Poland Macro Weekly

Economic Research

Bank Polski

11 September 2020

Fiscal policy on the go

Top macro theme(s):

- Fiscal policy on the go (p. 2): Improving growth outlook suggests there is some room for positive fiscal surprises in 2020 and 2021, with state budget deficits likely to be smaller than planned. What is more, 2020 borrowing needs have already been financed almost in full and the government's liquidity is record high, so the local bond market will not be bleeding (even if the NBP remains on the sidelines and does not expand its huge QE). The European Commission and rating agencies care about the medium-term debt prospects and there should be no major concerns about them as Poland intends to switch into fiscal consolidation mode once the pandemic is over. Strong economic growth and low rates will help to quickly reduce debt-to-GDP ratio.

What else caught our eye:

- E.Lon (one of the most dovish MPC members) **hasn't ruled out that the significant threat of a strong decline in consumer mood would make him more inclined to submit a motion for a reduction in NBP interest rates.** We believe this may be a data-driven statement with low probability of causing any real action from the majority of the MPC. Indeed, a recent survey of households by the Polish Institute of Economics (PIE) and Polish Development Fund (PFR) revealed the consumer mood deteriorated in August compared to July, probably due to growing fears of job losses.

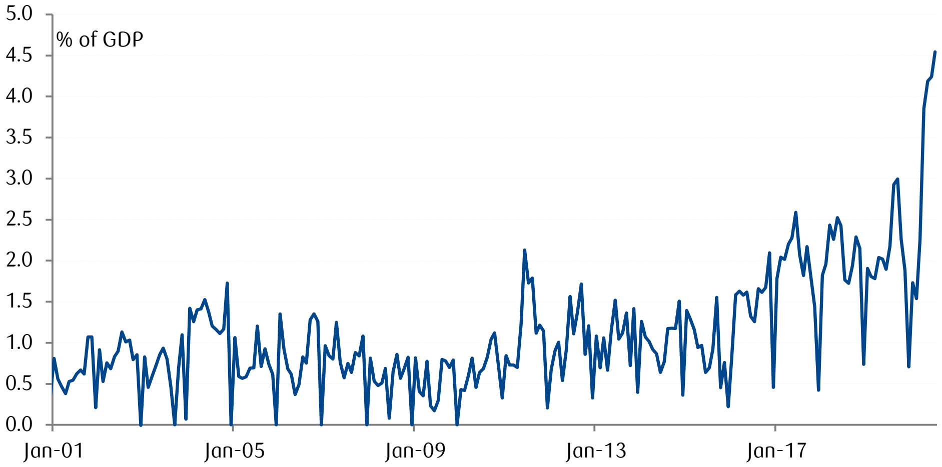
The week ahead:

- **Moody's will likely leave Poland's rating and its outlook (A2 stable) unchanged** today as the medium-term outlook for the economy is still favourable. Recent comments from leading Moody's analyst for Poland indicate that the pandemic shock is perceived as temporary without significant medium-term economic and rating implications.
- **The MPC is unlikely to alter monetary policy parameters** at a meeting on Tuesday. 'Flatraters' are supported by lower inflation while hawks by improving growth outlook and concerns about financial system stability.
- Calendar of data releases for Poland is pretty crowded next week (for details see page 7). The key focus of attention will be on labour market data for August and industrial output for August.

Number of the week:

- **30.000** – monthly rise in the number of foreigners registered in social security scheme in August, an indication that foreigners are coming back to Poland.

Chart of the week: State budget liquid assets



Source: MinFin, PKO Bank Polski.

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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	2.5
Fiscal balance (% GDP)*	-0.7	-11.0
Public debt (% GDP)*	46.0	62.2
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. *under revision.

Fiscal policy on the go

- **Amended state budget plan for 2020 and a proposed plan for 2021 have been designed conservatively leaving some safety buffers for unexpected negative pandemic development.**
- **Ongoing macroeconomic recovery as well as our forecasts suggest there is a room for positive surprises in both 2020 and 2021 with state budget deficits likely to be smaller than planned.**
- **An elevated level of borrowing needs doesn't pose a significant risk to public sector: 2020 borrowing neeeds have already been financed almost in full and the governemnt's liquidity is at a record high. Additional activity of the NBP reduces the market risks for POLGBs.**
- **From the point of view of the European Commission, as well as rating agencies, the medium-term debt prospects are crucial and there should be no major concerns about them as Poland intends to switch into fiscal consolidation mode once the pandemic is over.**
- **We estimate that in 2020 the total public deficit (ESA) may hit 10.5-11.5% of GDP and shrink to 3.5-4.5% of GDP in 2021. Public debt should increase above 60% of GDP threshold and it will reach ~63% of GDP in 2021.**
- **This most likely will mark the peak of debt/GDP ratio and a return of fast GDP growth as well as a switch to fiscal consolidation after 2021 should push the ratio down below the 60% limit within app. 2 years.**

The state budget for 2020 - originally planned to be balanced - had to be amended after the pandemic outbreak and the lockdown which pushed Poland's economy into the first recession in almost 30 years. **The current state budget plan envisaged a deficit of PLN 109.3bn for 2020** amid a sharp correction of expected revenues (by PLN 36.7bn vs a balanced budget plan) and an increase of expenditures (by PLN 72bn). **The plan for 2021 pencils in a state budget deficit of PLN 89.2bn** (see margin table). **We think the levels of the state budget deficit in 2020 and in 2021 are both conservative assumptions**. They leave an additional safety buffer for negative surprises in the event of a pessimistic pandemic scenario development.

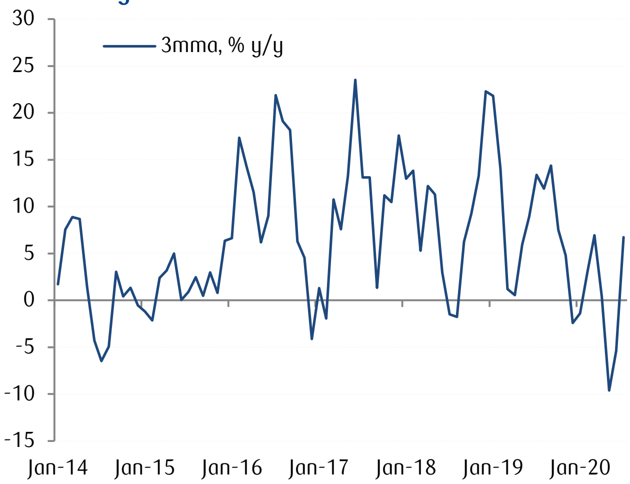
Our optimism is based on the current state of affairs, as well as on economic projections for the ongoing macroeconomic recovery, which should improve the revenue side of the budget. Indeed, a year-to-date performance of the state coffers is quite an achievement as the revenues in Jan-Jul 2020 declined only by 0.2% y/y, after being corrected for a one-off – the NBP profit transfer of PLN 7.4bn. Expenditures after July grew by 8% y/y, or PLN 18.5bn signaling that more fiscal spending is still in cards, but also reflecting the fact, that part of anti-crisis

State budget plans for 2020 and 2021

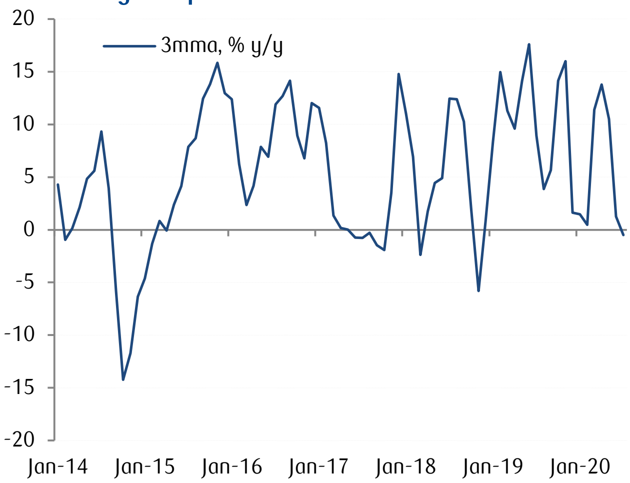
PLN bn	2019	2020	2021
Revenues	401	399	404
VAT	181	170	181
CIT	40	39	37
PIT	65	64	68
Non-tax revenues	31	47	33
Expenditures	414	508	486
Balance	-13.7	-109.3	-82.3

Source: MinFin, PKO Bank Polski.

