

28 years and gone

Top macro theme(s):

- **Falling into the first recession since transition (p. 2):** Economic activity indicators and labour market data for March have not been a disaster (except for tumbling retail sales). Thus, we still estimate that Poland's annual GDP growth rate was in the positive territory in 1q20. However, an unprecedented slump in business sentiment and consumer confidence in April heralds that the biggest part of the fallout from the pandemic is yet to come and Europe's growth champion over the last decades is set to fall into its first recession since economic transition in the early 1990s.

What else caught our eye:

- **Unemployment rate in March fell to 5.4% from 5.5% in Feb.**, as seasonal factors outweighed lower labour demand in the 2nd half of the month. The unemployment growth will be lagged, due to the labour market structure and protective measures implemented in the anti-crisis & financial shields.
- **The number of applications to use the Anti-Crisis Shield was over 1.7m by April 22, according to the Ministry of Development.** It includes: 1) over 1.1m for exemptions from social security contributions, 2) almost 300k for downtime subsidy, 3) over 13k for subsidies for wages, 4) 215k for a loan for micro enterprises, 5) 40k for allowance for civil law contractors, and 6) 47k to postpone social contribution payments.
- **M3 money supply growth in March rose to 11.8% y/y** (vs 9.4% y/y in February), due to both NBP actions (QE) and intensified use of corporate credit lines. Total deposits accelerated to 10.3% y/y (vs 8.8% y/y) while total loans growth (FX-adj.) was broadly stable at 4.8% y/y (vs 4.7% y/y). Loans-to-depo ratio dropped to 92%, the lowest since June 2007.
- **The NBP had a profit of PLN 7.8bn in 2019**, of which PLN 7.4bn will be transferred to the state budget this year (in line with assumptions).
- **PPI inflation in March continued steep slowdown** (-0.5% y/y vs +0.1% y/y in February), mostly on plummeting oil prices.

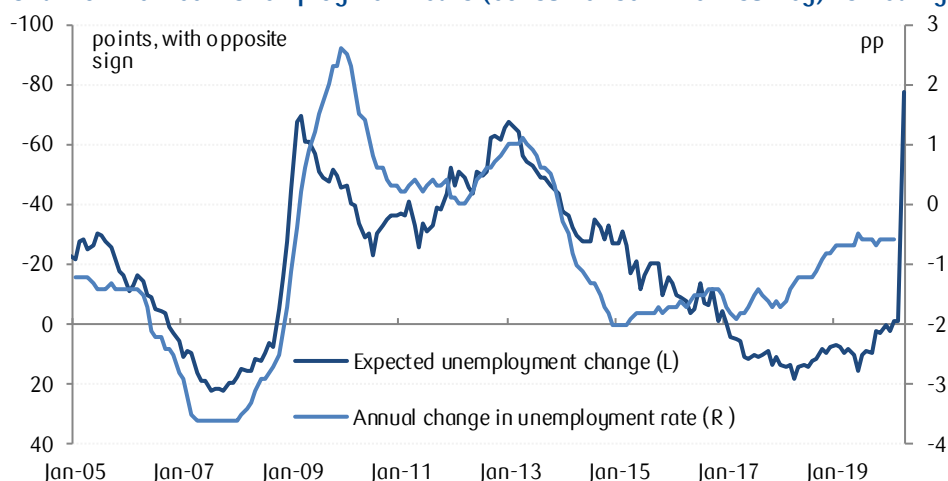
The two weeks ahead:

- PMI for April (due for release on May 4) may reach new all-time low.

Number of the week:

- **-47.3pts** - the record low (previous low -26.6pts) subindex of current major purchases in Poland's consumer confidence survey.

Chart of the week: Unemployment fears (consumer sentiment survey) vs. reality



Source: GUS, PKO Bank Polski.

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	2019	2020†
Real GDP (%)	4.1	-3.5
Industrial output (%)	4.0	-3.5
Unemployment rate# (%)	5.2	8.4
CPI inflation** (%)	2.3	3.4
Core inflation** (%)	1.9	2.7
Money supply M3 (%)	8.3	13.9
C/A balance (% GDP)	0.5	-0.2
Fiscal balance (% GDP)*	-0.7	-5.4
Public debt (% GDP)*	46.0	51.6
NBP reference rate# (%)	1.50	0.5
EURPLN#	4.26	4.55

Source: GUS, NBP, MinFin, †PKO BP Macro Research team forecasts; ‡PKO BP Market Strategy team forecasts; *ESA2010, **period averages; †end of period.

Falling into the first recession since early 1990s

- Economic activity indicators and labour market data for March have not been a disaster (except for tumbling retail sales). We still estimate that Poland's annual GDP growth rate was in the positive territory in 1q20.
- However, an unprecedented slump in business sentiment and consumer confidence in April heralds that the biggest part of the fallout from the pandemic is yet to come and Europe's growth champion over the last decades is set to fall into its first recession since economic transition in the early 1990s.

The recent week finally brought a set of hard macro data, although incomplete, showing the condition of the Polish economy in the first month of the pandemic era. The data cover March – a month when the pandemic had just reached Poland and restrictions were introduced in the middle of the month. This first set of regular monthly figures shows: no significant demand-driven changes on the labour market (however they will definitely appear later on), supply- and demand-driven activity contraction in the manufacturing, a relatively immune construction sector and the collapse of retail sales. Business sentiment and consumer confidence surveys for April clearly shows that the worst is yet to come. However, due to a strong performance in January-February, annual GDP growth rate in 1q20 likely stayed on the positive side before the inevitable fall into recession starting from 2q20.

Labour market

The outbreak of the epidemic in Poland was the reason behind an unusually steep employment decline in March. Average employment in the enterprise sector decreased by 34,000 (-0.5% m/m), the most on record for that month of a year (margin chart 1). The reduction was largely related to retirement and termination of fixed-term contracts, but to a noticeable extent reflected also a shift to unpaid / sick / care leaves (all schools in Poland have been closed since March 12). The annual growth rate of average employment remained positive and reached 0.3% (PKO: 0.5%; cons: 0.8) compared to 1.1% in February.

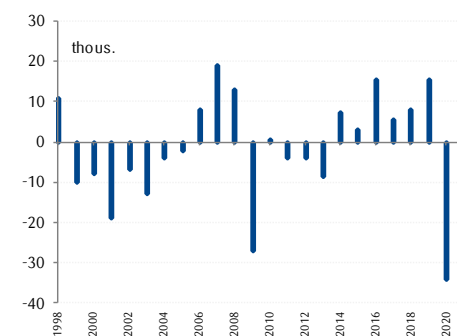
Data for March are only a foretaste of a significant reduction in employment in April and May, caused by the protracted restrictions on the economic activity. It is also worth remembering that in the current crisis, jobs that are not covered by statistics for the enterprise sector, i.e. people working in micro firms in the services sector and self-employed are most at risk. However, the scale of employment reduction will be limited by the Anti-crisis Shield, including the Financial Shield, as indicated by anecdotal evidence from enterprises (e.g. from the retail sector).

Wages kept growing at a solid pace in March (6.3% y/y vs. 7.7% y/y in February; margin chart 2), as companies continued to pay bonuses (for showing up for work in retail and negotiated before the crisis in the mining sector). Wage growth will undoubtedly slow down in the coming months, due to temporary salary cuts and a reduction of bonuses. As always during a slowdown, the downward trend in average wages will be flattened by the fact that low-earners, with a less unique set of skills and experience, whose re-employment does not entail a high cost for the enterprise, are the first to be dismissed.

Industrial output

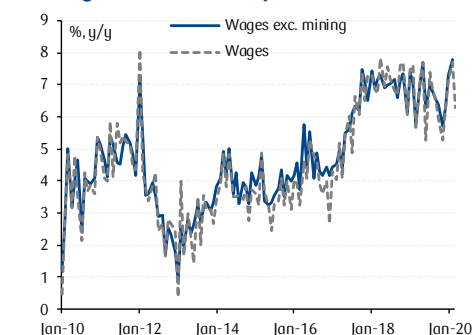
Industrial output in March fell by -2.3% y/y (PKO: 1.5% y/y, cons: -2.1% y/y) after increasing by 4.9% y/y in February. Adjusting for seasonal factors, production decreased by -4.8% y/y vs. 3.2% y/y in February indicating that the

1: Employment change in March



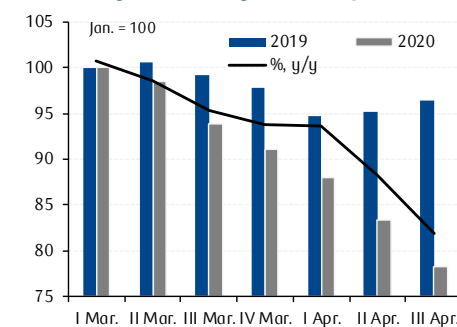
Source: GUS, PKO Bank Polski.

