

03 February 2020

MACROscope Lite

Virused growth

Poland's four-percent GDP growth in 2019 still looks like a decent result (being probably among top-five in the EU), but in fact it implies that **in the final quarter of the year the economy slowed much more than anticipated**. GDP growth could have been in a range 2.8-3.1% y/y in 4Q19, assuming no major revisions of the previous quarters. Surprisingly, the data suggests the worsening came in private consumption and net exports, unlike what we had expected. Meanwhile investments accelerated at the end of the year, it seems (see details in our [Economic comment](#)). We are not sure if those estimates correctly reflect the situation, as we see the risk that the revisions of past quarters may affect not only the headline GDP growth but also (or even more) its breakdown. Thus, we prefer to wait until full 4Q19 data release (end-February) before we update our GDP growth forecasts for 2020. For now, we see a clear downward risk for our 1Q20 forecast, especially after higher global risks related to the outbreak of the coronavirus.

While the economic growth at the end of 2019 fell short of expectations, the price growth surprised clearly to the upside, with CPI hitting 3.4% y/y and core inflation 3.1% y/y in December 2019 (the latter at 15-year high). Consumers had to toss more coins especially to services, where inflation already exceeded 6% y/y and food (almost 7% y/y). The data supported our long-held call that **inflation is likely to exceed 4% y/y mark in January**. However, as we argued in our [2020 Outlook](#): in the environment of economic slowdown in Poland and abroad and easing labour market tensions, the inflationary impulse is unlikely to escalate. Thus, after peaking at 4.1% in 1Q20, inflation should start decreasing gradually, to end the year possibly slightly below 3%, according to our forecast. The upside risks to this scenario include: possible second round of electricity tariff hikes in mid-year; planned introduction of retail tax in July (we have already incorporated the "sugar tax" in April); new/continued supply disruptions in food markets. Downside risks include lower crude oil price and deeper wage slowdown.

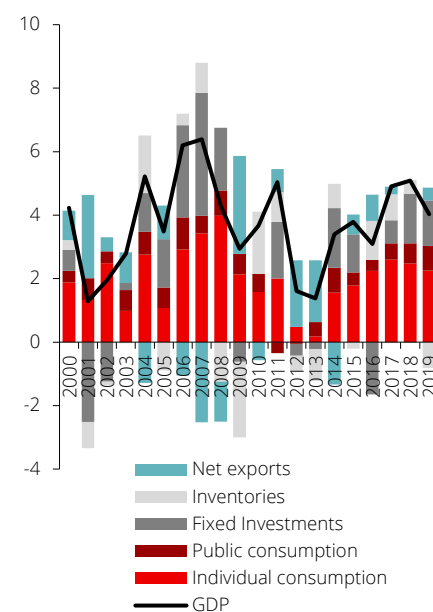
January was the first time when the Monetary Policy Council voted motions to hike (+15bp) and to cut (-25bp) interest rates at the very same meeting. We do not rule out that such situation may repeat, but **in our view the majority of MPC members will keep supporting unchanged rates at least until the end of this year**. This is even more likely, we think, after Jerzy Osiatyński had been replaced by Cezary Kochalski, who – judging by his first comments – is not going to differ much in views from the NBP governor Adam Glapiński.

Overall, we think that Poland's **elevated inflation, which grabbed market attention for a while after December's rise, will recede to the background in the coming weeks, as the focus has shifted again to uncertain GDP growth prospects both in Poland and abroad**. The "inflation story" may resurface later this year once/if the economic outlook improves and inflationary risk factors materialise. While the full effects of the disease are impossible to assess at this stage, we would not rule out that once the spread of the virus is contained, both economic activity and market sentiment would show a visible (possibly V-shaped) rebound. That could be the moment when rate hike expectations in Poland rise again. But for now, the Polish central bank is likely to even strengthen its current rhetoric, arguing that the inflation growth above the official target is unlikely to be persistent and does not require any policy adjustment.