State budget revenues trend



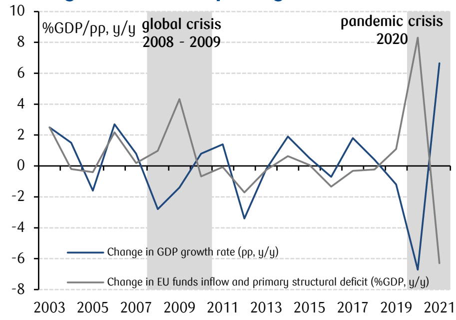
State budget expenditures - trend



Source: MinFin, PKO Bank Polski.

spending went off-balance (via the State Development Bank, BGK, and the Polish Development Fund, PFR). A total increase of spending limit (by PLN 72bn) has been divided into social protection (PLN 26.6bn), investment outlays (PLN 12.1bn), defense and public security (PLN 4.4bn) and a transfer to the Social Security Fund (PLN 12.3bn). This, when taken into account the pre-pandemic expenditure plan, means, that up to PLN 75bn (~3.4% of GDP) is still on the table to be spent before the end of the year. All in all, **the state budget in 2020 may end up with a deficit only touching around PLN 100bn, on our estimates.** Given that the anti-pandemic stimulus is mainly a non-Keynesian one (i.e. the government doesn't spend money directly, but transfers it to ultimate beneficiaries) the spending spree may be lag somewhat vs government transfers. This indicates that end-2020/start-2021 should witness a robust fiscal thrust (see margin chart).

Anticyclical fiscal policy

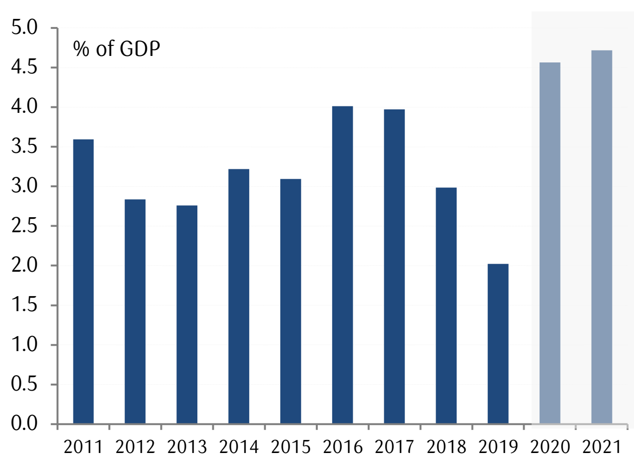


Source: MinFin, MinDev, Eurostat, PKO Bank Polski.

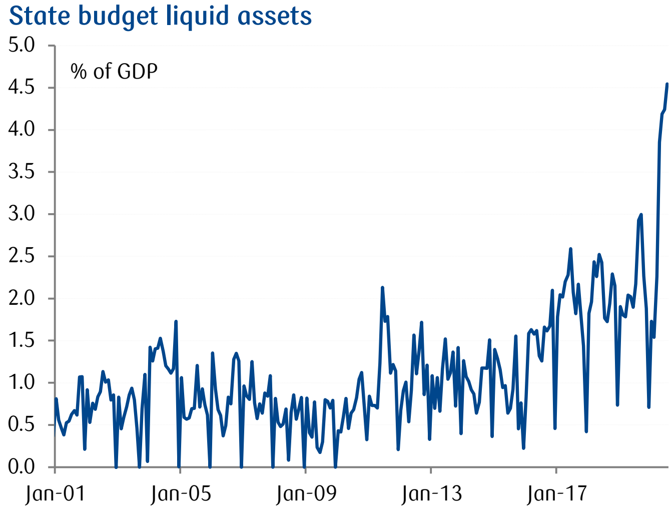
In our opinion, **the deficit goal for 2021 should also be relatively easy to achieve given our baseline macroeconomic scenario**, and even with some margin (lower actual deficit level). Our baseline scenario paints GDP growth in 2021 above the level of 4.0% assumed in the budget draft, CPI inflation at 2.2% (vs. 1.8% in the draft) and the unemployment rate at 7.5% (same as in the draft). VAT and PIT are planned to be responsible for the majority of the increase in tax revenues, which is consistent with the fact that, according to government (and our) forecasts, private consumption is to be an important driver of GDP growth in 2021. Our macroeconomic scenario gives a rise to a better than drafted revenue projection. This includes esp. VAT revenues, which we see PLN 12bn higher than in the draft. On the other hand, CIT and PIT may surprise to the downside a bit (PLN 2-3bn each). Non-tax revenues may surprise positively as the NBP profit transfer may exceed a drafted PLN 1.3bn. It is noteworthy that changes in the NBP accounting rules introduced last year were to stabilize NBP profit transfers in subsequent years. Thus we also see a potential upside here (PLN ~3-4bn). Last but not least, the state budget in 2021 has received support from the expenditure side (planned expenditure drop by PLN 22bn, or 1% of GDP) as some of them will most likely be shifted into 2020. All in all, **we estimate that the state coffers may finalize 2021 with a shortage of approx. PLN 70bn** (or ~3.0% of GDP).

The revised 2020 and 2021 budget plans pencil in an elevated net borrowing needs level: PLN 103bn in 2020 and PLN 113.5bn in 2021. Borrowing needs in 2021 are planned to exceed the state budget deficit as the budget will borrow some liquidity in 2020 from other public units (PLN 23.6bn) and return it in 2021 (PLN 21.9bn). This plan, however, may not be executed in full as recovery goes on

State budget net borrowing needs



State budget liquid assets



Source: MinFin, GUS, PKO Bank Polski.

and fiscal stance improves. Moreover, in the current situation, **the level of the budget borrowing needs in 2020 does not pose a significant risk to the public sector, because it has already been financed almost in 100%** (according to the amended budget plan). The liquidity level remains unprecedented, and hovers around record highs (see bottom chart on the previous page). The elevated level of the borrowing needs should not have a significant impact on the debt market, especially as the NBP is still an active player.

Higher indebtedness should also not become a bone of contention between Poland and EU. The approach to monetary and fiscal policy has changed all over the world. For fiscal policy it was crucial to stimulate growth, and for monetary policy to secure the space (funding) for fiscal loosening.

The ongoing path to rapid the recovery of economic activity in Poland and the prospect of significant stimulation of domestic GDP growth by a new wave of EU funds (see also our Poland Macro Weekly: EU Recovery Fund: final approach, Jul 31, 2020), raise expectations of relatively fast economic growth in the coming years (exceeding 4% in real terms, and 6% in nominal terms). **It would create conditions in which a gradual reduction of public debt should not pose major problems.** We assume that, **from the point of view of the European Commission as well as rating agencies, the medium-term debt prospects are crucial and there should be no major concerns about them as Poland's intends to switch into fiscal consolidation mode once the pandemic is over.**

The increase in public investment expenditure and the opportunity offered by the EU's reconstruction instruments improve the medium- and long-term prospects for economic growth and are positive for public finances. As a reminder, in the period before the pandemic, Poland recorded fiscal surpluses (excl. new investment spending) of around 2.0% of GDP (in ESA terms), investing into its future growth potential at the same time.

