

Inflation dilemma could reignite policy tightening

Top macro theme(s):

- **Inflation dilemma could reignite policy tightening (p. 2):** According to our estimates, the new NBP projection will show lower GDP growth path in the short-run and a higher CPI inflation path within the next few quarters. However, the headline inflation rate should continue to 'converge' to the target level towards the end of the projection horizon. CPI projection might be outdated from the very start after inflation unexpectedly skyrocketed to 6.8% y/y in October. Given the latest news, we expect the MPC to deliver 50bp hike in November.

What else caught our eye:

- **Unemployment rate has been confirmed at 5.6% in September** (vs. 5.8% in August). We expect the downward trend to continue in October (to 5.5%).
- **Flash CPI showed yet another surge in inflation** (6.8% y/y in October vs. 5.9% in September), on core items and both fuel and energy prices. Acc. to our estimates core inflation jumped to 4.5-4.6% y/y.
- **Economic sentiment improved in October** acc. to the StatOffice's synthetic indicator. In many sectors increasing problems with commodities and industrial supplies hamper economic expansion and lead to mounting inflationary pressure.
- **The number of Poles living abroad decreased by 176k in 2020** marking the 3rd consecutive year of higher number of Poles coming back home than leaving the country. Reemigration increases the labour force and supports the consumption boom. The print has brought some controversies though, as the number may not reflect actual movements due to some brexit-related procedures.

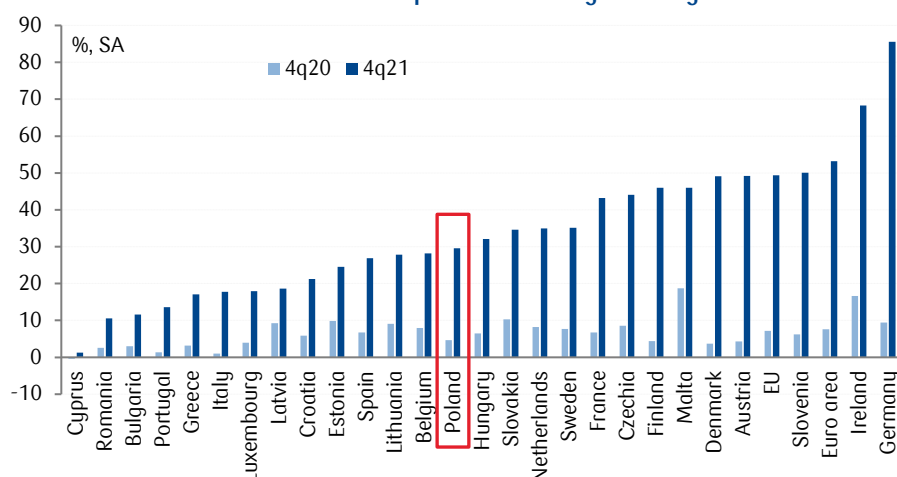
The week ahead:

- **We do not expect Moody's to revise Poland's credit rating today** (A2 stable), despite fears that the European Commission may curtail some payments of EU funds to Poland.
- **Manufacturing PMI likely declined again**, driven by mounting supply pressure, as well as increasing prices of production components.
- **MPC will likely hike interest rates by 50bp next week.** The decision is a close call though, with high inflation suggesting aggressive hikes, and mounting GDP risks (pandemic, global slowdown) suggesting caution.

Number of the week:

- **47.6bn PLN** – a (record) central budget surplus after September, vs. 40.5 bn deficit planned for the whole year.

Chart of the week: Where do the components shortages limit growth the most?



Source: Eurostat, PKO Bank Polski.

Chief Economist

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

Macro Research Team

[@PKO_Research](https://twitter.com/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 (%)	-2.5	5.4
Industrial output (%)	-1.0	13.2
Unemployment rate [#] (%)	6.2	5.8
CPI inflation ^{**} (%)	3.4	4.9
Core inflation ^{**} (%)	3.9	4.1
Money supply M3 (%)	16.4	9.0
C/A balance (% GDP)	2.9	0.0
Fiscal balance (% GDP)*	-7.1	-1.7
Public debt (% GDP)*	57.4	56.8
NBP reference rate ^{##} (%)	0.10	1.00
EURPLN ^{‡##}	4.61	4.56

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.

Inflation dilemma could reignite policy tightening

- The new NBP projection for GDP growth and CPI inflation will be presented to the Polish MPC at its meeting next Wednesday (Nov., 3rd).
- According to our estimates, the new projection will show a lower path of GDP growth in the short run and much higher CPI inflation within the next few quarters.
- That said, the headline inflation rate should continue to 'converge' to the target level towards the end of the projection horizon and stay within permissible volatility band.
- CPI projection might be outdated from the very start after inflation unexpectedly skyrocketed to 6.8% y/y in October.
- Given the latest news, we expect the MPC to deliver 50bp hike in November.

The MPC will get acquainted with the fresh November inflation projection exercise next week. According to our estimates, the new projection will show a lower path of GDP growth in the short run and a higher CPI inflation path within the next few quarters.

A potential downward revision of the GDP path will, in our opinion, be concentrated mainly on the short-term horizon and result from weaker investments and consumption growth rates. Indeed, investments surprised to the downside already in 2q21. Additionally the Domestic Recovery Plan, already included into the 2021 GDP growth calculus in July, will most likely be delayed. We think that spending, previously planned for 2021, will be included in 2022 GDP calculations. On the other hand, consumption, poised for fast expansion in July projection (6.0% in 2022 in real terms), will suffer from a higher inflation, as the shock will only partially be absorbed by higher wages growth rate.

We estimate that CPI inflation path will be lifted, but not for 2023. The upward revision of inflation projection in 2021 and 2022 will mainly mirror exogenous factors such as food and energy prices. These factors will cause a transitory inflation outbreak (which has already kicked-off in summer) at end-2021/start-2022. Additionally, core inflation in the short term should also be higher reflecting higher than previously expected readings in 3q21. Wage acceleration and second round effects of energy prices will also likely keep core inflation at elevated level in 1h22. Given that futures market show a normalization of energy and agricultural commodity prices we think it will also be reflected in energy and food price assumptions in the projection. The forecasted adjustment in the inflation components means that the CPI inflation could reach the target in mid-2023, and we do not expect the NBP to show the headline inflation rate going above the 3.5% in the long run (it's more likely that it will approach the upper bound of the target again).

If our expectations as to the shape of the new projection are confirmed (it will also depend, among others, on the "strength" of the so-called expert corrections), it may place the MPC on a bit harder decision-making position (aggressive hikes are not that straight forward as it would seem). On the other hand however, the surprisingly high fresh inflationary data might mean, that (because of the early cut-off date), the (not yet announced) **CPI projection might be outdated from the very start** (with 4q21 CPI estimate more than 0.5pp below the current market expectations).

