

Straight into the hot summer

Top macro theme(s):

- **Blossoming economy** (p. 2): Output and retail sales data for May indicated further rebound of economic activity. Survey data for June show the positive trends gain traction. We estimate that the economic growth in 2q21 topped 10% y/y (with extremely low base effect) and we are likely to revise up our GDP growth forecast for the entire year.

What else caught our eye:

- **Recent comments from MPC members** (A.Glapinski, E.Lon, R.Sura, J.Zyzynski) suggest that majority at the rate-setting panel intends to start policy normalisation in November at the earliest.
- **PPI inflation** rose to 6.5% y/y in May from 5.5% y/y in April, marking the highest reading since 2012. Factory gate prices are pushed up by soaring commodities prices and growing transport costs. Brace for even higher producer inflation in the coming months.
- **Registered unemployment rate in May was confirmed at 6.1%** vs 6.3% in April, indicating a slightly slower decline than the usual seasonal pattern suggests. Meanwhile LFS unemployment rate went up to 4.0% in 1q21 from 3.1% in 4q21, but the data are not comparable due to methodological changes.
- **M3 money supply growth decelerated** to 9.0% y/y in May (vs 11.2% y/y in April). Corporate deposits rose, most likely due to the consumer spending spree after the reopening of the economy. Loans growth has once again showed signs of recovery, especially in household segment.

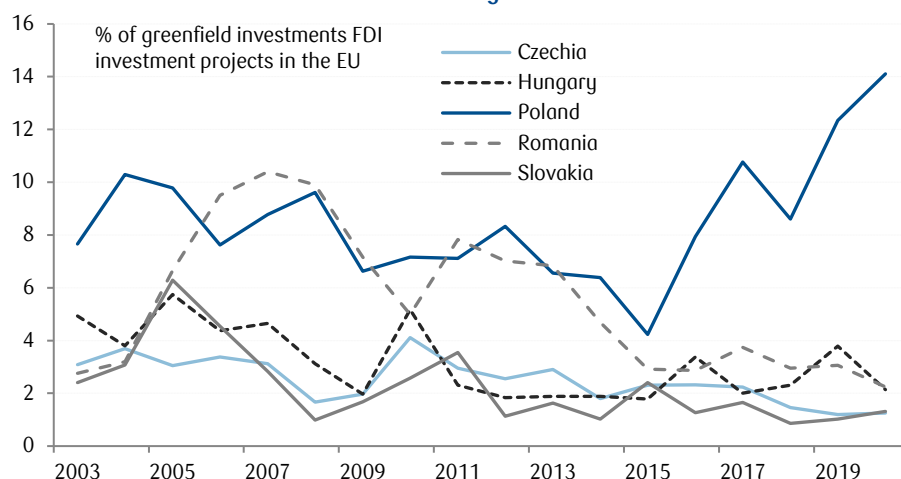
The week ahead:

- **Flash CPI figures for June** should show consumer inflation inched down, but sharply rising food prices pose a risk of upward surprise.
- **Manufacturing PMI** has likely continued catching up with the similar European indices in June, as both improving fundamentals (strong demand) and design of the measure (implying positive impact of supply constraints) are pushing the index up.

Number of the week:

- **103.2 pts** – The general synthetic indicator of business sentiment as of June – the highest since October 2019.

Chart of the week: Share of announced new greenfield investments in the EU



Source: UNCTAD, PKO Bank Polski.

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	2020	2021 [†]
Real GDP (%)	-2.7	5.1
Industrial output (%)	-1.0	17.9
Unemployment rate [#] (%)	6.2	5.4
CPI inflation ^{**} (%)	3.4	4.0
Core inflation ^{**} (%)	3.9	3.8
Money supply M3 (%)	16.4	10.5
C/A balance (% GDP)	3.5	3.2
Fiscal balance (% GDP)*	-7.0	-3.4
Public debt (% GDP)*	57.5	56.7
NBP reference rate ^{##} (%)	0.10	0.10
EURPLN [‡]	4.61	4.46

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

Blossoming economy

- Output and retail sales data for May indicate further rebound of economic activity along with reopening of the economy.
- Survey data for June show the positive trends gain traction.
- Data available so far suggest two digit economic growth in 2q21 (with extremely low base) and we are likely to revise up our GDP growth forecast for the entire year.
- Some risks remain, though, including a potential another wave of the pandemic and bottlenecks in industrial supplies.

Data from the real economy for May points at a further rebound of economic activity along with reopening of the economy. Industrial output increased by 29.8% y/y in May (vs. 44.5% in April). Retail sales recorded a solid growth by 13.9% y/y (vs. 21.1% in the previous month). Construction output rose by 4.7% y/y (vs. -4.2% in April). Retail sales returned to its prepandemic growth path, joining the industrial production.

Industrial production adjusted for seasonal factors grew by 0.8% m/m in May. The increase in activity was broad based, covering 31 out of 34 subsectors, with the production of investment and durable consumer goods rising at 51.3% y/y and 49.4% y/y, respectively, reflecting a very strong global demand that strengthens Polish exports and the current account surplus.

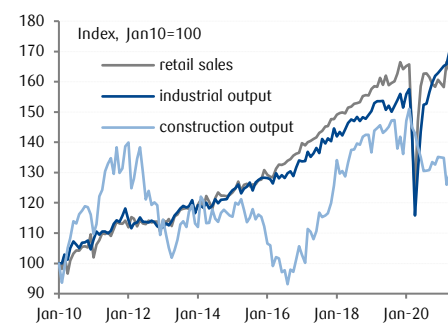
Detailed retail sales statistics show that removal of restrictions and decrease in consumer concerns about the pandemic boosted sales in some categories: textiles (92.2% y/y), books, press, and non-specialised stores (48.8% y/y), furniture and home appliances (30.0% y/y). Our internal high-frequency data point at a continuation of a solid consumer demand weeks after shopping malls have been reopened, in line with indications from other sources (like Google or Polish Shopping Mall Council). That said, as the risks of unemployment decline and the eagerness for mayor purchases increases, we expect private consumption (fueled by the pent-up demand) to be the key driver of GDP growth in 2021.

Details of the construction output data point at a rebound in infrastructure investment: civil engineering grew by 4.7% y/y (vs. -11.1% in April), whereas specialised construction works (that usually precede infrastructure spending) recorded an even more outstanding performance (19.0% y/y, 15.0% m/m). Finally, as the property market is getting red hot, we noted a surge in building permits, as well as in housing starts by developers.

The positive trends likely continued in June, as suggested by survey data. Business sentiment surged to the highest level since October 2019, whereas consumer confidence unexpectedly levelled off following earlier improvement. All in all, the latest data point at a solid, two digit GDP growth in 2q21, and suggest a higher than we have previously assumed result for the entire year.

