

## Can households afford NBP rate hikes?

### Top macro theme(s):

- **Can households afford (rapid) NBP rate hikes? (p. 2):** On November 3, the MPC delivered yet another larger-than-expected interest rate hike (+75bps). We think that inflation will continue to surprise the MPC on the upside in the coming months and trigger further hikes. We do not assume, however, that rates will rise significantly above 2.00%. Our baseline scenario assumes a hike by 50bps in December and by 25bps in January. The risk however is still skewed towards a more pronounced tightening. Despite interest rate hikes, Polish households are characterised by a high capacity to withstand the increase in the debt servicing costs.

### What else caught our eye:

- **The NBP sentiment survey** confirmed that the corporate sector remains in a strong recovery mode amid high capacity utilisation (back at the pre-pandemic level), strong employment and record high share of companies that expect wage hikes. Moreover, the NBP survey showed a very good investment sentiment among the surveyed enterprises (see chart of the week) pointing to a strong increase in investments (and possibly corporate loans).
- Despite mounting pressure from supply chains, **manufacturing PMI** inched up in October (to 53.8 from 53.4 in Sept.) with a mild expansion of output and new orders.
- **Moody's** has skipped the update of Polish rating (A2, stable outlook).
- **The registered unemployment rate** dropped in October (by 0.1pp to 5.5%) according to flash MinLab estimate (PKOe and cons: 5.5%).

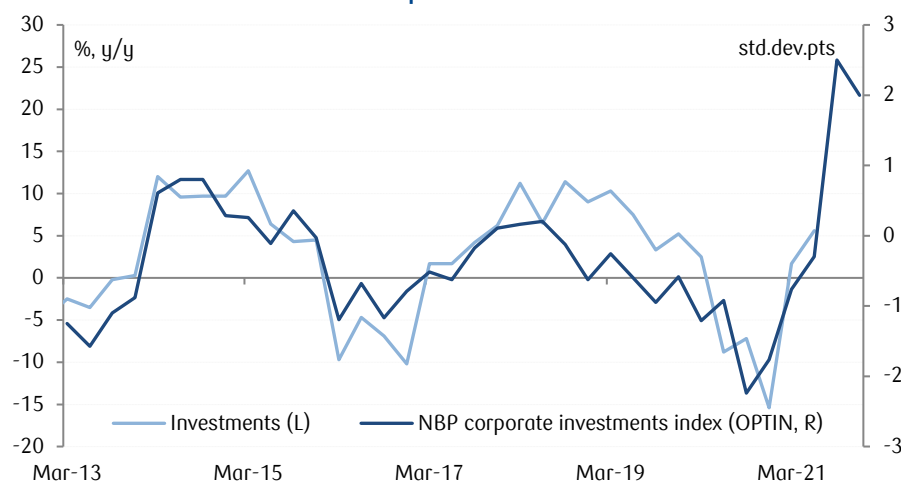
### The week ahead:

- **Flash GDP for 3q21** will be the key local macro figure next week. Expected normalisation of growth rate (PKOe: 5.7% y/y) is accompanied by an unexceptionally high uncertainty surrounding the estimate due to the lack of hard data on service sector that has shown the strongest recovery in summer.

### Number of the week:

- **1.39% of GDP** – gross domestic expenditure on R&D (GERD) in 2020 (+7.0%), vs. 1.32% of GDP in 2019 and 1.0% of GDP in 2015.

### Chart of the week: Investments vs corporate investments sentiment index



Source: NBP, GUS, PKO Bank Polski.

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	2020	2021 <sub>†</sub>
Real GDP (%)	-2.5	5.4
Industrial output (%)	-1.0	13.2
Unemployment rate <sup>#</sup> (%)	6.2	5.8
CPI inflation <sup>**</sup> (%)	3.4	4.9
Core inflation <sup>**</sup> (%)	3.9	4.1
Money supply M3 (%)	16.4	9.0
C/A balance (% GDP)	2.9	0.0
Fiscal balance (% GDP)*	-7.1	-1.7
Public debt (% GDP)*	57.4	56.8
NBP reference rate <sup>##</sup> (%)	0.10	1.75
EURPLN <sup>‡##</sup>	4.61	4.56

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

## Can households afford the (rapid) NBP rate hikes?

- On November 3, the MPC delivered yet another, larger-than-expected interest rate hike (+75bps). We think that inflation will continue to surprise the MPC on the upside in the coming months and trigger further hikes. We do not assume, however, that rates will rise significantly above 2.00%. Our baseline scenario assumes a hike by 50bps in December and by 25bps in January, but risk is still skewed towards a more pronounced tightening.
- To see if Polish households can afford higher rates we estimated the cost of their debt service in 2022 assuming two NBP rate scenarios: (1) 100bp hikes up to the end of 2021 and (2) 200bps hikes up to the end of 2021 (vs. reference rate at 0.5% in October). The results of our scenario analysis show that Polish households are characterised by a high capacity to cope with higher cost of debt service.

On November 3rd the MPC delivered yet another, larger-than-expected, interest rate hike. It increased rates by 75bps (the biggest move since 2000). The reference rate was set at 1.25% and now it is only 25bps lower than before the pandemic. The MPC remains in an "inflation data driven" mode and although it does not declare whether the two hikes already made are part of a cycle, continuation of monetary policy tightening is currently the most likely scenario.

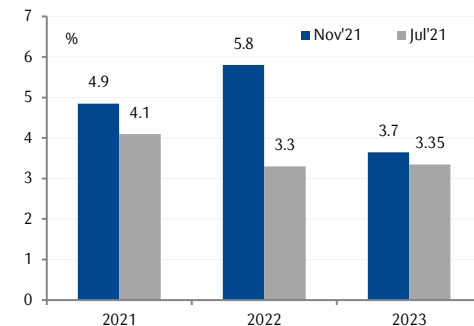
The [post-meeting statement](#) presented the main indications of the new NBP projection with a much higher path of CPI inflation than indicated in July. It assumes that in 2021 inflation will amount to 4.8% (4.2% according to the previous projection), in 2022 to 5.8% (vs 3.3% assumed in July) and in 2023 to 3.6% (vs 3.4% previously). At the end of the projection horizon, inflation will therefore slightly exceed the upper bound of the target band. The GDP projection was revised down in 2022 and 2023 (to 4.8% from 5.4% and to 4.9% from 5.3%, respectively) and upwards in 2021 (to 5.3% from 5.0%).

The statement also said that, although the inflation is elevated mainly due to the exogenous factors (outside the reach of the domestic monetary policy), the ongoing economic recovery, including demand driven by rising household income, adds to the price growth. On the other hand the sentence indicating that the inflationary impact of some supply-side factors would fade away in 2022 was removed. At the same time, it was indicated that changes in commodity prices and prolonged global supply disruptions are pushing up current inflation forecasts both in Poland and abroad. The NBP reiterated that amidst expected further economic recovery and favourable labour market conditions it generates a risk of inflation remaining elevated in the monetary policy transmission horizon. In order to reduce this risk, the NBP decided to increase interest rates.

During the press conference, A.Glapinski emphasized that the two interest rate hikes were aimed at preventing the price-wage spiral, and the NBP have not yet made a decision whether to conduct a full cycle. The Governor declared that the NBP would do whatever it takes to ensure that inflation (in his view it is some kind of a price for avoiding a deeper crisis during the pandemic) returns to its target within the next two years. According to A.Glapiński, inflation will reach its peak in January 2022 at or slightly above 7%.

