



Poland: Weekly Macroeconomic Update

LAST WEEK:

According to estimates of Finance Ministry, in the period of January-December 2021, there was -PLN25/26bn deficit in **central budget** after a surplus of PLN50.4bn in January-November 2021. End-year budget deficit was envisaged at -PLN40.5bn in budget bill for 2021.

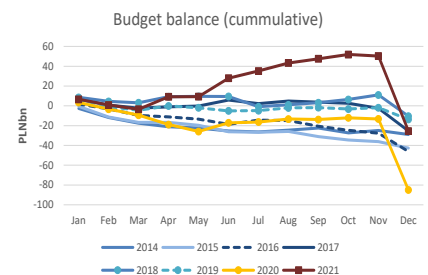
PM Mateusz Morawiecki announced **second Anti-Inflation shield** that will be effective for 6 months from February 1 to end of July 2022. Measures announced will comprise: (1) a cut in VAT on food, natural gas and fertilisers to 0%, (2) a cut in VAT on fuels to 8% from 23%, (3) a cut in VAT on heat to 5%, (4) extension of current reduction in VAT on electricity by another 3 months and (5) housing communities will be subject to regulated prices of natural gas. According to government's estimates these measures will reduce bills of average household by PLN45 per month (what is tantamount, according to our estimates, to 1.2 per cent reduction in expenditures per person). Government estimated total cost of tax cuts to the budget at PLN15-20bn.

On Wednesday Senate appointed two **MPC members**: Ludwik Kotecki and Przemyslaw Litwiniuk. Ludwik Kotecki, former undersecretary and secretary of state in Finance Ministry and Plenipotentiary for euro adoption in Donald Tusk government in 2008-2012, former Chairman of the Board of Banking Guarantee Fund (BFG) in 2012-2015 and Poland's representative in the IMF (2015-2017), has hawkish bias in monetary policy and during hearing in Senate expressed a view that NBP was late in starting tightening cycle. Przemyslaw Litwiniuk, a lawyer, former local government official and professor of constitutional law and European Law, a PSL-nominated Chairman of Lubelskie regional assembly in 2014-2018 said he was a proponent of central bank independency but at the same time said he was in favour of central bank co-operation with government and co-ordination of monetary and fiscal policies. Newly appointed MPC members will replace Eugeniusz Gatnar and Jerzy Kropiwnicki on January 25, and will be present at MPC meeting on February 8. In our view, distribution of votes within the MPC will not change, as Ludwik Kotecki will replace hawkish Gatnar and Przemyslaw Liwtinuk will replace Kropiwnicki whose view were more neutral. We maintain our view of 50bps hike in February. The Sejm proposed two candidates to the MPC: Elzbieta Ostrowska (professor at Faculty of Management, Gdansk University) and Wieslaw Janczyk (a Chairman of Sejm Public Finances Commission). Both candidates are PiS deputies and are likely to replace Grazyna Ancyparowicz and Eryk Lon on February, 9.

In November the **current account** gap was -EUR1112mn and trade gap was -EUR632mn. In November exports rose by 14.2% y/y to EUR26.9bn while imports rose by 29.0% y/y to EUR27.5bn. In November there was EUR1.7bn surplus in services account, -EUR2.7bn deficit in primary income account and an -EUR609mn gap in secondary income account.

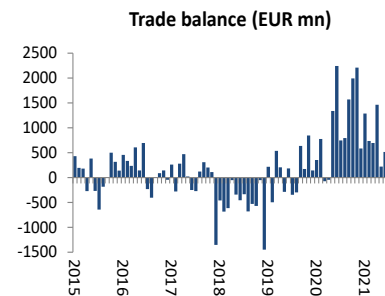
In December **CPI** rose by 0.9% m/m and was 8.6% up y/y, in line with flash estimate. In December the biggest impact on consumer inflation had food prices (up 8.6% y/y, added 0.57 p.p. to monthly CPI), housing and energy prices (up 11.2% y/y, added 0.13 p.p. to monthly CPI) and transport prices (up 22.7% y/y and added 0.09 p.p. to monthly CPI). Prices in recreation and culture rose 6.2% y/y and added 0.05 p.p. to monthly CPI while prices in hotels and restaurants rose by 8.4% y/y and added 0.04 p.p. to monthly CPI. In 2021 average inflation was 5.1%. In December goods inflation was still higher than services inflation (1.0% m/m vs 0.7% m/m respectively). Inflation is driven by goods and services for which demand is inelastic (food, housing, transport). In services the highest inflation was reported in branches most affected by lockdowns (hotels and restaurants, recreation and culture).

Figure 1: Central budget balance



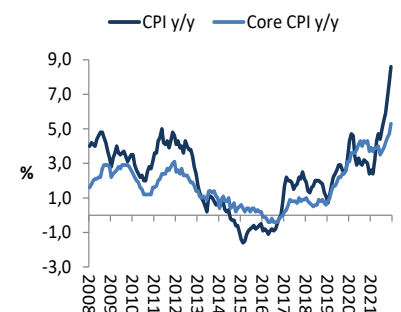
Source: Finance Ministry

Figure 2: Trade Balance



Source: NBP

Figure 3: CPI and core CPI



Source: NBP, Statistics Poland



DIARY (this week)

Date	GMT	Release/Event	DB Expected	Actual	Consensus
Jan-17	13:00	Core inflation (Dec)	0.3% (5.1%)	0.4% (5.3%)	0.4% (5.2%)
Jan-21	9:00	Consumer confidence (Jan)	-29.0		-28.5
Jan-21	9:00	Industrial output (Dec)	-5.0% (14.6%)		-6.3% (13.1%)
Jan-21	9:00	Construction output (Dec)	(7.0%)		(7.7%)
Jan-21	9:00	Average wage (Dec)	8.0% (8.9%)		8.2% (9.3%)
Jan-21	9:00	Average employment (Dec)	0.2% (0.8%)		0.1% (0.7%)
Jan-21	9:00	PPI (Dec)	0.5% (13.5%)		0.4% (13.5%)

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)										
Jan-22	4,530	3,974	4,331	5,380	1,140	2,80	3,20	-0,56	0,25	8,5	4,05
Feb-22	4,527	3,984	4,353	5,371	1,136	2,93	3,55	-0,55	0,35	8,3	4,10
Mar-22	4,525	3,994	4,376	5,362	1,133	3,43	3,80	-0,53	0,40	7,6	4,10
Apr-22	4,522	4,005	4,399	5,353	1,129	3,68	3,80	-0,50	0,50	7,7	4,15
May-22	4,519	4,015	4,422	5,343	1,125	3,68	3,80	-0,50	0,60	8,3	4,20
Jun-22	4,516	4,026	4,445	5,334	1,122	3,68	3,80	-0,50	0,70	8,7	4,25
Jul-22	4,514	4,037	4,469	5,325	1,118	3,68	3,80	-0,50	0,80	8,6	4,25
Aug-22	4,511	4,047	4,493	5,315	1,115	3,68	3,80	-0,50	0,90	8,4	4,25
Sep-22	4,508	4,058	4,517	5,306	1,111	3,68	3,80	-0,50	1,00	8,0	4,25
Oct-22	4,505	4,069	4,542	5,296	1,107	3,68	3,80	-0,50	1,10	7,5	4,25
Nov-22	4,503	4,080	4,567	5,287	1,104	3,68	3,80	-0,50	1,20	6,9	4,25
Dec-22	4,500	4,091	4,592	5,277	1,100	3,68	3,80	-0,50	1,25	6,5	4,30

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

Important Disclosures

Additional information available upon request

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