

MACROscope Lite

04 November 2019

Let's wait and see

■ As expected, **the Law and Justice (PiS) won the parliamentary elections in October**, securing simple majority in the Sejm (235/460 seats) and will continue ruling alone. At the same time, the party has lost its majority in the Senate (48/100 seats). It will not paralyse the legislative process, as the Sejm can overturn the Senate's veto with an absolute majority, but can make it longer. The first meeting of the new parliament is scheduled for 12 November and before that we will not officially know the shape of the new government. Yet, the PiS officials have already suggested that the cabinet will not change dramatically and Mateusz Morawiecki should keep the Prime Minister's chair.

■ One of the first tasks of the new finance minister will be to decide **how to deal with the 2020 budget draft**. It looks very likely that the proposal to scrap 30x limit of social security contribution will be abandoned, which creates c.PLN5bn gap in fiscal revenues. Moreover, PiS promised to write down into law the 13th pension payment right after it wins the elections (annual cost PLN10bn). Also, we think it is increasingly likely that the retail energy tariffs can be "frozen" for another year (c.PLN5bn cost). Thus, potentially the budget deficit in 2020 could move from zero to c.PLN20bn. Such a fiscal gap (near 1% of GDP) is unlikely to scare investors too much. But lifting the deficit is not so simple to do, as the main problem is (again) how to avoid breaching the stabilising spending rule. How the government is going to square this circle remains unknown. Perhaps the strategy will be just to ignore it – leaving the budget draft as it is, without any amendments, hoping that some extra savings or unplanned inflows (e.g. NBP profit) will help to cover the gap in 2020. We can call it the fiscal "wait-and-see" approach.

■ The "wait-and-see" strategy also works fine for the Polish central bank. In November the Monetary Policy Council will get the NBP's updated economic projections, likely to show lower GDP trajectory and higher inflation (probably partly due to incorporating energy tariff hike in 2020). But we think it will not change the majority view in the Council that **the best tactics for monetary policy is to keep interest rates on hold**.

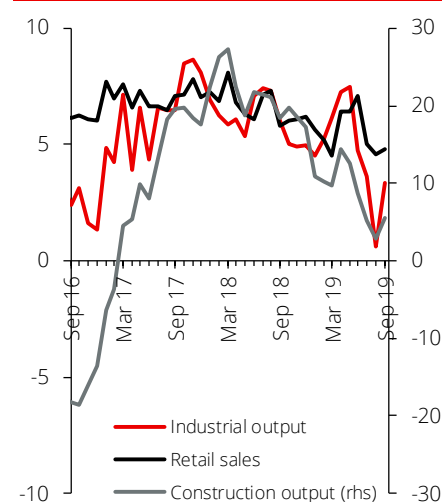
■ We keep our view that the peak of inflation is still ahead, but the **probability of CPI breaching the 4% y/y threshold at the start of 2020 has diminished**. This is mainly because of growing probability that energy tariffs for households will remain frozen ahead of the presidential elections (May 2020), and lower trajectory of crude oil price than we had anticipated. Still, the core inflation outlook remains broadly unchanged – it should approach c.3% y/y at the turn of the year and then stabilise near 2.5% in 2H2020.

■ Inflation may fail to rise above 4% in 2020, but the pace of economic growth is very likely to drop below this level next year. **GDP has probably slowed to 4.1% y/y already in 3Q19 and the downward trend will continue**, we think. The Bloomberg consensus for 2020 GDP growth has recently moved lower, to 3.4%, reflecting that – as we wrote in last month's MACROscope – the risks for growth are mounting. Whether it is just a correction or the beginning of a longer process of downward forecasts revisions depends very much on the global economic outlook.

■ Uncertainty regarding prospects for the global economy remains high, but in the last few weeks international financial markets became less worried, it seems, after Brexit has been postponed again and chances for US-China trade agreement increased. It was the main culprit of the recent zloty appreciation. EURPLN downtrend has been in the working for 5th week in a row now, a pretty rare occurrence. If history is any guide (and we think it is) **we might expect at least some consolidation at the current levels in the 4.24 – 4.28 range** as the market tries to test the important technical support and simultaneously awaits important news from the US-China trade talks.

