

Choke points in focus

Top macro theme(s):

- **Choke points in focus (p. 2):** We see 3 major bottlenecks that could hinder the ongoing manufacturing boom: (1) lack of materials and semi-finished products, (2) soaring freight prices and (3) growing prices of commodities.

What else caught our eye:

- **Details of the NBP projection** indicate that once the pandemic is over, GDP growth rate should consistently exceed 5% (2022-23). CPI inflation in 2021 is seen at an elevated level due to 'exogenous' factors (energy prices), but their impact on CPI should gradually fade. Acc. to the NBP's projection core inflation will decline in 2021 due to delayed effects of the negative output gap. The CPI inflation will return to the upward path only in 4q22. **NBP projection confirms that on the one hand interest rate cuts are very unlikely now.** On the other hand, the long-term CPI forecast gives the MPC an important argument that **there is no need to tighten the monetary policy at least until the end of 2022.**
- **The NBP announced** that it monitors the financial markets developments, including PLGBs and assessed that the recent rise in yields (partly reflecting improved global sentiment), may weaken the impact of the NBP's actions aimed at ensuring low financing costs. Therefore the NBP will consider to increase the flexibility and frequency of SOMO tenders.
- T.Koscinski (MinFin) said that, acc. to tentative data, in 2020 Poland's **general gov. (ESA) debt hasn't exceeded 60% of GDP** (in line with our forecast).

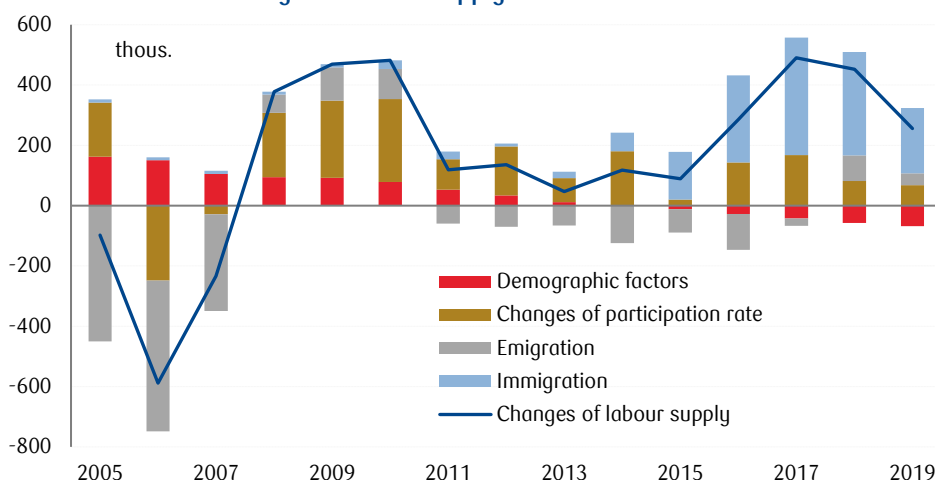
The week ahead:

- Fresh **CPI inflation** data for February (with an update of data for January based on the new basket) will be in the spotlight next week. We bet on inflation upside surprise again (PKOe: 2.7%; cons.:2.5%) amid slightly easing core inflation (Feb: PKOe: 3.5%; cons.: 3.6%; down from Jan: PKOe: 3.8%; cons.: 4.0%).
- **Real economy data continue to paint a K-shaped recovery picture** with expanding industry (PKOe: 4.4% y/y; despite bottlenecks) and declining retail sales (PKOe: -1.2% y/y). Adding harsh weather conditions that dumped construction works to a disappointing consumption demand **we've recalculated our GDP forecast for 1q21 (down to -1.0% y/y)** with more clouds for the full-year forecast (5.1%) looming on the horizon.
- Despite declining foreign trade turnover growth rates in January (due to calendar, bottlenecks and brexit effects), we estimate that the external balance remained intact with yet another **big surplus on the current account.**
- Without major triggers, **labour market** data for January are no big deal.

Number of the week:

- **21045** - number of new coronavirus cases confirmed on Thursday, inducing regional lockdowns in 2 additional regions: mazowieckie and lubuskie.

Chart of the week: Changes of labour supply in Poland and their sources



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	2020†	2021†
Real GDP (%)	-2.7	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	10.5
C/A balance (% GDP)	3.5	2.8
Fiscal balance (% GDP)*	-9.2	-3.4
Public debt (% GDP)*	59.7	58.1
NBP reference rate## (%)	0.10	0.10
EURPLN†#	4.61	4.48

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.

Focus on choke points

- Manufacturing sector currently shows growing pressure on capacity amid raw material shortages.
- We see 3 major bottlenecks that could, to some extent, hinder the ongoing manufacturing boom: (1) lack of materials and semi-finished products, (2) soaring freight prices and (3) growing prices of commodities.
- All these bottlenecks are likely to lead to higher producer prices in months to come and might later be passed through to CPI inflation.

The latest PMI reading pointed that in February 2021, despite higher output, backlogs of work increased at the fastest rate since January 2007. The reading implies growing pressure on capacity amid raw material shortages. According to the survey, suppliers' delivery times lengthened significantly, and only during the complete lockdown of some European markets in March and April 2020 delays were more severe than they are currently. The survey implied that global raw material shortages and logistical problems at borders, along with weaker PLN, have pushed costs up. Consequently, both input and output prices grew at a pace close to the historical record. This pattern of growing cost pressures in manufacturing is observable worldwide, and was indicated by both European and American manufacturers.

We see 3 major bottlenecks that could, to some extent, hinder the ongoing manufacturing boom: (1) lack of materials and semi-finished products, (2) soaring freight prices and (3) growing prices of commodities.

(1) Domestic business tendency study showed that in February 13.9% companies have experienced shortage of raw materials, materials and semi-finished products (due to non-financial reasons) that limited their activity. This is the highest share since 2007. The most substantial increase in this share has been observed in manufacturing of furniture; paper and paper products; basic metals; motor vehicles, trailers and semi-trailers; leather and related products and other transport equipment. These sectors account for app. 20% of total manufacturing, and in 4q20 added 1.6pp to the overall growth in manufacturing output of 5.2%. In manufacturing of furniture, 30% of companies have experienced shortages of input materials (the most on record) namely furniture boards and glues that was accompanied by a booming external demand. As a result the capacity utilization at 89.2% in 1q21 was the highest on record - usually a good reason to undertake investment activity.

Semiconductors are another type of components that is currently hard to reach, the shortage is especially visible in the automotive industry. The problem was sparked by the sudden rebound in global car sales at the end of 2020. Chipmakers, who were already facing increased demand thanks to a lockdown-driven boom in personal electronics, were unable to increase production accordingly. Sales of semiconductors, despite the rapid increase in recent months, are still lower than at the peak in 2018. It might take several months to increase chip production in order to meet increased demand.

