

2020 better than feared, bounce back ahead

Top macro theme(s):

- **2020 better than feared, bounce back ahead (p. 2):** Poland's GDP in 2020 fell by 2.8%, according to tentative data. It was the first annual decline in economic activity since transition recession in early 1990s. However, Polish economy weathered the pandemic better than any other of the largest EU economies and outperformed core CEE countries. Actual outcome proved better than forecasts at the onset of the pandemic. We stick to our above-consensus forecast of GDP growth in 2021 at 5.1%, although the balance of risks becomes skewed to the downside due to extension of lockdowns in other major European economies.

What else caught our eye:

- The government decided to **ease restrictions in retail trade** (reopening malls) starting from Feb 1, which will reveal strong pent-up consumer demand.
- **Industry** finished 2020 on a high note with output in December expanding by 11.2% y/y, well above our and consensus estimates. The export-oriented industries outperformed, what bodes well for economic momentum in 2021.
- **Money supply (M3)** grew 16.4% y/y in December. Loans growth edged down further into negative territory (-0.7% y/y, FX adj.) as an aftermath of liquidity injections into the non-financial private sector during the pandemic.
- **Unemployment rate** in December was confirmed at 6.2%. The details of wages growth by industry point at a stronger underlying trend, with wages in manufacturing growing at one of the highest rates in 12 years (8.1% y/y). Employees' bargaining power could return even before the pandemic is over.

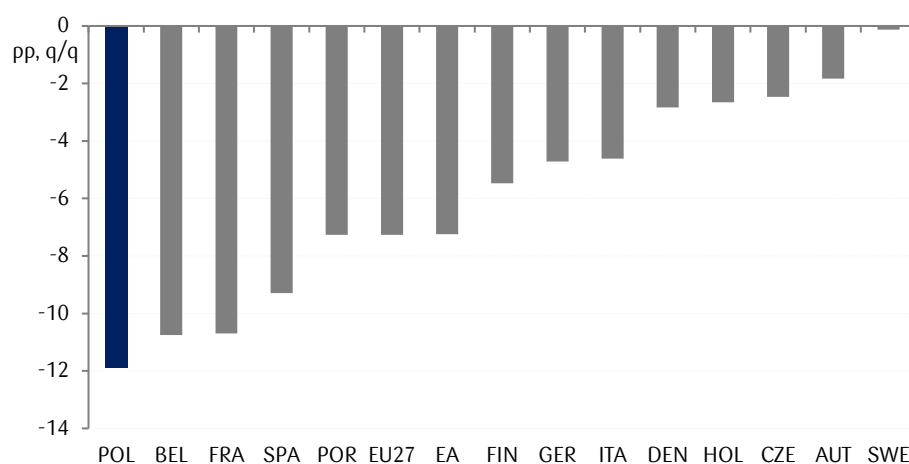
The week ahead:

- We expect the **MPC will leave monetary policy unchanged** and will wait at least until the meeting in March with potential further policy actions. **MPC minutes** from January may shed more light on that issue. Given restrictions easing and no third wave in Poland, which implies lack of another downturn in economic activity, the flat rates scenario is still our baseline.
- **Manufacturing PMI** in January most likely remained resilient to the second wave of the pandemic (PKOe: 51.1 pts) reflecting undisrupted functioning of the global manufacturing chains. Brexit, may worsen outlook for manufacturers with relatively large exposure to the UK (food and agro, automotive).

Number of the week:

- **-11.9pp** – quarterly change in households' savings rate in 3q20 in Poland (seas. adj.), the largest within the EU.

Chart of the week: Change in (seas.adj.) households' savings rate in 3q20



Source: Eurostat, PKO Bank Polski.

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	2020†	2021†
Real GDP (%)	-2.8	5.1
Industrial output (%)	-1.0	10.0
Unemployment rate# (%)	6.2	5.4
CPI inflation** (%)	3.4	3.1
Core inflation** (%)	3.9	2.9
Money supply M3 (%)	16.4	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.

2020 better than feared, bounce back ahead

- Poland's GDP in 2020 fell by 2.8%, according to tentative data. It was the first annual decline in economic activity since transition recession in early 1990s. However, Polish economy weathered the pandemic better than any other of the largest EU economies and outperformed core CEE countries. Actual outcome proved better than forecasts at the onset of the pandemic.
- We stick to our above-consensus forecast of GDP growth in 2021 at 5.1%, although the balance of risks becomes skewed to the downside due to extension of lockdowns in other major European economies.

GDP in 2020 contracted by 2.8% (vs an expansion of 4.5% in 2019) due to the pandemic outbreak and related restrictions. The decline in the annual GDP occurred for the first time since the beginning of the transition period. Incoming data and current estimates for other EU countries indicate that the recession in Poland was relatively mild, so was the second dip in 4q20 related to the pandemic peak in autumn. We estimate that the GDP in 4q20 fell by approx. 3.0-3.3% y/y (vs. a decline by 1.5% y/y in 3q20). Quarterly growth rate amounted to approx. -1.0% q/q (seas.adj.)

Domestic demand in 2020 shrank 3.7% y/y, but net exports contribution was positive (+0.8pp).

Recession in domestic demand has been largely broad-based, however:

- Consumption demand fell 1.5% while private consumption declined by 3.0%, subtracting 1.7pp from GDP growth rate in 2020;
- Investment demand growth rate hit -8.4% reducing GDP growth rate in 2020 by 1.6pp;
- The contribution of inventories to GDP growth was also negative (-0.8pp).

As a result, domestic final sales (domestic demand ex. inventories) dropped by 2.0% in 2020.

