

# POLAND Outlook 2021E: The unfolding PiS growth plan

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## 2021E: In a nutshell

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- Real GDP growth has the potential to accelerate to 5.3% in 2021E, if the COVID-19 virus is contained quickly and on the back of continuing strong monetary and fiscal stimuli. Persistently strict lockdown measures for the whole of 1Q21E would likely bring down real GDP growth by 1-1.5ppts, to around 3.8%.
- The NBP turned even more dovish at the very end of 2020, signalling rate cuts and beginning FX interventions. Our fair value model for the PLN suggests that the imminent concern of the MPC is to fight any appreciation potential, given the downside risks to its latest inflation and GDP expectations.
- That said, it is plausible that, over time, NBP President Glapinski will also aim to guide the currency weaker, as a way to facilitate higher inflation and higher growth, amid a challenging global backdrop. In our calculations, a 1ppt acceleration of real GDP growth would need a 20% cumulative weakening of the currency. We do not expect the NBP to aim for a rapid adjustment of the currency, but a gradual one looks increasingly plausible, in our view.

## 2021E: In a nutshell

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- On a year-on-year basis, lending to the private sector was negative in 2020, and it is improving – but slowly.
- House price inflation remained at a two-digit level (2Q20), and we expect it to stay at positive real levels between 2020-22E. Affordability has been improving over time, driven by falling borrowing costs. That said, we expect households to face indirect monetary tightening from higher down payments (from higher prices) by 2022-23.
- We project the government deficit around 5.5% of GDP for 2020E and remain above 3% of the GDP during 2021E and 2022E. Our debt projections remain below 60% of GDP in the medium term (2025E), even under the most pessimistic scenario. However, we flag that given the Constitutional limits in Poland, the current debt burden is uncomfortably high for the government.

*Note: this is an extract of our Poland 2021 outlook, if you would like to discuss Poland in detail please contact us.*

## Poland in its regional context

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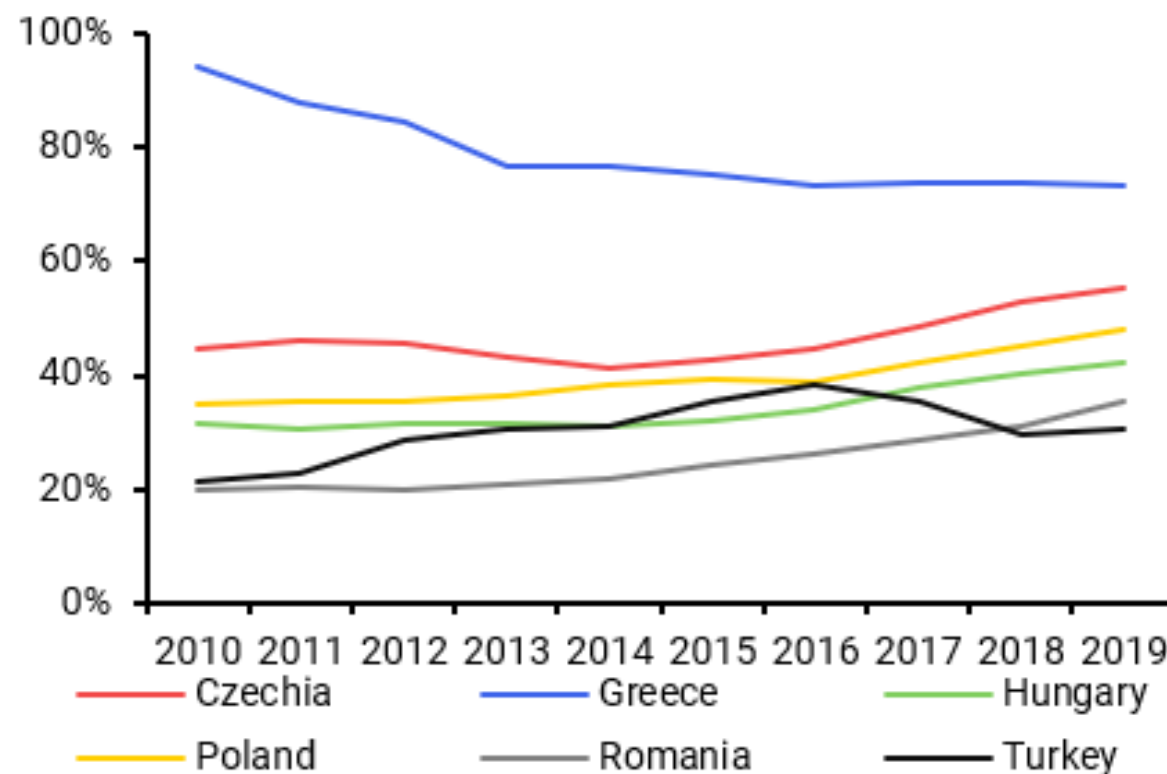
- Poland has been converging towards Italian levels: price-adjusted net earnings are around 70% of Italian levels. We believe the next decade is likely to be characterized by overshooting, instead of convergence. In key areas, such as manufacturing, the degree of wage convergence is meaningfully higher already than what the national aggregate would suggest.
- Export and industrial production has been showing signals of recovery, better than its peers.
- In terms of trading partners, Polish exports to the United Kingdom are higher than its peers, which we believe could be a fragility in the medium term.
- Poland is characterised by a combination of low levels of investment and high levels of profits, in relation to the GDP.