2: Wages in the enterprise sector



Source: GUS, PKO Bank Polski.

3: Weekly electricity consumption



Source: PSE, PKO Bank Polski.

print might have been worse, but the blow was partly hidden by the positive calendar effect, as well as a strong momentum building up in early 2020.

The print has shown that **the epidemic has given a double whammy to the industrial output, that is from the demand and supply side**. On the demand side, as March has witnessed a visible blow to some types of retail sales, the output followed, with production severely reduced in clothing, textile, and furniture industries. On the supply side, the disruption in the global supply chain (as indicated in NBP data on balance of payments in February) resulted in curbed production of automotive sector (-28.6% y/y, lowest since 2009), as well as computers and other electronic devices (incl. TV sets).

That said, some sectors have been supported (or at least not yet disrupted) by the epidemic with the pharmaceutical industry (+39.7% y/y, record high), paper and paper products, as well as food products on the forefront.

Data on energy consumption (see margin chart 3) suggest that April may show even worse performance of the industry, with output falling as much as -10% y/y confirming that the economy is falling into recession. Comparing the present trend of production with the time of the GFC (margin chart 4) suggests that the bottom is not close yet, depending on the length of the lockdown, as well as revival of (both external and internal) demand for Polish products.

Construction output

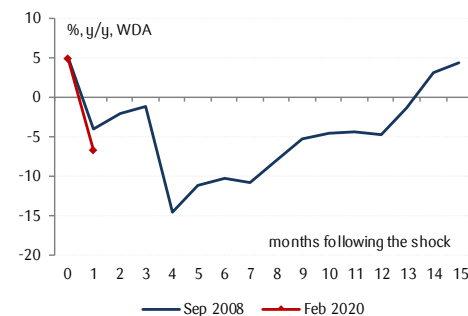
Construction output in March grew 3.7% y/y (vs 5.5% y/y in February) and as expected proved to be (so far) relatively immune to the pandemics. Apart from some anecdotal evidence showing that minor construction companies have lost some employees (as Ukrainian workers returned home), anti-epidemic restrictions have not visibly impacted activities in this sector. Construction of buildings rose by 2.9% y/y (first positive reading in 4 months) and specialized construction activities, which usually precede major investments, grew by over 10% y/y for the third subsequent month. With a still booming housing market and (so far) no plans to cut infrastructure outlays the short-term prospects for the construction sector are still relatively bright.

Retail sales

Retail sales in March tumbled by 9.0% y/y in real terms (PKOe: -6.5% y/y; consensus: -2.5% y/y), the most since April 2005. The decline was driven by two factors: (1) anti-epidemic restrictions introduced in the middle of the month (mobility limitations, closed shopping malls, limited number of customers in stores) and (2) rapid change in consumer behavior towards precautionary savings.

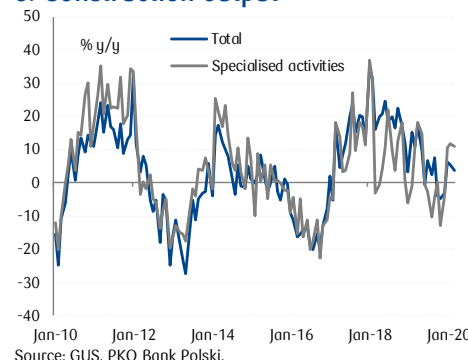
The structure of retail sales shows that in March the first channel (restrictions) was crucial. Sale of clothing and footwear as well as furniture and household appliances dropped the largest amount in history (by 49.6% y/y and 16.7% y/y respectively). With closed shops, trade in these goods only partially moved to the Internet (the share of Internet sales in clothing and footwear increased to 35.6% from 17.4% while in the furniture sector to 24.5% from 9.6% in February). The share of online sales in total retail sale increased from 5.6% in February to 8.1% in March. Data on transactions of PKO BP customers indicate that the transfer of purchases from brick and mortar to on-line stores slightly accelerated in April (chart 7). Together with announced loosening of restrictions it would limit 'objective' difficulties in trade. However in our view in April precautionary savings

4: Industrial output (Covid vs GFC)



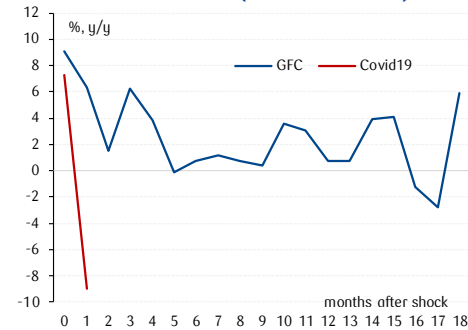
Source: GUS, PKO Bank Polski.

5: Construction output



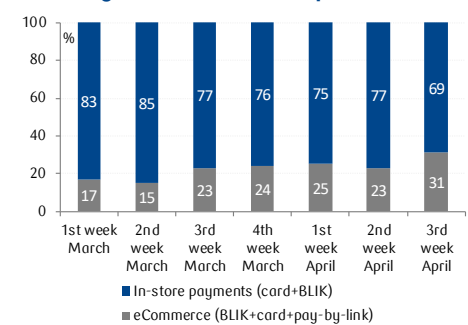
Source: GUS, PKO Bank Polski.

6: Real retail sales (Covid vs GFC)



Source: GUS, PKO Bank Polski.

7: Rising share of on-line purchases*



Source: PKO Bank Polski, * based on payments conducted with PKO BP cards

by households (1/3 of Poles are afraid of losing their job) will become the main drag on retail sales.

Car sales in March declined significantly (-30.9% y/y, the biggest since December 2004). Data on registrations suggest that this decline will deepen in April, as in the first decade of this month registrations declined by -64% y/y compared to -40% y/y in March.

Growing food sales (2.5% y/y) and elevated purchases of pharmaceuticals and cosmetics (8.8% y/y) reduced the scale of decline in total retail sales. However as in these two categories we observed massive stockpiling in March, in April their positive impact on total sales will be probably weaker.

The scale of decline in sales in March is much deeper than during the crisis in 2008/2009, confirming that this crisis has a much faster and stronger negative impact on consumers and their purchases. In our opinion the data indicate that in 1q20 private consumption dropped in y/y terms. Although the total trade in goods might be slightly stronger than suggested by the retail sales data (it does not include small units which turnover improved in March by 11% y/y, see chart 8), private consumption will be additionally burdened by a slump in services, which suffered the most during the pandemic and are not covered by retail sales data.

PKO BP data on card transactions indicate that in April the scale of cuts in consumer spending intensified which suggest that the decline in sales will deepen. A similar tendency is also indicated by today's data on the economic climate in April (the lowest in history), showing deep pessimism in retail trade.

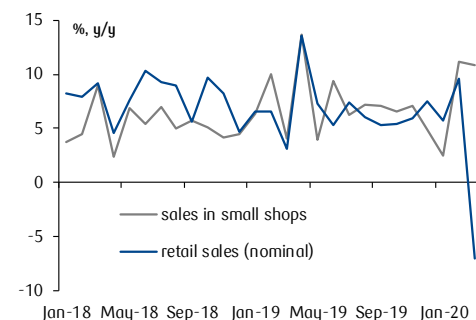
A look into the short-term future – business sentiment survey

GUS business tendency survey in manufacturing, construction, trade and services conducted between 1 and 10 April shows that the biggest economic hit caused by the Covid pandemics is yet to come. The sentiment was the worst since the beginning of the surveys and while there were large declines in the 'diagnostic' components, the 'prediction' component was even weaker. The most significant decrease in sentiment was reported for entities operating in the area of accommodation and food services. The business climate in manufacturing hit a record low. The climate is equally gloomy in the construction sector, especially among smaller companies (up to 49 employees). Business sentiment in wholesale trade recorded a historical low, with micro companies (up to 9 employees) being the most pessimistic. The least significant deterioration of sentiment was indicated by the financial and insurance sector and by ICT (-18.6% and -19.4% respectively, for both sectors the first negative readings ever, see chartpack on page 5).

GUS asked companies about their assessment of the impact of the pandemic on their activity and situation. The share of companies expecting that it will be serious or even posing a threat to stability increased compared to March, and in all sectors accounted for more than 70% (see Chartpack on page 6).

Companies reported that the scale of declines in new orders has deepened compared to March and was close to 30% in manufacturing, construction and wholesale trade, close to 40% in retail trade and transportation and storage, and close to 70% in accommodation and food services. As companies expect their financial situation to deteriorate, they significantly cut their investment plans for 2020 which clearly suggests that private investment will turn deeply negative in the remainder of the year.

