

## It's not the last word on the matter

### Top macro theme(s):

- **It's not the last word on the matter (p. 2):** The MPC raised NBP rates by 50bps (the reference rate to 1.75%, the highest since March 2015). The post-meeting statement suggests that market valuations indicating a rise in the reference rate above 3% in the next 12 months might be too aggressive. On the other hand, comments from governor Glapinski at presser on Thursday suggest that the MPC definitely has not said the last word yet.

### What else caught our eye:

- The government announced **new anti-epidemic restrictions** as of Dec 15, with a marginal impact on economic activity, in our view.
- The EU paved the way for member states to **cut VAT rate on basic food products to 0%** for a period of 6 months without a prior EU Council approval. This leaves the opportunity for the government to slash CPI inflation further by 0.2-0.3pp, on our estimates (most likely in 1h22).
- A significant **shortage of electricity** last Monday (managed successfully by the grid operator via imports) has reminded of an overall structurally tight electricity supply in Poland.
- PFR head P.Borys believes that **the terminal rate** for Poland is 2-3%.

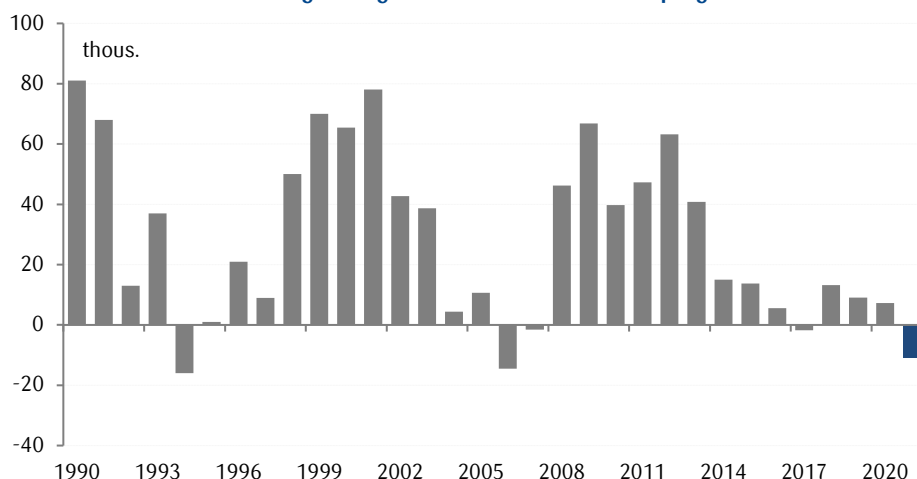
### The week ahead:

- **Detailed CPI figures for November** will be the key local macro data release the week ahead. The headline inflation rate is likely to be confirmed at 7.7%, with core inflation edging up further to 4.6-4.7% (from 4.5% in Oct).
- **Labour market data for November** could be distorted by the pandemic due to record high number of people under quarantine. Our forecasts are in line with consensus (for details see calendar, p.4).
- **Balance of payments for October** should show a narrowing of 12-month rolling CA surplus towards 0.0% of GDP, amid increased purchases of imported intermediate goods (just-in-case inventories build-up).

### Number of the week:

- **5.4%** - registered **unemployment rate in November** (on early MinLab estimates, unexpectedly down from 5.5% in Oct).

Chart of the week: Monthly change in the number of unemployed in November



Source: GUS, MinLab, PKO Bank Polski.

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	2020	2021 <sub>†</sub>
Real GDP (%)	-2.5	5.3
Industrial output (%)	-1.0	14.1
Unemployment rate <sup>#</sup> (%)	6.2	5.5
CPI inflation <sup>**</sup> (%)	3.4	5.0
Core inflation <sup>**</sup> (%)	3.9	4.1
Money supply M3 (%)	16.4	9.0
C/A balance (% GDP)	2.9	-0.2
Fiscal balance (% GDP)*	-7.1	-1.7
Public debt (% GDP)*	57.4	55.8
NBP reference rate <sup>##</sup> (%)	0.10	1.75
EURPLN <sup>†##</sup>	4.61	4.60

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

## It's not the last word on the matter

- The MPC raised the NBP interest rates by 50bps (the reference rate to 1.75%, the highest level since March 2015). The post-meeting statement suggests that the market valuations indicating a rise in the reference rate above 3% in the next 12 months might be too aggressive. On the other hand, Governor Glapinski presser on Thursday suggests that the MPC definitely has not said the last word yet.

The MPC raised the NBP interest rates by 50bps (the reference rate to 1.75%). This is the third consecutive hike of the NBP reference rate (in October by 40bps and in November by 75bps). The key rate is currently at the highest level since March 2015.

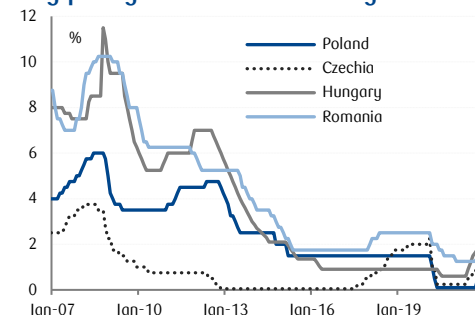
The MPC decision is in line with our prediction and consensus. However, the scale of the hike proved to be lower than market valuations. As a result, the PLN has weakened in the first reaction to the decision.

The MPC has slightly modified its assessments of inflation processes in the [post-meeting statement](#). Firstly, it pointed to the risk of a longer than previously assessed impact of the pandemic shock on inflation processes (on a global scale). Secondly, the Council indicated that inflation in Poland will remain at an elevated level in the near future, and now it is a baseline, not a risk scenario. However, these two modifications has not changed the key assessment that the increased inflation results mainly from external factors beyond the control of the domestic monetary policy, and that it will decline in the longer term, betting on effects of the shocks boosting the price growth to fade away. Tighter monetary policy will also support lower inflation. As compared to the previous statement, the MPC also added that higher NBP rates will curb inflation expectations.

The re-escalation of the pandemic in the world (and in Poland) may be the reason behind the reduced scale of rate hike in December vs November (50bp vs 75bp). This is indicated in the statement, as an increase in uncertainty regarding the further development of both the epidemic and the economic situation. In our opinion a smaller hike was also likely supported by the announcement of the 'anti-inflationary shield', the slowdown in the growth of commodity prices and the implementation of additional tools by the NBP (other than interest rates) that might push inflation down.

