

The economic whirlwinds of war

Top macro theme(s):

- **The economic whirlwinds of war (p.2):** Given the negative impact of the war on the economy, we have decided to take a conservative approach and revised our Poland's GDP growth forecast for 2022 down, to 3.3%.

What else caught our eye:

- **CPI inflation jumped to 10.9% y/y in March from 8.5% in February and was the highest since 1998.** During the month, prices increased by 3.2%, the most since 1996. Incomplete flash data show that the CPI was boosted by the war in Ukraine (shock in commodities prices and PLN depreciation). Fuel prices surged 28% m/m, energy prices rose 4.4% m/m while food prices grew 2.2% m/m. Core inflation likely remained below 7% y/y (on our estimate based on incomplete data). Inflation is set to keep growing, but at a clearly slower pace. We expect the CPI inflation to peak around mid-2022, probably below 12% y/y.
- **Manufacturing PMI** in March fell to 52.7 from 54.7 February. The war in Ukraine caused higher uncertainty and boosted cost pressures hindering the business climate in the sector.
- **The ECB and NBP have agreed to set up a precautionary swap line to provide euro liquidity.** The NBP will be able to borrow up to EUR 10 billion from the ECB in exchange for Polish zlotys. The maximum maturity is three months, and the line will remain in place until Jan.15th 2023.
- **PM M.Morawiecki announced a plan to abandon use of Russian hydrocarbons.** Poland is to abandon Russian coal imports by May 2022 at the latest, and to give up imports of Russian gas and oil by the end of 2022.

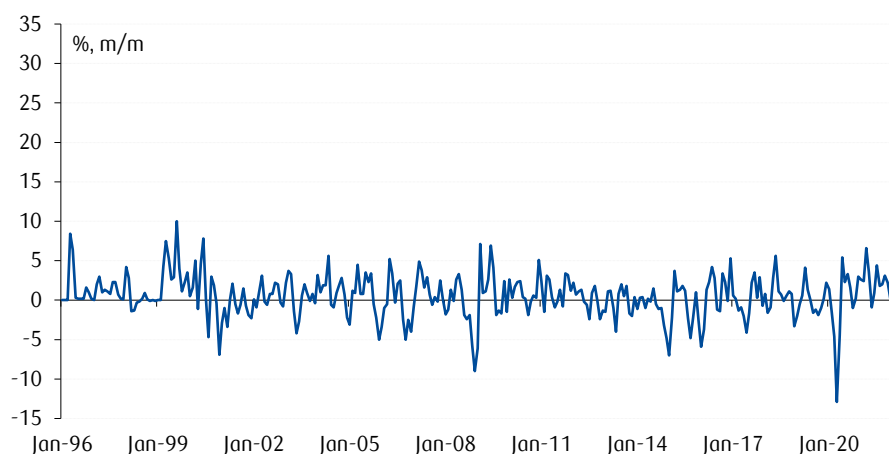
The week ahead:

- **We expect that the MPC will stick to its medium term tightening path and hike rates by 50bps on Wednesday.** The accelerating inflation and tighter monetary policy abroad makes it necessary to continue the cycle in Poland, while high uncertainty regarding economic growth in 2022 warrants a cautious approach.

Number of the week:

- **1.8%** – general government deficit to GDP ratio in 2021, down from 6.9% in 2020. At the same time public debt to GDP declined to 53.8% from 57.1%.

Chart of the week: Monthly change in fuel prices



Source: GUS, PKO Bank Polski.

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	2021 _†	2022 _†
Real GDP (%)	5.7	3.3
Industrial output (%)	15.4	10.0
Unemployment rate* (%)	5.4	6.2
CPI inflation** (%)	5.1	10.1
Core inflation** (%)	4.1	7.7
Money supply M3 (%)	8.9	5.6
C/A balance (% GDP)	-0.6	-1.3
Fiscal balance (% GDP)*	-1.8	-2.8
Public debt (% GDP)*	53.8	52.7
NBP reference rate### (%)	1.75	4.75
EURPLN†###	4.60	4.55

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.

The economic whirlwinds of war

- Given the negative impact of the war on the economy, we have decided to take a conservative approach and revised our Poland's GDP growth forecast for 2022 down, to 3.3%.
- The war-related negative supply shock pushed up our predicted inflation path for 2022 by 2-3pp. We expect the average CPI inflation at around 10.1% in 2022, with a double digit readings in spring and summer.
- We assume that the MPC will raise rates by 125bps during 2q22, and then it will end the cycle at 4.75% due to a clear economic slowdown and the disinflationary effects of both the tightening implemented so far and the labour supply growth.

We have updated our macroeconomic scenario, the details have been presented in our quarterly report ([Gospodarcze wichry wojny](#), in Polish). Below we summarise our main findings.

The Russian aggression is a stagflationary shock to the global economy (more inflation, less growth). The Fed signals its readiness for more decisive rate hikes, but the ECB remains cautious as the euro zone is more threatened by the negative economic impact of war. China is struggling with a pandemic, which may exacerbate disruptions in global supply chains, and additionally weaken the German economy, relatively heavily affected by the effects of the war in Ukraine.

Our meta assumption is that the military conflict would freeze/stabilize in the next few months, thus the sudden spike in uncertainty will slowly fade away helping the FX market (EURPLN) and energy commodities to moderate.

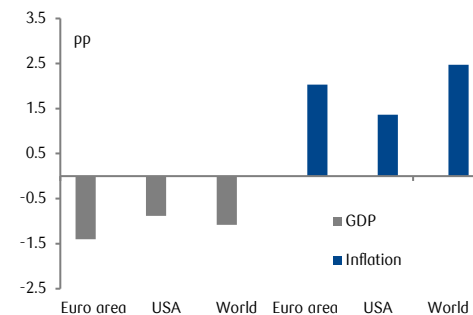
Given the negative impact of the war, we have decided to take a conservative approach and revised our Poland's GDP growth forecast for 2022 down, to 3.3%.

A large "carry-over effect" (see chart) means, that even in a case of a complete stagnation (i.e. GDP growth 0.0% q/q seas.adj. in four consecutive quarters of 2022), the 2022 GDP growth would stay around 3%. It means that if the strongly positive economic trends from the turn of 2021/2022 are not broken, a better result is possible (with GDP even above 4%, as assumed in our previous forecast). The adverse impact of the war manifests mainly as a more profound negative supply shock (higher costs/prices and supply disruptions), increased uncertainty and slower economic growth abroad. As a result we project investment to drop by 10% y/y in 2q22, and by 1.5% in 2022. Private consumption will continue to be the main driver of GDP growth in 2022, but its dynamics will decline to 3.8% from 6.1% in 2021 due to a strong increase in inflation. In the coming quarters spending will be boosted by war-related public consumption (state aid for refugees) and higher individual consumption (private aid for refugees and their own expenses).

