

Better than feared

Top macro theme(s):

- **Improving growth outlook (p. 2):** Poland's GDP in 2q20 fell by 8.2% y/y amid a double-digit decline in private consumption and fixed investments (both by 10.9% y/y). Going forward, real-time and monthly data as well as sentiment surveys signal the worst is over for now and point towards a decent recovery. We have revised up our estimate for GDP growth rate in 3q20 to -1.9% y/y (nearly 8% q/q sa) vs earlier forecast at -5.6% y/y, putting our full-year GDP forecast for a potential upward revision. We are also going to revise down unemployment forecast.

What else caught our eye:

- **CPI inflation in August inched down to 2.9% y/y** (from 3.0% y/y in July) on lower food price inflation and reversing core inflation (PKOe: 4.0-4.1% y/y, down from 4.3% y/y in July).
- **Manufacturing PMI in August disappointed with a decline to 50.6 pts** (from 52.8 in July). However, weaker PMI does not mean that the GDP retreated from its V-shaped recovery path. A broad range of survey data and sentiment indicators point towards a decent recovery and a significant improvement in GDP growth rate for 3q20 (see chart of the week).
- **Local governments ended 2q20 on a strong note with a surplus of PLN 12bn.** Their fiscal balance in 2q20 alone barely changed on annual basis (PLN -0.3bn y/y) indicating that pandemic revenue shortage was cushioned by expenditure cuts. Indeed, capital outlays growth rate in 2q20 decreased to +0.2% y/y (from 12.4% y/y in 1q20).
- **Unemployment rate in August stabilized (6.1%)** on early MinLab estimates. As the labour market related anti-crisis measures are approaching the end, September might show a sudden rise in the number of unemployed. Nevertheless we still see the unemployment rate to stay significantly below 10% at the end of year and depending on September outcome we will consider a downward revision from our 8.1% forecast.

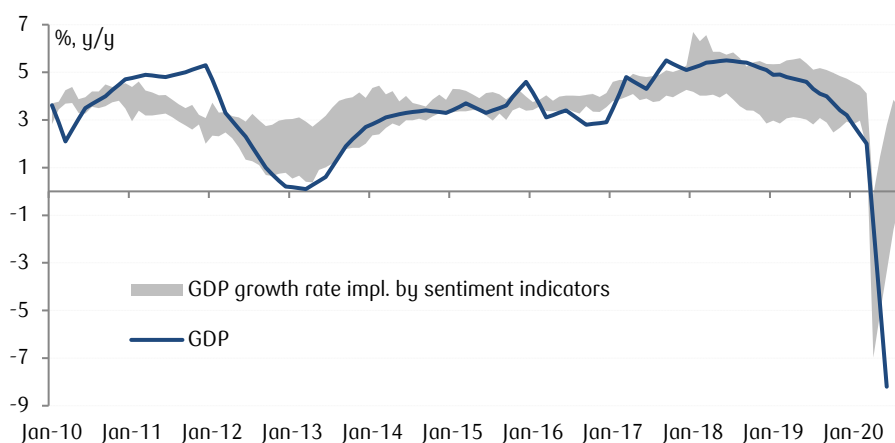
The week ahead:

- An idle week with no major data releases locally.

Number of the week:

- **3.2%** - harmonised unemployment rate in Poland in July, the second lowest in the EU (after Czechia), according to Eurostat data.

Chart of the week: GDP growth rate implied by sentiment indicators



Source: GUS, EC, Datastream, 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. *under revision.

GDP bottomed out in 2q

- GDP bottomed out in 2q20, falling by 8.2% y/y amid a double-digit decline in private consumption and investments (both by 10.9% y/y).
- Going forward, real-time and monthly data as well as sentiment surveys signal the worst is over for now and point towards a decent recovery and a significant improvement in GDP growth rate for 3q20.
- We've updated our earlier forecast (-5.6% y/y) and have pencilled in a fall in GDP for 3q20 by only 1.9% y/y putting our full-year GDP forecast for a potential upward revision.

GDP bottomed out in 2q20 declining by 8.2% y/y (in line with flash estimate and our forecast published mid-May of -8.1% y/y) vs. 2.0% y/y in 1q20. Seasonally adjusted GDP decreased by 8.9% q/q, which means that in 1h20 we have the so-called technical recession (as in 1q20 GDP dropped by 0.4% q/q)

Growth composition reveals a private-sector-led domestic demand collapse (see margin chart). Domestic demand contribution to GDP growth plummeted to -9.0pp in 2q (from 1.6pp in 1q20), while contribution of net exports was positive (+0.8 pp vs +0.4pp in 1q20).

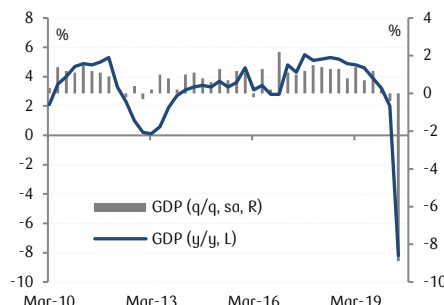
Private consumption was the main drag on GDP, falling 10.9% y/y. It had the deepest negative contribution to GDP growth, which amounted to -6.3 pp. To a large extent this reflects the lockdown, which curbed consumer spending (esp. in April) and was indicated by mediocre retail sales. Public consumption growth rate remained robust (4.8% y/y in 2q vs 4.3% y/y in 1q20), most likely supported by elevated public healthcare spending.

Gross fixed capital formation (investments) also dropped by 10.9% y/y, with negative contribution of -1.8pp. Investments most likely benefitted from the central gov't. public spending on infrastructure while the main drag stemmed from unusually high uncertainty (stopping some corporate projects) or locked-down SMEs which halted leasing substantially (as indicated by 30%ish drop of leasing new sales in 2q20). The contribution of inventories was also negative (-1.7pp).

