

Lockdown 1.5

Top macro theme(s):

- **Lockdown 1.5 (p. 2):** The Polish government has announced a further tightening of nationwide restrictions in its bid to halt a rapid growth of coronavirus infections. Its macroeconomic impact in our view will be less severe than it was in spring. The key difference between now and then is the still favourable business climate in manufacturing, as value-added chains are still in operation and supported by strong external demand.

What else caught our eye:

- **The MPC kept monetary policy parameters unchanged, with no crucial changes in the wording of its statement.** The new NBP projections assume higher inflation, very close to the NBP target, and weaker recession in 2020. The biggest surprise is a weak rebound in 2021 (2.7%, significantly below our call and market consensus), with stronger 2022 (5.8%). This could justify further easing measures, if the pandemic worsens.
- **European Commission has revised the GDP forecast for Poland to -3.6% in 2020 from -4.3%, and to +3.3% in 2021 from +4.1% previously.** Poland is still perceived as one of the most resilient countries, with 3rd highest compounded GDP growth for the period 2020-22. Unemployment rate forecast for 2020 has been cut by over 3pp (to 4.0%), EC has also reduced its expectations for GG deficit (to 8.8% of GDP in 2020). In mid-term perspective, EC forecasts fiscal consolidation which will reduce the GG deficit to 3% in 2022 – one of the lowest levels among EU countries.
- **Manufacturing PMI in October** barely changed (50.8), and confirmed that weaker domestic demand was offset by robust global production chains before the second wave of Covid-19.

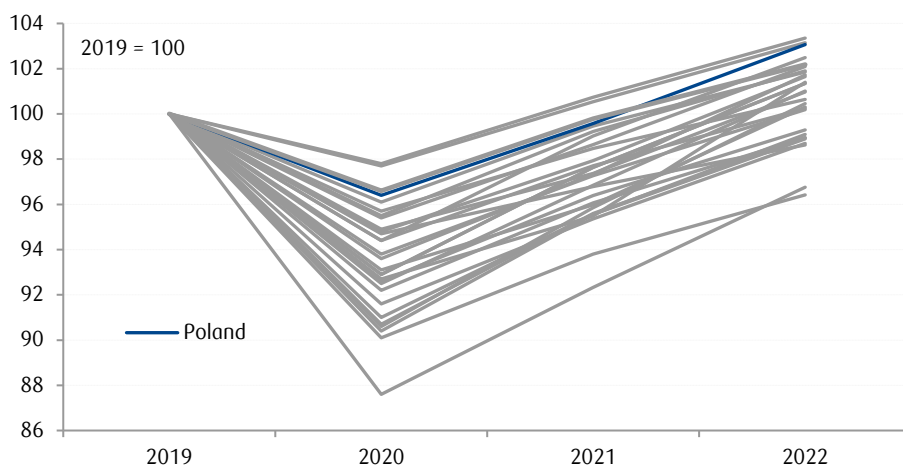
The week ahead:

- **Flash GDP in 3q20 will be the key publication next week.** We will most likely see a strong rebound (PKOe: ~8% q/q sa) that should reduce the annual growth rate decline, to -1.7% y/y in 3q, on our estimates, from -8.4% y/y in 2q.
- **CPI of October and C/A balance for September** are less eye-catching. Flash CPI has already confirmed that the headline inflation is easing (3.0% y/y from 3.2% y/y in September). C/A should post a 12th-in-a-row monthly surplus, reaching 3.2% of GDP on a 12-month rolling basis.

Number of the week:

- **27.143** – number of new coronavirus cases reported on Thursday, a record high, and if it persists at around 27-28 thous. for a seven-day period, it will bring the new cases ratio to 70-75 per 100k population and will most likely trigger a full lockdown.

Chart of the week: EC GDP forecasts for Poland and EU countries



Source: EC, PKO Bank Polski.

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	2019	2020†
Real GDP (%)	4.5	-2.9
Industrial output (%)	4.0	-3.3
Unemployment rate# (%)	5.2	6.4
CPI inflation** (%)	2.3	3.3
Core inflation** (%)	1.9	3.8
Money supply M3 (%)	8.3	13.9
C/A balance (% GDP)	0.5	3.0
Fiscal balance (% GDP)*	-0.7	-9.6
Public debt (% GDP)*	46.0	61.7
NBP reference rate## (%)	1.50	0.10
EURPLN‡	4.26	4.52

Source: GUS, NBP, MinFin, †PKO BP Macro Research team forecasts, ‡PKO BP Market Strategy team forecasts; *ESA2010, **period averages; #registered unemployment rate at year-end; ##at year-end.3

Lockdown 1.5

- The Polish government has announced a further tightening of nationwide restrictions in its bid to halt a rapid growth of coronavirus infections.
- The macroeconomic impact of lockdown 1.5 in our view will be less severe than it was in spring. The fiscal policy reaction is once again likely to be prompt and appropriate. The key difference between now and spring however is the still favourable business climate in manufacturing, as value-added chains are still in operation and supported by strong external demand. The risk to our GDP forecast for 4q (-3.3% y/y) is however skewed to the downside.

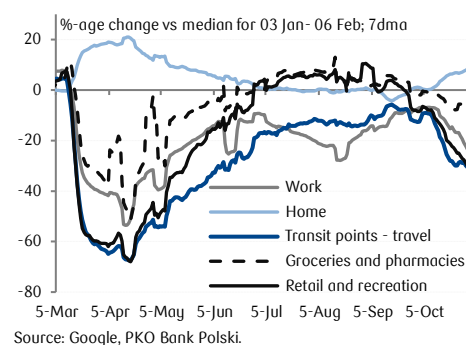
The Polish government has announced a further tightening of nationwide restrictions in its bid to halt a rapid growth of coronavirus infections. Younger school kids (grades 1-3) will join older children by switching to remote learning, cultural institutions (cinemas, museums, theatres, art galleries) will be closed completely, church attendance will be restricted (1 person per 15 sq. meters) as well as the number of customers in small shops (1 per 10 sq. meters). Shopping malls will be closed except for grocery stores, pharmacies, stores selling toiletries, DIY items, products for animals and, press or service outlets. Furthermore the hotels will only be open for business travellers. The announcement is an addition to the earlier ban of indoor dining and closure of gyms and swimming pools.

The prime minister emphasised that **if the 7-day average number of infections exceeded the level of 70-75 per 100 thousand, national quarantine will be introduced.** In fact, we are very close to this actuality – it will take 26.9-28.8 thousand new infections per day to reach said limit, which means that a full lockdown (with the restriction of movement and some further measures) may be announced as early as next week (currently the number of cases has doubled in about 12 days).

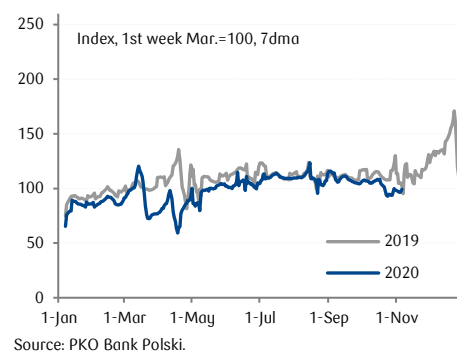
The restrictions announced so far cover industries that account for approx. 3% of the direct share of GDP. The restrictions will impact the economy mainly via the trade channel as commercial facilities constitute approx. 2/3 of all entities subject to them. In spring, a large part of retail business moved online, and the share of retail sales via remote channels increased by 6.3pp between February and April (i.e. during the spring lockdown). For some categories of goods the increase in this share was even much greater, e.g. the share of clothing and footwear sold online went up by 43.9pp to 61.4% in April. Considering the declared duration of the restrictions (1 month) and the fact that consumers and companies are now better prepared to switch to on-line mode, the restrictions' impact on activity should be, at least where sales via remote channels is possible, less damaging than in spring. The main economic threat however is a lockdown that spans until Christmas, damaging the crucial holiday season for retailers, who have already been severely hit in spring.

