

Not all gold that glows

TOP MACRO THEME(S):

- **Profitable enough? (p. 2):** Net financial result of Polish corporates was record high in 1q22, but not without caveats. Massive inventory hoarding builds up a 'bubble' that may burst should unfavorable business conditions occur. Also, elevated profits have not triggered an extra investment demand so far.

WHAT ELSE CAUGHT OUR EYE:

- **A whopping 19% growth of retail sales in April** (in real terms) signals that a sort of **dualism in consumer sector in Poland is likely to develop in the near future**. Gloomy consumer sentiment, indicative of a downbeat domestic consumer spending, has been more than offset by spending of refugees so far.
- **Unemployment rate dropped to 5.2%** on a falling number of unemployed and a substantial revision in the number of employed people (Poland Statistics has most likely included a substantial portion of refugees in estimates). Meanwhile, the LFS unemployment rate in 1q22 rose to 3.1% (+0.2pp q/q and -0.9pp y/y), while the participation ratio in the working age population (18-59/64) rose to all-time high of 80%.
- **Construction sector activity cooled down in April** amid stalled civil engineering works awaiting for the Domestic Recovery Plan (KPO) kick-off.

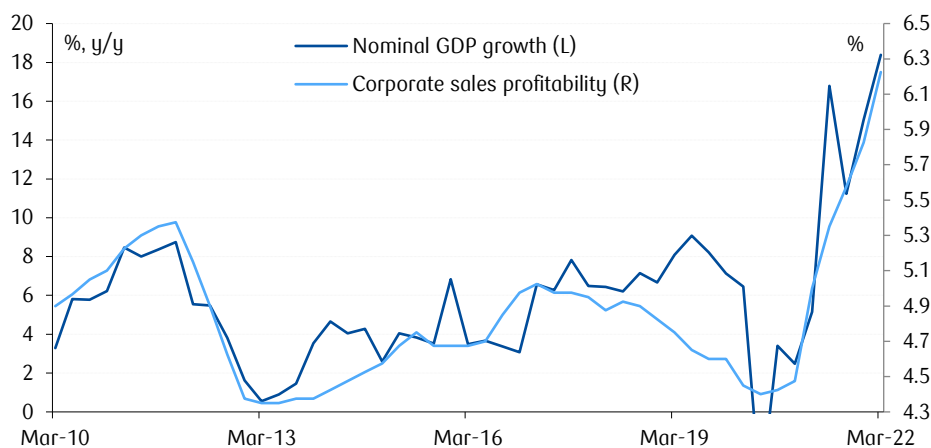
THE WEEK AHEAD:

- **Detailed GDP figures for 1q22** will be revealed on Tuesday. We bet on a strong consumption (PKOe: 6.7%) and moderate investment growth (PKOe: 5.0%). Inventory build-up also likely contributed much to GDP growth.
- **CPI inflation in May** (flash estimate) went up again (likely above 13% y/y), this time mainly on fuel prices, but price pressures remained broad-based.
- **Manufacturing PMI for May** barely changed on our early estimates - lower output and orders have been likely offset by rising delivery times (supply bottlenecks).

NUMBER OF THE WEEK:

- **9.2 bn PLN** - state budget surplus after April, a signal that the Anti-Inflationary Shield (de facto a reversal of 'inflation' tax) doesn't hurt public finances much.

Corporate sales profitability vs nominal GDP



Source: GUS, PKO Bank Polski.

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	2021	2022 _†
Real GDP (%)	5.9	4.9
Industrial output (%)	15.4	12.9
Unemployment rate [#] (%)	5.4	5.8
CPI inflation ^{**} (%)	5.1	12.0
Core inflation ^{**} (%)	4.1	7.4
Money supply M3 (%)	8.9	5.6
C/A balance (% GDP)	-0.6	-2.3
Fiscal balance (% GDP)*	-1.9	-2.8
Public debt (% GDP)*	53.8	49.9
NBP reference rate ^{##} (%)	1.75	6.50
EURPLN ^{†##}	4.60	4.55

Source: GUS, NBP, MinFin, †PKO BP Macro Research team forecasts; ‡PKO BP Market Strategy team forecasts; under revision; *ESA2010, **period averages; #registered unemployment rate at year-end; ##at year-end.

Profitable enough?

- Corporate net financial result after 1q22 was record high (but not without caveats).
- Massive inventory hoarding builds up a 'bubble' that may burst should unfavorable business conditions occur.
- Additionally, elevated profits have not triggered an extra investment demand so far.

Revenues growth of large companies (with 50+ employees) accelerated in 1q22 (to 31.5% y/y from 29.4% y/y in 4q21 and 23.5% in the whole 2021). The solid revenues growth has fully offset rapidly rising costs (30.6% y/y in 1q22 vs. 26.9% y/y in 4q21 and 20.6% in the whole 2021, see chart 1). This means that the net financial result of enterprises further improved in 1q22 (to PLN 69.4bn in 1q22 vs. PLN 47.1bn in 1q21 and PLN 60.8bn in 4q21) and **profits were record high another quarter in a row**. Corporates found it possible to pass rising input costs into output prices, thus defending successfully their margins in an environment of skyrocketing commodity and raw material prices and mounting wage pressure. Macro trends suggest that these tendencies will continue in the nearest future.

The ratio of net profit of the enterprise sector to GDP in 1q22 alone was record high again (chart 2). It is noteworthy that the improvement of corporate financial result hardly changed indicating a resilience to supply shocks. Indeed, it moved in a tandem with nominal GDP growth (chart 3, next page) indicating that its share in national income barely changed (labor didn't swallow bigger share of a pie, indicating that price-wage feedback loop can't spin faster without notable acceleration of money supply and/or money velocity).

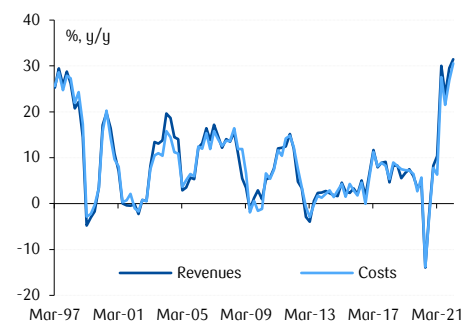
In 1q22, inventories growth accelerated further again, broadly in line with the nominal GDP growth rate (chart 4). This suggests a growing reliance of GDP growth on inventory build-up – this usually is not a lasting phenomenon and a correction may occur once the inventory build-up is over. Moreover, the structure of inventory growth rate signals that a glass may be only half full (chart 5). Indeed, corporations have been stockpiling materials for a second quarter in a row, what corresponds to a much higher activity in manufacturing. But rising contribution of goods for resale suggests that in case of a volatile demand (esp. one that includes correction of prices) the inventory 'bubble' will become a burden for profits. Finally, inventories have been absorbing spare liquidity. Indeed, working capital loans substantially increased in 1q22 (14.7% y/y in 1q22). This has usually corresponded with a sharp correction of liquidity ratios in a 4-quarter horizon (chart 6). If materialized, corporate liquidity would drop to the levels seen in 2h12-1h13 – when GDP growth rate in Poland hit zero.

