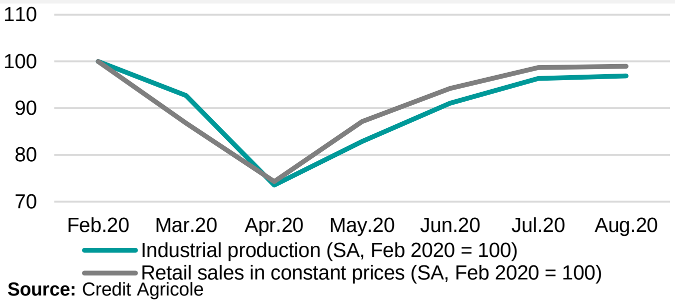
The EU Recovery Fund will boost the post-pandemic economic growth

This week

- **The most important event this week will be the publication of the preliminary October results of business surveys in major European economies scheduled for Wednesday.** We expect that the Composite PMI for the Eurozone rose slightly to 50.5 pts in October vs. 50.4 pts in September. We believe that similar situation will be observed in France while Germany likely recorded a slight deterioration. We see a downside risk to our forecasts due to the second wave of the coronavirus pandemic that is observed now and may contribute to a deeper-than-we-expected deterioration of sentiment in the services sector. Our forecasts of business survey results in the Eurozone are above the consensus; therefore, their materialization would be positive for PLN and yields on Polish bonds.
- **Important data from China have been released today. GDP increased by 4.9% YoY in Q3 vs. a 3.2% increase in Q2 (2.7% QoQ in Q2 vs. 11.5% in Q2), running below the market expectations (5.2% YoY and 3.2% QoQ)**. We also saw data on industrial production (6.9% YoY in September vs. 5.6% in August), retail sales (3.3% vs. 0.5%), and urban investments (0.8% vs. -0.3%). Thus, the data on industrial production and retail sales stood above the market expectations (5.8% and 3.3%, respectively), while the data on urban investments were in line with the market expectations. The data structure indicates that inasmuch as in Q2 the main source of the increase in China's economic activity was the production sector supported by infrastructural investments under the stimulus package launched by the Chinese government, Q3 recorded also a marked recovery in domestic demand. In addition, the source of higher industrial production are no longer only infrastructural investments but also the increasingly strong external demand resulting from the gradual recovery in global trade. In our view, today's data from China are neutral for the financial markets.
- **This week we will see data from the US**. According to the consensus, the data on the number of housing starts (1477k in September vs. 1416k in August), new building permits (1520k vs. 1476k), and existing home sales (6.25M vs. 6.00M) will point to an increase of activity in the US real estate market. The number of unemployment benefit claims will be released on Thursday. According to the market consensus it will amount to848k vs. 898k a week ago. We believe that the impact of the US data on PLN and Polish bond yields will be limited.
- **The September data on average wages and employment in the corporate sector in Poland will be released today**. We forecast that employment dynamics rose to -0.9% YoY vs. -1.5% in August. Further increase in average employment in MoM terms will result mainly from the return of employees from care benefits and restoration of full working time in companies which benefitted from the possibility of its reduction after the outbreak of the COVID-19 epidemic. We expect that average wage dynamics rose to 4.3% YoY in September vs. 4.1% in August. Though important for the forecast of private consumption dynamics in Q3, the release of data on corporate wages and employment will be neutral for PLN and the debt market, we believe.
- **Data on industrial production in Poland will be released on Tuesday.** We forecast that industrial production dynamics rose to 5.3% YoY in September vs. 1.5% in August. The main factor behind higher production dynamics were favourable calendar effects. Our forecast of industrial production dynamics is above the market consensus (3.8%); therefore, its materialization would be slightly positive for PLN and yields on Polish bonds.

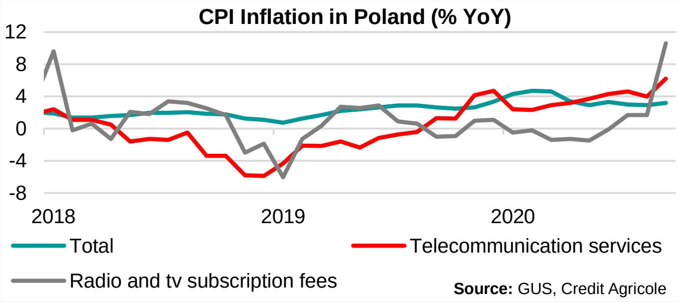


Source: Credit Agricole

- **Data on domestic retail sales will be released on Wednesday**. We forecast that retail sales dynamics rose from 0.4% YoY in August to 2.2% in September. Our forecast is supported by higher purchasing activity of households, reflected by an increase in the value of card transactions (see MACROmap of 12/10/2020). Our forecast of retail sales dynamics is close to the consensus; therefore, its materialization will be neutral for PLN and yields on Polish bonds.

