

Red-hot housing market, red-hot CPI inflation

Top macro theme(s):

- **6% inflation in October? (p.2):** CPI inflation increased to 5.8% y/y in September from 5.5% in August acc. to the flash estimate. It is on the way to pass 6% threshold as early as in October, given the current price trends.
- **Red-hot housing market in 3q21 (p.3):** Strong upward trend in home prices continues. We expect it might slightly moderate in 2022.

What else caught our eye:

- The European Commission's **monthly sentiment gauge (ESI)** for Poland rose to 105.1 in September (from 104.5 in Aug.) - a small gain that masks rising fears in the retail trade, where prices expectations are the highest since 2011 and orders expectations the weakest since the 3rd wave of pandemics - a clear signpost that the jump in prices threatens to strip away recovery's momentum.
- **Manufacturing PMI** dived in September to 53.4 pts (from 56.0 in Aug.) suggesting supply shortages and weak new orders inflow due to higher output prices have halted recovery's momentum in manufacturing.
- **Despite a 'shocking' motion to hike the reference rate to 2.00% as per the MPC minutes** from September meeting (a motion to raise the key policy rate by 15 bp also failed) we think the majority of the MPC is still in favor of keeping the domestic monetary policy unchanged. However, we notice a slightly hawkish turn (vs. the previous minutes) as the MPC members consider adjusting the monetary policy if the following preconditions are met: (1) the uncertainty about the pandemic and its impact on the economy decreases and (2) forecasts indicate continued favorable economic conditions and the risk of inflation running above inflation target of the NBP in the coming years, In this context, the results of the November projection of inflation and GDP gain on importance.

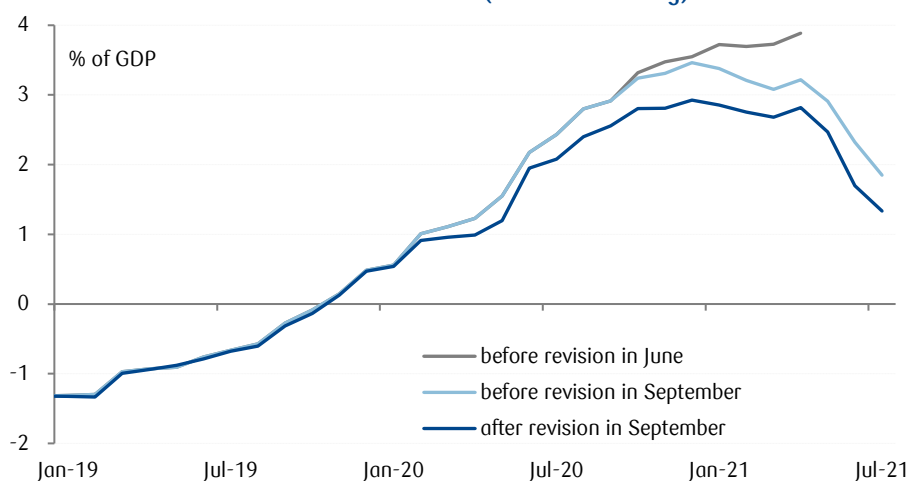
The week ahead:

- Despite mounting inflationary pressure we think **the Monetary Policy Council will leave monetary policy parameters intact** on Wednesday. Poland will thus continue to decouple from its regional peers. The decision will be likely followed by the Governor's Glapinski presser - we don't think his view has evolved towards more hawkish stance.

Number of the week:

- **2.0%** - the level of reference rate postulated in a motion that the MPC rejected in September (compared to 0.1% currently).

Chart of the week: Current account balance (12-month rolling) revisions



Source: NBP, PKO Bank Polski.

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	2020	2021 [†]
Real GDP (%)	-2.7	5.4
Industrial output (%)	-1.0	16.0
Unemployment rate [#] (%)	6.2	5.8
CPI inflation ^{**} (%)	3.4	4.4
Core inflation ^{**} (%)	3.9	3.8
Money supply M3 (%)	16.4	9.0
C/A balance (% GDP)	3.5	2.0
Fiscal balance (% GDP)*	-7.0	-1.7
Public debt (% GDP)*	57.5	56.2
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. [^]under revision.

6% inflation in October?

- CPI inflation increased to 5.8% y/y in September from 5.5% in August acc. to the flash estimate. It is on the way to pass 6% threshold as early as in October, given the current price trends.
- There are more and more signals indicating, that high inflation will not only persist in the months to come, but will likely even strengthen. Nonetheless, in our view, the weight of standard – macro parameters in the ‘pandemic reaction function’ of the MPC is still very limited.
- That said, interest rate hike in November looks more and more likely, but still not enough to change our base-case scenario of the first hike as late as in 2022.

CPI inflation increased to 5.8% y/y in September from 5.5% in August acc. to the flash estimate (PKO: 5.5% y/y, consensus: 5.6% y/y). It is on the way to pass 6% threshold as early as in October, given the current price trends.

Prices of food and beverages rose by 0.1% m/m, above the seasonal pattern. In annual terms food inflation accelerated to 4.4% from 3.9% in August, as a result of higher prices of dairy products, fats, and bread, as well as of a low statistical base in fruits. We forecast further acceleration of inflation in this broad category, with our view supported by recent crops estimates provided by GUS (with falling crops of cereals, potatoes, vegetables, as well as berries and shrub fruits).

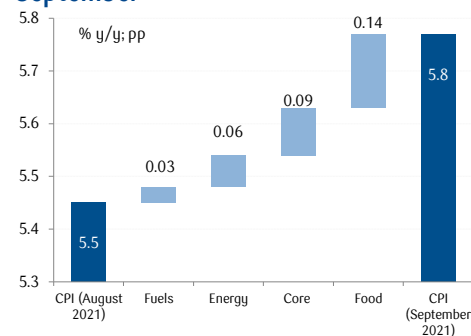
Prices of energy surged by 0.8% m/m, mostly due to higher prices of coal used for the heating of dwellings. Further price increases in this segment are highly likely, as coal prices are very close to their record highs in Europe. Additionally, in October the impact of energy on general inflation will be magnified by a hike in the natural gas tariff.

Fuel prices increased by 2.0% m/m, most likely due to a combination of higher CO2 certificate prices, as well as rising wholesale and retail margins. The most recent increases of oil prices will, in our view, result in further increases of prices on petrol stations in October.

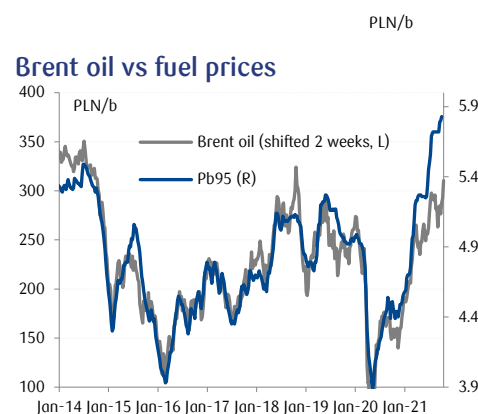
We tentatively estimate that core inflation might have inched up in September to 4.0/4.1% from 3.9% a month before. Cold weather in September might have accelerated introduction of the Autumn collections with resulting price increases arriving earlier than usually (in October). Furthermore, the temporary surges in HoReCa prices due to the surge in demand after the reopening of these sectors might have also continued in recent month. Finally, September data might have also reflected the increases in water tariffs that we have been expecting since June. Nevertheless all these factors do not explain the entirety of the uptick (given a very high base from recent year). Hence, core inflation might have also been driven by demand factors.

