

Second wave, double-dip recession?

Top macro theme(s):

- **Labour market defies recession (p. 2):** Poland's labour market has remained relatively healthy so far, despite the lockdown-induced recession. Tentative estimates for September suggest that the registered unemployment rate will stay below 7% at end-2020 (vs. 5.4% before the pandemic), which means yet another downward revision in unemployment forecast.

What else caught our eye:

- **The government announced that the number of 'red' zones will be increased to 38 from 17 a week earlier, whereas the rest of the country would be treated as 'yellow' zone.** Increasing number of cases and deaths as well as the scale of anti-epidemic restrictions so far are consistent with our scenario of a moderate GDP decline in 4q20 (-1/-2% q/q sa). Further, significant deterioration in epidemic situation and more drastic constraints on economic activity (e.g. closure of primary schools) would mean that the balance of risks to our forecast becomes asymmetrical to the downside.
- **The MPC has kept monetary policy unchanged** (key policy rate at 0.10% and no modifications to assets purchases program). The Council acknowledged economic recovery, but pointed out that the second wave of the pandemic increased a negative risk to the outlook. Despite some PLN depreciation, the MPC stated that it would appreciate some more 'lasting' adjustment, meaning that the recent short-lived upward move in EURPLN to nearly 4.60 was not enough. We maintain our base-case scenario of flat rates until at least the end of 2022, but we see a risk of additional easing in the short-term, if growth outlook deteriorates due to the pandemic.
- **S&P has decided to leave Poland's rating unchanged** (A-, stable) with the macroeconomic risks resulting from the pandemic being balanced by solid external and fiscal positions. It has been appreciated that GDP decline in Poland in 2020 is going to be the lowest in the EU. Importantly, **S&P stressed that it could raise the rating**, if (after the shock) the economy returned to solid and stable growth without external imbalances.

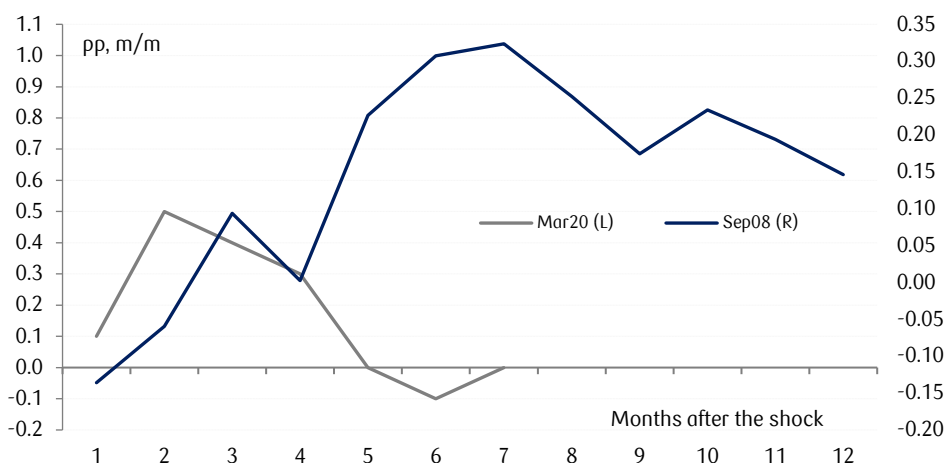
The week ahead:

- Final CPI data for September (likely to confirm a surprising jump in the headline inflation rate to 3.2% y/y seen in flash reading) and balance of payments for August (another C/A surplus) will be in the shadow of epidemic situation.

Number of the week:

- **4739** – new SARS-CoV-2 infections reported on Friday, fresh high.

Chart of the week: Registered unemployment rate changes



Source: GUS, PKO Bank Polski.

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	2019	2020†
Real GDP (%)	4.5	-2.9
Industrial output (%)	4.0	-3.3
Unemployment rate# (%)	5.2	6.4
CPI inflation** (%)	2.3	3.3
Core inflation** (%)	1.9	3.8
Money supply M3 (%)	8.3	13.9
C/A balance (% GDP)	0.5	3.0
Fiscal balance (% GDP)*	-0.7	-11.1
Public debt (% GDP)*	46.0	62.3
NBP reference rate## (%)	1.50	0.10
EURPLN‡	4.26	4.52

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.

Labour market defies recession

- The Poland's labour market remained in a relatively robust health in the five months through August, despite the lockdown - induced recession in the overall economy.
- Relatively muted response in employment to the drop of economic activity, is indicative of labour market rigidity as well as labour hoarding.
- Government job protection initiatives proved effective, and helped to stabilise the unemployment rate after an initial spike in March/April.
- All in all, the labour market hibernated during the fiercest pandemic period and now it awaits the recovery to wake up again.

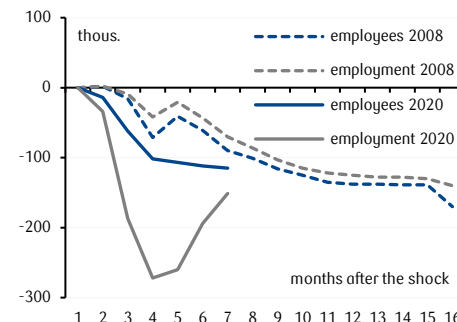
The Poland's labour market remained in a relatively robust health in the five months through August, despite the lockdown - induced recession in the overall economy. Corporate employment growth rate, which was in June the lowest since Dec-03 (-3.3% y/y), has been recovering since then (-1.5% y/y in August) and the pay growth rate - reduced to 1.2% y/y in May - also recorded improvement (4.1% y/y in August). Both corporate employment and wages statistics are based on full-time equivalents, thus overstate the real impact of the pandemic on the labour market. The number of people at work declined between February and August by only 115 thous. (see margin chart; mainly in BPO -19k; retail trade -10k; automotive -10k; HoReCa -6k).

Relatively muted response in employment to the drop of economic activity (in contrast with e.g. GFC in 2008/2009 when you take into account that in 2008/09 Poland avoided recession) is indicative of labour market rigidity. However, the aversion to hiring-and-firing approach by companies does not only reflect the legal arrangements - rules, which make it harder for companies to lay off workers. Having faced significant labour shortages for a prolonged period of time prior to the pandemic outbreak, companies now try to cope with the pandemic shock without losing a valuable labour force. Sentiment surveys' details reveal that problems with hiring qualified staff persist (see margin chart). Other anecdotal evidence against mass firing stems from the Polish Economic Institute (PIE) survey, which found that as for end-August only 7% of companies was planning headcount reductions (compared to 28% in the beginning of April, see margin chart). This is indicative of a labour hoarding approach, as companies most likely expect the pandemic shock to be transitory. Last but not least, existing furlough measures allowed workers to receive salary while temporarily suspended from their duties.

Government job protection initiatives proved effective, and helped to stabilize the unemployment rate after an initial spike in March/April. The first wave of unemployment most likely reflected a high tally of short-term, temporary workers. It is likely that migrants were those who lost their jobs first and most likely left Poland instead of registering for unemployment benefits. The number of registered foreigners in Social Security Fund (FUS) declined until May (by 65 thous.), but the negative trend was interrupted in June (see margin chart). Some safety space for the labour market has been provided by employees who retired, which impinged upon the activity rate (a transition from being employed to being inactive therefore not unemployed).

