

To the moon!

Top macro theme(s):

- **CPI waves goodbye to the inflation target (p. 2):** CPI inflation rose to 4.3% y/y in April, boosted by food and fuel prices. We have to get used to elevated inflation levels in 2021. The CPI has fallen out of the NBP target range and will not return there for some (possibly quite a long) time.

What else caught our eye:

- **Unemployment rate inched down to 6.4% in March**, with a seasonal decline of the number of unemployed (by 21k). The unemployment rate is bound to fall in the coming months, driven by seasonal factors and reopening of the economy.
- **The government announced a plan to ease the anti-pandemic restrictions.** Starting from May 1st, the limit of people attending sport activities will be doubled. From May 4th, art galleries, museums, stores in the shopping malls, as well as furniture and construction markets will be reopened under sanitary regime. Hotels will start to work at a 50% capacity starting from May 8th. On May 15th restaurants will be allowed to reopen within their outdoor spaces, along with further loosening in the above mentioned entities. Hybrid-schooling will be introduced for all kids, starting from 4th grade of elementary school. Outdoor events will be allowed, if attended by less than 25 people. Mask-wearing order may be lifted given a low number of new Covid-19 cases. Finally, from May 29th on, all the above mentioned restrictions will be further loosened, including eg. restaurant indoor activities. In our view the economic impact of these actions will be significant, driving a close to 2-digit recovery in 2q21.
- President A.Duda said that A.Glapinski is a very good NBP governor, thus, implicitly, making him the top candidate to serve for the second (6Y) term (the first one ends in mid-2022).

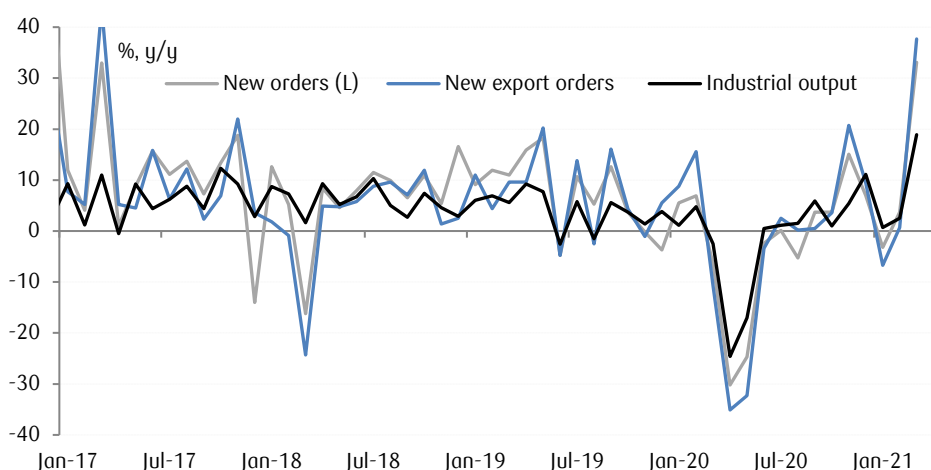
The week ahead:

- **We expect no change to Poland's rating by Moody's today.** However, in our opinion, Moody's is the top candidate to upgrade the country's rating after the pandemic (assuming continuation of the pre-pandemic trends).
- **We estimate PMI manufacturing rose to 54.8 in April** from 54.3 in March, on rebounding orders and on rising delivery times, due to supply shortages.
- **The MPC will leave rates and other policy parameters unchanged** despite mounting inflationary pressure (inflation will likely stay around 4% throughout the rest of the year). In our view probability of rate hikes in 2021 is still low.

Number of the week:

- **1.8%** – harmonized unemployment rate in Wielkopolska region in 2020, the lowest regional (NUTS 2) unemployment rate in the EU.

Chart of the week: New orders vs industrial output



Source: GUS, 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

Michal Rot

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

	2020	2021†
Real GDP (%)	-2.7	4.7
Industrial output (%)	-1.0	12.3
Unemployment rate# (%)	6.2	5.4
CPI inflation** (%)	3.4	4.0
Core inflation** (%)	3.9	3.2
Money supply M3 (%)	16.4	10.5
C/A balance (% GDP)	3.6	3.0
Fiscal balance (% GDP)*	-7.0	-3.4
Public debt (% GDP)*	57.5	56.9
NBP reference rate## (%)	0.10	0.10
EURPLN‡#	4.61	4.53

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. *under revision.

CPI waves goodbye to the target

- CPI inflation went up to 4.3% y/y in April boosted by food and fuel prices. We have to get used to an elevated inflation in 2021. The CPI has fallen out of NBP target range and will not return for some time.
- Our above-consensus forecast of the annual average CPI inflation in 2021 at 3.5% has become too conservative again and we are raising it to 4.0%.
- The overall shape of inflationary processes may cause communication problems for the dovish NBP and market expectations for rate hikes might intensify.

The CPI inflation continues its upward rally. According to flash data, in April it increased to 4.3% y/y (PKO: 4.1% y/y, cons: 4.0% y/y) from 3.2% y/y in March. Inflation was boosted by fuel and food prices, which grew stronger in mom terms than we have assumed. The rise in CPI inflation was also boosted by the low statistical base effect from the 2020 lockdown, which is most clearly visible in fuel prices.

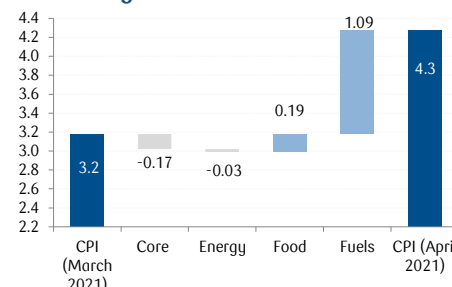
Fuel prices increased by 3.6% over the month, and their annual dynamics increased to 28.1% y/y from 7.6% y/y in March and was the highest since July 2000. In May we will probably see even stronger gains here, and the base effects will only fade away in the second half of the year. The prices of food and non-alcoholic beverages increased by 1.0% during the month and their annual growth rate amounted to 1.2% vs. 0.5% y/y in March. The situation in the global agricultural markets indicates that the next months will bring further increases on the domestic food market.

