

Approaching a single-digit inflation

TOP MACRO THEME(S):

- **Election promises fair (p.2)** – We took a closer look at flagship election promises of the main political groupings, which we find rather generous and focused around social transfers. Tax cuts are also in the game for most of the parties.

WHAT ELSE CAUGHT OUR EYE:

- **Despite the slightly weaker-than-expected reading for July the CAB data confirm that Poland's external position keeps improving.** CAB in July amounted to EUR 566m, which in terms of a 12m rolling sum translated into a 0.3% GDP surplus, against 0.1% GDP in June. Exports grew by 1.3% y/y, driven again mainly by the automotive sector. Some rebound in domestic demand for cars was observed in case of imports, however, the overall figure showed 8.9% y/y decline spread across majority of categories.
- **CPI inflation for August was confirmed at 10.1% y/y vs 10.8% y/y in July.** Prices of goods increased by 9.8% y/y and prices of services by 11.1% y/y. Our estimate shows that core inflation (CPI excluding food and energy) stood at 10.0% y/y vs. 10.6% y/y in July. Consumer prices did not change during the month and have not grown for 5 months now. In September, inflation will be single-digit and the scale of its decline may be deepened by regulations regarding prices of energy and medicines.
- **P.Borys, head of the Polish Development Fund, stated that the government has instruments which are effective in keeping EURPLN in an optimal range of 4.40-4.60.** He advised the MPC to take into consideration FX developments when taking future decisions.

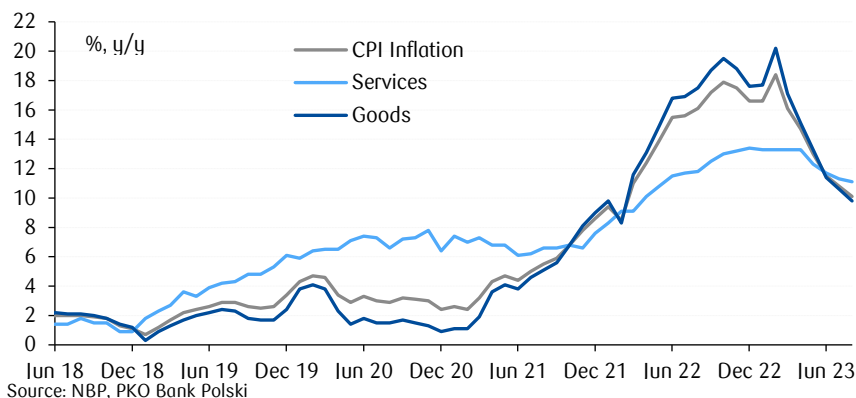
THE WEEK AHEAD:

- **Data to be released this week will likely confirm that the economic activity remained subdued in August.** Construction probably was the only bright spot (+1.5%) with both industrial output and retail sales projected to decline in y/y terms. The economy is, however, close to the turning point, as wages probably once again grew stronger than prices (see calendar on page 4 for details).

NUMBER OF THE WEEK:

- **48.4%** – general government debt to GDP ratio after 2q23, +0.3pp q/q.

CHART OF THE WEEK: CPI inflation and goods and services inflation



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	2022	2023
Real GDP (%)	5.1	0.7
Industrial output (%)	10.5	-0.9
Unemployment rate# (%)	5.2	5.2
CPI inflation** (%)	14.4	11.9
Core inflation** (%)	9.1	10.5
Money supply M3 (%)	5.6	7.2
C/A balance (% GDP)	-3.0	1.0
Fiscal balance (% GDP)*	-3.7	-4.8
Public debt (% GDP)*	49.1	49.2
NBP reference rate### (%)	6.75	5.50
EURPLN###	4.69	4.58

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

Election promises fair

- Parliamentary elections in Poland will take place on October 15. Just recently, main political forces have provided details of their programs, enabling us to take a closer look. We focus mainly on proposals related directly or having a noticeable impact on economic policy.
- Flagship proposals of the main political groupings could be assessed as rather generous, focusing in big part on various social transfers. To various extent reduction in taxation is also an important component of economic programs of all the analyzed political forces.
- At this point, the polls do not provide a clear answer regarding the election winner or whether it will be able to form a majority government.

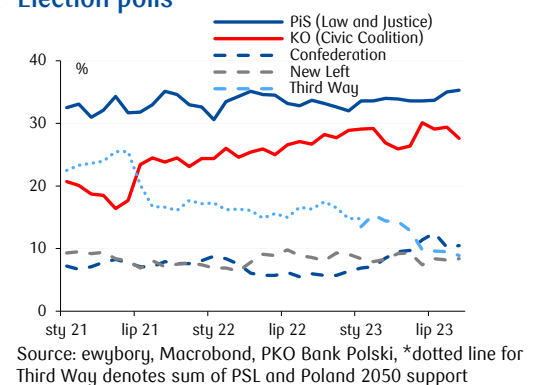
On October 15 parliamentary elections in Poland will be held. Previous weekend brought electoral conventions of the major political parties, where they presented either comprehensive election programs or shared some of their most important proposals. These cover a wide range of topics from national security, housing, labour market to education, with some of them outlined only in very general terms. We took a look at some of the most specific proposals, also in view of the fiscal impact that they can have.

