

Cash is king

Top macro theme(s):

- **Cash is king (p. 2):** The ratio of cash to GDP (as well as its share in money supply) has been growing since 2012. The reason might be (1) decreasing velocity of money, (2) cyclical factors related to the economic expansion incl. cyclical character of a shadow economy and (3) migration.

What else caught our eye:

- **Manufacturing PMI in July** returned to above the "neutral" level (up to 52.8 pts.). That said, the print is neutral for the MPC, which concentrates on prospects of pandemic developments in August and beyond. Our weekly economic activity tracker [PKO-GDP-W] shows that after some withdrawal, economic activity inched up in the final week of July (see chart of the week).

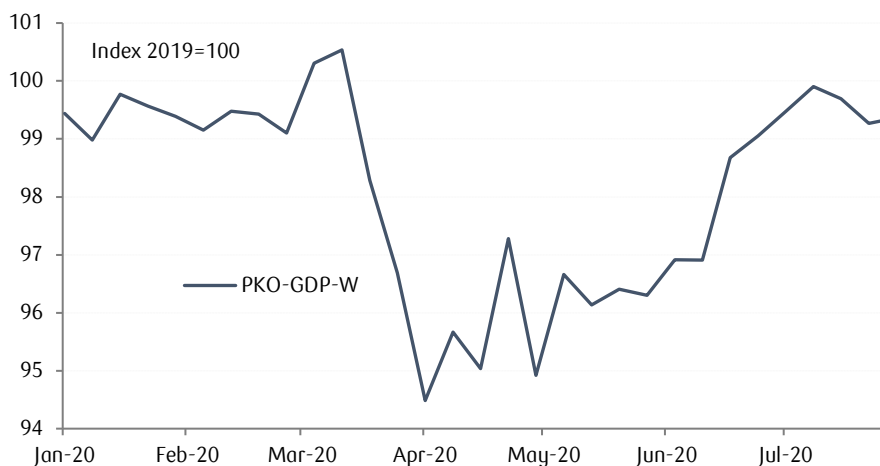
The fortnight ahead:

- **Flash GDP in 2q20** (PKOe: -8.1% y/y) will be an ultimate test for service sector performance in 2q as industry and retailers were traced on a monthly basis (for more details on 2q20 GDP estimate see our PMW "[Good news](#)", 24th July).
- **Flash CPI** for July has already confirmed easing headline inflation (3.1% y/y), but with more underlying price pressure beneath (core inflation: 4.2% y/y on our estimates). PPI inflation likely accelerated in July, reducing yearly growth rate decline (PKOe: -0.2% y/y).
- **C/A balance** should post 10th-in-a-row monthly surplus, reaching 2.3% of GDP on a 12-month rolling basis, with goods exports growth rate coming back to close to zero, as suggested by the strong rebound of export-oriented sectors.
- **Labour market** in July normalized further – we estimate employment dynamics (a measure of a full-time equivalent of employment) at -2.9% y/y (up from -3.3% y/y in June) and slightly weaker wages growth rate than a month ago (2.9% y/y vs 3.6% y/y in June).
- **Real economy** in July will likely show further strengthening, with industry growth rate at +0.7% y/y and real retail sales at +1.9% y/y on our estimates. Construction, lagging behind the cycle, most likely weakened in July (PKOe: -5.1% y/y).

Number of the week:

- **809** – new confirmed cases of covid-19, the highest daily increase on record. That said, the death rate (3,6%) and covid-related hospitalizations (16% of active cases) are still relatively low. The government has reimposed some containment measures in 19 out of 380 counties (limits on restaurants, weddings, public transport, events). Their economic impact should be negligible.

Chart of the week: Weekly economic activity tracker [PKO-GDP-W]



Source: PKO Bank Polski. Based on data available until 29th July.

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	2019	2020†
Real GDP (%)	4.1	-3.9
Industrial output (%)	4.0	-5.8
Unemployment rate# (%)	5.2	8.1
CPI inflation** (%)	2.3	3.3
Core inflation** (%)	1.9	3.2
Money supply M3 (%)	8.3	13.9
C/A balance (% GDP)	0.5	0.8
Fiscal balance (% GDP)*	-0.7	-8.4
Public debt (% GDP)*	46.0	55.2
NBP reference rate# (%)	1.50	0.10
EURPLN#	4.26	4.50

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.

Cash is king

- The ratio of cash to GDP (as well as its share in money supply) has been growing since 2012. The reason might be (1) decreasing velocity of money, (2) cyclical factors related to the economic expansion incl. cyclical character of a shadow economy and (3) migration.
- Covid-19 pandemic has additionally stimulated the demand for cash with precautionary hoarding of liquid assets by households and corporates.

The level of monetisation of the Polish economy has been growing constantly, but the momentum decreased after 2016, mostly due to a weaker credit expansion in the environment of tightened regulatory requirements, as well as low interest rates, both leading to a weaker profitability of the banking sector.

That said, the relation of cash to GDP (as well as its share in the money supply) has been growing since 2012. The reason might be both, a decreasing velocity of money, as well as some cyclical factors related to the economic expansion (transaction demand visible in the high correlation between cash-to-M3 ratio growth and real GDP growth rate, as well as in the cyclical character of grey economy – correlation between cash and construction output).

In Poland the relation of deposits to the overall money supply remains relatively stable, while the structure of deposits is evolving. Low rates limit the propensity to keep term deposits (due to positive liquidity premium). In result term deposits are being crowded out by current deposits.

Polish money supply shows similar trends as in Western Europe, but with a rate of growth being higher due to an ongoing economic convergence. That said, the monetisation remains visibly lower than among Western European peers.

What stands out is a high share of cash in financial assets (especially among households). One reason might be the potentially still relatively high size of the grey economy (as in Italy, Czechia, and Spain, as these countries also stand out in this respect). Another potential driver for cash (visible in Germany and in Italy) is the inflow of migrants. We have analyzed the number of applications for a work permit for a foreigner, the number of foreigners registered in the Social Security Fund, the difference between these two measures (as a proxy for the scale of work performed by legal and illegal migrant workers), and the volume of USD purchases in currency exchange offices (as the demand for the USD is related to the savings of Ukrainian migrants). All these measures confirm that labour migration is a crucial factor explaining the developments in cash in Poland. The next factor behind supporting this thesis may also be the increasing value of (the average) note in circulation, as it is simply easier to hold your savings in banknotes of higher denomination. The impact of grey economy on cash holdings seems to be decreasing, however. Likely it is due to a constantly developing market for financial services to Ukrainians, as well as due to a general trend to withdraw cash from banks in reaction to falling interest rates. Another factor, that is particularly important for the grey economy is the increasing availability of cryptocurrencies. Finally we found that tourism does not play a viable role in the developments of cash holdings in Poland.

The share of cash in total financial assets is relatively low among corporates, which prefer deposits. The latter are also popular among households, with the reason being not a liquidity preference, but rather underdevelopment of the financial market, as well as the low level of households' financial education.

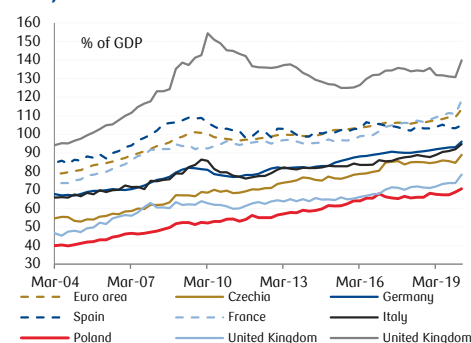
The outbreak of COVID19 pandemic has been another factor stimulating the demand for cash with precautionary hoarding of liquid assets by households

Cash to M3 ratio



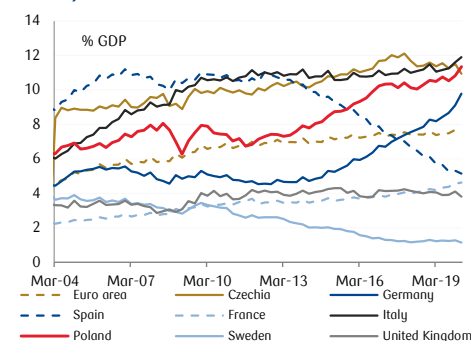
Source: NBP, PKO Bank Polski.