All in all, we expect inflation to continue its upward trend with the 6% threshold to be reached as early as in October. There are more and more signals pointing that high inflation will not only persist, but that it might even further strengthen in the coming year. Higher energy prices (already announced and expected hikes in tariffs, as well as impact of energy prices on unregulated categories) may drive the headline inflation up in January, thus pushing the 2022 average above 5% (vs. 4.7% in 2021). The shape of inflation processes makes it harder and harder for the MPC to uphold its current narrative on the inflation being pushed by external factors. Nonetheless, in our view, the weight of standard – macro parameters in the ‘pandemic reaction function’ of the MPC is still very limited. While the November inflation projection will most likely show the headline CPI figures above the (broad) NBP target, the pandemic situation will likely not improve, but rather worsen. In result, although November’s hike looks more and more likely, it is still not enough to change our base-case scenario of the first hike as late as in 2022.

Decomposition of inflation change in September

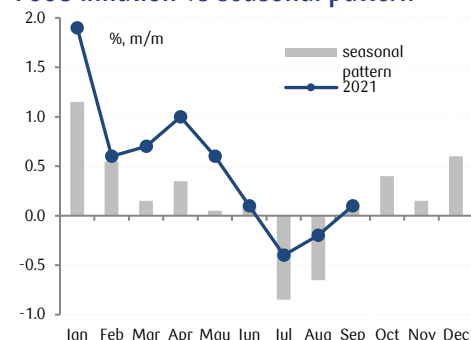


Source: GUS, PKO Bank Polski.



Source: Datastream, BM Reflex, PKO Bank Polski.

Food inflation vs seasonal pattern



Source: GUS, PKO Bank Polski.

Red-hot housing market in 3q21

- Strong upward trend in home prices continues due to high demand for both private and investment-related apartments, as the supply of apartments slows down.
- In the baseline scenario, we assume that the housing price growth will continue in the remainder of 2021, and might slightly moderate in 2022, along with the launch of projects started in 1h21.

A strong upward trend in home prices continues due to high demand for both private and investment-related apartments, as the supply of apartments slows down. In the short term, we expect this upward trend to continue.

This section is an executive summary of a report on housing market in Poland, prepared by our colleagues from the Real Estate Research Team. The full report (in Polish) on the housing market in Poland in 3q21 is available online and can be accessed [here](#).

According to the data from our internal CBN database, in 2q21 transaction prices of flats on the primary market showed a strong y/y increase in the largest cities – provincial capitals, while in Warsaw the increase in prices slowed down slightly. On the secondary market, home prices accelerated in Warsaw and smaller voivodship capitals, in the 6 largest agglomerations (excluding Warsaw) the y/y increase was slightly weaker than in 1q21. In both markets price growth was within the range of 8-17% y/y.

The rental market - deeply affected by the pandemic, is now slowly starting to stabilise. According to the monitoring of Mzuri (a large, nationwide property manager), in 2q21 the decline in rates compared to 2q20 was smaller than in relation to 1q20, and compared to 1q21 slight increases were observed in several cities. Data on rental rates that we collect from the advertising portals shows that in a majority of the largest cities analysed, rates have rebounded over recent months.

Interest rates that are historically low and negative in real terms redirect investments to the housing market perceived as a safe protection of savings, in the environment of high and still growing inflation. The rate of return on this market is still perceived as attractive as compared to a deposit or treasury bonds. Home buyers also seem to accept lower rental returns (than before pandemics).

Lending remains elevated. According to the data of the Polish Bank Association, in 2q21 the value of newly granted housing loans amounted to PLN 22.1 bn (+22.3% q/q; +64.3% y/y). In July '21, for the first time in history, the monthly lending activity exceeded PLN 8 bn, according to the Credit Information Bureau. It was the 5th month in a row when a monthly sale of loans exceeded PLN 7.5 bn. The share of large loans continues to increase – tickets worth over PLN 350 k. account for over a half (55.1%) of loans granted until July '21 are, tickets worth over PLN 500 k.

In 2q21, according to JLL monitoring of housing markets, developers repeated an excellent sales result from 1q21 with 19.5 thousand housing units sold in the largest agglomerations (almost twice as much as in 2q20). There were 37.8 thousand dwellings (-10.2% q/q; -22.6% y/y) on offer, the lowest number since 3q10. At the end of 2q21, the share of finished apartments and those to be completed in 2021 in the structure of the offer has decreased (30% vs 38% in 1q21), while the share of apartments declared to be completed in 2023 and later has increased significantly.

The accounting records of development companies (with more than 9 employees) at the end of 1h21 show a high volume of housing projects in progress, similar to 1h20. The decline in projects in progress in 2h20 allowed developers to maintain high prices of sold apartments. The rapidly rebuilt demand after the slump in sales in 2q20 is visible in the decline in the offer of finished apartments (-25.7% y/y). Smaller (-16.1% y/y) land bank suggests the start of new projects. Customer prepayments are still high.

The overall housing business tendency indicator (the difference in the number of flats

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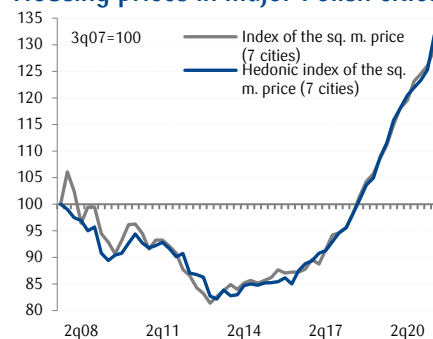
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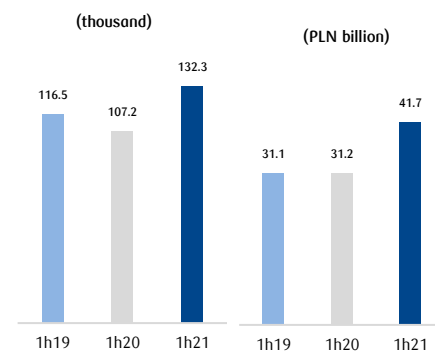
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Housing prices in major Polish cities



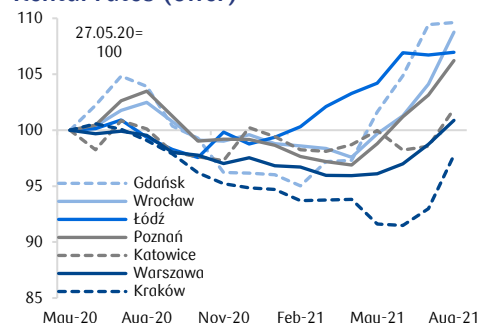
Source: NBP, PKO Bank Polski.

Housing loans and their volume in the first half of 2019-2021 (BIK)



Source: BIK, PKO Bank Polski.

Rental rates (offer)



Source: Web portals, PKO Bank Polski.

started and completed in the last 4 quarters, i.e. housing projects in progress) increased strongly in 2q21, which suggests an optimistic assessment of the mid-term outlook by investors. A similar assessment of the situation is indicated by the increase in the number of building permits.

Construction costs (excluding the cost of land) of selected facilities increased in 2q21 by 3.2-4.4% y/y, according to the current SEKOCENBUD rates. It is forecasted that, in the next two years, construction prices will increase by about 12% (compared to 2q21). The outlined upward trend results from the sustained strong increase in labour costs as well as higher prices of materials and equipment rental.

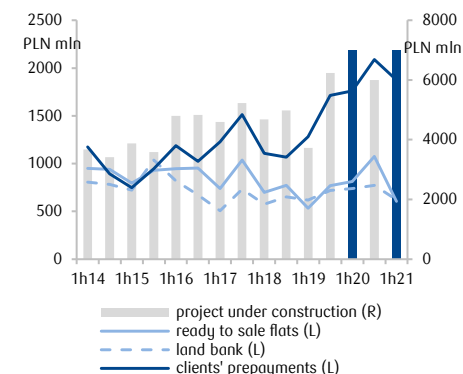
The availability of a flat, expressed in the number of meters available for an average salary in 9 provincial capitals decreased in 2q21 compared to the previous quarter, while in 7 cities it did not change. The deterioration in accessibility is a consequence of the continued increase in housing prices in most cities, that outpaces the wage growth.

