

How deep is the second dip?

Top macro theme(s):

- **The second wave signals setbacks? (p. 2):** Sharply rising number of infections over the past few weeks calls into question the – so far relatively fast – path to a full recovery from the pandemic induced economic shock. We believe that unless the pandemic drastically deepens and the lockdown is as hard as in the spring, the scale of the economic slump will be much smaller than in spring. The impact of the second wave on the sentiment of consumers and companies remains the key uncertainty factor. Restrictions in social activity have also been introduced in other EU countries, which means that the balance of risks for our GDP forecast has become skewed to the downside.

What else caught our eye:

- **CPI inflation in September has been confirmed at 3.2% y/y** (vs. 2.9% in August). **Core inflation bounced back to 4.3%** from 4.0%, due to a one-off (radio/TV subscription fee, telco services), administrative (waste collection), and COVID19 related factors (healthcare, hairdresser services).
- **Current account recorded 12th straight monthly surplus**, despite rebound in foreign trade halted. On a 12-month basis C/A surplus increased to 3.0% of GDP for the first time since the mid-90s.
- **The government introduced new measures to fight the pandemic with 152 districts (vs. 38 last week) being labeled as ‘red’ zones, incl. 11 big cities (incl. Warsaw).** The restrictions concern: the activity of gastronomy, max. number of guests at special events (eg. weddings), public transport capacity, activities in gyms and swimming pools, capacity in churches, hybrid / remote model of work at universities and secondary schools, as well as limited number of customers in stores and limited size of gatherings.

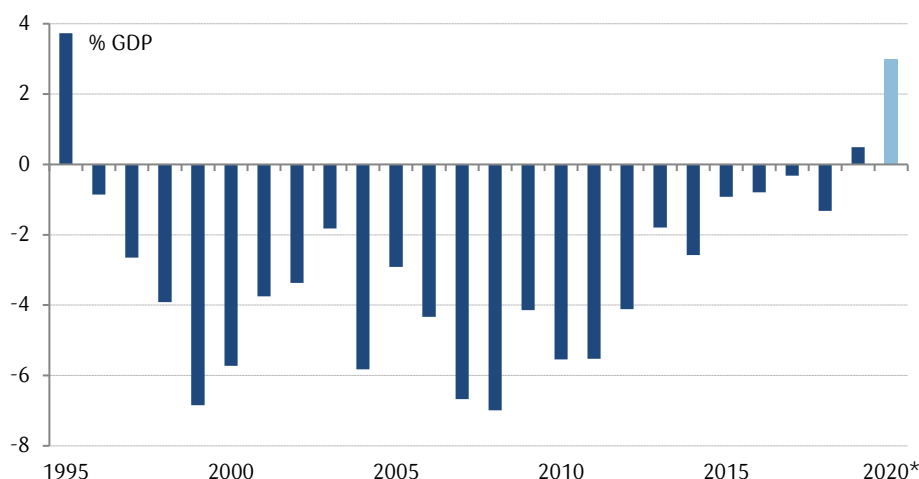
The week ahead:

- **Although the coming week will be full of macro data releases, the market sentiment will be driven by news on the development of the Covid19 pandemic.** With the new cases count close to 8k daily, hospitalizations increasing on a 7% daily pace, and use of respirators rising by app. 8% every day, the most important question is about the capacity of Polish healthcare.
- **Macro data for September will show further normalization of business activity, with a significant exception of retail sales, where the turnover might have fallen due to a somewhat lower mobility in late September, when the second wave of the pandemic started to emerge (for details see p. 6).**

Number of the week:

- **-0.001%** - the yield on Poland’s 2Y PLN government bonds today, below zero for the first time ever.

Chart of the week: Current account annual balance



Source: GUS, NBP, PKO Bank Polski. * Sep 2019-Aug 2020.

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

Michał Rot

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

	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	-11.1
Public debt (% GDP)*	46.0	62.3
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.

The second wave signals setbacks?

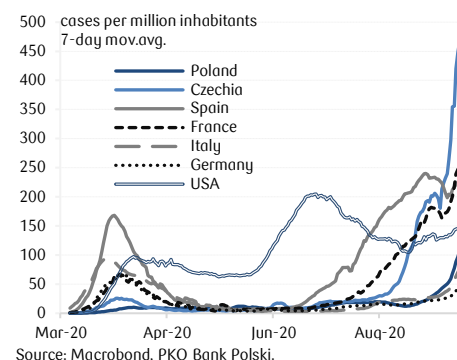
- Rising number of coronavirus infections over the past few weeks calls into question the – so far relatively fast – path to a full recovery from the pandemic induced bottom.
- The cases in Israel and Victoria (Australia) show that renewed restrictions have less impact on economic activity than the initial lockdowns, suggesting that the vulnerability of economies related to the exacerbation of the pandemic and the related restrictions has decreased.
- We believe that unless the pandemic drastically deepens and the lockdown is as hard as in the spring, the scale of the economic slump will be much smaller than in March-April.
- The impact of the second wave on the sentiment of consumers and companies remains the key uncertainty factor. Restrictions in social activity have also been introduced in other EU countries, which means that the balance of risks for our GDP forecast has become skewed to the downside again.

Rising number of coronavirus infections over the past few weeks calls into question the – so far relatively fast – path to a full recovery from the pandemic induced bottom. Due to the epidemic situation, the Polish government have reintroduced some restrictions aimed at limiting the number of new infections (including mandatory covering of the mouth and nose in public spaces, introduction of hours for seniors in shops, restrictions for socially intensive services in yellow and red zones incl. restaurants and bars, public transport, wedding parties, religious ceremonies, swimming pools, sporting events). In our opinion, the restrictions in their current shape have a marginal direct impact on the level of economic activity on aggregate. At the same time, the uncertainty of the epidemic situation suggests that some of them will be tightened even further, e.g. towards solutions imposed in countries with a greater number of infections and deaths (including Czechia). We believe that the strength of the national economy's response to the second wave of infections will depend on three factors: (1) global pandemic developments, including Europe, that will determine the functioning of global supply chains and the strength of foreign demand; (2) impact on the mood and behavior of consumers and companies; (3) the degree of direct repressiveness of the restrictions (e.g. do they take the form of lockdowns with administrative “freezing” of activity?).

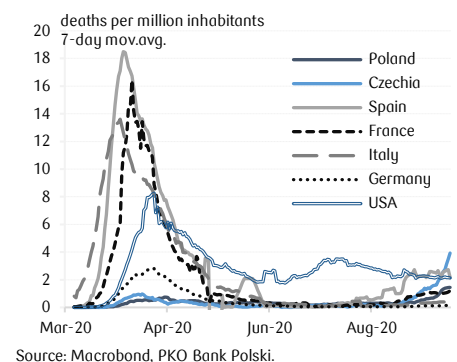
Foreign demand is currently one of the main drivers for the recovery of the domestic economy. It is noteworthy that the second wave of the pandemic and related restrictions are being introduced in a different international setting than in early spring. China, which was then the epicenter of infections, is now successfully controlling the disease and has allowed the economy to open up. The world is therefore not threatened by the negative effects of supply chain disruptions from China, and the recovering Chinese demand is even the engine driving the recovery. High-frequency indicators (including truck traffic in Germany, see chart) suggest that the rebound in domestic exports has so far been smooth. The behavior of governments in the EU countries, which are returning to restrictions introduced in spring, seems to be of key importance for the prospects of Polish exports. At the current stage, however, closed borders have been ruled out (especially for trade in goods), and thanks to the implemented mechanisms that stabilized European labor markets, households' sentiment (important for Poland's consumer goods exports) did not collapse.