M3/GDP ratio in selected economies



Source: Eurostat, Macrobond, PKO Bank Polski.

Cash/GDP ratio in selected economies



Source: Eurostat, Macrobond, PKO Bank Polski.

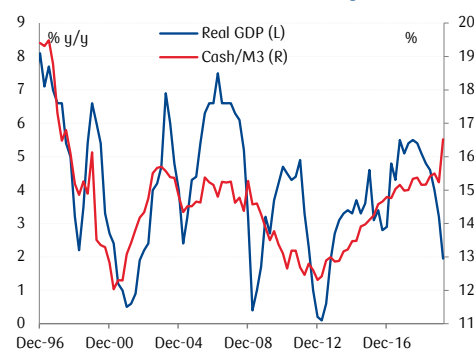
and corporates. On the one hand, it was visible, as the number and volume of cash withdrawals from the ATMs skyrocketed just before the introduction of lockdown restrictions. On the other hand, the volume of cash deposited in branches and agencies is still visibly lower (ca. 40-50%) than at the beginning of March (before pandemic hit Poland).

Furthermore, as interest rates have been cut to almost nil, the trend of rising share of current deposits accelerated, both among households, as well as corporates. The NBP data points out that as in January-February the short-term deposits of households were growing at a pace of app. 16.4% y/y, whereas in case of nonfinancial corporations the rate of growth was slightly higher, at app. 19.0% y/y. The respective dynamics for June accelerated to 27.0% y/y and 54.1% y/y. At the same time term deposits growth decelerated to -17.5% y/y from -5.0% y/y in case of households and by -23.0% y/y from 0.7% y/y in case of corporations. The reasons behind these tendencies may be: 1) a precautionary hoarding of liquid assets, as the pandemics introduced uncertainty to financial planning, 2) a lower term-premium related to plunging interest rates and flattening yield curve, 3) an unprecedented (in its scale) provision of liquidity to the real economy by state controlled institutions (anti-crisis shields), 4) a likely increase in the size of the grey economy (fiscal aid was linked to corporate revenues, which for some companies might be an incentive to hide them), and 5) working time restrictions in bank branches and agencies, as well as lower mobility of Poles (out of fear of contagion).

As the end of the pandemic might limit the precautionary motive of cash hoarding (especially with a rising preference for contactless payments, incl. card payments), whereas economic recovery will make the fiscal shields less needed (thus reducing the liquidity creation by state controlled authorities), we perceive the ultra-low interest rate level as the main motive prohibiting economic agents from keeping their funds in less liquid bank products. That said, we expect current deposits share in total to increase further, with lower volume of cash deposited in branches and agencies. The ATM withdrawals will likely remain stable, unless the banks' quest for non-interest income will force them to increase fees, thus discouraging people from using these facilities.

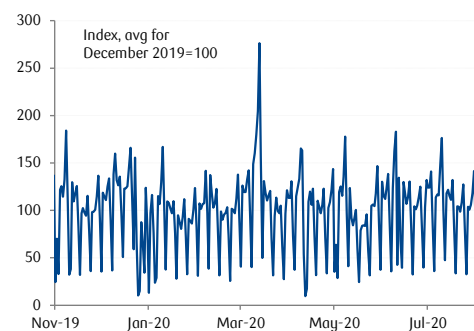
As far as future trends are concerned, we expect the role of cash (its share in M3 money supply) to weaken (due to reduced inflow of foreign migrant workers, as well as somewhat limited GDP growth), but not as fast as in the previous periods of slowdowns, due to the low interest rates environment. A crucial factor in any forecast is the development of the COVID-19 pandemic that, even as it finally get contained, will likely change the habits (incl. those related to savings) of people, with a probable push towards assets with higher liquidity.

Cash/M3 ratio vs. real GDP growth



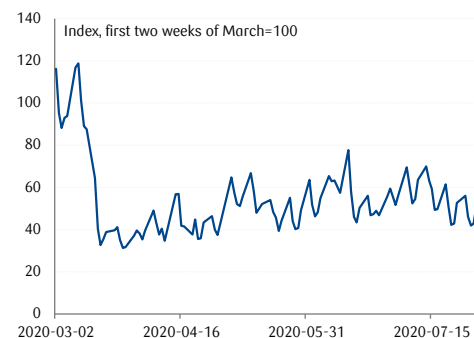
Source: GUS, NBP, PKO Bank Polski.

Daily cash withdrawals from PKO BP's ATMs



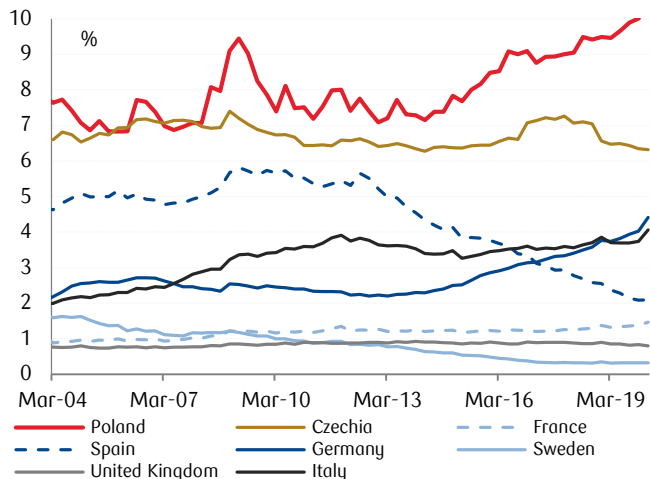
Source: PKO Bank Polski.

Daily cash deposits in PKO BP's branches and agencies

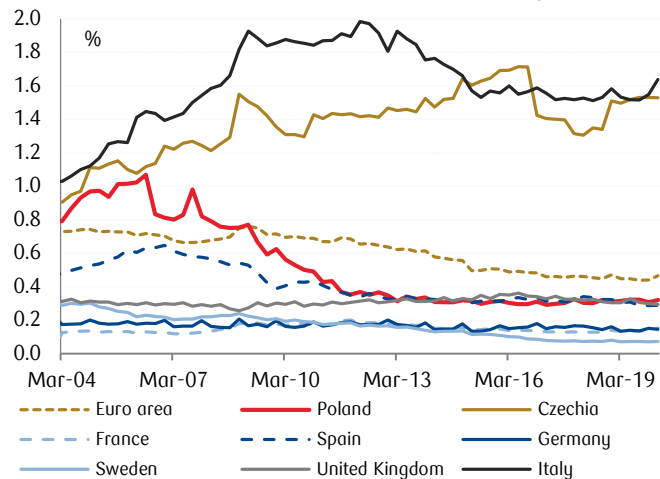


Source: PKO Bank Polski.