Looking at alternative high frequency data, we see that the pandemic has started to influence consumer's behaviour even before the stricter rules were introduced. The demand for services requiring personal contact has started to decline in mid-October already. While comparing the spending patterns of PKO clients in restaurants (that both in April and October were banned from selling indoors) we see, that the decline in October was less sudden, and of a smaller range than in April. In the last week of October (until November 1), the value of card transactions in restaurants was 42% lower than in the first week of March, while during the March low, the turnover fell by over 75%. During the spring

1. The mobility of Poles



2. Total value of PKO card transactions



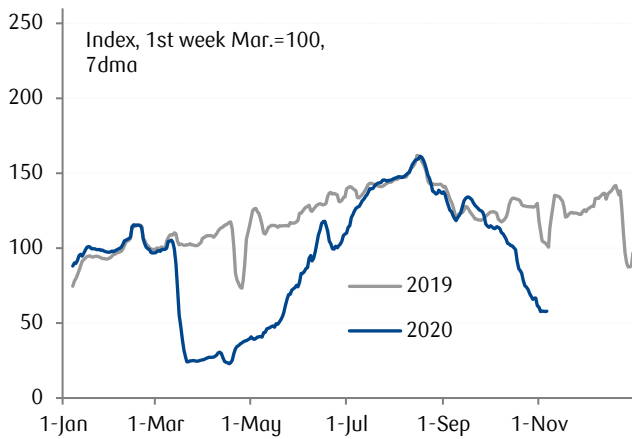
lockdown, thanks to the switch to delivery and take-out, the decline was limited to -60%. After restrictions had been eased in summer many restaurants continued with a hybrid model, which now explains why the reaction to the 1.5 lockdown is weaker.

Even before the restrictions (that come to force this weekend) the sales of clothing and footwear have started to decline. Last week, PKO card expenses in clothing stores were 23% lower than in the first week of March, and about half as high as they would be under the 2019 seasonality assumption. Clothing is not treated as a basic necessity, in a situation where, among others, employees are encouraged to work remotely and stay at home. A shopping centre visit is associated, in the opinion of customers, with a higher risk of infection, hence the mobility at such points decreases, which translates into a lack of impulse sales. In our view the loss generated by lockdown 1.5 in this segment should not be as painful as it was the case in spring. While the first lockdown resulted in a sudden rise of fears of becoming unemployed and in a deep decline of expectations for people's financial future, presently the deterioration in consumer sentiment is much weaker, so precautionary savings should have less impact on total purchases.

A number of aid measures protecting the economy were introduced, taking the shape of another anti-crisis shield. Care allowance for parents of school kids has been reintroduced in the same form as in April. Teachers will receive PLN 500 each for the purchase of electronic devices needed in remote work. 10 special protective measures were also announced: **1) co-financing of fixed costs for SMEs** in industries most affected by the crisis (up to 70% of uncovered fixed costs for companies with the loss of revenues of at least 30% y/y), **2) redemption of subsidies from the Financial Shield** (Polish Development Fund; for companies with the total loss of revenues between Mar.2020 and Mar.2021 of at least 30%), **3) extension of the Financial Shield** for large companies until the end of March 2021, **4) long-term loans with guarantees**, **5) co-financing of employment** (available for all companies on the same basis as in spring), **6) extension of the furlough scheme**, **7) exemption from social security contributions** in industries most affected by restrictions, **8) co-financing of a change in the scope of activity** under the subsidy for business, **9) co-financing by the Industrial Development Agency for the enterprise's cost of restructuring** and **10) co-financing of leasing** for transport companies. According to the prime minister, as the budget is in a better condition than anticipated at the time of its amendment, **the main challenge for the implementation of the support scheme will not be to find free funds, but to obtain the consent of the European Commission to use them.** He also announced that the 25 industries (and sub-sectors) hardest hit by the restrictions (including catering, tourism, hotels and fitness centres) will be covered by additional aid measures, which will be announced soon.

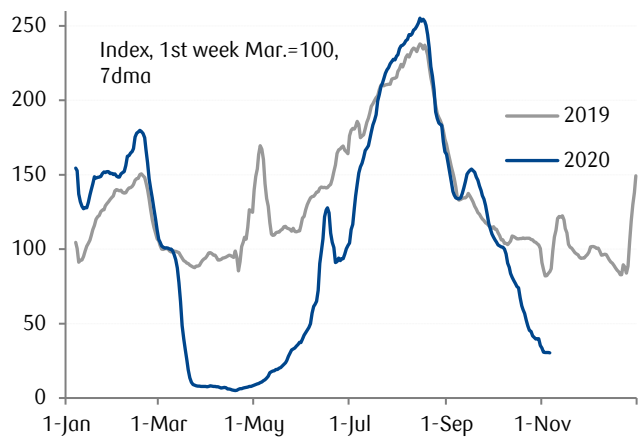
Lockdown 1.5 is, for now, less strict than in April, as many service sectors and pre-schools are still in operation. As consumers and companies are now better prepared, we assume that the macroeconomic impact of the second wave of Covid will also be less severe than in the spring. The fiscal policy reaction is once again likely to be prompt and appropriate. The key difference between now and the spring is however still favourable business climate in manufacturing, as value-added chains are still in operation and supported by strong external demand. Nevertheless as the number of infections increase, the risk of a prolonged and hard lockdown is getting higher, therefore the risk to our GDP forecast for 4q (-3.3% y/y) is definitely skewed to the downside.

3. Card transactions - restaurants



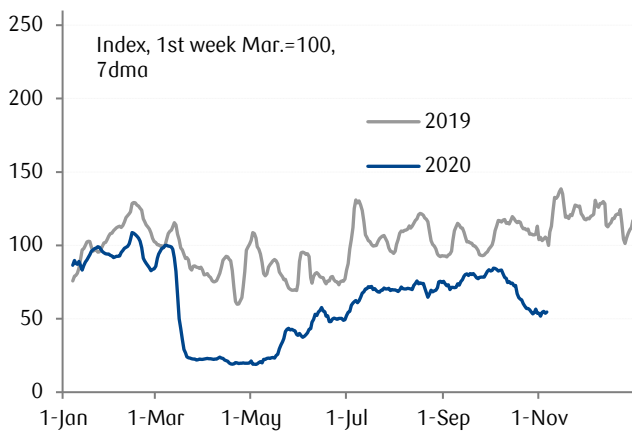
Source: PKO Bank Polski.

4. Card transactions - hotels



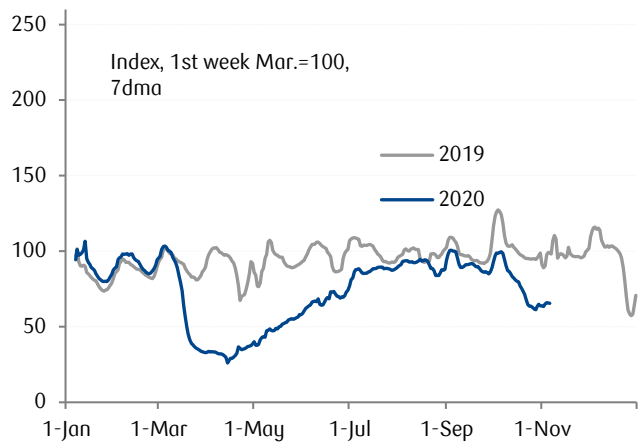
Source: PKO Bank Polski.