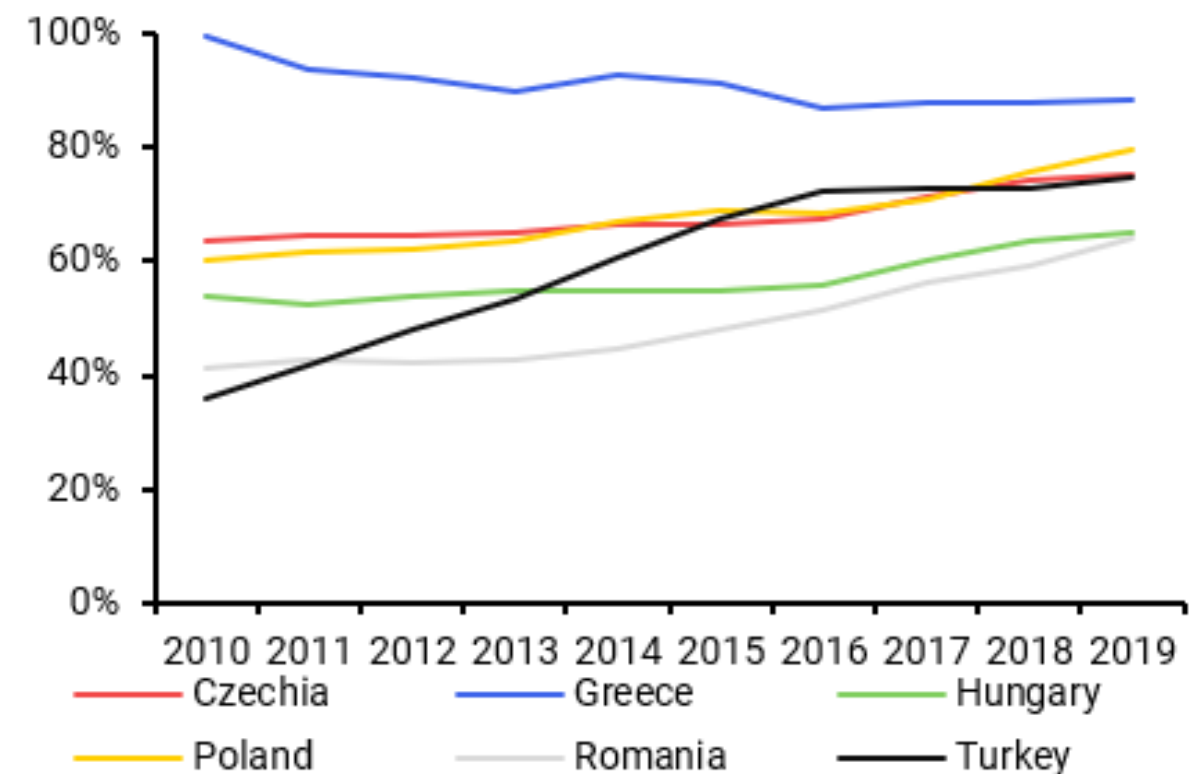
# CONVERGENCE FOR RESHORING CONSIDERATIONS

- Price-adjusted net annual earnings show that Poland has been involved in a significant convergence process to Italy; we believe the next decade is likely to be characterised by overshooting, instead of convergence.