Other public sector entities will also add to the total public sector deficit. Local govt. have planned in August a deficit of PLN 26.6bn in 2020 and PLN 3.8bn in 2021. Social security subsector result should be about neutral in 2020 (its borrowing needs have been satisfied by the state budget transfers or off-budget units) and deteriorate somewhat in 2021 as healthcare spending will increase substantially (as per the 2021 budget draft). MinFin also announced that the anti-crisis measures (i.e. Financial Shield by the PFR, and the COVID-19 Fund by the BGK) will also be reclassified into the general government sector. This should increase the fiscal deficit in EU methodology (ESA) substantially as these two units have already transferred anti-covid funds exceeding PLN 120 bn. All in all, **we estimate that in 2020 the total public deficit (ESA) may hit 10.5-11.5% of GDP** (vs 12.0% of GDP estimated by MinFin) **and shrink to 3.5-4.5% of GDP in 2021** (vs. 6% of GDP as per 2021 budget draft). Given the above mentioned deficit figures **public debt should increase above 60% of GDP threshold** (hitting approx. 62% of GDP) **and it will reach ~63% of GDP in 2021**. This most likely will mark the peak of debt/GDP ratio and **a return of fast GDP growth as well as a switch to fiscal consolidation after 2021 should push the ratio down towards the 60% limit within app. 2 years** (as per our simulation, see margin chart).

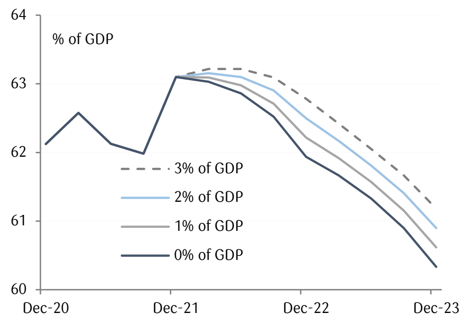
Fiscal deficit (ESA)

Source: Eurostat, PKO Bank Polski. Last plot 4q21.

Public debt (ESA)

Source: Eurostat, PKO Bank Polski. Last plot 4q21.

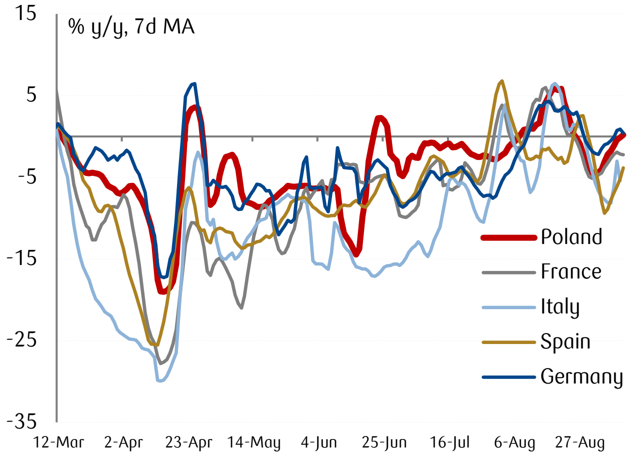
Debt reduction paths under different deficit assumptions*



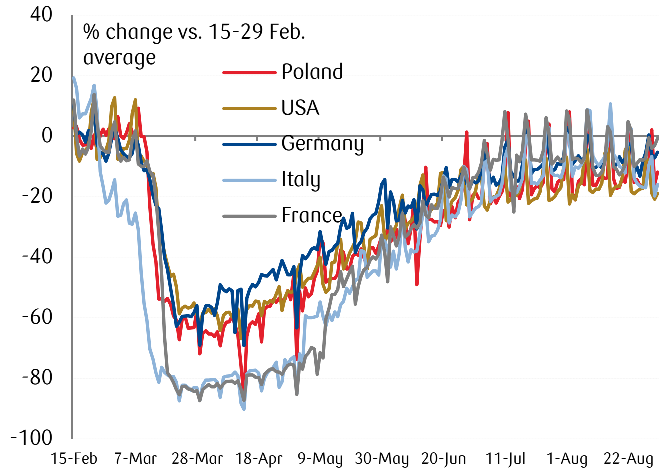
Source: PKO Bank Polski. *Fiscal deficit and debt in 2020 and 2021 as per our estimates; fiscal deficit in 2022 and 2023 has been assumed in 4 different scenarios (as per legend entries).

Macro monitoring with alternative data^

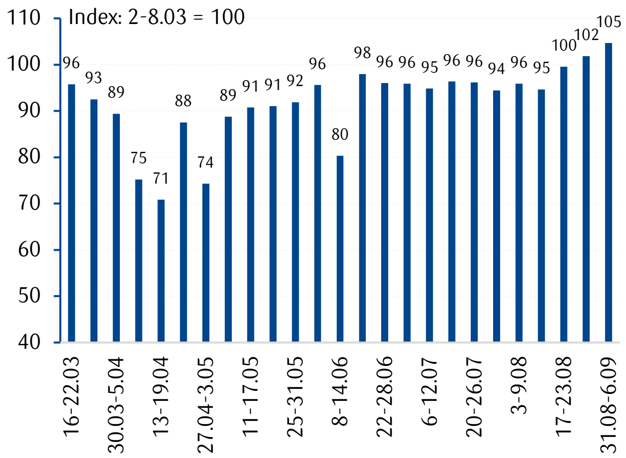
Electric energy consumption (total)



