

Poland Economics View

Second social distancing wave

- Poland, just like other Central European economies, has seen a substantial rise in COVID-19 infections in recent weeks, most likely reflecting the impact of several factors – decrease in social distancing, returns from holidays, cooler weather and re-opening of schools.
- While the data we follow suggest the healthcare systems in CEE are not overwhelmed yet, the trend is highly worrying as the number of hospital beds and ventilators used is rising at a fast pace.
- The lesson from previous months is that the price for combating the virus is the reduction in social interaction. This in turn means lower consumer demand.
- Polish government, just like other governments in the CEE, tries to avoid the full lockdown. Yet, limited restrictions are set to cover the whole country.
- All in all we expect that the voluntary social distancing as well as administrative restrictions will have significant impact on consumer behavior and economic activity in 4Q. Therefore the pandemic remains a serious downward risk to our growth forecasts.
- This note briefly summarizes recent trends and presents a chart pack for Central European economies.

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Impact on growth unavoidable

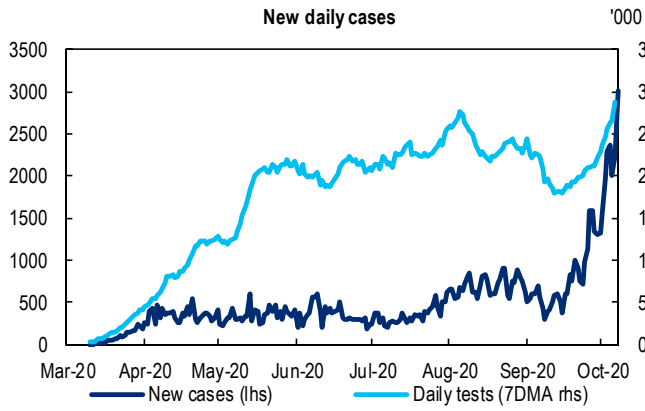
Although for most of September the pandemic situation in Poland was significantly better than in other CEE economies, this is now changing for worse. After months of stability, the daily number of confirmed COVID-19 cases has started to rise and it reached 4739 on 8th October. More importantly, the number of hospitalized persons exceeded 4407, or around 65% of 6500-7000 hospital beds devoted for COVID patients. According to Health Ministry, as of 7th October 320 ventilators were used, which implies approx. 40% utilization rate (and a very dynamic increase in one month – Figure 2). All in all the data suggests the healthcare system is not overwhelmed yet, but the dynamic increases in hospitalizations and the number of ventilators used are concerning.

In recent weeks Poland has seen a relatively small decrease in mobility but this is likely to change as well. The government tries to avoid the full scale lockdown comparable to the one implemented in March-April and – for now - has no plans to close schools. Instead the authorities prefer regional restrictions. The government introduced yellow zones (covering most of the country) as well as red zones with increasing severity of restrictions depending on the scale of epidemic. Restrictions include, among others, tighter limits on the number of participants in public gatherings or limits on the number of customers entering stores, gyms, cinemas, conferences, fairs (see Figure 6 for more details). Current basic reproduction number in Poland fluctuates around 1.5 which suggests that in absence of those (and possibly also additional) restrictions or voluntary social distancing the epidemic will continue to develop at a fast pace.

Since restrictions cover the whole country, we think their overall economic costs may be significant. In our base case we have expected that after surprisingly robust 3Q the economy would likely slow sharply in 4Q (from +6.7% QoQ in 3Q towards 0- -1% in 4Q). That is why although in September we upgraded our 3Q GDP forecast (in QoQ terms) we also downgraded 4Q. More importantly, even though the repeated significant GDP contraction, comparable to 2Q, does not seem to be the base case scenario at the moment, we think risks are clearly to the downside and are probably underestimated by the current consensus averages. In case of more negative scenario GDP in 4Q could contract by around 2-3% QoQ, which would imply ~5-6% decline in year-on-year terms. The bigger contraction would be likely especially in case of elementary school closures as this would keep parents away from work.

