

Is the crisis over?

Top macro theme(s):

- **Farewell to the Shield (p. 2):** Along with the economic recovery, companies are gradually withdrawing from the Anti-Crisis Shield instruments.
- **V-shaped recovery it is (p 3):** Economic activity indicators for July point out that the economic recovery in Poland goes on, following a V-shaped pattern.

What else caught our eye:

- **GDP fell by 8.2% y/y in 2q20** (flash estimate). According to Eurostat, GDP decline in Poland (-7.9% y/y sa) was the third lowest among EU countries.
- **CPI inflation in July dropped to 3.0% y/y** (revised from 3.1% r/r vs. 3.3% y/y in June), due to food and natural gas prices. **Core inflation climbed to 4.3% y/y** (highest since 2001) with (Covid-related) inflationary factors weakening.
- **C/A in June recorded yet another 4-digit monthly surplus with goods exports returning to y/y growth. 12-month C/A surplus rose to 2.3% of GDP.**
- **Amended state budget for 2020 includes deficit at PLN 109.3bn (nearly 5% of GDP).** Macro assumptions are slightly conservative (GDP: -4.6%, CPI: 3.3%), so we expect that actual deficit may be somewhat smaller. It could be much smaller than assumed in the amended budget, but the government has decided to shift some of the expenses from 2021 to create fiscal space to co-finance investments related to EU Recovery Plan. 90% of the borrowing needs related to increased budget deficit have already been financed, so the budget amendment is neutral for the local debt market.
- **PPI inflation in July inched up to -0.6% y/y** from -0.8% y/y in June on rebounding commodities prices.
- **Consumer sentiment weakened in August, mostly due to pandemic fears.** However, the important purchases component improved further.

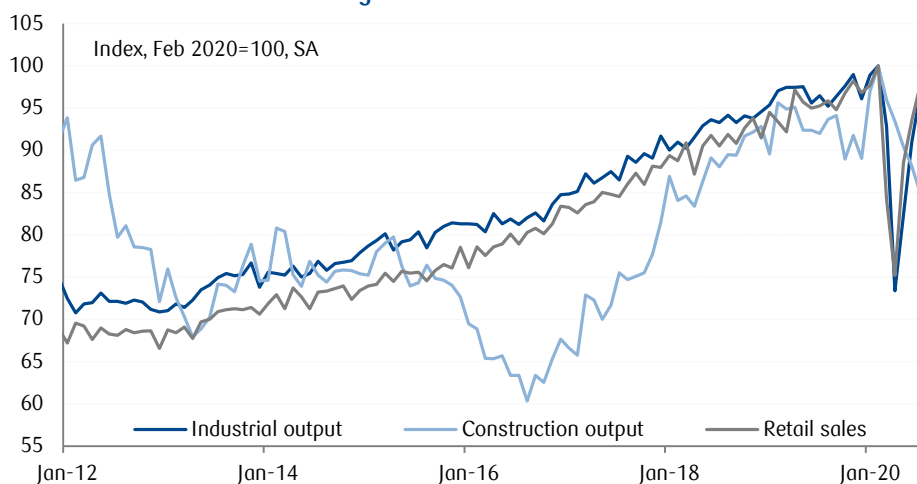
The week ahead:

- NBP's public debt purchases slowed down in July due to lower supply, resulting in somewhat **weaker acceleration of M3 money supply growth.**
- **Unemployment rise has been contained** with registered unemployment rate flat at 6.1% in July due to the introduction of solidarity allowance.
- **Minutes of MPC meeting in July** may shed more light on debate within the Council on whether rates should be corrected upwards or stay unchanged.

Number of the week:

- **903** – the number of new coronavirus infections confirmed today, new record

Chart of the week: Real economy's trends in Poland



Source: GUS, Macrobond, Reuters Datastream, 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	-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.

Farewell to the Shield

- The labour market data for July turned out to be better than expected and, in our opinion, confirm that along with the economic recovery, companies are gradually withdrawing from the Anti-Crisis Shield instruments.
- However, the nearing deadline for the Shield instruments might cause anxiety among workers and probably contributed to the deterioration of consumer sentiment in August.

The labour market data for July turned out to be better than expected and, in our opinion, confirm that along with the economic recovery, companies are gradually withdrawing from the Anti-Crisis Shield instruments.

Average employment in the enterprise sector in July increased by 66 thousand. Statistics Poland explained that employees were returning to pre-pandemic working hours (the employment figure is full-time equivalent) and from care and sick leaves. What is more, some companies are hiring new workers again. However, the number of jobs (FTE) was still 194 thousand lower than in February. Year on year, the decline in employment slowed down to -2.3% from -3.3% in July.

The employment figure has the potential to improve in the coming months as the Anti-Crisis Shield that includes economic downtime, paid care leave and a reduction of the working time expires. Currently it is the number of working persons (which will be announced by the Statistics Poland later this month in the Statistical Bulletin) that is a better indicator of the labour market situation, as it does not convert employment into full-time jobs.

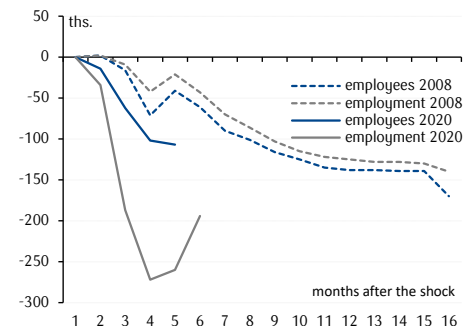
Average wage growth in the enterprise sector accelerated slightly in July (to 3.8% y/y from 3.6% y/y in June) and was faster than expected. Statistics Poland explained that it resulted from the payment of bonuses and pre-retirement benefits, and in some cases from the restoration of pre-crisis levels of wages as well as wage hikes.

So far, the strategy of keeping employment stable and allowing a potential reduction of wages supports the economy's rapid recovery from the pandemic downturn. However, the coming months will reveal the actual stance of the labour market after the Anti-Crisis Shield instruments expire between July and September. Corporate sentiment polls show an improvement in terms of employment plans.

However, the **nearing deadline for the Shield instruments may cause anxiety among workers and probably contributed to the deterioration of consumer sentiment in August.** Compared to the previous month, concerns about the increase in unemployment and the future financial situation of the country and the household have intensified once more.