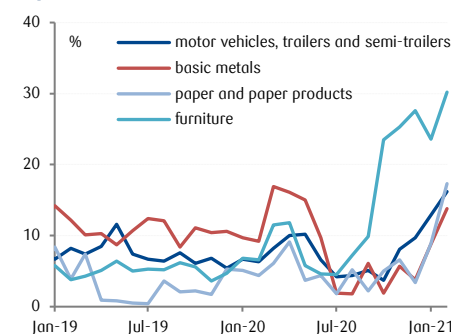
(2) The container throughput index went up in the second half of 2020, reflecting a post-lockdown rebound in the global merchandise trade. At the turn of 2020/2021 container shipping freight rates have spiked on the back of severe container shortages as well as robust demand both on the Asia-Europe and transpacific trade lanes. The cost of freight from China surged significantly, especially to European ports. The shortage of containers in Asia has been intensified by high congestion rates in US west coast ports that were unprepared for the imports surge, which occurred in the second half of 2020. The situation has been worsened by lower productivity in US import terminals versus Asian load terminals, and working restrictions related to COVID-19. As the production of containers in China has increased recently, the strains

Factors limiting activity – shortage of input materials – total manufacturing



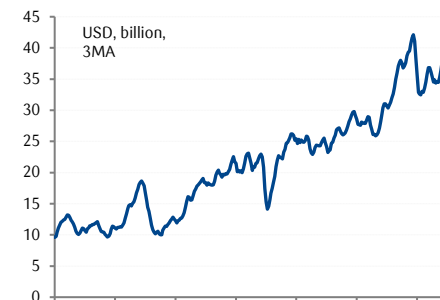
Source: GUS, PKO Bank Polski.

Factors limiting activity - shortage of input materials – selected sectors



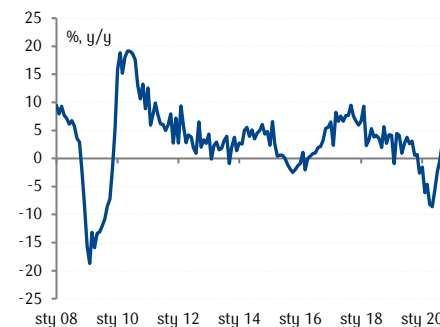
Source: GUS, PKO Bank Polski.

World semiconductors sales



Source: Macrobond, PKO Bank Polski.

Container Throughput Index



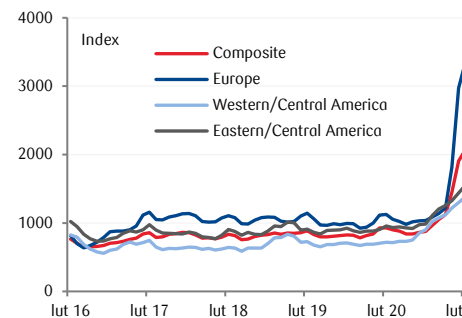
Source: Macrobond, PKO Bank Polski.

in the global trade are expected to ease. The bottlenecks could however last through the first half of 2021.

(3) **The prices of commodities have been going up recently on the back of rebounding industrial demand, loose monetary policy and widespread reflation trade.** The price of crude oil has been additionally pushed up by the OPEC decision to maintain the output, despite surging demand. A rise in the price of copper was caused by rising hopes of global economic rebound, sustained growth of industrial activity as well as robust metal demand from China, while the pandemic's impact on the global supply chains and logistics resulted in a tighter supply in year-on-year terms. Expected further increase in copper demand is also a result of the sustainable energy generation and consumption agenda, as copper is commonly used in energy generation, transmission and storage.

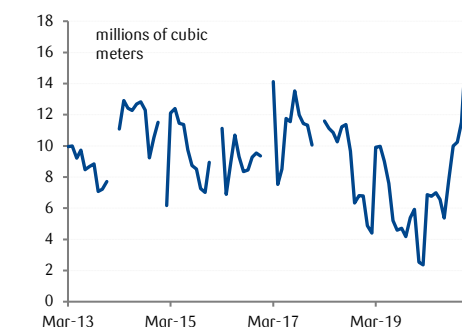
All three bottlenecks are likely to lead to growing producer prices in months to come. For the time being, in the domestic business tendency survey there are no clear signs of rising price expectations, at least at the aggregate level. We see however, that in manufacturing of furniture the indicator of expected prices went up significantly, to the level unseen in 10 years. PMI paint a more upbeat picture of output prices suggesting higher producer prices in months to come. Despite some delay, higher PPI inflation, tend to push up goods prices in the CPI. Recent choke points in manufacturing adds to a long list of arguments in favour of our relatively high (3%+) CPI mid-term forecasts.

China Freight Indicators



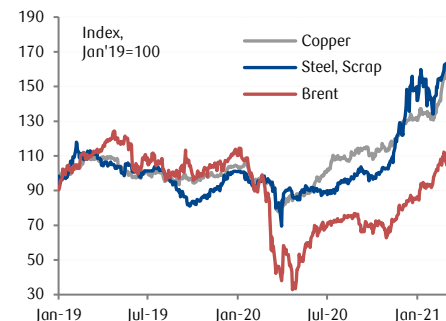
Source: Macrobond, PKO Bank Polski.

Metal container production in China



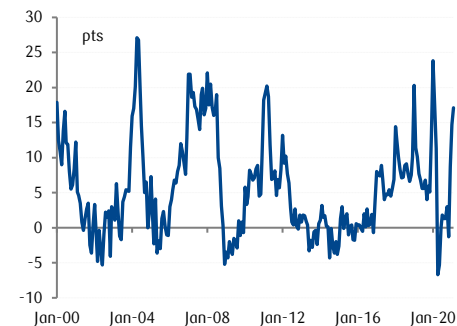
Source: Macrobond, PKO Bank Polski.

Price indices of selected commodities



Source: Macrobond, PKO Bank Polski.