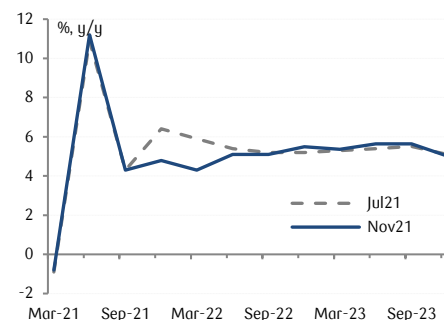
CPI inflation skyrocketed to 6.8% y/y in October from 5.9% in September - much above what was expected in early October, when forecasts on passing the 6%

Key changes between July and November projections

		%		
		2021	2022	2023
Investments	Jul	8.2	10.5	10.2
	Nov	6.3	10.1	9.3
Consumption	Jul	5.5	6.0	5.6
	Nov	5.4	5.5	6.1
GDP	Jul	5.0	5.4	5.3
	Nov	4.9	5.0	5.4
Wages	Jul	8.1	7.8	7.9
	Nov	8.4	8.2	7.9
Core inflation	Jul	3.6	3.2	3.5
	Nov	3.8	3.5	3.5
CPI inflation	Jul	4.2	3.3	3.4
	Nov	4.6	4.3	2.7
Energy prices	Jul	9.1	5.0	3.4
	Nov	10.7	4.3	2.5
Food prices	Jul	2.4	2.7	3.2
	Nov	2.8	5.6	1.3

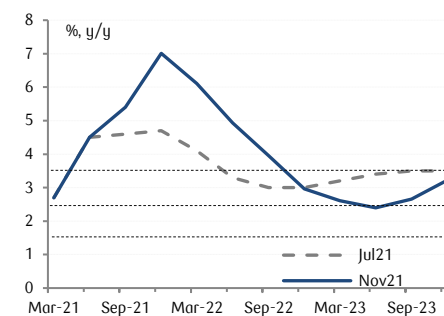
Source: NBP, PKO Bank Polski. PLEASE NOTE that these expectations not necessarily reflect our forecasts.

GDP growth projections



Source: NBP, PKO Bank Polski.

CPI inflation projections



Source: NBP, PKO Bank Polski.

threshold started to prevail; as well as much above the consensus (6.5%), reflecting the most recent market expectations. That said CPI inflation is the highest since May 2001, and on its way to pass 7% (in November) and reach 8% in early 2022 (assuming no legal curbs on electricity bill hikes). It should be stressed that the inflationary process has become more and more unpredictable, as the October print has been the 4th in a row when the print has exceeded the market consensus by 0.2-0.3pp.

Inflation has been driven by all the main factors in October. Food prices increased by 0.5% m/m (above the seasonal pattern), due to a combination of weaker crops (that might have pushed up the prices of vegetables, cereals, fats, as well as dairy products), as well as increasing costs (energy and labour) driving the prices of processed food. That said we see a potential for food inflation to reach 7% y/y in early 2022 (vs. current 4.9%), with some additional risks stemming from the impact of higher energy prices on greenhouse products. We cannot exclude that food inflation would remain elevated in 2022, due to the costs of fertilizers.

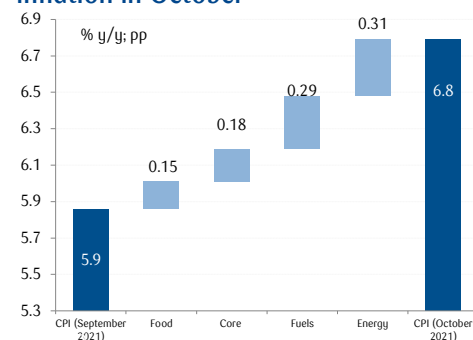
The biggest surprise came from the prices of energy that surged by 3.0% m/m. As the expected hike of gas tariff does not explain even a third of this move, we see a potential impact from increasing prices in unregulated sectors (first of all heating coal). We see the energy prices increases to extend to November, being an important factor behind the expectation, that the headline inflation might surpass the 7% threshold in the headline print next month.

Fuel prices increased by 3.1% m/m, below our expectations, based on the information from the retail market. Hence, we cannot exclude that the final reading might be revised up, when the data for the last week of October reaches the StatOffice. As the future is concerned, the oil prices stabilization around 85 USD/b for Brent, means that the fuel prices will likely no longer contribute to increasing inflation.

Finally, the core inflation jumped (on our estimates) to 4.5-4.6% y/y from 4.2% in September. The structure of the previous prints shows that the growth of underlying inflation is broad-based, reflected in the vast majority of the categories. We expect these trends to continue, with core inflation reaching 5% within a few months. Our expectations are supported by mounting wage pressure as reflected by the latest polls of the NBP showing that the expectations for wage hikes (among companies) are the highest in the history of the survey (since mid-2000s).

Taking it all into consideration we see inflation mounting to 7% in November and 8% in January (given no legal curbs on electricity bill hikes). In the entire year, we see inflation reaching an average 6+% level, much higher than the already elevated 4.9% in 2021. **Given the latest news, we expect the MPC to deliver 50bp hike in November.** That said much uncertainty surrounds the consecutive moves, as the MPC is about to be almost entirely replaced in early 2022. We cannot exclude further hikes in the last months of the current Council term, as the CPI inflation is more likely to surprise to the upside than in any other direction during the upcoming months. Nonetheless, **we expect the new MPC to continue the rate-hiking cycle, and expect the reference rate to reach 2.00% at the end of 2022, above the 1.50% level before the pandemic.**

The decomposition of changes to CPI inflation in October



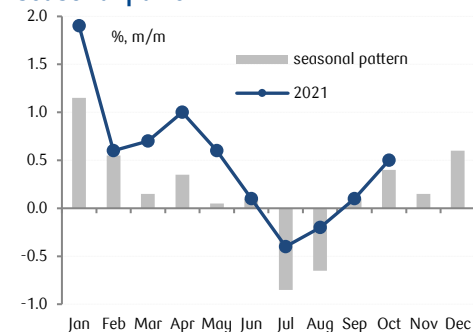
Source: GUS, PKO Bank Polski.

Supercore CPI inflation*



Source: GUS, NBP, PKO Bank Polski. *Core CPI inflation excluding prices of other regulated goods and services.

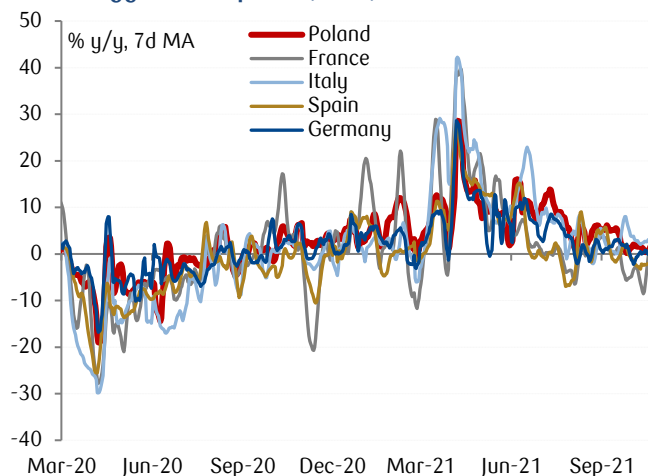
Monthly changes of food prices vs. seasonal pattern



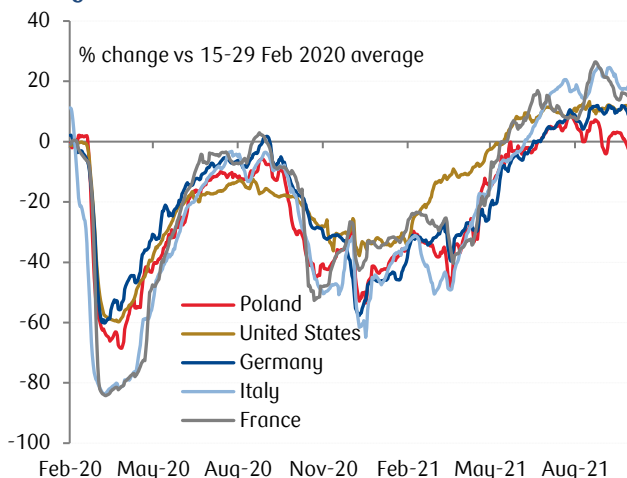
Source: GUS, PKO Bank Polski.

