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„Post Covid-19, Financial Market Predictions"

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(Second Part)

Deferred consumer demand and an export boom will be a driving force for the Polish economy in 2021. In the following years, investments shall be deemed a determinant of economic growth. The predictions of the Organization for Economic Co-operation and Development (OECD) show that activity in the Polish economy, measured by gross domestic product (GDP), will increase in 2021 by approx. 3% after a downturn of 3.5% in 2020.[1] Other economists predict an impetus within the Polish economy of over 6%[2] and this growth shall remain also in 2022. As a consequence, Polish GDP within a time horizon of a few years will reach a level which would likely have been achieved if the Covid-19 Pandemic had not been broken out. Positive aspects may be seen in the availability of vaccinations against Covid-19 and an understanding within the EU subject to the budget for 2021 – 2027 and the Reconstruction Fund. "*Poland has coped with the economic crisis better than other European member states and it seems that after the Pandemic threat will pass away, we will be confronted with a chance of a powerful bounce driven by deferred demand, substitution effects and generous streams of financial means from the EU"* – according to economists from Santander Bank Polska who increased their prediction of the growth of GDP in Poland in 2021 from 3.9% to 4.6%.

All scenarios for the Polish economy depend on the development of the Pandemic and the speed of administrating vaccinations in order to avoid a third wave of COVID–19 in the autumn 2021. The majority of economists assume that economy recovery will begin not earlier than in the second half of 2021."*The economic revival can commence before a number of persons being immune will approach a threshold of herd immunity. This in particularly concerns consumption. However, a percentage of persons having immunity can still be relatively low, but the improvement of weather conditions can slow the spreading of the Pandemic down enabling a significant increase of consumer mobility in the third and fourth quarters of 2021".*[3] It is foreseen that the herd immunity will be reached at the turn of the third and fourth quarters of 2021. The reason for optimism was the period of vacation which was used by consumers to increase consumption expenses during this time. As a result, within the first three quarters of 2020, consumption activity did not change, while in Germany consumption

[1] Mr. Dariusz Lasek, Vice-President of TFI PZU

[2] Opinion of economists from the American bank Goldman Sachs

[3] Analysts from Bank Citi Handlowy

declined by approx. 4 %, in Spain by 10% and in the UK by almost 12%. This leads to hopes that after a possible limitation of expenses Poles will increase their consumption demands.

It is expected that consumption expenses will increase between 4.4% and 5.6%.[4] This consumption demand will have an impact on different sectors of the economy, however this will not be on the same scale. In the light of the unevenly distributed economy slowdown and the accelerating of digital transformation, some entrepreneurs tackle better this situation (new technologies, e-commerce) and some significantly less so (airlines, touristic sector).

According to data from Eurostat, Poland was the only EU member state in which employment in the second quarter was higher than in the previous year. In October and November 2020 there was also no wave of redundancies in Poland although the economy was partially paralyzed by anti-pandemic restrictions. As a result, in December 2020 a survey carried out by the Central Statistic Office (GUS) showed that about 29% of respondents stated that the Pandemic may cause them to lose their jobs or to cease carrying out business activities. In April, this percentage reached 48%. At that time economists judged that the Pandemic will boost the unemployment rate in 2020 up to about 8% and this factor increased from 5.5% prior to the outbreak of the Pandemic to 6.1% in June 2020 and has stalled at this level. Previous experience lets us presume that we will not face a clear deterioration on the Polish labor market until the improvement of the pandemic-related situation.[5] The opportunity to introduce vaccinations on the market may encourage businesses to maintenance workers awaiting the reopening of business activities under normal commercial conditions.

Many entrepreneurs have refrained from dismissing their employees due to receiving non-refundable public aid. Therefore there are no predictions that the unemployment rate will be higher than 7%. Optimists say that the unemployment rate after a temporary increase will decline and will be at the end of 2021 lower than before the outbreak of the Covid-19 Pandemic. Pessimists argue that this rate will remain in the proximity of 6% until the end of 2022.