The global risk-off mood and virus-related worries resulted in strengthening of Polish bonds, but also widening of spread vs German bund. We think the latter move may not be over yet. **We still see room for higher domestic yields this year, although a return of upward trend may wait until growth concerns ease a bit.**

The recent news flow was clearly negative for the Polish currency, which has erased its earlier appreciation returning to our target 4.30 much earlier than we had anticipated. As long as the global sentiment drives the EM currencies, **further weakening of the zloty cannot be ruled out**, especially in the context of deteriorating macro fundamentals and still deeply negative real interest rate.

GDP growth and its breakdown (% y/y)



Source: GUS, Santander

Recently released Economic Comments:

- [The slowdown accelerated](#)
- [Data suggesting further GDP slowdown](#)
- [Construction falling, wages slowing](#)
- [CPI soon to cross 4%](#)
- [2020 Budget: virtual zero](#)
- [MPC unimpressed by flash CPI](#)

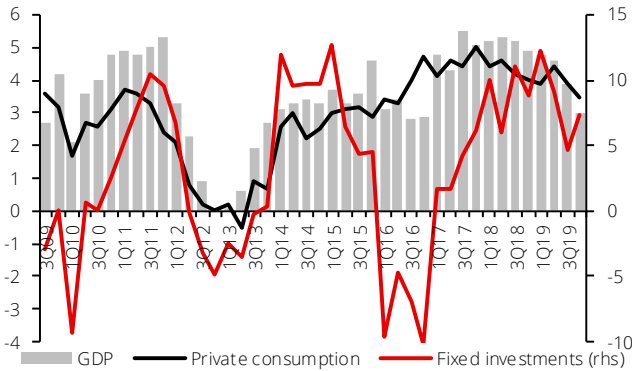
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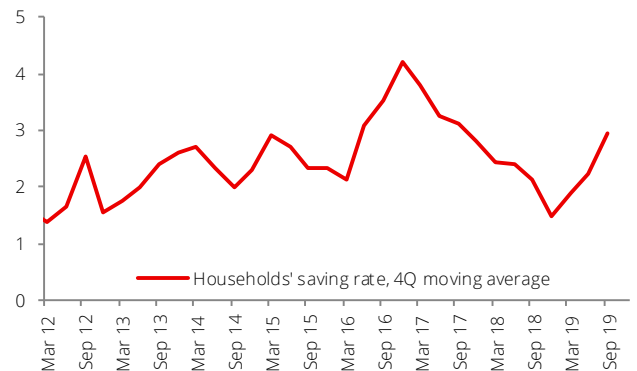
Economy in charts

The economic slowdown accelerated in 2H19



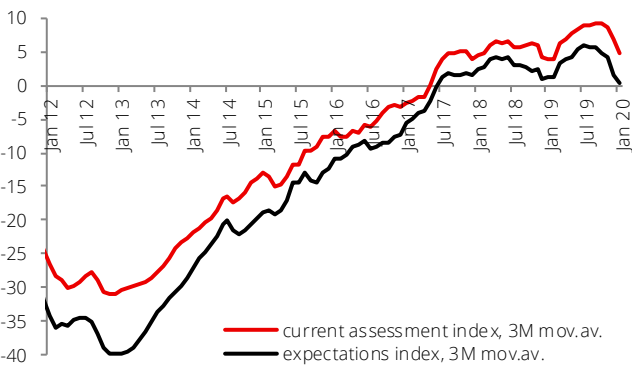
Source: GUS, Santander

Consumers started to save more...