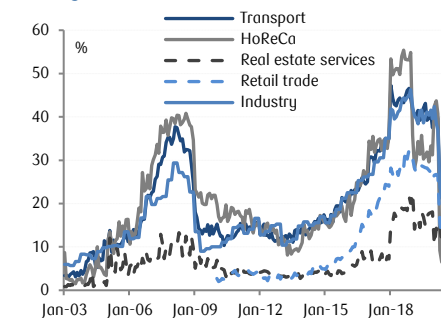
Once furlough measures were introduced, the number of registered unemployed as well as the unemployment rate stopped rising. According to the fresh MinLab estimates, the unemployment rate stood still in September at 6.1% for a fourth month in a row. The number of unemployed dropped in September for a second month in a row. Retention of labour was also induced by the anti-crisis measures,

Employment (FTEs) and employees (headcount): 2020 vs 2008/09 (GFC)



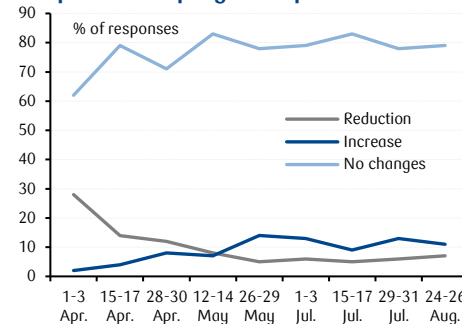
Source: GUS, PKO Bank Polski.

% of companies having problems with hiring



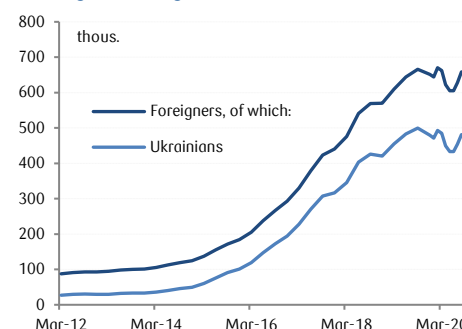
Source: GUS, PKO Bank Polski.

Corporate employment plans



Source: PIE, PKO Bank Polski.

Foreigners registered in FUS



Source: ZUS, PKO Bank Polski.

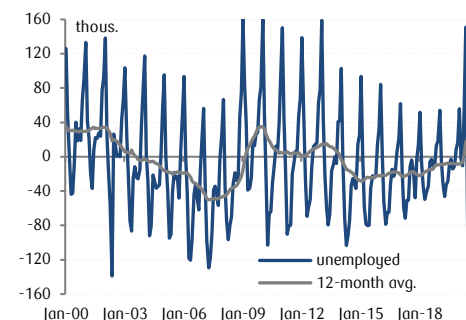
including (besides the above-mentioned furlough) the reduction of working time, additional child benefit for parents of children under nine years old. These were short-term measures which have already almost fully expired in August-September. Therefore September was an important milestone for the local labour market expressing its strength supported by long-term job protection measures. Indeed, **employment numbers were also a prerequisite for the Polish Development Fund's (PDF) 'Financial Shield'**.

For sole proprietors, it was envisaged that the subsidies from the PDF may be redeemed up to 75% at the end of the 12-th calendar month from the date of loan payment on the following terms: 25% of the subsidy is non-returnable, provided that the activity is continued within 12 months of its granting, an additional **50% of the subsidy is non-returnable depending on the level of maintenance of the average employment over a period of 12 months**. In the event of job cuts, the subsidy payback percentage is correspondingly higher, which is a strong incentive for beneficiaries to keep jobs. Similar conditions are applied with respect to **SMEs**. **The PDF's loan may be redeemed up to 75% at the end of the 12th calendar month from the date of payment of the loan on the following terms: 25% on a going concern condition, 25% depending on the loss on sales incurred by the enterprise and additionally, 25%, depending on the maintenance of average employment over a period of 12 months**. Therefore **labour count in a 12-month horizon is an important appetizer to keep it unchanged**.

All in all, a falling number of registered unemployed (for a second month in a row, by 3.3 thous. in Sept., see margin chart), falling numbers of initial jobless claims (see margin chart), unemployed who found jobs and falling vacancies (see bottom charts) indicate that **the labour market hibernated during the fiercest pandemic period and now it awaits the recovery to wake up again**. Given a hibernating labour market we revise down our unemployment rate forecasts for end-2020 and end-2021 to 6.4% and 5.4%, respectively (from 7.4% and 6.6%) with a peak unemployment rate penciled in Jan-Feb 2021 at 6.6%. The scale of the increase in unemployment will also be reduced by the deactivation typical of crisis periods and reinforced by the pandemic, but also by an escape to the shadow economy.

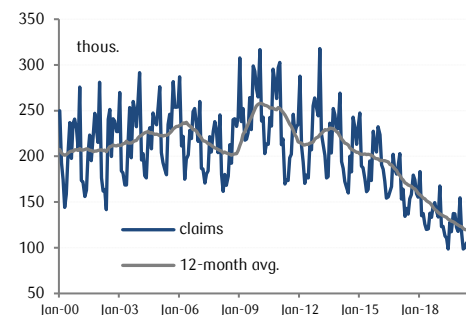
Last but not least, it is also likely, that employees are more prone to accept lower pay rise/or even salary reductions given a slightly elevated level of group firings. The vacancies ratio suggests that wage pressure, still very high at the start of the pandemic, has eased down in markedly.

Change in the number of unemployed



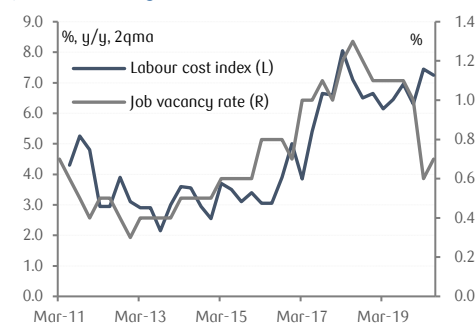
Source: GUS, PKO Bank Polski.

Initial jobless claims



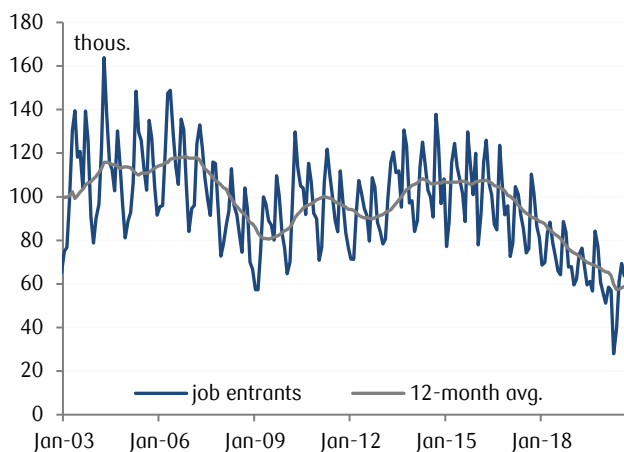
Source: GUS, PKO Bank Polski.

