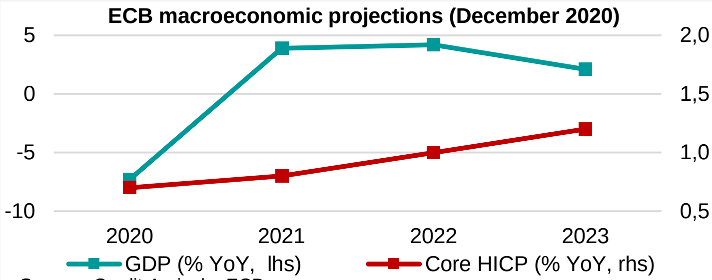
Will the National Recovery Plan boost GDP growth in 2021?

This week

- **The most important event this week will be a meeting of the ECB planned for Thursday.** We expect the ECB to maintain the interest rates in the Eurozone unchanged. The latest macroeconomic projections will be presented during the conference. We expect that the inflation path will be revised up from the December projection due to a higher starting point, while the projected GDP growth will not be subject to significant change. A key issue for the conference is the rise in yields on bonds in the Eurozone seen in recent weeks. Based on latest comments from some ECB representatives, we expect Ch. Lagarde to point out that the current yields are too high. In addition to verbal intervention, an intention to increase the pace of asset purchases as part of the quantitative easing programme (without increasing the overall scale of the programme) may be announced. We expect that the ECB conference may result in a weakening of the EUR against the USD and the PLN and a drop in yields on Polish bonds.



Source: Credit Agricole, ECB

- **This week, some important data from the US will be released.** We expect headline inflation to have increased to 1.7% YoY in February from 1.4% in January, due to a drop in core inflation (to 1.3% from 1.4% in January) and a faster rise in energy and fuel prices. Results of business surveys from the US will also be published. We are expecting the preliminary University of Michigan index (77.5 pts in March vs. 76.8 pts in February) to signal some improvement in households sentiment, resulting from progress in vaccinating the population against COVID-19. We believe that the overall impact of the US data on financial markets will be limited.
- **Data on industrial production in Germany has been released today.** Industrial production dropped by 2.5% MoM in January vs. a rise of 1.9% in December, running markedly below market expectations (+0.2%). Thus, industrial production in February was by ca. 4.2% lower than in February 2020, i.e. before the pandemic hit industrial production in Germany. Sector-wise, drops in production growth rates were seen in manufacturing and construction. The strong drop in construction was caused by severe winter, which made it impossible to carry out some construction work. In our opinion, data on industrial production in Germany is neutral for financial markets.
- **At the weekend, data on China's trade balance was published; the balance rose to USD 103.3 bn in January-February from USD 78.2 bn in the same period in 2020.** Very strong growth rates were recorded both for exports (60.6% YoY vs. 18.1%) and for imports (22.2% vs. 6.5%), the rates running well above market expectations (37.5% and 15.0%, respectively). The significant YoY increase in Chinese trade activity results partially from last year low base effect, as last year China's economy was strongly affected by the pandemic. It is also worth noting that the strong growth in imports was to a large extent caused by rises in prices of imported commodities. However, even after taking those factors into account, the data shows a strong recovery in domestic and export demand for Chinese goods. The data signals an upward risk to our forecast of China's GDP growth rate of 8.5% in 2021 vs. 2.3% in 2020. We believe that data is neutral for financial markets.

