

A double-digit rebound

Top macro theme(s):

- **Back to the pre-pandemic level?** (p. 2): Following nearly full set of monthly data for April-June, we fine tune our GDP estimate for 2q21 to 11.2% y/y.

What else caught our eye:

- **Labour market data for June proved stronger than expected with average wage up 9.8% y/y and employment growing 2.8% y/y.** Real wage bill grew 8.1%, the fastest since February 2019. The numbers herald a further strengthening of consumption growth and also higher core (services) inflation. **Unemployment rate fell to 5.9% in June from 6.1% in May**, the first y/y decline (0.2 pp) since March 2020, and another drop in sa terms.
- **M3 money supply grew 7.4% y/y in June. The mortgage market is heating up**, as PLN mortgage loans growth accelerated and was above 10% y/y for the first time since December 2020.
- **Consumer sentiment improved in July**, despite slightly bigger fears about the general economic situation. **Business sentiment deteriorated**, probably due to higher costs and changing structure of internal demand. While in manufacturing, construction and trade the sentiment deteriorated, situation in services (led by HoReCa) improved, likely reflecting the pent-up demand.
- **The ESA fiscal deficit fell to 6.5% of GDP in 1q21** (on a 4-quarter rolling basis) compared to 7% in 2020. Probably in 2q21 the 4-quarter deficit has already declined to around 3% of GDP. Public debt amounted to 59.1% of GDP in 1q21 and it is unlikely to exceed 60% of GDP this year. Meanwhile the **central budget is said to have a surplus of over PLN 25bn after June.**
- **PPI inflation in June accelerated to 7.0% y/y** driven by rising prices of energy, commodities and production components. We forecast that the producers inflation will accelerate towards 10% y/y in 2h21.
- **The number of new Covid-19 cases in Poland stopped falling.** While it is still low (around 100 per day; 0.25 per 100k population), the reproduction number rose above 1.0 for the first time since early April.

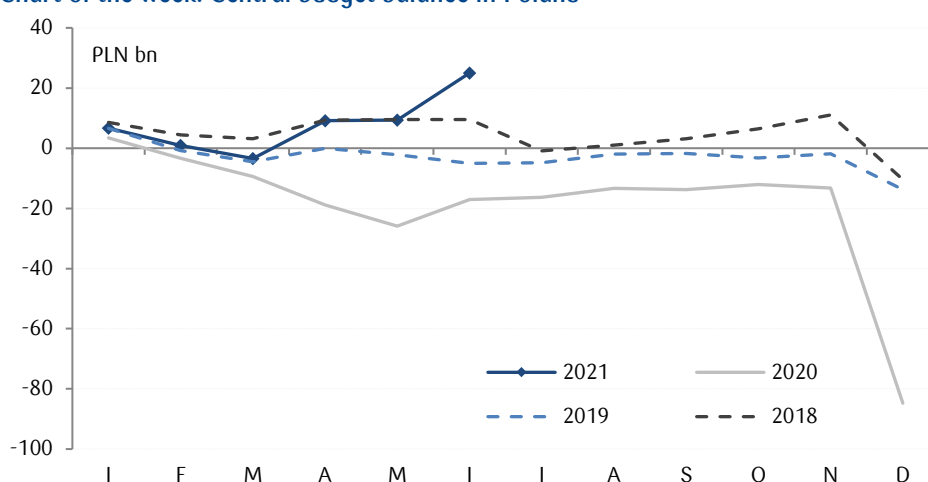
The week ahead:

- **CPI inflation in July** (flash reading) may return to local peak seen in May (4.7% y/y) due to rise in fuel and food prices, as well water tariffs. We expect CPI inflation to remain within 4.5-5.0% range throughout 2h21.

Number of the week:

- **152.7k – 7-day average daily number of vaccine injections in Poland**, as noted on Friday, the lowest since mid-April.

Chart of the week: Central budget balance in Poland



Source: MinFin, 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

Marcin Czaplicki

Economist
marcin.czaplicki@pkobp.pl
tel. +48 22 521 54 50

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

	2020	2021
Real GDP (%)	-2.7	5.4
Industrial output (%)	-1.0	16.0
Unemployment rate# (%)	6.2	5.4
CPI inflation** (%)	3.4	4.2
Core inflation** (%)	3.9	3.8
Money supply M3 (%)	16.4	7.5
C/A balance (% GDP)	3.5	2.3
Fiscal balance (% GDP)*	-7.0	-3.0
Public debt (% GDP)*	57.5	57.5
NBP reference rate## (%)	0.10	0.10
EURPLN#	4.61	4.48

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

Back to the pre-pandemic level?

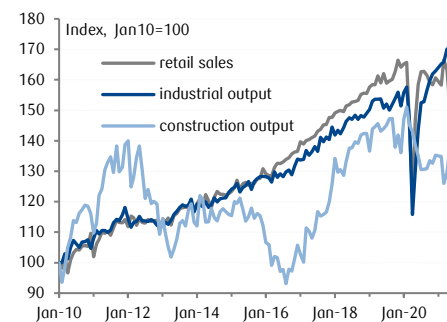
- A full set of monthly data for April-June allowed us to fine tune our estimate of GDP growth in 2q21 to 11.2% y/y. This would imply that in seasonally adjusted terms GDP level has returned to pre-pandemic level.
- Despite upgraded estimate for 2q21, our forecast for 2021 as a whole remains unchanged at 5.4%, as we see negative risks prevailing in 2h21 amid supply constraints and the next wave of the pandemic.

Industrial production in June rose 18.4% y/y (PKO: 17.7%, cons.: 19.0%), compared to 29.8% y/y rise in May and over 40% y/y in April. The deceleration results from weakening of the low base effect, and not the underlying trend. In May/June 2020 the industry was already resuming its activity after the lockdown-driven sudden stop that occurred late March and in April. The seasonally adjusted production increased by 0.2% m/m and 18.6% y/y, and is clearly above its pre-pandemic trend. Export oriented sectors still record the strongest production results, with production of computers, electronic and optical products rising by over 47% y/y, electrical devices output up by over 38% y/y and metals production growing by over 30% y/y. The automotive sector slowed down significantly, to 17.4% y/y in June compared to over 100% y/y in May. While it partly results from the higher base, it also confirms the negative impact of supply bottlenecks, that in June even forced one of big factories to temporary pause production. In the whole 2q21 industrial output grew by 30.8% y/y compared to 7.2% y/y in 1q21. While in the following months its annual growth rate will further normalise, for 3q21 we still forecast a double-digit growth (slightly above 10%), supported by high external and rebounding internal demand. Although some sectors will continue to suffer from supply bottlenecks, the overall impact of supply constraints on industry should be more visible in the cost pressure and PPI inflation than in output.

Construction output in June increased by 4.4% y/y (PKO: 8.3%, cons.: 7.1%) and it is app. 7% below the pre-pandemic level. Specialised construction activities, which include preparation of land for construction and finishing works, outperformed other sectors in June, growing by over 18% y/y. We remain upbeat on the future results of the construction sector. In 2q21 its output growth turned positive (to 1.6% y/y compared to -12.6% y/y in 1q21). Approaching rebound in public investment (see margin chart), rising investment plans of companies (see margin chart) and high activity in the housing sector (in 2q21 housing starts grew over 70% y/y and housing permits almost 30% y/y) will drive construction output up and the sector should close its pandemic driven gap before the year end.