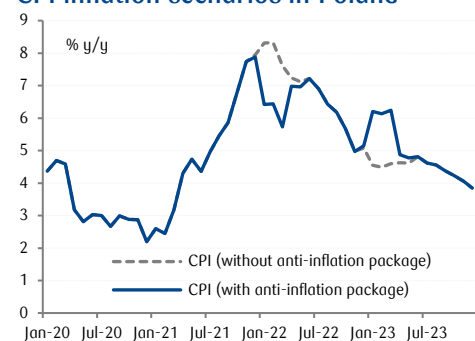
The indication that the future MPC decisions will be data driven is a novelty in the statement (but not in the general communication of the MPC). A reminder that growth outlook is an important decision-making parameter of the MPC confirms, in our opinion, that the market valuations indicating an increase in the reference rate above 3% in the next 12 months might be too aggressive. In our opinion, this declaration also heralds that the MPC's goal is not to bring inflation down to the target as soon as possible, which - taking into account the probable entry into force of the anti-inflationary shield as soon as next month - may suggest that the next move by the MPC may be even smaller. This was initially confirmed by the governor Glapinski at the presser on Thursday. But later on, he said that *ceteris paribus*, with current macroeconomic scenario, rate hike(s) are possible (Freudian slip?) and *de facto* suggested a move by 50bps in January ("similar scale of moves as so far"). This indicates some upside risks to our baseline scenario (+25bps in January), thus we put our view under revision. The MPC definitely hasn't said the last word yet.

### Key policy rates in the CEE region



Source: Macrobond, PKO Bank Polski.

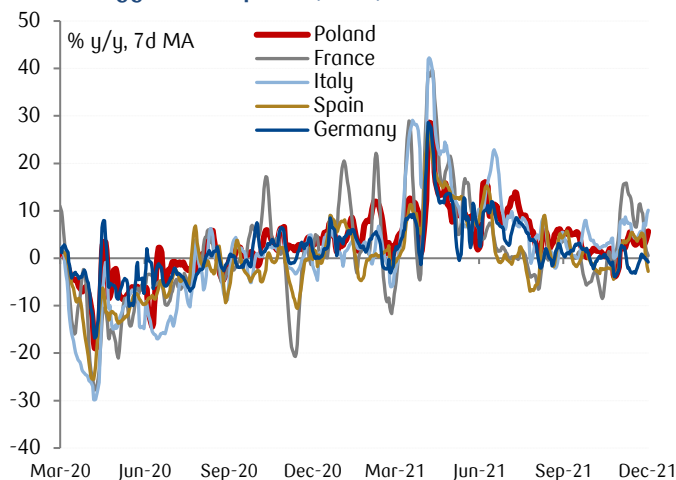
### CPI inflation scenarios in Poland



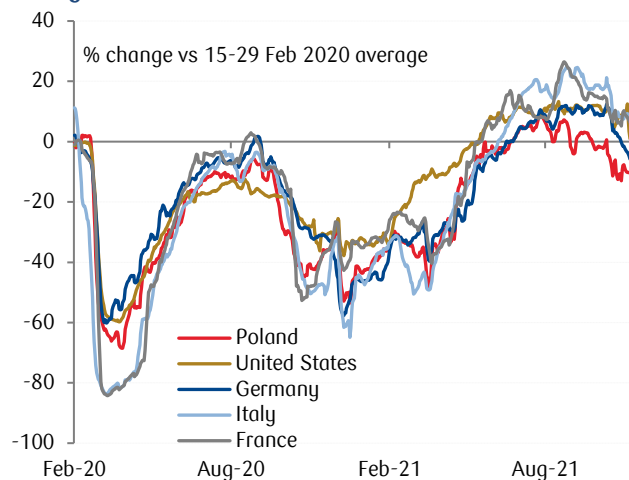
Source: GUS, MinFin, PKO Bank Polski.

## Macro monitoring with alternative data

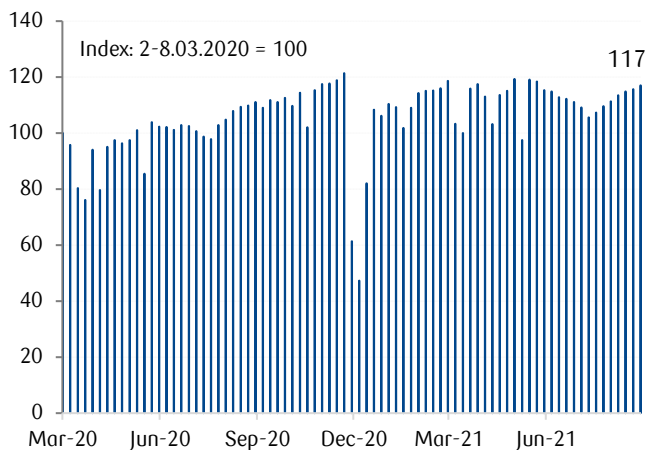
Electric energy consumption (total)