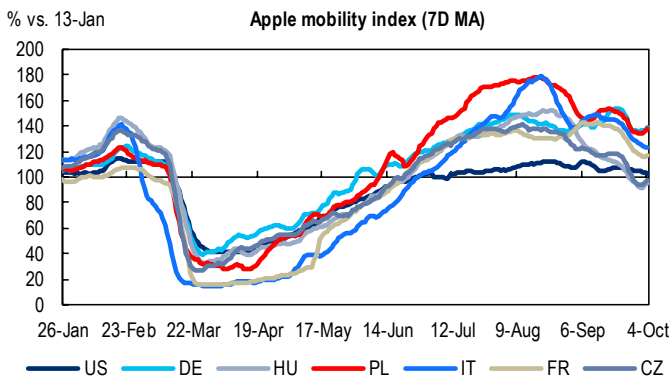
One of consequences of the developing epidemic is that the NBP will likely continue its asset purchase program in 2021 and will keep rates at the current level of 0.1%, even despite stubbornly high inflation. We do not rule out additional fiscal stimulus either, but we think the room for new budget spending is now much smaller due to the existence of 60% of GDP debt limit in the constitution. We think the stimulus measures would either be small or would be primarily channeled via off-budget entities and then could have the form of liquidity support or guarantees, rather than direct transfers to households.

Figure 1. Poland - Last few weeks brought significant increase in COVID cases, which only partly reflects much higher number of tests versus Spring



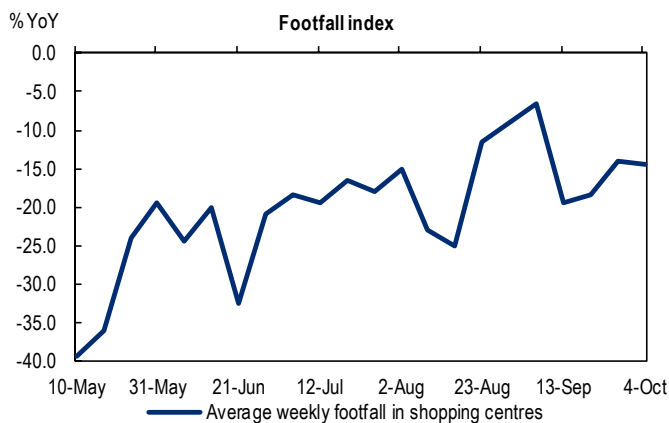
Source: Ministry of Health, Citi Research

Figure 3. Poland - Rebound in mobility in Poland was stronger in July-Aug but September brought some moderation in mobility



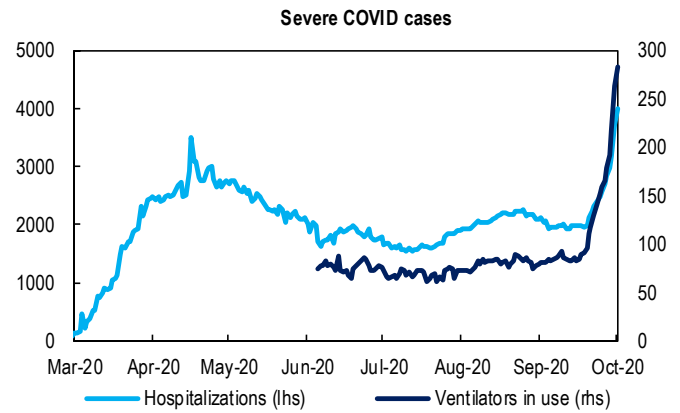
Source: Apple, Citi Research

Figure 5. Poland - Footfall in shopping centres also recovered but still remains significantly below pre-COVID levels



