

Macro picture is getting cloudy

Top macro theme(s):

- **On the way to current account deficit (p. 2):** Current account recorded yet another monthly deficit in September. The 12-month rolling surplus fell to 0.4% of GDP. The buffer that protected the PLN from excessive weakening in 2020 and enabled the NBP to conduct low-rates policy is fading.
- **How immune is the labour market? (p. 3):** The combination of labour market data and expected further increase in inflation indicates a growing risk to our forecast of strong real consumption growth next year.

What else caught our eye:

- **CPI inflation in October has been confirmed at 6.8% y/y**, fueled by increasing prices of energy, fuels, as well as supply-side shocks (visible eg. in prices of furniture and household appliances). **Core inflation rose to 4.5% y/y** from 4.2% in September.
- **Comments from MPC members over the last week** (A.Glapinski, L.Hardt, K.Zubelewicz, E.Gatnar, J.Kropiwnicki, E.Lon) point that a hike in December is very likely. The target level for the reference rate might be lower than expected by the financial market, though (in our view 2-3%).
- According to RMF FM, **prof. A.Glapinski will likely be appointed by President A.Duda for 2nd term as the NBP's Governor.**

The week ahead:

- **Negative calendar effects will likely affect the October prints from the real economy.** As **industrial output** is concerned we are less optimistic than consensus (4.2% y/y vs. 5.4% y/y) due to the negative impact of supply bottlenecks on automotive industry. We see **construction** output growing by 5.0% y/y in October, with no clear signs of a rebound in investment activity yet. **Retail sales** growth has likely accelerated (to 6.3% y/y according to both our and consensus forecast) due to a low base resulting from the anti-epidemic restrictions in Autumn 2020.
- **Business sentiment** might have deteriorated in November due to the combination of supply shocks, as well as fears of the pandemic.
- **M3 money supply growth** inched down in October (to 8.5% y/y), as the NBP limited its asset purchases.
- **Unemployment rate** likely fell in October to its year-low of 5.5%.
- **PPI inflation** continued its upward path in October (to 10.9% y/y) driven by surging prices of energy and commodities as well as weaker PLN.

Number of the week:

- **18,171** – 7-day moving average number of new Covid-19 cases. The highest since mid-April.

Chart of the week: Supercore CPI inflation*



Source: GUS, PKO Bank Polski. *Core inflation without administered goods prices.

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| | 2020 | 2021 _† |
|--------------------------------------|------|-------------------|
| Real GDP (%) | -2.5 | 5.3 |
| Industrial output (%) | -1.0 | 13.2 |
| Unemployment rate [#] (%) | 6.2 | 5.8 |
| CPI inflation ^{**} (%) | 3.4 | 5.0 |
| Core inflation ^{**} (%) | 3.9 | 4.1 |
| Money supply M3 (%) | 16.4 | 9.0 |
| C/A balance (% GDP) | 2.9 | 0.0 |
| Fiscal balance (% GDP)* | -7.1 | -1.7 |
| Public debt (% GDP)* | 57.4 | 56.8 |
| NBP reference rate ^{##} (%) | 0.10 | 1.75 |
| EURPLN ^{‡##} | 4.61 | 4.60 |

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

On the way to a current account deficit

- Current Account (C/A) recorded yet another monthly deficit in September. The 12-month rolling surplus fell to 0.4% of GDP.
- That said, the buffer that protected the Polish zloty from excessive weakening in 2020 and enabled the NBP to maintain its low-rates policy is fading.

Current Account (C/A) recorded yet another monthly deficit, in September (-1.339bn EUR) for a 5th time in a row. The 12-month rolling surplus fell to 0.4% of GDP (from 0.9% after August) and is on its way down to a deficit for the entire year, for the first time since 2019. That said, the buffer that protected the Polish zloty from excessive weakening in 2020 and enabled the NBP to maintain its low-rates policy is fading.

This time the main cause for the deficit was not the trade balance but primary incomes, mainly the income of foreign direct investors (which is an outflow for Poland), including dividend payments, reinvested earnings, as well as interest on receivables. This part of the C/A has been very volatile recently, and has been subject to numerous, significant revisions. As a result, one cannot exclude that the current picture of the C/A may look different in a few months, after revisions.

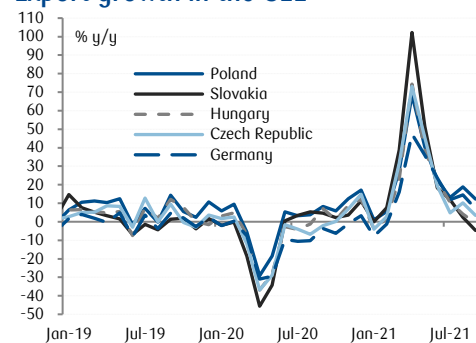
The trade in goods is impacted by supply-side bottlenecks. As commented by the NBP, chip shortages deepened, negatively impacting exporters, with carmakers on the forefront. Overall, exports grew by 12.2% y/y (vs. 18.9% in August, when the rate of expansion was pumped up by a positive calendar effect).

Imports recorded yet another strong print, growing by 21.5% y/y (vs. 31.6% a month before), to high extent due to soaring prices of commodities (incl. oil, natural gas, metals), as well as chemical products. Import dynamics is to stay at elevated level as long as supply bottlenecks are not over.

The supply shortages have left their mark on trade in services too, with upbeat freight costs pushing up imports of transport services. That said, the recent fall of freight rates may provide some relief in this respect. At the same time the export of services remains relatively weak, which reduces the trade in services surplus to 4.2% of GDP (on a 12-month rolling basis) from a peak at 4.5% in Spring 2020.

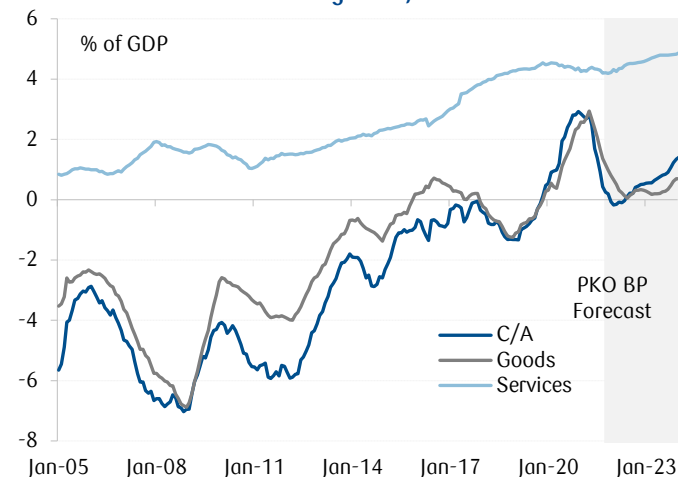
We still think that factors pushing down the CA surplus are temporary (a combination of a cyclical fall of trade surplus with a one-of impact of supply side shocks). Yet, we expect them to impact the Polish trade at least until mid-2022, so the CA deficit is to stay for a while. Yet, one cannot forget that a big chunk of it (at least 2.0% of GDP) remains in Poland and is reinvested in form of the FDI inflow (net inflows amassed to 2.7% of GDP after September).

Export growth in the CEE



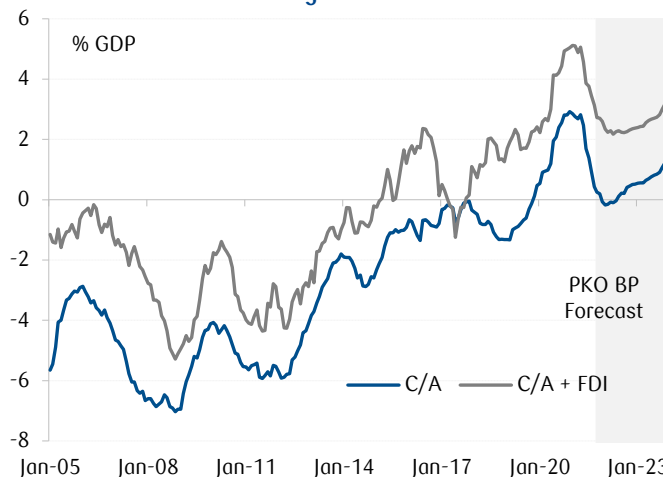
Source: NBP, Reuters Datastream, PKO Bank Polski.

