

Deal done

Top macro theme(s):

- **The pandemic's short-lived effect on migration (p. 2):** In 2019, Poland issued the biggest number of first residence permits among all EU countries. During the first wave of the pandemic there was an outflow of Ukrainian workers, but the negative effect on migration flows has proved to be short-lived.

What else caught our eye:

- After long negotiations with Germany, **Poland and Hungary have agreed on a statement clarifying the way a link between the EU funding and the rule-of-law standards should work.** In the compromise the ties between disbursements from the package and democratic standards still hold up, though such sanctions cannot be triggered before the European Court of Justice's decision on the legality of the new rules. All the hurdles for the 2021-2027 budget and the EUR 750bn worth of Next Generation EU funds have been cleared. This will be a boost to Poland's economic growth over the next few years (we have covered the issue in Poland Macro Weekly: [EU Recovery Fund: final approach](#)).
- **The registered unemployment rate in November remained at 6.1%** (according to the preliminary estimate), contrary to the seasonal pattern indicating a rise. **The unemployment rate has been stable for 6 months**, showing that the anticrisis measures have effectively 'hibernated' the labour market and shielded it from negative effects of the pandemic.
- **The state budget recorded PLN 13bn deficit after November** vs. PLN 12.07bn after October. Full year deficit may be close to PLN 109bn, as the government intends to build financial buffers for 2021, exploiting huge liquidity gained earlier this year. This means that while in headline terms there will be substantial fiscal consolidation the next year, effectively fiscal policy in 2021 will be even more expansionary than this year.

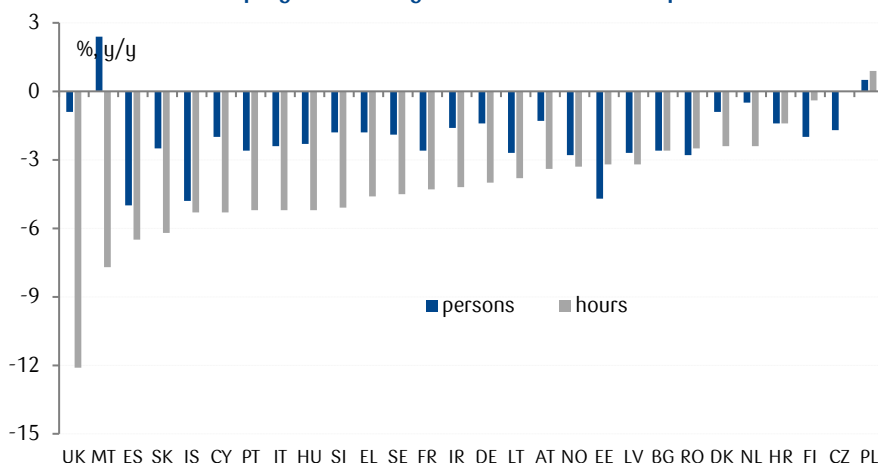
The week ahead:

- **Balance of payments for October** may show calendar-related deterioration of trade volumes, but the record high CA surplus has likely remained intact.
- **Industrial output in November** was supported by calendar effects and well performing global value added chains (PKOe: +4.1% y/y, above consensus). **Data on employment and wages in November** will likely show that the labour market was affected by the second wave, but to a lesser extent than in spring.

Number of the week:

- **EUR 157.7 bn** – EU funds allocation to Poland in 2021-27 (the EU budget and the NGEU, in gross terms, constant prices).

Chart of the week: Employment change in EU countries in 3q20



Source: Eurostat, PKO Bank Polski.

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	2020†	2021†
Real GDP (%)	-3.3	5.1
Industrial output (%)	-3.3	8.3
Unemployment rate# (%)	6.4	5.4
CPI inflation** (%)	3.3	3.1
Core inflation** (%)	3.8	2.9
Money supply M3 (%)	16.8	7.5
C/A balance (% GDP)	3.0	2.8
Fiscal balance (% GDP)*	-9.6	-4.3
Public debt (% GDP)*	61.7	62.4
NBP reference rate## (%)	0.10	0.10
EURPLN‡	4.52	4.40

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.

Pandemic's short-lived effect on migration

- In 2019, Poland issued the biggest number of first residence permits among all EU countries, and kept its leading position obtained in 2016. Unlike in other major EU countries, as much as 86% of permits in Poland were granted for work-related reasons.
- During the first wave of the pandemic one could observe an outflow of Ukrainian workers. The effect of the pandemic on the migration outflow has nonetheless been short-lived.
- Interestingly, the balance of payments indicates that COVID-19 has so far had no significant impact on remittances.

In 2019, Poland issued the biggest number of first residence permits among all EU countries, and kept its leading position first obtained in 2016. Last year a quarter of all European permits were granted in Poland, and the country's 2019 total of 724 thousand was in fact 76 thousand higher than in 2018. The majority of these permits were granted to Ukrainian citizens (600 thousand) and unlike in other European countries 86% of permits in Poland were granted for work-related reasons.

This migration pattern, which initially started in 2014, has been regarded as one of the reasons behind a strong and balanced economic growth recorded in the second half of the 2010's. We have already pointed out many times, that the inflow of short-term Ukrainian workers mitigated the negative effect of ageing and helped to maintain economic expansion. By the same token, the record low unemployment rate has not led to any significant acceleration in CPI inflation.

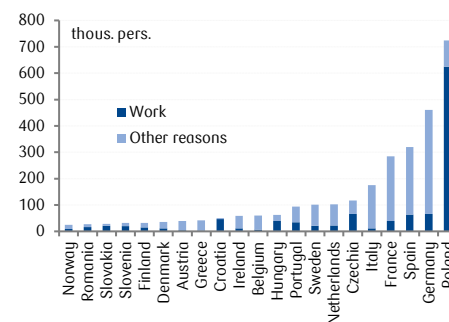
During the first wave of the COVID-19 pandemic, with the quarantined economy and closed borders, one could have observed some outflow of Ukrainian workers. On StatOffice estimates, app. 223 thousand foreigners left Poland between February and April, - ~10% of the 2 million migrants estimated at the end of 2019. 160 thousand of those who left were Ukrainians - app. 12% of the estimated nation's total of 1.3 million. We believe, that the population of short-term Ukrainian workers acted as one of the buffers that prevented the unemployment from growing substantially during the first lockdown. Anecdotal evidence suggests that the pandemic-hit companies chose to dismiss short-term Ukrainian workers instead of laying-off permanent employees, whose wages had been subsidised. On the other hand, foreigners probably preferred spending the lockdown with their families, therefore were rushing home, before the border closures.