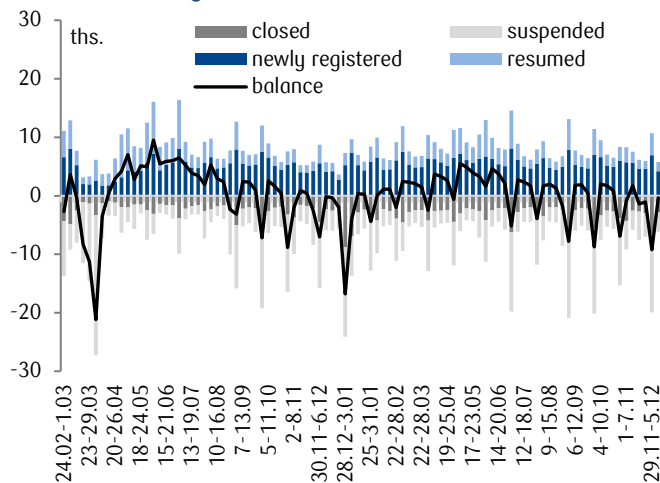
Mobility\*



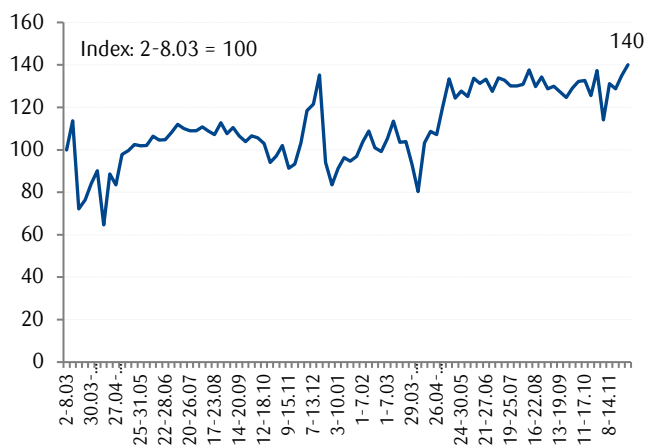
Heavy truck traffic^^



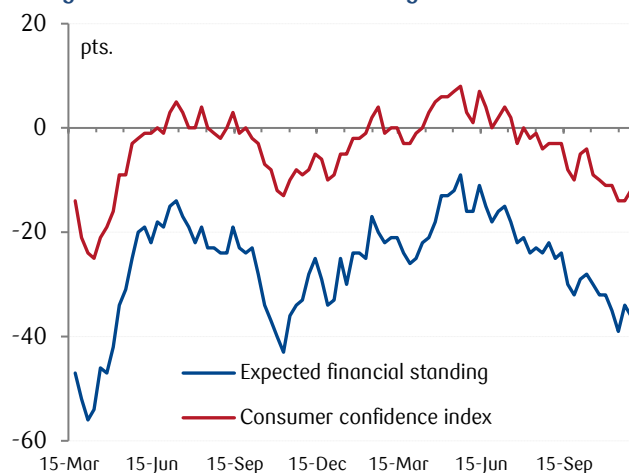
Economic activity status (acc. to CEIDG\*\*)



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. 26<sup>th</sup>, 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
<b>Tuesday, 14 December</b>						
EUR: Industrial production (Oct)	10:00	% y/y	5.2	--	--	--
POL: Current account balance (Oct)	13:00	EUR bn	-1.339	-968	-645	Just-in-case purchases and high energy prices drive down C/A balance this year.
POL: Exports (Oct)	13:00	% y/y	12.2	9.4	10.2	
POL: Imports (Oct)	13:00	% y/y	21.5	20.0	20.1	
HUN: MNB meeting	13:00	%	2.10	--	2.25	--
USA: PPI inflation (Nov)	13:30	% y/y	8.6	9.2	--	--
<b>Wednesday, 15 December</b>						
POL: CPI inflation (Nov, final)	9:00	% y/y	6.8	7.7	7.7	Inflation details will reveal a broad-based price pressure...
USA: Retail sales (Nov)	13:30	% m/m	1.7	0.8	--	--
USA: Fed meeting	19:00	%	0.00-0.25	0.00-0.25	0.00-0.25	--
<b>Thursday, 16 December</b>						
SWI: SNB meeting	8:30	%	-0.75	-0.75	-0.75	--
GER: Manufacturing PMI (Dec, flash)	8:30	pts.	57.4	--	--	--
NOR: Norges Bank meeting	9:00	%	0.25	0.50	0.50	--
EUR: Manufacturing PMI (Dec, flash)	9:00	pts.	58.4	--	--	--
UK: BoE meeting	12:00	%	0.10	0.25	0.25	--
EUR: ECB Refinancing Rate	12:45	%	0.00	0.00	0.00	--
POL: Core inflation (Nov)	13:00	% y/y	4.5	4.7	4.7	... but the momentum of core inflation seems to decelerate.
USA: Initial Jobless Claims (Dec)	13:30	thous.	--	--	--	--
USA: Housing starts (Nov)	13:30	mn	1.52	1.57	--	--
USA: Building Permits (Nov)	13:30	mn	1.65	1.67	--	--
USA: Industrial production (Nov)	14:15	% m/m	1.6	0.7	--	--
USA: Manufacturing PMI (Dec, flash)	14:45	pts.	58.3	--	--	--
<b>Friday, 17 December</b>						
JAP: BoJ meeting	--	%	-0.10	-0.10	-0.10	--
GER: Ifo Business Climate Index (Dec)	9:00	pts.	96.5	--	--	--
POL: Wages (Nov)	9:00	% y/y	8.4	8.9	9.2	Another wave of absentees due to pandemic may impinge on labour market stats.
POL: Employment (Nov)	9:00	% y/y	0.5	0.5	0.6	
EUR: HICP inflation (Nov, final)	10:00	% y/y	4.9	4.9	--	--
EUR: Core inflation (Nov, final)	10:00	% y/y	2.6	2.6	--	--

