

#StandwithUkraine

Top macro theme(s):

- **Poland welcomes war refugees (p.2):** As Ukrainian refugees enter Poland, the government is adopting a policy that will facilitate a fast integration with the Polish society and open local labour market.

What else caught our eye:

- **PLN has weakened on higher risk aversion and increased geopolitical risk in the CEE region.** The EURPLN exceeded 4.88, level not seen since 2009. The NBP has reaffirmed its assessment that the recent PLN depreciation is not in line with strong fundamentals of the Polish economy and the current course of domestic monetary policy, and pledged to react to excessive market movements. **NBP has actually intervened** (on Tuesday, Wednesday, and on Friday together with the CNB) and the government announced that it will be converting EUR coming from EU funds into PLN directly on the market. Taking into account the high level of FX reserves combined with regular EUR inflows from the EU, these PLN-supportive measures might be repeated as long as necessary.
- **Manufacturing PMI in February rose to 54.7 from 54.5 in January**, on accelerating production and new orders. Softer inflation and lower incidence of supply-side delays was reported. The survey ended on February 22, so it has not yet reflected the impact of war.
- **GDP growth in 4q21 was confirmed at 7.3% y/y** with consumption growing 7.9% y/y and fixed investment by 11.7% y/y. Contribution of inventories was 4.1pp and exports -3.2pp (reflecting precautionary stock build-up).

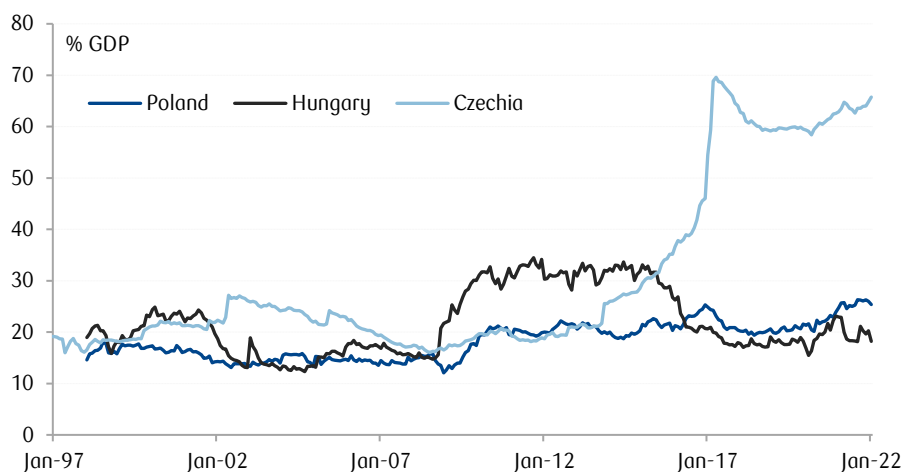
The week ahead:

- **We expect the MPC will stick to its announced policy of a 50bps rate hikes at the meeting on Tuesday.** As the impact of the Russian invasion on Ukraine on the Polish economy might be stagflationary, policy choices for monetary authorities get more tricky. Despite PLN weakness, we do not see any massive capital outflows, therefore we do not see a need for larger hikes. The press conference of NBP governor is expected on Wednesday.

Number of the week:

- **2.8%** – LFS unemployment rate in Poland in January, the lowest on record and the second lowest in the EU.

FX reserves in Poland, Hungary and Czechia



Source: Macrobond, Eurostat, PKO Bank Polski.

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	2021 _†	2022 _†
Real GDP (%)	5.7	4.1
Industrial output (%)	15.4	10.6
Unemployment rate [#] (%)	5.4	4.8
CPI inflation ^{**} (%)	5.1	7.2 ^{**}
Core inflation ^{**} (%)	4.1	6.1
Money supply M3 (%)	8.9	5.6
C/A balance (% GDP)	-0.9	0.3
Fiscal balance (% GDP)*	-2.4	-1.7
Public debt (% GDP)*	56.3	53.2
NBP reference rate ^{##} (%)	1.75	4.25
EURPLN ^{###}	4.60	4.45 ^{**}

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.

Poland welcomes war refugees

- The UNHCR estimates that at least 1.25 million people have fled Ukraine so far – more than a half them fled to Poland.
- The government is adopting a policy that will facilitate a fast integration with the Polish society and open local labour market.

After the Russian invasion on Ukraine, hundreds of thousands are seeking refuge in neighbouring countries. The refugee flow is of extraordinary scale and pace – not seen in Europe since the World War II. The UNHCR estimates that at least 1.25 million people have fled Ukraine so far – more than a half of them fled to Poland, the rest to Hungary, Moldova, Romania and Slovakia.

The Polish Border Guard estimates that 673 thousand refugees have crossed Polish-Ukrainian border so far (not only Ukrainians but also people of other nationalities). The inflow is facilitated by already sizeable Ukrainian diaspora in Poland. It is estimated that app. 1.5 million Ukrainians have settled in Poland in previous years – the influx that started after a Russian aggression in Donbas in 2014. UNHCR estimates that app. 4 million refugees will flee Ukraine in the coming weeks, if the fighting continues.