Recent regulatory changes include the amendment to Recommendation S (entered into force on 1 July 2021) that requires the customer's creditworthiness to be calculated for a maximum period of 25 years (previously 30 years). On September 8, 2021, after the approval of the government, two housing projects announced in the New Polish Deal (housing without own contribution programme and house of up to 70 m² without formalities) were submitted to the Parliament.

In the baseline scenario, we assume that housing prices will continue to grow in the following quarters of 2021, and might slightly moderate in 2022 along with the launch of projects started in 1h21. The reasons for the increase in prices – by up to 10% in one-year perspective - are: (1) high demand for housing, strongly supported by record low interest rates - we expect that they will not change until at least mid-2022; (2) the intention of protecting the value of savings amid the protracted period of elevated inflation as a common reason for flat purchases; (3) slow supply growth and fundamental factors pushing up construction costs - high land prices, high material costs, wage pressure and competition for workers and equipment rental with other segments of the construction industry; (4) regulatory factors - stricter standards for the energy efficiency of buildings from 2021 and the Development Guarantee Fund, the costs of which will be included by developers in housing prices; (5) possible supply disruptions in local markets with large package purchases for Private Rented Sector. Factors that might, to some extent, stabilise the upward trends in home prices are: (1) a large portfolio of apartments with the completion date in 2022 and later, provided that it is faster put up for sales; (2) deterioration in the availability of housing with a faster increase in housing prices than in the income of the population; (3) possible interest rate increases; (4) the still uncertain situation on the housing rental market.

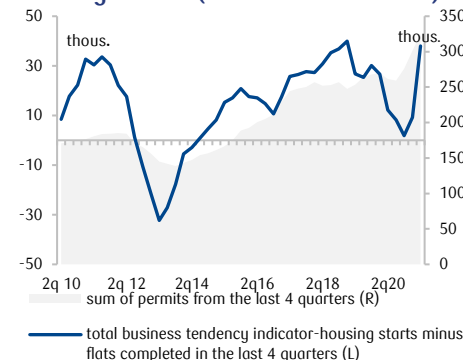
The pessimistic scenario is related to possible earlier interest rate increases - already in 2h21 - which might emerge due to rapidly rising inflation. The uncertainty of the strength of the next wave of the pandemic, as well as unfavourable changes in the external macroeconomic environment are another elements of the pessimistic scenario.

Accounts of big^ developers*



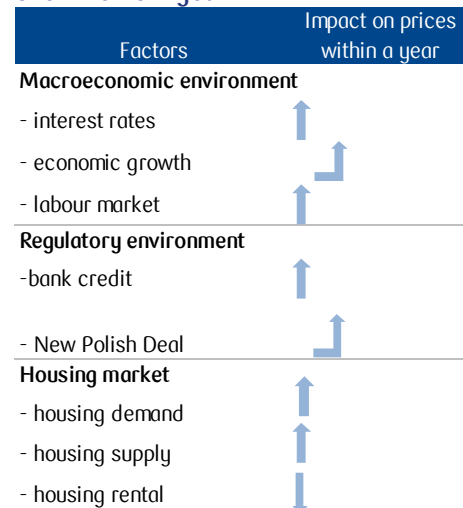
Source: GUS, PONT Info, ^with empl >49 people; *Nace Rev. 2: 41.1.

Business tendency indicator in the housing sector (based on GUS data)



Source: GUS, PKO Bank Polski.

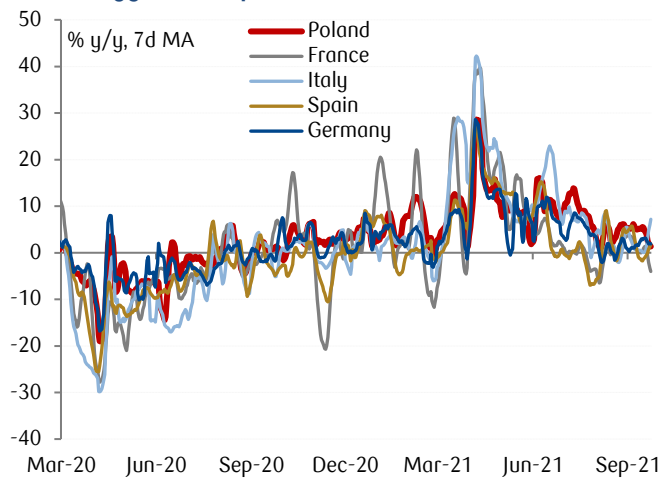
Key factors impacting housing prices over the next year



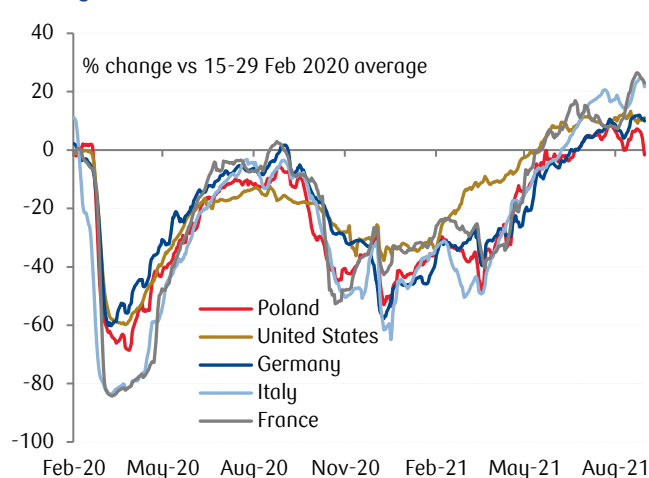
Source: GUS, PKO Bank Polski.

Macro monitoring with alternative data

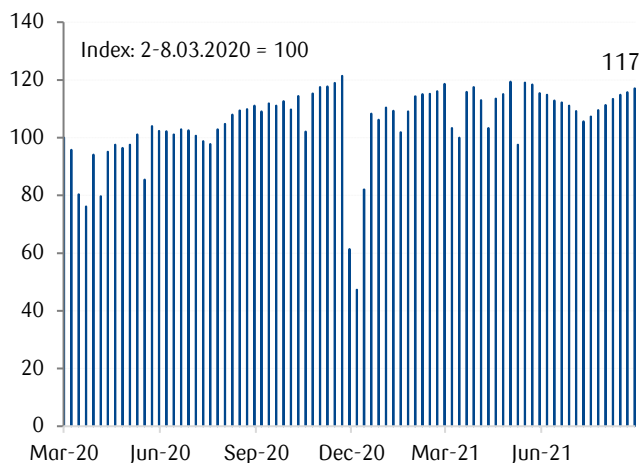
Electric energy consumption (total)