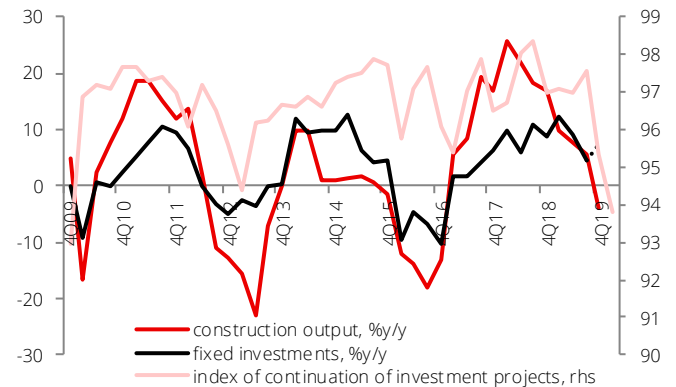
Source: GUS, Santander

...and their confidence dropped from record high level



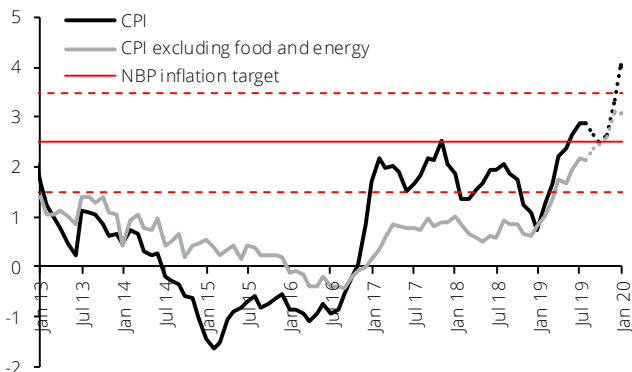
Source: GUS, Santander

4Q investment rebound went against construction output data



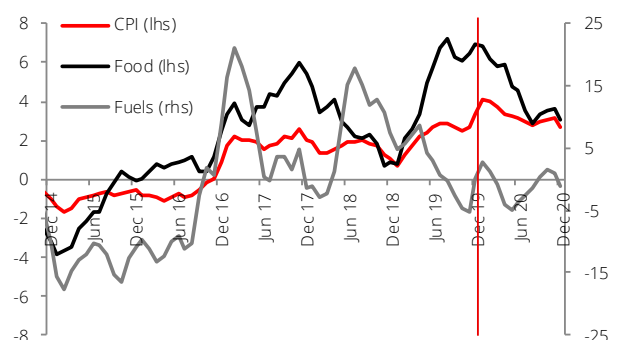
Source: GUS, NBP, Santander

Inflation rose more than expected, will exceed 4% in January



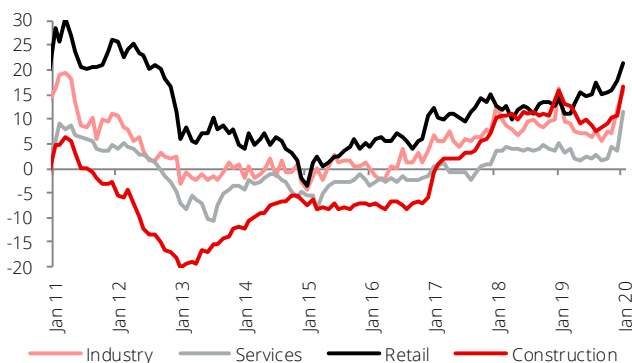
Source: GUS, NBP, Santander

Later this year it should start declining slowly, but it will depend on food prices, among others



