

## Bumpy road to recovery

### Top macro theme(s):

- **Bumpy road to recovery (p. 2):** Poland's GDP in 3q20 grew a record-breaking 7.9% q/q sa with annual growth rate improving to -1.5% y/y from -8.4% y/y in 2q20. Private consumption rose by 0.4% y/y and investments were still in the red (-9.0% y/y). The second wave of the pandemic, which peaked in October/November, has made the road to a full recovery bumpier, and two weeks ago, inclined us to cut 4q20 GDP forecast to -4.9% y/y. That said, recent announcements about vaccines make the global and local macro outlook for 2021 brighter, pushing up our GDP growth forecast for 2021 to 5.1%.

### What else caught our eye:

- The MPC left monetary policy parameters (rates and QE) unchanged on its last meeting in 2020. The post-meeting statement barely changed compared to the previous one from November, nor did the assessment of the economy. The MPC assured that **the NBP will continue asset purchases** to support the fiscal arm of the anticrisis policy response.
- **Manufacturing PMI stood at 50.8 pts** with some less optimistic details as the headline print was artificially boosted by higher delivery times (rising due to supply bottlenecks) and higher employment (due to quarantine-related absences of labour force).
- **CPI inflation inched down to 3.0% y/y in November** from 3.1% y/y in October mostly due to lower food prices (6<sup>th</sup> straight month below the seasonal pattern). Core inflation might have stabilized (4.2-4.3% y/y on our estimates) predominantly being a reflection of earlier increases in prices of services.
- **T.Koscinski (MinFin) said that the central budget deficit will rise up to PLN 100bn** at the year end from PLN 12.1bn after October.

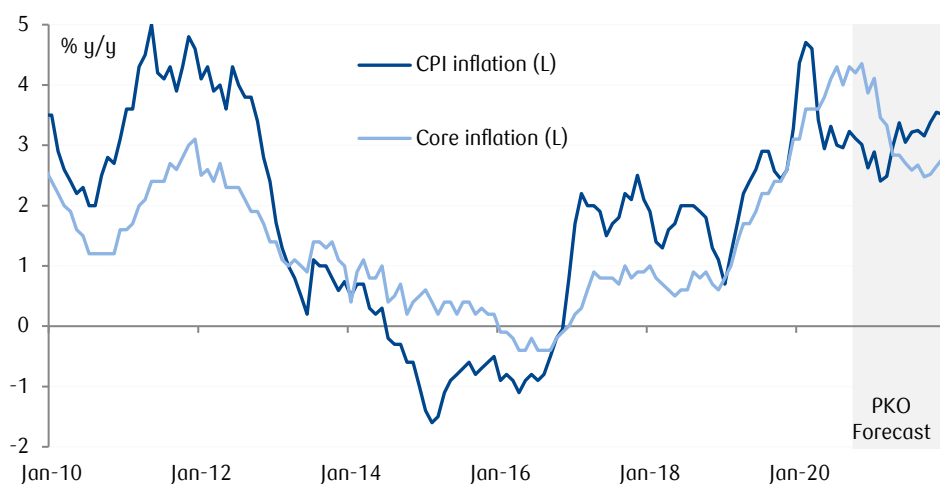
### The week ahead:

- As the data calendar for Poland is empty next week our attention will focus on the **EU Summit (10-11 December)** which may indicate some possibilities of settling the dispute between Poland, Hungary and the rest of the Union regarding conditionality of access to EU funds. Meanwhile, we are unlikely to know the final agreement on the post-Brexit relations between the UK and the EU. That said, we are closer and closer to a hard Brexit scenario.
- Ministry of Labour may show its early estimate of **the unemployment rate in November**, which, in our view, might have started its seasonal increase, rising to 6.2% from 6.1% a month earlier.

### Number of the week:

- **+0.4% y/y** – private consumption growth in 3q20; return to a positive growth rate reflects strong balance sheets of Polish households and bodes well for the post-pandemic consumption demand.

Chart of the week: CPI and core inflation in Poland



Source: NBP, PKO Bank Polski.

### Chief Economist

**Piotr Bujak**

piotr.bujak@pkobp.pl  
tel. +48 22 521 80 84

### Macro Research Team

[@PKO\\_Research](#)

**Marta Petka-Zagajewska**

Senior Economist  
marta.petka-zagajewska@pkobp.pl  
tel. +48 22 521 67 97

**Marcin Czaplicki**

Economist  
marcin.czaplicki@pkobp.pl  
tel. +48 22 521 54 50

**Urszula Krynska**

Economist  
urszula.krynska@pkobp.pl  
tel. +48 22 521 51 32

**Michal Rot**

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

	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.

## Bumpy road to recovery

- Poland's GDP in 3q20 grew a record-breaking 7.9% q/q sa with annual growth rate improving to -1.5% y/y from -8.4% y/y in 2q20. Private consumption rose by 0.4% y/y and investments were still in the red (-9.0% y/y).
- The second wave of the pandemic, which peaked during October/November, has made the road to the full recovery bumpier and inclined us to cut 4q20 GDP forecast to -4.9% y/y two weeks ago.
- That said, recent announcements about vaccines make the global and local macro outlook for 2021 much brighter, pushing our GDP growth forecast up to 5.1% in 2021.

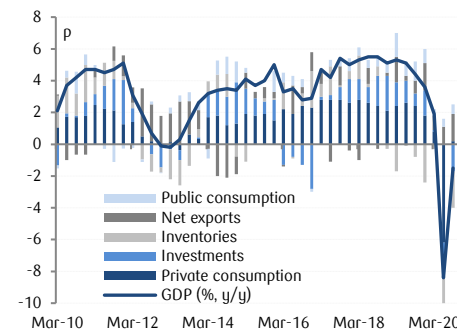
GDP in 3q20 rebounded from the pandemic bottom rising 7.9% q/q (seas.adj.). The annual decline of GDP was significantly reduced to -1.5% y/y (vs. -8.4% y/y in 2q20 and -1.6% y/y in the flash estimate). The strong rebound of the seasonally adjusted growth rate in 3q20 also means that in 3q the technical recession (two quarters in a row of negative q/q GDP growth rate figures) has ended.

