

## A tipping point

### Top macro theme(s):

- **Sales bottoming out (p. 2):** Retail sales deteriorated in October (by 2.3% y/y), reflecting the lower mobility of Poles facing an accelerating second wave of the pandemic. Tighter restrictions in November have already translated into an even deeper decline in sales (according to our internal data on card transactions). The reopening of stores on November 28 provides us with the assumption that the shopping activity is currently bottoming out with a typical shopping frenzy likely to be cumulated in December (with one more trading Sunday - Dec. 6).

### What else caught our eye:

- The number of **new confirmed coronavirus cases has declined** and currently hovers around 17-18 thous./day (7-day mov. avg.). This means that the whole country could meet the formal criteria for 'red zones' to have less stringent restrictions. Nevertheless the government has decided that the 'reopening' might start on December 28 at the earliest. That said, the already imposed restrictions have triggered a government response - a new Anti-Crisis Shield (including PFR Financial Shield 2.0) has just been announced. It pencils in a financial aid of PLN 35-40bn (or ~1.5-1.8% of GDP) for badly hit sectors.
- **Unemployment rate** in October stood at 6.1% for the fifth month in a row, confirming that the labour market in Poland continues to hibernate. The LFS unemployment rate in 3q20 rose to 3.4% from 3.1% amid a strong rebound in activity rate, which is now higher than before onset of the pandemic.
- **Monetary data** for October confirmed that the banking sector has been flooded with liquidity, with deposits (expanding 16.3% y/y) likely to be boosted further by the 2<sup>nd</sup> PFR Financial Shield.

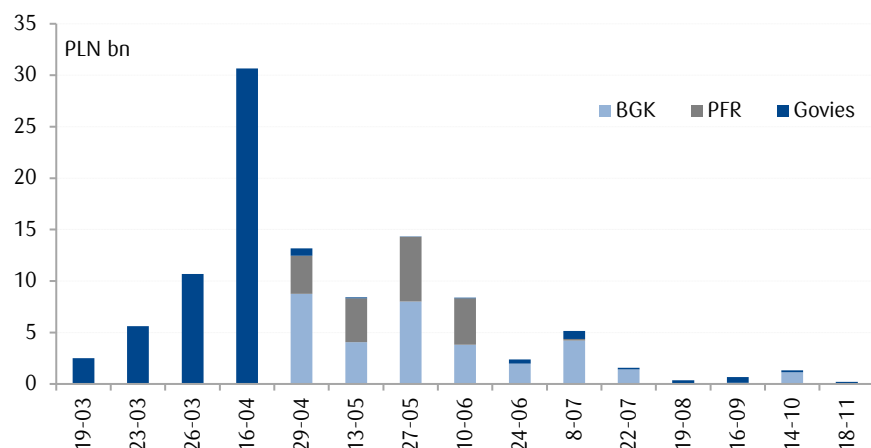
### The week ahead:

- The MPC will most likely leave monetary policy parameters unchanged on Wednesday, but it will assure that **the NBP will speed-up assets purchases to finance the second round of the Anti-Crisis Shield** - the most efficient anticrisis policy measure so far.
- **Details of GDP in 3q20** should reveal rebounding consumption (PKOe: +2.2% y/y) and some improvement in investments growth rate (PKOe: -7.4% y/y).
- **Manufacturing PMI and CPI inflation** barely changed in November, on our early estimates.

### Number of the week:

- **-0.5%** - annual growth rate of total loans in October (FX adj.), record low, and negative for the second month in a row.

### Chart of the week: NBP asset purchases



Source: NBP, PKO Bank Polski.

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	2019	2020 <sub>†</sub>
Real GDP (%)	4.5	-3.3
Industrial output (%)	4.0	-3.3
Unemployment rate <sup>#</sup> (%)	5.2	6.4
CPI inflation <sup>**</sup> (%)	2.3	3.3
Core inflation <sup>**</sup> (%)	1.9	3.8
Money supply M3 (%)	8.3	13.9
C/A balance (% GDP)	0.5	3.0
Fiscal balance (% GDP)*	-0.7	-9.6
Public debt (% GDP)*	46.0	61.7
NBP reference rate <sup>##</sup> (%)	1.50	0.10
EURPLN <sup>‡</sup>	4.26	4.52

Source: GUS, NBP, MinFin, <sup>†</sup>PKO BP Macro Research team forecasts; <sup>‡</sup>PKO BP Market Strategy team forecasts; \*ESA2010, \*\*period averages; <sup>#</sup>registered unemployment rate at year-end; <sup>##</sup>at year-end.3

## Retail sales bottoming out

- Despite the fact that the restrictions on trade have been imposed in early November, retail sales deteriorated in October (by 2.3% y/y), reflecting lower mobility of Poles facing accelerating second wave of the pandemic.
- Tighter restrictions in November have already translated into a deeper decline in sales on our early estimates.
- The planned reopening of stores on November 28 provides us with the assumption that shopping activity is just about to bottom out with a typical shopping frenzy likely to be cumulated in December (with one more trading Sunday - Dec. 6).

Retail sales in October fell by 2.3% y/y in real terms after growing by 2.5% y/y in September. Sales of fuel and clothing & footwear recorded the deepest declines (respectively by -13.4% y/y and -9.7% y/y). Retail sales results for October are consistent with lower population mobility observed in the high frequency data. As new Covid-19 infections surged in mid-October, private travel and time spent in commercial locations have since declined (as indicated by Google Mobility data and the Polish Council of Shopping Centers), even without formal restrictions. The decline in sales has been further exacerbated in early November, as the government decided to close the majority of stores in shopping malls due to epidemic reasons.

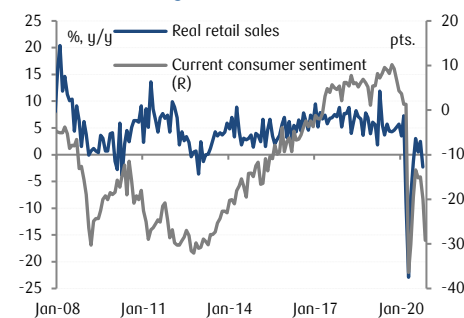
In October, sales of furniture, radio, TV and household appliances went up (by 11.9% y/y) as well as the sales of pharmaceuticals, cosmetics and orthopedic equipment (by 1.3% y/y). October saw an increase in the value of online sales, similarly to the spring lockdown (+ 9.1% in nominal terms). The share of online channels increased from 6.8% in September to 7.3% in October, however it was still lower than in April (11.9%).