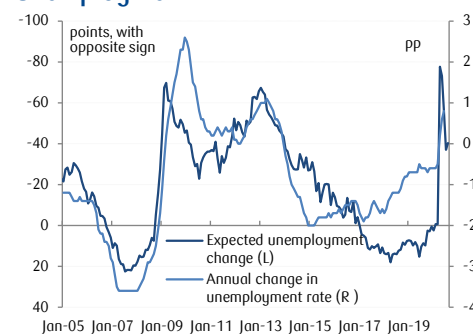
In our opinion, it cannot be ruled out that as part of the adjustment to lower demand in the economy, the unemployment rate will increase in the second half of the year. Even so, for the time being, we stick to the forecast of registered unemployment rate for the end of 2020 at a level slightly above 8%. However, the balance of risk for this forecast is asymmetric downwards.

Change in employment and the number of employees during COVID-19 and GFC



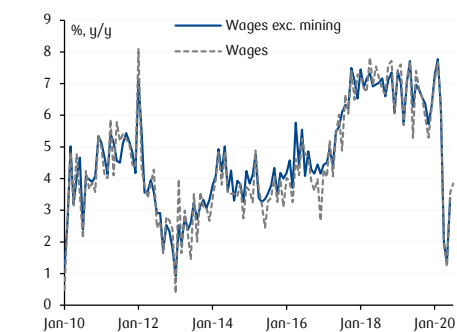
Source: GUS, PKO Bank Polski.

Actual and expected change in unemployment



Source: GUS, PKO Bank Polski.

Wages in the enterprise sector



Source: GUS, PKO Bank Polski.

V-shaped recovery it is

- Economic activity indicators for July point out that the economic recovery in Poland goes on, following (at least on a monthly basis) a V-shaped pattern.

The July's data from the real economy point out that the economic recovery in Poland continues unabated, following (at least on a monthly basis) a "V" pattern. Industrial output is now already 0.2% higher than a year ago (SA), and a mere 3.3% lower than it was in February, just before the Covid19 outbreak in Poland. That said, the production of consumer durables shows visible resilience (in particular furniture, computers and electronic equipment), with exports being a crucial driver of a faster-than-expected economic recovery. Finally, car production has also visibly recovered (returning to an annual growth in July), as factories ended lockdown.

It is not only the external demand that boosts production, however. Internal demand remains solid, as the fiscal shields have safeguarded the labour market during the flash recession, whereas the ongoing recovery encourages firms to recall employees back to work. That said, although consumer sentiment has not yet fully recovered (actually it has inched down a bit in August due to pandemic-related fears) the most crucial component of important purchases has increased yet again pointing to continuing momentum in consumption.

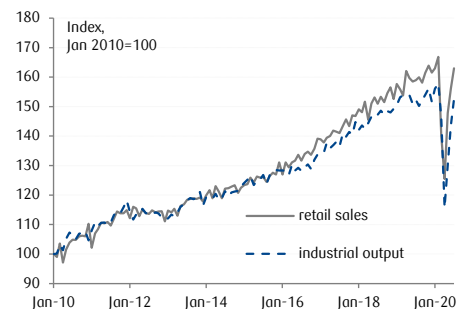
Retail sales have also followed the V-shaped recovery path. The 4-month period of year-on-year sales declines caused by anti-epidemic trade restrictions ended in July when real retail sales increased by 3% y/y and were by only about 2% below the level recorded in February. The recovery of the consumer sector has therefore been fast and almost complete.

The positive reading was not a surprise to us, as it was suggested by the high value of card transactions of PKO Bank Polski clients in July (see chart) and an improvement in car registration. Positive attitudes of consumers towards 'important purchases' are also confirmed by a sustained double-digit growth rate of furniture and household appliance and growing car sales. The increase in sales was wide, and aided by a further decline in prices (-0.3% y/y vs. -0.6% y/y in June).

Construction output in July disappointed with a decline of -10.9% y/y. The sector was not severely affected by the lockdown, but currently suffers from a slump in investment activity (including public investment - civil engineering production fell the most in July).

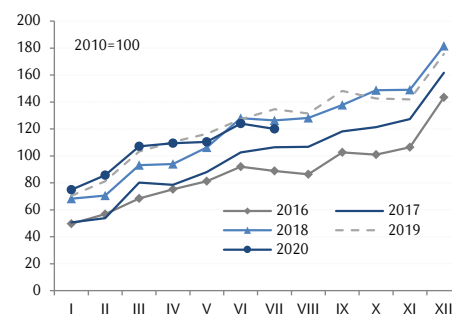
That said, the economy has practically recovered from the lockdown-induced losses and the focus is now on demand. In the case of retail sales, the protection of jobs in recent months and the containment of unemployment growth was essential, therefore we assume a continued increase in consumption (although we have to bear in mind that some services may still underperform). However, the coming autumn months will be a test for consumer demand, as the Anti-Crisis Shield instruments expire (see the previous section) and the number of infections is likely to further accelerate. As not all sectors contribute to the above mentioned monthly data (in particular services - i.e. the sector that has been hit the hardest by the pandemic, with some parts still locked down) they do not prove a general economic recovery. Nonetheless, July's data (along with other higher frequency indicators) point out that the annual GDP decline in 3q20 will be much smaller than in 2q20 (-8.2% y/y, acc. to flash estimate), with our current forecast (-5.6% y/y) likely being too pessimistic.

Industrial output and retail sales (level)



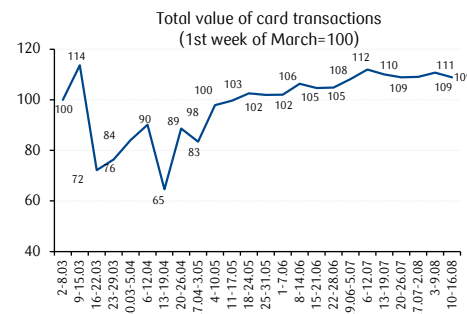
Source: GUS, PKO Bank Polski.