Private consumption returned to growth in 3q20 (+0.4% y/y), after a double-digit decline recorded in 2q20, and investments have seemingly limited the decline (to -9.0% y/y vs. -10.7% y/y in 2q). Private consumption also contributed positively to GDP growth (+0.2pp). The contribution of investments and inventories to GDP growth was negative (-1.7pp and -2.3pp respectively). Positive contributions to growth were recorded from the side of public consumption (0.6pp, it increased in 3q20 by 3.4% y/y) and net exports (1.7pp; see the margin chart).

Data on GDP and its structure in 3q20 have revealed that the fundamentals of the economy have emerged from the first lockdown without much damage, and the losses related to the pandemic shock were quickly recovered. The data also confirm that the first Financial Shield launched in the spring safeguarded the economy, including the labour market. The Anticrisis Shield, including the Financial Shield, enabled the economy to restart quickly in 3q20, after it was unfrozen and restrictions were lifted.

Going forward, data for 3q20 are nothing more than history now. The second wave of the pandemic, which peaked during October/November, has made the road to the full recovery bumpier, especially on the private consumption side and in the service sector (that's why we cut the 4q20 GDP forecast to -4.9% y/y two weeks ago). While we are still cautious regarding the 4q20 results, recent announcements about vaccines have made the global and local macro outlook for 2021 much brighter. The current decline in the new covid cases reduces the risk of further painful restrictions in 1q21. The vaccination program, which is about to start in Poland in February, reduces the risk of lockdowns in 2h21. As a result we decided to upgrade our GDP forecast for 2021 to 5.1%. We will present our full macro picture for 2021 in a special Macro Focus in the middle of December.

### GDP and its structure



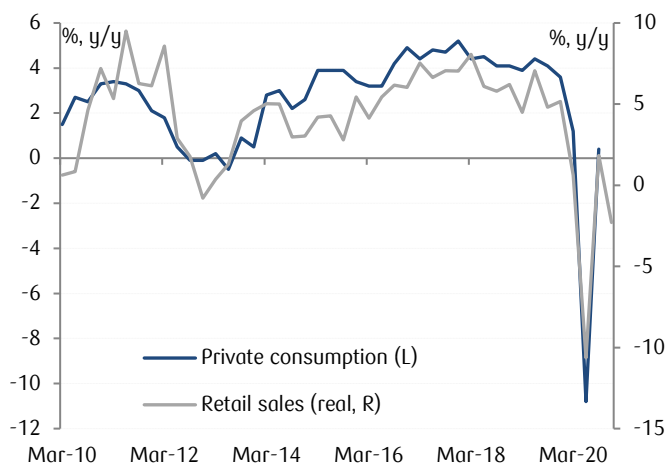
Source: GUS, PKO Bank Polski.

### Weekly economic activity index [PKO-GDP-W]



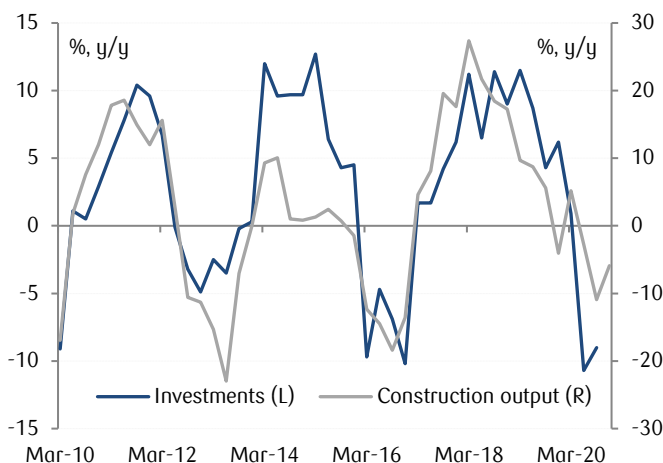
Source: PSE, Google Trends, Macrobond, Bloomberg, PKO Bank Polski.

### Consumption vs retail sales



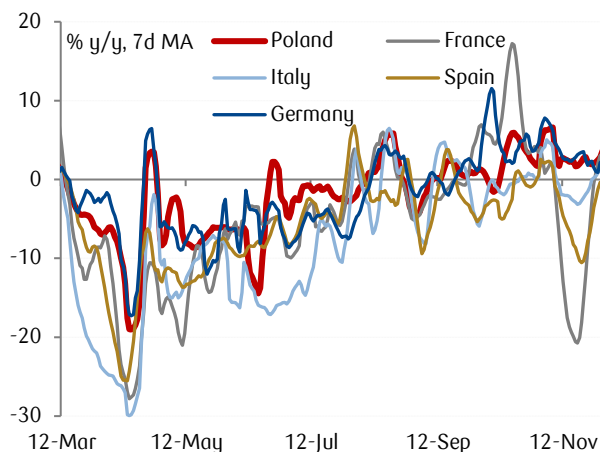
Source: GUS, PKO Bank Polski.