5. Card transactions - entertainment



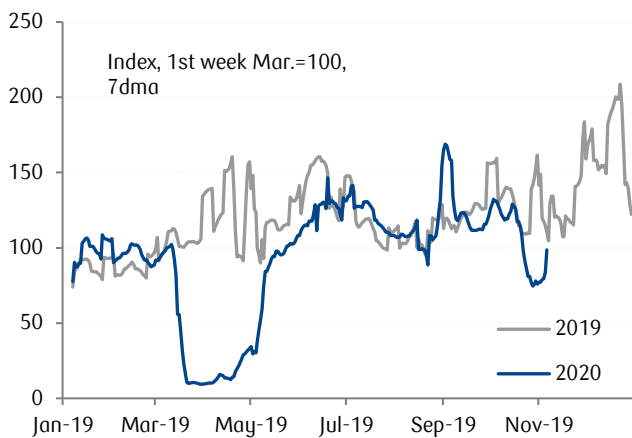
Source: PKO Bank Polski.

6. Card transactions - transportation



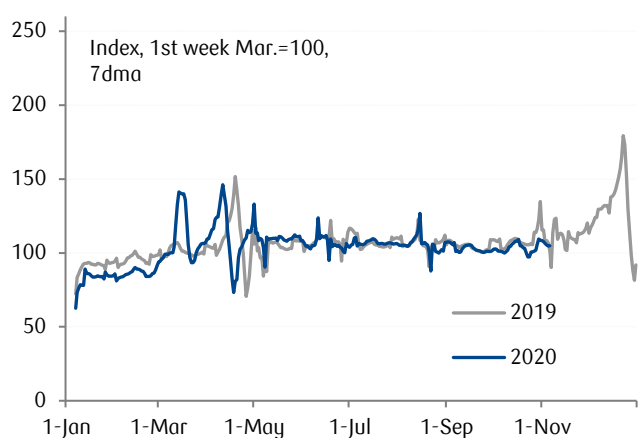
Source: PKO Bank Polski.

7. Card transactions - clothing and footwear



Source: PKO Bank Polski.

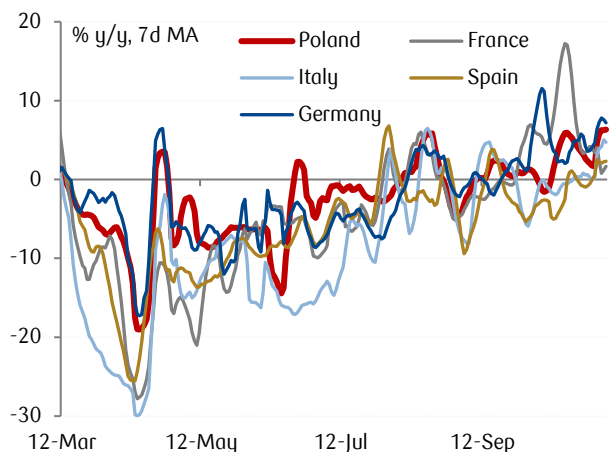
8. Card transactions - food stores



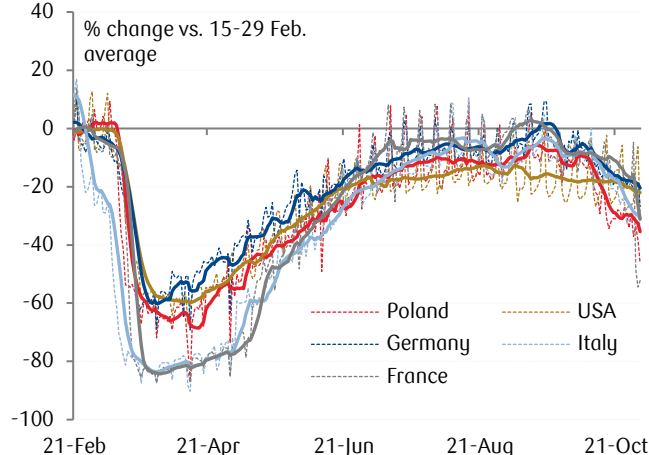
Source: PKO Bank Polski.

Macro monitoring with alternative data[^]

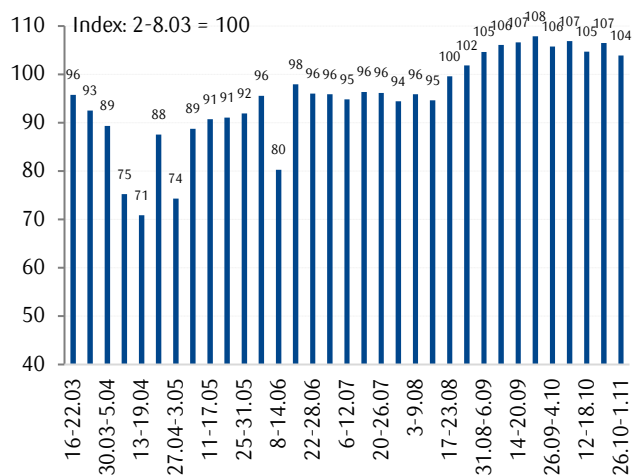
Electric energy consumption (total)



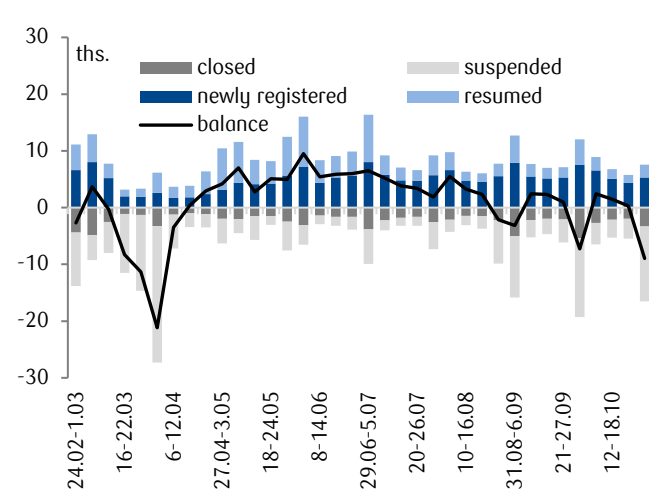
Mobility*



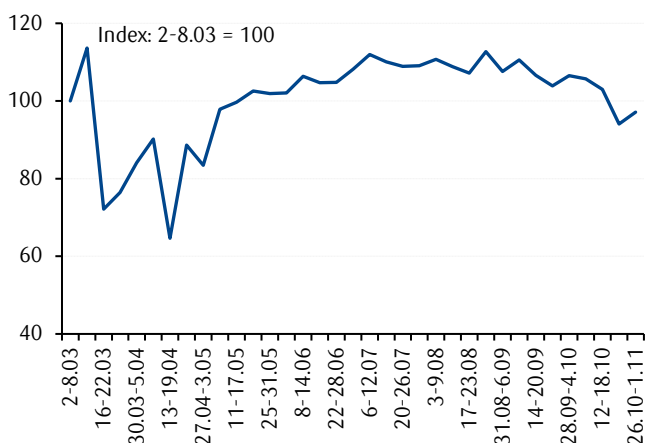
Heavy truck traffic



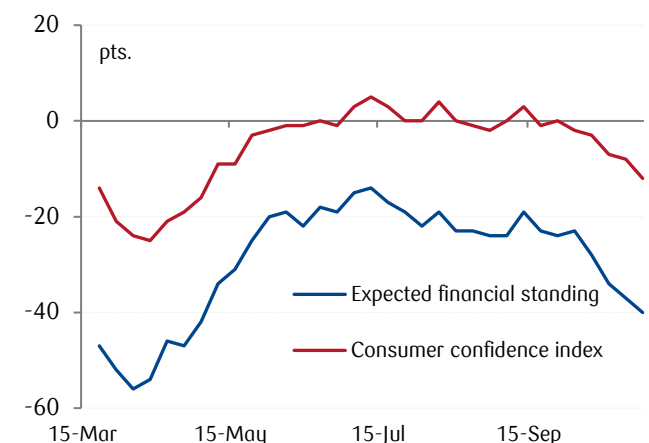
Economic activity status (acc. to CEiDG**)



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.

