

Labour market at a crossroads

Top macro theme(s):

- **Labour market at a crossroads (p. 2):** As the measures protecting jobs are set to expire soon, the labour market is currently at a crossroads. In the coming months its real strength will be revealed.

What else caught our eye:

- **The government presented a draft budget for 2021, assuming a deficit of PLN 82.3bn**, with income rising by 1.3% y/y, and expenditure decreasing by 4.3% y/y. With GDP growing at 4.0% y/y, and CPI at 1.8% y/y we find the macro assumptions conservative. The budget does not include the Open Pension Fund transformation fee, nor any payment from abolishing the cap on social security contributions.
- **MinFin informed that PFR's financial shield will be included in General Government debt statistics**, thus increasing the ESA 2010 deficit in 2020 to 12% of GDP, and 6% in 2021. Public debt will rise to 62.2% of GDP in 2020 and 64.7% in 2021 vs. 46.0% in 2019.
- **M3 money supply growth unexpectedly decelerated in July** to 16.8% y/y (from 18.1% y/y). Credit action almost stalled (0.7% y/y vs. 1.7% y/y a month earlier), as revolving credit for firms is crowded out by funds from the Anticrisis Shields. Deposit growth decelerated (17.3% y/y vs. 18.7% y/y in June), as firms started to spend the money they stockpiled from the PFR's financial aid.
- **Investment outlays of big (50+ employees) firms plummeted in 2q20** by 13.6% y/y vs. 5.3% y/y in 1q providing support to our view of a visible fall in gross fixed capital formation across the entire economy.
- **MPC Minutes from July's meeting showed that the Council remains cautious** about GDP growth perspectives.

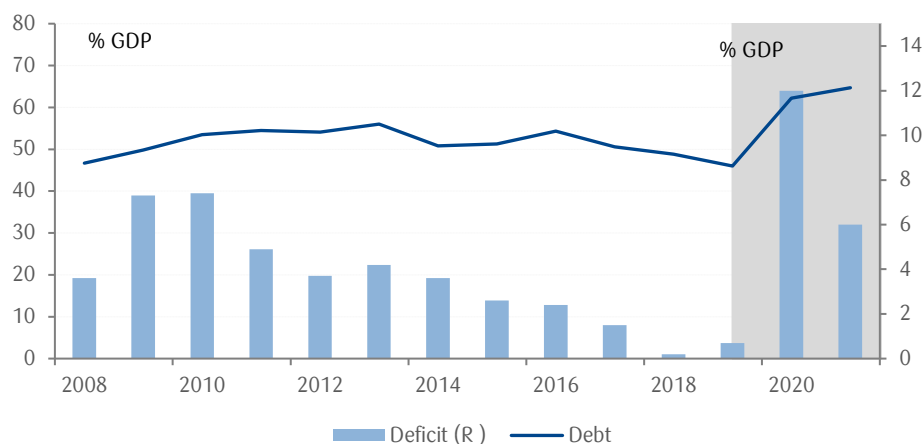
The week ahead:

- **Final GDP print for 2q may show a better result than the flash estimate** (-8.2% y/y) with both consumption and investment falling at a two digit pace.
- **CPI inflation likely fell in August** with a possible reversal of core inflation's upward trend, and a likely decrease of food prices due to a large crop yield.
- **Manufacturing PMI will likely show yet another increase in August.**

Number of the week:

- **PLN 109.3bn – the revised state budget deficit in 2020** (an absolute maximum acc. to T.Koscinski, MinFin). **90% of borrowing needs for 2020 are already met.**

Chart of the week: General government deficit and debt



Source: Eurostat, MinFin, PKO Bank Polski.

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	2019	2020†
Real GDP (%)	4.1	-3.9
Industrial output (%)	4.0	-5.8
Unemployment rate# (%)	5.2	8.1
CPI inflation** (%)	2.3	3.3
Core inflation** (%)	1.9	3.2
Money supply M3 (%)	8.3	13.9
C/A balance (% GDP)	0.5	2.5
Fiscal balance (% GDP)*	-0.7	-12.0
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.

Labour market at a crossroads

- The data published this week showed an astonishingly resilient Polish labour market during the period of the global pandemic so far.
- As the measures protecting jobs are set to expire soon, the labour market is currently at a crossroads. In the coming months its real strength will be revealed.

The data published this week showed an astonishingly resilient Polish labour market during the period of the global pandemic so far. Registered unemployment in July was confirmed at 6.1%, the same as in June and 0.9pp higher y/y. Quarterly LFS unemployment rate stabilised at 3.1% in 2q20, 0.1pp below the level from 2q19.

The registered unemployment growth in the summer has been held back by the solidarity allowance of 1,400 PLN that discourages job-losers from immediate registration as unemployed. As of August 20th this allowance has already been paid to ca. 90 thousand persons. As a result, in July the number of newly registered unemployed was 12.8% lower than in the previous year.

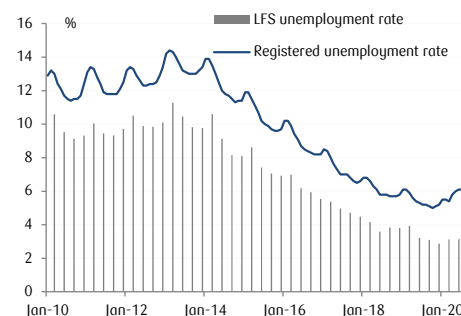
In the LFS data, we see that the covid-related lockdown has cut 151 thousand jobs in a quarter, but the job-losers did not turn into the status of unemployed but stayed outside the labour market, to which the access was limited during the pandemic. The toll of the economically inactive population went up by 137 thousand in a quarter, while the total number of unemployed went down (!) by 2 thousand. As a result, the participation rate (for 15+ population) went down to 55.5%, which was the lowest since early 2013. The pandemic-related shock has reversed 7 years of gradual structural improvement of the participation rate. Some of the inactivity growth could be a one-off phenomenon, as the national state of the epidemic made it harder to look for work, but we cannot exclude that possibility of lower economic activity staying with us for longer.

