

Those who stay, work more

Top macro theme(s):

- **Those who stay, work more (p. 2):** We have updated our estimates of migration impact on the local labour market (see: [Immigration down, wages up?](#), 2017, Feb 10). There is no significant evidence of foreign workers leaving Poland (e.g. for Germany, which has recently decided to open its labour market to Ukrainians). Additionally, despite no fresh inflows of foreign workers, labour input keeps growing along with the longer periods of foreigners' residence in Poland. Last, but not least, we still see that migrants are an important factor that keeps wage pressure under control.

What else caught our eye:

- **Draft budget bill for 2020 was presented by the government, for the first time in history without a deficit, with revenues equal to PLN 429.5bn (+6.2% vs the expected outcome for 2019).** The draft was prepared under realistic macro assumptions (GDP growth at 3.7%, CPI 2.5%), that have already been known. The revenues will grow on the back of a solid economy as well as further improvement of the tax collection and other revenue boosting measures (e.g. higher excise duty on tobacco and alcohol and a whole set of measures improving social security fund incomes). The budget will finance new social expenditures (including the extension of child benefits) while other expenditures will be kept under control. In 2020, **general government deficit was assumed at -1.3% of GDP (ESA) excluding one-offs and -0.3% including one-offs.** The draft plots 2020 net borrowing needs at PLN 19.4bn and gross borrowing needs at PLN 137bn.
- **CPI inflation in August inched down to 2.8% y/y** (on flash estimate, vs 2.9% y/y in July). Higher food prices were offset by falling prices of fuels and a tad lower core inflation. That said, underlying trend remained intact and CPI inflation should march higher in September.
- **Detailed GDP data for 2q19** (4.5% y/y in 2q19 vs 4.7% y/y in 1q19) confirmed that contagion from Germany is not pronounced. Domestic demand held up well amid accelerating private consumption (4.4% y/y) and strong rise in fixed investments (9.0% y/y). Contribution of net exports to GDP growth was neutral. Our GDP growth forecast for 2019 remains unchanged (4.6%) given data in line with our expectations.

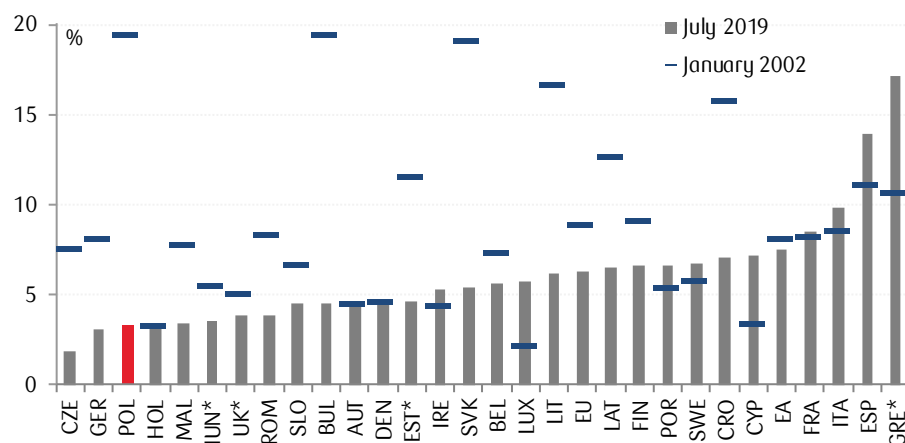
The week ahead:

- **Manufacturing PMI** most likely inched up in August (PKOe: 48.0 pts) amid bottoming out export orders.

Number of the week:

- **0** – state budget balance as drafted in 2020 budget bill, first time ever.

Chart of the week: Harmonized unemployment rate in the EU



Source: Eurostat, PKO Bank Polski.* as of Jun19.

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	2018	2019 [†]
Real GDP (%)	5.1	4.6
Industrial output (%)	5.8	4.2
Unemployment rate [#] (%)	5.8	5.4
CPI inflation ^{**} (%)	1.6	2.3
Core inflation ^{**} (%)	0.7	1.9
Money supply M3 (%)	9.2	8.0
C/A balance (% GDP)	-0.6	-0.6
Fiscal balance (% GDP)*	-0.4	-1.1
Public debt (% GDP)*	48.9	47.6
NBP reference rate [#] (%)	1.50	1.50
EURPLN ^{‡#}	4.30	4.31

Source: GUS, NBP, MinFin, [†]PKO BP Macro Research team forecasts; [‡]PKO BP Market Strategy team forecasts; *ESA2010, **period averages; [#]end of period.

Those who stay, work more

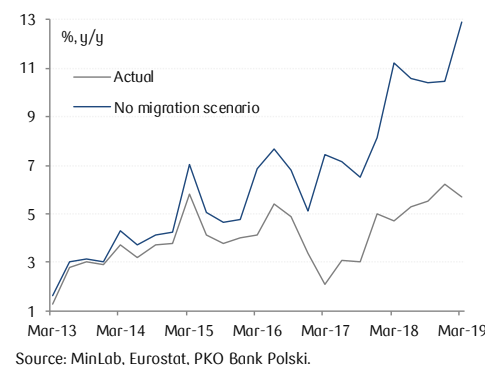
- We have updated our PMW estimates of migration impact on the local labour market (see: [Immigration down, wages up?](#), Feb 10, 2017).
- Given fears of migrants heading for Western Europe, we still see no significant evidence of foreign workers leaving Poland (e.g. for Germany, which has recently eased access to its labour market to Ukrainians).
- Additionally, despite no fresh inflows of foreign workers, labour input keeps growing along with the longer periods of foreigners' residence in Poland confirming findings from PMW: [Staying for good?](#)
- Last, but not least, we still see that migrants are an important factor that keeps wage pressure under control.

Supply of foreign labour held up well despite mounting competition from other EU countries (see chart 1 on the next page). Indeed, fears of migrants leaving Poland for Western Europe intensified as the access of non-EU citizens (esp. Ukrainians) to the German labour market has been eased as of Jan 1st. After six months both official statistics as well as anecdotal evidence point at no major pressure on the local labour market in Poland. Looking back at the previous episode of easing access to EU labour market for UA citizens (visa-free travel as of Jun-17), there was (most likely) a negligible outflow of Ukrainian workers. Their shortage was successfully replaced by migrants from other countries. The structure of immigration (by country) reveals that despite some decline in share Ukrainians are still a vast majority of foreign labour. Migration from other countries (esp. Belarus, from 2h17) has also been boosting local labour supply (see chart 2) effectively cushioning the above-mentioned outflows of UA workers to the Western Europe. Anecdotal evidence from Google Trends also suggests that Ukrainian employees are not leaving Poland for Germany in their masses. After an initial increase of searches “work in Germany” at end-2018/start-2019, the interest normalized signaling no major changes of ongoing trends (chart 3).