Weekly economic calendar

Indicator	Time (UK)	Unit	Previous	Consensus*	PKO BP	Comment
Monday, 9 November						
GER: Trade Balance (Sep)	7:00	EUR bn	15.7	16.0	--	--
GER: Exports (Sep)	7:00	% m/m	2.4	--	--	--
GER: Imports (Sep)	7:00	% m/m	5.8	--	--	--
EUR: Sentix Index (Nov)	9:30	pts.	-8.3	--	--	--
Tuesday, 10 November						
CHN: CPI inflation (Oct)	1:30	% y/y	1.7	0.8	--	--
CZE: CPI inflation (Oct)	8:00	% y/y	3.2	--	--	--
HUN: CPI inflation (Oct)	8:00	% y/y	3.4	3.1	--	--
GER: ZEW Economic Sentiment (Nov)	10:00	pts.	--	--	--	--
POL: NBP Inflation Report	9:00	--	--	--	--	We will see the details of the new projection, especially what is behind the weak GDP rebound in 2021 (2.7%, significantly below our call and market consensus).
POL: MPC Minutes (Oct)	13:00	--	--	--	--	Likely a non-event as the November meeting has already taken place.
USA: JOLTS Report (Sep)	15:00	thous.	6.493	6.5	--	--
Thursday, 12 November						
GER: HICP inflation (Oct, final)	7:00	% y/y	-0.4	-0.5	--	--
EUR: Industrial production (Sep)	10:00	% y/y	-7.2	-5.9	--	--
USA: Initial Jobless Claims (Nov)	13:30	thous.	751	--	--	--
USA: CPI inflation (Oct)	13:30	% y/y	1.4	1.3	--	--
USA: Core inflation (Oct)	13:30	% y/y	1.7	1.7	--	--
Friday, 13 November						
POL: GDP growth (3q, flash)	9:00	% y/y	-8.4	-1.9	-1.7	We will most likely see a strong post-lockdown rebound (~8% q/q sa) that should reduce the annual growth rate decline, to -1.7% y/y. Flash reading points to some inflation decline on food and core prices.
POL: CPI inflation (Oct, final)	9:00	% y/y	3.2	3.0	3.0	
POL: Current account balance (Sep)	13:00	EUR mn	947	1539	1619	C/A should post a 12th-in-a-row monthly surplus, reaching 3.2% of GDP on a 12-month rolling basis.
POL: Exports (Sep)	13:00	% y/y	0.8	3.1	3.4	
POL: Imports (Sep)	13:00	% y/y	-5.1	-0.7	0.5	
USA: University of Michigan sentiment (Nov, flash)	15:00	pts.	81.8	81.5	--	--

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

Selected economic indicators and forecasts

	Aug-20	Sep-20	Oct-20	1q20	2q20	3q20	4q20	2019	2020	2021
Economic activity										
Real GDP (% y/y)	x	x	x	1.9	-8.4	-1.7	-3.3	4.5	-2.9	4.3
Domestic demand (% y/y)	x	x	x	1.0	-9.9	-2.2	-3.9	3.5	-3.5	4.5
Private consumption (% y/y)	x	x	x	1.2	-10.8	2.2	-2.0	4.0	-2.3	4.3
Gross fixed capital formation (% y/y)	x	x	x	0.9	-10.7	-7.4	-4.3	7.2	-5.6	3.7
Inventories (pp)	x	x	x	-0.3	-2.0	-2.8	-2.2	-1.3	-1.7	0.5
Net exports (pp)	x	x	x	0.9	1.1	0.4	0.3	1.1	0.4	0.1
Industrial output (% y/y)	1.5	5.9	1.0	0.9	-13.6	3.2	-2.3	4.0	-3.3	7.3
Construction output (% y/y)	-12.1	-9.8	-2.5	5.0	-2.8	-10.9	x	3.6	x	x
Retail sales (real, % y/y)	0.5	2.5	-2.0	0.8	-10.7	1.0	x	5.4	x	x
Nominal GDP (PLN bn)	x	x	x	556.4	528.2	567.3	628.3	2279	2263	2404
Labour market										
Registered unemployment rate‡(%)	6.1	6.1	6.1	5.4	6.1	6.1	6.4	5.2	6.4	5.4
Employment in enterprises (% y/y)	-1.5	-1.2	-1.0	0.8	-2.0	-1.9	-2.4	2.7	-1.6	1.0
Wages in enterprises (% y/y)	4.1	5.6	5.1	7.0	2.1	4.3	3.9	6.6	4.3	4.7
Prices^										
CPI inflation (% y/y)	2.9	3.2	3.0	4.6	3.2	3.0	2.4	2.3	3.4	1.9
Core inflation (% y/y)	4.0	4.3	4.1	3.4	3.8	4.2	3.8	1.9	3.8	1.7
15% trimmed mean (% y/y)	3.2	3.2	x	3.4	3.4	3.2	x	2.0	x	x
PPI inflation (% y/y)	-1.2	-1.6	-0.8	0.2	-1.3	-1.2	0.7	1.2	-0.3	1.9
Monetary aggregates‡										
Money supply, M3 (PLN bn)	1744.1	1762.2	1783.0	1624.9	1746.2	1762.2	1778.9	1565.6	1778.9	1912.3
Money supply, M3 (% y/y)	16.2	17.0	17.0	11.8	18.1	17.0	13.9	8.3	13.9	7.5
Real money supply, M3 (% y/y)	13.3	13.8	14.0	7.2	14.8	13.8	11.4	4.9	10.6	5.6
Loans, total (PLN bn)	1331.2	1337.7	x	1366.6	1341.1	1337.7	1353.2	1323.7	1353.2	1417.1
Loans, total (% y/y)	0.3	0.5	x	6.5	3.1	0.5	2.2	5.1	2.2	4.7
Deposits, total (PLN bn)	1615.9	1627.3	x	1485.1	1618.7	1627.3	1609.9	1406.6	1609.9	1683.7
Deposits, total (% y/y)	15.5	15.8	x	11.2	19.5	15.8	14.5	8.2	14.5	4.6
Balance of payments										
Current account balance (% GDP)	3.0	3.2	3.2	1.1	2.3	3.2	3.0	0.5	3.0	2.8
Trade balance (%GDP)	1.6	1.7	1.7	0.4	1.2	1.7	2.0	0.2	2.0	1.4
FDI (% GDP)	1.1	1.1	1.0	1.4	1.6	1.1	1.3	1.6	1.3	1.8
Fiscal policy										
Fiscal balance (% GDP)	x	x	x	x	x	x	x	-0.7	-9.6	-4.3
Public debt (% GDP)	x	x	x	x	x	x	x	46.0	61.7	62.4
Monetary policy‡										
NBP reference rate (%)	0.10	0.10	0.10	1.00	0.10	0.10	0.10	1.50	0.10	0.10
NBP lombard rate (%)	0.50	0.50	0.50	1.50	0.50	0.50	0.50	2.50	0.50	0.50
NBP deposit rate (%)	0.00	0.00	0.00	0.50	0.00	0.00	0.00	0.50	0.00	0.00
WIBOR 3M* (%)	0.23	0.23	0.23	1.17	0.26	0.22	0.25	1.71	0.25	0.25
Real WIBOR 3M* (%)#	-2.67	-2.67	-2.87	-3.43	-3.04	-2.78	-2.15	-1.69	-3.05	-1.65
Exchange rates*‡										
EUR-PLN	4.40	4.53	4.62	4.55	4.46	4.53	4.52	4.26	4.52	4.40
USD-PLN	3.73	3.87	3.95	4.15	3.98	3.87	3.90	3.80	3.90	3.67
CHF-PLN	4.10	4.19	4.32	4.30	4.18	4.19	4.22	3.92	4.22	4.04
EUR-USD	1.19	1.17	1.17	1.11	1.12	1.17	1.16	1.12	1.16	1.20

Source: GUS, NBP, PKO Bank Polski.