Current account vs. trade in goods / services



Source: GUS, NBP, PKO Bank Polski.

Current account and Foreign Direct Investments



How immune is the labour market?

- The average wage has been above the pre-pandemic trend for over half a year now and its growth is still solid. Nevertheless the seasonally adjusted data indicates a slight slowdown in nominal terms and shows that – so far – there is no price-wage spiral building up.
- The combination of labour market data and expected further increase in inflation, especially in the part of the consumption basket where substitution is not possible (energy prices) indicates a growing risk to our forecast of strong real consumption growth next year.

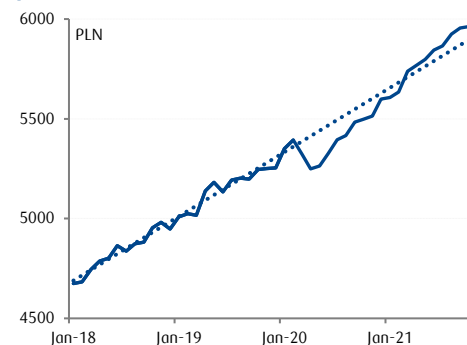
Enterprise sector wages in October increased by 8.4% y/y after an increase of 8.7% y/y in September, slightly below expectations (PKO: 9.3% y/y, cons. 8.9% y/y). Average employment increased by 0.5% y/y and came in line with expectations.

The average wage has been above the pre-pandemic trend for over half a year now and its growth is still solid. The seasonally adjusted data, however, indicates a slight slowdown in nominal terms and shows that – so far – there is no price-wage spiral building up. The average employment increased by 4.1 thousand (FTE) in October. The increase, according to the stat office, resulted from new hires, return to the full-time employment, as well as lower absenteeism due to unpaid leaves. Fears that the strong increase in the number of new Covid-19 cases and the number of people in quarantine would again have a negative impact on the average employment statistics have not materialized so far. However, such an effect cannot be ruled out in November, as the number of people in quarantine is record high and exceeds 500,000. The demand for labor in the domestic economy remains strong, as indicated, inter alia, by constant increase in the number of official foreign workers (to almost 872 ths. in October)

The wage bill in the sector rose by 9% y/y in October after the September increase of 9.3% y/y. In real terms it slowed down significantly, to 2.0% y/y from 3.3% y/y. **The purchasing power of the average salary is still growing**, and at the beginning of next year will be additionally supported by tax changes (the New Polish Deal), pushing up the nominal salary of lower earners. The combination of the labor market data and the expected further increase in inflation, especially in the part of the CPI basket where substitution is not possible (energy prices), indicates, however, **a growing risk to our forecast of strong real consumption growth next year**. Such a risk is also indicated by the deterioration in consumer sentiment in November, which is currently the weakest since February this year. The structure of the consumer sentiment survey suggests that households are concerned about the impact of inflation on their wallets. The next wave of the pandemic does not increase concerns about unemployment, but the assessment of the future financial situation of households and their savings is falling sharply.

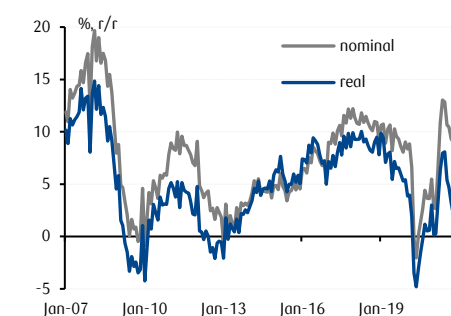
Labour market is not crucial from the MPC's point of view now. The current inflation readings and the market situation are of utmost importance. **The data does not indicate a growing price-wage spiral and suggests some negative risk for private consumption growth in 2022**. Therefore it supports our current reference rate scenario, which is less aggressive than market expectations and assumes the continuation of rate hike cycle at the turn of 2021/2022 only.

Enterprise sector wages vs. the pre-pandemic trend



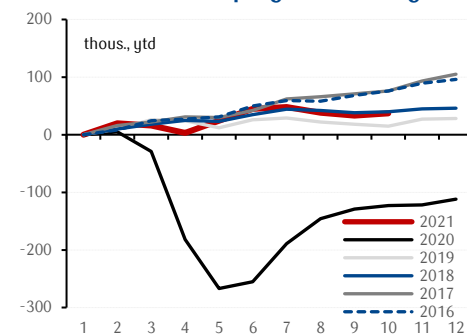
Source: GUS, PKO Bank Polski.

Wage bill in the enterprise sector



Source: GUS, PKO Bank Polski.

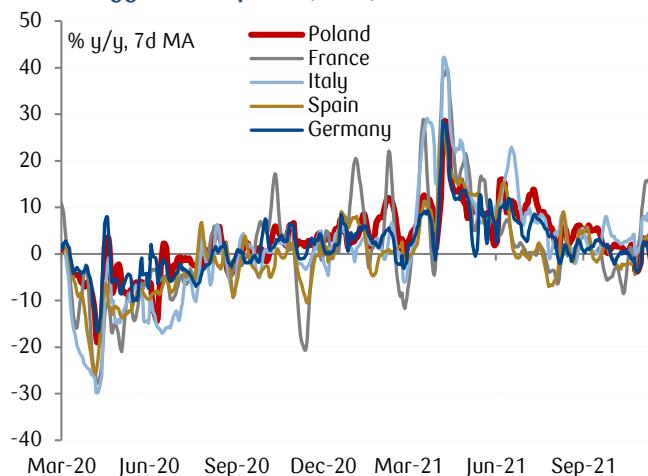
The cumulative employment change



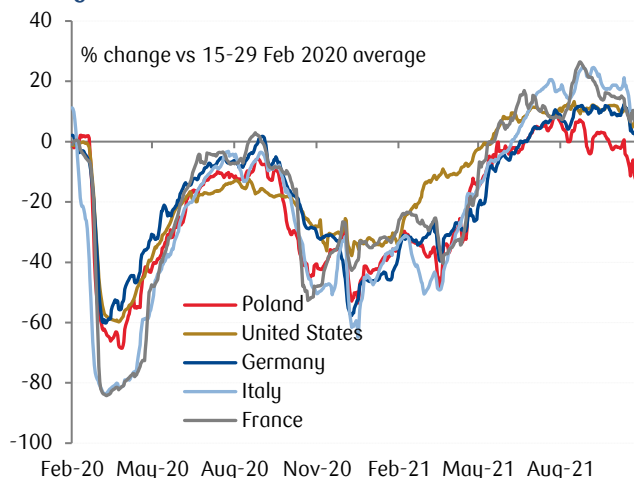
Source: GUS, PKO Bank Polski.