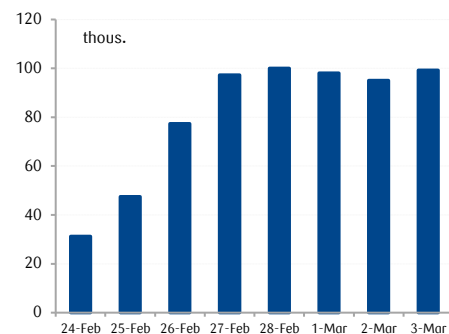
Polish citizens, NGO’s and authorities has offered a warm welcome to people forced to flee from war. Donation centres are overflowing with material aid, while ordinary citizens are organizing transport and accommodation around the country. Many private and public companies have engaged in helping Ukrainians by providing specially designed services, granting accommodation and providing financial aid. The recent IBRIS poll has shown that nearly 64% of Poles declare that they are ready to personally help Ukrainians who are defending themselves against or fleeing from the Russian invasion. Another poll by the same agency indicates that 60% of Poles think that Poland should accept all refugees from Ukraine, while further 25% think that we should help only those that are the most in need. The vast majority, 95% of Poles, supports hosting refugees in our country.

Everyone who is escaping from the war in Ukraine will be admitted to Poland and their stay will be legal. People who do not have a place to stay are directed to reception points where they are provided with the temporary accommodation in Poland, receive meals and basic medical assistance. It has been announced that **all Ukrainians will be permitted to work in Poland, and entitled to medical insurance and 500+ child subsidy.** Ukrainian children, that are estimated to be a half of the refugees, have the right to free education in Poland.

In contrast to the migration wave after 2014, that consisted of adult men and women, currently mainly women and children are crossing the Polish border as men are prohibited to leave Ukraine due to the military mobilization. What is more, it is estimated that app. 80 thousand Ukrainian men have already returned to their homeland in order to support the military.

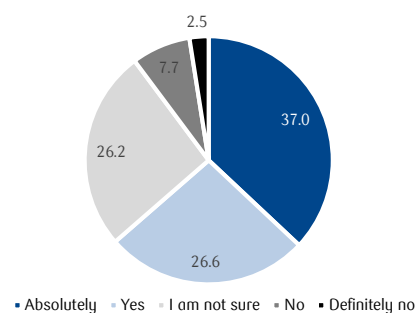
The cost of aid is being covered by the government and private donations. The UNHCR has already announced 500 million dollar financial aid to countries hosting refugees. The financial aid from the EU is also expected. We are of the opinion that the Polish budget has room to cover expenses connected with the refugees inflow, as its stance in 2021 and at the beginning of 2022 has been very good. The government is adopting policy that will facilitate a fast integration with the Polish society and fully open local labour market. We do not expect any negative labour market tensions resulting from the inflow, as the unemployment rate is low and the labour market conditions are one of the tightest in the EU.

Refugees crossing Polish-Ukrainian border



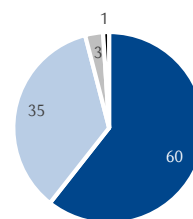
Source: Polish Border Guard PKO Bank Polski.

Are you ready to personally help the Ukrainians?



Source: IBRIS, PKO Bank Polski.

Desirable policy toward refugees



- We should accept all refugees
- We should accept only the most in need and vulnerable
- We should not accept anyone and keep refugee camps in the Ukraine
- We should not accept nor help at all

Source: IBRIS, PKO Bank Polski.

Weekly economic calendar

Indicator	Time (UK)	Unit	Previous	Consensus*	PKO BP	Comment
Monday, 7 March						
GER: Factory orders (Jan)	7:00	% m/m	2.8	1.0	--	--
GER: Factory orders (Jan)	7:00	% y/y	5.5	5.1	--	--
EUR: Sentix Index (Mar)	9:30	pts.	16.6	6.1	--	--
Tuesday, 8 March						
GER: Industrial production (Jan)	7:00	% m/m	-0.3	0.5	--	--
GER: Industrial output (Jan)	7:00	% y/y	-4.1	-1.9	--	--
EUR: Employment (4q)	10:00	% y/y	2.1	--	--	--
EUR: GDP growth (4q)	10:00	% y/y	3.9	4.6	--	--
USA: Trade balance (Jan)	13:30	--	--	--	--	--
POL: NBP base rate	--	%	2.75	3.25	3.25	The MPC will likely stick to the announced rate path of 50bps rate hikes.
Wednesday, 9 March						
CHN: PPI inflation (Feb)	1:30	% y/y	9.1	8.6	--	--
CHN: CPI inflation (Feb)	1:30	% y/y	0.9	0.9	--	--
HUN: CPI inflation (Feb)	8:00	% y/y	7.9	8.1	--	--
USA: JOLTS Report (Jan)	15:00	--	--	--	--	--
Thursday, 10 March						
CZE: CPI inflation (Feb)	8:00	% y/y	9.9	10.4	--	--
EUR: ECB Refinancing Rate	12:45	%	0.00	0.00	0.00	--
EUR: EBC deposit rate	12:45	%	-0.50	-0.50	-0.50	--
USA: CPI inflation (Feb)	13:30	% y/y	7.5	7.9	--	--
USA: Initial Jobless Claims	13:30	thous.	--	--	--	--
USA: Core inflation (Feb)	13:30	% y/y	6.0	6.4	--	--
Friday, 11 March						
GER: CPI inflation (Feb, final)	7:00	% y/y	4.9	5.1	--	--
GER: HICP inflation (Feb, final)	7:00	% y/y	5.1	5.5	--	--
USA: University of Michigan sentiment (Mar, flash)	15:00	pts.	62.8	62.5	--	--