Core inflation, excluding food and energy prices, fell, according to our estimate, to 3.6-3.7% y/y from 3.9% y/y a month ago. The detailed data that will allow to determine the reasons for this decline will be released in the middle of the month, but it is likely that the base effects in the cost of housing maintenance contributed to this.

Inflation has not said the last word yet and may increase to app. 4.5% y/y in May, boosted by, among others, an increase in gas prices and further increases in the annual growth of fuel prices. We have to get used to an elevated inflation in 2021. The CPI has fallen out of NBP target range and will not return for some time. Our annual average CPI inflation estimate of 3.5% has become too conservative again and we are raising it to 4.0%.

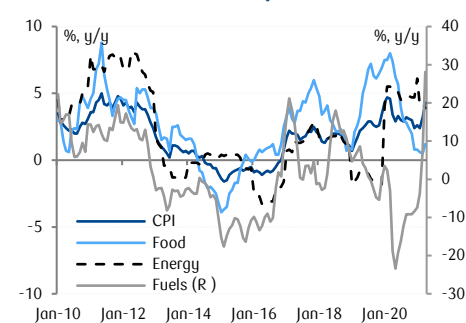
Elevated inflation will probably have no impact on the MPC's actions. The Council's assumption that the inflation increase is temporary and driven by exogenous factors is supported by the latest NBP projection. Although, in our opinion, core inflation will remain in a downward trend in the coming months, the overall shape of inflationary processes may however cause communication problems for the NBP and market expectations for rate hikes might intensify.

CPI change and its contributors



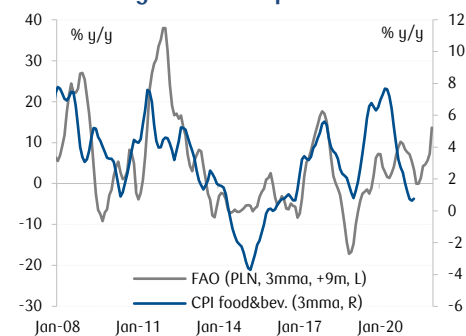
Source: GUS, NBP, PKO Bank Polski.

CPI and its main components



Source: GUS, PKO Bank Polski.

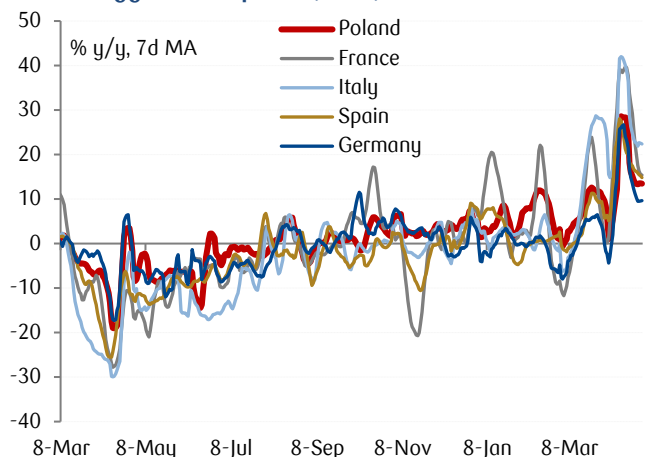
Local and global food prices



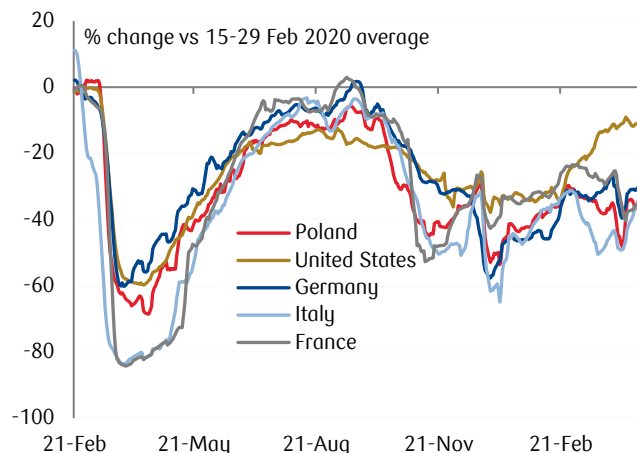
Source: PKO Bank Polski.

Macro monitoring with alternative data

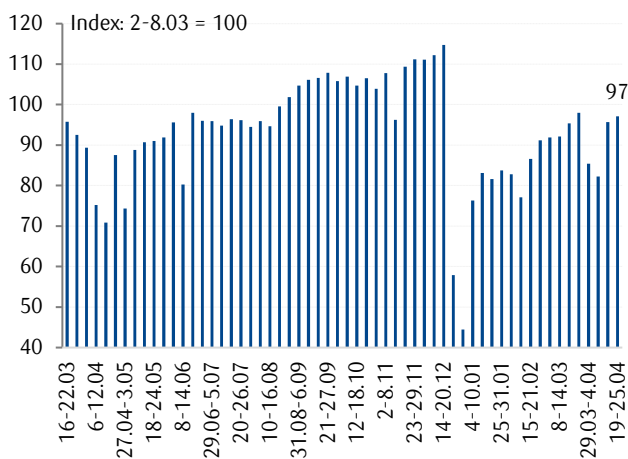
Electric energy consumption (total)



