

MACROscope Lite

In search for a bottom

■ Ten weeks after the SARS-CoV-2 coronavirus spread out from China to other parts of the world, the curves of new daily cases of Covid-19 and the related death tolls seem to be flattening in many countries, or even started declining. However, it seems we still have not yet reached the point when global economic forecasts stopped deteriorating.

■ Poland, which entered the lockdown at quite an early stage of the outbreak, managed to keep the number of reported infections quite low (as compared to other large EU states). However, it is still too early to say that we have turned the corner. The government has just started relaxing the social distancing measures and planned a gradual unfreezing of the economy in the coming weeks. Although the pace of introducing subsequent steps will depend on the evolution of the disease.

■ The economic data available so far has not revealed the full impact of the pandemic yet, but has left little doubt that we have entered a recession of a magnitude unseen before. We have updated our forecasts, by fine-tuning the shocks (as regards both their magnitude and time profile) that are likely to hit different areas of the economy (see the shock heat map on page 2). Our revised baseline scenario, which still assumes a steady revival of economic activity since June, predicts GDP drop by c.4% in 2020, followed by c.6% rebound in 2021. That is, if there is no second round of the pandemic or other factors impeding the return to normal. But of course the uncertainty surrounding those forecast remains exceptionally high. GDP growth has probably slowed below 1% y/y already in 1Q20 (which implies below -1% q/q after seasonal adjustment). But the biggest shock is likely to affect 2Q, when GDP may drop by more than 10% y/y.

■ Labour market will suffer the full consequences of economic sudden stop with some delay, as for regular work contracts 1- or 3-month notice periods apply (although employment numbers have been already affected by temporary leaves and reduced working time). The LFS jobless rate may approach 7% later this year (up from 2.9% in Jan-Feb), which means over one million of newly unemployed. The impact would be bigger without the government's support package, which – after its recent extension – may save up to 500k jobs, we estimate.

■ Households' total income will shrink (not only due to job cuts, but also a likely wage reduction). This is likely to trigger the biggest consumption contraction on record. Investments are also about to decrease, especially in the private sector (firms' investments plans were down by 30-50%, depending on the sector, already in the latest GUS survey). It could be partly offset by further improvement in external balance, as import is likely to drop more than exports, in our view.

■ Inflation dropped in March to 3.4% y/y, almost entirely due to lower prices of fuel, while core CPI remained roughly stable, according to our estimate. This could be partly due to the problems with price measurement during lockdown, we reckon, and the next months are likely to see a rapid inflation decline, especially after unfrozen services start competing for faltering consumer demand.

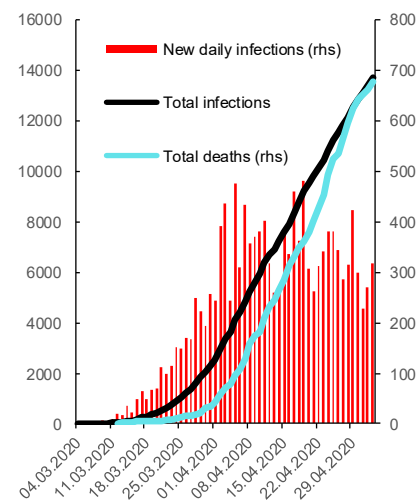
■ After the Polish central bank had cut interest rates twice since mid-March and engaged in large-scale QE program (buying securities already worth c.3% of GDP), we think it will not hurry with further conventional easing. The market is currently pricing-in the main NBP rate at virtually zero before year-end. While such a scenario cannot be ruled out completely, if the economic impact of the pandemic proves much worse than we estimate, in our baseline case we assume that NBP rates have already bottomed.

■ According to media reports, the government predicts the GG fiscal gap at 8.4% of GDP and public debt at 55.2% of GDP in the 2020 Convergence Program Update. We think those estimates are conservative and the deficit could exceed 10% of GDP if the Polish Development Fund (PFR) is included in the public sector already this year.

■ PLN has been mildly affected by the Covid-19 so far. We stick to our view that in the coming weeks it could depreciate further, amid worsening moods on global markets (equity market relief seemingly running out of steam, rising geopolitical worries, EM volatility), but would also reflect poor the economic outlook, extensive NBP's QE program and strongly negative real interest rates.

■ Bond yields, especially at the short end of the curve, will be under the downward pressure of huge liquidity boost, after the reduction of reserve requirement rate at the start of May and the launch of PFR financial shield (injecting billions of cash to corporates). The long end should be anchored by the NBP's QE program.