■ As regards the debt market, Polish 10Y bond yields are currently within a technical pattern called pennant meaning the consolidation is close to being over and we might expect a move either direction in the weeks to come. Economic activity data from Europe next week are surely going to help set the direction. We expect, however that given the length and size of the rally YTD, **the more likely direction both in German yields and in Polish yields is up and we expect Polish 10Y yields to increase to 2.15% towards the end of the year**.

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



Source: GUS, Santander

Recently released Economic Comments:

- [Inflation back to the target](#)
- [Building activity moderate, housing booming](#)
- [Sales weaker due to foods](#)

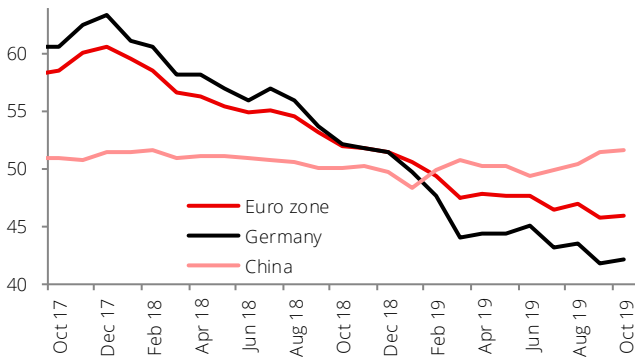
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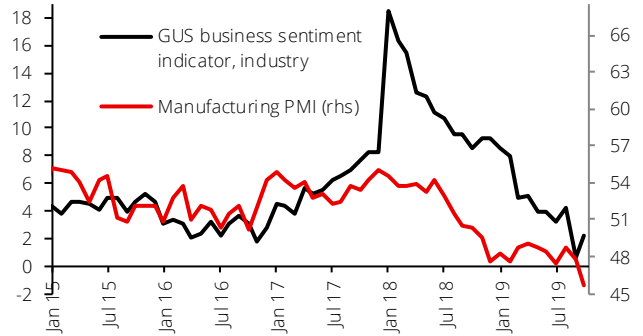
Economy in charts

Some stability in business sentiment in euro zone industry ...



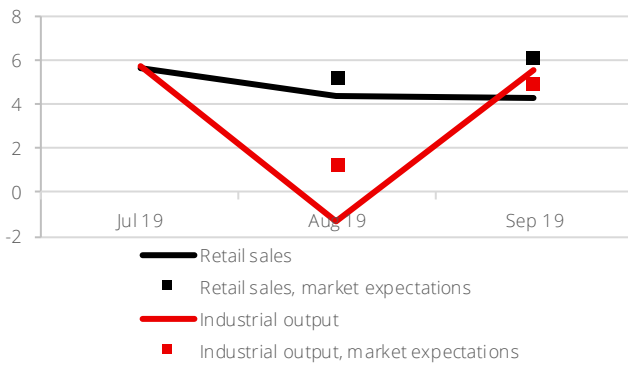
Source: Markit, Santander

...was not matched by a clear response of Polish indicators.



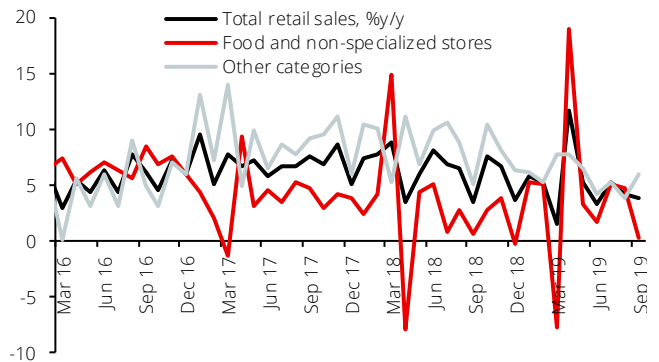
Source: GUS, Markit, Santander

Polish real data were mixed...