Tighter restrictions in November will translate into a deeper decline in sales. According to our preliminary estimate, based on our internal data on card payments, retail sales most probably declined by app. -10% y/y. According to the analysis of PKO Bank Polski customer transactions, purchases of clothing and footwear declined the most, as well as sales of furniture and household appliances, fuels and in other specialized stores.

As the government plans to reopen all stores in shopping malls on November 28<sup>th</sup>, shopping activity is just about to bottom out. High frequency monitoring of consumer sentiment shows signs of a more upbeat outlook (see chart on the next page). As trade units are opened, and the number of confirmed new infections stabilizes/declines, the pre-holiday season, which is crucial for trade, has a chance for a relatively normal kick-off. We predict however, that the year-on-year dynamic of retail sales could be negative throughout the 4q20. Trimmed down Christmas celebrations (the limit of 5 guests from outside of the household) is likely to limit the typical pre-Christmas increase in food sales. On the other hand, the typical shopping frenzy is likely to be cumulated in December, as this year's Black Friday coincides with closed stores, and additionally the government plans to add an extra trading Sunday in December (6.12).

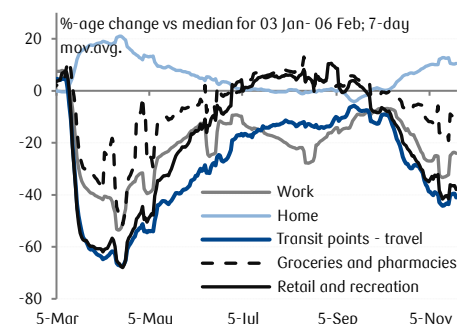
The incoming data confirms our macroeconomic scenario and our forecasted shape of the recovery as an "asymmetrical W" or "Vu". Consumer activity has likely reached a bottom in late November. The temporary weakness of private consumption should be however counterbalanced by the manufacturing sector, taking advantage of a solid external demand. Taking the incoming data into account, we estimate that GDP in 4q20 will most likely fall by 4.9% y/y (which will translate into a full-year decline by 3.3% in 2020).

### Retail sales dynamics



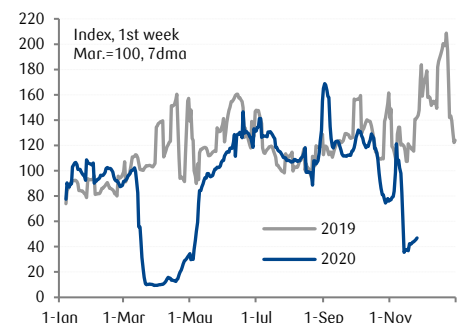
Source: GUS, PKO Bank Polski.

### Google mobility trends



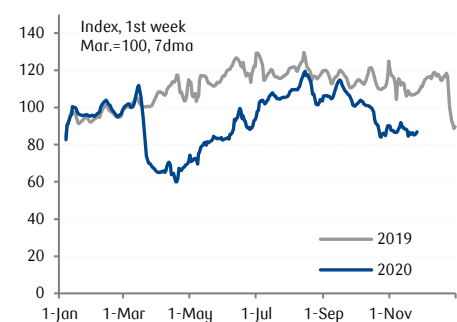
Source: Google Mobility, PKO Bank Polski.

### PKO card transactions-clothing and footwear



Source: PKO Bank Polski.

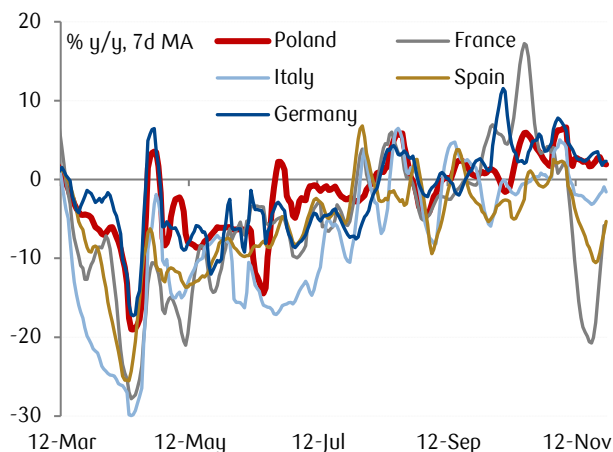
### PKO card transactions-gas stations



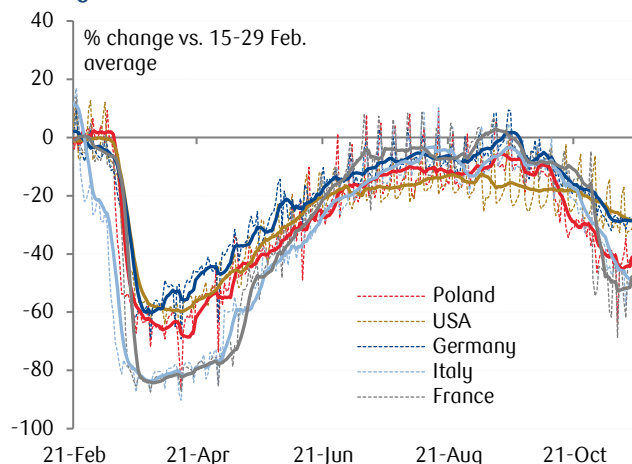
Source: PKO Bank Polski.