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

## Selected economic indicators and forecasts

	Sep-21	Oct-21	Nov-21	3q21	4q21	1q22	2q22	2020	2021	2022
<b>Economic activity</b>										
Real GDP (% y/y)	x	x	x	5.3	5.8	6.7	4.2	-2.5	5.3	4.6
Domestic demand (% y/y)	x	x	x	8.6	9.8	10.0	5.6	-3.7	7.8	5.8
Private consumption (% y/y)	x	x	x	4.7	7.9	6.0	4.0	-3.0	6.1	4.6
Gross fixed capital formation (% y/y)	x	x	x	9.3	15.0	8.4	6.9	-9.6	9.1	6.8
Inventories (pp)	x	x	x	3.7	1.6	3.8	1.5	-0.8	2.0	1.1
Net exports (pp)	x	x	x	-2.7	-3.3	-2.7	-1.1	0.8	-1.9	-0.9
Industrial output (% y/y)	8.7	7.8	8.1	10.3	8.1	7.9	6.6	-1.0	14.1	8.2
Construction output (% y/y)	4.2	4.2	4.1	5.8	1.2	2.5	-0.4	-2.7	0.0	4.5
Retail sales (real, % y/y)	5.1	6.9	7.1	4.8	6.5	4.3	4.6	-2.7	7.0	3.8
Nominal GDP (PLN bn)	x	x	x	647.5	739.5	664.2	681.5	2327	2591	2861
<b>Labour market</b>										
Registered unemployment rate‡(%)	5.6	5.5	5.4	5.6	5.5	5.5	4.9	6.3	5.5	4.8
Employment in enterprises (% y/y)	0.6	0.5	0.6	1.1	0.6	1.6	1.4	-1.2	0.5	1.4
Wages in enterprises (% y/y)	8.7	8.4	9.2	9.0	7.9	7.1	8.5	4.8	8.1	7.8
<b>Prices^</b>										
CPI inflation (% y/y)	5.9	6.8	7.7	5.4	7.5	6.2	7.1	3.4	5.0	6.4
Core inflation (% y/y)	4.2	4.5	4.6	3.9	4.7	4.9	5.0	3.9	4.1	5.1
15% trimmed mean (% y/y)	4.5	5.1	x	4.1	x	x	x	3.9	x	x
PPI inflation (% y/y)	10.1	11.8	13.3	9.4	11.7	9.3	6.8	-0.5	7.4	5.7
<b>Monetary aggregates‡</b>										
Money supply, M3 (PLN bn)	1914.2	1917.7	1934.8	1914.2	1985.8	1999.0	2025.33	1822.7	1985.8	2097.3
Money supply, M3 (% y/y)	8.6	8.5	8.0	8.6	9.0	7.3	8.0	16.4	9.0	5.6
Real money supply, M3 (% y/y)	2.6	1.6	0.3	3.0	1.4	1.0	0.8	12.6	3.7	-0.7
Loans, total (PLN bn)	1376.3	1391.9	x	1380.1	1392.7	1391.9	1431.4	1333.8	1392.7	1474.4
Loans, total (% y/y)	2.9	3.4	x	3.2	4.4	3.4	6.1	0.8	4.4	5.9
Deposits, total (PLN bn)	1798.1	1800.5	x	1813.5	1818.1	1800.5	1865.4	1602.2	1818.1	1893.6
Deposits, total (% y/y)	10.5	10.3	x	11.4	13.5	10.3	8.2	13.9	13.5	4.2
<b>Balance of payments</b>										
Current account balance (% GDP)	0.4	0.0	0.0	0.4	-0.2	-0.2	-0.1	2.9	-0.2	0.3
Trade balance (%GDP)	1.4	1.0	0.8	1.4	0.6	0.1	-0.1	2.4	0.6	0.1
FDI (% GDP)	2.7	2.4	2.5	2.7	2.6	2.3	2.1	2.1	2.6	1.8
<b>Fiscal policy</b>										
Fiscal balance (% GDP)	x	x	x	x	x	x	x	-7.1	-1.7	-1.2
Public debt (% GDP)	x	x	x	x	x	x	x	57.4	55.8	51.9
<b>Monetary policy‡</b>										
NBP reference rate (%)	0.10	0.50	1.25	0.10	1.75	2.00	2.00	0.10	1.75	2.00*#
NBP lombard rate (%)	0.50	1.00	1.75	0.50	2.25	2.50	2.50	0.50	2.25	2.50*#
NBP deposit rate (%)	0.00	0.00	0.75	0.00	1.25	1.50	1.50	0.00	1.25	1.50*#
WIBOR 3M <sup>x</sup> (%)	0.23	0.23	2.06	0.23	2.20	2.20	2.20	0.21	2.20	2.20*#
Real WIBOR 3M <sup>x</sup> (%)#	-5.64	-6.59	-5.69	-5.19	-5.30	-4.07	-4.94	-3.06	-2.82	-4.19*#
<b>Exchange rates*‡</b>										
EUR-PLN	4.62	4.62	4.68	4.62	4.60	4.55	4.53	4.61	4.60	4.45
USD-PLN	3.95	3.97	4.12	3.95	4.04	3.96	3.97	3.75	4.04	3.94
CHF-PLN	4.26	4.35	4.49	4.26	4.38	4.33	4.23	4.25	4.38	4.08
EUR-USD	1.17	1.16	1.14	1.17	1.14	1.15	1.14	1.23	1.14	1.13

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 reconsideration.

## Monetary policy monitor

MPC Members	Hawk-o-meter*	Recent policy indicative comments^
K. Zubelewicz	4.9	"A key rate of 3%, as expected by the market, would undoubtedly help lowering inflation expectations (...) As the real rate would still be lower than before the pandemic, other parameters should also be changed simultaneously with rate hikes (...) The normalization of monetary policy is the responsibility of the current MPC (...) That's why the main tightening steps should be done by February. Developments afterward have too many unknowns anyway" (16.11.2021, Bloomberg)
E. Gatnar	4.7	"In the next two months, the MPC should decide on hikes of 50 bps each (...) I'm afraid in December we will see a CPI reading exceeding 8%, also on account of the sizeable demand impulse from holiday shopping (...) interest rate changes in the cycle will depend on the pandemic situation in the country and the situation on foreign markets" (30.11.2021, Bloomberg, PAP)
L. Hardt	4.3	"(...) the process of normalisation of monetary policy should be continued, including rate hikes. During MPC December meeting a hike of at least 50 bp is needed. Nevertheless, the final level of interest rates we have to achieve may be lowered by the NBP communication stabilizing inflation expectations and the more efficient exchange rate channel. A stronger Polish zloty would help us in fighting inflation." (02.12.2021, OECD).
J. Kropiwnicki	2.7	"I can't say if in December or in January, when my term ends, I will vote in favor of further interest rate hikes (...) It all depends on the shape of current inflation, its components and most of all on inflation's impact on inflation expectations." (16.11.2021, PAP).
R. Sura	2.7	"The November flash inflation estimate shows that the interest rate hike path implemented by the MPC was necessary (...) That reading only amplifies our bias towards tightening monetary policy - in the light of the latest data, a rate hike in December is necessary." (30.11.2021, Reuters, PAP).
G. Ancyparowicz	2.6	"We're determined to act against such an excessive increase in prices (...) We have begun that action, and if price data don't show signs of any improvement, we'll need to continue." (05.11.2021, Bloomberg)
J. Zyzyński	2.4	"The Polish rate council might have to hike rates by 75 bps again if inflation rises above the level forecast in the latest NBP projection" (08.11.2021, Bloomberg)
C. Kochalski	2.2	"We think that the first quarter [PAP: of 2022] is the quarter in which we should see the inflation peak (...) 7-8%, this is the order of magnitude." (10.11.2021, PAP, Biznes24.tv).
A. Glapinski	1.8	<b>"Yes" [PKO: A.Glapinski response to a question if the MPC will stick to ongoing pace of monetary tightening.] (08.12.2021, NBPTv)</b>
E. Lon	1.3	"In my opinion, in the light of expected macroeconomic conditions, it is worth considering to keep rates on hold on the next meeting of the Monetary Policy Council. This is mainly due to the fact that there is a realistic prospect of a moment, when the inflationary pressure will start to decline (...) Naturally, I am aware that apart from arguments in favor of keeping interest rates at the current level, which are mainly arguments pointing to a real decline in inflationary pressure, there will probably be arguments pointing to the need to continue the monetary tightening phase. It will be worth discussing all these arguments calmly and reflect on them so that in December you can make the right decision " (29.11.2021, 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

