

Bottlenecks, winter and lockdowns

Top macro theme(s):

- **Bottlenecks, winter and lockdowns (p. 2):** Softer economic activity data for January reflect mostly one-offs related to bottlenecks in industry, cold winter in construction and lockdowns in retail sales. Adjusted for the transitory disruptions, underlying trends still bode well of economic recovery ahead.

What else caught our eye:

- **CPI inflation in January** jumped to 2.7% y/y, in line with our forecast (the highest on the market) and way above market consensus (2.4% y/y). Our detailed comment is available [here](#). **PPI inflation in January** headed north (0.7% y/y) with more to come in coming months amid a mixture of weaker PLN, rising commodity prices and low base effects.
- **Current account surplus in December** was below our estimates, but still at an impressive 3.5% of GDP (in 2020 as a whole), leaving domestic economic policy space for action without risk of side-effects.
- Declining employment (by -2.0% y/y in FTE terms), moderate wage growth (+4.6% y/y) and rising CPI inflation (to 2.7%) depressed the **real wage bill** growth in January to 0.0% y/y.

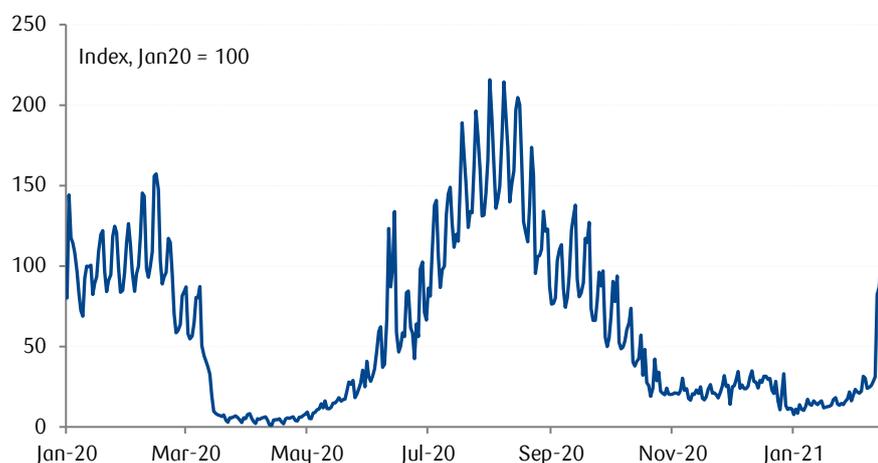
The week ahead:

- **Detailed GDP data for 4q20** (consumption PKOe: -3.1% y/y, investments PKOe: -10.8% y/y) are pure history now. Our weekly economic activity tracker hovers around the neutral level suggesting (so far) a mild GDP decline in 1q21.
- According to a tentative MinLab estimate **the registered unemployment rate in January** rose to 6.5% (from 6.2% in Dec.), in line with seasonal pattern.
- **Monetary statistics for January** will be an indication of lending activity.

Number of the week:

- **1.13** - Covid-19 reproduction rate (R_0) on Friday, the highest since November 11 and indicative of doubling the number of infections in ~15 days, on our estimates. If confirmed, it could **delay or even reverse the process of restrictions easing** (as already suggested by the Health Minister).

Chart of the week: Demand on accommodation services as per PKO card transactions



Source: 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

Michal Rot

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

	2020†	2021†
Real GDP (%)	-2.8	5.1
Industrial output (%)	-1.0	10.0
Unemployment rate# (%)	6.2	5.4
CPI inflation** (%)	3.4	3.1
Core inflation** (%)	3.9	3.0
Money supply M3 (%)	16.4	7.5
C/A balance (% GDP)	3.5	3.0
Fiscal balance (% GDP)*	-9.2	-3.4
Public debt (% GDP)*	59.7	58.1
NBP reference rate### (%)	0.10	0.10
EURPLN†#	4.61	4.45

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.

Bottlenecks, winter and lockdowns

- Real economy data in January was influenced by one-offs including bottlenecks in industry, cold winter in construction and lockdowns in retail sales. Adjusted for one-offs, underlying trends still bode well of economic recovery ahead.

Industrial output in January increased by 0.9% y/y (vs. 11.2% y/y in December; PKO: -0.7%; cons.: +1.0%). Seas.adj. output expanded by a healthy 5.7% y/y (vs. 7.1% y/y in December) bringing production to 4.5% above the pre-pandemic level. Output in December and January was under a significant influence of calendar effects (positive in Dec., negative in Jan.) and shifts of production between months (higher production in the pre-Christmas period related to the stockpiling before Brexit). The underlying trend in industry adj. for one-offs hovers around 5-6% and bodes well for the industry's output in 2021.

Supply chain disruptions, as recently reported by many multinationals, have been also visible in the data for industry in Poland, e.g. in automotive. The bottlenecks effect, however, was not significant, deducting approx. 0.5-0.8 pp from the output growth rate in January. This means that a (short-lasting) payback will arrive once the activity in the global supply chains stabilizes.

Construction in January reflected mainly the return of cold spell. Output declined by 10.0% y/y (PKOe: -9.7%; cons.: -7.3%), while the deviation from the typical seasonal pattern suggests that construction somewhat resisted the weather (see margin chart). The details confirm this conclusion - civil engineering recorded only a mild decline (by 5.0% y/y). The order backlog built last year (when the value of public procurements has more than doubled) suggests that the construction sector has large 'reserves' for growth, at least for this entire construction season. We will probably wait until spring for its full commencement.

Real retail sales in January fell by 6.0% y/y (vs. -0.8% y/y in Dec.; PKOe: -5.7%, cons.: -4.5%). Monthly sales dropped by 24.9%, reflecting the 4-week-long period of shopping center closures. Trade has partially shifted to the Internet, just like in spring and in November, when malls were also closed. Nevertheless the substitution effect (shift from brick and mortar sales to online) was weaker than previously (share of online sales increased to 9.8% vs. 11.9% in Apr. and 11.4% in Nov.). The greatest shift to online channels took place in clothing and footwear.

Despite rising online sales, total sales of clothing and footwear fell by as much as 52.1% m/m and 40.8% y/y - these type of sales has been affected most by the restrictions, with the sales decline comparable to that of March 2020. As compared to December, the decline in sales of newspapers and books, pharmaceuticals and cosmetics also clearly deepened. Frozen tourism resulted in the deepest fall in fuel sales since May. Sales of furniture and RTV/household appliances is the only category that not only resisted declines, but also recorded higher growth rate than in December (7.1% y/y vs. 3.5% y/y).