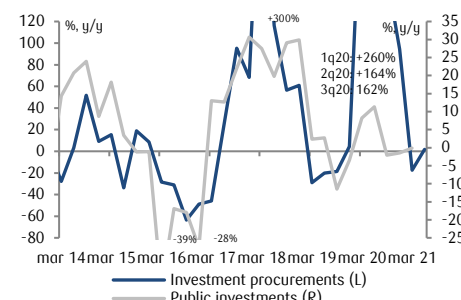
Real retail sales in June increased by 8.6% y/y (PKO: 9.5%, cons.: 8.4%), compared to 13.9% y/y in May. The seasonally adjusted sales rose by 0.8% m/m and are now almost 4% above its pre-pandemic level. Similar to industrial output, higher base is pushing down the y/y growth of retail sales and we estimate the underlying trend is around 10% y/y. After the strong rebound in May, when shopping malls reopened, sales of clothing and footwear somewhat moderated (to 22.3% y/y), while high base pushed sales of furniture, radio, tv and household appliances down (to 5.3% y/y). Nevertheless households demand remains solid, supported by improving sentiment and strong labour market. In total, in 2q21 real retail sales grew by 14.5% y/y compared to 2.0% y/y in 1q21. Taking into account high pent-up demand that's been pushing sales of services up since the restrictions were lifted, retail sales data might underestimate the strength of private consumption rebound (see chart on the next page).

Industrial output, construction output and retail sales



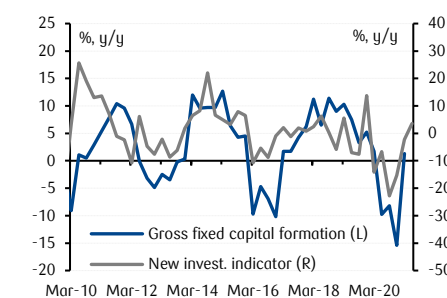
Source: GUS, NBP, PKO Bank Polski.

Public procurements vs public investments



Source: Press-info, Eurostat, PKO Bank Polski.

New investment indicator vs gross fixed capital formation

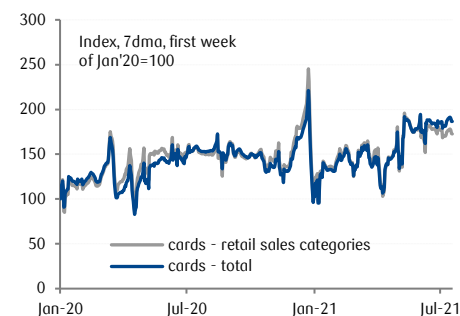


Source: GUS, NBP, PKO Bank Polski.

A full set of monthly data for April-June allowed us to fine tune our GDP growth estimate for 2q21 to 11.2% y/y (vs. our previous estimate of 10.5% y/y). We believe that in 2q21 all sectors of the economy turned positive (in 1q21 only industry, transportation, real estate market services and public administration were growing in y/y terms), and that **GDP (sa) has returned to its pre-pandemic level**. From the expenditure approach point of view, private consumption, supported by low base and pent-up demand, will be the main engine of GDP growth, contributing over 8pp and rising by 14.8% y/y. With improving construction results, rising public procurements and booming vehicles registrations, we predict further rebound of gross fixed capital formation. After the surprisingly weak result in 1q21, net exports contribution to GDP should turn positive and add over 1pp to GDP growth.

Despite the upgraded 2q21 estimate, we keep our whole 2021 forecast unchanged, at 5.4%. We underline that the 4th wave of pandemic, which now seems to be about to start in Poland, is a significant risk factor for 2h21 results. Due to a relatively low vaccination rate in Poland (43.9% of population is fully vaccinated) our base scenario (no severe economic restrictions despite rising cases thanks to lower hospitalizations and mortality than in previous waves) might be at risk.

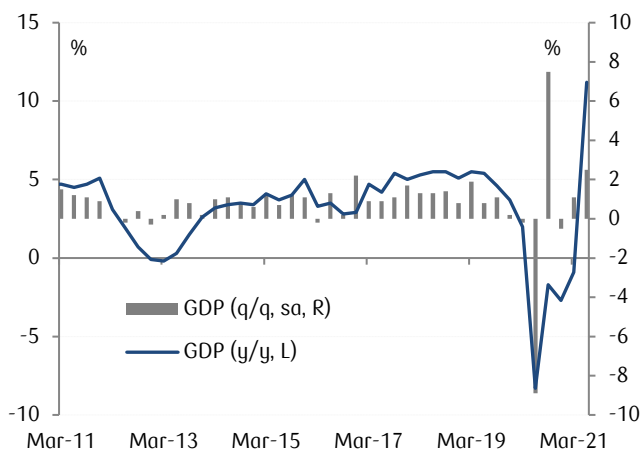
Card transaction of PKO customers – retail sales categories vs total purchases



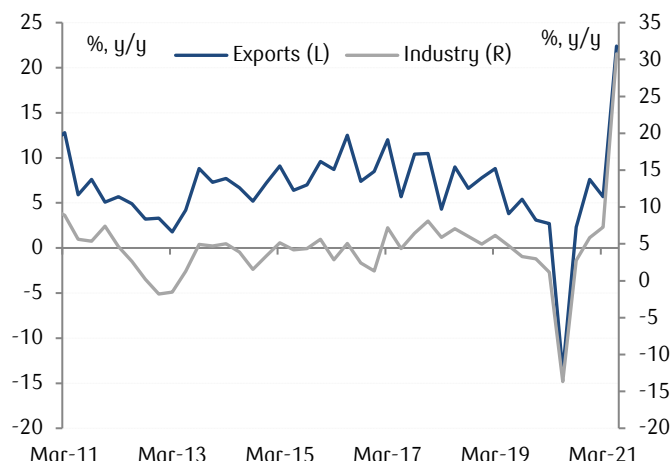
Source: PKO Bank Polski.