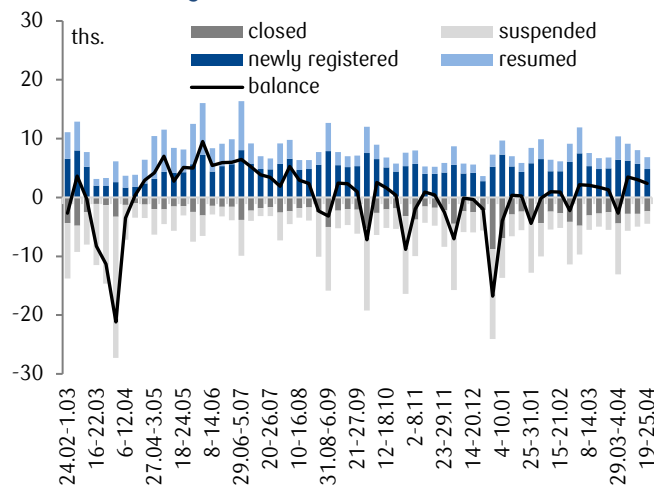
Mobility*



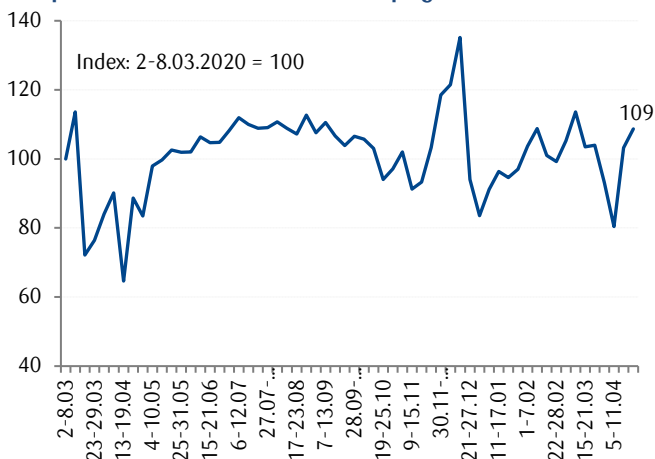
Heavy truck traffic



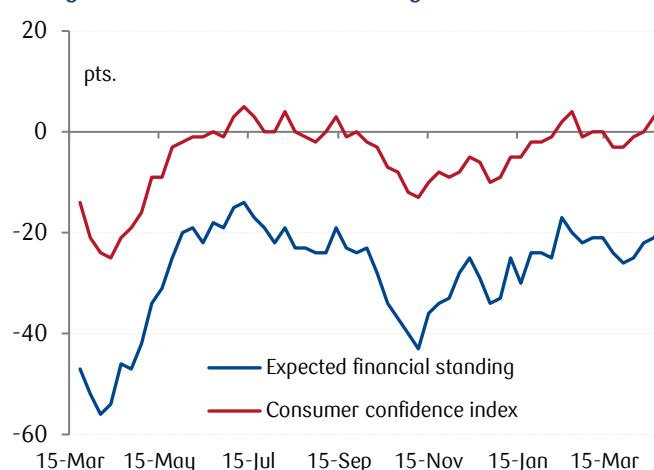
Economic activity status (acc. to CEiDG**)



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, 3 May						
GER: Manufacturing PMI (Apr, final)	8:55	pts.	66.6	66.4	--	--
EUR: Manufacturing PMI (Apr, final)	9:00	pts.	62.5	63.3	--	--
USA: ISM Manufacturing (Apr)	15:00	pts.	64.7	65.1	--	--
Tuesday, 4 May						
POL: Manufacturing PMI (Apr)	8:00	pts.	54.3	55.3	54.8	Rebounding orders and rising delivery times (due to supply shortages) have pushed PMI up.
USA: Factory orders (Mar)	15:00	% m/m	-0.8	1.6	--	--
USA: Durable goods orders (Mar, final)	15:00	% m/m	-0.9	0.6	--	--
Wednesday, 5 May						
EUR: Services PMI (Apr, final)	9:00	pt.	49.6	50.3	--	--
USA: ADP National Employment (Apr)	13:15	thous.	517	--	--	--
POL: NBP base rate	--	%	0.10	0.10	0.10	Despite elevated inflation the probability of rate hikes in 2021 is still low.
Thursday, 6 May						
GER: Factory orders (Mar)	7:00	% y/y	5.6	25.6	--	--
NOR: Norges Bank meeting	9:00	%	0.00	0.00	0.00	--
UK: BoE meeting	12:00	%	0.10	0.10	0.10	--
CZE: Central bank meeting	13:30	%	0.25	0.25	0.25	--
USA: Initial Jobless Claims	13:30	thous.	553	--	--	--
Friday, 7 May						
GER: Industrial output (Mar)	7:00	% y/y	-6.4	5.0	--	--
GER: Exports (Mar)	7:00	% m/m	0.9	0.5	--	--
POL: MPC Minutes (Apr)	13:00	--	--	--	--	A no big deal for local monetary policy.
USA: Non-Farm Payrolls (Apr)	13:30	thous.	916	--	--	--
USA: Unemployment Rate (Apr)	13:30	%	6.0	5.8	--	--
USA: Average Earnings (Apr)	13:30	% y/y	4.2	-0.2	--	--

