

MACROscope Lite

Uncertainty higher again

Over the summer holidays the **concerns about the global economic outlook got deeper**, with manufacturing across large part of Europe and Asia remaining in contraction zone (although August saw a small rebound in PMIs), world trade slowing, US-China trade tension escalating further (the new tariffs have just entered into force since 1 September) and geopolitical worries persisting (potential conflict with Iran, risk of Hard Brexit, among others). As a result, the policymakers in major economies are under increasing pressure to act and even though expectations for monetary stimulus are already high, the **risk aversion remains elevated**.

Global fears of recession, flight to safety and hopes for bold monetary stimulus were the main culprits of massive debt markets rally worldwide over the past weeks. Polish bond and swap markets have followed suit, with yields falling to new all-time lows. We think that the trend is unlikely to reverse for good unless we see one of the following: economic growth abroad picks up visibly, global monetary easing cycle approaches its end, or/and substantial fiscal easing in Europe is applied. While the first two are not visible on the horizon, the rumours about potential fiscal stimulus in Germany have been circulating for a while. But until they get confirmed, **we may be stuck in the low yields environment, probably for at least the next few months**. That said, short-term technical corrections are possible if, for example, ECB or Fed do not live up to market expectations in the coming weeks.

As for Poland, the market is still pricing-in an interest rate cut in one-year horizon, which, in our view, is unlikely to materialise, given our expected economic scenario. Still, the discussion in the central bank is likely to get more heated – we do not rule out that in the next few months both rate cuts and rate hikes will be under voting. But **the majority led by governor Glapiński will keep interest rates stable at least until the end of next year, in our view**.

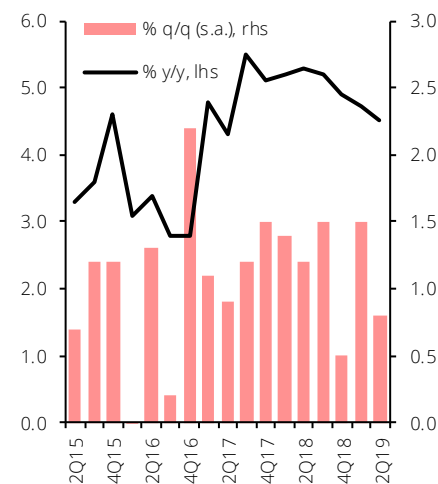
Polish economy still looks very solid if you compare it to most of others in Europe, although it will not be fully protected from external shocks and the pace of growth will keep slowing, in our view. **We expect GDP growth to average at 4.3% this year and 3.5% in 2020**. While the private consumption will get an extra boost from the pre-election money redistribution, we think it will be not enough to fully offset the looming gradual slowdown in external trade and investments (the latter magnified by the EU funds absorption coming off the peak and cuts in public spending). Polish industry already seems to be showing signs of decreasing resistance to external slowdown, with the sentiment indicators clearly in the downtrend. Next year firms will have to cope not only with subdued external demand but also with further rise in cost burden resulting from domestic factors: surge of energy prices, elevated wage growth plus introduction of PPK, elimination of 30x social security threshold.

Meanwhile, inflation's upward trend is not over yet and after a slight drop in the summer, **CPI is likely to climb towards 3.5% y/y by the end of this year and well above 4% at the start of 2020**, according to our forecast. Core inflation is also mounting and is likely to rise above 2.5% by the year-end.

Not only the economy but also the Polish currency seems to be less immune to global uncertainty than before. The zloty broke out from the narrow trading range and rose to 4.40 vs the euro, suffering from higher risk aversion and limited liquidity in the summer period. We think that **in the near term PLN could remain under the negative spell of global risk aversion, but also worries about the impact of ECJ ruling regarding CHF loans on the banking sectors' stability**. Later in the year the zloty could benefit from markets pricing in accommodative monetary policy abroad and unchanged interest rates in Poland.

Good news for investors is that even in the election year **Poland's fiscal policy is still responsible and well anchored**. The government's draft budget for 2020 assumes zero deficit, which means low supply of bonds, to be easily absorbed by the domestic banking sector (please see our longer comment [here](#)). At least part of the deficit improvement is temporary and the general direction of changes in spending structure may raise some concerns, but this is not something markets would worry about in the coming months.

