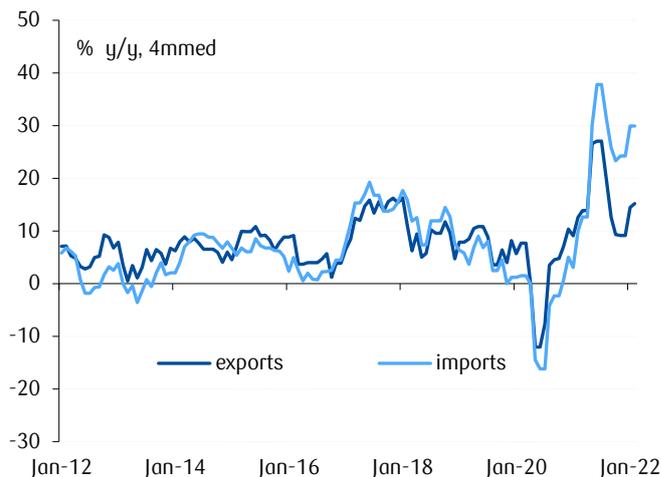


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

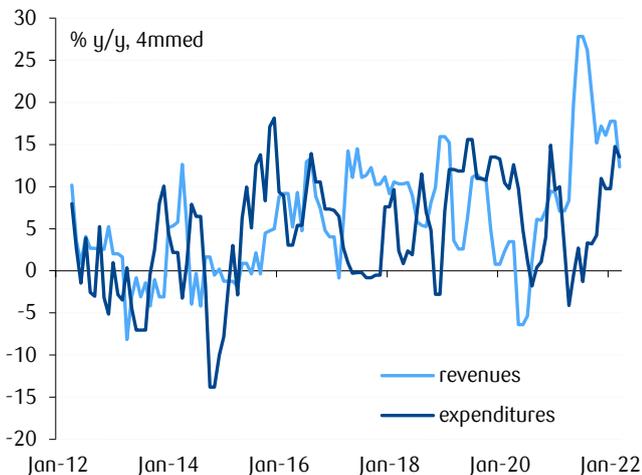
Economic activity indicators



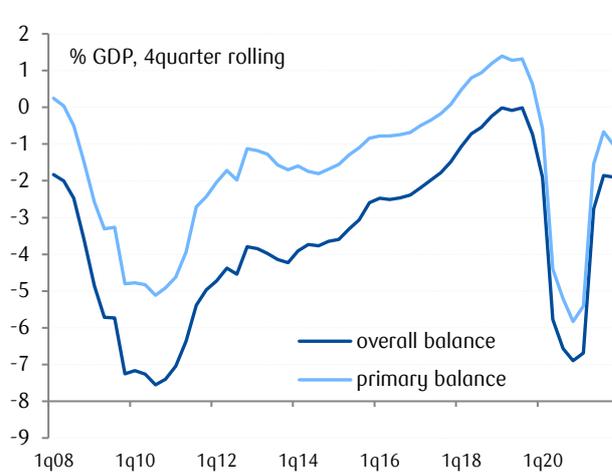
Merchandise trade (in EUR terms)



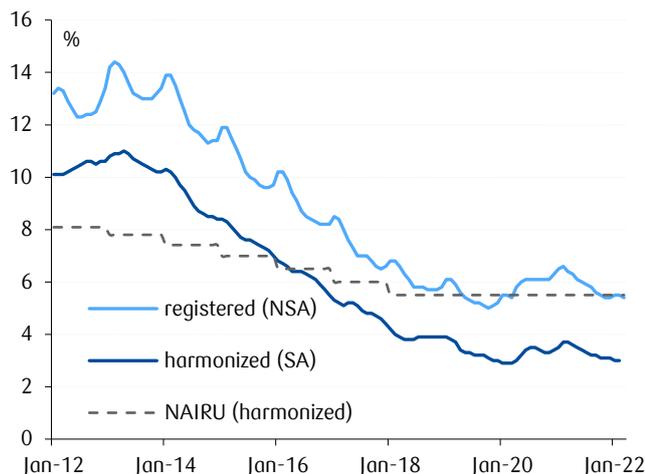
Central government revenues and expenditures*