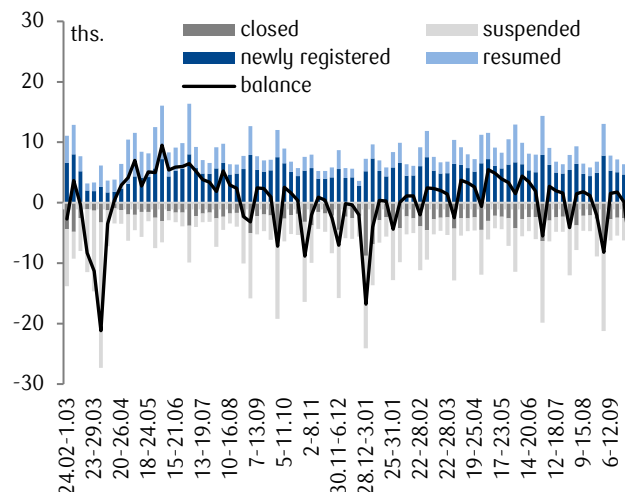
Mobility*



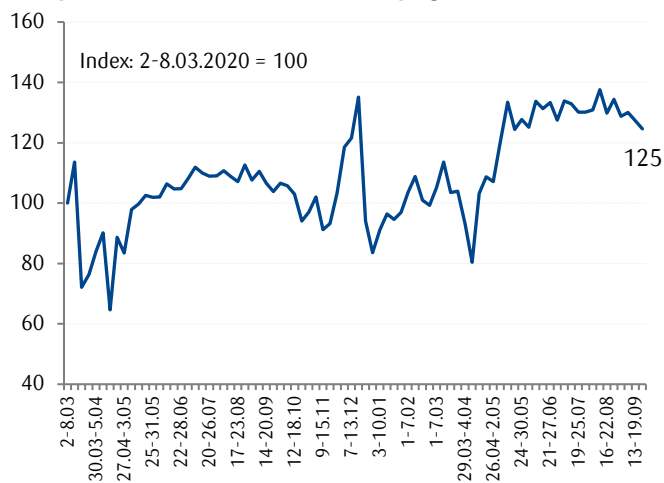
Heavy truck traffic



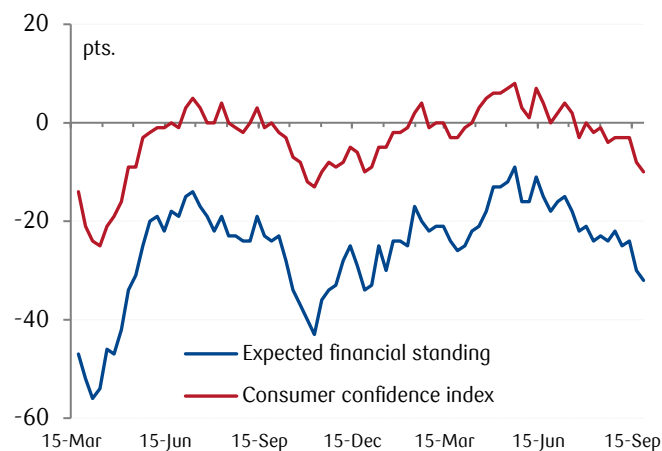
Economic activity status (acc. to CEiDG**)



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, 4 October						
EUR: Sentix Index (Oct)	9:30	pts.	19.6	18.8	--	--
USA: Factory orders (Aug)	15:00	% m/m	0.4	1.0	--	--
USA: Durable goods orders (Aug, final)	15:00	% m/m	0.5	1.8	--	--
Tuesday, 5 October						
EUR: Services PMI (Sep, final)	9:00	pts.	59.0	56.3	--	--
Wednesday, 6 October						
GER: Factory orders (Aug)	7:00	% y/y	24.4	16.3	--	--
EUR: Retail sales (Aug)	10:00	% y/y	3.1	0.5	--	--
USA: ADP National Employment (Sep)	13:15	thous.	374	430	--	--
POL: NBP base rate	--	%	0.10	0.10	0.10	The MPC will refrain from any policy moves before the November inflation projection exercise.
Thursday, 7 October						
GER: Industrial output (Aug)	7:00	% y/y	5.7	4.9	--	--
USA: Initial Jobless Claims (Oct)	13:30	thous.	362	--	--	--
Friday, 8 October						
GER: Exports (Aug)	7:00	% m/m	0.5	0.5	--	--
USA: Non-farm payrolls (Sep)	13:30	thous.	235	500	--	--
USA: Unemployment rate (Sep)	13:30	%	5.2	5.1	--	--
USA: Avg. hourly earnings (Sep)	13:30	% m/m	0.6	0.4	--	--
USA: Avg. hourly earnings (Sep)	13:30	% y/y	4.3	4.6	--	--

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

Selected economic indicators and forecasts

	Jul-21	Aug-21	Sep-21	1q21	2q21	3q21*	4q21*	2020	2021*	2022*
Economic activity										
Real GDP (% y/y)	x	x	x	-0.9	11.1	5.7	5.9	-2.7	5.4	5.1
Domestic demand (% y/y)	x	x	x	1.0	12.8	5.3	5.3	-3.7	6.0	5.1
Private consumption (% y/y)	x	x	x	0.2	13.3	3.6	6.8	-3.0	6.0	4.7
Gross fixed capital formation (% y/y)	x	x	x	1.3	5.0	3.0	5.0	-9.6	2.7	7.2
Inventories (pp)	x	x	x	0.3	2.9	1.8	-0.1	-0.2	1.3	0.8
Net exports (pp)	x	x	x	-1.9	-0.7	0.7	1.0	0.6	0.8	0.3
Industrial output (% y/y)	9.8	13.2	9.5	7.8	30.3	10.8	10.9	-1.0	16.0	7.5
Construction output (% y/y)	3.3	10.2	8.0	-12.5	2.8	7.2	3.0	-2.7	0.7	5.8
Retail sales (real, % y/y)	3.9	5.4	5.0	1.2	14.4	4.8	8.7	-2.7	7.0	5.0
Nominal GDP (PLN bn)	x	x	x	585.2	618.0	635.6	713.3	2324	2552	2747
Labour market										
Registered unemployment rate‡(%)	5.8	5.8	5.7	6.4	5.9	5.7	5.8	6.2	5.8	4.8
Employment in enterprises (% y/y)	1.8	0.9	0.6	-1.7	2.1	1.1	1.0	-1.2	0.7	1.3
Wages in enterprises (% y/y)	8.7	9.5	8.5	5.8	9.9	8.9	9.0	4.8	8.4	8.3
Prices^										
CPI inflation (% y/y)	5.0	5.5	5.8	2.7	4.5	5.4	5.5	3.3	4.4	3.9
Core inflation (% y/y)	3.7	3.9	4.0	3.8	3.8	3.9	3.7	3.9	3.8	4.0
15% trimmed mean (% y/y)	3.6	4.1	x	2.6	3.2	x	x	3.9	x	x
PPI inflation (% y/y)	8.2	9.5	10.2	2.4	6.4	9.3	10.0	-0.5	6.9	5.0
Monetary aggregates‡										
Money supply, M3 (PLN bn)	1883.9	1889.1	1914.1	1862.5	1876.0	1914.1	1985.8	1822.7	1985.8	2097.3
Money supply, M3 (% y/y)	8.2	9.1	8.6	14.4	7.4	8.6	9.0	16.4	9.0	5.6
Real money supply, M3 (% y/y)	3.1	3.5	3.2	11.3	2.8	3.2	3.3	12.7	4.3	1.7
Loans, total (PLN bn)	1360.9	1365.4	1373.3	1344.0	1349.2	1373.3	1382.1	1333.8	1382.1	1468.6
Loans, total (% y/y)	2.3	2.6	2.7	-1.7	0.6	2.7	3.6	0.8	3.6	6.3
Deposits, total (PLN bn)	1754.3	1774.0	1741.6	1669.9	1724.8	1741.6	1727.0	1602.2	1727.0	1837.0
Deposits, total (% y/y)	8.9	9.8	7.0	12.5	6.6	7.0	7.8	13.9	7.8	6.4
Balance of payments										
Current account balance (% GDP)	1.3	1.0	1.0	3.1	2.3	1.0	1.9	3.5	2.0	1.6
Trade balance (%GDP)	2.1	1.8	1.7	2.8	2.4	1.7	1.1	2.4	1.1	0.5
FDI (% GDP)	2.3	2.5	2.4	1.7	1.5	2.4	2.0	1.6	2.0	1.6
Fiscal policy										
Fiscal balance (% GDP)	x	x	x	x	x	x	x	-7.0	-1.7	-1.3
Public debt (% GDP)	x	x	x	x	x	x	x	57.5	56.2	53.6
Monetary policy‡										
NBP reference rate (%)	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.50
NBP lombard rate (%)	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	1.00
NBP deposit rate (%)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
WIBOR 3M ^x (%)	0.21	0.23	0.23	0.21	0.21	0.23	0.20	0.21	0.20	0.60
Real WIBOR 3M ^x (%) [#]	-4.76	-5.23	-5.57	-2.53	-4.26	-5.57	-5.65	-3.06	-4.38	-4.14
Exchange rates^{x‡}										
EUR-PLN	4.57	4.50	4.62	4.66	4.52	4.62	4.48	4.61	4.48	4.44
USD-PLN	3.84	3.78	3.95	3.97	3.80	3.95	3.73	3.75	3.73	3.70
CHF-PLN	4.24	4.09	4.26	4.21	4.12	4.26	4.04	4.25	4.04	3.96
EUR-USD	1.19	1.19	1.17	1.17	1.19	1.17	1.20	1.23	1.20	1.20