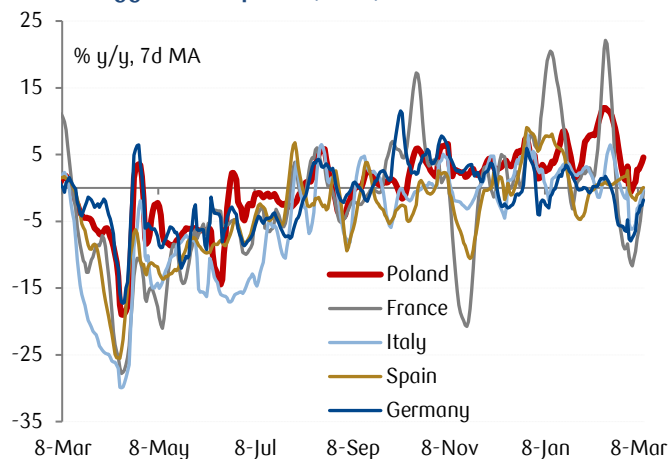
Business tendency survey - expected prices



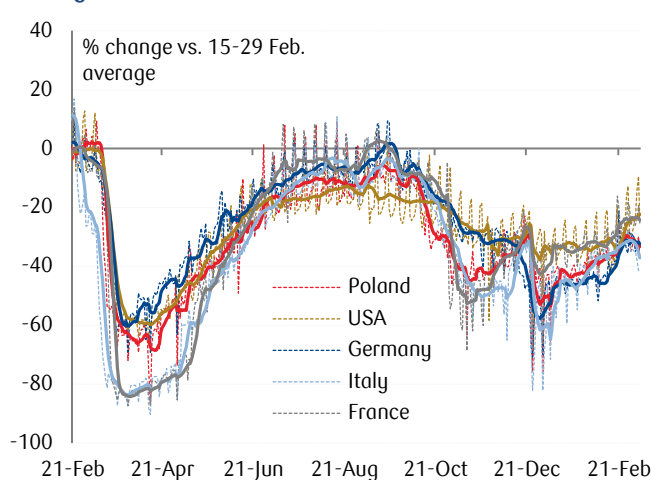
Source: GUS, PKO Bank Polski.

Macro monitoring with alternative data

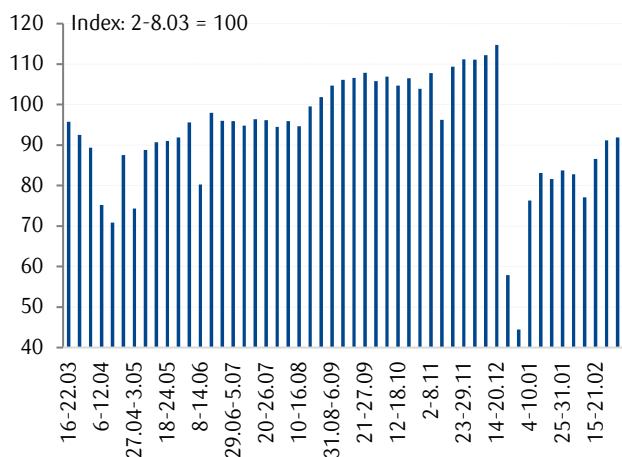
Electric energy consumption (total)



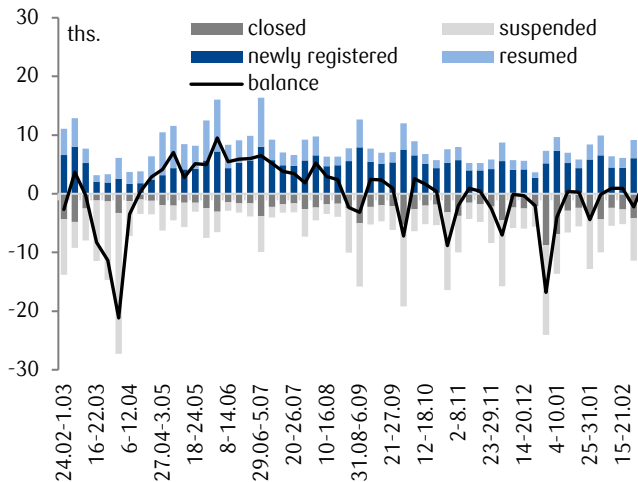
Mobility*



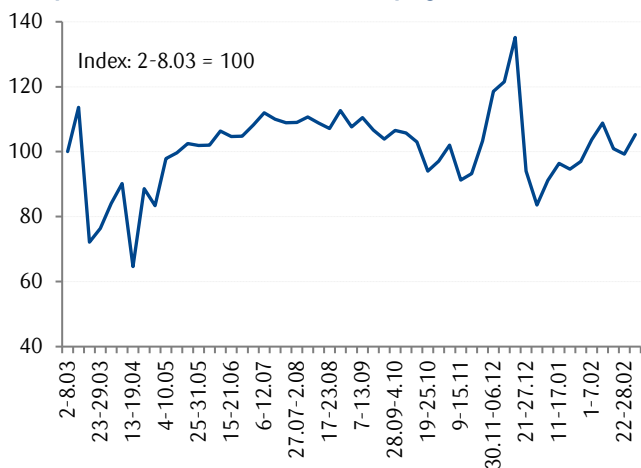
Heavy truck traffic



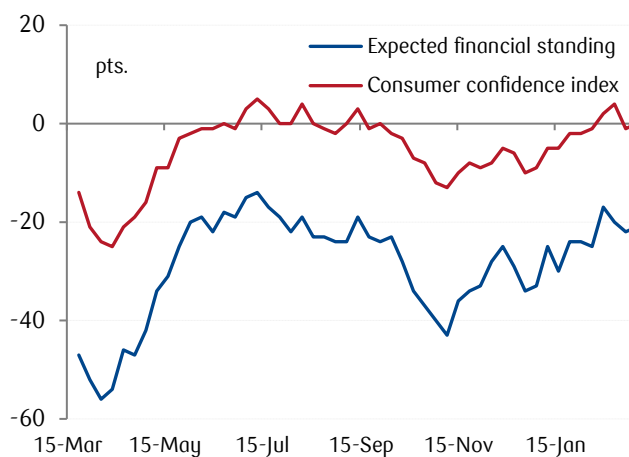
Economic activity status (acc. to CEiDG**)



