

## EU Recovery Fund: final approach

### Top macro theme(s):

- **The trek to the Next Generation (p. 2):** The new EU Recovery Fund appears to be a game-changer for the Polish economy. Instead of a significant decline in inflow of funds from Brussels, which was much anticipated, Poland will in fact get a similar amount of funding in relation to GDP as in the current EU multi-year financial framework. However, there are some strings attached.

### What else caught our eye:

- **CPI inflation in July dropped to 3.1% y/y** from 3.3% y/y in June, due to an unusually strong decline in food prices (-1.4% m/m). Fuel prices and core inflation acted in the opposite direction. On our estimate core inflation, excl. food and energy inched up to 4.2% y/y from 4.1% y/y in June. The data are unlikely to change anything in the overall stance of the MPC, which mainly focuses on supporting economic recovery. NBP governor A.Glapinski hinted that the NBP still has some room to ease monetary policy, if needed.
- **The government adopted macro assumptions for 2021 budget with GDP growth of 4.0%** (after a decline of 4.6% in 2020) and **CPI inflation of 1.8%** (vs 3.3% expected in 2020). Economic growth is expected to mainly be driven by domestic demand. Registered unemployment rate is expected to go down to 7.5% from 8.0% at the end of 2020. Average wage in the economy is expected to increase by 3.5%, with flat wages in the public sector and minimum wage growing by 7.7% to 2,800 PLN. The assumptions adopted by the government do not differ significantly from our forecasts for 2020 and 2021. The key factor that may affect our forecast scenario is a departure from the original plans to raise the minimum wage to 3,000 PLN.
- **Prime Minister M.Morawiecki** said that the government did not rule out a possibility of **re-introducing sanitary restrictions** to prevent further spread of the coronavirus. However, he ruled out another nationwide lockdown.

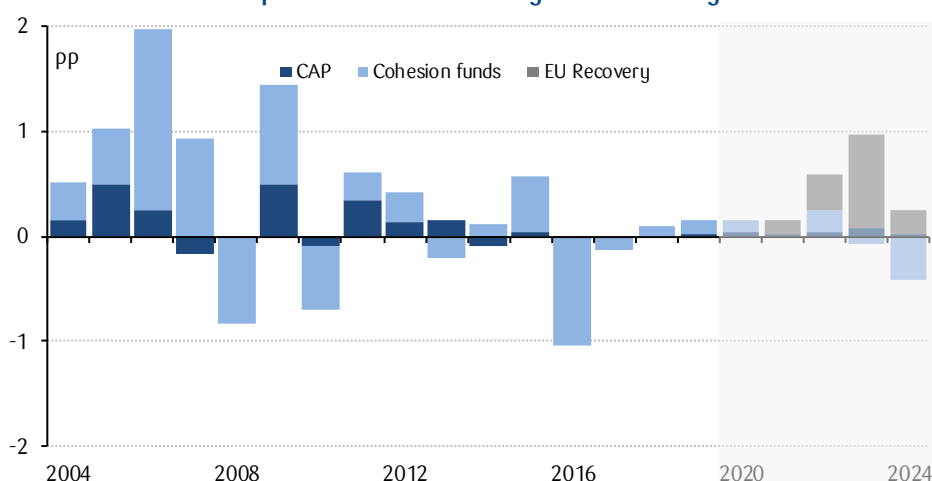
### The week ahead:

- **Manufacturing PMI in July** likely rose above 50pts reflecting growing activity after the end of the lockdown, which in turn follows European peers that have surpassed the neutral threshold of 50pts.

### Number of the week:

- **657** – new coronavirus infections July 31, the highest daily increase on record. The number of new cases has gone up in recent weeks, but the death rate and covid-related hospitalizations remain relatively low.

### Chart of the week: Impact of the EU Recovery fund on GDP growth in Poland



Source: EC, MinFin, MinDev, GUS, 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	0.8
Fiscal balance (% GDP)*	-0.7	-8.4
Public debt (% GDP)*	46.0	55.2
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.

## The trek to the Next Generation

- The budget and Recovery Fund agreement reached by the European Council on 21st July modified the European Commission’s proposal, putting more weight on the economic impact of the pandemic.
- Poland’s allocation, albeit lower than previously proposed, is large and will boost the country’s economic growth.

At the end of May, the European Commission presented a proposal for a new EU-wide Recovery Fund, which aims to revive the EU economy post-crisis. We have tackled this issue in one of previous Poland Macro Weeklies ([EU Recovery Plan: what’s in store for Poland?](#); Jun 5, 2020). Below is an update of our assessment of the EU Recovery Fund’s impact on Poland, made after the European Council negotiations on this proposal were finalized on Tuesday, July 21.

**The Next Generation EU (NGEU) framework represents a new quality in fiscal policy at EU level. The use of the new fund will constitute a fiscal expansion** (new expenses financed from debt incurred on behalf of the entire EU by the European Commission, which will be repaid from 2028), **and not redistribution** (transfers from net contributors to net beneficiaries) as in standard, long-term EU budgets. The EU will fund spending by borrowing from financial markets for the first time in history. The straightforward implications include:

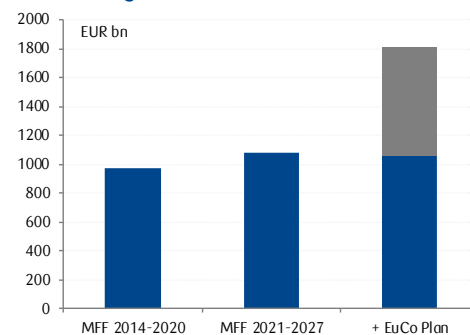
- (1) the new EU budget - despite Brexit - will be visibly bigger for the EU as a whole (see margin charts), but also for Poland, supporting a stronger-than-might-have-been-expected recovery after the lockdown crisis;
- (2) the decision and its implementation imply that the risk of a two-tier EU (with core of the integration and more funds in the euro area) has visibly receded, which, in our view, reduces also the incentives for Poland to join the euro area fast;
- (3) a common debt will allow to reduce the total average cost and allow *de facto* transfer, from stronger to weaker economies (countries with a weak rating will effectively obtain cheaper financing than with stand-alone issues, and countries with the highest creditworthiness, the other way round).

Additionally, if we also consider the increased scale of quantitative easing of monetary policy by the ECB, the European economy, including Poland directly and indirectly, will benefit from a very large, coordinated fiscal and monetary impulse.

**The final amount of the EU Recovery Fund called the ‘Next Generation EU’ (NGEU) stands at EUR 750bn** (see margin table). The deal reduced the overall amount of non-repayable grants and guarantees to EUR 390bn and increased loan facilities to EUR 360bn. The Recovery and Resilience Facility (RRF), the largest part of the grants, amounts to EUR 310bn. 70% of the RRF will be committed in 2021 and 2022, in accordance with the Commission’s original proposal. The remainder will be divided up during 2023, according to the loss in real GDP in 2020 and by the cumulative loss in real GDP observed in 2020-2021.

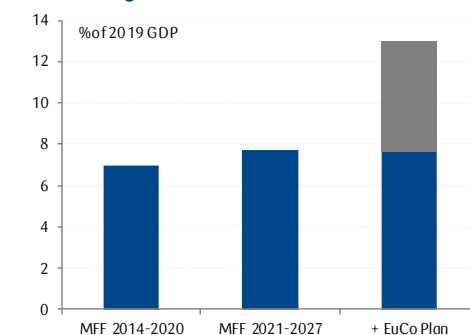
**The allocation for Poland slightly declined vs. the original proposal.** As the funds’ allocation per country is yet to be officially revealed, we have had to estimate the allocation of the NGEU facility based on the information already available (from media and EC/EuCo documents). The allocation of grants and loans for Poland will amount to ca. 5% of 2019 GDP (see margin charts). **The domestic economy is to receive approx. EUR 27bn in grants** (vs 38.5bn previously proposed) **and approx. EUR 30bn in loan instruments, i.e. a total of approx. EUR 57bn.** Together with the ‘traditional’ EU budgets for 2021-27, Poland is to receive EUR 157.7bn funds in gross terms (constant prices). This means that the narrative of the decline in the

### EU multi-year financial frameworks



Source: European Commission, European Council, PKO Bank Polski.