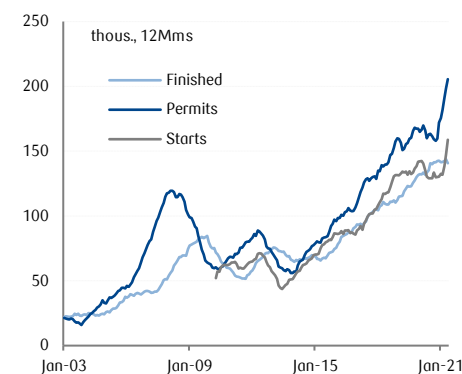
The biggest risk to a continuation of the recovery is potential another wave of the pandemic. Corporates also face challenging bottlenecks given insufficient amount, stretched delivery times and surging costs of materials, parts, and production components. This results in rising price pressure, but it may also constitute (together with the still uncertain pandemic situation) a vital threat for the continuation of the recovery in 2h21.

Real economy's trends



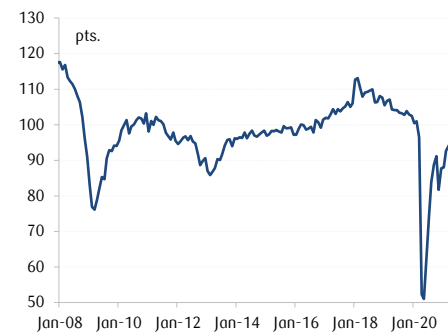
Source: GUS, PKO Bank Polski.

Developers' flats



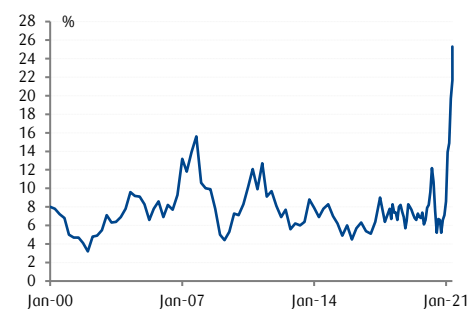
Source: GUS, PKO Bank Polski.

General synthetic business sentiment indicator



Source: GUS, PKO Bank Polski.

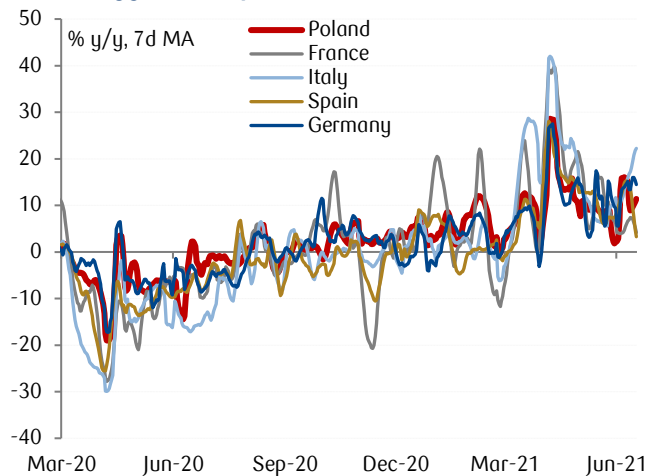
Factors limiting activity - shortage of raw materials, materials and semi-finished products



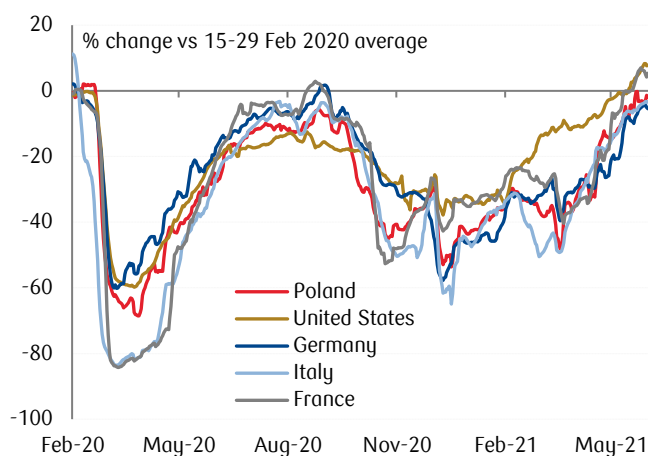
Source: GUS, PKO Bank Polski.

Macro monitoring with alternative data

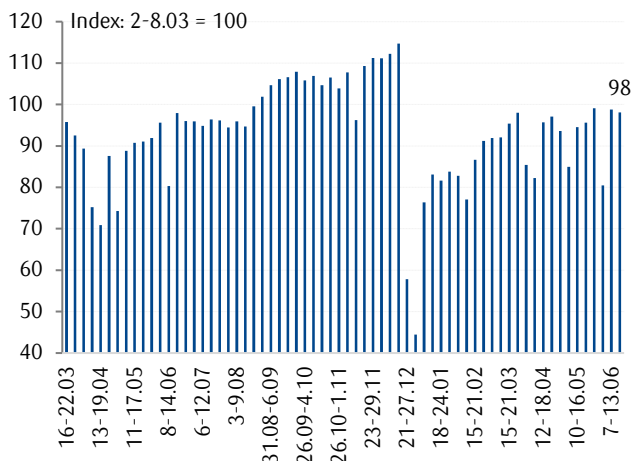
Electric energy consumption (total)