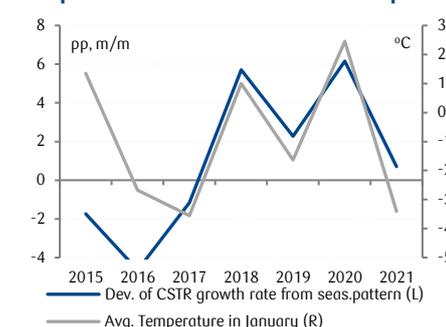
Sales results for February should be clearly better than for January. Data on card transactions confirm that transaction volume has increased after stores were opened. Data on mobility and footfall of shopping centers also show that customers have returned to stores. Stable situation on the labor market and consumer sentiment that seems to be less and less sensitive to the pandemic allow us to stay optimistic on prospective retail sales results. The potential third wave of Covid-19 and the risk of re-tightening of restrictions are the key sources of uncertainty and risk for sales in the coming weeks.

Industrial output - level



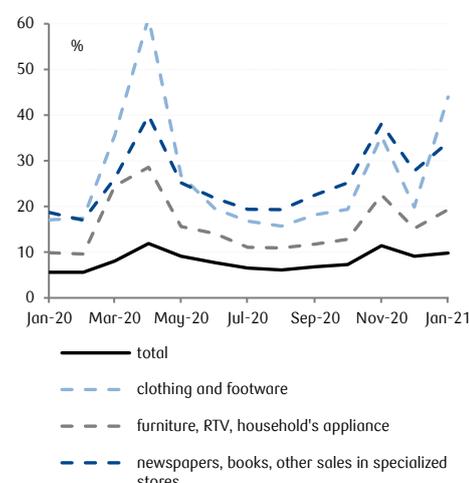
Source: GUS, PKO Bank Polski.

Temperature vs construction output



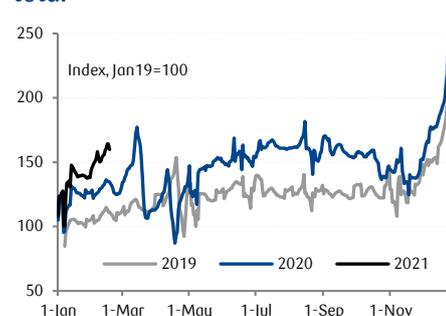
Source: GUS, PKO Bank Polski.

Share of Internet sales



Source: GUS, PKO Bank Polski.

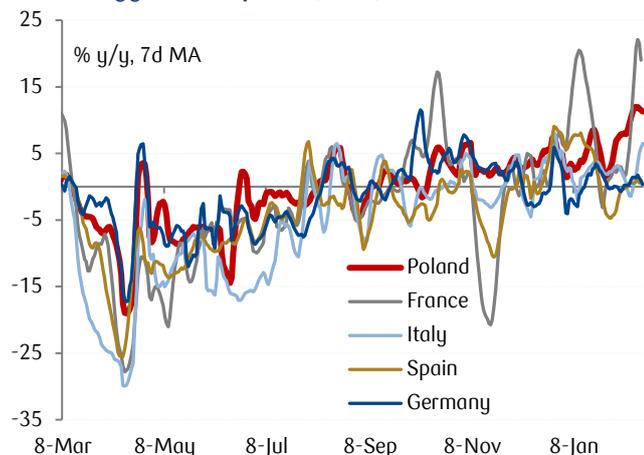
PKO customers' card transactions - total



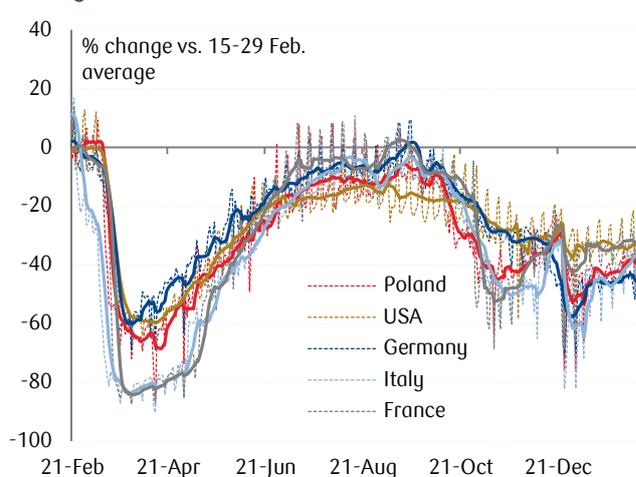
Source: PKO Bank Polski.

Macro monitoring with alternative data

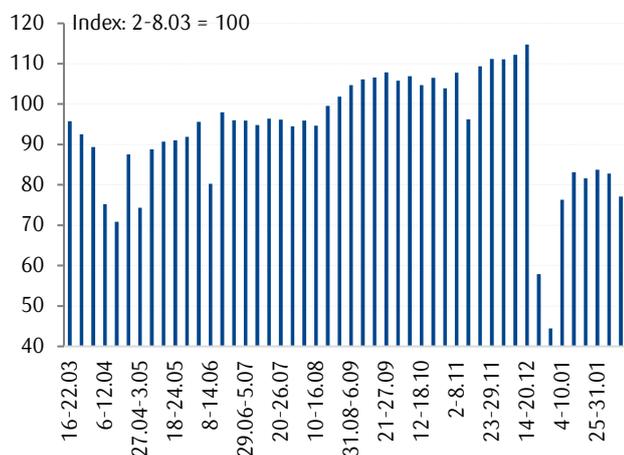
Electric energy consumption (total)



