

Normalisation

Top macro theme(s):

- **Normalisation (p. 2):** GDP growth in 3q21 normalised at a high level of 5.1% y/y (above consensus at 4.8% y/y) versus a record-high 11.2% y/y in 2q21. Detailed data with breakdown of GDP growth will be released on November 30. Given the result for 3q21 was below our estimate (5.7%y/y), we fine-tune our prediction for the whole 2021 to 5.3% vs 5.4% previously. However, outcome for 4q21 and the full year is burdened with uncertainty related to quickly developing fourth wave of the pandemic in Poland.

What else caught our eye:

- Dovish MPC members (incl. J.Zyzynski, G.Ancyparowicz) signal that should inflation rose above the path in the NBP projection, the **MPC will continue the tightening cycle** (in our view the fresh inflation projection is already out of date, see our [Macro Flash](#)).
- The European Commission's GDP growth forecasts for Poland barely changed (4.9% in 2021, +0.1pp vs. previous estimate; 5.2% in 2022, unchanged) while inflation forecasts have been significantly lifted (to 5.0% in 2021 and 5.2% in 2022). General government deficit is projected to reach 3.3% of GDP in 2021 and 1.8% of GDP in 2022.

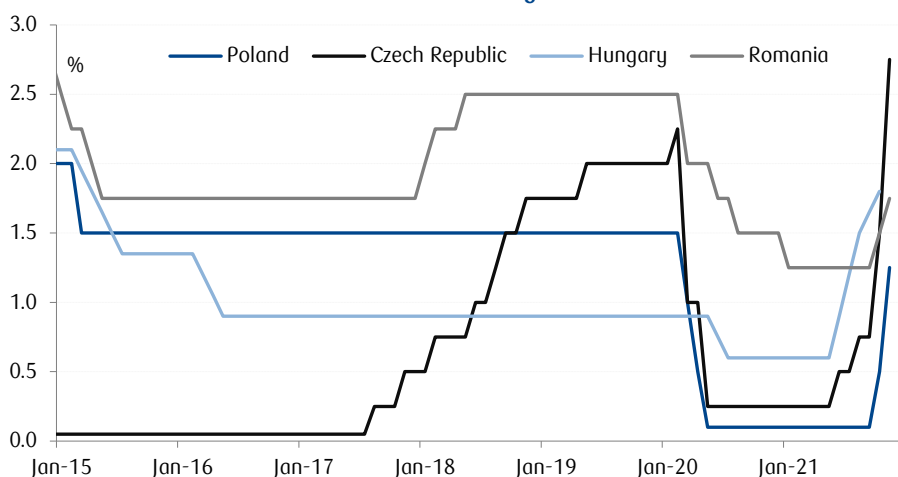
The week ahead:

- Detailed CPI figures for October is the key local macro data release this week. While headline inflation is likely to be revised up (from 6.8% y/y in flash release), core inflation most likely hit 4.5% y/y, on our estimate.
- Balance of payments for September should further deteriorate as bottlenecks limited exports growth and boosted value of imports at the same time (companies piling up inventories and price effect in case of energy commodities).
- Labour market data for October should confirm that labour market conditions are firming, with continued employment rise (PKOe: 0.5% y/y) and strong wage growth (PKOe: 9.3% y/y).

Number of the week:

- **9.4% y/y** – average wage growth in the economy in 3q21 (both corporate and public sector), implying that the underlying trend is 7-8% y/y, i.e. at the pre-pandemic level.

Chart of the week: Interest rates in the CEE region



Source: Macrobond, 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

Michał Rot

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

	2020	2021 _t
Real GDP (%)	-2.5	5.3
Industrial output (%)	-1.0	13.2
Unemployment rate [#] (%)	6.2	5.8
CPI inflation ^{**} (%)	3.4	4.9
Core inflation ^{**} (%)	3.9	4.1
Money supply M3 (%)	16.4	9.0
C/A balance (% GDP)	2.9	0.0
Fiscal balance (% GDP)*	-7.1	-1.7
Public debt (% GDP)*	57.4	56.8
NBP reference rate ^{##} (%)	0.10	1.75
EURPLN ^{†##}	4.61	4.56

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.

Normalization

- GDP growth in 3q21 normalised at a high level of 5.1% y/y (above consensus at 4.8% y/y) versus a record-high 11.2% y/y in 2q21. Detailed data with breakdown of GDP growth will be released on November 30. Given the result for 3q21 was below our estimate (5.7%y/y), we fine-tune our prediction for the whole 2021 to 5.3% vs 5.4% previously. However, outcome for 4q21 and the full year is burdened with uncertainty related to quickly developing fourth wave of the pandemic in Poland.

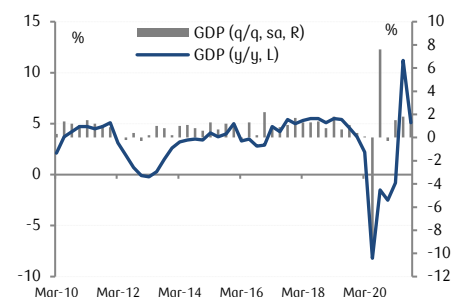
GDP growth in 3q21 was 5.1% y/y, below our estimate (PKOe: 5.7% y/y), down from a record-high 11.2% y/y in 2q21. Seasonally adjusted GDP rose 2.1% q/q (vs. 1.8% q/q in 2q21). GDP exceeded the pre-pandemic level by 2.8%. All in all, the data confirmed that the economic growth normalized - after the period of disturbances related to the pandemic - at a high pace of ca. 5% y/y (see chart).

The detailed data with the GDP breakdown will be released on November 30. Taking into account the monthly data for July-September, we estimate that private consumption growth in 3q21 was 4.0% y/y. Estimates of consumption (and total GDP) for that period is burdened with very high uncertainty related to the fact that services sector was the main growth driver in 3q21 - at least this is suggested by our card data. At the same time, it's the part of the economy, for which there are no monthly indicators.

Incoming data (incl. NBP sentiment survey results) indicate, same as in 2q21, that our estimate of fixed investment growth in 3q21 may be too conservative (PKOe: 3.0%). However, we still believe that the recovery in investments was moderate at best, and will remain so at least until the end of 2021. On the other hand, as our consumption and investments forecasts are below consensus, we and the consensus most likely differ on inventories and net exports contributions estimates. We think inventory build-up was significant in 3q21 as companies facing bottlenecks piled-up stocks of materials and components.