*PKO BP Market Strategy team forecasts,

‡period averages for quarterly and yearly data,

#deflated with current CPI inflation,

‡period end values,

‡under revision.

Monetary policy monitor

MPC Members	Hawk-o-meter*	Recent policy indicative comments
K. Zubelewicz	4.9	"I'm afraid a majority on the MPC will be focused on economic growth and ready to tolerate inflation around 3.5% for longer," he said. "A rate hike would be a nice surprise, but I don't expect it." (21.07.2020, Bloomberg)
E. Gatnar	4.7	"If the economy keeps the current pace of returning to the path of growth, inflation will also be elevated. In such conditions, with the current level of control over the pandemic situation, a gradual normalization of monetary policy from the beginning of next year should be considered" (02.09.2020, Reuters)
L. Hardt	4.1	"Inflation in Poland is the highest in the EU at the moment (...) In Poland, ... in a longer perspective, we should not forget about inflation, as it is NBP mandate. (...) I believe we cut rates too much and it's a pity we did not resort to more non-standard measures, taking into account the high inflation" (23.07.2020, PAP)
G. Ancyparowicz	2.5	"Unless very strong arguments come forward, I am in favor of maintaining interest rates at an unchanged level at least until the end of this crisis (...) When everything returns to normal, then MPC of the next term, certainly not the current one, at some point will hike interest rates; in this term in office I certainly don't see prospects for interest rate hikes" (20.10.2020, PAP)
C. Kochalski	2.4	"There are many arguments in favor of keeping such rates, while at the same time taking up other non-standard actions in the current conditions (...) The council reacts adequately to the situation, is looking at monetary easing in a broader context; interest rate cut is one of elements of realization of a broader package of monetary actions. (...) We cannot allow for inflation to go down below the inflation target mid-term (...) The decline of economic activity worldwide, including in Poland, weakening of demand, low commodity prices - these are only some arguments in favor of not allowing for the risk of inflation decline below the target to materialize." (03.06.2020, PAP).
J. Kropiwnicki	2.4	"Let's keep the ultra-low rate for a while. But then, in mid-2021, let's consider gradually returning it toward 1.5% " (30.09.2020, Bloomberg).
R. Sura	2.2	"Of course, the open question remains what the coming months will bring. However, for the time being the economy is functioning rather normally, we witness only punctual closures of some sectors so for now any actions when it comes to interest rates are out of question. The policy is well calibrated; I say it also in the context of some postulates concerning the possibility of introducing negative nominal interest rates. (...) Monetary policy has to remain loose longer-term to enable economic recovery." (14.10.2020, PAP).
A. Glapinski	1.9	"Although the worst is behind us, in the coming quarters we still need to support the economy and to keep accommodative monetary policy. The economic activity is still below the potential, unemployment is higher than before the crisis and further progress in the economic recovery could be more difficult to achieve than to date. (...) At the current level of interest rates, banks do not encounter limitations in developing lending." (18.09.2020, Dziennik Gazeta Prawna daily).
J. Zyzynski	1.9	"I see no prospects for monetary policy tightening in the current MPC term, that is until neighborhood of 2022 (...) and should the economy need further support in the crisis, rather lean on its asset purchase program to grease government rescue efforts." (26.10.2020, PAP)
E. Lon	1.0	"In my opinion, the level of interest rates should remain at their current level to the end of the term of the current Monetary Policy Council (...) I don't rule out that should a significant threat of strong decline in consumer moods arise, it would be possible that I would submit a motion for a reduction in interest rates of our central bank" (07.09.2020, PAP, Refinitiv)

*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).

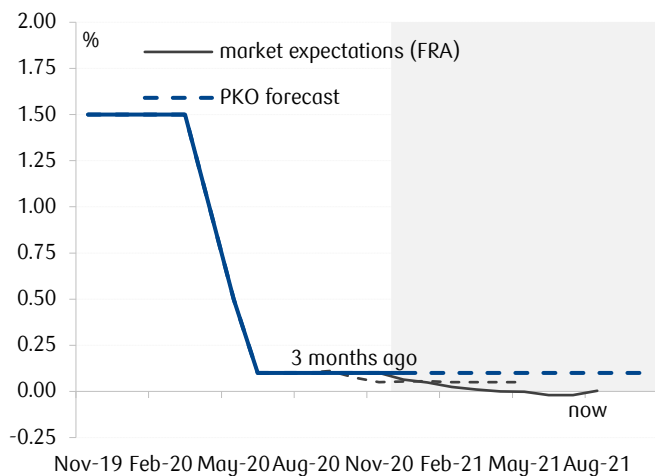
Interest rates – PKO BP forecasts vs. market expectations

	1M	2M	3M	4M	5M	6M	7M	8M	9M	
Date	5-Nov	5-Dec	5-Jan	5-Feb	5-Mar	5-Apr	5-May	5-Jun	5-Jul	5-Aug
WIBOR 3M/FRA†	0.22	0.18	0.17	0.14	0.13	0.12	0.12	0.10	0.10	0.12
implied change (b. p.)		-0.04	-0.05	-0.08	-0.09	-0.10	-0.10	-0.12	-0.12	-0.10
MPC Meeting	6-Nov	2-Dec	-	-	-	-	-	-	-	-
PKO BP forecast*	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
market pricing*		0.06	0.05	0.02	0.01	0.00	0.00	-0.02	-0.02	0.00

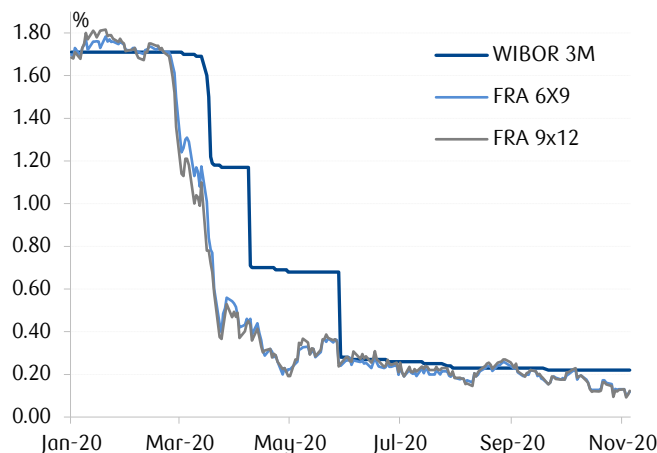
†WIBOR 3M from the last fixing, FRA transactions based on WIBOR 3M for subsequent periods, ‡in basis points, *PKO BP forecast of the NBP reference rate.

Poland macro chartbook

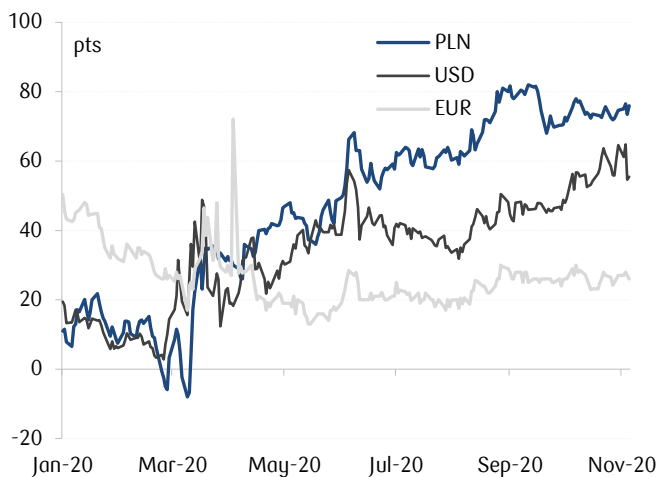
NBP policy rate: PKO BP forecast vs. market expectations