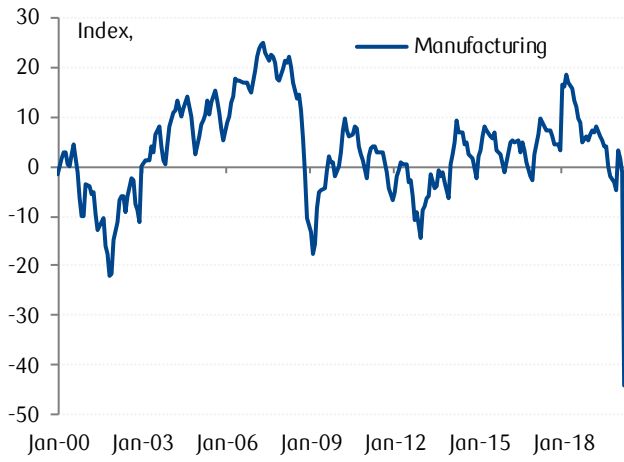
8: Retail sales vs trade in small shops



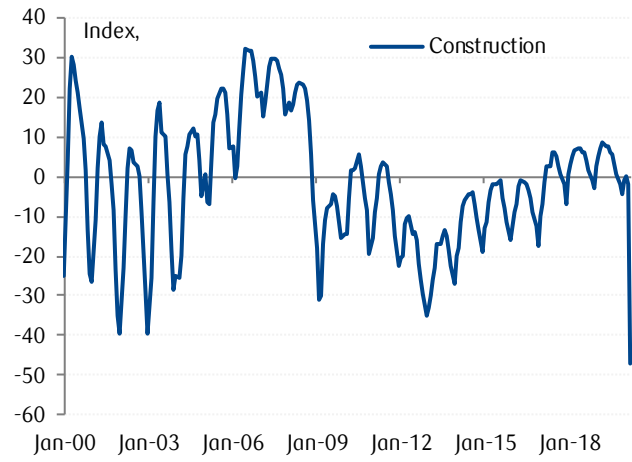
Source: PCR, GUS, PKO Bank Polski.

Chartbook: General Business Climate Indicators

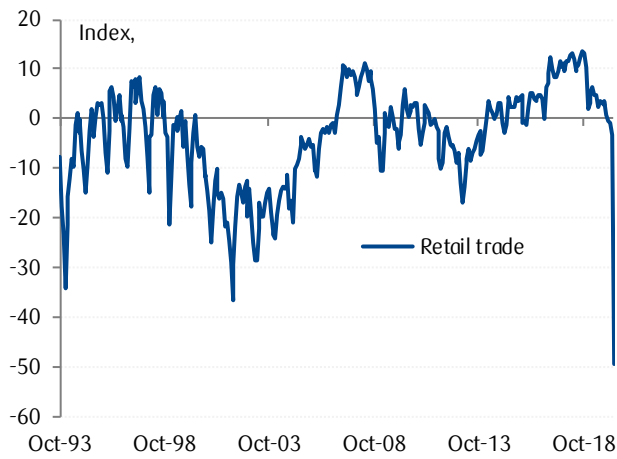
1. Manufacturing



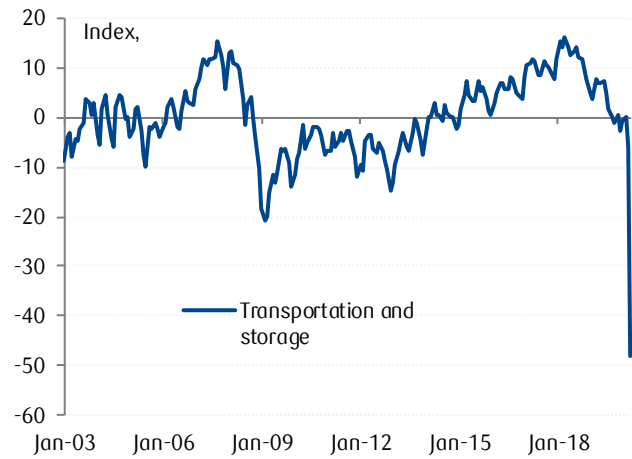
2. Construction



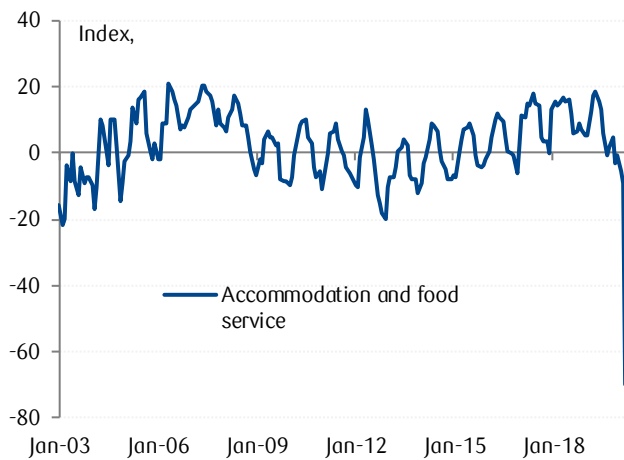
3. Retail trade



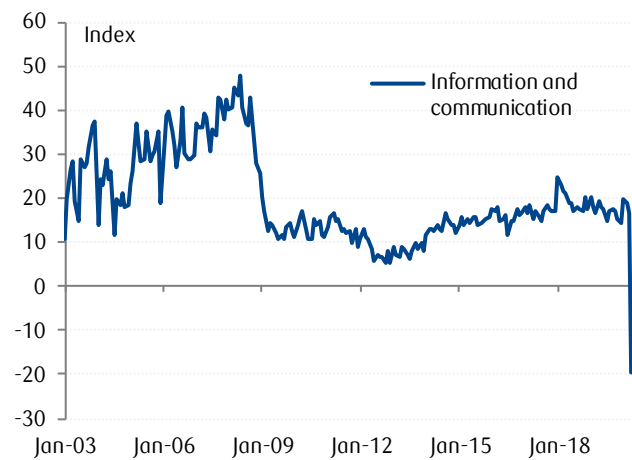
4. Transportation and storage



5. Accommodation and food services



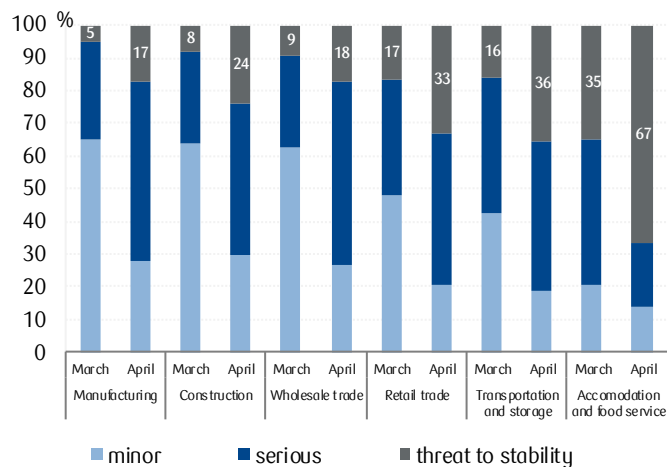
6. ICT sector



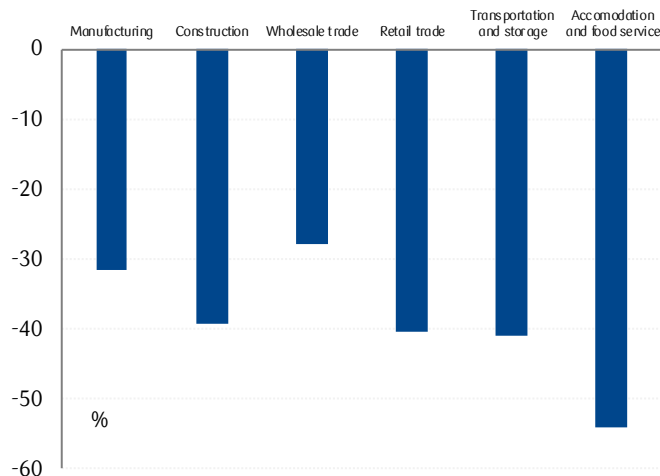
Source: GUS, PKO Bank Polski.

