

Green fiscal island

Top macro theme(s):

- **Fiscal sustainability yet again in green colours (p. 2):** Poland found itself on the top of the list of EU countries as regards fiscal sustainability, acc. to the newest European Commission's European Sustainability Monitor.
- **Winter unfreezing (p.4):** Looking into our internal data, we see that despite the prolonged anti-pandemic restrictions the deferred demand has been quickly unleashed once the restrictions have been lifted.

What else caught our eye:

- **GDP growth rate** hit -2.8% y/y in 4q20 on flash estimate (vs. -1.5% y/y in 3q20). On a quarterly, seas.adj. basis the economy shrunk by 0.7% q/q (vs. a growth of 7.9% q/q in 3q). The pandemic rollercoaster is most likely over and quarterly growth profile should normalize in 2021.
- **The IMF published its Staff Report on Poland** praising the government and the central bank for their quick reaction to COVID19-related recession, but indicating that the response to the second wave of the pandemic may be too modest. The IMF warned against a too quick fiscal consolidation, and indicated that a sound bank-lending channel may be crucial for the recovery, implying some necessary changes to the banking tax.

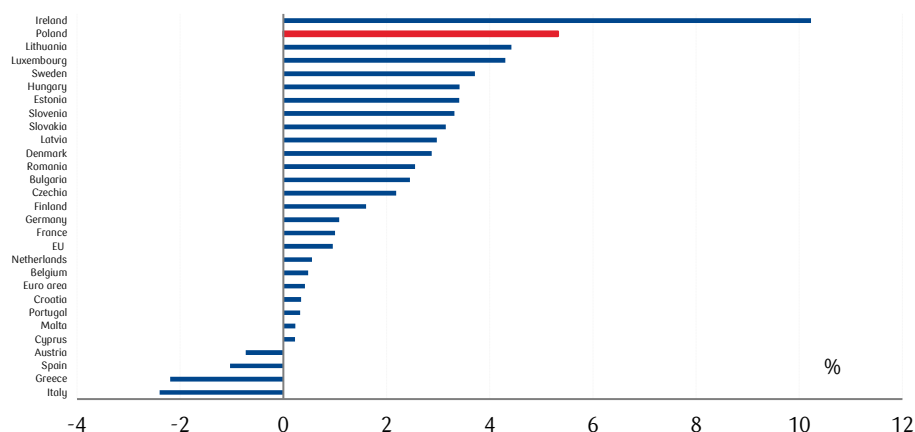
The week ahead:

- **CPI for Jan.** will be the key release next week determining the CPI path for 2021. We forecast a rise to 2.7% y/y (from 2.4%) mostly on regulatory factors. The unusually wide spread between the lowest (2.0) and the highest (our 2.7) forecast mirrors uncertainty regarding the final outcome of regulatory (new taxes), statistical (base) and pandemic (lockdown) factors.
- Polish **foreign trade figures for December** may likely be staggering, as the cumulation of calendar effects, as well as robust momentum may push exports above 20% y/y. As CA will likely show yet another EUR 1bn surplus, we expect the entire 2020 CA surplus to close at impressive 4.0% of GDP.
- Lockdown measures may result in a deeper fall of **employment** in January (-1.5% y/y), however bear in mind that due to new sampling, January reading is always at the roll of a dice. Higher minimum wage, along with reviving demand for employees in some (mostly industry-related) sectors will keep wage pressure relatively stable (5.3% y/y).
- **The performance of the real economy in January was impacted by lockdown, as well as by negative calendar effects.** That said, a likely negative print of industrial output (-0.7% y/y), as well as falling retail sales (-5.7% y/y), and construction output (-9.7% y/y), should not worry. Our forecast of GDP rebound in 2021 remains intact.

Number of the week:

- **5.0%** – the average nominal wage growth in the national economy in 2020.

Chart of the week: GDP in 2022 vs 2019 acc. to EuCo Winter forecasts



Source: European Commission, 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	3.0
Money supply M3 (%)	16.4	7.5
C/A balance (% GDP)	4.0	3.0
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.

Fiscal sustainability yet again in green colours

- Poland found itself on the top of the list of EU countries as regards fiscal sustainability yet again, acc. to the newest edition of European Commission's European Sustainability Monitor (2020).
- Taking into account EC's conservative macro assumptions, the outcome may show even a more robust fiscal performance than the one already praised by the Commission.

Poland found itself on the top of the list of EU countries as regards fiscal sustainability yet again, acc. to the newest edition of European Commission's [European Sustainability Monitor \(2020\)](#). The exceptional year shaped by the outbreak of the COVID19 pandemic, subsequent recession, and an unprecedented fiscal stimulus have led to visible increases in projected debt levels, but also left the longer term trajectory fairly unharmed. The Commission emphasized that the deterioration in public finances is expected to be much higher than the one observed during the global financial crisis.

That said, Poland yet again proved to be **the only EU country with all the alarm lights flashing green**, a result of both stable starting position, robust economy, with no signs of macroeconomic imbalances, as well as bright outlook based on competitive economy lingering on the path of macroeconomic convergence to the Western Europe.

The outlook may be brighter, though, than what is currently projected by the Commission, as the macro assumptions underlying the report are visibly on a conservative side. Not only the GDP decrease in a volatile 2020 turned out to be shallower than assumed in the report (-2.8% acc. to StatOffice flash estimate, vs. -3.6% in the report). The Commission's expectations for the upcoming future are more pessimistic compared to the market consensus, with real GDP growth below 4% during the entire period (2021-2031), despite the expected increase in transfers related to the EU Recovery Plan. Moreover, lower inflation expectations (below 2.0% in 2021, and 3.0% later on) imply both smaller tax revenues (bigger deficits), but also a slower nominal GDP growth (smaller denominator in the debt/GDP ratio).

The ongoing economic rebound, may be a crucial factor behind a better-than-expected performance of public finances. An improvement of public sector revenues has been already visible in the data for 3q (we elaborated on this topic in our previous Poland Macro Weekly: [Spotlight: fiscal stance](#)). As confirmed by T.Koscinski (MinFin), the central budget closed 2020 at a PLN 85bn deficit (over 1% of GDP better than planned). At the same time, M.Morawiecki (Prime Minister) informed that local authorities might have recorded a surplus of PLN 5.6bn (another 1.1% of GDP positive surprise for the 2020 general government result). That said, the starting point for the assessment of Polish fiscal sustainability may also prove more favourable than what has been assumed by Brussels.

The overall positive image of Poland's public finances is not free from scratches. The EC analyses risks related to the debt structure and here Poland stands out with the highest share of FX debt (28.4%) among countries with free floating currency and with still relatively high share of public debt held by non-residents (44.1%; see table in the margin).

Risks related to the government debt structure by country (2019)

	Short-term debt	Public debt	Public debt
	(original maturity)	in foreign currency	held by non-residents
	Shares of total debt (%)		
BE	7.6	0.0	55.7
BG	0.1	81.0	43.9
CZ	1.4	11.4	40.5
DK	10.9	0.1	25.8
DE	6.3	3.5	48.3
EE	6.1	0.0	69.8
IE	7.2	1.2	60.2
ES	6.5	0.0	49.0
FR	8.5	2.2	50.2
HR	4.6	71.6	32.7
IT	14.6	0.1	31.5
CY	2.1	3.4	80.1
LV	2.3	0.0	74.3
LT	0.0	0.0	75.6
LU	3.2	0.0	45.3
HU	11.4	20.5	33.9
MT	7.3	0.0	15.2
NL	8.8	0.1	40.0
AT	4.2	0.6	66.5
PL	1.1	28.4	44.1
PT	17.8	0.0	51.7
RO	3.1	48.7	46.3
SI	3.0	0.1	61.1
SK	1.3	0.1	57.5
FI	9.3	2.7	62.3
SE	20.7	21.3	19.3

Source: European Commission.