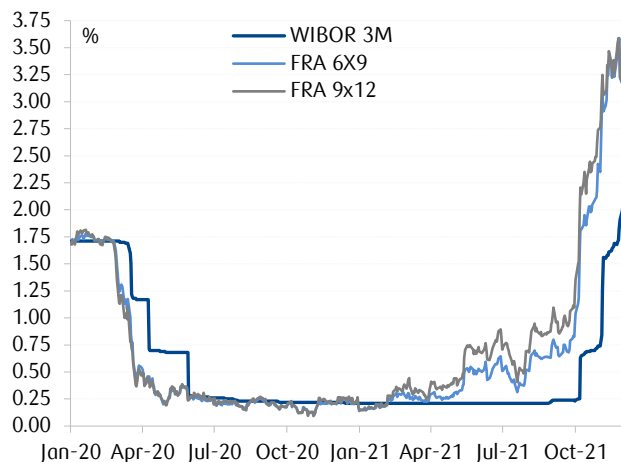
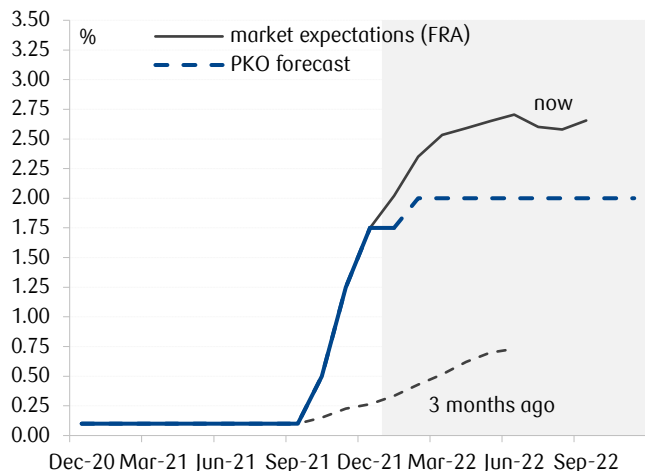
		1M	2M	3M	4M	5M	6M	7M	8M	9M
Date	9-Dec	9-Jan	9-Feb	9-Mar	9-Apr	9-May	9-Jun	9-Jul	9-Aug	9-Sep
WIBOR 3M/FRA†	2.27	2.54	2.87	3.06	3.11	3.17	3.23	3.12	3.10	3.18
implied change (b. p.)		0.27	0.60	0.79	0.84	0.90	0.96	0.85	0.83	0.91
MPC Meeting	8-Dec	12-Jan	8-Feb	8-Mar	6-Apr	5-May	8-Jun	7-Jul	-	7-Sep
PKO BP forecast*	1.75	1.75	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
market pricing*		2.02	2.35	2.54	2.59	2.65	2.71	2.60	2.58	2.66

†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

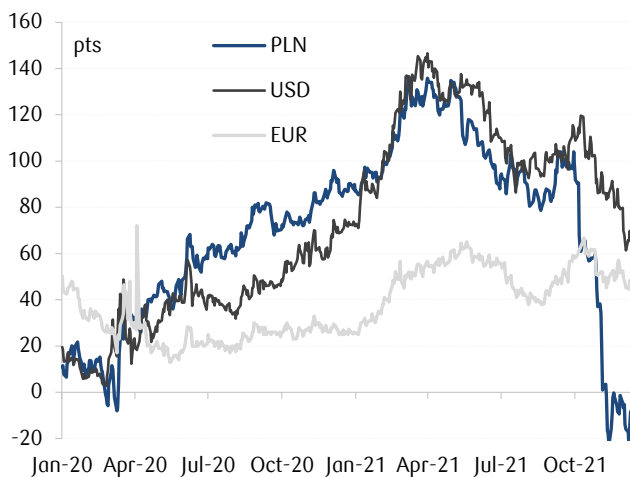
NBP policy rate: PKO BP forecast vs. market expectations

Short-term PLN interest rates



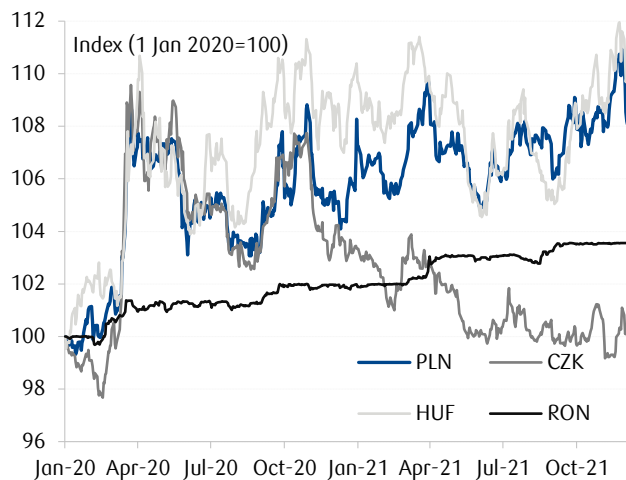
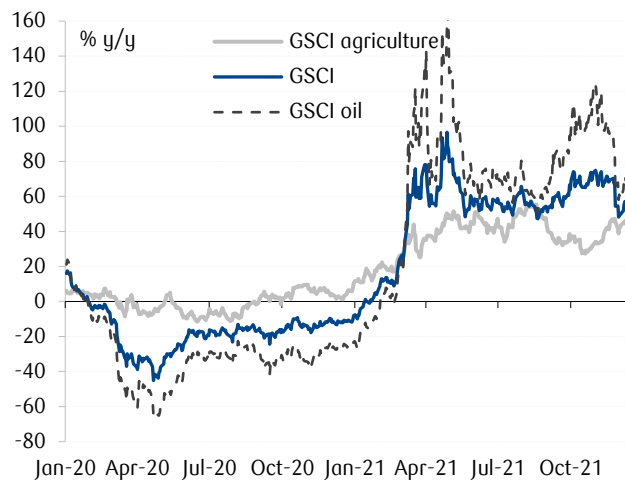
Slope of the swap curve (spread 10Y-2Y)\*

PLN asset swap spread



Global commodity prices (in PLN)