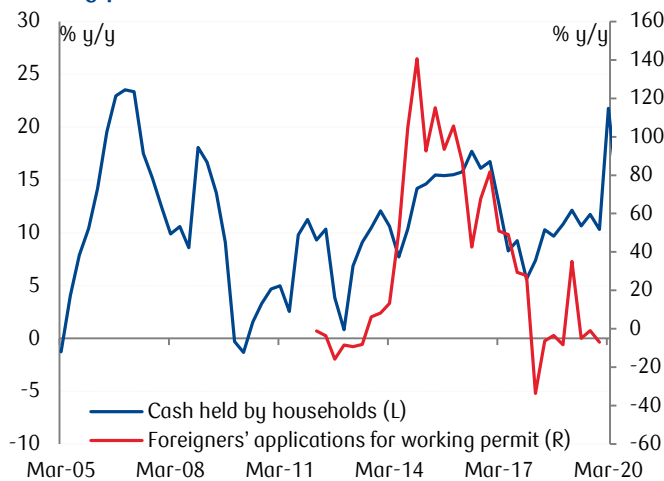
Cash/financial assets ratio (households)



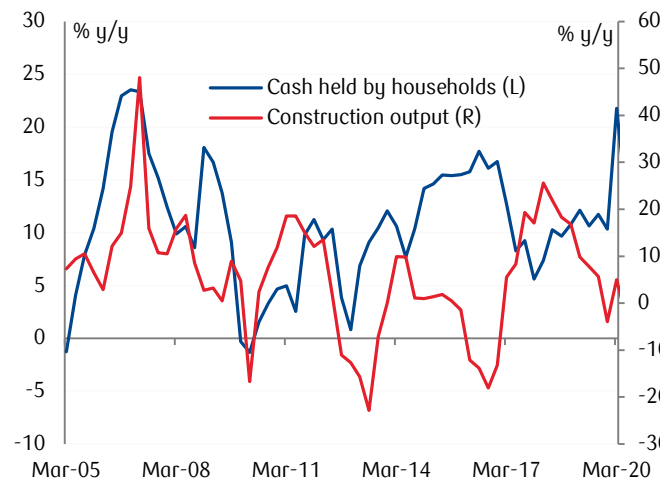
Cash/financial assets ratio (nonfinancial corporations)



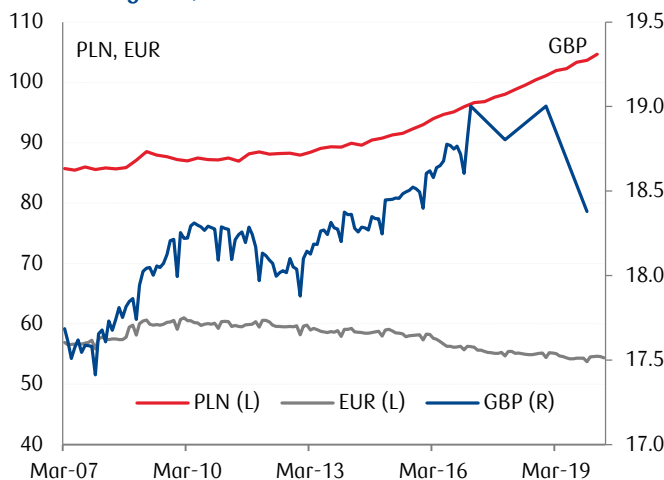
Cash held by households vs. foreigners' applications for working permit



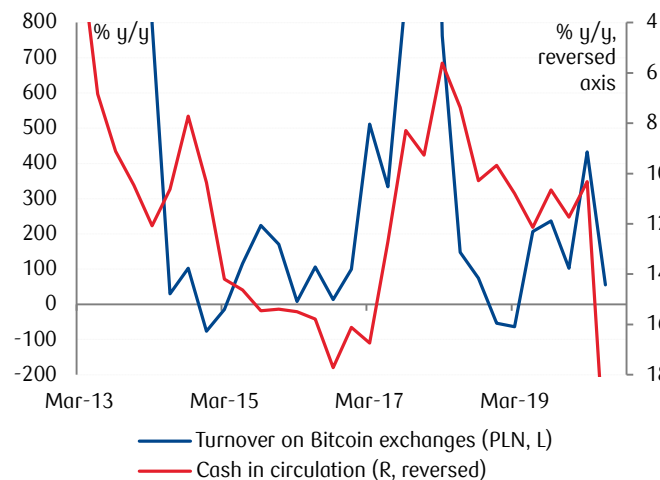
Cash held by households vs. construction output



Average value of a banknote in circulation in Poland, United Kingdom, and Eurozone

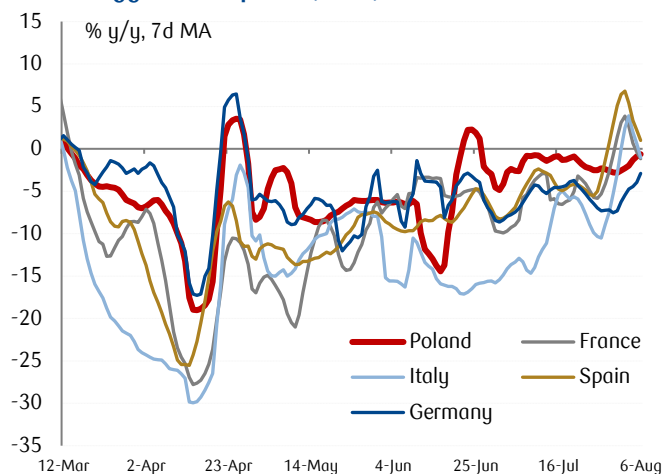


Quarterly volume on Polish Bitcoin exchanges* vs. cash

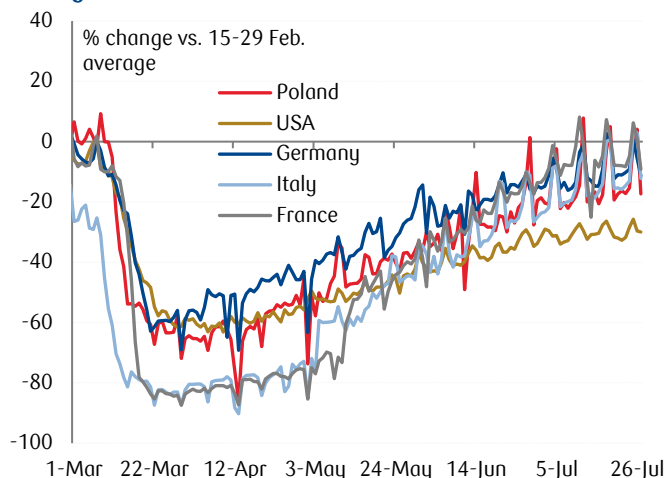


Macro monitoring with alternative data[^]

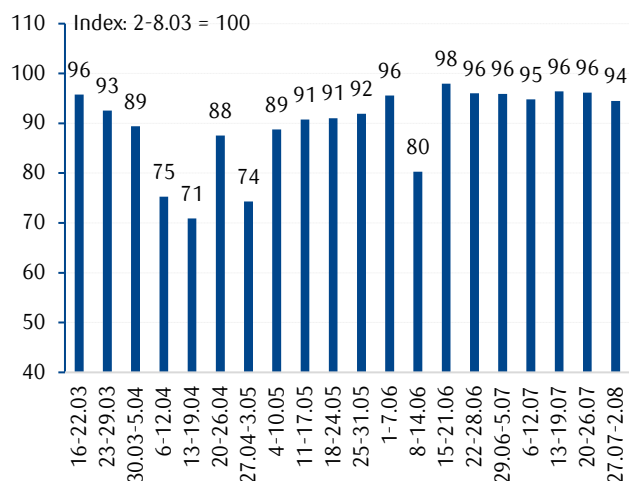
Electric energy consumption (total)