Summary heat map of fiscal sustainability challenges

Heat map for short-term risks in EU countries																										
	BE	BG	CZ	DK	DE	EE	IE	ES	FR	HR	IT	CY	LV	LT	LU	HU	MT	NL	AT	PL	PT	RO	SI	SK	FI	SE
S0 overall index	0.48	0.35	0.37	0.41	0.37	0.33	0.42	0.50	0.55	0.61	0.48	0.64	0.48	0.37	0.3	0.46	0.29	0.39	0.40	0.45	0.61	0.49	0.43	0.54	0.49	0.32
Overall SHORT-TERM risk category	HIGH	LOW	LOW	LOW	LOW	LOW	LOW	HIGH	HIGH	HIGH	HIGH	HIGH	LOW	LOW	LOW	LOW	LOW	LOW	LOW	LOW	HIGH	HIGH	LOW	HIGH	HIGH	LOW
Heat map for medium-term risks in EU countries																										
S1 indicator in the EU countries																										
	BE	BG	CZ	DK	DE	EE	IE	ES	FR	HR	IT	CY	LV	LT	LU	HU	MT	NL	AT	PL	PT	RO	SI	SK	FI	SE
S1 indicator - Baseline scenario	4.3	-3.1	-0.9	-4.2	-1.1	-2.9	-1.8	7.7	4.4	-1.5	9.2	-0.6	-1.8	-1.0	-3.9	-0.3	-3.5	0.1	-0.3	-1.6	2.0	14.8	1.6	3.2	0.9	-3.1
S1 indicator - overall risk category	HIGH	LOW	LOW	LOW	LOW	LOW	LOW	HIGH	HIGH	LOW	HIGH	LOW	LOW	LOW	LOW	LOW	LOW	MEDIUM	LOW	LOW	MEDIUM	HIGH	MEDIUM	HIGH	MEDIUM	LOW
Sovereign-debt sustainability risks in EU countries																										
	BE	BG	CZ	DK	DE	EE	IE	ES	FR	HR	IT	CY	LV	LT	LU	HU	MT	NL	AT	PL	PT	RO	SI	SK	FI	SE
Baseline scenario	HIGH	LOW	LOW	LOW	LOW	LOW	LOW	HIGH	HIGH	MEDIUM	HIGH	MEDIUM	LOW	LOW	LOW	MEDIUM	LOW	MEDIUM	MEDIUM	LOW	HIGH	HIGH	MEDIUM	MEDIUM	MEDIUM	LOW
Debt level (2031)	121.2	23.0	43.1	24.7	57.1	31.7	48.3	140.6	119.9	76.8	155.8	82.6	45.3	42.9	17.9	64.0	43.3	63.5	76.3	46.4	107.6	126.8	79.1	84.2	70.5	30.6
Debt peak year	2027	2021	2026	2020	2020	2027	2021	2030	2026	2020	2024	2020	2026	2021	2022	2020	2021	2025	2024	2021	2020	2031	2026	2030	2024	2021
Average Structural Primary Balance (2022-2031) Percentile rank	77%	49%	66%	42%	52%	77%	43%	90%	82%	50%	57%	35%	68%	61%	33%	55%	44%	63%	57%	64%	27%	100%	79%	90%	71%	57%
Historical SPB scenario	HIGH	LOW	LOW	LOW	LOW	LOW	MEDIUM	HIGH	HIGH	MEDIUM	HIGH	MEDIUM	LOW	LOW	LOW	MEDIUM	LOW	MEDIUM	MEDIUM	LOW	HIGH	HIGH	MEDIUM	MEDIUM	LOW	LOW
Debt level (2031)	109.6	23.4	46.7	16.0	50.1	31.1	63.7	128.1	119.6	89.7	145.8	83.3	50.9	48.7	13.0	69.0	45.8	60.8	73.6	54.5	123.2	95.8	78.0	79.2	58.2	20.8
Debt peak year	2025	2023	2031	2020	2020	2026	2021	2026	2026	2030	2024	2020	2031	2021	2022	2020	2021	2025	2024	2021	2020	2031	2025	2031	2024	2021
Average Structural Primary Balance (2022-2031) Percentile rank	67%	56%	73%	26%	44%	80%	75%	82%	83%	71%	41%	39%	77%	73%	24%	66%	57%	64%	62%	77%	60%	97%	82%	90%	55%	37%
Negative shock (-0.5 pp.) on nominal GDP growth	HIGH	LOW	LOW	LOW	LOW	LOW	LOW	HIGH	HIGH	MEDIUM	HIGH	MEDIUM	LOW	LOW	LOW	MEDIUM	LOW	MEDIUM	MEDIUM	LOW	HIGH	HIGH	MEDIUM	MEDIUM	LOW	LOW
Debt level (2031)	127.4	24.2	45.2	26.3	60.0	32.9	51.0	147.3	125.9	81.3	164.2	87.5	47.6	44.9	18.9	67.5	45.8	66.8	80.5	48.7	114.1	131.5	83.0	88.0	74.0	32.2
Debt peak year	2028	2023	2027	2020	2020	2028	2022	2030	2027	2026	2031	2020	2026	2021	2022	2021	2021	2026	2025	2021	2020	2031	2027	2030	2025	2021
Positive shock (+1 pp.) to the short- and long-term interest rates on newly issued	HIGH	LOW	LOW	LOW	MEDIUM	LOW	LOW	HIGH	HIGH	MEDIUM	HIGH	MEDIUM	LOW	LOW	LOW	MEDIUM	LOW	MEDIUM	MEDIUM	LOW	HIGH	HIGH	HIGH	HIGH	MEDIUM	LOW
Debt level (2031)	127.9	24.2	46.1	26.6	61.5	33.8	51.3	149.1	127.3	82.0	166.3	87.4	48.2	45.8	18.9	68.9	46.6	67.9	81.0	49.1	113.8	134.4	84.1	89.0	74.4	32.4
Debt peak year	2029	2023	2027	2020	2020	2028	2022	2031	2027	2020	2031	2020	2026	2021	2022	2021	2021	2026	2025	2021	2020	2031	2027	2031	2025	2021
Lower SPB scenario (equal to 50% of the pre-crisis forecast SPB)	HIGH	LOW	LOW	LOW	LOW	LOW	LOW	HIGH	HIGH	MEDIUM	HIGH	MEDIUM	LOW	LOW	LOW	MEDIUM	LOW	MEDIUM	MEDIUM	LOW	HIGH	HIGH	MEDIUM	HIGH	MEDIUM	LOW
Debt level (2031)	122.4	24.4	43.5	27.4	59.2	32.8	51.1	142.4	123.9	79.5	156.3	87.8	46.2	43.8	22.8	66.4	47.5	64.6	78.9	47.5	114.4	135.7	80.2	85.6	73.4	31.2
Debt peak year	2028	2021	2026	2020	2020	2028	2021	2030	2027	2020	2024	2020	2026	2021	2022	2020	2021	2026	2025	2021	2020	2031	2026	2030	2025	2021
Stochastic projections	HIGH	MEDIUM	MEDIUM	LOW	LOW	LOW	LOW	HIGH	HIGH	MEDIUM	HIGH	MEDIUM	MEDIUM	LOW	LOW	MEDIUM	LOW	LOW	MEDIUM	LOW	MEDIUM	MEDIUM	MEDIUM	MEDIUM	LOW	LOW
Probability of debt in 2025 greater than in 2020 (%)	71%	49%	80%	11%	30%	100%	44%	95%	93%	43%	52%	23%	56%	50%	44%	46%	62%	94%	60%	0.39	24%	100%	60%	91%	71%	36%
Difference of the 10th and 90th percentile in 2025 (p.p. of GDP)	30.3	51.9	23.7	17.1	16.4	10.1	27.9	25.5	16.3	34.0	30.9	43.9	31.7	30.3	21.4	37.4	25.8	16.2	27.5	17.2	38.2	43.6	27.0	31.6	19.9	11.7
Debt sustainability analysis - overall risk category	HIGH	LOW	LOW	LOW	LOW	LOW	LOW	HIGH	HIGH	MEDIUM	HIGH	MEDIUM	LOW	LOW	LOW	MEDIUM	LOW	MEDIUM	MEDIUM	LOW	HIGH	HIGH	HIGH	HIGH	MEDIUM	LOW
Overall MEDIUM-TERM risk category	HIGH	LOW	LOW	LOW	LOW	LOW	LOW	HIGH	HIGH	MEDIUM	HIGH	MEDIUM	LOW	LOW	LOW	MEDIUM	LOW	MEDIUM	MEDIUM	LOW	HIGH	HIGH	HIGH	HIGH	MEDIUM	LOW
Sovereign-debt sustainability risks in EU countries																										
	BE	BG	CZ	DK	DE	EE	IE	ES	FR	HR	IT	CY	LV	LT	LU	HU	MT	NL	AT	PL	PT	RO	SI	SK	FI	SE
S2 indicator - Baseline scenario	3.7	2.5	4.8	1.0	2.1	0.7	2.4	0.2	-1.1	-2.1	1.1	0.2	-0.3	0.3	10.7	3.3	4.6	3.3	2.4	1.6	-1.5	6.5	3.4	7.7	3.2	2.9
Debt sustainability analysis - overall risk category	HIGH	LOW	LOW	LOW	LOW	LOW	LOW	HIGH	HIGH	MEDIUM	HIGH	MEDIUM	LOW	LOW	LOW	MEDIUM	LOW	MEDIUM	MEDIUM	LOW	HIGH	HIGH	HIGH	HIGH	MEDIUM	LOW
Overall LONG-TERM risk category	HIGH	MEDIUM	MEDIUM	LOW	MEDIUM	LOW	MEDIUM	MEDIUM	MEDIUM	MEDIUM	MEDIUM	MEDIUM	LOW	LOW	HIGH	MEDIUM	MEDIUM	MEDIUM	MEDIUM	LOW	MEDIUM	HIGH	HIGH	HIGH	MEDIUM	MEDIUM

Source: European Commission, PKO Bank Polski.

