

## Labour waves goodbye to difficult year

### Top macro theme(s):

- **Good ending of the difficult year (p. 2):** December data on employment and wages in the corporate sector have beaten expectations and confirmed positive picture of the labor market at the end of the difficult year 2020.

### What else caught our eye:

- **Real retail sales** for December disappointed somewhat with sales contracting 0.8% y/y despite one additional trading Sunday and opening malls before Christmas. It is noteworthy that only sales in non-specialised stores (discount shops) recorded a double-digit rise in revenues (by approx. 15% y/y). Robust wage bill growth in December suggest households' savings rate received a boost (temporary in our opinion). Going forward, given a fairly stable consumer sentiment in January, consumption should accelerate once the pandemic restrictions are over.
- **Construction output** in December grew 3.4% y/y (vs -4.9% y/y in Nov). Public procurements more than doubled in 2020 as a whole (+160%) suggesting a pretty rosy year ahead for the construction sector.
- **Business sentiment** in January improved a tad (-8.8 pts on aggregate in Jan vs -10.0 pts in Dec), but remains well below its long-term average (+5.0 pts). Except for HoReCa, financials lagged behind the others (see chart of the week).
- **PPI inflation** in December (0.0% y/y) retreated from a negative territory for the first time since Feb20.

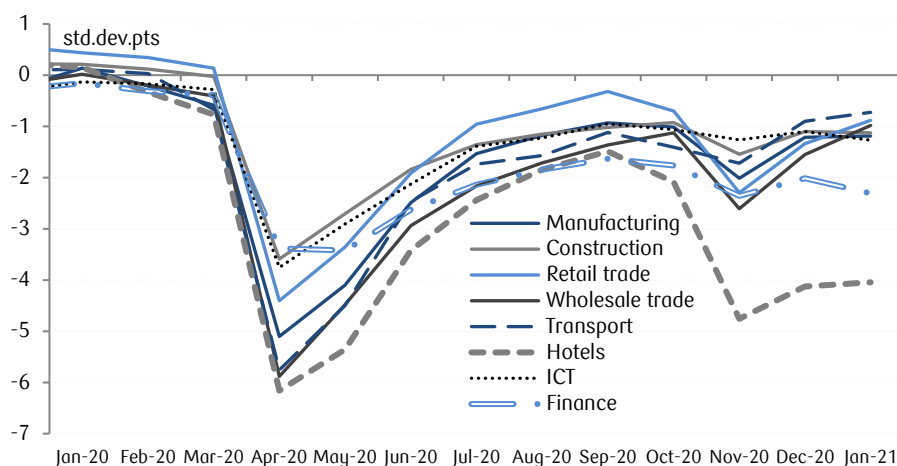
### The week ahead:

- **Industry** finished 2020 on a high note with output expanding at 8.0%-ish rate, on our estimates. Superb performance of export-oriented branches helped cushion a negative impact of selective lockdowns in services (esp. HoReCa) on aggregate activity. We estimate GDP in 4q20 fell (only) by 2.4% y/y, what should bring full-year result to -2.6% (to be verified on Friday).
- **Money supply (M3)** also should end 2020 on a high note, but without fireworks in lending activity.
- 'Steady as she goes' **unemployment rate** in December reflects anticrisis measures aimed at shielding employees from layoffs.

### Number of the week:

- **2.8m** – number of people (~7.5% of total population) to be vaccinated in 1q21 in Poland, according to fresh MinHealth estimates.

### Chart of the week: GUS business sentiment indicators by industry



Source: GUS, PKO Bank Polski.

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	2020†	2021†
Real GDP (%)	-2.6	5.1
Industrial output (%)	-1.2	10.0
Unemployment rate# (%)	6.2	5.4
CPI inflation** (%)	3.4	3.1
Core inflation** (%)	3.9	2.9
Money supply M3 (%)	16.9	7.5
C/A balance (% GDP)	3.6	2.9
Fiscal balance (% GDP)*	-9.2	-3.4
Public debt (% GDP)*	59.7	58.1
NBP reference rate## (%)	0.10	0.10
EURPLN#	4.61	4.45

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; ##at year-end.

## Good ending of the difficult year

- The December enterprise sector data have beaten expectations and confirmed positive picture of the labor market at the end of the difficult year 2020.
- The labor market has been effectively hibernated by the Anti-Crisis and Financial Shields, therefore the effect of the deepest recession since the transformation is so far barely visible.

The December enterprise sector data have beaten expectations and confirmed positive picture of the labor market at the end of the difficult year 2020. Average employment increased by 10,000 during the month and its annual decline slowed down to -1.0% y/y from -1.2% y/y in November (PKO: -1.1% y/y, cons. -1.2% y/y). Employment growth in December 2020 was slightly better than that observed this month in recent years - probably the consequence of the lifting of the anti-pandemic restrictions before Christmas and the opening of trade units.

The **average wage** increased by 6.6% y/y (PKO: 5.0% y/y, cons: 4.7% y/y) after an increase of 4.9% y/y in November, the most since February. The wage growth was probably also supported by the opening of the economy during the Christmas season, including an additional trading Sunday and a positive working-day effect in the industrial sector.

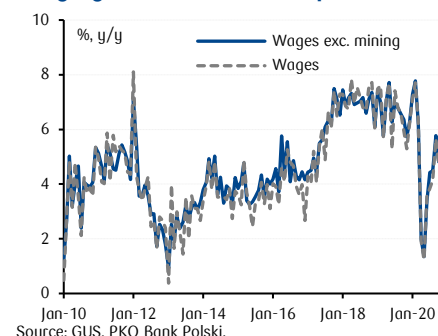
The separate report showed that **consumer sentiment** was roughly stable in January. The current consumer confidence index has dropped to -25.1 points, from -24.9 points in December. The leading indicator increased however to -22.7 points from -24.2 points, thanks to better prospects for saving money and lower concerns about unemployment growth.

The **wage bill** in the enterprise sector in December increased by 5.5% y/y in nominal and by 3.0% y/y in real terms, the most since February. Growing income accompanied by the stable consumer confidence would be a solid foundation for the consumption growth, once the post-Christmas pandemic restrictions have been finally lifted - the same as was observed in spring.

The labor market has been effectively hibernated by the Anti-Crisis and Financial Shield, therefore the effect of the deepest recession since the transformation is so far barely visible. During a year enterprise sector employment declined by 1% and the unemployment rate increased by 1 pp. Companies commonly use a labour hoarding strategy that protects jobs at the cost of lower productivity (and, consequently, slower wage growth). However, **the effects of the protracted lockdown are visible at the sectoral level, with accommodation and catering hit the hardest**. Due to the widespread use of non-standard employment contracts in hotels and restaurants, the enterprise sector employment data might not fully take into account its state. The outlook for the labor market in 2021 is positive, however the mid-year, when the unchanged employment condition for the support from the Financial Shield is verified could mark the end of the stabilisation, unless the economy regains its strength.