Last week

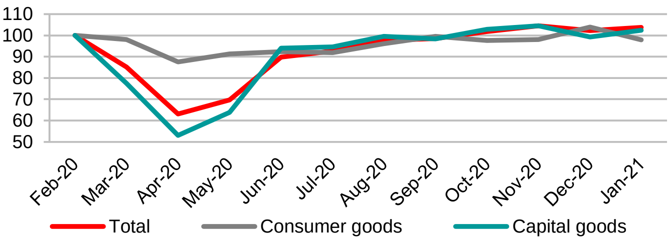
- **As we expected, the Monetary Policy Council did not change interest rates at its meeting last week (the reference rate is 0.10%).** In accordance with its press release, the MPC still expects economic activity to recover in 2021, but further development of the pandemic-related situation in Poland and abroad remains the main cause of uncertainty about the scale and pace of the recovery. Like in February, also last week's press release emphasized a positive impact of economic policy measures taken, including the easing of the NBP's monetary policy, on economic activity. The Council maintained its opinion that the pace of economic recovery in Poland may be reduced by the lack of a visible and more durable PLN exchange rate adjustment to the global pandemic shock and to the monetary policy easing introduced by the NBP. The press release continued to include a statement suggesting that the NBP may intervene in the foreign exchange market, if needed. In accordance with the statement, the NBP will continue to purchase government securities and government-guaranteed debt securities in the secondary market as part of the structural open market operations (the value of securities purchased so far has reached PLN 109.7bn). Last week also saw the publication of March projections of the NBP. Both GDP and inflation paths were revised up markedly from November projections (see MACROpulse of 03/03.2021). The NBP's March projections show that the monetary policy will not be eased further despite the third wave of the COVID-19 pandemic that is currently seen in Poland. We maintain our scenario in which the MPC will not change interest rates until the end of 2022. We expect the first rise in the reference rate, from 0.10% to 0.25%, in Q1 2023. Our scenario is strongly supported by Friday comments from the NBP President A. Glapiński (see below).

- **In line with the flash estimate, inflation in the Eurozone did not change in February vs. January, standing at 0.9% YoY, below the market consensus (1.0%) and above our forecast (0.8%).** Inflation stabilized due to a faster rise in energy prices and lower inflation in industrial goods and services. We expect inflation in the Eurozone to be on an upward trend in the coming months, reaching 1.8% in Q4 2021. Thus, we are forecasting an annual average rise in inflation of 1.4% YoY in 2020 from 0.3% in 2020.
- **Last week, the Fed Chairman J. Powell gave a speech.** He said that the Fed would be 'patient' about the tightening of its monetary policy, given that employment was still far from the level expected by the Fed, and improvement in the labour market had clearly lost momentum in recent months. In this way, J. Powell emphasized once again that given the existing circumstances the Fed was not considering the tightening of its monetary policy despite improving prospects for economic growth and inflation (see MACROpulse of 01/03/2021). J. Powell again suggested that the Fed had no intention at the moment to influence the yield curve in order to flatten it, as yields on treasury bonds were still far from levels that could prevent the achieving of the Fed's monetary policy targets. Despite the dovish tone in J. Powell' speech, a further strong rise in yields on US bonds was seen, especially at the long end of the curve, as investors expect that the strong recovery will lead to markedly stronger inflation pressure and will force the Fed to raise interest rates. J. Powell's statements support our scenario that interest rates in the US will remain at current levels at least until the end of 2023. At the same time, we believe that the Fed will not start reducing the scale of its asset purchases before the beginning of 2022, and the timing will depend on how successful the fight against the pandemic will be.
- **Last week, some important data on the US economy was released.** The number of new jobless claims dropped to 745k vs. 736k two weeks ago, running below market expectations (775k). The number of continued claims dropped, too (from 4.4m to 4.3m), which, however, was to some extent due to the loss of the right to benefits by long-term unemployed. Last week also saw the publication of data on non-farm payrolls, which rose by 379k in February vs. an increase by 166k in January (a substantial upward revision from 49k), running clearly above market expectations (+182k). The strongest increase in employment was in leisure and hospitality (+355k), the sector most affected by the administrative restrictions introduced due to the second wave of the pandemic. Thus, the strong employment growth in this sector is the result of the restrictions eased in February. The unemployment rate fell to 6.2% in February vs. 6.3% in January, while the labour force participation rate was unchanged in February from January at 61.4%. The data on non-farm payrolls in the US combined with the data on the number of jobless claims indicate