The winter unfreezing

- Economic rebound in 2021 is expected to be driven largely by strong consumption on the back of solid rise in households' income and by reduction in accumulated savings amid increased confidence and lack of scarring effects.
- Looking into our internal data, we see that despite the prolonged anti-pandemic restrictions, the deferred demand has been quickly unleashed once the restrictions have been lifted.
- We believe that a similar rebound is likely to be observed in the services sector as well.

Both in our and in the European Commission's winter forecast private consumption is set to lead the economic recovery in 2021 driven by expected reduction in the accumulated savings, increased confidence and a solid labour market. Eurostat data have recently confirmed that the **strong increase in the household's saving rate in Poland in 2q20 (to 18.2% from 6.1%) was followed by a rapid (the strongest among all EU countries) decline in 3q20, back to 6.3%**. The forced nature of the savings' increase during lockdowns and a relative resilience of the Polish labour market during the pandemic mean that consumer demand in flourishes once restrictions are lifted. We have seen this kind of the consumption rebound both in the spring and in the pre-Christmas season. Each time the spending growth was rapid and substantial, as suggested by both official macroeconomic data on consumption and retail sales, as well as by the PKO internal data on customers' card transactions.

Starting from February 1st the government has allowed shopping malls to reopen after a month-long third lockdown. From February 12th hotels, and outdoor sport venues as well as theatres and cinemas are set to open again. **Looking into our internal data, we see that despite the prolonged anti-pandemic restrictions the deferred demand has been quickly unleashed.**

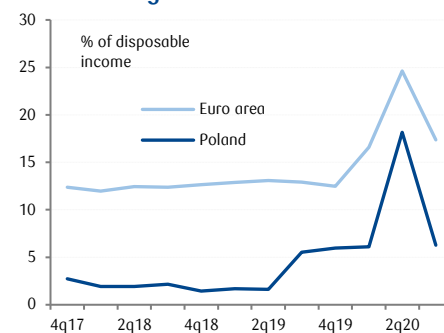
The most natural category of consumer spending to look at in this respect is **clothing and footwear**, with many stores located in the shopping malls. In February 2021 we have experienced the same pattern as earlier in 2020, when restrictions were eased. Sales surged starting from the first day, and their current level is substantially above the one expected at this time of a year.

We have reasons to suspect that a similar rebound is likely to be observed in the **services sector** as well. Hotels, that are set to be opened to the general public, have already experienced some pick up in payments made by PKO customers. As we are currently at the peak of winter season, in the following weeks we could expect an even stronger rebound than in May. Some growth in the value of transactions has been already observed in the entertainment category as well, that includes cinemas, theatres, theme parks and paid TV services.

Mobility data from Google and shopping malls operators, that offers an alternative look at the same phenomenon, lead to similar conclusions. Polish Council of Shopping Centers informed that the average footfall in the first week of February was app. 20% below the level recorded last year as compared with -50% y/y a week before. The near-term forecast for footfall shows a drop by 25-30% in y/y terms. The Google mobility data, however, points to a rather moderate increase of the time spent in retail and recreation venues, that was still by app 26%-28% lower than in the baseline period in January 2020.

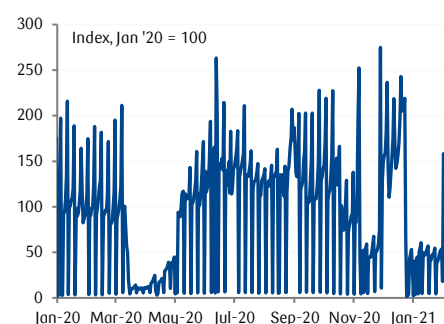
Under the assumption that the current retail trends will prevail till the end of the month, we could see an increase in retail sales in y/y terms in February, after an

1. The savings rate



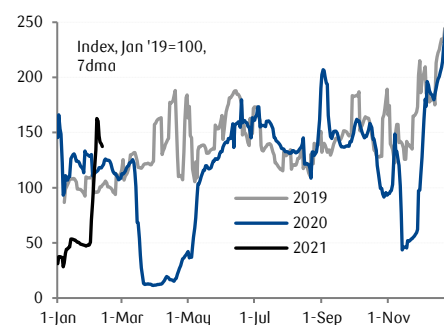
Source: Eurostat, PKO Bank Polski.

2. Card spending on clothing and footwear



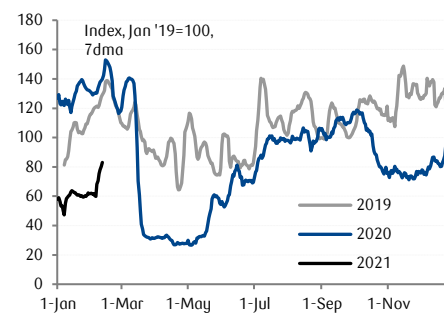
Source: PKO Bank Polski.

3. Card spending on clothing and footwear



Source: Eurostat, PKO Bank Polski.

4. Card spending on entertainment

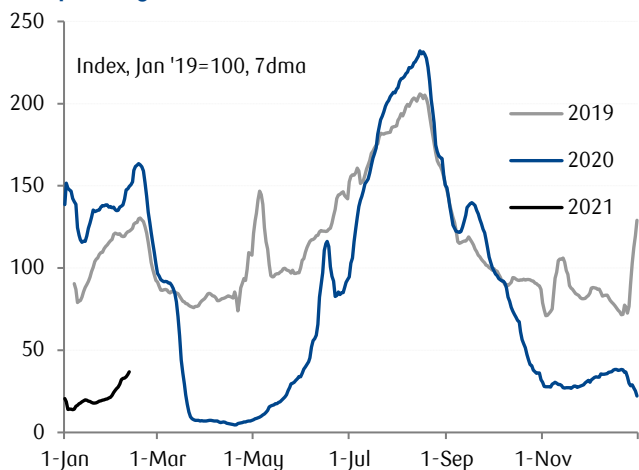


Source: PKO Bank Polski.

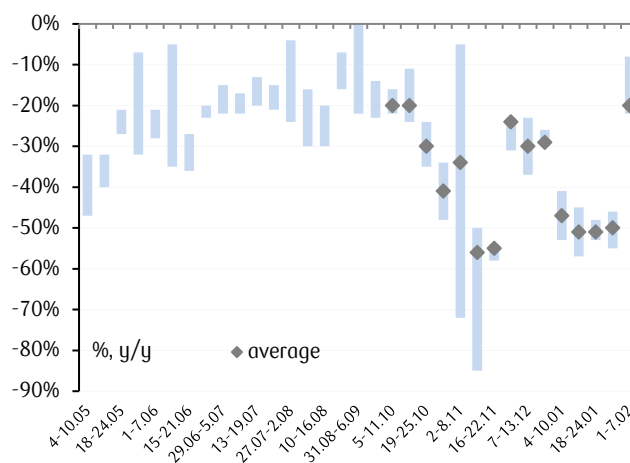
estimated decline by 5.7% y/y in January.

Consequently, **our macro scenario for 2021 stays intact**. We expect private consumption to grow by 5% in 2021 after falling by 1.5% in 2020. The healthy consumption fundamentals have not been damaged by the virus and administrative measures that have only deferred, not deleted the consumption spending.

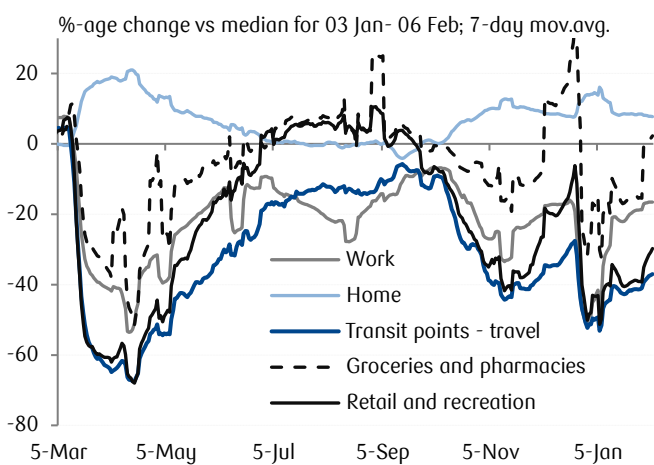
5. Card spending in hotels/on recreation