The main program proposals of the currently ruling political grouping (United Right including the Law and Justice party) have already been known for some time. Its flagship proposal is an increase of 500+ monthly child benefit, to PLN 800 since January 2024, which would cost approx. PLN 25bn (0.8% of GDP). Law and Justice also proposes an extension of Anti-inflationary Shield (as for now valid until the end of 2023), which includes 0% VAT rate on food items. The cost of this prolongation can be estimated at around PLN 10bn (0.3% GDP). Less specific, yet equally important, is a proposal of early retirement subject to sufficiently long work experience: 38 years for women and 43 for men. In practice, it would enable some women to retire as early as at the age of 56 years and at the age of 61 years in case of some men. According to the election program, possibility of an early retirement should come into force by the end of the next political term, therefore its implementation may take some time. The ruling party also presented proposals whose time span covers a horizon up to 2031. In this long-term context, its crucial component constitutes expansion of the army, including an achievement of target number of the Polish Armed Forces at the level of at least 300 thousand soldiers. Estimates show that this could cost up to PLN 45bn (1.4% GDP). Another longer-term goal, the Strategic Investment Program and the Local Investment Fund represent an additional cost of PLN 46bn.

Some of the earlier proposals of the ruling party have already been implemented, including free medicines for seniors over 64 years and youth up to 18 years, as well as free state highways. The cost of these changes is estimated at around PLN 1.7bn (0.1% GDP) and is already included in the 2024 budget draft. In addition, Law and Justice proposes to spend PLN 1bn each year on thermal insulation of post-communist blocks of flats.

The flagship proposal of the Civic Coalition, the main opposition force, is an increase of the tax-free amount (applying to the Personal Income Tax) from current PLN 30 thous. to PLN 60 thous. This change would apply to taxpayers who settle according to the tax scale (including self-employed and pensioners).

Election polls*



The cost of this proposal is estimated at around PLN 45bn (1.4% of GDP), the highest among all the proposals of this political grouping. With regard to taxation, Civic Coalition has also proposed abolition of capital gains tax for term deposits up to PLN 100 thous. and established for more than a year (current tax rate stands at 19%). In terms of VAT, it proposed a reduction of the tax rate in the 'beauty' branch to 8% from 23% (estimated cost of approx. PLN 7bn, 0.2% GDP) and, in case of public transport, a cut to a 0% rate.

On the expenditure side, Civic Coalition proposed a 20% wage increase for public administration employees and a 30% increase for teachers, cost of which could be roughly estimated at around PLN 20bn in total (approx. 0.6% of GDP). Additional social transfers are also included in the proposals, in particular the so-called grandma's social transfer (PLN 1500 paid out monthly to cover childcare costs in case of mothers returning to work) and the program of housing loan with an interest rate of 0% (an analogous program to the one being in force since July 2023, the so-called Safe Credit program with 2% interest rate).

Similar to Civic Coalition, the **New Left** has also proposed a 20% wage increase for public administration employees. Rough estimates suggest that New Left's proposals would bring the highest burden on the expenditure side of the budget. New Left has established target levels for spending on R&D at 3% GDP (against around 1.4% GDP in 2021) and on healthcare at 8% GDP (against around 5% GDP as of 2022). It is also aiming at allocating an equivalent of 25% of GDP on investment in 2028. In terms of social transfers, it proposes a widespread scholarship program, covering higher education students up to 26 years of age, providing them with a PLN 1000 monthly benefit (estimated cost PLN 11bn, 0.3% of GDP). On the revenue side the New Left proposes an introduction of tax on digital corporations and a windfall tax on energy companies, which should add around PLN 16bn revenue each year.

The New Left has also proposed changes to labor code: introducing a 35 -hour working week and 35 days of paid leave.

The main proposals of the **Confederation Liberty and Independence** (hereinafter Confederation) focus on the changes to the tax system: abolition of the second tax threshold by establishing a reduced linear Personal Income Tax rate (from 19% to 12%). In addition, this would be accompanied by an increase of tax-free amount to 12 times the minimum wage (PLN 43,200 as of 1st July compared to PLN 30 thous. now). The cost of these changes to the tax system is estimated at around PLN 90bn (2.8% of GDP). Similar to Civic Platform, but at a wider range, Confederation proposes an abolition of capital gains tax for term deposits and bonds. Instead of offering social transfers, Confederation focuses on the reduction of tax burden on fuel, by proposing a reduction of VAT rate, excise duty and fuel fee and an abolition of emission fee. Apart from fuel, Confederation wants to reduce the VAT rate on electricity and firewood to 0% and plan to abolish VAT and CIT for coal mines accompanied by an abolition of excise duty on coal.

The **Third Way** (Coalition of Polish People's Party and Szymon Holownia's Poland 2050) proposes a 'family PIT' - meaning that the larger the family, the lower the tax rate. It would also aim for 6% of GDP spending on education and healthcare, which - as the coalition estimates - would cost around PLN 80bn (2.4% of GDP). Budget should be supported by limiting 800+ child benefit only

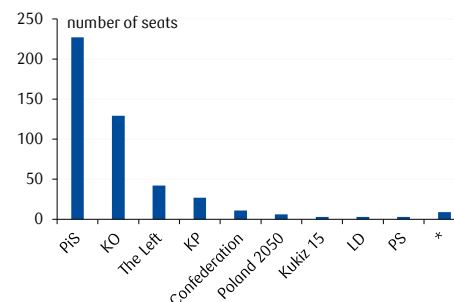
to parents being employed and by a restoration of two trading Sundays per month.

With regard to the relations with the EU, the Law and Justice party declares that it will continue its judicial reform, which will most likely continue to hinder the achievement of a milestone related to the National Recovery Plan and put further strain on the relations with the EU. The Confederation has so far shared a rather skeptical attitude towards the EU. Meanwhile, both the Civic Coalition, the Third Way and the New Left declare their desire to quickly end the dispute with the EU to unblock financial resources.

October parliamentary elections will elect 460 members of the Sejm (lower house of the parliament) and 100 members of Senat (upper house of the parliament). In case of the lower house, an electoral system of proportional representation applies, while senators are elected in single-member districts in a majority system. In practice this means that in case of the Sejm, seats are divided between the electoral committees that gained the highest support, while in case of the Senat the candidate who received the most valid votes cast wins in a constituency.