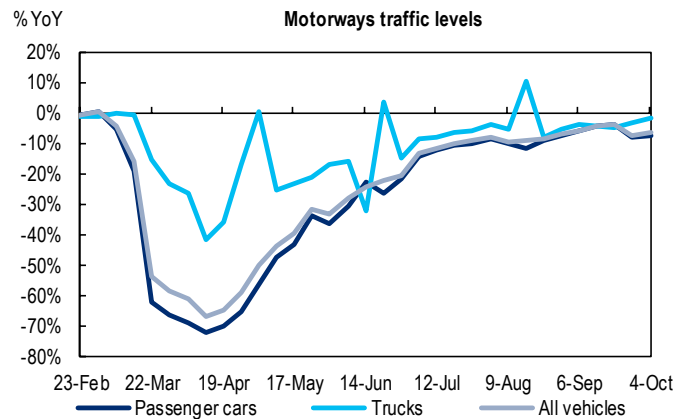
Source: PRCH, Citi Research, *based on data from 109 shopping centres accounting for 33% of the market

Figure 2. Poland - There was also an abrupt jump in hospitalizations and ventilators usage to 35% utilization rate



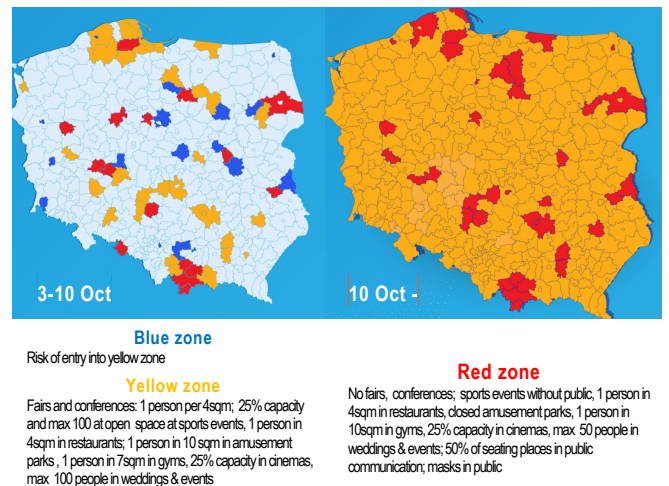
Source: Ministry of Health, Citi Research

Figure 4. Poland - Congestion levels both for cars and trucks on highways returned close to 2019 levels



Source: Stalexport, Citi Research, *congestion level on part of the A4 highway managed by Stalexport

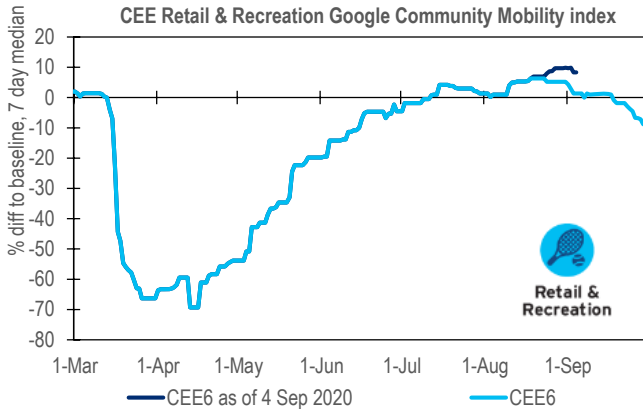
Figure 6. Poland - Starting from 10 Oct the number of counties in red zone will increase from 17 to 38 (incl. 6 cities), while yellow zone and masks in public places will be required in the whole country



Source: Ministry of Health, Citi Research

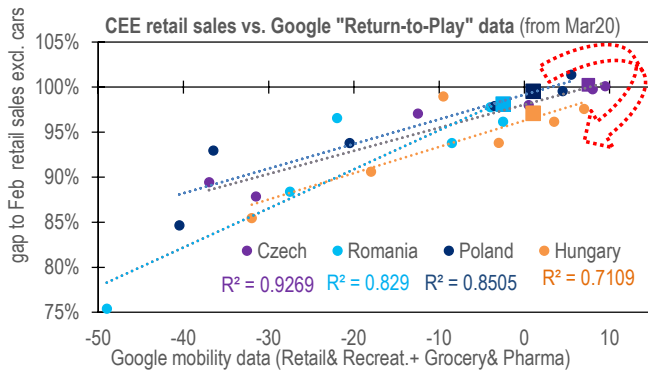
CEE Google Mobility chart-pack

Figure 7. Google revised downward its mobility index for the retail and recreation segment...



