

The calm before the storm

Top macro theme(s):

- **The calm before the storm (p.2):** CPI inflation eased somewhat in February (8.5% y/y vs 9.4% y/y in January), but it may be the lowest reading of CPI inflation this year. Despite the prolonged anti-inflationary shield, CPI inflation may enter a double-digit territory and exceed 9% on average in 2022. Policy wise, the MPC will continue rate hikes cycle until clear signs of economic slowdown appeared (we think they will stop the cycle after May).

What else caught our eye:

- The government announced **measures aimed at protecting the economy from the negative impact of Russian invasion on Ukraine**. Households and vulnerable natural gas recipients (preschools, hospitals, etc.) will be covered by gas tariffs to 2027. Poland will also allocate PLN 3.9bn to subsidizing fertilizer purchases by farmers. These measures reduce the risk of long-lasting pro-inflationary impact of the freeze in trade relations with Russia.
- **Industrial output jumped 17.6% y/y in February** with war-related demand for food and fuels boosting output by app. 1.5pp. **PPI inflation declined to 15.9% y/y in February** from a revised 16.1% y/y in January.
- **Current account in January was nearly balanced** (EUR 64m) on seasonal inflow of EU funds (1.3% of GDP, 12m). Rising prices of commodities (esp. oil) will deteriorate both trade and total C/A in the near future.
- **Wage bill growth accelerated in February** (to 14.2% y/y in nominal and 5.2% y/y in real terms), supportive for consumption and loans quality.

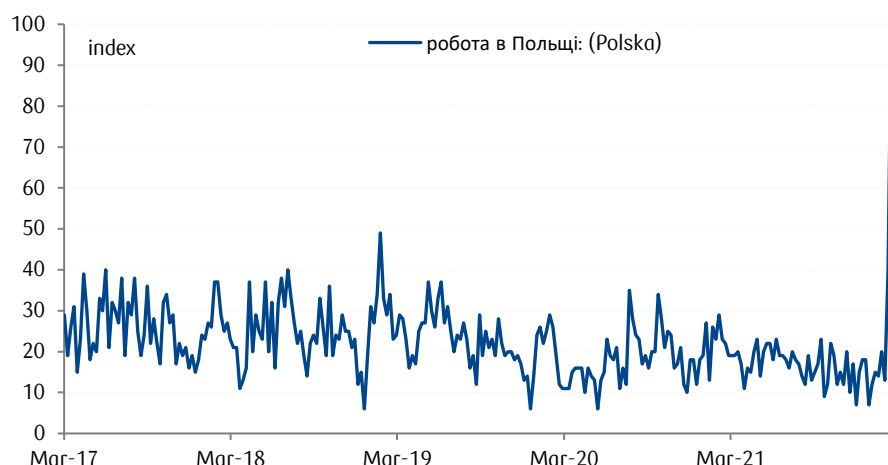
The week ahead:

- Our estimates bet on an uninterrupted activity and robust **construction output** expansion in February (PKOe: 18.7% y/y). An elevated **retail sales** turnover after the outbreak of the war (as per our card data) signals that the whole month witnessed a robust **real retail sales** growth (PKOe: +8.6% y/y).
- We estimate **M3 money supply** growth barely changed in February (PKOe: 7.5% y/y) but mortgages and consumer loans will show signs of weakness.
- **Business (Tue.) and consumer sentiment (Wed.)** indicators for March will be the early gauges of the impact of the war on economic activity in Poland.
- Registered **unemployment rate** in February may prove somewhat lower than indicated by early estimate of the labour ministry (5.5% vs PKOe: 5.4%).

Number of the week:

- **2 million** – Ukrainian refugees crossed PL/UA border since Feb 24, boosting job searches intensity (see chart of the week).

Chart of the week: Google searches of phrase 'work in Poland' in Ukrainian language



Source: Google Trends, PKO Bank Polski.

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	2021 _†	2022 _†
Real GDP (%)	5.7	3.3
Industrial output (%)	15.4	10.6
Unemployment rate [#] (%)	5.4	4.8
CPI inflation ^{**} (%)	5.1	9.3
Core inflation ^{**} (%)	4.1	7.6
Money supply M3 (%)	8.9	5.6
C/A balance (% GDP)	-0.9	-0.2
Fiscal balance (% GDP)*	-2.4	-1.7
Public debt (% GDP)*	56.3	53.2
NBP reference rate ^{##} (%)	1.75	4.50
EURPLN ^{†##}	4.60	4.55

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.

The calm before the storm

- CPI inflation eased somewhat in February (8.5% y/y vs 9.4% y/y in January), but it may be the lowest reading of CPI inflation this year. Later this year, despite a prolonged anti-inflationary shield, CPI inflation may enter a double-digit territory and exceed 9% level on average in 2022.
- Policy wise, the MPC will continue rate hike cycle until clear signs of economic slowdown appear (we think they will stop the cycle after May).

CPI inflation in February eased somewhat reaching 8.5% y/y (PKO: 8.2%, cons.: 8.1%). The reading for January was revised up to 9.4% y/y (from 9.2% y/y). The revision resulted from the annual update of the weights in the inflation basket (the current ones reflect the structure of household expenditures in 2021).

The 1.2pp decrease in the weight of food and alcoholic beverages was the biggest change in the basket structure. It may be associated with an increase in expenditure on non-basic goods and services along with the normalization of the consumption after the pandemic. In 2021, however, food still accounted for a greater share of expenditures than before the pandemic - this in turn is the result of a fairly strong increase in prices in this category. The share of expenditures on alcohol and tobacco decreased (by 0.6 pp). The weight of transport increased the most (+0.7pp; here we have returned to the picture from before the pandemic). The share of spending on recreation and culture as well as restaurants and hotels increased by 0.2-0.3 pp - in both cases the losses caused by Covid-19 have not yet been rebuilt.

