

MACROscope Lite

Spring (of inflation) is in the air

■ Spring is in the air. Moreover, we see growing evidence that inflation in Poland is about to spring as well, going above market (and central bank's) expectations. First of all, the core inflation started accelerating, and we believe this trend will continue. **Economic growth in Poland remains strong (our GDP forecast is unchanged: 4.5% y/y in Q1 and 4.1% in 2019)** and fuelled mainly by domestic consumption, which will be even reinforced by new social transfers. Labour market remains tight. Companies face growing cost burden: not only rising labour costs (which will be magnified by the introduction of PPK capital plans in 2H19 and elimination of 30x pension contribution threshold in 2020), but also more expensive fuels, materials, and electricity (according to recent news the government is likely to abandon its plan to compensate firms for higher energy costs due to the European Commission's objections). Meanwhile, firms' capacity to absorb higher costs has been decreasing judging by rapid deterioration of their profits, so they are increasingly likely to pass higher costs onto customers. As a result, we stick to the view that the core inflation will continue to climb, reaching slightly above the 2.5% target by December. On top of the upward trend in the underlying inflation, we are observing a few new factors, which will push CPI higher in the nearest months: (1) surge in pork prices caused by the ASF disease; (2) surge in vegetable prices due to extremely dry weather in April; and (3) spike in fuel prices. **As a result, we have revised up our inflation forecast and currently predict CPI to hit 2.0% y/y mark in April, 2.8% in December, and to exceed 3% y/y in early 2020.**

■ Such a scenario would mean a noticeable deviation from the central bank's recent forecast. While the NBP Governor Adam Glapiński consistently rebuffs any possibility of rising inflationary pressure, **already six out of ten MPC members challenged his claim that interest rates could remain stable for long.** If inflation indeed surprises to the upside, the change of the MPC's consensus view could become even more evident. It looks like the financial market has already started anticipating it, by pricing-in the changing probability of interest rate hikes in Poland.

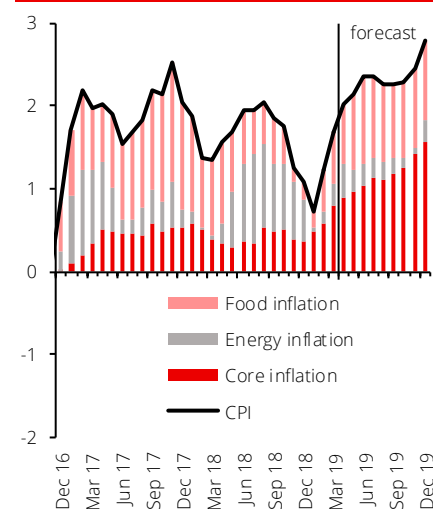
■ The government has found a way to deliver the costly election promises without breaching the expenditure rule, and even pledged to accelerate fiscal consolidation, planning the fiscal surplus in 2020. This was achieved through (1) finding new sources of revenues (with the upfront taxation of pension savings playing the key role), (2) trimming the room for expenditures other than those linked to the pre-election promises (read more in our [economic comment](#)). We see the risk that at least part of the government's plans to raise revenues/taxes could be dropped, especially if PiS does not score well in the European Parliament election in May and would need to fight harder for voters' support before parliamentary elections in the autumn. Nevertheless, **the risk of substantial fiscal easing and much higher debt supply next year seems to be off the table. Even in the 'risk-case' scenario the GG deficit in 2020 should not be much higher than 1% of GDP.**

■ As regards the European Parliament election, the ruling PiS seems to be slowly gaining advantage over the united opposition according to the recent opinion polls. As we argued before, the PiS victory in May would substantially boost its chances for re-election in the autumn, as the opposition's alliance could fall apart. The PiS defeat would mean the tailwind for the opposition, but it's less clear if it would be enough for them to grab the power back in the country. So far, the differences in opinion polls are too small to be confident about the result.

■ The zloty gained slightly in April, thanks to the global risk-on mood triggered by dovish central banks' stance, strong local data, and the Brexit delay. **We expect to see a higher EUR/PLN in the coming weeks**, amid stronger dollar and possible correction on the equity market. Also, May is the month of strong seasonal pattern for the zloty, when the Polish currency usually tends to depreciate.