The labour market impact of war is seen as a labour supply shock - negative in the short term (initial outflow of male workers to Ukraine, with the biggest impact on construction and transportation) and potentially large, positive shock in the long term (economic activation of the refugees). In the baseline scenario, we assume that approx. 3 million refugees from Ukraine will settle in Poland this year, of which approx. 30% will be economically active. This would push labour supply in Poland up by as much as 5-6%. In our opinion, the wave of refugees may generate up to 200,000 additional jobs this year (mainly in education and healthcare).

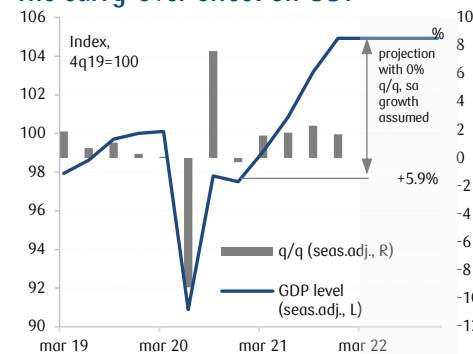
The war-related negative supply shock pushed our predicted inflation path for 2022 up by 2-3pp. We expect the average CPI inflation in 2022 at around 10.1%, with double digit readings in spring and summer. The extension of the "anti-

Simulated impact of war on economic growth and inflation



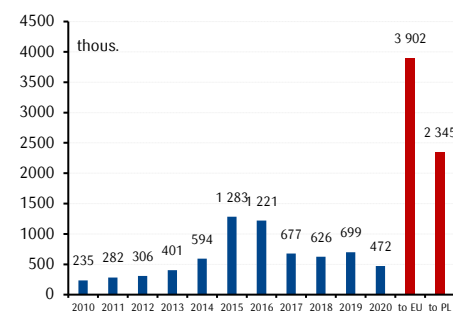
Source: OECD, PKO Bank Polski.

The carry-over effect on GDP



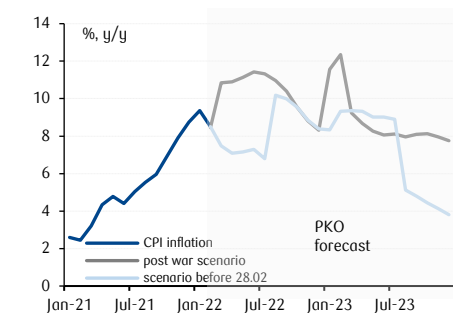
Source: GUS, PKO Bank Polski.

Inflow of Ukrainian refugees to Poland and EU (red) vs. asylum applications in EU in 2010-2020



Source: OECD, UNHCR, SG, PKO Bank Polski; Ukrainian refugees estimates as of 28.03.2022.

Complicated inflation path



Source: GUS, PKO Bank Polski.

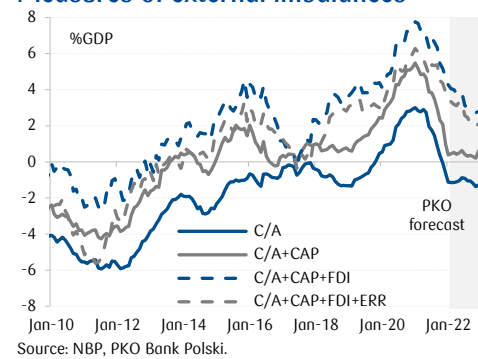
inflationary shield" until the end of 2022 means a low statistical base effect and a higher inflation path next year. The CPI will probably not return to the NBP target before 2024.

The shock on the commodities market worsens terms of trade of the Polish economy and hinders forecasts of the trade balance and the entire current account for 2022. We expect CA deficit to widen towards 1.3% of GDP in 2022 from 0.6% in 2021. However, other measures of the external imbalances are still on the safe side, therefore the Polish economy is not so prone to the outflow of portfolio investment. The inflow of EU funds and the high level of foreign exchange reserves support the zloty.

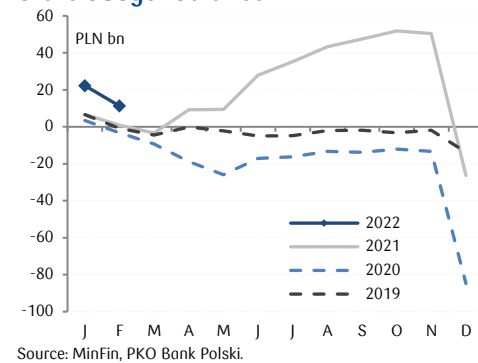
The MPC continues the largest and fastest tightening cycle in over 20 years. We assume that the Council will raise rates by more than 100bp in 2q22, and then will end the cycle at 4.75% due to signs of a clear economic slowdown and the disinflationary effects of both the tightening implemented so far (340bp) and the labour supply growth. However, the balance of risk for the NBP interest rate scenario remains asymmetric towards more hikes which might be triggered by possible pressure on the PLN with decisive Fed tightening and waves of market risk aversion, as well as secondary effects of rising inflation in the world and in Poland.

The budget costs of the anti-inflationary shield, tax changes and aid for refugees will halt the rapid reduction of the fiscal deficit. In the baseline scenario we assume that the general government deficit will increase moderately to 2.8% of GDP from 1.8% in 2021. On the revenue side, the budget will still be supported by a double-digit growth of nominal GDP. We estimate that the gross cost of the aid for Ukrainian refugees will not exceed 2% of GDP, as it will be likely reduced by expected relatively high activity of the refugees on the labour market (which limits the need for a long-term financial help and generates additional tax incomes). Additionally at least part of the expenses might be covered by additional EU funds. We expect that the public debt-to-GDP ratio will decline again, thanks to the double-digit nominal GDP growth.