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

Selected economic indicators and forecasts

	Feb-21	Mar-21	Apr-21	4q20	1q21	2q21	3q21	2019	2020	2021
Economic activity										
Real GDP (% y/y)	x	x	x	-2.7	-1.0	9.1	5.4	4.7	-2.7	4.7
Domestic demand (% y/y)	x	x	x	-3.4	-2.0	9.1	4.5	3.5	-3.7	4.6
Private consumption (% y/y)	x	x	x	-3.2	0.0	14.8	2.0	4.0	-3.0	4.2
Gross fixed capital formation (% y/y)	x	x	x	-15.4	-6.4	3.0	2.4	6.1	-9.6	1.9
Inventories (pp)	x	x	x	0.6	-1.4	-1.2	1.7	-1.4	-0.9	0.0
Net exports (pp)	x	x	x	0.4	0.9	0.7	0.4	1.2	0.8	1.0
Industrial output (% y/y)	2.5	18.9	34.8	5.2	7.7	26.1	10.4	4.0	-1.0	12.3
Construction output (% y/y)	-16.9	-10.8	-7.7	-2.4	-12.5	-4.6	4.2	3.6	-2.7	-2.5
Retail sales (real, % y/y)	-3.1	15.2	20.5	-2.8	1.9	7.9	1.3	5.4	-2.7	2.4
Nominal GDP (PLN bn)	x	x	x	639.3	566.0	594.8	633.8	2288	2306	2507
Labour market										
Registered unemployment rate‡(%)	6.5	6.4	6.2	6.2	6.4	5.8	5.4	5.2	6.2	5.4
Employment in enterprises (% y/y)	-1.7	-1.3	-1.1	-1.1	-1.7	2.1	1.0	2.7	-1.2	0.6
Wages in enterprises (% y/y)	4.5	8.0	9.4	5.9	5.7	8.0	5.5	6.6	4.8	6.1
Prices^										
CPI inflation (% y/y)	2.4	3.2	4.3	2.7	2.7	4.2	4.0	2.3	3.4	4.0
Core inflation (% y/y)	3.7	3.9	3.7	4.1	3.8	3.3	3.1	1.9	3.9	3.2
15% trimmed mean (% y/y)	2.3	2.9	x	2.9	2.6	x	x	1.9	3.9	x
PPI inflation (% y/y)	2.2	3.9	5.2	-0.1	2.3	2.9	3.4	1.2	-0.5	3.0
Monetary aggregates‡										
Money supply, M3 (PLN bn)	1836.6	1862.9	1863.4	1822.7	1862.5	1906.2	1936.3	1565.6	1822.7	2013.7
Money supply, M3 (% y/y)	16.3	14.4	12.7	16.4	14.4	9.2	9.9	8.3	16.4	10.5
Real money supply, M3 (% y/y)	13.5	10.9	8.1	13.4	11.3	4.8	5.7	5.8	12.6	6.2
Loans, total (PLN bn)	1336.6	1344.0	x	1333.9	1344.0	1353.3	1375.0	1323.6	1333.9	1384.9
Loans, total (% y/y)	-0.2	-1.7	x	0.8	-1.7	0.9	2.8	5.1	0.8	3.8
Deposits, total (PLN bn)	1644.3	1670.0	x	1602.2	1670.0	1694.6	1721.9	1406.8	1602.2	1735.6
Deposits, total (% y/y)	13.7	12.5	x	13.9	12.5	4.7	5.8	8.2	13.9	8.3
Balance of payments										
Current account balance (% GDP)	3.8	3.7	3.4	3.6	3.7	3.1	3.0	0.5	3.6	3.0
Trade balance (%GDP)	2.5	2.6	2.4	2.4	2.6	2.4	2.2	0.2	2.4	1.9
FDI (% GDP)	1.3	1.2	1.2	1.4	1.2	1.1	1.3	1.6	1.4	1.7
Fiscal policy										
Fiscal balance (% GDP)	x	x	x	x	x	x	x	-0.7	-7.0	-3.4
Public debt (% GDP)	x	x	x	x	x	x	x	45.6	57.5	56.7
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	0.21	0.20	0.20	1.71	0.21	0.20
Real WIBOR 3M ^x (%) [#]	-2.23	-2.97	-4.06	-2.44	-2.53	-4.18	-3.92	-0.58	-3.06	-3.65
Exchange rates*‡										
EUR-PLN	4.52	4.66	4.57	4.61	4.66	4.57	4.55	4.26	4.61	4.53
USD-PLN	3.72	3.97	3.77	3.76	3.97	3.84	3.79	3.80	3.75	3.71
CHF-PLN	4.12	4.21	4.15	4.26	4.21	4.15	4.14	3.92	4.25	4.08
EUR-USD	1.21	1.17	1.21	1.23	1.17	1.19	1.20	1.12	1.23	1.22

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	"It seems to me that the first signal of normalization could be hiking the mandatory reserve rate now, as professor Hardt suggests, and then hiking the reference rate by 10-15 bps in order to reduce the disparity between rates in the group of CEE economies, which have the highest inflation in the EU," he said. "This could take place already in the second half of this year, when inflation exceeds 4%" (20.04.2021, PAP)
L. Hardt	4.2	"We cannot go below zero due to various reasons, in my opinion we absolutely cannot go below zero (...) The longer the central bank is active on the longer end of the yield curve and the more assets it purchases, (...) the more efficacy of this channel declines. (...) When the economy starts recovering ... we hope that firms will start with investments, at least replacement once to start with, so such a tool [PAP: like TLTRO] would be useful". (PAP, 20.04.2021)
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 coming quarters there will be no decision situation for interest rate hikes (...) It's just that I don't think that in the prospect of 2022 we will reach such state of lasting and balanced growth that would be conducive to changing this monetary policy parameter." (15.04.2021, 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 see no possibility for me to vote for interest rate hikes before the end of my term in the council in February 2022 - unless lending skyrockets in the consumer segment, in cash loans, but that seems very unlikely (...) On the other hand, cutting interest rates further would make absolutely no sense in the current situation." (27.04.2021, PAP)
A. Glapinski	1.5	"Our task is to increase the chances of a return to rapid economic growth after the pandemic, while maintaining price stability and macroeconomic balance. This means that we must continue our current monetary policy measures. (...) We must ensure low financing costs for all sectors. We can't allow any sudden changes in the exchange rate or bond yields to limit our growth prospects." (23.03.2021, Dziennik Gazeta Prawna daily).
J. Zyzynski	1.5	"The current level of the zloty rate is more optimal from the point of view of the economy, it pleases the council very much, hence we changed the phrasing for the zloty rate (...) The central bank keeps readiness to enter the market so that the FX rate holds at an optimal level and remains relatively stable, without excessive fluctuations (...) Poland should keep rates flat to end of MPC's term (...) Council will flag potential monetary policy tightening in advance" (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). ^Quotes in bold have been modified in this issue of Poland Macro Weekly.

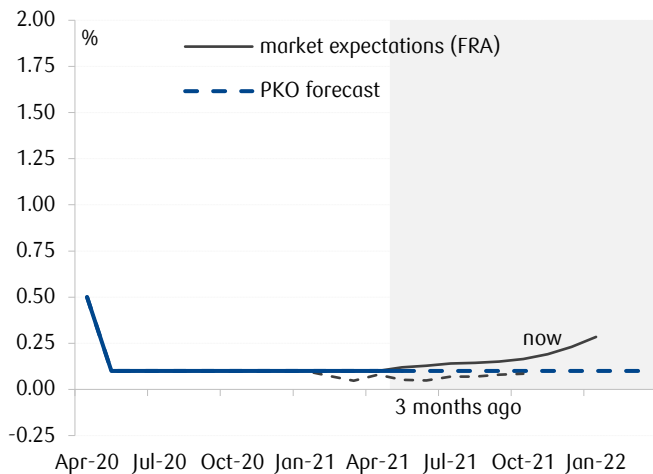
Interest rates – PKO BP forecasts vs. market expectations

		1M	2M	3M	4M	5M	6M	7M	8M	9M
Date	29-Apr	29-May	29-Jun	29-Jul	29-Aug	29-Sep	29-Oct	29-Nov	29-Dec	29-Jan
WIBOR 3M/FRA†	0.21	0.23	0.24	0.25	0.25	0.26	0.28	0.30	0.34	0.40
implied change (b. p.)		0.02	0.03	0.04	0.04	0.05	0.07	0.09	0.13	0.19
MPC Meeting	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*		0.12	0.13	0.14	0.14	0.15	0.17	0.19	0.23	0.29