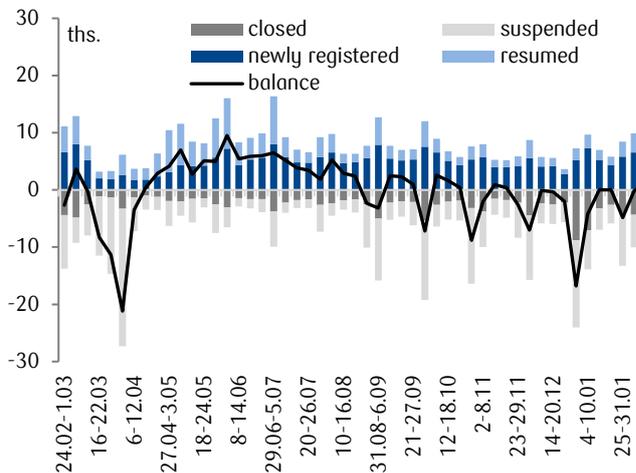
Mobility*



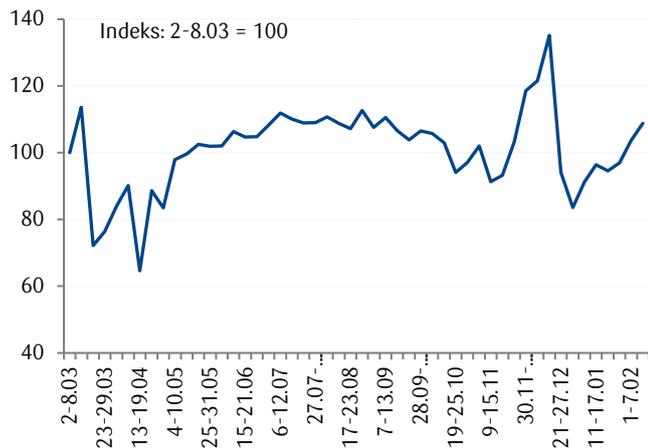
Heavy truck traffic



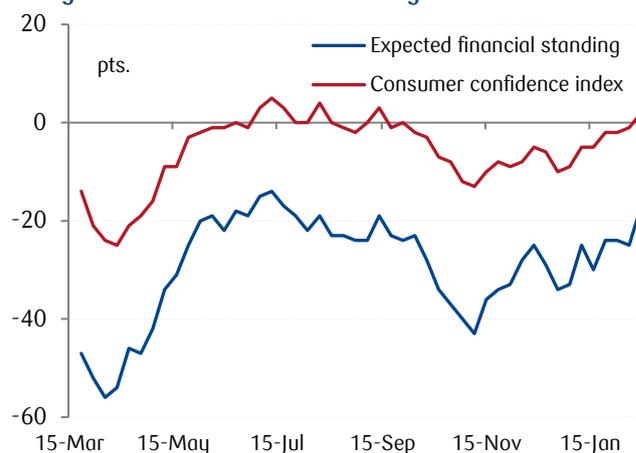
Economic activity status (acc. to CEiDG**)



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, 22 February						
GER: Ifo Business Climate Index (Feb)	9:00	pts.	90.1	89.7	--	--
POL: Money Supply M3 (Jan)	13:00	% y/y	16.4	16.6	16.1	Stock of loans kept declining amid weak demand.
Tuesday, 23 February						
POL: Unemployment Rate (Jan)	9:00	%	6.2	6.5	6.5	Monthly change in unemployment rate is in line with the seasonal pattern.
EUR: HICP inflation (Jan, final)	10:00	% y/y	-0.3	0.3	--	--
EUR: Core inflation (Jan, final)	10:00	% y/y	0.2	1.4	--	--
HUN: MNB meeting	13:00	%	0.60	0.60	0.60	--
USA: S&P CoreLogic CS 20-City (Dec)	14:00	% y/y	9.1	--	--	--
USA: Consumer confidence (Feb)	15:00	pts.	89.3	90.0	--	--
Wednesday, 24 February						
GER: GDP growth (4q)	7:00	% y/y	-3.9	-2.9	--	--
USA: New home sales (Jan)	15:00	thous.	842	865	--	--
Thursday, 25 February						
EUR: M3 money supply (Jan)	9:00	% y/y	12.3	--	--	--
EUR: Consumer Confidence (Feb, final)	10:00	pts.	-15.5	-14.3	--	--
EUR: Economic Sentiment Indicator (Feb)	10:00	pts.	91.5	--	--	--
USA: Durable goods orders (Jan, flash)	13:30	% m/m	0.5	1.4	--	--
USA: Initial Jobless Claims	13:30	thous.	861	--	--	--
USA: GDP growth (4q)	13:30	% q/q saar	33.4	4.3	--	--
USA: Personal consumption (4q)	13:30	% q/q saar	41.0	2.5	--	--
Friday, 26 February						
POL: GDP growth (4q)	9:00	% y/y	-1.5	-2.8	-2.8	Weak domestic demand vs. robust net exports will be the key takeaways from this publication.
USA: Personal Income (Jan)	13:30	% m/m	0.6	9.4	--	--
USA: Personal spending (Jan)	13:30	% m/m	-0.2	0.5	--	--
USA: Core PCE inflation (Jan)	13:30	% y/y	1.5	--	--	--
USA: University of Michigan sentiment (Feb, final)	15:00	pts.	79.0	76.2	--	--