Polish GDP growth



Source: GUS, Santander

Recently released Economic Comments:

- [Budget: Zero for the first time](#)
- [GDP and CPI only slightly lower](#)
- [Fading resilience of Polish industry](#)

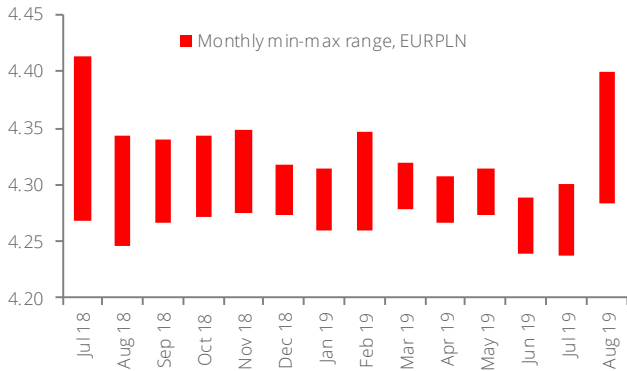
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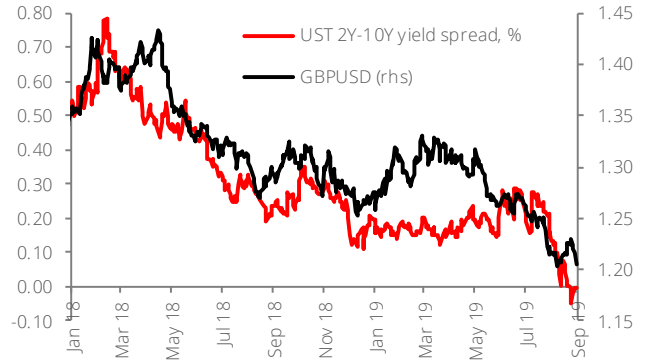
Economy in charts

Market volatility has gone up...



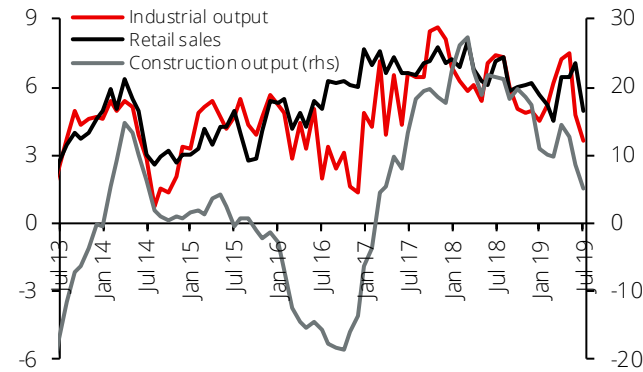
Source: Bloomberg, Santander

...due to global recession fears and politics (UK).



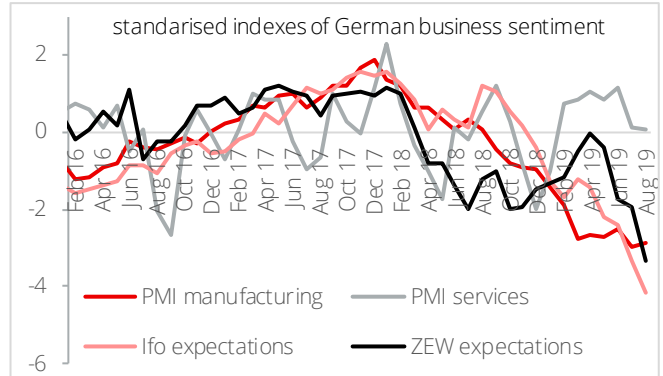
Source: Bloomberg, Santander

Resilience of Polish economy to foreign weakness is fading...