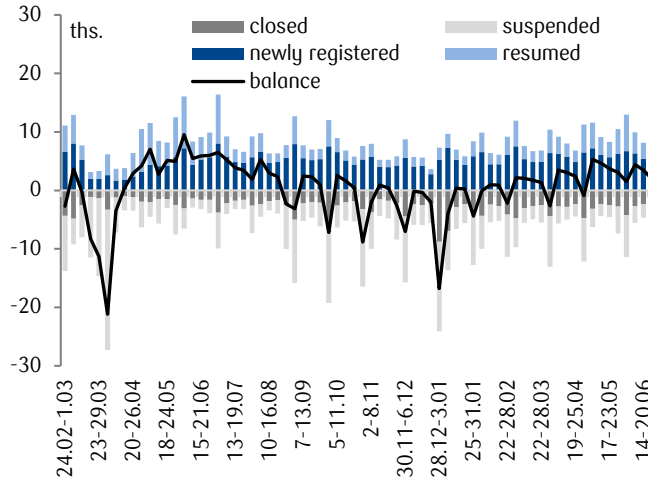
Mobility*



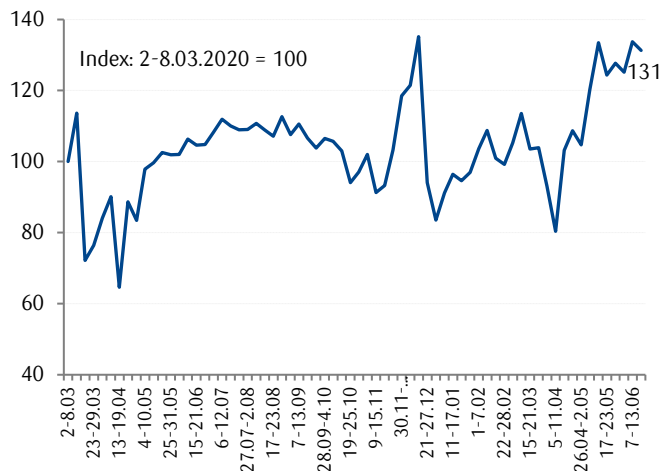
Heavy truck traffic



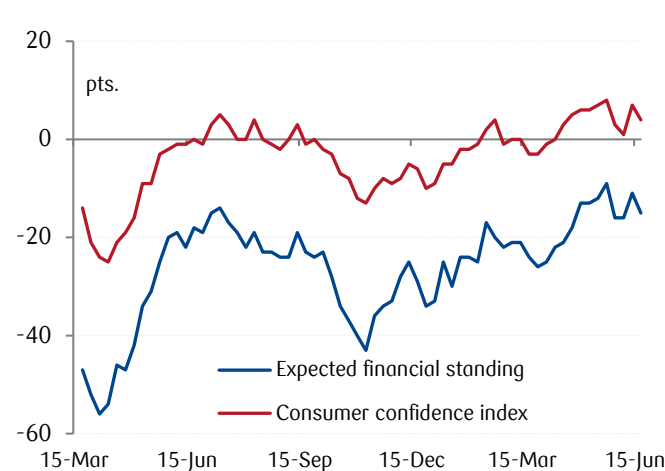
Economic activity status (acc. to CEiDG**)



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.

Weekly economic calendar

Indicator	Time (UK)	Unit	Previous	Consensus*	PKO BP	Comment
Tuesday, 29 June						
EUR: Consumer Confidence (Jun, final)	10:00	pts.	-5.1	-3.3	--	--
EUR: Economic Sentiment Indicator (Jun)	10:00	pts.	114.5	116.2	--	--
GER: CPI inflation (Jun, flash)	13:00	% y/y	2.5	2.4	--	--
GER: HICP inflation (Jun, flash)	13:00	% y/y	2.4	2.2	--	--
USA: S&P CoreLogic CS 20-City (Apr)	14:00	% y/y	13.3	--	--	--
USA: Consumer confidence (Jun)	15:00	pts.	117.2	118.5	--	--
Wednesday, 30 June						
GER: Unemployment Rate (Jun)	8:55	%	6.0	5.9	--	--
POL: CPI inflation (Jun, flash)	9:00	% y/y	4.7	4.6	4.6	Flash CPI figures for June should show consumer inflation inched down, but sharply rising food prices pose a risk of upward surprise.
EUR: Core inflation (Jun, flash)	10:00	% y/y	1.0	--	--	--
EUR: CPI inflation (Jun)	10:00	% y/y	2.0	1.9	--	--
USA: ADP National Employment (Jun)	13:15	thous.	978	600	--	--
Thursday, 1 July						
CHN: Manufacturing PMI (Jun)	2:45	pts.	52.0	52.0	--	--
POL: Manufacturing PMI (Jun)	8:00	pts.	57.2	57.5	--	Manufacturing PMI has likely continued catching up with the similar European indices in June, as both improving fundamentals (strong demand) and design of the measure (implying positive impact of supply constraints) are pushing the index up.
SE: Riksbank meeting (Jul)	8:30	%	0.00	0.00	--	--
GER: Manufacturing PMI (Jun, final)	8:55	pts.	64.4	64.9	--	--
EUR: Manufacturing PMI (Jun, final)	9:00	pts.	63.1	63.1	--	--
USA: Initial Jobless Claims (Jun)	13:30	thous.	411	390	--	--
USA: Manufacturing PMI (Jun, final)	14:45	pts.	62.1	62.6	--	--
USA: ISM Manufacturing (Jun)	15:00	pts.	61.2	61.2	--	--
Friday, 2 July						
EUR: PPI inflation (May)	10:00	% y/y	7.6	9.5	--	--
USA: Non-Farm Payrolls (Jun)	13:30	thous.	559	700	--	--
USA: Unemployment Rate (Jun)	13:30	%	5.8	5.6	--	--
USA: Average Earnings (Jun)	13:30	% y/y	2.0	3.6	--	--
USA: Trade balance (May)	13:30	bn USD	-69.9	-70.0	--	--
USA: Factory orders (May)	15:00	% m/m	-0.6	1.2	--	--
USA: Durable goods orders (May, final)	15:00	% m/m	-0.8	2.3	--	--