that the US labour market is still far from its equilibrium despite the ongoing improvement. The ISM manufacturing index rose to 60.8 pts in February vs. 58.7 pts in January, which was above market expectations (58.8 pts). The increase in the index resulted from higher contributions of 4 out of its 5 components (new orders, current output, employment and delivery times), while lower contribution of inventories component had the opposite effect. Particularly noteworthy in the data structure was the further increase in the component for employment, which was at its highest level in February since March 2019. The increase in employment in manufacturing is supported by continued strong growth in new orders. Including US manufacturing employment data, cumulative employment growth for the period May 2020 - February 2021 reached 824k compared with a cumulative decline of 1,385k in the March-April 2020 period. This shows that manufacturing employment is still clearly far from the levels seen before the pandemic. Also noteworthy in the data is the increasing cost pressure associated with disruptions in supply chains, among other factors. The index for prices rose in February to its highest level since July 2008. By contrast, the ISM non-manufacturing index fell to 55.3 pts in February vs. 58.7 pts in January, running below market expectations (58.7 pts). The decline in the index was driven by a drop in 3 out of its 4 components (new orders, business activity and employment), while the increase in the delivery time component had the opposite effect. It is worth noting that the increase in delivery time was due to pandemic-related disruptions and is not indicative of an improving economy. As with the ISM manufacturing index, the companies surveyed pointed to increasing cost pressures. The index for prices rose in February to its highest level since September 2008. We believe that in Q1 the US economy will continue to be affected by the second wave of the pandemic. We do not expect economic growth to accelerate markedly before H2 2021, when the launch of a new fiscal package will be conducive to faster growth. On Saturday, the Senate passed the USD 1.9trn package and sent it to Congress. We believe that its scale will not change again, as this would mean that the Senate would have to pass the package again. In light of last week's data, we see upside risk to our forecast that the annualized US GDP growth rate will slow down to 1.2% in Q1 from 4.0% in Q4.

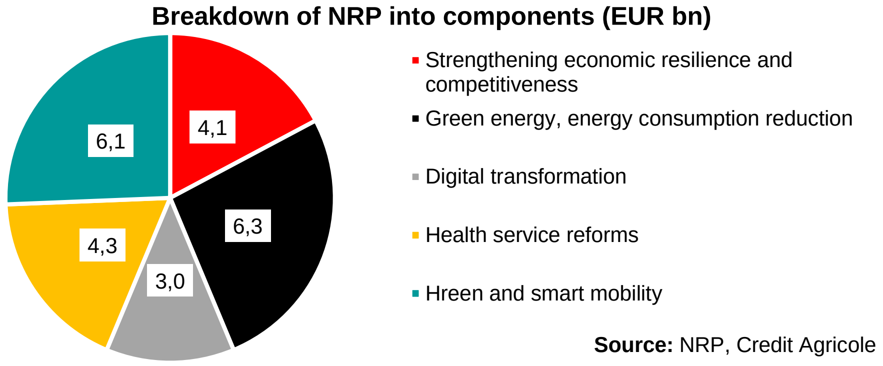
German manufacturing orders increased by 1.4% MoM in January vs. a 2.2% decline in December, which is above market expectations (0.8%). The increase in orders is due to higher foreign orders, while domestic orders declined. In the case of foreign orders, both orders from the Eurozone and from outside the single currency area increased. Orders for capital goods increased, while orders for consumer goods fell, reaching their lowest level since October 2020. The rise in German manufacturing orders was previously signalled by PMI indices. The data supports our forecast that the quarterly pace of GDP growth in Germany will increase to 0.8% in Q1 2021, vs. 0.1% in Q4 2020.

New orders in German manufacturing (SA, Feb 2020=100)



Source: Datastream, Credit Agricole

Will the National Recovery Plan boost GDP growth in 2021?



Two weeks ago, the draft of National Recovery Plan (hereafter NRP) was published, which is a description of how the EUR 23.9bn in non-repayable subsidies awarded to Poland under the EU's Reconstruction Fund will be used. The NRP does not discuss how the funds that can be borrowed under the Reconstruction Fund will be used. The following are the most important conclusions of the NRP that are relevant to Poland's growth prospects.

The main objective of the NRP is "to rebuild the development potential of the economy lost as a result of the pandemic and to support the construction of sustainable competitiveness of the economy and increase the standard of living of the population in the long term". This objective will be implemented using five components:

- **Resilience and competitiveness of the economy** (EUR 4.1bn, 17.3% of total subsidies), which aims to ensure the resilience of the economy to crises and the creation of high quality jobs
- **Green energy and reduction in energy consumption** (EUR 6.3bn, 26.6%) - to reduce the negative impact of the economy on the environment, while ensuring the country's competitiveness and energy and environmental security
- **Digital transformation** (EUR 3.0bn, 12.7%) – to enhance digital transformation in the public sector, society and economy
- **Efficiency, availability and quality of healthcare system** (EUR 4.3bn, 17.9%) – efficient functioning of healthcare system and improvement of efficiency, accessibility and quality of health services
- **Green and smart mobility** (EUR 6.1bn, 25.5%) – to develop a sustainable, safe and resilient transport system that adequately serves the needs of the economy and society.