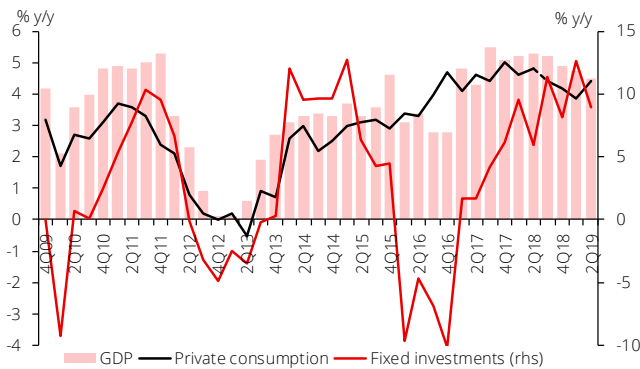
Source: GUS, Santander

...and we are still waiting for German business sentiment to rise.



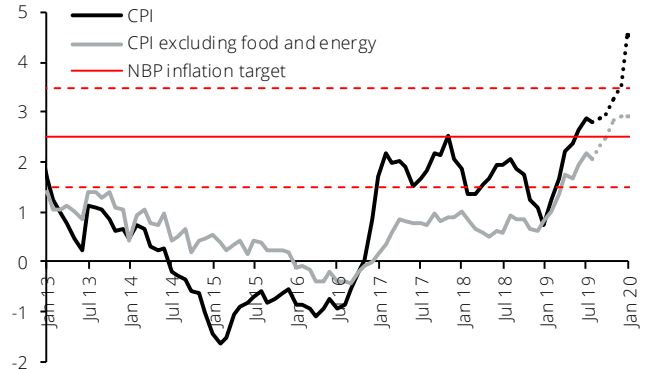
Source: CES-Ifo, ZEW, Markit, Santander

Fiscal stimulus spurred private consumption...



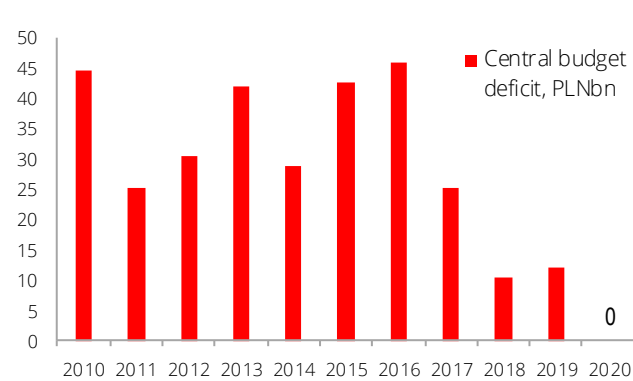
Source: GUS, Santander

...inflation is preparing for another surge.



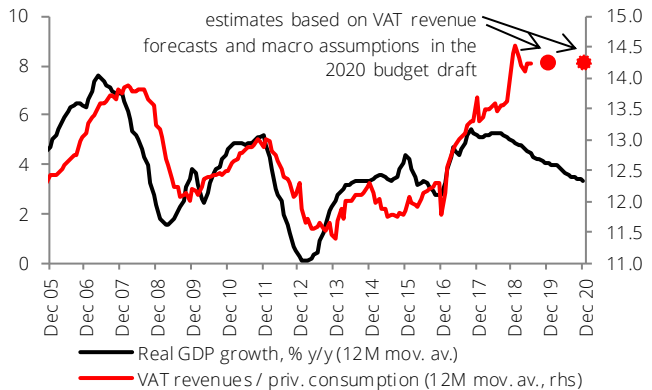
Source: GUS, NBP, Santander

2020 budget is to show zero deficit, first time ever...



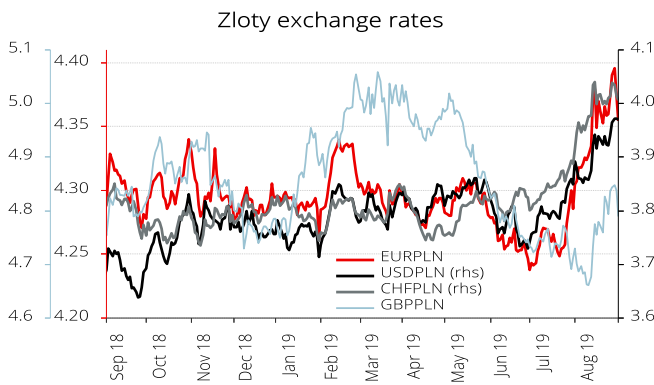
Source: Ministry of Finance, Santander

...but despite rising tax compliance it still needs GDP growth.