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	3q21	4q21	1q22	2q22	2020	2021	2022
Economic activity										
Real GDP (% y/y)	x	x	x	5.3	7.3	6.1	3.6	-2.5	5.7	4.1
Domestic demand (% y/y)	x	x	x	8.6	11.2	9.4	5.0	-3.7	8.2	5.3
Private consumption (% y/y)	x	x	x	4.7	7.9	5.0	3.0	-3.0	6.2	3.8
Gross fixed capital formation (% y/y)	x	x	x	9.3	11.7	8.4	6.9	-9.6	8.0	6.8
Inventories (pp)	x	x	x	3.7	4.1	3.8	1.5	1.3	0.8	0.4
Net exports (pp)	x	x	x	-2.7	-3.2	-2.7	-1.1	0.8	0.3	0.0
Industrial output (% y/y)	16.7	19.2	17.1	10.3	12.9	15.4	10.9	-1.0	15.4	10.6
Construction output (% y/y)	3.1	20.8	18.7	5.8	6.3	14.1	4.1	-2.7	1.6	8.1
Retail sales (real, % y/y)	8.0	10.6	8.6	4.8	8.8	8.5	10.6	-2.7	7.6	8.8
Nominal GDP (PLN bn)	x	x	x	647.5	749.4	660.4	677.8	2327	2601	2859
Labour market										
Registered unemployment rate‡(%)	5.4	5.5	5.4	5.6	5.4	5.4	4.9	6.3	5.4	4.8
Employment in enterprises (% y/y)	0.5	2.3	2.2	1.1	0.6	2.2	1.4	-1.2	0.5	1.4
Wages in enterprises (% y/y)	11.2	9.5	9.8	9.0	9.8	9.6	11.7	4.8	8.8	10.4
Prices^										
CPI inflation (% y/y)	8.6	9.2	8.2	5.4	7.7	8.0*	6.1*	3.3	5.1	7.2*
Core inflation (% y/y)	5.3	6.1	6.3	3.9	4.8	6.1*	6.1*	3.9	4.1	6.1*
15% trimmed mean (% y/y)	6.4	x	x	4.1	5.7	x	x	3.9	4.1	x
PPI inflation (% y/y)	14.4	14.8	15.3	9.5	13.1	13.9*	10.2*	-0.5	7.8	9.2*
Monetary aggregates‡										
Money supply, M3 (PLN bn)	1985.0	1973.0	1985.0	1914.2	1985.0	1998.2	2025	1822.7	1985.0	2096.7
Money supply, M3 (% y/y)	8.9	7.7	7.5	8.6	8.9	7.3	7.9	16.4	8.9	5.6
Real money supply, M3 (% y/y)	0.2	-1.4	-0.1	3.0	1.1	-0.7	1.7	12.7	3.6	-1.5
Loans, total (PLN bn)	1403.5	1402.6	x	1376.4	1403.5	1414.6	1438.7	1333.8	1403.5	1474.2
Loans, total (% y/y)	5.2	4.9	x	2.9	5.2	5.3	6.6	0.8	5.2	5.0
Deposits, total (PLN bn)	1780.1	1794.1	x	1798.2	1780.1	1838.0	1869.0	1602.2	1780.1	1878.3
Deposits, total (% y/y)	11.1	10.2	x	10.5	11.1	10.1	8.4	13.9	11.1	5.5
Balance of payments										
Current account balance (% GDP)	-0.9	-1.4	-1.4	0.7	-0.9	-1.3	-0.7	2.9	-0.9	0.3
Trade balance (%GDP)	-0.1	-0.2	-0.3	1.4	-0.1	-0.5	-0.8	2.4	-0.1	-0.1
FDI (% GDP)	2.7	2.5	2.4	2.9	2.7	2.4	2.1	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	0.10	1.75	3.25	4.25	0.10	1.75	4.25
NBP lombard rate (%)	2.25	2.75	3.25	0.50	2.25	3.75	4.75	0.50	2.25	4.75
NBP deposit rate (%)	1.25	1.75	2.25	0.00	1.25	2.75	3.75	0.00	1.25	3.75
WIBOR 3M ^x (%)	2.54	3.02	3.65	0.23	2.54	3.80	4.45	0.21	2.54	4.45
Real WIBOR 3M ^x (%) [#]	-6.11	-6.23	-4.52	-5.19	-5.20	-4.49	-2.70	-3.06	-2.54	-3.86
Exchange rates^{x,‡}										
EUR-PLN	4.60	4.60	4.69	4.62	4.60	4.55*	4.53*	4.61	4.60	4.45*
USD-PLN	4.06	4.11	4.20	3.95	4.06	4.06*	4.04*	3.75	4.06	3.94*
CHF-PLN	4.45	4.42	4.55	4.26	4.45	4.33*	4.23*	4.25	4.45	4.08*
EUR-USD	1.13	1.12	1.12	1.17	1.13	1.12*	1.12*	1.23	1.14	1.14*

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	“It is obvious that the zloty appreciation would support us in fighting inflation. (...) And as a central bank, in the frame of available means, outlined under the monetary policy strategy, we will be supporting that direction.” (01.03.2022, 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	--	“I believe we should still remember that we are in a tightening cycle because there is a big risk that . . . we lose control over inflation expectations. (...) [The cycle] should not be accelerated but should be continued since inflation is at a very high level, not because of the war but simply due to reasons that were present before the war. They have not been invalidated by the war outbreak.” (01.03.2022, onet.pl, 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	--	“Polish inflation will be mitigated by the anti-inflation shields, with declines seen already in February and March. (...) Coming months should bring better news than expected on the inflation front” (23.02.2020, TVP Info via PAP).
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.