The structure of spending under the NRP is in line with European Commission (EC) guidelines, e.g. regarding the share of expenditure on digitisation (20.9% vs. the required 20%) and the share of expenditure on green transformation (37.7% vs. 37%).

Each of the five components mentioned above is broken down into reforms and investments with a greater level of detail (we have attached such a detailed break-down in a separate file "NRP Table"). As a result, the use of subsidies under the NRP is presented broken down into 45 investment projects, consisting for example in renewing the rolling stock and increasing the comfort of rail travel, ensuring adequate telecommunications infrastructure throughout the country or increasing the competitiveness of enterprises by using "green" solutions in business operations. In addition, so-called milestones are given, which allow for a concrete settlement of the effects of a given project, e.g. "purchase of 1,200 zero- and low-emission rolling stock units", "increase in the percentage of employees with access to a company laptop from 20% to 90%", "an additional 1,080,000 households covered by broadband Internet access".

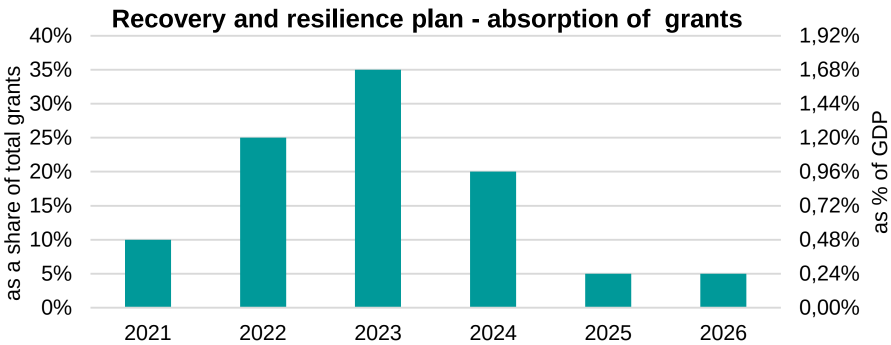
Breakdown of NRP according to the declared start and end of the investment projects (share of total grants)

		End			
		2023	2024	2026	**Total**
Start	2020			11,5%	**11,5%**
	2021	5,7%	0,2%	77,8%	**83,7%**
	2022			4,8%	**4,8%**
	Total	**5,7%**	**0,2%**	**94,1%**	**100,0%**

Source: NRP, Credit Agricole

The scale of the NRP's impact on the Polish economy in particular years will be determined by the rate at which EU subsidies are used. Although the exact amounts of subsidies allocated to each of the 45 investment projects mentioned above are known and the beginning and end of the project's duration is given, this information does not allow one to establish a precise profile of the funds' absorption year by year. This is because vast majority of projects in the NRP (amounting to EUR 18bn, 78% of subsidies) will last from 2021 to 2026, and in the case of 94% of grants 2026 is given as the end date of the project. Most projects are therefore characterised by a very long period of money spending. Moreover, on the basis of the investment description, in most cases one cannot deduce at what pace the funds will be spent, because milestones often refer to targets as late as 2026. Without knowing the exact specifics of a particular project, it is not possible to define a spending schedule.

Only in the case of a small number of projects, representing around 10% of the total grant, is it possible to set an estimated spending schedule. In their case, a small part of the funds is to be used in 2021. Annual expenditure increases significantly in 2022, reaches a maximum in 2023 and decreases in subsequent years. However, one should bear in mind that they are not necessarily representative of the utilisation profile of all NRP subsidies. However, taking into account that according to the binding schedule, Poland should submit the NRP to the EC by the end of April 2021, and then the EC has 2 months to assess it, the assumption of low use of EU funds this year is, in our opinion, justified.