Those who stay, work more. As the supply of foreign labour stabilized the structure of demand by industry suggests that migrants are looking for more stable and less seasonal jobs. Indeed, manufacturing and transport/logistics are those economy sectors that increased their demand for foreign labour most in 1h19 (as compared to 2016 when BPO and agriculture dominated demand on UA workers, see our previous essay in PMW, and chart 4). Work permits, which allow employment in Poland for more-than-a-two-year period, are also more in-demand (instead of statements on employment of foreigner, previously used on a massive scale, chart 5). This suggests that despite stabilisation of migrant inflows (number of people), effective labour input (i.e. number of hours worked) keeps increasing. More migrants are also working legally, which is reflected in a growing number of foreigners registered in the public social security scheme (FUS, chart 6).

Rising labour input of migrants is still an important factor cushioning wage pressure in Poland. Indeed, our updated simulations indicate that it had effectively reduced real wages growth by approximately 6-7pp. in 1h19 (vs 2pp. in 2016, see margin chart). Assuming, other things equal, that job vacancy rate (i.e. ratio of job vacancies to occupied jobs) is also one of the main drivers of real wages growth, we estimate that without foreign workers the real wages growth could have reached ~13% y/y in 1h19 vs. actual 5-6%-ish rates. Taking inflation into account, this resembles a wages growth rate similar to those observed in 2007-2008 (previous peak of wage pressures) and would be consisted with core inflation

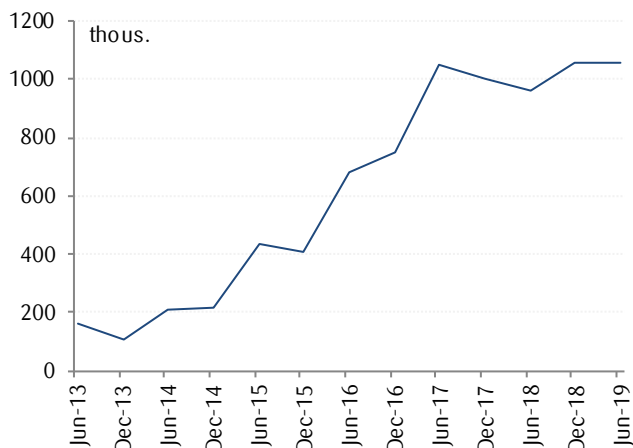
Real wages growth: actual vs no migration scenario



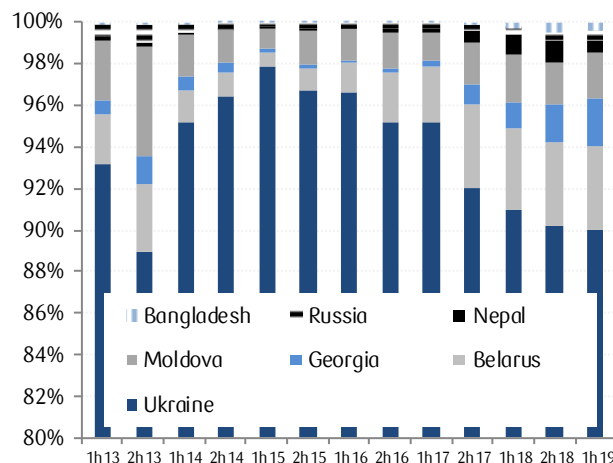
trending at ~3% (assuming a static case, where enterprises would have no need to adapt costs/prices, due to competitive pressures from abroad).

Chartbook: Immigration and labour market in Poland.

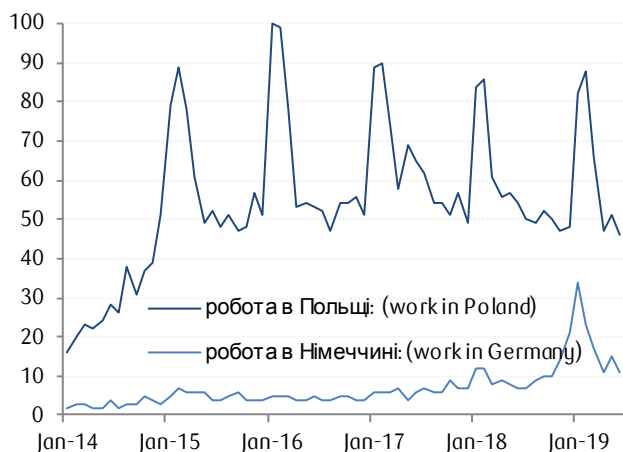
1. Administrative decisions* on employment of foreigners



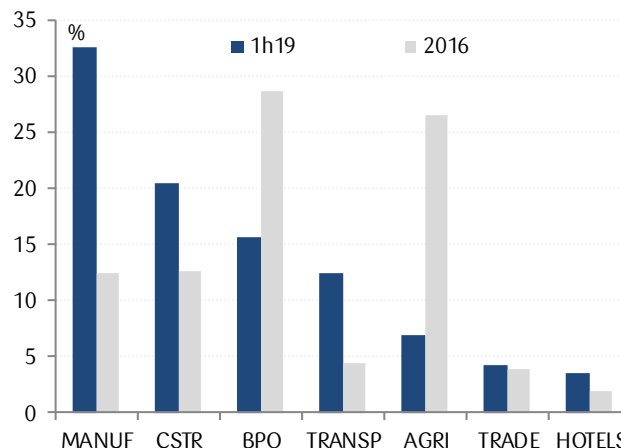
2. Immigration by country**



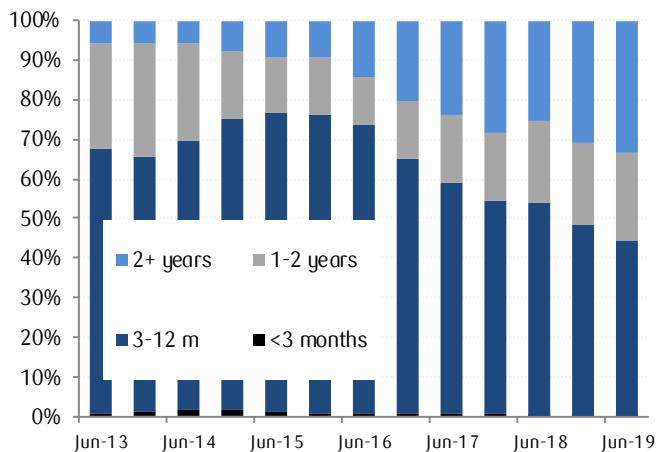
3. Google searches^



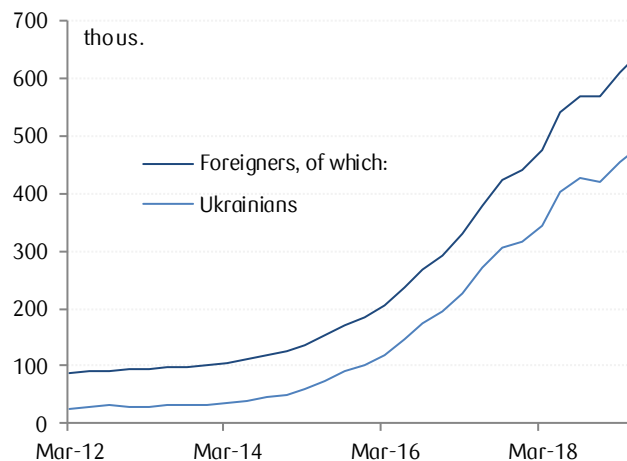
4. Demand* for foreign workers by branch***