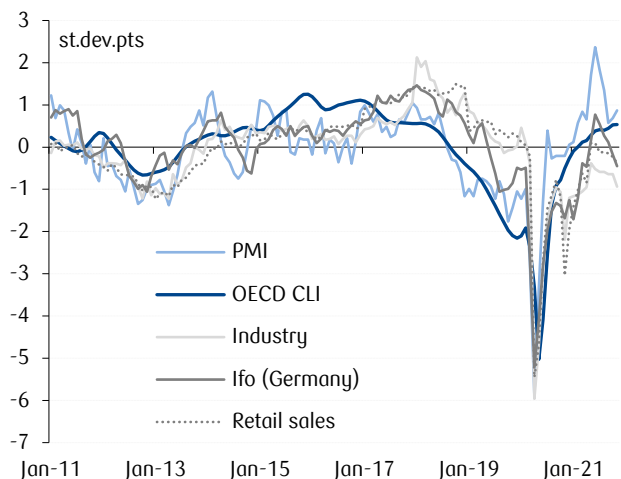
Selected CEE exchange rates against the EUR



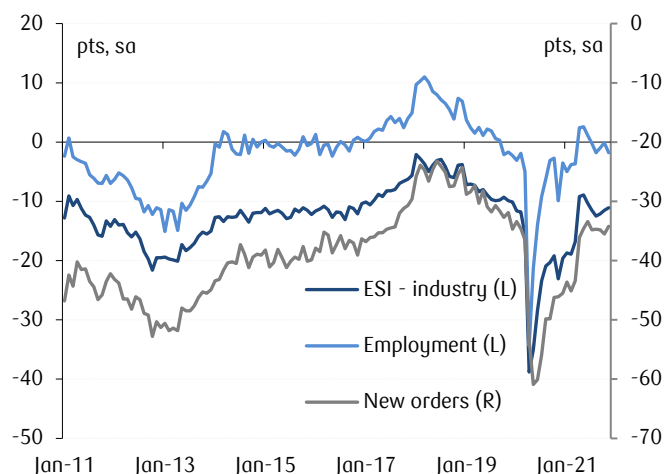
Source: Datastream, NBP, PKO Bank Polski. \*for PLN, and EUR 6M, for USD 3M.



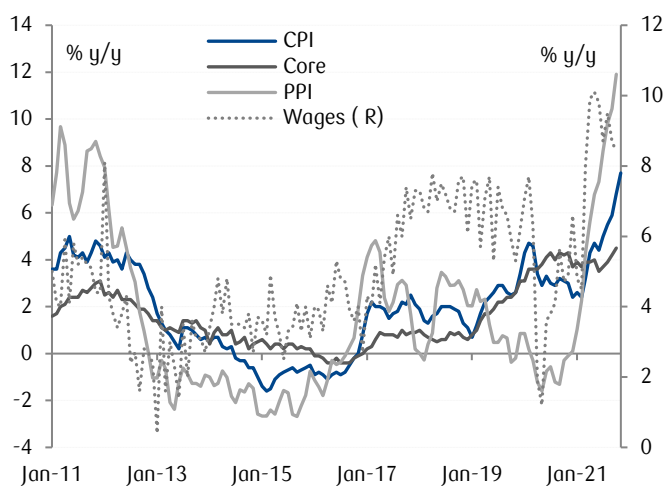
Economic sentiment indicators



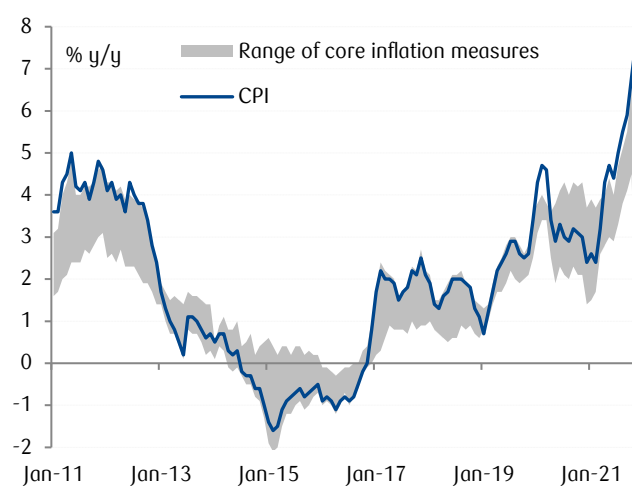
Poland ESI for industry and its components



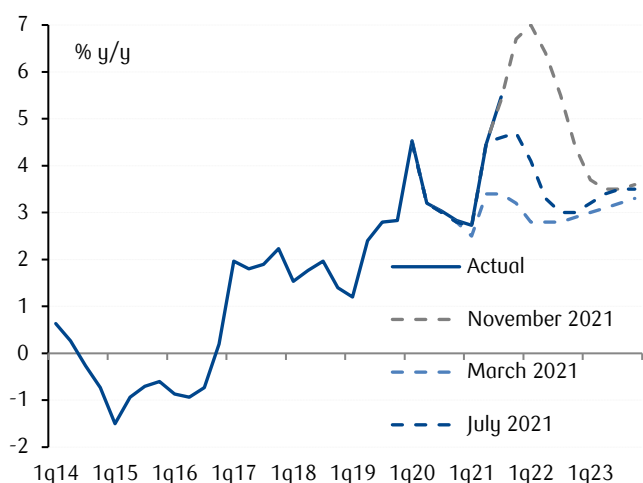
Broad inflation measures



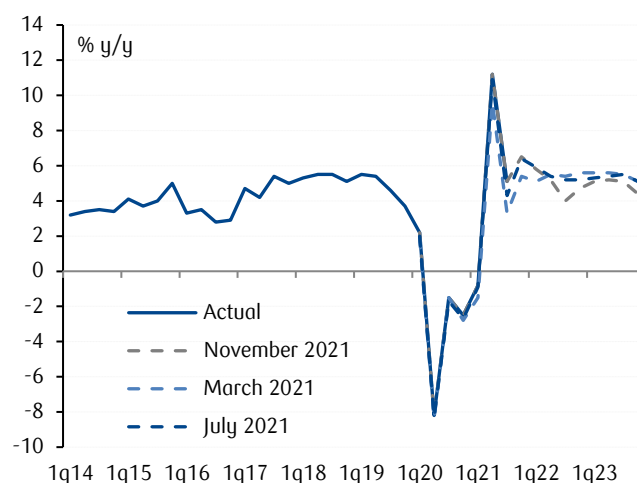
CPI and core inflation measures



CPI inflation - NBP projections vs. actual



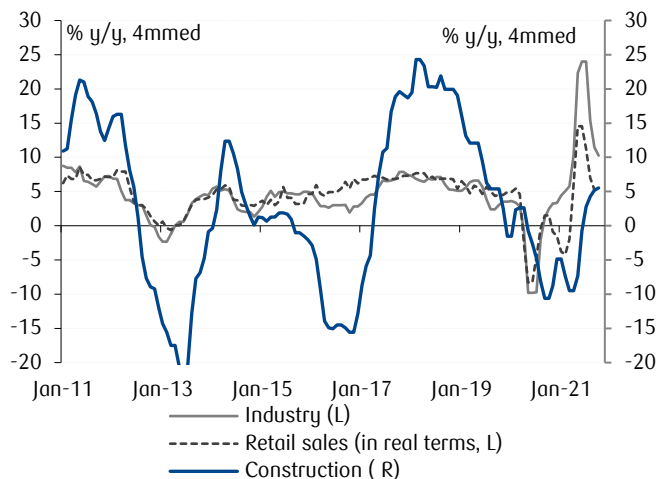
Real GDP growth - NBP projections vs. actual