Last week

- **In accordance with the final data, CPI inflation in Poland rose to 3.2% in September vs. 2.9% YoY in August, running in line with the flash estimate.** The increase in inflation resulted from higher dynamics of the prices of fuels, energy and higher core inflation, which amounted to 4.3% YoY in September vs. 4.0% in August. Lower dynamics of the prices of food and non-alcoholic beverages had an opposite impact on inflation (see MACROpulse of 15/10/2020). Especially noteworthy in the data structure is the increase recorded in core inflation in September despite the last year's high base effects. The increase recorded in September in the dynamics of prices in such categories as: "telecommunication services", "radio and tv subscription fees" or "furniture" and "household appliances" may suggest that higher core inflation results from higher demand for some goods and services due to the prolonging prospects for remote work and further social distancing or a different seasonal pattern of renovation works amid the second wave of the pandemic. In subsequent months we see a high likelihood of further increase in the dynamics of prices of selected goods and services because some companies may transfer higher costs resulting from administrative restrictions imposed due to the second wave of the pandemic to consumers. Thus, the last week's data pose an upside risk to our forecast, in which inflation will have stabilized before the end of 2020 at ca. 3.0% and in 2021 in will decrease on a yearly average to 1.7% YoY.



- **The surplus in the Polish current account decreased to EUR 947M in August vs. EUR 1012M in July.** The deterioration in the current account balance resulted from lower balances on goods, services and secondary income (lower from July by EUR 83M, EUR 108M, and EUR 22M, respectively), while higher balance on primary income (up by EUR 148M compared to July) had an opposite impact. A decrease compared to July was recorded by the dynamics of Polish exports (0.8% YoY in August vs. 1.7% in July) and imports (-5.1% YoY vs. -4.4%), largely due to the statistical effect in the form of an unfavourable difference in the number of working days. The last week's data are in line with our forecast, in which the cumulative current account balance for the last 4 quarters in relation to GDP will increase to 2.9% in Q3 vs. 2.3% in Q2.
- **Numerous data from the US economy were released last week.** The number of unemployment benefit claims rose to 898k vs. 845k two weeks ago, running above the market expectations (825k). Noteworthy is also a lower number of continued claims (from 11.2M down to 10.0M) whose sharp decrease results from the loss of right to the benefit by long-term unemployed persons. Thus, the data confirm the observed in recent weeks slowdown of the improvement in the US labour market which is still far from the equilibrium. Last week we also saw the data on CPI inflation in the US which rose to 1.4% YoY in September vs. 1.3% in August. Its increase resulted from higher dynamics of energy while lower growth rate of food prices had opposite impact. Core inflation has not changed in September compared to August and amounted to 1.7% YoY. Last week we also saw data on industrial production which decreased by 0.6% MoM in September vs. a 0.4% increase in August, running below the market expectations (+0.5%). At the same time this has been the first monthly drop of industrial production since April 2020. The

decrease in production dynamics resulted from lower output dynamics in manufacturing and utilities. Capacity utilization dropped to 71.5% in September vs. 72.0%. Thus it continues to stay clearly below the pre-pandemic levels (ca. 77%). Last week we also saw data on retail sales which increased by 1.9% MoM in September vs. a 0.6% increase in August, running markedly above the market expectations (+0.7%). Excluding cars, the monthly sales dynamics rose to 1.5% MoM in September vs. 0.5% in August. An increase in sales dynamics has been recorded in most categories. Thus, retails sales in September stood at a level that was more than 4% higher from before the outbreak of the pandemic, pointing to a strong recovery of consumer demand in the US. Last week also saw mixed results of regional business surveys for manufacturing. The Philadelphia FED Index rose to 32.2 pts in October vs. 15.0 pts in September (the highest value since February 2020) while the NY Empire State Index dropped to 10.5 pts in October vs. 17.0 pts in September. The preliminary University of Michigan Index was also released last week and rose to 81.2 pts in September vs. 80.4 pts in August, running above the market expectations (80.5 pts). The index increase resulted from higher value of its sub-index for expectations while lower sub-index for the assessment of the current situation had opposite impact. The last week's data do not alter our scenario, in which the US GDP will increase by 24.3% in Q3 (in annualized terms) vs. a 31.4% decrease in Q2, will increase by 3.7% in Q4 and will decrease by 4.5% in the whole 2020. Further course of the COVID-19 pandemic in the US as well as the scale and time profile of the subsequent stimulus package currently negotiated between the Democrats and the Republicans continue to be the main risks to the sustainability of the recovery of economic growth in the US.

