

## The New (Polish) Deal

### Top macro theme(s):

- **New (Polish) Deal (p. 2):** The governing coalition has presented the Polish Deal – a socio-economic development program for the next years covering a wide scope of aspects. We expect the program to raise the path of economic growth in 2022-23 and to create additional inflationary pressure. In result it might also impact the timetable of monetary policy normalisation.

### What else caught our eye:

- **Core inflation** stood at 3.9% y/y in April amid other measures rising to 2.8%-4.0% y/y (from 2.6-3.9% in March). **PPI inflation** in April shot up to 5.3% y/y but core PPI inflation inched down to 1.8% y/y, from 2.5% y/y in March. That said, supply bottlenecks should simmer inflationary pressures further.
- The **state budget surplus after April hit PLN 9.2 bn**, reflecting a jump in revenues (strong rebound of the nominal GDP) as well as shifts of some spending (incl. transfers to the Social Security Fund, FUS) to the off-budget entities. MinFin T.Koscinski also acknowledged that the state budget may use the fiscal space available in 2021 and shift some of its future expenses into this year (as was the case in 2020).
- Despite **R.Sura comments on the possible need for a rate hike in November**, we don't think other moderate MPC members might support it. G.Ancyparowicz, C.Kochalski have confirmed this week, that their baseline scenario (flat rates for long) remains intact. They suggested the NBP should first taper its QE program before any moves with interest rates.
- **Construction output** in April declined by 4.3% y/y, suffering from pandemic labour shortages and less investment of local govt. Construction was one of a few sectors that worked 'normal' last year so there is no base effect in the data. That said, we see improvement of construction activity ahead.
- Employment in April increased by 0.9% y/y while wages expanded by 9.9% y/y leading to **real wage bill** expansion in April by 6.3% y/y.
- **Both business and consumer sentiment** in May recovered markedly, with manufacturing, trade and transportation returning to the pre-covid levels. Consumers are also much less afraid of unemployment.

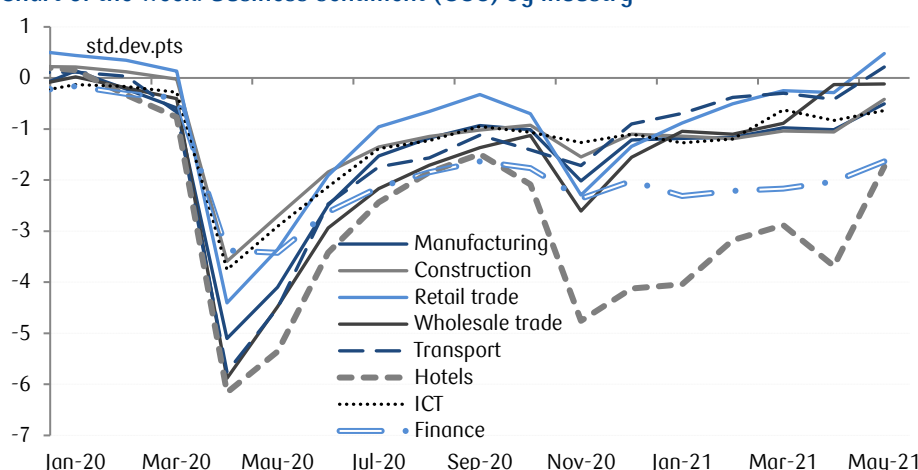
### The week ahead:

- **Industry and retail trade** should record superb growth rates in April in y/y term as they will mostly reflect previous year's lockdown period. That said, we estimate the underlying growth trend of the economy is also robust, in line with our full-year GDP growth forecast (5.1% in 2021).
- **Broad money (M3) supply** growth rate started to cool down in April, on our estimates, amid a sluggish loan origination.

### Number of the week:

- 7 – % of GDP (public) healthcare spending per year target (in 2027).

Chart of the week: Business sentiment (GUS) by industry



Source: GUS, PKO Bank Polski.

### Chief Economist

**Piotr Bujak**

piotr.bujak@pkobp.pl  
tel. +48 22 521 80 84

### Macro Research Team

[@PKO\\_Research](#)

**Marta Petka-Zagajewska**

Senior Economist  
marta.petka-zagajewska@pkobp.pl  
tel. +48 22 521 67 97

**Marcin Czaplicki**

Economist  
marcin.czaplicki@pkobp.pl  
tel. +48 22 521 54 50

**Urszula Krynska**

Economist  
urszula.krynska@pkobp.pl  
tel. +48 22 521 51 32

**Kamil Pastor**

Economist  
kamil.pastor@pkobp.pl  
tel. +48 22 521 81 08

**Michal Rot**

Economist  
michal.rot@pkobp.pl  
tel. +48 22 580 34 22

	2020	2021†
Real GDP (%)	-2.7	5.1
Industrial output (%)	-1.0	12.8
Unemployment rate# (%)	6.2	5.4
CPI inflation** (%)	3.4	4.0
Core inflation** (%)	3.9	3.4
Money supply M3 (%)	16.4	10.5
C/A balance (% GDP)	3.6	3.0
Fiscal balance (% GDP)*	-7.0	-3.4
Public debt (% GDP)*	57.5	56.7
NBP reference rate## (%)	0.10	0.10
EURPLN‡	4.61	4.53

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.

## The New (Polish) Deal

- The governing coalition has presented the Polish Deal – a socio-economic development program for the next years covering a wide scope of aspects.
- It introduces a personal income tax reform, which will make the tax system more progressive, should boost the median disposable income and act as a private consumption stimulus worth app. 1% of private consumption.
- The Deal attempts to cut the housing deficit via increasing the affordability of housing for families with lower income, which – in our view – might make Polish housing market even hotter than it is now.
- The Polish Deal offers a wide range of initiatives which should boost the labour participation rate and raise labour supply.
- Last but not least, the program sets the target for higher health care spending and announces a new investment fund financed by bond issuances.
- We expect the program to raise the path of economic growth in 2022-2023 and to create additional inflationary pressure. As a result, it might also impact the timetable of monetary policy normalisation.

The governing coalition has presented the Polish Deal – a socio-economic development program for the next years. It covers a wide scope of aspects, including – among others – taxes, education, health care, labour market, agriculture and infrastructure investments. The aim of the program is to support the recovery after the pandemic and to create fundamentals for a strong and sustainable GDP growth, which – in result – will increase the Polish GDP per capita to 100% of the EU average (see margin chart). In our view the Polish Deal will boost GDP growth (in short-term mainly via private consumption, in mid-term via higher potential GDP) and create additional inflationary risk. It might also make the Polish housing market even hotter than it is today. As a result, our 2022-2023 GDP and inflation forecast have become conservative (again, even despite we've been more bullish than others).

Below we describe selected initiatives in the program, which – in our view – might have the biggest impact on the economy. We do stress, however, that no bill introducing these changes has been presented so far and in case of many of them we are missing details. Hence, the final version of reforms (their structure, cost and impact) might differ from what we assume in this report.

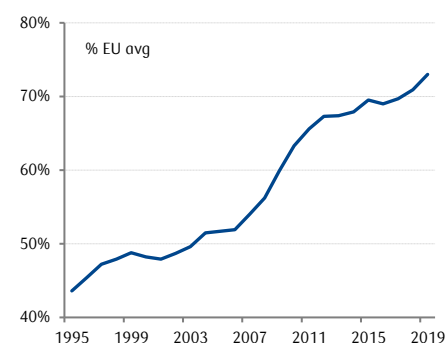
On the demand side, the key proposals include: changes in the taxation as well as the support for the housing market. On the supply / labour market side there is a wide range of changes that should increase the labour participation rate. Finally, on the fiscal policy side, the main change is a declaration to spend 7% of GDP on the health care system.

### 1. PIT reform

The main aim in PIT changes is to make the tax system more progressive and to boost the median disposable income. It will be achieved in two steps. (1) The tax free amount will be increased to PLN 30 ths. per annum (from degressive PLN 8 ths. in 2021), whereas the threshold for the higher PIT rate will be increased from PLN 85.5 ths. to PLN 120 ths. (that is the first increase of the threshold since 2009!). Tax rates will remain unchanged at 17% and 32%. (2) The health care contribution will become linear (at 9% of the income for all types of contracts) and non-deductible from PIT (today 7.75pp of the 9% contribution is deductible).