### Construction vs investments

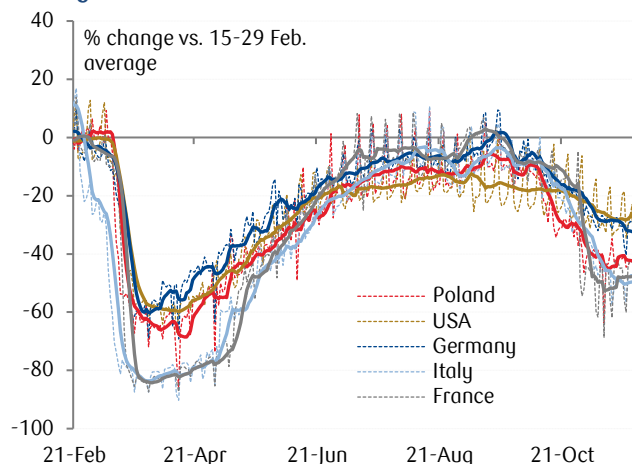


## Macro monitoring with alternative data<sup>^</sup>

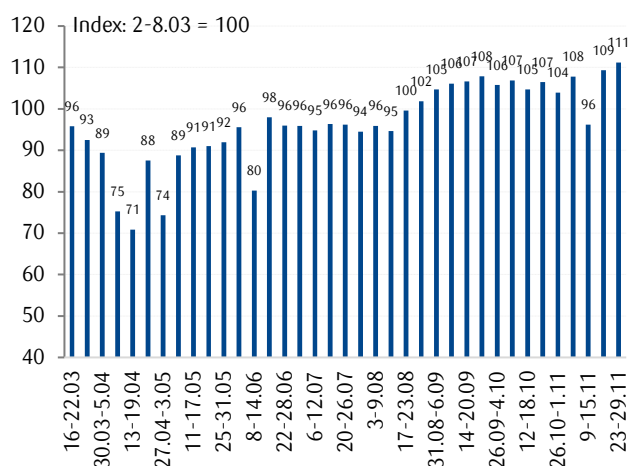
Electric energy consumption (total)



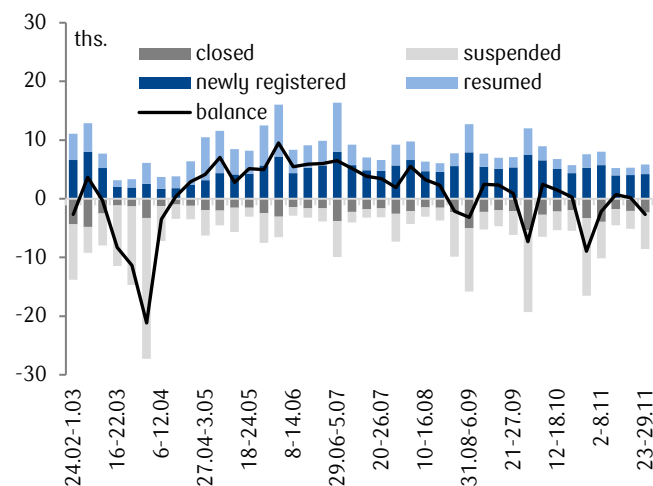
Mobility\*



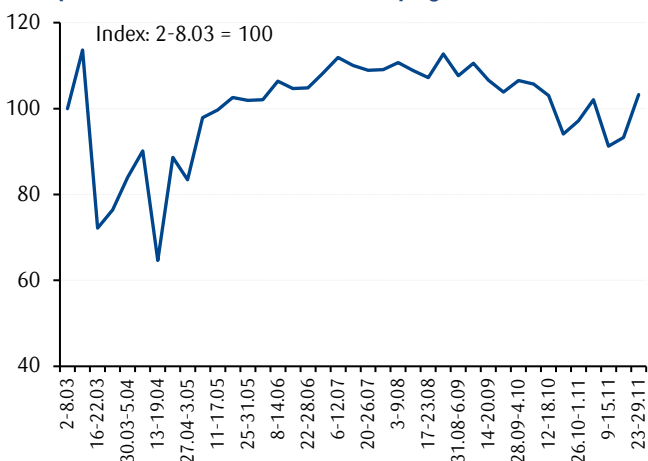
Heavy truck traffic



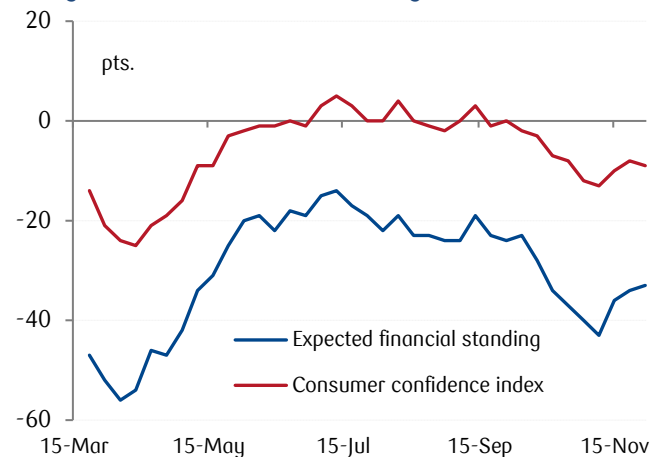
Economic activity status (acc. to CEiDG\*\*)