The LFS survey shows that the labour market outcomes of the pandemic are more substantial than at first sight. Restrictions related to movement, the need to maintain social distancing, as well as difficulties in the operation of many companies and branches of the economy forced many employees to work from home, reduce their working hours or be absent from work. In 2q20, as many as 1.962 million people had a job but did not perform it. 62% of them indicated that it was related to the coronavirus, including 675 thousand who did not work due to an epidemic-related downtime in the workplace. Over half a million people worked shorter hours than usual because of the epidemic. The percentage of people usually working from home was 13.1%, which doubled when compared to 1q20. These special conditions on the labour market resulted from administrative measures supporting the economy, including the Anti-crisis Shield that contains economic downtime, paid care leave, and a reduction of working hours.

As companies have already started to withdraw from the Shield's instruments we see a different evolution of average employment (+66 thousand) and total number of employees (-5 thousand) in the enterprise sector in July.

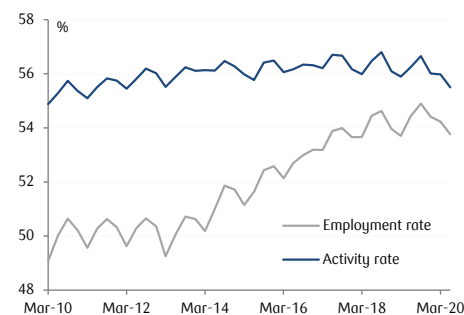
As the measures protecting jobs are set to expire soon, the labour market is currently at a crossroads. In the coming months its real strength will be revealed. We still expect, that the unemployment level will ultimately go up at the end of the year, possibly reaching 8%, which shall reflect lower demand in the economy. The labour market impact of the pandemic will therefore be much milder than we first feared.

Unemployment rate



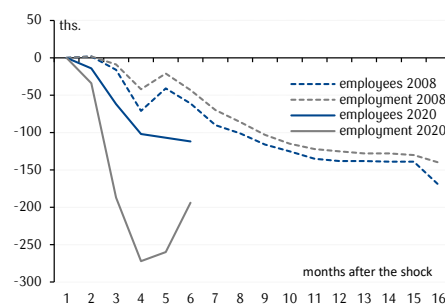
Source: GUS, PKO Bank Polski.

Employment and activity rate



Source: GUS, PKO Bank Polski.

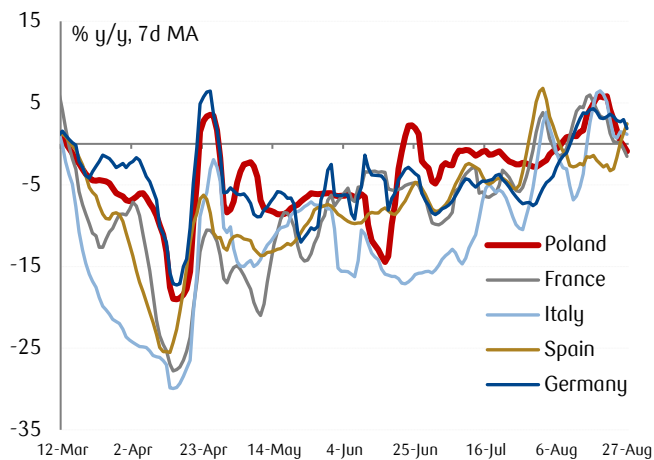
Cumulative employment change: COVID19 vs. GFC



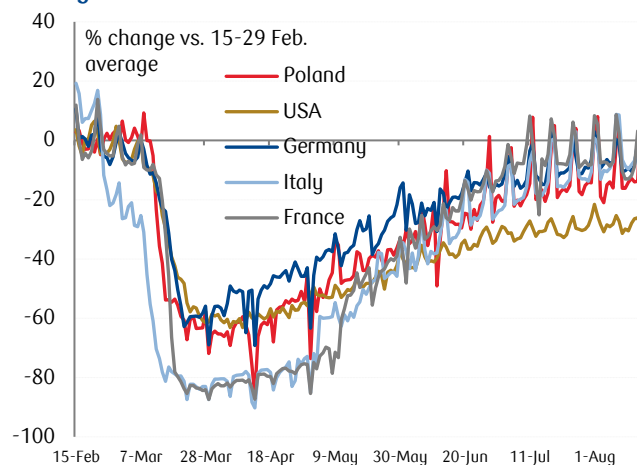
Source: GUS, PKO Bank Polski.