As a result of these changes almost 18m (68%) of taxpayers are expected to have higher disposable income and to save PLN 23.8bn due to lower PIT liabilities. 2.7m taxpayers (10% of the taxpayers in the last decile in terms of revenues) will lose,

### Poland's GDP per capita (PPS)



Source: Eurostat, PKO Bank Polski.

as their taxes due will increase by PLN 18.7bn. According to the MinFin, the fiscal cost of these two changes will amount to PLN 5-7bn. This is not much taking into account the potential size of a positive impulse for the private consumption, which will be generated due to a huge difference between the propensity to consume between the 50% bottom earners and 10% top earners (we don't have precise estimate for Poland, but for example acc. to [Ch.D.Carrol, J.Slaczalek and K.Tokuoka](#) in the US the propensity to consume is 2 times higher among bottom 50% earners than among top 10%). As a result of the PIT reform, households from the first 5 deciles will gain PLN 12.6bn of additional disposable income. As their marginal propensity to consume is high, this money will most likely be spent. Adding to that 50% of the tax gain in the next 4 deciles the total impact on private consumption generated by this reform might reach PLN 12-18 bn (0.9%-1.4% of the total private consumption in 2020), thus filling in some of the missing PIT income with VAT income.

Apart from the demand side effects, the reform brings some additional advantages. By lowering the tax burden for low-earners it creates additional incentive to enter the labour market or to exit the grey economy. The reform also significantly reduces the preferential tax treatment of the self-employed – a group that is overrepresented on the Polish labour market when compared to the EU average (see margin chart). Under the new regulations 60% of self-employed will pay higher taxes, although their tax and contributions burden (as % of income) will still be app. 10pp lower than in case of a standard labour contract. Thus the reform partially fulfills the [recommendation](#) announced by the OECD in 2019 to 'make the personal income tax more progressive' and to 'end the preferential tax treatment of the self-employed'.

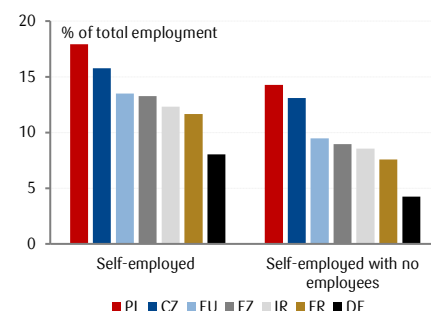
According to the Polish Deal, the PIT reform is just a beginning of massive changes in the personal income tax and contributions system, as the government plans to introduce a single labour contract and to make order contracts a subject to full social security contributions.

## 2. How to reduce the housing deficit

**Lowering the housing deficit is an important target in the Polish Deal.** In 2019 there were 386 dwellings per 1.000 inhabitants in Poland, as compared to around 515 in Germany and France and over 580 in Portugal and Italy (see chart). **The government aims at increasing the affordability of housing for families with lower income** and offers (1) state guarantees for own contribution to mortgage loans worth up to 150 ths. PLN, or (2) a subsidy worth up to PLN 160 ths. for the purchase of social housing or for large families, or (3) a subsidy worth up to PLN 150 ths. for families aged 20-40 with a mortgage and at least 2 children. According to the plan, **around 80 ths. families might benefit from these measures every year.** To prevent the inflationary impact of the program a price limit for a sqm will be introduced. Apart from financial aspects and to affect the supply side of the market, formal requirements for the construction of small houses will be relaxed. It will be allowed to construct a single-family house up to 70 sqm on the basis of notification only. The government expects these tools to boost the number of new dwellings in Poland to 300 ths. per year (from 222 ths. in 2020).

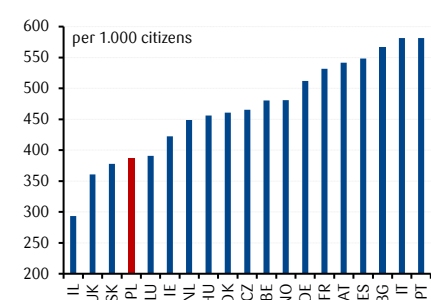
More dwellings and higher affordability of dwellings are the topics that emerge in almost every development plan and political program, but – for the time being – with not much effect. Low (negative in real terms) interest rates make Polish housing market hot and push up prices. Under a restrictive price limit the

### Self-employment



Source: Eurostat, PKO Bank Polski.

### Number of dwellings



Source: Deloitte Property Index 2020

initiatives introduced in the Polish Deal might simply fail to boost construction of new dwellings. With more flexible regulations it will add more fuel and push prices up. **In 2019 Poles bought around 240ths. of residential properties.** Should the target of 80 ths. families with subsidies be met, it will significantly strengthen the demand side of the market.

### 3. Changes impacting the labour supply

We frequently stress the structural change on the Polish labour market, that has transformed from the oversupply of labour (double digit unemployment) to the undersupply (the lowest unemployment rate in the EU). As a result, the economy suffers from rising wage pressure and, in the case of lower-paid professions, becomes migrants-dependent. The undersupply partly results from relatively low labour participation rate (see margin charts), especially among older age groups and among women. The Polish Deal offers a list of initiatives that should push the activity rate up: (1) a 0% PIT rate will be introduced for labour income of taxpayers who stay active on the labour market despite reaching the retirement age; (2) the government will promote part-time employment as a tool to both activate young people and to extend the time of economic activity of the elderly; (3) the government aims to close the wage gap between men and women; (4) a right to more flexibility at work (including: remote work, reduced-time work, more flexible working hours) will be granted for parents in case their kids do not have access to the care institutions. The Polish Deal also introduces *Family Capital* – a benefit granted for two years on the second and subsequent children aged 1-3 years, worth PLN 12 ths. (total) and with no restrictions regarding what it will be spent on. The additional (to PLN 500 monthly payment granted for every child since 2019) benefit for children at a pre-preschool age will definitely make it easier for parents to pay for nursery or a nanny and return to work. We estimate the cost of the Family Capital PLN at 3.6bn (~0.2% of GDP in 2022). According to Eurostat, in 2020 there were 694.3 ths. Poles who kept on working despite reaching the retirement age. Assuming they earn the average wage, the approximate cost of the 0% tax rate for their labour income, according to our estimates and wage forecast, will amount PLN 4-6bn (~0.2% of GDP in 2022).

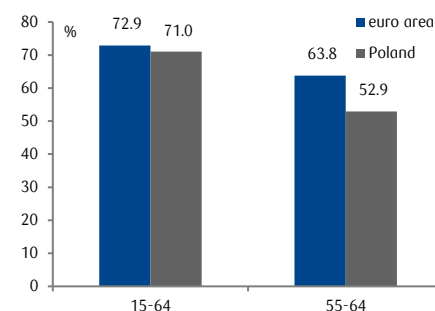
### 4. Higher spending on health care

The Polish Deal sets a target for the public health care spending at 7% of GDP (see chart). It should be reached in 2027, in 2023 the health care spending should account for 6% of GDP (compared to 5.3% in 2020). It means that in nominal terms the health care spending will double compared to PLN 120bn spent on it in 2020. Higher revenues from the new linear health care contribution will be much too low to finance the massive (1.7% of GDP) increase in the health care spending. For the time being no alternative sources to finance it have been mentioned. Thus the plan adds to pressure on the spending side of the public budget in the coming years.