The effect of the pandemic on the migration outflow has nonetheless been short-lived. The number of foreigners paying social security contributions at the end of September was higher by 18 thousand than in February and the loss of 65 thousand works vs. the pre-pandemic peak recorded in May has been swiftly rebuilt.

Interestingly, the balance of payments indicates that COVID-19 has so far had no significant impact on remittances. The inbound remittances continued its downward trend, as the late 2000's migration wave to the UK has gradually been cutting its financial connection with Poland. The outbound remittances in 2q20 were by 1.6% higher than a year before.

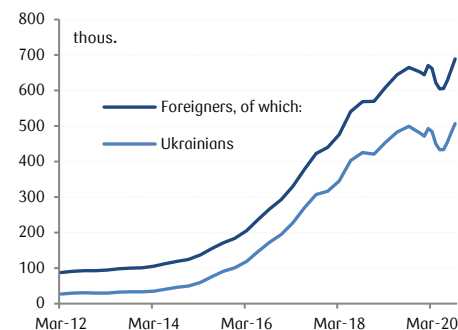
As the end of the pandemic is seemingly approaching, the attention returns to structural challenges of the domestic labour market connected with an aging society. Under this circumstances keeping the migration flow remains an important economic growth prerequisite.

First residence permits by country



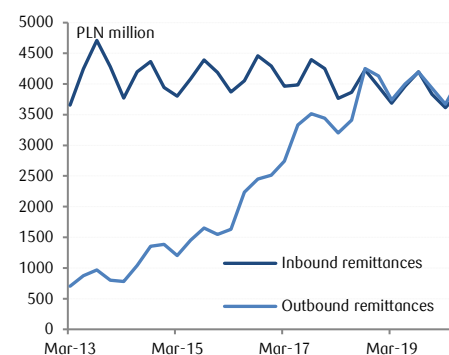
Source: Eurostat, PKO Bank Polski.

Foreigners with social security insurance



Source: ZUS, PKO Bank Polski.

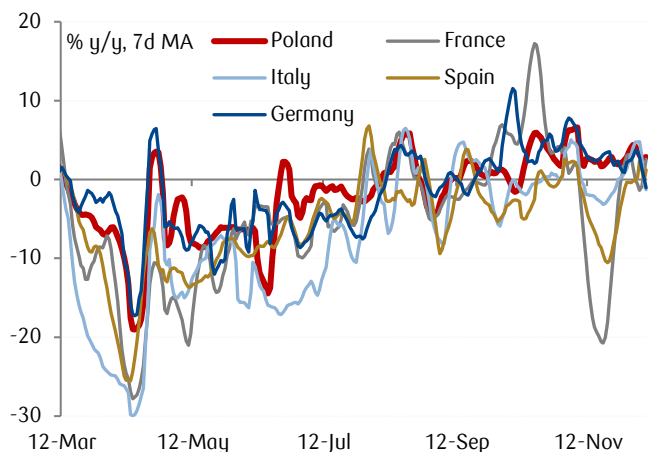
Remittances inflow/outflow



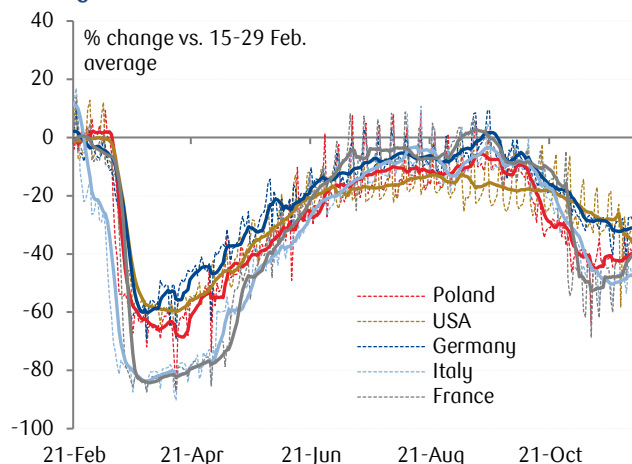
Source: NBP, PKO Bank Polski.

Macro monitoring with alternative data^

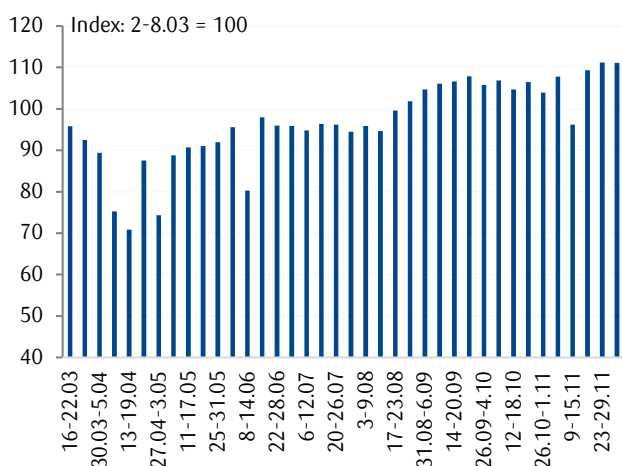
Electric energy consumption (total)