Preliminary full-year data implies private consumption in 4q20 declined by 3.1% y/y (vs. an increase by 0.4% y/y in 3q20) and fixed investment slump deepened further (-10.8% y/y in 4q20 vs. -9.0% y/y in 3q20). Contribution of inventories was most likely positive (0.8pp in 4q20 vs. -2.3pp in 3q20, see margin table).

Value added fell in 2020 in all major sections of the economy:

- Value added in industry declined by 0.2% in 2020;
- Value added in construction fell by 3.7%, and
- Value added in trade dropped by 4.0%;
- In the services sector, the total decline in value added in 2020 was around 4%, but it was most likely uneven, with some sectors (incl. HoReCa) badly hit by restrictions related to the pandemic.

We stick to our above-consensus forecast of GDP growth in 2021 at 5.1%, although the balance of risks becomes skewed to the downside due to extension of lockdowns in other major European economies. It is worth emphasizing that while industry outperforms, Poland's sensitivity to restrictions abroad is limited. We still expect a rebound in consumption which, along with exports, will be the main engine of the economy. Easing/lifting the restrictions will reduce uncertainty and improve the investment climate. GDP data for 2020 (and for 4q20) are better than assumed in the latest NBP projection (-3.5% for the entire year and -6.5% in 4q20). This should move the GDP path upwards in the new projection in March, limiting the MPC's inclination to more interest rate cuts.

Estimates for GDP in 4q20

	y/y	4q				
		1q	2q	3q	min avg max	
GDP (%)	1.9	-8.4	-1.5	-3.3	-3.2	-3.0
Domestic demand (%)	1.0	-9.9	-3.2	-2.8	-2.7	-2.6
Consumption (%)	1.5	-7.5	1.0	-1.4	-1.3	-1.1
-private consumption (%)	1.2	-10.8	0.4	-3.3	-3.2	-3.0
Investments (%)	0.9	-10.7	-9.0	-10.9	-10.8	-10.7
Inventories (pp)	-0.3	-2.0	-2.3	0.6	0.8	0.9
Net exports (pp)	0.9	1.1	1.7	-0.5	-0.2	0.1

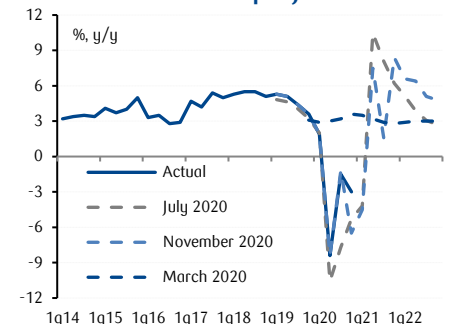
Source: GUS, PKO Bank Polski.

Decomposition of GDP growth



Source: GUS, PKO Bank Polski. Last plot for 4q20 - PKO estimates based on full-year data.

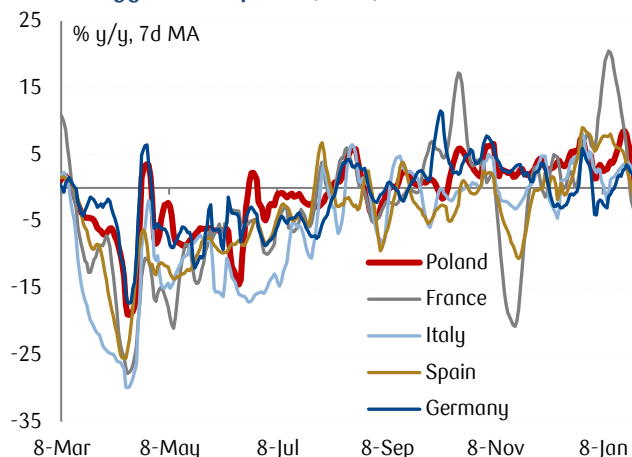
GDP: actual vs NBP projections



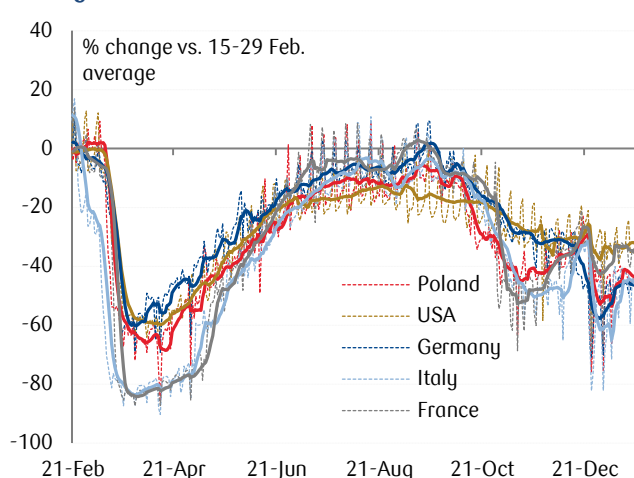
Source: GUS, NBP, PKO Bank Polski. 4q20 - PKOe based on full-year data.

Macro monitoring with alternative data

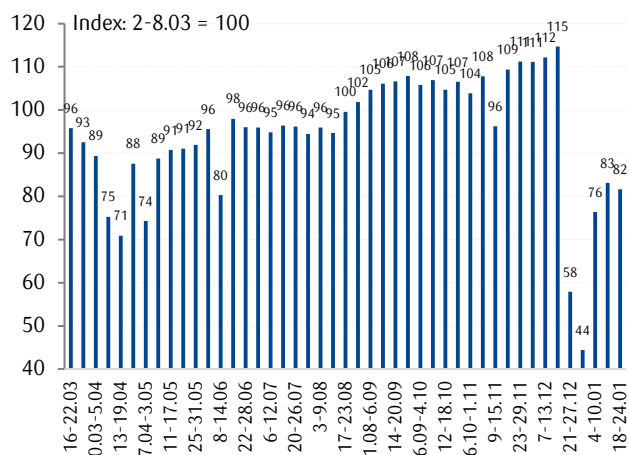
Electric energy consumption (total)