Covid-19 statistics for Poland



Source: Ministry of Health, Santander

Recently released Economic Comments:

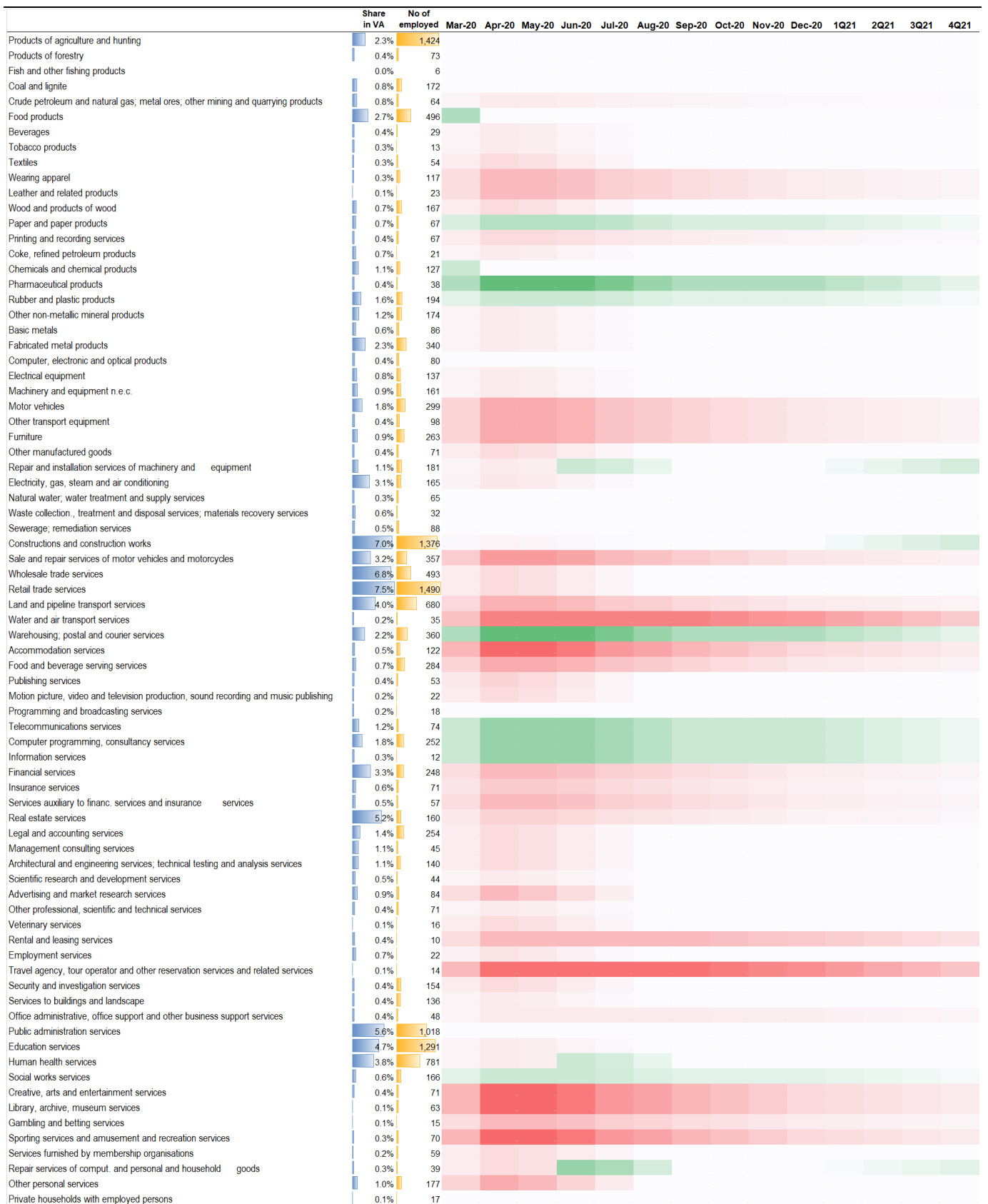
- [Consumer confidence crash](#)
- [Collapse of retail sales and business sentiment](#)
- [The virus reaches industry](#)
- [Labour market hit by the coronavirus](#)
- [Inflation has not yielded to the epidemic yet](#)
- [The shield reinforced](#)