Macro monitoring with alternative data[^]

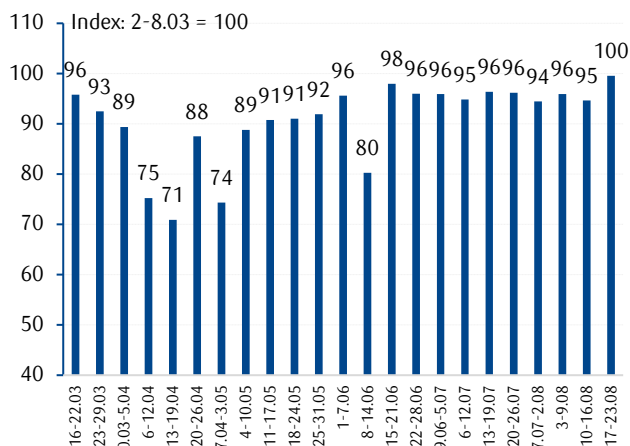
Electric energy consumption (total)



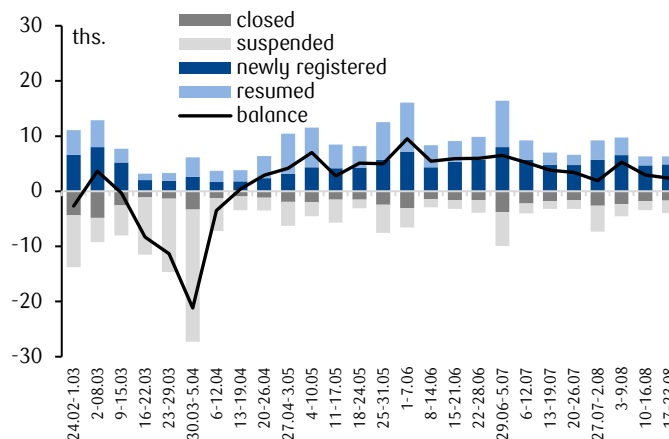
Mobility*



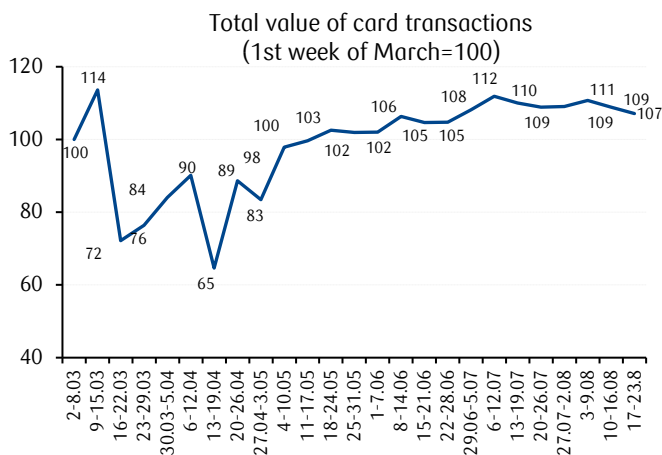
Heavy truck traffic



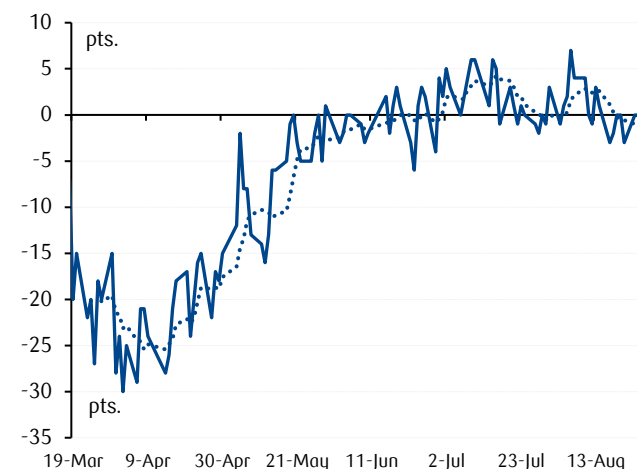
Economic activity status (acc. to CEIDG**)



Consumption based on PKO BP card payments



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, 31 August						
POL: GDP growth (2q)	9:00	% y/y	2.0	-8.2	--	Final GDP print for 2q may even show a better result than the flash estimate (-8.2% y/y) with both consumption, and investment falling at a two digit pace
GER: HICP inflation (Aug, flash)	13:00	% y/y	0	0.1	--	--
GER: CPI inflation (Aug, flash)	13:00	% y/y	-0.1	0.1	--	--
GER: Retail sales (Jul)	8:20	% y/y	5.9	4.1	--	--
Tuesday, 1 September						
CHN: Manufacturing PMI (Aug)	2:45	pts.	52.8	52.3	--	--
POL: Manufacturing PMI (Aug)	8:00	pts.	52.8	--	--	Manufacturing PMI will likely show yet another increase in August
GER: Manufacturing PMI (Aug, final)	8:55	pts.	51	53	--	--
GER: Unemployment Rate (Aug)	8:55	%	6.4	6.4	--	--
EUR: Manufacturing PMI (Aug, final)	9:00	pts.	51.8	51.7	--	--
POL: CPI inflation (Aug, flash)	9:00	% y/y	3	--	--	CPI inflation likely fell in August with possible reversal of core inflation's upward trend and likely decrease of food prices due to big crops.
EUR: CPI inflation (Aug)	10:00	% y/y	0.4	0.2	--	--
EUR: Core inflation (Aug, flash)	10:00	% y/y	1.2	0.8	--	--
USA: Manufacturing PMI (Aug, final)	14:45	pts.	50.9	53.6	--	--
USA: ISM Manufacturing (Aug)	15:00	pts.	54.2	54.5	--	--
Wednesday, 2 September						
EUR: PPI inflation (Jul)	10:00	% y/y	-3.7	--	--	--
USA: ADP National Employment (Aug)	13:15		--	--	--	--
USA: Factory orders (Jul)	15:00	% m/m	6.2	3.8	--	--
USA: Durable goods orders (Jul, final)	15:00	% m/m	11.2	--	--	--
Thursday, 3 September						
GER: Services PMI (Aug, final)	8:55	pts.	55.6	50.8	--	--
EUR: Services PMI (Aug, final)	9:00	pts.	54.7	50.1	--	--
EUR: Retail sales (Jul)	10:00	% y/y	1.3	3	--	--
USA: Initial Jobless Claims (Aug)	13:30	thous.	--	--	--	--
USA: Trade balance (Jul)	13:30		--	--	--	--
Friday, 4 September						
GER: Factory orders (Jul)	7:00	% m/m	27.9	6	--	--
USA: Non-farm payroll (Aug)	13:30	thous.	1763	1550	--	--
USA: Unemployment Rate (Aug)	13:30	%	10.2%	9.9%	--	--
USA: Average Earnings (Aug)	13:30	% y/y	4.8	4.4	--	--