Macro monitoring with alternative data

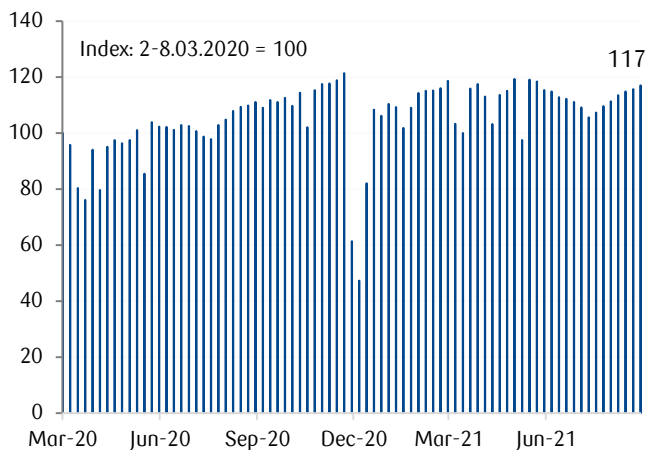
Electric energy consumption (total)



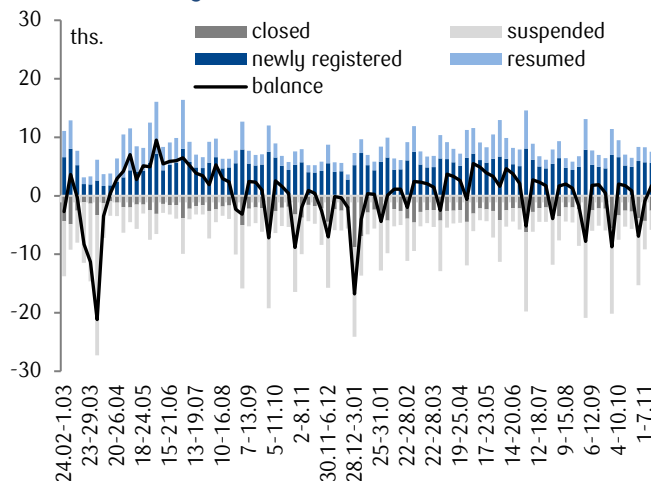
Mobility*



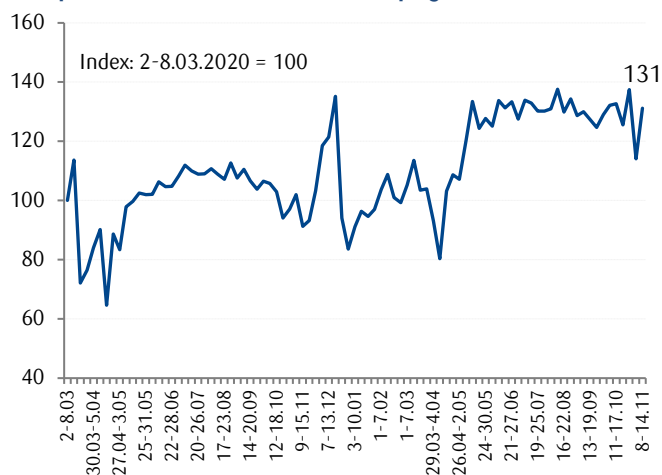
Heavy truck traffic^^



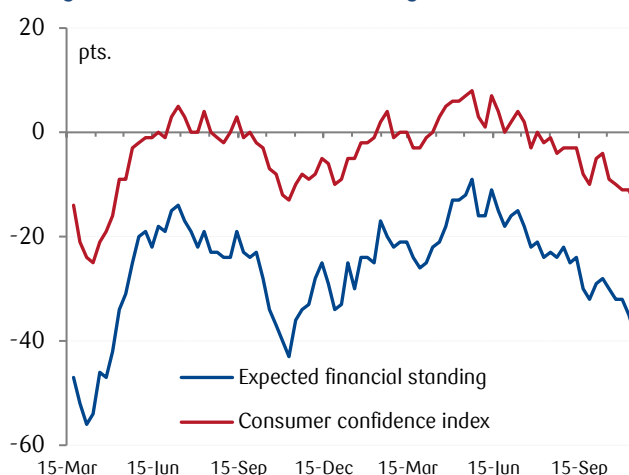
Economic activity status (acc. to CEiDG**)



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. ^^Last plot Sept. 26th, due to change in tolling system, latest data have not been available so far.

Weekly economic calendar

| Indicator | Time (UK) | Unit | Previous | Consensus* | PKO BP | Comment |
|--|-----------|------------|----------|------------|--------|---|
| Monday, 22 November | | | | | | |
| POL: PPI inflation (Oct) | 9:00 | % y/y | 10.2 | 10.8 | 10.9 | 'Sky is the limit' given industry price trends at major trading partners destinations (esp. Germany). Bottlenecks weigh on output esp. in automotive industry. |
| POL: Industrial production (Oct) | 9:00 | % y/y | 8.8 | 5.4 | 4.2 | |
| POL: Business sentiment (Nov) | 9:00 | -- | -- | -- | -- | -- |
| USA: Existing home sales (Oct) | 15:00 | mn | 6.29 | 6.2 | -- | -- |
| Tuesday, 23 November | | | | | | |
| GER: GDP growth (3q, final) | 0:33 | % y/y | 10.3 | 2.5 | -- | -- |
| GER: Manufacturing PMI (Nov, flash) | 8:30 | pts. | 57.8 | 57.0 | -- | -- |
| GER: Services PMI (Nov, flash) | 8:30 | pts. | 52.4 | 52.0 | -- | -- |
| EUR: Manufacturing PMI (Nov, flash) | 9:00 | pts. | 58.3 | 57.5 | -- | -- |
| POL: Retail sales (Oct) | 9:00 | % y/y | 5.1 | 6.3 | 6.3 | It is the second lockdown last year that's embedded in rising growth rate. Drifting output shows no major signs of investments revival. |
| POL: Construction output (Oct) | 9:00 | % y/y | 4.3 | 3.3 | 5.0 | |
| EUR: Services PMI (Nov, flash) | 9:00 | pts. | 54.6 | 54.0 | -- | -- |
| USA: Manufacturing PMI (Nov, flash) | 14:45 | pts. | 58.4 | -- | -- | -- |
| Wednesday, 24 November | | | | | | |
| GER: Ifo Business Climate Index (Nov) | 9:00 | pts. | 97.7 | 96.5 | -- | -- |
| POL: Money Supply M3 (Oct) | 13:00 | % y/y | 8.6 | 8.3 | 8.5 | Limited NBP asset purchases drive down money supply growth rate. |
| USA: Initial Jobless Claims | 13:30 | thous. | 268 | 260 | -- | |
| USA: Trade Balance (Oct) | 13:30 | bn USD | -96.3 | -93.5 | -- | -- |
| USA: GDP growth (3q) | 13:30 | % q/q saar | 6.7 | 2.2 | -- | -- |
| USA: Personal consumption (3q) | 13:30 | % q/q saar | 12.0 | 1.6 | -- | -- |
| USA: Durable goods orders (Oct, flash) | 13:30 | % m/m | -0.3 | 0.2 | -- | -- |
| USA: Personal Income (Oct) | 15:00 | % m/m | -1.0 | 0.2 | -- | -- |
| USA: Personal spending (Oct) | 15:00 | % m/m | 0.6 | 0.8 | -- | -- |
| USA: PCE Deflator (Oct) | 15:00 | % y/y | 4.4 | -- | -- | -- |
| USA: Core PCE inflation (Oct) | 15:00 | % y/y | 3.6 | 4.1 | -- | -- |
| USA: University of Michigan sentiment (Nov, final) | 15:00 | pts. | 66.8 | 66.8 | -- | -- |
| USA: New home sales (Oct) | 15:00 | thous. | 800 | 808 | -- | -- |
| USA: Minutes Fed (Nov) | 19:00 | -- | -- | -- | -- | -- |
| Thursday, 25 November | | | | | | |
| GER: GDP growth (3q) | 7:00 | % y/y | 2.5 | 2.5 | -- | -- |
| SWE: Riksbank meeting | 8:30 | % | 0.00 | 0.00 | 0.00 | -- |
| POL: Unemployment Rate (Oct) | 9:00 | % | 5.6 | 5.5 | 5.5 | No fireworks here, just seasonal improvement on the tight labour market. |
| EUR: Minutes ECB (Nov) | 12:30 | -- | -- | -- | -- | |
| Friday, 26 November | | | | | | |
| EUR: M3 money supply (Oct) | 9:00 | % y/y | 7.4 | -- | -- | -- |