The outbreak of the pandemic in March led to a collapse in consumer sentiment. Currently, household sentiment surveys indicate that the scale of the reaction is smaller. According to Kantar (Polish pollster), household concerns about the

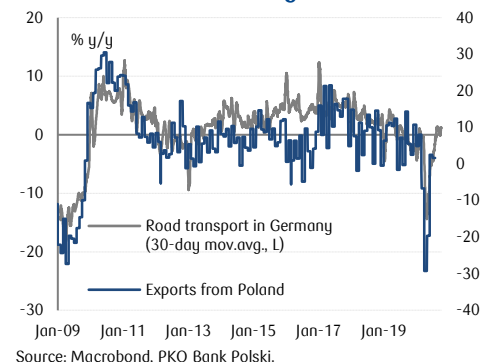
Covid-19 - confirmed new cases



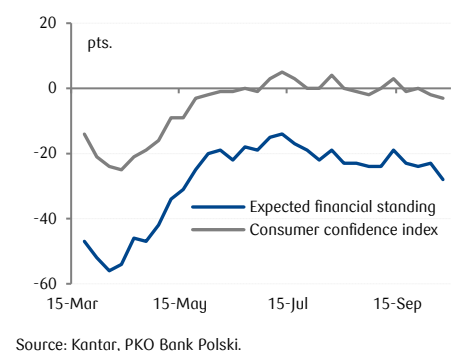
Covid-19 related deaths



Road traffic in Germany



Weekly consumer sentiment survey



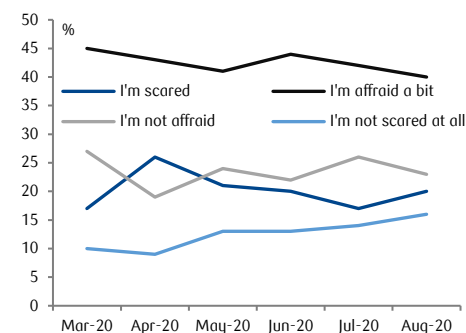
future have increased, but they are still significantly lower than in March / April while the assessment of the current situation has even improved. The scale of the response may be mitigated by positive experiences from spring (no collapse on the labor market due to protective measures), or the high percentage of respondents who neglected the health risks associated with the pandemic, as indicated in various surveys (see margin chart).

The analysis of transactions made with PKO Bank Polski cards shows a slight increase in the average value of transactions, which may signal preventive purchases. This manifests itself much more strongly in the sample data for one of the "red" counties (see chart pack and margin charts, page 4) than in the aggregated national data. As a result, the data may herald a pattern of a short-lived spending spree and weaker consumption thereafter, the same as in March / April. The data for individual expenditure categories show more than just a seasonal decline in expenditure for tourism, restaurants and entertainment, and a weaker than usual recovery in education expenditures. Mobility data also show a moderate decrease in the number of "visits" to retail and recreational outlets. The direct impact of lower "footfall" on retail revenues may now be lower than in spring thanks to the online sales capacity extended during the first lockdown. The scale of changes in consumer behavior visible in the current data suggests a flattening and not a reversal in the trend of consumption rebuilding. However, this does not change the fact that **even in the absence of restrictions, a further strong increase in the number of infections will worsen its prospects and increase negative risks for the economy.**

The red pandemic zones (areas with the highest degree of restrictiveness) cover an area inhabited by approx. 49.9% of the country's population. This does not mean, however, that GDP is exposed at the same scale. **The current restrictions have a marginal direct impact on the activity of the most important industries.** Probable additional restrictions (even on a national scale, e.g. in the form of solutions akin to those in Czechia) will most likely still apply to industries with a small share in the value added (mainly accommodation and restaurants, tourism, services related to recreation, culture and partly education). The deep drops in value added that took place in these industries in 2q20, deducted only 0.5pp from GDP growth rate (while GDP dropped by over 8% y/y). At present, industry and construction are crucial for the GDP growth rate. The industry is relatively resistant to restrictions (but not to closing the economy or breaking supply chains), and the reduction of activity on a scale that would be significant for the macroeconomic scenario, does not seem realistic at present. Construction remains under the burden of budgetary processes (including in local governments, which reduced capital expenditure in response to falling revenues in 2q20). Nevertheless, a rising value of public procurements suggests that a rebound in construction activity should take place no later than the beginning of the next construction season in spring.

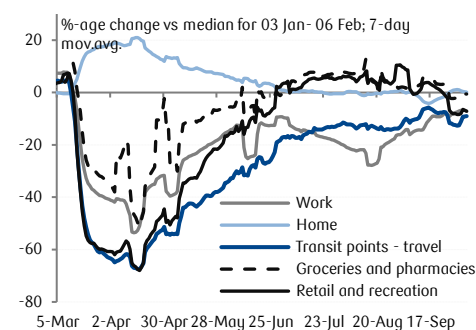
International experience suggests that the intensity of interpersonal contacts, which may be greater in the case of the urban population (greater share of consumption of services requiring contact with another person), may be of importance in the transmission of Covid infections (see margin chart). The strategy for fighting Covid adopted by other countries is to limit contacts once again. The limitations have achieved the desired effect in the form of a transmission interruption (circuit breaker). Mobility analysis for Israel based on Google data showed smaller declines in locations related to economic activity than in the first wave (see margin chart). On a local scale, a second lockdown was applied in the

Fears of Covid-19 infection among Poles



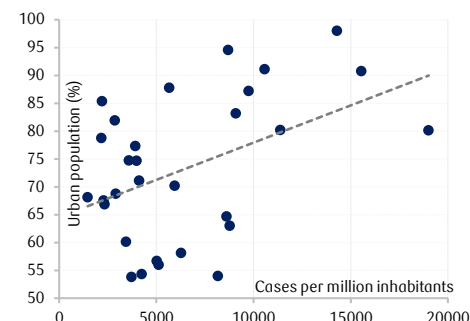
Source: CBOS, PKO Bank Polski.

Mobility of Poles



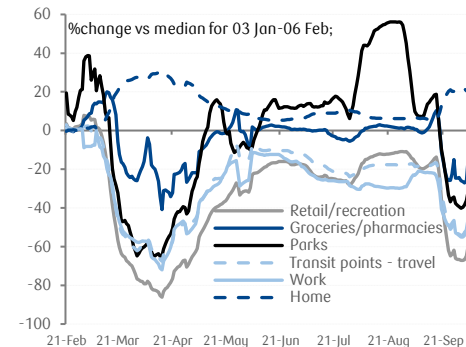
Source: Google, Apple, PKO Bank Polski.

Covid-19 cases vs population living in urban areas in Europe*



Source: World Bank, ECDC, PKO Bank Polski. *UE27, Norway, Turkey, UK, Serbia.

