



Poland: Weekly Macroeconomic Update

LAST WEEK:

Supreme Court delayed its ruling on **FX loans** for at least 30 days as it submitted request for opinions from number of institutions, including NBP and Polish Financial Supervision Authority.

NBP informed that **FDI inflows** to Poland fell by 6% y/y to PLN39.3bn in 2020 while FDI outflows rose to PLN7.1bn in 2020 from PLN5.0bn in 2019.

MPC member Lukasz Hardt said that more and more costs of loose monetary policy were visible, among others in the form of rising inflation. In his opinion central bank can't forget about inflation nor it should start hiking interest rates rapidly. In his view the NBP ought to convince market participants that it is determined to reach inflation target in medium term and would not hesitate to make the right decisions at the right time. He suggested the MPC should signal readiness to hike interest rates then raise mandatory reserve rate to the pre-pandemic level and in the next step the main reference rate should be hiked by 15 bps to 0.25%. He added that economic situation might require central bank to continue bond purchases for longer time.

MPC member Jerzy Kropiwnicki said that inflation that reached 4.3% y/y in April may be above 4% in the year end. He added that main drivers of inflation i.e. energy and fuel prices, food prices and regulated prices were out of control of monetary policy. In his view also supply chains disruptions, pent up consumer demand and increase in propensity to spend by low and middle income earners (due to low interest rates) are also factors that boost inflation. In his opinion positive impact of weak zloty on Poland's exports outweighs its potentially inflationary impulse.

MPC member Jerzy Zyzynski said that in order to anchor inflationary expectations one might consider one-off rate hike of 10-15bps. In his opinion, as main sanitary restrictions will be lifted on May 29 it will be possible to think of ending bond purchases by the NBP and to extinguish it soon after. He added that there were no reasons for rate hike this year as inflation was driven by factors out of control of the monetary policy. In his view it is too early to hike mandatory reserve rate. He expressed a view that NBP currently should focus on supporting economic growth.

MPC member Eurgeniusz Gatnar said that the MPC should stop worrying only about economic growth and return to its primary focus of price stability. In his opinion the NBP should hike interest rates by 10-15bps and to continue purchasing bonds in order to support economic growth until EU funds start flowing in. In his view Poland's economy is already on growth path and inflation is set to rise, among others, due to pop-up demand.

Ruling coalition of PiS, Porozumienie and Solidarna Polska presented economic programme called "**Polish Deal**". The programme assumes an increase of public expenditures on average of 2.5% in 2021-2030. Key element of the programme is tax reform that according to our calculations will increase tax wedge (as a joint result of removal of tax-deduction of healthcare fee and increase in PIT allowance and income tax threshold) by total 1.1% of GDP (0.8% of GDP from micro-entrepreneurs and 0.3% of GDP from employed in labour contracts). The tax reform is highly redistributive increasing tax burden on micro-entrepreneurs and those earning more than 1.7-times average wage. The remaining 1.4% of GDP of Polish Deal will likely be financed by increase in public debt or, as expenditures are defined in nominal terms, by inflation tax. Taking into account fiscal multiplier, short-term average impulse to GDP may range from 2.0% (financing by debt or foreign transfers) to 0% (financed by new taxes, shifts in budget expenditures or inflation tax).

Final inflation for April amounted to 0.8% m/m and 4.3% y/y versus preliminary 0.7% m/m and 4.3% y/y.

Real GDP growth in Q1 2021 amounted to 0.9% q/q and -1.2% y/y, according to the first estimate.

In March Poland reported EUR938mn surplus in the **current account** and EUR589mn trade surplus.



DIARY (this week)

Date	GMT	Release/Event	DB Expected	Actual	Consensus
May-17	13:00	Core CPI (Apr)	0.6% (3.7%)	0.5% (3.9%)	0.6% (3.7%)
May-20	9:00	Average wage (Apr)	-1.2% (10.9%)		-1.7% (10.1%)
May-20	9:00	Average employment (Apr)	0.0% (1.1%)		0.0% (1.1%)
May-21	9:00	PPI (Apr)	0.6% (5.1%)		0.4% (4.9%)
May-21	9:00	Construction output (Apr)	(-8.0%)		(-7.7%)

Source: Deutsche Bank Estimates., Reuters and Bloomberg Finance LP

FX and interest rate forecasts

	EUR/PLN	USD/PLN	CHF/PLN	GBP/PLN	EUR/USD	WIBOR 3M	WIBOR 6M	EURIBOR 3M	LIBOR USD 3M	CPI (Poland)	Yield on 10Y POLGB
	(end of period)										
May-21	4.556	3.740	4.103	5.187	1.218	0.21	0.25	-0.53	0.19	4.4	1.90
Jun-21	4.543	3.704	4.086	5.144	1.226	0.22	0.25	-0.52	0.20	4.1	1.90
Jul-21	4.529	3.669	4.069	5.102	1.234	0.22	0.25	-0.51	0.20	4.2	1.90
Aug-21	4.515	3.634	4.051	5.060	1.243	0.22	0.25	-0.50	0.20	4.3	1.90
Sep-21	4.501	3.599	4.034	5.019	1.251	0.22	0.25	-0.50	0.20	4.2	1.90
Oct-21	4.488	3.565	4.017	4.978	1.259	0.22	0.25	-0.50	0.20	4.4	1.90
Nov-21	4.474	3.531	3.999	4.937	1.267	0.22	0.25	-0.50	0.20	4.4	1.90
Dec-21	4.460	3.498	3.982	4.897	1.275	0.22	0.25	-0.50	0.20	4.6	1.90
Jan-22	4.455	3.488	3.985	4.901	1.277	0.22	0.25	-0.50	0.20	4.2	1.95
Feb-22	4.450	3.479	3.987	4.905	1.279	0.22	0.25	-0.50	0.20	4.2	1.97
Mar-22	4.445	3.469	3.987	4.909	1.281	0.22	0.25	-0.50	0.20	3.8	2.00
Apr-22	4.440	3.460	3.986	4.913	1.283	0.22	0.25	-0.50	0.20	3.7	2.00

Note: Due to Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014 the way of calculation of WIBOR rates and their values may be subject to change.

Note 2: Due to increased market variability and changes in monetary and fiscal policies, forecasts are subject to higher than usual uncertainty.

Source: Deutsche Bank Polska S.A.



Appendix 1

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