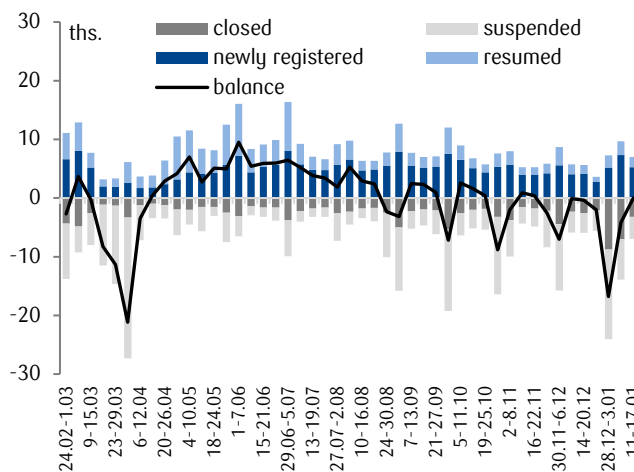
Mobility*



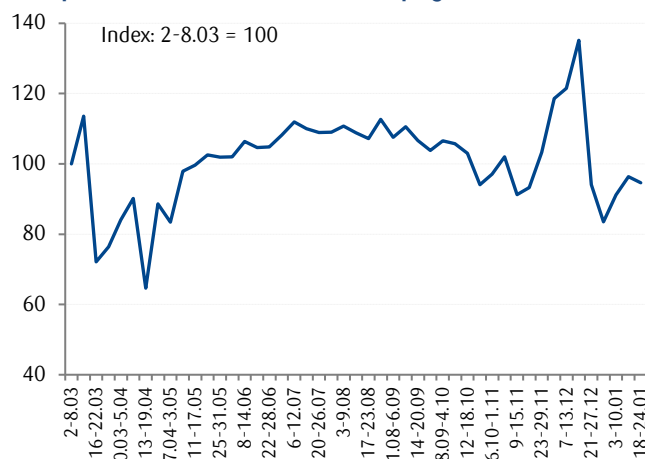
Heavy truck traffic



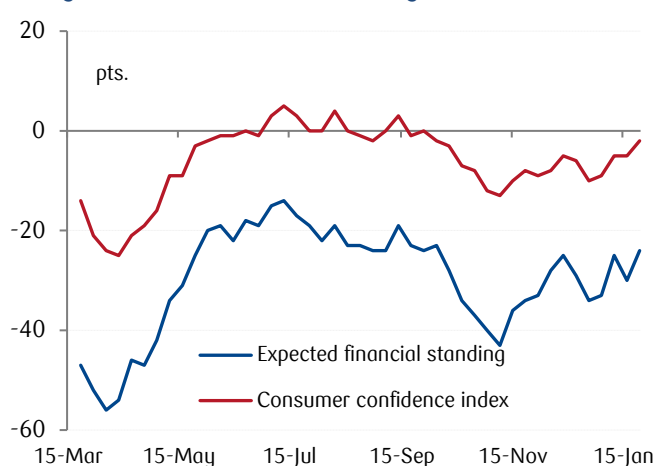
Economic activity status (acc. to CEiDG**)



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, 1 February						
CHN: Manufacturing PMI (Jan)	1:45	pts.	53.0	52.6	--	--
POL: Manufacturing PMI (Jan)	8:00	pts.	51.7	51.8	51.1	Global manufacturing chains hold up well in the midst of the 2nd pandemic wave in Europe.
GER: Manufacturing PMI (Jan, final)	8:55	pts.	58.3	57.0	--	
EUR: Manufacturing PMI (Jan, final)	9:00	pts.	55.2	54.7	--	--
USA: ISM Manufacturing (Jan)	15:00	pts.	60.7	59.9	--	--
Tuesday, 2 February						
EUR: GDP growth (4q)	10:00	% y/y	-4.3	-6.0	--	--
Wednesday, 3 February						
GER: Services PMI (Jan, final)	8:55	pts.	47.0	46.8	--	--
EUR: Services PMI (Jan, final)	9:00	pts.	46.4	45.0	--	--
EUR: CPI inflation (Jan)	10:00	% y/y	-0.3	0.4	--	--
EUR: Core inflation (Jan, flash)	10:00	% y/y	0.2	--	--	--
USA: ADP National Employment (Jan)	13:15	thous.	-123	49	--	--
POL: NBP base rate	--	%	0.10	0.10	0.10	We think any rate cuts considerations are to be postponed at least until March.
Thursday, 4 February						
EUR: Retail sales (Dec)	10:00	% y/y	-2.9	0.4	--	--
UK: BoE meeting	12:00	%	0.10	0.10	0.10	--
CZE: Central bank meeting	13:30	%	0.25	0.25	0.25	--
USA: Initial Jobless Claims (Jan)	13:30	thous.	847	850	--	--
USA: Factory orders (Dec)	15:00	% m/m	1.0	1.7	--	--
USA: Durable goods orders (Dec, final)	15:00	% m/m	1.2	0.2	--	--
Friday, 5 February						
GER: Factory orders (Dec)	7:00	% y/y	6.3	--	--	--
POL: MPC Minutes (Jan)	13:00	--	--	--	--	MPC minutes may shed more light into further policy easing actions.
USA: Non-Farm Payrolls (Jan)	13:30	thous.	-140	20	--	--
USA: Unemployment Rate (Jan)	13:30	%	6.7	6.8	--	--
USA: Average Earnings (Jan)	13:30	% y/y	5.1	5.0	--	--