Job vacancy ratio vs labour costs



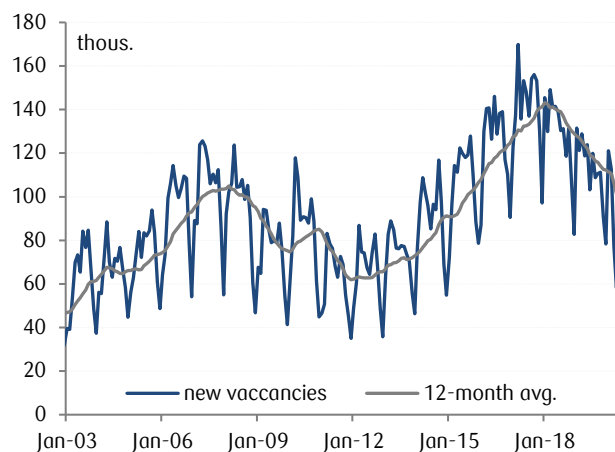
Source: Eurostat, PKO Bank Polski.

Unemployed who found jobs



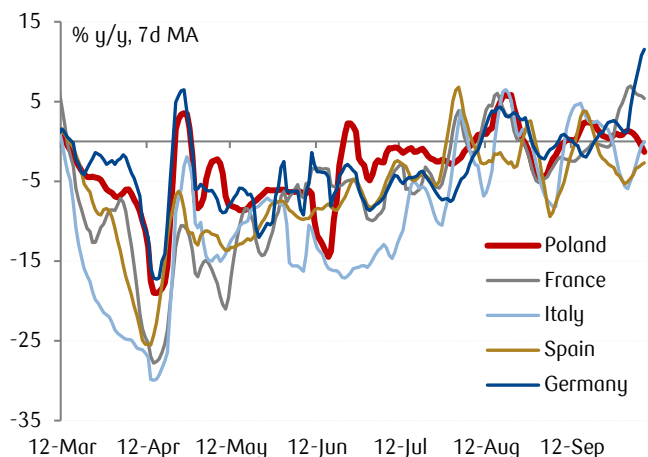
Source: GUS, PKO Bank Polski.

Number of new vacancies

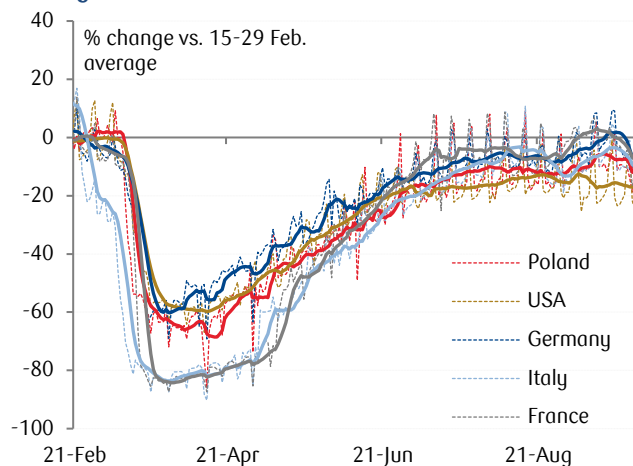


Macro monitoring with alternative data[^]

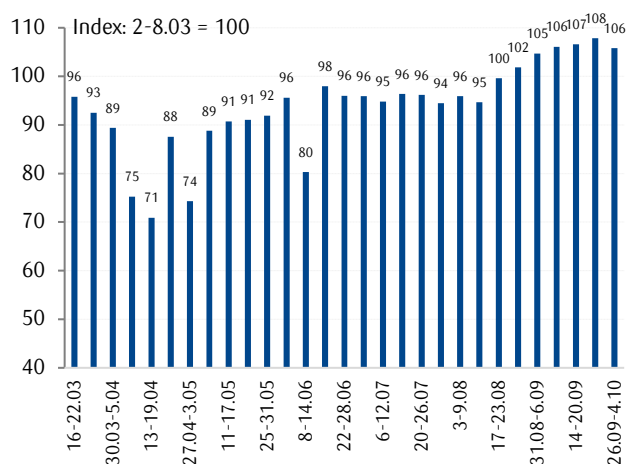
Electric energy consumption (total)



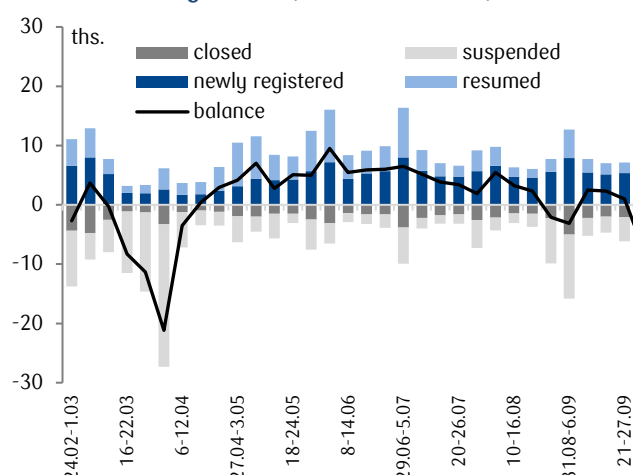
Mobility*



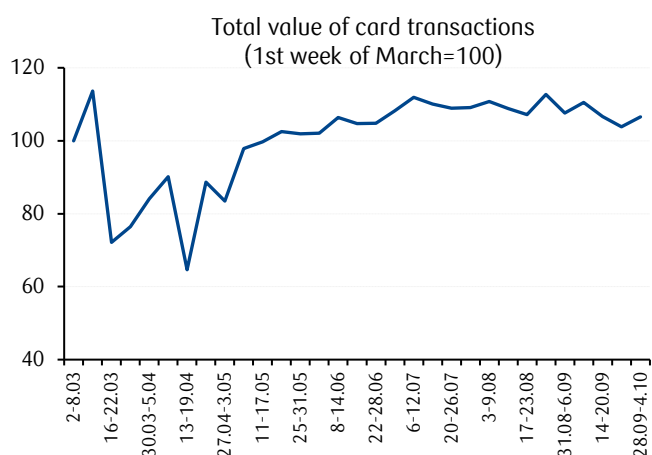
Heavy truck traffic



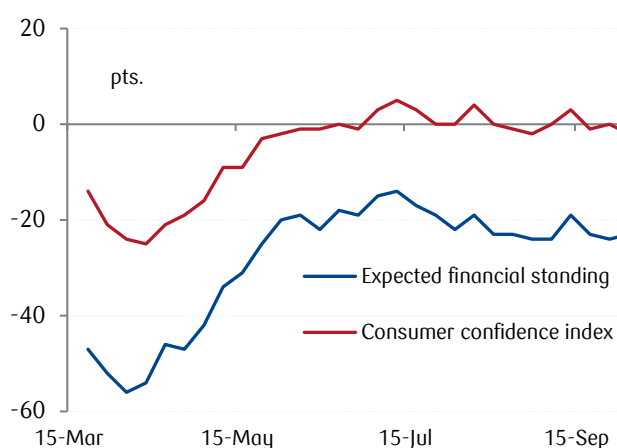
Economic activity status (acc. to CEiDG**)