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, 15 March						
POL: CPI inflation (Feb)	9:00	% y/y	2.7	2.5	2.7	We bet on reflation, but the outcome is more uncertain than usual due to basket item weights update.
Tuesday, 16 March						
GER: ZEW Economic Sentiment (Mar)	10:00	pts.	71.2	73.2	--	--
USA: Retail sales (Feb)	12:30	% m/m	5.3	-0.2	--	--
POL: Current account balance (Jan)	13:00	EUR mn	430	2416	3076	Calendar effects, bottlenecks and brexit dumped foreign turnover, but external balance remains intact.
POL: Exports (Jan)	13:00	% y/y	14.8	2.8	0.7	
POL: Imports (Jan)	13:00	% y/y	13.6	-0.5	-2.7	
POL: Core inflation (Jan/Feb)	13:00	% y/y	3.7 (Dec)	4.0/3.6	3.8/3.5	Fuel prices will be more pronounced than core prices in coming months.
USA: Industrial production (Feb)	13:15	% m/m	0.9	0.6	--	--
Wednesday, 17 March						
POL: Wages (Feb)	9:00	% y/y	4.8	4.7	4.7	Wages growth rate has no trigger to move.
POL: Employment (Feb)	9:00	% y/y	-2.0	-1.9	-2.0	Winter disturbed hiring, esp. in construction.
EUR: HICP inflation (Feb, final)	10:00	% y/y	0.9	0.9	--	--
EUR: Core inflation (Feb, final)	10:00	% y/y	1.4	1.1	--	--
USA: Housing starts (Feb)	12:30	thous.	1580	1540	--	--
USA: Fed meeting	18:00	%	0.00-0.25	0.00-0.25	0.00-0.25	--
Thursday, 18 March						
POL: PPI inflation (Feb)	9:00	% y/y	0.7	1.4	1.3	Producer prices exhibit a reflationary bounce.
NO: Norges Bank meeting	9:00	%	0.00	0.00	0.00	--
POL: Industrial production (Feb)	9:00	% y/y	0.9	4.5	4.4	An important test for choke points, we think they are mild.
UK: BoE meeting	12:00	%	0.10	0.10	0.10	--
USA: Initial Jobless Claims	12:30	thous.	712	--	--	--
Friday, 19 March						
JAP: BoJ meeting	--	%	-0.10	-0.10	-0.10	--
POL: Retail sales (Feb)	9:00	% y/y	-6.0	-2.7	-1.2	Despite positive news at the start of February (easing restrictions in trade) the spending spree was short-lived and restrained at the end of the month.
POL: Construction output (Feb)	9:00	% y/y	-10.0	-9.5	-12.7	Harsh winter weather halted some construction works.

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

Selected economic indicators and forecasts

	Dec-20	Jan-21	Feb-21	4q20	1q21	2q21	3q21	2019	2020	2021
Economic activity										
Real GDP (% y/y)	x	x	x	-2.8	-1.0	10.5	5.4	4.5	-2.7	5.1
Domestic demand (% y/y)	x	x	x	-3.4	-2.5	10.5	5.3	3.5	-3.9	4.9
Private consumption (% y/y)	x	x	x	-3.2	-1.5	16.5	2.0	4.0	-3.0	5.5
Gross fixed capital formation (% y/y)	x	x	x	-10.9	-3.0	5.4	2.4	7.2	-8.4	3.7
Inventories (pp)	x	x	x	0.6	-1.8	-1.2	2.7	-1.4	-0.9	0.1
Net exports (pp)	x	x	x	0.4	1.4	0.7	0.5	1.2	1.0	0.6
Industrial output (% y/y)	11.2	0.9	4.4	5.2	7.0	21.3	8.7	4.0	-1.0	10.0
Construction output (% y/y)	3.4	-10.0	-12.7	-2.4	-10.0	-4.4	6.0	3.6	-2.7	-1.3
Retail sales (real, % y/y)	-0.8	-6.0	-1.2	-2.8	0.2	7.4	1.3	5.4	-2.7	3.8
Nominal GDP (PLN bn)	x	x	x	650.0	564.3	598.8	633.2	2288	2317	2505
Labour market										
Registered unemployment rate‡(%)	6.2	6.5	6.6	6.2	6.3	5.8	5.4	5.2	6.2	5.4
Employment in enterprises (% y/y)	-1.0	-2.0	-2.0	-1.1	-1.8	0.9	0.9	2.7	-1.2	0.5
Wages in enterprises (% y/y)	6.6	4.6	4.7	5.9	5.2	8.0	4.2	6.6	4.8	5.4
Prices^										
CPI inflation (% y/y)	2.4	2.7	2.7	2.8	2.6	3.2	3.1	2.3	3.4	3.1
Core inflation (% y/y)	3.7	3.8	3.5	4.1	3.5	2.7	2.5	1.9	3.9	2.8
15% trimmed mean (% y/y)	2.7	x	x	2.9	x	x	x	2.0	3.2	x
PPI inflation (% y/y)	0.0	0.7	1.3	-0.2	1.2	2.1	1.8	1.2	-0.6	1.7
Monetary aggregates‡										
Money supply, M3 (PLN bn)	1822.7	1820.2	1841.5	1822.7	1864.7	1906.2	1936.3	1565.6	1822.7	2013.7
Money supply, M3 (% y/y)	16.4	16.8	16.6	16.4	14.5	9.2	9.9	8.3	16.4	10.5
Real money supply, M3 (% y/y)	14.0	14.1	13.9	14.0	11.9	6.0	6.8	4.9	14.0	7.4
Loans, total (PLN bn)	1333.9	1337.3	x	1333.9	1322.3	1337.9	1358.2	1323.4	1333.9	1378.9
Loans, total (% y/y)	0.8	-0.1	x	0.8	-3.3	-0.2	1.5	5.1	0.8	3.4
Deposits, total (PLN bn)	1602.2	1628.0	x	1602.2	1617.1	1627.5	1646.7	1406.6	1602.2	1681.3
Deposits, total (% y/y)	13.9	13.9	x	13.9	8.9	0.5	1.2	8.2	13.9	4.9
Balance of payments										
Current account balance (% GDP)	3.5	3.6	3.7	3.5	3.7	3.0	3.0	0.5	3.5	2.8
Trade balance (%GDP)	2.3	2.4	2.5	2.3	2.5	2.3	2.1	0.2	2.3	1.7
FDI (% GDP)	1.0	0.9	0.9	1.0	0.9	0.8	1.1	1.6	1.0	1.7
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 (%)	0.21	0.21	0.21	0.21	0.20	0.20	0.20	1.71	0.21	0.20
Real WIBOR 3M ^x (%) [#]	-2.19	-2.49	-2.49	-2.59	-2.20	-2.80	-2.70	-1.69	-3.19	-2.90
Exchange rates^{x,‡}										
EUR-PLN	4.61	4.54	4.51	4.61	4.55	4.53	4.50	4.26	4.61	4.48
USD-PLN	3.76	3.75	3.73	3.76	3.79	3.74	3.66	3.80	3.76	3.61
CHF-PLN	4.26	4.21	4.27	4.26	4.17	4.11	4.09	3.92	4.26	4.05
EUR-USD	1.23	1.21	1.21	1.23	1.23	1.24	1.25	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	"While in the March projection inflation path is higher than the November one (...) in my opinion, it is still too cautious (...) What we are observing now is a return to inflation or reflation. (...) but in this [PAP: MPC's] term, there are rather no chances for rate hikes; the majority of the Council won't make such a decision" (08.03.2021, Biznes 24, PAP)
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	"I'm not particularly alarmed by higher inflation, at least in the first half of the year, as supply and cost factors are the main reasons for higher price growth, and monetary policy has no big impact on them" (10.03.2021, Biznes 24, Bloomberg).
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	"The likelihood of rate hikes under the current [PAP: MPC] term is [PKO: next to] zero. When we enter the path of a fast, stabilized growth, then we will consider [PAP: hikes]. (...) We stand by the view that appreciation of the zloty would presently be very undesirable (...). Ending the asset purchase program is absolutely out of the question [PAP: and] I see no prospects for ending use of this tool in the coming years." (05.03.2021, PAP).
J. Zyzyński	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	"As for postulates for hiking Polish interest rates, I believe there will be no such need at least until the end of the current MPC term " (08.03.2021, wgospodarce.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).