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
Economic activity										
Real GDP (% y/y)	x	x	x	1.9	-8.4	-1.5	-3.0	4.5	-2.8	5.1
Domestic demand (% y/y)	x	x	x	1.0	-9.9	-3.2	-3.4	3.5	-3.7	4.9
Private consumption (% y/y)	x	x	x	1.2	-10.8	0.4	-3.1	4.0	-3.0	5.5
Gross fixed capital formation (% y/y)	x	x	x	0.9	-10.7	-9.0	-10.8	7.2	-8.4	3.7
Inventories (pp)	x	x	x	-0.3	-2.0	-2.3	0.8	-1.4	-0.8	0.1
Net exports (pp)	x	x	x	0.9	1.1	0.7	-0.1	1.2	0.8	0.6
Industrial output (% y/y)	1.0	5.4	11.2	0.9	-13.6	3.2	5.2	4.0	-1.0	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	639.3	2288	2306	2505
Labour market										
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
Prices^										
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
Monetary aggregates‡										
Money supply, M3 (PLN bn)	1782.6	1790.7	1822.7	1624.9	1746.2	1762.2	1822.7	1565.6	1822.7	1967.5
Money supply, M3 (% y/y)	17.0	16.1	16.4	11.8	18.1	17.0	16.4	8.3	16.4	7.5
Real money supply, M3 (% y/y)	13.9	13.1	14.0	7.2	14.9	14.0	14.0	4.9	14.0	4.4
Loans, total (PLN bn)	1345.8	1338.8	1333.9	1366.6	1341.1	1337.7	1333.9	1323.4	1333.9	1414.6
Loans, total (% y/y)	1.3	0.4	0.8	6.5	3.1	0.5	0.8	5.1	0.8	4.5
Deposits, total (PLN bn)	1631.7	1639.4	1602.2	1485.1	1618.7	1627.3	1602.2	1406.6	1602.2	1683.7
Deposits, total (% y/y)	16.3	15.8	13.9	11.2	19.5	15.8	13.9	8.2	13.9	4.6
Balance of payments										
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
Fiscal policy										
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
Monetary policy‡										
NBP reference rate (%)	0.10	0.10	0.10	1.00	0.10	0.10	0.10	1.50	0.10	0.10
NBP lombard rate (%)	0.50	0.50	0.50	1.50	0.50	0.50	0.50	2.50	0.50	0.50
NBP deposit rate (%)	0.00	0.00	0.00	0.50	0.00	0.00	0.00	0.50	0.00	0.00
WIBOR 3M* (%)	0.22	0.22	0.21	1.17	0.26	0.22	0.21	1.71	0.21	0.20
Real WIBOR 3M* (%)#	-2.88	-2.78	-2.09	-3.43	-3.04	-2.78	-2.59	-1.69	-3.19	-2.90
Exchange rates*‡										
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.

*PKO BP Market Strategy team forecasts,

‡period averages for quarterly and yearly data,

#deflated with current CPI inflation,

‡period end values,

‡under revision.

Monetary policy monitor

MPC Members	Hawk-o-meter*	Recent policy indicative comments
K. Zubelewicz	4.7	"Polish MPC would rethink easy-money preferences only on outlook for long-term lasting inflation above 4% (...) Polish MPC will likely stick to bias for "lowest possible interest rates" and "weak zloty," chances for rate normalization "near zero" (26.01.2021, 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	"I think that at the moment further interest rate cuts will not make credit cheaper, so there are no arguments for further rate cuts" (25.01.2021, Reuters)
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. Zyzyński	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	"A rate cut below zero would only become possible upon cumulation of many negative factors such as threat of deflation or risk of major deterioration or consumer sentiment and PMI (...) otherwise, need for monetary policy easing could be remedied via purchases of various assets, which "could simply become a standard modus operandi for the Polish central bank, especially but not exclusively in periods of crisis" (25.01.2021, PAP)

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

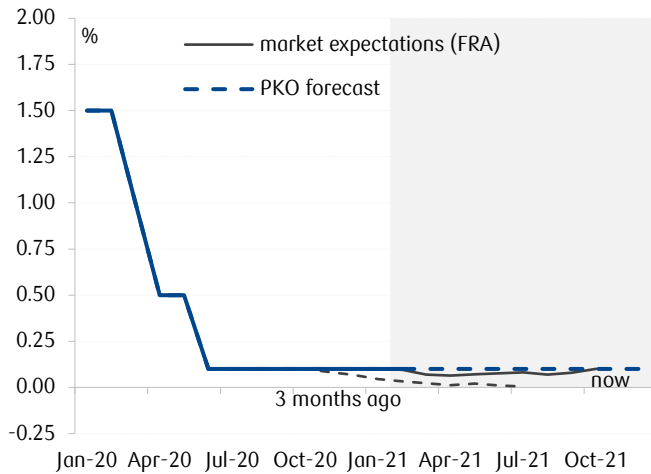
Interest rates – PKO BP forecasts vs. market expectations

	1M	2M	3M	4M	5M	6M	7M	8M	9M	
Date	28-Jan	28-Feb	28-Mar	28-Apr	28-May	28-Jun	28-Jul	28-Aug	28-Sep	28-Oct
WIBOR 3M/FRA†	0.21	0.21	0.18	0.17	0.18	0.19	0.19	0.18	0.19	0.21
implied change (b. p.)		0.00	-0.03	-0.04	-0.03	-0.02	-0.02	-0.03	-0.02	0.00
MPC Meeting	3-Feb	3-Mar	7-Apr	5-May	9-Jun	8-Jul	-	8-Sep	6-Oct	3-Nov
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*		0.10	0.07	0.06	0.07	0.08	0.08	0.07	0.08	0.10