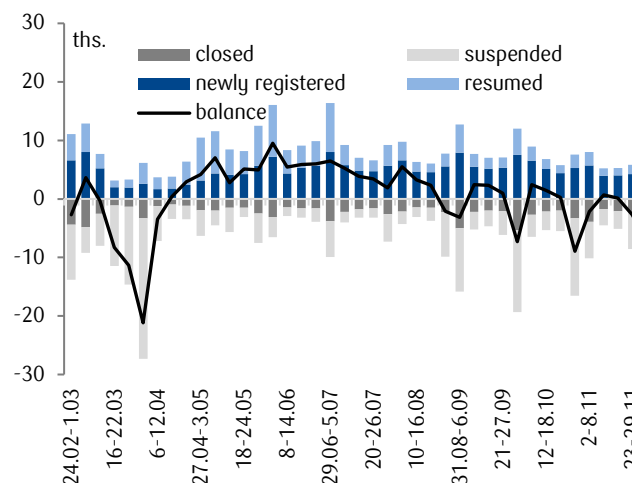
Mobility*



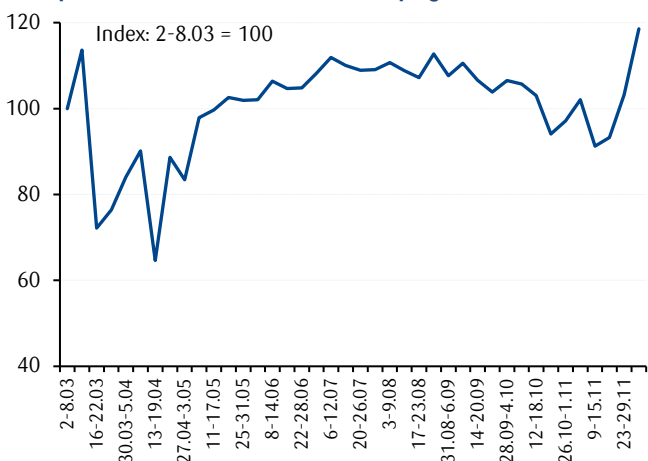
Heavy truck traffic



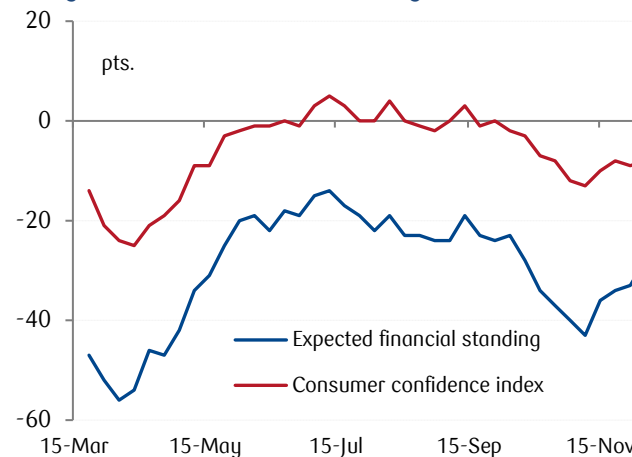
Economic activity status (acc. to CEiDG**)



Consumption based on PKO BP card payments



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, 14 December						
EUR: Industrial production (Oct)	10:00	% y/y	-6.8	-4.5	--	--
POL: Current account balance (Oct)	13:00	bn EUR	1.072	1.155	1.260	Apparent deterioration of international trade growth in October connected with unfavorable calendar. Record high CA surplus has probably remained intact.
POL: Exports (Oct)	13:00	% y/y	4.6	0.4	-0.9	
POL: Imports (Oct)	13:00	% y/y	1.5	-3.8	-5.7	
Tuesday, 15 December						
POL: CPI inflation (Nov, final)	9:00	% y/y	3.1	3.0	3.0	Flash estimate will likely be confirmed. CPI inflation went down on food prices.
HUN: MNB meeting	13:00	%	0.60	0.60	0.60	--
USA: Industrial production (Nov)	14:15		1.1	0.3	--	--
Wednesday, 16 December						
GER: Manufacturing PMI (Dec, flash)	8:30	pts.	57.8	56.5	--	--
GER: Services PMI (Dec, flash)	8:30	pts.	46.0	44.0	--	--
EUR: Manufacturing PMI (Dec, flash)	9:00	pts.	53.8	53.1	--	--
EUR: Services PMI (Dec, flash)	9:00	pts.	41.7	41.9	--	--
POL: Core inflation (Nov)	13:00	% y/y	4.2	4.2	4.3	Core inflation remains elevated due to past hikes in services prices.
USA: Retail sales (Nov)	13:30	% m/m	0.3	-0.2	--	--
USA: Retail sales excl. autos (Nov)	13:30	% m/m	0.2	0.1	--	--
USA: Manufacturing PMI (Dec, flash)	14:45	pts.	56.7	56.5	--	--
USA: Fed meeting	19:00	%	0.00-0.25	0.00-0.25	0.00-0.25	--
Thursday, 17 December						
SWI: SNB meeting	8:30	%	-0.75	-0.75	-0.75	--
NOR: Norges Bank meeting	9:00	%	0.00	0.00	0.00	--
POL: Employment (Nov)	9:00	% y/y	-1.0	-1.4	-1.3	The second wave of the pandemic has likely affected labour market in November, but less severely than during the spring lockdown.
POL: Wages (Nov)	9:00	% y/y	4.7	4.5	4.9	
EUR: HICP inflation (Nov, final)	10:00	% y/y	-0.3	-0.3	--	--
EUR: Core inflation (Nov, final)	10:00	% y/y	0.2	0.2	--	--
UK: BoE meeting	12:00	%	0.10	0.10	0.10	--
CZE: Central bank meeting	13:30	%	0.25	0.25	0.25	--
USA: Housing starts (Nov)	13:30	thous.	1530	1530	--	--
USA: Initial Jobless Claims	13:30	thous.	853	750	--	--
Friday, 18 December						
JAP: BoJ meeting	--	%	-0.10	-0.10	-0.10	--
GER: PPI inflation (Nov)	7:00	% y/y	-0.7	--	--	--
GER: Ifo Business Climate Index (Dec)	9:00	pts.	90.7	90.3	--	--
POL: Industrial production (Nov)	9:00	% y/y	1.0	3.3	4.1	Industry operates on a high capacity as a part of global value added chains, in Nov. additionally supported by the calendar effect.
POL: PPI inflation (Nov)	9:00	% y/y	-0.4	-0.1	-0.2	