2q21 GDP preview

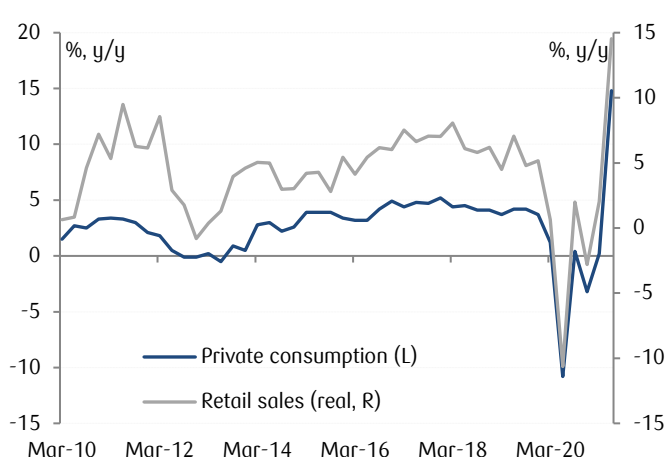
GDP*



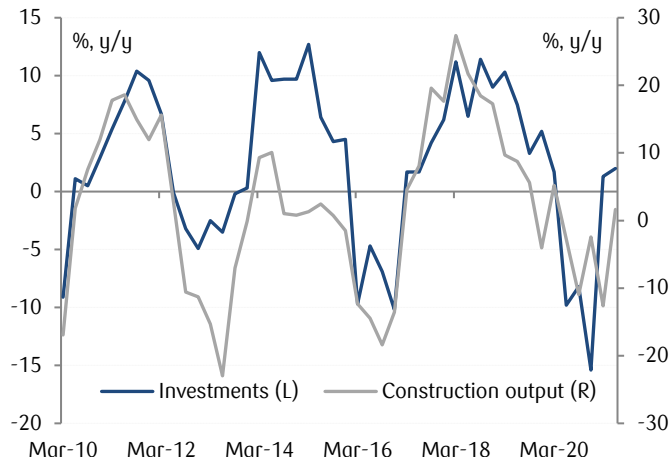
Exports*



Consumption*



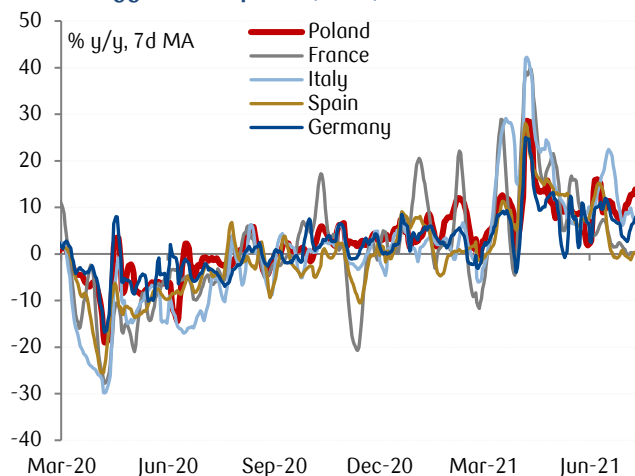
Investments*



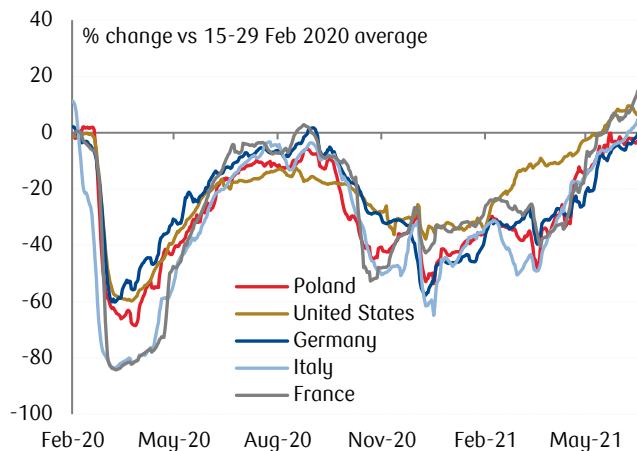
Source: GUS, PKO Bank Polski. *2q21 - PKOe

Macro monitoring with alternative data

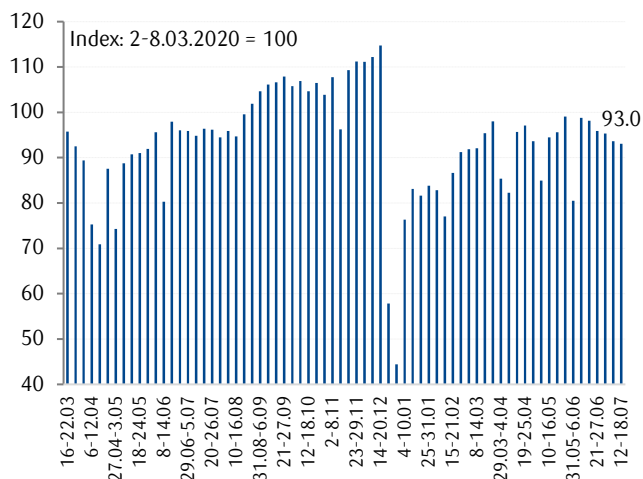
Electric energy consumption (total)



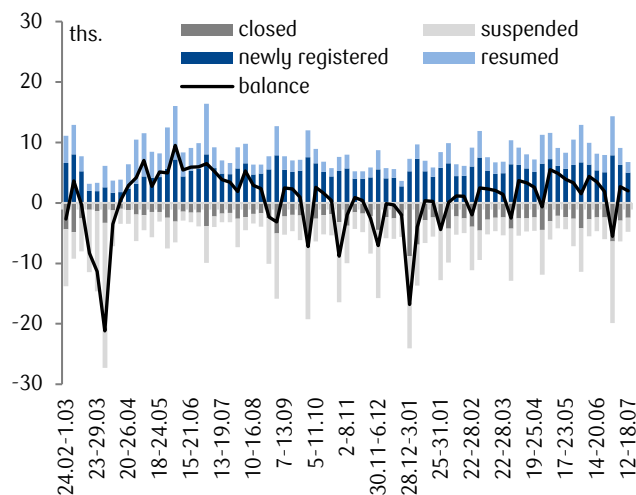
Mobility*



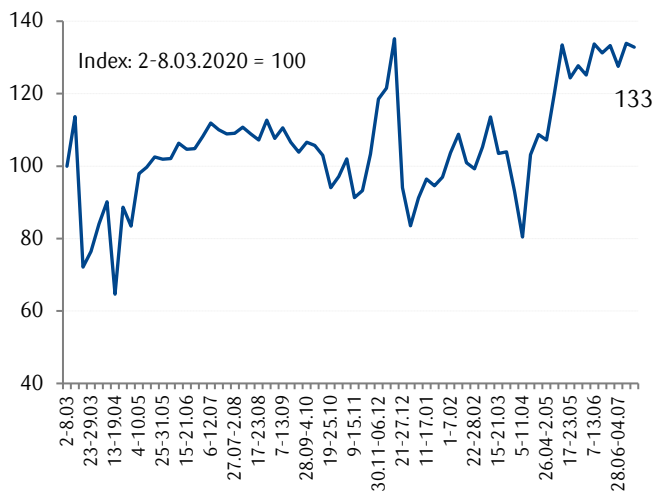
Heavy truck traffic



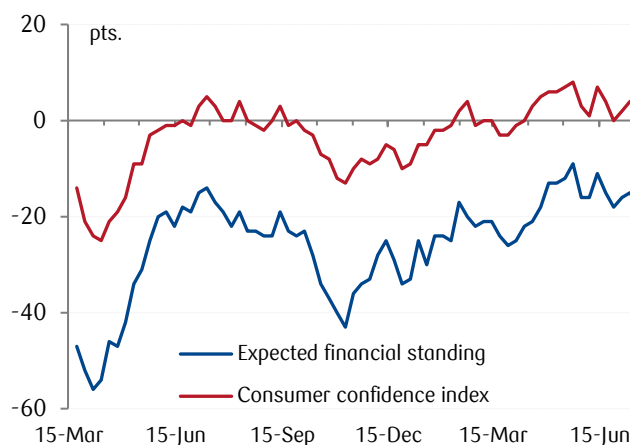
Economic activity status (acc. to CEIDG**)



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.

