

04 March 2019

## MACROscope Lite

### It is getting interesting

■ This year could be very interesting indeed. Only two months have gone past, and yet we have already seen two waves of sentiment swings concerning the Polish economy: first, a rise of gloomy views after the disappointing data for December and 4Q18, and then a tide of optimism after the solid January's figures and the presentation of new election promises by PiS. **Our forecast of this year's GDP growth remains unchanged at 3.8%**, although the breakdown of growth could be slightly different than we assumed at the very start of the year.

■ The pack of measures, which are to be implemented already this year (we described them in more details in [this comment](#)) will have a **clear (yet short-lived) impact on the domestic consumption and a moderate impact on GDP growth** (the smaller the latter, the better part of additional consumption will be imported goods, and the bigger share of new costs will be financed by budgetary savings in other areas, rather than higher debt and deficit). Still, it should partly offset the slowdown in manufacturing and exports, stemming from the deteriorating business climate in Europe.

■ **The government is not planning the budget amendment this year**, hoping to cover the additional costs by cuts in other expenditures, higher tax collection and NBP profit. This plan seems doable. However, it is hard to assume right now that the deficit could be lower than the planned PLN28.5bn, which seemed to be a quite realistic perspective before the PiS convention. Next year looks like a much bigger challenge. It should be remembered that the room for fiscal expansion is constrained by the stabilising expenditure rule and the size of new potential costs (c.PLN40bn in full year) seems to be hardly compatible with its limits. So far, we saw no guideline from the government how to solve this conflict.

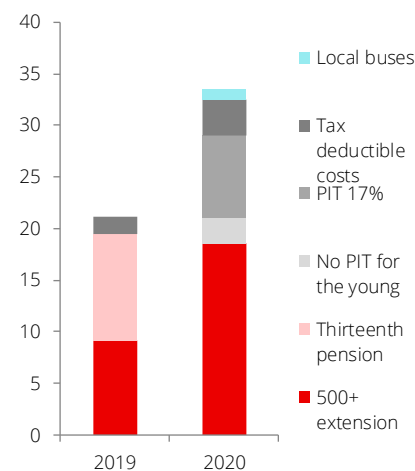
■ The above-mentioned wave of pessimism at the start of this year pushed the market temporarily towards pricing-in interest rate reductions. It was additionally supported by the change of NBP governor's rhetoric, as Mr. Glapiński said that the most recent analyses do not confirm the earlier worries that rate cuts could be very negative for banking sector stability. The looming fiscal impulse implied by the PiS proposals is likely to erase interest rate cuts from market expectations. However, we think that **the official narrative of the Monetary Policy Council will not change dramatically in the near term** – the claim that interest rate stabilisation will serve economy well is likely to be repeated.

■ Such MPC stance is likely to be justified by the new NBP projections, showing gradual deceleration of economic growth and inflation remaining below the official target in the next few years. However, our forecasts still show that **this year could be interesting also when it comes to inflation behaviour – we are going to see a gradual acceleration of both headline and core inflation measures, to slightly above 2.5% by year-end**. It will take place despite economic slowdown, or maybe in fact due to it, as firms will find it difficult to compensate rising costs by increasing sales volumes. Already the first (incomplete) data about January's inflation have shown interesting information, as core inflation moved up visibly, partly due to a jump in prices of clothing and motor vehicles. The gradual rise of core inflation will be supported by still high dynamics of labour costs (domestic labour reserves almost exhausted, inflow of immigrants slowing), high consumption growth and building inflation expectations.

■ In line with our expectations, volatility on the Polish FX market rose at the beginning of the year. The zloty was underperforming its CEE peers amid concerns about economic growth deceleration, risk of hard Brexit and the restart of work on the "CHF bill". Late February saw some recovery thanks to the better global market mood **but in our view there is not much room for EURPLN to decline further**.