Measures of external imbalances



State budget balance



Main macroeconomic indicators

	3q21	4q21	1q22	2q22	3q22	4q22	1q23	2q23	2021	2022
Real GDP (% y/y)	5.3	7.3	6.0	2.4	2.6	2.7	3.7	3.9	5.7	3.3
LFS unemployment rate (%)	3.0	2.9	3.0	2.6	2.7	2.5	2.6	2.4	2.9	2.5
CPI inflation (% y/y, period avg.)	5.5	7.9	9.6	11.2	10.9	8.9	11.0	8.3	5.1	10.1
Core inflation (% y/y, period avg.)	3.9	4.8	6.6	8.0	8.3	7.7	6.4	4.7	4.1	7.7
Current account balance (% of GDP)	0.9	-0.6	-1.1	-0.9	-1.0	-1.3	-1.2	-1.0	-0.6	-1.3
Fiscal balance (% of GDP)†*	-1.9	-1.8	-1.8	-2.0	-2.3	-2.8	-2.8	-2.6	-1.8	-2.8
Public debt (% of GDP)†*	56.6	53.8	54.0	53.0	51.8	52.7	51.0	49.8	53.8	52.7
NBP reference rate (%)	0.10	1.75	3.50	4.75	4.75	4.75	4.75	4.75	1.75	4.75

Weekly economic calendar

Indicator	Time (UK)	Unit	Previous	Consensus*	PKO BP	Comment
Monday, 4 April						
GER: Trade Balance (Feb)	7:00	bn EUR	6.4	6.1	--	--
GER: Exports (Feb)	7:00	% m/m	-2.8	1.0	--	--
GER: Imports (Feb)	7:00	% m/m	-4.2	--	--	--
EUR: Sentix Index (Apr)	9:30	pts.	-7	-9.4	--	--
USA: Factory orders (Feb)	15:00	% m/m	1.4	-0.6	--	--
USA: Durable goods orders (Feb, final)	15:00	% m/m	1.6	-2.2	--	--
Tuesday, 5 April						
GER: Services PMI (Mar, final)	8:55	pts.	55.8	55	--	--
EUR: Services PMI (Mar, final)	9:00	pts.	55.5	54.8	--	--
USA: Trade balance (Feb)	13:30	bn USD	-89.7	-87.5	--	--
Wednesday, 6 April						
GER: Factory orders (Feb)	7:00	% m/m	1.8	-0.4	--	--
GER: Factory orders (Feb)	7:00	% y/y	7.3	5.5	--	--
EUR: PPI inflation (Feb)	10:00	% y/y	30.6	--	--	--
USA: Minutes Fed (Mar)	19:00	--	--	--	--	--
POL: NBP base rate	--	%	3.50	4.00	4.00	A data-driven MPC will deliver another rate hike (PKOe: +50bps).
Thursday, 7 April						
GER: Industrial production (Feb)	7:00	% m/m	2.7	0.1	--	--
GER: Industrial output (Feb)	7:00	% y/y	1.8	4.0	--	--
EUR: Retail sales (Feb)	10:00	% y/y	7.8	4.9	--	--
USA: Initial Jobless Claims	13:30	thous.	202	--	--	--
Friday, 8 April						
HUN: CPI inflation (Mar)	8:00	% y/y	8.3	8.9	--	--

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

Selected economic indicators and forecasts

	Jan-22	Feb-22	Mar-22	1q22	2q22	3q22	4q22	2020	2021	2022
Economic activity										
Real GDP (% y/y)	x	x	x	6.0	2.4	2.6	2.7	-2.5	5.7	3.3
Domestic demand (% y/y)	x	x	x	9.2	2.8	2.2	2.6	-3.7	8.2	4.0
Private consumption (% y/y)	x	x	x	5.0	3.0	3.5	3.5	-3.0	6.1	3.8
Gross fixed capital formation (% y/y)	x	x	x	7.5	-10.0	-6.0	2.0	-9.6	7.9	-1.5
Inventories (pp)	x	x	x	3.8	1.5	0.2	-0.5	-0.8	2.7	1.1
Net exports (pp)	x	x	x	-2.7	-0.1	0.5	0.2	0.8	-1.9	-0.5
Industrial output (% y/y)	18.1	17.7	11.7	16.4	9.0	10.5	4.1	-1.2	15.4	10.0
Construction output (% y/y)	20.9	21.4	15.2	18.3	2.4	5.6	3.7	-2.7	1.6	7.5
Retail sales (real, % y/y)	10.6	8.1	9.2	9.1	8.1	5.8	6.1	-2.7	7.6	7.3
Nominal GDP (PLN bn)	x	x	x	679.0	687.7	725.2	840.1	2327	2603	2932
Labour market										
Registered unemployment rate‡(%)	5.5	5.5	5.3	5.3	5.1	5.5	6.2	6.3	5.4	6.2
Employment in enterprises (% y/y)	2.3	2.2	2.5	2.3	2.5	2.8	3.0	-1.2	0.3	2.6
Wages in enterprises (% y/y)	9.5	11.7	10.2	10.7	11.0	8.7	7.9	4.8	9.0	9.6
Prices^										
CPI inflation (% y/y)	9.4	8.5	10.9	9.5	11.2	10.9	8.9	3.3	5.1	10.1
Core inflation (% y/y)	6.1	6.7	6.7	6.6	8.0	8.3	7.7	3.9	4.1	7.7
15% trimmed mean (% y/y)	7.0	7.0	x	x	x	x	x	3.9	4.1	x
PPI inflation (% y/y)	16.3	16.1	17.6	16.4	15.9	13.9	9.7	-0.5	7.9	13.9
Monetary aggregates‡										
Money supply, M3 (PLN bn)	1973.0	1984.2	2003.9	2003.9	2024.6	2045.8	2096.7	1822.7	1985.0	2096.7
Money supply, M3 (% y/y)	7.7	8.1	7.6	7.6	7.9	6.9	5.6	16.4	8.9	5.6
Real money supply, M3 (% y/y)	-1.5	-0.3	-2.9	-1.8	-2.9	-3.6	-3.0	12.7	3.6	-4.1
Loans, total (PLN bn)	1402.6	1420.6	1412.0	1412.0	1415.8	1466.2	1474.2	1333.8	1403.5	1474.2
Loans, total (% y/y)	4.9	6.3	5.1	5.1	4.9	6.5	5.0	0.8	5.2	5.0
Deposits, total (PLN bn)	1794.1	1803.8	1828.2	1828.2	1854.2	1894.7	1878.3	1602.2	1780.1	1878.3
Deposits, total (% y/y)	10.2	9.7	9.5	9.5	7.5	5.4	5.5	13.9	11.1	5.5
Balance of payments										
Current account balance (% GDP)	-1.2	-1.6	-1.1	-1.1	-0.9	-1.0	-1.3	2.9	-0.6	-1.3
Trade balance (%GDP)	-0.6	-0.9	-1.2	-1.2	-1.4	-1.7	-2.0	2.4	-0.1	-2.0
FDI (% GDP)	3.8	3.6	3.5	3.5	3.2	2.5	2.1	2.1	3.7	2.1
Fiscal policy										
Fiscal balance (% GDP)	x	x	x	x	x	x	x	-6.9	-1.8	-2.8
Public debt (% GDP)	x	x	x	x	x	x	x	57.4	53.8	52.7
Monetary policy‡										
NBP reference rate (%)	2.25	2.75	3.50	3.50	4.75	4.75	4.75	0.10	1.75	4.75
NBP lombard rate (%)	2.75	3.25	4.00	4.00	5.25	5.25	5.25	0.50	2.25	5.25
NBP deposit rate (%)	1.75	2.25	3.00	3.00	4.25	4.25	4.25	0.00	1.25	4.25
WIBOR 3M ^x (%)	3.02	3.65	4.77	4.77	4.95	4.95	4.95	0.21	2.54	4.95
Real WIBOR 3M ^x (%) [#]	-6.35	-4.82	-6.65	-4.78	-6.20	-5.95	-3.94	-3.06	-2.60	-5.17
Exchange rates^{x,‡}										
EUR-PLN	4.60	4.69	4.65	4.65	4.64	4.60	4.55	4.61	4.60	4.55
USD-PLN	4.11	4.20	4.18	4.18	4.18	4.11	4.03	3.75	4.06	4.03
CHF-PLN	4.42	4.55	4.52	4.52	4.42	4.34	4.25	4.25	4.45	4.25
EUR-USD	1.12	1.12	1.11	1.11	1.11	1.12	1.13	1.23	1.14	1.13