After the elections, the President of the Republic of Poland designates and appoints the Prime Minister, who forms the government. The lower house (Sejm) has much greater power than the Senat, since its absolute majority may reject a veto or amendments submitted by the President. **Recent election polls have been too close to call. High uncertainty remains with regard to whether any political power will win enough votes to be able to govern on its own, without the need to form a coalition.** Should the Law and Justice emerge victorious but lacking majority, it may explore the possibility of forming a coalition with Confederation, although the latter currently rules out such a scenario. Meanwhile, all three opposition parties (Civic Coalition, the Third Way, the New Left) have expressed their willingness to jointly create a government.

The current distribution of seats in the Sejm



Source: sejm.gov.pl, PKO Bank Polski, PiS - Law and Justice; KO - Civic Coalition, The Left - The New Left, Left Together; LD - Parliamentary Group of the Democratic Left; PS- Polish Affairs Parliamentary Circle; * - non-attached members

Weekly economic calendar

Indicator	Time (UK)	Unit	Previous	Consensus*	PKO BP	Comment
Monday, 18 September						
POL: Core inflation (Aug)	13:00	% y/y	10.6	10.1	10.0	--
Tuesday, 19 September						
EUR: HICP inflation (Aug, final)	10:00	% y/y	5.3	5.3	--	--
EUR: Core inflation (Aug, final)	10:00	% y/y	5.5	5.3	--	--
USA: Building Permits (Aug)	13:30	mln	1.442	1.450	--	--
USA: Housing starts (Aug)	13:30	mln	1.452	1.440	--	--
Wednesday, 20 September						
GER: PPI inflation (Aug)	7:00	% y/y	-6.0	--	--	--
POL: PPI inflation (Aug)	9:00	% y/y	-1.7	-2.6	-2.4	Manufacturing activity remained subdued in August amid weak domestic and external demand.
POL: Industrial production (Aug)	9:00	% y/y	-2.7	-1.7	-1.7	
POL: Wages (Aug)	9:00	% y/y	10.4	11.9	12.1	Wages probably once again grew stronger than prices, supporting further improvement of consumer confidence and laying ground for consumption rebound.
POL: Employment (Aug)	9:00	% y/y	0.1	0.1	0.1	
POL: Consumer Confidence (Sep)	9:00	pts.	-22.3	-21.3	--	--
USA: Fed meeting (Sep)	19:00	%	5.25-5.50	5.25-5.50	5.25-5.50	--
Thursday, 21 September						
SWI: SNB meeting (Sep)	8:30	%	1.75	2.00	1.75	--
SE: Riksbank meeting (Sep)	8:30	%	3.75	4.00	4.00	--
NO: Norges Bank meeting (Sep)	9:00	%	4.00	4.25	4.00	--
POL: Construction output (Aug)	9:00	% y/y	1.1	1.1	1.5	The only bright spot in August real economy data. Retail sale is probably bottoming out. August data was negatively affected by the postponed start of the school year.
POL: Retail sales (Aug)	9:00	% y/y	-4.0	-3.8	-4.0	
UK: BoE meeting (Sep)	12:00	%	5.25	5.50	5.50	--
USA: Current account balance (2q)	13:30	bn USD	-219.3	-219.8	--	--
USA: Initial Jobless Claims (Sep)	13:30	thous.	220	--	--	--
USA: Existing home sales (Aug)	15:00	mln	4.07	4.1	--	--
EUR: Consumer Confidence (Sep, flash)	15:00	pts.	-16	-15.0	--	--
Friday, 22 September						
JP: BoJ meeting (Sep)	--	%	-0.1	-0.1	-0.1	--
GER: Manufacturing PMI (Sep, flash)	8:30	pts.	39.1	39.5	--	--
GER: Services PMI (Sep, flash)	8:30	pts.	47.3	48	--	--
EUR: Manufacturing PMI (Sep, flash)	9:00	pts.	43.5	43.5	--	--
EUR: Services PMI (Sep, flash)	9:00	pts.	47.9	47.8	--	--
POL: Money Supply M3 (Aug)	13:00	% y/y	8.0	7.4	6.9	Statistical factor has likely pushed M3 dynamics down.
USA: Manufacturing PMI (Sep, flash)	14:45	pts.	47.9	--	--	