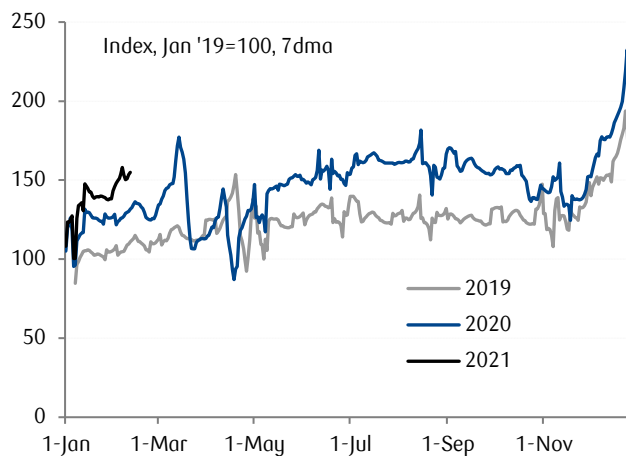
6. The average traffic in the shopping centers



7. Google Mobility in various location types



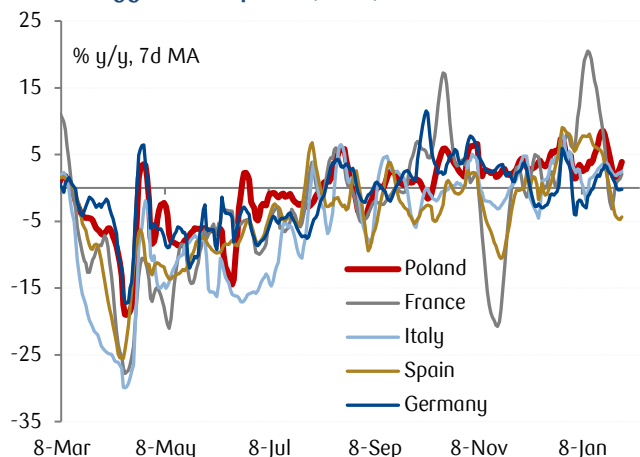
8. Total card spending



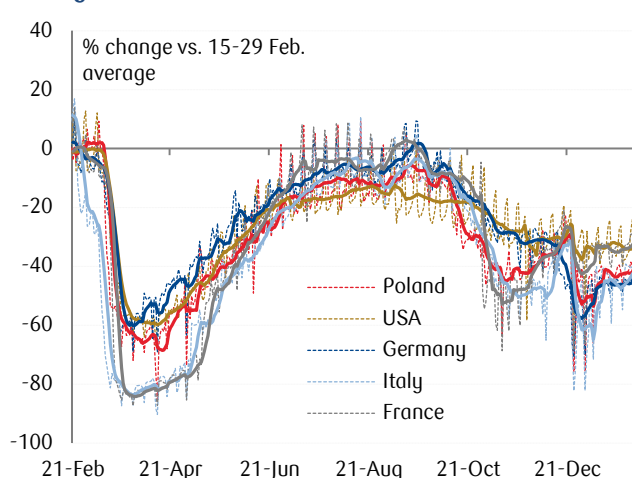
Source: Google Mobility, Polish Council of Shopping Centers, PKO Bank Polski

Macro monitoring with alternative data

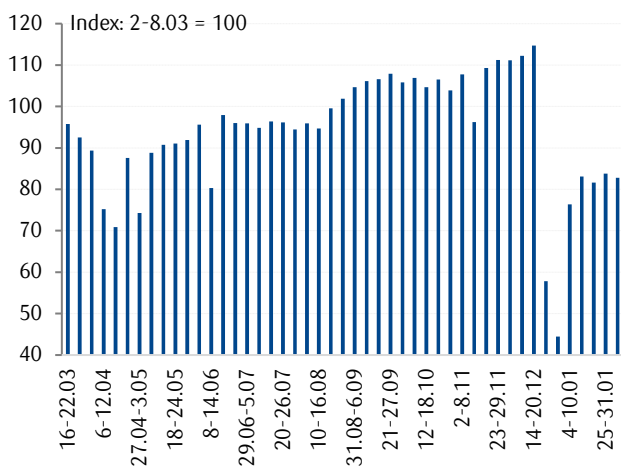
Electric energy consumption (total)



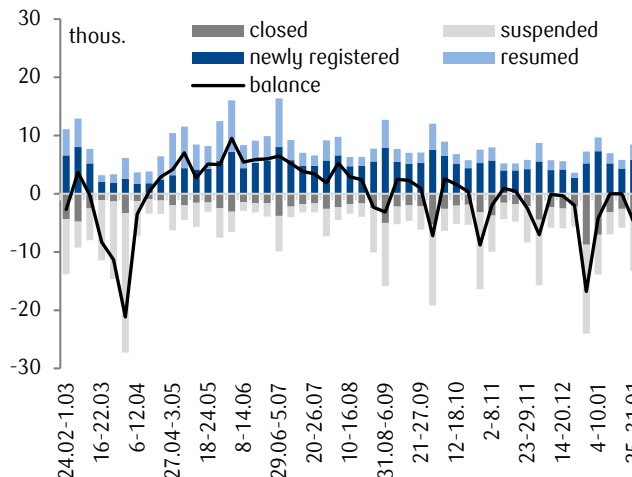
Mobility*



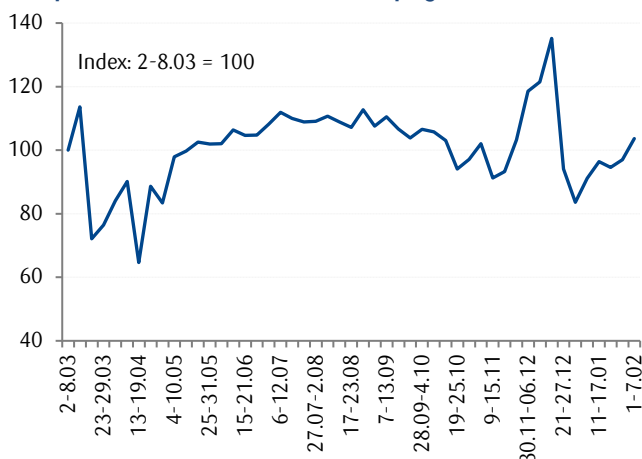
Heavy truck traffic



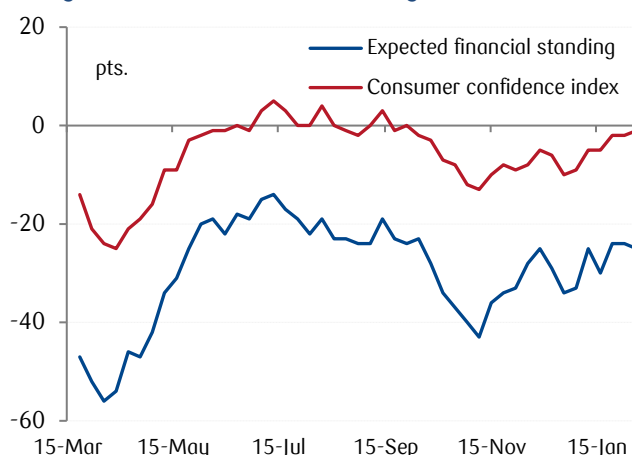
Economic activity status (acc. to CEiDG**)



Consumption based on PKO BP card payments



Weekly consumer confidence survey



Source: PSE, Apple, Google, GDDKiA, CEiDG, Kantar, PKO Bank Polski, *weighted with market share of iOS and Android, no new google data available, 7DMA, **Central Registration and Information on Business.