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Source: Eurostat, European Commission, European Council, PKO Bank Polski.

### EU funds overview

EUR bn	MFF2021-27	NGEU 2021-24
Single market, innovation and digital	132.8	10.6
Cohesion, resilience and values	377.8	721.9
Natural resources and environment	356.4	17.5
Migration and border management	22.7	
Resilience, security and defence	13.2	
Neighbourhood and the world	98.4	
European public administration	73.1	
<b>Total</b>	<b>1074.3</b>	<b>750.0</b>

Source: European Commission, European Council, PKO Bank Polski.

EU funds inflow after 2020 has to be shelved for another decade (see chart 1, next page).

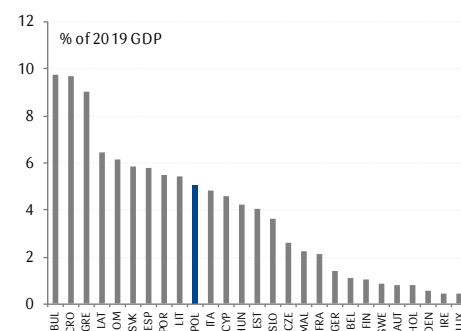
**All-in-all, the new fund means that a total inflow of EU funds to Poland in 2021-2027 (including the 'traditional' EU budget) will be worth approx. 3.1% of projected (PKOe) GDP per year (chart 2, next page), vs. 3.5% in 2014-20. Corrected for the import intensity of the EU spending, total flows will amount to 2.5% of GDP in 2021-27 vs 2.7% of GDP in 2014-20.**

**The distribution of fund absorption over time will slightly differ to 2014-20 or 2007-13.** We have adopted a historical time profile for multi-year budgets including for the major part of RRF facility. For the remaining part of the NGEU we have assumed that it will be absorbed within a four year period starting in 2021, with a gradual acceleration of EU funds inflow over consecutive years (5%, 15%, 40% and 40%, see charts 3 and 4). Given the allocation of these funds will be available later, as the criteria will include the economic outcome of 2020-21, we believe that the funds will be available for use, prior to the formal allocation of the funding. This was also the case in 2014-20 budget, when the *ex-ante* project verification rule was applied and it was possible to make a move with spending even before the official agreement with the Commission was struck. Moreover, we think the use of funds can be, at least initially, more difficult than currently indicated in public discourse. To take advantage of the NGEU immediately, governments must have investment programs at the table that will comply with the recommendations of the European Commission and will have to be accepted by them. In the case of Poland, the government has signaled that it will start negotiating programs with the Commission in early 2021. **As a result we estimate that the peak of the positive impact on the economy will take place in 2023 (see chart 5), with large boost to GDP growth also in 2022 (chart 6).** Further down the line, and as the economy grows bigger, the impact of the EU funds on GDP growth rate should be weaker as their share in GDP will decrease.

**The new wave of EU funds should also have additional positive externalities.** It should translate into an improvement for potential GDP growth and support the maintenance of a good balance of payments situation and a decline in foreign debt to GDP ratio. Last, but by no means least, although the net transfers to individual countries matter a lot, the sheer size of the coordinated stimulus means that the trade channel will work for net exporters (to the EU, including Poland) giving an additional boost to the recovery.

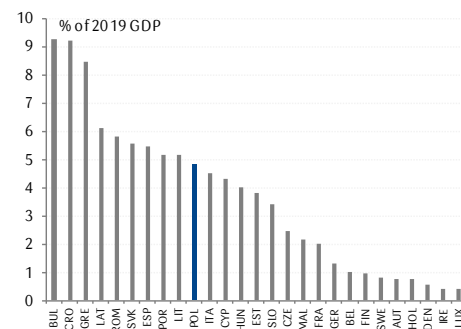
**Finally, there are also some caveats tied to the new EU funds absorption.** Firstly, the treatment of loans – although they will be paid back after 2028, it is not clear if they will be added into public debt statistics (thus pushing debt to GDP ratio towards its legal limits), or consolidated within EU- national government accounts (with an impact on the EC debt only). Secondly, **it is not possible to move with a new, massive public investment program in such a short period of time,** as investment projects usually require preparation period of ca. 2 years (incl. their environment impact assessment, tender and blueprint preparation). Moreover, the construction sector hit maximum capacity in 2019 and now is only ca. 5% lower with its output level. Enhancing its capacity is not easy as it requires more (scarce) labour and other resources. Thirdly, the share of domestic value added in the EU projects may vary from the historical one as the focus of the intervention will be put on digital transition and climate (and not the infrastructure and human capital, as was case in Poland in 2007-13 and 2014-20). And lastly, the allocation tied to the rule of law, which has been watered down recently when the deal was struck, cannot be fully excluded as the deal is not precise in this matter.

### Estimated grants allocation by country



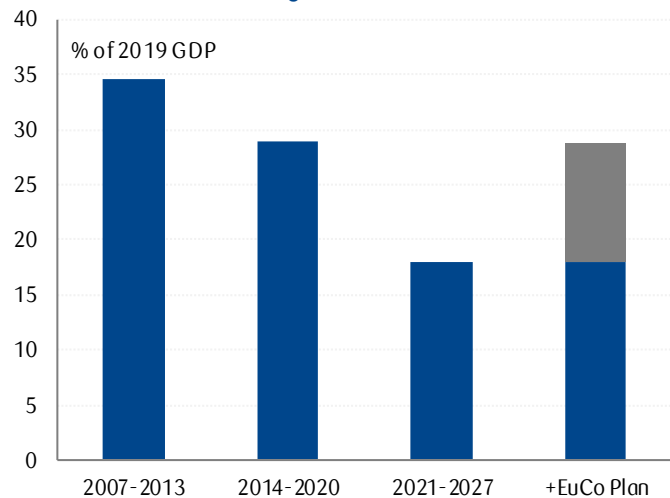
Source: EC, Eurostat, PKO Bank Polski.

### Estimated loans allocation by country^

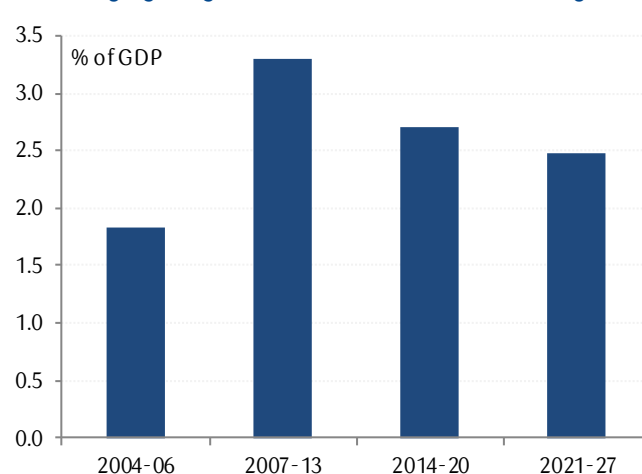


Source: EC, Eurostat, PKO Bank Polski. ^estimated distribution proportionately to grants.