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

Monetary policy monitor

MPC Members	Hawk-o-meter*	Recent policy indicative comments^
J. Tyrowicz	5.0	"All the data that we have at our disposal in the NBP indicate that we do not reach the target in 2025. What is more, we don't reach the upper end of the target band to end-2025. (...) No argument was presented at the September sitting that would support a 75 bp interest rate cut passed by the MPC." (12.09.2023, TVN24, PAP)
L. Kotecki	3.9	"The first more serious discussion on the potential rate cut, not a decision, should take place in November, when we will have a new inflation projection. (...) If - for some reasons... - interest rates fell any further this year, I would not rule out a necessity to tighten monetary policy next year due to inflation." (13.09.2023, TOK FM, PAP)
P. Litwiniuk	3.5	"I can already say how I see this decision. It is premature. (...) Inflation remains entrenched, it's still far from the target." (11.09.2023, TVN24, PAP).
H. Wnorowski	2.1	"What we saw at the last MPC sitting reassured my belief that disinflation trend is a lasting occurrence and what is more its pace will accelerate in coming months. (...) In some time, we will return to disinflation of over 1 ppt ... or maybe even 2 pps." (8.09.2023, PAP)
C. Kochalski	2.1	"In the light of the current data and information, a room for potential discussion of [rate] cuts may appear in some time, as we have already ended the hikes cycle. The very calendar indicates it could be after the summer vacation at the earliest. (...) We're still before a potential discussion on rate cuts, which sooner or later needs to happen." (13.07.2023, Interia.pl via Bloomberg).
I. Duda	2.0	"In my opinion, if the conditions are favourable, i.e. if we see a rapid drop in inflation, if it is a long-term downward trend, the MPC will have arguments to carefully discuss interest rate cuts, perhaps even after vacation. Of course, I must make a caveat here (...) everything depends on the incoming data and information" (17.07.2023, Business Insider, PAP, PKO transl.)
A. Glapinski	1.8	"Inflation is likely to be slightly above 8.5% for September. (...) The conditions I spoke of have been met - single digit inflation and a projection that unambiguously states that inflation will decline in the next quarters. We have just left the territory of high inflation and entered the level of mild inflation below 10 percent and (hopefully) we will be heading towards the creeping inflation of 5 percent or less. A 75-bps cut is a deep adjustment, and further down the road we will be acting according to our assessment of the situation." (7.09.2023, NBPtV, Bloomberg, PAP)
W. Janczyk	1.7	"In my opinion there is no need to change the target for inflation, while reaching the inflation of 2.5% +/- 1 ppt is possible at the turn of 2024/2025." (13.09.2023, PAP).
G. Maslowska	1.6	"For us, the most important information will come from the NBP projection in November, although I do not rule out that even before projection ... there might be different moves concerning interest rates. (...) I cannot declare further interest rate cuts, but I obviously believe that those cannot be ruled out." (8.09.2023, PAP)
I. Dabrowski	1.5	"(...) I think that there is a high probability that interest rates will remain at their current level until the end of September. (...) Although if we saw a rapid decline of the index by another 5p. in the summer months, and we would find ourselves at clearly single-digit inflation levels, I cannot rule out that this will happen in September." (26.06.2023, PAP)

*the higher the indicator the more hawkish views. 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.

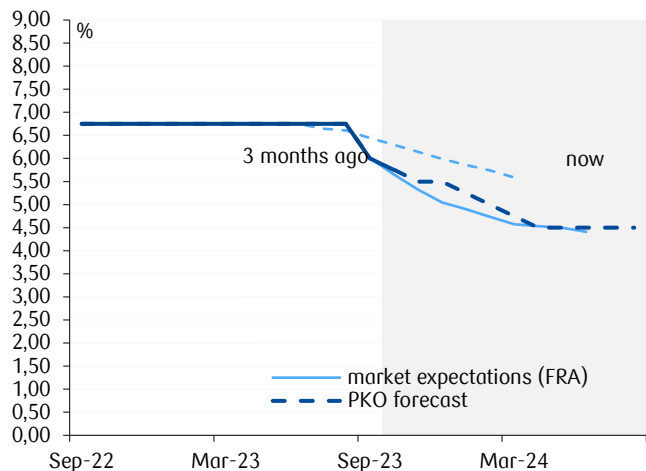
Interest rates – PKO BP forecasts vs. market expectations

	1M	2M	3M	4M	5M	6M	7M	8M	9M	
Date	14-Sep	14-Oct	14-Nov	14-Dec	14-Jan	14-Feb	14-Mar	14-Apr	14-May	14-Jun
WIBOR 3M/FRA†	5.81	5.41	5.09	4.79	4.56	4.35	4.14	4.09	4.01	3.92
implied change (b. p.)		-0.40	-0.73	-1.03	-1.25	-1.47	-1.68	-1.72	-1.80	-1.89
MPC Meeting	6-Sep	4-Oct	8-Nov	6-Dec	-	-	-	-	-	-
PKO BP forecast*	6.00	5.75	5.50	5.50	5.25	5.00	4.75	4.50	4.50	4.50
market pricing^		5.60	5.28	4.98	4.85	4.69	4.53	4.48	4.40	4.31

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

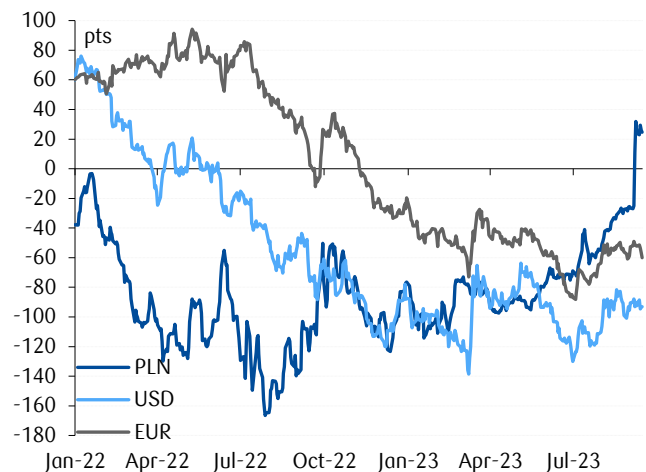
NBP policy rate: PKO BP forecast vs. market expectations