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

Selected economic indicators and forecasts

	Nov-20	Dec-20	Jan-21	3q20	4q20	1q21	2q22	2019	2020	2021
Economic activity										
Real GDP (% y/y)	x	x	x	-1.5	-2.8	-0.5	9.9	4.5	-2.8	5.1
Domestic demand (% y/y)	x	x	x	-3.2	-3.4	-1.6	10.2	3.5	-3.7	4.9
Private consumption (% y/y)	x	x	x	0.4	-3.1	0.5	15.9	4.0	-3.0	5.5
Gross fixed capital formation (% y/y)	x	x	x	-9.0	-10.8	2.8	4.3	7.2	-8.4	3.7
Inventories (pp)	x	x	x	-2.3	0.8	-2.9	-0.9	-1.4	-0.8	0.1
Net exports (pp)	x	x	x	0.7	-0.1	0.9	0.9	1.2	0.8	0.6
Industrial output (% y/y)	5.4	11.2	0.9	3.2	5.2	5.6	21.3	4.0	-1.0	10.0
Construction output (% y/y)	-4.9	3.4	-10.0	-10.9	-2.4	-18.0	-4.4	3.6	-2.7	-1.3
Retail sales (real, % y/y)	-5.3	-0.8	-6.0	1.0	-2.8	0.1	8.3	5.4	-2.7	1.2
Nominal GDP (PLN bn)	x	x	x	582.5	639.3	566.8	596.0	2288	2306	2505
Labour market										
Registered unemployment rate‡(%)	6.1	6.2	6.5	6.1	6.2	6.3	5.8	5.2	6.2	5.4
Employment in enterprises (% y/y)	-1.2	-1.0	-2.0	-1.9	-1.1	-1.5	2.1	2.7	-1.2	0.8
Wages in enterprises (% y/y)	4.9	6.6	4.6	4.3	5.9	7.3	6.1	6.6	4.8	6.5
Prices^										
CPI inflation (% y/y)	3.0	2.4	2.7	3.0	2.8	2.6	3.2	2.3	3.4	3.1
Core inflation (% y/y)	4.3	3.7	3.7	4.2	4.1	3.7	2.8	2.0	3.9	3.0
15% trimmed mean (% y/y)	3.0	2.7	x	3.2	2.9	x	x	2.0	3.2	x
PPI inflation (% y/y)	-0.1	0.0	0.7	-1.2	-0.2	1.5	2.7	1.2	-0.6	2.3
Monetary aggregates‡										
Money supply, M3 (PLN bn)	1790.7	1822.7	1808.8	1762.2	1822.7	1832.0	1842.3	1565.6	1822.7	1967.5
Money supply, M3 (% y/y)	16.1	16.4	16.1	17.0	16.4	12.5	5.5	8.3	16.4	7.5
Real money supply, M3 (% y/y)	13.1	14.0	13.4	14.0	14.0	9.9	2.3	4.9	14.0	4.4
Loans, total (PLN bn)	1338.8	1333.9	x	1337.7	1333.9	1322.3	1358.2	1323.4	1333.9	1378.9
Loans, total (% y/y)	0.4	0.8	x	0.5	0.8	-3.3	-0.2	5.1	0.8	3.4
Deposits, total (PLN bn)	1639.4	1602.2	x	1627.3	1602.2	1617.1	1627.4	1406.6	1602.2	1681.3
Deposits, total (% y/y)	15.8	13.9	x	15.8	13.9	8.9	0.5	8.2	13.9	4.9
Balance of payments										
Current account balance (% GDP)	3.7	3.5	3.3	3.1	3.5	3.5	2.8	0.5	3.5	3.0
Trade balance (%GDP)	2.4	2.3	2.3	1.8	2.3	2.4	2.3	0.2	2.3	1.6
FDI (% GDP)	1.2	1.0	0.9	1.1	1.0	0.9	0.8	1.6	1.0	1.6
Fiscal policy										
Fiscal balance (% GDP)	x	x	x	x	x	x	x	-0.7	-9.2	-3.4
Public debt (% GDP)	x	x	x	x	x	x	x	46.0	59.7	58.1
Monetary policy‡										
NBP reference rate (%)	0.10	0.10	0.10	0.10	0.10	0.10	0.10	1.50	0.10	0.10
NBP lombard rate (%)	0.50	0.50	0.50	0.50	0.50	0.50	0.50	2.50	0.50	0.50
NBP deposit rate (%)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.50	0.00	0.00
WIBOR 3M ^x (%)	0.22	0.21	0.21	0.22	0.21	0.20	0.20	1.71	0.21	0.20
Real WIBOR 3M ^x (%) [#]	-2.78	-2.19	-2.49	-2.78	-2.59	-2.20	-2.80	-1.69	-3.19	-2.90
Exchange rates*‡										
EUR-PLN	4.48	4.61	4.54	4.53	4.61	4.50	4.48	4.26	4.61	4.45
USD-PLN	3.74	3.76	3.75	3.87	3.76	3.66	3.61	3.80	3.76	3.50
CHF-PLN	4.14	4.26	4.21	4.19	4.26	4.17	4.11	3.92	4.26	4.05
EUR-USD	1.20	1.23	1.21	1.17	1.23	1.23	1.24	1.12	1.23	1.27

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,[†]under revision.

Monetary policy monitor

MPC Members	Hawk-o-meter*	Recent policy indicative comments
K. Zubelewicz	4.8	"Polish MPC would rethink easy-money preferences only on outlook for long-term lasting inflation above 4% (...) Polish MPC will likely stick to bias for "lowest possible interest rates" and "weak zloty," chances for rate normalization "near zero" (26.01.2021, PAP)
E. Gatnar	4.5	"(...) If the number of infections does not increase as a result of the current easing of the restrictions and inflation continues to rise, then we should consider raising rates to 0.5% in the second half of the year. (...) This would be the first, cautious step towards the normalisation of monetary policy in Poland. Perhaps by the end of the term of the current Monetary Policy Council (MPC) the reference rate will increase to 1%," (18.02.2021, Refinitiv)
L. Hardt	4.2	"I see no scenario in which interest rates should be lowered (...) Even if the third wave of infections comes along with another significant economic lockdown, the optimal NBP action would be to continue the program of bond purchases on the secondary market. (...) if the economic revival progresses it is hard to exclude a necessity of a rate hike, albeit a very cautious one, i.e. first normalization of the mandatory reserve rate and then, in the second step, of the reference rate, and that only up to the level of 0.5%." (11.02.2021, polishbrief.pl; PAP)
J. Kropiwnicki	3.2	"Further lowering of interest rate currently seems ill-advised (...) Its potential hike could potentially be considered in H2, if worries about increased inflation pressures prove right (...) In my opinion, cost-side inflation components are underestimated" (18.02.2021, PAP).
C. Kochalski	2.2	"In the current conditions, that is amid rebounding economy [PAP: and] with inflation within the target range, rate stabilization is the right approach, I believe," (10.02.2021, PAP).
R. Sura	2.1	"I would not exclude such a scenario [PKO: rate cuts] in the future (...) [PKO: while] inflation in 2021 will be approaching the middle of the inflation target tolerance band, (...) and economic developments and expert opinions delivered to us parallelly and analyzed by us should point at a possibility of a further rate cut, with concurrent demonstration of positive effects for the real economy. (...) As of today I do not see such a need and the current rate regime appears "optimal." (30.12.2020, PAP).
G. Ancyparowicz	1.8	"I think that at the moment further interest rate cuts will not make credit cheaper, so there are no arguments for further rate cuts" (25.01.2021, Reuters)
A. Glapinski	1.5	"If the pandemic and economic situation will develop in line with the base scenario for a stabilization of the epidemic situation and gradual improvement in economic trends, then no change in monetary policy parameters should be necessary in the coming quarters. Shortly speaking, with the current high level of uncertainty concerning future economic situation nothing is predetermined and we have to be ready for different scenarios" (05.01.2021, PAP, obserwatorfinansowy.pl).
J. Zyzynski	1.5	"The interest rates in the next several quarter should remain on an unchanged level, but the Council has still not renounced a possibility of potential rate cuts - the likelihood of such a move has neither increased nor fallen of late. Nonetheless, it would not be a big stimulus for the economy, as the room for cuts is only 0.1 ppt for the reference rate. At the same time, discussions about tightening the monetary policy are out of the question - there are too many unknowns surrounding the functioning of the economy after the pandemic" (18.02.2021, PAP)
E. Lon	1.1	"Poland is expected to keep interest rates unchanged until the end of the current MPC's term However, a cut could take place if economic situation deteriorates" (17.02.2021, Radio Wnet, 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).