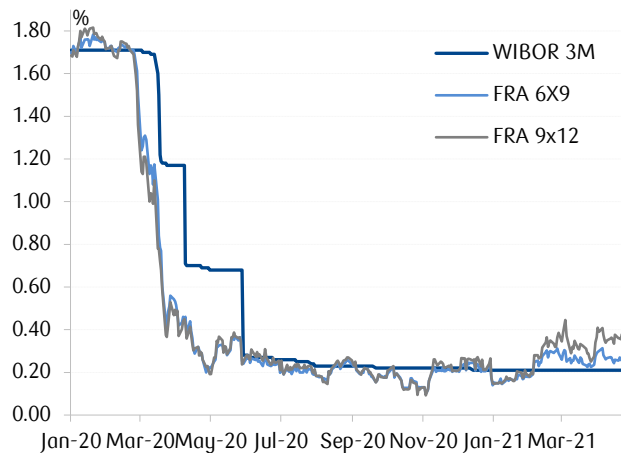
†WIBOR 3M from the last fixing, FRA transactions based on WIBOR 3M for subsequent periods, ‡in basis points, *PKO BP forecast of the NBP reference rate.

Poland macro chartbook

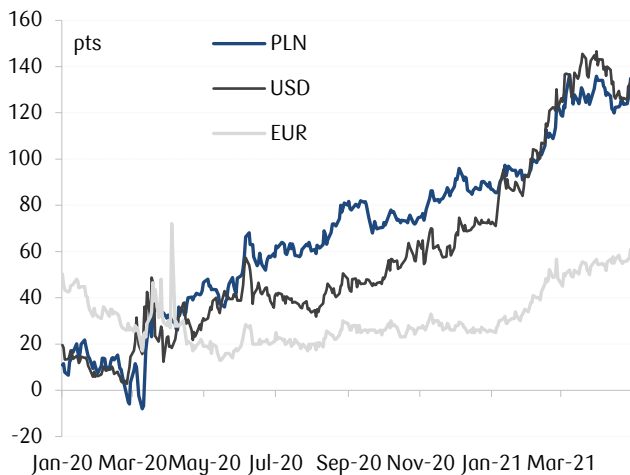
NBP policy rate: PKO BP forecast vs. market expectations



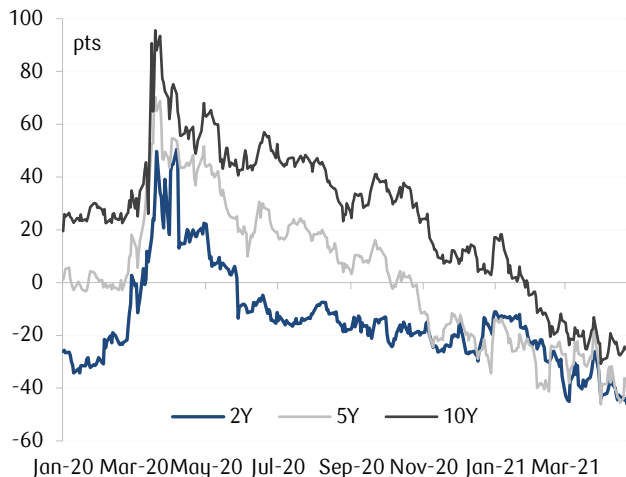
Short-term PLN interest rates



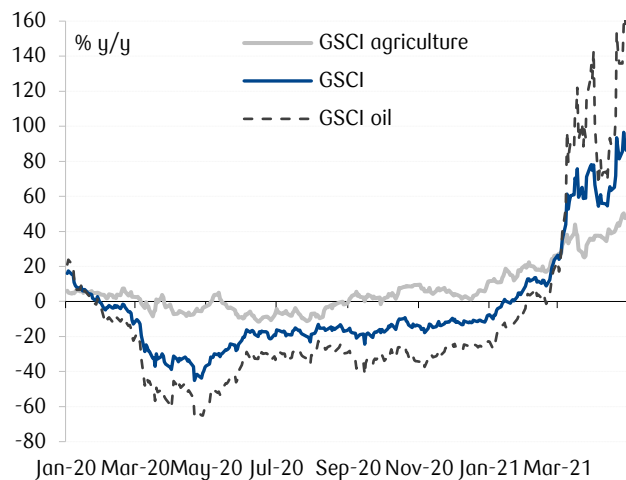
Slope of the swap curve (spread 10Y-2Y)*



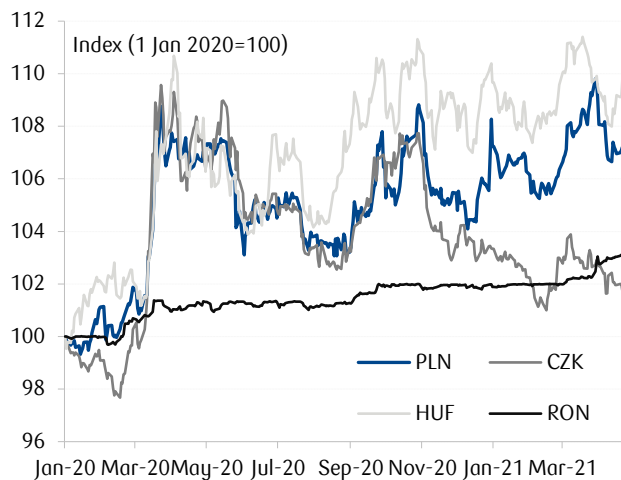
PLN asset swap spread



Global commodity prices (in PLN)