Last but not least, corporate investments in 1q22 increased in nominal terms by 10.3% y/y (vs. 11.5% y/y in 4q21). In real terms, the **investments' increase was a mere 1.3% y/y** (vs. 3.9% y/y in 4q21). Lower growth rate of corporate investments supports our forecast of total investment growth in 1q22 (5.0% y/y vs. 5.2% y/y in 4q21, chart 7). The rise in war-related uncertainty may dampen corporate investments demand in the remainder of 2022. Rising prices of investment goods may also be a drag on investment activity. This is the effect of, among others, more expensive imports following the PLN weakening and supply constraints, pushing up prices in global markets and reducing availability of investment goods. Additionally, corporate sector has been sending warning signals for a couple of quarters already. The growth rate of investments value in corporate investment plans started to decline already in 2021, even before the war in Ukraine began (chart 8).

In cooperation with:

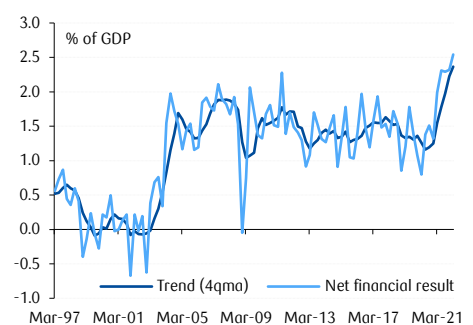
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1. Corporate* revenues and costs



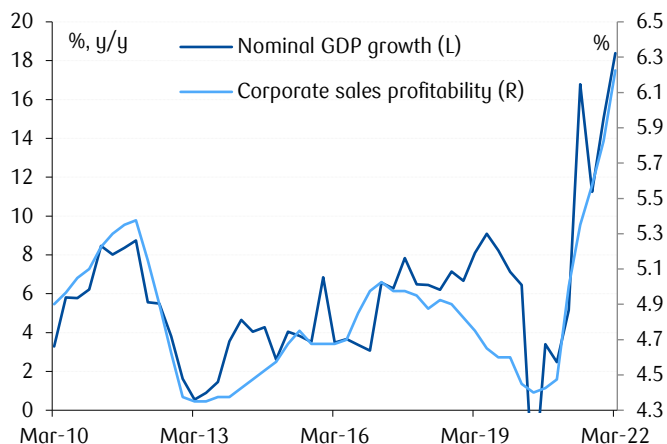
Source: GUS, PKO Bank Polski. *with 50+ employment.

2. Corporate* net financial result

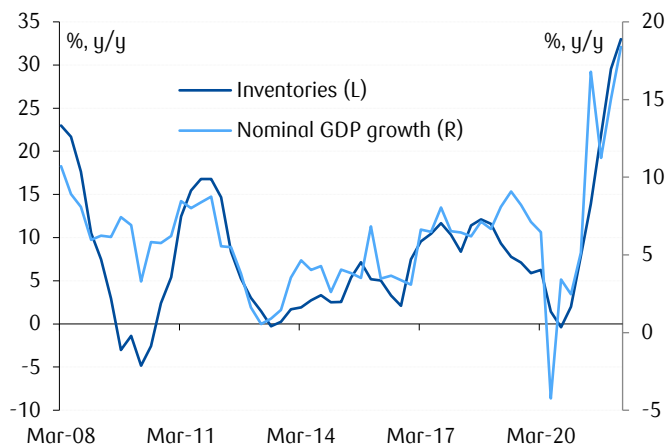


Source: GUS, PKO Bank Polski. *with 50+ employment.

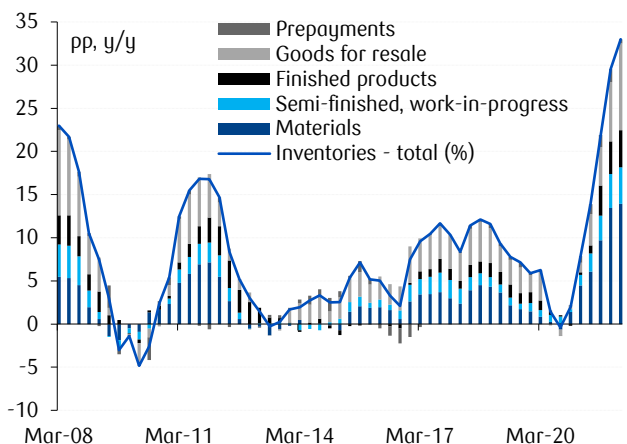
3. Corporate sales* profitability



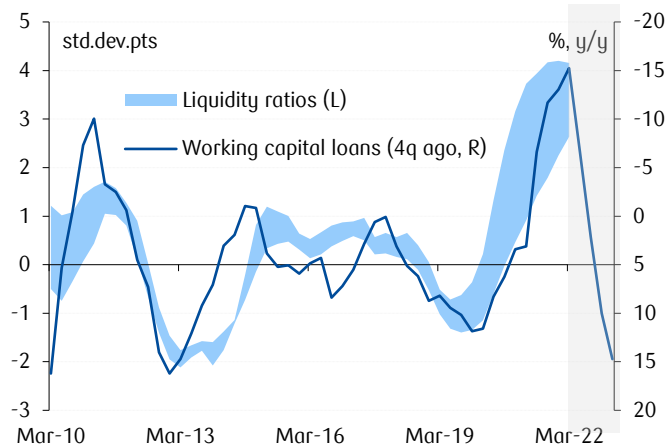
4. Corporate* inventories vs nominal GDP growth



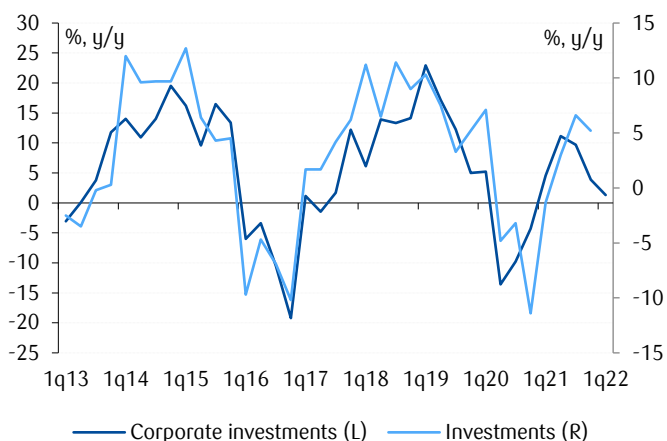
5. Structure of corporate* inventories growth