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
Monday, 12 October						
CZE: CPI inflation (Sep)	8:00	% y/y	3.3	3.5	--	--
Tuesday, 13 October						
GER: HICP inflation (Sep, final)	7:00	% y/y	-0.1	-0.4	--	--
GER: CPI inflation (Sep, final)	7:00	% y/y	0.0	-0.2	--	--
GER: ZEW Economic Sentiment (Oct)	10:00	pts.	77.4	72.5	--	--
USA: CPI inflation (Sep)	13:30	% y/y	1.3	1.4	--	--
USA: Core inflation (Sep)	13:30	% y/y	1.7	1.8	--	--
Wednesday, 14 October						
EUR: Industrial production (Aug)	10:00	% y/y	-7.7	7.2	--	--
POL: Current account balance (Aug)	13:00	bn EUR	1.590	1.200	0.736	We expect a further improvement in trade growth rates in line with rebounding external and internal demand. C/A will post the 12 th consecutive monthly surplus.
POL: Exports (Aug)	13:00	% y/y	2.1	3.5	3.0	
POL: Imports (Aug)	13:00	% y/y	-4.8	-1.6	-1.1	
USA: PPI inflation (Sep)	13:30	% y/y	-0.2	0.2	--	--
Thursday, 15 October						
CHN: PPI inflation (Sep)	2:30	% y/y	-2.0	-1.9	--	--
CHN: CPI inflation (Sep)	2:30	% y/y	2.4	2.0	--	--
POL: CPI inflation (Sep, final)	9:00	% y/y	2.9	3.2	3.2	Final print will likely confirm the unexpected increase of the headline inflation rate, due to a rebound in fuel prices and core inflation.
USA: Initial Jobless Claims (Oct)	13:30	thous.	840	--	--	--
Friday, 16 October						
EUR: Trade balance (Aug)	10:00	bn EUR	20.3	--	--	--
EUR: HICP inflation (Sep, final)	10:00	% y/y	-0.2	-0.3	--	--
EUR: Core inflation (Sep, final)	10:00	% y/y	0.4	0.2	--	--
POL: Core inflation (Sep)	13:00	% y/y	4.00	3.9	4.2	Core inflation might have increased, proving that weaker demand during the pandemic did not have that much of an impact on price dynamics.
USA: Retail sales (Sep)	13:30	% m/m	0.6	0.7	--	--
USA: Retail sales excl. autos (Sep)	13:30	% m/m	0.7	0.4	--	--
USA: Industrial production (Sep)	14:15	% m/m	0.4	0.7	--	--
USA: University of Michigan sentiment (Oct, flash)	15:00	pts.	80.4	80.5	--	--

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

Selected economic indicators and forecasts

	Jul-20	Aug-20	Sep-20	1q20	2q20	3q20	4q20	2019	2020	2021
Economic activity										
Real GDP (% y/y)	x	x	x	2.0	-8.2	-1.9	-3.3	4.1	-2.9	4.3
Domestic demand (% y/y)	x	x	x	1.7	-9.5	-2.2	-3.9	3.0	-3.5	4.5
Private consumption (% y/y)	x	x	x	1.2	-10.9	2.2	-2.0	3.9	-2.3	4.3
Gross fixed capital formation (% y/y)	x	x	x	0.9	-10.9	-7.4	-4.3	7.2	-5.6	3.7
Inventories (pp)	x	x	x	0.0	-1.7	-2.8	-2.2	-1.4	-1.7	0.5
Net exports (pp)	x	x	x	0.4	0.8	0.2	0.3	1.2	0.4	0.1
Industrial output (% y/y)	1.1	1.5	4.0	0.9	-13.6	2.0	-2.3	4.0	-3.3	7.3
Construction output (% y/y)	-10.9	-12.1	-9.5	5.0	-2.8	x	x	3.6	x	x
Retail sales (real, % y/y)	3.0	0.5	-0.7	0.8	-10.7	x	x	5.4	x	x
Nominal GDP (PLN bn)	x	x	x	552.2	524.9	567.3	628.3	2274	2263	2404
Labour market										
Registered unemployment rate‡(%)	6.1	6.1	6.1	5.4	6.1	6.1	6.4	5.2	6.4	5.4
Employment in enterprises (% y/y)	-2.3	-1.5	-1.1	0.8	-2.0	-1.6	-2.4	2.7	-1.6	1.0
Wages in enterprises (% y/y)	3.8	4.1	4.4	7.0	2.1	4.1	3.9	6.6	4.3	4.7
Prices^										
CPI inflation (% y/y)	3.0	2.9	3.2	4.6	3.2	3.0	2.4	2.3	3.3	1.9
Core inflation (% y/y)	4.3	4.0	4.3	3.4	3.8	4.2	3.8	1.9	3.8	1.7
15% trimmed mean (% y/y)	3.3	3.2	x	3.4	3.4	x	x	2.0	x	x
PPI inflation (% y/y)	-0.6	-1.2	-1.5	0.2	-1.3	-1.1	0.7	1.2	-0.3	1.9
Monetary aggregates‡										
Money supply, M3 (PLN bn)	1740.8	1744.1	1750.6	1624.9	1746.2	1750.6	1778.9	1565.6	1778.9	1912.3
Money supply, M3 (% y/y)	16.8	16.2	16.2	11.8	18.1	16.2	13.9	8.3	13.9	7.5
Real money supply, M3 (% y/y)	13.8	13.3	13.0	7.2	14.8	13.0	11.4	4.9	10.6	5.6
Loans, total (PLN bn)	1330.5	1331.2	1342.3	1366.6	1341.1	1342.3	1353.2	1323.7	1353.2	1417.1
Loans, total (% y/y)	1.4	0.3	0.8	6.5	3.1	0.8	2.2	5.1	2.2	4.7
Deposits, total (PLN bn)	1611.3	1615.9	1619.2	1485.1	1618.7	1619.2	1609.9	1406.6	1609.9	1683.7
Deposits, total (% y/y)	17.4	15.5	15.2	11.2	19.5	15.2	14.5	8.2	14.5	4.6
Balance of payments										
Current account balance (% GDP)	2.8	2.9	2.8	1.1	2.3	2.8	3.0	0.4	3.0	2.6
Trade balance (%GDP)	1.7	1.8	1.7	0.4	1.2	1.7	2.2	0.5	2.2	1.7
FDI (% GDP)	1.5	1.3	1.3	1.4	1.6	1.3	1.4	2.2	1.4	1.8
Fiscal policy										
Fiscal balance (% GDP)	x	x	x	x	x	x	x	-0.7	-11.1	-4.4
Public debt (% GDP)	x	x	x	x	x	x	x	46.0	62.3	63.0
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 ^x (%)	0.23	0.23	0.23	1.17	0.26	0.22	0.25	1.71	0.25	0.25
Real WIBOR 3M ^x (%) [#]	-2.77	-2.67	-2.67	-3.43	-3.04	-2.78	-2.15	-1.69	-3.05	-1.65
Exchange rates*‡										
EUR-PLN	4.41	4.40	4.53	4.55	4.46	4.53	4.52	4.26	4.52	4.40
USD-PLN	3.72	3.73	3.87	4.15	3.98	3.87	3.90	3.80	3.90	3.67
CHF-PLN	4.09	4.10	4.19	4.30	4.18	4.19	4.22	3.92	4.22	4.04
EUR-USD	1.18	1.19	1.17	1.11	1.12	1.17	1.16	1.12	1.16	1.20

Source: GUS, NBP, PKO Bank Polski.