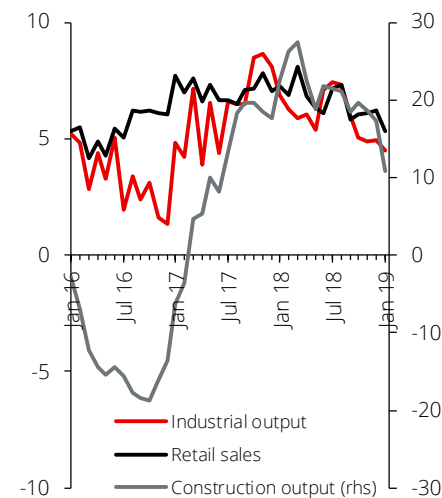
■ Presentation of the new PiS election promises and correction on the core debt markets pushed Polish bond yields sharply up. **We think that this move could be partly reversed in the coming quarter**, which would be helped by dovish ECB rhetoric and lack of a noticeable rise of borrowing needs this year. In the short run, the room for bonds' strengthening could be limited by the US data releases (showing positive surprises after the end of the government shutdown).

#### Costs of the new PiS proposals, PLN bn



Source: Santander

#### Output and sales growth, %/y (3M moving average, constant prices)



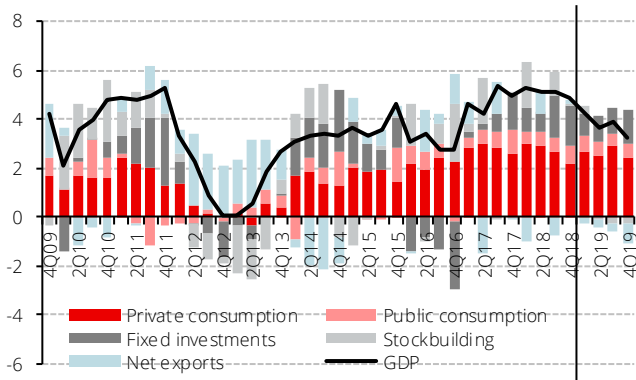
Source: GUS, Santander

#### Economic Analysis Department:

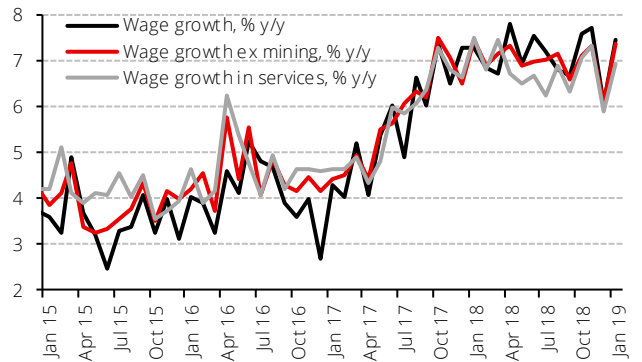
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Economy in charts

GDP slowed down and will be decelerating further



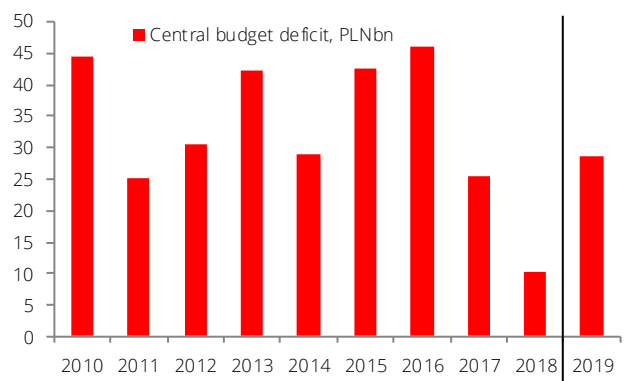
... Consumption to remain firm amid strong labour market...



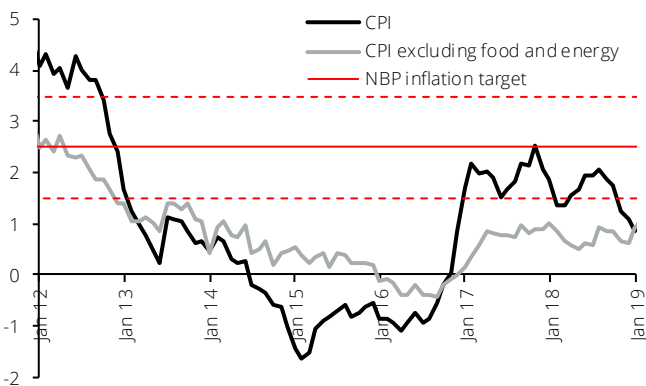
... and additional fiscal stimulus ...