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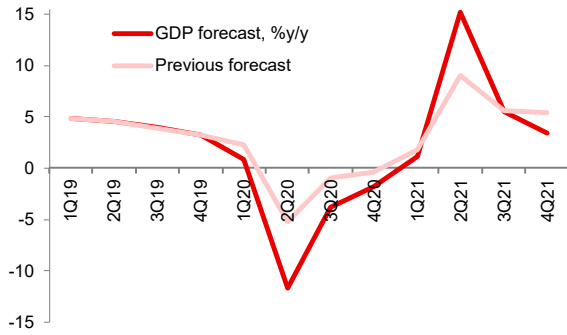
Heat map of potential economic shocks due to Covid-19 by sectors (NACE rev.2, two-digit level)



Source: Santander

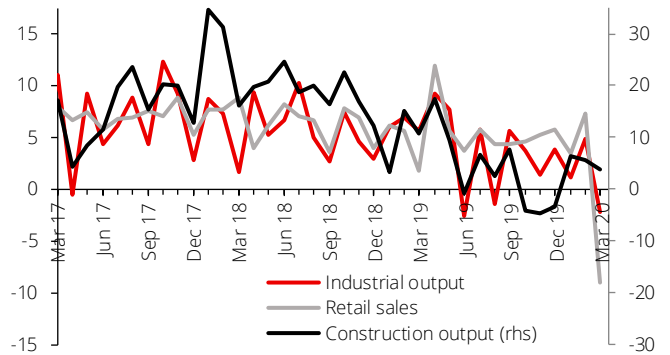
Economy in charts

We have revised GDP forecast downwards, but still assuming V-shaped rebound



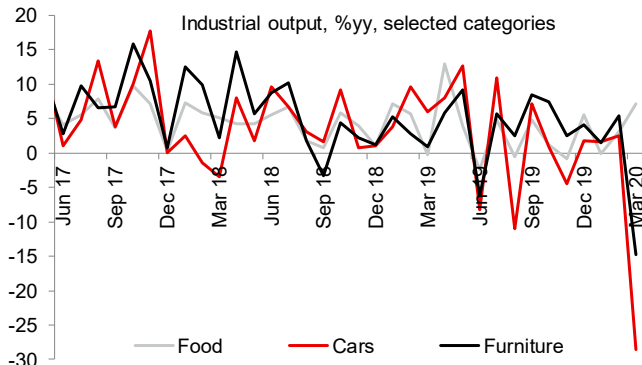
Source: GUS, Santander

March activity depressed... and this is not the full impact yet



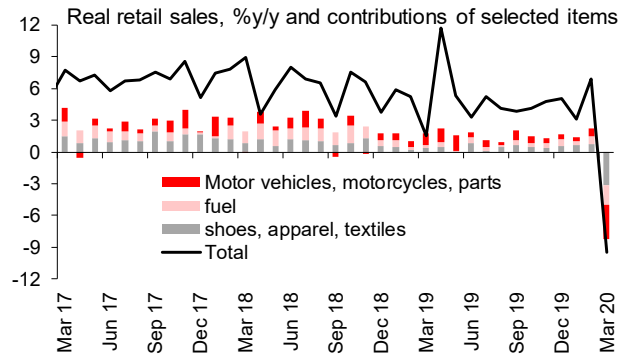
Source: GUS, Santander

Car production led the output decline



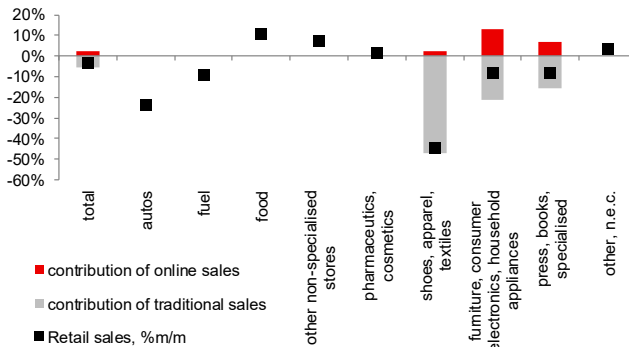
Source: GUS, Santander

Cars/fuel/clothes and shoes depressed retail sales; extra demand for food, pharma and IT equipment?