5. Work permits duration



6. Foreigners registered in public social security system



Source: MinLab, Google Trends, ZUS, PKO Bank Polski. *number of positive administrative decisions on employment (permissions, statements on employment), **Top-7 countries of migrants' origin as of 1h19. ^from the Ukraine. ***NACE Rev. 2 classification: MANUF - Manufacturing; CSTR - Construction; BPO - Administrative and support service activities; TRANSP - Transportation and storage; AGRI - Agriculture, forestry and fishing; TRADE - Wholesale and retail trade; repair of motor vehicles and motorcycles; HOTELS - Accommodation and food service activities.

Weekly economic calendar

Indicator	Time (UK)	Previous	Consensus*	PKO BP	Comment
Monday, 2 September					
CHN: Manufacturing PMI (Aug)	2:45	49.9 pts.	49.8 pts.	--	--
POL: Manufacturing PMI (Aug)	8:00	47.4 pts.	47.6 pts.	48.0 pts.	A tad better mood among manufacturers might reflect bottoming out foreign orders.
GER: Manufacturing PMI (Aug, final)	8:55	43.6 pts.	43.6 pts.	--	--
EUR: Manufacturing PMI (Aug, final)	9:00	47 pts.	--	--	--
Tuesday, 3 September					
SWI: CPI inflation (Aug)	7:30	0.3% y/y	0.3% y/y	--	--
SWI: Core inflation (Aug)	7:30	0.4% y/y	0.4% y/y	--	--
EUR: PPI inflation (Jul)	10:00	0.7% y/y	--	--	--
USA: Manufacturing PMI (Aug, final)	14:45	49.9 pts.	--	--	--
USA: ISM Manufacturing (Aug)	15:00	51.2 pts.	51.3 pts.	--	--
Wednesday, 4 September					
EUR: Services PMI (Aug, final)	9:00	53.4 pts.	--	--	--
EUR: Retail sales (Jul)	10:00	2.6% y/y	--	--	--
USA: Trade balance (Jul)	13:30	--	--	--	--
Thursday, 5 September					
GER: Factory orders (Jul)	7:00	2.5% m/m	-1.1% m/m	--	--
GER: Factory orders (Jul)	7:00	-3.6% y/y	--	--	--
SWE: Riksbank meeting (Sep)	8:30	-0,25%	--	--	--
USA: ADP National Employment (Aug)	13:15	--	--	--	--
USA: Initial Jobless Claims (Aug)	13:30	--	--	--	--
USA: Factory orders (Jul)	15:00	0.6% m/m	0.8% m/m	--	--
USA: Durable goods orders (Jul, final)	15:00	2.1% m/m	--	--	--
Friday, 6 September					
GER: Industrial production (Jul)	7:00	-1.5% m/m	0.3% m/m	--	--
GER: Industrial output (Jul)	7:00	-5.2% y/y	--	--	--
EUR: Employment (2q)	10:00	1.1% y/y	--	--	--
EUR: GDP growth (2q)	10:00	1.1% y/y	--	--	--
USA: Non-Farm Payrolls (Aug)	13:30	164 k	160 k	--	--
USA: Unemployment Rate (Aug)	13:30	3,70%	3,70%	--	--
USA: Average Earnings (Aug)	13:30	3.2% y/y	3% y/y	--	--

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

Selected economic indicators and forecasts

	Jun 19	Jul 19	Aug 19	3q18	4q18	1q19	2q19	2018	2019	2020
Economic activity										
Real GDP (% y/y)	x	x	x	5.2	4.9	4.7	4.4	5.1	4.6	3.7
Domestic demand (% y/y)	x	x	x	6.1	4.8	4.2	4.5	5.5	4.9	3.8
Private consumption (% y/y)	x	x	x	4.4	4.2	3.9	4.4	4.5	4.6	4.2
Gross fixed capital formation (% y/y)	x	x	x	11.3	8.2	12.6	9.0	8.7	8.7	2.3
Inventories (pp)	x	x	x	0.4	-0.3	-1.1	-0.1	0.4	-0.4	0.4
Net exports (pp)	x	x	x	-0.6	0.3	0.7	0.0	-0.2	-0.2	-0.1
Industrial output (% y/y)	-2.7	5.8	0.5	5.3	5.5	6.1	4.6	5.8	4.1	2.7
Construction output (% y/y)	-0.7	6.6	5.1	18.4	17.2	9.4	8.7	17.9	x	x
Retail sales (real, % y/y)	3.7	5.7	7.0	5.6	5.8	4.1	7.0	6.2	x	x
Nominal GDP (PLN bn)	x	x	x	525.2	595.8	520.2	545.6	2116	2247	2382
Labour market										
Registered unemployment rate‡(%)	5.3	5.2	5.2	5.7	5.8	5.9	5.3	5.8	5.4	5.6
Employment in enterprises (% y/y)	2.8	2.7	2.7	3.4	3.0	3.1	2.8	3.5	2.7	0.5
Wages in enterprises (% y/y)	5.3	7.4	6.7	6.9	7.0	6.9	7.3	7.1	7.2	6.0
Prices^										
CPI inflation (% y/y)	2.6	2.9	2.8	2.0	1.4	1.2	2.4	1.6	2.3	3.3
Core inflation (% y/y)	1.9	2.2	2.0	0.7	0.7	1.1	1.8	0.7	1.9	3.1
15% trimmed mean (% y/y)	2.1	2.2	x	1.7	1.5	1.5	2.1	1.5	x	x
PPI inflation (% y/y)	0.6	0.6	0.9	3.2	2.7	2.5	2.1	2.2	1.5	2.0
Monetary aggregates‡										
Money supply, M3 (PLN bn)	1478.2	1490.9	1499.3	1376.2	1446.1	1457.2	1478.2	1446.1	1561.8	1678.9
Money supply, M3 (% y/y)	9.3	9.9	9.8	7.9	9.2	9.9	9.3	9.2	8.0	7.5
Real money supply, M3 (% y/y)	6.7	7.0	7.0	6.0	8.1	8.2	6.7	8.1	4.8	4.7
Loans, total (PLN bn)	1300.7	1312.2	x	1246.7	1259.7	1283.0	1300.7	1259.7	1348.2	1436.3
Loans, total (% y/y)	6.3	7.0	x	6.5	7.5	7.8	6.3	7.5	7.0	6.5
Deposits, total (PLN bn)	1354.8	1371.9	x	1263.2	1299.9	1335.5	1354.8	1299.9	1394.3	1492.4
Deposits, total (% y/y)	8.0	10.4	x	6.6	8.8	8.2	8.0	8.8	7.3	7.0
Balance of payments										
Current account balance (% GDP)	-0.1	0.1	0.0	-0.6	-0.6	-0.3	0.0	-0.6	-0.6	-0.8
Trade balance (%GDP)	-0.4	-0.4	-0.5	-0.8	-1.0	-0.7	-0.4	-1.0	-0.9	-1.3
FDI (% GDP)	1.8	1.6	1.3	2.7	1.9	2.4	2.1	1.9	2.1	1.7
Fiscal policy										
Fiscal balance (% GDP)	x	x	x	x	x	x	x	-0.4	-1.1	-1.0
Public debt (% GDP)	x	x	x	x	x	x	x	48.9	47.6	45.8
Monetary policy‡										
NBP reference rate (%)	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
NBP lombard rate (%)	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.50
NBP deposit rate (%)	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
WIBOR 3M ^x (%)	1.72	1.70	1.70	1.72	1.72	1.72	1.72	1.72	1.70	1.70
Real WIBOR 3M ^x (%) [#]	-0.88	-1.20	-1.20	-0.18	0.63	0.63	-0.78	0.63	-1.50	-1.10
Exchange rates^{x,‡}										
EUR-PLN	4.25	4.29	4.38	4.33	4.30	4.30	4.25	4.30	4.31	4.40
USD-PLN	3.73	3.90	3.97	3.82	3.76	3.79	3.73	3.76	3.92	4.11
CHF-PLN	3.83	3.86	4.01	3.80	3.81	3.84	3.83	3.81	3.92	4.00
EUR-USD	1.14	1.10	1.10	1.13	1.15	1.12	1.14	1.15	1.10	1.07