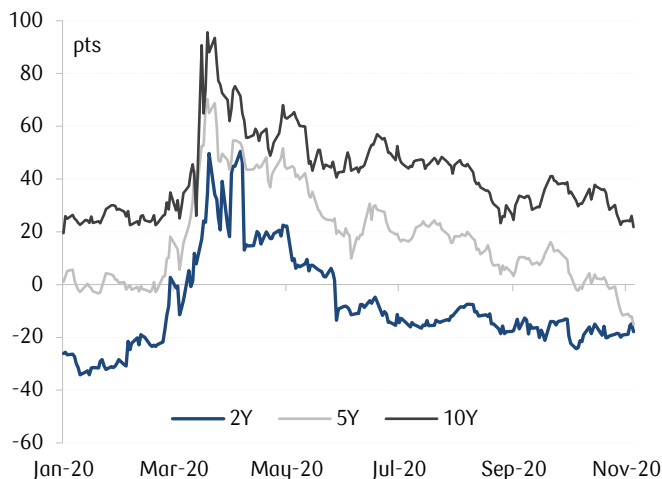
Short-term PLN interest rates



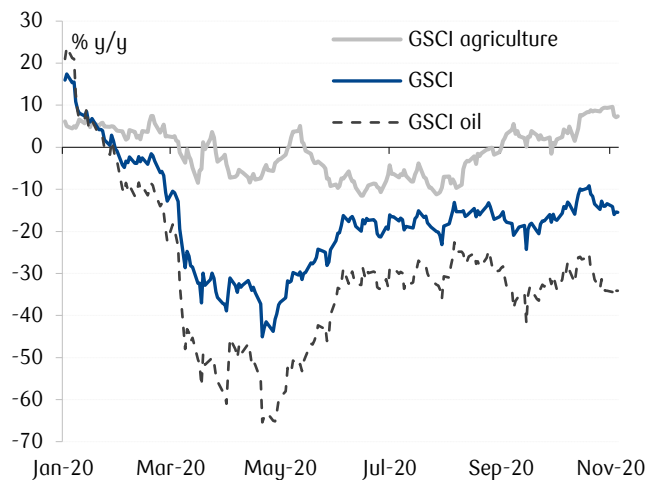
Slope of the swap curve (spread 10Y-2Y)*



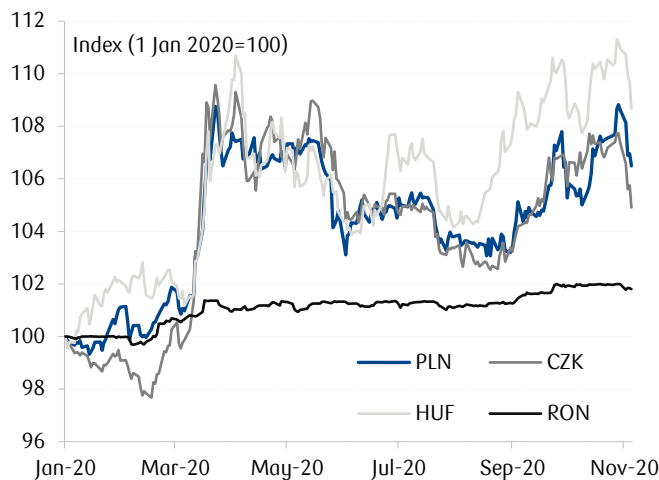
PLN asset swap spread



Global commodity prices (in PLN)

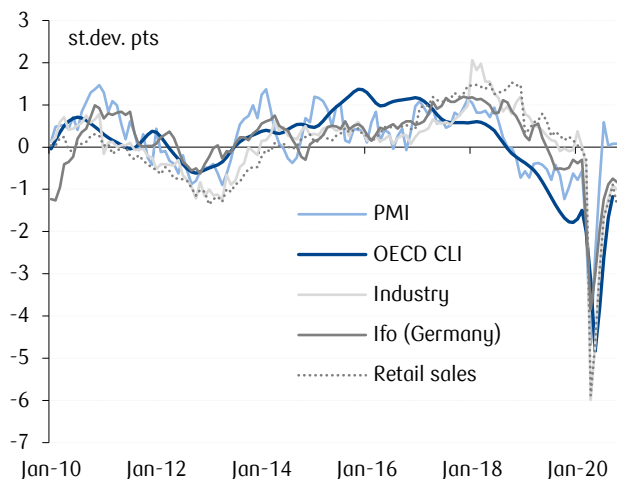


Selected CEE exchange rates against the EUR

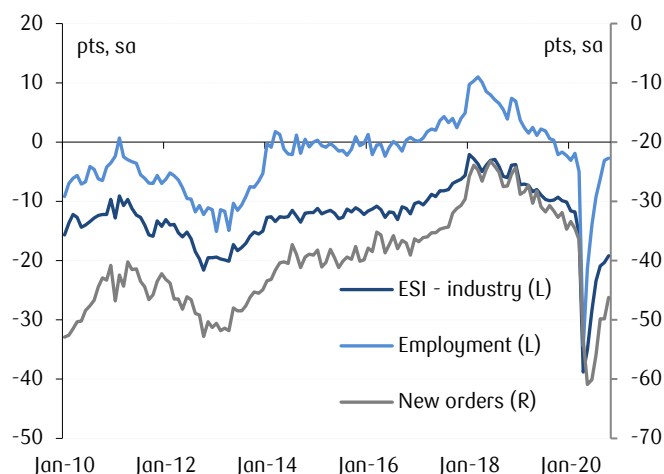


Source: Datastream, NBP, PKO Bank Polski. *for PLN, and EUR 6M, for USD 3M.

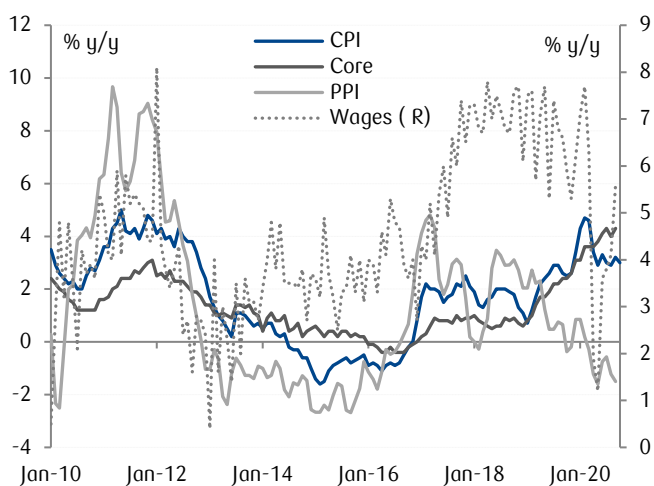
Economic sentiment indicators



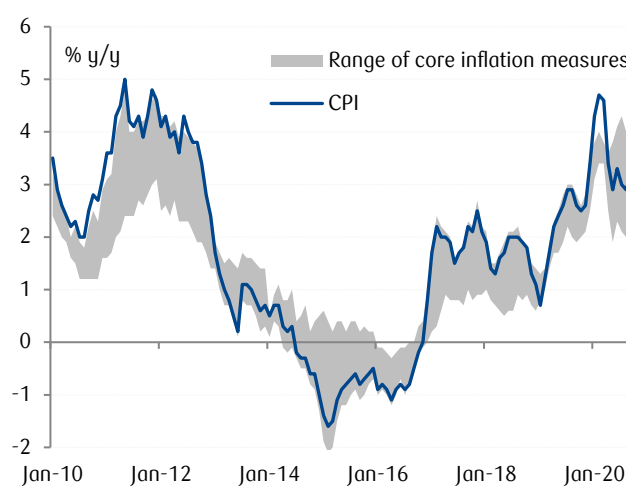
Poland ESI for industry and its components