Mobility of Israelis

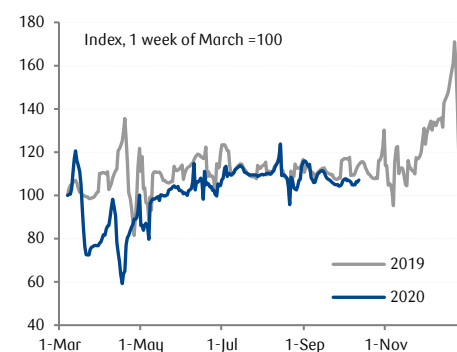


Source: Google, PKO Bank Polski.

Australian state of Victoria. In both cases, they had a less devastating effect on economic activity than the spring restrictions, although in Victoria the difference is less clear-cut. It is also worth remembering that the restrictions in Israel and Australia's Victoria were isolated and were not overlapped by disturbances in the value chains and the fall in global demand that occurred in the spring.

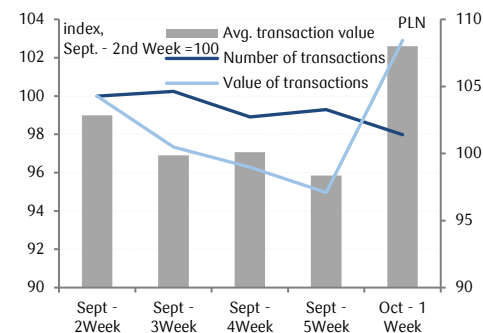
The compilation of available data (from Poland and abroad) on the effects of the second pandemic wave allow us to assume, for the time being, a much lower economic cost than in the case of the spring lockdown. Therefore, we shall stick to our GDP forecast in 4q20, i.e. -3.3% y/y (and -2.9% in 2020). Our baseline scenario assumed a double dip recession with a slight decline in GDP in 4q20 (on q/q seas.adj. basis). However, the reintroduction of further restrictions in Poland and in the world indicates that the balance of risks for our GDP forecast is becoming skewed to the downside.

Value of card transactions of PKO's clients - total



Source: PKO Bank Polski.

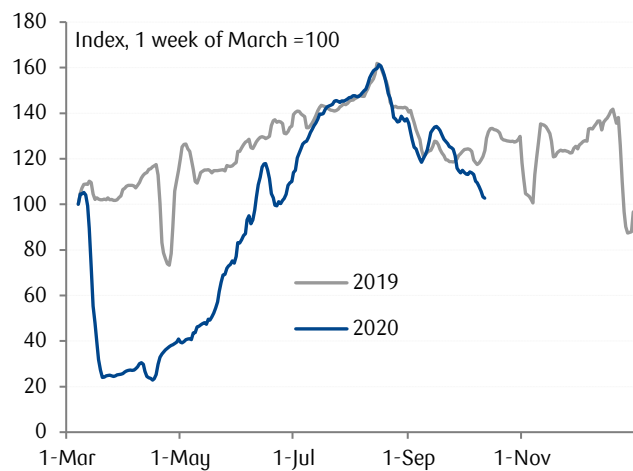
Total for the selected red zone county



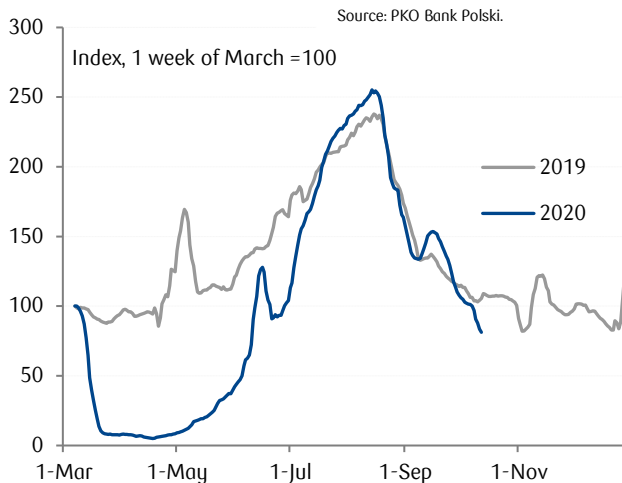
Source: PKO Bank Polski.

Value of card transactions of PKO's clients

Restaurants



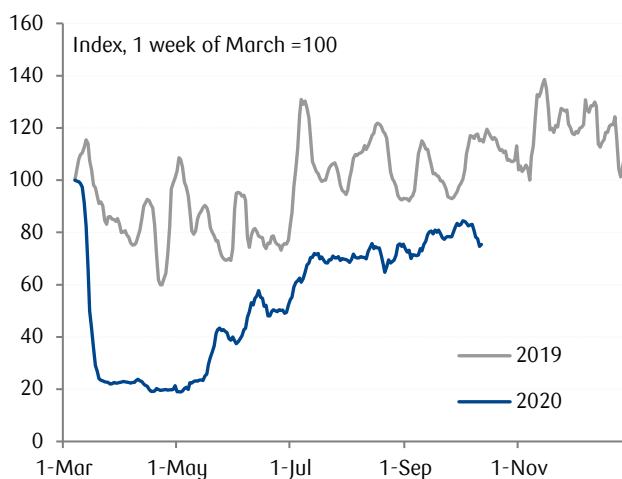
Hotels



Education

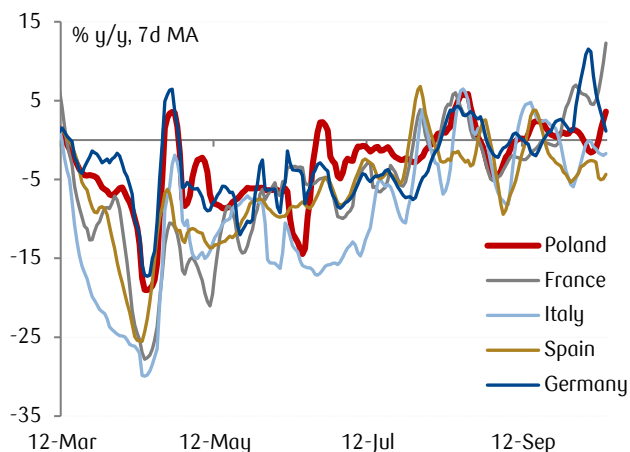


Entertainment

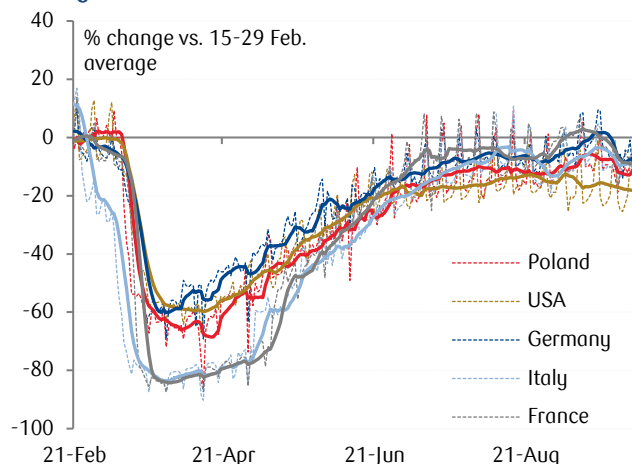


Macro monitoring with alternative data[^]