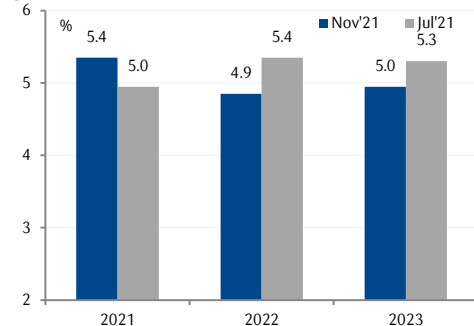
The decisive rhetoric at the conference, reminiscent of "whatever it takes" by M.Draghi, as well as strong indications that there are currently no signs of the inflationary spiral and factors that permanently boost inflation, were probably aimed at reducing inflation expectations and market expectations as to the scale of further hikes. The effectiveness of this strategy may, however, be limited by

CPI projected by the NBP (central path)



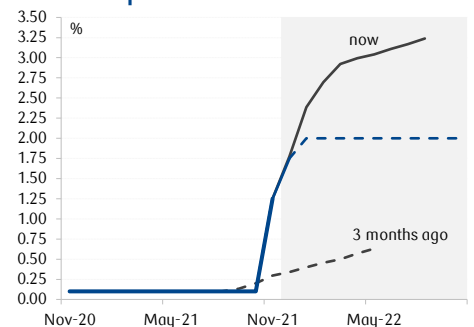
Source: NBP, PKO Bank Polski.

GDP projected by the NBP (central path)



Source: NBP, PKO Bank Polski.

NBP policy rate: PKO BP forecast vs. market expectations



Source: Refinitiv, NBP, PKO Bank Polski.

relatively low (in our opinion) NBP the near term forecasts for inflation (peak around 7%), which indicate that inflation may continue to surprise the MPC to the upside in the coming months and thus trigger further increases. We do not think, however, that rates will rise significantly above 2.00%. Our baseline scenario assumes a hike by 50bps in December and by 25bps in January. The risk however is still skewed towards a more pronounced tightening.

**Could the post-pandemic normalization of the NBP interest rates ‘devastate’ the financial situation of households?**

Inspired by the October’s interest rate increase in Poland, the first one in almost a decade, in our latest [Macro Focus](#) (in Polish), we have analysed the sensitivity of Polish households to the domestic monetary policy normalization. The conclusions from our analysis are helpful, among others, when assessing the outlook for consumer demand and the quality of the household loans portfolio.

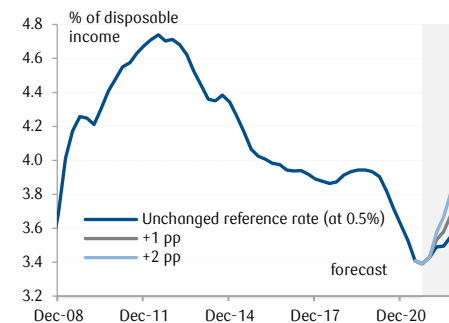
The results of our two-scenarios analysis show that **Polish households are characterised by a high capacity to cope with higher cost of debt service**, both in comparison to the previous episodes of interest rate increases in Poland and compared to the present situation in other European economies.

We estimated the costs of servicing the households’ credit debt in 2022 in two scenarios of the NBP rate hikes: (1) by 100bps by the end of 2021 (return to the level from before the pandemic) and (2) by 200bp. **Even in the ‘shock’ scenario of a 200bps rate increase (vs. 0.5% from October), the cost of debt service in relation to disposable income would increase only by 0.36pp to 4.1%, so it would be only slightly higher than before the pandemic and much lower than at the peak a decade ago.** In other words, even in the scenario of quite drastic normalization of domestic monetary policy (an increase in interest rates by as much as 200bps before the end of 2021), one should not fear a significant decline in the dynamics of consumption demand in 2022 or a significant deterioration in the quality of the loan portfolio in the household segment. In our view the real future interest rate path could be somewhere in between our two main scenarios.

**Strong income growth is a key factor limiting households' sensitivity to interest rate hikes.** In our analysis we assume a disposable income growth in 2021-2022 at 6% annually, i.e. at a pace similar to that observed in 2017-2019. Taking into account the strong upward trend in wages and the tax effects of the Polish Deal, the actual increase in income may turn out to be greater, especially for the less affluent households.

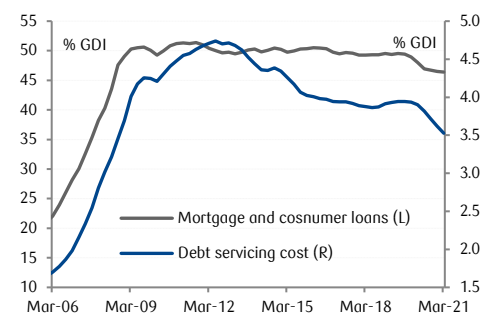
**The scale of households indebtedness is an important factor determining their sensitivity to interest rate hikes.** Despite the economic boom and a long period of low and stable interest rates before the pandemic, the growth rate of loans to households was moderate. During the pandemic, the growth rate of lending continued to weaken, despite rate cuts to near zero in 1h20. The ratio of household debt to disposable income decreased from 48.9% at the end of 2019 to 46.4% in 1q21. The deleveraging made households less vulnerable to interest rate hikes. In our analysis, we assume that households’ debt in 2022 will increase by nearly 7%, similar to this year. Savings/assets are another important factor influencing the ability of households to service their liabilities. Forced savings from the time of the pandemic provide an additional safety buffer for borrowers' debt service capacity. This buffer is clearly visible in the rapid growth of financial assets of households, the value of which in 1q21 exceeded 110% of GDP.

**Change in the debt service cost under different interest rates scenarios (+100bps, +200bps, unchanged at 0.50%)**



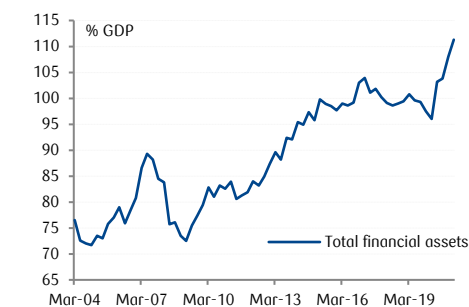
Source: Eurostat, NBP, PKO Bank Polski.

**Household debt and debt service cost**



Source: Eurostat, NBP, PKO Bank Polski.