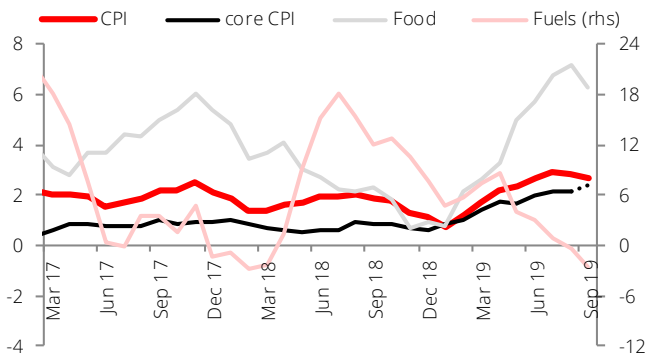
Source: GUS, Bloomberg, Santander

...with consumers showing less appetite for food.



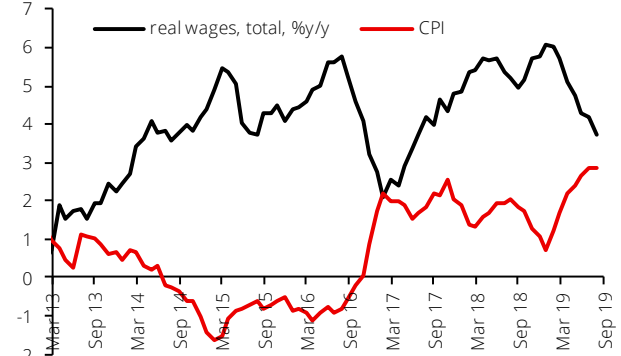
Source: GUS, Santander

Food (and fuel) also weighed on CPI, but core CPI was resilient.



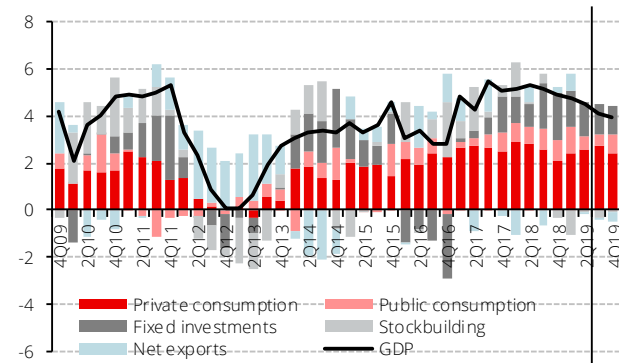
Source: GUS, NBP, Santander

Inflation continued to impair real wage growth.



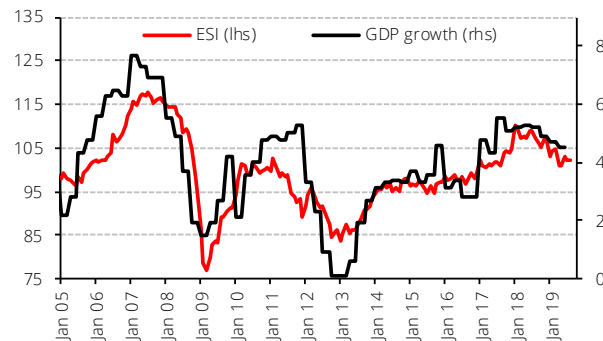
Source: GUS, Santander

This begs the question if real private consumption will deliver a decent enough growth contribution...