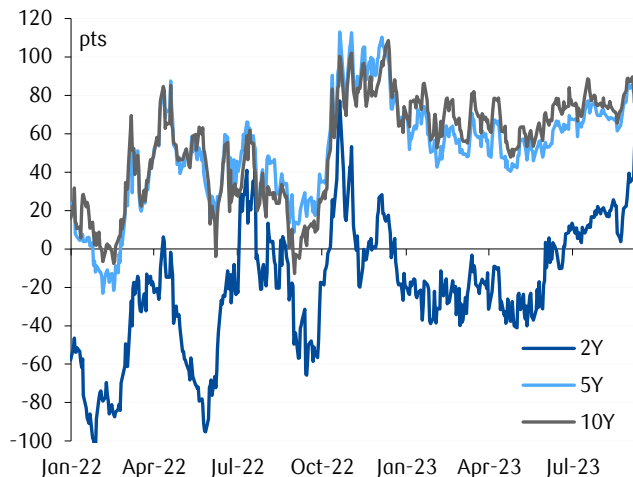
Short-term PLN interest rates



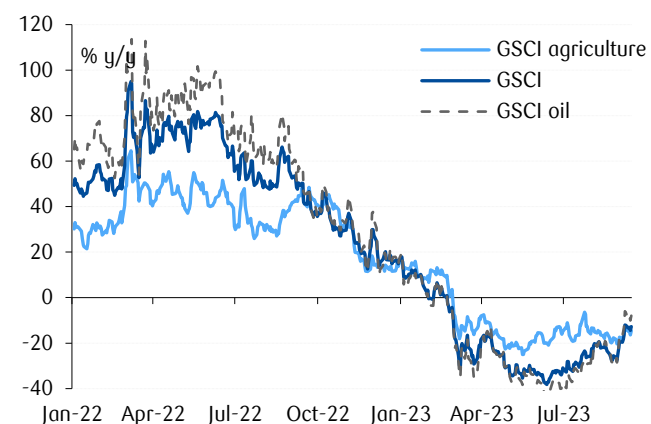
Slope of the swap curve (spread 10Y-2Y)*



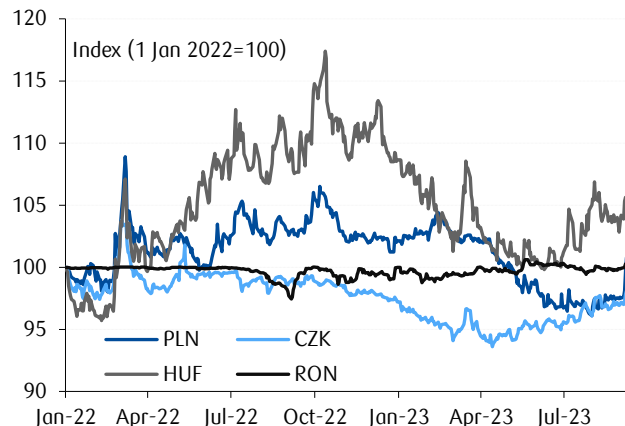
PLN asset swap spread



Global commodity prices (in PLN)

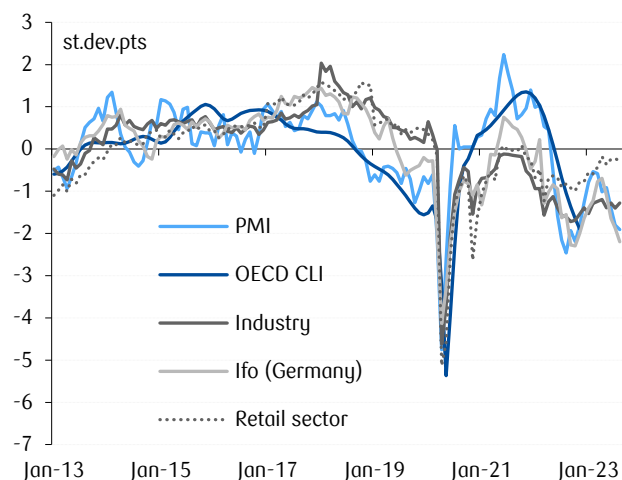


Selected CEE exchange rates against the EUR

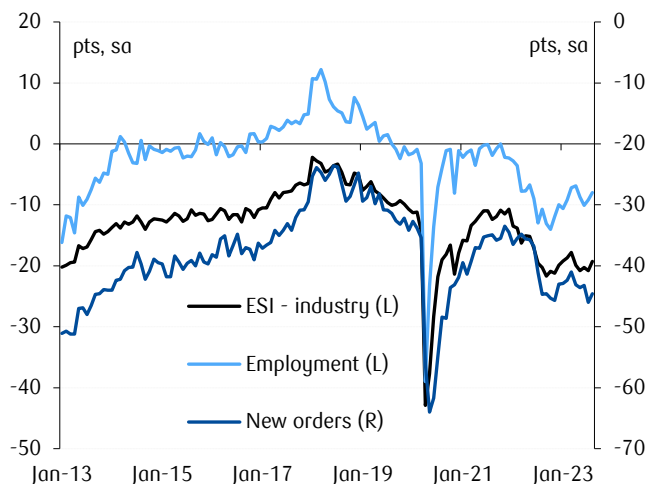


Source: Datastream, NBP, PKO Bank Polski. *for PLN, and EUR 6M, for USD 3M.

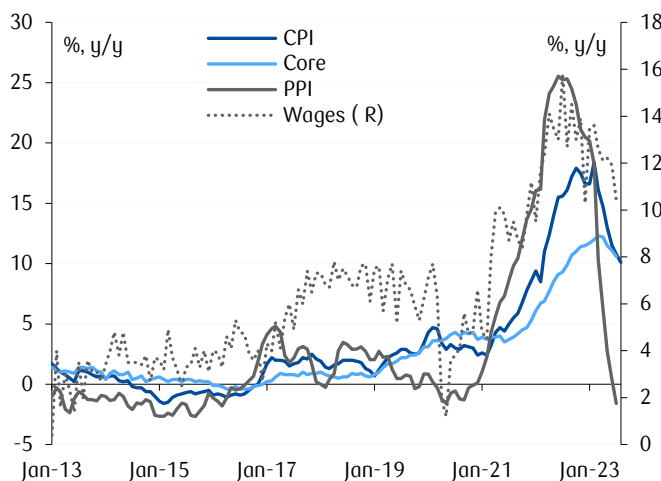
Economic sentiment indicators



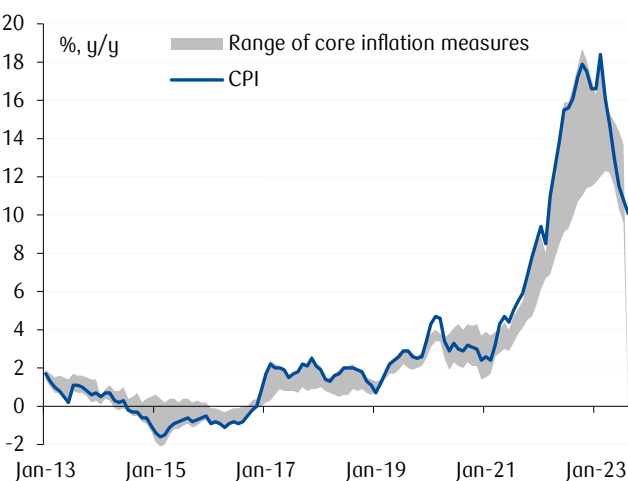
Poland ESI for industry and its components