Source: GUS, NBP, PKO Bank Polski.

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

Monetary policy monitor

MPC Members	Hawk-o-meter*	Recent policy indicative comments^
R. Sura	2.7	"The target of monetary policy tightening invariably is to lower inflation to the target range, that is to below 3.5%, within medium term, while at the same time preventing depreciation of the zloty, which has nothing to do with strong fundamentals of the Polish economy (...) While tightening monetary policy in Poland, we should avoid cooling the economy too much" (15.03.2022, PAP).
C. Kochalski	2.2	Interest rate increases should be introduced in such a way as to reduce inflation costs for the real economy and economic growth" (22.03.2022, Bloomberg).
A. Glapinski	1.8	"Our further decisions will still be directed at ensuring price stability in mid-term, while at the same time supporting sustainable economic growth (...) The unemployment rate is low and the number of job offers is growing (...) Because of that, we won't cause severe unemployment growth by raising NBP rates now, but we will rather prevent excessive growth of wage pressure" (17.02.2022, Super Express / PAP)
L. Kotecki	--	"Inflation has a substantial local component that the MPC can impact, but commodity prices are beyond our control, and they play an important role, (...) Still, sooner or later commodity prices will stop driving up inflation, and may even start mitigating it. (...) " (21.03.2022, PAP)
P. Litwiniuk	--	"In my opinion, such a pace of hikes [by 50 bps] or more generally speaking, gradual actions, would be more welcome than sudden changes in the monetary policy. (...) I hope the decisive steps of the NBP, combined with government actions, will stop that manifestation of a 'vicious circle' of inflation phenomena" (23.02.2022, PAP)
W. Janczyk	--	"I could assume a more cautious approach to monetary policy at the next meetings (...) Unpredictability is hitting its zenith during these weeks (...) That's exactly why I'm seeing some space for being less bold in monetary tightening. The situation's changing though almost every hour, and we need to stay on alert to act accordingly" (18.03.2022, Bloomberg).
H. Wnorowski	--	"In general I am convinced that fighting inflation and stabilization of its level is [important] to both the central bank and the Polish government. (...) That's why instruments at the disposal of the [central] bank, i.e. interest rates and currency rate, will still be used for some time to come. (...) I deeply believe that the February reading will settle well below [the 9.2% January print] and [that] we will be heading towards stabilization [of inflation]." (23.02.2022, PAP)
I. Dąbrowski	--	--
(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.

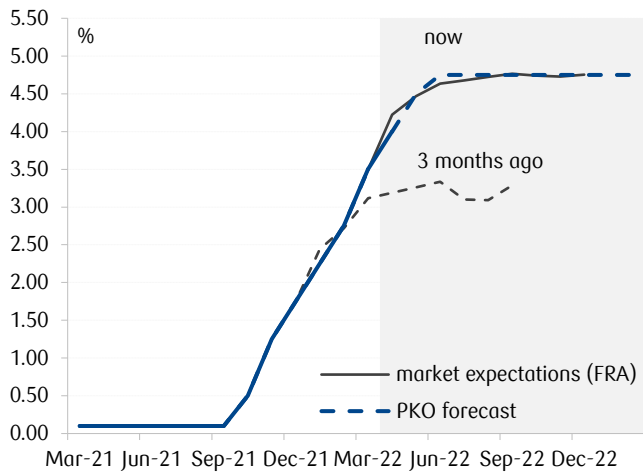
Interest rates – PKO BP forecasts vs. market expectations

		1M	2M	3M	4M	5M	6M	7M	8M	9M
Date	31-Mar	30-Apr	30-May	30-Jun	30-Jul	30-Aug	30-Sep	30-Oct	30-Nov	30-Dec
WIBOR 3M/FRA†	4.77	5.49	5.74	5.91	5.95	5.99	6.04	6.01	6.00	6.03
implied change (b. p.)		0.72	0.97	1.14	1.18	1.22	1.27	1.24	1.23	1.26
MPC Meeting	8-Mar	6-Apr	5-May	8-Jun	7-Jul	-	7-Sep	5-Oct	9-Nov	7-Dec
PKO BP forecast*	3.50	4.00	4.50	4.75	4.75	4.75	4.75	4.75	4.75	4.75
market pricing*		4.22	4.47	4.64	4.68	4.72	4.77	4.74	4.73	4.76

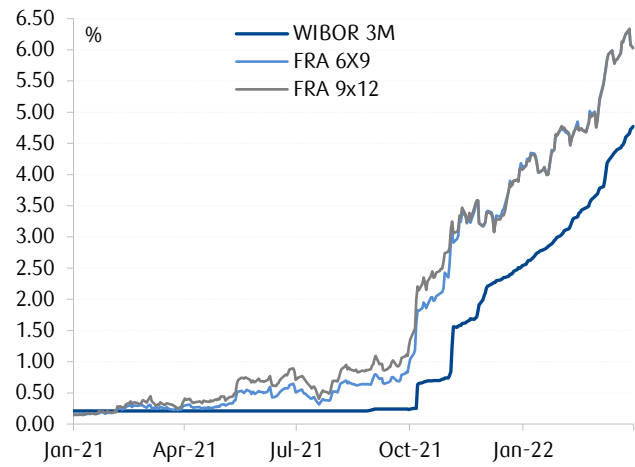
†WIBOR 3M from the last fixing, FRA transactions based on WIBOR 3M for subsequent periods, ‡in basis points, *PKO BP forecast of the NBP reference rate.