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

Selected economic indicators and forecasts

	Mar-21	Apr-21	May-21	1q21	2q21 [†]	3q21 [†]	4q21 [†]	2019	2020	2021 [†]
Economic activity										
Real GDP (% y/y)	x	x	x	-0.9	9.2	5.8	6.3	4.7	-2.7	5.1
Domestic demand (% y/y)	x	x	x	1.0	9.8	5.4	5.7	3.6	-3.7	5.4
Private consumption (% y/y)	x	x	x	0.2	14.8	3.6	6.8	4.0	-3.0	6.0
Gross fixed capital formation (% y/y)	x	x	x	1.3	-2.0	3.0	5.0	6.1	-9.6	2.3
Inventories (pp)	x	x	x	0.3	0.0	1.8	0.1	-1.0	-0.8	0.6
Net exports (pp)	x	x	x	-1.9	1.4	0.7	1.0	1.3	0.8	0.3
Industrial output (% y/y)	18.6	44.5	29.8	7.5	32.3	17.2	13.6	4.0	-1.0	17.9
Construction output (% y/y)	-10.8	-4.2	4.7	-12.5	-0.8	3.5	-1.3	3.6	-2.7	-2.1
Retail sales (real, % y/y)	15.2	21.1	13.9	1.9	8.9	1.1	3.6	5.4	-2.7	5.7
Nominal GDP (PLN bn)	x	x	x	585.2	602.1	636.2	715.3	2293	2324	2539
Labour market										
Registered unemployment rate [‡] (%)	6.4	6.3	6.1	6.4	5.8	5.4	5.4	5.2	6.2	5.4
Employment in enterprises (% y/y)	-1.3	0.9	2.7	-1.7	2.0	1.1	1.1	2.7	-1.2	0.6
Wages in enterprises (% y/y)	8.0	9.9	10.1	5.8	9.6	7.3	7.5	6.6	4.8	7.5
Prices[^]										
CPI inflation (% y/y)	3.2	4.3	4.7	2.7	4.4	4.3	4.4	2.3	3.3	4.0
Core inflation (% y/y)	3.9	3.9	4.0	3.8	4.0	3.7	3.7	1.9	3.9	3.8
15% trimmed mean (% y/y)	2.9	3.3	3.3	x	x	x	x	1.9	3.9	x
PPI inflation (% y/y)	4.1	5.5	6.5	2.4	6.5	8.2	9.3	1.2	-0.5	6.1
Monetary aggregates[‡]										
Money supply, M3 (PLN bn)	1862.5	1860	1872	1862.5	1918.7	1948.7	2026	1565.6	1822.7	2026.2
Money supply, M3 (% y/y)	14.4	11.2	9.0	14.4	9.9	9.9	10.5	8.3	16.4	10.5
Real money supply, M3 (% y/y)	10.9	6.6	4.0	11.3	5.2	5.4	5.8	5.8	12.7	6.2
Loans, total (PLN bn)	1344.0	1344.1	1347.4	1344.0	1357.2	1379.1	1384.9	1323.4	1333.9	1384.9
Loans, total (% y/y)	-1.7	-1.2	0.1	-1.7	1.2	3.1	3.8	5.1	0.8	3.8
Deposits, total (PLN bn)	1670.0	1681.2	1698.0	1669.9	1694.6	1721.9	1735.6	1406.6	1602.2	1735.6
Deposits, total (% y/y)	12.5	8.7	6.2	12.5	4.7	5.8	8.3	8.2	13.9	8.3
Balance of payments										
Current account balance (% GDP)	3.7	3.8	3.8	3.7	3.3	3.2	3.2	0.5	3.5	3.2
Trade balance (%GDP)	2.6	2.8	2.9	2.6	3.1	2.7	2.3	0.2	2.4	2.3
FDI (% GDP)	1.1	1.1	1.0	1.1	1.0	1.2	1.6	1.6	1.4	1.6
Fiscal policy										
Fiscal balance (% GDP)	x	x	x	x	x	x	x	-0.7	-7.0	-3.4
Public debt (% GDP)	x	x	x	x	x	x	x	45.6	57.5	57.5
Monetary policy[‡]										
NBP reference rate (%)	0.10	0.10	0.10	0.10	0.10	0.10	0.10	1.50	0.10	0.10
NBP lombard rate (%)	0.50	0.50	0.50	0.50	0.50	0.50	0.50	2.50	0.50	0.50
NBP deposit rate (%)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.50	0.00	0.00
WIBOR 3M ^x (%)	0.21	0.21	0.21	0.21	0.20	0.20	0.20	1.71	0.21	0.20
Real WIBOR 3M ^x (%) [#]	-2.97	-4.09	-4.55	-2.53	-4.36	-4.42	-4.50	-0.58	-3.06	-3.95
Exchange rates^{x,‡}										
EUR-PLN	4.66	4.57	4.48	4.66	4.50	4.48	4.46	4.26	4.61	4.46
USD-PLN	3.97	3.77	3.67	3.97	3.72	3.67	3.63	3.80	3.75	3.63
CHF-PLN	4.21	4.15	4.08	4.21	4.09	4.07	4.02	3.92	4.25	4.02
EUR-USD	1.17	1.21	1.22	1.17	1.21	1.22	1.23	1.12	1.23	1.23

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.[†]under revision.

Monetary policy monitor

MPC Members	Hawk-o-meter*	Recent policy indicative comments^
E. Gatnar	4.8	"I remain convinced that a symbolic interest rate increase is needed, though I failed to persuade other MPC members to this (...) A majority keeps repeating that inflation is supply-side, but that's not entirely true. . . [as] we also have demand-side inflation (...) On the horizon we further have the incredible stimulus in the form of the Polish Deal" (15.06.2021, PAP, Bloomberg, Biznes24)
K. Zubelewicz	4.5	"Polish MPC would rethink easy-money preferences only on outlook for long-term lasting inflation above 4% (...) Polish MPC will likely stick to bias for "lowest possible interest rates" and "weak zloty;" chances for rate normalization "near zero" (26.01.2021, PAP)
L. Hardt	4.3	"Interest rates should be delicately normalized at this moment (...) In my opinion, the NBP reference rate should already be higher by at least 15 bps (...) Lack of any reaction by the NBP in the nearest future may lead to risk of de-anchoring inflation expectations, and from there the road is straight to lastingly elevated inflation". (15.06.2021, PAP)
J. Kropiwnicki	2.8	"If in Poland it turns out that we are at the 2019 level in terms of national income and will have a strong growth rate, then we could even start dealing with price increases " (14.06.2021, PAP, Biznes24).
J. Zyzynski	2.6	"I'm not going to experiment with any hikes (...) This year and the beginning of 2022 is a serious test for our economy. The wait-and-see approach, then, is all I can see until the economy achieves pre-pandemic levels." (23.06.2021, Bloomberg)
R. Sura	2.5	"Monetary policy is on the right track. We are supporting the recovery after the pandemic recession, and we're making sure that the recovery is permanent (...) The most significant forecasting tool will November's projection of inflation and GDP. If this document shows that inflation in 2022 and 2023 will continuously exceed 3.5% and will be caused by demand-side factors, which can be influenced by the MPC through interest rates, then I will advocate tighter monetary policy." (22.06.2020, PAP / Bloomberg).
G. Ancyparowicz	2.4	"At the moment speculation as to when the MPC will finally hike rates are fully unjustified (...) Especially that we are all waiting for July - we will [then] have the GDP and CPI projection, we will see how this situation will look like in the light of these expert assessments." (14.06.2021, Biznes24.tv, PAP)
C. Kochalski	2.0	"Regarding the eventual level of interest rates after the pandemic, for me the imperative of maintaining a stable level of prices while simultaneously supporting the economic policy remains unchanged (...) And as regards the sequence of monetary policy normalization, ending the asset purchase [program] and then raising the rates is the right normalization" (17.06.2021, PAP).
A. Glapinski	1.7	"Interest rate cuts are not an option at the moment, there is the question of policy normalization. (...) For now, rate stability to the end of the term is the most likely scenario. (...) The NBP will first announce the end of quantitative easing and only then there will be measures concerning interest rates. (...) We will likely start thinking about it mid-next year, I recommend calm until then" (07.05.2021, PAP)
E. Lon	1.0	"It'll be safe to wait for the projection, not only in July, but also in November (...) Then it will be possible to consider the optimal way of conducting Polish monetary policy in the period at the turn of 2021 and 2022" (14.06.2021, Bloomberg, wgospodarce.pl)

*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.