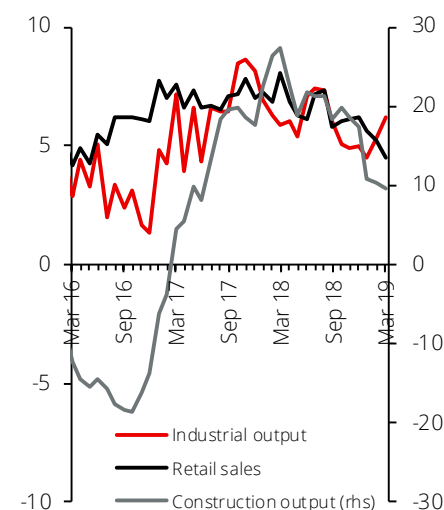
■ Polish bonds trimmed only a fraction of the spike in yields that took place after the announcement of the PiS fiscal package, despite core debt markets gained substantially and the government dismantled worries about big fiscal easing in 2020. **We think that global market environment and government's revised fiscal plans make room for further yields' decline. The swap market started anticipating higher inflation and some upward pressure is still possible (especially at the short end of the curve) in the short run, if the central bank's tone starts changing to less dovish.**

Structure of inflation, %/y



Source: GUS, Santander

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



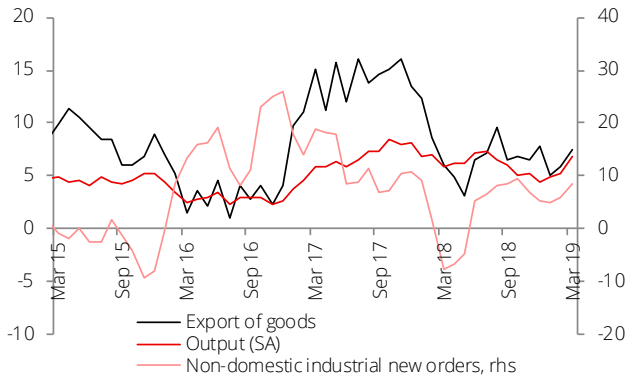
Source: GUS, Santander

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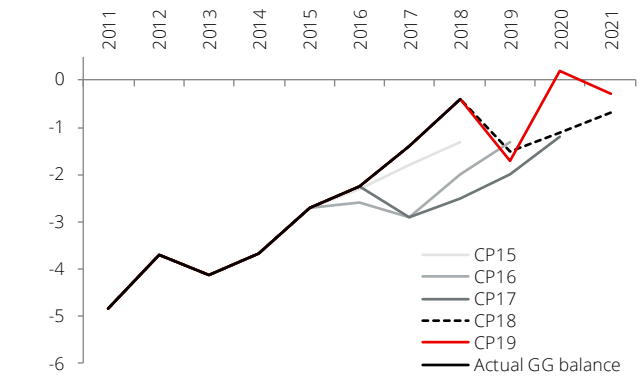
Economy in charts

Further resilience of the economy to euro zone slowdown...



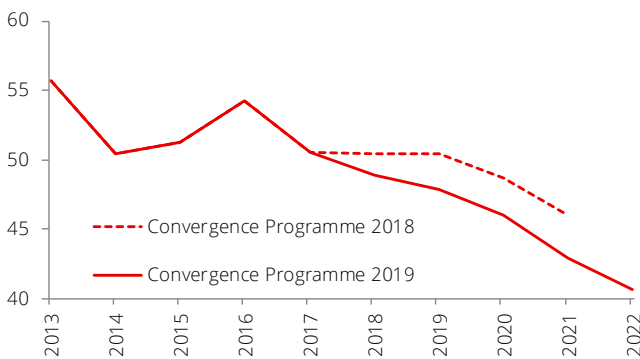
Source: GUS, NBP, Santander

...risk of substantial fiscal easing is off the table...