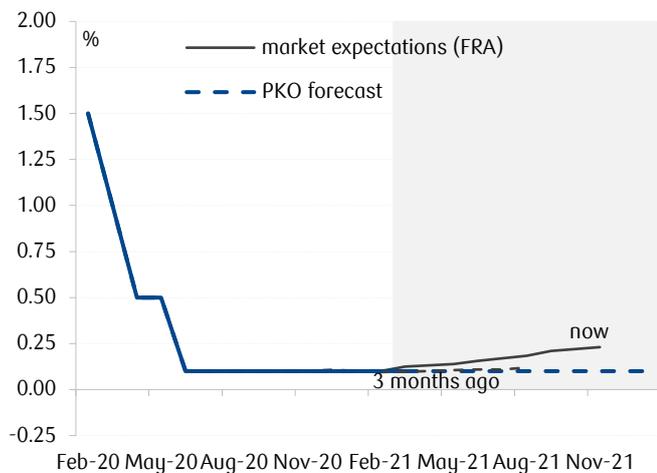
Interest rates – PKO BP forecasts vs. market expectations

	1M	2M	3M	4M	5M	6M	7M	8M	9M	
Date	18-Feb	18-Mar	18-Apr	18-May	18-Jun	18-Jul	18-Aug	18-Sep	18-Oct	18-Nov
WIBOR 3M/FRA†	0.21	0.24	0.24	0.25	0.27	0.28	0.29	0.32	0.33	0.34
implied change (b. p.)		0.03	0.03	0.04	0.06	0.07	0.08	0.11	0.12	0.13
MPC Meeting	3-Feb	3-Mar	7-Apr	5-May	9-Jun	8-Jul	-	8-Sep	6-Oct	3-Nov
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*		0.13	0.13	0.14	0.16	0.17	0.18	0.21	0.22	0.23

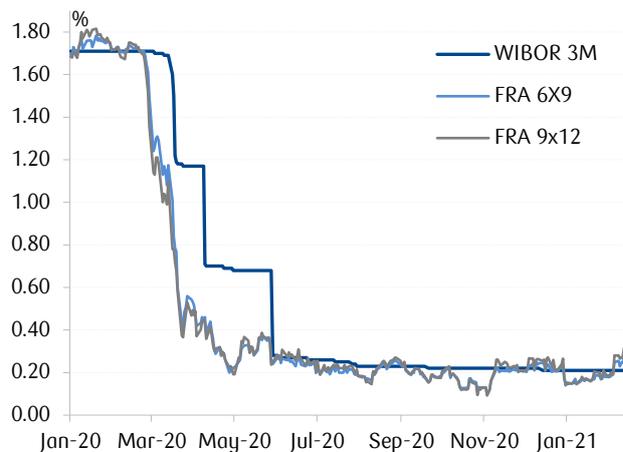
†WIBOR 3M from the last fixing, FRA transactions based on WIBOR 3M for subsequent periods, ‡in basis points, *PKO BP forecast of the NBP reference rate.

Poland macro chartbook

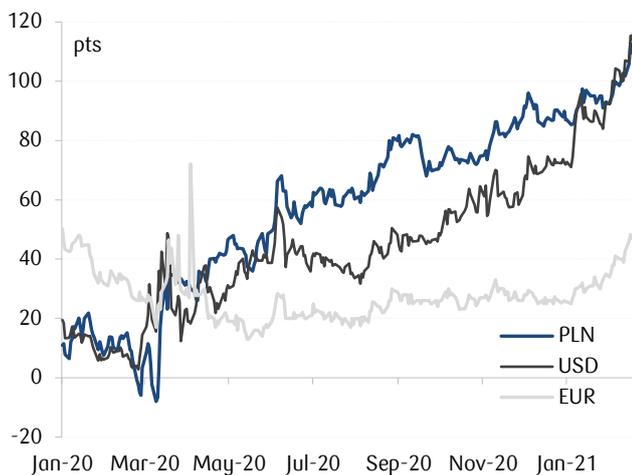
NBP policy rate: PKO BP forecast vs. market expectations



Short-term PLN interest rates



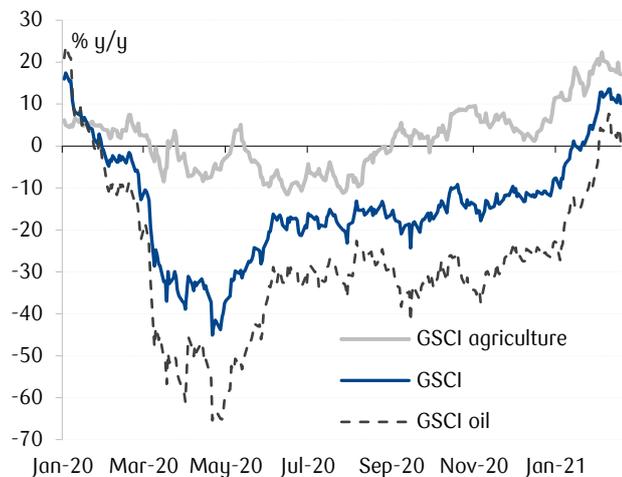
Slope of the swap curve (spread 10Y-2Y)*



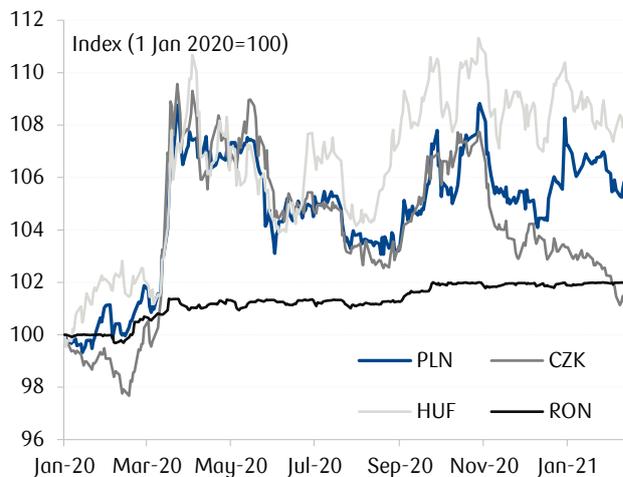
PLN asset swap spread



Global commodity prices (in PLN)