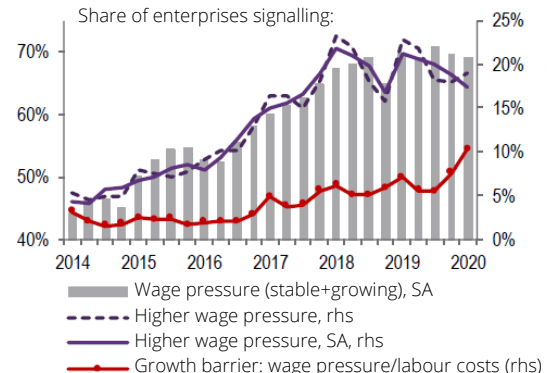
Source: GUS, Santander

Price expectations of enterprises sharply up in all sectors



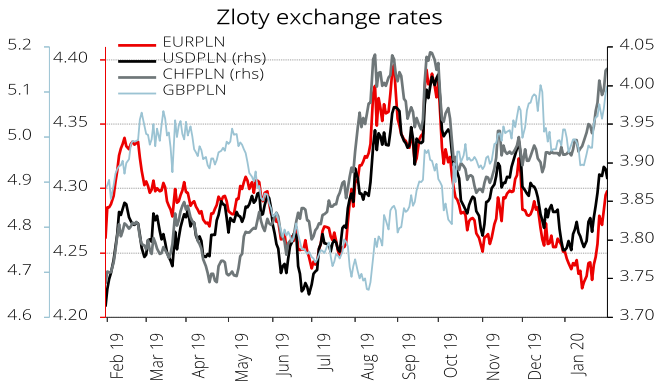
Source: European Commission, Santander

Wage pressure decreasing, but labour costs are a growing obstacle for businesses

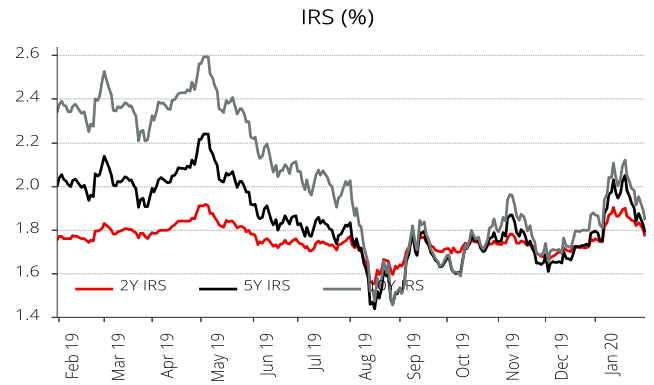


Source: NBP Quick Monitoring, Santander

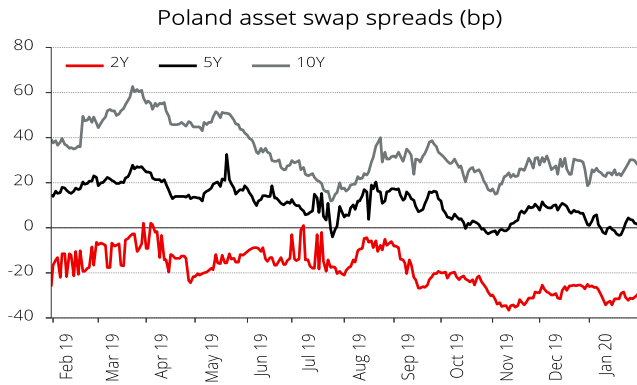
Markets in charts



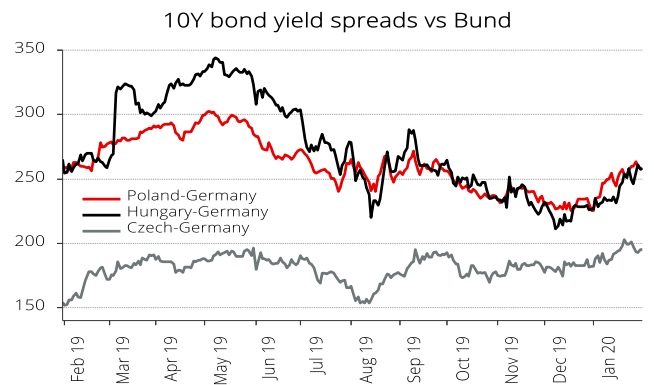
Source: Refinitiv Datastream, Santander Bank Polska



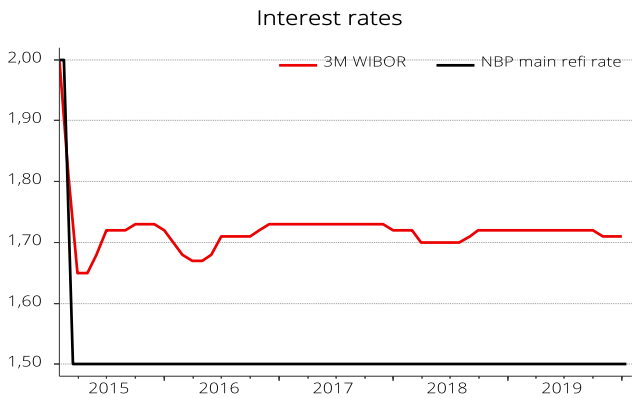
Source: Refinitiv Datastream, Santander Bank Polska