Avg. net annual earnings as % Italy



Price-adjusted avg. net annual earnings as % Italy



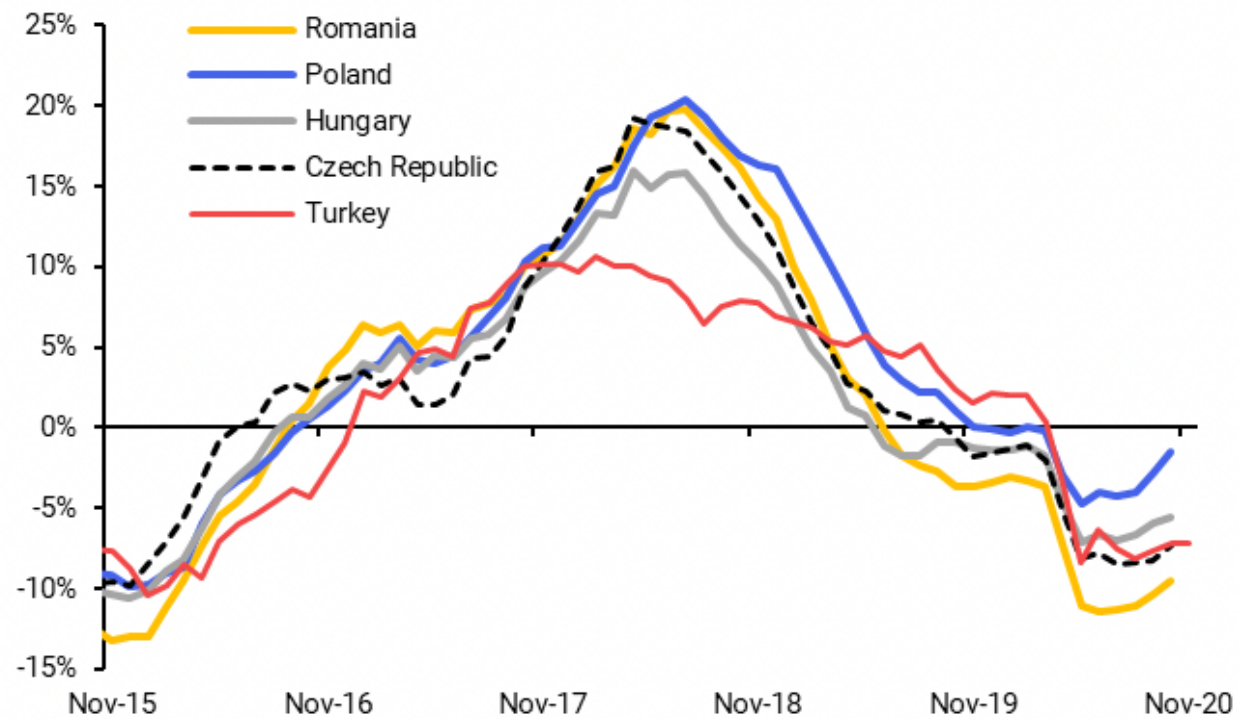
Sources: ADA Economics, CEIC, OECD, Eurostat, Turkstat

Annual net earnings of a single person without children earning a 100% of average earning. The Turkish estimate is based on rolling the average gross wage reported by Turkstat in 2014 (2007 TRY per month), converting it to EUR (aop) and applying a 28.5% average tax rate (OECD 2019).