Chartbook: Business climate survey in April

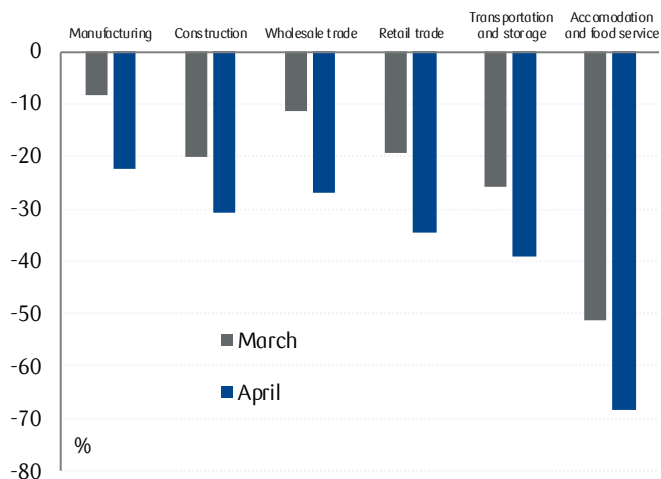
7. Negative effects of COVID-19 on business activity



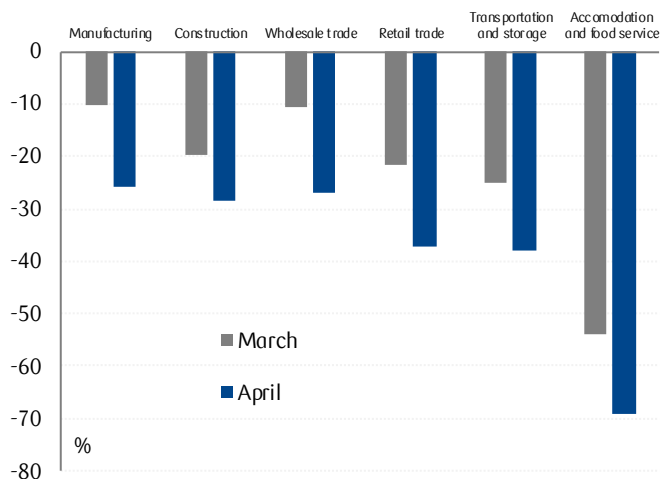
8. Change in planned investments vs. pre-COVID19 plans



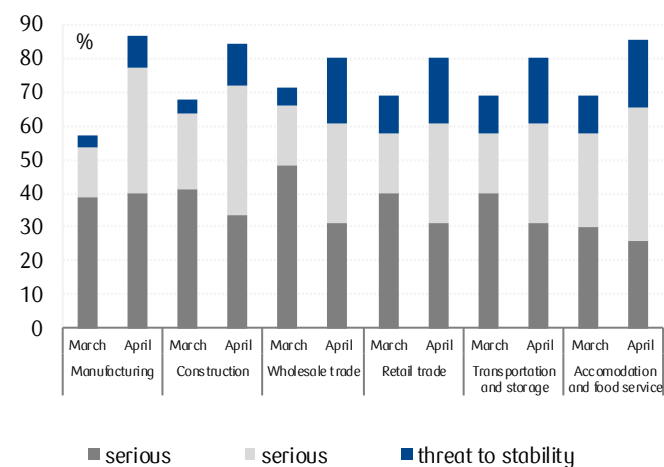
9. Change in orders placed with suppliers



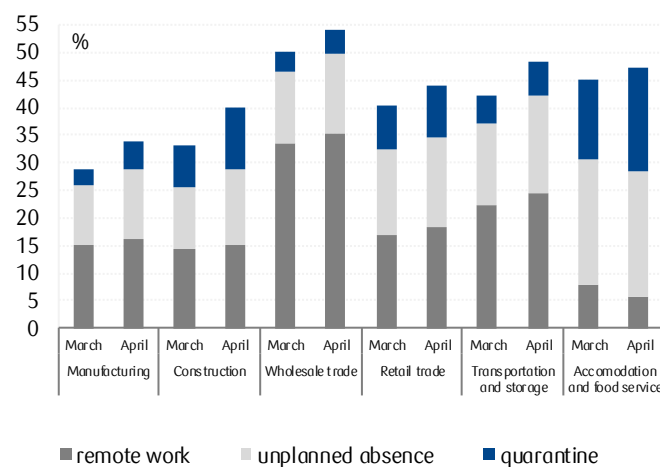
10. Change in orders placed from customers



11. Occurrence of payment gridlocks or their increase



12. Effects of COVID-19 on employment



Source: GUS, PKO Bank Polski.

Weekly economic calendar

Indicator	Time (UK)	Unit	Previous	Consensus*	PKO BP	Comment
Monday, 27 April						
JP: BoJ key policy rate (Apr)	--	%	-0.10	-0.10	--	--
Tuesday, 28 April						
SE: Riksbank key policy rate (Apr)	8:30	%	0.00	0.00	--	--
HUN: MNB meeting (Apr)	13:00	%	0.9	0.9	--	--
USA: Consumer confidence (Apr)	15:00	pts.	120	90	--	--
Wednesday, 29 April						
EUR: Economic Sentiment Indicator (Apr)	10:00	pts.	94.5	75	--	--
GER: HICP inflation (Apr, flash)	13:00	% y/y	1.3	0.5	--	--
USA: GDP growth (1q)	0,56	%q/q saar	2.1	-3.7	--	--
USA: Fed meeting (Apr)	19:00	%	--	0.25	--	--
Thursday, 30 April						
GER: Retail sales (Mar)	7:00	% y/y	6.4	-5	--	--
EUR: GDP growth (1q)	10:00	% y/y	1	-3.4	--	--
EUR: CPI inflation (Apr)	10:00	% y/y	0.7	0.1	--	--
EUR: ECB refinancing rate (Apr)	12:45	%	0.00	0.00	--	--
USA: Initial jobless claims (Apr)	13:30	mln	4.427	--	--	--
USA: Core PCE inflation (Mar)	13:30	% y/y	1.8	1.5	--	--
Friday, 1 May						
USA: Manufacturing PMI (Apr, final)	14:45	pts.	36.9	--	--	--
USA: ISM Manufacturing (Apr)	15:00	pts.	49.1	37.5	--	--
Monday, 4 May						
CHN: Manufacturing PMI (Apr)	2:45	pts.	50.1	50.5	--	--
POL: Manufacturing PMI (Apr)	8:00	pts.	42.4	--	--	--
EUR: Manufacturing PMI (Apr, final)	9:00	pts.	33.6	--	--	--
USA: Factory orders (Mar)	15:00	% m/m	0	--	--	--
Tuesday, 5 May						
USA: Non-manufacturing ISM (Apr.)	15:00	pts.	52.5	--	--	--
Wednesday, 6 May						
EUR: Retail Sales (Mar.)	10:00	% y/y	3.0%	--	--	--
Thursday, 7 May						
UK: Bank of England key policy rate	12:00	%	0.1%	--	--	--
USA: Initial jobless claims (Apr)	13:30	mln	--	--	--	--
Friday, 8 May						
USA: Change in nonfarm payrolls (Apr)	13:30	thous	-701	--	--	--
USA: Unemployment rate (Apr.)	13:30	%	4.4	--	--	--

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

Selected economic indicators and forecasts?