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

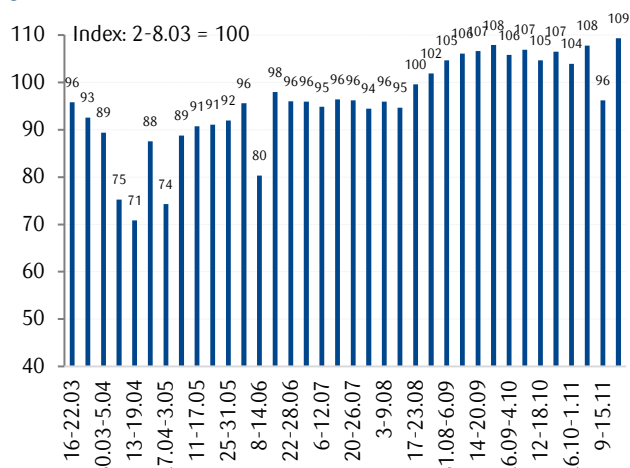
Electric energy consumption (total)



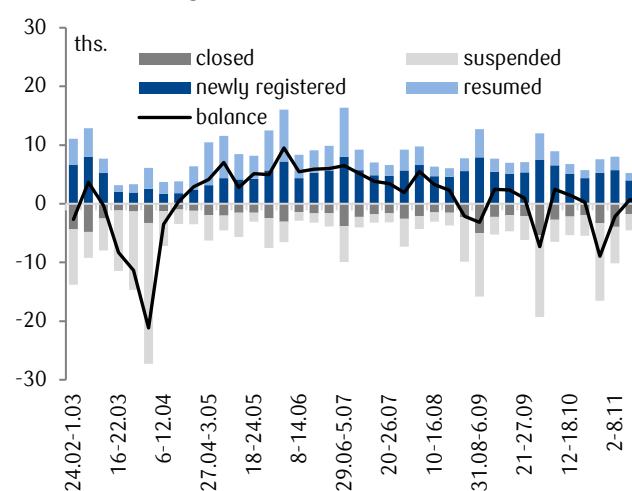
Mobility\*



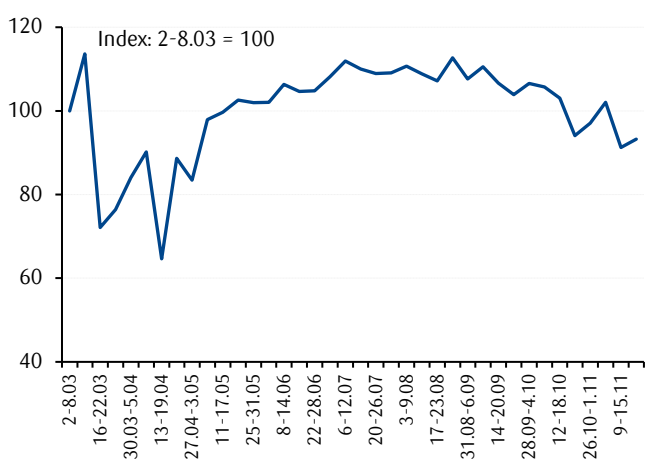
Heavy truck traffic



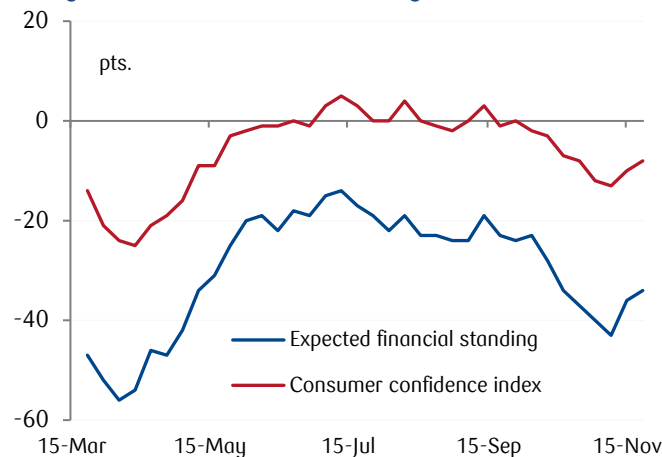
Economic activity status (acc. to CEiDG\*\*)



Consumption based on PKO BP card payments



Weekly consumer confidence survey



Source: PSE, Apple, Google, GDDKGA, 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, 30 November</b>						
POL: GDP growth rate(3q)	9:00	% y/y	-8.4	-1.6	-1.6	GDP details for 3q20 are a <i>no-big-deal</i> now, given the second wave of the pandemic in 4q20.
POL: Consumption (3q)	9:00	% y/y	-10.8	-0.4	2.2	
POL: Investments (3q)	9:00	% y/y	-10.7	-10.9	-7.4	
GER: CPI inflation (Nov, flash)	13:00	% y/y	-0.2	--	--	--
<b>Tuesday, 1 December</b>						
CHN: Manufacturing PMI (Nov)	1:45	pts.	53.6	53.5	--	German PMI suggests that domestic manufacturing PMI most likely barely changed (weak domestic vs strong external demand should persist in November).
POL: Manufacturing PMI (Nov)	8:00	pts.	50.8	50.2	50.5	
GER: Manufacturing PMI (Nov, final)	8:55	pts.	58.2	57.9	--	--
EUR: Manufacturing PMI (Nov, final)	9:00	pts.	54.8	53.6	--	--
POL: CPI inflation (Nov, flash)	9:00	% y/y	3.1	3.0	3.0	We don't expect any major surprises in CPI figures. The headline inflation rate has been gradually converging to the NBP target.
EUR: CPI inflation (Nov)	10:00	% y/y	-0.3	--	--	--
EUR: Core inflation (Nov)	10:00	% y/y	0.2	--	--	--
USA: ISM Manufacturing (Nov)	15:00	pts.	59.3	57.6	--	--
<b>Wednesday, 2 December</b>						
USA: ADP National Employment (Nov)	13:15	thous.	365	495	--	--
POL: NBP base rate (Dec)	--	%	0.10	0.10	0.10	The MPC stands likely to speed-up with assets purchases.
<b>Thursday, 3 December</b>						
EUR: Services PMI (Nov, final)	9:00	pts.	46.9	41.3	--	--
USA: Initial Jobless Claims (Nov)	13:30	thous.	778	--	--	--
<b>Friday, 4 December</b>						
GER: Factory orders (Oct)	7:00	% y/y	-1.9	--	--	No fireworks here, perhaps except for some dose of MPC comments on the fresh inflation projection.
POL: MPC Minutes (Nov)	13:00	--	--	--	--	
USA: Non-Farm Payrolls (Nov)	13:30	thous.	638	505	--	--
USA: Unemployment Rate (Nov)	13:30	%	6.9	6.8	--	--
USA: Average Earnings (Nov)	13:30	% y/y	4.5	4.2	--	--
USA: Factory orders (Oct)	15:00	% m/m	1.1	0.8	--	--
USA: Durable goods orders (Oct, final)	15:00	% m/m	2.1	1.3	--	--