The key question for 4q21-1q22 is how the economy will react to the accelerating 4th wave of the pandemic. The experience with the pandemic to date suggests that the impact of successive waves on GDP growth is diminishing. Hence, we still assume that the 4th wave should not have a significant impact on GDP growth in 4q21, which we estimate at 5.9% y/y. In the whole of 2021, according to our fine-tuned estimates, GDP growth will amount to 5.3%.

GDP growth in Poland



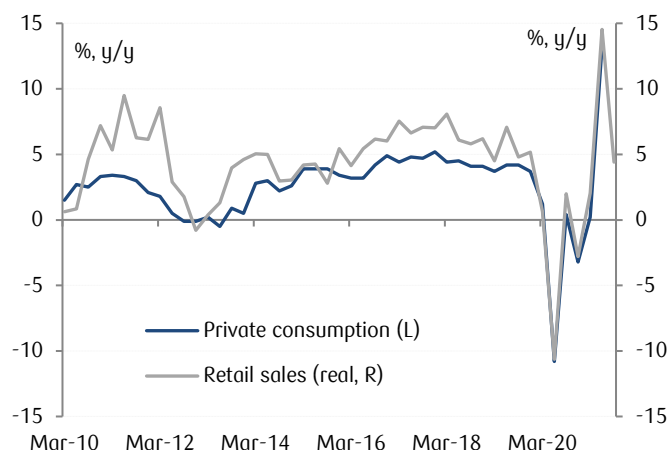
Source: GUS, PKO Bank Polski.

GDP level in Poland



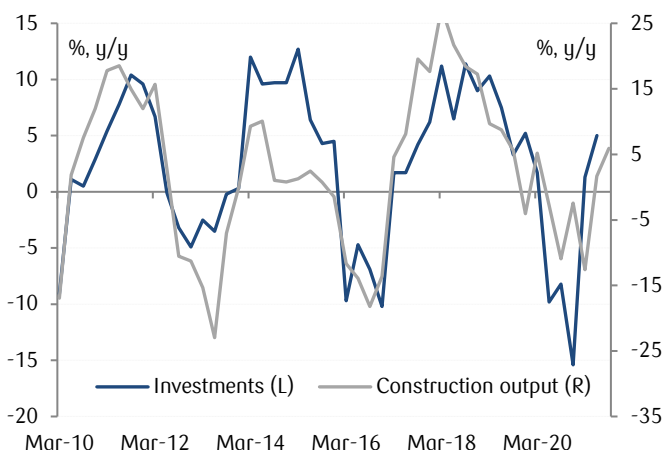
Source: GUS, PKO Bank Polski.

Private consumption



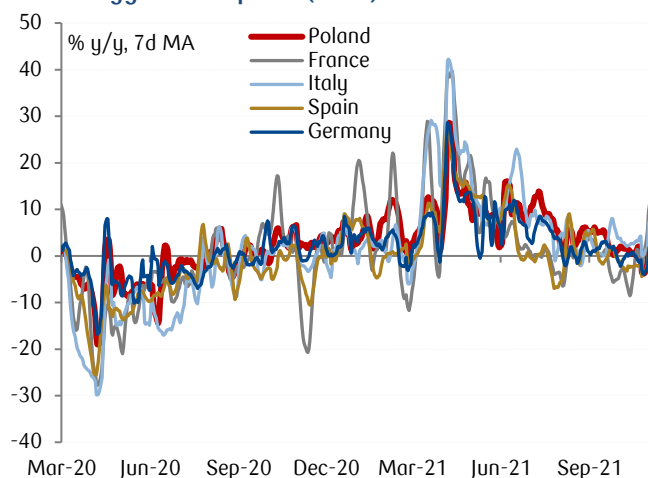
Source: GUS, PKO Bank Polski.

Investments

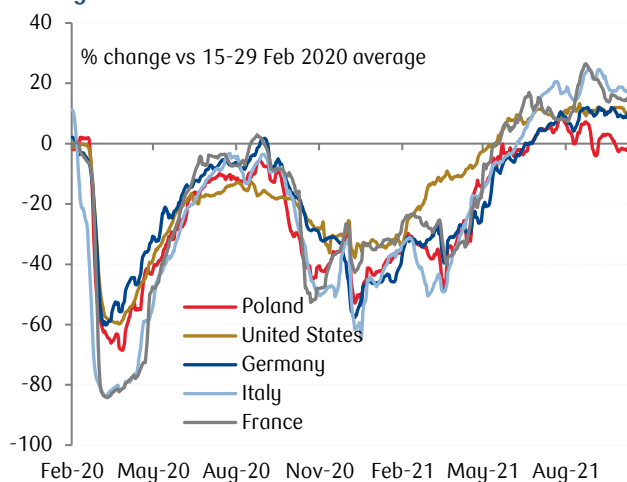


Macro monitoring with alternative data

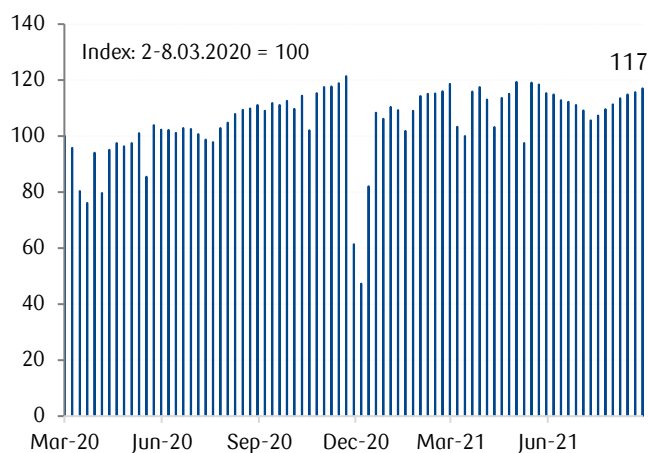
Electric energy consumption (total)