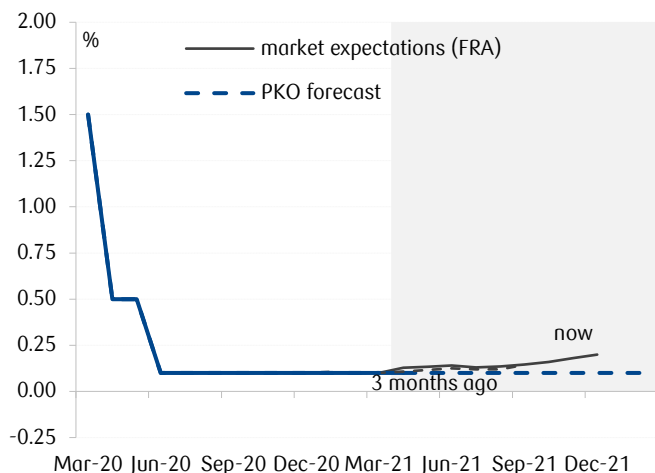
Interest rates – PKO BP forecasts vs. market expectations

	1M	2M	3M	4M	5M	6M	7M	8M	9M	
Date	11-Mar	11-Apr	11-May	11-Jun	11-Jul	11-Aug	11-Sep	11-Oct	11-Nov	11-Dec
WIBOR 3M/FRA†	0.21	0.24	0.24	0.25	0.24	0.25	0.26	0.27	0.29	0.31
implied change (b. p.)		0.03	0.03	0.04	0.03	0.04	0.05	0.06	0.08	0.10
MPC Meeting	3-Mar	7-Apr	5-May	9-Jun	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*		0.13	0.13	0.14	0.13	0.14	0.15	0.16	0.18	0.20

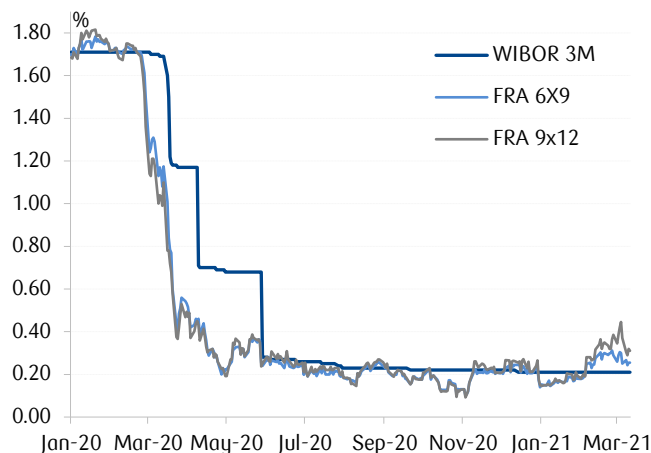
†WIBOR 3M from the last fixing, FRA transactions based on WIBOR 3M for subsequent periods, ‡in basis points, *PKO BP forecast of the NBP reference rate.

Poland macro chartbook

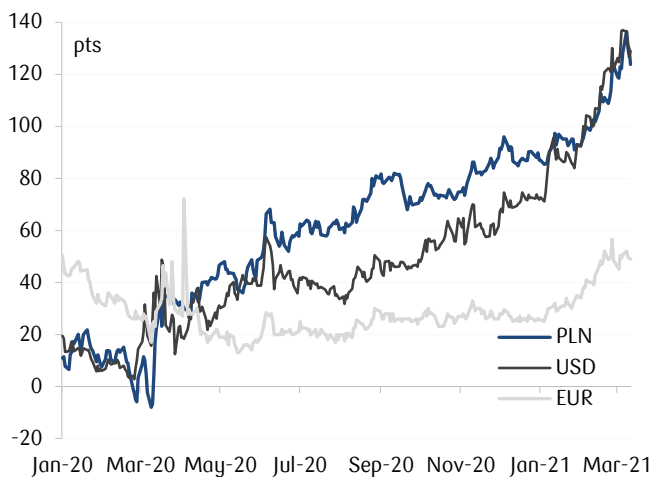
NBP policy rate: PKO BP forecast vs. market expectations



Short-term PLN interest rates



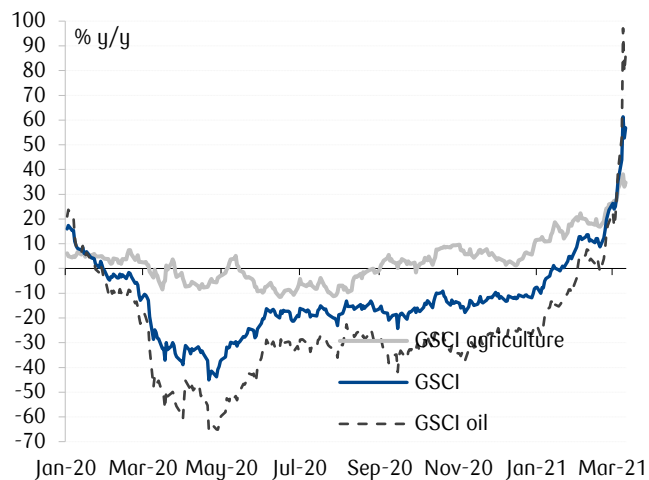
Slope of the swap curve (spread 10Y-2Y)*



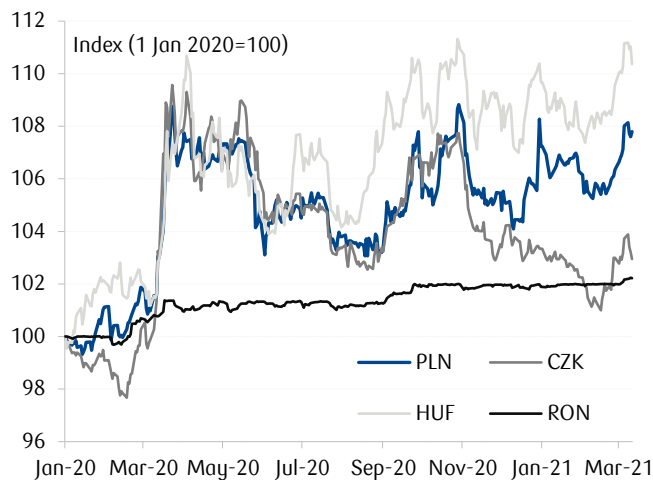
PLN asset swap spread



Global commodity prices (in PLN)

