

Lower for even longer?

Top macro theme(s):

- **Rates at right level now (p. 2):** An expected decline in inflation below the target in 2021, together with the global mode of keeping monetary policy ultra-loose for a long time, will support an accommodative monetary policy stance in Poland.

What else caught our eye:

- **Industrial output in August rose 1.5% y/y** vs. 1.1% y/y in July. Seasonally adjusted production increased by 0.6% m/m (and 1.8% y/y) and it stabilised at approx. 3% below the pre-pandemic high. After the V-shaped gains in recent months, further recovery in production becomes more difficult as deferred demand fades away and supply chains remain weak.
- **Polish labour market continued to return to 'normality' in August.** Enterprise employment went up (+43k m/m, -1.5% y/y vs -2.3% y/y in July) while wage growth accelerated to 4.1% y/y from 3.8% y/y. Real wage bill improved to -0.3% y/y vs -1.5% y/y in July, supporting consumption rebound.
- According to the freshly announced grant allocation within the Recovery and Resilience Facility (a part of the EU Next Generation recovery plan), Poland is among the biggest beneficiaries. While in 2021-22 Poland will receive 8.6% of the funds, shallower recession and a more vivid recovery than in the rest of the EU cuts Poland's allocation in 2023 to 4.4%.
- **Moody's has not updated Poland's credit rating.** The country's long-term foreign currency rating has stayed at **A2 with stable outlook**.
- **The number of tourists in Poland in July decreased by 34.7% y/y** (foreign tourists by 68.2% y/y, and domestic ones by 25.4% y/y).
- In July, despite a less favorable calendar effect, **exports continued to grow** (2.7% y/y vs 3.0% y/y in June). Poland recorded a shallower decline and a faster rebound in exports compared to other countries in the region.

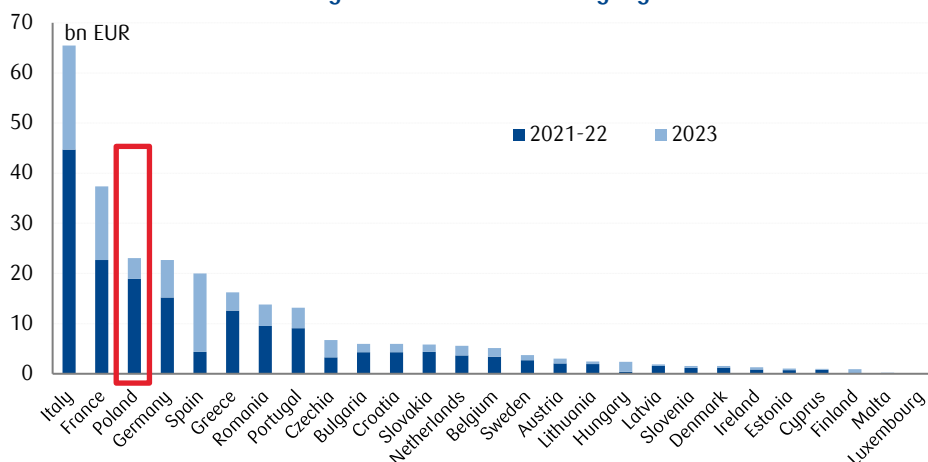
The week ahead:

- **Registered unemployment is likely to have stabilised at 6.1% in August** thanks to the Anti-crisis Shield protecting jobs and likely postponed registrations due to temporary solidarity benefit.
- Real economy data for August due on Monday will likely show **construction output** dampened by weak investments and **retail sales** growing in y/y terms.

Number of the week:

- **2.8%** – current account to GDP ratio after July, the largest surplus on record.

Chart of the week: Recovery and Resilience Facility - grants allocation



Source: EuCo, 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

	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.

Rates at a right level now

- An expected decline in inflation below the target in 2021, together with the global mode of keeping monetary policy expansive for a long time, will support a loose monetary policy stance in Poland.

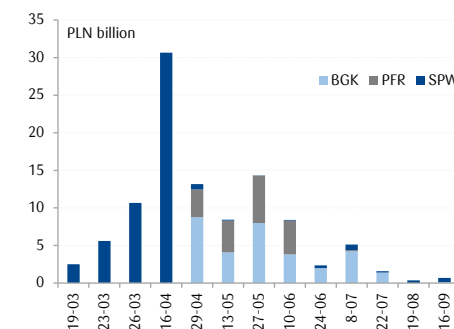
The MPC did not change the monetary policy parameters in September. NBP rates remained at a record low level, with the reference rate equal to 0.1%. The statement after the meeting of the Council has not changed significantly either. The MPC sees improving sentiment and signs of recovery in the economy. The Council expects the recovery to continue later in the year, but also notices risks related to the epidemic situation, households income, corporate sentiment, as well as the zloty, which in the MPC opinion remains too strong. The MPC remains ready for action, but in our opinion it will not be necessary. We believe that interest rates will remain at the current level for the coming quarters, and any possible changes in monetary policy will be carried out using other tools, in particular asset purchases.

The lack of further actions does not imply unanimity among MPC members. On the one hand, E.Lon does not rule out rate cuts in the event of a significant deterioration in consumer sentiment, on the other, E.Gatnar sees the need to normalize the monetary policy in 2021. The discrepancy in the views of the Council has persisted for almost the entire term of office, however, governor **A.Glapinski has always been able to build a majority supporting his view.** In his recent statement, the NBP governor assessed that interest rates are at the right level, and as economic growth intensifies and the economy is on a stable upward path, rates will "rise someday". In our opinion this statement cuts off speculation about further cuts, which in our view would be rather unreasonable as the state of the economy in 2020 appears much better than predicted in July's, highly pessimistic, GDP projection. At present, in the communication layer, the Council will have to deal with the general upward revision of GDP forecasts for 2020 and expected drop in inflation below the target in 2021 ("roughly" in line with the projection).