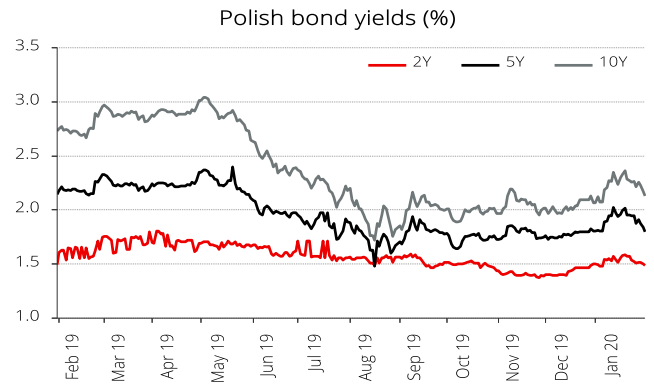
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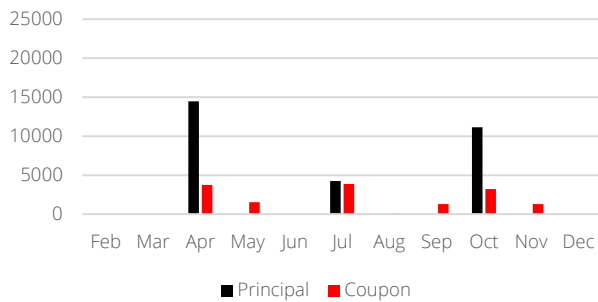
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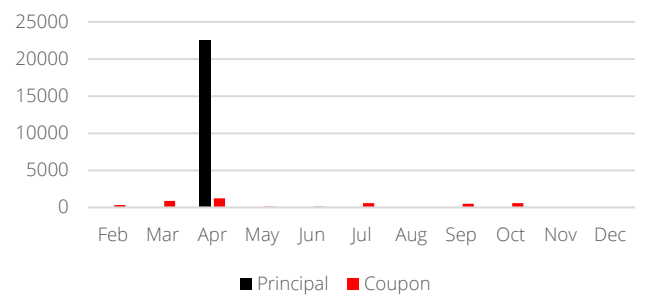
Principal and interest payments

PLN-denominated bond redemptions and interest payments, PLNm



Source: Ministry of Finance, Santander

FX denominated bond redemptions and interest payments, PLNm



Source: Ministry of Finance, Santander

Economic Calendar

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
3 February PL: PMI – manufacturing (Jan) EZ: PMI – manufacturing (Jan) DE: PMI – manufacturing (Jan) US: ISM – manufacturing (Jan)	4 US: Industrial orders (Dec)	5 PL: MPC decision DE: PMI – services (Jan) EZ: PMI – services (Jan) US: ADP report (Jan) US: ISM – services (Jan)	6 DE: Industrial orders (Dec) CZ: Industrial output (Dec) CZ: Central bank decision HU: Industrial output (Dec)	7 DE: Exports (Dec) DE: Industrial output (Dec) US: Non-farm payrolls (Jan)
10	11	12 EZ: Industrial output (Dec)	13 PL: Balance of payments (Dec) HU: CPI (Jan)	14 PL, DE, HU, CZ, EZ: Flash GDP (Q1) PL: CPI (Jan) CZ: CPI (Jan) US: Retail sales (Jan) US: Industrial output (Jan) US: Flash Michigan (Feb)
17	18 DE: ZEW (Feb)	19 PL: Employment (Jan) PL: Wages (Jan) US: House starts (Jan) US: Building permits (Jan) US: FOMC minutes	20 PL: Industrial output (Jan) PL: PPI (Jan) PL: MPC minutes US: Philly Fed index (Feb)	21 PL: Construction and assembly output (Jan) PL: Retail sales (Jan) DE: Flash PMI – manufacturing (Feb) EZ: Flash PMI – manufacturing (Feb) DE: Flash PMI – services (Feb) EZ: Flash PMI – services (Feb) EZ: HICP (Jan) US: Home sales (Jan)
24 PL: Money supply M3 (Jan) DE: Ifo index (Feb)	25 HU: Central bank decision US: Consumer confidence index (Feb)	26 US: New home sales (Jan)	27 US: Preliminary GDP (Q4) US: Pending home sales (Jan)	28 PL: GDP (Q4) EZ: Flash HICP (Feb) US: Personal spending and incomes (Jan) US: Michigan index (Feb)
2 March PL: PMI – manufacturing (Feb) EZ: PMI – manufacturing (Feb) DE: PMI – manufacturing (Feb) CN: PMI – manufacturing (Feb) US: ISM – manufacturing (Feb)	3 CZ: Flash GDP (Q4)	4 PL: MPC decision DE: PMI – services (Feb) EZ: PMI – services (Feb) US: ISM – services (Feb) US: ADP report (Feb) US: Fed Beige Book	5 US: Industrial orders (Jan)	6 DE: Industrial orders (Jan) HU: Industrial output (Jan) US: Non-farm payrolls (Jan)