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
<b>Monday, 7 December</b>						
GER: Industrial production (Oct)	7:00	% m/m	1.6	--	--	--
GER: Industrial output (Oct)	7:00	% y/y	-7.3	--	--	--
EUR: Sentix Index (Dec)	9:30	pts.	-10	--	--	--
<b>Tuesday, 8 December</b>						
HUN: CPI inflation (Nov)	8:00	% y/y	3.0	3.1	--	--
EUR: Employment (3q)	10:00	% y/y	-2.0	--	--	--
GER: ZEW Economic Sentiment (Dec)	10:00	pts.	39.0	--	--	--
EUR: GDP growth (3q)	10:00	% y/y	-4.4	--	--	--
<b>Wednesday, 9 December</b>						
CHN: PPI inflation (Nov)	1:30	% y/y	-2.1	-1.8	--	--
CHN: CPI inflation (Nov)	1:30	% y/y	0.5	0.1	--	--
GER: Trade Balance (Oct)	7:00	bn EUR	20.8	--	--	--
GER: Exports (Oct)	7:00	% m/m	2.3	--	--	--
GER: Imports (Oct)	7:00	% m/m	-0.1	--	--	--
USA: JOLTS Report (Oct)	15:00	thous.	6.436	6.3	--	--
<b>Thursday, 10 December</b>						
CZE: CPI inflation (Nov)	8:00	% y/y	2.9	2.8	--	--
EUR: ECB refinancing rate	12:45	%	0.00	0.00	0.00	--
EUR: EBC deposit rate	12:45	%	-0.50	-0.50	-0.50	--
USA: Initial Jobless Claims (Dec)	13:30	thous.	--	--	--	--
USA: CPI inflation (Nov)	13:30	% y/y	1.2	1.1	--	--
USA: Core inflation (Nov)	13:30	% y/y	1.6	1.5	--	--
EU: EU Summit	--	--	--	--	--	--
<b>Friday, 11 December</b>						
USA: PPI inflation (Nov)	13:30	% y/y	0.5	--	--	--
USA: University of Michigan sentiment (Dec, flash)	15:00	pts.	76.9	76.3	--	--

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
<b>Economic activity</b>										
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
<b>Labour market</b>										
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
<b>Prices^</b>										
CPI inflation (% y/y)	3.2	3.1	3.1	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
<b>Monetary aggregates‡</b>										
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
<b>Balance of payments</b>										
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
<b>Fiscal policy</b>										
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
<b>Monetary policy‡</b>										
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 <sup>x</sup> (%)	0.22	0.22	0.22	1.17	0.26	0.22	0.25	1.71	0.25	0.25
Real WIBOR 3M <sup>x</sup> (%) <sup>#</sup>	-2.98	-2.88	-2.78	-3.43	-3.04	-2.78	-2.15	-1.69	-3.05	-1.65
<b>Exchange rates*‡</b>										
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.

<sup>x</sup>PKO BP Market Strategy team forecasts.<sup>\*</sup>period averages for quarterly and yearly data.<sup>#</sup>deflated with current CPI inflation.<sup>‡</sup>period end values.<sup>†</sup>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	"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	"We have to be prepared that, for some time, inflation could be very high (...) it could happen that it exceeds the magical limit of 3.5%. (...) However, I do not see here [PAP: room for] intervention with monetary policy tools as inflation will be boosted by tax-related, administrative factors as well as service price hikes linked to the pandemic" (17.11.2020, 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	"Although the worst is behind us, in the coming quarters we still need to support the economy and to keep accommodative monetary policy. The economic activity is still below the potential, unemployment is higher than before the crisis and further progress in the economic recovery could be more difficult to achieve than to-date. (...) At the current level of interest rates, banks do not encounter limitations in developing lending." (18.09.2020, Dziennik Gazeta Prawna daily).
J. Zyzynski	1.9	"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	"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).

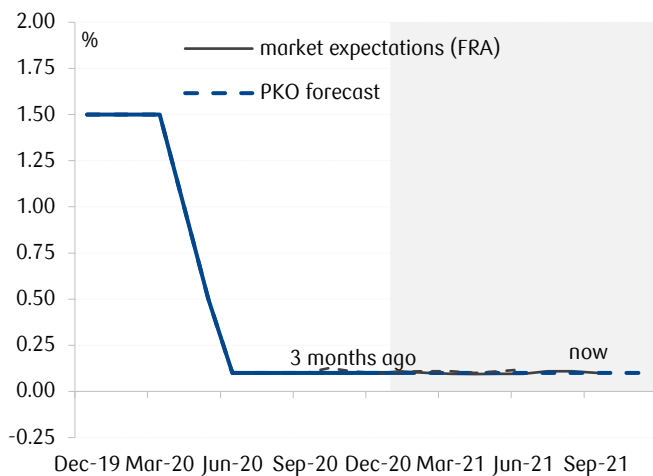
### Interest rates – PKO BP forecasts vs. market expectations

		1M	2M	3M	4M	5M	6M	7M	8M	9M
<b>Date</b>	3-Dec	3-Jan	3-Feb	3-Mar	3-Apr	3-May	3-Jun	3-Jul	3-Aug	3-Sep
<b>WIBOR 3M/FRA†</b>	0.22	0.23	0.22	0.22	0.21	0.22	0.22	0.23	0.23	0.22
<b>implied change (b. p.)</b>		0.01	0.00	-0.01	-0.01	-0.01	-0.01	0.01	0.01	0.00
<b>MPC Meeting</b>	6-Nov	2-Dec	-	-	-	-	-	-	-	-
<b>PKO BP forecast*</b>	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
<b>market pricing*</b>		0.11	0.10	0.10	0.09	0.10	0.10	0.11	0.11	0.10

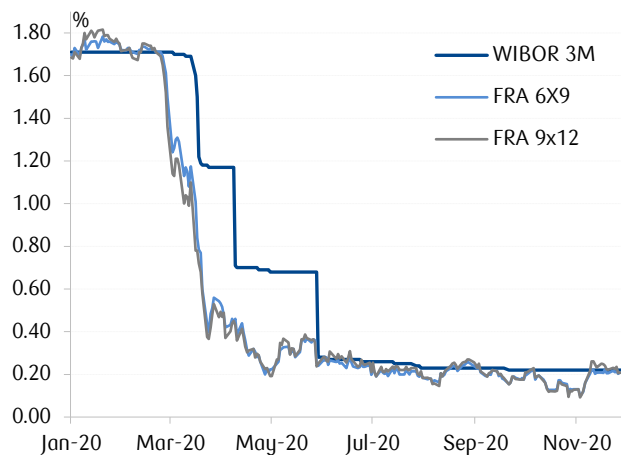
†WIBOR 3M from the last fixing, FRA transactions based on WIBOR 3M for subsequent periods, ‡in basis points, \*PKO BP forecast of the NBP reference rate.