Meanwhile the CPI inflation for August was confirmed at 2.9% y/y vs. 3.0% y/ in July. Food and core prices were conducive to the inflation drop that would have been grater if it wasn't for fuel prices. Core inflation, excluding food and energy went down, for the first time since late 2018, to 4.0% y/y from 4.3% y/y in July. Goods price inflation has stabilised at 1.5% and growth in service prices decelerated to 6.6% y/y from 7.3% y/y last month (the first decline since January 2020). Food prices fell in August by 1.1% m/m (returning to the seasonal pattern from before 2015), their annual growth slowed down to 3.0% from 3.9% in July and was the lowest since March 2019. Food will be an important disinflationary factor in the coming months. This is indicated by the expected high crop yield and the price developments in the global markets. The discovery of ASF in Germany, which will prevent exports to the Chinese market, is likely to aggravate this trend, leading to a drastic drop in pork prices. The disinflationary effect of fuel prices are likely to fade away in months to come.

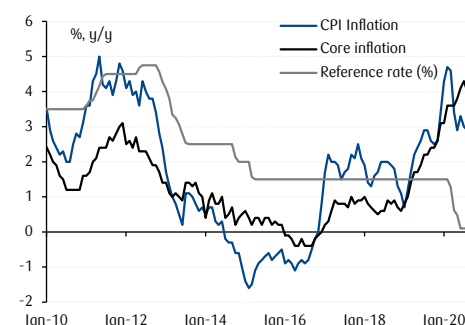
We expect a further decline in CPI inflation due to the aforementioned food prices and a gradual reduction in core inflation on lower consumer demand. Next year, after the impact of this year's regulatory changes expires (and despite the introduction of new ones), inflation should temporarily fall below the NBP target. This, together with the global mode of keeping monetary policy expansive for a long time, will support a loose monetary policy stance in Poland.

Structural NBP operations



Source: NBP, PKO Bank Polski.

Inflation and NBP rates



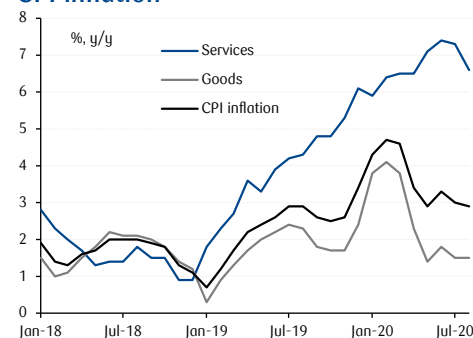
Source: GUS, PKO Bank Polski.

Real effective exchange rate



Source: Macrobond, BIS, PKO Bank Polski.

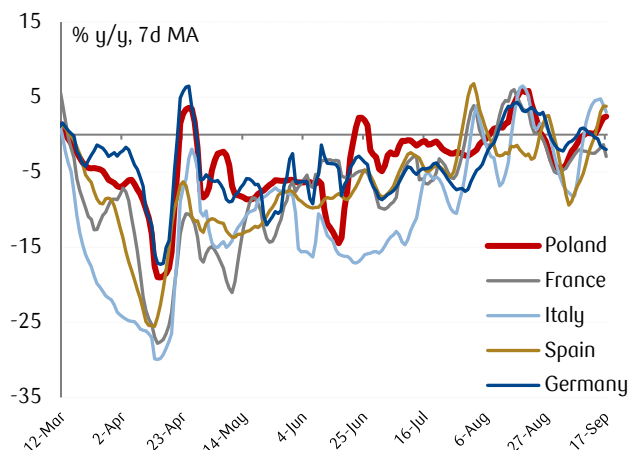
CPI inflation



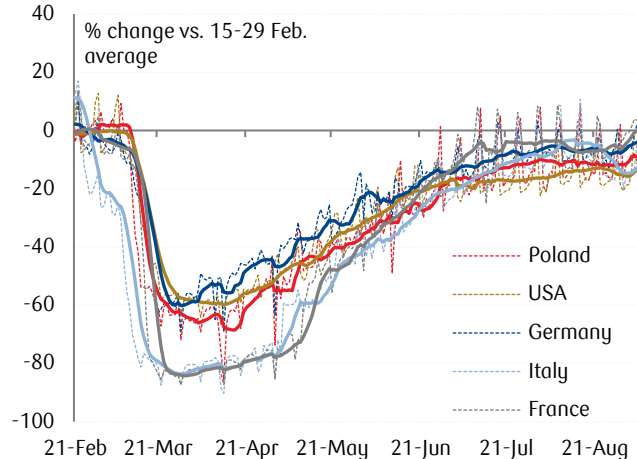
Source: GUS, PKO Bank Polski.

Macro monitoring with alternative data[^]

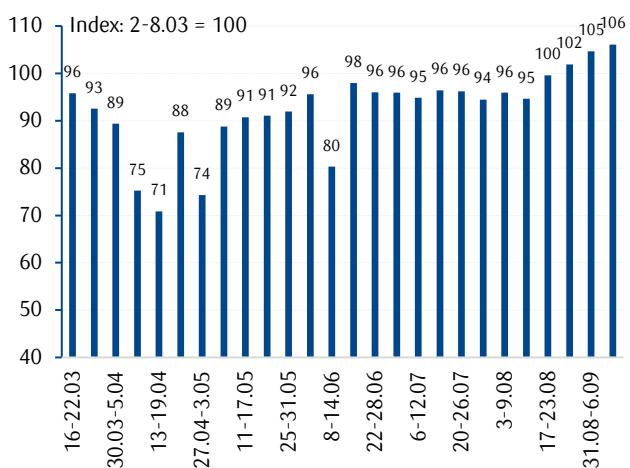
Electric energy consumption (total)