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	1740.8	1624.9	1746.2	1713.2	1778.9	1565.6	1783.5	1912.3
Money supply, M3 (% y/y)	16.0	18.1	16.8	11.8	18.1	13.7	13.9	8.3	13.9	7.5
Real money supply, M3 (% y/y)	13.1	14.8	13.8	7.2	14.8	11.2	11.4	4.9	11.4	5.8
Loans, total (PLN bn)	1345.9	1341.1	1330.5	1366.6	1341.1	1349.0	1358.4	1323.7	1358.4	1413.5
Loans, total (% y/y)	4.2	3.1	1.4	6.5	3.1	1.3	2.6	5.1	2.6	4.1
Deposits, total (PLN bn)	1598.3	1618.7	1611.3	1485.1	1618.7	1610.0	1545.8	1406.6	1545.8	1667.1
Deposits, total (% y/y)	17.3	19.5	17.4	11.2	19.5	14.5	9.9	8.2	9.9	7.8
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	-12.0	-6.0
Public debt (% GDP)	x	x	x	x	x	x	x	46.0	62.2	64.7
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* (%)	0.28	0.26	0.23	1.17	0.26	0.30	0.30	1.71	0.30	0.30
Real WIBOR 3M* (%)#	-2.62	-3.04	-2.87	-3.43	-3.04	-2.30	-1.90	-1.69	-1.90	-2,10
Exchange rates*‡										
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.

*PKO BP Market Strategy team forecasts,

‡period averages for quarterly and yearly data,

#deflated with current CPI inflation,

‡period end values,

‡under revision.

Monetary policy monitor

MPC Members	Hawk-o-meter*	Recent policy indicative comments
K. Zubelewicz	4.9	"I'm afraid a majority on the MPC will be focused on economic growth and ready to tolerate inflation around 3.5% for longer," he said. "A rate hike would be a nice surprise, but I don't expect it." (21.07.2020, Bloomberg)
E. Gatnar	4.7	"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 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	„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	„ Polish monetary policy should be, as it has been so far, bald and courageous. This means that interest rates should remain at the current level for a very long time." (24.08.2020, 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

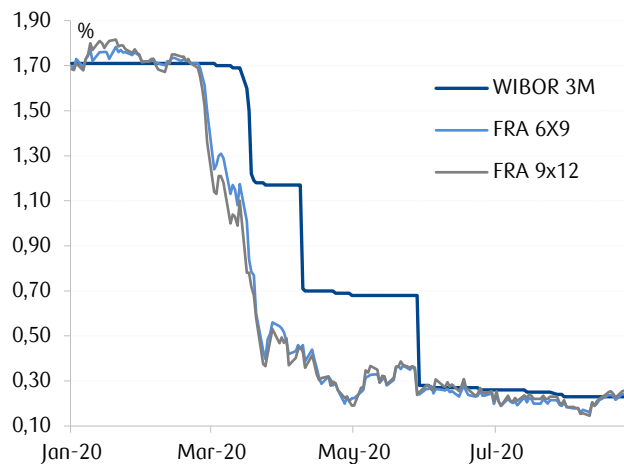
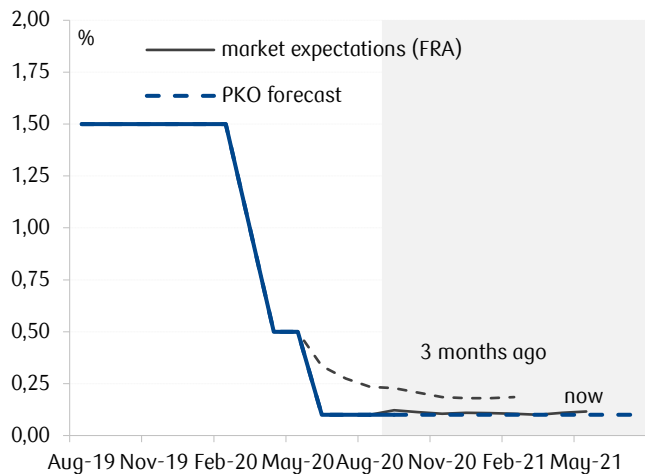
		1M	2M	3M	4M	5M	6M	7M	8M	9M
Date	27-Aug	27-Sep	27-Oct	27-Nov	27-Dec	27-Jan	27-Feb	27-Mar	27-Apr	27-May
WIBOR 3M/FRA†	0.23	0.26	0.25	0.25	0.26	0.26	0.26	0.25	0.26	0.27
implied change (b. p.)		0.03	0.02	0.02	0.03	0.03	0.03	0.02	0.03	0.04
MPC Meeting	-	15-Sep	7-Oct	4-Nov	2-Dec	-	-	-	-	-
PKO BP forecast*	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
market pricing*		0.13	0.12	0.12	0.13	0.13	0.13	0.12	0.13	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