Data on GDP and its structure for 2q20 show the extent of losses suffered by the economy during the pandemic shock. But from the point of view of economic trends in the future, lockdown driven 2q20 results are pure history. Monthly data from the real economy for July show that industry and trade have been making up for the pandemic losses quite fast. They indicate that private consumption and exports recorded good results at the beginning of 3q20. July retail sales are consistent with an increase in private consumption by approx. 1% y/y in 3q20, while industry results suggest that exports rebounded by approx. 3-4% y/y (see charts on the next page). Construction sector, which saw its decline deepen in July, looks less optimistic. Construction output suggests that investments at the beginning of 3q20 were falling by app. 10% y/y (see chart on the next page). However, the relationship between investments and construction has weakened during the pandemic. This is probably the effect of investments structure (including deep declines of outlays on transportation during the pandemic). The resumption of vehicle sales growth in July suggests that this component of investment may cause a positive surprise in 3q20. On the other hand, local government investment outlays may disappoint as indicated by local gov't. 2q20 results. The local gov't. revenue shortage due to pandemic losses were most likely cushioned by slowing capital outlays. This could also have dragged down construction in the summer.

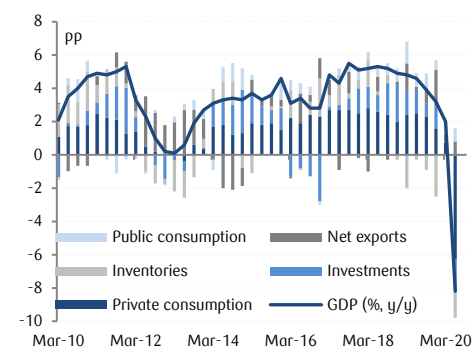
High frequency data released in August also suggest the economy is normalizing. Our weekly economic activity index [PKO-GDP-T] returned to 2019

GDP annual and quarterly change



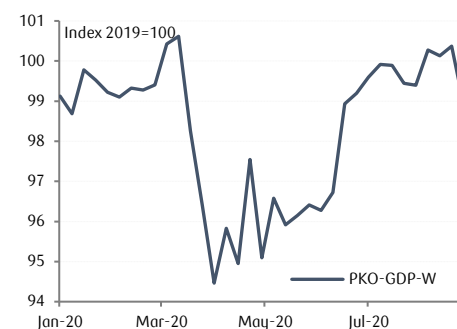
Source: GUS, PKO Bank Polski.

Breakdown of GDP growth



Source: GUS, PKO Bank Polski.

PKO's weekly economic activity proxy



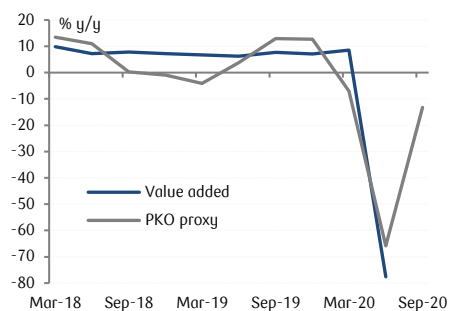
Source: PKO Bank Polski. Based on data until 29th August.

average within August (see margin chart), reflecting, inter alia, robust heavy truck traffic on German highways (*proxy* for Polish exports). Recent correction of PKO-GDP-W *proxy* has been partially tied to falling electricity consumption, what can reflect the hot period coming to an end in August. Despite the stabilization of consumption demand (visible in the PKO card transaction data) and the increase in the number of infections, we currently do not see any further signs of a halt to the general economic recovery.

Services sector, which was hit badly due to pandemic lockdown (esp. HoReCa sector) also continues to recover. Our card transaction data of PKO clients suggest that HoReCa reduced losses in Jul-Aug dropping only ~10-20% y/y (vs. -78.4% y/y in 2q20, see margin chart).

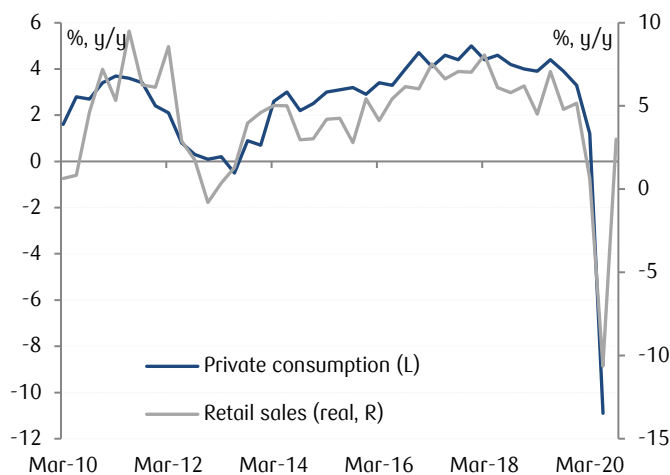
All in all, we estimate growth momentum recovered in 3q20, with the sequential GDP growth up even by 7.9% q/q sa (vs. -8.9% q/q sa in 2q20). This brings the annual GDP growth rate to -1.9% y/y vs. our previous forecast of -5.6% y/y. Consequently, our current full-year GDP growth forecast for 2020 (-3.9%) appears too conservative (even considering a mixed outlook for the pandemic for the remainder of the year) and we will put our GDP forecasts under review for a potential upward revision in mid-September, once another round of monthly 'hard' data becomes available.

HoReCa: value added vs PKO proxy*

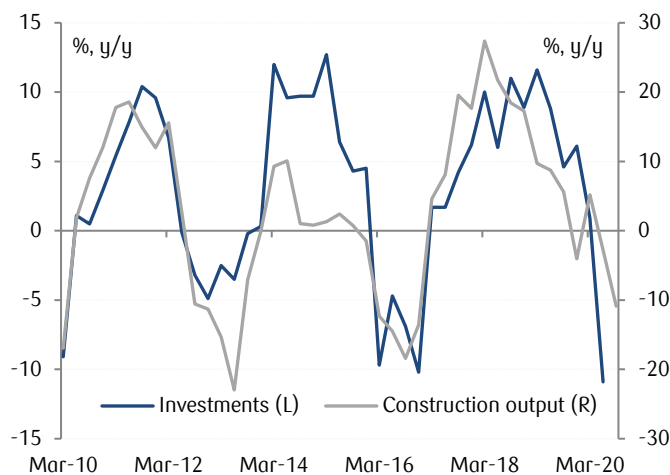


Source: GUS, PKO Bank Polski. *based on PKO clients' card transactions.