- **ZEW index reflecting the sentiment among analysts and institutional investors regarding the economic situation in Germany dropped to 56.1 pts in October vs. 77.4 pts in September, running markedly above the market expectations (73.0 pts)**. Thus the index has reached the lowest level since May 2020. In accordance with the statement, the index decrease resulted from survey participants' concerns about the outlook for economic recovery due to the second wave of the pandemic as well as the likelihood of a non-deal Brexit. Important for the deterioration of sentiment was also increased uncertainty about the approaching presidential election in the US. Considering the sharp increase recorded in recent weeks in the number of coronavirus infections in Europe, we see a downside risk to our forecast in which the German GDP will decrease by 5.4% in 2020 vs. a 0.6% increase in 2019, and will increase by 5.0% in 2021. Thus the German GDP will reach its pre-pandemic level no sooner than in 2022.
- **Data on the Chinese balance on trade were released last week.** It dropped to USD 37.0bn in September vs. USD 58.9bn in August, running visibly below the market expectations (USD 60.0bn). At the same time export dynamics rose to 9.9% YoY in September vs. 9.5% in August while import dynamics rose to 13.2% YoY vs. -2.1%. Thus the data on imports point to a sharp increase in internal demand in China. In turn, the continuing in recent months high export dynamics point to further recovery in global trade. The last week's data from China support our forecast in which the Chinese GDP will increase by 7.9% YoY in Q4 vs. a 5.8% increase in Q2 (see above).

The EU Recovery Fund will boost the post-pandemic economic growth

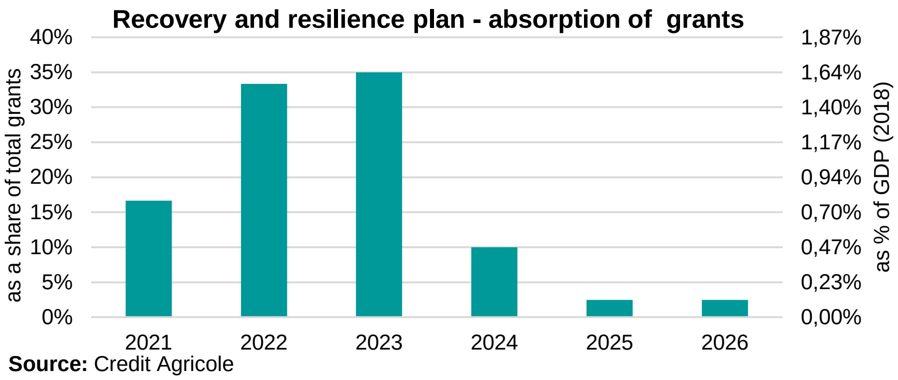
The launch of the EU Recovery Fund will be an important factor determining the economic growth rate in Poland in the coming years. Funds amounting to EUR 750bn will be paid under the program to support the EU economy after the shock related to COVID-19. In terms of the funds amount, Poland is the fourth largest beneficiary of the program – it will receive EUR 23.1bn in non-reimbursable grants and EUR 34.2bn in possible loans. In MACROmap of 15/6/2020 we were showing, based on the preliminary information about the program, how it would contribute to accelerating the convergence of Poland's

GDP per capita to the EU average. Below, based on the incoming information of recent months, we analyze in greater details the impact of this program on the economic situation in Poland.

