

Housing frenzy exposes some perils of ultralow rates

Top macro theme(s):

- **Housing frenzy exposes some perils of ultralow rates (p. 2):** The post-pandemic recovery of the housing market in Poland in 3q20 has been uneven with the rental segment still under pressure.

What else caught our eye:

- **The MPC left both interest rates and the QE programme unchanged**, in line with our expectations. **FX interventions** were explicitly included into a regular monetary policy toolbox, as per the post-meeting [statement](#).
- **Minutes of MPC meeting in December** revealed that majority of MPC members are worried that the insufficient FX depreciation may hinder recovery. A.Glapinski said in an online interview that rate cuts (even below zero) are possible, but conditional on the economic/pandemic situation. FX interventions were unprecedented to prevent radical zloty strengthening. Flat rates scenario is still a baseline for NBP governor (for us, too).
- **Current account surplus** in November was very close to our estimate (EUR 1725 mn; PKOe: 1715 mn) and pushed CA/GDP ratio to 3.7% of GDP (12M rolling). Exports rose at almost two-digit pace (9.5% y/y). The data has confirmed that Poland achieved the status of a country with a permanent trade/CA surplus, which is one of the reasons for the much weaker response of the exchange rate to the negative demand shock and loosening of the domestic monetary policy than during the GFC in 2008-2009. Given strong local fundamentals and potential risk-on mode on global markets, the NBP may continue FX interventions in 2021 to counteract PLN appreciation.
- **CPI inflation in December slid to 2.4% y/y** (vs. 2.3% in flash estimate; down from 3.0% in November), due to falling food price growth and core inflation (PKOe: 3.7-3.8%). We stick to the view that the headline inflation should return to 3%-ish levels in the course of 2021.

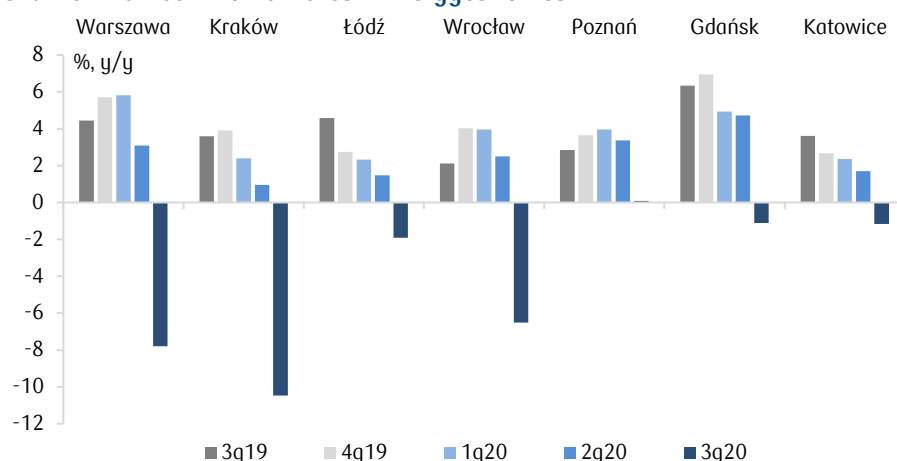
The week ahead:

- **Real retail sales for December** will confirm a strong rebound of private consumption during the pre-Christmas period, (PKOe: +1.2% y/y). **Construction output** will be less spectacular (PKOe: 0.0% y/y).
- **PPI inflation** in December was most likely awoken (PKOe: +0.1% y/y) by waning cheap oil effects and FX depreciation.
- **Labour market** data for December will be a no-big-deal again - labour market hibernated at year-end.

Number of the week:

- #1 - PKO rank in Poland's contest (Parkiet daily) of macro forecasters in 2020.

Chart of the week: Rental rates in 7 biggest cities



Source: Mzuri, PKO Bank Polski.

Chief Economist

Piotr Bujak

piotr.bujak@pkobp.pl
tel. +48 22 521 80 84

Macro Research Team

[@PKO_Research](#)

Marta Petka-Zagajewska

Senior Economist

marta.petka-zagajewska@pkobp.pl
tel. +48 22 521 67 97

Marcin Czaplicki

Economist

marcin.czaplicki@pkobp.pl
tel. +48 22 521 54 50

Urszula Krynska

Economist

urszula.krynska@pkobp.pl
tel. +48 22 521 51 32

Michal Rot

Economist

michal.rot@pkobp.pl
tel. +48 22 580 34 22

	2020†	2021†
Real GDP (%)	-2.6	5.1
Industrial output (%)	-1.2	10.0
Unemployment rate# (%)	6.2	5.4
CPI inflation** (%)	3.4	3.1
Core inflation** (%)	4.0	2.9
Money supply M3 (%)	16.9	7.5
C/A balance (% GDP)	3.6	2.9
Fiscal balance (% GDP)*	-9.2	-3.4
Public debt (% GDP)*	59.7	58.1
NBP reference rate## (%)	0.10	0.10
EURPLN‡	4.61	4.45

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.

Housing frenzy exposes some perils of ultralow rates

- The section is an executive summary of a report on real estate in Poland by our colleagues from the Real Estate Research Team.
- The full report (in Polish) on the real estate market in Poland in 3q20 is available online and can be accessed [here](#).

Poland's real estate market rebounded in 3q20 after a lockdown-related period of subdued activity in 2q20. The recovery was to a large extent broad-based: sales of apartments as well as mortgages increased on q/q basis. That said, the price response was a bit differentiated, depending on market segment and city. On the primary market, in most cities, home prices increased on a quarterly and annual basis. Properties on the secondary market in some cities recorded modest quarterly price declines, which have reduced their annual growth rates. Rental rates continued a downward trend in 3q20.

According to PKO's internal real estate database, **transaction prices on the primary market increased in 3q20 significantly in Warsaw and in smaller provincial capitals** (by approx. 7% q/q and 9% q/q, respectively), **while in the 9 largest cities (excluding Warsaw), the growth rates were moderate**. On the secondary market, prices inched up by 2-4% q/q. On the other hand, data from the NBP's real estate database (BaRN) indicates a quarterly increase in transaction prices on the primary market in 3q20 in most provincial capitals, and slight declines on the secondary market in 9 provincial capitals. The reaction of the secondary market to the pandemic event was delayed as compared to the primary market and most pronounced in 3q20.

The rental market is still affected by the pandemic: short-term rentals, popular among tourists, collapsed, while demand for long-term rentals kept falling due to large-scale remote work and study (lower demand in large cities i.e. large local labor markets and university centers). Offer prices indicate that the decline continued in October and November. **The rental market seems to be of key importance for the residential real estate market as a whole, and generates the risk of a larger price correction.** On the other hand, historically low, real negative interest rates redirect investments to the real estate market as an attractive investment compared to a deposit or bonds, perceived as safe in uncertain times. Faced with lower rates, homebuyers may accept lower rental returns.

Mortgage lending improved in 3q20 - having collapsed in 2q20 - new loan origination edged up (+ 5% q/q in 3q20 vs. -19% q/q in 2q20) which has somewhat reduced the annual decline in sales (-16% y/y vs. -18% y/y in 2q20). According to the Polish Bank Association (ZBP), the value of new production of mortgages in 3q20 amounted to PLN 14.1 bn. The Credit Information Bureau (BIK) data has also signaled some improvement.