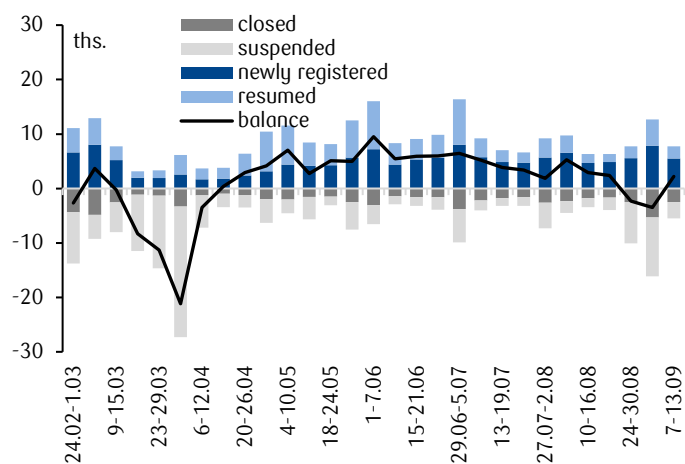
Mobility*



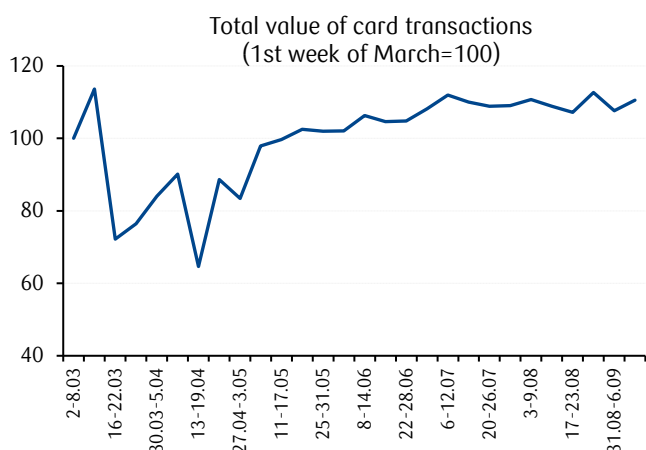
Heavy truck traffic



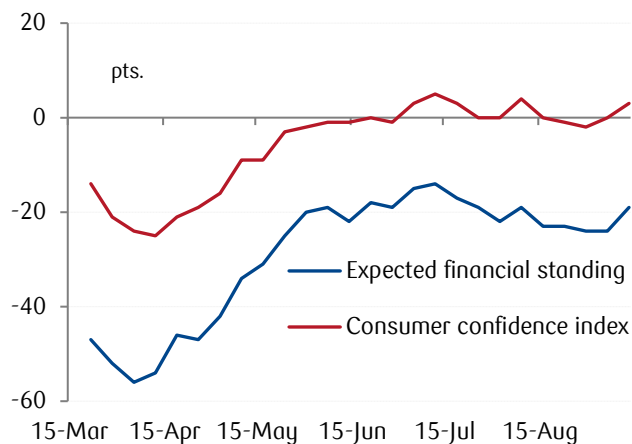
Economic activity status (acc. to CEiDG**)



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, 7DMA, **Central Registration and Information on Business.

Weekly economic calendar

Indicator	Time (UK)	Unit	Previous	Consensus*	PKO BP	Comment
Monday, 21 September						
POL: Construction output (Aug)	9:00	% y/y	-10.9	-9.5	-12.4	Weak local government investments at the time of pandemic stands behind declining construction. Retail sales could have been held back by the unexpected deceleration in car registrations in August.
POL: Retail sales (Aug)	9:00	% y/y	3.0	2.6	0.9	
Tuesday, 22 September						
SWE: Riksbank meeting	8:30	%	0.00	0.00	0.00	--
POL: Money Supply M3 (Aug)	13:00	% y/y	16.8	16.3	16.3	M3 growth rate stays elevated due to recent NBP QE operations. Further recovery becomes more difficult as deferred demand fades away.
POL: General business climate indicator for manufacturing (Sep)	9:00	pts.	-6.6	--	--	
HUN: MNB meeting	13:00	%	0.60	0.60	0.60	--
EUR: Consumer Confidence (Sep)	15:00	pts.	-14.7	--	--	--
USA: Existing home sales (Aug)	15:00	mln	5.86	5.95	--	--
Wednesday, 23 September						
GER: Manufacturing PMI (Sep, flash)	8:30	pts.	52.2	52.8	--	--
GER: Services PMI (Sep, flash)	8:30	pts.	52.5	53.0	--	--
EUR: Manufacturing PMI (Sep, flash)	9:00	pts.	51.7	51.9	--	--
EUR: Services PMI (Sep, flash)	9:00	pts.	50.5	51.0	--	--
POL: Unemployment Rate (Aug)	9:00	%	6.1	6.1	6.1	Stable unemployment rate this summer thanks to the Anticrisis Shield protecting jobs and likely postponed registrations due to temporary solidarity benefit. Sentiment rebound is dampened by unemployment fears.
POL: Consumer Confidence - current (Sep)	9:00	pts.	-15.2	--	--	
CZE: Central bank meeting	13:30	%	0.25	0.25	0.25	--
USA: Manufacturing PMI (Sep, flash)	14:45	pts.	53.1	--	--	--
Thursday, 24 September						
SWI: SNB meeting	8:30	%	-0.75	-0.75	-0.75	--
NOR: Norges Bank meeting	9:00	%	0.00	0.00	0.00	--
GER: Ifo Business Climate Index (Sep)	9:00	pts.	92.6	93.9	--	--
USA: Initial Jobless Claims	13:30	thous.	860	800	--	--
USA: New home sales (Aug)	15:00	thous.	901	875	--	--
Friday, 25 September						
EUR: M3 money supply (Aug)	9:00	% y/y	10.2	10.5	--	--
USA: Durable goods orders (Aug, flash)	13:30	% m/m	11.4	1.0	--	--

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	1.5	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	6.1	5.4	6.1	8.2	8.1 [†]	5.2	8.1	7.5
Employment in enterprises (% y/y)	-3.3	-2.3	-1.5	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	4.0	3.4	3.8	4.1	3.7	1.9	3.8	1.7
15% trimmed mean (% y/y)	3.5	3.3	3.2	3.4	3.4	x	x	2.0	x	x
PPI inflation (% y/y)	-0.8	-0.6	-1.2	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	2.8	2.9	1.3	2.3	2.7	2.5	0.4	2.5	1.6
Trade balance (%GDP)	1.4	1.7	1.8	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.