Construction output by month (level)



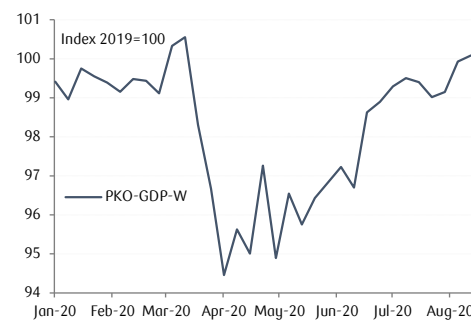
Source: GUS, PKO Bank Polski.

PKO card transactions



Source: Eurostat, Macrobond, PKO Bank Polski.

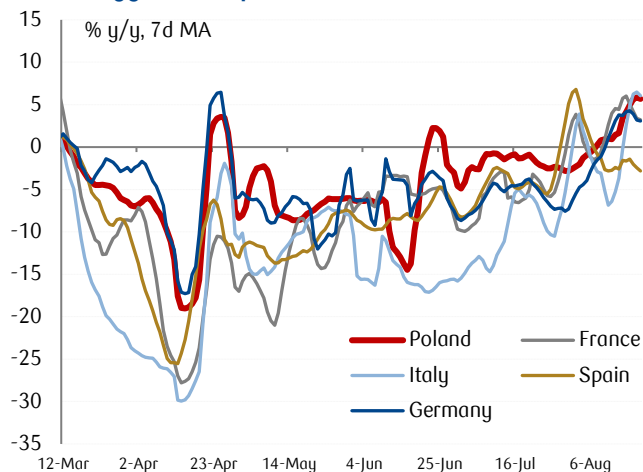
Weekly economic activity tracker [PKO-GDP-W]



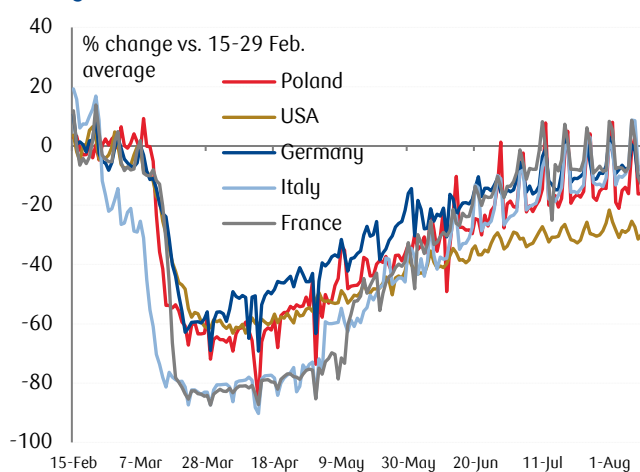
Source: PKO Bank Polski.

Macro monitoring with alternative data[^]

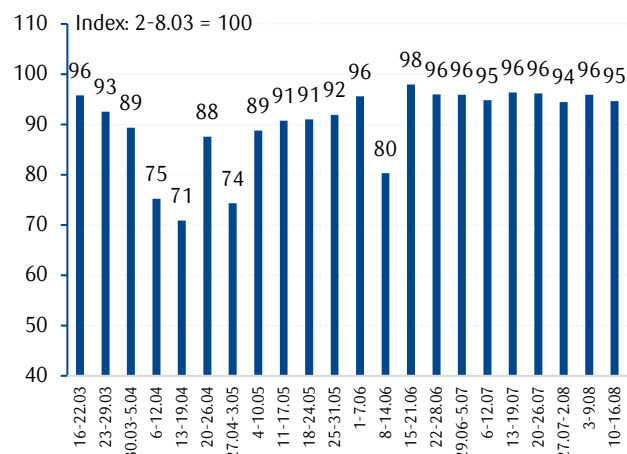
Electric energy consumption (total)



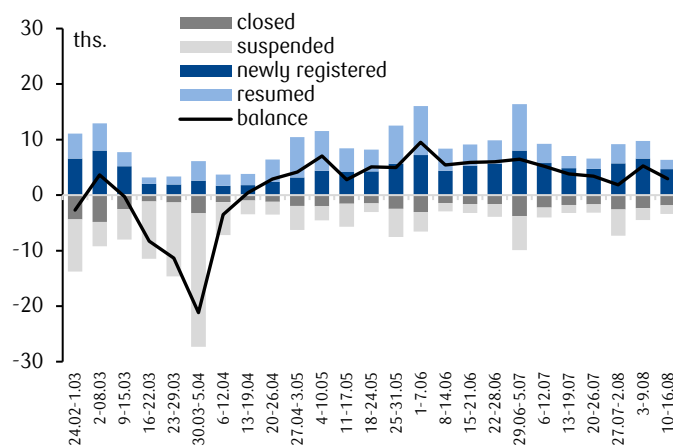
Mobility*



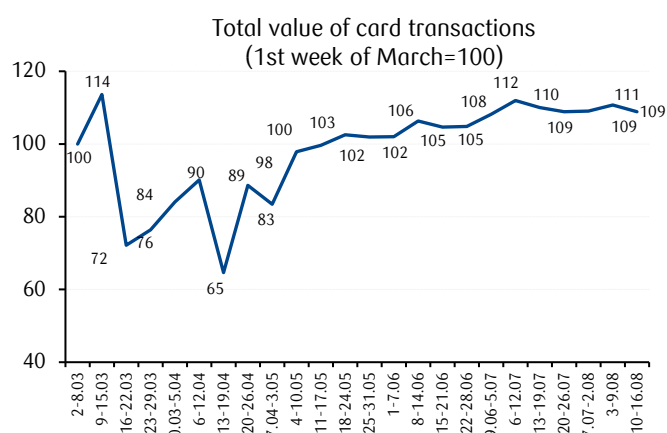
Heavy truck traffic



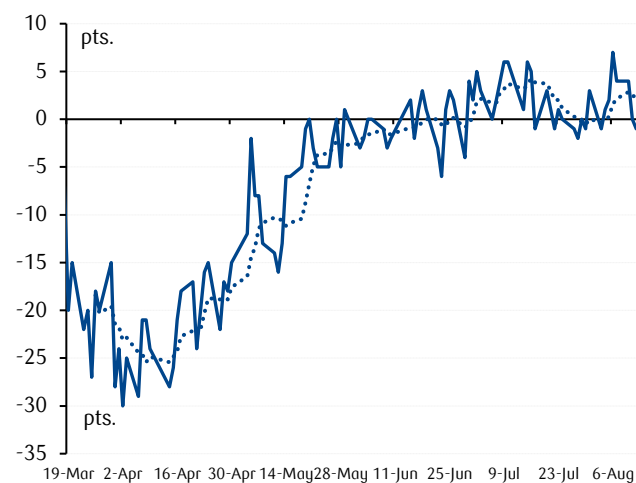
Economic activity status (acc. to CEiDG**)