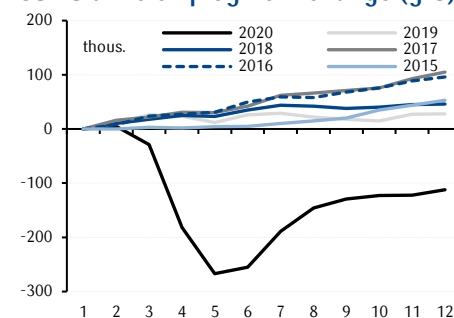
As for the sectors hit the hardest by the recent lockdown, this week the government has extended the so called **Sectoral Shield for the sectors most affected by the second wave of the pandemic** in December 2020 and January 2021. The government plans to allocate a total of PLN 5.1 billion to help companies. As additional assistance to companies, the government provides 4 forms of support: (1) co-financing of employees' remuneration from the guaranteed employee benefits fund; (2) yet another furlough scheme; (3) small subsidy to cover the running costs of a business - up to PLN 5,000 PLN; (4) exemption from social security and other contributions.

### Wage growth in the enterprise sector



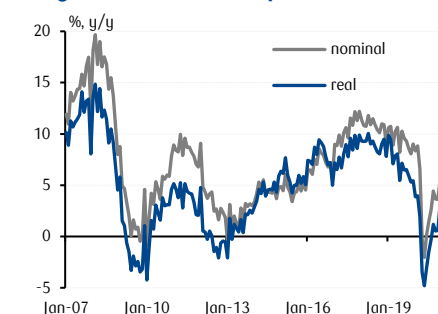
Source: GUS, PKO Bank Polski.

### Cumulative employment change (ytd)



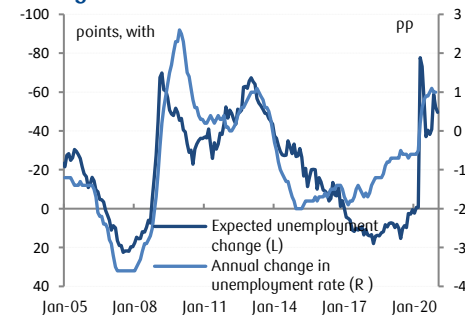
Source: GUS, PKO Bank Polski.

### Wage bill in the enterprise sector



Source: GUS, PKO Bank Polski.

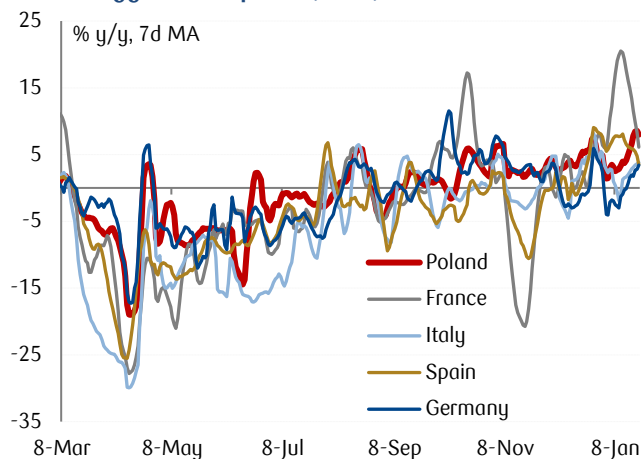
### Expected and actual unemployment change



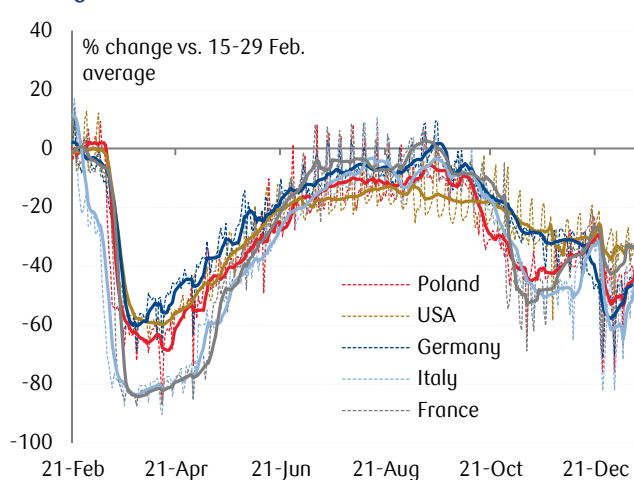
Source: GUS, PKO Bank Polski.

## Macro monitoring with alternative data

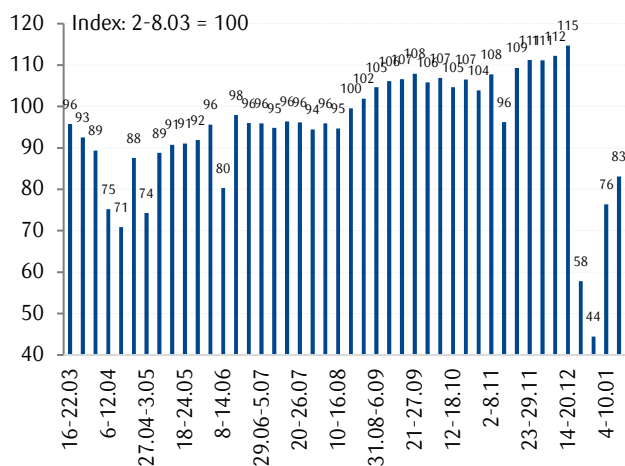
### Electric energy consumption (total)