Weekly economic calendar

Indicator	Time (UK)	Unit	Previous	Consensus*	PKO BP	Comment
Monday, 26 July						
GER: Ifo Business Climate Index (Jul)	9:00	pts.	101.8	102	--	--
USA: New home sales (Jun)	15:00	thous.	769	800	--	--
Tuesday, 27 July						
EUR: M3 money supply (Jun)	9:00	% y/y	8.4	8.2	--	--
HUN: MNB meeting (Jul)	13:00	%	0.90	1.05	--	--
USA: Durable goods orders (Jun, flash)	13:30	% m/m	2.3	2.1	--	--
USA: S&P Case Shiller 20 (May)	14:00	% y/y	14.88	--	--	--
USA: Consumer confidence (Jul)	15:00	pts.	127.3	124.0	--	--
Wednesday, 28 July						
USA: Trade Balance (Jun)	13:30	bn USD	-88.1	-88.0	--	--
USA: Fed meeting (Jul)	19:00	%	0.25	0.25	0.25	--
Thursday, 29 July						
GER: Unemployment Rate (Jul)	8:55	%	5.9	5.8	--	--
EUR: Consumer Confidence (Jul, final)	10:00	pts.	-3.3	--	--	--
EUR: Economic Sentiment Indicator (Jul)	10:00	pts.	117.9	118.7	--	--
GER: CPI inflation (Jul, flash)	13:00	% y/y	2.3	3.2	--	--
GER: HICP inflation (Jul, flash)	13:00	% y/y	2.1	2.9	--	--
USA: Initial Jobless Claims (Jul)	13:30	thous.	419	--	--	--
USA: GDP growth (2q)	13:30	% q/q saar	6.4	8.3	--	--
USA: Personal consumption (2q)	13:30	% q/q saar	11.4	10.7	--	--
Friday, 30 July						
POL: CPI inflation (Jul, flash)	9:00	% y/y	4.4	4.7	4.7	CPI inflation may return to its May level (4.7% y/y) due to increasing fuel and food prices, as well as rising water tariffs.
GER: GDP growth (2q)	9:00	% y/y	-3.4	9.8	--	--
EUR: Core inflation (Jul, flash)	10:00	% y/y	0.9	0.7	--	--
EUR: CPI inflation (Jul)	10:00	% y/y	1.9	2.0	--	--
USA: Personal Income (Jun)	13:30	% m/m	-2.0	-0.6	--	--
USA: Personal spending (Jun)	13:30	% m/m	0.0	0.6	--	--
USA: PCE Deflator (Jun)	13:30	% y/y	3.9	4.1	--	--
USA: Core PCE inflation (Jun)	13:30	% y/y	3.4	3.7	--	--
USA: University of Michigan sentiment (Jul, final)	15:00	pts.	80.8	80.8	--	--

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

Selected economic indicators and forecasts

	Apr-21	May-21	Jun-21	1q21	2q21	3q21	4q21	2020	2021	2022
Economic activity										
Real GDP (% y/y)	x	x	x	-0.9	11.2	5.7	5.9	-2.7	5.4	5.1
Domestic demand (% y/y)	x	x	x	1.0	10.5	5.3	5.3	-3.7	5.5	5.1
Private consumption (% y/y)	x	x	x	0.2	14.8	3.6	6.8	-3.0	6.0	4.7
Gross fixed capital formation (% y/y)	x	x	x	1.3	2.0	3.0	5.0	-9.6	3.2	7.2
Inventories (pp)	x	x	x	0.3	0.3	1.8	-0.1	-0.8	0.6	0.3
Net exports (pp)	x	x	x	-1.9	1.4	0.7	1.0	0.8	0.3	0.3
Industrial output (% y/y)	44.2	29.8	18.4	7.5	30.8	14.4	10.9	-1.0	16.0	7.5
Construction output (% y/y)	-4.2	4.7	4.4	-12.5	1.6	5.8	0.9	-2.7	0.1	-0.8
Retail sales (real, % y/y)	21.1	13.9	8.6	1.9	14.5	10.0	9.0	-2.7	8.9	5.0
Nominal GDP (PLN bn)	x	x	x	585.2	605.6	635.6	713.3	2324	2540	2733
Labour market										
Registered unemployment rate‡(%)	6.3	6.1	5.9	6.4	5.9	5.4	5.4	6.2	5.4	4.8
Employment in enterprises (% y/y)	0.9	2.7	2.8	-1.7	2.1	1.3	1.0	-1.2	0.7	1.3
Wages in enterprises (% y/y)	9.9	10.1	9.8	5.8	9.9	8.7	9.0	4.8	8.4	8.3
Prices^										
CPI inflation (% y/y)	4.3	4.7	4.4	2.7	4.5	4.7	4.8	3.3	4.2	3.6
Core inflation (% y/y)	3.9	4.0	3.5	3.8	3.8	3.5	3.4	3.9	3.8	4.0
15% trimmed mean (% y/y)	3.3	3.3	3.1	2.6	3.2	x	x	3.9	3.6	3.3
PPI inflation (% y/y)	5.5	6.6	7.0	2.4	6.4	7.9	9.3	-0.5	6.5	5.4
Monetary aggregates‡										
Money supply, M3 (PLN bn)	1860	1872	1876	1862.5	1876.0	1909.0	1986	1822.7	1986.4	2098.1
Money supply, M3 (% y/y)	11.2	9.0	7.4	14.4	7.4	8.3	9.0	16.4	9.0	5.6
Real money supply, M3 (% y/y)	6.6	4.0	2.9	11.3	2.8	3.5	4.0	12.7	4.6	1.9
Loans, total (PLN bn)	1344.1	1347.4	1349.2	1344.0	1349.2	1381.9	1390.3	1333.9	1390.3	1474.5
Loans, total (% y/y)	-1.2	0.1	0.6	-1.7	0.6	3.3	4.2	0.8	4.2	6.1
Deposits, total (PLN bn)	1681.2	1698.0	1724.8	1669.9	1724.8	1759.3	1731.8	1602.2	1731.8	1841.5
Deposits, total (% y/y)	8.7	6.2	6.6	12.5	6.6	8.1	8.1	13.9	8.1	6.3
Balance of payments										
Current account balance (% GDP)	3.2	2.9	2.6	3.1	2.6	2.3	2.3	3.5	2.3	2.3
Trade balance (%GDP)	2.9	2.7	2.9	2.8	2.9	2.5	2.2	2.4	2.2	1.9
FDI (% GDP)	1.7	1.4	1.3	1.7	1.3	1.5	1.7	1.6	1.7	1.7
Fiscal policy										
Fiscal balance (% GDP)	x	x	x	x	x	x	x	-7.0	-3.0	-1.8
Public debt (% GDP)	x	x	x	x	x	x	x	57.5	57.5	55.2
Monetary policy‡										
NBP reference rate (%)	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.50
NBP lombard rate (%)	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	1.00
NBP deposit rate (%)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
WIBOR 3M ^x (%)	0.21	0.21	0.21	0.21	0.21	0.20	0.20	0.21	0.20	0.60
Real WIBOR 3M ^x (%) [#]	-4.09	-4.53	-4.15	-2.53	-4.27	-4.50	-4.64	-3.06	-3.98	-3.02
Exchange rates^{x,‡}										
EUR-PLN	4.57	4.48	4.52	4.66	4.52	4.50	4.48	4.61	4.48	4.44
USD-PLN	3.77	3.67	3.80	3.97	3.80	3.78	3.73	3.75	3.73	3.70
CHF-PLN	4.15	4.08	4.12	4.21	4.12	4.09	4.04	4.25	4.04	3.96
EUR-USD	1.21	1.22	1.19	1.17	1.19	1.19	1.20	1.23	1.20	1.20

Source: GUS, NBP, PKO Bank Polski.