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^
E. Gatnar	4.8	"I propose, and I am not the only one ... to start a delicate process of [monetary] policy normalization (...). Let's talk about a 15 bp rate hike" (20.09.2021, PAP)
K. Zubelewicz	4.5	"A rate increase is necessary to stop inflation, though it's probably here to stay for longer. (...) If asset purchases or interest-rate cuts were emergency measures, they should all be abandoned by now." (21.07.2021, Bloomberg)
L. Hardt	4.3	"Amid lastingly and significantly elevated inflation, coupled with strong economic growth, but with the pandemic context in mind, the monetary policy in Poland is in urgent need of cautious normalization (a signal interest rate hike by 15 bps)" (01.10.2021, PAP, Twitter)
J. Kropiwnicki	2.8	"A rate hike in the coming months can't be ruled out because both the NBP president and some MPC members say their decision will depend on the November projection (...) Such prospective hike should be "small, delicate" and wouldn't have to be preceded by withdrawal from the NBP's ongoing asset purchase program." (16.09.2021, Biznes24.tv, PAP).
J. Zyzynski	2.6	"Until the end of the year, there will rather be no interest rate changes in Poland (...) we have to see how the fourth pandemic wave develops." (31.08.2021, PAP)
R. Sura	2.5	"Monetary policy is on the right track. We are supporting the recovery after the pandemic recession, and we're making sure that the recovery is permanent (...) The most significant forecasting tool will November's projection of inflation and GDP. If this document shows that inflation in 2022 and 2023 will continuously exceed 3.5% and will be caused by demand-side factors, which can be influenced by the MPC through interest rates, then I will advocate tighter monetary policy." (22.06.2020, PAP / Bloomberg).
G. Ancyparowicz	2.4	"Of course inflation is high, we see that and we are not happy, but it is caused by non-monetary factors and as a result monetary policy instruments...will not solve anything." (31.08.2021, Refinitiv)
C. Kochalski	2.0	"In my opinion, that moment [PAP: for considering monetary policy tightening] has not come yet (...) The pace of inflation returning to the target must be set prudently, in the context of occurring shocks as well as uncertainty as to pandemic developments (...) It is of key importance that the pace of inflation's return to the target does not thwart the revival in the Polish economy." (23.09.2021, PAP).
A. Glapinski	1.7	"A central bank cannot react with interest rate hikes to negative supply shocks (...) If a risk appears of lasting breach of the target as a result of lasting demand pressure then we will immediately tighten monetary policy through interest rate hikes." (09.09.2021, PAP)
E. Lon	1.0	"It is very important for me, for example, not to support the solutions that could lead to a radical strengthening of the zloty, which could result from the MPC taking quick actions consisting of several strong interest rate hikes" (16.09.2021, wGospodarce.pl, Bloomberg)

*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.

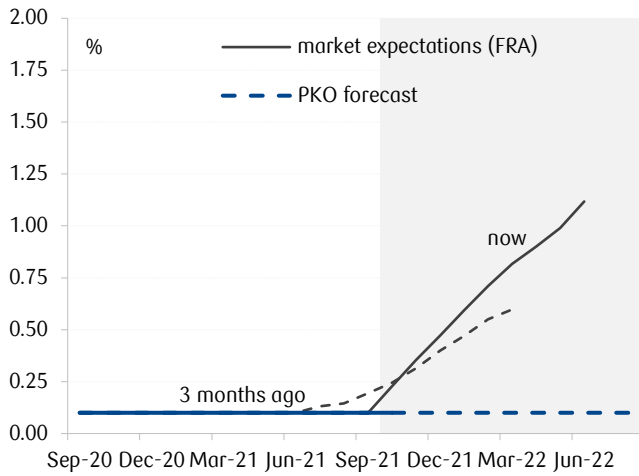
Interest rates – PKO BP forecasts vs. market expectations

		1M	2M	3M	4M	5M	6M	7M	8M	9M
Date	30-Sep	30-Oct	30-Nov	30-Dec	30-Jan	28-Feb	28-Mar	28-Apr	28-May	28-Jun
WIBOR 3M/FRA†	0.23	0.36	0.48	0.60	0.72	0.84	0.95	1.03	1.12	1.25
implied change (b. p.)		0.13	0.25	0.37	0.49	0.61	0.72	0.80	0.89	1.02
MPC Meeting	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*		0.23	0.35	0.47	0.59	0.71	0.82	0.90	0.99	1.12

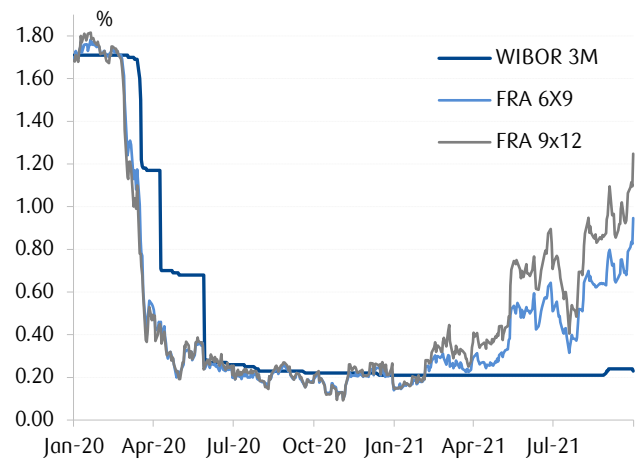
†WIBOR 3M from the last fixing, FRA transactions based on WIBOR 3M for subsequent periods, ‡in basis points, *PKO BP forecast of the NBP reference rate.

Poland macro chartbook

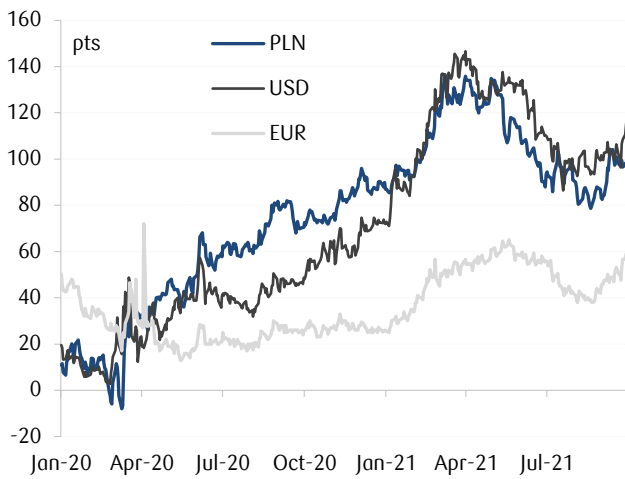
NBP policy rate: PKO BP forecast vs. market expectations