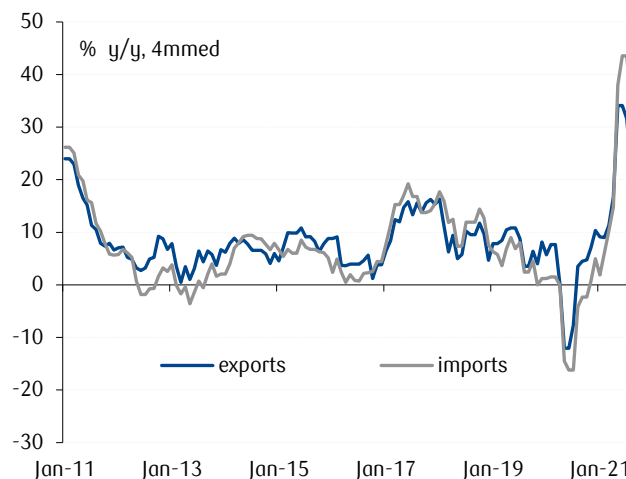
Source: Datastream, GUS, EC, NBP, PKO Bank Polski.



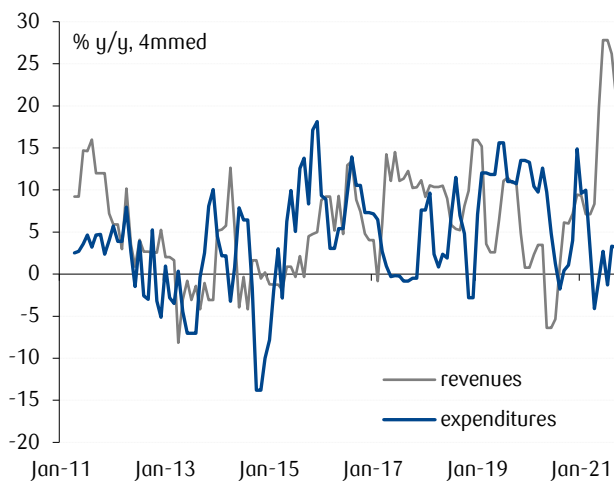
Economic activity indicators



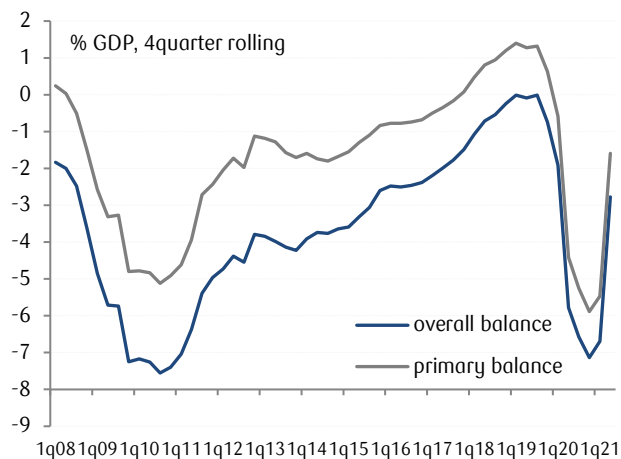
Merchandise trade (in EUR terms)



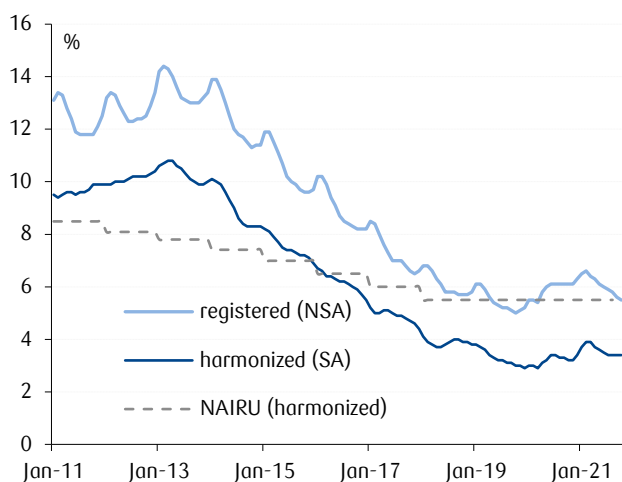
Central government revenues and expenditures\*



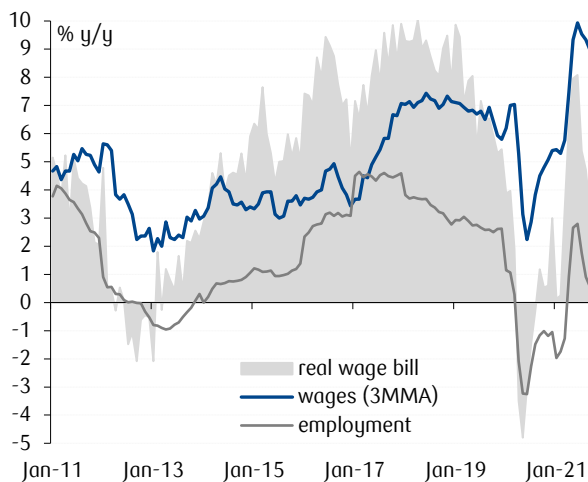
General government balance (ESA2010)