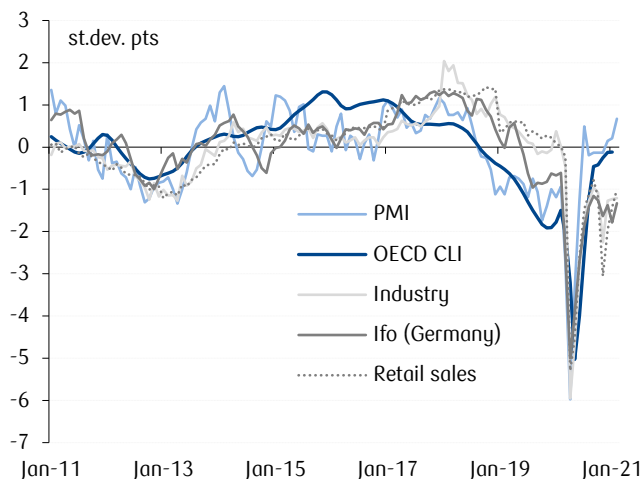


Selected CEE exchange rates against the EUR

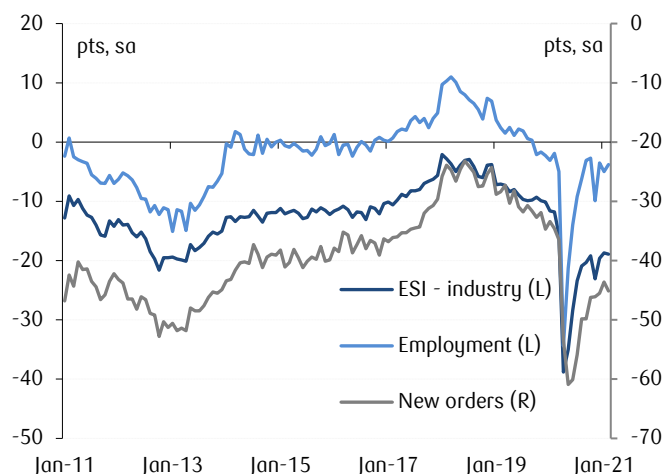


Source: Datastream, NBP, PKO Bank Polski. *for PLN, and EUR 6M, for USD 3M.

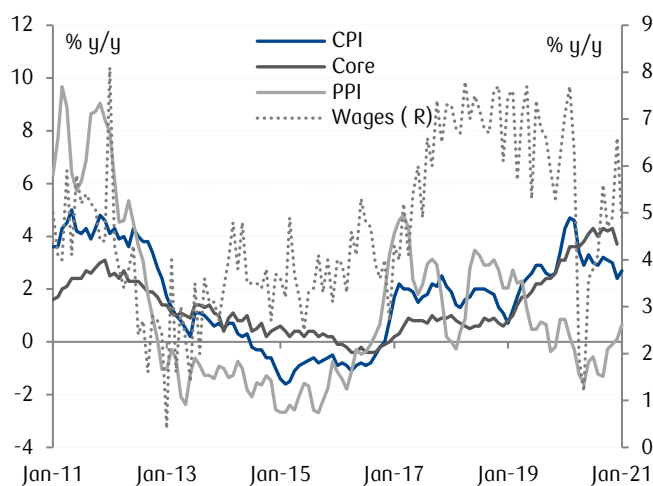
Economic sentiment indicators



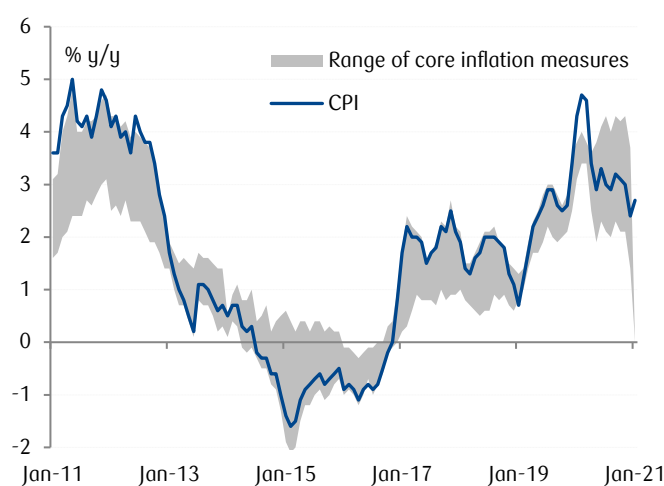
Poland ESI for industry and its components