Poland macro chartbook

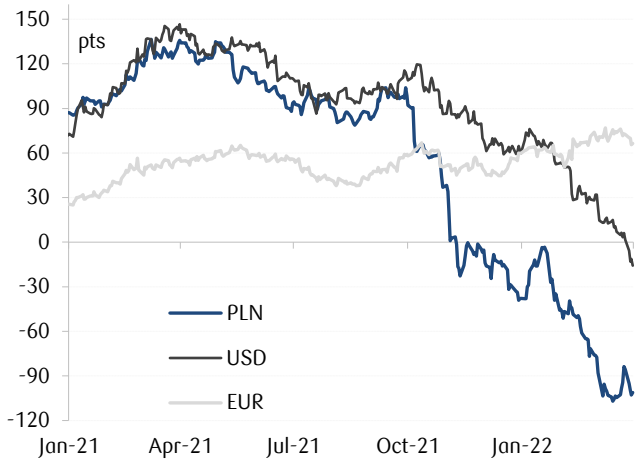
NBP policy rate: PKO BP forecast vs. market expectations



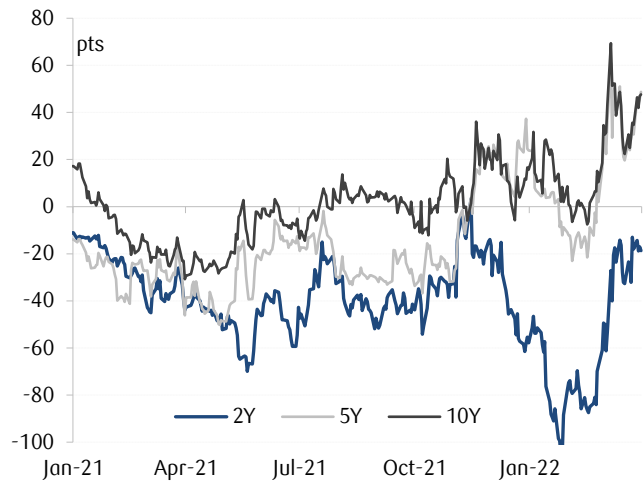
Short-term PLN interest rates



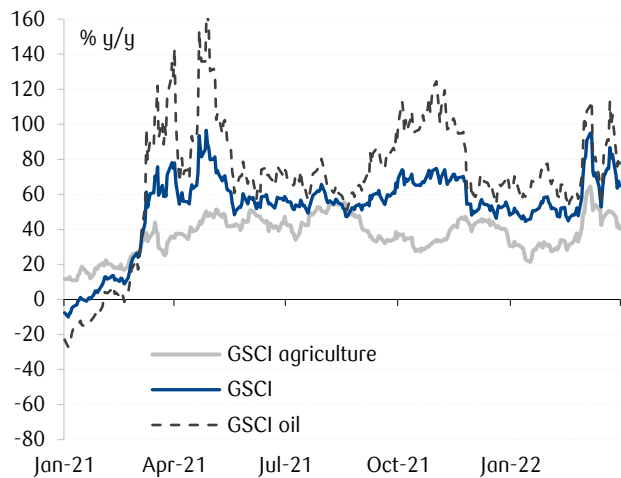
Slope of the swap curve (spread 10Y-2Y)*



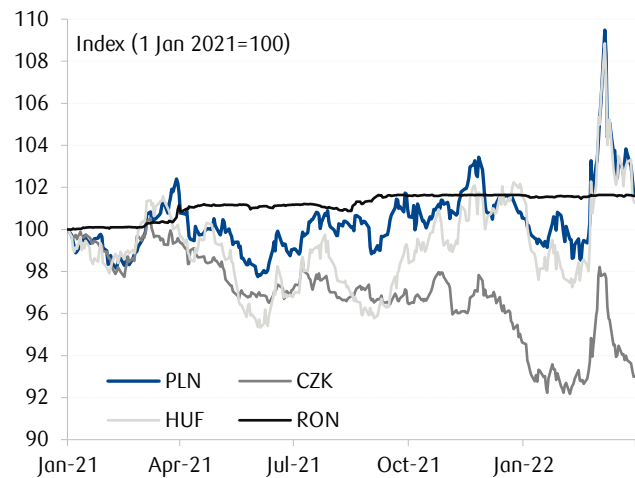
PLN asset swap spread



Global commodity prices (in PLN)

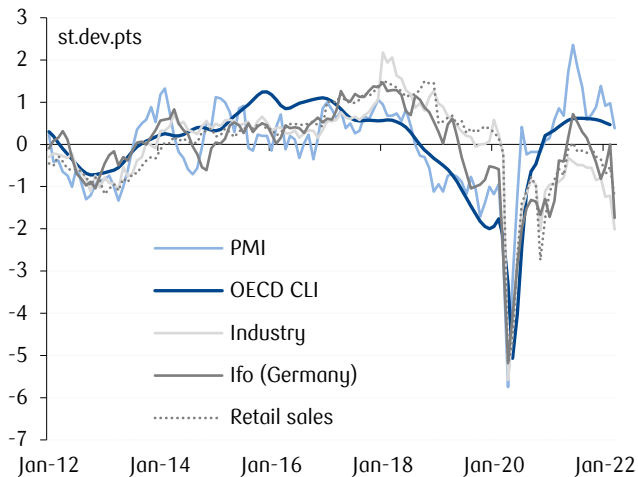


Selected CEE exchange rates against the EUR

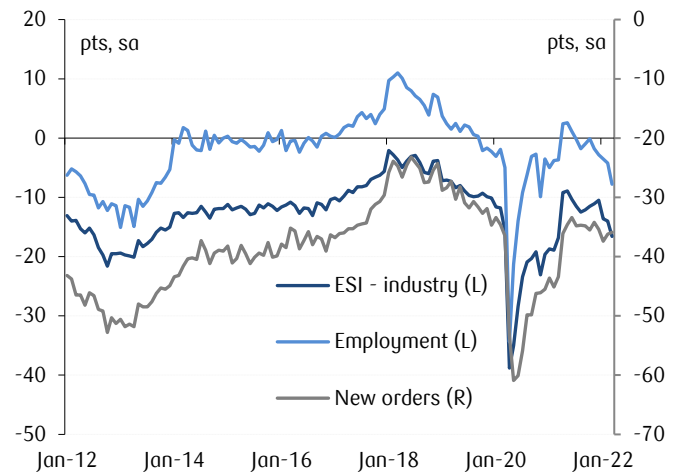


Source: Datastream, NBP, PKO Bank Polski. *for PLN, and EUR 6M, for USD 3M.