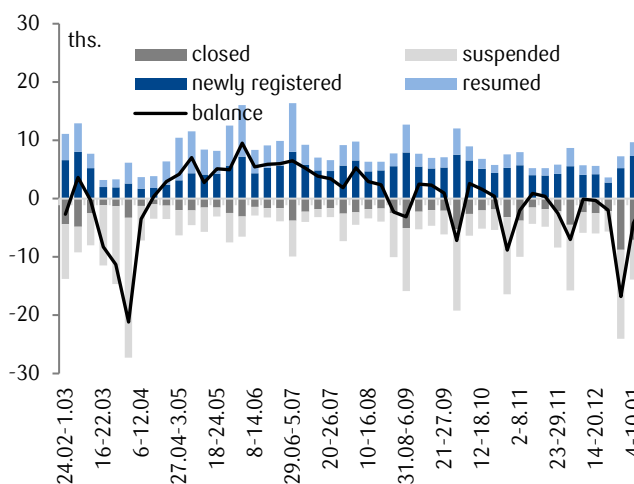
### Mobility\*



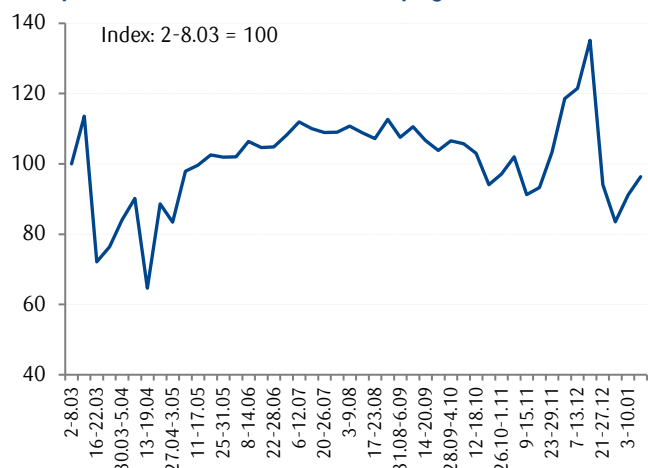
### Heavy truck traffic



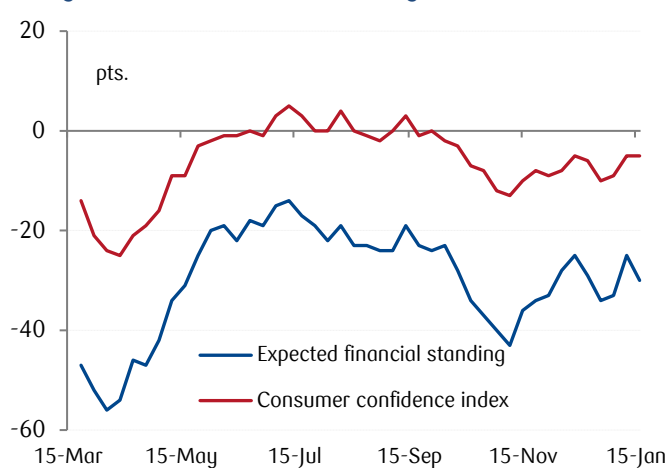
### Economic activity status (acc. to CEIDG\*\*)



### Consumption based on PKO BP card payments



### Weekly consumer confidence survey



Source: PSE, Apple, Google, GDDKIA, CEIDG, Kantar, PKO Bank Polski, \*weighted with market share of iOS and Android, 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, 25 January</b>						
GER: Ifo Business Climate Index (Jan)	9:00	pts.	92.1	91.0	--	--
POL: Industrial production (Dec)	9:00	% y/y	5.4	8.3	8.0	Both us and consensus are upbeat on industry at year end.
<b>Tuesday, 26 January</b>						
POL: Money Supply M3 (Dec)	13:00	% y/y	16.1	16.2	16.9	Money supply finished 2020 on a strong note, but without loans taking stock further.
HUN: MNB meeting	13:00	%	0.60	0.60	0.60	--
USA: S&P CoreLogic CS 20-City (Nov)	14:00	% y/y	7.9	--	--	--
USA: Consumer confidence (Jan)	15:00	pts.	88.6	88.8	--	--
<b>Wednesday, 27 January</b>						
POL: Unemployment Rate (Dec)	9:00	%	6.1	6.2	6.2	Flattish unemployment rate reflects anticrisis shielding employees against layoffs.
USA: Durable goods orders (Dec, flash)	13:30	% m/m	1.0	1.0	--	--
USA: Fed meeting	19:00	%	0.00-0.25	0.00-0.25	0.00-0.25	--
<b>Thursday, 28 January</b>						
EUR: Economic Sentiment Indicator (Jan)	10:00	pts.	90.4	90.9	--	--
GER: CPI inflation (Jan, flash)	13:00	% y/y	-0.3	0.8	--	--
USA: GDP growth (4q)	13:30	%q/q saar	33.4	4.1	--	--
USA: Personal consumption (4q)	13:30	%q/q saar	41.0	2.6	--	--
USA: Initial Jobless Claims	13:30	thous.	900	--	--	--
USA: New home sales (Dec)	15:00	thous.	841	--	--	--
<b>Friday, 29 January</b>						
GER: GDP growth (4q)	7:00	% y/y	-3.9	--	--	--
EUR: M3 money supply (Dec)	9:00	% y/y	11.0	11.1	--	--
POL: GDP growth (2020)	9:00	%	4.5	-2.7	-2.6	Full-year result points at a modest decline of GDP in 4q20.
USA: Personal Income (Dec)	13:30	% m/m	-1.1	0.2	--	--
USA: Personal spending (Dec)	13:30	% m/m	-0.4	-0.5	--	--
USA: Core PCE inflation (Dec)	13:30	% y/y	1.4	1.3	--	--
USA: University of Mich. sentiment (Jan, fin.)	15:00	pts.	79.2	79.2	--	--