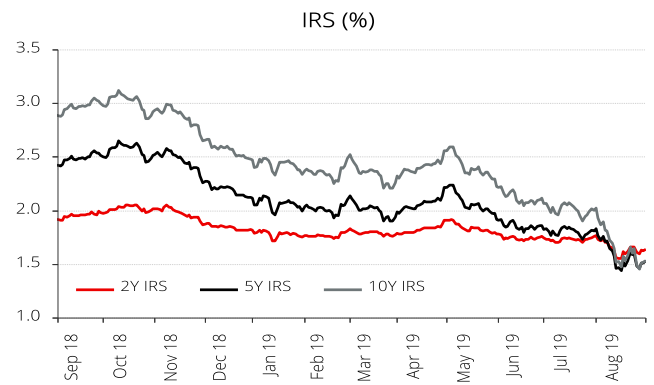


Source: Ministry of Finance, GUS, Santander

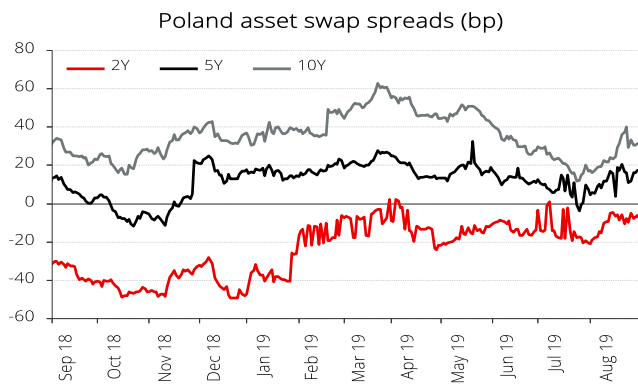
Markets in charts



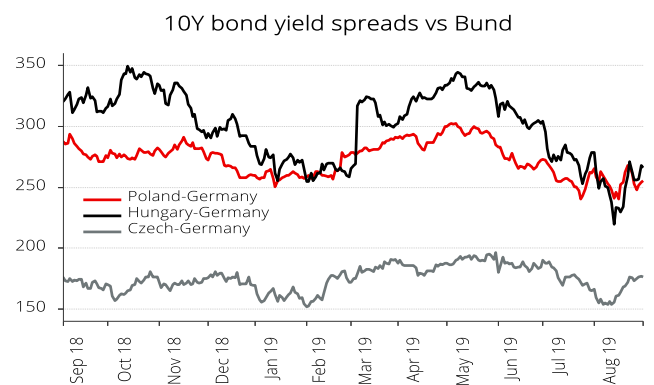
Source: Refinitiv Datastream, Santander Bank Polska



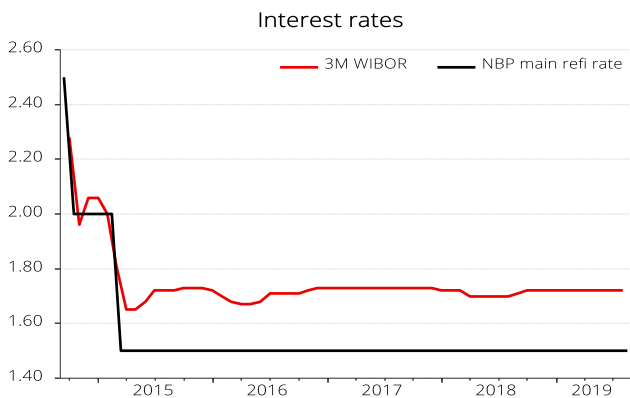
Source: Refinitiv Datastream, Santander Bank Polska