^xPKO BP Market Strategy team forecasts,[^]period averages for quarterly and yearly data,[#]deflated with current CPI inflation,[‡]period end values,

Monetary policy monitor

MPC Members	Hawk-o-meter*	Recent policy indicative comments^
E. Gatnar	4.8	"We should have higher rates now. Poles need to be given a signal that the MPC acknowledges high inflation and to know it's doing everything possible to prevent inflation from becoming entrenched." (22.07.2021, Bloomberg)
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	"Interest rates should be delicately normalized at this moment (...) In my opinion, the NBP reference rate should already be higher by at least 15 bps (...) Lack of any reaction by the NBP in the nearest future may lead to risk of de-anchoring inflation expectations, and from there the road is straight to lastingly elevated inflation." (15.06.2021, PAP)
J. Kropiwnicki	2.8	"If in Poland it turns out that we are at the 2019 level in terms of national income and will have a strong growth rate, then we could even start dealing with price increases " (14.06.2021, PAP, Biznes24).
J. Zyzynski	2.6	"I'm not going to experiment with any hikes (...) This year and the beginning of 2022 is a serious test for our economy. The wait-and-see approach, then, is all I can see until the economy achieves pre-pandemic levels." (23.06.2021, Bloomberg)
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	"At the moment speculation as to when the MPC will finally hike rates are fully unjustified (...) Especially that we are all waiting for July - we will [then] have the GDP and CPI projection, we will see how this situation will look like in the light of these expert assessments." (14.06.2021, Biznes24.tv, PAP)
C. Kochalski	2.0	"Regarding the eventual level of interest rates after the pandemic, for me the imperative of maintaining a stable level of prices while simultaneously supporting the economic policy remains unchanged (...) And as regards the sequence of monetary policy normalisation, ending the asset purchase [program] and then raising the rates is the right normalisation" (17.06.2021, PAP).
A. Glapinski	1.7	"I repeat that in the following quarters it could be justified to launch a discussion about monetary policy adjustment. (...) However, for this to happen we need to be sure that the pandemic situation does not distort economic activity, [that] the next projections show the risk of [inflation] lastingly exceeding the upper limit of tolerance band, and that inflation is growing as a result of demand-side factors and not supply or regulatory shocks. (...) It would not be reasonable to raise interest rates before the situation clears up, especially as the epidemic has started to worsen again in some countries." (20.07.2021, PAP, Bloomberg)
E. Lon	1.0	"I believe that until the publication of the November inflation and GDP projection, it is worth keeping interest rates in our country at the current level. (...) If the November projection shows that the period of inflation staying above the upper end of the tolerance band were to be higher in the future than it results from the July projection, maybe it will be worth to consider the possibility of NBP taking adequate steps to suppress inflationary tendencies." (19.07.2021, 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.

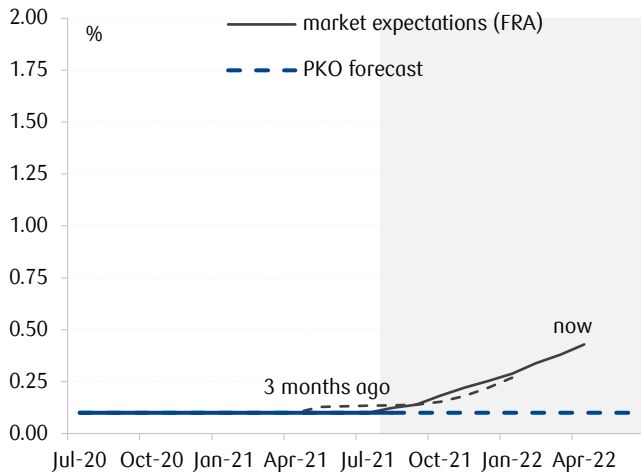
Interest rates – PKO BP forecasts vs. market expectations

		1M	2M	3M	4M	5M	6M	7M	8M	9M
Date	22-Jul	22-Aug	22-Sep	22-Oct	22-Nov	22-Dec	22-Jan	22-Feb	22-Mar	22-Apr
WIBOR 3M/FRA†	0,21	0,23	0,25	0,29	0,33	0,36	0,40	0,45	0,49	0,54
implied change (b. p.)		0,02	0,04	0,08	0,12	0,15	0,19	0,24	0,28	0,33
MPC Meeting	8-Jul	-	8-Sep	6-Oct	3-Nov	8-Dec	-	-	-	-
PKO BP forecast*	0,10	0,10	0,10	0,10	0,10	0,10	0,10	0,10	0,10	0,10
market pricing*		0,12	0,14	0,18	0,22	0,25	0,29	0,34	0,38	0,43

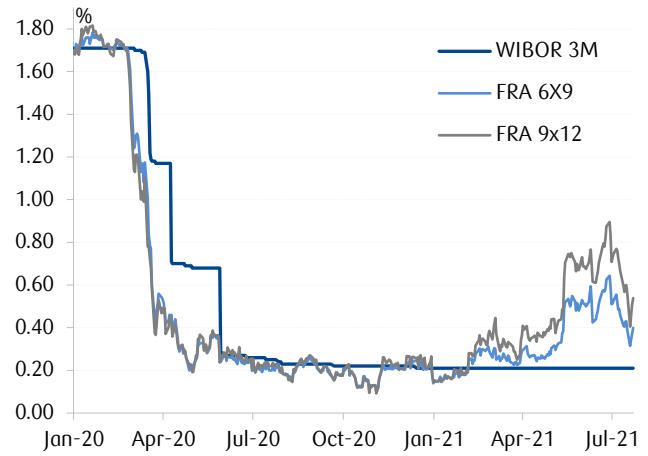
†WIBOR 3M from the last fixing, FRA transactions based on WIBOR 3M for subsequent periods, ‡in basis points, *PKO BP forecast of the NBP reference rate.

Poland macro chartbook

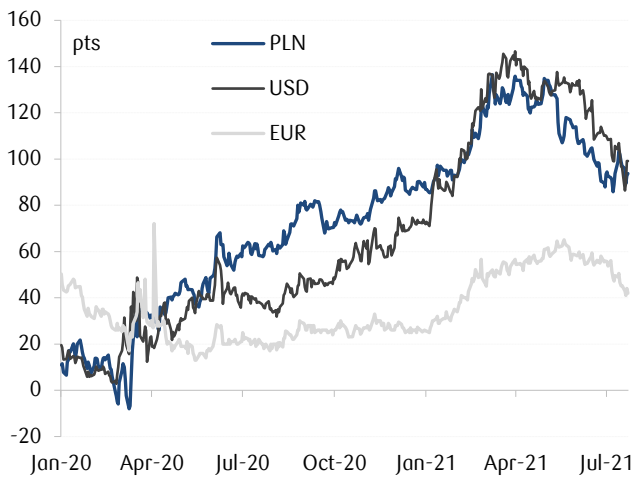
NBP policy rate: PKO BP forecast vs. market expectations



Short-term PLN interest rates



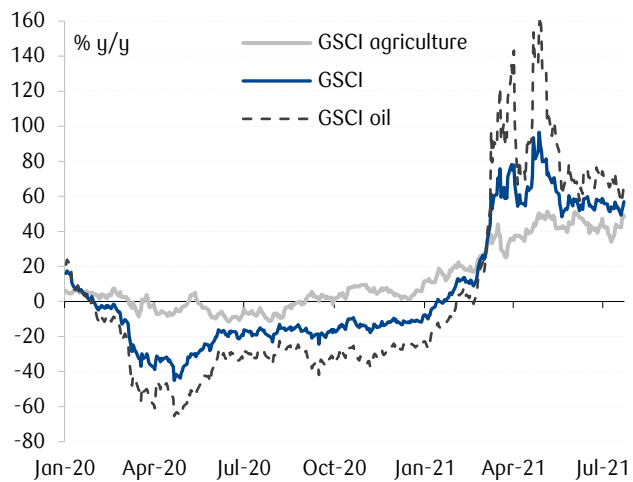
Slope of the swap curve (spread 10Y-2Y)*



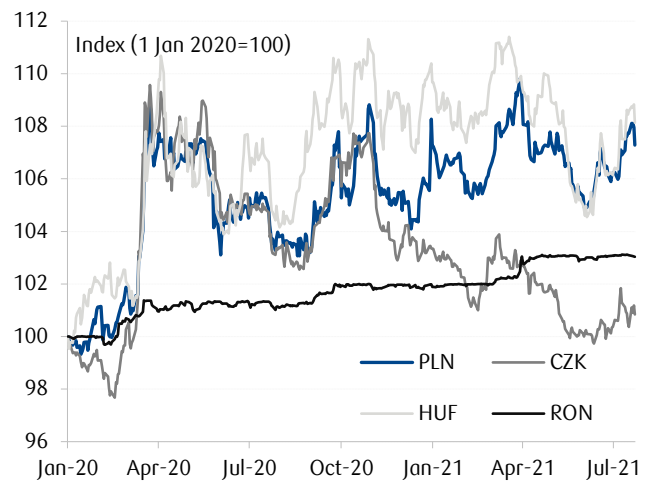
PLN asset swap spread



Global commodity prices (in PLN)