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

## Selected economic indicators and forecasts

	Oct-20	Nov-20	Dec-20	1q20	2q20	3q20	4q20	2019	2020	2021
<b>Economic activity</b>										
Real GDP (% y/y)	x	x	x	1.9	-8.4	-1.5	-2.4	4.5	-2.6	5.1
Domestic demand (% y/y)	x	x	x	1.0	-9.9	-3.2	-4.5	3.5	-4.0	4.9
Private consumption (% y/y)	x	x	x	1.2	-10.8	0.4	-2.5	4.0	-2.9	5.5
Gross fixed capital formation (% y/y)	x	x	x	0.9	-10.7	-9.0	-9.2	7.2	-7.9	3.7
Inventories (pp)	x	x	x	-0.3	-2.0	-2.3	-1.3	-1.4	-1.4	0.1
Net exports (pp)	x	x	x	0.9	1.1	0.7	1.8	1.2	1.2	0.6
Industrial output (% y/y)	1.0	5.4	8.0	0.9	-13.6	3.2	4.8	4.0	-1.2	10.0
Construction output (% y/y)	-5.8	-4.9	3.4	5.0	-2.8	-10.9	-2.4	3.6	-2.7	-1.3
Retail sales (real, % y/y)	-2.3	-5.3	-0.8	0.8	-10.7	1.0	-2.8	5.4	-2.7	1.2
Nominal GDP (PLN bn)	x	x	x	556.4	528.2	582.5	643.3	2288	2310	2505
<b>Labour market</b>										
Registered unemployment rate‡(%)	6.1	6.1	6.2	5.4	6.1	6.1	6.2	5.2	6.2	5.4
Employment in enterprises (% y/y)	-1.0	-1.2	-1.0	0.8	-2.0	-1.9	-1.1	2.7	-1.2	1.0
Wages in enterprises (% y/y)	4.7	4.9	6.6	7.0	2.1	4.3	5.4	6.6	4.8	5.6
<b>Prices^</b>										
CPI inflation (% y/y)	3.1	3.0	2.4	4.5	3.2	3.0	2.8	2.3	3.4	3.1
Core inflation (% y/y)	4.2	4.3	3.7	3.4	3.8	4.2	4.1	2.0	3.9	2.9
15% trimmed mean (% y/y)	3.1	3.0	2.7	3.4	3.4	3.2	2.9	2.0	3.2	x
PPI inflation (% y/y)	-0.3	-0.1	0.0	0.2	-1.3	-1.2	-0.2	1.2	-0.6	2.3
<b>Monetary aggregates‡</b>										
Money supply, M3 (PLN bn)	1782.6	1790.7	1830.2	1624.9	1746.2	1762.2	1830.2	1565.6	1830.2	1967.5
Money supply, M3 (% y/y)	17.0	16.1	16.9	11.8	18.1	17.0	16.9	8.3	16.9	7.5
Real money supply, M3 (% y/y)	13.9	13.1	14.6	7.2	14.9	14.0	14.6	4.9	14.6	4.4
Loans, total (PLN bn)	1345.8	1338.8	1353.0	1366.6	1341.1	1337.7	1353.0	1323.4	1353.0	1414.6
Loans, total (% y/y)	1.3	0.4	2.2	6.5	3.1	0.5	2.2	5.1	2.2	4.5
Deposits, total (PLN bn)	1631.7	1639.4	1609.9	1485.1	1618.7	1627.3	1609.9	1406.6	1609.9	1683.7
Deposits, total (% y/y)	16.3	15.8	14.5	11.2	19.5	15.8	14.5	8.2	14.5	4.6
<b>Balance of payments</b>										
Current account balance (% GDP)	3.5	3.7	3.6	1.1	2.3	3.1	3.6	0.5	3.6	2.9
Trade balance (%GDP)	2.1	2.4	2.5	0.4	1.2	1.8	2.5	0.2	2.5	1.6
FDI (% GDP)	1.1	1.2	1.4	1.4	1.6	1.1	1.4	1.6	1.4	1.7
<b>Fiscal policy</b>										
Fiscal balance (% GDP)	x	x	x	x	x	x	x	-0.7	-9.2	-3.4
Public debt (% GDP)	x	x	x	x	x	x	x	46.0	59.7	58.1
<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 <sup>x</sup> (%)	0.22	0.22	0.21	1.17	0.26	0.22	0.21	1.71	0.21	0.20
Real WIBOR 3M <sup>x</sup> (%) <sup>#</sup>	-2.88	-2.78	-2.09	-3.43	-3.04	-2.78	-2.59	-1.69	-3.19	-2.90
<b>Exchange rates*‡</b>										
EUR-PLN	4.62	4.48	4.61	4.55	4.46	4.53	4.61	4.26	4.61	4.45
USD-PLN	3.95	3.74	3.76	4.15	3.98	3.87	3.76	3.80	3.76	3.50
CHF-PLN	4.32	4.14	4.26	4.30	4.18	4.19	4.26	3.92	4.26	4.05
EUR-USD	1.17	1.20	1.23	1.11	1.12	1.17	1.23	1.12	1.23	1.27

Source: GUS, NBP, PKO Bank Polski.

<sup>x</sup>PKO BP Market Strategy team forecasts,<sup>†</sup>period averages for quarterly and yearly data,<sup>#</sup>deflated with current CPI inflation,<sup>‡</sup>period end values,<sup>†</sup>under revision.

## Monetary policy monitor

MPC Members	Hawk-o-meter*	Recent policy indicative comments
K. Zubelewicz	4.7	"As real interest rates in Poland were negative anyway, their further reduction "could not have produced spectacular effects,"" (16.12.2020, PAP)
E. Gatnar	4.6	"I am completely surprised because both [PAP: NBP] chief and the whole dovish wing of the MPC repeatedly talked about stabilization of interest rates at this historically minimal level close to zero. (...) In my opinion, interest rates in Poland should gradually return to pre-pandemic levels... starting with [a hike to] the level of 0.5% already next year" (31.12.2020, PAP)
L. Hardt	4.1	"As of today, if the optimistic economic scenario for the next year becomes a reality, interest rates should inch up, perhaps to 0.50%, (...) If the [PAP: monetary] policy were to be normalized next year, I would rather speak in favor of more finessed normalization, and not a simple rate hike. (...) Normalization means to me coming back to 0.50%, along with simultaneous continuation of the asset purchase program, perhaps launching long repo operations and keeping the rate on the bill discount credit at the current level" (08.12.2020, PAP)
J. Kropiwnicki	3.6	"The NBP management board could support growth with actions in the sphere of the FX exchange rate policy and supporting the exports of Polish goods and service" (04.01.2021, PAP).
R. Sura	2.2	"I would not exclude such a scenario [PKO: rate cuts] in the future (...) [PKO: while] inflation in 2021 will be approaching the middle of the inflation target tolerance band, (...) and economic developments and expert opinions delivered to us parallelly and analyzed by us should point at a possibility of a further rate cut, with concurrent demonstration of positive effects for the real economy. (...) As of today I do not see such a need and the current rate regime appears "optimal." (30.12.2020, PAP).
G. Ancyparowicz	2.1	"If it turns out that [PAP: verbal intervention of the NBP chief Glapinski] is ineffective and the zloty starts appreciating in a dangerous manner (...) we don't have any other way out but to actually reduce that pressure [PAP: towards appreciation] (...) Although we do not want to do that, we would likely be forced into cutting interest rates further" (05.01.2021, PAP)
C. Kochalski	2.1	"Taking into account the current data and information on the economic situation, it is appropriate to stabilise interest rates at the current level until the economy enters the path of sustainable development (...) I treat the question of whether I allow for the possibility of negative interest rates as hypothetical, based rather on low probability from the point of view of the current and forecast condition and results of the Polish economy (...) The reference rate is currently 0.1%. The space for its reduction, so that is not a negative... is small, but it exists." (20.01.2021, Reuters).
A. Glapinski	1.9	"If the pandemic and economic situation will develop in line with the base scenario for a stabilization of the epidemic situation and gradual improvement in economic trends, then no change in monetary policy parameters should be necessary in the coming quarters. Shortly speaking, with the current high level of uncertainty concerning future economic situation nothing is predetermined and we have to be ready for different scenarios" (05.01.2021, PAP, obserwatorfinansowy.pl).
J. Zyzynski	1.6	"Cutting NBP interest rates, maybe even to zero, which would make credits a bit cheaper as market interest rates would go down, would likely be advisable." (30.12.2020, PAP)
E. Lon	1.0	"I hope that there won't be a need to cut interest rates this year. Stabilization of interest rates at current levels is the baseline scenario for 2021." (04.01.2021, PAP, wgosparce.pl)

\*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).