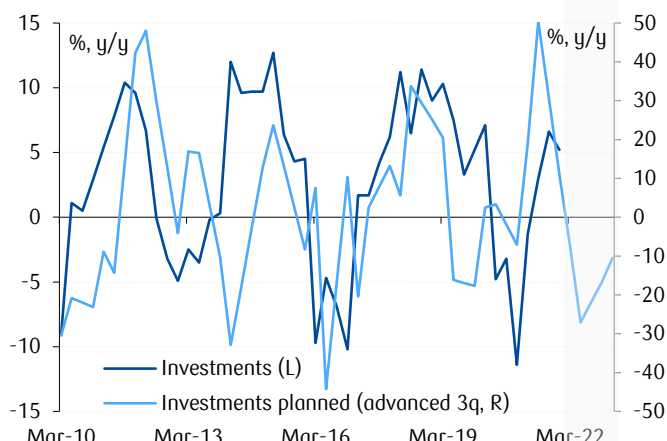
6. Range of liquidity ratios vs working capital loans



7. Corporate* vs total investments



8. Investments vs corporate* investment plans



Source: GUS, PKO Bank Polski. *with 50+ employment.

Weekly economic calendar

Indicator	Time (UK)	Unit	Previous	Consensus*	PKO BP	Comment
Monday, 30 May						
EUR: Economic Sentiment Indicator (May)	10:00	pts.	105	104.9		
EUR: Consumer Confidence (May, final)	10:00	pts.	-21.1	-21.1		
GER: CPI inflation (May, flash)	13:00	% y/y	7.4	7.6		
Tuesday, 31 May						
POL: GDP growth (1q)	9:00	% y/y	7.6	8.5	8.5	Elevated consumption growth rate reflects a low base effect and refugees' expenditures. Investment demand was moderate, same as in the whole 2021.
POL: Consumption (1q)	9:00	% y/y	8.0	7.3	6.7	
POL: Investments (1q)	9:00	% y/y	5.2	5.4	5.0	
POL: CPI inflation (May, flash)	9:00	% y/y	12.4	13.6	~13+	Fuel prices pushed CPI inflation further up, again, on our early estimates.
EUR: CPI inflation (May)	10:00	% y/y	7.5	7.7	--	--
EUR: Core inflation (May, flash)	10:00	% y/y	3.5	3.5	--	--
HUN: MNB meeting (May)	13:00	%	5.40	5.90	--	--
USA: S&P CoreLogic CS 20-City (Mar)	14:00	% y/y	20.2	19.7	--	--
USA: Consumer confidence (May)	15:00	pts.	107.3	104.0	--	--
Wednesday, 1 June						
CHN: Manufacturing PMI (May)	2:45	pts.	46.0	49.5	--	Supply bottlenecks most likely keep an indicator high, while output and orders remain subdued.
POL: Manufacturing PMI (May)	8:00	pts.	52.4	52.3	--	
GER: Manufacturing PMI (May, final)	8:55	pts.	54.6	54.7	--	--
EUR: Manufacturing PMI (May, final)	9:00	pts.	55.5	54.4	--	--
USA: ISM Manufacturing (May)	15:00	pts.	55.4	55.0	--	--
USA: JOLTS Report (Apr)	15:00	mn	11.5	--	--	--
Thursday, 2 June						
EUR: PPI inflation (Apr)	10:00	% y/y	36.8	--	--	--
USA: ADP National Employment (May)	13:15	thous.	247	--	--	--
USA: Initial Jobless Claims	13:30	thous.	210	210	--	--
USA: Factory orders (Apr)	15:00	% m/m	2.2	0.7	--	--
USA: Durable goods orders (Apr, final)	15:00	% m/m	0.6	0.4	--	--
Friday, 3 June						
GER: Exports (Apr)	7:00	% m/m	-3.3	1.4	--	--
GER: Imports (Apr)	7:00	% m/m	3.4	1.3	--	--
EUR: Services PMI (May, final)	9:00	pts.	57.7	56.3	--	--
EUR: Retail sales (Apr)	10:00	% y/y	0.8	5.1	--	--
USA: Non-Farm Payrolls (May)	13:30	thous.	428	350	--	--
USA: Unemployment Rate (May)	13:30	%	3.6	3.5	--	--
USA: Average Earnings (May)	13:30	% y/y	5.5	5.2	--	--