Macro monitoring with alternative data

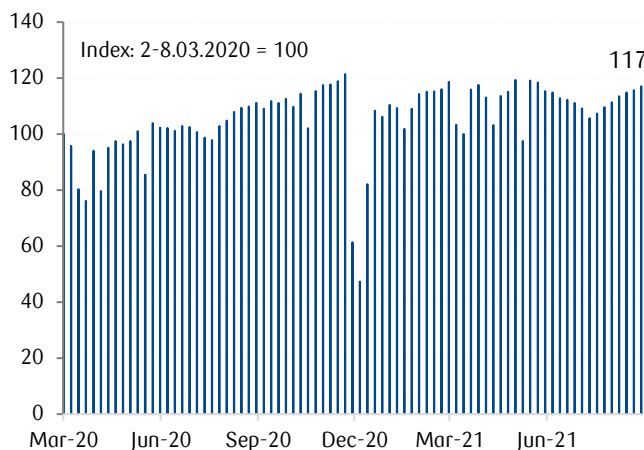
Electric energy consumption (total)



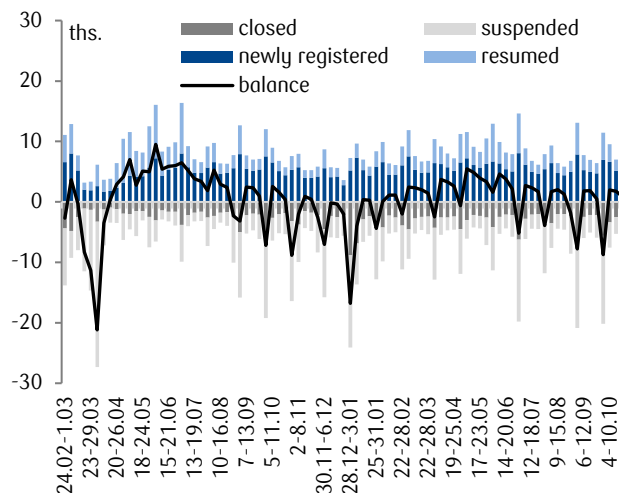
Mobility*



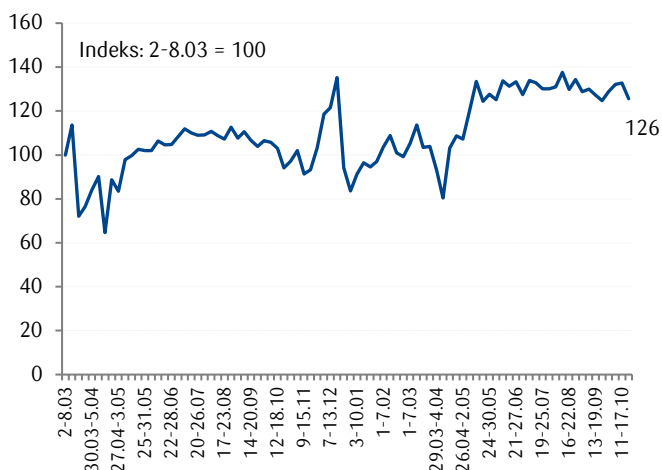
Heavy truck traffic^^



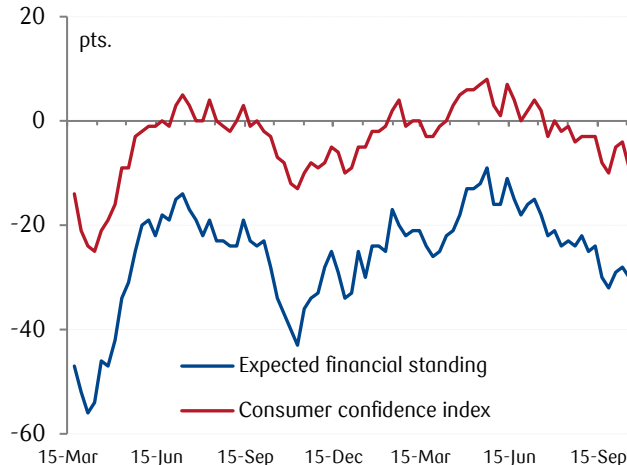
Economic activity status (acc. to CEIDG**)



Consumption based on PKO BP card payments



Weekly consumer confidence survey



Source: PSE, Apple, Google, GDDKiA, CEIDG, Kantar, PKO Bank Polski, *weighted with market share of iOS and Android, no new google data available, 7DMA, **Central Registration and Information on Business. ^^Last plot Sept. 26th, due to change in tolling system, latest data have not been available so far.

Weekly economic calendar

Indicator	Time (UK)	Unit	Previous	Consensus*	PKO BP	Comment
Monday, 1 November						
CHN: Manufacturing PMI (Oct)	1:45	pts.	50.0	50.1	--	--
GER: Manufacturing PMI (Oct, final)	8:55	pts.	58.4	58.2	--	--
EUR: Manufacturing PMI (Oct, final)	9:00	pts.	58.6	58.2	--	--
USA: ISM Manufacturing (Oct)	14:00	pts.	61.1	60.1	--	--
USA: Manufacturing PMI (Oct, final)	14:45	pts.	60.7	59.2	--	--
GER: Retail sales (Sep)	10:30	% y/y	0.4	1.9	--	--
Tuesday, 2 November						
POL: Manufacturing PMI (Oct)	8:00	pts.	53.4	53.5	52.7	Manufacturing PMI likely declined again, driven by mounting supply pressure, as well as increasing prices of production components.
Wednesday, 3 November						
GER: Services PMI (Oct, final)	8:55	pts.	56.2	52.4	--	--
EUR: Services PMI (Oct, final)	9:00	pts.	56.4	54.7	--	--
USA: ADP National Employment (Oct)	12:15	thous.	568	400	--	--
USA: Factory orders (Sep)	14:00	% m/m	1.2	-0.3	--	--
USA: Durable goods orders (Sep, final)	14:00	% m/m	1.3	-0.4	--	--
USA: Fed meeting	18:00	%	0.25	0.25	0.25	--
POL: NBP base rate	--	%	0.50	0.50	1.00	Yet another inflation spike has made a rate hike case imminent.
Thursday, 4 November						
GER: Factory orders (Sep)	7:00	% m/m	-7.7	2.0	--	--
GER: Factory orders (Sep)	7:00	% y/y	11.7	--	--	--
NOR: Norges Bank meeting	9:00	%	0.25	0.25	0.25	--
EUR: PPI inflation (Sep)	10:00	% y/y	13.4	--	--	--
UK: BoE meeting	12:00	%	0.10	0.10	0.10	--
USA: Initial Jobless Claims	12:30	thous.	281	285	--	--
USA: Trade balance (Sep)	12:30	bn USD	-73,3	-74,0	--	--
CZE: Central bank meeting	13:30	%	1.50	2.00	--	--
Friday, 5 November						
GER: Industrial production (Sep)	7:00	% m/m	-4,0	0,7	--	--
GER: Industrial output (Sep)	7:00	% y/y	1,7	--	--	--
EUR: Retail sales (Sep)	10:00	% y/y	0,0	1,5	--	--
USA: Non-Farm Payrolls (Oct)	12:30	thous.	194	400	--	--
USA: Unemployment Rate (Oct)	12:30	%	4,8	4,7	--	--
USA: Average Earnings (Oct)	12:30	% y/y	4,6	4,9	--	--