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

Selected economic indicators and forecasts

	Sep-20	Oct-20	Nov-20	1q20	2q20	3q20	4q20	2019	2020	2021
Economic activity										
Real GDP (% y/y)	x	x	x	1.9	-8.4	-1.5	-4.9	4.5	-3.3	5.1
Domestic demand (% y/y)	x	x	x	1.0	-9.9	-3.2	-5.6	3.5	-4.3	4.9
Private consumption (% y/y)	x	x	x	1.2	-10.8	0.4	-2.5	4.0	-2.9	5.5
Gross fixed capital formation (% y/y)	x	x	x	0.9	-10.7	-9.0	-9.2	7.2	-7.9	3.7
Inventories (pp)	x	x	x	-0.3	-2.0	-2.3	-2.3	-1.3	-1.6	0.1
Net exports (pp)	x	x	x	0.9	1.1	0.7	0.6	1.1	0.8	0.5
Industrial output (% y/y)	5.9	1.0	4.1	0.9	-13.6	3.2	-2.3	4.0	-3.3	8.3
Construction output (% y/y)	-9.8	-5.9	-5.4	5.0	-2.8	-10.9	x	3.6	x	x
Retail sales (real, % y/y)	2.5	-2.3	-7.3	0.8	-10.7	1.0	x	5.4	x	x
Nominal GDP (PLN bn)	x	x	x	556.4	528.2	582.5	627.1	2279	2294	2482
Labour market										
Registered unemployment rate‡(%)	6.1	6.1	6.2	5.4	6.1	6.1	6.4	5.2	6.4	5.4
Employment in enterprises (% y/y)	-1.2	-1.0	-1.3	0.8	-2.0	-1.9	-2.4	2.7	-1.6	1.0
Wages in enterprises (% y/y)	5.6	4.7	4.9	7.0	2.1	4.3	3.9	6.6	4.3	4.7
Prices^										
CPI inflation (% y/y)	3.2	3.1	3.0	4.6	3.2	3.0	2.4	2.3	3.3	3.1
Core inflation (% y/y)	4.3	4.2	4.3	3.4	3.8	4.2	3.8	1.9	3.8	2.9
15% trimmed mean (% y/y)	3.2	3.1	x	3.4	3.4	3.2	x	2.0	x	x
PPI inflation (% y/y)	-1.6	-0.4	-0.2	0.2	-1.3	-1.2	0.7	1.2	-0.3	1.9
Monetary aggregates‡										
Money supply, M3 (PLN bn)	1762.2	1782.6	1801.7	1624.9	1746.2	1762.2	1828.6	1565.6	1828.6	1965.7
Money supply, M3 (% y/y)	17.0	17.0	16.8	11.8	18.1	17.0	16.8	8.3	16.8	7.5
Real money supply, M3 (% y/y)	13.8	13.9	13.8	7.2	14.9	14.0	14.4	5.0	14.4	5.6
Loans, total (PLN bn)	1337.7	1345.8	x	1366.6	1341.1	1337.7	1353.2	1323.7	1353.2	1417.1
Loans, total (% y/y)	0.5	1.3	x	6.5	3.1	0.5	2.2	5.1	2.2	4.7
Deposits, total (PLN bn)	1627.3	1631.7	x	1485.1	1618.7	1627.3	1609.9	1406.6	1609.9	1683.7
Deposits, total (% y/y)	15.8	16.3	x	11.2	19.5	15.8	14.5	8.2	14.5	4.6
Balance of payments										
Current account balance (% GDP)	3.1	3.4	3.3	1.1	2.3	3.1	3.0	0.5	3.0	2.8
Trade balance (%GDP)	1.8	2.0	2.1	0.4	1.2	1.8	2.0	0.2	2.0	1.4
FDI (% GDP)	1.1	1.1	1.0	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	-9.6	-4.3
Public debt (% GDP)	x	x	x	x	x	x	x	46.0	61.7	62.4
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* (%)	0.22	0.22	0.22	1.17	0.26	0.22	0.25	1.71	0.25	0.25
Real WIBOR 3M* (%)#	-2.98	-2.88	-2.78	-3.43	-3.04	-2.78	-2.15	-1.69	-3.05	-1.65
Exchange rates*‡										
EUR-PLN	4.53	4.62	4.48	4.55	4.46	4.53	4.52	4.26	4.52	4.40
USD-PLN	3.87	3.95	3.74	4.15	3.98	3.87	3.90	3.80	3.90	3.67
CHF-PLN	4.19	4.32	4.14	4.30	4.18	4.19	4.22	3.92	4.22	4.04
EUR-USD	1.17	1.17	1.20	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	"The latest inflation and GDP projection is based on the optimistic assumption that Poland will deal with Covid-19 problems next year, "so it doesn't show any need to reduce interest rates (...), unfortunately, negative interest rates still cannot be ruled out. (...) it's possible that it [PKO: asset purchase program] will become a permanent tool." (24.11.2020, ISB News, Bloomberg)
E. Gatnar	4.7	"Monetary policy, once the pandemic is curbed, should start to take into account the inflation situation again (...) if the price growth is still elevated as it currently is, then interest rates will have to be raised as quickly as possible to the level of 0.5%" (20.11.2020, PAP)
L. Hardt	4.1	"As of today, if the optimistic economic scenario for the next year becomes a reality, interest rates should inch up, perhaps to 0.50% (...) If the [monetary] policy were to be normalized next year, I would rather speak in favor of more finessed normalization, and not a simple rate hike." (08.12.2020, PAP)
G. Ancyparowicz	2.5	"As of today, if the optimistic economic scenario for the next year becomes a reality, interest rates should inch up, perhaps to 0.50%. (...) Normalization means to me coming back to 0.50%, along with simultaneous continuation of the asset purchase program, perhaps launching long repo operations and keeping the rate on the bill discount credit at the current level. The monetary policy has to be strongly adaptive, but at the same time we cannot forget about our basic mandate, which is taking care of the price stability, and inflation in Poland is at this moment the highest in the European Union." (08.12.2020, PAP)
C. Kochalski	2.4	"Interest rates are at the proper level. Given the negative impact of the pandemic, monetary policy needed to be eased and the central bank did just that. The durability and pace of the improvement in conditions after the shock from the pandemic is marked by uncertainty. The likely low level of inflation pressure and the limited possibilities for a quick recovery in economic activity are arguments against taking action on interest rates. As long as this remains the case, interest rates should not be changed." (21.09.2020, PAP, Refinitiv).
J. Kropiwnicki	2.4	"In 2h21 we will need to start mulling if we should not launch gradual interest rate hikes" (19.11.2020, Refinitiv).
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	"(...) current interest rate level should be considered as appropriate (...) And, as I believe, this level will be appropriate for a very long time. (...) The idea for NBP to subsidize banks, private banks, through providing them with repo operations at a lower cost than it itself borrows from banks by issuing money bills has no justification" (10.12.2020, PAP).
J. Zyzyński	1.9	"I see no prospects for monetary policy tightening in the current MPC term, that is until neighborhood of 2022 (...) and should the economy need further support in the crisis, rather lean on its asset purchase program to grease government rescue efforts." (26.10.2020, PAP)
E. Lon	1.0	"According to my conviction, there is a rather considerable likelihood that interest rates will remain at the current level to the end of the current MPC term. I believe that potential return to the interest rates level from before the pandemic would be possible after the end of the current MPC term" (08.12.2020, PAP)

*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).