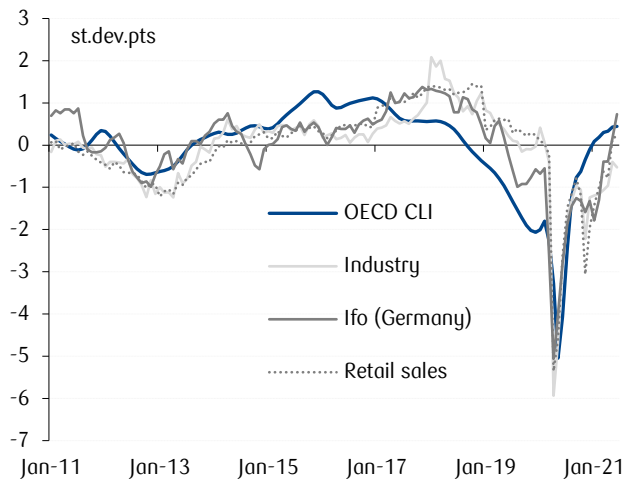


Selected CEE exchange rates against the EUR

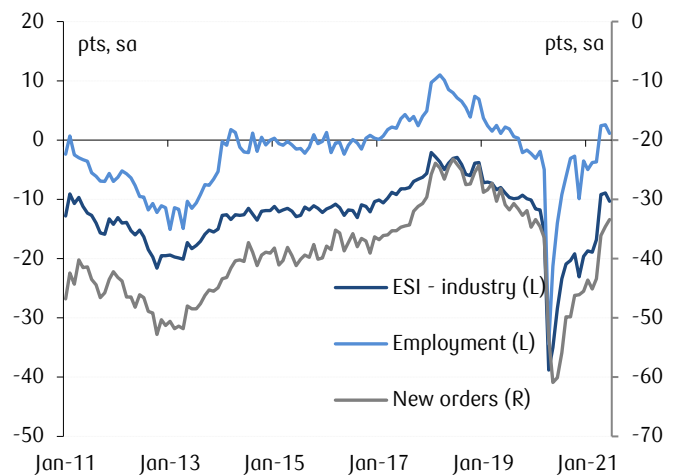


Source: Datastream, NBP, PKO Bank Polski. *for PLN, and EUR 6M, for USD 3M.

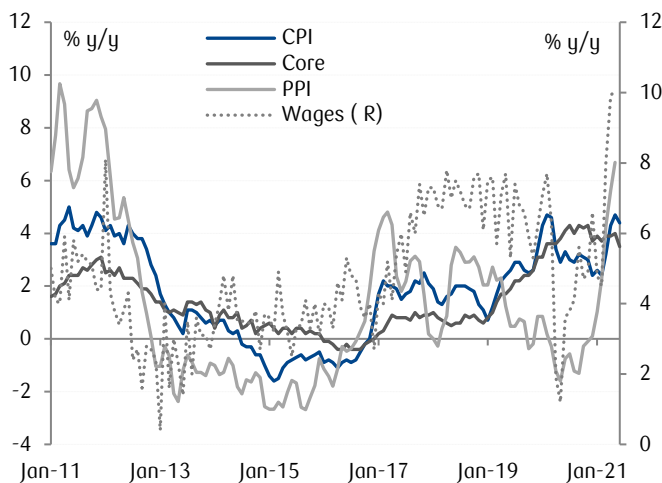
Economic sentiment indicators



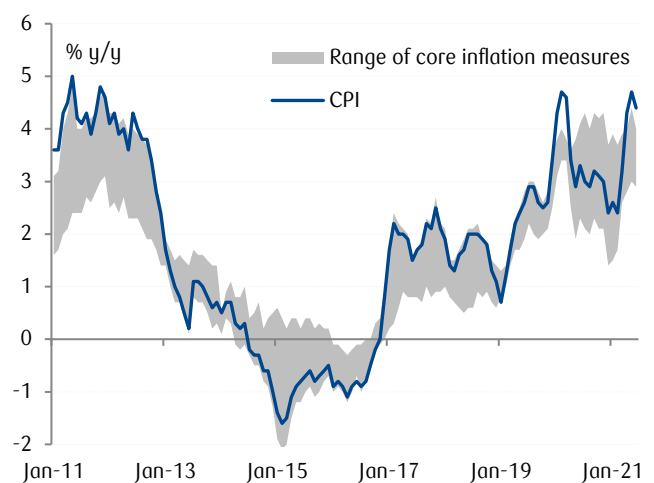
Poland ESI for industry and its components