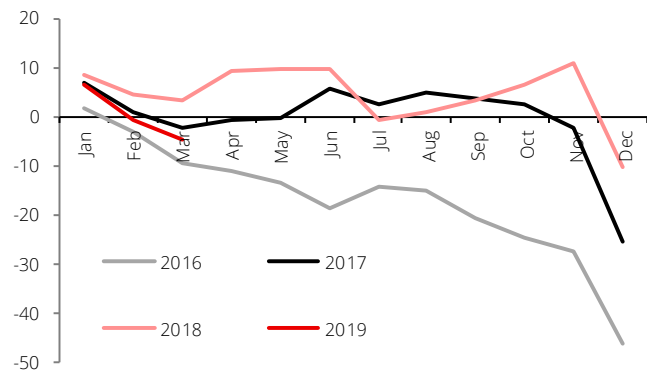
Source: Ministry of Finance, GUS, Santander

...implying a much lower debt/GDP path, which helps Poland meet rating upgrade criteria.



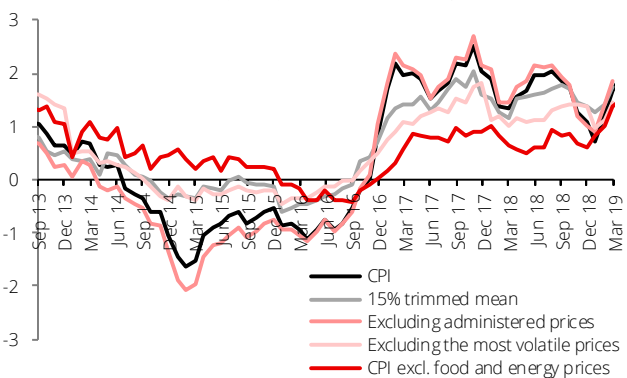
Source: Ministry of Finance, GUS, Santander

Central budget performance seems ok so far, balanced risks for full-year result.



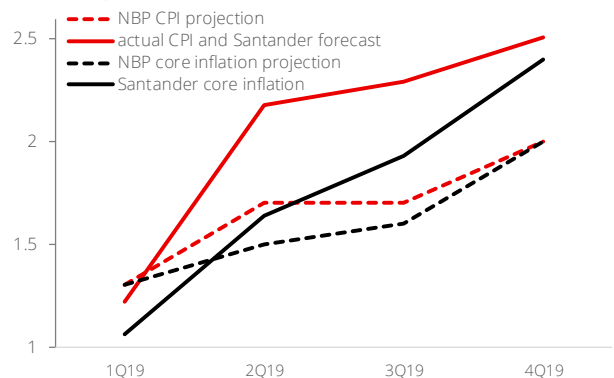
Source: Ministry of Finance, Santander

Inflation story may take centre stage now...



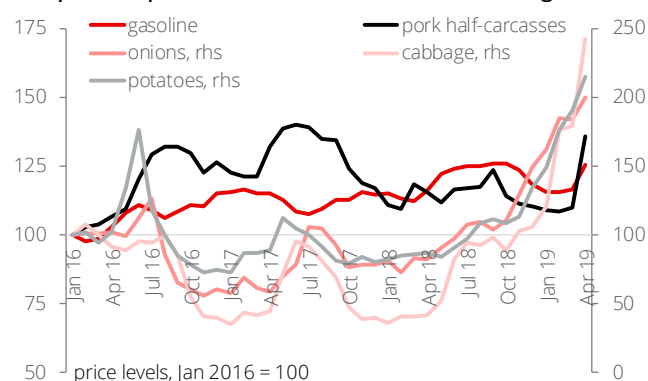
Source: GUS, NBP, Santander

... as NBP projection may have underestimated this year's rise



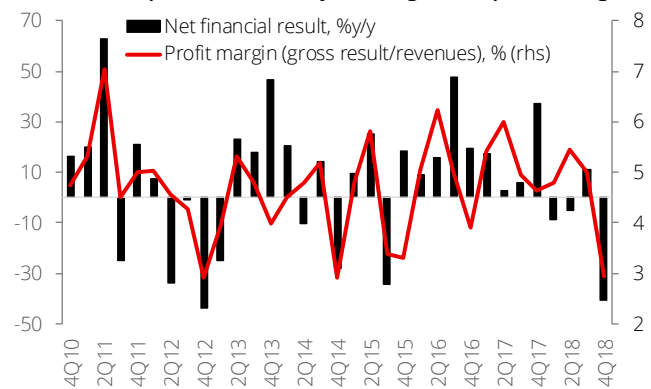
Source: GUS, NBP, Santander

On top of an uptrend in core CPI, several items have gone wild...