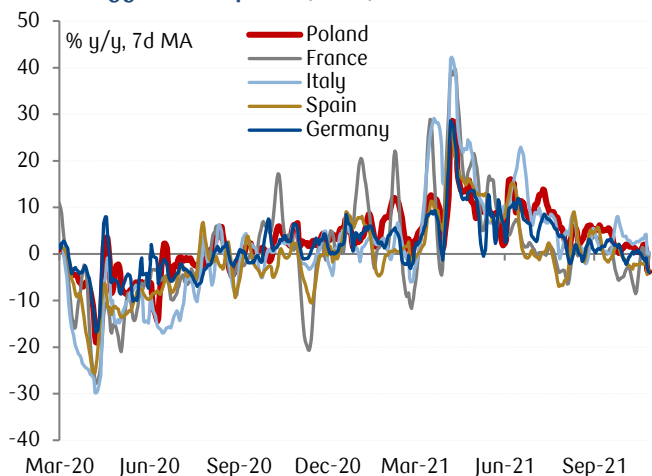
**Financial assets of the household sector**



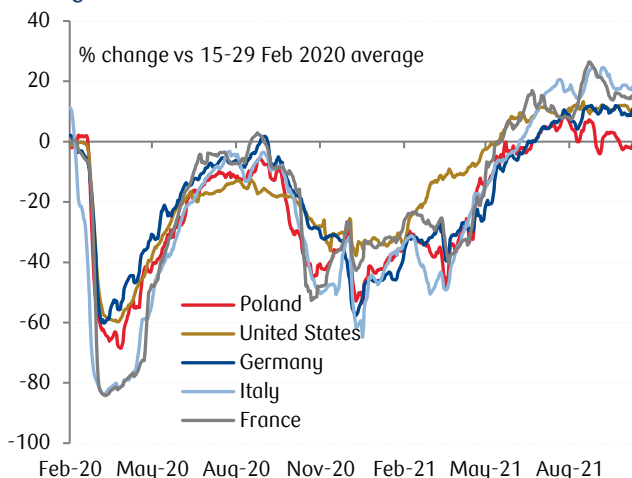
Source: Eurostat, PKO Bank Polski.

## Macro monitoring with alternative data

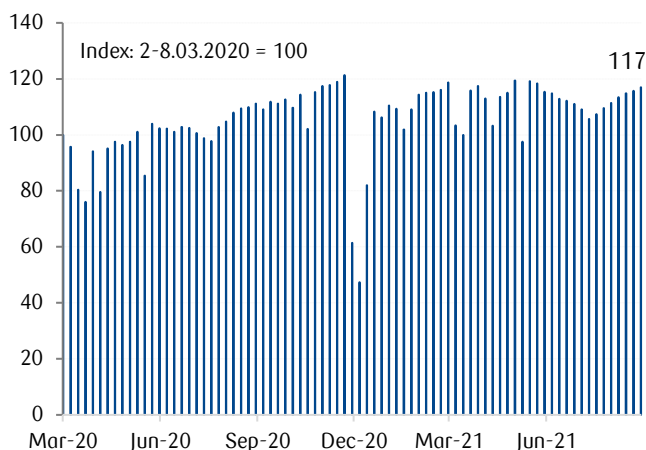
Electric energy consumption (total)



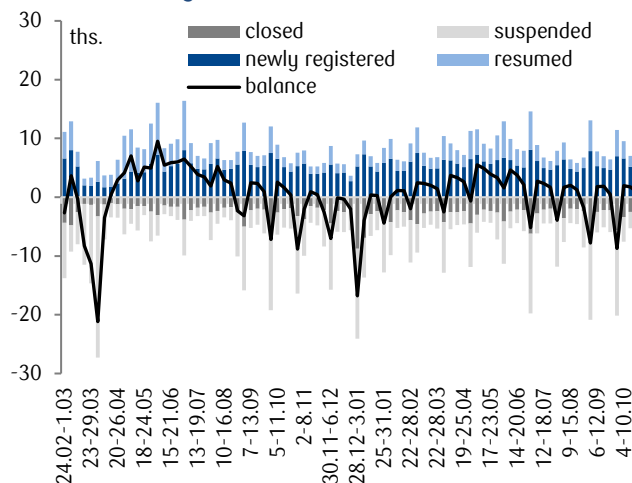
Mobility\*



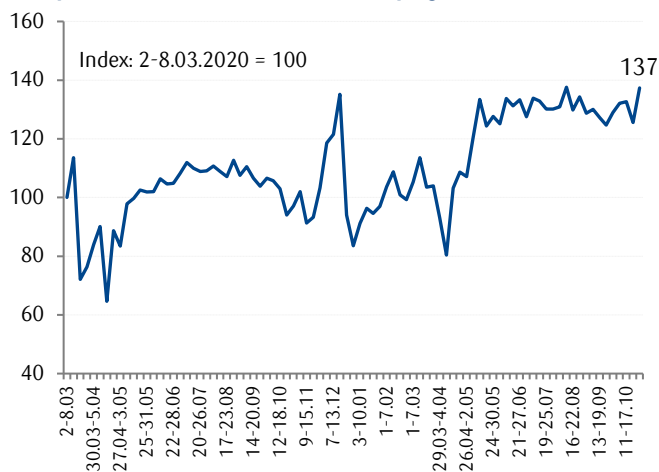
Heavy truck traffic^^



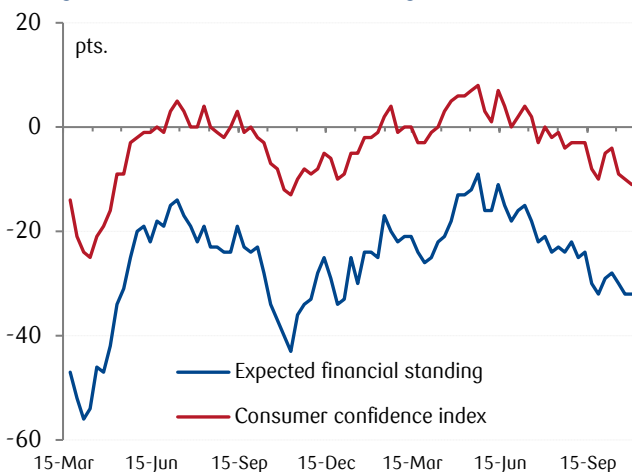
Economic activity status (acc. to CEiDG\*\*)



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>Monday, 8 November</b>						
EUR: Sentix Index (Nov)	9:30	pts.	16.9	18.6	--	--
<b>Tuesday, 9 November</b>						
GER: Exports (Sep)	7:00	% m/m	-1.2	0.5	--	--
HUN: CPI inflation (Oct)	8:00	% y/y	5.5	--	--	--
GER: ZEW Economic Sentiment (Nov)	10:00	pts.	22.3	19.0	--	--
USA: PPI inflation (Oct)	13:30	% y/y	8.6	8.7	--	--
<b>Wednesday, 10 November</b>						
CHN: CPI inflation (Oct)	1:30	% y/y	0.7	1.4	--	--
CHN: PPI inflation (Oct)	1:30	% y/y	10.7	12.0	--	--
GER: CPI inflation (Oct, final)	7:00	% y/y	4.5	4.5	--	--
CZE: CPI inflation (Oct)	8:00	% y/y	4.9	--	--	--
USA: Initial Jobless Claims	13:30	thous.	281	--	--	--
USA: CPI inflation (Oct)	13:30	% y/y	5.4	5.3	--	--
USA: Core inflation (Oct)	13:30	% y/y	4.0	4.0	--	--
<b>Friday, 12 November</b>						
POL: GDP growth (3q)	9:00	% y/y	11.1	4.8	5.7	GDP growth rate has likely normalized after a record strong 2q21.
EUR: Industrial production (Sep)	10:00	% y/y	5.1	5.0	--	--
USA: JOLTS Report (Sep)	15:00	mn	10.439	10.925	--	--
USA: University of Michigan sentiment (Nov, flash)	15:00	pts.	71.7	72.0	--	--