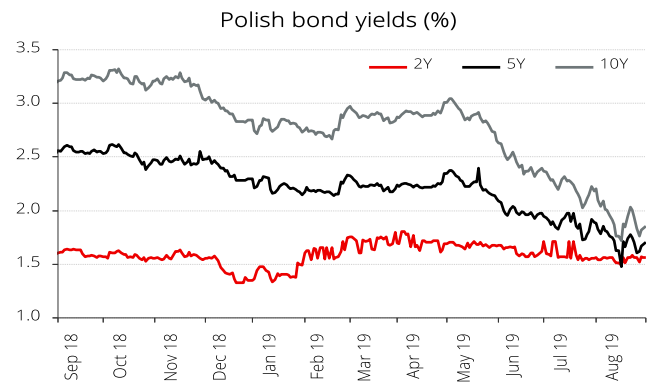
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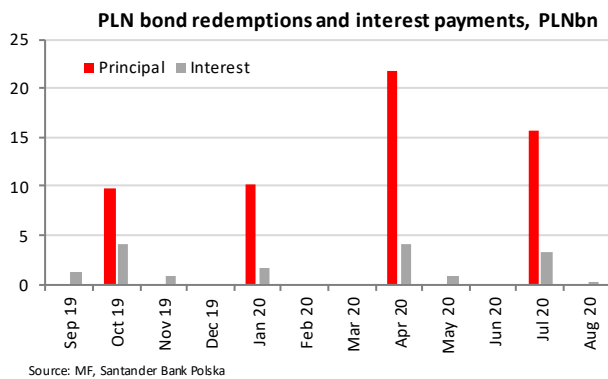


Source: Refinitiv Datastream, Santander Bank Polska

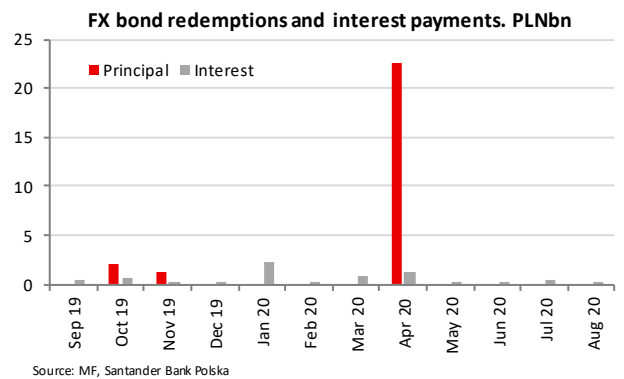


Source: Refinitiv Datastream, Santander Bank Polska

Principal and interest payments



Source: MF, Santander Bank Polska



Source: MF, Santander Bank Polska

Economic Calendar

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
2 September PL: PMI – manufacturing (Aug) EZ: PMI – manufacturing (Aug) DE: PMI – manufacturing (Aug)	3 US: ISM – manufacturing (Aug)	4 DE: PMI - services (Aug) EZ: PMI – services (Aug) US: ISM – services (Aug)	5 DE: Industrial orders (Jul) US: ADP report (Aug) US: Industrial orders (Jul)	6 DE: Industrial output (Jul) CZ: Industrial output (Jul) EZ: GDP (2Q) US: Non-farm payrolls (Aug)
9 DE: Exports (Jul)	10 CZ: CPI (Aug) HU: CPI (Aug)	11 PL: MPC decision	12 EZ: ECB decision EZ: Industrial output (Jul) US: CPI (Aug)	13 PL: CPI (Aug) PL: Balance of payments (Jul) US: Retail sales (Aug) US: Flash Michigan (Sep)
16 PL: Core CPI (Aug)	17 DE: ZEW (Sep) US: Industrial output (Aug)	18 PL: Employment (Aug) PL: Wages (Aug) EZ: HICP (Aug) US: House starts (Aug) US: FOMC decision	19 PL: Industrial output (Aug) PL: PPI (Aug) US: Philly Fed index (Sep) US: Home sales (Aug)	20 PL: Retail sales (Aug)
23 PL: Construction and assembly output (Aug) PL: Money supply M3 (Aug)	24 DE: Ifo index (Sep) HU: Central bank decision US: Consumer confidence index (Sep)	25 CZ: Central bank decision US: New home sales (Aug)	26 PL: MPC minutes US: GDP (Q2) US: Pending home sales (Aug)	27 PL: Poland rating reviewed by Fitch US: Consumer incomes and spending (Aug) US: PCE (Aug) US: Michigan index (Sep)
30 CN: PMI – manufacturing (Sep)	1 October PL: Flash CPI (Sep) PL: PMI – manufacturing (Sep) EZ: DE: PMI – manufacturing (Sep) CZ: GDP (Q2) EZ: Flash HICP (Sep) US: ISM – manufacturing (Sep)	2 PL: MPC decision US: ADP report (Sep)	3 DE: PMI – services (Sep) EZ: PMI – services (Sep) US: ISM – services (Sep) US: Industrial orders (Aug)	4 US: Non-farm payrolls (Sep)
7 DE: Industrial orders (Aug) CZ: Industrial output (Aug) HU: Industrial output (Aug)	8 DE: Industrial output (Aug) HU: CPI (Sep)	9 US: FOMC minutes	10 DE: Exports (Aug) CZ: CPI (Sep) US: CPI (Sep)	11 PL: Poland rating reviewed by Moody's and S&P US: Flash Michigan (Oct)
14 EZ: Industrial output (Aug)	15 PL: CPI (Sep) DE: ZEW (Oct)	16 PL: Core CPI EZ: Flash HICP (Sep) US: Retail sales (Sep) US: Fed Beige Book	17 PL: MPC minutes PL: Employment (Sep) PL: Wages (Sep) US: House starts (Sep) US: Philly Fed index (Oct) US: Industrial output (Sep)	18 PL: Industrial output (Sep) PL: PPI (Sep)