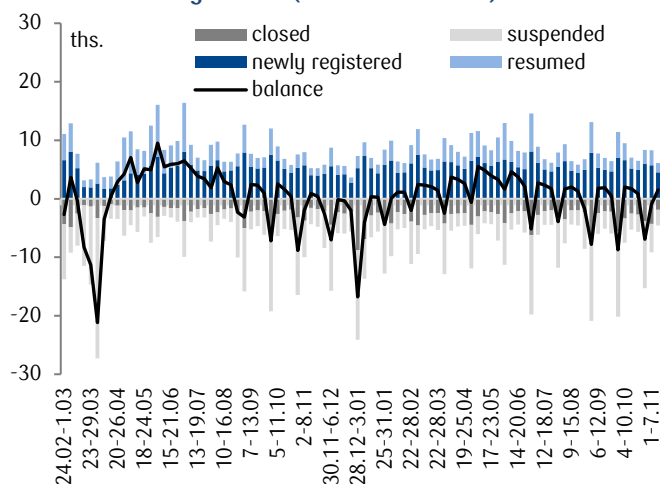
Mobility*



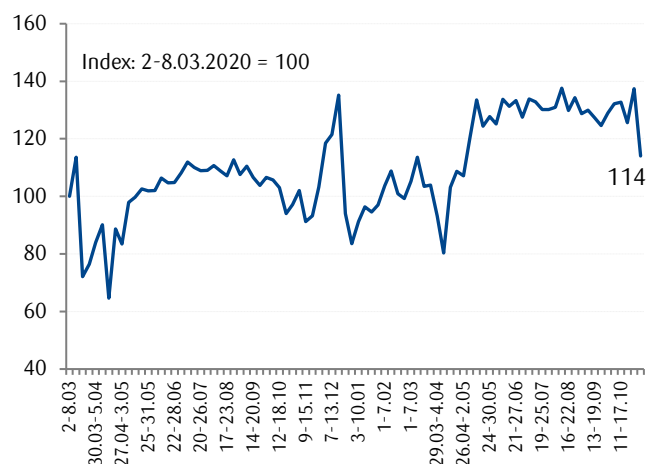
Heavy truck traffic^^



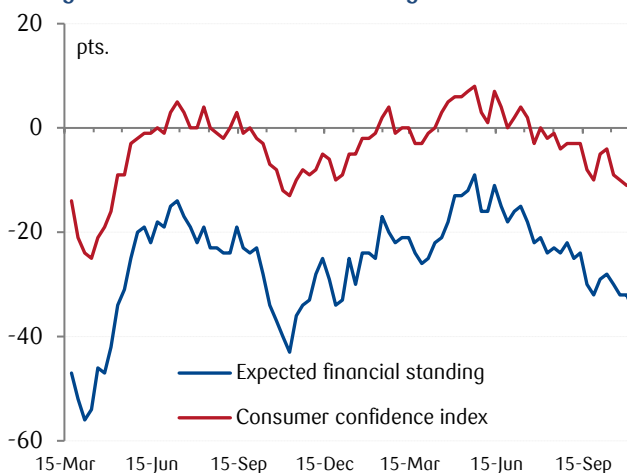
Economic activity status (acc. to CEiDG**)



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. 26th, 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
Monday, 15 November						
POL: CPI inflation (Oct, final)	9:00	% y/y	5.9	6.8	6.8	Given strong price dynamics, another upward revision to flash reading (6.8% for October) is possible. Surging commodity prices (boosting imports) and bottlenecks on the supply side (harming exports) weigh on C/A balance.
POL: Current account balance (Sep)	13:00	EUR bn	-1.686	-1.3	-1.598	
POL: Exports (Sep)	13:00	% y/y	19.4	12.2	11.4	
POL: Imports (Sep)	13:00	% y/y	32.9	24.2	24.3	
Tuesday, 16 November						
EUR: GDP growth (3q)	10:00	% y/y	14.3	3.8	--	Broad-based pressure on consumer prices indicated by high level of core inflation is among key arguments supporting rate hikes. .
POL: Core inflation (Oct)	13:00	% y/y	4.2	4.5	4.5	
HUN: MNB meeting (Nov)	13:00	%	1.80	2.10	2.10	--
USA: Retail sales (Oct)	13:30	% m/m	0.7	1.1	--	--
USA: Industrial production (Oct)	14:15	% m/m	-1.3	0.8	--	--
Wednesday, 17 November						
EUR: HICP inflation (Oct, final)	10:00	% y/y	3.4	4.1	--	--
USA: Building Permits (Oct)	13:30	thous.	1589	1630	--	--
USA: Housing starts (Oct)	13:30	thous.	1555	1575	--	--
Thursday, 18 November						
USA: Initial Jobless Claims (Nov)	13:30	thous.	267	260	--	--
Friday, 19 November						
POL: Wages (Oct)	9:00	% y/y	8.7	8.9	9.3	Wage growth above consensus may fuel expectations for another NBP rate hike in December.
POL: Employment (Oct)	9:00	% y/y	0.6	0.5	0.5	