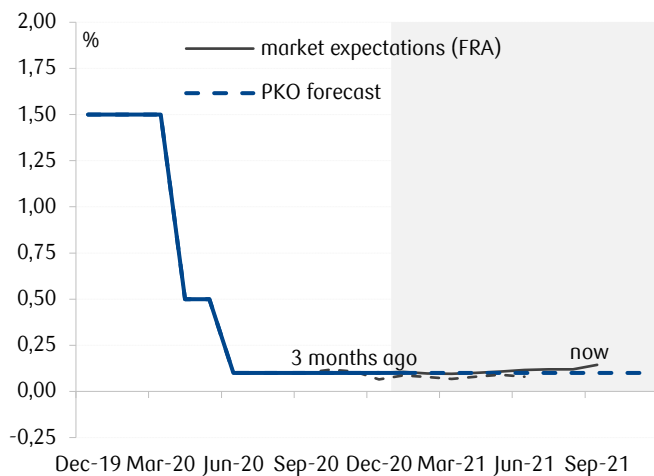
Interest rates – PKO BP forecasts vs. market expectations

		1M	2M	3M	4M	5M	6M	7M	8M	9M
Date	10-Dec	10-Jan	10-Feb	10-Mar	10-Apr	10-May	10-Jun	10-Jul	10-Aug	10-Sep
WIBOR 3M/FRA†	0.22	0.23	0.22	0.22	0.22	0.23	0.24	0.24	0.24	0.26
implied change (b. p.)		0.01	0.00	0.00	0.00	0.01	0.02	0.02	0.02	0.04
MPC Meeting	2-Dec	13-Jan	3-Feb	3-Mar	7-Apr	5-May	9-Jun	8-Jul	-	8-Sep
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*		0.11	0.10	0.10	0.10	0.11	0.12	0.12	0.12	0.14

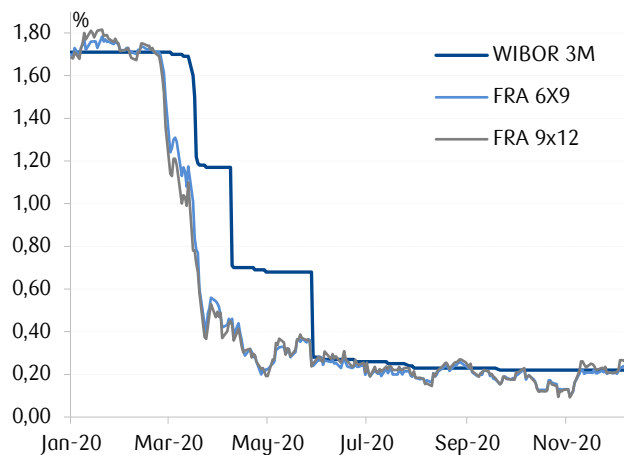
†WIBOR 3M from the last fixing, FRA transactions based on WIBOR 3M for subsequent periods, ‡in basis points, *PKO BP forecast of the NBP reference rate.

Poland macro chartbook

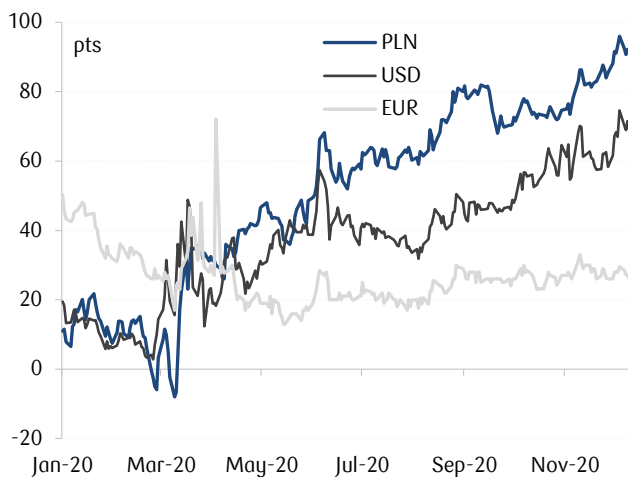
NBP policy rate: PKO BP forecast vs. market expectations



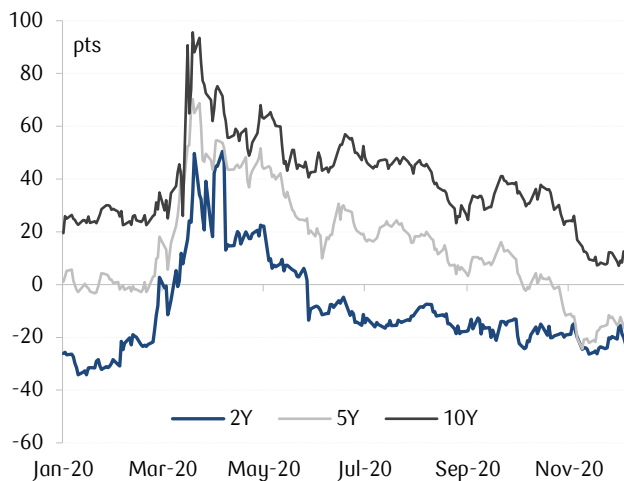
Short-term PLN interest rates



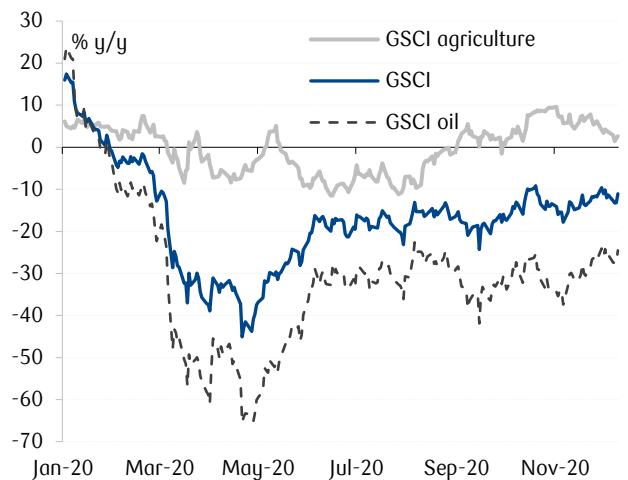
Slope of the swap curve (spread 10Y-2Y)*