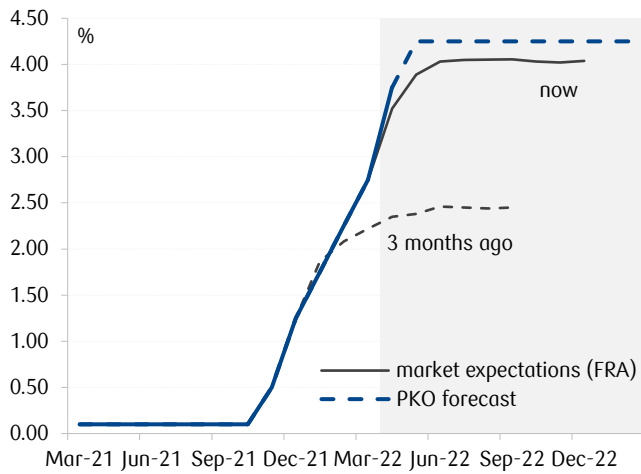
Interest rates – PKO BP forecasts vs. market expectations

Date	1M	2M	3M	4M	5M	6M	7M	8M	9M	
	3-Mar	3-Apr	3-May	3-Jun	3-Jul	3-Aug	3-Sep	3-Oct	3-Nov	3-Dec
WIBOR 3M/FRA†	3.73	4.50	4.87	5.01	5.03	5.03	5.04	5.01	5.00	5.02
implied change (b. p.)		0.77	1.14	1.28	1.30	1.30	1.31	1.28	1.27	1.29
MPC Meeting	8-Feb	8-Mar	6-Apr	5-May	8-Jun	7-Jul	-	7-Sep	5-Oct	9-Nov
PKO BP forecast*	2.75	3.75	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25
market pricing*		3.52	3.89	4.03	4.05	4.05	4.06	4.03	4.02	4.04

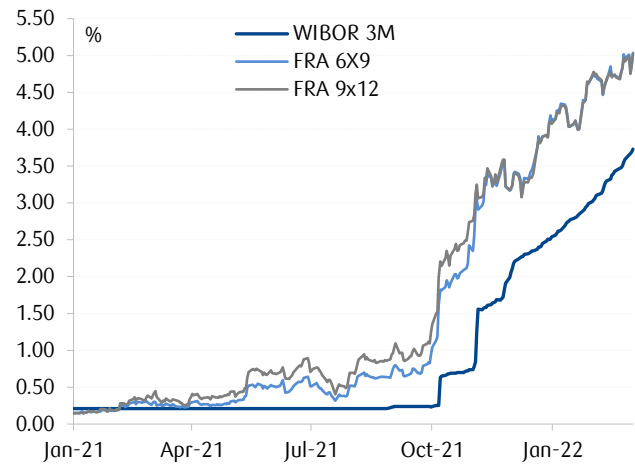
†WIBOR 3M from the last fixing, FRA transactions based on WIBOR 3M for subsequent periods, ‡in basis points, *PKO BP forecast of the NBP reference rate.

Poland macro chartbook

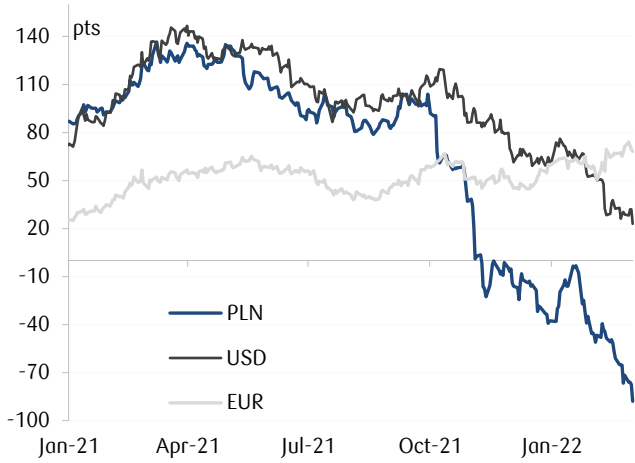
NBP policy rate: PKO BP forecast vs. market expectations