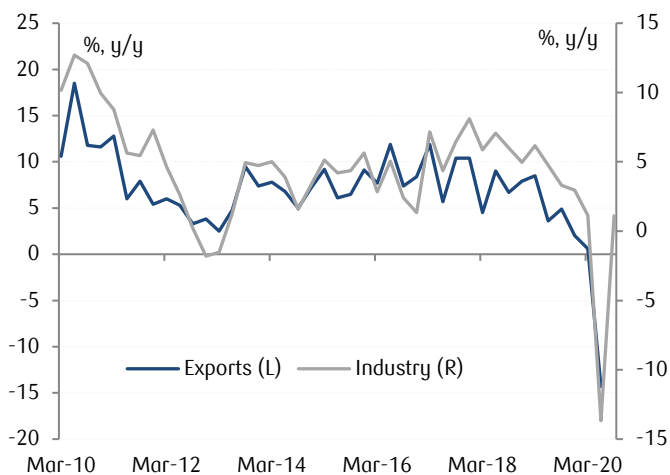
Retail sales vs private consumption



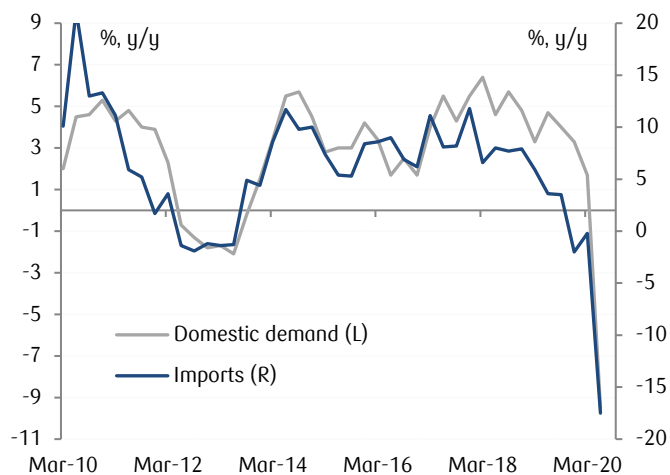
Construction output vs investments



Industrial output vs exports



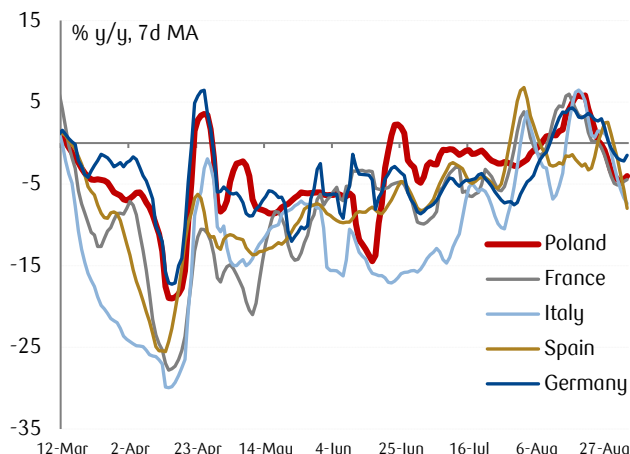
Domestic demand vs imports



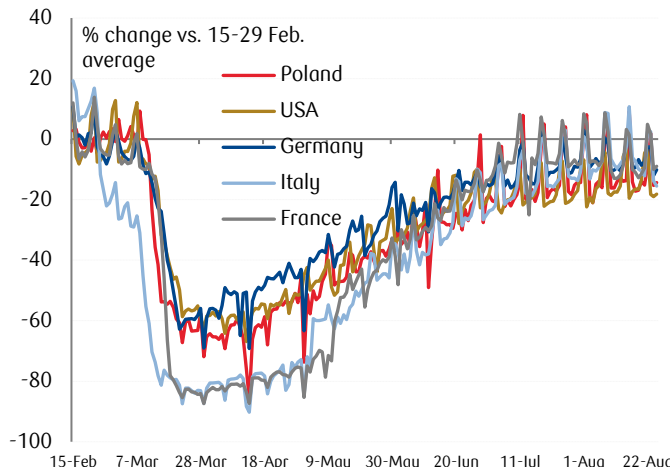
Source: GUS, PKO Bank Polski.

Macro monitoring with alternative data[^]

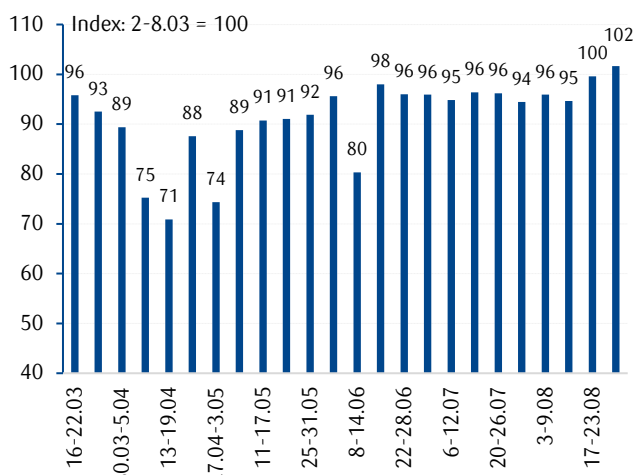
Electric energy consumption (total)