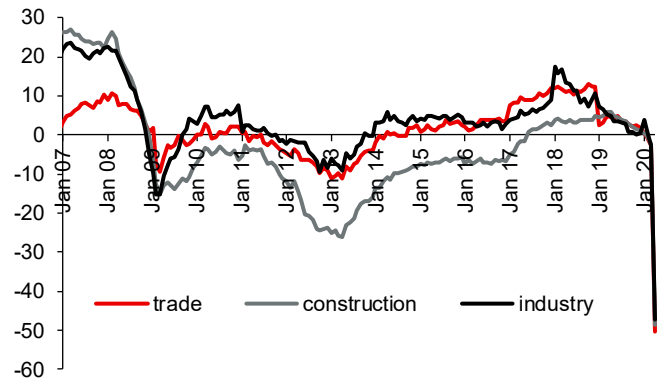
Source: GUS, Santander

A switch to online channels is working in some areas of retail sales (data for March)



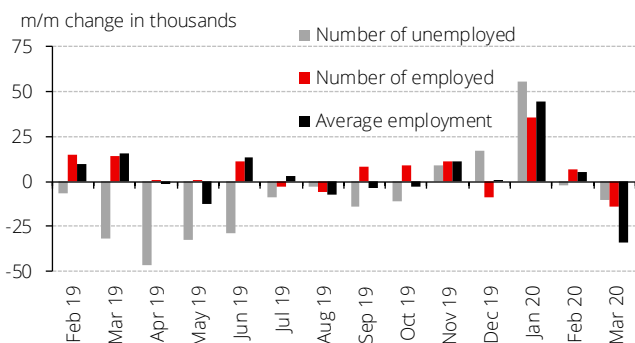
Source: GUS, Santander

Business sentiment instantly tumbled below GFC lows



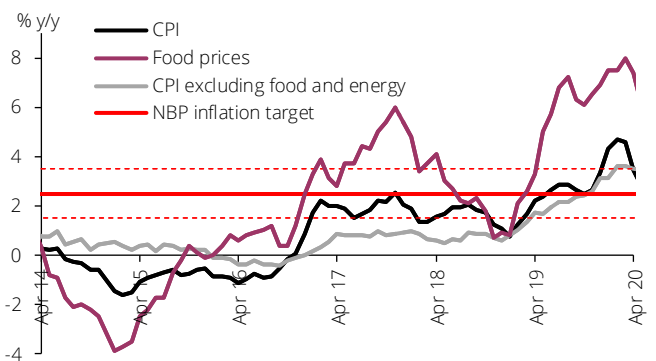
Source: GUS, Santander

Employment has already dropped (also on high absences), unemployment rise is lagging



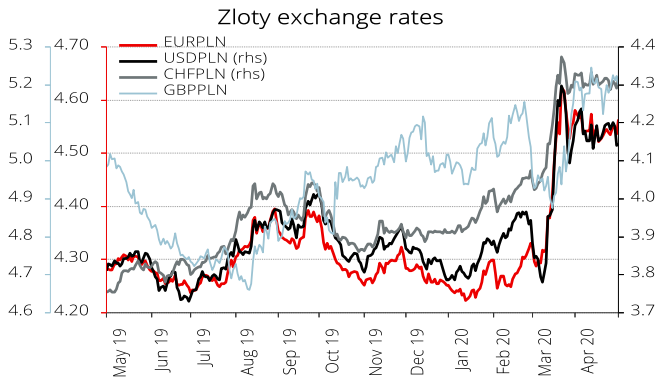
Source: GUS, Santander

Core CPI has not responded to demand collapse yet (for methodological reasons?), food inflation still high