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

Selected economic indicators and forecasts

	Aug-21	Sep-21	Oct-21	1q21	2q21	3q21	4q21	2020	2021	2022
Economic activity										
Real GDP (% y/y)	x	x	x	-0.8	11.2	5.7	5.9	-2.5	5.4	5.1
Domestic demand (% y/y)	x	x	x	0.3	12.4	5.3	5.3	-3.7	5.7	5.1
Private consumption (% y/y)	x	x	x	0.1	13.1	3.6	6.8	-3.0	5.6	4.7
Gross fixed capital formation (% y/y)	x	x	x	1.7	5.6	3.0	5.0	-9.6	4.0	7.2
Inventories (pp)	x	x	x	-0.2	2.8	1.8	-0.1	-0.8	1.0	0.3
Net exports (pp)	x	x	x	-1.1	-0.3	0.7	1.0	0.8	0.1	0.3
Industrial output (% y/y)	13.0	8.8	4.2	7.8	30.2	10.4	4.9	-1.0	13.2	6.6
Construction output (% y/y)	10.2	4.3	5.0	-12.5	1.8	5.8	1.6	-2.7	x	x
Retail sales (real, % y/y)	5.4	5.1	6.3	1.2	14.4	4.8	6.9	-2.7	7.1	4.9
Nominal GDP (PLN bn)	x	x	x	587.4	617.0	636.9	714.5	2327	2556	2750
Labour market										
Registered unemployment rate‡(%)	5.8	5.6	5.5	6.4	5.9	5.6	5.8	6.2	5.8	4.8
Employment in enterprises (% y/y)	0.9	0.6	0.5	-1.7	2.1	1.1	0.6	-1.2	0.5	1.1
Wages in enterprises (% y/y)	9.5	8.7	9.3	5.8	9.9	9.0	8.8	4.8	8.4	8.5
Prices^										
CPI inflation (% y/y)	5.5	5.9	6.8	2.7	4.5	5.4	6.9	3.4	4.9	6.2
Core inflation (% y/y)	3.9	4.2	4.6	3.8	3.8	3.9	4.7	3.9	4.1	4.7
15% trimmed mean (% y/y)	4.1	4.5	x	2.6	3.2	4.1	x	3.9	x	x
PPI inflation (% y/y)	9.6	10.1	10.9	2.4	6.4	9.4	11.7	-0.5	7.4	5.7
Monetary aggregates‡										
Money supply, M3 (PLN bn)	1902.8	1914.2	1917.7	1862.5	1876.0	1914.2	1986	1822.7	1985.8	2097.3
Money supply, M3 (% y/y)	9.1	8.6	8.5	14.4	7.4	8.6	9.0	16.4	9.0	5.6
Real money supply, M3 (% y/y)	3.5	2.6	1.6	11.3	2.8	3.0	1.9	12.6	3.9	-0.5
Loans, total (PLN bn)	1365.4	1376.3	x	1344.0	1349.2	1376.3	1392.7	1333.8	1392.7	1474.4
Loans, total (% y/y)	2.6	2.9	x	-1.7	0.6	2.9	4.4	0.8	4.4	5.9
Deposits, total (PLN bn)	1774.0	1798.1	x	1670.0	1724.8	1798.1	1818.1	1602.2	1818.1	1893.6
Deposits, total (% y/y)	9.8	10.5	x	12.4	6.6	10.5	13.5	13.9	13.5	4.2
Balance of payments										
Current account balance (% GDP)	0.9	0.5	0.3	2.7	1.7	0.5	0.0	2.9	0.0	0.7
Trade balance (%GDP)	1.7	1.3	1.1	2.7	2.4	1.3	0.7	2.4	0.7	0.2
FDI (% GDP)	2.5	2.5	2.2	2.2	2.2	2.5	2.5	2.1	2.5	1.8
Fiscal policy										
Fiscal balance (% GDP)	x	x	x	x	x	x	x	-7.1	-1.7	-1.3
Public debt (% GDP)	x	x	x	x	x	x	x	57.4	56.8	54.3
Monetary policy‡										
NBP reference rate (%)	0.10	0.10	0.50	0.10	0.10	0.10	1.00	0.10	1.00	2.00
NBP lombard rate (%)	0.50	0.50	1.00	0.50	0.50	0.50	1.50	0.50	1.50	3.00
NBP deposit rate (%)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	1.00
WIBOR 3M ^x (%)	0.23	0.23	0.62	0.21	0.21	0.23	1.15	0.21	1.15	2.15
Real WIBOR 3M ^x (%) [#]	-5.23	-5.64	-6.14	-2.53	-4.26	-5.19	-5.80	-3.06	-3.73	-4.04
Exchange rates*‡										
EUR-PLN	4.54	4.62	4.62	4.66	4.52	4.62	4.56	4.61	4.56	4.44
USD-PLN	3.84	3.95	3.98	3.97	3.80	3.95	3.97	3.75	3.97	3.86
CHF-PLN	4.20	4.26	4.36	4.21	4.12	4.26	4.18	4.25	4.18	3.96
EUR-USD	1.18	1.17	1.16	1.17	1.19	1.17	1.15	1.23	1.15	1.15

Source: GUS, NBP, PKO Bank Polski.

^xPKO BP Market Strategy team forecasts,[^]period averages for quarterly and yearly data,[#]deflated with current CPI inflation,[‡]period end values.

Monetary policy monitor

MPC Members	Hawk-o-meter*	Recent policy indicative comments^
E. Gatnar	4.8	"For me, it is the start of monetary policy normalization (...) The hike was meant to show that interest rates can be moved, that the level of "0.1% or even the current 0.5% isn't here for eternity (...)," (08.10.2021, PAP, Biznes24.tv)
K. Zubelewicz	4.5	"Today, the reference rate at the level of 2.0% certainly would not be too high (...) Only a higher price of money than before the crisis would guarantee a return of inflation to the target in the mid-term, but I don't count on that (...) True, there are isolated supply-side problems, but since the total output is higher it means that other sectors are making up for these problems with increased output. In my opinion, the main source of inflation is the demand impulse" (18.10.2021, PAP)
L. Hardt	4.3	"It's very good that a majority appeared within the council [PAP: to support a rate hike in October], but we need to continue, (...) A motion for further interest rate hikes will most likely be submitted at the next week's sitting. (...) The mandatory reserve rate should be hiked first, and only then the reference rate should go up, so that the impact of raising the reference rate on the Polonia money market rate is relatively quick". (28.10.2021, PAP).
J. Kropiwnicki	2.8	"We hiked rates by 40 bps exactly in order not to have any further expectations for hikes for now after a considerable move, higher than expected. (...) All MPC members supported the motion for hiking the interest rate and the mandatory reserve rate" (11.10.2021, PAP).
J. Zyzyński	2.6	"We are waiting for the November projection, for the next inflation data. If it turns out that this jump in inflation month on month is worrying, the Council could react with interest rates in December or January (2022). (...) I was in favour of waiting with changes until the end of the year and keeping rates low, but inflation in September surprised me. (...) It was necessary to signal that we are withdrawing these cuts - this is how I interpreted our decision. We are taking our foot off the gas" (20.10.2021, Reuters)
R. Sura	2.5	"The October interest rate hike is described as surprising. One should note here that the NBP has been withdrawing from monetary accommodation for some time via limiting the asset purchase program, which had not been adequately noted and interpreted by the market. (...) At the same time, I cannot say whether I will vote in favor of another interest rate hike in November or in the following months, because the Council will be the first to know my decision. Still, I see need for normalization of interest rates to pre-pandemic levels." (22.10.2020, PAP).
G. Ancyparowicz	2.4	"I believe that some very cautious restoring of that level, at least that level, of interest rates that we had before the pandemic is inevitable (...) But I wouldn't be able to say what will be the schedule as it would depend on general situation and forecasts" (19.10.2021, PAP)
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. Glapiński	1.7	"In yesterday's statement - not by accident - the phrase that it's the beginning of a tightening is missing, but there is also no mention that [PAP: the 40 bp rate hike] is a one-off (...) Further decisions will depend on the shape of future inflation and business sentiment (...)" (07.10.2021, PAP)
E. Lon	1.0	"My stance at the November MPC sitting may depend on different factors," Lon wrote. "It will, for example be important how long, in the light of latest projection, inflation will remain above the upper end of the target range." (25.10.2021, wGospodarce.pl, PAP)