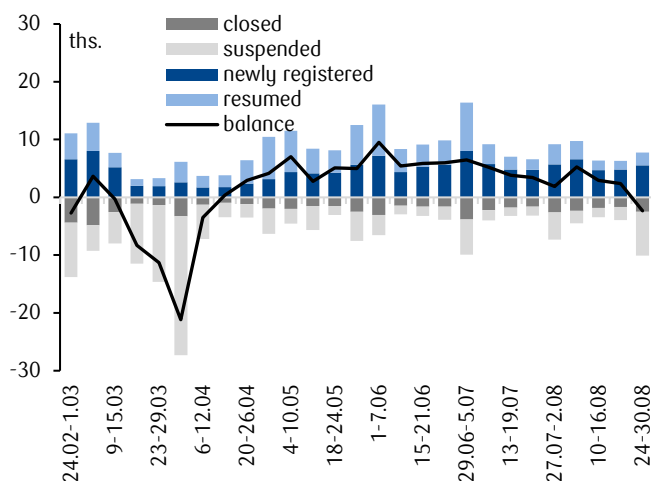
Mobility*



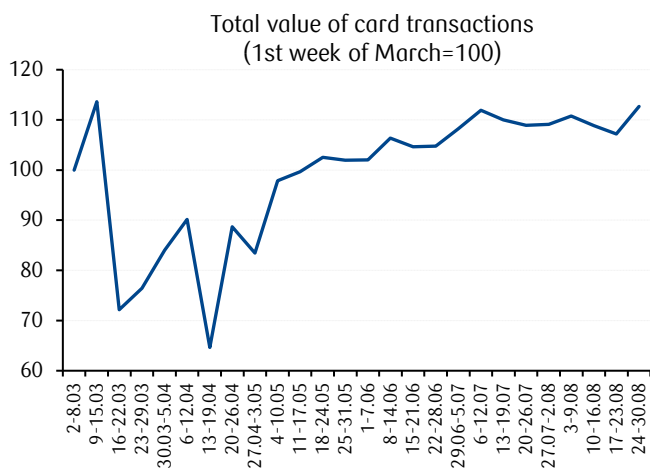
Heavy truck traffic



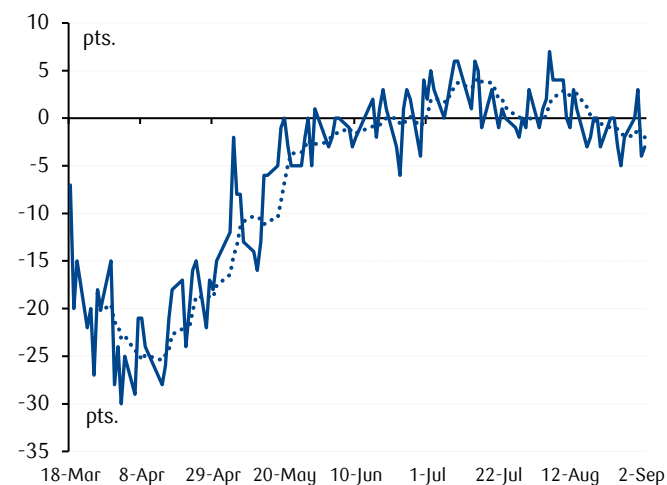
Economic activity status (acc. to CEiDG**)



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, 7 September						
GER: Industrial output (Jul)	7:00	% y/y	-11.7	--	--	--
EUR: Sentix Index (Sep)	9:30	pts.	-13.4	--	--	--
Tuesday, 8 September						
GER: Trade Balance (Jul)	7:00	EUR bn	14.5	15.0	--	--
GER: Exports (Jul)	7:00	% m/m	14.9	--	--	--
GER: Imports (Jul)	7:00	% m/m	7.0	--	--	--
EUR: GDP growth (2q)	10:00	% y/y	-3.1	-15.0	--	--
Wednesday, 9 September						
CHN: CPI inflation (Aug)	2:30	% y/y	2.7	2.3	--	--
HUN: CPI inflation (Aug)	8:00	% y/y	3.8	--	--	--
USA: JOLTS Report (Jul)	15:00	thous.	5889	6000	--	--
Thursday, 10 September						
CZE: CPI inflation (Aug)	8:00	% y/y	3.4	--	--	--
EUR: ECB Refinancing Rate (Sep)	12:45	%	0.00	0.00	0.00	--
USA: PPI inflation (Aug)	13:30	% y/y	-0.4	--	--	--
USA: Initial Jobless Claims (Sep)	13:30	thous.	889	801	--	--
Friday, 11 September						
GER: CPI inflation (Aug, final)	7:00	% y/y	-0.1	0.0	--	--
USA: CPI inflation (Aug)	13:30	% y/y	1.0	1.2	--	--
USA: Core inflation (Aug)	13:30	% y/y	1.6	1.6	--	--

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	1.7	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	6.2	5.4	6.1	8.2	8.1†	5.2	8.1	7.5
Employment in enterprises (% y/y)	-3.3	-2.3	-1.3	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	4.1	3.4	3.8	4.1	3.7	1.9	3.8	1.7
15% trimmed mean (% y/y)	3.5	3.3	x	3.4	3.4	x	x	2.0	x	x
PPI inflation (% y/y)	-0.8	-0.6	-1.0	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	2.9	3.1	1.3	2.3	2.7	2.5	0.4	2.5	1.6
Trade balance (%GDP)	1.4	1.8	1.9	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	-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* (%)	0.26	0.23	0.23	1.17	0.26	0.30	0.30	1.71	0.30	0.30
Real WIBOR 3M* (%)#	-3.04	-2.77	-2.67	-3.43	-3.04	-2.30	-1.90	-1.69	-1.90	-2,10
Exchange rates*‡										
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.

*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	"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	„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