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

Selected economic indicators and forecasts

	Feb-22	Mar-22	Apr-22	1q22	2q22	3q22	4q22	2020	2021	2022
Economic activity										
Real GDP (% y/y)	x	x	x	8.5	4.8	3.3	3.6	-2.2	5.9	4.9
Domestic demand (% y/y)	x	x	x	8.3	4.9	3.0	3.5	-2.9	7.6	4.8
Private consumption (% y/y)	x	x	x	6.7	4.5	3.5	3.5	-3.0	6.1	4.5
Gross fixed capital formation (% y/y)	x	x	x	5.0	-5.0	-4.0	2.0	-4.9	3.8	-0.5
Inventories (pp)	x	x	x	2.2	1.7	0.8	0.4	-1.2	2.4	1.1
Net exports (pp)	x	x	x	0.7	0.2	0.5	0.2	0.6	-1.2	0.0
Industrial output (% y/y)	17.3	15.4	13.0	18.4	12.7	14.3	7.7	-1.2	15.4	12.9
Construction output (% y/y)*	21.2	27.6	9.3	23.7	14.0	11.0	0.8	-2.7	1.6	12.3
Retail sales (real, % y/y)	8.1	9.6	19.0	9.4	8.1	5.8	6.1	-2.7	7.6	7.3
Nominal GDP (PLN bn)	x	x	x	699.4	707.9	739.7	851.8	2339	2614	2999
Labour market										
Registered unemployment rate‡(%)	5.5	5.4	5.2	5.4	5.2	5.7	5.8	6.3	5.4	5.8
Employment in enterprises (% y/y)	2.2	2.4	2.8	2.3	2.7	2.9	3.1	-1.2	0.5	2.8
Wages in enterprises (% y/y)	11.7	12.4	14.1	11.2	13.2	10.9	10.0	4.8	8.8	11.3
Prices[^]										
CPI inflation (% y/y)	8.5	11.1	12.4	9.7	13.1	13.3	12.0	3.4	5.1	12.0
Core inflation (% y/y)	6.7	6.9	7.7	6.6	8.0	8.0	7.3	3.9	4.1	7.4
15% trimmed mean (% y/y)	7.0	7.8	9.2	7.3	x	x	x	3.9	4.1	x
PPI inflation (% y/y)	16.1	20.0	23.3	17.6	19.9	17.1	13.1	-0.5	7.8	16.9
Monetary aggregates‡										
Money supply, M3 (PLN bn)	1985.0	2003.9	2012.5	2003.9	2024.6	2045.8	2096.7	1822.7	1985.0	2096.7
Money supply, M3 (% y/y)	8.1	7.6	8.2	7.6	7.9	6.9	5.6	16.4	8.9	5.6
Real money supply, M3 (% y/y)	-0.4	-3.2	-3.8	-1.9	-4.6	-5.7	-5.7	12.6	3.6	-5.7
Loans, total (PLN bn)	1420.6	1430.4	1445.0	1430.4	1437.7	1455.1	1464.4	1333.8	1403.5	1464.4
Loans, total (% y/y)	6.3	6.4	7.5	6.4	6.5	5.7	4.3	0.8	5.2	4.3
Deposits, total (PLN bn)	1803.8	1794.3	1783.9	1794.3	1832.6	1843.9	1830.2	1602.2	1780.1	1830.2
Deposits, total (% y/y)	9.7	7.4	6.1	7.4	6.2	2.5	2.8	13.9	11.1	2.8
Balance of payments										
Current account balance (% GDP)	-1.7	-2.2	-2.1	-2.2	-1.9	-2.1	-2.3	2.9	-0.6	-2.3
Trade balance (%GDP)	-1.0	-1.7	-1.7	-1.7	-1.8	-2.1	-2.4	2.4	-0.1	-2.4
FDI (% GDP)	3.7	3.8	3.6	3.8	3.5	2.8	2.1	2.1	3.6	2.1
Fiscal policy										
Fiscal balance (% GDP)	x	x	x	x	x	x	x	-6.9	-1.9	-2.8
Public debt (% GDP)	x	x	x	x	x	x	x	57.1	53.8	49.9
Monetary policy‡										
NBP reference rate (%)	2.75	3.50	4.50	3.50	6.00	6.50	6.50	0.10	1.75	6.50
NBP lombard rate (%)	3.25	4.00	5.00	4.00	6.50	7.00	7.00	0.50	2.25	7.00
NBP deposit rate (%)	2.25	3.00	4.00	3.00	5.50	6.00	6.00	0.00	1.25	6.00
WIBOR 3M ^x (%)	3.65	4.77	6.05	4.77	6.40	6.70	6.70	0.21	2.54	6.70
Real WIBOR 3M ^x (%) [#]	-4.91	-6.30	-6.38	-4.91	-6.74	-6.62	-5.27	-3.19	-2.54	-5.32
Exchange rates*‡										
EUR-PLN	4.69	4.65	4.66	4.65	4.64	4.60	4.55	4.61	4.60	4.55
USD-PLN	4.20	4.18	4.41	4.18	4.30	4.18	4.14	3.75	4.06	4.14
CHF-PLN	4.55	4.52	4.55	4.52	4.46	4.38	4.25	4.25	4.45	4.25
EUR-USD	1.12	1.11	1.06	1.11	1.08	1.10	1.10	1.23	1.14	1.10

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^
R. Sura	2.7	"We should adjust the scale of hikes to inflowing data on inflation and business sentiment, as well as to forecasts. Hence, the Council does not set the target interest rate level or the time frame for tightening. It would be difficult even without the additional uncertainty tied to the war in Ukraine." (24.05.2022, PAP).
C. Kochalski	2.2	"I see room for rate hikes, also because economic conditions are good and the industry continues to grow at a fast pace. (...) At the same time, some caution is needed because we cannot predict how economies will react to the war in Ukraine longer term. (...) the current level of rates is safe, and what is more, room for hikes exists. (...) Economic slowdown amid forecast inflation still far away from the NBP target would not be a sufficient argument for me to stop the cycle." (27.04.2022, Parkiet).
A. Glapinski	1.8	"As the NBP president and chairman of the Monetary Policy Council, I would like to clearly stress that we take very seriously our constitutional and legal obligations (...) That is why in October we started decisive hiking of interest rates that will likely continue in the coming months, until we are certain that inflation will decline lastingly." (23.05.2022, obserwatorfinansowy.pl, PAP)
L. Kotecki	--	"We probably had an underestimation - by analysts, by decision-makers - of what could happen in the economy. And it actually happened, inflation is way too high. Moreover, in my opinion, it has escaped us. In the sense that it spilled over all the goods and services it could. It is not just that only gasoline or food prices grow. At the moment, everything is getting more expensive, the prices of over 90 percent of goods are growing faster than allowed by the inflation target or deviation from the target, i.e. faster than 3.5% (...) Unfortunately, this inflation is very high and probably still slightly growing. We have the so-called real negative interest rates, which means that raising interest rates should probably continue for some time. Of course, I do not want to say by what steps (...) but it seems that comparing the main interest rate at 5.25 percent at the moment with inflation over 12%, looks like there is still room for some more hikes." (16.05.2022, RMF FM)
P. Litwiniuk	--	"I am a proponent of monetary policy tightening, but not [PAP: of one conducted] in a sudden manner (...) I believe that rate hikes should take place at a pace allowing stakeholders from the banking sector, including borrowers, to adapt to this phenomenon." (16.05.2022, TVN24, PAP)
W. Janczyk	--	"I could assume a more cautious approach to monetary policy at the next meetings (...) Unpredictability is hitting its zenith during these weeks (...) That's exactly why I'm seeing some space for being less bold in monetary tightening. The situation's changing though almost every hour, and we need to stay on alert to act accordingly" (18.03.2022, Bloomberg).
H. Wnorowski	--	"The markets must also take into account the possibility of interest rates reaching 7.5% (...) We are currently in a situation where we can't impose any limits on ourselves." (19.04.2022, businessinsider.pl; PAP)
I. Dqbrowski	--	"Poland is not expected to suffer stagflation within a year." (23.05.2022, PAP)
(Vacant places)	--	--

*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.

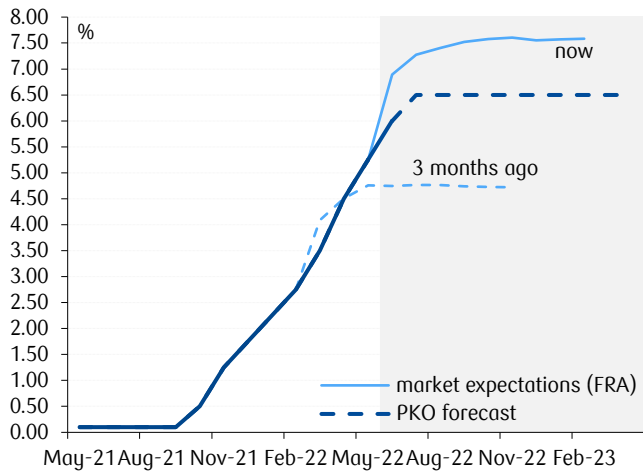
Interest rates – PKO BP forecasts vs. market expectations