	Base case*		Maximum case**	
	2019	2020	2019	2020
Extension of 500+ 13th pension	9.2	18.5	9.2	18.5
No PIT for the young	-	2.5	1.2	2.5
PIT 17%	-	8.0	3.0	8.0
Higher tax-deductible costs	1.7	3.5	1.7	3.5
Local buses	-	1.0	0.5	1.0
<b>Gross total</b>	<b>21.1</b>	<b>33.5</b>	<b>25.8</b>	<b>44.0</b>
To return in taxes	3.0	4.0	4.0	6.0
<b>Net total (PLN bn)</b>	<b>18.1</b>	<b>29.5</b>	<b>22.0</b>	<b>38.0</b>
<b>Net total (% GDP)</b>	<b>0.8%</b>	<b>1.3%</b>	<b>1.0%</b>	<b>1.6%</b>

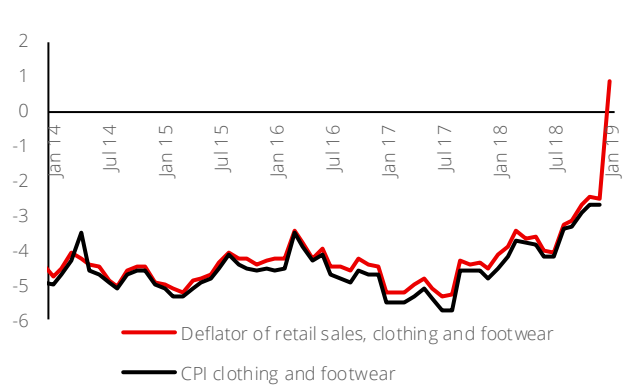
... which is likely to fit into this year's central budget



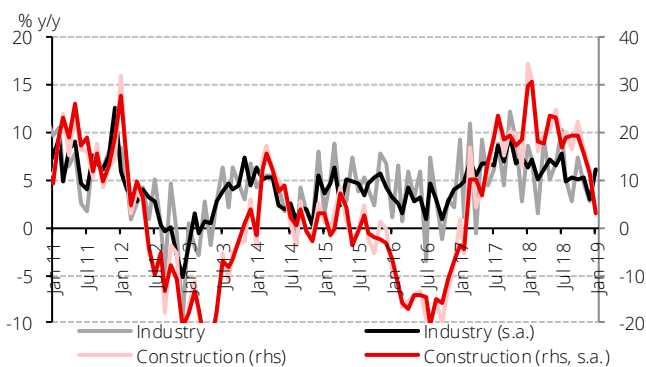
Core inflation rebounded in January...



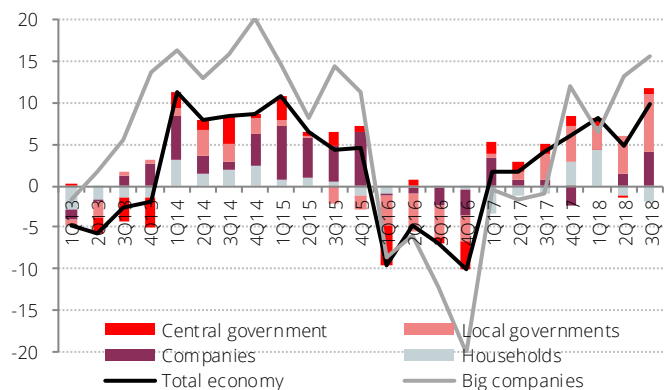
... probably due to rebound in clothing and footwear