Source: GUS, NBP, PKO Bank Polski.

^xPKO BP Market Strategy team forecasts.^{*}domestic demand excl. inventories.[^]period averages for quarterly and yearly data.[#]deflated with current CPI inflation.[‡]period end values.

Monetary policy monitor

MPC Members	Hawk-o-meter*	Recent policy indicative comments
K. Zubelewicz	4.6	"At present, I do not expect a change of interest rates; however, motions to hike them will probably appear in the final months of this year if prices rise in line with the July projection (...) Unfortunately, the propensity to react is not big within the current Council, although a growing part of the Council express their discomfort in relation with the price growth prospects. In my opinion, it is highly probable that the current MPC will not change the level of interest rates until the end of its term." (18.07.2019, PAP).
E. Gatnar	4.6	"If the rising trend for CPI and core inflation holds, it will require a thought and perhaps also a reaction from the MPC at one of the autumn sittings." (31.07.2019, PAP).
L. Hardt	3.8	"There is no doubt that the probability of inflation running above the path forecast in the NBP projection is growing (...) I stick to the earlier opinion that the necessity of a rate hike might occur towards the end of this year." (31.07.2019, PAP).
J. Osiatynski	2.9	"Many a time have I said in public that the period of a very stable monetary policy that the NBP has been conducting for many years might turn out to be coming to an end." (31.07.2019, PAP).
R. Sura	2.8	"The inflation is slightly higher than seen in inflation projection. It does not mean an abrupt change to our current attitude. We expect inflation to exceed 3% at the beginning of the next year, but will remain within the inflation target (...) what is most important, this pick up of inflation will not be of a permanent nature in the following quarters of the next year." (31.07.2019, PAP).
J. Kropiwnicki	2.5	"Some of us had forecast that CPI this year, due to various factors including a rise in oil prices on world markets, but also accelerating of wage demands in Poland, may lead inflation towards the higher part of the range, so this {PKO: unexpectedly high flash CPI estimate for April: 2.2% y/y} is not a situation when I would be especially worried." (30.04.2019, Reuters).
G. Ancyparowicz	2.4	"In my opinion, these rates that we have now are absolutely optimal (...) I am against [monetary] tightening, many Poles have huge credits ... If we raised interest rates, a slight move on the side of NBP ... would result in a strong reaction from commercial banks the clients depend on (...) [Inflation] is certainly still very far from the upper end of our inflation target. As we know, the middle of that range is 2.5%; we expect that there might be a certain break through this 3% [mark] at the turn of the year, but then inflation might be waning away." (21.08.2019, PAP).
A. Glapinski	1.8	"We expect unit labour cost dynamics to increase in 2020, implying further gradual growth of forecasted core inflation in the next quarters. However, in 2021 it will start to decline, in line with the output gap. If this scenario materialises, there will be no need to adjust the parameters of the monetary policy, as the inflation would remain in line with the NBP target (...) If the negative scenario materializes and Poland's economic conditions deteriorate markedly, we could consider relaxing the NBP monetary policy rather than tightening it" (09.08.2019, PAP).
J. Zyzynski	1.3	"I'm ruling out interest rate hikes (...) The MPC would be forced to act exclusively in the situation of a strong increase in demand that would not be matched by an increase in supply, that is in a situation of exhausting production capacity that would lead to price increases. (...) But it does not seem that this situation could happen in either near or more distant future (...) MPC's policy should support lending, so perhaps it would even be worth it to lower interest rates, particularly in the face of a slowdown in the global economy." (08.08.2019, PAP).
E. Lon	1.1	"I continue to claim that interest rate stability is desirable, but a certain deterioration of sentiment in the euro zone could negatively impact the outlook and profitability of our exports. As a result, the need to consider the need to cut rates or introduce non-standard instruments could arise faster than I had recently thought. I would like here to very clearly stress that I allow for the possibility that both an interest rate cut and non-standard instruments could be implemented." (25.02.2019, 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).

