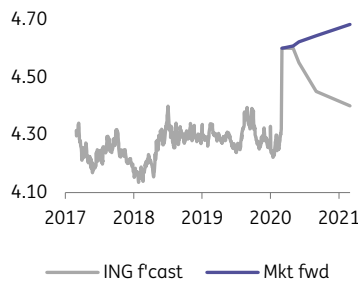


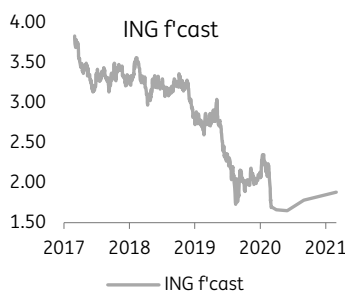
7 April 2020  
Emerging Markets

EUR/PLN



Source: Macrobond, ING estimates

Local 10yr yields



Source: Macrobond, ING estimates

Economic surprises

Output	Positive
Consumption	Positive
Inflation	Higher
External Budget	Positive
Budget	Neutral

Source: Bloomberg

# Monitoring Poland

## Little room for a fiscal stimulus.

We expect Poland to enter a recession in 2Q20. GDP is likely to contract by 4.5% YoY this year, reflecting a country lockdown, a massive rise in unemployment and weak external demand. Fiscal response is likely to be muted, effectively only 1.7% GDP of new spending this year – the government largely exhausted fiscal space by generous social benefits ahead of the 2019 parliamentary elections. Given poor growth outlook we anticipate the MPC to deliver another 25bp rate cut in May, or June. Despite a massive rise in borrowing needs yields of POLGBs are expected to remain low, given demand from local banks and NBP interventions.

- Poland launched anti-crisis program of about 9% of GDP, we argue that only 1.7% of GDP are new spending, which should put a burden on the budget and provide direct support for companies and households. Other elements ie 1.4% of GDP are public investments, which should be either spread over 2020-21 (because their implementation may last too long), or already planned/existing investment should be counted there. The program also includes liquidity measures from NBP (3% of GDP) and public guarantees and liquidity measures from the national development bank BGK and the Polish Development Fund (another 3% of GDP). Important tools but not burdening directly state budget. For more details see [our note](#).
- The measures won't prevent a deep recession with trough in 2Q20 (-8% YoY). This reflects i.e. a multi-week lockdown undermining natural buffers of Polish economy ie strong local and Eurozone domestic demand and production shutdowns. Poor real economy figures will be published in 1-2 months. We expect them to trigger an additional 25bp rate cut (either in May or June). Argument against deeper easing is adverse impact of potentially weak PLN on banks with high CHF-loans portfolio and then credit supply. Lagged cut would also help MinFin to cover high borrowing needs.

**FX and Money Markets:** The zloty should track the general CEE sentiment in April. NBP didn't declare the size of its asset purchases, so far NBP bought PLN20bn out of PLN80bn we estimate Polish QE may reach. PLN outperformance vs CEE FX shows adverse impact on PLN is limited.

**Domestic Debt and Rates:** As of end of April lowering of the required reserve will free PLN40bn in balances of local banks. These are likely to fund purchases of POLGBs, likely in advance given overliquidity of the local interbank market. Additional PLN10.4bn will come from maturing PS0420 later this month. Therefore we expect a decline in yields of POLGBs across the curve in the remainder of April. Another 50bps of rate cuts is already priced in, as asset swaps should tighten as well.