The biggest of the proposed instruments of support under the Recovery Fund is the Recovery and Resilience Facility providing for the disbursement of grants and loans. These funds will be paid to the respective member states based on so-called National Recovery Plans (NRP) , namely complex programs of reforms and strategic projects to be prepared by respective countries and presented to the European Commission for acceptance. The time frame of the reforms and investments is until the end of 2026. They may be both direct public investments but also incentives for private investments through support systems, including financial instruments, subsidies or other instruments, provided that the principles of allowable public aid are observed. Applications concerning projects to be included in the NRP were being submitted in recent months. The Ministry of Funds and Regional Policy (MFRP) has received in total proposals of more than 2500 projects. After a preliminary analysis, 1198 projects qualified to next selection stage.

A detailed list of the projects selected to NRP or the structure of expenditures broken down to different sectors of the economy is not available now. According to the general information from the MFRP, these projects concern many areas, including energy, environmental protection, transport, innovation and entrepreneurship, health, digitalization, and territorial integrity. In accordance with the EU guidelines, at least 37% of NRP funds must be allocated for green transition and at least 20% for digital transformation. Some regions and ministries have published a list of the projects they submitted to the NRP. An analysis of the available documents indicates that they are mainly construction projects (such as e.g. restructuring of road, railway or energy infrastructure) and digital transformation projects (e.g. in public administration, education, and culture). We should bear in mind, however, that the said structure is based on partial data concerning several dozen projects and thus may not be representative for the whole NRP. In addition, it is not known which of the submitted projects will be ultimately included in the NRP.

In accordance with the binding time-table, Poland should present the National Recovery Plan to the European Commission (EC) before the end of April 2021 but the MFRP informed that the draft NRP is planned to be prepared and presented to the EC before the end of 2020. Then the EC has 2 months for the assessment and taking decision on the financial support for NRP. Poland is to receive EUR 23.1bn in non-reimbursable grants and EUR 34.2bn in possible loans. Before the end of 2022 Poland will have received ca. EUR 18.9bn in grants (i.e. ca. 70% of the total) and the additional EUR 4.1bn in 2023. A review of economic ratios – in particular the scale of decrease in real GDP in Poland in 2020 and 2021 against the backdrop of other members countries will decide about the award of grants.