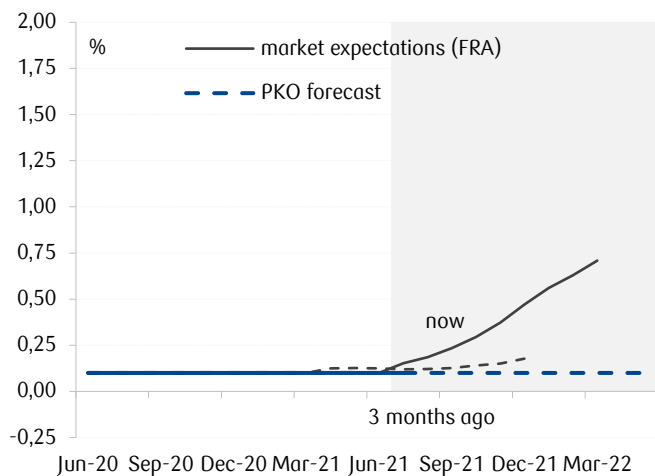
Interest rates – PKO BP forecasts vs. market expectations

	1M	2M	3M	4M	5M	6M	7M	8M	9M	
Date	24-Jun	24-Jul	24-Aug	24-Sep	24-Oct	24-Nov	24-Dec	24-Jan	24-Feb	24-Mar
WIBOR 3M/FRA†	0.21	0.26	0.30	0.34	0.40	0.48	0.58	0.67	0.74	0.82
implied change (b. p.)		0.05	0.09	0.13	0.19	0.27	0.37	0.46	0.53	0.61
MPC Meeting	9-Jun	8-Jul	-	8-Sep	6-Oct	3-Nov	8-Dec	-	-	-
PKO BP forecast*	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
market pricing*		0.15	0.19	0.23	0.29	0.37	0.47	0.56	0.63	0.71

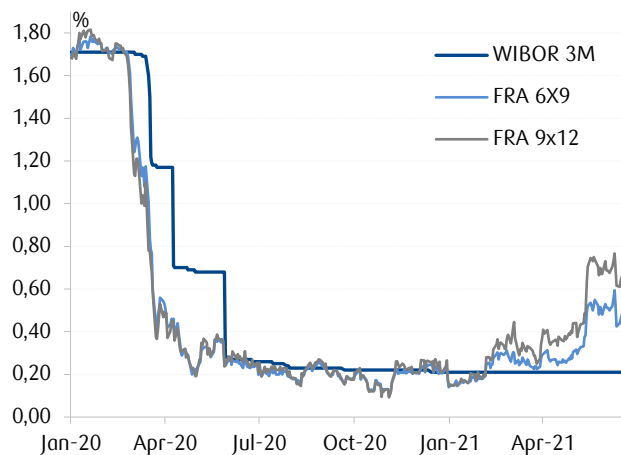
†WIBOR 3M from the last fixing, FRA transactions based on WIBOR 3M for subsequent periods, ‡in basis points, *PKO BP forecast of the NBP reference rate.

Poland macro chartbook

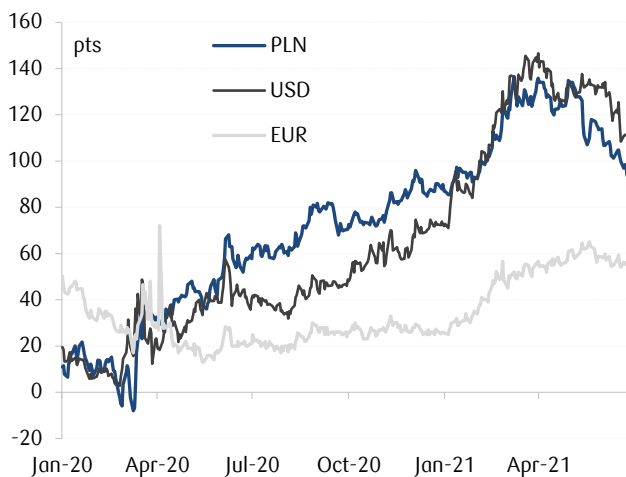
NBP policy rate: PKO BP forecast vs. market expectations



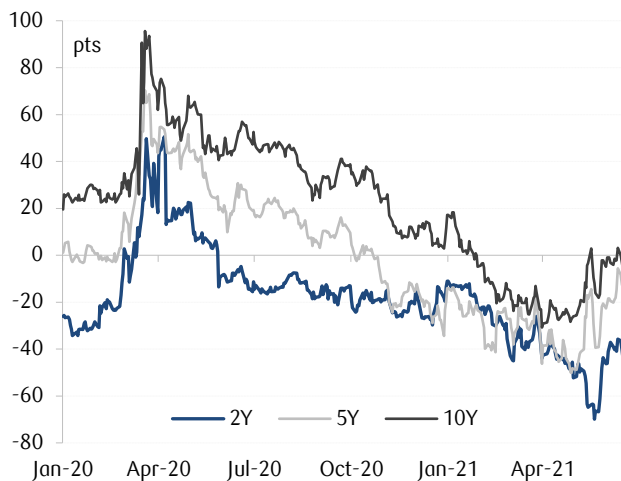
Short-term PLN interest rates



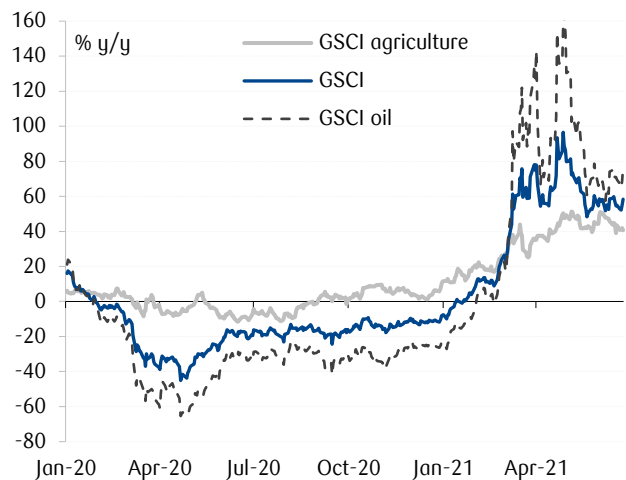
Slope of the swap curve (spread 10Y-2Y)*



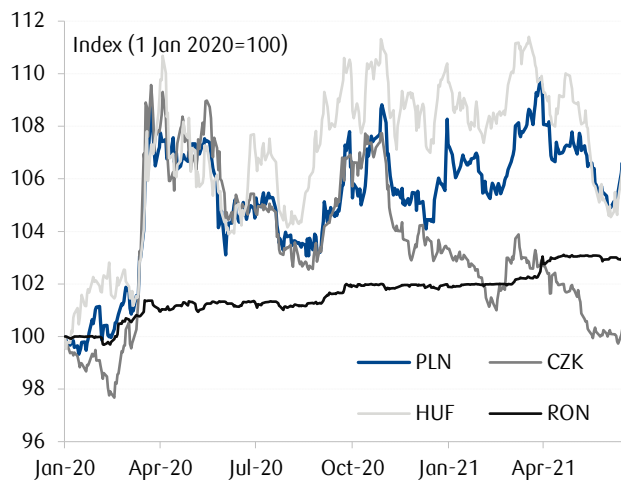
PLN asset swap spread



Global commodity prices (in PLN)