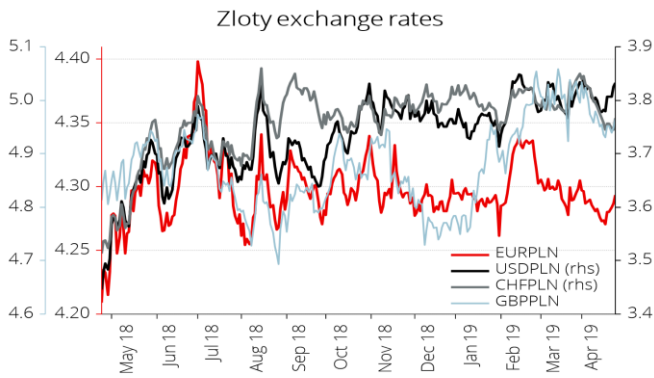
Source: GUS, Ministry of Agriculture, PIPP, Santander

...while enterprises are already running at low profit margins.

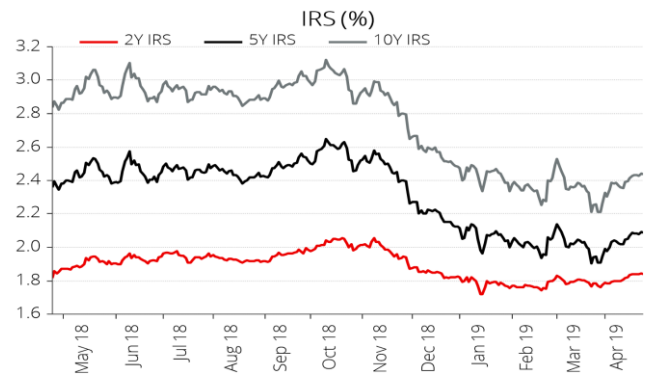


Source: GUS, Santander

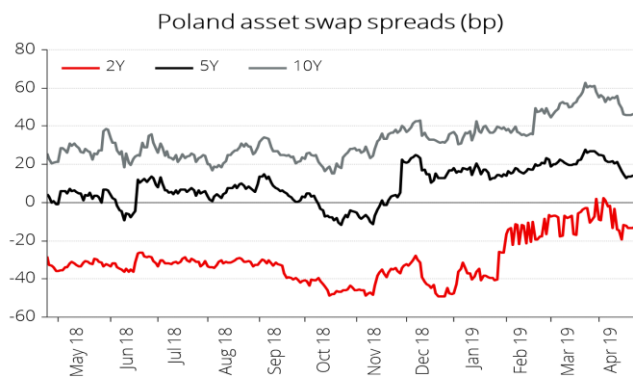
Markets in charts



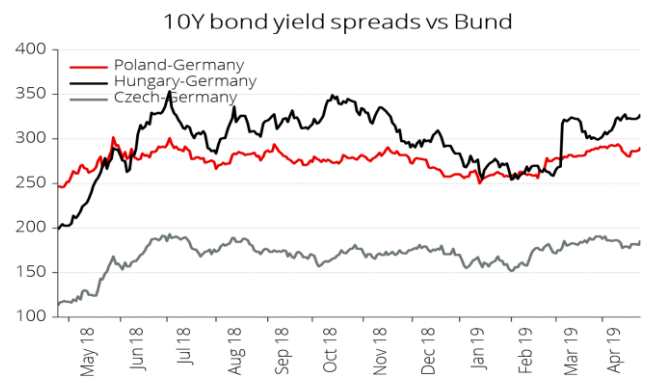
Source: Thomson Reuters Datastream, Santander Bank Polska