Source: Google Community Mobility Report, Citi Research calculation. Note: data until 30 September 2020.

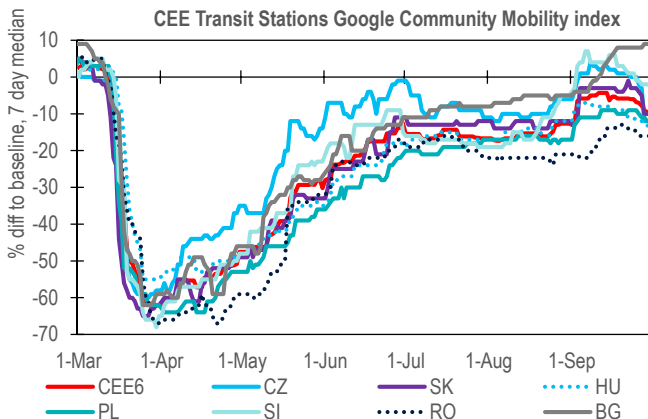
Figure 9. ... that suggests a weaker recovery in the retail sales in the CEE region



Note: Regression forecast (squares) is based on the within-country relationship of published data from March2020 (circles).

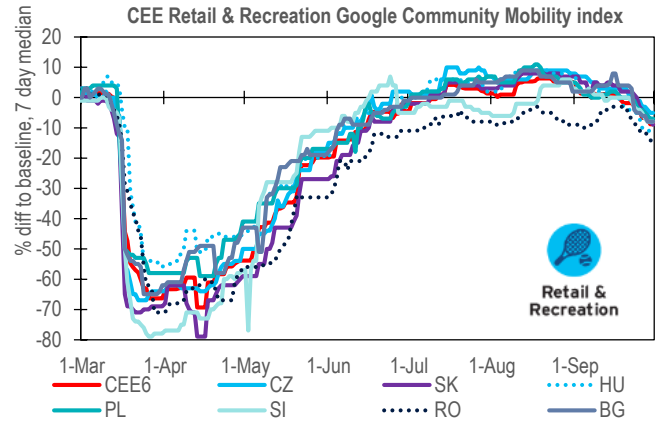
Source: Google Community Mobility Report, Haver Analytics, Citi Research calculation. Note: data until 30 September 2020.

Figure 11. ... but the mobility at the transit stations has been affected



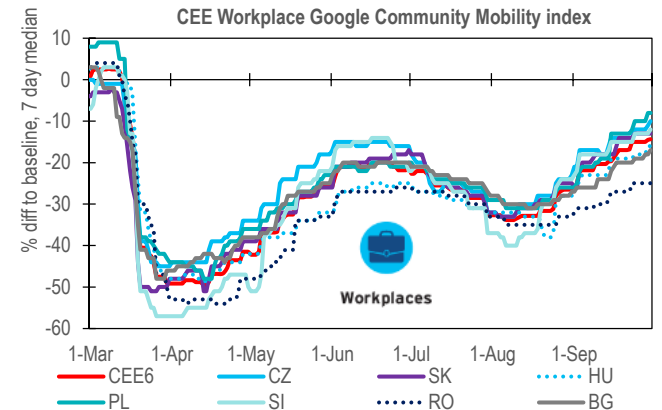
Source: Google Community Mobility Report, Citi Research calculation. Note: data until 30 September 2020.

Figure 8. ... across the CEE region that was, moreover, followed by its drop during September



Source: Google Community Mobility Report, Citi Research calculation. Note: data until 30 September 2020.

Figure 10. However, the workplace mobility has not been yet effected by higher Covid numbers and newly imposed restrictions ...



Source: Google Community Mobility Report, Citi Research calculation. Note: data until 30 September 2020.

