



Poland: Weekly Macroeconomic Update

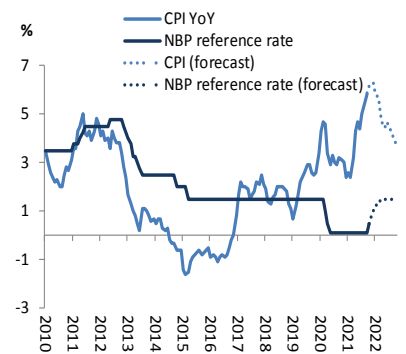
LAST WEEK:

According to NBP's data in 2020 net inflow of **FDI** amounted to PLN53.9bn versus PLN51.9bn in 2019. The inflow was result of reinvested profits of PLN44.2bn, equity investments (PLN16.8bn) and outflow of capital in net investments in debt instruments of -PLN7.0bn. In 2020 FDI inflows were mainly directed into manufacturing (PLN12.9bn), professional, scientific and technical activities (PLN9.4bn) and real estate (PLN9.2bn). Capital outflow was reported in construction (-PLN1.6bn).

The **MPC** hiked the main reference rate by 40bps to 0.50%. The MPC also raised Lombard rate by 50bps to 1.00% and rediscount and discount rates by 40bps to 0.51% and 0.52% respectively and kept deposit rate unchanged at 0.00%. The MPC increased mandatory reserve rate to 2.0% from 0.5%. In communique after the meeting the Council explained that despite inflation stemmed from supply shocks, interest rates were hiked in order to prevent inflation from being persistently above inflation target in medium term. The MPC added that the NBP might still intervene in FX market and could apply other instruments stipulated in monetary policy guidelines. Timing of rate hike was a surprise for market participants that expected the MPC to hike in November, but MPC's decision to hike (time and size) seems to be right given recent surge in various measures of inflation. Evolving energy price shock in case of NBP inaction would lead to PLN weakening and could solidify elevated inflation expectations. The MPC started hiking cycle with a hike of 40bps, signalling it will actively counteract inflation. Intertwining supply shocks are a call for faster withdrawal of monetary impulse that had been applied by the NBP during lockdowns.

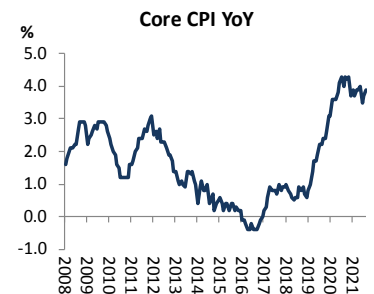
The MPC remains divided on further rate hikes. MPC member Lukasz Hardt said that rate hike was a part of normalising of monetary policy (meant as return to level of 1.50%), but the pace of normalisation was not determined yet. Similar comments were made by Eugeniusz Gatnar from the MPC. In contrast MPC members Jerzy Kropiwnicki and Eryk Lon said that recent rate hike would suffice to stabilize inflation expectations. Before MPC meeting, MPC member Grazyna Ancyparowicz said that the NBP would gradually normalise monetary policy as impact of Covid-19 on Poland's economy was diminishing. We expect the MPC to hike interest rates by 50 bps by the end of 2021 and to hike by another 50 bps in Q1 2022.

Figure 1: Inflation and NBP reference rate



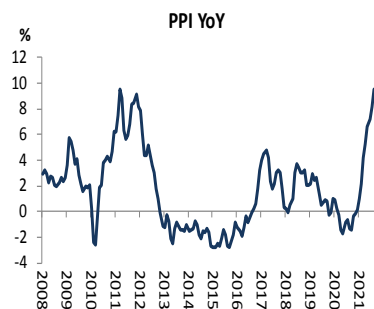
Source: Statistics Poland, NBP

Figure 2. Core inflation (y/y)



Source: NBP

Figure 3. Producer prices (y/y growth)



Source: Statistics Poland



DIARY (this week)

Date	GMT	Release/Event	DB Expected	Actual	Consensus
Oct-14	12:00	Current account (Aug)	-EUR1004mn		-EUR873mn
Oct-14	12:00	Trade balance (Aug)	-EUR744mn		-EUR660mn
Oct-15	8:00	Inflation (Sep)	0.6% (5.8%)		0.6% (5.8%)

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	4.580	3.959	4.267	5.384	1.157	0.68	0.78	-0.55	0.12	6.2	2.55
Nov-21	4.557	3.933	4.252	5.330	1.159	0.93	1.05	-0.53	0.15	6.2	2.60
Dec-21	4.520	3.897	4.224	5.260	1.160	1.18	1.30	-0.52	0.18	6.3	2.65
Jan-22	4.503	3.871	4.199	5.232	1.163	1.43	1.55	-0.50	0.20	5.8	2.65
Feb-22	4.506	3.862	4.192	5.227	1.167	1.43	1.55	-0.50	0.20	5.7	2.70
Mar-22	4.510	3.855	4.186	5.223	1.170	1.68	1.80	-0.50	0.20	4.9	2.70
Apr-22	4.512	3.845	4.178	5.217	1.173	1.68	1.80	-0.50	0.20	4.6	2.75
May-22	4.512	3.835	4.168	5.209	1.177	1.68	1.80	-0.50	0.20	4.4	2.75
Jun-22	4.510	3.822	4.157	5.198	1.180	1.68	1.80	-0.50	0.20	4.7	2.75
Jul-22	4.505	3.807	4.143	5.184	1.183	1.68	1.80	-0.50	0.20	4.4	2.80
Aug-22	4.500	3.792	4.128	5.170	1.187	1.68	1.80	-0.50	0.20	4.2	2.80
Sep-22	4.495	3.777	4.114	5.156	1.190	1.68	1.80	-0.50	0.20	3.9	2.80

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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