Sales of flats by developer recovered in 3q20. According to JLL monitoring of housing markets, 13.3 thousand units were sold in 6 agglomerations with the highest turnover on the primary market (-17.7 y/y in 3q20 vs. -54% y/y in 2q20). 13 thousand new units were put on sale in 3q20 (-13% y/y vs. -30% y/y in 2q20). The scale of the returns (i.e. when a purchase was cancelled) was low, the highest (6%) was in Warsaw. Total number of units on sale included 49.3 thousand flats - this is the average level of recent years.

The accounting records of large real estate development companies at the end of 3q20 predict high supply of apartments on the market in the coming quarters. Residential projects in progress jumped by 86% y/y and finished apartments for sale tripled. Customer prepayments also increased (by 45% y/y).

Economic Research Department

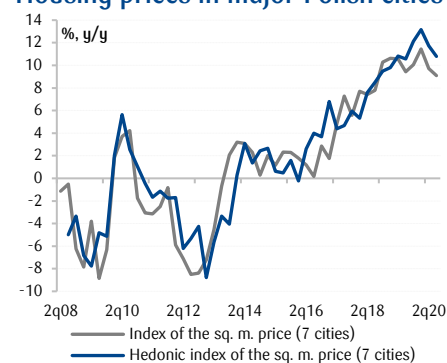
Real Estate Research Team
analizy.nieruchomosci@pkobp.pl
 (22) 521 51 80

 @PKO_Research

www.pkobp.pl/centrum-analiz

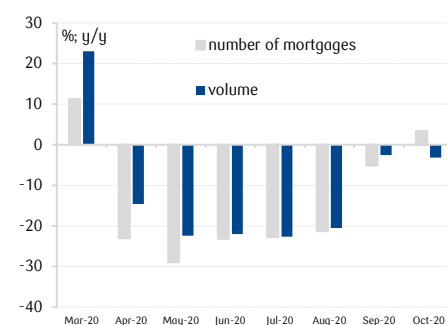
Agnieszka Grabowiecka-Łaszek
 Piotr Krzysztofik
 Wojciech Matysiak

Housing prices in major Polish cities



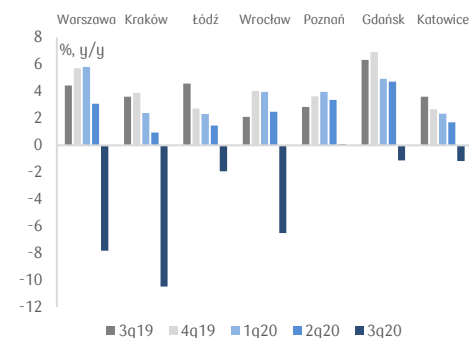
Source: NBP, PKO Bank Polski.

Mortgage growth rate in 2020 (BIK)



Source: BIK, PKO Bank Polski.

Rental rates (Mzuri)



Source: Mzuri, PKO Bank Polski.

The same accounting items, compared to the previous quarter, show a relatively stable situation.

The year-to-date results of housing construction in 3q20 suggest that the supply of flats was adjusted to expected weaker demand - with new units for sale up by 7.4% y/y, there is a decrease in the number of housing starts (-6.2% y/y vs +2.5% y/y in 1q-3q19) and the number of building permits (-4.3% y/y vs +3.6% y/y in 1q-3q19). The number of apartments under construction and rising risk of faltering demand prompts to a more cautious approach to new project kick-offs.

Housing construction cost growth rate slowed down in 3q20. These costs (excluding the cost of land), according to StatOffice data on completed housing units, increased by 2.8-3.2% y/y (vs. 2.9-3.4% y/y in 2q20). According to the current cost estimate rates of SEKOCENBUD, the construction costs (excluding the cost of land) of monitored single and multi-family buildings also grew slower (by 3.7-5.3% y/y).

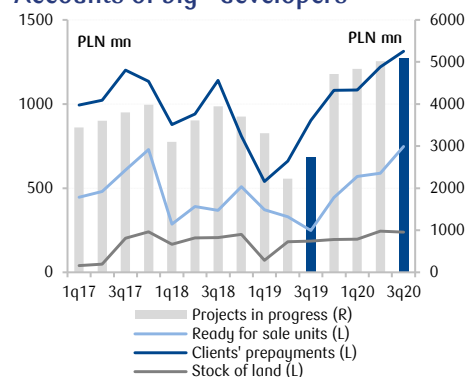
So far, the house price correction has been smaller than could be expected in the first months of the epidemic. This is the result of a very large scale of anti-crisis measures and, consequently, a moderate increase in unemployment (lower than initially expected even double-digit levels at the turn of 2020-2021). A strong liquidity position for most companies, as well as high flexibility of developers, also helped. The progress of work on the COVID-19 vaccine is also important from the real estate market perspective, as it provides a time framework for a return to - slightly changed - economic normality.

In the baseline scenario we expect a moderation of quarterly growth rates in housing prices on some markets until the end of 3q21. An important factor in strengthening the negative pressure on the price level is, apart from moderate demand and the strongly growing supply of new developer housing, the continuation of downward trends in rental rates. We estimate that the fall in prices in 3q21 will not be greater than approx. 5% y/y.

In the optimistic scenario, the correction of the housing market is already done in 2q-3q20, and the market is now entering the next phase of the cycle. The demand for flats is strongly stimulated by low interest rates (flat rates scenario is our baseline until at least 2022), and an especially low-yielding household deposits and treasury bonds - traditional financial savings instruments of Polish households. Even if the optimistic scenario materializes, the unfavorable trend on the rental market remains a risk factor.

In the pessimistic scenario, with a strong second wave of the epidemic (and possibly subsequent ones), an unfavorable external environment and a renewed deterioration in consumer sentiment, demand weakens and negative price trends intensify. The housing market problems may additionally worsen as a result of issues with finalizing the construction and sale of a record number of apartments with a completion date in 2021-2022.

Accounts of big^ developers*



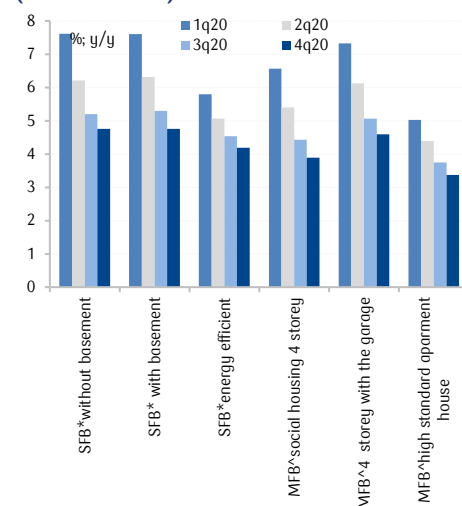
Source: GUS, PONT Info, ^with empl >49 people; *Nace Rev. 2: 41.1.

YtD activity in construction in 3q20



Source: GUS, PKO Bank Polski. Labels denote % y/y changes.