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

## Selected economic indicators and forecasts

	Aug-20	Sep-20	Oct-20	1q20	2q20	3q20	4q20	2019	2020	2021
<b>Economic activity</b>										
Real GDP (% y/y)	x	x	x	1.9	-8.4	-1.6	-4.9	4.5	-3.3	4.3
Domestic demand (% y/y)	x	x	x	1.0	-9.9	-2.2	-3.9†	3.5	-3.5†	4.5
Private consumption (% y/y)	x	x	x	1.2	-10.8	2.2	-2.0†	4.0	-2.3†	4.3
Gross fixed capital formation (% y/y)	x	x	x	0.9	-10.7	-7.4	-4.3†	7.2	-5.6†	3.7
Inventories (pp)	x	x	x	-0.3	-2.0	-2.7	-2.2†	-1.3	-1.7†	0.5
Net exports (pp)	x	x	x	0.9	1.1	0.4	0.3†	1.1	0.4†	0.1
Industrial output (% y/y)	1.5	5.9	1.0	0.9	-13.6	3.2	-2.3	4.0	-3.3†	7.3
Construction output (% y/y)	-12.1	-9.8	-5.9	5.0	-2.8	-10.9	x	3.6	x	x
Retail sales (real, % y/y)	0.5	2.5	-2.3	0.8	-10.7	1.0	x	5.4	x	x
Nominal GDP (PLN bn)	x	x	x	556.4	528.2	567.3	628.3	2279	2263	2404
<b>Labour market</b>										
Registered unemployment rate‡(%)	6.1	6.1	6.1	5.4	6.1	6.1	6.4	5.2	6.4	5.4
Employment in enterprises (% y/y)	-1.5	-1.2	-1.0	0.8	-2.0	-1.9	-2.4	2.7	-1.6	1.0
Wages in enterprises (% y/y)	4.1	5.6	4.7	7.0	2.1	4.3	3.9	6.6	4.3	4.7
<b>Prices^</b>										
CPI inflation (% y/y)	2.9	3.2	3.1	4.6	3.2	3.0	2.4	2.3	3.4	1.9
Core inflation (% y/y)	4.0	4.3	4.2	3.4	3.8	4.2	3.8	1.9	3.8	1.7
15% trimmed mean (% y/y)	3.2	3.2	3.1	3.4	3.4	3.2	x	2.0	x	x
PPI inflation (% y/y)	-1.2	-1.6	-0.4	0.2	-1.3	-1.2	0.7	1.2	-0.3	1.9
<b>Monetary aggregates‡</b>										
Money supply, M3 (PLN bn)	1744.1	1762.2	1782.6	1624.9	1746.2	1762.2	1828.6	1565.6	1828.6	1965.7
Money supply, M3 (% y/y)	16.2	17.0	17.0	11.8	18.1	17.0	16.8	8.3	16.8	7.5
Real money supply, M3 (% y/y)	13.3	13.8	13.9	7.2	14.9	14.0	14.4	5.0	14.4	5.6
Loans, total (PLN bn)	1331.2	1337.7	1345.8	1366.6	1341.1	1337.7	1353.2	1323.7	1353.2	1417.1
Loans, total (% y/y)	0.3	0.5	1.3	6.5	3.1	0.5	2.2	5.1	2.2	4.7
Deposits, total (PLN bn)	1615.9	1627.3	1631.7	1485.1	1618.7	1627.3	1609.9	1406.6	1609.9	1683.7
Deposits, total (% y/y)	15.5	15.8	16.3	11.2	19.5	15.8	14.5	8.2	14.5	4.6
<b>Balance of payments</b>										
Current account balance (% GDP)	3.0	3.1	3.2	1.1	2.3	3.1	3.0	0.5	3.0	2.8
Trade balance (%GDP)	1.6	1.7	1.7	0.4	1.2	1.7	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* (%)	0.23	0.23	0.23	1.17	0.26	0.22	0.25	1.71	0.25	0.25
Real WIBOR 3M* (%)#	-2.67	-2.67	-2.87	-3.43	-3.04	-2.78	-2.15	-1.69	-3.05	-1.65
<b>Exchange rates*‡</b>										
EUR-PLN	4.40	4.53	4.62	4.55	4.46	4.53	4.52	4.26	4.52	4.40
USD-PLN	3.73	3.87	3.95	4.15	3.98	3.87	3.90	3.80	3.90	3.67
CHF-PLN	4.10	4.19	4.32	4.30	4.18	4.19	4.22	3.92	4.22	4.04
EUR-USD	1.19	1.17	1.17	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	"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).

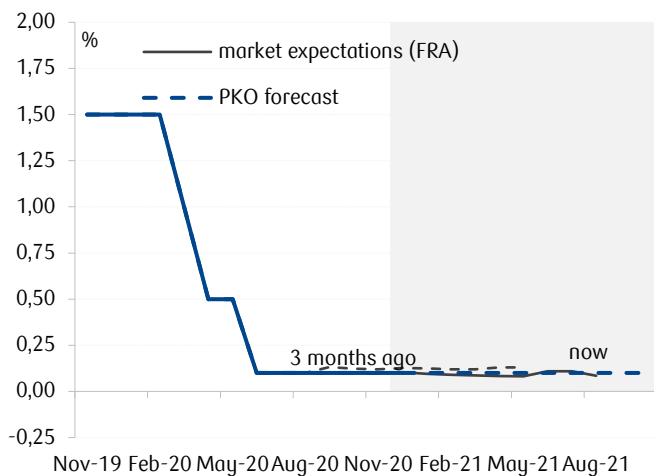
### Interest rates – PKO BP forecasts vs. market expectations