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

Selected economic indicators and forecasts

	Aug-21	Sep-21	Oct-21	1q21	2q21	3q21	4q21	2020	2021	2022
Economic activity										
Real GDP (% y/y)	x	x	x	-0.8	11.2	5.1	5.9	-2.5	5.3	5.1
Domestic demand (% y/y)	x	x	x	0.3	12.4	4.7	5.3	-3.7	5.5	5.1
Private consumption (% y/y)	x	x	x	0.1	13.1	4.0	6.8	-3.0	5.7	4.7
Gross fixed capital formation (% y/y)	x	x	x	1.7	5.6	3.0	5.0	-9.6	3.8	7.2
Inventories (pp)	x	x	x	-0.2	2.8	1.0	-0.1	-0.8	0.8	0.3
Net exports (pp)	x	x	x	-1.1	-0.3	0.7	1.0	0.8	0.1	0.3
Industrial output (% y/y)	13.0	8.8	4.2	7.8	30.2	10.4	4.9	-1.0	13.2	6.6
Construction output (% y/y)	10.2	4.3	5.0	-12.5	1.8	5.8	1.6	-2.7	x	x
Retail sales (real, % y/y)	5.4	5.1	6.3	1.2	14.4	4.8	6.9	-2.7	7.1	4.7
Nominal GDP (PLN bn)	x	x	x	587.4	617.0	651.1	740.1	2327	2596	2881
Labour market										
Registered unemployment rate‡(%)	5.8	5.6	5.5	6.4	5.9	5.6	5.8	6.2	5.8	4.8
Employment in enterprises (% y/y)	0.9	0.6	0.5	-1.7	2.1	1.1	0.6	-1.2	0.5	1.1
Wages in enterprises (% y/y)	9.5	8.7	9.3	5.8	9.9	9.0	8.8	4.8	8.4	8.5
Prices^										
CPI inflation (% y/y)	5.5	5.9	6.8	2.7	4.5	5.4	7.0	3.4	4.9	6.2
Core inflation (% y/y)	3.9	4.2	4.6	3.8	3.8	3.9	4.7	3.9	4.1	4.7
15% trimmed mean (% y/y)	4.1	4.5	x	2.6	3.2	4.1	x	3.9	x	x
PPI inflation (% y/y)	9.6	10.1	10.9	2.4	6.4	9.4	11.7	-0.5	7.4	5.7
Monetary aggregates‡										
Money supply, M3 (PLN bn)	1902.8	1914.2	1917.7	1862.5	1876.0	1914.2	1985.78	1822.7	1985.8	2097.3
Money supply, M3 (% y/y)	9.1	8.6	8.5	14.4	7.4	8.6	9.0	16.4	9.0	5.6
Real money supply, M3 (% y/y)	3.5	2.6	1.6	11.3	2.8	3.0	1.9	12.6	3.9	-0.5
Loans, total (PLN bn)	1365.4	1376.3	x	1344.0	1349.2	1376.3	1392.7	1333.8	1392.7	1474.4
Loans, total (% y/y)	2.6	2.9	x	-1.7	0.6	2.9	4.4	0.8	4.4	5.9
Deposits, total (PLN bn)	1774.0	1798.1	x	1670.0	1724.8	1798.1	1818.1	1602.2	1818.1	1893.6
Deposits, total (% y/y)	9.8	10.5	x	12.4	6.6	10.5	13.5	13.9	13.5	4.2
Balance of payments										
Current account balance (% GDP)	0.9	0.5	0.3	2.7	1.7	0.5	0.0	2.9	0.0	0.7
Trade balance (%GDP)	1.7	1.3	1.1	2.7	2.4	1.3	0.7	2.4	0.7	0.2
FDI (% GDP)	2.5	2.5	2.2	2.2	2.2	2.5	2.4	2.1	2.4	1.7
Fiscal policy										
Fiscal balance (% GDP)	x	x	x	x	x	x	x	-7.1	-1.7	-1.3
Public debt (% GDP)	x	x	x	x	x	x	x	57.4	56.8	54.3
Monetary policy‡										
NBP reference rate (%)	0.10	0.10	0.50	0.10	0.10	0.10	1.75	0.10	1.75	2.00
NBP lombard rate (%)	0.50	0.50	1.00	0.50	0.50	0.50	2.25	0.50	2.25	2.50
NBP deposit rate (%)	0.00	0.00	0.00	0.00	0.00	0.00	1.25	0.00	1.25	1.50
WIBOR 3M* (%)	0.23	0.23	0.23	0.21	0.21	0.23	1.90	0.21	1.90	2.15
Real WIBOR 3M* (%)#	-5.23	-5.64	-6.56	-2.53	-4.26	-5.19	-5.05	-3.06	-2.98	-4.04
Exchange rates*‡										
EUR-PLN	4.54	4.62	4.62	4.66	4.52	4.62	4.56	4.61	4.56	4.44
USD-PLN	3.84	3.95	3.97	3.97	3.80	3.95	3.97	3.75	3.97	3.86
CHF-PLN	4.20	4.26	4.35	4.21	4.12	4.26	4.18	4.25	4.18	3.96
EUR-USD	1.18	1.17	1.16	1.17	1.19	1.17	1.15	1.23	1.15	1.15

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.

Monetary policy monitor

MPC Members Hawk-o-meter* Recent policy indicative comments^

K. Zubelewicz	4.9	"Today, the reference rate at the level of 2.0% certainly would not be too high (...) Only a higher price of money than before the crisis would guarantee a return of inflation to the target in the mid-term, but I don't count on that (...) True, there are isolated supply-side problems, but since the total output is higher it means that other sectors are making up for these problems with increased output. In my opinion, the main source of inflation is the demand impulse" (18.10.2021, PAP)
E. Gatnar	4.7	"We have started normalization of our monetary policy, but there will be no return to those rates from before the pandemic (...) It's the new normal, and in my opinion it means 2.5% to 3% eventually for the NBP main reference rate." (08.11.2021, PAP, Interia.pl)
L. Hardt	4.3	"Most likely, with very high likelihood, we will have to continue the monetary policy tightening cycle. (...) While a year ago I warned against cutting interest rates practically to zero, now I would be cautious with too fast and too radical tightening of monetary policy (...) If we increase the cost of money significantly in December, then taking into account the tightening from October and November it will be the first monetary policy tightening of such considerable [PAP: scale] in 20 years, so I would be cautious with the scale of the hikes." (09.11.2021, PAP).
J. Kropiwnicki	2.7	"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).
R. Sura	2.7	"The October interest rate hike is described as surprising. One should note here that the NBP has been withdrawing from monetary accommodation for some time via limiting the asset purchase program, which had not been adequately noted and interpreted by the market. (...) At the same time, I cannot say whether I will vote in favor of another interest rate hike in November or in the following months, because the Council will be the first to know my decision. Still, I see need for normalization of interest rates to pre-pandemic levels." (22.10.2020, PAP).
G. Ancyparowicz	2.6	"We're determined to act against such an excessive increase in prices (...) We have begun that action, and if price data don't show signs of any improvement, we'll need to continue." (05.11.2021, Bloomberg)
J. Zyzynski	2.4	"The Polish rate council might have to hike rates by 75 bps again if inflation rises above the level forecast in the latest NBP projection" (08.11.2021, Bloomberg)
C. Kochalski	2.2	"We think that the first quarter [PAP: of 2022] is the quarter in which we should see the inflation peak (...) 7-8%, this is the order of magnitude." (10.11.2021, PAP, Biznes24.tv).
A. Glapinski	1.8	"As of January everything suggests that inflation will be falling; there will be no need to hike interest rates further" (05.11.2021, TVN24, PAP)
E. Lon	1.3	"Now, when there already are strong grounds [PAP: backing] the claim that Poland's economy has entered a lasting path of fast economic growth, we can safely commence the phase of interest rate hikes," (08.11.2021, 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.