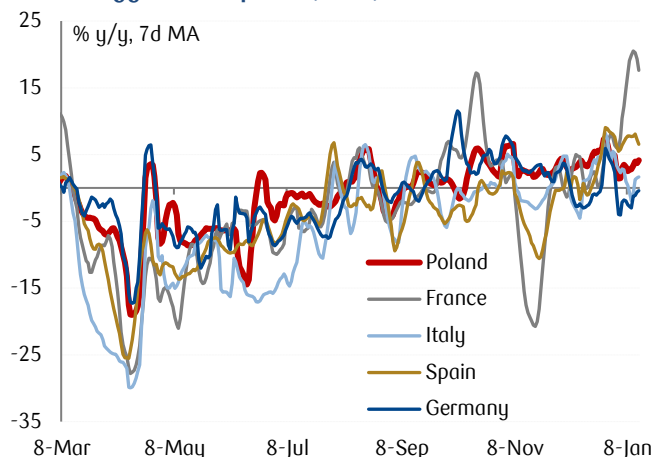
Housing construction costs (Sekocenbud)



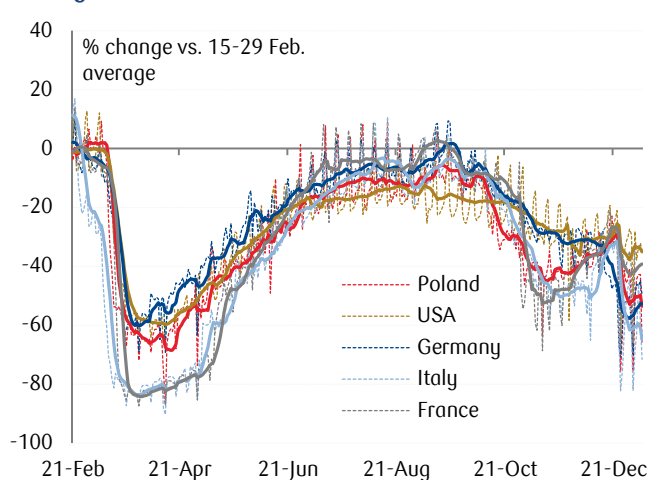
Source: Sekocenbud, PKO Bank Polski. *single-family building; multi-family building.

Macro monitoring with alternative data

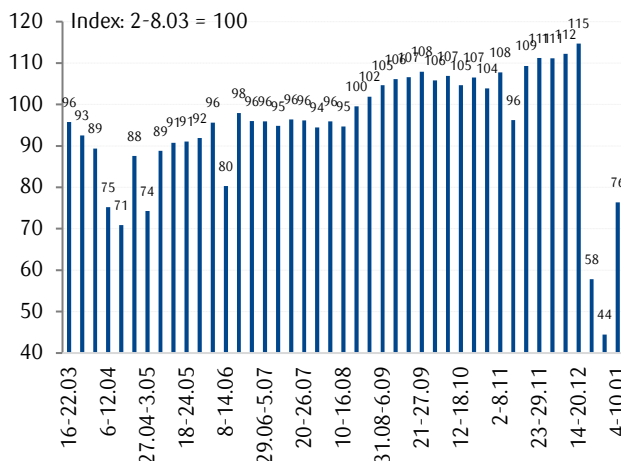
Electric energy consumption (total)



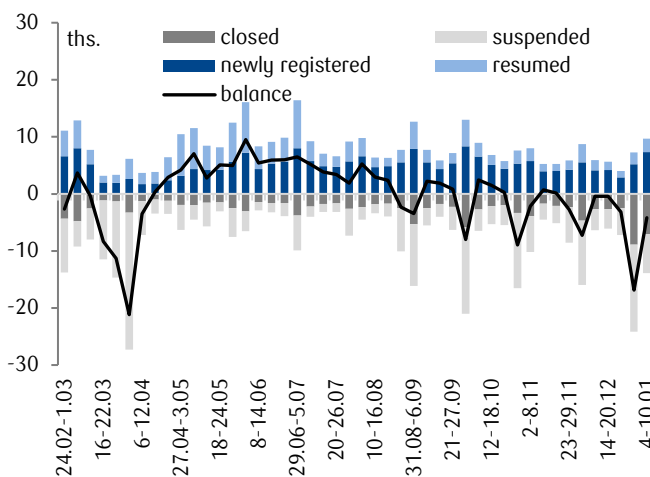
Mobility*



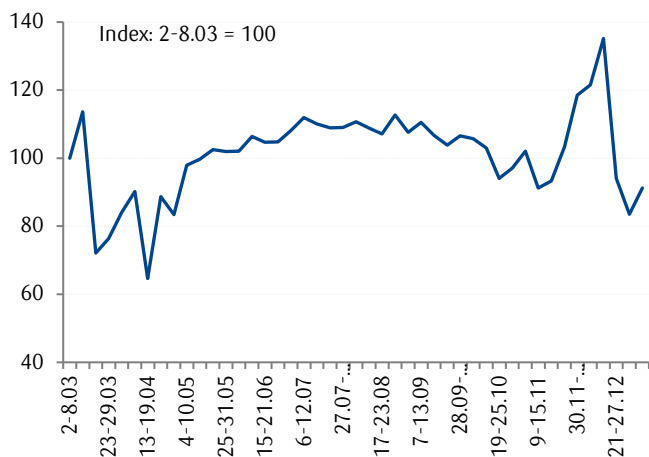
Heavy truck traffic



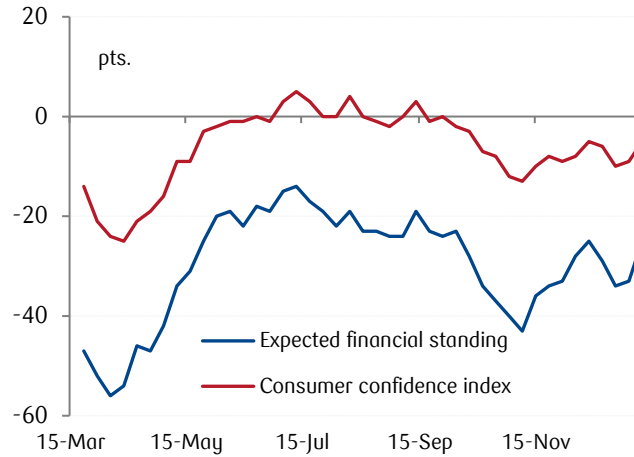
Economic activity status (acc. to CEiDG**)