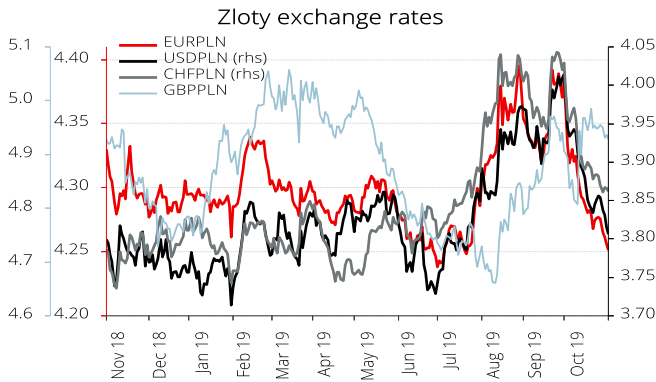
Source: GUS, Santander

...to make GDP stay on the gradual slowdown path shown by leading indicators.

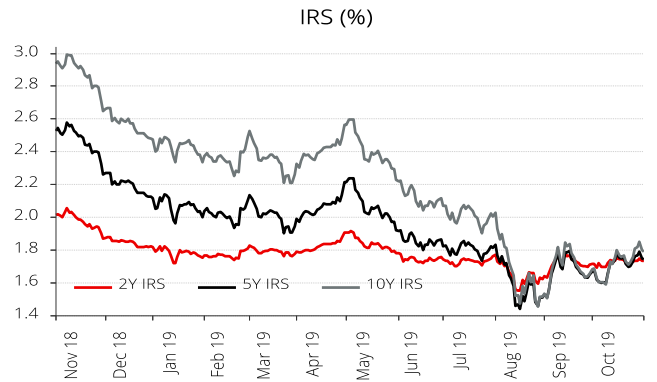


Source: GUS, Markit, Santander

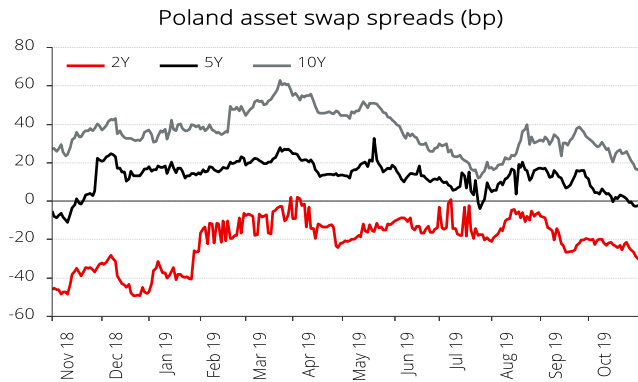
Markets in charts



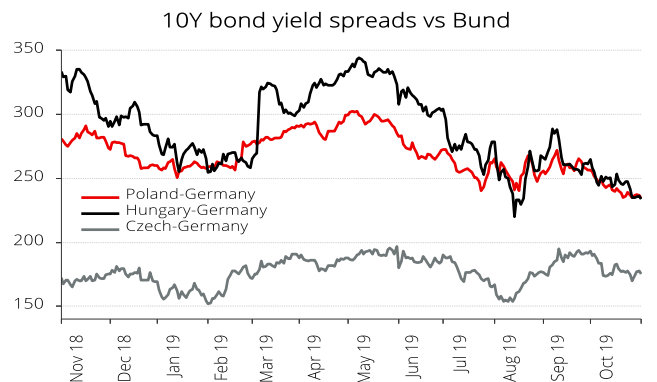
Source: Refinitiv Datastream, Santander Bank Polska



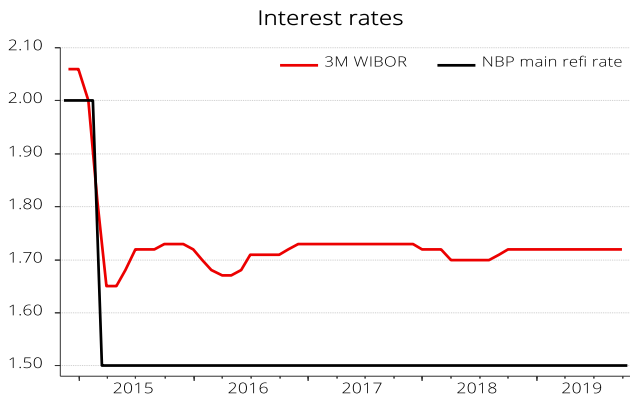
Source: Refinitiv Datastream, Santander Bank Polska