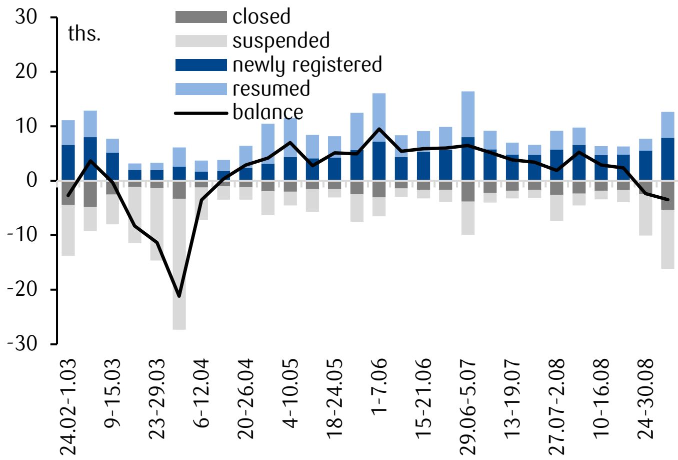
Mobility*



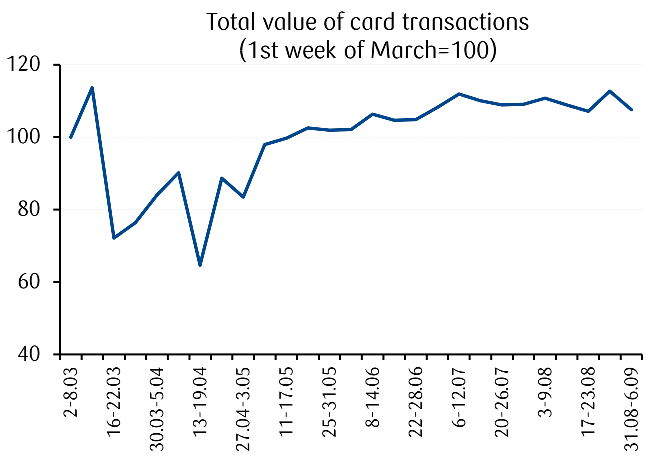
Heavy truck traffic



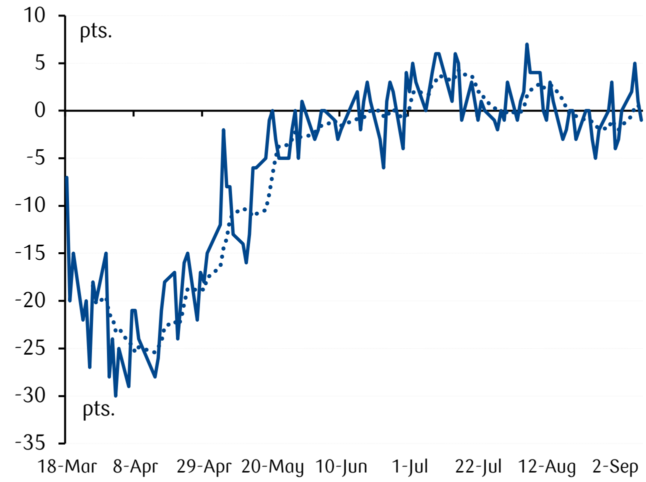
Economic activity status (acc. to CEiDG**)



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.

Weekly economic calendar

Indicator	Time (UK)	Unit	Previous	Consensus*	PKO BP	Comment
Monday, 14 September						
EUR: Industrial production (Jul)	10:00	% y/y	-12.3	--	--	--
POL: Current account balance (Jul)	**13:00**	**EUR mn**	**2842**	**1797**	**2769**	Solid merchandise trade surplus and huge one-off transfer under the secondary income account pushing the C/A balance further into positive territory.
POL: Exports (Jul)	**13:00**	**% y/y**	**3.0**	**2.4**	**-0.3**	
POL: Imports (Jul)	**13:00**	**% y/y**	**-10.7**	**-8.7**	**-10.5**	
Tuesday, 15 September						
POL: CPI inflation (Aug, fin.)	**9:00**	**% y/y**	**3.0**	**2.9**	**2.9**	Easing inflation support “flatraters” at the MPC.
GER: ZEW Economic Sentiment (Sep)	10:00	pts.	71.5	70.0	--	--
USA: Industrial production (Aug)	14:15	% m/m	3.0	1.0	--	--
POL: MPC meeting	--	**%**	**0.10**	**0.10**	**0.10**	We don’t expect changes in the MPC approach to the domestic monetary policy.
Wednesday, 16 September						
POL: Core inflation (Aug)	**13:00**	**% y/y**	**4.3**	**4.1**	**4.1**	Core inflation has already picked and started to wane as the output gap turned negative.
USA: Retail sales (Aug)	13:30	% m/m	1.2	1.0	--	--
USA: Fed meeting	19:00	%	0.00-0.25	0.00-0.25	--	--
Thursday, 17 September						
POL: Wages (Aug)	**9:00**	**% y/y**	**3.8**	**4.0**	**4.1**	Labour market continued normalization as the AntiCrisis shield instruments expire.
POL: Employment (Aug)	**9:00**	**% y/y**	**-2.3**	**-1.7**	**-1.3**	
EUR: HICP inflation (Aug, fin.)	10:00	% y/y	0.4	-0.2	--	--
UK: BoE meeting	12:00	%	0.10	0.10	0.10	--
USA: Housing starts (Aug)	13:30	mn	1.5	1.5	--	--
USA: Initial Jobless Claims (Sep)	13:30	thous.	884	880	--	--
JAP: BoJ meeting	--	%	-0.10	-0.10	-0.10	--
Friday, 18 September						
POL: Industrial production (Aug)	**9:00**	**% y/y**	**1.1**	**2.8**	**1.7**	Output recovered but more rapid gains depend on further pandemic developments.
POL: PPI inflation (Aug)	**9:00**	**% y/y**	**-0.6**	**-0.9**	**-1.0**	Deflationary pressures may increase with imported deflation from the Eurozone.
USA: University of Michigan sentiment (Sep, flash)	15:00	pts.	74.1	75.2	--	--

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

Selected economic indicators and forecasts

	Jun-20	Jul-20	Aug-20	1q20	2q20	3q20	4q20	2019	2020†	2021
Economic activity										
Real GDP (% y/y)	x	x	x	2.0	-8.2	-1.9	-3.5†	4.1	-3.9	4.1†
Domestic demand (% y/y)	x	x	x	1.7	-9.5	-4.7†	-4.0†	3.0	-3.4	1.9†
Private consumption (% y/y)	x	x	x	1.2	-10.9	1.8†	-3.5†	3.9	-3.7	4.1†
Gross fixed capital formation (% y/y)	x	x	x	0.9	-10.9	-19.7†	-11.6†	7.2	-11.7	0.3†
Inventories (pp)	x	x	x	0.0	-1.7	-2.2†	0.7†	-1.4	0.6	-1.1†
Net exports (pp)	x	x	x	0.4	0.8	-1.1†	0.3†	1.2	-0.6	2.3†
Industrial output (% y/y)	0.5	1.1	1.7	0.9	-13.6	-4.5	-5.5	4.0	-5.8	6.8
Construction output (% y/y)	-2.3	-10.9	-12.4	5.0	-2.8	x	x	3.6	x	x
Retail sales (real, % y/y)	-1.3	3.0	0.9	0.8	-10.7	x	x	5.4	x	x
Nominal GDP (PLN bn)	x	x	x	552.2	524.9	546.6†	627.2†	2273	2241	2375†
Labour market										
Registered unemployment rate‡(%)	6.1	6.1	6.2	5.4	6.1	8.2	8.1†	5.2	8.1	7.5
Employment in enterprises (% y/y)	-3.3	-2.3	-1.3	0.8	-2.0	-2.7	-2.4	2.7	-1.7	-1.3
Wages in enterprises (% y/y)	3.6	3.8	4.1	7.0	2.1	0.7	1.1	6.6	2.7	3.5
Prices^										
CPI inflation (% y/y)	3.3	3.0	2.9	4.5	3.2	2.8	2.6	2.3	3.3	2.2
Core inflation (% y/y)	4.1	4.3	4.1	3.4	3.8	4.1	3.7	1.9	3.8	1.7
15% trimmed mean (% y/y)	3.5	3.3	x	3.4	3.4	x	x	2.0	x	x
PPI inflation (% y/y)	-0.8	-0.6	-1.0	0.2	-1.3	-0.2	0.5	1.2	-0.1	-0.1
Monetary aggregates‡										
Money supply, M3 (PLN bn)	1746.2	1740.8	1745.0	1624.9	1746.2	1713.2	1778.9	1565.6	1783.5	1912.3
Money supply, M3 (% y/y)	18.1	16.8	16.3	11.8	18.1	13.7	13.9	8.3	13.9	7.5
Real money supply, M3 (% y/y)	14.8	13.8	13.4	7.2	14.8	11.2	11.4	4.9	11.4	5.8
Loans, total (PLN bn)	1341.1	1330.5	x	1366.6	1341.1	1349.0	1358.4	1323.7	1358.4	1413.5
Loans, total (% y/y)	3.1	1.4	x	6.5	3.1	1.3	2.6	5.1	2.6	4.1
Deposits, total (PLN bn)	1618.7	1611.3	x	1485.1	1618.7	1610.0	1545.8	1406.6	1545.8	1667.1
Deposits, total (% y/y)	19.5	17.4	x	11.2	19.5	14.5	9.9	8.2	9.9	7.8
Balance of payments										
Current account balance (% GDP)	2.3	2.9	3.1	1.3	2.3	2.7	2.5	0.4	2.5	1.6
Trade balance (%GDP)	1.4	1.8	1.9	0.6	1.4	1.7	1.8	0.5	1.8	0.8
FDI (% GDP)	1.8	1.6	1.3	1.3	1.8	1.2	1.3	2.2	1.3	1.8
Fiscal policy										
Fiscal balance (% GDP)	x	x	x	x	x	x	x	-0.7	-11.0	-4.0
Public debt (% GDP)	x	x	x	x	x	x	x	46.0	62.2	63.3
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] (%)	0.26	0.23	0.23	1.17	0.26	0.30	0.30	1.71	0.30	0.30
Real WIBOR 3M[x] (%)[#]	-3.04	-2.77	-2.67	-3.43	-3.04	-2.30	-1.90	-1.69	-1.90	-2.10
Exchange rates[x]‡										
EUR-PLN	4.47	4.41	4.40	4.55	4.46	4.43	4.50	4.26	4.50	4.40
USD-PLN	3.98	3.72	3.73	4.15	3.98	3.88	4.02	3.80	4.02	3.83
CHF-PLN	4.18	4.09	4.10	4.30	4.18	4.14	4.23	3.92	4.23	4.07
EUR-USD	1.12	1.18	1.19	1.11	1.12	1.14	1.12	1.12	1.12	1.15