^xPKO 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	"Let's keep the ultra-low rate for a while. But then, in mid-2021, let's consider gradually returning it toward 1.5% " (30.09.2020, Bloomberg).
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	"Although the worst is behind us, in the coming quarters we still need to support the economy and to keep accommodative monetary policy. The economic activity is still below the potential, unemployment is higher than before the crisis and further progress in the economic recovery could be more difficult to achieve than to date. (...) At the current level of interest rates, banks do not encounter limitations in developing lending." (18.09.2020, Dziennik Gazeta Prawna daily).
J. Zyzynski	1.9	"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	"In my opinion, the level of interest rates should remain at their current level to the end of the term of the current Monetary Policy Council (...) I don't rule out that should a significant threat of strong decline in consumer moods arise, it would be possible that I would submit a motion for a reduction in interest rates of our central bank" (07.09.2020, PAP, Refinitiv)

*the higher the indicator the more hawkish views. Due to the fact that the new MPC has not voted yet on interest rates changes, the positioning has been made based positively on PAP survey conducted among economists at banks in Poland (scale 1-5).

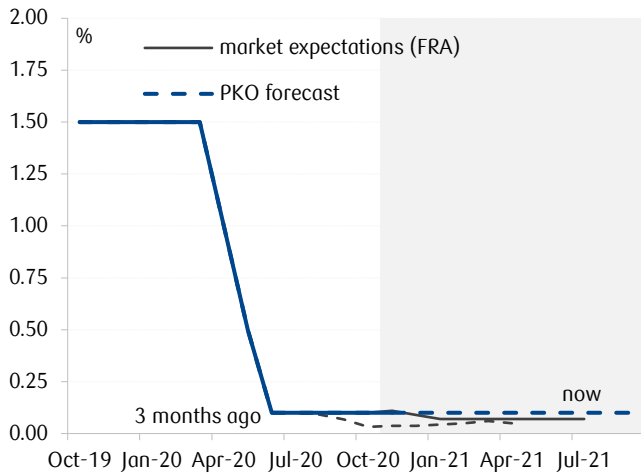
Interest rates – PKO BP forecasts vs. market expectations

	1M	2M	3M	4M	5M	6M	7M	8M	9M	
Date	8-Oct	8-Nov	8-Dec	8-Jan	8-Feb	8-Mar	8-Apr	8-May	8-Jun	8-Jul
WIBOR 3M/FRA†	0.22	0.23	0.21	0.19	0.19	0.19	0.19	0.19	0.19	0.19
implied change (b. p.)		0.01	-0.01	-0.03	-0.03	-0.03	-0.03	-0.03	-0.03	-0.03
MPC Meeting	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	0.09	0.07	0.07	0.07	0.07	0.07	0.07	0.07

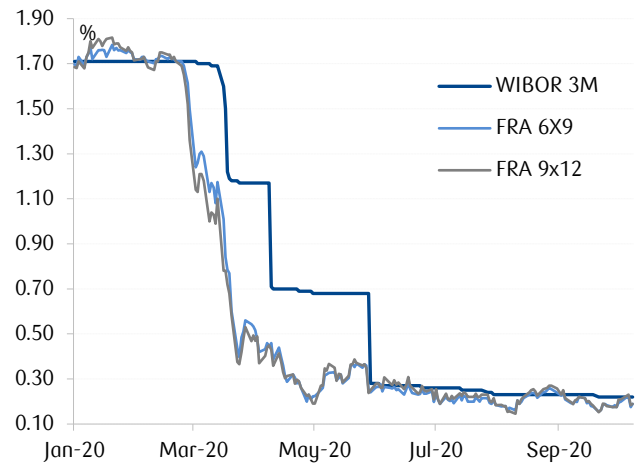
†WIBOR 3M from the last fixing, FRA transactions based on WIBOR 3M for subsequent periods, ‡in basis points, *PKO BP forecast of the NBP reference rate.

Poland macro chartbook

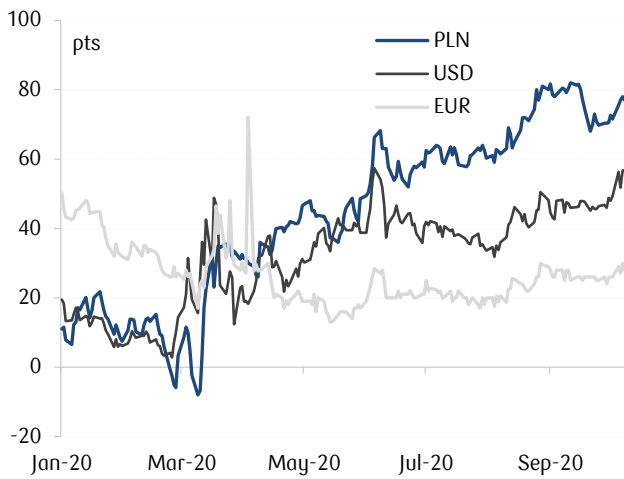
NBP policy rate: PKO BP forecast vs. market expectations



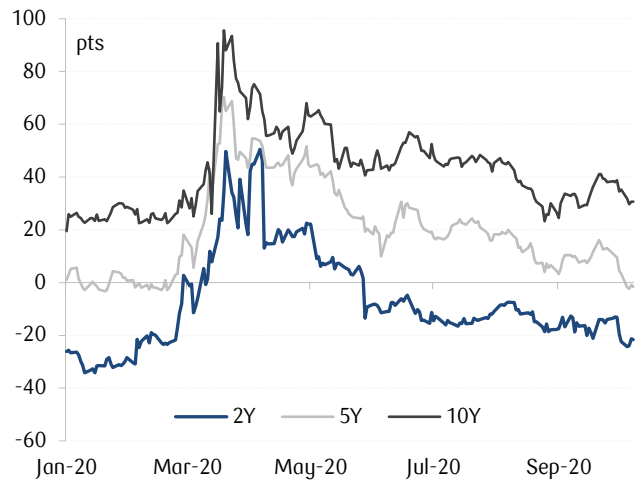
Short-term PLN interest rates



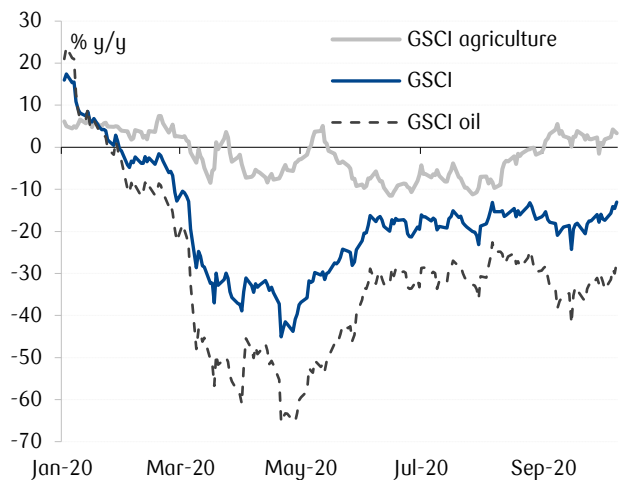
Slope of the swap curve (spread 10Y-2Y)*