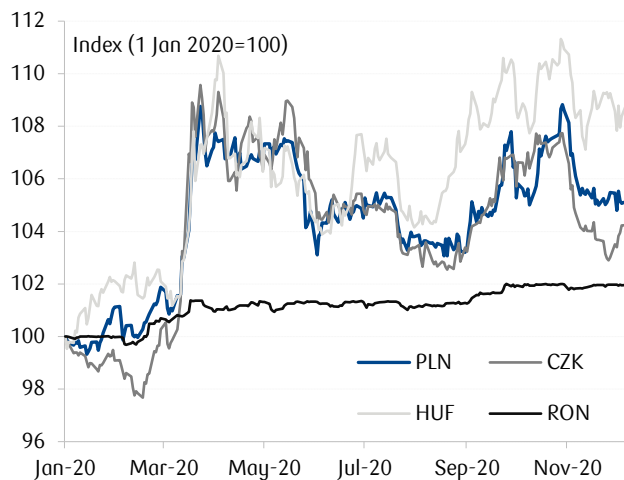
PLN asset swap spread



Global commodity prices (in PLN)

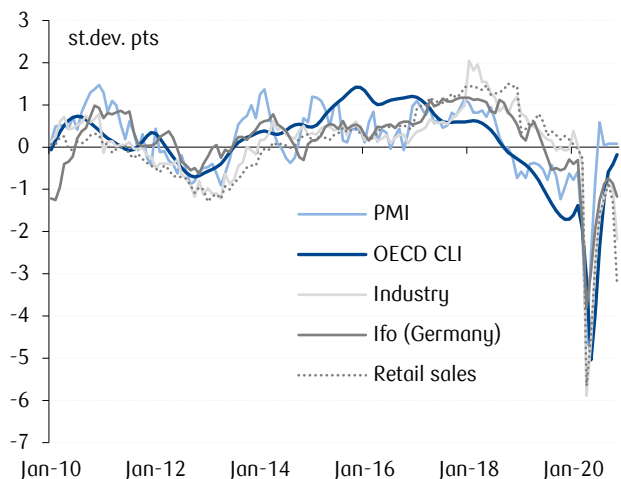


Selected CEE exchange rates against the EUR

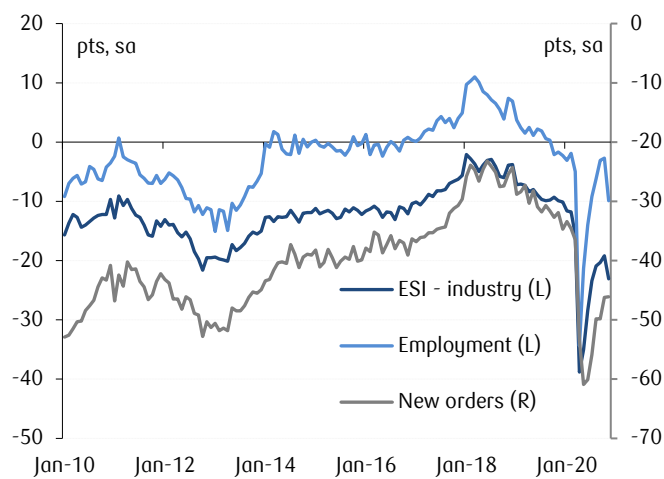


Source: Datastream, NBP, PKO Bank Polski. *for PLN, and EUR 6M, for USD 3M.

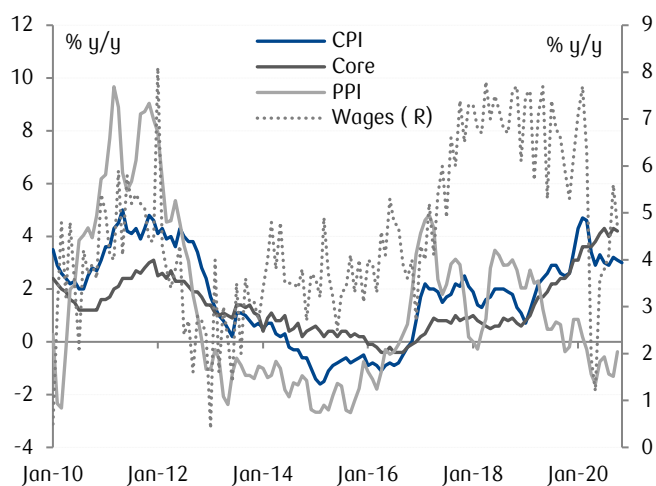
Economic sentiment indicators



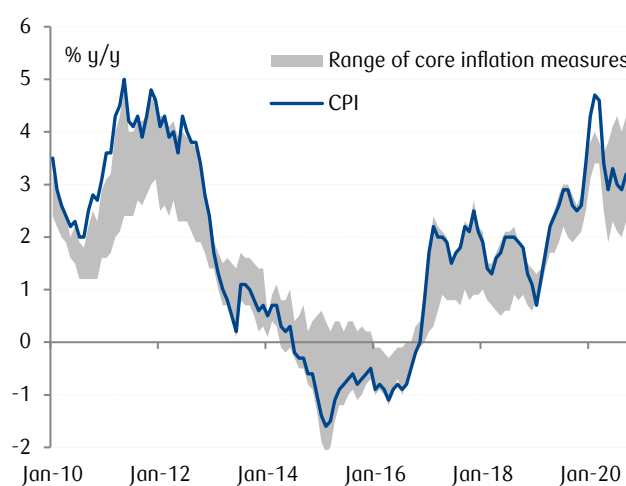
Poland ESI for industry and its components