Consumption based on PKO BP card payments



Weekly consumer confidence survey



Source: PSE, Apple, Google, GDDKGA, 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, 18 January						
CHN: GDP growth (4q)	2:00	% y/y	4,9	6,2	--	--
POL: Core inflation (Dec)	13:00	% y/y	4,3	3,6	3,7	Telecommunication, insurance and clothing dragged core inflation down in December.
Tuesday, 19 January						
GER: CPI inflation (Dec, fin.)	7:00	% y/y	-0,3	-0,3	--	--
GER: ZEW index (Jan)	10:00	pts.	55.0	56.0	--	--
Wednesday, 20 January						
CHN: Lending rate	--	%	3.85	3.85	--	--
EUR: HICP inflation (Dec, fin.)	10:00	% y/y	-0,3	-0,3	--	--
EUR Core HICP inflation (Dec., fin.)	10:00	% y/y	0.2	0.2	--	--
Thursday, 21 January						
JAP: BoJ meeting	--	%	-0.10	-0.10	-0.10	--
POL: Employment (Dec)	9:00	% y/y	-1.2	-1.2	-1.1	Labour market hibernates at year-end, supportive for the recovery take-off once the second wave of the pandemic is over..
POL: Wages (Dec)	9:00	% y/y	4.9	4.7	5.0	
NOR: Base rate	9:00	%	0.00	0.00	0.00	--
EUR: Refinancing rate	12:45	%	0.00	0.00	0.00	--
USA: Housing starts (Dec)	13:30	thous.	1547	1560	--	--
USA: Initial jobless claims	13:30	thous.	965	--	--	--
Friday, 22 January						
GER: Manufacturing PMI (Jan, flash)	8:30	pts.	58.3	58.0	--	--
GER: Services PMI (Jan, flash)	8:30	pts.	47.0	46.0	--	--
POL: Retail sales	9:00	% y/y	-5.3	-2.3	1.2	Our internal data point at some upside surprise.
POL: Construction output (Dec)	9:00	% y/y	-4.9	-2.2	0.0	Rising new orders bode well for mid-term sector outlook.
POL: PPI inflation (Dec)	9:00	% y/y	-0.2	-0.1	0.1	Inflation returned in December as the effects of cheap oil started to wane.
EUR: Manufacturing PMI (Jan, flash)	9:00	pts.	55.2	--	--	--
EUR: Services PMI (Jan, flash)	9:00	pts.	46.4	45.5	--	--
USA: Manufacturing PMI (Jan, flash)	14:45	pts.	57.1	56.5	--	--
USA: Existing home sales (Dec)	15:00	thous.	6.69	6.46	--	--

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

Selected economic indicators and forecasts

	Oct-20	Nov-20	Dec-20	1q20	2q20	3q20	4q20	2019	2020	2021
Economic activity										
Real GDP (% y/y)	x	x	x	1.9	-8.4	-1.5	-2.4	4.5	-2.6	5.1
Domestic demand (% y/y)	x	x	x	1.0	-9.9	-3.2	-4.5	3.5	-4.0	4.9
Private consumption (% y/y)	x	x	x	1.2	-10.8	0.4	-2.5	4.0	-2.9	5.5
Gross fixed capital formation (% y/y)	x	x	x	0.9	-10.7	-9.0	-9.2	7.2	-7.9	3.7
Inventories (pp)	x	x	x	-0.3	-2.0	-2.3	-1.3	-1.4	-1.4	0.1
Net exports (pp)	x	x	x	0.9	1.1	0.7	1.8	1.2	1.2	0.6
Industrial output (% y/y)	1.0	5.4	8.0	0.9	-13.6	3.2	4.8	4.0	-1.2	10.0
Construction output (% y/y)	-5.8	-4.9	0.0	5.0	-2.8	-10.9	-3.5	3.6	-3.9	-1.3
Retail sales (real, % y/y)	-2.3	-5.3	1.2	0.8	-10.7	1.0	-2.0	5.4	-2.7	1.2
Nominal GDP (PLN bn)	x	x	x	556.4	528.2	582.5	643.3	2288	2310	2505
Labour market										
Registered unemployment rate‡(%)	6.1	6.1	6.2	5.4	6.1	6.1	6.2	5.2	6.2	5.4
Employment in enterprises (% y/y)	-1.0	-1.2	-1.1	0.8	-2.0	-1.9	-1.1	2.7	-1.2	1.0
Wages in enterprises (% y/y)	4.7	4.9	5.0	7.0	2.1	4.3	4.9	6.6	4.7	5.6
Prices^										
CPI inflation (% y/y)	3.1	3.0	2.3	4.6	3.2	3.0	2.8	2.3	3.4	3.1
Core inflation (% y/y)	4.2	4.3	3.7	3.4	3.8	4.2	4.1	1.9	4.0	2.9
15% trimmed mean (% y/y)	3.1	3.0	x	3.4	3.4	3.2	x	2.0	x	x
PPI inflation (% y/y)	-0.3	-0.1	0.1	0.2	-1.3	-1.2	-0.1	1.2	-0.5	2.3
Monetary aggregates‡										
Money supply, M3 (PLN bn)	1782.6	1790.7	1830.2	1624.9	1746.2	1762.2	1830.2	1565.6	1830.2	1967.5
Money supply, M3 (% y/y)	17.0	16.1	16.9	11.8	18.1	17.0	16.9	8.3	16.9	7.5
Real money supply, M3 (% y/y)	13.9	13.1	14.6	7.2	14.9	14.0	14.6	4.9	14.6	4.4
Loans, total (PLN bn)	1345.8	1338.8	1353.0	1366.6	1341.1	1337.7	1353.0	1323.4	1353.0	1414.6
Loans, total (% y/y)	1.3	0.4	2.2	6.5	3.1	0.5	2.2	5.1	2.2	4.5
Deposits, total (PLN bn)	1631.7	1639.4	1609.9	1485.1	1618.7	1627.3	1609.9	1406.6	1609.9	1683.7
Deposits, total (% y/y)	16.3	15.8	14.5	11.2	19.5	15.8	14.5	8.2	14.5	4.6
Balance of payments										
Current account balance (% GDP)	3.5	3.7	3.6	1.1	2.3	3.1	3.6	0.5	3.6	2.9
Trade balance (%GDP)	2.1	2.4	2.5	0.4	1.2	1.8	2.5	0.2	2.5	1.6
FDI (% GDP)	1.1	1.2	1.4	1.4	1.6	1.1	1.4	1.6	1.4	1.7
Fiscal policy										
Fiscal balance (% GDP)	x	x	x	x	x	x	x	-0.7	-9.2	-3.4
Public debt (% GDP)	x	x	x	x	x	x	x	46.0	59.7	58.1
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 ^x (%)	0.22	0.22	0.21	1.17	0.26	0.22	0.21	1.71	0.21	0.20
Real WIBOR 3M ^x (%) [#]	-2.88	-2.78	-2.09	-3.43	-3.04	-2.78	-2.59	-1.69	-3.19	-2.90
Exchange rates*‡										
EUR-PLN	4.62	4.48	4.61	4.55	4.46	4.53	4.61	4.26	4.61	4.45
USD-PLN	3.95	3.74	3.76	4.15	3.98	3.87	3.76	3.80	3.76	3.50
CHF-PLN	4.32	4.14	4.26	4.30	4.18	4.19	4.26	3.92	4.26	4.05
EUR-USD	1.17	1.20	1.23	1.11	1.12	1.17	1.23	1.12	1.23	1.27

Source: GUS, NBP, PKO Bank Polski.