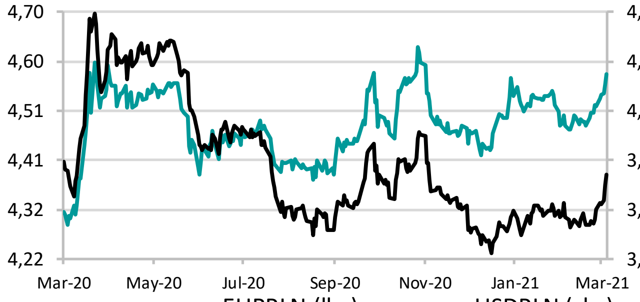


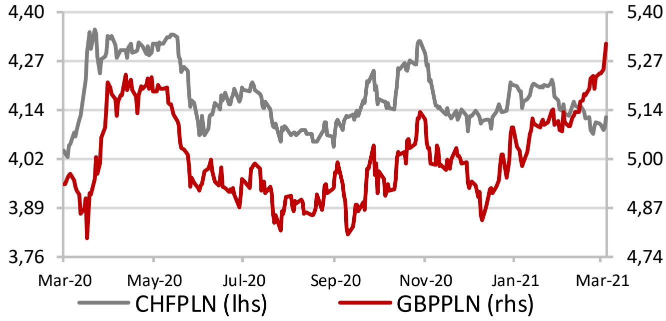
Source: Credit Agricole

Given the vague information contained in the NRP, we have updated our previously assumed absorption profile for the reconstruction fund. We currently assume that the absorption of funds in 2021 and 2022 will be lower than originally assumed, and in 2024-2026 - higher (see MACROmap of 19/10/2020). The implementation of investment projects under the Reconstruction Fund will be a factor contributing to faster economic growth in the coming years. However, one must remember that some projects are highly import-intensive, which will limit the positive impact of the implementation of NRP on GDP growth. A good example in this regard is the purchase of COVID-19 vaccines for EUR 1.4bn, which are 100% imported. At present, it is not possible to accurately assess the import intensity of NRP. Based on the profile of the use of these funds assumed by us (see chart), EU funds will be the biggest growth driver in 2022. This supports our scenario in which GDP growth will increase from 3.6% YoY in 2021 to 4.9% in 2022.

ECB meeting may strengthen the PLN

FX rates





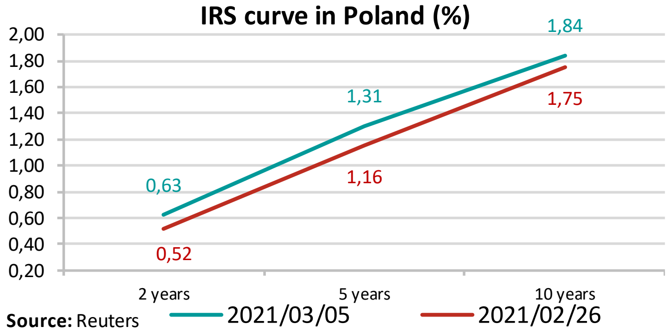
Source: Reuters

Last week, the EURPLN exchange rate rose to 4.5793 (the PLN weakened by 1.4%). Throughout last week, the EURPLN exchange rate followed a clear upward trend. Its weakening was due to an increase in global risk aversion, which was reflected in a rise in the VIX index. Higher risk aversion resulted from growing investor fears of rising global inflation as the economy recovers, which could force major central banks to raise interest rates. For this reason, Friday's better-than-expected data on non-farm employment in the US also contributed to the weakening of the PLN. Locally, negative factors for the PLN also included the worsening epidemic situation in Poland, as well as Friday's statement by the NBP President A. Glapiński, who said that that the probability of an interest rate hike during the current term of the Council is zero and that the NBP will continue its asset purchase programme as long as it is needed, perhaps always. The MPC meeting did not have a significant impact on the FX market. Due to the increase in global risk aversion, the USD also strengthened against the EUR last week.

This week the ECB meeting will be crucial for the PLN. We believe that it may contribute to the strengthening of the PLN. In our opinion, this week's data releases from the US (inflation, preliminary University of Michigan index) will not have a significant impact on the market.

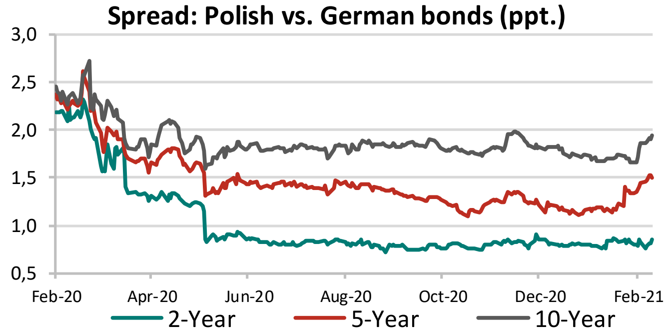
ECB meeting in the spotlight

IRS curve in Poland (%)



Source: Reuters

Spread: Polish vs. German bonds (ppt.)