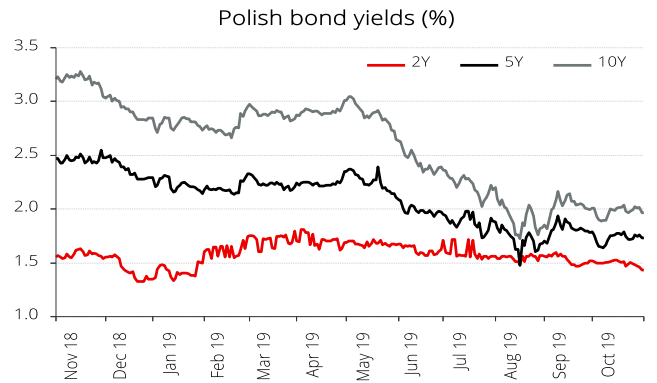
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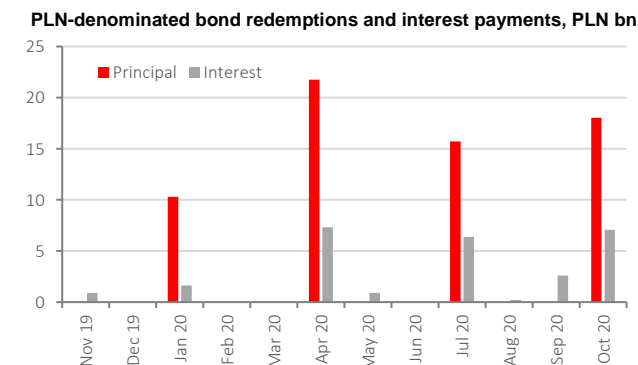