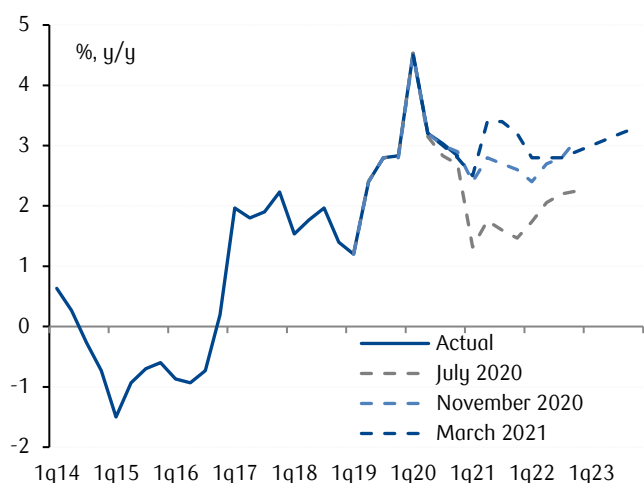
Broad inflation measures



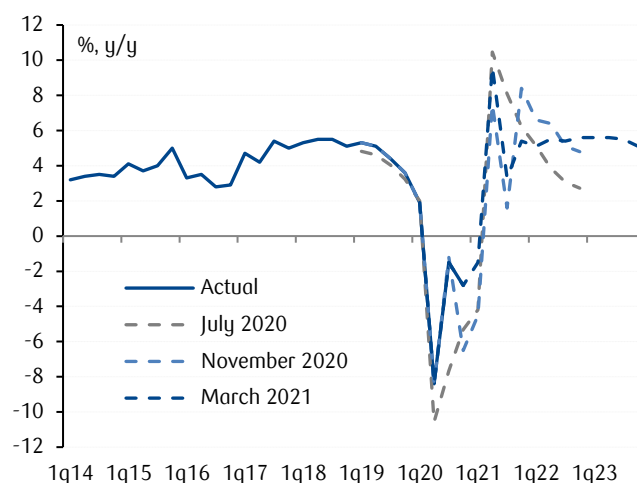
CPI and core inflation measures



CPI inflation - NBP projections vs. actual

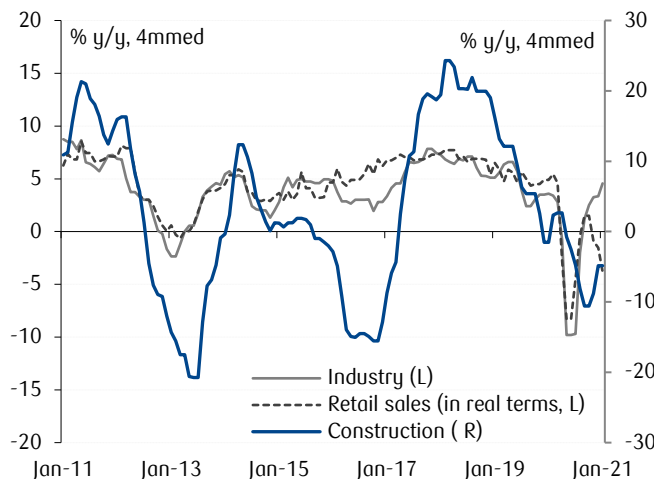


Real GDP growth - NBP projections vs. actual

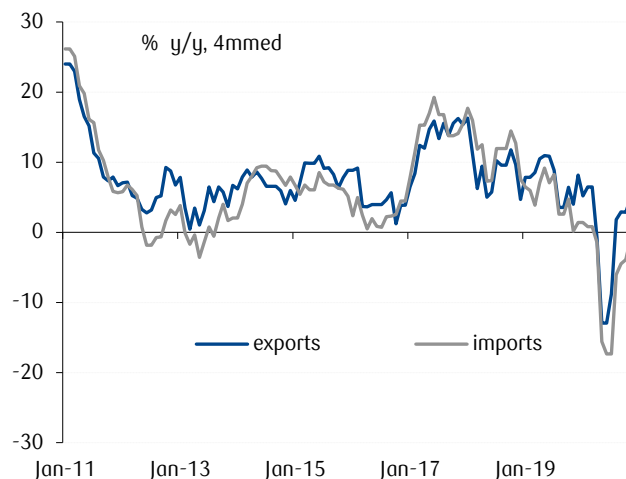


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

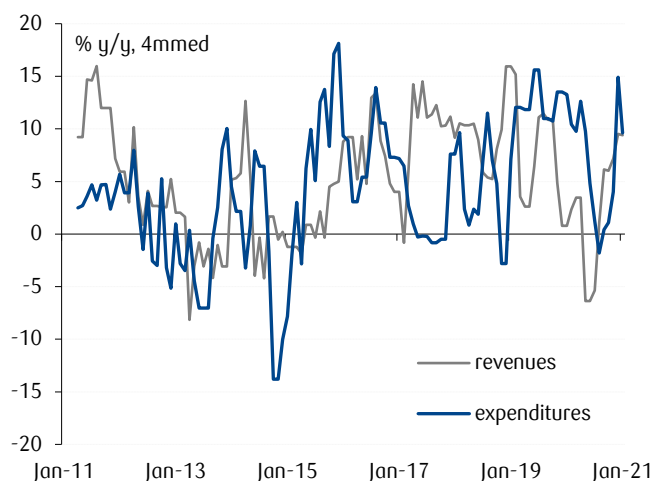
Economic activity indicators



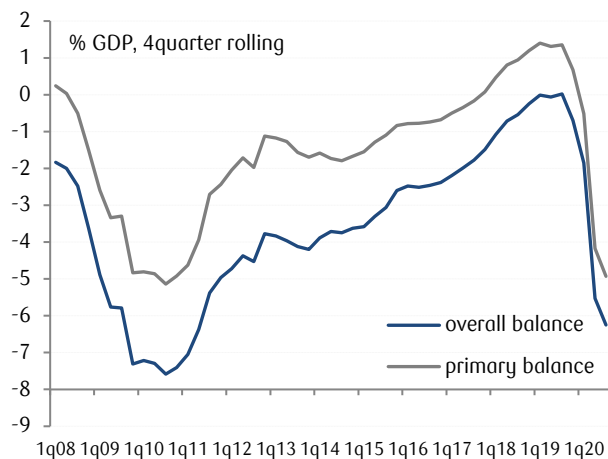
Merchandise trade (in EUR terms)



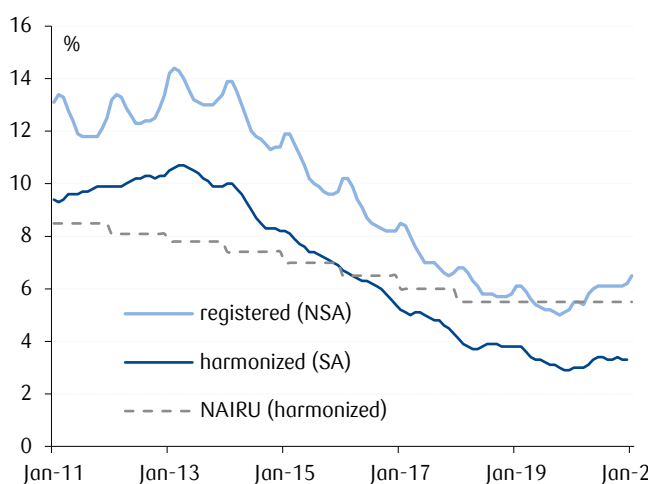
Central government revenues and expenditures*



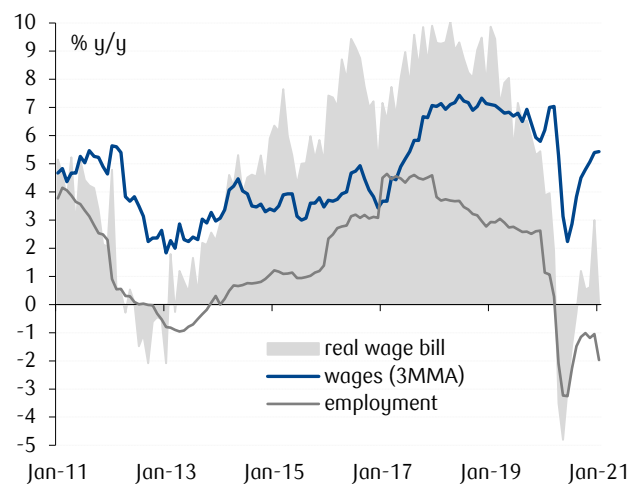
General government balance (ESA2010)