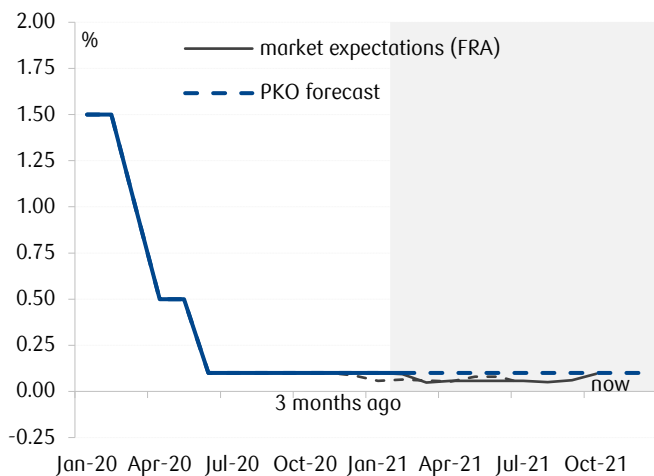
### Interest rates – PKO BP forecasts vs. market expectations

		1M	2M	3M	4M	5M	6M	7M	8M	9M
Date	21-Jan	21-Feb	21-Mar	21-Apr	21-May	21-Jun	21-Jul	21-Aug	21-Sep	21-Oct
WIBOR 3M/FRA†	0.21	0.20	0.16	0.17	0.17	0.17	0.17	0.16	0.17	0.21
implied change (b. p.)		-0.01	-0.05	-0.04	-0.04	-0.04	-0.04	-0.05	-0.04	-0.01
MPC Meeting	13-Jan	3-Feb	3-Mar	7-Apr	5-May	9-Jun	8-Jul	-	8-Sep	6-Oct
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*		0.09	0.05	0.06	0.06	0.06	0.06	0.05	0.06	0.10

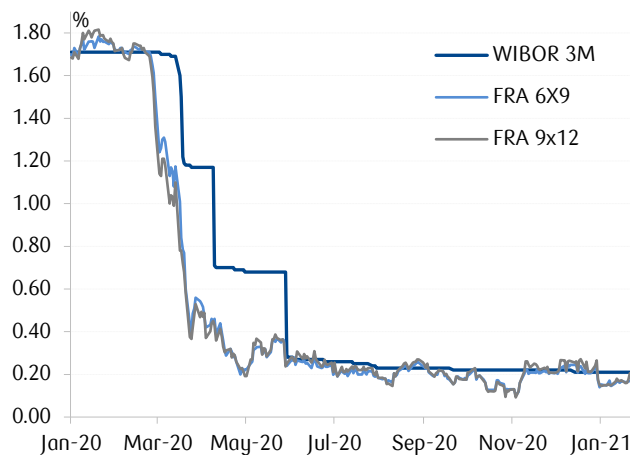
†WIBOR 3M from the last fixing, FRA transactions based on WIBOR 3M for subsequent periods, ‡in basis points, \*PKO BP forecast of the NBP reference rate.

## Poland macro chartbook

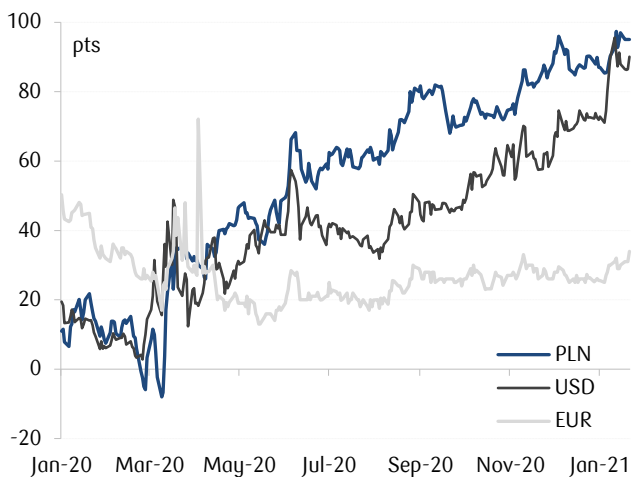
NBP policy rate: PKO BP forecast vs. market expectations



Short-term PLN interest rates



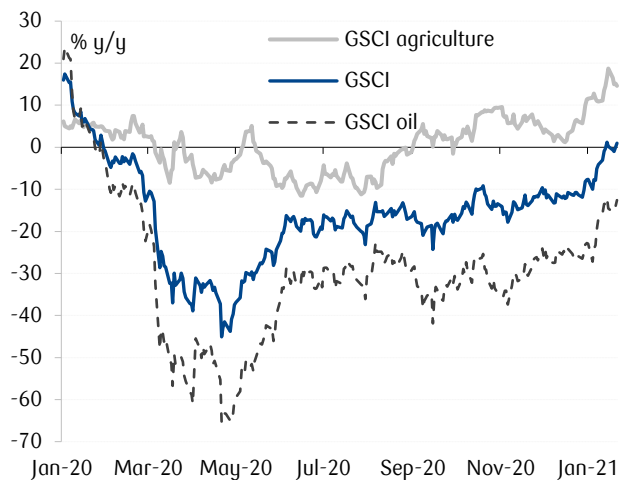
Slope of the swap curve (spread 10Y-2Y)\*



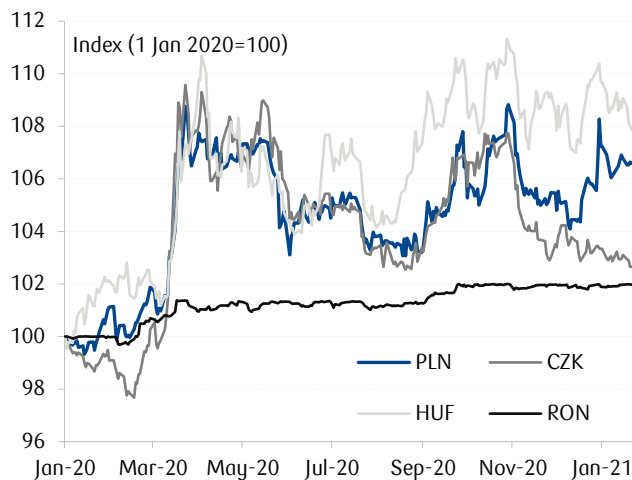
PLN asset swap spread



Global commodity prices (in PLN)