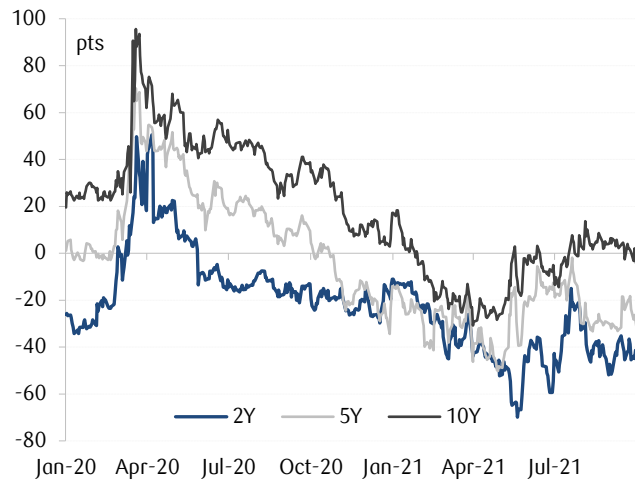
Short-term PLN interest rates



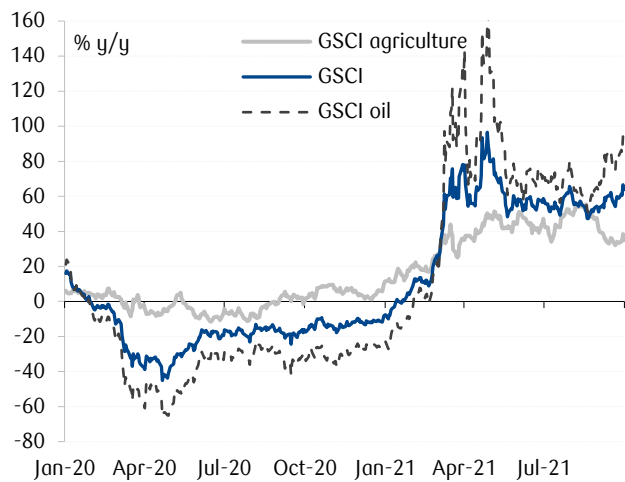
Slope of the swap curve (spread 10Y-2Y)*



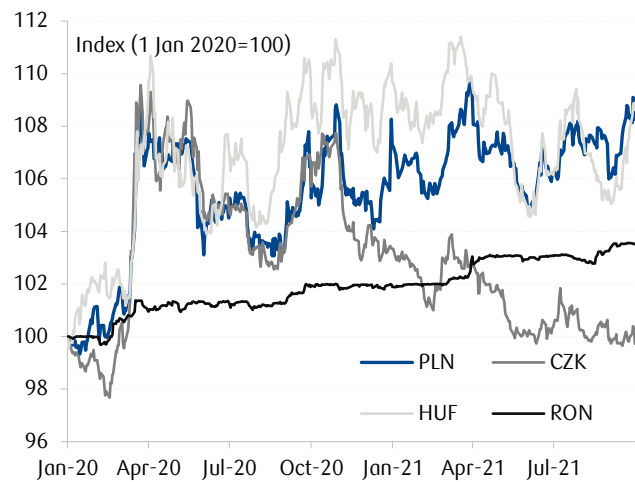
PLN asset swap spread



Global commodity prices (in PLN)

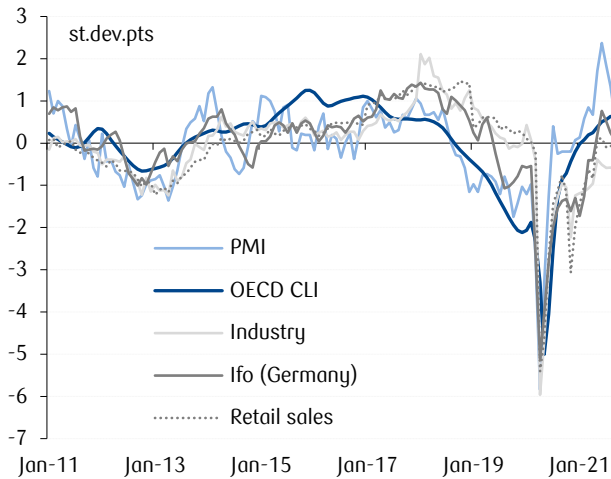


Selected CEE exchange rates against the EUR

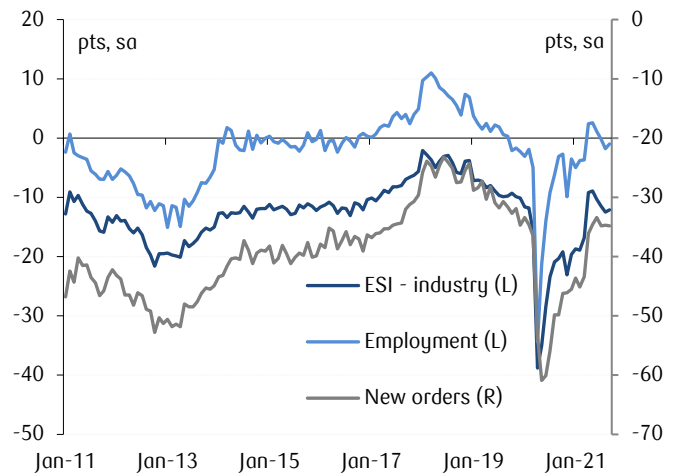


Source: Datastream, NBP, PKO Bank Polski. *for PLN, and EUR 6M, for USD 3M.

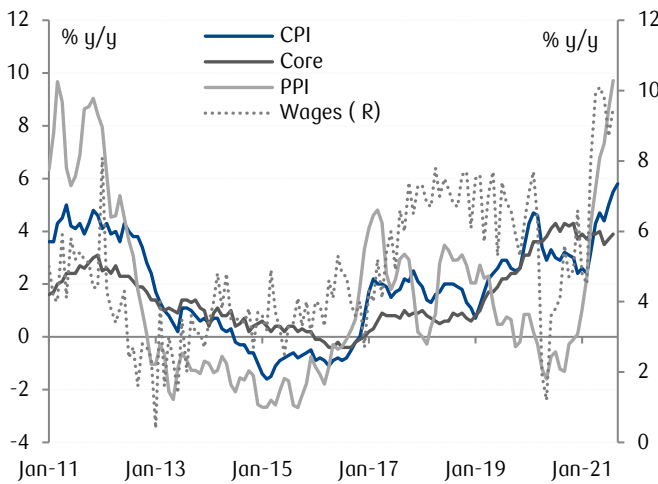
Economic sentiment indicators



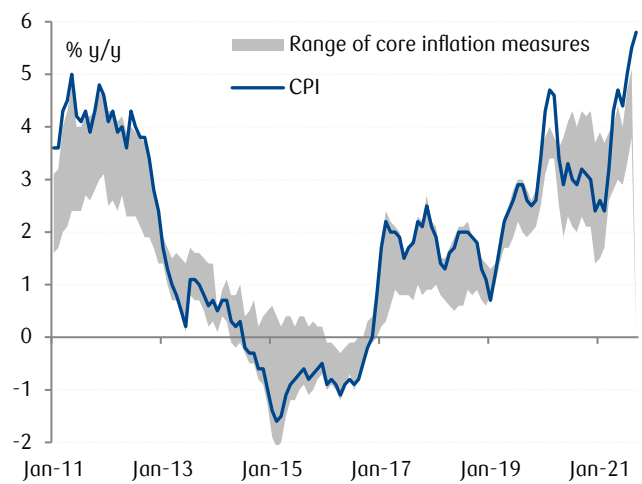
Poland ESI for industry and its components