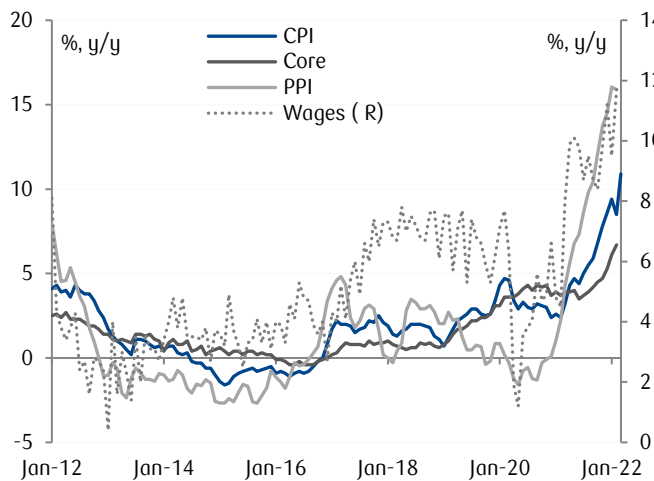
Economic sentiment indicators



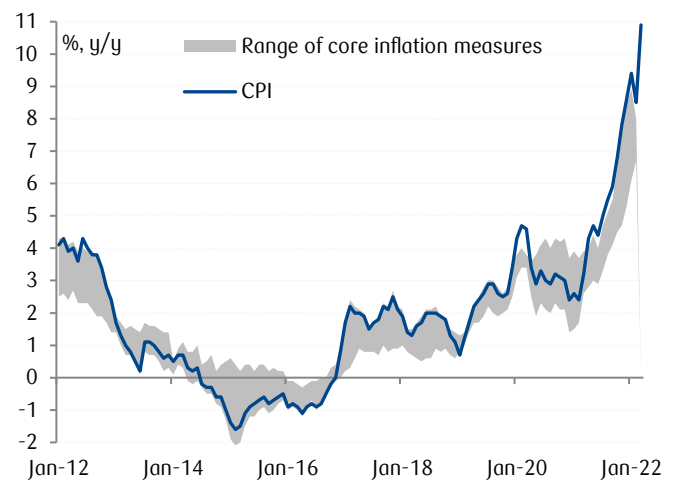
Poland ESI for industry and its components