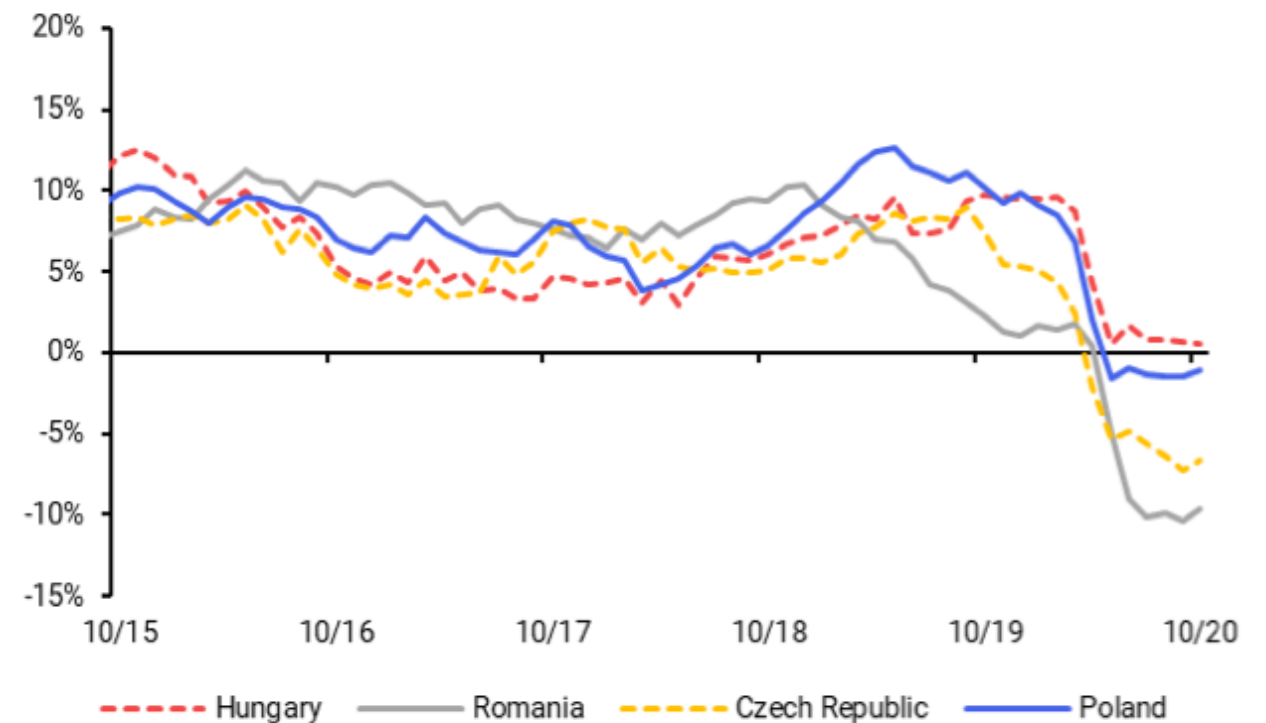
# EXPORTS GOOD SIGNALS OF RECOVERY

- Exports have been holding up better than its peers and already showing some signs of improvement. Moreover, machinery-related export growth is slightly below 0%, but significantly above the Czech Republic and Romania.

Exports (yoy) in USD



Exports: machinery and transport equipment (yoy)