^xPKO 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	4.7	"As real interest rates in Poland were negative anyway, their further reduction "could not have produced spectacular effects,"" (16.12.2020, PAP)
E. Gatnar	4.6	"I am completely surprised because both [PAP: NBP] chief and the whole dovish wing of the MPC repeatedly talked about stabilization of interest rates at this historically minimal level close to zero. (...) In my opinion, interest rates in Poland should gradually return to pre-pandemic levels... starting with [a hike to] the level of 0.5% already next year" (31.12.2020, PAP)
L. Hardt	4.1	"As of today, if the optimistic economic scenario for the next year becomes a reality, interest rates should inch up, perhaps to 0.50%, (...) If the [PAP: monetary] policy were to be normalized next year, I would rather speak in favor of more finessed normalization, and not a simple rate hike. (...) Normalization means to me coming back to 0.50%, along with simultaneous continuation of the asset purchase program, perhaps launching long repo operations and keeping the rate on the bill discount credit at the current level" (08.12.2020, PAP)
J. Kropiwnicki	3.6	"The NBP management board could support growth with actions in the sphere of the FX exchange rate policy and supporting the exports of Polish goods and service" (04.01.2021, PAP).
R. Sura	2.2	"I would not exclude such a scenario [PKO: rate cuts] in the future (...) [PKO: while] inflation in 2021 will be approaching the middle of the inflation target tolerance band, (...) and economic developments and expert opinions delivered to us parallelly and analyzed by us should point at a possibility of a further rate cut, with concurrent demonstration of positive effects for the real economy. (...) As of today I do not see such a need and the current rate regime appears "optimal." (30.12.2020, PAP).
G. Ancyparowicz	2.1	"If it turns out that [PAP: verbal intervention of the NBP chief Glapinski] is ineffective and the zloty starts appreciating in a dangerous manner (...) we don't have any other way out but to actually reduce that pressure [PAP: towards appreciation] (...) Although we do not want to do that, we would likely be forced into cutting interest rates further" (05.01.2021, PAP)
C. Kochalski	2.1	"Poland would hardly benefit from introducing negative interest rates given the current condition of the economy," (18.11.2020, PAP, Bloomberg).
A. Glapinski	1.9	"If the pandemic and economic situation will develop in line with the base scenario for a stabilization of the epidemic situation and gradual improvement in economic trends, then no change in monetary policy parameters should be necessary in the coming quarters. Shortly speaking, with the current high level of uncertainty concerning future economic situation nothing is predetermined and we have to be ready for different scenarios" (05.01.2021, PAP, obserwatorfinansowy.pl).
J. Zyzynski	1.6	"Cutting NBP interest rates, maybe even to zero, which would make credits a bit cheaper as market interest rates would go down, would likely be advisable." (30.12.2020, PAP)
E. Lon	1.0	"I hope that there won't be a need to cut interest rates this year. Stabilization of interest rates at current levels is the baseline scenario for 2021." (04.01.2021, PAP, wgosparce.pl)

*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).

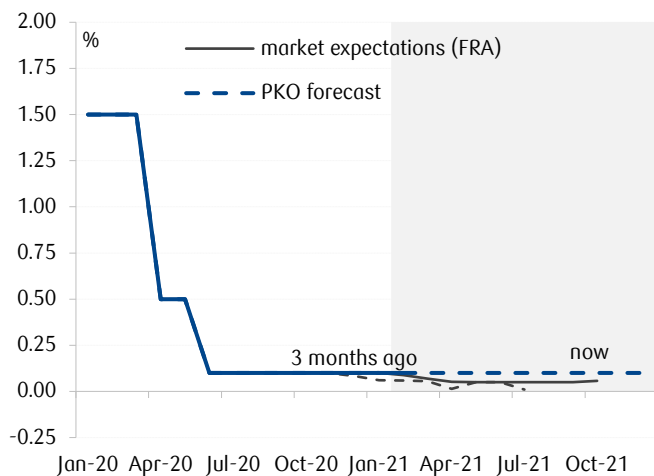
Interest rates – PKO BP forecasts vs. market expectations

		1M	2M	3M	4M	5M	6M	7M	8M	9M
Date	14-Jan	14-Feb	14-Mar	14-Apr	14-May	14-Jun	14-Jul	14-Aug	14-Sep	14-Oct
WIBOR 3M/FRA†	0.21	0.20	0.18	0.16	0.16	0.16	0.16	0.16	0.16	0.17
implied change (b. p.)		-0.01	-0.03	-0.05	-0.05	-0.05	-0.05	-0.05	-0.05	-0.04
MPC Meeting	13-Jan	3-Feb	3-Mar	7-Apr	5-May	9-Jun	8-Jul	-	8-Sep	6-Oct
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*		0.09	0.07	0.05	0.05	0.05	0.05	0.05	0.05	0.06

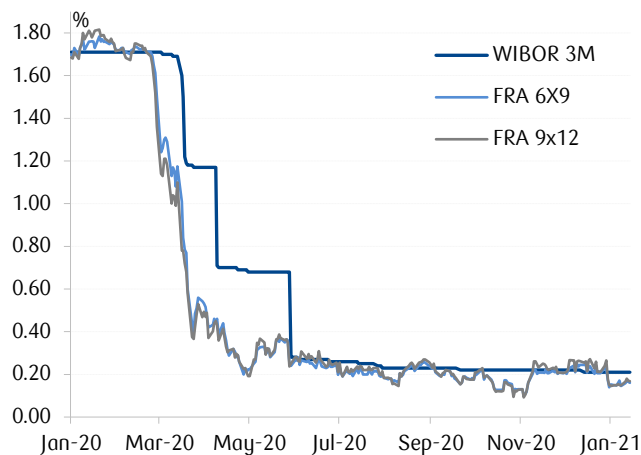
†WIBOR 3M from the last fixing, FRA transactions based on WIBOR 3M for subsequent periods, ‡in basis points, *PKO BP forecast of the NBP reference rate.

Poland macro chartbook

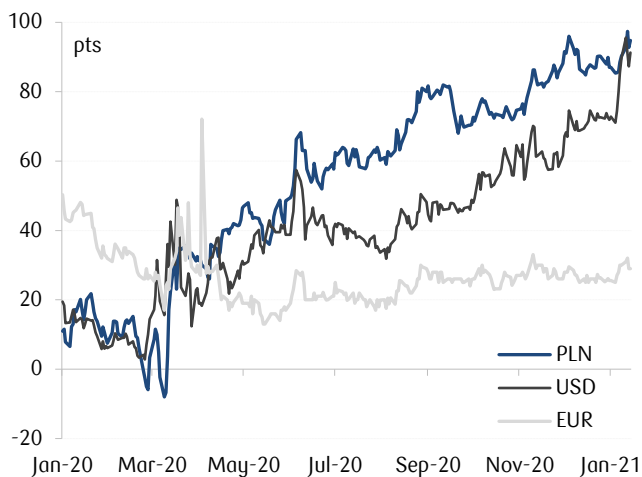
NBP policy rate: PKO BP forecast vs. market expectations



Short-term PLN interest rates



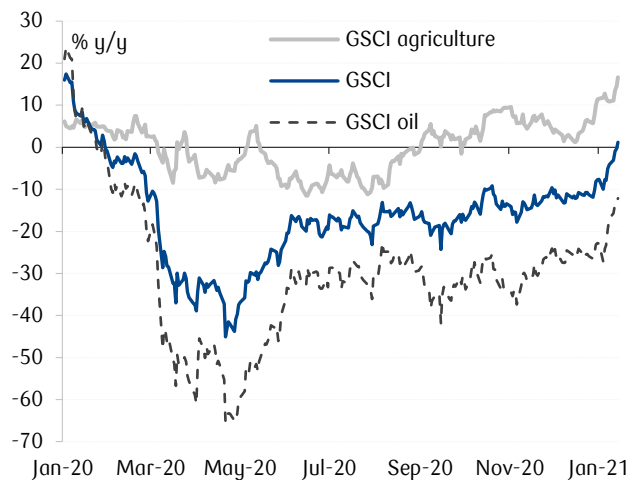
Slope of the swap curve (spread 10Y-2Y)*