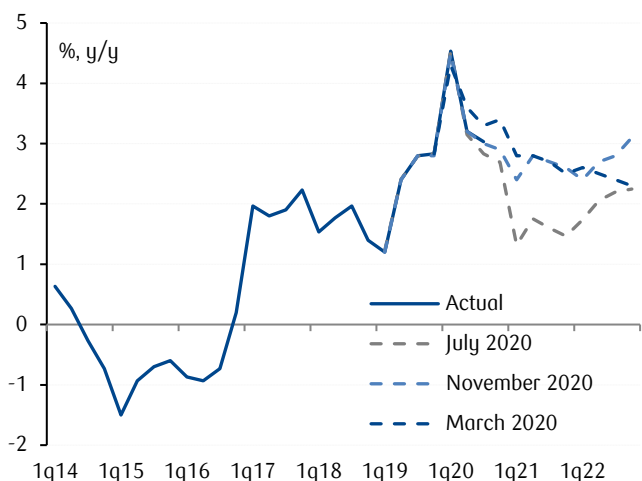
Broad inflation measures



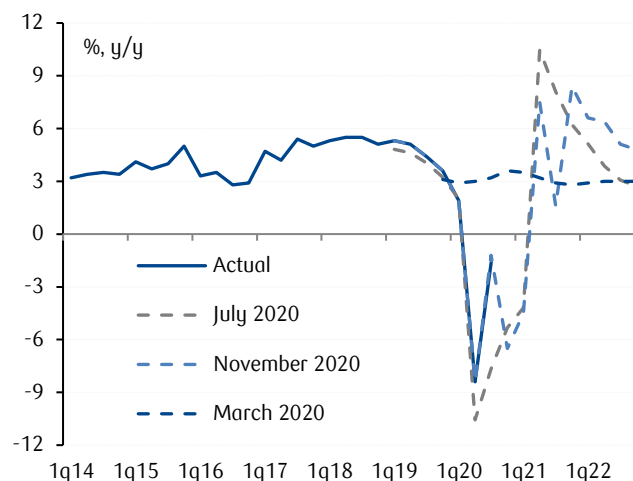
CPI and core inflation measures



CPI inflation - NBP projections vs. actual

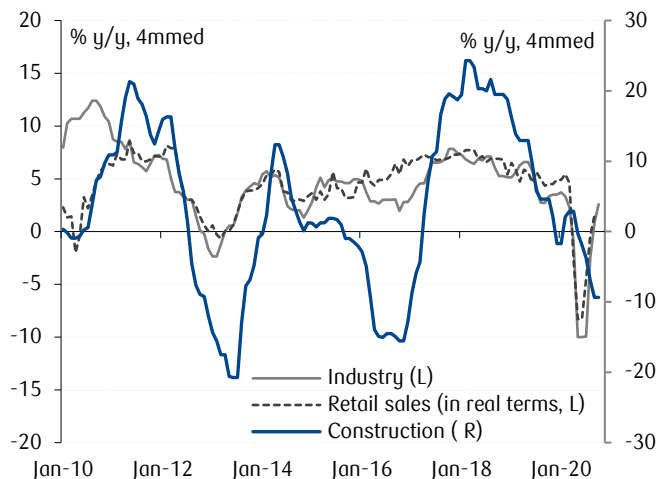


Real GDP growth - NBP projections vs. actual

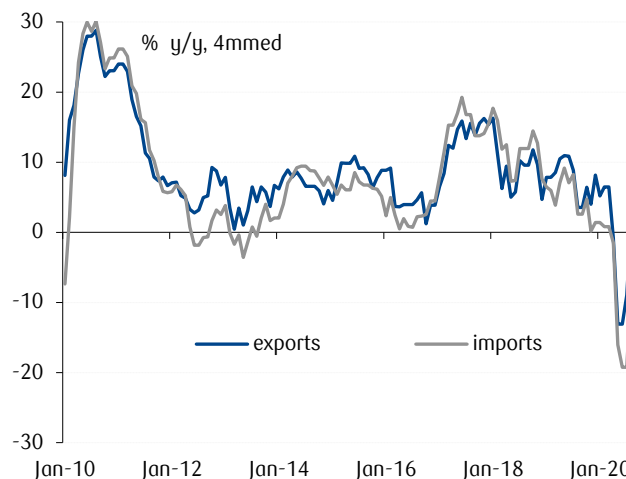


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

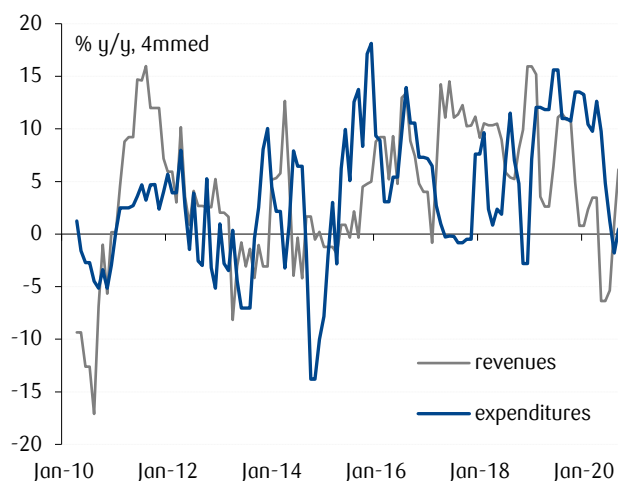
Economic activity indicators



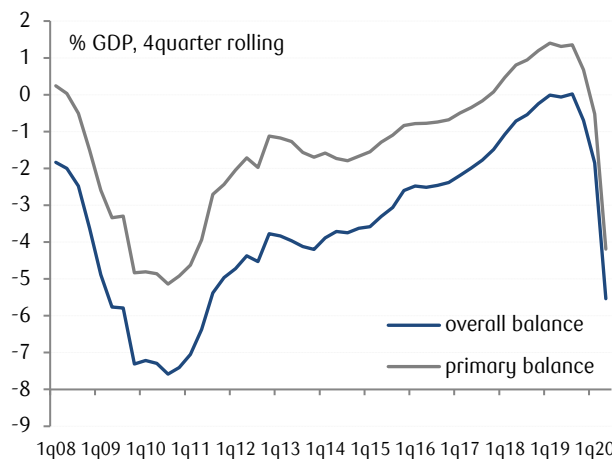
Merchandise trade (in EUR terms)



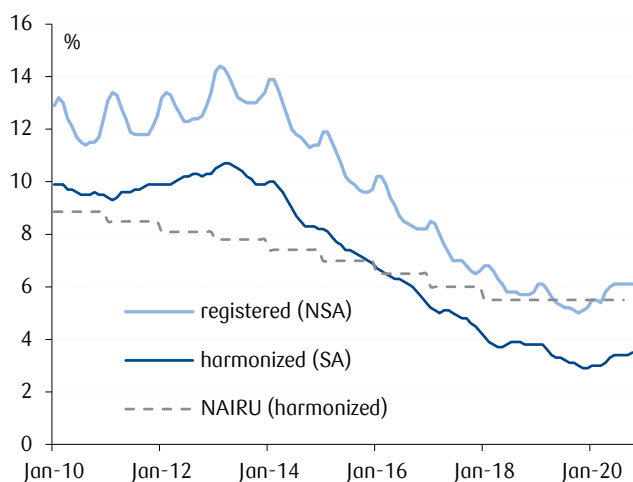
Central government revenues and expenditures*