Source: Refinitiv Datastream, Santander Bank Polska

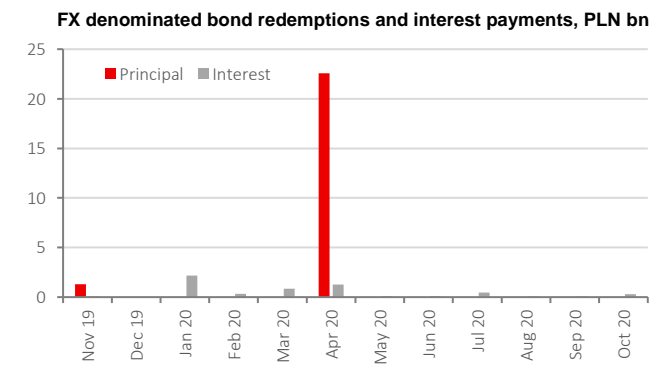


Source: Refinitiv Datastream, Santander Bank Polska

Principal and interest payments



Source: Ministry of Finance, Santander



Source: Ministry of Finance, Santander

Economic Calendar

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
4 November PL: PMI – manufacturing (Aug) EZ: PMI – manufacturing (Aug) DE: PMI – manufacturing (Aug)	5 US: ISM – services (Oct)	6 PL: MPC decision DE: Industrial orders (Sep) CZ: Industrial output (Sep) DE: PMI - services (Oct) EZ: PMI – services (Oct)	7 DE: Industrial output (Sep) CZ: Central bank decision	8 DE: Exports (Sep) HU: CPI (Oct) HU: Industrial output (Oct) US: Flash Michigan (Nov)
11 CZ: CPI (Oct)	12 DE: ZEW (Nov)	13 PL: Balance of payments (Sep) EZ: Industrial output (Sep) US: CPI (Oct)	14 PL: CZ. HU. DE. EZ: Flash GDP (Q3) PL: CPI (Oct)	15 PL: Core CPI (Oct) EZ: HICP (Oct) US: Retail sales (Oct) US: Industrial output (Oct)
18	19 HU: Central bank decision US: House starts (Oct) US: Building permits (Oct)	20 US: FOMC minutes	21 PL: Employment (Oct) PL: Wages (Oct) PL: MPC minutes US: Philly Fed index (Nov) US: Home sales (Oct)	22 PL: Industrial output (Oct) PL: Construction and assembly output (Oct) PL: PPI (Oct) DE: Flash PMI – manufacturing (Nov) EZ: Flash PMI – manufacturing (Nov) DE: Flash PMI – services (Nov) EZ: Flash PMI – services (Nov) US: Michigan index (Nov)
25 PL: Retail sales (Oct) DE: Ifo index (Nov)	26 PL: Money supply M3 (Oct) US: New home sales (Oct) US: Consumer confidence index (Nov)	27 US: Preliminary GDP (Q3) US: Incomes and Personal spending (Oct) US: Pending home sales (Oct) US: Fed Beige Book	28	29 PL. CZ. HU. DE. EZ: GDP (Q3) PL: Flash CPI (Nov) EZ: Flash HICP (Nov)
2 December PL: PMI – manufacturing (Nov) EZ: DE: PMI – manufacturing (Nov) CN: PMI – manufacturing (Nov) US: ISM – manufacturing (Nov)	3	4 PL: MPC decision DE: PMI – services (Nov) EZ: PMI – services (Nov) US: ISM – services (Nov) US: ADP report (Nov)	5 DE: Industrial orders (Oct) EZ: GDP (Q3)	6 DE: Industrial output (Oct) HU: Industrial output (Oct) US: Non-farm payrolls (Nov) US: Flash Michigan (Dec)
9 DE: Exports (Oct) CZ: Industrial output (Oct)	10 CZ: CPI (Nov) DE: ZEW (Dec)	11 US: CPI (Nov) US: FOMC decision	12 EZ: ECB decision EZ: Industrial output (Oct)	13 PL: CPI (Nov) US: Retail sales (Nov)
16 PL: Core CPI (Nov)	17 HU: Central bank decision US: House starts (Nov) US: Building permits (Nov) US: Industrial output (Nov)	18 PL: Employment (Nov) PL: Wages (Nov) DE: Ifo index (Dec) EZ: HICP (Nov) CZ: Central bank decision	19 PL: Industrial output (Nov) PL: PPI (Nov) PL: MPC minutes US: Philly Fed index (Dec) US: Home sales (Nov)	20 PL: Retail sales (Nov) US: GDP third estimate (3Q) US: Incomes and Personal spending (Nov) US: Michigan index (Dec)