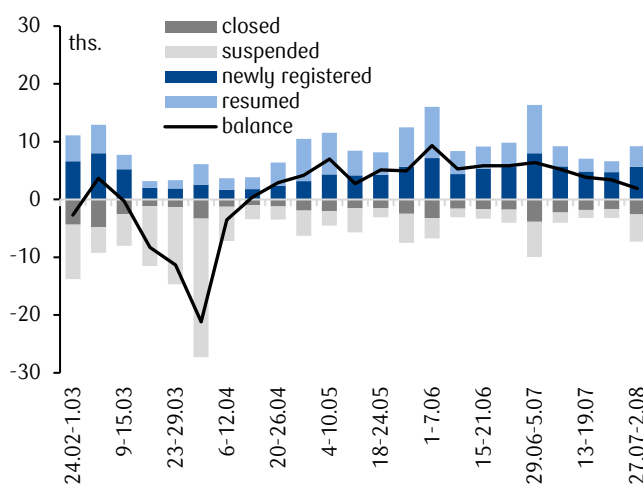
Mobility*



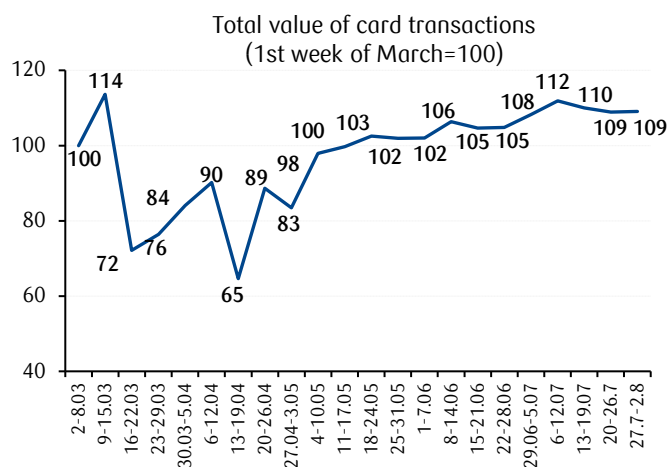
Heavy truck traffic



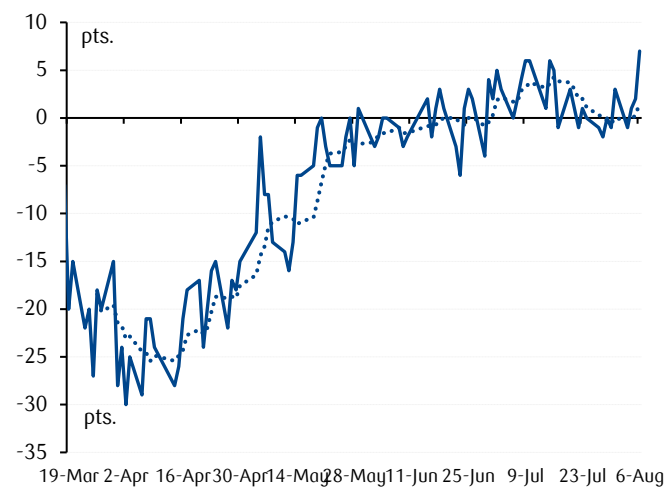
Economic activity status (acc. to CEiDG**)



Consumption based on PKO BP card payments



Daily consumer confidence survey (and 7D MA)



Source: PSE, Apple, Google, GDDKiA, CEiDG, Kantar, PKO Bank Polski, *weighted with market share of iOS and Android, ** Central Registration and Information on Business.

Fortnight's economic calendar

Indicator	Time (UK)	Unit	Previous	Consensus*	PKO BP	Comment
Monday, 10 August						
USA: JOLTS Job Openings (Jun)	15:00	thous.	5397	--	--	--
Tuesday, 11 August						
HUN: CPI inflation (Jul)	8:00	% y/y	2.9	--	--	--
GER: ZEW index (Aug)	10:00	pts.	59.3	--	--	--
Wednesday, 12 August						
EUR: Industrial output (Jun)	10:00	% y/y	-20.9	--	--	--
USA: CPI inflation / Core inflation (Jul)	13:30	% y/y	0.6 / 1.2	0.7 / 1.1	--/--	--/--
Thursday, 13 August						
GER: CPI inflation (Jul, fin.)	7:00	% y/y	0.9	-0.1	--	--
CZE: CPI inflation (Jul)	8:00	% y/y	3.3	--	--	--
POL: C/A balance (Jun)	13:00	EUR mn	2455	1599	2625	C/A surplus develops 10th month in a row with strong rebound in exports and soft imports.
POL: Exports / Imports (Jun)	13:00	% y/y	-19.8 / -27.2	-4.1 / -7.6	-0.7 / -7.7	
Friday, 14 August						
POL: GDP (2q, flash)	9:00	% y/y	2.0	-8.4	-8.1	An ultimate test of the robustness of service sector (as industry and retail can be followed on a monthly basis). Headline inflation gradually declines reflecting softer food and fuel prices.
POL: CPI inflation (Jul, fin.)	9:00	% y/y	3.3	3.1	3.1	
EUR: GDP (2q, flash)	10:00	% y/y	-3.1	-15.0	--	--
USA: Retail sales (Jul)	13:30	% m/m	7.5	1.6	--	--
USA: Industrial output (Jul)	14:15	% m/m	5.4	3.0	--	--
USA: Uni.Mich. sentiment (Aug, flash)	15:00	pts.	72.5	71.0	--	--
Monday, 17 August						
POL: Core inflation (Jul)	13:00	% y/y	4.1	4.3	4.2	Underlying price pressure still elevated amid rising cost of sanitary regime.
Tuesday, 18 August						
USA: Housing starts (Jul)	13:30	thous.	1186	1240	--	--
Wednesday, 19 August						
POL: Corporate employment (Jul)	9:00	% y/y	-3.3	-3.1	-2.9	Labour market continued normalization, with more full-time employment and less downtime payments.
POL: Corporate wages (Jul)	9:00	% y/y	3.6	2.7	2.9	
EUR: HICP inflation (Jul, fin.)	10:00	% y/y	0.3	0.4	--	--
USA: FOMC minutes	19:00	--	--	--	--	--
Thursday, 20 August						
POL: Industrial output (Jul)	9:00	% y/y	0.5	-2.1	0.7	Industry continued catching up with pre-covid output levels. Downside producer price pressure diminished.
POL: PPI inflation (Jul)	9:00	% y/y	-0.8	-0.7	-0.2	
EUR: EBC minutes	12:30	--	--	--	--	--
USA: Initial jobless claims	13:30	thous.	--	--	--	--
Friday, 20 August						
GER: Manufacturing PMI (Aug, flash)	8:30	pts.	51.0	--	--	--
EUR: Manufacturing PMI (Aug, flash)	9:00	pts.	51.8	--	--	--
POL: Construction output (Jul)	9:00	% y/y	-2.4	-4.2	-5.1	Construction lags the cycle reflecting weaker investment demand. PKO clients' card payments signal a return of retail sales to growth.
POL: Real retail sales (Jul)	9:00	% y/y	-1.3	-0.6	1.9	
USA: Manufacturing PMI (Aug, flash)	14:45	pts.	50.9	--	--	--