	Jan-20	Feb-20	Mar-20	1q19	2q19	3q19	4q19	2018	2019	2020
Economic activity										
Real GDP (% y/y)	x	x	x	4.8	4.6	4.0	3.2	5.3	4.1	-3.5
Domestic demand (% y/y)	x	x	x	3.3	4.7	3.3	1.3	5.6	3.0	-3.5
Private consumption (% y/y)	x	x	x	3.9	4.4	3.9	3.3	4.2	3.9	-4.5
Gross fixed capital formation (% y/y)	x	x	x	11.6	8.8	4.6	6.1	9.4	7.2	-5.4
Inventories (pp)	x	x	x	-2.0	-0.3	-0.9	-2.5	0.5	-1.4	1.0
Net exports (pp)	x	x	x	1.6	0.2	0.9	2.0	0.0	1.2	-0.2
Industrial output (% y/y)	3.4	4.9	-2.3	6.1	4.2	3.3	2.4	5.8	4.0	-3.5
Construction output (% y/y)	6.5	5.5	3.7	9.4	8.7	5.6	-4.0	17.9	2.6	x
Retail sales (real, % y/y)	3.4	7.3	-9.0	4.1	8.1	5.2	4.2	6.2	5.4	x
Nominal GDP (PLN bn)	x	x	x	521.7	548.1	565.8	637.9	2120	2275	2237
Labour market										
Registered unemployment rate‡(%)	5.5	5.5	5.4	5.9	5.3	5.1	5.2	5.8	5.2	8.4
Employment in enterprises (% y/y)	1.1	1.1	0.3	3.1	2.8	2.6	2.3	3.5	2.7	-2.3
Wages in enterprises (% y/y)	7.1	7.7	6.3	6.7	6.9	6.8	5.8	7.1	6.5	4.2
Prices^										
CPI inflation (% y/y)	4.3	4.7	4.6	1.2	2.4	2.8	2.8	1.6	2.3	3.4
Core inflation (% y/y)	3.1	3.6	3.6	1.1	1.8	2.2	2.7	0.7	1.9	2.7
15% trimmed mean (% y/y)	3.3	3.5	x	1.5	2.1	2.0	2.2	1.5	2.0	x
PPI inflation (% y/y)	0.8	0.1	-0.5	2.5	1.5	0.8	0.2	2.2	1.2	-0.4
Monetary aggregates‡?										
Money supply, M3 (PLN bn) ?	1557.8	1579.4	1628.4	1457.2	1478.2	1506.2	1565.6	1446.1	1565.6	1696.0
Money supply, M3 (% y/y) ?	9.3	9.4	11.8	9.9	9.3	9.4	8.3	9.2	8.3	13.9
Real money supply, M3 (% y/y) ?	5.0	4.7	7.2	8.2	6.7	6.8	4.9	8.1	4.9	3.7
Loans, total (PLN bn) ?	1338.9	1339.9	1366.6	1283.0	1300.7	1331.1	1323.7	1259.7	1323.7	1393.5
Loans, total (% y/y) ?	6.2	5.4	6.5	7.8	6.3	6.7	5.1	7.5	5.1	5.3
Deposits, total (PLN bn) ?	1428.7	1446.1	1485.1	1335.5	1354.8	1405.3	1406.6	1299.9	1406.6	1513.1
Deposits, total (% y/y) ?	9.0	9.0	11.2	8.2	8.0	11.2	8.2	8.8	8.2	7.6
Balance of payments										
Current account balance (% GDP)	0.5	0.8	1.0	-0.7	-0.7	-0.3	0.5	-1.0	0.5	-0.2
Trade balance (%GDP)	0.5	0.7	0.7	-0.6	-0.4	-0.1	0.5	-1.0	0.5	-0.1
FDI (% GDP)	1.8	1.5	1.3	3.0	2.6	2.2	1.9	2.5	1.9	1.1
Fiscal policy										
Fiscal balance (% GDP)	x	x	x	x	x	x	x	-0.2	-0.7	-5.4
Public debt (% GDP)	x	x	x	x	x	x	x	48.8	46.0	51.6
Monetary policy‡										
NBP reference rate (%)	1.50	1.50	1.00	1.50	1.50	1.50	1.50	1.50	1.50	0.50
NBP lombard rate (%)	2.50	2.50	1.50	2.50	2.50	2.50	2.50	2.50	2.50	1.00
NBP deposit rate (%)	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.00
WIBOR 3M ^x (%)	1.71	1.71	1.17	1.72	1.72	1.72	1.71	1.72	1.71	0.70
Real WIBOR 3M ^x (%) [#]	-2.69	-2.69	-3.43	0.63	-0.78	-0.88	-1.69	0.63	-1.69	-2.70
Exchange rates*‡										
EUR-PLN	4.26	4.33	4.55	4.30	4.25	4.37	4.26	4.30	4.26	4.55
USD-PLN	3.80	3.94	4.15	3.79	3.73	4.00	3.80	3.76	3.80	4.21
CHF-PLN	3.91	4.08	4.30	3.84	3.83	4.03	3.91	3.81	3.91	4.31
EUR-USD	1.12	1.09	1.10	1.12	1.14	1.09	1.12	1.15	1.12	1.08

? Due to the pandemic of coronavirus, we put our forecasts under revision, and for the time being switch to scenario analysis instead of forecasting.

Source: GUS, NBP, PKO Bank Polski.

*PKO BP Market Strategy team forecasts,

‡domestic demand excl. inventories,

^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	"The NBP should focus more on supporting the zloty than on short-term stimulation of GDP growth. (...) interest rate cut have weakened the zloty, increased exchange rate volatility and uncertainty of Polish consumers. (...) The obligation to protect the value of the Polish currency was forgotten." (23.03.2020, Bloomberg)
E. Gatnar	4.7	" Poland sports limited room for further interest rate cuts , and any consideration of further monetary policy easing calls for an in-depth analysis of its potential consequences for FX and FI market, as those can be unfavorable. Poland might mull over a possible lowering in its banking tax, under the current circumstances." (23.03.2020, Bloomberg)
L. Hardt	4.1	"... the MPC should not suggest a possibility of further interest rate reductions as the greater the restraint in suggesting further reduction of the cost of money, the greater the scope of NBP's non-standard actions that result in no imbalances" (25.03.2020, Rzeczpospolita)
G. Ancyparowicz	2.5	"If it turns out that the actions taken so far are insufficient, I do not exclude, just as has happened in many other countries, that the NBP and MPC will take further steps. Hypothetically, if the need arose, I admit the possibility of nominally negative interest rates in Poland, (...) For sure, to the end of the MPC term, to 2022, rate hikes are out of the question" (14.04.2020, PAP)
C. Kochalski	2.4	" The Council still has room for further cuts, although less and less. I obviously remember about the liquidity trap risk, that at zero nominal interest rates capacity for stimulating demand are limited. Extraordinary monetary policy tools are particularly important now. Saving the economy through monetary policy is expensive, and to implement it - interest rate changes are not enough." (14.04.2020, PAP)
J. Kropiwnicki	2.4	"I hope this time we will be smarter ... and avoid killing an economic recovery with ambitious and exaggerated anti-inflation measures." (24.04.2020, PAP)
R. Sura	2.2	"The central bank will expand its support for the economy if necessary so that the repercussions of the global crisis are cushioned as much as possible." (20.03.2020, PAP)
A. Glapinski	1.9	"The NBP has supplied banks in means sufficient for supporting counteracting the epidemic effects, and an even several-fold increase of the scale of this financing is still possible." (20.04.2020, Dziennik Gazeta Prawna)
J. Zyzynski	1.9	" There is little room for further interest rate cuts. I'm not in favor of lowering the main interest rate to zero, as it would make it difficult to conduct monetary policy. I'm against money being available for free." (15.04.2020, PAP)
E. Lon	1.0	" The scale of this year's interest rate cuts was significant and I hope that no further cuts will be needed. The level of both nominal and real interest rate, against the background of historical data and in relation to the level of real interest rate in other countries is already very low (...) However, if it turns out that another reduction is necessary, one should not hesitate.(...) Negative interest rates are generally an extraordinary instruments." (21.04.2020, Reuters)

*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

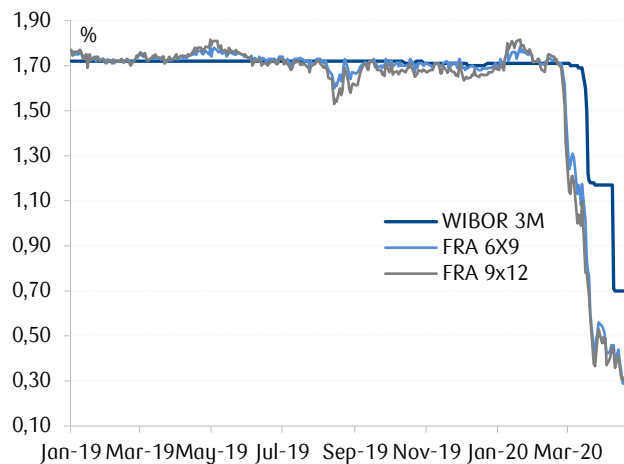
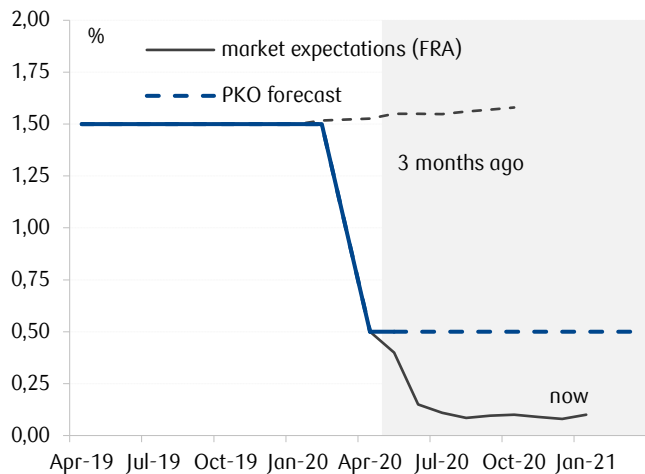
	1M	2M	3M	4M	5M	6M	7M	8M	9M	
Date	23-Apr	23-May	23-Jun	23-Jul	23-Aug	23-Sep	23-Oct	23-Nov	23-Dec	23-Jan
WIBOR 3M/FRA†	0.69	0.59	0.34	0.30	0.28	0.29	0.29	0.28	0.27	0.29
implied change (b. p.)		-0.10	-0.35	-0.39	-0.42	-0.40	-0.40	-0.41	-0.42	-0.40
MPC Meeting	8-Apr	28-May	3-Jun	8-Jul	-	9-Sep	7-Oct	4-Nov	2-Dec	-
PKO BP forecast*	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
market pricing*		0.40	0.15	0.11	0.09	0.10	0.10	0.09	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