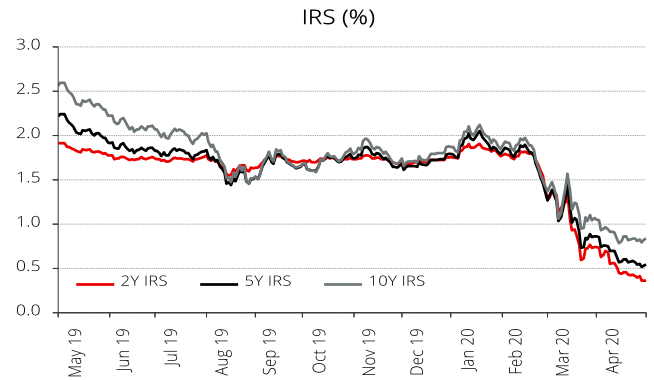


Source: GUS, Santander

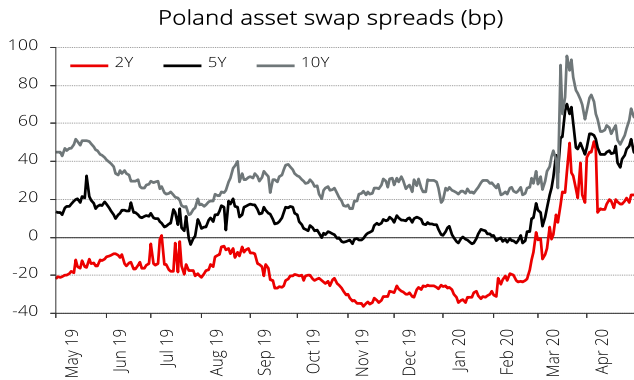
Markets in charts



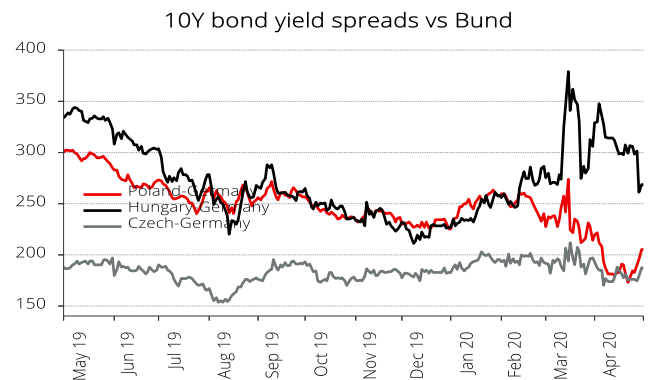
Source: Refinitiv Datastream, Santander Bank Polska



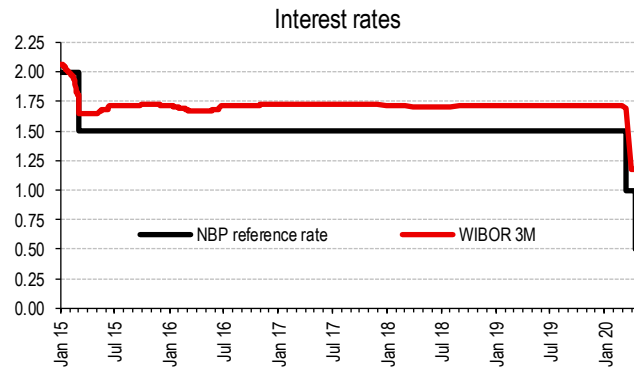
Source: Refinitiv Datastream, Santander Bank Polska



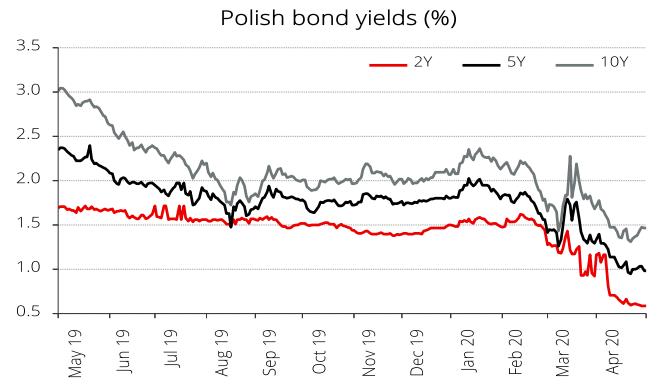
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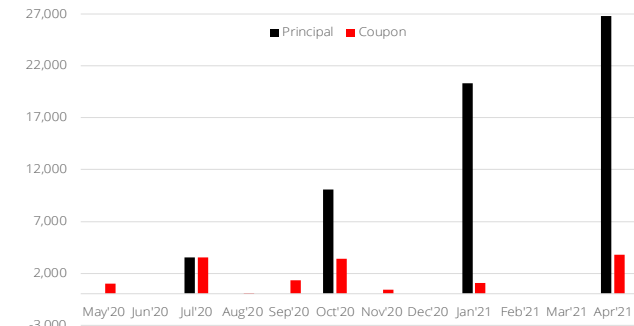
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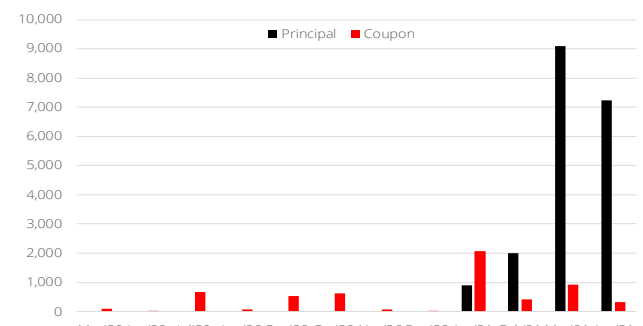
Principal and interest payments