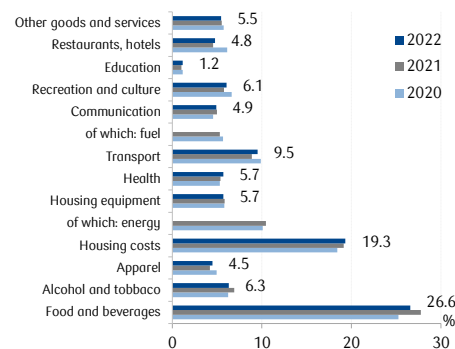
February was the first month when the anti-inflationary shield was implemented in full. As expected, the shield's disinflationary impact was largely neutralized by the strong upward pressure on prices. This is mainly seen in food and non-alcoholic beverages. Here, despite the drop in the VAT rate at which app. 80% of food items are taxed from 5% to 0%, prices fell only by 1% m/m. Strong growth in bread prices continued (1.3% m/m, 17% y/y). Despite a slight decline in February, prices of poultry (+22% y/y) and fat (over 20% y/y) were still significantly above the previous year's level. In our opinion, high agricultural commodity prices, expensive fertilizers and an rising costs of food processing mean that the upward trend in food prices will continue in coming months, and the growth rate might soon exceed 10% y/y.

The prices of energy fell by 1.2% m/m, mainly due to the decline in gas prices (by 6.4% m/m - the effect of the fall in the VAT rate). Inflation was also lowered by the decline in fuel prices (by 8.1% m/m). However, this effect will be very short-lived - currently fuel prices are almost 1/3 above an average price in February, which may push the CPI inflation index in March by approx. 1 pp higher.

Core inflation in January increased to 6.1% y/y from 5.3% y/y in December and in February it hit 6.7% y/y (the highest since 2000). We believe that the cost pressure will push core inflation up further, and it may break 8% y/y in 2h22. We expect a downward trend in core inflation to emerge in 2023, after some weakening of aggregated demand growth which we expect later this year.

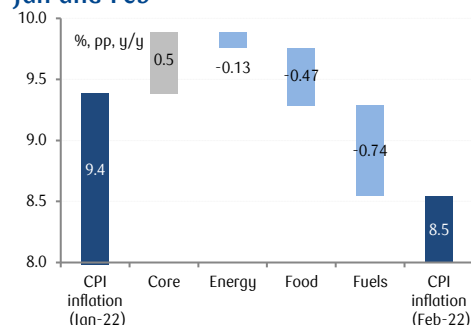
The outbreak of the war has significantly changed the inflation scenario. Despite the announced extension of the anti-inflationary shield (the PM Morawiecki declared it will be extended but no details are available, we assume that all tax cuts will be extended until 2023), we estimate that CPI inflation will exceed the level of 9% on average this year. The reading for February will be one of the lowest this year, and in spring we can see some double-digit inflation levels. The main source of uncertainty are commodity prices, mainly oil, and the zloty exchange rate.

Item weights in an inflation basket



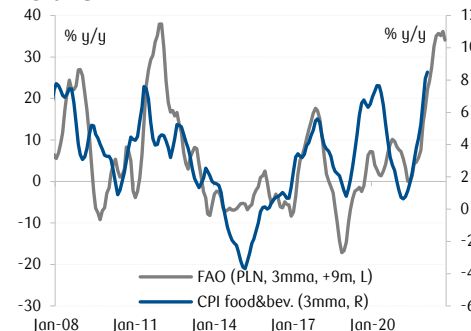
Source: GUS, PKO Bank Polski.

Decomposition of CPI change between Jan and Feb



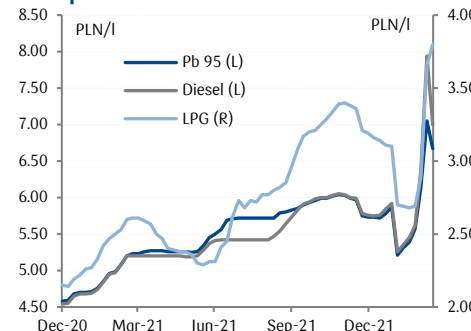
Source: GUS, PKO Bank Polski.

FAO food prices vs food inflation in Poland



Source: FAO, GUS, PKO Bank Polski.

Fuel prices



Source: BM Reflex, PKO Bank Polski. Last plot March 10th.

Weekly economic calendar

Indicator	Time (UK)	Unit	Previous	Consensus*	PKO BP	Comment
Monday, 21 March						
GER: PPI inflation (Feb)	7:00	% y/y	25.0	--	--	--
POL: Construction output (Feb)	9:00	% y/y	20.8	23.1	18.7	Anecdotal evidence suggests that bigger companies (surveyed here) have an uninterrupted activity in February. Elevated sales turnover after the outbreak of the war signals that the whole month witnessed a robust sales expansion, despite diving new car purchases.
POL: Retail sales (Feb)	9:00	% y/y	10.6	8.1	8.6	
Tuesday, 22 March						
POL: Money Supply M3 (Feb)	13:00	% y/y	7.7	7.7	7.5	No fireworks here, we think consumer and mortgage loans might show first signs of weakness.
HUN: MNB meeting	13:00	%	3.4	4.15	4.15	
Wednesday, 23 March						
POL: Consumer Confidence (Mar)	9:00	pts.	-27.7	--	--	The very first data that will enable us to test the impact of the war on consumer sentiment. Early MinLab estimates (5.5%) signal that our forecast might be a bit too optimistic.
POL: Unemployment Rate (Feb)	9:00	%	5.5	5.5	5.4	
USA: New home sales (Feb)	14:00	thous.	801	810	--	--
EUR: Consumer Confidence (Mar)	15:00	pts.	-8.8	--	--	--
Thursday, 24 March						
GER: Manufacturing PMI (Mar, flash)	8:30	pts.	58.4	--	--	--
GER: Services PMI (Mar, flash)	8:30	pts.	55.8	--	--	--
SWI: SNB meeting	8:30	%	-0.75	-0.75	-0.75	--
EUR: Manufacturing PMI (Mar, flash)	9:00	pts.	58.2	--	--	--
NOR: Norges Bank meeting	9:00	%	0.50	0.75	0.75	--
EUR: Services PMI (Mar, flash)	9:00	pts.	55.5	--	--	--
USA: Initial Jobless Claims	12:30	thous.	214	--	--	--
USA: Durable goods orders (Feb, flash)	12:30	% m/m	1.6	-0.5	--	--
USA: Manufacturing PMI (Mar, flash)	13:45	pts.	57.3	--	--	--
Friday, 25 March						
EUR: M3 money supply (Feb)	9:00	% y/y	6.4	--	--	--
GER: Ifo Business Climate Index (Mar)	9:00	pts.	98.9	--	--	--
USA: University of Michigan sentiment (Mar, final)	14:00	pts.	62.8	59.7	--	--