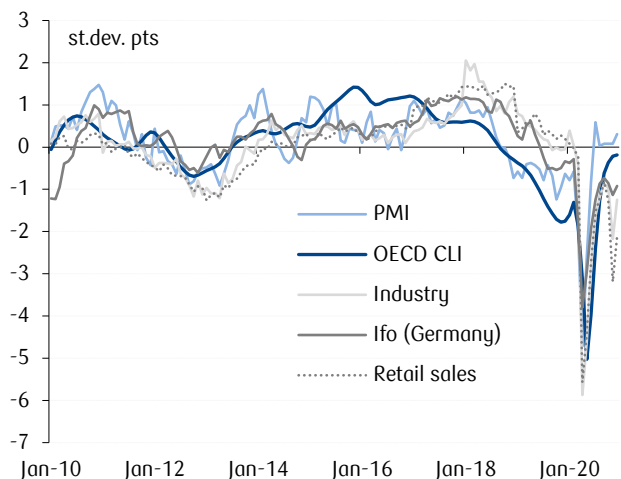


Selected CEE exchange rates against the EUR

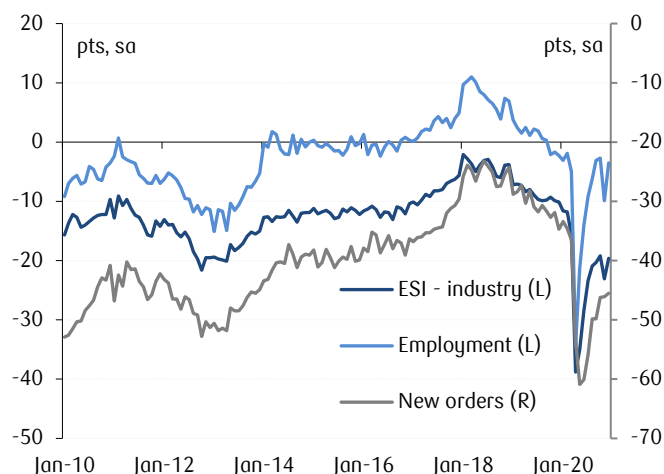


Source: Datastream, NBP, PKO Bank Polski. \*for PLN, and EUR 6M, for USD 3M.

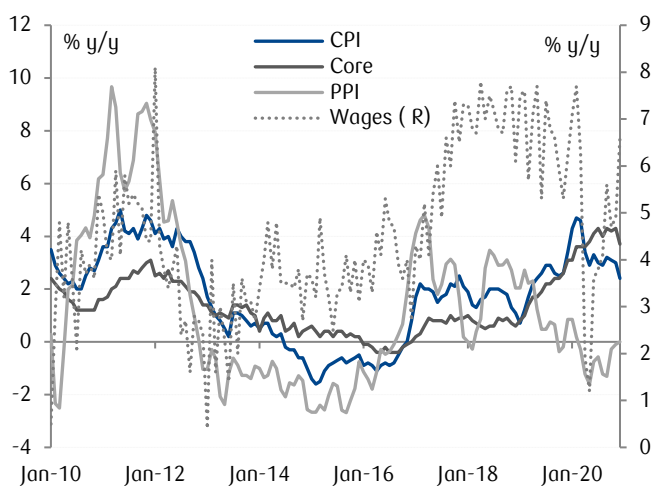
Economic sentiment indicators



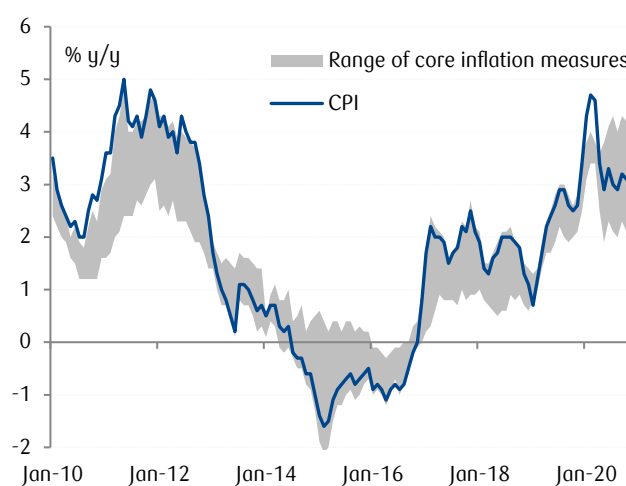
Poland ESI for industry and its components



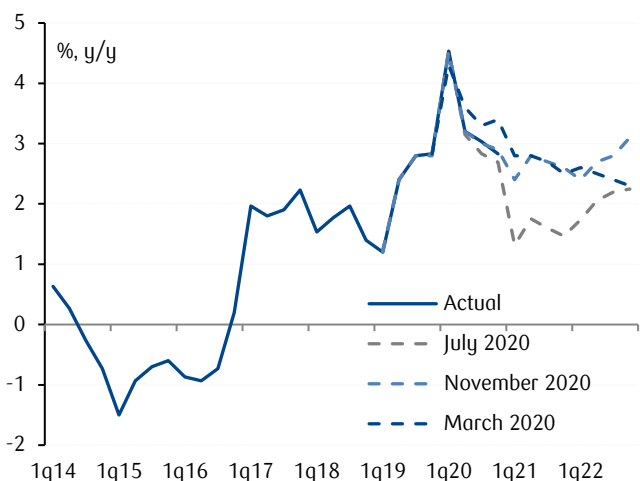
Broad inflation measures



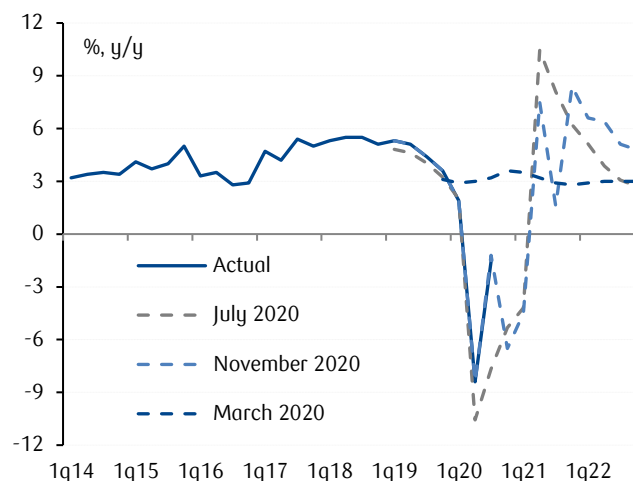
CPI and core inflation measures



CPI inflation - NBP projections vs. actual



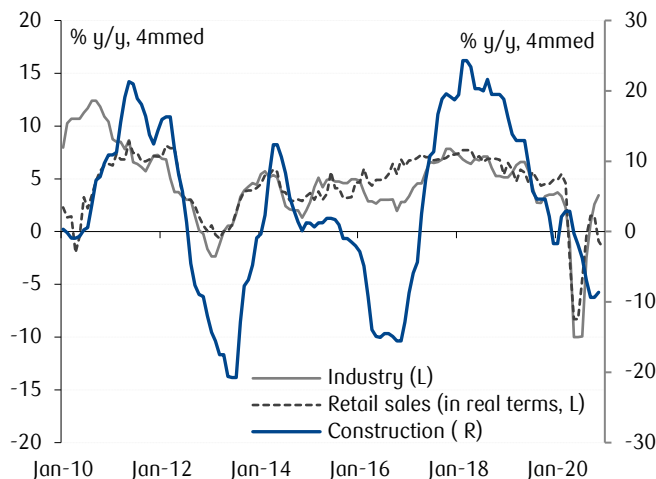
Real GDP growth - NBP projections vs. actual