Weekly economic calendar

Indicator	Time (UK)	Unit	Previous	Consensus*	PKO BP	Comment
Monday, 15 February						
POL: CPI inflation (Jan)	9:00	% y/y	2.4	2.4	2.7	The unusually wide spread between the lowest (2.0) and the highest (our 2.7) forecast mirrors uncertainty regarding the final outcome of regulatory (new taxes), statistical (base) and pandemic (lockdown) factors
EUR: Industrial production (Dec)	10:00	% y/y	-0.6	0.0	--	
EUR: Trade balance (Dec)	10:00	bn EUR	25.1	--	--	
POL: Current account balance (Dec)	13:00	bn EUR	1.725	1.058	1.138	
POL: Exports (Dec)	13:00	% y/y	9.5	15.5	20.7	
POL: Imports (Dec)	13:00	% y/y	5.3	9.8	10.5	
Tuesday, 16 February						
GER: ZEW Economic Sentiment (Feb)	10:00	pts.	61.8	60.0	--	--
EUR: Employment (4q)	10:00	% y/y	-2.3	--	--	--
EUR: GDP growth (4q)	10:00	% y/y	-4.1	-5.1	--	--
Wednesday, 17 February						
POL: Wages (Jan)	9:00	% y/y	6.6	5.0	5.3	Lockdown measures may result in a deeper fall of employment in January, however bear in mind that due to new sampling, January reading is always at the roll of a dice. Higher minimum wage, along with reviving demand for employees in some (mostly industry-related) sectors will keep wage pressure relatively stable.
POL: Employment (Jan)	9:00	% y/y	-1.0	-1.1	-1.5	
USA: PPI inflation (Jan)	13:30	% y/y	0.8	--	--	
USA: Retail sales (Jan)	13:30	% m/m	-0.7	0.8	--	
USA: Industrial production (Jan)	14:15	% m/m	1.6	0.4	--	
USA: Minutes Fed (Jan)	19:00	--	--	--	--	
Thursday, 18 February						
POL: PPI inflation (Jan)	9:00	% y/y	0.0	0.5	0.5	Negative calendar effects will push industrial output down in January, following a very strong print in December.
POL: Industrial production (Jan)	9:00	% y/y	11.9	1.0	-0.7	
USA: Housing starts (Jan)	13:30	mln	1.669	1.650	--	
USA: Initial Jobless Claims (Feb)	13:30	thous.	793	--	--	
EUR: Consumer Confidence (Feb)	15:00	pts.	-15.5	-14.5	--	
Friday, 19 February						
GER: PPI inflation (Jan)	7:00	% y/y	0.2	--	--	The performance of the real economy in January was impacted by lockdown, as well as by negative calendar effects.
GER: Manufacturing PMI (Feb, flash)	8:30	pts.	57.1	56.8	--	
GER: Services PMI (Feb, flash)	8:30	pts.	46.7	46.5	--	
POL: Construction output (Jan)	9:00	% y/y	3.4	-7.3	-9.7	
POL: Retail sales (Jan)	9:00	% y/y	-0.8	-4.5	-5.7	
EUR: Manufacturing PMI (Feb, flash)	9:00	pts.	54.8	54.2	--	
EUR: Services PMI (Feb, flash)	9:00	pts.	45.4	46.0	--	
USA: Manufacturing PMI (Feb, flash)	14:45	pts.	59.2	58.5	--	
USA: Existing home sales (Jan)	15:00	mln	6.76	6.56	--	

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

Selected economic indicators and forecasts

	Nov-20	Dec-20	Jan-21	3q20	4q20	1q21	2q22	2019	2020	2021
Economic activity										
Real GDP (% y/y)	x	x	x	-1.5	-2.8	-0.5	9.9	4.5	-2.8	5.1
Domestic demand (% y/y)	x	x	x	-3.2	-3.4	-1.6	10.2	3.5	-3.7	4.9
Private consumption (% y/y)	x	x	x	0.4	-3.1	0.5	15.9	4.0	-3.0	5.5
Gross fixed capital formation (% y/y)	x	x	x	-9.0	-10.8	2.8	4.3	7.2	-8.4	3.7
Inventories (pp)	x	x	x	-2.3	0.8	-2.9	-0.9	-1.4	-0.8	0.1
Net exports (pp)	x	x	x	0.7	-0.1	0.9	0.9	1.2	0.8	0.6
Industrial output (% y/y)	5.4	11.2	-0.7	3.2	5.2	5.6	21.3	4.0	-1.0	10.0
Construction output (% y/y)	-4.9	3.4	-9.7	-10.9	-2.4	-18.0	-4.4	3.6	-2.7	-1.3
Retail sales (real, % y/y)	-5.3	-0.8	-5.7	1.0	-2.8	0.1	8.3	5.4	-2.7	1.2
Nominal GDP (PLN bn)	x	x	x	582.5	639.3	566.8	596.0	2288	2306	2505
Labour market										
Registered unemployment rate‡(%)	6.1	6.2	6.5	6.1	6.2	6.3	5.8	5.2	6.2	5.4
Employment in enterprises (% y/y)	-1.2	-1.0	-1.5	-1.9	-1.1	-1.5	2.1	2.7	-1.2	0.8
Wages in enterprises (% y/y)	4.9	6.6	5.3	4.3	5.9	7.3	6.1	6.6	4.8	6.5
Prices^										
CPI inflation (% y/y)	3.0	2.4	2.7	3.0	2.8	2.6	3.2	2.3	3.4	3.1
Core inflation (% y/y)	4.3	3.7	3.7	4.2	4.1	3.7	2.8	2.0	3.9	3.0
15% trimmed mean (% y/y)	3.0	2.7	x	3.2	2.9	x	x	2.0	3.2	x
PPI inflation (% y/y)	-0.1	0.0	0.5	-1.2	-0.2	1.5	2.7	1.2	-0.6	2.3
Monetary aggregates‡										
Money supply, M3 (PLN bn)	1790.7	1822.7	1808.8	1762.2	1822.7	1832.0	1842.3	1565.6	1822.7	1967.5
Money supply, M3 (% y/y)	16.1	16.4	16.1	17.0	16.4	12.5	5.5	8.3	16.4	7.5
Real money supply, M3 (% y/y)	13.1	14.0	13.4	14.0	14.0	9.9	2.3	4.9	14.0	4.4
Loans, total (PLN bn)	1338.8	1333.9	x	1337.7	1333.9	1322.3	1358.2	1323.4	1333.9	1378.9
Loans, total (% y/y)	0.4	0.8	x	0.5	0.8	-3.3	-0.2	5.1	0.8	3.4
Deposits, total (PLN bn)	1639.4	1602.2	x	1627.3	1602.2	1617.1	1627.4	1406.6	1602.2	1681.3
Deposits, total (% y/y)	15.8	13.9	x	15.8	13.9	8.9	0.5	8.2	13.9	4.9
Balance of payments										
Current account balance (% GDP)	3.7	4.0	3.7	3.1	4.0	4.0	3.1	0.5	4.0	3.0
Trade balance (%GDP)	2.4	2.6	2.7	1.8	2.6	2.8	2.6	0.2	2.6	1.7
FDI (% GDP)	1.2	1.4	1.3	1.1	1.4	1.3	1.2	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	0.10	0.10	0.10	0.10	1.50	0.10	0.10
NBP lombard rate (%)	0.50	0.50	0.50	0.50	0.50	0.50	0.50	2.50	0.50	0.50
NBP deposit rate (%)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.50	0.00	0.00
WIBOR 3M ^x (%)	0.22	0.21	0.21	0.22	0.21	0.20	0.20	1.71	0.21	0.20
Real WIBOR 3M ^x (%) [#]	-2.78	-2.19	-2.49	-2.78	-2.59	-2.20	-2.80	-1.69	-3.19	-2.90
Exchange rates^{x,‡}										
EUR-PLN	4.48	4.61	4.54	4.53	4.61	4.50	4.48	4.26	4.61	4.45
USD-PLN	3.74	3.76	3.75	3.87	3.76	3.66	3.61	3.80	3.76	3.50
CHF-PLN	4.14	4.26	4.21	4.19	4.26	4.17	4.11	3.92	4.26	4.05
EUR-USD	1.20	1.23	1.21	1.17	1.23	1.23	1.24	1.12	1.23	1.27

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	4.8	"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	4.5	"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	4.2	"I see no scenario in which interest rates should be lowered (...) Even if the third wave of infections comes along with another significant economic lockdown, the optimal NBP action would be to continue the program of bond purchases on the secondary market. (...) if the economic revival progresses it is hard to exclude a necessity of a rate hike, albeit a very cautious one, i.e. first normalization of the mandatory reserve rate and then, in the second step, of the reference rate, and that only up to the level of 0.5%." (11.02.2021, polishbrief.pl; PAP)
J. Kropiwnicki	3.2	"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).
C. Kochalski	2.2	"In the current conditions, that is amid rebounding economy [PAP: and] with inflation within the target range, rate stabilization is the right approach, I believe," (10.02.2021, PAP).
R. Sura	2.1	"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	1.8	"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)
A. Glapinski	1.5	"If the pandemic and economic situation will develop in line with the base scenario for a stabilization of the epidemic situation and gradual improvement in economic trends, then no change in monetary policy parameters should be necessary in the coming quarters. Shortly speaking, with the current high level of uncertainty concerning future economic situation nothing is predetermined and we have to be ready for different scenarios" (05.01.2021, PAP, obserwatorfinansowy.pl).
J. Zyzynski	1.5	"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	1.1	"(...) the current low level of NBP interest rates will be necessary for many months to come, at least until the end of the current term of the MPC (...) But a rate cut could still prove necessary this year, along with various QE measures, upon emergence of risk of major unemployment rate growth." (08.02.2021, wgospodarce.pl, 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