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

## Selected economic indicators and forecasts

	Aug-21	Sep-21	Oct-21	1q21	2q21	3q21	4q21	2020	2021	2022
<b>Economic activity</b>										
Real GDP (% y/y)	x	x	x	-0.8	11.2	5.7	5.9	-2.5	5.4	5.1
Domestic demand (% y/y)	x	x	x	0.3	12.4	5.3	5.3	-3.7	5.7	5.1
Private consumption (% y/y)	x	x	x	0.1	13.1	3.6	6.8	-3.0	5.7	4.7
Gross fixed capital formation (% y/y)	x	x	x	1.7	5.6	3.0	5.0	-9.6	3.8	7.2
Inventories (pp)	x	x	x	-0.2	2.8	1.8	-0.1	-0.8	1.0	0.3
Net exports (pp)	x	x	x	-1.1	-0.3	0.7	1.0	0.8	0.1	0.3
Industrial output (% y/y)	13.0	8.8	4.2	7.8	30.2	10.4	4.9	-1.0	13.2	6.6
Construction output (% y/y)	10.2	4.3	5.0	-12.5	1.8	5.8	1.6	-2.7	x	x
Retail sales (real, % y/y)	5.4	5.1	6.3	1.2	14.4	4.8	6.9	-2.7	7.1	4.7
Nominal GDP (PLN bn)	x	x	x	587.4	617.0	636.9	714.5	2327	2556	2750
<b>Labour market</b>										
Registered unemployment rate‡(%)	5.8	5.6	5.5	6.4	5.9	5.6	5.8	6.2	5.8	4.8
Employment in enterprises (% y/y)	0.9	0.6	0.5	-1.7	2.1	1.1	0.6	-1.2	0.5	1.1
Wages in enterprises (% y/y)	9.5	8.7	9.3	5.8	9.9	9.0	8.8	4.8	8.4	8.5
<b>Prices^</b>										
CPI inflation (% y/y)	5.5	5.9	6.8	2.7	4.5	5.4	7.0	3.4	4.9	6.2
Core inflation (% y/y)	3.9	4.2	4.6	3.8	3.8	3.9	4.7	3.9	4.1	4.7
15% trimmed mean (% y/y)	4.1	4.5	x	2.6	3.2	4.1	x	3.9	x	x
PPI inflation (% y/y)	9.6	10.1	10.9	2.4	6.4	9.4	11.7	-0.5	7.4	5.7
<b>Monetary aggregates‡</b>										
Money supply, M3 (PLN bn)	1902.8	1914.2	1917.7	1862.5	1876.0	1914.2	1986	1822.7	1985.8	2097.3
Money supply, M3 (% y/y)	9.1	8.6	8.5	14.4	7.4	8.6	9.0	16.4	9.0	5.6
Real money supply, M3 (% y/y)	3.5	2.6	1.6	11.3	2.8	3.0	1.9	12.6	3.9	-0.5
Loans, total (PLN bn)	1365.4	1376.3	x	1344.0	1349.2	1376.3	1392.7	1333.8	1392.7	1474.4
Loans, total (% y/y)	2.6	2.9	x	-1.7	0.6	2.9	4.4	0.8	4.4	5.9
Deposits, total (PLN bn)	1774.0	1798.1	x	1670.0	1724.8	1798.1	1818.1	1602.2	1818.1	1893.6
Deposits, total (% y/y)	9.8	10.5	x	12.4	6.6	10.5	13.5	13.9	13.5	4.2
<b>Balance of payments</b>										
Current account balance (% GDP)	0.9	0.5	0.3	2.7	1.7	0.5	0.0	2.9	0.0	0.7
Trade balance (%GDP)	1.7	1.3	1.1	2.7	2.4	1.3	0.7	2.4	0.7	0.2
FDI (% GDP)	2.5	2.5	2.2	2.2	2.2	2.5	2.5	2.1	2.5	1.8
<b>Fiscal policy</b>										
Fiscal balance (% GDP)	x	x	x	x	x	x	x	-7.1	-1.7	-1.3
Public debt (% GDP)	x	x	x	x	x	x	x	57.4	56.8	54.3
<b>Monetary policy‡</b>										
NBP reference rate (%)	0.10	0.10	0.50	0.10	0.10	0.10	1.75	0.10	1.75	2.00
NBP lombard rate (%)	0.50	0.50	1.00	0.50	0.50	0.50	2.25	0.50	2.25	2.50
NBP deposit rate (%)	0.00	0.00	0.00	0.00	0.00	0.00	1.25	0.00	1.25	1.50
WIBOR 3M <sup>x</sup> (%)	0.23	0.23	0.23	0.21	0.21	0.23	1.90	0.21	1.90	2.15
Real WIBOR 3M <sup>x</sup> (%) <sup>#</sup>	-5.23	-5.64	-6.56	-2.53	-4.26	-5.19	-5.05	-3.06	-2.98	-4.04
<b>Exchange rates*‡</b>										
EUR-PLN	4.54	4.62	4.62	4.66	4.52	4.62	4.56	4.61	4.56	4.44
USD-PLN	3.84	3.95	3.97	3.97	3.80	3.95	3.97	3.75	3.97	3.86
CHF-PLN	4.20	4.26	4.35	4.21	4.12	4.26	4.18	4.25	4.18	3.96
EUR-USD	1.18	1.17	1.16	1.17	1.19	1.17	1.15	1.23	1.15	1.15

Source: GUS, NBP, PKO Bank Polski.

<sup>x</sup>PKO BP Market Strategy team forecasts.<sup>^</sup>period averages for quarterly and yearly data.<sup>#</sup>deflated with current CPI inflation.<sup>‡</sup>period end values.

## Monetary policy monitor

MPC Members	Hawk-o-meter*	Recent policy indicative comments^
K. Zubelewicz	4.9	"Today, the reference rate at the level of 2.0% certainly would not be too high (...) Only a higher price of money than before the crisis would guarantee a return of inflation to the target in the mid-term, but I don't count on that (...) True, there are isolated supply-side problems, but since the total output is higher it means that other sectors are making up for these problems with increased output. In my opinion, the main source of inflation is the demand impulse" (18.10.2021, PAP)
E. Gatnar	4.7	<b>"I believe we have started to make up for the lost time and we should remain on that path to monetary normalcy, although it will not be the pre-pandemic normalcy (...)"</b> (05.11.2021, PAP, Biznes24.tv)
L. Hardt	4.3	"It's very good that a majority appeared within the council [PAP: to support a rate hike in October], but we need to continue, (...) A motion for further interest rate hikes will most likely be submitted at the next week's sitting. (...) The mandatory reserve rate should be hiked first, and only then the reference rate should go up, so that the impact of raising the reference rate on the Polonia money market rate is relatively quick". (28.10.2021, PAP).
J. Kropiwnicki	2.7	"We hiked rates by 40 bps exactly in order not to have any further expectations for hikes for now after a considerable move, higher than expected. (...) All MPC members supported the motion for hiking the interest rate and the mandatory reserve rate" (11.10.2021, PAP).
R. Sura	2.7	"The October interest rate hike is described as surprising. One should note here that the NBP has been withdrawing from monetary accommodation for some time via limiting the asset purchase program, which had not been adequately noted and interpreted by the market. (...) At the same time, I cannot say whether I will vote in favor of another interest rate hike in November or in the following months, because the Council will be the first to know my decision. Still, I see need for normalization of interest rates to pre-pandemic levels." (22.10.2020, PAP).
G. Ancyparowicz	2.6	<b>"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."</b> (05.11.2021, Bloomberg)
J. Zyzynski	2.4	"We are waiting for the November projection, for the next inflation data. If it turns out that this jump in inflation month on month is worrying, the Council could react with interest rates in December or January (2022). (...) I was in favour of waiting with changes until the end of the year and keeping rates low, but inflation in September surprised me. (...) It was necessary to signal that we are withdrawing these cuts - this is how I interpreted our decision. We are taking our foot off the gas" (20.10.2021, Reuters)
C. Kochalski	2.2	"In my opinion, that moment [PAP: for considering monetary policy tightening] has not come yet (...) The pace of inflation returning to the target must be set prudently, in the context of occurring shocks as well as uncertainty as to pandemic developments (...) It is of key importance that the pace of inflation's return to the target does not thwart the revival in the Polish economy." (23.09.2021, PAP).
A. Glapinski	1.8	<b>"As of January everything suggests that inflation will be falling; there will be no need to hike interest rates further"</b> (05.11.2021, TVN24, PAP)
E. Lon	1.3	"My stance at the November MPC sitting may depend on different factors," Lon wrote. "It will, for example be important how long, in the light of latest projection, inflation will remain above the upper end of the target range." (25.10.2021, wGospodarce.pl, PAP)