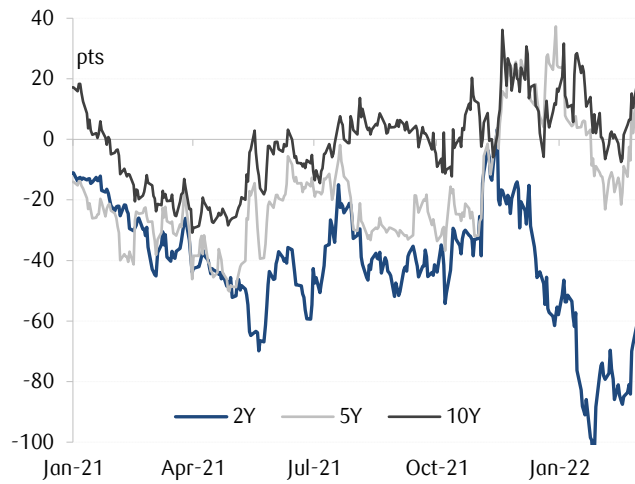
Short-term PLN interest rates



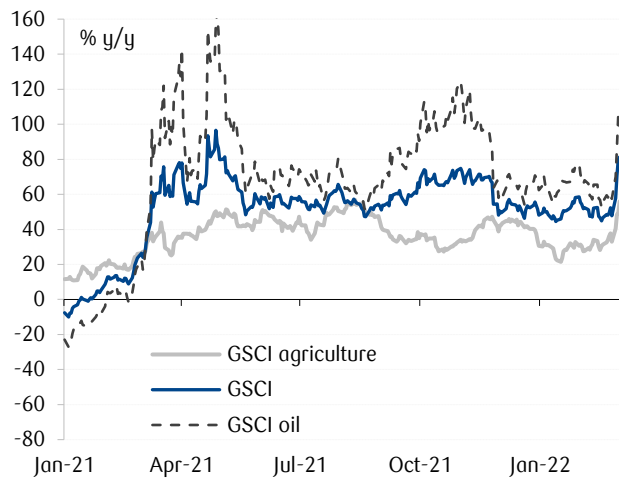
Slope of the swap curve (spread 10Y-2Y)*



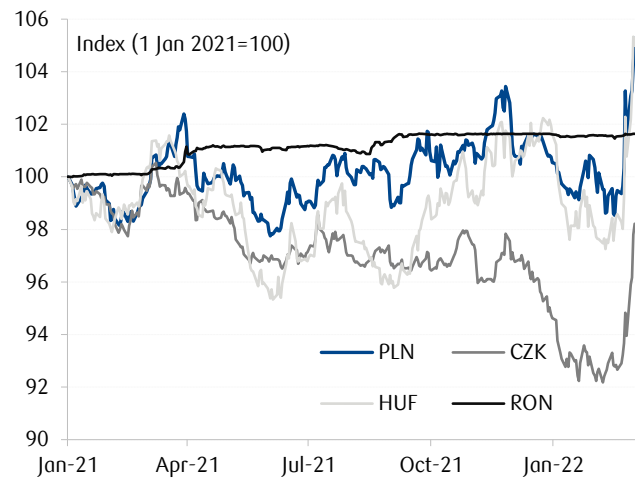
PLN asset swap spread



Global commodity prices (in PLN)

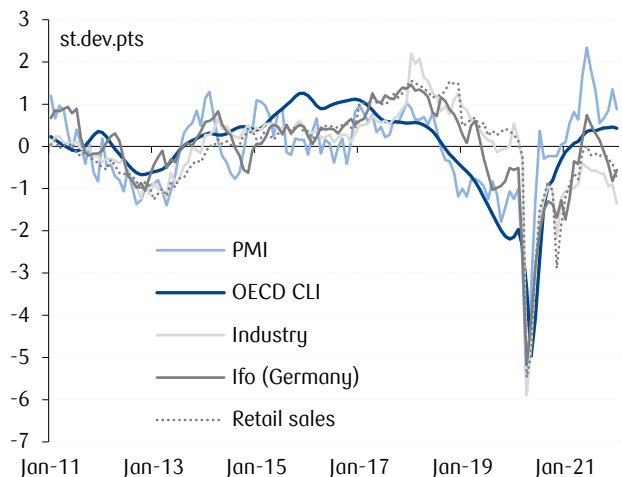


Selected CEE exchange rates against the EUR

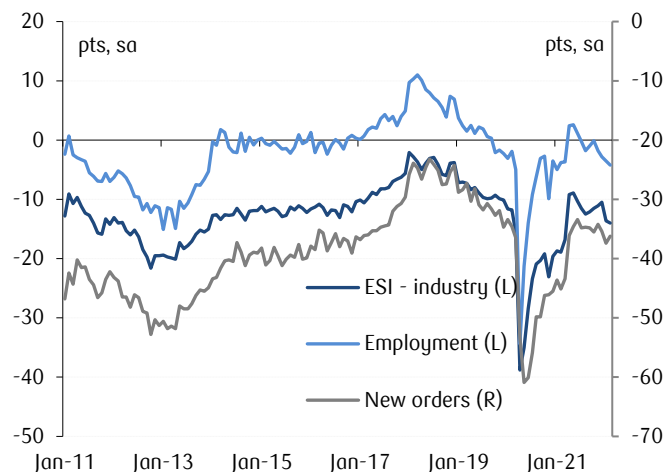


Source: Datastream, NBP, PKO Bank Polski. *for PLN, and EUR 6M, for USD 3M.