## Poland macro chartbook

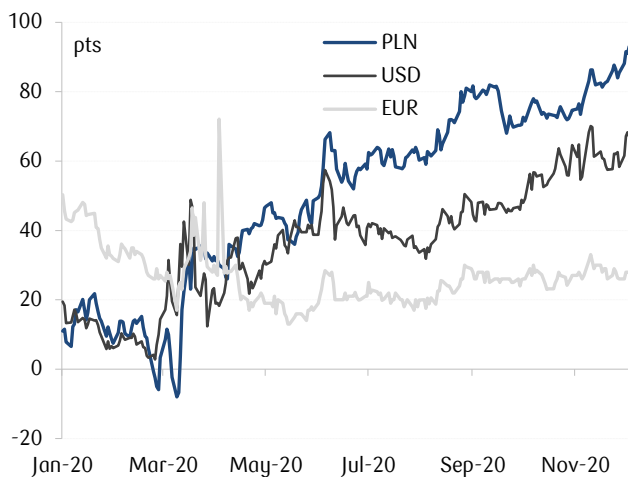
NBP policy rate: PKO BP forecast vs. market expectations



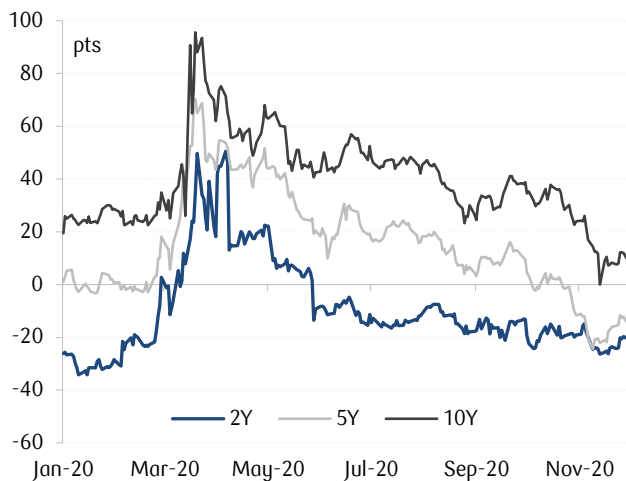
Short-term PLN interest rates



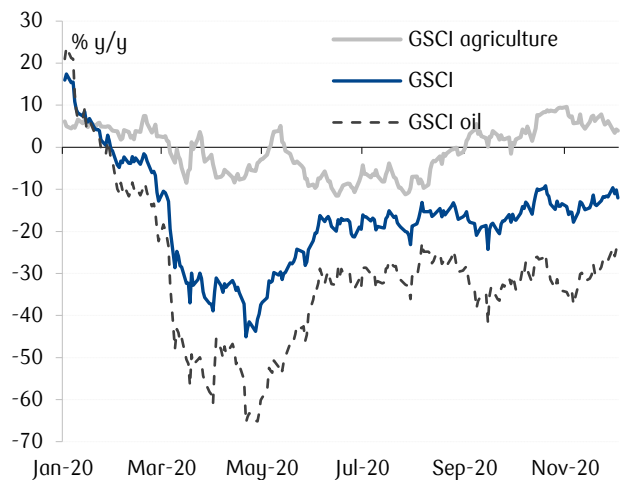
Slope of the swap curve (spread 10Y-2Y)\*



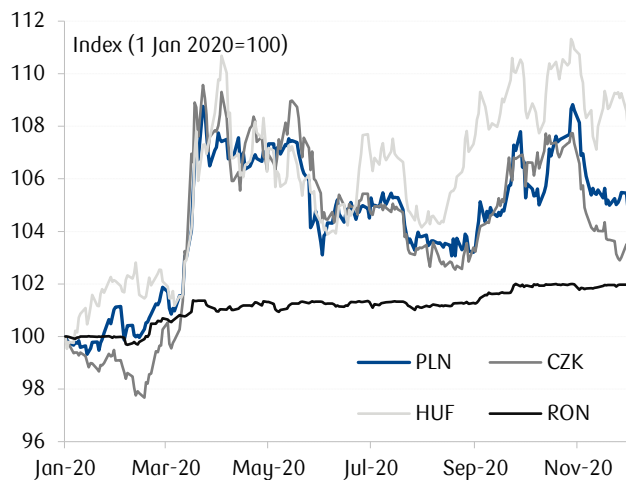
PLN asset swap spread



Global commodity prices (in PLN)



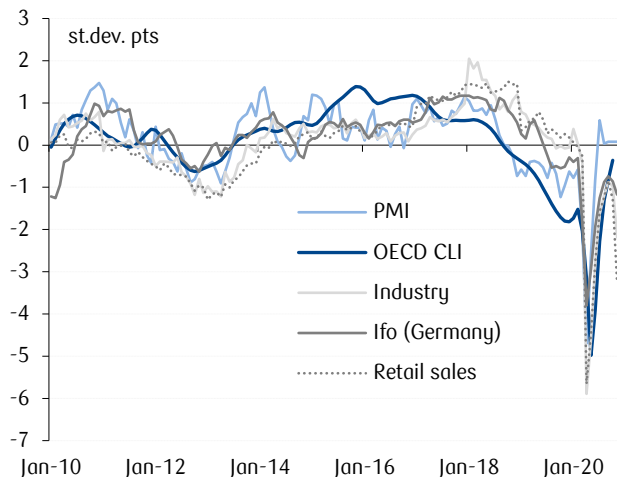
Selected CEE exchange rates against the EUR