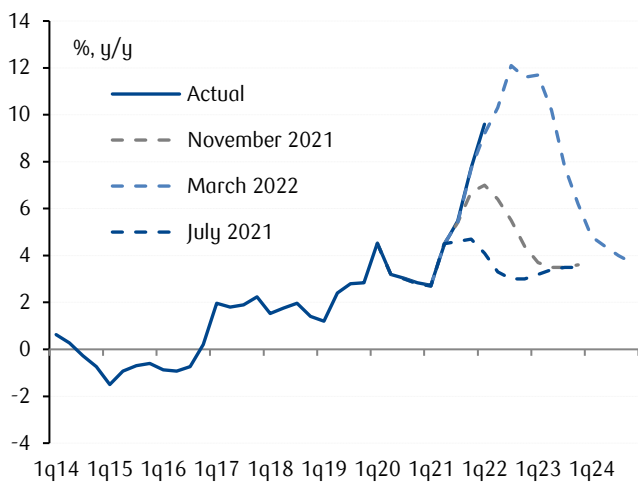
Broad inflation measures



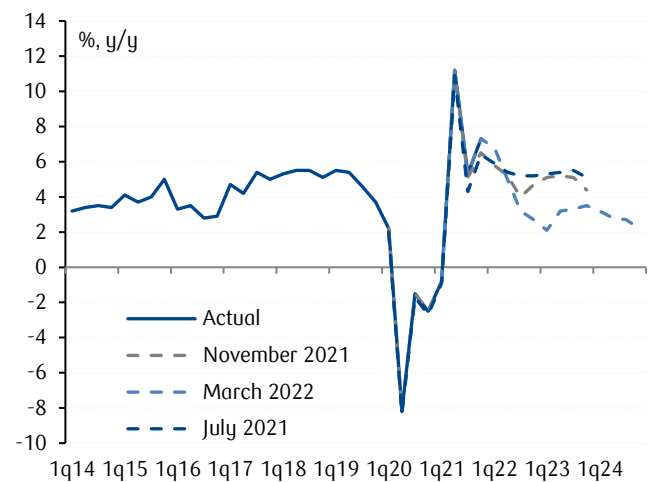
CPI and core inflation measures



CPI inflation - NBP projections vs. actual

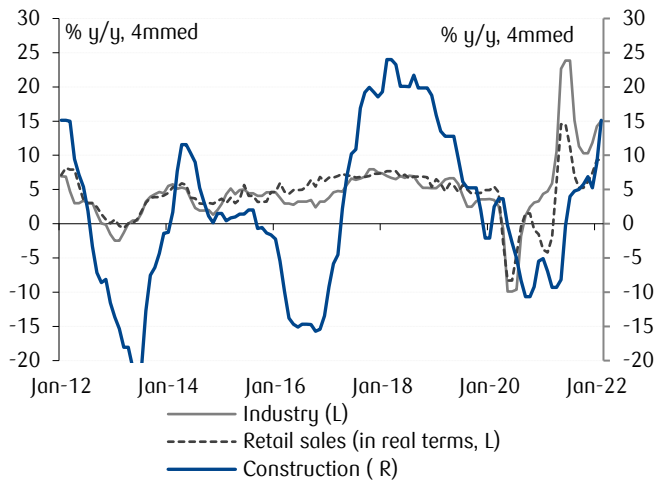


Real GDP growth - NBP projections vs. actual

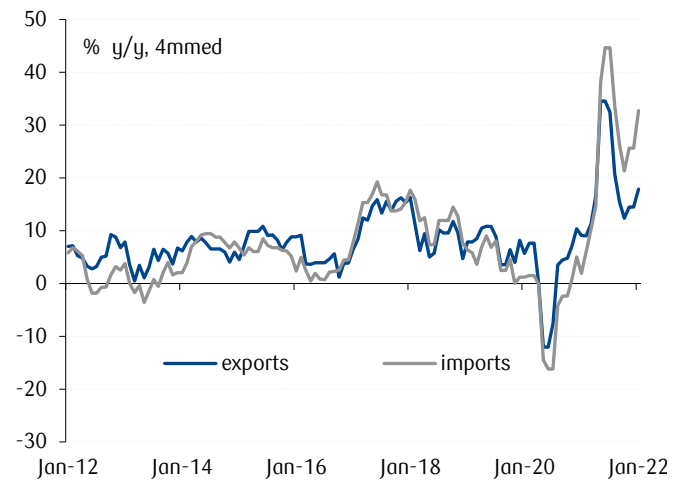


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

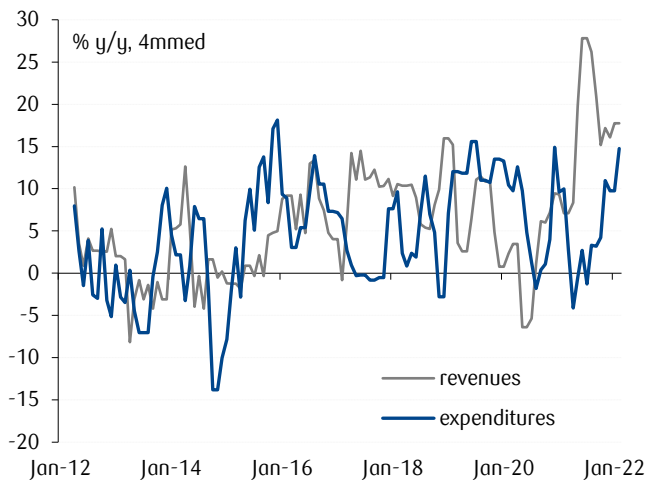
Economic activity indicators



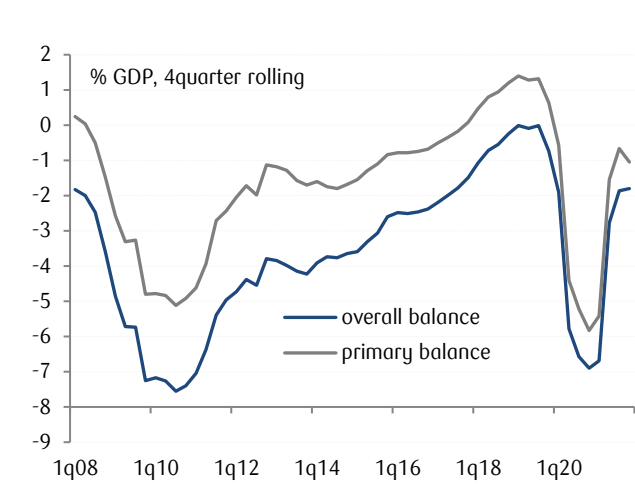
Merchandise trade (in EUR terms)



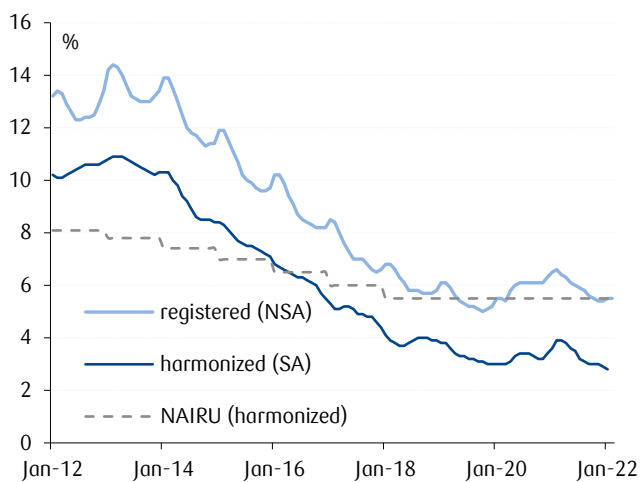
Central government revenues and expenditures*



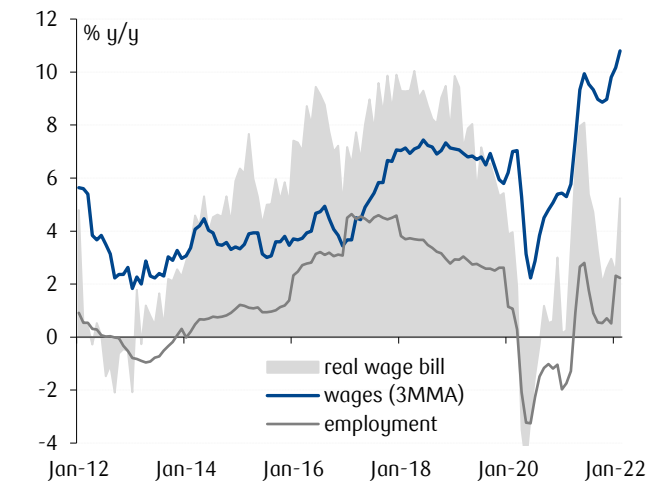
General government balance (ESA2010)