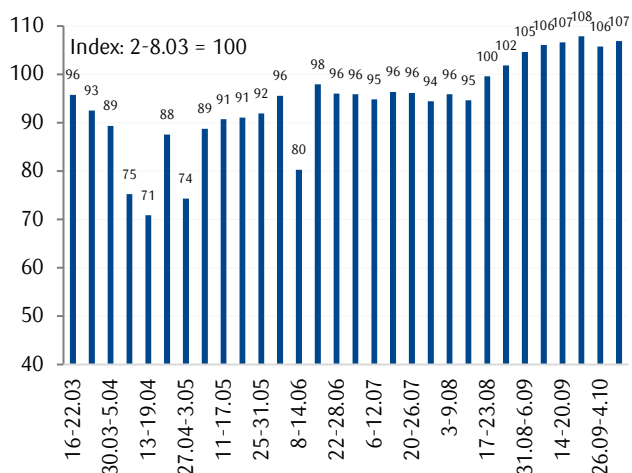
Electric energy consumption (total)



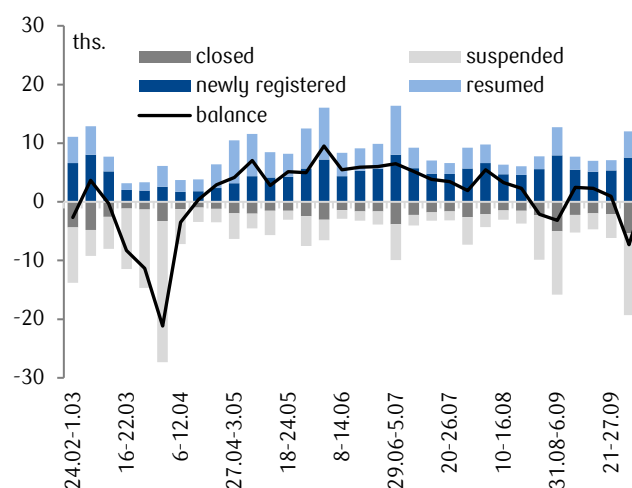
Mobility*



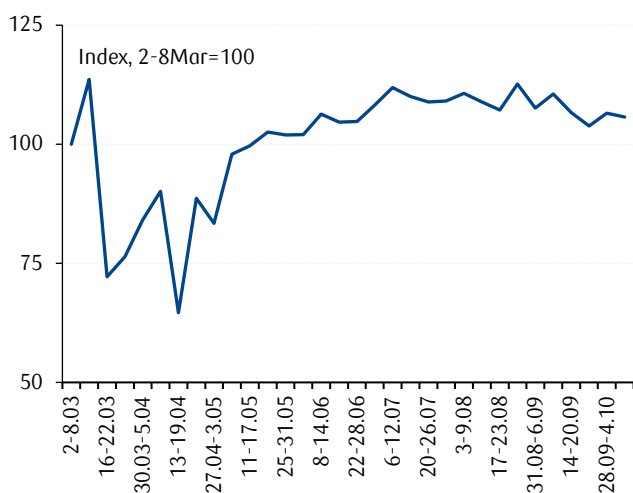
Heavy truck traffic



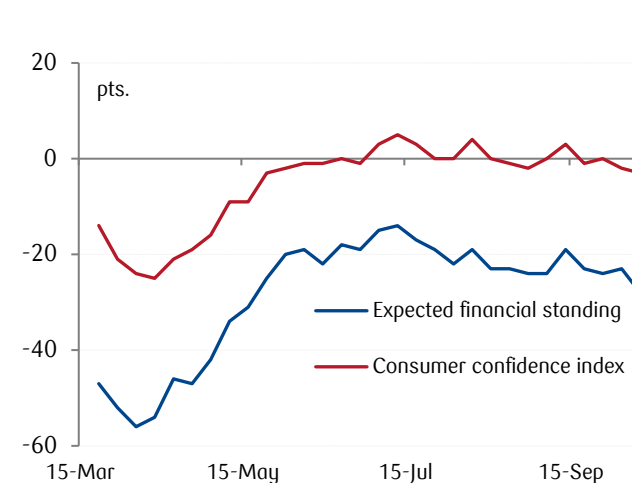
Economic activity status (acc. to CEiDG**)



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, 19 October						
CHN: GDP growth (3q)	3:00	% y/y	3.2	5.4	--	--
POL: Wages (Sep)	9:00	% y/y	4.1	4.4	4.4	The situation on the labour market continued to normalise in September.
POL: Employment (Sep)	9:00	% y/y	-1.5	-1.1	-1.1	
Tuesday, 20 October						
GER: PPI inflation (Sep)	7:00	% y/y	-1.2	--	--	--
POL: Industrial production (Sep)	9:00	% y/y	1.5	3.4	4.0	Industrial output might have recorded a further acceleration driven by foreign demand, with automotive at the forefront. PPI inflation confirms that the underlying inflationary pressure is visible only in services.
POL: PPI inflation (Sep)	9:00	% y/y	-1.2	-1.4	-1.5	
HUN: MNB meeting	13:00	%	0.60	0.60	0.60	--
USA: Housing starts (Sep)	13:30	mn	1.416	1.45	--	--
Wednesday, 21 October						
POL: Construction output (Sep)	9:00	% y/y	-12.1	-10.6	-9.5	We expect output to start rebounding from September onward, driven by increased public orders and a strengthening of the real estate sector. Retail sales might have fallen in September due to weaker spending in the last week of the month.
POL: Retail sales (Sep)	9:00	% y/y	0.5	2.4	-0.7	
Thursday, 22 October						
POL: Money Supply M3 (Sep)	13:00	% y/y	16.2	16.2	16.2	As central bank purchases visibly decreased, M3 money supply growth has most likely stabilised, with deposit growth rate likely to follow, whereas loans might show some signs of a revival.
USA: Initial Jobless Claims (Oct)	13:30	thous.	898	950	--	
EUR: Consumer Confidence (Oct)	15:00	pts.	-13.9	--	--	--
USA: Existing home sales (Sep)	15:00	mln	6.0	6.2	--	--
Friday, 23 October						
GER: Manufacturing PMI (Oct, flash)	8:30	pts.	56.4	55.6	--	--
GER: Services PMI (Oct, flash)	8:30	pts.	50.6	49.0	--	--
EUR: Services PMI (Oct, flash)	9:00	pts.	48.0	47.0	--	--
POL: Unemployment Rate (Sep)	9:00	%	6.1	6.1	6.1	MinLab flash estimate indicates the unemployment rate might have remained stable through entire summer holiday season.
USA: Manufacturing PMI (Oct, flash)	14:45	pts.	53.2	53.0	--	