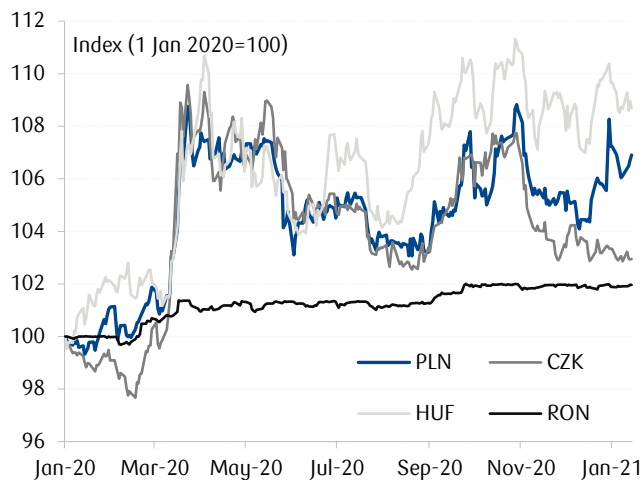
PLN asset swap spread



Global commodity prices (in PLN)

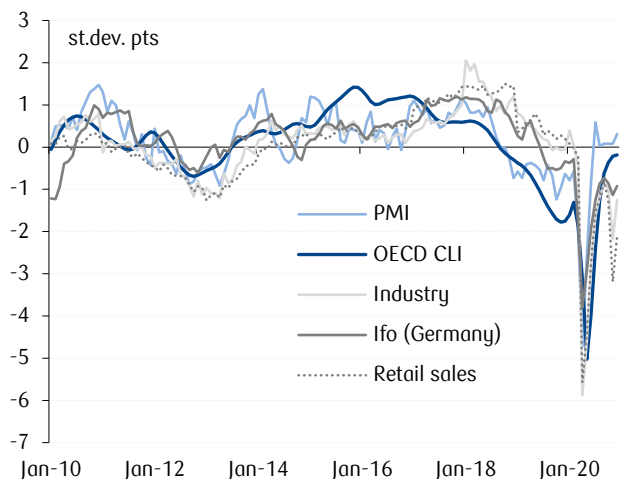


Selected CEE exchange rates against the EUR

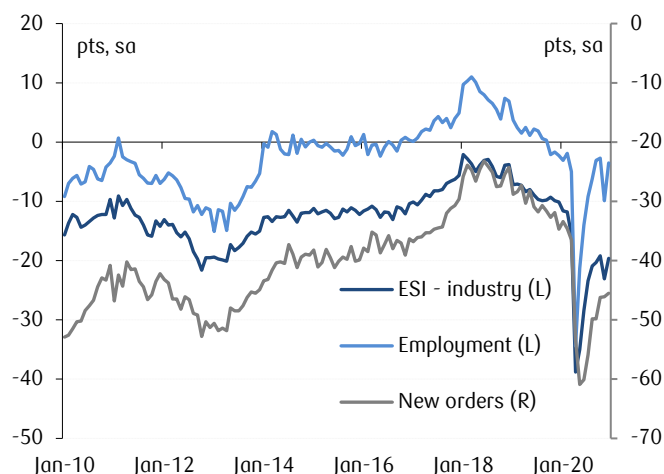


Source: Datastream, NBP, PKO Bank Polski. *for PLN, and EUR 6M, for USD 3M.

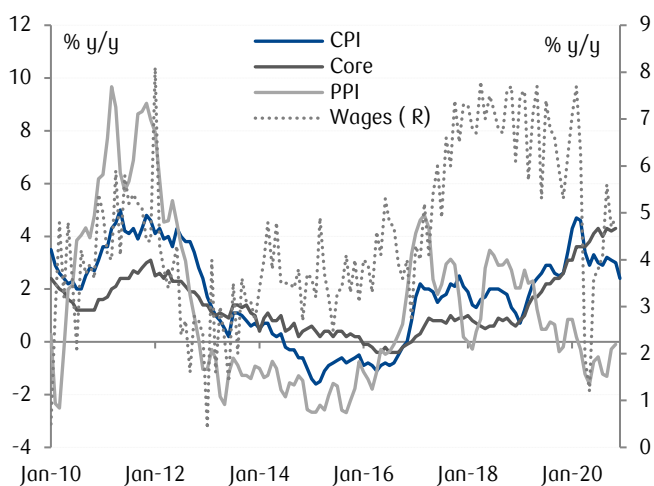
Economic sentiment indicators



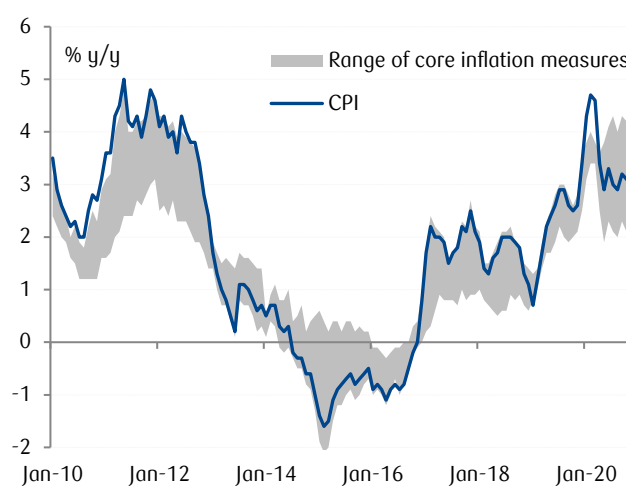
Poland ESI for industry and its components