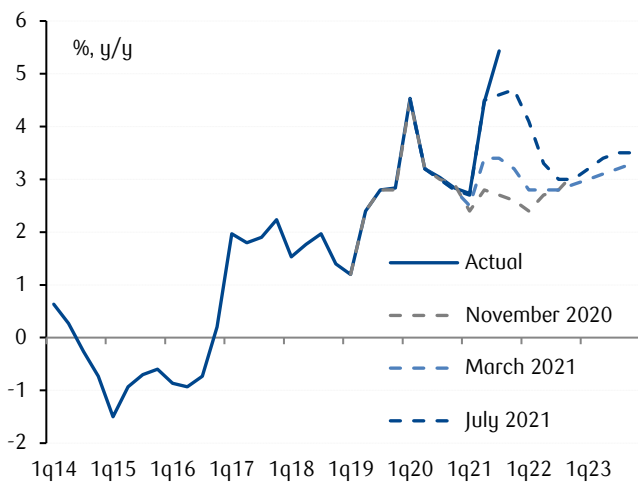
Broad inflation measures



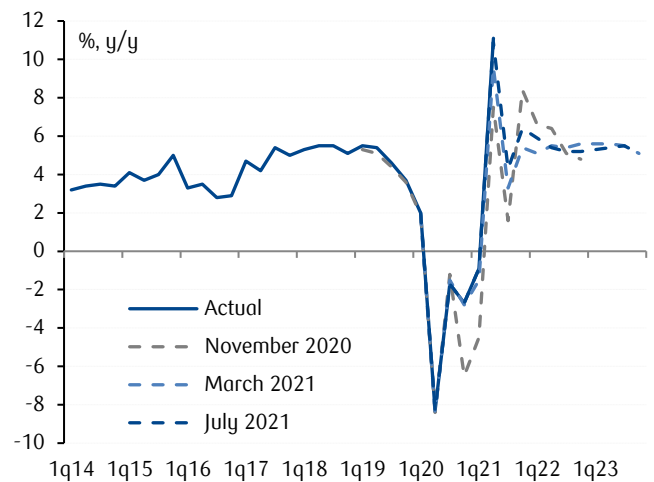
CPI and core inflation measures



CPI inflation - NBP projections vs. actual

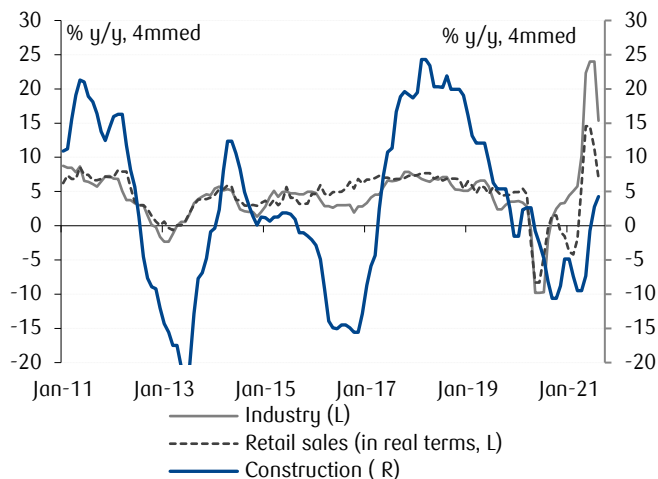


Real GDP growth - NBP projections vs. actual

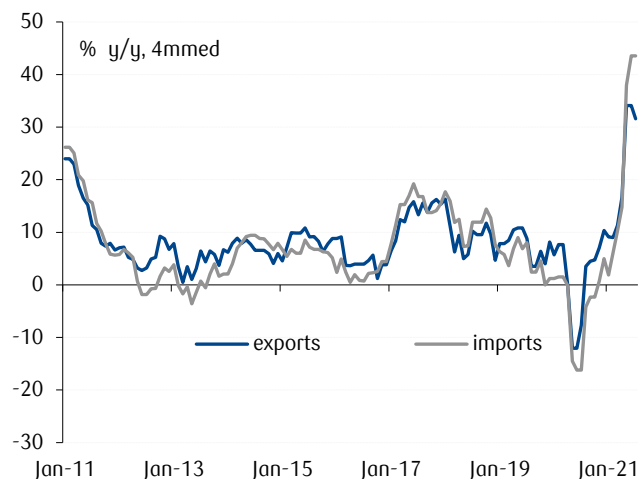


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

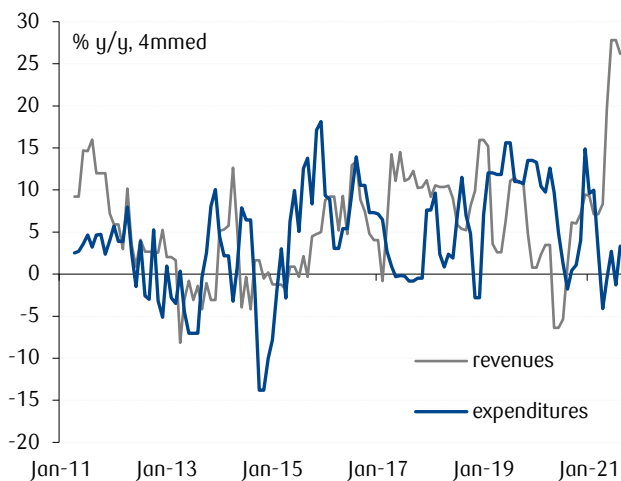
Economic activity indicators



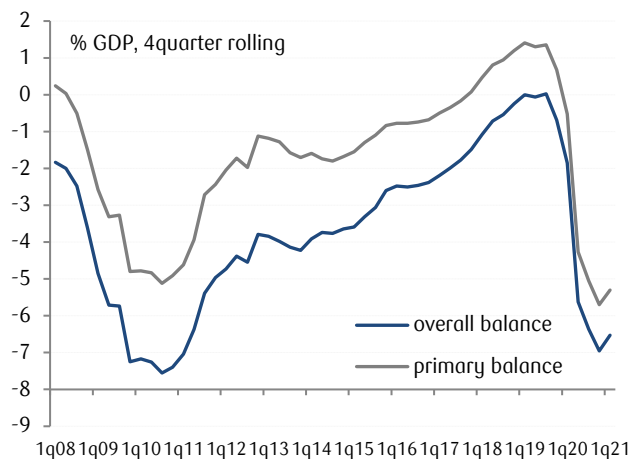
Merchandise trade (in EUR terms)



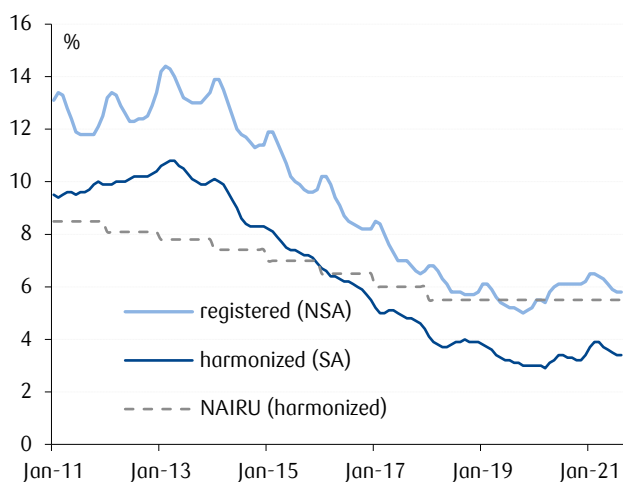
Central government revenues and expenditures*



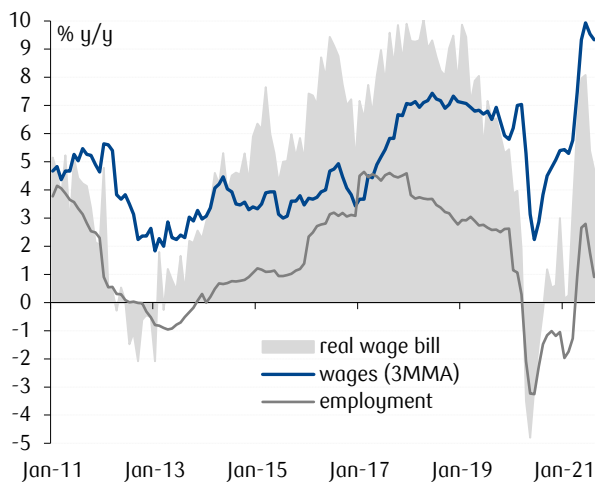
General government balance (ESA2010)