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

Interest rates – PKO BP forecasts vs. market expectations

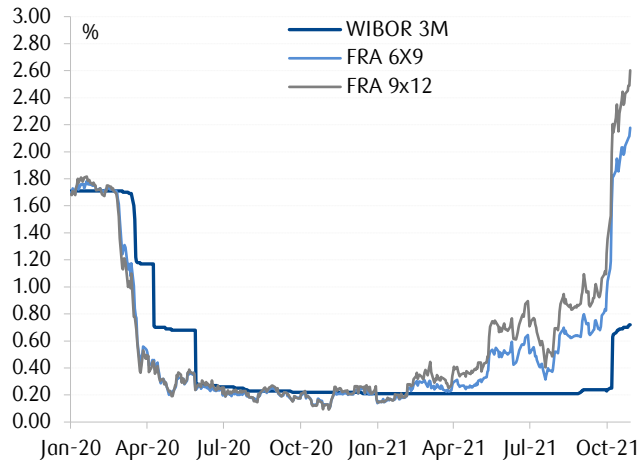
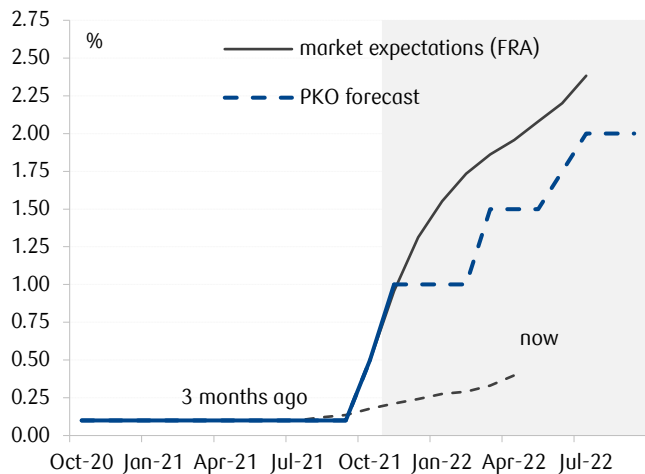
	1M	2M	3M	4M	5M	6M	7M	8M	9M	
Date	28-Oct	28-Nov	28-Dec	28-Jan	28-Feb	28-Mar	28-Apr	28-May	28-Jun	28-Jul
WIBOR 3M/FRA†	0.72	1.18	1.53	1.77	1.96	2.08	2.18	2.30	2.42	2.60
implied change (b. p.)		0.46	0.81	1.05	1.24	1.36	1.46	1.58	1.70	1.88
MPC Meeting	3-Nov	8-Dec	-	-	-	-	-	-	-	-
PKO BP forecast*	0.50	1.00	1.00	1.00	1.00	1.50	1.50	1.50	1.75	2.00
market pricing*		0.96	1.31	1.55	1.74	1.86	1.96	2.08	2.20	2.38

†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

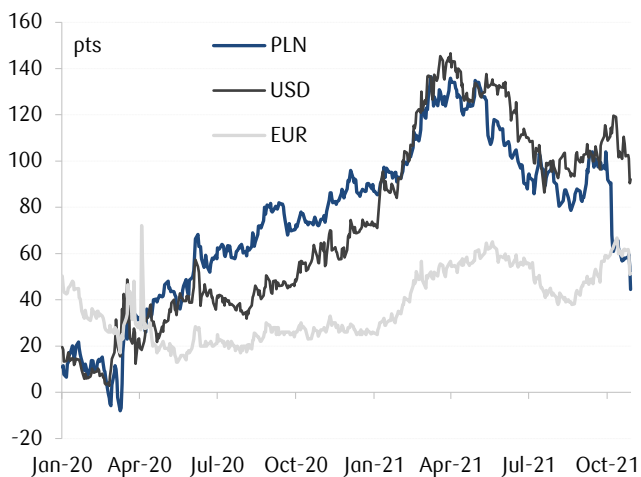
NBP policy rate: PKO BP forecast vs. market expectations

Short-term PLN interest rates



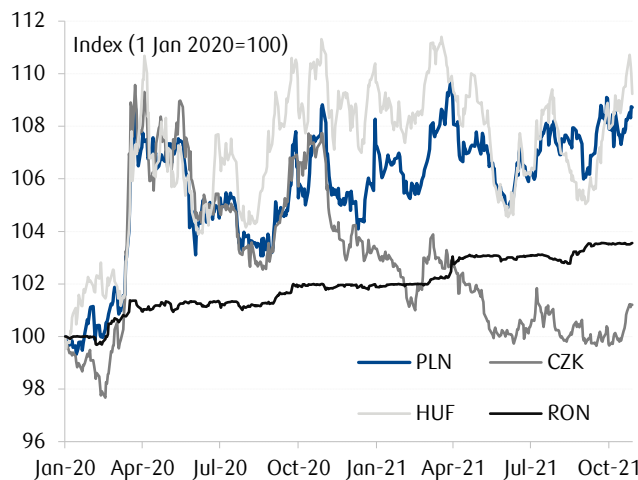
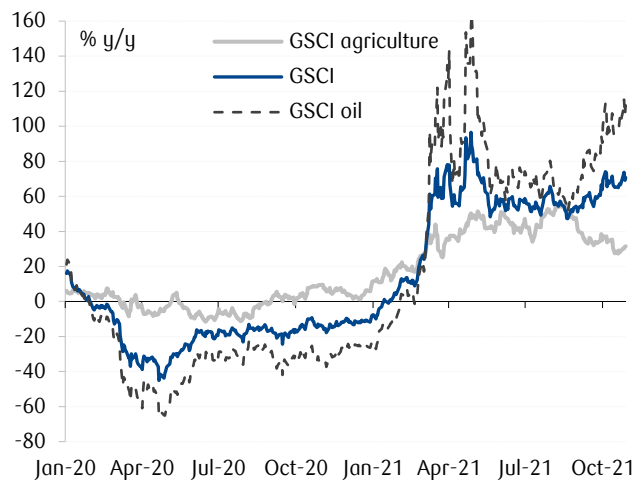
Slope of the swap curve (spread 10Y-2Y)*