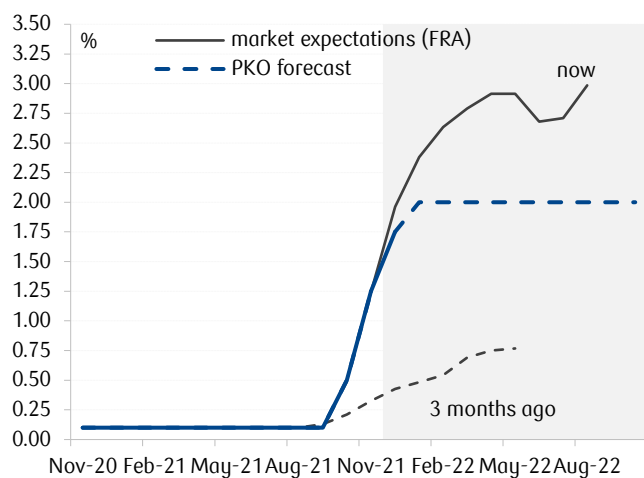
Interest rates – PKO BP forecasts vs. market expectations

		1M	2M	3M	4M	5M	6M	7M	8M	9M
Date	11-Nov	11-Dec	11-Jan	11-Feb	11-Mar	11-Apr	11-May	11-Jun	11-Jul	11-Aug
WIBOR 3M/FRA†	1.58	2.29	2.71	2.97	3.12	3.24	3.25	3.01	3.04	3.32
implied change (b. p.)		0.71	1.13	1.39	1.54	1.66	1.67	1.43	1.46	1.74
MPC Meeting	3-Nov	8-Dec	12-Jan	8-Feb	8-Mar	6-Apr	5-May	8-Jun	7-Jul	-
PKO BP forecast*	1.25	1.75	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
market pricing*		1.96	2.38	2.64	2.79	2.91	2.92	2.68	2.71	2.99

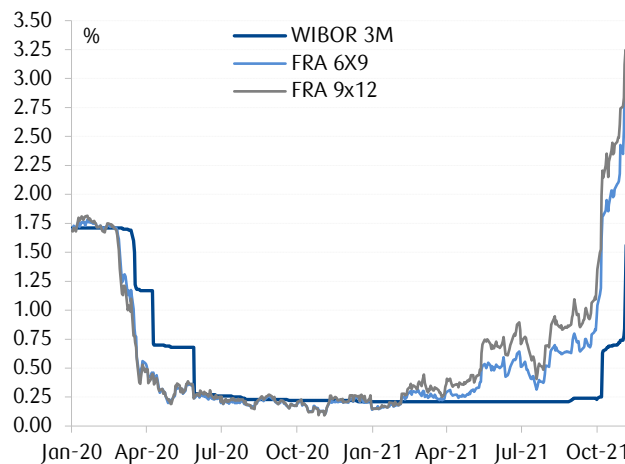
†WIBOR 3M from the last fixing, FRA transactions based on WIBOR 3M for subsequent periods, ‡in basis points, *PKO BP forecast of the NBP reference rate.

Poland macro chartbook

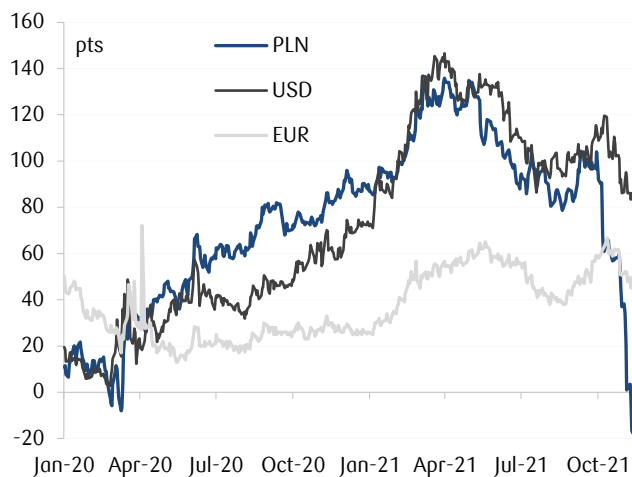
NBP policy rate: PKO BP forecast vs. market expectations



Short-term PLN interest rates



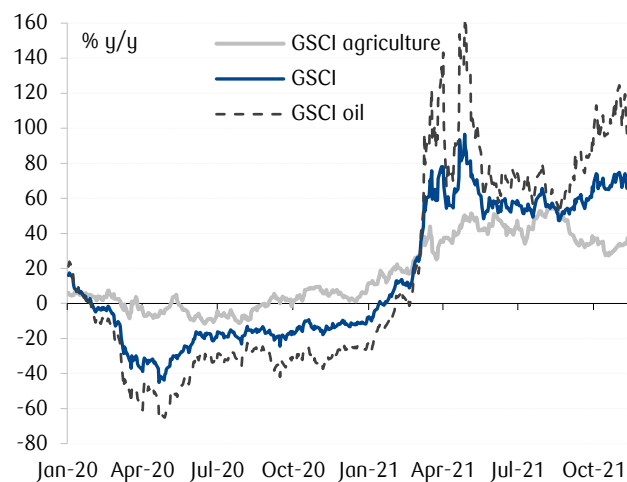
Slope of the swap curve (spread 10Y-2Y)*



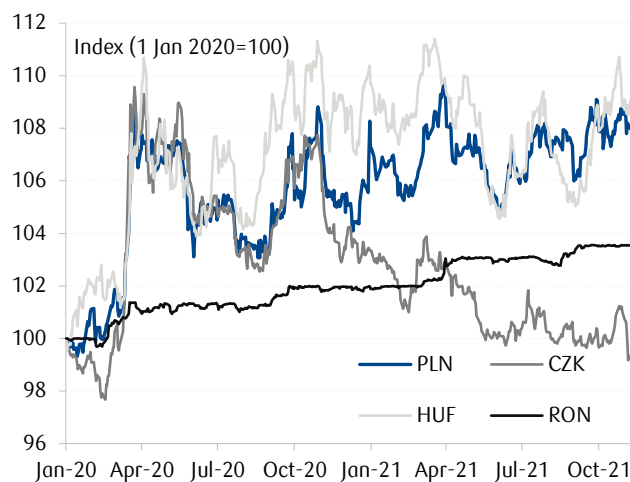
PLN asset swap spread



Global commodity prices (in PLN)