Consumption based on PKO BP card payments



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, 24 August						
POL: Money Supply M3 (Jul)	13:00	% y/y	18.1	18.5	18.7	NBP's public debt purchases slowed down in July due to lower supply, resulting in somewhat weaker acceleration of M3 money supply growth.
Tuesday, 25 August						
GER: GDP growth (2q)	7:00	% y/y	-1.9	-11.7	--	--
GER: Ifo Business Climate Index (Aug)	9:00	pts.	90.5	92.3	--	--
POL: Unemployment Rate (Jul)	9:00	%	6.1	6.1	6.1	Upward trend in unemployment rate temporarily halted due to the introduction of solidarity allowance.
HUN: MNB meeting (Aug)	13:00	%	0.60	0.60	--	--
USA: S&P CoreLogic CS 20-City (Jun)	14:00	% y/y	3.7	3.7	--	--
USA: Consumer confidence (Aug)	15:00	pts.	96.6	93.2	--	--
USA: New home sales (Jul)	15:00	k	776	775	--	--
Wednesday, 26 August						
USA: Durable goods orders (Jul, flash)	13:30	% m/m	7.6	4.0	--	--
Thursday, 27 August						
EUR: M3 money supply (Jul)	9:00	% y/y	9.2	--	--	--
POL: MPC minutes (Jul)	13:00	--	--	--	--	The minutes from July's MPC meeting will shed light on the reaction of the Council members on the new grim inflation and GDP outlook, strengthening the case for interest rates stabilisation.
USA: GDP growth (2q)	13:30	q/q saar	-5.0	-32.5	--	--
USA: Personal consumption (2q)	13:30	q/q saar	-6.9	-34.6	--	--
USA: Initial Jobless Claims (Aug)	13:30	k	1106	1200	--	--
Friday, 28 August						
EUR: Economic Sentiment Indicator (Aug)	10:00	pts.	82.3	85.0	--	--
EUR: Consumer Confidence (Aug, final)	10:00	pts.	-15.0	-15.0	--	--
USA: Personal Income (Jul)	13:30	% m/m	-1.1	-0.1	--	--
USA: Trade Balance (Jul)	13:30	bn USD	-70.6	-71	--	--
USA: Personal spending (Jul)	13:30	% m/m	5.6	1.5	--	--
USA: PCE Deflator (Jul)	13:30	% y/y	0.8	--	--	--
USA: Core PCE inflation (Jul)	13:30	% y/y	0.9	1.2	--	--
USA: University of Michigan sentiment (Aug, final)	15:00	pts.	72.5	72.8	--	--

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	-8.2	-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	1.1	0.9	-13.6	-4.5	-5.5	4.0	-5.8	6.8
Construction output (% y/y)	-5.1	-2.4	-10.9	5.0	-2.8	x	x	3.6	x	x
Retail sales (real, % y/y)	-7.7	-1.3	3.0	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	-2.3	0.8	-2.0	-2.7	-2.4	2.7	-1.7	-1.3
Wages in enterprises (% y/y)	1.2	3.6	3.8	7.0	2.1	0.7	1.1	6.6	2.7	3.5
Prices^										
CPI inflation (% y/y)	2.9	3.3	3.0	4.5	3.2	2.8	2.6	2.3	3.3	2.2
Core inflation (% y/y)	3.8	4.1	4.3	3.4	3.8	4.1	3.7	1.9	3.8	1.7
15% trimmed mean (% y/y)	3.4	3.5	3.3	3.4	3.4	x	x	2.0	x	x
PPI inflation (% y/y)	-1.7	-0.8	-0.6	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	2.5	1.3	2.3	2.7	2.5	0.4	2.5	1.6
Trade balance (%GDP)	0.9	1.4	1.5	0.6	1.4	1.7	1.8	0.5	1.8	0.8
FDI (% GDP)	1.5	1.8	1.5	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	-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 ^x (%)	0.28	0.26	0.23	1.17	0.26	0.30	0.30	1.71	0.30	0.30
Real WIBOR 3M ^x (%) [#]	-2.62	-3.04	-2.87	-3.43	-3.04	-2.30	-1.90	-1.69	-1.90	-2,10
Exchange rates^{x,‡}										
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	3.83
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	1.15

Source: GUS, NBP, PKO Bank Polski.

^xPKO BP Market Strategy team forecasts.[‡]period averages for quarterly and yearly data.[#]deflated with current CPI inflation.[‡]period end values.[‡]under revision.

Monetary policy monitor

MPC Members	Hawk-o-meter*	Recent policy indicative comments
K. Zubelewicz	4.9	"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	"So in my opinion we should consider hiking it [the reference rate] as it is hard to find positive aspects of keeping it so low, save for a decline in Treasury yields" (10.08.2020, PAP)
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	„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