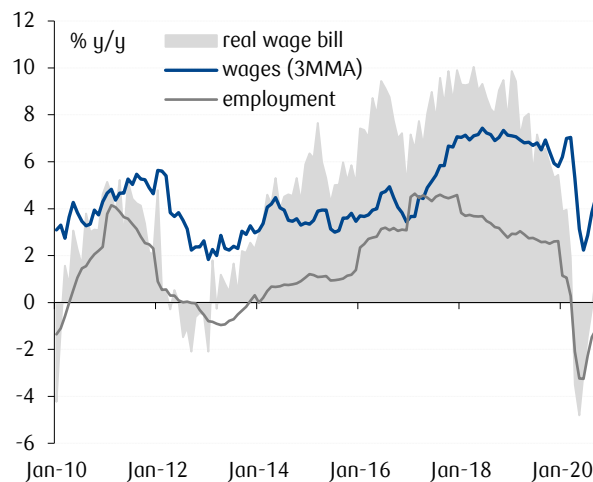
General government balance (ESA2010)



Unemployment rate

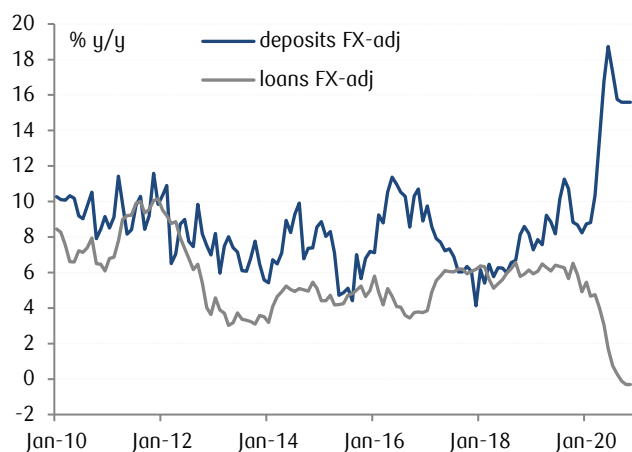


Employment and wages in the enterprise sector

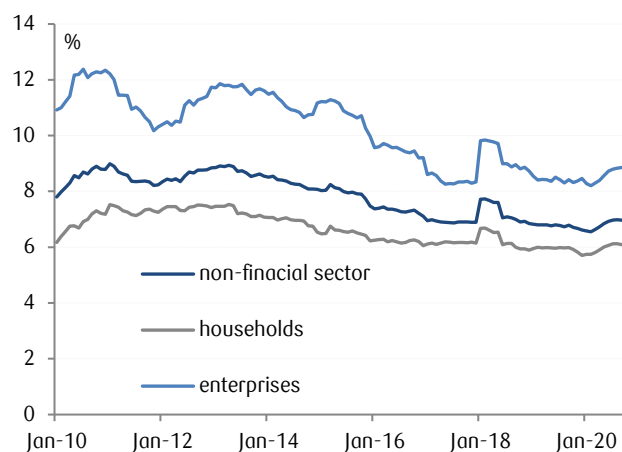


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. *break in series in 2010 due to methodological changes.

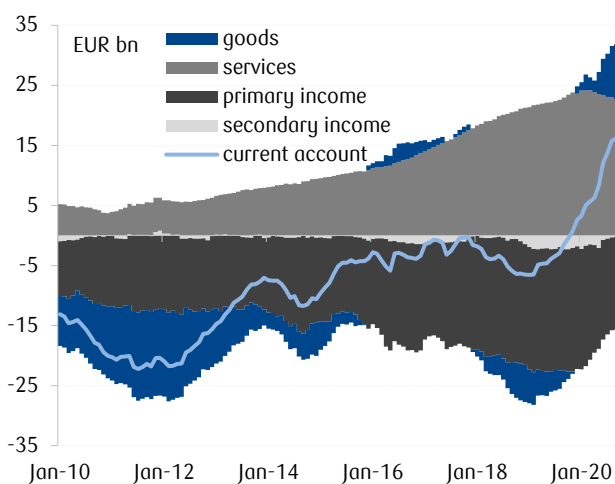
Loans and deposits



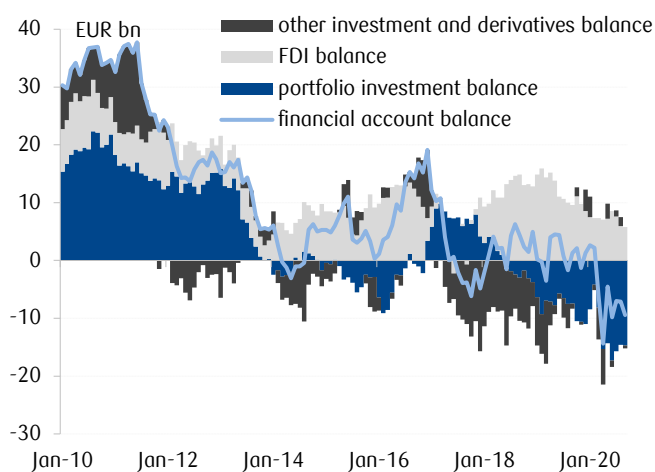
Non-performing loans (NPLs) - by sectors*



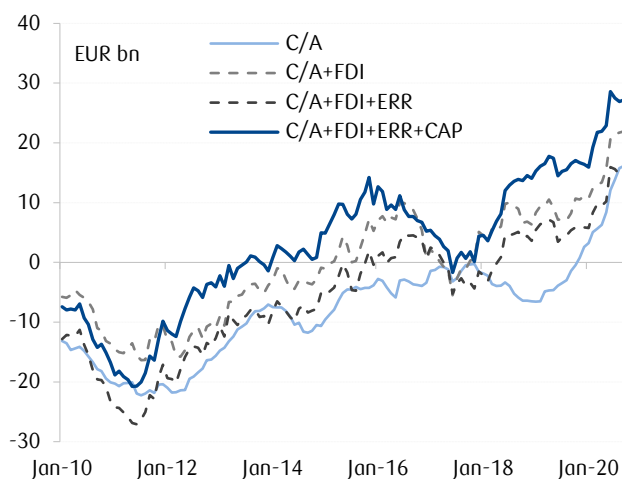
Current account balance



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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Poland's macro in a nutshell

	2019	2020	Comment
Real economy			
- real GDP (%)	4.5	-3.3	GDP bottomed out in 2q20 falling by 8.4% 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 and renewed restrictions disturbed the V-shaped recovery in 4q20. We pencil in a second dip of the recession, this time 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	16.8	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	-9.6	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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