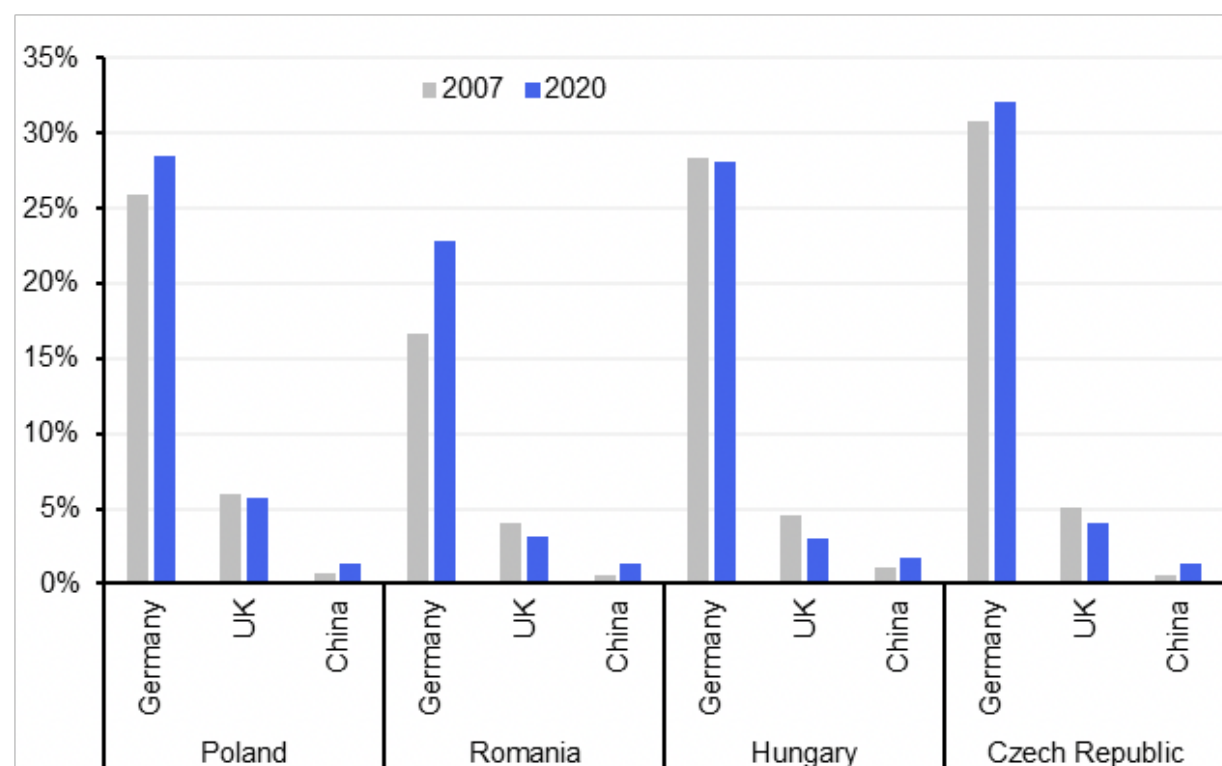




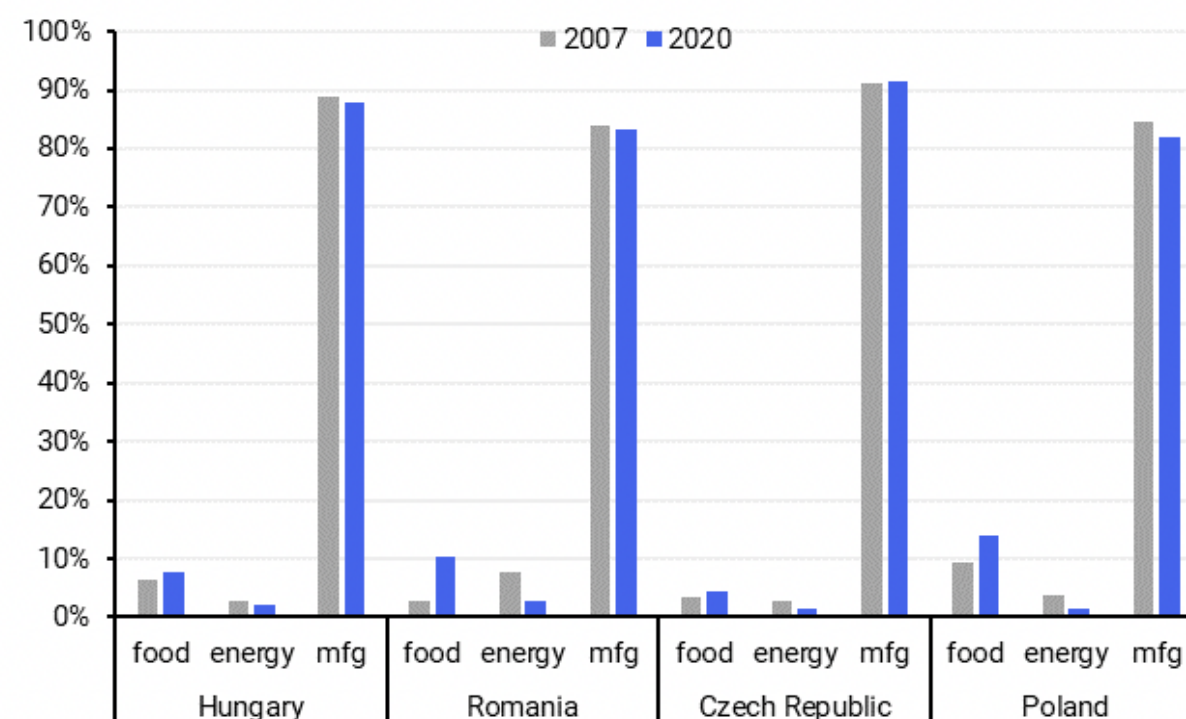
# EXPORTS STRUCTURE FOR CE4

- Poland has a similar export structure when compared with its CE4 peers. However, its higher weight of UK exports is likely to be a fragility in the years to come.