Unemployment rate

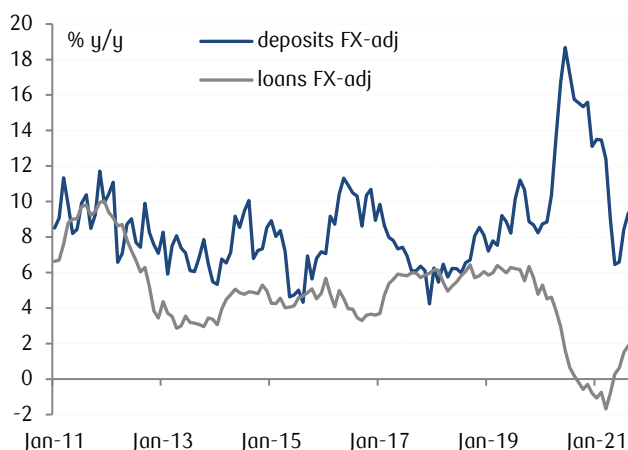


Employment and wages in the enterprise sector

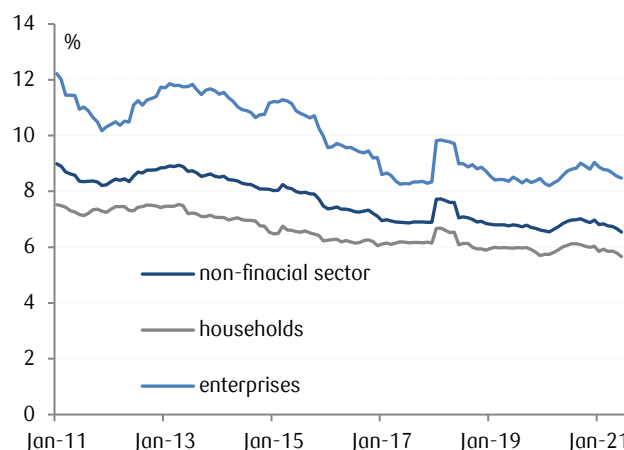


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. *break in series in 2010 due to methodological changes.

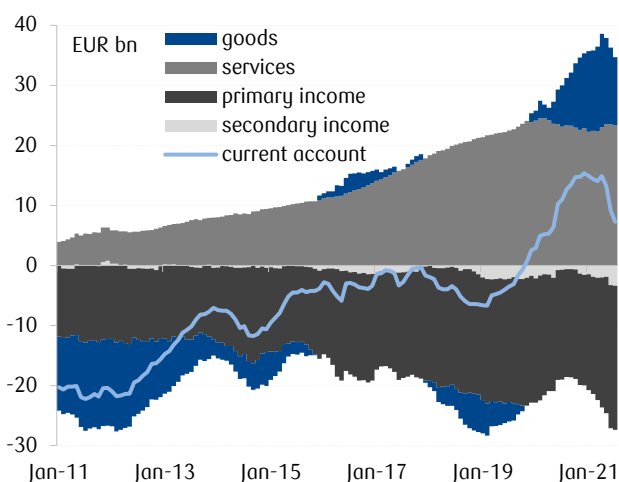
Loans and deposits



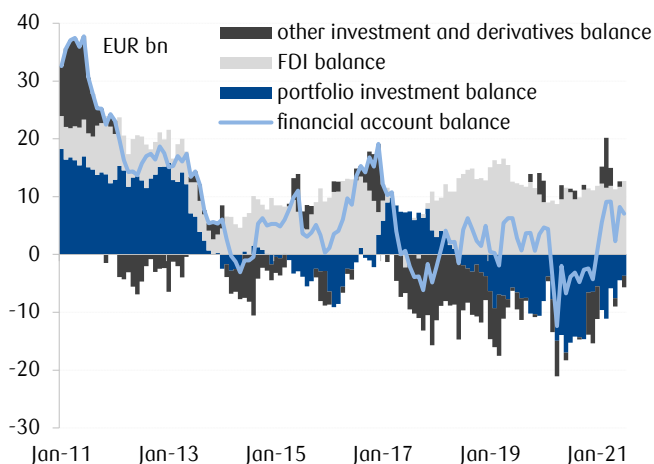
Non-performing loans (NPLs) - by sectors*



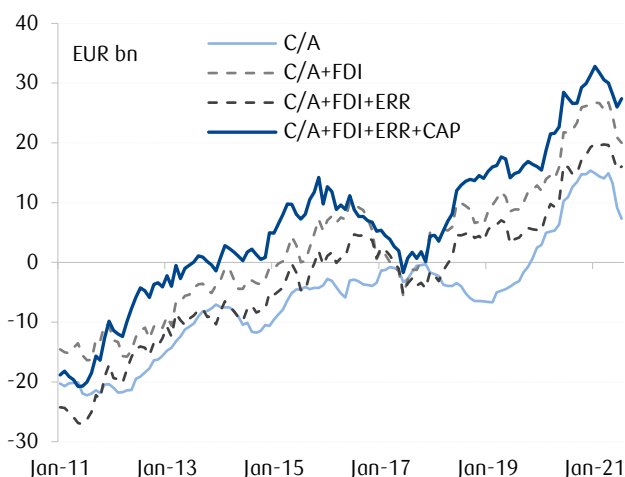
Current account balance



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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- [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)
- [Fasten your seatbelts, please](#) (May 14, 2021)
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- [Surplus economy](#) (Dec 18, 2020)

Poland's macro in a nutshell

	2020	2021*	Comment
Real economy			
- real GDP (%)	-2.7	5.4	We stick to our 2021 GDP growth forecast to 5.4% and expect it to remain above 5% in 2022, without taking into account the potential effects of the Polish New Deal (we estimate the impact of tax changes alone at ca. 1.0% of GDP). Strong economic growth will be driven by three engines – (1) consumption (pent-up demand, “forced savings”, high wage growth), (2) investments (National Recovery Plan, high liquidity in enterprises), (3) export (upgrades in global value chains, FDI).
Prices			
- CPI inflation (%)	3.4	4.4	Elevated inflation is the price of the rapid recovery. In 2h21 inflation will remain around the level of 5.0%, and we think it will be only slightly lower in 2022. Importantly, we still see the risk balance for this scenario tilted clearly upwards. Food will be the main factor keeping inflation elevated in the coming months, due to both a low base (pork), a weaker harvest (fruits), and rising production costs. Finally, it appears that core inflation is not about to let up. High nominal wage growth also means services price inflation.
Monetary aggregates			
- M3 money supply (%)	16.4	9.0	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	2.0	Exports remains the bright star of the Polish economy. The continuation of the strong trend at the beginning of this year indicates that structural rather than transitory factors are behind the Polish export expansion. Trade and overall current account surpluses, combined with EU inflows and strong nominal GDP growth, will lower the foreign debt-to-GDP ratio, which we see as an important factor supporting an upward revision of Poland's rating in the medium term.
Fiscal policy			
- fiscal balance (% GDP)	-7.0	-1.7	Rapid recovery, high inflation, and payment of the NBP profit make the situation of the state budget comfortable, and the scale of the surprise in the execution of this year's budget (vs. the 2021 plan) would be huge. Our current state budget deficit estimate (PLN 19.7 bn) is close to the recent MinFin announcement targeting the 2021 state budget deficit at PLN 13 bn.
Monetary policy			
- NBP reference rate (%)	0.10	0.10	Market expectations promise a revolution in domestic monetary policy, but the central bank clearly prefers evolution. The NBP remains in crisis mode and is cautious about normalizing monetary policy. However, the first step in this direction has been taken - the MPC is no longer ruling out rate hikes, and all that remains to be decided is "when" interest rates in Poland will start to rise. The Fed and the ECB are giving ambiguous hints to the NBP. In our opinion, the MPC will delay rate hikes until next year.

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

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