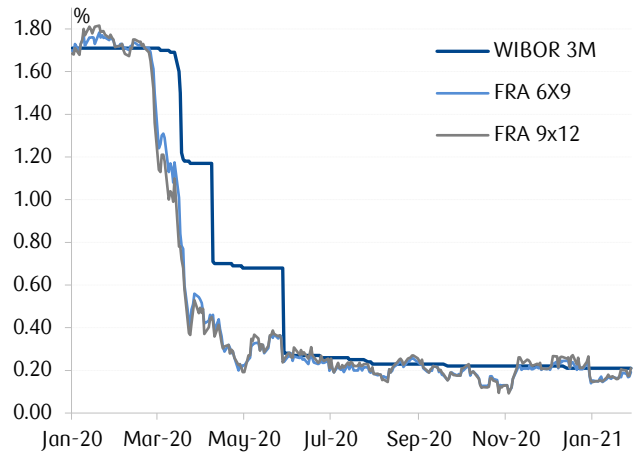
†WIBOR 3M from the last fixing, FRA transactions based on WIBOR 3M for subsequent periods, ‡in basis points, *PKO BP forecast of the NBP reference rate.

Poland macro chartbook

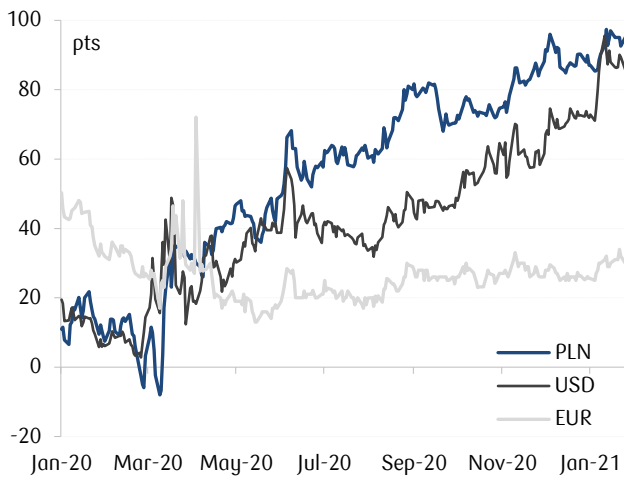
NBP policy rate: PKO BP forecast vs. market expectations



Short-term PLN interest rates



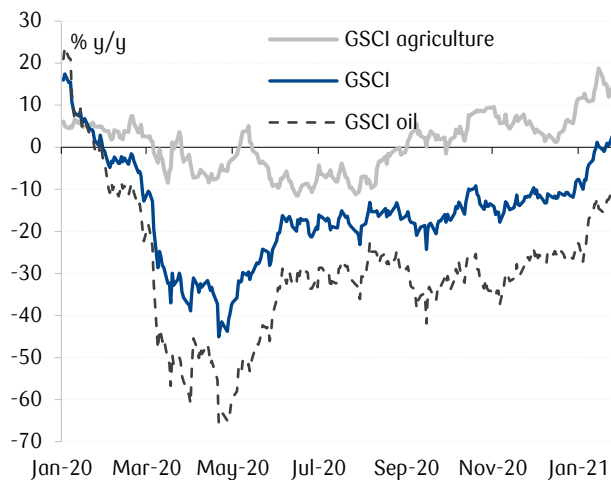
Slope of the swap curve (spread 10Y-2Y)*



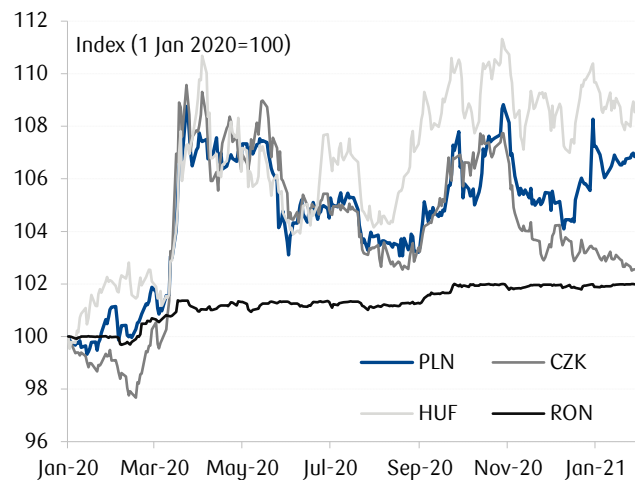
PLN asset swap spread



Global commodity prices (in PLN)