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

Selected economic indicators and forecasts

| | Aug-21 | Sep-21 | Oct-21 | 1q21 | 2q21 | 3q21 | 4q21 | 2020 | 2021 | 2022 |
|---|--------|--------|--------|--------|--------|--------|---------|--------|--------|--------|
| Economic activity | | | | | | | | | | |
| Real GDP (% y/y) | x | x | x | -0.8 | 11.2 | 5.1 | 5.9 | -2.5 | 5.3 | 5.1 |
| Domestic demand (% y/y) | x | x | x | 0.3 | 12.4 | 4.7 | 5.3 | -3.7 | 5.5 | 5.1 |
| Private consumption (% y/y) | x | x | x | 0.1 | 13.1 | 4.0 | 6.8 | -3.0 | 5.7 | 4.7 |
| Gross fixed capital formation (% y/y) | x | x | x | 1.7 | 5.6 | 3.0 | 5.0 | -9.6 | 3.8 | 7.2 |
| Inventories (pp) | x | x | x | -0.2 | 2.8 | 1.0 | -0.1 | -0.8 | 0.8 | 0.3 |
| Net exports (pp) | x | x | x | -1.1 | -0.3 | 0.7 | 1.0 | 0.8 | 0.1 | 0.3 |
| Industrial output (% y/y) | 13.0 | 8.8 | 4.2 | 7.8 | 30.2 | 10.4 | 4.9 | -1.0 | 13.2 | 6.6 |
| Construction output (% y/y) | 10.2 | 4.3 | 5.0 | -12.5 | 1.8 | 5.8 | 1.6 | -2.7 | x | x |
| Retail sales (real, % y/y) | 5.4 | 5.1 | 6.3 | 1.2 | 14.4 | 4.8 | 6.9 | -2.7 | 7.1 | 4.7 |
| Nominal GDP (PLN bn) | x | x | x | 587.4 | 617.0 | 651.1 | 740.1 | 2327 | 2596 | 2881 |
| Labour market | | | | | | | | | | |
| Registered unemployment rate‡(%) | 5.8 | 5.6 | 5.5 | 6.4 | 5.9 | 5.6 | 5.8 | 6.2 | 5.8 | 4.8 |
| Employment in enterprises (% y/y) | 0.9 | 0.6 | 0.5 | -1.7 | 2.1 | 1.1 | 0.6 | -1.2 | 0.5 | 1.1 |
| Wages in enterprises (% y/y) | 9.5 | 8.7 | 8.4 | 5.8 | 9.9 | 9.0 | 8.8 | 4.8 | 8.4 | 8.5 |
| Prices^ | | | | | | | | | | |
| CPI inflation (% y/y) | 5.5 | 5.9 | 6.8 | 2.7 | 4.5 | 5.4 | 7.4 | 3.4 | 5.0 | 6.8 |
| Core inflation (% y/y) | 3.9 | 4.2 | 4.6 | 3.8 | 3.8 | 3.9 | 4.8 | 3.9 | 4.1 | 5.2 |
| 15% trimmed mean (% y/y) | 4.1 | 4.5 | 5.1 | 2.6 | 3.2 | 4.1 | x | 3.9 | x | x |
| PPI inflation (% y/y) | 9.6 | 10.1 | 10.9 | 2.4 | 6.4 | 9.4 | 11.7 | -0.5 | 7.4 | 5.7 |
| Monetary aggregates‡ | | | | | | | | | | |
| Money supply, M3 (PLN bn) | 1902.8 | 1914.2 | 1917.7 | 1862.5 | 1876.0 | 1914.2 | 1985.78 | 1822.7 | 1985.8 | 2097.3 |
| Money supply, M3 (% y/y) | 9.1 | 8.6 | 8.5 | 14.4 | 7.4 | 8.6 | 9.0 | 16.4 | 9.0 | 5.6 |
| Real money supply, M3 (% y/y) | 3.5 | 2.6 | 1.6 | 11.3 | 2.8 | 3.0 | 1.5 | 12.6 | 3.8 | -1.1 |
| Loans, total (PLN bn) | 1365.4 | 1376.3 | x | 1344.0 | 1349.2 | 1376.3 | 1392.7 | 1333.8 | 1392.7 | 1474.4 |
| Loans, total (% y/y) | 2.6 | 2.9 | x | -1.7 | 0.6 | 2.9 | 4.4 | 0.8 | 4.4 | 5.9 |
| Deposits, total (PLN bn) | 1774.0 | 1798.1 | x | 1670.0 | 1724.8 | 1798.1 | 1818.1 | 1602.2 | 1818.1 | 1893.6 |
| Deposits, total (% y/y) | 9.8 | 10.5 | x | 12.4 | 6.6 | 10.5 | 13.5 | 13.9 | 13.5 | 4.2 |
| Balance of payments | | | | | | | | | | |
| Current account balance (% GDP) | 0.9 | 0.5 | 0.3 | 2.7 | 1.7 | 0.5 | 0.0 | 2.9 | 0.0 | 0.7 |
| Trade balance (%GDP) | 1.7 | 1.3 | 1.1 | 2.7 | 2.4 | 1.3 | 0.7 | 2.4 | 0.7 | 0.2 |
| FDI (% GDP) | 2.5 | 2.5 | 2.2 | 2.2 | 2.2 | 2.5 | 2.4 | 2.1 | 2.4 | 1.7 |
| Fiscal policy | | | | | | | | | | |
| Fiscal balance (% GDP) | x | x | x | x | x | x | x | -7.1 | -1.7 | -1.3 |
| Public debt (% GDP) | x | x | x | x | x | x | x | 57.4 | 56.8 | 54.3 |
| Monetary policy‡ | | | | | | | | | | |
| NBP reference rate (%) | 0.10 | 0.10 | 0.50 | 0.10 | 0.10 | 0.10 | 1.75 | 0.10 | 1.75 | 2.00 |
| NBP lombard rate (%) | 0.50 | 0.50 | 1.00 | 0.50 | 0.50 | 0.50 | 2.25 | 0.50 | 2.25 | 2.50 |
| NBP deposit rate (%) | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 1.25 | 0.00 | 1.25 | 1.50 |
| WIBOR 3M ^x (%) | 0.23 | 0.23 | 0.23 | 0.21 | 0.21 | 0.23 | 1.90 | 0.21 | 1.90 | 2.15 |
| Real WIBOR 3M ^x (%) [#] | -5.23 | -5.64 | -6.59 | -2.53 | -4.26 | -5.19 | -5.47 | -3.06 | -3.09 | -4.66 |
| Exchange rates^{x,‡} | | | | | | | | | | |
| EUR-PLN | 4.54 | 4.62 | 4.62 | 4.66 | 4.52 | 4.62 | 4.60 | 4.61 | 4.60 | 4.45 |
| USD-PLN | 3.84 | 3.95 | 3.97 | 3.97 | 3.80 | 3.95 | 4.04 | 3.75 | 4.04 | 3.94 |
| CHF-PLN | 4.20 | 4.26 | 4.35 | 4.21 | 4.12 | 4.26 | 4.38 | 4.25 | 4.38 | 4.08 |
| EUR-USD | 1.18 | 1.17 | 1.16 | 1.17 | 1.19 | 1.17 | 1.14 | 1.23 | 1.14 | 1.13 |

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.