	1M	2M	3M	4M	5M	6M	7M	8M	9M	
<b>Date</b>	26-Nov	26-Dec	26-Jan	26-Feb	26-Mar	26-Apr	26-May	26-Jun	26-Jul	26-Aug
<b>WIBOR 3M/FRA†</b>	0.22	0.22	0.22	0.21	0.21	0.20	0.20	0.23	0.23	0.21
<b>implied change (b. p.)</b>		0.00	-0.01	-0.01	-0.01	-0.02	-0.02	0.01	0.01	-0.01
<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>		0.10	0.10	0.09	0.09	0.08	0.08	0.11	0.11	0.09

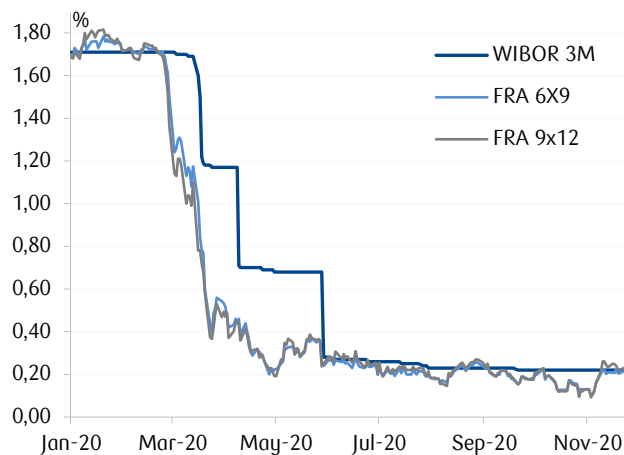
†WIBOR 3M from the last fixing, FRA transactions based on WIBOR 3M for subsequent periods, ‡in basis points, \*PKO BP forecast of the NBP reference rate.

## Poland macro chartbook

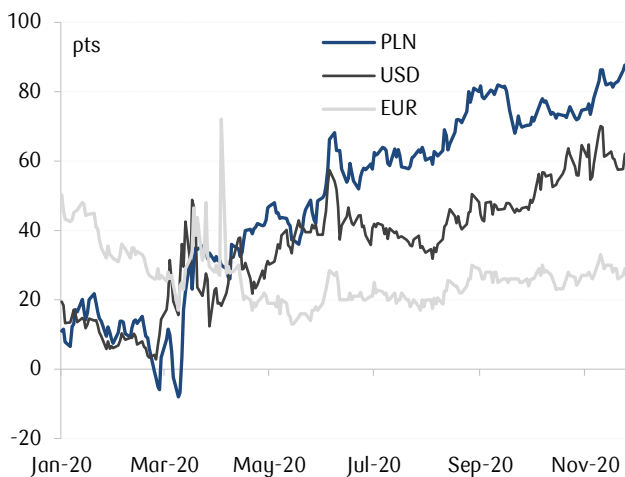
NBP policy rate: PKO BP forecast vs. market expectations



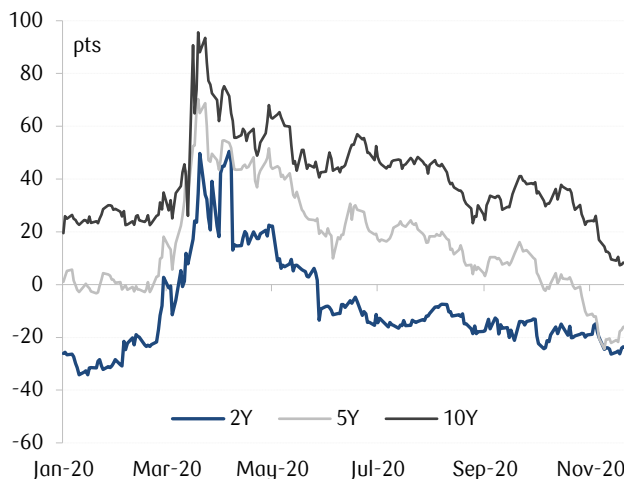
Short-term PLN interest rates



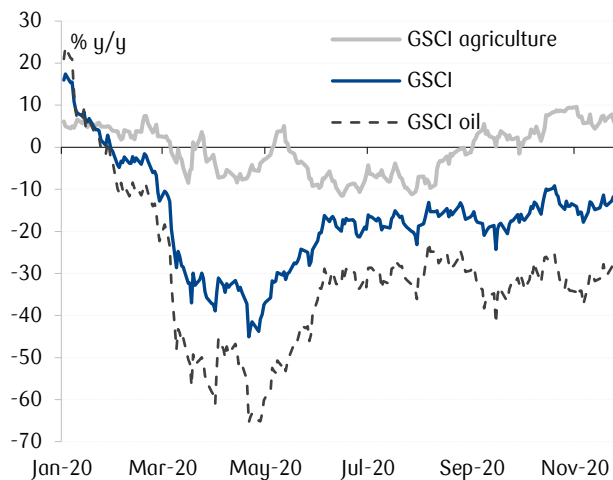
Slope of the swap curve (spread 10Y-2Y)\*



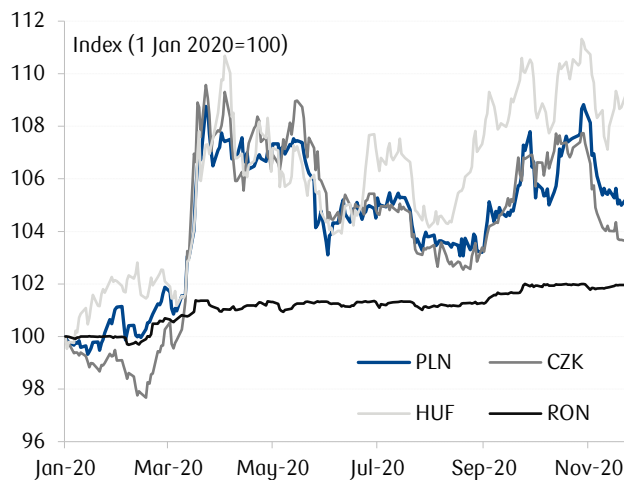
PLN asset swap spread



Global commodity prices (in PLN)