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

Selected economic indicators and forecasts

	Jul-20	Aug-20	Sep-20	1q20	2q20	3q20	4q20	2019	2020	2021
Economic activity										
Real GDP (% y/y)	x	x	x	2.0	-8.2	-1.9	-3.3	4.1	-2.9	4.3
Domestic demand (% y/y)	x	x	x	1.7	-9.5	-2.2	-3.9	3.0	-3.5	4.5
Private consumption (% y/y)	x	x	x	1.2	-10.9	2.2	-2.0	3.9	-2.3	4.3
Gross fixed capital formation (% y/y)	x	x	x	0.9	-10.9	-7.4	-4.3	7.2	-5.6	3.7
Inventories (pp)	x	x	x	0.0	-1.7	-2.8	-2.2	-1.4	-1.7	0.5
Net exports (pp)	x	x	x	0.4	0.8	0.2	0.3	1.2	0.4	0.1
Industrial output (% y/y)	1.1	1.5	4.0	0.9	-13.6	2.0	-2.3	4.0	-3.3	7.3
Construction output (% y/y)	-10.9	-12.1	-9.5	5.0	-2.8	x	x	3.6	x	x
Retail sales (real, % y/y)	3.0	0.5	-0.7	0.8	-10.7	x	x	5.4	x	x
Nominal GDP (PLN bn)	x	x	x	552.2	524.9	567.3	628.3	2274	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)	-2.3	-1.5	-1.1	0.8	-2.0	-1.6	-2.4	2.7	-1.6	1.0
Wages in enterprises (% y/y)	3.8	4.1	4.4	7.0	2.1	4.1	3.9	6.6	4.3	4.7
Prices^										
CPI inflation (% y/y)	3.0	2.9	3.2	4.6	3.2	3.0	2.4	2.3	3.4	1.9
Core inflation (% y/y)	4.3	4.0	4.3	3.4	3.8	4.2	3.8	1.9	3.8	1.7
15% trimmed mean (% y/y)	3.3	3.2	3.2	3.4	3.4	3.2	x	2.0	x	x
PPI inflation (% y/y)	-0.6	-1.2	-1.5	0.2	-1.3	-1.1	0.7	1.2	-0.3	1.9
Monetary aggregates‡										
Money supply, M3 (PLN bn)	1740.8	1744.1	1750.6	1624.9	1746.2	1750.6	1778.9	1565.6	1778.9	1912.3
Money supply, M3 (% y/y)	16.8	16.2	16.2	11.8	18.1	16.2	13.9	8.3	13.9	7.5
Real money supply, M3 (% y/y)	13.8	13.3	13.0	7.2	14.8	13.0	11.4	4.9	10.6	5.6
Loans, total (PLN bn)	1330.5	1331.2	1342.3	1366.6	1341.1	1342.3	1353.2	1323.7	1353.2	1417.1
Loans, total (% y/y)	1.4	0.3	0.8	6.5	3.1	0.8	2.2	5.1	2.2	4.7
Deposits, total (PLN bn)	1611.3	1615.9	1619.2	1485.1	1618.7	1619.2	1609.9	1406.6	1609.9	1683.7
Deposits, total (% y/y)	17.4	15.5	15.2	11.2	19.5	15.2	14.5	8.2	14.5	4.6
Balance of payments										
Current account balance (% GDP)	2.8	3.0	2.9	1.1	2.3	2.9	3.0	0.5	3.0	2.8
Trade balance (%GDP)	1.7	1.6	1.7	0.4	1.2	1.7	2.0	0.2	2.0	1.4
FDI (% GDP)	1.5	1.1	1.1	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	-11.1	-4.4
Public debt (% GDP)	x	x	x	x	x	x	x	46.0	62.3	63.0
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* (%)#	-2.77	-2.67	-2.67	-3.43	-3.04	-2.78	-2.15	-1.69	-3.05	-1.65
Exchange rates*‡										
EUR-PLN	4.41	4.40	4.53	4.55	4.46	4.53	4.52	4.26	4.52	4.40
USD-PLN	3.72	3.73	3.87	4.15	3.98	3.87	3.90	3.80	3.90	3.67
CHF-PLN	4.09	4.10	4.19	4.30	4.18	4.19	4.22	3.92	4.22	4.04
EUR-USD	1.18	1.19	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 petty 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	"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	"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	"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).

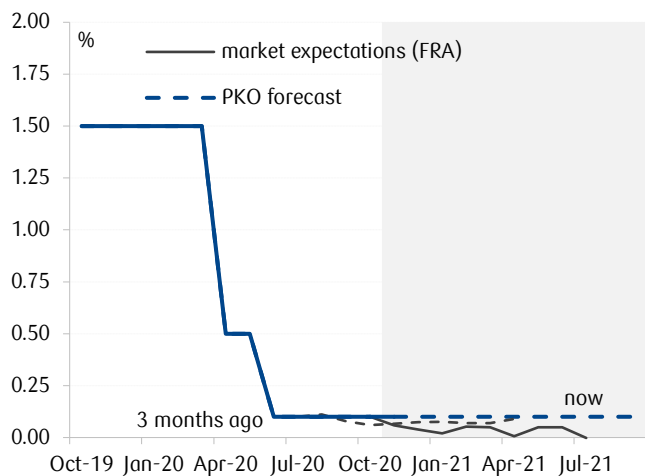
Interest rates – PKO BP forecasts vs. market expectations

	1M	2M	3M	4M	5M	6M	7M	8M	9M	
Date	15-Oct	15-Nov	15-Dec	15-Jan	15-Feb	15-Mar	15-Apr	15-May	15-Jun	15-Jul
WIBOR 3M/FRA†	0.22	0.18	0.16	0.14	0.17	0.17	0.13	0.17	0.17	0.12
implied change (b. p.)		-0.04	-0.06	-0.08	-0.05	-0.05	-0.09	-0.05	-0.05	-0.10
MPC Meeting	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*		0.06	0.04	0.02	0.05	0.05	0.01	0.05	0.05	0.00

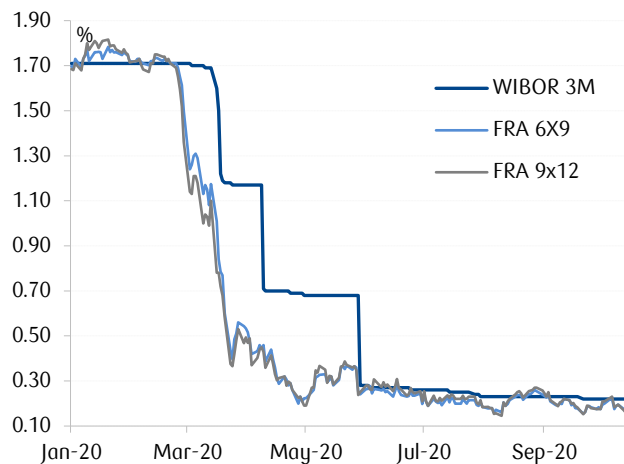
†WIBOR 3M from the last fixing, FRA transactions based on WIBOR 3M for subsequent periods, ‡in basis points, *PKO BP forecast of the NBP reference rate.