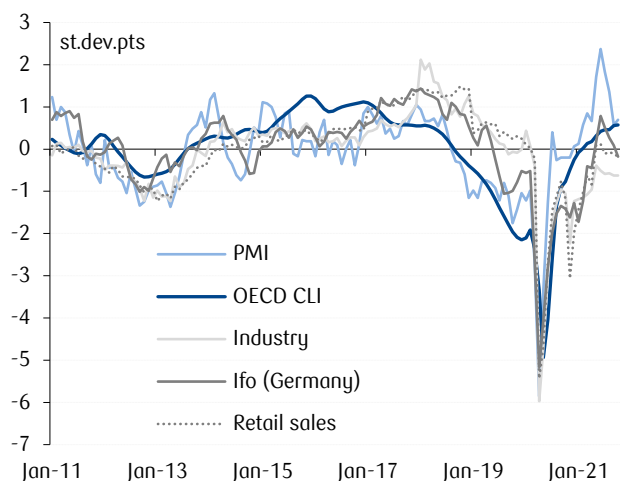


Selected CEE exchange rates against the EUR

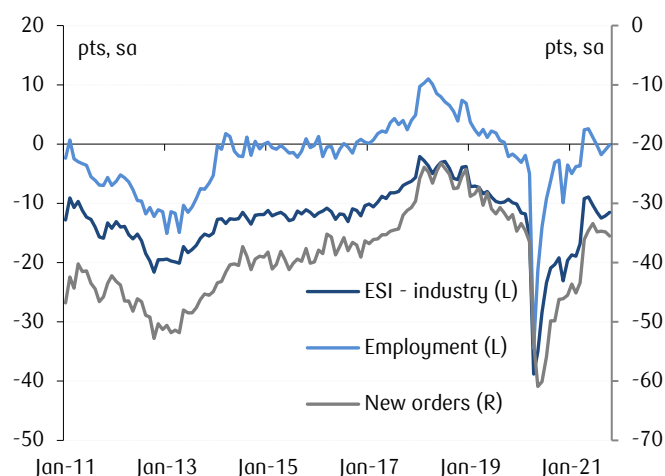


Source: Datastream, NBP, PKO Bank Polski. *for PLN, and EUR 6M, for USD 3M.

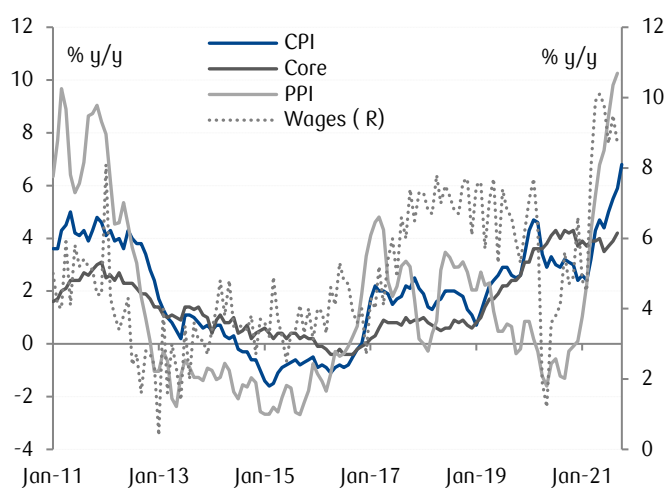
Economic sentiment indicators



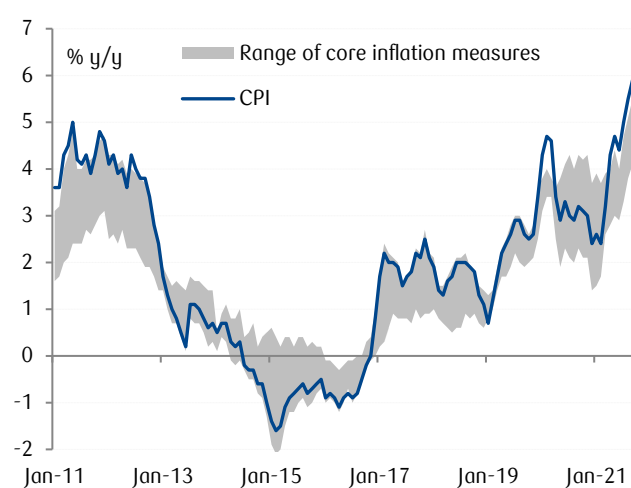
Poland ESI for industry and its components