Source: GUS, NBP, PKO Bank Polski.
[x] 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	“Today, we can say that there is no such room [for further rate cuts] left (…) If we raise that interest rate relatively mildly, I would not be especially concerned with negative effects for the economy." (07.08.2020, 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	„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).

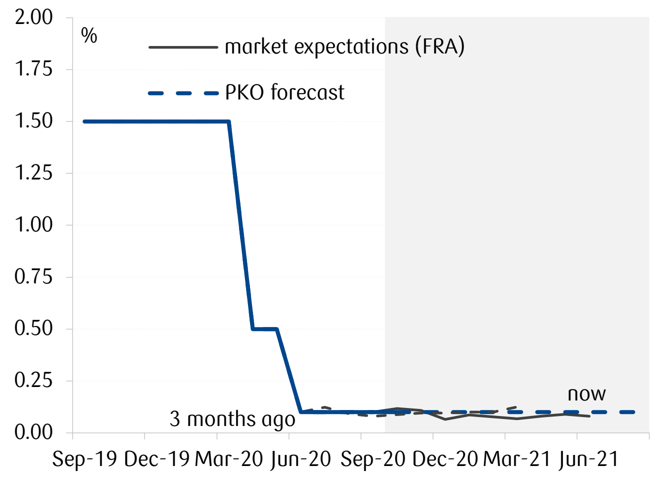
Interest rates – PKO BP forecasts vs. market expectations

		1M	2M	3M	4M	5M	6M	7M	8M	9M
Date	10-Sep	10-Oct	10-Nov	10-Dec	10-Jan	10-Feb	10-Mar	10-Apr	10-May	10-Jun
WIBOR 3M/FRA†	0.23	0.25	0.24	0.20	0.22	0.21	0.20	0.21	0.22	0.21
implied change (b. p.)		0.02	0.01	-0.04	-0.01	-0.02	-0.03	-0.02	-0.01	-0.02
MPC Meeting	15-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*		0.12	0.11	0.07	0.09	0.08	0.07	0.08	0.09	0.08

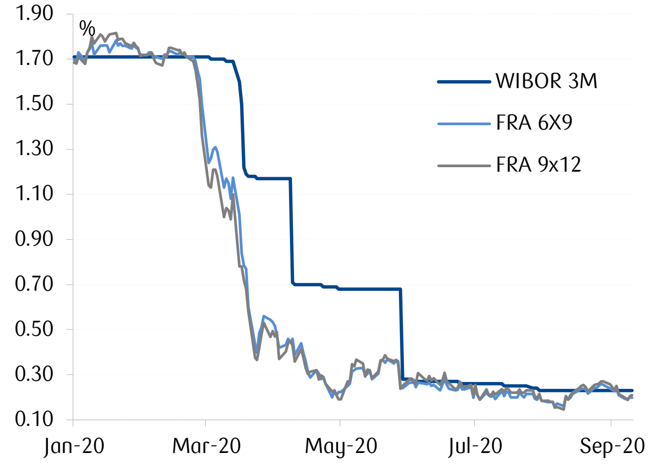
†WIBOR 3M from the last fixing, FRA transactions based on WIBOR 3M for subsequent periods, ‡in basis points, *PKO BP forecast of the NBP reference rate.

Poland macro chartbook

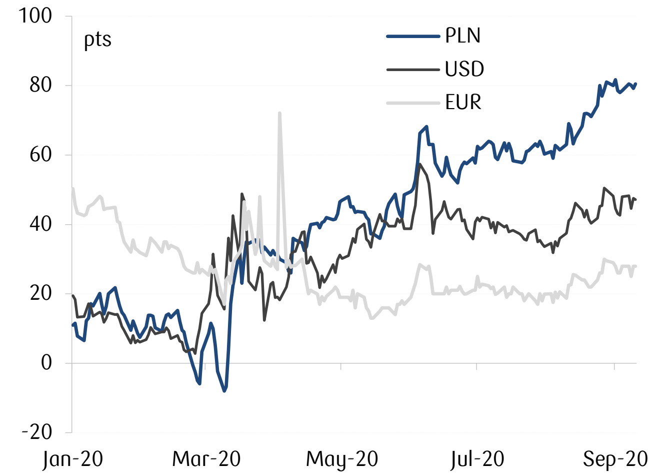
NBP policy rate: PKO BP forecast vs. market expectations



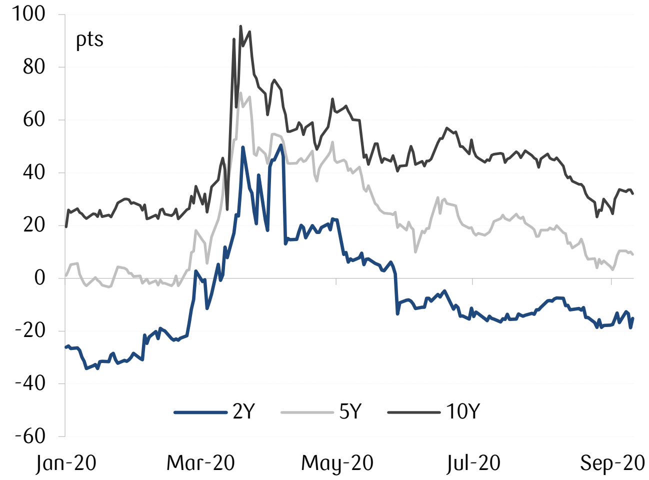
Short-term PLN interest rates



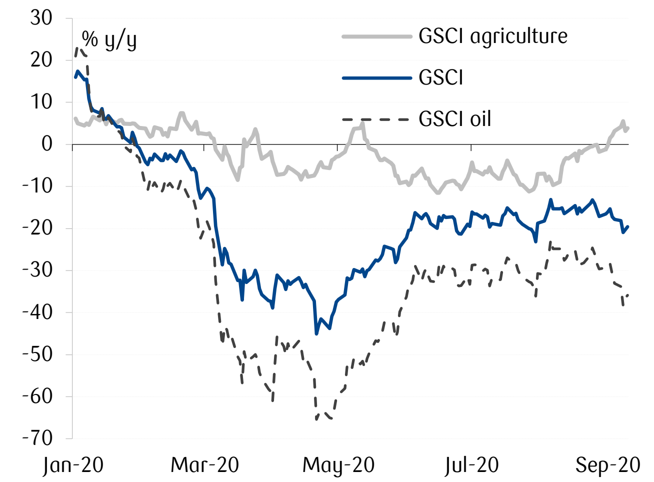
Slope of the swap curve (spread 10Y-2Y)*