PLN asset swap spread



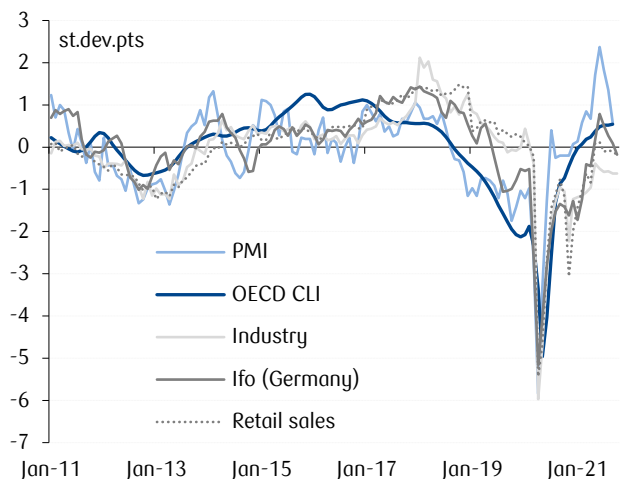
Global commodity prices (in PLN)

Selected CEE exchange rates against the EUR

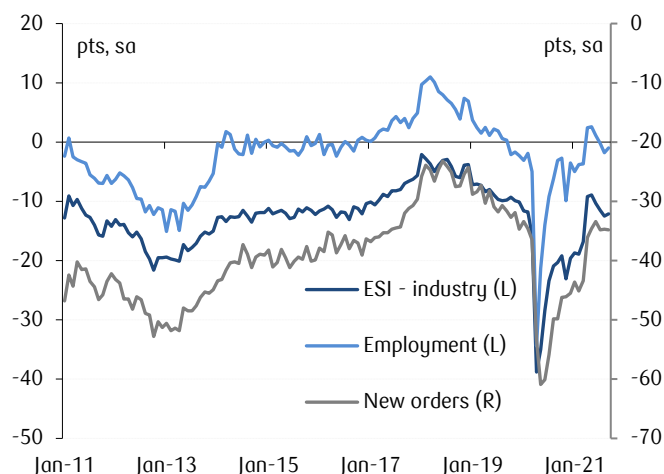


Source: Datastream, NBP, PKO Bank Polski. *for PLN, and EUR 6M, for USD 3M.

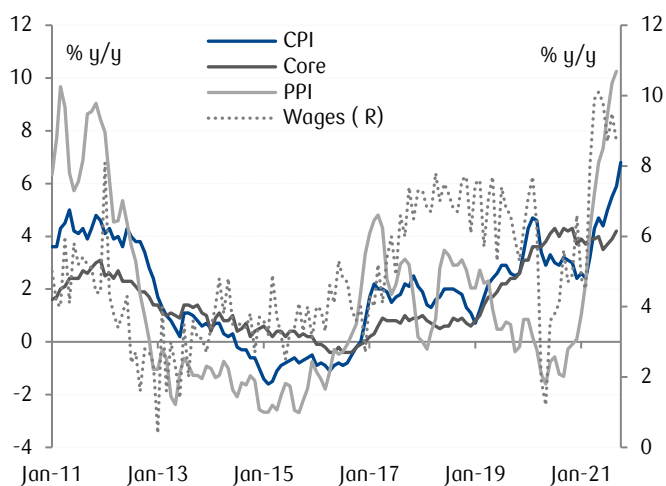
Economic sentiment indicators



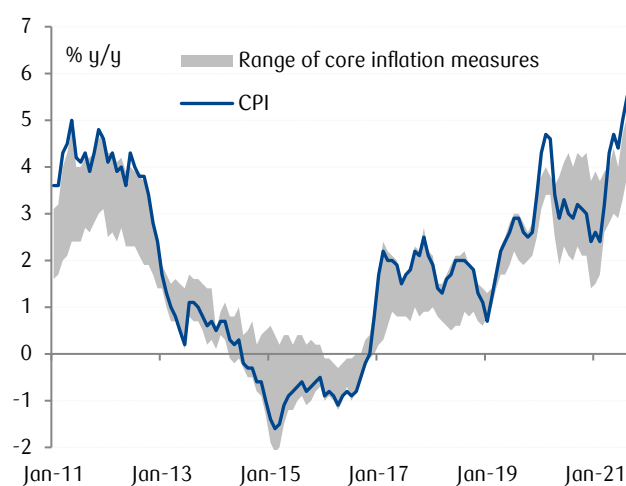
Poland ESI for industry and its components