Last week, 2-year IRS rates increased to 0.63 (up by 11 bps), 5-year rates to 1.31 (up by 15 bps) and 10-year ones to 1.84 (up by 9 bps). Last week saw further increase in IRS rates, particularly visible at the long end of the curve, following core markets. This was a continuation of the tendencies observed two weeks ago (see MACROmap of 1/3/2021). The rises in bond yields in the core markets result from growing investor concerns about global inflation expected to increase as the economy recovers, which could force major central banks to raise interest rates. Last week's statement by J. Powell, who once again stressed that the Fed has no intention to react to the prospect of rising inflation or the rise in US bonds at the long end of the curve, as well as the publication of better-than-expected US non-farm employment data, also contributed to the rise in bond yields in core markets. Locally, the increase in IRS rates in Poland at the long end of the curve was influenced by the publication of the March NBP economic projection, which clearly raised the inflation path (see MACROpulse of 3/3/2021). There was a partial correction on Friday due to NBP President A. Glapinski's statement, who suggested that monetary policy in Poland will remain dovish for quite a while longer (see above).

This week the ECB meeting is going to be in the spotlight. In our view, it could bring about a drop in IRS yields. We believe that this week's data releases from the US (inflation, preliminary University of Michigan index) will be neutral for the curve.

Forecasts of the monthly macroeconomic indicators

Main monthly macroeconomic indicators in Poland

Indicator	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21
NBP reference rate (%)	1,50	1,00	0,50	0,10	0,10	0,10	0,10	0,10	0,10	0,10	0,10	0,10	0,10	0,10
EURPLN*	4,33	4,55	4,54	4,44	4,44	4,41	4,40	4,53	4,60	4,47	4,55	4,52	4,52	**4,53**
USDPLN*	3,92	4,13	4,15	4,00	3,95	3,74	3,68	3,86	3,95	3,75	3,73	3,72	3,74	**3,78**
CHFPLN*	4,06	4,29	4,30	4,16	4,17	4,10	4,07	4,21	4,32	4,13	4,21	4,18	4,11	**4,12**
CPI inflation (% YoY)	4,7	4,6	3,4	2,9	3,3	3,0	2,9	3,2	3,1	3,0	2,4	2,7	**2,5**	
Core inflation (% YoY)	3,6	3,6	3,6	3,8	4,1	4,3	4,0	4,3	4,2	4,3	3,7	**4,1**	**3,8**	
Industrial production (% YoY)	4,8	-2,4	-24,6	-16,8	0,5	1,1	1,5	5,7	1,0	5,4	11,1	0,9	**4,2**	
PPI inflation (% YoY)	0,2	-0,3	-1,4	-1,7	-0,8	-0,6	-1,3	-1,4	-0,4	-0,2	0,1	0,7	**1,4**	
Retail sales (% YoY)	9,6	-7,0	-22,6	-8,6	-1,9	2,7	0,4	2,7	-2,1	-5,3	-0,8	-6,0	**-2,0**	
Corporate sector wages (% YoY)	7,7	6,3	1,9	1,2	3,6	3,8	4,1	5,6	4,7	4,9	6,6	4,8	**4,5**	
Employment (% YoY)	1,1	0,3	-2,1	-3,2	-3,3	-2,3	-1,5	-1,2	-1,0	-1,2	-1,0	-2,0	**-2,0**	
Unemployment rate* (%)	5,5	5,4	5,8	6,0	6,1	6,1	6,1	6,1	6,1	6,1	6,2	6,5	**6,5**	
Current account (M EUR)	1100	805	823	1560	3175	625	1093	1517	2356	2116	430	**2025**		
Exports (% YoY EUR)	8,0	-6,6	-29,6	-19,3	3,9	1,7	1,9	6,1	3,8	10,1	14,8	**2,8**		
Imports (% YoY EUR)	0,9	-3,9	-28,9	-27,3	-7,4	-4,3	-4,7	1,8	-3,5	5,3	13,6	**-2,1**		