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

Selected economic indicators and forecasts

	May-20	Jun-20	Jul-20	1q20	2q20	3q20	4q20	2019	2020	2021
Economic activity										
Real GDP (% y/y)	x	x	x	2.0	-8.1	-5.6	-3.5	4.1	-3.9	4.1
Domestic demand (% y/y)	x	x	x	1.7	-6.3	-4.7	-4.0	3.0	-3.4	1.9
Private consumption (% y/y)	x	x	x	1.2	-14.5	1.8	-3.5	3.9	-3.7	4.1
Gross fixed capital formation (% y/y)	x	x	x	0.9	-12.8	-19.7	-11.6	7.2	-11.7	0.3
Inventories (pp)	x	x	x	0.0	4.2	-2.2	0.7	-1.4	0.6	-1.1
Net exports (pp)	x	x	x	0.4	-2.1	-1.1	0.3	1.2	-0.6	2.3
Industrial output (% y/y)	-16.9	0.5	0.7	0.9	-13.6	-4.5	-5.5	4.0	-5.8	6.8
Construction output (% y/y)	-5.1	-2.4	-5.1	5.0	-2.8	x	x	3.6	x	x
Retail sales (real, % y/y)	-7.7	-1.3	1.9	0.8	-10.7	x	x	5.4	x	x
Nominal GDP (PLN bn)	x	x	x	552.2	515.9	546.6	627.2	2273	2241	2375
Labour market										
Registered unemployment rate‡(%)	6.0	6.1	6.1	5.4	6.1	8.2	8.1	5.2	8.1	7.5
Employment in enterprises (% y/y)	-3.2	-3.3	-2.9	0.8	-2.0	-2.7	-2.4	2.7	-1.7	-1.3
Wages in enterprises (% y/y)	1.2	3.6	2.9	7.0	2.1	0.7	1.1	6.6	2.7	3.5
Prices^										
CPI inflation (% y/y)	2.9	3.3	3.1	4.5	3.2	2.5	2.5	2.3	3.3	1.8
Core inflation (% y/y)	3.8	4.1	4.2	3.4	3.8	3.1	2.6	1.9	3.2	1.5
15% trimmed mean (% y/y)	3.4	3.5	x	3.4	3.4	x	x	2.0	x	x
PPI inflation (% y/y)	-1.7	-0.8	-0.2	0.2	-1.3	-0.2	0.5	1.2	-0.1	-0.1
Monetary aggregates‡										
Money supply, M3 (PLN bn)	1717.9	1746.2	1769.7	1624.9	1746.2	1713.2	1778.9	1565.6	1783.5	1912.3
Money supply, M3 (% y/y)	16.0	18.1	18.7	11.8	18.1	13.7	13.9	8.3	13.9	7.5
Real money supply, M3 (% y/y)	13.1	14.8	15.6	7.2	14.8	11.2	11.4	4.9	11.4	5.8
Loans, total (PLN bn)	1345.9	1341.1	x	1366.6	1341.1	1373.4	1376.5	1323.7	1376.5	1412.6
Loans, total (% y/y)	4.2	3.1	x	6.5	3.1	3.2	4.0	5.1	4.0	2.6
Deposits, total (PLN bn)	1598.3	1618.7	x	1485.1	1618.7	1609.4	1598.3	1406.6	1598.3	1669.8
Deposits, total (% y/y)	17.3	19.5	x	11.2	19.5	14.5	13.6	8.2	13.6	4.5
Balance of payments										
Current account balance (% GDP)	1.8	2.3	2.2	1.3	2.3	1.0	0.8	0.4	0.8	0.7
Trade balance (%GDP)	0.9	1.2	1.1	0.6	1.2	-0.2	-0.3	0.5	-0.3	-0.2
FDI (% GDP)	1.5	1.9	1.7	1.3	1.9	0.8	1.2	2.2	1.2	1.8
Fiscal policy										
Fiscal balance (% GDP)	x	x	x	x	x	x	x	-0.7	-8.4	-2.5
Public debt (% GDP)	x	x	x	x	x	x	x	46.0	55.2	54.6
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* (%)	0.28	0.26	0.23	1.17	0.26	0.30	0.30	1.71	0.30	0.30
Real WIBOR 3M* (%)#	-2.62	-3.04	-2.87	-3.43	-3.04	-2.40	-2.40	-1.69	-3.10	-1.60
Exchange rates*‡										
EUR-PLN	4.45	4.46	4.41	4.55	4.46	4.43	4.50	4.26	4.50	4.40
USD-PLN	4.01	3.98	3.73	4.15	3.98	3.88	4.02	3.80	4.02	3.86
CHF-PLN	4.17	4.18	4.10	4.30	4.18	4.14	4.23	3.92	4.23	4.07
EUR-USD	1.11	1.12	1.18	1.11	1.12	1.14	1.12	1.12	1.12	1.14

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	"Interest rate cuts have gone too far (...) The MPC should consider gradual start of monetary policy normalization next year" (22.07.2020, Bloomberg)
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	"(...) interest rates should remain at the current level and if the worst-case scenario doesn't unfold they may stay there longer (...) Negative rates are undesirable, but if it turns out that we have no other instruments all options will be on the table. The likelihood of that scenario currently looks "very low." (01.06.2020, 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	"In 2021, it will be necessary to consider an interest rate increase, if not at the beginning then certainly in the middle of the year (...) Rates should gradually start to rise to the level of 1.50%, which served the Polish economy well for several years." (31.07.2020, PAP).
R. Sura	2.2	"Given the toolbox we have utilized over the past three months, I believe that we should monitor the impact of these tools on the economy closely for the coming quarter and observe the external conditions and only after this period should we make any eventual adjustments as necessary (...)" (02.06.2020, PAP).
A. Glapinski	1.9	„Polish Central Bank has room for more easing if needed (31.07.2020, Dziennik Gazeta Prawna daily)
J. Zyzynski	1.9	„Interest rates are very close to zero, it would be hard to cut them even further, it would not be very effective. I do not support cutting rates to the bare zero, although obviously such an option theoretically cannot be ruled out, but it is better to keep that slight margin of potential cuts for the future. I would personally prefer for monetary policy to have buffers in case circumstances appear that require an additional impulse in the form of cutting the interest rate to zero." (24.07.2020, PAP)
E. Lon	1.0	„We may say that caring for the situation in foreign trade is a durable strategic element of the Polish monetary policy (...) Keeping interest rates at a low level has prevention of zloty becoming too strong as one of its goals" (21.07.2020, Refinitiv, radiomaryja.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

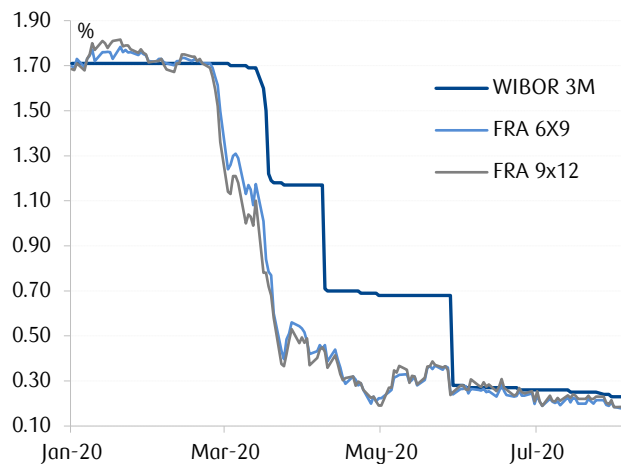
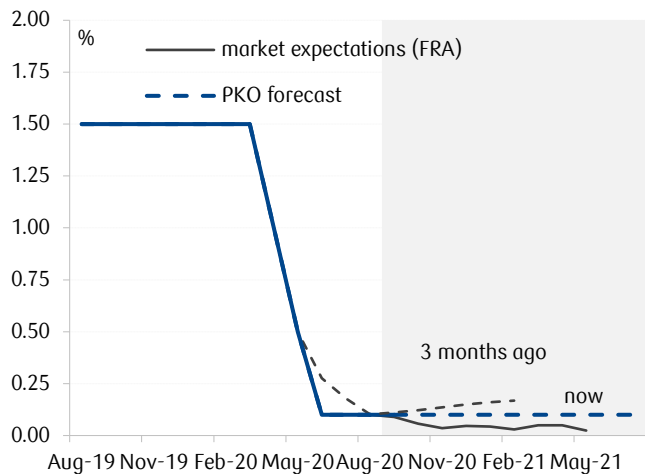
		1M	2M	3M	4M	5M	6M	7M	8M	9M
Date	6-Aug	6-Sep	6-Oct	6-Nov	6-Dec	6-Jan	6-Feb	6-Mar	6-Apr	6-May
WIBOR 3M/FRA†	0.23	0.22	0.19	0.17	0.18	0.17	0.16	0.18	0.18	0.15
implied change (b. p.)		-0.01	-0.04	-0.07	-0.05	-0.06	-0.07	-0.05	-0.05	-0.08
MPC Meeting	-	9-Sep	7-Oct	4-Nov	2-Dec	-	-	-	-	-
PKO BP forecast*	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
market pricing*		0.09	0.06	0.04	0.05	0.04	0.03	0.05	0.05	0.02