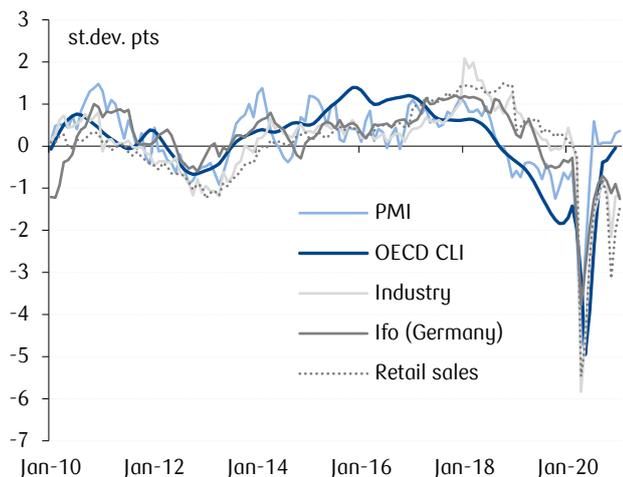


Selected CEE exchange rates against the EUR

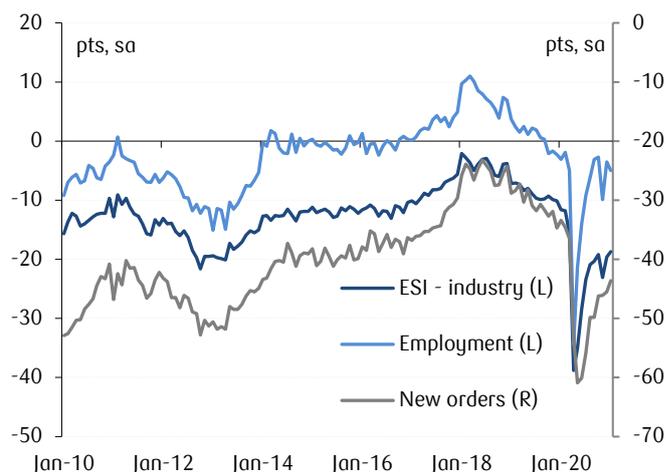


Source: Datastream, NBP, PKO Bank Polski. *for PLN, and EUR 6M, for USD 3M.

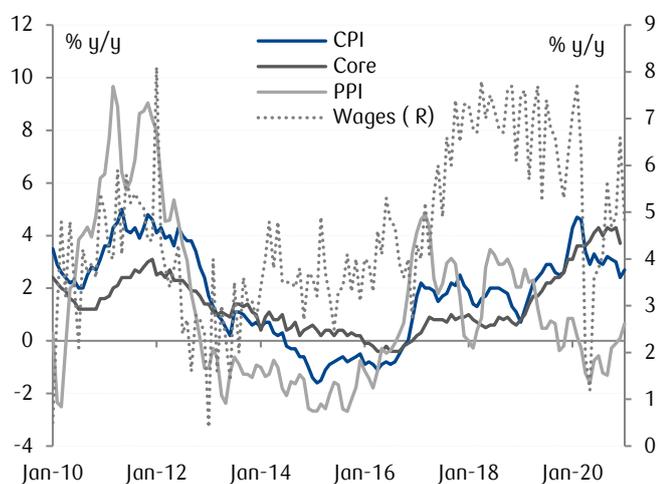
Economic sentiment indicators



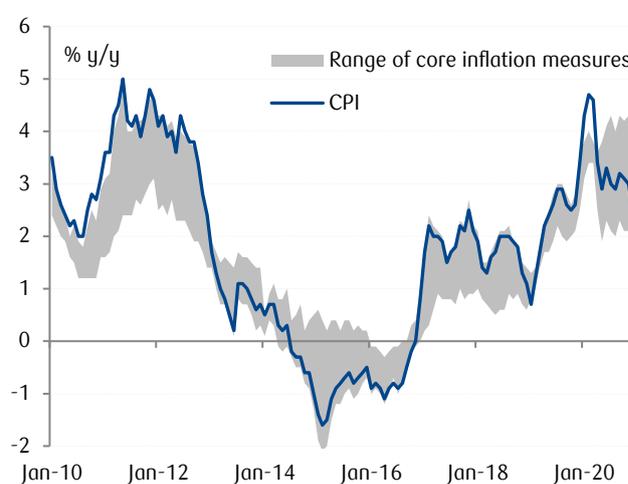
Poland ESI for industry and its components