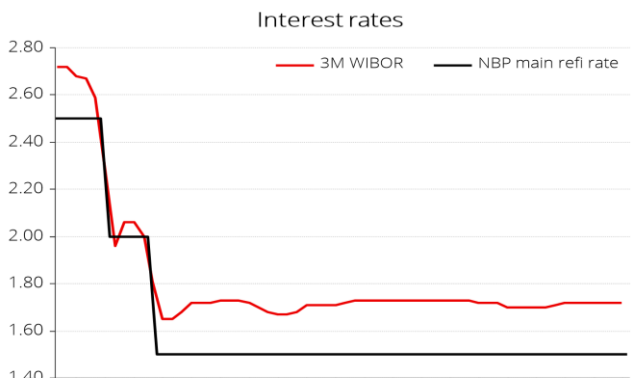
Source: Thomson Reuters Datastream, Santander Bank Polska



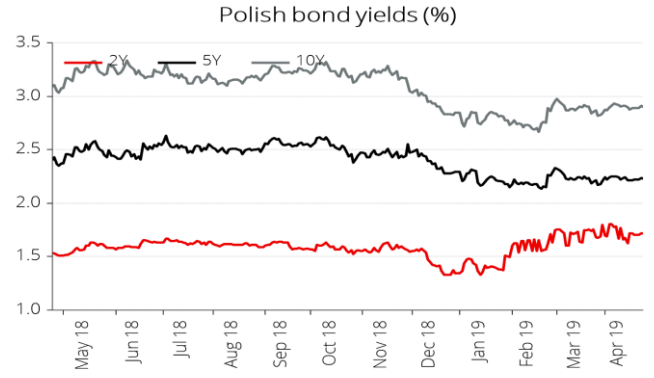
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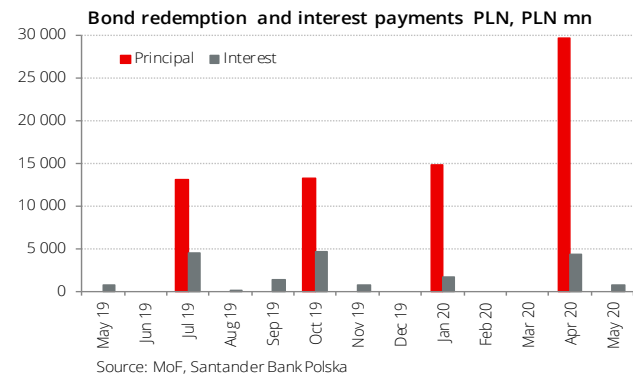


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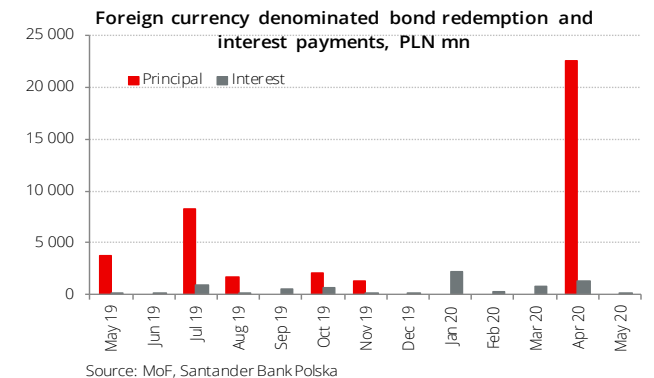