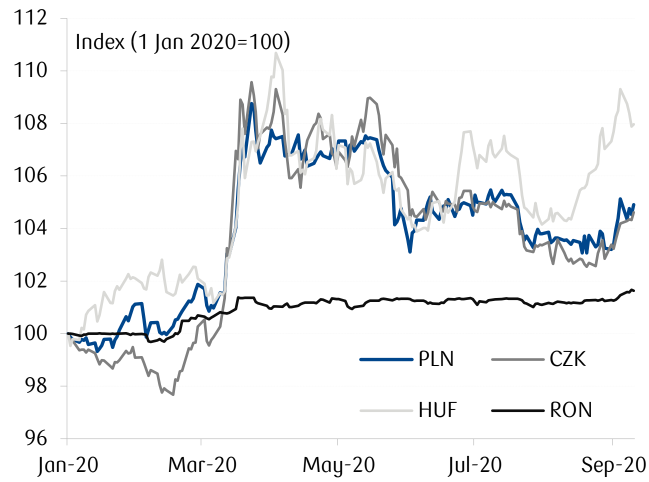
PLN asset swap spread



Global commodity prices (in PLN)

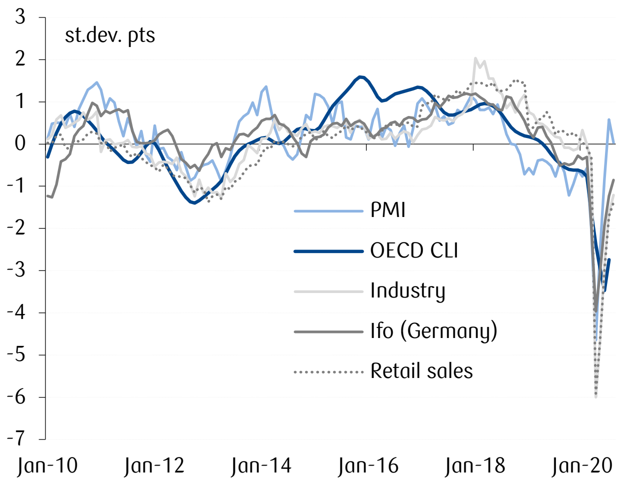


Selected CEE exchange rates against the EUR

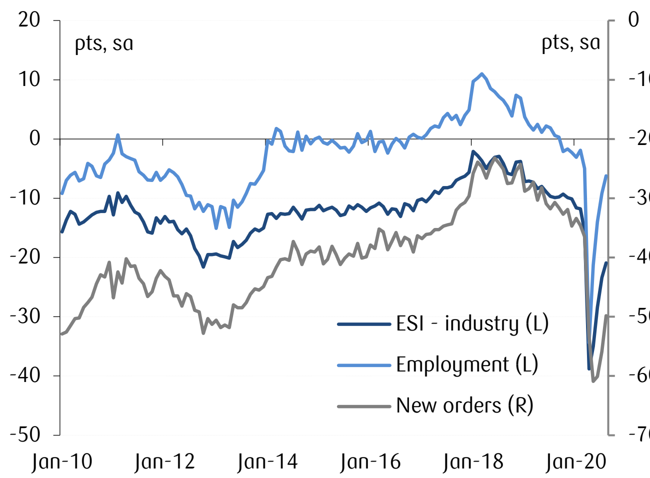


Source: Datastream, NBP, PKO Bank Polski. *for PLN, and EUR 6M, for USD 3M.

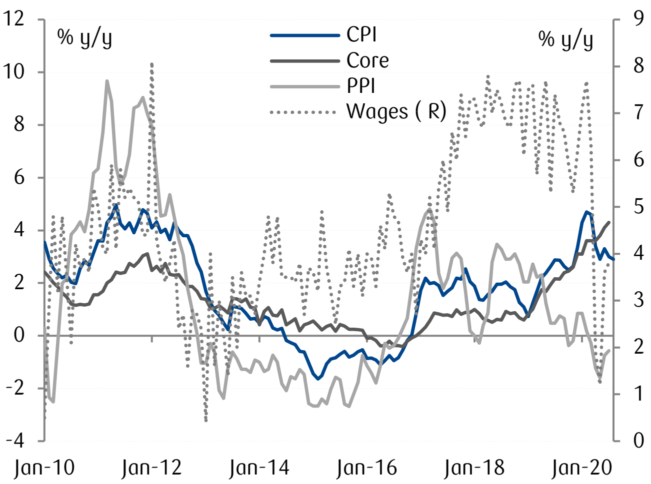
Economic sentiment indicators



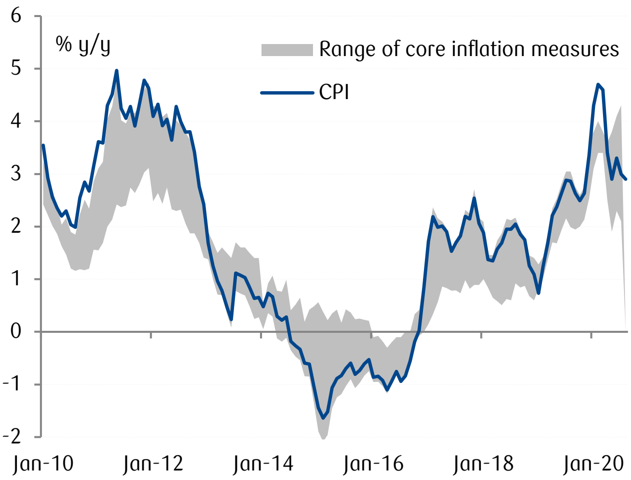
Poland ESI for industry and its components