Poland macro chartbook

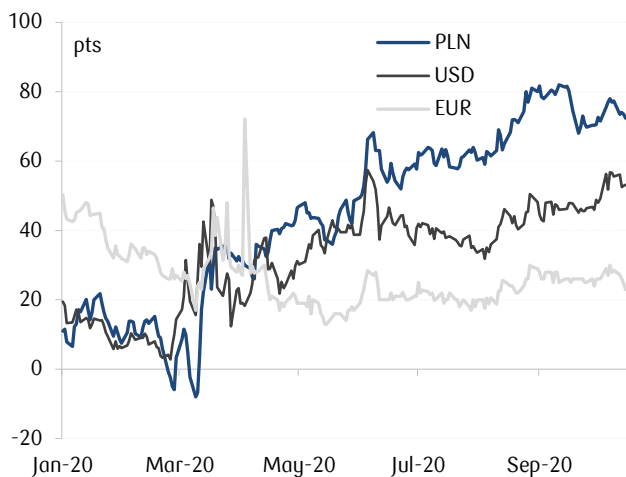
NBP policy rate: PKO BP forecast vs. market expectations



Short-term PLN interest rates



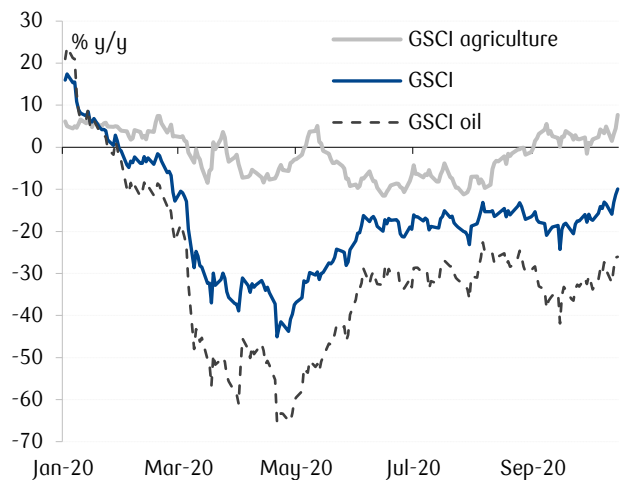
Slope of the swap curve (spread 10Y-2Y)*



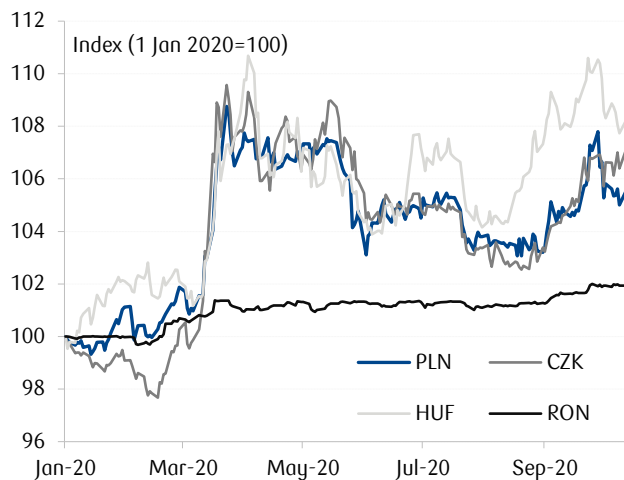
PLN asset swap spread



Global commodity prices (in PLN)

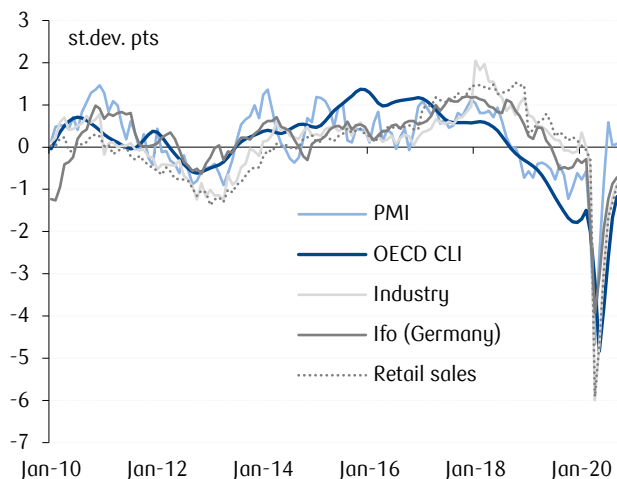


Selected CEE exchange rates against the EUR

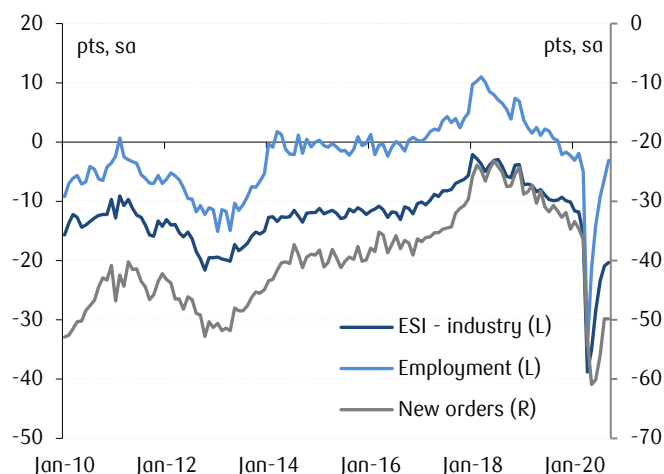


Source: Datastream, NBP, PKO Bank Polski. *for PLN, and EUR 6M, for USD 3M.

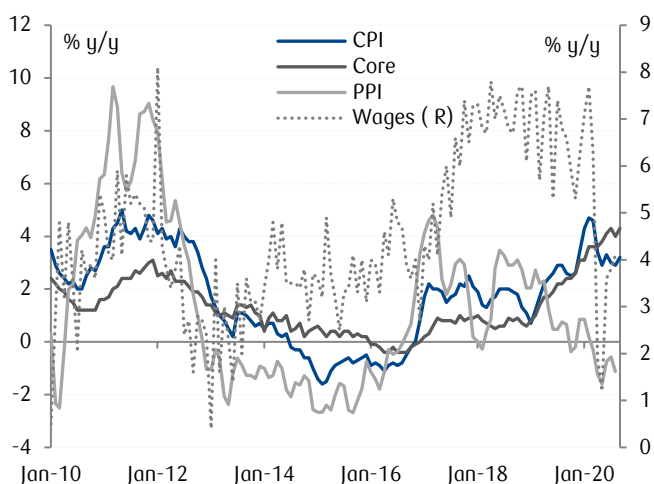
Economic sentiment indicators



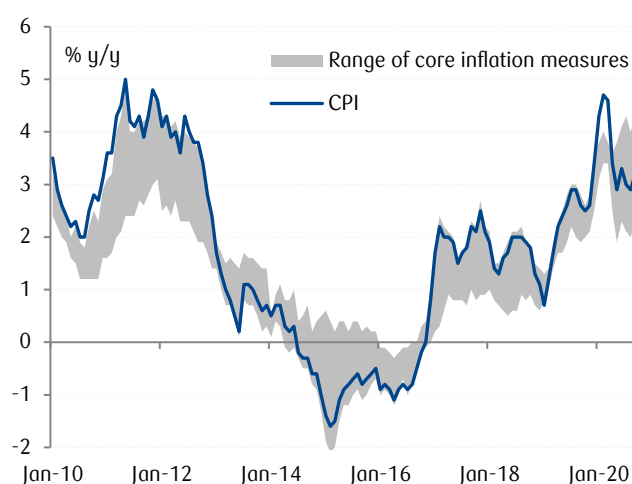
Poland ESI for industry and its components