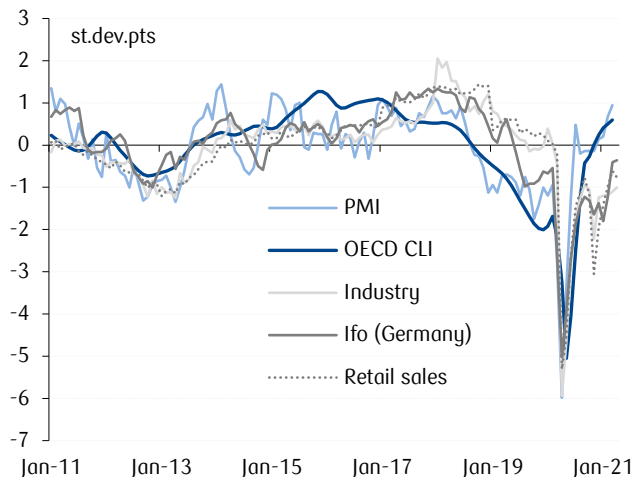


Selected CEE exchange rates against the EUR

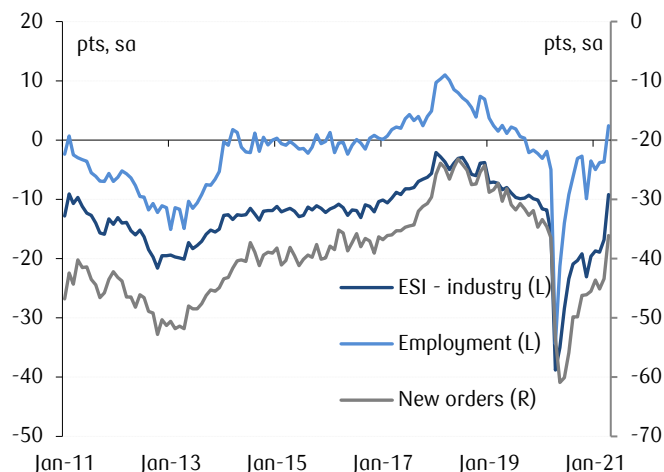


Source: Datastream, NBP, PKO Bank Polski. *for PLN, and EUR 6M, for USD 3M.

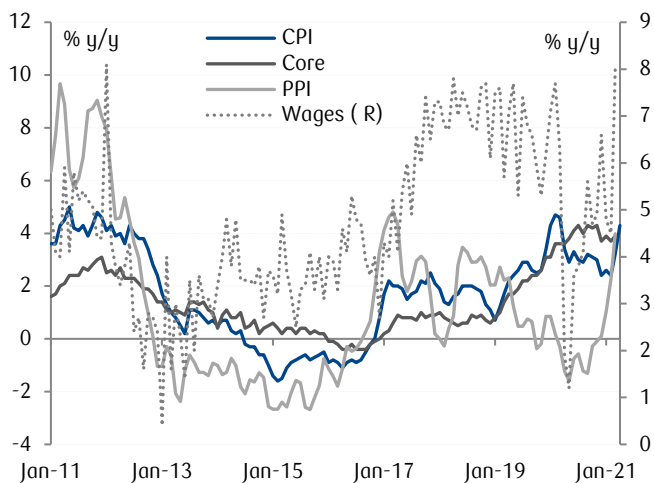
Economic sentiment indicators



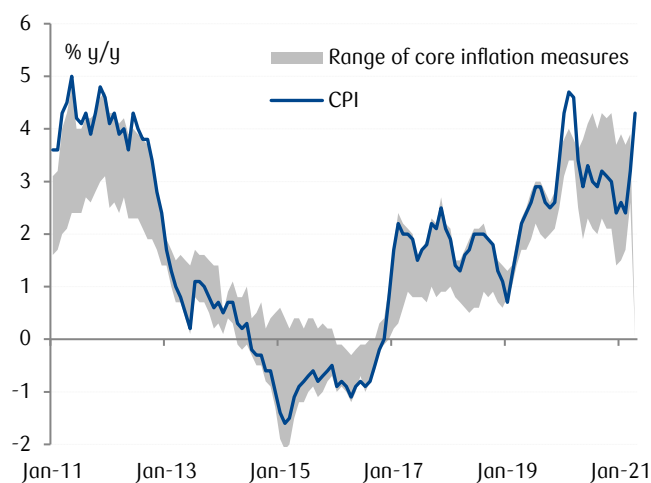
Poland ESI for industry and its components