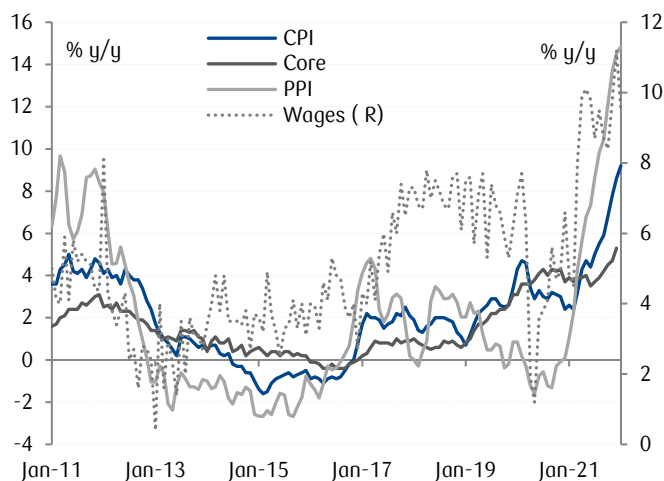
Economic sentiment indicators



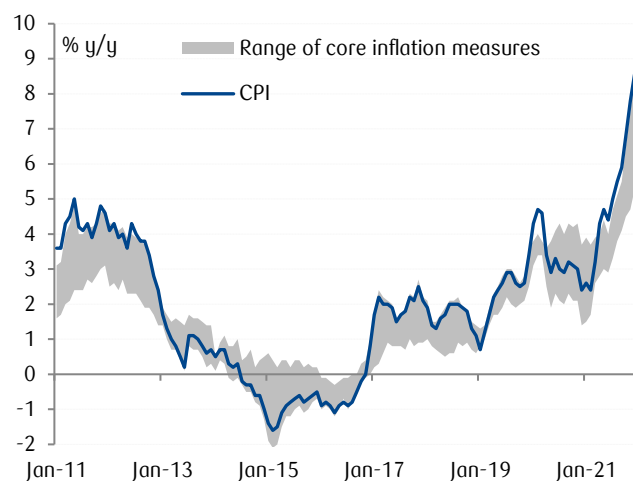
Poland ESI for industry and its components