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

		Oct 18	Nov 18	Dec 18	Jan 19	Feb 19	Mar 19	Apr 19	May 19	Jun 19	Jul 19	Aug 19	Sep 19	Oct 19	Nov 19
PMI	pts	50.4	49.5	47.6	48.2	47.6	48.7	49.0	48.8	48.4	47.4	48.8	47.8	45.6	47.0
Industrial production	% y/y	7.4	4.6	2.9	6.0	6.9	5.6	9.2	7.7	-2.6	5.8	-1.3	5.6	2.0	0.0
Construction production	% y/y	22.5	17.0	12.3	3.2	15.1	10.8	17.4	9.5	-0.7	6.6	2.6	7.6	8.8	4.1
Retail sales ^a	% y/y	9.7	8.2	4.7	6.6	6.5	3.1	13.6	7.3	5.3	7.4	6.0	5.3	5.7	4.3
Unemployment rate	%	5.7	5.7	5.8	6.1	6.1	5.9	5.6	5.4	5.3	5.2	5.2	5.1	5.0	5.1
Gross wages in corporate sector	% y/y	7.6	7.7	6.1	7.5	7.6	5.7	7.1	7.7	5.3	7.4	6.8	6.6	6.0	6.1
Employment in corporate sector	% y/y	3.2	3.0	2.8	2.9	2.9	3.0	2.9	2.7	2.8	2.7	2.6	2.6	2.6	2.5
Exports (€)	% y/y	14.7	9.3	-0.5	5.9	10.5	7.8	9.4	11.6	-3.1	7.7	0.2	8.0	-0.5	-3.9
Imports (€)	% y/y	19.3	10.3	0.2	2.1	8.4	2.8	7.7	10.1	-4.7	8.4	-2.5	7.6	2.0	0.7
Trade balance	EUR mn	-419	102	-1,295	316	-288	399	356	7	-36	-345	-55	-366	-961	-844
Current account balance	EUR mn	-447	113	-1,528	2,529	-630	217	357	379	-310	-797	-606	-826	-878	-872
Current account balance	% GDP	-1.0	-1.0	-1.0	-0.9	-0.9	-0.6	-0.5	-0.4	-0.4	-0.4	-0.3	-0.3	-0.4	-0.6
Budget balance (cumulative)	PLN bn	6.5	11.1	-10.4	6.6	-0.8	-4.5	-0.1	-1.9	-5.0	-4.8	-2.0	-1.8	-5.3	-0.7
Budget balance (cumulative)	% of FY plan	-15.6	-26.7	25.1	-23.1	2.8	15.7	0.3	6.8	17.7	16.8	6.9	6.3	18.5	2.5
CPI	% y/y	1.8	1.3	1.1	0.7	1.2	1.7	2.2	2.4	2.6	2.9	2.9	2.6	2.5	2.6
CPI excluding food and energy	% y/y	0.9	0.7	0.6	0.8	1.0	1.4	1.7	1.7	1.9	2.2	2.2	2.4	2.4	2.7
PPI	% y/y	3.2	2.8	2.1	2.2	2.9	2.5	2.6	1.4	0.5	0.5	0.9	0.9	0.1	0.8
Broad money (M3)	% y/y	8.3	8.8	9.2	8.8	9.8	9.9	10.4	9.9	9.3	9.9	9.9	9.4	9.0	8.8
Deposits	% y/y	7.6	8.1	8.7	8.4	9.3	9.7	10.5	10.0	9.3	10.0	9.9	9.9	9.4	9.2
Loans	% y/y	6.7	7.0	7.6	7.4	7.5	8.1	7.7	6.5	6.7	7.4	7.9	7.6	7.1	7.0
EUR/PLN	PLN	4.31	4.30	4.29	4.29	4.31	4.30	4.29	4.30	4.27	4.26	4.35	4.35	4.30	4.28
USD/PLN	PLN	3.75	3.79	3.77	3.76	3.80	3.80	3.81	3.84	3.77	3.80	3.91	3.95	3.89	3.81
CHF/PLN	PLN	3.77	3.78	3.80	3.80	3.79	3.80	3.79	3.80	3.82	3.84	3.98	3.99	3.92	3.87
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	%	1.72	1.72	1.72	1.72	1.72	1.72	1.72	1.72	1.72	1.72	1.72	1.71	1.71	1.71
Yield on 2-year T-bonds	%	1.58	1.58	1.44	1.41	1.62	1.71	1.71	1.69	1.62	1.54	1.52	1.51	1.50	1.50
Yield on 5-year T-bonds	%	2.52	2.46	2.37	2.23	2.19	2.23	2.24	2.26	1.99	1.85	1.73	1.80	1.81	1.85
Yield on 10-year T-bonds	%	3.23	3.20	2.93	2.80	2.75	2.88	2.91	2.89	2.46	2.21	1.96	2.02	2.07	2.08