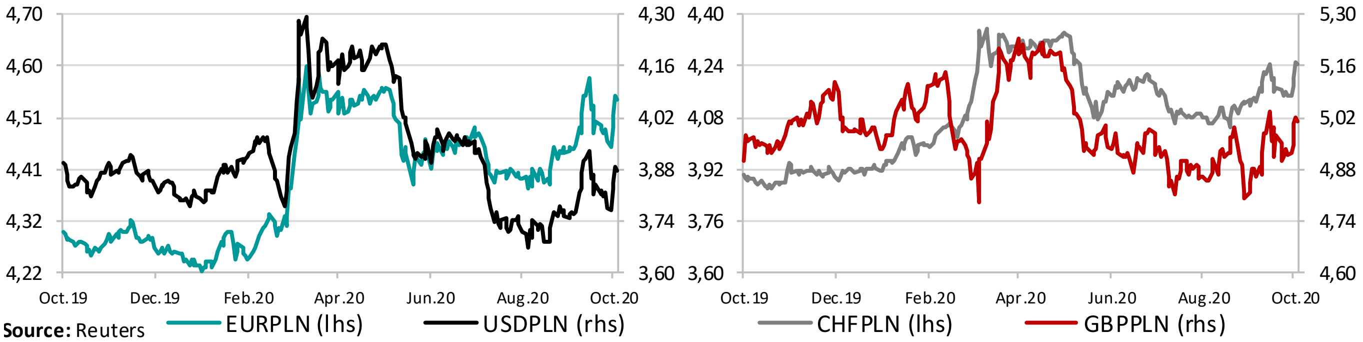


Source: Credit Agricole

Our analysis assumes that Poland will receive most or all of the funds under the second tranche (EUR 4.1bn) due to the expected similar scale of GDP decrease in all member countries. It is hard to foresee in advance what part of the NRP will be financed by loans offered by the EC. That is why our estimates below assume that only non-reimbursable grants will be used for the implementation of the NRP. The pace at which these funds will be absorbed will decide about the scale of the NRP impact on the Polish economy in the respective years. In the documents on the Recovery Fund, the European Commission assumed that ca. 22% of total grants amount will be absorbed in the whole EU in the 2021-2022 period. According to the government announcements, the pace of the absorption of grants in Poland is likely to be faster. We expect that 50% percent of the total amount of available grants (i.e. half of EUR 23.1bn) will have been spent by the end of 2022, of which one third will fall on 2021 and two third on 2022. The remaining half of the grants under the NRP will be absorbed in 2023 and in the following years. The implementation of investments with the proceeds from the Recovery and Resilience Facility will be conducive to faster economic growth in the coming years. With the assumed by us absorption profile of these proceeds (see the chart), the EU funds will be mostly responsible for boosting the economic growth between 20221 and 2022 while in subsequent years their impact will be smaller. Nonetheless we expect that in the 2023-2024 period the GDP growth rate will stand at ca. 4%. In the next MACROmap we will present our revised macroeconomic scenario for 2020-2021, taking into consideration the impact of the NRP.

The deterioration of global sentiment is negative for PLN

FX rates

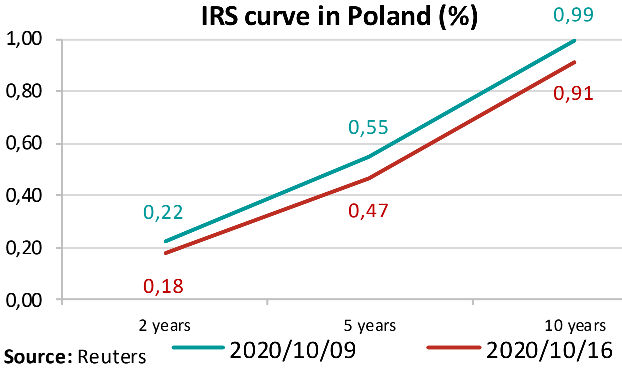


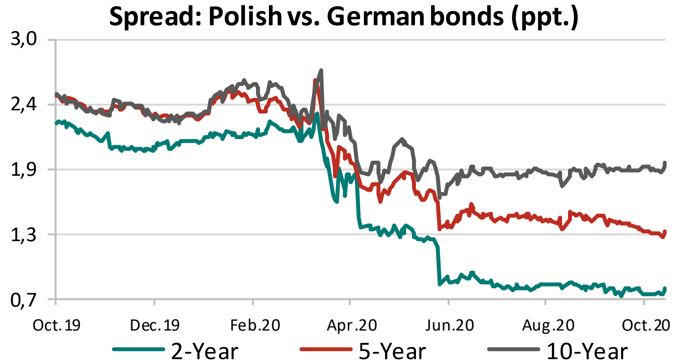
Source: Reuters

Last week, the EURPLN exchange rate rose to 4.5425 (weakening of PLN by 1.7%). Throughout last week EURPLN was showing an upward trend. Conducive to weaker PLN was higher global risk aversion, reflected by a surge of VIX index. A deterioration of sentiment was observed in global markets. Smaller investors' appetite for risk assets resulted from a sharp increase in the number of new coronavirus infections in Europe which intensified market participants' concerns about the impact of the second wave of the pandemic on the sustainability of the global economic recovery. In Poland the growing number of new coronavirus infections which recorded new record levels last week was an additional negative factor for PLN. Due to a sharp increase in global risk aversion, last week also saw the appreciation of USD and CHF vs. EUR.

The released this morning data from the Chinese economy are neutral for PLN. This week, like in the previous weeks, PLN will remain impacted by global sentiment related to the coronavirus pandemic and negotiations concerning the fiscal package in the US. We believe that the scheduled for this week publications of data on domestic industrial production and flash PMIs for major European economies may contribute towards the appreciation of PLN. Other domestic data (corporate employment and average wages) as well as data from the US (number of housing starts, new building permits, existing home sales) will not have any significant impact on PLN.

Flash PMIs in the Eurozone may contribute to higher IRS rates





Source: Reuters

Last week, 2-year IRS rates decreased to 0.18 (down by 4bps), 5-year rates to 0.47 (down by 8bps), and 10-year rates to 0.91 (down by 8bps). Last week saw a decrease in IRS rates, following the core markets (USA and Germany). The decrease in yields on bonds in the core markets resulted from investors' growing concerns about the impact of the second wave of the pandemic on the sustainability of the global economic recovery (see above).