Unemployment rate

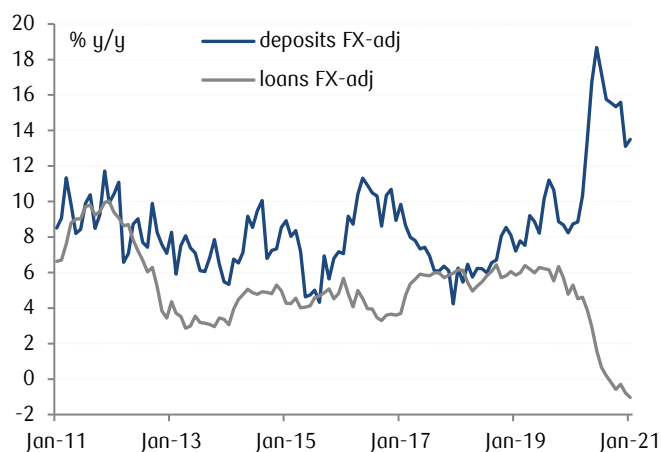


Employment and wages in the enterprise sector

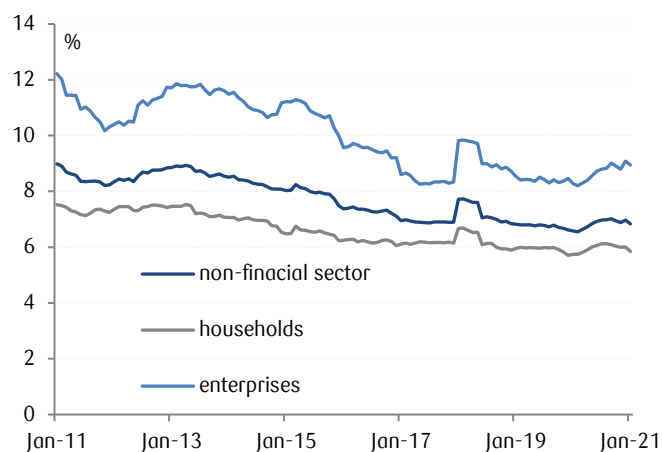


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. *break in series in 2010 due to methodological changes.

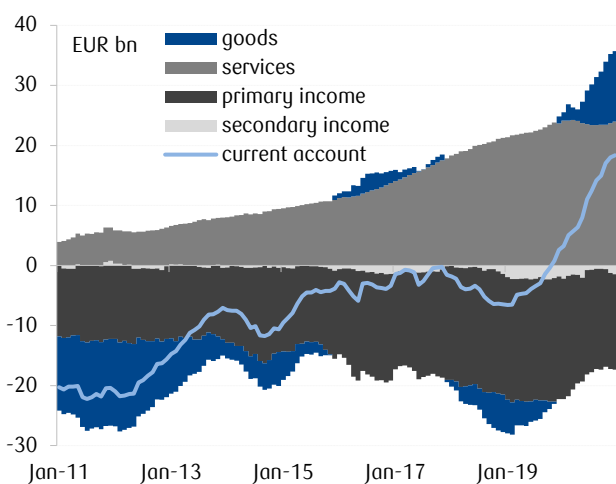
Loans and deposits



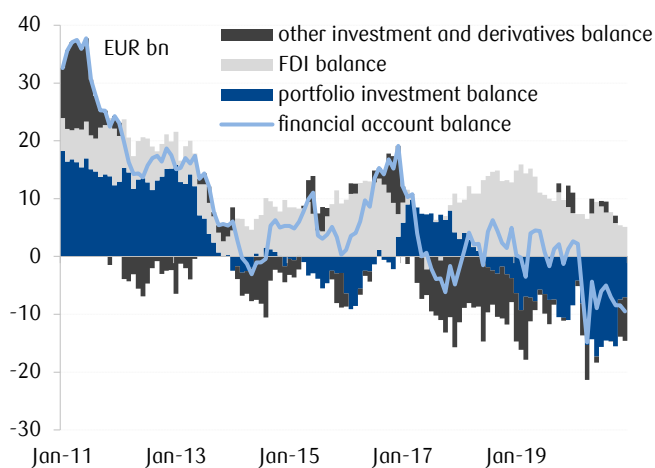
Non-performing loans (NPLs) - by sectors*



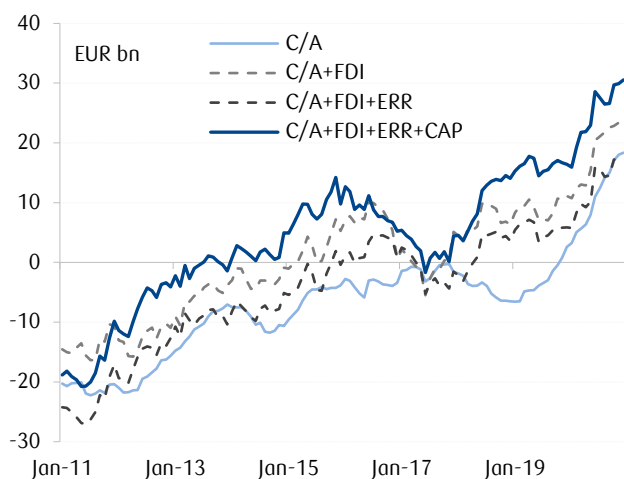
Current account balance



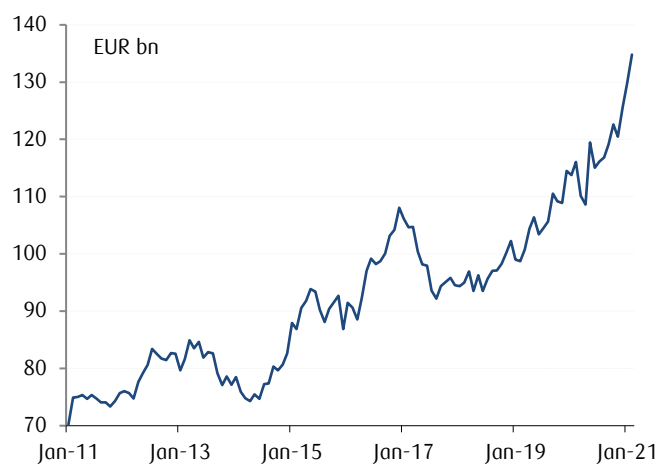
Financial account balance



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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- [This time is \(really\) different](#) (Feb 26, 2021)
- [Bottlenecks, winter and lockdowns](#) (Feb 19, 2021)
- [Green fiscal island](#) (Feb 12, 2021)
- [Spotlight: fiscal stance](#) (Feb 5, 2021)
- [2020 better than feared, bounce back ahead](#) (Jan 29, 2021)
- [Labour waves goodbye to difficult year](#) (Jan 22, 2021)
- [Housing frenzy exposes some perils of ultralow rates](#) (Jan 15, 2021)
- [New Year's sale at the NBP](#) (Jan 08, 2021)
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- [Reflections on the pandemic and inflation](#) (Nov 20, 2020)
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- [EU Recovery Plan: what's in store for Poland?](#) (Jun 5, 2020)
- [Lower bound reached](#) (May 29, 2020)

Poland's macro in a nutshell

	2020	2021	Comment
Real economy			
- real GDP (%)	-2.7	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	10.5	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	2.8	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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