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

Selected economic indicators and forecasts

	Dec-21	Jan-22	Feb-22	4q21	1q22	2q22	3q22	2020	2021	2022
Economic activity										
Real GDP (% y/y)	x	x	x	7.3	6.0	2.4	2.6	-2.5	5.7	3.3
Domestic demand (% y/y)	x	x	x	11.2	9.2	2.8	2.2	-3.7	8.2	4.0
Private consumption (% y/y)	x	x	x	7.9	5.0	3.0	3.5	-3.0	6.1	3.8
Gross fixed capital formation (% y/y)	x	x	x	11.7	7.5	-10.0	-6.0	-9.6	7.9	-1.5
Inventories (pp)	x	x	x	4.1	3.8	1.5	0.2	1.3	0.8	0.4
Net exports (pp)	x	x	x	-3.2	-2.7	-0.1	0.5	0.8	0.3	0.0
Industrial output (% y/y)	16.7	19.2	17.6	12.9	15.4	10.9	12.5	-1.0	15.4	10.6
Construction output (% y/y)	3.1	20.8	18.7	6.3	14.1	4.1	12.9	-2.7	1.6	8.1
Retail sales (real, % y/y)	8.0	10.6	8.6	8.8	8.5	10.6	5.4	-2.7	7.6	8.8
Nominal GDP (PLN bn)	x	x	x	751.3	659.7	670.0	700.6	2327	2603	2840
Labour market										
Registered unemployment rate‡(%)	5.4	5.5	5.4	5.4	5.4	4.9	4.7	6.3	5.4	4.8
Employment in enterprises (% y/y)	0.5	2.3	2.2	0.6	2.2	1.4	1.2	-1.2	0.5	1.4
Wages in enterprises (% y/y)	11.2	9.5	11.7	9.8	9.6	11.7	10.3	4.8	8.8	10.4
Prices[^]										
CPI inflation (% y/y)	8.6	9.2	8.3	7.7	9.0	9.9	9.9	3.3	5.1	9.3
Core inflation (% y/y)	5.3	6.1	6.7	4.8	6.3	7.5	8.2	3.9	4.1	7.6
15% trimmed mean (% y/y)	6.4	7.0	7.0	5.7	x	x	x	3.9	4.1	x
PPI inflation (% y/y)	14.4	16.1	15.9	13.1	14.2*	11.5*	9.7*	-0.5	7.8	10.5*
Monetary aggregates‡										
Money supply, M3 (PLN bn)	1985.0	1973.0	1985.0	1985.0	1998.2	2024.6	2045.8	1822.7	1985.0	2096.7
Money supply, M3 (% y/y)	8.9	7.7	8.1	8.9	7.3	7.9	6.9	16.4	8.9	5.6
Real money supply, M3 (% y/y)	0.2	-1.4	-0.2	1.1	-1.6	-1.8	-2.8	12.7	3.6	-3.4
Loans, total (PLN bn)	1403.5	1402.6	x	1403.5	1405.7	1438.7	1466.2	1333.8	1403.5	1474.2
Loans, total (% y/y)	5.2	4.9	x	5.2	4.6	6.6	6.5	0.8	5.2	5.0
Deposits, total (PLN bn)	1780.1	1794.1	x	1780.1	1846.3	1869.0	1894.7	1602.2	1780.1	1878.3
Deposits, total (% y/y)	11.1	10.2	x	11.1	10.6	8.4	5.4	13.9	11.1	5.5
Balance of payments										
Current account balance (% GDP)	-0.9	-1.4	-1.4	-0.9	-1.3	-1.1	-0.8	2.9	-0.9	-0.2
Trade balance (%GDP)	-0.1	-0.2	-0.3	-0.1	-0.5	-0.8	-0.5	2.4	-0.1	-0.1
FDI (% GDP)	2.7	2.5	2.4	2.7	2.4	2.2	1.7	2.1	2.7	1.8
Fiscal policy										
Fiscal balance (% GDP)	x	x	x	x	x	x	x	-7.1	-2.4	-1.7
Public debt (% GDP)	x	x	x	x	x	x	x	57.4	56.3	53.2
Monetary policy‡										
NBP reference rate (%)	1.75	2.25	2.75	1.75	3.50	4.50	4.50	0.10	1.75	4.50
NBP lombard rate (%)	2.25	2.75	3.25	2.25	4.00	5.00	5.00	0.50	2.25	5.00
NBP deposit rate (%)	1.25	1.75	2.25	1.25	3.00	4.00	4.00	0.00	1.25	4.00
WIBOR 3M ^x (%)	2.54	3.02	3.65	2.54	4.20	4.70	4.70	0.21	2.54	4.70
Real WIBOR 3M ^x (%) [#]	-6.11	-6.23	-4.70	-5.20	-4.82	-5.21	-5.25	-3.06	-2.54	-4.61
Exchange rates^{x,‡}										
EUR-PLN	4.60	4.60	4.69	4.60	4.72	4.64	4.60	4.61	4.60	4.55
USD-PLN	4.06	4.11	4.20	4.06	4.29	4.18	4.11	3.75	4.06	4.03
CHF-PLN	4.45	4.42	4.55	4.45	4.58	4.42	4.34	4.25	4.45	4.25
EUR-USD	1.13	1.12	1.12	1.13	1.10	1.11	1.12	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^{*} under revision.