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
4 May PL: PMI – manufacturing (Apr) US: Factory Orders (Mar) US: Durable Goods Orders (Mar)(Apr) EZ: PMI – manufacturing (Apr) DE: PMI – manufacturing (Apr)	5 US: Trade Balance (Mar) US: ISM non-manufacturing (Apr)	6 US: ADP report (Apr) EZ: PMI – services (Apr) EZ: Retail sales (Mar) DE: PMI – services (Apr) CZ: Retail sales (Mar)	7 PL: Official Reserves (Apr) CN: PMI – services (Apr) EZ: EU Commission Forecasts DE: Industrial production (Mar) CZ: Repurchase rate	8 US: Non-farm payrolls (Apr) DE: Balance of Payments (Mar) HU: CPI (Apr)
11	12 US: CPI (Apr)	13 US: PPI (Apr) EZ: Industrial Production (Mar) CZ: CPI (Apr)	14 PL: Balance of Payments (Mar) DE: CPI (Apr)	15 PL: GDP (Q1 preliminary) US: Retail sales (Apr) US: Industrial production (Apr) US: Michigan Sentiment (May) EZ: GDP (Q1 preliminary) DE: GDP (Q1 preliminary) HU: GDP (Q1 preliminary) CZ: GDP (Q1 preliminary)
18 PL: Core inflation (Apr)	19 US: House starts (Apr) EZ: ZEW Survey (May) DE: ZEW Survey (May)	20 PL: Employment (Apr) PL: Wages (Apr) US: FOMC minutes EZ: CPI (Apr) EZ: Consumer Confidence (May) DE: PPI (Apr)	21 PL: Industrial output (Apr) PL: PPI (Apr) PL: MPC minutes US: PMI – manufacturing (May) US: PMI – services (May) US: Existing Home Sales (Apr) DE: PMI - manufacturing (May)	22 PL: Construction and assembly output (Apr) PL: Retail sales (Apr) EZ: PMI – manufacturing (May) EZ: PMI – services (May) DE: GDP (Q1 final)
25 PL: Money supply M3 (Apr) DE: IFO Expectations (May)	26 PL: Unemployment Rate (Apr) US: Consumer Confidence (May) US: New Home Sales (Apr) DE: Consumer Confidence (Jun) HU: Central Bank Rate Decision	27 DE: Ifo index (Mar) DE: Retail sales (Apr)	28 PL: Base Rate Announcement US: GDP (Q1) second estimate US: Durable Goods (Apr) US: Pending Home Sales (Apr) DE: CPI (May)	29 PL: GDP (Q1) PL: CPI (May flash) US: Personal Income and Spending (Apr) EZ: M3 Money Supply (Apr)
1 June PL: PMI – manufacturing (May) US: PMI – manufacturing (May) US: ISM – manufacturing (May) CZ: PMI – manufacturing (May)	2 EZ: PMI manufacturing (May) DE: PMI manufacturing (May)	3 PL: Base Rate Announcement EZ: Unemployment (Apr) US: PMI services (May) US: ISM non-manufacturing (May) US: Durables Goods Orders (Apr)	4 US: Trade Balance (Apr) EZ: ECB Rate Decision EZ: Retail Sales (Apr) DE: PMI services (May)	5 DE: Factory Orders (Apr) HU: Industrial Production (Apr) CZ: Retail sales (Apr)

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	28	3	8	-	9	7	4	2
MPC minutes	23	20	19	-	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	-	-	30						
Balance of payments	13	13	16	14	14	15						
Money supply	24	24	23	23	25	23						