### 5. A new investment plan

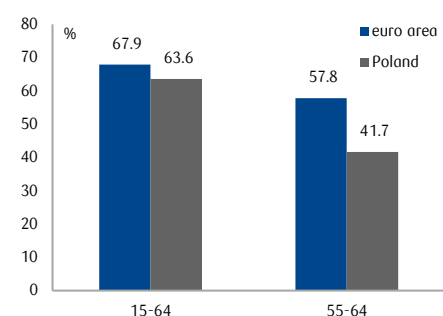
An investment spree in the coming years has been already awaited, even before the presentation of the Polish Deal, due to expected high inflows from the EU budget and NGEU. According to the Deal, the EU-money will be extended by new funds from development bonds issued by the BGK (State Development Bank), but unfortunately no details of this new instrument (including any target value of the program) have been published. Investment activity should focus on modern road and rail transport infrastructure, green public transport, digitisation and digital

### Labour participation rate by age



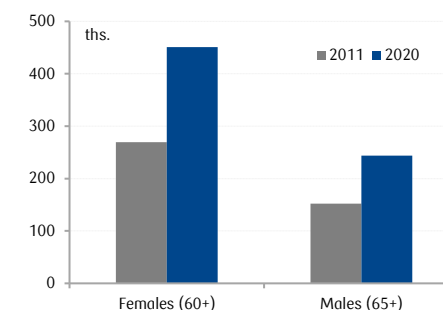
Source: Eurostat, PKO Bank Polski.

### Women participation rate by age



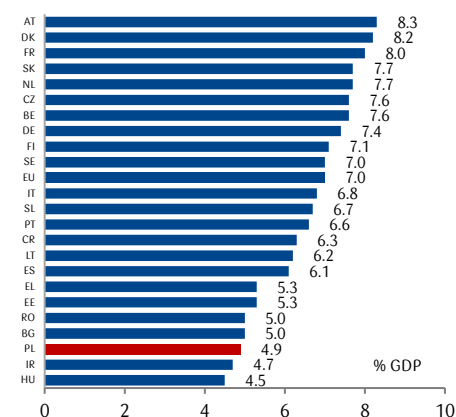
Source: Eurostat, PKO Bank Polski.

### Working Poles who reached the retirement age



Source: Eurostat, PKO Bank Polski.

### Public expenditure on health (COFOG)



Source: Eurostat, PKO Bank Polski. data for 2019

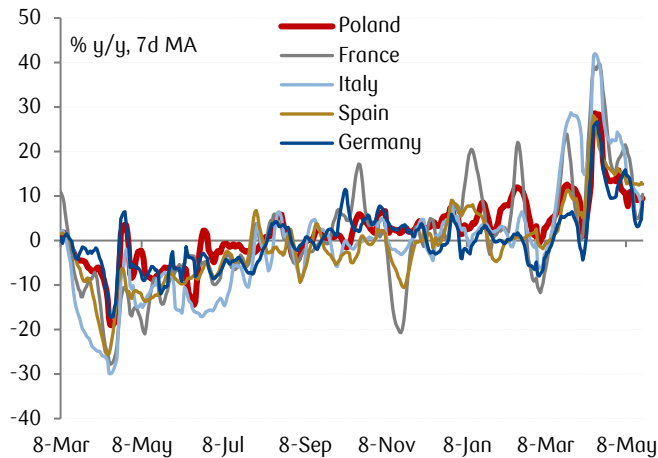
infrastructure, clean energy (including EUR 500m for wind farms), local infrastructure and improved social services (including new nurseries and kindergartens, sport centers and modernisation of health care facilities).

**The cost of the Polish Deal was estimated by the government at PLN 72.4bn annually** (2.7% of GDP in 2022 – acc. to our GDP forecast). Its most expensive element is the healthcare pillar (an annual average of PLN 13.6bn which, however, does not include the expected increase in the public health care spending to 7% of GDP).

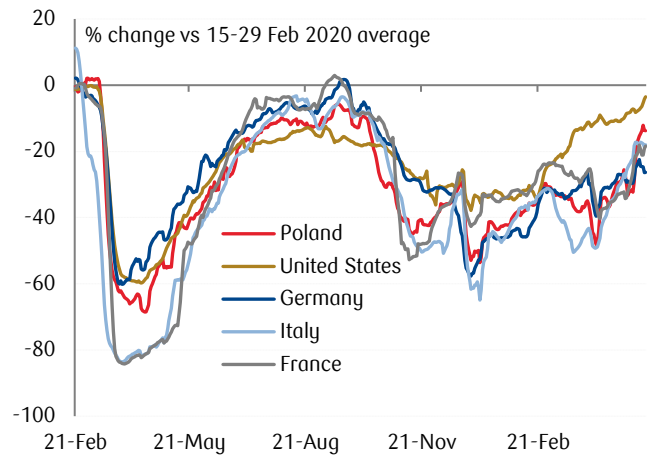
In total, we expect the program to raise the path of economic growth: in the near term, mainly through its pro-demand impact (app. 1pp higher private consumption growth, somewhat higher investment activity), in a longer horizon – through higher labour supply (lack of employees is one of the key challenges currently facing the Polish economy). As a consequence, our medium-term economic forecasts, assuming, inter alia, GDP growth in 2022 by 4.7%, become conservative. We will adjust it as soon as more details become available. Stronger GDP growth, especially with higher private consumption, will most probably add fuel to inflationary pressures. Currently we estimate the average CPI in 2022 at 3.5% – should the tax changes come into force next year, our CPI forecast will be most likely revised upward again. Smooth implementation of the Polish Deal might also impact the monetary policy. Additional demand stimulus and stronger inflationary pressure will increase the likelihood that the MPC will start to normalise the interest rate policy in Poland around mid-2022.

## Macro monitoring with alternative data

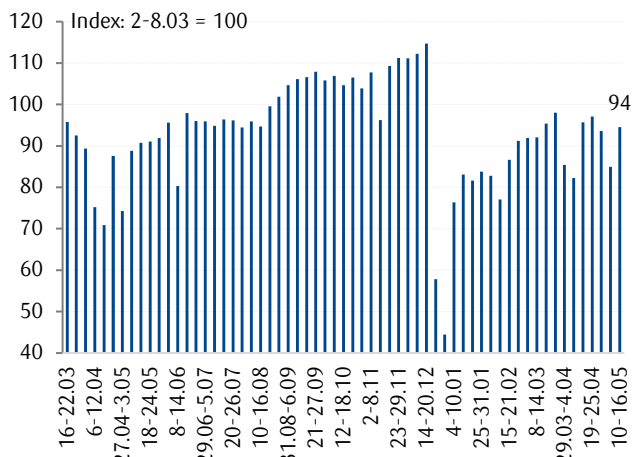
### Electric energy consumption (total)