Monetary policy monitor

MPC Members	Hawk-o-meter*	Recent policy indicative comments^
R. Sura	2.7	"The target of monetary policy tightening invariably is to lower inflation to the target range, that is to below 3.5%, within medium term, while at the same time preventing depreciation of the zloty, which has nothing to do with strong fundamentals of the Polish economy (...) While tightening monetary policy in Poland, we should avoid cooling the economy too much" (15.03.2022, PAP).
J. Zyzynski	2.4	"The war in Ukraine and its fallout raise doubts about the interest rate outlook. Should they be raised again at such precarious times? Can we rein in the economy while uncertainty is only growing? (...) There really aren't any arguments for continuing aggressive hikes." (28.02.2022, Bloomberg)
C. Kochalski	2.2	"If we assume an optimistic scenario, meaning that omicron won't be devastating for the economy and we reconfirm that the economy became immune, then considering a 50bps rate increase in February would be justified" (21.01.2022, Interia, Bloomberg).
A. Glapinski	1.8	"Our further decisions will still be directed at ensuring price stability in mid-term, while at the same time supporting sustainable economic growth (...) The unemployment rate is low and the number of job offers is growing (...) Because of that, we won't cause severe unemployment growth by raising NBP rates now, but we will rather prevent excessive growth of wage pressure" (17.02.2022, Super Express / PAP)
L. Kotecki	--	"For sure, there is still room for rate hikes, to stifle the domestic inflation sources (...) The Council should keep hiking interest rates for as long as it takes, and by as much as it takes. (...) At this moment, it cannot be excluded that the interest rate may ultimately settle at a way higher level than the one currently priced in by the market, although we obviously speak of rational numbers here," (16.03.2022, PAP)
P. Litwiniuk	--	"In my opinion, such a pace of hikes [by 50 bps] or more generally speaking, gradual actions, would be more welcome than sudden changes in the monetary policy. (...) I hope the decisive steps of the NBP, combined with government actions, will stop that manifestation of a 'vicious circle' of inflation phenomena" (23.02.2022, PAP)
W. Janczyk	--	"I could assume a more cautious approach to monetary policy at the next meetings (...) Unpredictability is hitting its zenith during these weeks (...) That's exactly why I'm seeing some space for being less bold in monetary tightening. The situation's changing though almost every hour, and we need to stay on alert to act accordingly" (18.03.2022, Bloomberg).
H. Wnorowski	--	"In general I am convinced that fighting inflation and stabilization of its level is [important] to both the central bank and the Polish government. (...) That's why instruments at the disposal of the [central] bank, i.e. interest rates and currency rate, will still be used for some time to come. (...) I deeply believe that the February reading will settle well below [the 9.2% January print] and [that] we will be heading towards stabilization [of inflation]." (23.02.2022, PAP)
I. Dqbrowski	--	--
(Vacant place)	--	--

*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.

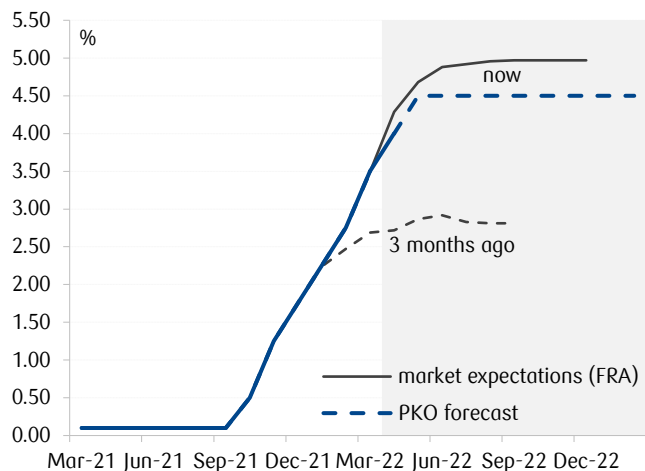
Interest rates – PKO BP forecasts vs. market expectations

	1M	2M	3M	4M	5M	6M	7M	8M	9M	
Date	17-Mar	17-Apr	17-May	17-Jun	17-Jul	17-Aug	17-Sep	17-Oct	17-Nov	17-Dec
WIBOR 3M/FRA†	4.37	5.16	5.55	5.75	5.79	5.83	5.84	5.84	5.84	5.84
implied change (b. p.)		0.79	1.18	1.38	1.42	1.46	1.47	1.47	1.47	1.47
MPC Meeting	8-Mar	6-Apr	5-May	8-Jun	7-Jul	-	7-Sep	5-Oct	9-Nov	7-Dec
PKO BP forecast*	3.50	4.00	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50
market pricing*		4.29	4.68	4.88	4.92	4.96	4.97	4.97	4.97	4.97

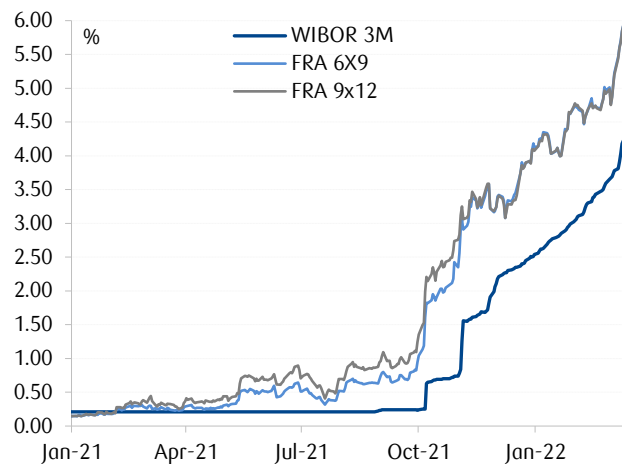
†WIBOR 3M from the last fixing, FRA transactions based on WIBOR 3M for subsequent periods, ‡in basis points, *PKO BP forecast of the NBP reference rate.