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

### Interest rates – PKO BP forecasts vs. market expectations

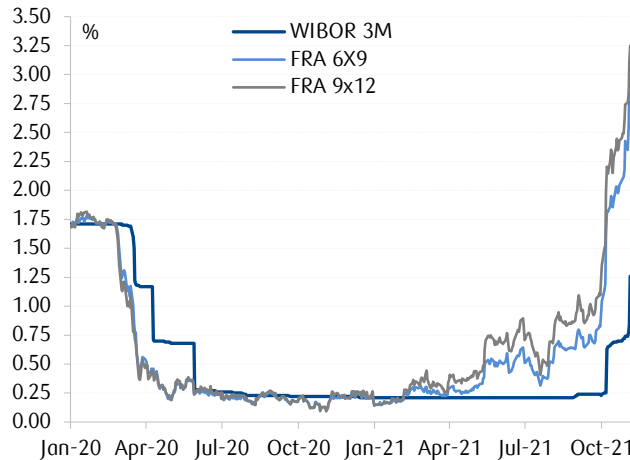
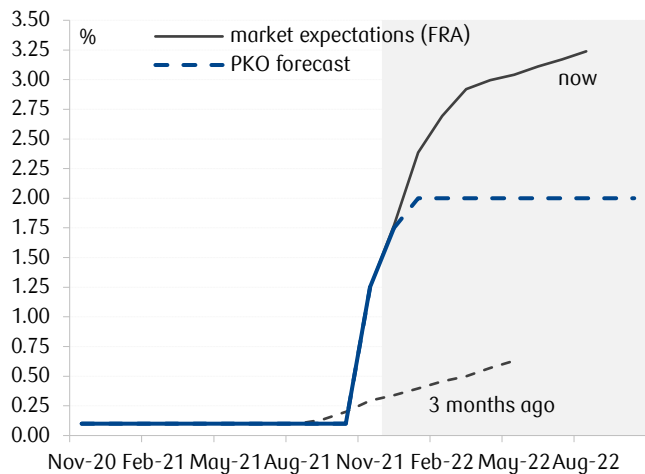
	1M	2M	3M	4M	5M	6M	7M	8M	9M	
Date	4-Nov	4-Dec	4-Jan	4-Feb	4-Mar	4-Apr	4-May	4-Jun	4-Jul	4-Aug
WIBOR 3M/FRA†	1.26	1.79	2.40	2.70	2.93	3.01	3.05	3.12	3.18	3.25
implied change (b. p.)		0.53	1.14	1.44	1.67	1.75	1.79	1.86	1.92	1.99
MPC Meeting	3-Nov	8-Dec	-	-	-	-	-	-	-	-
PKO BP forecast*	1.25	1.75	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
market pricing*		1.78	2.39	2.69	2.92	3.00	3.04	3.11	3.17	3.24

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

## Poland macro chartbook

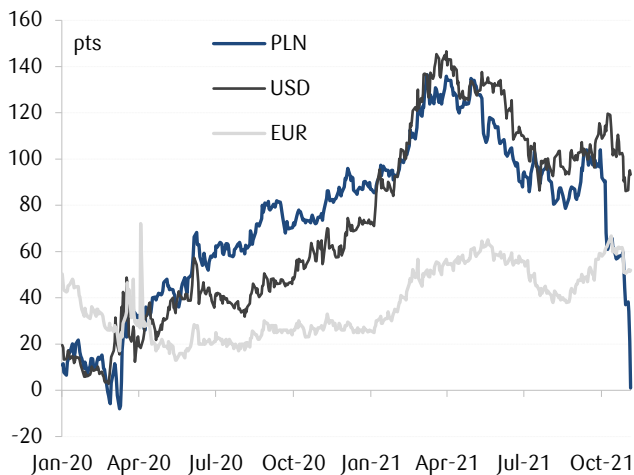
NBP policy rate: PKO BP forecast vs. market expectations

Short-term PLN interest rates



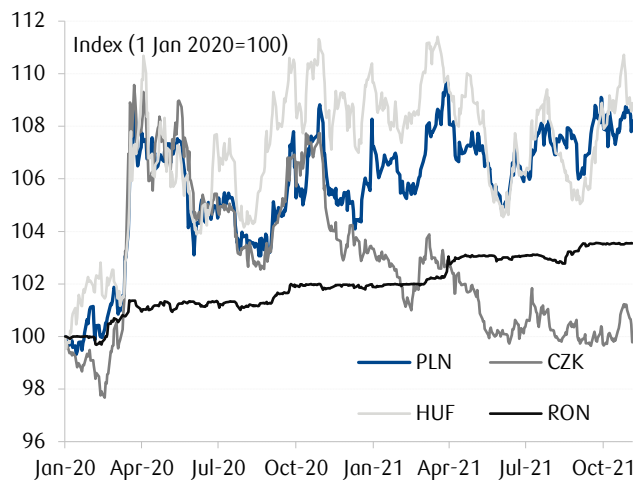
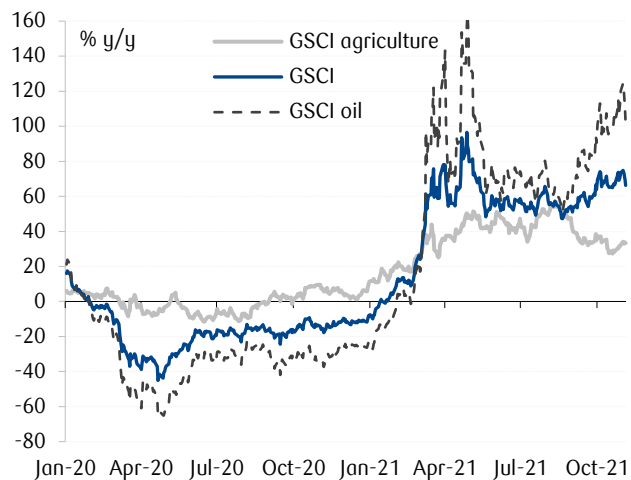
Slope of the swap curve (spread 10Y-2Y)\*