Unemployment rate

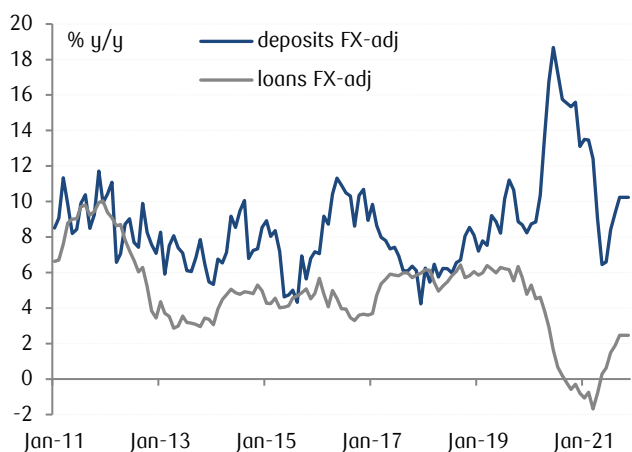


Employment and wages in the enterprise sector

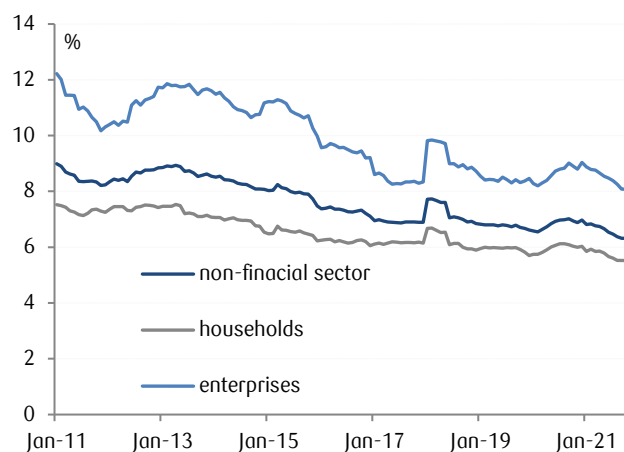


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. \*break in series in 2010 due to methodological changes.

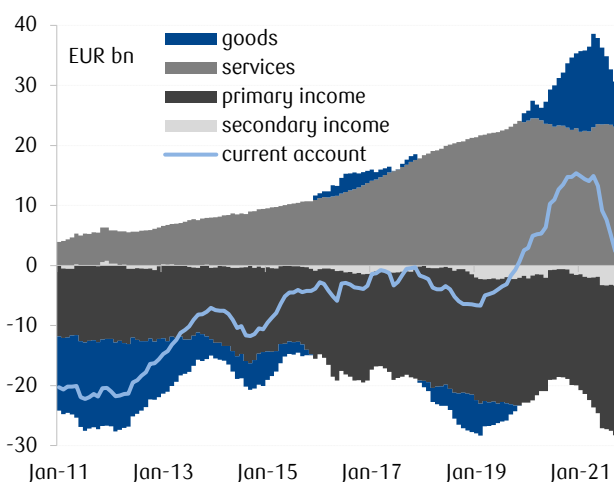
Loans and deposits



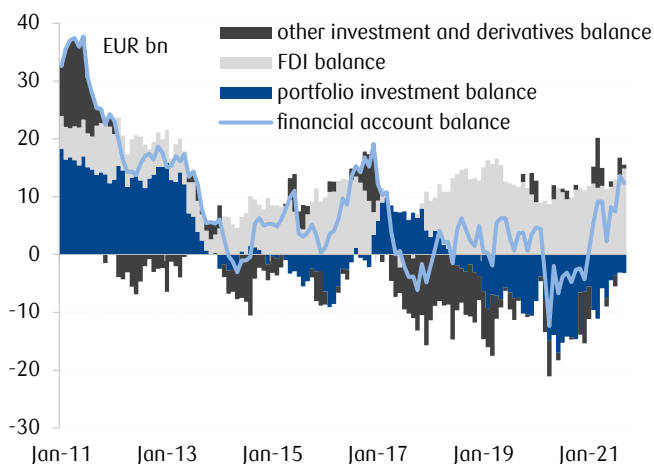
Non-performing loans (NPLs) - by sectors\*



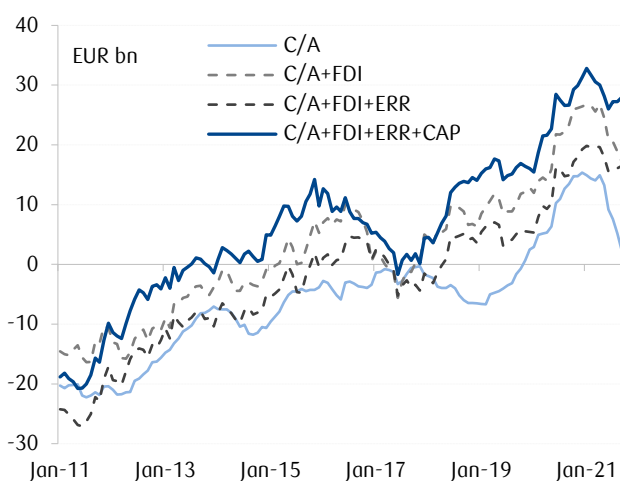
Current account balance



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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- [It's getting tricky](#) (Nov 26, 2021)
- [Macro picture is getting cloudy](#) (Nov 19, 2021)
- [Normalisation](#) (Nov 12, 2021)
- [Can households afford NBP rate hikes?](#) (Nov 5, 2021)
- [Inflation dilemma could reignite policy tightening](#) (Oct 29, 2021)
- [Missing parts](#) (Oct 22, 2021)
- [Costly recovery](#) (Oct 15, 2021)
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- [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)
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- [House price growth accelerates after pandemic slowdown](#) (Jul 2, 2021)
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- [Choke points in focus](#) (Mar 12, 2021)

## Poland's macro in a nutshell

	2020	2021	Comment
<b>Real economy</b>			
- real GDP (%)	-2.5	5.3	We have fine-tuned our 2021 GDP growth forecast (to 5.3%) and expect it will decrease to 4.6% 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. Stockpiling of inventories will be an additional boost to GDP growth.
<b>Prices</b>			
- CPI inflation (%)	3.4	5.0	CPI inflation is about to peak in December, due to anti-inflationary measures adopted by the government, which will push the CPI down in 1q22 by app. 1.9pp and put a cap on inflation in 1q22 at around 7%. Inflation will start falling in 3q22, but the road to the inflation target is still long and bumpy.
<b>Monetary aggregates</b>			
- 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.
<b>External balance</b>			
- current account balance (% GDP)	2.9	-0.2	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).
<b>Fiscal policy</b>			
- 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. That said, redistribution may temporarily narrow a "room for maneuver" in the local government sector.
<b>Monetary policy</b>			
- NBP reference rate (%)	0.10	1.75	The MPC hiked interest rates by 50 bp in December (in line with expectations). We put our baseline scenario (+25 pb in January) under reconsideration after the Governor Glapinski presser as the 50bp hike is now a close call. That said, the risks are still tilted to the upside due to changes in the MPC composition.

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

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