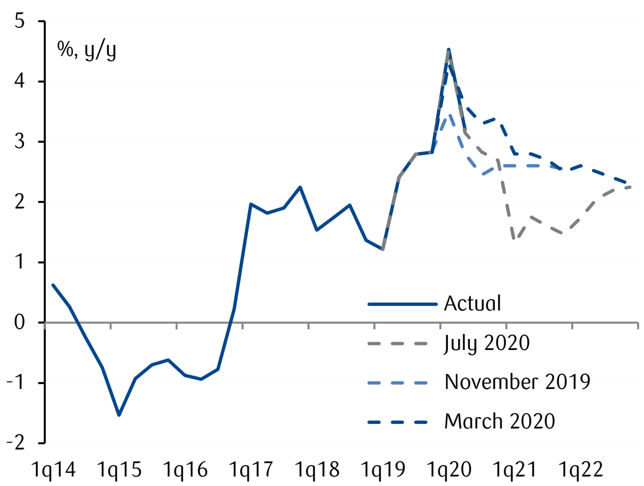
Broad inflation measures



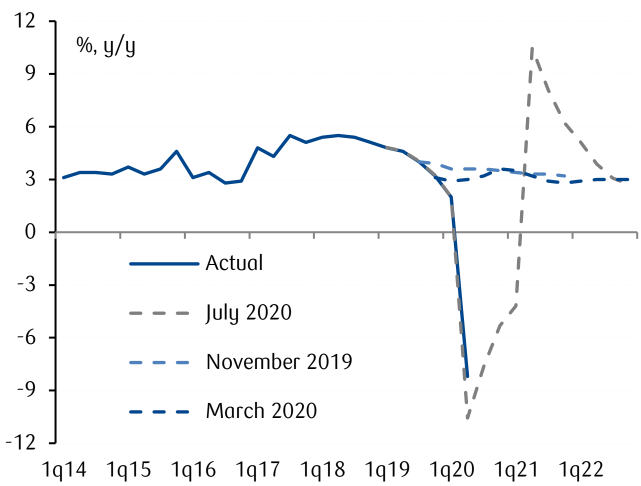
CPI and core inflation measures



CPI inflation – NBP projections vs. actual

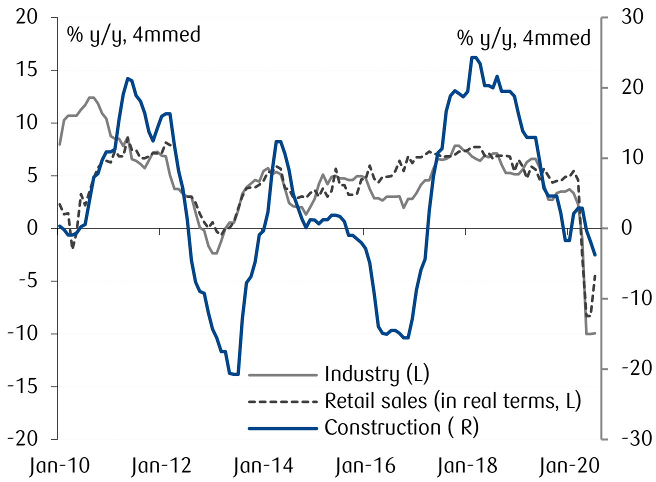


Real GDP growth – NBP projections vs. actual

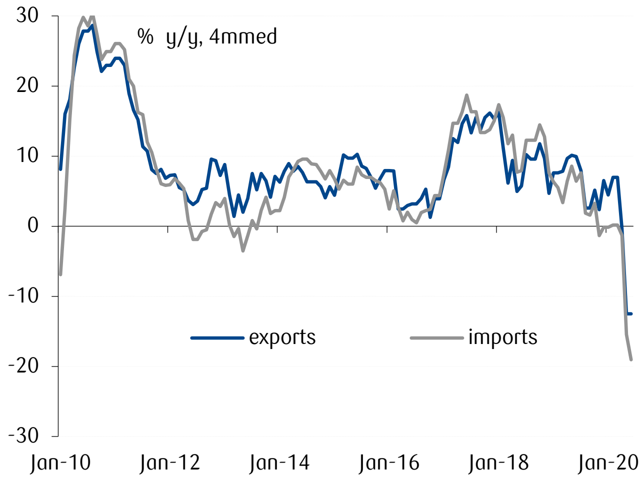


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

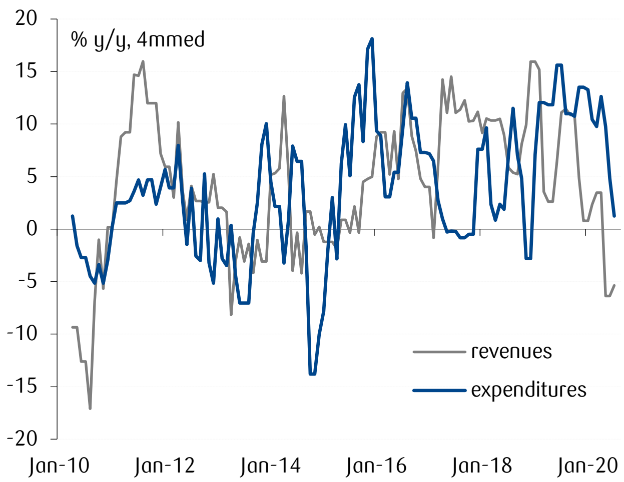
Economic activity indicators



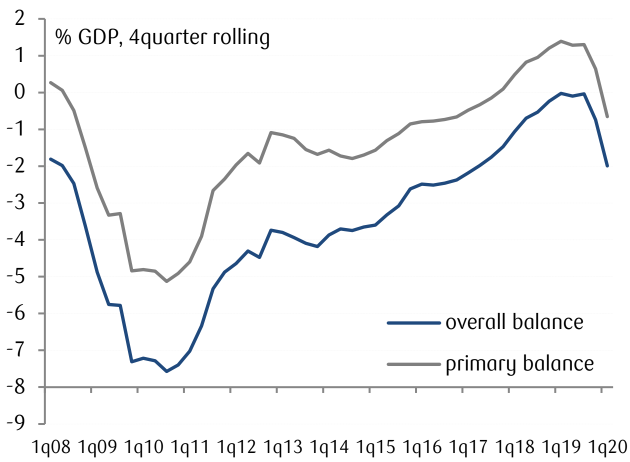
Merchandise trade (in EUR terms)



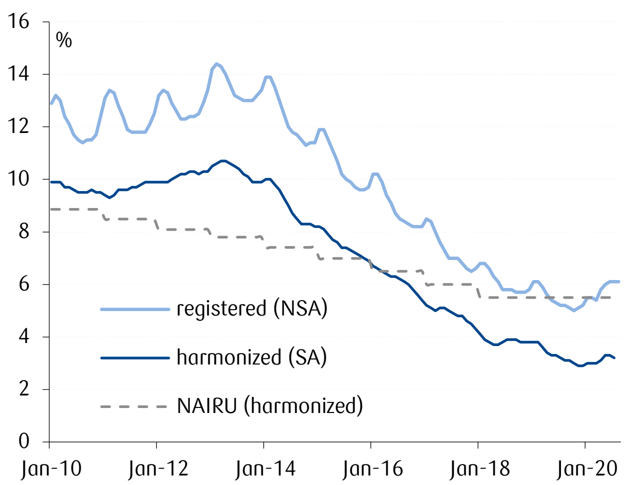
Central government revenues and expenditures*



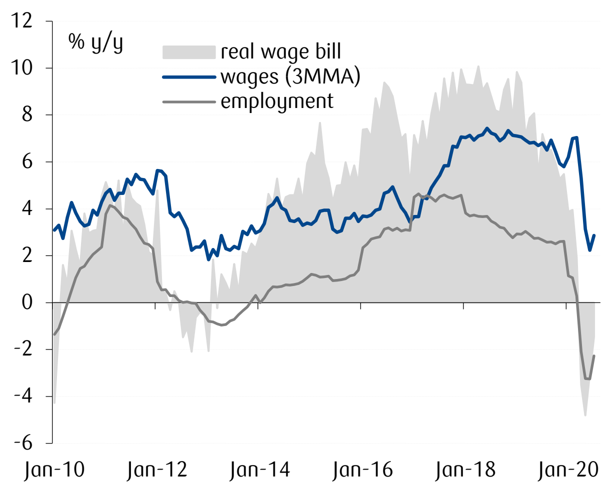
General government balance (ESA2010)