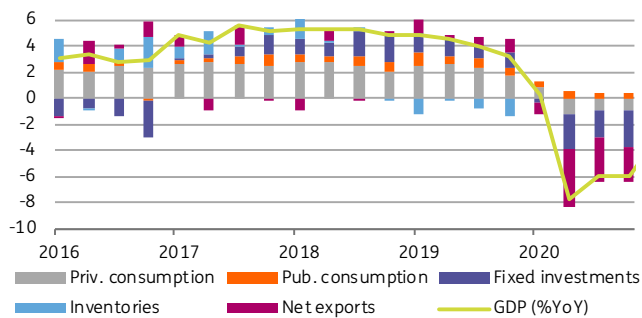
Quarterly forecasts

	1Q19	2Q19	3Q19	4Q19F	1Q20F	2Q20F	3Q20F	4Q20F
Real GDP (%YoY)	4.8	4.6	3.9	3.2	0.2	-8.9	-6.7	-4.3
CPI (eop, %YoY)	1.7	2.6	2.6	3.4	4.1	1.5	2.3	1.0
Central bank key rate (eop, %)	1.50	1.50	1.50	1.50	1.00	0.75	0.75	0.75
3m interest rate (eop, %)	1.72	1.72	1.72	1.71	1.17	0.98	0.98	0.98
10yr yield (eop, %)	2.84	2.39	2.00	2.12	1.68	1.71	1.78	1.85
EUR/PLN exchange rate (eop)	4.30	4.25	4.37	4.26	4.55	4.50	4.45	4.40

Source: ING estimates

**Rafał Benecki**  
Chief Economist, Poland  
Warsaw +48 22 820 4696  
rafal.benecki@ingbank.pl  
**Piotr Poptawski**  
**Jakub Rybacki**  
**Karol Pogorzelski**  
**Leszek Kąsek**

**Fig 1 Real GDP (%YoY) and contributions (ppt)**

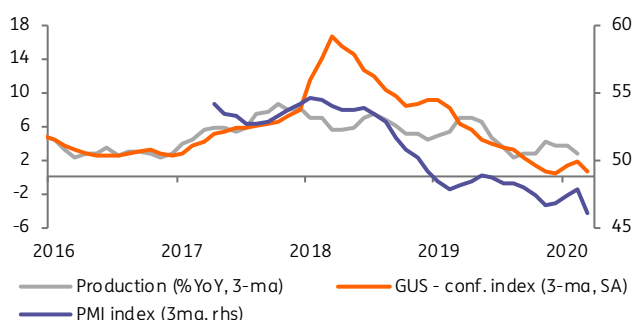


Source: GUS, ING forecasts

**Massive GDP slump in 2Q, slow recovery in 2H20.**

- The country lockdown lowers demand for market services (e.g. leisure) by at least 5-6%. Overall consumer spending will contract to a lesser extent, supported by increased spending for necessities. We expect a major hit in investments in Q2, mostly private.
- We expect a recovery in 2H20 to be gradual (U-shaped). Corporate surveys point to rise in unemployment at 11% in turn of 2020-21 vs 5.5% now. This will substantially affect consumer demand over the coming quarters. Private investments recovery should be very slow as well, given global uncertainty and low demand for credit even before the outbreak.

**Fig 2 Production vs. business confidence indicators**

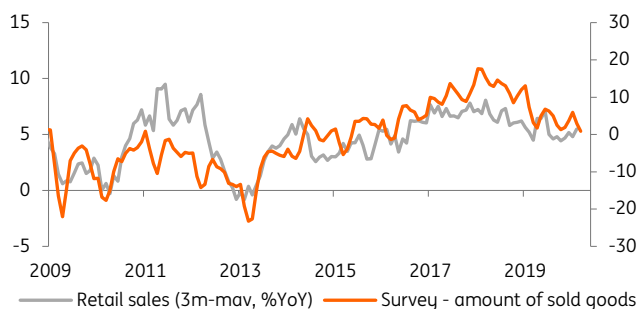


Source: GUS, Markit

**Only a partial industrial shutdown in March.**

- Comments from large manufacturers signal that production shutdowns were prevalent only during a single week in March. Hence industrial output is unlikely to record a significant contraction in March. As of April the full extent of the downturn should become visible, led by shutdowns among e.g. car and furniture manufacturers.
- Construction may prove a bright spot during the downturn. Largest companies, particularly working on large public projects, continue work relatively normally. Moreover authorities intend to open new tenders. However activity among smaller companies and homebuilders may suffer.

**Fig 3 Retail sales vs planned purchases**

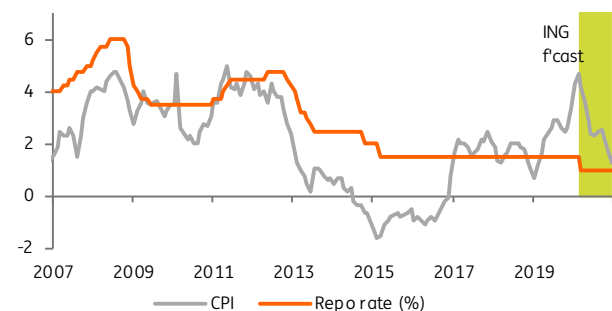


Source: GUS.