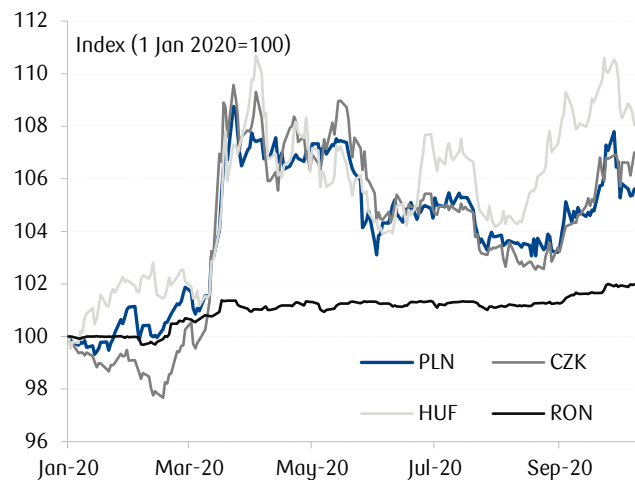
PLN asset swap spread



Global commodity prices (in PLN)

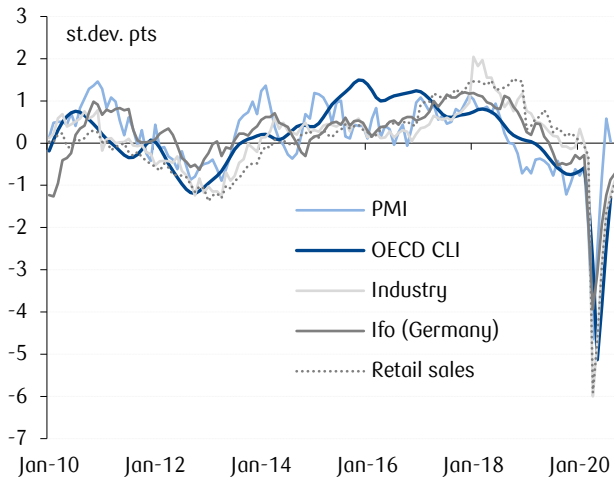


Selected CEE exchange rates against the EUR

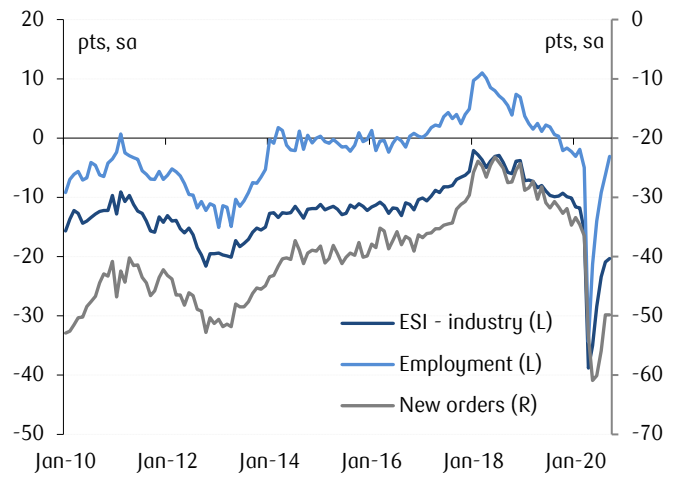


Source: Datastream, NBP, PKO Bank Polski. *for PLN, and EUR 6M, for USD 3M.

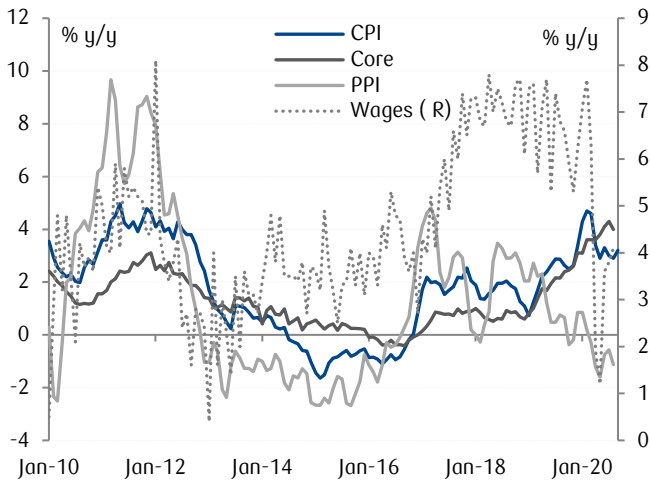
Economic sentiment indicators



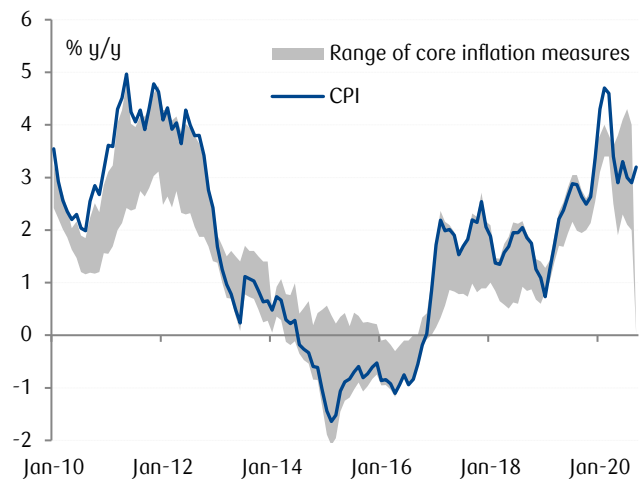
Poland ESI for industry and its components