Source: GUS, NBP, Ministry of Finance, Bloomberg

Calendar of MPC meetings and data releases for 2020

	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
ECB decision	23	-	12	30	-	4	16	-	10	29	-	10
Fed decision	29	-	18	29	-	10	29	-	16	-	5	16
MPC decision	8	5	4	8	6	3	8	-	9	7	4	2
MPC minutes	23	20	19	23	21	18	-	20	24	22	19	17
Flash GDP*	-	14	-	-	15	-	-	14	-	-	13	-
GDP*	-	28	-	-	29	-	-	31	-	-	30	-
CPI	15	14	13	15	15	15	15	14	15	15	13	15
Core inflation	-	-	16	16	18	16	16	17	16	16	16	16
PPI	22	20	19	21	21	19	20	20	18	20	20	18
Industrial output	22	20	19	21	21	19	20	20	18	20	20	18
Retail sales	23	21	20	22	22	22	21	21	21	21	23	21
Gross wages, employment	21	19	18	20	20	18	17	19	17	19	19	17
Foreign trade	about 50 days after reported period											
Balance of payments*	-	-	31									
Balance of payments	13	13	16	14	14							
Money supply	24	24	23	23	25							

Source: GUS, NBP, Ministry of Finance, * quarterly data

Economic data and forecasts for Poland

Monthly economic indicators

		Jan 19	Feb 19	Mar 19	Apr 19	May 19	Jun 19	Jul 19	Aug 19	Sep 19	Oct 19	Nov 19	Dec 19	Jan 20	Feb 20
PMI	pts	48.2	47.6	48.7	49.0	48.8	48.4	47.4	48.8	47.8	45.6	46.7	48.0	47.4	45.5
Industrial production	% y/y	6.0	6.9	5.6	9.2	7.7	-2.6	5.8	-1.5	5.6	3.7	1.4	3.8	-0.1	1.3
Construction production	% y/y	3.2	15.1	10.8	17.4	9.5	-0.7	6.6	2.6	7.6	-4.1	-4.7	-3.3	-4.0	-9.1
Retail sales ^a	% y/y	6.6	6.5	3.1	13.6	7.3	5.3	7.4	6.0	5.3	5.4	5.9	7.5	6.6	7.3
Unemployment rate	%	6.1	6.1	5.9	5.6	5.4	5.3	5.2	5.2	5.1	5.0	5.1	5.2	5.5	5.5
Gross wages in corporate sector	% y/y	7.5	7.6	5.7	7.1	7.7	5.3	7.4	6.8	6.6	5.9	5.3	6.2	6.1	6.3
Employment in corporate sector	% y/y	2.9	2.9	3.0	2.9	2.7	2.8	2.7	2.6	2.6	2.5	2.6	2.6	1.6	1.5