This week, like in the previous weeks, IRS rates will remain impacted by global sentiment related to the coronavirus pandemic and negotiations concerning the fiscal package in the US. In our view, the scheduled for this week publications of data on domestic industrial production and flash PMIs for major European economies may support an increase in IRS rates. Other domestic data (corporate employment and average wages) as well as data from the US (number of housing starts, new building permits, existing home sales) will be neutral for the curve, we believe.

Forecasts of the monthly macroeconomic indicators

Main monthly macroeconomic indicators in Poland														
Indicator	Sep.19	Oct.19	Nov.19	Dec.19	Jan.20	Feb.20	Mar.20	Apr.20	May.20	Jun.20	Jul.20	Aug.20	Sep.20	Oct.20
NBP reference rate (%)	1,50	1,50	1,50	1,50	1,50	1,50	1,00	0,50	0,10	0,10	0,10	0,10	0,10	0,10
EURPLN*	4,37	4,26	4,31	4,26	4,30	4,33	4,55	4,54	4,44	4,44	4,41	4,40	4,53	**4,55**
USDPLN*	4,01	3,82	3,91	3,79	3,87	3,92	4,13	4,15	4,00	3,95	3,74	3,68	3,86	**3,89**
CHFPLN*	4,02	3,87	3,91	3,92	4,02	4,06	4,29	4,30	4,16	4,17	4,10	4,07	4,21	**4,25**
CPI inflation (% YoY)	2,6	2,5	2,6	3,4	4,3	4,7	4,6	3,4	2,9	3,3	3,0	2,9	3,2	
Core inflation (% YoY)	2,4	2,4	2,6	3,1	3,1	3,6	3,6	3,6	3,8	4,1	4,3	4,0	4,3	
Industrial production (% YoY)	5,5	3,7	1,5	3,8	1,1	4,8	-2,4	-24,6	-16,8	0,5	1,1	1,5	**5,3**	
PPI inflation (% YoY)	0,8	-0,3	-0,1	1,0	0,9	0,2	-0,3	-1,4	-1,7	-0,8	-0,6	-1,2	**-1,5**	
Retail sales (% YoY)	5,3	5,4	5,9	7,5	5,7	9,6	-7,0	-22,6	-8,6	-1,9	2,7	0,4	**2,0**	
Corporate sector wages (% YoY)	6,6	5,9	5,3	6,2	7,1	7,7	6,3	1,9	1,2	3,6	3,8	4,1	**4,3**	
Employment (% YoY)	2,6	2,5	2,6	2,6	1,1	1,1	0,3	-2,1	-3,2	-3,3	-2,3	-1,5	**-0,9**	
Unemployment rate* (%)	5,1	5,0	5,1	5,2	5,5	5,5	5,4	5,8	6,0	6,1	6,1	6,1	**6,1**	
Current account (M EUR)	712	243	1182	73	2756	1100	805	772	2028	3811	1012	947		
Exports (% YoY EUR)	14,3	5,5	2,5	10,8	4,9	8,0	-6,6	-29,3	-19,6	2,6	1,7	0,8		
Imports (% YoY EUR)	7,6	2,1	-1,8	0,7	3,9	0,9	-3,9	-28,4	-28,2	-10,3	-4,4	-5,1		