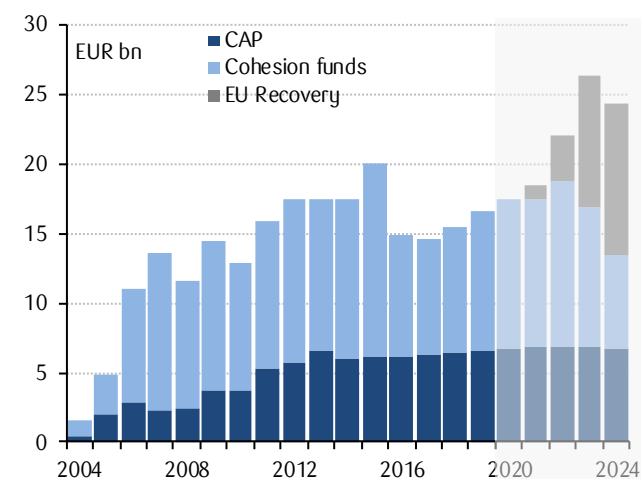
## 1. EU funds for Poland (gross)



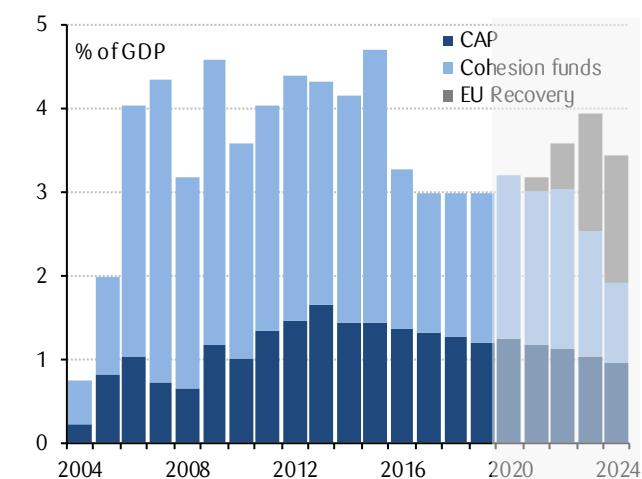
## 2. Average yearly inflow of EU funds to Poland (gross)^



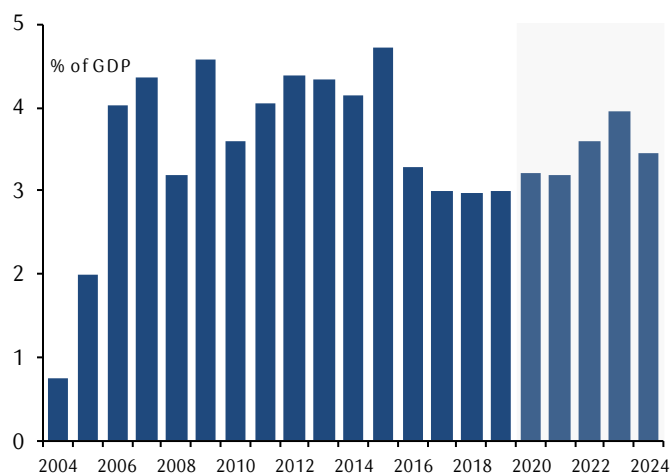
## 3. Estimated distribution of EU funds inflow to Poland



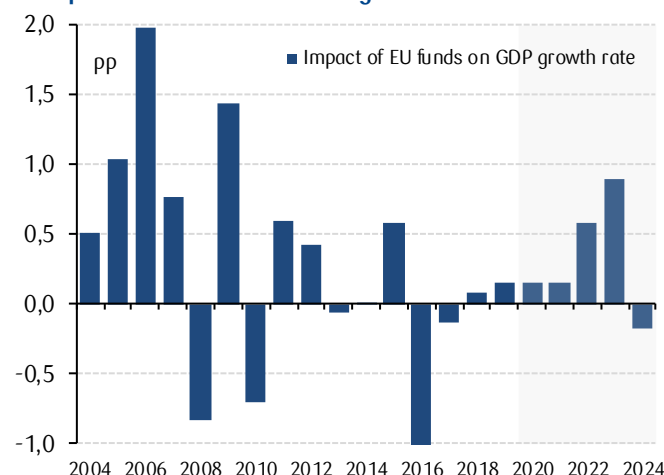
## 4. Estimated distribution of EU funds inflow to Poland



## 5. Estimated distribution of EU funds inflow to Poland



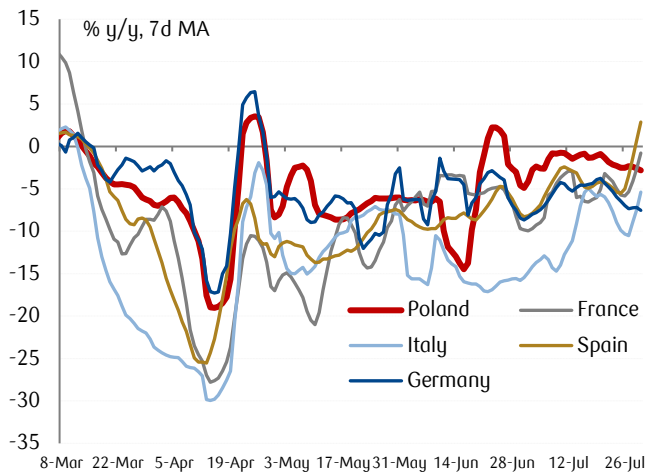
## 6. Impact of EU funds of GDP growth rate



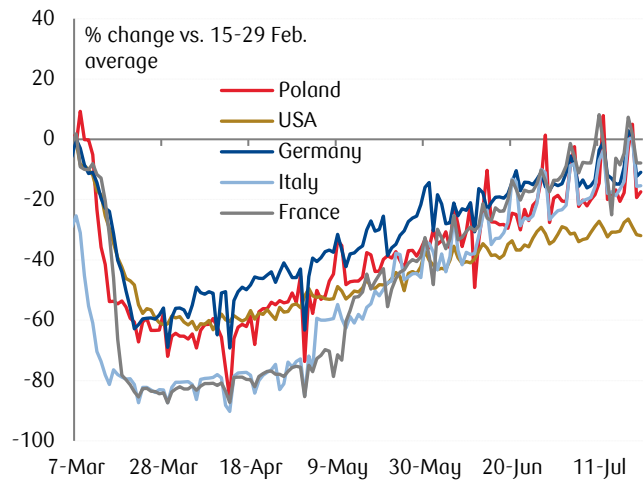
Source: EC, Eurostat, PKO Bank Polski. ^corrected for imports.

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

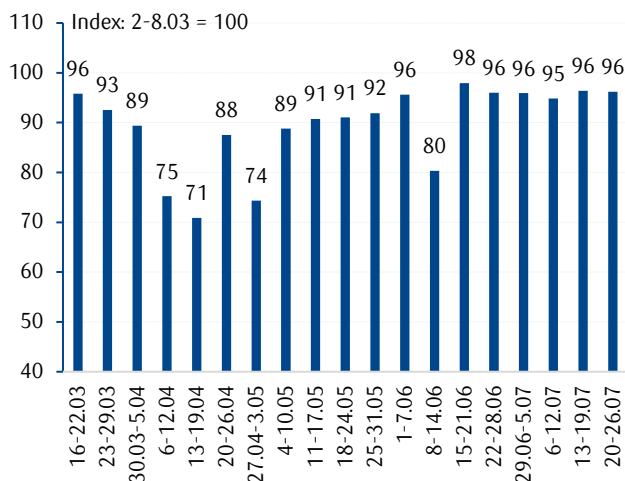
### Electric energy consumption (total)