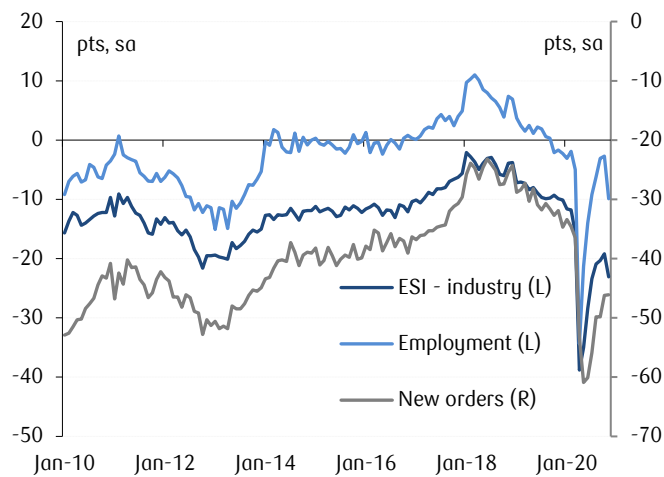
Source: Datastream, NBP, PKO Bank Polski. \*for PLN, and EUR 6M, for USD 3M.



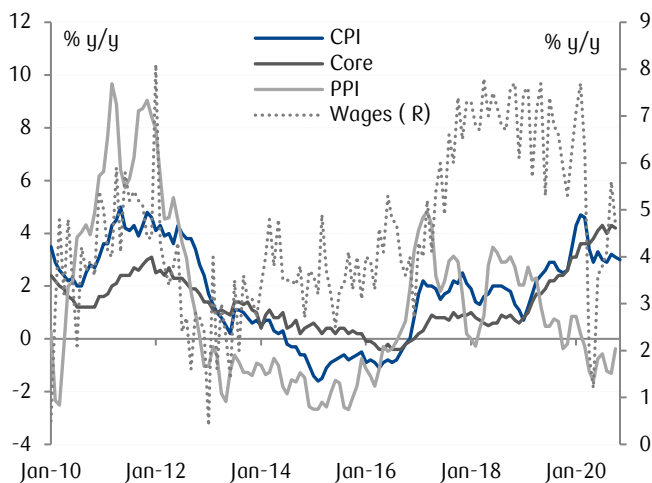
Economic sentiment indicators



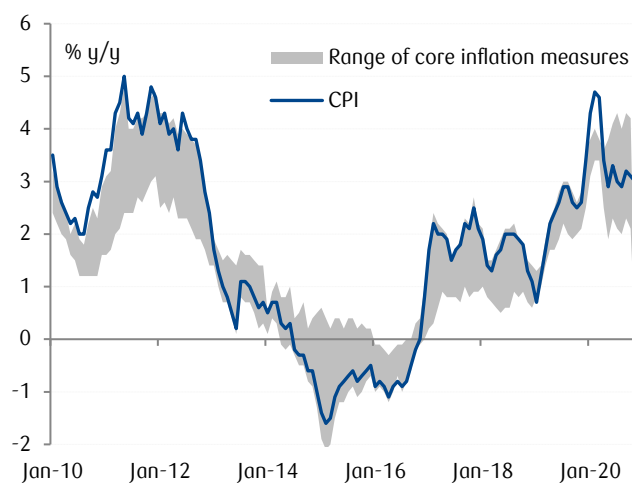
Poland ESI for industry and its components



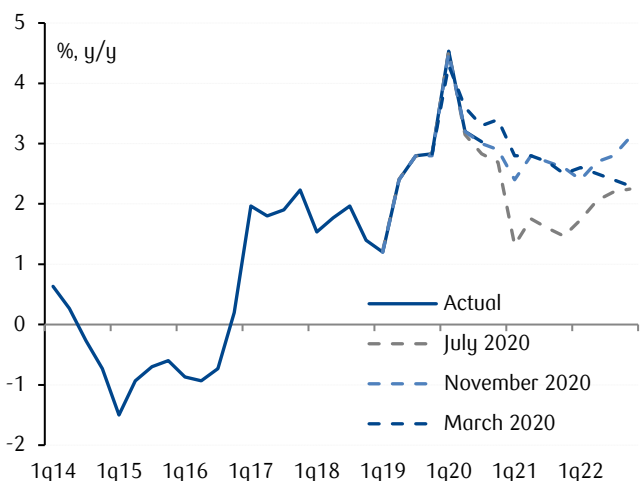
Broad inflation measures



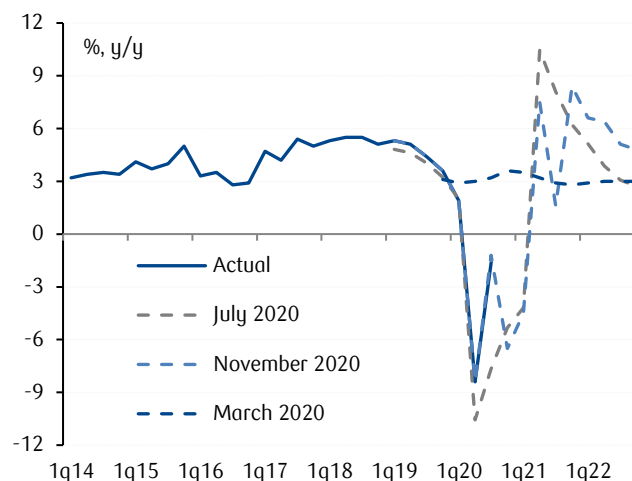
CPI and core inflation measures



CPI inflation - NBP projections vs. actual



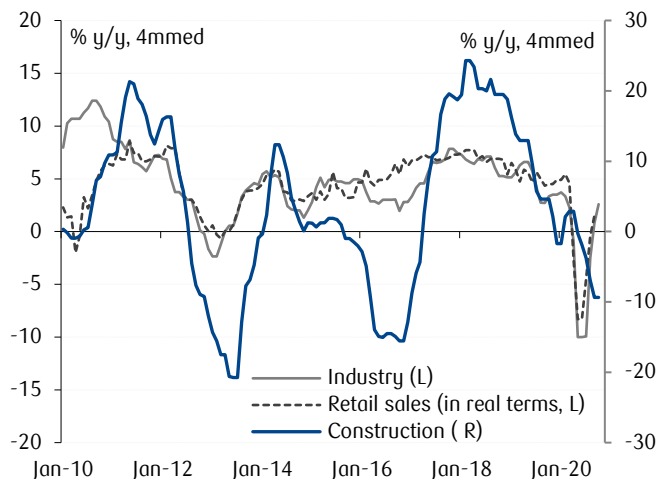
Real GDP growth - NBP projections vs. actual