		1M	2M	3M	4M	5M	6M	7M	8M	9M
Date	26-May	26-Jun	26-Jul	26-Aug	26-Sep	26-Oct	26-Nov	26-Dec	26-Jan	26-Feb
WIBOR 3M/FRA†	6.53	7.09	7.48	7.61	7.72	7.78	7.81	7.75	7.77	7.79
implied change (b. p.)		0.56	1.35	1.88	2.39	2.45	2.48	2.42	2.44	2.46
MPC Meeting	8-Jun	7-Jul	-	7-Sep	5-Oct	9-Nov	7-Dec	-	-	-
PKO BP forecast*	5.25	6.00	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50
market pricing*		5.81	6.60	7.13	7.64	7.70	7.73	7.67	7.69	7.71

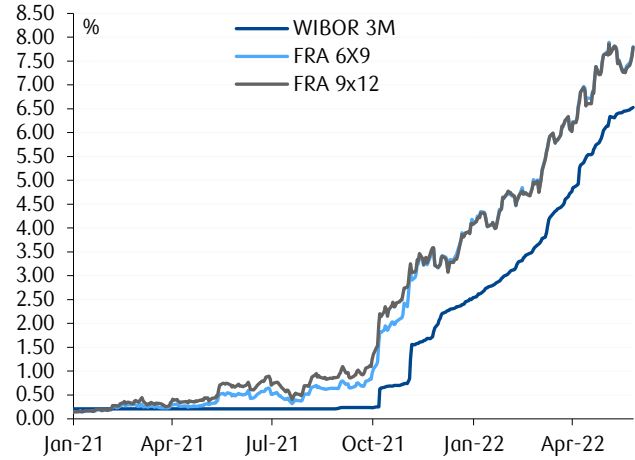
†WIBOR 3M from the last fixing, FRA transactions based on WIBOR 3M for subsequent periods, ‡in basis points, *PKO BP forecast of the NBP reference rate.

Poland macro chartbook

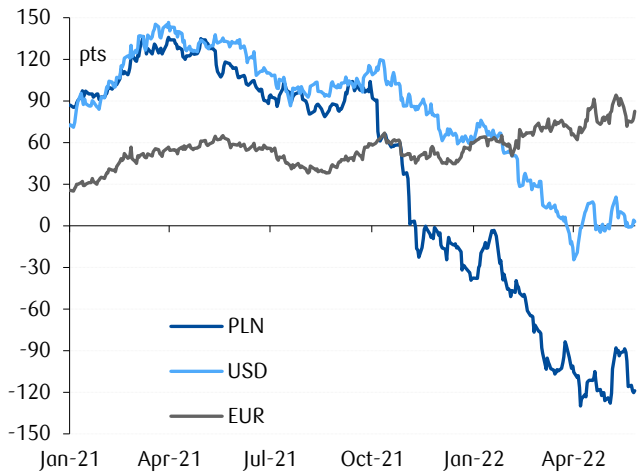
NBP policy rate: PKO BP forecast vs. market expectations



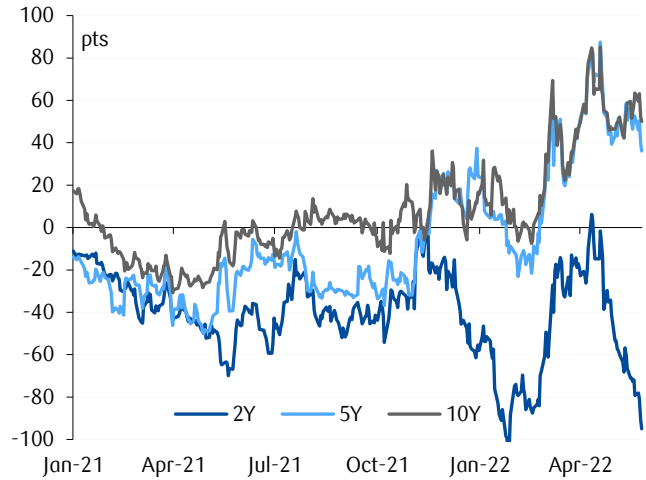
Short-term PLN interest rates



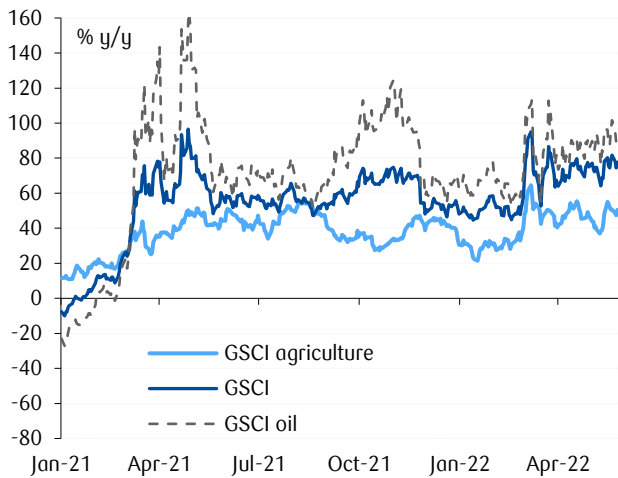
Slope of the swap curve (spread 10Y-2Y)*



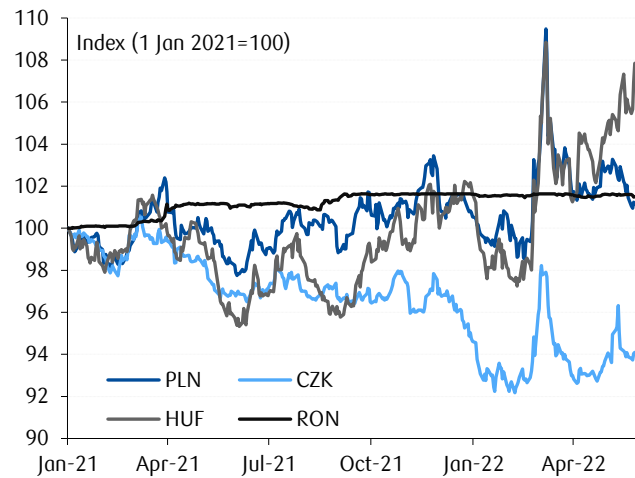
PLN asset swap spread



Global commodity prices (in PLN)