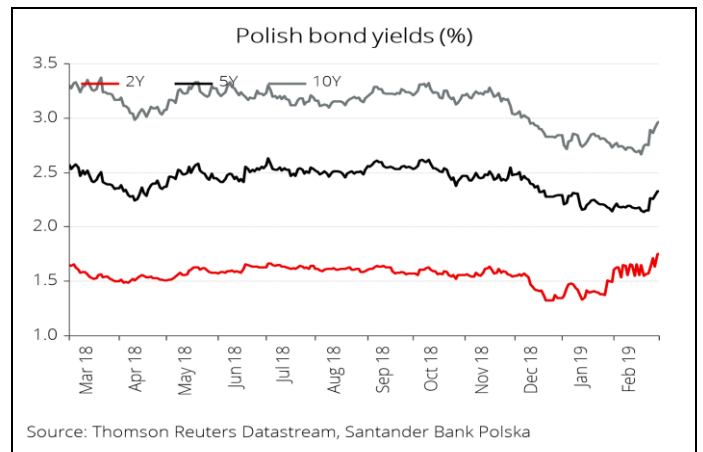
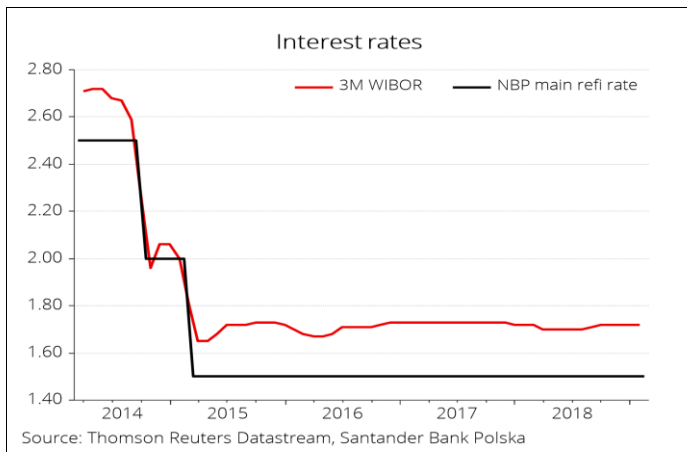
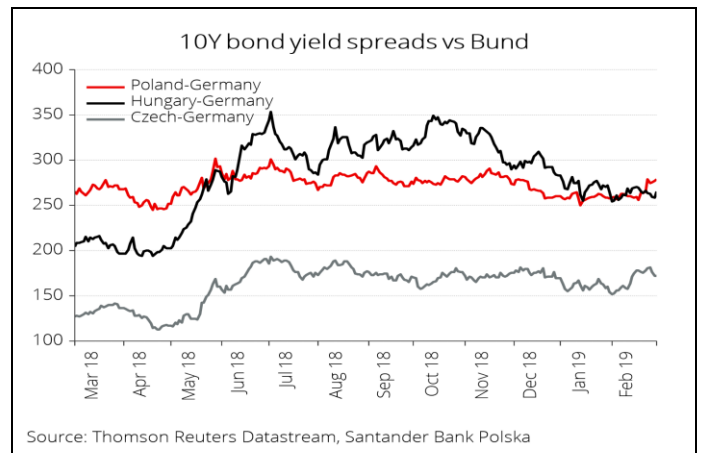
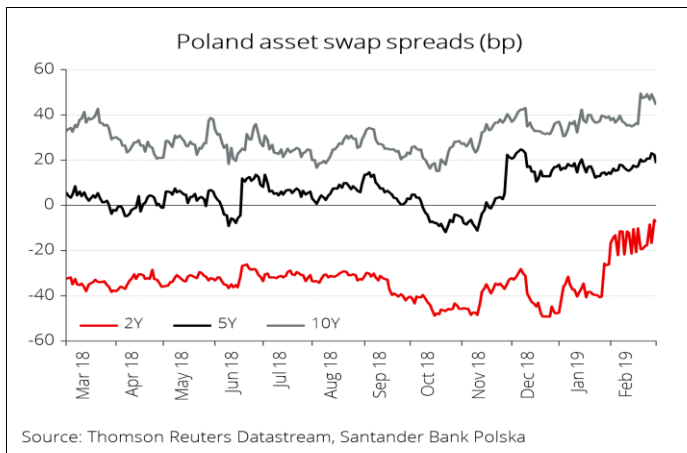
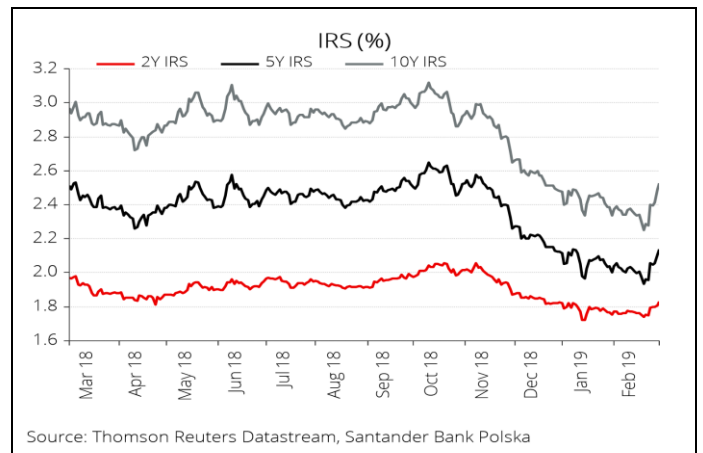
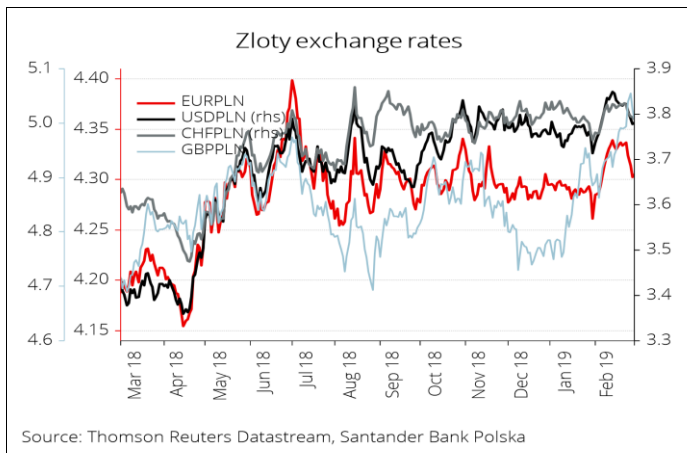
Industry doing well, while construction disappointed...