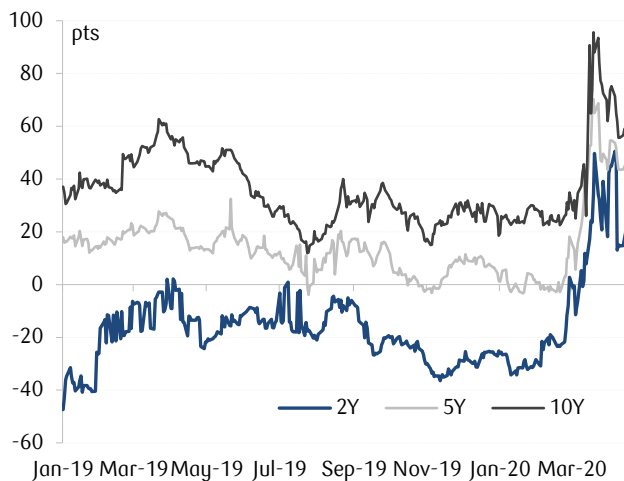
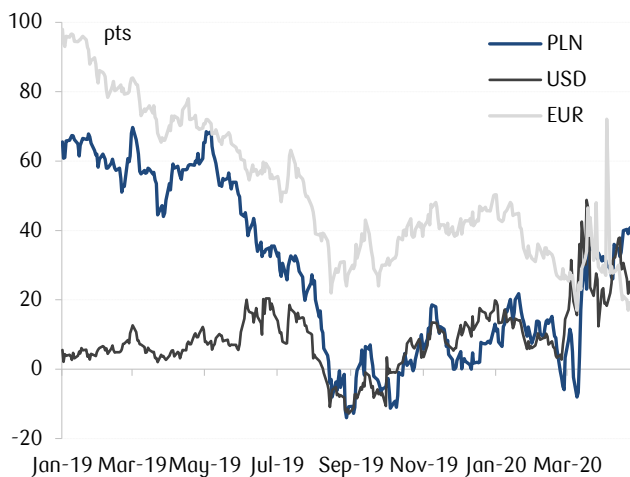
NBP policy rate: PKO BP forecast vs. market expectations

Short-term PLN interest rates



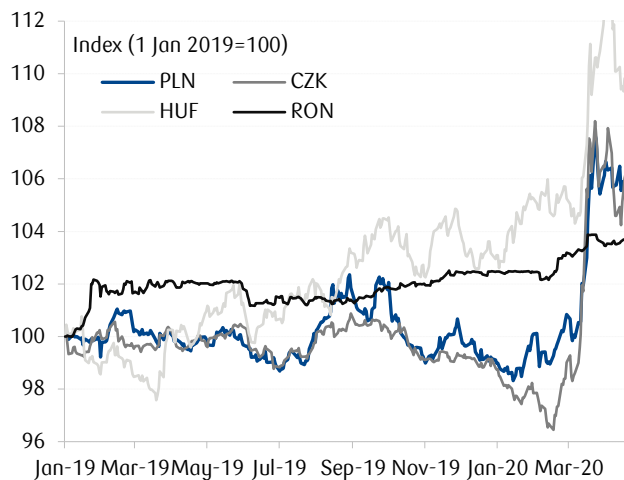
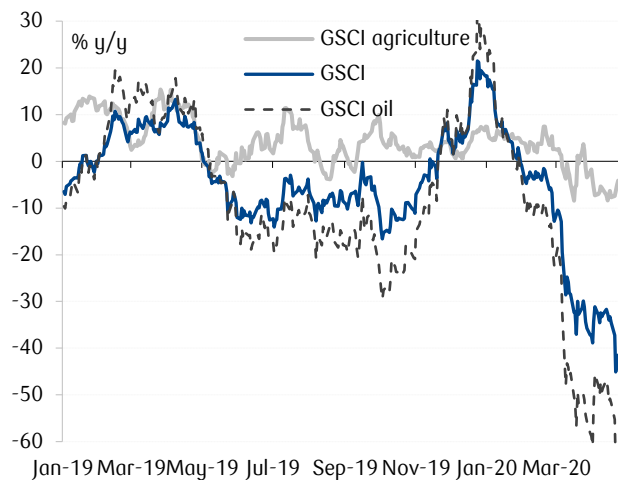
Slope of the swap curve (spread 10Y-2Y)*

PLN asset swap spread



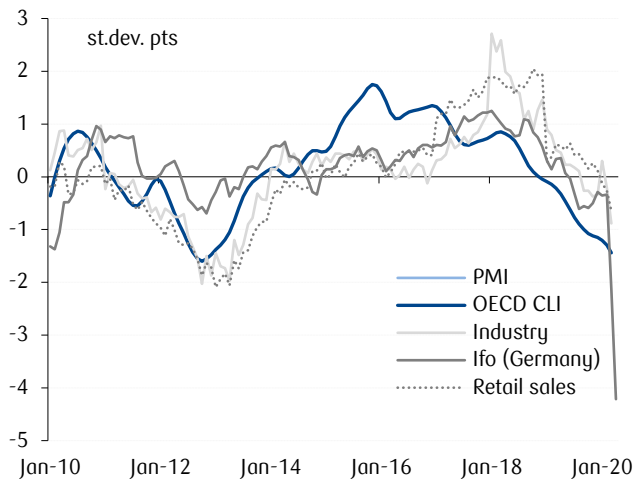
Global commodity prices (in PLN)

Selected CEE exchange rates against the EUR

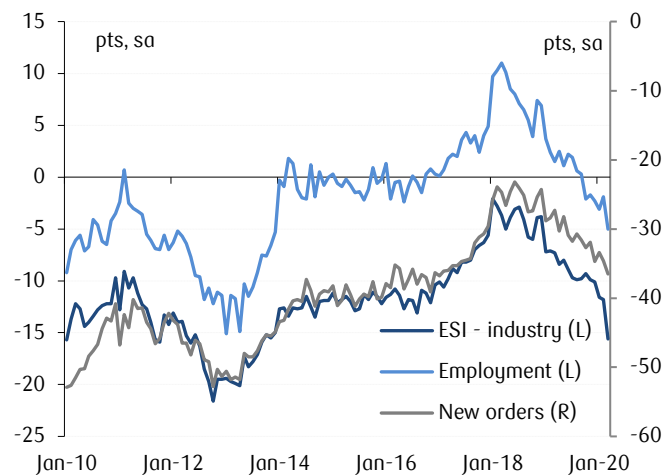


Source: Datastream, NBP, PKO Bank Polski. *for PLN, and EUR 6M, for USD 3M.

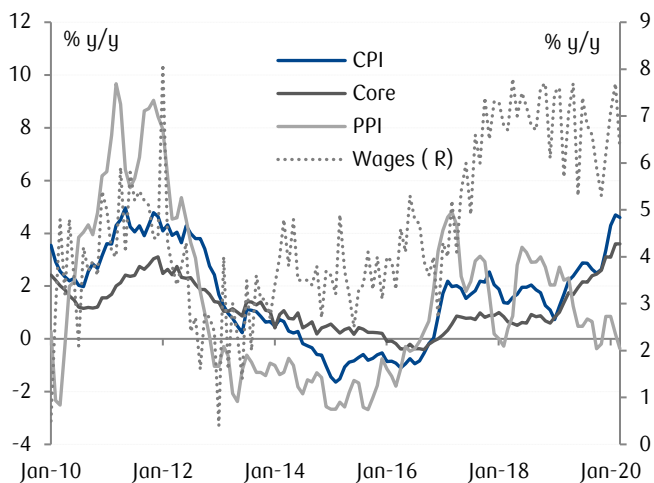
Economic sentiment indicators



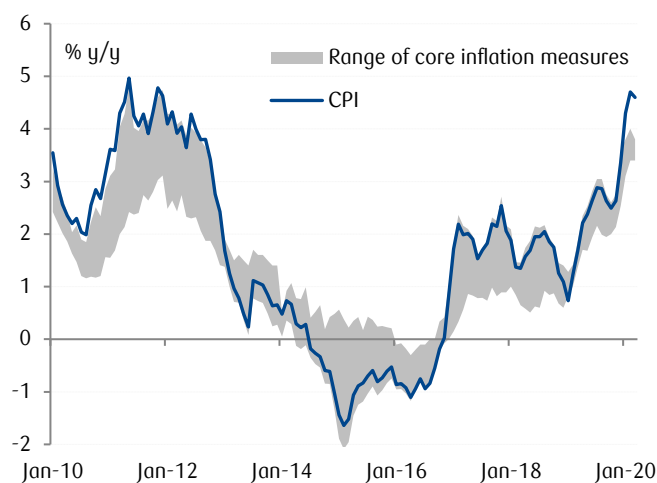
Poland ESI for industry and its components