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	3Q19	4Q19E	1Q20E	2Q20E	3Q20E	4Q20E
GDP	PLN bn	1,989.4	2,115.2	2,263.7	2,410.2	520.2	545.6	566.1	631.9	560.6	581.2	598.9	669.4
GDP	% y/y	4.9	5.1	4.3	3.5	4.7	4.5	4.1	3.9	4.1	3.5	3.4	3.2
Domestic demand	% y/y	4.9	5.3	4.4	3.9	4.2	4.8	4.3	4.4	4.2	4.0	3.8	3.6
Private consumption	% y/y	4.5	4.3	4.4	4.1	3.9	4.4	4.6	4.8	4.5	4.3	4.0	3.8
Fixed investments	% y/y	4.0	8.9	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	4.0	3.6	6.1	4.2	3.3	2.2	0.8	3.1	5.4	5.3
Construction production	% y/y	13.7	19.7	7.1	3.3	9.9	7.8	5.7	6.5	2.6	4.9	3.9	1.9
Retail sales ^a	% y/y	8.2	7.8	6.8	6.0	5.3	8.7	6.4	6.6	6.7	5.7	9.2	7.5
Unemployment rate ^b	%	6.6	5.8	5.2	5.0	5.9	5.3	5.1	5.2	5.4	4.9	4.9	5.0
Gross wages in the national economy ^a	% y/y	5.3	7.2	6.6	6.5	7.1	7.0	6.3	5.9	6.8	6.1	6.5	6.2
Employment in the national economy	% y/y	3.3	2.6	2.2	-0.2	2.7	2.5	1.9	1.8	0.7	0.4	0.2	0.1
Exports (€)	% y/y	13.8	7.4	4.6	2.1	8.0	5.8	5.3	-0.4	-2.6	1.2	5.1	4.7
Imports (€)	% y/y	14.9	10.6	3.9	4.3	4.3	4.1	4.5	2.5	0.0	3.3	7.1	6.8
Trade balance	EUR mn	1,426	-4,782	-3,348	-8,555	425	328	-766	-3,335	-1,034	-816	-1,940	-4,765
Current account balance	EUR mn	290	-5,046	-3,294	-9,084	2,110	430	-2,229	-3,605	607	-578	-3,773	-5,340
Current account balance	% GDP	0.1	-1.0	-0.6	-1.6	-0.6	-0.4	-0.3	-0.6	-0.9	-1.1	-1.3	-1.6
General government balance	% GDP	-1.5	-0.2	-0.8	-1.0	-	-	-	-	-	-	-	-
CPI	% y/y	2.0	1.6	2.3	3.1	1.2	2.4	2.8	2.7	3.9	3.0	2.7	3.0
CPI ^b	% y/y	2.1	1.1	2.9	2.9	1.7	2.6	2.6	2.9	3.8	2.9	2.8	2.9
CPI excluding food and energy	% y/y	0.7	0.7	1.9	2.6	1.1	1.8	2.2	2.7	2.9	2.6	2.5	2.5
PPI	% y/y	2.9	2.2	1.5	2.7	2.5	1.5	0.8	1.2	2.3	2.3	3.0	3.3
Broad money (M3) ^b	% y/y	4.6	9.2	9.1	7.4	9.2	9.2	9.1	9.1	8.7	8.3	7.9	7.4
Deposits ^b	% y/y	4.1	8.7	8.9	7.4	8.7	8.8	8.9	8.9	8.5	8.2	7.8	7.4
Loans ^b	% y/y	3.6	7.6	7.8	6.1	7.6	7.7	7.8	7.8	7.4	7.0	6.5	6.1
EUR/PLN	PLN	4.26	4.26	4.30	4.30	4.30	4.28	4.32	4.29	4.30	4.30	4.30	4.30
USD/PLN	PLN	3.78	3.61	3.83	3.73	3.79	3.81	3.89	3.83	3.77	3.76	3.72	3.68
CHF/PLN	PLN	3.84	3.69	3.86	3.81	3.80	3.80	3.94	3.89	3.86	3.82	3.81	3.77
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	1.58	1.60	1.64	1.65	1.52	1.52	1.55	1.55	1.59	1.73
Yield on 5-year T-bonds	%	2.78	2.51	1.99	1.90	2.23	2.14	1.75	1.85	1.85	1.85	1.90	2.00
Yield on 10-year T-bonds	%	3.44	3.21	2.41	2.24	2.84	2.68	1.97	2.15	2.20	2.20	2.23	2.33

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

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