**Retail sales at a positive level in March.**

- The retail sales figure should decelerate in March from 7.3% to 3%YoY, with some downside risk. According to automotive institute SAMAR registration of new cars fell by 40%YoY. Therefore, car sales is likely to subtract around 5pp from the headline figure. Sales of clothing should also be miserable.
- On the other hand sales of food and in supermarkets is likely to increase stronger due to precautionary hoarding of stock.
- In 2Q20 consumption should decrease substantially by 3.5%YoY

**Fig 4 CPI vs policy rate**

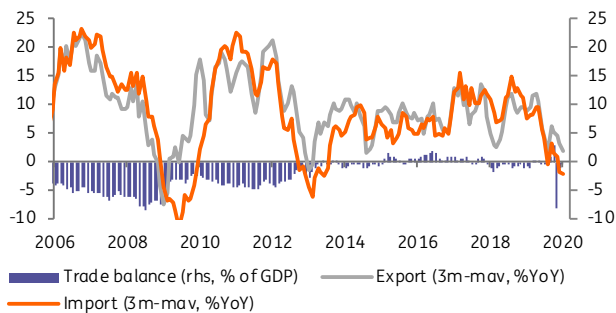


Source: GUS, NBP, ING forecasts

**Past the 2020 CPI peak.**

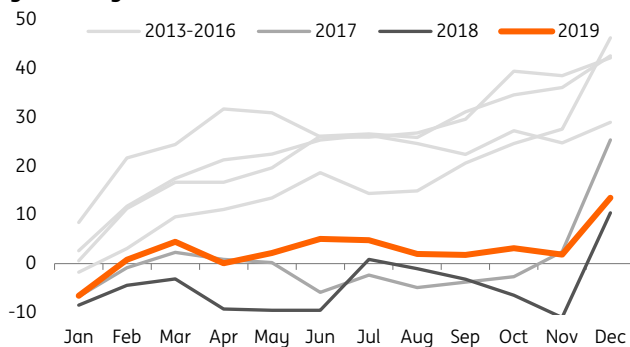
- Headline CPI jumped to 4.7% YoY in February from 4.3% a month earlier. A broad rise in the core component is to blame – a mix of regulated prices and a massive hike in the minimal wage.
- This is likely the 2020 peak, CPI should subside in the following months. The crude price drop should subtract 0.7-1pp from the headline. Some necessity prices may become more expensive. However this will be offset by weak demand elsewhere and substantially lower prices in leisure and hospitality, recreation etc. (e.g. cinemas). The most disinflationary factor should be lower prices of some of durable goods, such as autos.