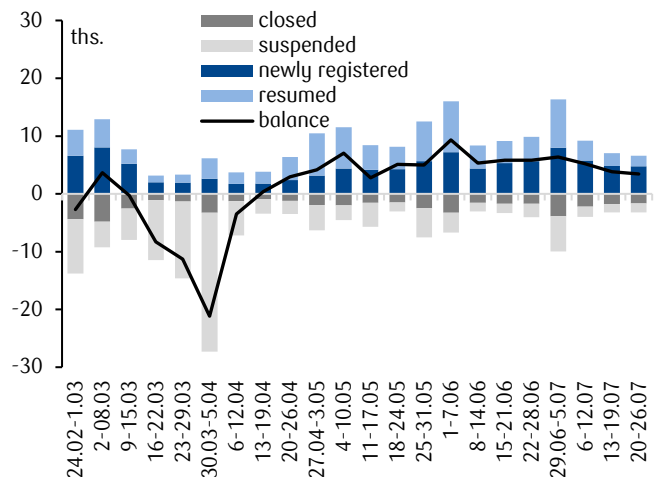
### Mobility\*



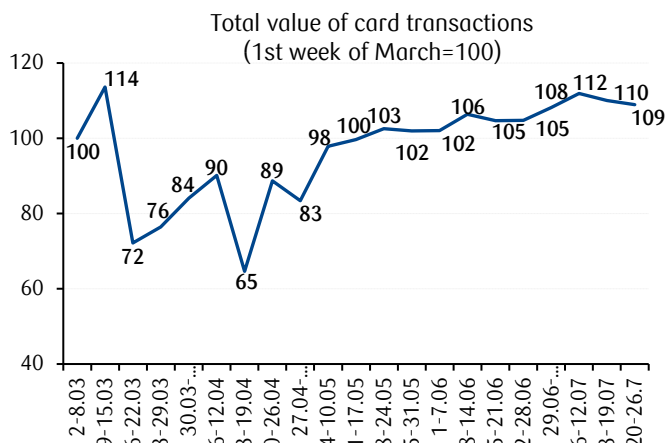
### Heavy truck traffic



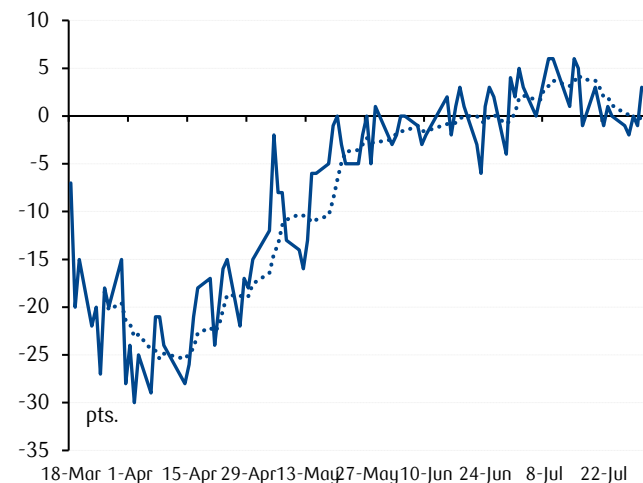
### Economic activity status (acc. to CEiDG\*\*)



### Consumption based on PKO BP card payments



### 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
<b>Monday, 3 August</b>						
CHN: Manufacturing PMI (Jul)	2:45	pts	51.2	51.5	--	--
POL: Manufacturing PMI (Jul)	8:00	pts	47.2	50.3	51.0	Manufacturing PMI in July likely rose above 50pts reflecting growing activity after the end of the lockdown, which in turn follows European peers that have surpassed the neutral threshold of 50pts.
GER: Manufacturing PMI (Jul, final)	8:55	pts	45.2	50.0	--	--
EUR: Manufacturing PMI (Jul, final)	9:00	pts	47.4	51.1	--	--
USA: ISM Manufacturing (Jul)	15:00	pts	52.6	53.6	--	--
<b>Tuesday, 4 August</b>						
EUR: PPI inflation (Jun)	10:00	% y/y	-5.0	--	--	--
USA: Factory orders (Jun)	15:00	% m/m	8.0	5.0	--	--
USA: Durable goods orders (Jun, final)	15:00	% m/m	15.1	7.3	--	--
<b>Wednesday, 5 August</b>						
GER: Services PMI (Jul, final)	8:55	pts	47.3	56.7	--	--
EUR: Services PMI (Jul, final)	9:00	pts	48.3	55.1	--	--
EUR: Retail sales (Jun)	10:00	% y/y	-5.1	--	--	--
USA: ADP National Employment (Jul)	13:15	mln	2.369	2.150	--	--
USA: Trade balance (Jun)	13:30	USD bn	-54.6	-53.7	--	--
<b>Thursday, 6 August</b>						
GER: Factory orders (Jun)	7:00	% m/m	10.4	12.0	--	--
GER: Factory orders (Jun)	7:00	% y/y	-29.3	--	--	--
UK: BoE meeting (Aug)	12:00	%	0.10	0.10	0.10	--
CZE: Central bank meeting (Aug)	13:30	%	0.25	0.25	0.25	--
USA: Initial Jobless Claims (Aug)	13:30	thous.	1434	1499	--	--
<b>Friday, 7 August</b>						
GER: Trade Balance (Jun)	7:00	EUR bn	7.1	--	--	--
GER: Exports (Jun)	7:00	% m/m	9.0	--	--	--
GER: Imports (Jun)	7:00	% m/m	3.5	--	--	--
GER: Industrial production (Jun)	7:00	% m/m	7.8	8.0	--	--
GER: Industrial output (Jun)	7:00	% y/y	-19.3	--	--	--
USA: Non-Farm Payrolls (Jul)	13:30	m	4.8	2.25	--	--
USA: Unemployment Rate (Jul)	13:30	%	11.1	10.3	--	--
USA: Average Earnings (Jul)	13:30	% y/y	5.0	4.5	--	--