Monetary policy monitor

| MPC Members | Hawk-o-meter* | Recent policy indicative comments^ |
|-----------------|---------------|--|
| K. Zubelewicz | 4.9 | "A key rate of 3%, as expected by the market, would undoubtedly help lowering inflation expectations (...) As the real rate would still be lower than before the pandemic, other parameters should also be changed simultaneously with rate hikes (...) The normalization of monetary policy is the responsibility of the current MPC (...) That's why the main tightening steps should be done by February. Developments afterward have too many unknowns anyway" (16.11.2021, Bloomberg) |
| E. Gatnar | 4.7 | "We have to pass still two more hikes of some 50 bps each (...) I think that this would be a level that would offer a chance for inflation returning to target within two years." (16.11.2021, PAP, TOK FM) |
| L. Hardt | 4.3 | "Most likely, with very high likelihood, we will have to continue the monetary policy tightening cycle. (...) While a year ago I warned against cutting interest rates practically to zero, now I would be cautious with too fast and too radical tightening of monetary policy (...) If we increase the cost of money significantly in December, then taking into account the tightening from October and November it will be the first monetary policy tightening of such considerable [PAP: scale] in 20 years, so I would be cautious with the scale of the hikes." (09.11.2021, PAP). |
| J. Kropiwnicki | 2.7 | "I can't say if in December or in January, when my term ends, I will vote in favor of further interest rate hikes (...) It all depends on the shape of current inflation, its components and most of all on inflation's impact on inflation expectations." (16.11.2021, PAP). |
| R. Sura | 2.7 | "The October interest rate hike is described as surprising. One should note here that the NBP has been withdrawing from monetary accommodation for some time via limiting the asset purchase program, which had not been adequately noted and interpreted by the market. (...) At the same time, I cannot say whether I will vote in favor of another interest rate hike in November or in the following months, because the Council will be the first to know my decision. Still, I see need for normalization of interest rates to pre-pandemic levels." (22.10.2020, PAP). |
| G. Ancyparowicz | 2.6 | "We're determined to act against such an excessive increase in prices (...) We have begun that action, and if price data don't show signs of any improvement, we'll need to continue." (05.11.2021, Bloomberg) |
| J. Zyzynski | 2.4 | "The Polish rate council might have to hike rates by 75 bps again if inflation rises above the level forecast in the latest NBP projection" (08.11.2021, Bloomberg) |
| C. Kochalski | 2.2 | "We think that the first quarter [PAP: of 2022] is the quarter in which we should see the inflation peak (...) 7-8%, this is the order of magnitude." (10.11.2021, PAP, Biznes24.tv). |
| A. Glapinski | 1.8 | "As of January everything suggests that inflation will be falling; there will be no need to hike interest rates further" (05.11.2021, TVN24, PAP) |
| E. Lon | 1.3 | "Now, when there already are strong grounds [PAP: backing] the claim that Poland's economy has entered a lasting path of fast economic growth, we can safely commence the phase of interest rate hikes," (08.11.2021, RadioMaryja.pl, PAP) |

*the higher the indicator the more hawkish views. Due to the fact that the new MPC has not voted yet on interest rates changes, the positioning has been made based positively on PAP survey conducted among economists at banks in Poland (scale 1-5). ^Quotes in bold have been modified in this issue of Poland Macro Weekly.

Interest rates – PKO BP forecasts vs. market expectations

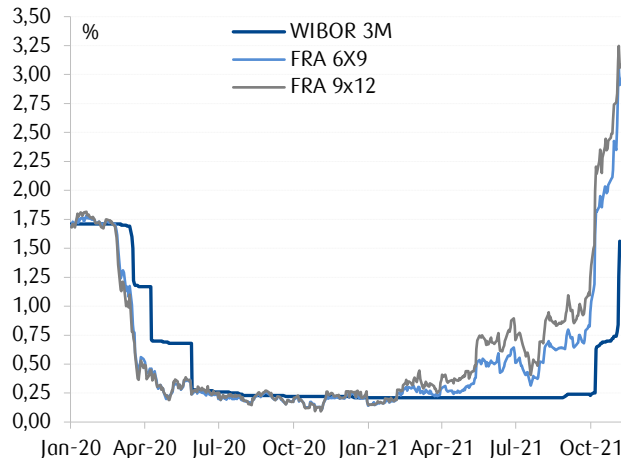
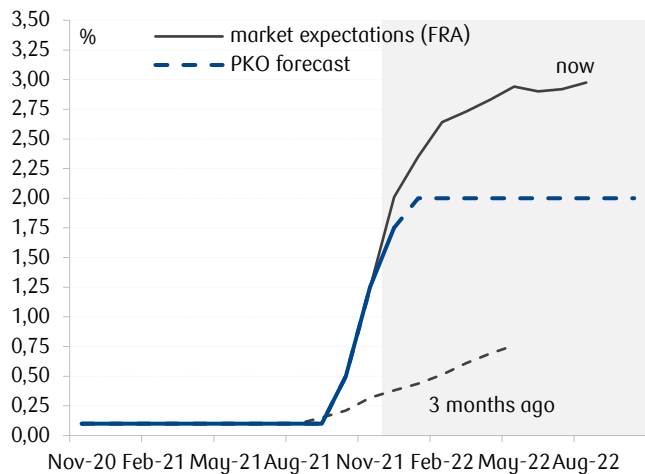
| | | 1M | 2M | 3M | 4M | 5M | 6M | 7M | 8M | 9M |
|------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Date | 18-Nov | 18-Dec | 18-Jan | 18-Feb | 18-Mar | 18-Apr | 18-May | 18-Jun | 18-Jul | 18-Aug |
| WIBOR 3M/FRA† | 1.66 | 2.42 | 2.76 | 3.05 | 3.14 | 3.24 | 3.35 | 3.31 | 3.33 | 3.39 |
| implied change (b. p.) | | 0.76 | 1.10 | 1.39 | 1.48 | 1.58 | 1.69 | 1.65 | 1.67 | 1.73 |
| MPC Meeting | 3-Nov | 8-Dec | 12-Jan | 8-Feb | 8-Mar | 6-Apr | 5-May | 8-Jun | 7-Jul | - |
| PKO BP forecast* | 1.25 | 1.75 | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 |
| market pricing* | | 2.01 | 2.35 | 2.64 | 2.73 | 2.83 | 2.94 | 2.90 | 2.92 | 2.98 |

†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

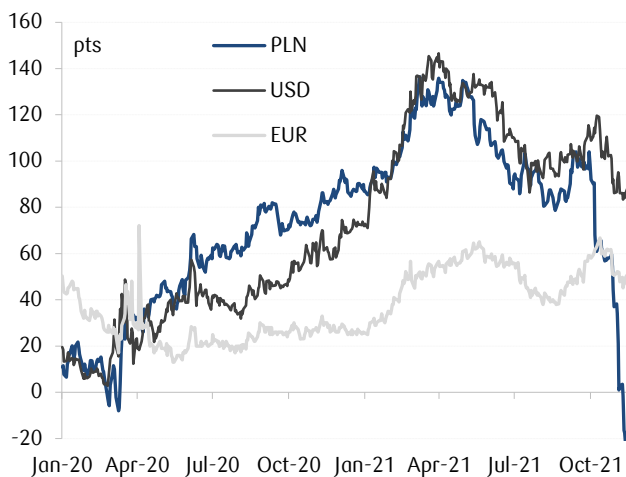
NBP policy rate: PKO BP forecast vs. market expectations

Short-term PLN interest rates



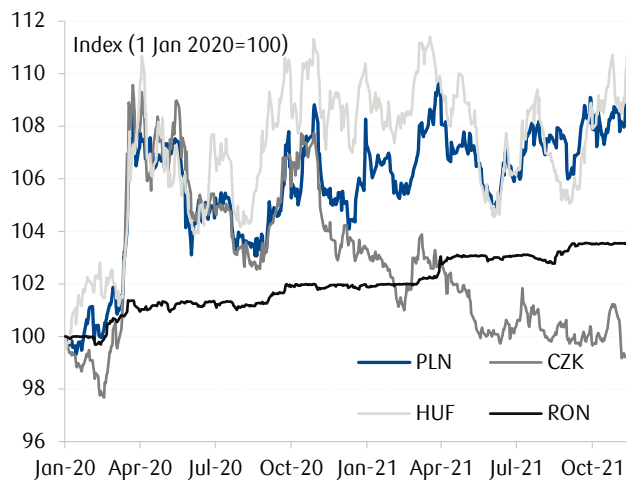
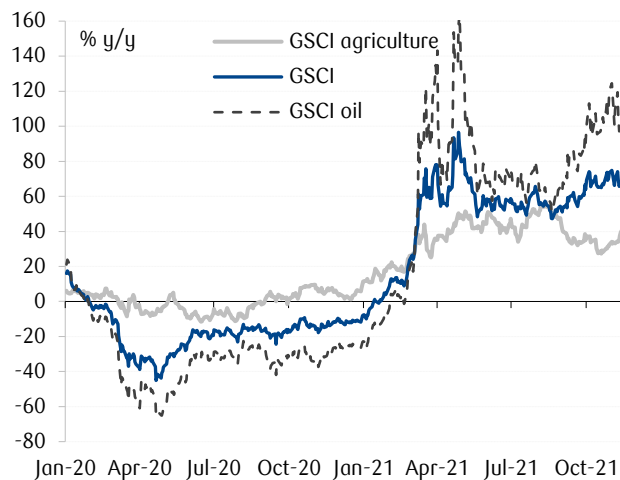
Slope of the swap curve (spread 10Y-2Y)*