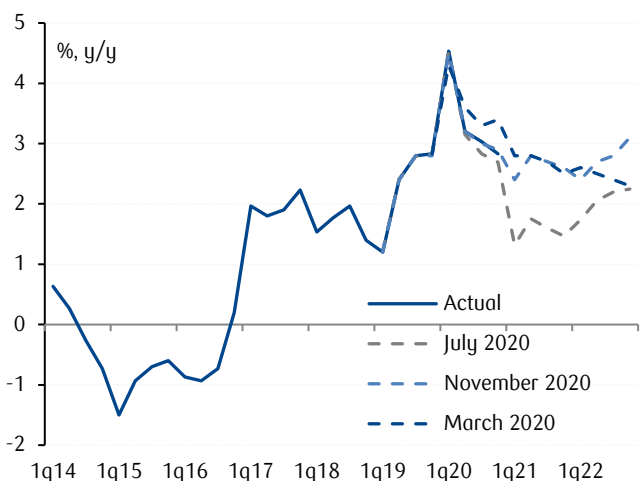
Broad inflation measures



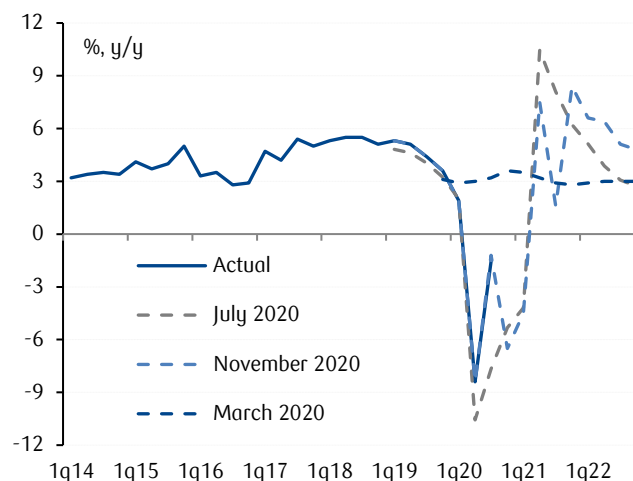
CPI and core inflation measures



CPI inflation - NBP projections vs. actual

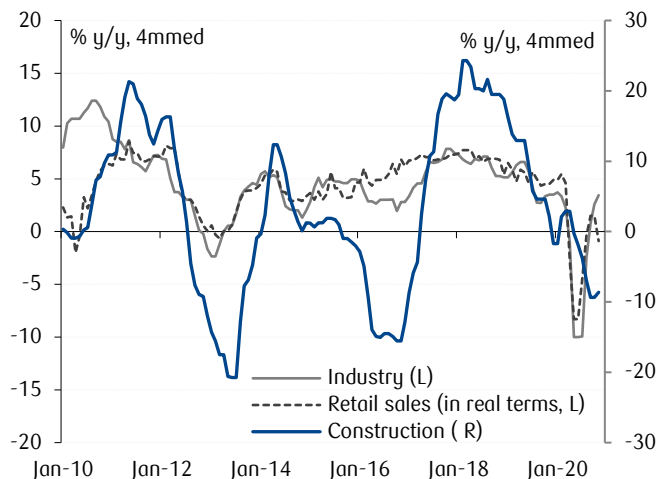


Real GDP growth - NBP projections vs. actual

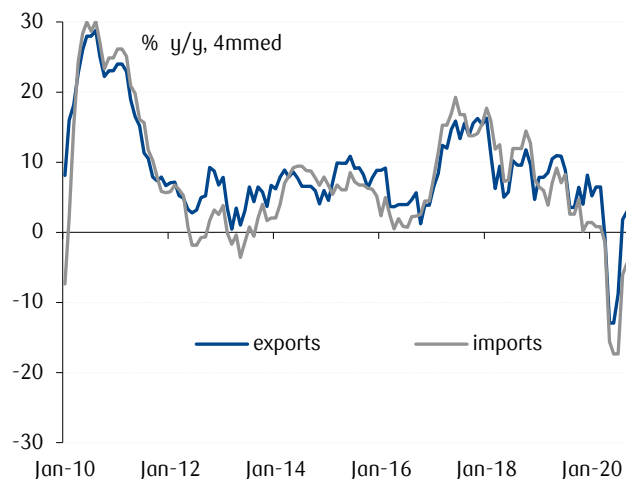


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

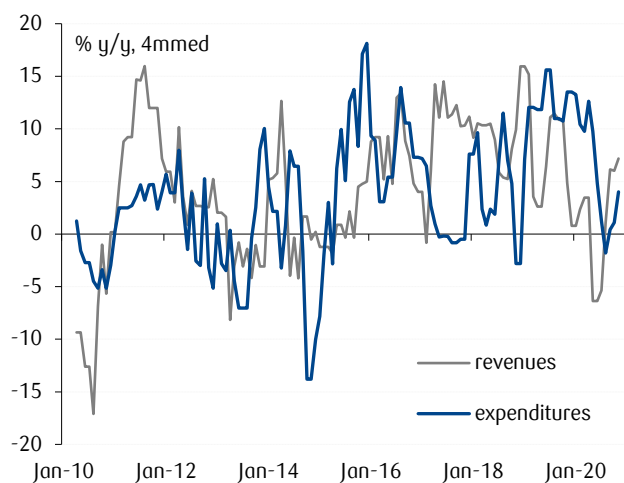
Economic activity indicators



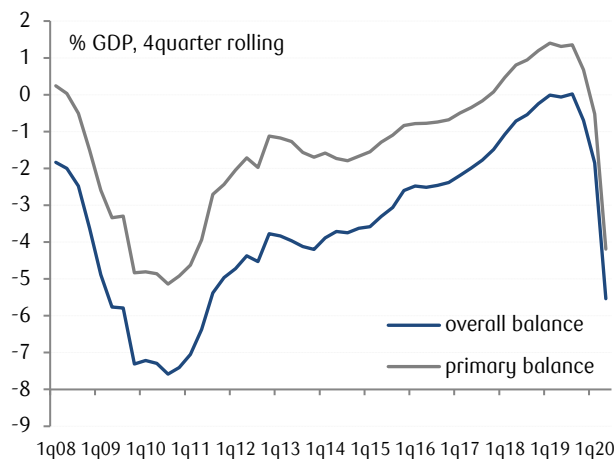
Merchandise trade (in EUR terms)



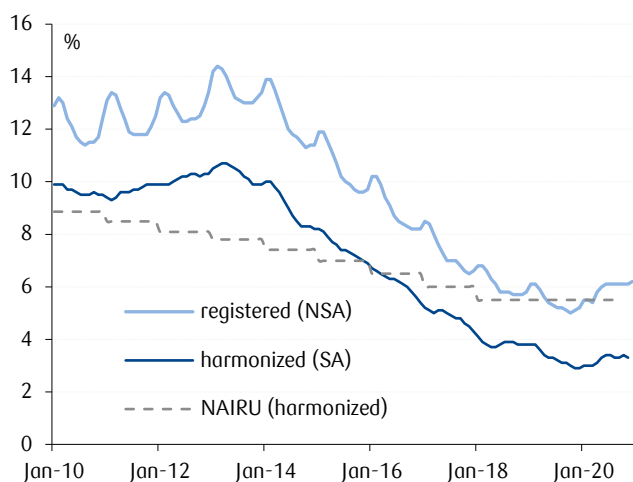
Central government revenues and expenditures*



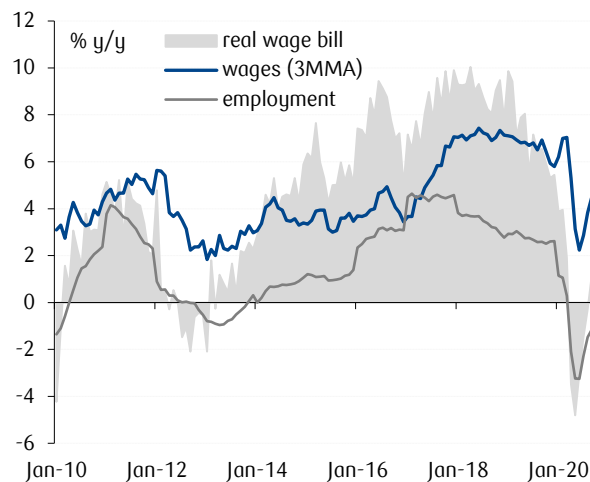
General government balance (ESA2010)