Poland macro chartbook

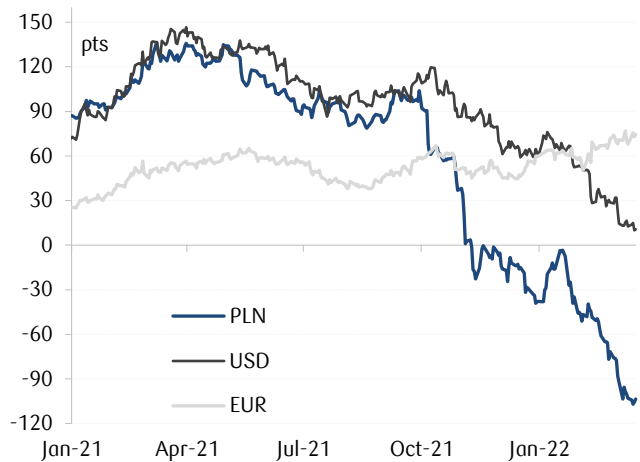
NBP policy rate: PKO BP forecast vs. market expectations



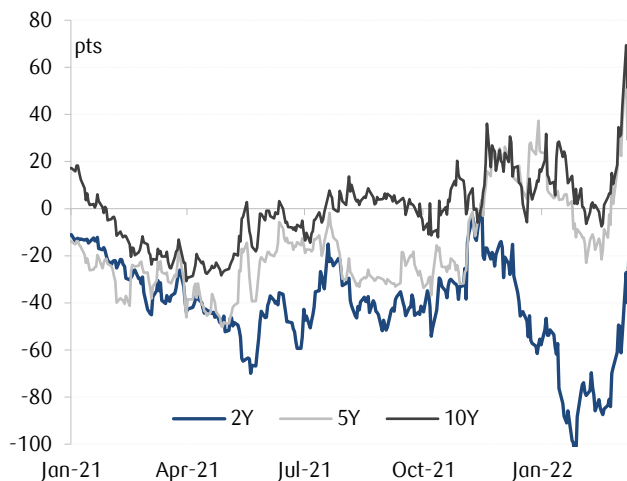
Short-term PLN interest rates



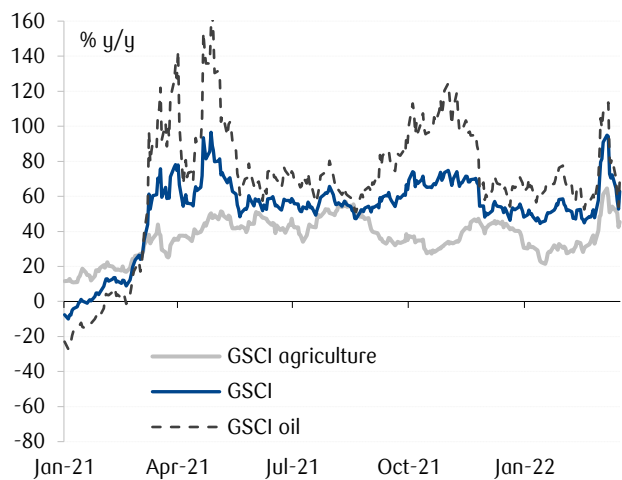
Slope of the swap curve (spread 10Y-2Y)*



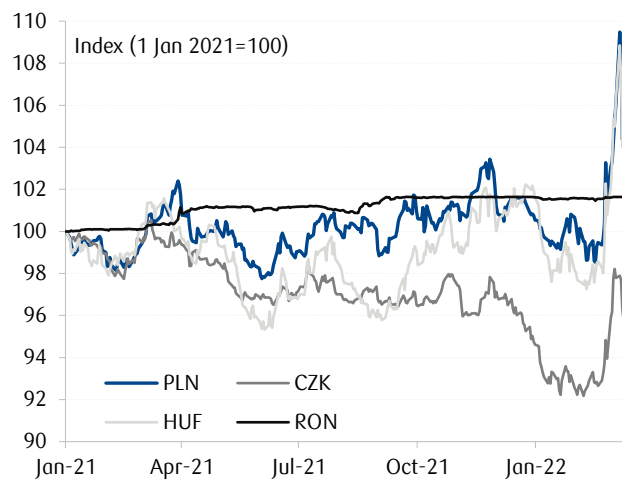
PLN asset swap spread



Global commodity prices (in PLN)

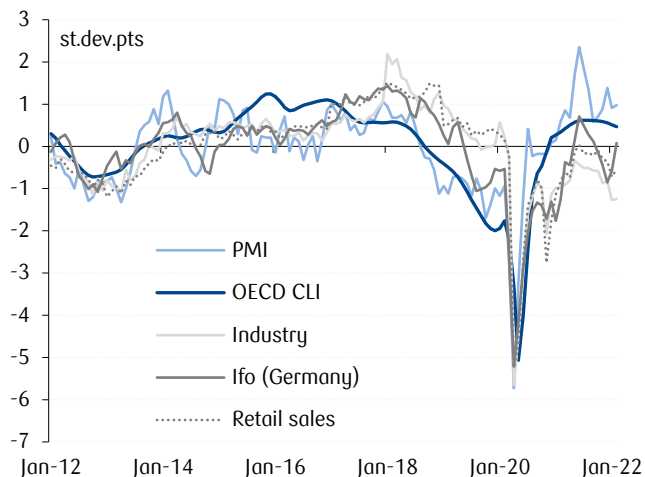


Selected CEE exchange rates against the EUR

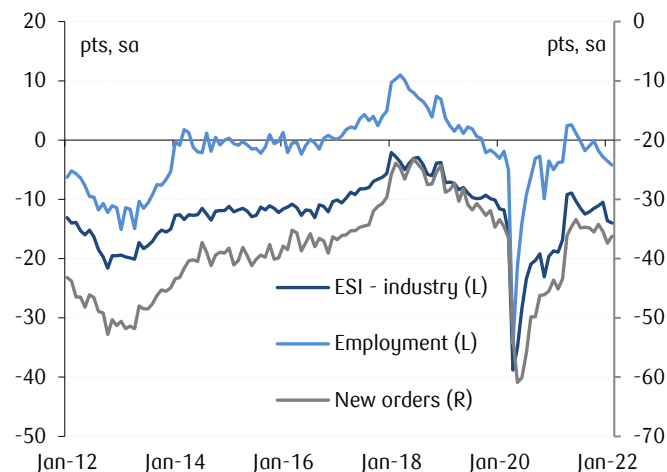


Source: Datastream, NBP, PKO Bank Polski. *for PLN, and EUR 6M, for USD 3M.