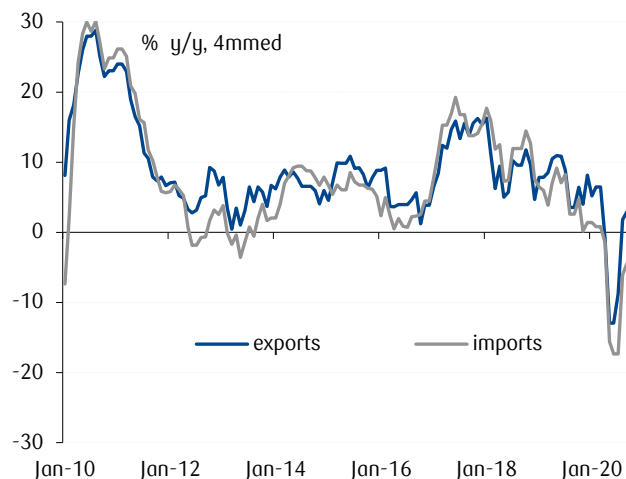
Source: Datastream, GUS, EC, NBP, PKO Bank Polski.



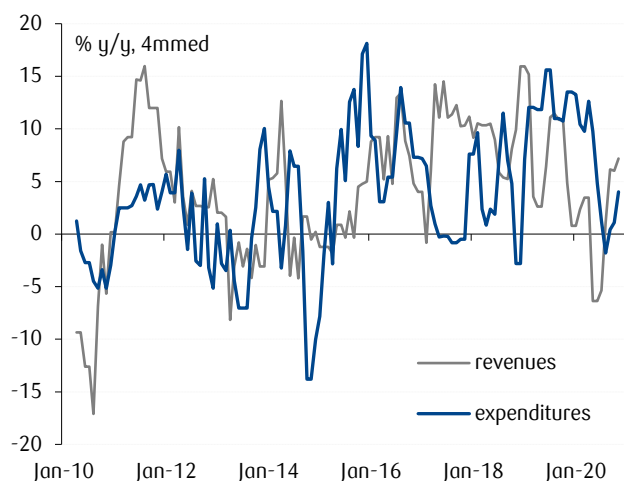
**Economic activity indicators**



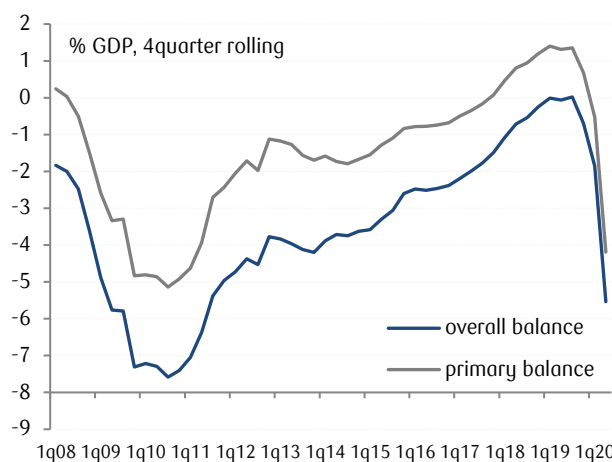
**Merchandise trade (in EUR terms)**



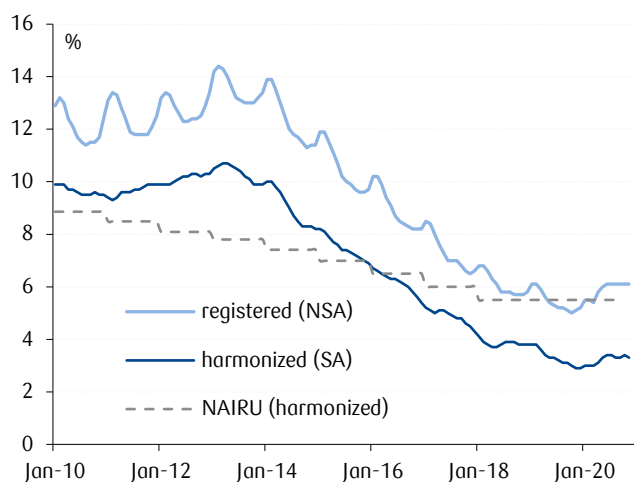
**Central government revenues and expenditures\***



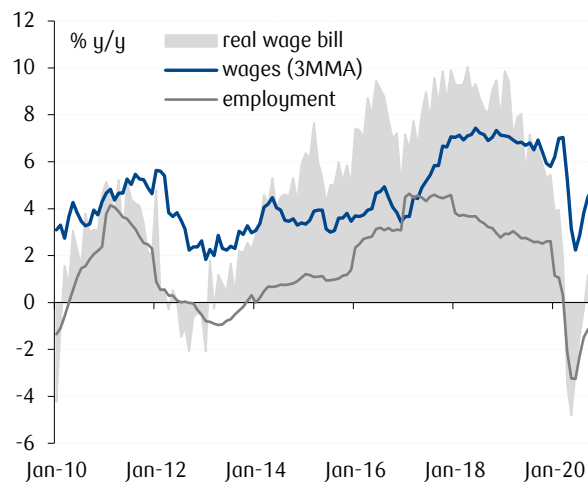
**General government balance (ESA2010)**