Unemployment rate

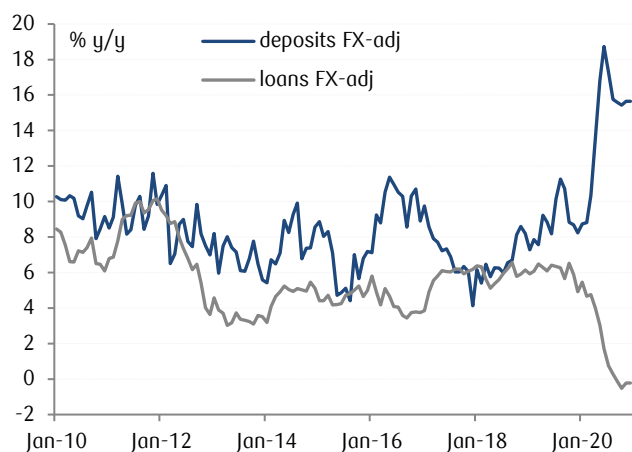


Employment and wages in the enterprise sector

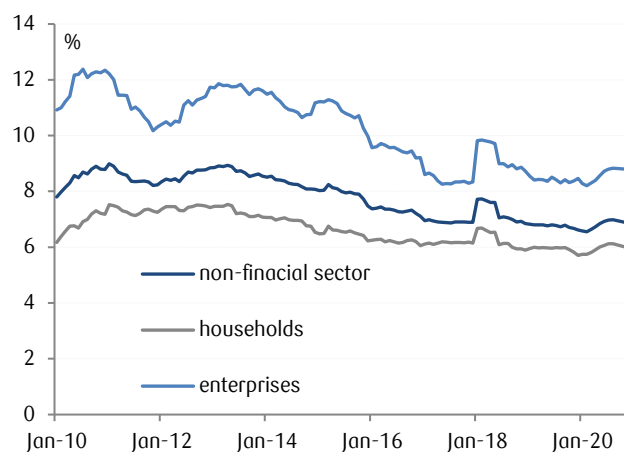


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. *break in series in 2010 due to methodological changes.

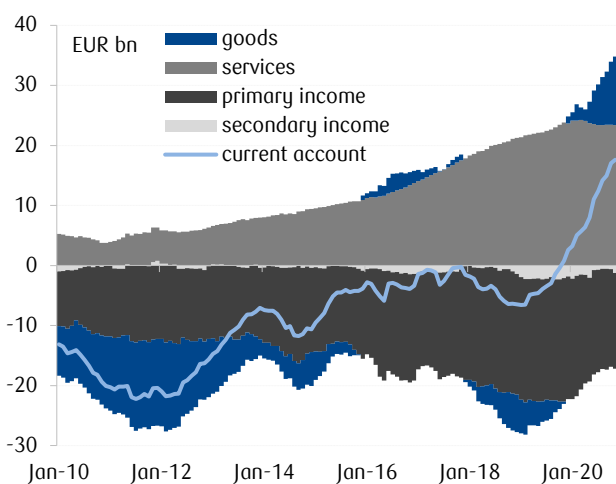
Loans and deposits



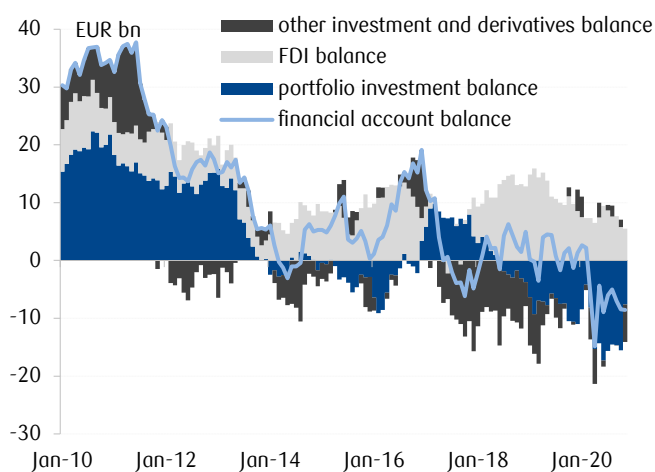
Non-performing loans (NPLs) - by sectors*



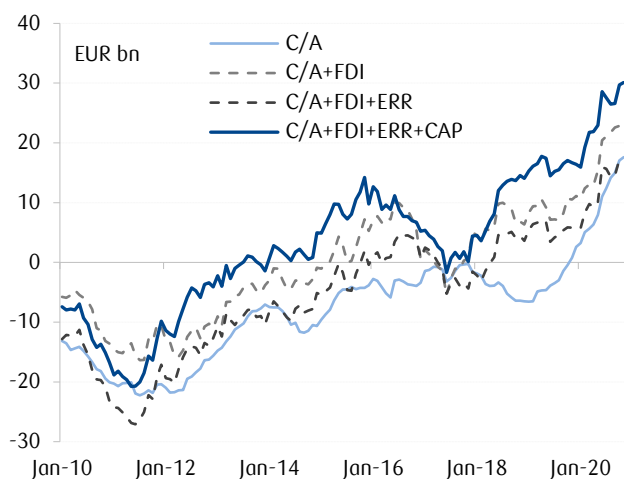
Current account balance



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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- [New Year's sale at the NBP](#) (Jan 08, 2021)
- [Surplus economy](#) (Dec 18, 2020)
- [Deal done](#) (Dec 11, 2020)
- [Bumpy road to recovery](#) (Dec 4, 2020)
- [A tipping point](#) (Nov 27, 2020)
- [Reflections on the pandemic and inflation](#) (Nov 20, 2020)
- [Shadow rate below zero](#) (Nov 13, 2020)
- [Lockdown 1.5](#) (Nov 6, 2020)
- [Fiscal space](#) (Oct 30, 2020)
- [Fearless?](#) (Oct 23, 2020)
- [How deep is the second dip?](#) (Oct 16, 2020)
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- [EU Recovery Plan: what's in store for Poland?](#) (Jun 5, 2020)
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- [Quarantined GDP growth](#) (Mar 27, 2020)
- [Quarantitative Easing](#) (Mar 20, 2020)

Poland's macro in a nutshell

	2020	2021	Comment
Real economy			
- real GDP (%)	-2.6	5.1	We forecast that in 2021 the Polish economy will grow by over 5%, after a decrease of close to 3% in 2020. The main trigger for such a strong rebound will be an improvement in the epidemic situation. Thanks to the anti-crisis measures, the fundamental structure of the economy has been preserved, which enables a fast recovery. Last but not least, in our opinion the fiscal policy will support GDP growth in 2021 even stronger than in 2020.
Prices			
- CPI inflation (%)	3.4	3.1	Inflation will remain close to the upper inflation target band (3.5%). Strong economic recovery shortens the pandemic-related disinflationary period, and, combined with regulatory changes (power levy, trade tax, sugar levy), pushes CPI inflation above 3%.
Monetary aggregates			
- M3 money supply (%)	16.9	7.5	With the rebound of the economic growth, we expect credit demand to increase slowly, fueling a moderate bank lending expansion. Smaller scale of asset purchases will result in a deceleration of money supply growth.
External balance			
- current account balance (% GDP)	3.6	2.9	The balance of payments has become the main strength of Poland's macroeconomic fundamentals. Polish companies are successfully gaining the market share in global trade and Polish exports are breaking new records on a regular basis. Poland has become a net exporter, which is a hugely important structural change, that increases the room for maneuver in both monetary and fiscal policy.
Fiscal policy			
- fiscal balance (% GDP)	-9.2	-3.4	We see no threat to the sustainability of the public finances. In our view Poland, as a competitive economy with high GDP growth potential and moderate inflation, will begin to quickly 'outgrow' the public debt, which has increased due to pandemic.
Monetary policy			
- NBP reference rate (%)	0.10	0.10	Despite high inflation NBP monetary policy will not be exciting. In our baseline scenario we still assume that NBP interest rates will remain unchanged even after 2021, and that the MPC will continue its asset purchases program. Nevertheless, as the economy recovers and relatively high inflation persists, the market might start to expect that monetary policy normalization will start in Poland even before the major central banks will start to tighten their policies.

Source: GUS, NBP, Eurostat, PKO Bank Polski. † under revision.

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