†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

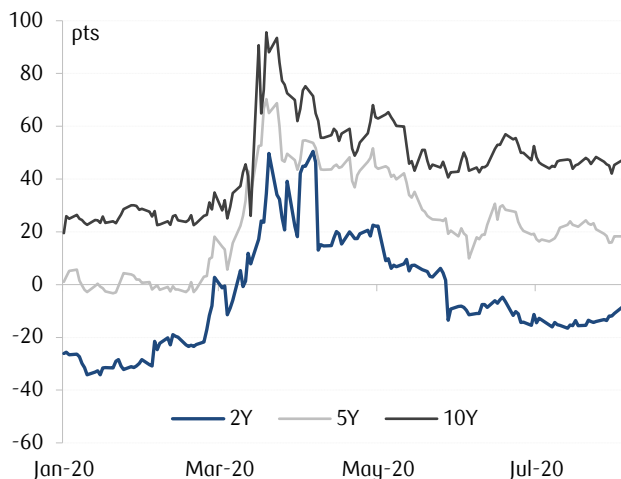
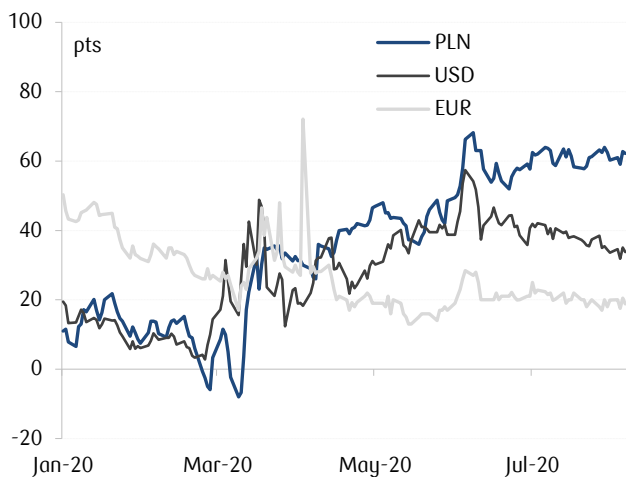
NBP policy rate: PKO BP forecast vs. market expectations

Short-term PLN interest rates



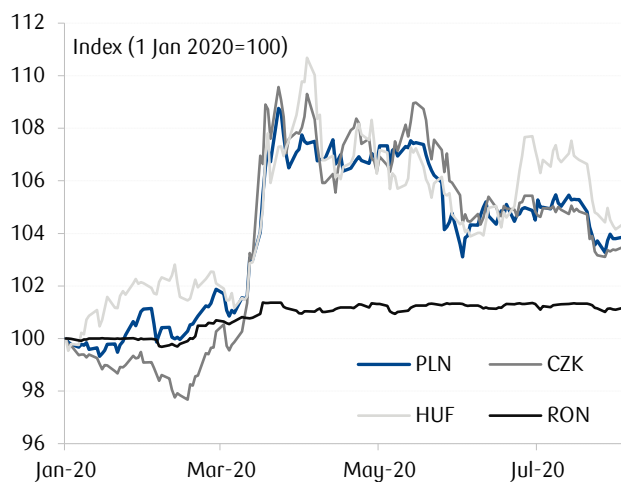
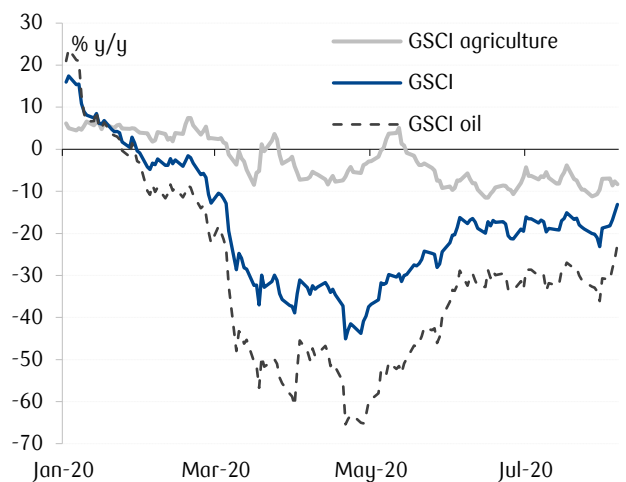
Slope of the swap curve (spread 10Y-2Y)*

PLN asset swap spread



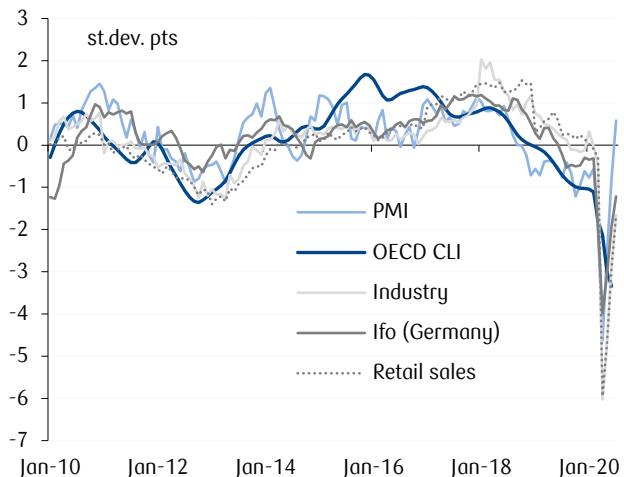
Global commodity prices (in PLN)

Selected CEE exchange rates against the EUR

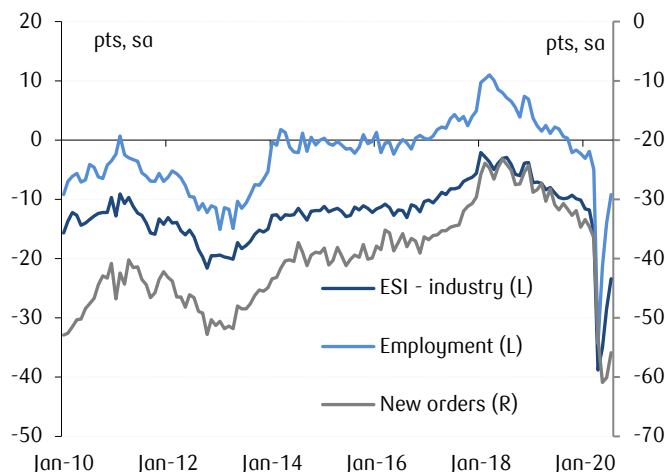


Source: Datastream, NBP, PKO Bank Polski. *for PLN, and EUR 6M, for USD 3M.

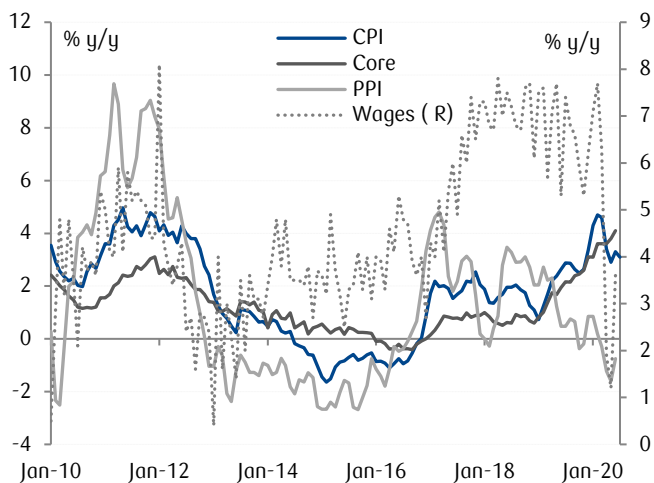
Economic sentiment indicators



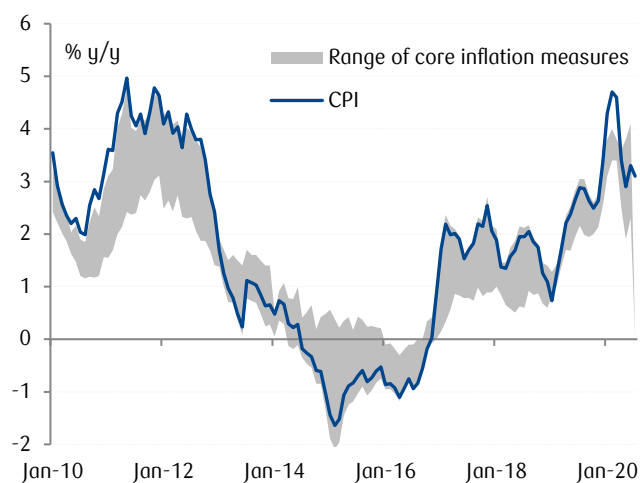
Poland ESI for industry and its components