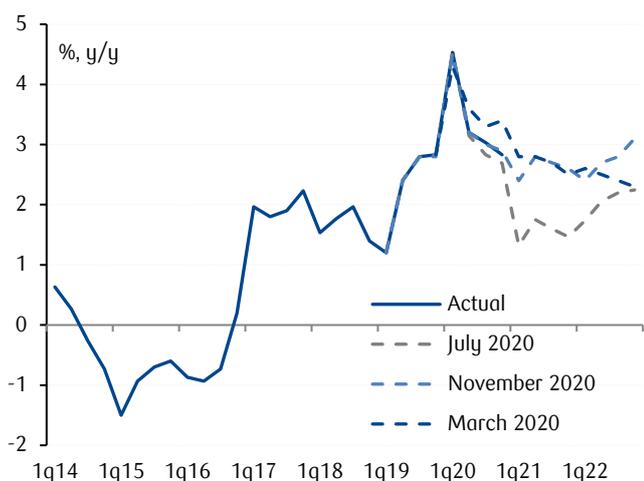
Broad inflation measures



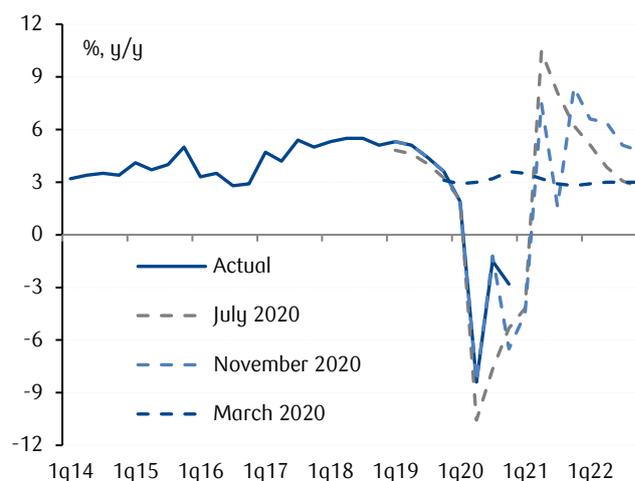
CPI and core inflation measures



CPI inflation - NBP projections vs. actual

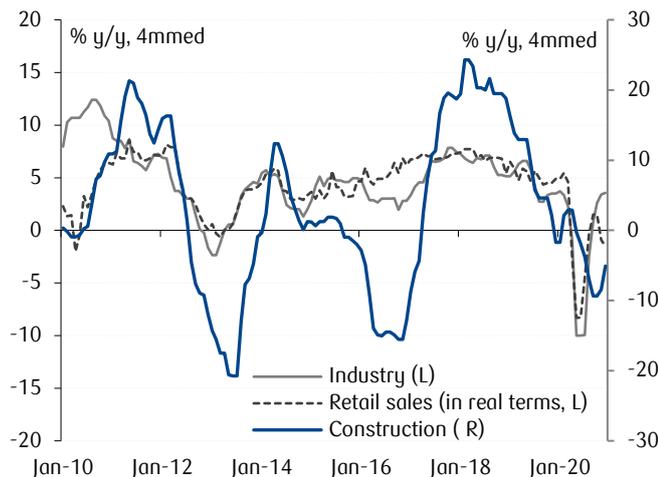


Real GDP growth - NBP projections vs. actual

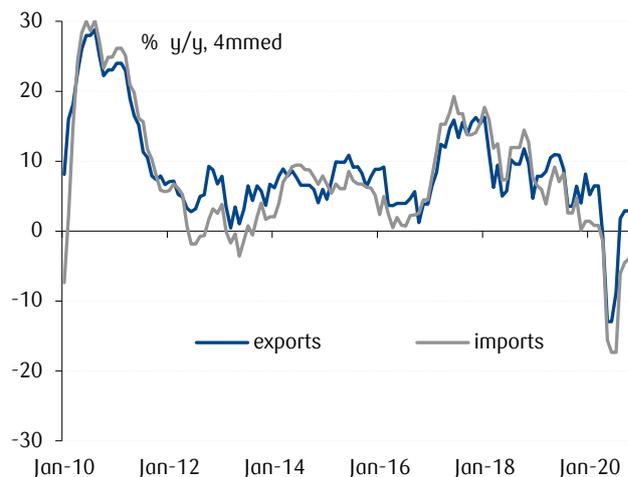


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

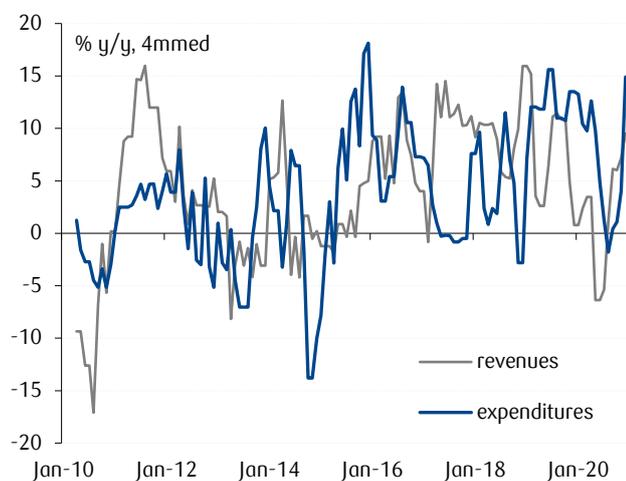
Economic activity indicators



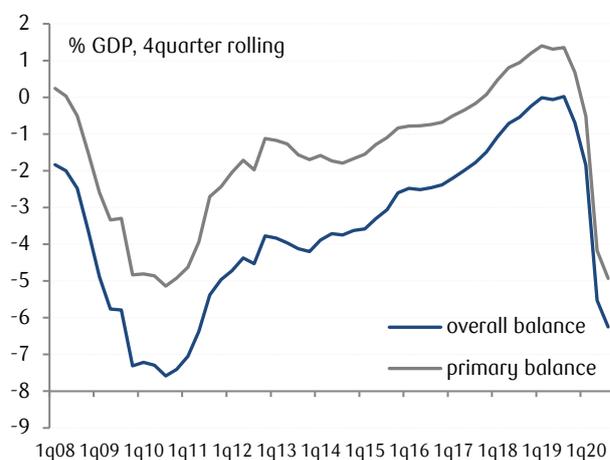
Merchandise trade (in EUR terms)



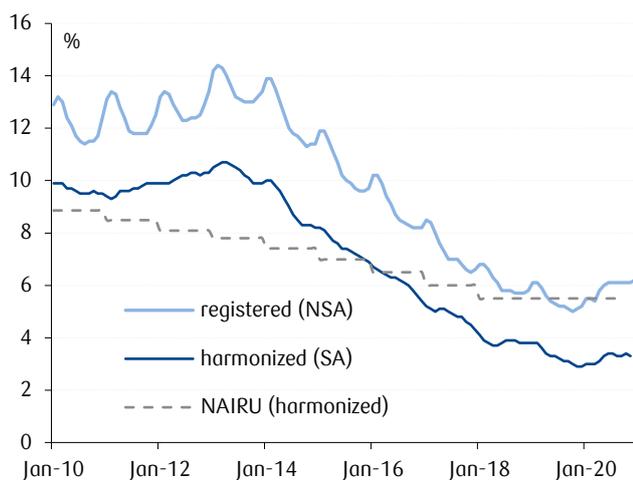
Central government revenues and expenditures*



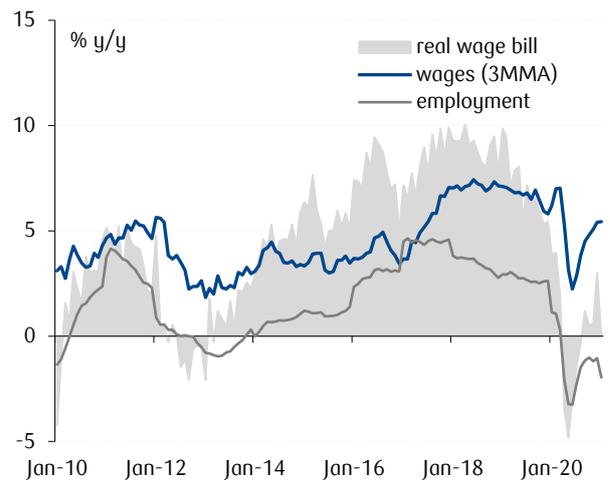
General government balance (ESA2010)