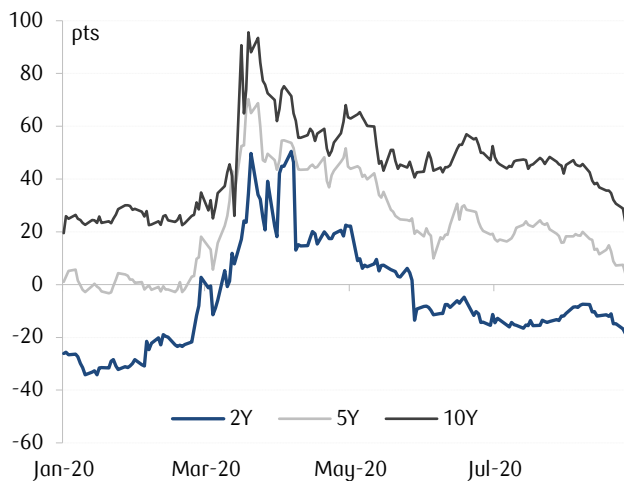
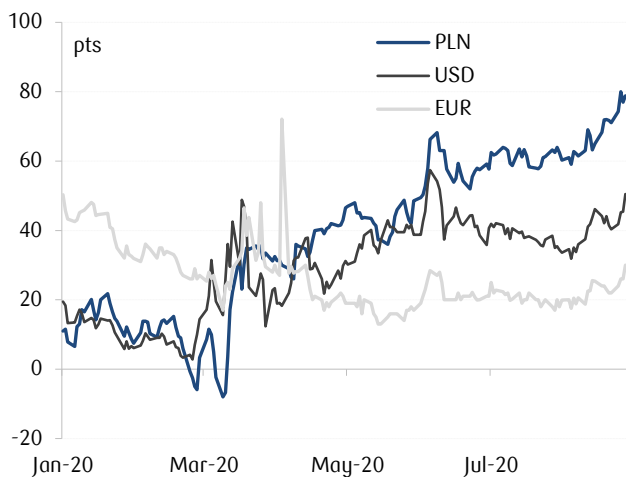
NBP policy rate: PKO BP forecast vs. market expectations

Short-term PLN interest rates



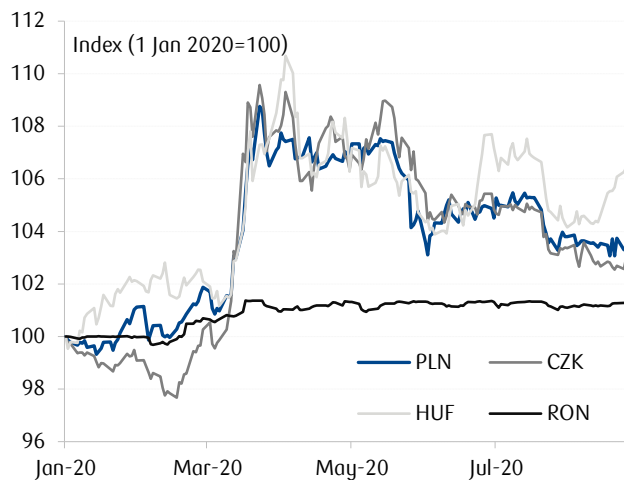
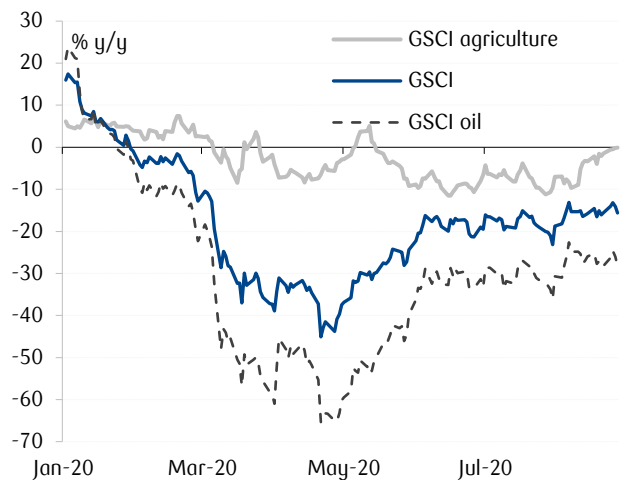
Slope of the swap curve (spread 10Y-2Y)*

PLN asset swap spread



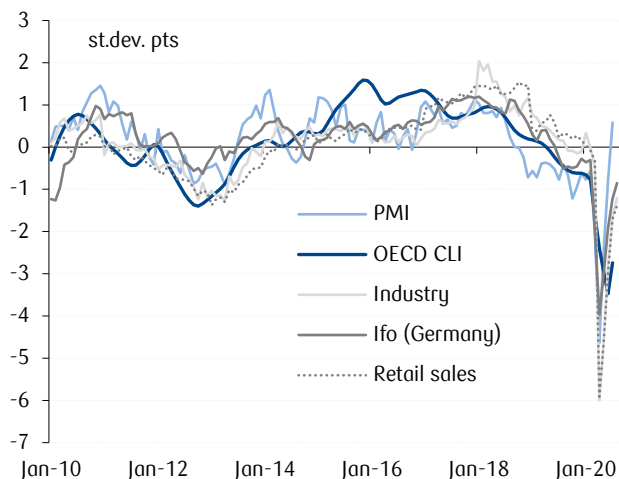
Global commodity prices (in PLN)

Selected CEE exchange rates against the EUR

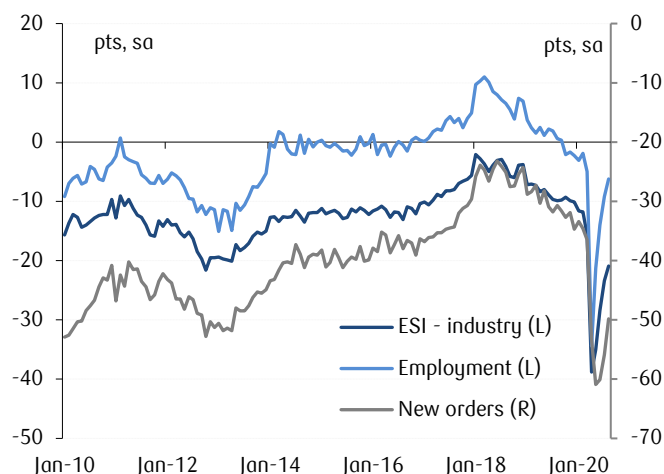


Source: Datastream, NBP, PKO Bank Polski. *for PLN, and EUR 6M, for USD 3M.