^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	"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 pity 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	"Although the worst is behind us, in the coming quarters we still need to support the economy and to keep accommodative monetary policy. The economic activity is still below the potential, unemployment is higher than before the crisis and further progress in the economic recovery could be more difficult to achieve than to date. (...) At the current level of interest rates, banks do not encounter limitations in developing lending." (18.09.2020, Dziennik Gazeta Prawna daily).
J. Zyzynski	1.9	"Interest rates are very close to zero, it would be hard to cut them even further, it would not be very effective. I do not support cutting rates to the bare zero, although obviously such an option theoretically cannot be ruled out, but it is better to keep that slight margin of potential cuts for the future. I would personally prefer for monetary policy to have buffers in case circumstances appear that require an additional impulse in the form of cutting the interest rate to zero." (24.07.2020, PAP)
E. Lon	1.0	"In my opinion, the level of interest rates should remain at their current level to the end of the term of the current Monetary Policy Council (...) I don't rule out that should a significant threat of strong decline in consumer moods arise, it would be possible that I would submit a motion for a reduction in interest rates of our central bank" (07.09.2020, PAP, Refinitiv)

*the higher the indicator the more hawkish views. Due to the fact that the new MPC has not voted yet on interest rates changes, the positioning has been made based positively on PAP survey conducted among economists at banks in Poland (scale 1-5).

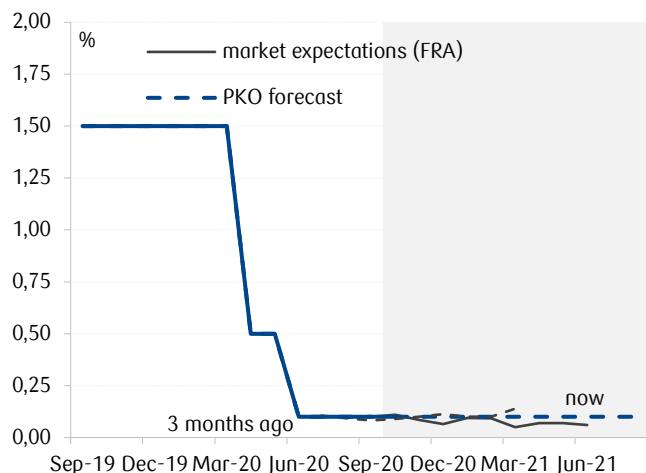
Interest rates – PKO BP forecasts vs. market expectations

	1M	2M	3M	4M	5M	6M	7M	8M	9M	
Date	17-Sep	17-Oct	17-Nov	17-Dec	17-Jan	17-Feb	17-Mar	17-Apr	17-May	17-Jun
WIBOR 3M/FRA†	0.23	0.24	0.22	0.20	0.22	0.22	0.18	0.20	0.20	0.19
implied change (b. p.)		0.01	-0.02	-0.04	-0.01	-0.01	-0.05	-0.03	-0.03	-0.04
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*		0.11	0.09	0.07	0.09	0.09	0.05	0.07	0.07	0.06

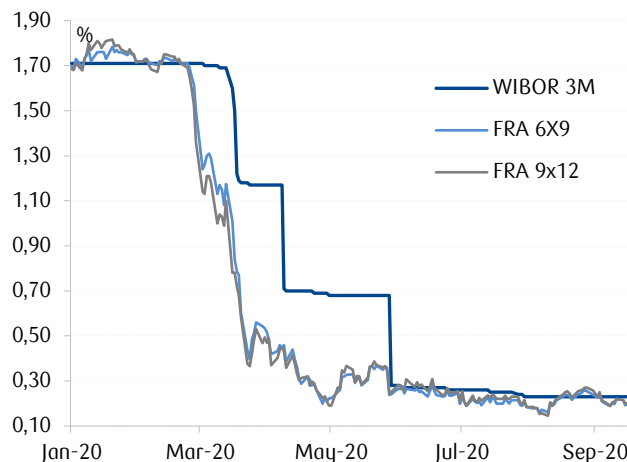
†WIBOR 3M from the last fixing, FRA transactions based on WIBOR 3M for subsequent periods, ‡in basis points, *PKO BP forecast of the NBP reference rate.