Exports (€)	% y/y	5.9	10.5	7.8	9.6	11.5	-2.6	5.9	-1.8	13.5	3.8	-1.0	7.3	0.8	2.2
Imports (€)	% y/y	2.1	8.4	2.8	8.0	11.1	-5.4	6.9	-3.4	6.4	-0.2	-4.6	3.9	2.8	1.1
Trade balance	EUR mn	316	-288	399	334	-189	163	-404	-250	830	427	829	-811	-59	-70
Current account balance	EUR mn	2,529	-630	217	542	430	-114	-915	-246	962	573	1,457	-551	2,278	-318
Current account balance	% GDP	-0.9	-0.9	-0.6	-0.5	-0.4	-0.4	-0.3	-0.2	0.2	0.4	0.6	0.8	0.8	0.8
Budget balance (cumulative)	PLN bn	6.6	-0.8	-4.5	-0.1	-1.9	-5.0	-4.8	-2.0	-1.8	-3.2	-1.9	-14.4	3.0	-8.0
Budget balance (cumulative)	% of FY plan	-23.1	2.8	15.7	0.3	6.8	17.7	16.8	6.9	6.3	11.2	6.6	50.6	-	-
CPI	% y/y	0.7	1.2	1.7	2.2	2.4	2.6	2.9	2.9	2.6	2.5	2.6	3.4	4.1	4.0
CPI excluding food and energy	% y/y	0.8	1.0	1.4	1.7	1.7	1.9	2.2	2.2	2.4	2.4	2.6	3.1	3.1	3.1
PPI	% y/y	2.2	2.9	2.5	2.6	1.4	0.5	0.5	0.9	0.8	-0.3	-0.1	1.0	0.5	0.3
Broad money (M3)	% y/y	8.8	9.8	9.9	10.4	9.9	9.3	9.9	9.9	9.4	9.3	9.4	8.3	9.0	8.7
Deposits	% y/y	8.4	9.3	9.7	10.5	10.0	9.3	10.0	9.9	9.9	9.4	9.5	8.5	10.0	8.7
Loans	% y/y	7.4	7.5	8.1	7.7	6.5	6.7	7.4	7.9	7.6	6.6	6.5	5.2	5.8	5.1
EUR/PLN	PLN	4.29	4.31	4.30	4.29	4.30	4.27	4.26	4.35	4.35	4.30	4.29	4.27	4.25	4.33
USD/PLN	PLN	3.76	3.80	3.80	3.81	3.84	3.77	3.80	3.91	3.95	3.89	3.88	3.84	3.83	3.89
CHF/PLN	PLN	3.80	3.79	3.80	3.79	3.80	3.82	3.84	3.98	3.99	3.92	3.91	3.91	3.89	3.93
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	1.71	1.70	1.71	1.71
Yield on 2-year T-bonds	%	1.41	1.62	1.71	1.71	1.69	1.62	1.54	1.53	1.53	1.50	1.41	1.44	1.53	1.49
Yield on 5-year T-bonds	%	2.23	2.19	2.23	2.24	2.26	1.99	1.85	1.72	1.81	1.73	1.79	1.78	1.90	1.93
Yield on 10-year T-bonds	%	2.80	2.75	2.88	2.91	2.89	2.46	2.21	1.93	2.00	1.98	2.06	2.05	2.23	2.23