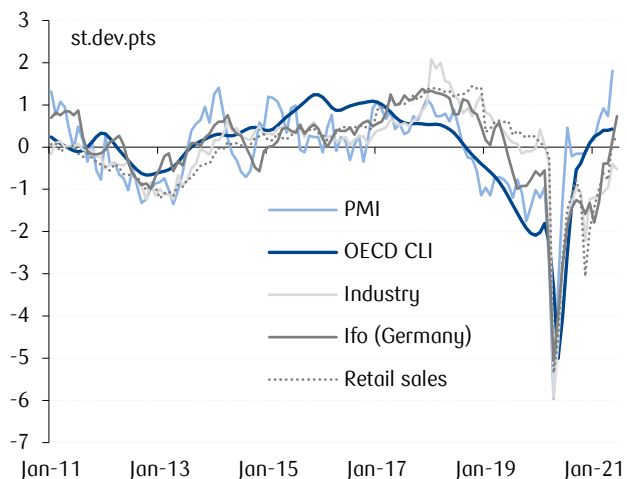


Selected CEE exchange rates against the EUR

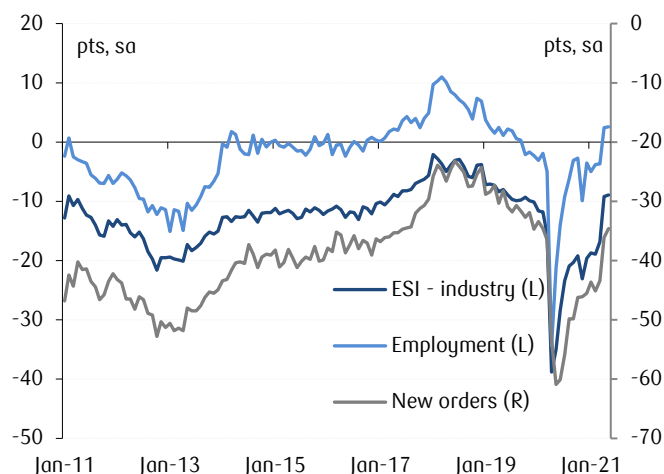


Source: Datastream, NBP, PKO Bank Polski. *for PLN, and EUR 6M, for USD 3M.

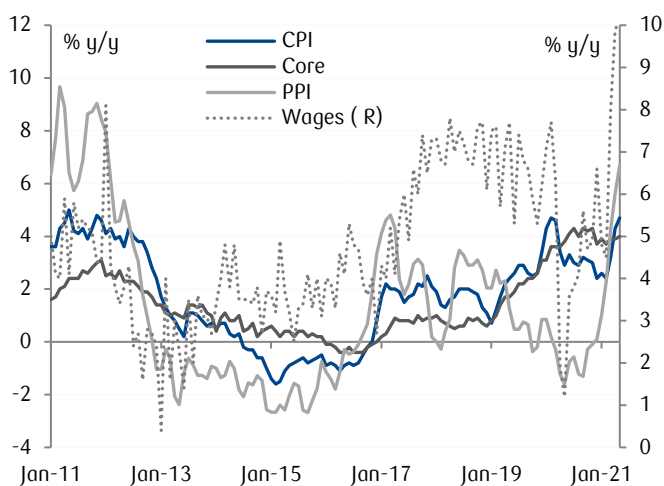
Economic sentiment indicators



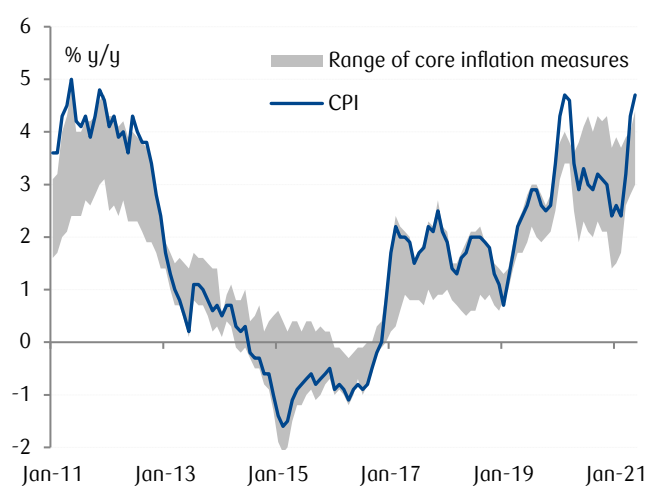
Poland ESI for industry and its components