Share of export destinations



Share of export destinations



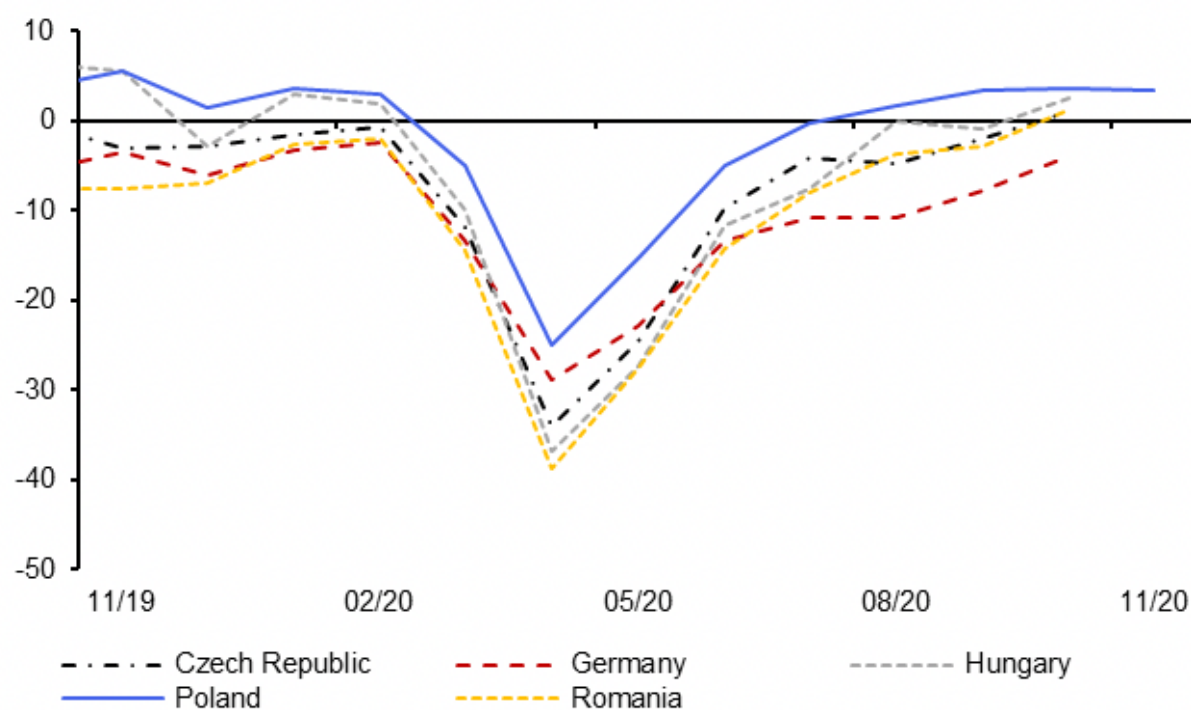
Sources: ADA Economics, CEIC

Note: the charts show share of exports for 2020 up to August 2020 for Romania and up to September 2020 for the rest