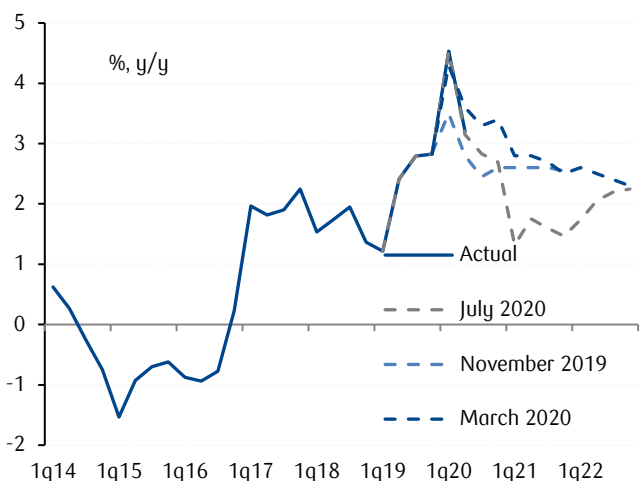
Broad inflation measures



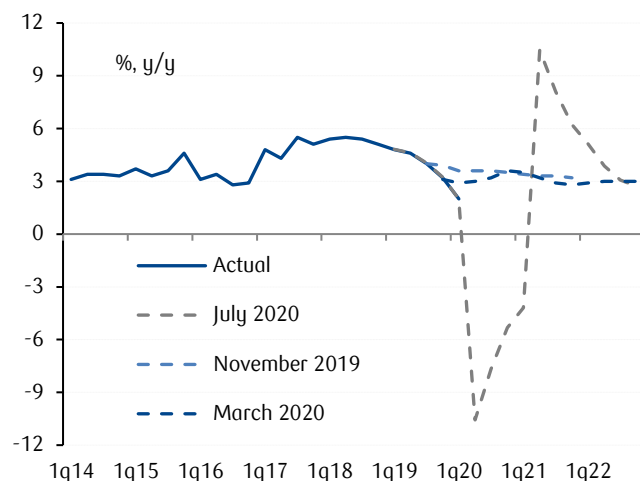
CPI and core inflation measures



CPI inflation - NBP projections vs. actual

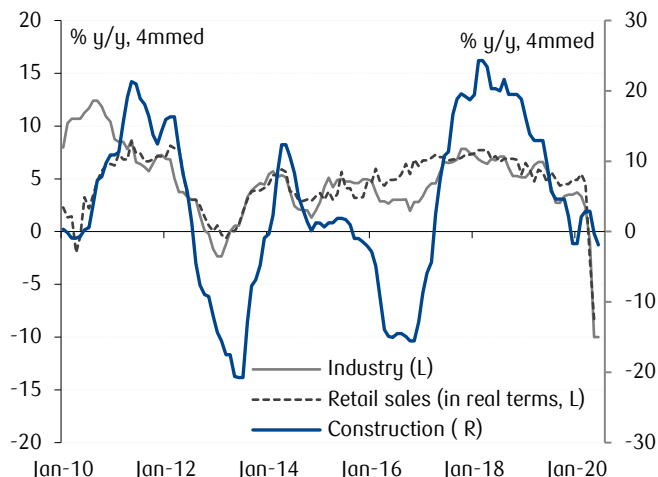


Real GDP growth - NBP projections vs. actual

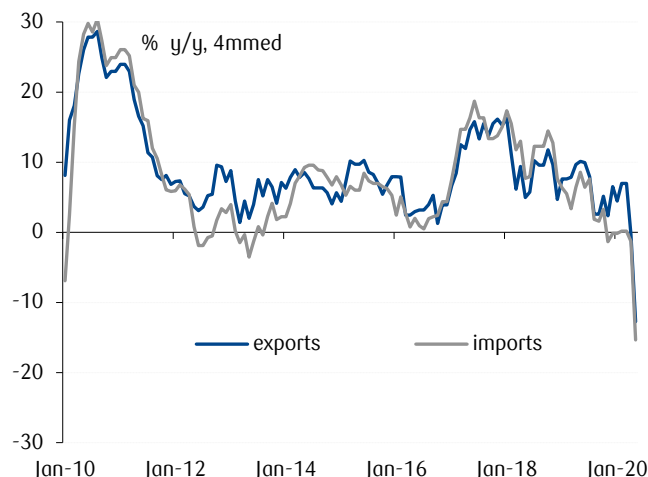


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

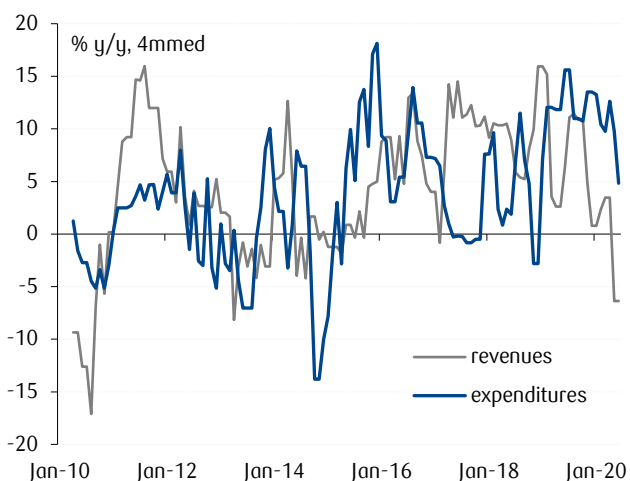
Economic activity indicators



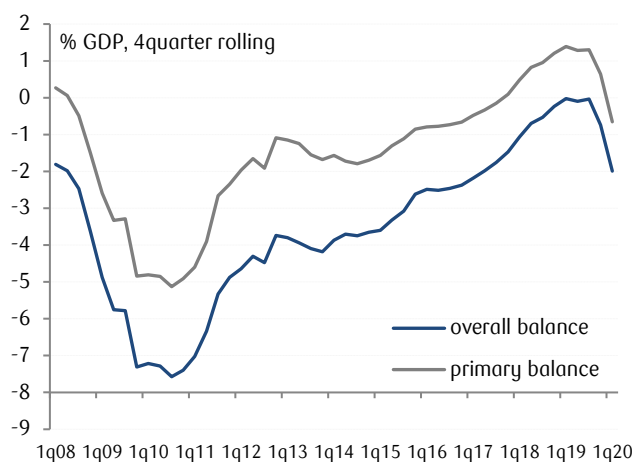
Merchandise trade (in EUR terms)



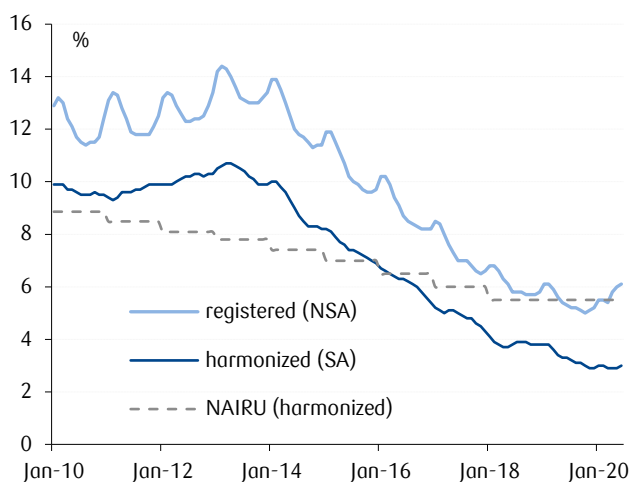
Central government revenues and expenditures*



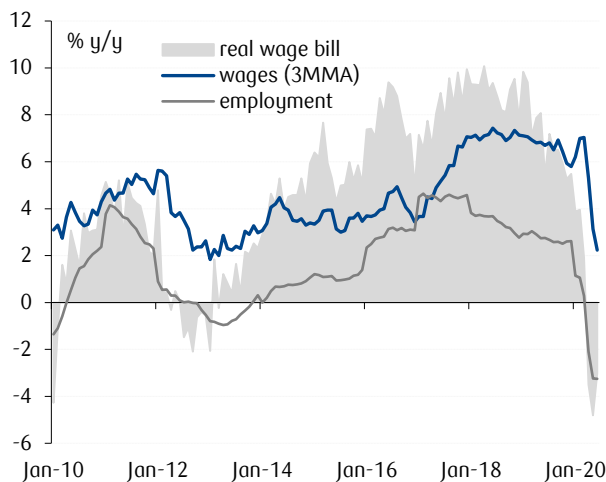
General government balance (ESA2010)