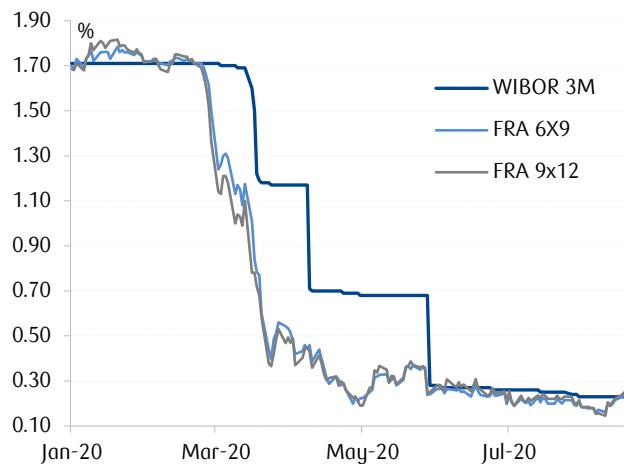
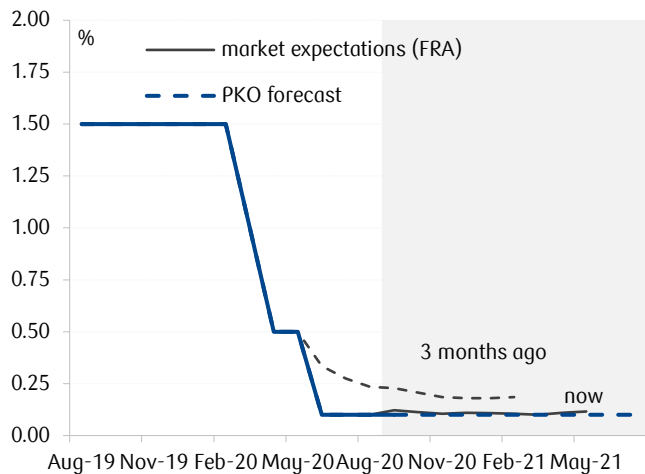
Date	1M	2M	3M	4M	5M	6M	7M	8M	9M	
	20-Aug	20-Sep	20-Oct	20-Nov	20-Dec	20-Jan	20-Feb	20-Mar	20-Apr	20-May
WIBOR 3M/FRA†	0.23	0.25	0.24	0.24	0.24	0.24	0.24	0.23	0.24	0.25
implied change (b. p.)		0.02	0.01	0.00	0.01	0.01	0.00	0.00	0.01	0.02
MPC Meeting	-	9-Sep	7-Oct	4-Nov	2-Dec	-	-	-	-	-
PKO BP forecast*	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
market pricing*		0.12	0.11	0.11	0.11	0.11	0.11	0.10	0.11	0.12

†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

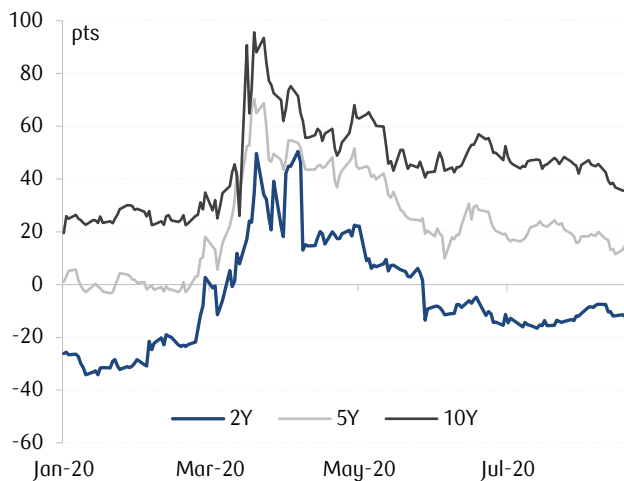
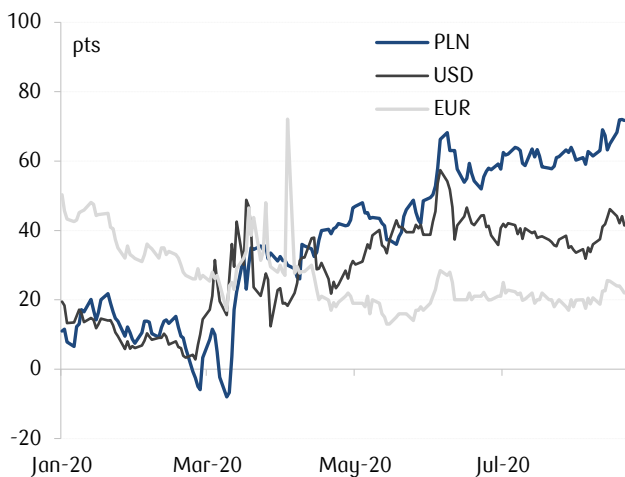
NBP policy rate: PKO BP forecast vs. market expectations

Short-term PLN interest rates



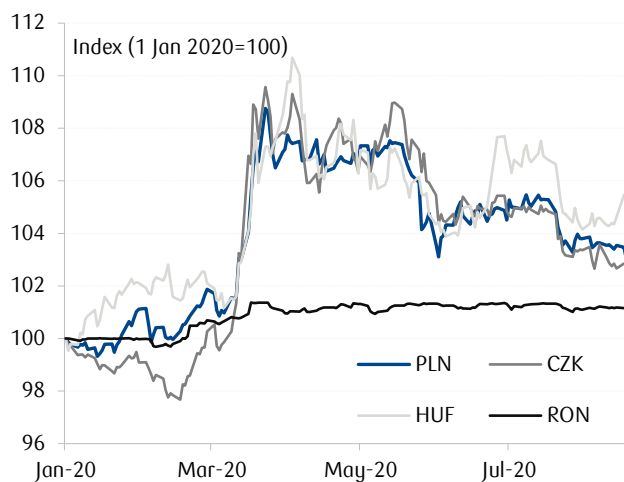
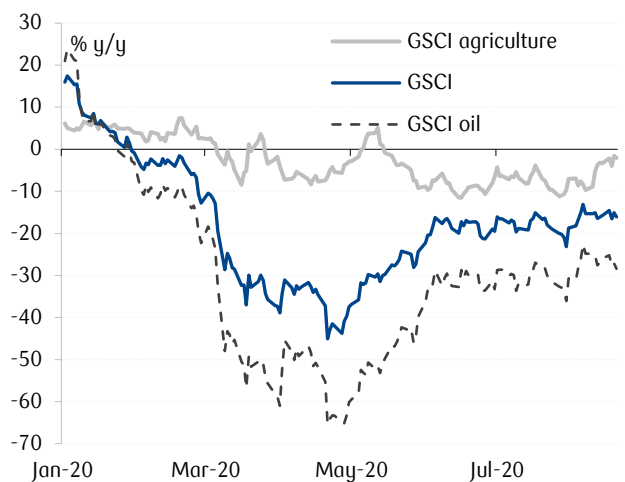
Slope of the swap curve (spread 10Y-2Y)*