PLN asset swap spread



Global commodity prices (in PLN)

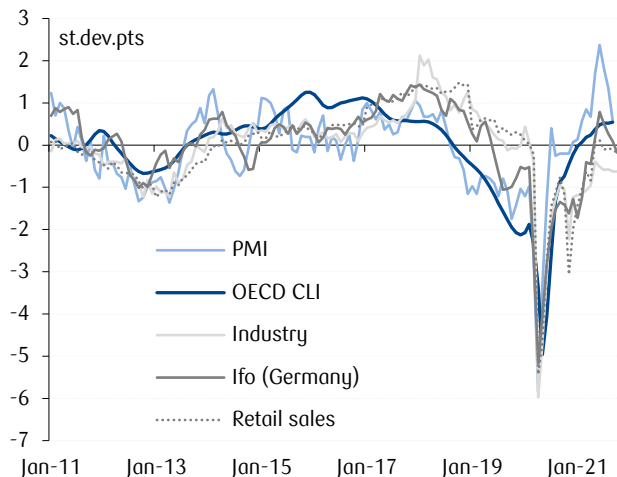
Selected CEE exchange rates against the EUR



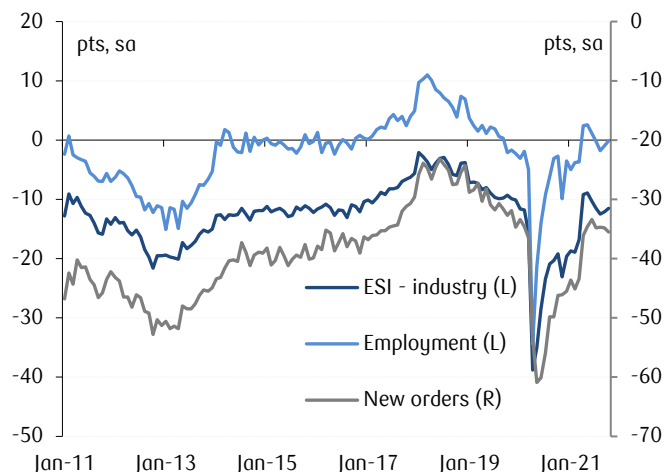
Source: Datastream, NBP, PKO Bank Polski. \*for PLN, and EUR 6M, for USD 3M.



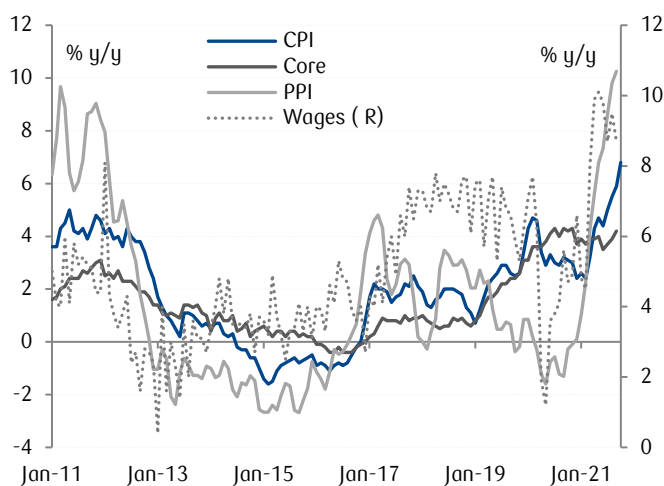
Economic sentiment indicators



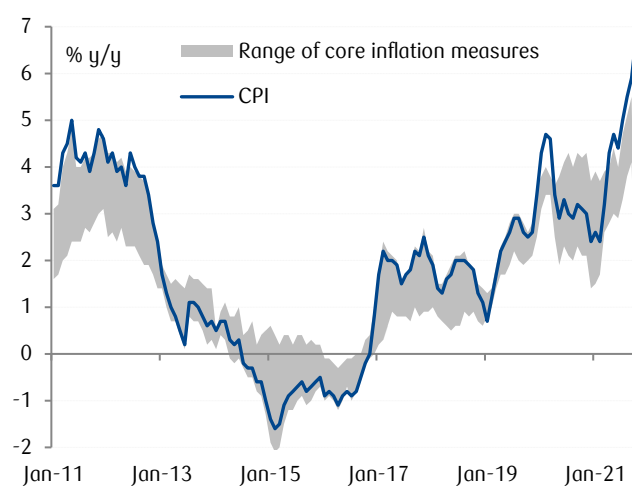
Poland ESI for industry and its components