PLN asset swap spread



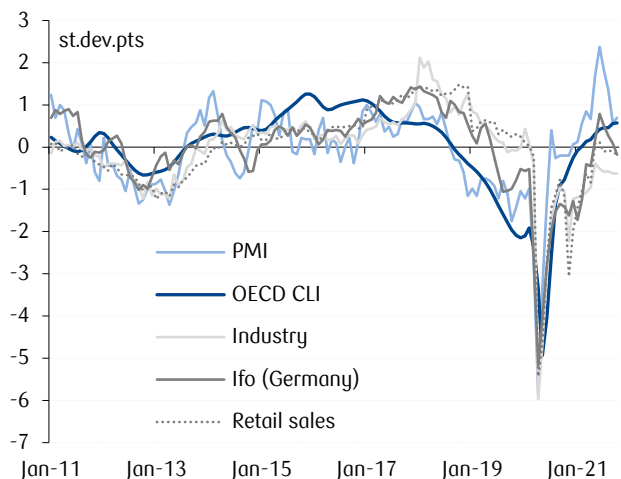
Global commodity prices (in PLN)

Selected CEE exchange rates against the EUR

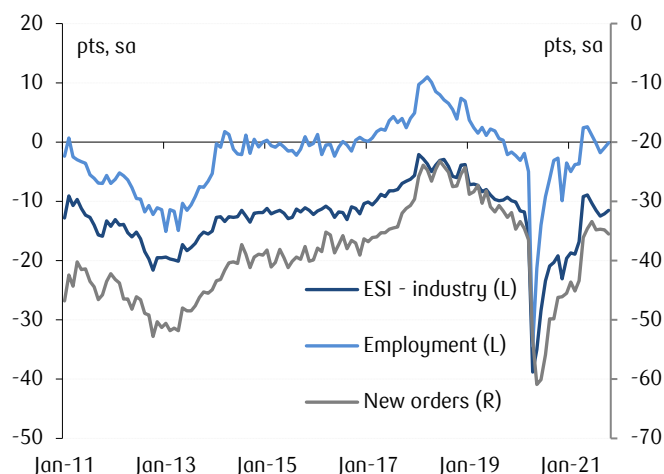


Source: Datastream, NBP, PKO Bank Polski. *for PLN, and EUR 6M, for USD 3M.

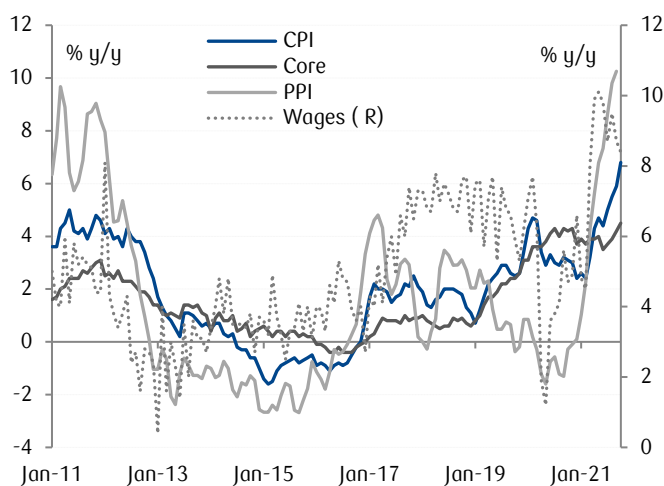
Economic sentiment indicators



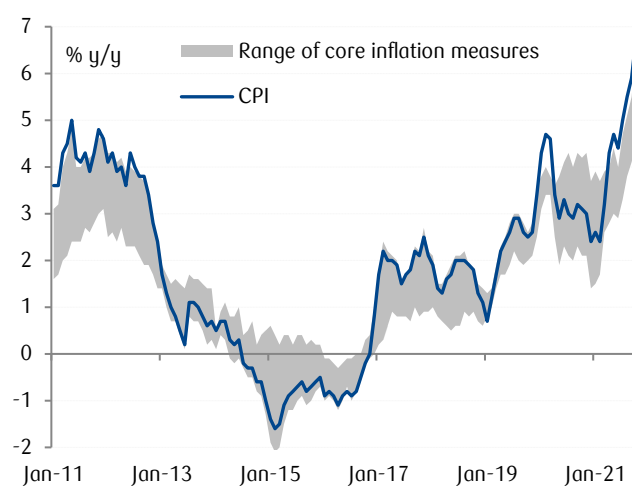
Poland ESI for industry and its components