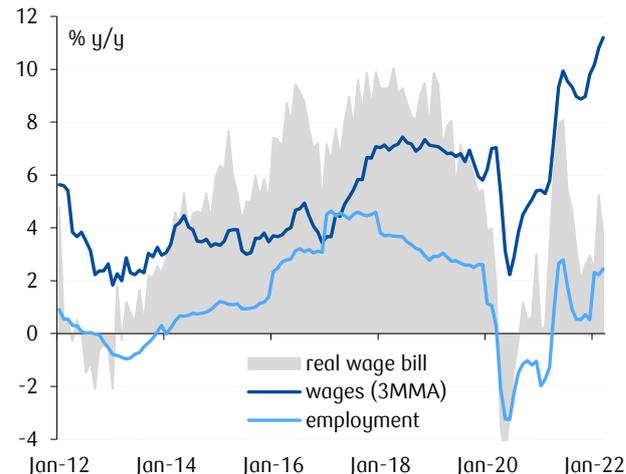
General government balance (ESA2010)



Unemployment rate

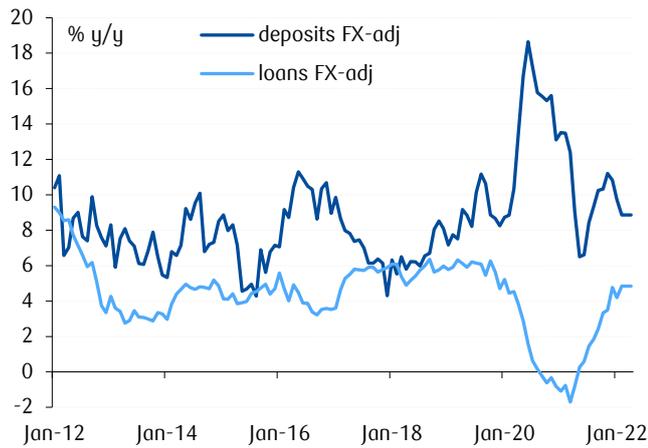


Employment and wages in the enterprise sector

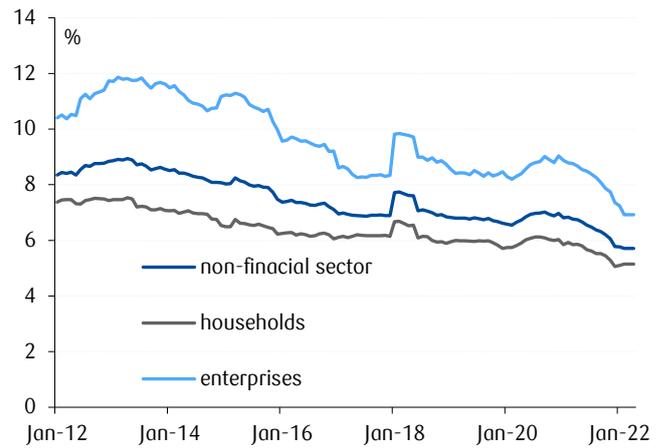


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. *break in series in 2010 due to methodological changes.