Poland macro chartbook

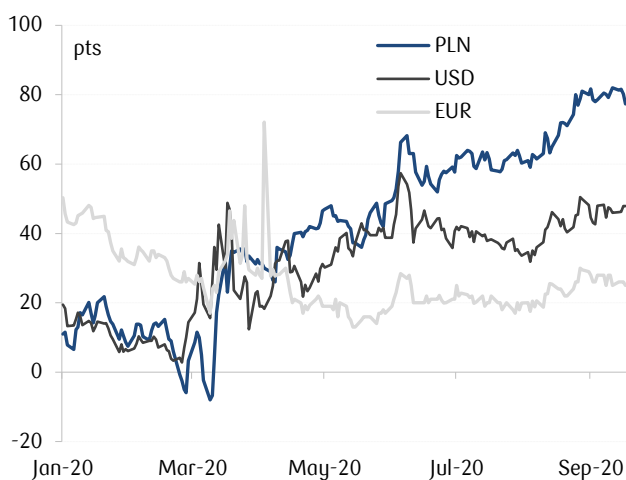
NBP policy rate: PKO BP forecast vs. market expectations



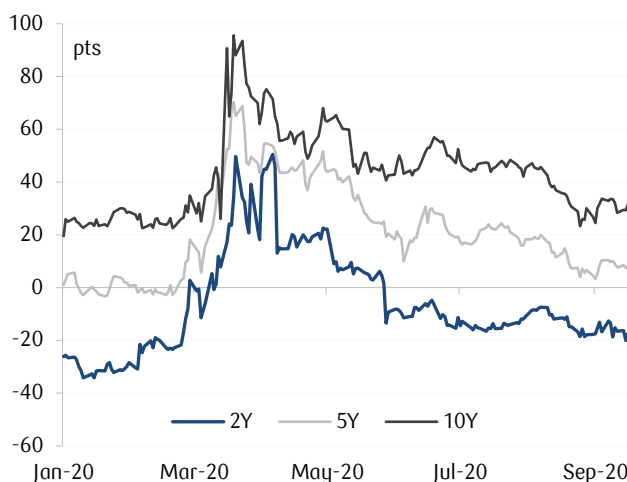
Short-term PLN interest rates



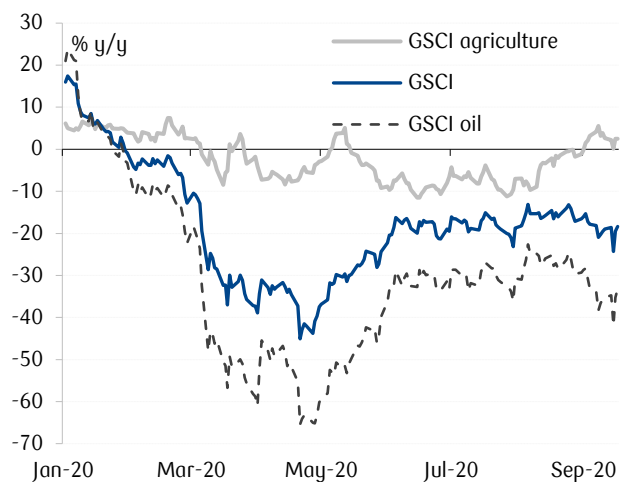
Slope of the swap curve (spread 10Y-2Y)*



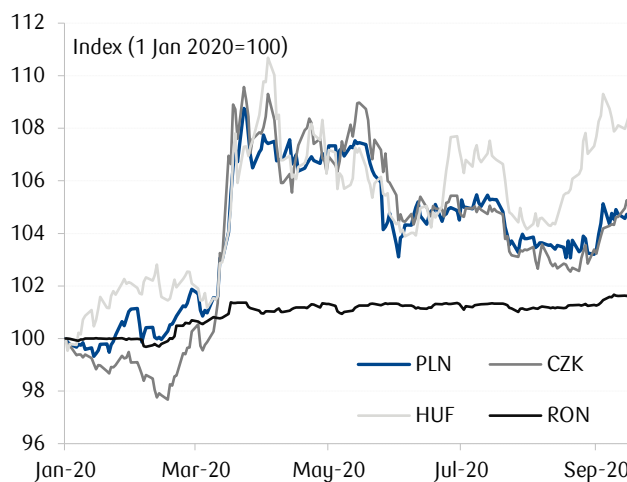
PLN asset swap spread



Global commodity prices (in PLN)

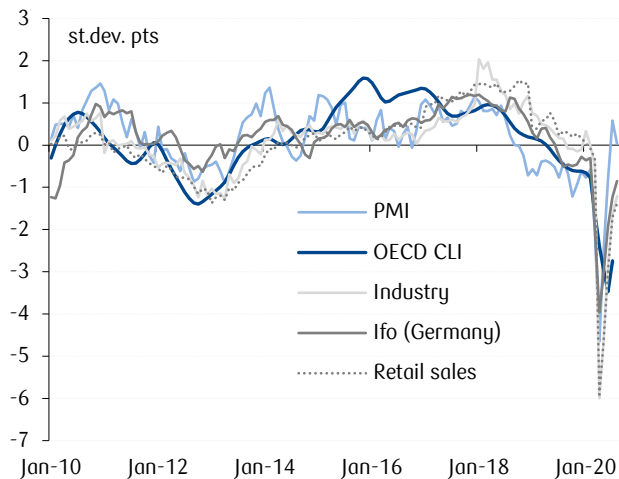


Selected CEE exchange rates against the EUR

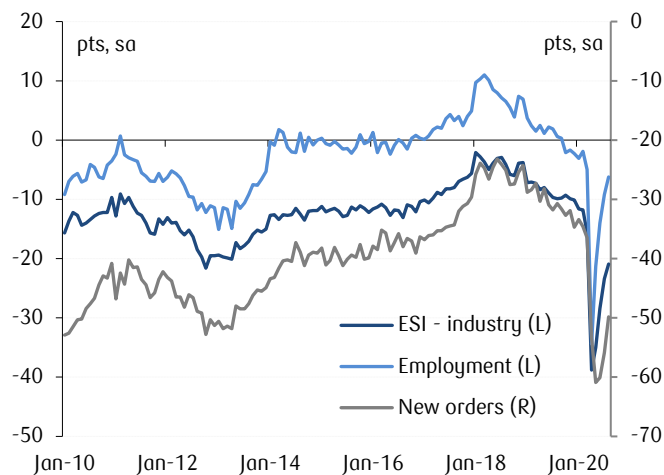


Source: Datastream, NBP, PKO Bank Polski. *for PLN, and EUR 6M, for USD 3M.