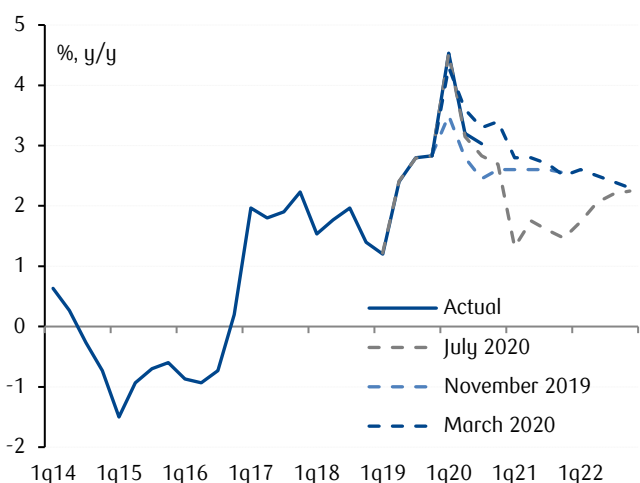
Broad inflation measures



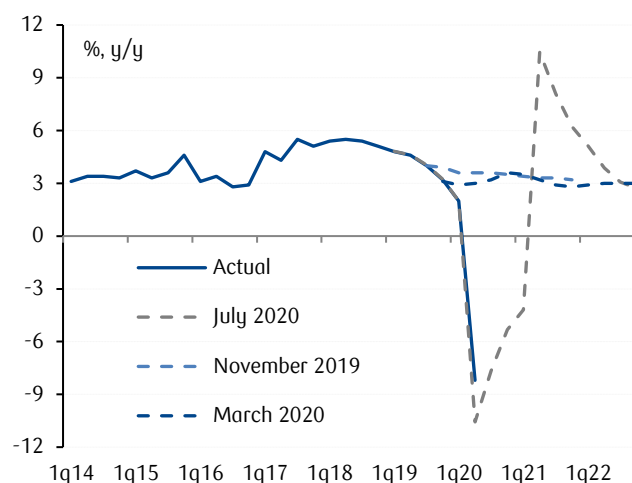
CPI and core inflation measures



CPI inflation - NBP projections vs. actual

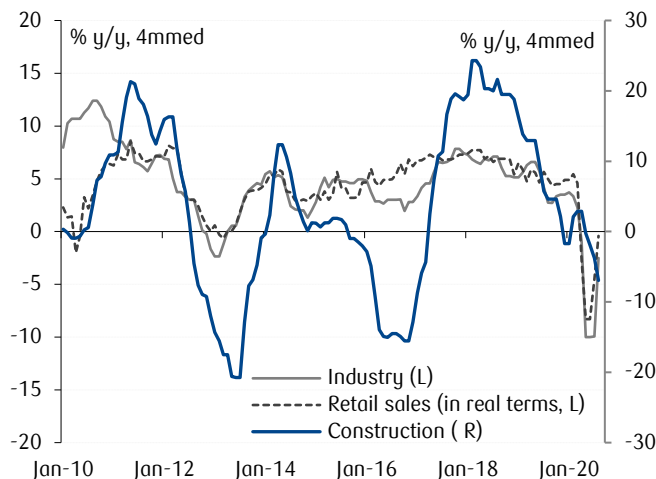


Real GDP growth - NBP projections vs. actual

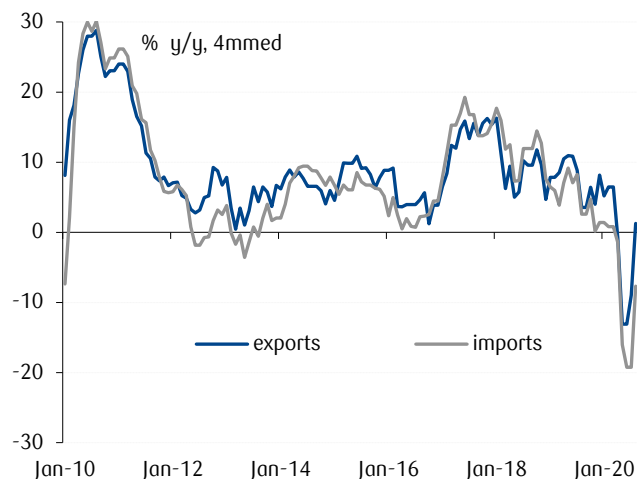


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

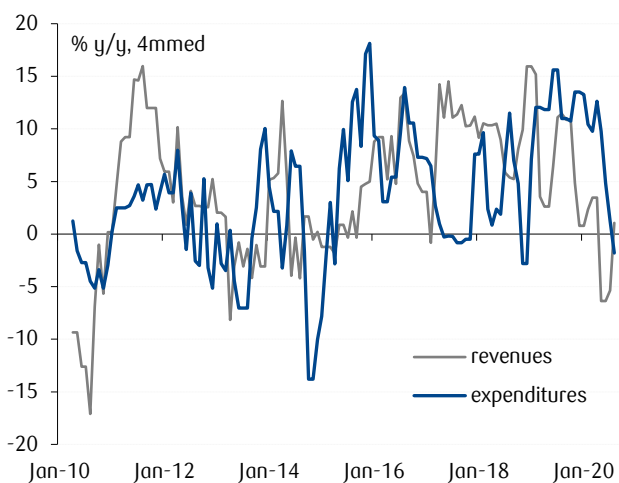
Economic activity indicators



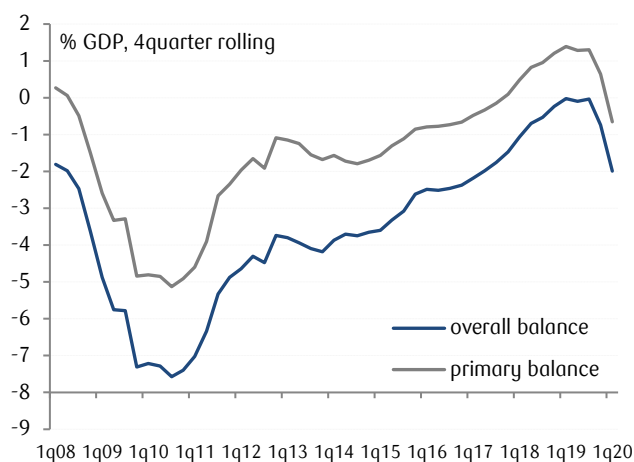
Merchandise trade (in EUR terms)



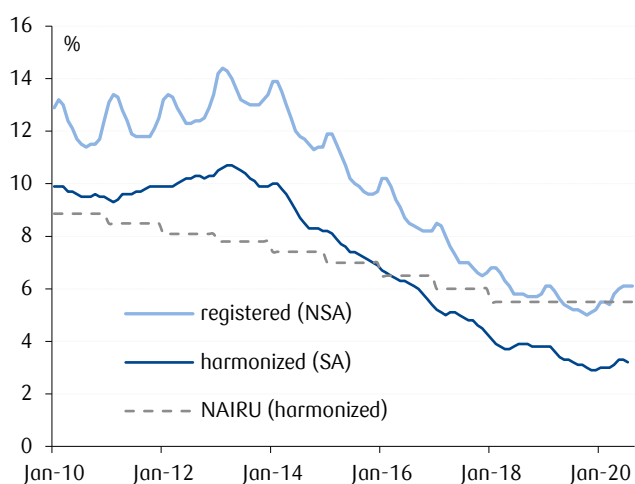
Central government revenues and expenditures*