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
Fed decision	30	-	20	-	1	19	31	-	18	30	-	11
MPC decision	9	6	6	3	15	5	3	-	11	2	6	4
MPC minutes	31	21	21	18	30	21	-	22	26	17	21	19
Flash GDP*	31	14	-	-	15	-	-	14	-	-	14	-
GDP*	-	28	-	-	31	-	-	30	-	-	29	-
CPI	15	15	15	15	15	14	15	14	13	15	14	13
Core inflation	-	-	18	16	16	17	16	16	16	16	15	16
PPI	18	19	20	18	22	21	18	21	19	18	22	19
Industrial output	18	20	20	18	22	21	18	21	19	18	22	19
Retail sales	22	21	21	23	23	24	19	22	20	21	25	20
Gross wages, employment	18	19	19	17	21	19	17	20	18	17	21	18
Foreign trade	about 50 days after reported period											
Balance of payments*	-	-	29	-	-	28	-	-	30	-	-	-
Balance of payments	14	13	18	12	14	13	15	13	13	14	-	-
Money supply	23	22	22	23	24	25	22	23	23	22	-	-

Economic data and forecasts for Poland

Monthly economic indicators

		Aug 18	Sep 18	Oct 18	Nov 18	Dec 18	Jan 19	Feb 19	Mar 19	Apr 19	May 19	Jun 19	Jul 19	Aug 19	Sep 19
PMI	pts	51.4	50.5	50.4	49.5	47.6	48.2	47.6	48.7	49.0	48.8	48.4	47.4	48.8	49.0
Industrial production	% y/y	5.0	2.7	7.4	4.6	2.9	6.0	6.9	5.6	9.2	7.7	-2.6	5.8	0.9	4.9
Construction production	% y/y	20.1	16.5	22.5	17.0	12.3	3.2	15.1	10.8	17.4	9.6	-0.7	6.6	3.9	7.3
Retail sales ^a	% y/y	9.0	5.6	9.7	8.2	4.7	6.6	6.5	3.1	13.6	7.3	5.3	7.4	6.3	10.0
Unemployment rate	%	5.8	5.7	5.7	5.7	5.8	6.1	6.1	5.9	5.6	5.4	5.3	5.2	5.2	5.1
Gross wages in corporate sector	% y/y	6.8	6.7	7.6	7.7	6.1	7.5	7.6	5.7	7.1	7.7	5.3	7.4	6.7	7.1
Employment in corporate sector	% y/y	3.4	3.2	3.2	3.0	2.8	2.9	2.9	3.0	2.9	2.7	2.8	2.7	2.7	2.8
Exports (€)	% y/y	8.9	-1.5	13.2	8.1	1.7	5.4	9.9	7.8	10.1	12.7	-1.6	6.6	-2.5	4.4