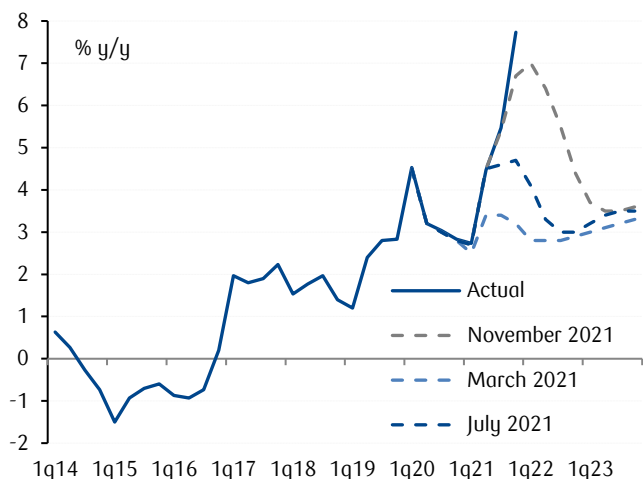
Broad inflation measures



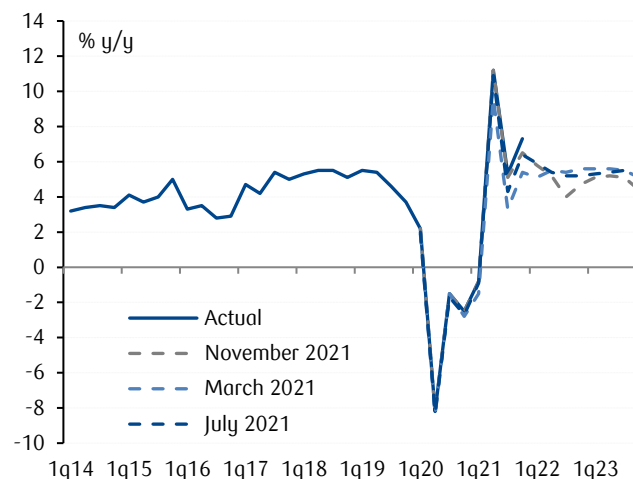
CPI and core inflation measures



CPI inflation - NBP projections vs. actual

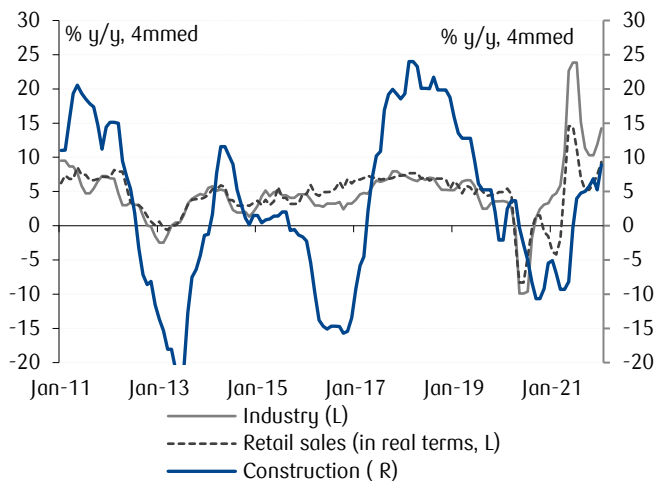


Real GDP growth - NBP projections vs. actual

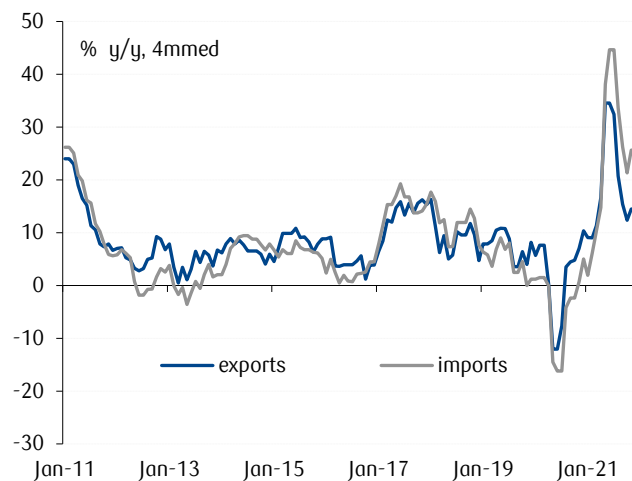


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

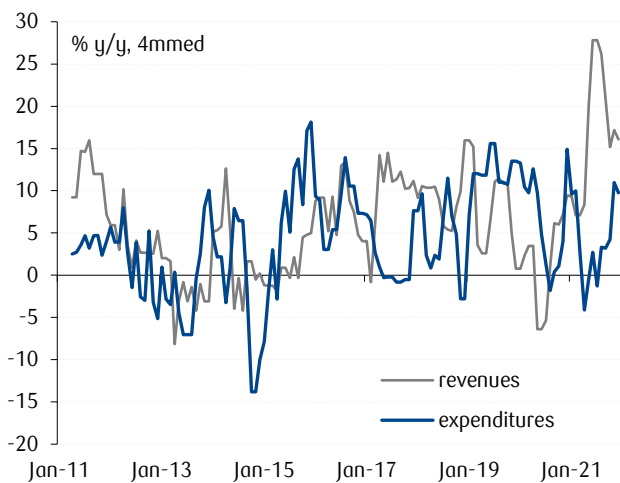
Economic activity indicators



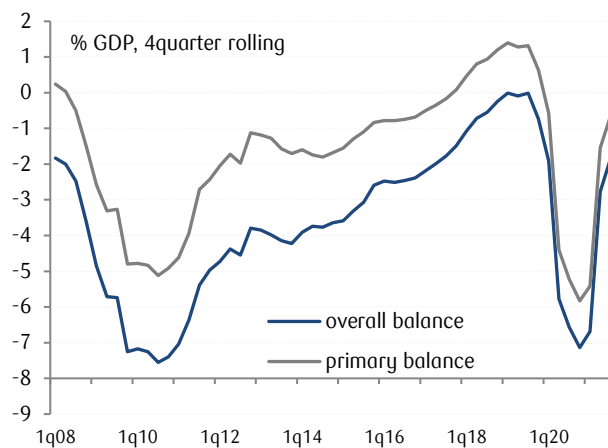
Merchandise trade (in EUR terms)



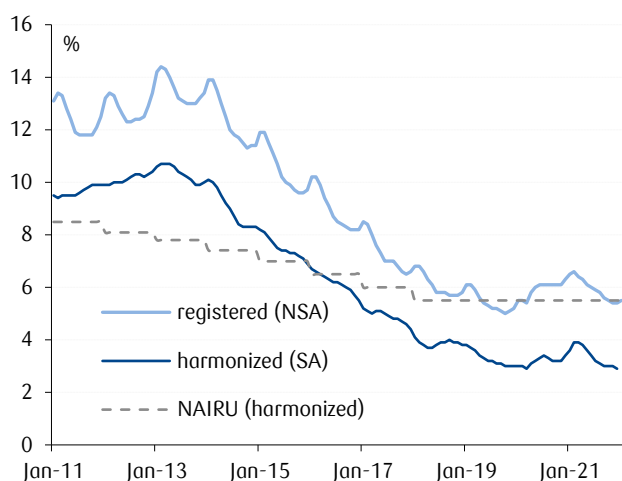
Central government revenues and expenditures*



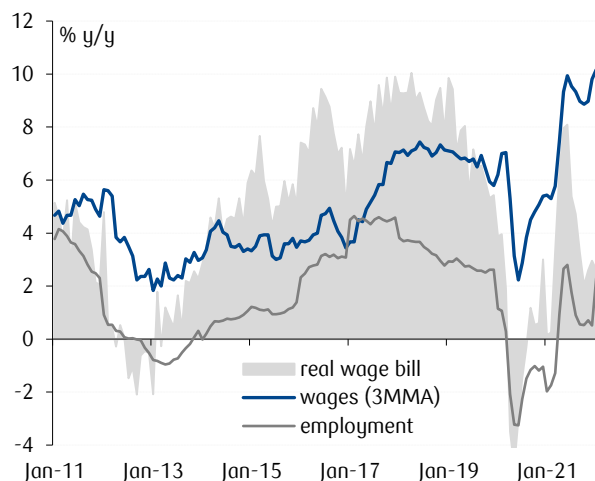
General government balance (ESA2010)



Unemployment rate

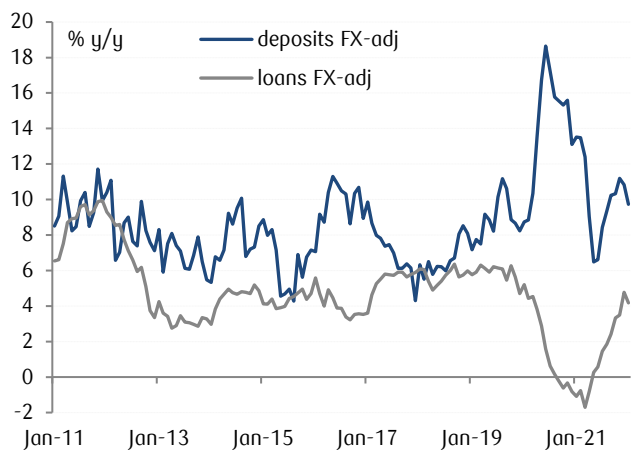


Employment and wages in the enterprise sector

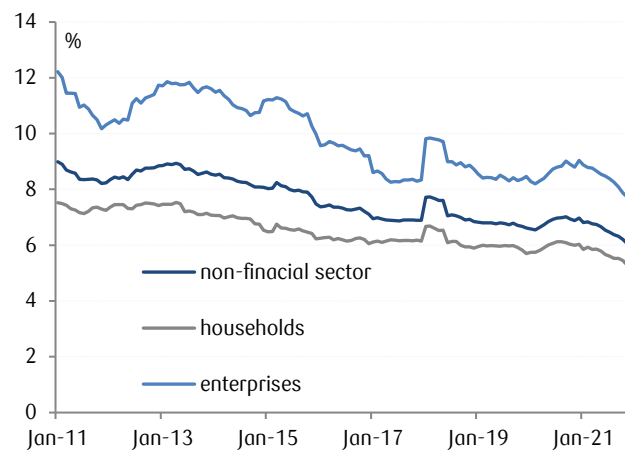


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. *break in series in 2010 due to methodological changes.