Prospects on the labor market are positively affected by the Polish industry revival. A survey carried out by entrepreneurs suggests that a part of them due to growing portfolios of orders and shortages of staff resulting from quarantines will be forced to engage additional workers. However, there are indications that industrial production will remain growing and it has returned on the path of growth already in June of the last year. Polish manufactures are favored by a good economic situation in the German industry and changes to the structure of global demand caused by the Pandemic. One of these upturns is an increased demand for furniture and RTV and AGD (household appliances) equipment connected with remote work. Another factor may be perceived in a higher price sensibility by foreign buyers.

The next positive aspect is the strength of Polish exporters and their ability to adapt to changing market conditions. They are in a position to take over a part of the EU market at an early stage of the economic upturn, the so–called substitution effect based on the watching

[4] Economists from Bank Citi Handlowy expect that consumer expenditure will raise by 4.4 % after a decline of 4% in 2020 while analysts from Santander BP expect a growth of 5.6% after a decline of 3.7% in 2020

[5] Kamil Łuczkowski, economist from Bank PEKAO

over of costs by commercial partners and looking for cheaper alternative products which Poland may be able to provide[6].

A good situation in the industry in connection with still pressed demand (and this is a consequence of the decline of crude oil prices and less demand for fuel) resulted in an improved balance of trade in Poland and this positively influenced the growth of GDP and most economists are of the opinion that a similar situation will be in 2021. Some of them judge that net exports will increase GDP by 0.8. percentage points[7] and others argue that the international trade surplus and related hereto surplus on current accounts in Poland may have a chance of consolidation and this finally favors the reduction of Poland's external debt.[8]

Similar to other European Member States the pace of upturn will depend mostly on the vaccination campaign. The best package of stimulus will come from the vaccination. It will limit the transmission of Covid-19 and restore confidence – so important for the economy – enabling the release of savings collected within the last months leading to a powerful upturn in the economy.[9]

The main source of differences with regards to macroeconomic forecasts for Poland are investments. Some analysts expect a rebound of gross expenditure in fixed assets by 5.5% in 2021 after a breakdown by 8% in 2020.[10] Analysts from Bank Citi Handlowy predict a decline of expenditure by about 1%.[11] The rebound in investments will occur probably in the second quarter of 2021 when the improvement in mood will be notable and when projects co-financed by the European Union Fund for Reconstruction will be implemented. Following their predictions, an investment boom can be expected in 2022 at the earliest. Gross expenditures on fixed assets will increase then by 11% and GDP over 5%.

Poland reacted efficiently to the Pandemic reaching out to new tools of monetary policy such as buying treasury debt through the central bank. This has had impact on the minimalization of effects of the crisis caused by the Pandemic. From the begin of the Pandemic, the NBP purchased about 50% of the debt issued and this corresponds to the level of the Bank of England.[12]

Other important aspects in 2021 will be the further easing of monetary policy to deal with the consequences of the crisis and the risk of a new lockdown.[13] There are two channels of easing of monetary policy

a. increase of the purchase of treasury bonds might ensure attractive costs related to borrowings and prevent a notable strengthening of Polish Złoty against the Euro and Dollar and

[6] On the basis of a report elaborated by analysts from Santander

[7] Opinion of analysts from Credit Agricole Bank Polska

[8] Opinion of analysts from PKO BP

[9] Christopher Dembik, Director for macroeconomic analysis from Saxo Bank

[10] Opinion of analysts from Bank Santander BP

[11] Opinion of analysts from Bank Citi Handlowy

[12] Christopher Dembik, Director for macroeconomic analysis from Saxo Bank

[13] According to Christopher Dembik

b. introduction of different forms of financing (credits, bonds and others)

The NBP will not directly buy tradeable corporate debt due to technical reasons because instruments of a high rating are missing on the market. Prior to the pandemic there were worrying signals for inflationary pressure in Poland resulting in inflation exceeding the interest rate of the NBP. This led to the situation in which keeping deposits and bonds in Polish currency was deemed unprofitable due to negative real return.

Still further risks are issues of the EU budget and "legal state" which have not been decided as yet. This will constitute a permanent risk for Polish currency in particular in the situation in which certain actions of the Polish government can exceed permitted lines according to EU.

In case of any further questions, please contact us at office@drlewandowski.eu.