Imports (€)	% y/y	14.0	4.2	18.1	9.2	2.2	1.6	7.8	2.6	8.5	11.3	-3.1	5.3	0.4	9.2
Trade balance	EUR mn	-542	-544	-473	99	-1 301	364	-377	342	279	-17	-77	-14	-1 042	-1 435
Current account balance	EUR mn	-1 005	-876	-405	343	-1 126	2 438	-718	116	720	874	21	-401	-1 369	-1 732
Current account balance	% GDP	-0.4	-0.6	-0.7	-0.6	-0.6	-0.5	-0.5	-0.3	-0.2	0.0	-0.1	0.0	-0.1	-0.2
Budget balance (cumulative)	PLN bn	1.1	3.2	6.5	11.1	-10.4	6.6	-0.8	-4.5	-0.1	-1.9	-5.0	-4.8	-4.4	-2.7
Budget balance (cumulative)	% of FY plan	-2.5	-7.7	-15.6	-26.7	25.1	-23.1	2.8	15.7	0.3	6.8	17.7	16.8	15.3	9.6
CPI	% y/y	2.0	1.9	1.8	1.3	1.1	0.7	1.2	1.7	2.2	2.4	2.6	2.9	2.8	2.9
CPI excluding food and energy	% y/y	0.9	0.8	0.9	0.7	0.6	0.8	1.0	1.4	1.7	1.7	1.9	2.2	2.0	2.3
PPI	% y/y	3.0	3.0	3.2	2.8	2.1	2.2	2.9	2.5	2.6	1.4	0.5	0.6	0.9	1.0
Broad money (M3)	% y/y	7.5	7.9	8.3	8.8	9.2	8.8	9.8	9.9	10.4	9.9	9.3	9.9	10.1	10.0
Deposits	% y/y	7.0	6.9	7.6	8.1	8.7	8.4	9.3	9.7	10.5	10.0	9.3	10.0	9.7	9.8
Loans	% y/y	6.1	5.9	6.7	7.0	7.6	7.4	7.5	8.1	7.7	6.5	6.7	7.4	7.2	7.2
EUR/PLN	PLN	4.29	4.30	4.31	4.30	4.29	4.29	4.31	4.30	4.29	4.30	4.27	4.26	4.35	4.35
USD/PLN	PLN	3.71	3.69	3.75	3.79	3.77	3.76	3.80	3.80	3.81	3.84	3.77	3.80	3.91	3.93
CHF/PLN	PLN	3.75	3.81	3.77	3.78	3.80	3.80	3.79	3.80	3.79	3.80	3.82	3.84	3.98	3.99
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	1.71	1.72	1.72	1.72	1.72	1.72	1.72	1.72	1.72	1.72	1.72	1.72	1.71
Yield on 2-year T-bonds	%	1.61	1.60	1.58	1.58	1.44	1.41	1.62	1.71	1.71	1.69	1.62	1.54	1.52	1.55
Yield on 5-year T-bonds	%	2.50	2.56	2.52	2.46	2.37	2.23	2.19	2.23	2.24	2.26	1.99	1.85	1.73	1.68
Yield on 10-year T-bonds	%	3.15	3.24	3.23	3.20	2.93	2.80	2.75	2.88	2.91	2.89	2.46	2.21	1.96	1.81