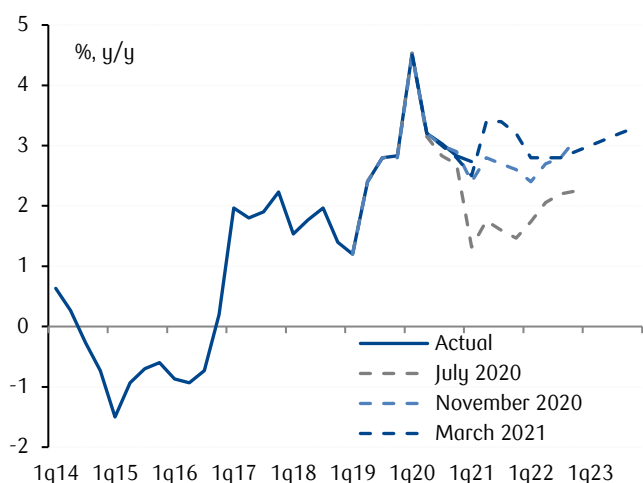
Broad inflation measures



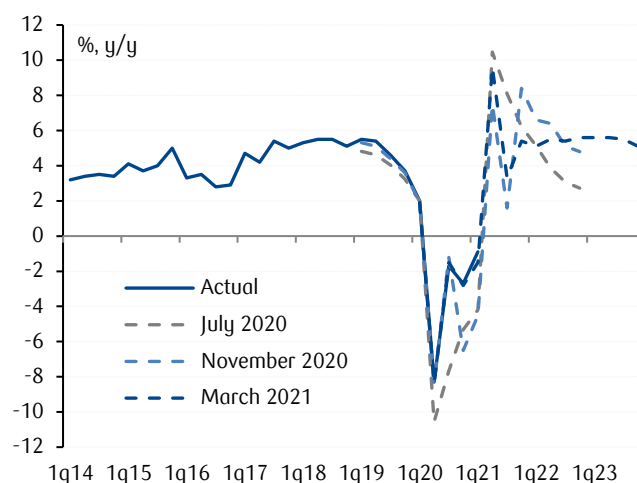
CPI and core inflation measures



CPI inflation - NBP projections vs. actual

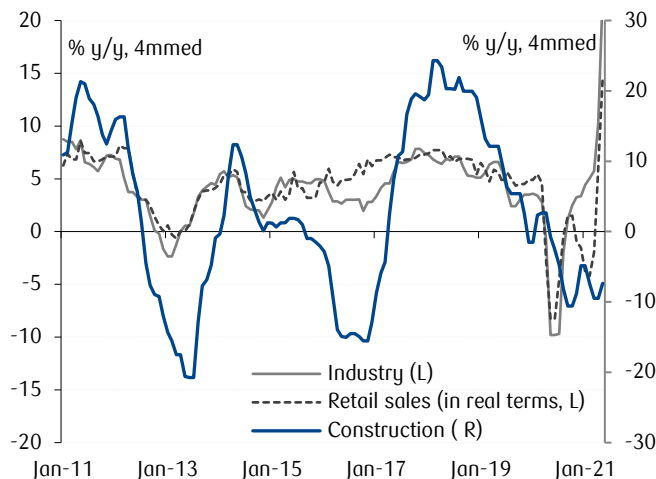


Real GDP growth - NBP projections vs. actual

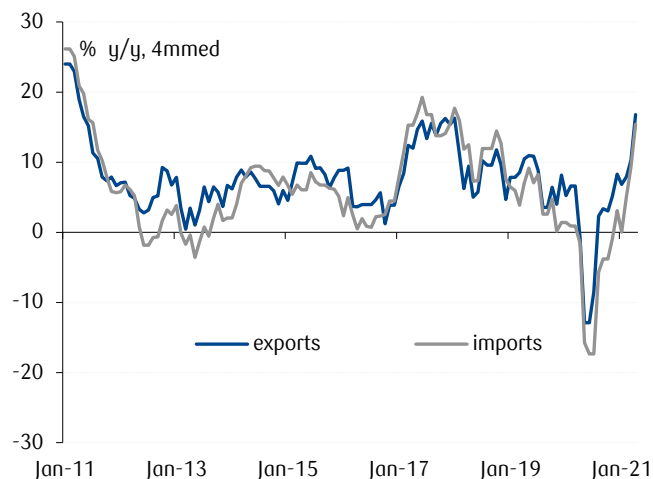


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

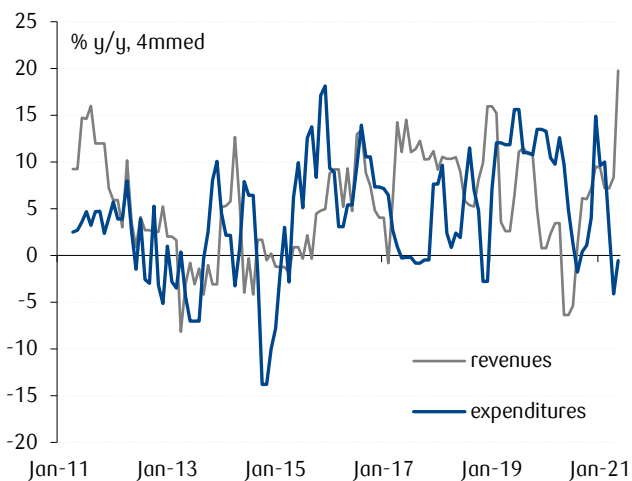
Economic activity indicators



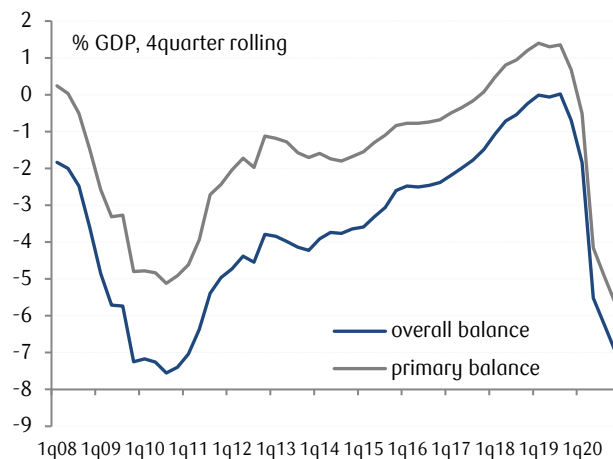
Merchandise trade (in EUR terms)



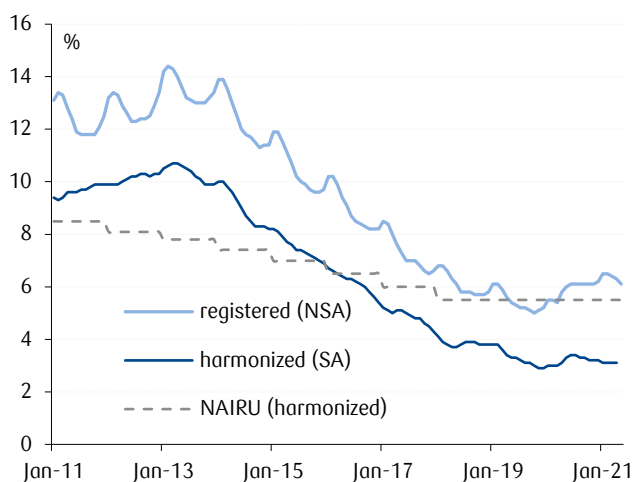
Central government revenues and expenditures*



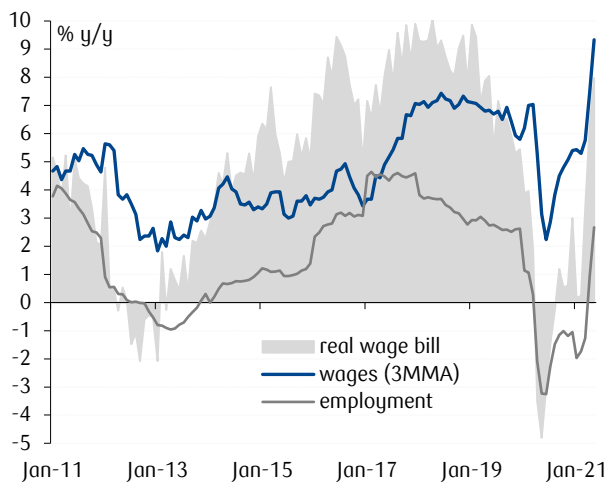
General government balance (ESA2010)