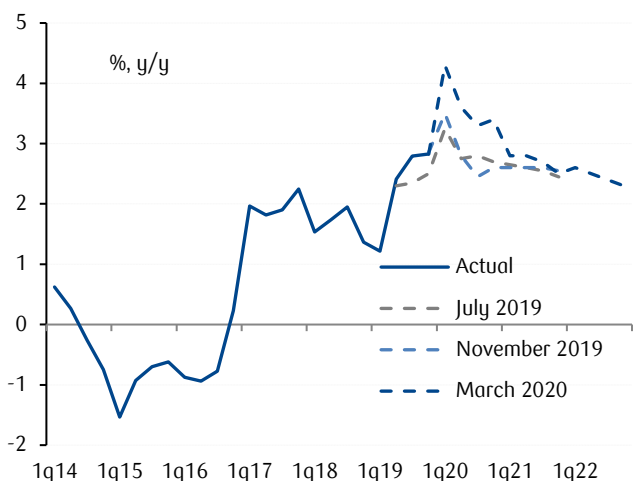
Broad inflation measures



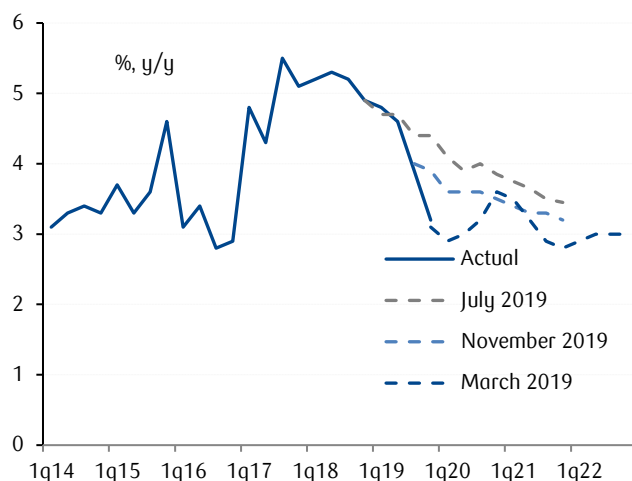
CPI and core inflation measures



CPI inflation - NBP projections vs. actual

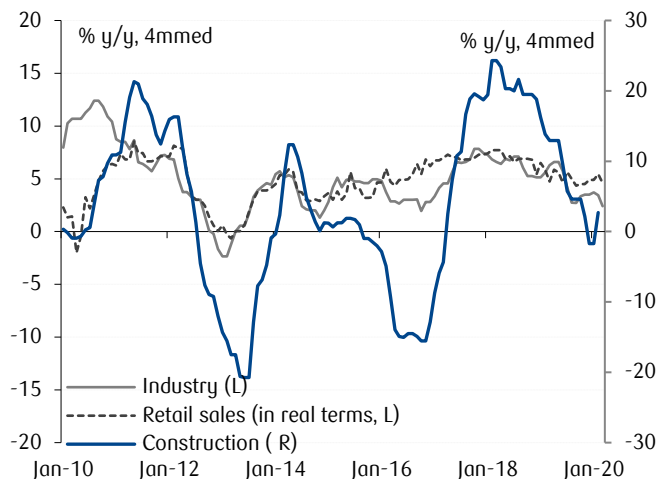


Real GDP growth - NBP projections vs. actual

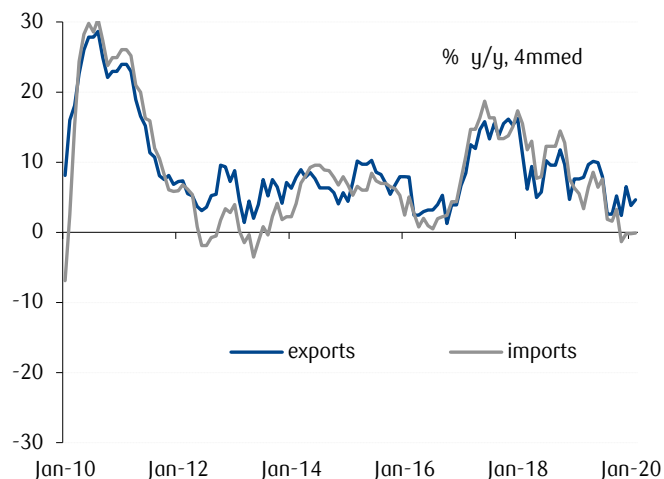


Source: Datastream, GUS, EC, NBP, PKO Bank Polski.

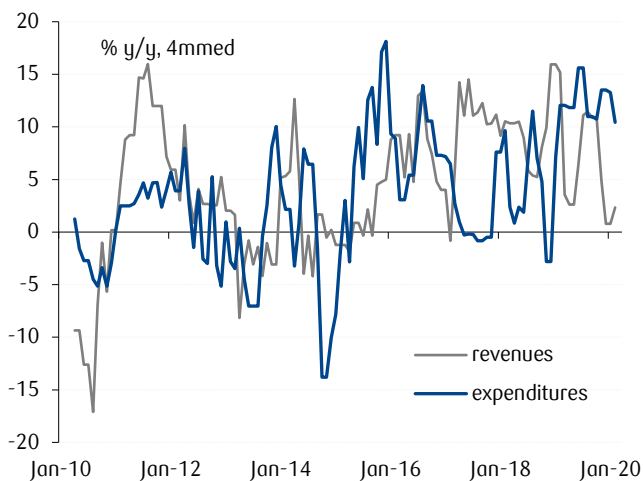
Economic activity indicators



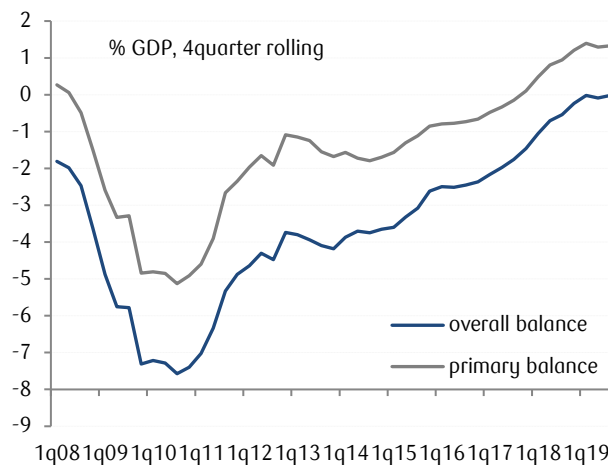
Merchandise trade (in EUR terms)



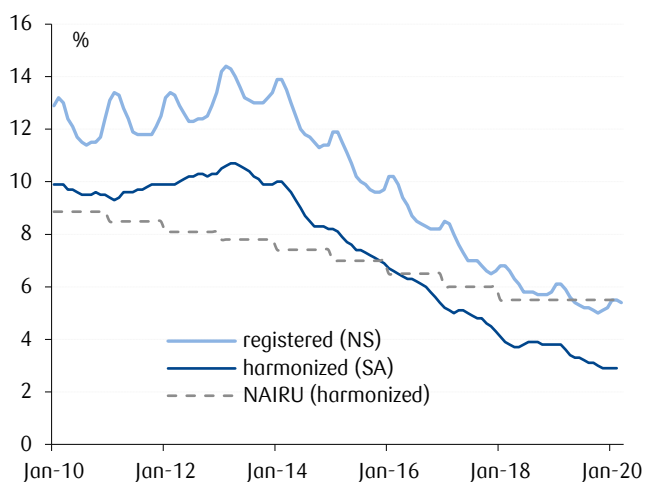
Central government revenues and expenditures*



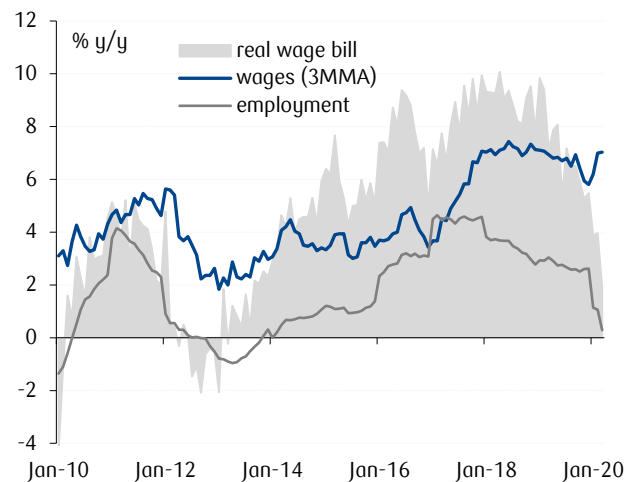
General government balance (ESA2010)