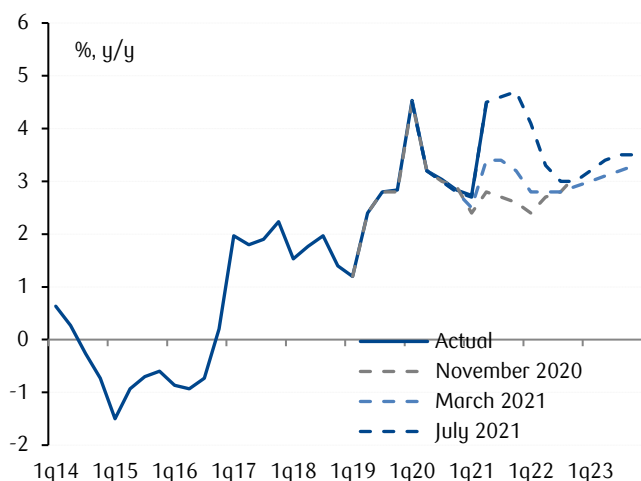
Broad inflation measures



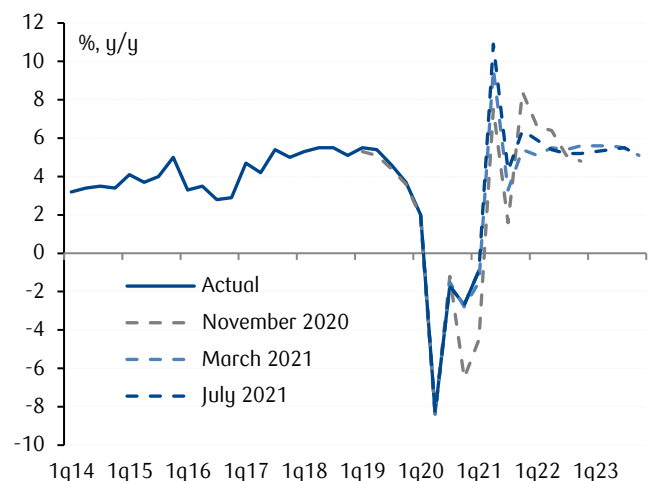
CPI and core inflation measures



CPI inflation - NBP projections vs. actual

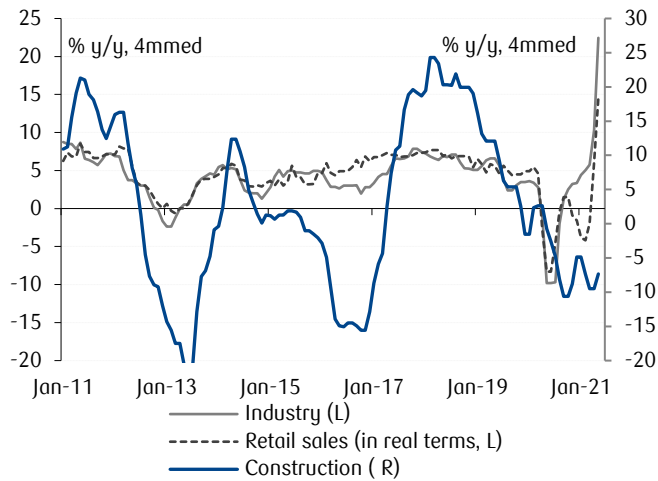


Real GDP growth - NBP projections vs. actual

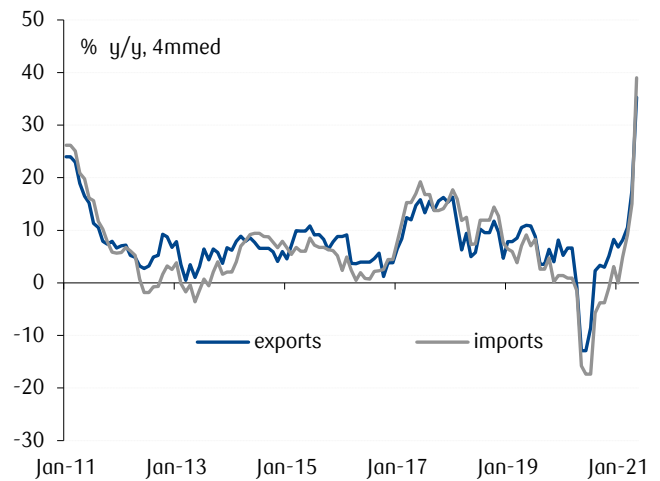


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

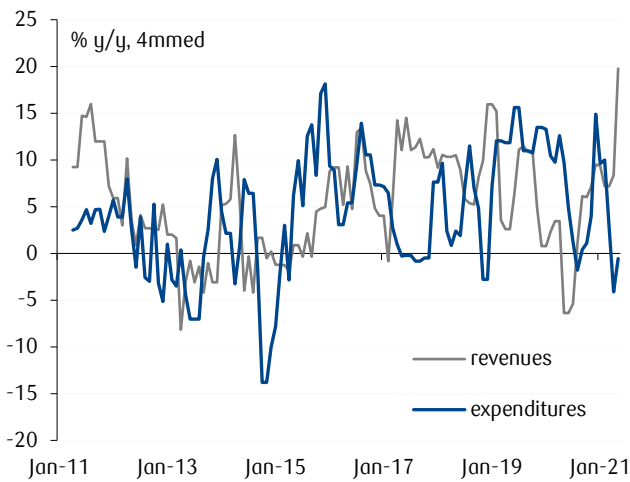
Economic activity indicators



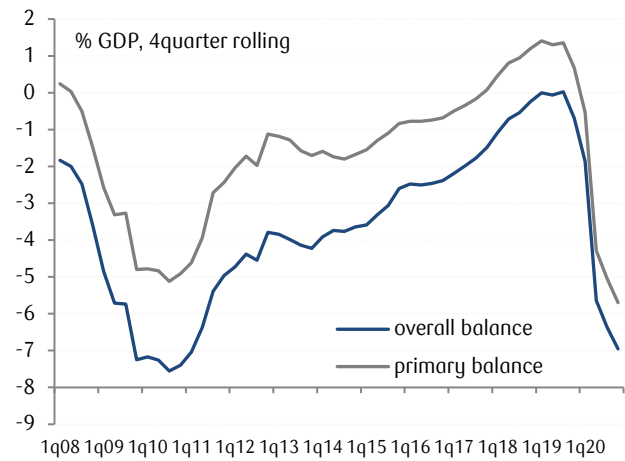
Merchandise trade (in EUR terms)



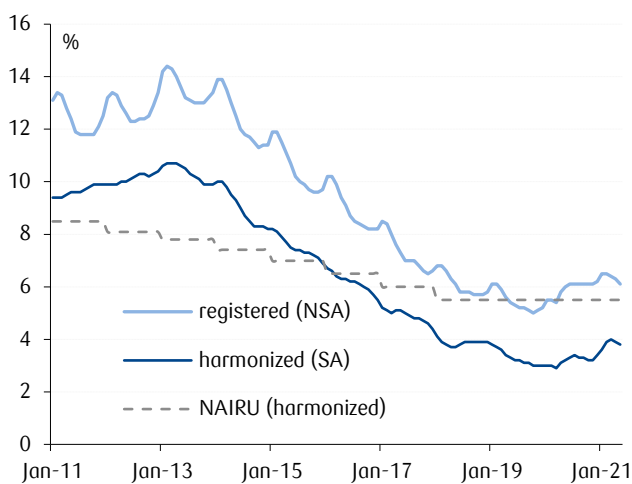
Central government revenues and expenditures*



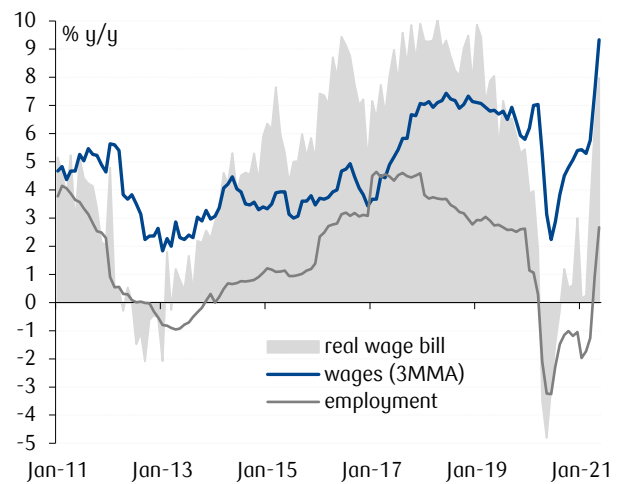
General government balance (ESA2010)



Unemployment rate

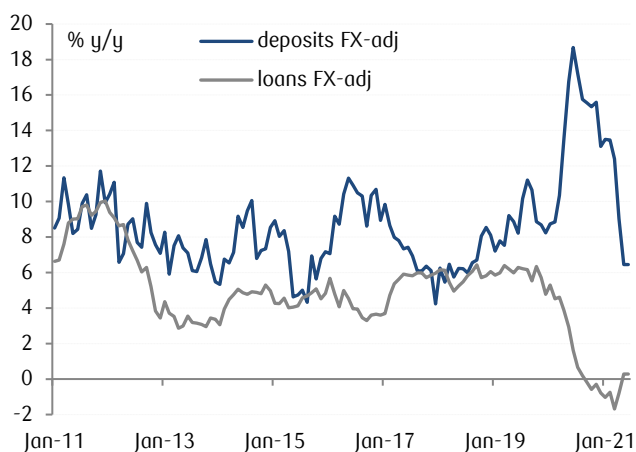


Employment and wages in the enterprise sector

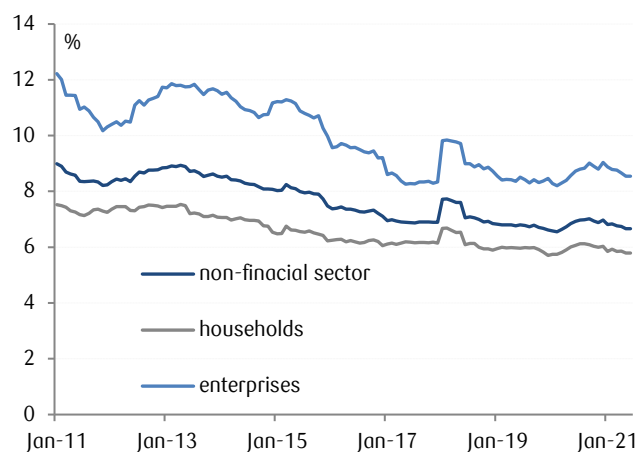


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. *break in series in 2010 due to methodological changes.