**Fig 5 Trade balance (3m, % of GDP)**



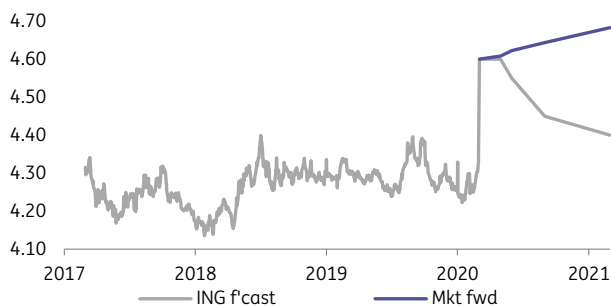
Source: NBP

**Fig 6 Budget deficit YtD (PLNbn)**



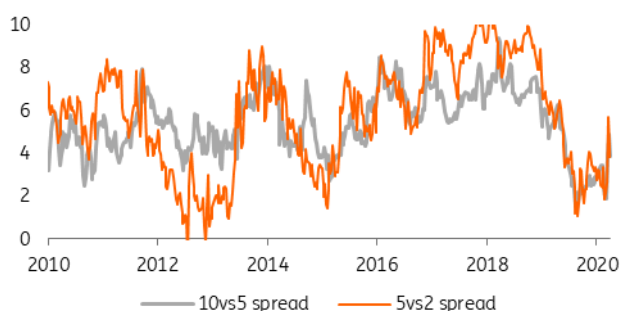
Source: Ministry of Finance

**Fig 7 FX: EUR/PLN – consensus and ING forecasts**



Source: Macrobond

**Fig 8 POLGBs curve structure**



Source: Macrobond

**CA surplus in the Q1 should stabilize PLN.**

- CA/GDP surplus remained strong in January (€2.2bn) supported by annual flow of Common Agricultural Policy funds. Still trade balance remains in positive territory (€188mn) and services export is trending higher.
- We expect Poland CA balance to deteriorate moderately. The resilience of Eurozone domestic demand lend support for Polish exporters during the trade wars, this is no longer the case during Covid-19. On the other hand lower commodity prices and poor domestic demand should decrease imports.

**2020 net borrowing needs at PLN154bn.**

- While fiscal measures pledged under the anti-crisis shield are relatively tame (1.7% of GDP in direct new spending this year), the budget will suffer from a cyclical decline in revenues (estimated at PLN64bn). On top of that some of the one-off revenues planned for this year are unlikely to materialise (such as revenues from OFE conversion fees).
- We estimate 2020 net borrowing needs at PLN154bn, up from just PLN15bn we envisaged before the outbreak. Still Poland enters the downturn in a relatively sound fiscal stance – public debt reached 43.8% of GDP at the end of 2019. Government also plans to seek foreign financing to limit stress on the local debt market.

**PLN to track the CEE sentiment.**

- Since the coronavirus outbreak in Europe PLN gained some 1-2% against the CEE counterparts. NBP QE is PLN negative but CEE peers has its own weaknesses. Also strong PLN fundamentals help, Poland entered the crisis with major improvement in CA (while other CEEs showed deterioration). Also lower share of automotive in industry makes Poland more resilient to the crisis compared to neighbours.
- Moreover according to the central bank around half of Poland's exports of services (in total 12% of GDP) are relatively immune to the global downturn (e.g. shared services). Hence should help to stabilize PLN when export of goods deteriorates.

**Strong demand for POLGBs despite high issuance.**

- MoF issuance plans for April include PLN9-17bn in bonds and PLN9-21bn in bills, so just the local demand should cover it. The Ministry didn't provide info for the whole 2Q, we expect a flexible approach, dependant of market conditions. Foreign investors are already heavily underweight in POLGBs - likely sold liquid local bonds to limit EM exposure. Thus given NBP purchases our 2Q outlook for POLGBs is positive.

Fig 9 Main macroeconomic recent releases

Indicator		Previous -2		Previous -1		Actual	Surprise	Consensus
PMI Manufacturing	Dec	48.0	Jan	47.4	Feb	48.2	+	48
Sold Industrial Output (YoY%)	Nov	1.4	Dec	3.8	Jan	1.1	+	-0.4
Retail Sales (YoY%)	Nov	5.9	Dec	7.5	Jan	5.7	-	6.1
M3 Money Supply (YoY%)	Nov	9.4	Dec	8.3	Jan	9.3	+	8.8
Avg Gross Wages (MoM%)	Nov	5.3	Dec	6.2	Jan	7.1	+	7.0
Unemployment Rate (%)	Nov	5.1	Dec	5.2	Jan	5.5		5.5
GDP (QoQ%)	Q2	0.8	Q3	1.3	Q4	0.3	+	-0.1
GDP (YoY%)	Q2	4.6	Q3	3.9	Q4	3.2	+	3.0
Core Inflation (YoY%)	Oct	2.4	Nov	2.6	Dec	3.1	-	3.2
CPI (YoY%)	Nov	2.6	Dec	3.4	Jan	4.4	+	4.2
PPI (YoY%)	Nov	-0.1	Dec	1	Jan	0.8	-	0.95
Base Rate Announcement (%)	Dec	1.50	Jan	1.50	Feb	1.50		1.50
Trade Balance (€m)	Oct	427	Nov	829	Dec	224	+	-730.0
Current Account (€m)	Oct	573	Nov	1457	Dec	990	+	0
Current Account (€m)	Q1	2110	Q2	859	Q3	-181		-
Official Reserves Total (US\$bn)	Nov	119.8	Dec	128.4	Jan	125.5		-

Source: Bloomberg

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