PLN asset swap spread



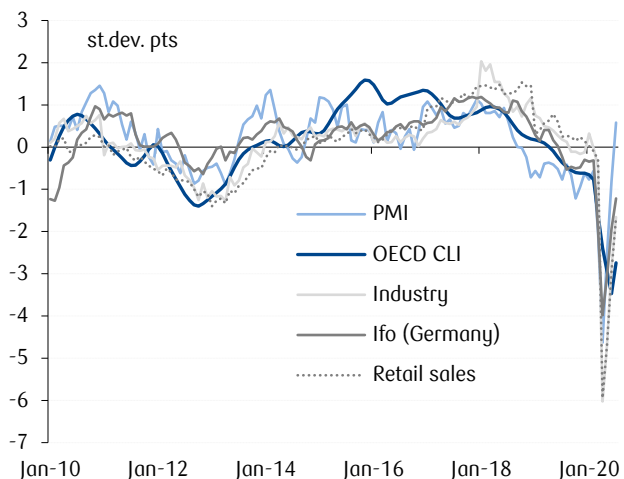
Global commodity prices (in PLN)

Selected CEE exchange rates against the EUR

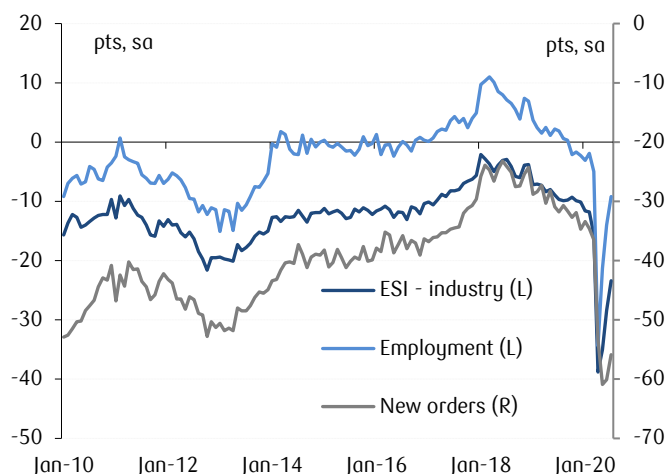


Source: Datastream, NBP, PKO Bank Polski. *for PLN, and EUR 6M, for USD 3M.

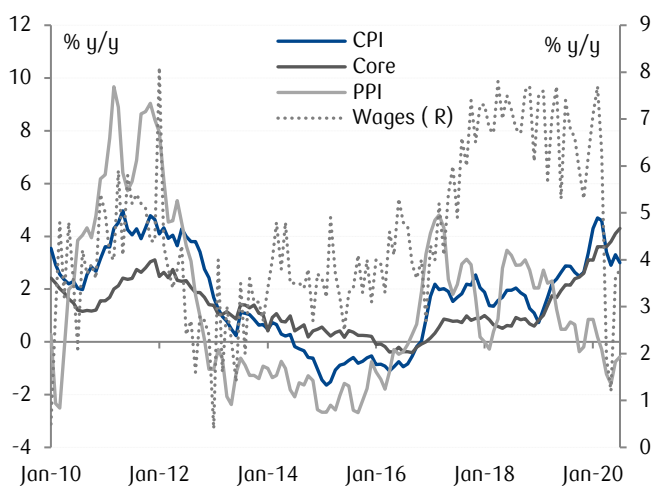
Economic sentiment indicators



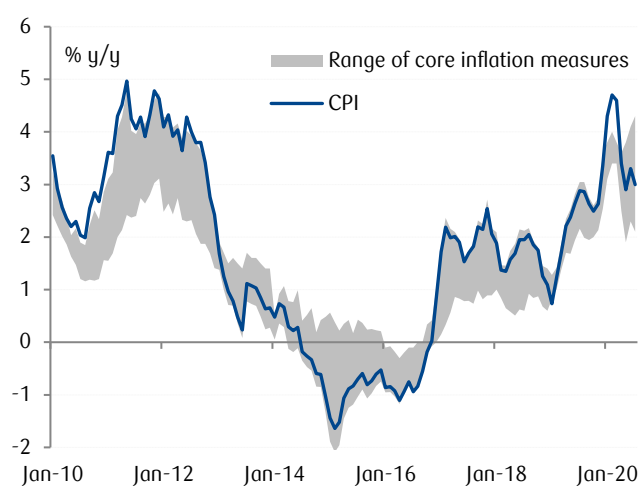
Poland ESI for industry and its components