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

		2017	2018	2019E	2020E	1Q19	2Q19	3Q19E	4Q19E	1Q20E	2Q20E	3Q20E	4Q20E
GDP	PLN bn	1 989.3	2 115.7	2 263.6	2 420.4	520.2	545.6	561.9	635.9	563.1	584.6	597.4	675.3
GDP	% y/y	4.8	5.1	4.3	3.5	4.7	4.5	4.2	4.0	4.0	3.5	3.4	3.3
Domestic demand	% y/y	4.9	5.5	4.6	3.9	4.2	4.8	4.9	4.4	4.2	4.0	3.7	3.6
Private consumption	% y/y	4.5	4.5	4.5	4.1	3.9	4.4	4.9	4.8	4.5	4.3	4.0	3.8
Fixed investments	% y/y	4.0	8.7	7.5	4.2	12.6	9.0	7.0	5.0	4.5	4.3	4.1	4.0
Industrial production	% y/y	6.5	5.9	4.2	3.6	6.1	4.2	3.9	2.4	1.0	3.3	5.0	5.3
Construction production	% y/y	13.7	19.7	7.4	3.6	9.9	7.8	6.0	7.2	3.3	5.6	4.2	1.9
Retail sales ^a	% y/y	8.2	7.8	7.0	6.0	5.3	8.7	8.0	5.9	5.2	4.2	6.1	6.8
Unemployment rate ^b	%	6.6	5.8	5.3	5.1	5.9	5.3	5.1	5.3	5.4	4.9	4.9	5.1
Gross wages in the national economy ^a	% y/y	5.3	7.2	6.7	6.7	7.1	7.0	6.4	6.3	7.2	6.5	6.8	6.2
Employment in the national economy	% y/y	3.3	2.6	2.3	-0.2	2.7	2.5	2.0	1.9	0.9	0.5	0.3	0.1
Exports (€)	% y/y	13.8	6.6	4.3	2.1	7.7	6.9	3.0	0.6	-1.7	2.2	4.6	4.8
Imports (€)	% y/y	14.9	9.9	4.3	4.4	3.9	5.4	5.2	3.6	0.9	4.2	6.7	6.9
Trade balance	EUR mn	1 426	-5 179	-5 384	-10 692	327	185	-2 556	-3 416	-1 122	-962	-3 837	-4 858
Current account balance	EUR mn	715	-2 882	-2 932	-7 199	1 832	1 615	-3 691	-3 178	259	849	-5 106	-4 980
Current account balance	% GDP	0.2	-0.6	-0.6	-1.3	-0.3	-0.1	-0.3	-0.7	-0.9	-1.1	-1.3	-1.6
General government balance	% GDP	-1.4	-0.4	-1.0	-0.4	-	-	-	-	-	-	-	-
CPI	% y/y	2.0	1.6	2.4	3.6	1.2	2.4	2.9	3.3	4.5	3.6	3.1	3.1
CPI ^b	% y/y	2.1	1.1	3.5	3.1	1.7	2.6	2.9	3.5	4.4	3.5	3.1	3.1
CPI excluding food and energy	% y/y	0.7	0.7	1.9	2.7	1.1	1.8	2.2	2.7	2.9	2.7	2.6	2.5
PPI	% y/y	2.9	2.2	1.7	2.2	2.5	1.5	0.8	1.8	2.4	2.0	2.5	1.9
Broad money (M3) ^b	% y/y	4.6	9.2	9.3	7.6	9.2	9.2	9.2	9.3	8.9	8.5	8.0	7.6
Deposits ^b	% y/y	4.1	8.7	9.1	7.6	8.8	8.9	9.0	9.1	8.7	8.3	8.0	7.6
Loans ^b	% y/y	3.6	7.6	7.8	6.0	7.6	7.7	7.8	7.8	7.3	6.9	6.4	6.0
EUR/PLN	PLN	4.26	4.26	4.31	4.21	4.30	4.28	4.32	4.32	4.27	4.22	4.20	4.17
USD/PLN	PLN	3.78	3.61	3.83	3.66	3.79	3.81	3.88	3.84	3.74	3.68	3.64	3.56
CHF/PLN	PLN	3.84	3.69	3.87	3.74	3.80	3.80	3.94	3.92	3.83	3.75	3.72	3.65
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	%	1.73	1.71	1.72	1.71	1.72	1.72	1.72	1.71	1.71	1.71	1.71	1.71
Yield on 2-year T-bonds	%	1.89	1.59	1.60	1.60	1.64	1.65	1.54	1.55	1.55	1.55	1.59	1.73
Yield on 5-year T-bonds	%	2.78	2.51	1.95	1.83	2.23	2.14	1.73	1.70	1.70	1.70	1.90	2.00
Yield on 10-year T-bonds	%	3.44	3.21	2.31	1.95	2.84	2.68	1.90	1.80	1.80	1.80	2.00	2.20

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

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