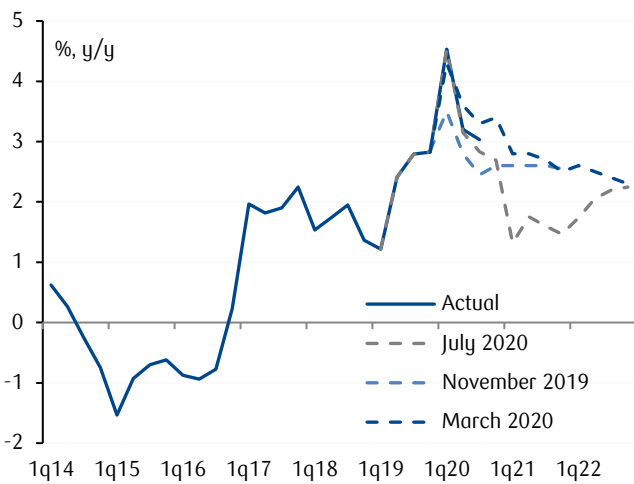
Broad inflation measures



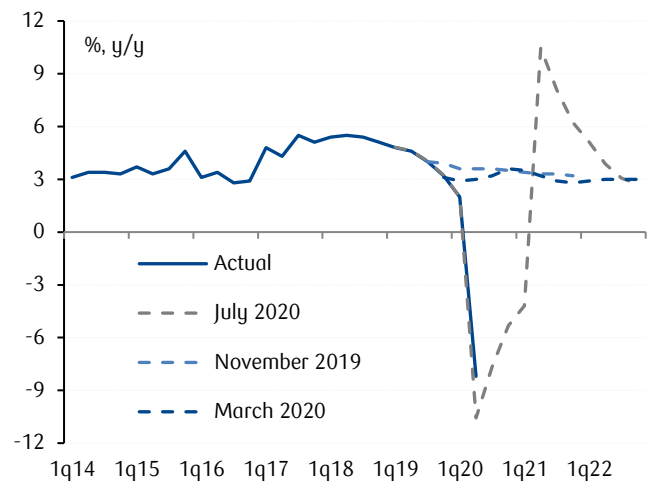
CPI and core inflation measures



CPI inflation - NBP projections vs. actual

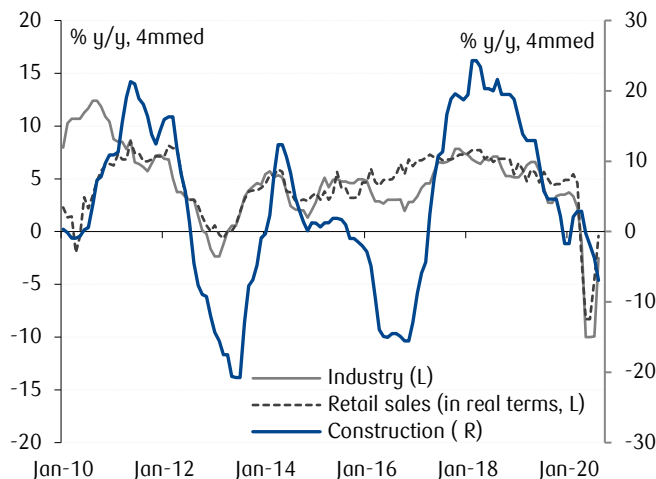


Real GDP growth - NBP projections vs. actual

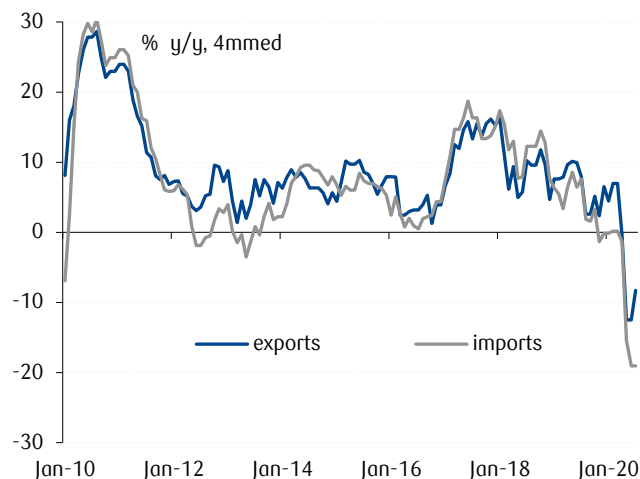


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

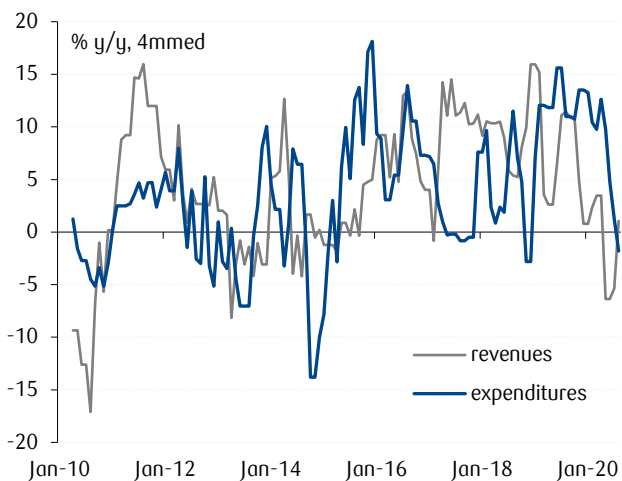
Economic activity indicators



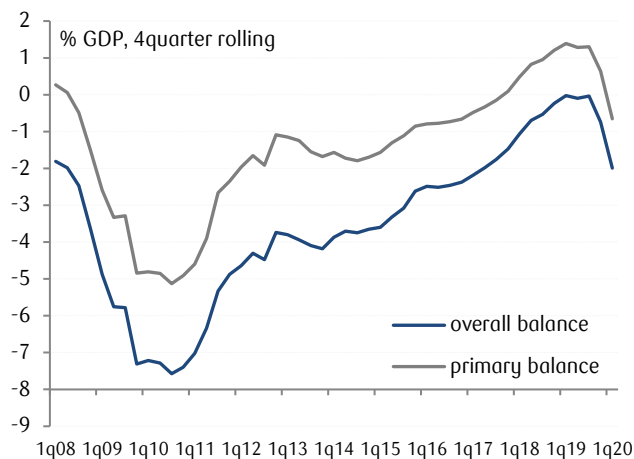
Merchandise trade (in EUR terms)



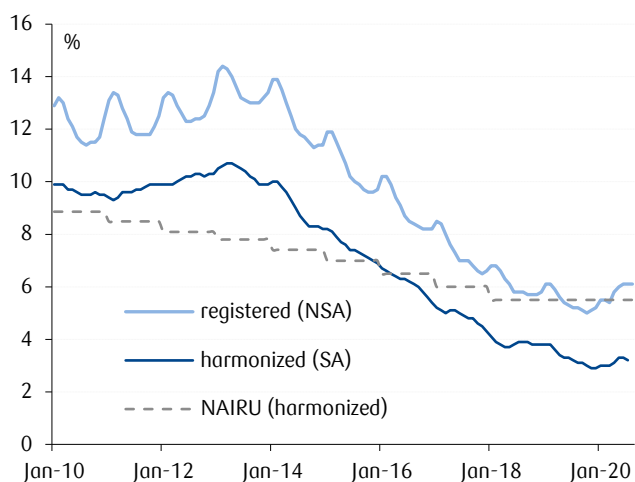
Central government revenues and expenditures*



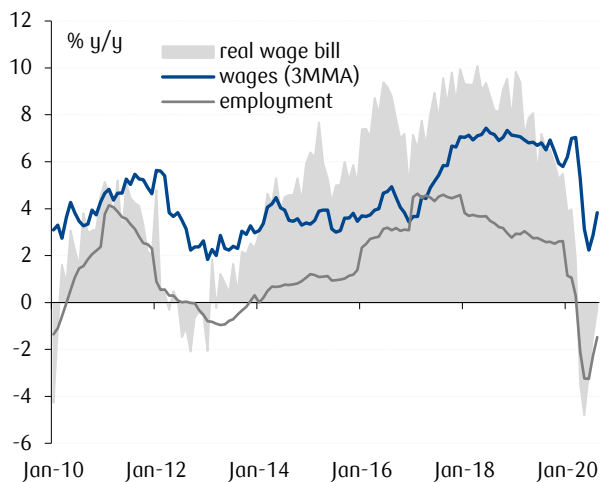
General government balance (ESA2010)