Unemployment rate

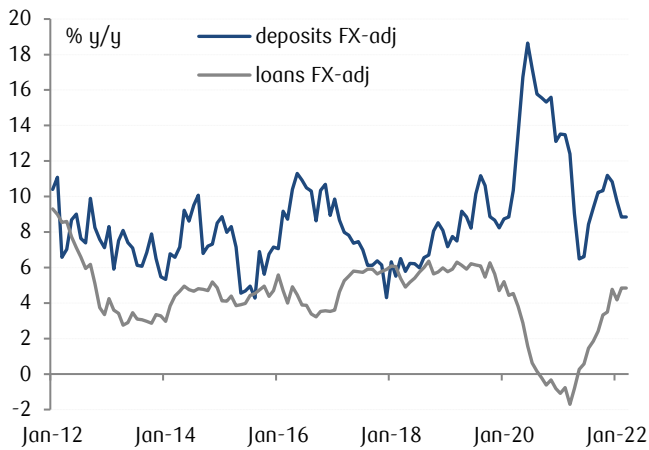


Employment and wages in the enterprise sector

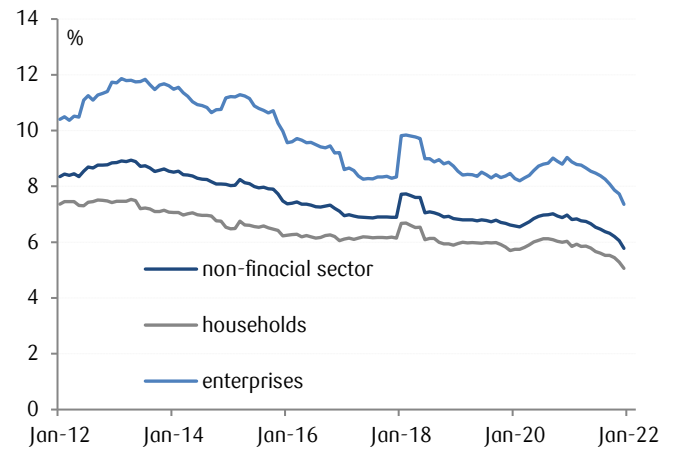


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. *break in series in 2010 due to methodological changes.

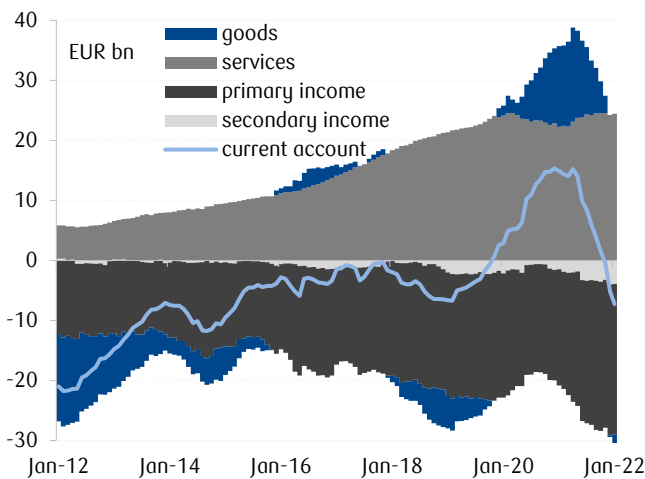
Loans and deposits



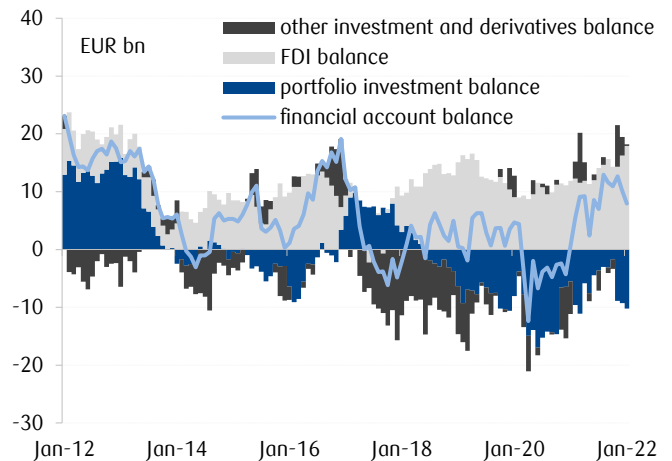
Non-performing loans (NPLs) - by sectors*



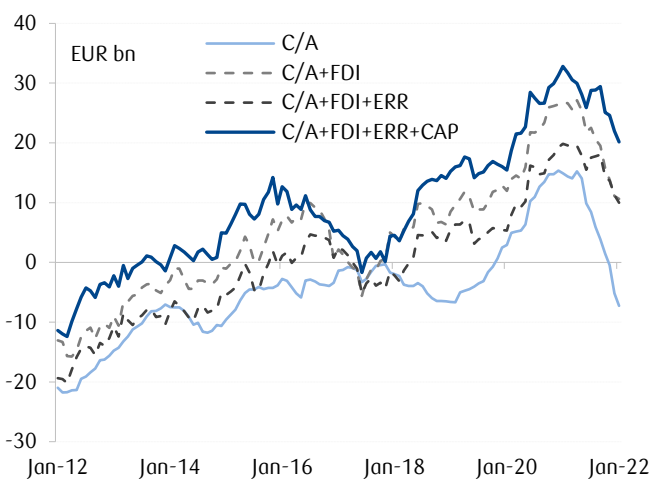
Current account balance



Financial account balance



External imbalance measures



NBP FX reserves (in EUR terms)



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

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Poland's macro in a nutshell

	2021	2022	Comment
Real economy			
- real GDP (%)	5.7	3.3	The war in Ukraine and the economic war between Russia and West create significant risk factors for the GDP outlook (negative impact of higher inflation, surge in risk aversion limiting private demand and investment activity). We have downgraded GDP outlook and now pencil in GDP growth rate in 2022 at 3.3% (down from 4.1%). On the other hand the strong economic momentum at the turn of 21/22 creates some positive buffer in terms of the whole 2022 result.
Prices			
- CPI inflation (%)	5.1	10.1	Another surge in energy prices (this time oil price spike) has neutralized an impact of the anti-inflationary shield on CPI inflation. Assuming that the shield will be prolonged at least until the end of 2022 we estimate CPI inflation at 10.1% in 2022. Food prices in summer as well as global commodity prices and PLN exchange rate are most important risk factors for our forecast.
Monetary aggregates			
- M3 money supply (%)	8.9	5.6	The outbreak of the war in Ukraine can limit down demand on loans significantly with deposits boosted by the state intervention (same as in the case of pandemic response). Our high frequency data signal rising likelihood of such scenario (what implies additional downside risks for GDP growth rate).
External balance			
- current account balance (% GDP)	-0.6	-1.3	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 (rising risk aversion of corporations amid extreme uncertainty) should partially offset this negative impact.
Fiscal policy			
- fiscal balance (% GDP)	-1.8	-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	4.75	The stagflationary impact of war makes policy choices for monetary authorities more tricky. We still believe that monetary tightening will be continued in a pretty decisive way (with three more rate hikes: by 50 bp in April and May and 25 bp in June) until the slowdown becomes apparent.

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

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