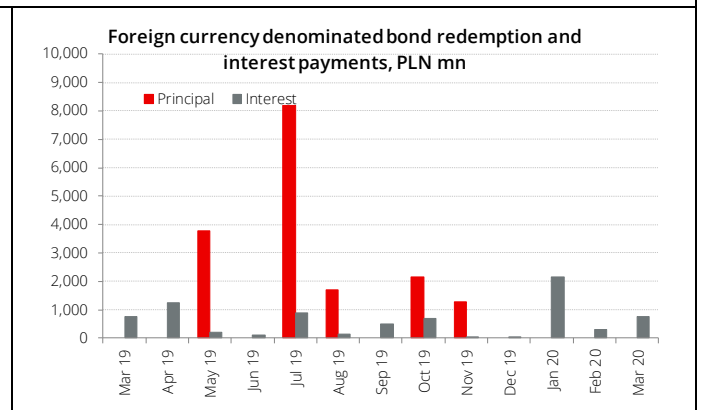
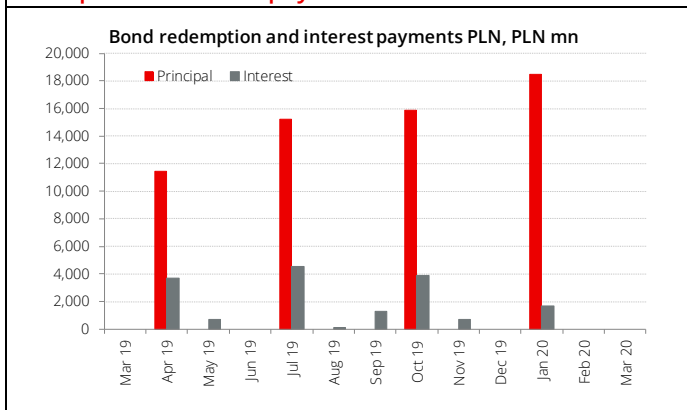
... suggesting weak investment, despite rebound in private outlays and inflow of EU funds