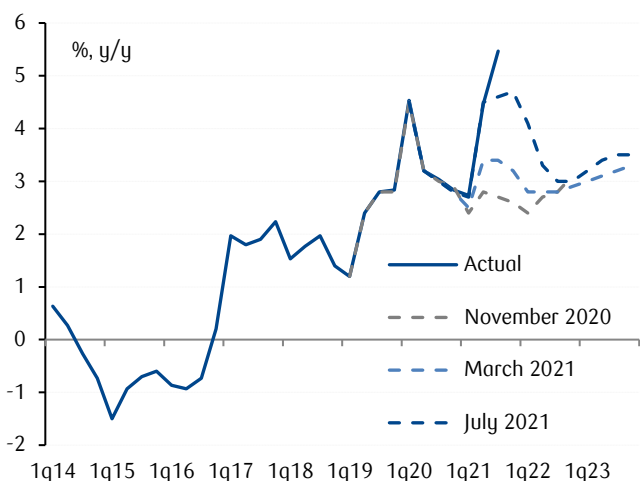
Broad inflation measures



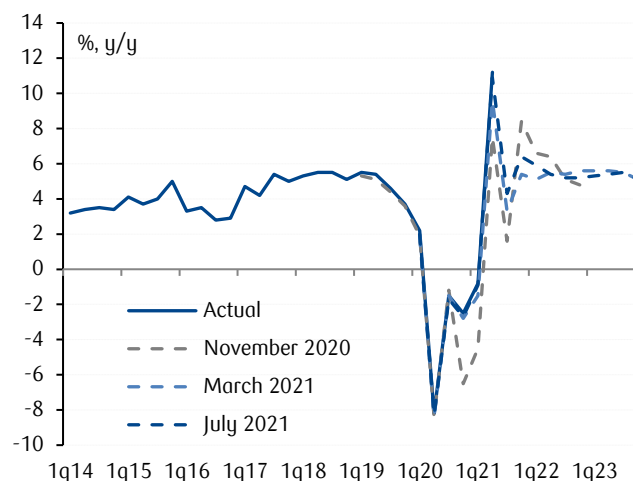
CPI and core inflation measures



CPI inflation - NBP projections vs. actual

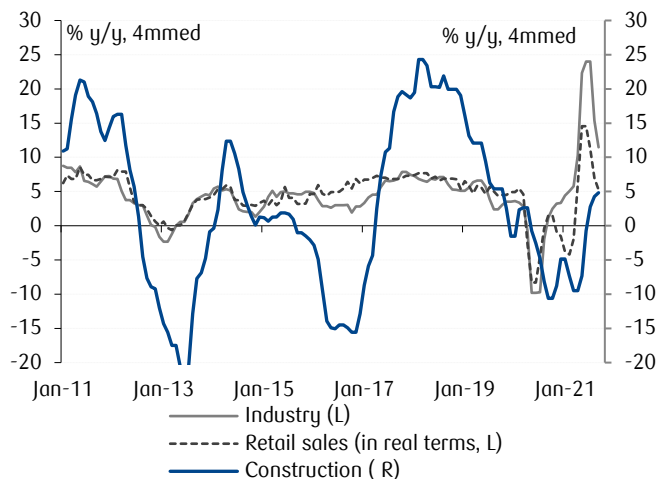


Real GDP growth - NBP projections vs. actual

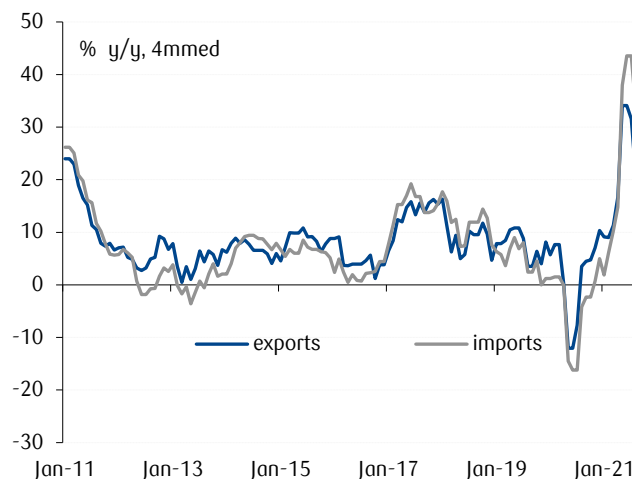


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

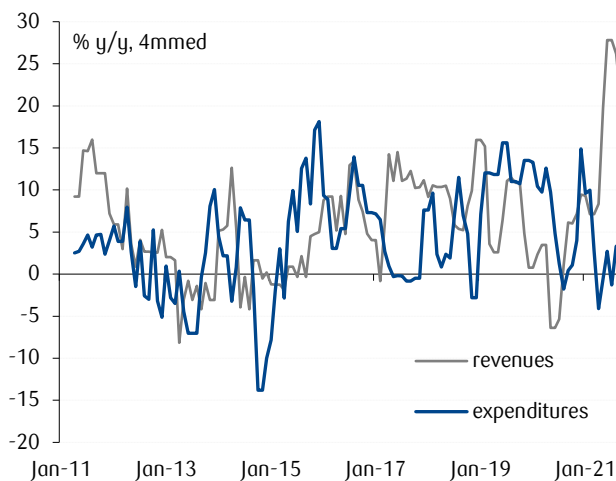
Economic activity indicators



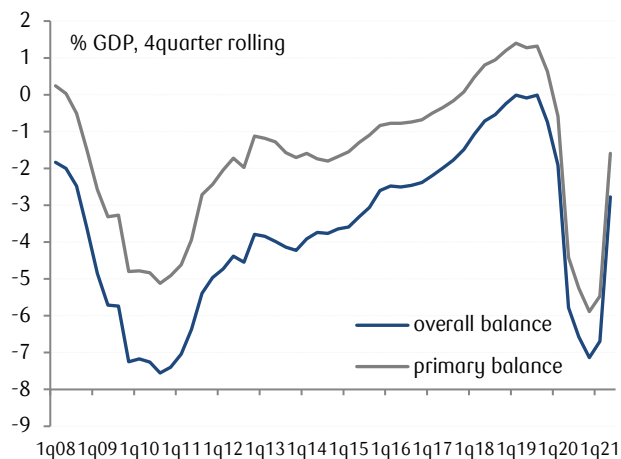
Merchandise trade (in EUR terms)



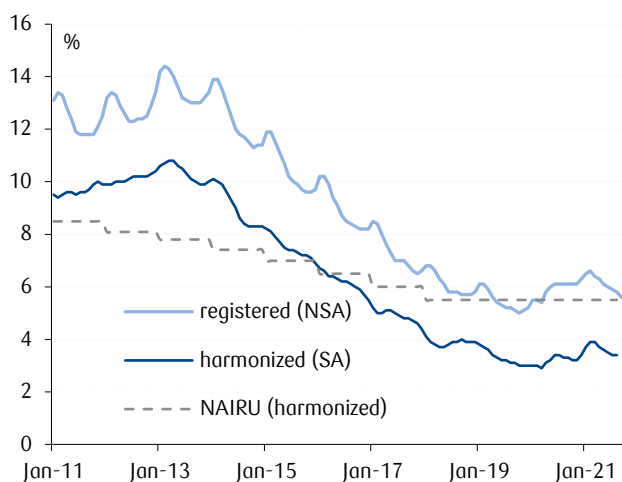
Central government revenues and expenditures*



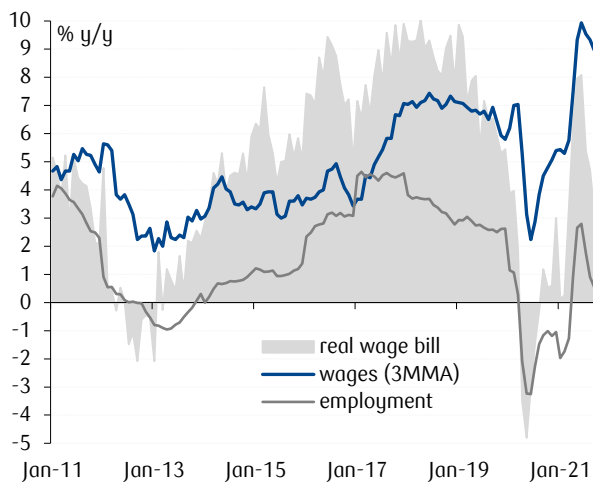
General government balance (ESA2010)



Unemployment rate

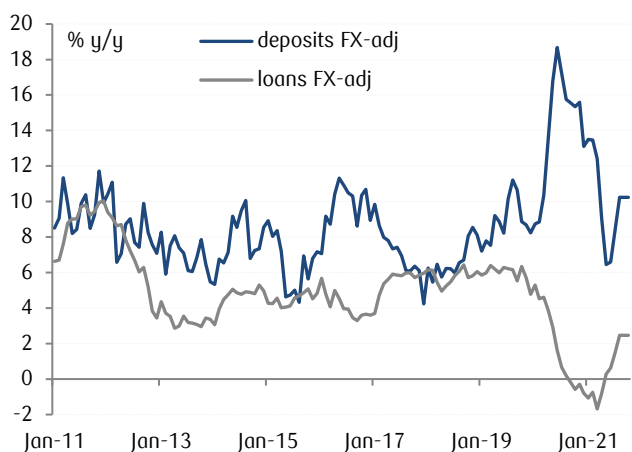


Employment and wages in the enterprise sector

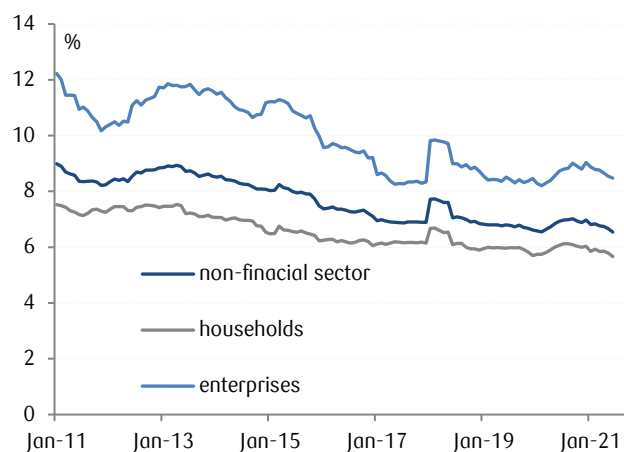


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. *break in series in 2010 due to methodological changes.