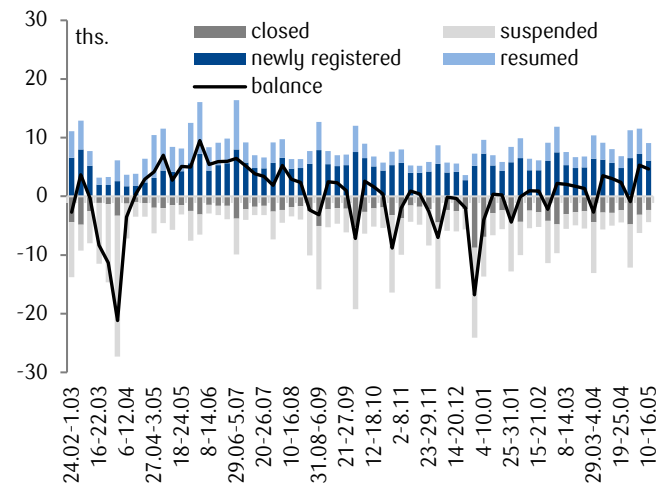
### Mobility\*



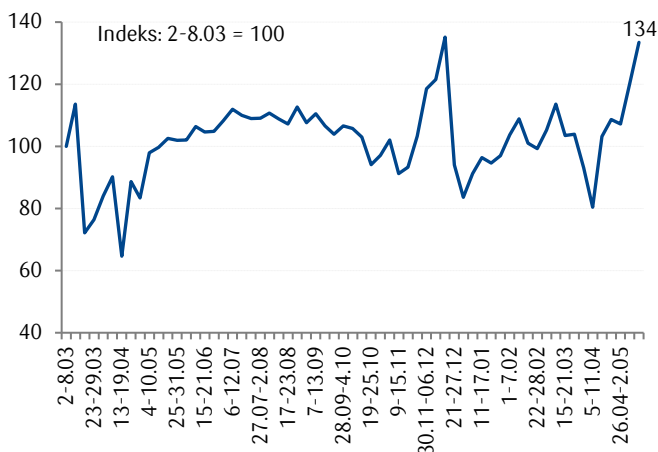
### Heavy truck traffic



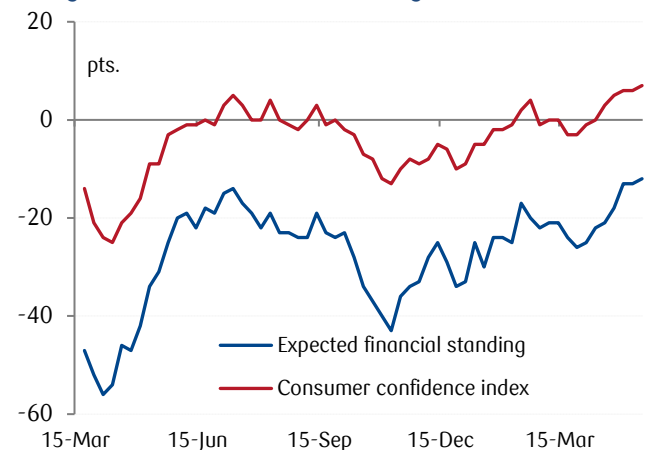
### Economic activity status (acc. to CEiDG\*\*)



### 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, 24 May						
POL: Industrial production (Apr)	9:00	% y/y	18.9	44.0	34.8	A low level of activity in Apr20 (due to lockdown) will drive real economy growth rates sky-high.
POL: Retail sales (Apr)	9:00	% y/y	15.2	25.5	20.5	
Tuesday, 25 May						
GER: GDP growth (1q, fin.)	7:00	% y/y	-2.3	-3.3	--	--
GER: Ifo Business Climate Index (May)	9:00	pts.	96.8	96,9	--	--
POL: Money Supply M3 (Apr)	13:00	% y/y	14.4	12.4	12.7	Loans growth rate was still under water in April.
HUN: MNB meeting	13:00	%	0.60	0.60	0.60	
USA: S&P CoreLogic CS 20-City (Mar)	14:00	% y/y	11.9	--	--	--
USA: New home sales (Apr)	15:00	thous.	1021	995	--	--
USA: Consumer confidence (May)	15:00	pts.	121.7	120.0	--	--
Wednesday, 26 May						
POL: Unemployment Rate (Apr)	9:00	%	6.4	6.3	6.3	Early MinLab estimate suggests that a lockdown in spring has made seasonal hiring difficult.
Thursday, 27 May						
USA: Durable goods orders (Apr, flash)	13:30	% m/m	1.0	0.8	--	--
USA: GDP growth (1q)	13:30	%q/q saar	4.3	6.4	--	--
USA: Personal consumption (1q)	13:30	%q/q saar	2.3	10.7	--	--
USA: Initial Jobless Claims (May)	13:30	thous.	444	--	--	--
Friday, 28 May						
EUR: Consumer Confidence (May, final)	10:00	pts.	-8.1	--	--	--
EUR: Economic Sentiment Indicator (May)	10:00	pts.	110.3	--	--	--
USA: Personal Income (Apr)	13:30	% m/m	21.1	-15.1	--	--
USA: Personal spending (Apr)	13:30	% m/m	4.2	0.4	--	--
USA: Core PCE inflation (Apr)	13:30	% y/y	1.8	2.8	--	--
USA: University of Michigan sentiment (May, final)	15:00	pts.	88.3	82.9	--	--

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



## Selected economic indicators and forecasts

	Feb-21	Mar-21	Apr-21	4q20	1q21	2q21	3q21	2019	2020	2021
<b>Economic activity</b>										
Real GDP (% y/y)	x	x	x	-2.7	-1.2	9.1	5.4	4.7	-2.7	5.1
Domestic demand (% y/y)	x	x	x	-2.9	-2.0	9.1	5.3	3.6	-3.7	4.5
Private consumption (% y/y)	x	x	x	-3.2	0.0	14.8	2.0	4.0	-3.0	6.0
Gross fixed capital formation (% y/y)	x	x	x	-15.4	-6.4	3.0	2.4	6.1	-9.6	1.7
Inventories (pp)	x	x	x	0.6	-1.4	-1.1	1.8	-1.4	-0.5	-0.1
Net exports (pp)	x	x	x	0.4	0.9	1.1	0.7	1.2	0.8	0.9
Industrial output (% y/y)	2.5	18.9	34.8	5.2	7.6	31.3	18.5	4.0	-1.0	12.8
Construction output (% y/y)	-16.9	-10.8	-4.2	-2.4	-12.5	-3.7	3.3	3.6	-2.7	-2.9
Retail sales (real, % y/y)	-3.1	15.2	20.5	-2.8	1.9	6.1	1.3	5.4	-2.7	6.4
Nominal GDP (PLN bn)	x	x	x	651.7	565.9	597.0	635.3	2293	2324	2513
<b>Labour market</b>										
Registered unemployment rate‡(%)	6.5	6.4	6.3	6.2	6.4	5.8	5.4	5.2	6.2	5.4
Employment in enterprises (% y/y)	-1.7	-1.3	0.9	-1.1	-1.7	2.0	1.1	2.7	-1.2	0.6
Wages in enterprises (% y/y)	4.5	8.0	9.9	5.9	5.8	8.6	6.0	6.6	4.8	6.7
<b>Prices^</b>										
CPI inflation (% y/y)	2.4	3.2	4.3	2.7	2.7	4.4	4.3	2.3	3.4	4.0
Core inflation (% y/y)	3.7	3.9	3.9	4.1	3.8	3.5	3.3	1.9	3.9	3.4
15% trimmed mean (% y/y)	2.3	2.9	3.3	2.9	2.6	x	x	1.9	3.9	x
PPI inflation (% y/y)	2.1	3.9	5.3	-0.1	2.3	5.8	6.9	1.2	-0.5	5.6
<b>Monetary aggregates‡</b>										
Money supply, M3 (PLN bn)	1836.6	1862.9	1863.4	1822.7	1862.5	1906.2	1936	1565.6	1822.7	2013.7
Money supply, M3 (% y/y)	16.3	14.4	12.7	16.4	14.4	9.2	9.9	8.3	16.4	10.5
Real money supply, M3 (% y/y)	13.5	10.9	8.1	13.4	11.3	4.5	5.4	5.8	12.6	6.2
Loans, total (PLN bn)	1336.6	1344.0	x	1333.9	1344.0	1353.3	1375.0	1323.6	1333.9	1384.9
Loans, total (% y/y)	-0.2	-1.7	x	0.8	-1.7	0.9	2.8	5.1	0.8	3.8
Deposits, total (PLN bn)	1644.3	1670.0	x	1602.2	1670.0	1694.6	1721.9	1406.8	1602.2	1735.6
Deposits, total (% y/y)	13.7	12.5	x	13.9	12.5	4.7	5.8	8.2	13.9	8.3
<b>Balance of payments</b>										
Current account balance (% GDP)	3.7	3.8	3.4	3.5	3.8	3.1	3.1	0.5	3.5	3.0
Trade balance (%GDP)	2.5	2.6	2.5	2.4	2.6	2.5	2.2	0.2	2.4	1.9
FDI (% GDP)	1.3	1.1	1.1	1.4	1.1	1.0	1.2	1.6	1.4	1.6
<b>Fiscal policy</b>										
Fiscal balance (% GDP)	x	x	x	x	x	x	x	-0.7	-7.0	-3.4
Public debt (% GDP)	x	x	x	x	x	x	x	45.6	57.5	56.7
<b>Monetary policy‡</b>										
NBP reference rate (%)	0.10	0.10	0.10	0.10	0.10	0.10	0.10	1.50	0.10	0.10
NBP lombard rate (%)	0.50	0.50	0.50	0.50	0.50	0.50	0.50	2.50	0.50	0.50
NBP deposit rate (%)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.50	0.00	0.00
WIBOR 3M* (%)	0.21	0.21	0.20	0.21	0.21	0.20	0.20	1.71	0.21	0.20
Real WIBOR 3M* (%)#	-2.23	-2.97	-4.10	-2.44	-2.53	-4.24	-4.10	-0.58	-3.06	-3.78
<b>Exchange rates*‡</b>										
EUR-PLN	4.52	4.66	4.57	4.61	4.66	4.57	4.55	4.26	4.61	4.53
USD-PLN	3.72	3.97	3.77	3.76	3.97	3.84	3.79	3.80	3.75	3.71
CHF-PLN	4.12	4.21	4.15	4.26	4.21	4.15	4.14	3.92	4.25	4.08
EUR-USD	1.21	1.17	1.21	1.23	1.17	1.19	1.20	1.12	1.23	1.22

Source: GUS, NBP, PKO Bank Polski.