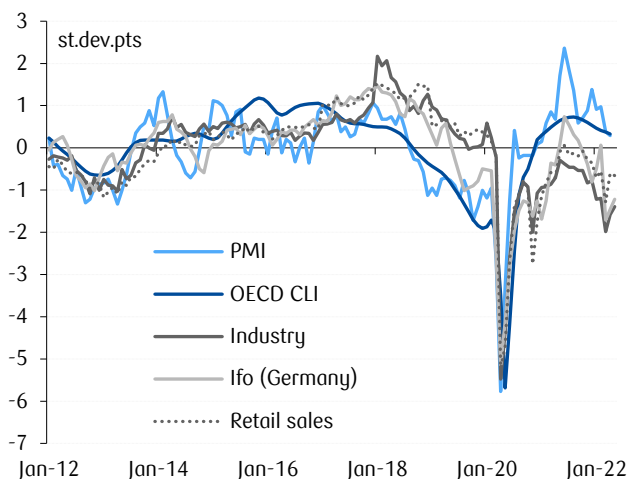


Selected CEE exchange rates against the EUR

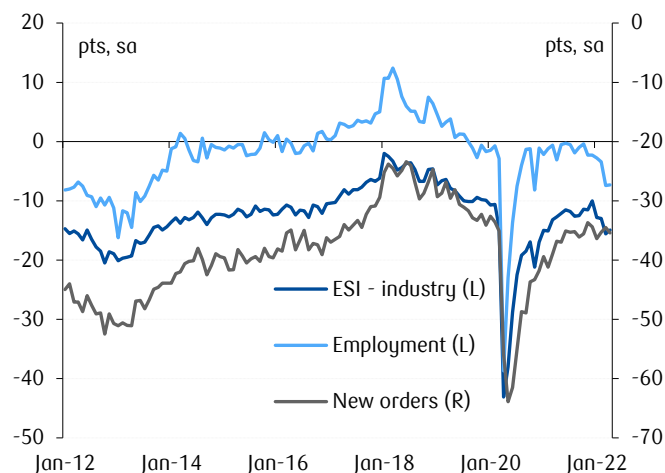


Source: Datastream, NBP, PKO Bank Polski. *for PLN, and EUR 6M, for USD 3M.

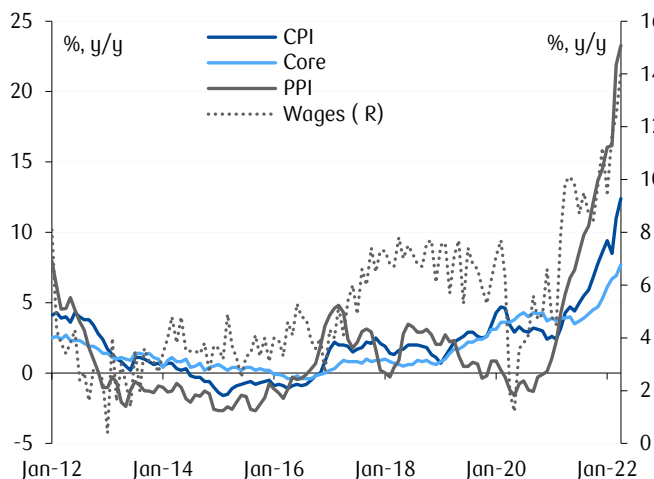
Economic sentiment indicators



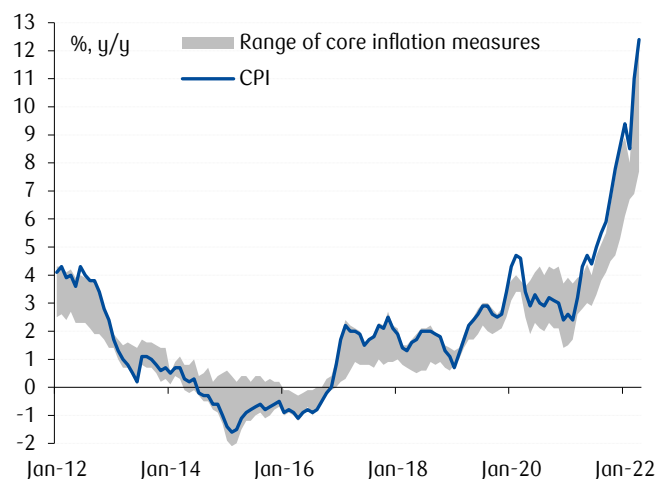
Poland ESI for industry and its components