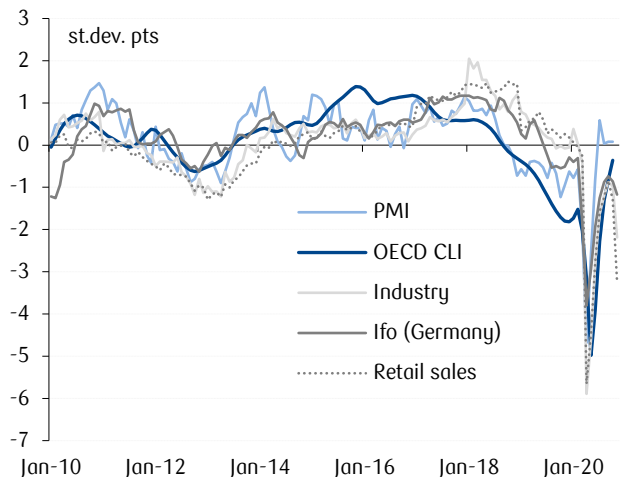


Selected CEE exchange rates against the EUR

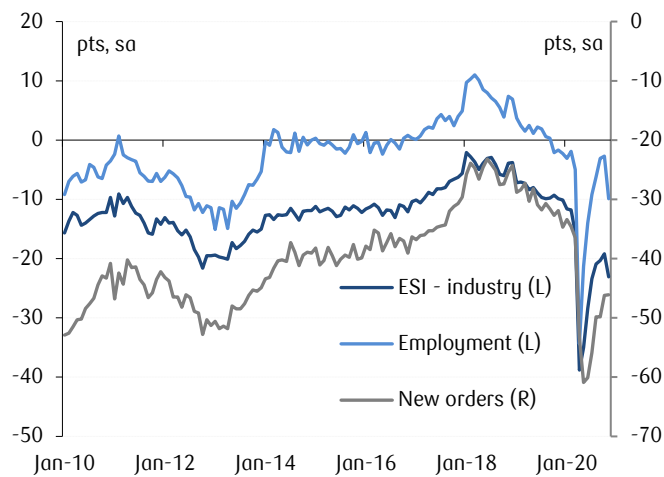


Source: Datastream, NBP, PKO Bank Polski. \*for PLN, and EUR 6M, for USD 3M.

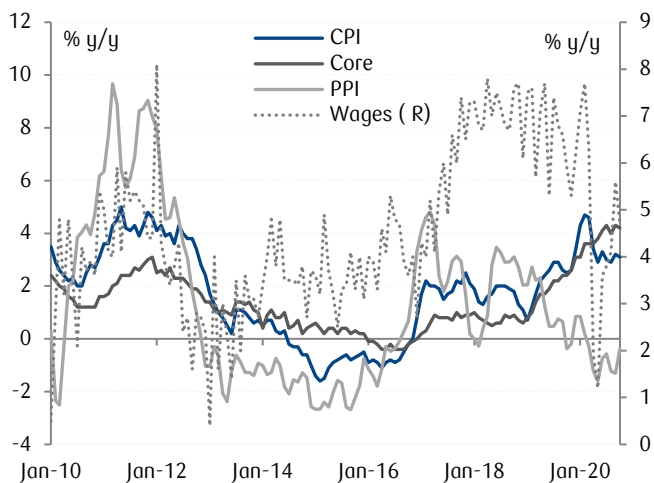
Economic sentiment indicators



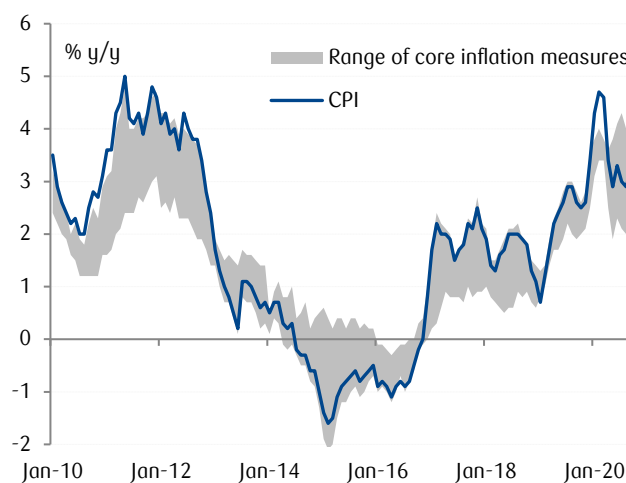
Poland ESI for industry and its components