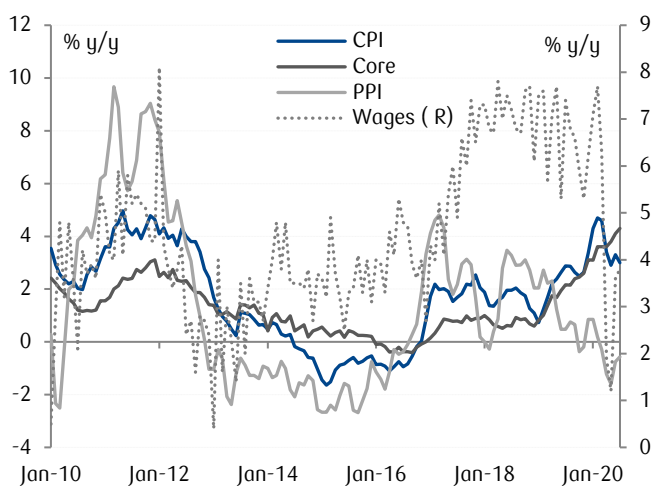
Economic sentiment indicators



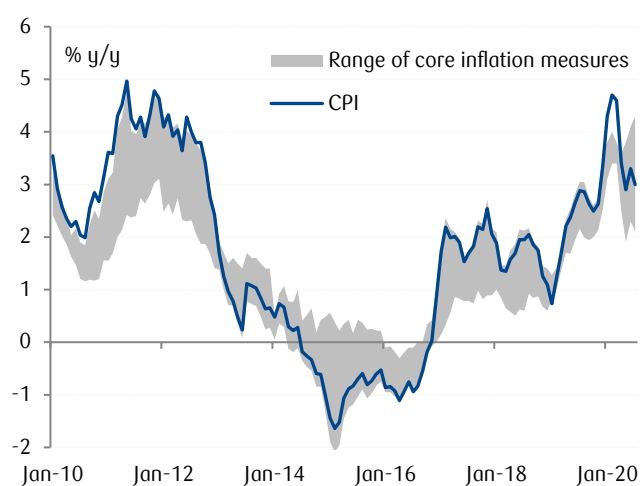
Poland ESI for industry and its components