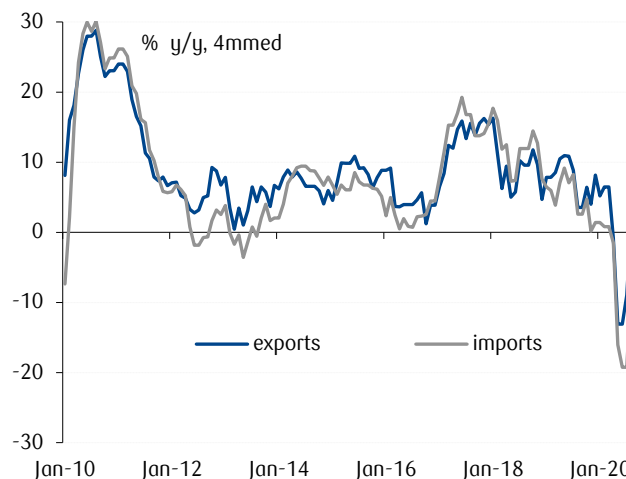
Source: Datastream, GUS, EC, NBP, PKO Bank Polski.



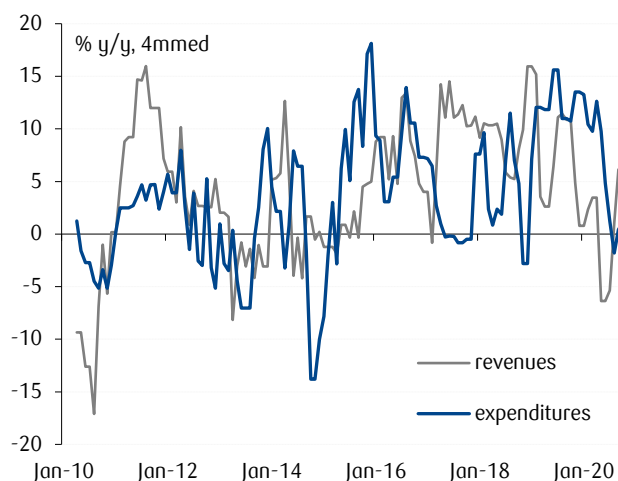
Economic activity indicators



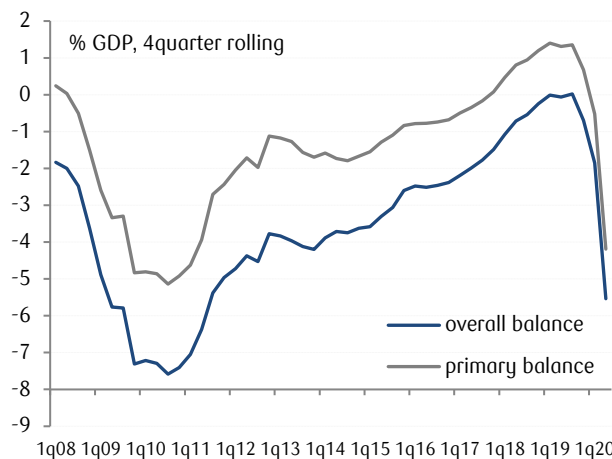
Merchandise trade (in EUR terms)



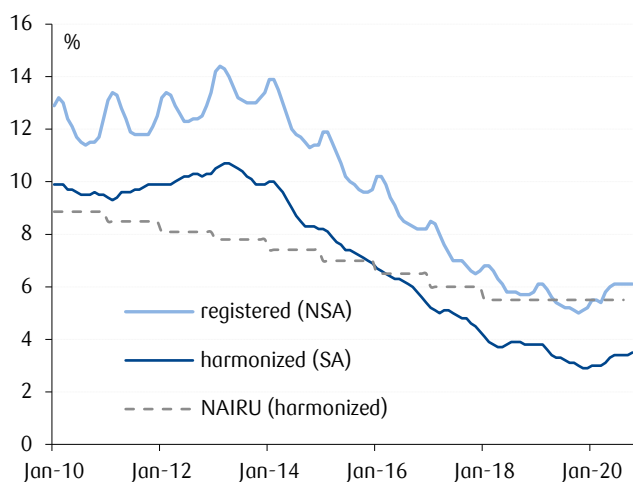
Central government revenues and expenditures\*



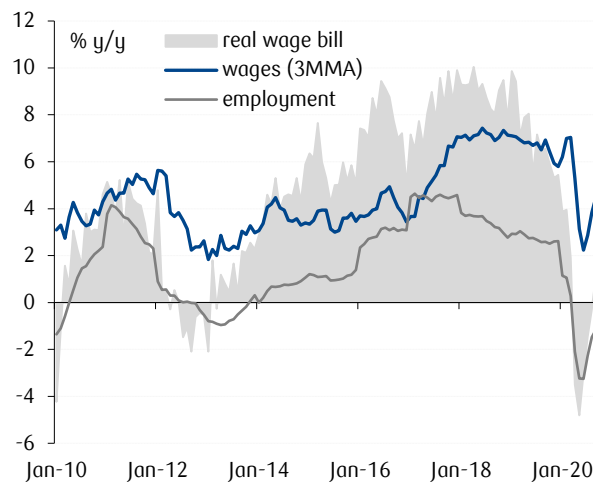
General government balance (ESA2010)