Unemployment rate

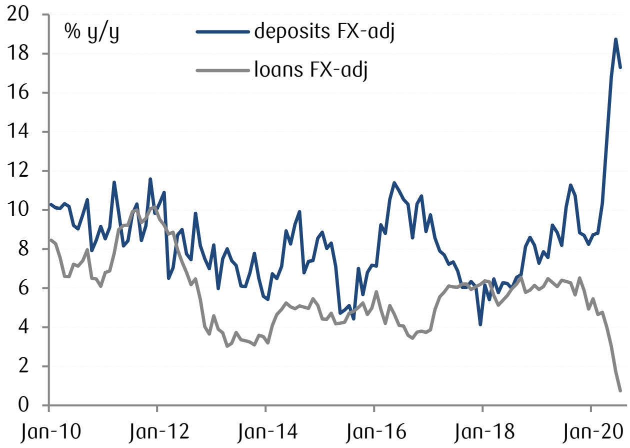


Employment and wages in the enterprise sector

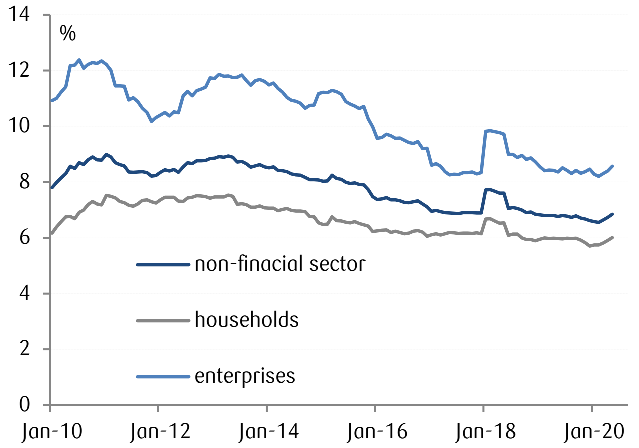


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. *break in series in 2010 due to methodological changes.

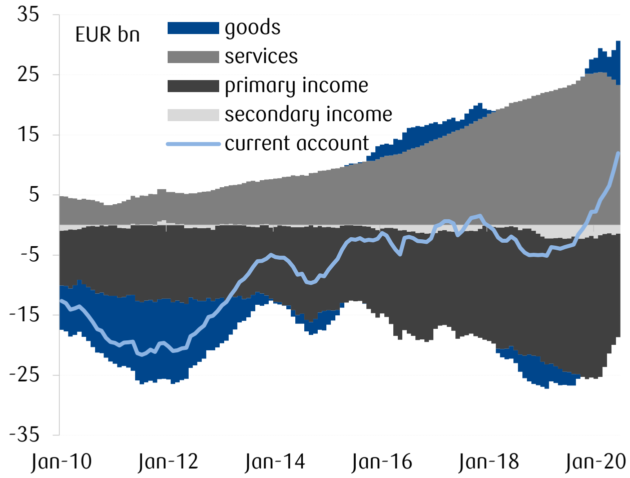
Loans and deposits



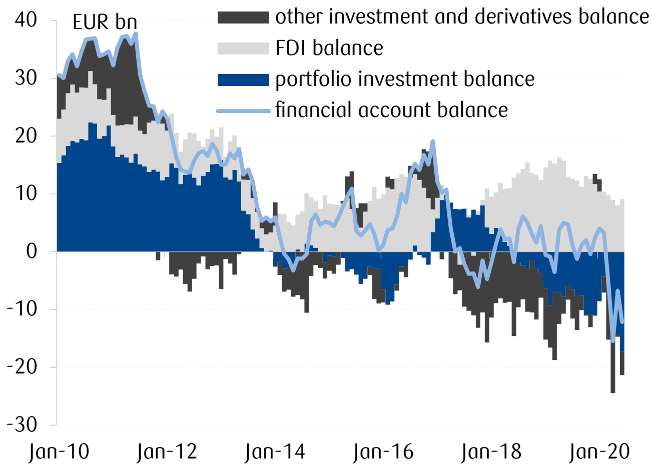
Non-performing loans (NPLs) – by sectors*



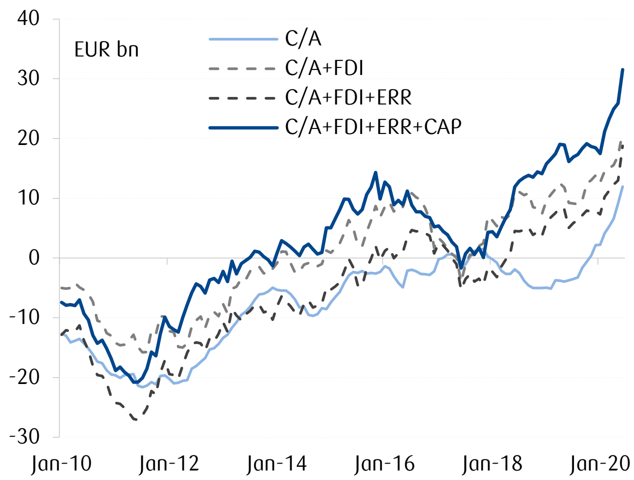
Current account balance



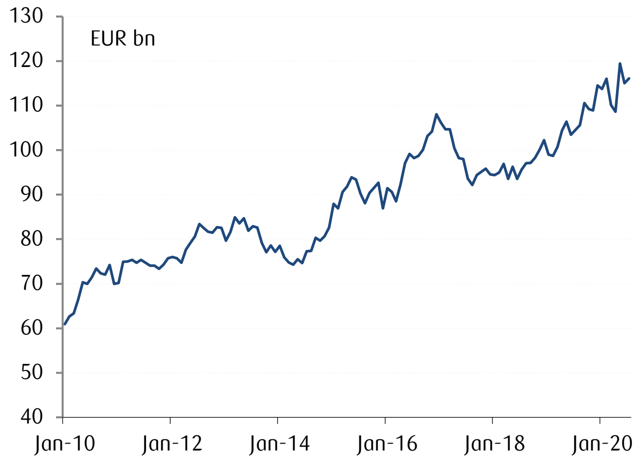
Financial account balance



External imbalance measures



NBP FX reserves (in EUR terms)



Source: NBP, PKO Bank Polski. *break in series in Jan2018 due to methodological changes.

Previous issues of PKO Macro Weekly:

- Better than feared (Sep 4, 2020)
- Labour market at a crossroads (Aug 28, 2020)
- Is the crisis over? (Aug 21, 2020)
- Cash is king (Aug 7, 2020)
- EU Recovery Fund: final approach (Jul 31, 2020)
- 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)
- Infected manufacturing index (Apr 3, 2020)
- Quarantined GDP growth (Mar 27, 2020)
- Quarantitative Easing (Mar 20, 2020)
- Pandenomics (Mar 13, 2020)
- Polish MPC not infected (Mar 6, 2020)
- The end of carnival – forecast update (Feb 28, 2020)
- Strong production, weaker sales (Feb 21, 2020)
- The MPC's conundrum (Feb 14, 2020)
- Rosy sentiment, harsh reality (Feb 7, 2020)
- 28 years of economic expansion (Jan 31, 2020)
- GDP growth dragged down by construction (Jan 24, 2020)
- 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)
- MPC dampens rate cut expectations (Dec 6, 2019)
- Higher inflation, weaker consumption (Nov 29, 2019)
- Labour market softer as the economy slows down (Nov 22, 2019)
- Less growth, less inflation (Nov 15, 2019)
- Healthy profits (Nov 8, 2019)

Poland's macro in a nutshell

	2019	2020*	Comment
Real economy - real GDP (%)	4.1	-3.9	In 2q20 GDP bottomed out falling by 8.2% y/y. Both private consumption and investment declined by double-digit rates. While negative tendencies on the investment side continue, high-frequency data points at significant rebound in private consumption and in exports. 3q20 seems to be much stronger and V-shaped than we have previously assumed thus we put our whole year GDP forecast under an (upward) revision.
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	2.5	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	-11.0	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. *under revision.

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