*end of period

Forecasts of the quarterly macroeconomic indicators

Main macroeconomic indicators in Poland												
Indicator	2020				2021				2019	2020	2021
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Gross Domestic Product (% YoY)	2,0	-8,2	-2,0	-2,8	-0,1	5,6	4,1	5,0	4,5	-2,8	3,6
Private consumption (% YoY)	1,2	-10,9	0,0	0,5	2,1	7,1	4,3	4,5	4,0	-2,3	4,4
Gross fixed capital formation (% YoY)	0,9	-10,9	-14,5	-16,3	-5,4	5,2	6,4	8,1	7,2	-11,9	4,5
Export - constant prices (% YoY)	0,6	-14,3	-2,5	-2,0	2,0	8,0	5,3	5,4	5,1	-4,5	5,1
Import - constant prices (% YoY)	-0,2	-17,5	-4,7	-2,1	4,5	9,0	4,1	3,6	3,3	-6,1	5,1
GDP growth contributions: Private consumption (pp)	0,7	-6,3	0,0	0,2	1,3	3,9	2,5	2,3	2,3	-1,3	2,5
GDP growth contributions: Investments (pp)	0,1	-1,8	-2,6	-4,1	-0,7	0,8	1,0	1,8	1,3	-2,2	0,7
GDP growth contributions: Net exports (pp)	0,4	0,8	1,0	-0,1	-1,2	0,2	0,9	1,1	1,1	0,6	0,3
Current account (% of GDP)***	1,1	2,3	2,9	2,0	0,4	-0,1	0,0	0,6	0,5	2,0	0,6
Unemployment rate (%)**	5,4	6,1	6,1	7,1	7,1	6,0	5,5	6,1	5,2	7,1	6,1
Non-agricultural employment (% YoY)	0,7	-1,8	-2,1	-2,0	-0,9	1,5	1,8	2,0	0,3	-1,3	1,1
Wages in national economy (% YoY)	7,7	3,8	3,2	3,4	2,7	3,2	2,9	3,0	7,2	4,5	3,0
CPI Inflation (% YoY)*	4,5	3,2	3,0	3,0	1,5	2,0	1,8	1,7	2,3	3,4	1,7
Wibor 3M (%)**	1,17	0,26	0,22	0,22	0,22	0,22	0,22	0,22	1,71	0,22	0,22
NBP reference rate (%)**	1,00	0,10	0,10	0,10	0,10	0,10	0,10	0,10	1,50	0,10	0,10
EURPLN**	4,55	4,44	4,53	4,43	4,40	4,39	4,37	4,35	4,26	4,43	4,35
USDPLN**	4,13	3,95	3,86	3,75	3,70	3,69	3,64	3,63	3,79	3,75	3,63

* quarterly average

** end of period

***cumulative for the last 4 quarters

Calendar

TIME	COUNTRY	INDICATOR	PERIOD	PREV. VALUE	FORECAST*	
					CA	CONSENSUS**
		Monday 10/19/2020				
4:00	China	GDP (% YoY)	Q3	3,2	5,8	5,2
4:00	China	Retail sales (% YoY)	Sep	0,5	1,3	1,8
4:00	China	Industrial production (% YoY)	Sep	5,6	6,7	5,8
4:00	China	Urban investments (% YoY)	Sep	-0,3	0,8	0,8
10:00	**Poland**	**Employment (% YoY)**	**Sep**	**-1,5**	**-0,9**	**-1,1**
10:00	**Poland**	**Corporate sector wages (% YoY)**	**Sep**	**4,1**	**4,3**	**4,5**
		Tuesday 10/20/2020				
10:00	Eurozone	Current account (bn EUR)	Aug	16,6		
10:00	**Poland**	**Industrial production (% YoY)**	**Sep**	**1,5**	**5,3**	**3,8**
10:00	**Poland**	**PPI (% YoY)**	**Sep**	**-1,2**	**-1,5**	**-1,4**
14:30	USA	Housing starts (k MoM)	Sep	1416		1451
14:30	USA	Building permits (k)	Sep	1476		1500
		Wednesday 10/21/2020				
10:00	**Poland**	**Retail sales (% YoY)**	**Sep**	**0,4**	**2,0**	**2,2**
		Thursday 10/22/2020				
14:00	**Poland**	**M3 money supply (% YoY)**	**Sep**	**16,2**	**16,4**	**16,4**
14:30	USA	Initial jobless claims (k)	w/e	898		848
16:00	USA	Existing home sales (M MoM)	Sep	6,00		6,16
16:00	Eurozone	Consumer Confidence Index (pts)	Oct	-13,9		-15,0
		Friday 10/23/2020				
9:30	Germany	Flash Manufacturing PMI (pts)	Oct	56,4	56,7	55,5
10:00	Eurozone	Flash Services PMI (pts)	Oct	48,0	48,0	47,0
10:00	Eurozone	Flash Manufacturing PMI (pts)	Oct	53,7	54,0	53,1
10:00	Eurozone	Flash Composite PMI (pts)	Oct	50,4	50,5	49,5
10:00	**Poland**	**Registered unemplyment rate (%)**	**Sep**	**6,1**	**6,1**	**6,1**
15:45	USA	Flash Manufacturing PMI (pts)	Oct	53,2		53,3

*The forecasts of macroeconomic indicators for Poland were prepared by Credit Agricole Bank Polska S.A. The forecasts of foreign indicators were prepared by Crédit Agricole Corporate and Investment Bank
** Reuters

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