\*PKO 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^
K. Zubelewicz	4.8	"Polish MPC would rethink easy-money preferences only on outlook for long-term lasting inflation above 4% (...) Polish MPC will likely stick to bias for "lowest possible interest rates" and "weak zloty," chances for rate normalization "near zero" (26.01.2021, PAP)
E. Gatnar	4.5	"If inflation solidifies, I will be thinking about slight, gradual normalization, about interest rate hikes, (...) I am in favor of gradually showing Poles that we notice inflation and care about Poles' money, [PAP: so that] their inflation expectations are not de-anchored," (13.05.2021, PAP)
L. Hardt	4.2	"One should consider a harbinger interest rate hike by ca. 15 bps, already in the nearest future, meant to anchor inflation expectations". (13.05.2021, PAP)
J. Kropiwnicki	3.2	"I do not think that a motion for an interest rate hike could earn my support to the end of my term in the Council that expires in January 2022" (12.05.2021, PAP).
C. Kochalski	2.2	<b>"Inflation in Poland should decline in the medium term and there is no need to start a cycle of interest rate hikes (...) rates may remain unchanged until the end of the term of the Monetary Policy Council early next year" (19.05.2021, Refinitiv).</b>
R. Sura	2.1	<b>"For me, the most important forecast document will be the inflation and GDP projection in November (...) If this document indicates that inflation in 2022 and 2023 will lastingly exceed 3.5% and will be heightened by demand factors, that is the ones MPC has impact on via interest rates, then I will point to the need of increasing rates. For now, while headline inflation will remain above the upper end of the target range, (...) base inflation is expected to decline in H2 (18.05.2020, PAP).</b>
G. Ancyparowicz	1.8	<b>"If we were to tighten monetary policy, we would have to somehow signal first that the bond-buying program is going to end and it's not yet the time for that" (18.05.2021, Biznes24.tv, Bloomberg)</b>
A. Glapinski	1.5	"Interest rate cuts are not an option at the moment, there is the question of policy normalization. (...) For now, rate stability to the end of the term is the most likely scenario. (...) The NBP will first announce the end of quantitative easing and only then there will be measures concerning interest rates. (...) We will likely start thinking about it mid-next year, I recommend calm until then" (07.05.2021, PAP)
J. Zyzynski	1.5	"When the main pandemic restrictions are lifted, which is to take place on May 29, it will be possible to consider closing the asset purchases program, and shortly after that this program might be extinguished. Of course, one should take into account, to some extent, heightened inflation expectations, which in truth are difficult to grasp, but a one-off rate hike by, let's say, 10-15 bps could be considered in order to anchor them." (13.05.2021, PAP)
E. Lon	1.1	"Poland will likely hold its interest rates intact to the end of the term of the current MPC lineup and will continue asset purchases indefinitely" (14.05.2021, Bloomberg, 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.

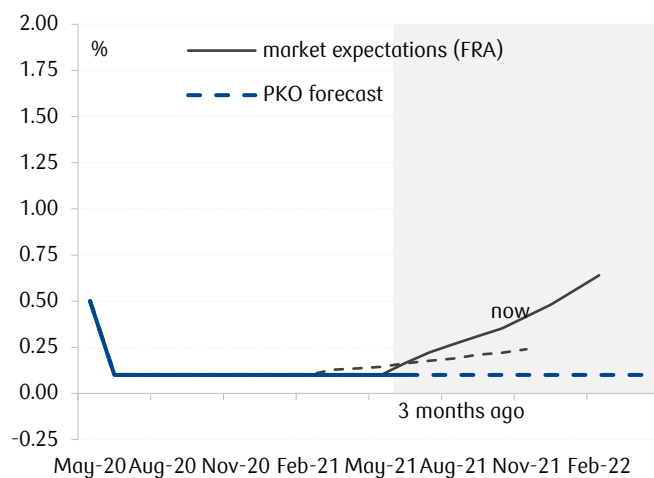
### Interest rates – PKO BP forecasts vs. market expectations

		1M	2M	3M	4M	5M	6M	7M	8M	9M
Date	20-May	20-Jun	20-Jul	20-Aug	20-Sep	20-Oct	20-Nov	20-Dec	20-Jan	20-Feb
WIBOR 3M/FRA†	0.21	0.28	0.33	0.38	0.42	0.46	0.53	0.59	0.67	0.75
implied change (b. p.)		0.07	0.12	0.17	0.21	0.25	0.32	0.38	0.46	0.54
MPC Meeting	5-May	9-Jun	8-Jul	-	8-Sep	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*		0.17	0.22	0.27	0.31	0.35	0.42	0.48	0.56	0.64

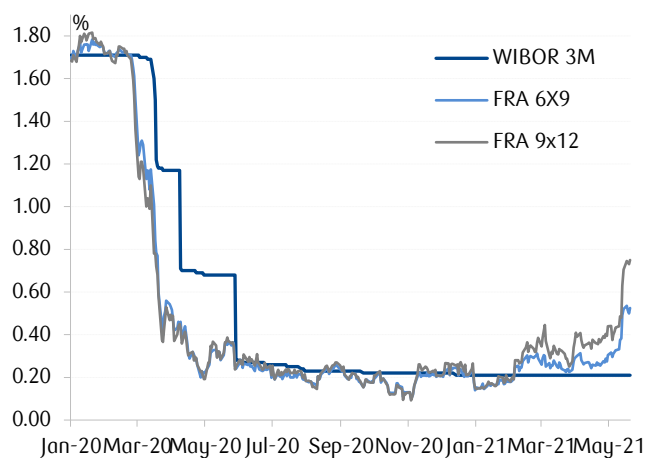
†WIBOR 3M from the last fixing, FRA transactions based on WIBOR 3M for subsequent periods, ‡in basis points, \*PKO BP forecast of the NBP reference rate.

## Poland macro chartbook

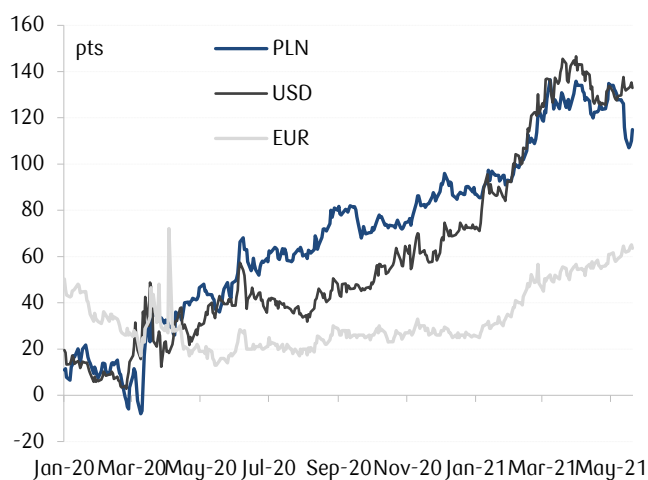
NBP policy rate: PKO BP forecast vs. market expectations