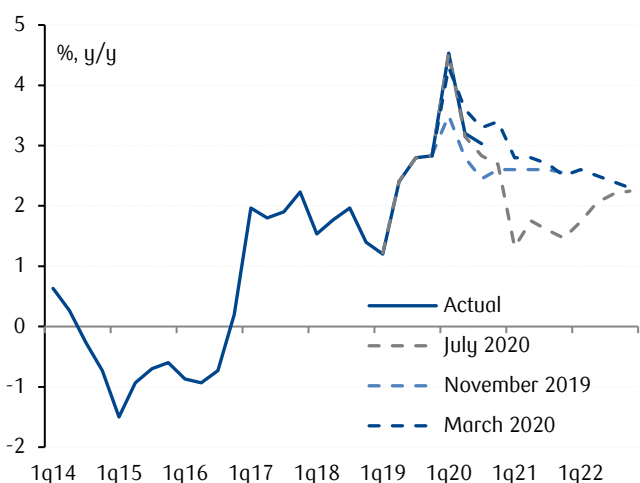
Broad inflation measures



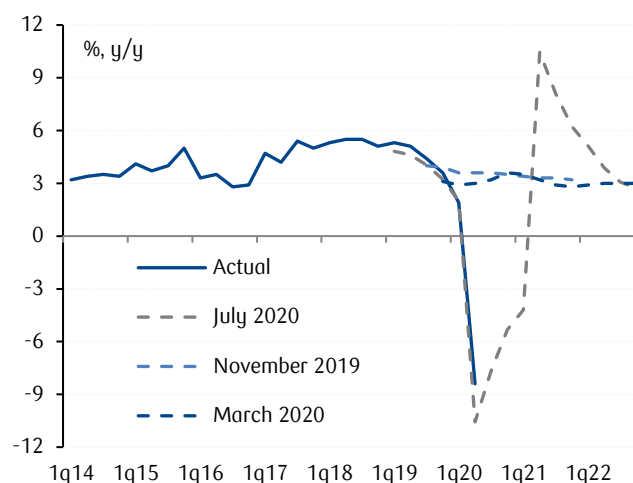
CPI and core inflation measures



CPI inflation - NBP projections vs. actual

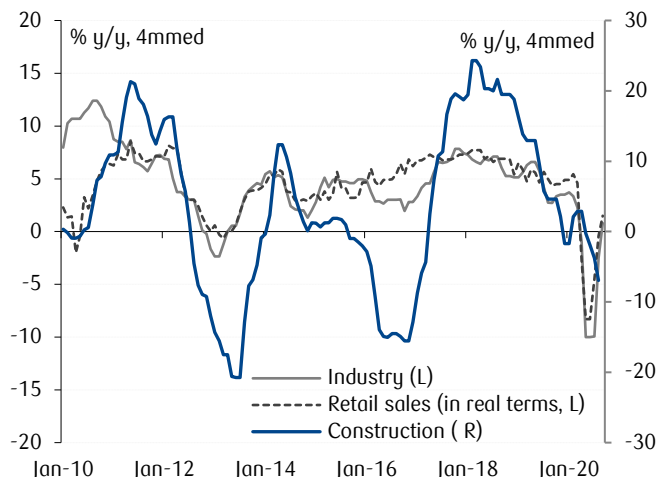


Real GDP growth - NBP projections vs. actual

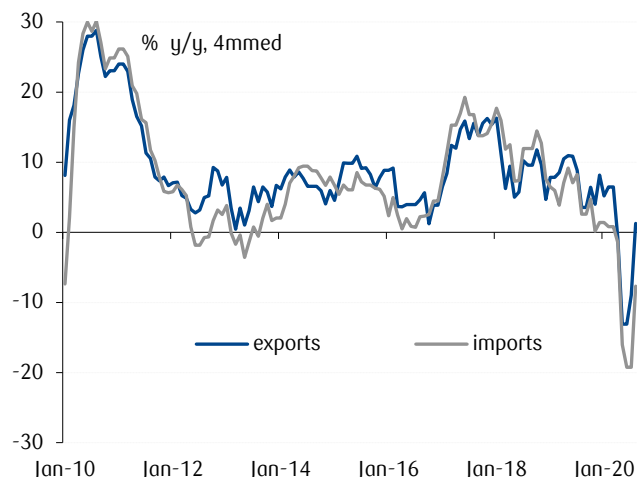


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

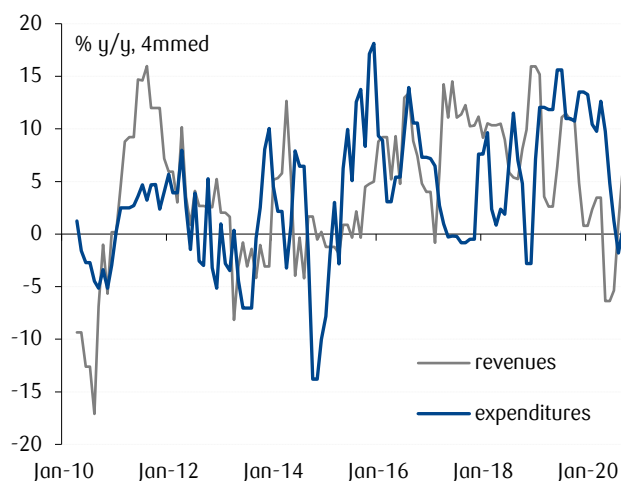
Economic activity indicators



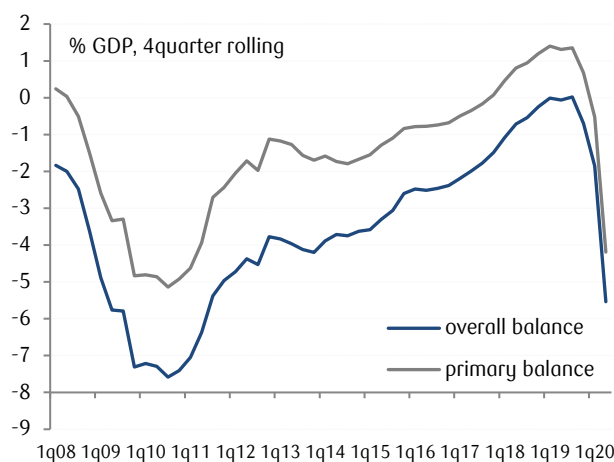
Merchandise trade (in EUR terms)



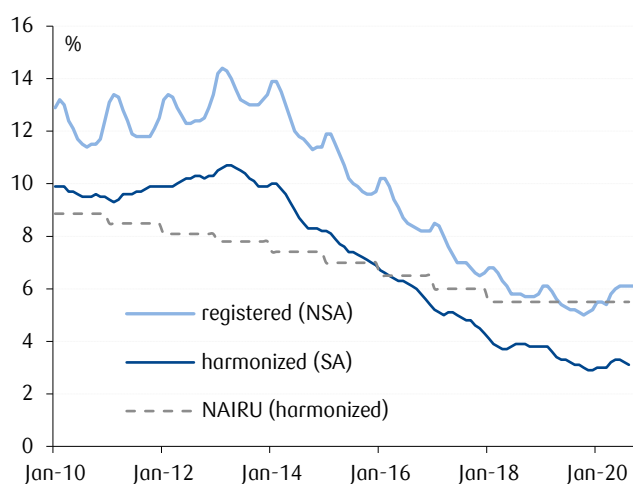
Central government revenues and expenditures*



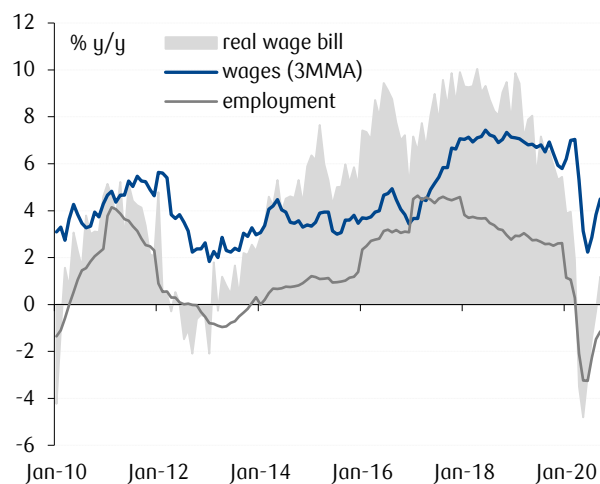
General government balance (ESA2010)