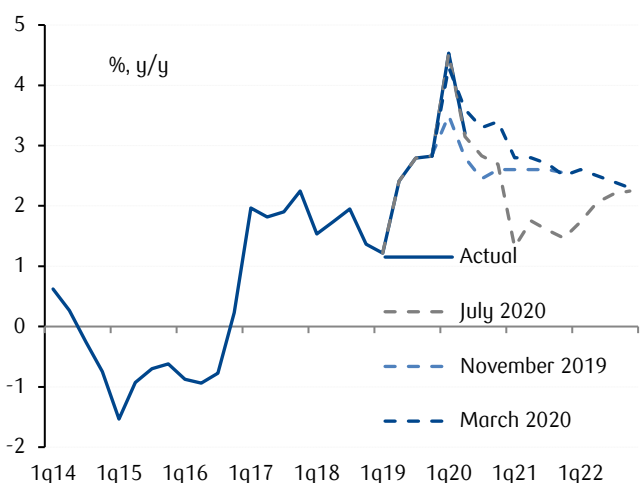
Broad inflation measures



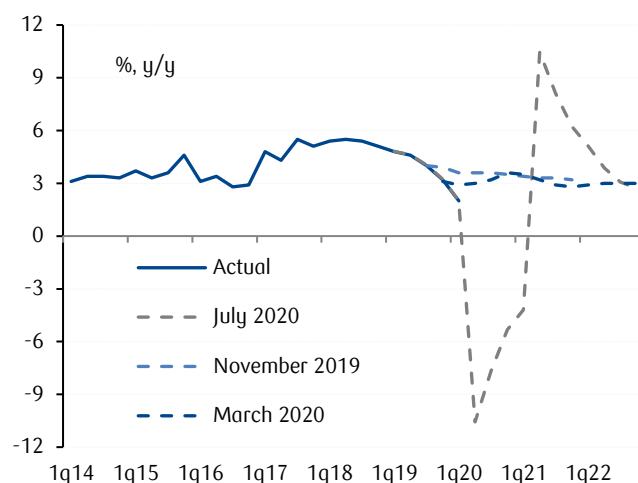
CPI and core inflation measures



CPI inflation - NBP projections vs. actual

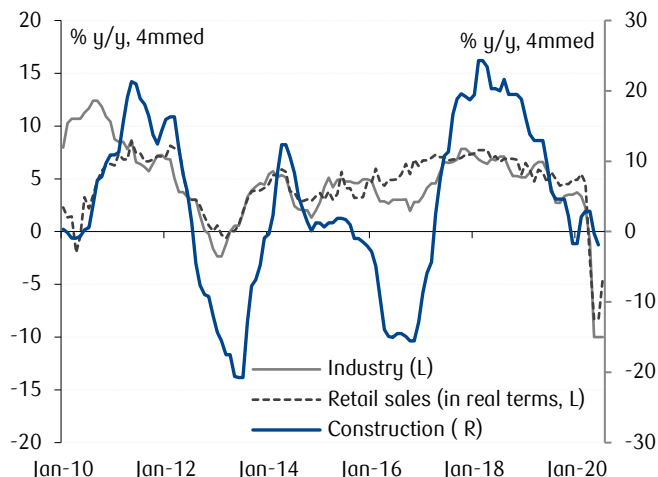


Real GDP growth - NBP projections vs. actual

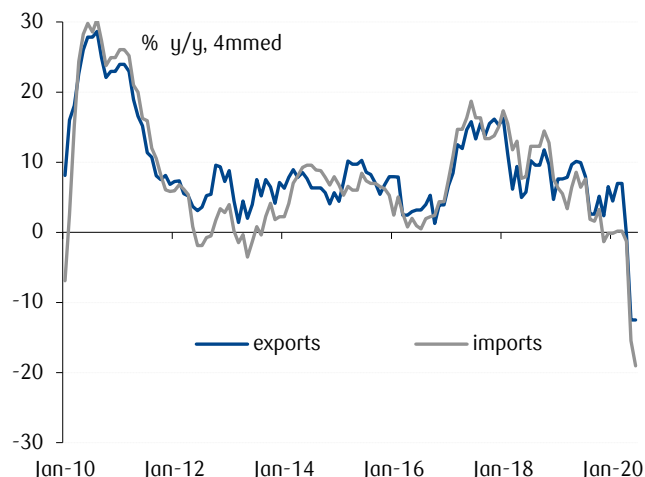


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

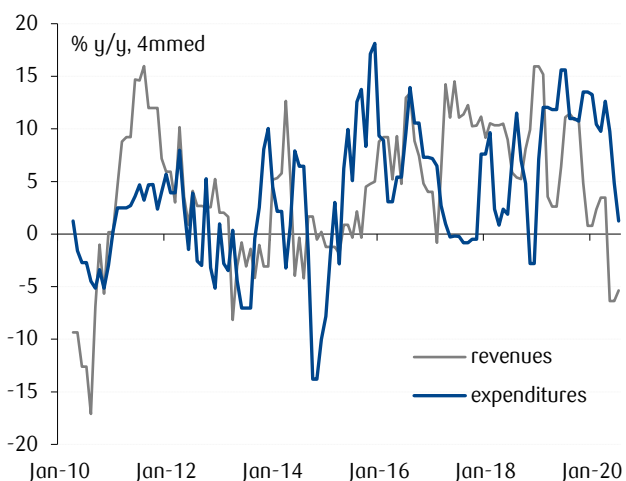
Economic activity indicators



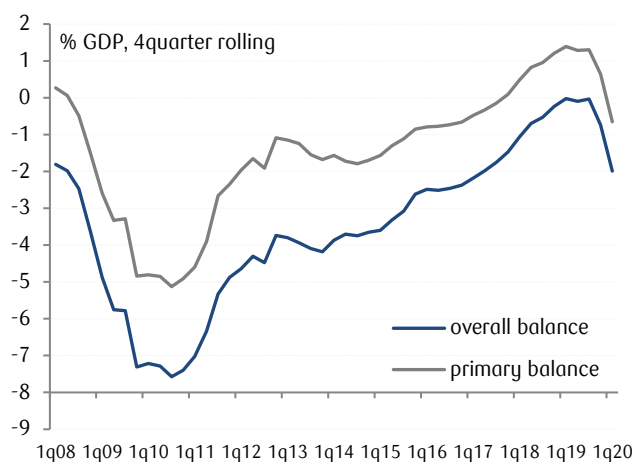
Merchandise trade (in EUR terms)



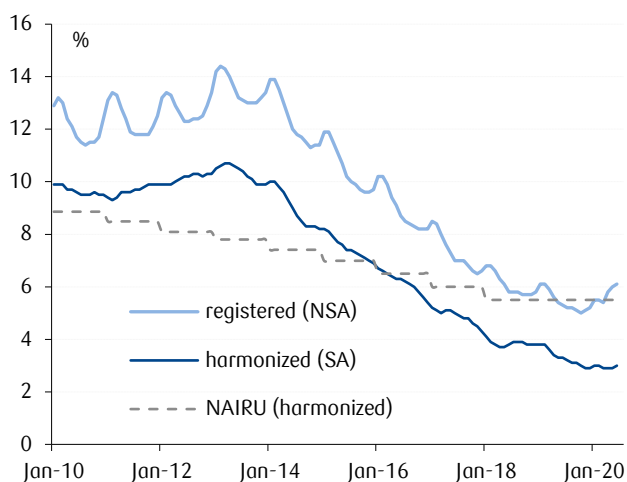
Central government revenues and expenditures*