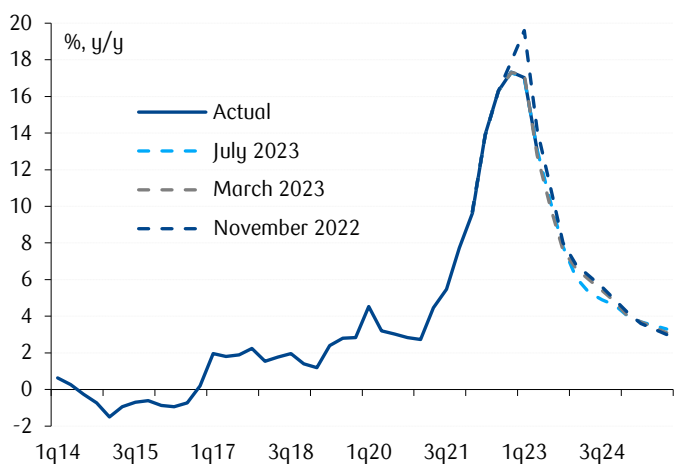
Broad inflation measures



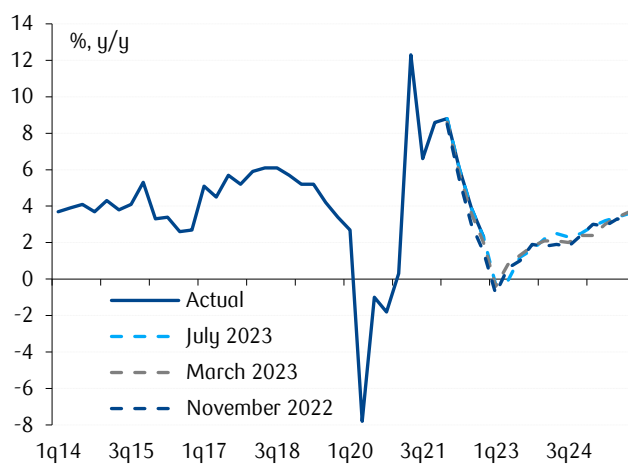
CPI and core inflation measures



CPI inflation - NBP projections vs. actual

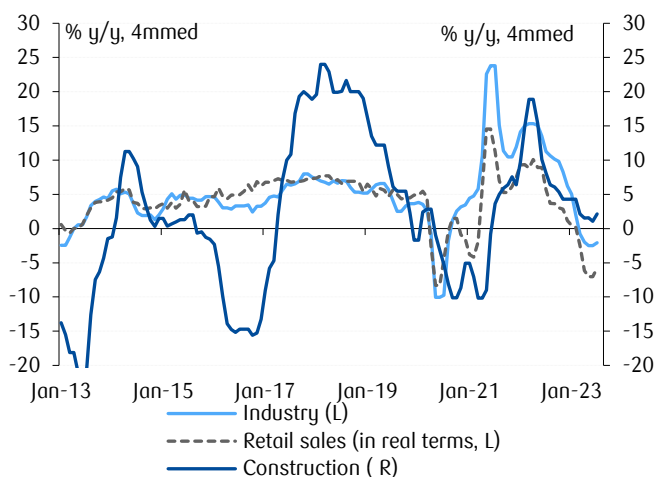


Real GDP growth - NBP projections vs. actual

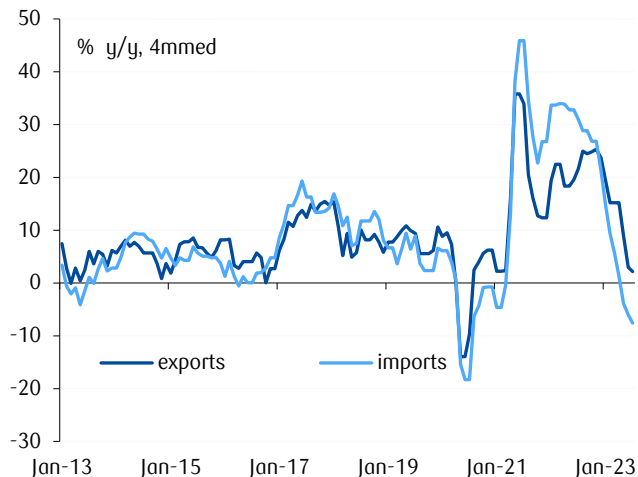


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

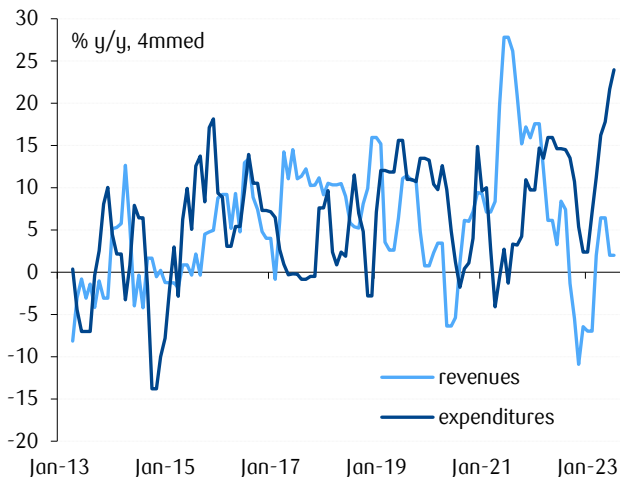
Economic activity indicators



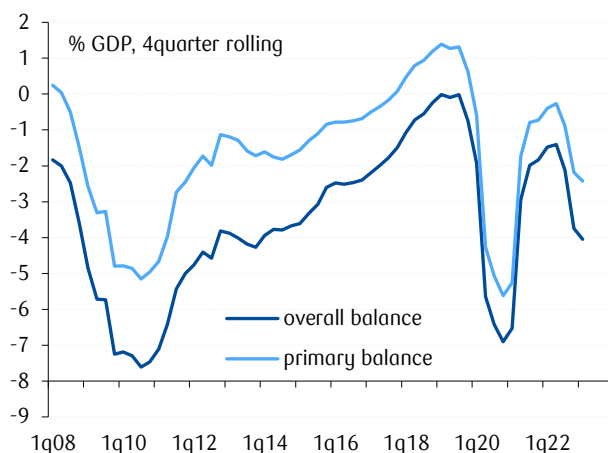