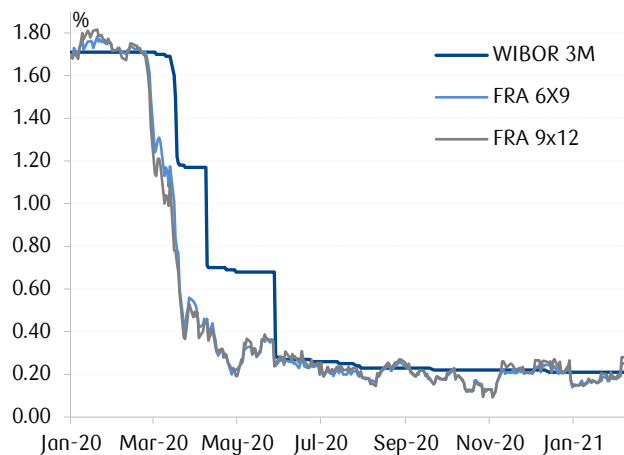
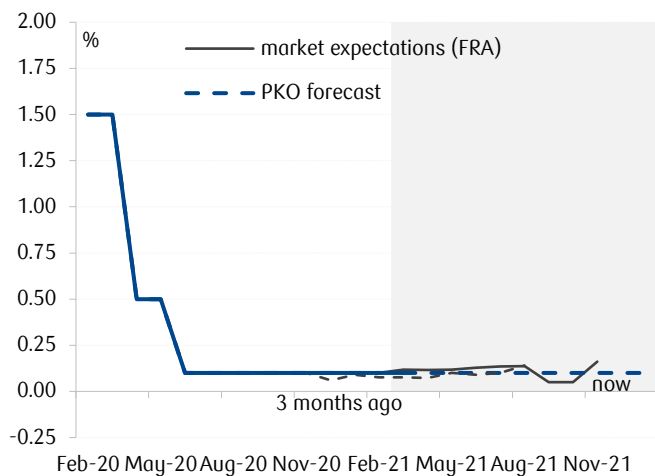
		1M	2M	3M	4M	5M	6M	7M	8M	9M
Date	11-Feb	11-Mar	11-Apr	11-May	11-Jun	11-Jul	11-Aug	11-Sep	11-Oct	11-Nov
WIBOR 3M/FRA†	0.21	0.23	0.23	0.23	0.24	0.25	0.25	0.16	0.16	0.27
implied change (b. p.)		0.02	0.02	0.02	0.03	0.04	0.04	-0.05	-0.05	0.06
MPC Meeting	3-Feb	3-Mar	7-Apr	5-May	9-Jun	8-Jul	-	8-Sep	6-Oct	3-Nov
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*		0.12	0.12	0.12	0.13	0.14	0.14	0.05	0.05	0.16

†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

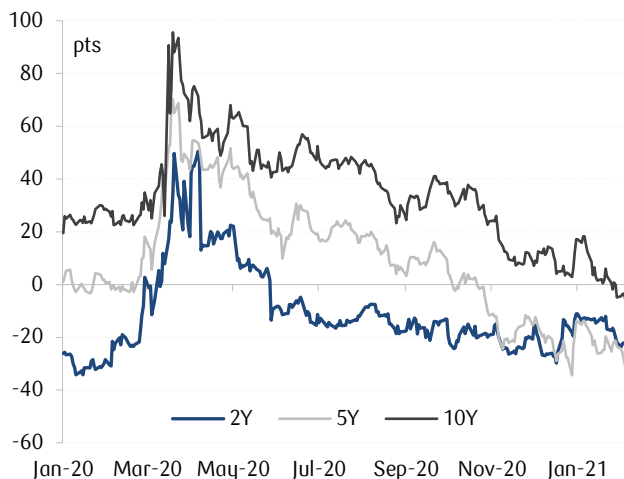
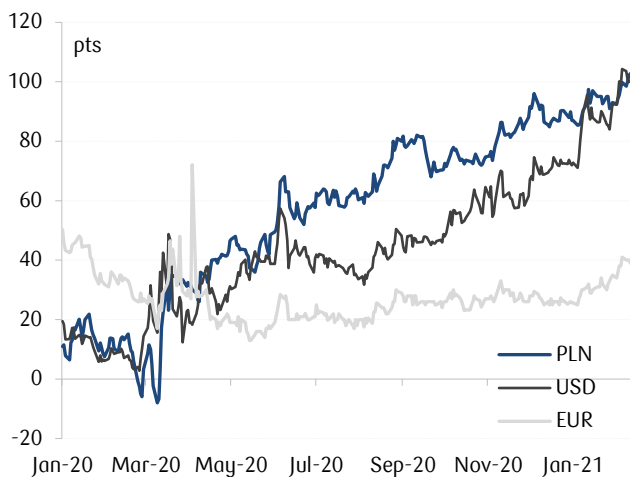
NBP policy rate: PKO BP forecast vs. market expectations

Short-term PLN interest rates



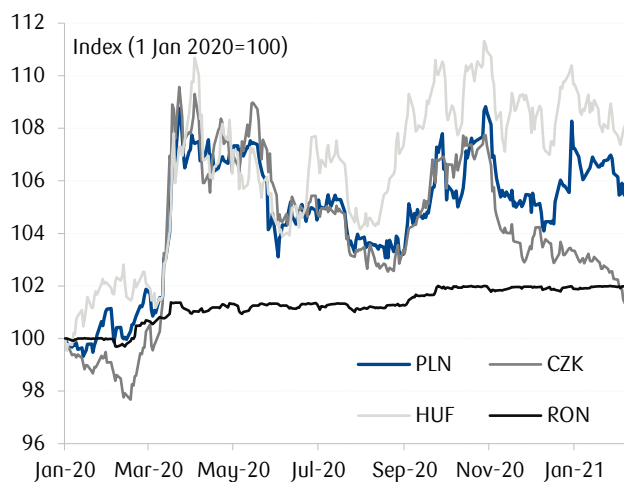
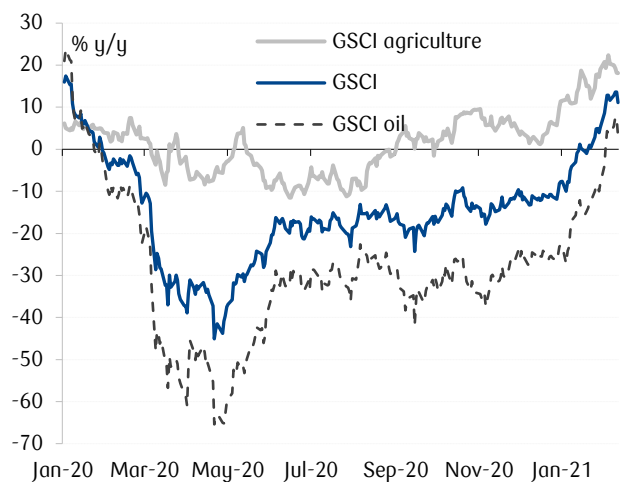
Slope of the swap curve (spread 10Y-2Y)*

PLN asset swap spread



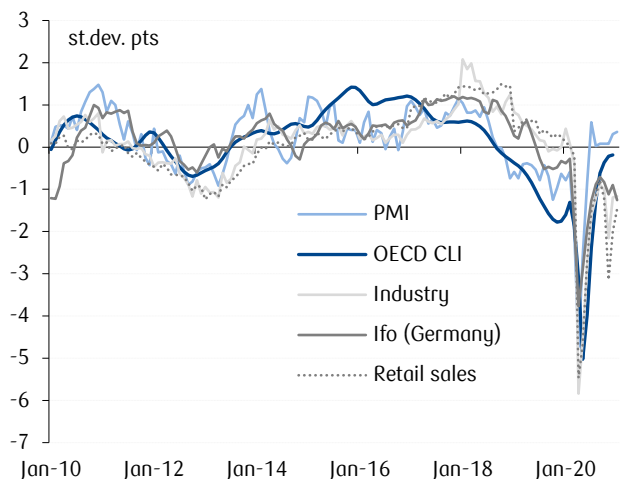
Global commodity prices (in PLN)

Selected CEE exchange rates against the EUR

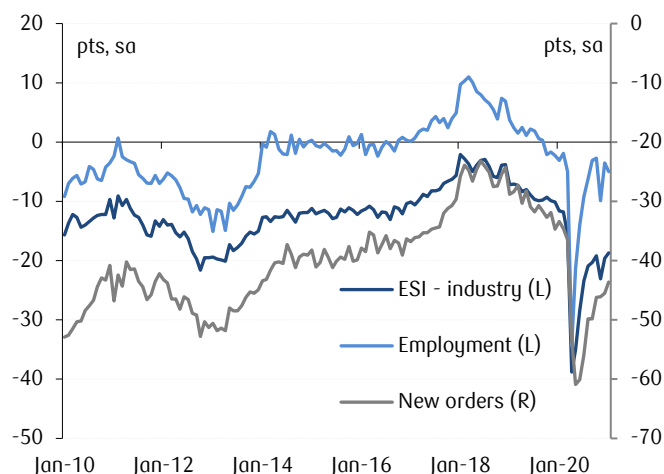


Source: Datastream, NBP, PKO Bank Polski. *for PLN, and EUR 6M, for USD 3M.