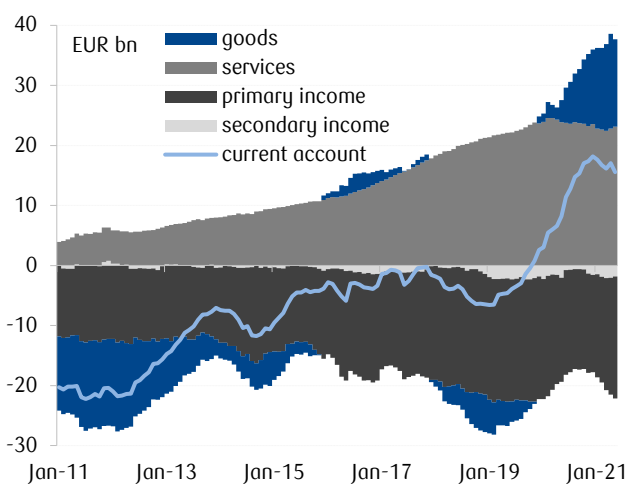
Loans and deposits



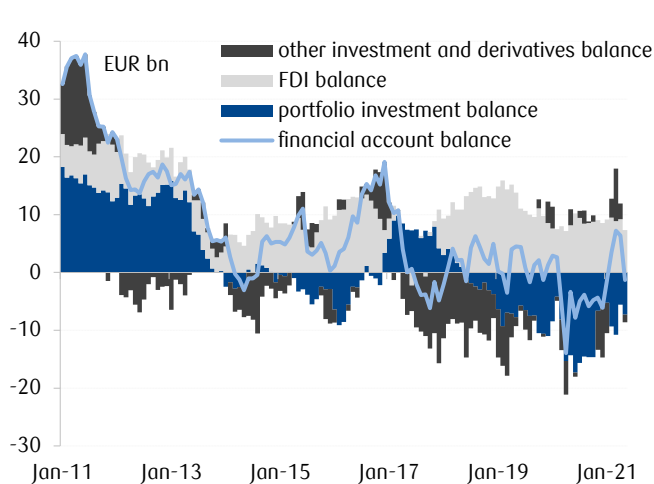
Non-performing loans (NPLs) - by sectors*



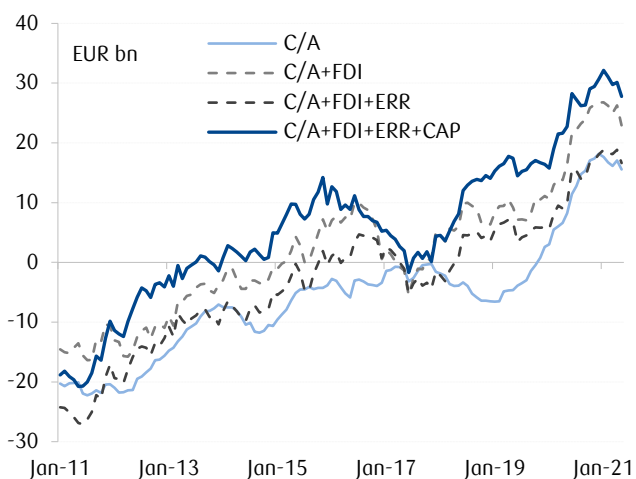
Current account balance



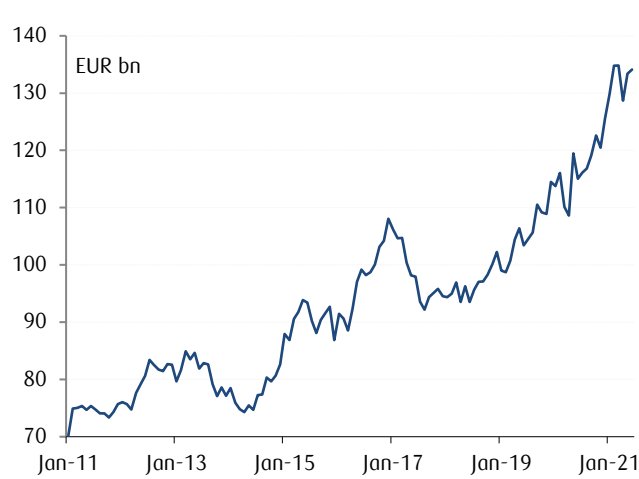
Financial account balance



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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- [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)
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- [Fearless?](#) (Oct 23, 2020)
- [How deep is the second dip?](#) (Oct 16, 2020)
- [Second wave, double dip recession?](#) (Oct 9, 2020)

Poland's macro in a nutshell

	2020	2021	Comment
Real economy			
- real GDP (%)	-2.7	5.4	We have revised our 2021 GDP growth forecast to 5.4% and expect it to remain above 5% in 2022, without taking into account the potential effects of the Polish New Deal (we estimate the impact of tax changes alone at ca. 1.0% of GDP). Strong economic growth will be driven by three engines – (1) consumption (pent-up demand, “forced savings”, high wage growth), (2) investments (National Recovery Plan, high liquidity in enterprises), (3) export (upgrades in global value chains, FDI).
Prices			
- CPI inflation (%)	3.4	4.2	Elevated inflation is the price of the rapid recovery. In 2h21 inflation will remain around the level of 4.5%, and we think it will be only slightly lower in 2022. Importantly, we still see the risk balance for this scenario tilted clearly upwards. Food will be the main factor keeping inflation elevated in the coming months, due to both a low base (pork), a weaker harvest (fruits), and rising production costs. Finally, it appears that core inflation is not about to let up. High nominal wage growth also means services price inflation.
Monetary aggregates			
- M3 money supply (%)	16.4	9.0	With the rebound of the economic growth, we expect credit demand to increase slowly, fueling a moderate bank lending expansion. Smaller scale of asset purchases will result in a deceleration of money supply growth.
External balance			
- current account balance (% GDP)	3.5	2.3	Exports remains the bright star of the Polish economy. The continuation of the strong trend at the beginning of this year indicates that structural rather than transitory factors are behind the Polish export expansion. Trade and overall current account surpluses, combined with EU inflows and strong nominal GDP growth, will lower the foreign debt-to-GDP ratio, which we see as an important factor supporting an upward revision of Poland's rating in the medium term.
Fiscal policy			
- fiscal balance (% GDP)	-7.0	-3.0	We continue to forecast that the fiscal deficit in 2021 will narrow to 3.0% of GDP from 7.0% of GDP in 2020. Rapid recovery, high inflation, and payment of the NBP profit make the situation of the state budget comfortable, and the scale of the surprise in the execution of this year's budget (vs. the 2021 plan) would be huge if it were not for the likely "pre-financing" of spending for the next year.
Monetary policy			
- NBP reference rate (%)	0.10	0.10	Market expectations promise a revolution in domestic monetary policy, but the central bank clearly prefers evolution. The NBP remains in crisis mode and is cautious about normalising monetary policy. However, the first step in this direction has been taken - the MPC is no longer ruling out rate hikes, and all that remains to be decided is "when" interest rates in Poland will start to rise. The Fed and the ECB are giving ambiguous hints to the NBP. In our opinion, the MPC will delay rate hikes until next year.

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

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