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

Economic data and forecasts for Poland

Monthly economic indicators

		Apr 19	May 19	Jun 19	Jul 19	Aug 19	Sep 19	Oct 19	Nov 19	Dec 19	Jan 20	Feb 20	Mar 20	Apr 20	May 20
PMI	pts	49.0	48.8	48.4	47.4	48.8	47.8	45.6	46.7	48.0	47.4	48.2	42.4	31.9	35.0
Industrial production	% y/y	9.2	7.7	-2.6	5.8	-1.5	5.6	3.7	1.4	3.8	1.1	4.9	-2.3	-12.9	-11.9
Construction production	% y/y	17.4	9.5	-0.7	6.6	2.6	7.6	-4.1	-4.7	-3.3	6.4	5.5	3.7	-6.1	-7.2
Retail sales ^a	% y/y	13.6	7.3	5.3	7.4	6.0	5.3	5.4	5.9	7.5	5.7	9.6	-7.1	-24.2	-23.5
Unemployment rate	%	5.6	5.4	5.3	5.2	5.2	5.1	5.0	5.1	5.2	5.5	5.5	5.4	5.8	6.3
Gross wages in corporate sector	% y/y	7.1	7.7	5.3	7.4	6.8	6.6	5.9	5.3	6.2	7.1	7.7	6.3	4.4	3.1
Employment in corporate sector	% y/y	2.9	2.7	2.8	2.7	2.6	2.6	2.5	2.6	2.6	1.1	1.1	0.3	-0.6	-1.4
Exports (€)	% y/y	9.5	11.5	-2.4	6.4	-1.2	13.0	4.0	0.8	9.0	3.6	5.7	-6.8	-23.8	-22.2
Imports (€)	% y/y	8.5	11.5	-5.3	6.7	-3.0	6.2	0.3	-3.5	-0.7	2.4	0.5	-7.3	-22.8	-21.2
Trade balance	EUR mn	228	-260	200	-269	-206	768	340	985	217	480	525	642	-17	-402
Current account balance	EUR mn	-158	-227	10	-824	-820	846	442	1 412	366	2 348	659	432	-303	-272
Current account balance	% GDP	-0.8	-0.8	-0.7	-0.7	-0.6	-0.3	-0.1	0.1	0.5	0.5	0.8	0.8	0.8	0.8
Budget balance (cumulative)	PLN bn	-0.1	-1.9	-5.0	-4.8	-2.0	-1.8	-3.2	-1.9	-13.7	3.4	-3.3	-9.4	-12.4	-21.1
Budget balance (cumulative)	% of FY plan	0.3	6.8	17.7	16.8	6.9	6.3	11.2	6.6	47.9	-	-	-	-	-
CPI	% y/y	2.2	2.4	2.6	2.9	2.9	2.6	2.5	2.6	3.4	4.3	4.7	4.6	3.4	2.8
CPI excluding food and energy	% y/y	1.7	1.7	1.9	2.2	2.2	2.4	2.4	2.6	3.1	3.1	3.6	3.6	3.5	3.4
PPI	% y/y	2.6	1.4	0.5	0.5	0.9	0.8	-0.3	-0.1	1.0	0.9	0.2	-0.5	-1.2	-1.3
Broad money (M3)	% y/y	10.4	9.9	9.3	9.9	9.9	9.4	9.3	9.4	8.3	9.3	9.4	11.8	12.4	12.8
Deposits	% y/y	10.5	10.0	9.3	10.0	9.9	9.9	9.4	9.5	8.5	9.7	9.7	10.6	12.6	14.2
Loans	% y/y	7.7	6.5	6.7	7.4	7.9	7.6	6.6	6.5	5.2	6.3	5.5	6.4	6.2	6.0
EUR/PLN	PLN	4.29	4.30	4.27	4.26	4.35	4.35	4.30	4.29	4.27	4.25	4.28	4.43	4.55	4.60
USD/PLN	PLN	3.81	3.84	3.77	3.80	3.91	3.95	3.89	3.88	3.84	3.83	3.92	4.01	4.18	4.23
CHF/PLN	PLN	3.79	3.80	3.82	3.84	3.98	3.99	3.92	3.91	3.91	3.95	4.02	4.19	4.30	4.36
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	1.00	0.50	0.50
3M WIBOR	%	1.72	1.72	1.72	1.72	1.72	1.72	1.72	1.71	1.70	1.71	1.71	1.45	0.65	0.65
Yield on 2-year T-bonds	%	1.71	1.69	1.62	1.54	1.53	1.53	1.50	1.41	1.44	1.53	1.53	1.11	0.76	0.60
Yield on 5-year T-bonds	%	2.24	2.26	1.99	1.85	1.72	1.81	1.73	1.79	1.78	1.90	1.76	1.49	1.20	1.10
Yield on 10-year T-bonds	%	2.91	2.89	2.46	2.21	1.93	2.00	1.98	2.06	2.05	2.23	2.08	1.84	1.59	1.53