Unemployment rate

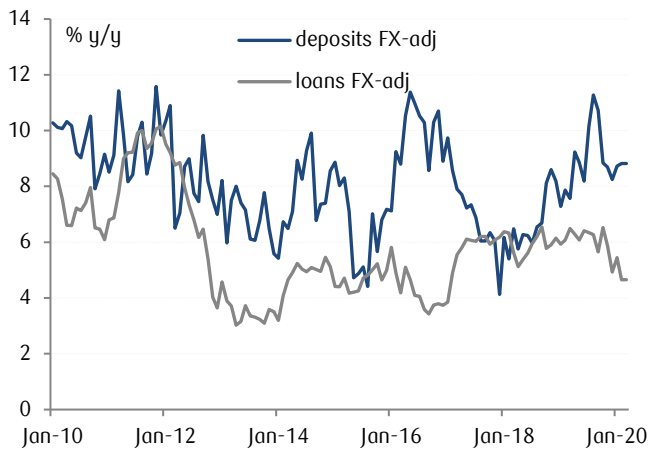


Employment and wages in the enterprise sector

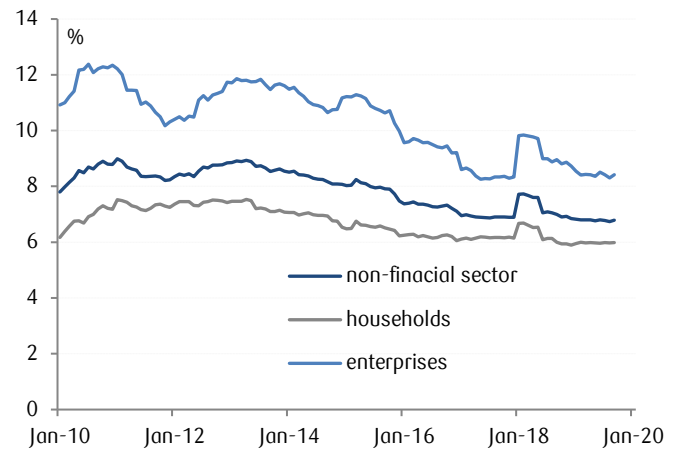


Source: NBP, Eurostat, GUS, MinFin, PKO Bank Polski. *break in series in 2010 due to methodological changes.

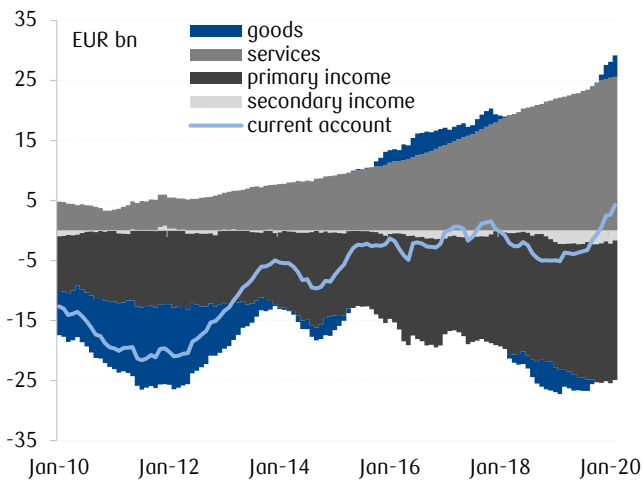
Loans and deposits



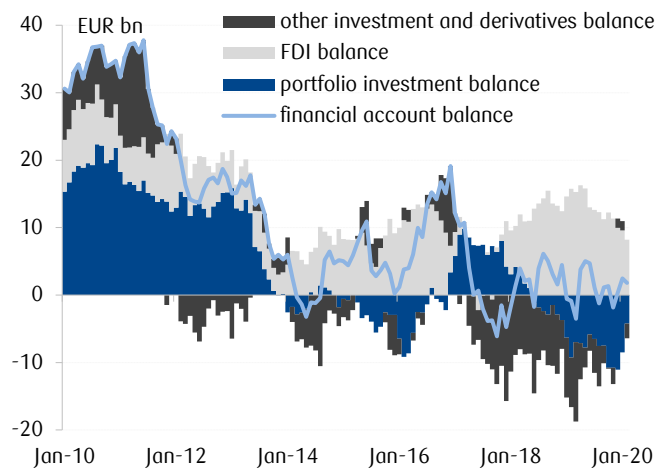
Non-performing loans (NPLs) - by sectors*



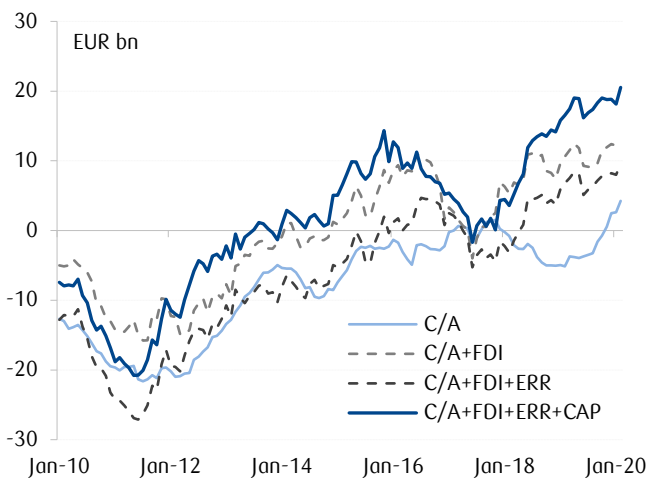
Current account balance



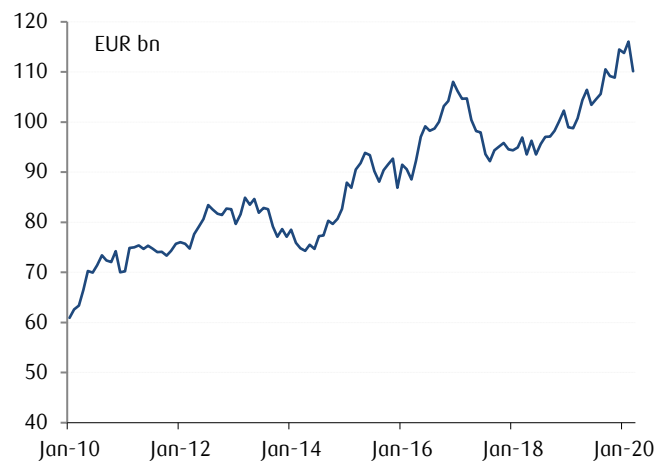
Financial account balance



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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- [A postcard from a lost world](#) (Apr 17, 2020)
- [Infected manufacturing index](#) (Apr 3, 2020)
- [Quarantined GDP growth](#) (Mar 27, 2020)
- [Quarantitative Easing](#) (Mar 20, 2020)
- [Pandemics](#) (Mar 13, 2020)
- [Polish MPC not infected](#) (Mar 6, 2020)
- [The end of carnival – forecast update](#) (Feb 28, 2020)
- [Strong production, weaker sales](#) (Feb 21, 2020)
- [The MPC's conundrum](#) (Feb 14, 2020)
- [Rosy sentiment, harsh reality](#) (Feb 7, 2020)
- [28 years of economic expansion](#) (Jan 31, 2020)
- [GDP growth dragged down by construction](#) (Jan 24, 2020)
- [Property prices on the rise](#) (Jan 17, 2020)
- [MPC unfazed by inflation shots](#) (Jan 10, 2020)
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- [No reason to hike rates \(or to cut them either\)](#) (Oct 4, 2019)
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- [Inflation above the NBP target](#) (Jun 28, 2019)

Poland's macro in a nutshell

	2019	2020	Comment
Real economy			
- real GDP (%)	4.1	-3.5	Despite heavy restrictions introduced in the middle of March, which have pushed many companies to reduce or suspend their production/activity we estimate that in 1q20 the economy was still growing, mainly thanks to its surprisingly strong performance in January and February. Every further month of restrictions may cost up to 3.5pp of GDP growth. Assuming that the epidemic will vanish before 3q20, in 2020 the whole year GDP would decline by 3.5%.
Prices			
- CPI inflation (%)	2.3	3.4	The headline CPI inflation will remain elevated, however plummeting consumption will likely push down the core inflation. As fuel prices will also be disinflationary, only food prices (and some regulatory changes) will support CPI, keeping it above the central bank target throughout the entire year.
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	-0.2	We expect the current account surplus to visibly deteriorate in the coming months due to decreasing exports (first of all of services), resulting from lockdown measures introduced during the COVID19 pandemic. The weakening of current account will likely be softened by decreasing remittances paid to foreign workers.
Fiscal policy			
- fiscal balance (% GDP)	-0.7	-5.4	The cost of the fiscal shield and fiscal revenues loss caused by the recession will significantly widen the fiscal deficit. Good fiscal stance in 2019 means that there exists fiscal space when it comes to both debt and deficit.
Monetary policy			
- NBP reference rate (%)	1.50	0.50	In March the MPC cut interest rates and decided on non-standard monetary tools aimed at reducing the cost of financing and supporting interbank market. Our baseline scenario assumes that rates will remain flat in 2020.

Source: GUS, NBP, Eurostat, PKO Bank Polski.

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