Markets in charts



Principal and interest payments



## Economic Calendar

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
<b>4 March</b>	5 DE: PMI – services (Feb) EZ: PMI – services (Feb) US: ISM – services (Feb) EZ: Retail sales (Jan) US: New home sales (Dec)	6 <b>PL: MPC decision</b> US: ADP report (Feb) US: Industrial orders (Jan)	7 HU: Industrial output (Jan) EZ: ECB decision	8 DE: Industrial orders (Jan) HU: CPI (Feb) US: Non-farm payrolls (Feb) US: Unemployment rate (Feb) US: House starts (Jan)
11 DE: Exports (Jan) DE: Industrial output (Jan) CZ: CPI (Feb) US: Retail sales (Jan)	12 US: CPI (Feb)	13 EZ: Industrial output (Jan) US: Durable goods orders (Jan)	14 US: New home sales (Jan)	15 <b>PL: CPI (Feb)</b> EZ: HICP (Jan) CZ: Industrial output (Jan) US: Industrial output (Feb) US: Flash Michigan (Mar)
18 <b>PL: Balance of payments (Jan)</b> <b>PL: Core inflation (Jan and Feb)</b>	19 <b>PL: Employment (Feb)</b> <b>PL: Wages (Feb)</b> DE: ZEW (Mar) US: Durable goods orders (Feb) US: Industrial orders (Feb)	20 <b>PL: Industrial output (Feb)</b> <b>PL: PPI (Feb)</b> US: FOMC decision	21 <b>PL: Construction and assembly output (Feb)</b> <b>PL: Retail sales (Feb)</b> <b>PL: MPC minutes</b> US: Philly Fed index (Mar)	22 <b>PL: Money supply (Feb)</b> DE: Flash PMI – manufacturing (Mar) DE: Flash PMI – services (Mar) EZ: Flash PMI – manufacturing (Mar) EZ: Flash PMI – services (Mar) US: Home sales (Feb)
25 DE: Ifo (Mar)	26 US: House starts (Feb) HU: Central bank decision US: Consumer confidence index (Mar)	27	28 CZ: Central bank decision US: GDP (Q4) US: Pending home sales (Feb)	29 <b>PL: Fitch – rating review</b> <b>PL: Flash CPI (Mar)</b> EZ: Flash HICP (Mar) US: Personal spending (Feb) US: Personal income (Feb) US: Michigan index (Mar) US: New home sales (Feb)
<b>1 April</b>	2 CZ: GDP (Q4)	3 <b>PL: MPC decision</b> DE: PMI – services (Mar) EZ: PMI – services (Mar) US: ISM – services (Mar) US: ADP report (Mar)	4 DE: Industrial orders (Feb)	5 DE: Industrial output (Feb) US: Non-farm payrolls (Mar) US: Unemployment rate (Mar)