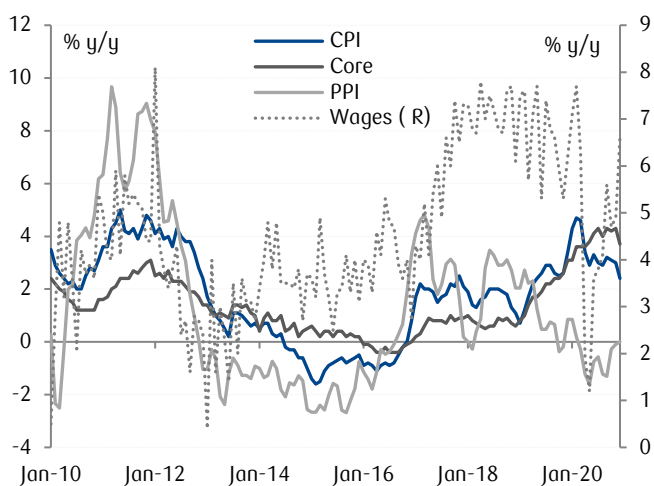
Economic sentiment indicators



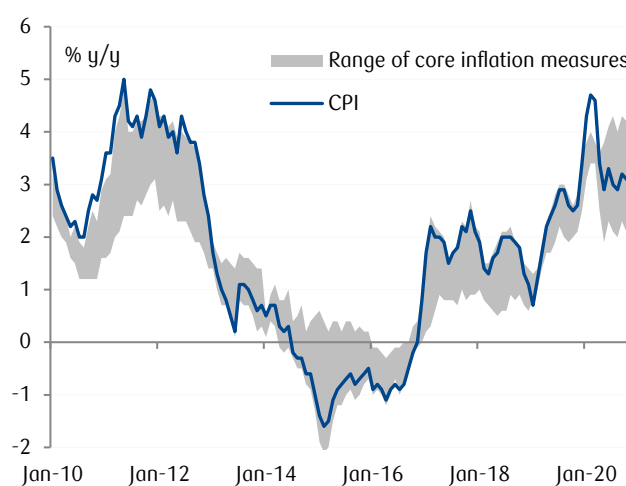
Poland ESI for industry and its components



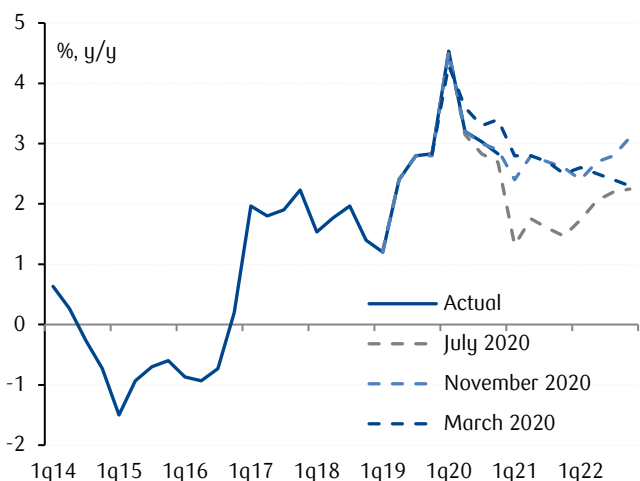
Broad inflation measures



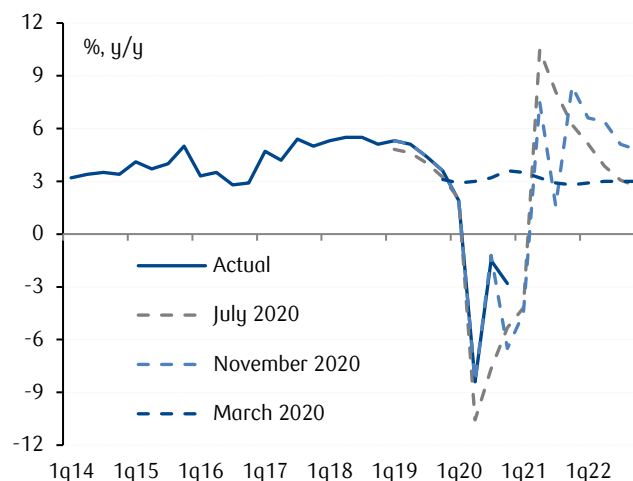
CPI and core inflation measures



CPI inflation - NBP projections vs. actual

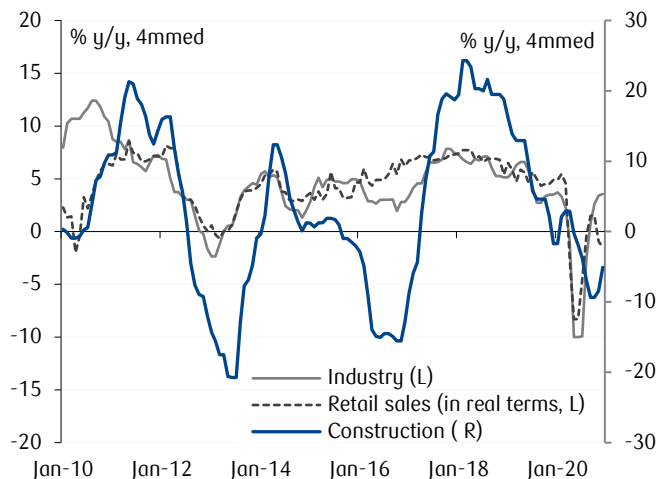


Real GDP growth - NBP projections vs. actual

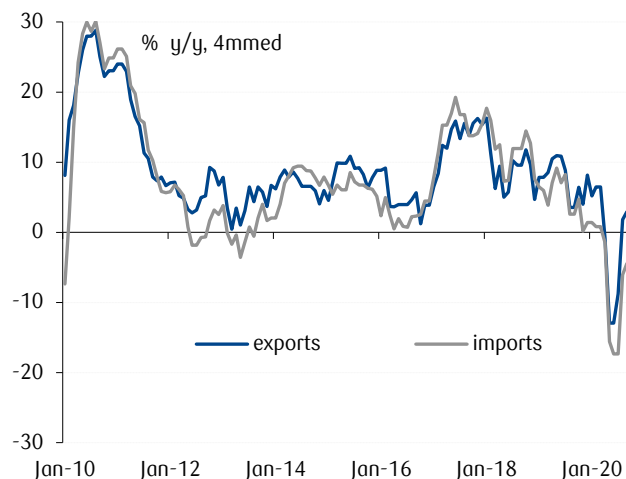


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

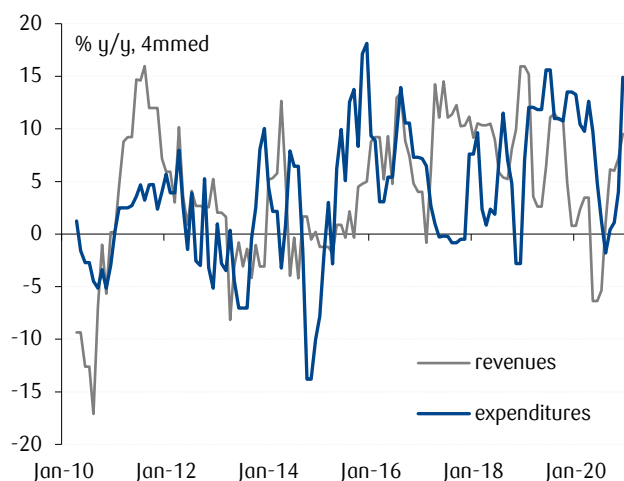
Economic activity indicators



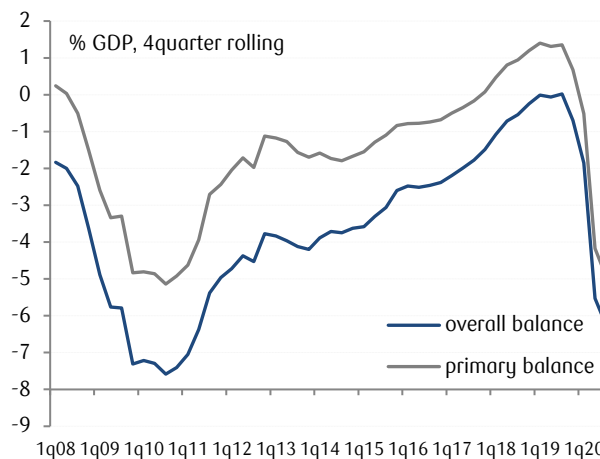
Merchandise trade (in EUR terms)