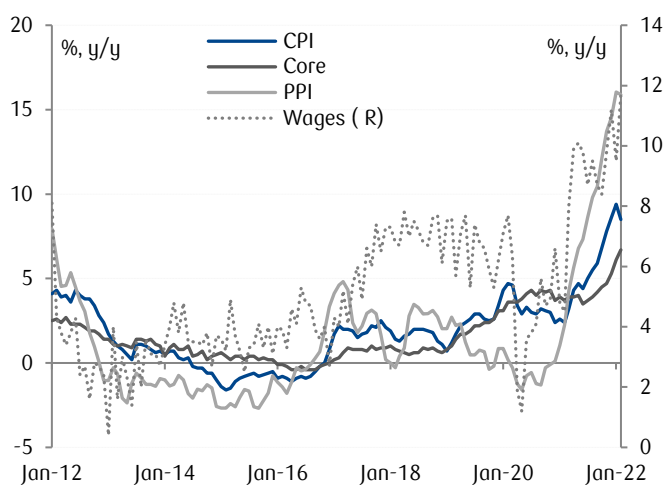
Economic sentiment indicators



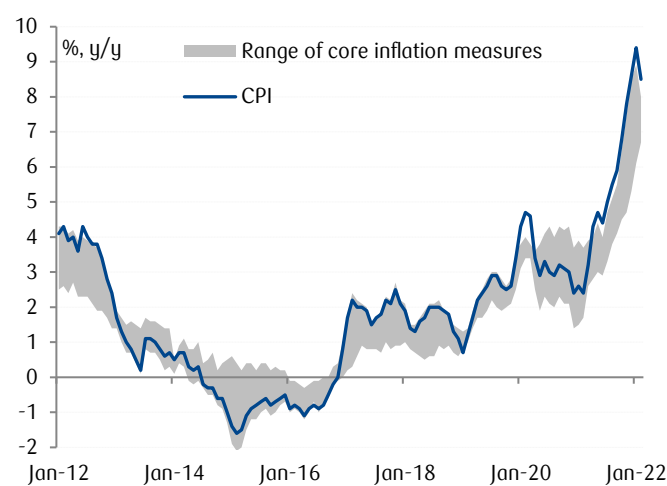
Poland ESI for industry and its components