Source: GUS, NBP, Ministry of Finance, Bloomberg

## Economic data and forecasts for Poland

### Monthly economic indicators

		Feb 18	Mar 18	Apr 18	May 18	Jun 18	Jul 18	Aug 18	Sep 18	Oct 18	Nov 18	Dec 18	Jan 19	Feb 19	Mar 19
PMI	pts	53.7	53.7	53.9	53.3	54.2	52.9	51.4	50.5	50.4	49.5	47.6	48.2	47.6	47.0
Industrial production	% y/y	7.3	1.6	9.3	5.2	6.7	10.3	5.0	2.7	7.4	4.6	2.8	6.1	5.1	2.1
Construction production	% y/y	31.3	16.1	19.7	20.7	24.7	18.7	20.1	16.5	22.5	17.0	12.2	3.2	8.0	3.8
Retail sales <sup>a</sup>	% y/y	7.9	9.2	4.6	7.6	10.3	9.3	9.0	5.6	9.7	8.2	4.7	6.6	7.0	1.7
Unemployment rate	%	6.8	6.6	6.3	6.1	5.8	5.8	5.8	5.7	5.7	5.7	5.8	6.1	6.1	5.9
Gross wages in corporate sector	% y/y	6.8	6.7	7.8	7.0	7.5	7.2	6.8	6.7	7.6	7.7	6.1	7.5	7.5	7.3
Employment in corporate sector	% y/y	3.7	3.7	3.7	3.7	3.7	3.5	3.4	3.2	3.2	3.0	2.8	2.9	2.9	2.8
Exports (€)	% y/y	6.6	-4.4	9.9	1.4	7.0	8.4	7.3	0.0	12.1	7.2	2.3	5.3	5.4	3.4
Imports (€)	% y/y	9.5	0.3	13.6	2.9	8.7	10.0	11.2	5.4	17.5	10.0	3.0	7.7	7.4	5.5
Trade balance	EUR mn	-602	-451	139.0	-68.0	-374.0	-417.0	-363	-506	-569	-222	-1,340	-493	-983	-836
Current account balance	EUR mn	-792	-914	263.0	297.0	112.0	-994.0	-681	-858	-471	-240	-1,400	1,560	-907	-1,029
Current account balance	% GDP	0.0	-0.2	-0.2	-0.1	0.0	-0.2	-0.3	-0.5	-0.6	-0.7	-0.7	-0.8	-0.9	-0.9
Budget balance (cumulative)	PLN bn	4.5	3.1	9.3	9.6	9.5	-0.9	1.1	3.2	6.5	11.1	-10.4	6.6	1.6	-0.4
Budget balance (cumulative)	% of FY plan	-10.8	-7.5	-22.5	-23.1	-23.0	2.1	-2.5	-7.7	-15.6	-26.7	25.1	-23.1	-5.6	1.4
CPI	% y/y	1.4	1.3	1.6	1.7	2.0	2.0	2.0	1.9	1.8	1.3	1.1	0.9	1.2	1.6
CPI excluding food and energy	% y/y	0.8	0.7	0.6	0.5	0.6	0.6	0.9	0.8	0.9	0.7	0.6	0.9	1.0	1.3
PPI	% y/y	-0.1	0.5	1.0	3.0	3.7	3.4	3.0	3.0	3.2	2.8	2.1	2.2	2.9	2.2
Broad money (M3)	% y/y	4.9	5.8	5.7	6.6	7.3	7.3	7.5	7.9	8.3	8.8	9.2	8.8	9.1	0.0
Deposits	% y/y	4.6	5.1	5.1	6.0	6.7	6.8	7.0	6.9	7.6	8.1	8.7	8.4	8.6	8.9
Loans	% y/y	4.2	4.3	3.9	5.5	5.6	5.6	6.1	5.9	6.7	7.0	7.6	7.4	7.2	7.4
EUR/PLN	PLN	4.16	4.21	4.19	4.28	4.30	4.33	4.29	4.30	4.31	4.30	4.29	4.29	4.31	4.30
USD/PLN	PLN	3.37	3.41	3.42	3.63	3.69	3.70	3.71	3.69	3.75	3.79	3.77	3.76	3.80	3.77
CHF/PLN	PLN	3.61	3.60	3.53	3.64	3.73	3.72	3.75	3.81	3.77	3.78	3.80	3.80	3.79	3.78
Reference rate <sup>b</sup>	%	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
3M WIBOR	%	1.72	1.71	1.70	1.70	1.70	1.70	1.70	1.71	1.72	1.72	1.72	1.72	1.72	1.72
Yield on 2-year T-bonds	%	1.73	1.56	1.52	1.57	1.60	1.63	1.61	1.60	1.58	1.58	1.44	1.41	1.62	1.62
Yield on 5-year T-bonds	%	2.73	2.46	2.33	2.49	2.48	2.52	2.50	2.56	2.52	2.46	2.37	2.23	2.19	2.36
Yield on 10-year T-bonds	%	3.51	3.27	3.08	3.23	3.23	3.18	3.15	3.24	3.23	3.20	2.93	2.80	2.75	2.87

Note: <sup>a</sup> in nominal terms, <sup>b</sup> at the end of the period.

Source: GUS, NBP, Finance Ministry, Santander Bank Polska estimates.