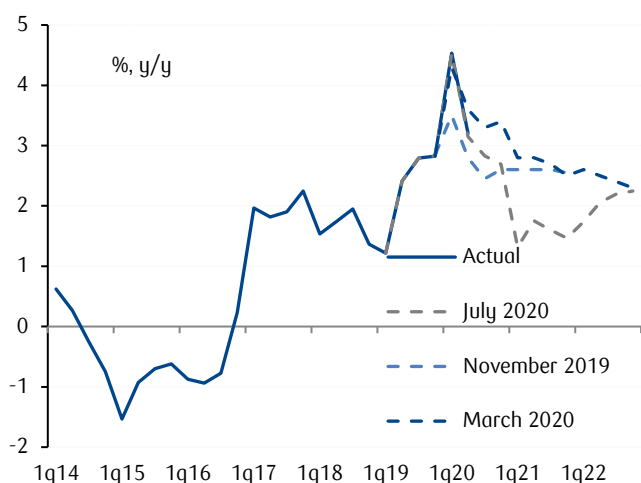
Broad inflation measures



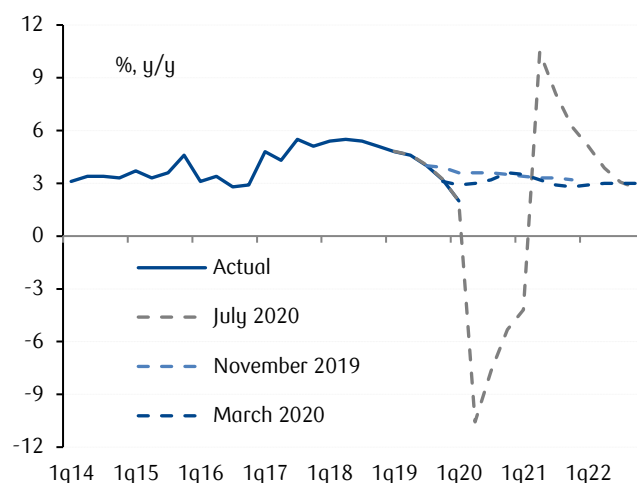
CPI and core inflation measures



CPI inflation - NBP projections vs. actual

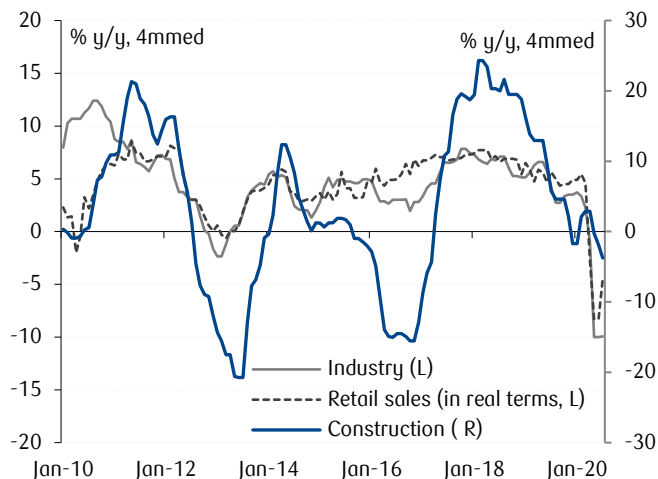


Real GDP growth - NBP projections vs. actual

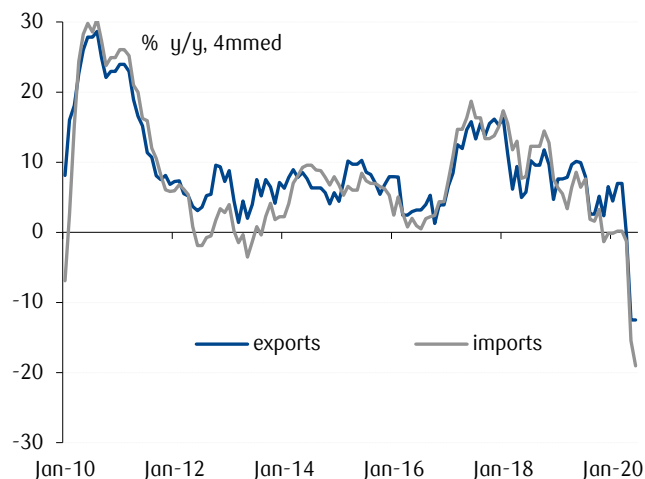


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

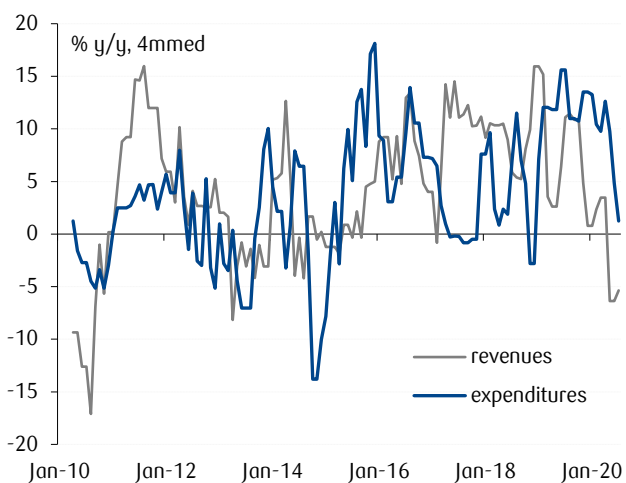
Economic activity indicators



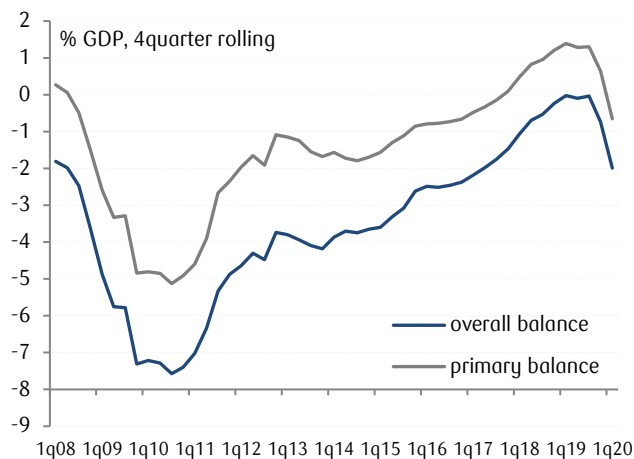
Merchandise trade (in EUR terms)



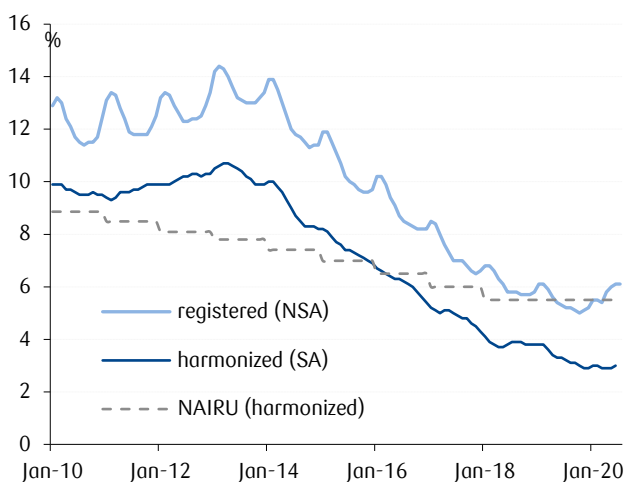
Central government revenues and expenditures*



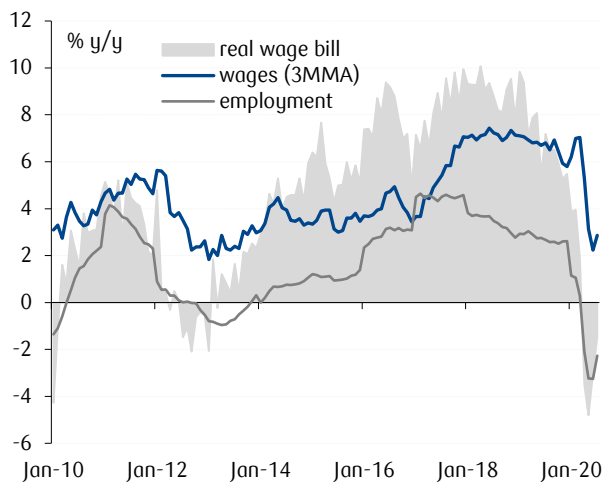
General government balance (ESA2010)