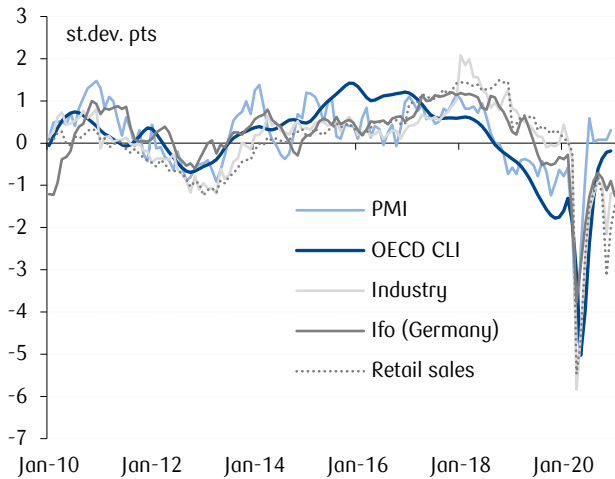


Selected CEE exchange rates against the EUR

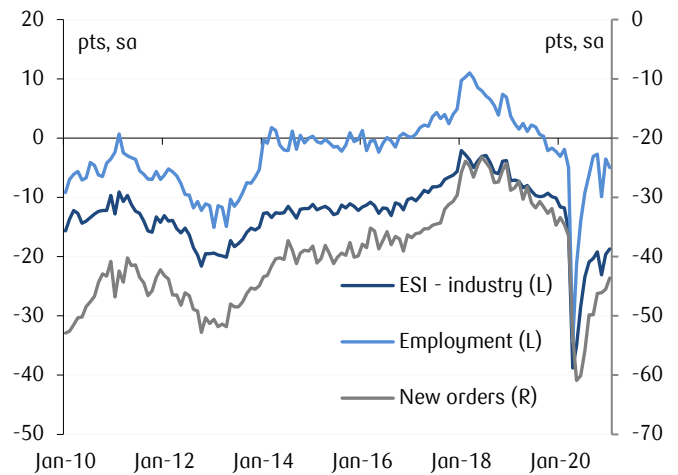


Source: Datastream, NBP, PKO Bank Polski. *for PLN, and EUR 6M, for USD 3M.

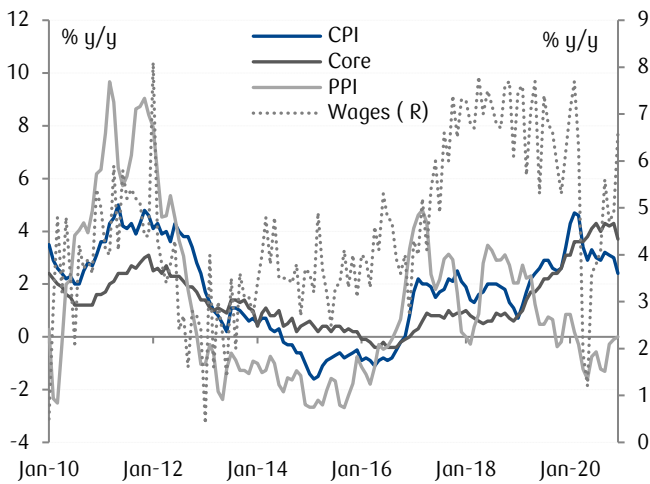
Economic sentiment indicators



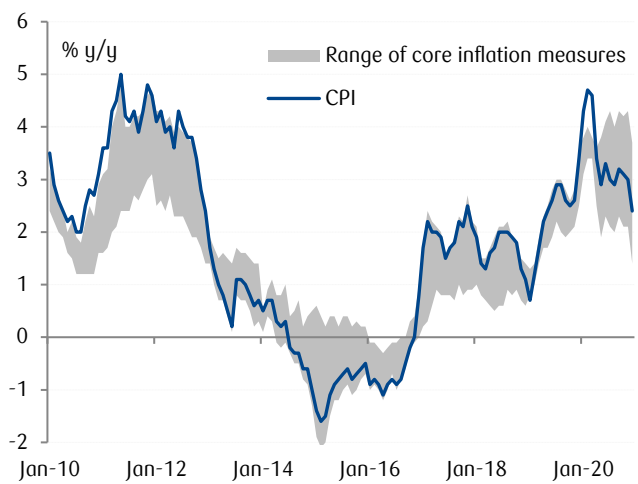
Poland ESI for industry and its components