Merchandise trade (in EUR terms)



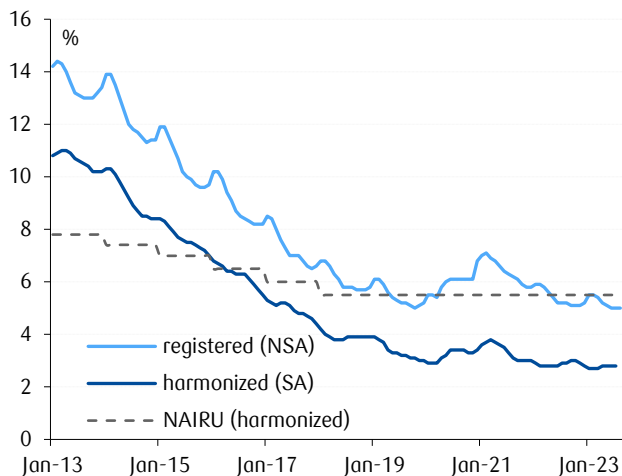
Central government revenues and expenditures*



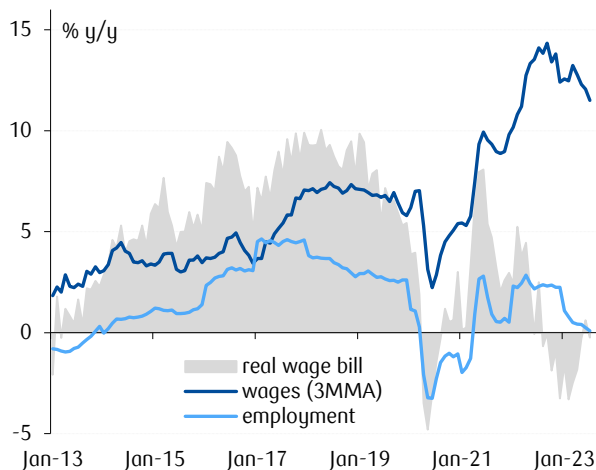
General government balance (ESA2010)



Unemployment rate

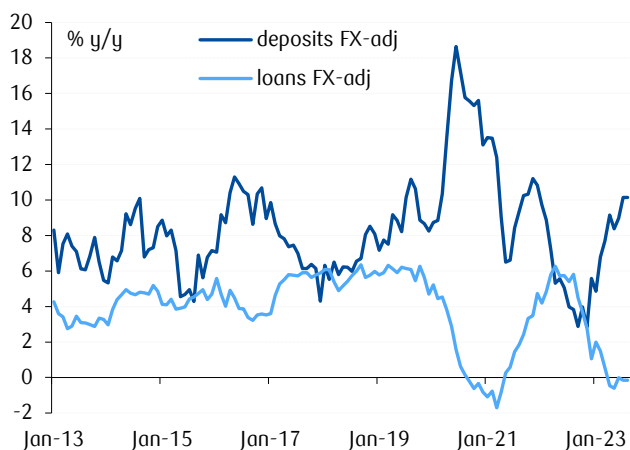


Employment and wages in the enterprise sector

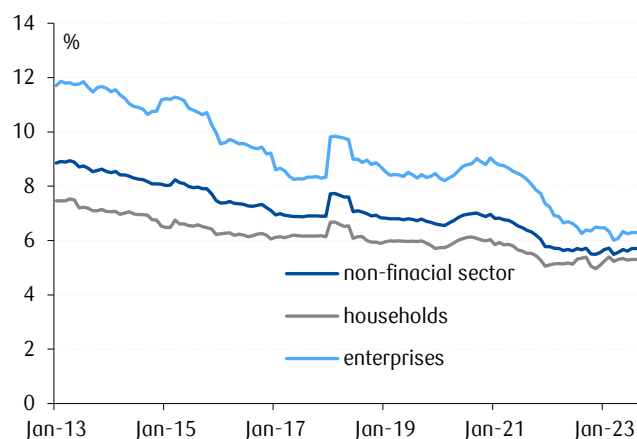


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. *break in series in 2010 due to methodological changes.