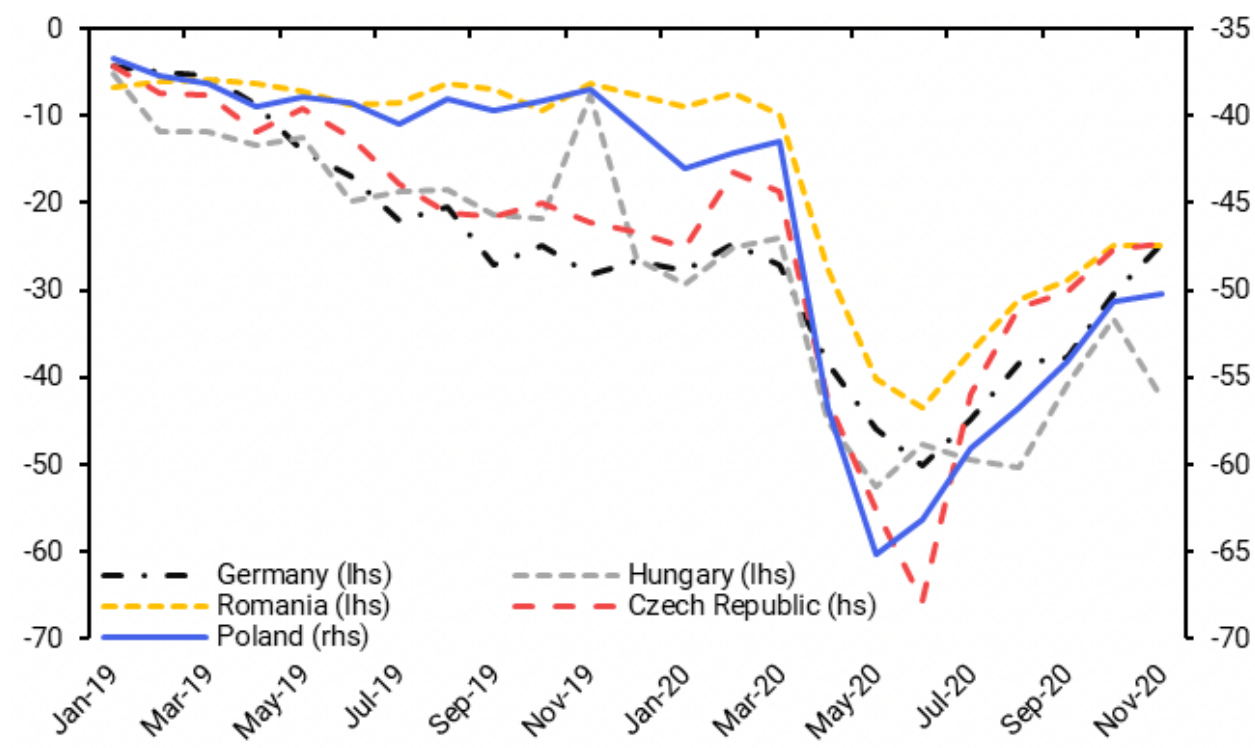
# INDUSTRIAL SECTOR RECOVERY

- Over the end of 2019/early-2020, Poland presented industrial production growth, unlike its main CE peers, and it has been able to recover faster than them.

Industrial production swda (yoy)