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

## Selected economic indicators and forecasts

	May-20	Jun-20	Jul-20	1q20	2q20	3q20	4q20	2019	2020	2021
<b>Economic activity</b>										
Real GDP (% y/y)	x	x	x	2.0	-8.1	-5.6	-3.5	4.1	-3.9	4.1
Domestic demand (% y/y)	x	x	x	1.7	-6.3	-4.7	-4.0	3.0	-3.4	1.9
Private consumption (% y/y)	x	x	x	1.2	-14.5	1.8	-3.5	3.9	-3.7	4.1
Gross fixed capital formation (% y/y)	x	x	x	0.9	-12.8	-19.7	-11.6	7.2	-11.7	0.3
Inventories (pp)	x	x	x	0.0	4.2	-2.2	0.7	-1.4	0.6	-1.1
Net exports (pp)	x	x	x	0.4	-2.1	-1.1	0.3	1.2	-0.6	2.3
Industrial output (% y/y)	-16.9	0.5	0.7	0.9	-13.6	-4.5	-5.5	4.0	-5.8	6.8
Construction output (% y/y)	-5.1	-2.4	-5.1	5.0	-2.8	x	x	3.6	x	x
Retail sales (real, % y/y)	-7.7	-1.3	1.9	0.8	-10.7	x	x	5.4	x	x
Nominal GDP (PLN bn)	x	x	x	552.2	515.9	546.6	627.2	2273	2241	2375
<b>Labour market</b>										
Registered unemployment rate‡(%)	6.0	6.1	6.1	5.4	6.1	8.2	8.1	5.2	8.1	7.5
Employment in enterprises (% y/y)	-3.2	-3.3	-2.9	0.8	-2.0	-2.7	-2.4	2.7	-1.7	-1.3
Wages in enterprises (% y/y)	1.2	3.6	2.9	7.0	2.1	0.7	1.1	6.6	2.7	3.5
<b>Prices^</b>										
CPI inflation (% y/y)	2.9	3.3	3.1	4.5	3.2	2.5	2.5	2.3	3.3	1.8
Core inflation (% y/y)	3.8	4.1	4.2	3.4	3.8	3.1	2.6	1.9	3.2	1.5
15% trimmed mean (% y/y)	3.4	3.5	x	3.4	3.4	x	x	2.0	x	x
PPI inflation (% y/y)	-1.7	-0.8	-0.2	0.2	-1.3	-0.2	0.5	1.2	-0.1	-0.1
<b>Monetary aggregates‡</b>										
Money supply, M3 (PLN bn)	1717.9	1746.2	1769.7	1624.9	1746.2	1713.2	1778.9	1565.6	1783.5	1912.3
Money supply, M3 (% y/y)	16.0	18.1	18.7	11.8	18.1	13.7	13.9	8.3	13.9	7.5
Real money supply, M3 (% y/y)	13.1	14.8	15.6	7.2	14.8	11.2	11.4	4.9	11.4	5.8
Loans, total (PLN bn)	1345.9	1341.1	x	1366.6	1341.1	1373.4	1376.5	1323.7	1376.5	1412.6
Loans, total (% y/y)	4.2	3.1	x	6.5	3.1	3.2	4.0	5.1	4.0	2.6
Deposits, total (PLN bn)	1598.3	1618.7	x	1485.1	1618.7	1609.4	1598.3	1406.6	1598.3	1669.8
Deposits, total (% y/y)	17.3	19.5	x	11.2	19.5	14.5	13.6	8.2	13.6	4.5
<b>Balance of payments</b>										
Current account balance (% GDP)	1.8	2.3	2.2	1.3	2.3	1.0	0.8	0.4	0.8	0.7
Trade balance (%GDP)	0.9	1.2	1.1	0.6	1.2	-0.2	-0.3	0.5	-0.3	-0.2
FDI (% GDP)	1.5	1.9	1.7	1.3	1.9	0.8	1.2	2.2	1.2	1.8
<b>Fiscal policy</b>										
Fiscal balance (% GDP)	x	x	x	x	x	x	x	-0.7	-8.4	-2.5
Public debt (% GDP)	x	x	x	x	x	x	x	46.0	55.2	54.6
<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> (%)	0.28	0.26	0.23	1.17	0.26	0.30	0.30	1.71	0.30	0.30
Real WIBOR 3M <sup>x</sup> (%) <sup>#</sup>	-2.62	-3.04	-2.87	-3.43	-3.04	-2.40	-2.40	-1.69	-3.10	-1.60
<b>Exchange rates*‡</b>										
EUR-PLN	4.45	4.46	4.41	4.55	4.46	4.43	4.50	4.26	4.50	4.40
USD-PLN	4.01	3.98	3.73	4.15	3.98	3.88	4.02	3.80	4.02	3.86
CHF-PLN	4.17	4.18	4.10	4.30	4.18	4.14	4.23	3.92	4.23	4.07
EUR-USD	1.11	1.12	1.18	1.11	1.12	1.14	1.12	1.12	1.12	1.14

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	4.9	"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	"Interest rate cuts have gone too far (...) The MPC should consider gradual start of monetary policy normalization next year" (22.07.2020, Bloomberg)
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	"(...) 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	"In 2021, it will be necessary to consider an interest rate increase, if not at the beginning then certainly in the middle of the year (...) Rates should gradually start to rise to the level of 1.50%, which served the Polish economy well for several years." (31.07.2020, 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 in 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	„We may say that caring for the situation in foreign trade is a durable strategic element of the Polish monetary policy (...) Keeping interest rates at a low level has prevention of zloty becoming too strong as one of its goals" (21.07.2020, Refinitiv, radiomaryja.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

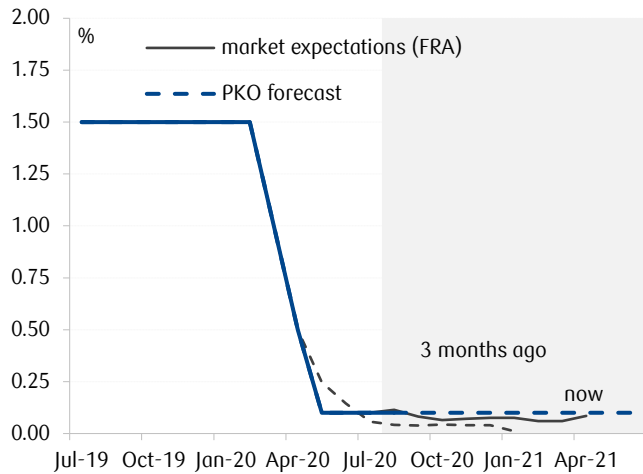
		1M	2M	3M	4M	5M	6M	7M	8M	9M
Date	30-Jul	30-Aug	30-Sep	30-Oct	30-Nov	30-Dec	30-Jan	28-Feb	28-Mar	28-Apr
WIBOR 3M/FRA†	0.23	0.24	0.21	0.20	0.20	0.21	0.21	0.19	0.19	0.22
implied change (b. p.)		0.01	-0.02	-0.04	-0.03	-0.02	-0.03	-0.04	-0.04	-0.02
MPC Meeting	16-Jun	14-Jul	-	9-Sep	7-Oct	4-Nov	2-Dec	-	-	-
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*		0.11	0.08	0.07	0.07	0.08	0.08	0.06	0.06	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.

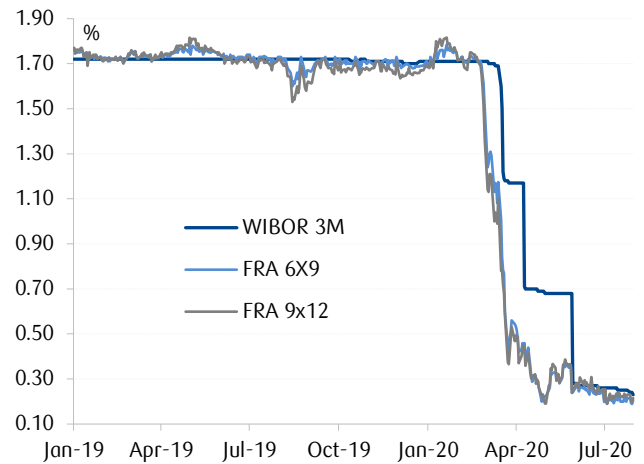


## Poland macro chartbook

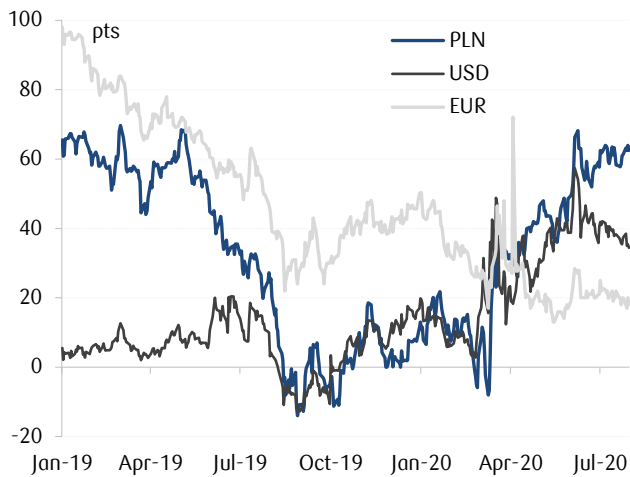
NBP policy rate: PKO BP forecast vs. market expectations