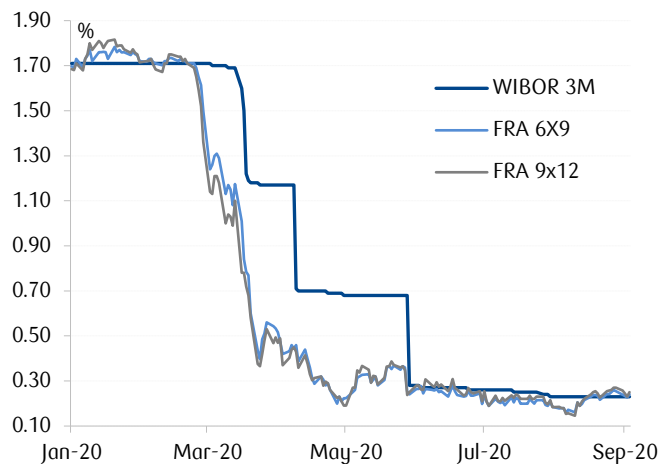
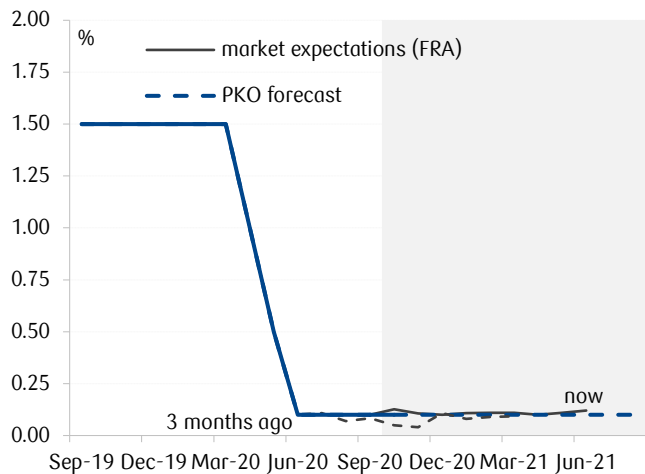
		1M	2M	3M	4M	5M	6M	7M	8M	9M
Date	3-Sep	3-Oct	3-Nov	3-Dec	3-Jan	3-Feb	3-Mar	3-Apr	3-May	3-Jun
WIBOR 3M/FRA†	0.23	0.26	0.24	0.23	0.24	0.24	0.24	0.23	0.24	0.25
implied change (b. p.)		0.03	0.01	0.00	0.01	0.01	0.01	0.00	0.01	0.02
MPC Meeting	15-Sep	7-Oct	4-Nov	2-Dec	-	-	-	-	-	-
PKO BP forecast*	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
market pricing*		0.13	0.11	0.10	0.11	0.11	0.11	0.10	0.11	0.12

†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

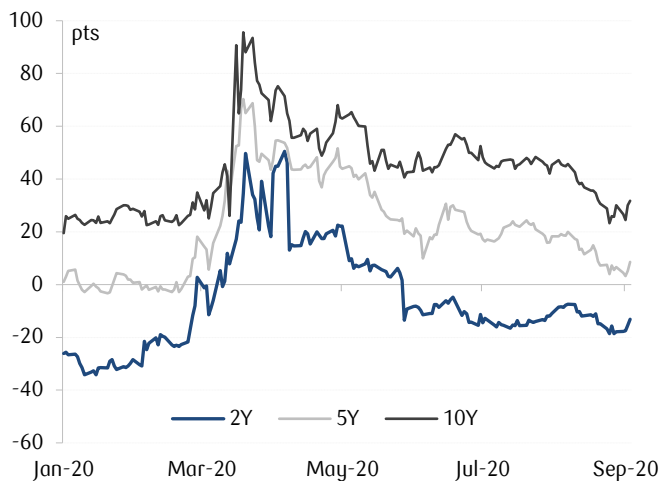
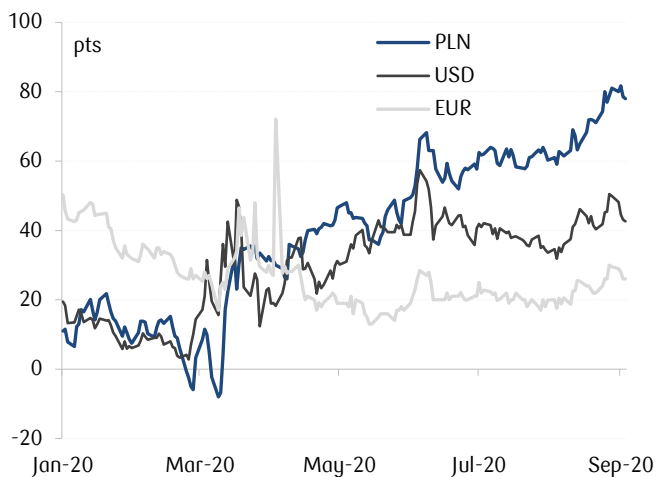
NBP policy rate: PKO BP forecast vs. market expectations

Short-term PLN interest rates



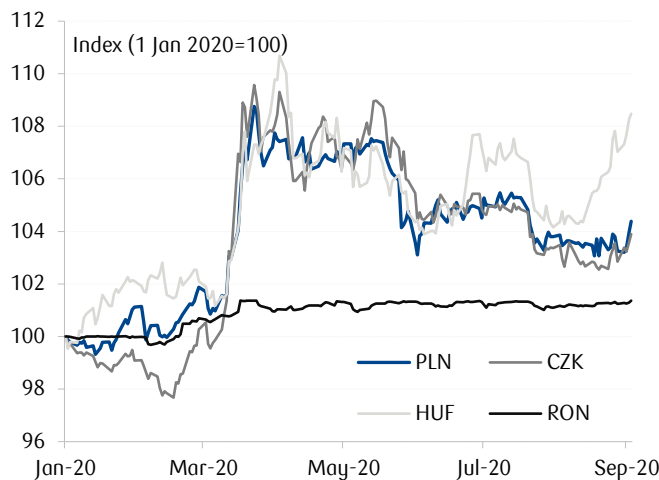
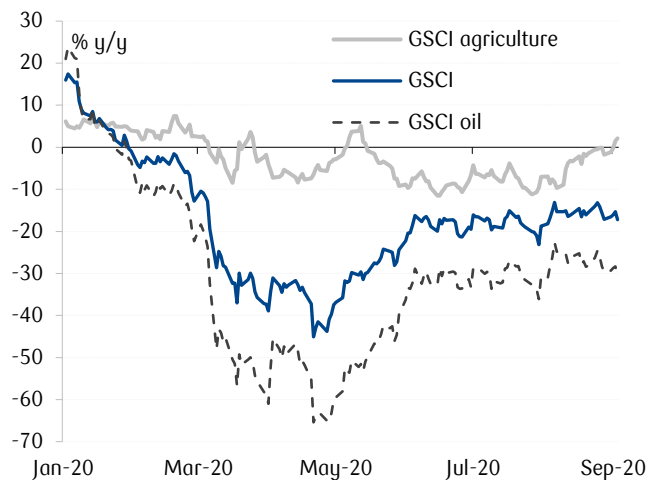
Slope of the swap curve (spread 10Y-2Y)*