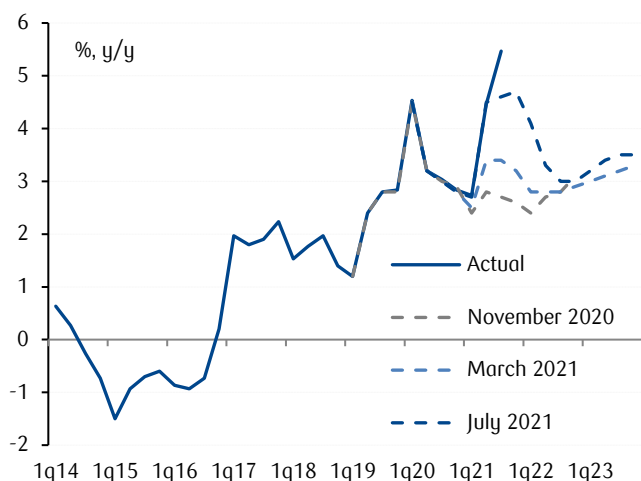
Broad inflation measures



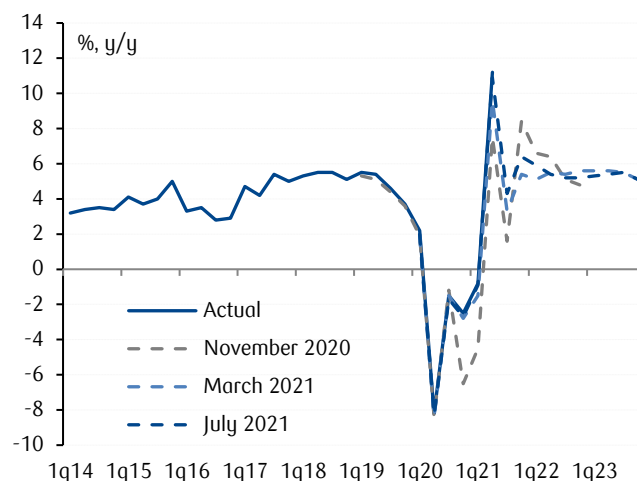
CPI and core inflation measures



CPI inflation - NBP projections vs. actual

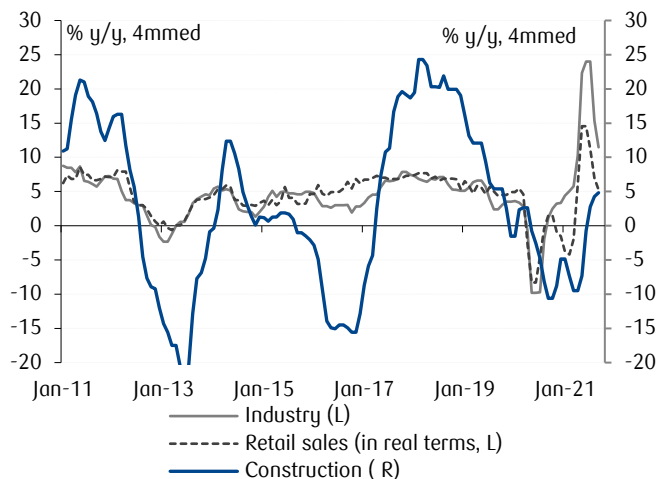


Real GDP growth - NBP projections vs. actual

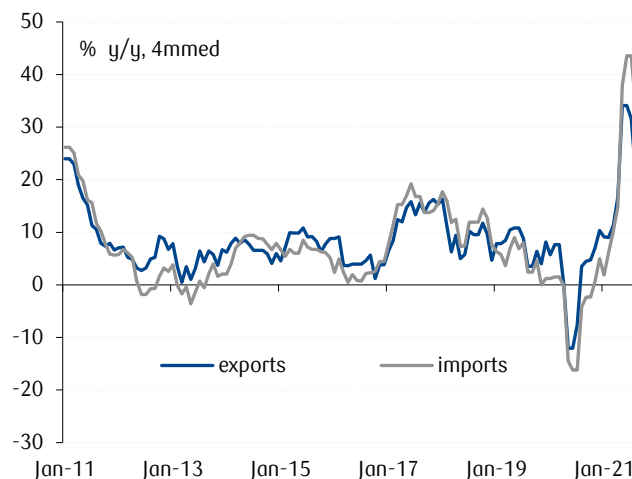


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

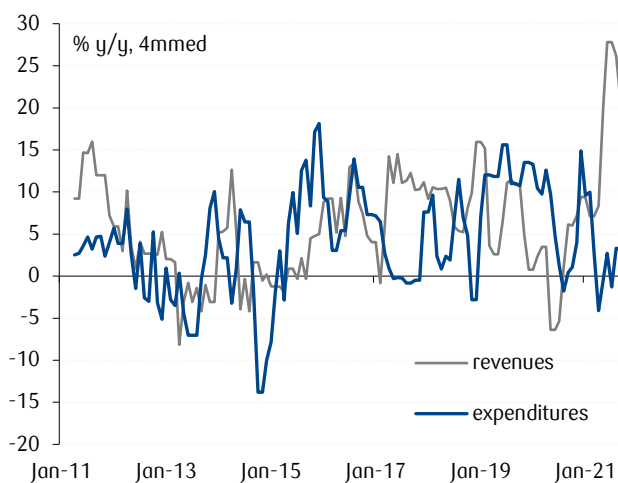
Economic activity indicators



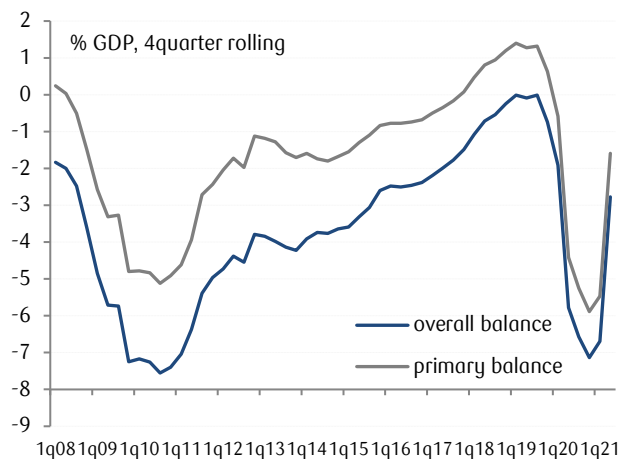
Merchandise trade (in EUR terms)



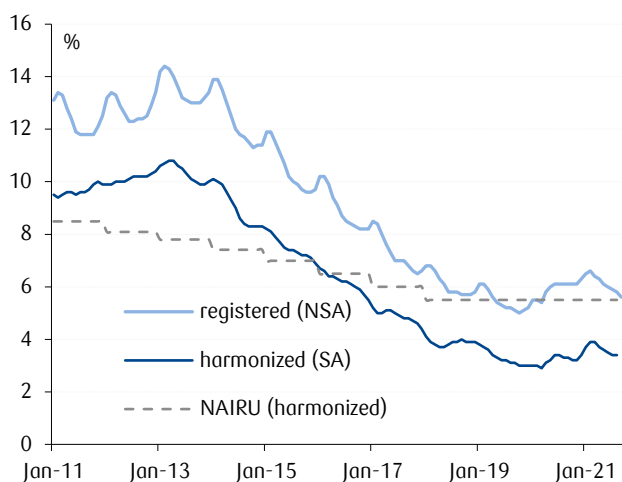
Central government revenues and expenditures\*



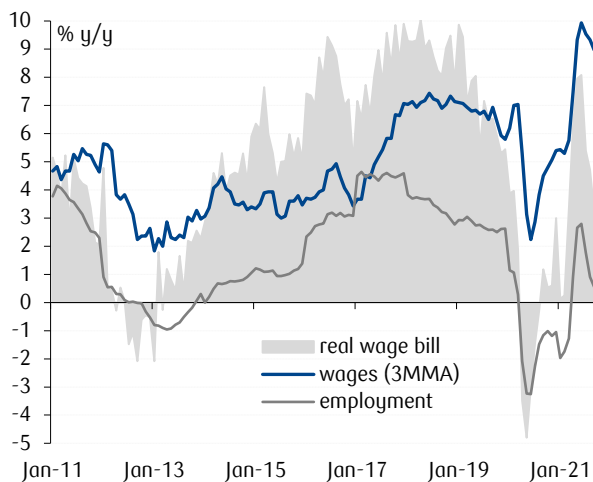
General government balance (ESA2010)



Unemployment rate

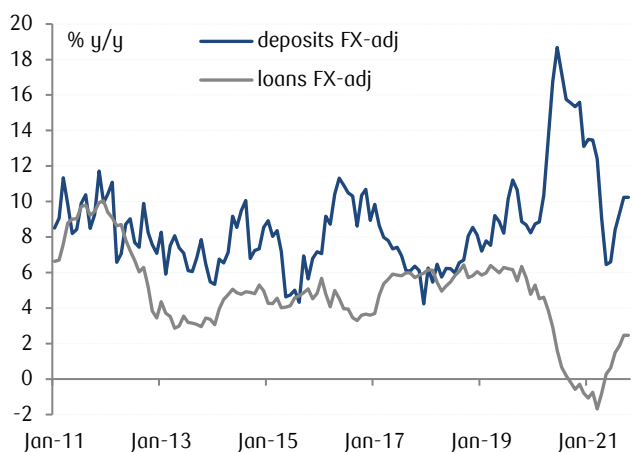


Employment and wages in the enterprise sector

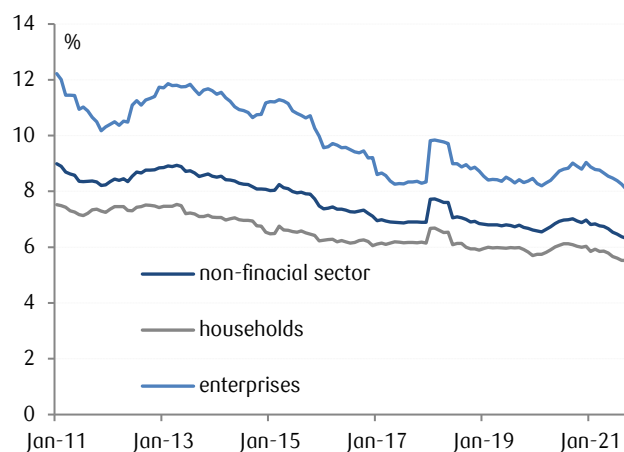


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. \*break in series in 2010 due to methodological changes.