Source: Thomson Reuters Datastream, Santander Bank Polska

Principal and interest payments



Source: MoF, Santander Bank Polska



Source: MoF, Santander Bank Polska

Economic Calendar

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
29 April US: Personal spending (Mar) US: Personal income (Mar)	30 PL: Flash CPI (Apr) EZ: GDP (Q1) HU: Central bank decision US: Consumer confidence index (Apr) US: Pending home sales (Apr)	1 May US: ADP report (Apr) US: ISM – manufacturing (Apr) US: FOMC decision	2 PL: PMI – manufacturing (Apr) DE: PMI – manufacturing (Apr) EZ: PMI – manufacturing (Apr) CZ: Central bank decision US: Industrial orders (Mar)	3 EZ: Flash HICP (Apr) US: Non-farm payrolls (Apr) US: Unemployment rate (Apr) US: ISM – services (Apr)
6 DE: PMI – services (Apr) EZ: PMI – services (Apr) EZ: Retail sales (Mar)	7 DE: Industrial orders (Mar)	8 DE: Industrial output (Mar) HU: Industrial output (Mar)	9 CZ: Industrial output (Mar) HU: Inflation (Apr)	10 DE: Exports (Mar) US: Inflation (Apr)
13 CZ: Inflation (Apr)	14 PL: Balance of payments (Mar) EZ: Industrial output (Mar) DE: ZEW (May)	15 PL: MPC decision PL: Flash GDP (Q1) PL: Inflation (Apr) DE: Flash GDP (Q1) CZ: Flash GDP (Q1) HU: Flash GDP (Q1) US: Retail sales (Apr) US: Industrial output (Apr)	16 PL: Core inflation (Apr) US: House starts (Apr) US: Philly Fed index (May)	17 EZ: HICP (Apr) US: Flash Michigan (May)
20 PL: MPC minutes	21 PL: Employment (Apr) PL: Wages (Apr) US: Home sales (Apr)	22 PL: Industrial output (Apr) PL: PPI (Apr) US: FOMC minutes	23 PL: Construction and assembly output (Apr) PL: Retail sales (Apr) DE: Flash PMI – manufacturing (May) DE: Flash PMI – services (May) EZ: Flash PMI – manufacturing (May) EZ: Flash PMI – services (May) DE: Ifo (May) US: New home sales (Apr)	24 PL: Money supply (Apr) US: Durable goods orders (Apr)
27 PL: Unemployment rate (Apr)	28 HU: Central bank decision US: Consumer confidence index (May)	29	30 US: Preliminary GDP (Q1) US: Pending home sales (May)	31 PL: GDP (Q1) CZ: Flash GDP (Q1) HU: Flash GDP (Q1) US: Michigan index (May) US: Personal spending (Apr) US: Personal income (Apr)

Source: GUS, NBP, Ministry of Finance, Bloomberg

Calendar of MPC meetings and data releases for 2019

	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
ECB decision	24	-	7	10	-	6	25	-	12	24	-	12
MPC decision	30	-	20	-	1	19	31	-	18	30	-	11
MPC minutes	9	6	6	3	15	5	3	-	11	2	6	4
Flash GDP*	31	21	21	18	30	21	-	22	26	17	21	19
GDP*	31	14	-	-	15	-	-	14	-	-	14	-
CPI	-	28	-	-	31	-	-	30	-	-	29	-
Core inflation	15	15	15	15	15	14	15	14	13	15	14	13
PPI	-	-	18	16	16	17	16	16	16	16	15	16
Industrial output	18	19	20	18	22	21	18	21	19	18	22	19
Retail sales	18	20	20	18	22	21	18	21	19	18	22	19
Gross wages, employment	22	21	21	23	23	24	19	22	20	21	25	20
Foreign trade	18	19	19	17	21	19	17	20	18	17	21	18
Balance of payments*	about 50 working days after reported period											
Balance of payments	-	-	29									
Money supply	14	13	18	12	14							
ECB decision	23	22	22	23	24							