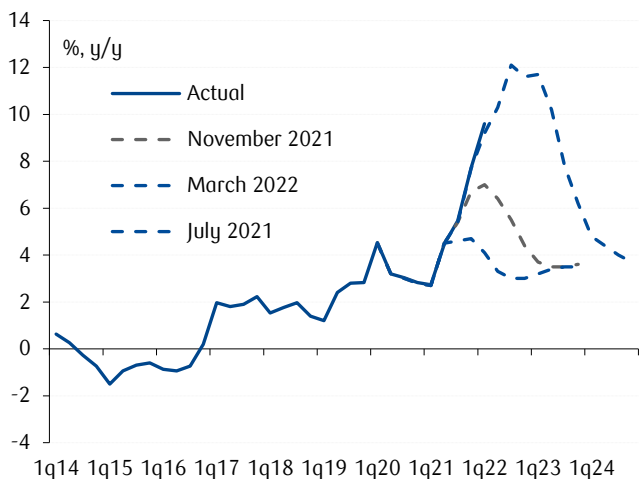
Broad inflation measures



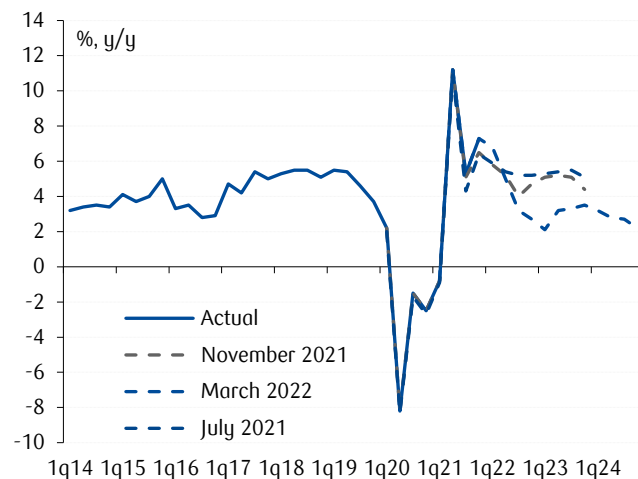
CPI and core inflation measures



CPI inflation – NBP projections vs. actual

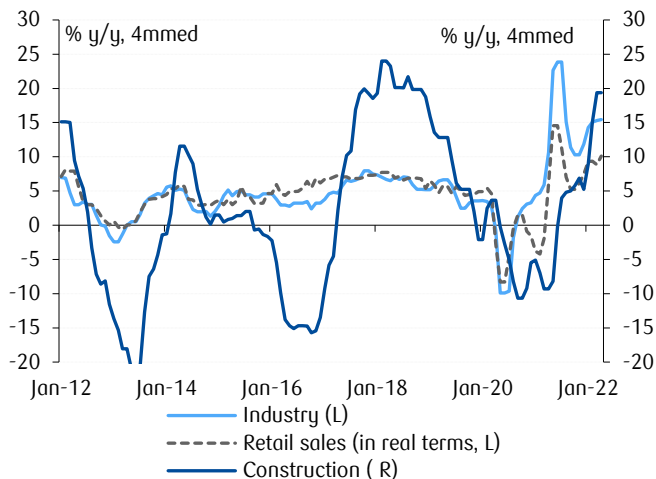


Real GDP growth – NBP projections vs. actual

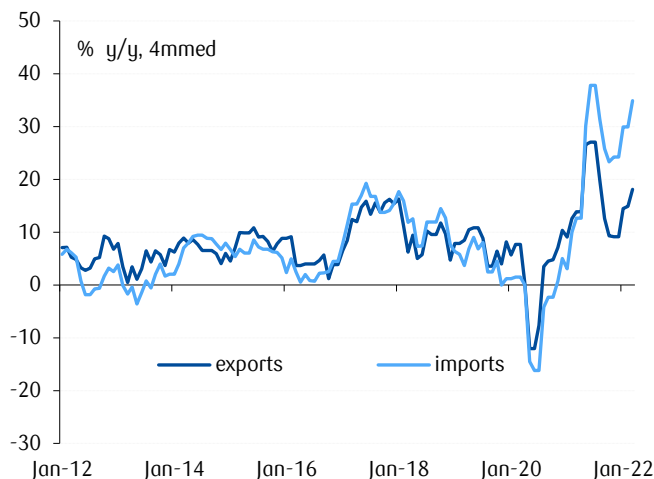


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

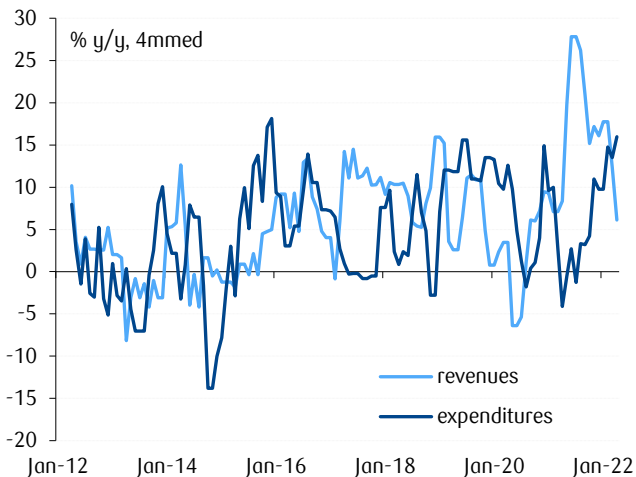
Economic activity indicators



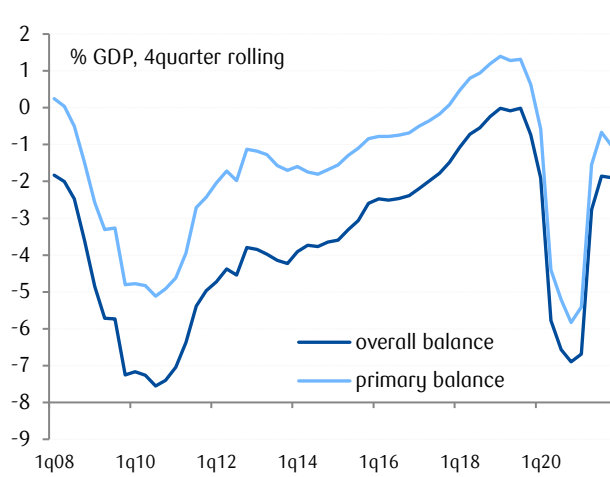
Merchandise trade (in EUR terms)



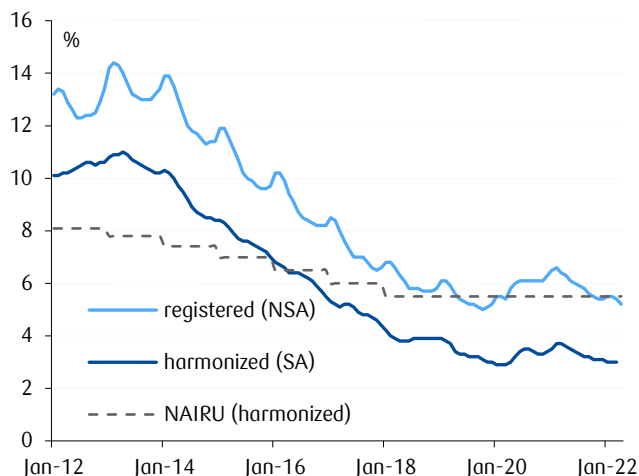
Central government revenues and expenditures*



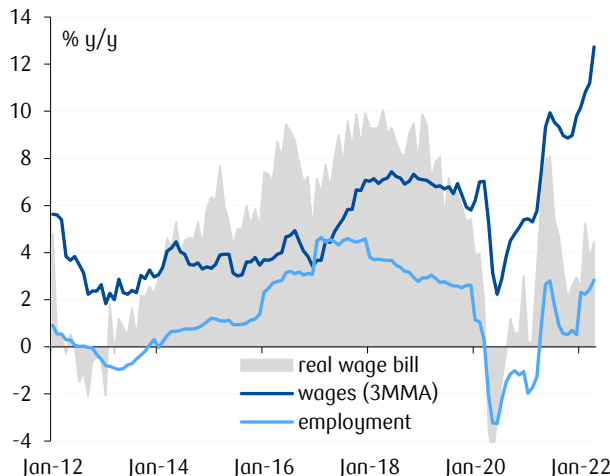
General government balance (ESA2010)



Unemployment rate

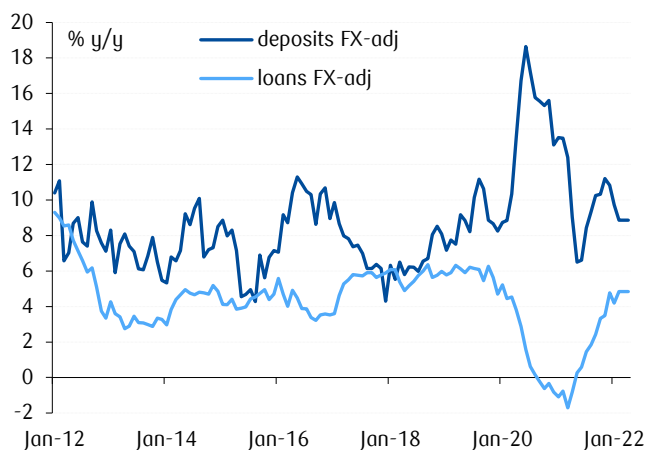


Employment and wages in the enterprise sector

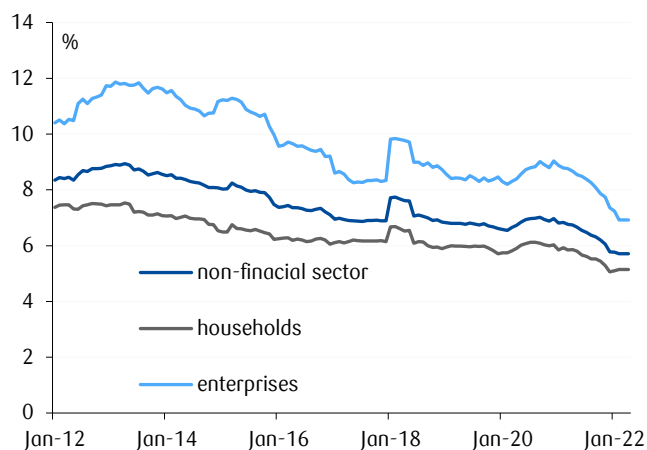


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. *break in series in 2010 due to methodological changes.

