



Poland: Weekly Macroeconomic Update

LAST WEEK:

Government accepted **draft budget** for 2022 with –PLN30.9bn budget deficit. The draft envisages budget revenues of PLN481.4bn and budget expenditures of PLN512.4bn. According to budgetary assumptions general government deficit is envisaged at -2.8% of GDP and general government debt is envisaged at 56.6% of GDP. Draft budget bill envisages GDP growth of 4.9% in 2021 and 4.6% in 2022.

S&P Global Ratings affirmed long-term foreign currency **credit rating** of Poland (A- with stable outlook). S&P Global Ratings revised Poland's GDP growth forecasts to 5.1% in 2021 (from 4.5%) and 5.3% in 2022 (from 5.4%). The agency underlined that the main engine of growth would be private consumption, supported by strong labour market and loose fiscal policy while EU funds and Polish Deal would accelerate investments. S&P Global Ratings expects rate hike in the beginning of 2022 and forecasts reference rate at 1.0% in the end of 2022 and 1.5% in the end of 2023.

Minutes from MPC meeting on September 8 showed that the Council voted two motions (both were rejected): (1) a motion to hike reference rate to 2.00%, the lombard rate to 3.00%, the deposit rate to 1.00%, the rediscount rate to 2.01%, and the discount rate to 2.02%, and to set the interest rate on required reserves at 1% and (2) the motion to raise the reference rate by 15 basis points.

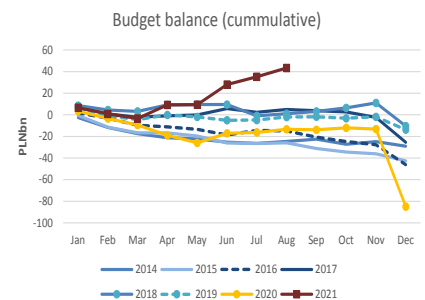
Manufacturing PMI fell to 53.4 in September from 56.0 in August and new orders index fell to 50.8 in September from 55.2 in August. Surveyed companies pointed to increase in costs of production, that stemmed, among others from disruptions in supplies and led to increase in output prices what in turn resulted in decline in new orders. Companies reported staff shortages what resulted in only small increase in employment and decline in stocks of finished goods.

Flash inflation for September surprised on the upside, as consumer prices rose by 0.6% m/m and increased by 5.8% y/y. In September, food prices rose by 0.1% m/m and 4.4% y/y, energy prices were up 0.8% m/m up and 7.2% y/y up and fuel prices were 2.0% up m/m and rose by 28.6% y/y. Inflation is very likely to be significantly above 6% in December 2021, exerting pressure on the MPC to hike interest rates earlier. New NBP projection in November will show significantly higher inflation path in coming quarters.

THIS WEEK:

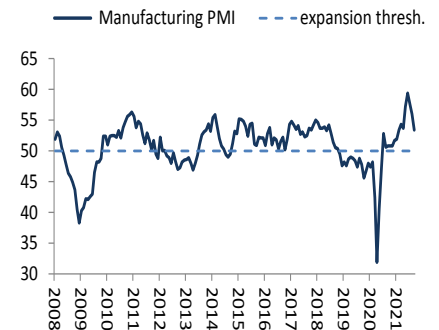
The main event this week is **MPC policy meeting** on Wednesday and following press conference of NBP President. Much higher than expected consumer inflation that is likely to be elevated in Q1 2022, in our view, will prompt the MPC to hike interest rates by 15bps in November and to hike by 25bps in Q1 2022 and by 25bps in Q2 2022.

Figure 1: Central budget balance (PLNbn)



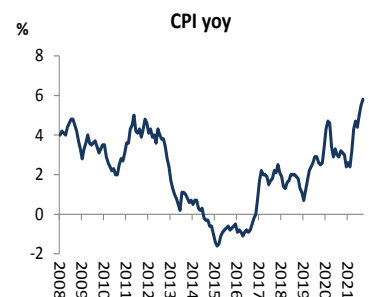
Source: Ministry of Finance

Figure 2. Manufacturing PMI



Source: Markit

Figure 3. Inflation (y/y growth)



Source: Statistics Poland



DIARY (this week)

| Date | GMT | Release/Event | DB Expected | Actual | Consensus |
|--------|-------|-------------------------------|-------------|--------|-----------|
| Oct-06 | | MPC decision | 0.10% | | 0.10% |
| Oct-07 | 12:00 | Official reserve assets (Sep) | | | |

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) | | | | | | | | | | |
| Oct-21 | 4.560 | 3.913 | 4.248 | 5.309 | 1.165 | 0.25 | 0.33 | -0.52 | 0.18 | 6.2 | 2.30 |
| Nov-21 | 4.530 | 3.896 | 4.227 | 5.273 | 1.163 | 0.39 | 0.49 | -0.51 | 0.20 | 6.2 | 2.35 |
| Dec-21 | 4.500 | 3.879 | 4.206 | 5.237 | 1.160 | 0.45 | 0.55 | -0.50 | 0.20 | 6.3 | 2.40 |
| Jan-22 | 4.503 | 3.871 | 4.199 | 5.232 | 1.163 | 0.50 | 0.60 | -0.50 | 0.20 | 5.8 | 2.42 |
| Feb-22 | 4.506 | 3.862 | 4.192 | 5.227 | 1.167 | 0.65 | 0.75 | -0.50 | 0.20 | 5.7 | 2.45 |
| Mar-22 | 4.510 | 3.855 | 4.186 | 5.223 | 1.170 | 0.70 | 0.80 | -0.50 | 0.20 | 4.9 | 2.45 |
| Apr-22 | 4.512 | 3.845 | 4.178 | 5.217 | 1.173 | 0.75 | 0.87 | -0.50 | 0.20 | 4.6 | 2.45 |
| May-22 | 4.512 | 3.835 | 4.168 | 5.209 | 1.177 | 0.90 | 1.03 | -0.50 | 0.20 | 4.4 | 2.45 |
| Jun-22 | 4.510 | 3.822 | 4.157 | 5.198 | 1.180 | 0.90 | 1.04 | -0.50 | 0.20 | 4.7 | 2.50 |
| Jul-22 | 4.505 | 3.807 | 4.143 | 5.184 | 1.183 | 0.90 | 1.05 | -0.50 | 0.20 | 4.4 | 2.50 |
| Aug-22 | 4.500 | 3.792 | 4.128 | 5.170 | 1.187 | 0.90 | 1.05 | -0.50 | 0.20 | 4.2 | 2.50 |
| Sep-22 | 4.495 | 3.777 | 4.114 | 5.156 | 1.190 | 0.90 | 1.05 | -0.50 | 0.20 | 3.9 | 2.50 |

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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