Economic data and forecasts for Poland

Monthly economic indicators

		Apr 18	May 18	Jun 18	Jul 18	Aug 18	Sep 18	Oct 18	Nov 18	Dec 18	Jan 19	Feb 19	Mar 19	Apr 19	May 19
PMI	pts	53.9	53.3	54.2	52.9	51.4	50.5	50.4	49.5	47.6	48.2	47.6	48.7	48.8	49.0
Industrial production	% y/y	9.3	5.2	6.7	10.3	5.0	2.7	7.4	4.6	2.9	6.0	6.9	5.6	11.0	9.4
Construction production	% y/y	19.7	20.7	24.7	18.7	20.1	16.5	22.5	17.0	12.3	3.2	15.1	10.8	16.3	14.4
Retail sales ^a	% y/y	4.6	7.6	10.3	9.3	9.0	5.6	9.7	8.2	4.7	6.6	6.5	3.1	11.0	8.1
Unemployment rate	%	6.3	6.1	5.8	5.8	5.8	5.7	5.7	5.7	5.8	6.1	6.1	5.9	5.6	5.4
Gross wages in corporate sector	% y/y	7.8	7.0	7.5	7.2	6.8	6.7	7.6	7.7	6.1	7.5	7.6	5.7	6.7	7.8
Employment in corporate sector	% y/y	3.7	3.7	3.7	3.5	3.4	3.2	3.2	3.0	2.8	2.9	2.9	3.0	2.8	2.8
Exports (€)	% y/y	10.4	1.5	7.7	12.0	8.9	-1.5	13.2	7.6	2.3	5.0	10.0	3.5	8.4	6.4
Imports (€)	% y/y	15.0	4.1	9.4	12.4	14.0	4.2	18.0	9.1	2.3	4.9	13.4	5.5	10.0	8.4
Trade balance	EUR mn	-5.0	-242.0	-369.0	-236.0	-542	-544	-467	10	-1,220	-290	-1,327	-980	-287	-612
Current account balance	EUR mn	-34.0	236.0	192.0	-754.0	-1,005	-876	-482	-29	-1,248	1,825	-1,386	-1,193	-351	-81
Current account balance	% GDP	-0.3	-0.2	-0.1	-0.2	-0.4	-0.6	-0.7	-0.7	-0.7	-0.8	-0.9	-1.0	-1.0	-1.1
Budget balance (cumulative)	PLN bn	9.3	9.6	9.5	-0.9	1.1	3.2	6.5	11.1	-10.4	6.6	-0.8	-4.5	-0.9	-1.7
Budget balance (cumulative)	% of FY plan	-22.5	-23.1	-23.0	2.1	-2.5	-7.7	-15.6	-26.7	25.1	-23.1	2.8	15.7	3.2	5.9
CPI	% y/y	1.6	1.7	2.0	2.0	2.0	1.9	1.8	1.3	1.1	0.7	1.2	1.7	2.0	2.1
CPI excluding food and energy	% y/y	0.6	0.5	0.6	0.6	0.9	0.8	0.9	0.7	0.6	0.8	1.0	1.4	1.5	1.6
PPI	% y/y	1.0	3.0	3.7	3.4	3.0	3.0	3.2	2.8	2.1	2.2	2.9	2.5	2.7	1.8
Broad money (M3)	% y/y	5.7	6.6	7.3	7.3	7.5	7.9	8.3	8.8	9.2	8.8	9.8	9.9	10.0	9.7
Deposits	% y/y	5.1	6.0	6.7	6.8	7.0	6.9	7.6	8.1	8.7	8.4	9.3	9.7	10.5	9.8
Loans	% y/y	3.9	5.5	5.6	5.6	6.1	5.9	6.7	7.0	7.6	7.4	7.5	8.1	8.3	7.0
EUR/PLN	PLN	4.19	4.28	4.30	4.33	4.29	4.30	4.31	4.30	4.29	4.29	4.31	4.30	4.29	4.32
USD/PLN	PLN	3.42	3.63	3.69	3.70	3.71	3.69	3.75	3.79	3.77	3.76	3.80	3.80	3.81	3.81
CHF/PLN	PLN	3.53	3.64	3.73	3.72	3.75	3.81	3.77	3.78	3.80	3.80	3.79	3.80	3.79	3.76
Reference rate ^b	%	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	%	1.70	1.70	1.70	1.70	1.70	1.71	1.72	1.72	1.72	1.72	1.72	1.72	1.72	1.72
Yield on 2-year T-bonds	%	1.52	1.57	1.60	1.63	1.61	1.60	1.58	1.58	1.44	1.41	1.62	1.71	1.71	1.70
Yield on 5-year T-bonds	%	2.33	2.49	2.48	2.52	2.50	2.56	2.52	2.46	2.37	2.23	2.19	2.23	2.23	2.25
Yield on 10-year T-bonds	%	3.08	3.23	3.23	3.18	3.15	3.24	3.23	3.20	2.93	2.80	2.75	2.88	2.90	2.91