PLN asset swap spread



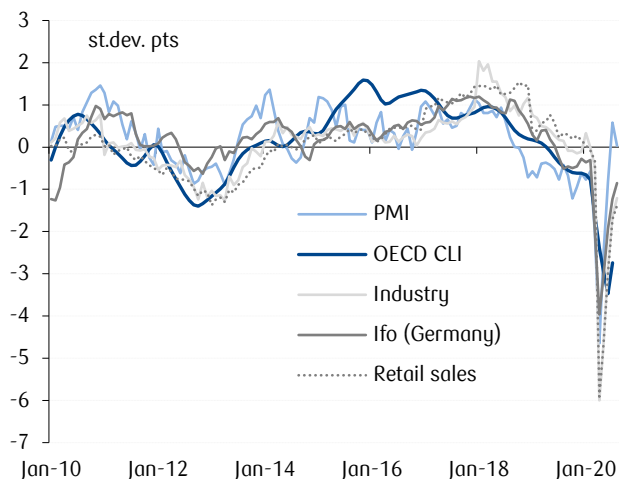
Global commodity prices (in PLN)

Selected CEE exchange rates against the EUR

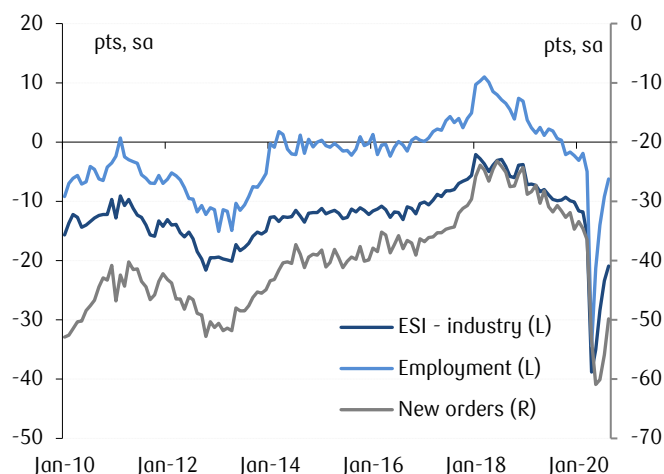


Source: Datastream, NBP, PKO Bank Polski. *for PLN, and EUR 6M, for USD 3M.

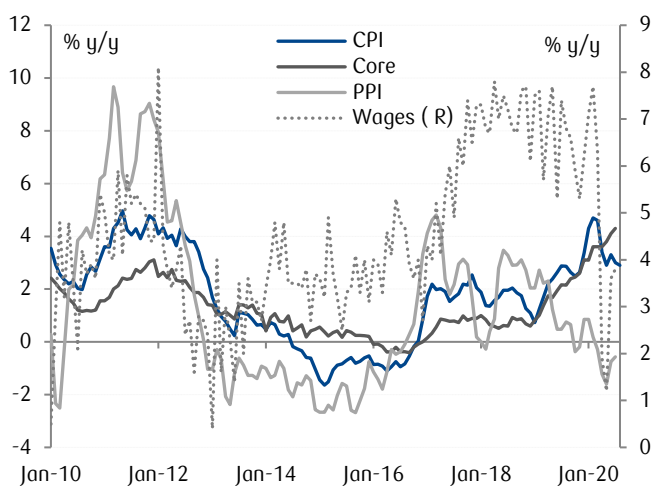
Economic sentiment indicators



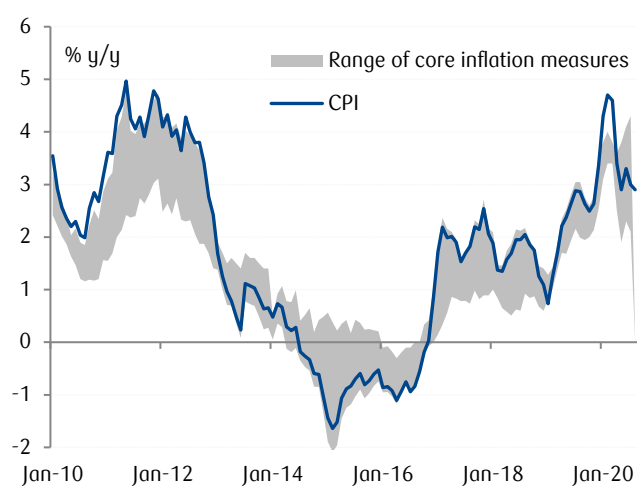
Poland ESI for industry and its components