Quarterly and annual economic indicators

		2016	2017	2018	2019E	1Q18	2Q18	3Q18	4Q18	1Q19E	2Q19E	3Q19E	4Q19E
GDP	PLN bn	1,861.1	1,988.7	2,116.4	2,220.2	486.5	507.1	525.3	597.5	510.5	531.6	552.2	625.9
GDP	% y/y	3.1	4.8	5.1	3.8	5.3	5.1	5.1	4.9	4.3	3.7	3.9	3.3
Domestic demand	% y/y	2.3	4.9	5.5	4.4	6.6	4.4	6.2	4.8	4.7	4.2	4.4	4.2
Private consumption	% y/y	3.9	4.9	4.6	4.6	4.7	4.9	4.5	4.3	4.2	4.3	4.9	4.8
Fixed investments	% y/y	-8.2	3.9	7.2	6.2	8.2	4.7	9.9	6.7	7.2	6.6	6.2	5.6
Industrial production	% y/y	2.9	6.5	5.9	3.6	5.5	7.0	5.3	5.4	4.3	3.5	4.3	2.4
Construction production	% y/y	-14.5	13.7	19.7	3.2	25.6	21.9	18.3	16.8	4.9	6.6	2.6	0.5
Retail sales <sup>a</sup>	% y/y	3.9	8.2	7.8	6.8	8.4	7.5	7.9	7.4	4.9	7.1	8.2	6.8
Unemployment rate <sup>b</sup>	%	8.2	6.6	5.8	5.5	6.6	5.8	5.7	5.8	5.9	5.4	5.3	5.5
Gross wages in the national economy <sup>a</sup>	% y/y	3.8	5.3	7.2	7.1	6.2	7.1	7.6	7.7	7.1	7.3	7.0	7.0
Employment in the national economy	% y/y	2.3	3.3	2.6	1.7	2.8	3.0	2.3	2.2	2.1	1.8	1.6	1.5
Exports (€)	% y/y	3.1	13.8	6.0	3.2	5.3	6.0	5.0	7.4	4.7	4.3	3.4	0.6
Imports (€)	% y/y	2.7	14.9	9.1	5.6	9.0	8.3	8.8	10.3	6.8	6.6	5.8	3.5
Trade balance	EUR mn	2,935	1,426	-4,838	-10,259	-1,113	-309	-1,285	-2,131	-2,312	-1,504	-2,602	-3,842
Current account balance	EUR mn	-2,248	715	-3,404	-5,070	569	670	-2,532	-2,111	224	432	-2,894	-2,831
Current account balance	% GDP	-0.5	0.2	-0.7	-1.0	-0.2	0.0	-0.5	-0.7	-0.8	-0.8	-0.9	-1.0
General government balance	% GDP	-2.2	-1.4	-0.5	-1.4	-	-	-	-	-	-	-	-
CPI	% y/y	-0.6	2.0	1.6	1.6	1.5	1.7	1.9	1.4	1.2	1.7	1.7	1.9
CPI <sup>b</sup>	% y/y	0.8	2.1	1.1	2.2	1.3	2.0	1.9	1.1	1.6	1.8	1.7	2.2
CPI excluding food and energy	% y/y	-0.2	0.7	0.7	1.7	0.8	0.6	0.8	0.7	1.1	1.6	1.8	2.3
PPI	% y/y	-0.2	2.9	2.2	1.9	0.2	2.6	3.1	2.7	2.4	1.4	1.6	2.1
Broad money (M3) <sup>b</sup>	% y/y	9.6	4.6	9.2	5.9	5.8	7.3	7.9	9.2	8.4	7.6	6.7	5.9
Deposits <sup>b</sup>	% y/y	9.1	4.1	8.7	6.0	5.1	6.7	6.9	8.7	8.0	7.3	6.6	6.0
Loans <sup>b</sup>	% y/y	4.7	3.6	7.6	5.7	4.3	5.6	5.9	7.6	7.1	6.7	6.2	5.7
EUR/PLN	PLN	4.36	4.26	4.26	4.32	4.18	4.26	4.30	4.30	4.30	4.32	4.35	4.32
USD/PLN	PLN	3.95	3.78	3.61	3.67	3.40	3.58	3.70	3.77	3.77	3.70	3.64	3.58
CHF/PLN	PLN	4.00	3.84	3.69	3.69	3.59	3.63	3.76	3.79	3.79	3.72	3.66	3.60
Reference rate <sup>b</sup>	%	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
3M WIBOR	%	1.70	1.73	1.71	1.72	1.72	1.70	1.71	1.72	1.72	1.72	1.72	1.72
Yield on 2-year T-bonds	%	1.66	1.89	1.59	1.62	1.64	1.57	1.61	1.53	1.61	1.59	1.59	1.67
Yield on 5-year T-bonds	%	2.37	2.78	2.51	2.42	2.61	2.43	2.53	2.45	2.26	2.40	2.47	2.55
Yield on 10-year T-bonds	%	3.05	3.44	3.21	2.90	3.37	3.18	3.19	3.12	2.86	2.85	2.90	3.00

Note: <sup>a</sup> in nominal terms, <sup>b</sup> at the end of period. Source: GUS, NBP, Finance Ministry, Santander Bank Polska estimates.

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