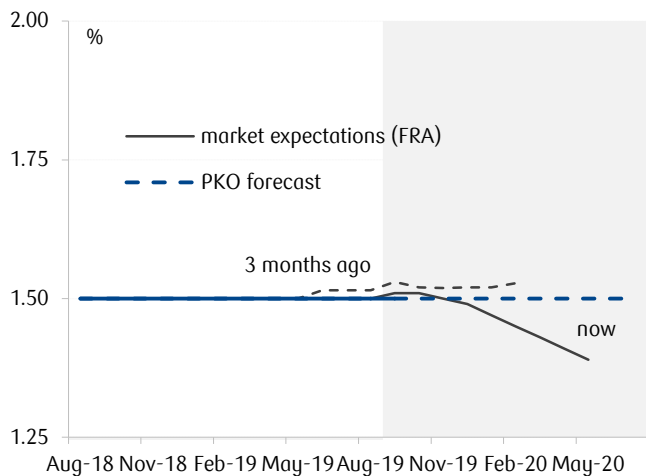
Interest rates – PKO BP forecasts vs. market expectations

		1M	2M	3M	4M	5M	6M	7M	8M	9M
Date	29-Aug	29-Sep	29-Oct	29-Nov	29-Dec	29-Jan	29-Feb	29-Mar	29-Apr	29-May
WIBOR 3M/FRA†	1.72	1.73	1.73	1.72	1.71	1.69	1.67	1.65	1.63	1.61
implied change (b. p.)		0.01	0.01	0.00	-0.01	-0.03	-0.05	-0.07	-0.09	-0.11
MPC Meeting	-	11-Sep	2-Oct	6-Nov	4-Dec	~8-Jan	~5-Feb	~4-Mar	~8-Apr	~6-May
PKO BP forecast*	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
market pricing*		1.51	1.51	1.50	1.49	1.47	1.45	1.43	1.41	1.39

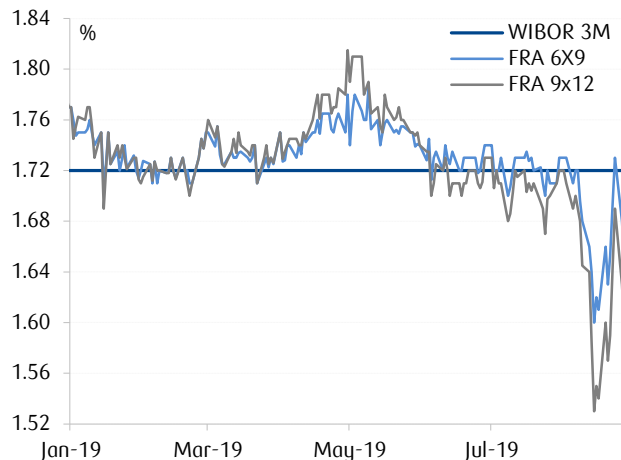
†WIBOR 3M from the last fixing, FRA transactions based on WIBOR 3M for subsequent periods, ‡ in basis points, *PKO BP forecast of the NBP reference rate.

Poland macro chartbook

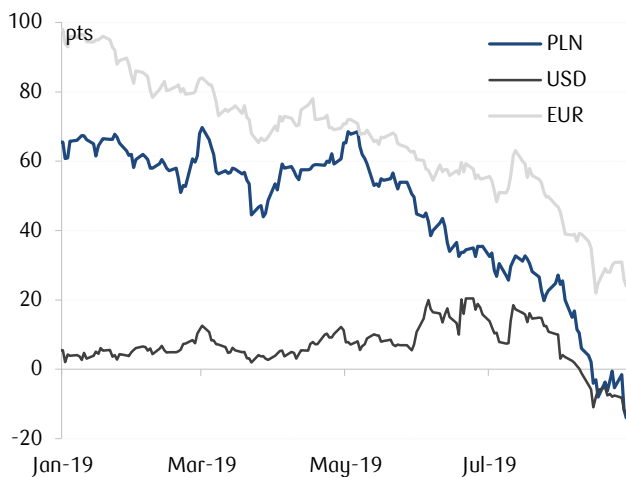
NBP policy rate: PKO BP forecast vs. market expectations



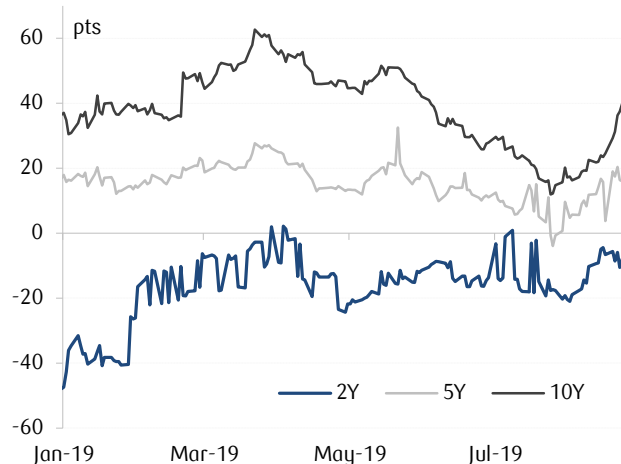
Short-term PLN interest rates



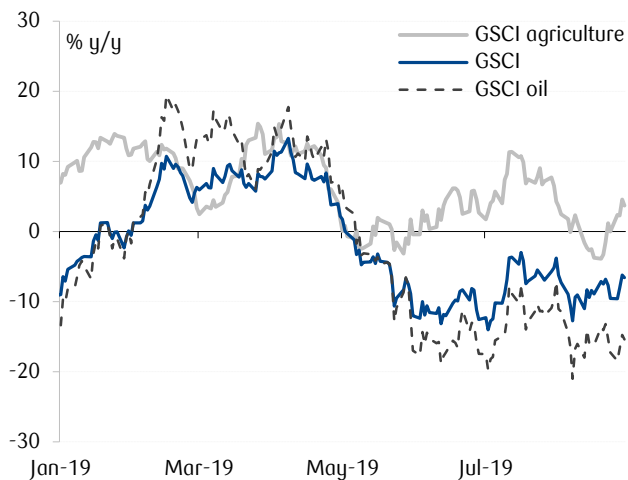
Slope of the swap curve (spread 10Y-2Y)*



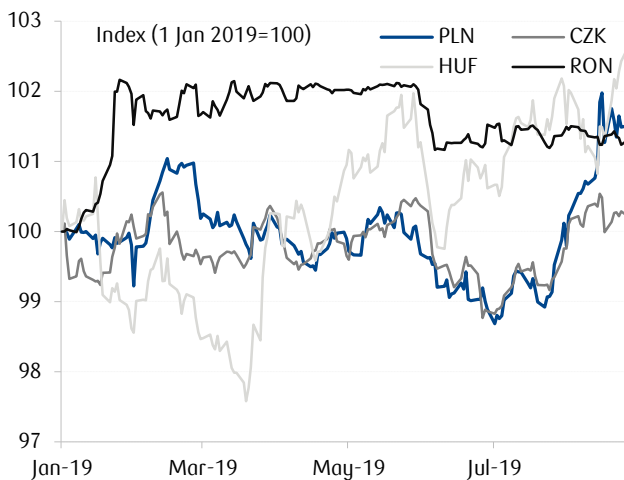
PLN asset swap spread



Global commodity prices (in PLN)