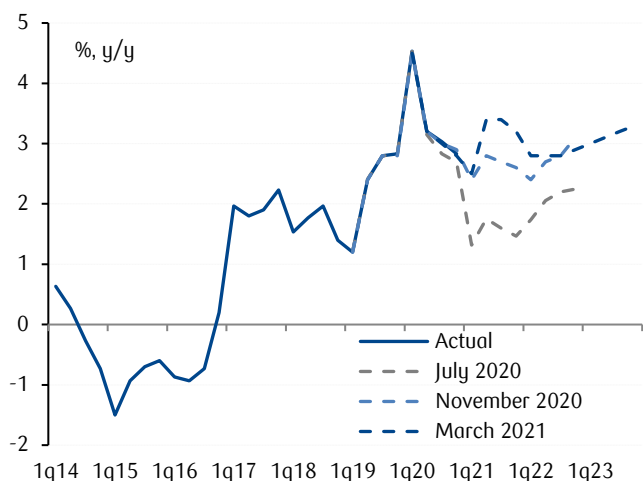
Broad inflation measures



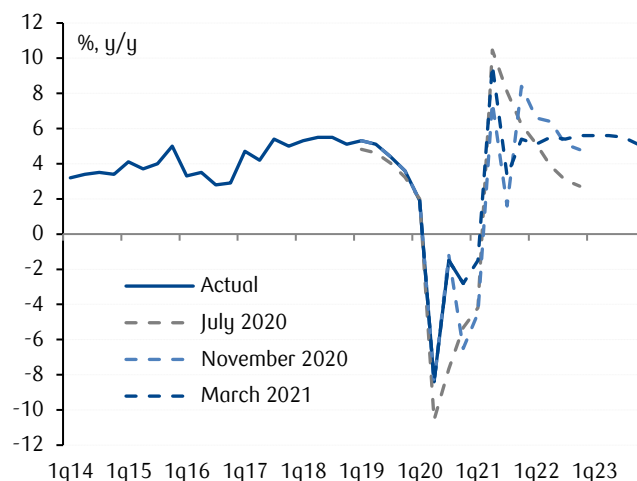
CPI and core inflation measures



CPI inflation - NBP projections vs. actual

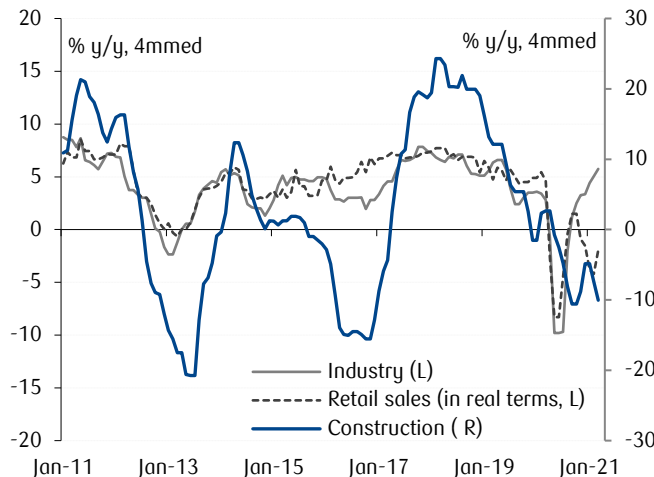


Real GDP growth - NBP projections vs. actual

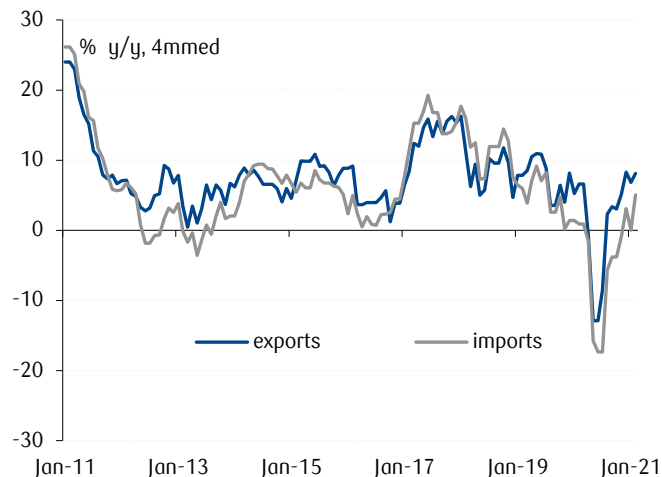


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

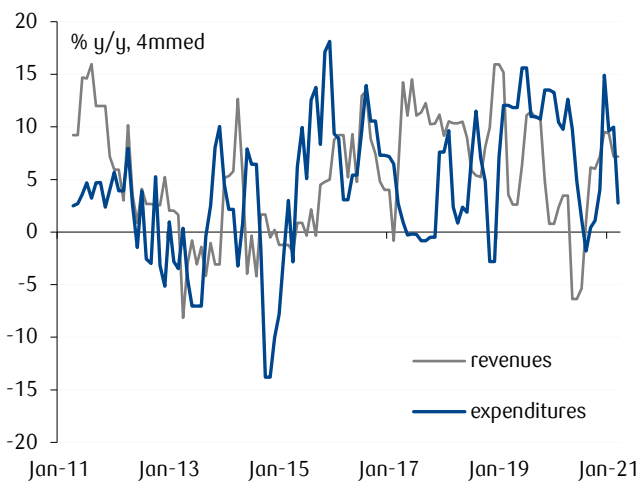
Economic activity indicators



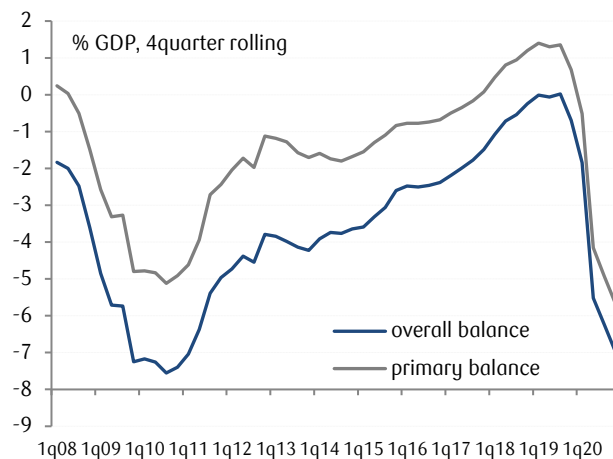
Merchandise trade (in EUR terms)



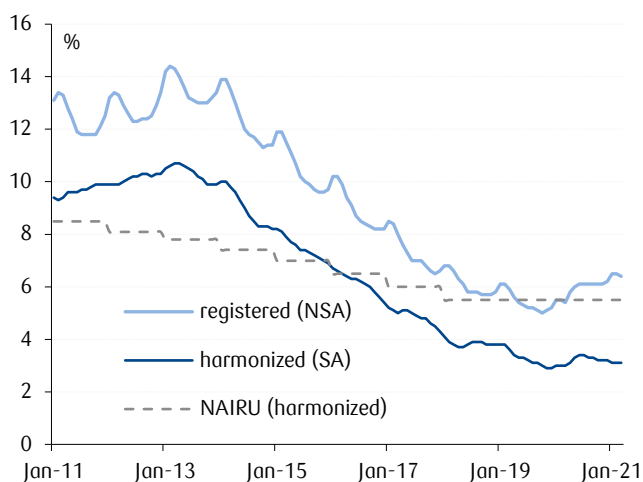
Central government revenues and expenditures*



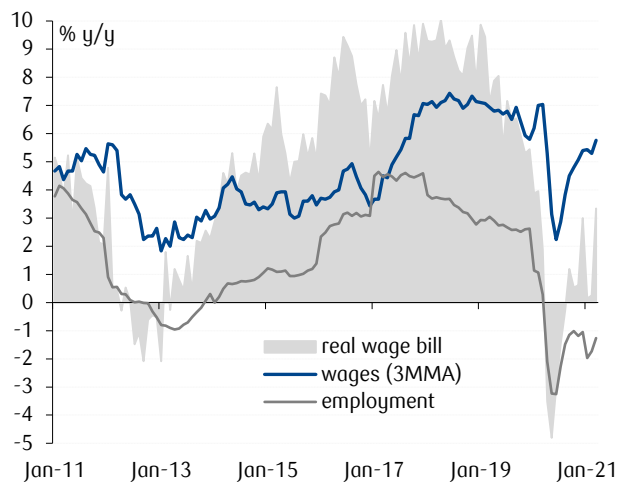
General government balance (ESA2010)