Unemployment rate

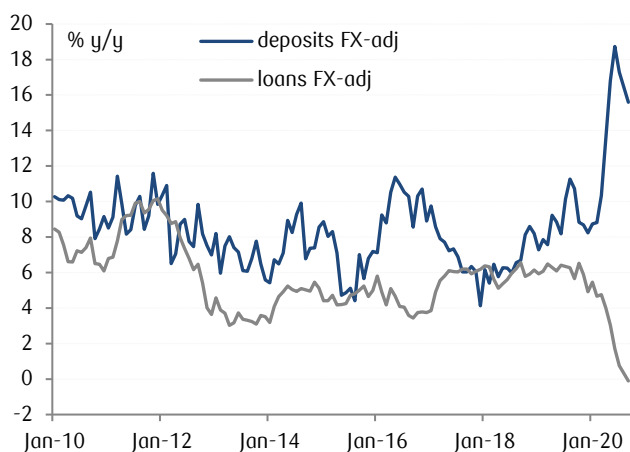


Employment and wages in the enterprise sector

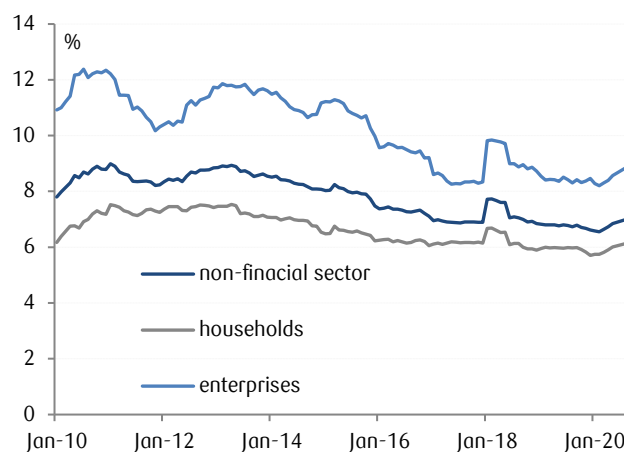


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. *break in series in 2010 due to methodological changes.

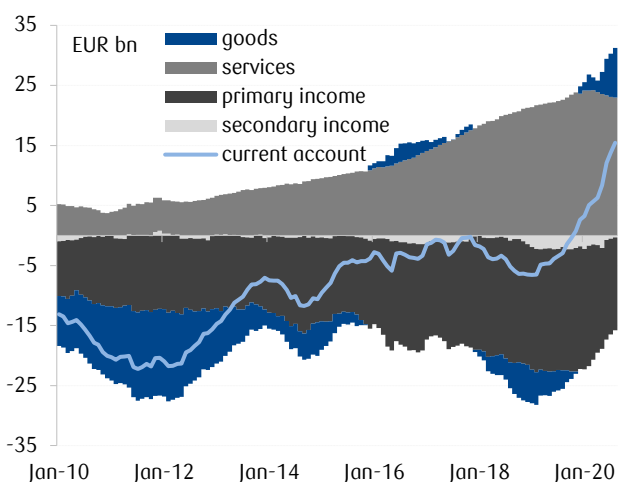
Loans and deposits



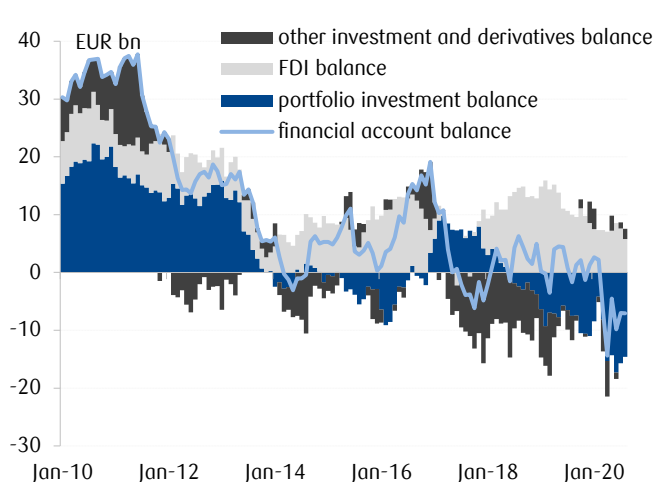
Non-performing loans (NPLs) - by sectors*



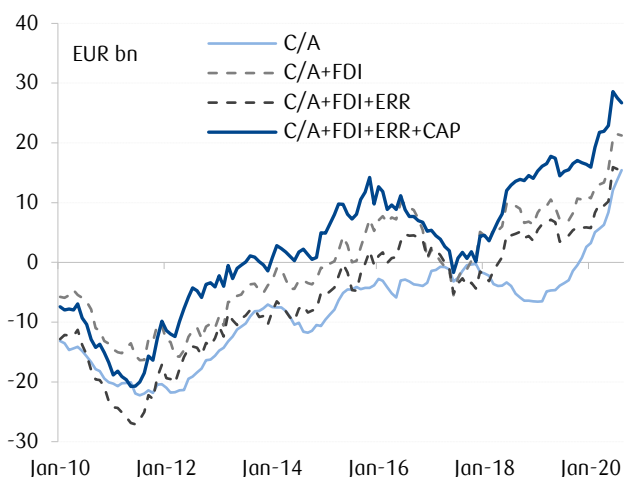
Current account balance



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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- [GDP growth dragged down by construction](#) (Jan 24, 2020)

Poland's macro in a nutshell

	2019	2020	Comment
Real economy			
- real GDP (%)	4.5	-2.9	GDP bottomed out in 2q20 falling by 8.2% y/y. Both private consumption and investment declined by double-digit rates. High-frequency data points at significant rebound of economic activity in 3q. that said, the new wave of covid-19 infections may disturb the V-shaped recovery at year-end. We pencil in a second dip of the recession, this time much shallower than under lockdown conditions in Spring.
Prices			
- CPI inflation (%)	2.3	3.3	Disinflationary forces will prevail in subsequent quarters, but due to specific factors, inflation in Poland will not fall as much as in many other economies. As the supply-side factors related to the pandemic expire, core inflation will be affected by weaker demand. Administrative factors will also play an important role (postponed entry into force of the power fee and sugar tax, increase in the RTV subscription).
Monetary aggregates			
- M3 money supply (%)	8.3	13.9	Despite government guarantees, credit growth is likely to decelerate in the medium-term due to lower bank profitability resulting from lower rates. M3 will accelerate due to sovereign debt purchase of the central bank.
External balance			
- current account balance (% GDP)	0.5	3.0	A clear reduction of primary income deficit (lower FDI profits and remittances of Ukrainians) should support increasing net exports of goods. Thus, CA surplus will visibly widen. As the stimulus package proposed by the EC unwinds, it will also improve capital account balance, leading to further decline of the foreign debt to GDP ratio.
Fiscal policy			
- fiscal balance (% GDP)	-0.7	-9.6	The cost of the fiscal anti-crisis shield (incl. off-balance spending of the State Development Bank and the Polish Development Fund) and fiscal revenues loss caused by the recession will significantly widen the fiscal deficit. Strong fiscal stance in 2019 means that there exists a fiscal space when it comes to both deficit and debt.
Monetary policy			
- NBP reference rate (%)	1.50	0.10	The MPC cut NBP interest rates in three moves in March-May (key policy rate to 0.10%). Dovish and moderate MPC members claim NIRP is not an option for now. Our baseline scenario assumes that rates will remain flat until at least end-2021.

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

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