Figure 12. Google mobility metrics for Central Europe

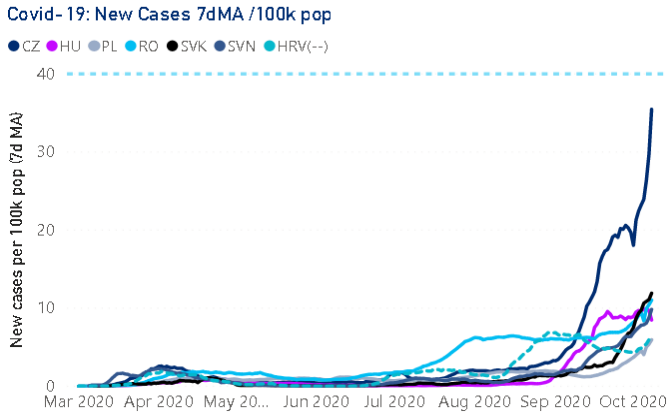
	CEE	CZ	HU	PL	RO	SK	SI	BG
Return to Work								
Transit Stations	29-Mar -48%	-45%	-46%	-42%	-47%	-50%	-57%	-48%
Workplaces	31-Aug -27%	-23%	-28%	-26%	-33%	-25%	-24%	-27%
30-Sep -14%	-10%	-16%	-8%	-25%	-13%	-12%	-17%	
Return to Play								
Retail & Recreation	29-Mar -62%	-59%	-55%	-62%	-66%	-63%	-66%	-61%
31-Aug -12%	-6%	-12%	-17%	-21%	-12%	-5%	-5%	
30-Sep -11%	-12%	-14%	-12%	-16%	-10%	-2%	9%	
Grocery & Pharmacy	29-Mar -66%	-64%	-54%	-58%	-71%	-69%	-78%	-65%
31-Aug 4%	8%	8%	5%	-9%	7%	3%	2%	
30-Sep -9%	-5%	-12%	-7%	-15%	-9%	-8%	-8%	
29-Mar -33%	-20%	-26%	-30%	-48%	-26%	-45%	-33%	
31-Aug 3%	11%	5%	5%	1%	5%	-7%	1%	
30-Sep 2%	11%	-2%	2%	2%	2%	-6%	7%	

Note: Data (vs. baseline at 100%) until 30 of Sep 2020, * CZ until 30 of Sep ; 7 day median.

Source: Google Community Mobility Report, Citi Research calculation. Note: data until 30 September 2020.

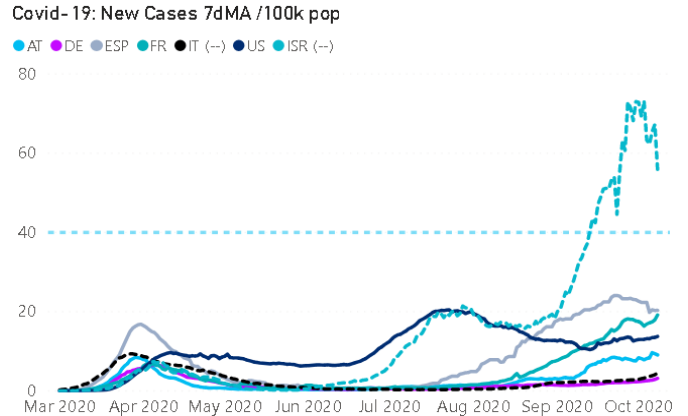
CEE COVID-19 Chart-pack

Figure 13. The new COVID-19 cases curve is not flattening in the CEE, though it closer to Austria excluding the Czech Republic ...