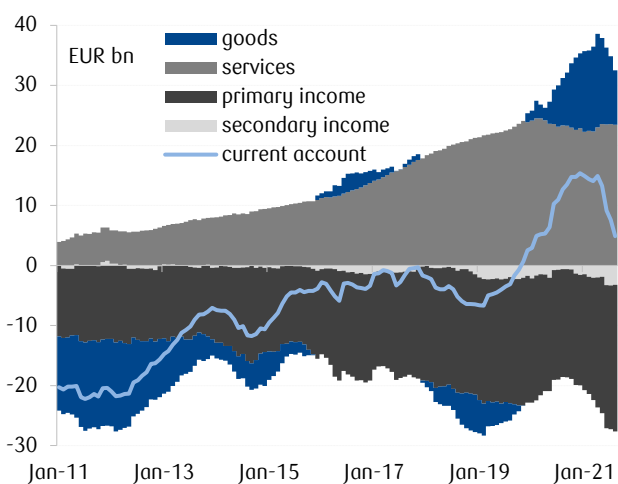
Loans and deposits



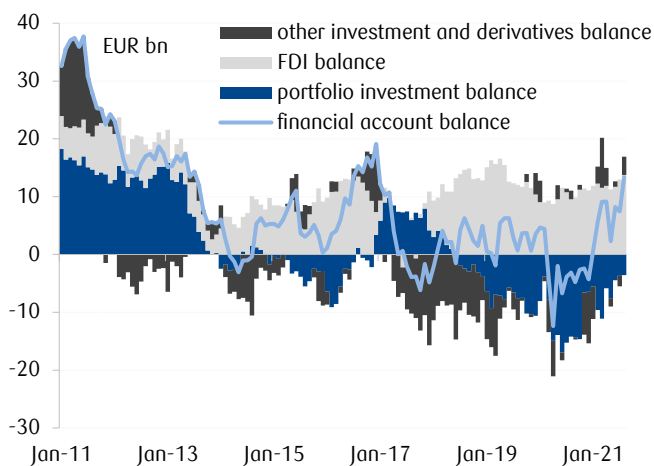
Non-performing loans (NPLs) - by sectors*



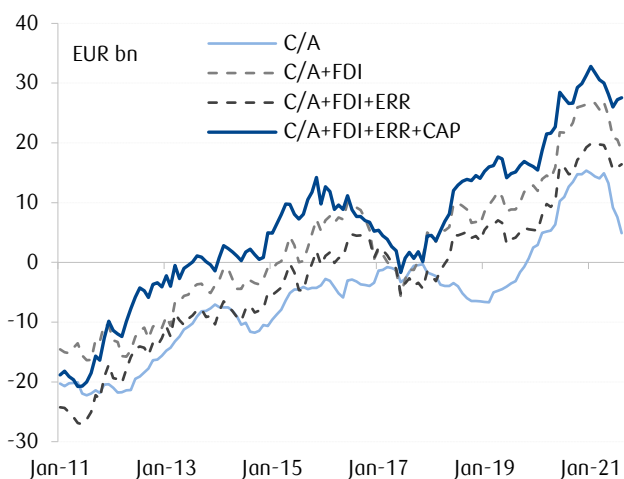
Current account balance



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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- [Missing parts](#) (Oct 22, 2021)
- [Costly recovery](#) (Oct 15, 2021)
- [It's normalisation time](#) (Oct 8, 2021)
- [Red-hot housing market, red-hot CPI inflation](#) (Oct 1, 2021)
- [Cautious optimism despite a few cracks](#) (Sep 24, 2021)
- [Inflation talk heats up again](#) (Sep 17, 2021)
- [No dogmatic approach on inflation](#) (Sep 10, 2021)
- [Consumption-based recovery](#) (Sep 3, 2021)
- [Budget surplus ahead?](#) (Aug 27, 2021)
- [Maturing recovery](#) (Aug 20, 2021)
- [Double digit expansion](#) (Aug 13, 2021)
- [Economy on holidays](#) (Aug 6, 2021)
- [American style inflation, American style monetary policy](#) (Jul 30, 2021)
- [A double-digit rebound](#) (Jul 23, 2021)
- [Is the CPI inflation really on hold?](#) (Jul 16, 2021)
- [MPC on hold until late autumn](#) (Jul 9, 2021)
- [House price growth accelerates after pandemic slowdown](#) (Jul 2, 2021)
- [Straight to the hot summer](#) (Jun 25, 2021)
- [Back to pre-pandemic trends](#) (Jun 18, 2021)
- [MPC waits and doesn't see](#) (Jun 11, 2021)
- [Economy roars out of lockdown](#) (May 28, 2021)
- [The New \(Polish\) Deal](#) (May 21, 2021)
- [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)
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- [Green fiscal island](#) (Feb 12, 2021)
- [Spotlight: fiscal stance](#) (Feb 5, 2021)
- [2020 better than feared, bounce back ahead](#) (Jan 29, 2021)

Poland's macro in a nutshell

	2020	2021	Comment
Real economy			
- real GDP (%)	-2.5	5.4	We stick to our 2021 GDP growth forecast to 5.4% and expect it will hit 5.1% in 2022, (including the effects of the Polish New Deal and the Domestic Recovery Plan). Private consumption will remain the main engine of economic growth boosted by wages and redistribution. Investments growth rate will stay moderate, while exports should benefit from weak PLN, further FDI inflows and the implementation of the fiscal package in the EU, stimulating demand in the key exports market.
Prices			
- CPI inflation (%)	3.4	4.9	There are still several months of inflation growth ahead of us. We forecast that in November CPI inflation will break the level of 7%, and in 1q22 it will peak at around 8.0%. The return of inflation to the target in the medium term will not be quick and easy. Inflation will start falling in 2q22. The local minimum will be recorded in 1q23, but it will be clearly above 4.0% y/y.
Monetary aggregates			
- M3 money supply (%)	16.4	9.0	With the rebound of the economic growth, we expect credit demand to increase gradually, fueling a moderate bank lending expansion. Smaller scale of asset purchases will result in a deceleration of money supply growth.
External balance			
- current account balance (% GDP)	2.9	0.0	Following the two-way pandemic turmoil, we anticipate that the current account balance will return to an upward trend based on structural factors. However, the deterioration of the balance will continue in the near future and at the turn of 2021/2022 CAB will land close to zero. In such a situation, it cannot be ruled out that a further intensification of temporary factors, i.e. an increase in the prices of raw materials and production components, as well as transport costs (freight) and the maintenance of a restriction in the influx of tourists, may temporarily provoke a deficit. At the same time, we expect the fast (double-digit) export growth will be maintained and assume further inflows of foreign investments (the nearshoring helps).
Fiscal policy			
- fiscal balance (% GDP)	-7.1	-1.7	We forecast that in 2021-2022 there will be a rapid improvement in basic fiscal parameters after a significant deterioration due to the pandemic shock in 2020. The 'fiscally efficient' structure of growth and the strong growth of tax bases will keep the fiscal deficit on a downward path. We predict that in 2022 it will decrease to 1.3% of GDP. Public debt in relation to GDP will also gradually decrease, to 56.9% at the end of 2021 and 54.3% at the end of 2022.
Monetary policy			
- NBP reference rate (%)	0.10	1.00	We expect the MPC to deliver yet another 50bp hike in November. That said much uncertainty surrounds the consecutive moves, as the MPC is about to be almost entirely replaced in early 2022. We cannot exclude further hikes in the last months of the current Council term, as the CPI inflation is more likely to surprise to the upside than in any other direction during the upcoming months. Nonetheless, we expect the new MPC to continue the rate-hiking cycle, and expect the reference rate to reach 2.00% at the end of 2022, above the 1.50% level from before the pandemics.

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

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