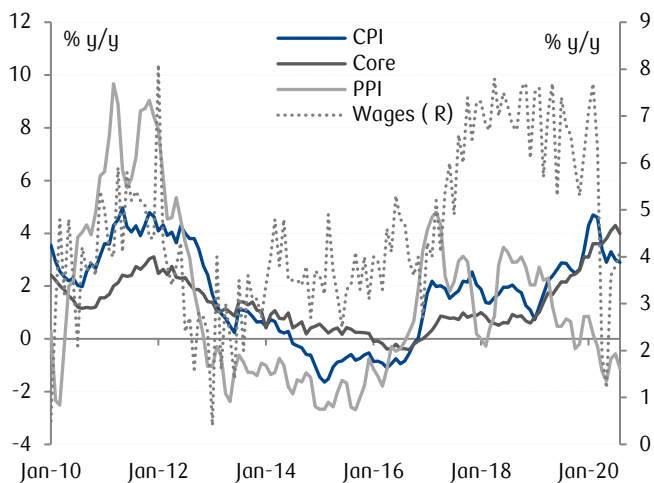
Economic sentiment indicators



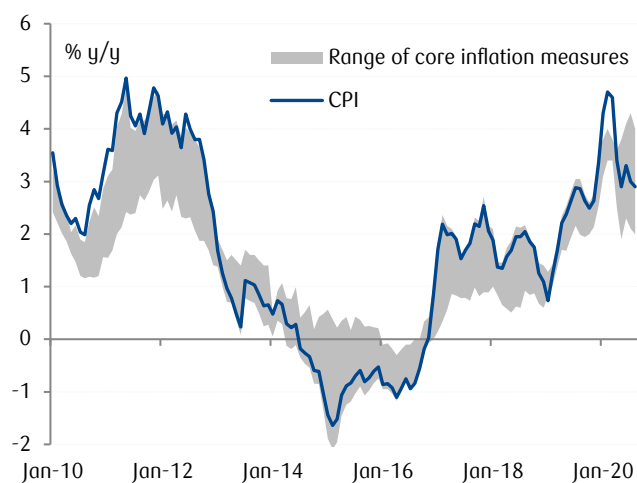
Poland ESI for industry and its components