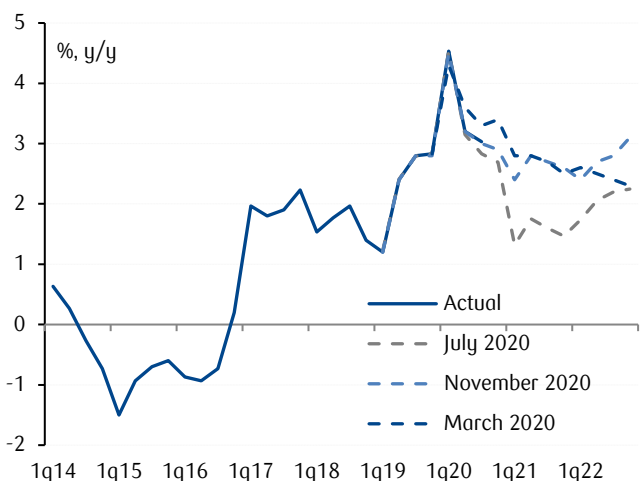
Broad inflation measures



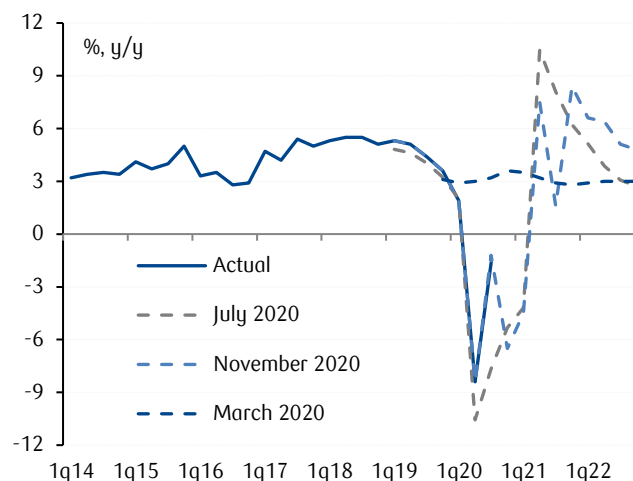
CPI and core inflation measures



CPI inflation - NBP projections vs. actual



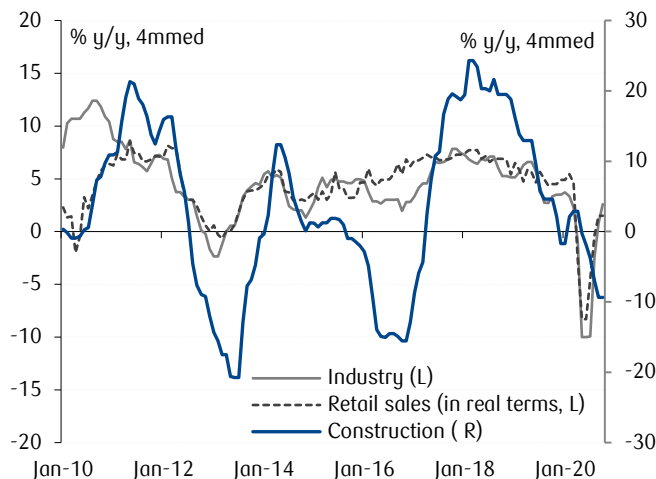
Real GDP growth - NBP projections vs. actual



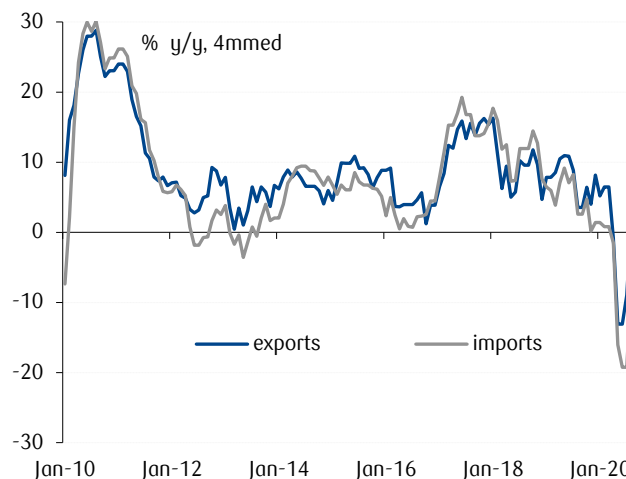
Source: Datastream, GUS, EC, NBP, PKO Bank Polski.



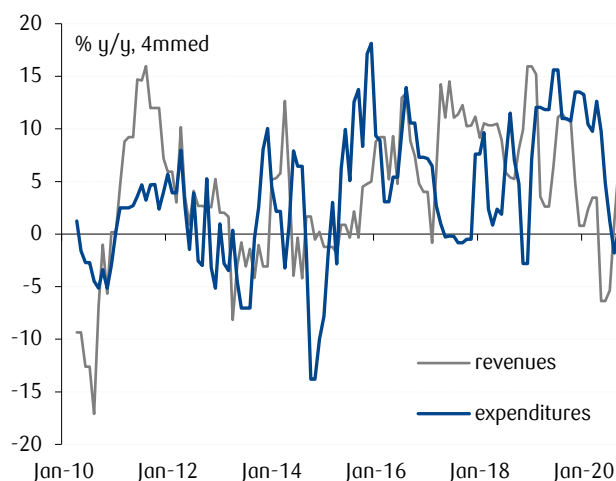
Economic activity indicators



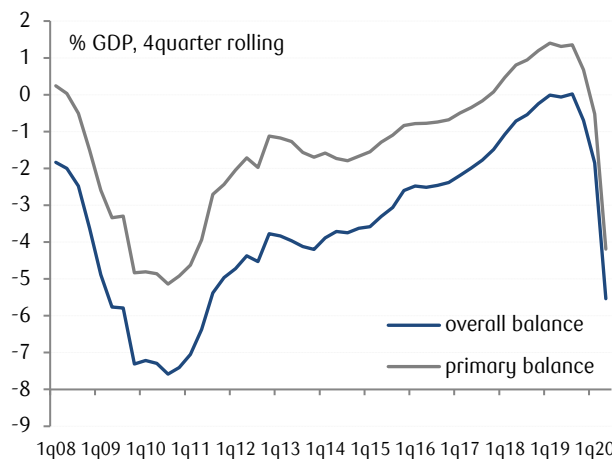
Merchandise trade (in EUR terms)



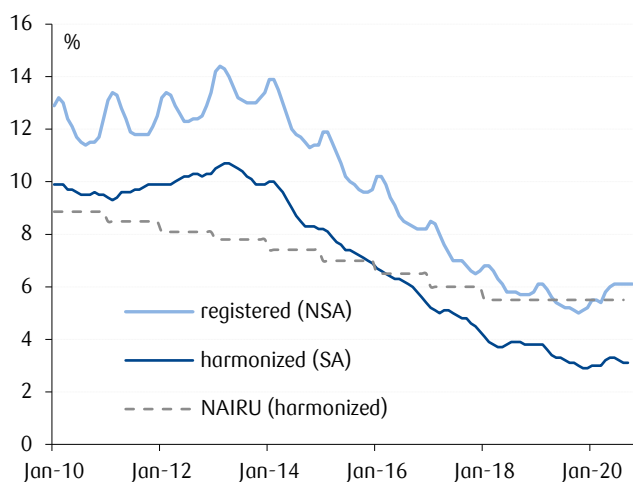
Central government revenues and expenditures\*