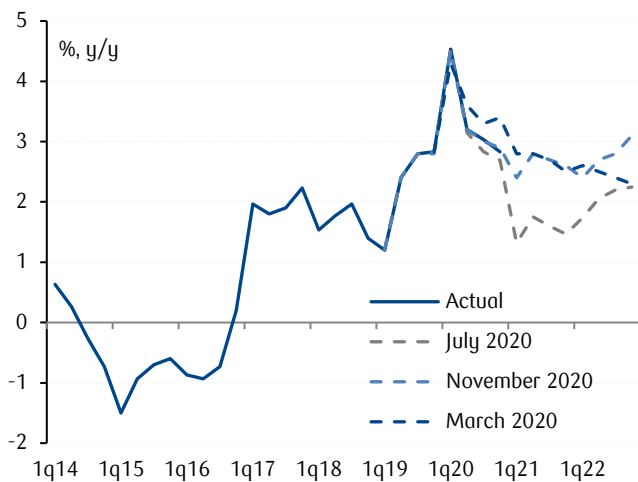
Broad inflation measures



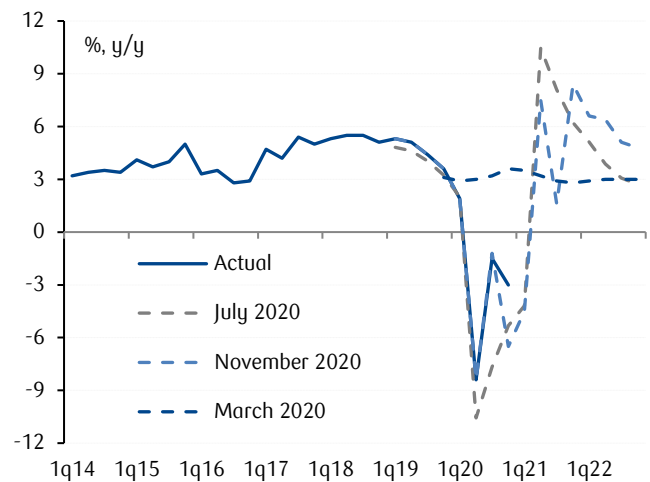
CPI and core inflation measures



CPI inflation - NBP projections vs. actual

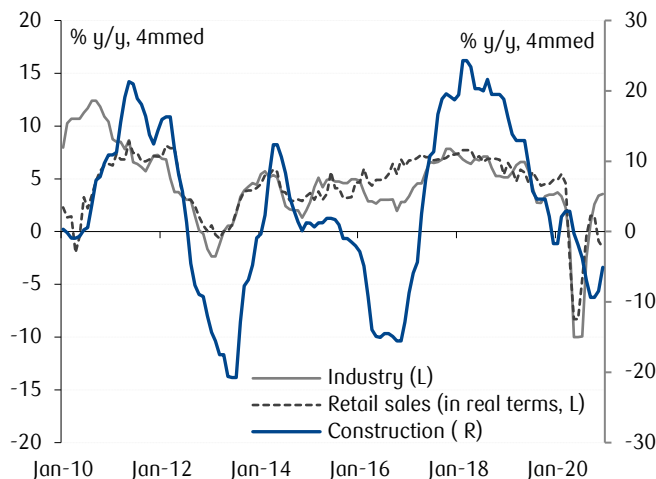


Real GDP growth - NBP projections vs. actual

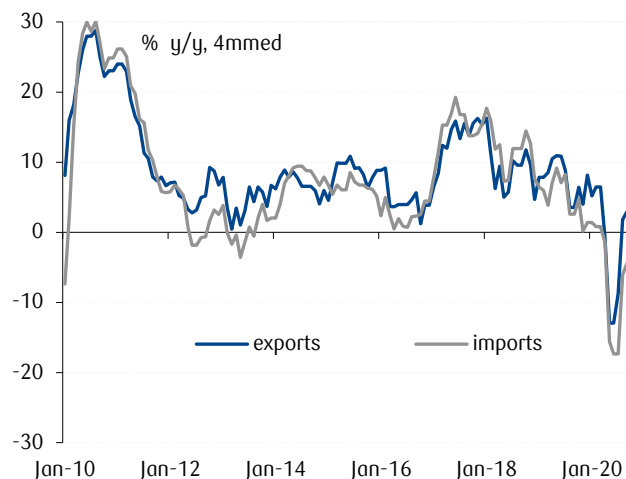


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

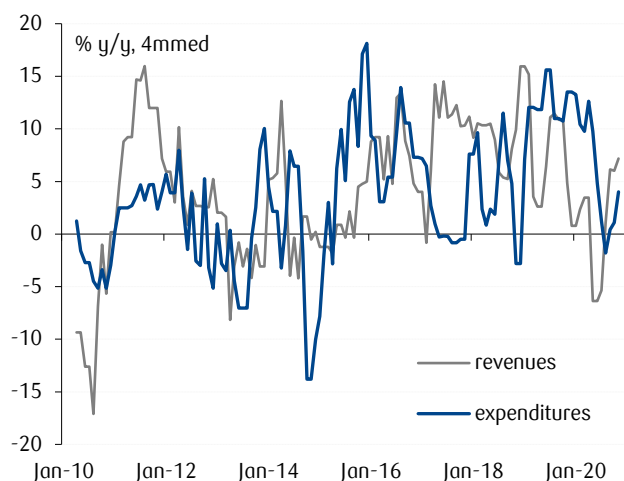
Economic activity indicators



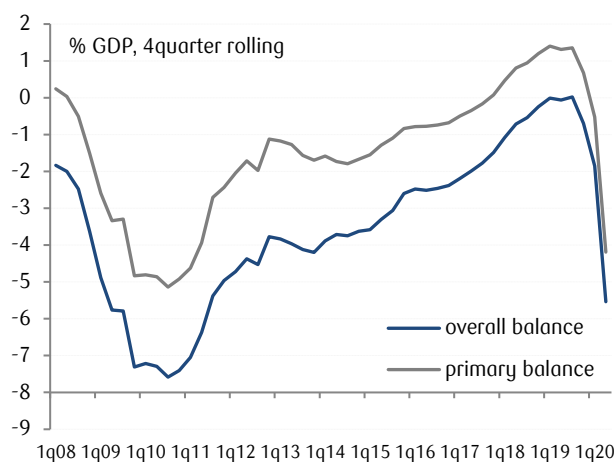
Merchandise trade (in EUR terms)



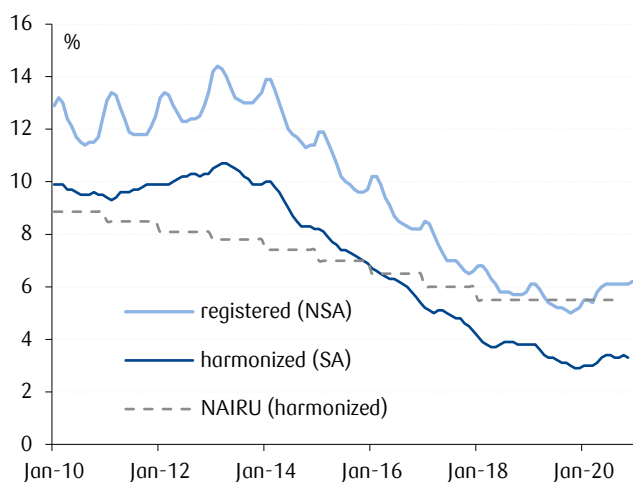
Central government revenues and expenditures*



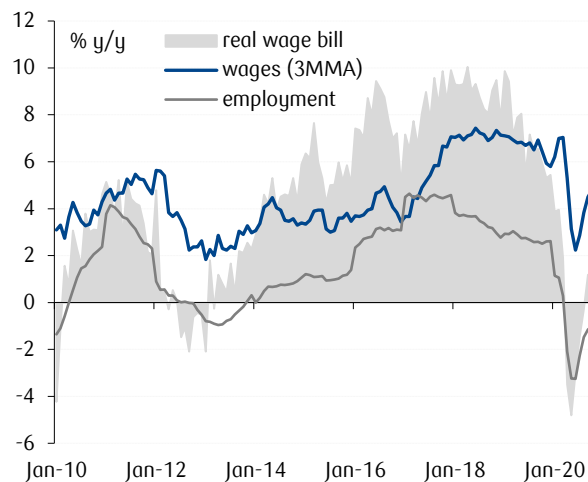
General government balance (ESA2010)