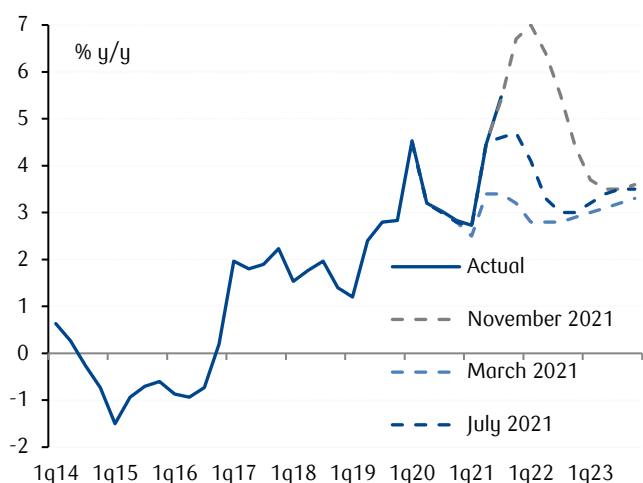
Broad inflation measures



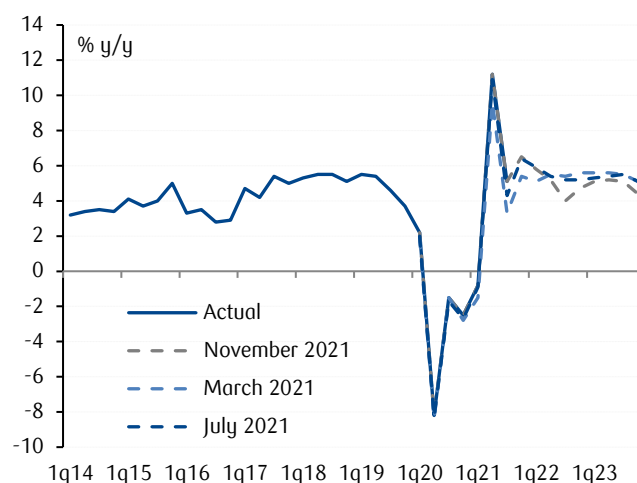
CPI and core inflation measures



CPI inflation - NBP projections vs. actual

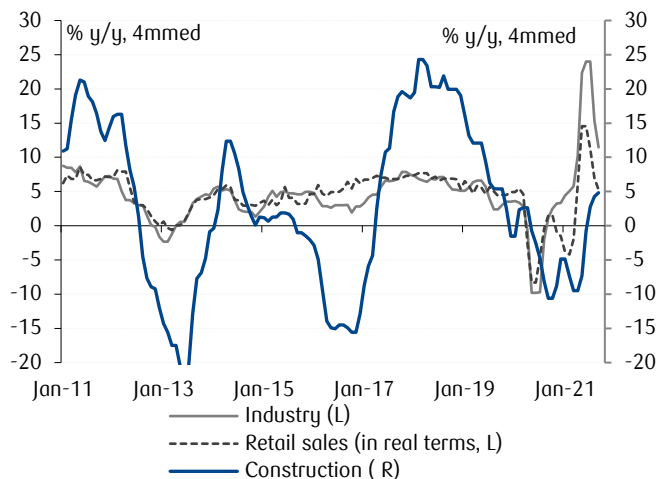


Real GDP growth - NBP projections vs. actual

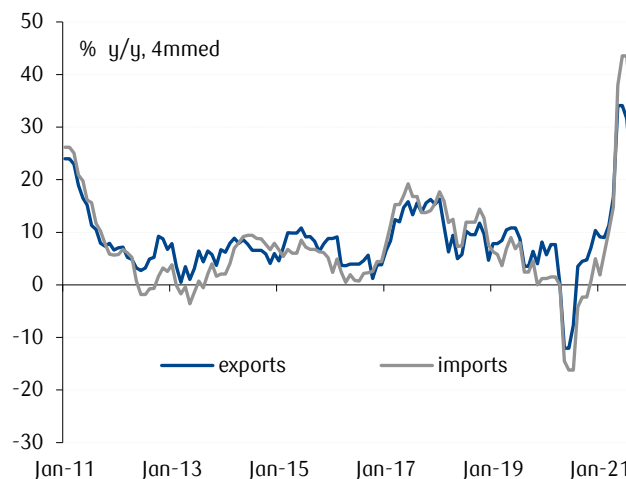


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

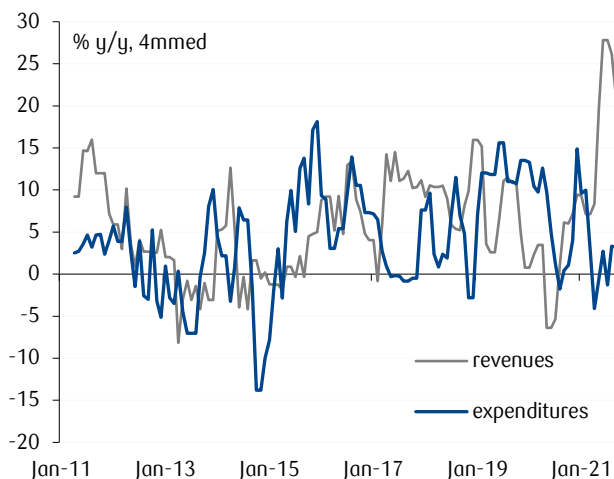
Economic activity indicators



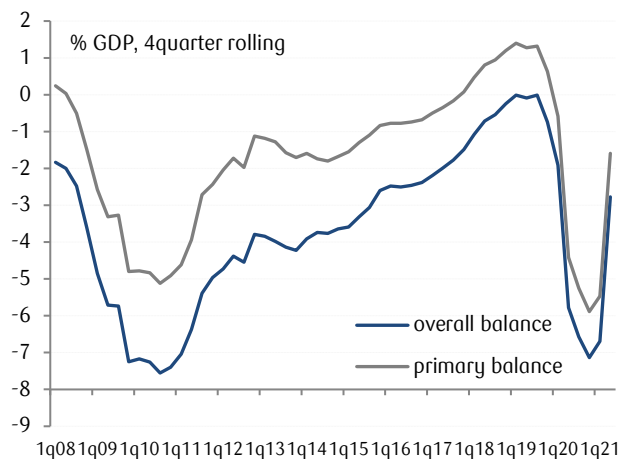
Merchandise trade (in EUR terms)



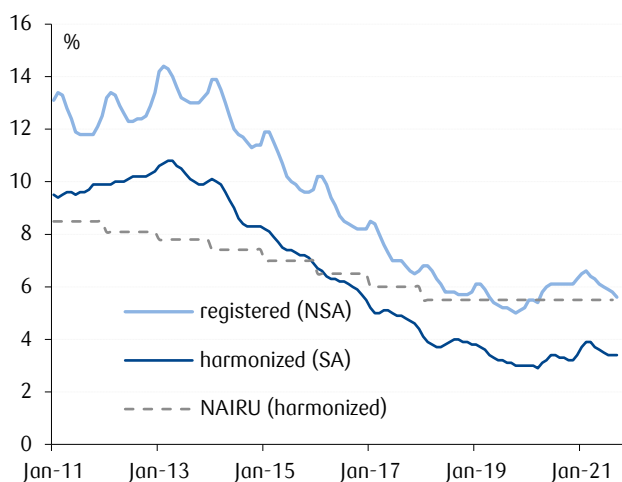
Central government revenues and expenditures*



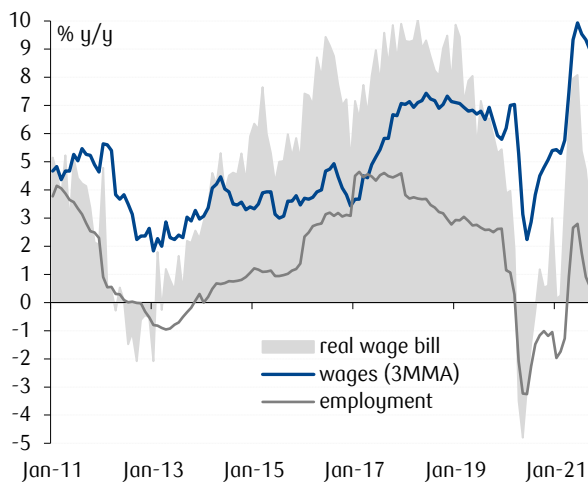
General government balance (ESA2010)



Unemployment rate

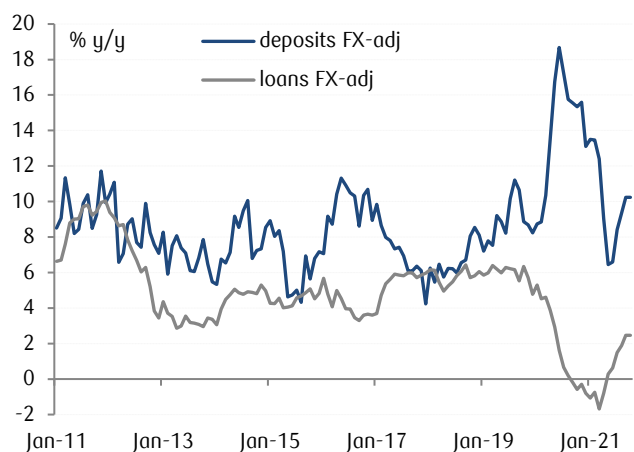


Employment and wages in the enterprise sector

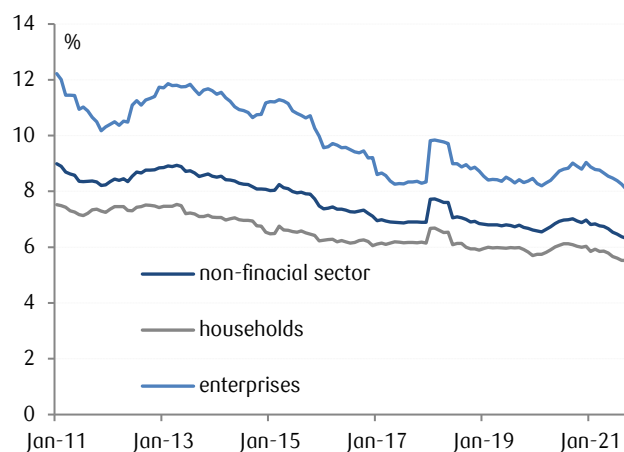


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. *break in series in 2010 due to methodological changes.