Short-term PLN interest rates



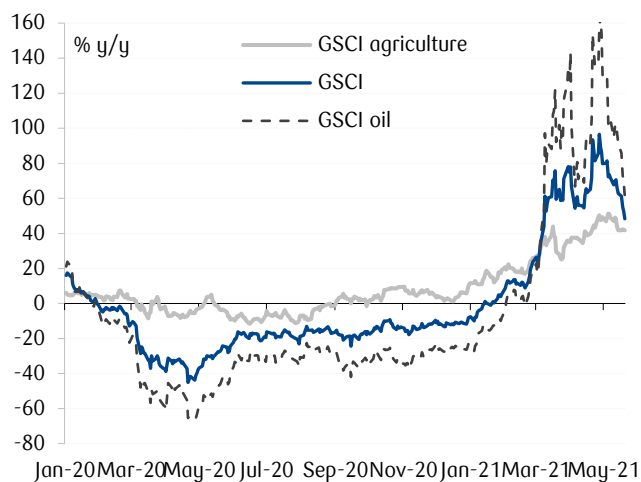
Slope of the swap curve (spread 10Y-2Y)\*



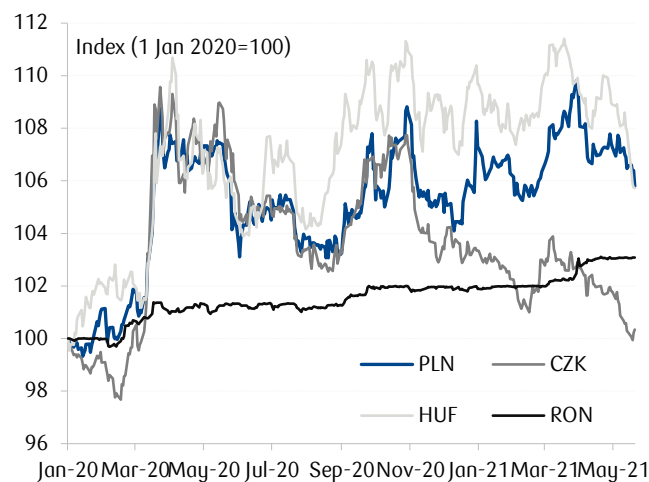
PLN asset swap spread



Global commodity prices (in PLN)

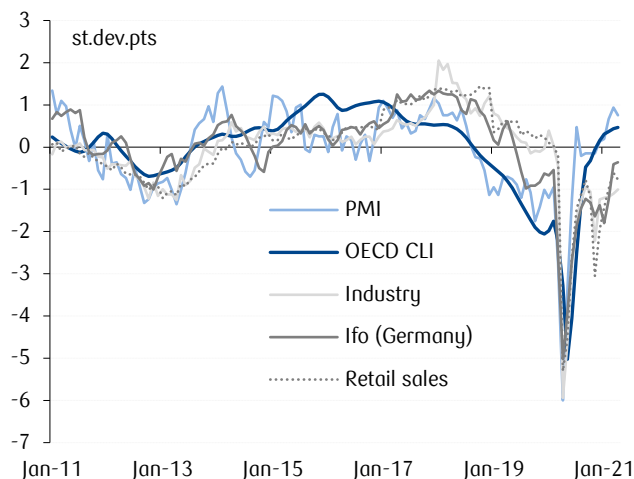


Selected CEE exchange rates against the EUR

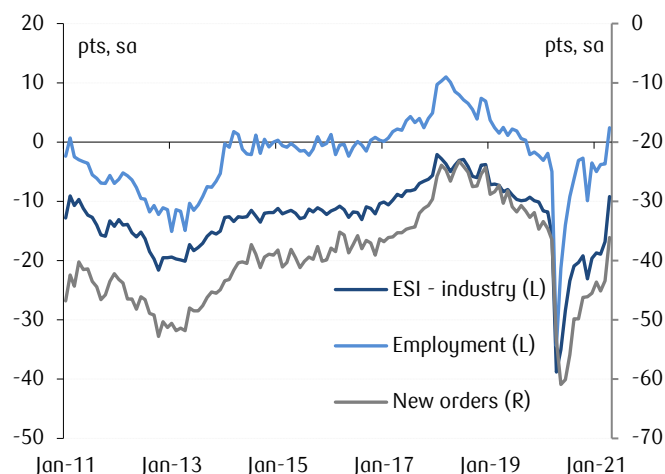


Source: Datastream, NBP, PKO Bank Polski. \*for PLN, and EUR 6M, for USD 3M.

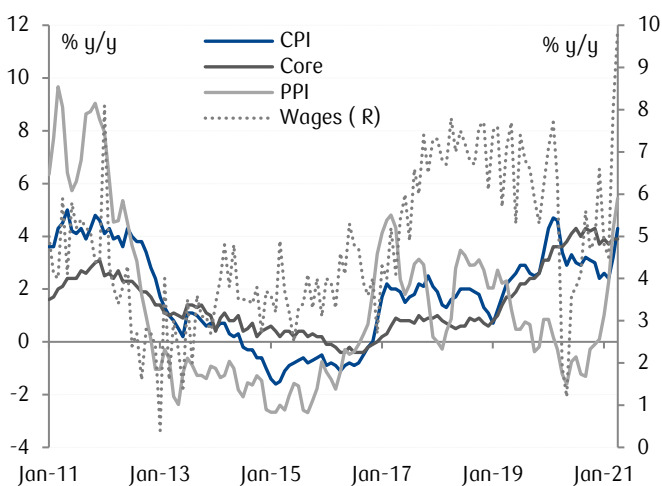
## Economic sentiment indicators



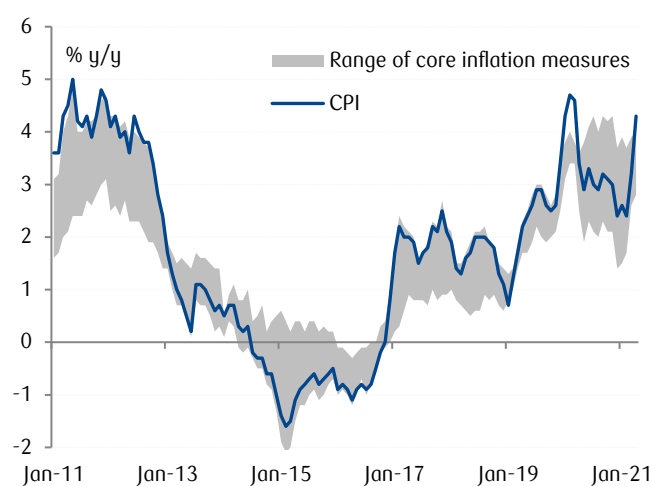
## Poland ESI for industry and its components