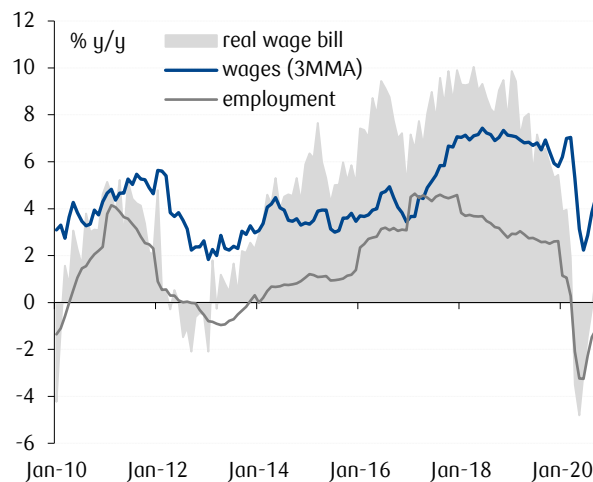
General government balance (ESA2010)



Unemployment rate

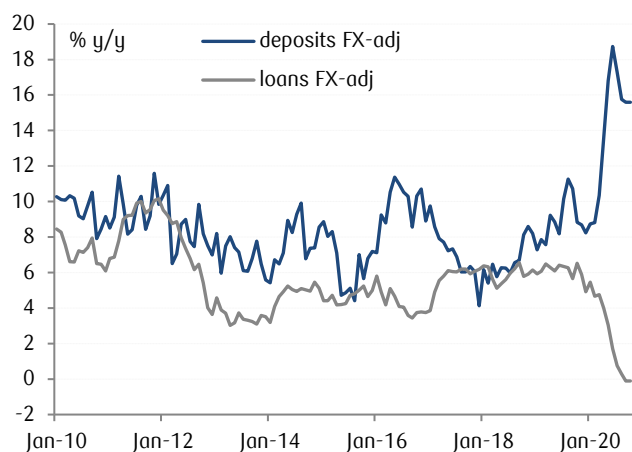


Employment and wages in the enterprise sector

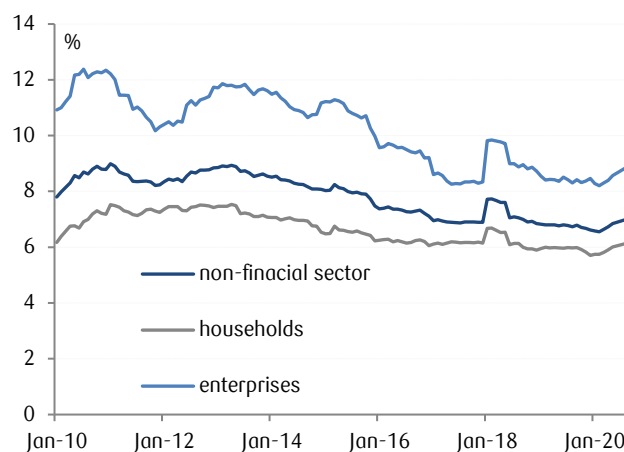


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. \*break in series in 2010 due to methodological changes.

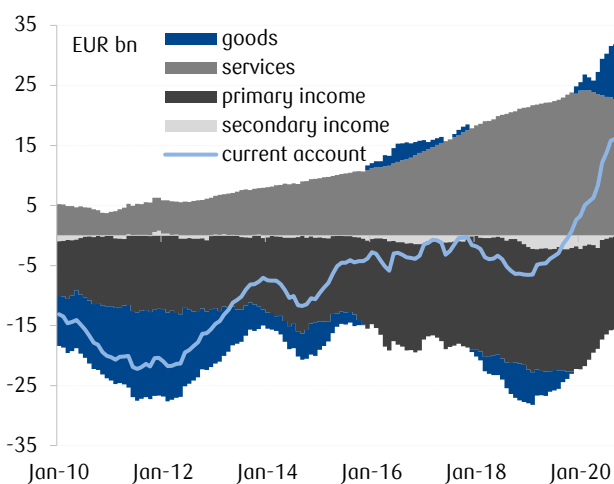
Loans and deposits



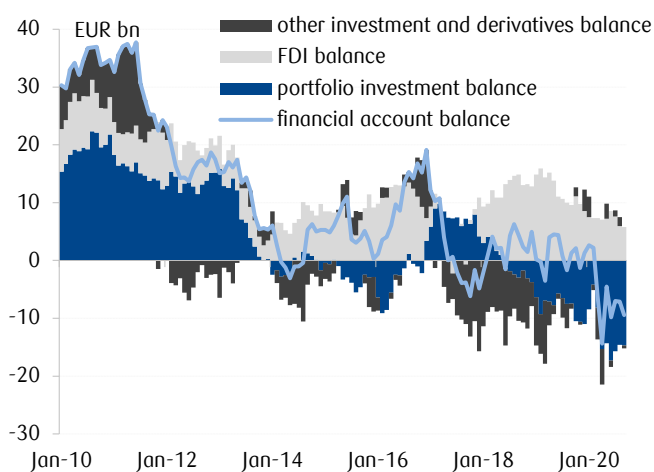
Non-performing loans (NPLs) - by sectors\*



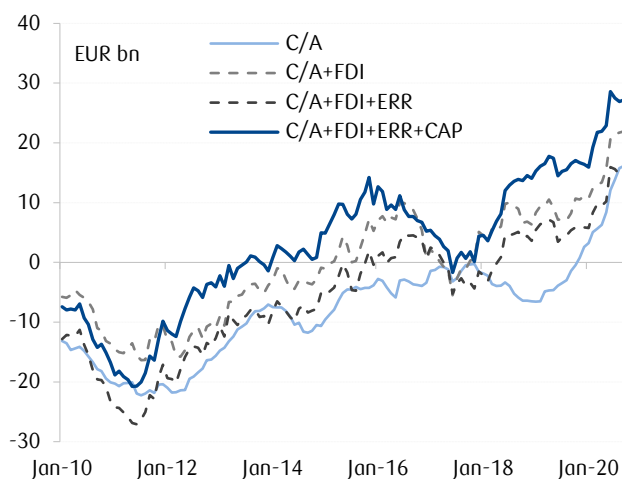
Current account balance



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
<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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