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	2019	2020E	1Q19	2Q19	3Q19	4Q19	1Q20E	2Q20E	3Q20E	4Q20E
GDP	PLN bn	1,989.4	2,115.2	2,271.1	2,419.7	520.0	545.7	561.0	644.3*	559.8	580.4	595.6	683.9
GDP	% y/y	4.9	5.1	4.0	3.1	4.8	4.6	3.9	3.0*	3.1	3.1	3.0	3.2
Domestic demand	% y/y	4.9	5.3	3.8	2.7	3.9	4.6	3.3	3.4*	3.0	2.5	2.7	2.7
Private consumption	% y/y	4.5	4.3	3.9	4.1	3.9	4.4	3.9	3.5*	4.5	4.4	4.0	3.6
Fixed investments	% y/y	4.0	8.9	7.8	0.2	12.2	9.1	4.7	7.3*	0.0	-1.0	0.0	1.0
Industrial production	% y/y	6.5	5.9	4.2	3.6	6.1	4.2	3.3	2.4	1.9	3.7	3.8	5.1
Construction production	% y/y	13.7	19.7	3.6	-4.0	9.9	7.8	5.7	-4.0	-7.8	-5.7	-6.7	1.6
Retail sales ^a	% y/y	8.2	7.8	6.7	5.5	5.3	8.7	6.4	6.3	6.4	5.1	6.8	3.8
Unemployment rate ^b	%	6.6	5.8	5.2	5.0	5.9	5.3	5.1	5.2	5.4	4.8	4.8	5.0
Gross wages in the national economy ^a	% y/y	5.3	7.2	6.8	6.2	7.1	7.0	7.7	5.5	6.3	6.0	6.1	6.6
Employment in the national economy	% y/y	3.3	2.6	2.2	0.7	2.7	2.3	2.1	1.9	1.0	0.7	0.5	0.4
Exports (€)	% y/y	13.8	7.4	5.7	4.6	8.0	6.0	5.9	3.0	2.8	4.3	4.9	6.4
Imports (€)	% y/y	14.9	10.6	2.8	4.2	4.3	4.3	3.3	-0.6	2.7	3.8	4.6	5.6
Trade balance	EUR mn	1,426	-4,782	1,362	2,396	425	308	184	445	526	626	318	927
Current account balance	EUR mn	290	-5,046	4,267	5,830	2,110	859	-181	1,479	2,519	1,362	-12	1,961
Current account balance	% GDP	0.1	-1.0	0.8	1.0	-0.6	-0.4	0.2	0.8	0.9	0.9	1.0	1.0
General government balance	% GDP	-1.5	-0.2	-0.8	-1.2	-	-	-	-	-	-	-	-
CPI	% y/y	2.0	1.6	2.3	3.3	1.2	2.4	2.8	2.8	3.9	3.3	2.9	3.0
CPI ^b	% y/y	2.1	1.1	3.4	2.7	1.7	2.6	2.6	3.4	3.8	3.1	2.9	2.7
CPI excluding food and energy	% y/y	0.7	0.7	2.0	2.9	1.1	1.8	2.2	2.7	3.1	3.0	2.8	2.6
PPI	% y/y	2.9	2.2	1.2	0.4	2.5	1.5	0.7	0.2	0.3	0.2	0.2	0.7
Broad money (M3) ^b	% y/y	4.6	9.2	9.0	7.4	9.9	9.3	9.4	8.3	7.9	7.6	7.3	7.0
Deposits ^b	% y/y	4.1	8.7	8.5	6.6	9.7	9.3	9.9	8.5	8.2	7.9	7.2	6.6
Loans ^b	% y/y	3.6	7.6	7.9	6.1	8.1	6.7	7.6	5.2	4.6	4.9	4.6	5.6
EUR/PLN	PLN	4.26	4.26	4.30	4.30	4.30	4.28	4.32	4.29	4.29	4.31	4.31	4.30
USD/PLN	PLN	3.78	3.61	3.84	3.76	3.79	3.81	3.89	3.87	3.85	3.79	3.73	3.68
CHF/PLN	PLN	3.84	3.69	3.86	3.83	3.80	3.80	3.94	3.91	3.89	3.83	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	1.57	1.51	1.64	1.65	1.53	1.45	1.51	1.50	1.50	1.51
Yield on 5-year T-bonds	%	2.78	2.51	1.97	2.08	2.23	2.14	1.76	1.76	1.98	2.10	2.10	2.15
Yield on 10-year T-bonds	%	3.44	3.21	2.38	2.40	2.84	2.68	1.99	2.03	2.23	2.39	2.45	2.55

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

* estimate based on assumption of no revisions in the previous quarters.

This analysis is based on information available until 31.01.2020 has been prepared by:

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