Note: ^a in nominal terms, ^b 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	1Q19	2Q19E	3Q19E	4Q19E
GDP	PLN bn	1,861.1	1,989.3	2,115.7	2,230.6	487.1	507.6	525.2	595.8	510.4	536.4	555.6	628.2
GDP	% y/y	3.1	4.8	5.1	4.1	5.2	5.3	5.2	4.9	4.5	4.1	4.1	3.8
Domestic demand	% y/y	2.3	4.9	5.5	4.4	6.6	4.9	6.1	4.8	4.3	4.4	4.5	4.5
Private consumption	% y/y	3.9	4.5	4.5	4.6	4.6	4.8	4.4	4.2	4.4	4.3	4.9	4.8
Fixed investments	% y/y	-8.2	4.0	8.7	6.0	9.6	6.0	11.3	8.2	7.2	6.8	6.3	5.0
Industrial production	% y/y	2.9	6.5	5.9	5.4	5.5	7.0	5.3	5.5	6.1	6.6	6.0	3.0
Construction production	% y/y	-14.5	13.7	19.7	7.4	25.6	21.9	18.3	16.8	9.9	11.0	6.5	4.4
Retail sales ^a	% y/y	3.9	8.2	7.8	8.1	8.4	7.5	7.9	7.4	5.3	8.6	9.8	8.3
Unemployment rate ^b	%	8.2	6.6	5.8	5.4	6.6	5.8	5.7	5.8	5.9	5.3	5.2	5.4
Gross wages in the national economy ^a	% y/y	3.8	5.3	7.2	6.7	6.2	7.1	7.6	7.7	6.6	6.5	6.6	7.0
Employment in the national economy	% y/y	2.3	3.3	2.6	1.9	2.8	3.0	2.3	2.5	2.2	2.0	1.8	1.7
Exports (€)	% y/y	3.1	13.8	6.6	4.6	5.5	6.4	6.2	8.0	6.1	5.4	4.4	2.7
Imports (€)	% y/y	2.7	14.9	9.9	7.1	10.2	9.4	10.0	10.0	7.8	7.6	6.9	6.4
Trade balance	EUR mn	2,935	1,426	-5,179	-11,001	-1,567	-620	-1,319	-1,673	-2,597	-1,837	-2,694	-3,873
Current account balance	EUR mn	-2,248	715	-3,449	-8,482	535	400	-2,631	-1,753	-270	-550	-3,758	-3,903
Current account balance	% GDP	-0.5	0.2	-0.7	-1.6	-0.2	-0.1	-0.6	-0.7	-0.9	-1.0	-1.2	-1.6
General government balance	% GDP	-2.2	-1.4	-0.4	-1.7	-	-	-	-	-	-	-	-
CPI	% y/y	-0.6	2.0	1.6	2.1	1.5	1.7	1.9	1.4	1.2	2.2	2.3	2.5
CPI ^b	% y/y	0.8	2.1	1.1	2.8	1.3	2.0	1.9	1.1	1.7	2.4	2.3	2.8
CPI excluding food and energy	% y/y	-0.2	0.7	0.7	1.8	0.8	0.6	0.8	0.7	1.1	1.6	1.9	2.4
PPI	% y/y	-0.2	2.9	2.2	2.4	0.2	2.6	3.1	2.7	2.5	2.1	2.3	2.7
Broad money (M3) ^b	% y/y	9.6	4.6	9.2	7.6	5.8	7.3	7.9	9.2	8.8	8.4	8.0	7.6
Deposits ^b	% y/y	9.1	4.1	8.7	7.5	5.1	6.7	6.9	8.7	8.4	8.1	7.8	7.5
Loans ^b	% y/y	4.7	3.6	7.6	7.2	4.3	5.6	5.9	7.6	7.5	7.4	7.3	7.2
EUR/PLN	PLN	4.36	4.26	4.26	4.32	4.18	4.26	4.30	4.30	4.30	4.31	4.33	4.32
USD/PLN	PLN	3.95	3.78	3.61	3.75	3.40	3.58	3.70	3.77	3.79	3.80	3.75	3.67
CHF/PLN	PLN	4.00	3.84	3.69	3.70	3.59	3.63	3.76	3.79	3.80	3.76	3.64	3.60
Reference rate ^b	%	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	1.64	1.58	1.60	1.67
Yield on 5-year T-bonds	%	2.37	2.78	2.51	2.34	2.61	2.43	2.53	2.45	2.23	2.28	2.40	2.45
Yield on 10-year T-bonds	%	3.05	3.44	3.21	2.94	3.37	3.18	3.19	3.12	2.84	2.96	2.95	3.00

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

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