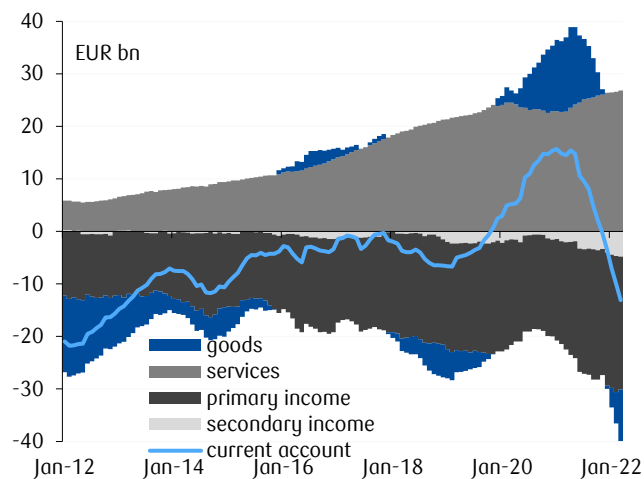
Loans and deposits



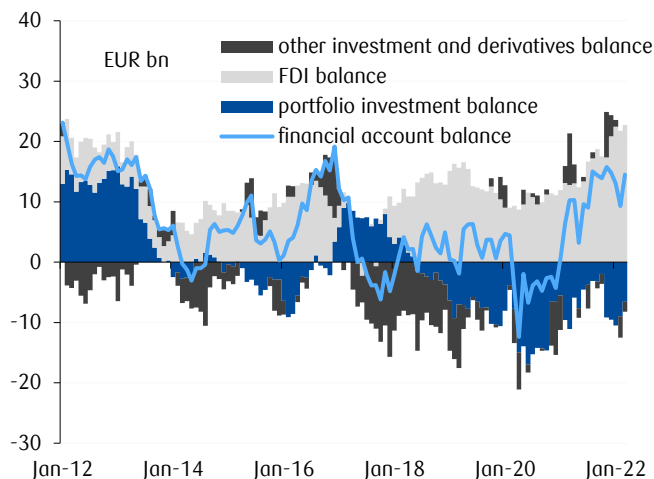
Non-performing loans (NPLs) - by sectors*



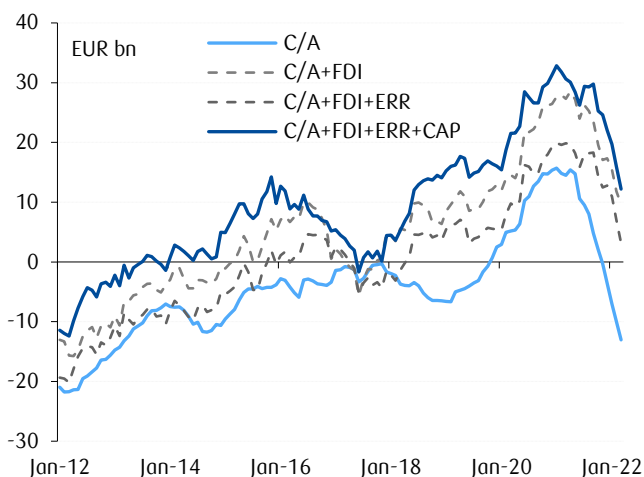
Current account balance



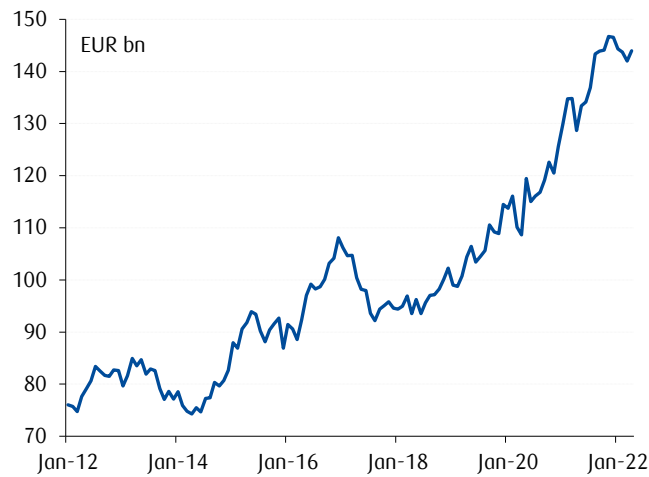
Financial account balance



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 (%)	5.9	4.9	The "carry-over" effect has intensified in 1q22 even more, making GDP growth rate at 5% in 2022 possible, but with some caveats. Taking this into account, we have revised our GDP forecast for 2022 (4.0%) to 4.9%, with risks skewed further to the upside. The headline GDP results in 2022 and 2023 might be misleading – showing a strong growth in 2022 despite stagnating growth, and much weaker performance in 2023, despite the economy likely gathering strength.
Prices			
- CPI inflation (%)	5.1	12.0	Even stronger growth of energy, food and fuel prices pass through to the rest of the economy pushing core inflation to new record highs. With robust consumer demand, the pass through is ever easier.
Monetary aggregates			
- M3 money supply (%)	8.9	5.6	The outbreak of the war in Ukraine could significantly limit demand for loans with deposits boosted by the state intervention (the same as in the case of pandemic response). Our high frequency data signal rising likelihood of such scenario (what implies additional downside risks for GDP growth rate).
External balance			
- current account balance (% GDP)	-0.6	-2.3	Recurring supply constrains (e.g. shortage of automotive components manufactured in Ukraine) has triggered production outages, limiting exports volumes while surging commodity prices boost imports value at the same time. On the other hand, a drop of imports-intensive investments (higher risk aversion of corporations amid extreme uncertainty) should partially offset this negative impact.
Fiscal policy			
- fiscal balance (% GDP)	-1.9	-2.8	High growth rate of nominal GDP supports fiscal revenues. Fiscal result in 2022 will hinge on the size of anti-inflationary shields (most likely they will be extended unit year-end) and a support for refugees, i.e. fiscal spending mainly via off-budget entities.
Monetary policy			
- NBP reference rate (%)	1.75	6.50	We assume that the MPC will continue rate hikes until July (100bps in May and then at least 100-150bps altogether at meetings in June and July) with terminal rate reaching at least 6.50-7.00%. Later on, Polish central bankers may adopt a wait-and-see approach, which would turn into the end of the cycle, if inflation starts descending (as currently indicated by forecasts) while both global and domestic economy get weaker.

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

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