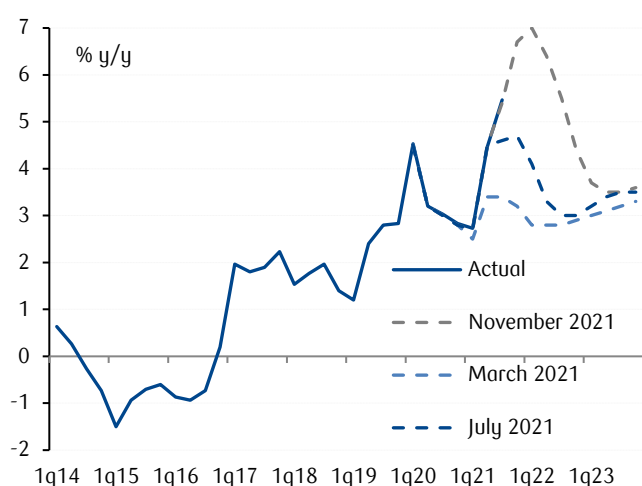
Broad inflation measures



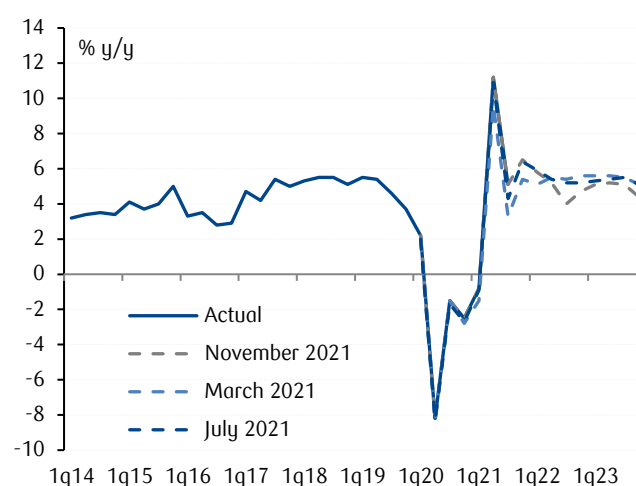
CPI and core inflation measures



CPI inflation – NBP projections vs. actual

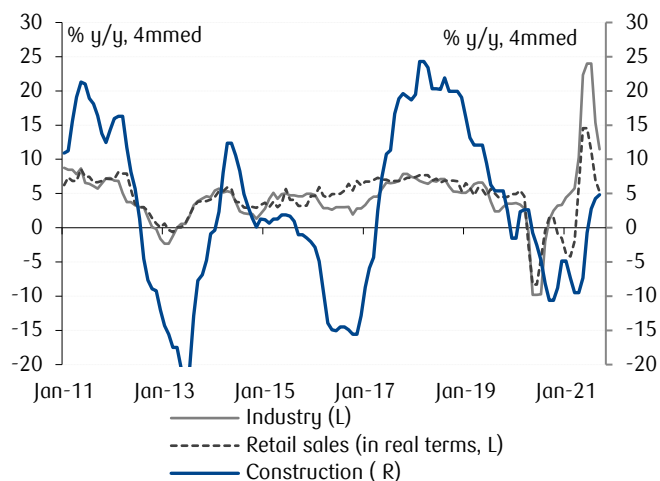


Real GDP growth – NBP projections vs. actual

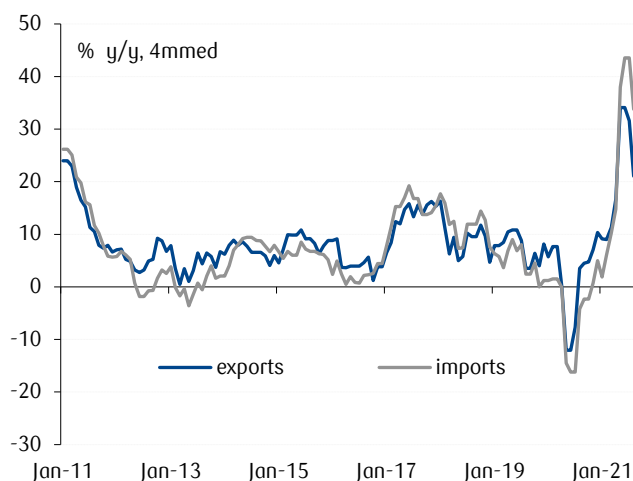


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

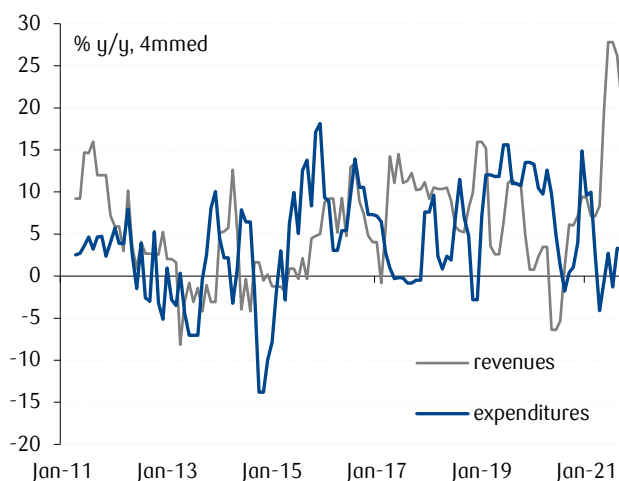
Economic activity indicators



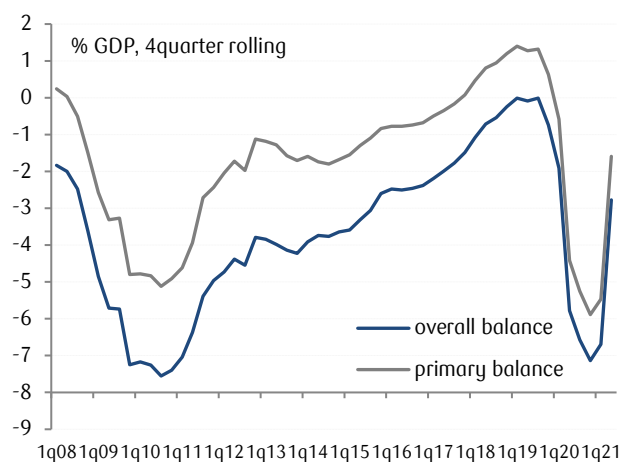
Merchandise trade (in EUR terms)



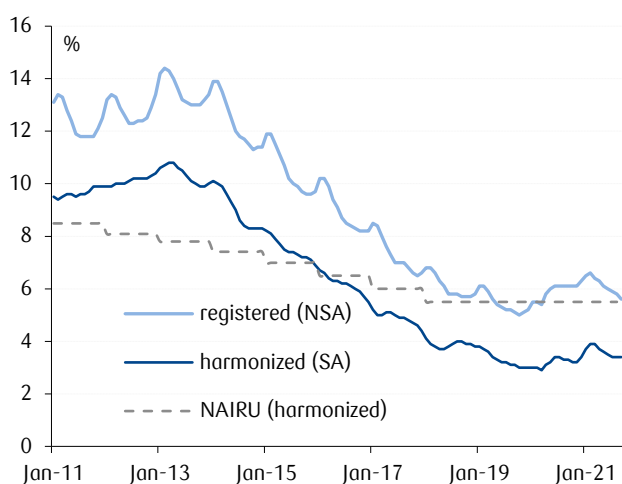
Central government revenues and expenditures*



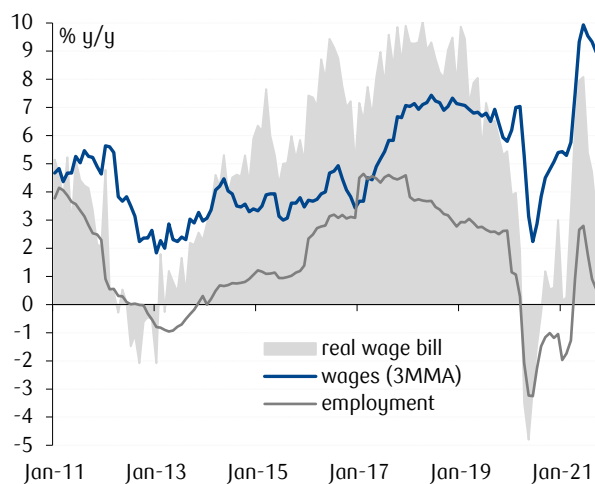
General government balance (ESA2010)