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

		2018	2019	2020E	2021E	1Q19	2Q19	3Q19	4Q19	1Q20E	2Q20E	3Q20E	4Q20E
GDP	PLN bn	2 120.5	2 273.6	2 263.2	2 430.1	521.7	548.1	565.8	637.9	555.2	507.8	558.8	641.4
GDP	% y/y	5.3	4.1	-4.1	6.0	4.8	4.6	4.0	3.2	0.9	-11.7	-3.8	-1.8
Domestic demand	% y/y	5.6	3.0	-3.9	5.5	3.3	4.7	3.3	1.3	0.5	-10.1	-3.9	-2.2
Private consumption	% y/y	4.2	3.9	-2.2	5.6	3.9	4.4	3.9	3.3	1.8	-6.5	-3.0	-1.3
Fixed investments	% y/y	9.4	7.2	-6.4	6.7	11.6	8.8	4.6	6.1	4.0	-12.0	-9.0	-6.0
Industrial production	% y/y	5.9	4.2	-4.1	5.0	6.1	4.2	3.3	2.4	1.1	-11.4	-4.5	-1.6
Construction production	% y/y	19.7	3.6	-2.0	5.2	9.9	7.8	5.7	-4.0	5.0	-5.4	-5.1	-0.5
Retail sales ^a	% y/y	7.8	6.7	-7.1	4.1	5.3	8.7	6.4	6.3	2.4	-21.5	-3.5	-4.9
Unemployment rate ^b	%	5.8	5.2	8.4	8.8	5.9	5.3	5.1	5.2	5.4	6.9	8.0	8.4
Gross wages in the national economy ^a	% y/y	7.2	7.2	5.0	5.5	7.1	7.0	7.7	6.9	6.9	3.2	4.9	5.1
Employment in the national economy	% y/y	2.6	2.2	-1.3	-0.7	2.7	2.3	2.1	1.8	0.5	-1.2	-2.2	-2.4
Exports (€)	% y/y	7.4	6.2	-8.7	7.1	8.7	6.0	6.1	4.2	0.6	-21.4	-9.2	-4.8
Imports (€)	% y/y	10.6	2.8	-9.3	6.2	5.0	4.6	3.3	-1.3	-1.6	-20.4	-9.4	-5.8
Trade balance	EUR mn	-4 782	2 415	3 657	5 749	400	168	301	1 546	1 647	-433	389	2 054
Current account balance	EUR mn	-5 046	2 477	5 548	8 512	1 414	-377	-782	2 222	3 439	-587	-345	3 041
Current account balance	% GDP	-1.0	0.5	1.1	1.6	-0.7	-0.7	-0.3	0.5	0.8	0.8	0.9	1.1
General government balance	% GDP	-0.2	-0.7	-10.2	-2.6	-	-	-	-	-	-	-	-
CPI	% y/y	1.6	2.3	2.8	1.2	1.2	2.4	2.8	2.8	4.5	2.9	2.1	1.9
CPI ^b	% y/y	1.1	3.4	1.5	1.6	1.7	2.6	2.6	3.4	4.6	2.5	2.0	1.5
CPI excluding food and energy	% y/y	0.7	2.0	2.9	0.7	1.1	1.8	2.2	2.7	3.4	3.3	2.6	2.0
PPI	% y/y	2.2	1.2	-0.2	3.0	2.5	1.5	0.7	0.2	0.2	-0.9	-0.2	0.1
Broad money (M3) ^b	% y/y	9.2	8.3	13.5	7.6	9.9	9.3	9.4	8.3	9.9	11.6	13.3	14.9
Deposits ^b	% y/y	8.7	8.5	16.0	7.2	9.7	9.3	9.9	8.5	10.6	17.2	16.3	16.0
Loans ^b	% y/y	7.6	5.2	3.9	6.3	8.1	6.7	7.6	5.2	6.4	5.3	3.5	3.9
EUR/PLN	PLN	4.26	4.30	4.57	4.51	4.30	4.28	4.32	4.29	4.32	4.61	4.70	4.65
USD/PLN	PLN	3.61	3.84	4.13	3.91	3.79	3.81	3.89	3.87	3.92	4.23	4.25	4.12
CHF/PLN	PLN	3.69	3.86	4.24	3.94	3.80	3.80	3.94	3.91	4.05	4.37	4.35	4.17
Reference rate ^b	%	1.50	1.50	0.50	0.50	1.50	1.50	1.50	1.50	1.00	0.50	0.50	0.50
3M WIBOR	%	1.71	1.72	0.89	0.65	1.72	1.72	1.72	1.71	1.62	0.65	0.65	0.65
Yield on 2-year T-bonds	%	1.59	1.57	0.82	0.90	1.64	1.65	1.53	1.45	1.39	0.65	0.61	0.64
Yield on 5-year T-bonds	%	2.51	1.97	1.24	1.35	2.23	2.14	1.76	1.76	1.55	1.10	1.13	1.19
Yield on 10-year T-bonds	%	3.21	2.38	1.66	1.81	2.84	2.68	1.99	2.03	1.87	1.53	1.59	1.65

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

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