Unemployment rate

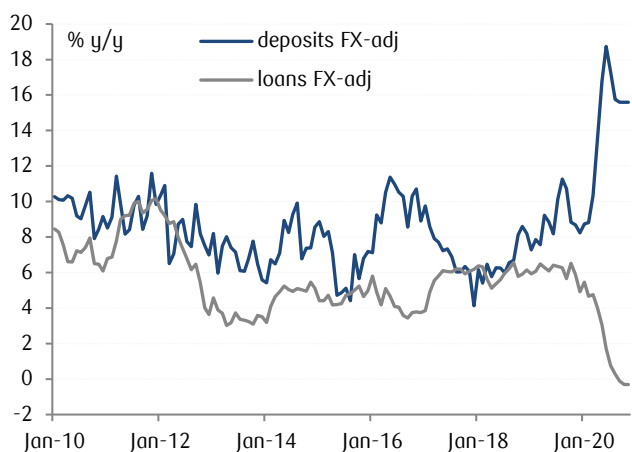


Employment and wages in the enterprise sector

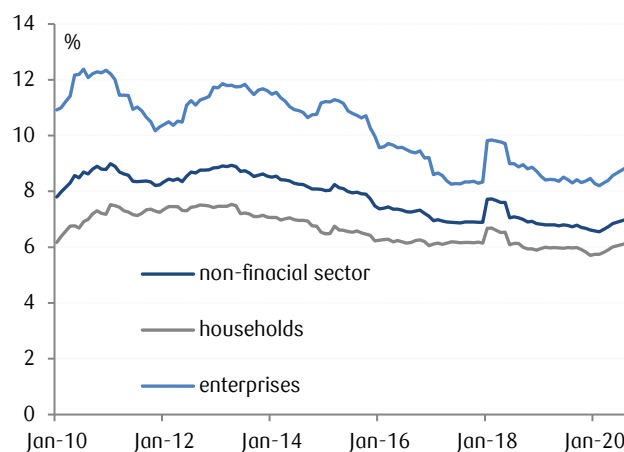


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. \*break in series in 2010 due to methodological changes.

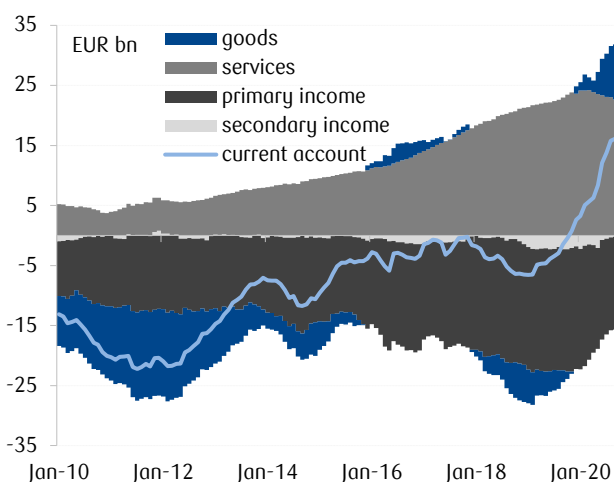
Loans and deposits



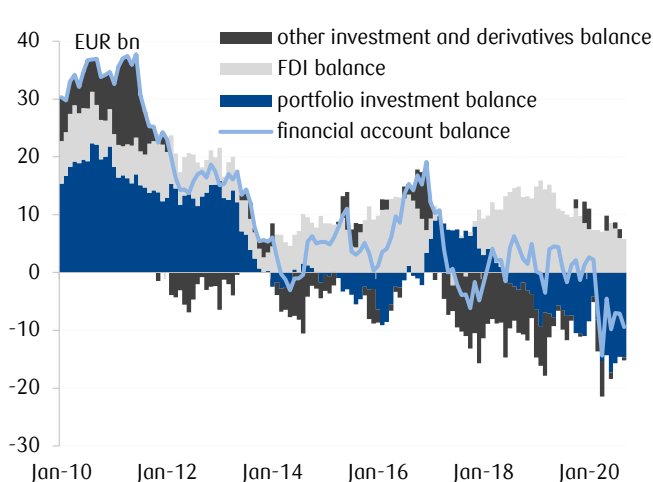
Non-performing loans (NPLs) - by sectors\*



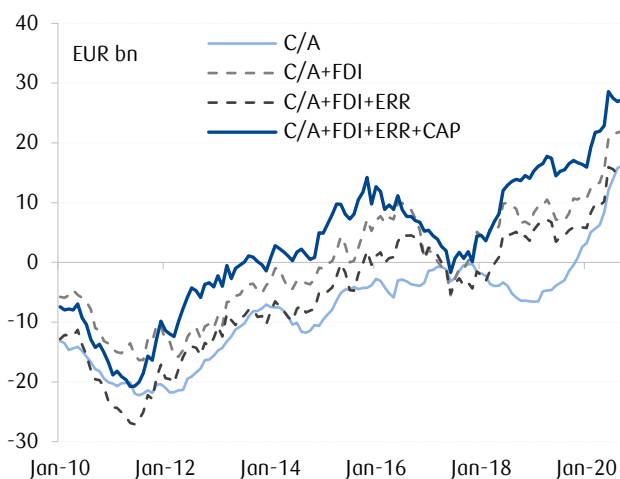
Current account balance



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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- [Reflections on the pandemic and inflation](#) (Nov 20, 2020)
- [Shadow rate below zero](#) (Nov 13, 2020)
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## Poland's macro in a nutshell

	2019	2020	Comment
<b>Real economy</b>			
- 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.
<b>Prices</b>			
- 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).
<b>Monetary aggregates</b>			
- 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.
<b>External balance</b>			
- 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.
<b>Fiscal policy</b>			
- 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.
<b>Monetary policy</b>			
- 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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