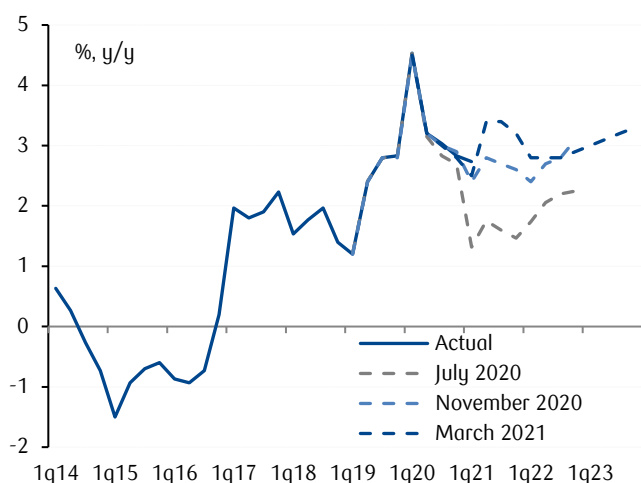
## Broad inflation measures



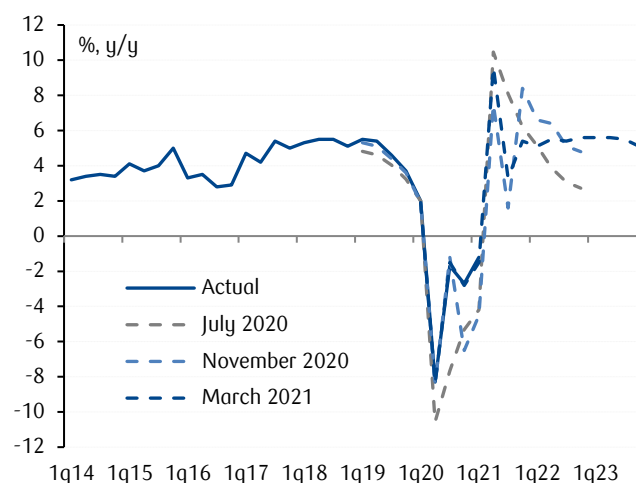
## CPI and core inflation measures



## CPI inflation – NBP projections vs. actual

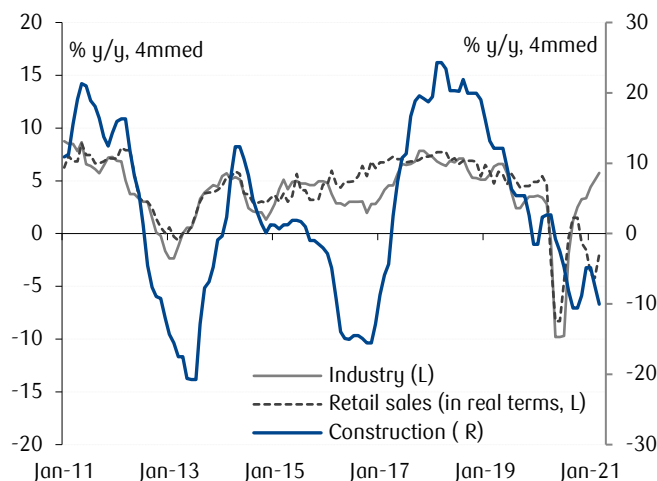


## Real GDP growth – NBP projections vs. actual

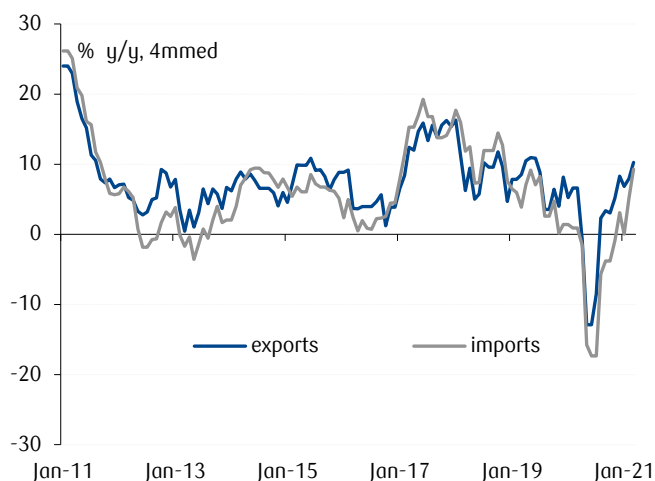


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

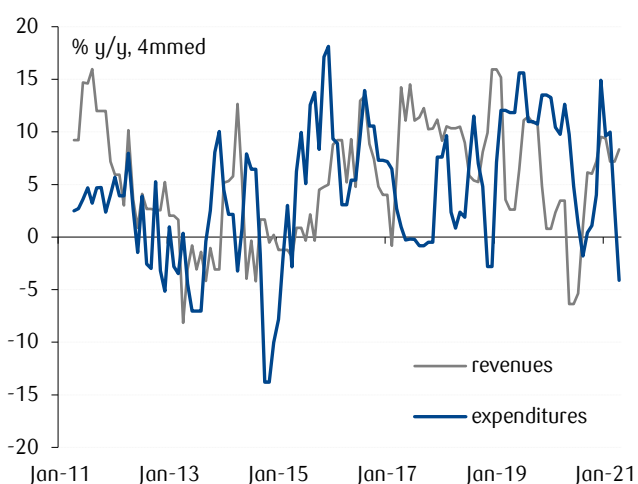
## Economic activity indicators



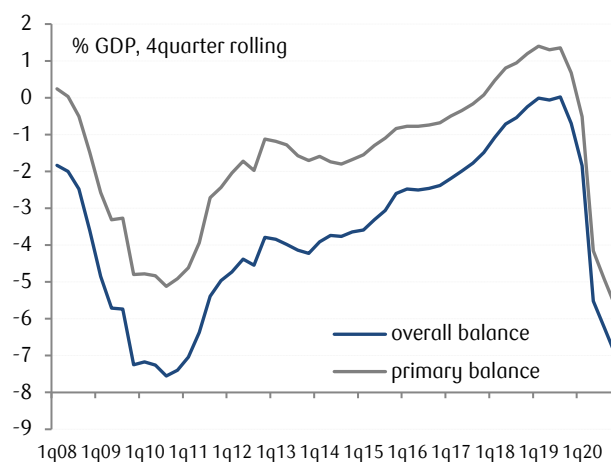
## Merchandise trade (in EUR terms)



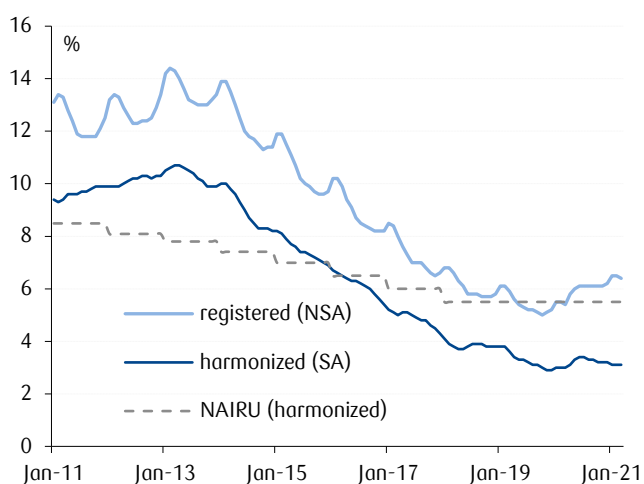
## Central government revenues and expenditures\*



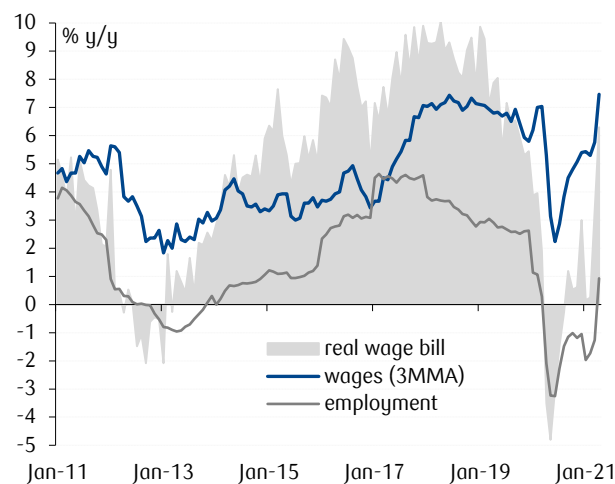
## General government balance (ESA2010)



## Unemployment rate

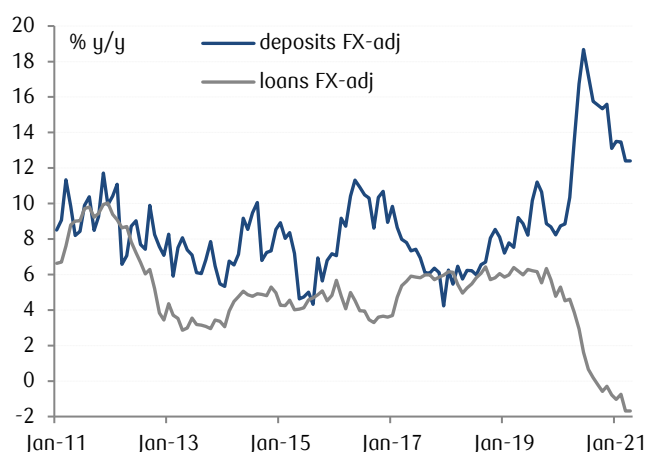


## Employment and wages in the enterprise sector

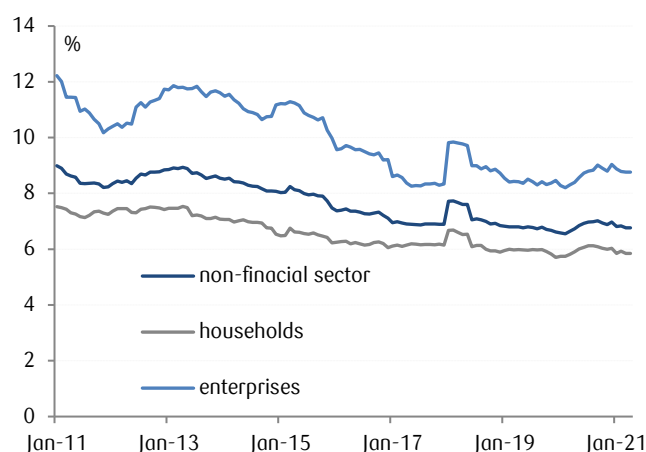


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. \*break in series in 2010 due to methodological changes.