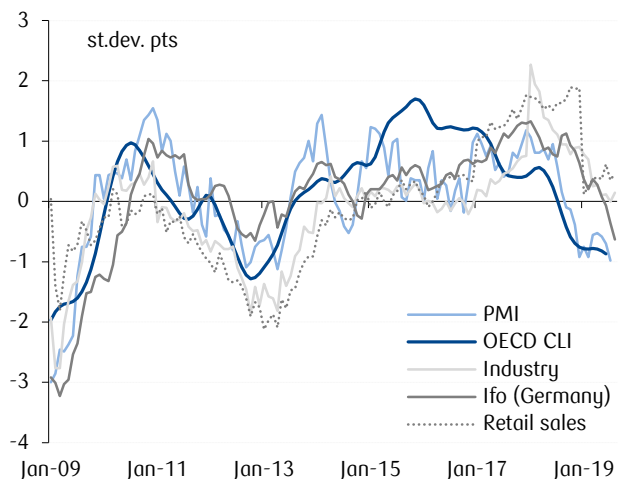


Selected CEE exchange rates against the EUR

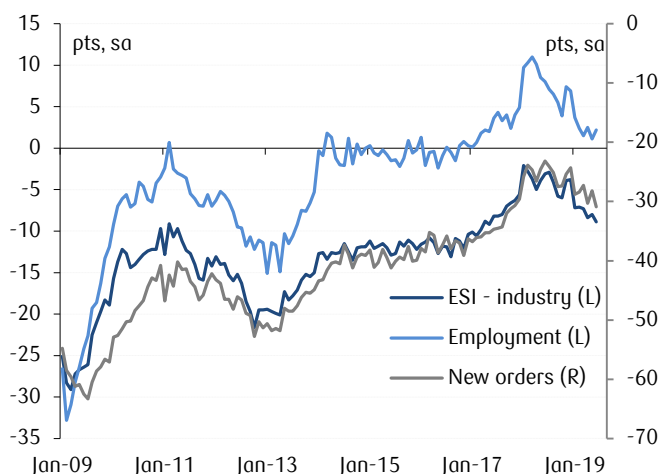


Source: Datastream, NBP, PKO Bank Polski. *for PLN, and EUR 6M, for USD 3M.

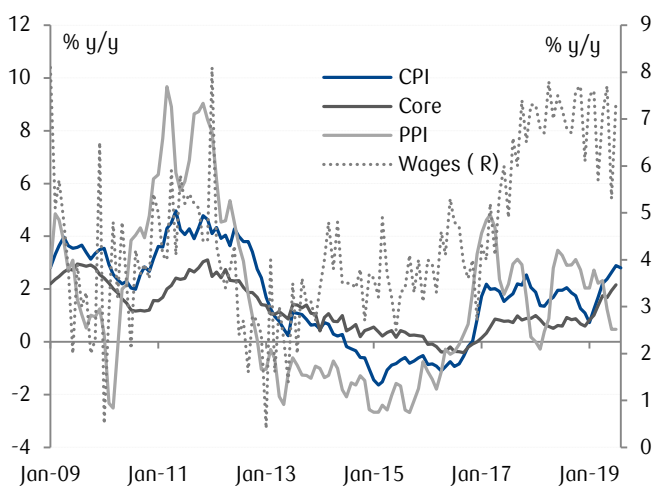
Economic sentiment indicators



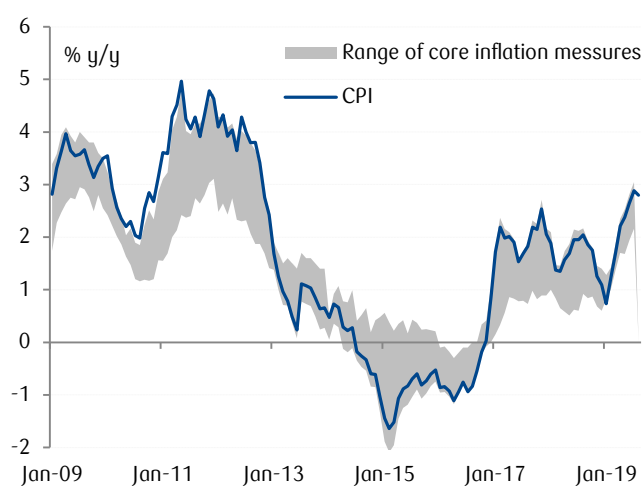
Poland ESI for industry and its components