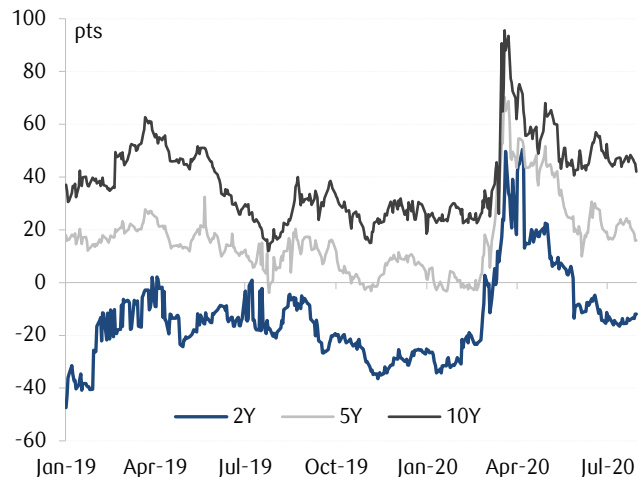
Short-term PLN interest rates



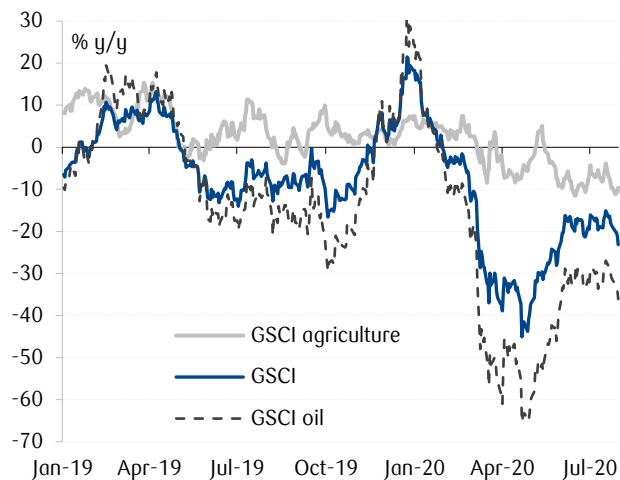
Slope of the swap curve (spread 10Y-2Y)\*



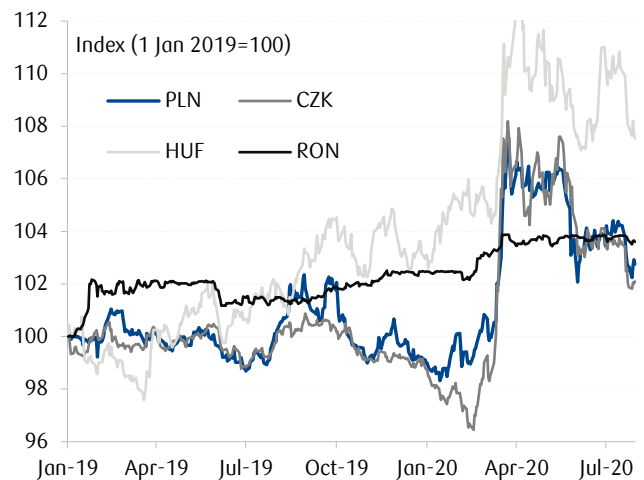
PLN asset swap spread



Global commodity prices (in PLN)

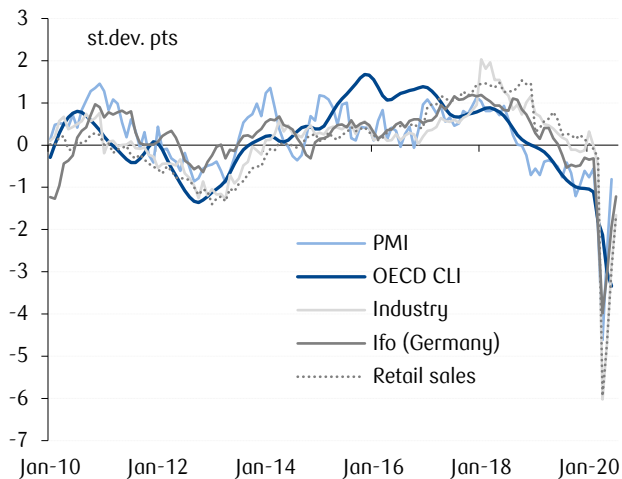


Selected CEE exchange rates against the EUR

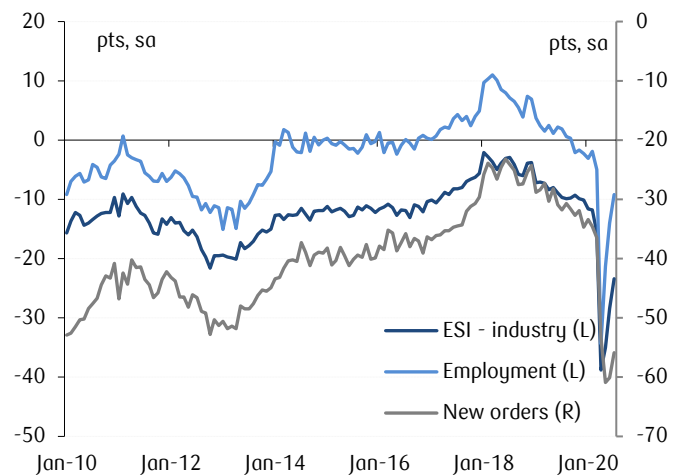


Source: Datastream, NBP, PKO Bank Polski. \*for PLN, and EUR 6M, for USD 3M.

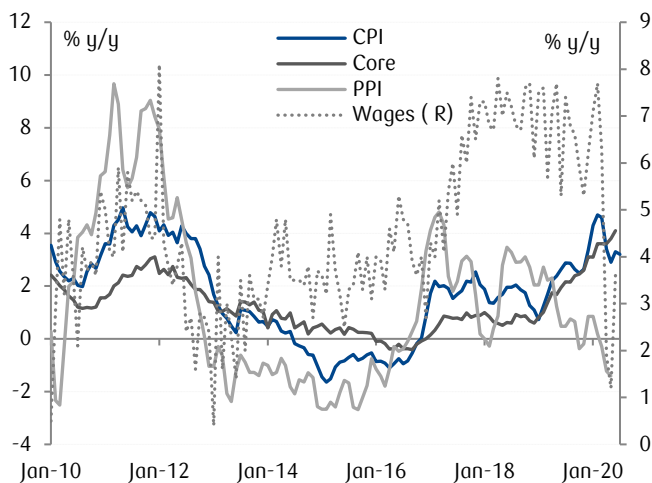
Economic sentiment indicators



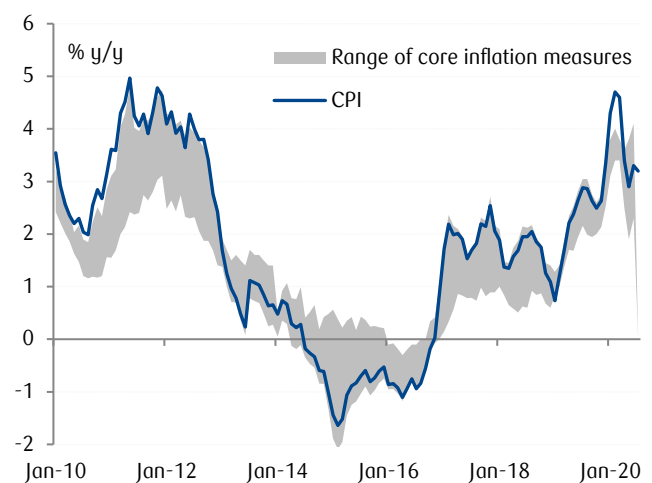
Poland ESI for industry and its components