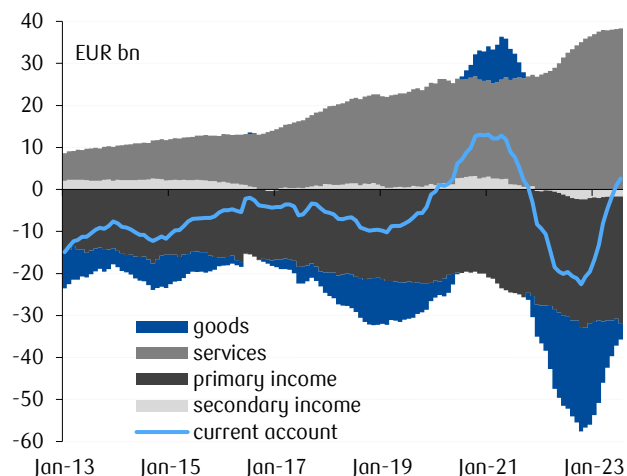
Loans and deposits



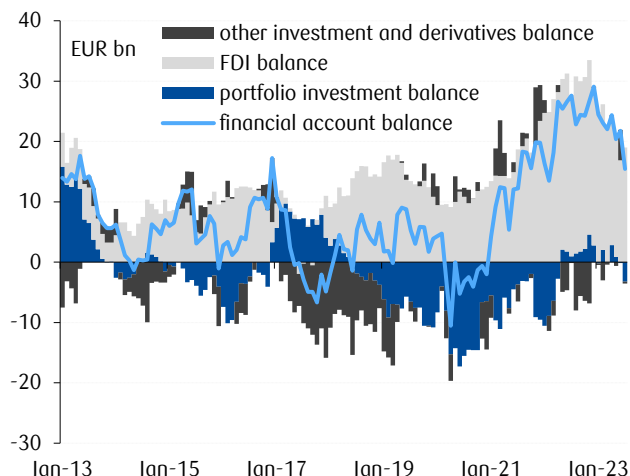
Non-performing loans (NPLs) - by sectors*



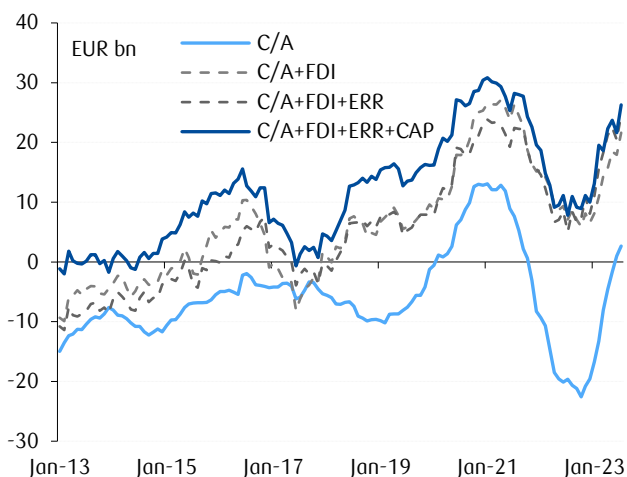
Current account balance



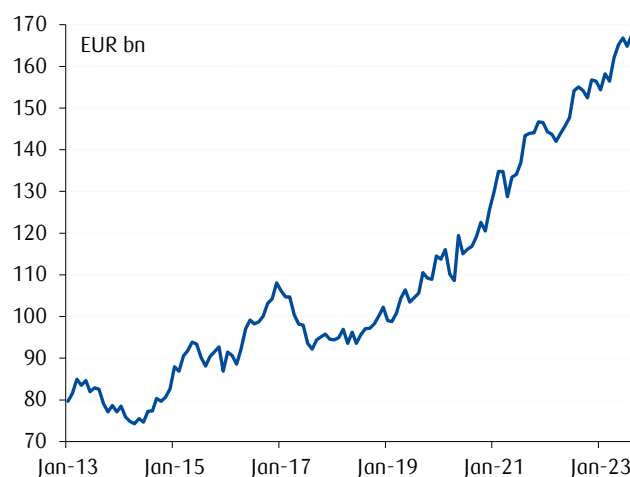
Financial account balance



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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- [Let the cycle begin!](#) (September 8, 2023)
- [Towards the interest rate cut in September](#) (September 1, 2023)
- [Slow start of 3q23](#) (August 25, 2023)
- [It can only get better](#) (August 18, 2023)
- [Employees still call the shots](#) (August 11, 2023)
- [Summer sale](#) (August 4, 2023)
- [Poland's public finances are safe](#) (July 28, 2023)
- [Is the worst behind us?](#) (July 21, 2023)
- [Keep calm and don't expect too many cuts](#) (July 14, 2023)
- [The end of the tightening cycle](#) (July 7, 2023)
- [Expected interest rate cuts support the housing market](#) (June 30, 2023)
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- [Exports shine, disinflation continues](#) (June 2, 2023)
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- [MPC changes nothing](#) (May 12, 2023)
- [CPI keeps falling down](#) (Apr 28, 2023)
- [Fiscal glass: half full or half empty?](#) (Apr 21, 2023)
- [Polish MPC still in a pause mode](#) (Apr 14, 2023)
- [Let the disinflation begin](#) (Mar 31, 2023)
- [Corporate profits dwindle, margins narrow](#) (Mar 24, 2023)
- [Inflation never ceases to surprise](#) (Mar 17, 2023)
- [Spring is coming after all](#) (Mar 10 2023)
- [Consumers under pressure](#) (Mar 3 2023)
- [Bumpy road ahead](#) (Feb 24 2023)
- [Inflation peak not as scary as feared](#) (Feb 17 2023)
- [Nothing to see here](#) (Feb 10, 2023)
- [Growth less inflation-prone](#) (Feb 3, 2023)
- [GDP growth in 4q22 heading south](#) (Jan 27, 2023)
- [This time is different, again](#) (Jan 20, 2023)
- [Happy 2023!](#) (Jan 13, 2023)

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