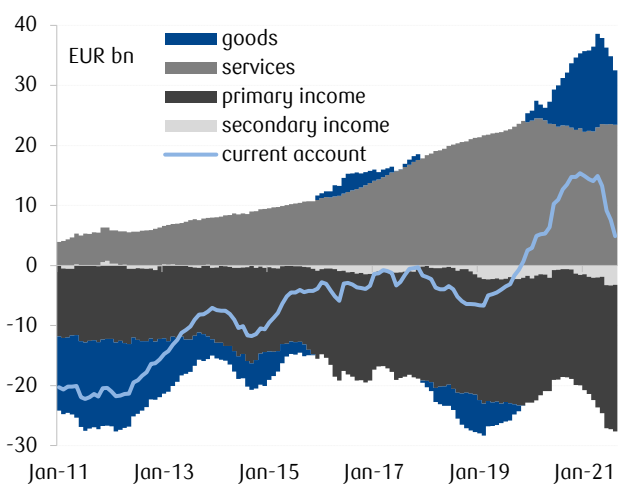
Loans and deposits



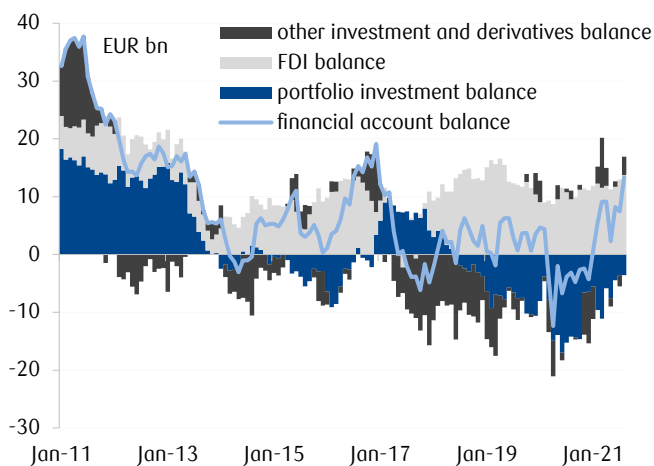
Non-performing loans (NPLs) - by sectors\*



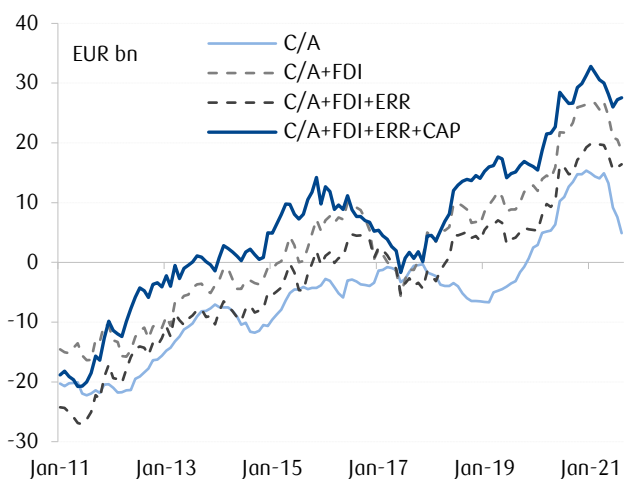
Current account balance



Financial account balance



External imbalance measures



NBP FX reserves (in EUR terms)



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

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- [Missing parts](#) (Oct 22, 2021)
- [Costly recovery](#) (Oct 15, 2021)
- [It's normalisation time](#) (Oct 8, 2021)
- [Red-hot housing market, red-hot CPI inflation](#) (Oct 1, 2021)
- [Cautious optimism despite a few cracks](#) (Sep 24, 2021)
- [Inflation talk heats up again](#) (Sep 17, 2021)
- [No dogmatic approach on inflation](#) (Sep 10, 2021)
- [Consumption-based recovery](#) (Sep 3, 2021)
- [Budget surplus ahead?](#) (Aug 27, 2021)
- [Maturing recovery](#) (Aug 20, 2021)
- [Double digit expansion](#) (Aug 13, 2021)
- [Economy on holidays](#) (Aug 6, 2021)
- [American style inflation, American style monetary policy](#) (Jul 30, 2021)
- [A double-digit rebound](#) (Jul 23, 2021)
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- [MPC on hold until late autumn](#) (Jul 9, 2021)
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- [MPC waits and doesn't see](#) (Jun 11, 2021)
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- [The New \(Polish\) Deal](#) (May 21, 2021)
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- [Green fiscal island](#) (Feb 12, 2021)
- [Spotlight: fiscal stance](#) (Feb 5, 2021)

## Poland's macro in a nutshell

	2020	2021	Comment
<b>Real economy</b>			
- real GDP (%)	-2.5	5.4	We stick to our 2021 GDP growth forecast to 5.4% and expect it will hit 5.1% in 2022, (including the effects of the Polish New Deal and the Domestic Recovery Plan). Private consumption will remain the main engine of economic growth boosted by wages and redistribution. Investments growth rate will stay moderate, while exports should benefit from weak PLN, further FDI inflows and the implementation of the fiscal package in the EU, stimulating demand in the key exports market.
<b>Prices</b>			
- CPI inflation (%)	3.4	4.9	There are still several months of inflation growth ahead of us. We forecast that in November CPI inflation will break the level of 7%, and in 1q22 it will peak at around 8.0%. The return of inflation to the target in the medium term will not be quick and easy. Inflation will start falling in 2q22. The local minimum will be recorded in 1q23, but it will be clearly above 4.0% y/y.
<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	0.0	Following the two-way pandemic turmoil, we anticipate that the current account balance will return to an upward trend based on structural factors. However, the deterioration of the balance will continue in the near future and at the turn of 2021/2022 CAB will land close to zero. In such a situation, it cannot be ruled out that a further intensification of temporary factors, i.e. an increase in the prices of raw materials and production components, as well as transport costs (freight) and the maintenance of a restriction in the influx of tourists, may temporarily provoke a deficit. At the same time, we expect the fast (double-digit) export growth will be maintained and assume further inflows of foreign investments (the nearshoring helps).
<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. We predict that in 2022 it will decrease to 1.3% of GDP. Public debt in relation to GDP will also gradually decrease, to 56.9% at the end of 2021 and 54.3% at the end of 2022.
<b>Monetary policy</b>			
- NBP reference rate (%)	0.10	1.75	The MPC delivered yet another larger-than-expected interest rate hike (+75bps in November). We think that inflation will continue to surprise the MPC on the upside in the coming months and trigger further hikes. We do not assume, however, that rates will rise significantly above 2.00%. Our baseline scenario assumes a hike by 50bps in December and by 25bp in January. The risk however is still skewed towards a more pronounced tightening.

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

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