Unemployment rate

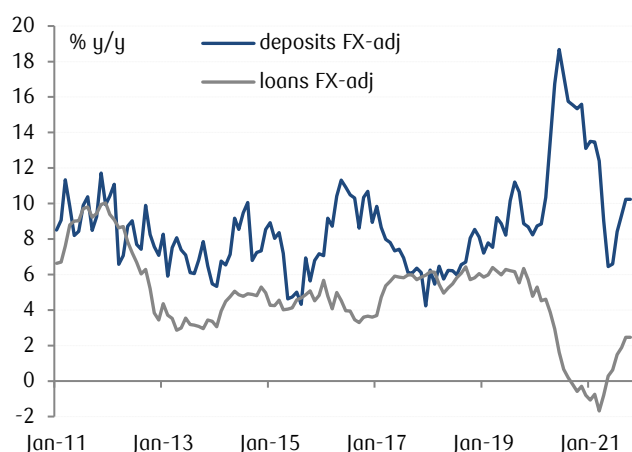


Employment and wages in the enterprise sector

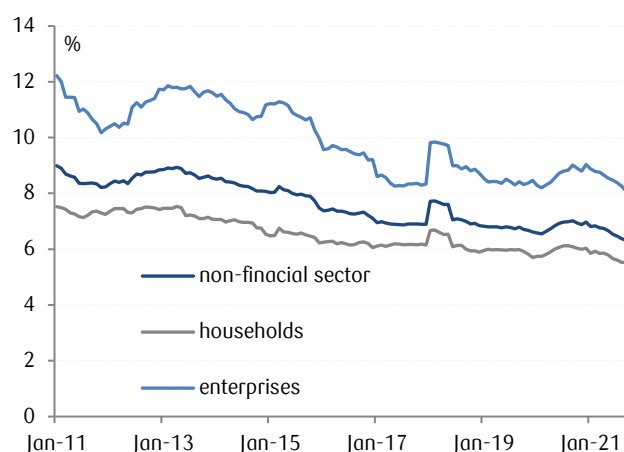


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. *break in series in 2010 due to methodological changes.

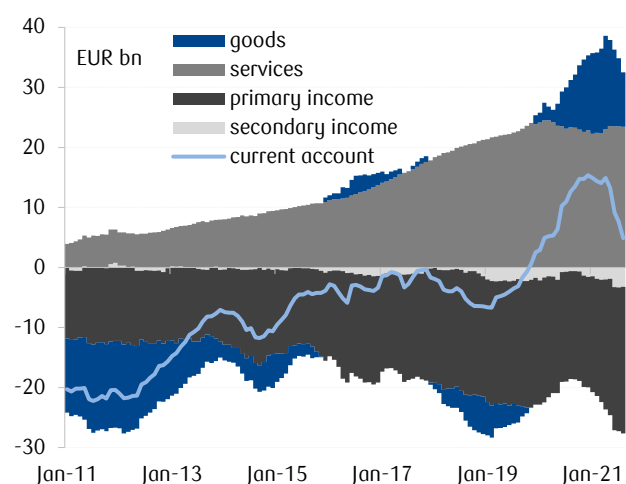
Loans and deposits



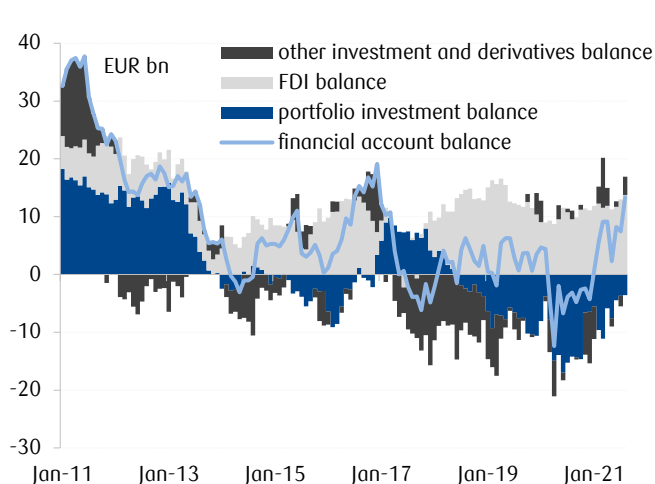
Non-performing loans (NPLs) – by sectors*



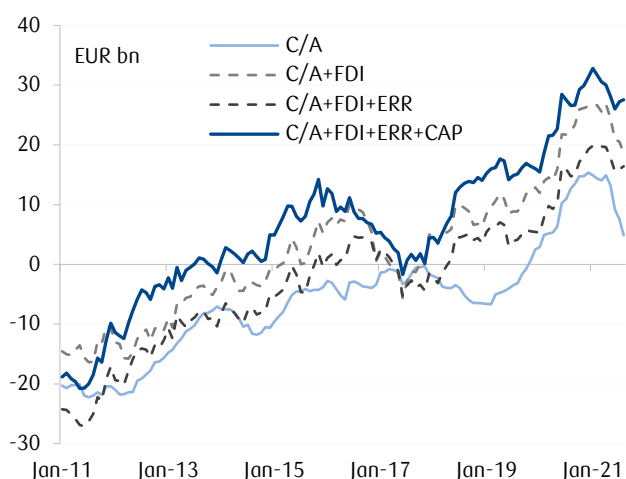
Current account balance



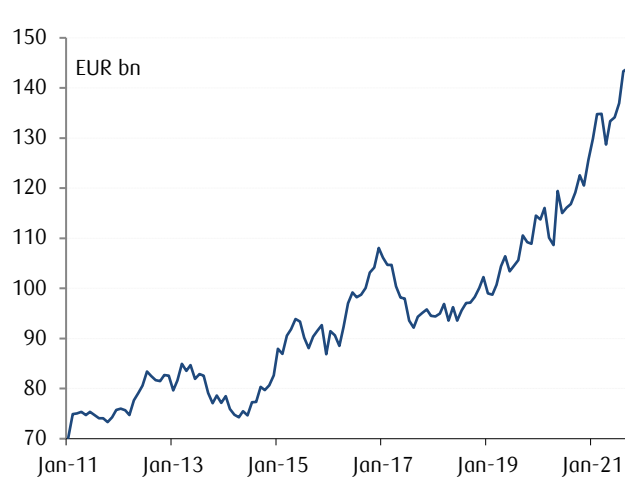
Financial account balance



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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Poland's macro in a nutshell

	2020	2021	Comment
Real economy			
- real GDP (%)	-2.5	5.3	We have fine-tuned our 2021 GDP growth forecast (5.3%) 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.
Prices			
- CPI inflation (%)	3.4	4.9	There are still several months of inflation growth ahead of us. We forecast that in November CPI inflation will break the level of 7%, and in 1q22 it will peak at around 8.0%. 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 1q23, but it will be clearly above 4.0% y/y.
Monetary aggregates			
- 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.
External balance			
- current account balance (% GDP)	2.9	0.0	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).
Fiscal policy			
- fiscal balance (% GDP)	-7.1	-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.
Monetary policy			
- NBP reference rate (%)	0.10	1.75	The MPC delivered yet another larger-than-expected interest rate hike (+75bps in November). We think that inflation will continue to surprise the MPC on the upside in the coming months and trigger further hikes. We do not assume, however, that rates will rise significantly above 2.00%. Our baseline scenario assumes a hike by 50bps in December and by 25bp in January. The risk however is still skewed towards a more pronounced tightening.

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

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