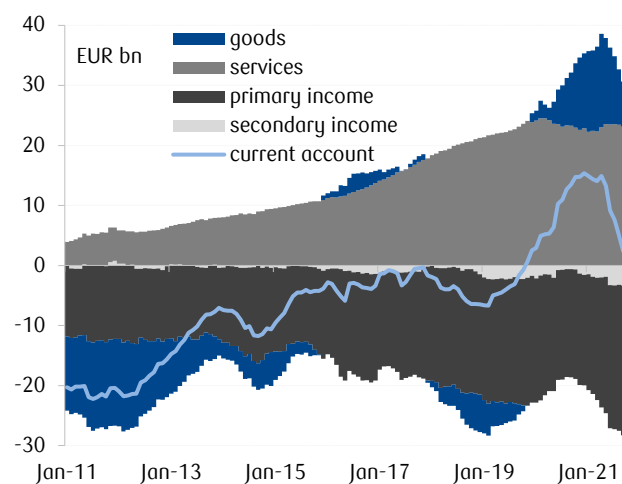
Loans and deposits



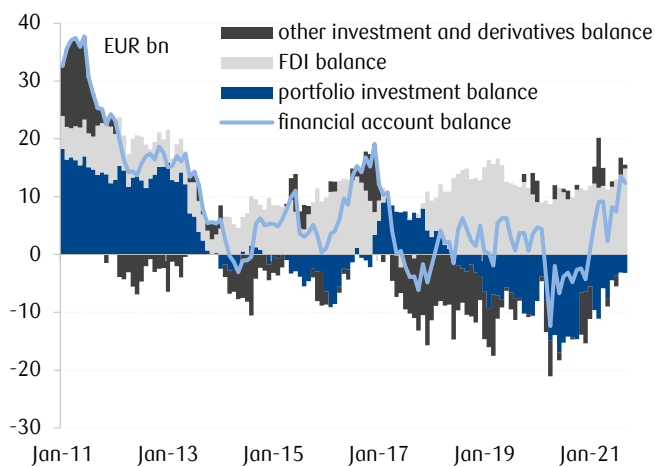
Non-performing loans (NPLs) - by sectors*



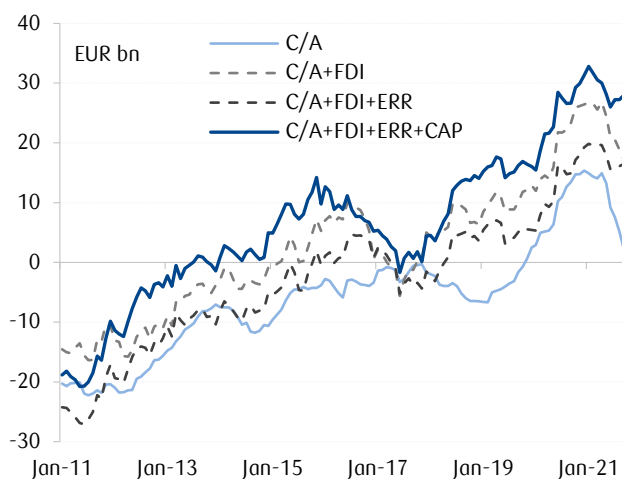
Current account balance



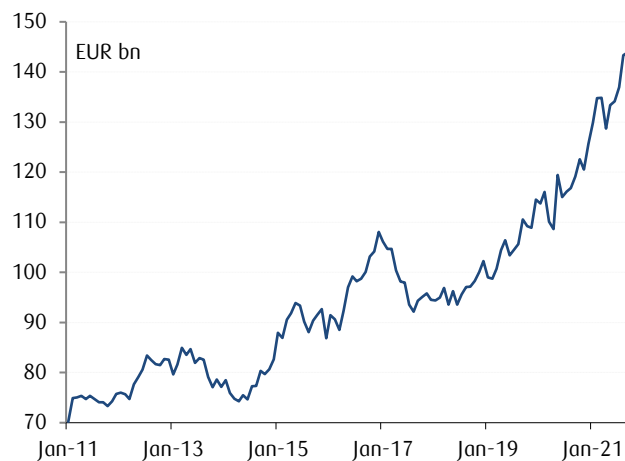
Financial account balance



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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- [Normalisation](#) (Nov 12, 2021)
- [Can households afford NBP rate hikes?](#) (Nov 5, 2021)
- [Inflation dilemma could reignite policy tightening](#) (Oct 29, 2021)
- [Missing parts](#) (Oct 22, 2021)
- [Costly recovery](#) (Oct 15, 2021)
- [It's normalisation time](#) (Oct 8, 2021)
- [Red-hot housing market, red-hot CPI inflation](#) (Oct 1, 2021)
- [Cautious optimism despite a few cracks](#) (Sep 24, 2021)
- [Inflation talk heats up again](#) (Sep 17, 2021)
- [No dogmatic approach on inflation](#) (Sep 10, 2021)
- [Consumption-based recovery](#) (Sep 3, 2021)
- [Budget surplus ahead?](#) (Aug 27, 2021)
- [Maturing recovery](#) (Aug 20, 2021)
- [Double digit expansion](#) (Aug 13, 2021)
- [Economy on holidays](#) (Aug 6, 2021)
- [American style inflation, American style monetary policy](#) (Jul 30, 2021)
- [A double-digit rebound](#) (Jul 23, 2021)
- [Is the CPI inflation really on hold?](#) (Jul 16, 2021)
- [MPC on hold until late autumn](#) (Jul 9, 2021)
- [House price growth accelerates after pandemic slowdown](#) (Jul 2, 2021)
- [Straight to the hot summer](#) (Jun 25, 2021)
- [Back to pre-pandemic trends](#) (Jun 18, 2021)
- [MPC waits and doesn't see](#) (Jun 11, 2021)
- [Economy roars out of lockdown](#) (May 28, 2021)
- [The New \(Polish\) Deal](#) (May 21, 2021)
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- [Inflation rears its head yet again](#) (Apr 16, 2021)
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- [The third wave hits the economy](#) (Mar 19, 2021)
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- [Blueprint for Recovery](#) (Mar 5, 2021)
- [This time is \(really\) different](#) (Feb 26, 2021)
- [Bottlenecks, winter and lockdowns](#) (Feb 19, 2021)

Poland's macro in a nutshell

| | 2020 | 2021 | Comment |
|-----------------------------------|------|------|---|
| Real economy | | | |
| - real GDP (%) | -2.5 | 5.3 | We have fine-tuned our 2021 GDP growth forecast (to 5.3%) and expect it will hit 5.1% in 2022 (including the effects of the Polish New Deal and the Domestic Recovery Plan). Private consumption will remain the main engine of economic growth boosted by wages and redistribution. Investments growth rate will stay moderate, while exports should benefit from weak PLN, further FDI inflows and the implementation of the fiscal package in the EU, stimulating demand in the key exports market. |
| Prices | | | |
| - CPI inflation (%) | 3.4 | 5.0 | There are still several months of inflation growth ahead of us. We forecast that in November CPI inflation will break the level of 7%, and in 1q22 it will peak at around 8.0%. The return of inflation to the target in the medium term will not be quick and easy. Inflation will start falling in 2q22. The local minimum will be recorded in 1q23, but it will be clearly above 4.0% y/y. |
| Monetary aggregates | | | |
| - M3 money supply (%) | 16.4 | 9.0 | With the rebound of the economic growth, we expect credit demand to increase gradually, fueling a moderate bank lending expansion. Smaller scale of asset purchases will result in a deceleration of money supply growth. |
| External balance | | | |
| - current account balance (% GDP) | 2.9 | 0.0 | Following the two-way pandemic turmoil, we anticipate that the current account balance will return to an upward trend based on structural factors. However, the deterioration of the balance will continue in the near future and at the turn of 2021/2022 CAB will land close to zero. In such a situation, it cannot be ruled out that a further intensification of temporary factors, i.e. an increase in the prices of raw materials and production components, as well as transport costs (freight) and the maintenance of a restriction in the influx of tourists, may temporarily provoke a deficit. At the same time, we expect the fast (double-digit) export growth will be maintained and assume further inflows of foreign investments (the nearshoring helps). |
| Fiscal policy | | | |
| - fiscal balance (% GDP) | -7.1 | -1.7 | We forecast that in 2021-2022 there will be a rapid improvement in basic fiscal parameters after a significant deterioration due to the pandemic shock in 2020. The 'fiscally efficient' structure of growth and the strong growth of tax bases will keep the fiscal deficit on a downward path. We predict that in 2022 it will decrease to 1.3% of GDP. Public debt in relation to GDP will also gradually decrease, to 56.9% at the end of 2021 and 54.3% at the end of 2022. |
| Monetary policy | | | |
| - NBP reference rate (%) | 0.10 | 1.75 | The MPC delivered yet another larger-than-expected interest rate hike (+75bps in November). We think that inflation will continue to surprise the MPC on the upside in the coming months and trigger further hikes. We do not assume, however, that rates will rise significantly above 2.00%. Our baseline scenario assumes a hike by 50bps in December and by 25bp in January. The risk however is still skewed towards a more pronounced tightening. |

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

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