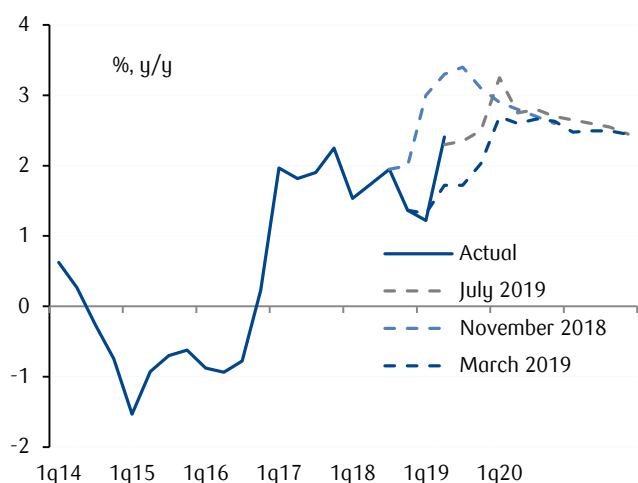
Broad inflation measures



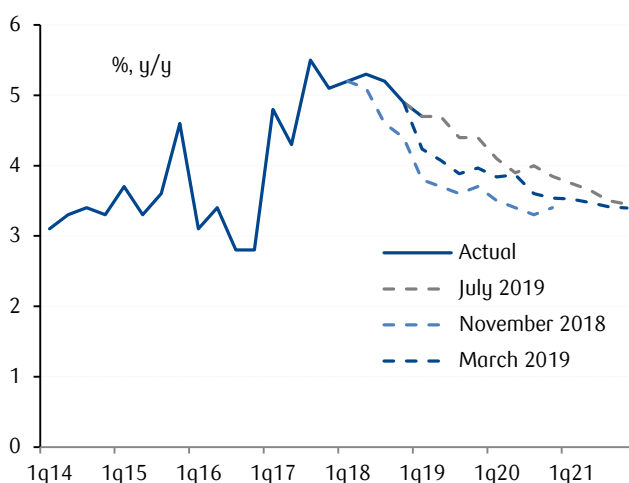
CPI and core inflation measures



CPI inflation - NBP projections vs. actual

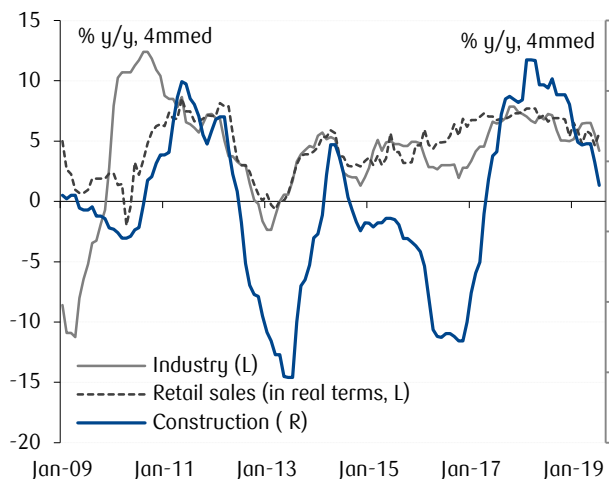


Real GDP growth - NBP projections vs. actual

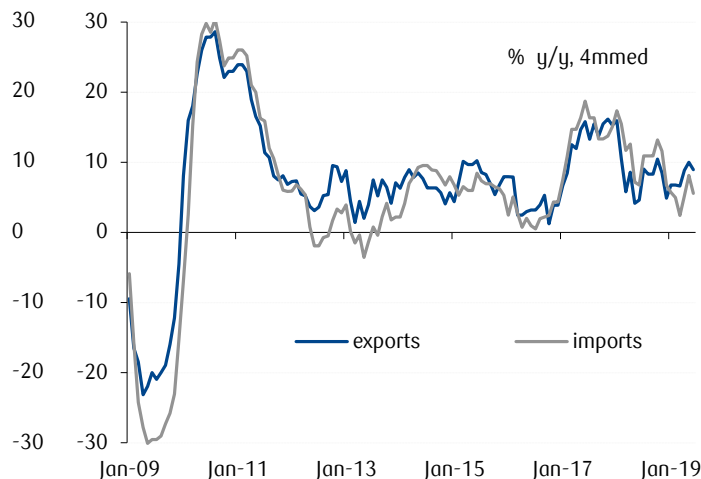


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

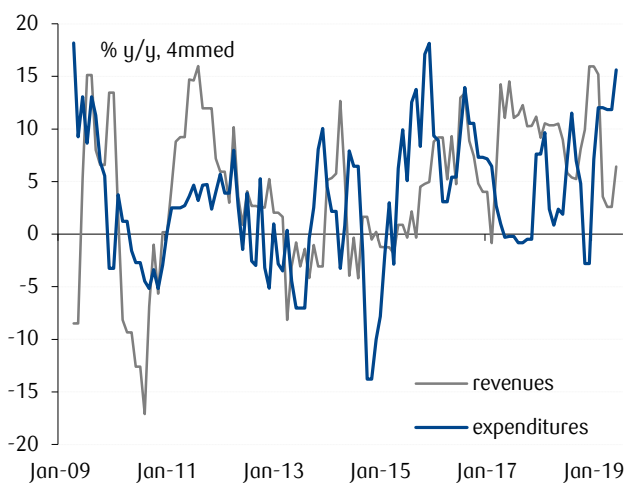
Economic activity indicators



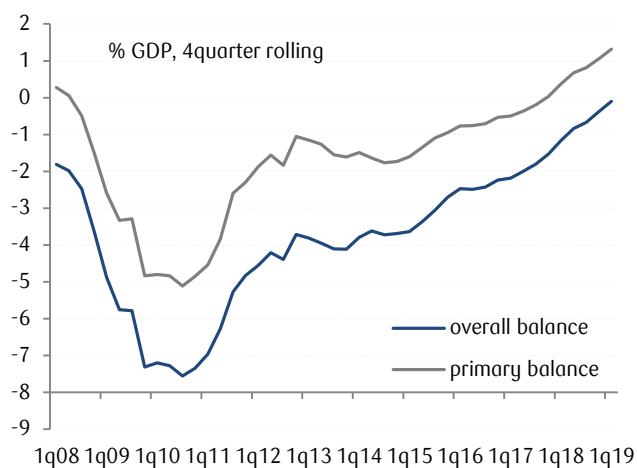
Merchandise trade (in EUR terms)



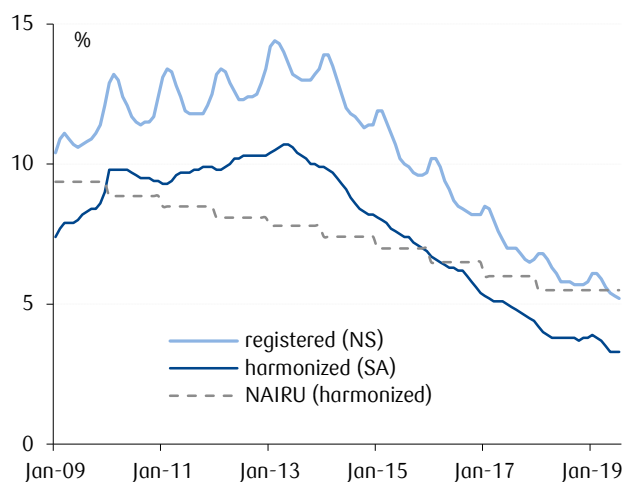
Central government revenues and expenditures*



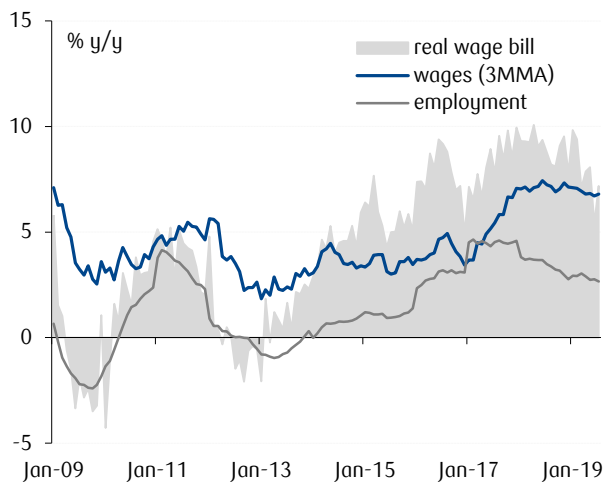
General government balance (ESA2010)