Unemployment rate

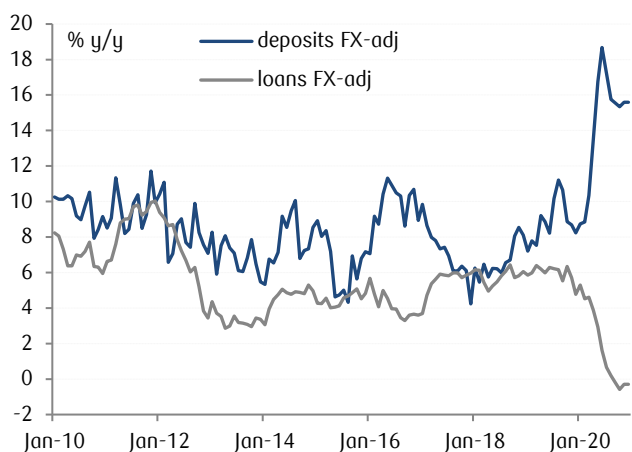


Employment and wages in the enterprise sector

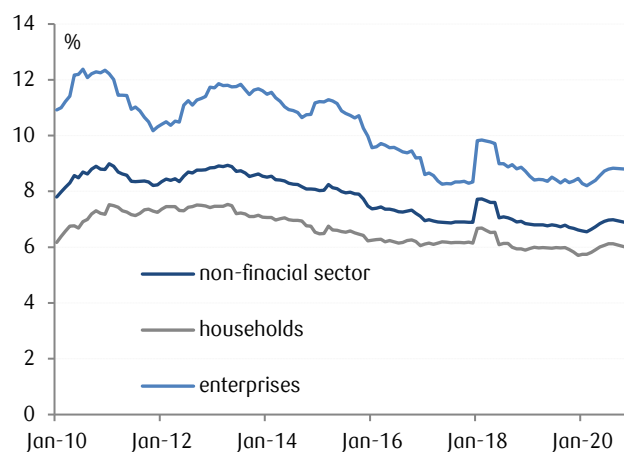


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. *break in series in 2010 due to methodological changes.

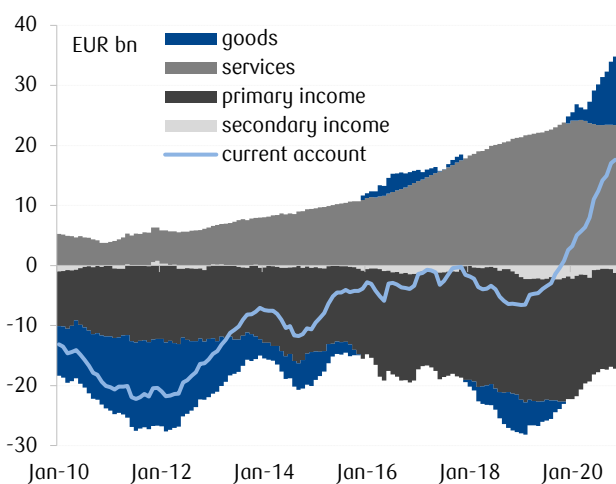
Loans and deposits



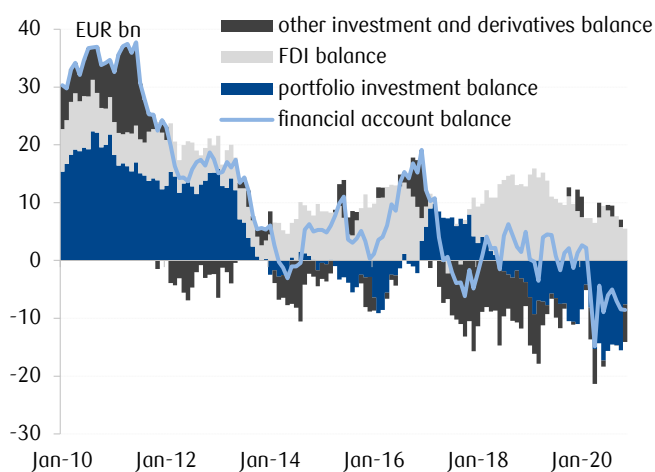
Non-performing loans (NPLs) - by sectors*



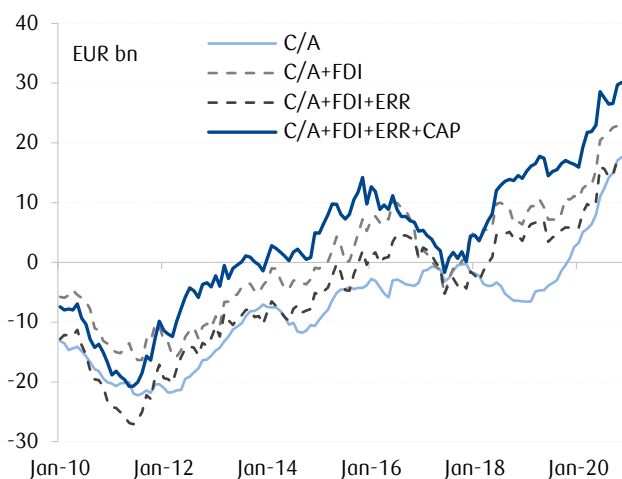
Current account balance



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
Real economy			
- real GDP (%)	-2.8	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.
Prices			
- 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%.
Monetary aggregates			
- M3 money supply (%)	16.4	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.
External balance			
- 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.
Fiscal policy			
- 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.
Monetary policy			
- 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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