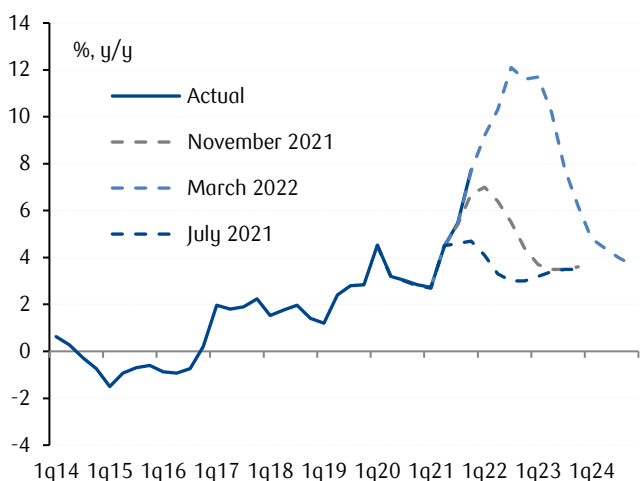
Broad inflation measures



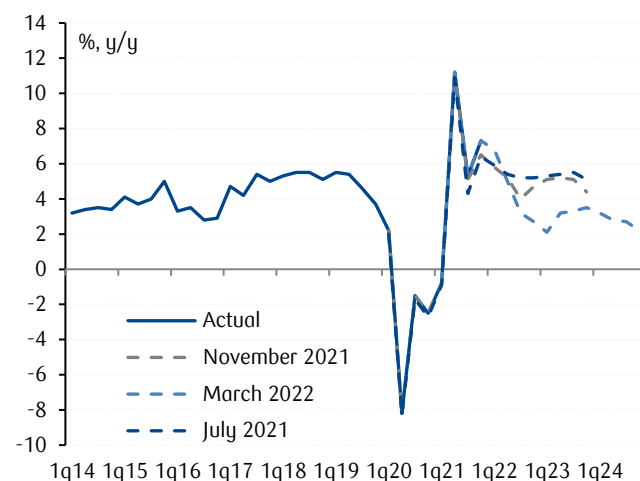
CPI and core inflation measures



CPI inflation - NBP projections vs. actual

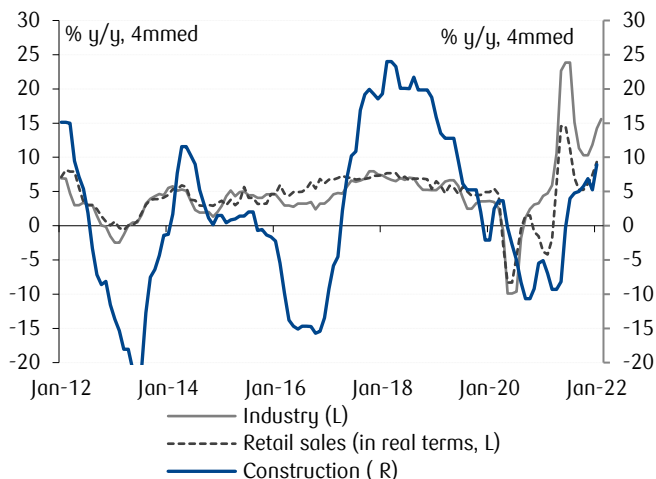


Real GDP growth - NBP projections vs. actual

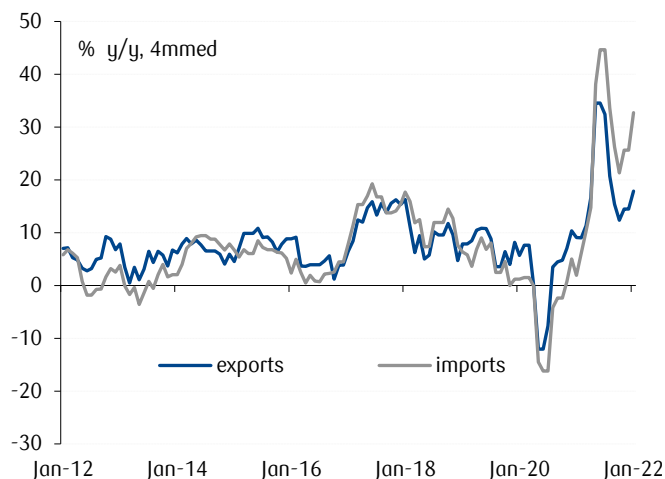


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

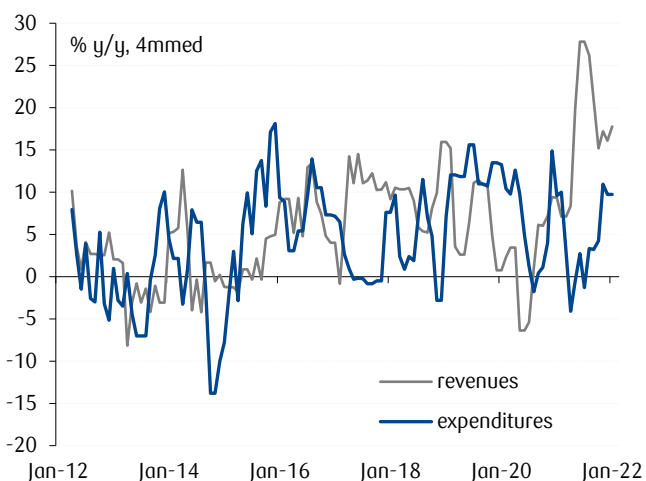
Economic activity indicators



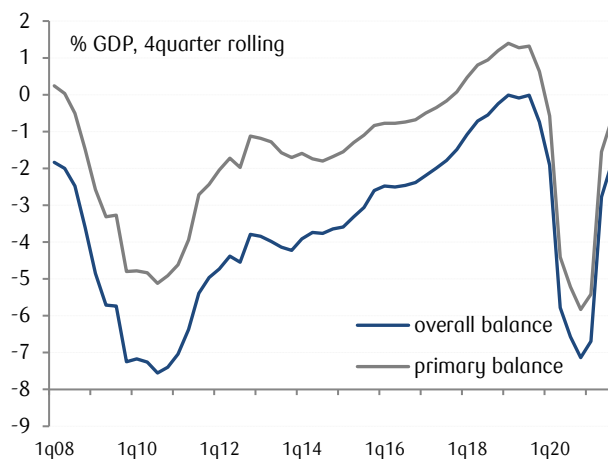
Merchandise trade (in EUR terms)



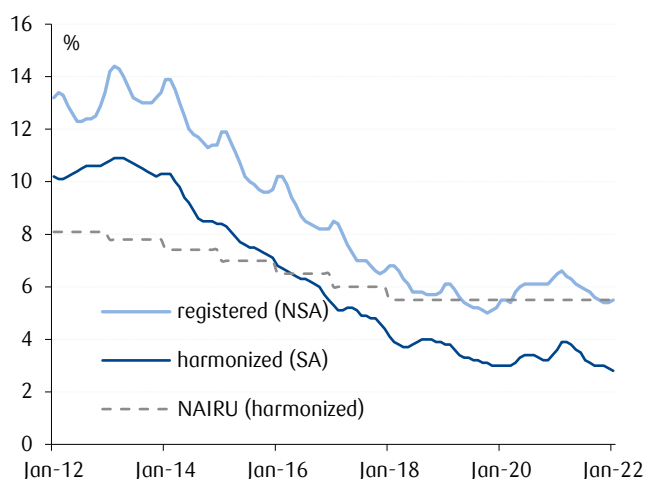
Central government revenues and expenditures*



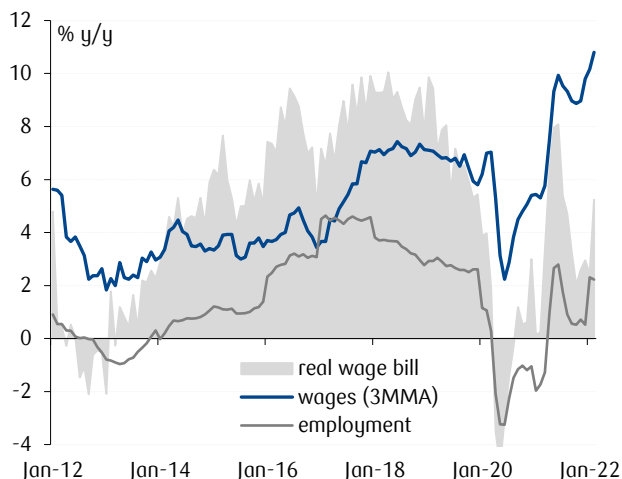
General government balance (ESA2010)



Unemployment rate

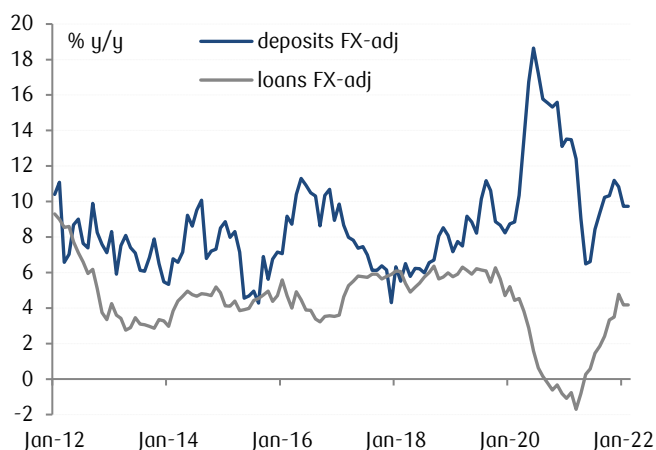


Employment and wages in the enterprise sector

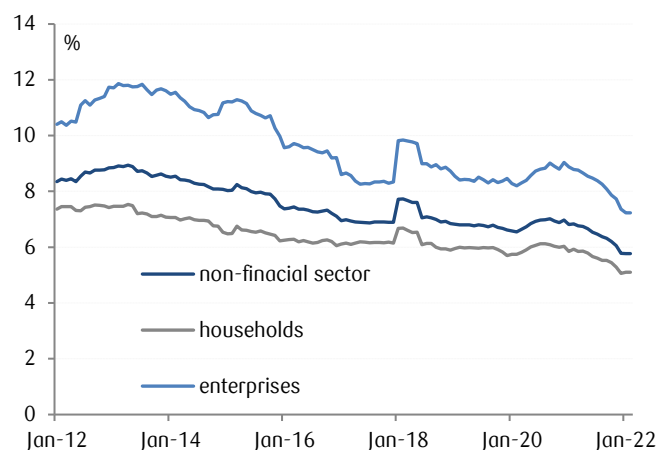


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. *break in series in 2010 due to methodological changes.