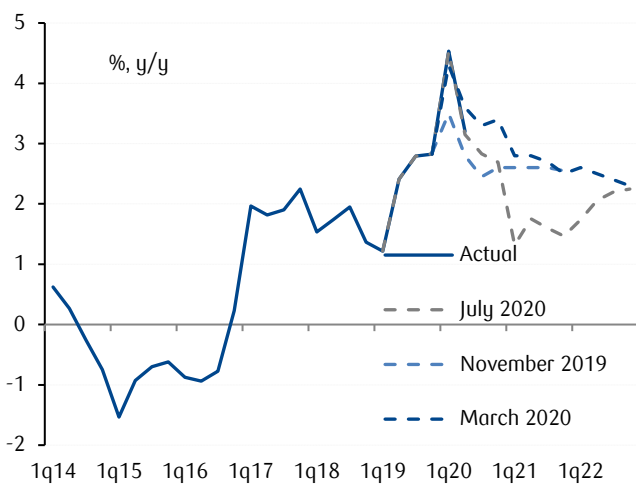
Broad inflation measures



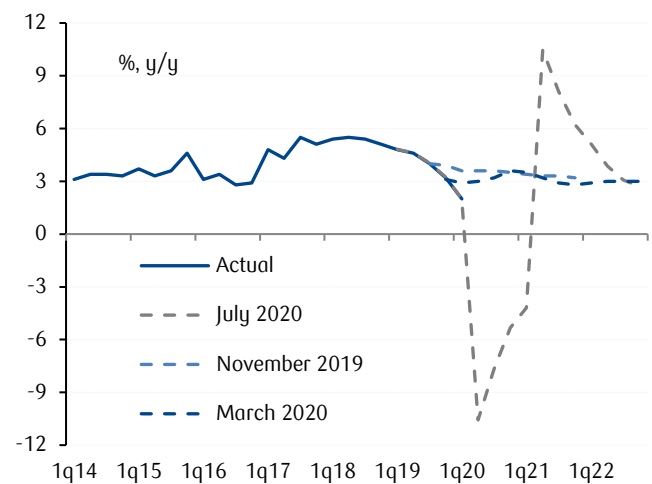
CPI and core inflation measures



CPI inflation - NBP projections vs. actual

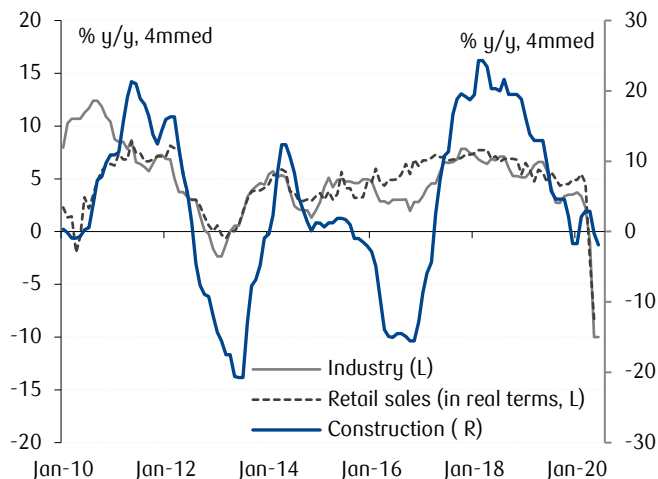


Real GDP growth - NBP projections vs. actual

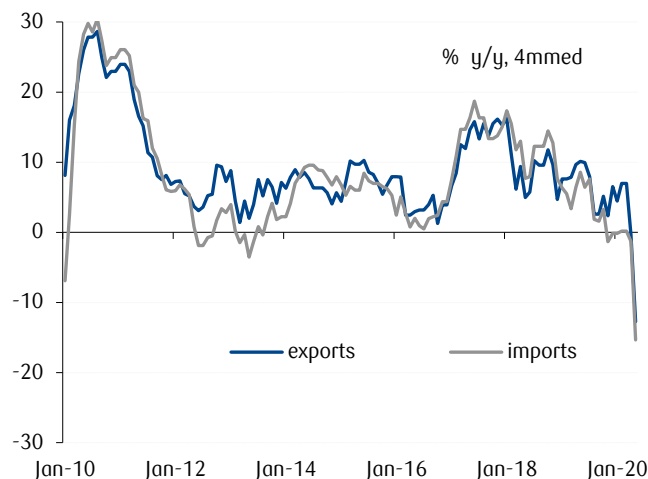


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

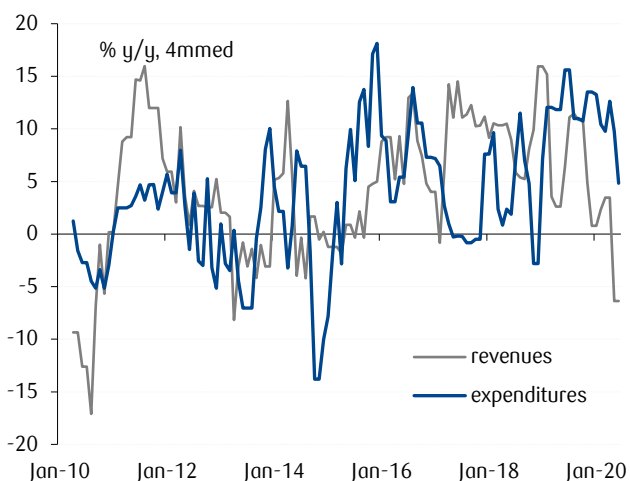
Economic activity indicators



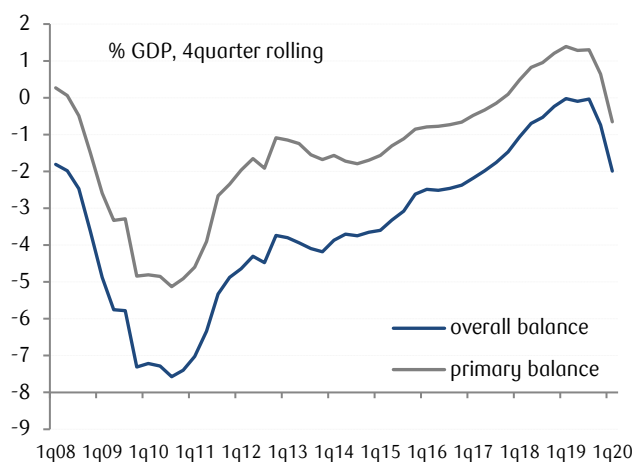
Merchandise trade (in EUR terms)



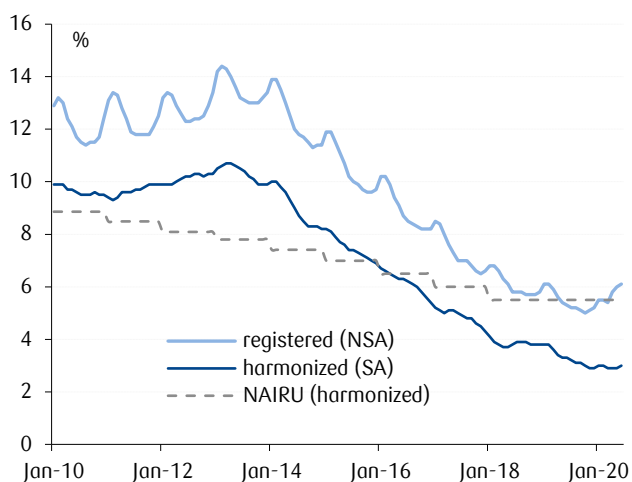
Central government revenues and expenditures\*



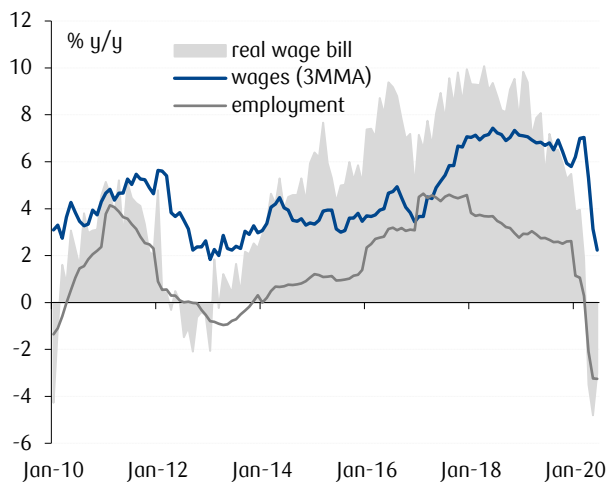
General government balance (ESA2010)