Unemployment rate

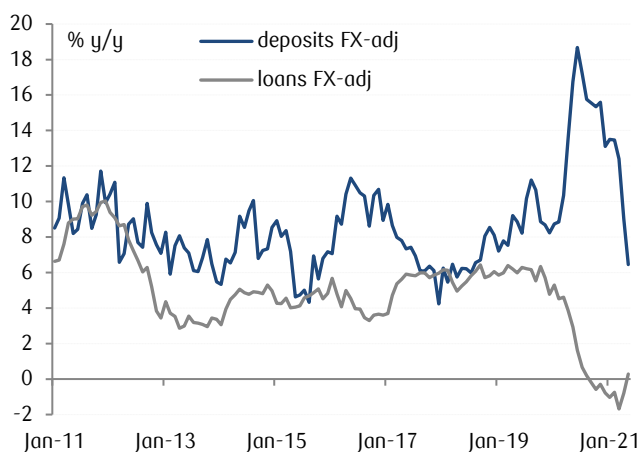


Employment and wages in the enterprise sector

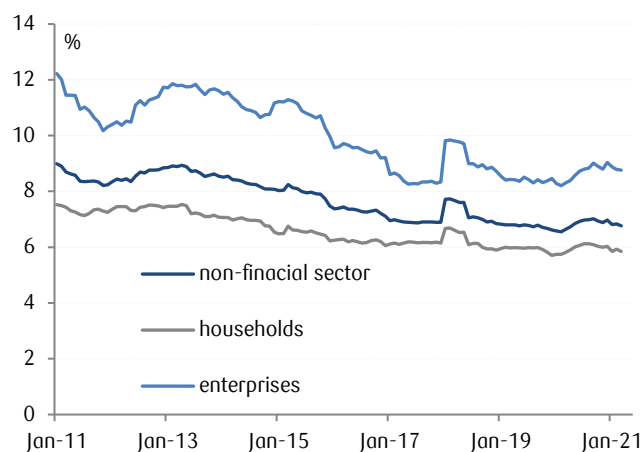


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. *break in series in 2010 due to methodological changes.

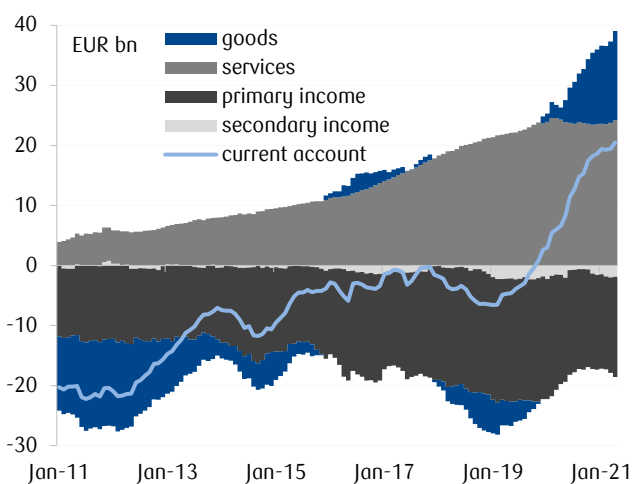
Loans and deposits



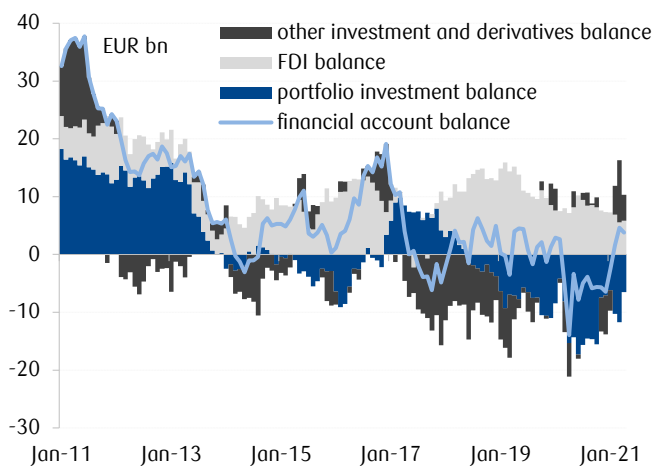
Non-performing loans (NPLs) - by sectors*



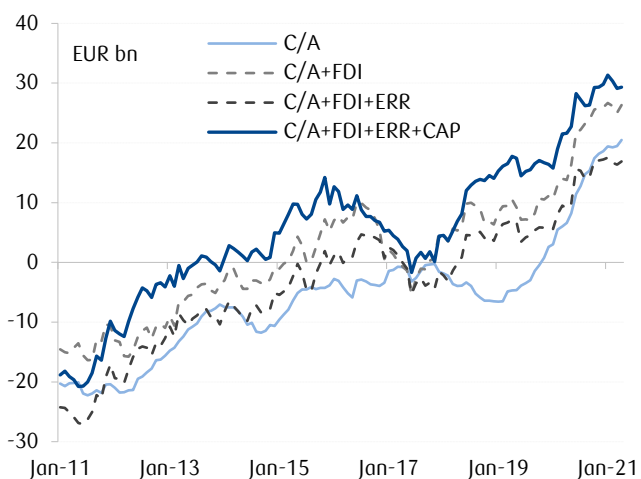
Current account balance



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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- [The New \(Polish\) Deal](#) (May 21, 2021)
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Poland's macro in a nutshell

	2020	2021 [^]	Comment
Real economy			
- real GDP (%)	-2.7	5.1	Despite a more difficult-than-expected start of the year, we still forecast a strong rebound in the domestic economy in 2021. The global recovery supports Poland's exports. We still believe that consumption (along with easing restrictions) and "shifted" fiscal stimulation will be an important driver of growth this year. 1q21 will be the last quarter of negative GDP growth rate. 2q21 will be determined by a low base. In 2h21 a longer period of GDP growth will begin, driven by fiscal, monetary and trade impulse and a decline in the savings rate, followed by an inflow of EU funds.
Prices			
- CPI inflation (%)	3.4	4.0	The sudden rise in CPI which occurred in March and April means, that it will stay around 4.0% level throughout the rest of the year, with a peak in May, at around 4.5%. Rising regulated prices, energy and food prices will keep the CPI at elevated levels despite expected moderation in core CPI.
Monetary aggregates			
- M3 money supply (%)	16.4	10.5	With the rebound of the economic growth, we expect credit demand to increase slowly, fueling a moderate bank lending expansion. Smaller scale of asset purchases will result in a deceleration of money supply growth.
External balance			
- current account balance (% GDP)	3.5	3.2	The balance of payments has become the main strength of Poland's macroeconomic fundamentals. Polish companies are successfully gaining the market share in global trade and Polish exports are breaking new records on a regular basis. Poland has become a net exporter, which is a hugely important structural change, that increases the room for maneuver in both monetary and fiscal policy.
Fiscal policy			
- fiscal balance (% GDP)	-7.0	-3.4	We see no threat to the sustainability of the public finances. In our view Poland, as a competitive economy with high GDP growth potential and moderate inflation, will begin to quickly 'outgrow' the public debt, which has increased due to pandemic.
Monetary policy			
- NBP reference rate (%)	0.10	0.10	Despite high inflation NBP monetary policy will not be exciting. In our baseline scenario we still assume that NBP interest rates will remain unchanged even after 2021, and that the MPC will continue its asset purchases program. Nevertheless, as the economy recovers and relatively high inflation persists, the market might start to expect that monetary policy normalization will start in Poland even before the major central banks will start to tighten their policies.

Source: GUS, NBP, Eurostat, PKO Bank Polski. [^]under revision.

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