Unemployment rate

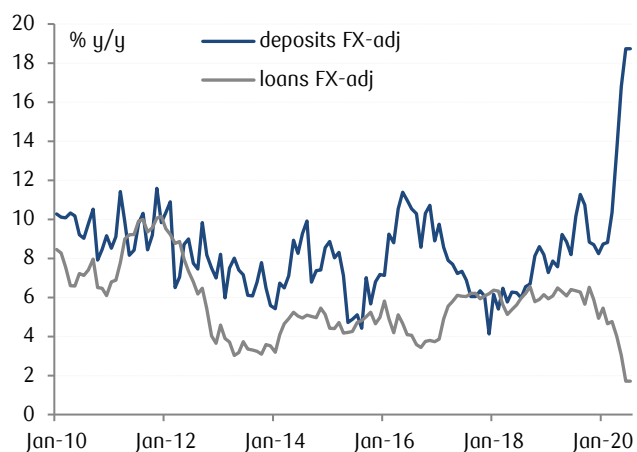


Employment and wages in the enterprise sector

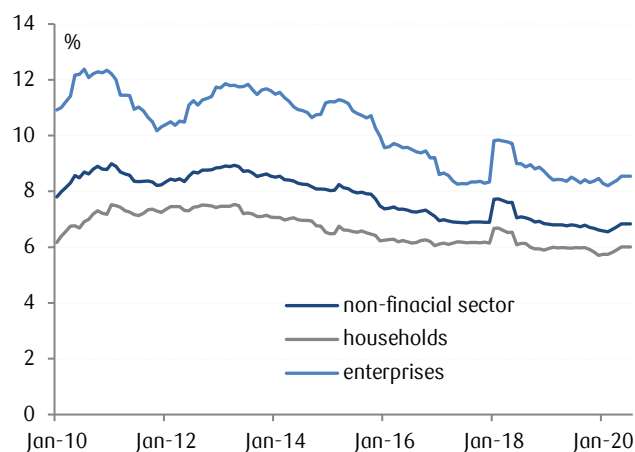


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. *break in series in 2010 due to methodological changes.

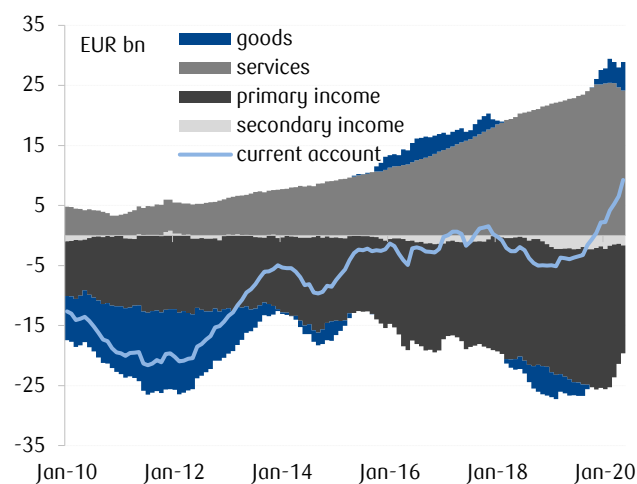
Loans and deposits



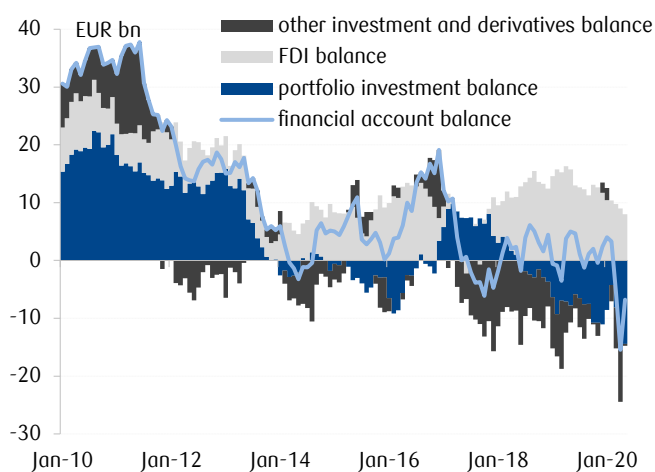
Non-performing loans (NPLs) - by sectors*



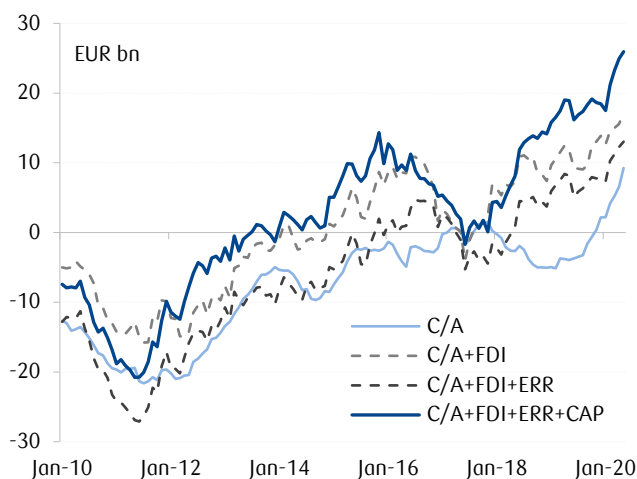
Current account balance



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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- [Good news](#) (Jul 24, 2020)
- [NBP speaks!](#) (Jul 17, 2020)
- [Presidential runoff](#) (Jul 10, 2020)
- [Consumer prices warm up, housing prices cool down](#) (Jul 3, 2020)
- [Gradual recovery amid polling season](#) (Jun 26, 2020)
- [The worst is over](#) (Jun 19, 2020)
- [EU Recovery Plan: what's in store for Poland?](#) (Jun 5, 2020)
- [Lower bound reached](#) (May 29, 2020)
- [Lockdown recession](#) (May 22, 2020)
- [Not all that glitters is gold](#) (May 15, 2020)
- [27 shades of red](#) (May 8, 2020)
- [28 years and gone](#) (Apr 24, 2020)
- [A postcard from a lost world](#) (Apr 17, 2020)
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- [Pandemonics](#) (Mar 13, 2020)
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- [The end of carnival - forecast update](#) (Feb 28, 2020)
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- [Growth moderation](#) (Oct 25, 2019)
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- [No reason to hike rates \(or to cut them either\)](#) (Oct 4, 2019)

Poland's macro in a nutshell

	2019	2020	Comment
Real economy			
- real GDP (%)	4.1	-3.9	Despite heavy restrictions introduced in the middle of March, which have pushed many companies to reduce or suspend their production/activity the economy was still growing in 1q20, mainly thanks to its surprisingly strong performance in January and February. Strong policy response, short lock-down and quick unlocking of economic activity, diversity and favourable structure of the economy as well as high competitiveness suggest recession in Poland will be less severe than elsewhere in the EU.
Prices			
- CPI inflation (%)	2.3	3.3	The slump in consumption and rapid move from positive to negative output gap should drive core inflation down. A delay in implementation of some regulations (e.g. sugar or retail sales tax) will be supportive for disinflation in 2020. At the same time, a number of factors will limit the downward inflation trend, including stricter sanitary requirements (doctors, dentists, cosmetics, hairdressers) and potential hikes of transport prices (e.g. the only way for aircraft to stay profitable flying at 50% capacity is to increase ticket prices) and tourism (due to spike in demand for domestic holidays).
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	0.8	A clear reduction of primary income deficit (lower FDI profits and remittances of Ukrainians) should cushion deteriorated trade balance (both in goods and services). Thus, CA surplus will 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	-8.4	The cost of the fiscal anti-crisis shield and fiscal revenues loss caused by the recession will significantly widen the fiscal deficit (to 8.4% of GDP acc. to the Convergence Program). 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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