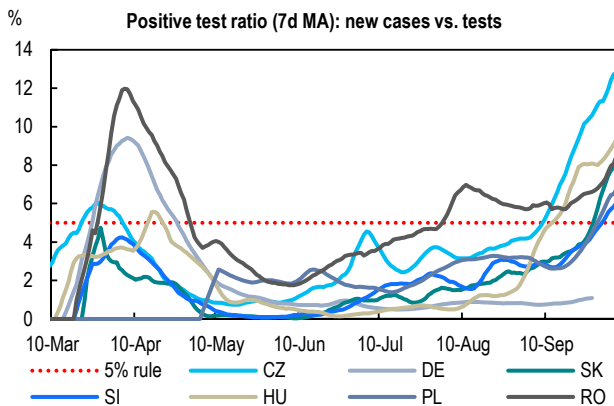
Source: ECDC, Citi Research calculation

Figure 14. ... that become the most affected country in the EU and is approaching 40 level when Israel introduced the second lock-down*



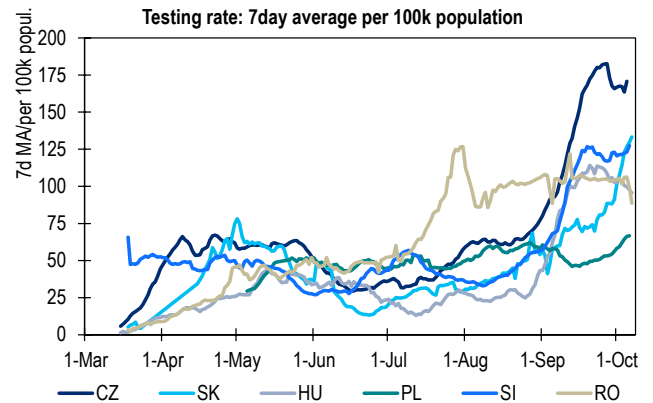
Source: ECDC, Citi Research calculation. Note: Israel breached 40 on 13 September before the lockdown was reintroduced on 18 September.

Figure 15. Higher ratio of positive COVID-19 tests reflects the higher number of new cases ...



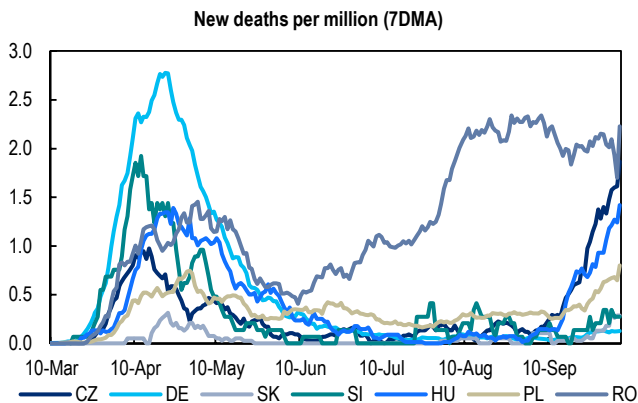
Source: Ourworldindata.org, ECDC, Citi Research calculation

Figure 16. ... but also the limited testing capacity



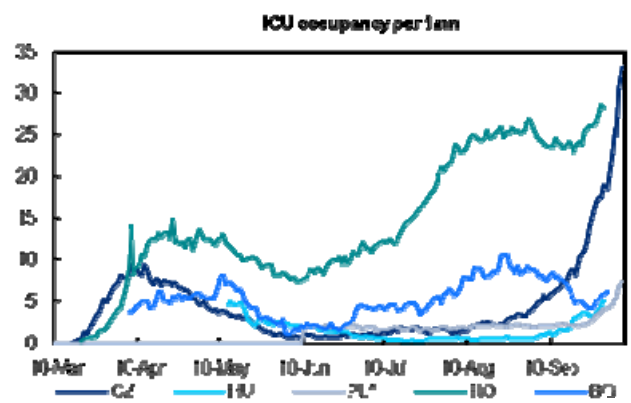
Source: Ourworldindata.org, ECDC, Citi Research calculation

Figure 17. The higher number of deaths and the higher utilization of ...



Source: Ourworldindata.org, ECDC, Citi Research calculation

Figure 18. ... health-care capacities are key drivers of anti-pandemic measures



Source: Ourworldindata.org, ECDC, Citi Research calculation. Note: * Poland presents a number of ventilators in use, we assume the ICU beds occupancy slightly higher

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