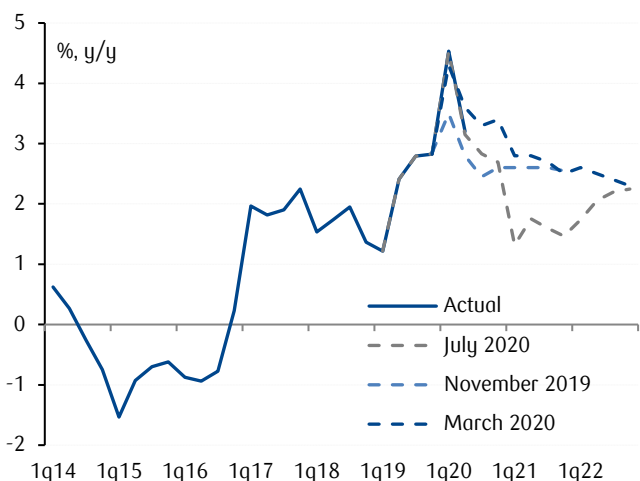
Broad inflation measures



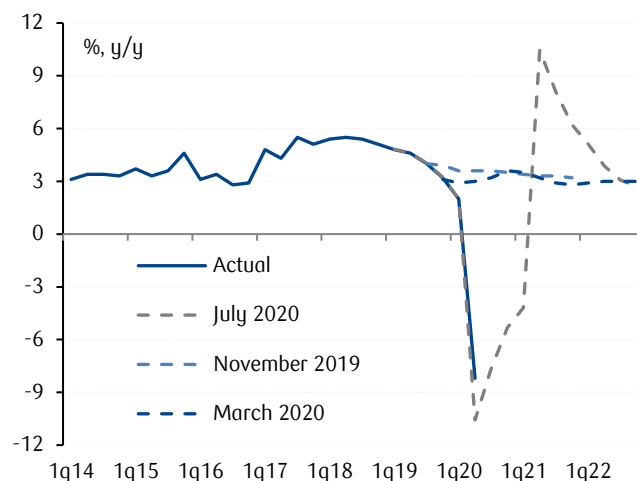
CPI and core inflation measures



CPI inflation - NBP projections vs. actual

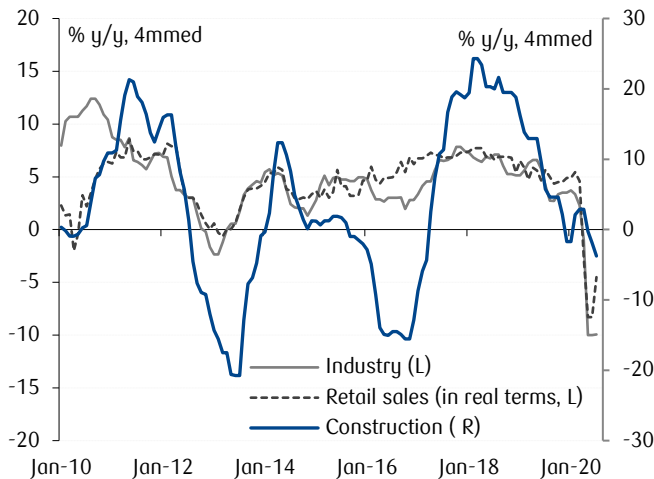


Real GDP growth - NBP projections vs. actual

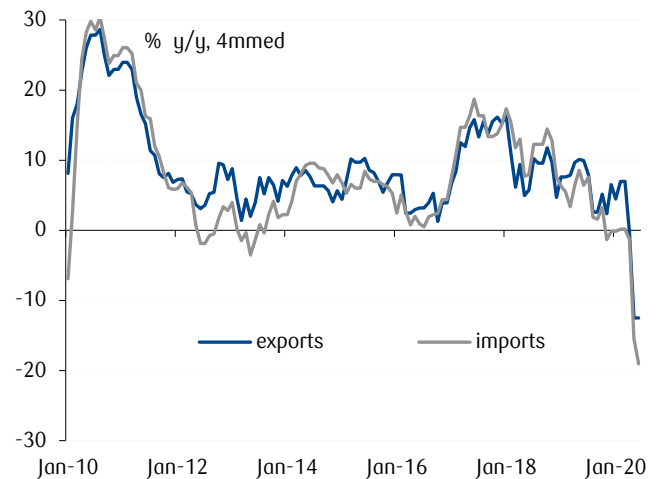


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

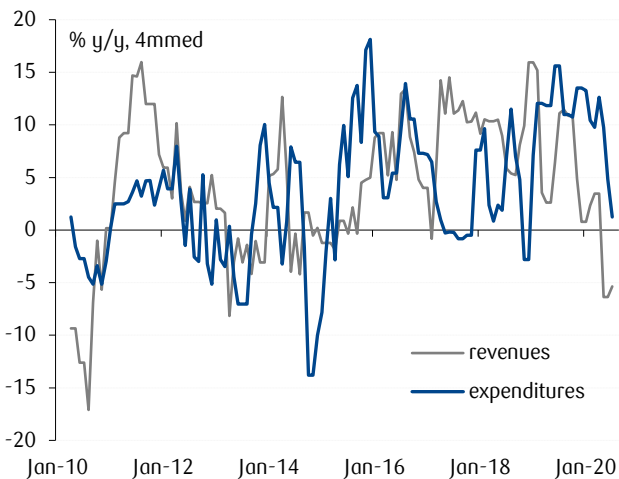
Economic activity indicators



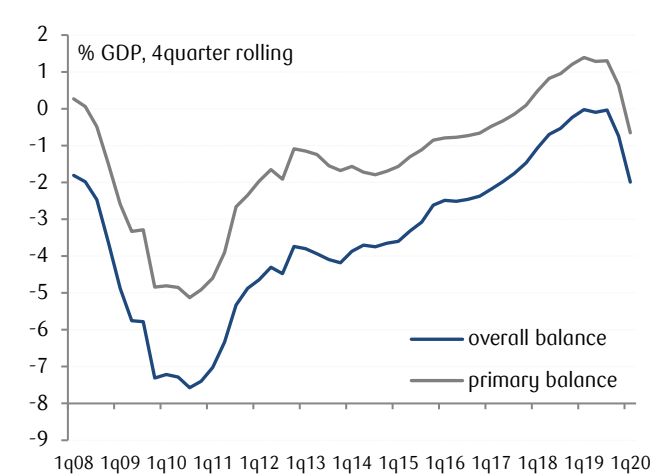
Merchandise trade (in EUR terms)



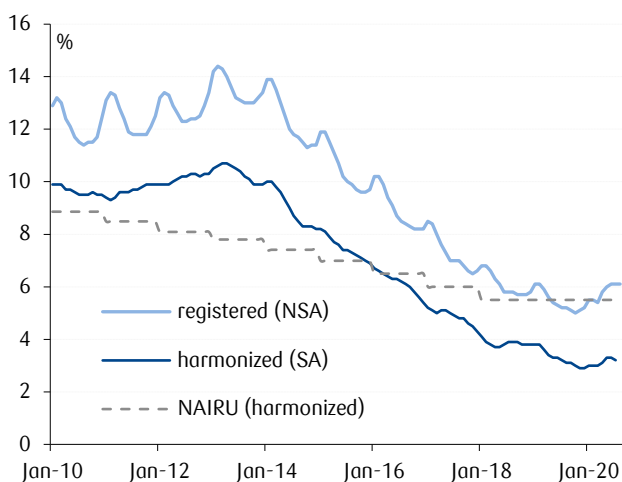
Central government revenues and expenditures*