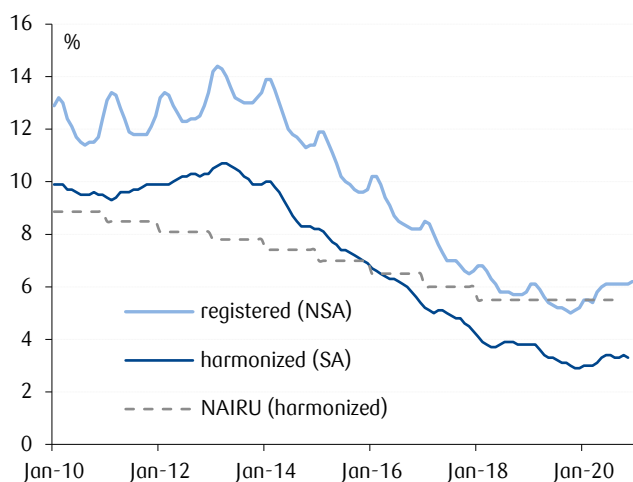
Central government revenues and expenditures*



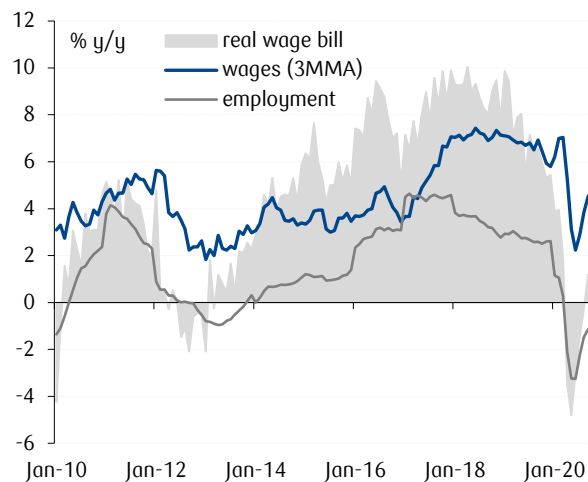
General government balance (ESA2010)



Unemployment rate

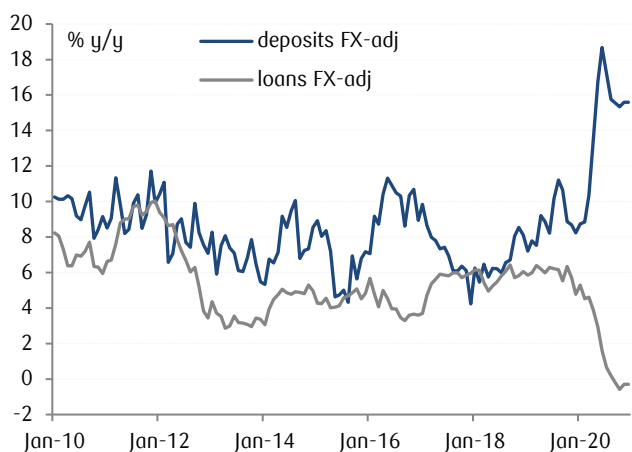


Employment and wages in the enterprise sector

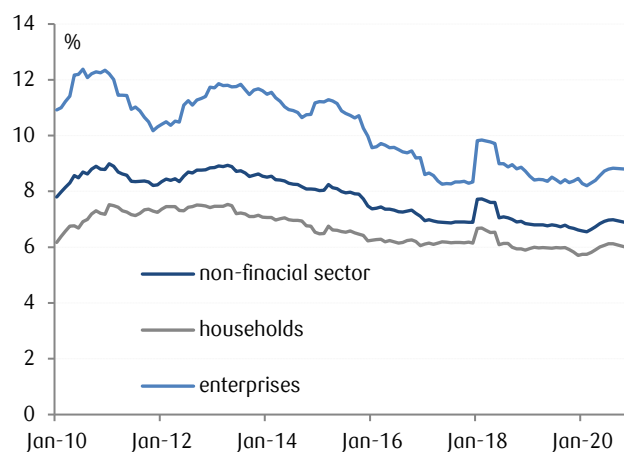


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. *break in series in 2010 due to methodological changes.

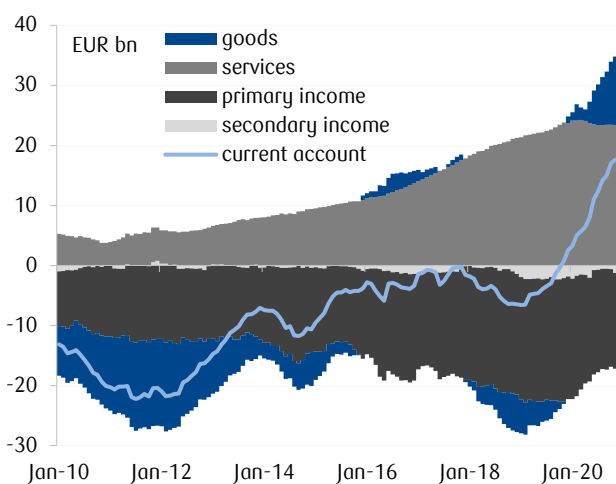
Loans and deposits



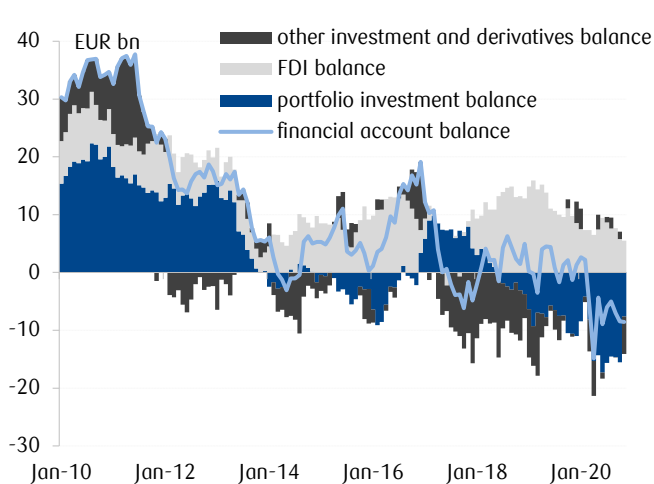
Non-performing loans (NPLs) - by sectors*



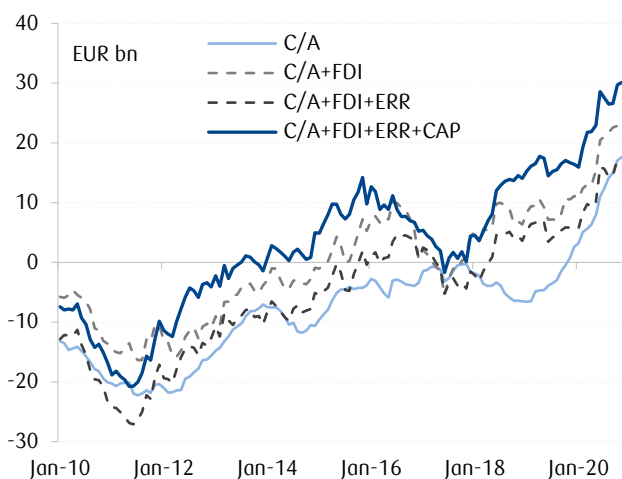
Current account balance



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.

Previous issues of PKO Macro Weekly:

- [Spotlight: fiscal stance](#) (Feb 5, 2021)
- [2020 better than feared, bounce back ahead](#) (Jan 29, 2021)
- [Labour waves goodbye to difficult year](#) (Jan 22, 2021)
- [Housing frenzy exposes some perils of ultralow rates](#) (Jan 15, 2021)
- [New Year's sale at the NBP](#) (Jan 08, 2021)
- [Surplus economy](#) (Dec 18, 2020)
- [Deal done](#) (Dec 11, 2020)
- [Bumpy road to recovery](#) (Dec 4, 2020)
- [A tipping point](#) (Nov 27, 2020)
- [Reflections on the pandemic and inflation](#) (Nov 20, 2020)
- [Shadow rate below zero](#) (Nov 13, 2020)
- [Lockdown 1.5](#) (Nov 6, 2020)
- [Fiscal space](#) (Oct 30, 2020)
- [Fearless?](#) (Oct 23, 2020)
- [How deep is the second dip?](#) (Oct 16, 2020)
- [Second wave, double dip recession?](#) (Oct 9, 2020)
- [Inflation is not letting go](#) (Oct 2, 2020)
- [Easy gains are now over?](#) (Sep 25, 2020)
- [Lower for even longer?](#) (Sep 18, 2020)
- [Fiscal policy on the go](#) (Sep 11, 2020)
- [Better than feared](#) (Sep 4, 2020)
- [Labour market at a crossroads](#) (Aug 28, 2020)
- [Is the crisis over?](#) (Aug 21, 2020)
- [Cash is king](#) (Aug 7, 2020)
- [EU Recovery Fund: final approach](#) (Jul 31, 2020)
- [Good news](#) (Jul 24, 2020)
- [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)
- [28 years and gone](#) (Apr 24, 2020)

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)	4.0	3.0	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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