Unemployment rate

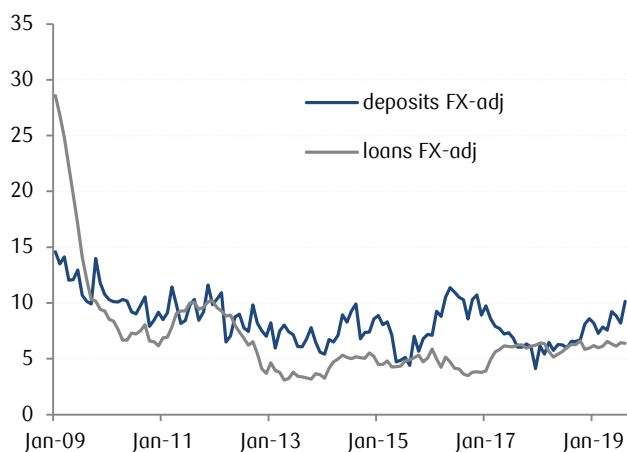


Employment and wages in the enterprise sector

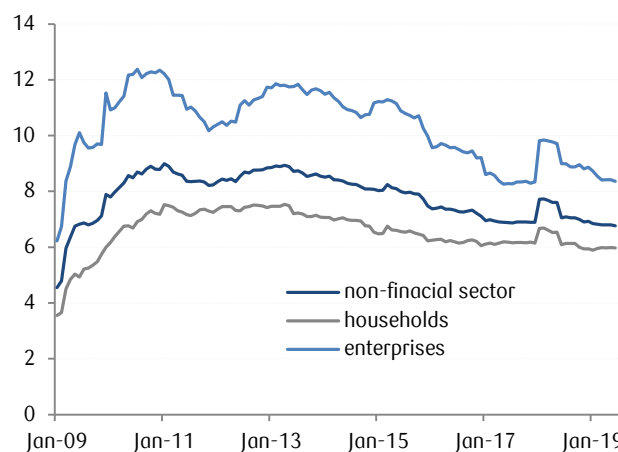


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. *break in series in 2010 due to methodological changes.

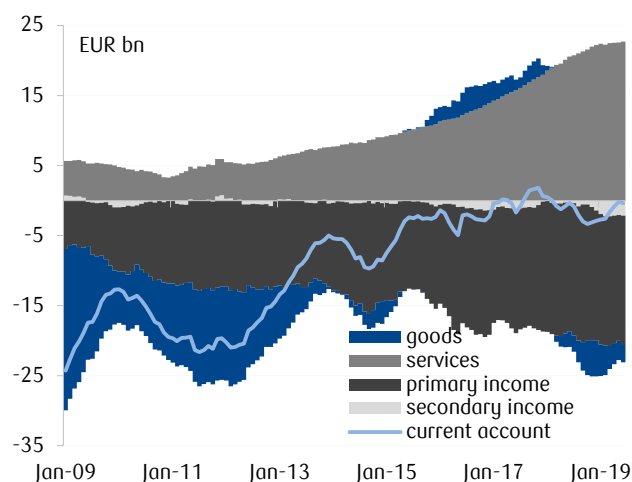
Loans and deposits



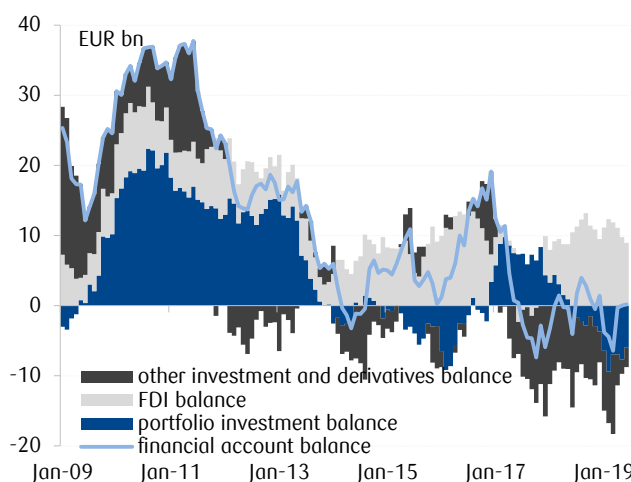
Non-performing loans (NPLs) - by sectors*



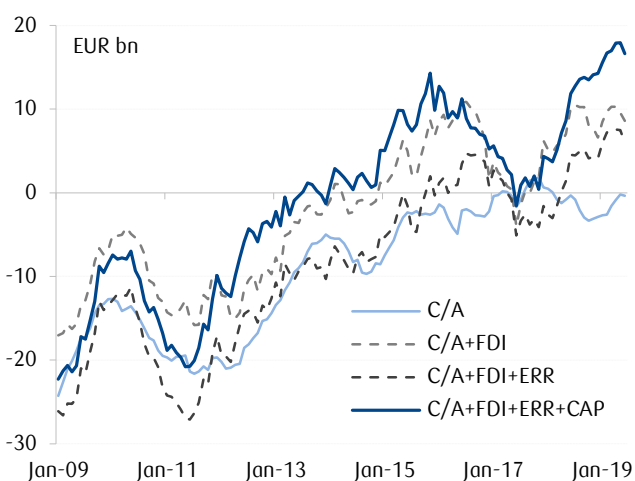
Current account balance



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

	2018	2019	Comment
Real economy			
- real GDP (%)	5.1	4.6	The GDP growth in 1q19 was based on all three engines: investments, private consumption and net exports. Surprisingly strong revival of corporate investment at the start of the year (21.7% y/y), the upcoming EU absorption peak and the approaching stimulation of consumption by the upcoming fiscal package mean that although in 2q19 a slight economic slowdown is possible, the acceleration of domestic demand growth will boost GDP growth in the remainder of the year to similar levels as in 1q19. Thus we predict economic growth this year at 4.6%, keeping Poland in the forefront of the EU countries.
Prices			
- CPI inflation (%)	1.6	2.3	We forecast the increase in CPI inflation reflecting both a stronger rebound in core inflation as well as continuation of strong growth of food prices (due to drought and one-off related factors).
Monetary aggregates			
- M3 money supply (%)	9.2	8.0	Economic expansion supports demand for loans, and the supply of loans is less and less limited by capital needs and lower banks' profitability.
External balance			
- current account balance (% GDP)	-0.6	-0.9	A rapid increase in the share of goods from Poland in the import of consumer goods in Germany and the greater geographical diversification of customers are the source of exports resistance. Structural changes (including the inflow of investments in business services centers) will contribute to further growth of surplus in trade in services, which will allow maintaining a relatively balanced current account in the coming years.
Fiscal policy			
- fiscal balance (% GDP)	-0.4	-1.1	The fiscal stance in 2018 was the best on record. The continued strong consumption growth (expansion of the tax base) and further improvement of tax collection keep the public finance sector deficit low, despite the significant increase in public investment and the expenditure related to the lowering of the retirement age. Accelerating registration/legalisation of migrants' employment boosts revenues of social security funds. Additional fiscal stimulus can be funded in 2019 without significant impact on deficit.
Monetary policy			
- NBP reference rate (%)	1.50	1.50	Although CPI inflation may temporarily exceed 3.5% in 1q20, our monetary policy assumptions remain unchanged: at least a dozen consecutive MPC meetings without changes in NBP rates are ahead of us. However, the balance of domestic risk factors for this forecast tilts more and more clearly towards rate hikes. On the other hand external factors are cumulating on the side of falling inflation and possible pressure to ease monetary policy.

Source: GUS, NBP, Eurostat, PKO Bank Polski,

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