Unemployment rate

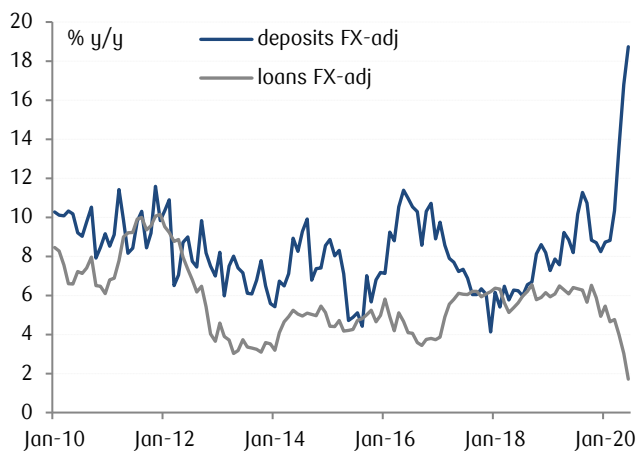


Employment and wages in the enterprise sector

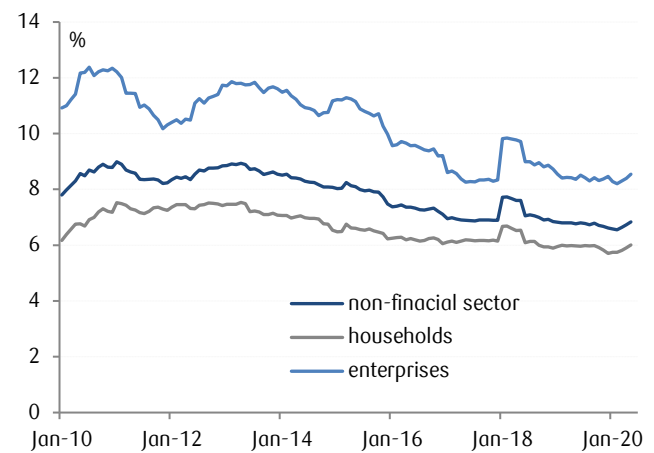


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. \*break in series in 2010 due to methodological changes.

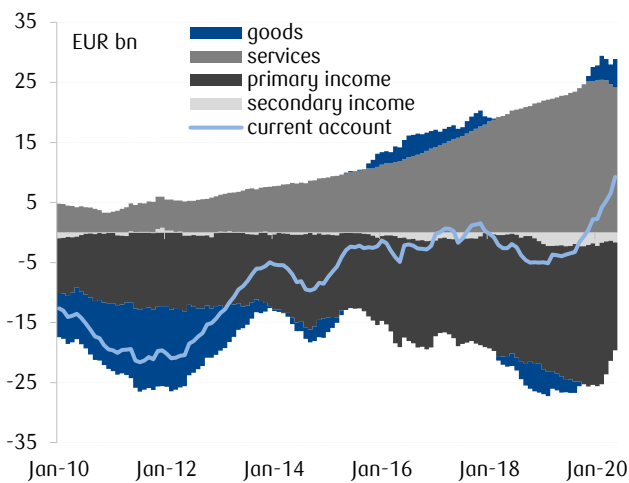
## Loans and deposits



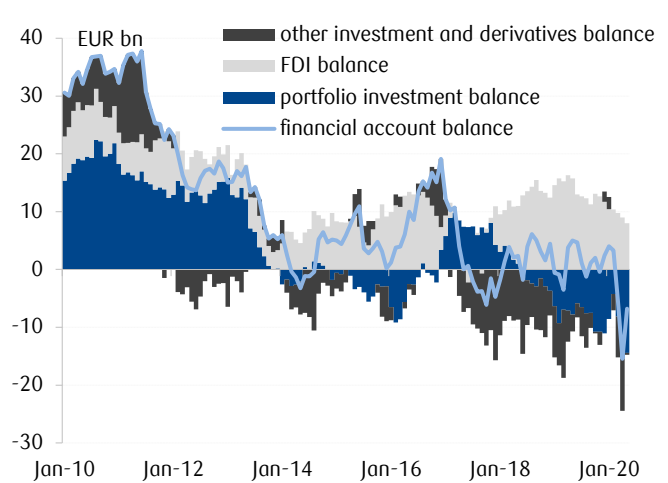
## Non-performing loans (NPLs) - by sectors\*



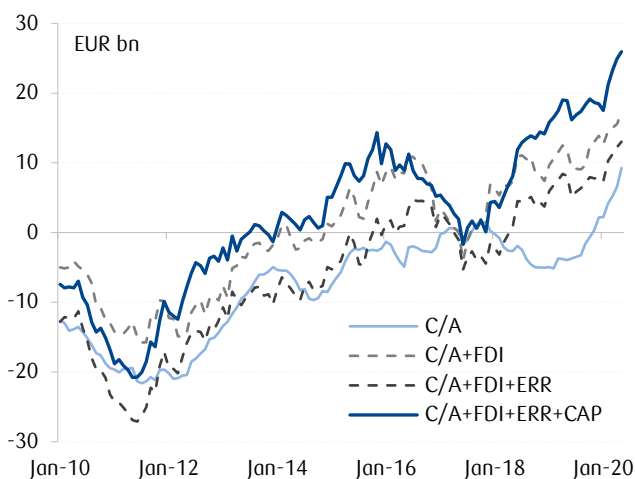
## Current account balance



## 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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- [NBP speaks!](#) (Jul 17, 2020)
- [Presidential runoff](#) (Jul 10, 2020)
- [Consumer prices warm up, housing prices cool down](#) (Jul 3, 2020)
- [Gradual recovery amid polling season](#) (Jun 26, 2020)
- [The worst is over](#) (Jun 19, 2020)
- [EU Recovery Plan: what's in store for Poland?](#) (Jun 5, 2020)
- [Lower bound reached](#) (May 29, 2020)
- [Lockdown recession](#) (May 22, 2020)
- [Not all that glitters is gold](#) (May 15, 2020)
- [27 shades of red](#) (May 8, 2020)
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- [A postcard from a lost world](#) (Apr 17, 2020)
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- [Pandemonics](#) (Mar 13, 2020)
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- [The end of carnival - forecast update](#) (Feb 28, 2020)
- [Strong production, weaker sales](#) (Feb 21, 2020)
- [The MPC's conundrum](#) (Feb 14, 2020)
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- [MPC dampens rate cut expectations](#) (Dec 6, 2019)
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- [Labour market softer as the economy slows down](#) (Nov 22, 2019)
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- [No reason to hike rates \(or to cut them either\)](#) (Oct 4, 2019)
- [Property in Poland still attractive](#) (Sep 27, 2019)

## Poland's macro in a nutshell

	2019	2020	Comment
<b>Real economy</b>			
- real GDP (%)	4.1	-3.9	Despite heavy restrictions introduced in the middle of March, which have pushed many companies to reduce or suspend their production/activity the economy was still growing in 1q20, mainly thanks to its surprisingly strong performance in January and February. Strong policy response, short lock-down and quick unlocking of economic activity, diversity and favourable structure of the economy as well as high competitiveness suggest recession in Poland will be less severe than elsewhere in the EU.
<b>Prices</b>			
- 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).
<b>Monetary aggregates</b>			
- 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.
<b>External balance</b>			
- current account balance (% GDP)	0.5	0.8	A clear reduction of primary income deficit (lower FDI profits and remittances of Ukrainians) should cushion deteriorated trade balance (both in goods and services). Thus, CA surplus will 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	-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.
<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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