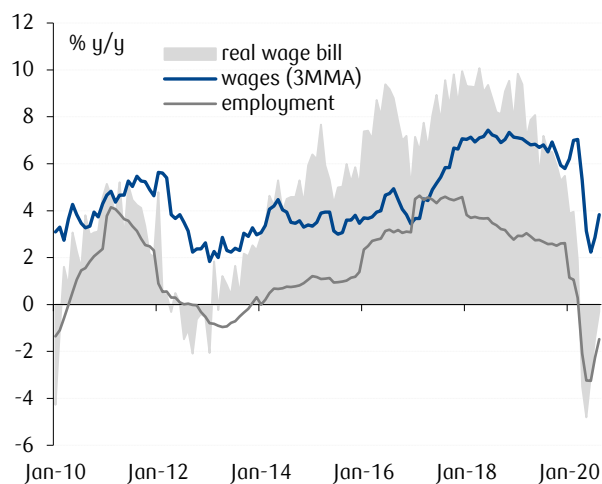
General government balance (ESA2010)



Unemployment rate

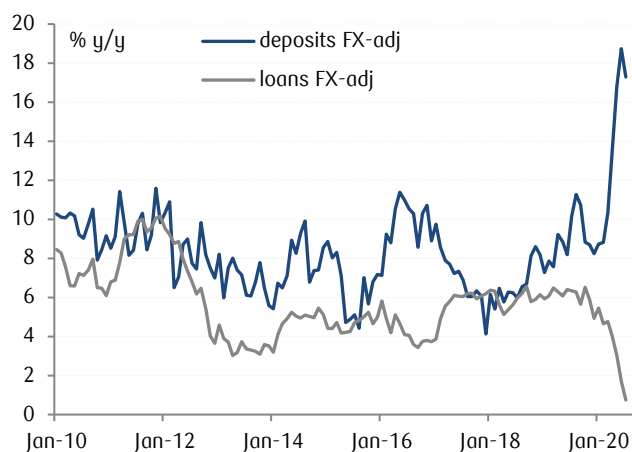


Employment and wages in the enterprise sector

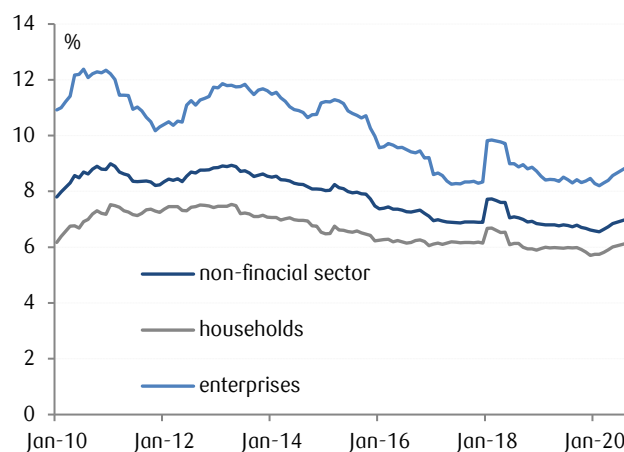


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. *break in series in 2010 due to methodological changes.

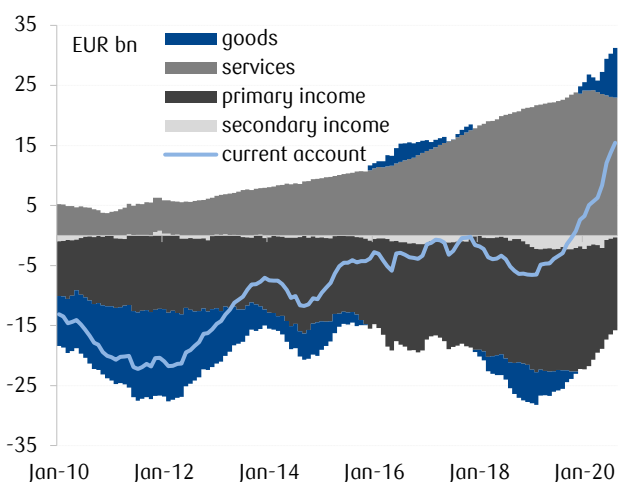
Loans and deposits



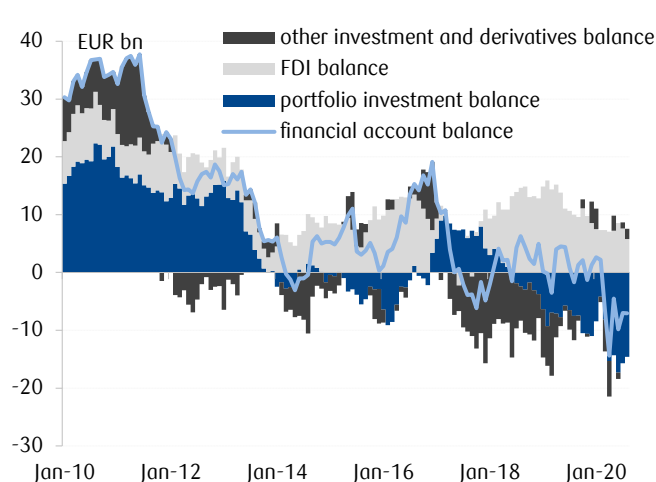
Non-performing loans (NPLs) - by sectors*



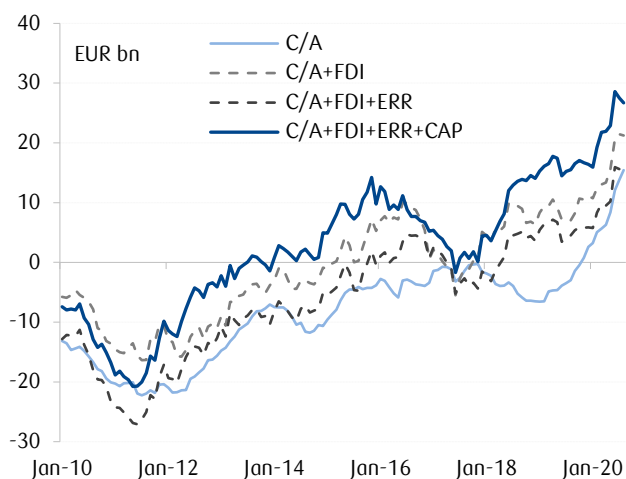
Current account balance



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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- [Inflation is not letting go](#) (Oct 2, 2020)
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- [Lower for even longer?](#) (Sep 18, 2020)
- [Fiscal policy on the go](#) (Sep 11, 2020)
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- [Labour market at a crossroads](#) (Aug 28, 2020)
- [Is the crisis over?](#) (Aug 21, 2020)
- [Cash is king](#) (Aug 7, 2020)
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- [Property prices on the rise](#) (Jan 17, 2020)
- [MPC unfazed by inflation shots](#) (Jan 10, 2020)
- [Inflation back on an upward path](#) (Dec 13, 2019)

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	-11.1	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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