Unemployment rate

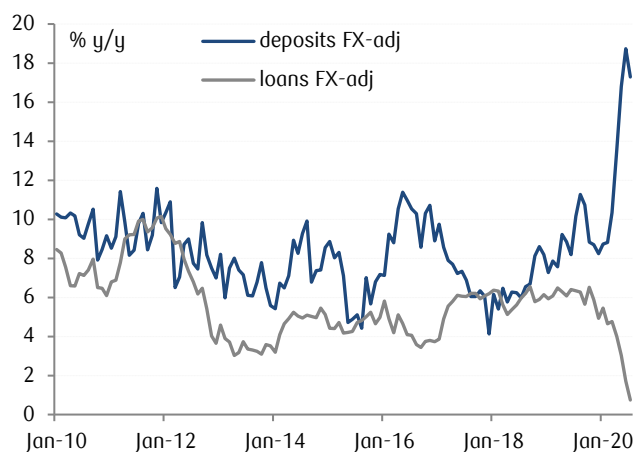


Employment and wages in the enterprise sector

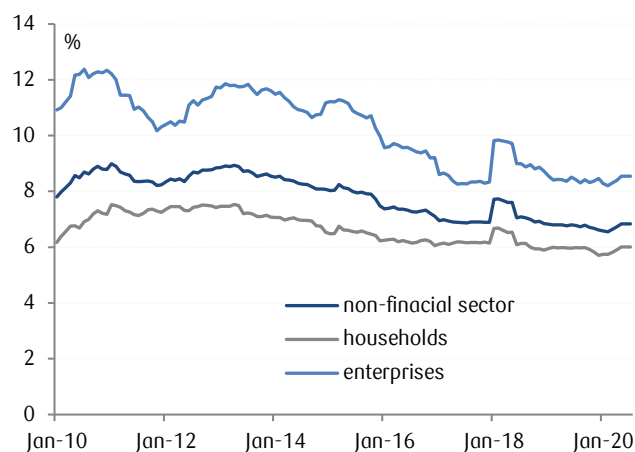


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. *break in series in 2010 due to methodological changes.

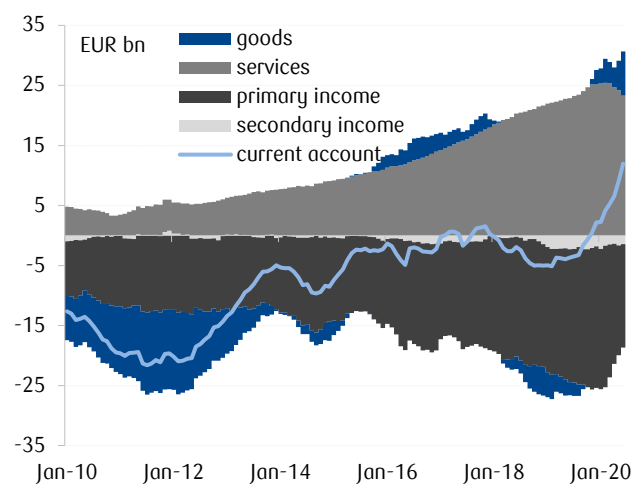
Loans and deposits



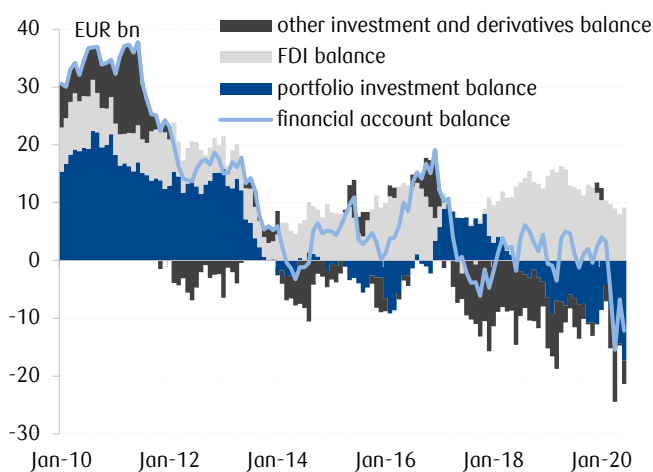
Non-performing loans (NPLs) - by sectors*



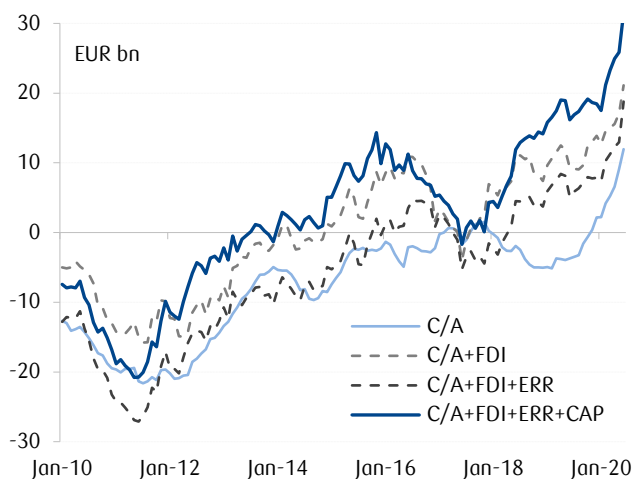
Current account balance



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 (%)	4.1	-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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