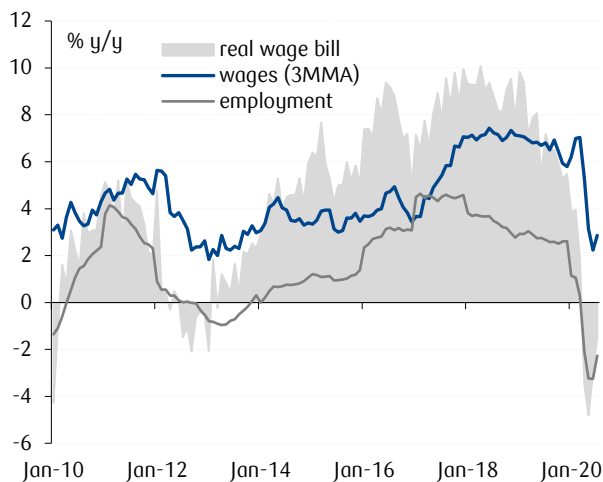
General government balance (ESA2010)



Unemployment rate

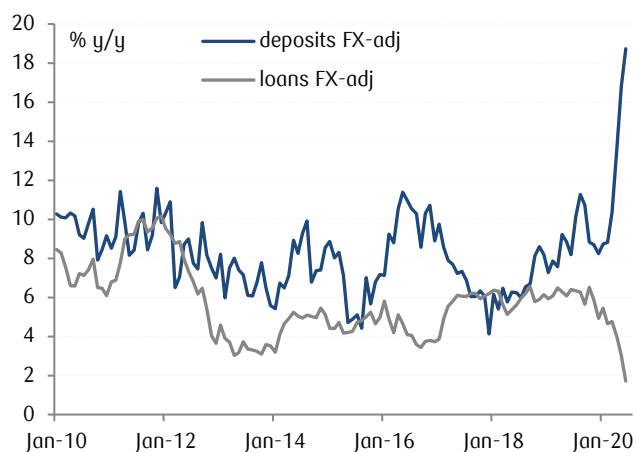


Employment and wages in the enterprise sector

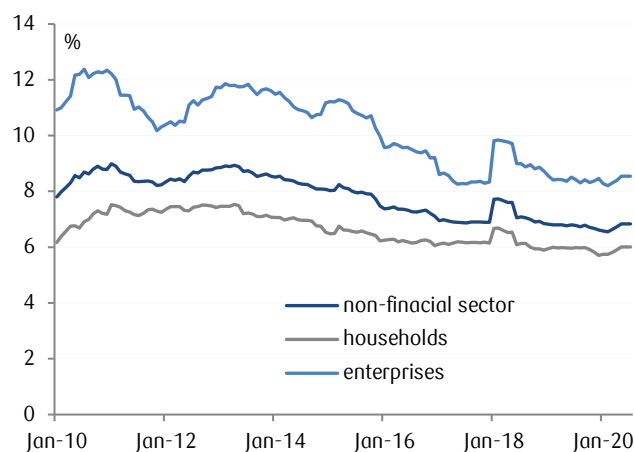


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. *break in series in 2010 due to methodological changes.

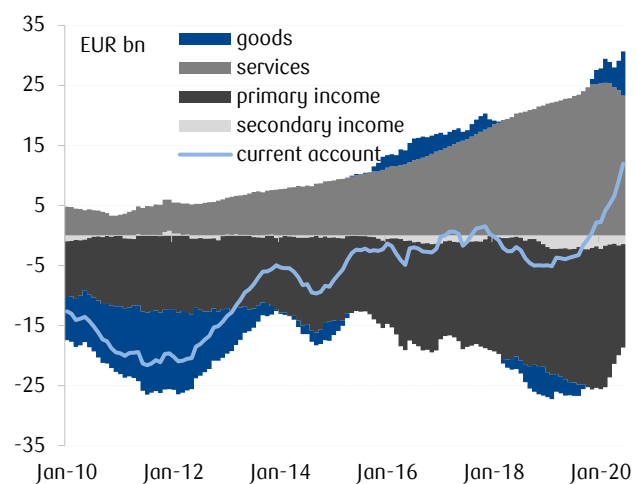
Loans and deposits



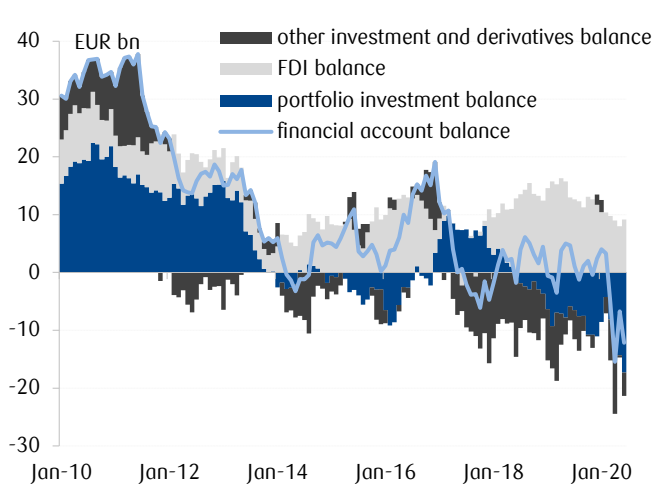
Non-performing loans (NPLs) - by sectors*



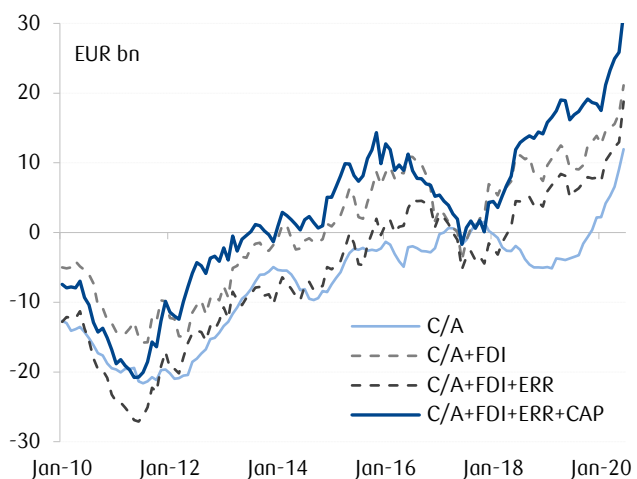
Current account balance



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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- [Consumer prices warm up, housing prices cool down](#) (Jul 3, 2020)
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- [EU Recovery Plan: what's in store for Poland?](#) (Jun 5, 2020)
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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	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	-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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