Unemployment rate

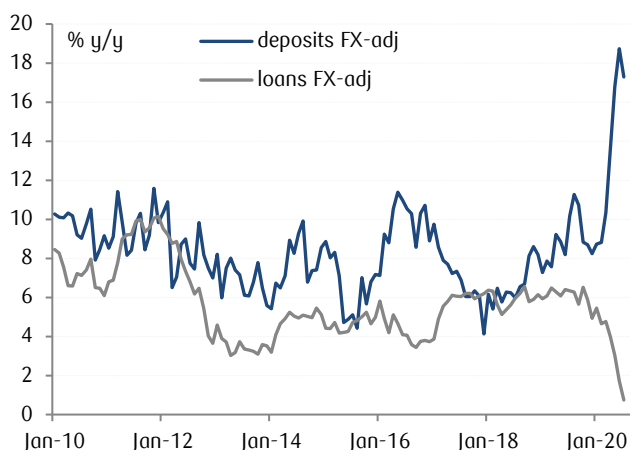


Employment and wages in the enterprise sector

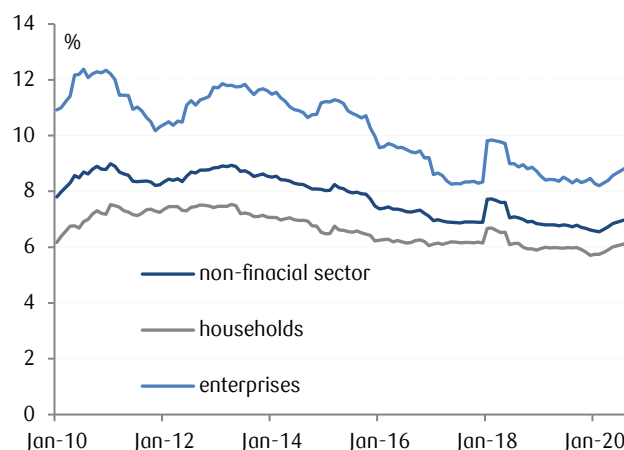


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. *break in series in 2010 due to methodological changes.

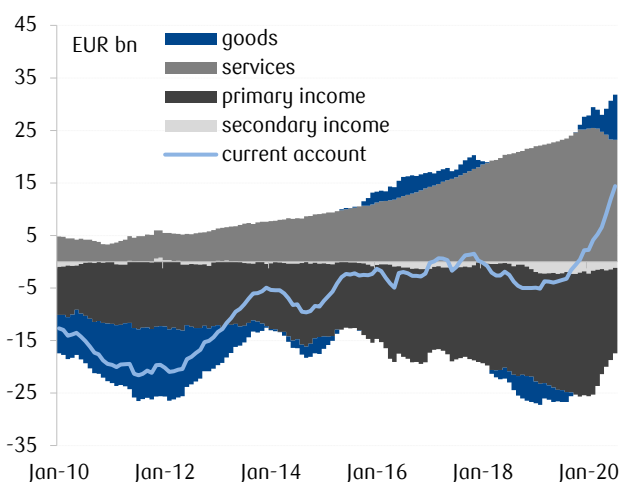
Loans and deposits



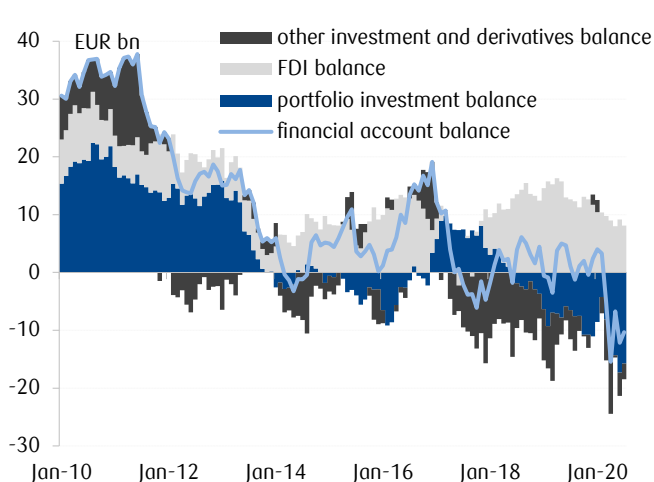
Non-performing loans (NPLs) - by sectors*



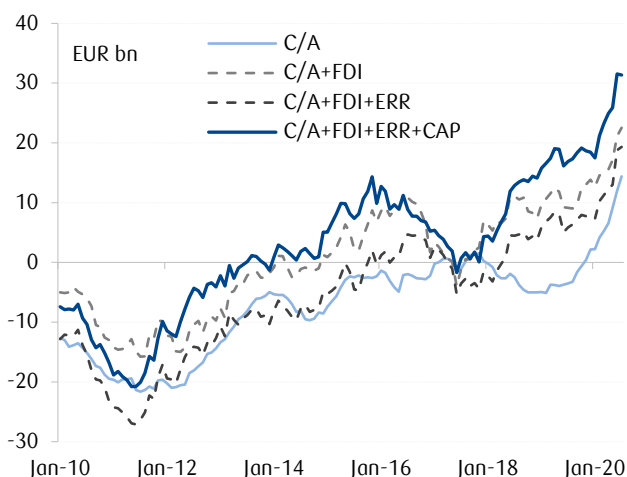
Current account balance



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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- [Easy gains are now over?](#) (Sep 25, 2020)
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- [Fiscal policy on the go](#) (Sep 11, 2020)
- [Better than feared](#) (Sep 4, 2020)
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- [Is the crisis over?](#) (Aug 21, 2020)
- [Cash is king](#) (Aug 7, 2020)
- [EU Recovery Fund: final approach](#) (Jul 31, 2020)
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- [Inflation back on an upward path](#) (Dec 13, 2019)
- [MPC dampens rate cut expectations](#) (Dec 6, 2019)

Poland's macro in a nutshell

	2019	2020	Comment
Real economy			
- real GDP (%)	4.5	-2.9	GDP bottomed out in 2q20 falling by 8.2% y/y. Both private consumption and investment declined by double-digit rates. High-frequency data points at significant rebound of economic activity in 3q. that said, the new wave of covid-19 infections may disturb the V-shaped recovery at year-end. We pencil in a second dip of the recession, this time much shallower than under lockdown conditions in Spring.
Prices			
- CPI inflation (%)	2.3	3.3	Disinflationary forces will prevail in subsequent quarters, but due to specific factors, inflation in Poland will not fall as much as in many other economies. As the supply-side factors related to the pandemic expire, core inflation will be affected by weaker demand. Administrative factors will also play an important role (postponed entry into force of the power fee and sugar tax, increase in the RTV subscription).
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	3.0	A clear reduction of primary income deficit (lower FDI profits and remittances of Ukrainians) should support increasing net exports of goods. Thus, CA surplus will visibly widen. As the stimulus package proposed by the EC unwinds, it will also improve capital account balance, leading to further decline of the foreign debt to GDP ratio.
Fiscal policy			
- fiscal balance (% GDP)	-0.7	-11.1	The cost of the fiscal anti-crisis shield (incl. off-balance spending of the State Development Bank and the Polish Development Fund) and fiscal revenues loss caused by the recession will significantly widen the fiscal deficit. Strong fiscal stance in 2019 means that there exists a fiscal space when it comes to both deficit and debt.
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.

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