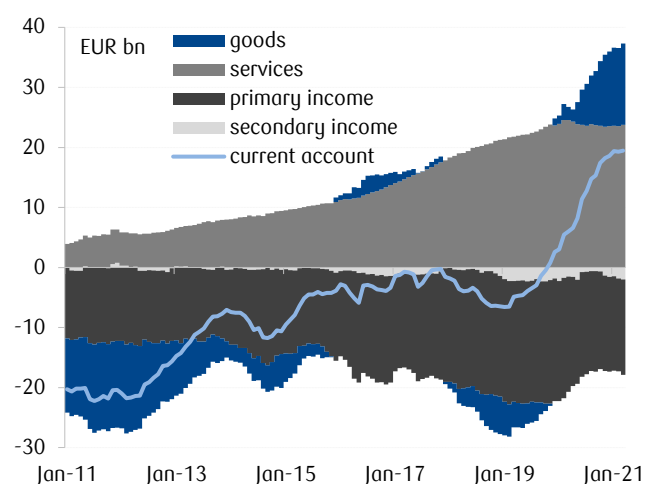
## Loans and deposits



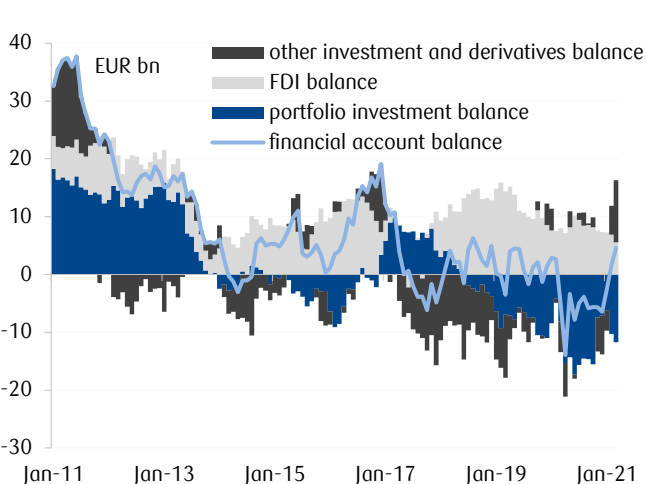
## Non-performing loans (NPLs) – by sectors\*



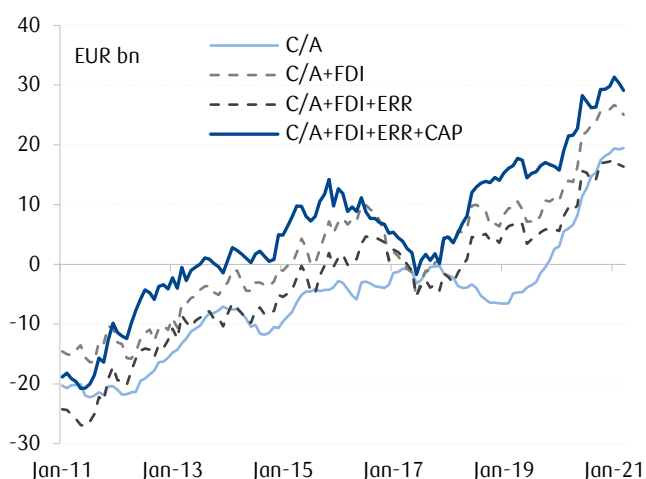
## Current account balance



## 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.

## Previous issues of PKO Macro Weekly:

- [Fasten your seatbelts, please](#) (May 14, 2021)
- [Lift-off](#) (May 7, 2021)
- [To the moon!](#) (Apr 30, 2021)
- [What's the score?](#) (Apr 23, 2021)
- [Inflation rears its head yet again](#) (Apr 16, 2021)
- [Inside the NBP's comfort zone](#) (Apr 9, 2021)
- [Locked-down Easter](#) (Mar 26, 2021)
- [The third wave hits the economy](#) (Mar 19, 2021)
- [Choke points in focus](#) (Mar 12, 2021)
- [Blueprint for Recovery](#) (Mar 5, 2021)
- [This time is \(really\) different](#) (Feb 26, 2021)
- [Bottlenecks, winter and lockdowns](#) (Feb 19, 2021)
- [Green fiscal island](#) (Feb 12, 2021)
- [Spotlight: fiscal stance](#) (Feb 5, 2021)
- [2020 better than feared, bounce back ahead](#) (Jan 29, 2021)
- [Labour waves goodbye to difficult year](#) (Jan 22, 2021)
- [Housing frenzy exposes some perils of ultralow rates](#) (Jan 15, 2021)
- [New Year's sale at the NBP](#) (Jan 08, 2021)
- [Surplus economy](#) (Dec 18, 2020)
- [Deal done](#) (Dec 11, 2020)
- [Bumpy road to recovery](#) (Dec 4, 2020)
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- [Reflections on the pandemic and inflation](#) (Nov 20, 2020)
- [Shadow rate below zero](#) (Nov 13, 2020)
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- [Fearless?](#) (Oct 23, 2020)
- [How deep is the second dip?](#) (Oct 16, 2020)
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- [Inflation is not letting go](#) (Oct 2, 2020)
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- [Better than feared](#) (Sep 4, 2020)
- [Labour market at a crossroads](#) (Aug 28, 2020)
- [Is the crisis over?](#) (Aug 21, 2020)
- [Cash is king](#) (Aug 7, 2020)

## Poland's macro in a nutshell

	2020	2021	Comment
<b>Real economy</b>			
- real GDP (%)	-2.7	5.1	Despite a more difficult-than-expected start of the year, we still forecast a strong rebound in the domestic economy in 2021. The global recovery supports Poland's exports. We still believe that consumption (along with easing restrictions) and "shifted" fiscal stimulation will be an important driver of growth this year. 1q21 will be the last quarter of negative GDP growth rate. 2q21 will be determined by a low base. In 2h21 a longer period of GDP growth will begin, driven by fiscal, monetary and trade impulse and a decline in the savings rate, followed by an inflow of EU funds.
<b>Prices</b>			
- CPI inflation (%)	3.4	4.0	The sudden rise in CPI which occurred in March and April means, that it will stay around 4.0% level throughout the rest of the year, with a peak in May, at around 4.5%. Rising regulated prices, energy and food prices will keep the CPI at elevated levels despite expected moderation in core CPI.
<b>Monetary aggregates</b>			
- M3 money supply (%)	16.4	10.5	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.
<b>External balance</b>			
- current account balance (% GDP)	3.6	3.0	The balance of payments has become the main strength of Poland's macroeconomic fundamentals. Polish companies are successfully gaining the market share in global trade and Polish exports are breaking new records on a regular basis. Poland has become a net exporter, which is a hugely important structural change, that increases the room for maneuver in both monetary and fiscal policy.
<b>Fiscal policy</b>			
- fiscal balance (% GDP)	-7.0	-3.4	We see no threat to the sustainability of the public finances. In our view Poland, as a competitive economy with high GDP growth potential and moderate inflation, will begin to quickly 'outgrow' the public debt, which has increased due to pandemic.
<b>Monetary policy</b>			
- NBP reference rate (%)	0.10	0.10	Despite high inflation NBP monetary policy will not be exciting. In our baseline scenario we still assume that NBP interest rates will remain unchanged even after 2021, and that the MPC will continue its asset purchases program. Nevertheless, as the economy recovers and relatively high inflation persists, the market might start to expect that monetary policy normalization will start in Poland even before the major central banks will start to tighten their policies.

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

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