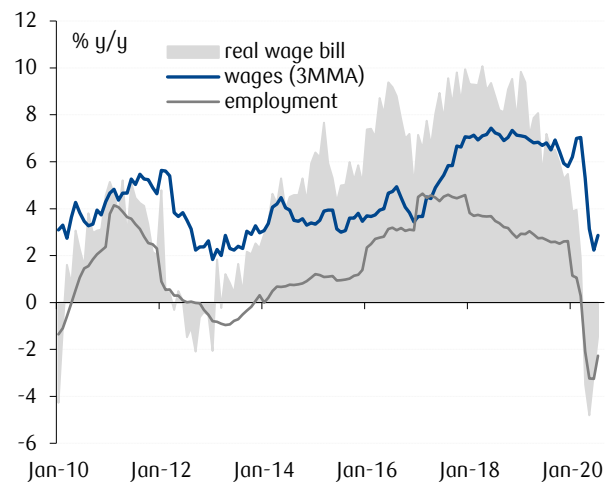
General government balance (ESA2010)



Unemployment rate

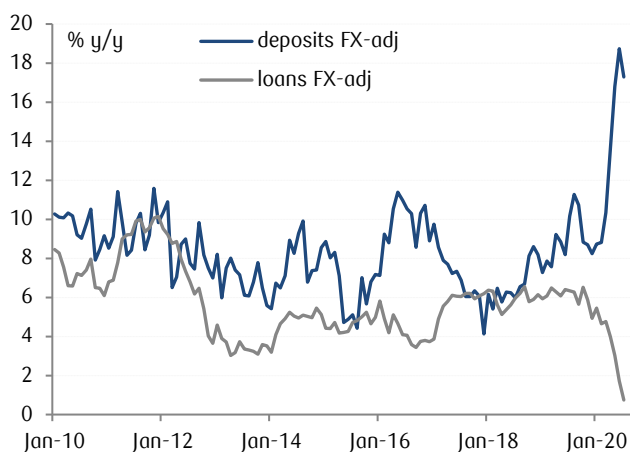


Employment and wages in the enterprise sector

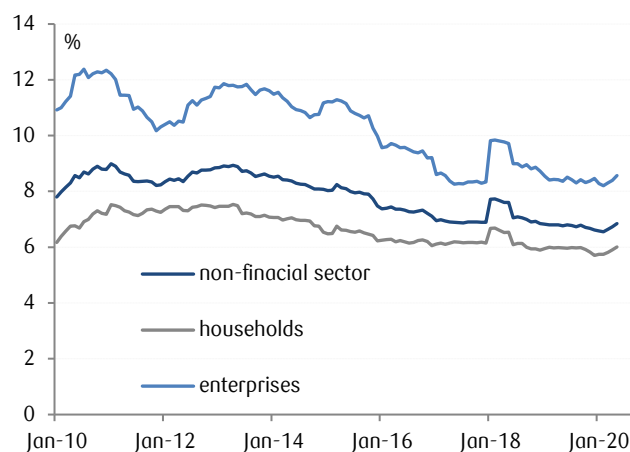


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. *break in series in 2010 due to methodological changes.

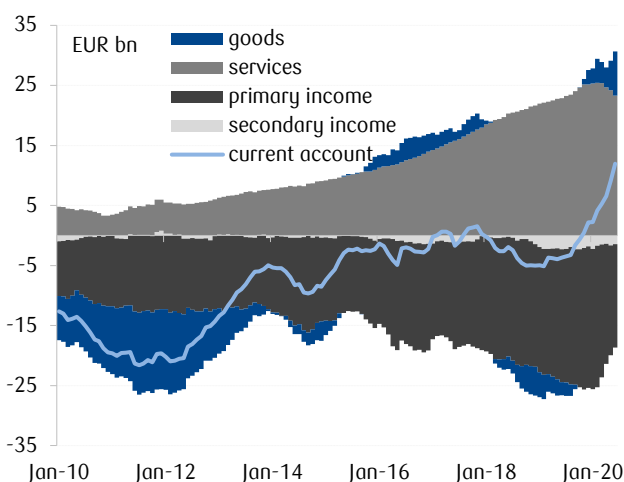
Loans and deposits



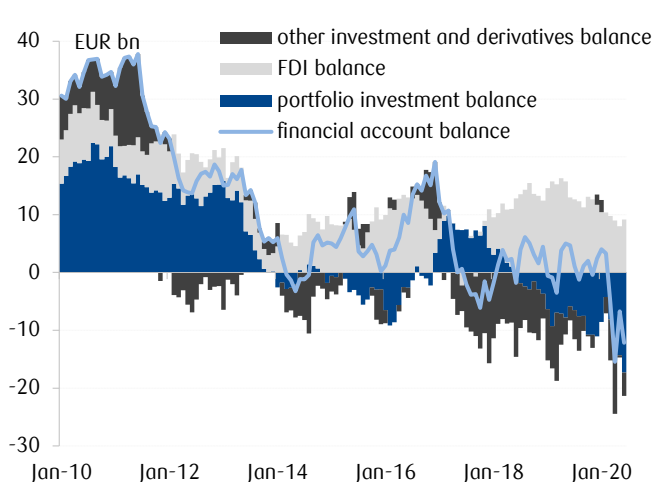
Non-performing loans (NPLs) - by sectors*



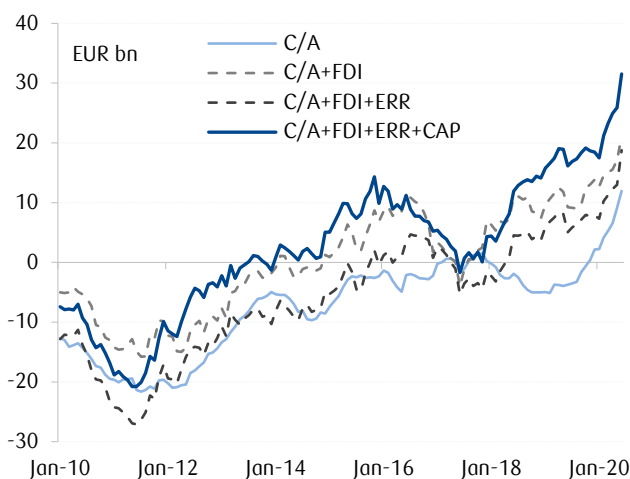
Current account balance



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*	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	-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. *under revision.

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