*end of period

Forecasts of the quarterly macroeconomic indicators

Main macroeconomic indicators in Poland

	Indicator	2020				2021				2020	2021	2022
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
	Gross Domestic Product (% YoY)	1,9	-8,4	-1,5	-2,8	-1,0	6,9	4,0	4,4	-2,7	3,6	4,9
	Private consumption (% YoY)	1,2	-10,8	0,4	-3,2	0,0	7,1	3,5	3,1	-3,0	3,3	4,1
	Gross fixed capital formation (% YoY)	0,9	-10,7	-9,0	-10,9	-7,2	5,4	6,0	6,3	-8,4	3,6	8,2
	Export - constant prices (% YoY)	2,0	-14,5	2,0	8,0	7,0	9,0	4,5	5,4	-2,5	5,5	8,3
	Import - constant prices (% YoY)	0,4	-18,0	-1,0	7,9	6,5	9,1	3,8	3,4	-4,1	4,6	8,9
GDP growth contributions	Private consumption (pp)	0,8	-6,2	0,2	-1,7	0,0	3,9	2,1	1,6	-1,7	1,9	2,3
	Investments (pp)	0,1	-1,8	-1,7	-2,8	-0,9	0,9	1,0	1,5	-1,6	0,6	1,4
	Net exports (pp)	0,9	1,1	1,7	0,4	0,9	0,7	0,6	1,2	1,0	0,8	0,0
	Current account (% of GDP)***	1,0	2,1	2,8	3,5	3,3	3,0	2,7	2,9	3,5	2,9	2,3
	Unemployment rate (%)**	5,4	6,1	6,1	6,2	6,3	5,7	5,4	5,6	6,2	5,6	5,2
	Non-agricultural employment (% YoY)	0,7	-1,8	-0,7	0,0	0,0	1,8	0,7	0,5	-0,5	0,8	0,4
	Wages in national economy (% YoY)	7,7	3,8	4,8	5,0	2,8	3,3	3,0	3,1	5,3	3,1	5,8
	CPI Inflation (% YoY)*	4,5	3,2	3,0	2,8	2,2	2,8	2,7	2,8	3,4	2,6	2,2
	Wibor 3M (%)**	1,17	0,26	0,22	0,21	0,21	0,21	0,21	0,21	0,21	0,21	0,26
	NBP reference rate (%)**	1,00	0,10	0,10	0,10	0,10	0,10	0,10	0,10	0,10	0,10	0,10
	EURPLN**	4,55	4,44	4,53	4,55	4,53	4,46	4,42	4,37	4,55	4,37	4,27
	USDPLN**	4,13	3,95	3,86	3,73	3,78	3,72	3,65	3,58	3,73	3,58	3,42

* quarterly average
** end of period
***cumulative for the last 4 quarters

Calendar

TIME	COUNTRY	INDICATOR	PERIOD	PREV. VALUE	FORECAST*	
					CA	CONSENSUS**
		Monday 03/08/2021				
8:00	Germany	Industrial production (% MoM)	Jan	0,0		0,2
10:30	Eurozone	Sentix Index (pts)	Mar	-0,2		1,0
16:00	USA	Wholesale inventories (% MoM)	Jan	1,3		
16:00	USA	Wholesale sales (% MoM)	Jan	1,2		
		Tuesday 03/09/2021				
8:00	Germany	Trade balance (bn EUR)	Jan	16,1		
11:00	Eurozone	Final GDP (% YoY)	Q4	-5,0	-5,0	-5,0
11:00	Eurozone	Revised GDP (% QoQ)	Q4	-0,6	-0,6	-0,6
11:00	Eurozone	Employment (% YoY)	Q4	-2,0		
		Wednesday 03/10/2021				
2:30	China	PPI (% YoY)	Feb	0,3		1,5
2:30	China	CPI (% YoY)	Feb	-0,3		-0,4
14:30	USA	CPI (% MoM)	Feb	0,3	0,4	0,4
14:30	USA	Core CPI (% MoM)	Feb	0,0	0,1	0,2
		Thursday 03/11/2021				
13:45	Eurozone	EBC rate decision (%)	Mar	0,00	0,00	0,00
14:30	USA	Initial jobless claims (k)	w/e	745		725
		Friday 03/12/2021				
11:00	Eurozone	Industrial production (% MoM)	Jan	-1,6		0,2
16:00	USA	Initial U. of Michigan Sentiment Index (pts)	Mar	76,8	77,5	78,0

*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

MACRO MAP

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