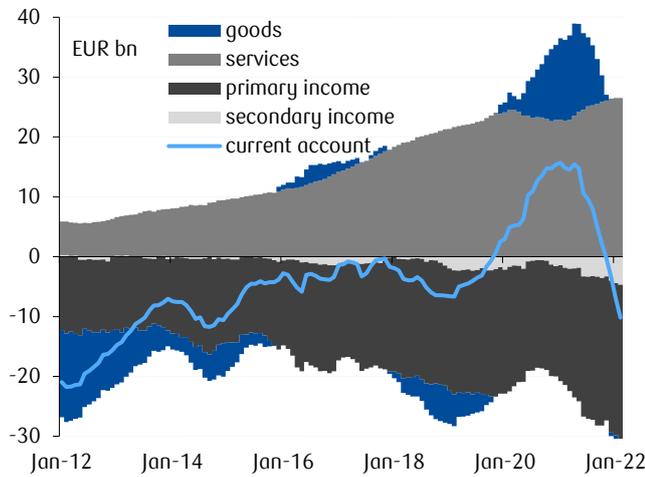
Loans and deposits



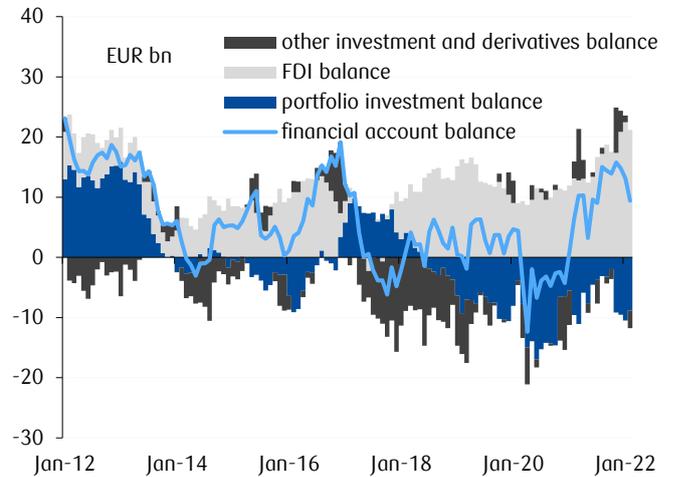
Non-performing loans (NPLs) - by sectors*



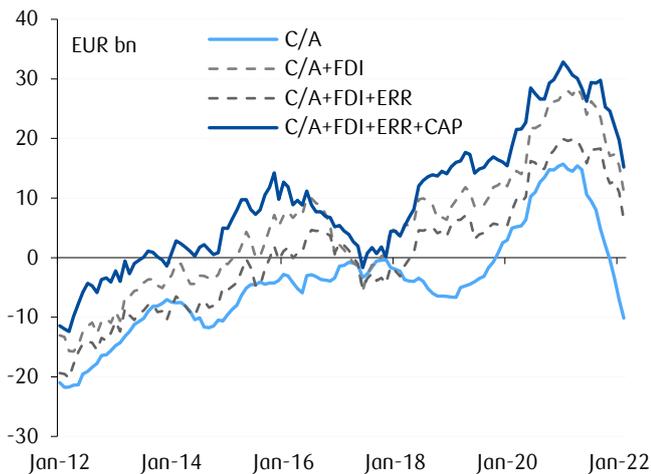
Current account balance



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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- [Deleveraging](#) (Apr 8, 2022)
- [The economic whirlwinds of war](#) (Apr 1, 2022)
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- [A double-digit rebound](#) (Jul 23, 2021)
- [Is the CPI inflation really on hold?](#) (Jul 16, 2021)

Poland's macro in a nutshell

	2021	2022	Comment
Real economy			
- real GDP (%)	5.9	3.3*	The war in Ukraine and the economic war between Russia and West create significant risk factors for the GDP outlook (negative impact of higher inflation, surge in risk aversion limiting private demand and investment activity). We have downgraded GDP outlook and now pencil in GDP growth rate in 2022 at 3.3% (down from 4.1%). On the other hand the strong economic momentum at the turn of 21/22 creates some positive buffer in terms of the whole 2022 result.
Prices			
- CPI inflation (%)	5.1	10.1	Another surge in energy prices (this time oil price spike) has neutralized an impact of the anti-inflationary shield on CPI inflation. Assuming that the shield will be prolonged at least until the end of 2022 we estimate CPI inflation at 10.1% in 2022. Food prices in summer as well as global commodity prices and PLN exchange rate are most important risk factors for our forecast.
Monetary aggregates			
- M3 money supply (%)	8.9	5.6	The outbreak of the war in Ukraine can limit down demand on loans significantly with deposits boosted by the state intervention (same as in the case of pandemic response). Our high frequency data signal rising likelihood of such scenario (what implies additional downside risks for GDP growth rate).
External balance			
- current account balance (% GDP)	-0.9	-1.3	Recurring supply constrains (e.g. shortage of automotive components manufactured in Ukraine) has triggered production outages, limiting exports volumes while surging commodity prices boost imports value at the same time. On the other hand, a drop of imports-intensive investments (rising risk aversion of corporations amid extreme uncertainty) should partially offset this negative impact.
Fiscal policy			
- fiscal balance (% GDP)	-1.9	-2.8	High growth rate of nominal GDP supports fiscal revenues. Fiscal result in 2022 will hinge on the size of anti-inflationary shields (most likely they will be extended unit year-end) and a support for refugees, i.e. fiscal spending mainly via off-budget entities.
Monetary policy			
- NBP reference rate (%)	1.75	6.50	The stagflationary impact of war makes policy choices for monetary authorities more tricky. We still believe that monetary tightening will be continued (with three more rate hikes by 50 bp in May/June and July) until the slowdown becomes apparent.

Source: GUS, NBP, Eurostat, PKO Bank Polski.*under revision.

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