Industrial confidence: export orders

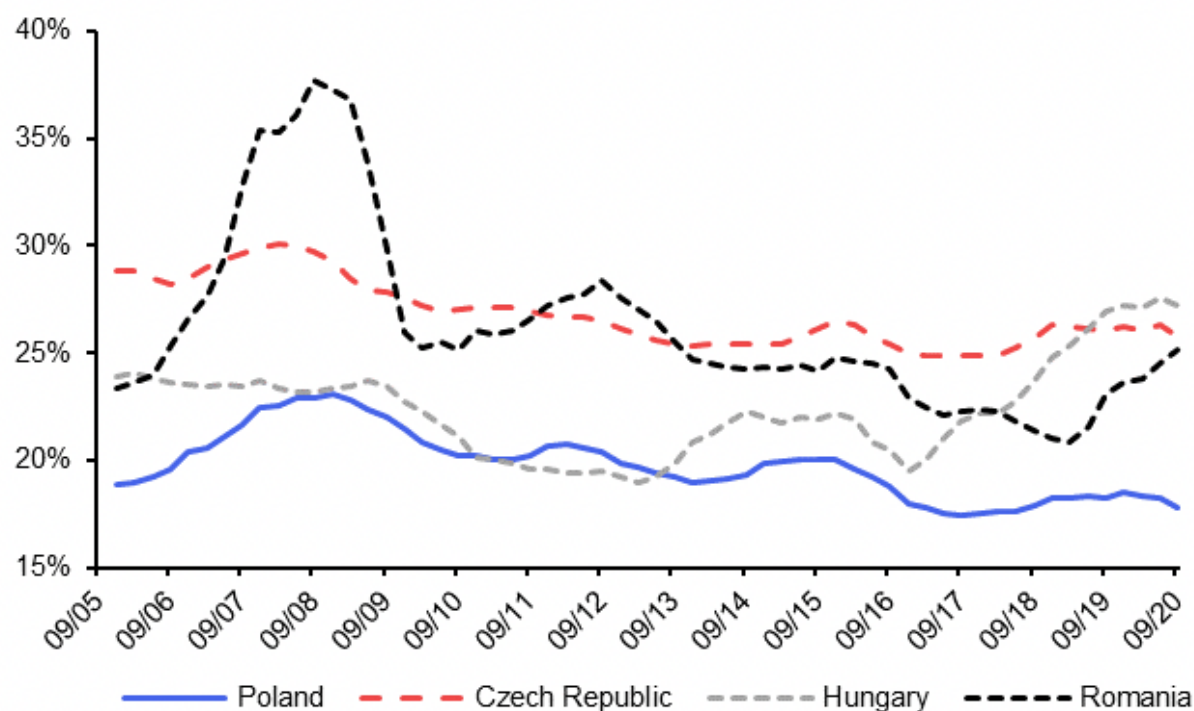




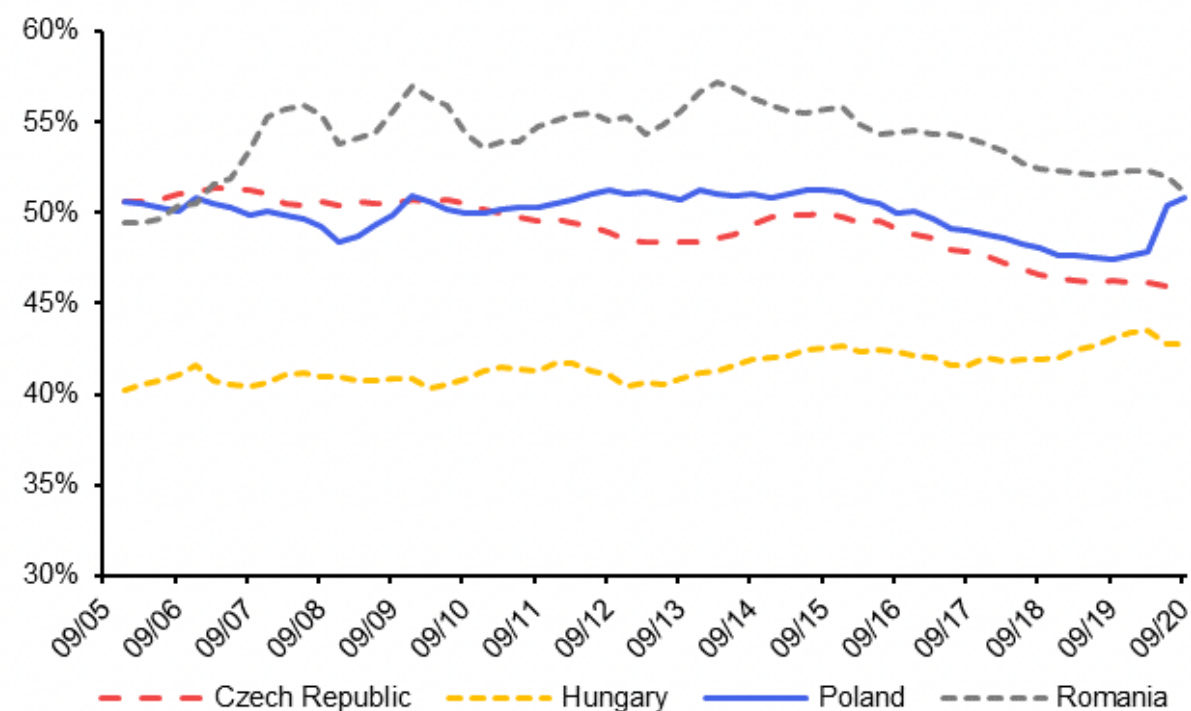
# INVESTMENT AND PROFIT DYNAMICS

- The Polish economy is characterised by a relatively low level of investment and high profits when compared with its peers. With the COVID-19 crisis, profit as a % of GDP rose sharply in the Polish economy.

Investment (GFCF) % GDP, rolling 4Q



Gross operating surplus % GDP, rolling 4Q



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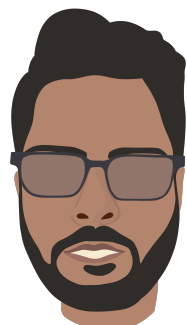
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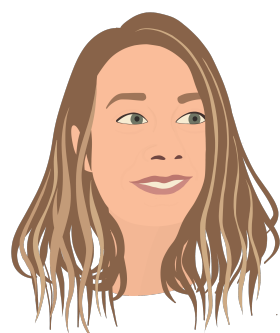
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