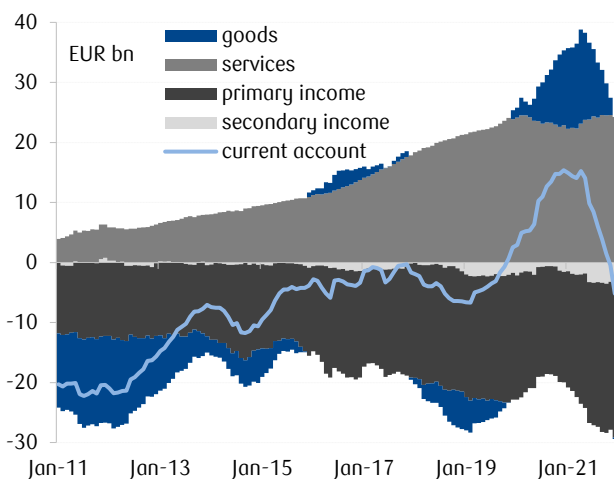
Loans and deposits



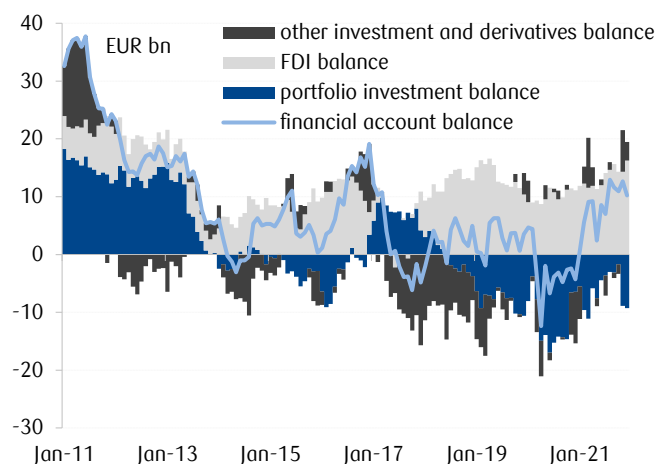
Non-performing loans (NPLs) - by sectors*



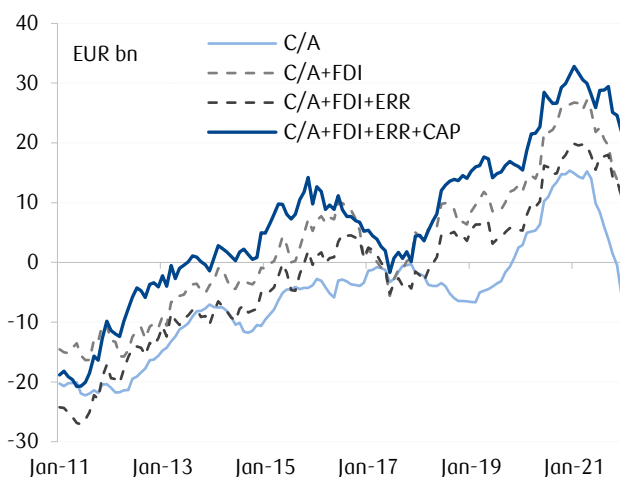
Current account balance



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	4.1	As for now we stick to our GDP forecast at 4.1%, but the uncertainty is extremely high. The war in Ukraine and the economic war between Russia and West creates significant risk factors for the GDP outlook (negative impact of higher inflation, surge in risk aversion limiting private demand and investment activity). 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	7.2*	We put our forecast under revision. Massive increase in prices of commodities and weaker PLN, at least in short term, will neutralise the impact of Anti-inflationary Shields.
Monetary aggregates			
- M3 money supply (%)	8.9	5.6	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)	-0.9	0.3	The C/A is bound to further deteriorate in 1h22, due to the ongoing supply-side related problems of exporters, high prices of imported commodities, and continued revival of import-intensive investments. However, the underlying trend remains positive and we expect C/A to be in surplus again before the end of 2022.
Fiscal policy			
- fiscal balance (% GDP)	-2.4	-1.7	The post-pandemic recovery of the economy has been followed by a rapid improvement of fiscal accounts bringing Poland to the forefront in the EU. Given a high nominal GDP growth in 2022, fiscal policy will have large room for manoeuvre again, already used for Anti-inflation Shields. Despite a rosy aggregate fiscal picture, some tensions inside may appear, especially in the local governments sub-sector. The off-balance items are crucial for the overall fiscal policy stance too. If sustained in 2022, they will be a major spending valve.
Monetary policy			
- NBP reference rate (%)	1.75	4.25	The stagflationary impact of war makes policy choices for monetary authorities more tricky. We stick to our forecast of further tightening, up to 4.25%, but the uncertainty is extremely high. Both alternative scenarios (more massive hikes in the case of strong PLN depreciation as well as a sudden stop to tightening in the case of rising slowdown fears) are likely.

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

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