Unemployment rate

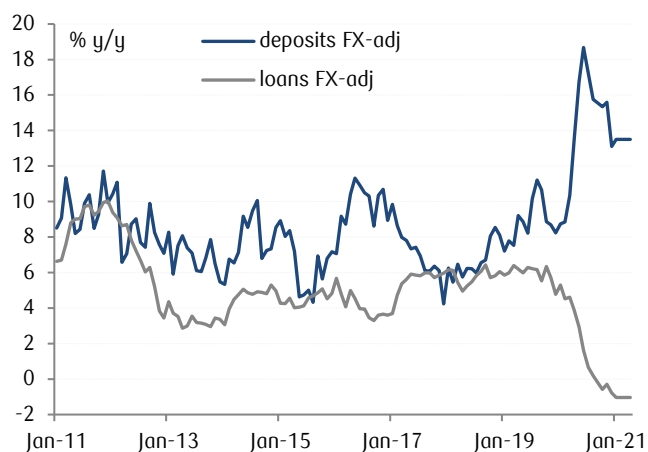


Employment and wages in the enterprise sector

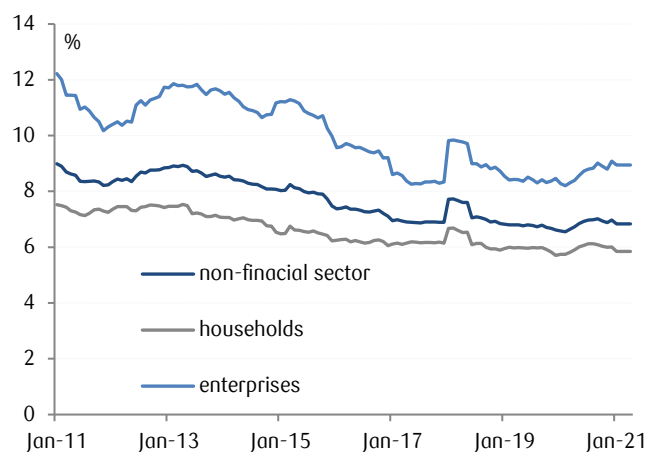


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. *break in series in 2010 due to methodological changes.

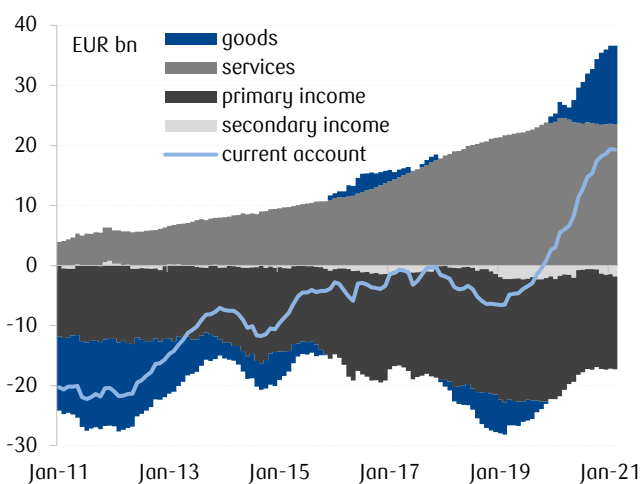
Loans and deposits



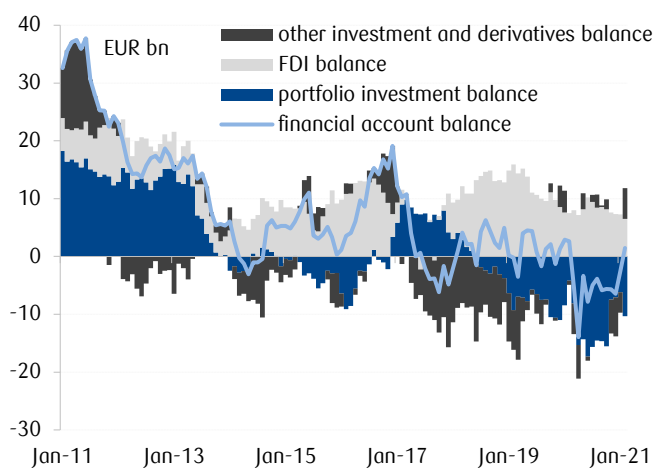
Non-performing loans (NPLs) - by sectors*



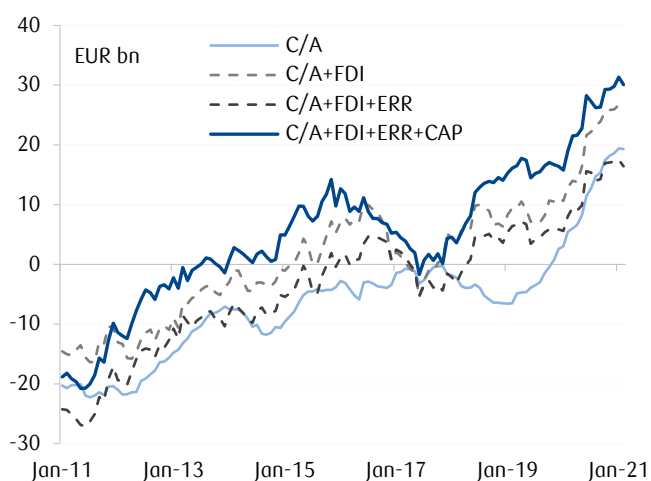
Current account balance



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 (%)	-2.7	4.7	Despite a more difficult-than-expected start of the year, we still forecast a strong rebound in the domestic economy in 2021. The global recovery supports Poland's exports. We still believe that consumption (along with easing restrictions) and "shifted" fiscal stimulation will be an important driver of growth this year. 1q21 will be the last quarter of negative GDP growth rate. 2q21 will be determined by a low base. In 2h21 a longer period of GDP growth will begin, driven by fiscal, monetary and trade impulse and a decline in the savings rate, followed by an inflow of EU funds.
Prices			
- CPI inflation (%)	3.4	4.0	The sudden rise in CPI which occurred in March and April means, that it will stay around 4.0% level throughout the rest of the year, with a peak in May, at around 4.5%. Rising regulated prices, energy and food prices will keep the CPI at elevated levels despite expected moderation in core CPI.
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)	3.6	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)	-7.0	-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.

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