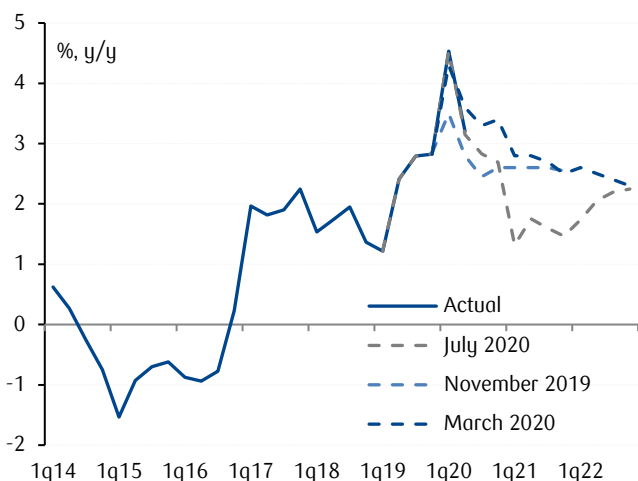
Broad inflation measures



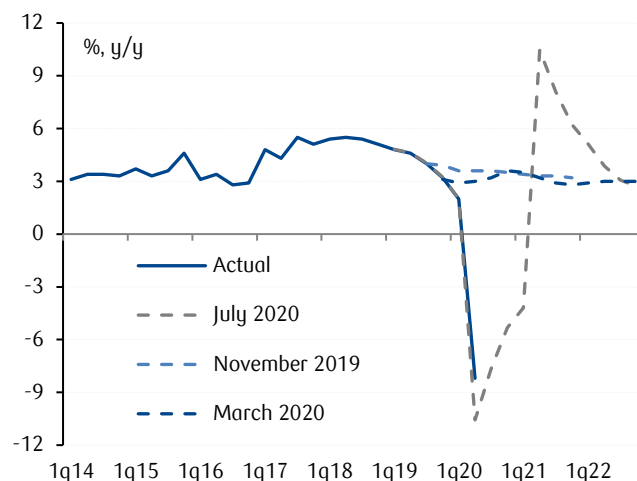
CPI and core inflation measures



CPI inflation - NBP projections vs. actual

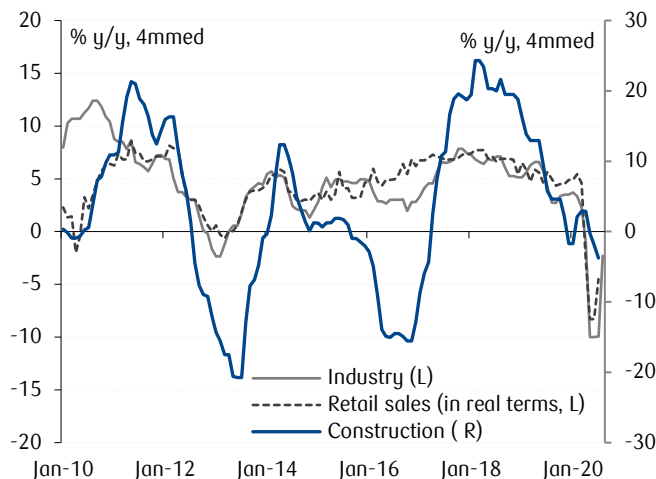


Real GDP growth - NBP projections vs. actual

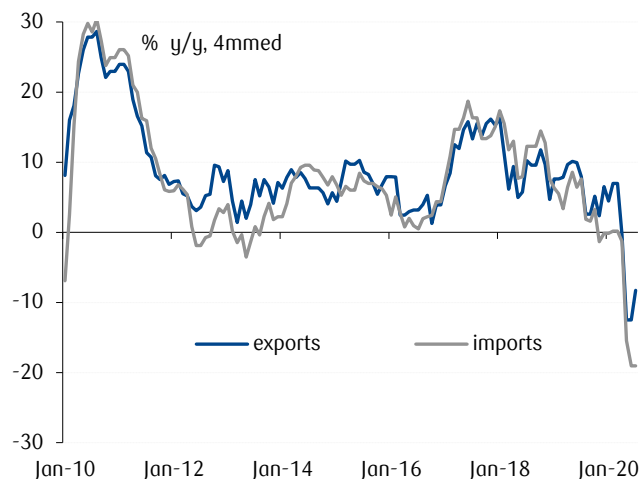


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

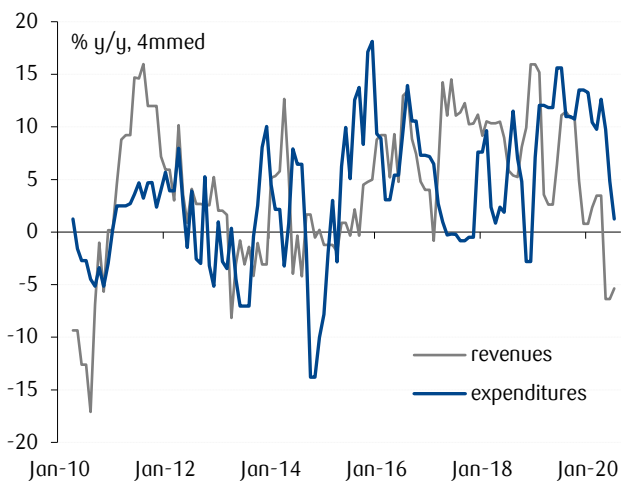
Economic activity indicators



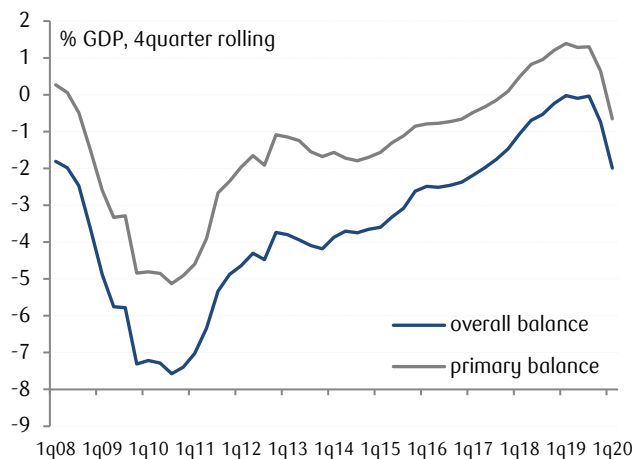
Merchandise trade (in EUR terms)



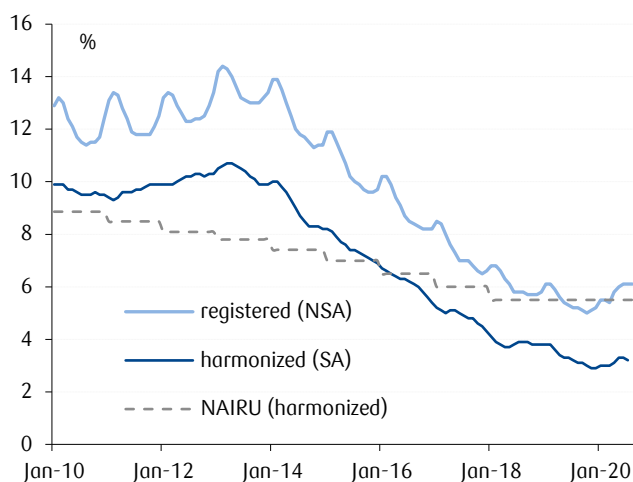
Central government revenues and expenditures*



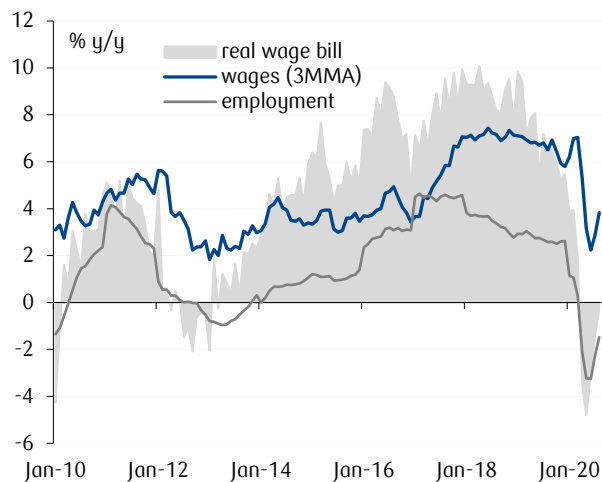
General government balance (ESA2010)