**Unemployment rate**

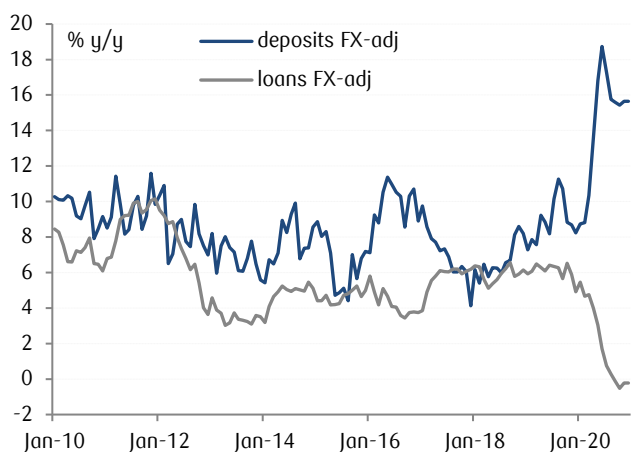


**Employment and wages in the enterprise sector**

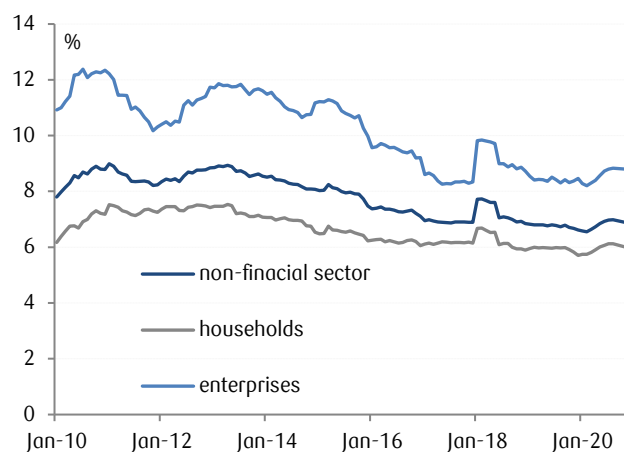


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. \*break in series in 2010 due to methodological changes.

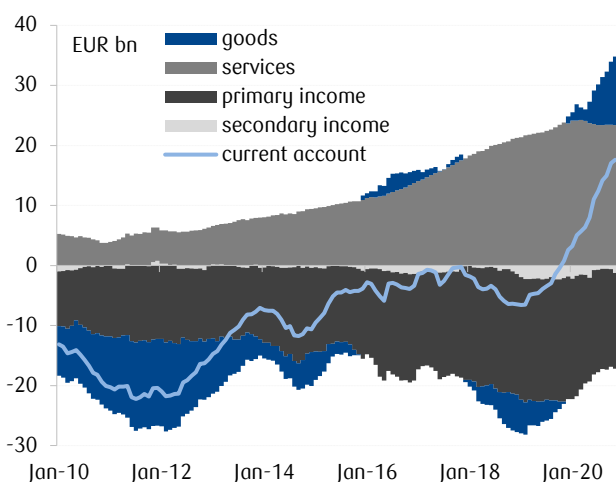
Loans and deposits



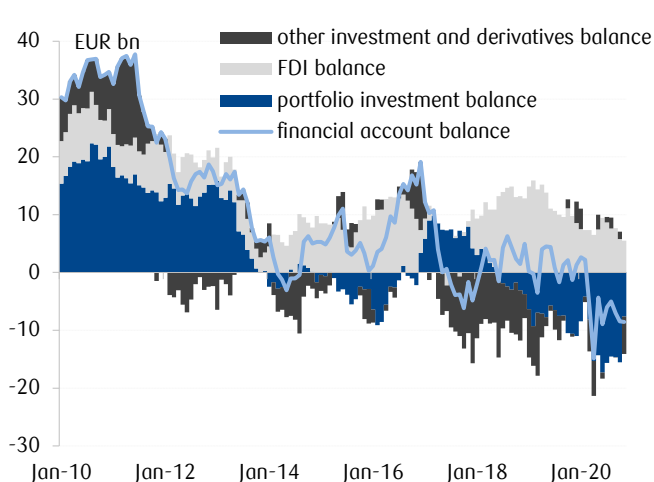
Non-performing loans (NPLs) - by sectors\*



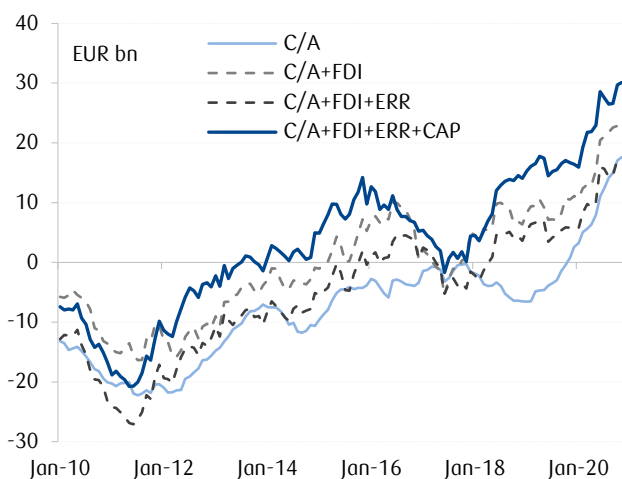
Current account balance



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

	2020	2021	Comment
<b>Real economy</b>			
- real GDP (%)	-2.6	5.1	We forecast that in 2021 the Polish economy will grow by over 5%, after a decrease of close to 3% in 2020. The main trigger for such a strong rebound will be an improvement in the epidemic situation. Thanks to the anti-crisis measures, the fundamental structure of the economy has been preserved, which enables a fast recovery. Last but not least, in our opinion the fiscal policy will support GDP growth in 2021 even stronger than in 2020.
<b>Prices</b>			
- CPI inflation (%)	3.4	3.1	Inflation will remain close to the upper inflation target band (3.5%). Strong economic recovery shortens the pandemic-related disinflationary period, and, combined with regulatory changes (power levy, trade tax, sugar levy), pushes CPI inflation above 3%.
<b>Monetary aggregates</b>			
- M3 money supply (%)	16.9	7.5	With the rebound of the economic growth, we expect credit demand to increase slowly, fueling a moderate bank lending expansion. Smaller scale of asset purchases will result in a deceleration of money supply growth.
<b>External balance</b>			
- current account balance (% GDP)	3.6	2.9	The balance of payments has become the main strength of Poland's macroeconomic fundamentals. Polish companies are successfully gaining the market share in global trade and Polish exports are breaking new records on a regular basis. Poland has become a net exporter, which is a hugely important structural change, that increases the room for maneuver in both monetary and fiscal policy.
<b>Fiscal policy</b>			
- fiscal balance (% GDP)	-9.2	-3.4	We see no threat to the sustainability of the public finances. In our view Poland, as a competitive economy with high GDP growth potential and moderate inflation, will begin to quickly 'outgrow' the public debt, which has increased due to pandemic.
<b>Monetary policy</b>			
- NBP reference rate (%)	0.10	0.10	Despite high inflation NBP monetary policy will not be exciting. In our baseline scenario we still assume that NBP interest rates will remain unchanged even after 2021, and that the MPC will continue its asset purchases program. Nevertheless, as the economy recovers and relatively high inflation persists, the market might start to expect that monetary policy normalization will start in Poland even before the major central banks will start to tighten their policies.

Source: GUS, NBP, Eurostat, PKO Bank Polski. † under revision.

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