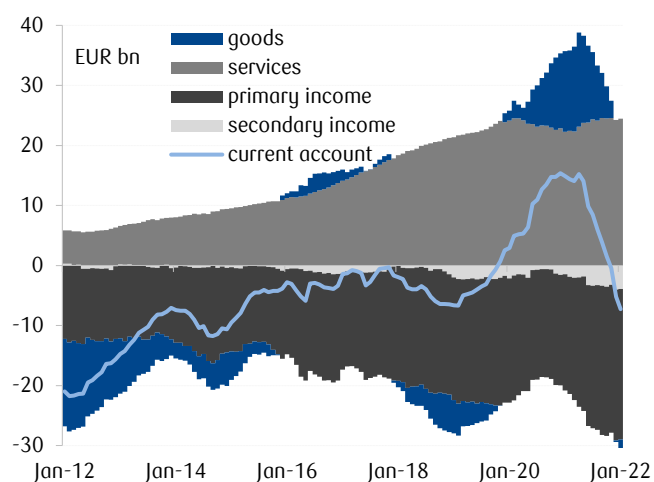
Loans and deposits



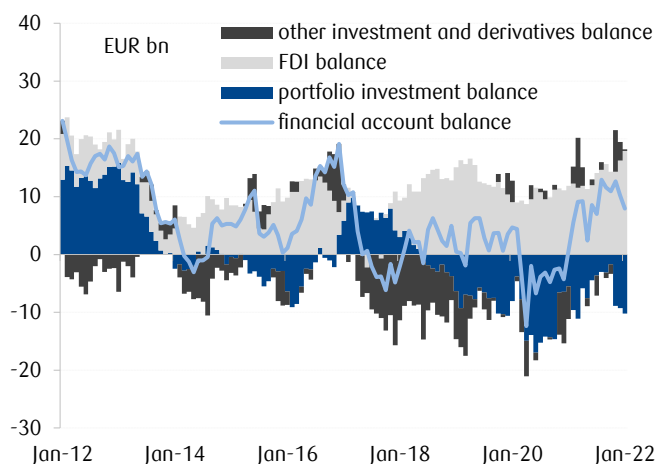
Non-performing loans (NPLs) - by sectors*



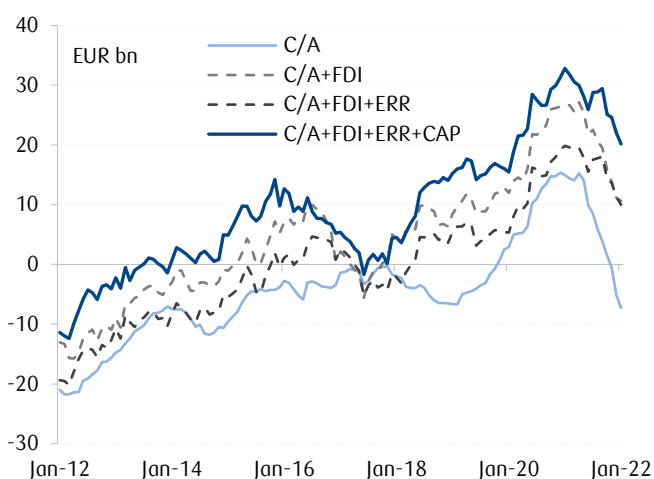
Current account balance



Financial account balance



External imbalance measures



NBP FX reserves (in EUR terms)



Source: NBP, PKO Bank Polski. *break in series in Jan2018 due to methodological changes.

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Poland's macro in a nutshell

	2021	2022	Comment
Real economy			
- real GDP (%)	5.7	3.3	The war in Ukraine and the economic war between Russia and West create significant risk factors for the GDP outlook (negative impact of higher inflation, surge in risk aversion limiting private demand and investment activity). We have downgraded GDP outlook and now pencil in GDP growth rate in 2022 at 3.3% (down from 4.1%). On the other hand the strong economic momentum at the turn of 21/22 creates some positive buffer in terms of the whole 2022 result.
Prices			
- CPI inflation (%)	5.1	9.3	Another surge in energy prices (this time oil price spike) has neutralized an impact of the anti-inflationary shield on CPI inflation. Assuming that the shield will be prolonged at least until the end of 2022 we estimate CPI inflation at 9.3% in 2022. Food prices in summer as well as global commodity prices and PLN exchange rate are most important risk factors for our forecast.
Monetary aggregates			
- M3 money supply (%)	8.9	5.6	The outbreak of the war in Ukraine can limit down demand on loans significantly with deposits boosted by the state intervention (same as in the case of pandemic response). Our high frequency data signal rising likelihood of such scenario (what implies additional downside risks for GDP growth rate).
External balance			
- current account balance (% GDP)	-0.9	-0.2	Rising commodity prices limit the chance for C/A surplus in 2022. Recurring supply constrains (e.g. shortage of automotive components manufactured in Ukraine) has triggered production outages, limiting exports volumes at the same time. On the other hand, a drop of imports-intensive investments (rising risk aversion of corporations amid extreme uncertainty) should partially offset this negative impact.
Fiscal policy			
- fiscal balance (% GDP)	-2.4	-1.7	High growth rate of nominal GDP supports fiscal revenues. Fiscal result in 2022 will hinge on the size of anti-inflationary shields (most likely they will be extended unit year-end) and a support for refugees, i.e. fiscal spending mainly via off-budget entities.
Monetary policy			
- NBP reference rate (%)	1.75	4.50	The stagflationary impact of war makes policy choices for monetary authorities more tricky. We still believe that monetary tightening will be continued in a pretty decisive way (with two more rate hikes by 50 bp in April and May) until the slowdown becomes apparent.

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

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