Unemployment rate

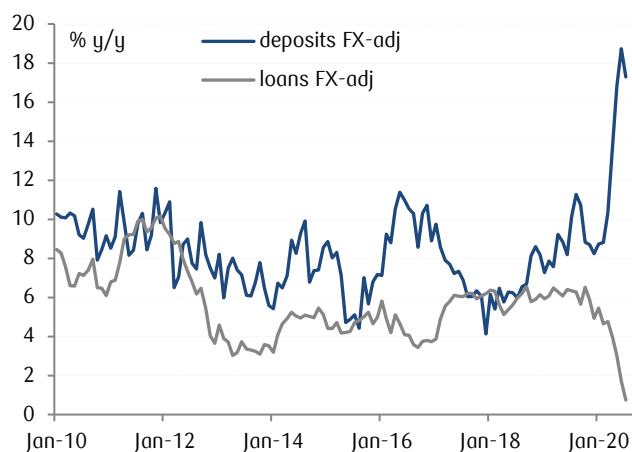


Employment and wages in the enterprise sector

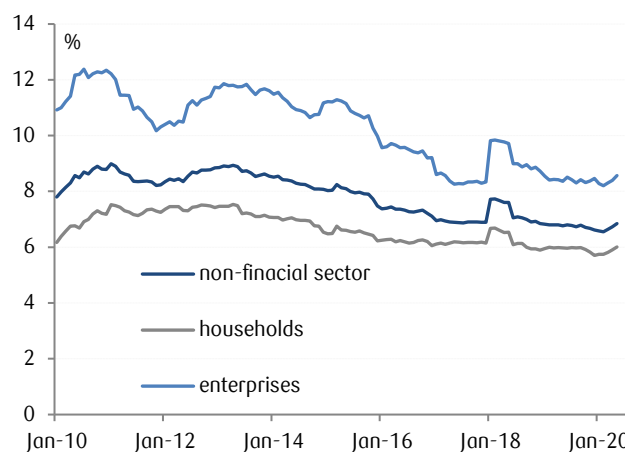


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. *break in series in 2010 due to methodological changes.

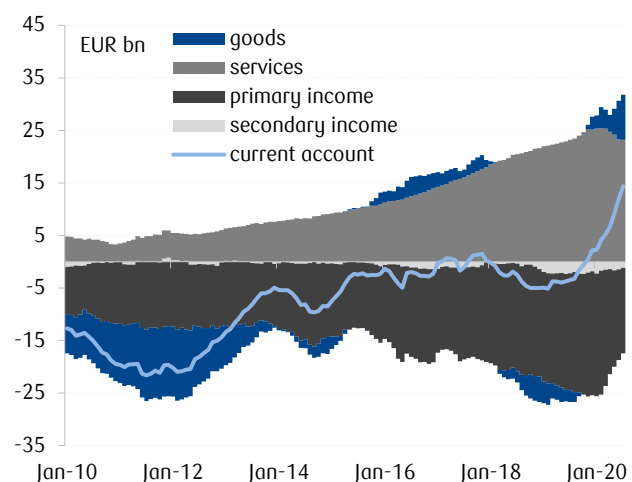
Loans and deposits



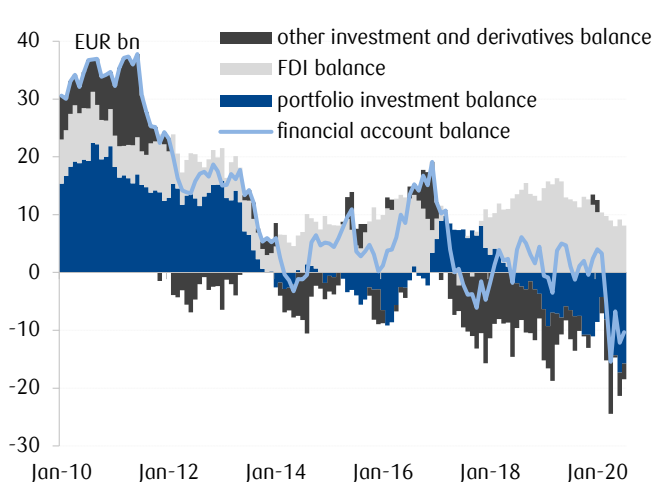
Non-performing loans (NPLs) - by sectors*



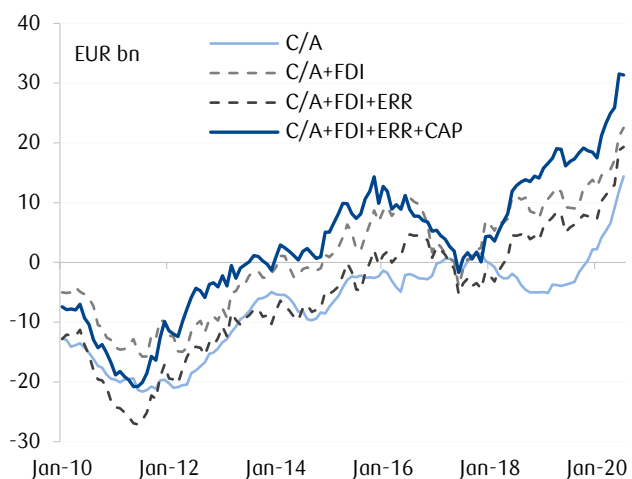
Current account balance



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:

- [Fiscal policy on the go](#) (Sep 11, 2020)
- [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)
- [Pandemics](#) (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)

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.

The above information has been prepared for informational purposes only and is provided to PKO BP SA Group clients. It is not an offer (as understood under the Civil Law of 23rd April 1964) to buy or sell or the solicitation of an offer to buy or sell any financial instrument and does not constitute the provision of investment, legal or tax advice. It is also not intended to provide a sufficient basis on which to make an investment decision. The above information has been obtained from or based upon sources believed to be reliable, but PKO BP SA Group does not warrant its completeness or accuracy. PKO Bank Polski Group strongly recommends that clients independently evaluate particular investments and accepts no liability for the financial effect of its clients' investment decisions.

The above information is prepared and/or communicated by Powszechna Kasa Oszczędności Bank Polski S.A., registered in the District Court for the Capital City of Warsaw, 13th Commercial Division of the National Court Register under KRS number 0000026438, Tax Identification Number (NIP): 525-000-77-38, REGON: 016298263, share capital 1,250,000,000 PLN.