Unemployment rate

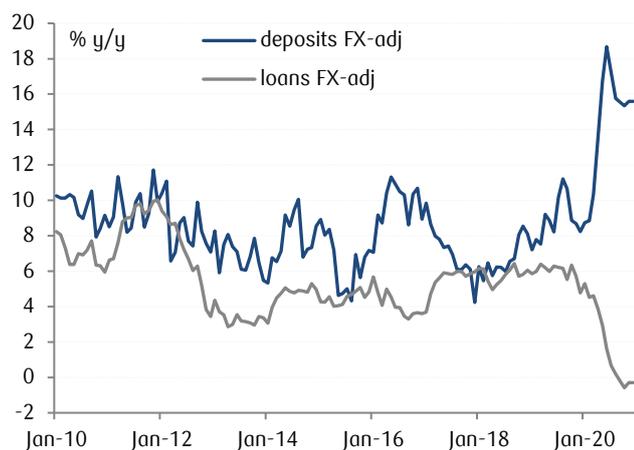


Employment and wages in the enterprise sector

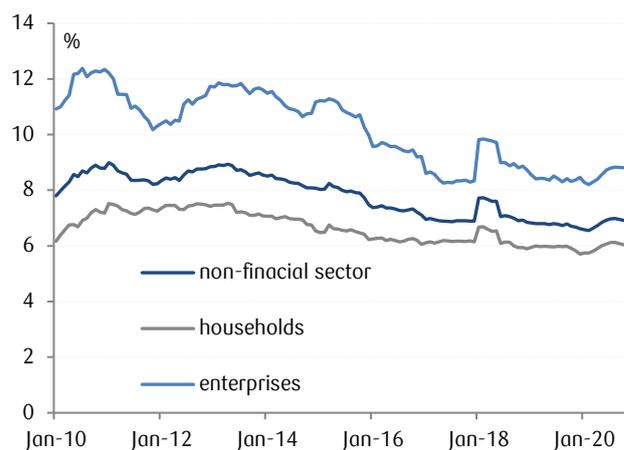


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. *break in series in 2010 due to methodological changes.

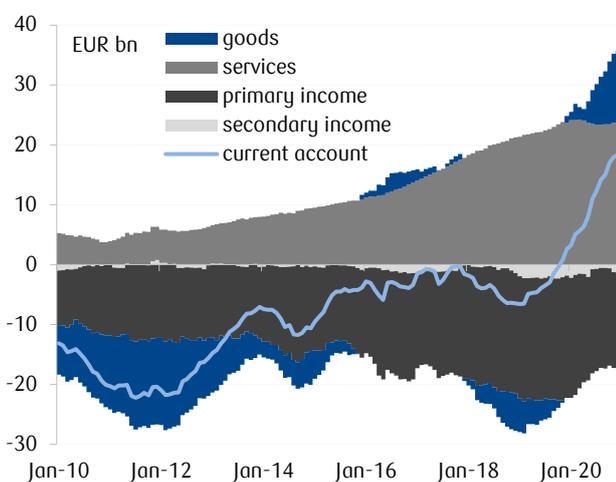
Loans and deposits



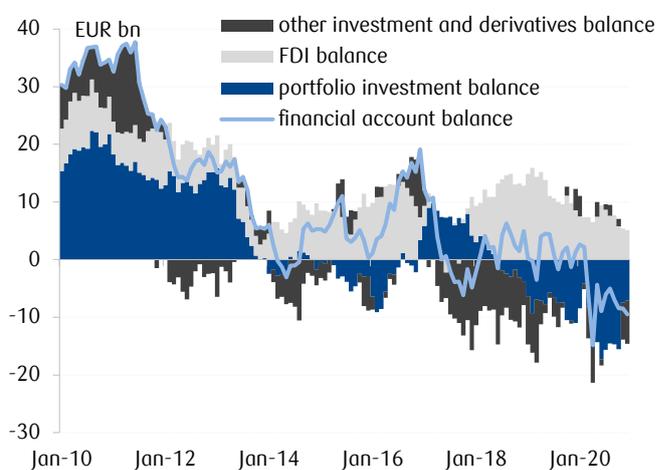
Non-performing loans (NPLs) - by sectors*



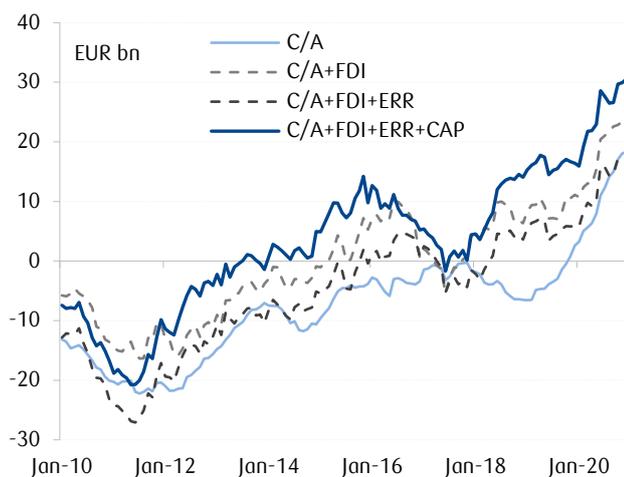
Current account balance



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 (%)	-2.8	5.1	We forecast that in 2021 the Polish economy will grow by over 5%, after a decrease of close to 3% in 2020. The main trigger for such a strong rebound will be an improvement in the epidemic situation. Thanks to the anti-crisis measures, the fundamental structure of the economy has been preserved, which enables a fast recovery. Last but not least, in our opinion the fiscal policy will support GDP growth in 2021 even stronger than in 2020.
Prices			
- CPI inflation (%)	3.4	3.1	Inflation will remain close to the upper inflation target band (3.5%). Strong economic recovery shortens the pandemic-related disinflationary period, and, combined with regulatory changes (power levy, trade tax, sugar levy), pushes CPI inflation above 3%.
Monetary aggregates			
- M3 money supply (%)	16.4	7.5	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	3.0	The balance of payments has become the main strength of Poland's macroeconomic fundamentals. Polish companies are successfully gaining the market share in global trade and Polish exports are breaking new records on a regular basis. Poland has become a net exporter, which is a hugely important structural change, that increases the room for maneuver in both monetary and fiscal policy.
Fiscal policy			
- fiscal balance (% GDP)	-9.2	-3.4	We see no threat to the sustainability of the public finances. In our view Poland, as a competitive economy with high GDP growth potential and moderate inflation, will begin to quickly 'outgrow' the public debt, which has increased due to pandemic.
Monetary policy			
- NBP reference rate (%)	0.10	0.10	Despite high inflation NBP monetary policy will not be exciting. In our baseline scenario we still assume that NBP interest rates will remain unchanged even after 2021, and that the MPC will continue its asset purchases program. Nevertheless, as the economy recovers and relatively high inflation persists, the market might start to expect that monetary policy normalization will start in Poland even before the major central banks will start to tighten their policies.

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

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